

Naoyuki Shinohara

Government of Japan/ABAC Japan Symposium

May 16, 2003 Tokyo, Japan



- The Asian financial crisis in 1997 and 1998
 - the necessity of regional financial cooperation has been recognized in East Asian region.

Initiatives at ASEAN+3:

- 1. Chiang Mai Initiative
- 2. Policy Dialogue
- 3. Further Regional Financial Cooperation
- 4. Asian Bond Markets Initiative



- November 1999 ASEAN+3 Summit Meeting (Manila) Leaders agreed to enhance "self-help and support mechanisms in East Asia".
- May 2000 ASEAN+3 Finance Ministers' Meeting (Chiang Mai)

Ministers agreed on the Chiang Mai Initiative (CMI), which is designed to create a network of bilateral swap arrangements (BSAs).

November 2000 ASEAN+3 Summit Meeting (Singapore) It was reported to the Leaders that Finance Ministers agreed on the basic framework and main principles of the CMI.

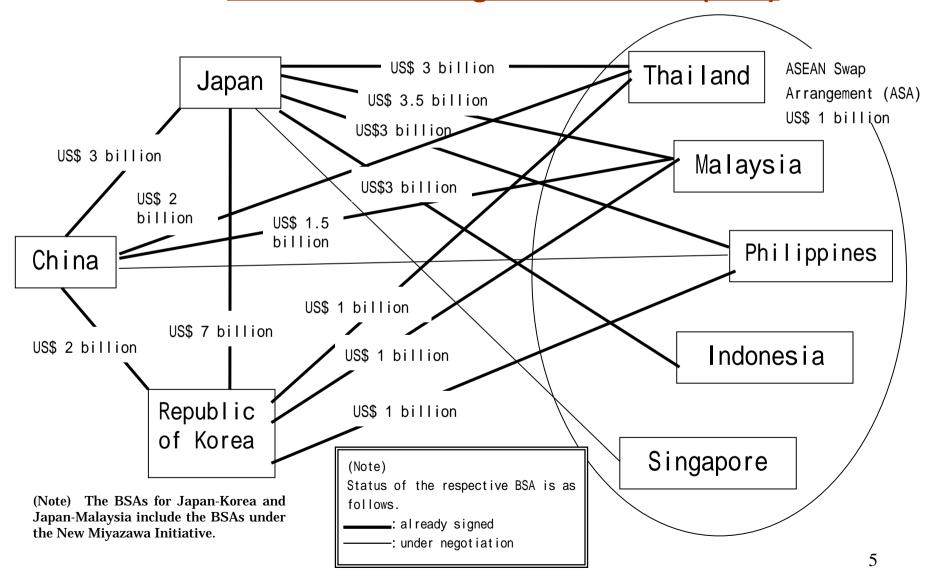


- Progress of the network of bilateral swap arrangements (BSAs) (see the next page)
- (1) Total amount: US\$31.5 billion
- (2) Countries that have concluded BSAs: China, Indonesia, Japan, Korea, Malaysia, the Philippines and Thailand (A swap arrangement between Japan and Singapore is currently under negotiation.)
- (3) The ASEAN Swap Arrangement (multilateral swap arrangement among ASEAN member countries)
 - enlarged to US\$1billion since November 2000
- (4) Main principles of BSAs under the CMI will be reviewed by ASEAN+3 Finance Ministers' Meeting in 2004.



Network of Bilateral Swap Arrangements (BSAs)

under the Chiang Mai Initiative (CMI)





- ASEAN+3 policy dialogue for effective implementation of BSAs under the CMI
 - expected to have a frank and active exchange of views on regional economic and financial developments
- The trial dialogue Informal ASEAN+3 Finance and Central Bank Deputies' Meeting (AFDM+3) in April 2002 in Yangon, Myanmar (11 countries joined)
- Informal AFDM+3 in November 2002 in Tokyo (12 countries joined)
 - Full day Deputies level meetings will be held twice a year for policy dialogue
- Ministerial level dialogue ASEAN+3 Finance Ministers' Meeting (AFMM+3) in May 2002 in Shanghai (9 ministers made presentations)

3. Further Regional Financial Cooperation

- ASEAN+3 Research Group to discuss how to promote further regional financial cooperation
 - Consisting of officials from ASEAN+3 Finance Ministries and Central Banks, and research institutes or academics in the region
- Main themes of the research
 - (i) Strengthening of regional self-help and support financial mechanisms
 - (ii) Management of short-term capital flow and exchange rate regime
 - (iii) Coordination of exchange rate policy in the region
 - (iv) The experience of European efforts toward monetary unification



- ASEM Finance Ministers' Meeting in July 2002 in Copenhagen
 - Suggestions in the final report of Kobe Research Project
 - (1) Pursuing further economic and financial integration in East Asia
 - (2) Considering a currency basket system aimed at stabilizing the currencies of emerging East Asia
 - (3) Strengthening an effective regional surveillance process
 - (4) Establishment of a more formal institution for foreign exchange reserve pooling
 - (5) Strengthening financial systems and deepening capital markets to promote regional integration
 - (6) Strengthening political leadership that promotes financial cooperation with a long-term vision



Background and Purpose

- High savings rate in many Asian countries
- The dominant financing tools short-term bank loans
- Bond markets in the region underdeveloped
- The savings deposited in local banks in the region have been funneled to international financial centers and then back to the region
 - maturity and currency mismatches ("double mismatch")
- It is important to foster bond markets in Asia in order to enable the private sector in Asia to raise and invest longterm capital without maturity and currency risks.



