April 1990 No31

GLOBAL INVESTOR

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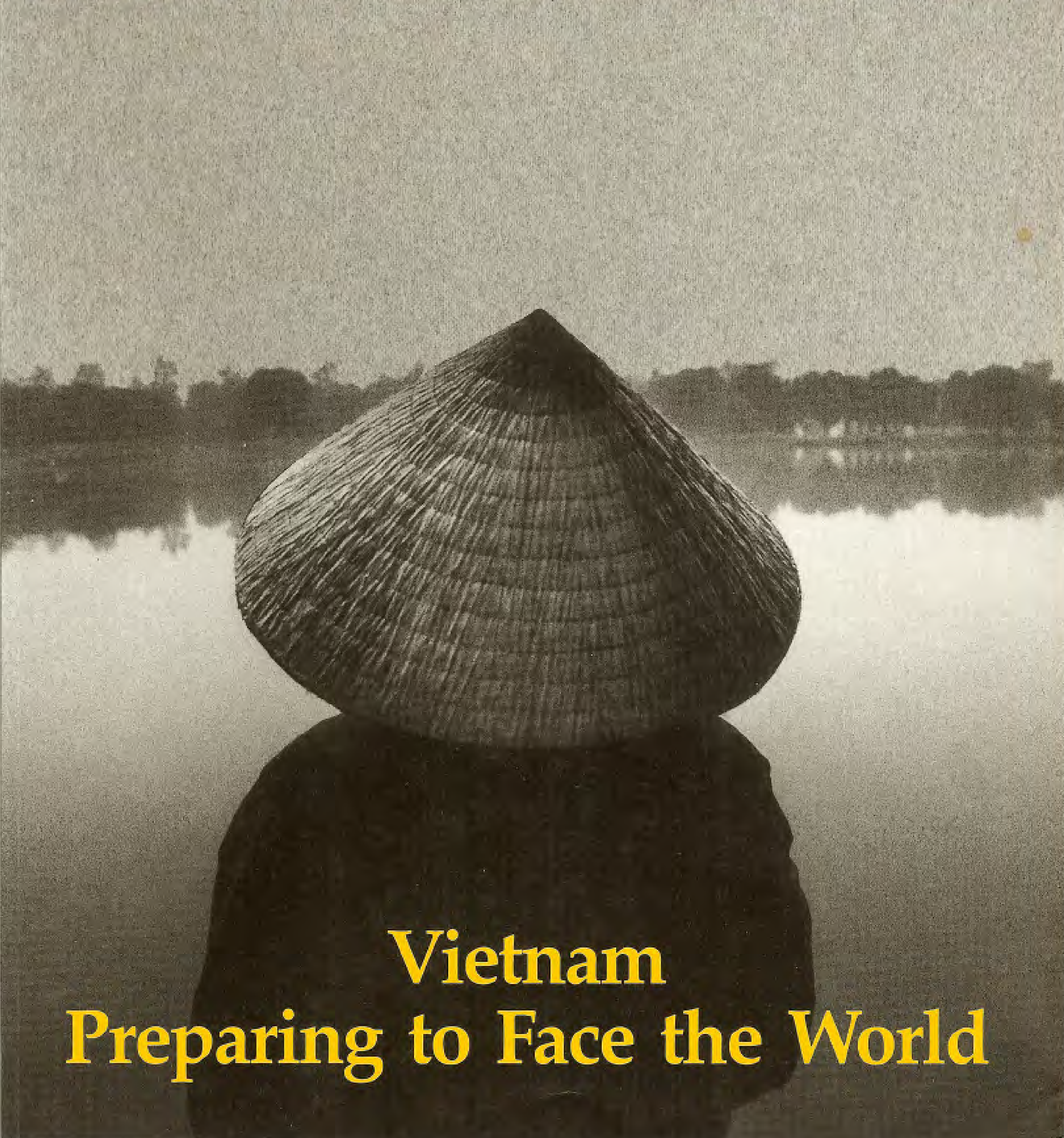

Vietnam
Preparing to Face the World

EUROMONEY PUBLICATIONS PLC

GLOBAL INVESTOR

April 1990 No.31

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COVER STORY

PLEASE NOTE

On May 6th our telephone code in London will change from 01 to 071.

Overseas callers should prefix numbers with 4471 instead of 441.

Departments

Resources that
Indian equities.

This announcement appears as a matter of record only.

10 July 1986

£78,937,500

The India Fund

(A Guernsey closed-ended unit trust)

Offer for Subscription of 75,000,000 Shares

Merrill Lynch Capital Markets **Unit Trust of India**

This announcement appears as a matter of record only.

6 November 1989

£41,088,000

The India Fund

(A Guernsey closed-ended unit trust)

managed by

Unit Trust of India

Open Offer and Placing of 19,200,000 new Shares

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INDOSUEZ PAYS FOR FUTURE EARNINGS

Banque Indosuez, which lost out to Deutsche Bank in the bid for Morgan Grenfell last year, has acquired Gartmore Investment Management Ltd, the unit trust and fund management group owned by British and Commonwealth Holdings PLC for £140m.

"The acquisition of Gartmore with £6.7bn of funds under management will significantly aid Banque Indosuez's strategic ambitions in the key area of asset management," said Banque Indosuez executive vice president, Bernard Simon-Barboux.

The acquisition includes British & Commonwealth's 29.9% share in London & Strathclyde, an investment trust managed by Gartmore. The stake is valued at £14.8m.

The sale, which is expected to be completed within two months, will nearly double the French bank's assets under management to £15bn. Banque Indosuez, the banking subsidiary of Cie Financiere de Suez, has hinted that it will use Gartmore as a base for further development in the UK.

When British & Commonwealth put Gartmore up for sale last November, Banque Indosuez was one of several contenders. In the end Banque Indosuez was bidding against only three or four serious candidates, speculated to include Dresdner Bank and Nippon Credit Bank of Japan.

Several analysts think Banque Indosuez paid too much for Gartmore on an earnings basis. As Hugh Pye of Robert Fleming Securities put it, "I think the buyers were very generous." Pye expected the purchase price to be £120m, £20m less than the agreed sum.

But Pye is not surprised. He admits Banque Indosuez may have "overpaid in relation to the income generated, but that's not why people are buying fund management companies. You can't look at historic earnings, you have to look at prospective earnings, and fund management expertise is something Europeans want to buy." Jean-Jacques Picard, head of Banque Indosuez in London, couldn't agree more, saying that "the UK is the only place in Europe which has a well organised asset management setup."

Analysts expect the price of UK fund management companies to remain strong for the simple reason that demand exceeds supply. Sheila Gerrard, an analyst at Merrill Lynch, says the French are particularly interested in the UK fund management sector. That's because, she explains, it's an off balance-sheet, risk-free transaction which won't hurt their capital ratio, but will improve their return on assets.

US curb on program trading

The US House Energy and Commerce Committe has approved a market-reform bill allowing the Securities and Exchange Commission to curb program trading.

However, this is far from a done deal. The Senate's version of the bill has no similar provisions. Moreover if legislation does finally include the measure, the SEC doesn't seem eager to enforce it. The SEC supports some measures of program trading, arguing that computerised trading strategies help connect prices between the stock and futures market. The SEC has also suggested that program trading could help combat traders who illegally trade in one market ahead of a large order in another market.

The Treasury is firmly against any congressional moves to limit computerised program trading. It argues that giving a government agency the power to stop programs is an inappropriate way to address these problems.

Meanwhile, what goes on in Washington seems to have little effect on New York. Nomura Securities International, the US subsidiary of the world's largest securities firm, is getting into program trading, and in a big way.

The Japanese firm wants to raise program trading to a global level by introducing program-trading tactics to international markets, thus allowing institutional money managers to buy and sell huge portfolios of global stocks. Nomura intends to provide its clients with a full range of program trading, including trading of big baskets of stocks, as well as many strategies using futures and options.

Nomura has hired 29-year-old Joseph Schmuckler, a leading program trader, from Kidder Peabody to spearhead the venture. Schmuckler sees profit opportunities in serving active money managers who want to beat market indexes through traditional stock picking. Increasingly, money managers are turning to foreign markets to boost returns.

While Nomura says it intends to grow slowly, its resources are too vast to let its entrance go unnoticed. The firm has shareholder equity equivalent to $11.9bn and directly manages about $120bn of clients' money.

Nomura acts as custodian for over five million investors whose accounts are valued at approximately $400bn. Nomura will be competing with Morgan Stanley, Salomon Brothers and Goldman Sachs, the leaders in international portfolio trading.

Toronto mounties getting their man

The Toronto Stock Exchange is trying to change current securities law so that the Exchange will be allowed to discipline former securities industry employees. Currently, the Toronto Stock Exchange Act prohibits the TSE from enforcing its regulatory provisions against anybody who has left and remains outside the securities industry.

The issue arose in the case of the TSE v David Hugh Chalmers. The TSE charged Chalmers, a former salesman for Prudential-Bache Securities in Canada, with violating several Exchange requirements over a 10-year period, including churning clients' accounts. The Ontario Court of Appeal has ruled that because Chalmers left the industry before the charges were issued, the TSE cannot go ahead. The TSE says the Chalmer case sets a precedent that affects proceedings in a number of other current investigations and prosecutions.

S-E-Banken hives off Aktiv Placering

S-E-Banken has reorganised the activities of its investment management company Aktiv Placering, Sweden's largest capital management firm serving private investors. The company has about Skr50bn ($8bn) in managed funds. Aktiv boss Björn Carlson has left to form his own investment vehicle.

Aktiv will be divided into three separate business areas. Administrative operations including analysis, will be transferred to Enskilda Fondkommission under Carl Diedric Hamilton, the brokerage's former boss. A second company will be formed to handle marketing, consulting and client contacts.

The third and most interesting new area involves Aktiv's fund management business, to be handled by Carlson's new company Carlson Investment. The portfolio transfer includes two tax incetive funds, Världsnaturfonden (wildlife fund), Cancerfonden and a number of closed-end funds. While S-E-Banken will own some stock in Carlson Investment, it has no ownership ambitions.

Carlson established Aktiv's forerunner, Aktiv Investment Service in 1967. Adjusted for capital gains, the company's profits soared from SKr1m in 1974 to SKr400m last year, equivalent to 10% of S-E-Banken's total profits. The company's investment portfolio is expected to rise from SKr3bn in 1990 to SKr5-6bn by year-end 1991.

Korean condoms curb communists

Esko Seppanen a member of parliament for the Finnish Communist Party (FCP) has been highly critical of the incompetence which almost succeeded in bringing the FCP to its financial knees. Party "fund-managers" showed a FMk35m loss on investment activities last year. Setbacks included leaky North Korean condoms, race shy Soviet thoroughbreds and the importation of Arab show-horses to Finland, a country without an indigenous circus or private demand.

Audited every three years, the FCP's accounts had all the hallmarks of farce. Fund managers had, according to accountants, "no skill whatsoever." Investments were "badly-timed, ill-planned, totally unrealistic and handled by amateurs." Seppanen also described the FCP's three-man leadership which included ousted party treasurer Jorsa Sorvari as "men of doubtful repute and reprehensible morality." The troika wove an intricate web of investment, development, and holding companies. Stocks were bought without consultation with the FCP hierarchy.

One clear piece of misjudgement was the stockholding acquired in Swedish-Finnish company Hot Trotters which imported Soviet horses of dubious pedigree to race at Finnish trotting events. Although zealous grazers, winning form was not among their attributes and few produced any evidence of trotting ability. A separate stake was bought in the country's most upmarket fashion house Kuusinen. This resulted in losses exceeding FMk20m.

Getting settled internationally

Leading securities markets have made real advances towards eliminating trading risks in the international markets. But they still have a long way to go towards implementing improvements in their clearing and settlements systems, says a recent report published by the Group of Thirty, a global committee of international bankers and heads of securities houses.

In March of 1989, the G30 wrote the most influential report on international settlement and clearing practices since the stock market crash in October, 1987. The report criticised many of the world's stock and bond markets for being dangerously out-dated. It also recommended nine standards intended to improve settlements of international equities, along with a timetable for change.

A year later the G30 says things are looking "most encouraging". The vast majority of the world's leading security markets have accepted the G30's nine suggestions. The only hitch is the G30's aggressive timetable. Lord Richardson, chairman of the group, notes in his introduction, "in a number of countries the hard work of actual implementations, involving difficult decisions, still lies ahead."

London moves

The International Stock Exchange has issued definitive plans for future settlement of equity deals in the UK. In a report entitled, "A Prospectus for Settlement in the 1990s", the ISE announced how it intends to make settlement faster, cheaper and less vulnerable to risk by creating a paperless method of recording share deals.

The new system, envisaged to be as far-reaching for settlement as the Big Bang changes were for trading, is expected to save up to £225m in costs over the next ten years.

Taurus, a computer-based system of share ownership and transfer, plays the leading role in the ISE's settlement development programme. It will be financed independently of the rest of the Exchange. Taurus allows shareholders to hold their shares in the securities equivalent of bank accounts. When a shareholder wishes to sell, he transfers the shares electronically from his account to the buyer's account. Antiquated and paper-intensive methods of transfering stock will be left to the history books.

The Exchange hopes to complete the essential infrastructure by March of 1991. In addition to setting up the modern network links between the central systems and institutions using the system, outdated magnetic tape and paper transfer mechanisms will be replaced with network links to member firms and registrars.

The first phase of dematerialisation, for the institutional and private client market, will begin by October 1991. By the end of 1992 the Exchange expects the majority of account controlled business to be fully operational. Full dematerialisation of securities is scheduled for the end of 1993.

Elwes pushes overhaul

A committee headed by Nigel Elwes, finance director of Warburg Securities, has also put forward its recommendations for a complete overhaul of the UK equity market. The proposals, which were placed before the Exchange's ruling council but not voted on, are intended to improve the market structure introduced during London's Big Bang in 1986.

The most controversial reform measure calls for the creation of an automated second-tier market for small deals, where the market maker quoting the highest price in a certain share always wins the business, even if others are willing to match that price. Securities houses fear this will induce fiercer price competition which could set a dangerous precedent if applied to larger, more lucrative deals. Proposals in the report have been released for consultation until April 27, and are expected to be instigated in October.

Commission hike

According to Greenwich Associates, large US institutions raised commission by 13% from $3.3m in 1988 to $3.7m in 1989. Senior investment advisers expect commissions to stay, constant in 1990.

Total projected commissions rose slightly from $2.5bn in 1988 to $2.6bn in 1989. The typical institution allocates 40% of total commissions to research, down from 43% a year ago.

Paribas Red Warrant

Hot on the heels of its successful 'green' warrant – which invested in German waste management companies – Banque Paribas Capital Markets raised the curtain on its 'red' warrant on March 15.

According to Paribas' German equity analyst, Reinhard Fischer, the fund is a basket of West German companies with interests in East Germany, and includes Siemens, Daimler Benz, RWE, Metallgesellslchaft, Thyssen, Traub and Maho. Demand was such that the size of the fund had to be increased twice, initially from $125m to $150m, and subsequently to $175m. According to Fischer, about half of the issue was sold in France, with the rest being absorbed in the UK and the Benelux countries.

The market continues to speculate or should we say, fantasise, about a future 'blue' warrant.

You think you're feeling bad

Your mother was right: there is always someone worse off than you. Take ex-Fermenta boss Refaat El-Sayed. The Egyptian-born financier was once a rising star in Sweden. Following the collapse of his bio-technology group, El-Sayed was found guilty of fraud, insider trading and accounting violations and given a five year jail sentence. His lawyers were confident that an appeal would see a full reprieve. The court were of a different mind, however. They have just ruled the earlier decision too lenient and added an extra year.

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PROGRESS AT LAST

The confusion created by plans for German reunification has begun to clear. Now, the consensus is that continental Europe is more attractive than the rest of the world, bonds stronger than equities, cash safer than bonds, and the French bond market the pick of them all. Predictably, Japan, for all asset classes, is given a wide berth by our contributors

Commerz International Capital Management

This month CICM suggests that expectations about Eastern Europe have changed to such an extent that the world's supply price of capital may have risen – and the recent rise in long term interest rates may not be temporary as they previously thought. For this reason they have revised their yield forecasts for all markets upwards, which is driven primarily by fears of higher German government borrowing requirements, which via the EMS and currency markets has spread into the rest of the world's financial markets.

Conventional yield gap analysis points in the direction of further weakness in equities, and CICM's portfolios reflect this, with lower equity weightings.

CICM is bearish about both bonds and equities – at least for the next few months. This is despite favourable economic fundamentals, with continued strong growth in Europe and Japan, weaker growth in North America, the UK and Australia. Inflation rates also look set to remain close to current levels.

CICM's currency views expect a further slight appreciation of the DM against the US dollar, but basic currency stability between Europe or North America. The yen will remain weak, and this has contributed to the much lower Japan weightings for the next quarter. CICM does not expect an EMS realignment before the summer.

CICM's portfolios are now underweight in equities, while the bond positions have risen slightly as has their cash position. The higher weightings in bonds reflect two possibilities; first, that short-term bonds are an acceptable alternative to cash. Second that since current yields are high on an historical basis, there is a reasonable chance of them falling in the medium term. CICM thinks it is important to be able to react quickly to any improvement should it occur – but they have to admit to probabilities of yields staying at or near their current levels remains quite high though.

Citicorp Investment Management

The global investment picture is dominated by two major themes, secular demand for capital flowing from the changes in Eastern Europe and the cyclical issue of the degree of synchronisation exhibited by the world's major economies.

The pace of change in Eastern Europe is truly astonishing. Wholesale reconstruction will demand prodigious quantities of capital, a substantial portion of which must come from outside the Eastern bloc. This future extra demand for capital is already communicating itself to the rest of the world's capital markets.

While the shortage of capital may well have driven bond yields up, by its nature it should not act as a long term depressant to capital markets. Capital will flow to the Eastern bloc – if and only if – the return on investment there is measurably higher than the return available elsewhere. This implicit increase in the productivity of capital should, in turn, raise returns on capital and equity around the world. Such changes are very good for the equity markets in the long-term.

This strategic backdrop must be set against the short-run outlook of the world's key economies. The fears of global recession have been over played. Excluding the United Kingdom and Australia, where there is still the real risk of a hard landing, the slow down elsewhere does not appear to be particularly precipitate. Indeed, the United States is arguably now at or near its growth trough, Japan while slowing is still putting in a robust performance, and German growth rates have yet to peak.

Monetary policy is now becoming more closely synchronised. Tight money in Germany, monetary tightening in Japan and a continued heavy but declining demand for capital in the United States suggest that global interest rates, irrespective of the impact of Eastern Europe, are going to remain high. In this context the clear preference is for cash over bonds. The buoyancy of the world's major economies makes us prefer equities to both bonds and cash; this preference is only underlined by our belief that there is going to be a cyclical long-term uplift in the productivity of capital.

Amro Bank Capital Markets

The first realisation of a German economic and monetary union is such a unique event that it is hard to get a clear picture of its financial and economic consequences. The balance between chances of stronger economic growth and risks of higher inflation and interest rates is fragile.

The US economy clearly needs the

positive impulse of a lower dollar and declining long-term bond yields. Therefore a substantial discount rate hike in Japan is still necessary, as only then will the yen gain strength leading to less fear of inflation and a fall in long-term interest rates. As a consequence room will be created for US rates to come down as well, despite a lower dollar. In Europe, a dollar depreciation will be welcomed too, as the chance of lower interest rates is quite small due to high growth rates and inflation fears.

Amro's forecast of continuous worldwide economic growth with inflation remaining under control still holds, although they believe that the risks have increased. Consequently, they have reduced their equity holdings for the DM-based investor somewhat in favour of fixed-income securities. In addition, the fact that at the moment the German yield curve is normally sloped, they have further enlarged their bond exposure at the expense of cash.

As in the bond strategy for the DM-based investor Amro advises the French franc-based investor to eliminate its bond holdings in Japan and the United Kingdom. As the economic tide in the United Kingdom seems to have turned but still holds the threat of stagflation, we have not altered their previous allocation.

Gartmore Investment Management

In Germany the bond market has stabilised on the basis of much higher yields, offering some comfort to the equity market. The other European markets responded to the German lead. Japan continues to experience difficulties in both the bond and stock markets and the Yen remains under pressure.

The fundamental outlook for Japan has deteriorated significantly and is not likely to improve for some time. Capital outflows from Japan are continuing; the current account slipped into the red in January and there are signs that inflation is accelerating. Japan's long-term interest rates are some 1.5% below those of Germany and the US and there is a strong likelihood that short rates will be raised further in the near future. Accordingly Gartmore is eliminating the position in Japanese equities.

They are maintaining the position in US equities. Alan Greenspan has confirmed that a recession in the US is unlikely. The dollar is strong and benefits from nervousness in other parts of the world. The outlook for US corporate earnings in 1990 remains mixed to poor but 1991 should be a much better year. That fact, plus the easing in credit that has already occurred, should lead to multiple expansion in the second half of this year.

Among the larger markets, those of Continental Europe remain Gartmore's favourites. Part of the money coming out of Japan is going into Europe with the focus on France, Italy, Austria and Norway. Though the yield relationship between equities and bonds looks dangerous in many European markets, they are convinced that the bond markets are exaggerating the likely cost of German reunification. Accordingly, a small position in European bonds is established. We would start with French bonds which offer a real return of almost 7%.

The UK remains overshadowed by high interest rates, a slowing economy and, more recently, the ebbing political fortunes of Mrs Thatcher. Nevertheless, dividends continue to rise and yield underpins the market. Gartmore is maintaining an exposure for sterling base currency portfolios.

The smaller markets of the world, particularly in the Far East, remain favourites. Gartmore is amazed by the continuous launch of new funds earmarked for those markets. It is increasing their exposure to these markets. It is also making their first tentative investments in Hungary.

Saudi International Bank

Economic fundamentals in the US have served to emphasise that the Federal Reserve is likely to keep monetary policy unchanged over the next few months. However SIB would still expect somewhat weaker economic data, and hence a further easing in monetary policy, towards the middle of the year. Thus the impressive rally in the US dollar may well begin to peter out over the next few months. With West German interest rates likely to move higher, to counteract a more expansionary fiscal policy, and to attract capital flows to finance unification, the deutschmark is expected to be the main beneficiary. Despite the ODR increase in Japan, uncertainty over the yen is likely to continue in the short-term.

While equity markets have corrected downwards over the past few months the continued rise in global bond yields still leaves equities looking somewhat overvalued relative to bonds. Indeed any recovery in equities is likely to be predicated by a move down in bond yields, given the relative lack of support from corporate earnings growth and the supply and demand balance.

SIB is shifting its allocation slightly, away from equities and towards bonds. Whilst risks still remain as regards bonds, the prospective real returns available especially in Europe, make a further allocation to cash a less attractive in the medium to long-term.

Of the bond markets, SIB's preference remains Europe and in particular France, where the inflation prospects compared to Germany seem likely to lead to further decoupling and a narrowing of yield spreads. In the US, while they expect a further reduction in short term interest rates, long bond yields seem unlikely to register particularly significant gains. In Japan, uncertainty still remains and we would postpone further allocations to this market until the currency appears to stabilise. In the UK the Budget had a negative impact on gilts, and with increasing currency and political uncertainty, this market is unlikely to perform over the next few months.

In equities, SIB's favoured markets remain those in continental Europe, and in particular Germany and France. The implications of German unification are undoubtedly more favourable for equities than for bonds, with this supply side boost implying outperformance of German equities relative to other European markets.

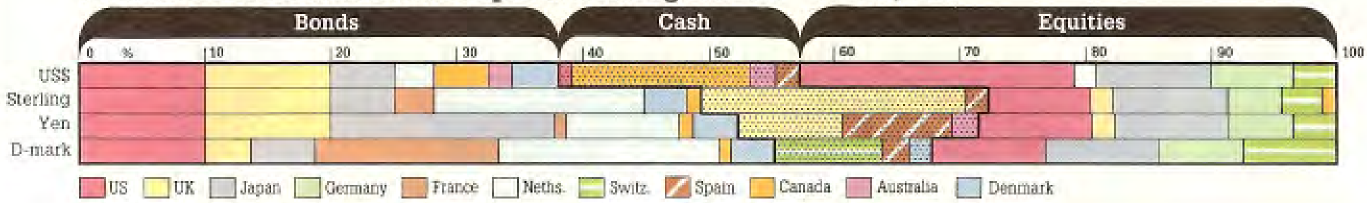
Reflecting our negative outlook for the currency and bonds, Japanese equities are underweighted, especially given the stretched relationship between bonds and equity yields. SIB remains cautiously optimistic about the US where the prospect of no recession, moderate inflation and political stability should appeal to investors.

Asset allocation

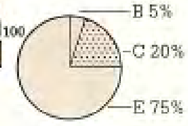
The charts represent the asset allocation recommendations of various contributors. Each is divided by currency base in bonds, cash and equities. A country's weighting under one of the asset classes can be determined by, first, choosing the desired currency base and then relating the country's colour coding to the scale above the bars.

