# DOWNLOAD PDF FINANCIAL MARKET LIBERALIZATION

## Chapter 1 : Capital Market Liberalization and Development - Oxford Scholarship

*Liberalization policies include partial or full privatisation of government institutions and assets, greater labour market flexibility, lower tax rates for businesses, less restriction on both domestic and foreign capital, open markets, etc.*

Are there alternative ways to gather the data that would be more accurate, more useful, more timely, more technologically advanced, or less burdensome and costly? Department of Commerce, the Panel on International Capital Transactions was convened to examine the changes in the global financial environment, assess public and private needs for data on international capital transactions, review the adequacy of existing data, and consider alternative collection methods. Subsequent research grants from the Federal Reserve Board and the U. Department of State also supported the study. This study is a follow-on to the one completed by a previous panel of the Committee on National Statistics. That report, Behind the Numbers: Trade in the World Economy Kester, , reviewed the adequacy of data on U. It recommended steps to correct the problems of underreporting of U. It also proposed measures to improve monitoring of sales and purchases by U. It pointed out that, of all U. That report concluded that improving the data on U. Although the changing global trade and financial environment has led several international organizations to undertake initiatives to improve the concepts and methods of compiling international economic statistics, none of the resulting studies focuses specifically on data on U. Nevertheless, improving the quality of U. Finance in the World Economy. The National Academies Press. Other countries would also benefit if improved U. This improvement in comparability, of course, would apply to the data of other countries as well. Data comparability is important not only for international economic policy coordination, but also for data exchanges between the United States and other countries. The panel believes this report will contribute to a better understanding of the global financial flows that have come to characterize the rapidly evolving global economy. In conducting this study, the panel extensively reviewed existing literature, including recent studies by the International Monetary Fund , b , the Federal Reserve Board Stekler, ; Stekler and Truman, , and the Bank for International Settlements , a, b. It examined the concepts, methods, and procedures that U. It drew on the insights and expertise of many individuals in federal agencies, international organizations, foreign government agencies, businesses, trade associations, and research organizations, including those from the U. Department of Commerce, the U. Department of the Treasury, and the U. It con-suited experts in the accounting profession and other expert groups currently examining the changes in global financial markets and the treatment of complex financial transactions. The panel heard expert testimony and reviewed written comments from numerous government, academic, and industry users on the adequacy of the existing data. The panel also canvassed data filers from commercial and investment banks, securities firms, brokerage houses, and multinational corporations to learn their views on data reporting requirements. In developing its recommendations, the panel took into account the current budgetary constraints that face statistical agencies, as well as the rapidly evolving world financial environment and the advent of innovative information and telecommunications technologies. The rest of this chapter reviews the forces that have dramatically transformed world financial markets over the last decade or so and their implications for U. Chapter 2 describes the existing system for compiling data on U. Chapter 3 examines the adequacy of the existing system, taking into account the views of data collection agencies, data filers, and data users, and makes recommendations for improvements. Chapter 4 reviews the surge of transactions in financial derivatives and discusses their implications for the coverage and the interpretation of existing data on U. Chapter 5 explores the feasibility of using alternative data sources and collection methods to improve the coverage and accuracy of existing data, including automation, the use of global custodians, exchanges, settlement and clearing houses, and databases of international organizations. Appendix A highlights key features of the data collection systems of the United Kingdom, Germany, and Japan and discusses actions being taken by these countries to improve information on their international capital transactions. Throughout this report, following the balance-of-payments framework for current U. Other terms commonly used in the field, and in this report, are "offshore," "abroad," and "overseas," all of which are the same as foreign for purposes of international capital transactions, which are also sometimes called cross-border transactions. They include a worldwide move toward deregulation of financial institutions and transactions; macroeconomic imbalances among countries, which have induced capital flows; improved knowledge about market and economic conditions around the world; and breakthroughs in information and communications technology that have increased exponentially the capacity for handling large volumes Page 24 Share Cite Suggested Citation: In addition, competition has grown among financial institutions of various types and in various countries, whose portfolio management strategies in volatile markets have resulted in new products and new modes of operation. The development of world financial markets in response to these forces and the U. The United States removed its last capital controls in ; Germany significantly reduced its restrictions on capital movements in the s; and the United Kingdom dismantled its exchange controls in , Japan in the early s, and France and Italy in the late s. Countries embraced deregulation because it was thought that free flows of capital would open up both saving and investment opportunities for firms and individuals and better match the changing needs of suppliers and users of funds, thereby facilitating the efficient allocation of capital and promoting growth in income and output. In the United States, the liberalization of domestic financial markets since the late s has further facilitated international capital flows. The phaseout of interest rate ceilings Regulation Q , 2 the easing of portfolio restrictions on pension funds and insurance companies, and the removal of a variety of restrictions on the permissible activities of banks 3 have facilitated large transfers of money, both within national borders and across them. The lowering of institutional barriers was intended to allow firms and individuals to adjust their claims and liabilities with greater ease in order to improve the liquidity of their portfolios and diversify 2 Regulation Q set the maximum level of interest rates that banks and savings and loan companies could pay on deposits. As of mid, banks, unlike enterprises in other industries, were prohibited from branching freely across state lines. However, under recently enacted legislation, this prohibition will be removed over the next few years. Page 25 Share Cite Suggested Citation: The drive toward international diversification by U. The process of integration has also intensified as foreign investors and financial institutions have been allowed relatively freely to enter domestic markets in different parts of the world. Between and , for example, the number of foreign banks in the United States rose from about to In foreign banks accounted for 18 percent of total banking assets in this country and operated offices Federal Reserve Board of Governors, There are other measures of increased integration of financial markets: Bureau of Economic Analysis, a; a. The macroeconomic conditions of various countries and their trade