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EXPLANATORY NOTES

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1. Currency Equivalents
(As of December 1989)

Hong Kong	HK$7.812/US$1.00
India	Rs 7.812/US$1.00
Indonesia	Ip 1797/US$1.00
Korea	W 679.60/US$1.00
Malaysia	M$2.7033/US$1.00
The Philippines	P 22.44/US$1.00
Singapore	S$1.8944/US$1.00
Taiwan	NT$26.16/US$1.00
Thailand	B 25.69/US$1.00

2. The term "billion" signifies a thousand million.

3. The following abbreviations and acronyms appear in this report.

BAPEPAM	Capital Market Executive Agency
BAPINDO	Bank Pembangunan Indonesia
BI	Bank Indonesia
BNM	Bank Negara Malaysia
BOK	Bank of Korea
BOP	Bank of the Philippines
BOT	Bank of Thailand
CCI	Controller of Capital Issues
CIMTC	Citizens Investment Management Trust Company
CLOB	Central Limit Order Book
CRISIL	Credit Rating Information Services of India Limited
DFI	Development Finance Institution
DITC	Daehan Investment Trust Company
ECB	Expanded Commercial Banking
GIC	General Insurance Corporation of India
IDBI	Industrial Development Bank of India
IFCT	Industrial Finance Corporation of Thailand
JSE	Jakarta Stock Exchange
KDB	Korea Development Bank
KITC	Korea Investment Trust Company
KLSE	Kuala Lumpur Stock Exchange
KLTCB	Korea Long-Term Credit Bank
KSE	Korea Stock Exchange

LIC	Life Insurance Corporation of India
MAB	Monetary Affairs Branch
MAS	Monetary Authority of Singapore
MFC	Mutual Fund Company
NABARD	National Bank for Agriculture and Rural Development
NBFI	Non-Bank Financial Institution
NCD	Negotiable Certificate of Deposit
RBI	Reserve Bank of India
SB	Specialized Bank
SBI	State Bank of India
SEBI	Securities and Exchange Board of India
SEHK	Stock Exchange of Hong Kong
SEC	Securities Exchange Commission
SES	Stock Exchange of Singapore
SET	Stock Exchange of Thailand
SFC	Securities and Futures Commission
SHCIL	Stock Holding Corporation of India Limited
SIDC	State Industrial Development Corporation
TSE	Taiwan Stock Exchange
UTI	Unit Trust of India

IV. SECURITIES MARKETS OF SELECTED ESCAP COUNTRIES

A. Primary Market Activities

1. The primary market mobilizes individual savings for productive activities of the public and private sectors, while the secondary market facilitates the exchange of securities among investors. The primary market cannot function properly without an efficient secondary market which, in turn, requires the efficient operation of the primary market. In the selected ESCAP countries, securities are available in the form of common equities, preferred stocks, rights issues, warrants, public-sector bonds, corporate bonds, and convertible instruments. Rights issues and warrants gained popularity in recent years as a hybrid form of equity financing.

2. The total amount of newly raised capital in 1989 amounted to US$2.78 billion in Hong Kong. Of this amount, common equity shares, including rights offerings, were US$2.05 billion or 74 per cent. The remainder was almost equally divided among investment companies securities (US$270 million), debt securities (US$256 million), and warrants (US$204 billion). Several interesting points are noted about the primary market in Hong Kong. First, the market for government securities is insignificant largely due to the budget surplus of the Hong Kong government. Second, corporate debt securities have gradually gained popularity even though the absolute magnitude of debt securities is less than one per cent of the market capitalization of the Hong Kong securities market. Third, warrants were introduced for the first time in 1989 and were accepted readily by the public. Fourth, foreign companies issued approximately 20 per cent of newly raised capital in 1989, indicating Hong Kong's role as a regional or international financial center.

3. In India, US$0.62 billion in equity capital, US$2.67 billion through the issue of corporate debentures, and US$3.09 billion in investment companies shares was raised in 1989. The combined total represents approximately 17 per cent of India's total market capitalization. Approximately 80 per cent of corporate debentures are convertible issues. One encouraging aspect is that the smaller equity issues of US$1.76 million (or Rs. 30 million which is the legal minimum for listing on the stock exchanges) or less continue to constitute a sizable segment of the new issues market. According to the Securities and Exchange Board of India (SEBI), these

issues accounted for more than 70 per cent of the number of issues. In addition, a total of US$2.64 billion was raised by the new issue of public sector bonds. Including public sector bonds, the total amount of resources raised from the Indian capital market in 1989 was US$9.08, an 80 per cent increase over the previous year. Unfortunately, public-sector bonds have little impact on the Indian securities market because they are not widely owned by the general public. Approximately two-thirds of government securities are held by commercial banks to meet the statutory liquidity ratio imposed by the RBI, while 20 per cent are held by the RBI itself.

4. Rights offerings and convertible bonds became popular instruments in the primary market in many countries, including Korea, Malaysia, and Singapore. For example, Korean private corporations raised a total of US$31.82 billion in 1989. Rights offerings amounted to US$16.37 billion or 51 per cent of the total, followed by common equity with US$5.22 billion (16 per cent) and corporate debt securities with US$10.24 billion (32 per cent). Approximately 80 per cent of debt securities are convertible issues. The primary market in Malaysia is also dominated by rights offerings. Of the total amount raised in 1989 (US$914 million), rights offerings accounted for 86 per cent or US$784 million. The remainder was common equity issues. In Singapore's primary market, a total of US$1.77 billion was raised in the form of common equity (US$202.91 million), rights offerings (US$366.03 million), and corporate debt securities (US$1.20 billion).

5. Primary market activities in the selected ESCAP countries may be characterized as follows: (a) the corporate debt market has not been fully developed largely due to the dominance of commercial banking in the credit market and government control over the interest rate structure; (b) government securities tend to dominate primary markets with the exception of Hong Kong; and (c) hybrid forms of financing such as rights issues, warrants, and convertible debt have become popular in those countries with well-developed equity markets.

B. Secondary Market Activities

(1) An Overview

6. Securities markets in nine selected ESCAP countries may be classified into two groups according to the stage of development:

(a) Mature Stage: Hong Kong, Korea, Malaysia, Singapore, Taiwan, and Thailand

(b) Developmental Stage: India, Indonesia, and the Philippines.

However, the relatively mature markets of Hong Kong, Malaysia, Singapore, and Thailand have yet to fully develop bond markets that play a more meaningful role in mobilizing domestic savings for industrial financing. A simplified framework is needed to streamline the regulatory structure in Indonesia, Malaysia, and Thailand. More efficient clearing and settlement systems need to be developed in Hong Kong to make its securities market a leading international and regional financial center. The three countries at the developmental stage must address numerous problems, including: (i) the weakness of the securities industry infrastructure; (ii) a lack of investor confidence; (iii) a limited supply of and demand for viable securities; (iv) insufficient sophistication of financial intermediaries; (v) excessive governmental control over the financial sector through regulated interest rate structures; and (vi) inadequate operational facilities of stock exchanges and clearing and settlement systems.

7. Two measures of the level of monetization are presented in Table I for each of the selected ESCAP countries. The first measure is the ratio of M2 (which includes currency in circulation and demand and time deposits) to GDP. The second measure is the ratio of M2 to population. In 1989, the ratio of M2 to GDP in Hong Kong was the highest at 229 per cent, followed by Taiwan's 146 per cent, and Singapore's 93 per cent. The level of monetization in Korea was surprisingly low, lagging behind Thailand, Malaysia, and India. The Philippines and Indonesia ranked the lowest with 26 and 30 per cent, respectively. A similar cross-sectional trend is observed when monetization is measured by the ratio of M2 to population. In 1989, Hong Kong, Taiwan, and Singapore ranked at the top with US$21,976, US$10,841, and US$10,115 per head, respectively. Malaysia, Korea, and Thailand followed with US$3,938, US$2,036, and US$847, while Indonesia, the Philippines, and India showed monetization figures not exceeding US$200. During the nine-year period between 1980 and 1989, Hong Kong, Singapore, and Taiwan showed rapid improvement in the level of monetization. In contrast, Indonesia, the Philippines, and India showed slow improvement in level of monetization, reflecting the sluggish pace of their economic development.

Table I
Level of Monetization

Country	M2/GDP (Per cent) 1980	1984	1989	M2/Population (US$) 1980	1984	1989
Hong Kong	70	126	229	3,700	7,425	21,976
India	39	43	49 (a)	99	109	106 (a)
Indonesia	17	20	30 (b)	83	103	138 (b)
Korea	33	34	41	498	739	2,036
Malaysia	52	58	68	904	1,239	3,938
Philippines	21	21	26	152	105	187
Singapore	64	68	93	3,184	4,922	10,115
Taiwan	64	91	146	1,501	2,869	10,841
Thailand	38	55	71	261	173	347

Notes: (a) As of 1987
(b) As of 1988

Source: Key Indicators of Developing Asian and Pacific Countries, Volume XXI (July 1990), Asian Development Bank.

8. At the end of 1989, a total of 8,117 companies was listed at the organized stock exchanges of the nine selected ESCAP countries with total market capitalization of US$609 billion, which was approximately 66 per cent of the aggregate GNP at current prices (see Table II). This ratio is comparable to the New York Stock Exchange's 58 per cent, but is much lower than the Tokyo Stock Exchange's 156 per cent. The ratio of annual turnover to market capitalization was 195 per cent. This ratio is misleading, however, because of the unusual trading volume at the Taiwan Stock Exchange (TSE). Taiwan's annual turnover value was US$966 billion or a 408 per cent turnover ratio. Taiwan's annual turnover volume alone accounted for 81 per cent of the region's combined volume. Without including Taiwan, the ratio of annual turnover to market capitalization may be adjusted downward from 195 per cent to 60 per cent. This adjusted figure is comparable to the ratios computed for the New York and Tokyo markets, 51 and 55 per cent, respectively.

9. The total number of listed companies in the region cannot be taken at the face value due to India's unique problem. India reported 6,250 listed companies, or 77 per cent of

Table II
Selected ESCAP Country Stock Exchange Statistics
(As of December 1989)

	Hong Kong	India	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand	Total
Number of Listed Companies	298	6,250	56	626	251	144	136	181	175	8,117
Total Market Capitalization (US$ billion)	77.6	38.2	2.5	140.5	39.8	11.6	35.9	237.0	25.9	609.0
Annual Turnover Value (US$ billion)	34.6	32.0	0.5	119.3	6.9	2.3	14.1	965.8	14.7	1,190.2
Annual Turnover Value/ Market Capitalization	44.6	83.9	21.2	84.9	17.3	19.5	39.3	407.5	56.6	195.4 (a)
Market Capitalization/ GNP	140.5	14.8	2.9	67.7	112.5	27.2	120.7	155.6	39.5	66.0 (a)

Note: (a) Value-weighted average
Source: Fact Books from the Region's Stock Exchanges.

the region's total. Although a large number of companies are listed in India across 19 stock exchanges (with four of them yet to be operational) to take advantage of lower rates of corporate income tax, many of them are not traded at all. The 10 most actively traded stocks accounted for more than 50 per cent of the total trading volume and the top 25 companies for more than 70 per cent. Very often, new companies raise funds in the Indian market before they begin operation. A lack of proper quality control over the listing process and the unavailability of sufficient financial information may explain the illiquidity of the remaining listed securities. As a result, no more than 800 companies in India may be considered as safe investments according to the securities indusiry's unofficial estimate. For example, only 621 large non-financial, non-public companies are monitored annually by the RBI for their financial performance. The number of listed companies was the second highest in Korea (626), followed by Hong Kong (298), Malaysia (251), and Taiwan (181). Only 56 companies were listed at the Jakarta Stock Exchange (JSE) of Indonesia.

10. Although Taiwan had a moderate number of companies listed, their combined market capitalization is the highest in the region at US$237 billion, or 156 per cent of GNP. Korea's market capitalization was US$141 billion, or 68 per cent of GNP. Hong Kong, Malaysia, India, and Singapore followed with US$78 billion, US$40 billion, US$38 billion, and US$36 billion, which represented 140 per cent, 113 per cent, 15 per cent, and 121 per cent of GNP respectively. Indonesia's market capitalization is US$2.51 billion, which was less than three per cent of GNP. Slightly higher ratios are observed for the Philippines (27 per cent) and Thailand (40 per cent). On the basis of the ratio of market capitalization to GNP, it may be concluded that the role of securities markets in Indonesia, India, the Philippines, and Thailand has yet to be expanded.

11. Taiwan's ratio of annual turnover volume to market capitalization was 408 per cent, while Malaysia reported the lowest ratio of 17 per cent. It appears that the observed ratios are an inverse function of transaction costs, which include brokerage fees, stamp taxes, exchange taxes, and registration fees. For an investment of US$100,000, transaction costs in Taiwan are on average only 150 dollars or 0.15 per cent, whereas Malaysian investors have to pay US$1,400 or 1.40 per cent. In fact, Malaysia is one of the most costly markets for trading in the region, while Taiwan is the least costly.

(2) Industrial Financing

12. ESCAP countries selected for this study represent a diverse group as evidenced by GDP by industry origin summarized in Table III. The contribution of the primary sector to GDP was insignificant in Hong Kong, Singapore, and Taiwan, ranging from 0.41 per cent to 5.37 per cent in 1989. Both Korea and Thailand showed a modest contribution of the primary sector to GDP, 10.84 per cent and 19.92 per cent, respectively. In contrast, the primary sector's share of GDP was significant in Indonesia, India, Malaysia, and the Philippines, reflecting the relative importance of agriculture and mining and quarrying in these countries. It is not surprising that the secondary sector's contribution to the GDP of Korea and Taiwan was the highest among the nine countries under study with 43.39 per cent and 43.19 per cent, respectively. On the other hand, India and Indonesia showed the smallest contribution of 21.36 per cent and 24.13 per cent. The tertiary sector's contribution to GDP in Hong Kong, Singapore, and Taiwan was far greater than for other countries in the region to compensate for the lack of a primary sector.

13. A significant imbalance is noted when GDP by industry origin is contrasted with market capitalization by industry at the Stock Exchange of Hong Kong (SEHK). For example, the manufacturing industry's contribution to the GDP of Hong Kong was 20.35 per cent, while manufacturing firms accounted for only 5.80 per cent of the SEHK's total market capitalization. Summarized below is the SEHK's market capitalization by industry as of December 1989:

Classification	Number of Companies	Market Capitalization (US$ million)	Per Cent
Finance	39	11.46	14.77
Utilities	9	14.02	18.08
Properties	89	20.33	26.21
Consolidated Enterprises	73	23.36	30.11
Industrials	66	4.50	5.80
Hotels	14	3.09	3.99
Others	8	0.81	1.04
Total	298	77.57	100.00

Source: Stock Exchange of Hong Kong

Table III
GDP By Industry Origin (Per cent of GDP)
(As of December 1989)

	Hong Kong	India (a)	Indonesia (b)	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand
Primary Sector	0.41	33.28	35.70	10.84	30.55	25.16	0.46	5.37	19.92
Agriculture	0.35	30.53	24.09	10.22	20.25	23.45	0.34	4.93	16.90
Mining	0.06	2.75	11.61	0.62	10.30	1.71	0.12	0.44	3.02
Secondary Sector	27.73	21.36	24.13	43.39	30.70	31.56	36.95	43.19	32.05
Manufacturing	20.35	19.20	18.52	31.25	25.60	24.96	29.69	35.67	24.41
Utilities	2.47	2.16	0.60	2.43	1.85	2.24	2.03	3.01	2.56
Construction	4.91	5.80	5.01	9.71	3.25	4.36	5.23	4.51	5.08
Tertiary Sector	71.86	45.36	40.17	45.77	38.75	43.28	62.59	51.44	48.03
Trade	24.63	12.49	17.33	11.86	10.59	19.48	17.59	14.91	15.84
Transportation & Communications	9.10	6.56	5.78	6.98	6.66	5.01	13.47	6.22	7.29
Finance	18.61	8.37	6.45	10.70	9.07	7.03	29.71	17.23	7.69
Public Administration	14.55	6.12	6.77	7.32	11.41	6.03	1.81	9.95	3.84
Others	4.97	6.01	3.84	8.90	1.03	5.39		3.12	13.36

Notes: (a) As of 1987
(b) As of 1988

Source: Key Indicators of Developing Asian and Pacific Countries, Volume XXI (July 1990), Asian Development Bank.