Global
E=Equities B=Bonds
C=Cash

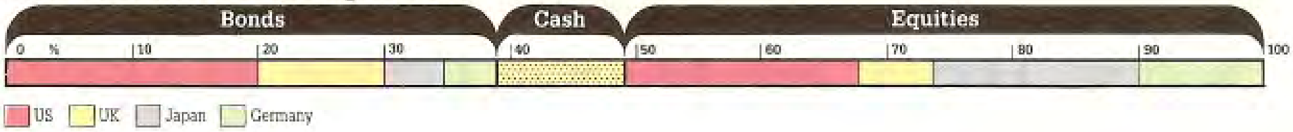
Commerz International Capital Management *Currency base*



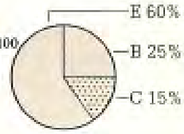
Gartmore Investment Management *Currency base*



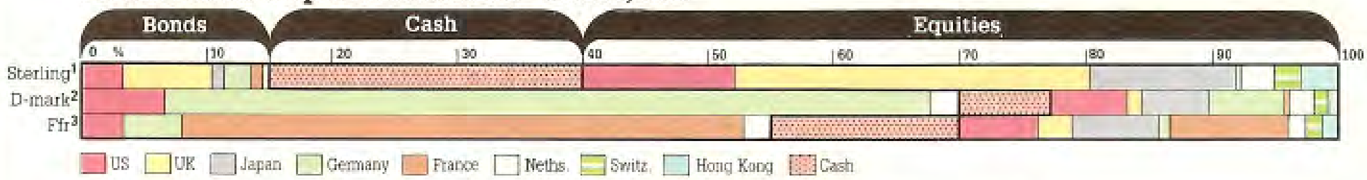
LBI Investment Management



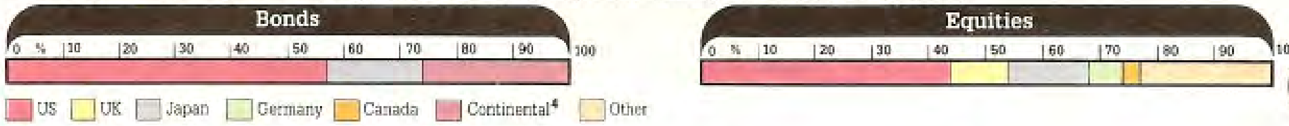
Banque Indosuez

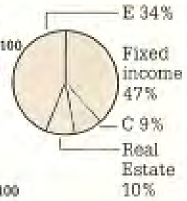


Amro Bank Capital Advisors *Currency base*



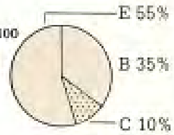
Brinson Partners Incorporated (formerly First Chicago Investment Advisors)





Citicorp Investment Management *Currency neutral*

Saudi International Bank *Currency neutral*



1–3. Portfolio constraints:
1. 45–55% of equities in domestic market, 50–70% of bonds in domestic market
2. 25–35% of equities in domestic market, 70–90% of bonds in domestic market
3. 30–40% of equities in domestic market, 70–90% of bonds in domestic market

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AHOY DOI MOI!

Estranged from the USSR, the US and the IMF, Vietnam would seem destined to sit on the sidelines as the "little dragons" breed in South East Asia. Despite this, its version of perestroika – doi moi – is opening new frontiers for foreign investors

On a clear, crisp, November day last year, an unmarked private jet landed at Hanoi airport and its passengers whisked into the city.

Officially, the two-day visit of a dozen leading businessmen and financiers from Hong Kong never took place. The Vietnamese Government was keen to find out what it would take to attract investment into its country. For their part, the businessmen wanted to know what laws and guarantees the Government was willing to provide to protect such efforts. No commitments were made at the meetings, but both sides came away with a sense of promise.

Since then, many of these businessmen, and dozens like them, have been beating a less clandestine path to the major cities of Vietnam to see what opportunities lie in store in what many consider to be one of the greatest long-term growth markets in the region.

"I could raise $100m for investment in Vietnam," says Robert Keith of the London broker T C Coombs, "if I could actually find something to put the money into." He is looking at a few potential projects in the oil exploration sector in Vietnam, but with genuine opportunities at such a premium, he is understandably reluctant to give details. "One of the problems that I have in the region," says Keith, "is that wherever I go people seem to be moving faster and faster."

With the quest clearly on for the next 'emerging' market, investors and venture capitalists are increasingly turning to the reclusive states of South Asia – among them Burma, Laos, Cambodia and Vietnam – in search of high risk/high return opportunities. "Everyone wants to set up an Indochina fund," says one London investor.

Richard Carss, managing director of the London-based emerging market investment group, Genesis Investment Management, says, "We've been watching the area with considerable interest, but it's much more a market for venture capital than for portfolio investment." Even some of the more adventurous global fund management groups endorse this view. "We look at Vietnam, and it seems to be coming up on the inside track," says Douglas Adams, marketing director at Templeton Investment Management in Edinburgh, "but some of the Eastern bloc countries, like Hungary and Czechoslovakia, would probably be a bit higher up the list."

Of the existing funds which have potential for limited and indirect exposure to opportunities in Vietnam, Jardine Fleming's Asia Select – launched in December – is perhaps the most promising. The fund of $75m is not strictly speaking a venture capital vehicle, but aims to invest in small and illiquid non-Japanese Asian companies.

What opportunities will emerge for portfolio investment on the back of a rejuvenated Indochina will have, for the time being, to be channelled largely through the Thai stock market. In Hong Kong, Richard Chevenix-Trench, director at Baring International Asset Administration, believes that "the Thais will have an enormous role to play in the reconstruction of Indochina – politically as well as economically."

Does this mean that the only realistic method of exploiting developments in Vietnam and the other hermit states is through the Bangkok market? Lloyds Bank Fund Management in London certainly believes so, and manager William Knight reports that he is consider-

Leading The Way – The opening of Vietnam to Western business

Indonesia is one of the few non-aligned nations to have maintained a political and trading relationship with Vietnam over the last four decades. Historically, the founding fathers of these two post-World War II nations, Ho Chi Minh of Vietnam and Sukarno of Indonesia had a deep mutual respect for each other's cause as they tried to lead their country's away from their colonial pasts.

So it is hardly surprising, as Vietnam once again tries to open its doors to the West, that an Indonesian firm – the Summa Group – is first off the mark with a series of joint ventures, including a trading company, a bank, an international airline and a hotel redevelopment company.

The projects are ambitious and long-term. But already results are evident.

Since June 1988, the joint-venture trading company, called Indovina International Ltd (IIL), has bartered Indonesian cement for thousands of tonnes of scrap metal left over from the American War (1965-1975), which is subsequently sold to Taiwan and South Korea.

On average, the Hong Kong-based trading company has two ships going in and out of Vietnam every month, with a turnover of approximately US$25 million dollars worth of goods a year.

The Indovina effort in Vietnam is spearheaded by Budiman Effendi, age 36, the Group's managing director, who regularly commutes there from Hong Kong to monitor developments.

Discussions are currently underway between the Summa Group and the Vietnamese tourist and civil aviation authorities for the establishment of an international airline. Using modern Western planes, this new company would take over the bilateral landing rights in other countries that the current national airline has or is negotiating. In addition to help financing the aircraft, the Indonesian's will offer technical and marketing expertise as well.

Through its subsidiary, Surman International Hotels Ltd., Summa have plans to refurbish, upgrade, operate and manage two of Vietnam's landmark hotels – the Majestic in Ho Chi Minh City and the Metropole in Hanoi.

But the jewel in the crown of Summa's efforts in Vietnam is the establishment of the first private commercial joint venture bank, called Indovina Bank. This financial operation will provide foreign exchange services and trade finance as well as developments banking and fee-based advisory services in what many consider to be one of the greatest potential long-term growth markets in Asia.

Edward S. Soeryadjaya

Summa Group

Budiman Effendi

The mandate for setting up the joint-venture between the Bank for Industry and Trade of Vietnam (BITV) and Summa Handelsbank AG (SHBA) of Dusseldorf, West Germany calls for a prescribed capital of US$10 million and an initial operating lifespan of 20 years, with a provision to extend for another 20 years.

As a development bank, Indovina plans to fill a major role in the revitalization of Vietnam by tapping and serving regional and international financial institutions such as the International Monetary Fund, the Asian Development Bank and the International Finance Corporation.

As part of their joint-venture arrangement, Effendi and his team of executives are assisting the Vietnamese Government in helping to draft internal bank policy and procedures based on the diversified experience the Summa Group has gained from its finance and investment activities in Asia and Europe.

In the last 10 years, the Summa Group has grown into a truly global operation employing over 4,000 people in over 40 ventures in 10 countries.

Summa's development was based on the original initiative of Edward S. Soeryadjaya, aged 41, a member of an established entrepreneurial Indonesian family. He saw the need for a financial arm to complement the family's controlling interests in the Astra Group – one of Fortune 500's largest companies outside the United States with a turnover exceeding US$1.6 billion.

International banking and finance are the foundation of Summa Group's activities. Established in 1980, Dusseldorf-based Summa Handelsbank AG was the first privately-owned Indonesian banking initiative outside Indonesia. Summa International Finance Co Ltd (Hong Kong) has provided a regional clientele with merchant banking and money market services since 1979.

Summa's international efforts in finance also touch France and Hong Kong as well. Together with Societe General, they have established a joint venture bank in Jakarta, targeted primarily at European (mainly French) and Indonesian corporates in export oriented businesses. This alliance provides Summa with access to the well-developed international network of one of France's largest banks.

The Indonesian Overseas Bank (Indover) of the Netherlands has recently joined with Summa to form a joint venture bank in Hong Kong to be named the Indover Summa Finance Company Limited. Building on the established presence of its predecessor, Summa International Finance Company Limited, the venture represents unprecedented development among Indonesian-based financial institutions.

Within Indonesia, the Group's flagship is Bank Summa, which was acquired in early 1989. Formerly a traditional retail bank, Bank Summa has been fundamentally repositioned. Management has placed priority on modernising and developing the core areas of commercial and corporate banking, domestic and international trade finance, and investment and project finance in order to meet the growing needs and increasing sophistication of Indonesian business.

The future of the financial services group will be based on a pro-active response to the growing needs of the Indonesian economy in particular. The deregulation of the financial markets in Indonesia will mean new opportunities and a major area of growth is forecast in the development of an Indonesian capacity in investment and merchant banking.

In the near future, Summa Group plans to announce a joint-venture with a major international mechant bank which will provide full merchant banking and securities services. This will encompass the underwriting and trading of securities, research analysis, fund management and corporate finance advisory services.

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Still a long way to go

ing establishing a Vietnam Fund managed from Bangkok, which would invest in Thai companies undertaking joint ventures in Vietnam and, possibly, Cambodia.

Some Thai-generated joint ventures have already started to spring up in the region. The Thaiviet Invexim Company has been established expressly as a vehicle for joint ventures in Vietnam; the Thai Phrom Suwan Group has a 70% stake in the first private bank in Laos, the Joint Development Bank, which is the first major foreign investment in the country.

The majority of observers, however, seem to have their reservations about immediate opportunities emerging from the so-called 'domino' effect. Genesis' Carss believes that the amount of Vietnam-related portfolio investment into Thailand has been, "Negligible. The proportion of business being done there is not sufficient to make any great difference to a company, although a few have put in a toehold." In Bangkok, Timothy McKenna, manager of research at Jardine Fleming Thanakom Securities, also has his doubts, at least in the short term: "Vietnam is a kind of positive Sword of Damacles. As 1997 hangs over Hong Kong as a negative factor, so Vietnam hangs over Thailand as a positive one. Indochina will definitely be beneficial, but it is a long way off. There are plenty of earnings to develop at home first."

Vietnam's economic fundamentals are frightful. It has no capital market, and is a debt burdened country which, through repeated defaults, has made itself unpopular with the IMF. Its foreign currency reserves are tiny: "There's about $50m in the central bank, and it's difficult to see how you can lead against that," says a Hong Kong project financier. Its foreign trade has been severely curtailed by a US trade embargo which, following the withdrawal of Vietnam's troops from Cambodia last September, is looking increasingly like an unnecessary anachronism.

Some American businessmen complain about the embargo, because they feel they are being disadvantaged relative to European and Asian competitors. More frustrating than the US ban itself, however, is the fact that the embargo extends to Japan.

Its future trading relationship with the Soviet Union has become increasingly fragile, following the collapse of the COMECON trade alliance. 85% of the country's output is accounted for by agriculture which the remaining 15% of manufacturing is hopelessly ill-equipped with obsolete machinery. Vietnam's infrastructure is decades behind the needs of a modern society.

Indian summer

Inevitably, Vietnam lends itself to comparison with the world's other transitional socialist economies. Pessimists make the comparison with China, fearing that the growing economic chasm between North and South could provoke a Hanoi backlash, *à la* Tiananmen Square. Optimists, who are in the majority, prefer to dwell on similarities with Eastern Europe, and the similarities between recent economic development in Vietnam and socialist Europe are compelling: political pluralism is not being embraced in Vietnam, but a number of free market characteristics are, under the umbrella of "doi moi" or "renovation" – Vietnamese for perestroika. The dong has been sharply devalued against the dollar, defence spending and subsidies have been cut, and rice farmers have at last been given incentives to increase output, which led to a record crop of over 20m tonnes in 1989, some 10% of which was exported.

T C Coombs' Keith notes that last year Vietnam enjoyed an "Indian summer" and that increased rice output was the result of "partly the weather, partly the laws." Nevertheless, says Keith, the bumper rice harvest has spread a mood of unprecedented optimism throughout the country. He also adds that, given the proper free-market incentives, the Vietnamese are extraordinarily commercially-minded traders. "Speak to any Thai businessman," says Keith, "and you'll see that they are genuinely afraid of the Vietnamese entrepreneur."

Most important to potential western investors is the Vietnamese foreign investment law, drawn up in September 1988. This allows for 100% foreign ownership of both firms and lands with a corporate tax rate of between 15% and 25%. Invested capital, property and assets of foreign enterprises are protected against seizure or nationalisation and the right to remit profits and royalties in hard currency is guaranteed. Nevertheless, uncertainty remains: the law has yet to be reinforced with clear regulations governing foreign banking, tax treaties, internationally accepted accounting standards and labour laws. Additionally, as was the case with the influx of foreign investment into China in the late 1970s, joint venture deals are often announced before their operational details have been conclusively negotiated, giving the impression that business is being done, when in truth time and money are being wasted.

No sneakers

Already, foreign businessmen operating in Vietnam are finding that trying to play the game while the rules are changing results in a no-win situation which negates the potential prospects of the market. "Vietnam needs somebody who

Window dressing the economy

While over two dozen joint ventures between Vietnam and foreign firms have been announced over the past 18 months, only two are up and running – an Austrialian five star luxury hotel and a Belgian diamond cutting business.

Both these ventures give telling clues as to the requirements the Vietnamese will make of foreigners wishing to do business there, as well as the signals they are sending to the outside world as to the type of economy they want to develop.

The Saigon Floating Hotel is a $14m joint-venture with the state enterprise Overseas Finance & Trading Corp. (OFTC), which immediately brought 201 luxury hotel rooms to Ho Chi Minh City when it opened last December. Previously, Vietnam's largest city had 540 "adequate" hotel rooms for foreign visitors – most of which featured sagging beds, dim lighting, leaking plumbing, non-functioning electrical sockets, and the odd rat making room service calls.

The owners of the two-year-old, 13000 ton, $70m barge, which used to be moored off the Great Barrier reef in Australia, are EIE International Corp of Japan headed by property developer Takahashi Harunori, and the Pakistani tycoon Shameem Qurashi, president of Milcon Gulf – a United Emirates-based trading and investment conglomerate. The Hotel is managed by the Sydney-based Southern Pacific Hotel Corp.

"We are a monument to the type of deals they want from the West," says hotel general manager, Patrick Imbardelli. "When other foreigners question whether it's viable to do business in this country, the Vietnamese point to us and say: 'It's a floating hotel. If they couldn't make it, they would have sailed away.'"

The terms of the joint venture are generous by any yardstick in South East Asia. The property and profits of the hotel remain in foreign hands, while OFTC, in return for supplying local support services receives a "fixed profit" of $750000 a year for five years (with a five year renewable option). In addition, the local government reaps the benefit of a 10% room tax, which according to the feasibility studies, should amount to over $800000 a year. After breaking even in its first year, Imbardelli predicts the hotel will show a profit in the order of $3.5m by the end of 1991, and will continue to grow as the tourist industry in Vietnam expands.

Trading off benefits was also the rationale for Vietnam's quick approval of the country's first 100% foreign owned manufacturing operation – the Saigon Diamond Company which is run by the Antwerp-based firm of Stieglitz-Grossman.

It took only seven weeks for managing director Peeters Eddy to negotiate a contract with the government trade organisation IMEXCO and the Vietnamese firm, The Ree Refrigeration Company, from whom he leases his factory and support services.

The Vietnamese accepted a "fixed profit" of $300000 a year for five years, while the Diamond company plans to do a turnover of $7.5m within two years, on an initial capital investment of less than $1m.

However, the advantage to the Vietnamese is that they got a new, top-end of the market industry in which one company alone created 110 jobs at the outset, and estimates growing to 500 employees in three years despite labour rates of $50 a month, five times the national average, paid for in hard currency.

"I think they agreed to the deal to have the diamond business, because the history of the diamond industry is that once one sets up the others follow," says Eddy.

"In Thailand four years ago, there were five diamond cutters, now there are 30 companies there. And when you compare the labour costs between two countries, Vietnam is 100% cheaper."

The bottom line, says Eddy, "is diamonds make this country more trustworthy."

The only recent flotation

knows what a contract means and that a deal must be beneficial for both sides," said one disgruntled businessman, who had just walked out of a tiring negotiation session with his Vietnamese counterpart. "This country needs someone who has a master blueprint in mind before they start setting things up."

But politics and moving goal posts are not the only problem facing potential investors.

Policy planners in Hanoi seem to see no future in becoming the new home for the castaway light industries, i.e. cocktail umbrellas and sneakers, which once formed the basis of South East Asia's growth. Despite being a poor, low-cost labour intensive society, Vietnam does not want to spend the next 10 years living in the shadows of its historic rival Thailand. It longs to regain its glory days when Saigon was considered the hub of commercial activity in Indochina, and Bangkok a secondary stop on the trading route.

While such dreams may be totally unrealistic, Vietnam does have an edge on its regional rivals in as much as its sudden emergence from a decade of isolation have enabled it to devise new, more attractive investment and finance laws in the highly competitive race to lure foreign investment.

General consensus has it that the greatest potential for investment lies in tourism. Ho Chi Minh Ville, with its spacious boulevards, is regarded as the "Paris of the East" and Vietnam's beautiful beaches are largely unspoilt and uncluttered. "People will never flock to Malaysia and Indonesia in the way that they will flock to Vietnam," believes Keith.

A LOCAL VOICE FOR GLOBAL INVESTORS

US institutions are used to having a say in the running of corporate America. Now, these powerful investors want to have the same influence over their foreign holdings. David Gallagher looks at the obstacles in their way

The California Public Employees' Retirement System recently proposed that Wells Fargo should reincorporate in the state of California. It argued that a major Californian business such as Wells should not be registered in Delaware. The board of Wells agreed to a meeting to put their case to the pension fund. After listening to the bank's arguments, CALPERS agreed to withdraw its proposal.

Outside the US, such a simple meeting would have been unthinkable. Even in the UK, where institutions boast of their ability to exert informal influence on corporate management, it is unlikely that any would have been willing to risk this level of *interference*.

While US institutions have made rapid progress in corporate governance, their counterparts in Europe and Asia remain restricted by company laws which owe more to the austerity measures of the 1940s than the needs of modern capitalism. But as level of US international equity holdings rises, the pressure for change in corporate governance gets stronger.

Two tier management

To US eyes, the need for change is great. Some European countries, most notably Germany and the Netherlands, have a two-tier management system. One tier is the management board which is entrusted with the day-to-day running of the company, while a second tier, the supervisory board, overseas the management board when necessary and participates in long term strategic decisions.

Under this system, the management board is appointed by the supervisiory board which, in turn, is appointed by the shareholders. The result is that the supervisory board performs some of the important functions which the shareholder in a US or UK company would perform. Shareholders are one stage further removed from management than they are in the US or UK.

Shareholders' influence over the management of a company is limited to the election of the supervisory board, but even that influence is restricted. Once elected, the supervisory board owes allegiance to the company rather than the shareholders and is duty-bound to act in the interests of the company. Not all members are appointed by the shareholders. In Germany, for example, a third to a half of the supervisory board, depending on the size of the company, is elected by employees or union representatives.

A touch of suspicion surrounds the system. It is doubly cautious about issuing high dividends or revealing information about hidden reserves when restructuring or rationalisation plans are involved. The fear is that union or worker councils might abuse detailed knowledge to avoid labour cutbacks.

Elsewhere in Europe, corporate management can call on another ally to maintain its control of corporations – a capital structure which separates shares into voting and non-voting classes. Switzerland and Sweden are the main offenders. Limiting public shareholders to a, generally tiny proportion of voting shares ties in neatly with what is probably a European corporation's most welcome shareholder, the local bank. Even in those countries without voting or holding restrictions, the power of the local banks' holdings is immense. By and large the banks vote with the incumbent management. Many even have board seats, so that a vote against management represents a vote against itself.

Cross ownership

A well documented favourite among Japanese corporates, the placing of shares with other friendly companies, is also a Swedish pastime. Volvo and Skanska, for example, have a reciprocal ownership arrangement although neither has a controlling position. However, other European countries such as Italy explicitly prohibit such reciprocal participation arrangements.

Family holdings of large blocks of a company's shares create another barrier to shareholder influence. These block holdings are not limited to Asia and southern Europe. A recent report by Yamaichi Securties showed that the practice is common amongst UK blue chips. Yamaichi estimates that of the 100 stocks in the FTSE 100 index, 14 are protected by family or trust holdings. A further nine are protected by golden shares (a system similar to the division of voting and non-voting stock) and seven bank stocks are protected by provisions in the Banking Act. In short, one third of the UK's largest listed companies are structurally protected from takeovers.

> ***"In some cases concentrated institutional selling would wreak havoc for other issues on the exchange"***
>
> *Joe Lufkin*
> *GPSC*

Shareholder rights campaigners face an uphill struggle in Europe. But there are grounds for optimism. Shareholder groups have started to exert their influence in countries where they previously existed only to give formal approval to board decisions. A key breakthrough came last year when shareholders succeeded in blocking the Nestlé

Activism spreads

Canada Institutional shareholders reacting savagely against a plan whereby a group of dealers of Canadian Tyre Corp. – a national chain of home hardware and automative stores – offered to buy 49% of the company's voting shares and not make an offer to the holders of the company's non-voting shareholders. With the small stake held by the dealers, 49% would have given them control of the company. The percentage was carefully selected because it meant that the company's coat tail provisions were not automatically activated.

The Ontario Securities Commission ruled that the proposed transaction was an abuse of the capital markets. The offer was then withdrawn.

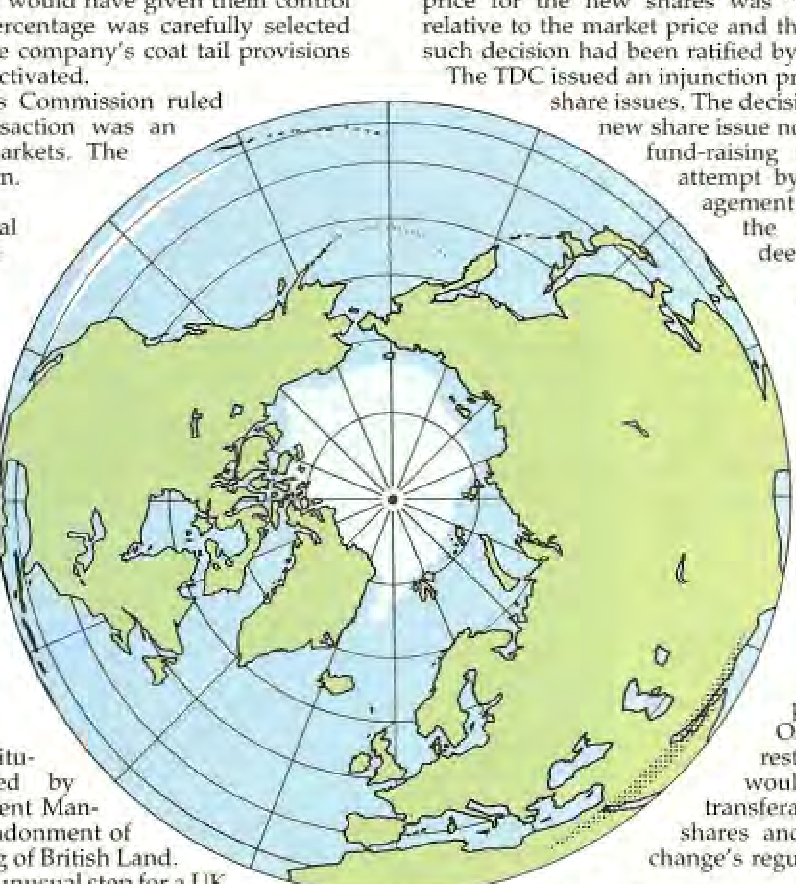
United States Institutional investors, including the public retirement systems of California, Massachusetts and New York City, criticised the management of Exxon Corporation, following oil spills in Alaska and New Jersey. The California State Comptroller, Gary Davis, took the extraordinary step of calling for the resignation of Exxon chairman Lawrence Rawl.

United Kingdom Institutional shareholders led by Robert Fleming Investment Management forced the abandonment of the planned restructuring of British Land. Robert Fleming took the unusual step for a UK institution of making a public statement of its opposition to plans to restructure the company into two separate entities. The institutions felt uneasy about share options proposals that would have given management as much as a 51% stake in the new company.

Japan In July 1989, Chujitsuya Co and Inageya Co, two retail store companies, announced their mutual plan for extensive business cooperation and cross-shareholdings by way of an issue of new shares to each other. The move would result in each having 19.5% in the other.

However, Shuwa Co, a real estate company, applied to the Tokyo District court (TDC) for an injunction against the issues on the grounds that their sole purpose was to reduce the ratios of shareholdings by Shuwa and the issue price for the new shares was "especially favourable" relative to the market price and therefore illegal since no such decision had been ratified by the shareholders.

The TDC issued an injunction prohibiting the proposed share issues. The decision made clear that any new share issue not based on a particular fund-raising need and mainly an attempt by the incumbent management to maintain control of the company will be deemed illegal.



Norway Three otherwise 'independent' buyers of shipbuilder Kvaerner's stock were alleged to represent a 'group' under Kvaerner's articles of association and should subsequently be prevented from voting as individual shareholders. The Ministry of Finance affirmed, upon appeal, a decision by the Oslo Stock Exchange that restricting voting rights would de facto affect the transferability of Kvaerner shares and thus violate the Exchange's regulations.

West Germany A shareholder group prevented the management of food retailer AVA Allgemeine Handelsgesellschaft der Verbraucher from placing restrictions on voting rights. Management proposed to restrict voting rights to shareholders with a minimum of 5% of the outstanding stock, instead of the existing 0.1% limit. At an extraordinary general meeting in January this year, shareholders overturned the proposal nearly unseating the chairman.

board's attempt to limit the voting rights of any single shareholder to 3%.