and tax policies, for example, affect the expected rates of return on various investments in different markets. In the mid- to late s, large capital flows resulted from the recycling of the oil export surpluses of the Organization of Petroleum Exporting Countries, many of them through international banks to sovereign borrowers in the developing countries. During the late s and early s, there was considerable capital flight from many developing countries as uncompetitive interest rates and exchange rates, large fiscal deficits, and high 4 Foreign banks with U. Additional regulatory authority was provided by the Foreign Bank Supervision Enhancement Act in Page 26 Share Cite Suggested Citation: Beginning in the early s, large capital inflows into the United States were an important source of financing for the sizable federal budget deficits being incurred. Differences in the mix of fiscal and monetary policies between the United States and other industrial countries over the past decade have directly affected exchange rates for the dollar. The large movements of the dollar against other major currencies since the s, in turn, have contributed to increases in sales and purchases of dollar-denominated securities and the expansion of foreign-currency trading. In , differentials approaching 6 percentage points or more in interest rates between the United States and Germany attracted capital to Germany from the United States and other countries. Following unification, Germany relied on high interest rates to dampen inflationary pressures arising from the huge costs of revitalizing the economy of the former East Germany. Also in the early s, rapid economic growth in East Asian countries and large export surpluses in those countries have generated pools of savings that flow into the global economy to finance the investments that offer the highest rates of return. Information and telecommunications technologies have greatly increased the speed with which information is processed and disseminated. Around the world, market participants are bombarded with a plethora of information and a cacophony of opinions, reports, and rumors, much of which is communicated by computers. In addition, electronic trading has allowed orders to move across continents, directly from customers to brokers and dealers. Automated trade execution and international clearing and settlement have also encouraged cross-listing of securities and further integrated world financial markets. Today, traders have access to instruments and overseas markets after U. If they choose to, they can also "pass the book" to their affiliates in foreign markets, who can continue trading in daylight hours overseas. Automated trading execution systems provide a hour trading market, allowing traders to enter buy and sell orders that are automatically matched according to price and time preferences. Page 27 Share Cite Suggested Citation: Round-the-clock trading is expanding because increases in speed and control over the direction of information flows can result in large profits or reduced losses in financial markets. The greater ease with which financial traders can gain access to different markets and their reduced costs have enabled them to take advantage of even small profit margins around the world. Furthermore, interactions among markets, which have been facilitated by technological innovations, have provided market participants with opportunities to diversify, hedge, and increase profits on their investments, thereby promoting the use of new financial products and instruments. Over the past several years, there has been rapid growth in financial derivatives, such as forwards, futures, options, swaps, and sophisticated combinations of them on interest rates, exchange rates, stocks, and bonds. A primary purpose of these instruments is to hedge exposure against risk, and many are traded across borders. Accompanying this rise in derivatives has been the rapid expansion of over-the-counter markets that involve trading over computer networks in securities tailored to the specific needs of individual investors, borrowers, and intermediaries. A detailed discussion of financial derivatives is presented in Chapter 4. This, in turn, has further transformed the structure of world financial markets. Over the past 25 years, a notable development in international finance has been the growth of securitizationâ€”a process of converting assets that would normally serve as collateral for a bank loan into securities that are more liquid and can be traded at a lower cost than the underlying asset. This process has been fostered, among other things, by technological innovations. With computers and electronic record-keeping, financial institutions can cheaply bundle together a portfolio of loans originally, mortgage loans with small denominations, collect the interest and princi- Page 28 Share Cite Suggested Citation: This process of pooling loans and selling securities backed by the loans has been found by financial institutions to be more efficient than traditional financing through financial intermediaries in certain situations, and it has been used, for example, for auto loans and credit card obligations. In an environment of deregulation, nonbank financial companies have devised new and different ways to move money from savers to borrowers. In recent years in the United States, for example, pension funds, money market funds, and insurance companies, among others, have increasingly lured savings away from bank deposits. In turn, these institutional investors, which are better able than individuals to acquire the needed information for foreign investment, have heavily invested in foreign securities, fostering the rapid expansion of international bond and equity markets. Meanwhile, multinational corporations that produce and sell goods and services on a global scale seek worldwide sources for their financing and investment needs. To serve these clients, financial institutions have diversified the services they offer, among which are transactions in foreign exchange, money market instruments, and derivative products, all on a worldwide scale. These sophisticated financial instruments allow investors an array of alternatives for hedging and shifting risks, which, at a cost, can provide greater certainty of international receipts and payments, or, in some cases, for taking on exposure with a highly leveraged position. The rise in new financial instruments has added flexibility to 5 A study by a private financial consulting firm estimated that holdings of foreign stocks by U. In , foreign stocks accounted for almost 8 percent of assets of corporate pension funds and about 5. Page 29 Share Cite Suggested Citation: As a result, more and more debt and equity products now originate and are traded in several world financial centers and in different currencies. For example, hedging and other position taking can be carried out with financial and commodity futures and options; they can also be undertaken with interest rate swaps and forward agreements for major exchange rates and commodity prices. Hedging operations can also be combined with other lending arrangements for example, in a commodity swap to secureâ€”at a costâ€”both access to additional funds and greater protection from changing international interest rates and commodity prices. In addition, some multinational corporations act, in effect, as their own in-house financial intermediaries, raising funds wherever they are cheapest and moving them through diverse channels including offshoreâ€"foreignâ€"holding companies to where they are needed. To some extent, these organizations can be thought of as arbitraging national financial markets. Overall, these private firms, both financial and nonfinancial, now rely heavily for their funding on marketable instruments; the use of commercial paper, 6 floating rate notes, bonds, convertible bonds, shares, and related instruments has grown rapidly in recent years at the expense of traditional bank deposits and loans in financing big businesses.

