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Financial Integration: Cost-benefit analysis for the ASEAN

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Abstract

This paper gives a comprehensive view of the cost-benefit analysis on the financial integration with respect to the ASEAN Economies. On the basis of Economic indicators, potential benefits and costs of financial integration have beenanalyzed and discussed. It studies the impact and effects of financial openness and capital flows on consumption, investment and growth. This paper argues that for developing economies, the benefits of financial integration are greatly long term in nature, while costs can be higher in the short term. It is, therefore, essential that careful preparation and management are ensured so that short term costs do not lead to the reversal of policy decisions. Further, this paper discusses the impact of the foreign direct investment (FDI) on domestic capital formation and economic growth. It also discusses the impact of entry of the foreign banks on the domestic financial system of the concerned economy. The effects of the entry of foreign banks need to be viewed with caution. It is worth noting that the entry of the foreign banks may not lead to the adverse changes in the credit allocation. On the basis of available data, it is difficult to reach to confirmed conclusions on some aspects of financial integration.

Key words: Financial integration, Cost-benefit analysis, ASEAN, FDI.

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1. Introduction

With the rising tendency of bilateral trade agreements world over, the concept of financial integration has lost its sheen. Many countries in the world are more concerned about their own financial miseries and are resorting to bilateralism. But still financial integration needs to be strengthened for the synergy effect.

Simply Financial integration is a process, in which two or more countries or regions get connected to each other through financial/capital markets. Financial integration can be in different formats too. There can be trans-border capital flows, where big firms raise funds on financial markets, crossing borders of the countries and regions. It can be in the form of foreign participation in domestic financial markets, where parent banks' ability is enabled to set up a subsidiary in other country. Further, financial integration can be in the form of sharing information and practices amongst financial institutions or they may have unification of financial market infrastructures. In some cases, shares of highly capitalized companies are listed on the stock exchanges of other countries.It can have regional or global dimensions. It will depend on whether a financial market of a country is more closely connected to neighboring countries or at the global level, where financial centers and institutions compliment and supplement each other.

The European Central Bank (ECB 2007) has adopted a more detailed definition of financial integration: "It considers the market for a given set of financial instruments or services to be fully integrated when all potential market participants in such a market (i) are subject to a single set of rules when they decide to deal with those financial instruments or services, (ii) have equal access to this set of financial instruments or services, and (iii) are treated equally when they operate in the market."

We cannot have universally accepted definition of financial integration. If we follow theoretical point of view, it is signaled by the convergence of prices of assets with the same features i.e. law of one price is followed. Consequently, perfect financial integration will exist, if similar assets have the same price, even though they are listed &traded on different markets. Financial integration is defined by two main criteria:

(a) The first criterion relates to the degree to which financial activities are performed crossing borders. Here the concept of financial integration is closer to the financial globalization, which is defined as the extent to which countries are linked through trans-border financial holdings and proxied by the sum of countries' gross external assets and liabilities relative to GDP (IMF 2008). If we follow this criterion, any kind of barrier to the stock exchange or market accessibility, will impede the free movement of capital and will limit the financial integration.

(b) The 2nd criterion relates to the degree of convergence and the level of consolidation across different markets. Financial openness and free access to the market are not sufficient condition for the financial integration. Two financial markets can be freely open to each other but still not perfectly integrated. This happens because each market keeps its distinct market structures. If we follow the second criterion, the ultimate form of financial integration is a single market which is common and completely harmonized. As per Baele and others (2004, pp6) in an integrated financial market all the participants "face a single set of rules when they decide to deal with financial instruments and/or services."

2. Formation of the ASEAN

Initially five states namely Thailand, Indonesia, Singapore, Malaysia and the Philippines formed the ASEAN in 1967. The ASEAN had goals of peace, economic co-operation, consolidation of their present forms of governance. They were opposed to the aggressive North-Vietnam at that time. At later stage, five more countries Brunei in 1984, Vietnam in 1995, Laos **or Lao PDR** (Peoples Democratic Republic) in1997, Burma (Myanmar) in 1997 and Cambodia in 1999 joined the ASEAN. If we follow the history of these countries, every country has its own limitations, related to the form of governance, international relations and Geo-political considerations. Ian Hurd states that "all international organizations exist in the conceptual and legal space between state sovereignty and legal obligation. They are created by the commitments made by sovereign states, and their purpose is to bind those states to their commitments". He raises 3 questions, when we look at international organizations:

I. What are the obligations that countries consent to, when they join a region or a group?
II. Do Countries comply with these obligations in practice?
III. What powers of enforcement does the region/group have?

