

“MOHE/BNM Attachment Program”

**Readiness of ASEAN Banking Sector Integration:
Recent Development and Statistical Evidence**

**Har Wai Mun
Universiti Tunku Abdul Rahman (UTAR)
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Background

Financial, including banking sector integration in ASEAN is lagging very far behind the integration of non-financial service sector.

Service sector already have six packages of commitments (1997, 1998, 2001, 2004, 2006 and 2007) as compared to four packages of commitments for financial sector (1997, 2002, 2005 and 2008).

Why? Banking sub-sector is considered too “sensitive” and too complex to be quickly liberalized?

Incongruence between AFAS Commitments and Goals

AFAS should be a “GATS-Plus”, yet commitments in AFAS lack behind commitments in GATS

AFAS 4th Package (2008) only “repeated” most of the specific commitments in GATS (1994) and subsequent GATS Supplements (dated between 1995 and 1998) >> outdated about 10 to 14 years.

AFAS only more opened up for Mode 4 but very reluctant on the important “commercial presence” (Mode 3).

The following incongruence are observed:

- (i) There are either more constraints in AFAS or more commitments to GATS**
>> Malaysia, Singapore, Thailand and Philippine

- (ii) Commitment in AFAS is matched in GATS**
>> Indonesia, Vietnam and Cambodia

- (iii) Insignificant commitment in both AFAS and GATS**
>> Myanmar and Brunei

Surprisingly Laos's commitments in AFAS are respectably better than some other ASEAN countries.

Statistical Analysis

First objective:

To evaluate the readiness of ASEAN for banking sector integration

Second objective:

To construct an indicator of readiness for ASEAN banking sector integration

Method:

Standard Deviation and Pearson Correlation

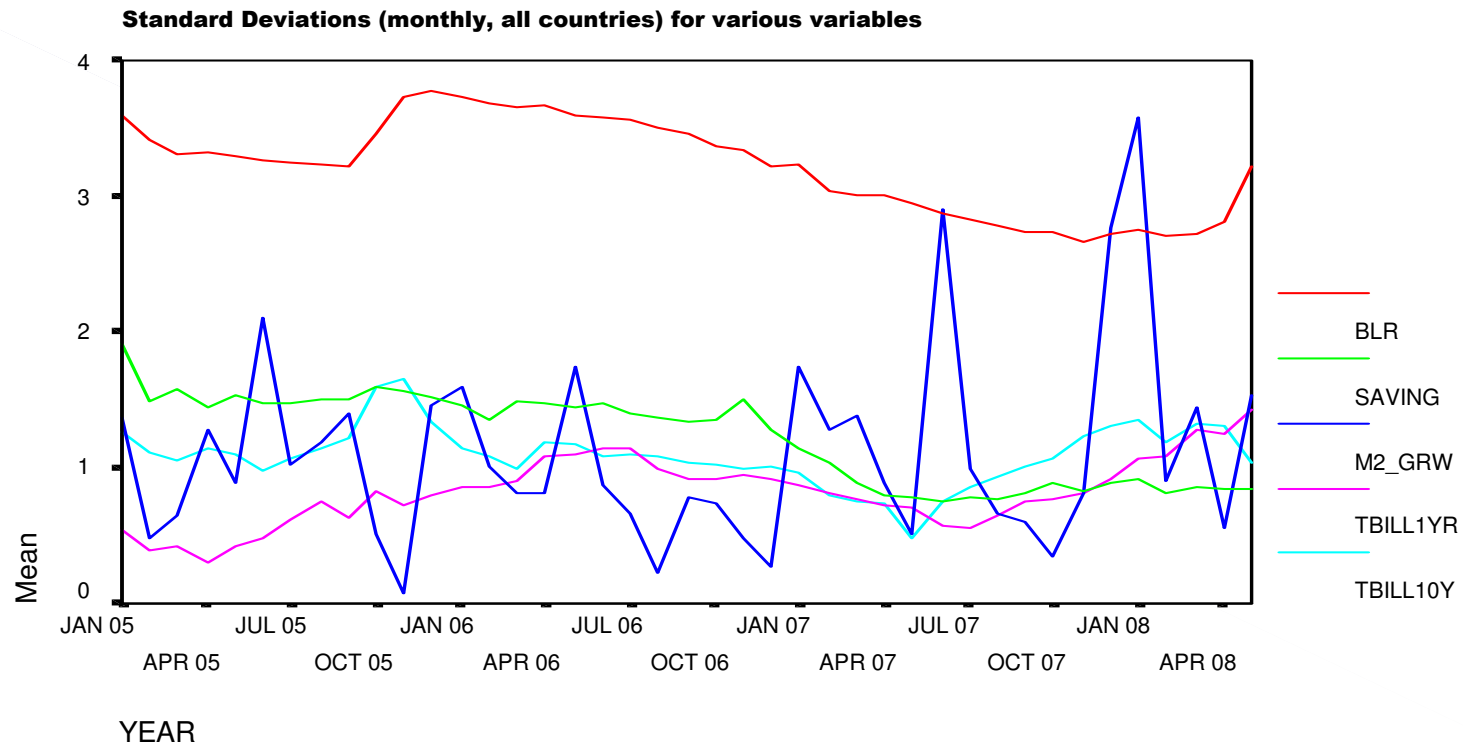
Variables:

