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Abstract

This paper establishes the contribution made by the establishment and operation of a local stock exchange to the economic development of Southeast Asian (SEA) countries. Specifically, the paper informs investors and policy makers about the current status of SEA stock market development and the associated positive and negative effects of such initiatives. Policy makers have placed a clear focus on SEA stock markets as a primary driver of regional economic growth. However, it is questionable whether SEA is ready for such an ambitious economic initiative, particularly given the reported negative effects of lesser-developed stock markets in the literature. Despite the reported negative implications in the literature, the benefits appear to outweigh the costs for SEA stock markets. It is perceived that SEA stock markets will drive further economic reform, financial liberalisation and market integration, promising tremendous benefits for both the region and international investment community. The paper concludes with questions regarding the efficiency of stock markets in SEA and offers recommendations for further empirical research.

Introduction

Stock markets have played an important role in free-market capitalism by creating wealth and contributing to economic growth. Numerous studies (Choong, Baharumshah, Yusop and Habibullah 2010; Claessens 1995; Claessens and Fan 2002; Drake 1977, 1985; Singh 1997) have confirmed the role of stock markets in promoting economic performance in both developed and developing countries, showing that not only do they facilitate financing and investment but also smooth consumption and increase the standard of living (Choong et al. 2010). For instance, a local stock market: (1) enables an additional channel for encouraging and mobilising domestic savings; (2) enhances the productivity of capital market allocations; and (3) creates employment for the region (Singh and Weisse 1998). Moreover, it allows multi-national enterprises (MNEs) to access liquid investments, thereby diversifying their sources of finances.

On the other hand, some research (Benson-Durham 2002; Dickie 1981; Levine 1996, 2002; Mauri and Calamanti 1983; Samuels, Yacout and Samuels 1981; Singh 1992) questions the role of stock markets because of their social, political and economic vulnerabilities, particularly in developing countries. For example, lesser-developed capital markets have been known to inject overflows of foreign funds, which potentially jeopardises domestic credit channels and reduces local human capital (Bloom and Williamson 1998; Calvo 1998; Liu and Hsu 2006). Choong et al. (2010) argue that stock markets work more in favour of developed economies than their developing counterparts, i.e., mature financial mechanisms encourage wealthier nations to invest their funds in the diversification of international portfolio investments, which benefits their pension/retirement accounts. Hoti (2004) claims that large capital flows into developing nations tend to create negative effects such as rapid monetary expansion, inflationary pressure, high currency appreciation, and increasing current account deficits, and that these factors weaken developing economies in terms of their ability to respond to foreign shocks.

Given the perceived economic growth potential and pitfalls of lesser-developed countries, an investigation of the economic contribution made by their stock markets is warranted. Specifically, this paper addresses the development of a network of national stock exchanges across the Association of Southeast Asian Nations (ASEAN)[1] region: Malaysia, Indonesia, Thailand, Philippines, Singapore, Brunei, Myanmar (Burma), Vietnam, Laos and Cambodia. Section 2 discusses the role of lesser-developed stock markets. Section 3 addresses the characteristics of stock markets in Southeast Asia (SEA). Section 4 examines the positive and negative effects of local stock markets in SEA. Section 5 concludes the discussion and highlights further research.

The role of stock markets in lesser-developed countries

Stock markets in lesser-developed countries have undergone radical changes in the last two decades. Levine and Zervos (1996) show that stock markets have become one of the main financial sources for developing countries. As defined by measures such as market capitalisation and trading value, emerging stock markets have grown dramatically. There are three factors which explain this trend. First, most emerging economies have been in a period of economic expansion since the early 1980s, following the extreme worldwide recession of 1980-1982. Second, by the early 1980s, a process of financial liberalisation had been undertaken in most emerging economies; different types of barriers had been lowered and competition had intensified. At the centre of the process was the privatisation of state-owned enterprises (SOEs), which

[1] The ASEAN economic initiative is believed to be characterised by the successful operation and ongoing financial liberalisation of SEA stock markets (Rillo 2012). The common market proposed is understood to involve full of mobility of labour and capital, a lack of governmental intervention, and full rights of free establishment for companies in all member countries (Hew and Soesastro 2003).

stimulated stock market activity by expanding the supply of shares. Finally, the higher returns on investing in emerging stock markets relative to developed markets have attracted more domestic and foreign participants (El-Wassal 2005).