These questions are quite relevant to the success of any kind of integration. It is the co-operation, commitment and compliance by each member nation, which makes the difference.

3. Economic factors and the ASEAN

Many Economists are of the view that if there is complete financial integration, the following factors will have great impact on each member nation of the ASEAN. These factors not only provide strength to the economies of the ASEAN, but also give Macro-Economic stability.

i) Higher consumer demand

The ASEAN is a major global hub for trade & manufacturing sector. It has got the fastest growing consumer markets in the world. It has got larger population than the European Union (EU) or North America. The present population of the ASEAN economies stands at 642 million which is 9% of the world population. Half of the population is below 30 years of age. Therefore, it is the third largest market in the world after China and India.

ASEAN member nations are part of the consumer class who can make discretionary purchases when annual income increases. In the recent past, there has been more focus on luxury purchases; there are more modern malls and increasing awareness about the preferred and favorite brands. It is a well-established fact that urbanization and consumer growth go together. Presently 22% of the population of ASEAN lives in the cities, which contributes to the 54% of the GDP. Day by day urbanization is increasing. The Demographic factors are indicated in Table-1.

Further, consumers of the ASEAN are making online purchases, mobile and internet penetration is rising at fast pace. Singapore has got the 4th highest smart phone penetration in the world. Its 75% population remains online. As compared to this, Myanmar has got limited access to the internet. Indonesia is becoming digital nation, with more mobile subscription and internet users. Overall ASEAN has about 330 million internet users.The relevant data on Communication is given in Table-3.

ii) Diverse group

There is diversity in culture, language and religion. Indonesia is a member of G-20 and it has got 40% of the economic output of the ASEAN. It has got the highest population of Muslims in the world. Thailand has got more than 90% population as the Buddhist. In Philippines more than 80% population is Roman Catholic. On Economic front, Singapore has got the highest GDP per capita and it is more than 30% higher as compared to LAOS and 50% higher than Cambodia & Myanmar. In fact, it is more than Canada and the US. The standard deviation in average income in member countries is more than 7 times as compared to EU members. Whenever investors go to these countries, they should be aware ofthese diversities.

iii) **Economic Powerhouse**

If we see 10 members of the ASEAN asone economy, it will be the 7th largest economy in the world. And it is believed that by 2030, it may become 4th largest

economy. The current GDP of the ASEAN members is at 2.8 trillion US Dollars, which is 3.5 % of the world GDP. It is believed that expansion of the labour force & improvements in the productivity will make GDP growth higher. But to capitalize on these strengths, it is necessary that ASEAN member nations develop its human capital and technical skills. The relevant data on GDP is given in Table-2.

iv) Macro-economic stability

In spite of the Asian financial crisis in 1997, the overall growth rate of the ASEAN is better than many countries of the world. There was a financial global crisis in 2008, but the ASEAN was resilient in the aftermath. Today,the ASEAN has strong fiscal position as compared to EU. The ASEAN has experienced less volatility in economic growth. Though there is a much difference in the savings rate between some member states in the ASEAN yet saving levels have been steady since 2005. While Malaysia, Singapore & Brunei have high saving rates, Cambodia, Laos & Philippines have low saving rates. ASEAN has dramatically higher growth in GDP per capita since 1970s as compared to other countries of the world. Some member nations have grown at a fast pace and extreme poverty is declining at faster pace. Vietnam took 11 years, from 1995 to 2006 to double its per capita GDP from $1300 to $2600. In the year 2000, 14% of the population in the ASEAN was living below the international poverty line. In 2013 it has fallen to 3% only.

