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**“The Asian Bond Fund..”**  
by  
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Discussed by  
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**Checklist: "Asian Bond Fund..."**

	Excellent	good	Ave	Below Ave	Poor
The paper is				x	
The topic is		x			
The contribution to literature is				x	
Reader's interest would be		x			
Methodology					none
Literature Review				x	
Writing Style is				x	

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**Why Asian Bond ?**

- To solve the problem of Asia's over-reliance on foreign banking systems and short-term borrowing from abroad which mainly led to the 1997 financial crisis
- To utilize a large portion of the total combined international reserves of Asia for the maximum benefits of the region
- To allow Asian financial institutions to better prepare themselves for risk management and to resolve problems of liquidity by selling bonds
- To provide alternatives for investment of Asian countries

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**The Asian Bid**

**Asian Foreign Currency Reserves (US\$ bn) 1996-2002**

Year	Reserves (US\$ bn)
1996	715.1
1997	736.2
1998	789.5
1999	939.8
2000	1067.3
2001	1187.7
2002	1425.3

Source: HSBC

- Growing foreign exchange reserves and excess liquidity in the banking sector has resulted in the emergence of the Asian Bid
- But has the Asian Bid resulted in an Asian bond market?

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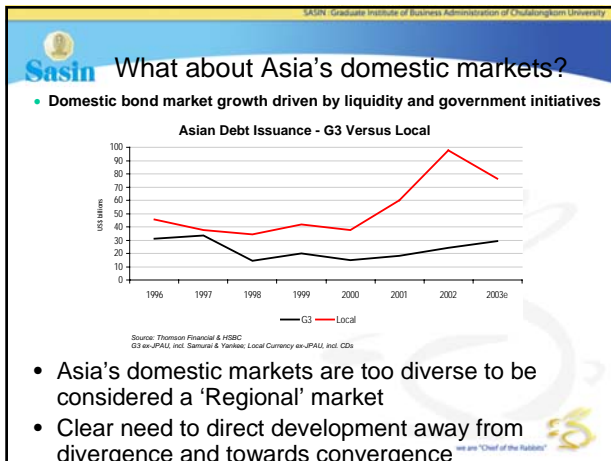
**Asian Bond Market Already Exists**

- Arguably an Asian Bond Market already exists, through the Asian sub-sector of the international bond market

**Distribution of fixed rate US\$ Asian (ex-Japan) Asian Bonds: An Asset Class of Their Own**  
ADBI, EMBI and US Corporate Bond Index

Source: HSBC, as at August 1st, 2003

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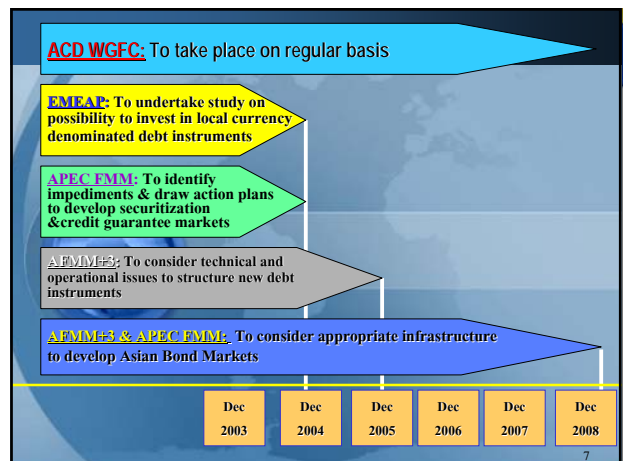
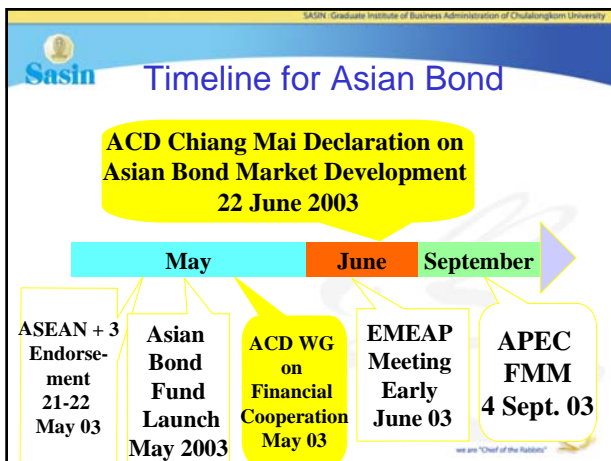
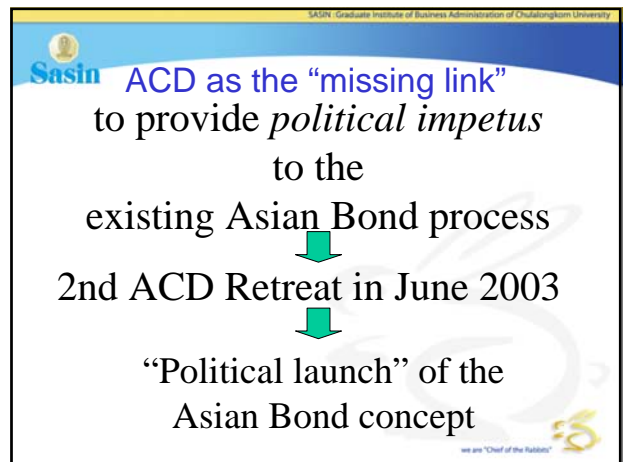
### Development of ABM

