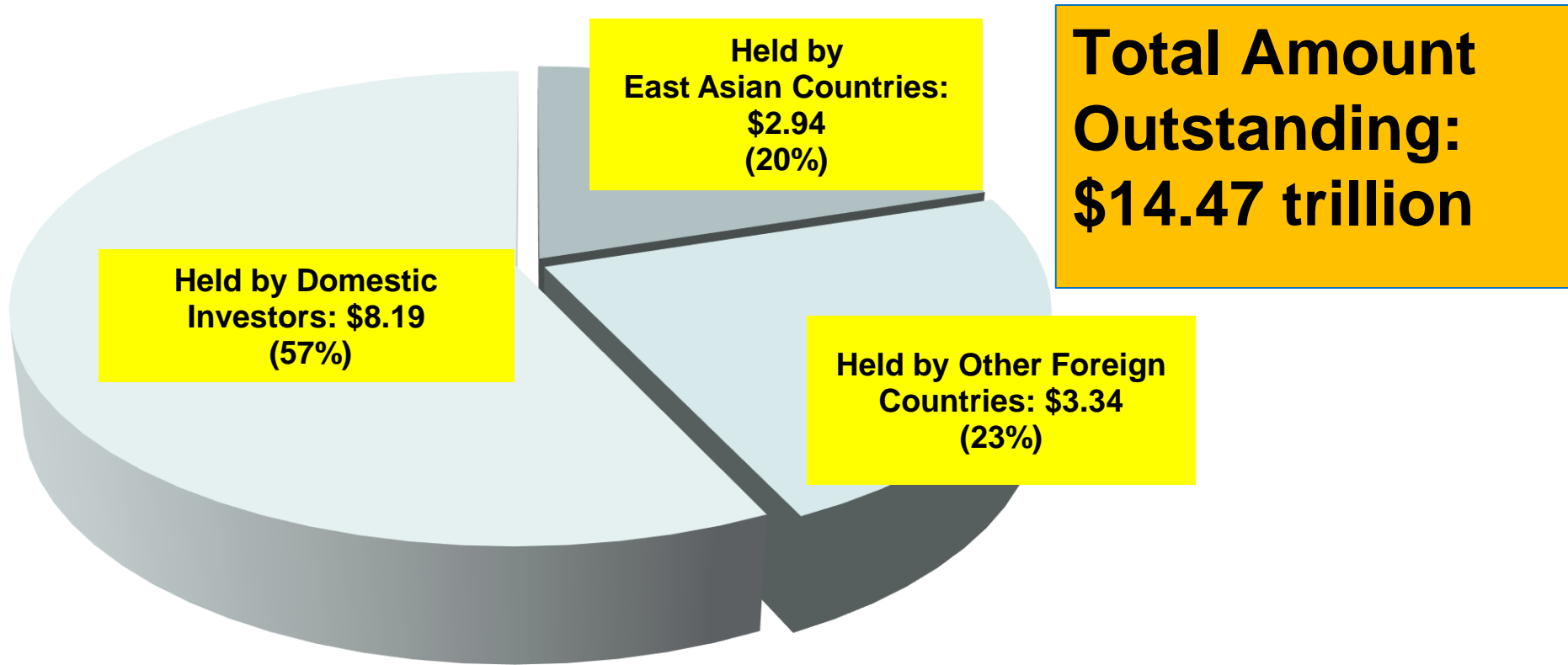


The Development of East Asian Bond Markets

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Investors in US Treasury Securities as of 2017



Holdings of US Treasury Securities by East Asian Countries (2017)

Unit: US\$ Billion

	Holdings in Treasury Securities	% of FX Reserves	Foreign Exchange Reserves
China	\$1,184.9	36.6	\$3,235.9
Japan	1,061.5	84.0	1,264.3
Hong Kong	194.7	43.9	443.5
Taiwan	180.9	39.6	456.7
Singapore	125.0	44.7	279.9
Korea	96.2	24.3	395.8
Thailand	60.9	24.4	249.5
Total (Asia)	2,940.1	46.5	6,325.6

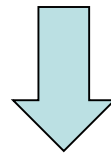
Source: US Department of the Treasury

One Question after Asian Financial Crisis was.....

