

**Japan-China-Korea (A3) Conference
Monetary and Financial Cooperation in the Region**

Handout



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ABMI and Financial Cooperation in East Asia

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Outline

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- Background
- Origin and development
 - ▣ Development of ABMI
 - ▣ Progress achieved on ABMI
- Limitations
- Moving forward
- China's role

Background

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- Necessity for regional cooperation in finance after 1997/98 financial crisis:
 - ▣ Double mismatches: currency and maturity mismatch
 - risks associated with sudden stops of capital flows
 - Asian saving and capital flow “upward” to US and Europe
 - ▣ Conditionality of IMF rescue programs

Origin and development

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- Origin of Asian Bond Market Initiative (ABMI)
 - Endorsement of ABMI by Finance Ministers of ASEAN+3 in 2003:
 - Develop efficient and liquid bond markets in Asia
 - Allocate regional high saving to finance intraregional investment



Origin and development

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□ Development of ABMI

- The first road map in 2003 organized 6 Working Groups (WGs)
- Launch of *Asian Bonds Online* in 2004
- The second road map in 2005 adjusted the framework of ABMI, with 4 WGs and 2 Steering Groups (ASTFG and TACT)
- Training for 23 domestic credit rating agencies by ADB from 2005
- Adoption of new research agenda in 2006 on:
 - Regional Guarantee and Investment Mechanism
 - Regional Settlement Intermediary (RSI)

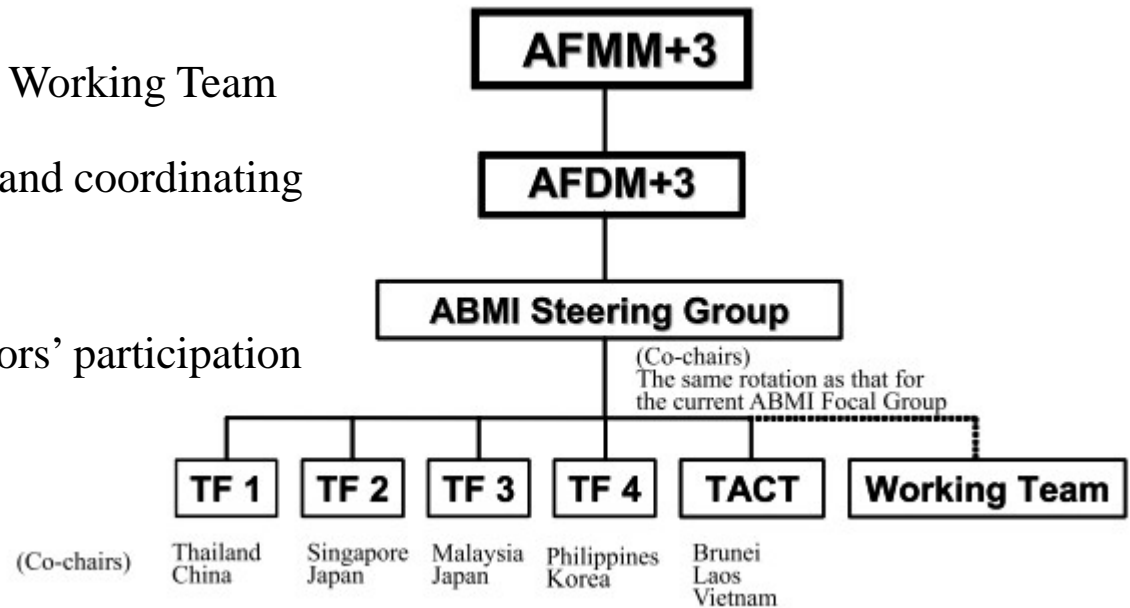
Origin and development

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Development of ABMI

- Endorsement of new study agenda in 2007
- New road map in 2008

- 4 Task Forces, TACT and Working Team
- Steering Group monitors and coordinating them
- Promotion of private sectors' participation