In 2018, Indonesia had the highest 4488.3% growth rate of FDI, whileSingapore had the lowest growth rate i.e.minus 19.9%. Brunei had the highest share of Intra-ASEAN FDI, while Singapore had the lowest.The relevant data on FDI is given in Table-3.

v) Better global trade flows

ASEAN has share of 7% in the global exports. The member nations have got better manufacturing facilities and they believe in the diversification of the exports. Vietnam has got specialization in the exports of textiles and apparels. Singapore and Malaysia have established manufacturing facilities of electronics products. Thailand is specializing in the export of vehicle spare parts. Many ASEAN member nations are specializing in the exports which depend on natural resources. Indonesia is one of the biggest producers and exporter of palm oil. It is also one of the largest exporters in coal and 2nd largest producer of cocoa and tin. Myanmar has opened its economy and it has got big reserve of oil gas & precious minerals. The Philippines is exporting manufacturing & agriculture products. It has got big market in Malaysia & Singapore.

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The ASEAN member nations haveestablished export-oriented facilities. Singapore & Indonesia established such facilities at Batam. Thailand started southern regional industrial estate. Malaysia has got the port Klang free zone. Indonesia established Tanjung Emas Export processing zone. If we follow the Economic data, ASEAN is the 4th largest exporting hub in the world. It is behind only the EU, North America and China/Hongkong.ASEAN membersare working on data e-governance so that trade and commerce data flow is easily available. Gross exports from the ASEAN economies are likely to be one trillion US Dollars in 2020. As per available data, Vietnam and the Philippines have recorded 21.2% rise in the exports while the Brunei had the lowest i.e. minus 21 % in 2018.

vi) Intra-Regional Trade

The region has developed strong cross border supply chains. About 25% of the exports of the ASEAN go to the member nations. Since 2003 it has remained constant. ASEAN economic community (AEC) integration plan is likely to increase intra-regional trade in goods. As per plan there will be more free movement of goods, services, capital & skilled labour. In many sectors, tariffs are close to zero amongst the 6 members- Indonesia, Malaysia, Singapore, Thailand, Brunei & the Philippines. Recently, there have been bi-lateral free trade agreements by the ASEAN members with Australia, China, India, Japan, New Zealand & South Korea. It is part of the Regional Comprehensive Economic Partnership (RCEP). If trade negotiations in RCEP become a reality, it will be 30% of the world trade. Butthere is slow progress on the liberalization of services. Non-tariff barriers have yet to become a reality.

In 2018, total trade in goods of ASEAN was 2574.8 Billion US Dollars. Of which, exports were of 1322.3 Billion US Dollars and imports were 1252.5 Billion US Dollars. Therefore, balance of trade was 69.8 Billion US Dollars. Growth rate of trades in goods was 14.7% in 2018. Share of Intra-ASEAN trade in goods was 22.9%. In services sector, total trade in 2018 was 703.2 Billion US Dollars. Growth rate of services exports was 6.9%, while growth rate of services imports was 5.4%. Share of Intra-ASEAN trade in services was 16.5%.

vii) Presence of Multi-nationals

Singapore has got the outstanding record as far as density of corporate headquarters is concerned. It stands 5th in the world. Headquarters density is the ratio of the revenue of all big firms headquartered in a given country through that country's GDP in 2010. ASEAN has got 227 largest companies of the world. It is 7th largest host of big companies. FDI has increased considerably in the ASEAN

economies. It is believed that ASEAN-5 (Indonesia, Malaysia, Singapore, Thailand and the Philippines) has got more FDIs than China in 2013. For many new firms, the ASEAN has become a launching pad. The 10 members of the ASEAN are focusing on jobs & prosperity due to better economic prospects.Purchasing power is increasing, making the region as frontier of consumer growth. But to maintain the standards ASEAN will require more investment in infrastructure and human capital formation. The AEC is offering an opportunity where this region will become a market, without any economic hurdles, and broad base of production. Surely, if everything goes well, it will become a classic case of synergy. Out of the ten ASEAN members, Deutsche Bank have started full fledge operations in six of them; thereby it has become global transaction bank for these markets. The bank is giving services to the clients like cash, trade, lending & securities.

4. Non-economic factors and the ASEAN

It is believed that non-economic factors play vital role in the financial integration of the region. In the last two decades, many countries of the world are suffering from various kind of pandemics. Many economic activities came to stand still for months together. The Governments of many countries have to spend money on the maintenance of public health and also on the research & development for the vaccines. Many countries including India are facing negative Economic growth. The following non-economic factors affect financial integration to a great extent and play decisive role to enhance or reduce economic activities.