Base lending rate, saving rate, growth of M2 and government securities yield (both 1 year and 10 years)

Method:

Ranking based on results of statistical analysis

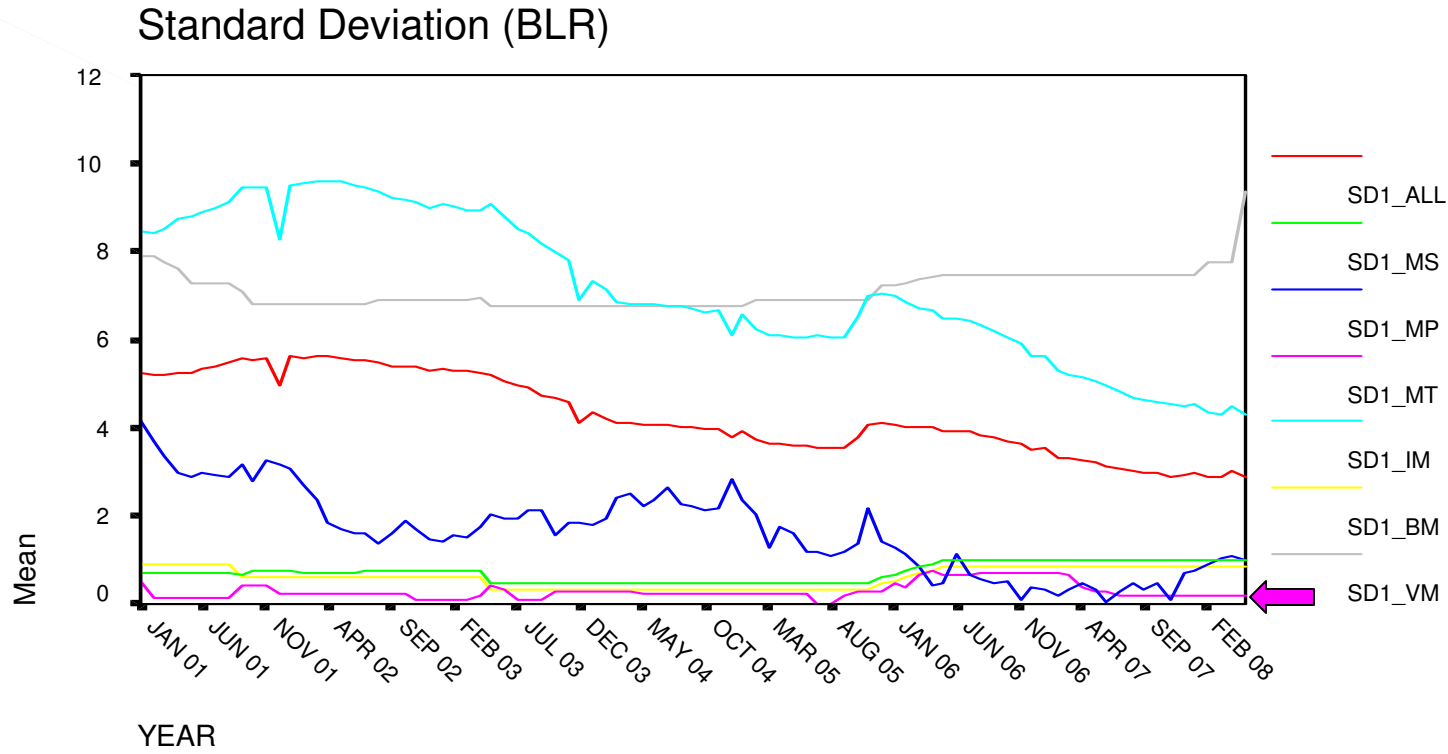
Graph 1: Standard Deviation (monthly, all countries) for Various Variables



