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## Capital Market Development: Whither Latin America?

Augusto de la Torre  
Juan Carlos Gozzi  
and  
Sergio L. Schmukler\*

### Abstract

Over the last decades, many countries have implemented significant reforms to foster capital market development. Latin American countries were at the forefront of this process. This paper analyzes where Latin American capital markets stand after these reforms. We find that despite the intense reform effort, capital markets in Latin America remain underdeveloped relative to markets in other regions. Furthermore, stock markets are below what can be expected, given Latin America's economic and institutional fundamentals. We discuss alternative ways of interpreting this evidence. We argue that it is difficult to pinpoint which policies Latin American countries should pursue to overcome their poor capital market development. Moreover, we argue that expectations about the outcome of the reform process may need to be revisited to take into account intrinsic characteristics of emerging economies. The latter may limit the scope for developing deep domestic capital markets in a context of international financial integration.

**JEL classification codes:** G18, G20

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## 1. Introduction

Back in the early 1990s, economists and policymakers had high expectations about the prospects for capital market development in emerging economies.<sup>1</sup> This led to significant reforms, including financial liberalization, the establishment of stock exchanges and bond markets, and the development of regulatory and supervisory frameworks. These reforms, together with improved macroeconomic fundamentals and capital market-related reforms, such as the privatization of state-owned enterprises and the shift to privately managed defined contribution pension systems, were expected to foster financial development.<sup>2</sup>

Despite the intense reform efforts, the performance of domestic capital markets in many emerging economies has been disappointing. Although some countries experienced growth of their domestic markets, this growth in most cases has not been as significant as that in industrialized nations. Other countries experienced an actual deterioration of their capital markets. Stock markets in many developing countries have seen listings and liquidity decrease, as a growing number of firms have cross-listed and raised capital in international financial centers, such as New York and London.<sup>3</sup> In many emerging economies, stock markets remain highly illiquid and segmented, with trading and capitalization concentrated on few stocks. Also, bonds tend to be concentrated at the short end of the maturity spectrum and denominated in foreign currency, exposing governments and firms to maturity and currency risks.<sup>4</sup> The large number of policy initiatives and the disappointing performance of capital markets have left policymakers without clear guidance on how to revise the reform agenda going forward and many do not envision a bright future for domestic capital markets in developing countries.

In this paper, we analyze the state of capital markets in Latin America and discuss how to rethink the reform agenda going forward in light of this evidence. Our focus on Latin American countries is motivated by the fact that these countries were at the forefront of the capital market reform process over the last decades.<sup>5</sup> Despite the intense

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<sup>1</sup> Capital market development has been deemed an important goal, as growing evidence supports the view that a sound financial system is not just correlated with a healthy economy, but actually causes economic growth. See Levine (2005) for a comprehensive review of the literature on the finance-growth nexus.

<sup>2</sup> These expectations were supported by the cross-sectional empirical evidence on the determinants of financial development, which shows that countries with sounder macroeconomic policies, better institutional environments, and more efficient legal systems, especially regarding the protection of creditors and minority shareholders, have more developed domestic financial markets (see, for example, Boyd, Levine, and Smith, 2001, La Porta, Lopez de Silanes, and Shleifer, 2006, and La Porta et al., 1997, 1998).

<sup>3</sup> Karolyi (2004) and Moel (2001) offer evidence on how the use of American Depositary Receipts (ADRs) is related to stock market development in emerging economies. Levine and Schmukler (2006a,b) analyze the impact of migration to international markets on domestic market trading and liquidity.

<sup>4</sup> See Mihaljek, Scatigna, and Villar (2002) for an overview of the characteristics of bond markets in emerging economies.

<sup>5</sup> Starting in the late 1980s and early 1990s, most Latin American countries implemented macro stabilization programs and liberalized their financial systems, ending a long period of financial repression. Apart from macro stabilization and liberalization, governments throughout the region approved new legislation aimed at creating the proper market infrastructure and institutions for capital markets to flourish. These capital market reforms were complemented in a number of cases by privatization efforts and by

reform effort, capital markets in the region seem to have lagged behind, not only relative to developed countries, but also compared to emerging economies in other regions, such as East Asia (de la Torre and Schmukler, 2006). Analyzing the experience of Latin American countries may provide significant lessons for the capital market reform agenda going forward, which may also apply to emerging economies in other regions.

We start by documenting the extent of capital market development in Latin America and comparing it to other regions. We then use formal analyses to further understand how the state of stock markets in the region differs from that in other regions. In particular, we are interested in assessing whether there is a gap between fundamentals and policies, on the one hand, and actual stock market development, on the other. This issue is highly relevant for the policy debate. The observed lack of capital market development in Latin America may be a consequence of the region's poor fundamentals, suggesting the need to push further ahead in the reform effort to achieve a higher level of economic and institutional development, which in turn should result in more developed capital markets. On the other hand, the finding of a shortfall between actual capital market development in the region and the level of development predicted by its economic and institutional fundamentals could indicate that reforms and improvements in these fundamentals have not had the expected results so far. This suggests that it might be necessary to revise the reform agenda and related expectations to take into account certain characteristics of these countries which may limit the scope for developing deep domestic securities markets. Finally, we discuss alternative ways of interpreting the evidence, with the goal of drawing lessons for the reform agenda going forward.

The evidence shows that despite the intense reform effort, capital markets in Latin America remain underdeveloped compared to markets in East Asia and developed countries. Furthermore, we find that stock markets in the region are below what can be expected, given economic and institutional fundamentals. In particular, we find that there is a shortfall in domestic stock market activity (market capitalization, trading, and capital raising) in Latin America after controlling for many factors, including per capita income, macroeconomic policies, and measures of the legal and institutional environment.

We discuss how different lines of thought would assess this gap between predicted and observed outcomes. This exercise helps to gain a better understanding of the possible reasons for this divergence and sharpen the criteria to guide an appropriate reformulation of policy recommendations. We argue that two stylized views dominate the current reform debate in this regard. The first view, encapsulated in the message "be patient and redouble the effort," contends that the gap between expectations and observed outcomes is due to the combination of impatience with imperfect and incomplete reform efforts. This view argues that past reforms were basically right, that reforms needed in the future are essentially known, and that reforms have long gestation periods before producing

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comprehensive pension system reforms. See de la Torre and Schmukler (2006) for an overview of the capital market reform process in Latin America.

visible results.<sup>6</sup> The second view, encapsulated in the message “get the sequence right,” claims that the gap is due to faulty reform sequencing. This view draws attention to the problems that arise when some reforms are implemented ahead of others and argues that key preconditions should be met before fully liberalizing domestic financial markets and allowing free international capital mobility.<sup>7</sup>

Though differing in diagnoses and policy prescriptions, these views are not necessarily incompatible and both capture important aspects of the problem at hand, yielding considerable insights. Our main argument, however, is that neither of the two views may adequately address a number of salient questions posed by the evidence. We therefore propose a third, complementary view that is much less prescriptive. This view can be encapsulated in the message “revisit basic issues and reshape expectations.”<sup>8</sup> It contends that, although more research is needed, it is difficult to pinpoint which factors may explain the relative underdevelopment of domestic capital markets in Latin America. Future research might find that the gap between predicted and observed outcomes is explained by some factor not included in the long list of controls used in this paper. Nevertheless, we claim that there might as well be important deficiencies with the expectations and design of past reforms. This view argues that policy initiatives need to take into account the intrinsic characteristics of developing countries (such as small size, lack of risk diversification opportunities, presence of weak currencies, and prevalence of systemic risk), and how these features limit the scope for developing deep domestic capital markets in a context of international financial integration. These limitations are difficult to overcome by the reform process. In other words, even if emerging economies carry out all the necessary reforms, they might not obtain a domestic capital market development comparable to that of industrialized countries.

The rest of the paper is structured as follows. Section 2 presents descriptive statistics on capital market development in Latin America and compares them to other regions. Section 3 describes the econometric estimations of whether stock market development in Latin America is close to the level predicted by fundamentals. Section 4 discusses the typological views on why the state of capital markets is different than expected. Section 5 concludes.