Note that utility companies are over-represented in the Hong Kong market, accounting for almost one-fifth of total market capitalization, whereas their contribution to GDP is only 2.5 per cent. It is apparent that relatively small-size manufacturing firms in Hong Kong have only limited access to the Hong Kong securities market, while large-size firms in utilities, finance, and properties take advantage of the organized stock exchanges for the purpose of fund raising.

14. Hong Kong's industrial production activities are represented by several areas, including: (a) wearing apparel; (b) textiles; (c) plastic products; (d) electrical and electronic parts; (e) consumer electrical and electronic products; and (f) fabricated metal products. All these areas are dominated by small- and medium-size companies, and the organized market in Hong Kong has not been a major avenue for raising capital for these manufacturing companies. An institutional framework for an over-the-counter market and/or a second board must be introduced for small-size industrial companies to provide access to securities markets.

15. A recent study by the Industrial Development Bank of India (IDBI) based upon 401 manufacturing firms indicates the following profile of sources of funds in 1989:

Sources of Funds	**Amount (US$ billion)**	**Per Cent**
Internal	2.31	51.3
a. Paid-Up Capital	0.05	1.1
b. Reserves and Surplus	1.11	24.7
c. Depreciation	1.15	25.6
External	2.19	48.7
a. Paid-Up Capital	0.16	3.6
b. Long-Term Borrowing	1.03	22.9
Debentures	0.32	7.1
Borrowing from Banking Institutions	0.71	15.8
c. Short-Term Borrowing	1.00	22.2
Total	4.50	100.0

Source: Industrial Development Bank of India

The above statistics indicate that the major portion of funds were available from commercial banks and development finance institutions. The contribution by the securities market was extremely limited. Summing up debentures and paid-up capital from external sources, it appears that an approximate maximum of 10 per cent was generated from the securities market. In fact, this trend is typical of developing economies in the Asian Pacific region.

16. The household sector is traditionally a surplus unit in the Indian economy. Gross savings in financial assets of the household sector usually ranged from 10 to 12 per cent of GNP since 1982, with 12.3 per cent in 1989. The bulk of the resources of the household sector was directed to banks (45.3 per cent), government (11.2 per cent), and life insurance funds and pension funds (24.8 per cent). Investment in shares and debentures plus the Unit Trust of India (UTI) units amounted to only 7.2 per cent of the total gross savings of the household sector. Hence, the Indian securities market must catch up with commercial banks and other financial institutions in order to increase its share of household savings. Shown below is the breakdown of household savings (at current prices) in 1989. The breakdown has changed very little over time.

Classification	Amount (US$ billion)	Per Cent
Gross Savings in Financial Assets	US$23.8	
a. Currency		11.1
b. Bank Deposits		40.4
c. Non-Banking Deposits		4.9
d. Life Insurance Funds		7.0
e. Provident/Pension Funds		17.8
f. Claims on Government		11.2
g. Investment in Shares and Debentures		4.2
h. UTI units		3.0
i. Trade Debt (Net)		0.4
Total		100.0
Financial Liabilities	US$6.0	
Net Savings in Financial Assets	US$17.8	

Source: Reserve Bank of India

17. The Korea Stock Exchange's (KSE's) market capitalization of manufacturing companies far exceeded their reported share of GDP in Korea. Korea's secondary sector accounted for 60.54 per cent of total market capitalization in 1989 as opposed to 43 per cent of the secondary sector's contribution to GDP. The primary sector accounted for only 0.47 per cent and the tertiary sector 38.99 per cent. In contrast, the primary sector's contribution to GDP was 10.84 per cent, and the tertiary sector's contribution to GDP was 45.77 per cent. Summarized below is market capitalization by industry for 625 companies listed at the KSE.

Classification	Number of Companies	Market Capitalization (US$ million)	Per cent
Primary Sector	10	666.09	0.47
Fishing	7	488.52	0.35
Mining	3	177.57	0.13
Secondary Sector	465	84,043.24	59.82
Foods & Beverage	41	2,069.49	1.47
Textiles, Wearing Apparel & Leather	64	3,678.18	2.62
Wood & Wood Products	7	608.88	0.43
Paper & Paper Products	22	1,151.72	0.82
Chemicals	103	12,206.33	8.69
Non-Metallic Minerals	16	2,998.32	2.13
Basic Metals	33	9,595.30	6.83
Fabricated Metals & Machinery	130	23,075.31	16.42
Other Products	6	291.87	0.21
Electric & Gas	1	19,693.00	14.02
Construction	42	8,674.84	6.17
Tertiary Sector	151	55,780.27	39.70
Wholesale & Retail	50	7,248.31	5.16
Transportation & Storage	14	2,143.78	1.53
Communication	1	216.86	0.15
Finance	73	44,491.91	31.67
Insurance	12	1,671.57	1.19
Recreation	1	7.84	0.00
Total	626	140,489.66	100.00

Source: Korea Stock Exchange

18. Korea has a fairly large bond market both for government bonds and corporate bonds. At the end of 1989, the total amount of listed bonds at the KSE amounted to US$63.99 billion, which was slightly less than one-half of the market value of common equities. Of this amount, corporate bonds accounted for 33 per cent or US$22.65 billion. Historically, Korean manufacturing firms relied heavily on debt financing. As the equity market has developed steadily, the amount of debt financing has declined. According to KSE's survey, the average debt ratio of 486 listed companies with their fiscal year ending in December 1989 was 66.76 per cent, compared to 80.24 per cent in 1983.

Year	Average Debt Financing	Average Equity Financing
1983	80.24%	19.76%
1984	80.14%	19.86%
1985	81.08%	18.92%
1986	79.98%	20.02%
1987	78.11%	21.89%
1988	73.75%	26.25%
1989	66.76%	33.24%

Approximately one-half of the total amount of debt financing represented short-term liabilities and the remaining half was long-term liabilities, including deferred taxes.

19. Summary statistics on financial assets held by individual investors in Korea as of 1989 indicate the increasing role of the securities industry. Individuals' holdings of securities amounted to US$55.19 billion or 26 per cent of total financial assets. Individual investors also participated in the securities market indirectly through investments in life insurance and pension funds, which represented 18 per cent of the total.

Classification	Amount (US$ billion)	Per Cent
Currency and Demand Deposits	8.72	4.11
Time Deposits	96.61	45.56
Life Insurance & Pension Funds	37.99	17.91
Securities	55.19	26.02
Short-Term Securities	5.33	2.51
Long-Term Securities	27.67	13.05
Equity	22.19	10.46
Others	13.56	6.39
Total	212.07	100.00

Source: Korea Stock Exchange

Individual investors in Japan show a similar trend. According to the Bank of Japan, the composition of Japanese individuals' holding of financial assets in 1988 was: (a) currency and demand deposits (9.4 per cent); (b) time deposits (42.9 per cent); (c) insurance and pension (24.9 per cent); (d) securities (22.1 per cent); and (e) others (0.8 per cent).

20. Market capitalization by industry for all 251 companies listed at the Kuala Lumpur Stock Exchange (KLSE) is summarized below.

Industry	Market Capitalization (US$ million)	Per Cent
Industrials	33,282.66	68.52
Finance	4,751.52	9.78
Hotels	472.38	0.97
Properties	3,514.86	7.24
Oil Palm	3,584.53	7.38
Tins	645.24	1.33
Rubber	2,156.80	4.44
Unit Trusts	124.41	0.26
Second Board	4[illegible].84	0.09
Total	48,575.24	100.00

Source: Kuala Lumpur Stock Exchange

Industrial firms represent approximately two-thirds of total market capitalization, compared with a 30.70 per cent contribution by the secondary sector to GDP. This figure is based upon summary statistics available at the end of December 1990 rather than December 1989, since the 1989 figures included 53 Singaporean companies that were delisted from the KLSE.

21. Major sources of funding for Malaysian manufacturing firms are indicated below.

Source of Funding	Year 1985	1987	1989
Short-Term Debt	30.96%	28.69%	27.63%
Long-Term Debt	17.80%	17.26%	12.91%
Equity	51.24%	54.05%	59.46%
Total	100.00%	100.00%	100.00%

Source: Kuala Lumpur Stock Exchange

The relative importance of equity financing for Malaysian manufacturing firms increased from 51.24 per cent in 1985 to 59.46 per cent in 1989. To acquire necessary capital, many corporations borrow from banks. In order for corporations to grow, they must have access to a long-term, low-cost source of funding, which is typically a long-term bond market. As indicated above, long-term debt has been also decreasing in Malaysia. Special efforts will be needed to foster growth of the long-term bond market.

22. Market capitalization of Philippine industrial companies was US$2,743.56 million in 1989 or 23.64 per cent of the total. The overall contribution of the secondary sector to GDP was 31.56 per cent, which implies that industrial companies were underrepresented in the Philippine securities market. The financial sector accounted for more than half of total market capitalization, indicating a significant imbalance in the development of the local capital market.

Classification	Number of Companies	Market Capitalization (US$ million)	Per Cent
Industrial	39	2,743.56	23.64
Mining	40	846.59	7.29
Oil Exploration	23	193.15	1.66
Finance	20	6,358.23	54.78
Communication	6	904.57	7.79
Real Estate	6	439.21	3.78
Hotels	5	13.32	0.11
Others	5	108.00	0.93
Total	144	11,606.63	100.00

Source: Makati Stock Exchange

23. The Philippine securities market has been a minor source of financing for corporations. Many Philippine corporations exhibit a high dependency on debt financing with an average debt ratio of 70-75 per cent. Because of the tradition of family ownership and the lack of investor confidence in the securities market, equity capital is not considered as an important source of funds by many industrial firms. Banks are not hesitant to extend credits despite the high risk of default. The most undesirable corporate practice is the use of short-term borrowing from banks for long-term investment. Many corporations engage in short-term borrowing so as not to be locked into long-term obligations at high interest rates.

24. The Stock Exchange of Singapore (SES) reported market capitalization by industry as of December 31, 1989. Unfortunately, market capitalization of industrial companies only is not readily available.

Classification	Number of Companies	Market Capitalization (US$ million)	Per Cent
Industrial and Commerce	83	18,595.36	51.76
Finance	21	9,137.96	25.44
Hotels	17	2,904.75	8.09
Property	15	5,286.43	14.72
Total	136	35,924.50	100.00

Source: Stock Exchange of Singapore

25. High debt ratios are very common in many Asian countries, particularly in Japan, Korea, and the Philippines. Taiwan is no exception. The average debt ratio of TSE-listed companies was 83.60 per cent in 1988, which was slightly lower than the 86.18 per cent observed in 1987. Although the return on assets (= net profits/total assets) was only 3.40 per cent, the return on equity (= net profits/net worth) was magnified to 20.72 per cent by extremely high financial leverage.

26. Financial assets held by Taiwan households in 1989 indicate that time and savings deposits with banks and investment in corporate common equities are equally important financial assets for Taiwan households. Two items accounted for 28.65 and 28.89 per cent of the total assets, respectively. Lending to other households was surprisingly large, representing 12.48 per cent of total assets. This indicates that privately arranged financing is popular in the Chinese community.

Classification	Amount (US$ million)	Per Cent
Currency & Demand Deposits	8,015.63	17.71
Time and Savings Deposits	12,965.83	28.65
Trust Funds	2,010.63	4.44
Life Insurance	779.82	1.72
Lending to Households	5,646.33	12.48
Government Securities & Other Securities	26.15	0.06
Securities	13,075.53	28.89
Corporate Bonds	1.68	0.00
Corporate Stocks	13,073.85	28.89
Shares of Non-Corporate Enterprises	1,094.95	2.42
Notes and Accounts Receivable	1,398.62	3.09
Others	246.60	0.54
Total	45,260.09	100.00

Source: The Central Bank of China

27. The ratio of market capitalization to total bank deposits in Thailand was 58 per cent in 1989, compared with 25.0 per cent in 1988. This indicates the Stock Exchange of Thailand (SET's) rapid growth relative to the commercial banking sector. To promote equity financing by industrial firms, the Thai government has been implementing many policy and tax

measures. For example, listed companies pay a 30 per cent income tax rate as opposed to a 35 per cent rate paid by unlisted companies. The effective period of business tax exemption on the sale of securities has been extended to the end of 1990. Only listed companies are allowed to issue debentures and commercial papers, and to offer rights issues. However, the prohibition against issuing debt instruments by unlisted companies had the unintended effect of promoting the credit business of commercial banks because many private corporations tend to rely more on the short-term debt financing available from commercial banks. Shown below are household savings with different types of Thai financial institutions over time.

	Year		
Institutions	1980	1984	1989
Commercial Banks	63.6%	69.1%	59.5%
Finance Companies	11.4%	8.5%	6.7%
Specialized Financial Institutions	10.5%	9.2%	10.4%
Insurance Companies	2.1%	2.3%	2.0%
Other Financial Institutions	2.5%	2.6%	2.5%
Stock Exchange of Thailand	9.9%	8.3%	18.9%
Total	100.0%	100.0%	100.0%

Source: The Bank of Thailand

A remarkable growth in the Thai securities market is indicated by the relative amount of holding by SET. Summarized below are financial leverage measures for some selected manufacturing industries in 1988:

Industry	Debt Ratio	Total Debt/ Equity	Long-Term Debt/ Equity
Food & Beverage	71.59%	252%	19%
Automotive	61.38%	159%	6%
Electric Equipment	50.98%	104%	12%
Packaging	60.16%	151%	35%
Textiles	50.25%	101%	9%

From the reported statistics, the importance of short-term debt financing is evident. It is further obvious that the long-term bond market has yet to be developed for industrial financing.

(3) **Regulatory Structure**

28. The unification of the Far East Stock Exchange Ltd., the Hong Kong Stock Exchange, the Kam Ngan Stock Exchange Ltd., and the Kowloon Stock Exchange in April 1986 and the market crash of October 1987 were two major events in the recent development of the Hong Kong securities market. Prior to the 1987 market crash, regulatory powers were divided in an ad hoc manner without any integrated structure, centralized management, or financial resources among the Securities Commission, the Commodities Trading Commission, and their executive arms, the Commissioner for Securities and Commodities Trading. The Securities Review Committee, appointed in November 1987 by the Governor of Hong Kong, reviewed the operation and regulation of Hong Kong's securities industry and recommended that the two commissions and the commissioner's office be replaced with a single independent statutory body outside the civil service. Thus, the Securities and Futures Commission (SFC) was formed in May 1989 to serve as a "watchdog" to promote orderly securities and futures markets in Hong Kong. The future success of the new regulatory structure is dependent upon an effective and cooperative working relationship among the SFC, the SEHK, its 22-member Exchange Council, and the Hong Kong Futures Exchange. It is premature to judge the success of the new regulatory structure since it has only been in operation for two years.

29. Laws and regulations related to the Indian securities market include the Companies Act of 1956, the Capital Issues Control Act of 1947, the Securities Contracts Regulation Act of 1956, the Securities Contracts Regulation Rules of 1957, and the Securities Contracts Rules of 1986. The securities market is also subject to the regulations and guidelines of the Ministry of Finance and to the by-laws and rules of various stock exchanges. The Controller of Capital Issues (CCI) is responsible for new issues introduced in the primary market. The Stock Exchange Division of the Ministry of Finance is responsible for the activities of the secondary market under the Securities Contract Regulation Act. SEBI was established in 1988. The legislation making SEBI a statutory body is yet to be approved. It is expected that SEBI's role will be similar to that of the U.S. Securities and Exchange Commission. The recent establishment of the Credit Rating Information Services of India Limited (CRISIL) and the Stock Holding Corporation of India Limited (SHCIL) represented positive developments for the modernization of the Indian capital market. CRISIL's principal objective is to rate the debt

obligations (including debentures, fixed deposits, short-term instruments, and preferred stocks) of Indian companies. However, companies are not obligated to obtain a credit rating for issuing debt securities. The rating of CRISIL is not related to particular debt instruments and is not an evaluation of the company as a whole. The main purpose of setting up SHCIL has been to introduce a book-entry system transfer of shares and to serve as a central depository body. Draft legislation to make necessary legal provisions for a full-fledged book-entry system is under review by the government.

30. The development of the Indonesian securities market was initiated in 1977 with an institutional framework built upon the Capital Market Executive Agency (BAPEPAM) and P. T. Danareksa. BAPEPAM was created as a special agency under the Ministry of Finance to assume functions similar to the Securities and Exchange Commission of the United States and to administer and manage the JSE which was formally reopened in August 1977. At the same time, P. T. Danareksa, a government-owned investment trust company, was formed to implement the government policy objective of achieving equitable distribution of corporate ownership.