No clear decreasing trend >> ASEAN are not yet ready for integration

Authority-related indicators (government's securities yields and M2 growth rate) show greater standard deviation as compared to the more market-oriented saving rate >> much closer cooperation is needed among monetary authorities

Graph 2: Standard Deviation (BLR)



Combinations:

Optimal choice >> Malaysia-Thailand - - - - -> 0.954

Other possible combinations

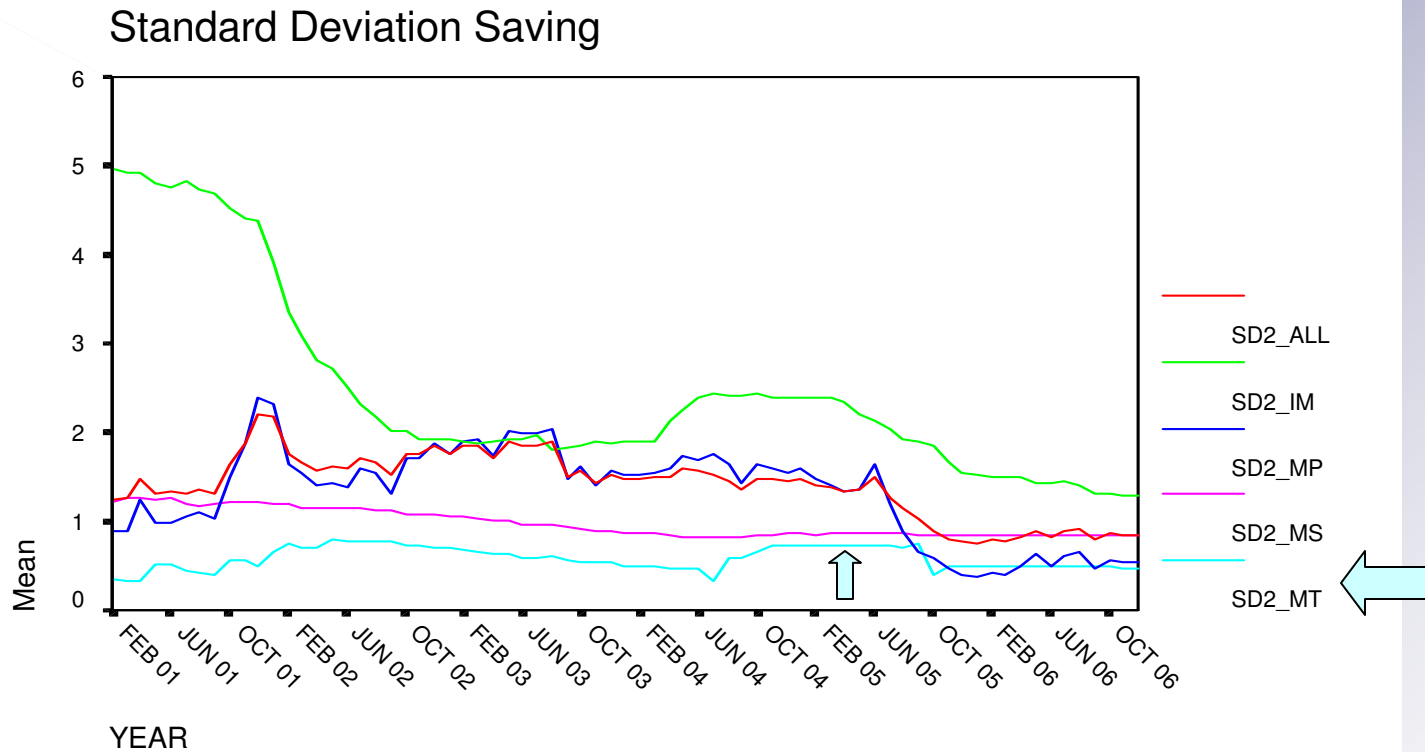
>> Malaysia-Philippine - - - - -> 0.692

>> Malaysia-Brunei - - - - -> 0.910

>> Malaysia-Singapore - - - - -> 0.934

Pearson correlation

Graph 3: Standard Deviation (Saving Rate)



Combinations:

Optimal choice >> Malaysia-Thailand - - - - -> 0.293

Other possible combinations

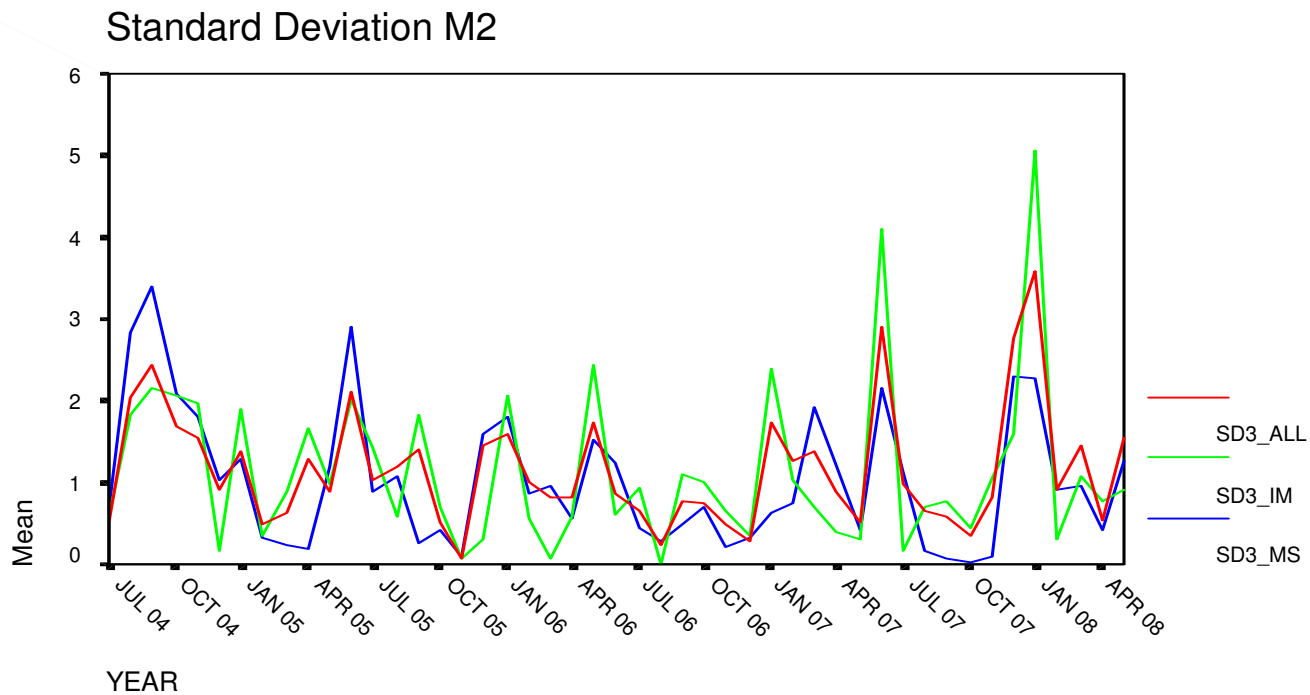
>> All countries - - - - -> N.A.