As such, investors in developed countries are sending a significant portion of their funds overseas, and an increasing number of them are choosing to invest in the world's emerging markets. These markets, which were once considered the 'Third World', span Latin America, Southeast Asia (SEA), Eastern Europe, the Middle East, and Africa, and they tend to be underdeveloped compared to the Western industrialised countries (Mobius 1995). Developing countries are often small, politically and socially vulnerable, and have poor or non-existent laws and regulations. A growing number of them are attempting economic emergence as their governments recognise the potential of free-market capitalism for creating wealth (Choong et al. 2010).

It would be easy to make generalisations about all developing stock markets (that is, those which are not 'Westernised') based on the theoretical and empirical approaches of the literature, however, the distinction between 'developing' and 'lesser-developed' is at times unclear. The World Bank's (2011) classification of high-income, middle-income, and low-income is a starting point, but it perhaps overemphasises the level of 'emergence' in oil-rich countries, which have neither fully developed economies nor the advances in domestic infrastructure and capital markets normally associated with the industrialised world. This classification could also be considered as the global difference of living standards and individual wealth between westernised and developing countries (Choong et al. 2010; Mobius 1995). Stock market capitalisation to Gross Domestic Product (GDP) is a frequently used measure but can be problematic when comparing and classifying countries, particularly in the emerging market sense (Choong et al. 2010; Mobius 1995). The difficulty in defining whether a country's stock market is lesser-developed than another, thereby presents a dilemma when attempting to classify such markets.

It should also be noted that both the theoretical and empirical literature concerning specific individual developing countries' stock markets and their economic growth is limited (i.e., the African and SEA regions appear to be the crux of these studies). Although there is a growing body of literature, the majority of it has a broad focus on developing countries as a collective group, and fails to comprehensively investigate individual lesser-developed countries' stock markets and their contributions to economic growth. This may be explained by a lack of suitable information and/or data on developing economies. Further, few empirical studies have focused on the issue of how to measure the soundness of equity market development in the context of developing countries (Shirai 2004).

Numerous studies have empirically assessed the positive relationship between equity market development and economic growth (e.g., Atje and Javanovic 1992; Demirguc-Kunt and Levine 1993, 1996), but not the transmission mechanisms between them. In the first large-scale empirical studies of corporate finance in developing countries, Singh and Hamid (1992) and Singh (1995) showed that contrary to prior expectations, lesser-developed country corporations rely heavily on: (1) external finance; and (2) equity finance (paradoxically, within external finance), to meet their needs for long-term investment funds. Another strand of empirical research on stock markets and economic growth involving lesser-developed countries has been international cross-sectional studies, based on regression analysis, which shows that stock markets positively affect long-term economic growth (Singh 1999).

Research by Atje and Javanovic (1993) suggests that establishment of stock markets is likely to raise a typical lesser-developed country's growth rate by 2.5% per annum. A similar study by Levine and Zervos (1995) indicates that banks and stock markets are complementary in making a positive contribution to economic growth. For example, banks can provide trading platforms, margin loans on share market investments and brokerage services to their clients, which ultimately facilitate risk sharing. Further, El-Wassal (2005) implies that there is a two-way relationship (bi-directional causality) between financial sector development and economic growth. For instance, economic growth gives rise to surplus income which is then saved or consumed, resulting in higher living standards. However, Arestis and Demetriades (1997) propose that cross-sectional studies of stock markets and economic growth have severe limitations, due to the fact that they are usually based on reduced form equations, which make it difficult to infer causality. Hooy and Lim (2013) further question the informational efficiency of stock markets, especially in regard to the liquidity risk caused by alleged informational asymmetries and high transaction costs.

The attention provided to lesser-developed markets and the enthusiasm by the World Bank in promoting the establishment of share markets in developing countries is part of a wider process focusing on the importance of the financial sector in leading economic development. This active role of the financial sector contrasts with earlier views that finance was essentially passive and a follower of developments in the real sector of the economy. The change can be located in the broader financial liberalisation/deepening framework of market-led financial sector reform and development (Jefferis 1995). Kitchen (1986:149) states that he is:

> [s]ubstantially in favour of encouraging stock markets in developing countries…[although] they are unlikely to be a panacea for solving the problems of savings mobilisation, investment and growth which developing countries face…their most favourable impact may be in the liberalisation of capital markets, in that they present alternative choices for institutions, savers and firms faced with repressive interest rates and banking cartels…in most countries any addition to the supply of scarce, long term capital, especially equity, is most welcome.