Progress in Various Fora

- APEC Finance Ministers' process
 - New initiative on "Development of Securitization and Credit Guarantee Markets" launched in September 2002
- EMEAP process (Asian Bond Fund)
 - considering an idea to set up a trust fund voluntarily and to purchase dollar-denominated government bonds of the member countries by using a portion of foreign reserves
- ASEAN+3 Finance Ministers 'Process
 - making joint efforts in various areas toward fostering bond markets in Asia



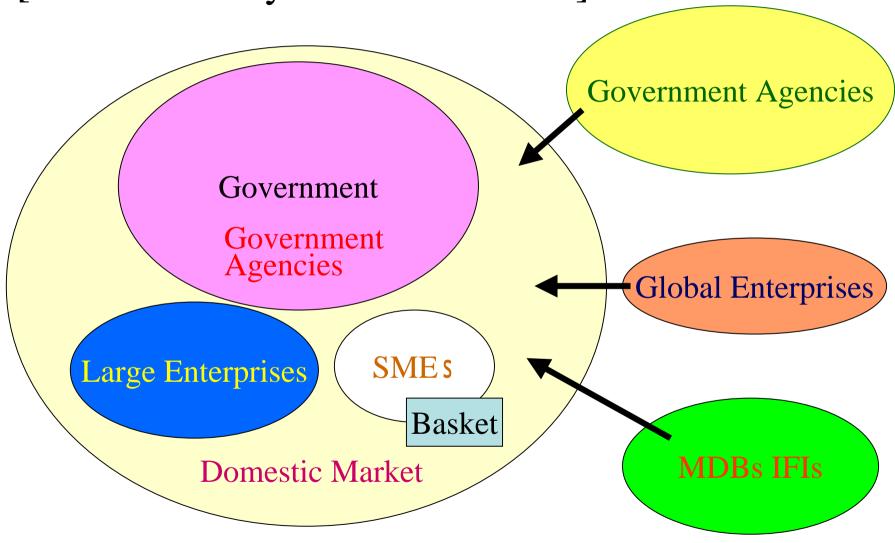
List of Issues to be studied in ASEAN+3 Process

- A. Facilitating Access to the Market by a Wider Variety of Issuers
- (1) Sovereign Bond Issuance by Asian Governments to Establish Benchmarks
- (2) Bond Issuance by Asian Government Agencies or Governments to Finance Domestic Private Enterprises
- (3) Creation of Asset-Backed Securities Markets, including Collateralized Debt Obligations (CDOs)
- (4) Bond Issuance by Multilateral Financial Institutions and Government Agencies of other countries
- (5) Bond Issuance for Funding Foreign Direct Investment in Asian Countries
- (6) Expansion of Currency Denominations of Bonds Introduction of Currency-Basket Bonds

11

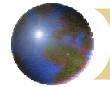


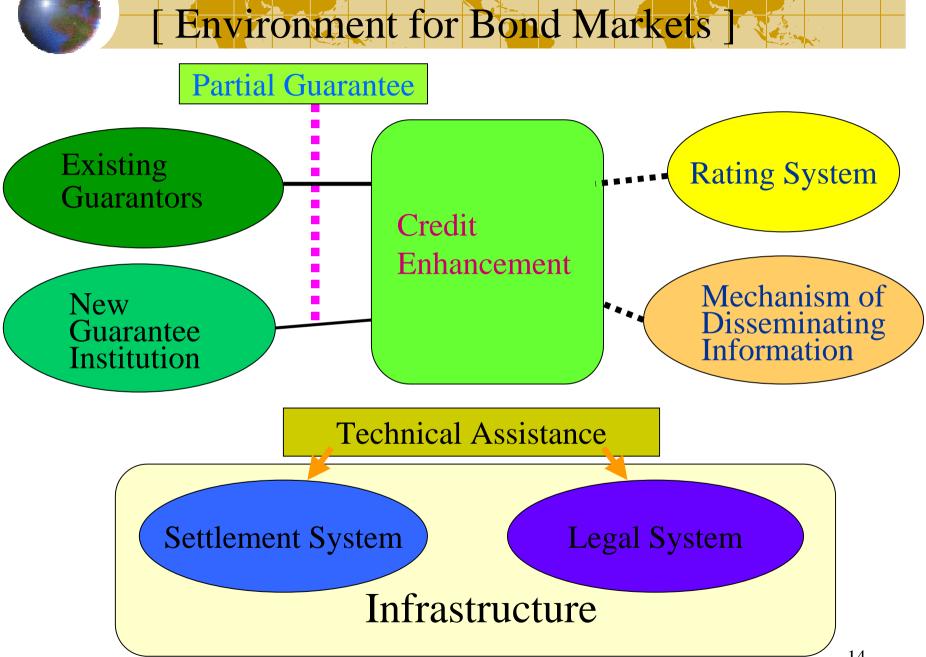
[Wider Variety of Bond Issuers]





- B. Creating an Environment Conducive to Fostering Bond Markets in Asia
- (1) Provision of Credit Guarantees Active Use of Existing Guarantors, Establishment of Asian Regional Guarantee Facility
- (2) Strengthening of the Rating System
- (3) Establishment of a Mechanism for Disseminating Information
- (4) Strengthening of the Settlement System
- (5) Development of the Legal and Institutional Infrastructure for Bond Market Development Bond Market Research, Technical Assistance







- Two voluntary Working Groups of ASEAN+3
 - Creating New Securitized Debt Instruments
 - Credit Guarantee Mechanisms

The first joint meeting of these Working Groups was held in April 2003 in Seoul.

• In addition, several more Working Groups will be formed to further study the above-mentioned issues to foster bond markets in Asia.



Thank you!