Ironically, the impetus for such court action did not come from foreign institutional shareholders. Rather, a group of private Nestlé shareholders, CANES (Convention d'Actionnaires de Nestlé), which represents less than 200 shareholders and less than 1% of the voting rights, brought Nestlé to court and won.

The Nestlé action showed investors that US style activism could work outside the US. The lesson has been learned and the 1990 annual general meeting season will see far more active interest from foreign, and particularly US, shareholders.

Though foreign assets make up only a small percentage of US institutional portfolios, the sheer size of those institutions means that they are the world's most important holders of foreign equity. And that importance is growing fast. Last year the 200 largest US pension funds increased their international assets by 43% to $39 bn.

Vociferous

US institutions are also the most vociferous and successful corporate governance campaigners – some not out of choice but duty, since US ERISA-regulated pension funds are legally bound to ensure prudence with their investments. That applies equally to domestic and international corporate governance, according to US Department of Labor guidelines.

James Heard, managing director at consultants Analysis Group Inc in Washington, believes the next growth area is international corporate governance. "There is certainly a growing interest. It's not a high level relative to the domestic industry, but I know of several large institutional investors, with rapidly growing foreign portfolios, asking corporate governance questions for the first time."

The biggest drawback to applying

US corporate governance techniques internationally is the cost. If an investor holds an EAFE portfolio, it would have to cope with proxy materials in as many as a dozen different languages, 15 different shareholder legislation regimes and the cost of voting in more than 12 jurisdictions.

The cost would be reduced if global custodians included international proxy voting and corporate governance as part of their service. Most don't because of the daunting obstacles inherent in obtaining meeting information from foreign corporations and in establishing and managing complex voting procedures. Some, however, such as Boston Safe and State Street, are beginning to offer these services to clients through the use of Global Proxy Services Corporation (GPSC), a Boston-based firm offering international corporate governance data and advice (see box).

Exporting a revolution

International corporate governance is a good idea, but is it anything more than this year's fad? The success of one group suggests that it is isn't. The Boston based Global Proxy Services Corporation (GPSC) in its first year of operation is already advising more than $10bn of international funds. Its clients include CALPERS, three State Street index funds, and a number of ERISA accounts managed in London by Mercury/Warburg Asset Management. That $10bn represents just under one quarter of the total overseas assets of US pension funds.

Joe Lufkin, the founder and managing director of GPSC, points to three reasons for the growth of interest in international corporate governance by US institutions.

Firstly, a growing proportion of US pension fund money is being placed in international indexed funds. "That means you can't just sell Toyota if you no longer like the stock, otherwise it screws up your weighting and the fund's performance. So there is an in-built reason for indexers to promote change through the voting process," says Lufkin.

Secondly there has been an increase in cross-border merger activity which, in Lufkin's words is, "egm fodder".

Finally, pressure from the US Department of Labor and the SEC means that voting rights have to be treated as assets of the fund and therefore exercising them systematically is considered just as much a fiduciary duty as collecting dividends or buying and selling stocks.

GPSC's niche is collating, transmitting and managing the flow of international proxy material between institutional investors, money managers, global custodians, sub-custodians and international corporations holding shareholder meetings. In addition to issuing and distributing meeting notices, GPSC also assists with the development of global voting policies and gives advice on individual issues arising at meetings.

Global custodians don't offer similar services. Some blame insufficient systems and communication with the sub-custodian network, others, inefficient local exchange systems. Whatever the reason, corporate governance is still well down the list of priorities.

Jose Arau, principal investment officer at CALPERS, points out that between June and November last year he received two international company meeting notices from his global custodian. From September 1989 to March 1990, GPSC sent over 200 meeting notices to clients. And that is the quiet period. Between March and July this year, it expects to issue some 400-500 notices as the proxy season gets underway.

Tim Harbert, vice president at State Street's asset management division believes GPSC is filling a gap in the market. "The information is delivered on a timely basis in a standard format. That stuff is difficult to get from sub-custodians."

About 600-700 stocks are covered by GPSC. This actually translates into between 1800-2100 annual corporate notices, as Lufkin reckons the average company has one or two extraordinary meetings every year in addition to its agm.

Clients don't receive every single corporate notice, however. "Instead of a fixed-coverage universe, we supply clients with information based on their stock holdings which we match up with our incoming stream of notices," explains Lufkin.

No option

Jose Arau, principal investment officer at the Californian Public Employees Retirement System (CALPERS), is philosophical about the cost trade-off. "Sure the costs are big, but they are outweighed by the benefits if we, by exercising our rights, can influence decisions and enhance our portfolio return over the long-term.

For funds such as CALPERS, which has more than $3bn in foreign assets, selling stock on almost any world market is far less preferable than righting problems through the corporate governance system. Even in its home market, the world's most liquid, CALPERS turns to corporate governance first, because selling the stock (following the "Wall Street rule") would lose it millions of dollars solely through market impact.

"In continental European and Asian markets, which are far less liquid than the US, the option to sell is even less attractive. In some cases concentrated institutional selling would not only lose money but may also wreak havoc for other issues on the local exchange," explains Joe Lufkin, managing director and founder of GPSC.

Although public funds such as CALPERS are less constrained in corporate governance activities than their corporate counterparts, the ERISA funds, they frequently take the leading role. Recent US Labor Department statements have underlined the importance it attaches to proxy voting by funds and their investment managers. The detailed ERISA regulations are seen by other federal and state regulators as setting a standard, so public funds and mutual funds also abide pretty much by ERISA rules, although they are not directly bound to do so.

"We have always been interested in domestic proxy voting/corporate governance, and international corporate governance is a very logical extension," explains Arau.

He believes the international issues will be no different from the domestic ones. "Management practices are much the same everywhere, though they may deviate according to local regulations. In such cases we may lobby the local regulatory authority to bring its legislation in to line with that in the US," he says. However, he cannot now foresee a time when CALPERS will be soliciting votes from the local shareholders. "Just being able to vote is enough for the next 2-3 years."

POISON PILLS: JUST THE MEDICINE?

Barry Critchley reports from Toronto

The stage has been set for a major test of strength in the Canadian financial markets. The test will take place between, on the one hand, Canadian institutional and retail shareholders and, on the other, corporate management.

How that battle unfolds will indicate the extent to which corporate governance has become part of the Canadian scene. Over the past few years significant advances have been made in this delicate area – even if Canada lags behind the US.

"Institutions are less inclined as a body to take these things lying down. They know they have more clout," says Fleming Armstrong, a partner at Allenvest Group Ltd., a securities firm that has made a speciality of getting involved in shareholders rights battles.

"On a scale of one to ten, we're now about six. I think it will creep up over time. We're improving," he adds, though the general trend is for institutional investors to vote with their feet when management does something that they don't like.

Board representation

In general, institutional investors don't seek board representation, though there are exceptions: the Caisse de Dépôt et Placement du Quebec, the giant Quebec public sector pension fund, has a policy where it seeks proportional representation on boards of corporations in which it has a significant interest. However, it is not interested in getting involved in the day to day management of those corporations.

Many investment professionals are looking anxiously at the coming battle to see if past gains in corporate governance can be maintained.

The recent introduction of US style shareholders' rights plans (more commonly known as poison pills) has set the stage for the new battle. The activation of a poison pill substantially dilutes a predator's holding by giving shareholders, other than the bidder, additional shares. These are generally sold at half the current price of the corporation's shares rendering the bid uneconomical. So far 17 widely held Canadian corporations have announced the establishment of pills. Pills do not become effective until they are approved by a company's shareholders.

The fate of nine pills will be decided by the end of June, the other eight having already been endorsed, in most cases by overwhelming margins. The fate of the first pill to be unveiled in Canada by Inco Ltd. is currently the subject of court action.

Playing for time

Proponents of poison pills argue that they allow embattled management extra time to respond to a takeover bid. In this way, the company's management can seek out alternative ways to maximise shareholder value, rather than being forced to respond to a situation within the 21-35 days laid down in takeover and securities legislation.

Opponents claim pills entrench management, ensuring shareholders don't receive value. This is borne out by the effect poison pills have on share prices, removing any takeover premium.

Toronto lawyer Philip Anisman advises shareholders to spurn poison pills, particularly those with a life of more than five years. However, he adds: "Shareholders who support existing management may indicate to it and to their board of directors that they are prepared to support a shareholders rights plan which enables the directors to delay a takeover bid for up to 90 days, after which the bid will be permitted to proceed, and which expires after no more than five years, unless re-confirmed by shareholders."

Poison pills are not the only reason institutional shareholders have become more responsive. Government policy is also changing. For instance, the Pension Commission of Ontario, the regulatory body for the industry, has unveiled new rules governing the conduct of pension funds.

From now on, all pension funds are required to submit investment policy statements. "While some of the statements may be woolly, it puts them on record," says Allenvest's Armstrong, adding that under the new rules the sponsor must detail who is responsible for casting proxy votes. "It pins responsibility somewhere," either onto the investment management, the trustees or the sponsor.

New responsibilities

If responsibility for the proxy has been assigned to the investment manager, it follows that the sponsor can't interfere. "They're out of luck," says Armstrong. Under the rules, the investment manager must report back to the trustees on how he carried out his responsibilities – and whether that conformed with the stated policy. "It's a little more bureaucratic and rigorous, but it means that the manager can't ignore some issues which the client feels should be addressed," says Armstrong.

While there are penalties, Armstrong says the threat of being brought before the Pension Commission ensures that managers don't duck their responsibilities. "You aren't going to win. You are going to have to put up with the embarrassment and with considerable legal expense. It could destroy your business. The rules are not onerous, they're responsible."

Legislative changes aside, Canadian institutional investors have chalked up a spotty record on corporate governance in the past few years.

Shareholder action still tends to be uncoordinated. A recent proposal by Xerox Canada asked investors to replace their voting shares with new non-voting stock which offered a higher dividend, and the chance to swap the new stock for shares in the US parent. A shareholder protest forced an improvement in the offer, despite the objections of the owner of the largest block of shares. The decision is now being challenged in the courts by the Ontario Municipal Employees Retirement Scheme.

HANSON AND THE HOLY GRAIL

Jeffrey Ferry reports on the fund that flexes its muscles

Dale Hanson smiles at the suggestion that he is leading a nationwide crusade to make American corporate management responsive to the wishes of shareholders. "Some might call it a crusade," he says, "but a search for the holy grail might be a better description." In 1990, corporate governance has leapt suddenly to headline prominence in the States, with battles between powerful corporations and their institutional shareholders gaining ever-more frequent coverage in the business press. In every big battle, from General Motors to United Airlines, the California Public Employees Retirement System, known universally as CALPERS or simply PERS, has been on the front line, with the pugnacious Hanson in the thick of the fray.

Cowboys

From its base in the California state capital of Sacramento, 128km northeast of San Francisco, PERS manages $56bn of California state and local employees' pension fund money. That total makes it the largest single fund in the US and fourth largest in the world. The sleepy town of Sacramento – sole tourist attraction a painfully artificial attempt to recreate the Wild West with a few saloon-punctuated streets of wooden shopfronts – is a world away from the bustling cities of New York, Detroit, or Houston, where corporate chieftains in palatial executive suites plan how to earn (and spend) their shareholders' money.

PERS' 1990 Annual Report is dedicated to the theme of Franklin Roosevelt's New Deal of the 1930s, suggesting that Californian populism lives on in Sacramento. Hanson scoffs at the idea of a political angle to PERS' activism, but stresses that the fight for corporate governance has a long tradition of PERS. Jesse Unruh, California State Treasurer in the early 1980s, was an early leader, pushing for the establishment of the Council of Institutional Investors as a lobbying and coordination centre for public pension fund managers. Today PERS is running over a dozen shareholder proposals, challenging managements it thinks have not delivered adequate returns to shareholders.

Hanson, PERS' chief executive since 1987, describes his approach to corporate governance as four-pronged. First, and most "friendly", is the dialogue with company boards, aimed at giving institutional shareholders better insight into the strategic and other objectives of the company. The second prong is shareholder proposals fielded at annual general meetings. Third is the regulatory and legislative arena and fourth is litigation against companies it feels are not serving shareholders' interests. Dialogue, says Hanson, is the most important of all the options: "We think more can be accomplished by talking than by all the other options".

Golden mausoleum

Recently Hanson proved he doesn't shrink from the tough option though: PERS is suing Los Angeles-based Occidental Petroleum for what it alleges is a waste of corporate assets on the building of an art gallery. Controversial Oxy Petroleum chairman Armand Hammer originally intended the gallery, under management by LA Country, to serve as a home for his and Oxy's massive art collection. Last year LA County pulled out when it objected to Hammer's unusual conditions, including a ban on any other donors' names appearing anywhere inside the museum.

While Hammer continues his headline-grabbing, biology-defying (he is 91) performance as a businessman and statesman; Oxy's stock languishes, with earnings down 6% last year. When Hanson discovered that the art gallery could cost shareholders as much as $150m, he decided Hammer had gone too far. "We've all heard of golden parachutes, now we've got the golden mausoleum," he comments with a tight-lipped smile.

Hanson is equally outspoken about another case where he is raising questions with the board – United Airlines. Hanson is annoyed over a provision in last year's failed management buyout by which United shareholders pay senior management and employees a total of $58m compensation in the event of failure of the MBO. Comments Hanson: "Under any scrutiny, this strikes me as a waste of corporate assets."

On the regulatory front, PERS is fighting to make shareholder democracy truly democratic. Last November it sent to the SEC a comprehensive list of 48 regulatory changes it would like to see. Big business is already well represented in Washington. Working with the council for Institutional Investors, PERS now has its own lobbyists. Hanson and PERS' counsel Richard Koppes are making monthly pilgrimages to the East Coast to meet the decision-makers. Under the current rules, explains Koppes, a company's management can see how each shareholder votes on resolutions before the general meeting.

Management can, and often does, contact "dissident" shareholders to persuade them to change their vote. "We don't have that power, and we don't want it," says Koppes. "But they shouldn't be able to do that either." Koppes is looking for

Dale Hanson

Selected corporate governance procedures

	% of Share Capital required to call an EGM	Management obligation to provide accounts etc	Notice period for shareholders meeting (minimum)	% of share capital to propose an item for meeting	Notice period for such a proposal	Shareholding disclosure limits	Investor rights to inspect corporate documents[1]
Switzerland	10%	Almost nil	10 days	10%	–	No limit	None
W Germany	5%	Yes	1 month	None	None	Above 25% & above 50%	Yes
Netherlands	10%	Yes	15 days	10%	15 days	Above 20%, 33.3% & 50%[2]	Yes
Sweden	10%	No[3]	14 days	None	Sufficiently timely	Above 10%	Yes, if holds › 10% of shares
Denmark	10%	Yes	8 days	None	Sufficiently timely	Above 10%	Yes
Canada	5%	Yes		None	90 days[6]	10% or more	Yes
Norway	10%	Yes	1 week	None	Sufficiently timely	10% or more	–
Italy	20%	Yes	15 days	None	Sufficiently timely	Above 2%	–
Japan	3%, held for preceding 6 months	Yes	2 weeks	1%	6 weeks	5% or more[2]	Yes, if holds 10% of shares
US	Varies by state	Yes	3 weeks	\$1000 stock or 1% for minimum 6 months	120 days	5%	–
France	5%	Yes	30 days + 15 days confirmation	5% or more depending on company size	Within 10 days of meeting notice	10% or more[5]	–
Australia	5%	Yes	14 days	5%	6 weeks	10%[4]	Yes

(1) Other than annual accounts, tax figures etc
(2) Proposed regulation
(3) In practice is almost always done
(4) To change to 5% under 1989 Corporations Act, which is still pending
(5) Has to go through courts to convene meeting
(6) Prior to anniversary of previous meeting

Source: Euromoney International Corporate Governance Handbook 1990

genuine secret ballots, part of a campaign for what he calls a "level playing field" between management and other shareholders.

Open dialogue

Ironically, PERS' most sensational confrontation came over no more than an attempt to open a dialogue with General Motors. Last January, Hanson sent a letter to every member of the GM board asking to be informed of the criteria and processes they use to judge the company's performance and make decisions, notably the choosing of a successor to GM chairman and CEO Roger Smith, who retires in August. In recent years, GM has almost become a symbol of the failure of American industry to meet the import threat. In the past ten years, GM stock rose just 69%, compared to the S&P index rise of 227%. (1989 figures: GM 1.2%, S&P 27%.) As factories closed, market shares fell, and Ford's profits surpassed those of its bigger rival, Roger Smith's haughty management style became the stuff of American folklore (see box). Against this background, a mild letter from PERS, holder of 6.2m GM shares, seems scarcely objectionable.

Pure serendipity

GM may have been annoyed that a similar, harsher, letter was sent on the very same day by the New York State's public pension fund. "Pure serendipity", says Hanson. Nevertheless, GM's reply only reinforced the company's reputation for high-handedness. On January 9, Hanson picked up the New York Times to learn that the GM board had no intention of discussing its methods for choosing the next CEO with PERS or any other outsider. "Let's say it was not the brightest thing GM ever did," he comments. Since then, Hanson has received letters of support from four of GM's outside directors and, following a telephone conversation with Roger Smith, a meeting between the two is now planned. Stressing that PERS is a long-term holder of GM stock, Hanson describes his letter as "very positive". "I think the outside directors viewed it that way, and have taken it to heart. Of course, we won't know until May, when the puffs of white smoke come out of the vatican in Detroit, what ultimately will happen in the search."

One reason PERS' activism has

played so well in the American press right now is that the US is in the midst of a bout of national revulsion at what is widely seen as a late-1980s surge in corporate greed among senior managers. The best-selling saga of the LBO of RJR Nabisco, "Barbarians At The Gate", allowed millions to marvel at the flamboyant excess of RJR CEO Ross Johnson. (The most outrageous of many mind-boggling instances of greed described by the book's authors was Johnson's use of two corporate jets: one for him and one for his dog which appeared on the passenger manifest as G. Shepherd.) In Hanson's philosophy of corporate governance, responsibility for these excesses lies squarely on the shoulders of the board of directors: "If you look at RJR and Ross Johnson, many of the directors claim they didn't know the number of airplanes they had in the company fleet, or the number of residences maintained throughout the country with maids and staff, or the type of cars categorised as company cars. But if you look back on the court cases where directors have tried to keep other 'barbarians' away and keep the crown jewels for management, there is a rich history of cases where the directors were ultimately found to be liable because they had breached their fiduciary duties."

Three sided arrangement

In Hanson's view, corporate governance has to consist of a three-sided arrangement, between management, the board of directors, and shareholders. "All too often, people only see a straight line from directors to management, and the shareholders are neglected. That's why we're focussing on directors, because that is where we have to raise the expectation level, both on their side, so they know what we expect from them, and on our side, so they know what to expect from us." At GM, for instance, Hanson insists that the outside directors ought to choose the next CEO. "We are not trying to tell GM what kind of cars to make or what kind of information services [GM subsidiary] EDS should be selling or what Hughes Aircraft ought to be buying, but we want directors that will be, for want of a better term, constructive critics of management, who will question what management is doing in both the good and the bad times."

He adds: "There are a number of companies where you could raise the question, does the CEO still have a strategic vision, and does the board share that vision, or have any vision at all? When I ask outside directors that question some can answer and some cannot."

PERS is committed to international diversification of its assets, with a target of 16% of the total invested abroad by mid-1991. "We fight off the efforts of some who want us to stay parochial and only invest in America, or even only in California," says Hanson. As to international corporate governance, Hanson describes the UK as "far ahead" of the US, especially in the promotion of independent outside directors. He praises the work of Jonathan Chartham at PRO-NED in defining the role and responsibilities of a director. "In that area, you are something of a role model for us," says Hanson. In addition to talking to Chartham and others in the UK, Hanson has begun to establish links in France. "With the coming consolidation in Europe, there certainly will be an opportunity to focus more on corporate governance issues."

In the US, PERS is moving away from the early "haphazard" approach and towards a more systematic application of corporate governance. "We are working to develop the ability to do more peer rankings to identify the laggards in an industry group, and see if we can put more emphasis or focus on them. It's an evolutionary process."

Hanson joined PERS as chief executive (from Wisconsin's public fund, where he was chief operating officer) only three years ago, in 1987. Yet since that time he can claim victories over some of America's best-known corporate titans like Texaco and K-Mart, and a creditable role in the continuing fascinating tussle at GM.

Underneath his mild Midwest manner, Dale Hanson is a fighter. Asked if corporate governance will become a bigger issue in coming years, he smiles and replies: "Remember the movie 'Network' with Peter Finch: "We're mad as hell and we're not going to take it any more'? Well there is definitely a danger that could happen here."

Roger and me

In 1953, General Motors chairman and Secretary of Defense-designate Charles Wilson enshrined GM's role as the paragon of corporate power and influence in America when he told a congressional committee "What's good for GM is good for America". Thirty-seven years later, a low budget documentary made by an unemployed left-wing journalist has given GM a new image - the laughingstock of corporate America. Seizing on GM's decisions in the 1980s to close 10 plants in Flint, Michigan (the company's birthplace) and make 30 000 workers unemployed, journalist Michael Moore produced a humorous, touching, and incisive story of the decline of a once-proud city. By weaving together two story lines, one the decline of Flint, and the other his own futile effort to get an interview with Roger Smith, Moore offers the audience, in fine Hollywood tradition, suffering victims and hateful villain, in a tale as emotionally powerful as any Frank Capra or Steven Spielberg production.

At the film's climax, on a Christmas Eve, the Flint sheriff evicts three families from their home for non-payment of rent, while in Detroit, Roger Smith woodenly reads a GM "Christmas Message" of love and compassion for its workforce to an audience of wealthy executives. Had Roger Smith made the mistake of walking into that movie theatre at that moment he would have been torn limb from limb.

Every company management concerned about its public image will undoubtedly make "Roger and Me" required viewing for senior executives and public relations staff. What does the film suggest on the question of corporate governance? If Moore is to be believed (and one criticism of the film is that it doesn't give the GM point of view) then GM is a company contemptuous of its workers, impervious to its powerless unions, indifferent to local politicians, and unchecked by its board of directors. Perhaps then, the buck does stop with the shareholders. Dale Hanson has this to say about "Roger and Me": "It is clearly a film that has an editorial line, but no doubt Michael Moore has produced an extremely interesting and humorous film. It certainly will not be a topic I will bring up in my meeting with Roger Smith!"

JACKING UP JAKARTA

Having successfully weaned itself off oil export dependency, Indonesia has blossomed as a low cost industrial base in South East Asia. Now, as Julien Hardwick reports from Jakarta, its capital markets are burgeoning

"Indonesia is not widows and orphans investment territory," warns Betsey Wood, formerly at Merrill Lynch (Asia Pacific). But like the majority of investment professionals working in the Republic of Indonesia, she is optimistic about the future of the country's economy and burgeoning capital markets.

The realisation of that potential now depends on whether the planned radical changes are given time to take root.

The recent economic boom is much stronger than anticipated, real GDP growth for 1989 is estimated in a report from Jardine Fleming Securities to be 6.2% compared to projections at the beginning of the year of between 4.8% and 5%. It also estimates that GDP will continue to grow in 1990 to reach 6.7% before dipping slightly in 1991 to 6.5%.

While roughly one half of the labour force is still employed in agriculture, which accounts for a quarter of GDP, it is the industrial sector which has been the major beneficiary of massive deregulation in the past decade and which has fuelled the country's rapid growth. Expansion in the industrial sector was clocked at 14% in 1988 and continues to increase. Despite this, inflation has been kept in check with the consumer price index up only 5.9% in the 12 months ending September of last year.

The country's most celebrated achievement has been to drastically reduce its reliance on oil exports since the price crash of 1983. In the first year of the decade, when the oil boom was at its height, oil and liquified natural gas (LNG) accounted for roughly 25% of GDP, 80% of export receipts and around 75% of government revenues. Last year oil and LNG made up only 14% of GDP, 45% of exports and barely a third of all government revenues. The slack has been taken up by non-oil exports. "The whole emphasis of the economy has shifted, and the reconstruction has been a tremendously positive influence," according to Ray Jovanovich, manager of Indosuez Asia's Malacca Fund.

The source of power for this strong recovery was a number of deregulation measures in the 1980s. The Jardine Fleming report identifies these as:

- The simplification of application procedures for investment.
- The easing of licensing requirements for the expansion of plant capacity and product extension.
- Permitting exporters greater flexibility in the sourcing of inputs.
- The reduction of import duties on certain items, which reduced the need to use costly domestic inputs.
- The termination import monopolies for certain products.
- The partial lifting of restrictions that preventing companies from undertaking their own distribution.
- Permitting state agencies to deposit their funds with private banks.

The resulting growth has inevitably meant a big increase in interest from abroad. Most significantly, Indonesia has benefitted from the relocation of manufacturing activities from the region's industrialised powers as they search for low cost production bases in South East Asia. "Japan, South Korea and Taiwan are really hot on Indonesia," a Jakarta economist told *Global Investor*.

Approvals of foreign investment in the manufacturing sector in 1986 numbered only nine, worth some US$590.5m. In the first eight months of 1989 that had already risen to 119 approved projects, worth some US$2819.5m. By the time the tally had been completed for last year, investment commitments from foreigners are expected to total US$4662m. Of this sum the Japanese will have contributed by far the majority, some 14.3%, double the input of the United States.

The Japanese government continues to work hard at increasing its presence in Indonesia, spurred on by its relatively small share of the expanding non-oil exports of which it takes 22.2%, compared to the 19.3% share of the United States.

Yet Indonesia does not have all the analysis stacked in its favour. There are still some important constraints on growth which have to

Key economic data

	1985	1986	1987	1988	1989	1990(E)	1991(E)
Population (m)	164.6	168.3	172.0	175.6	179.1	182.6	186.0
Real GDP Growth	+2.3	+3.9	+3.6	+4.9	+6.2	+6.7	+6.5
Current Account ($m)	(1840)	(4099)	(2468)	(1941)	(2400)	(2000)	n/a
Non-oil & gas exports Total exports(%)	33.2	49.1	50.0	60.0	64.1	64.5	n/a
Growth in Non-oil and Gas exports (%)	–	+11.2	+31.4	+40.0	+20.0	+15.0	n/a
Foreign Reserves ($m)	5846	5302	6512	6112	6000	n/a	n/a
Debt Service Ratio (%)	25.2	36.8	34.7	40.7	38.3	36	n/a
Inflation rate	5.6	8.8	8.9	5.5	7.0	8.0	7.5
Money supply growth	+17.7	+15.5	+8.6	+13.4	+18.0	n/a	n/a
Tourist arrivals (m)	0.70	0.75	0.83	1.05	1.38	1.72	2.02

E = Estimate *Source: Jardine Fleming*

be overcome. Observers have pinpointed a number of areas including: the heavy debt burden; dependence on foreign aid; the high cost of funds; and inequitable distribution of income.

