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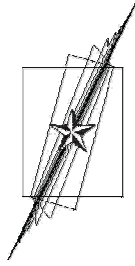
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From the Editor

This volume of the *DLSU Business and Economics Review* is composed of two parts. The first is a special section on ASEAN integration. The second portion consists of articles submitted individually that revolve around the topic of compliance.

There are three significant reasons that convinced the editors of the journal to come out with this special section on ASEAN integration. First, in light of the inertia in multilateral trade negotiations, the importance of regional economic integration has been underscored by many scholars within and outside the region. Second, academic articles promoting macroeconomic and financial integration can put substance into the newly initiated ASEAN Economic Community (AEC). Lastly, the articles in this section is an example of regional cooperation among academics in addressing the issues confronting economic integration in the ASEAN. The articles included in this section were drawn primarily from the technical workshops conducted by an academic partnership between the School of Economics of De La Salle University (DLSU), Manila, Philippines, and the National Institute of Development Administration in Bangkok, Thailand.

We have invited Dr. Mariel Monica R. Sauler of the School of Economics of DLSU as the guest editor for this special section to take care of the selection and preliminary editing of papers presented in the technical workshops as well as in selecting the reviewers.

On the other hand, the several articles on the second section converge on the subject of compliance.

Since the time of Adam Smith the relevance of firms and other organizations have been studied. Because of the inadequacies of the market in explaining the production process, Ronald Coase provided a modern explanation of the theory of firm based on minimizing transaction costs in the production process as well as in reducing the huge cost of completing complex contracts under the market mechanism. These transaction costs and those associated with performing complex contracts are made possible within the firm with a manager organizing multiple production processes. Over time organizations including firms have evolved and became more intricate in terms of objectives, ownership structure, management system, processes and responsibilities. Beyond transaction costs and complex contracts, what is relevant in more complex organizations is the management of asymmetric information in the light of numerous and sometimes conflicting objectives of various stakeholders. In this light, the issue of compliance to certain regulations, standards or accepted norms becomes paramount in the operation of modern companies and organizations. A number of articles in this volume tackle the issue of compliance in various aspects of modern organizations.

The article of Nelson Celis on “**Compliance Theory: A Case Study Approach in Understanding Organizational Commitment**” is particularly relevant as it sets the mood on the theme of the second section of this volume. Although the study pertains to the degree of compliance of government agencies on the directives of the Electronic Commerce Act of 2000, what is specifically significant in the article is the discussion on the compliance behavior of organizations. The author presents a socio-economic theory of regulatory compliance as a framework of analysis. A key in his assessment is the maturity level of the organization for compliance. The author concludes that there a need for organizational readiness to comply and this readiness takes several stages. It is recommended that organizations undertake an assessment of their maturity level and then take appropriate actions to graduate to the next level until full compliance is realized.

The article of Cynthia Cudia and Aeson Luiz De la Cruz on “**Determinants of Earnings Management Choice Among Publicly Listed Industrial Firms in the Philippines**” covers a compliance issue on the use of

acceptable accounting rules and procedures in the firm's choice of earnings management. The conflict between the owners and managers, on the one hand, and the other stakeholders on the other hand, can give rise to opportunistic motive over an efficient motive in the earnings management choice. The authors conclude that, cash flows from operations and leverage have positive influence on efficient earnings management, which presents an appropriate signal on the financial health of the company, while profitability has a negative influence.

From compliance issues on management of information technology and financial resources the article by Ana Liza Asis-Castro and Divina Edralin on "**Predictors of Humanistic Sustainability HRM Practices**" focuses on compliance concerns on the management of human resources. An index of humanistic sustainability of HRM practices was constructed to affirm the reality that employees are human beings that should be nurtured and developed while being engaged by organizations, on the one hand, and that human resource management practices should be sustainable and consistent with the other goals of the organizations, on the other hand. The authors detect that humanistic sustainable HRM practices are significantly related with certain organizations characteristics including size and maturity of the firm.