## **2. Capital Markets in Latin America**

This section analyzes the state of capital markets in Latin American countries and compares them to those in other countries. Figure 1 shows different indicators of financial development for selected Latin American, East Asian, and developed countries. In particular, this figure presents data on credit to the private sector by financial institutions, stock market capitalization, and the amount outstanding of private sector domestic bonds, all as a percentage of Gross Domestic Product (GDP), at year-end 2004.

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<sup>6</sup> Renditions of this view, in the more general context of assessing the impact of reforms on economic development, can be found, for instance, in Fernandez Arias and Montiel (2001), Krueger (2004), Singh et al. (2005), and World Bank (1997).

<sup>7</sup> This view is articulated, for example, in Bhagwati (1998) and Stiglitz (2002).

<sup>8</sup> This view is described in more detail in de la Torre and Schmukler (2006).

As this figure shows, although there are differences among Latin American countries, most countries in the region have significantly smaller financial markets than G-7 and East Asian countries. Chile is the only exception, as the size of its financial markets, especially its stock market, vastly exceeds that of other Latin American countries and also compares favorably with financial markets in developed and East Asian countries. However, analyzing measures of actual stock market activity, such as value traded, shows that Chile's stock market remains underdeveloped compared to markets in East Asia and developed countries.<sup>9</sup>

Figures 2 and 3 display average values of different measures of stock market development for Latin American, G-7, and East Asian countries for the years 1990 and 2004. As Figure 2 shows, stock markets in Latin America have grown considerably over the last decades. The average domestic stock market capitalization in terms of GDP in the seven largest markets in the region (Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela) more than tripled between 1990 and 2004. Value traded in domestic stock markets also increased significantly during this period, from an average of 2.0 percent of GDP in 1990 to 6.1 percent in 2004. Despite this strong growth, stock markets in Latin America are still small when compared to those in other regions. At the end of 2004, stock market capitalization in this region reached 42.3 percent of GDP, compared to 93.6 and 147.1 percent in G-7 and East Asian countries, respectively. Regional differences are more striking when analyzing trading activity, with Latin American countries appearing to be caught in a low liquidity trap. While value traded in domestic stock markets stood at 6.1 of GDP in Latin America in 2004, it reached 92.2 percent in G-7 countries and 104.5 percent in East Asia.<sup>10</sup>

Similar regional differences are visible when analyzing capital raising activity (Figure 3). Capital raised as a percentage of GDP in Latin American stock markets is lower than in other regions, reaching 0.5 percent in 2004, compared to 1.5 percent in G-7 countries and 5.9 percent in East Asia.<sup>11</sup> The average number of firms listed in domestic stock markets in Latin America has decreased over the last decades, from 232 in 1990 to 174 in

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<sup>9</sup> Value traded over GDP reached 12.4 percent in Chile in 2004, compared to 65.5 percent in France, 74.2 percent in Japan, and 165.9 percent in the U.S. The East Asian countries presented in the graph also had significantly higher levels of trading activity than Chile, with value traded over GDP reaching 94 percent in Korea, 50.8 percent in Malaysia, and 66.7 percent in Thailand.

<sup>10</sup> We also estimated the figures for East Asia excluding Hong Kong, as it may serve as a regional financial center for corporations from mainland China and other Asian countries. Although this reduces the average values for East Asian countries, these countries still show significantly higher stock market capitalization and trading than Latin American countries. When excluding Hong Kong, the average capitalization for the remaining East Asian countries included in the figures stood at 83.6 percent of GDP in 2004, whereas their value traded in that year reached 77 percent of GDP.

<sup>11</sup> Capital raising activity tends to be very volatile, varying widely from year to year. This could generate some concerns about whether the years presented in Figure 3 are representative of the general patterns. However, similar regional differences are visible if one considers average values from 1990 to 2004. The average annual amount of capital raised in domestic stock markets in Latin American countries for this period reached 0.8 percent of GDP, compared to 1.3 percent in G-7 countries and 4.6 percent in East Asia.

2004.<sup>12</sup> This reduction stands in contrast to the increase in the number of listings experienced by both G-7 and East Asian countries during this period.<sup>13</sup>

Domestic bond markets in both developed and developing countries have experienced considerable growth over the last decades. This growth was especially pronounced in East Asia following the 1997 crisis, as governments and firms increasingly switched to bond financing.<sup>14</sup> In Latin America, most progress has been made in the development of public bond markets, with the stock of domestic government bonds outstanding increasing from 12.3 percent of GDP in 1993 to 20.7 percent in 2004 (Figure 4).<sup>15</sup> Public sector bond markets in the region present a development level close to that of East Asian markets. On the other hand, in spite of their growth over the last decades, private bond markets in Latin America remain underdeveloped. The amount outstanding of domestic private sector bonds in the region stood at 10.7 percent of GDP in 2004, compared to an average of 36.3 percent in East Asia and 47.7 percent in G-7 countries.

### **3. Empirical Analysis of Stock Market Development in Latin America**

The data on stock and bond markets in Latin America presented in the previous section show that, although securities markets in the region have grown substantially since 1990, Latin American capital markets remain underdeveloped when compared to markets in industrial and East Asian countries. This evidence suggests that the high expectations of the early 1990s about capital market development in the region have not been met. An open question is whether this lack of development is a consequence of the failure to build an environment conducive to capital market development, despite the intense reform effort, or if even when Latin American countries have built such an environment, markets have failed to develop as predicted. In this section we focus on answering this question. Doing so requires a formal analysis of the determinants of capital market development and then testing whether, once we control for those determinants, Latin American countries have less developed capital markets. We focus our analysis on stock markets, as data on different measures of stock market development are available for a large cross-section of countries and a relative long time series. In contrast, comprehensive data on domestic bond market development are available for a shorter period and a smaller sample of economies, making it more difficult to capture differences between Latin America and other regions. We first describe the dependent

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<sup>12</sup> The reduction in the number of listed firms has been associated with the increasing migration of Latin American firms to international markets. Merger and acquisition activity, as well as majority shareholders trying to increase their controlling stakes, have also been brought forward as possible explanations for the growing stock market delistings in Latin America (see de la Torre and Schmukler, 2006).

<sup>13</sup> Different explanations have been proposed for the diverging trend in stock market listings between Latin America and East Asia. For one, unlike the European and U.S. stock markets, which performed well during the 1990s, stock markets in Hong Kong and Tokyo, the natural candidates for migration in Asia, have not done well in recent years (World Bank, 2004).

<sup>14</sup> Following the financial crisis, it was argued that capital markets in East Asia had not been diversified enough and that well-developed bond markets would have made several Asian economies less vulnerable to the crisis (see, for example, Batten and Kim, 2001 and Herring and Chatusripitak, 2001).

<sup>15</sup> The sample of East Asian and Latin American countries and the period presented in this figure differ from those used in Figures 2 and 3 due to data availability.

and explanatory variables and the methodology we use, then present the regression results, and finally discuss some robustness tests.

### 3.1 Data and Methodology

For the empirical analysis of stock markets, we follow Claessens, Klingebiel, and Schmukler (2006), who analyze the factors driving domestic stock market development and internationalization. We use three measure of domestic stock market development: market capitalization, value traded, and capital raised, all as a percentage of GDP.<sup>16</sup>

The data on market capitalization and value traded on the major local stock exchanges come from the Standard & Poor's Global Stock Markets Factbook and cover the period 1975-2004 for 117 countries. The amount of equity capital raised by domestic firms in the local stock market comes from the World Federation of Exchanges and covers the period 1982-2004 for 46 countries.

In terms of explanatory variables, we include several factors found to be important in the literature on stock market development. First, since more developed countries tend to have deeper domestic stock markets (see, for example, La Porta, Lopez de Silanes, and Shleifer, 2006, La Porta et al., 1997, and Rajan and Zingales, 2003) we use GDP per capita as a measure of countries' overall economic development. Higher income countries also tend to have better institutional and legal environments, which have been found to matter for financial development (see Beck and Levine, 2005).<sup>17</sup> To further address this issue, we include an index of the strength of minority shareholder rights from Djankov et al. (2005).<sup>18</sup>

The regressions include two alternative indicators of macroeconomic soundness, the annual inflation rate and the government deficit over GDP, given that a better macroeconomic environment promotes financial development (see Bencivenga and Smith, 1992, Boyd, Levine, and Smith, 2001, and Huybens and Smith, 1999).