The role and impact of stock markets has perhaps not received as much academic attention as other elements of the financial sector development, particularly in sub-Saharan Africa and parts of SEA, where bank-based financial systems predominate (Choong et al. 2010). However, the relationship between financial sector development and economic growth has been a longstanding issue in the development literature. Some economists hold the view that financial development through the establishment of stock markets is a necessary condition for achieving high rates of economic growth (El-Wassal 2005). Conversely, there are a number of prominent researchers, including Lucas (1988) and Stern (1989), who regard financial development as a relatively unimportant factor in economic growth. Nevertheless, the role of equity markets in countries' economic development continues to be a controversial, yet extremely important issue. Despite the contrary findings, it is appropriate to investigate stock markets in a regional context. Specifically, the following sections explore stock markets and the role they play in the economic and financial development of SEA countries.

The characteristics of SEA stock markets

Stock markets in SEA have grown significantly in recent times, and have been regarded as one of the main contributors to economic development in the region (Hsieh and Nieh 2010; Huff 2011; World Bank 2011). The Asian Development Bank (2011) indicates that the percentage of stock market capitalisation to GDP in Singapore[2], Malaysia and Indonesia exceeded 100% at the end of 2010, while Thailand and the Philippines' stock market capitalisations represented more than 80% of their GDP. Although there are two stock exchanges operating in Vietnam (the Ho Chi Minh City and Hanoi Stock Exchanges), their contributions have only impacted slightly on Vietnamese market

[2] The high Singaporean stock market capitalisation may reflect the country's role as a regional financial centre, with listings of numerous offshore corporations and head offices being based locally.

capitalisation compared to the banking sector. Cambodia only recently launched its stock market in early 2012 and is in the process of constructing corporate governance and stock market mechanisms, having only one listed company on the exchange. Notably, Brunei, Laos and Myanmar (Burma) do not have stock markets. Brunei depends heavily on its oil production, so the establishment of a stock market is not currently of national interest. Additionally, Myanmar's (Burma's) political landscape has just been transformed from a military-based system to democracy since 2012; thus, stock market development does not seem appropriate at this point in time (Nehru 2012).

Traditionally, bank-based systems have become the primary method for financing investments in SEA, i.e., most SEA firms significantly depend on banks for short-term liquidity and long-term capital. In the early 1990s, financial liberalisation projects were implemented across SEA in order to promote the competitiveness of national banking sectors and overall banking efficiency and productivity (Williams and Nguyen 2005). Stock markets were not given much attention by the SEA governments during this period, resulting in low turnover, market illiquidity, a lack of market transparency and greater volatility. As such, the more concentrated the banking system, the thinner the capital markets (World Bank 2011). Relatively weak domestic financial systems has therefore placed SEA economies under threat from foreign capital at times, i.e., the significant exchange rate and interest rate shocks experienced by SEA during heightened global market volatility (Gochoco-Bautista and Remolona 2012; Hsieh and Nieh 2010). As a result, the governments in some SEA countries have since paid more attention to the development of stock markets as a way to: (1) diversify and facilitate the exchange of goods and services; (2) attract foreign investment funds; (3) maximise domestic savings; and (4) promote economic stability.

However, in 1997/98, SEA economies fell victim to the Asian Currency Crisis (ACC). A large sell-off of Thai Baht devalued the currency by 40%, resulting in a 50% stock market correction. The Thai Government defaulted[3] and sought assistance from the World Bank to restructure its debt (Bosworth 1998). The second wave of the crisis soon hit other Asian economies, swiftly spreading from Bangkok to Kuala Lumpur, Jakarta to Manila, Singapore to Taipei, and Seoul to Hong Kong (Shapiro 2010). The economic devastation caused by this crisis revealed great dependence to foreign capital flows, clearly showcasing economic vulnerabilities in the region (Huff 2011; Soedarmono, Machrouh and Tarazi 2011). Since the ACC, there have been efforts put forward for banking sector reform across SEA, such as bank consolidations, mergers and acquisitions (M&As) and increased capital market activity. Soedarmono et al. (2011) argues that the reforms have not lived up to expectations however, and that SEA economies are still dependent on the banking system and foreign investment funds. For example, SEA has been ranked the second highest recipient of cross-border bank M&As, after Latin America, accounting for 36% of its total banks, leading to the emergence of moral hazard in the banking sector and exploitation of government bailouts (similar to those received by distressed Euro-Zone countries during the 2011/12 European Sovereign Debt Crisis) (Huff 2011).

