

The Influence of The Asean Regional Capital Market on Asean-5 Countries' Foreign Exchange Reserves

Srie Nuning Mulatsih¹, Masruri², Heru Subiyantoro³, Yolanda⁴

^{1,3,4} Universitas Borobudur, Indonesia

²Business Islam Syekh Yusuf University

Email: nuningpurwanto@unis.ac.id, Masruri1562@gmail.com, herusubiyantoro@gmail.com,
Yolanda@borobudur.ac.id

Corresponding Author: nuningpurwanto@unis.ac.id

KEYWORDS	ABSTRACT
Capital Market, ASEAN, Foreign Exchange Reserves.	The capital market sector is one area of economic activity that is expected to grow significantly following the adoption of the ASEAN Economic Community (AEC). As a result, integrating capital market activity in the ASEAN area must be a top priority in AEC implementation. The essential criterion for creating a seamless flow of cash and investment is the integration of ASEAN countries' capital markets. The total worth of all outstanding shares based on their normal closing price is reflected in the stock market capitalisation. A rise in the value of market capitalization indicates that the capital market is expanding. Capital flows into and out of the capital market are thought to have altered the value of foreign exchange reserves. Foreign capital market investment contributes to a balanced balance of payments. Foreign capital not only serves to cover the deficit in domestic capital that domestic savings cannot fill, but it also helps to fill the emptiness in the foreign exchange gap through asset sales.

Attribution-ShareAlike 4.0 International (CC BY-SA 4.0)



1. Introduction

The capital market plays an important role in sustaining the economy, particularly in allocating public monies. Through the technique of selling securities in the form of shares or issuing bonds, an agency or firm can use the capital market as a long-term source of finance. It was also stated that, in addition to an economic purpose, the capital market serves a financial function. The economy's function can be understood as a mechanism of connecting investors with parties in need so that the agreements and transactions that ensue benefit both sides. While the financial function is visible in the incentive or rate of return earned by investors for their investment.

The existence of a capital market can create opportunities for investors to benefit more. Investors can economically and efficiently allocate their capital. Investors can make chosen investment decisions in productive sectors that are thought to be capable of providing returns based on the expected level of each investment decision (Tandelilin, 2018). Stocks, as a stock market tool, are well-known and in high demand among investors. Stock buying and selling

activities can provide a profit. Shares are a type of investor ownership or an indication of equity involvement in a firm, therefore by purchasing shares, investors have become partial owners of the company. Share ownership implies that investors own a portion of the company.

The performance of a country's capital market is one of the measures undertaken to measure the stability of its economy. The capital market is deemed to work well if it can represent prices that are relevant to the news that is currently circulating among the general population. The capital market's performance can also be influenced by investors' attitudes toward specific assets, and there is no question that investor mood can influence the dynamics of stock prices on financial markets (Danila, Kamaludin, Sundarasen, & Bunyamin, 2021).

The capital market sector is one area of economic activity that is expected to grow significantly with the implementation of the ASEAN. Furthermore, if the capital market is integrated, there are several advantages to the formation of capital market regulations in the ASEAN region, such as the convenience for investors to invest in any ASEAN country, easier access for companies to collect public funds, and flexibility in the movement of capital in the ASEAN region. as a result of which each country's capital market capitalization value rises.

The market capitalisation of a corporation indicates its worth. This figure represents the price of all stock exchange shares. A public company's market capitalisation is crucial since it indicates the company's size. If the market capitalization value grows, the company's size grows as well, and the company's value grows.

An integrated ASEAN capital market will play a larger role in ASEAN countries' economic development. The capital market plays a significant function since it provides long-term finance for firms as well as additional profit value for investors. Companies will be able to raise funds more efficiently with the help of integrated stock exchanges. Meanwhile, investors can make investments in securities or portfolios. Until date, there have been disparities in regulators (regulations) among ASEAN countries. As a result, the ASEAN region's ambition for a single capital market necessitates rules that govern taxation, investor protection, and dispute resolution. Each country must focus and coordinate its own initiatives; stakeholders must carry out integration; and each country must strive to increase (FEBRIYANTO, 2019)

Capital market capitalisation affects foreign exchange reserves (reserve money). Foreign exchange reserves are typically used for imports, preserving monetary stability (particularly the exchange rate), repaying the government's foreign debt, and also for state-owned savings, demonstrating that foreign exchange reserves have a significant impact on a country's economy. The country's economy can be jeopardized if foreign exchange reserves continue to fall; a shortage of foreign exchange reserves makes it impossible to buy capital goods for development endeavors.