31. The Korean Securities Exchange Commission (SEC) was established in 1977 when the Securities and Exchange Law of 1962 was revised. The SEC formulates policies relating to both new issues and trading markets. The SEC is composed of nine commissioners. All decisions of the commission must be reported to the Minister of Finance who may override them if necessary. The Securities Supervisory Board is the executive body of the SEC. It implements the decisions made by the commission and supervises securities companies, the KSE, investment advisory companies, and other securities institutions. The Laws on Fostering the Capital Market of 1968 have been instrumental in developing the Korean securities market by providing tax and other incentives for listed companies and an employee share ownership plan. The KSE was restructured in 1988 as a non-profit membership organization.

32. Unlike other ESCAP countries selected for this study, the overall regulatory structure in Malaysia does not follow the "one market, one agency" format. There are four regulatory bodies representing three Ministries of the Malaysian government. The Capital Issues Committee, under the Ministry of Finance, oversees the issue of securities and the approval of company share listings on the KLSE. The Registrar of Companies under the Ministry of Trade

and Industry administers and regulates the Securities Industry Act. Listed companies conducting a public offering must register a prospectus and other disclosure documents. This office is also empowered to issue, renew, or reject licenses to dealers, dealer's representatives, and investment advisors. It also implements measures to protect the market from unfair practices. The Foreign Investment Committee under the Prime Minister's Department implements the guidelines on regulation of assets or interests, mergers or takeovers of companies and businesses, and is responsible for major issues on foreign investment. The Panel on Take-overs and Mergers oversees all takeovers and mergers to ensure that they are conducted in an orderly manner. Additionally, the issue of corporate bonds requires an approval from the Bank Negara Malaysia, which also has sole responsibility for government securities markets. Fragmentation of authority as evidenced in Malaysia can prove very costly in promoting the role of the securities market in industrial financing.

33. The regulatory role of the Philippine securities market is carried out by the Securities and Exchange Commission (SEC), which was modeled after the U.S. SEC. One of the most critical tasks facing the Philippine SEC is the unification of the two existing stock exchanges. The deadline for unification was March 1991, but this deadline passed without any significant institutional development. It is not an easy task to achieve, but its importance is recognized by all parties concerned. It took over 10 years before Hong Kong's four stock exchanges were merged. It must be pointed out that unification alone would not solve many of the problems facing the Philippine securities industry. These problems cannot be solved by the Philippine SEC alone. There must be a systematic effort among the Ministry of Finance, the BOP, and SEC to coordinate fiscal, monetary, and regulatory policies to develop the securities market. At present, a new bill is pending at the Philippine House of Representatives. The main purpose of this bill is to restructure the existing SEC by creating a new regulatory body, the Capital Markets Development Agency, which will have an additional function of developing the securities market on top of SEC's traditional regulatory function. The Philippine securities market desperately needs to modernize its trading facilities and clearing and settlement systems. The Philippines is one of a few countries in Asia that does not have an automated trading system and still relies on a physical delivery system for trade settlement. Additionally, brokerage firms need improved financial strength, trained professional manpower, and communication facilities.

34. Substantial changes in government regulation of the securities market of Singapore were undertaken after the Pan-Electric Industry crisis in 1985. Six member companies became insolvent due to collapsed stock prices and exposure to forward contracts after the failure of the Pan-Electric Industries. The Securities Industry Act was revised in 1986 to strengthen the supervisory and regulatory functions of the MAS over SES's operation and the securities industry. The rules of SES were amended to place heavier emphasis on the capital requirements, financial structure, and monitoring processes of securities firms.

35. The Securities and Exchange Law of 1968 defines the regulatory framework of the Taiwan securities market. The Securities and Exchange Commission is authorized to regulate the entire range of securities market activities, including: (a) supervision of the public offering and listing of shares; (b) supervision of the TSE, the Taipei Securities Dealers Association, securities companies, and securities underwriting and trading; (c) supervision of securities investment trust companies, securities investment consulting enterprises, securities depository business, and margin regulations. The Securities and Exchange Law was amended in January 1988 to improve financial accounting practices and to provide a necessary framework for the liberalization and internationalization of the securities industry. Under the supervision of the SEC, the TSE is in charge of the administration of the securities market. The TSE is organized in the form of a corporation. Private financial institutions hold 61 per cent of the total shares, and government-owned banking institutions the remaining 39 per cent. In addition to 181 listed companies with total market capitalization of US$237 billion, a total of US$8.40 billion in bonds was listed at the end of 1989. The listed bonds can be classified into three categories: (a) Treasury bonds with US$7.81 billion; (b) the Central Bank of China's savings bonds and CDs in the amount of US$0.30 billion; and (c) corporate bonds in the amount of US$0.29 billion.

36. The SET began operations in April 1975 as authorized by the SET Act of 1974. The SET is supervised by the Minister of Finance, who delegated this authority to the BOT. Additionally, the Ministry of Commerce also has authority over the listing of new shares. A proposal for the establishment of a separate Securities Exchange Commission is under review so that the SEC would have regulatory authority over the securities market, while the SET would have operational responsibility for the stock exchange.

(4) Automated Trading System

37. With the exception of India, Indonesia, and the Philippines, stock exchanges in the ESCAP countries have been modernizing their trading operational facilities. (See the summary table below.) Automation of securities markets would bring both benefits and costs. An automated trading system enhances market efficiency through timely dissemination of financial information; strengthens international competitiveness through better operating efficiency; improves market surveillance by alerting the organized exchanges and regulatory bodies of any unusual movements in securities prices; and increases trading volume through computerized order-routing, matching, price determination, and clearing and settlement. Unfortunately, with enhanced trading volume and operating efficiency, the magnitude of systemic risks also increases. Market volatility also increases substantially. To contain the systemic risks at a manageable level, the regulatory bodies must pay attention to many policy issues, including: (a) capital adequacy of securities companies; (b) circuit breaker systems; (c) margin regulations; and (d) block trading.

Country	Trading System
Hong Kong	A new system under review
Korea	SMATS (Stock Market Automated Trading System)
Malaysia	SCORE (System on Computerized Order Routing and Execution)
Singapore	CLOB (Central Limit Order Book)
Taiwan	CATS (Computer-Assisted Trading System)
Thailand	ASSET (Automated System Stock Exchange of Thailand)

38. The SEHK is currently considering the adoption of a completely automated trading system which will provide all the necessary features for automated matching, trade execution, and dissemination of company information to brokers and investors. The proposed system will be implemented along with a new centralized clearing system which is expected to be operational toward the end of 1991. The KSE introduced its automated trading system, SMATS, in March

1988. By the end of June 1990, the capacity of SMATS had been expanded to handle 94 per cent of the total trading volume. The new system now handles more than 250,000 quotations daily, but the planned augmentation will enable the system to handle as many as 1.2 million quotations per day by the end of 1994. KLSE's new system, SCORE, installed in November 1989, is a semi-automated trading system because orders are routed to KLSE's matching room to be manually matched by KLSE staff. The SES introduced a new trading system, CLOB, in July 1988. This new system was initially introduced for SESDAQ transactions and cash transactions on the main board. Beginning in March 1989, this was extended to regular transactions of the main board securities. As a result, about 95 per cent of total transactions on the SES market were handled by CLOB. After all Malaysian companies on the SES were delisted, SES established an over-the-counter market known as CLOB International for trading in shares of the Malaysian companies, 12 Hong Kong companies, and one Philippine company. Trading on CLOB International is done through the existing CLOB system in operation. The TSE adopted its computer trading system, CATS, in August 1985 on an experimental basis. Beginning in September 1988, all the listed stocks were traded through CATS. CATS is semi-automated in the sense that the matching of buy and sell quotes is executed by the matching staff in the TSE matching room, while data transmission, data summaries, and file updates are performed by CATS. According to a seven-year computerization plan, TSE expects to connect 3,900 trading terminals, with a trading capacity of 2.3 million trades and a trading value of US$16.05 billion per day. Compare this increased capacity with the largest number of daily stock trades recorded in 1989 which was approximately a half- million with a trading value of US$7.34 billion. SET is in the process of introducing the automated trading system, ASSET, with a target completion of 1991.

39. India, Indonesia, and the Philippines rely on an open outcry system for the trading of securities. They are the only countries in the ESCAP region with traditional trading floors for the foreseeable future. It is not quite clear whether a completely automated trading system will be beneficial for these countries considering the magnitude of trading volume and the limited financial resources available for exchange member companies. In India, the trading volume of three stock exchanges in Bombay, Calcutta, and Delhi may justify the automation of the trading system, but the real benefits are questionable in other smaller stock exchanges. In all three

countries, there are many issues to be resolved before introducing an automated trading system. Some issues are related to: (a) improvement of the financial and operational strength of securities companies; (b) improvement in regulatory processes; (c) introduction of a wider range of financial products; (d) problems associated with thin trading; and (e) improved primary market activities.

(5) Market Structures

40. Market structures in general have two distinct systems: auction or order-driven systems versus dealer or quote-driven systems. Auction or order-driven markets emphasize an accurate assessment of supply and demand by requiring all orders to interact. Trading is done by brokers who simply accept purchase and sell orders from investors and let the price of a security be determined by demand for and supply of that security in the marketplace. In contrast, dealer or quote-driven markets emphasize market liquidity by increasing market continuity and price stabilization. Market continuity is achieved by minimizing the time it takes for investors to trade, while price stabilization is obtained by minimizing the deviations of the market price from the intrinsic value. Market continuity and price stabilization represent major functions of dealers or market makers.

41. Market making practices vary among organized exchanges. It appears that advanced markets such as the New York Stock Exchange, London Stock Exchange, and the U.S. NASDAQ/OTC market basically adopted dealer or quote-driven systems although the responsibilities of market makers are not the same. For example, specialists in the New York Stock Exchange play three roles: broker, dealer, and auctioneer. A specialist acts as a broker when other members leave limit orders that he records in his book and executes when the market price reaches the limit price. He acts as a dealer when he trades against the market, buys [sells] when the public is a net seller [buyer], using his own capital. He acts as an auctioneer when he sets a fair opening price which clears all accumulated market orders. Market makers at the London Stock Exchange and NASDAQ/OTC market must make continuous markets but have no obligation to stabilize prices. The Toronto Stock Exchange in Canada maintains both features of auction and dealer markets. The Tokyo Stock Exchange's saitori members are not allowed to trade any listed stocks on their own account. They cannot accept orders from the investing public. Thus, the Tokyo Stock Exchange market is a pure order-driven market without any help

from market makers. Since the obligations of exchange members vary, the distinction between auction and dealer markets tends to be less meaningful. The Tokyo Stock Exchange members act merely as brokers matching buyers and sellers, while the New York Stock Exchange, London Stock Exchange, and NASDAQ/OTC market have market makers acting as both brokers and dealers.

42. All stock exchanges in the selected ESCAP countries under study have adopted an auction or order-driven market system. Several reasons may explain this consistent pattern. First, the role of institutional investors is insignificant, while the advanced markets are dominated by institutional investors. Second, auction markets tend to have lower trading costs than dealer markets. Third, historically, there has been a deeply rooted distrust of "deal-making" in any Asian society. Fourth, regulatory considerations are less complicated. As the trading volume increases and the role of institutional investors becomes more prominent in the Asian and Pacific region, the need for market makers may arise. The feasibility of introducing market makers has been under review in India, for example, to improve market liquidity. However, the adoption of a dealer market would be premature unless the securities industry infrastructure was in place and the trading volume had reached a level sufficient to avoid any problems associated with the market "thinness."

43. It is interesting to note that the dealer system was adopted for over-the-counter markets in Korea and Taiwan. In Singapore, the SESDAQ initially adopted the dealer system, but it was quickly changed to an auction system.

44. The 1987 October market crash suggested that there is no perfect market structure in the presence of unprecedented selling pressure. All major securities markets in the world experienced significant disruptions in order flow and volatile price movements regardless of the type of market structure.

(6) Internationalization of Securities Markets

45. The internationalization of securities markets provides an alternative source of funds for industrial companies in the ESCAP region. Numerous policy measures have been adopted by government authorities to help local companies tap foreign sources of funding. They include: (a) establishment of investment companies for foreign investors; (b) direct foreign

borrowing; and (c) direct foreign participation in local securities markets. A four-stage plan for internationalization of Korea's capital market is a good example of the gradual opening of the region's securities markets. The Korean government has been following the following stages:

(a) Stage One:	To authorize international investment trusts and to prepare for the opening of the securities market;
(b) Stage Two:	To allow foreigners to invest in Korean securities on a direct but limited basis;
(c) Stage Three:	To gradually lift restrictions on foreign investment and to allow foreign offerings by domestic corporations; and
(d) Stage Four:	To allow domestic investors to invest in foreign securities.

Although the above timetable has not been strictly followed, the Korean government has been moving along in this framework.

Investment Companies

46. Currently, foreign investors are not allowed to invest in Indian securities with the exception of non-resident Indians. Two investment companies have been launched abroad for foreign investors for their indirect access to the Indian market. Both of these investment companies have been launched by the UTI. The Indian Fund Unit Scheme was the first closed-end investment company listed on the London Stock Exchange. In August 1988, the UTI launched another mutual fund called the India Growth Fund in the U.S. market. Traditionally, India has been one of a few countries in the Asian and Pacific region which has maintained a closed-door policy, with the exception of a few government-directed measures. For example, only non-resident Indians, including persons of Indian origin, are permitted to buy common equities on the Indian stock exchanges within specified limits. The overall ceiling on total investment has been set at 5 per cent, and any single non-resident Indian is not permitted to hold more than one per cent of the equity of a company.

47. In October 1981, the Korean government approved the establishment of international investment trusts exclusively for foreign investors. Since that time, a total of US$595 million has been raised through 13 investment companies as summarized below:

Funds	Issuer	Amount (US$ million)	Beginning Date	Termination Date
KIT	KITC	25	1981	2001
SIT	KITC	30	1985	2005
KSCT	KITC	2	1985	1996
KET	KITC	50	1990	2010
KPT	KITC	100	1990	2010
KT	DITC	25	1981	-
ST	DITC	30	1985	2005
KECT	DITC	3	1986	1997
DKT	DITC	50	1990	2010
DAT	DITC	100	1990	2010
KGT	CIMTC	30	1985	2005
KNT	CIMTC	50	1990	2010
SAIT	CIMTC	100	1990	2010
Total		595		

Notes:
KITC = Korea Investment Trust Co.
DITC = Daehan Investment Trust Co.
CIMTC = Citizens Investment Management Trust Co.
KIT = Korea International Trust
SIT = Seoul International Trust
KSCT = Korea Small Company Trust
KET = Korea Equity Trust
KPT = Korea Pacific Trust
KT = Korea Trust
ST = Seoul Trust
KECT = Korea Emerging Companies Trust
DKT = Daehan Korea Trust
DAT = Daehan Asia Trust
KGT = Korea Growth Trust
KNT = Korea 1990 Trust
SAIT = Seoul Asia Index Trust

Three investment trust companies (KPT, DAT, and SAIT) invest both Korean and foreign securities in a matching scheme. Additionally, two closed-end investment companies, the Korea Fund and the Korea-Europe Fund, were launched in New York and London in 1984 and 1987, respectively. A total amount of US$260 million was raised. The investment policy of these two funds dictates that at least 80 per cent of their net assets be invested in the securities listed on the KSE. The balance of the net assets is normally invested in short-term debt securities of the Korean government and other Korean financial instruments.

48. A total of US$156 million was raised through the launching of four mutual funds of Taiwan securities in the overseas securities markets. The four mutual funds are:

Name	Amount Issued (US$ million)
Taiwan (ROC) Fund	81
Formosa Fund	25
Taipei Fund	25
Taiwan Trust Fund	25

Source: Taiwan Securities Exchange Commission

49. Due to the liberal policy toward foreign exchange control, a large number of both closed- and open-end investment companies have been investing in Malaysian securities since 1974. At the end of 1989, 44 investment companies held some Malaysian shares in their portfolios; the exact amount is unknown. In contrast with Korea and Taiwan, most of these funds have been launched by the private-sector initiative of the U.K., Japanese, Hong Kong, and U.S. fund managers.