Component	Forum	Product
1. Demand Side	EMEAP	Asian Bond Fund
2. Supply Side	ASEAN + 3	Capital market development
	APEC FMM	Regional Bond Market Development
3. Infrastructure		Credit Guarantee Arrangement
		Development of Securitization
		Risk Management
		Regional Clearing & Settlement System

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### Progress Report in Creating ASIAN BOND MARKET

Demand Side	EMEAP sets up Asian Bond Fund (ABF)
Supply side	AFMM+3 New product and necessary support (securitization, credit enhancement, credit rating)
Infrastructure	AFMM+3 & APEC FMM Improving financial infrastructure (Securitization, Credit rating agency, Taxation, Accounting, Clearing and Settlement)
Other Related Forum	ACD (for political support), ASEAN



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## APEC Regional Bond Market Initiative

- **Component 1**  
A comprehensive approach to development of regional bond markets  
Led by: MOF (Thailand), ADB, World Bank
- **Component 2**  
Development of securitization and credit guarantee markets  
Led by: Hong Kong, Korea, and Thailand
- **Component 3**  
Development of new products

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## ASEAN + 3 Initiative (I): Five Working Groups

1. New Securitized Debt Instruments (Thailand)
2. Credit Guarantee Mechanisms (Korea)
3. Foreign Exchange Transactions and Settlement System (Malaysia)
4. Issuance of Bonds Denominated in Local Currencies by MDBs, Government Agencies and Asian MNCs (China)
5. Local and Regional Rating Agencies (Singapore and Japan)

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## EMEAP Initiative: Asian Bond Fund

**Executives' Meeting of East Asia and Pacific Central Banks (EMEAP): 11 Members (Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, and Thailand)**

- a. ABF with an initial size of US\$1 billion
- b. Invest in US dollar-denominated bonds issued by Asian sovereign and quasi-sovereign issuers
- c. BIS: Manager

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## Pacific Economic Cooperation Council Finance Forum

- Tripartite Organization: Government, Business, and Academia
- Inaugural Meeting  
July 2002: Honolulu, Hawaii
- 2<sup>nd</sup> Annual Meeting  
July 2003: Hua Hin, Thailand
- 3<sup>rd</sup> Annual Meeting  
June 2004: Santiago, Chile
- Asian Bond Bank proposed

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## Figure 1 : Regional Bond Market

The diagram consists of three overlapping circles. The top circle is purple and labeled 'Asian Issuer'. The bottom-left circle is grey and labeled 'Asian Investor'. The bottom-right circle is green and labeled 'Asian Currency'. The intersections between the circles represent the regional bond market.