Indonesia has an outstanding foreign debt of some US$48bn and principal repayments and interest are expected to account for 48.7% of routine government expenditure in the fiscal year 1990/91.

Foreign aid still accounts for over 30.9% of Indonesia's revenues and there are now fears that recent progress will make it less eligible for subsidiaries or that aid will be channelled off to the new economies in Eastern Europe.

The high cost of funding remains a problem despite developments in the capital markets and the deregulation of the financial sector. Interest rates in Indonesia remain high at over 20%.

Finally, the inequitable distribution of wealth is an important factor contributing to the low purchasing power of Indonesians and has concentrated the exploitation of resources in the central island of Java at the expense of other regions with similar potential.

SEEKING LIQUIDITY IN THE SEA OF ISLANDS

The capitalisation of the Jakarta Stock Exchange has rocketed tenfold in the past year. Yet, as Julien Hardwick discovered, there is still not enough scrip to go around for foreign investors.

"Many of our competitors are performing a dance of the seven veils," claims Dudley Howard the marketing director at Jardine Fleming in Hong Kong, "but when they finally strip down to their assets, you realise they have been forced to remain largely uninvested or to invest a significant proportion of the fund in a different stock exchange."

His claim highlights the most difficult of a number of problems which face fund managers who have launched into the Indonesian market over the past 18 months: its illiquidity and the restriction of access to foreign buyers.

What ever the problems, however, the market still glitters and promises those who can get a foothold, a goldmine of rewards. In 1989 the Jardine Fleming Nusantara (JFN) index, for many managers the benchmark on the Jakarta Stock Exchange (JSE) rocketed 77% to close the year at 91.41. Over the same period the number of listed companies more than doubled to 56 and market capitalisation increased from US$1bn to US$9.63bn according to one report. "Even then, the market capitalisation of the JSE is only 1.5% of GDP," notes Ray Jovanovich, manager of the first foreign fund into Indonesia, Indosuez Asia's Malacca Fund.

That for him is a sure indication of the potential still to be realised. To make sure it is realised, BAPEPAM, the stock market watchdog and adminstrator, is thought by local observers to be planning between 50 and 100 new listings in 1990.

The new listings should go some way towards alleviating the liquidity problem, "and will add to the markets credibility by increasing the number of sectors available and therefore the turnover," says Jovanovich. However, the effects of the listings will be partially offset by the predicted increase in the number of foreign funds. With no formal governmental approval needed to launch an Indonesian fund, and no centralised records of what funds already exist, it is difficult to measure the amount of foreign capital injected to date (see table). But those involved in the JSE already predict the genesis of another five funds in 1990 as more investment companies jump on the bandwagon.

Split across the Straits

Meanwhile, some managers have overcome the liquidity problem, although their solutions are not available to all. Indosuez Asia's Malacca fund was, claims Jovanovich, 100% invested before the issuance of a new $53m tranche of

ICF – working hard to get invested

The Indonesian Capital Fund is one of the latest to get to grips with the Jakarta market.

Launched in November last year through Merrill Lynch Asia with the issue of 3.75m shares at US$10 apiece, the ICF put its investment drive into top gear in January. According to its manager, Edmund Wong of Fidelity International, it is now worth some US$43m and since January 1, has seen a 14% increase in its net asset value.

An injection of up to US$7.5m is expected soon because the original investors from March 31 had the option to exercise the free warrant which they received with every five shares. The warrant entitles holders to subscribe to a new ordinary share at US$10. The stock was trading at US$13 on the Amsterdam exchange in early March, offering investors an immediate killing of US$3.

Amsterdam was favoured by underwriters Merrills amongst other things because the tax treaties between Holland and Indonesia are amongst the most favourable in the world. More prosaically Wong points to the links between the Netherlands and their former colonies and says that the listing helps to differentiate the fund from competitors floated on the London and Asian markets.

Getting in

The difficulties of acquiring stock in Jakarta are legend in the Far East (see main article), but Wong claims that the ICF was already 60% invested by March 14. "Around 58% is in Indonesian stocks," he said, "the remaining 2% is in stocks with earnings exposure, or assets, or sales in Indonesia." He was reluctant to discuss the investments outside Indonesia. Competition between managers involved in such a small market is fierce. "Stocks outside Indonesia are relatively small for exchanges like Hong Kong and Singapore, where they are listed – and others may start chasing them," says Wong.

Although the ICF has no restriction on plays outside Indonesia, Wong does not intend to invest more than 10% in markets other than the Jakarta Stock Exchange (JSE). "I do not feel the need to invest in other markets because of the planned new issues in the JSE, and I don't want the currency exposure to the other markets," Wong says.

The remaining 40% of the fund is in cash under long term deposits in the United States.

Fidelity have little interest in the tiny Indonesian bond market. "We can invest in bonds, but the real growth opportunity is in the stock market," Wong said, adding, "companies prefer to issue stock because it costs them considerably less than bonds which yield almost 20% at the moment."

Buying in, buying up

Wong now holds 26 shares, all but three of which are listed in Jakarta. Of those, the top eight stocks, (Indocement, Great River Garments, United Tractors, Japfa, UIC, Ficor Invest, Hotel Prapatam and Rig Tenders) represent 40% of the whole portfolio.

The Fidelity strategy is to invest heavily in the manufacturing and consumer related sectors. Great River Garments is, therefore, for them an ideal holding. A leading manufacturer of high quality clothes, it sells 50% of its production itself in the domestic market.

The attraction of the manufacturing sector, Wong adds, is the boom in direct investment from foreigners enticed by Indonesia's space, cheap labour and energy resources.

Where the top stocks stray a little from the strategic path, it is for good reason. United Tractors is a heavy equipment distributor which helps the fund track the export market. Ficor Invest is the state owned non-banking financial institution with a broad range of activities including issuing and underwriting. Not only is it a good play into the financial sector, which is largely closed at the moment to foreign investment, Wong also sees it as a kind of warrant on the market. "If the market continues to develop, then financial activities are a good risk," he says. Although another investor warned that Ficor, "relies too much on governmental connections."

The Hotel Prapatam is one of only two hotel stocks listed on the JSE. The group own the Hyatt Hotel in Jakarta itself and give the fund the chance to tap into a recent push on tourism. Currently Indonesia only attracts some 1.5m visitors a year, one third of the figure for Thailand. Many of them are young Australians enjoying the cheap hedonism of Bali. Indonesia has now declared its intention of pulling in higher numbers of the more mature big spenders. One step on this path has been the relaxation of visa requirements for tourists.

Liquid blue chips

The rest of the portfolio follows no particular pattern, except that it concentrates almost exclusively on blue chips. "They are the stocks valued highly by foreigners," Wong says, "and tend to be bigger issues." Both factors mean that they are more liquid and liquidity is still one of the biggest problems facing a fund manager in the JSE. "In absolute terms it was very hard work to get invested," Wong concludes, "but based on last year's turnover, I thought I would need four months to get this far, instead of just a couple."

It would seem that the later a fund starts buying, the more able it is to benefit from the extra liquidity provided by new listings. When Wong started to spot stocks in January last year, he already had 50 listed companies to choose from; a few months earlier and it would only have been around 30. Funds who bought them ran a risk of getting locked into illiquid stocks, with the corresponding difficulties in keeping in line with a market performance. The exceptions were those managers who were able to exploit the dip in the market last autumn and clean up under valued scrip.

Ray Jovanovich plays down the importance of the foreigners market, however. Whilst acknowledging that, "that is what must be done when the 49% limit is reached," and confirming that premiums attach themselves to shares when it happens, he says that, "you can still go to the board most of the time and clean up stock – there are always problems, you just have to be patient."

Buy what you can

Because of the illiquidity of the market, investors have also been forced to buy whatever is available rather than select stock according to the merits of a company as they would at more developed exchanges. "So much money has to be in Indonesia that prices are based on supply and demand rather than on fundamentals," affirms Philip Brewer, the head of corporate finance at Jardine Fleming Nusantara in Jakarta. The result, according to Betsey Wood was that "p/e multiples got out of control," with companies shares in the middle of March. The Malacca fund had the dual advantage of being the first in, and of being able to split its portfolio according to the original mandate between Indonesia and Malaysia. Launched at $36m the fund has seen an 85% increase in net asset value (NAV) to $60m. The new tranche, "all of which we are looking to put into Indonesia," says Jovanovich, will hike the fund further to $113m – making it the largest Indonesian investor in the world. 55% of it is invested in the JSE, 1% is held in an Indonesian related company listed in the USA and the balance is in Malaysia.

Jardine Fleming's Indonesia Fund, the first foreign fund to concentrate solely on the JSE, had what one competitor described as a lucky break, when last year the government controlled national investment trust, PT Danareska, off loaded a sizeable chunk of its portfolio into Jardine's hands.

PT Danareska was established in the 1970s to promote the equitable distribution and ownership of listed shares through underwriting and the issuance of mutual fund certificates in small denominations to the public.

Under the law, it had preferential access to all new equity issues and as a result it held approximately 40% by value of all listed shares at the beginning of 1989. By the end of the year, this had been reduced to 28%, but Jardine's are the only foreign fund known to have benefitted.

"It was the largest tranche of quoted securities that had come on to the market, and meant from the start that the fund had much less in cash than some of its competitors," Howard claims.

His fund is now 70% invested (see box on the ICF) and, since it was launched in March of last year, has climbed in value from US$63.7m to around US$85m.

Indonesian country funds

Fund	Original capital (US$m)
Malacca Fund (Indosuez)	35
Indonesia Fund (Jardin Fleming)	63.7
Jakarta Fund (Thornton)	30
Indonesia Growth Fund (Royal Trust)	6.5
Indonesia Fund (Connaught)	7
Nomura Jakarta Fund (Nomura Securities)	25
Indonesia Capital Fund (Fidelity)	37.5
Java Fund (Wardley)	30
The Indonesia Fund (BEA Assoc)	69
The Java Fund (Lippo Asia)	30

Banks out-of-bounds

Other managers who do not have PT Danareska's ear have to wait for the predicted splurge of new issues to relieve the liquidity problem. Until then they are faced with a market which by March of this year had registered 63 listed stocks, seven of which were not open to foreign investment, and only an estimated 20 of which were regularly traded.

The seven out-of-bounds stocks are all banks. This is frustrating for fund managers who have seen the JFN Financial index rocket from 36.66 to 85.37 in 1989, an increase of 132.8%. Most of them are confident, however, that the restriction on banking shares will be lifted before the year is out.

Boediarto Boentaran, the influential vice chairman of the Bank Internasional Indonesia, called the restruction, "an antiquated law established in the early sixties to limit economic colonialism – now it is a different game." Ray Jovanovich echoes the sentiments of many of his competitors when he says, "It appears likely we will be able to invest in banking some time in 1990."

In fact the banks are now a distinct oddity amongst the listed stocks. In September 1989, the Ministry of Finance issued Decree 1055 which stated that foreign investors are allowed to purchase up to 49% of the publicly listed shares of all companies (although when the banks are opened up, foreigners are unlikely to be allowed as much as 49%).

The rule brings troubles of its own. Few of the companies listed issue more than 30% of their share capital. 49% of such a small tranche already makes keeping pace with the rapid economic progress in Indonesia difficult. In addition, although only 51% of any new issue is legally directed at local investors, in practice it is rare for much more than 30% of a new issue to fall directly into foreign investors' hands. According to Betsey Wood, a former director of corporate finance at Merrill Lynch Asia, local brokers often take advantage of their privileged access to new listings, buy up a holding, "and then flip it over four or five days later once it has started to trade at a premium."

Separate foreign market

In fact the 49% rule frequently means that foreign fund managers have to acquire stock at artificially high levels. Under the rules of the JSE, BAPEPAM can force foreigners to sell their holdings if the trade through which it was acquired was made as of after the 49% level had been breached. The present inefficiencies of the market, notably its settlement system with reports of trades taking up to two months to complete, add to the manager's headache and make the imminent approach of the 49% barrier difficult to detect.

According to Edmund Wong, manager of Fidelity's Indonesian Fund, the JSE "issues a statement on how many shares are available (only) after closing. Therefore, foreigners tend to stop short of the limit to make sure that they have time to register (their trades) before the limit is breached."

To avoid these problems many funds deal between themselves. This guarantees that their latest purchase will not be outside the law, but can lead to an expensive market. "When foreigners can only deal between themselves, they can continue to bid the price up even as the local price goes down," Wong says.

But it does help to by-pass other quirks of the JSE system. For example, markets are made in lots of 500 shares in Jakarta. Few of the local investors have the capital to buy big, and so lots are frequently split. For foreigners with the capital behind them this is frustrating and, again because of the inadequate settlement system, fraught with delays.

In addition, Edmund Wong of Fidelity says that communication difficulties come into play. "It can be one hour before I find out the last price for a stock on the JSE board. Whereas I can deal direct with another fund."

PT Cement Cibinong: Solid Future for Indonesian Heavyweight

No Indonesian firm better epitomises the Southeast Asian nation's new dynamism than PT Cement Cibinong, whose US$78-million January share flotation was oversubscribed by 350-400%. Particularly gratifying to this up-and-coming cement manufacturer – the resource-rich archipelago republic's third largest – was that international share orders were so numerous that most brokers were allocated only 18-20% of their applications. The company has all its shares listed on the Jakarta Stock Exchange (JSE), and its current market capitalisation is US$630 million.

Beyond the issue's initial popularity, many analysts have noted that market sentiment towards the shares has been extremely good, and since the January issue they have traded from Rp11,500 up to Rp18,000, a level nearly 80% over the issue price. More importantly, liquidity has been excellent given that the Indonesian market does not have a big range of stock; daily turnover has risen from 110,000 to 120,000, up to peaks of 350,000 to 400,000 shares.

It is expected that this positive trend will continue, as the government has introduced measures to encourage foreign portfolio investment on the JSE; since 1988, foreigners have been able to buy up to 49% of new share issues, excepting those of banks.

Response has been dramatic: daily trading volume soared from 50,000 shares a day at end-1988 to 800,000 by August 1989, and currently stands at 3,500,000 shares a day.

The new capital will be applied to the funding requirements for plant expansion that will double present production capacity of 1.5 million tonnes. On March 2, 1990 the company signed contracts with Hyundai Engineering and Construction Co Ltd for the construction work in Indonesia, and with Fuller International Inc USA as equipment supplier for the expansion programme. The total cost of the equipment and construction contracts is US$169.5 million, considered most competitive for the size of the additional capacity.

View along Jalan Sudirman, Jakarta

Indonesia's cement market is divided by government ruling into geographical areas, and PT Cement Cibinong has a 30% share in its own market area of West Java, which includes Jakarta. The company will now be able to take greater advantage of the construction boom caused by growing domestic and foreign investment, with new buildings mushrooming particularly in the capital. Also, there is strong export potential throughout Asia.

The company was originally a joint venture between PT Semen Gresik, one of Indonesia's' three original state-owned producers, and Kaiser Cement of the US. Kaiser's shareholding was bought out by a local concern in 1988, but foreign managers and technicians have been kept on to ensure continuity in operations and quality. The Cibinong plant consists of manufacturing, storage and shipping units. It is located only 40 kilometres from Jakarta, with a major highway providing access to the city and port.

The plant property covers a huge limestone deposit that could satisfy the company's basic raw materials needs at current rated capacity for more than 200 years. Nearly 800 hectares have been allocated for quarrying; shale and sandstone, which are also raw materials for cement, are present as well. The company produces five different kinds of cement, and dominates the speciality cement market.

Two dry process rotary kilns are in operation at the Cibinong plant, in addition to large equipment used in the crushing, drying, grinding, storage and packing processes of cement production. A well-equipped workshop manned by qualified engineers undertakes on-site maintenance of equipment and machinery.

The government power utility company PLN has supplied electricity to the plant since its 1975 start-up. State oil and gas firm Pertamina has provided natural gas via a pipeline connected in 1978, and bunker fuel oil is also used. However, a recent US$12-million coal conversion programme will mean fuel cost savings of 40%, as it allows the company to switch fuels depending upon which is lowest priced, and upon delivery schedules.

Also, a recently completed US$14.5-million plant optimisation plan will enable increased production due to technical modifications, including dust emission controls and clinker storage facilities. Both the coal conversion scheme and the plant enhancement programme were 50% financed by a successful five-year public bond issue in July last year.

PT Cement Cibinong's market area of West Java consumed 4.3 million tonnes of cement in 1989, a significant proportion of that year's 11.3-million-tonne total domestic consumption. The domestic market for Ordinary Portland Cement, which accounts for 95% of the company's production and almost all commercial cement usage, is projected to increase by a minimum of 7% per annum.

Customers range from individual home-builders and small contractors, to large civil engineering firms involved in major industrial and public sector construction projects. For instance, the company recently provided cement for the construction of Jakarta's showpiece Soekarno-Hatta Airport.

Export destinations include Singapore, Malaysia, Brunei, Thailand, the Philippines, Hong Kong and Bangladesh. Corporate export customers include Shell and Esso in Malaysia. Future export growth will be encouraged by construction sector expansion in

most Asian countries; production shortfalls among Indonesia's neighbours; and the government's policy of particularly promoting non-oil exports.

Indonesia has a current low annual per capita rate of cement consumption; at end-1988 it was 61kg, compared to 103kg in the Philippines, 219kg in Malaysia, 236 kg in Thailand, 607kg in South Korea, and 740kg in Singapore. The low figure for Indonesia indicates potential for future growth in consumption.

In a nutshell, PT Cement Cibinong's long-term objectives are four fold:

- to further increase plant efficiency and maximise usage of production capacity;
- to further lower production and fuel costs;
- to more than double production capacity by 1992;
- to maximise returns to shareholders.

The company has over the years recorded consistent increases in sales and profits; net profit for 1989 is estimated at US$5 million. Operating margins have regularly been 13% to 14% of net sales, made possible by fast turnover, low interest repayments and tight cost controls. The firm's debt/equity ratio has been below 1:1 for the past five years.

Projected company price increases follow guidelines that are within set ceilings; Indonesian retail cement prices are regulated by the government and administered by the Indonesia Cement Association. The government has given producers authority to raise prices in 1990 by up to 21.5%, effective March 10. Projected further increases are 15% in 1991; 10% annually from 1992-94, and 7% annually thereafter. The figures for 1990 and 1991 compare with an estimated 10% reduction in costs for those years.

The company's operating margin is projected to rise from the present 13-14%, to over 40% from 1992 onwards. It is estimated that the debt/equity ratio will remain favourable, with debt levels significantly decreasing through to 1992.

Unlike many other companies listed on the JSE, PT Cement Cibinong has opted to list all its shares. In line with a splitting of the shares last November the company is maximising liquidity and creating depth to encourage secondary trading. Current intense investor interest in the company mirrors worldwide enthusiasm for Indonesian stocks, which has seen JSE share prices climb strongly over the past year.

Indonesia's economy is now at the "take-off" point, the same stage as Thailand two or three years ago. The government is encouraging companies to go public as part of a far-reaching economic liberalisation programme both initiated and led by reformist technocrats, who favour a largely increased role in the economy for the private sector.

A part of the general move towards privatisation and reform has been a lobbying effort for the adjustment of government recommended ceiling prices for cement. Most analysts believe price adjustments are imminent. It would be wrong, however, to believe that PT Cement Cibinong is reliant upon any such adjustments; as prices currently stand, prospects for the company are excellent.

The company is extremely well-placed for raw materials, owning its own limestone quarries and having decided to switch over to coal firing. Extensive supplies of coal are available at acceptable prices.

Its current expansion programme has been carefully planned in the face of projected domestic supply shortfalls in its own West Java market by 1991. Timing is crucial; the new capacity will be completed by April 1992 when supply shortfalls are expected to exceed two million tonnes. In the unlikely event that domestic demand does not reach expected levels, there is always an important export market to consider; Indonesian cement prices remain below those of major Asian competitors.

To the management team at PT Cement Cibinong bullish market sentiment, while valuable in attracting new foreign investors, is only part of the story. They believe their track record, extending over the years from 1975 to the present, speaks for itself. Foresight and a prudent investment plan leaves PT Cement Cibinong just where it wants to be – in the right place at the right time. Timing and events have historically been on its side: throughout the ups and downs of the Indonesian economy over the last ten years, the company has never once failed to show a profit.

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floating at 25 to 40 times prospective earnings in the last quarter of 1989. "Some brokers used to claim that they were going for 10 times the five years prospective earnings," one Hong Kong source claimed, "when few were capable of doing a proper one year forecast."

Even now, according to Wood, issues are still going in at 15 to 20 times prospective earnings, "with the investors hoping that good blue chips like PT Astra will then go further."

There are, however, significant signs that investors are becoming more discriminating as the wave of new listings increases their options. "We are starting to see differentials between the stocks," Wood says. "Smaller companies are going to have to go for 10 to 15 times prospective earnings, with the bigger blue chips coming in at 15 to 20."

Effective analysis

But when in the future managers are able to select stock, they will be faced with the problem of analysing companies effectively. According to Wong, the rapid growth and short supply of scrip mean that it is difficult to apply western criteria at the moment, "but people will become a lot more selective in the future." The barrier to this, as far as he is concerned, is the quality of information available in Indonesia. "There are still no English language versions of new issues prospectuses available," he says, "and accounting standards are very different to those in the West." What is more, he adds, "brokerage research is very much in its initial stages, and some of it is outdated."

The quality of the figures aside, most fund managers praised the openness of the companies. "They are not particularly closed to foreigners compared to companies in Hong Kong or Singapore," one said. Still the strategy adopted by all the managers in Indonesia has been forced to be one of constant company visits. "You have to be aware of who, in a developing economy, will benefit from public and private investment. But more importantly than in many countries, you have to know the management," Jovanovich of Indosuez says.

That means a lot of travel for the Indonesian fund supremos in 1990.

PATRONAGE AND PRIVATISATION

Fund managers welcome the improved liquidity from privatisations in Indonesia. But, as Julian Hardwick discovered, few state run companies are going to be among the pick of new listings

Because of his very public campaign to open the country up to a free market economy, President Soeharto has been obliged to take steps towards embracing either privatisation, joint ventures or liquidation for 215 state run companies.

Global Investor asked some of the foreign players in the JSE to talk about the sectors in which they are already invested and anticipate the potential of some of the new listings. One of the variables they have had to factor in has been the effect Indonesia's privatisation plans will have on the new issue calendar.

Dudley Howard of Jardine Fleming in Hong Kong points out that privatisations are necessary to increase the supply of new stock on to the market. Jardine, whose London based partners Robert Fleming played an important role in the UK government's privatisation programme, are believed to be advising the Indonesian government, although Philip Brewer of Jardine Fleming Nusantara in Jakarta would only say that they "would be very interested in" co-operating on such a project.

In November last year the popular finance minister Johannes Sumarlin announced that 52 state enterprises would be prepared for flotation or a partial flotation, but he gave no indication of which companies he had in mind. "They are playing a wait and see game," according to Horas Simatupang the general manager of Bank Ekspor Impor Indonesia which has worked closely with the authorities on the development of the capital markets.

One of the reasons for this is the number of political difficulties which must be overcome before the privatisations can go ahead. One economist, an old Jakarta hand who asked not to be named, said that a number of political figures were "questioning whether Indonesia really needs privatisations, they say it is selling off the family silver and encouraging the expansion of big business empires."

The state run companies provide certain politicians with the means to grant political favours and they are reported to be working hard against the privatisation or liquidation of concerns under their patronage.

In addition, the same source reports, there are worries about who the buyers will be. "Many of the potential candidates are politically unacceptable," he says, "because they are the first family (relatives of,

Carting away the family silver

or business men with close personal ties to, President Soeharto), the ethnic Chinese (who are under pressure in Indonesia because they make up 5% of the population but control some 80% of its industrial wealth) or foreigners."

State of state sector

In any case the enthusiasm expressed for many state enterprises by potential investors is muted. They are prime examples of the problems still faced by the Indonesian economy and have been criticised for poor quality management, overstaffing and plant over capacity. Sumarlin has admitted that around a third of them are running at a loss.

That, however, still leaves two thirds in profit and according to Brewer, "several state owned sectors would be attractive." He lists Garuda, the government run airline, heavy industries, plantations, of which only one is listed to date, and the mining sector which "is not at all represented on the stock market."

Garuda, in fact, is a name at which many of the foreign fund managers lick their lips. Airlines in Asia are generally considered a good bet, and Garuda has recently divested its loss making domestic operations to its wholly owned subsidiary Merpati.

Of the new listings about to hit the market, the most mentioned earlier this year was the holding group PT Astra International which roadshowed in the Far East and Europe in February, and was due to start trading on April 4. The offering was slated for 30m shares at approximately Rp4850 to raise a total of Rp445.5bn.

"It is one of the best companies in Indonesia," Brewer says, whilst Ray Jovanovich of Indosuez Asia singled out the group's management for being "very concerned with their reputation."

Edmund Wong of Fidelity concurred with the other's assessment but with reservations. "Growth will not be as good as the Astra group's other two listed subsidiaries, PT Astra-Graphia and PT United Tractors," he warned, "but it is well run and will make up approximately 15% of the JSE's listed capital and therefore any investor looking for long term growth cannot afford to miss this one."

Other favoured new listings will be those of PT Gadjah Tunggal, the second largest tyre manufacturer in Indonesia, and PT Tjiwa Kima.

Jakarta: can it manage a boom?

Tjiwa Kima is due to start trading on April 11. For Ray Jovanovich it represents, "the first play in paper and packaging, and with exports increasing from Indonesia a good chance to get into an exciting area."