(a) Good/Bad Governance
(b) Human capital formation
(c) Expenditure on defence
(d) Level of corruption
(e) Public Health and hygiene
(f) Research and Development activities
(g) Desire to grow and work culture
(h) Socio-Economic issues like Poverty, unemployment etc
(i) International relations especially with the neighbor countries
(j) Social organizations and related issues
(k) Environmental and ecological issues

These factors are self-explanatory and don't require any further elaboration. The member nations need to chalk out a definite course of action to discuss these factors and implement the action plan. Only good governance can give push to the implementation plan.

5. Defining Cost-benefit analysis

Strengths and opportunities create benefits for the organization/region/group, while weaknesses and challenges may be a reason for the higher costs or losses. In cost benefit analysis process, we compare the estimated costs and benefits concerned with a project or proposal or a decision. In the end, we determine whether it makes sense from a commercial point of view. The costs may be indirect, intangible or there may be opportunity cost. Similarly, benefits may include direct, indirect, and intangible, or there may be competitive benefits which arise being first mover within the particular industry or as compared to other similar type of industry in other nations. This is particularly useful when a group like ASEAN comes into existence with diversified cultures, languages and geographical entities.

There are certain merits in making cost-benefit analysis, which may include making the decision simpler and it may also uncover hidden costs and benefits. Since it is data driven, it allows the organization to evaluate decisions and make opinion without any biasedness. But it has also got demerits because it is not possible to predict all the economic variables. It is good only if data is perfect and accurate. It may be suitable in the short period but not in the long run. In the long run, it is an old saying, all are dead.

6. Benefitsof the financial integration

Every financial activity has got potential costs as well as benefits. The financial integration will have impact on the economic & financial activities of the member nations. Potential benefits of the financial integration are enumerated below.

a) Smoothing the consumption

The members of ASEAN may allow a country to share risks while having access to the regional and global capital markets, which will smoothen the consumption. It will allow the member nations to borrow during bad times, especially during recession or when there are adverse terms of trade. The member nation can lend in favorable times, when there is an economic expansion or when there arefavorable terms of trade. When we have smooth consumption at the domestic front, capital inflows will surely enhance the public welfare. The "counter-cyclical" role of the regional &global capital market is specifically valuable, if shocks are of temporary nature. Singapore and Malaysia can help other member nations of the ASEAN during adverse times, not only to raise capital but also in enhancing financial-techno knowhow.

b) Positive impact on domestic investment & economic growth

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In some ASEAN economies, people have low income, causing low capacity to save. It is a known fact that till marginal return from investment is equal to the cost of borrowed capital; net foreign capital inflows will supplement domestic saving.It will raise level of physical capital per labourer and will help the recipient country to raise its economic growth, which ultimately improves the living standards of the people.

FDI may have notable indirect long run effects on the economy.It may facilitate the transfer of technology and sharing of managerial know-how,specifically in the form of new varieties of capital inputs. It can improve the skills of the labour force because of "Learning by doing" effects. Investment in formal education and on-the-job training is also facilitated. Due to FDI, there will be more competition in the product and factor markets, which may reduce profits of local firms. At the same time, because of spillover effects through linkages to supplier industries,reduced input costswill raise profits and will activate domestic investment.

c) More financial discipline and stability

There is a strong argument if we reward the good policies and penalize the bad policy.Free flow of capital in the integrated boarders will motivate the countries to follow more disciplined financial policies. In this way, less policy mistakes occur. It happens because better financial discipline translates into better economic stability. In this way, a country can achieve higher rate of economic growth. External financial liberalization can act as a stimulant for a member country to adopt sound financial policies.The member country may resort to reduction of budget deficit and may forego the imposition of inflation tax.It is also argued that open capital account will encourage financial stability and will ensure better allocation of resources and consequently higher economic growth rate. Deeper the financial integration, greater will be the financial stability.