The flow of capital into and out of the capital market, according to Salvatore (2011), determines the value of foreign exchange reserves. Foreign capital market investment contributes to a balanced balance of payments. Not only does foreign capital

According to World Bank estimates, the Philippines' foreign exchange reserves would reach USD 108.75 billion in 2021. This amount is enough to cover 9.58 months of the country's imports. This country has the greatest potential to hold foreign exchange reserves among the Southeast Asian countries (ASEAN). Thailand has the most foreign exchange reserves among the ASEAN countries, with 9.03 months of imports. Singapore was followed by Malaysia, which has a foreign exchange reserve capacity of 6.29 months to finance imports. As a result of Russia's invasion of Ukraine, which has generated problems in many nations, energy commodity prices tend to climb. The surge in oil costs has resulted in severe global inflation.

2. Literature Review

2.1 Capitalization of the Capital Market

The market capitalisation of a corporation indicates its worth. This figure represents the price of all stock exchange shares. A public company's market capitalisation is crucial since it indicates the company's size. If the market capitalization value grows, the company's size grows as well, and the company's value grows as well. To determine the value of a company's capitalization, multiply all outstanding shares by the company's market share price (Setiawan & Hidayat, 2017)

Market capitalization is a business phrase that relates to a firm's overall price, specifically the price that someone must pay if they wish to purchase 100% ownership of the company. Market capitalization is the worth of a company's circulating shares in the market. It should be understood that the value of a corporation differs from the value of its assets, therefore a company's market capitalization does not reflect the value of its assets (Herlambang, 2018)

Market capitalization is the market value of an issuer's outstanding shares. Market capitalization is the valuation of a publicly traded corporation whose shares are traded on a stock exchange. The market price is the simplest to calculate because it indicates the price of a stock in the current market. If the stock exchange market is closed, the closing price is the market value. (Final pricing). So, this is the market price that shows a stock's growth. When this market price is multiplied by the number of shares issued (outstanding shares), a common market value known as market capitalization is obtained. (Capitalization of the market). Of course, the value of the stock market capitalization fluctuates in response to changes in the market (Hartono, 2017)

The difference between the market price or closing price and the number of shares issued is the market capitalization. As a result, market capitalization equals the value of the number of shares issued by the corporation. In general, companies with a high market capitalization are attractive to long-term investors due to the company's incredible growth potential, dividend distribution, and comparatively minimal risk exposure. Because there are so many fans, stock prices are often relatively high, implying that returns will be high (Masyie, 2021)

2.2 Foreign exchange reserves

Foreign exchange reserves are defined as any foreign assets controlled by the monetary authorities that can be utilized at any time to finance balance-of-payments imbalances, preserve monetary stability through foreign exchange market intervention, or for other purposes. According to this concept, a country's foreign exchange reserves can be utilized to preserve exchange rate stability and fund a balance-of-payments deficit (Agung & Suresmiathi, 2015)

Foreign exchange reserves are the entire amount of foreign currency possessed by a country's government and private sector. The state of the balance of payments can be used to calculate foreign exchange reserves. The bigger the amount of foreign exchange owned by a country's government and inhabitants, the better the country's ability to conduct international economic and financial transactions and the stronger the country's currency (Rahmawati, Ismanto, & Sitorus, 2020)

International reserves are liquid and highly valuable assets owned by a country that have been recognized by the international community as legal tender in international transactions or payments. The level of a country's foreign exchange reserves is an important element for that country to consider when conducting international commerce dealings with other countries. Natural resources are a plentiful source of foreign exchange reserves and can be traded internationally. Gold, gas, oil, rubber, coffee, wood, and other natural resources are examples (Sonia & Setiawina, 2016)

