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Asean bond fund may not be such an easy sale

Anindya Mukherjee Bloomberg News
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SINGAPORE Finance Minister Boediono of Indonesia and his Philippine counterpart Jose Camacho want to sell their bonds to counterparts in Singapore and Hong Kong. It may not be easy.

The five biggest members of the 10-country Association of Southeast Asian Nations, along with Japan, South Korea, China, Hong Kong, Australia and New Zealand, agreed in June to pool \$1 billion to buy bonds issued by the region's central banks and governments. Eight of the 11 finance ministers begin meeting Wednesday in Manila to hash out the details.

The bond fund is intended to prevent a repeat of the 1997 Asian financial crisis, when defaults on dollar-denominated debt by Thai finance companies triggered a wave of currency devaluations across the region. So far, Asian finance ministers have agreed only to buy dollar-denominated bonds from each other. That would not be enough to prevent another crisis, analysts said.

"If it's going to be in U.S. dollars, that defeats the whole purpose," said Tan Khee Giap, an economics professor at Nanyang Technological University in Singapore.

For the bond fund to work, the debt should be in local currencies, analysts said, so governments would not be exposed to the risk of default in case of a devaluation. The problem is that a local-currency bond fund would include the junk-rated debt of countries such as the Philippines and Indonesia, where budget deficits increase the risk of a default.

"Many smaller creditor countries like Singapore and Hong Kong may be unwilling to support the Asian bond fund if it involved them having to hold bonds denominated in weaker regional currencies," said Ramkishan Rajan, an economist at the University of Adelaide.

By borrowing in dollars to invest in projects such as housing and irrigation, Asian countries would take the same risks they did before the crisis. Indonesia needed a \$47 billion bailout in 1997 and rescheduled \$4.2 billion of its sovereign debt in 1998 after the rupiah lost 89 percent of its value in those two years.

In June 1999, Indonesia's public foreign debt stood at \$145 billion, of which \$71 billion was government debt and \$74 billion was owed by state companies.

Still, Asian governments are likely to lend some stability to the region's bond markets because they will buy each other's bonds and hold them.

"A multilateral investor such as the Asian bond fund is less likely to indiscriminately enter and exit countries, unlike some of the hot money back in 1997," said Alton Gwee, at Aberdeen Asset Management in Singapore.

Finance ministers of Asean nations plus Japan, China and South Korea meeting in Manila this week will discuss "how to enhance the supply of local-currency

denominated bonds and how to make these bonds acceptable to investors in the capital surplus countries," said Pradumna Rana, director of the Asian Development Bank's regional economic monitoring unit in Manila.

Finance Minister Masajuro Shiokawa of Japan said Wednesday that he would urge his colleagues to move ahead with the plan. "There is already a structure," he said. "I want to urge them that we strengthen the Asian bond market."

The Asian bond fund could help the region's companies cut their dependence on banks. Private borrowers in the region might sell more bonds if their governments are able to demonstrate that the fund is helping them pare their own borrowing costs.

That will happen as the Asian bond fund encourages Japanese insurance companies, mutual funds in Hong Kong and pension funds in Singapore to buy regional debt, according to a background paper for last month's Asia Cooperation Dialogue meeting.

While Asian economies have recovered, they may still be too dependent on bank financing. In Thailand, for example, the value of outstanding bank loans is equivalent to 86 percent of gross domestic product; the figure for government and corporate bonds together is about 26 percent. In America, outstanding corporate and government bonds are double the value of bank loans, said Rajan of the University of Adelaide.



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