The liquidity problem, the forces of supply and demand and the strong performance of new listings has meant fund managers have gratefully received what ever becomes available on the market. There are, however, particular sectors which they have targetted where circumstances allow. These are: infrastructure related companies, in particular, cement producers; export oriented manufacturing; tourism; and companies getting ready to exploit the potential of the domestic consumer market.

The two listings from the PT Astra Group, PT United Tractors and PT Astra Graphia are good examples and already an important component in most funds.

United Tractors offers a play on infrastructural spending and the development of the coal mining industry. It is the sole agent for Komatsu heavy equipment and Nissan off-the-road trucks in Indonesia, has a 47% share of the company's heavy equipment markets and has announced plans to diversify into contract coal extraction. In 1988 it revealed net profits of Rp11.06bn with an estimated rise in 1989 to Rp19bn and Rp24bn in 1990. Its p/e ratio is expected to drop from the 1989 figure of 44.2 to 25.5 in 1989 and 21.9 in 1990.

Astra-Graphia is expected to benefit from the trend towards office automation, and increased foreign investment and deregulation in the financial sector. It is the sole distributor of Fuji-Xerox office equipment in Indonesia and has the country's largest servcie network. Its diversification plans include entering the highly profitable electronic components production sector. Net profits in 1988 were Rp2.02bn which were expected to more than double to Rp5.45bn in 1989 and again to Rp11bn in 1990. It recorded a p/e ratio in 1988 of 33.1 which is forecasted to drop to 19.2 in 1989 and to 15.4 in 1990.

Two other good examples of hard core holdings are PT Cement Cibinong and PT Great River Garment Industries. Jovanovich says of PT Cement that, "from a management angle it is the premier company in Indonesia." The third largest producer in the country, it is planning to double capacity by 1992 when a shortfall in cement production is anticipated. That means net profits of Rp7.05bn in 1988 are expected to rocket to Rp44.05bn in 1992 with its p/e rating dropping from 85.4 to 16.6 over the same period.

Great River Garment Industries is favoured because it is both a manufacturer and retailer with a firm base in the local market. It is benefitting from the rising costs of garment manufacturers in Taiwan and Hong Kong and is believed to be entering into joint ventures with Japanese companies to establish garment and eventually integrated textile operations in Indonesia. Net profits are expected to rise from around Rp0.65bn in 1988 to Rp10.35bn in 1990. It p/e rating for last year is estimated at 45.7.

Lippo Pacific Finance – Local Expertise in Indonesian Capital Markets

The current stampede of companies rushing to list their shares on the Jakarta Stock Exchange (JSE) has put Indonesia firmly on the international investment map – and James Riady, commissioner of Lippo Pacific Finance believes that is where it will stay.

"The Indonesian government has long recognised the need for investment and they are pursuing a very sensible policy of deregulation in the banking and finance sector to allow that inflow of capital. Current economic growth may be phenomenal but it's not just a flash in the pan; Indonesia has huge and as yet, untapped potential," says Riady.

James Riady

Lippo Pacific Finance is the corporate finance arm of the Lippo Group, the leading banking and financial services group in Indonesia, and as such is well-positioned to mediate in this surge of investment. The government's move to boost non-oil and gas exports is also increasing the demand for financing, Lippo Pacific's main business.

Originally set up in 1982 as a leasing company, a joint venture between the Lippo Group and Stephens Inc, one of the largest investment banks in the USA outside New York, Lippo Pacific was listed on the JSE in late 1989. Exempt from the regulations prohibiting foreigners from purchasing shares of Indonesian private-owned banks, foreign investment was one of the main reasons why the Lippo Pacific flotation was more than 100 times oversubscribed.

Since the listing and the infusion of Rp17 billion (US$9.4 million), Lippo Pacific has moved quickly. The increased capital base enabled the company to obtain a full finance company licence from the Minister of Finance. This licence allows Lippo Pacific to move from its traditional leasing business into other activities such as factoring, consumer finance and venture capital. In addition, a sister company, Lippin Securities, operates as a securities house licensed to undertake brokerage, underwriting and investment advisory services. Lippo Pacific's expanded services are expected to lead to an 86% increase in profits to Rp4.2 billion (US$2.4 million) for 1990.

"We were the first finance company in Indonesia floated from the private sector. Our competitors in leasing have not kept up with us," says Nestor J. Padilla, President Director of Lippo Pacific. "Our new competitors are the foreign finance and securities companies who are now moving into Indonesia following deregulation, but we believe that we have something more to offer. We have the local knowledge and the local network which will take years for the 'big boys' from overseas to build up."

Nestor J Padilla

The foresight in the positioning of Lippo Pacific to profit from the growing capital markets in Indonesia and from the demand for bigger and better corporate financing is indicative of the management style of the Lippo Group as a whole under its Chairman, Dr Mochtar Riady, a well-known and highly respected member of the Asian finance community and its dynamic Chief Executive Officer, his son James Riady.

Another example of their foresight and understanding of local market conditions can be seen in the remarkable rise of Lippo Bank, the commercial bank at the centre of the Lippo Group. The bank started 1989 with 30 branches and ended the year with over 100 branches, its shares listed on the JSE, a highly prized foreign exchange licence and a very successful US$50 million issue of floating rate CDs in Hong Kong. At the branches the deposits have been pouring in thanks to an innovative savings scheme 'Tahapan' which gives depositors the chance to win cash prizes every three months.

The bank's branch network and the other Lippo Group companies provide Lippo Pacific with a huge customer base across Indonesia for its various financing activities. Moreover, the financial muscle of the group provides sound financial backing.

Value-Added Services

The main objective of the Lippo Group is the provision of banking and financial services. "Lippo Pacific was established as our corporate financing arm to complement our traditional commercial banking services," states Riady. "We are looking to provide our customers with value-added services. With the deregulation of the finance sector and the entry of foreign bank competition there will be increasing demand for innovative and sophisticated financing products. Lippo Pacific is in the best position to provide them. We are Indonesian, we understand domestic market conditions," he adds.

Riady is bullish on the outlook for the Indonesian economy and the JSE. "There is huge untapped potential in Indonesia; plentiful natural resources and a large, available work-force. In addition, with unrest in the Philippines and mainland China, manufacturers moving out of the high-cost manufacturing centres of Taiwan and the other NIEs are looking to Indonesia, with its stable government and realistic economic policies.

"Those policies include the support of the stock market. We believe that listings will continue, although at a slightly slower pace than in 1989, but the quality of the companies going public will be high.

"Lippo Pacific with Lippin Securities, its securities house sister company, is geared up to provide advisory services to companies wishing to go public. The listing of our own companies in 1989 has given us first hand experience. We know the problems that our customers face."

Mochtar Riady

Five Lippo Group companies were listed on the JSE in late 1989 – Lippo Pacific, Lippo Bank, Lippo Life, a leading life insurance company, and two trading and manufacturing companies.

Reliable Local Knowledge

Lippin Securities was granted full securities house status by the Ministry of Finance in March this year, allowing the company to engage in underwriting as well as stockbroking and securities trading.

The company is building up its resources to increase its share of trading on the domestic exchange. Back office systems are in place and professionals for the research unit are being recruited. Broking is another area where Lippo Pacific regards being a local player an advantage.

"The key to investment is reliable information. Through the Lippo Group network we have a great depth of knowledge in certain sectors of the market. We do not intend to compete head-on with the big international players. Instead we will continue to concentrate on what we know best," states Padilla.

"Our current aim is to build on our strengths and work on our special relations with customers to become a leading investment bank within Indonesia.

"Longer term, however, it is inevitable that we will go regional. There is a trend for international investors to look at the Asia-Pacific area as a whole and to look for an institution which can provide services throughout the region. For that reason, as a medium-term goal we shall seek opportunities to move into Thailand, Singapore, Malaysia and the Philippines."

Such foreign interest is indeed confirmation of Mochtar Riady's belief that the potential of Asian nations to play a major role in the international economy would eventually lead the world to the region's door. One outcome of Indonesian deregulation has been the spate of big foreign banks knocking on the doors of Indonesia's domestic banks seeking tie-ups and joint ventures.

Lippo Group has a number of joint ventures with foreign banks, the principal partners being Banque Nationale de Paris, Long-Term Credit Bank and Tokai Bank. Such prestigious tie-ups in addition to the group's own pan-Pacific network, with Hong Kong Chinese Bank and Lippobank California being the main members, contribute to the international exposure of the group. Lippo Pacific is also actively looking at joint ventures with a view to complement their domestic expertise.

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March 1990

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COPING WITH FREEDOM

The Jakarta stock exchange is preparing for up to 100 new issues this year. But chronic settlement difficulties threaten the market's credibility. Julien Hardwick reports on the attempts to manage the stock boom

When Wati Abdulgani rang her broker in Jakarta to get advice on a new issue, it was, after many rings, one of the broker's other customers who eventually answered the phone. The office, he explained, was under siege by local investors and there was no one to help her. Last year queues for share application forms up to 5000 strong were reported outside broker's offices.

The story illustrates two of the problems faced by Indonesian stock exchanges – poor communications and demand that threatens to swamp administrative capabilities. Abdulgani is more aware than most that the exchanges, after riding out a massive wave of deregulation in December 1988 must now come to terms with a second phase of changes which will lead to, amongst other things, the privatisation of the Jakarta Stock Exchange (JSE) and its full automation.

She is the managing director of local management consultants PT Immacon. Her firm worked with the Ministry of Finance and a group of foreign consultants from Samuel Montagu, First Boston, Bank of Tokyo (London) and the Dutch law firm Naude Van Herstolde, to advise the government on the December packge of regulatory reforms eventually known as 'Pakdes 20'.

The Indonesian stock market is in fact one of the oldest in the region, dating back to the beginning of the century when Dutch colonialists developed listings for Dutch owned companies. The market was then put on ice in the 1940s. The first modern listing came from PT Semen Cibanong in 1972, but by 1980 only six companies had come to the market. That had improved to 24 by the end of 1988, 63 by the end of last year, and now the JSE is bracing itself for anything up to 100 new listings over the next eighteen months.

The impetus for such rapid growth came almost entirely from the Pakdes 20 reforms in which the government revolutionised the role of equity financing by:

- Imposing a 15% tax on time deposits interest, certificates of deposit and saving accounts.
- Simplifying the process of issuing shares.
- Allowing foreign investors to participate in the capital markets.
- Introducing bearer shares.
- Establishing an over the counter market or *Borse Parallel*.
- Removing daily price limits.
- And allowing foreign brokerage firms to set up operations.

"They said we were crazy to believe in something like this," Abdulgani says, "but we felt part of history." She tells of a seminar organised by PT Immacon and the JSE watchdog and administrator BAPEPAM immediately after the implementation of reforms last year. "It was January 13," she says, "and sceptical representatives from 27 of Indonesia's best companies filed in to have the benefits of a listing explained." Of those 27 she says half are already featured on the JSE board, and the rest are all planning an application to list.

But the course of progress has not been smooth. The JSE was ill-prepared for the mass of listings which swiftly followed the changes. In late summer and early autumn of last year it touched overload with up to 10 companies coming to the market a month, many of them hundreds of times oversubscribed. Settlement in particular suffered with delays of up to two months reported on some trades.

BAPEPAM called for more changes and the Asian Development Bank came in to fund a study by PT Immacon of the developments needed now with particular reference to the JSE's speedy automation. It is widely believed in Jakarta that an essential part of this process will be the privatisation of the JSE.

The results of the ADB report, and the timetable for change, will be published and passed on to the government in May. But some of the problems it will highlight, and the necessary changes are already apparent.

Firstly, there are over a hundred brokerage firms now operating in the capital. It is easy to raise the finance to set one up. Abdulgani estimates that it only costs Rp25m ($13200) to register as a broker, Rp50m to become a broker/trader, and Rp0.5bn to gain full brokerage and underwriting status. In addition brokers only have to undergo a three month training course to qualify. "It is the only requirement to become an expert in Indonesia," one observer noted. The course was reduced from its original six month duration because of the demand for staff.

Inevitably, it has led to fears that the local houses are, for the most part, under-capitalised and inexperienced. "You have no idea where you are with local brokers, a Far East expert said from Hong Kong, "there are no safety nets, and you have no idea what his credit is like."

Foreign fund managers have developed relationships with Indonesian brokers and the alternatives provided by well-capitalised foreign joint ventures such as those involving Jardine Fleming and Wardley-James Capel, are likely to ease worries. But the report from Immacon is expected to recommend changes in both the training and capitalisation requirements for

President Soeharto

SALIM GROUP

Investment Opportunities in Indonesian Industry

The increasing liberalisation and deregulation of the Indonesian economy is providing Indonesian businesses with new challenges and opportunities. One group taking up that challenge is the Salim Group, the largest private commercial and industrial group in Indonesia.

The Salim Group was established in the late 1940s by Soedono Salim, also known as Liem Sioe Liong. Utilising Indonesia's abundant natural resources, the Salim Group provided the domestic market with a variety of basic products – palm oil, flour, plywood, foodstuffs and textiles.

Since then the Salim Group has diversified by building on its strengths to include automotive production, chemicals, banking and financial services, steel and building materials, properties and building construction, trading and distribution, food and consumer products, natural resources and agribusiness.

With the expansion of the Indonesian economy, the opportunities for exports have increased. Low labour and land costs and a central location in the fast-growing Asia-Pacific economic zone means that Indonesia is well-positioned to provide a vast range of products and services to the region, and also farther afield to Europe and the USA.

The Salim Group has long recognised this fact and goods are produced not only for the booming domestic market but also for export markets around the world. International operations are carried out through a subsidiary in Hong Kong (see box).

Much of the Salim Group's growth can be attributed to the early introduction of modern management techniques. Outside expertise was brought in at an early stage, enabling local staff to be trained to a high standard. A structured in-house training programme has been developed to provide the group with the highly motivated, skilled personnel it needs for future growth and internationalisation.

A major opportunity for the group has been opened up by the government's deregulation of the finance sector and promotion of the Indonesian capital markets. Anthony Salim, President and Chief Executive Officer of the Salim Group sees it as a natural progression for the group to list some of its companies on the Jakarta Stock Exchange (JSE). "A number of our international susidiaries are listed on the Hong Kong and Amsterdam Stock Exchanges. Now, with the liberalisation of the Indonesian economy we think it is the right time to list our companies on the JSE," says Salim.

"Public offerings provide us with the opportunity to strengthen our capital base and allow expansion and optimisation plans on a scale which would not otherwise be possible," says Judiono Tosin, Senior Executive Director of the Salim Group and Finance Director of Indocement, the most recent Salim Group company to have its shares listed on the JSE.

"Indocement was held back by high interest rates. It showed operating profits but interest payments at rates of up to 30% on

Anthony Salim

Indocement

UIC

debts incurred through capacity expansion in the 1980s, pushed and overall figures into the red. With the repayment of a large part of the debt using funds from the offering, Indocement is forecast to show profits of Rp250 billion (US$139 million) in 1990, compared to a Rp78 billion loss in 1988 and a Rp12.5 billion profit in 1989. As you can see, the repayment of the debt just before the end of the 1989 term has already made a difference."

Indocement is the largest Indonesian producer of cement with 45% of total capacity in the archipelago and a 35% share of the domestic market. Moreover, most of Indocement's capacity is in Java, close to the capital of Jakarta where the booming economy is creating the highest demand for cement for new road and high-rise office projects. With domestic cement consumption well below that of other Asian countries, Indocement projects demand in Indonesia to grow at 10% per annum over the next five years. In addition, exports of cement to Asia and Australia have been growing at double-digit rates.

In December 1989, 15% of the company's shares were listed, of which only two thirds (or 10% of the total shares) were offered to the public. The offering was fully subscribed and already foreign ownership is touching the 49% level permitted by the JSE. There has been a corresponding influx of fund managers from Great Britain, the USA, France and Japan coming to Indonesia to view the company and its activities at first hand.

"With such demand for shares, perhaps we have to consider another share listing soon, although regulations prevent further listings on the JSE this year. Already we have received approaches from the USA to set up Indocement ADRs. We hope in the future, once our profits record is established, to list Indocement on a foreign stock exchange, maybe in Japan, Taiwan or in the USA," comments Tosin.

Unggul Indah Corporation (UIC), the other group company listed on the JSE, has also been a target for foreign buyers. "UIC was oversubscribed by 1100%," says Johannes Kotjo, Senior Executive Director of the Salim Group and Director of PT UIC," a fact that rated the attention of state television. Foreign investors applied for 49 million shares in the offering (the total allocation was 9 million shares)."

UIC is currently the sole Indonesian manufacturer of alkylbenzene, a major ingredient in the manufacture of detergents. Increases in the rate of detergent consumption are closely related to improvement in standards of living. Indonesia's per capita consumption of 2kg of detergent per annum compares with Japan's 20kg and Hong Kong's 10kg, indicating the immense growth potential in Indonesia. Growth of domestic detergent production has averaged 15-20% per annum over the past 6 years and the outlook is equally promising.

Funds from the flotation are being used for an expansion programme – the company is doubling capacity in order to meet projected domestic demand. Continually seeking added value, the company's future plans involve diversification into ventures utilising the by-products of the alkylbenzene process.

The Salim Group's plans for listing companies do not end there. Other company flotations are in the pipeline with the most favoured candidate being Indofood, the largest instant noodle manufacturer in the whole of South East Asia. It commands 75% of the domestic market, while the main export markets include Singapore, Malaysia and the USA.

Indofood is expected to make a public offering of 15% of authorised shares, worth approximately Rp70 billion (US$40 million), in May or June of this year. With the success of the UIC and Indocement flotations, it is likely that another two or three Salim companies will be listed in 1990.

For the Salim Group, plans for the future involve the expansion of exports. "With our competitive advantages, we are now seeking to increase value-added exports to developed markets through affiliations with international companies. We are well-positioned in the Asia-Pacific region for easy access to Japan and the USA," says Salim.

International Activities

First Pacific Group, which is listed on the Hong Kong and Amsterdam Stock Exchanges, is at the forefront of the Salim Group's international operations. First Pacific Group has four core activities: marketing and distribution; commercial and investment banking; real estate consultancy and investment; and communications.

The Marketing and Distribution division serves the Asia-Pacific region with companies operating out of Singapore, Malaysia, the Philippines, Indonesia and Thailand. Furthermore, Hagemeyer NV., a Dutch company established in 1900 in Surabaya and now a subsidiary of First Pacific Group, operates throughout Asia-Pacific and Europe and is moving successfully into North American markets.

First Pacific Group has a number of banking interests, the main components being the First Pacific Bank in Hong Kong, which has recently been strengthened by merger activities, and United Savings Bank in California, which serves the growing Asian population there.

The Communications division operates a cellular phone system capable of dealing with Hong Kong's hilly terrain and high-rise buildings. It is also expanding its telecommunications business in the Philippines, Thailand and Malaysia. This division is expected to post significant profits in the future.

The Real Estate division has regional operations in property development as well as in broking and management.

For more information on the Salim Group and First Pacific, please contact:

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brokers operating on the JSE.

Secondly, the ADB report is expected to touch on the legal structure of the market. "It needs streamlining," says Abdulgani. She offers as an example the several duplicates of four separate documents that have to be presented to BAPEPAM or kept on record for every transaction. Legal changes are thought to be largely outside the scope of the ADB's present research, though they are believed to be the subject of a similar study in progress by the Unit Trust of India.

One topic will be of particular interest to outside investors: the possibility that the rules on who can manage funds on-shore will be changed to open up the markets to locally based foreign managers.

Thirdly, and likely to be closer to the core of the ADB report, will be a look at the problems faced in trading and clearing.

At the moment prices are made on the JSE in lots of 500 shares. "That means problems if you want to buy 525 shares," Abdulgani says, "brokers get confused and it puts the settlement system under pressure." In addition despite rule changes permitting the creation of bearer shares, most scrip is still registered, with the company keeping its own records of who owns what.

Reduced lots

The answer to these problems seems to be for the authorities to reduce the size of trading lots; encourage firms to issue only in bearer form; and for the exchange to develop a central clearing house.

The fourth problem the report is expected to tackle, that of custody, will mean changes tying in with those to trading and settlement before the way can be paved for full automation.

A number of the larger banks and brokerages do run custody operations, but they are reported to be under fire. "Custodians cannot see the light of day when managers start running their accounts aggressively," reports Betsey Wood of Merrill Lynch. Another fund manager warns that, "if the government doesn't improve settlement and custody then there is a danger of chaos at the JSE in the next few months." It is the single most serious problem facing the authorities," says Edmund Wong of Fidelity's Indonesian Capital Fund, "when everyone is buy, buy, buy, its fine – but if people want to take profits, will they be able to?"

The key according to Abdulgani, and the solution it seems likely the ADB report will suggest, is improved communication. Telephoning into Jakarta from abroad is notoriously difficult, communications within the city itself are bad, and as Abdulgani's experiences with her own broker show, getting to the right person at the right time is never easy.

On line

The obvious solution is the installation of an improved telephone network. At the moment AT&T, Ericson, NEC and Alcatel are all bidding for a $300m government contract to do just that. But, observers say the problem is chronic and getting worse, and that someone may be forced to dig deeper still to allocate the appropriate funds.

"Those funds will be available," Abdulgani maintains, "the government is keen."

In fact the money may not have to come directly out of government coffers. By transferring ownership into the hands of its members, the JSE will be able to tap directly into the profits it is generating.

The Bank Ekspor Impor Indonesia played a key role in setting up the privatised exchange which now exists in the regional capital of Surabaya. Horas Simatupang, the general manager of its banking services division, explains that he had agreed to sponsor a similar process for the JSE. "The government has said that it must become a limited company, a stock exchange which like everywhere else in the world, is financed and administered by its membership."

The main problem in privatisation, he thinks, will be how to alter the role of BAPEPAM. Like most of those involved with the venture he believes that eventually BAPEPAM will renounce its administrative function, and like the Securities and Exchange Commission in the US act simply as a watchdog.

The worry for outside observers, on the other hand, is that the speed of proposed change will lead to overheating.

The key figures in Jakarta's financial centre are aware of this and often refer to the need to stagger change. Wati Abdulgani referred to Singapore as an example to be followed. "They started with the same problems," she says, "and it took them ten years to go from manual to full automation." She thinks Indonesia will benefit from their experience. Horace Simatupang thinks that new systems can be put in quickly, but "that people need time to adjust." Both recognise that the automation and other developments will have to be staggered, the back offices cleaned up first before other trading systems can be installed.

Free market flow

But no visitor to Indonesia can avoid the conclusion that the overwhelming optimism of its capital markets is built on an unquestioning belief in the free market. "We must move," says Abdulgani, "there are at least 60 companies waiting in the wings to list ... we should let them all go ... the interest from companies is there, the interest from investors is there ... the market will mature by itself." Adding, "If Indonesia wants the big boys to play, it must play their game and show them that the market is ready for the big as well as the small."

"Let the free markets flow," adds Simatupang. "The Indonesians have taken a leap of faith," says Dudley Howard of Jardine Fleming, "and have implemented executive decisions which have moved the market along at a dramatic pace."

Most believe that the pace of change itself will ensure that the JSE will become better regulated. As more companies come to the market, they argue, demand will be met by supply, and those who want to beat the competition will be forced, for example, to improve disclosure of their activities. Marzuki Usman, the powerful head of BAPEPAM is known to see the addition of new companies to the official listings as the best solution to overheating.

Few people with a stake in the development of the Indonesian capital markets will admit to any real fears of a shake-out before the second wave of reforms take effect. But at least one observer worries that Indonesian investors have yet to learn, "that you can win, but you can also lose." They have a lot to prove in 1990.

GOOD JUNK – LIFE AFTER DREXEL

Scattered through the rubble of the US high yield bond market are many investment gems. In fact, good junk outweights bad, despite the public perception that the market met its end with the demise of Drexel Burnham Lambert. Pamela Roderick reports

The market may be down but it is not out. Dealers, issuers, and investors all believe it will survive and flourish again because it fills a need that still exists: providing capital for thousands of US corporations lacking investment grade ratings for their debt. And that is most of them.

Gail Hessol, managing director of corporate finance for Standard & Poor, estimates 800 out of tens of thousands of US companies currently have investment grade ratings on their bonds. That figure does not include banks or other financial service firms, or subsidiaries of foreign companies. Still, 800 is not many. It is only a fraction of the publicly traded companies in the US.

Industry analysts criticise the ratings as of little value to professional investors because they are revised too infrequently. Most of the major participants in the market do their own analysis, or trade with firms that provide it. As investors have found to their cost, an investment grade company can easily become a fallen angel.

Top-of-the-line

Some of the most mentioned names among top-of-the-line junk are Kroger (supermarkets), Duracell (batteries), Turner Broadcasting, Colt (diversified), Safeway (supermarkets), Vons (supermarkets), Owens-Illinois (glass), Stone Container (packaging), and even troubled RJR Nabisco. Standard & Poor consumer products chief analyst, Jacob Schlanger, considers RJR, Levi-Straus and United Brands to be top quality speculative issues.

Owens-Illinois vice president and treasurer, David Van Hooser, has no doubt the junk bond market will survive and will be there to service Owens-Illinois the next time they choose to use it. "I think it is simply going through a shake-out and probably a contraction. The marginal deals will be squeezed out of the market and the truly decent quality, but more speculative or higher yield, issues will still get done," he says.

He characterises Owens-Illinois as one of the larger issuers of high-yield paper with nine separate issues worth a total of about $3bn.

Owens-Illinois, an A-rated company and part of the Dow Jones Industrial 30, was taken private by Kohlberg Kravis Roberts in 1987.

A major acquisition last year of another glass manufacturer was first financed with bank debt, but then Owens-Illinois turned to the junk bond market again, "because we wanted to get some more medium-term paper instead of the shorter-term bank paper we had in place," Van Hooser says. "We used Drexel that time."

Stone Container and Vons supermarkets were also Drexel clients. The chairmen of both firms were among the dozens who put their names to a full-page newspaper advertisement in the Wall Street Journal in March, 1989, which proclaimed, in giant letters, "Mike Milken, we believe in you," and went on to say: "His vision has enabled many of our businesses, our employees and our communities to enjoy tremendous growth and opportunity ..." and to praise Milken's professionalism, honesty, integrity, and ethical conduct. The advertisement ran shortly after Milken was indicted on racketeering and securities fraud.

