

The Impact of Capital Inflows on Asset Prices in East Asia *

Jun-ichi SHINKAI**

Osaka University

and

Masahiro ENYA***

Kanazawa University

January 2014

Abstract

The purpose of this study is to review the recent trend in capital inflows to East Asian economies, and to investigate the impact of these inflows on asset price fluctuations in the region. This study focuses on five emerging economies in East Asia (Korea, Hong Kong, Thailand, Malaysia, and Indonesia) over the period 2000–2010. To shed light on these matters, we estimate a vector autoregression (VAR) model for each economy. This study has some notable contributions. The first contribution is a focus not only on the impacts of capital inflows on asset prices, but also on the impacts of capital outflows on them. The second is the focus on the impacts of various types of capital inflows. The third is the focus on the impacts on two types of asset prices: equity price and housing price. Our main results are as follows. Firstly, capital inflows significantly increase equity prices in all five economies. All types of capital inflows do not always increase equity prices in all economies. Equity inflows and bond inflows increase equity prices in all countries, except for bond inflows in Thailand. Secondly, the responses of housing prices to capital inflows differ among economies and among inflow category types. We find the positive impacts on housing prices only for Hong Kong and Korea. Finally, the responses of asset prices to capital outflows are different from those to capital inflows.

Keywords: Capital Inflows, Housing Prices, Equity Prices, VAR, ASIA

JEL Classification Numbers: F21; F32; F41; G21

* Paper prepared for the 2014 Spring Meeting of the Japanese Economic Association, Doshisha University, Kyoto, Japan, June 14-15, 2014. An earlier version of this paper was presented at the ninth Annual Conference of the Asia-Pacific Economic Association, Osaka University, Osaka, Japan, July 27-28, 2013. We thank participants at the conference for their useful comments. This work was supported by a Grant-in-Aid for Scientific Research (A) (24243041) from the Japan Society for the Promotion of Science (JSPS).

** Specially Appointed Researcher, Osaka School of International Public Policy, Osaka University, E-mail: junichis@nifty.com, Mailing address: 1-31, Machikaneyama-cho, Toyonaka, Osaka 560-0043, Japan.

*** Associate Professor, Faculty of Economics and Management, Institute of Human and Social Sciences, Kanazawa University, E-mail: enya@staff.kanazawa-u.ac.jp, Mailing address: Kakuma-mach, Kanazawa, Ishikawa 920-1192, Japan.