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China-ASEAN Regional Bond Market Cooperation: Present Situation, Opportunity, and Strategy Choice

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Abstract: A report from the 20th National Congress of the Communist Party of China underscored the necessity of maintaining the trajectory of reforming the socialist market economy and enhancing global openness. Strengthening cooperation in the China-ASEAN regional bond market and advancing high-level bond market liberalization are essential in establishing financial prowess. This paper reviews and summarizes the China-ASEAN regional bond market development within the context of international cooperation initiatives like the Belt and Road Initiative and the Regional Comprehensive Economic Partnership Agreement (RCEP). It analyzes the current state of international bond markets and local currency bond markets in ASEAN nations, systematically examines the opportunities, challenges, and risks associated with the development of the China–ASEAN regional bond market, and offers strategic recommendations for bond market collaboration based on the financial cooperation realities among these countries. The report provides significant insights for enhancing the Belt and Road Initiative and China-ASEAN financial collaboration within the RCEP framework, fostering regional economic integration and strengthening bond market cooperation and development between China and ASEAN nations.

Keywords: Regional bonds; China-ASEAN; Cooperation; Strategies

1. Introduction

In the context of increasing global economic integration, China has proactively embraced a high-level opening-up strategy and is dedicated to enhancing economic collaboration with ASEAN nations. China-ASEAN bond market cooperation has emerged as a vital component in fostering regional economic integration and facilitating advanced financial deregulation, given its status as one of the most dynamic regional economies globally. In this context, enhancing the bilateral high-level accessibility of the bond market, as a vital element of the financial liberalization strategy, not only functions as an efficient conduit for executing the strategy of establishing robust financial strength but also plays an essential role in bolstering the real economy. Furthermore, it strengthens the Belt and Road Initiative, promotes RMB internationalization, and provides new impetus for regional economic development.

This study, situated within the framework of the Regional Comprehensive Economic Partnership (RCEP) and other international collaborative initiatives, concentrates on China and ASEAN nations as its primary subjects of investigation. This study employs data from reputable sources, including the World Bank and the Asian Development Bank, to examine the present condition of ASEAN countries’ international and domestic

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currency bond markets utilizing diverse research methodologies. This article rigorously analyzes the prospects, obstacles, and hazards associated with developing the China-ASEAN regional bond market. It provides strategic proposals for bond market collaboration grounded in the objective facts of financial cooperation among these nations. This approach offers novel insights and avenues for enhancing China-ASEAN financial collaboration within the RCEP framework and facilitating regional bond market integration.

2. Literature Discussion

2.1. Domestic and Foreign Literature Review

Research on China-ASEAN regional bond market cooperation has gradually expanded, with scholars analyzing it from various perspectives. On the one hand, scholars have emphasized the potential and advantages of bond market cooperation between the two regions. Xu Changwen, by comparing the economic development structures and import-export commodity structures of China and ASEAN countries, reported significant economic complementarities and substantial potential for economic, trade, and financial cooperation [1]. Yang Panpan, by reviewing the history of China – ASEAN financial cooperation and projecting future trends, highlighted that new trade relations are emerging in the Asian region, with new sectors and businesses flourishing, and that the development of the Regional Comprehensive Economic Partnership (RCEP) has introduced new opportunities for financial cooperation between China and ASEAN countries [2].

On the other hand, scholars have also identified challenges and problems in cooperation. Zhang Jianhua noted that, even after establishing the ASEAN Free Trade Area, trade barriers persist, and intercountry competition remains, hindering information sharing and affecting the development of trade, investment, and bond markets between China and ASEAN countries to varying degrees [3]. Liu Bin further emphasized significant disagreements in the China-ASEAN regional bond market, particularly concerning legal regulations and infrastructure, with the bond markets still needing to be more mature and uneven in development [4].

In terms of research content, domestic scholars have focused mainly on the current state, influencing factors, cooperation models, and strategies of bond market cooperation. By analyzing historical data, they mapped out the development history and current status of bond market cooperation between the two sides while exploring key factors influencing this cooperation. Several models and suggestions for cooperation have been proposed. Zhou Shaofen, from the perspective of bilateral economic and trade relations between China and ASEAN countries, proposed that the two sides collaborate regarding human resources to achieve strategic upgrades in economic and trade cooperation. Through an examination of microlevel and macrolevel regional financial cooperation between China and ASEAN countries [5]. Chen Jianbo outlined prospects such as establishing and improving cross-border trade settlement systems and developing regional bond market construction [6]. Zhang LaiMin, by analyzing the 25-year history of China-ASEAN economic cooperation since the Asian financial crisis, suggested that both sides should synchronize the implementation of supportive macroeconomic policies, strengthen policy communication, and enhance cooperation in various areas, including investment and bonds [7].

Internationally, research on regional bond market cooperation has also been extensive. Scholars examining the development of the Asian bond market, including China, have explored the role of regional bond market cooperation in promoting regional economic development and optimizing resource allocation. These studies have analyzed cases of bond market cooperation in different regions, summarizing both successful experiences and lessons learned. Satoshi Shimizu elaborated on the importance of developing Asian bond markets, including China and Japan, emphasizing the need for balanced cooperation between the two countries and the significance of bond market collaboration. He also noted the importance of addressing balance issues and provided targeted suggestions for market development [8]. Aarti Rughoo, utilizing the convergence methodology of Phillips and Sul (2007), discussed the financial integration of Asia from the perspective of capital and bond markets, explaining the crucial role that the development of Asian bond markets plays in fostering regional economic integration [9].