## Chapter 2 : Economic liberalization - Wikipedia

*2 I. Introduction This paper addresses some major issues that are involved in the financial market liberalization, the recent financial market meltdown and policy reactions.*

Financial Liberalization, Economic Growth, Stability and Financial Market Development in Emerging Markets Pietro Masci, Department of the Treasury, Rome Introduction This paper provides stylized facts with respect to the relationships among financial liberalization, economic growth, stability, and financial market development, with a focus on emerging countries and particularly on Latin America and Caribbean countries in the context of the increasing use of the domestic currency in emerging markets and the issue of access to finance. Since the crisis of the late s and early s, many emerging market countries have directed greater attention and support toward developing domestic financial markets with long-term view and also to permit access to finance to various segments of the population as well as to entrepreneurs in the Schumpeterian sense [1]. This stance is mainly centered on better prudential regulation and professional management of government debt and bonds. It is different from the past, when emerging market economies relied on financial liberalization to access foreign rather than domestic markets for selected entities including the government, state â€”owned enterprises and big corporations. This new approach significantly changes the impact of financial liberalization on economic growth, financial sector development, and vulnerability to financial crises. The models of economic growth constitute a starting point for the analysis. Conversely, following Schumpeter [3] , the financial system constitutes an essential part of development and is instrumental to the deployment of entrepreneurship. The evolution towards a more democratic view of access to finance has then led among other things to the theory and practice of lending and financing for micro enterprises. In this context, financial liberalization represents a key strategy, which has an impact on economic growth and development, vulnerability to financial crises, and domestic financial and capital market development. This paper proceeds as follows: The figure shows an increasing number of investigations reports during FYFY The number of reports for investigations in this period is significantly higher than the number of management reports, grant and contract audit reports. The number of grant and contract audit reports are second in terms of increasing number of reports. Management reports show a slight variance during FY - FY Financial Repression McKinnon [4] and Shaw [5] pointed out the reality of extensive government interventionsâ€”mostly in emerging market countriesâ€”in financial markets. In addition to these types of decisions, the government may alsoâ€”directly or indirectlyâ€”determine several operational aspects of banking activities, e. Wade [8] believes that government intervention increases savings and enables them to be used for developmental and industrial purposes. Amsden [9] asserts that subsidies are critical to encourage investments and also to support export-oriented strategies to deal with currency devaluation by competitors and importing countries. The developmental state view gives the government the explicit responsibility for resource allocation decisions and was the theoretical basis for many government interventions in the s and s. The motivation of providing finance for development mainly implied making financial resources available for the central government and other related entities. Public Sector Banks and Financial Market Development Within the scope of government intervention in the economy and as part of financial repression, the role of public sector banks constitutes an important instrument that respond to failures of private markets of providing financing for economic activities that would lead to economic growth. Domestic public sector banks are intended to play the role of providing finance for development. At the international level, Multilateral development banks MDBs â€” like the World Bank- are expected to provide long term financial resources given the low domestic savings that emerging countries would not find available in the private international markets. Most of the literature on the state ownership of banks focuses on development and also on commercial banks, or a blend of the two. However, these are very different types of institutions. Research has shown that state-owned development banks tend to have low profitability, and their return on assets tends to be lower than that of private banks. In Brazil and Peru, however, no major difference exists between the profitability of development banks and that of private commercial banks e. It should be noted that there are developmental banks, e. Public sector banks charge lower interest rates than their private counterparts e. Public banks tend to lend more to the public sector, i. Finally, public banks are less profitable than private entities, i. The results presented above should be taken with some caution. They suggest that while public sector banks tend to be less efficient than their private counterparts andâ€”with more nonperforming loans, more loans to the public sector, higher overhead, and lower returnsâ€”they are perceived to be able to address in some cases market failures and to be safer i. An alternative explanation is that state-owned banks may benefit from indirect subsides coming from government deposits, paying low interest rates or no interest. On an efficiency basis, public sector banksâ€”both development banks and commercial banksâ€”do not perform as well as private sector banks. In turn, the presence of public sector banks limits the development of a healthy financial market that responds to market prices and incentives. In all circumstances, these players would resist changes and the elimination of interventions. Financial Liberalization Financial liberalization is defined as the removal of government intervention from financial markets. Liberalization includes eliminating the restrictions listed in the previous sectionâ€”bank interest rate ceilings; compulsory reserve requirements; barriers to entry, particularly foreign financial intermediaries; and credit allocation decisions. In the past three decades, both industrial and emerging market countries have moved toward this form of liberalization of their financial systems see Figure 1, which is from Galindo, Micco and Panizza [14]. Research and experience show that financial liberalization has two main effects, which can have both benefits and costs. Liberalization can lead to faster economic growth. But it can also increase the financial vulnerability of a country, even leading to a financial crisis. Financial Liberalization and Economic Growth The justification for government intervention in financial markets in the forms of financial repression and direct intervention through public sector banks - based on their assumed market failure- in line with a more or less stringent command economy, is that the government can direct resources to encourage the takeoff of the country and concentrate those resources in sectors and companies that favor economic growth and development. Administrative interest rates would undervalue real interest rates, give an incentive to reduce savings and investment, and have a negative impact on the rate of economic growth. Individuals would find ways to export capital abroad capital flight , creating pressure on the exchange rate. Administrative determination of creditâ€”not established by the market priceâ€”would lead to an inefficient