On the other hand, it could be argued that the banking sector reforms since the ACC have led to a more efficient banking sector (which is now successfully sourcing and mobilising capital). Further, increased M&A activity is to be expected with such financial liberalisation, and moral hazard may be less likely with a stronger 'internationalised' banking system (Ake 2010). The fact that SEA countries are still dependent on the banking system and are able to attract foreign investment could be

[3] While many Thai financial institutions failed during this event, their stock market remained functional.

taken as evidence that the reforms have indeed worked well (Rahman and Salahuddin 2010). As a result, SEA governments have created initiatives for capital market development across the region, claiming that capital markets (particularly stock markets) were the most appropriate solution to avoiding similar crises and promoting economic growth (Jayasuriya 2011).

The literature (Ake 2010; Beck and Levine 2004; Chambet and Gibson 2008; Enisan and Olufisayo 2009; Hearn, Piesse and Strange 2011; Hsieh and Nieh 2010; Huff 2011; Jayasuriya 2011; Rahman and Salahuddin 2010) appears to support such reforms, arguing that securities markets play a significant role alongside the banking sector, and have a long-run relationship with economic growth. With the exception of the ACC and Global Financial Crisis (GFC) in 2007/08, SEA stock market capitalisations have been increasing rapidly since 1990. Hee Ng (2002:359) lists the reasons for such rapid growth as: (1) growing liberalisation of the markets; (2) the restructuring of the private sector; (3) gradual opening of stock markets to foreign investment funds; (4) strong economic growth; and (5) privatisation of state enterprises. Further, Ake (2010) suggests that SEA stock markets issue new financial resources to firms by facilitating higher levels of investment and allocating capital, thereby supporting economic growth.

In more recent times, SEA stock markets have impressed the investment community with their resilience and speedy recovery after the GFC. Investor enthusiasm for high returns and opportunities for risk diversification have promptly increased the value of SEA stock markets since the GFC. Also, it is suggested they have performed well due to strong economic fundamentals that include, but are not limited to, high export rates, international trade, domestic demand and foreign portfolio inflows (Asian Development Bank 2011; Huff 2011). In fact, as compared to G2 developed markets, ASEAN stock markets have been outstanding performers over the last decade, i.e., the Thai stock market earned a 43.4% return for investors in 2011. Other impressive markets in 2011 were the Philippines (25.5%), Indonesia (32.4%), and Malaysia (35.3%), all generating substantial returns, both before and after the GFC (Asian Development Bank 2011). Notably, these four countries are now known as the new growth engine or 'tiger cub' economies of SEA.

So what makes SEA stock markets so different from more established markets? The tiger cub countries mentioned have been classified by the International Finance Corporation (IFC) as having a relatively free investment climate (Hee Ng 2002). In the Philippines, legal restrictions have been exercised to prevent full foreign ownership in some sectors; however, investors are allowed to move their funds in and out of the country with relative ease (US Department of State 2012e). Similarly, a 49% foreign ownership restriction has been imposed in Thailand and Indonesia. Thailand allows free movement of capital in and out of the country, while in Indonesia investors are required to apply for permission from the Central Bank of Indonesia for the repatriation and inflows of funds (Hee Ng 2002; US Department of State 2012a, 2012d). On the other hand, Singapore and Malaysia have welcomed full foreign ownership within their countries (US Department of State 2012b, 2012c)[4]. Nevertheless, Parsley and Popper (2006) suggest that the majority of SEA firms are exposed to significant foreign exchange rate risk, particularly to fluctuations in the value of the US dollar, which does not appear to reduce under exchange rate pegs. Further, the exposure to foreign exchange risk among SEA firms is more prominent than what has typically been

[4] Singapore and Malaysia have had a long history of political, economic and financial market co-operation. For instance, Singapore and Malaysia shared political evolution and economic development until 1965. They also shared a common stock market until 1973 (US Department of State 2012c).

reported for firms in western economies, making such investment inherently risky (Hee Ng 2002; Hsieh and Nieh 2010; Parsley and Popper 2006).

