



Asian Bond Market Forum

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Hong Kong, China

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$$P = \sum FT_i (\sum HC_i + \sum SC_i + \sum RA_i)$$

- P Prosperity
- FT Financial Technology
- HC Human Capital
- SC Social Capital
- RA Real Assets

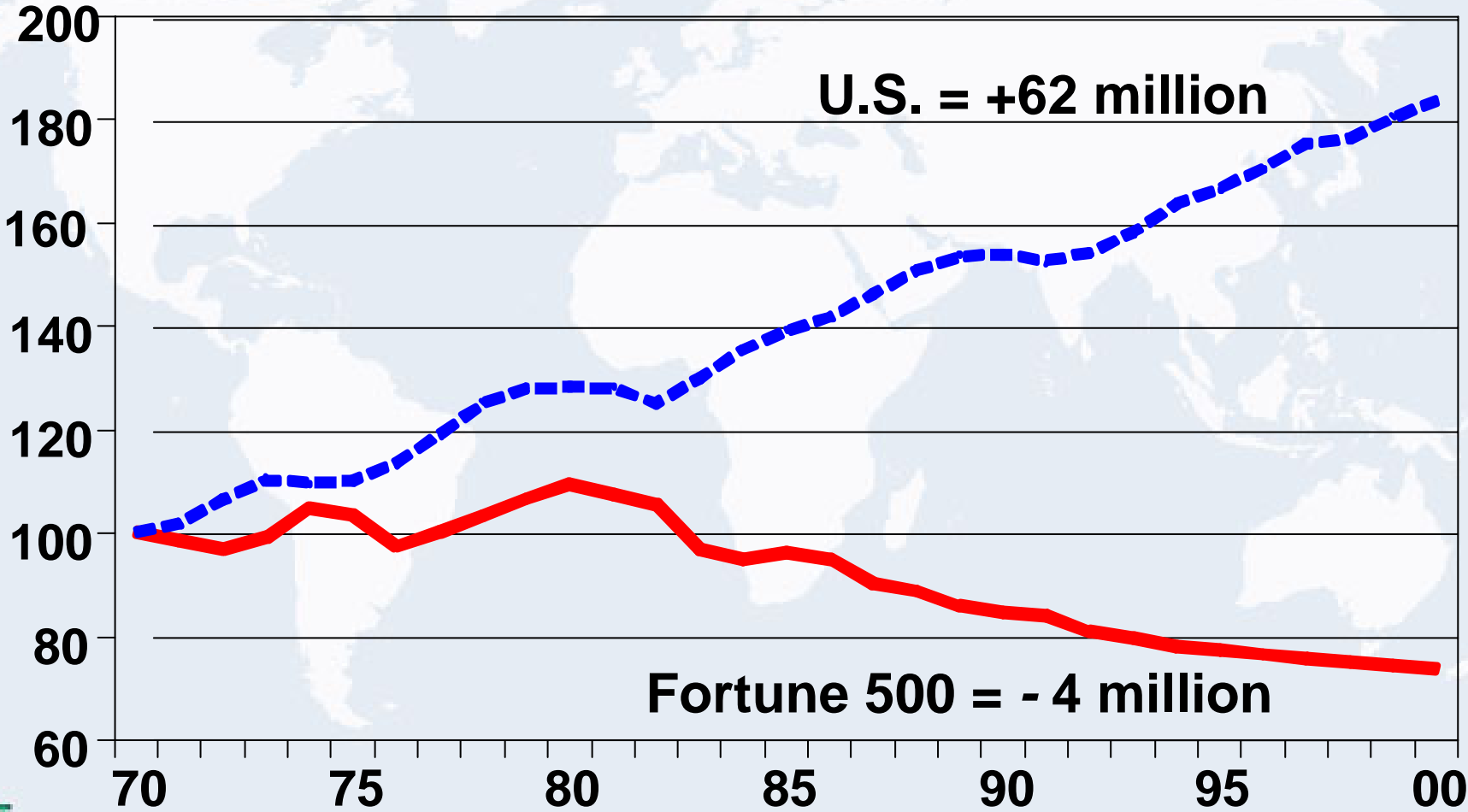


Benefits of New Technologies for Capital Access:

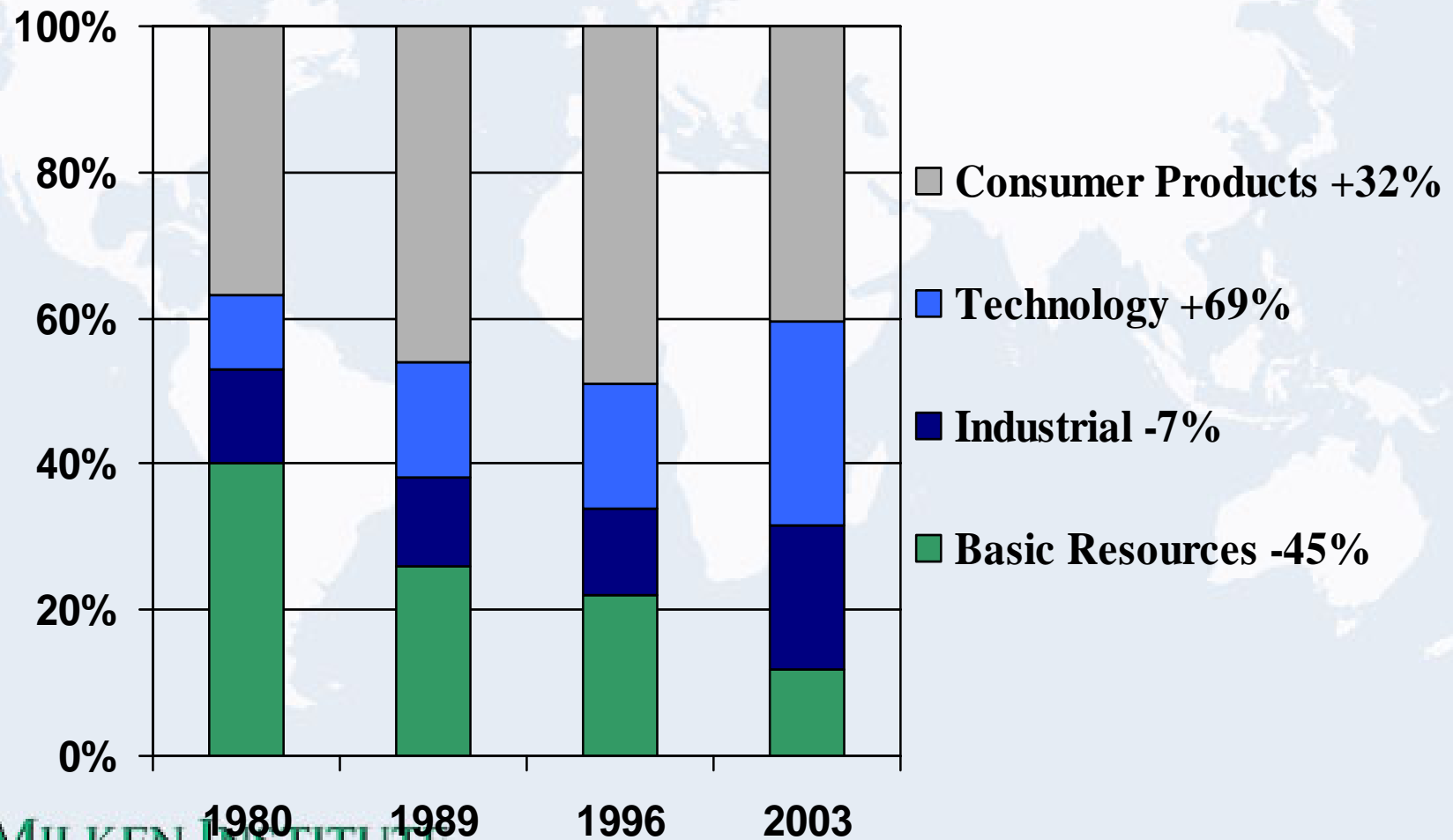
- **Job Creation**
- **Productivity Gains**
- **Restructuring Efficiencies**
- **Pioneering Industries and Technologies**
- **Risk Management**



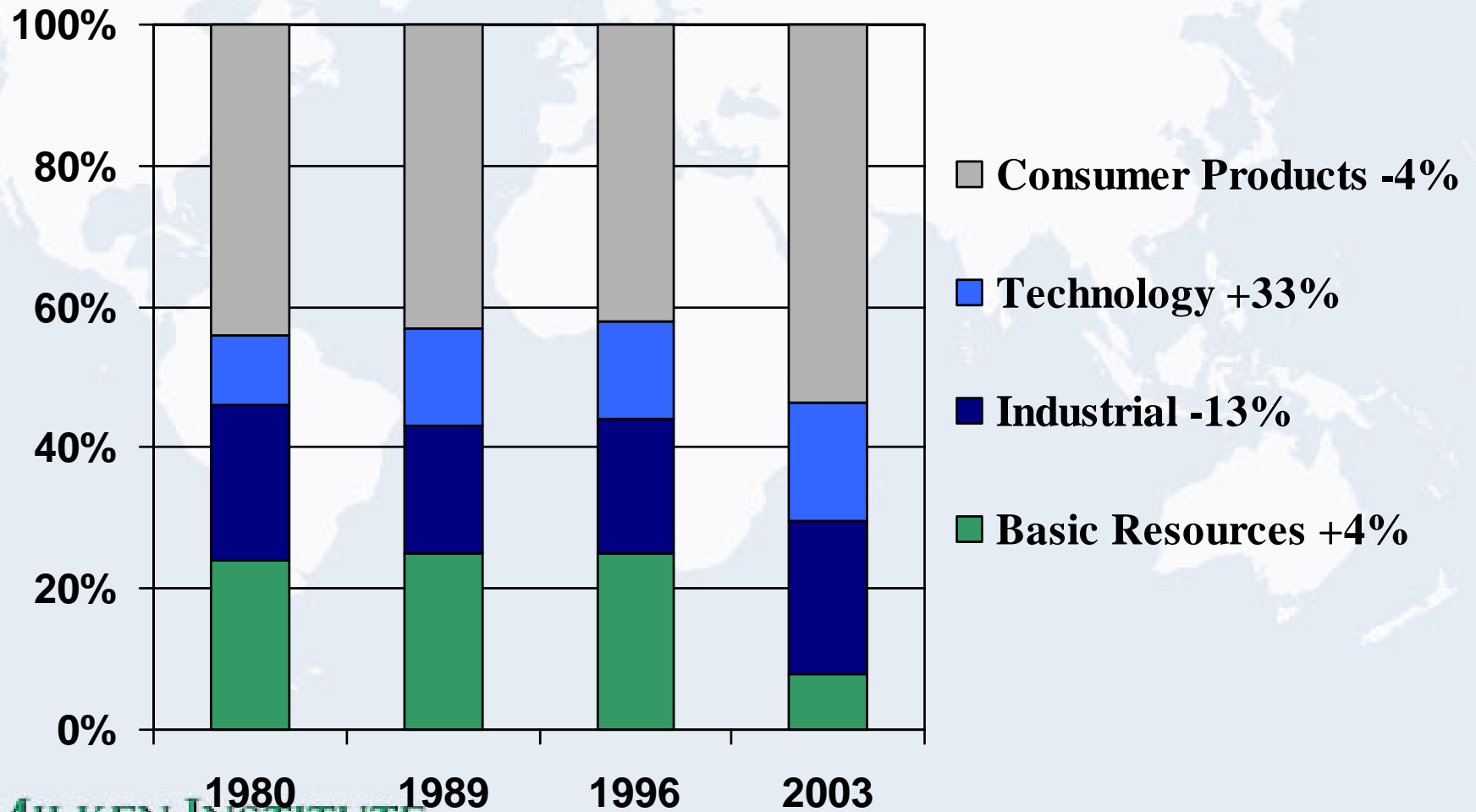
Small Companies Create Jobs



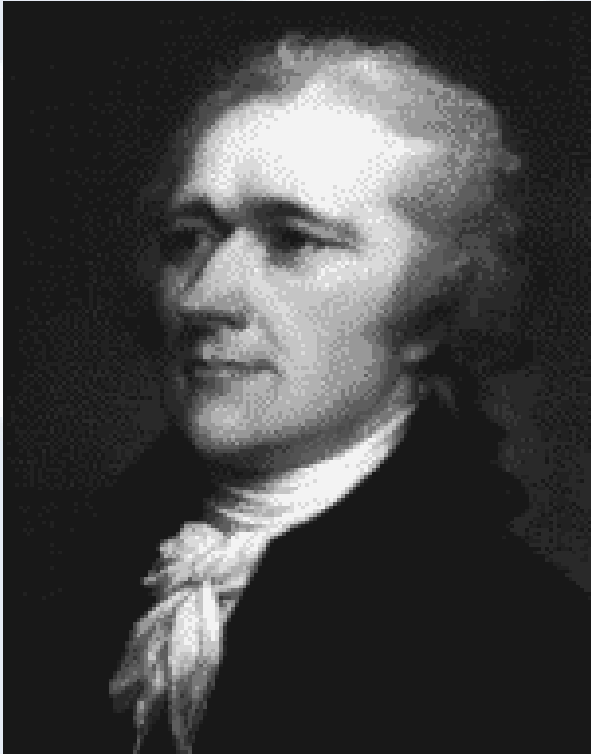
Capital Enables Restructuring Industries



