CHAPTER – II

Introduction of Sample Countries

2.1 Introduction

In the present chapter, we introduce our sample countries that belong to different regions of the globe. Out of these twenty-two countries, four belongs to G-7 countries, while nine east-Asian and Asia-Pacific region, four south Asian countries, four Latin American and one South African countries. The countries differ widely with respect to the following points:

- timing of liberalization;
- stages of economic development
- pattern of sequencing;
- degree of openness;
- level of institutional development;
- pattern of financial sector development;
- financial stability;
- fragility of the system; and
- final outcome due to regime shift

While policy direction of all the countries are nearly same, but the end results varies. Such observations may help us to develop country-specific experience for further guidelines. Specifically, it will help to answer (i) is it developing or developed economy who have been benefited most from this open economy system? (ii) why many countries even after the regime shift failed to develop the financial system both in qualitative and quantitative terms? (iii) why financial system of many countries is more fragile than others? (iv) what measures to be taken to minimize adverse impact of destabilizing effect of the economy?

2.2 Experiences of Sample Countries: Brief history of market reforms

A. Latin American countries

Argentina

It was November 1989, when the then Argentinean government introduced the first wave of 'Big Bang' financial liberalization. The current and capital account transactions were both liberalized simultaneously in 1991. The liberalization began with the New Foreign Investment Regime (Park and Van Agtmeal, 1993). Under this reform, all legal limits on the type and nature of foreign investments were abolished, and a free exchange regime was introduced. Capital, dividends and capital gains could be repatriated freely. The Deregulation Decree issued on October 31, 1991, eliminated most restrictions on foreign investments, including taxes on capital gains (Park and Van Agtmael, 1993). Apparently residents could begin buying foreign securities from March 1990 when the currency was made fully convertible (Cowitt, Edwards and Boyee, 1996). Argentina suffered a setback since the implementation of financial liberalization policies. Major weaknesses however, emerged during the boom years of the 1990s, including the build-up of public debt and the failure to tackle serious structural weaknesses in fiscal institutions, labour markets, and external trade. These weaknesses came into play with the onset of a prolonged depression beginning in mid-1998 on account of several factors: cyclical correction, domestic political uncertainties, poor institutional development, financial contagion from the 1998 Russian crisis, and Brazil's 1999 crisis and the subsequent devaluation of Brazil's currency (Roy, Misra and Misra, 2006). At the same time, net private capital flows turned negative since 1990's and became positive only in 2005 for the first time. The comparative analysis that emerges from the following table suggests that financial liberalization has contributed towards the development of the stock market of Argentina.

Table 2.1:Argentina: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	2.3	33.6	179	23.84	-1.60	1.3	0.237*	1.16#
2005	33.6	29.7	104	8.97	1.63	2.6	0.053	4.01

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market; For 2005, Global competitiveness index score has been considered to represent Institutional development; FPI equals foreign portfolio investments. * indicates due to non availability of data for 1990, calculation has been made for 1991. # indicates average value (1986-93) of institutional indicators, taken from Demirgüç-Kunt and Levine (1995) for only those countries that are also included in the current study.
Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

Brazil

Though the Brazilian market opened during May 1991 but FPI took place under CVM Resolution 1289, was limited to investments through special funds with onerous conditions. Since May 1991 foreign institutions were allowed to own up to 49% of voting stock and 100% of nonvoting stock. Bekaert (1995) reported that foreign investments trusts were approved in March 1987 and that foreign ownership levels were increased in May 1991. Country funds were admitted in September 1987 but that the full opening took place in May 1991 (Buckberg, 1995). As per IFC (1996b) foreign investors can invest 100% of nonvoting preferred stock and 49% of voting common stock as of May 1991. However, at the initial stage of reforms, FPI by residents is restricted [Bentley (1986), Cowitt, Edwards and Boyee (1996)].

Brazil was impacted by both the East Asian and the Russian crisis and was taking steps to avert its intensity when inflows of private foreign capital suddenly dried up. At the time of financial crisis in 1999, Brazil suffered from both fiscal and balance of payments weaknesses: in mid- 1998, the bulk of the government's domestic debt - which amounted to 40 per cent of GDP - consisted of short-term financing (Roy, Misra and Misra, 2006).

The bird's eye view of stock market development of Brazil has been presented below.

Table 2.2: Brazil: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	3.5	23.6	581	44.83	4825.00	0.2	0.501	1.54#
2005	59.6	37.2	381	0.060	0.34	1.9	0.075	4.03

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent Institutional development; FPI equals foreign portfolio investments. # indicates average value (1986-93) of institutional indicators, taken from Demirgüç-Kunt and Levine (1995) for only those countries that are also included in the current study.
Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

Chile

The market opening date of Chile was as far as October 1989 though IFC (1996b) considers the market as 100% open from January 1995. Chile faced a surge in private capital inflows beginning 1989. With monetary policy adhering to a domestic inflation target and exchange rate geared towards achieving an external current account target, complete deregulation of capital flows resulted in a classical monetary policy dilemma. With sterilisation costs becoming sizable, the authorities in June 1991 introduced selective controls on capital inflows (Schneider, 2000): (i) a 20 per cent unremunerated reserve requirement (URR) on foreign borrowing; (ii) the URR was also supported by restrictive measures such as a minimum stay requirement for direct and portfolio investments from abroad; some regulatory requirements for domestic corporations borrowing abroad and extensive reporting requirements on banks for capital transactions. Foreign investors were restricted under Law 18657 and DL 600. This Law required capital to be retained for five years before it can be repatriated. Foreign Portfolio Investments by residents was allowed from 1990 [Cowitt, Edwards and Boyee, 1996]. Buckberg (1995) reported that the first country fund was admitted in October 1989. Prior to April 1990, residents could not own foreign securities (Cowitt, 1991). After a brief socialist experiment that was violently ended with a *coup d'etat* in 1973 a military regime introduced a package of extreme liberal reforms. Additionally, the capital account was also liberalised, and in the exchange market a crawling peg system was adopted.