50. The Mutual Fund Company (MFC) was established as a joint venture of Thai government institutions, including Industrial Finance Corporation of Thailand (IFCT), Government Savings Bank, and the International Finance Corporation of the World Bank. Its objective is to encourage broad public participation in the Thai securities market through mutual funds. In addition to managing domestic mutual funds, the MFC has been actively promoting foreign investment funds for foreign investors. Since 1986, the MFC raised a total of US$500 million using six onshore foreign investment funds, including the Thailand Fund (US$30 million), the Thai Fund (US$115 million), the Thai Euro Fund (US$75 million), the Thai Growth Fund (US$50 million), the Thai Prime Fund (US$155 million), and the Thai International Fund (US$75 million). The initial success of these onshore funds stimulated the launching of three offshore funds in the combined amount of US$167 million. They include the Bangkok Fund (US$42 million), the Thai Investment Fund (US$30 million), and the Siam Fund (US$95 million).

Direct Foreign Borrowing

1. In the ESCAP region, direct foreign borrowing was limited to government-owned corporations or development finance institutes to allocate resources to priority sectors of the economy. As the economy matured, the government relaxed this policy of dictated credit allocation and allowed manufacturing companies in the private sector to borrow directly from overseas. A good example is found in Korea. Since 1986, the Korean government allowed 10 local companies to issue convertible bonds in the amount of US$320 million. Because of the conversion feature, the issuers were able to pay relatively low interest rates on these bond issues. More recently, a total of US$120 million was raised by the issue of bonds with warrants, and the first depositary receipts in the amount of US$40 million of a local manufacturing company were placed on the Euromarket.

52. It is expected that the same kind of arrangements as in Korea will be seen on a growing scale in Indonesia, Thailand, Taiwan, and, in the near future, in India.

Foreign Investment in the Region's Securities Markets

53. Foreign investors were allowed to own shares in listed Indonesian companies as a result of deregulation measures approved by the government in December 1987. A maximum of 49 per cent of the share capital can be held by foreigners. Beginning in 1990, Taiwan permitted foreign institutional investors, including banks, insurance companies, and fund management firms, to directly invest in the TSE-listed securities, within the preliminary maximum limit of US$2.5 billion. The Korean securities market is expected to be opened for foreign investors in 1992. In preparation for this new development, foreign securities companies have been allowed to set up either branches or joint-ventures since the beginning of 1991. Foreign branches are allowed to operate three main areas of the securities business, dealing, broking, and underwriting, depending upon the magnitude of their capital bases. SET established an alien board in September 1987 to facilitate trading securities by foreigners for the issues which had reached the maximum statutory or voluntary limit of foreign ownership. Foreign investment in Thailand amounted to B 97.28 billion (US$3.87 billion) or 15 per cent of total market capitalization in 1989. The introduction of American depositary receipts and international depositary receipts is under review in Thailand. In October 1990, the SES created

a new category of international membership to allow foreign securities firms to engage in brokerage business for both resident and non-resident investors. Transactions for resident investors are restricted to not less than S$5 million (US$2.63 million). SES signed a custodial agreement with the Japan Securities Clearing Corporation to facilitate book-entry settlement for trading in Japanese securities. The Manila Stock Exchange introduced two classes of shares, Class A and Class B. Foreign investors are allowed to buy and sell Class B shares but not Class A shares.

54. In Taiwan, revision of the Securities and Exchange Law is underway to allow local securities companies to act as agents to buy and sell foreign securities, to establish overseas branches, or to become members on foreign stock exchanges. To expand the outbound investment channels for residents, four securities investment trust companies are allowed to raise local capital (US$40 million each) for the purpose of investing in foreign securities. With the deregulation of foreign exchange control, residents of Taiwan have been allowed since July 1987 to remit abroad up to US$5 million or its equivalent in other foreign currencies for the purpose of investment. The Korean government also relaxed foreign exchange controls to allow Korean institutional investors to hold foreign currency denominated securities. Each company is allowed to invest up to US$30 million. Four mutual funds of foreign securities were introduced to Taiwan securities market for local investors since 1988. The combined total of funds amounted to US$280 million.

(7) Unit Investment Companies and Managed Investment Companies

55. There are two types of investment companies: (a) unit investment trusts holding a fixed portfolio of assets; and (b) managed investment companies holding portfolios which are reallocated from time to time. Investment companies are further classified into open-end investment companies (or mutual funds) and closed-end investment companies depending upon redeemability. Unlike mutual fund shares, shares issued by closed-end investment companies are not redeemable and can be liquidated only through sale in the secondary market. Both mutual fund shares and securities issued by unit investment trusts are redeemable, and they are always worth the current market value of underlying net assets. All three forms of investment companies are available in the selected ESCAP countries. They have a strong influence on the securities markets in Hong Kong, India, Korea, Malaysia, and Singapore, and Thailand.

56. As of December 1989, there were more than 700 trusts authorized by the SFC, but only about 300 funds had been actively marketed. In the Asian and Pacific region, Hong Kong is ranked second after Japan in terms of number of funds, the number of investment mangers, and the size of the funds. Most of the funds traded in Hong Kong are for purely investment purposes rather than channelling funds into manufacturing and production activities.

57. The UTI, P. T. Danareksa of Indonesia, and the MFC of Thailand were authorized to act as financial institutions monopolizing investment company business. The UTI has been mobilizing a significant amount of resources in the local securities market and channelling foreign investment funds into the Indian capital market. The UTI is a joint venture by IDBI, the State Bank of India (SBI), and other financial institutions. The UTI had US$2.70 billion in assets in 1989, of which about one-third was in equity shares. Unlike the operation of UTI and MFC of Thailand, P.T. Danareksa's performance has not been very successful. Three reasons may be cited. First, Danareksa has maintained a policy of paying a guaranteed dividend of 18 per cent per year to investors. Second, the Indonesian securities market does not provide the kind of depth and breadth that justify a substantial investment company business. Third, the general public does not have confidence in the local securities market. In all three countries, it is just a matter of time before private mutual fund business will be allowed. In fact, there is no reason why the mutual fund business should be monopolized by government-supported institutions. With the introduction of private initiative in mutual fund business, the governments of the three countries should redirect the existing organizations to specialize in unlisted companies, OTC stocks, or small-size companies for their portfolio investment.

58. The KITC, the first management company specializing in the business of investment trust, was established in 1974. At present, there are 14 management companies, of which eight specialize in equity investment trusts with the remaining six are allowed to manage bond funds. At the end of 1990, investment trust companies held US$6.88 billion worth of equities and US$18.17 billion worth of bonds. These figures accounted for 6.27 and 21.9 per cent of the market capitalization of equities and bonds, respectively.

59. The Malaysian government established the National Equity Corporation with total assets of M$8 billion (US$2.96) and the National Unit Trust Corporation with total assets of M$4 billion (US$1.48) to enhance the economic welfare of the Bumiputera. The two institutions

receive priority placement of newly issued shares at discounted prices for the Bumiputera. A relatively high yield on investment can be achieved easily through the privilege of discounted purchases of new issues, so there is no incentive for sound portfolio management. The two institutions tend to hold shares on a long-term basis, contributing to the "thinness" of the KLSE market. (The combined assets account for approximately 11 per cent of the total market capitalization of the KLSE.) Because of market thinness, there may be large fluctuations in stock prices. Private-sector unit investment trusts have existed since 1959 in Malaysia, but they have performed poorly. Unlike the government-owned unit investment trusts, private trusts face complicated procedures in the creation of unit trusts, high management fees, numerous restrictions on portfolios, and a limited sales network.

60. Four investment management companies have been active in Taiwan in mutual fund as well as closed-end investment company business. They are: (a) International Securities Investment Trust Company; (b) Kwang-Hua Securities Investment Trust Company; (c) National Securities Investment Trust Company; and (d) China Securities Investment Trust Company. The four companies established four mutual funds and four closed-end investment companies and raised a total of NT$26.5 billion (or US$1.01 billion).

61. The MFC was instrumental in attracting a large amount of foreign capital into Thailand through offshore (US$192 million) and onshore investment funds (US$220 million). Its total assets amounted to US$4.62 million. It has 12 funds with US$621.53 million in assets under management and also manages 85 provident funds with combined assets of US$16.62 million.

(8) Issues and Problems Facing Securities Markets in ESCAP Countries

62. The lack of depth and breadth in the long-term debt market is a continuing concern in utilizing the Hong Kong securities market as a vehicle for industrial financing. At present, market capitalization of debt securities accounts for less than one per cent of the SEHK's total capitalization. The lack of pension funds, the absence of a tax incentive for investment in debt securities, and the government's budget surplus may explain the current status of the Hong Kong debt market. A wide range of reforms is warranted to promote long-term debt securities in Hong Kong. Although the debt market for short-term commercial paper and

certificates of deposit has been developing in recent years, individual investors have been effectively denied access because of the minimum denomination requirement of HK$500,000.

63. There are a number of ordinances in Hong Kong that contain provisions relating to the protection of investors. They include the Companies Ordinance, the Protection of Investors Ordinance, the Securities Ordinance, the Securities (Disclosure of Interests) Ordinance, and the Securities and Futures Commission Ordinance. The Hong Kong market is not underregulated by any international standards. Despite all of these regulatory ordinances, however, many instances of insider trading and improper trading practices occur, damaging the reputation of the Hong Kong market and investor confidence. The question of insider trading is somewhat moot in Hong Kong because of family-controlled management. As a result, market surveillance of insider trading has not been strictly enforced. Additionally, the amount of financial information disclosed by the listed companies is not sufficient to protect investors.

64. There are two categories of membership at the SEHK: individual and corporate. At the end of June 1990, the SEHK had 702 members, of which only 141 were corporate members. Immediately after the 1987 market crash, there were 738 members with 83 corporate members and 655 individual members. Three weaknesses of the SEHK memberships may be cited. First, the number of SEHK members was too large relative to the size of the market, resulting in fierce competition and undesirable trade practices. Second, the rules regarding admission of members were inadequate. Third, the net capital and liquidity requirements were inappropriate since they were inflexible and did not reflect the risk exposure of individual members.

65. India has 19 organized stock exchanges which operate independently and differ from each other in their organization and trading rules. The five major stock exchanges are at Bombay, Delhi, Calcutta, Ahmedabad, and Madras. As of December 1989, there were 2,407 listed companies on the Bombay Stock Exchange, 2,268 listed companies on the Calcutta Stock Exchange, 2,044 listed companies on the Delhi Stock Exchange, 723 listed companies on Ahmedabad Stock Exchange, and 586 listed companies on Madras Stock Exchange. The Bombay Stock Exchange is the largest in India, accounting for 54 per cent of total trading volume. The five stock exchanges jointly represent over 95 per cent of total trading volume. Although the existence of smaller stock exchanges may be justified by the lack of nationwide

communication facilities and the lack of securities companies with a nationwide sales network, it is not clear whether the benefits of serving rural investors exceed the costs associated with maintaining the 19 organized stock exchanges. The existence of many small stock exchanges results in a smaller supply of and demand for securities, causing thin trading and potential price manipulations at some exchanges. The inadequate communication systems linking stock exchanges and different sets of trading rules further aggravate the situation. Additionally, the lack of liquidity and price continuity are serious problems facing the Indian securities market. In an effort to correct these problems, the SEBI recommended that the introduction of market makers or specialists be considered. Unless the inadequate capital bases of brokerage companies are strengthened, it will be an impossible task to introduce a dealer (or quote-driven) market system.

66. Like any developing country, India's securities market must address the question of how to improve quality control over listed companies and securities and how to protect investors. The creation of Indian capital market databases is an important undertaking which will facilitate the widespread dissemination of financial and investment-related information to potential investors. The recent establishment of CRISIL is a positive development in quality control over securities introduced in the market. However, companies are not obligated to obtain a credit rating for issuing debentures. At this time, it is not clear whether CRISIL's function will expand to include the rating of equity shares as carried out by Moody's Investors Service or Standard & Poor's in the United States. In fact, it would be desirable to rate listed stocks to provide a screening device for investors. Additionally, the CCI's pricing formula must be improved to reflect credit market conditions and the credibility of issuing firms.

67. Although a few corporate members have been recently admitted to some stock exchanges, most stock exchange members in India are individuals with limited capital bases. Substantial investments are required to increase the efficiency of securities transactions and minimize the credit risk associated with settlement. Thus, more corporate members must be admitted as stock exchange members.

68. The development of the Indonesian securities market has been constrained by a number of factors. First, governmental economic development policy relied on the banking sector until a series of reform measures was introduced to utilize the securities market. For

example, under this policy industrial companies used short-term loans from commercial banks as their means of financing in the 1970s and 1960s. Thus, investments in short-term savings in the banking sector had preferential tax treatment and high interest rates. Second, no systematic incentive has been provided to the corporate sector to encourage the supply of various forms of securities. Third, the issuance and listing of shares is complicated and delayed by BAPEPAM's bureaucratic approach. The valuation formula employed by BAPEPAM does not reflect the long-term earnings potential of the issuing company and tends to underprice new issues. Fourth, the family control tradition hampers companies from going public. Fifth, another major factor contributing to the sluggish market is the general lack of financial information about listed companies available to investors. Sixth, BAPEPAM's dual role as a regulatory agency and operating unit of the stock exchange has created conflicts of interest and has led to inefficiency. The two functions should have been separated. Seventh, the privileged position of P. T. Danareksa in the primary and secondary markets served as an impediment to normal market development. It owns more than 50 per cent of all shares listed on the JSE and offers investors a guaranteed minimum rate of return and a guaranteed repurchase at face value on its certificates. As a result, the general public has very little incentive to trade its certificates or to trade directly in the securities market.

69. Recognizing the institutional and operational weaknesses of the securities market, numerous reform measures have been adopted by the Indonesian government since December 1987. In an effort to increase the supply of corporate securities, the deregulation policy eased the issue requirements and simplified the issuance process. Foreign investors were allowed to own shares of listed companies up to the maximum limit of 49 per cent of the share capital. The parallel (or over-the-counter) market was established to allow smaller and less profitable companies to trade their shares. Preferential tax treatment provided to short-term investments (including time deposits, certificates of deposits, and savings deposits) was eliminated by the introduction of a 15 per cent withholding tax. Additionally, the legal lending limit (a maximum of 20 per cent of the bank's own equity) was implemented to make the securities market a viable alternative source of funding. A new stock exchange was established in Surabaya. The Surabaya stock exchange is privately operated even though its operation is subject to supervision by BAPEPAM.

70. The Indonesian securities market suffers from a lack of reliable databases for listed companies and market statistics. Compared with high-quality statistical information available from the Bank Indonesia, publications from BAPEPAM do not meet any meaningful standard.

71. The over-the-counter (OTC) market for unlisted stocks was established in April 1987 in Korea to provide a market through which small- and medium-size companies, as well as venture businesses not eligible for listing on the KSE, could gain access to the securities market. OTC companies must be registered with the Korea Securities Dealers Association under the sponsorship of at least two brokerage firms. Unlike the KSE market which adopted an auction (or order-driven) system, the OTC market relies on a dealer (or quote-driven) system for market making. The OTC market is small but rapidly growing. A total of 47 companies were registered on the OTC market with an annual trading volume of US$18.23 million. The success of the Korean OTC market has important implications for industrial financing. India and Indonesia followed Korea's example in setting up their OTC markets, but their operations suffer from common problems such as the lack of investor confidence, an inadequate securities industry infrastructure, and insufficient quality control over registered companies.

72. The KSE market for corporate and government bonds has been expanding rapidly. At the end of 1989, a total of 3,622 corporate bond issues were outstanding with a market value of US$23.45 billion. In addition, 2,072 issues of government and municipal bonds were outstanding with a market value of US$41.32 billion. The size of the bond market was slightly less than one-half of the common equity market in Korea in 1989 in terms of market capitalization. Although the Korean bond market has been successfully developed, it faces an uneasy problem of regulated structure of interest rates. The Korean government utilizes the bond market to curb inflationary pressure by an excessive issuance of monetary stabilization bonds. The effectiveness is somewhat doubtful. The demand for monetary stabilization bonds is not very strong and a compulsory allotment scheme is adopted as a result. If these issues reflect credit market conditions, they may be used as an effective policy tool to curb inflation and to control market liquidity. In reality, this is not the case.

73. In the 1980s, the Korean government effectively utilized investment trust companies in the development of the securities market. At present, 14 management companies,

including newly established regional firms, are in operation. Eight management companies specialize in equity investment trusts, while the remaining six merchant banking corporations are limited to the management of bond funds. In 1989, investment trust companies held US$8.78 billion worth of equities and US$18.17 billion worth of bonds. These figures accounted for 6.25 per cent and 28.4 per cent of the market value of equities and bonds, respectively. The Korean government employed an indirect method of market intervention by setting up stock market stabilization funds with contributions from investment trust companies, securities companies, insurance companies, banks, and institutional investors. The main purpose of these funds was to slow the rapid decline in stock prices. The Korean stock market stabilization fund was established in May 1990 with a contributed fund of W 4 trillion (US$5.92 billion) or approximately four per cent of Korea's total market capitalization. The problem with the stock market stabilization fund is that: (a) the effectiveness of this type of stabilization operation is unproven; and (b) it is a carefully planned government effort rather than a private-sector initiative.