No solace

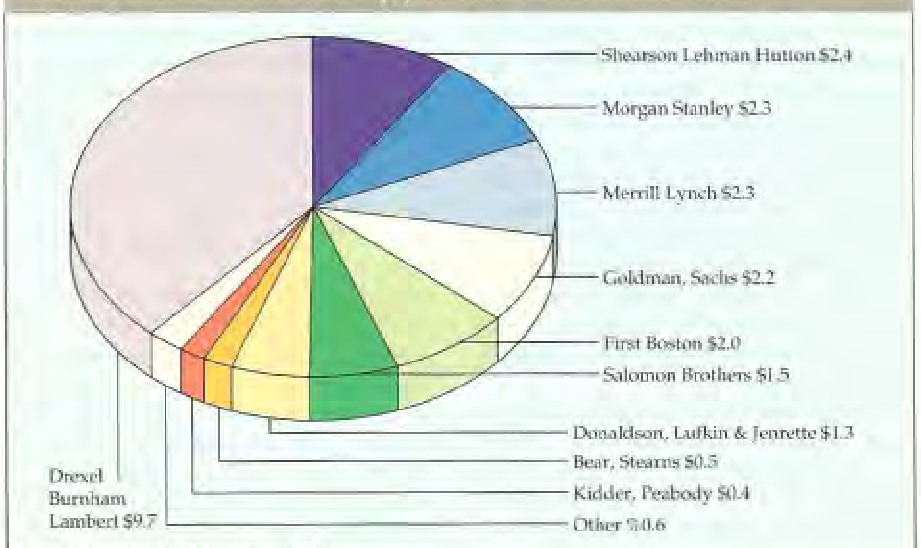
"We certainly took no solace nor rejoiced in Drexel's collapse. They underwrote two or three of our bond issues and I think it's a sad thing to see what happened to that company," says Michael Henn, executive vice president and chief financial officer of the Vons companies.

"I have to believe it will re-emerge because there are just too many fundamentally solid issuers who have bona fide need for money, and there are too many investors that need to get their money invested, so those people will meet each other again," he says.

Henn does not anticipate going back into the market in the foreseeable future, but says he will not hesitate to do so when the need arises. Vons currently has four high yield issues outstanding for a total face value of $470m.

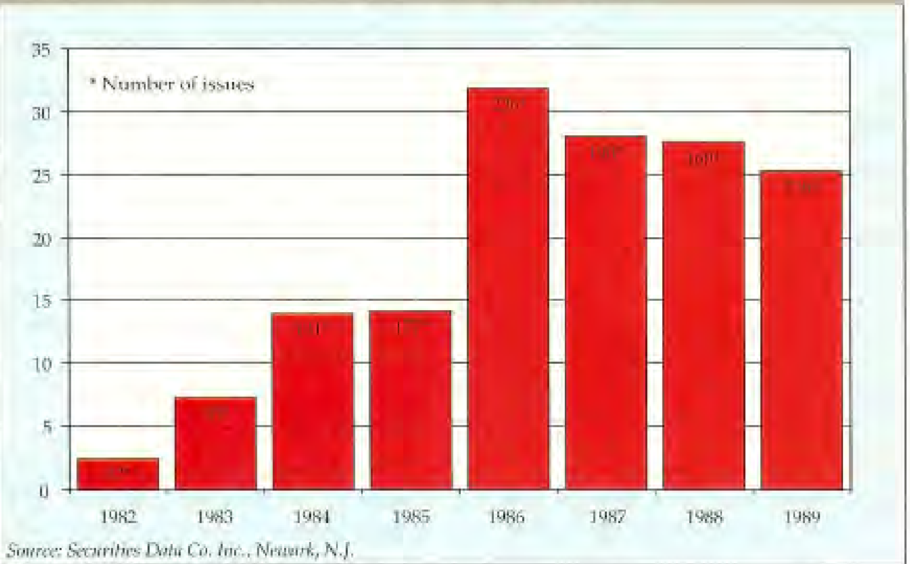
Two of the other high yield issues were done in 1987 in conjunction with a major acquisition of another supermarket chain. "We really were

Who did the deals in 1989: top junk bond underwriters ($m)



Source: Securities Data Co., Newark, N.J.

Junk deals: non-investment grade straight debt ($bn)



Source: Securities Data Co. Inc., Newark, N.J.

dependent upon the availability of a functioning high yield market to do that merger," Henn acknowledges. It went so well that Vons did another one in 1988, financed by bank debt, that "grew the company by 50% in one transaction," he says. Vons now has annual sales of some $5bn.

Stone Container grew to be an industry giant on a junk bond diet. "We have gone from a little over $400m in sales in 1982 to over $5bn last year," says Arnold Brookstone, senior vice president and chief financial and planning officer. And he adds that the company could not have done it without the junk bond market.

Strong cashflow

Much of that growth has been by acquisition. "But every time we've made an acquisition, the companies we've acquired have significantly increased their volume, profits and productivity," Brookstone says. Without junk bond financing, he doubts Stone Container would be dong as much as $1bn in sales today. Instead, he estimates the company has $1bn in junk bond debt including $200m in high yield convertibles issued in 1986 which were redeemed 12 months later for a total return to initial investors of approximately 65%.

These are not the kind of corporate profiles the general public expects to find in the junk bond market, but neither are they the whole story. There are many lesser quality credits where high rates of return are meant to offset high risk. Two such are Pan Am and US Gypsum, recommended by JP Morgan Securities high yield research chief Bintoar Palar. "US Gypsum we don't think is a distressed company, but it trades at distressed levels," he says. "The junior securities are yielding 24, 25, 26%. We think it's a rather interesting value at those prices. Our sense would be that there is good value in a bond that's trading at 55, 56, 57-cents on the dollar." Palar believes the market has over-reacted to the company's rather high levels of debt and to a downturn in the housing and construction industries which USG supplies. Palar considers Pan Am a case of junk bonds trading below a worst-case scenario. If the airline had to be put into bankruptcy, he says holders of senior debentures would still find value.

Martin Fridson, managing director of high yield research for Merrill Lynch Capital Markets, notes that 4% of the outstanding junk bonds defaulted in 1989. "That means 96% did not, which is not to say all of the 96% is good," he remarks. In fact, that default rate is up 1.5% over 1988, but Fridson considers that no surprise "in light of a downturn in corporate earnings in every quarter of 1989 over the previous year, which no one has talked about. It's not as if this is some big mystery." Defaults are a normal part of the business cycle according to Fridson who does not attach special significance to any particular year or particular company going under.

Very public defaults

Part of what drove the junk bond market down so dramatically were the very large and very public defaults of Integrated Resources, a financial services company, and Campeau's Allied and Federated department store chains, and the failure of UAL, United Airlines' parent, to come up with financing for a leveraged buyout. The market said, "no more."

Since then, Fridson says the market has been substantially revalued, the risk premiums are greater than they have ever been. "I think billions, literally billions of dollars could come in and take advantage of this opportunity before it would be gone," he says. "It's for an investor who can take a somewhat longer view." But investors should also be prepared for the market to go down a little more before it goes up a lot. "In high yield, you need a year or two to realise value," Fridson cautions.

The issue is what happens next. "Clearly we've got to sort out supply and demand," says Stephen Timbers, chief investment officer for Kemper Financial Service which manages $60bn, about $4.5bn of it in high yield securities. "Supply side forces are working because there are not going to be a whole lot of new organisations. Not only is one of the big originators out of the market now with Drexel gone, but the market itself just won't buy anything that isn't structured very strongly."

He expects demand to hold up because mutual fund dividends or interest tend to get reinvested. "About $10-$15bn will get reinvested into the market over the next year," Timbers estimates. "Also some non-traditional buyers of junk bonds are attracted by the enormous yields and potential for total return. The pricing mechanism right now is very inefficient, so some of the stronger credits are being priced the same as the weaker ones, and there will be buyers like traditional equity buyers who will be stepping up and buying these things for their total return characteristics."

Bottoming out?

Frank Cappiello plans to buy. He is convinced there is a lot of money to be made, but is concerned about timing. He and Carnegie Capital

The Bad Junk Kings

Drexel Burnham Lambert rose and fell on the back of the junk bond boom. Now, another firm is looking to capitalise on the collapse of Michael Milken's creation. R D Smith is a New York securities firm specialising in distressed junk.

Randall D Smith founded the firm in early 1985 to deal in distressed securities, especially the debt of bankrupt companies. Prior to that he was a partner at Bear, Stearns & Co. There was money to be made and very few specialists in the field, so Smith went out on his own and prospered.

Big names

The big names in bankruptcy back then were Johns-Manville, Storage Technology, LTV, Wheeling-Pittsburgh and A H Robins, none of which had anything to do with Drexel Burnham Lambert Inc, or leveraged buyouts.

"Back in '84, '85 there was nothing particularly wrong with junk bonds," says Michael Singer, president of R D Smith. "It's only in the last year that junk bonds have really fallen apart. At the beginning of 1989, the Street did over \$10bn in RJR Nabisco high yield paper. You couldn't have done that in anything less than a very healthy market. Everyone is so overwhelmed by what's happened, people have lost sight of that."

The firm has grown fast. There were about 30 employees when Michael Singer joined the firm in 1987, and there are close to 100 today. Singer says R D Smith & Co does more business in distressed securities than the rest of Wall Street put together.

Fundamental analysis is only half the firm's research product. The other half Singer describes as "understanding how creditor groups work within themselves and against each other in the bankruptcy process. It's one thing to be able to value the estate, it's another to be able to assign the value to various security layers and estimate timing and likelihood that those values are going to be attained. Probably our biggest value-added is this second area – assigning the value of the estate and estimating the likelihood and timing for achieving that value."

Research director Craig Davis says they look at all major bankruptcies. With companies not in bankruptcy, they look for potential problems such as a very aggressive debt amortisation schedule, zero-coupon bonds coming due, reset bonds or payment-in-kind bonds that are going to reset to cash-pay bonds.

Absurdly optimistic

"Typically in these cases, the capital structure was put together assuming some absurdly optimistic projections," Davis says, such as 20-25% growth in each of the next five years with no allowance for mistakes or economic downturns. We know a lot of those companies are going to have to go through a restructuring," he says.

R D Smith does not sell its research. Singer says they believe research should be a privilege for their clients who compensate the firm by trading with it.

R D Smith trades much more than junk bonds. Bank debt of distressed companies is a good part of their business; they also deal in bank debt of private companies and of public companies not in bankruptcy. They deal in trade claims, such as the bounced checks of those Bloomingdale's suppliers who received checks just before the Campeau retail empire, Federated and Allied Stores, declared bankruptcy. "We will give those creditors cash for their claims," Singer explains. "We won't give them 100-cents on the dollar, but we will give them some amount of present value cash" so they do not have to wait years for settlement.

Buying debt can be a cheap way to gain control of a company, and Singer sees this as a growing trend among junk bond investors. In restructuring a company under the Bankruptcy Code, a company usually swaps debt for equity because it cannot pay its bills. R D Smith's analysts often are able to predict which debt holders will get the largest share of equity.

Bankruptcy code

The same techniques do not translate into foreign markets, however. Singer says they considered covering other countries' debt but found it impossible to predict what governments will do because there are no defined processes with which the firm could feel comfortable. The same problem pertains to foreign corporate debt.

"The great thing about the US is it has a Bankruptcy Code that allows companies to continue functioning in bankruptcy in order to maximise the value of their estates," Singer says. "We feel very comfortable working within US procedures."

Management have teamed up on the new Carnegie-Cappiello Diversified High Income Fund which barely got out of registration and into the market before the year-end slide began. "The question is, when the hell is this thing bottoming?" he asks. The fund was still 65% cash when Cappiello withdrew from the market, which he says had become a waterfall. "I think we're seeing almost a bottoming," he says. "I'm betting the Drexel thing is the whimper that ends it."

Howard Marks, managing director of high yield investments for Trust Company of the West, doubts anyone ever would have predicted that Drexel could go bankrupt and the market would barely flinch. "When you pour on incremental bad news and prices don't go down anymore, that suggests it's as bad as it can get," he says.

There are two things Kemper's Stephen Timbers thinks could still make the market worse: If interest rates in general go up, or the economy slows more than anticipated. "If we have a fully-fledged recession, then undoubtedly there will be more issuers who will have cash flow problems," he says. "Other than that, I think supply and demand are working and we're experiencing such extraordinary prices that it stands to reason that, with a well-diversified portfolio, we're going to do very, very well on these things."

There is a general consensus that the long term results of this shake-out will be good for all concerned. Howard Marks anticipates a smaller, less controversial and generally higher quality market.

Frank Cappiello also believes it will upgrade the market, lead to tighter covenants, and, for a while, to fewer deals. "But as long as we have the tax code where interest is a deductible expense and dividends are not, it's senseless for a treasurer to think about doing stock if he can do a bond deal," he says. "Junk bonds aren't going to become heroes tomorrow, but I'm betting that you can buy your straw hats in January and a year from now this new (Carnegie-Cappiello) fund is going to look like a smart move. If it doesn't, I'm moving to Switzerland."

INTERAMERICAN

HELLENIC ECONOMIC REPORT No 5

By Dimitrios Paparistidis, Senior Economist, Intertrust Funds Management

ECONOMIC HIGHLIGHTS

The three-party coalition government, which ran the country during the past four months, has refrained from tackling the severe economic problems, restricting itself to solving minor day to day issues.

Therefore, problems such as the persisting inflationary pressures, the huge PSBR and the increasing current account deficit have been left to be dealt with by the government that will come out of the April 8 general elections. According to a recent study prepared by IMF experts in February 1990, the Greek economy is in danger of finding itself in the most difficult situation of the past five years. Furthermore, the IMF predicts that unless more stringent economic policies are applied, the macroeconomic figures will further deteriorate. In particular, the study points out that:

- PSBR as a percentage of GDP will rise to 22.5% in 1990, up more than three (3) points from last year.
- CPI might reach as high as 18% this year, compared to 16% in 1989.
- GDP in real terms in 1990 will increase by 2%, versus an estimated 2.5% for the previous year.
- Current account deficit will exceed $2.5 billion in 1990, posting no significant changes from 1989.
- Money supply as measured by M3, is expected to increase by 25-26% in 1900, versus 24% in 1989 a figure that is in excess of the target (18-20%) set by the central bank last year.

However, the gloomy picture portrayed by macroeconomic figures, concerns primarily the cumbersome, overstuffed and inefficient public sector. On the contrary, a large part of the private sector is prospering, thanks to underground business activities, which according to recent studies, represent 30-40% of the economy and greatly distort official statistics.

RECENT DEVELOPMENTS OF THE ASE

Not only did the Athens Stock Exchange (ASE) general index regain the losses it had suffered by the political instability which prevailed after the November elections, but it reached new highs during the first two months of 1990 (Chart 1).

This is a sign that the Stock Market has become more or less autonomous from developments on the political scene as its contribution to the economic development of the country is not disrupted by any political party or social class. Further evidence along this direction is provided by the fact that even left wing politicians have come to grips with the idea of privatising a number of the public sector companies by selling-off state owned businesses.

On the demand side for stocks, new entrants include both institutional and private investors seeking to maximise profits and obtain higher returns by investing in stocks of highly profitable companies, rather than in fixed income instruments. An example is the Interamerican Greek Fund, launched in June 1989, which by the end of March had a tenfold increase in its assets to $50 million, boosted by hefty returns (the share price rose 56% during this period). Equally, appetite for Greek stocks by US and European Funds has been a significant determinant of higher stock prices.

On the supply side, an increasing number of well established companies are raising funds through the market. As a result, there have been several new rights issues by listed companies

Chart 1: Athens Stock Exchange General Index

plus new listings. These developments are encouraged by the liquidity of the market (daily volume has tripled since last year, averaging $6.3 million) and the prevailing high interest rates which have turned traditional bank overdrafts into a prohibitive form of financing.

NEW LISTINGS IN THE ASE

Since December 1989, the following companies [1] have been listed in the ASE:

Balkan export

	1986	1987	1988	1989[2]	1990[3]
Total assets	29	32	40	53	70
Net worth	6	7	11	15	27
Sales	34	32	44	63	81
Gross profit	9	9	11	18	23
Net profit	0.7	1.2	2.1	3.8	6.1
EPS	0.6	0.9	1.2	2.1	2.6

The company is one of the most important manufacturers of wood derivative products in Europe and the second largest in Greece. It uses technologically advanced equipment and processes and based on the quality of its products, it has captured 33% of the Greek wood products market and exported about 25% of production each year.

The offering (December 1989) was for $7.5 million at an introduction price of $12.5. The issue was oversubscribed three (3) times and the stock traded at $23 at the beginning of March.

Manouli Cables Hellas

	1986	1987	1988	1989[2]	1990[3]
Total assets	21	27	31	38	56
Net worth	8	10	12	16	27
Sales	27	38	48	63	84
Gross profit	4	9	7	13	17
Net profit	1.4	3.9	2.4	3.6	5.3
EPS	0.5	1.2	0.6	0.8	1.0

A vertically integrated manfuacturer of telecommunications and electrical cables. The company is affiliated with "Les Cables De Lyon SA" which belongs to the Alcatel Group and has started acquiring know how for the manufacturing of fibre optic cables from the above mentioned company.

Manouli's customer base includes electric and communications utilities in Greece, the Middle East and North Africa, while the company has set up a distribution network that covers all EEC countries.

The offering (January 1990) was for $8.1 million at an introduction price of $6.9 and the issue was oversubscribed sixteen (16) times. The stock is expected to reach $15.5 when it starts trading at the beginning of March.

Bitros SA

	1986	1987	1988	1989[2]	1990[3]
Total assets	9	8	17	28	43
Net worth	3	4	6	9	18
Sales	15	13	23	35	50
Gross profit	4	4	7	11	15
Net profit	1.2	1.5	2.8	3.2	5.0
EPS	0.5	0.6	0.9	2.0	2.4

BITROS SA transforms iron and steel in ready to use form, and supplies all industries that use such basic metals in their production process. The company will use the proceeds from the stock offering partly to finance an investment in equipment that will allow it to add more value to its products and partly to reduce its dependence on borrowing capital.

The offering (February 1990) was for $5 million at an introduction price of $10 and the issue was oversubscribed nineteen (19) times. The stock price is expected to appreciate significantly when it starts trading towards the end of March.

Ergodata SA

	1988	1989[2]	1990[3]
Total assets	11	14	16
Net worth	10	13	14
Sales	1.3	13	19
Gross profit	−0.1	2.6	3.8
Net profit	0.2	0.6	1.2
EPS	0.1	0.4	0.6

This recently formed company is an affiliate of ERGO BANK (according to Business Week ratings, one of the most profitable banks worldwide) and is in the business of Systems Integration, offering hardware and software products. It represents a number of US and Japanese computer manufacturers in Greece. Plans for 1990 include manufacturing and trade of cash registers and entering into a joint-venture with Ergo Bank to form a leasing company that will facilitate the sales of its products.

The offering (February 1990) was for $2.4 million at an introduction price of $6.25. This issue was oversubscribed twenty-one (21) times and the stock is also expected to post significant gains when it starts trading at the end of March.

[1] All figures are in millions USD, except for EPS which are in USD.

[2] Provisional figures.

[3] Intertrust estimates.

The conversion of drachmas into USD in the paper was 1$ = 160 drs.

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PLAINLY STATED

The Australian federal government's plan for centralising control of the securities market ran smoothly until the states tumbled to the revenue they would lose if they surrendered their powers. As Doreen Soh reports from Sydney, that has left the country with a rather mangy securities watchdog

When Australia's financial watch-dog, the National Companies and Securities Commission (NCSC), was invited to draft guide-lines for global market ethics, at a meeting in Paris, it declined the invitation. But not because the NCSC did not have a contribution to make, but because they were so under funded that they could not afford the air fares.

The country's image has been severely tarnished by the troubles of some of its bestknown entrepreneurs – Rothwells's Laurie Connell, Hooker Corporation's George Herscu, Budget Corporation's Bob Ansett, Qintex's Christopher Skase and Bond Corporation's Alan Bond.

But recent events have undermined faith in Australia's willingness or ability to curb corporate excesses. In February the Commonwealth – the federal government – was successfully challenged in the High Court over new legislation designed to control the formation and operation of companies.

Now corporate Australia must await the plans of the new government before any certainty can be restored to the policing of corporations and the securities market.

Uncooperative

In the current cooperative scheme, power over corporations and securities is divided along State lines with the NCSC co-ordinating the State Corporate Affairs Commissions on a national level. When the Commonwealth first broached the idea of a national scheme, the States were vehemently against the proposal, as it means losing much of the A$90m a year from the incorporation of new companies and other administrative work. Four states mounted a High Court challenge which was heard in October of last year.

The proposed national companies and securities legislation consists of a package of 16 acts of which three principal ones are the Corporations Act 1989, the Close Corporations Act 1989 and the Australian Securities Commission Act 1989.

The Corporations Act contains the provisions currently in the various companies' codes. There is however, one major change – all companies will in future be required to register as Australian Companies. The Close Corporations Act provides a simplified corporate structure and more relaxed reporting requirements for small businesses formed by up to ten 'natural persons'.

The Australian Securities Commission (ASC) Act establishes a centralised controlling body with the primary responsibility for the administration of the national scheme. The ASC will be directly responsible to the Commonwealth minister and through him to the Commonwealth Parliament. The minister will only be empowered to give general directions on policies and priorities, thereby maintaining the ASC's independent status.

Tony Hartnell

Royal Assent

Since the package received the Royal Assent in July last year, Queensland, Victoria and Tasmania have agreed to refer their power to the Commonwealth in return for a share of the profits.

In New South Wales, the undisputed home of big business and banking, Premier Nick Greiner is said to be agreeable to doing a deal. In fact, Greiner has already handed over highly confidential files held by the NSW CAC (Corporate Affairs Commission) including details of its insider trading investigations, to the ASC. However, Greiner's minister for Business and Consumer Affairs, Gerry Peacocks, is violently opposed to the national scheme. New South Wales was joined by South Australia and Western Australia in taking the case to law.

> ***This hasn't done the reputation of Australia's judiciary any good. It's ludicrous that the Commonwealth can control a company when it is formed but has no power over its incorporation***
>
> *SIA official*

Following the six to one High Court defeat in February, Lionel Bowen, the federal attorney-general, has indicated that the Commonwealth will enact its Corporations Act without the provisions relating to the incorporation of companies.

Business is particularly critical of this decision. "This hasn't done the reputation of Australia's judiciary any good. It's ludicrous that the Commonwealth can cotrol a company when it is formed but has no power over its incorporation," says an SIA offical who asked not to be named.

Corporate Australia, represented by the Business Council of Australia and the Institute of Company Directors of Australia, favour either a national scheme where there is no constitutional doubt about any powers, or a revamped co-operative scheme with a major infusion of funds and powers for the NCSC together with a new management structure that will give the NCSC greater control over the State CAC's.

Better funded

The local financial community and international investors, who had viewed the corporate machinations of some entrepreneurs with growing concern, had been eagerly awaiting July 1 when a new and better funded watch-dog, the ASC would bear its fangs for the first time. It was hoped that the ASC and its handler, Tony Hartnell, would flush out the corporate skullduggery that has plagued Australia for the past 20 months and redeem the country's reputation abroad. But nothing, it seems, is ever that easy.

The NCSC has said, doggedly, that it will continue to pursue investigations but the incident over the plane tickets illustrates its impotence. Chairman Henry Bosch says he is still going full tilt and "putting resources behind any insider prosecutions we can bring to court."

The NCSC has finished an investigation into Bruce Judge's Ariadne conglomerate which collapsed in a welter of debts in 1988, is currently dissecting Rothwells, and is about to begin work examining Spedley. But a rapidly emptying wallet has meant that instead of launching a full investigation and prosecution into the Independent Resources Group, the NCSC has simply joined the shareholders case against the company. In the Qintex case, the best the watch-dog could muster was a 41 cent stamp; it wrote to the receiver suggesting he take action in court to recover money paid to Christopher Skase in management fees.

Hiatus

The root of the problem seems to be that the NCSC is shortly to be retired and replaced by the ASC. But as a result of the High Court judgement, the country seems set to have no effective regulatory body until state and central government officials stop bickering.

On the other hand, the corporate cowboys are delighted there are no transitional arrangements to pass investigations from the NCSC to the ASC.

Meanwhile Hartnell was told to push on for the July 1 start despite his not being able to sign new contracts while election campaigns were on. Recruitment and training of new staff and work on a new central computer at Victoria's La Trobe Valley, that can spit out information about every major Australian incorporated company to 800 terminals throughout the nation, is in full swing.

Bond: listing to star board

Christoper Skase

"The important issue at hand is to get into place as quickly as possible a scheme that is national in character," says Clive Speed, the assistant director of the Business Council of Australia.

Interim

Meanwhile the Australian Stock Exchange (ASX) is trying to bridge the gap in corporate regulation. It has abolished the three week grace period for submission of company reports claiming corporations in the "more troublesome sector" are abusing it. A total revamp of the listing rules is under way. ASX national director of companies, Ray Schoer, says it will be a "total overhaul right from the basics." He adds that the first draft has already been completed and the new rules are expected to be in place by June.

It is hoped the ASX will have better luck with the new rule book than its attempts to overhaul its antiquated transfer and payments system. Its central depository system was killed just before birth in 1986 when big business decided it didn't like it. But another clearing and settlement steering committee was reconvened late last year. The committee especially wants trades of A$100 000 and above to be settled within five days and has asked the ASX to explore the possibility of implementation this year. An inefficient clearing system is often cited as the main cause of uncertainties that drive as much as 40% of Australian equities trades offshore.

TRICKY NIKKEI

The spectacular growth of the Nikkei linked bond market has been among the least reported capital market innovations of the past two years. Its success highlights the growth potential of index linked bonds in the 1990's. Andrea Rogers reports on its roots and development

Despite the tumble taken by the Nikkei 225 in the new year, Japanese investors still reaped handsome investment returns from Nikkei linked bonds.

On February 26 1990 the Japanese benchmark Nikkei 225 Stock Average Index fell 159.1 points to a four month low of 33321.9. That seemingly modest drop made headline news on business pages around the world as it appeared to confirm the fears of many international investors that a sustained Tokyo market collapse was under way.