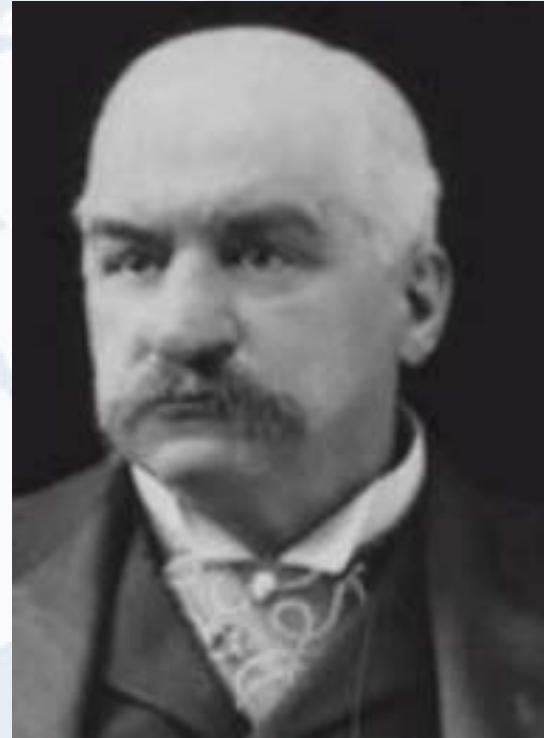
Capital Enables Restructuring Industries



Early High Yield Issuers



Alexander Hamilton
Secretary of the Treasury

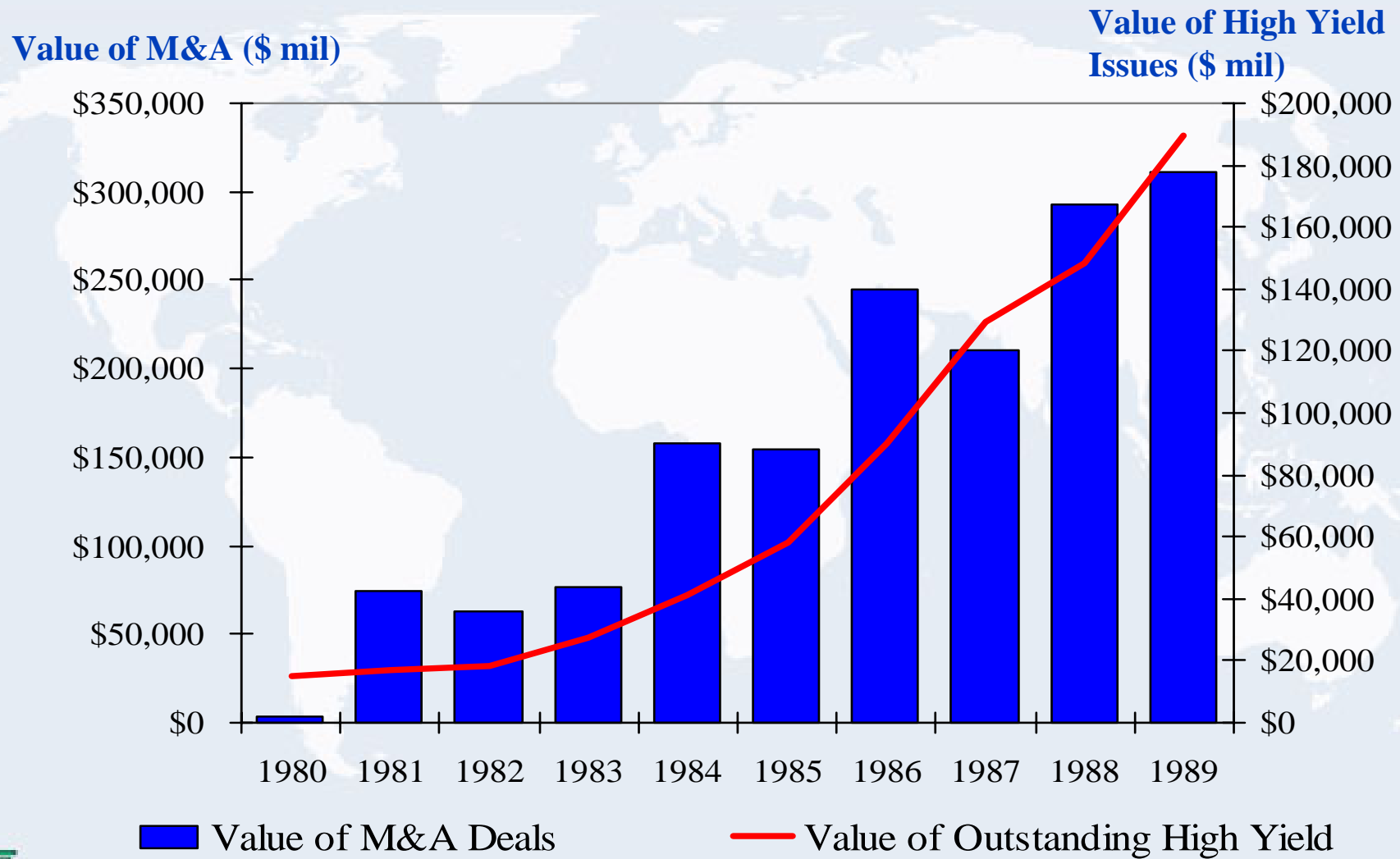


J.P. Morgan
Founder of J.P. Morgan and
creator of U.S. Steel



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High Yield Fuelled The Corporate Control Market



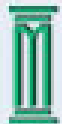
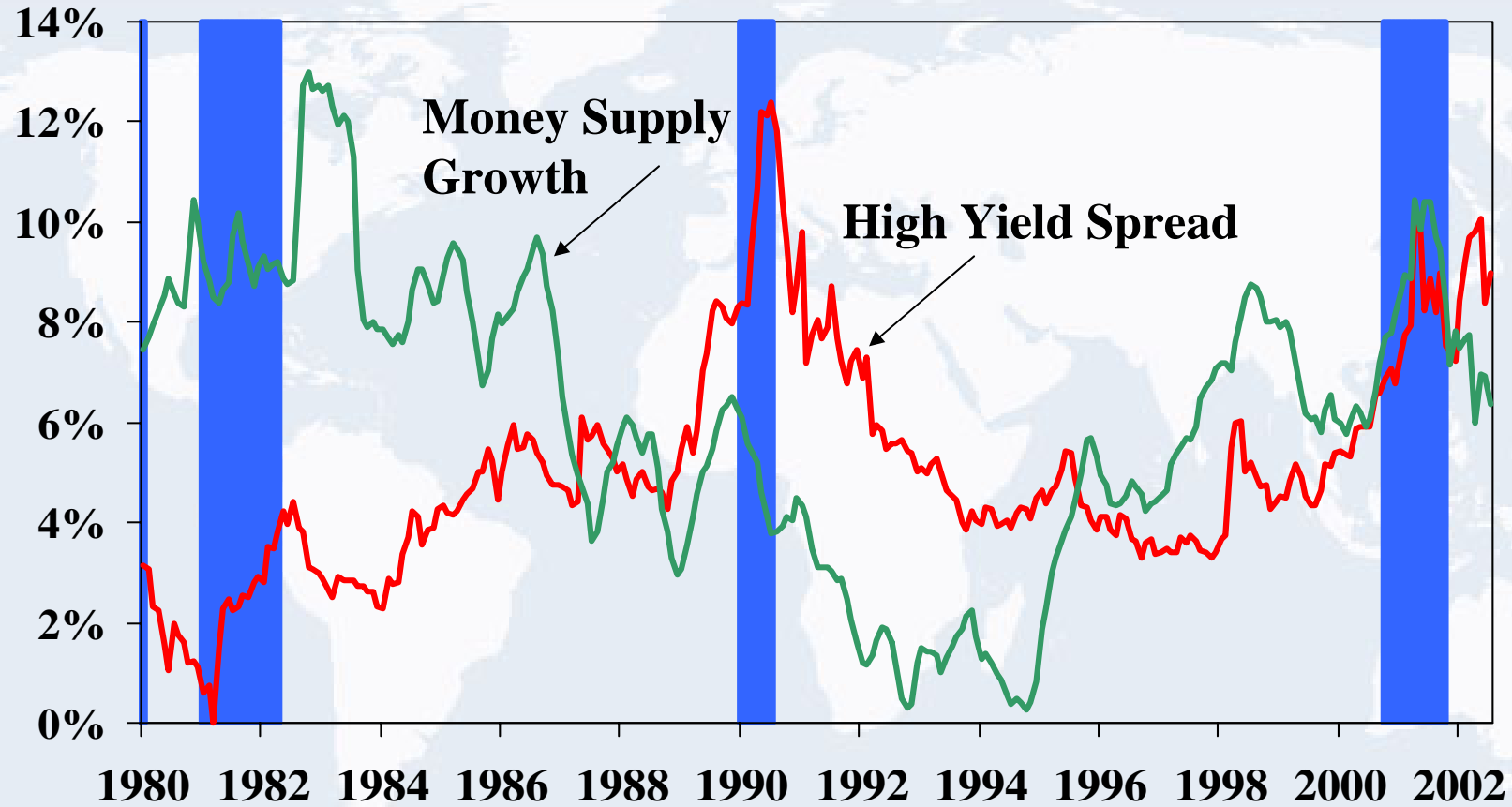
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Cost Reductions Follow Ownership Change

- **1981-1989: 2.7% reduction in costs, average \$46 million per takeover.**
- **1990-1997: 1% reduction in costs, average \$15 million per takeover.**
- **Cost savings represent lower product prices, more efficient use of resources.**