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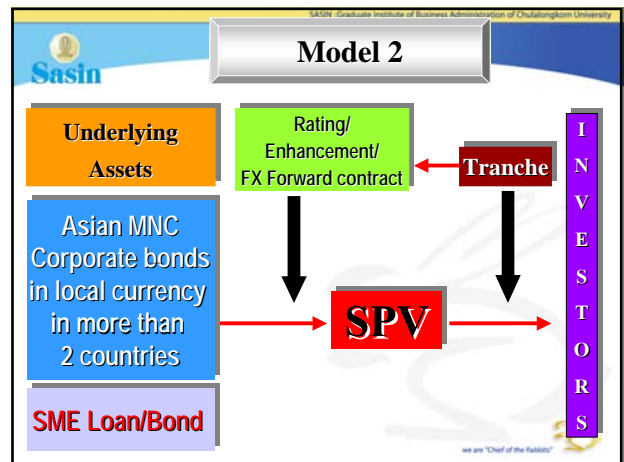
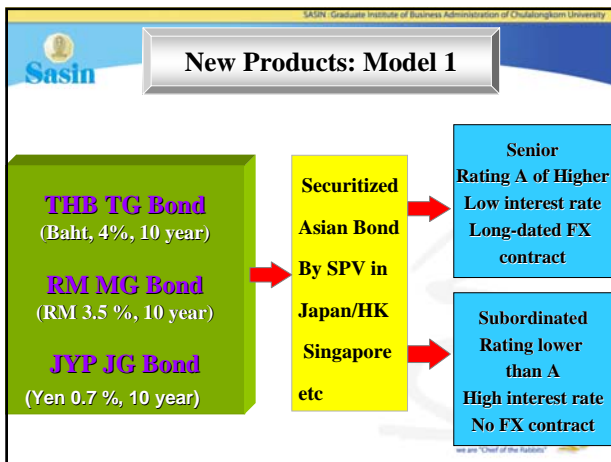
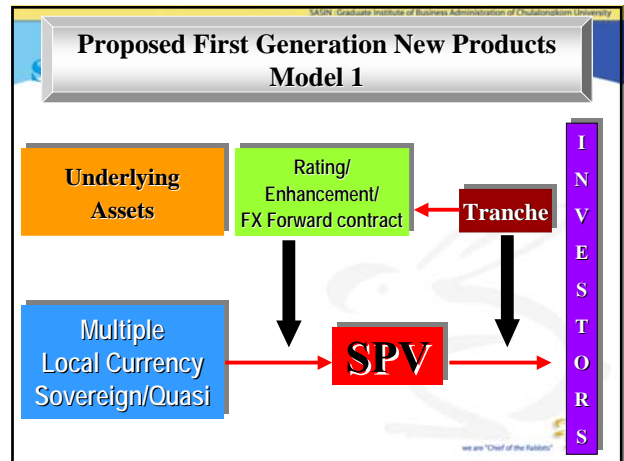
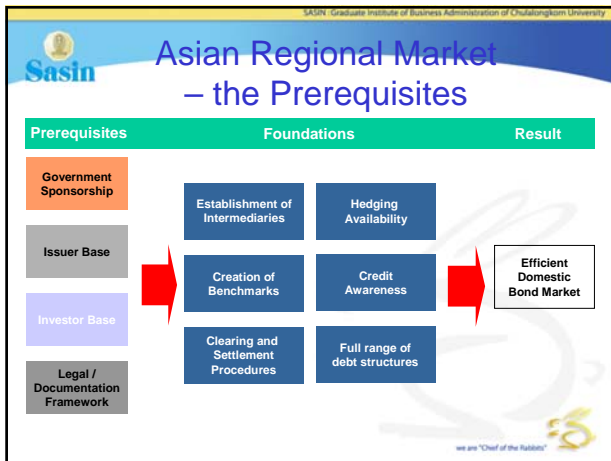
## As long as Asian borrowers

issue bonds at the minimum cost and the majority of these bonds are purchased by Asian investors, does it matter?

1. Where these bonds are issued
2. Who rates these bonds
3. Who serves as lead managers
4. Where these bonds are traded
5. Where they are cleared and settled

**Extreme Regionalism can be costly and counterproductive** See Rhee 2003

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- Reactions outside the region?**
- IMF
    - Supportive
  - Europe
    - Supportive
  - U.S.
    - Passive stance
      - But, potential for concern?
      - Detrimental impact on demand for US Treasury bonds unlikely until currency pegs eliminated

**Conclusion for Regional Financial Arrangement**

Area	Outcome to date
Short-term liquidity support in time of crisis (Chiang Mai Initiative)	Mixed success Network of bilateral currency swaps in place (after 3 yrs of negotiation) but amounts involved small and release of 90% of funds tied to IMF program being in place
Common currency arrangement	Little progress No initiative emerges beyond commitment to “study” the issues
Asian bond market	Rapid developments But outright success remains to be seen

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\*You can download freely at [www.Pongsak.Hoontrakul.com](http://www.Pongsak.Hoontrakul.com)

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## Appendix: Acronym

ACD	Asia Cooperation Dialogue
APEC FMM	APEC Finance Ministers Meeting
EMEAP	East Asia-Pacific Central Banks
ASEAN +3	ASEAN + Japan + China + S. Korea
ASEM	Asia-Europe Meeting

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# END

I love emails.  
Any comments are welcome  
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