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A report prepared for the Ministry of Economic Development and the Capital Market Development Taskforce.
In integrated capital markets assets are priced according to a common set of risks. By contrast prices reflect country-specific factors in segmented markets.
Capital market integration offers the possibility of better capital allocation and greater economic growth improved country risk-sharing enhanced portfolio diversification and a lower cost of capital. However it also exposes a country to capital flight and imported credit crunches inefficient capital allocation if information problems are significant increased corruption incentives and a failure to work well when most needed.
Recent microeconomic studies suggest that diversification and cost of capital improvements from integration may largely be exhausted in developed countries and hence are likely to be primarily confined to emerging countries. But longer-term macroeconomic evidence seems to indicate that the gains from capital market liberalisation have principally been enjoyed by developed countries.
Financial economists have developed a number of methods for identifying and measuring the degree of integration both globally and for individual countries. These include: return correlations tests of formal asset pricing models constructed under the assumption of perfect integration cross-country equivalence of implied pricing factors convergence of valuation ratios and various foreign market participation metrics.
The overall picture painted by the limited number of existing applications of these methods to New Zealand suggest (i) a high degree of integration with Australia (ii) greater integration with Asia-Pacific countries than those of Europe or North America and (iii) no compelling evidence of a general segmentation problem.
However these conclusions must be treated with considerable caution given that most of the analysis on which they are based is often sourced from relatively old data or from studies that are either preliminary and/or are not focussed on New Zealand. Thus it remains possible that New Zealand could achieve and benefit from additional capital market integration. Further work - applying the most recently-available New Zealand data to the methods noted above - is required to determine whether or not this is the case.
Existing studies suggest that the achievement of additional integration is largely driven by factors that are either beyond New Zealand's control or on which it already scores highly. However paying much closer attention to investor property rights may well be helpful in this regard.

https://ir.canterbury.ac.nz/bitstream/handle/10092/3816/12620880_CapMktIntegratReport.pdf?sequence=1