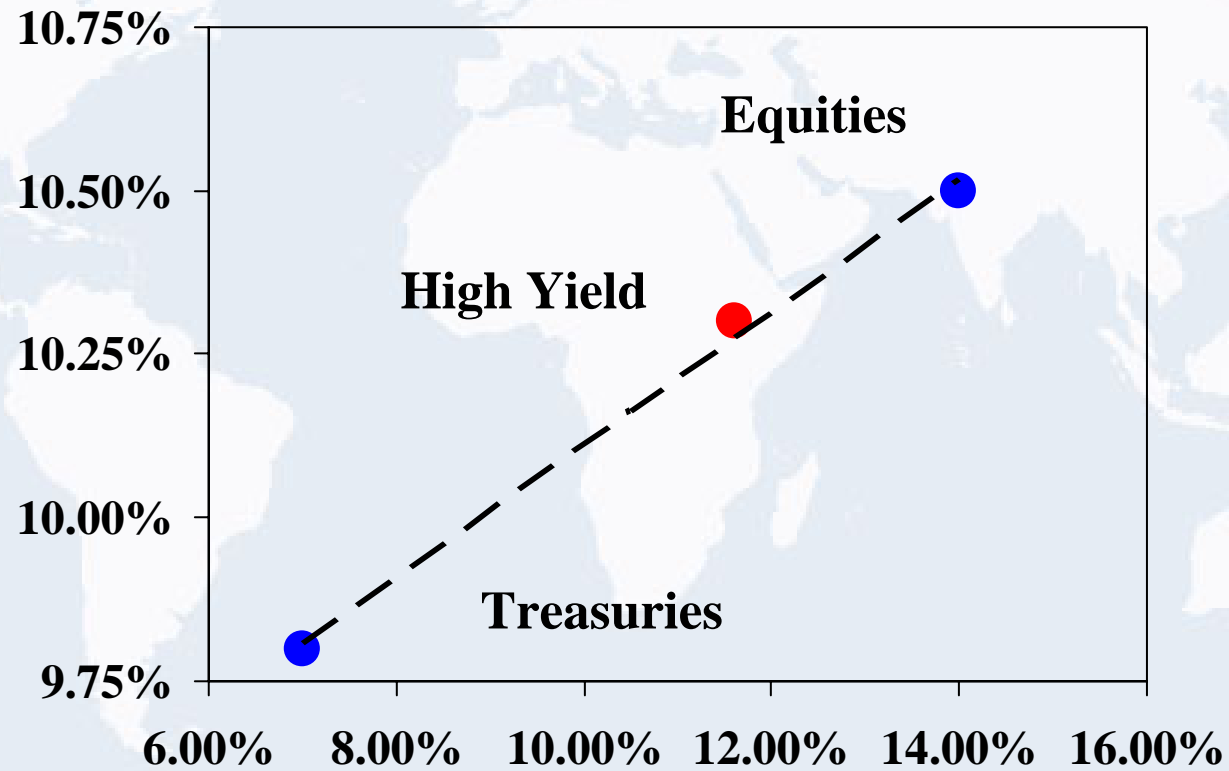
High Yield and Economic Growth



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Risk and Return 1979-2002

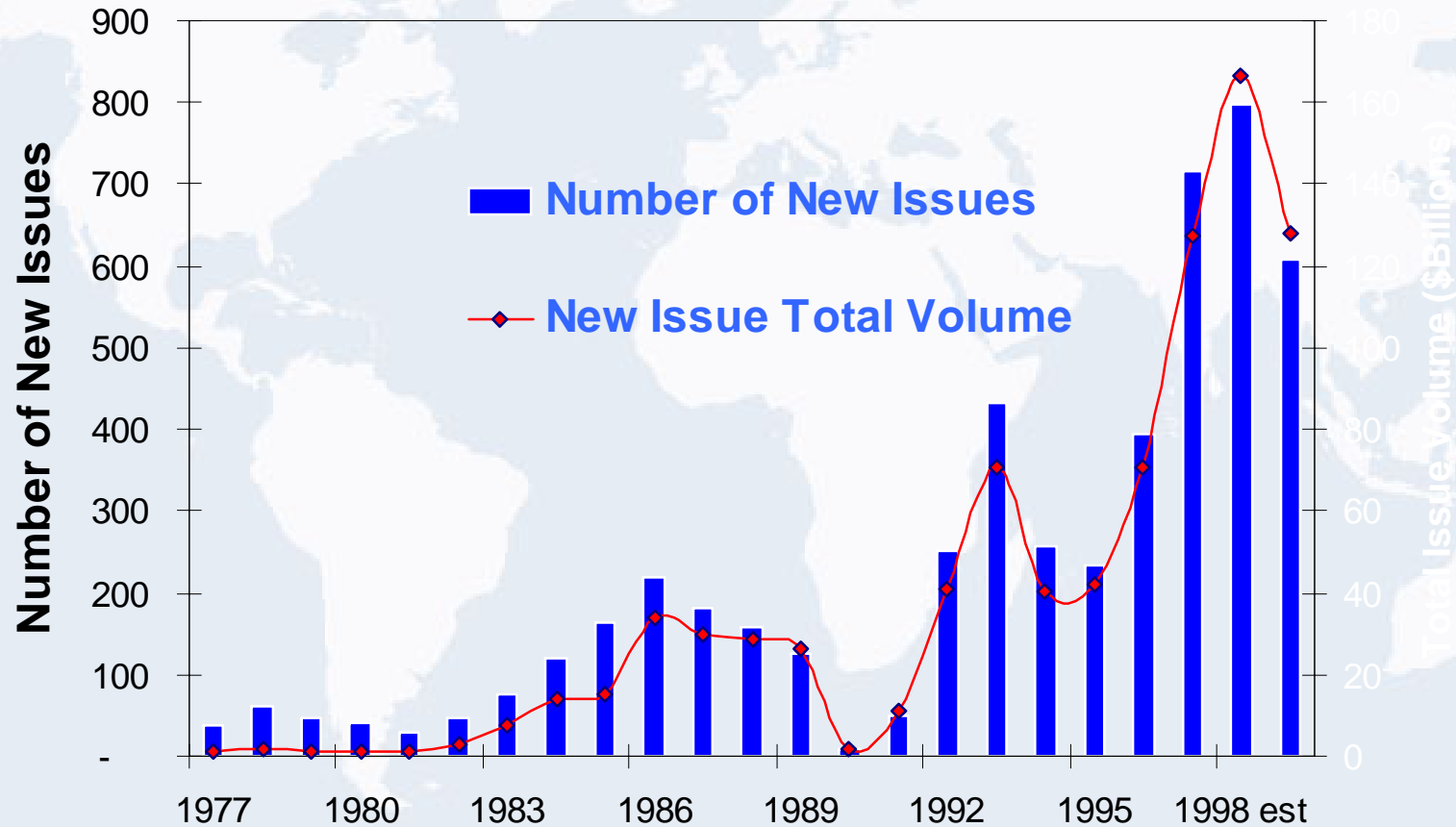
Return



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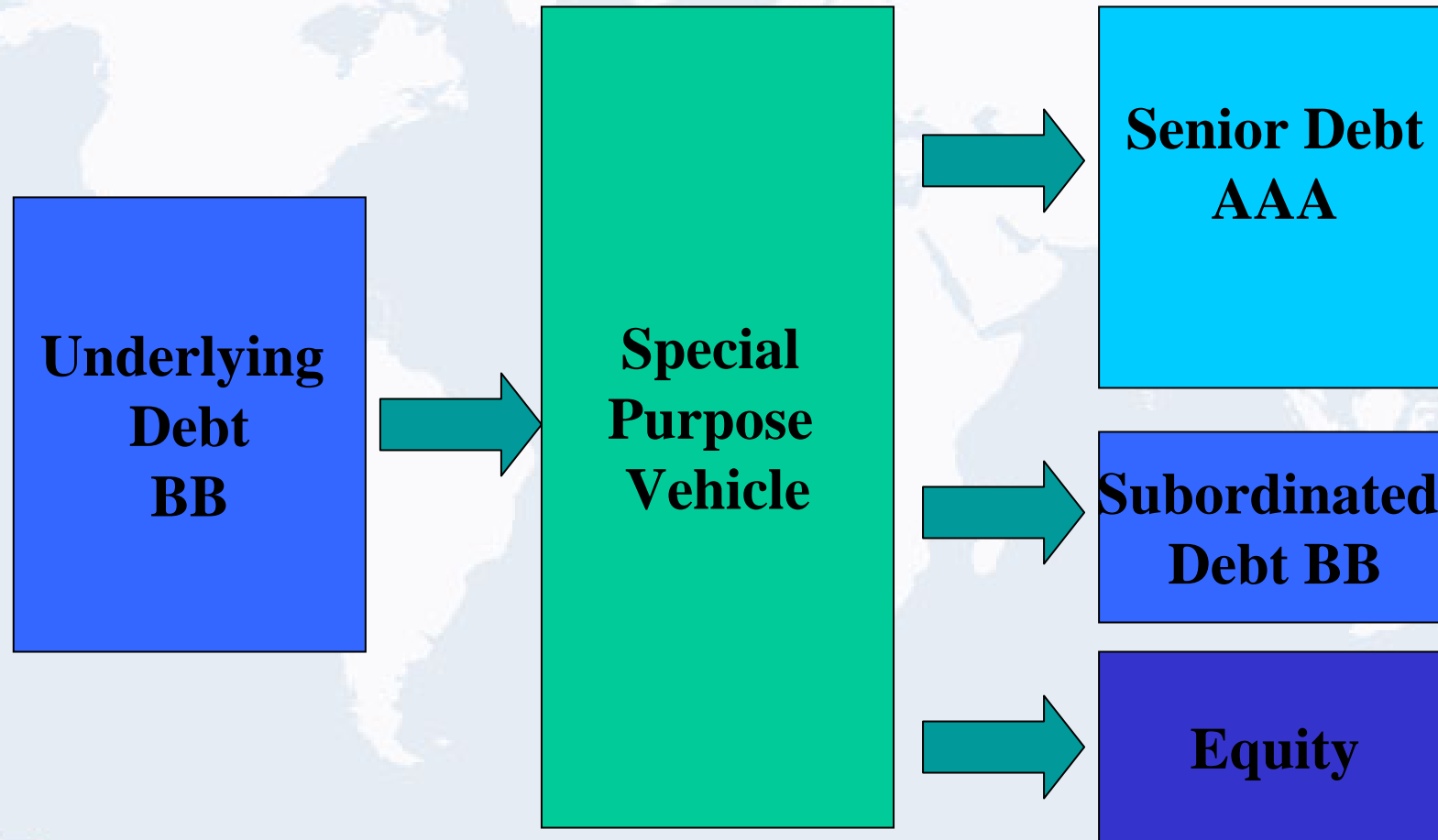
Risk

Maturing High Yield Market



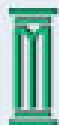
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Bonds No More!

