# Chapter VIII
# IT and Thai Stock Market Development

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## ABSTRACT

*This chapter describes the development of the stock market in Thailand since it was established in 1975. During these 30 years, the stock market in Thailand has introduced computer systems to facilitate investors and listed companies both in financial data and administrative work. Particularly, the Internet trading system has been introduced to enhance market growth. This can be traced from the increasing volume of trade each day. The growth of the Thai stock market has changed the structure of Thai economy and affects the economic development of Thailand.*

## INTRODUCTION

The stock market is one of the most important sources for companies to raise money to increase business investment. Many profitable investments require a long-term commitment of capital, but investors might not want to tie up their savings for such a long period. A liquid equity market allows savers to sell their shares easily if they so desire, thereby making shares relatively more attractive investments. As savers become comfortable with investing for the long term in equities, they are likely to rebalance their portfolios toward equities and away from shorter term financial investments. For firms, this rebalancing lowers the cost of shifting to more profitable—that is, more productive—longer term projects. Higher productivity capital, in turn, boosts economic growth. It also increases returns on investments in equity, which may prompt individuals to save more, adding further to investment in physical capital and thus fueling economic growth (Levine, 1997). Filer, Hanousek, and Campos (1999) found a strong relationship between stock market activity and future economic growth for the low- and lower-middle-income countries. A more

developed equity market might provide liquidity that lowers the cost of the foreign capital that is essential for development, especially in low-income countries that cannot generate sufficient domestic savings. The liquidity of the stock market is measured by the total value of shares traded as a share of the gross domestic product (GDP), which is likely to vary with the ease of trading. The second measure of liquidity is the value of trade shares as a percentage of total market capitalization. This ratio indicates that greater turnover predicts faster growth (Levine, 1996). Furthermore, a well-developed stock market can foster economic growth in the long run and well-functioning stock markets can promote economic development by fueling the engine of growth through faster capital accumulation and by tuning it through better resource allocation (Caporale, Howells, & Soliman, 2004). Granger-causality tests were used to provide evidence of a positive and significant causal relationship going from stock market development to economic growth, particularly for less developed countries. Stock market development is measured by three variables: (a) market capitalization over GDP, (b) turnover velocity (the ratio of turnover to market capitalization), and (c) the change in the number of domestic shares listed (Filer et al.). Lee also conceded that a network was important for automated trading, and the number of exchanges might proliferate simply because automated exchanges were so cheap to operate (as cited in Herring & Litan, 2002). However, Hobijn and Jovanovic (2000) argued that the capitalization-GDP ratio was likely to decline and then rise after any major technological shift. Paul Mahoney believes that technology will continue to increase the size and decrease the costs of trading in secondary securities markets and lead even more financial transactions to take place through securities markets (as cited in Herring & Litan). Furthermore, technological progress explains 37% of the 3.9% annual growth in the stock market over the 1885 to 1998 period (Jovanovic & Rousseau, 2000). As for the number of domestic shares listed, a new technology or product is often developed by the single entrepreneur who initially finds it hard to get funds, develop the product, and find customers. If the product is good, customers eventually line up and investors flock in (Greenwood & Jovanovic, 1999). Stijn Clasessens, Daniela Klingebiel, and Sergio Schmukler of the World Bank Group identified that the more successful a country is in strengthening its financial infrastructure, the more likely are its firms to list on larger, more liquid foreign markets (as cited in Herring & Litan, 2002), and a distribution network may facilitate fundraising at a lower cost (Herring & Litan). Maru (1997) also found that economic growth is accompanied by expansion of the stock market. In Asia, economic growth fosters growth of the stock market. From the above literature, stock market development and liquidity with technological support fosters economic growth. The Thai stock market is not an exception; since its establishment, the Thai stock market has developed its structural organization and rules and regulations to enhance a transparent and fair trading system with information disclosure and dissemination for domestic and foreign investors. Advanced computer technology has been introduced and developed to facilitate the trading system and post-trade system accurately and efficiently, and it fosters economic growth. This chapter aims to describe the Thai stock market both in terms of its institutional and technological development since it was established in 1975. The implementation of advanced technology and its effects on the Thai stock market will be discussed in the second part. Finally, the relation between Thai stock market development and its economic growth will be analyzed.