

# Routledge-ERIA Studies in Development Economics

## **Real and Financial Integration in Asia**

by Shandre M. Thangavelu, Aekapol Chongvilaivan

July 2014

This book investigates the impact of both real and financial integration to growth and to welfare, and to enquire whether increases in either or both forms build the linkage between the real and financial economy. It contributes to the following two areas: (1) Research of economic developments in East Asia, the most dynamic and populous region in the world, in itself is important for researchers, policymakers, journalists, business people, and others. East Asia's economic developments influence peoples' lives not only in East Asia but also in other parts of the world. (2) Many aspects of East Asian experiences in economic development are unique, making research of East Asia attractive and important to discern mechanisms of economic development.

The study begins with chapters that address the measurement of regional integration compared with the engagement with the global economy and how this influences the aggregate behaviour of the economies. The second part turns to consideration of the financial sector and the efficiency and performance of banking in the region. This allows a discussion whether, in the current crisis, the banking sector was an important channel of financial shock into real behaviour. The third part turns to the corporate sector. Using data on firms, type of finance used by firms, its impact on their performance, and ownership structure influence over the productivity growth are discussed. Based on the findings, the book presents several policy recommendations and future research agenda for further economic integration in East Asia.

## **Rebalancing Economies in Financially Integrating East Asia**

by Jenny Corbett, Ying Xu

November 2014

Since the Asian Financial Crisis of 1997-1998 large current account surpluses have accumulated in the countries of Asia and the Pacific with corresponding deficits elsewhere. The sharp plunge in global trade volumes during the global financial crisis has highlighted the need for 'rebalancing'—focusing more on domestic sources of economic growth than on exports in some Asian economies. One key objective of the book is to elucidate the economic structures and policies that give rise to current account surpluses and imbalances and consider what policy adjustments could change them. Another objective is to show the link between financial systems, financial integration, and the transmission of economic shocks between countries.

The book offers new dimensions to understand 'rebalancing' and provides alternative and arguably more fundamental solutions to address imbalances. Rather than focusing on exchange rate misalignment, this book begins from the premise that the imbalances are a macroeconomic problem that reflects a mismatch between savings and investment in the surplus countries. Then, it examines exchange rate policies adopted by countries in the region and finds that part of the explanation for their currency strategy lies in their perceived need to build foreign exchange reserves to provide a buffer in case of instabilities. The book examines whether there are other possibilities for countries to insure against economic volatility by more actively and openly engaging with international capital markets. The studies show that closer financial integration, involving more open financial markets, with well-chosen partners, would improve welfare and should reduce the need for the counterproductive, self-insurance policies that result in foreign exchange accumulation.