Origin and development

□ Development of ABMI

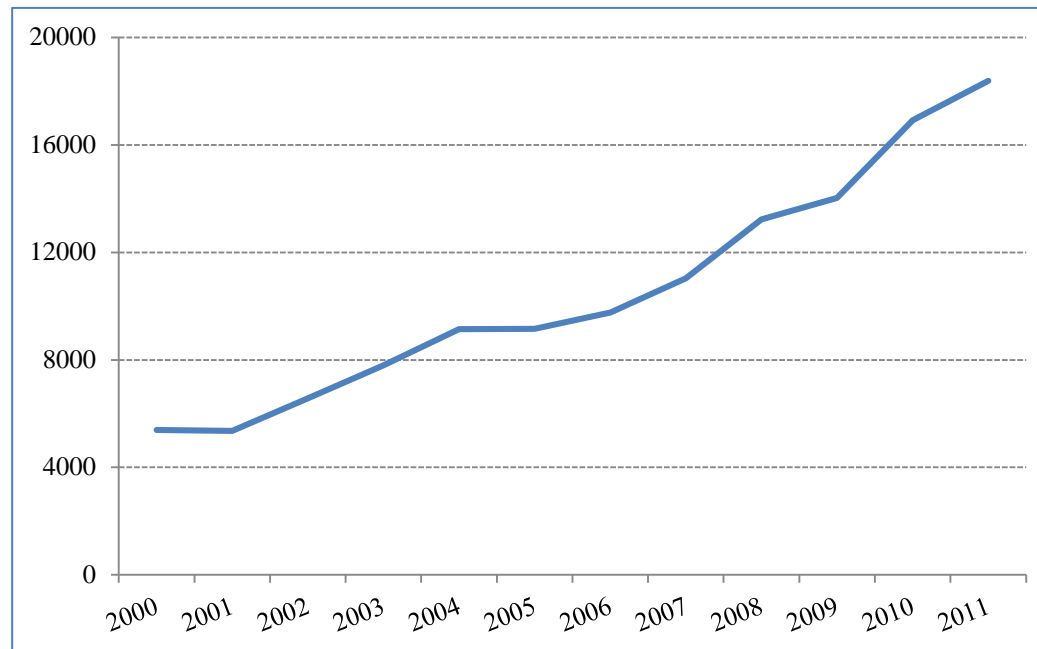
- Establishment of Group of Experts (GoE) on Cross-Border Bond Transactions and Settlement Issues in 2008
- Agreement on the establishment of Credit Guarantee Investment Mechanism in 2009, which was renamed Credit Guarantee Investment Facility (CGIF) latter
- Establishment of CGIF in 2010
- Launching of Asian Bond Market Forum (ABMF) in 2010

Origin and development

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□ Progress achieved on ABMI

Size of LCY Bonds (in billion USD)



Origin and development

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□ Progress achieved on ABMI

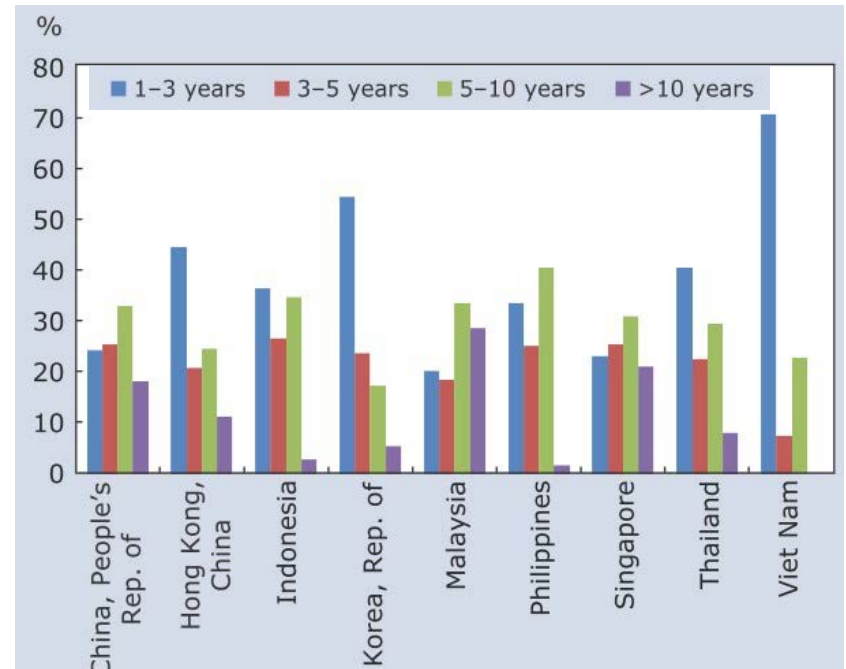
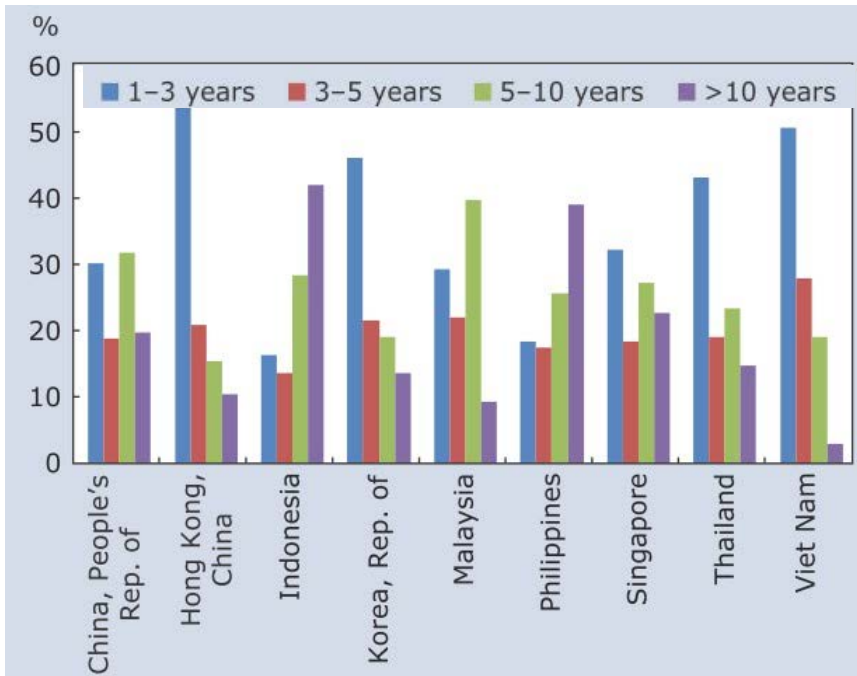
Bonds outstanding in major markets (US\$ in billion)