allocation of resources. Access to credit was granted for developmental purposes to big state owned and private companies, while the rest of the economy started to have some access to consumer credit. The expected benefits of financial liberalizationâ€—and particularly a liberalized capital accountâ€—are the ability to undertake investments in excess of the level of domestic savings which is especially important for Latin American countries with low savings rates and finance economic growth; the technology transfers associated with foreign direct investment; and the increased competition in the financial sector due to the removal of barriers and also as a result of the entry of foreign banks. Conversely, the abolition of financial repression and the reduction or elimination of public sector banks stimulate competition, and market based allocation of credit, domestic savings, investment, and growth. Therefore, by favoring financial development, financial liberalization increases the long-run growth rate of the economy. The process of liberalization also implies that foreign banks can enter the domestic market of an emerging market country by establishing branches as well as acquiring existing domestic banks. According to the literature, the entry of foreign banks leads to various positive effects, including advances in technology, and ultimately increases competition within the financial systems. The entry of foreign banks, particularly in Latin America, has been beneficial in many respects. In some countries e. However, the expectation that financial liberalization would bring competition and access to finance has not fully materialized also considering that banks tend to lend to known risks and the various international requirements â€” e. Financial repression has also prompted a sizable amount of research, which focuses on the role of financial development in giving a lift to economic activity by accelerating productivity, as well as by mobilizing savings. A large number of empirical studies have been undertaken on the relationship between financial development and growth and they have concluded that the relevant ratios measuring financial market developmentâ€”e. Financial Liberalization and Financial Crises Stability and financial crises represent the other side of financial liberalization. Opponents of financial liberalization argue that it would lead to financial crises Caprio and Summers [24] ; Stiglitz [25]. The opening of the current account may favor excessive borrowingâ€”at both the government and corporate levelsâ€”at an initial overvalued exchange rate e. Glick and Hutchinson [26] argue that banking and currencies crises constitute a phenomenon that is concentrated in financially liberalized emerging markets and does appear to emerge in advanced economies. In this respect, they suggest that banking crises provide leading information about the possibility of currency crises i. In the s and s, following widespread financial liberalization, several industrial and emerging market countries witnessed financial fragility and crises. In Chile, in , banking sector problems emerged shortly after the financial sector was deregulated. Argentinaâ€”a country that had undertaken far-reaching financial liberalization measuresâ€”in faced one of the most devastating financial crises in its history. Evaluation of Financial Liberalization While the predominant view is that financial liberalizationâ€—i. They argue that the economic and neoliberal reformsâ€—undertaken in South Korea both before and after the crisesâ€—have replaced the traditional South Korean model of a state-led, bank-based financial system, leading to financial restructuring with continuous corporate problems and a declining rate of capital accumulation. An alternative strategy of a reform of state-led, banks-based growth that is thoroughly democratized would have left the South Korean economy better off. This approach is advocated for other emerging market countries. A number of factors influence the fragility of the financial system, e. Financial liberalization has a negative impact on the stability of the banking sector, and the magnitude of this effect depends on the other weaknesses in the economy, including those mentioned above. Under these circumstances, a solid regulatory and supervisory environment Stiglitz [34] â€”particularly for the banking sectorâ€—mitigates the effects of financial liberalization, for example, by putting constraints on lending to already-overleveraged corporations and preventing moral hazard. These considerations lead to the policy recommendation that the objective of financial sector development should be pursued following some sequencing see World Bank [35] , , chapter  In that context, macroeconomic stabilization and fiscal discipline, as well as labor market reform, should be initiated before financial liberalization is implemented. By the same token, strong and independent banking supervision of financial intermediaries should accompany financial liberalization Karacadag, Sundararajan, and Elliott [36] Given that institutions require time to make effective changes and adjust to them, financial liberalization process should be considered in the context of an overall strategy for domestic financial market development and should be gradual. Policymakers may weigh the positive effects of liberalization on financial development and economic growth against the negative effects of a banking crisis. In this respect, an improper sequence of reforms can lead to banking and debt crises and to disintermediation, thus undoing the potential benefits on the side of economic growth. Financial Liberalization and Domestic Financial Markets Financial liberalization is also expected to discipline excessive dependence on foreign capital flows by developing domestic financial markets. Kose and others [39] show that developing countries benefit from financial liberalization with many nuances and that financial liberalization and globalization do not lead to financial crises. Specifically, the estimation results find that, although growth is the primary determinant of the level of capital inflows, equity market liquidity and financial openness also help attract capital inflows. Moreover, financial openness is associated with lower capital inflow volatility. These results, which are consistent with the views expressed by institutional investors, point to the advantages of focusing on the medium-term goal of improving the quality of domestic financial markets. By adopting such a focus, emerging market countries will be in a better position to maximize the benefits of capital inflows while dealing with their potential volatility. In fact, capital account convertibility allowed companies and banks to borrow in foreign currencyâ€—following the encouragement of lenders who thought they would get out before the crisis struck, if conditions worsened. Most of the banking lending was short term, and the bond marketâ€—both for government and corporationsâ€—was nonexistent. These researchers also find evidence that emerging market countries with a higher self-financing ratio e. In the last several years, and focusing particularly on the Latin America and the Caribbean region, [44] there has been a significant improvement of external and internal macroeconomic and fiscal conditions, especially in the management of government debt. Several indicatorsâ€—external debt service as a proportion of exports or interest payments, public debt as a proportion of tax revenues, public debt as a proportion of GDPâ€—point in the positive direction. Under these circumstances, and following the lessons of the crises of the late s early s, Latin American countriesâ€—like

