

Assessing financial integration: A comparison between Europe and East Asia

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Two parallel analyses are carried out in order to assess the degree of integration of financial markets within Europe, within East Asia, between these two regions, and with the *external* financial community. The investigation is based on cointegration and Granger causality techniques, to detect the presence of short-run and long-run cross-country relationships in equity and bond markets. The empirical analysis performed for seven European and eleven East Asian financial markets confirms that in Europe financial integration is significantly more advanced than in East Asia. It provides evidence in favour of the fact that the level of integration between bond markets is higher than between equity markets within Europe, whilst the opposite holds true in the East Asian region. An increase in the number of short and long-run relationships in European bond and equity markets is found after the introduction of the Euro in 1999, especially if only EMU countries are considered. In addition, the parallel analysis on East Asia points out that financial integration in Asia is still in its infancy although an increase in the level of integration of equity markets in the last ten years can be recorded. Finally, East Asian bond markets display little evidence of co-movement, despite the recent initiatives launched in order to increase financial integration in the region.

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