The effects of stock markets in SEA countries

Positive effects

Drake (1977, 1985) claims that developing stock markets are feasible and can play a significant role in the development of an economy; thereby, offering contributions which cannot be understated. It is generally acknowledged that SEA stock markets play an important role in promoting the quality of financial systems, i.e., encouraging information acquisition, corporate disclosure and monitoring, financial risk management, the diversification of investments and savings mobilisation (Hsieh and Nieh 2010; Levine 2002). The high growth potential of equity markets in SEA has established a strong connection with its economic performance and long-term development (Huff 2011; Levine and Zervos 1998). Thus, it is difficult to reject the positive effects of stock markets in SEA due to fellow country success stories; particularly the significant contribution made by the Singaporean stock market to regional economic growth. Singapore is rated as a world-class equity market and has been regarded a role model for developing SEA countries, primarily because of its transparent and fluent capital market operations. This success has urged ASEAN economies to follow Singapore's lead by promoting financial liberalisation, good corporate governance and high standards and transparency for financial disclosures (Huff 2011).

Levine (2002) argues that well-functioning stock markets help reinforce corporate governance and accountability in developing countries and regions like SEA. Emerging capital market investment is expected to render SEA countries' investment environments more efficient, competitive and comparable to their more developed

Asian-Pacific counterparts. Further, Singapore and the tiger cub countries could benefit significantly from an integrated regional stock market and international share trading (Hee Ng 2002). Integrated national and regional SEA stock markets mobilise new sources of long-term finance, reducing the relative importance of traditional counterproductive bank-dominated systems of the past (Huff 2011; Naceur and Ghazouani 2007). Moreover, equity financing has become an important external source in SEA countries, since firms find it more difficult to accumulate retained earnings and, at the same time, obtain long-term financing from banks that are under severe pressure to improve their balance sheets and meet global capital adequacy and soundness standards (Hsieh and Nieh 2010; Shirai 2004). Debt financing is also becoming important in some SEA markets. For instance, corporate bond markets are emerging as a result of larger, liquid government bond markets, thereby providing benchmark assets for corporate bond pricing (Choong et al. 2010). However, the main advantages of developing equity markets in lesser-developed countries arise from the unique features that cannot be demonstrated by debt (loan and bond) markets (Shirai 2004). Essentially, the competition between the stock market and banking industry will place pressure on banks to redesign their interest rate and mortgage maturities at efficient rates, which will benefit both savers and users of funds. In turn, this will provide greater economic opportunities to SEA investors (Beck and Levine 2004).

Importantly, stock markets make the securities traded less risky because investors and savers can undertake investments based on their personal preferences (i.e., investment objectives, time horizon, risk tolerances, etc). Shareholders can also potentially claim large upside returns through share price appreciation and dividends (particularly in the speculative SEA stock markets), while downside risks are limited to 100% of the initial investment by virtue of limited liability (Shirai 2004). It also makes long-term investments more attractive since investors can purchase and sell their shares cheaply and quickly (Bencivenga and Smith 1991; Huff 2011; Levine and Zervos 1995). Stock markets enhance liquidity which minimises the cost of capital and allocate domestic savings more efficiently, providing greater economic and social returns; thus, decreasing SEA vulnerabilities to foreign funding (Greenwood and Smith 1997). Listed companies will be able to access long-term and reliable funding for new projects through initial public offerings (IPOs) and other capital raisings (Dow and Gorton 1997; Huff 2011; Levine and Zervos 1995); thereby, improving the allocation of investment capital, boosting profitability among companies and driving economic growth in SEA (Levine 2002).

SEA stock markets promote greater corporate control by allowing takeovers and structuring effective managerial compensation, which in turn, enables risk sharing/diversification, corporate performance monitoring and clear investment signals (Greenwood and Smith 1997). Poorly performing domestic companies can be purchased by foreign companies, providing certainty about the management of the organisation and likely future success of the organisation (Levine 2002). Further, Bloom and Williamson (1998) describe the demographic transition in Asia as a 'miracle' because of its high growth working-age population and the associated economic benefits. Such growth will help to maximise employment opportunities for SEA countries by encouraging entrepreneurial innovation, promoting technology, promising flamboyant business activity and advancing economic outcomes (Jefferis 1995; Singh 1997, 1999).