Asian countriesâ€"show a strong commitment to develop domestic financial markets in domestic currency with long-term tenure and to increase the self-financing ratio. However, several emerging market countriesâ€"particularly those that are more advancedâ€"have made substantial progress in developing their domestic government bond markets with longer maturities. Solid government yield curvesâ€"nominal and also liquidâ€"of up to 20 years- exist in many countries in Asia and Latin America e. Overall, as the Committee on the Global Financial System indicates local currency bond markets helps financial stability. Cifuentes, Desormeaux, and Gonzalez and Jeanneau and Verdia [49] offer substantial contributions for the cases of Chile and Mexico, respectively, about the passage from financial repression to more complete financial markets. Although the excess borrowing of government remains a problem and a significant part of government paper is still short term, the control of inflation, fiscal discipline, and stable and predictable macroeconomic policies represent noteworthy achievements in many emerging market countries. Vulnerabilities still exist in connection with the significant portion of debt denominated in foreign currencies, and with the large short-term share of public debt. Also, a devaluation of the domestic currency [50] would prompt an increase in interest rates and in the cost of debt in domestic currency and a decline in the prices of government paper. These vulnerabilities are even more significant if we consider that an increasingly large portion of domestic debt is sold to foreign investors, who would react negatively e. Domestic Currency Financing and the Banking Sector The impact of the increased use of the domestic currency on financial stability deserves increased attention also in relation to the differential treatment that the new Basel II capital establishes for banks with respect to exposure in domestic or foreign currency.

## Chapter 3 : Trade Liberalization

*Capital market liberalization is a result of globalization and trade liberalization, refers to the relaxation of government restrictions in the market. Not only government entities, but also private entities participate its functioning, and investors around the world are able to invest in the shares and bonds of other countries.*

