For the advent of a promising and sound Asian bond market

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Introduction

Good morning, distinguished guests, ladies and gentlemen! Let me first thank the President of Korea University, Dr Yoon Dae Euh, for the invitation to participate in this very important conference, and also the organisers for their efforts in hosting this occasion. It is my great honour to have this opportunity to address such a distinguished group of experts and practitioners from government, academia, financial markets and international organisations.

What policies should we adopt to further develop the Asian bond market? All Asian countries already share a common understanding of the significance of developing a regional bond market and have embarked on efforts towards this end. Now it is appropriate for us to evaluate past performance and elaborate future direction. In this context, I believe strongly that this conference is very timely and meaningful.

Why is a regional bond market so important?

There has been wide recognition that the Asian financial crisis broke out due to two major reasons: first, excessive reliance on bank-intermediated financing, and second, foreign short-term financing leading to mismatches in currency and maturity. Regrettably, many borrowers in this region still have only limited access to long-term local currency financing. For this reason, how to develop the local currency bond markets has recently become one of the hottest policy issues in the region.

Another reason for developing the Asian bond market is the need to recycle accumulated capital directly back into the region. Although Asian countries have replenished their foreign exchange reserves substantially since the financial crisis, most of the funds have been invested in the developed markets, including the United States and Europe, and only later flowed back into the region in the form of foreign currency denominated loans, purchases of equities, and foreign direct investments. This situation needs to change.

It is sad to note that there is hardly any demand for local currency bonds from cross-border investors. In this regard, we have to create investment products that are of interest to regional investors. All things considered, regional borrowers will remain dependent on the international financial markets to a large extent until the Asian bond market is well established.

Therefore, the policymakers and economists in the region have reached a consensus on the need to promote the regional bond market in order to obtain the following benefits. The first and most important is that an advanced bond market would allow Asian countries to prevent the recurrence of financial crises as well as facilitating the recycling of regional savings. The Asian financial crisis taught this region a hard lesson: that the development of a strong and deep Asian bond market is an essential element in ensuring that long-term, local currency funds are available for investment in the region. In addition, bond market development would help to narrow the gap between capital markets in advanced and emerging market economies, and also to achieve better balanced capital markets within the region. The more advanced emerging economy bond markets become, the more efficient regional capital markets will be as a whole. And this, in turn, will raise the efficiency and growth potential of the region's economies.

I'd like to make clear that deeper and better balanced capital markets provide a shared benefit to all economies, serving as more reliable and stable sources of financing. Moreover, they bring additional benefits for both issuers and investors, such as transparent accounting practices, well educated financial experts and various types of financial instruments. Such improvements would undoubtedly bring about a virtuous circle of prosperity all over the continent.

What has been done so far?

Against this background, each of the Asian economies has made tremendous efforts with a view to promoting bond markets at both national and regional level. For instance, the Korean government has undertaken significant financial sector reforms at unprecedented speed since the Asian crisis, and introduced a series of important measures for the advancement of the country's capital market. Notably, Korea has successfully developed its securitisation and credit guarantee market through asset-backed security (ABS) schemes.

We have also launched a regional financial cooperation project - the Asian Bond Market Initiative - aimed at developing the bond market through various forums such as APEC, ASEAN+3 and EMEAP. Under these regional groups, a number of concrete steps are being taken to complement individual country efforts to develop the bond market. For example, APEC and ASEAN+3 are focusing on the supply side of the bond market. That is to say, they are mainly studying ways to provide high grade bonds for investors. In the meantime, EMEAP is attending to the demand side by establishing an Asian Bond Fund with members' foreign reserves for the purpose of securing regional demand for bonds.

These regional initiatives are historic and unprecedented. Through these forums, the region's policymakers have maintained regular dialogue and discussion for the last couple of years. In addition, a number of seminars and symposiums like today's conference have been organised to foster the exchange of views and knowledge to be shared among academics, think tanks and the private sector.

Over the course of studies and discussions, Asian countries have reached an agreement that establishing bond market infrastructures, such as a credit guarantee mechanism and settlement and credit rating systems, is essential for regional bond markets to prosper. As a result, six working groups have been established and are currently addressing these issues on a voluntary basis under the Asian Bond Market Initiative. There has already been substantial progress in the drive to set up this bond market infrastructure. I believe that we will see tangible outcomes in the near future.

Future challenges

Despite much endeavour and many achievements to date, we have yet to overcome many challenges. We have stored up a vast number of ideas and suggestions from numerous studies and meetings on this issue. It is now time for individual countries to take practical steps in a more comprehensive and well organised manner. At this moment, we need to pay more attention to how to create an attractive financial market for domestic and overseas investors alike.

To this end, first of all, financial reform and liberalisation initiatives need to maintain their momentum in each economy. In addition, we must create highly competitive financial institutions within the region to prepare for any unexpected financial market vulnerability. By doing so, we can strengthen our financial markets and also afford regional market participants more opportunities to invest in fully qualified bonds equivalent to those issued by western countries.

Second, we should seek advancement and harmony simultaneously in the regulatory and supervisory systems of Asian economies by developing advanced transaction regulations and a more transparent accounting and disclosure system. This, in turn, would enable investors to minimise liquidity and credit risk.

It is true that one size does not fit all. However, there are many common denominators that exist in well functioning regulatory and supervisory systems. In this context, we should endeavour to harmonise regulations for the protection of investors' interests, which will lead to a more active regional bond market.

Third, we should accelerate the already extensive efforts to develop market infrastructure. Solid market infrastructure is the basis for a promising and sound bond market. Therefore, we should focus more on setting up efficient settlement and credit rating systems, strengthening institutional investors and improving risk management techniques.

Meanwhile, the so-called credit quality gap between advanced and emerging market economies is also a major impediment to the development of regional bond markets. To bridge this gap, we should make better use of securitisation and credit guarantees, which I know is one of this conference's primary subjects. From our experience, I am sure that the combination of securitisation and credit enhancement mechanisms will serve as a model for the Asian bond market and reduce the gap between borrowers' credit standing and investors' requirements.

Korea is keen to contribute to the further development of local currency bond markets in the region by drawing on the experience gained in developing the country's bond market and ABS market after the financial crisis. Finally, we should offer further technical assistance and advice to emerging market economies in the region. Although many technical assistance programmes are available, our hard-earned experience can be put at the service of these economies more efficiently.

It would be in every regional country's interest to lessen the trials and errors of emerging market economies in the process of strengthening their bond markets, and at the same time the developed economies would be able to secure new markets.

Conclusion

The question of whether bond market development will be in vain or will become a stepping stone for sustainable economic growth wholly depends on our future attitude. Building on the efforts and progress made so far, member economies have to continuously cooperate with each other to secure our common goal of developing sound and efficient bond markets in the region. I can assure you that the Korean government will spare no effort in achieving our goal, the advent of a promising and sound Asian bond market.