74. Perhaps the most critical factor serving as an impediment to the further development of the Korean securities market is the overprotective, patronizing attitude of the Ministry of Finance. The Korean securities industry is sufficiently advanced to handle most issues under its own initiative.

75. Malaysia has enjoyed a favorable economic environment characterized by a high rate of economic growth and low interest rates since 1987. Capital market development is one of the important goals in Malaysia's fifth five-year economic development plan. An important change in government fiscal policy is the reduction of borrowing from foreign markets and a shift in capital raising to domestic sources. Although the impact of this policy has yet to be assessed carefully, it appears that the newly issued government securities and public bonds have contributed very little to the stimulation of securities market activities. The reasons are: (a) most government securities have been absorbed by financial institutions, including the Employee Provident Fund, that are legally required to do so; (b) the coupon rates of these issues are kept at a low level without reflecting current credit market conditions; and (c) the minimum denomination is too large (currently M$10 million) for individual investors. The market for corporate bonds has been gradually expanding since 1987, but the issue of further development

of the fixed income securities market must be addressed as part of the promotion of industrial financing through the securities market.

76. Corporatization of the brokerage industry was introduced in 1987 to improve the financial strength of individual and corporate KLSE members. With the encouragement of the Ministry of Finance and the KLSE, member companies initiated various restructuring options, such as merging with other member companies, going public on the KLSE's main board, and inviting equity participation of eligible corporations, either local or foreign. Major domestic banks and large investment institutions are allowed to participate in this corporatization campaign. As of June 1990, the KLSE has 53 member companies, of which only 46 are active members, and 136 individual members.

77. Malaysia's New Economic Policy emphasized the socio-economic development of Bumiputera, which comprised 60 per cent of the population in 1970. This policy is often referred to as the Bumiputera Policy. One important goal of this policy was to raise the capital ratio of Bumiputera from 2.40 per cent in 1978 to 30 per cent in 1990. Various measures were undertaken to ensure favorable treatment of the Bumiputera in the Malaysian securities market. For example, at least 30 per cent of newly issued shares must be allocated to the Bumiputera. If an issuer fails to meet this requirement, then the unallocated portion of the allotment must go to Permodalan Nasional Berhad (National Equity Corporation), the funds of federal and state governments, or companies owned by Bumiputera. The Bumiputera Stock Exchange was established in 1969 as a means of encouraging capital participation by Bumiputera. Listing on this stock exchange is limited to Bumiputera companies, of which there are only eight. It is expected that the eight companies will be listed on the KLSE's second board after the Bumiputera Stock Exchange is dissolved. While the economic standard of the Bumiputera improved significantly under the Bumiputera Policy, the participation of government corporations in the private sector in the 1970s as part of this policy brought about some economic inefficiencies and, thus, necessitated an increase in government financial expenditures. Furthermore, the measures taken at the end of the 1970s to increase the capital participation of the Bumiputera in companies to 30 per cent were implemented through the takeover of foreign firms, and thus discouraged direct investment from abroad in the early 1980s.

78. The Philippine securities market suffers from many of the weaknesses typical of developing countries. Cheaper alternative sources of financing are available for industrial companies in the banking sector under the regulated interest rate structure. Many companies are too small to qualify for listing on two stock exchanges, the Manila and Makati Stock Exchanges. Larger, family-owned companies, on the other hand, are reluctant to share management control with outsiders or to provide financial disclosure to the general public. Although there are many multinational corporations operating in the Philippines, they are not interested in participating in the development of the local capital market. A comprehensive policy package is needed to encourage private-sector corporations to list on the stock exchanges as was successfully undertaken in Korea in the 1970s and more recently in Indonesia. Privatization of government-owned corporations must be carried out aggressively as part of promoting the securities market.

79. An OTC market exists in the Philippines for unlisted but SEC-registered shares. This market is being used as a stepping stone for new companies prior to formal listing at the stock exchanges. Unfortunately, the OTC market is very thin and illiquid, and tends to be manipulated by participating dealers. Thus, it does not fulfill the main purpose of providing smaller and newer companies access to the capital market.

80. As of January 1, 1990, all Malaysian companies were delisted from the SES and all Singaporean companies from the KLSE. The SES established an OTC market known as CLOB (Central Limit Order Book) International for trading in shares of 133 Malaysian companies. The adverse impact of separating the KLSE and SES has been mitigated by the introduction of CLOB International so far. The SES has been able to take advantage of its better and more efficient trading system in creating an OTC market. However, it is not clear what will happen to Malaysian securities trading in the future since the KLSE has been improving its automated trading system and clearing and settlement systems. Currently, CLOB International trades 12 Hong Kong companies and one Philippine company in addition to 131 Malaysian companies. The SES is also responsible for the operation of SESDAQ (SES Dealing and Automatic Quotation System), an unlisted securities market created in 1987. The SESDAQ market is intended to enable small- and medium-sized domestic companies to raise capital for expansion. At the end of 1990, 13 companies, with total market capitalization of US$216

million, were traded at the SESDAQ market, but its trading activities are insignificant when compared with CLOB International. SESDAQ's total trading volume amounted to US$111 million, while CLOB International's trading volume reached US$19.9 billion. The SESDAQ system is linked to the NASDAQ system in the United States, enabling Singaporean and international investors to trade selected U.S. companies and American Depositary Receipts.

81. An OTC market was created in September 1982 to promote the trading of treasury bonds and corporate bonds. The Taipei Securities Dealers Association is in charge of the OTC market under the supervision of the SEC. At the end of 1989, a total of US$8.11 billion worth of treasury bonds, US$1.37 billion worth of corporate bonds, and US$9.56 million worth of debentures were registered for trading at the OTC market. Note that bonds are traded at the TSE market as well as the OTC market. Unlisted stocks of NITC were traded for the first time in December 1989.

82. There are several issues that need to be addressed for further development of the Taiwan securities industry: (a) development of new financial products; (b) promotion of a corporate debt market; (c) elimination of underground investment activities; (d) liberalization of the market as well as the securities industry; and (e) improvement of accounting standards and auditing quality. The introduction of stock index options and futures will provide local investors with a viable set of hedging devices in view of the extreme volatility of the cash market. At present, the types of securities available are limited to common equities, preferred shares, beneficial certificates issued by investment trust companies, and bonds. A long-term corporate bond market must be developed. For this purpose, the Taiwan government should allow interest rates to be completely determined by market forces. The government has been relying on laws and regulations to crack down on illegal underground investment activities. The ultimate solution, however, must be found in the liberalization of the financial system. Unfortunately, the government's inability to adapt to the economic reality, in large part, promoted this type of illegal activity. Too much control simply leads to a "regulation reflex." Accounting standards and auditing quality must be improved along with internationalization of the Taiwan securities industry.

83. The most pressing problem for the Thai securities market is the limited supply of viable securities. Privatization must be carried out for many government-owned corporations

whose combined assets are approximately twice as large as the market capitalization of the SET-listed securities. Currently, the Mutual Fund Company is the only organization which is licensed to manage mutual funds. Other financial institution must be allowed to do so, thereby promoting competition and increasing the supply of investible securities for local investors. The development of a corporate bond market is also an urgent need. Although 32 issues of debentures were listed at the SET market, their combined market value as well as trading value is less than one per cent of total market capitalization and total trading value.

III. FINANCIAL SYSTEMS AND ALLOCATION OF INDUSTRIAL INVESTMENT CAPITAL

A. Introduction

1. The non-securities markets in the ESCAP countries selected for this report are better organized than the securities markets because the governments of these countries relied heavily on financial intermediaries in non-securities markets to mobilize and allocate financial resources for their economic development. In recent years, however, policy changes are being made in each of the selected ESCAP countries to rely more heavily on securities markets to mobilize domestic resources.

2. The financial system in these countries in the ESCAP region generally consists of:

(a) the central bank;

(b) commercial banks;

(c) development finance institutions (DFIs) and specialized banks (SBs);

(d) savings institutions and national savings schemes; and

(e) non-bank financial institutions (NBFIs), including investment companies, merchant banks, insurance companies, employees' pension funds, leasing companies, and venture capital funds.

3. In addition to their traditional roles, central banks in the selected Asian and Pacific countries (with the exception of Hong Kong) play a substantial role in developing capital markets either by dictating credit allocation to priority sectors of the economy through DFIs, SBs, and NBFIs, or by serving as regulatory and supervisory bodies of many financial institutions and securities companies. Discriminatory interest rates have been extensively used by monetary authorities and central banks to mobilize savings and channel them into priority sectors for economic development. Excessive control over interest rates and directed credit policies, however, have caused substantial misallocation of resources and have been counterproductive for the development of capital markets. The central banks have relied on refinance facilities to encourage financial institutions to make medium- and long-term loans to selected sectors of the economy according to the economic development plan. The Reserve Bank of India (RBI), the Bank of the Philippines (BOP), the Bank Negara Malaysia (BNM), and the

Bank Indonesia (BI) have utilized these facilities extensively by offering subsidized interest rates to DFIs, SBs, and government-owned banks. Unfortunately, direct credit allocation tends to undermine the autonomy and efficiency of many financial institutions.

B. Commercial Banks

4. The financial and monetary system of Hong Kong is unique in that there is no central bank. The traditional functions of a central bank are performed either by two commercial banks, the Hong Kong and Shanghai Bank and the Standard Chartered Bank, or by the Monetary Affairs Branch (MAB) of the Government Secretariat. The two banks serve as note-issuing banks, while the MAB is responsible for managing foreign exchange reserves, open market operations, administering government securities market, and supervision of financial institutions. The Hong Kong government utilizes the Exchange Fund to maintain the linkage between the Hong Kong dollar and the U.S. dollar. Under this linked exchange rate system, market interest rates in Hong Kong move in parallel with the U.S. interest rates. The Hong Kong Association of Bankers has a statutory obligation to consult the government in determining interest rates applicable to Hong Kong dollar deposits with licensed banks.

5. Various forms of financial institutions exist in Hong Kong. They include: (a) banking institutions; (b) insurance companies; (c) unit trusts and mutual funds; and (d) brokerage houses. The banking structure in Hong Kong is built upon a three-tiered system composed of: (i) 165 licensed banks; (ii) 36 restricted licensed banks; and (iii) 202 deposit-taking companies. Licensed banks provide normal banking services. They accept deposits of any maturity and size; grant loans and advances; discount trade bills and bankers acceptances; deal in gold, foreign exchange, and other securities; and provide business consultative services. Restricted licensed banks are investment banks or merchant banks. They take deposits of large denominations, underwrite securities, deal in foreign exchange and other securities, and provide financial advisory services in the issuance of securities and mergers and acquisitions. Deposit-taking companies are finance companies. Their services include taking deposits, granting loans to medium- to small-size businesses, factoring, and leasing. The minimum capital requirements are HK$150 million for licensed banks, HK$100 million for restricted licensed banks, and HK$25 million for deposit-taking companies. No restrictions are imposed on the size of deposits

licensed banks can take, but the minimum deposit for an account is HK$0.50 million for restricted licensed banks and HK$0.10 million for deposit-taking companies. Licensed banks observe the interest rate rule of the Hong Kong Association of Bankers, while restricted licensed banks and deposit-taking companies do not have to.

6. The structure of liabilities of the Hong Kong banking sector as of 1989 is summarized below. The second column reports consolidated figures for licensed banks. The third column reports figures for both restricted licensed banks and deposit-taking companies.

Classification	Licensed Banks Amount (HK$ million)	Licensed Banks Per Cent	Deposit-Taking Cos. Amount (HK$ million)	Deposit-Taking Cos. Per Cent
Assets	3,874,346	100.00	373,118	100.00
Cash	5,467	0.14	12	0.00
Due from Other Banks in Hong Kong	446,508	11.52	76,459	20.49
Due from Banks Abroad	1,979,330	51.09	98,630	26.43
NCDs Held	17,641	0.46	10,140	2.72
Loan and Advances	1,173,005	30.28	98,894	26.50
Bank Acceptances	23,245	0.60	820	0.22
Floating-Rate Notes and Commercial Paper	54,679	1.41	38,379	10.29
Treasury Bills and Securities	71,763	1.85	20,213	5.42
Other Assets	102,708	2.65	29,571	7.93
Liabilities	3,874,346	100.00	373,118	100.00
Due to Other Banks in Hong Kong	410,255	10.59	112,115	30.05
Due to Banks Abroad	2,341,970	60.45	86,408	23.16
Customers' Deposits	937,654	24.20	70,004	18.76
NCDs Outstanding	31,019	0.80	2,878	0.77
Other Liabilities	153,448	3.96	101,713	27.26

Note: NCD = negotiable certificate of deposit
Source: Hong Kong Government Secretariat

The size of the combined assets of restricted licensed banks and deposit-taking companies is about one-tenth of licensed banks. Note that the item with the greatest liability is "Due to Banks Abroad," which accounted for 60.45 per cent of total liabilities. This item represented only 40 per cent of total liabilities in 1980. This indicates that banks in Hong Kong increasingly rely on overseas funds. Customers' deposits are the next important item with 24.20 per cent, followed by "Due to Banks in Hong Kong" with 10.59 per cent. The most important item on the asset side is "Due from Banks Abroad," which accounted for 51.09 per cent of total assets. This item was only 27 per cent of total assets in 1980. Thus, an increasing international role of the banks in Hong Kong is evident from this asset item as well as "Due to Banks Abroad" on the liability side. Approximately one-half of the total assets are accounted for by these items. The second important item was "Loans and Advances," which includes various types of loans to business firms and individuals. The structure of assets and liabilities of restricted licensed banks and deposit-taking companies is different from that of licensed banks, reflecting the nature of the business as merchant banks and finance companies. Customer deposits represent a less important source of funds, and borrowing from banks abroad is not as significant for licensed banks. The relative importance of "Loans and Advances" declined from 42.31 per cent in 1980 to 26.50 per cent in 1989. During the same period, investments in liquid assets such as "Floating-Rate Notes and Commercial Paper" increased from 1.47 per cent to 10.29 per cent of total assets.

7. The total amount of "Loans and Advances" provided by the Hong Kong banking sector amounted to HK$1,271.90 billion (or US$162.81 billion). Of this amount, approximately one-half represented loans for use in Hong Kong; the remaining one-half were loans for use outside Hong Kong. Loans to the Hong Kong manufacturing sector were HK$46.27 billion or 7.03 per cent of the total amount of loans and advances for use in Hong Kong. A large portion of loans were used to finance real estate and property development as shown below:

Industry	Amount (HK$ million)	Per Cent
Finance Visible Trade	63,562	9.65
Manufacturing Sector	46,267	7.03
Wholesale and Retail	62,663	9.51
Building Construction & Property Development	96,299	14.62
Purchase Residential Property	110,098	16.72
Financial Concerns	85,158	12.93
Stock Brokers	3,460	0.53
Others	191,076	29.01
Total	658,583	100.00

Source: Hong Kong Government Secretariat

8. Reflecting the fact that Hong Kong is an international financial center, 81 per cent of total liabilities and 80 per cent of total assets of licensed banks were denominated in foreign currency. The fact that funds can be easily channelled in and out of Hong Kong is a mixed blessing because the Hong Kong banking sector is vulnerable to political, social, and economic changes in Hong Kong, China, and the United States. In general, the Hong Kong banking system is dominated by a few licensed banks such as the Hong Kong and Shanghai Banking Corporation, the Bank of China, and the Standard Chartered Bank, showing a classic example of an oligopolistic structure. With a few large financial institutions dominating banking business, small- and medium-size industrial companies tend to face difficulty in obtaining sufficient credit from the banking sector.