3. Analysis of the Current Situation of the China-ASEAN Regional Bond Market

3.1. ASEAN International Bond Market Development Overview and Trends

Following the 2008 financial crisis, international bond markets in ASEAN nations have evolved swiftly. Between 2015 and 2022, ASEAN countries' total issuance of international bonds demonstrated a variable rising trajectory, reaching a zenith of $108.1 billion in 2020, subsequently decreasing to around $80 billion in 2022 and $56 billion in 2023. Significant discrepancies exist in the development of foreign bond markets among ASEAN countries.

3.2. The Overall Status and Trajectory of the Local Currency Bond Market Development in ASEAN Nations

3.2.1. Coastline and Island Resources

In recent years, ASEAN countries' local currency bond markets have undergone swift advancement. The total issuance volume has seen an increasing trend since 2000. In 2022, ASEAN nations' total outstanding local currency bonds exceeded $2 trillion for the first time. As of March 31, 2024, the aggregate value of local currency bonds in ASEAN nations reached $2.204 trillion, with local currency government bonds comprising $1.342 trillion, or 60.9% of the total. The corporate bond inventory totaled $518 billion, accounting for 23.4% of the overall amount. Refer to Figure 1 for specifics.

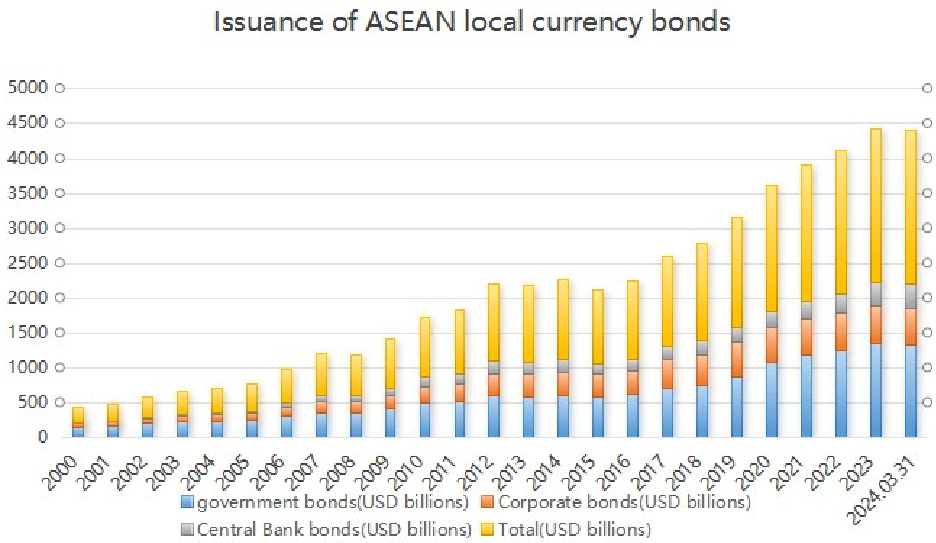

Figure 1. Issuance of ASEAN local currency bonds. Source: AsianBondsOnline—Data Portal (adb.org).

From a growth standpoint, Indonesia's local currency bond market expanded from $382.24 billion in 2022 to $427.71 billion in 2023, reflecting a 7.6% gain. The Philippines increased from $200.91 billion in 2022 to $217.11 billion in 2023, indicating a growth rate of 8.0%. The principal local currency bond markets in ASEAN nations have demonstrated substantial expansion.

Regarding the allocation of member nations. Singapore, Thailand, and Malaysia constitute the three predominant local currency bond markets in ASEAN nations, with 24.7%, 21.1%, and 19.5% of the total. As of the first quarter of 2024, Vietnam's local currency bond market is the smallest, accounting for merely 5.24% of the entire market size, with a bond stock valued at $1, 156.5 billion. Vietnam's market has demonstrated significant development potential, rising 3.5% in 2023 over the prior year. Refer to Table 1 for specifics.

Table 1. Until the 1st quarter of 2024, the scale of local currency bonds of China and ASEAN countries was USD 100 million.

Economic Entity	Government Bonds	Corporate Bonds	Central Bank Bonds	Total Amount of Local Currency Bonds
China	130,314	66,338.2	20.8	196,673

Cont.

Economic Entity	Government Bonds	Corporate Bonds	Central Bank Bonds	Total Amount of Local Currency Bonds
India	3704.4	286.6	286.6	4280.4
Malaysia	2495.6	1796.3	27.5	4319.4
the Philippines	1803.8	247.1	136	2186.9
Singapore	1924	1240.9	2281.2	5446.1
Thailand	2687.4	1319.5	648	4654.9
Vietnam	811.2	286.3	59	1156.5

Source: AsianBondsOnline—Data Portal (adb.org).

Regarding market depth. The ratio of local currency bonds to GDP in China and critical ASEAN nations has consistently risen. As of the first quarter of 2024, local currency bonds in China and two ASEAN member nations exceeded 100% of their respective GDPs: China (111.63%), Malaysia (128.84%), and Singapore (107.39%). Thailand's local currency bonds were substantial, representing around 94.01% of its GDP. Singapore possesses the highest share of government bonds among ASEAN nations, accounting for 82.92% of its total local currency bond issuance.

In corporate bonds, Malaysia and Indonesia are prominent, representing 53.58% and 49.12% of their respective local currency bond markets. Even with these enhancements, the progression of local currency bond markets in ASEAN nations remains inconsistent. Vietnam's bond market indicators are comparatively low, indicating significant potential for expansion in its local currency bond market. Refer to Table 2 for specifics.

Table 2. Local currency bonds as a share of GDP in China and selected ASEAN countries as of the first quarter of 2024.

Economic Entity	Government Bonds (%GDP)	Corporate Bonds (%GDP)	Central Government Bonds (%GDP)	Proportion of Total Bonds (% GDP)
China	73.97	37.65	0.01	111.63
Indonesia	27.82	49.12	2.15	32.14
Malaysia	74.44	53.58	0.82	128.84
the Philippines	40.87	5.6	3.08	49.55
Singapore	37.94	24.47	44.98	107.39
Thailand	54.27	26.65	13.09	94.01
Vietnam	19.22	6.58	0	27.48

Source: AsianBondsOnline—Data Portal (adb.org).