Negative effects

Interest in emerging equity markets in SEA has increased primarily because financial theories suggest that an integrated stock market is more efficient than individual national stock exchanges. While attractive, investing in emerging SEA economies is not as easy as conventional wisdom suggests. Foreign investors face numerous challenges when investing in lesser-developed markets. For instance, barriers to foreign capital flows include taxes, regulatory restrictions, credit and foreign exchange risk, weak legal systems, limited demand for shares, information asymmetries and sovereign risk (Benson-Durham 2002; Dickie 1981; Hsieh and Nieh 2010; Levine and Zervos 1996). Foreign investors also confront a lack of market transparency, unreliable market regulation, foreign exchange risk, rent seeking and relationship-based transactions and corruption (Claessens and Fan 2002; Hsieh and Nieh 2010). Further, Dickie (1981) argues the that foreign-controlled companies intending to make a public offering of shares in developing countries are often confronted with inconsistent local tax laws, government-induced low prices for shares, alternative and more profitable financing options, and the possibility that an offering will result in less control of the company.

Traditionally, stock markets have not been an essential source of financing in corporate SEA, since most firms fund their investments through retained earnings, bank loans and/or private investment consortiums (Choong et al. 2010; Huff 2011). Therefore, the relationship between the banks and companies has essentially been established for lengthy periods, making raising funds via new capital markets difficult. It is argued that the bank-based system has worked well in SEA, especially during the early stages of financial development. The establishment of bank-based systems in SEA has been driven by its perceived ability to monitor company performance with positive implications for economic growth (Levine 2002). Well-structured banking sectors ensure the profitability of investments undertaken by individual firms, since they have to disclose all information and pay debts, which are based on domestic legal and accounting regulations. For example, Japan and South Korea have relied heavily on the bank-dominated system instead of capital markets to enhance their economic growth (Aoki, Patrick and Sheard 1993; Booth 1999). Researchers who support a bank-based view also dispute that stock market regulation is effective in the monitoring of company operations (Levine 2002).

Hooy and Lim (2013) also suggest that a company's share price is not always representative of its true performance, as share prices may not represent *all* available information nor do investors have equal access to such information. Similarly, Samuels, Yacout and Samuels (1981) claim that conditions for stock market efficiency does not always exist in developing countries and such inefficiencies can lead to increasing inequality in the distribution of wealth. For instance, information asymmetry results in uninformed investors paying more for shares than well-informed insiders, resulting in inefficient pricing, misallocation of capital and large potential losses (Hsieh and Nieh 2010; Levine 2002). Likewise, Zhang's (2007) research shows that a firm with a high level of agency costs and information asymmetry is more likely to implement the entity method (i.e., off-balance sheet reporting) because of its high risk-taking attitude; that is, to focus mainly on operating activity and value.

Some economists controversially purport that stock markets in developing countries are glorified 'casinos', which have little or next to no effect on economic outcomes (Levine 1996). Claessens and Fan (2002) also question the profitability of investing in SEA stock markets due to the high concentrations of individual ownership in Asian corporations. Investor myopia is a further problem in modern stock markets. Modern trading technology (i.e., online brokerage accounts, sophisticated trading platforms, and high frequency trading) allows inexperienced and/or unskillful investors to trade shares rapidly, resulting in large losses when desired outcomes are not achieved. Hence, liquid stock markets have the possibility to weaken investor confidence and motivation by the constant overseeing of company performance or information 'overload' (Claessens and Fan 2002). Consequently, stock market speculation may actually hurt economic growth (Hsieh and Nieh 2010). Levine (2002) believes that capital markets do not do a good job in capturing information about economic and company-specific fundamentals. The conflict of interest between auditing firms and listed companies might also easily result in misleading financial reports. If this is a common occurrence, then financial fraud must surely have negative outcomes for market operations, capital allocation and overall economic performance.

Another issue in SEA is improper corporate governance practices. Individuals who have strong connections with corrupt government officials can form their own agreements to take advantage of information and other investors. The law, being put in place to prevent fraudulent disclosure and auditing systems, can prove to be unsuccessful in its enforcement, resulting in misuse of power over minority shareholders (Hsieh and Nieh 2010; Huff 2011 Sawicki 2009). However, in Japan, the legal system protects minority shareholders from expropriation by corporate insiders (Shirai 2004). This is a salient policy perspective, particularly considering the weakness of property rights and legal enforcement in SEA countries. Also, stock markets in developing countries are commonly associated with share price volatility and arbitrariness (Singh 1997), and do not always appear to be related to economic fundamentals (De Santis 1997). Moreover, lesser-developed equity markets cause policy makers concern about excessive price movements, particularly when foreign investment flows lead to macroeconomic instability, e.g., large exchange rate fluctuations (Claessens 1995).