9. The Indian financial system may be characterized as a complicated, multi-layered structure. With the RBI at the top of the system, it is structured as shown below:

Commercial Banks

a. 273 Scheduled Commercial Banks

   i. 28 Public-Sector Scheduled Banks
   ii. 194 Regional Rural Banks
   iii. 51 Private-Sector Banks

b. 3 Non-Scheduled Commercial Banks

Specialized Banks

a. Export-Import Bank of India
b. National Bank for Agriculture and Rural Development

   i. State Cooperative Banks
   ii. State Land Development Banks

Development Finance Institutions

a. Industrial Development Bank of India (IDBI)
b. Industrial Finance Corporation of India (IFCI)
c. Industrial Reconstruction Bank of India (IRBI)
d. Industrial Credit and Investment Corporation of India (ICICI)
e. 18 State Financial Corporations (SFCs)
f. 26 State Industrial Development Corporations (SIDCs)

Non-Bank Financial Institutions

a. Investment Companies

i. Unit Trust of India
ii. Private Investment Companies

b. Insurance Companies

i. Life Insurance Corporation of India (LIC)
ii. General Insurance Corporation of India (GIC)

c. Other Insurance Companies

i. Export Credit Guarantee Corporation of India
ii. Deposit Insurance and Credit Guarantee Corporation

d. Finance Companies
e. Leasing Companies

Stock Exchanges

10. The RBI was established in 1935 as the central bank. Two DFIs, the IDBI and the National Bank for Agriculture and Rural Development (NABARD) (formerly the Agricultural and Rural Development Corporation), perform some functions which are complementary to the central banking functions by providing resource support to state-level development institutions. The operation of these two DFIs is closely coordinated by the RBI. For example, the IDBI is a wholly owned subsidiary of RBI, sharing a common board of directors, while one of the Deputy Governors of RBI serves as the Chairman of NABARD. Discriminatory interest rates and selective credit controls have been extensively used by the RBI to channel credit into priority sectors of the Indian economy. Typical credit policy instruments employed by the RBI include the cash reserve ratio, statutory liquidity ratio, and refinance support facility. Administered interest rates and directed credit policy, however, caused problems in the allocation of resources at the expense of the normal operation and development of the Indian capital market. Increasing government budget deficits add another dimension to the RBI monetary policy. The budget deficits are financed by the RBI through the purchase of Treasury bills and medium- and long-term government securities. Due to controlled interest rates, the government securities market

has not been fully developed in India. Hence, Treasury bills and government securities are absorbed by designated institutions such as banks, provident funds, insurance companies, etc., but the RBI continues to be the major holder of such securities issued by the Indian government. As a result, the relative importance of RBI's monetary policy is being shifted from credit control in the commercial sector to controlling the inflationary pressure caused by increasing government budget deficits. Assets of selected financial institutions are summarized as of 1988.

Institutions	Assets (US$ billion)	Per Cent
Scheduled and Non-Scheduled Commercial Banks	78.45	78.90
Specialized Banks	5.99	6.02
Development Finance Institutes	14.99	15.08
IDBI	8.41	8.46
ICICI	2.24	2.25
IFCI	1.80	1.81
SFCs	2.54	2.55
Total	99.43	100.00

Source: Asian Development Bank

11. There are 276 commercial banks in India, including 273 scheduled banks and 3 non-scheduled banks. Non-scheduled banks are small institutions that do not meet the statutory requirements of the RBI. Scheduled banks fall into three categories: (a) public-sector banks; (b) regional rural banks; and (c) private-sector banks, including foreign banks. Although the number of public- sector banks is not large, they represent the dominant force in the Indian commercial banking system. Their market shares in terms of deposits and loans outstanding exceed 90 per cent of the total reported by all scheduled banks. Because total assets of all scheduled banks account for approximately three-quarters of India's financial system, the relative importance of public-sector banks is obvious. Among the public-sector banks, the State Bank of India (SBI) is the largest. Over 90 per cent of SBI's capital is held by the RBI. There are seven associate banks of SBI that are part of regular commercial banks. The SBI owns all or most of the share capital of these seven banks. All scheduled banks keep deposits with RBI in

order to satisfy the 15 per cent cash reserve ratio, and hold large quantities of government and other approved securities to satisfy the 38 per cent statutory liquidity ratio requirement. Chronic budget deficits forced the Indian government to raise the cash reserve ratio and the statutory liquidity ratio, causing the cost of funds for commercial banks to rise over time. Commercial banks are also required to lend to priority sectors at low interest rates dictated by the government, and this adds to their higher cost and reduces the scheduled banks' profitability. Uses of funds in the banking sector fall into two major categories: (a) loans and advances (38 per cent); and (b) investment in central and state government securities (46 per cent).

12. The entire structure of interest rates in India is determined by the RBI in consultation with the Ministry of Finance. The structure of lending rates in India is very complex because there is a wide range of interest rates which reflect neither the credit market conditions nor the risk of instruments issued. Some public-sector bonds carry extremely high yields that cannot be justified. This implies that another sector of the economy is subsidizing the other, which is not conducive to development of a sound securities market. Traditionally, the monetary authority has enforced high interest rates on lending and borrowing activities, increasing the interest burden of the government, development finance institutions, and ultimately the manufacturing industry. Potential distortion and problems of misallocation of resources caused by the controlled structure of interest rates should not be underestimated. Tightly controlled regulation always brings forth corruption and undesirable business practices.

13. The BI, as the central bank, dominates the Indonesian financial system. Its legal entity is based on the Central Bank Act of 1968. It not only implements the monetary policy but also allocates credits to various priority sectors. The BI extends two types of credits: (a) credits to banks (known as liquidity credits); and (b) direct credits. Credits to banks represent BI's refinancing of the banks' loans to the borrowers when the loans meet the requirements of development objectives; direct credits are extended to some selected official entities and public enterprises to finance the implementation of government programs. Summarized below are BI's credits to banks and direct credits as of February 1989:

Classification	Amount (US$ million)	Per Cent
Credits to Banks	7,227.52	82.96
Estates	780.52	8.95
Fertilizer	221.78	2.55
Bimas	3.44	0.04
Mining	53.30	0.61
Export	1,961.60	22.52
Investment Credit	1,257.88	14.44
Food Stock	605.73	6.95
Others	2,343.27	26.90
Direct Credits	895.71	10.28
Agriculture	0	0.00
Mining	0	0.00
Manufacturing	0	0.00
Trade	0	0.00
Service	328.37	3.77
Others	567.34	6.51
Others (Manufacturing)	589.09	6.76
Total	8,712.32	100.00

Source: The Bank Indonesia

Indonesia's financial system consists of:

a. Deposit Money Banks

i. National Foreign Exchange Banks
ii. Foreign Banks and Joint Bank
iii. Private Commercial Banks
iv. Development Banks

b. Savings Institutions
c. Non-Bank Financial Institutions

i. Life Insurance Companies
ii. Investment Institutions
iii. Pension Funds
iv. Leasing Companies

14. Deposit money banks are essentially commercial banks which consist of national foreign exchange banks, branches of foreign banks and one joint bank, and other private commercial banks. Additionally, development banks such as the Bank Pembangunan Indonesia (BAPINDO), regional development banks, and one private development bank are also included, since these development banks also conduct commercial banking activities. A consolidated balance sheet of all deposit money banks is shown below as of October 1988. Loans to both the private sector and the public sector amounted to about three-quarters of total assets, whereas the major sources of funds are various types of short-term demand and time deposits (about two-thirds of total funds) plus borrowing from the central bank (about 16 per cent of total funds).

Classification	Amount (US$ million)	Per Cent
Assets	35,618.99	100.00
Reserves	2,051.01	5.76
Foreign Assets	5,117.58	14.37
Claims on		
Central Government	695.50	1.85
Official Entities & State Enterprises	3,762.32	10.56
Claims on Private Sector		
Loans	21,699.27	60.92
Other Claims	1,488.56	4.18
Others	840.75	2.36
Liabilities	35,618.99	100.00
Demand Deposits	4,147.62	11.64
Time and Savings Deposits	12,477.34	35.03
Foreign Currency Deposits	3,739.52	10.50
Foreign Liabilities	942.48	2.65
Government Deposits	1,258.20	3.53
Import Guarantee Deposits	348.46	0.98
Borrowing from Bank Indonesia	5,649.04	15.86
Capital Accounts	2,804.64	7.87
Other Liabilities	4,251.69	11.94

Source: The Bank Indonesia

Two potential problems exist for deposit money banks with respect to their funding. First, the BI plans to reduce the liquidity credits to commercial banks as the oil revenue declines, and this will cause greater difficulty in securing sources of funding. Second, deposit money banks face the problem of maturity mismatch because most of the loans tend to have a long- or medium-term maturity while most of funding sources are short-term. To solve the problem of maturity mismatch, commercial banks must be encouraged to issue long-term bonds to lengthen the maturity structure of the liability side.

National foreign exchange banks (consisting of five state banks and 10 private banks) dominate the Indonesian commercial banking sector. A total of 77.99 per cent of total assets of all deposit money banks were held by national foreign exchange banks; 5.43 per cent by 10 foreign banks, including one joint bank; 8.98 per cent by private commercial banks; and 7.61 per cent by development banks which included the BAPINDO, 26 local development banks, and one private development bank. Five state banks are assigned specialized fields of activities.

a.	Bank Rakyat Indonesia:	agriculture, fisheries, and rural development;
b.	Bank Ekspor Impor Indonesia:	foreign trade;
c.	Bank Negara Indonesia:	industrial sector;
d.	Bank Bumi Daya:	plantation and forestry;
e.	Bank Dagang Negara:	mining.

Additionally, the BAPINDO specializes in financing development projects. Compared with private commercial banks and financial institutions, the state banks enjoy an advantageous position: (a) they have a nationwide branch network; (b) they have easy access to the refinancing facilities of the central bank; (c) all state-owned enterprises have to keep their deposits with these banks; and (d) since the deregulation of interest rates in 1983, they have been allowed to offer competitive interest rates on deposits.

15. The role of commercial banks in industrial financing may be indicated by the total amount of credit outstanding by industry. Approximately one-third of total credits outstanding was used for financing manufacturing activities, and the relative contribution by commercial banks to the manufacturing industry did not change over time.

Industry	Year 1984	1987	1988
Agriculture	8.01%	8.08%	8.12%
Mining	5.27%	1.17%	0.90%
Manufacturing	34.03%	33.23%	33.72%
Trade	33.54%	35.57%	32.49%
Service	14.88%	12.73%	16.61%
Others	4.27%	9.22%	8.16%
Total	100.00%	100.00%	100.00%

Source: The Bank Indonesia

16. The Bank of Korea (BOK) was established in 1950 and serves as the bank of currency issue and as the main banker to the banking sector and the government. Under the Bank of Korea Act, the BOK is empowered to regulate interest rates on loans and deposits of banking institutions. It also has power to direct credit, to fix credit ceilings, and to establish guidelines on the efficient allocation of banking funds. The financial system is structured as follows:

a. Deposit Money Banks

   i. Commercial Banks
   ii. Specialized Banks

b. Other Financial Institutions

   i. Development Institutions
   ii. Investment Institutions
   iii. Savings Institutions
   iv. Insurance Institutions

17. There are 11 nationwide commercial banks, ten local banks (one for each of the Provinces of Korea), and 68 foreign bank branches. A consolidated balance sheet of all commercial banks as of 1989 suggests that the sources of funds are mainly from deposits, borrowing from the BOK, and acceptances and guarantees. The share of demand deposits in the total deposits was about 39 per cent, which indicates that, to their advantage, commercial banks

have access to a relatively inexpensive source of funds. Approximately 38 per cent of total assets were allocated to loans and discounts.

Classification	Amount (US$ billion)	Per Cent
Assets	134.29	100.00
Cash	17.90	13.33
Due from BOK, Banks, and NIF	7.64	5.69
Securities	9.86	7.34
Loans and Discount		
Banking Funds	50.93	37.93
Government Funds	0.65	0.48
Foreign Assets	5.86	4.36
Customers' Liabilities on Acceptances and Guarantees	23.82	17.74
Other Assets	17.63	13.13
Liabilities	118.91	88.55
Deposits	61.65	45.91
CDs	1.64	1.22
Borrowing from BOK	9.28	6.91
Other Borrowing	14.90	11.10
Foreign Liabilities	7.62	5.67
Acceptances & Guarantees	23.82	17.74
Net Worth	15.38	11.45

Source: The bank of Korea

18. The following table shows the relative size of each bank group. Note that 11 nationwide commercial banks dominate the banking sector.

Classification	Assets	Deposits	Loans & Discounts
National Banks	70.46%	77.95%	72.39%
Local Banks	15.70%	20.45%	15.61%
Foreign Banks	13.84%	1.60%	12.00%
Total	100.00%	100.00%	100.00%

Source: The Bank of Korea

The market share of local banks and foreign banks is slightly less than 30 per cent of the commercial banking business in Korea. Foreign banks rely on inter-office loans as the major source of funds because of relatively limited access to deposits.

19. Mobilization of domestic savings has long been an important part of the Korean government's economic strategy. The government exercises tight control over not only interest rates but also day-to-day management of financial institutions, particularly commercial banks even after the privatization plan was implemented. The policy of direct intervention in financial institutions is still evident in such matters as credit ceilings, personnel decisions, etc. This policy could discourage initiative and creativity as well as competition within the banking sector, and may lead to operational inefficiency.

20. The financial system in Malaysia was modeled after the British system. In addition to the usual central bank's tasks, the BNM is authorized to oversee the operation of the financial system, including: (a) variation in the reserve requirement; (b) adjustment in the liquidity ratio; (c) regulation of discounting; (d) administration of bank lending and borrowing rates; and (e) credit allocation. At the end of 1989, total assets of the financial system were distributed among various institutions as summarized below:

Classification	Amount (US$ billion)	Per Cent
Banking System	67.14	68.80
Monetary Institutions	51.90	53.20
Central Bank	11.80	12.10
Commercial Banks	40.10	41.09
Non-Monetary Institutions	15.24	15.60
Finance Companies	10.58	10.80
Merchant Banks	2.96	3.00
Discount Houses	1.70	1.80
Non-Bank Financial Intermediaries	30.44	31.20
Employees Provident Fund	16.87	17.30
Life and Other Insurance Funds	2.96	3.00
Development Finance Institutions	2.22	2.30
Savings Institutions	3.40	3.50
Other Financial Intermediaries	4.99	5.10
Total	97.58	100.00

Source: The Negara Malaysia

21. At the end of 1989, there were 22 domestic commercial banks and 16 foreign banks in Malaysia. Total assets of commercial banks amounted to US$108.4 billion or 41.10 per cent of total assets of the entire financial system. Total deposits were US$25.64 billion, while total loans were US$24.84 billion. Their operation is supervised by the BNM in the areas of capital adequacy requirements, statutory reserve requirements, and liquid asset requirements. The Malaysian commercial banks make large profits by taking advantage of the existing gap between lending and deposit rates. Thus, they have become inefficient and bureaucratic, lacking creative management. The BNM is aware of this problem and has been gradually narrowing the gap to normalize the operation of commercial banks. S mmarized below are sources and uses of funds of commercial banks at the end of 1989. The major source of funds is deposits which accounted for 55.76 per cent of total funds. Since 1979, commercial banks were allowed to issue negotiable certificates of deposit and bankers acceptances. Loans represented 56.74 per cent of total uses of funds.

Classification	Amount (US$ million)	Per Cent
Sources	39,608.26	100.00
Capital and Reserves	2,279.81	5.76
Deposits	22,084.12	55.76
Negotiable CDs	3,156.51	7.97
Due to Other Financial Institutions	1,567.71	3.96
Bankers Acceptances	652.17	1.65
Other	9,250.55	23.36
Due to Foreign Financial Institutions	617.39	1.56
Uses	39,608.26	100.00
Cash and Statutory Reserves	1,555.14	3.93
Money at Call	375.10	0.95
Due from Other Financial Institutions	4,329.52	10.93
Securities	3,954.06	9.98
Loans	22,474.38	56.74
Other	3,986.98	10.06
Due from Foreign Financial Institutions	2,933.08	7.41

Source: The Bank Negara Malaysia

22. Total credits extended to the manufacturing sector have been increasing rapidly. A total of US$5.20 billion was extended to the manufacturing sector or 20.94 per cent of the total credits outstanding in 1989.