4. Opportunities and Challenges Associated with China-ASEAN Regional Bond Market Cooperation

4.1. China-ASEAN Regional Bond Market Cooperation Opportunities

4.1.1. China's Bond Market Opening Has Made Significant Progress

The "Thirteenth Five-Year Plan" underscored the necessity to expedite the bond market's connectivity while advancing internal product innovation and improving market liquidity. It emphasizes the necessity of enhancing the efficacy of information exchange. The report of the 19th National Congress of the Communist Party of China emphasized the essential function of financial services in bolstering the real economy, promoting a more significant share of financing, and establishing a multilayered capital market. The aim was to guarantee the continued smooth operation and stability of China's bond market and scale. China's bond market is undergoing a "golden age" of accelerated expansion, presenting unparalleled strategic potential due to its liberalization and advancement.

The history of the bond market's inception features notable milestones, including establishing the Qualified International Institutional Investor (QFII) system in 2002, which allowed sanctioned institutions to access the bond market via exchanges, thereby providing an entry point for international investors. This signified the commencement of China's initiatives to liberalize its bond market for global investors. From 2005 to 2009, the participation of the Pan Asia Fund and the Asian Debt China Fund in the interbank market significantly advanced the liberalization of China's bond market [10]. In 2010, the People's Bank of China broadened the scope of international participants by permitting overseas central banks, RMB-clearing banks in Hong Kong and Macau, and foreign participating banks to invest in the interbank bond market. The introduction of the Renminbi Qualified Foreign Institutional Investor (RQFII) system in 2011 created supplementary investment avenues for foreign RMB capital. In 2017, a significant development transpired with the launch of "Bond Connect," enabling overseas investors to engage with infrastructure institutions via Hong Kong and invest in the mainland interbank bond market. This enabled international involvement and advanced China's bond market to a higher echelon. In 2019, the State Administration of Foreign Exchange declared the elimination of QFII and RQFII investment quotas, facilitating foreign investors' market access. This time also witnessed the incorporation of RMB-denominated Chinese government and policy bank bonds into prominent global bond indices, including those of Bloomberg and JPMorgan Chase, enhancing the international prominence of China's bond market. In 2023, "Swap Connect" facilitated foreign investors' engagement in the interbank financial derivatives market, enhancing the array of investment instruments and expanding the market's depth and breadth.

China currently occupies the second-largest bond market in the world. The liberalization of China's bond market for foreign investors has progressed consistently, resulting in significant accomplishments. Fueled by extensive reforms and financial liberalization, the bond market has expanded considerably, with its global impact increasing markedly. As of the end of 2023, total bond issuance amounted to 71 trillion yuan, demonstrating an annual growth rate of 15.4% and signifying a robust impetus for ongoing expansion. From a stock standpoint, China's bond market constantly grew from 2013 to 2023, attaining 158 trillion yuan, which signifies a gain exceeding 82% since 2008. Data from the Bank for International Settlements (BIS) indicates that the total outstanding domestic bonds in China after 2023 amounted to USD 22,164.1 billion, affirming China's status as the second-largest bond market globally. Refer to Figures 2 and 3 for specifics.

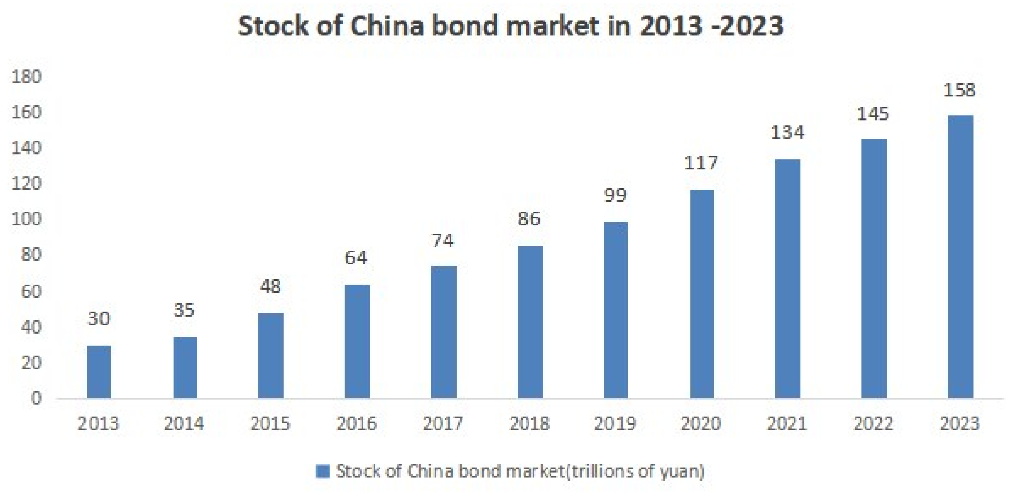

Figure 2. Stock of the China bond market from 2013–2023. Source: People's Bank of China.