We include three alternative variables to control for the extent of financial openness and liberalization, as that has been found to affect stock market development (see Bekaert and Harvey, 2000, 2003, Edison and Warnock, 2003, Henry, 2000, and Levine and Zervos, 1998). First, we include a "de jure" measure of capital account liberalization constructed by Chinn and Ito (2006). Second, as we are analyzing stock markets, we also use a "de jure" indicator of stock market liberalization. Our data for dating the

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<sup>16</sup> We also estimated regressions using turnover (defined as value traded over market capitalization) and obtained results similar to those reported below.

<sup>17</sup> GDP per capita is highly correlated with different measures of the institutional environment. For our sample, the correlation between GDP per capita and indices of bureaucratic quality, corruption, and law and order reported by the International Country Risk Guide (ICRG) service is 0.73, 0.67 and 0.71, respectively and in all cases it is significant at the one percent level. All the results reported in the paper are robust to replacing GDP per capita with any of these measures of the institutional environment.

<sup>18</sup> Djankov et al. (2005) present revised estimates of the anti-director rights index from La Porta et al. (1998) and expand the sample of countries covered. All the results reported in the paper are robust to replacing this updated index with the original measure from La Porta et al. (1998).

liberalization of stock markets come three sources: Bekaert, Harvey, and Lundblad (2005), who present official liberalization dates, mostly for developing countries; Kaminsky and Schmukler (2003), who construct an index of the extent of stock market liberalization which also includes developed economies; and Vinhas de Souza (2005), who extends this index to Eastern European countries.<sup>19</sup> We combine these three sources to get the widest possible coverage.<sup>20</sup> Finally, as a measure of “de facto” openness, we use equity flows, including both portfolio equity flows and foreign direct investment (FDI) flows, relative to GDP. This variable captures the effective integration with international capital markets and the “de facto” openness of the stock market; it can also be viewed as a measure of foreign demand for domestic equity.<sup>21</sup>

We also control for the possibility that local stock market development is affected by the growth opportunities that firms face. Growth opportunities may be particularly relevant for explaining capital raising behavior, as the literature on initial public offerings (IPOs) has highlighted (see Ritter and Welch, 2002 for a review). Countries with better growth opportunities may need larger stock markets to satisfy a higher demand for external funds. Therefore, we include the global growth opportunities index from Bekaert et al. (2006), which measures how each country’s industry mix is priced in global capital markets, using the price earnings ratios of global industry portfolios.<sup>22</sup>

We additionally include GDP as a control variable in our regressions. Securities markets can gain efficiency by expanding their volume and number of participants because of economies of scale and scope and network externalities.<sup>23</sup> Consistent with these arguments, the literature has found the size of the economy to be an important

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<sup>19</sup> For the data from Kaminsky and Schmukler (2003) and Vinhas de Souza (2005), we consider the first year when a country’s stock market is fully liberalized as the liberalization date. Alternatively, we also used the date of the first partial liberalization and obtained similar results.

<sup>20</sup> We also ran regressions using only the Bekaert, Harvey, and Lundblad (2005) dates and their “first sign” stock market liberalization measure, which is based on the earliest of three possibilities: the launching of a country fund, an ADR announcement, and the official liberalization date. We obtained similar results using these measures.

<sup>21</sup> We include FDI flows because those flows, apart from new investment, also represent purchases of existing equity. In fact, equity flows are classified as FDI flows when they represent a purchase of at least ten percent of a company’s equity. Note that this variable could be affected by endogeneity, as foreign investment tends to go to countries with more developed financial markets. To reduce this potential problem, and since good instruments are hard to obtain, we use this variable lagged one period. To check that our results are not affected by the inclusion of this variable, we also report estimations without it and find that the coefficients on the rest of the variables are unaffected.

<sup>22</sup> Bekaert et al. (2006) use two country-specific industry weightings to calculate each country’s growth opportunities index. One is based on the relative market capitalization of each industry in the local stock market. The other one is based on the relative value added of each industry in the respective country. We report the results using the latter weighting scheme, but also estimated the regressions using the former and obtained similar results.

<sup>23</sup> Network effects are an intrinsic feature of securities trading: the benefits of participating in a given market increase with the number of participants (Economides, 1993, 1996 and Di Noia, 1999). This generates positive feedback, as a liquid market attracts more participants and each new participant brings additional trading opportunities and liquidity, benefiting all market participants and making the market more attractive to others. There is also evidence of economies of scale in stock exchange activities, especially regarding order execution (Malkamaki, 1999).



factor for the development of liquid, well-functioning securities markets. See, for example, McCauley and Remolona (2000) and Shah and Thomas (2001).

Finally, to test whether the level of stock market development in Latin America differs from that predicted from fundamentals, we include a Latin American dummy variable, which takes the value one if the country is located in Latin America and the Caribbean and zero otherwise.<sup>24</sup> If stock market development in Latin America is close to the level predicted by the region's fundamentals, this dummy should not be significant.

After removing outliers, countries with missing data on the independent variables, and countries with less than five annual observations, we are left with a sample of 95 countries covering the period 1975-2004.<sup>25</sup> The sample includes 18 Latin American countries, which account on average for 17 percent of the observations used in the regressions.<sup>26</sup> In all cases, we pool the data over time and across countries. Regarding the estimation technique, we use least squares estimators adjusting the standard errors for clustering at the country-level.<sup>27</sup>

### 3.2 Regression Results

The results for stock market capitalization over GDP, value traded over GDP, and capital raised over GDP are presented in Tables 1, 2, and 3, respectively. The tables provide in the first column the results for a regression with GDP per capita, inflation, and capital account liberalization as the only explanatory variables. The tables then report a regression with government deficit over GDP instead of inflation, since these two constitute alternative indicators of macroeconomic soundness and stability. To keep the size of the tables manageable, we just continue to use one of the macro variables, government deficit over GDP.<sup>28</sup> In the third and fourth column, the tables report regressions with the stock market liberalization index and equity flows as a percentage of GDP respectively replacing the capital account liberalization dummy. In the fifth and sixth columns, the shareholder rights index is introduced. In the sixth column, we include the growth opportunities measure. In the seventh and eighth columns, we control for GDP instead of GDP per capita. We do not include GDP and GDP per capita in the same specification as these variables are highly correlated.<sup>29</sup> Note, however, that all our results

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<sup>24</sup> For defining this dummy we consider the World Bank regional classification, which includes Latin American and Caribbean countries. We also estimated all the regressions excluding the Caribbean countries and obtained similar results.

<sup>25</sup> We also estimated the regressions constraining the sample to countries with at least three annual observations and without imposing any restrictions on the number of observations and obtained results similar to those reported in the paper in both cases.

<sup>26</sup> See Appendix Table 1 for the list of countries covered.

<sup>27</sup> We also estimated all the regressions using panel feasible generalized least squared (FGLS), allowing for heteroskedastic error structures and different autocorrelation coefficients within countries, and obtained similar results.

<sup>28</sup> We choose this variable because inflation is not statistically significant in most regressions. We obtained results similar to those reported in the paper when controlling for both inflation and fiscal deficit.

<sup>29</sup> The correlation between the logarithm of GDP per capita and the logarithm of GDP is 0.54 for our sample of countries and is significant at the one percent level.

are robust to controlling for both variables and to replacing GDP per capita with GDP. We discuss the results in turn.

The regression results for market capitalization as a ratio of GDP (Table 1) indicate that stock market development in our sample is related to the variables in ways already identified in the literature. In particular, GDP per capita, financial openness (measured by stock market liberalization and equity flows over GDP), shareholder rights, and the size of the economy are positively and significantly associated with market capitalization, while government deficits are negatively related to stock market development. The growth opportunities variable enters positively and significantly in the regressions.

More relevant for our analysis, the dummy variable for Latin America enters negatively and significantly in all the specifications. The effect is also economically relevant: the average coefficient for the dummy in these regressions is  $-0.17$ , which means that market capitalization over GDP in Latin American countries is on average 17 percentage points below the level predicted by their fundamentals and policies. This is a large difference, given that the average market capitalization over GDP for Latin American countries in these regressions is 18 percent.