d) Better efficiency of the banking system

With the entry of the foreign banks, whohave adopted better international standards; financial integration will improve the quality of financial services in the member country's capital market. It happens because of strong competition and better application of sophisticated banking techniques and technology. It reduces cost of acquiring information on potential borrowers. It ensures to stimulate the better bank supervisory and legal framework. Further, it can increase the member country's access to the international capital flows, through parent banks directly or indirectly. It contributes to the stability of the domestic financial system, thereby reducing the volatility in the capital inflows. Foreign banks can contribute towards improvement of the overall quality of the loan portfolios. This can happen only if they don't work

under Government pressure & do not lend to the so called "preferred borrowers" who have got political connections.

e) Financing large infrastructure projects

There are large infrastructure projects like roads, ports, energy and irrigation. To finance these projects is not easy. When there is regional financial integration, such projects can be undertaken very easily. Member nations can pool their financial sources. This is particularly true for low income countries. Empirical evidence suggests that such projects also generate employment and spur economic growth. Further, such projects also help to reduce poverty by giving employment to labour class.

f) Better product and service innovations

For the investors of the ASEAN economies, more financial integration will have positive impact on product and service innovations. More competition will lower the costs of financial services and bigger companies can reap the benefits of economies of scale. For the investors, there will be more product diversification. It will also give benefits of the economies of the scale to the brokers and intermediaries.

Malaysia and Singapore are the two founder nations of the ASEAN and have got the best capital market infrastructures in the region. There is high market capitalization in their stock exchanges and large numbers of capital products are available in their markets. Other member nations of the ASEAN can take benefits of the same through integration of financial markets.

g) Harmonization of standards and cost reduction

With the more financial integration of the markets, for the listed companies, there will be harmonization of the business standards, which will reduce the cost of administration. The ASEAN Secretariat had issued standards on disclosures in October 2008. These will be enhanced integration of the capital markets,will facilitate more efficiency in the capital raising and will also reduce cost to the issuers. Under the said scheme issuers are required to prepare one set of disclosure documents, which will be applicable in more than one ASEAN members.

Singapore is one of the fast-developing economies in the world. The country has got modern capital market infrastructure, which is one of the most developed capital markets in the world. It has also got the highest market capitalization.Indonesia and the Philippines have got strong capital market regulations, which are robust in nature. Indonesia has got strong financial services authority (known as OJK-Otoritas Jasa

Keuangan). This authority can help to enhance the openness of the listed companies in the ASEAN member nations.

h) Better allocation of financial resources

With the financial integration of the markets, savings can flow more smoothly and with less cost to the investment. This happens because of the dismantling of the financial barriers. With the financial integration, regulators will be able to offer more protection to the investors. With the harmonization and recognition of the mutual agreements, capital markets will be able to enhance regulatory standards, comparable to the benchmarks and best practices. Financial integration will improve the capital markets of the less developed economies as they will be able to reap benefits from the experience of the more developed ASEAN members.

In the economy of Brunei Darussalam, there is enough liquidity available, which can be utilized if proper capital market infrastructure & investors are available. This country has capital market intermediaries, who can support the capital market to grow. Other member nations, which have better capital market infrastructure, can help to channelize the liquidity for productive purposes.

7. Costsof the financial integration

Let us discuss Potential costs of the regional financial integration. It is believed that open financial markets have significant costs for the country, where they establish their offices. The experts are of the view that financial integration may have the following potential costs.

i) Concentration of capital flows in few countries

It is believed that in the early 1990s, capital inflows were received by only a small number of middle-incomecountries of Latin America and Asia. Therefore, the share of total private capital flows to the low-income countries had fallen during the 1990s. The low-income countries have already low capital formation. Therefore, economic growth cannot be enhanced without significant inflow of capital. The World Bank reports have also suggested that Sub-Saharan African countries got very low foreign capital. It is also believed that political considerations also play role to provide capital to the low-income countries.

ii) Misallocation ofscarce capital resources

It is believed that capital inflows through open capital account may increase domestic investment, but its impact on long run growth may be limited. It happens

because such capital is used to finance speculative or low-quality domestic investment,which is not for productive uses. Or it may be in the real estate sector, thereby reducing the ability to export, which ultimately leads to adverse external balances.There are pre-existing distortions in the financial systems of the low-income countries. Banks have low or negative net worth and there is also poor supervision in the financial system. Therefore, lenders are engaged in more risky and speculative loan operations.