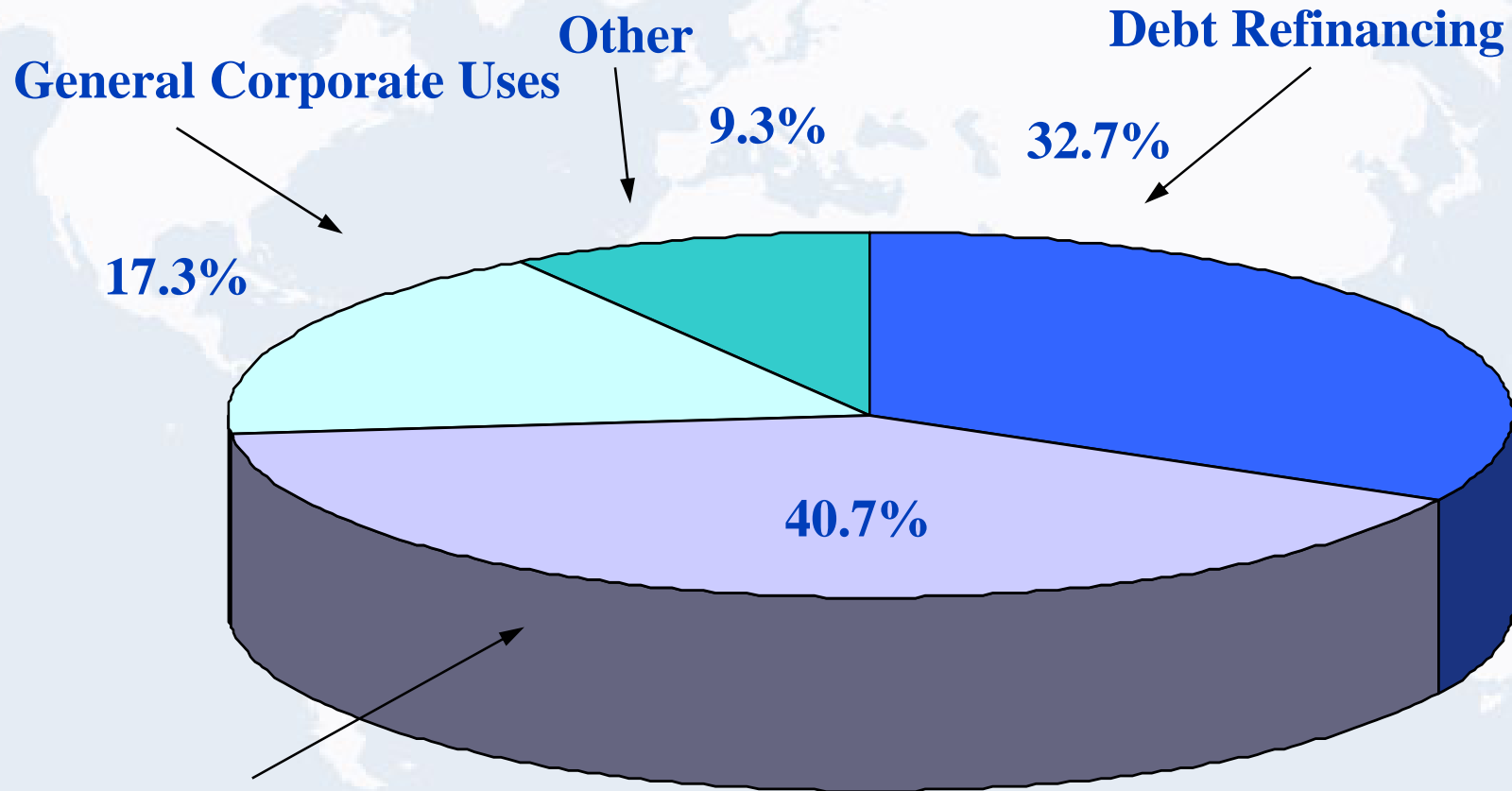


Financial Technologies

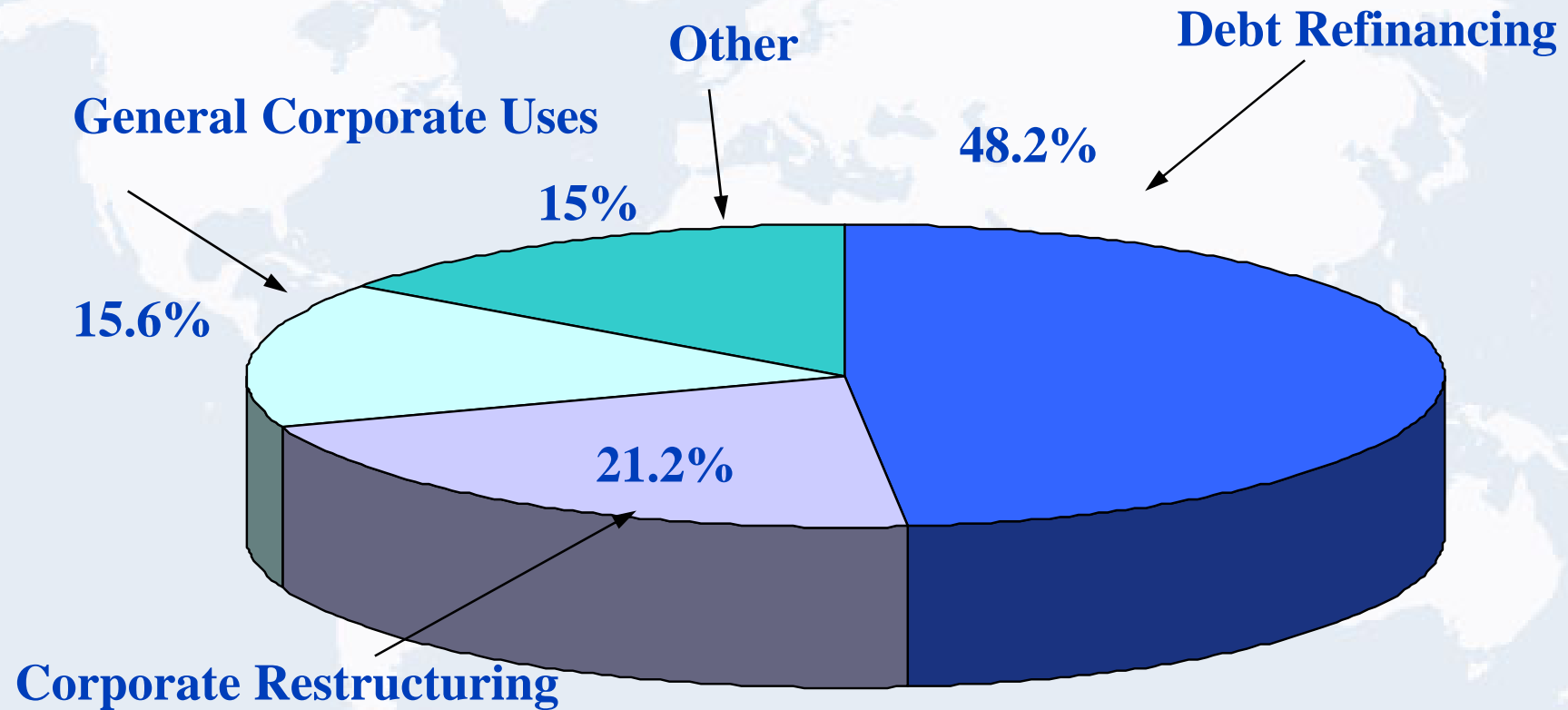
- **Collateralized loan obligations**
- **Collateralized bond obligations**
- **Securitized mortgages**
- **Securitized credit cards**
- **Derivatives**
- **PIKs**



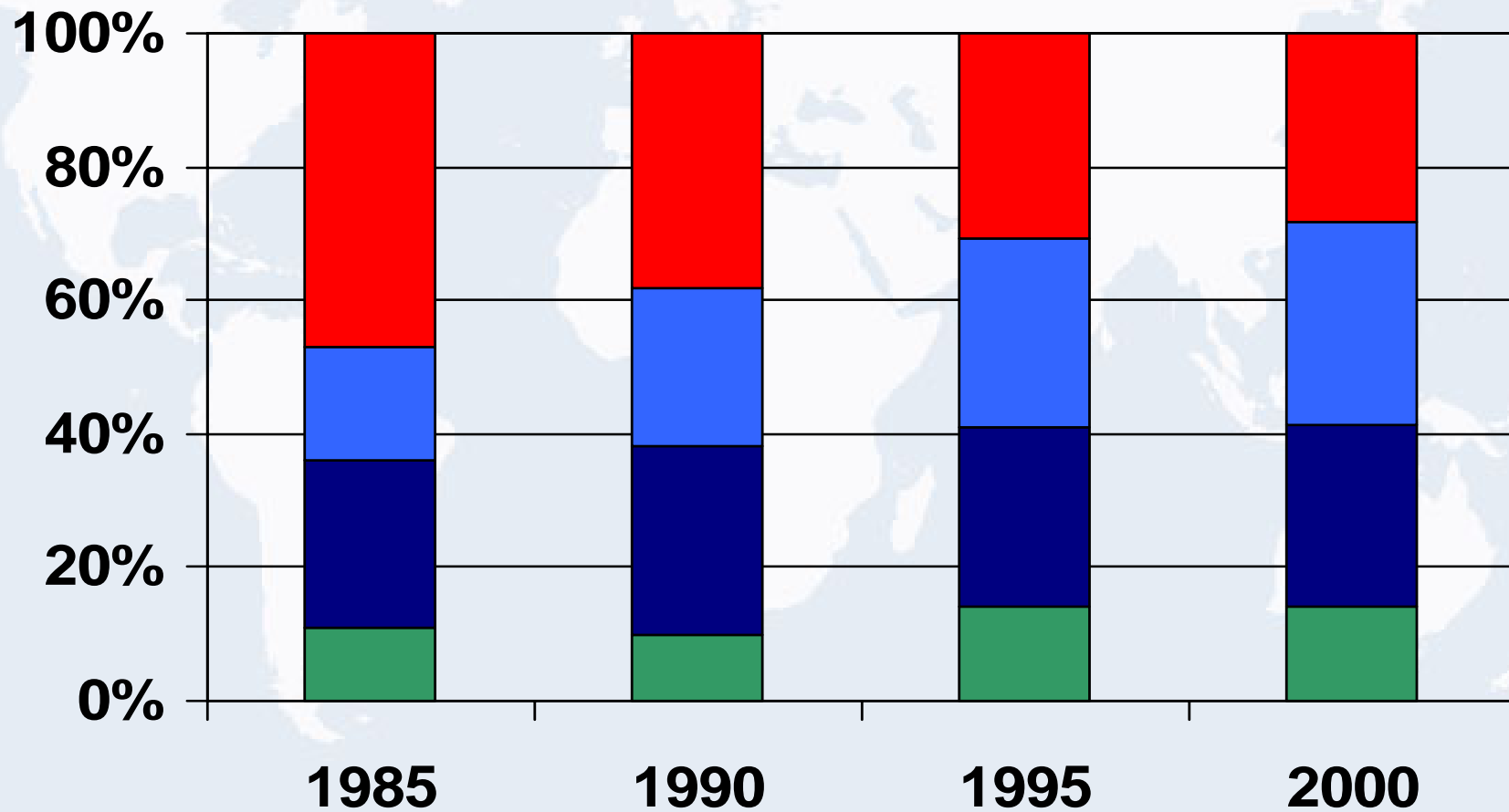
High Yield Use of Proceeds 1983-1989



High Yield Use of Proceeds 1990-1999



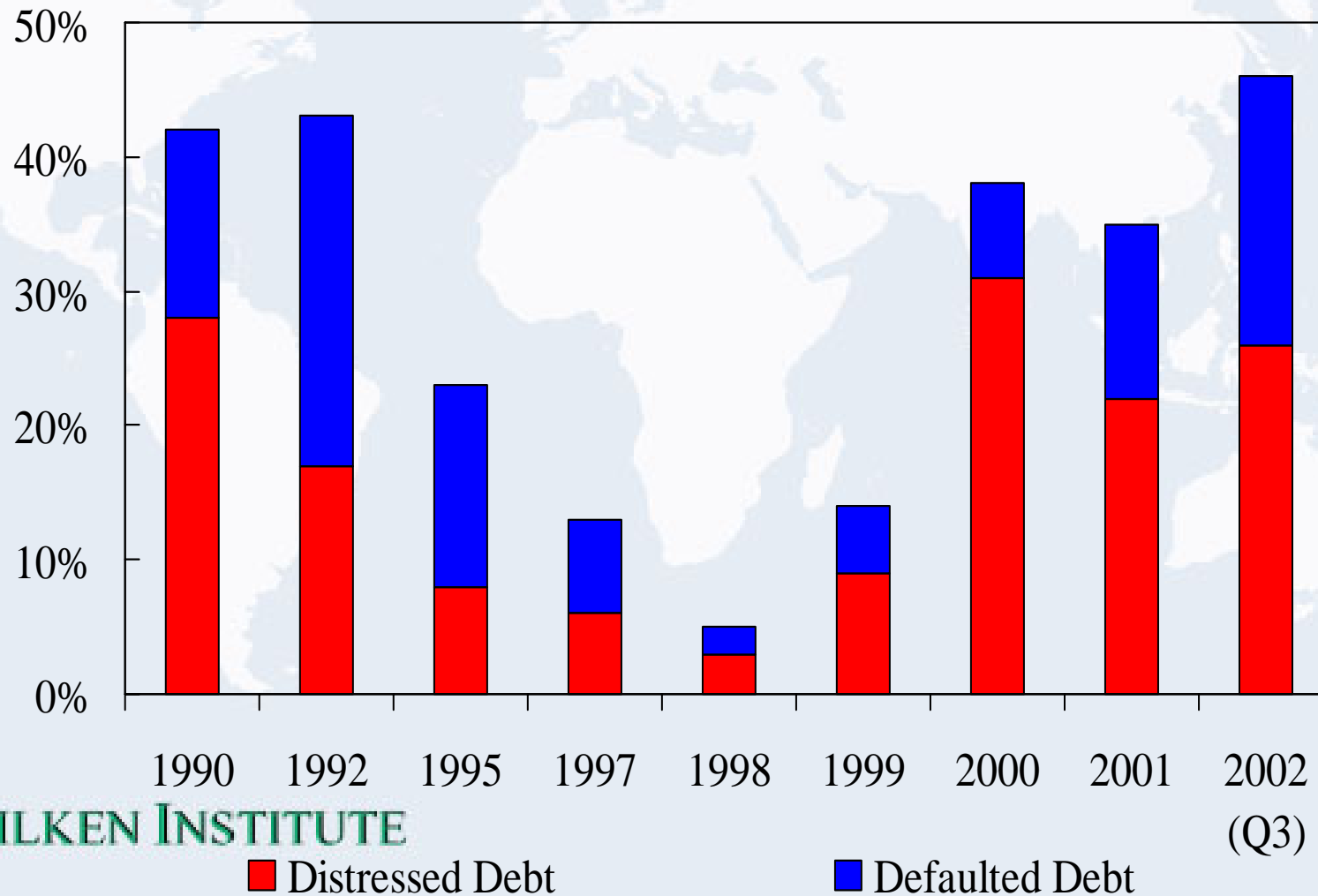
Capital Structure Matters



Cash **Long Term Debt** **Short Term Debt** **Equity**

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Stress-induced Risk in the High Yield Market

