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**Subject: Asian Capital Markets**

Starting 4<sup>th</sup> March, Mondays 4pm to 7pm

Lecturer: Takeshi Yamada

**Objective:**

This course provides an overview of current Asian capital markets. The growth of Asian economies has been spectacular in the past 60 years; the advancement of Japan from the 1950s until the beginning of 1990s, the emerging Asian Tigers (Hong Kong, Korea, Singapore, Taiwan) in the 1980s, and the rapid transformation and growth of China and India since the 1990s. Asian capital markets are quite diverse as they consist of emerging markets at different stages of development as well as mature markets. Therefore, it is not easy to view Asian capital markets through a single lens. However, this course not only introduces students to capital markets in various Asian countries but also attempts at introducing a unified conceptual framework to understand markets in these countries. The framework focuses on institutional environments (such as legal systems) in different countries and their impacts on corporate behaviours. We also present empirical evidence that such a framework might not necessarily explain the recent developments in China and India. Two of the important features in Asian capital markets, which contrast those of capital markets in UK-US, are the roles played by the State and closely tied families, which we will discuss in detail. The globalization of the world economy in the past two decades has affected the developments of Asian capital markets. Although our course may discuss the development of capital markets of individual countries, we will discuss Asian economies in the global context and will explore the increasing weight of Asia in the world economy.

There is no text book for this course. Please read the required readings prior to attending the lecture. There are on average two required readings for each lecture. You should be able to download all the journal articles from the library or from the web directly using the provided link. Other articles will be uploaded on the MyUni.

**Assessment:**

*The assessment in the subject will be a 3-hour end-of-semester examination (70%) and group assignment totaling not more than 3000 words (30%).*

***NOTE: As this is an intensive course, there is no text book, and there are more readings from academic journal articles, you are expected to put extra effort relative to a regular subject.***

**Time table (Note: There might be slight adjustment in schedule during the course.):**

0. Introduction
1. Asia's economy and global imbalance
  - a. Asia's economic growth
  - b. Global imbalance and its cause
2. Asia's currency issue
  - a. Bretton Woods System II
  - b. Capital controls and liberalization
  - c. Road to convertibility: Chinese Yuan
3. Asia's financial markets
  - a. Asian markets in the global portfolio: Equity and bond markets
  - b. Currency market
  - c. Can Asia embrace global financial centres?
  - d. China's segmented equity market
4. Law and finance: A framework for understanding stakeholders and governance
  - a. Textbook finance vs. reality
  - b. Law and finance
5. Law and finance: Global and Asian evidence
  - a. Who controls Asian firms?
  - b. Shareholder rights: cash-flow rights and voting rights
  - c. Ownership concentration
  - d. External finance
6. State capitalism Part 1: Asia's growing sovereign economic power
  - a. State capitalism
  - b. State owned enterprises (SOEs) and privatization
  - c. Market incentives and state objectives
  - d. Government control of partially privatized SOEs
  - e. The impact of state on market and firms
7. State capitalism Part 2:
  - a. China's growth puzzle
  - b. Sovereign wealth funds
8. Family capitalism
  - a. Family control around the world
  - b. Growth of family business in Asia
  - c. Is family business a good organizational structure?
    - i. US example: diversified ownership and good legal environment
    - ii. Asian firms: concentration of control and expropriation
9. Informal financial sector and South Asia (India)
  - a. India's development and financial markets

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- i. Financing Indian corporate firms
    - ii. Corporate groups and informal financing
  - b. Microfinance
- 10. Corporate groups
  - a. Korea: Chaebol
    - i. Tunneling
  - b. Japan: Keiretsu
    - i. Main bank system
    - ii. Cross-shareholding
- 11. Global Financial Crisis and lessons from the Japanese Financial Crisis of the 1990s
  - a. The Japanese asset price bubble in the 1990s
  - b. Bank crisis
  - c. De-levering of firms and recession
- 12. Wrap up and left over topics:
  - a. Tale of two cities: Hong Kong and Singapore
  - b. Wrap up
  - c. Left over topics

### Reading list:

Please download articles directly if a link is provided below. For journal articles, please download from the university library. Other materials are uploaded onto the MyUni.