iii) Negative impact onMacroeconomic stability

It is believed that large capital inflows may lead to fast monetary expansion, high inflation rate, appreciation of the real exchange rate and ultimately adverse current account deficits. Wherever there is a flexible exchange rate, growing external deficits may bring depreciation of the currency. It may lead to re-alignment of relative prices and will induce self-corrective movement in trade flows. If there is fixed exchange rates, there are likely to be losses in competitiveness and leading to growing external imbalances, which can erode confidence in the viability and sustainability of the peg, thereby leading to currency crisis which ultimately lead to financial instability.

iv) Rationing out of capital markets

It happens that small developing economies are able to borrow only in good times. When there is financial crisis at global level, they face credit constraints. Therefore capital access is likely to be pro-cyclical. Pro-cyclicity is likely to have perverse affect and leading to the financial instability. It is believed that favorable shocks will attract large capital flows and incur consumption and spending which are not sustainable in the longer run. Therefore, low income countries are forced to over-adjust whenever adverse shocks hit. It is further established there are larger & more frequent shocks in the low-income countries. It so happens because they have relatively narrow production base and depend primarily on commodity exports. A common adverse shock to such countries may shock deterioration in their credit worthiness. Therefore, there are abrupt changes in the risk perception.

v) Volatility of capital flows

It is believed that if the level of short-term debt is higher as compared to the borrowing country's international reserves, the risk of such capital inflows will be higher. Further, high level of short-term liabilities, supported by the poor financial system will create risks of bank runs and systematic financial crises. The degree of volatility depends on the domestic economic fundamentals of the economy. It is also affected by the external factors such as interest rate movements in other countries. Short term foreign portfolio investment is very

sensitive which leads to herding amongst the investors and also has got contagious affect. The economists differ whether herding is rational or irrational, when several factors also make their presence in the economy. In any case, whether itis rational or irrational, it often translates into large movements of assets & also fluctuations in assets prices as well as capital movements. S

Contagious effects can make the capital flows volatile. It occurs especially when there is a massive capital outflowsfrom low-income country, triggered by the wrong perception about the vulnerability of the currency of the country. Further,it can also happen if there is a lack of confidence in the economic prospects of the country. There are two other bases through which there may be volatility of capital flows. One of them is adverse terms of trade. It happened during Asia crisis which had reduced the demand for imports by the crisis affected countries. It leads to sharp decline in the prices. The 2nd one is competitiveness effects. It had happened during the sharp depreciation of the Thai currency (Baht) in July 1997. It had put pressures on the currencies of neighboring countries who were maintaining pegged exchange rate. It caused a large loss of competitiveness for the neighboring countries.

vi. **Risk to the domestic banks**

It is believed that well established multi-national banks can have several benefits but at thesame time it has got potential demerits also. Foreign banks may do credit rationing to the small companies, which are not operating in the tradable sector. They basically operate and concentrate on larger and stronger entities. If the foreign banks concentrate their lending operations to the most credit worthy corporate borrowers and to the lesser extent to household sector, their presence will not enhance the efficiency in the private sector.They may not have positive effect on output, employment and income distribution.

Entry of foreign banks, which have lower operational costs, will create pressure on the domestic banks so as to remain competitive and consequently the merger process may start. Moreover, the concentration process may also begin in which foreign banks may acquire local banks. Concentration can lead to monopoly power which will reduce the overall efficiency of the banking system. It may also reduce credit availability to the small sector. Further, this all will adversely affect the output and growth, because due to monopoly power, there may be higher interest rates and a lower amount of loans. Some economists believe that entry of multinational banks will not lead to the better stability of the banking system. They also believe that recession may cause more losses, because it leads to increase in defaulters and non-performing assets. Only Prudent supervision can reduce this risk in the capital markets of the less developed economies of the region.

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8. Conclusions drawn

The purpose of this paper is to analyze the net benefits from the integration of financial markets. When there is a more financial openness, the member countries use financial markets for hedging and product diversification. This is particularly true when shocks are not of permanent nature. It was pointed out that such benefits are not a reality for many low-income countries because they have access to financial markets specifically during favorabletimes. The opportunities for the low-income countries with regard to risk sharing and smoothening of consumption are very limited. Another issue which was discussed is regarding the fact that risk of strong reversals in short-run capital inflows are more, when there is a greater financial openness. There is more pessimism during hard times. During hard times, benefit of capital inflows are outpaced by the large and quick capital outflows and the complete financial system comes under stress. In such a situation financial integration does not serve the purpose.