Along with these controls, supporting measures such as liberalization of capital outflows started in the early 1990s. Chile depicts a successful experience in capital account liberalization using judicious controls (Roy, Misra and Misra, 2006) along with 'Big Bang approach' of financial liberalization and economic reforms. Macro economic instability, poor institutional development etc. often posed as bottlenecks for the Chilean economy.

Chile could well recognise the significance of financial reforms (in establishing a sound prudential framework and a strong credit culture) for the success of economic reforms.

The following table bears the experience of financial liberalization on the stock market.

Table 2.3: Chile: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	45.0	6.3	215	0.167	0.0037	2.2	0.080	1.52#
2005	118.4	15.5	246	0.058	0.0027	5.8	0.035	4.85

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent Institutional development; FPI equals foreign portfolio investments. # indicates average value (1986-93) of institutional indicators, taken from Demirgüç-Kunt and Levine (1995) for only those countries that are also included in the current study.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

Mexico

Since the 1988's, Mexico was transformed from a closed, protected economy, with an interventionist state to one of the most open and least interventionist economies in Latin America. Mexico had implemented a successful macroeconomic stabilization, embarked on an ambitious privatization and deregulation program, and liberalised the financial sector, through "Big Bang approach". As a result, from 1988 to 1994 financial sector depth in terms of GDP doubled and fixed capital formation in terms of GDP increased from 15% to 20%. Financial sector depth decreased from a high of 100% of GDP in 1994 to close to 70% of GDP in 1999. After the debt crisis in 1982, the stock market began to play an increasing role lowering the bank credit to value traded ratio less than five. The stock market experience a rapid expansion starting in 1985 and turnover reaching close to 45% of GDP in 1994 before shrinking to close to 35% in 1999. This was in part due to the financial liberalization but like with the increase in banking credit, some authors have argued that the expansion of the stock market was unsustainable (Copelman, 2000). The value traded increased considerable concurrently with the increase in capitalisation in the years following the reform of the *Ley de Mercado de Valores* in 1989 and *Ley de Fondos de Inversion* in 1990. But, there was a pronounced decrease since the crisis in 1995. The current value traded of the Mexican stock market is just below the development threshold proposed by Demirguc-Kunt and Levine (1995) of 15% for the 1990s. It may be noted that stock market capitalization as a percentage of GDP is comparable to Spain's and Germany, the activity in the market measured by value trades is considerable lower. On the other, some have argued, that the expansion was not based on fundamentals and that the bubble was bound to burst. And it has found

that the 1995 Mexican crisis has proved to have a lasting detrimental effect in Mexico's formal financial markets (Gonzalez-Anaya and Marrufo, 2001).

However, the following table shows the development of Mexican stock market in the post-reform era.

Table 2.4: Mexico: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	12.5	44.0	199	11.47	0.46	1.0	0.111	1.61#
2005	31.1	25.7	326	4.14	0.12	2.4	0.057	4.18

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments. # indicates average value (1986-93) of institutional indicators, taken from Demirgüç-Kunt and Levine (1995) for only those countries that are also included in the current study.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

B. Select Asian Markets

Bangladesh

The year of liberalization in the case of Bangladesh was 1991. Prior to liberalization the market showed significant increase in 1987 by registering a gain of 110% in local index. Moreover, the trading value and market capitalization increased by 271% and 120% respectively. However after that the market went on a falling trend. The trend continued even in the year of liberalization. The real response to liberalization measures came after three years in 1994. In particular the trading activity increased by 640% causing the turnover ratio to increase from 3.8 to 14.3. Purchases of Bangladesh shares and securities by nonresidents, including nonresident Bangladeshis, in stock exchange in Bangladesh allowed (Husain and Qayyum, 2005).

Bangladesh has made considerable progress in recent years in modernizing its regulatory and supervisory regime. Infrastructure development is needed in the country for economic growth in general, and private sector development in particular. In this context, the Bangladesh Bank is helping to prepare a power sector strategy. Important steps have been taken to improve the functioning of the interbank and Treasury bill markets, including the establishment of a settlement system for secondary bond trading and introducing detailed "mark-to-market" guidelines for treasury securities. Market-based auctions for treasury securities have been introduced. The government continues

to rely on market-based mechanisms. In this regard, changes in market-based exchange rates continue to underpin the economy's ability to adjust to changes in the external environment (IMF Country Reports).

A bird's eye view of Bangladesh stock market development is shown below.