The Asian crisis unfolded soon after, but we decided to press on. Over the next few years, we fundamentally changed our regulatory approach, from one-size-fits-all prescriptive regulation towards a more risk-focussed supervisory approach. We liberalised the industry, allowing freer competition, more play of market forces, and greater risk taking by institutions. We actively promoted activities in which we had competitive advantages. In the last seven years, the financial industry has changed dramatically. Tonight, let me review the state of the industry, and discuss some key challenges and opportunities going forward. Despite the turbulent environment, it has steadily grown and matured. Today, local and foreign financial institutions are in Singapore. Foreign shareholding limits on locally-incorporated banks have been removed, allowing them to tap the equity market more flexibly, and if they desire, to form strategic partnerships with foreign banks. Six banks with regional and international standing and the potential to contribute to our financial sector have been awarded Qualifying Full Bank QFB licences. This has intensified competition in retail banking and widened consumer choices. Foreign banks also continue to be active players in the wholesale banking market and in wealth management. International banks are using Singapore as their base to service corporations and high net worth individuals HNWIs in the region. We have enhanced disclosure requirements of products, tightened up sales practices and raised the overall professionalism of insurance advisers. A diversity of firms and business models now cater to different market segments. Service and conduct standards of financial advisers have gone up. A majority of these assets are internationally sourced. Close to 1, investment professionals, comprising portfolio managers, analysts, asset allocators and economists now work in this high value-added sector. Fund managers have been extending their value chain of activities here. Apart from portfolio management and marketing activities, companies now carry out middle-office functions such as regional trading and research. Others have centralised regional back office operations in Singapore, making full use of our efficient infrastructure, conducive business environment and stable political climate. The debt market has matured significantly, and now provides a cost-effective alternative funding source to a diverse range of local and foreign borrowers. The SGS yield curve has been extended from 7 to 15 years. Some statutory boards have even issued bonds up to 20 years in tenor. This has increased liquidity in the secondary market. The creation and hedging of structured products have boosted turnover in derivative markets. The industry has consolidated, operating more leanly on much lower commissions. The bigger local players have expanded their product range and also expanded overseas. More foreign players have entered the market. Overall, investors have benefited from lower trading costs. It is now well placed to grow its business, and respond to developments in regional capital markets. More foreign companies are choosing to list in Singapore. To date, there have been 47 listings by Chinese companies, and a few Indian listings are in the pipeline. SGX has also actively pursued alliances with other exchanges. If this succeeds it will benefit the region as a whole. Large financial institutions have centralised their regional and global processing operations in Singapore. These house high value-added, mission-critical systems as well as back-office processing activities. Many persons and institutions have participated in this process. Their support, hard work and spirit of enterprise made this possible. I thank them all. The lessons of the Crisis played a major part in re-shaping the banking industry. Meanwhile, global trends such as consolidation among the major international banks, technology advances and globalisation of financial markets continued apace. A new financial landscape was emerging. We started from a strong position, with sound and well supervised local banks, although they operated in a tightly regulated and protected environment. Our challenge was to free up this industry so that it could continue to develop and grow, without compromising stability and soundness in a changing landscape. Strong and well-managed local banks, with a significant share of the home market, were and are critical to the resilience and stability of our financial system. However, we could no longer maintain this by restricting access to the domestic market. We needed to permit more competition, but in phases, to allow the local banks to adjust and compete effectively. We made the first moves in  As we lightened our regulatory touch, we also worked with banks to set guidelines for best practices and give banks greater room for enterprise and innovation. This has come about without sacrificing strength and stability. Individual banks and the industry as a whole have risen to the challenge. Existing players have upgraded and strengthened themselves. Banks have maintained high prudential standards, become more efficient and improved their service quality and product ranges. Competition has led to the development of a rich array of innovative products and more discriminating pricing models. Customer service as a whole has improved. Foreign banks have continued to expand their operations here, and many have made Singapore a regional or even global platform for important banking services. They have built up their management teams, and made significant infrastructural investments to enhance their operational effectiveness. Fees and commissions have risen as a proportion of operating income. Banks are offering new business services, while continuing to provide affordable banking facilities to the average Singaporean. They have held their own despite the increased competition. Events since then showed that we moved none too soon. Technological advances have continued unabated. The Internet for instance has proven to be an efficient and widely used alternative distribution and marketing channel, and has helped create new business models. Worldwide, major banks continue to consolidate, though the process is not yet complete, especially in Europe. Since our goods sector was already almost completely open, our partners would surely make requests in services, and especially financial services. Therefore our local banks had to be ready. The banks would have preferred that we slow down the pace, but we had an overriding need to conclude a wide network of FTAs, including one with the US. The banking reforms enabled us to do this. Now that we have done so, we are reassured that our banks are holding their own, and can take the increased competition in their stride. Having assessed the state of the industry, MAS has decided to take a few further steps to liberalise the banking industry. These are incremental adjustments to the earlier major liberalisation packages: Firstly, from 1 January , QFBs will be permitted to establish up to 25 service locations from the existing  The 25 locations can either be brick-and-mortar branches or offsite ATM locations. This provides QFBs with significant scope for expanding their presence in the domestic market. Secondly, MAS is prepared to grant a limited number of new Wholesale Bank WB licences to applicants that meet our admission requirements. However, over time, as the industry changes, we must be ready to liberalise further. MAS will reassess the environment before deciding on any further measures. It has fostered the consolidation of the local banks, which might otherwise have taken much longer. However, we cannot afford to rest on our laurels. Challenges as well as opportunities exist for both the banking industry and the financial sector as a whole. We must identify and respond to them, in order to keep the financial sector dynamic and competitive. Firstly, banks need to continue to maintain high prudential standards so as to remain sound institutions. Next, they have to develop new strategies to continue growing strong, viable businesses. It is the business of financial institutions to take on and intermediate risks. But if risks are not well managed or events turn out unfavourably, institutions can incur substantial losses. No amount of regulation or supervision can completely prevent losses. On the other hand, over-regulation would curb innovation and enterprise. Banks should benchmark their risk management against international best practices. Risk management should be an integral part of their operations, and should keep pace with their business profile and with industry developments. The banking sector as a whole has done well in this respect, and we expect to see this continue. Implementing Basle II will be a complex exercise but will spur banks to enhance their risk management practices. Banks need to develop robust systems and processes to make the new capital adequacy rules work. While cost will inevitably be an important consideration, this should be weighed against the significant benefits and operational savings from the more accurate allocation of capital to risk. MAS will work closely with the local banks to implement the new Accord. Maintaining margins and cutting costs is necessary in the short term, but beyond that, banks need longer term strategies for staying viable and competitive. Competition will intensify, within the domestic market because of liberalisation, and internationally because globalisation is continuing. The local banks may well find that in order to hold their own and be viable, they need to grow bigger. But the region offers considerable opportunities.