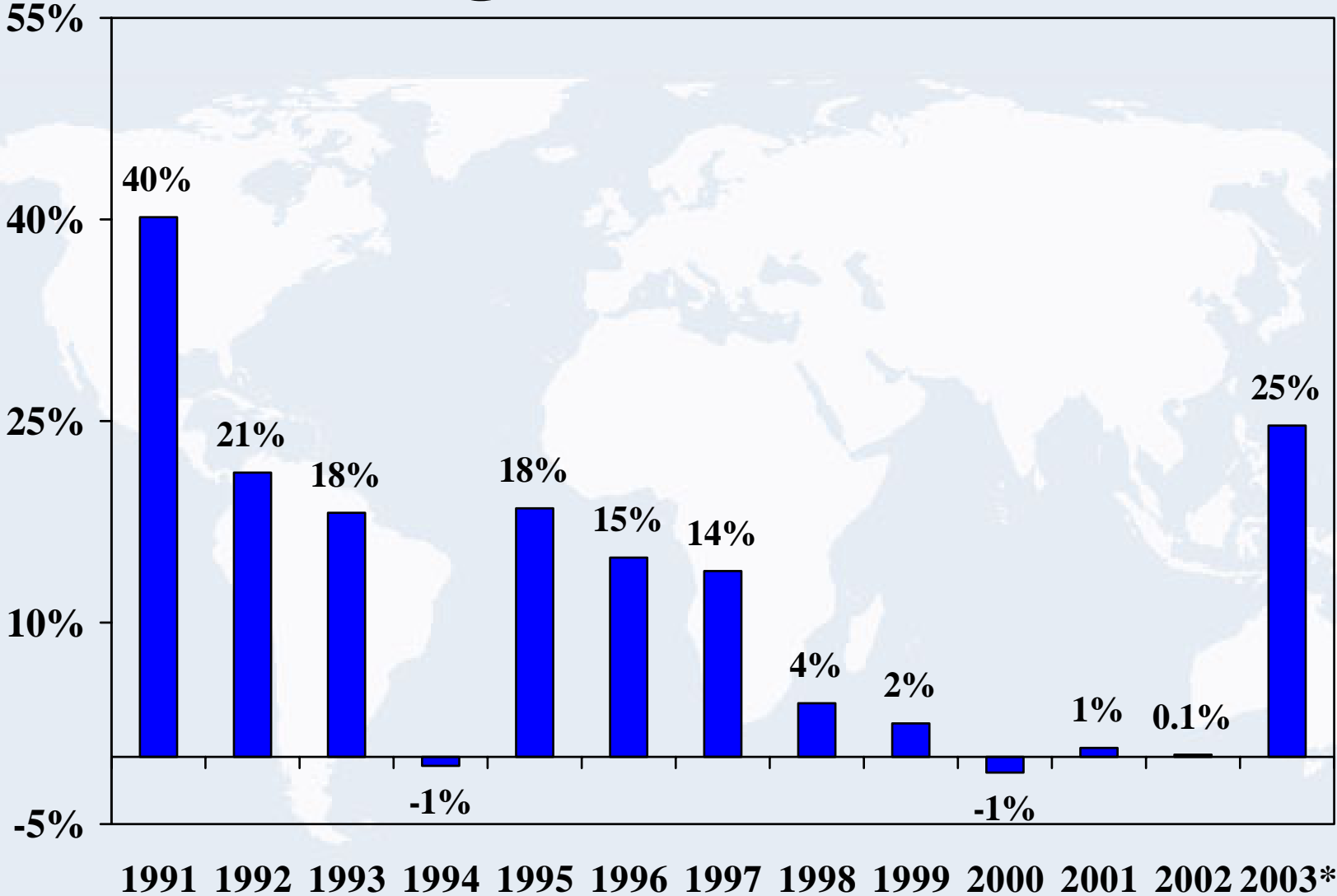


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■ Distressed Debt

■ Defaulted Debt

High Yield Returns



1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003*
* Year to Date



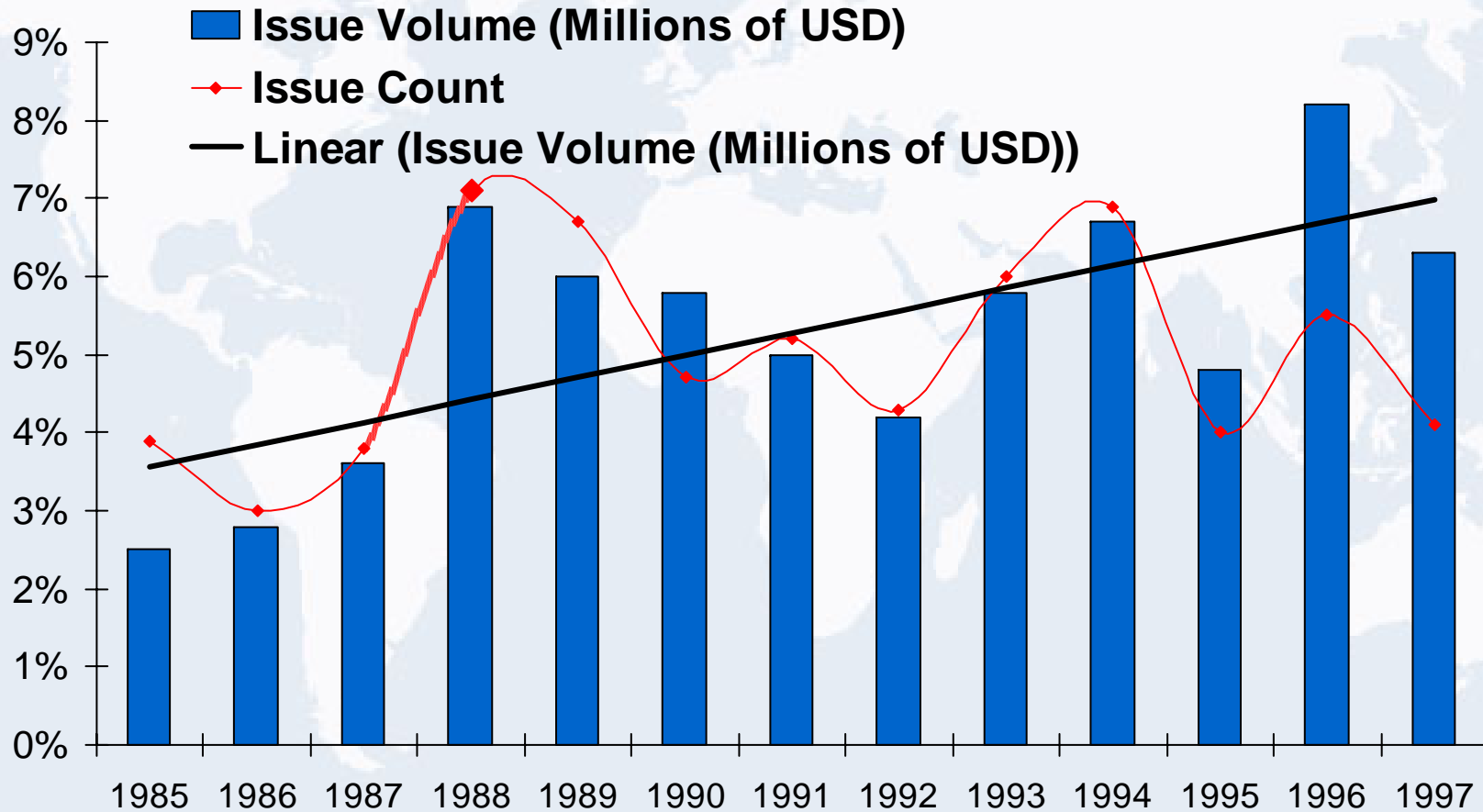
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Measurable Business Financing

Small Firms	\$bln	% of total
Commercial Paper	0	0
Commercial Mortgages	66	11
Commercial and Industrial Loans	98	16
Trade Debt	233	37
Finance Companies	91	13
Initial Public Offering	10	2
Venture Capital Pool	34	5
Bond Market	0	0
Stock Market	0	0
Bank Loans	98	16