**Can FX Reserves be
recycled within Asia?**

ABMI **(Asian Bond Market Initiative)**

ASEAN+3 Finance Ministers



Creation of Regional Bond Market

ASEAN + 3

ASEAN member countries:



Brunei



Cambodia



Indonesia



Laos



Malaysia



Myanmar



Philippines



Singapore

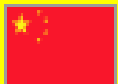


Thailand



Vietnam

+3 countries:



China



Japan



Korea

East Asian Bond Markets

	1997	2017	Annual Growth (%)
China	87	8,739	25.9
Hong Kong	41	244	9.3
Indonesia	4	184	21.1
Korea	153	2,020	13.8
Malaysia	57	318	9.0
Philippines	17	110	9.8
Singapore	24	272	26.3
Thailand	10	346	19.4
East Asia w/o Japan	491	12,233	17.4
Japan	4,149	10,215	4.6
EU	6,936	22,902	6.2
United States	11,894	40,789	6.4

Unit: US\$ Billion

Sources: ADB; BIS; and Securities Industry and Financial Markets Association

Despite Remarkable Growth in East Asian Bond Markets...

One Major Concern Remains

**....It fails to serve as a regional
market**

Cross-Border Investment in East Asian Bonds remains small

Unit: US\$ Billion

	2001	2017
Total Investments in Bonds Worldwide	\$7,520 (100%)	\$27,459 (100%)
Total Investments in East Asian Bonds	226 (3%)	1,290 (4.7%)

Source: IMF CPIS (Coordinated Portfolio Investment Survey)

GDP (2017)

	GDP as of 2017	% of World GDP
EA w/o Japan	\$16,757	22.3
Japan	4,884	6.5
EU9	12,742	16.9
United States	19,362	25.7
World GDP	75,278	100.0

Unit: US\$ trillion

Source: IMF

Cross-Border Investment in East Asian Bonds

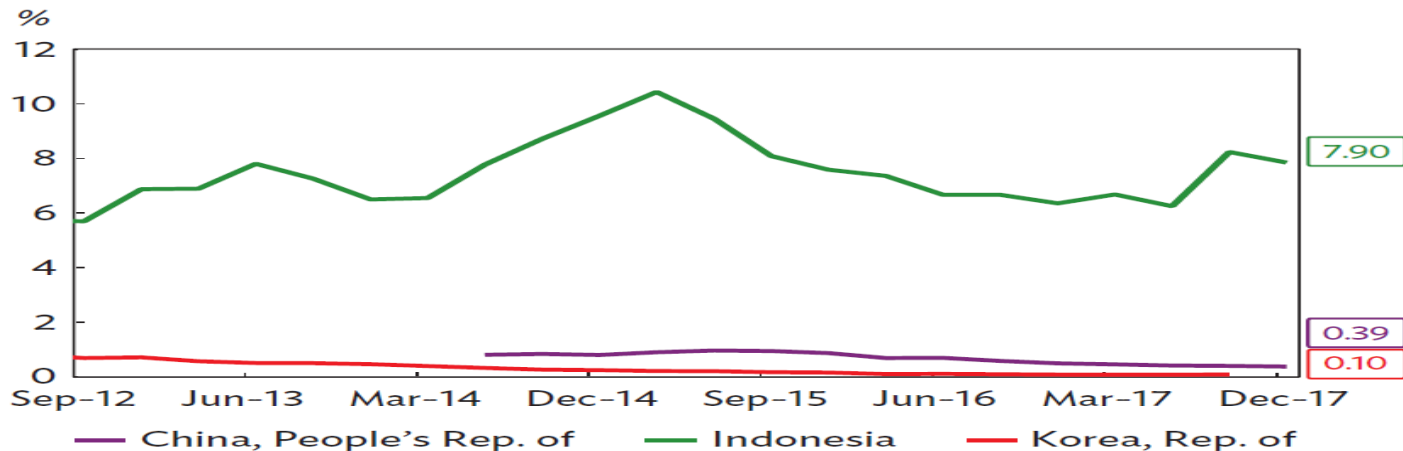
	2001	2017
Total Investments in East Asian Bonds	226 (100%)	1,290 (100%)
a. By Japan	13 (6%)	61.5 (5%)
b. By East Asia	39 (17%)	390.5 (30%)
b. By Rest of the World	174 (77%)	838.0 (65%)