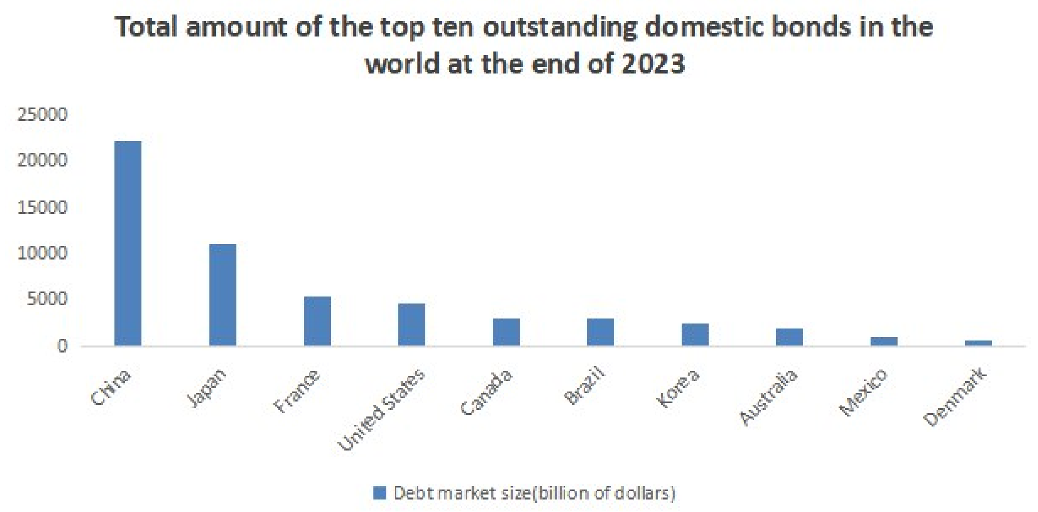

Figure 3. Total amount of the top ten outstanding domestic bonds in the world at the end of 2023. Source: Bank for International Settlements (BIS).

The quantity of players in the bond market has markedly increased in recent years. China and ASEAN nations have proactively enacted policies to stimulate foreign capital influx into their domestic bond markets while concurrently easing limitations on international investments by both domestic and foreign investors. The continuous improvement of financial infrastructure in the region has created a conducive atmosphere for heightened involvement in the bond market.

Foreign capital inflows in China's bond market have significantly increased. By the first quarter of 2024, foreign investors' total value of bonds reached 4.27 billion yuan. By the conclusion of 2023, foreign investors possessed bonds amounting to 3.67 trillion yuan, signifying an 8.3% rise relative to the end of the preceding year, constituting 2.7% of the overall bond market. Foreign investors mostly had government and policy bank bonds. Government bond holdings totaled 2.29 trillion yuan, reflecting a marginal decline of 0.1% compared to the prior year. In contrast, holdings of policy bank bonds rose to 796.3 billion yuan, reflecting a year-over-year gain of 6.8%.

The rise in foreign ownership of Chinese bonds signifies an increasing acknowledgment and involvement of international investors in China's market, consequently expanding the investor base and augmenting market activity. These accomplishments establish a robust basis for the collaborative progress of the China–ASEAN regional bond market. Refer to Table 3 for specifics.

Table 3. Bond custody in the interbank market from 2022–2023 (Unit: 100 million yuan).

Mechanism type	Shanghai Clearing House		Central Clearing Company's		Total	
	2023	2022	2023	2022	2023	2022
Deposit-type financial institutions	97,597	81,706	702,489	625,061	800,086	706,767
Insurance and securities institutions	18,006	13,133	58,529	50,631	76,535	63,764
Unincorporated product	186,912	182,351	172,421	166,259	359,333	348,610
Foreign investors	5291	2728	31,399	31,145	36,689	33,872
other	31,879	29,077	51,248	51,099	83,127	80,176
total	339,684	308,995	1,016,086	924,196	1,355,770	1,233,190

Source: Shanghai Clearing House, Central Clearing Company, and China Association of Interbank Market Dealers.

The diversity of bonds in the market is constantly evolving, with new instruments like green bonds exhibiting substantial growth velocity. Between 2016 and 2023, the volume of China's green bonds demonstrated a consistent rising trajectory, although a significant decline attributable to the pandemic in 2020. In 2022, there was a significant increase rate of 51.38% relative to the prior year, highlighting robust recovery. Refer to Figure 4 for specifics.

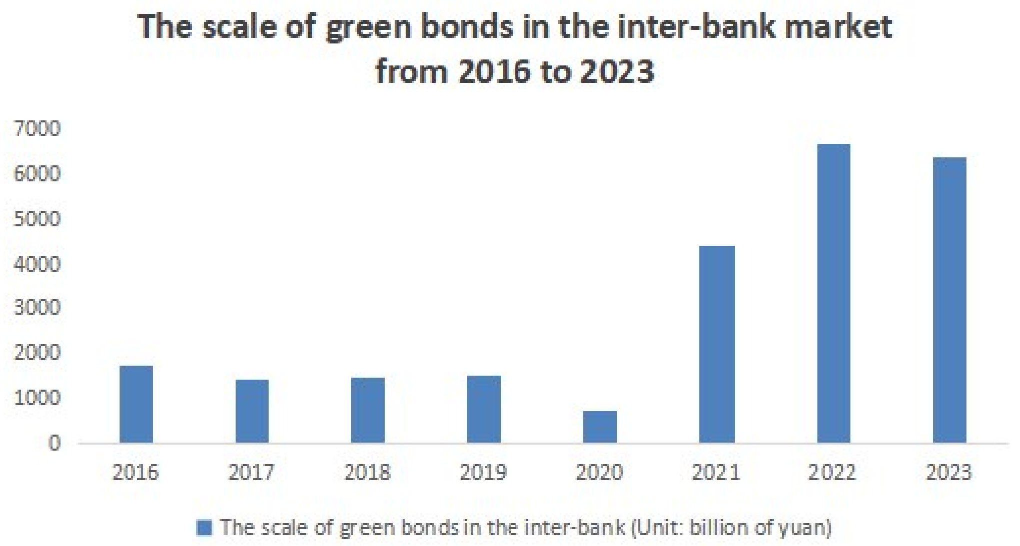

Figure 4. The scale of green bonds in the interbank market from 2016 to 2023. Note: Data include green financial bonds and green debt financing instruments. Source: China Interbank Market Trading Association (NAFMII).