>> Malaysia-Philippine - - - - -> 0.782

>> Malaysia-Singapore - - - - -> 0.864

Pearson correlation

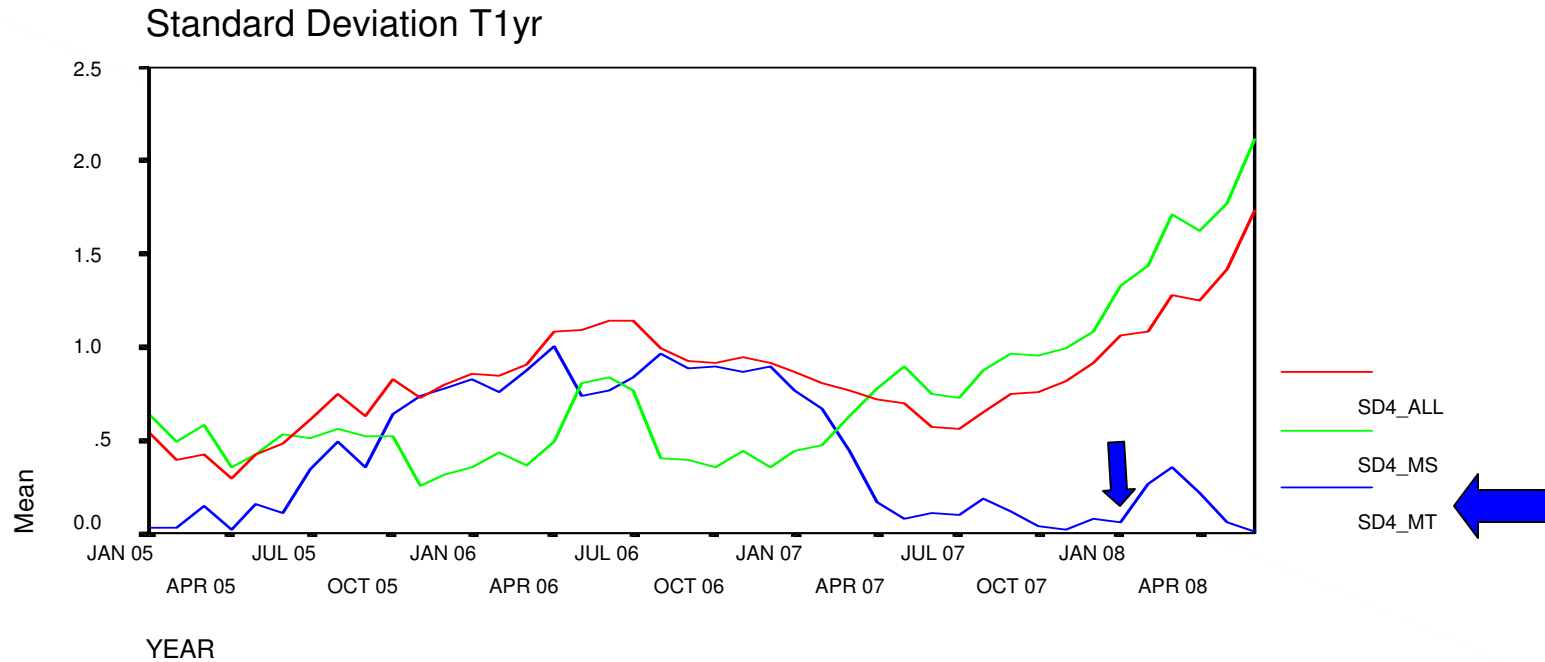
Graph 4: Standard Deviation (M2 Growth)



Extreme volatility
>> No optimum combination

Correlation insignificant at 5% level for Malaysia-Indonesia, Malaysia-Singapore, Singapore-Indonesia

Graph 5: Standard Deviation (T-bill yield for 1 year)



Combinations:

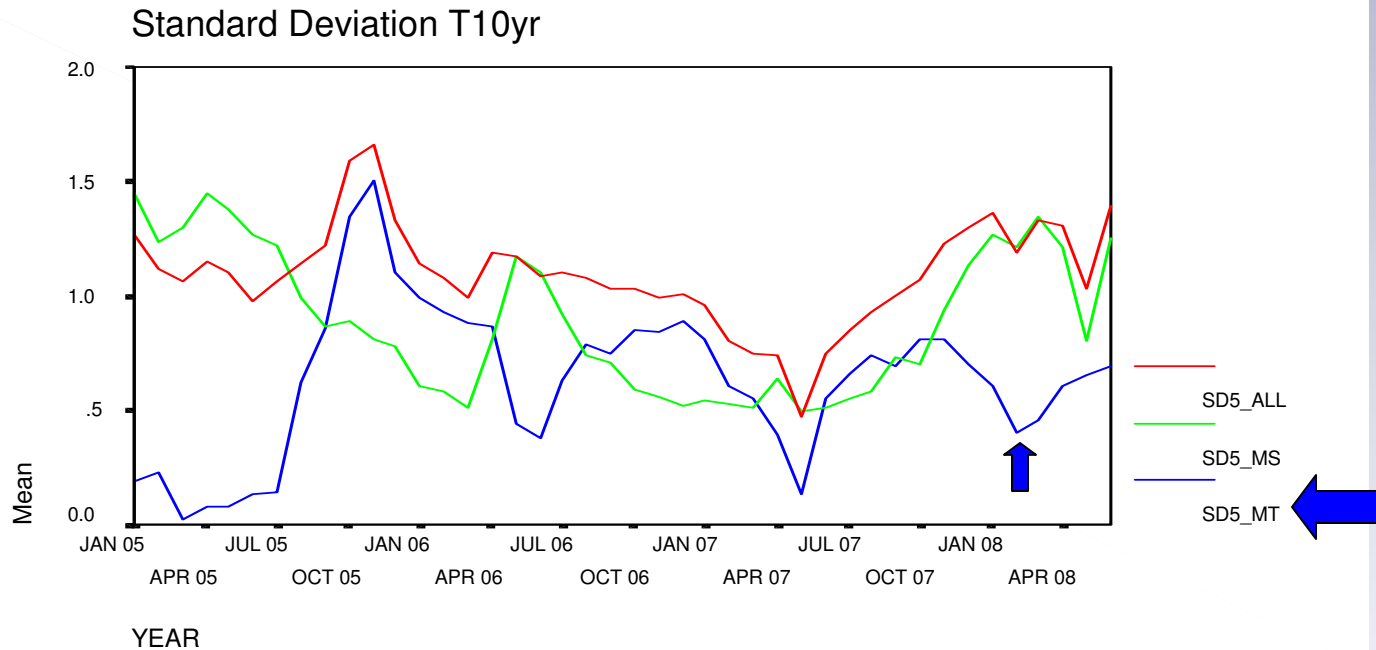
Optimal choice >> Malaysia-Thailand - - - - -> 0.747

Others

>> Malaysia-Singapore - - - - -> 0.373

Pearson correlation

Graph 6: Standard Deviation (T-bill yield for 10 year)



Combinations:

Optimal choice >> Malaysia-Thailand - - - - -> 0.534

Others

>> Malaysia-Singapore - - - - -> 0.407

Pearson correlation

Readiness Indicator

Results from correlation and standard deviation are combined to form “readiness indicator” (Method A).

The alternative readiness indicator (Method B) is constructed in the same as the “normal” readiness indicator except that it chooses two best correlation values instead of taking the average of all correlation values.

The value for readiness indicator ranges from zero to infinity, in which the lower the value, the higher the readiness for banking sector integration.

Table 8: Readiness Indicators

Country	Readiness Indicator (Method A)	Readiness Indicator (Adjusted) (Method B)	Rank*
Malaysia – Thailand	0.8475	0.503	1
Malaysia – Philippine	1.4601	1.018	2
Malaysia – Singapore	1.6623	1.279	3
Malaysia – Brunei	1.6807	1.408	4
Malaysia – Indonesia	3.1080	2.600	5
Malaysia – Vietnam	8.9042	8.746	6

Note:

* Rank “1” for the highest readiness for integration (lowest readiness indicator value)

No ranking for combinations of Malaysia – Cambodia, Malaysia – Lao PDR and

Malaysia – Myanmar due to incomplete data.

Thank you