The Most *Dynamic* and *Successful* Region in the World?

With every passing quarter, the demoralizing Asian crisis of the late 1990s seems like an increasingly distant memory. As the Asian Development Bank (ADB) announced in December, GDP growth across the 10 members of the Association of Southeast Asian Nations (ASEAN), China and South Korea was expected to reach 7.6% in 2004. In spite of the shock of higher oil prices, that still represents East Asia's best GDP growth since 1997. Outside that region, with Japan building upon its recovery, and India continuing to post explosive growth rates, the Asian economic block appears to be in better shape than at any time in the last decade.

The region's impressive growth figures would seem to support the view of Haruhiko Kuroda, Chairman of the Asian Development Bank (ADB), who in a recent speech insisted that Asia was "undoubtedly the most dynamic and successful region in the world."

Perhaps. But it is probable that that dynamism will be faced with sterner challenges this year than it was in 2004. "With the external economic environment turning less favorable, domestic demand set to soften and the People's Republic of China (PRC's) economic slowdown likely to continue, lower but solid growth at 6.5% is forecast" for 2005, according to the ADB.

Other observers agree, although the anticipated slow-down in China needs to be put into the perspective of an economy estimated to have grown by 9.6% in 2004, according to an analysis recently released by the Institute of Developing Economies of the Japan External Trade Organization (IDE-JETRO). "China's economic growth rate in 2005 is forecast to dip to 8.4%, on the heels reduced external and domestic demand," notes the IDE-JETRO report.

That rate of growth would still leave other regional economic powerhouses such as North America and Europe trailing in China's wake, although other analysts also expect a slight slowdown in the broader region's growth rate this year. In a report published in January, the rating agency Standard & Poor's (S&P) commented that "Asia Pacific's high-flying economies are likely to face more headwind in 2005, but they will be largely resilient to most shocks and cyclical corrections."

S&P added that "these economies and governments have bolstered their financial strength, especially their external positions, during 2003 and 2004, and are well placed to cope with most foreseeable shocks, including heightened interest and exchange rate adjustments."

Increased Political Stability

In part, the positive outlook for the Asian region is a by-product of increased political stability in a number of countries that has taken market analysts by surprise. India's economic success story has remained on track under the Congress-led administration following its surprise victory in 2004's election – so much so that S&P has recently lifted its rating on India by one notch to BB+ citing the "improved external position and growth prospects" in the world's largest

democracy. S&P expects growth in India to "hover at 6.5%-7% in the medium term."

Elsewhere in the region, analysts point out that the last year or so has seen orderly political transitions in a number of key South-East Asian countries which have installed administrations that are committed to continued economic reform. When it upgraded Malaysia from BBB+ to A- in October, for example, S&P observed that the handover in power from Prime Minister Mahathir to Abdullah Ahmad Badawi would not derail the country's economic policy direction. The agency expressed similar satisfaction with last year's political transition in Indonesia, upgrading its sovereign rating from B to B+ in December and commenting that "the new government's continued and timely implementation of reforms and continued fiscal consolidation would boost the credit ratings on Indonesia."

Growing Investor Confidence in the Region's Capital Markets

International investors clearly share ratings agencies' confidence about the prospects for the Asian region. Over the course of the last 12-18 months, investor confidence in Asia's debt and equity markets has been restored to spectacular effect with a succession of highly successful deals from issuers from throughout the region. Total international bond issuance from Asia in 2004 was broadly in line with the previous year's total, at just under $40bn. But last year's issuance was much more diversified than it had been in 2003, when Hong Kong's Hutchison Whampoa accounted for about a third of all new issuance.

Landmark deals from sovereign borrowers over the last 12-18 months have included the first deal from Pakistan for seven years, a well-received $1bn 10 year transaction from Korea and, early in 2005, a $1.5bn bond from the Philippines which was its largest ever and generated total demand of $7.5bn.

Thomson Financial
All Asian International Bonds 2004

Book Runner	Proceeds (US$ Mil)	Rank	Mkt. Share	No. of Issues
Deutsche Bank AG	157,159.2	1	7.6	700
Citigroup	149,439.3	2	7.2	511
JP Morgan	137,923.7	3	6.6	558
Barclays Capital	122,675.1	4	5.9	432
Credit Suisse First Boston	119,712.2	5	5.8	472
Morgan Stanley	111,931.9	6	5.4	411
ABN AMRO	103,869.4	7	5.0	375
UBS	93,932.4	8	4.5	421
Merrill Lynch & Co Inc	87,740.3	9	4.2	259
BNP Paribas SA	87,269.9	10	4.2	389
HSBC Holdings PLC	84,473.8	11	4.1	401
Societe Generale	81,303.9	12	3.9	192
Goldman Sachs & Co	77,808.8	13	3.8	199
Lehman Brothers	69,726.5	14	3.4	218
Dresdner Kleinwort Wasserstein	64,541.6	15	3.1	211
Royal Bank of Scotland Group	63,888.8	16	3.1	247
Calyon	49,147.1	17	2.4	173
Nomura	37,133.3	18	1.8	153
Groupe Caisses d'Epargne	29,675.1	19	1.4	108
RBC Capital Markets	26,960.4	20	1.3	187
HypoVereinsbank AG	24,735.2	21	1.2	109
WestLB AG	22,460.2	22	1.1	82
Unicredito Italiano	21,998.2	23	1.1	77
Daiwa Securities SMBC	18,477.6	24	.9	102
DZ Bank	17,650.4	25	.9	115
Subtotal with Book Runner	*2,077,449.3*	-	*100.0*	*5,857*
Subtotal without Book Runner	*.0*	-	*.0*	*0*
Industry Total	*2,077,449.3*	-	*100.0*	*5,857*

But the most eagerly awaited sovereign bond to have emerged from the region in the last year was the two-tranche deal from China in October. That was divided into a $500m five year tranche and an ¤1bn 10 year deal. The euro-denominated tranche, led by BNP Paribas, Deutsche Bank and UBS, was viewed as an especially important transaction as it attested to increasing demand for euros as a funding currency for Asian borrowers. With the Philippines, China Development Bank and the Export-Import Bank of Korea (Kexim) also raising euros last year, 2004 goes down as the year in which the new European currency won acceptance in Asia.

Among other sovereign and supranational borrowers in Asia, the ADB itself offered investors its first global bond since the start of 2003 with a very well-received $1bn 10 year transaction in October. Away from straight bond issuance, however, whether it was the Hong Kong government securitizing HK$6bn worth of toll revenues or Malaysia's Optimal launching Asia's largest bond project financing since the crisis of 1997, an ever-broadening product spectrum has attested to the growing sophistication of the Asian capital market.

The further maturation of the region's capital markets have also been evident in the last 12 months in the widening range of local currency bond markets that have been opened, principally under the auspices of the ADB. Having issued in Indian Rupees early in 2004, the ADB's commitment to the development of local bond markets was underscored in November when it launched its first transaction denominated in Malaysian ringgits. The striking feature of that M$400m five year deal was that it was priced at a discount to Malaysian government bonds. In between those two transactions, the ADB's dual tranche deal in Hong Kong and Singapore dollars in June did not just break new ground for being its largest ever in Asian currencies. It also marked the first time the ADB had issued a public bond in Singapore dollars. ■