Economy	September 2011		1996	
	LCY Bonds Outstanding	% of World Total	LCY Bonds Outstanding	% of World Total
United States	26,176	38.7	10,926	42.9
Japan	12,626	18.7	4,456	17.5
France	3,384	5.0	1,261	4.9
Germany	2,648	3.9	1,888	7.4
United Kingdom	1,745	2.6	678	2.7
Emerging East Asia	5,479	8.1	528	2.1
of which: PRC	3,247	4.8	62	0.2
Emerging East Asia excl. PRC	2,232	3.3	466	1.8
of which: Korea, Rep. of	1,179	1.7	283	1.1
of which: ASEAN-6	883	1.3	149	0.6
Indonesia	111	0.2	7	0.03
Malaysia	263	0.4	71	0.3
Philippines	75	0.1	28	0.1
Singapore	188	0.3	25	0.1
Thailand	229	0.3	18	0.1
Viet Nam	17	0.03	-	-
Memo Items:				
Australia	1,012	1.5	248	1.0
Brazil	1,368	2.0	299	1.2
PRC (excl. policy bank bonds)	2,216	3.3	-	-
India	649	1.0	81	0.3
Russian Federation	88	0.1	43	0.2
South Africa	179	0.3	82	0.3

Origin and development

□ Progress achieved on ABMI

Government and corporate bond Maturity Profile (by end of 2011)