Table 2.5: Bangladesh: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	101	105	134	0.50	N.A	0.0	0.051	N.A
2005	5.1	32.3	255	0.47	0.00008	1.3	0.081	3.46

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics

India

India's approach to economic development had until recently been highly interventionist and inward-oriented. The serious balance of payment crisis was the cause of the start of India's market liberalization in 1991. In June 1991, the new Indian government undertook major steps in stabilising and liberalising the economy. The reforms adopted in India in 1991 had four main elements: (i) immediate stabilisation measures, notably a 19 percent devaluation of the rupee and increase in interest rates designed to restore confidence and reverse the short-term capital outflow; (ii) fiscal consolidation aimed at reducing the central government deficit from 8.5% of GDP in 1990-91 to 5% in 1992-93; (iii) mobilisation of substantial exceptional financing from the IMF, the World Bank, and bilateral donors to maintain a minimum level of imports; (iv) initiation of major structural reforms (Ahluwalia, 1996). The early emphasis of the reforms was on industrial deregulation and trade liberalization to reduce drastically licensing requirements for investment and imports. Subsequently, the focus turned to tax reform, further trade liberalization (including reduction of tariffs), and financial sector reforms. Discouraged by a tight regulatory regime as well as the highly distorted economy, capital flows to India have historically been low. Direct investment was limited, averaging around $200 million a year over 1985-90. A key component of the economic reform program was the adoption of a much more open approach to foreign investment. At the outset, approval for direct investment participation up to 51% in priority areas was made automatic, while the criteria for approval were liberalised more

generally (IMF, 2000). In February 1992, it was announced that Indian firms in good standing would be allowed to raise funds through equity and convertible bond issues in euromarkets. In September 1992, registered Foreign Institutional Investors (FIIs) were allowed to purchase both equity and debt securities directly on local markets (Verspoor, 1995a). To encourage these flows further, in March 1993 Budget, the tax on interest and dividend income on FII holdings was set at 20 percent while capital gains tax was set at 30 percent on investment held for less than one year and 10 percent thereafter. The response to these liberalization measures was strong: total FDI and portfolio investment rose to $5.1 billion in 1994/1995, from $585 million in 1992/93 and $148 million in 1991/92. (Verspoor, 1995b). Since India did not have the inflation, external debt, and social inequalities as severe as those in Latin America, it was able to stabilize the economy more rapidly and at a lower cost. Indeed, India's economic recovery from adjustment programs has been both rapid and robust. Since growth was driven mainly by exports and private investment, the recovery did not put pressure on inflation or the external accounts. Though largely successful, the process of economic reform in India is not complete (Bajpai and Sachs, 1996). The comparative analysis that emerges from the following table suggests that financial liberalization has contributed towards the development of the stock market of India.

Table 2.6: India: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	11.9	65.9	2435	0.60	N.A	0.1	0.103	1.34#
2005	68.6	93.6	4763	0.63	0.32	0.8	0.038	4.44

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments. # indicates average value (1986-93) of institutional indicators, taken from Demirgüç-Kunt and Levine (1995) for only those countries that are also included in the current study.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

Indonesia

The official liberalization date of liberalisation was September 1989. Residents were allowed to own foreign securities before January 1990. Untill Dec. 1987; the market was closed to foreign investment. In Dec. 1987, the govt. introduced measures to allow foreigners to purchase shares in eight non-joint venture companies. The Bank Act. Of 1992, enacted Oct. 30, 1992, allowed foreigners to invest up to 49% of listed shares

of private national banks. Minister of Finance allows foreigners to purchase up to 49% of all companies listing shares on the domestic exchange, excluding financial firms (Kim and Singal, 2000). The following table shows the pattern of development in Indonesian stock market.

Table 2.7: Indonesia: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	7.1	75.8	125	0.0205	-0.000040	1.0	0.037*	1.04#
2005	28.4	54.8	336	0.3279	0.0072	1.8	0.060	4.26

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments. * indicates due to non-availability of data for 1990, calculation has been made from July to Dec.1995. # indicates average value (1986-93) of institutional indicators, taken from Demirgüç-Kunt and Levine (1995) for only those countries that are also included in the current study.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

Japan

The first sign of reforms in the Japanese financial market appeared in 1970s with the problem of high volume of bond issues by the Bank of Japan (Uchida and Tsutsui, 2005).

During 1971-74, some major policy changes observed in Japan. Among these restrictions on outward direct and portfolio investments eased further, easing of restrictions on the purchase of Japanese securities and lowering of the marginal reserve requirement of nonresident free yen accounts are important to mention. Marginal reserve requirement on non-resident free yen accounts abolished during this period of time. With the liberalisation of short-term euro/yen lending by Japanese banks, Japanese Off-shore Market (JOM) opened in 1986.

Although in early 1990s all deposit rates were liberalised, financial markets were controlled by number of measures. These controls were directed towards all areas such as day to day operations, managements, to new entrants and also to customers. However, gradual relaxation of restrictions was implemented by authorities from time to time but there were no substantial policy initiatives until the so-called full-fledged reforms. Since the end of 1996 Japan has started a serious reform package to further eliminate existing inefficiencies and remove number of barriers within the financial sector of the country. In 1998 Japan introduced new Foreign Exchange and Foreign Trade Control Law (Honda, 2003).

With the implementation of these reform programmes it was expected to make the financial system a modern and vibrant one. Japan could be regarded as the last country to implement such financial sector reform package among all other developed countries. The major objectives of the reform policies were to remove entry and (also exist) barriers to the financial industry, opening up the Japanese financial sector to the rest of the world including foreign exchange markets, removing of price setting controls allowing market forces to determine all prices within the industry and improve transparency and prudential regulatory mechanism within the financial system where it could be more accountable (Edirisuriya, 2003).

The experience of Japan's stock market development is shown below.