China has become one of the significant green bond markets worldwide, as demonstrated by the rising issuance of green bonds by domestic and international companies. The variety of bond types has expanded in recent years, especially regarding green and transition bonds. As of the conclusion 2023, carbon-neutral bonds, explicitly intended to finance initiatives aimed at diminishing carbon emissions, amounted to 388.88 billion yuan. Furthermore, sustainable development-linked bonds (SLBs), which associate bond conditions with the issuer's sustainable development objectives, totaled 65 issuances, aggregating to 73.4 billion yuan. Transition bonds designed to support low-carbon transitions in industries including power and nonferrous metals raised 5.13 billion yuan. The creation and spread of new bond products have enhanced the bond market's offerings, efficiently addressing the diversified investment requirements of stakeholders.

4.1.2. The Internationalization of the RMB Facilitates the Advanced Liberalization of the Bond Market

In recent years, the significance of the RMB as a finance currency has been progressively highlighted, facilitating its nationalization. RMB-denominated bonds have garnered recognition in the international capital market due to features including comparatively low financing costs and steady currency value, enhancing foreign investors' capacity to augment their holdings of RMB bonds.

The proportion of the RMB in worldwide commerce has steadily risen. As of December 2023, the use rate reached 4.14%, reflecting an increase of 2.23 percentage points from the start of the year, positioning it as the fourth-largest payment and settlement currency globally. In February 2024, the rankings of the top five currencies were as follows: US dollar at 45.56%, euro at 23.25%, pound at 6.9%, RMB at 4%, and Japanese yen at 3.73%, with the RMB retaining its status as the fourth most active currency worldwide.

The Bank of China developed the Cross-border RMB Index (CRI), based on the International Monetary Fund's SDR review index, to evaluate the extent of RMB internationalization. The CRI, monitoring RMB cross-border activities, has exhibited a steady upward trajectory, attaining a record high of 364 points at the end of 2023, signifying a 5.8% rise from the prior year. This signifies a substantial increase in the cross-border use of the RMB. Refer to Figure 5 for specifics:

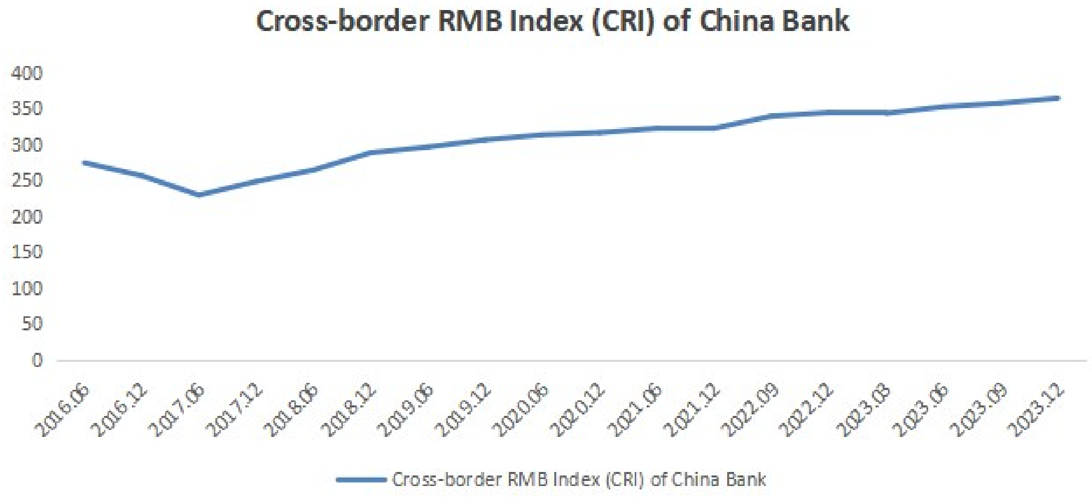

Figure 5. Cross-border RMB Index (CRI) of the China Bank. Source: Bank of China.

Concerning the cross-border utilization of the RMB in nations along the "Belt and Road" and within the RCEP region, figures from the International Settlement System (SWIFT) demonstrate a strong growth trajectory. In 2023, the RMB customer remittance sector among RCEP member nations experienced an annual growth rate of 20.4%. The transaction volume of RMB client remittances in Belt and Road countries rose significantly by 21.1%. This indicates the increasing significance of the RMB in the payment systems of East Asian nations, along with a cheerful readiness among these countries to embrace the currency.

Significant advancements have been achieved in international financial collaboration at the infrastructural level. Forty-one countries and territories have executed bilateral local currency swap agreements of 4 trillion yuan. These agreements bolster the stability of the international financial system and provide a broader array of currency options for cross-border commerce and investment. Moreover, establishing RMB-clearing institutions in nations such as Brazil, Cambodia, and Serbia has increased the total number of locations with RMB-clearing capabilities to 33, thereby significantly expediting RMB internationalization. This advancement fosters a conducive atmosphere for the expansion of the bond market.

4.1.3. Cooperative Agreements within the Context of Regional Economic Integration

In the current age of increasing globalization, the "One Belt and One Road" initiative, the formal enactment of the Regional Comprehensive Economic Partnership Agreement (RCEP), and the establishment of financial openness with ASEAN offer substantial opportunities for advancing global economic integration and improving the accessibility of financial markets. These cooperation agreements provide a comprehensive framework for participating nations and establish advantageous conditions for China to leverage the strategic opportunity presented by the emergence of a high-level bond market.