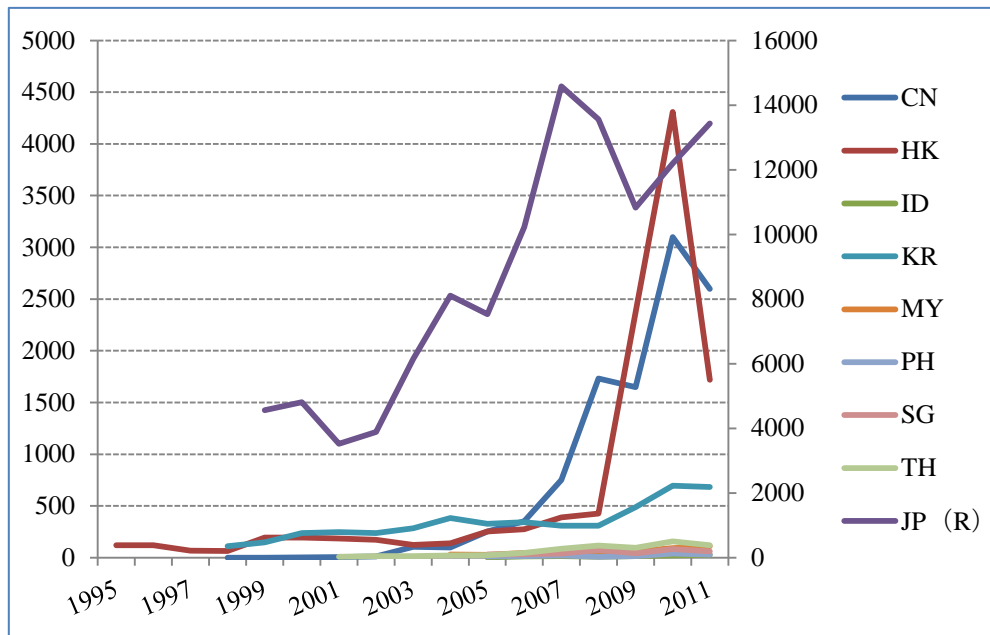


Origin and development

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□ Progress achieved on ABMI

Trading volume of LCY Government and Corporate Bonds (in billion USD)



Source: Asian Bonds Online

Origin and development

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□ Progress achieved on ABMI

■ Development of regional bond market

- Establishment of a \$10 billion MTN program as Asia's first multi-currency bond platform linking domestic debt markets in the region.

In March 2011, ADB issued \$673.2 million in Singapore and Hong Kong under this program.

- Feasibility study on multicurrency bonds denominated in Asian currencies.

Origin and development

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- Progress achieved on ABMI
 - ▣ Improvement on bond market infrastructure
 - Setting up of CGIF in 2010 to guarantee LCY bond issuance
 - Establishing ABMF in 2010 to facilitate regional bond trading
 - Preparing for the establishment of a regional rating agency