Similar conclusions are obtained when analyzing value traded domestically over GDP (Table 2). Most of the control variables have the expected sign: more developed countries, with sounder macroeconomic policies, and more financial openness, tend to have higher trading activity. Also, countries with better growth opportunities have more domestic trading. The dummy for Latin American countries enters negatively and significantly at the one percent level in all the specifications, indicating that countries in the region have lower value traded domestically than warranted by their fundamentals.

When analyzing capital raised domestically over GDP (Table 3) we find similar results as for the other two measures of stock market development, although fewer variables are statistically significant, in part due to the lumpy and volatile nature of capital raising activity. Countries with sounder macro policies tend to see more capital raising, although government deficit over GDP is not always statistically significant. More open countries (as measured by equity flows over GDP), as well as countries with a better legal protection of shareholder rights and more growth opportunities, also have higher capital raising activity. The Latin American dummy enters negatively and significantly at the one percent level in all specifications.

Overall, the results in Tables 1, 2, and 3 yield similar conclusions: countries with higher income, sounder macroeconomic policies, better protection of shareholder rights, greater financial openness, larger economies, and higher growth opportunities, have more developed local stock markets. Regarding Latin America, the results indicate that there is a shortfall in the actual development of stock markets in the region, relative to its fundamentals. In other words, Latin American countries have lower stock market development than countries with similar fundamentals and policies in other regions.

### 3.3 Robustness Tests

The results presented in this section show that stock markets in Latin American are below what can be expected, given the region's economic and institutional fundamentals and policies. Given the relevance of these results, we subjected them to a number of robustness tests by including several additional control variables suggested by the literature on capital market development.

First, we controlled for macroeconomic volatility, as the empirical evidence suggests that the depth of domestic financial systems is inversely related to volatility (see, for example, IADB, 1995). To the extent that macroeconomic volatility might have been higher in Latin America than in other regions and was not fully captured by the control variables included in the regressions, this could explain the negative sign and statistical significance of the Latin American dummy.<sup>30</sup> To address this issue, we reestimated the regressions including measures of inflation and interest rate volatility at different time horizons.<sup>31</sup> We find that these variables tend to have a negative (although usually not statistically significant) relation with stock market development, but their inclusion does not affect the sign and significance of the Latin American dummy. Also, the size of the coefficients on this dummy is mostly unaffected by the inclusion of these controls.

Second, the lower level of stock market development in Latin American countries may be due to a worse institutional environment in these countries, which was not adequately captured by the control variables used in the regressions. To address this issue, we included a number of additional measures of the quality of the institutional framework. In particular, we controlled for indicators of corruption, bureaucratic quality, law and order, political risk, government stability, and investment profile developed by International Country Risk Guide; an index of the quality of accounting standards constructed by Bushman, Piotroski, and Smith (2004); and different proxies for the functioning of the judicial system, including the time it takes to resolve disputes (Djankov et al., 2003), and an index of the overall efficiency of the judicial system, as reported by Business International Corporation. We also controlled for a country's legal tradition, as this has been found to be associated with the protection of shareholder rights (La Porta et al., 1997, 1998), the efficiency of the judicial system (Djankov et al., 2003), and the protection of property rights (Beck, Demirguc-Kunt, and Levine, 2003). While many of these variables are statistically significant and have the sign suggested by the literature, the Latin American dummy remains statistically significant and negative and the size of its coefficients is mostly unchanged.

Finally, we controlled for the level of savings in each country. A higher savings level means that more local resources are available to be invested in the domestic financial

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<sup>30</sup> Note that the regressions include two indicators of macroeconomic soundness, the annual inflation rate and the government deficit over GDP.

<sup>31</sup> We controlled for the volatility of inflation and real interest rates over the previous three, five, and ten years. Also, as Boyd, Levine, and Smith (2001) highlight the nonlinear relation between inflation and financial sector performance, we explored nonlinear effects of inflation on stock market development. Although the results suggest that nonlinear effects might be important, they do not affect the basic conclusions reported above.

system and therefore may be associated with a higher stock market development (see, for example, Garcia and Liu, 1999).<sup>32</sup> The relative underdevelopment of stock markets in Latin America may be explained by the low savings rate in the region.<sup>33</sup> To address this issue, we reestimated the regressions controlling for savings as a percentage of GDP. This variable tends to be positive (although usually not statistically significant); however its inclusion does not affect the sign, significance, or size of the Latin American dummy.

Although more research is needed, the robustness of the results indicates that it is difficult to identify the factors behind the underdevelopment of Latin American capital markets. This suggests that certain characteristics of Latin American countries, beyond those usually highlighted in the literature on capital market development, limit the scope for developing deep domestic securities markets in the region.

#### **4. What Went Wrong and What to Do Next?**

The evidence reported in Sections 2 and 3 shows that capital markets in Latin American are underdeveloped, not only compared to markets in East Asia and industrialized nations, but also relative to the level predicted by the region's fundamentals and policies. We now turn to the analysis of these two findings to draw lessons for the capital market reform agenda going forward. Assessing the evidence is a process that, by nature, involves significant resort to judgment calls. There is thus ample scope for differing yet reasonable explanations for the gap between expectations and outcomes. This section aims at providing a flavor of the range of perspectives on this question by identifying three typological views. This typology is used mainly for presentational purposes, to help depict the nature of the debate and highlight the policy issues under discussion. A more detailed discussion of these issues is presented in de la Torre and Schmukler (2006).

The first view, encapsulated in the message “be patient and redouble the effort,” ascribes the observed gap between outcomes and expectations to a combination of insufficient reform implementation with impatience. In effect, despite what many claim, key reforms were in some cases not even initiated, while other reforms were often implemented in an incomplete or inconsistent fashion. In many cases, laws and regulations were approved, but they were not duly implemented, nor were they adequately enforced.<sup>34</sup> Moreover, policymakers have been too impatient, often expecting

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<sup>32</sup> Causality may also run in the other direction, from more developed financial markets to higher savings. For instance, deeper domestic financial markets may offer investors more investment opportunities and higher returns, potentially resulting in more savings. To address this concern, we use savings lagged one period.

<sup>33</sup> Savings rates in Latin America have stagnated over the last two decades, standing at about 17 percent of GDP. In contrast, savings in East Asia averaged more than 30 percent of GDP over this period. Several studies have pointed to low savings rates in Latin America as a significant constraint to the region's growth (see, for example, Edwards, 1995 and Schmidt-Hebbel and Servén, 1997). See Plies and Reinhart (1999) for an overview of behavior of savings in Latin America.

<sup>34</sup> To the extent that the quality of reforms was lower in Latin America, and the control variables used in our regressions did not capture this difference, this could explain the significance and negative sign of the Latin American dummy.

results to materialize sooner than warranted. However, complex reforms tend to have long gestation periods. According to proponents of this view, the emphasis going forward should be on forging ahead persistently with the hard work of improving the enabling environment for capital markets, enhancing market discipline through greater competition, upgrading the regulatory and supervisory framework for securities markets, and improving key areas such as accounting and disclosure standards, corporate governance practices, and securities trading, custody, clearing, and settlement systems.<sup>35</sup>

The second view, encapsulated in the message “get the sequence right,” claims that the gap between outcomes and expectations is due to faulty reform sequencing. This view contends that capital market reforms were—to one degree or another—part of the problem rather than the solution and draws attention to the problems that arise from the adoption of certain reforms before others are in place.<sup>36</sup> The most familiar rendition of this view focuses on the pitfalls of premature financial market liberalization, arguing that liberalizing the financial system before achieving a minimum threshold of institutional strength—in terms of the legal and regulatory framework, supervisory capacity, accounting and disclosure standards, etc.—is likely to exacerbate distortions in financial markets.<sup>37,38</sup> According to proponents of this view, the task of recasting the reform agenda going forward hinges on the success of efforts devoted to systematically clarifying sequencing issues.

The third view, encapsulated in the message “revisit basic issues and reshape expectations”, arises from the identification of shortcomings in the previous two views. This view focuses on the gaps in our knowledge and is, as a result, much less prescriptive. It contends that policy initiatives need to take into account the intrinsic characteristics of developing countries (such as small size, lack of risk diversification opportunities, presence of weak currencies, and prevalence of systemic risk), and how these features limit the scope for developing deep domestic capital markets. These limitations are difficult to overcome by the reform process. This view therefore calls for a more varied reform agenda, as a one-size-fits-all approach is destined to fail. It emphasizes that a key step in designing country-specific reforms going forward should be a determination of whether the emerging economy in question can sustain an active domestic market for private sector securities. It also argues that ultimately, any reform

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<sup>35</sup> This is broadly consistent with our empirical findings, as our results show that economies with sounder macro policies, better protection of shareholder rights, and greater openness tend to have more developed stock markets. Also consistent with this view, de la Torre, Gozzi, and Schmukler (2006) find that capital market-related reforms tend to be followed by significant increases in domestic stock market capitalization, trading, and capital raising.

