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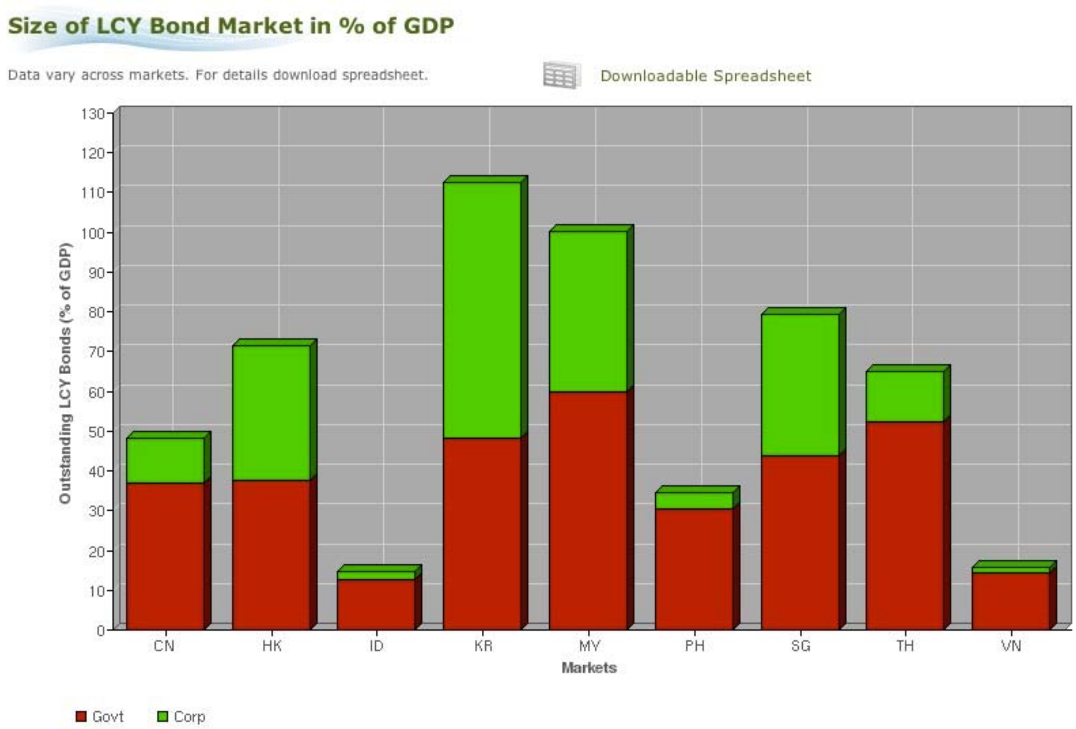
by **Rina Chandran, FT Tilt** • More from this author

Markets swooning. Investors panicking. Money seeking safe havens.

That was the scene in east Asia c.1997-98. Partly in reaction to that crisis, and a realisation that emerging Asia needs long-term funding for its development needs, the Asian Development Bank (ADB) backed the creation of the Asia Bond Market Initiative (ABMI) in 2002-03. Which stands to benefit from the current markets situation, according to Iwan J. Azis, head of the office of regional economic integration at ADB.

ABMI, funded by Japan -- which is still the largest bonds issuer in Asia -- is made up of ASEAN+3: Brunei, Cambodia, China, Indonesia, Japan, South Korea, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

> *"Asian governments have realised that deep, liquid and mature bond markets are essential to channel high levels of savings into long-term investments, and to avoid the double mismatch of currencies and maturities," Azis told FT Tilt in an interview.*



Source: ABMI

ABMI encourages participant countries to set up enabling regulatory frameworks while also establishing regional initiatives. And the results are obvious: **the size of local currency bond markets in emerging East Asia was $5,500bn at the end of June**, nearly 8 per cent higher than the same period a year ago, despite all the uncertainty.

Importantly, the growth was driven by corporate bonds, which have lagged government issuance in terms of volume, but are rising at a faster pace. Also, China is now the region's largest corporate bond market. Emerging Asia corporate issuers account for a fifth of global fixed-rate bond volume so far this year, the highest level for the region to date, according to Dealogic data.

"If we were to measure the success of ABMI from the point of cross-border investments in the bond markets of the region, it has not been very successful -- cross-border investors in the region only make up 5 per cent of fixed income holdings. But I don't think that's very relevant indicator of success," Azis said at the sidelines of the IE Latin Asia Business Forum in Singapore.

"If you look at it from the point of what's happened to local bond markets since its launch, it's been a huge success: not just in terms of size, but also quality of issuances and maturity. There are regulatory improvements, especially in Indonesia and the Philippines, and corporate bond issuance everywhere is rising. Issues are moving beyond 1-3 year horizons to 5-10 years and even beyond, which is what we need," he said.

And, as envisioned, issues are largely in the infrastructure, utilities and energy sectors, helping meet the infrastructure needs in the region, Azis said. ADB estimates infrastructure funding needs in Asia till 2020 is about $8,000bn; the main source of funding is still bank loans.

Too much integration

The current economic uncertainty and market volatility are actually helping raise investor interest as well as government interest in regional bond markets, Azis said.

"Regulators are realising the importance of local currency bond markets, so they don't have to rely on hot foreign money flows. And investors are looking for safe havens. Of the remaining safe havens, bonds in emerging markets are the safest -- and of these, emerging Asia is probably the safest."

What's helped also is the rising profile of regional currencies such as the renminbi, the Korean won and the Malaysian ringgit, as well as non-conventional instruments such as sukuk. About 40 per cent of Indonesia's local currency bonds are held by foreign investors, Azis said.

But he also cautions against very high cross-border holdings and too much integration in the financial services sector in the region.

"Cross-border holdings in fixed income will rise with regulatory easing and investor maturity, but I wouldn't want it to be too high, perhaps 10-15 per cent. Higher than that and there will be risks," he said.

While the region needs to have more information sharing and greater standardisation in areas such as settlement payment, repatriation and rules for foreign investors, regulators must guard against integrating too much, Azis said.

Besides bond markets, ASEAN is also moving toward a common trading link for stock exchanges.

> *"People tend to focus on the positives of integration, not the negatives -- look at what's happening in the eurozone today. Cross-border trading [in emerging Asia] is already 25 per cent and bond holdings is 5 per cent, so there's clearly room to grow. But I would be cautious about relying too much on cross-border investor interest. Financial services integration should support cross-border trade, it should not be a goal by itself."*

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