The current account and imports of a country have an impact on its foreign exchange reserves. A country's current account development must be monitored since a long-term current

account deficit can put pressure on foreign exchange reserves. As a result, the current account deficit is frequently regarded as an indication of macroeconomic imbalances that necessitate exchange rate changes or tight macroeconomic policies (Mustaqim & Widanta, 2021)

Foreign portfolio investments and capital flows into and out of the capital market are also thought to have influenced the value of foreign exchange reserves. Foreign capital market investment contributes to a balanced balance of payments. Foreign capital not only serves to cover the deficit in domestic capital that domestic savings cannot fill, but it also helps to fill the emptiness in the foreign exchange gap through asset sales. Capital transactions are carried out in the balance of payments to balance the credit side in the double-entry bookkeeping system (Salvatore, 2011)

2. Materials and Methods

This study's research design is explanatory research analysis, often known as hypothesis research by explanation. Explanatory research is an analytical approach used to evaluate hypotheses and explain the causal link between variables. According to opinion Bungin Burhan, 2019, the explanatory format is used to convey a generalization or explain the link of one variable with another variable; thus, explanatory research uses hypothesis testing utilizing inferential statistics (for hypothesis testing) (Bungin Burhan, 2019)

Inferential statistics and panel data regression analysis were utilized to analyze the data in this study. The research method used in this study is associative research, according to the level of explanation. Associative study seeks to identify the association between two or more variables. According to the type of data and quantitative data analysis (Sugiyono, 2016)

3. Results and Discussions

Table 1. Fixed Effect Model Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.396582	0.219686	33.66896	0.0000
KAPITALISASI?	0.719274	0.036264	19.83430	0.0000
Fixed Effects (Cross)				
_INDONESIA--C	-0.116367			
_MALAYSIA--C	-0.237743			
_FILIPINA--C	-0.124299			
_SINGAPURA--C	0.257757			
_THAILAND--C	0.220653			
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.891970	Mean dependent var	11.75210	
Adjusted R-squared	0.890789	S.D. dependent var	0.414912	
S.E. of regression	0.039820	Akaike info criterion	1.471423	
Sum squared resid	0.053911	Schwarz criterion	1.218091	
Log likelihood	75.42846	Hannan-Quinn criter.	1.379826	
F-statistic	840.0546	Durbin-Watson stat	1.956072	
Prob(F-statistic)	0.000000			

The statistical t value of capital market capitalization is 19.83430, with a probability value (P-value) of 0.0000, according to Table 1. Because this number is less than the stated significance criterion of 0.05, H_0 (no significant effect) is rejected, whereas H_1 (significant effect) is allowed. A positive statistical t value denotes a one-way link. Thus, capital market capitalisation has been shown to have a large and favorable effect on foreign exchange reserves.

The magnitude of the influence of capital market capitalization on foreign exchange reserves is shown by the value of R-Squared = 0.891970, which means that the magnitude of the influence of capital market capitalization on foreign exchange reserves is **89.19** percent, with the remaining 10.81 percent influenced by factors other than the model under consideration.

The following is the potential foreign exchange reserves from capital market capitalization in 5 (five) ASEAN countries :

Table 2. Potential Foreign Exchange Reserves of 5 ASEAN Countries

Country	Koefisien	Konstanta	Potential
Indonesia	-0,116367	7,396582	7,2802
Malaysia	-0,237743	7,396582	7,1588
Filipina	-0,124299	7,396582	7,2723
Singapura	0,257757	7,396582	7,6543
Thailand	0,220653	7,396582	7,6172

According to Table 2, Singapore has the greatest potential to become the country with the largest foreign exchange reserves based on capital market capitalization, followed by Thailand, Indonesia, the Philippines, and Malaysia as the countries with the least potential foreign exchange reserves based on capital market capitalization.

4. Conclusion

Capital market capitalisation has a large and beneficial impact on five ASEAN countries' foreign exchange reserves. It has been able to raise the value of capital market capitalization with a stable and favourable domestic investment climate supported by domestic currency exchange rates in the five ASEAN countries, which will also have an impact on raising foreign exchange reserves in each ASEAN country. The strategy for increasing foreign exchange reserves in each ASEAN country is to optimize all functions owned by this foreign exchange, such as increasing investment from abroad, both through FPI and FDI, maintaining value stability, rupiah exchange at a fair rate, low inflation, and a safe current account deficit. Strengthening foreign exchange reserves is a critical step that must be taken to increase economic resilience, particularly in the face of global economic uncertainties.