<sup>36</sup> To the extent that reform sequencing in Latin America was imperfect and worse than in other regions, and that the control variables used in our regressions failed to capture this difference, this may account for the sign and significance of the Latin American dummy in the regressions.

<sup>37</sup> A standard policy recommendation therefore is to upgrade the financial regulation and supervision and improve the health of the financial system before de-regulating financial markets and opening up the capital account (see, for example, Johnston and Sundararajan, 1999 and McKinnon, 1993).

<sup>38</sup> Not all sequencing arguments are related to financial liberalization. Some emphasize the building block nature of financial development, whereby inter-linkages across different markets make certain reforms necessary for the success of others (see, for example Karacadag, Sundararajan, and Elliot, 2003).

agenda for capital markets needs to be couched within a broader vision of financial development for emerging markets in the context of international financial integration.

Confronting the first two views with relevant aspects of the evidence leads to the conclusion that important things are inadequately addressed by them. Perhaps the most questionable aspect of both views, in light of the evidence presented in this paper, is their implicit assumption that domestic capital market development in emerging economies should be measured against the benchmark of capital markets in industrialized countries. For the first two views, the reform path may be long and difficult, and it may require an adequate sequencing of reforms, but the expected outcome is, in most cases, only one. The expectation is that, as reforms advance, domestic capital markets in emerging markets will increasingly resemble those in developed countries. But it is difficult to accept this premise given the evidence presented so far. Despite the intense reform efforts, capital markets in Latin America remain underdeveloped, not only compared to other regions, but also relative to the level predicted by the region's fundamentals and policies. These results suggest that certain characteristics of Latin American countries, beyond those usually highlighted in the capital market reform literature, limit the scope for developing deep domestic markets. Therefore, it is very difficult to pinpoint which policies Latin American countries should pursue to overcome the lack of development of their capital markets.

A salient characteristic of many emerging economies that the reform debate has failed to adequately take into account is their small size. Secondary market liquidity is a positive function of market size and the related network and agglomeration effects. Consistent with this idea, our results show that the size of the economy is positively related to domestic stock market development. The small size of many emerging economies may therefore present a significant structural barrier for developing deep and liquid domestic markets. However, this factor alone does not account for the observed lack of capital market development in Latin America, as our estimations show that the regional dummy remains negative and significant when controlling for size. In the case of Latin America, the adverse effect of smallness may be exacerbated by the higher concentration exhibited by markets in the region (de la Torre and Schmukler, 2006). In effect, a general pattern in Latin American markets is that only few firms are capable of issuing securities in amounts that meet the minimum thresholds for liquidity and these securities are mostly purchased by few institutional investors that tend to follow buy and hold strategies, further contributing to low trading activity. In the case of equity markets, lack of trading is also the result of low float ratios (a low percentage of listed shares available for trading), reflecting concentrated ownership patterns and the reluctance to give up control. To the extent that these characteristics are more prevalent in Latin America than in other regions, this may account for the significance of the Latin American dummy in our regressions.

The policy discussion on capital market reform has tended to focus on the development of domestic financial systems. This fails to reflect the fact that, in a globalized context, financial development has much to do with the extent and type of integration with international financial markets. Financial globalization calls for a more

general approach to understanding financial development—one that looks at the domestic and international sides of the process simultaneously. In this perspective, successful financial development is best characterized as the sustainable deepening and broadening of access to financial services, regardless of whether such services are provided at home or abroad, by securities markets or other markets. A greater attention to financial globalization does not imply, however, that the much wider scope for cross-border financial contracting resulting from globalization renders domestic markets useless. It is difficult to imagine that international financial markets would become a perfect substitute of local markets in every respect.<sup>39</sup> Thus, the point is not to deny the relevance of local financial markets but to stress that such relevance acquires meaning under globalization to the extent that domestic markets are a complement, rather than a substitute, to the international market integration.

One significant policy concern about the financial globalization process is that the increasing migration of firms to international financial centers may affect domestic stock markets adversely as too little activity remains at home.<sup>40</sup> This might help to explain our empirical results, as the evidence shows that the level of internationalization of Latin American stock markets far exceeds that of other regions (de la Torre and Schmukler, 2006). To the extent that this higher level of internationalization was not captured by the controls included in our regressions and that internationalization adversely affects domestic markets, this may explain the sign and significance of the Latin American dummy.

## 5. Conclusions

In this paper, we analyzed the state of capital markets in Latin America. We found that despite the intense reform effort, capital markets in the region remain underdeveloped compared to markets in East Asia and developed countries. Furthermore, we found that stock markets in Latin America are below what can be expected, given the region's economic and institutional fundamentals. In particular, our results indicate that there is a shortfall in domestic stock market activity (market capitalization, trading, and capital raising) in the region after controlling for many factors, including per capita income, macroeconomic policies, the size of the economy, and measures of the legal and institutional environment.

We described alternative ways of interpreting this evidence and discussed the lessons for the reform agenda. We argued that two stylized views dominate the current debate. The first contends that the gap between expectations and outcomes is due to the combination of impatience with imperfect and incomplete reform efforts. The second claims that the gap is due to faulty reform sequencing. Though differing in diagnoses and

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<sup>39</sup> Guiso, Sapienza, and Zingales (2004) find that local financial development is an important determinant of the economic success of firms (especially smaller ones) even in an environment where there are no frictions to capital movements.

<sup>40</sup> A number of publications have expressed concerns that local markets are becoming illiquid due to internationalization (see, for example, Bovespa, 1996, Federation des Bourses de Valeurs, 2000, Financial Times, 1998, Latin Finance, 1999, and The Economist, 2000).

policy prescriptions, these views are not necessarily incompatible and both capture important aspects of the problem at hand. Our main argument, however, is that neither of the two views may adequately address a number of salient questions posed by the evidence. The third, complementary view is much less prescriptive. It highlights the need to step back, revisit certain basic issues, and reshape expectations, as a prior step to ensure more solid grounds for a reformulation of the reform agenda.

Our study comes with several caveats. Although we used as explanatory variables what we believe are the main drivers of stock market development, some variables were not included. For example, the quality of the banking system and securities market infrastructure (like the efficiency and reliability of clearing and settlement systems) may be important determinants of domestic market development. Furthermore, it is possible that the variables we used as controls are too general and fail to capture specific aspects of the institutional and regulatory framework that are particularly relevant for domestic stock market development. To the extent that Latin American countries score worse than other countries in those respects, this may help to explain the significance and negative sign of the Latin American dummy in our regressions. However, one potential difficulty in performing empirical analysis is that some factors that are relevant for capital market development may show little or no variation over time, making it difficult to separate their effects from those of a simple regional dummy. Finally, while we discussed different factors that may explain our results, we kept the discussion at a general level and have not evaluated our hypotheses empirically. Thus, we believe that our conclusions should remain tentative and that further research is needed to identify the factors behind the lower level of capital market development in Latin America unearthed by our analyses.