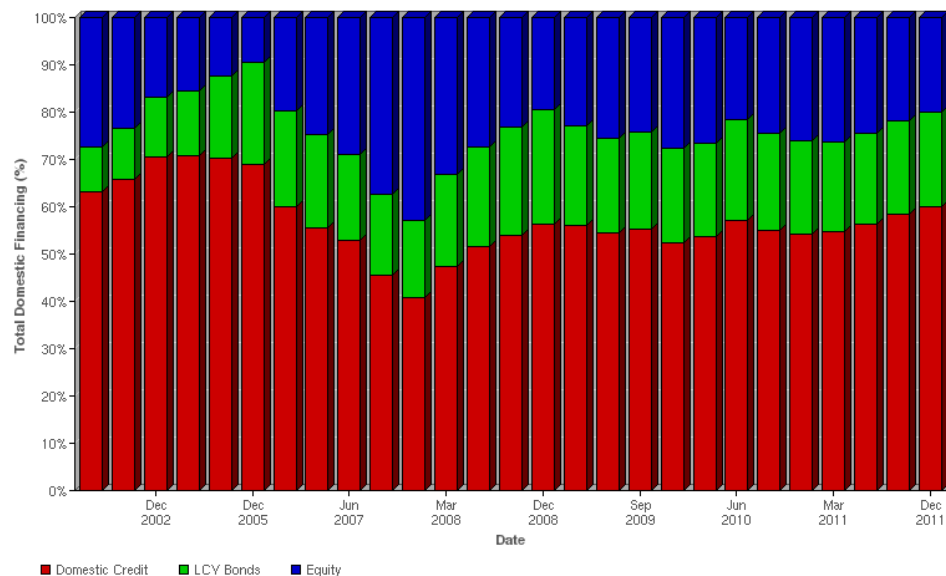
Limitations

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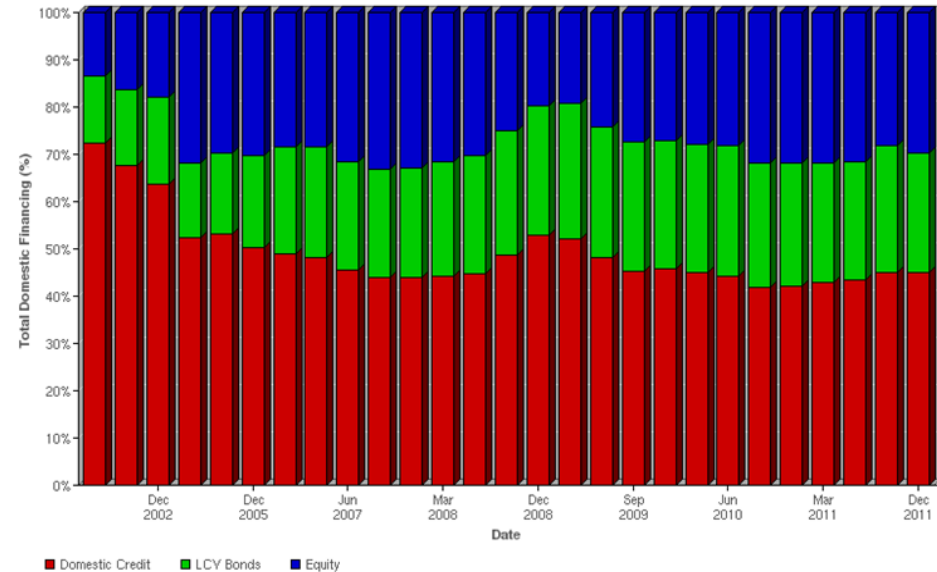
- ABMI: in progress but with limited measures to promote the development of bond market