Table 2.8: Japan: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	98.2	43.8	2071	0.12	0.01	0.1	0.071	N.A
2005	104.5	103.5	2351	0.22	0.04	0.1	0.034	5.60

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

Korea

Unlike several of the larger economies in East Asia, which evolved from protectionism, inward-looking trade regimes toward relatively open economies, Korea's development experience shows that export orientation, effective public policy intervention, and financial liberalisation are the center of economic development. Internationalization of Korea's capital market has been carried out cautiously since the announcement of the long-term plan in 1981 (Park, 2001). Since 1984, limited indirect investment in Korean stocks has been allocated through foreign investment funds, Korea Fund and Korea-Europe fund. Foreign securities companies were allowed to open representative offices. Korean began liberalising FDI in the early 1980s, and since 1985, the stock of FDI has more than doubled, from $0.5 billion to 1.3 billion in 1988. On December 1988, Government announced plans to liberalize domestic financial markets. Lending rate were decontrolled, monetary operation was shifted from direct credit control to indirect credit control. Started at the end of 1980s, foreign banks and insurance

companies were allowed to enter Korean market. At the same time, international investment trusts were permitted, and foreign and domestic securities companies were allowed to do business with each other. In 1992, Government announced plans to liberalize the capital account in several steps. Starting January 1992, foreigners were allowed to invest directly in Korean stocks with certain limits, and substantial overseas capital flowed into the Korean stock market. Since February 1995 Koreans have been allowed to (i) hold foreign currencies without any restrictions, (ii) invest up to $300,000 in overseas real estate, and (iii) deposit up to $30,000 in overseas banks. In June 1993, the government announced a three-stage program for complete liberalization of financial, capital and foreign exchange market by 1998 (Yang, 2002).

Although Korea took several steps to liberalised its financial sector and capital account, many internal and external factors triggered a severe financial crisis at the end of 1997. The causes of the crisis have been a weak legal and regulatory framework, regulatory forbearance and weak enforcement capacity, and excessive government intervention to promote certain industries. Nonetheless, the tremendous progress made by Korea in economic reform and human development over the past 40 years cannot be ignored (Yoon, 2005).

The following table highlights some indicators of Korean stock market development.

Table 2.9: Korea: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	43.8	61.3	669	0.24	0.0012	0.3	0.064	1.55#
2005	92.2	210.8	1616	0.067	0.0003	0.6	0.034	5.13

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments. # indicates average value (1986-93) of institutional indicators, taken from Demirgüç-Kunt and Levine (1995) for only those countries that are also included in the current study.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

Malaysia

The New Economic Policy introduced towards eliminating the identification of race with economic function, by reducing poverty and making the Malays participate in the ownership of capital. To a certain extent the NEP was successful, if in 1970 Malays owned 2.4 % of corporate equity, in 1990 this share had risen to 20.3; and the incidence

of poverty fell from 46.4 to 17.1 during the 1976- 1990 period. These equity improvements were accompanied by an average GDP growth rate of 7%. During this period the government changed its focus to an export oriented growth. The Industrial Coordination Act (ICA) imposed price regulation, licenses and quotas all directed to the accomplishment of public goals. However, the recession obliged Malaysia to relax the strict controls of the NEP. The economy recovered its high growth record, with an average GDP growth of 8% for the period, specially boosted by direct foreign investment. By 1987 50% its investment was direct foreign investment and it peaked to 70% in 1989. Also, policies that previously had deterred foreign capitals - like ethnic quotas in equity ownership - were relaxed. Malaysia was successful in attracting Japanese capital, not only because it opened in the right time, but also had social and macroeconomic stability to offer (Yoon, 2005). Most of this direct foreign investment was oriented to the more dynamic electronic and electric machinery industry. However during the 90's foreign debt has been held steady at nearly 40% of GDP, and their balance of payments shows a current account deficit that has been growing to -8.5% of GDP in 1995. The future challenges for the Malaysian economy as stated by its own government is to transit to "productivity-driven growth"(IMF, Country Reports).

The impact of new economic policy on the Malaysian stock market is shown below.

Table 2.10: Malaysia: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	113.6	24.6	282	49.30	-0.21	5.3	0.060	1.63#
2005	139.1	26.9	1019	50.91	2.20	3.0	0.020	5.11

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments. # indicates average value (1986-93) of institutional indicators, taken from Demirgüç-Kunt and Levine (1995) for only those countries that are also included in the current study.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

Philippines

During the turmoil of 1980s, both political and economic, external debt was cumulated, and both investment and saving were discouraged. To attract international capital and promote private investment, the Aquino government started economic reforms, mainly through privatization. In June 1989, 30 percent of the equity of the Philippine National Bank was privatized. Foreign Investment Act signed into law. The

Act removes, over a period of three years, all restrictions on foreign investments (IMF, 2000). In June 1991, the Foreign Investment Act allows 100% foreign equity ownership except in restricted sectors. In August 1992, the exchange control was lifted on virtually all current-account transactions. In February 1993, the telecommunication monopoly was ended. In 1994, 60 percent of the equity of the state owned refinery was privatized, and the ban on entry of foreign bank branches was lifted. In 1995, aviation services opened up for private involvement, and 100 percent foreign equity was allowed in mining in exchange for technology and investment. In 1996, maximum tariff was cut from 50 percent to 30 percent. All those structural reforms created an environment of attracting investment and promoted export. The economic growth in 1990s was characterized by export promotion, investment attraction, and private sector participation (Kim and Singal, 2000).

The following table highlights some indicators of Philippines stock market development.