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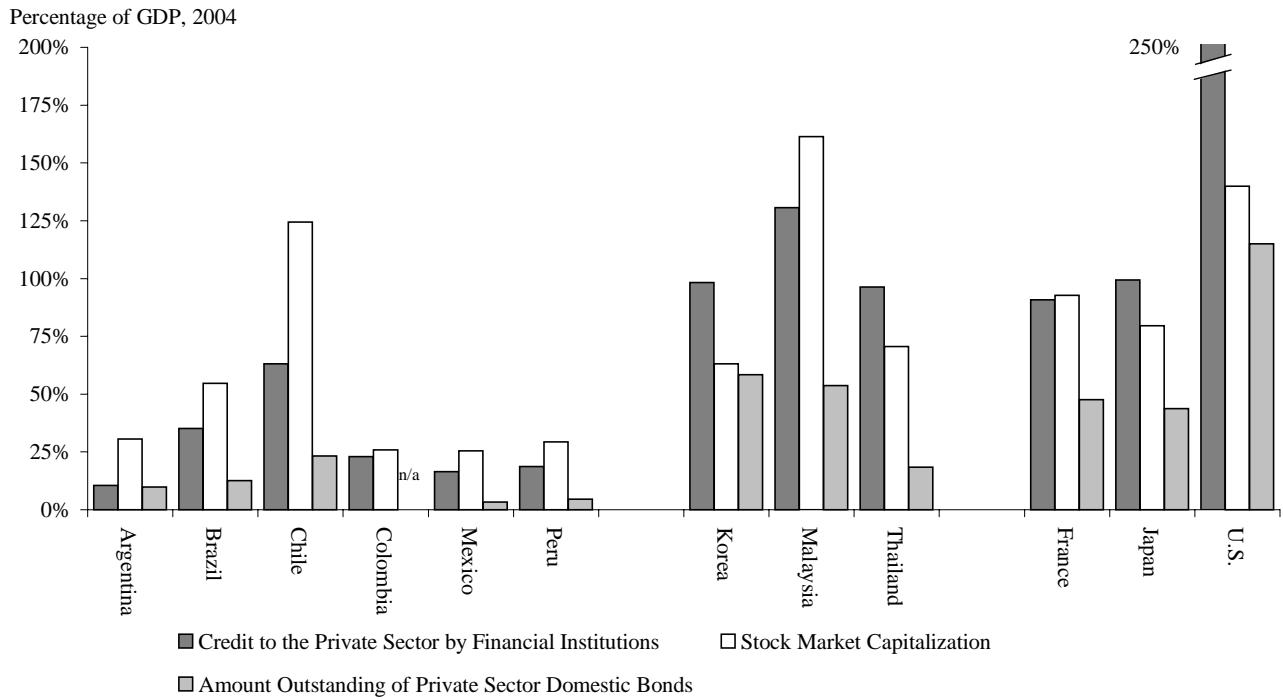
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**Figure 1**  
**Domestic Financial Sector Development Across Countries**

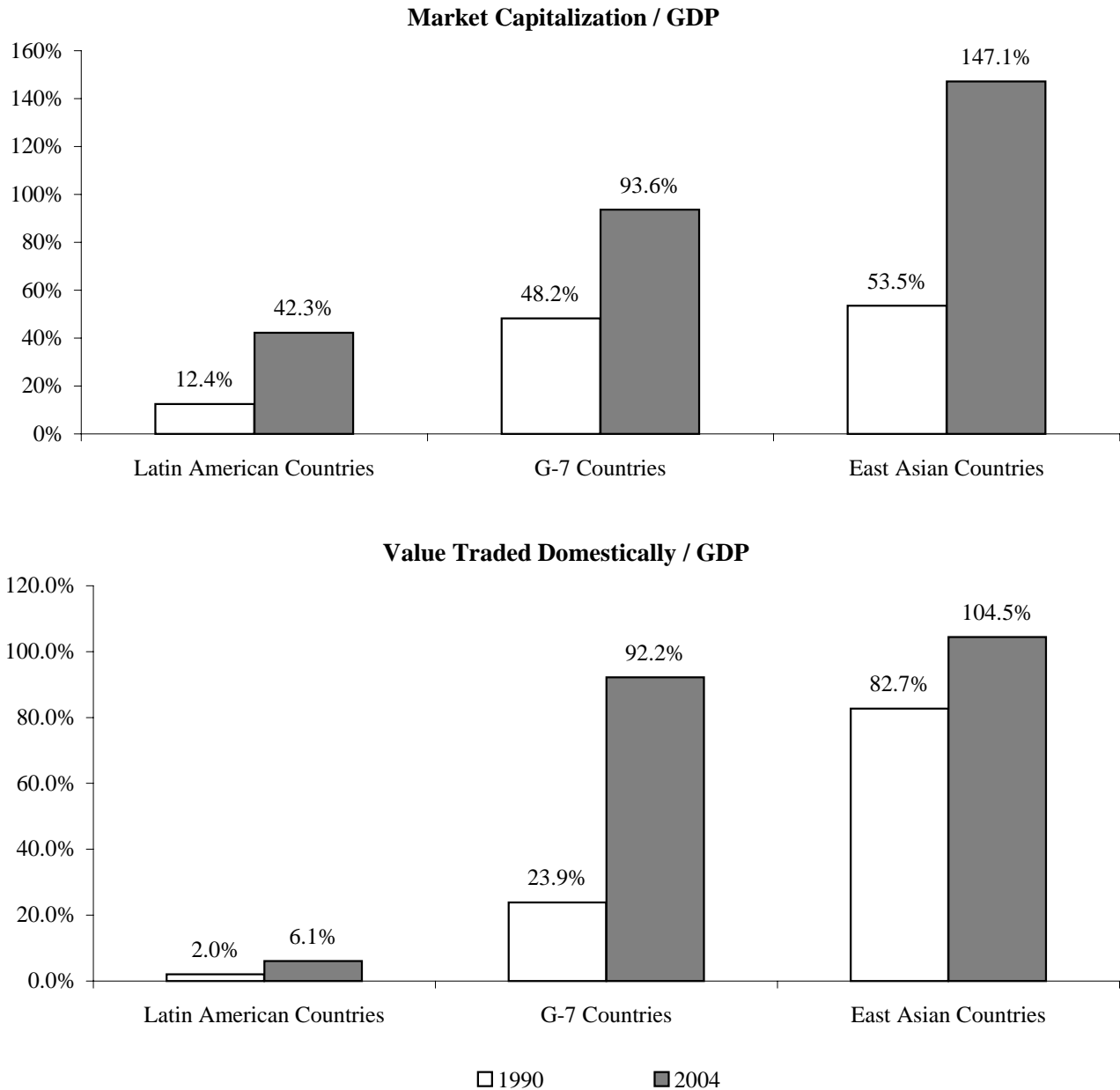
This figure shows credit to the private sector by financial institutions over GDP, domestic stock market capitalization over GDP, and the amount outstanding of private sector domestic bonds over GDP at year-end 2004 for selected countries.



Source: BIS, IMF International Financial Statistics, S&P Emerging Markets Database, World Bank.