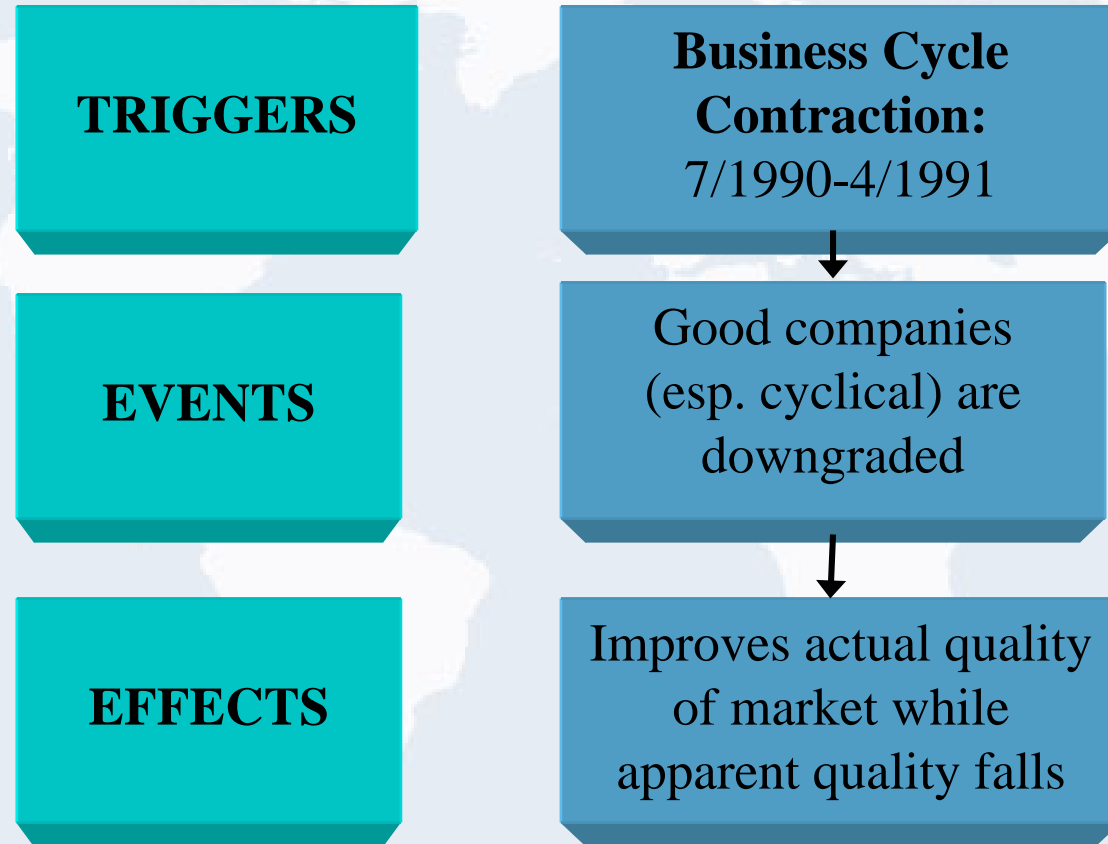


International High Yield Issuance

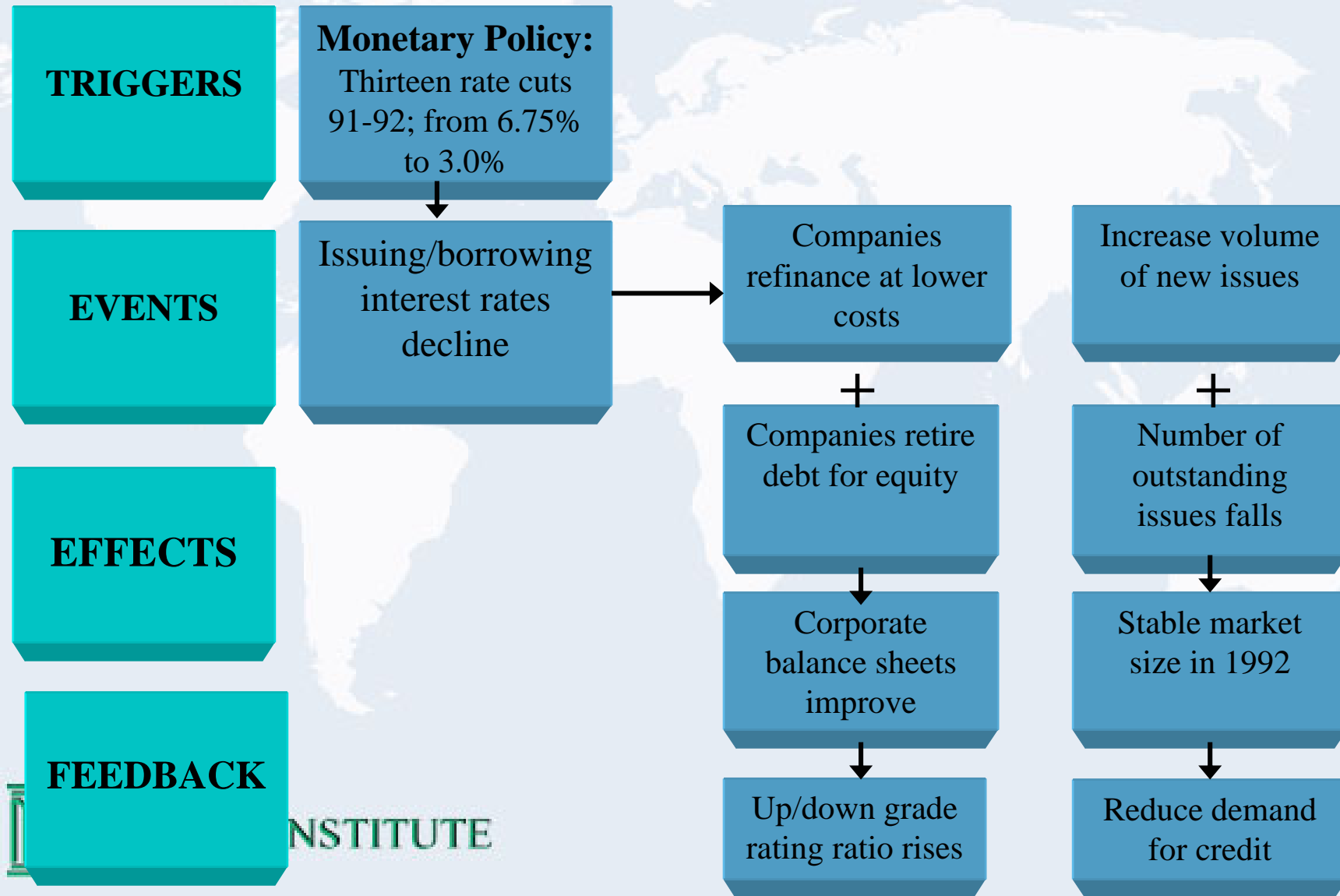


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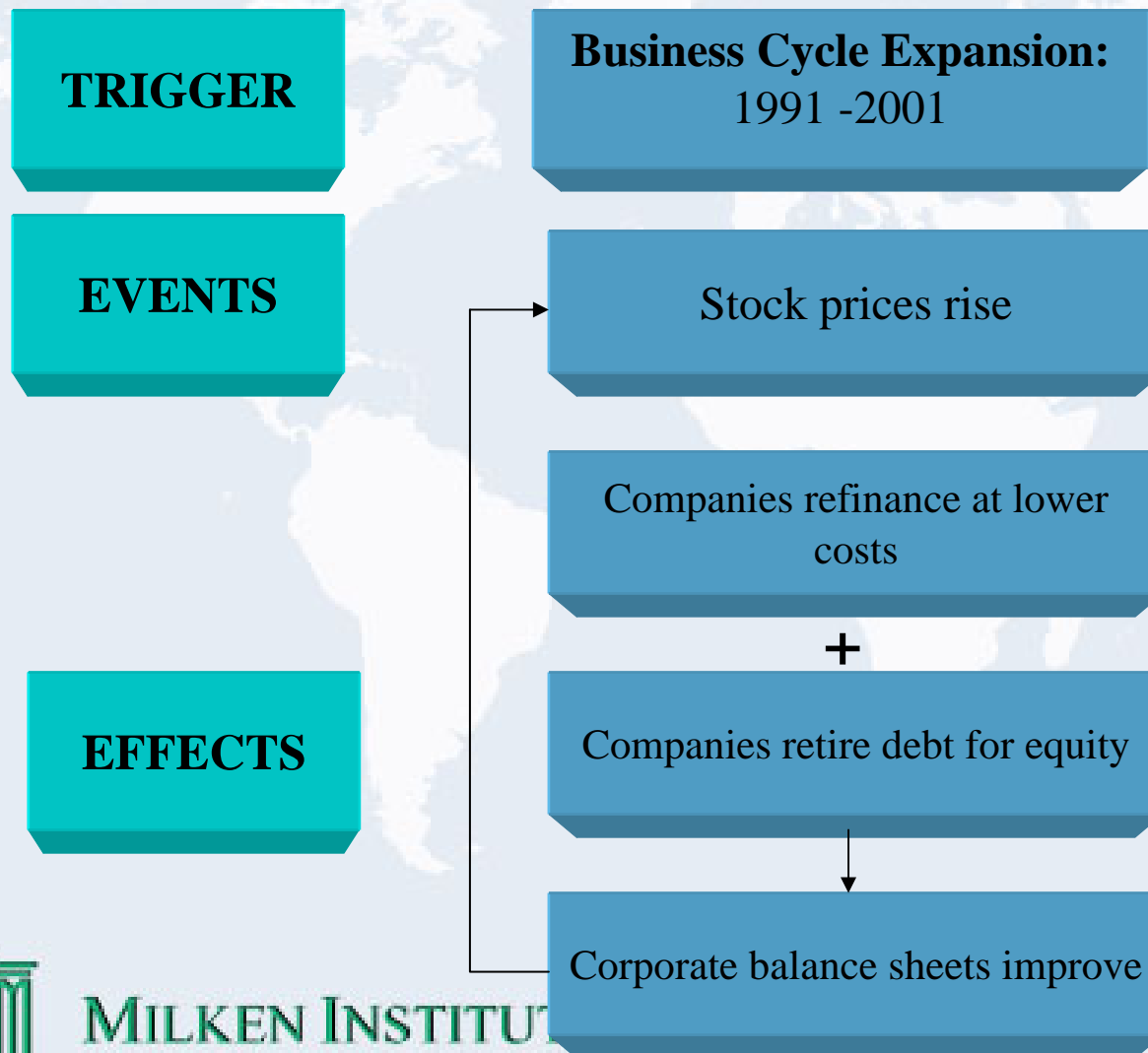
Macroeconomic Effects on the High Yield Market



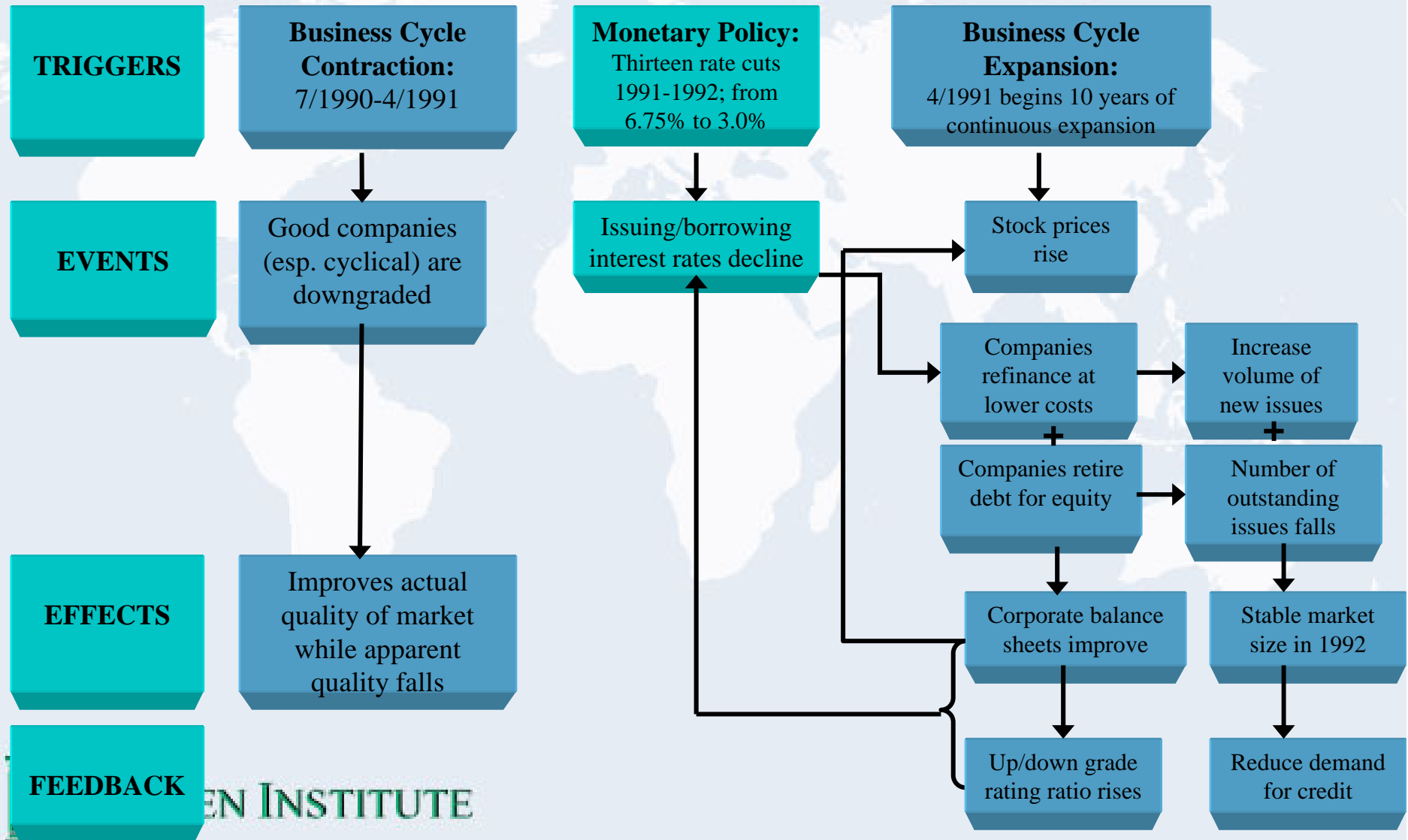
Macroeconomic Effects on the High Yield Market



Macroeconomic Effects on the High Yield Market



Macroeconomic Effects on the High Yield Market



Financial Markets Promote Economic Growth and Development

	Total	Percent Accounted for by:		
		High Income Countries	Middle Income Countries	Low Income Countries
Population	6.1 billion	15.1	43.7	41.1
GDP	\$31.1 trillion	80.6	16.0	3.4
Bank Assets	\$36.9 trillion	86.6	11.9	1.5
Equity Market Capitalization	\$27.8 trillion	92.9	6.6	0.6
Bond Market Issuance	\$31.6 trillion	96.9	2.6	0.6
<i>Total Financial Assets</i>	<i>\$96.4 trillion</i>	<i>91.8</i>	<i>7.3</i>	<i>0.9</i>



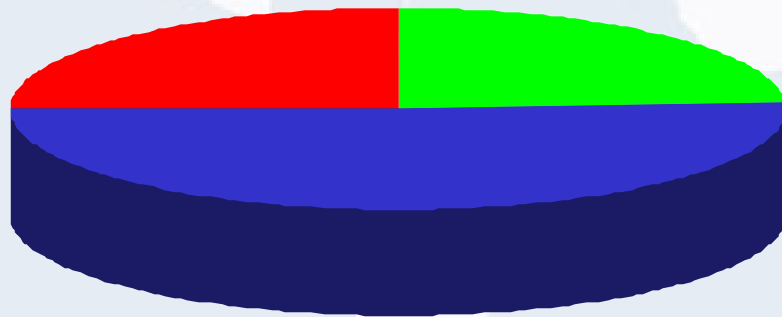
Bank-Based vs. Market-Based Financial Systems

1990

U.S.