Regional financing structures

- Insufficient development of domestic bond market



PRC

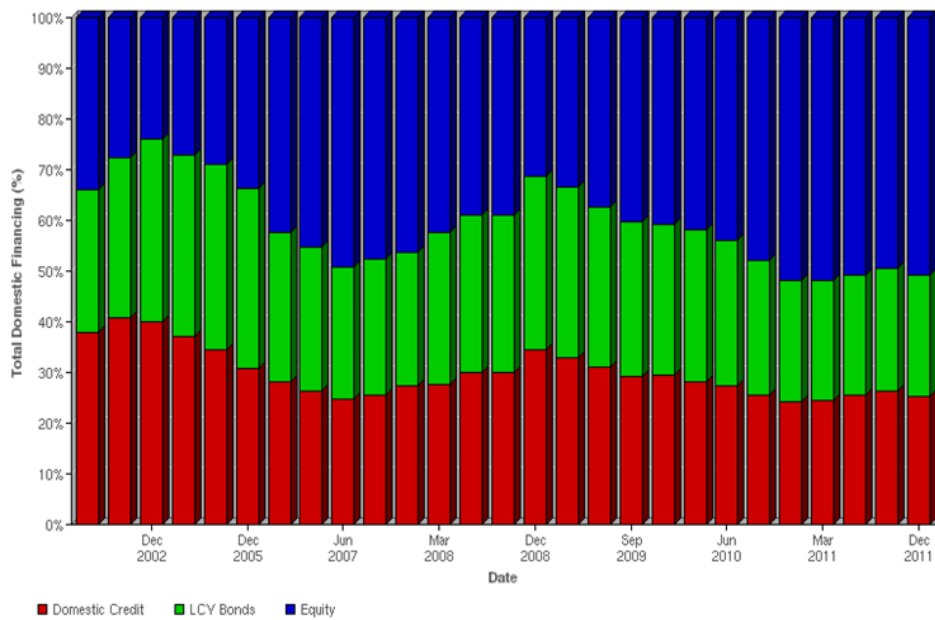


Thailand

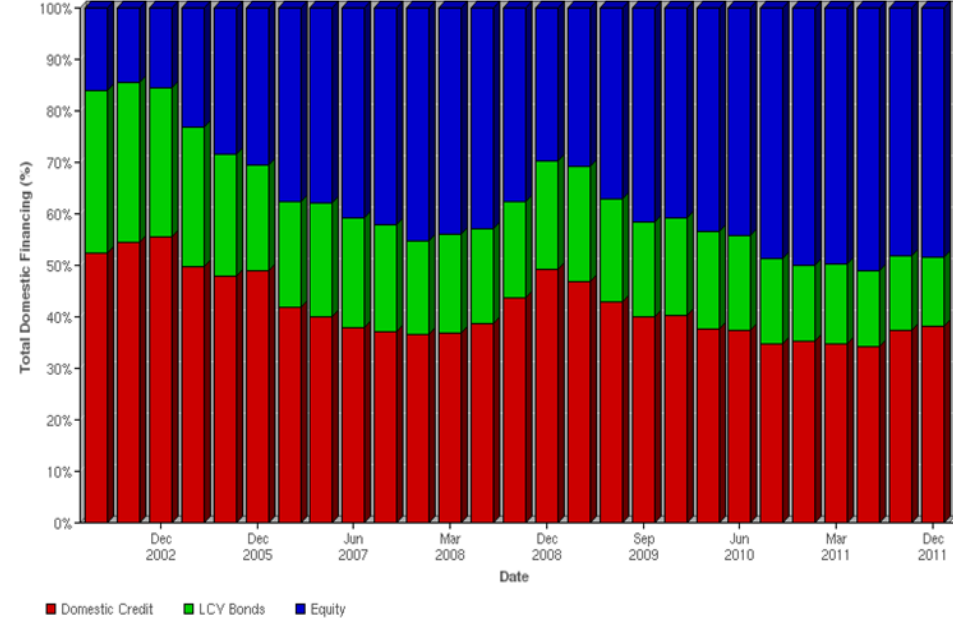
Limitations

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Regional financing structures



Philippines



Indonesia

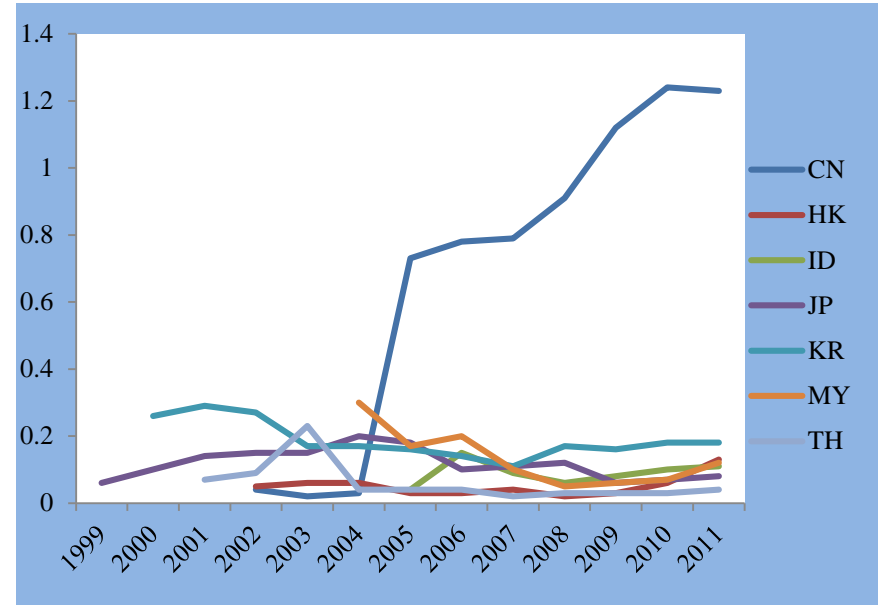
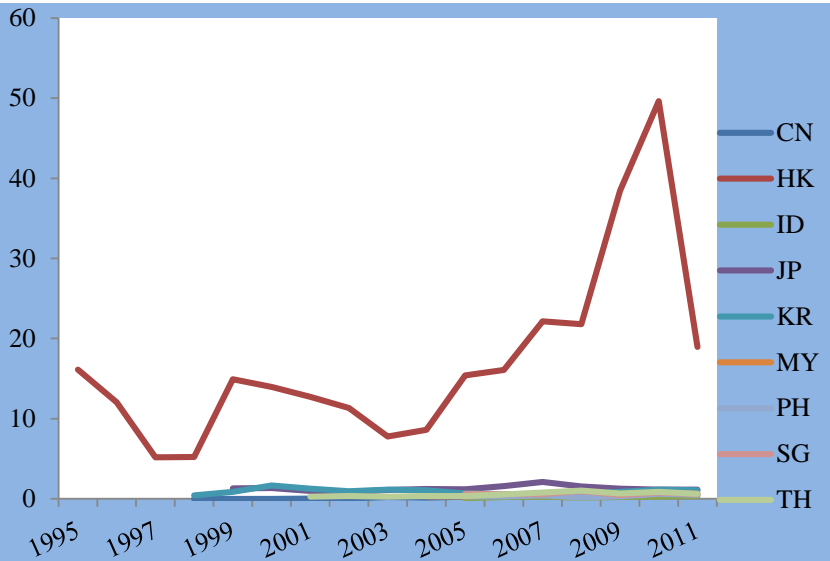
Source : *Asian Bonds Online*

Limitations

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- Insufficient liquidity in bond market