**Figure 2**  
**Domestic Stock Market Development**

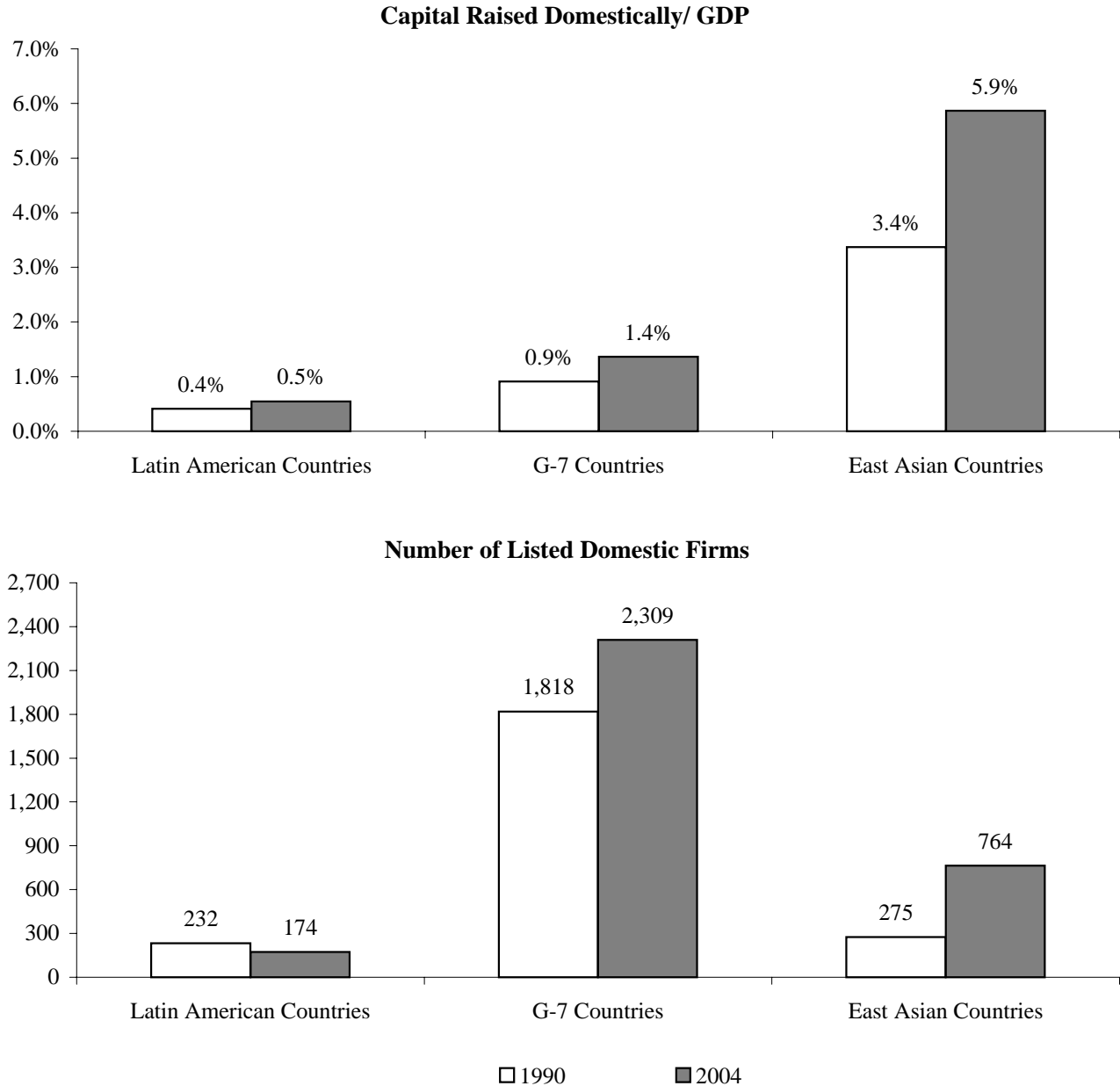
This figure shows market capitalization over GDP and value traded domestically over GDP. The series are averages across countries. The data for G-7 countries are averages for Canada, France, Germany, Italy, Japan, United Kingdom, and United States. The data for East Asian countries are averages for Hong Kong, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand. The data for Latin American countries are averages for Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela.



Source: S&P Emerging Markets Database, World Bank.

**Figure 3**  
**Domestic Stock Market Development**

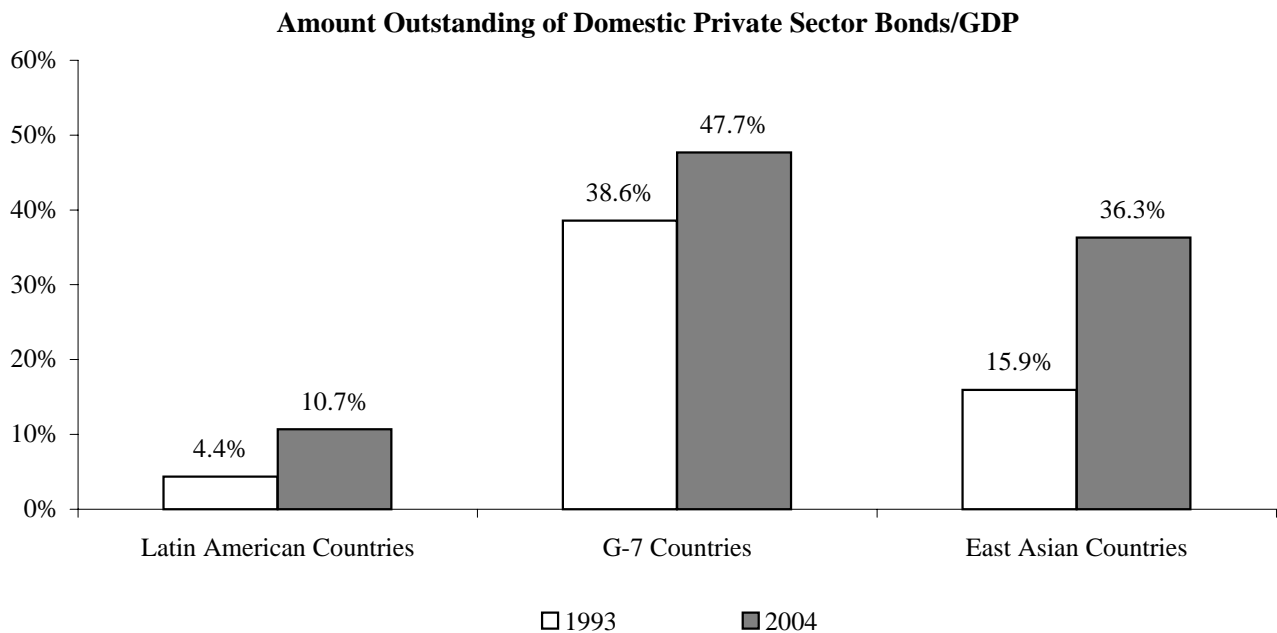
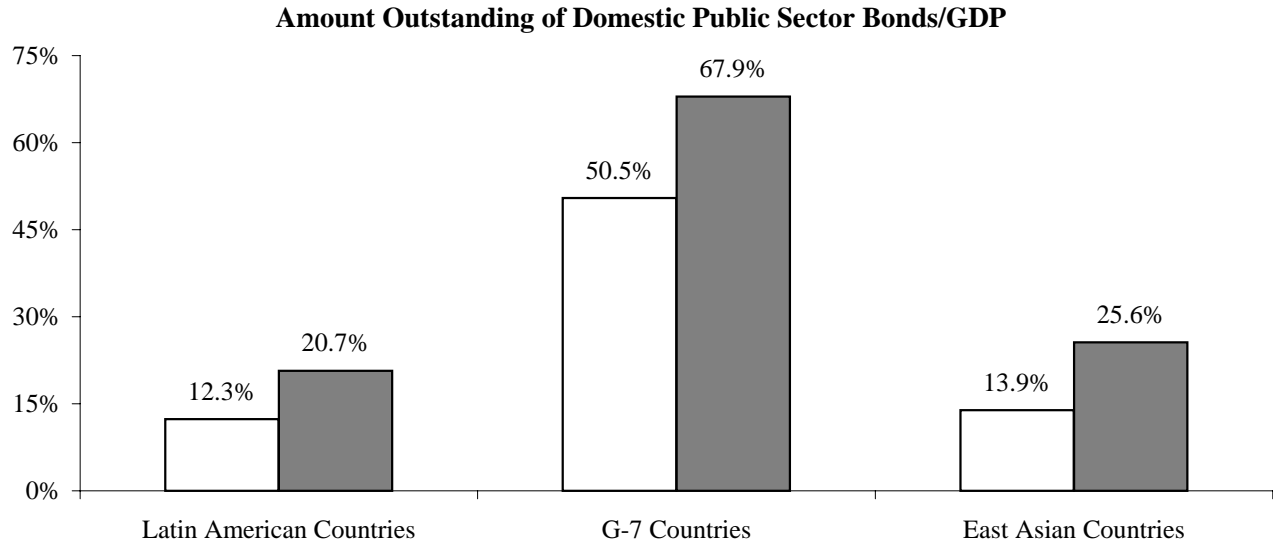
This figure shows capital raised over GDP and the number of listed domestic firms. The series are averages across countries. The data for G-7 countries are averages for Canada, France, Germany, Italy, Japan, United Kingdom, and United States. The data for East Asian countries are averages for Hong Kong, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand. The data for Latin American countries are averages for Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela.



Source: S&P Emerging Markets Database, World Federation of Exchanges, World Bank.

**Figure 4**  
**Domestic Bond Market Development**

This figure shows the amounts outstanding of public and private sector bonds in domestic markets over GDP. The series are averages across countries. The data for G-7 countries are averages for Canada, France, Germany, Italy, Japan, United Kingdom, and United States. The data for East Asian countries are averages for Hong Kong, Korea, Malaysia, Taiwan, and Thailand. The data for Latin American countries are averages for Argentina, Brazil, Chile, Mexico, and Peru.



Source: BIS, World Bank.