Table 2.11: Philippines: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	13.4	13.6	153	1.97	-0.005	1.2	0.090	1.32#
2005	40.5	20.4	237	1.64	0.298	1.1	0.407	4.00

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments. # indicates average value (1986-93) of institutional indicators, taken from Demirgüç-Kunt and Levine (1995) for only those countries that are also included in the current study.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

Thailand

The Thai government unilaterally started a World Bank style structural adjustment programs (SAP) in 1980. The recession over 1984-85 accelerated the process of reforms. The government devalued the currency in November 1984 and started a far more vigorous export promotion policy. Thailand continued its reform in the area of financial deregulation. In 1993, the Bangkok International Banking Facility (BIBF) was established for easy access to funds. This and many other factors led to accumulation of huge debt, concentrated in the financial firms and banks, and finally triggered off the 1997 economic crisis.

Thailand went in for capital account liberalisation before reforming the financial sector. Capital inflows were actively promoted in Thailand since 1985 till the mid-1990s. Inflows through portfolio and equity investments were permitted freely, though portfolio and foreign direct investment outflows were subject to restrictions. Sterilisation measures were stepped up. In addition, some measures designed to target capital inflows more directly were introduced in August 1995: (i) asymmetric open position limits for short and long positions (with smaller limits on short foreign currency positions in an attempt to discourage foreign borrowing abroad); (ii) reporting requirement for banks on risk control measures in foreign exchange and derivatives trading; and (iii) a seven per cent reserve requirement (held at the central bank) on non-resident baht accounts with less than one-year maturity and on finance companies' short-term foreign borrowing (IMF, 2000).

With the outbreak of East Asian crisis, the Thai government to stabilise the foreign exchange market and stem speculative attacks on the baht, imposed a series of measures. However, with the economic situation showed signs of improvement and the Bank of Thailand lifted controls in 1998 along with unifying the two-tier market. As a result, baht appreciated and stock prices improved (Roy, Misra and Misra, 2006).

The following table shows the impact of financial liberalization towards the development of the stock market of Thailand.

Table 2.12: Thailand: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	28.0	92.6	214	2.56	-0.0017	2.9	0.119*	1.36#
2005	69.9	75.2	504	3.32	0.1013	2.6	0.036	4.58

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments. * indicates due to non-availability of data for 1990, calculation has been done for 1997. # indicates average value (1986-93) of institutional indicators, taken from Demirgüç-Kunt and Levine (1995) for only those countries that are also included in the current study.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

Hong Kong

By the end of the twentieth century, Hong Kong was widely recognised as one of the world's top five international financial centers. Hong Kong has traditionally been viewed as a laissez-faire paradise for international finance (Schenk, 2004).

The Hong Kong stock exchange (HKSE) came into existence in Oct. 1986. A new era for the Stock Exchange of Hong Kong was launched after the October 1987 crash required the suspension of trading for four days. In this instance, Hong Kong was mainly the victim of the global equities collapse, but the crash also exposed the poor governance of the market and the illegal practices that had arisen during the boom. This episode led to reform of the exchange to strengthen the regulatory framework and eliminate the 'ethical laxity' that had become endemic in the market. In 1988 the Davison Report delivered its recommendations for the reform of the SEHK in the wake of this scandal. The external government watch-dog was strengthened by the establishment of a new Securities and Futures Commission with a more substantial staff and independent of government (Fong and Koh, 2002).

In 1993 the semiautomatic system was combined with automatic order matching and execution system (AMS). The order and trade information for both automatic and nonnautomatic stocks are disseminated through Telecast system. The Hong Kong market is a highly volatile market and the 'China Plot' has been a major factor influencing the market (Machiraju, 2000). There is no restriction on foreign investment and no limits exist on ownership of domestic companies by foreigners. Profits, dividends and interest can be fully and freely repatriated. Clearing and settlement are done on a computerised book entry clearing and settlement system. Reduction of the settlement cycle in equity from T+2 to T+0 (buyer) and T+3 to T+1 (seller).

The following table highlights experiences of some indicators of Hong Kong stock market development.

Table 2.13: Hong Kong: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	111.5	43.1	284	28.02	N.A.	-	0.034*	N.A
2005	566.2	55.7	1096	43.59	0.67	20.2	0.041	5.46

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments. * indicates due to non-availability of data for 1990, calculation has been done for 1996.
Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

Singapore

Singapore's financial sector, which is dominated by the banking sector (55 percent share of domestic banking assets), remains robust despite a series of economic downturns and substantial asset price decline (Kapur, 2005).

Singapore has proactively implemented significant financial sector reforms since 1998. The reforms are aimed at enhancing Singapore's position as a major international financial center and include (i) opening the financial industry to greater foreign competition; (ii) bringing regulatory and supervisory practices closer in line with international best practices on prudential regulation and supervision and disclosure-based regulation; (iii) developing deep and liquid fixed-income and equity markets; (iv) promoting the asset management industry; and (v) gradually liberalizing the restrictions on the international use of the Singapore dollar. As a part of legislative and regulatory reforms, in 2002 a risk-based capital framework for securities for capital markets services license holders came into force and the Payment and Settlement Systems (Finality and Netting) Act was enacted to provide for protection of the payment and settlement systems from disruptions (Kapur, 2005). Moreover, in 2003 the Code of Corporate Governance took effect and listed companies with market capitalization of S$75 million or more were required to make quarterly reports. To develop stock markets, the Singapore Exchange (SGX) was formed following the demutualisation and merger of the Stock Exchange of Singapore and Singapore International Monetary Exchange. Investment restrictions on CPF Special Accounts were liberalized during 2001. A new SGX listing manual came into effect in 2002. The borrowing period for the securities lending facility was extended, and full order book information on the SGX securities market was made available to investors on a subscription basis. Financial institutions may not be allowed to extend credit facilities larger than S$5 million if there is reason to believe that the funds may be used for Singapore dollar currency speculation (IMF Country Reports).