Equities
25%

Bank
Assets
24%

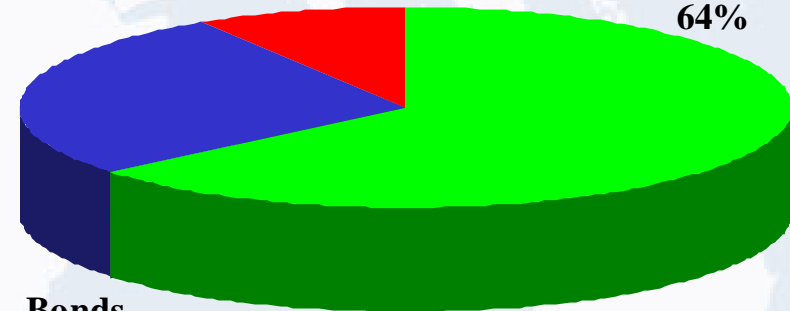


Bonds
51%

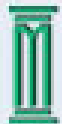
Germany

Equities
9%

Bank
Assets
64%



Bonds
27%

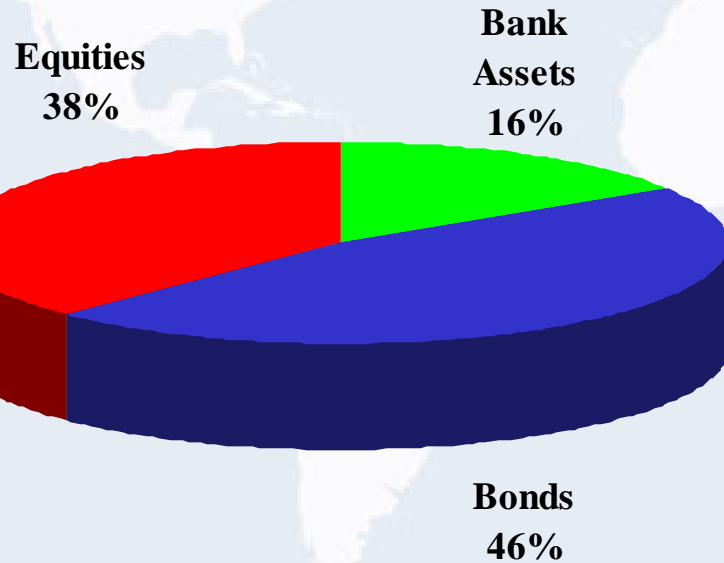


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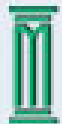
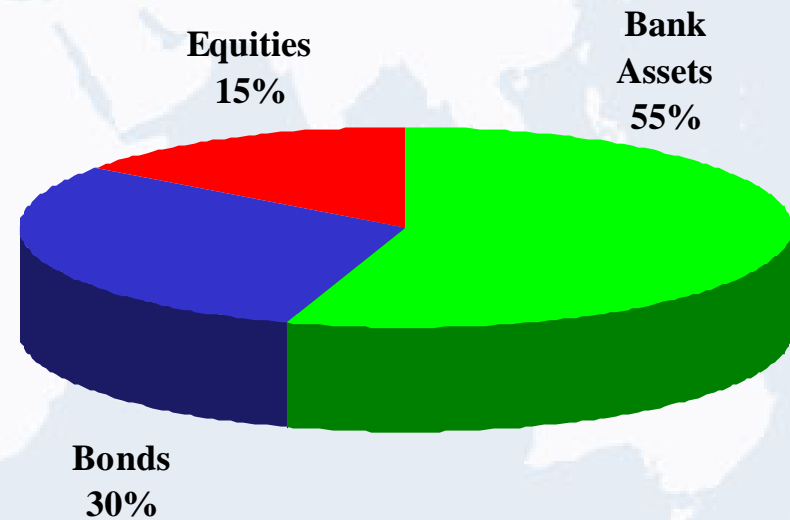
Bank-Based vs. Market-Based Financial Systems

2001

U.S.



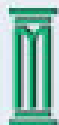
Germany



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Domestic Bond Market Development in Asian Countries (March 2003)

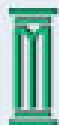
	Total Amounts Outstanding (US\$ Billions)	Total/GDP (%)	Percent Accounted for by:		
			Government	Financial Institutions	Corporate Issuance
China	465	38	52	45	2
Hong Kong, China	46	28	33	56	10
India	164	32	99	0	1
Japan	6,910	174	73	16	11
Malaysia	83	87	41	13	46
Singapore	52	60	61	34	5
South Korea	373	78	24	37	39
Thailand	48	38	59	27	14
<i>Memo:</i>					
United States	16,764	161	28	57	15



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International Bond Market Development in Asian Countries (March 2003)

	Total Amounts Outstanding (US\$ Billions)	Total/GDP (%)	Percent Accounted for by:		
			Government	Financial Institutions	Corporate Issuance
China	16	1	31	55	14
Hong Kong, China	44	27	0	68	32
India	3	1	0	30	70
Japan	250	6	2	80	19
Malaysia	23	24	22	36	42
Singapore	17	20	2	65	34
South Korea	55	12	9	53	38
Thailand	12	9	31	42	28
<i>Memo:</i>					
United States	2,814	27	1	87	13



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Asian International Debt

US \$ Bns Outstanding 2003

	Government	Financial Institutions	Corporates
China	5.1	8.9	2.2
Hong Kong SAR	-	29.5	14.1
Indonesia	0.9	7.8	0.8
Malaysia	5.1	8.1	9.5
Philippines	12.8	4.8	3.8
Singapore	0.3	11.1	5.8
South Korea	5.1	29.3	21
Taiwan, China	-	2.7	10.8
Thailand	3.7	5	3.3
Vietnam	0.5	-	-



Asian Domestic Debt

US \$ Bns Outstanding 2003

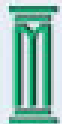
	Government	Financial Institutions	Corporates
China	243	211.2	10.4
Hong Kong SAR	15.2	25.7	4.6
Indonesia	-	-	-
Malaysia	34	10.6	38
Philippines	22.3	-	1.1
Singapore	32	17.7	2.5
South Korea	91	137.2	144.4
Taiwan, China	73.4	17.5	54.9
Thailand	28.1	12.9	-
Vietnam	-	-	-



Asian International Debt

US \$ Bns Outstanding 2003

	Money Market Instruments	Bonds and Notes
Hong Kong dollar	6.8	40.7
Indonesian rupiah	0	-
Korean won	0	0.2
Malaysian ringgit	0	-
New Taiwan dollar	0	4.4
Philippine peso	0	-
Singapore dollar	0.5	8.1
Thai baht	-	1.5



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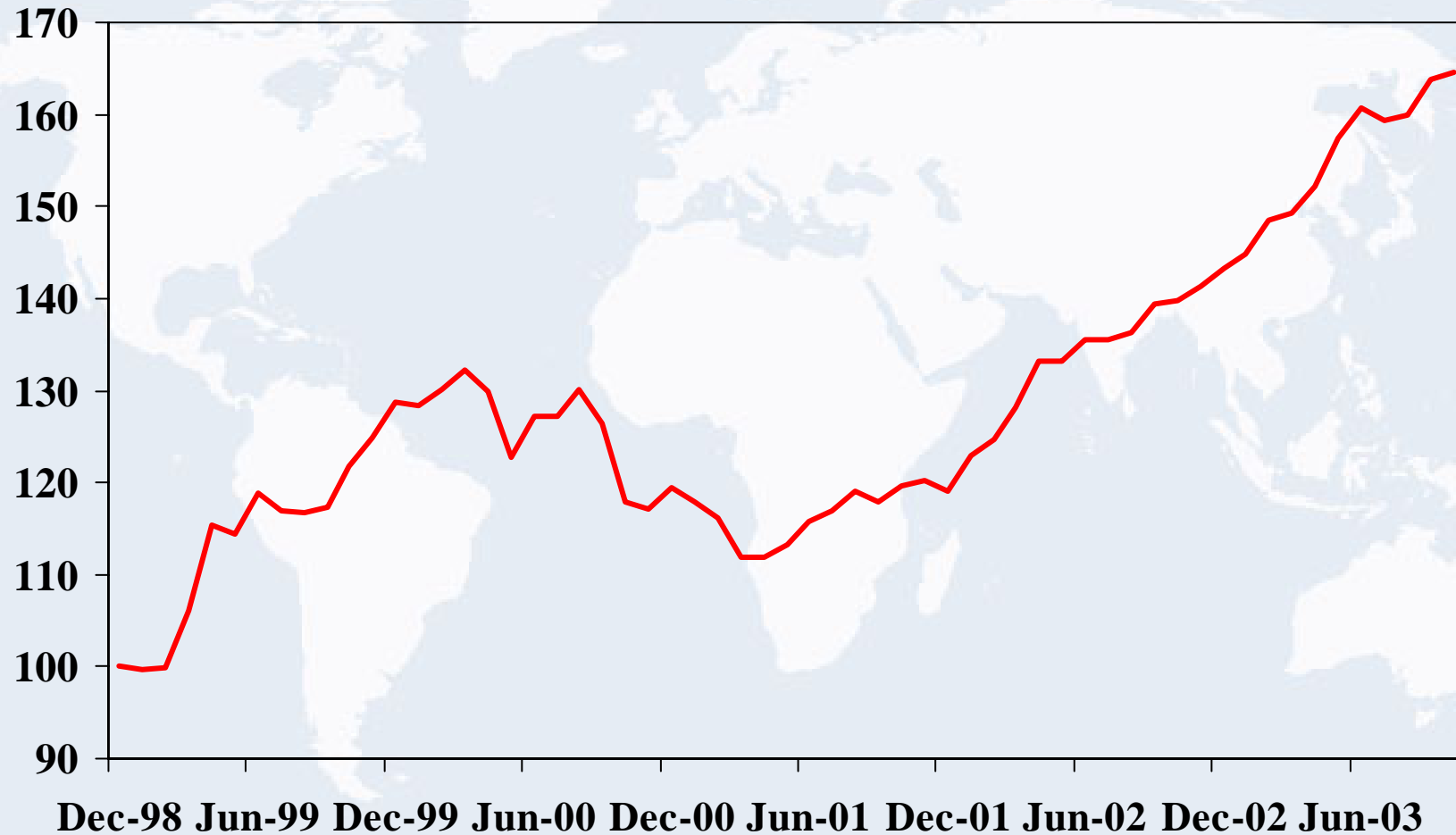
Asian Sovereign Ceilings 2003

	Moody's	S&P
China	A2	BBB
Hong Kong SAR	A1	A+
Indonesia	B2	BBB
Philippines	Ba1	B
Singapore	Aaa	AAA
S. Korea	A3	A-
Taiwan, China	Aa3	AA-
Thailand	Baa3	BBB
Vietnam	B1	BB-