Only two weeks prior to Christmas the Nikkei closing price peaked at 39915.9, and it had actually edged above 39000 during business hours. In less than two months the index had fallen by 14% and many Tokyo watchers believe it had further to go.

The Nikkei's problems were not echoed by a corresponding fall in London or New York. That has lead many international investors to conclude that the drop represents the beginning of a long predicted Japanese equity market correction, and spells the end for Tokyo's overlong bull market.

Protect exposure

However, a number of international equity portfolio managers have been able to protect their exposure to Japanese equity by hedging their portfolios with Nikkei put warrants. These give the holder the right to "put" the warrant at a certain strike price; if the strike is 38000, the holder stands to benefit from the warrant being "in the money" if the Nikkei falls to, say 32000, thus limiting the downside loss of any market correction.

The worth of these warrants has been dramatically demonstrated in the past weeks by the success of recently issued Nikkei puts, listed in London and New York. These options (a warrant is effectively a long-term option) quickly became the hottest items in the New York market as the Nikkei fell, trading at massive premiums to their issue price.

However, over-the-counter Nikkei put options have provided the largest part of international investors; hedges on the Nikkei index. Japanese investors have been writing these OTC options for the last two years and they underlie the explosive growth of the Nikkei-linked bond market.

Nikkei-linked issues now account for 21% of the EuroYen bond market, and are almost exclusively bought by Japanese Investors.

The bond is simply a debt instrument with dividend or redemption characteristics that depend on the performance of the Nikkei 225 stock average, the benchmark measure of the health of Japanese equity.

The largest and most sophisticated of the Japanese funds have purchased over $8bn of these instruments. According to a Tokyo equity manager in one of the largest institutions, he receives "four or five Nikkei linked investment proposals each week" from international investment banks specialising in the market.

The Nikkei linked market has been so successful because it has taken advantage of the simple arbitrage between the natural desire of international investors to hedge their Japanese equity portfolios, stemming from their fear of a market correction, and the bullish attitude of Japanese investors to their domestic stock market.

Following the international equity crash of 1987, the Tokyo stock exchange quickly recovered and outperformed other exchanges. That brought foreign investors back into the market, and as the Tokyo Stock Exchange continued to outperform other markets, the need to invest became stronger, even as the fear and possible magnitude of a catastrophic market correction, (which many now believe is happening), grew stronger.

Alternative source

Meanwhile the immediate post crash period brought its own, different problems to the large Japanese investors. Because the Japanese government was redeeming previously issued high coupon government bonds – JGBs – they required an alternative source of high yield income to maintain portfolio performance.

Historical price volatility of Nikkei 225 stock average

However, Japanese financial regulations make it very difficult for funds to make radical portfolio alterations. For a start, their access to futures and options products is limited and Article 86 of the Insurance Act states that insurance companies can only distribute dividend or interest income, while all capital gains go to reserves.

These conditions are gradually being relaxed with deregulation, but the immediate answer to the high return requirement was to create a high coupon instrument. One way of doing this was to issue a bond that included a degree of exposure to the equity market.

Simultaneously, foreign exposure to the Japanese market was growing, but although international investors were buying Japanese equity, and equity derivatives on the equity warrant market, they lacked any downside protection. The Nikkei OTC option market, and with it the Nikkei-linked bond market, was developed to meet that requirement.

The vast majority of over $8 bn of bonds issued to date have been redemption linked. If the index falls, the investor stands to loose up to 100% of his investment. But in return for taking that risk, they receive enhanced coupon returns. In effect the investor is writing a put option on the Nikkei.

Sophisticated Japanese investors can quickly measure the value of the implied option and frequently go to the leading arrangers of Nikkei linked bonds with the precise criteria of the option they wish to write.

Investor's premium

The high coupon is simply the investor's premium in return for writing the put option on the Nikkei. If the strike price of the option is set at the level of the Nikkei on the day of launch, then the investor will lose if the Nikkei is lower at maturity. The redemption is determined according to the level of the Nikkei 225 stock average at the maturity of the bond. If the Nikkei is higher or equal to the strike price, the investor receives 100% redemption.

But if, at the maturity of the bond, the Nikkei is lower than the strike price set at launch, the investor looses a portion of the redemption amount, determined by the put option formula embedded in the redemption provisions of the bond documentation. In return for accepting that risk, the investor receives a higher coupon than he would on a conventional straight bond.

The premium to pay the high coupon is generated from the sale of the option to an option buyer – one of the international equity portfolios mentioned above – and thus part of the option premium is returned to the bond investor who is, in effect, the option writer.

The bonds themselves are issued by established Euromarket issuers, mainly financial institutions, to meet the credit criteria of the investors. The issuer of the bond is, therefore, the buyer of the put option written on the Nikkei by the investor. If the put option is "in the money" at maturity, the issuer receives from the investor an amount determined by the option formula to compensate for the fall in the Nikkei.

Even if the Tokyo market does crash, the downside for Japanese buyers of Nikkei linked bonds is limited

However, the bond issuer has no use for the put option, so it is then stripped out of the bond by the bond arranger and sold on as an over the counter put option to the international equity portfolio manager as his hedge on the Japanese equity market. The arranger of the bond, the international investment bank, performs the role of matching the investor, issuer and option buyer, effectively creating a market for the Nikkei puts where none previously existed.

Low funding

The issuer also profits from the deal by gaining access to sophisticated Japanese investors, and from realising a low funding cost by acting as the surrogate option writer.

Thus, an option written by a Japanese investor could, for example, be sold by a Scandinavian bank with a triple A credit rating to a portfolio manager based in the Cayman Islands. The end result of the Nikkei linked issue is to have created a market where none existed before in order to meet the needs of international equity investors for a hedge and investors for a high yield debt instrument.

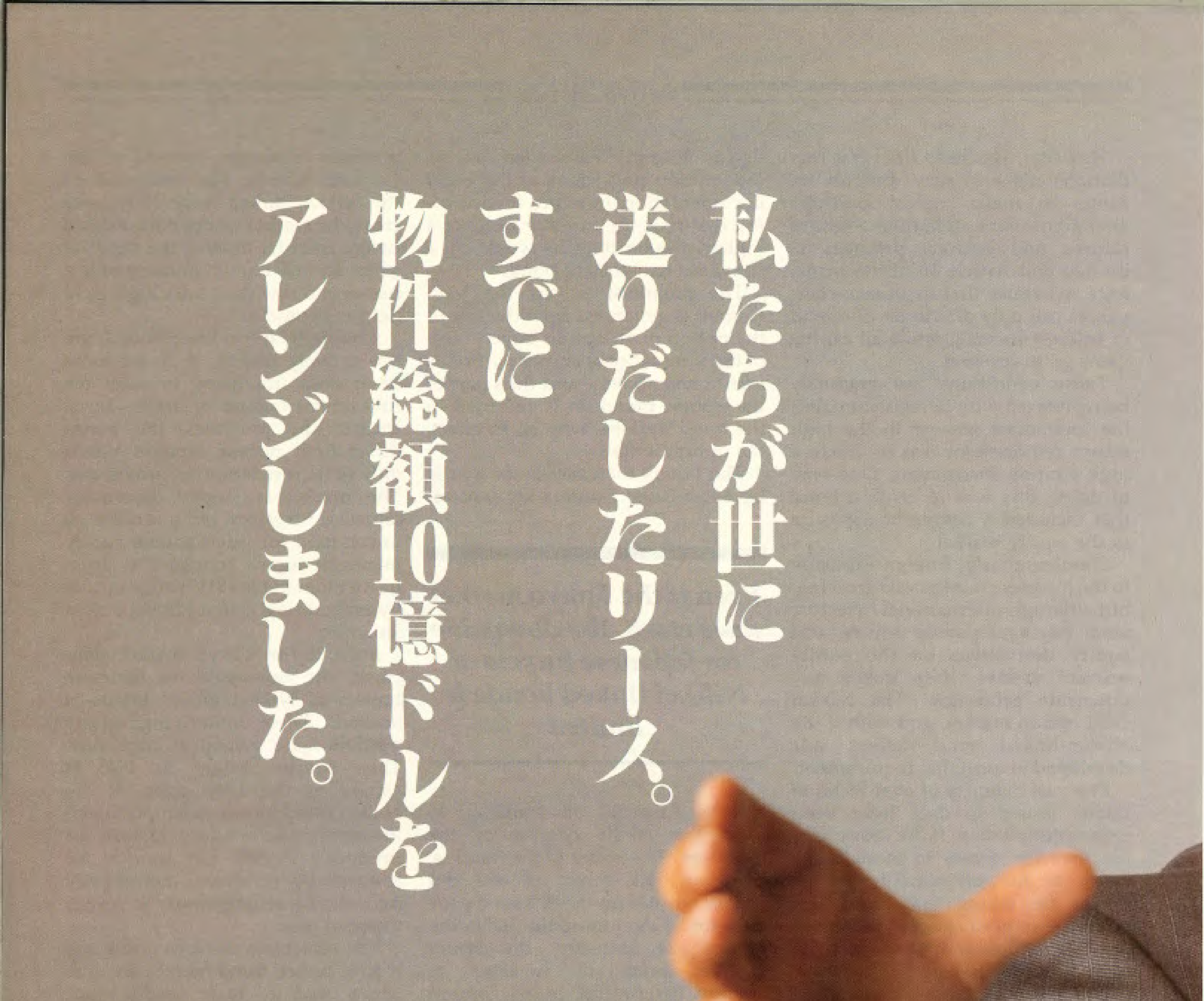
Although Nikkei linked bonds are not actively traded, they are more often than not listed to meet the investment criteria of funds. To all intents and purposes, the bonds differ from normal straight bonds only in their redemption provisions. The market is largely driven by Japanese investors, but it is not at all uncommon for international equity managers to ask arrangers to structure a tailor made OTC hedge option by embedding it in a Nikkei linked structure.

Even if the Tokyo market does crash, the downside for Japanese buyers of Nikkei linked bonds is limited. Their underlying equity portfolios are valued at book cost. Thus equity bought in 1945 is valued at the 1945 price. If the Nikkei bond looses redemption and the investor suffers a capital loss, the investor's capital can quickly be restored by revaluing their equity portfolio by selling equity to realise a capital gain.

The structures used to create the Nikkei linked bond market are now being used to create similar stock index linked bond issues, notably in the French and German markets. Many market observers expect such issues to become increasingly common in the 1990's.

Even though the Nikkei has tumbled over the past two months, that has not stopped Japanese investors writing the put options that underlie the bond issues. Many Tokyo players feel that the Nikkei will soon set out again on a bullish run. The arbitrage between the feeling of domestic investors that the market will rise and international investors fearing a crash still works.

Even if Japanese investors decide that the Nikkei is on a long downward slope, the market will continue to thrive say bankers, but instead of Nikkei puts, it will be Nikkei call options that underlie it. The difficulty will be to persuade international investors that a declining market will rise even though the Tokyo playersrs have decided it is a falling one.



私たちが世に送りだしたリース。すでに物件総額10億ドルをアレンジしました。

攻めと守りのリスク・マネジメント

チェースのエアクラフト・ファイナンス

エアクラフト・ファイナンスは、航空機の調達に際し、当事者の利益を最大限に高めるクロスボーダー・リースによるプロジェクト・ファイナンスです。

チェースは、過去4年間にタックスベースのストラクチャーでは16機、物件総額10億ドルにのぼるリースをアレンジ。エアラインには低コストの物件調達手段を、またレッサーやレンダーには高利回りの投資案件を提供してまい

りました。

チェースの提供するリースは、もっとも健全なストラクチャリングであり、ひとつひとつの案件に対してテーラーメイドで対応。高い商品設計能力とパッケージング力、競争力のあるプライシングなども魅力とされています。

1989年は、ヨーロッパおよび中近東を対象とした日本型リースに力をいれ、半年間に取りまとめたリース物件は5機、物件総額2億6,300万ドルにも達しています。提供先はポルトガル航空、エミレイズ航空（デュバイ）、ブラーセンズ航空（ノルウェー）など。このほかに中近東のガルフ航空に対するリースでは、2億5,000万ドルのデット部分をアレンジ。総計5億ドルを上回り、ヨーロッパ・中近東向け日本型リースでは、ナンバーワンのシェアを確立しました。

このチェースの実績は、東京、ロンドン、ニューヨーク、香港に組織されたリーシング・チームの連携と、チェースならではのプレースメント能力、また当商品の先駆者としての高度なノウハウの蓄積などによるものと言うことができるでしょう。

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CHASE

インドネシア一流企業の確かな将来

インドネシア企業の中でもPTセメント・シビノングほど、東南アジア諸国の新しいダイナミズムを具現している企業はない。今年1月に7,800万米ドルにのぼる同社株式の公開募集が行われたが、購入申し込みはほぼ4倍に達した。特に、この新進セメント・メーカー——資源に恵まれた島々から成るインドネシアで第3位に位置している——を喜ばせたのは、海外からの注文が多かったことで、ほとんどのブローカーは申し込みの18−20パーセントしか割り当てをもらえなかった。同社の株式はその折にジャカルタ証券取引所（JSE）に上場され、現在の時価総額は6億3,000万米ドルとなっている。

募集時の人気もさることながら、同社の株式がたいへん市場の好感を集め、1990年1月の新株発行以来、11,500ルピアを最低に、募集価格を約80パーセント上回る18,000ルピアまでの間で取り引きされてきたことに、多くのアナリストは注目している。さらに重要な点は、インドネシア市場では大きな値動きがないにもかかわらず、この株の場合、流動性がたいへん大きいことである。1日の売買高は11万株から12万株、ピーク時には35万~40万株にものぼったのである。

こうした好調は、今後も続くものと期待されている。というのも、インドネシア政府が、JSEに対する海外からの株式投資を奨励しているからである。1988年以来、銀行株を除いて新規発行株式の49パーセントまでを外国人が購入することもできる。

同社が今回の増資によって得た資金は、150万トンの現有能力を倍増させるプラント拡張に当てられる。この3月2日に、プラント拡張のための建設工事契約を現代建設と結び、米国のフラー・インターナショナル社とは機械設備購入の契約を結んだ。この機械設備購入および工場建設契約の総額は1億6,950万米ドルに達するが、この規模の設備増強計画としては、かなり安上がりと言える。

インドネシアのセメント市場は、地理的に区分される。PTセメント・シビノングは、地元市場であるジャカルタを含む西ジャワ地区で、30パーセントのシェアを持っている。首都ジャカルタとその近郊では、国内および海外からの建設投資にあおられて、新しいビルの建設が爆発的に増加しているが、同社は、そうした建築ブームの恩恵を満喫できそうである。さらに、国内市場のほかにも、アジア各国への輸出で大きな可能性を持っている。

原料入手の面を見ると、こちらでも同社は恵まれた立場にあって、自社所有の石灰岩採石場を持ち、早くから石炭焙焼法への転換を図ってきた。石炭は、広く供給源を求めることができ、価格的に低廉である。

今回の拡張計画は、1991年に地元の西ジャワ市場が供給不足に陥るという予測を念頭に置いて、注意深く立案されたものである。問題はそのタイミングだが、供給不足が200万トンを超えると予想される1992年4月までには、増産設備が完成の運びとなる。ほとんど有り得ないことだが、国内需要が予想されるレベルにまで達しない場合でも、インドネシアのセメント価格は他のアジア諸国の大部分と比べて低いため、もうひとつの大きな市場である輸出を考えればよい。

PTセメント・シビノングの経営陣にとり、市場の先行きについて強気の見通しを持てる今の状態は、新しい海外投資家を引きつけるうえで意味有ることとはいえ、同社の歴史のほんの一コマでしかない。彼らは、1975年から現在までの長期にわたる業績がすべてを物語る、と信じている。先を見通した慎重な投資計画こそ、彼らが考える時宜にかなった最適の場所を、PTセメント・シビノングに与えてくれるものなのである。歴史的に見ると、諸々のタイミングや時々の出来事も、この会社に味方した。インドネシア経済は過去10年間、上昇と下降を繰り返してきたが、同社は一度として、利益を出せなかったことはなかったである。

PTセメント・シビノングについて、くわしいことは、下記までお問い合せください。

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難水域を航海する

インドネシアの株式市場に取り組まねばならないファンドマネジャーがますます増えているが、彼らが抱える問題点と可能性について、ジャカルタからジュリアン・ハードウイックがレポートする。

「われわれの同業者の多くは、"7重のベール"という踊りを踊っている」と語るのは、香港のジャーディン・フレミングのマーケティング・ディレクター、ダッドリー・ハワード氏である。彼は続ける。「しかし、とどのつまり、彼らの資産を丸裸にしてみると、そのファンドのほとんどを投資せずにおいたか、かなりの部分を他の証券取引所へ投資せざるを得なかったか、わかる」。彼の発言は、過去1年半の間にインドネシア市場へ乗り出したファンドマネジャーが直面している数多くの問題の中でも、最も困難な部分を浮き彫りにしている。市場の流動性不足と外国投資家のアクセスに対する制限である。

しかし、問題がどうであれ、この市場は依然として光彩を放ち、そこに足がかりをつくった者には報酬の金脈を約束している。1989年には、多くのファンドマネジャーにとって、ジャカルタ証券取引所(JSE)のベンチマークとなっているジャーディン・フレミング・ヌサンタラ(JFN)指数が77パーセントもの急騰を示し、91.41で同年を終えた。また同年には、ある報告によれば、上場企業の数が56と2倍以上増え、市場の時価総額も10億米ドルから96億3,000万米ドルに増大した。「それでもJSEの時価総額は、GDPのたった1.5パーセントにすぎない」と、インドネシアに投資する最初の外国ファンドであるインドスエズ・アジアのマラッカ・ファンドのマネジャー、ジョバノビッチ氏は指摘している。

彼にとってそれは、これから実現されるべき可能性を明示するものにほかならない。その実現を確実なものにするために、1990年には、株式市場のお目付け役を果たす管理機関、BAPEPAMが50〜100銘柄の新規上場を計画中である、と地元の観測筋は見ている。

それだけ新規上場があれば、いくぶん流動性の問題が緩和される方向へ向かいそうである。「また、売買できる産業分野が増えることで、市場の権威は高まるだろう。そうすれば結果的に、売買高も増えることになる」と、ジョバノビッチ氏は予測している。しかしながら、そうした上場の効果も、予想される外国ファンドの数の増加によってある程度相殺されそうである。インドネシアのファンドは、政府の正式認可なしでスタートできる。今すでにどういうファンドがあるのか、まとまった資料がないため、今日までに投資された外国資本の額を測るのは困難である(表参照)。しかし、JSEに関与している人たちは、もっと多くの投資会社が機会に便乗してくるので、1990年には5つのファンドが誕生すると予測している。

一方、流動性の問題に対しては、すべてに当てはまるものではないにしても、なんとか解決法を見いだし、克服したファンドマネジャーもいた。マラッカ・ファンドの場合、今では100パーセント投資を完了している、とジョバノビッチ氏は述べている。しかし、最初のファンドであるということと、当初のマンデートにより、インドネシアとマレーシアとにポートフォリオを分割して投資できるという点で、このファンドは二重の有利さを持っているのである。3,600万ドルでスタートしたこのマラッカ・ファンドの純資産総額(NAV)は85パーセント増加し、現在およそ6,000万ドルに達している。その投資先は52パーセントがJSE、

インドネシア・カントリー・ファンド

ファンド	当初資本金(100万米ドル)
マラッカ・ファンド(インドスエズ)	35
インドネシア・ファンド(ジャーディン・フレミング)	63.7
ジャカルタ・ファンド(ソーントン)	30
インドネシア・グロース・ファンド(ロイヤル・トラスト)	6.5
インドネシア・ファンド(コンノート)	7
野村ジャカルタ・ファンド(野村証券)	25
インドネシア・キャピタル・ファンド(フィデリティ)	37.5
ジャワ・ファンド(ワードレイ)	30
ザ・インドネシア・ファンド(BEAアソシエート)	69
ザ・ジャワ・ファンド(リッポ・アジア)	30

インドネシア資本市場のエキスパート

現在、ジャカルタ証券取引所（JSE）には株式上場を目指す会社が目白押しであり、世界の国際投資地図の上でインドネシアがはっきりマークされることになった。──リッポ・パシフィック・ファイナンスのコミッショナー、ジェームズ・リアディー氏は、こうした状態がこれからも続くものと信じている。

「インドネシア政府は、久しく投資の必要性を認めてきました。そして今、金融分野の規制を緩和し、外国資本の流入を容認しようという賢明な政策をとっています。昨今の経済成長は驚異的かもしれませんが、それはただの線香花火で終わるものではありません。なぜならインドネシアには、今もって未開発の大きな可能性があるからです」とリアディー氏は語る。

リッポ・パシフィック・ファイナンスは、インドネシアの銀行・金融サービス業界をリードするリッポ・グループのコーポレートファイナンス部門である。それ故に、投資熱の高まりの中では、仲介者として有利な立場にあると言える。非石油・ガス輸出を拡大しようとする政府の動きも、リッポ・パシフィックの中心的ビジネスである融資事業の需要を増大させている。

同社は元来、1982年にリッポ・グループと、ウオールストリート以外にある投資銀行の中ではトップグループの1社であるステファンズとの合弁によって設立されたリース会社であった。1989年の終わりにJSEに上場されたが、その際の株式購入申し込みは100倍以上にのぼった。人気を集めた主な理由の一つは、外国人によるインドネシア民間銀行の株式購入を禁じた規制の例外として扱われたため、外国の関心が集中したことである。

株式上場を果たし、170億ルピア（940万米ドル）を手にしてから以降のリッポ・パシフィックの動きは素早かった。強化された資本力を拠り所に、大蔵省からファイナンス・カンパニーとしてのフルライセンスを取得することに成功したのだった。このライセンスでリッポ・パシフィックは、

ジェームズ・リアディー氏

従来のリース事業から、ファクタリング、消費者金融、ベンチャーキャピタルなどの事業への進出がかなった。加えて、100パーセント子会社の証券会社、リッピン・セキュリティーズもブローカレッジ、引受および投資顧問業務のライセンスが与えられた。リッポ・パシフィックは、業務の拡大により、1990年の利益が対前年比86パーセント増の42億ルピア（240万米ドル）に達すると見込まれている。

「当社は、インドネシアの民間企業の中で、株式上場を果たした最初のファイナンス・カンパニーです。リース業でわれわれと肩を並べる競争相手はいません」とリッポ・パシフィックのネスター・J・パジラ社長は言う。「ディレギュレーションにより、新たな競争相手として、外国のファイナンス・カンパニーや証券会社がインドネシア進出を図っていますが、われわれはひと味違うサービスを持っています。何よりもまず、この土地をよく知っています。海外からやってくる"大物連中"でも築き上げるには何年もかかるようなネットワークもあります」

インドネシア資本市場の成長と、より大規模で質の高いコーポレートファイナンスのニーズを見込んで、いち早く態勢を固めたリッポ・パシフィックの先見性は、アジアの金融界でよく知られ、たいへん尊敬されているモフタル・リアディー会長と、同氏の息子で精力的なジェームズ・リアディー最高経営責任者の2人に率いられたリッポ・グループの経営姿勢全体に見られる特徴である。

インドネシア市場に対する彼らの先見の明と洞察力を示すもう一つの例は、リッポ・グループの中心に位置する商業銀行、リッポ銀行の目ざましい躍進に見ることができる。この銀行は1989年を30支店で出発し、同年を100支店で締めくくった。その株式はJSEに上場されており、外国為替業務では高い評価を獲得している。香港で5,000万米ドルの変動利付CDを発行し、大成功を収めた。預金者には3か月毎に賞金が当たるチャンスがあるという画期的な商品、"タハパン"のおかげで、同行の支店には預金が流れ込んでいる。

リッポ銀行の支店網と他のリッポ・グループ企業が、リッポ・パシフィックのさまざまな金融活動に対して、インドネシア全域で膨大な顧客層をもたらしている。かてて加えて、グループの強大な資金力が確かな資金的バックとなっている。

LIPPO PACIFIC FINANCE

付加価値の高いサービス

「リッポ・グループの主な目的は、銀行ならびに金融サービスの提供にあります。リッポ・パシフィックは、われわれが持つ伝統的な商業銀行のサービスを補完する、コーポレートファイナンス部門として設立されました」とジェームズ・リアディー氏は述べている。そして、「われわれはお客様に付加価値の高いサービスを提供しようとしています。金融部門のディレギュレーションと外国銀行の進出によって競争が激化するのに伴い、イノベーティブでソフィスティケートされた金融商品に対する需要が高まってくるでしょう。リッポ・パシフィックは、そうしたサービスの提供に最も適した立場にあります。われわれはインドネシア人であり、国内マーケットの事情に通じています」と付言している。

リアディー氏はまた、以下のように、インドネシア経済とJSEに関して強気の見通しを明らかにしている。「インドネシアには未開発の大きな可能性があります。天然資源は豊富にあり、労働力も潤沢です。そのうえ、フィリピンや中国本土の政情不安もあり、台湾その他のNIESのコスト高の工業国から撤退する製造業者たちが、安定した政府と現実的な経済政策をとるインドネシアに目を向けています。

いま申し上げた政策の中には、株式市場の育成も含まれています。企業の上場は、1989年に比べれば若干ペースが鈍るとしても、今後も続くことは間違いありません。株式を公開する企業の質も高まっていくでしょう。

リッポ・パシフィックは、証券子会社のリッピン・セキュリティーズとともに、株式公開を希望する企業にアドバイザリー・サービスを提供できる態勢があります。1989年に実施したわれわれ自身のグループ企業の上場が、手っ取りばやい経験になりました。ですからわれわれは、お客様が直面する問題がどういうものであるか、心得ています」

1989年には、リッポ・グループの5社がJSEに上場された。リッポ・パシフィック、リッポ銀行、生命保険会社で首位をいくリッポ・ライフ、そして商社とメーカーの2社である。

信頼できる現地情報

リッピン・セキュリティーズは今年3月、大蔵省よりブローカレッジや自己売買とともに、引受もできる総合証券会社の地位を与えられた。

同社は、国内証券取引所におけるシェアを高めようと、方策を考えているところである。バックオフィスのシステムを整備する一方、リサーチ部門では専門家を集めている。ブローカー業務については、地元企業の方に利があるとリッポ・パシフィックが見なしている分野である。