(\*) Must read the ones with the asterisk

(ref) Reference readings

- 1. Global imbalance and Asia's economy
  - a. (\*)Charles Adams and Donghyun Park, 2009. Causes and Consequences of Global Imbalances: Perspective from Developing Asia. *Asian Development Review*, vol. 26, no. 1: 19–47. [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1611424](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1611424)
  - b. (\*)Martin S. Feldstein, 2008. Resolving the Global Imbalance: The Dollar and the U.S. Savings Rate. *Journal of Economic Perspectives*, vol. 22(3), pages 113–25, Summer. <http://www.nber.org/papers/w13952>
  - c. (ref) Guonan Ma and Wang Yi, 2010. China's High Saving Rate: Myth and Reality. BIS Working Paper No. 312  
<http://www.bis.org/publ/work312.htm>
- 2. Asia's currency issue
  - a. (\*)Michael P. Dooley, David Folkerts-Landau, and Peter Garber, 2004. The Revived Bretton Woods System. *International Journal of Finance and Economics*, vol. 9: 307–313.
  - b. (\*)Takatoshi Ito, 2011. The Internationalization of the RMB: Opportunities and Pitfalls. Council on Foreign Relations Working Paper.  
<http://www.cfr.org/china/internationalization-rmb-opportunities-pitfalls/p26287>
  - c. (\*)Jeffery Frankel, 2011. Historical Precedents for the Internationalization of the RMB. Council on Foreign Relations Working Paper.  
<http://www.cfr.org/china/historical-precedents-internationalization-rmb/p26293>

3. Asia's financial centres
  - a. (ref) Joshua Felman, Simon Gray, Mangal Goswami, Andreas Jobst, Mahmood Pradhan, Shanaka Peiris and Dulani Seneviratne, 2011. ASEAN5 Bond Market Development: Where Does it Stand? Where is it Going? IMF Staff Papers. WP/11/137. [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1869546](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1869546)
  - b. (\* Executive Summary, Sections I and II: from page 1 to page 59) Michael R. Bloomberg and Charles E. Schumer (City of New York and United States Senate), 2007. Sustaining New York's and US' Global Financial Services Leadership. [http://www.nyc.gov/html/om/pdf/ny\\_report\\_final.pdf](http://www.nyc.gov/html/om/pdf/ny_report_final.pdf)
  - c. (ref) Global Financial Centres Index 11 <http://www.zyen.com/long-finance/global-financial-centres-index-gfci.html>
4. Law and finance: A framework for understanding stakeholders and governance of Asian firms
  - a. (\*)Rafael La Porta, Florencio Lopez-De-Silanes, Andrei Shleifer and Robert W. Vishny, 1998. Law and Finance, *Journal of Political Economy*, vol. 106, no.6, pp.1113-1155.
5. Law and finance: Global and Asian evidence
  - a. (\*)Stijn Claessens, Simeon Djankov and Larry H.P. Lang, 2000. The Separation of Ownership and Control in East Asian Corporations. *Journal of Financial Economics*, vol. 58, pp.81-112
  - b. (ref) Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 1999. Corporate Ownership around the World, *Journal of Finance*, vol. 54, no.2, pp. 471-517.
  - c. (ref) Rafael La Porta, Florencio Lopez-De-Silanes, Andrei Shleifer and Robert W. Vishny, 1997. Legal Determinants of External Finance, *Journal of Finance*, vol. 52, no.3, pp. 1131-1150.
6. State capitalism 1
  - a. (\*)Andrei Shleifer and Robert R. Vishny, 1998. Perspectives of Government. Chapter 1 of *The Grabbing Hand: Government Pathologies and Their Cures*, Harvard University Press ISBN 0674010140
  - b. (\*)The Visible Hand, Special Report: State Capitalism, 2012. *The Economist*, Jan. 21.
  - c. (\*) Jianping Deng, Jie Gan, and Jia He (2011) Political Constraints, Organizational Forms, and Privatization Performance: Evidence from China, working paper. [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=970056](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=970056)
7. State capitalism 2
  - a. (\*)Allen, Franklin, Jun Qian and Meijun Qian (2005) Law, Finance, and Economic Growth in China. *Journal of Financial Economics* 77: 57-116.
  - b. (ref) Jason Kotter and Ugur Lel (2010) Friends or Foes? The Stock Price Impact of Sovereign Wealth Fund Investments and the Price of Keeping Secrets. Forthcoming *Journal of Financial Economics* [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1292407](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1292407)
  - c. (ref) Shams Butt, Anil Shivdasani, Carsten Stendevad, and Ann Wyman (2008) Sovereign Wealth Funds: A Growing Global Force in Corporate Finance. *Journal of Applied Corporate Finance*, Vol 20, No. 1, Winter