Classification	Amount (US$ million)	Per Cent
Agriculture	1,339.84	5.39
Mining and Quarrying	324.05	1.30
Manufacturing	5,200.31	20.94
Electricity	72.87	0.29
Real Estate and Construction	4,913.99	19.78
General Commerce	3,901.16	15.71
Transport and Storage	468.32	1.89
Finance, Insurance, and Business Services	2,744.05	11.05
Individual Housing Loans	3,012.24	12.13
Others	2,860.22	11.51
Total	24,837.05	100.00

Source: The Bank Negara Malaysia

Lending guidelines announced in March 1988 required that the commercial banks comply with the guidelines on lending to the Bumiputera community, agricultural food production, and small-scale enterprises by March 31, 1989. As of the compliance date of March 31, 1989, loans to the Bumiputera community accounted for 33.2 per cent of the total loans outstanding as of December 31, 1987, in excess of the minimum requirement of 20 per cent. The Bank Negara Malaysia also reported that commercial banks met the target of MS$300 million for extending loans to small-scale enterprises. Additionally, the Credit Guarantee Corporation Malaysia Berhad (CGC) plays a role in promoting the growth and development of small-scale enterprises, which are defined as registered businesses with net assets of up to M$500,000. A new guarantee scheme known as the Principal Guarantee Scheme was introduced in April 1989 to assist small-scale enterprises with no collateral or inadequate collateral to obtain the required credit facilities from the commercial banks and to lessen the bank's risk in lending to this priority group. Under this new scheme, the CGC guarantees 70 per cent of the portion of credit facilities extended by the lending institutions that is not covered by the available collateral under the bank's normal lending practices. The total amount of guarantee approved in 1989 was M$78.5 million.

23. Like many developing countries in the ESCAP region, the Philippines has been relying on the banking system to mobilize savings. As a result, the banking system has been serving as a conduit of short-term lending rather than long-term investment. The financial system consists of banking institutions and non-bank financial intermediaries. Banking institutions include: (a) 30 commercial banks; (b) 143 private development banks; (c) 38 savings and loan associations; (d) 7 savings and mortgage banks; and (e) three specialized government banks. Non-banking financial institutions include: (a) investment houses; (b) finance companies; (c) securities dealers/brokers; (d) pawn shops; and (e) lending investors which are registered money lenders. Financial assets held by banking institutions represent approximately 90 per cent of the total; and the remaining 10 per cent are held by non-bank financial institutions. Commercial banks constitute the largest group in the financial system. Financial assets held by commercial banks represent approximately two-thirds of the total assets of the financial system. About an equal portion of deposits are also held by the commercial banks.

24. An expanded commercial banking (ECB) system known as universal banking was introduced in 1980 to encourage long-term financing by commercial banks. Commercial banks with an ECB license are authorized to extend long-term credits, underwrite securities, or make equity participation. At present, eight commercial banks and two government banks have received this status. Due to severe disruption in economic development, however, the ECB system's intended goal of fostering long-term investment activities has not been achieved. Most of the commercial banks are small in size and suffer from non-performing loans and low profitability. Only a few large institutions dominate the banking sector at the expense of fair competition. To strengthen the commercial banking sector, consolidation and merger would be one viable approach to resolve the current problem. Foreign capital participation should be considered and explored.

25. The Monetary Authority of Singapore (MAS) is authorized to serve as a central bank in Singapore except for the issuance and management of public debt and service as banker for the government. It exercises close control over the banking and financial system, including securities and insurance companies. Unlike many other countries under study, the MAS does not control interest rates paid on deposits or charged for loans. Financial institutions consist of: (a) commercial banks; (b) Development Bank of Singapore; (c) Post Office Savings Bank; (d)

finance companies; (e) merchant banks; (e) insurance companies; and (f) the Central Provident Fund.

26. There are 36 "full license banks," of which 13 are locally incorporated and 23 are foreign banks. These banks engage in normal banking activities. A total of 14 other foreign banks are licensed as "restricted banks." They engage in normal banking activities except for savings accounts and retail banking because they are not permitted to accept deposits of less than S$250,000. There are 76 "offshore" banks which engage in dealings in foreign exchange and offshore lending. Their local banking activities are severely limited because their minimum size of deposits or loans is S$30 million. A consolidated balance sheet of commercial banks at the end of 1989 is summarized below:

Classification	Amount (S$ million)	Per Cent
Assets	127,201.70	100.00
Cash and Balances with MAS	3,715.40	2.92
S$NCDs held	283.00	0.22
Due from Other Banks	57,238.30	45.00
Securities	10,818.30	8.50
Loans and Advances	50,785.90	39.93
Others	4,360.80	3.43
Liabilities	127,201.70	100.00
Paid-up Capital and Reserves	7,972.20	6.27
Deposits	53,351.10	41.94
S$NCDs issued	1,421.70	1.12
Due to Other Banks	57,475.20	45.18
Borrowing from Other Creditors	769.10	0.60
Bills Payable	607.60	0.48
Others	5,604.80	4.41

Source: The Monetary Authority of Singapore

Two major sources of funds are deposits and borrowing from other banks. Deposits amounted to S$53.35 billion or 42 per cent of total funds available to the commercial banks, whereas borrowing from other banks was S$57.48 billion or 45 per cent of total funds. Reflecting the international scope of banking activities, about 70 per cent of borrowing from other banks was comprised of Asian Currency Units and loans from non-Singaporean banks. Likewise on the asset side, the amount due from other banks was S$57.24 billion, of which 74 per cent was through Asian Currency Units or from non-Singaporean banks. Loans and advances accounted for about 40 per cent of the total assets of commercial banks.

27. Loans and advances extended to the manufacturing sector accounted for a modest 14.72 per cent of the total amount. Considering that the manufacturing sector's contribution to GDP was about 30 per cent, the manufacturing sector deserves additional financing from the commercial banks. Loans and advances by industry classification are summarized below:

Classification	**Per Cent**
Agriculture, Mining & Quarrying	0.16
Manufacturing	14.72
Building and Construction	12.75
Housing	8.85
General Commerce	24.53
Transport, Storage, and Communication	2.14
Non-Bank Financial Institutions	16.67
Professional and Individuals	13.83
Others	6.35
Total	100.00

Source: The Monetary Authority of Singapore

The types of loans and advances extended to non-bank customers in Singapore include: (a) overdrafts; (b) term loans; (c) bills discounting; and (d) trust receipts. This composition of loan portfolios held by commercial banks shows a gradual shift towards term loans. Term loans accounted for 26 per cent of total loans and advances extended to non-bank customers in 1980, but it increased to 53 per cent of the total in 1989. A substantial decline in overdrafts and bills discounting is observed, reflecting the slowdown in external trade.

Classification	Year 1980	1984	1989
Overdrafts	42.30%	43.80%	31.00%
Term Loans	26.00%	36.30%	52.80%
Bills Discounting	20.00%	11.20%	8.90%
Trust Receipts	11.70%	8.70%	7.30%
Total (S$ billion)	20.21	36.87	50.79

Source: The Monetary Authority of Singapore

28. Taiwan's financial system is characterized by a high degree of specialization and segmentation designed by the government-guided development policy. The role of the Central Bank of China (CBC) was defined by the Central Bank of China Act. The CBC performs traditional functions of the central bank, including: (a) monetary and credit policy; (a) management of foreign exchange; (c) issue of currency; (d) fiscal agent of the government; and (e) supervision of financial institutions.

29. Financial institutions include:

Deposit Money Banks

a. 16 Domestic Banks;
b. 35 Local Branches of Foreign Banks;
c. Eight Medium Business Banks;
d. 74 Units of Credit Co-Operatives Associations;
e. 285 Units of Credit Departments of Farmers' Associations;
f. 23 Units of Credit Departments of Fishermen's Associations;

Other Financial Institutions

g. Eight Investment and Trust Companies;
h. The Postal Savings System;
i. 15 Life Insurance Companies;
j. 19 Property and Casualty Insurance Companies;
k. Three Bills Finance Companies;
l. Fuh-Hwa Securities Company; and
n. 26 Offshore Banking Units.

The assets of each category of financial institutions, including the CBC, are summarized as of

December 1989. Total assets of deposit money banks amounted to US$252.9 billion or 63.49 per cent of the total assets, while other financial institutions held US$61.41 billion or 15.42 per cent. Total assets held by the CBC stood at US$84.02 billion, of which 94 per cent were foreign assets because of substantial foreign exchange reserves.

Classification	Total Assets (US$ billion)	Per Cent
The Central Bank of China	84.02	21.09
Deposit Money Banks	252.90	63.49
Domestic Banks	172.90	43.41
Foreign Banks	9.28	2.33
Medium Business Banks	22.27	5.59
Credit Co-Operative Associations	27.97	7.02
Farmers' and Fishermen's Associations	20.48	5.14
Other Financial Institutions	61.41	15.42
Investment and Trust Companies	10.26	2.58
Postal Savings System	36.37	9.13
Life Insurance Companies	11.05	2.77
Property and Casualty Companies	1.15	0.29
Bills Finance Companies	1.16	0.29
Fuh-Hwa Securities Finance Company	0.78	0.20
Offshore Banking Units	0.64	0.16
Total	398.33	100.00

Source: The Central Bank of China

30. The 16 domestic banks as a group represent the dominant force in Taiwan's financial system. Their combined assets were US$172.90 billion or 43.41 per cent of the total assets of the entire financial system. Deposits amounted to US$116.54 billion or 67.41 per cent of total funds. Borrowing from financial institutions (including the CBC) was the second important source of funds. The total borrowing was US$25.54 or about 15 per cent of total funds. Loans and discounts on the asset side were US$109.24 billion which represented 63.18 per cent of total assets. Of this amount, approximately 80 per cent was extended to private enterprises and the remainder to government agencies and government enterprises. Several domestic banks have been serving as development banks in the areas designated by the

government. The Bank of Communication is a development bank providing medium- and long-term financing to priority sectors. The Farmers Bank of China, the Land Bank of Taiwan, and the Cooperative Bank of Taiwan serve the agricultural sector. The Export-Import Bank of China specializes in extending trade-related financing to various industries.

Classification	Amount (US$ million)	Per Cent
Assets	172,899.89	100.00
Foreign Assets	7,983.41	4.62
Loans and Discounts	109,240.25	63.18
Portfolio Investments	27,309.10	15.79
Claims on Financial Institutions	25,880.31	14.97
Cash	2,052.48	1.19
Others	434.34	0.25
Liabilities	172,899.89	100.00
Foreign Liabilities	8,325.08	4.81
Deposits	116,544.42	67.41
Due to Financial Institutions	25,538.62	14.77
Others	22,491.77	13.01

Source: The Central Bank of China

31. Private enterprises received 40.19 per cent of total loans and discounts extended by domestic banks, while government enterprises received 8.42 per cent. Approximately one-quarter of loans and discounts were extended to manufacturing firms. A substantial portion of loans and discounts extended to individuals must have been used for manufacturing activities, but no breakdown by industry is known.

Classification	Per Cent
Private Enterprises	40.18
Agriculture, Forestry, and Fishing	1.08
Mining and Quarrying	0.06
Manufacturing	21.21
Utilities	0.13
Construction	3.68
Wholesale and Retail	9.61
Communication, Storage, and Transportation	1.48
Services	2.93
Government Enterprises	8.42
Manufacturing	1.94
Utilities	3.48
Construction	0.21
Wholesale and Retail	0.91
Communication, Storage, and Transportation	1.04
Services	0.84
Individuals	41.16
Others	10.24
Total	100.00

Source: The Central Bank of China

32. Loans and discounts are extended in various types such as: (a) discounts; (b) advances on imports; (c) short-term loans and overdrafts; and (d) medium and long-term loans. Loans and discounts are classified by the type below.

Classification	Year 1980	1984	1989
Discounts	1.23%	2.90%	0.86%
Advances on Imports	0.69%	0.26%	0.17%
Short-Term Loans and Overdrafts	60.10%	44.05%	33.74%
Medium- and Long-Term Loans	37.98%	52.79%	65.23%
Total	100.00%	100.00%	100.00%

Source: The Central Bank of China

Given the types of accounts shown above, it is obvious that the composition of loans and discounts changes over time. The relative importance of medium- and long-term loans has increased, while short-term loans and overdrafts show a declining trend.

33. The Bank of Thailand (BOT) performs central banking functions in Thailand. Its main functions include: (a) acting as the note-issuing authority; (b) acting as the banker for the government and commercial banks; and (c) acting as the government's fiscal agent. The BOT is also authorized by the Ministry of Finance to manage commercial banks, finance companies, securities companies, and credit foncier companies. BOT's intervention in the money market is usually undertaken at the repurchase market of government bonds.

34. The Thai financial system consists of two major categories: (a) banks; and (b) non-bank financial institutions. A more detailed structure is summarized below.

Banks

a. The Bank of Thailand
b. 30 Commercial Banks

   i. 16 Domestic Banks
   ii. 14 Foreign Banks

c. Government Savings Bank
d. Bank for Agriculture and Agricultural Cooperatives
e. Government Housing Bank

Non-Bank Financial Institutions

f. Industrial Finance Corporation of Thailand (IFCT)
g. 94 Finance Companies
h. 18 Credit Foncier Companies
i. Small Industries Finance Office
j. 12 Life Insurance Companies
k. 1,357 Agricultural Cooperatives
l. 827 Savings Cooperatives
m. 357 Pawnshops

The total assets of major selected institutions amounted to US$87.70 billion at the end of 1989. All banks and two categories of organizations from non-bank financial institutions, the Industrial Finance Corporation of Thailand and finance and securities companies, are included in this report. Consolidated financial statements of other non-bank financial institutions are not reported by the Bank of Thailand.

Classification	Amount (US$ billion)	Per Cent
The Bank of Thailand	14.24	16.24
Commercial Banks	55.53	63.32
Government Savings Bank	4.97	5.67
Bank for Agriculture and Co-Operatives	1.75	2.00
Government Housing Bank	1.08	1.23
Industrial Finance Corporation of Thailand	1.15	1.31
Finance and Securities Companies	8.98	10.24
Total	87.70	100.00

Source: The Bank of Thailand

35. Commercial banks' assets were US$55.53 billion or 63.32 per cent of the total assets held by the financial sector. "Claims on Business and Household Sector" were the largest with a total outstanding amount of US$40.69 billion or 73.26 per cent of the total assets of commercial banks. Deposits amounted to US$42.28. This amount represented slightly over three-quarters of the total liabilities. Borrowing from the Bank of Thailand was only US$1.60 or 2.88 per cent of the total liabilities. Deposits were composed of demand deposits; (b) savings deposits; (c) time deposits; and (d) other deposits, including foreign currency deposits. The ratios of demand, savings, and time deposits to the total deposits were 5.05, 32.19, and 61.92 per cent. The mobilization of savings by commercial banks has been very successful. Among various types of deposits, time deposits grew at a faster rate than the other types as a result of the abolition of the interest rate ceiling on time deposits with maturities greater than one year. There are 14 foreign banks, but their market share in Thailand is insignificant. For example, deposits of foreign banks were only 2.58 per cent of the total deposits of commercial banks. The government places tight restrictions on their activities to minimize their impact on domestic banks.

Classification	Amount (US$ billion)	Per Cent
Assets	55.53	100.00
Cash and Claims on BOT	1.32	2.38
Claims on Commercial Banks	0.77	1.39
Claims on Other Financial Institutions	2.35	4.23
Foreign Assets	2.73	4.92
Claims on Government	4.80	8.64
Claims on Public Enterprises	0.63	1.13
Claims on Business and Household Sector	40.69	73.26
Other Assets	2.25	4.05
Liabilities	55.53	100.00
Credits from BOT	1.60	2.88
Liabilities to Commercial Banks	0.78	1.40
Borrowing from Other Financial Institutions	0.58	1.04
Deposits	42.28	76.14
Foreign Liabilities	3.32	5.98
Government Deposits	1.27	2.29
Capital Account	3.24	5.83
Other Liabilities	2.46	4.43

Source: The Bank of Thailand

36. Total credits by industry suggest that about one-quarter of total credits were extended to the manufacturing sector. A large proportion allocated to the real estate business was a result of recent land speculation.

Classification	Year 1980	1984	1989
Agriculture	5.61%	7.09%	6.54%
Mining	0.76%	0.61%	0.46%
Manufacturing	18.35%	23.05%	25.80%
Construction	5.30%	5.49%	3.82%
Real Estate Business	3.01%	3.11%	8.94%
Imports	13.24%	7.73%	5.15%
Exports	11.09%	8.82%	7.39%
Wholesale and Retail Trade	22.05%	23.38%	17.72%
Public Utilities	3.01%	1.46%	1.82%
Banking and Finance	6.46%	5.57%	5.86%
Services	3.69%	4.87%	5.70%
Personal Consumption	7.39%	8.82%	10.81%
Others	0.05%	-	-
Total	100.00%	100.00%	100.00%

Source: The Bank of Thailand

37. The Thai commercial banking sector is dominated by four large banks including: (a) Bangkok Bank Ltd.; (b) Krung Thai Bank Ltd.; (c) Thai Farmers Bank Ltd.; and (d) The Siam Commercial Bank Ltd. The combined assets, loans and advances, and deposits of the four banks accounted for approximately two-thirds each of the total assets, loans and advances, and deposits held by commercial banks. Twenty-six smaller domestic and foreign commercial banks compete for the remaining market share. The BOT had to provide a significant amount of financial assistance to smaller Thai commercial banks in the form of long-term soft loans because of their weak performance and inadequate capital bases mainly to protect depositors. In recent years, the performance of ailing commercial banks has improved.