## Chapter 4 : Financial Liberalization and Allocative Efficiency of Capital - Madina Kukenova - Google Books

*The term financial liberalisation is used to cover a whole set of measures, such as the autonomy of the Central Bank from the government; the complete freedom of finance to move into and out of the economy, which implies the full convertibility of the currency; the abandonment of all "priority.*

Policy tended towards protectionism , with a strong emphasis on import substitution industrialization under state monitoring, state intervention at the micro level in all businesses especially in labour and financial markets, a large public sector, business regulation, and central planning. Steel, mining, machine tools, water, telecommunications, insurance, and electrical plants, among other industries, were effectively nationalised in the mids. The Indian currency, the rupee , was inconvertible and high tariffs and import licensing prevented foreign goods reaching the market. The labyrinthine bureaucracy often led to absurd restrictionsâ€"up to 80 agencies had to be satisfied before a firm could be granted a licence to produce and the state would decide what was produced, how much, at what price and what sources of capital were used. The government also prevented firms from laying off workers or closing factories. The central pillar of the policy was import substitution , the belief that India needed to rely on internal markets for development, not international tradeâ€"a belief generated by a mixture of socialism and the experience of colonial exploitation. Planning and the state, rather than markets, would determine how much investment was needed in which sectors. The first attempt was reversed in  Thereafter, a stronger version of socialism was adopted. The second major attempt was in by prime minister Rajiv Gandhi. The process came to a halt in , though a style reversal did not take place. The government slightly reduced Licence Raj and also promoted the growth of the telecommunications and software industries. Licence owners built up huge powerful empires. State-owned enterprises made large losses. Narasimha Rao and his then-Finance Minister Dr. India started having balance of payments problems since , and by the end of , the state of India was in a serious economic crisis. Most of the economic reforms were forced upon India as a part of the IMF bailout. In return for an IMF bailout, gold was transferred to London as collateral, the rupee devalued and economic reforms were forced upon India. That low point was the catalyst required to transform the economy through badly needed reforms to unshackle the economy. Controls started to be dismantled, tariffs, duties and taxes progressively lowered, state monopolies broken, the economy was opened to trade and investment, private sector enterprise and competition were encouraged and globalisation was slowly embraced. The reforms process continues today and is accepted by all political parties, but the speed is often held hostage by coalition politics and vested interests. The reforms did away with the Licence Raj , reduced tariffs and interest rates and ended many public monopolies, allowing automatic approval of foreign direct investment in many sectors. This specified deregulation, increased foreign direct investment, liberalization of the trade regime, reforming domestic interest rates, strengthening capital markets stock exchanges , and initiating public enterprise reform selling off public enterprises. The Bharatiya Janata Party BJP â€" Atal Bihari Vajpayee administration surprised many by continuing reforms, when it was at the helm of affairs of India for six years, from â€"99 and from â€" The United Front government attempted a progressive budget that encouraged reforms, but the Asian financial crisis and political instability created economic stagnation. But due to pressure from fellow coalition parties and the opposition, the decision was rolled back. However, it was approved in December  It has opened up the path for private, foreign investments in the sector, since Indian arms of foreign companies are entitled to bid for coal blocks and licences, as well as for commercial mining of coal. This could result in billions of dollars investments by domestic and foreign miners. The move is also beneficial to the state-owned Coal India Limited, which may now get the elbow room to bring in some much needed technology and best practices, while opening up prospects of a better future for millions of mine workers. The Code creates time-bound processes for insolvency resolution of companies and individuals. These processes will be completed within days. If insolvency cannot be resolved, the assets of the borrowers may be sold to repay creditors. This law drastically eases the process of doing business, according to experts and is considered by many to be the second most important reform in India since next to the proposed GST. Please help improve this article by adding citations to reliable sources.