Unit: US\$ Billion
Source: IMF

Japan's investment in bonds worldwide: US\$2,521 billion
Its investment in East Asian Bonds: Only 2.4% of total investment

Foreign Holdings of EA Corporate Bonds

Figure 3: Foreign Holdings of Local Currency Corporate Bonds in Select Emerging East Asian Economies (% of total)



Note: Data as of end-December 2017 except for the Republic of Korea (end-September 2017).
Sources: Based on data from Wind, Otoritas Jasa Keuangan, and the Bank of Korea.

Foreign Holdings of EA Corporate Bonds

	% of Foreign Investment	Corporate Bonds Outstanding (As of 2017)	\$ Amount of Foreign Investment
Indonesia	7.9%	\$29	\$2.29
China	0.39%	2,413	9.41
Korea	0.10%	1,193	1.19

Unit: US\$ Billion

What Happened to ABMI?

ABMI Fizzled Out: Why?

1. **Extreme Regionalism**
2. **Overemphasis on Public Sector's Role**
3. **Preoccupation with Harmonization of Rules and Regulations**
4. **Lack of Transparency**

Extreme Regionalism: Costly and Counterproductive

Some Troubling Suggestions

- a. Bonds rated by Asian rating agencies**
- b. Bonds issued by Asian borrowers and purchased by Asian investors**
- c. Bonds traded, cleared, and settled in Asia**

“Asia Only” Market will

- a. Limit Number of bond buyers**
- b. Discourage competition**
- c. Increase borrowing cost**

As long as Asian Borrowers

Issue bonds at a minimum cost, 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**

Regional markets must be a part of global markets rather than being a segmented and isolated market

Should Public Sector to Spearhead?

- a. Creation of a regional bond rating agency**
- b. Creation of a regional clearing and settlement system**
- c. Creation of a regional trading system**

Definitely NO

Pre-Occupation with Harmonization

- Harmonization is not necessary for financial market integration
- Regional efforts have overemphasized harmonization while elimination of impediments to capital flows has been largely overlooked

“Putting the cart before the horse”

Lack of Transparency: An Example

EMEAP: ABF1

- **Closed-End Fund launched in June 2003**
- **US\$1 billion contributed by EMEAP central banks and managed by BIS**
- **Invest in US\$ denominated bonds issued by sovereign and quasi-sovereign issuers of 8 EMEAP members (except Japan, NZ, and AUS)**
- **Closed in April 2016**

EMEAP: ABF2

- **Open-Ended Fund: Participation of Private Sector Encouraged** launched in 2005
- **US\$2 Billion Investment** contributed by EMEAP member central banks
- **Pan-Asian Bond Index Fund:**
 - US\$1 billion + private sector investment
 - Invest in local currency bonds issued by 8 member economies
 - Managed by State Street Global Advisors Singapore Ltd
 - Listed on the HKSE
- **Single-Market Country Funds**
 - US\$1 billion allocated to 8 single-market country funds
 - To be Listed on each country's exchange

Transparency and Financial Disclosure Lacking

- **What are US\$ bonds in ABF1?**
- **How much private sector contributed to ABF2?**
- **What are local currency bonds in Pan-Asian Bond Index Fund and 8 Single-Market Country Funds?**
- **Price and Volume Behavior?**

Looking Forward

- **As long as public sectors stay away from financial markets, EA bond markets will expand and develop due to robust EA economies**
- **EA bond markets must be a part of global markets**
- **One promising area: Municipal bond markets in China, Indonesia, Japan, and Korea**

**Thank You
for Your Attention!**