**Table 1**  
**Domestic Stock Market Development - Market Capitalization**

This table shows ordinary least square regressions with standard errors adjusted for clustering at the country level for a panel of 95 countries between 1975 and 2004. A constant is estimated but not reported. Absolute values of t-statistics are in brackets. \*, \*\*, \*\*\* mean significance at ten, five, and one percent, respectively.

	<b>Market Capitalization / GDP</b>							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Log of GDP per capita	0.104 *** [4.321]	0.094 *** [3.344]	0.119 *** [4.060]	0.104 *** [4.665]	0.101 *** [4.254]	0.077 *** [3.190]		
Log of GDP							0.076 *** [3.432]	0.054 ** [2.176]
Shareholder rights					0.091 ** [2.229]	0.078 * [1.736]	0.075 * [1.719]	0.059 [1.260]
Log (1 + Inflation)	-0.057 [1.234]							
Government Deficit / GDP		-2.403 *** [3.515]	-2.215 *** [3.117]	-1.336 *** [3.325]	-1.314 *** [3.554]	-1.224 *** [3.044]	-1.636 *** [3.795]	-1.396 *** [3.151]
Capital Account Liberalization	0.056 ** [2.088]	0.036 [1.196]						
Stock Market Liberalization			0.111 ** [2.439]					
Total Equity Flows / GDP (one year lagged)				4.266 *** [2.778]	5.378 *** [3.304]	8.693 *** [4.609]	6.482 *** [3.742]	9.891 *** [5.107]
Global Measure of Country Growth Opportunities						0.245 *** [4.595]		0.218 *** [4.447]
<b>Latin American Dummy</b>	<b>-0.126 *</b> <b>[1.880]</b>	<b>-0.194 ***</b> <b>[3.082]</b>	<b>-0.177 ***</b> <b>[2.812]</b>	<b>-0.168 ***</b> <b>[2.995]</b>	<b>-0.132 **</b> <b>[2.455]</b>	<b>-0.167 ***</b> <b>[2.971]</b>	<b>-0.163 **</b> <b>[2.448]</b>	<b>-0.208 ***</b> <b>[3.236]</b>
No. of Observations	1,661	1,364	1,419	1,291	1,133	836	1,133	836
No. of Countries	87	79	82	83	63	45	63	45
No. of Latin American Countries	18	18	16	15	12	7	12	7
R-squared	0.243	0.259	0.235	0.268	0.348	0.445	0.331	0.426



**Table 2**  
**Domestic Stock Market Development - Value Traded Domestically**

This table shows ordinary least square regressions with standard errors adjusted for clustering at the country level for a panel of 95 countries between 1975 and 2004. A constant is estimated but not reported. Absolute values of t-statistics are in brackets. \*, \*\*, \*\*\* mean significance at ten, five, and one percent, respectively.

	<b>Value Traded Domestically / GDP</b>							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Log of GDP per capita	0.081 *** [4.356]	0.062 *** [3.087]	0.099 *** [3.182]	0.074 *** [3.105]	0.074 *** [3.065]	0.063 *** [2.993]		
Log of GDP							0.081 *** [4.019]	0.076 *** [3.419]
Shareholder rights					0.020 [1.446]	0.012 [0.728]	0.007 [0.464]	-0.007 [0.320]
Log (1 + Inflation)	0.015 [0.771]							
Government Deficit / GDP		-1.321 *** [3.654]	-1.020 ** [2.145]	-0.778 *** [2.668]	-0.810 ** [2.493]	-0.728 ** [2.045]	-0.976 ** [2.634]	-0.735 * [1.985]
Capital Account Liberalization	0.030 ** [2.433]	0.024 ** [2.409]						
Stock Market Liberalization			0.058 * [1.768]					
Total Equity Flows / GDP (one year lagged)				2.579 *** [3.006]	3.007 *** [2.923]	4.625 *** [3.002]	3.928 *** [3.502]	5.732 *** [3.627]
Global Measure of Country Growth Opportunities						0.252 *** [3.944]		0.188 *** [4.030]
<b>Latin American Dummy</b>	<b>-0.143 *** [5.513]</b>	<b>-0.125 *** [4.488]</b>	<b>-0.145 *** [3.538]</b>	<b>-0.128 *** [4.466]</b>	<b>-0.120 *** [3.710]</b>	<b>-0.137 *** [3.283]</b>	<b>-0.134 *** [3.559]</b>	<b>-0.169 *** [3.689]</b>
No. of Observations	1,627	1,342	1,394	1,268	1,138	830	1,138	830
No. of Countries	83	75	78	80	64	46	64	46
No. of Latin American Countries	16	16	14	14	12	7	12	7
R-squared	0.206	0.207	0.141	0.210	0.226	0.294	0.285	0.340

**Table 3**  
**Domestic Stock Market Development - Capital Raised Domestically**

This table shows ordinary least square regressions with standard errors adjusted for clustering at the country level for a panel of 46 countries between 1982 and 2004. A constant is estimated but not reported. Absolute values of t-statistics are in brackets. \*, \*\*, \*\*\* mean significance at ten, five, and one percent, respectively.

	<b>Capital Raised Domestically / GDP</b>							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Log of GDP per capita	-0.001 [0.891]	-0.002 [1.223]	-0.001 [0.272]	-0.003 [1.553]	-0.002 [1.527]	-0.003 ** [2.119]		
Log of GDP							0.001 [1.125]	0.000 [0.631]
Shareholder rights					0.004 *** [2.741]	0.003 ** [2.453]	0.005 ** [2.663]	0.004 ** [2.348]
Log (1 + Inflation)	-0.003 [1.494]							
Government Deficit / GDP		-0.098 *** [2.878]	-0.092 ** [2.550]	-0.015 [0.931]	-0.013 [0.759]	-0.018 [1.094]	-0.004 [0.246]	-0.007 [0.422]
Capital Account Liberalization	0.001 [0.777]	0.000 [0.321]						
Stock Market Liberalization			0.005 * [1.874]					
Total Equity Flows / GDP (one year lagged)				0.256 *** [4.159]	0.217 *** [3.355]	0.229 *** [3.370]	0.220 *** [3.620]	0.226 *** [3.514]
Global Measure of Country Growth Opportunities						0.012 *** [3.525]		0.011 *** [3.116]
<b>Latin American Dummy</b>	<b>-0.010 *** [2.754]</b>	<b>-0.013 *** [3.077]</b>	<b>-0.013 *** [3.497]</b>	<b>-0.014 *** [4.200]</b>	<b>-0.013 *** [5.302]</b>	<b>-0.014 *** [6.023]</b>	<b>-0.010 *** [5.193]</b>	<b>-0.011 *** [5.580]</b>
No. of Observations	688	564	617	520	505	468	505	468
No. of Countries	40	37	40	35	33	31	33	31
No. of Latin American Countries	5	5	5	5	5	4	5	4
R-squared	0.036	0.085	0.045	0.184	0.231	0.254	0.224	0.237

**Appendix Table 1**  
**List of Countries**

This table shows the list of countries used in the regressions. \* means that the country is in the Latin American and Caribbean region.

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Argentina *	Hong Kong	Pakistan
Armenia	Hungary	Panama *
Australia	Iceland	Paraguay *
Austria	India	Peru *
Bangladesh	Indonesia	Philippines
Barbados *	Iran	Poland
Belgium	Ireland	Portugal
Bolivia *	Israel	Romania
Botswana	Italy	Russia
Brazil *	Jamaica *	Saudi Arabia
Bulgaria	Japan	Singapore
Canada	Jordan	Slovak Republic
Chile *	Kenya	Slovenia
China	Korea	South Africa
Colombia *	Kuwait	Spain
Costa Rica *	Latvia	Sri Lanka
Cote d'Ivoire	Lithuania	Swaziland
Croatia	Malawi	Sweden
Cyprus	Malaysia	Switzerland
Czech Republic	Malta	Taiwan
Denmark	Mauritius	Tanzania
Ecuador *	Mexico *	Thailand
Egypt	Moldova	Trinidad and Tobago *
El Salvador *	Mongolia	Tunisia
Estonia	Morocco	Turkey
Fiji	Namibia	United Kingdom
Finland	Nepal	United States
France	Netherlands	Uruguay *
Germany	New Zealand	Venezuela *
Ghana	Nigeria	Zambia
Greece	Norway	Zimbabwe
Guatemala *	Oman	

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