So, does the establishment and operation of stock markets in lesser-developed countries really assist their economic development? The answer completely depends on what stage, both financially and economically, the individual country is at. According to Mauri and Calamanti (1983), it should not be assumed that the introduction of stock markets in lesser-developed countries will improve the savings mobilisation process, as stock markets in early stages of development may only modestly influence private savings rates and resource allocation. Much of this argument stems from differences not so much in the theoretical analysis, but from assessments of the practical aspects of securities markets development (Hsieh and Nieh 2010; Jefferis 1995). Clearly a country with poor infrastructure, poverty, under-developed banking systems, political and social unrest, corruption, and regulatory constraints is not an appropriate candidate for a stock market at this stage of its' development.

The establishment of stock markets in lesser-developed countries has been argued by some authors (Isimbabi 1997; The Economist 1997) as nothing more than 'status symbols' and 'emblems of national pride'. For instance, Singh (1997) recommends that lesser-developed countries need to reform their banking systems and create a more conducive economic and political structure before they can enjoy the fruits that a stock exchange has to offer. Further, the establishment and operation of a stock market will only provide benefits to lesser-developed countries that are ultimately prepared financially (supported by a sound banking system), politically and socially, and have strong growth economies as a starting point (Huff 2011).

Conclusion

The debate over stock markets and the role they play in the economic expansion and financial liberalisation of lesser-developed countries is contentious. The literature offers mixed conclusions as to the desirability of the stock market mechanism as a contributor to the development of emerging countries/regions. For instance, stock markets appear vulnerable to foreign fund overflows, interest rate risks and foreign exchange shocks, which may explain why bank-dominated systems still have firm roots in developing economies. On the other hand, it is suggested that regardless of whether financial systems are bank- or market-based, stock markets at any level of sophistication can make valuable contributions to the economy.

A good example of lesser-developed countries and the role stock markets play in their ongoing development is the SEA region. SEA stock markets have emerged in the last few decades in response to increasing national (and regional) demand for private investment funds. The phenomenal success of the Singaporean stock market in the global economy has seen their market become an inspiration for developing SEA 'tiger cub' stock markets (i.e., Thailand, Indonesia, Malaysia and the Philippines). The introduction of dividend imputation taxation systems and relaxation of foreign ownership restrictions has further promoted SEA stock market integration and investment. Along with the banking sector, the stock market has been regarded as a main contributor to SEA economic development in recent times. Policy makers have placed a clear focus on SEA stock markets as a primary driver of regional economic growth. It is perceived that this initiative will promote further economic reform, financial liberalisation and market integration, promising tremendous benefits for both the region and international investment community.

However, numerous questions on the contribution and operation of SEA stock markets remain. Are SEA stock markets ready for such an ambitious economic initiative, particularly given the reported negative effects and investment constraints of lesser-developed stock markets? It is alleged that SEA stock markets suffer from symptoms such as market manipulation, excessive speculation, improper corporate governance practices, lack of market transparency and corruption. If this is the case, are SEA stock markets informationally efficient and/or financially integrated with each other to begin with? Further, the European Sovereign Debt Crisis and ongoing economic problems of the European Union (EU) (i.e., drastic austerity measures, growing public debt, high unemployment, low economic growth, etc) has raised doubts about the feasibility of such a similar financial union in SEA vis-à-vis ASEAN. For instance, what strategies are being considered by ASEAN policy makers to avoid the mistakes of the EU? Can Indonesia, as ASEAN regulator and administrator, play the same role Germany has in the EU? While both interesting and challenging, we leave the exploration of the above mentioned questions and their implications for SEA economic development to future empirical research.

Despite the reported negative implications surrounding SEA stock markets in the literature, the benefits appear to outweigh the costs. SEA stock markets are being designed to improve the efficiency of investment by allocating capital throughout the economy. They are enabling corporations to raise much needed capital and allow investors to invest funds based on their objectives and risk tolerances, hence, providing an efficient platform for investment and economic opportunity and a better pricing of risk. As such, the ongoing development of stock markets in SEA should result in a more efficient allocation of resources over time. In particular, the liquidity function means that as a result of the trading activities within the marketplace, domestic and international investors are able to buy and sell SEA shares more quickly (and cheaply). Therefore, the promotion of stock exchanges and issuing of stocks should enable the allocation of savings to more efficient investments, thereby raising returns to savers and stimulating the rate of saving necessary for continued economic growth in the SEA region.

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