Managing the relationship of the firm with the community is the focus of the article by Kelly Anh Vu and Thanita Buranatrakul on "**Corporate Social Responsibility Disclosure in Vietnam: A Longitudinal Study**". As mentioned earlier, an organization has to manage its various stakeholders including the community where the organization operates. In this light, corporate social responsibility has made a legitimate target among mature companies in many parts of the world. The study shows that corporate social responsibility (CSR) disclosure in publicly listed companies in the Vietnamese Stock Exchange is significantly related with board independence, CEO duality, size and profit. In addition, the article presents another evidence strengthening the legitimacy theory in explaining the CSR behaviors of large and profitable companies.

The article by Augustine Ayuba, Natrah Saad and Zaimah Zainol Ariffin on "**Testing the Assumptions of Slippery Slope Framework on Tax Compliance: Evidence from Nigeria SMEs**" is about managing the responsibility of organizations with the state particularly in the payment of taxes to relevant government units. The authors conclude that perceived corruption and perceived service orientation and their interactions effects are linked with tax compliance among small and medium enterprises in Nigeria.

The last two articles in this section, however, deviate from the topic of compliance.

The article on "**Analysis of Food Demand Elasticity of Rice for the Poor in Aceh, Indonesia: An Almost Ideal Demand System Approach**" by Suriani, Diana Sapha A.H, Cut Zakia Rizki, and M. Shabri Abd. Majid explores the effects of subsidized rice consumption particularly on the food demand elasticity of poor households. The study finds that the highest proportion of expenditures of poor household was spent on rice and that poor households are highly dependent on subsidized rice. This conclusion has implications on the role of government interventions in addressing hunger among poor households.

The research note on "**Crude Oil Price Features and Stock Markets Returns: What do their Correlations Tell Us?**" by Arlan Brucal tackles the possible macroeconomic effects of changes in crude oil prices. What is more important is the need to know the sources of the fluctuations in crude oil prices to determine the appropriate monetary and fiscal responses of economies in the ASEAN. This is particularly relevant since the region is a mix of oil exporting as well as oil importing economies.

At this point, I would like to thank the authors in the first section from various parts of ASEAN and Dr. Sauler for their significant contributions in expanding our understanding of ASEAN economic integration particularly in the area of finance. Expression of gratitude is also in order to the other contributors as well as to the numerous reviewers. I would like to take this opportunity to acknowledge the important role of journal reviewers. The task of coming out with an academic journal on a regular basis will not be realized without the cooperation of a pool of reviewers who are with us in advancing the academic research in the fields of business and economics in the region. Please accept my sincere thanks for your untiring dedication.

Tereso S. Tullao, Jr.
Editor-in-Chief

ASEAN Macroeconomic and Financial Integration

The formation of the ASEAN Economic Community tends to leave most of us optimistic and somewhat reflective. The potential benefits of such are exciting—free flow of goods and services, labor and capital mobility, and integrated institutions that support the growth of different aspects of the region. There is certainly plenty to look forward to. On the flip side, the intricacies and nuances of such an integration trigger a heightened sense of curiosity among scholars and thinkers.

What makes it more interesting is that ASEAN member countries follow distinct yet somewhat similar paths. Their stories of progress and their economic makeup hold interesting similarities, yet each country also has distinct qualities that make this region's member countries both quite comparable and starkly diverse. This renders the process of unification possibly even more complex than what we make it out to be; there are sides to this regional cooperation that call for careful study.

This special section of the *DLSU Business & Economics Review* focuses on issues surrounding both macroeconomic and financial integration in the ASEAN region—an initiative that began from a meeting between the De La Salle University School of Economics in Manila, Philippines, and the National Institute of Development Administration in Bangkok, Thailand. This led to a workshop in September 2015 where initial research findings on equity markets, capital markets, and macroeconomic policy were discussed. We were very keen to discover more about the movements of macroeconomic variables and how financial markets operated in the region.

The outcome is this collection of papers that covers a variety of topics—from currencies and bond markets to business cycles and government policy—and the results are insightful. With this issue, we hope to provide additional food for thought to the continuously expanding dialogue on ASEAN integration and, also, to shed some light on specific issues of economic integration as we further delve into the macroeconomic and financial aspects of the ASEAN Economic Community.