8. Family capitalism

- a. (\*) (from Lecture 5) Stijn Claessens, Simeon Djankov and Larry H.P. Lang, 2000. The Separation of Ownership and Control in East Asian Corporations. *Journal of Financial Economics*, vol. 58, pp.81-112
- b. (\*)Mara Faccio, Larry H. P. Lang, and Leslie Young (2001) Dividends and Expropriation, *American Economic Review*, Vol. 91 No. 1: 54-78.
- c. (ref) Michael L. Lemmon and Karl V. Lins (2003) Ownership Structure, Corporate Governance, and Firm Value: Evidence from the East Asian Financial Crisis. *Journal of Finance*, Vol. LVIII, No. 4: 1445-1468.
- d. (ref) Asian Family Business Report (2011) Credit Suisse Research Institute  
<https://publications.credit-suisse.com/app/shop/index.cfm?fuseaction=OpenShopDetail&aoid=325378>

9. Informal financial sector and South Asia

- a. (\*) Allen, Franklin, Rajesh Chakrabarti, Sankar De, Jun Qian and Meijun Qian (2012) Financing Firms in India, *Journal of Financial Intermediation* Vol. 21 401-445.
- b. (ref, especially Section 7 on informal sector) Allen, Franklin, Rajesh Chakrabarti, Sankar De (2007) India's Financial System. Working paper.  
[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1261244](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1261244)

10. Corporate groups

- a. (\*) Kee-Hong Bae, Jun-Koo Kang and Jin-Mo Kim (2002) Tunneling or Value Added? Evidence from Mergers by Korean Business Groups. *The Journal of Finance*, Vol. 57, No. 6, pp. 2695-2740
- b. (ref) The Benefits and Costs of Keiretsu Financing. Chapter 6 of Takeo Hoshi and Anil Kashyap (2001) *Corporate Financing and Governance in Japan*. The MIT Press, Cambridge MA, ISBN 0-262-08301-9
- c. (\*) Mark Scher (2001) Bank-firm Cross Shareholding in Japan: Why is it, Why does it Matter, Is it Winding Down? DESA Discussion Paper No. 15, United Nations  
<http://www.un.org/esa/desa/papers/2001/esa01dp15.pdf>

11. Global Financial Crisis and lessons from the Japanese Financial Crisis of the 1990s

- a. (ref) Takeo Hoshi and Anil K. Kashyap (2010) Will the U.S. Bank Recapitalization Succeed? Eight Lessons from Japan. *Journal of Financial Economics* 97 398–417.
- b. (\*) Richard Koo and Masaya Sasaki (2010) Japan's Disposal of Bad Loans: Failure or Success? – A Review of Japan's Experience with Bad Debt Disposals and its Implications for the Global Financial Crisis – NRI Papers No. 151.  
<http://www.nri.co.jp/english/opinion/papers/2010/np2010151.html>
- c. (\*) Richard Koo (2011) The World in Balance Sheet Recession: Causes, Cure, and Politics, *Real-world Economics Review* No. 58  
<http://www.paecon.net/PAEReview/issue58/Koo58.pdf>

General reference books (these are not textbooks)

- i. Barry Naughton (2007). *The Chinese Economy: Transitions and Growth*. The MIT Press, Cambridge, MA.
- ii. Takeo Hoshi and Anil Kashyap (2001) *Corporate Financing and Governance in Japan*. The MIT Press, Cambridge, MA.

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- iii. Beatriz Armendáriz (2010) *Economics of Microfinance (2nd Edition)*. The MIT Press, Cambridge, MA.