The contributions of liberalization policies towards the development of the stock market of Singapore are given below.

Table 2.14: Singapore: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	93.6	59.15	150	1.69	0.20	15.1	0.098	N.A
2005	178.4	63.1	686	213.17	0.19	17.2	0.028	5.63

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

Pakistan

At the beginning of 1990s, financial structure of Pakistan continued to reflect the policy initiatives that drastically enlarged the role of government in the process of deposit mobilisation and credit allocation. The capital market, at the beginning of 1990s, consisted of market for equities term-loans, corporate debt, and mutual funds (. The capital market at that time was not adequately supplementing the intermediary role of banking system. During this period of time foreign nationals were not allowed to make investment without prior approval from government and were also barred from owning 100 percent shares of a company. Moreover, restrictions on foreign exchange movement in and out of the country kept the foreign investors away from Pakistani markets. On the supervisory front, the control over capital market was compromised due to lack of autonomy, inadequate professional capacity, lacked proper infrastructure for trading and settlement.

The reform programmes was initiated to reduce the market segmentation, instill competition, and switch over to market-based and relatively more efficient monetary and credit mechanism. However, this reform process gathered momentum since 1997, when a crucial set of reforms aiming at institutional strengthening, restructuring of banks and DFIs, and improvement in regulatory framework was introduced. The emphasis was also given on the strengthening of governance, institutions, regulation, and supervision. Exchange and payment reforms proved to be of great significance in the development of capital market. Through these reforms, foreigners and oversees Pakistanis were allowed to make investments without prior approval except in few specified industries. This resulted in large inflows of foreign funds. Furthermore, the permission to retain 100 percent equity by foreign investors in a company with no obligation to go public helped improve their confidence in Pakistani markets. Other important steps in this regard were:

(i) the permission to bring in any amount of foreign currency and to take it out freely; (ii) treatment of foreign private investment with regard to taxes on income, at par with those applicable to similar investment made by citizens of Pakistan; and (iii) relief from double taxation in case of those countries with which Pakistan had treaties for avoidance of double taxation (Husain, 2000).

The following table highlights some indicators of stock market development in Pakistan.

Table 2.15: Pakistan: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S. D	Institutional Development
1990	7.1	8.7	487	0.025	0.0077	0.6	0.017	1.09#
2005	41.5	375.7	736	0.031	0.0065	2.0	0.098	3.66

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments. # indicates average value (1986-93) of institutional indicators, taken from Demirgüç-Kunt and Levine (1995) for only those countries that are also included in the current study.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

Sri Lanka

In 1990 liberalisation of investment in the Stock Market with the abolition of the 100% transfer of Property Tax on share purchases by non-nationals, and the relaxation of Exchange Control on inward remittances for share purchases and outward remittances of surpluses on dealings in listed shares was introduced. The year 1991 had been marked as milestones in the history of the Colombo Stock exchange. During this period of time automation of the Clearing House of the Stock Exchange with the establishment of the Central Depository System, abolition of Wealth Tax on listed company shares had all come into effect. Introduction of an Over the Counter Market for unlisted shares. The introduction of a two-tiered board, In 1996 the Rules for investment companies adopted. Automation of trading with the installation of a Screen Based Trading System, rules for establishing branch officers and sales outlets of Member Firms and Dispute Resolution between clients/brokers and Member Firms adopted. In 1997 the establishment of a Settlement Guarantee Fund and a Compensation Fund. Introduction of new Listing Rules 2000 The introduction of a new index on Total Returns 2004 Launch of a new state-of-the-art system for the trading of debt securities Trading System (DEX). Reduction of the

settlement cycle in equity from T+5 to T+3 (buyer) and T+5 to T+4 (seller) (See Colombo SE Official Website).

The following table shows some indicators of Sri Lanka's stock market development.

Table 2.16: Sri Lanka: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	11.4	5.8	175	1.43	N.A	0.5	0.030*	N.A
2005	24.4	23.7	239	0.65	-0.0055	1.2	0.059	3.87

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments. * indicates due to non-availability of data for 1990, calculation has been done for 1992.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

C. G – 7 countries

Australia

The foundation for financial reforms in Australia was laid some decades ago and is a continuous process. Banking sector is the largest sector of the financial system and it controls the majority of financial assets in the system.

In general, the Australian financial system until the end of 1970s was a highly regulated one and no liberalization policy was initiated until the appointment of the Campbell Committee in 1979. The situation of financial institutions in Australia at the end of the 1980s, that is a decade after the introduction of financial deregulation, was somewhat turbulent (Edirisuriya, 2003).

After implementing the Campbell Committee recommendations, there has been a major structural change in the financial services industry of Australia. During this period the complexity of the financial market has increased. As a result of this, new challenges to the regulatory system of the country have surfaced. As per the recommendations of the Wallis enquiry new institutions have been created or already established institutions have been re-organized (Perkins, 1989). The Australian Prudential Regulation Authority (APRA) is one such new institution created to regulate the financial services industry sector of Australia.

