ASEAN EXCHANGES:
a gateway to Asia

GLEN ROBINSON
Managing director, Asia advisory
AFG Venture Group
glen.robinson@afgventuregroup.com

MITCHELL BROWN F Fin
Analyst
AFG Venture Group
mitchell.brown@afgventuregroup.com

The international investment community has traditionally avoided many of the Asian equities markets for reasons that include lack of readily available information, administrative difficulties in investing, questions over probity and the investment mandate of many funds, which place restrictions on cross-border activities. This is beginning to change, albeit slowly, thanks to the growth of alternative trading systems and the globalisation of companies, which encourages them to seek investment from multiple, or less traditional exchanges, for strategic reasons. Like their overseas counterparts, Australian investment funds have begun to look to investment opportunities outside Australia, in part because the local market tends to be overcrowded.

There are many benefits of investing in the Asian region. Given that it is now home to 57% of the world's population and economically it is growing at twice the rate of the rest of the world, the investment environment is beginning to blossom. Capital formation in the region is relatively new and appropriate controls, frameworks and regulatory rigour are developing. Here, we look at the pluses and minuses of the major Asian exchanges compared to those domiciled in developed markets.

ASEAN EXCHANGES

The ASEAN Exchange is a collaboration of seven exchanges in the Asia Pacific region.

The general principle of the ASEAN Exchange is that the exchanges in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam have launched an investment portal aimed at providing a gateway for the bourses. It will have a combined market capitalisation of US$1.8 trillion and represent more than 3,000 companies.

The portal will include information about each of the exchanges, including clearing and settlement systems, key market indices, investor news and roadshow schedules. Each bourse will showcase 30 blue chip stocks. The roadmap targets 2015 as the time at which the exchanges become harmonised and transactions will be seamless between them. There is no intention at this stage for any equity swaps; it is purely a harmonisation of systems.

HISTORICAL STOCK MARKET PERFORMANCES

Australia's offshore investments have traditionally been directed to the western world as they seem to be the economies that offer reasonable levels of comfort. This investment includes both portfolio and foreign direct investment; although more foreign direct investment has recently been funnelled towards Asia.

It's worth examining the performance of various national stock exchange indices over time. All economies were adversely affected by the recent financial crisis, some far more than others. Economies that have close commercial links with the US, including Singapore, Thailand and Vietnam, were the worst affected.

The performance of each economy since the crisis is also of interest.

All national stock exchanges have improved their performance since the crisis, some (for example Indonesia and Singapore) more than others. It is also relevant Australia has outperformed only New Zealand. Indonesia has had a stellar performance, with the stock exchange index increasing significantly and outperforming all others since the crisis.

It has become obvious the ASEAN countries' stock exchanges as a group have outperformed the western countries since the recent crisis.

The Australian and western stock markets have tracked reasonably closely since 2004 with little variation. The ASEAN markets, however, started at a lower base but were growing faster than the Australian market at the start of the crisis. Since then, Asian markets have outperformed the Australian and other western markets.

EFFECT OF THE AUSTRALIAN DOLLAR EXCHANGE RATE

There has been much comment about the exchange rate of the Australian currency and the effect that it has on international trading. Australia's major trading partners are China, the European Union, Japan and the US, which make up 56% of The Reserve Bank's trade weighted index. The following table shows the change since 2008 in the quantity of foreign currency the Australian dollar will purchase.

The appreciation of the Australian dollar against the US dollar and the euro is quite marked. But for other economies in the Asia Pacific region the results are mixed. The Australian dollar has appreciated strongly against the Hong Kong dollar and Philippine peso. But the appreciation of the Australian dollar is marginal against the other currencies represented in the table. There has been no appreciation of the Australian dollar against the Japanese yen.

CONCLUSION AND COMMENT

The Asian stock markets have performed very credibly, and have provided satisfactory returns to their investors. Even the appreciated Australian dollar has only marginally dented returns from investments in most Asian markets.

With improved governance, harmonisation of rules, processes and back room systems and the potential for seamless transfers between exchanges, the ASEAN Exchanges adds a potential for diversity otherwise not available.

	RATE OF CHANGE YEAR ON YEAR			ANNUAL AVERAGE
	2009	2010	2011	
China	93 %	115 %	107 %	4.9 %
Japan	865	109 %	105 %	-0.5 %
Euro	100 %	122 %	107 %	10.0 %
US	94 %	117 %	112 %	7.9 %
South Korea	110 %	106 %	101 %	5.8 %
Hong Kong	94 %	117 %	112 %	7.7 %
India	104 %	110 %	108 %	8.3 %
Philippines	101 %	110 %	109 %	7.1 %
New Zealand	106 %	97 %	108 %	3.6 %
Malaysia	100 %	107 %	104 %	3.7 %
Thailand	98 %	108 %	106 %	3.9 %
Taiwan	99 %	111 %	101 %	4.0 %
Singapore	97 %	109 %	104 %	3.5 %
Indonesia	100 %	102 %	105 %	2.4 %

Change since 2008 in quantity of foreign currency AUD will purchase