In 2023, the RCEP—a significant free trade agreement covering one-third of the global population, economic output, and trade volume—was fully implemented for the 10 ASEAN countries and all signatory states, heralding the emergence of Free Trade Area 3.0. This milestone has unequivocally revitalized China's strategy for enhancing its high-level opening. Implementing the RCEP is anticipated to enhance the liberalization and facilitation of intraregional trade, diminishing both tariff and non-tariff obstacles. Moreover, it would enhance market potential and provide new opportunities for economic collaboration among member nations through standardized legislation and mutual recognition of standards.

In this setting, China's bond market, as a crucial element of the financial landscape, is positioned for exceptional potential for growth and advancement. This tendency enhances regional economic and financial collaboration and promotes the unrestricted movement and optimal distribution of production resources, including capital, technology, and talent. With the intensification of regional economic integration, the frequency of associated domestic and international financial transactions rises, offering substantial trading opportunities and significant growth potential for the bond market.

4.1.4. The Facilitation of Cross-Border Investment and Financing Has Been Dramatically Improved

The continuous liberalization of financial markets and innovative tactics have greatly enhanced the unrestricted movement of cross-border capital between China and ASEAN nations, infusing essential capital into the bond market. As the Qualified Domestic Institutional Investor (QDII) system matures, domestic investors increasingly leverage QDII and other avenues to allocate overseas assets and participate extensively in international bond market investments.

"Bond Connect" is a vital conduit for international capital entering the Chinese bond market, yielding significant outcomes since its establishment. By implementing innovative strategies, including optimizing the market entry procedure and introducing a multitiered custody system, "Bond Connect" has successfully diminished transaction and time costs for foreign investors, thereby enhancing market operational efficiency. By the conclusion of May 2024, approximately 1100 international institutions from more than 70 countries and regions, including various central and commercial banks, have entered the Chinese market via this mechanism. The participation of these institutions not only broadens the investor base in the Chinese bond market but also substantially enhances market activity and global influence.

The "Exchange Link" service, initiated in May 2023, has enhanced the involvement of foreign investors in the financial derivatives markets of mainland China and Hong Kong, catering to various investor requirements in interest rate risk management. The simultaneous enhancement of the pilot "cross-border wealth management" initiative has improved investor access conditions, broadened the range of participating institutions, diversified eligible investment options, and refined marketing techniques. This advancement revitalizes the interconnectedness of cross-border capital flows and financial markets.

4.2. China-ASEAN Regional Bond Market Cooperation Challenges and Risks

4.2.1. Differences in Laws and Regulations and Regulatory Coordination Issues

The variation in national legal frameworks has resulted in notable disparities between China and ASEAN nations concerning bond market laws. This variation is evident in the fundamental differences between legal systems and specific regulations concerning market access, information disclosure standards, investor protection mechanisms, and other essential domains. Countries like Indonesia, Malaysia, and Singapore have developed local currency bond markets and sophisticated legal systems. In contrast, Vietnam and Brunei have inferior accounting and auditing standards and require more robust local accounting frameworks. This scenario exacerbates legal ambiguity in the collaboration of the China-ASEAN regional bond market.

Countries implement diverse limitations and regulatory processes for foreign money into their local bond markets, complicating and elevating transnational bond issuance costs. Divergent information disclosure standards lead to inconsistent transparency, impacting investors' decision-making efficacy and confidence. Moreover, discrepancies in investor protection systems significantly affect the protection of cross-border investors' rights. Disparities in compensation systems and legal processes among nations may impede investors' capacity to secure prompt and effective remedies against risks.

Moreover, disparities between legal systems create ambiguities in legal interpretation and execution. Courts or regulators across several countries may interpret identical legal terms divergently, heightening the risk associated with cross-border bond contract execution. This problem is especially evident in intricate legal issues like breach of contract and bankruptcy, where discrepancies in the implementation and enforcement of laws can intensify market instability and hazards.

4.2.2. Market Maturity and Investor Protection Issues

The regional bond market's maturity is comparatively low. Even with significant expansion in recent years, the bond markets of China and ASEAN nations still require advancement in scale and liquidity to match those of industrialized countries. As of 2024, although China's bond market is one of the largest in the world, ASEAN bond markets are fragmented and need more. The market size discrepancy restricts cross-border bond issuance's diversity and appeal.

From a liquidity standpoint, the restricted number of market players and dormant trading lead to extensive bid-ask spreads and elevated transaction costs. Thus, the bond market requires greater depth to entice international investors, thereby hindering the sufficient flow of cross-border money. The regional bond market's infrastructure requires development, as it currently needs a cohesive, mature, and efficient trading system, clearing and settlement procedures, credit rating systems, and information disclosure platforms. These limitations impede market efficiency and discourage broad investor engagement. Moreover, the restricted range of bond products and services needs to satisfy the varied requirements of investors, highlighting a necessity for enhanced market maturity.

Investor protection is essential for the robust growth of the bond market, yet considerable deficiencies persist within the current China–ASEAN regional bond market. Significant disparities exist in the rules and regulations about investor protection and bond information disclosure among ASEAN nations. The disjointed legal landscape increases compliance expenses for cross-border investors and generates doubts concerning safeguarding their rights and interests. The lack or insufficiency of collaborative oversight systems hinders efficient cross-border regulatory cooperation and exacerbates the difficulties related to market risk prevention and management.

4.2.3. National Financial Risk Events

From the sovereign debt crisis standpoint, ASEAN nations are contending with escalating pressures due to rising public debt. Extended dependence on external funding and substantial fiscal deficits lead to considerable debt liabilities. Assume a nation must administer its debt efficiently. Consequently, it risks entering a sovereign debt crisis, which may negatively impact its financing capability and credit rating in the regional bond market.

Moreover, currency depreciation presents hazards. In a worldwide economy, variations in currency rates substantially influence the bond market. The globalization and stability of local currencies in ASEAN nations require enhancement. Variations in these currencies relative to the US dollar or the RMB might modify capital flows, influencing the bond market's supply-demand dynamics and pricing trends.