Key changes in capital account liberalisation policies include loosening the requirement to hold a non-interest bearing deposit with the Reserve Bank when

borrowing overseas suspended (and not reintroduced) in 1977. During 1981-83, monetary limits on overseas investment in equity or real Estate and restrictions on interest-bearing investments by non-residents were abolished and the exchange rate was floated. With abolishing a range of portfolio controls, restrictions on inward direct investments were also eased in 1986 (Roy, Misra and Misra, 2006).

The following table highlights some indicators of Australia stock market development.

Table 2.17: Australia: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	36.2	31.6	1089	20.75	1.77	2.6	0.043	N.A
2005	109.8	75.7	1714	14.22	5.92	-4.7	0.028	5.29

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

France

France followed a very gradual approach towards capital account liberalisation during the 1980s. Soon after the second oil price shock, a major reorientation occurred in 1983 in French economic strategy, which involved the deregulation of the financial sector policies which was brought about in stages. Quantitative credit control mechanism was abolished in 1985. The public debt market was reformed to enhance the investors' interest. While this well-planned liberalisation of financial sector was being implemented, France continued to maintain capital controls. When the French macro-economic situation strengthened, current account stabilized in 1984 and the financial sector was considered to be able to withstand foreign competition, capital controls were withdrawn gradually. There were sizable increases in portfolio flows into France (from below 0.5 per cent of GDP in early 1980s to close to 4 per cent of GDP by late 1980s). Yet, the liberalisation efforts continued uninterrupted till 1990 when France adopted complete CAL. The French approach to strengthen the domestic economy before liberalising the volatile items in the capital account was the key element behind the French attempt at capital account liberalization (CAL).

The major changes in CAL in France were (i) starting from 1980, relaxation of restrictions on inward and outward direct and portfolio investments gradually eased out in 1985 completely; (ii) *Devises-titres* market abolished, purchases of secondary

residences abroad liberalized, forward foreign exchange operations eased (iii) *Carnet de change* abolished and exchange controls for commercial enterprises substantially eased and (iv) In 1988 domestic enterprises permitted to operate foreign currency accounts. Finally, by 1990 all remaining exchange control regulations abolished (Roy, Misra and Misra, 2006).

A fully computerized clearing and settlement system called RELIT was introduced in 1990 based on delivery verses payment or the simultaneous exchange of securities and cash on the same day and standard time frame for trade comparisons and settlement. Institutional investors can buy and sell large blocks of shares at a predetermined price without waiting for a matching order reaching the central market (Machiraju, 2000).

The following table highlights some indicators of France stock market development.

Table 2.18: France: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	26.3	37.76	578	43.70	4.19	1.1	0.073	N.A
2005	80.4	81.7	1259	36.85	13.38	3.3	0.032	5.31

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

Germany

Like Japan, the economy of Germany is dominated by the banking sector. Industry in Germany is still reliant on institutional financing and German economy is poorly represented by the stock markets. But soon after the opening up of the German economy, the Deutsche Bourse AG has emerged one of the developed markets in the world. Market capitalization as a percent of GDP was 23.6 % at the end of 1994.

A dual system comprising of floor and computerized trading have been employed. Computerised trading known as IBIS, provided by Deutsche Bourse AG, is open to all members of German stock exchanges. IBIS has been widely accepted and is responsible for bringing the off-exchange trading back to the exchange. Transactions concluded with IBIS are automatically transmitted for clearing and settlement. Banks whose role is universal in Germany provide dealing services and transmit customers'

orders to the exchange. Delivery is made possible by book entry. Standard settlement takes place on the second business day after the bargain (Machiraju, 2000).

No sooner had the financial reforms policies introduced, capital market activity is increasing and fostering efficiency gains. Opportunities for further private equity participation are large as the business landscape remains fragmented. The role of venture capital for new startups, however, appears more constrained. Recognizing the benefits of private capital for the entry of new firms, innovation, economies of scale, and corporate governance, the authorities are formulating a more effective legal framework to mobilize additional market financing, including by streamlining tax incentives. The authorities also attach high priority to establishing real estate investment trusts (REITs) to increase flexibility of property markets and deepen capital markets.

Additional deregulation of product and service markets is in the process strengthen competition and raise productivity. A more efficient financial sector would improve the allocation of capital to areas of highest return, strengthening economic performance. Banks and insurance companies are healthier than in recent years, but the improvement in earnings is largely cyclical and they still underperform most EU peers. However, it remains vital to allow more private capital to enter public sector banks to harness market signals and facilitate restructuring (IMF Country Reports). Prudential supervisory criteria determined by the German supervisory authorities helps deepening capital markets and playing a greater role in guiding corporate decisions. Moreover, increasing flexibility in the real estate market also contributes to the economic efficiency.

A bird's eye view about Germany's stock market development is shown below.

Table 2.19: Germany: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	22.9	139.3	413	59.32	0.96	0.2	0.082	N.A
2005	43.7	123.7	764	47.13	11.05	1.1	0.036	5.58

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

United Kingdom (U.K.)

The London Stock Exchange, one of the world's oldest stock exchanges and can trace its history back more than 300 years, deregulated the market in 1986, through "Big Bang" process. Deregulation of the market came in: (i) ownership of member firms by an outside corporation is allowed. (ii) all firms become broker/dealers able to operate in a dual capacity. (iii) minimum scales of commission are abolished. Individual members cease to have voting rights. Trading moves from being conducted face-to-face on a market floor to being performed via computer and telephone from separate dealing rooms. (iv) the exchange becomes a private limited company under the Companies Act 1985. SETS (Stock Exchange Electronic Trading Service) is launched to bring greater speed and efficiency to the market. The CREST settlement service is launched in 1997.

