# Editor's Note

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Since the Asia and Tequila crises of the late 1990s, a growing number of emerging market countries have focused on developing local bond markets to lock in local-currency, fixed-rate, and long-term funding, and help governments and corporations better manage their financing risks. International organizations from Washington to Southeast Asia are pushing bond market development, to reduce global instability by improving domestic risk management.

Both crises accentuated the severe problems borrowers can face when they rely on short-term, foreign-currency funding and take sizable interest rate, refunding, and foreign-currency risk. When the Thai baht's downfall sparked a cascade of falling currencies throughout the Asian region, loans were defaulted on, others were not replenished, and many countries had to contend with a far more serious crisis than warranted by any economic problem in the country. The fault lay in large part with the way borrowers financed themselves. If corporations had funded with bonds, funds and rates would have been locked in, and corporations could have weathered the crisis better. The Asia crisis also showed how quickly problems can escalate and be transmitted throughout an economy and to other parts of the globe. And it showed that this could happen even when countries have solid macroeconomic fundamentals.

These crises should not diminish the other benefits of local bond markets, such as diversifying financial sectors, allocating capital more effectively, and increasing financial sector competition. Growing economies need to support major trends such as infrastructure development, privatization, securitization, and the rise of new institutional investors requiring long-term assets to match long-term liabilities. Bonds will play an important role in meeting those needs.

To determine the possible role of bond markets in emerging market countries, impediments to their development, and possible ways to remove those impediments, a symposium was held in October 1999 on developing bond markets in five South Asian countries: India, Pakistan, Sri Lanka, Bangladesh, and Nepal. The goal was to get the full range of regulators and market participants from South Asia to discuss these issues together, along with representatives from other Asian emerging market countries a few steps ahead to gain insights into how they dealt with similar concerns. Representatives from different parts of the market within the same country and from different countries throughout South Asia and other parts of the globe exchanged views, learned from one another, and discussed how best to move forward to reach their respective goals.

This book is a collection of papers prepared for the symposium and reflects the discussions held at the symposium. It is divided into two parts. Part I addresses why and how to develop bond markets. It begins with a chapter describing a framework for evaluating bond market development (which was used to produce the five South Asian country surveys in Chapters 11–15), and summarizes key points from the symposium papers and the South Asian situation. It is followed by presentations on the importance of bond markets from IFC Vice President Assaad Jabre and Sri Lanka's Central Bank Governor, A.S. Jayawardena, then presentations on the risk-management benefits of bonds and the benefits of supranational issuance. Part II consists of country case studies. The first three are from outside South Asia—on developing corporate bond markets in Malaysia, creating more market-oriented government and corporate bond markets in Korea, and how Australia created a highly liquid government bond market. The remaining chapters cover bond market development in India, Pakistan, Sri Lanka, Bangladesh, and Nepal. They include two chapters on India by senior Indian officials, the first by Usha Thorat of the Reserve Bank of India on actions taken to promote India's markets, followed by the five South Asian country surveys.

The book is a start at looking at the key issues in an increasingly important topic. More work is needed to suggest how countries might deal with the various problems they face in developing their bond markets—how to move forward and transition from an emerging to an emerged market, what works best in what types of situations, and how to evolve in a continually changing technological and global environment.

These papers reflect the views of their respective authors and not necessarily the views of the International Finance Corporation (IFC). I would like to thank all the Symposium participants, all of whom actively contributed as speakers, roundtable panelists, and/or working group members. Together, they created an engaging, informative Symposium and the insights and materials for this book. I would also like to thank Peter Taylor from IFC for his excellent assistance in getting this book through the publication process.