Government and corporate bond turnover ratio



Source : Asian Bonds Online

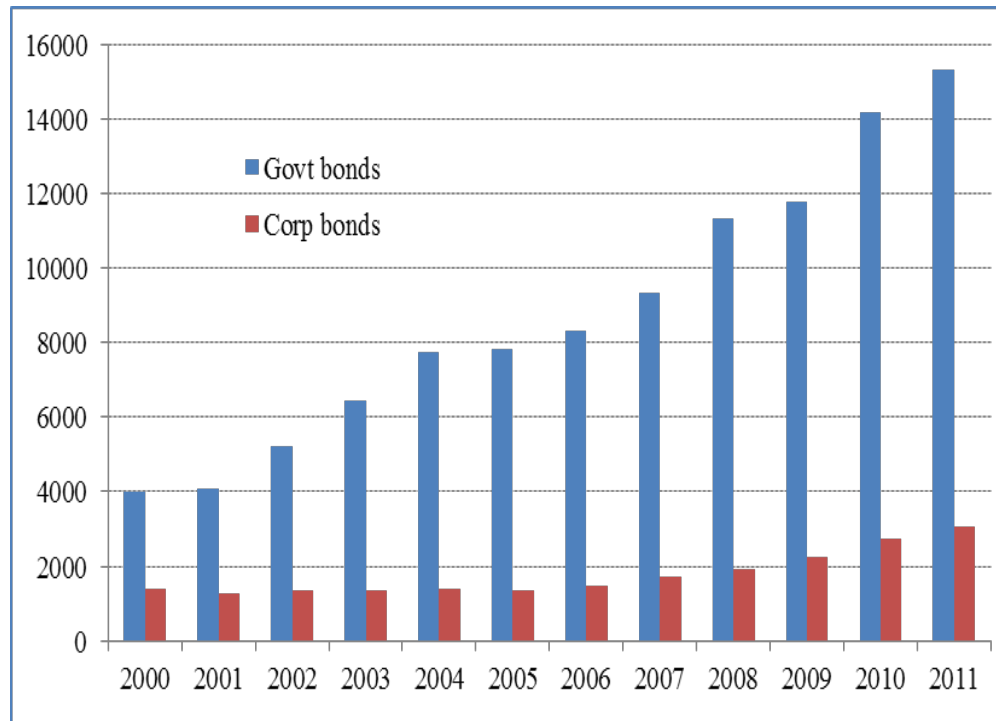
Limitations

- Underdevelopment and imbalance development of financial market and financial infrastructure among countries
 - e.g. underdeveloped derivative markets to hedge risks associated with bond investments in most countries
- Lack of regional infrastructure, e.g.
 - cross-border regulatory framework, information disclosure, bankruptcy procedures, etc.
 - clearance and settlement institutions, credit rating agencies

Limitations

- Insufficient participation of private sectors

Corporate bond outstanding
(in billion USD)



Source : *Asian Bonds Online*

Moving forward

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□ Country level

- ▣ Further develop both domestic sovereign and private bond market
- ▣ encourage the participation of private sectors
- ▣ investment of non-residents in local bond market

□ Regional level

- ▣ further cooperation on regional capital movement
- ▣ development of regional bond market
- ▣ more efforts and coordination on institution and infrastructure of clearance and settlement, information disclosure, accounting and auditing standards, rating agencies, etc.

China's role

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□ **Efforts taken by PRC on ABMI**

▣ Promote sovereign and corporate bond issues

- treasury bonds are now issued with maturities of 1-, 5-, 10-, 15-, 20-, and 50 years;
- allowing the issuance of Middle Term Notes (MTNs) by private enterprises in 2008

China's role

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- Diversify bond issuers:
 - allowing domestic policy banks to issue bonds;
 - allowing qualified foreign institutions, such as Multilateral Development Banks and International Finance Corporation to issue Panda bond in mainland China ;
 - allowing foreign banks to issue RMB-denominated bond in HK, China;
 - allowing 4 local governments to issue bond in 2011.

China's role

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- ▣ Participation into efforts to develop regional market
 - Co-chairs of TF1 in ABMI new roadmap
 - Participation into MTN program
 - QDII, QFII

China's role

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- **Future contributions to ABMI by PRC**
 - ▣ further enhancement of domestic bond market and deepening of financial market
 - ▣ facilitating the development of Asian regional bond market under the condition of capital control
 - ▣ taking initiative to improve regional cooperation

Thank you !