We would like to thank the Rector, Director of Postgraduate and Head of the Doctoral Program in Economics, Borobudur University, Jakarta for the opportunity to take part in this International Conference.

5. References

- Agung, Anak, & Suresmiathi, Ayu. (2015). Pengaruh Cadangan Devisa, Pdb, Dan Kurs Dollar Amerika Serikat Terhadap Impor Bahan Baku Industri Di Indonesia. *E-Jurnal Ekonomi Pembangunan Universitas Udayana*, 4(7).
- Bungin Burhan. (2019). Metodologi Penelitian Kualitatif: Aktualisasi Metodologi Ke Arah Ragam Varian Kontemporer. In *Metodologi Penelitian Kualitatif Aktualisasi Metodologis Ke Arah Ragam Varian Kontemporer*.
- Danila, Nevi, Kamaludin, Kamilah, Sundarasen, Sheela, & Bunyamin, Bunyamin. (2021). Islamic Index Market Sentiment: Evidence From The Asean Market. *Journal Of Islamic Accounting And Business Research*, 12(3). <https://doi.org/10.1108/jiabr-05-2020-0166>
- Febriyanto, Febriyanto. (2019). Korelasi Pasar Modal Negara Asean-5 Diera Masyarakat Ekonomi Asean Terhadap Peluang Diversifikasi Investasi Internasional. *Fidusia : Jurnal Keuangan Dan Perbankan*, 2(1). <https://doi.org/10.24127/jf.v2i1.361>
- Hartono, Jogyanto. (2017). Teori Portofolio Dan Analisis Investasi (Edisi Kesebelas). Yogyakarta: Bpfe.
- Herlambang, Guntur. (2018). Pengertian Kapitalisasi Pasar.
- Masyie, Kristina. (2021). Pengaruh Frekuensi Perdagangan, Volume Perdagangan, & Kapitalisasi Pasar Terhadap Return Saham Pada Sektor Pariwisata Yang Terdaftar Di Bei. *Jurnal Manajemen Sains Dan Organisasi*, 2(1).
- Mustaqim, Sabili, & Widanta, A. A. Bagus Putu. (2021). Pengaruh Ekspor, Kurs, & Foreign Direct Investment (Fdi) Terhadap Cadangan Devisa Indonesia Periode Tahun 1980-2017. *E-Jurnal Ekonomi Pembangunan Universitas Udayana*, 10(4).
- Rahmawati, Eka Yuliana, Ismanto, Bambang, & Sitorus, Destri Sambara. (2020). Analisis Pengaruh Ekspor Dan Kurs Terhadap Cadangan Devisa Indonesia Tahun 1990-2019. *Jurnal Ecodunamika*, 3(2).
- Salvatore, Dominick. (2011). International Economics: Trade And Finance. *Ocean And Coastal Management*, 47(11-12 Spec. Iss).
- Setiawan, Budi, & Hidayat, Muhammad. (2017). Pengaruh Pasar Modal Negara G-3 Terhadap Pasar Odal Asean-5. *Jurnal Ilmiah Ekonomi Global Masa Kini*, 8(03).
- Sonia, Agnes Putri, & Setiawina, Nyoman Djinar. (2016). Pengaruh Kurs, Jub, Dan Tingkat Inflasi Terhadap Ekspor, Impor, Dan Cadangan Devisa Indonesia. *E-Jurnal Ekonomi Pembangunan Universitas Udayana*, 5(10).
- Sugiyono, Prof. Dr. Metode Penelitian Kuantitatif, Kualitatif, Dan R&D. , Alfabeta, Cv. (2016).
- Tandelilin, Eduardus. (2018). Gains From International Diversification And Domestic Portfolio In Emerging Stocks Markets: Philippine And Indonesian Perspectives. *Gadjah Mada International Journal Of Business*. <https://doi.org/10.22146/gamaijb.37900>