The recent studies have suggested that due to the competitive pressures, domestic banks also improve. Further financial intermediaries are also able to reduce their operating costs. There is very limited evidence to show that presence of multinational banks will lead to stable banking system and also there will be less volatility with regard to domestic credit. However, risk of credit rationing and more concentration with regard to credit allocation need to be taken seriously. There is no evidence to show that entry of the foreign banks will impact the credit allocation or the domestic banking system.

It is true that with more regional financial integration and the enhanced FDI, there are greater benefits with regard to domestic investment and higher economic growth rates. These are also useful for better human capital formation as they have positive impact on the technology and skills. It is for the policy makers to decide between financial openness and financial autarky. The policies should be designed in such a way, which minimize the short-term risks and maximize the long-term gains. It is important to strengthen the financial supervision and follow the international standard regulations; only then less developed economies can foster the risk management in financial systems.If the fundamentals are strong, there will be less volatility and less possibility of a financial crisis.

If concrete steps are taken to strengthen the financial systems, with more technical expertise, it will lead to efficient and stable financial system. There will be less distortions in the capital markets, which have negative effects on the stability of the economy and capital market. The policy makers should be aware that any step towards capital liberalizationis taken gradually. The member nations may consider short term capital controls as part of their policy instruments. It is sure that financial integration has got strong implications to reform the financial system. Despite the fact that there are heavy costs, economically and socially, we lack clear cut rules to deal with financial crises. It is a matter of debate to find a proper lending agency, which can give long lasting solution to deal with debt obligations, which is a curse for the less developed economies.

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TABLE – 1 ASEAN- Demographic Factors

	Land Area (Sq.Km)	Population (000)	Population density (persons per sqkm)	Sex ratio (males per 100 females)	Population below 5 years (000)	Population 65 years and over (000)	Population 15-29 years (000)	Urban population (%)	Population Living below national poverty line (%)	Population living below PPP$1.9 (%)	Unemployment rate (%),	Adult literacy rate (%)	Infant mortality rate (per 1000 live births)	Life expectancy (years)
Brunei-Darussalam	5,765.0	421.3	73.1	108.0	28.8	23.0	116.6	77.0	NA	NA	6.9	97.2	8.5	77.2
Cambodia	181,035.0	15,717.7	86.8	95.1	1,652.2	820.6	4,675.8	23.0	14.0	24.0	0.2	84.4	26.3	69.0
Indonesia	1,916,862.2	261,890.9	136.6	101.0	23,823.8	15,042.2	64,871.8	55.0	10.9	6.5	4.1	95.5	22.2	69.2
Lao PDR	236,800.0	6,752.8	28.5	100.6	709.4	286.0	2,048.1	34.0	23.2	22.7	0.7	84.7	48.9	66.7
Malaysia	331,388.0	32,049.7	96.7	106.9	2,620.9	2,002.8	9,369.3	75.0	0.4	0.0	3.4	94.9	7.1	75.3
Mayanmar	676,576.0	53,388.0	78.9	92.5	4,975.9	3,226.9	13,691.7	30.0	32.1	6.4	0.8	89.6	40.1	68.6
Philippines	300,000.0	104,921.4	349.7	101.8	11,401.6	5,335.6	28,798.3	47.0	21.6	8.3	2.7	96.4	21.5	69.1
Singapore	719.9	5,612.3	7,795.9	96.1	187.7	516.7	782.3	100.0	NA	NA	1.8	97.2	2.2	82.8
Thailand	513,139.5	67,653.2	131.8	94.3	3,780.7	7,766.3	13,831.4	49.0	8.6	18.0	0.9	96.1	10.5	75.3
Vietnam	331,231.0	93,671.6	282.8	98.1	6,911.9	7916.4	20,125.9	35.0	7.0	17.0	2.1	95.1	17.3	76.3