C. Development Finance Institutions and Specialized Banks

38. The DFIs play a wide variety of development roles usually under the guidance of the central banks. Lending areas vary from one country to another. The key manufacturing sectors of the Indian economy are served by an extensive network of DFIs. The IDBI is positioned at the top of this network. The IDBI was established in 1964 and it is wholly owned by the Indian government. It provides financial resources to other DFIs by providing facilities for refinancing industrial term loans and bill discounting. The DFIs under IDBI's umbrella

include the IFCI, ICICI, IRBI, state financial corporations, and state industrial development corporations (SIDCs). Additionally, the LIC, UTI, and GIC serve as institutions providing term loans to key industries. The Indonesian network of development banks consists of one state development bank called Bank Pembangunan Indonesia (BAPINDO), 26 local development banks, and one private development bank. As discussed in the previous section, one of state commercial banks, Bank Negara Indonesia, specializes in granting credits for the industrial sector. The Korean government has been directing resources for economic development through an extensive network of six SBs and three DFIs. The SBs are: (a) Citizens National Bank set up mainly for home owners and small enterprises; (b) Korea Housing Bank for the finance of low-income housing; (c) National Agricultural Cooperatives Federation for banking services for farmers; (d) National Federation of Fisheries Cooperatives for banking services for fishermen and fishing-related manufacturers; (e) National Livestock Cooperatives Federation for livestock farmers and related manufacturers; and (f) Small and Medium Industry Bank for financial support of small- and medium-size businesses. The three Korean DFIs include: (a) Korea Development Bank (KDB) supplying long-term credit to key strategic industries; (b) Export-Import Bank of Korea for financing export-oriented industries; and (c) Korea Long-Term Credit Bank (KLTCB) extending medium- and long-term loans for the purchase of equipment and for working capital. Six DFIs in Malaysia provide term loans for large-scale projects in various key sectors. They include: (a) Malaysian Industrial Development Finance Bhd. specializing in the development of the manufacturing industry; (b) Industrial Bank of Malaysia providing long-term financing to high-technology firms and exporters; (c) Development Bank of Malaysia mainly serving the Bumiputera in manufacturing and trade; (d) Borneo Development Corporation providing funding for industrial development in Sabah and Sarawak; (e) Sabah Development Bank granting medium- and long-term financing in agriculture, forestry, and manufacturing in the Sabah region; and (f) Agriculture Bank of Malaysia. Three specialized government banks serve as development financial institutions in the Philippines. They are the Development Bank of the Philippines, Land Bank, and the Philippine Amanah Bank. The Development Bank of the Philippines is the largest and most influential development bank extending long-term loans for high priority development projects. The Development Bank of Singapore spearheads long-term industrial credit activities in Singapore. Occasionally, it serves as an equity investor. It is also active in commercial and merchant banking activities. Like many other commercial banks, it is an active player in offshore banking activities. Of 16 domestic banks in Taiwan, several banks also serve as development banks in various sectors of the economy as designated by the Taiwan government. For example, the Bank of Communications is the major source of term loans for the manufacturing sector and the Export-Import Bank of China for export-oriented industries. The Taiwan government established eight medium business banks throughout the country to provide funds to small and medium-size business enterprises. The most important DFI in Thailand is the IFCT. It was established in 1960 to take over the role of its failed predecessor, the Industrial Bank. Its main objectives are: (a) to assist in the establishment, expansion, and modernization of industrial enterprises in the private sector; and (b) to encourage and bring about the participation of private capital in such private enterprises as part of the development of the capital market.

39. The major sources of funding for DFIs and SBs in the selected ESCAP countries usually include: (a) government budget appropriations; (b) central bank funding or refinance facilities; (c) funding from international development organizations and bi- and multi-lateral aid agencies; and (d) deposits. In Indonesia, Korea, Singapore, and Taiwan, the DFIs and SBs also engage in traditional commercial banking activities, gaining access to deposits from individuals as well as government and state agencies. DFIs and SBs usually have little incentive to raise funds on domestic and international bond markets. This is due mostly to the availability of subsidized funds from governments, central banks, or international development organizations at rates lower than competitive market interest rates. Subsidized funding is a blessing in disguise for DFIs and SBs. Their dependence on government and central bank funding serves as a serious constraint for the growth of their lending activities. It also makes them less autonomous financially. Therefore, it is important that DFIs and SBs be encouraged to float local currency as well as foreign currency bonds. Developments in this direction are shown in India, Korea, and Singapore.

40. The DFIs and SBs in the region are engaged in a wide range of development financing activities. Typical financing operations include: (a) large-size medium- and long-term loans in local as well as foreign currencies; (b) guarantees for repayment of loans; (c) equity participation; (d) underwriting; and (e) short-term bridge financing and working capital loans on a limited scale. Because DFIs and SBs are generally owned or funded by the government,

their operations are dictated by government economic development policies. As a result, it is difficult for them to meet any commercial standards of performance. Their profitability suffers from non-performing loan projects, loan arrears, write-offs, and foreign exchange losses. Bad loans represent a particularly serious problem for DFIs and SBs in the Philippines, India, and Indonesia. An extensive education and training program should be implemented for DFI and SB staff to improve the quality of credit risk analysis, project evaluation, and project monitoring.

41. As the need for industrial growth grew larger, the role of IDBI, the primary leading DFI in India, increased proportionally. Approximately US$11.86 billion (or about 60 per cent of the cumulative term loans disbursed as of 1988) to various industries in India are provided by the IDBI, followed by IFCI (11 per cent), ICICI (16 per cent), UTI (7 per cent), state financial corporations (16 per cent), and SIDCs (9 per cent). The total amount of funds needed by DFIs in 1987 amounted to US$4.85 billion. Major sources of funds for DFIs in India are: (a) borrowing through the issue of bonds and debentures (21.27 per cent); (b) borrowing from the government and RBI (6.14 per cent); (c) borrowing from foreign sources (8.20 per cent); and (e) repayment of principal and interest income (48.12 per cent). It is encouraging to note that internal source of funding accounted for almost one-half of the total funds needed. It is further encouraging that DFIs' reliance on the local capital market was substantial (21.27 per cent) and increasing. For example, about 45 per cent of total funds demanded by IDBI were met by the issue of bonds and debentures in 1989. DFIs have been instrumental in developing the Indian securities market. Besides extending term loans, DFIs underwrite and directly subscribe to shares and debentures of industrial enterprises. They also provide bridging loans against public issues of equity shares to selected companies that need assistance in the primary market.

42. ICICI's operations are very similar to those of IDBI, but it places more emphasis on merchant banking activities. Like IDBI, a large portion of its funding requirements are met by borrowing from international development organizations and the issue of bonds and debentures in the local capital market. These two sources of funds accounted for about 80 per cent of total funds required by ICICI. Recently, it began to tap the eurocurrency market to raise funds, even though the magnitude of borrowing is currently insignificant. Long-term loans are a dominant item on the asset side, accounting for approximately 80 per cent of total assets of

ICICI. ICICI's merchant banking activities are well known in the Indian capital market through loan syndication and issue management. At present, it is playing a leading role in establishing the OTC market for start up companies. IFCI's operations are not that much different from ICICI's. Its loan portfolio accounts for about 85 per cent of its total assets, and it borrows heavily from international development organizations and the local securities market.

43. DFIs in India face several issues. First, their operations are almost identical due to the lack of specialized areas of lending activities among themselves. To avoid wasteful duplication of activities, DFIs rely on inter-institutional coordination on a regular basis. Frequently, they arrange consortium lending for large-size projects. It is noted that the consortium lending has resulted in lack of effective follow up of funded projects or organizations. A recent study by the Asian Development Bank cited consortium lending as one of reasons why there are many non-performing loan projects. Second, DFIs has relatively small capital bases to justify a large amount of borrowing. As a result, DFIs tend to provide financial support to large industrial firms to minimize credit risk, while overlooking small- and medium-size enterprises. DFIs' involvement with venture capital funds is insignificant, compared with their overall loan portfolios. They also tend to avoid equity participation which is considered riskier than debt financing. Third, DFIs started borrowing heavily in the local securities market by issuing bonds and debentures, which is a positive development in the sense that they can rely less on borrowing from the RBI or the Indian government. Unfortunately, their newly issued bonds and debentures carry low yields, not reflecting credit market conditions and the credit standing of the issuers. As a result, private-sector investors do not invest in these bonds and debentures. Most of these issues are allocated to various financial institutions and very little secondary market activity is noted. Fourth, healthy competition among DFIs must be encouraged for improvement of operating efficiency. At present, all DFIs are directed to offer the same lending rates. Liberalization of government control on interest rates will be needed to foster competition among financial institutions.

44. Development banks in Indonesia are small except BAPINDO. A consolidated balance sheet of BAPINDO, 26 local development banks, and one private bank at the end of March 1988 indicates that claims on private enterprises and individuals amounted to US$1.89 billion or 71.96 per cent of total assets. Major sources of funds were: (a) borrowing from the

BI in the amount of US$802.45 or 30.54 per cent; (b) demand, time, and savings deposits of US$903.73 or 34.39 per cent; and (c) a capital base of US$417.92 or 15.9 per cent. Two viable sources of funds, long-term bond issues and borrowing from international development organizations, are not utilized by BAPINDO and other development banks at the present time. Many industrial companies usually rely on the roll-over arrangements of short-terms loans due to the lack of long-term loans available either from commercial banks and development banks. This method of financing should be discouraged, and development banks should restructure their source of funds.

Classification	Amount (US$ million)	Per Cent
Assets	2,627.71	100.00
Cash and Deposits with Bank Indonesia	135.23	5.15
Foreign Assets	117.97	4.49
Claims on Public Sector	224.26	8.53
Claims on Private Enterprises and Individuals	1,890.93	71.96
Other Assets	259.32	9.87
Liabilities	2,627.71	100.00
Demand Deposits	474.68	18.06
Time and Savings Deposits	429.05	16.33
Foreign Currency Deposits	50.64	1.93
Foreign Liabilities	9.46	0.36
Government Deposits	84.03	3.20
Import Guarantee Deposits	3.90	0.15
Borrowing from Bank Indonesia	802.45	30.54
Capital Accounts	417.92	15.90
Other Liabilities	355.59	13.53

Source: The Bank Indonesia

45. The SBs in Korea were established in the 1960s. Functioning as deposit money banks, they were intended to complement traditional commercial banks, but with special strategic areas of lending activities. They have been expected to perform the following functions: (a) to attract foreign resources through loan financing; (b) to mobilize domestic savings; (c) to allocate resources as dictated by the government development plan; and (d) to assist in the development of the securities market. Summarized below are selected balance sheet items for six SBs at the

end of 1989. A couple of interesting points are observed. First, loans and advances accounted for 56.45 per cent of total assets. It is interesting that this percentage is higher than that of commercial banks (37.93 per cent), which implies that SBs' asset portfolio is more concentrated. Second, deposits accounted for 60.45 per cent of total liabilities. This figure is higher than that of commercial banks (37.93 per cent), which indicates SBs' success in mobilizing savings in competition with commercial banks.

Compared with commercial banks, the relative amount of borrowing from the BOC and government was larger. In general, SBs have been successful in providing necessary funding according to the government's priorities. The only disappointment with SBs' operation is that they did not make a significant contribution in developing the Korean capital market other than issuing certificates of deposit and debentures.

Classification	Amount (US$ billion)	Per Cent
Assets	78.46	100.00
Cash	4.60	5.86
Due from BOK and Other Banks	5.85	7.46
Loans and Advances	44.29	56.45
Securities	5.71	7.28
Foreign Assets	2.09	2.66
Other Assets	15.92	20.29
Liabilities	78.46	100.00
Deposits	47.43	60.45
CDs	1.09	1.39
Borrowing from BOK and Government	11.26	14.35
Debentures	1.71	2.18
Foreign Liabilities	2.18	2.78
Other Liabilities	12.72	16.21
Capital	2.07	2.63

Source: The Bank of Korea

46. Of three DFIs in Korea, the KDB and the KLTCB specialize in long-term financing for key sectors of the Korean economy. The KDB has been instrumental in development financing since its inception in 1954. The KLTCB was established in 1980 to

extend medium- and long-term loans for the purchase of equipment and, occasionally, for working capital. The Export-Import Bank of Korea is more specialized that the other two DFIs in that its main business is the financing of exports. Selected balance sheet items of the KDB and the KLTCB as of 1989 are summarized as shown below:

Classification	KDB Amount (US$ billion)	KLTCB Amount (US$ billion)
Assets	26.03 (100.00%)	5.83 (100.00%)
Securities	3.08 (11.83%)	1.06 (18.25%)
Loans and Discounts	15.67 (60.20%)	3.51 (60.17%)
Deposits	7.75 (29.77%)	0.90 (15.49%)
Borrowing	4.95 (19.01%)	1.06 (18.15%)
Debentures Issued	5.01 (19.25%)	1.89 (32.50%)
Acceptances and Guarantees	3.16 (12.14%)	0.85 (14.64%)

Source: The Bank of Korea

The two DFIs are almost identical in asset structure. Loans and discounts accounted for about 60 per cent of total assets, while the KLTCB had a larger portion of assets invested in securities (18.25 per cent versus 11.83 per cent). On the liability side, the relative importance of deposits is less significant for KLTCB than KDB (15.49 per cent versus 29.77 per cent). However, the KLTCB made up the deficiency in deposits with a larger portion of debentures issued (32.50 per cent versus 19.25 per cent).

47. A few issues and problems are noted regarding the six DFIs' funding activities in Malaysia. First, their financial support of the manufacturing sector has yet to increase.

Approximately 41 per cent of all loans were allocated to the agricultural sector, with only 19 per cent allocated to the manufacturing sector in 1987. The remainder was divided among real estate and construction, commerce, and others. Second, the DFIs' equity participation needs to be increased. Third, the DFIs' funding for small-size projects has been insignificant. One of the largest DFIs, the Malaysian Industrial Development Finance Bhd. has three subsidiaries established to extend credits to and provide technical advice on small- and medium-size projects, but their contributions have not been as substantial as desired.

48. Since commercial banks designated by the government are serving as development banks in addition to performing traditional commercial banking activities, financial data and summary statistics of DFIs and SBs in Taiwan and Singapore are not readily available. As the economies of both countries reach an advanced stage of development, the distinction between commercial banking and development banking becomes less meaningful in these countries than in any other countries in the Asian and Pacific region. Likewise, the concept of DFIs or SBs is not available in Hong Kong.

49. The IFCT was established by the Industrial Finance Corporation of Thailand Act of 1959. The IFCT, however, is a private-sector corporation owned mostly by commercial banks, finance and securities companies, individuals, foreign banks, and the Thai government. It is Thailand's only specialized financial institution providing project-based, long-term capital. The IFCT is a small institution with total assets of US$1.15 billion or 1.31 per cent of total assets held by the major institutions in the Thai financial system. Term loans accounted for 62 per cent of IFCT's total assets. The IFCT actively raised funds from the Thai securities through the issuance of bonds and debentures. Bonds and debentures issued accounted for about 35 per cent of IFCT's total liabilities. An equally important source of funds is borrowing from foreign financial institutions, which provided about 33 per cent of IFCT's total funds. One of the most successful projects undertaken by the IFCT was the establishment of the MFC, which was licensed to conduct the mutual fund business on a monopolized basis for almost 15 years. In addition to extending term loans to the manufacturing sector, the IFCT formed a joint venture company, Thai Oriental Leasing, to pioneer the first leasing business in Thailand. The Thai Factory Development Company was established by the IFCT in 1977 in a joint venture with the United Kingdom's Commonwealth Development Corporation and Germany's State Development

Agency. It builds mcdem factories for sale to investors on a deferred payment basis or long-term lease. Because of its extensive borrowing in foreign currency, the IFCT suffers substantial foreign exchange losses as foreign currencies appreciate relative to baht.