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**Session III**

(Discussion Paper)

**Assessing and Building Capacities for the Development  
of Bond Markets in the APEC Region**

**Stephen Cheung**  
City University of Hong Kong

# Assessing and Building Capacities for the Development of Bond Markets in the APEC Region

Professor Stephen Y L Cheung  
City University of Hong Kong  
Hong Kong

## 1. Economic Situation

### Overview of the World Economic Outlook Projections

|                      | 2002       | 2003       | Current Projections |            |
|----------------------|------------|------------|---------------------|------------|
|                      |            |            | 2004                | 2005       |
| <b>World Output</b>  | <b>3.0</b> | <b>3.9</b> | <b>4.6</b>          | <b>4.4</b> |
| Advanced economies   | 1.7        | 2.1        | 3.5                 | 3.1        |
| United States        | 2.2        | 3.1        | 4.6                 | 3.9        |
| Euro Area            | 0.9        | 0.4        | 1.7                 | 2.3        |
| Japan                | -0.3       | 2.7        | 3.4                 | 1.9        |
| United Kingdom       | 1.7        | 2.3        | 3.5                 | 2.5        |
| Developing Asia      | 6.4        | 7.8        | 7.4                 | 7.0        |
| China                | 8.0        | 9.1        | 8.5                 | 8.0        |
| India                | 4.7        | 7.4        | 6.8                 | 6.0        |
| ASEAN-4 <sup>1</sup> | 4.3        | 5.0        | 5.4                 | 5.4        |

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during February 13 - March 12, 2004.

<sup>1</sup> Includes Indonesia, Malaysia, the Philippines, and Thailand.

Source: World Economic Outlook, IMF, April 2004

2

## Exports of the East Asian economies to Mainland China 1998-2003

|                  | <u>Value in US\$ bn</u> |              | <u>Average annual<br/>growth rate (%)</u> | <u>Share (%)</u> |             |
|------------------|-------------------------|--------------|---|------------------|-------------|
|                  | <u>1998</u>             | <u>2003</u>  |   | <u>1998</u>      | <u>2003</u> |
| <b>East Asia</b> | <b>102.6</b>            | <b>237.3</b> | <b>18.3</b>                               | <b>9.2</b>       | <b>16.3</b> |
| Japan            | 20.0                    | 57.3         | 23.4                                      | 5.2              | 12.2        |
| Hong Kong        | 59.8                    | 95.4         | 9.8                                       | 34.4             | 42.6        |
| Singapore        | 4.1                     | 10.1         | 20.1                                      | 3.7              | 7.0         |
| South Korea      | 11.9                    | 35.1         | 24.1                                      | 9.0              | 18.1        |
| Taiwan           | 0.8                     | 21.4         | 91.4                                      | 0.8              | 14.9        |
| Indonesia        | 1.8                     | 3.8          | 15.6                                      | 3.8              | 6.2         |
| Malaysia         | 2.0                     | 6.4          | 26.5                                      | 2.7              | 6.1         |
| Philippines      | 0.3                     | 2.1          | 44.2                                      | 1.2              | 6.0         |
| Thailand         | 1.8                     | 5.7          | 26.4                                      | 3.2              | 7.1         |

Source: Mr. Frederick Ma's speech, Developing Asia's Bond Market: Fostering Financial Stability and Enhancing Economic Development

3

## 1. Economic Situation

### Asian Region

- Fast-growing
- More investment for growth

### Challenges

- Can our capital market be the source of finance for future regional economic development?
- What are the reforms needed?

4

## Financing Structure of Asian Economies and Selected Countries in 1995 and 2003

| Country/<br>Economy     | 1995          |                 |                | 2003          |                 |                |
|-------------------------|---------------|-----------------|----------------|---------------|-----------------|----------------|
|                         | Bank<br>Loans | Stock<br>Market | Bond<br>Market | Bank<br>Loans | Stock<br>Market | Bond<br>Market |
| As % of total financing |               |                 |                |               |                 |                |
| Hong Kong               | 39.6          | 55.6            | 4.8            | 23.3          | 69.7            | 7.0            |
| Indonesia               | 60.2          | 38.0            | 1.7            | 42.9          | 51.3            | 5.8            |
| Korea                   | 44.6          | 29.4            | 26.1           | 45.7          | 23.9            | 30.4           |
| Malaysia                | 22.4          | 65.3            | 12.4           | 29.7          | 47.9            | 22.4           |
| Philippines             | 30.1          | 64.9            | 4.9            | 47.9          | 47.3            | 4.7            |
| Singapore               | 31.5          | 60.0            | 8.4            | 32.5          | 47.5            | 20.0           |
| Taiwan                  | 62.9          | 31.2            | 5.9            | 42.5          | 43.1            | 14.4           |
| Thailand                | 50.8          | 43.9            | 5.3            | 38.3          | 40.2            | 21.5           |
| <b>Total</b>            | <b>45.0</b>   | <b>44.5</b>     | <b>10.6</b>    | <b>36.8</b>   | <b>44.6</b>     | <b>18.5</b>    |
| United States           | 21.1          | 30.4            | 48.5           | 19.5          | 33.2            | 47.2           |

Source: Mr. Frederick Ma's speech, Developing Asia's Bond Market: Fostering Financial Stability and Enhancing Economic Development

5

## 2. Bond Market

### Regional Level

- Asia Cooperation Dialogue
- APEC Finance Ministers
- ASEAN+3

### National Level

- To promote liquidity and retail participation.
- Hong Kong's first securitized bond.

6

## Securitization (HK experience)

### Background:

HKD 6 billions bond by securitizing HKSAR government's revenue from 5 tolled tunnels and 1 bridge in 05/2004.

### Reserved Fund:

A reserve account in the name of issuer HKD 0.4 billion to support the bond issue.

7

## Securitization (HK experience)

Institution investors: HKD 3.53 billion

- Maturity 1-year and 12-year
- Coupon rate: 1.19% and HIBOR+36 basis point
- Oversubscription: 3.1 times
- 1-year mainly subscribed by fund managers, pension fund managers and MPF.
- 12-year mainly subscribed by financial institutions (banks).

8

## Securitization (HK experience)

Retail investors: HKD 2.47 billion

- Maturity: 3-year, 5-year and 7-year
- Coupon rate: 3.185%, 4.128% and 4.803%
- Oversubscription: 2.13 times
- Domination: HKD 50,000
- Listed on the Exchange

9

## 3. Future Challenges

Capital markets with sufficient depth is achievable.

- High saving rate in Asia
- Strong economic growth
- Regional cooperation

10

## 4. Quality Market

A good regulatory framework

- Information transparency
- Corporate governance
- Investor education

11

Thank you

12