Furthermore, global financial instability might induce rippling effects in the regional bond market. Alterations in the Federal Reserve's monetary policy or abrupt variations in international oil prices might instigate substantial transformations in the global financial environment. The China-ASEAN regional market is susceptible to these shocks, which may disrupt the regional bond market.

5. The Strategic Choice of China-ASEAN Regional Bond Market Cooperation

5.1. China's Strategic Choice to Promote Regional Bond Market Cooperation

5.1.1. Enhancing the Ecological Framework of the Bond Market and Expediting Its Internationalization

To strengthen the bond market in the ASEAN area, China should prioritize optimizing its ecological environment, establishing an open market that fosters economic growth, and advancing globalization.

First, strengthening the infrastructure of China's bond market is essential. This includes improving the trading system, clearing and settlement mechanisms, and information disclosure platforms. Such enhancements will increase the efficiency and security of market operations, providing a solid foundation for both practical and international development.

Second, improving transparency in the bond market is crucial. Establishing a robust information disclosure system will require issuers to provide timely, accurate, and comprehensive information, thereby protecting investors' rights. Strengthening market monitoring and early warning mechanisms will help identify and address risk events, ensuring market stability and enhancing the ecological environment.

Finally, improving the openness of China's bond market is necessary. This involves gradually easing restrictions on market access, lowering entry barriers, and promoting regional interconnection. China can increase its bond market's internationalization level by facilitating resource sharing and enhancing engagement with international capital markets.

5.1.2. This Significantly Advances the RMB Internationalization and Elevates the Global Recognition of RMB Bonds

From a macroeconomic standpoint, He Ping Scholar employed empirical analysis to demonstrate that the network effect of the payment function substantially influenced the currency composition of foreign bond-denominated currencies and advocated for the advancement of the offshore RMB market [11]. Advancing the internationalization of the RMB and augmenting the global acceptance of RMB bonds can significantly foster collaboration and growth within the China-ASEAN regional bond market.

In comparison to the trade volume between China and nations participating in the "Belt and Road" initiative, the contribution of these nations to the overall cross-border transactions in the offshore RMB market remains inadequate. Compared to 2022 data, the percentage of these nations in the worldwide RMB payment and settlement market stayed constant while their share in global RMB foreign exchange transactions rose. Nonetheless, their proportion in the worldwide RMB trade financing market experienced a minor decline. The cross-border utilization of the RMB has achieved substantial market recognition in nations participating in the Belt and Road Initiative, indicating considerable potential for enhancement in the offshore RMB market and opportunities for further internationalization of the RMB in East Asian countries involved in the initiative. As illustrated in Figure 6.

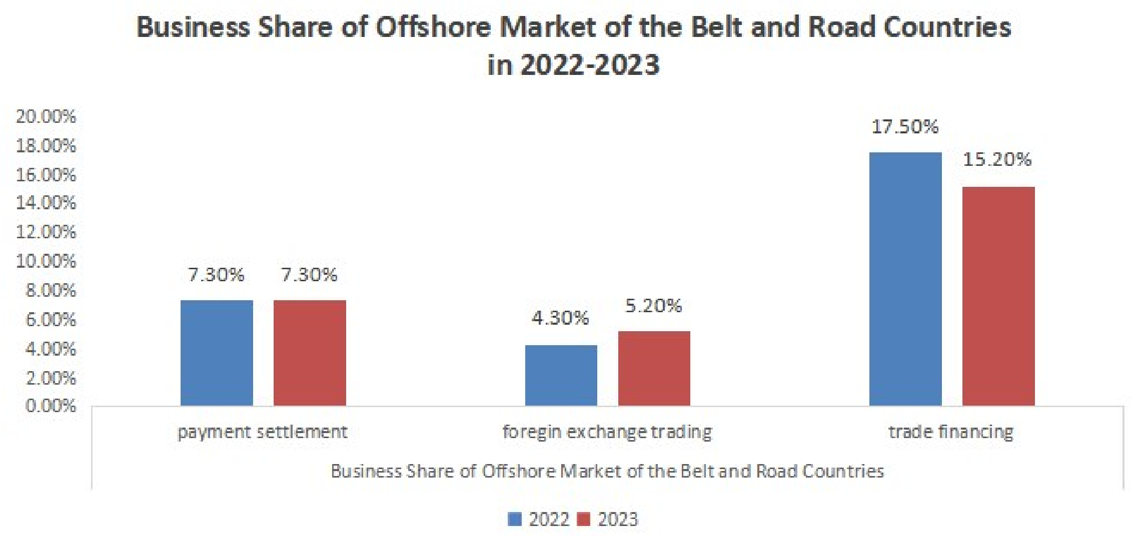

Figure 6. Business Share of the Offshore Market of the Belt and Road Countries from 2022–2023. Source: White Paper on the RMB Internationalization of the Bank of China.

This significantly advances the internationalization of the RMB and elevates the recognition of the RMB bond market. Initially, we should enhance the transnational utilization of the RMB. Enterprises ought to be incentivized to utilize the RMB more frequently for settlements in cross-border commerce and investment, thereby enhancing the prevalence of RMB transactions and elevating its recognition inside the international community. Furthermore, we will augment the investment and financing capabilities of the RMB; facilitate its utilization in international credit development, infrastructure investment and financing, commodity pricing, and e-commerce pricing and settlement; and strengthen the investment and financing roles of the RMB within the "Belt and Road Initiative" and the RCEP cooperation framework. Secondly, the RMB exchange rate must be stabilized, the RMB's status as an international settlement currency should be preserved, and the flexibility and market orientation of the RMB exchange rate should be enhanced. To enhance the internationalization of the RMB bond market, it is imperative to robustly develop the offshore RMB market, establish a cohesive, deep, and highly liquid offshore RMB trading network and system globally, and offer efficient RMB trading and clearing services for international investors. Furthermore, the volume of offshore bond issuance should be augmented, and global influence should be enhanced. Leveraging the “Belt and Road” initiative and RCEP agreements, we will intensify multilateral financial collaboration, broaden RMB bonds’ reach, and augment RMB bonds’ international prominence.