United Kingdom's experience is a classic case of rapid liberalization of capital controls. Since World War II till 1979, UK operated one of the most extensive systems of capital controls along with tight domestic financial regulation. The government recognised that the abolition of capital controls had to be accompanied by domestic deregulation and macro-economic policies oriented towards stabilisation. Though the process of liberalisation of capital controls in UK was one of the fastest (convertibility of sterling introduced in 1958), it was part of a broader policy framework aimed at improving the functioning of the overall UK economy in late 1970s. In 1967 restrictions on repatriation of non-residents' capital eased and controls on portfolio inflows abolished in 1971. During 1978-79, restrictions on resident institutional investors investing in foreign currency securities eased out and abolition of all restrictions on outward direct investment and significant liberalization of outward portfolio investments were made. Such loosening of controls reflected its impact in an interesting way. While inflows increased marginally, the immediate post-liberalisation period saw a substantial hike in capital outflows from UK. Economic growth in UK improved during the 1980s and inflation fell. As such there is no restriction on capital transactions in money, capital, derivatives market and also with respect to personal capital transactions and institutional investors(Roy, Misra and Misra, 2006).

The development of stock market in U.K. has been shown in the following table.

Table 2.20: United Kingdom: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	87.0	33.3	1701	73.51	4.26	3.4	0.039	N.A
2005	139.1	140.5	3091	48.59	19.88	7.2	0.025	5.54

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

United States of America (USA)

The United States, that had generally adopted liberal policies with regard to capital account in the post-war period, introduced capital controls on account of speculative outflows in the 1960s. Controls in the form of Interest Equalisation Tax (1963), Voluntary Guidelines limiting foreign lending and investment (1965) and Voluntary Guidelines limiting foreign direct investment (1968) were introduced. Most of these controls such as abolition of capital controls, including voluntary guidelines etc. were eliminated from 1974 onwards after the breakdown of the Bretton Woods system. Since then, the United States has followed a liberal capital regime with limited controls mainly pertaining to security concerns (Bakker & Chapple, 2002).

The experience of the USA stock market development is presented below:

Table 2.21: USA: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	55.1	53.4	6599	15.69	0.38	0.8	0.040	N.A
2005	136.9	126.5	5143	18.52	7.56	0.9	0.017	5.61

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

D. African Markets

South Africa

The liberalisation of capital and foreign exchange markets has facilitated greater integration of financial markets across jurisdictions and increased competition. One of the strategies pursued has been the creation of diversified financial groups, now commonly termed "Financial Conglomerates" or "Large and Complex Financial Institutions (LCFI)". These financial groups provide opportunity for reaping economies of scale and for revenue diversification. However, the size and complexity of their operations present challenges for risk management.

The democratization of South Africa coincided with the relaxation of controls in the foreign exchange and capital markets in SA, thus permitting the increased regional and international participation in local financial activity. Within the broad framework of liberalization, factors such as privatization, the seeking of joint ventures and technical partnerships with larger firms and the need for assistance in recapitalization have provided ad hoc opportunities for foreign investment and offered a channel for global banking groups to acquire prime indigenous banks (IMF Country Report).

SA has improved their macroeconomic performance markedly over the past decade. Generally, better financial indicators coupled with financial sector reforms have helped build investor confidence. In countries that previously faced political instability, more sustainable economic growth patterns are emerging as political environments become more stable and direct investors become more attuned to the opportunities that Africa can provide.

The following table shows the development of stock market of South Africa in the post-reform period.

Table 2.22: South Africa: A Synoptic View Stock Market Development

	Market Capitalisation (% GDP)	Turnover (% GDP)	No. of Listed Companies	Trade Openness	FPI (% GDP)	FDI (% GDP)	S.D	Institutional Development
1990	122.8	5.93	732	14.48	0.50	-0.1	0.041	N.A
2005	236.0	41.6	373	3.83	3.04	2.6	0.026	4.36

Notes: Trade Openness has been measured as Import + Export as % GDP; Standard deviation (S.D) represents the fluctuations in the Stock market returns; For 2005, Global competitiveness index score has been considered to represent institutional development; FPI equals foreign portfolio investments.

Sources: World Development Indicators, 2000 and 2007. IFC Statistics.

2.3 Conclusion

The above discussions are mostly descriptive in nature. However, we summarize below some salient points of our discussion.

i. Latin American countries: it's a crisis-prone region; nearly all countries from this region followed a 'big bang approach' of financial liberalization.
ii. South Asian countries: the countries in this region followed a 'gradual' approach liberalization of economy. There is ample scope of further reforms in this territory. Comparatively, this region is a crisis-prone region.
iii. South east Asia: mostly, countries in this region adopted 'cautious' steps for opening up of their economies. At the same time these countries are not free from "contagious effect". In some occasion to protect the economy from the destabilization, some countries often reverted back for a while to the tighter control regime e.g. Korea.
iv. G-7 countries: in this cluster the financial structure of the countries are matured. Further scope of innovation, institutional and legal-system development may be beneficial for the countries long-run economic growth.

The analysis may help us only if finance leads growth strategy works. Alternatively, if exogenous growth model is relevant, then above discussions will loose much of it significance. There is a need of robust analysis to relate finance with growth and to assess the merit of two above mention models. The next chapter deals with the measure the development of financial sector objectively to facilitate the finance-growth relationship.

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