In **“Long-Run Linkages of ASEAN+3 Floating Currencies,”** Cesar Rufino delves into the interdependencies of the currencies of the ASEAN+3, which are either freely floating or managed floats, using time-series econometric methods. He uses high-frequency data over a fifteen-year period, post-Asian Financial Crisis and covering the Global Financial Crisis, to assess the extent to which monetary integration has occurred among the relevant currencies. He finds that the floating currencies of the ASEAN+3 countries display informational efficiency, that is, movements instantaneously reflect all relevant information, and that some long-run relationships do exist among the currencies studied.

As for bond markets, in the paper **“ASEAN Bond Market Integration: What Drives Cross-Border Bond Investment in ASEAN?”** Angelo Taningco explores the level of financial integration by focusing on intra-ASEAN bond investments through the use of the gravity model. He finds that a common language among the ASEAN countries is important for more seamless bond market integration. Using an index to measure financial openness, he also discusses how the lowering of capital controls can improve the integration of ASEAN bond markets, which have recently experienced rapid growth.

Also in the line of bond markets, Sorasart Sukcharoensin uses the Strategic Position and Action Evaluation (SPACE) Matrix to study the level of competitiveness of each ASEAN bond market in the paper **“Strategic Position of Bond Markets in ASEAN-5: Challenges and Directions for Development.”** Typically applied in industry settings, the SPACE Matrix is used as a tool for strategy formulation as it covers financial strength, industry strength, competitive advantage, and environmental stability. He finds that Malaysia, Thailand, and Singapore hold similar aggressive positions, while Indonesia and the Philippines hold a defensive and a conservative position, respectively.

In addition to this, Tereso Tullao, Jr., Christopher Cabuay, and Daniel Hofileña question **“Is a Regional Credit Rating Agency for the ASEAN Feasible?”** In this paper, they challenge the status quo with the premise that domestic credit ratings agencies are not recognized by global standards, and this frequently leads to domestic

credit markets being underrated. The authors discuss this topic in-depth as they look into the need for a regional credit ratings agency for the continuous development of the region's bond markets and also suggest possible alternatives such as developing institutions that may support credit ratings initiatives in the region such as the standardization of frameworks and governance structures or the creation of regional accrediting bodies.

When it comes to stock markets, in the paper "**Ownership Structure and Stock Return Asymmetries in ASEAN-5 Stock Markets: A Firm-level Analysis**," Sorasart Sukcharoensin and Pariyada Sukcharoensin assess how corporate governance affects the asymmetric distribution of stock market returns. They discuss the relationship between management and stockholders as a principal-agent problem and, with this as a backdrop, consider the disclosure of information as a factor in determining the skewness of stock returns using firm-level data over a ten-year period. They analyze factors that explain both positive skewness and negative skewness including ownership structure, market-to-book ratio, cumulative stock returns, and the size of the firm.

On macroeconomic policy, in the paper "**Inflation and Public Debt Dynamics in ASEAN**," Athakrit Thepmongkol and Yuthana Sethapramote look into the effects of inflation on public debt. They present a theoretical model to emphasize the effects that inflation has on public debt—either through a seigniorage effect or an interest rate effect. Through numerical simulation, they then assess inflation policies for each country and for the region as a whole, finding that the countries possess different abilities of financing debt through the effects of inflation.

Another important aspect of macroeconomic integration is business cycles, Yuthana Sethapramote and Athakrit Thepmongkol dig deeper into the patterns of the ASEAN's business cycles. In the paper "**Regime-Switching Business Cycle Synchronization in ASEAN**," they apply a Markov switching model to determine the similarities or nonsimilarities in the macroeconomic expansions and contractions of six ASEAN-member nations. They find that Indonesia, Malaysia, and the Philippines have similar patterns. In another exercise, they use principle component analysis to determine that 88% of the movements in business cycles can be attributed to specific factors affecting the region.

We are grateful to the contributors of this special section of the *DLSU Business & Economics Review*, and we are especially grateful to Tereso Tullao, Jr., and Marites Tiongco for allowing us to utilize this platform as a means to highlight research in the area of macroeconomic and financial integration. We would also like to thank Daisy Mojares for her diligence in completing the work needed for this project to be fully realized. We would also like to express our deep gratitude to all the reviewers who have lent their time, thoughts, and opinions to develop the papers further and to ensure that this journal's standards are met.

We hope that this issue will be an interesting read and provide more insights into ASEAN integration.

Maribel Monica R. Sauler

Guest Editor