5.1.3. Cross-Border Bond Transactions Should Be Facilitated, and Limitations on Foreign Market Access Should Be Alleviated

The transaction process for cross-border bonds requires optimization. The registration, approval, and settlement processes for cross-border bond transactions must be streamlined; electronic trading systems should be widely adopted; the online automation of these transactions should be achieved; cumbersome procedures should be minimized; operational costs should be lowered; and transaction efficiency should be enhanced. The offerings of cross-border bonds should be diversified. Promote and facilitate the issuance of varied cross-border bond instruments; endorse the advancement of emerging bonds, including green bonds, transition bonds, and other technological innovations; enhance the development of the derivatives market; offer investors a broader array of risk hedging instruments; and invigorate market dynamism and innovation. The constraints on access to overseas capital markets should be alleviated. The restrictions on foreign investment access are progressively eased, market entry barriers in manufacturing and service sectors are diminished, the criteria and standards for foreign investment are delineated, and the transparency and predictability of foreign investment access are improved. Furthermore, we may advance institutional openness, enhance the development of open platforms such as the China-ASEAN Pilot Free Trade Zone and Free Trade Port, fortify alignment and integration with international economic and trade regulations, and foster institutional openness.

5.2. Selection of the Collaboration Mechanism for the China-ASEAN Regional Bond Market

5.2.1. The Regulatory Cooperation Mechanism between the Two Parties Should Be Improved

When choosing a cooperation mechanism for the China-ASEAN regional bond market, it is crucial to enhance the supervisory cooperation framework and fortify the coordination and harmonization of laws and regulations. China and ASEAN nations have strengthened the synchronization of legal frameworks in the bond market via bilateral and multilateral agreements and international treaties. Establishing and optimizing the supervisory cooperation mechanism between the bond markets of China and ASEAN nations will promote coordinated oversight and collaborative law enforcement, ultimately improving supervisory efficacy.

Moreover, augmenting the capability for risk management and control is essential. As the bond market progressively opens, the investment accessibility for foreign institutions has enhanced; however, the criteria for their qualification assessments must remain rigorous to avert speculative capital from undermining local market stability. Due to the increasing impact of global financial cycles, adhering to the notion of macroprudence is essential. This involves increased vigilance about risk mitigation, prompt modifications to the parameters and objectives of risk surveillance, and meticulous observation of changes in market attitude and foreign policies. These measures will regulate the speed of bond market opening and provide early warning and contingency plans in reaction to substantial capital flow variations.

5.2.2. An Efficient Information-Sharing Mechanism Is Established

In China-ASEAN regional bond cooperation, establishing a practical information-sharing framework is essential for improving market transparency, cultivating trust and collaboration among market participants, and advancing the robust development of the regional bond market.

Promoting cross-border information collaboration and exchange by creating routes for disseminating market information between China and ASEAN nations is imperative, thus ensuring unobstructed access to pertinent data. Secondly, enhancing the synchronization of regulatory information is essential. China and ASEAN nations should establish a systematic regulatory exchange mechanism to disseminate information swiftly regarding bond market dynamics and regulatory advancements.

Moreover, expanding regional talent interchange is essential. Guangxi, a conduit between China and

ASEAN nations, can facilitate collaboration among universities and financial organizations in both areas. By instituting collaborative financial talent development programs, we can nurture financial professionals with global perspectives and expertise, facilitating regional bond market collaboration.

For industry professionals, regular exchange meetings and seminars can facilitate knowledge sharing and collaboration, enhancing understanding and trust among participants. Moreover, consolidating financial resources within a region and establishing a comprehensive financial service platform will enhance service quality and efficiency while offering crucial support for the collaboration and advancement of the China-ASEAN regional bond market.

5.2.3. Optimize the Bond Issuance and Trading Mechanism

Facilitating cross-border issuance is essential. The approval process for cross-border bonds should be streamlined, the issuance cycle abbreviated, the issuance costs minimized, and accessible cross-border issuance services offered to qualifying firms. Furthermore, we must enhance information rating collaboration, advocate for developing mutual recognition information rating standards between China and ASEAN nations, augment the transparency and credibility of cross-border bonds, and diminish the information acquisition costs for investors. Ultimately, collaboration between China's central depository and clearing institutions and those of ASEAN countries should be progressively advanced. Certain bonds issued in China may be transferred to foreign entities to streamline account establishment, registration, and settlement for overseas investors [12]. Enhance collaboration and advancement of the China-ASEAN regional bond market by refining and perfecting bond issuance and trading processes.

5.3. Future Prospects of China-ASEAN Regional Bond Market Cooperation

As one of the most dynamic regional economies in the world, China-ASEAN regional bond market cooperation has become a critical link in promoting regional economic integration and high-level opening of finance. Facing the cooperation opportunities in four aspects, namely, China's bond market opening has made significant progress, RMB internationalization promotes high-level opening of the bond market, cooperation agreements in the context of regional economic integration, and the facilitation of cross-border investment and financing has been significantly improved, there are also challenges and risks in terms of the differences in laws and regulations, market maturity, and the contagion of financial risks. With the deepening financial cooperation between China and ASEAN, the optimization of the bond market ecosystem, and the deepening of regional economic integration, the development of the China-ASEAN regional bond market will explode with great potential and achieve win-win economic cooperation.

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