Comments on Karolyi: The Role of ADRs

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IMF
Focus of Paper

To test the impact of the growth of ADR market on integration. Specifically,

- Has ADR growth been associated with increases in correlation/integration of U.S. and foreign market?

Or

- Has ADR growth been associated with decrease in correlation/integration?
Is International Financial Liberalization a catalyst for economic growth?

- Some weak evidence that the two are positively linked (WEO, 2001)

- But we also know that opening up financial market is complex and poses many challenges
ADR Bias?

- ADRs are important, but what about GDRs and Singapore Depositary Receipts? Shouldn’t they be part of sample?

- For Latin American countries there are 270 ADRs, while for Emerging Asia there are only 140.

- Is ADR activity is more a Latin trend than a general trend?
Integration Measure?

- The interpretation of the integration indexes?
  - Just a price measure?
  - No quantity adjustment -- some adjustment for amount of flows?
  - Couldn’t prices be perfectly correlated and markets be completely segmented?
Market Liberalization Dates

- For regression results, market liberalization date comes from Bekaert, Harvey and Lumsdaine break measure. Is it the best measure?

- Often countries liberalize slowly, as in the case in Korea? How sensitive are your results to changes in liberalization dates?
A Simple Measure of Intensity of Capital Controls (Edison and Warnock, 2001)

- At the country level, the ratio of market caps of IFCI and IFCG indices is a measure of the extent of foreign ownership restriction.
  - For = $1 - \frac{MC^{IFCI}}{MC^{IFCG}}$
Paper Linkages?

- How does this paper link to the one by Randy?