Source: ASEAN Secretariat, UNCTAD, UNICT, World Bank, ADB, UNDP
- Population living below national poverty line (%), 2018 or Latest AMS figure available
- Population living below PPP$1.9 (%), 2017 or the latest AMS figure available
- Adult literacy rate (%), 2017 or latest AMS figure available
- Infant mortality rate (per 1000 live births), 2017 or latest AMS figure available
- Life expectancy (years): 2018 or latest AMS figure available
AMS: ASEAN member states

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TABLE - 2 ASEAN- Gross Domestic Product (GDP), Inflation and Trade

	GDP at current price (US$ million)	GDP per capita (US$)	GDP growth at constant price (%)	Share of services sectors in GDP (%)	Inflation rate (%), end of period	Exports of goods (US$ million)	Imports of goods (US$ million)	Trade in goods - balance (US$ million)	Growth rate of exports of goods (%); (2016-2017)	Growth rate of imports of goods (%); (2016-2017)	Share of intra-ASEAN trade in goods (%)
Brunei-Darussalam	12,211.7	28985.6	1.3	37.9	-0.1	4,761.0	3,088.0	1,673.0	-21.0	15.6	35.6
Cambodia	22,340.3	1,421.3	6.8	39.3	2.3	11,278.1	14,284.5	-3,006.4	12.0	15.5	26.0
Indonesia	1,013,926.3	3,871.6	5.1	47.2	3.6	168,810.5	156,985.6	11,825.0	16.3	15.7	24.2
Lao PDR	17,090.2	2,530.8	6.9	39.4	0.1	3,607.5	4,779.2	-1,171.7	-0.1	18.4	62.5
Malaysia	317,251.6	9,898.7	5.9	52.0	3.4	217,838.8	195,149.1	22,889.5	14.9	15.9	27.5
Mayanmar	65,607.1	1,228.9	6.8	42.5	4.0	13,865.2	19,246.8	-5,381.6	17.1	22.5	34.6
Philippines	313,875.4	2,991.5	6.7	57.5	3.3	68,250.9	107,879.5	-39,628.5	21.2	25.5	22.2
Singapore	323,954.2	57,722.2	3.6	67.1	0.3	383,252.4	317,693.4	65,559.1	13.4	8.8	25.5
Thailand	455,703.8	6,735.9	3.9	58.1	0.8	236,694.2	222,763.5	13,930.7	9.9	14.4	22.7
Vietnam	223,837.1	2,389.6	6.8	38.8	2.8	213,931.5	210,625.5	3,305.9	21.2	20.7	11.7

Source: ASEAN Secretariat, UNCTAD, UNICT, World Bank, ADB, UNDP

TABLE – 3ASEAN-FDI, Communication & Transport Infrastructure

	Total FDI inflows (US$ million)	Rate of growth of FDI inflows (%)	Share of intra-ASEAN FDI (%)	Internet subscribers per 100 persons	Cellular phone users per 100 persons	Road length (km)	Paved roads (km)	Total road vehicles per 1000 population	International air passenger traffic (000)
Brunei-Darussalam	460.1	405.9	116.3	90.0	127.0	3,053	2,860	665.3	1,774.5
Cambodia	2732.2	19.8	22.1	69.0	118.2	16,292	8,526	28.1	3,312.7
Indonesia	23,063.6	488.3	51.5	32.3	173.8	539,415	295,968	497.9	31,556.0
Lao PDR	1,695.4	57.6	10.1	30.0	54.1	59,870	9,251	292.9	1,620.0
Malaysia	9,447.2	-16.3	22.9	88.9	106.2	237,022	181,518	896.7	49,335.9
Mayanmar	4,340.7	45.2	48.2	80.1	131.2	136,102	48,056	114.7	4,534.5
Philippines	10,049.4	21.4	7.2	55.5	110.4	32,888	31,035	99.2	43,540.9
Singapore	62,016.7	-19.9	6.4	84.4	148.2	3,500	3,500	171.4	61,574.0
Thailand	9,100.9	197.1	21.0	52.9	176.0	284,729	211,013	547.8	72,529.9
Vietnam	14,100.0	11.9	18.0	46.5	128.1	370,684	262,857	31.0	10,073.3

Source: ASEAN Secretariat, UNCTAD, UNICT, World Bank, ADB, UNDP

- The latest available data on road length, paved roads, road vehicle per 1000 population and international air passenger traffic is 2017