

The Reality of Corporate Bond Market in East Asia

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ABSTRACT

This study, reflecting recent regional objective of the East Asian countries, focuses on determinants of corporate bond issuance in the region. This paper first verifies how the various theoretical frameworks can explain corporate bond issuance in East Asia and focuses on how different it is from that of industrialized countries. To examine the hypothesis derived from the theoretical framework, this paper conducts empirical tests using corporate panel data ranging from 1993 to 2003.

Our empirical analysis assumes that firm size, elapsed years after stock IPO and historical volatility of the firm's profitability are three observable variables that enables underwriters to judge a firm's future credit worthiness. This paper, based on empirical analyses, found that start-up firms hardly access the corporate bond market even though they have high profitability.

Firms in East Asia have extremely polarized funding patterns. Historically, firms regarded as playing central roles in national development policies have easy access to markets for external funds, and, consequently, have high debt to equity ratio. On the other hand, SMEs or start-up firms face difficulty in accessing these markets due to the existence of substantial information asymmetry. Consequently, they usually have very high capital adequacy ratios. Most of corporate bond issuers belong to the former group. Therefore, this paper finds the development of the infomediary industry in bond markets and improvement of legislative procedures for liquidation as necessary for the development of bond markets in the future.