Asian Corporate High Yield Bonds

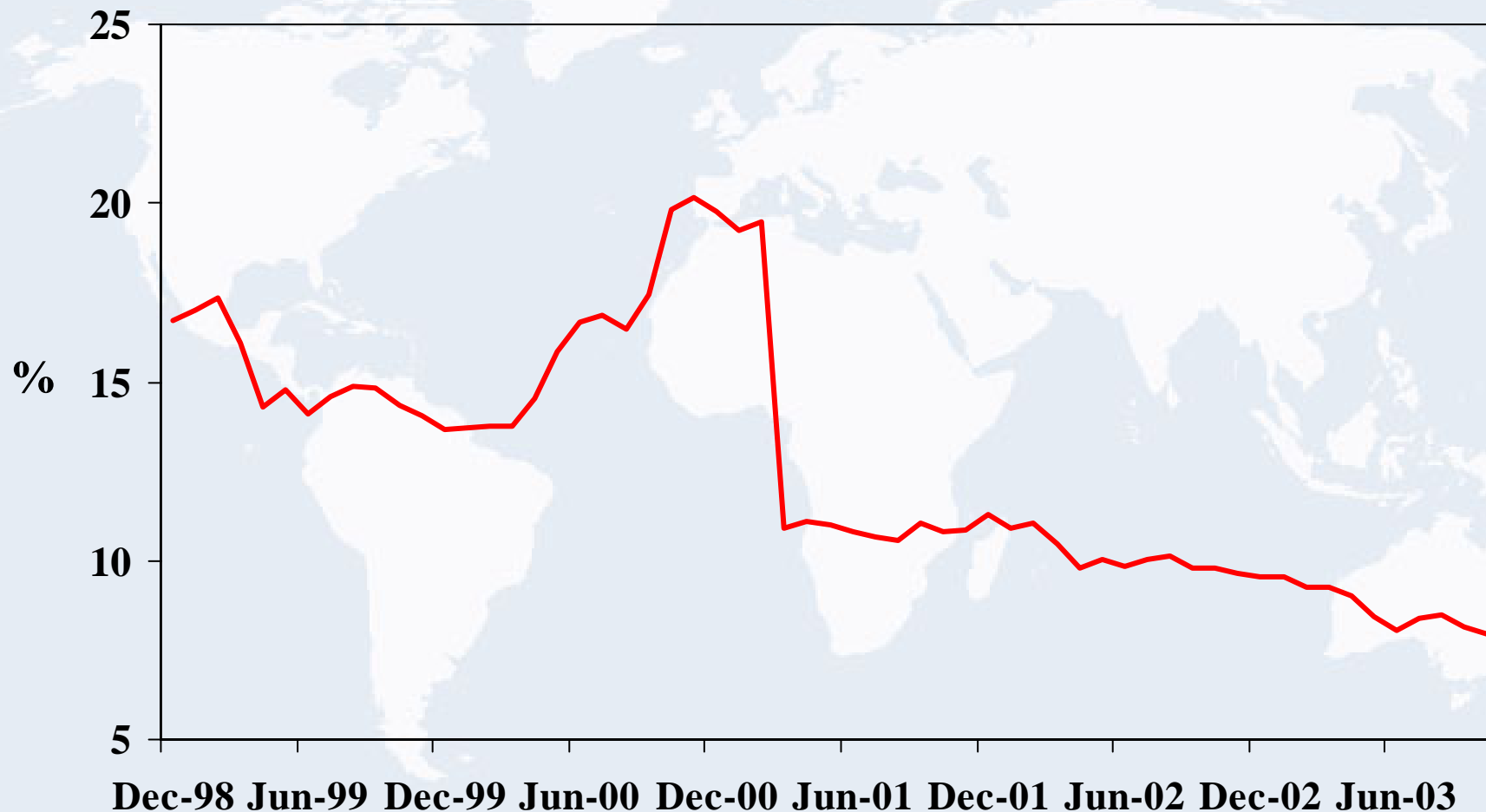
Total Return Index



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Asian Corporate High Yield Bonds

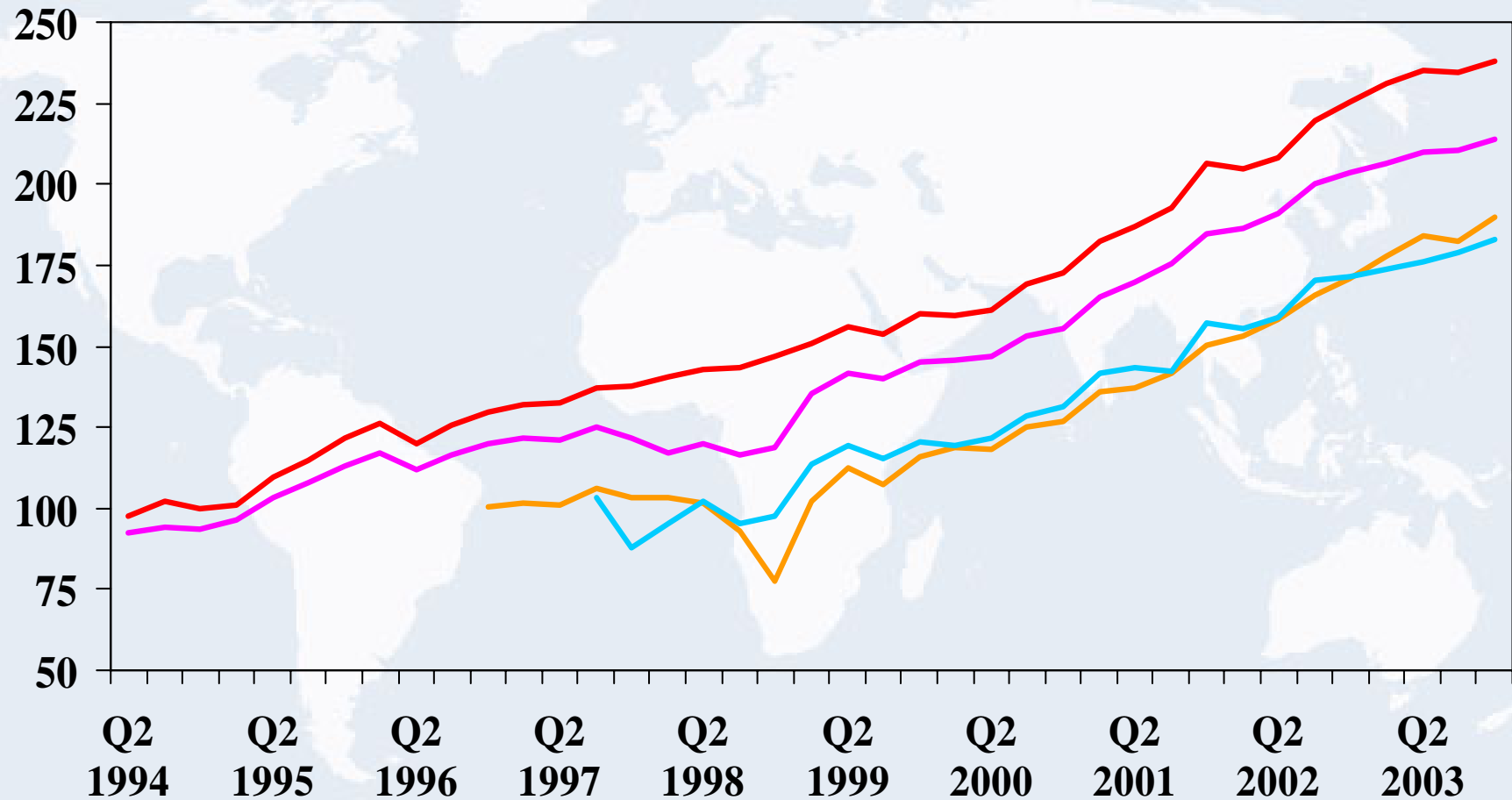
Yield to Worst



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International Bond Indices

Total Return Index

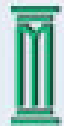
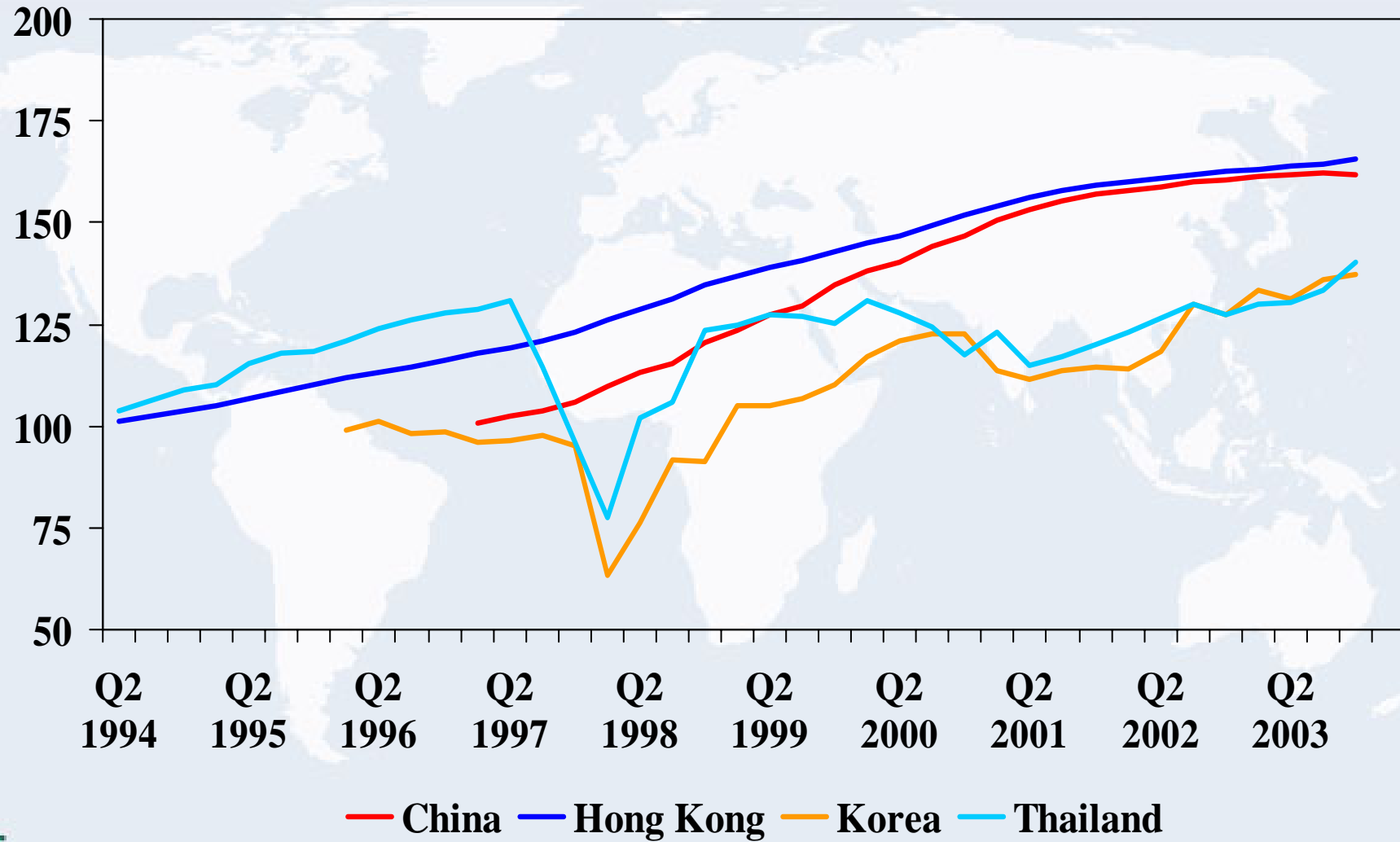


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— China — Malaysia — Korea — Thailand

Local Market Bond Indices

Total Return Index



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The Costs of Opacity

- **Without opacity, portfolio flows may well have been 12% higher in 2000 than they were**
- **Each O-Factor point = +25.5 basis points to borrowing costs (based on sovereign bond pricing)**



Asian Opacity

	Opacity	Corruption	Legal System	Economy	Accounting
Singapore	29	13	32	42	38
Hong Kong	45	25	55	49	53
Taiwan	61	45	70	71	56
Thailand	67	55	65	70	78
South Korea	73	48	79	76	90
Indonesia	75	70	86	82	68
China	87	62	100	87	86
USA	36	25	37	42	25
Japan	60	22	72	72	81



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Capital Access Index Asia 2003

	Score	Rank
Hong Kong	5.74	1
Singapore	5.5	4
Taiwan	4.88	17
South Korea	4.83	18
Malaysia	4.6	28
Thailand	4.26	36
China	4.18	38
Philippines	3.8	55
Vietnam	3.67	60
Indonesia	3.64	61
USA	5.55	3
Japan	4.78	19