Unsourced material may be challenged and removed. In service sectors where government regulation has been eased significantly or is less burdensomeâ€"such as communications, insurance, asset management and information technologyâ€"output has grown rapidly, with exports of information technology enabled services particularly strong. In those infrastructure sectors which have been opened to competition, such as telecoms and civil aviation , the private sector has proven to be extremely effective and growth has been phenomenal. His prescription to speed up economic progress included solution of all outstanding problems with the West Cold War related and then opening gates for FDI investment. By , the West would consider investment in India, should the conditions permit. The new incoming government of Dr. Manmohan Singh in further strengthened the required infrastructure to welcome the FDI. Today, fascination with India is translating into active consideration of India as a destination for FDI. It has displaced US to the third position. This is a great leap forward. India was at the 15th position, only a few years back. Challenges to further reforms[ edit ] For , India was ranked th among countries in Index of Economic Freedom World Rankings, which is an improvement from the preceding year.

## Chapter 5 : 5 Economic Effects Of Country Liberalization | Investopedia

*The main reason for financial liberalization is to allow market forces to operate and create the conditions for an integrated global financial market, which nurtures a solid domestic financial market.*

Economic liberalization refers to a country "opening up" to the rest of the world with regards to trade, regulations, taxation and other areas that generally affect business in the country. As a general rule, you can determine to what degree a country is liberalized economically by how easy it is to invest and do business in the country. The economic liberalization process begins by relaxing these barriers and relinquishing some control over the direction of the economy to the private sector. For related reading, see: Unrestricted Flow of Capital The primary goals of economic liberalization are the free flow of capital between nations and the efficient allocation of resources and competitive advantages. This is usually done by reducing protectionist policies such as tariffs, trade laws and other trade barriers. One of the main effects of this increased flow of capital into the country is it makes it cheaper for companies to access capital from investors. A lower cost of capital allows companies to undertake profitable projects they may not have been able to with a higher cost of capital pre-liberalization, leading to higher growth rates. We saw this type of growth scenario unfold in China in the late s as the Chinese government set on a path of significant economic reform. With a massive amount of resources both human and natural , they believed the country was not growing and prospering to its full potential. Thus, to try to spark faster economic growth, China began major economic reforms that included encouraging private ownership of businesses and property, relaxing international trade and foreign investment restrictions, and relaxing state control over many aspects of the economy. Stock Market Performance In general, when a country becomes liberalized, stock market values also rise. Fund managers and investors are always on the lookout for new opportunities for profit, so a whole country that becomes available to be invested in tends to cause a surge of capital to flow in. The situation is similar in nature to the anticipation and flow of money into an initial public offering IPO. However, like an IPO, the initial enthusiasm also eventually dies down and returns become more normal and more in line with fundamentals. Political Risks Reduced In addition, liberalization reduces the political risk to investors. For the government to continue to attract more foreign investment, other areas beyond the ones mentioned earlier have to be strengthened as well. These are areas that support and foster a willingness to do business in the country, such as a strong legal foundation to settle disputes, fair and enforceable contract laws, property laws, and others that allow businesses and investors to operate with confidence. Also, government bureaucracy is a common target area to be streamlined and improved in the liberalization process. What risks do organizations face when engaging in international finance activities? Diversification for Investors Investors can also benefit by being able to invest a portion of their portfolio into a diversifying asset class. In general, the correlation between developed countries such as the United States and undeveloped or emerging countries is relatively low. However, a distinction should be made that although the correlation may be low, when a country becomes liberalized, the correlation may actually rise over time. This happens because the country becomes more integrated with the rest of the world and becomes more sensitive to events that happen outside the country. A prime example of this is the European Union EU and its unprecedented economic and political union. The countries in the EU are so integrated with regard to monetary policy and laws that a crisis in one country has a high probability of spreading to other countries. This is exactly what happened in the financial crisis that started in  Weaker countries within the EU such as Greece began to develop severe financial problems that quickly spread to other EU members. The Bottom Line Economic liberalization is generally thought of as a beneficial and desirable process for emerging and developing countries. The underlying goal is to have unrestricted capital flowing into and out of the country to boost growth and efficiencies within the home country. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

## Chapter 6 : Capital Market Liberalization | World Finance

*In the model, financial liberalization might lead to different outcomes: (i) domestic capital flight and ambiguous effects on net capital flows, investment, and growth; (ii) large capital inflows and higher investment and growth; or (iii) volatile capital flows and unstable domestic financial markets.*

## Chapter 7 : Financial Sector Liberalisation and Growth

*The latest liberalization moves will only boost their prospects further. China's financial sector is ready for further inroads by foreign investors, who will bring more advanced and diversified.*

## Chapter 8 : Subscribe to read | Financial Times

*T HE FINANCIAL LIBERALIZATION that took place in the developing countries in the s and s was part of the general move toward giving markets.*

## Chapter 9 : Economic liberalisation in India - Wikipedia

*The other academic strand refers financial liberalization to financial openness, which focuses on capital account and equity market, for example, lowering of foreign investment barriers, facilitation and encouragement of capital flows (Bekaert, ), allowing inward and outward foreign equity investment (Bekaert and Harvey, ).*