モフタル・リアディー氏

「投資する場合にカギとなるのは信頼できる情報です。リッポ・グループのネットワークを通じて、われわれは市場の特定分野に関し、非常に深い知識を持っています。国際的な大企業と正面から戦おうとは思っていません。それよりも、引き続き自分たちが得意とする分野に絞っていこうと考えています」とパジラ氏は述べている。

「現在の目標は、インドネシアでナンバーワンの投資銀行になるために、持てる力を生かし、顧客との間に特別な関係を築くことです。

しかし、長期的には、アジア地域に手を広げていかざるをえないでしょう。国際投資家は、アジア太平洋地域全体に目を向け、その全域にわたってサービスの提供ができるところを探している、というのが全般的な傾向です。そのために、中期的な到達目標として、タイ、シンガポール、マレーシア、そしてフィリピンへ進出する機会を求めていくつもりです」

アジア諸国には国際経済の中で大きな役割を果たす可能性があり、結局はそのことが世界をアジアへの入口に立たせることになる、というモフタル・リアディー氏の確信は、そうした外国からの関心の高まりが証明している。インドネシアにおけるディレギュレーションの一つの結果は、提携や合弁事業を求めて、外国の大銀行がインドネシアの銀行に殺到していることに見て取れるのである。

リッポ・グループは外国の銀行と、数多くの合弁事業を持っている。主なパートナーは、バンク・ナショナル・ド・パリ、日本長期信用銀行、および東海銀行である。ホンコン・チャイニーズ銀行やリッポ・バンク・カリフォルニアを主要メンバーとするグループ独自の環太平洋ネットワークに加えて、世界の一流銀行との提携は、グループを国際的な舞台に登場させることに貢献している。リッポ・パシフィックはまた、国内での専門分野を補完するための合弁事業にも、積極的に取り組もうとしている。くわしいことは下記までお問い合わせください。

LIPPO PACIFIC FINANCE

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1パーセントが米国市場で上場されているインドネシア関係会社、そして残りがマレーシアとなっている。

対象をJSEだけに絞って投資する最初の外国ファンドであるジャーディン・フレミングのインドネシア・ファンドは、ある競争相手が言うところの"一番目のラッキー"に恵まれた。すなわち、昨年、政府が管理する国営投資信託会社のPTダナレスカが、ポートフォリオのかなりの部分をジャーディンの手に委ねたのである。

ダナレスカは,1970年代に設立され、上場株式の公平な分配と所有を促すために、引受と一般向けに小額面のミューチュアル・ファンド証券を発行する業務を行っている。

同社は法律により、すべての新株発行時に優先的にアクセスできることになっている。その結果、1989年初めには、全上場株式価額の約40パーセントを保有することになった。同年末には、これが28パーセントまで低下したが、ジャーディンのファンドは、その恩恵を受けた唯一の外国ファンドとして知られている。

「ダナレスカは、市場に上場されてくる証券の最大の引き受け手だった。彼らのおかげで、われわれのファンドは、出発時からキャッシュでの保有が競争相手よりはるかに少なくできた」とハワード氏は述懐している。同氏のファンドは現在、70パーセント投資されている(かこみ記事参照)。昨年3月にスタートして以来、純資産総額は6,370万ドルから8,500万ドルへ上昇した。

苦闘する各社

ダナレスカに顔のきかない他の運用会社にとり、流動性の問題の緩和は、予想される新株発行ラッシュを待たなければならない。それまでは、今年の3月に63銘柄の上場が記録され、そのうちの7つが外国投資家に開放されず、普通に取り引きされているのはたった20銘柄前後といった問題を抱えたままである。

> *非効率な市場の現状、特に取引の報告ともども完了に2か月もかかる決済システムは、ファンドマネジャーの頭痛の種になっている。*

枠外におかれた7つの銘柄はすべて銀行だ。これは、1989年のJFNフィナンシャル指数が36.66から85.37へと132.8パーセントも急騰したところを目の当たりにしたファンドマネジャーたちを苛立たせる。しかし、ほとんどのマネジャーは、銀行株に関するこうした制限は年明け前に解除されるものと確信している。インドネシア国際銀行の副会長であり、有力者でもあるボエディアルト・ボエンタラン氏は、この制限を指して、「経済的植民地主義に歯止めをかけるために、60年代初期に制定された時代遅れの法である。……今は状況が違っている」と言う。ジョバノビッチ氏も、「1990年のある時期になれば、われわれも銀行への投資が可能になるのではないだろうか」と、ほとんどの同業者と同じ思いで同調する。

事実、銀行は今や、上場株の中でも際だって特異な存在となっている。1989年9月に大蔵省は、市場に上場されているすべての会社の株式について、その49パーセントまで外国投資家が購入できる、という内容の省令1055号を公布した(だが銀行株は、開放されても、外国人に49パーセントまで保有を認めることはなさそうである)。

49パーセント・ルールはそれ自体、問題をはらんでいる。上場企業で株式資本の30パーセント以上を公開しているところは、ほとんどない。そうした小さな部分の、そのまた49パーセントでは、インドネシア経済の急速な発展に歩調を合わせるような外国投資の拡大は困難だ。加えて、たとえ法のとおり、国内投資家に向けられる分が新株の51パーセントだけだとしても、実際には、その30パーセント以上が外国投資家の手に直接落ちることはめったにない。メリルリンチ・アジアのベッツィ・ウッド氏によれば、地元ブローカーは、新規上場株へのアクセスで持っている特権的な地位を利用して、しばしば買い占めてしまい、「それから4~5日後にプレミアム付きで取引が始まると、サッと投げ出す」

隔絶した外国市場

事実、49パーセント・ルールは、しばしば外国のファンドマネジャーが人為的な高値で株を手に入れなくてはならないことを意味する。JSEの規則では、もし、49パーセントの線を超えた時以降に行われた取引で外国人が入手した場合、BAPEPAMはその外国投資家に持ち株を手離すよう強制できる。非効率な市場の現状、特に取引の報告ともども完了に2か月もかかる決済システムは、ファンドマネジャーの頭痛の種になっている。これでは、49パーセントのカベが差し迫っていても、察知することが難しい。

フィデリティのインドネシア・ファンド

のマネジャー、エドムンド・ウオン氏は、「JSEは一日の取引終了後に（だけ）、売買可能株式数の知らせを出す。だから外国人は、制限枠を超える前に登録（彼らの取引の）する時間を確保するため、制限枠に達しない早目のところでストップしがちだ」と、述べている。

こうした問題を避けるため、多くのファンドは彼らの間で取り引きする。この方法は、直前に買ったものが制限からはみ出ないことを保証する反面、高くつく買物になりがちである。「外国人同士でしか取り引きできない時は、市場価格が下がっている場合でも、呼び値が上がり続けることになる」とウオン氏は言う。

それでも、JSEシステムで当てにならないその他の問題点を避けて通るには、確かに役立つ。例えば、ジャカルタ市場の取引単位は500株であるが、大口取引を行えるだけの資力を持つ地元投資家はほとんどいないので、しばしばこれが分割して取り引きされる。資本力のある外国人にとり、これはイライラの元となる。それに、前にも触れた不完全な決済システムで、取引がしょっちゅう渋滞する。

そのうえさらに、情報入手の難しさが加わる、とウオン氏は言う。「株式の最新値をJSEのボードで知るまでに1時間もかかる。その間に、他のファンドと直に取引できたはずなのに」

しかし、ジョバノビッチ氏はこうした外国人市場の重要性を軽く視る。その必要性は認めるとしても、「あくまで、49パーセントの制限に達した時の便宜的なもの」であり、そうした事態の中では、株式にプレミアムが付くことも肯定する、としながらも、「ほとんどの場合、まだボードの所へ行けば、株を総ざらいできる。いつだって問題はある。ちょっとばかり忍耐が必要だが」と言う。

買えるものを買う

市場の流動性が乏しいため、投資家は、もっと進んだ取引所での場合のように、ある会社を業績で選ぶというより、手に入るものを買うという形にならざるを得ない。

「多くのカネがインドネシアに集まりすぎると、価格はファンダメンタルズより、需要と供給によって決まる」とジャカルタのジャーディン・フレミング・ヌサンタラのコーポレートファイナンスの長であるフィリップ・ブリュワー氏は言い切る。その結果、ウッド氏によれば、「株価収益率はどうしようもないほどになってしまい」,1989年の第4四半期には予想利益の25ないし40倍にもなる会社が出てくることになる。

「ブローカーの中には、5年間の予想利益

ICFを動かす その①

インドネシア・キャピタル・ファンド（ICF）は、ジャカルタ市場への投資を標榜して登場した新顔のファンドである。

昨年11月にメリルリンチ・アジアを通じて、1株10ドルで375万株が発行され、売り出されたICFは、投資資金が十分集まる前の11月と12月に散発的な買いを入れ、1月に入って目いっぱい投資を進めた。マネジャーであるフィデリティ・インターナショナルのエドムンド・ウオン氏によると、ICFは現在4,200万ドルの価値を有し、1月以降、純資産総額は15パーセント上昇している。当初からの投資家は、5株単位で与えられたワラントにつき、3月1日以降行使できるオプションを持っているので、すぐにも最高750万ドルの資金が集まると見込まれている。このワラントは、新株を1株10ドルの価格で申し込める権利を保有者に与えるものである。ファンドの株式は、アムステルダムの取引所で3月初めに13ドルで売買されており、投資家はすぐにも3ドルのもうけを手にできる。

アムステルダムはメリルリンチのファンドの引受業者が好んだ市場であるが、その理由は特に、インドネシア政府が将来のある時点で、非居住者にキャピタル・ゲイン課税を実施することにした場合でも、オランダとインドネシアとの間の租税条約が世界で一番有利なものだからである。さらにウオン氏は、オランダと以前の植民地との間の結びつきを指摘し、この上場が、ロンドン市場やアジアの各市場で上場された競合相手から同ファンドを差別化するのに役立っている、と率直に語っている。

市場への参入

ジャカルタで株を手に入れることの難しさは、極東において語り草となっているが（本文記事参照）、すでにICFは3月14日までに60パーセントを投資した、とウオン氏は主張している。「53～54パーセントがインドネシア株式だが、残りの5～6パーセントはインドネシアに収益機会や資産や販路を持つ他国企業の株式である」と同氏は言う。しかし、インドネシア国外の投資については、話したがらなかった。こうした小さな市場に取り組むマネジャー間の競争はきびしく、「インドネシア国外の株式は、それが上場されている香港やシンガポールなどの取引所の中では比較的小型だし、ほかのところが追随してくるかもしれないから」とウオン氏は言う。

ともかくICFは、インドネシア国外での投資活動に何ら制限を設けていないが、

スハルト大統領

JSE以外の市場に15パーセント以上投資するつもりは、ウオン氏にはない。「JSEで新株発行の計画があるので、他の市場に投資する必要を感じていないし、他の市場に投資して通貨リスクを抱えることも望まない」とウオン氏は語っている。

残り40パーセントついては、米国の長期預金で運用している。

フィデリティは、狭隘なインドネシアの債券市場にはほとんど投資していない。

「われわれだって債券に投資することはできる。でも、本当に大きく増やす機会があるのは株式市場の方だ」とウオン氏は語り、さらに次のように付け加える。「個人的な見解だが、債券利回りと株式利回りの差は非常に大きいから、債券市場が大幅な上昇傾向をたどることはないだろう」。インドネシアの債券から興奮を覚えるほどのチャンスが生じることはまず無く、「債券の利回りは17～18パーセントだが、

SALIM GROUP

インドネシア産業向け投資の好機

インドネシアで進められている経済の自由化と統制緩和は、同国企業に新たな挑戦の機会をもたらしている。今まさにそうした挑戦を開始しようとしている企業のひとつに、インドネシア最大の民間商工業企業グループ、サリム・グループがある。

サリム・グループは、1940年代末にスドノ・サリム氏（華人名は林紹良）の手によって誕生した。当初、サリム・グループは、インドネシアの豊富な天然資源を利用し、さまざまな基礎物資――ヤシ油、小麦粉、合板、食料品、繊維品など――を国内市場に供給した。

その後サリム・グループは、自動車製造、化学品、銀行、金融サービス、鉄鋼、建築資材、不動産、ビル建設、貿易、流通、食品、消費物資、天然資源、アグリビジネスなどに手を広げながら、徐々に力を蓄えていった。

インドネシア経済の発展と並行して、輸出の機会も増えてきた。安い労働力と地価、急成長するアジア太平洋経済地域の中心に位置していることなど、インドネシアは、周辺地域ばかりでなく、遠く欧州や米国にまで広範な商品とサービスを供給するうえで格好の条件をそなえている。

サリム・グループは以前からこの事実に目を止め、急成長中の国内市場ばかりでなく、世界中の輸出市場向けに商品を供給している。海外事業については、香港の子会社を通じて行っている（かこみ参照）。

サリム・グループの成長は、早くから近代的な経営技術を導入したことによるところが大きい。早くから外部の専門家を招き入れたが、それによって国内スタッフに高度の職務訓練を施すことができるようになった。組織的な社内研修プログラムが開発された結果、グループの成長と国際化に必要とされる、やる気と専門的技能を持った社員を養成することができた。

政府が金融部門の規制を緩和し、インドネシア資本市場の育成に肩入れしたことも、グループ発展の大きな要因となった。

サリム・グループの社長であり、最高経営責任者であるアンソニー・サリム氏は、グループの何社かをジャカルタ証券取引所（JSE）に上場させることになるのは自然の成りゆきだ、と考えている。

「私どものグループの海外にある子会社も、多数、香港やアムステルダムの証券取引所で上場されています。インドネシア経済の自由化が進展している現在こそ、グループ企業をJSEに上場させる好機だと思います」と、サリム氏は語っている。

「株式の公開によって、資本力を強化する機会が得られます。事業を拡大し、最適な規模にもっていく計画も、そうしなければ不可能でしょう」とジュディオノ・トーシン氏（サリム・グループのシニア・エグゼクティブ・ディレクター兼インドセメント社ファイナンス・ディレクター）は語っている。インドセメントは、サリム・グループの中でも一番最近、ジャカルタ証券取引所に上場した企業である。

「インドセメントは、高金利で足を引っ張られました。営業利益はあがっていたものの、1980年代の設備投資に必要だった借入金に30パーセントもの金利を支払わねばならないため、結果は赤字でした。株式公開で得た資金を使って、借入金の大部分を返済することで、1990年には2,500億ルピア（1億3,900万米ドル）の利益が出るものと予想しています。ちなみに、88年には780億ルピアの損失だったものが、89年には125億ルピアの利益が出ました。これを見ても分かるように、89年度が終わるわずか前に借入金を返済したばかりだというのに、すでに大きな相違となって表れたのです」とトーシン氏は語っている。

インドセメントはインドネシア最大のセメント・メーカーであり、同国の生産能力の45パーセント、また国内市場で35パーセントのシェアを占めている。さらに、インドセメントは生産能力の大部分をジャワ島内、それも首都ジャカルタの近くに持っている。その辺りは、経済の急成長に伴って、新しい道路と高層オフィスビルの建設用に、最も旺盛なセメント需要が創出されている場所なのである。セメントの国内消費量では、他のアジア諸国をかなり下回るとはいえ、今後5年間の需要の伸びは年率10パーセントに達する、とインドセメントでは予測している。それに加えて、他のアジア諸

国およびオーストラリアへのセメント輸出量は、2桁台の伸びが続いている。

1989年12月に上場したときには、同社株式の15パーセントが上場され、そのうちの3分の2（すなわち全株式の1割）だけが公募された。この募集には枠一杯の購入申し込みがあり、外国人持ち株比率はすでに、JSEが認める上限の49パーセントに達する勢いである。

そうした動きと呼応するように、英国、米国、フランス、日本などからファンドマネジャーたちが、同社の活動ぶりを直接見ようと、インドネシアまでやって来ている。

「株式に対して、これほどの需要があるからには、今年はこれ以上、JSEへの上場が認められないとしても、近々のうちにほかの会社の株式上場も考えなければならないでしょう。すでに、インドセメントのADR発行について、アメリカ側からアプローチを受けています。利益を継続的に挙げていくことさえできれば、将来インドセメントを海外、例えば日本か台湾、あるいはアメリカの証券取引所に上場させることができると考えています」と、トーシン氏は述べている。

ウングル・インダ・コーポレーション（UIC）は、JSEに上場しているもうひとつのサリム・グループの会社だが、すでに海外の投資家から格好の標的にされている。サリム・グループのシニア・エグゼクティブ・ディレクターで、UICのディレクターでもあるジョハネス・コッジョ氏は、「UICの場合、株式購入申し込みが多すぎて、11倍にも達し、国営テレビから注目されました」と語り、続けて、「海外の投資家からは、募集時に4,900万株の申し込みがありました（全体の割り当ては900万株）」と数字を明らかにしている。

UICは現在、洗剤製造で主原料となるアルキルベンゼンでは、インドネシア唯一のメーカーである。洗剤の消費量の増大は、生活水準の向上と密接に関係している。洗剤の1人当たり年間消費量を見ると、インドネシアが2kgであるのに対し、日本は20kg、香港は10kgで、このことは取りも直さず、インドネシア市場の膨大な成長可能性を示している。国内洗剤生産の伸びは、過去6年の間、毎年15～20パーセントの率に達しており、今後も同じ程度の成長が期待されている。

株式の公開によって入手した資金は、設備拡張のための投資に向けられている。予想される国内需要の増大に対応するために、生産能力の倍増計画に取り組んでいるところだからである。同社ではまた、いろいろな付加価値のありかを探りながら、アルキルベンゼン生産工程から生まれる副産物を利用するベンチャービジネスなど、多業種化を図る将来計画も持っている。

サリム・グループの株式上場プランは現状にとどまらず、他のグループ企業についても上場に向けた準備が進められているが、中でも一番有力視される候補は、東南アジア最大のインスタントラーメン・メーカー、インドフード社である。同社は国内市場で75パーセントのシェアを占め、主な輸出先としてシンガポール、マレーシア、米国などに市場を持っている。

インドフードは、今年の5月か6月に、授権資本の15パーセントに相当する約700億ルピア（4,000万米ドル）分の株式を公開すると予想されている。UICとインドセメントの株式公開がうまくいったことで、さらに2～3社のサリム・グループ企業が、1990年中に上場されることになりそうである。

サリム・グループとしては、輸出拡大も将来の計画に含まれる。「私どもでは今、競争力で優位にある点を生かし、国際的な企業と提携しながら、先進諸国市場向けに付加価値の高い商品の輸出を伸ばしていこうと考えています。アジア太平洋地域の中に位置しているため、日本やアメリカへアクセスすることは容易ですから」とサリム氏は語っている。

海外事業

香港の上場会社であるファースト・パシフィック・カンパニーは、サリム・グループの現地子会社として、その海外事業の最前線にある。同社の中心的活動は、マーケティングおよび流通、商業銀行ならびに投資銀行業務、不動産のブローカーと投資業務、電気通信事業などである。

マーケティングおよび流通部門は、シンガポール、マレーシア、フィリピン、インドネシア、タイの子会社と手を携え、アジア太平洋地域で活動している。また、ハーゲマイヤー・エヌブイ（もともとオランダ系インドネシア企業であったが、今はファースト・パシフィックの子会社）は、アジア太平洋地域とヨーロッパの全域で企業活動を行っており、北米市場への進出にも成功しつつある。

ファースト・パシフィックは、銀行活動でも数多くの関連企業を持っているが、中でも一番の中心は香港にあるファースト・パシフィック銀行で、同行は最近、M&A活動で力を蓄えている。また、米国カリフォルニアのユナイテッド・セーヴィングズ銀行も、同州で増えつつあるアジア系住民に対してサービスしている。

不動産事業では、北米、英国、オーストラリアなどに持つエージェントとの提携により、グローバルなネットワークを形成してはいるものの、主な市場はやはり、アジア太平洋地域である。

電気通信部門では、香港特有の丘の多い地形と高層ビルの問題を克服できるセルラー・フォーン・システムを運営している。同社は、フィリピン、タイ、マレーシアで電気通信事業の拡大を図っている。この部門には将来、大きな利益を生み出す期待がかけられている。

サリムグループについて、くわしいことは、以下までお問い合わせください。

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の10倍に向かう、といつも言っていたところがあった。1年の見通しだって、正確に立てられるところは、ほとんど無いのに」と、香港のある情報筋は言っている。

ウッド氏によれば、「PTアストラのような優良株はもっと値が高くなるだろう、という期待を投資家が持つから」、株価は予想利益の15～20倍へ向かって、なお上昇していくだろう。

しかし、投資家は、新規上場の波が彼らの選択の幅を広げているので、より選別的になってきている。「われわれは、銘柄間の差違を見比べるようにしている。大型優良株のPERが15～20倍になろうとしているのだから、小さめの会社の株価も予想利益の10～15倍にならなければならない」と、ウッド氏は言う。

しかし、ファンドマネジャーたちは将来、株を選択することができるようになると、有効な企業分析をしようとする際に、問題点に突き当たるだろう。フィデリティのウオン氏によれば、今のところは経済の急成長と株式の供給不足というシナリオが、西側の尺度で判断することを難しくしている

しかし、投資家は、新規上場の波が彼らの選択の幅を広げているので、より選別的になってきている。

が、「人々は将来、もっときびしい選択の目を持つようになるだろう」。その場合の障壁は、彼にとってはインドネシアで手に入る情報の質である。「新株発行の目論見書でも、英文で手に入るものはまだ無い」と言う。「会計基準も、西側のそれと比べて大きく違う。そのうえ、ブローカーの調査もまだきわめて初歩的な段階で、時代遅れのものもある」と同氏は続ける。

数字の中味は別にして、ほとんどのファンドマネジャーは、企業のオープンなところを賞賛している。「彼らは、香港やシンガポールの企業と比べても、外国人に対して特に閉鎖的なところはない」と、某氏は言う。それでもインドネシアでファンドマネジャーが採る戦略では、頻繁に企業に足を運ばなくてはならない。「発展途上の経済では、公共投資あるいは私企業の投資から誰が恩恵を受けるか、気付かなければならない。だが、多くの国でもっと大切なことは、経営者を知ることだ」と、ジョバノビッチ氏は言う。

それは、1990年にインドネシア・ファンドの頂点を目指すため、幾度も旅に出ることを意味する。

ICFを動かす その②

株式の方は約1パーセントだ。だから発行者は、はるかに株式の方を好む」と同氏は語っている。

買い付けと買い占め

ウオン氏は今、26銘柄の株式を保有しているが、そのうちの3銘柄以外はすべてジャカルタで上場されている。中でも上位8銘柄の株式(インドセメント、グレート・リバー・ガーメント、ユナイテッド・トラクター、ジャプファ、UIC、フィコール・インベスト、ホテル・プラパタム、リグ・テンダーズ)で、ポートフォリオ全体の40パーセントを占めている。

フィデリティの戦略は、製造業部門と消費関連部門に重点投資することである。その意味で、グレート・リバー・ガーメントは理想的な銘柄である。高級衣類の一流メーカーである同社は、生産の50パーセントを国内市場で販売している。

製造業部門の魅力は、インドネシアの土地の広さ、労働力の安さ、エネルギー資源の豊富さに魅せられた外国企業による直接投資ブームとなっている、とウオン氏はつけ加えている。

上位の株式が戦略的な方針から少しはずれている場合でも、それには十分なわけがある。ユナイテッド・トラクターズは重機械の流通業者で、ファンドが輸出市場を追いかけるための一助になっている。フィコール・インベストは、国有のノンバンク金融機関で、発行や引受などで幅広く活動している。現時点では、外国投資にはほとんど閉ざされている金融部門に手を延ばそうとする場合に、同社への投資は、手ごろなだけでなく、市場に関する一種の保証になる、とウオン氏は見ている。「この会社は、政府との結びつきに頼りすぎているけれども、市場が発展し続けるならば、金融活動のリスクは低い」と同氏は語っている。

ホテル・プラパタムは、わずか2つだけJSEに上場されているホテルの1つである。同社はジャカルタにハイアット・ホテルを所有し、最近の観光業に投資するチャンスをファンドに提供している。現在インドネシアには年間150万人が訪れているにすぎず、タイの3分の1にすぎない。観光客の多くは若いオーストラリア人で、バリ島の安い生活を楽しんでいる。インドネシアは今や、もっと大人で金を落としてくれる観光客をたくさん引きつけたい意向を表明している。この方針に沿った1つの措置が、観光客のビザ条件の緩和であった。

流動性ある優良株

残りのポートフォリオについては、もっぱら優良株に集中するということ以外、特別なパターンは無い。「投資対象にする優良株は、外国人に高く評価されている銘柄で、比較的大型株になりやすい」とウオン氏は語っている。これには2つの要因があって、優良株は相対的に流動性があること、そして、依然として流動性が、ファンドマネジャーがJSEで直面する最大の問題であることを意味している。「まったくのところ、投資を進めていくのは非常に難しい仕事だった。でも、昨年に取引できた水準に照らすと、ここまで来るには2か月ではなく、4か月は必要かと思った」と同氏は結んでいる。

ファンドの買い入れ開始が遅ければ遅いほど、新規上場による流動性の増大から恩恵を受ける可能性が大きくなりそうに思われる。昨年の11月、12月にウオン氏がインドネシア株式にスポットを当て始めた時、すでに選べる上場会社が50社あったが、もし2～3か月前だったら、それは30ばかりにすぎなかっただろう。その時買いに入ったファンドは、流動性の乏しい株式に縛られるリスクを冒すことになるとともに、市場のパフォーマンスに追随することが難しかった。例外は、昨秋の相場急落を利用し、値を落とした株券を買いさらうことができたファンドマネジャーたちだった。

繁栄への挑戦

新しいフロンティアはなく、忘れられたフロンティアがあるのみ。ベトナムとはそんなところだ。本誌のサム・パッソーがホー・チ・ミン市から、ファンドマネジャーに彼らの想定の再考を迫るような新生市場について報告する。

昨年11月のある晴れた爽やかな日に、機体マークの無い民間ジェット機が一機、ハノイ空港に着陸した。降り立った12人の乗客たちは、旅券審査や税関申告といった通常の手続きを経ずに、首都での会合へと急いだ。

公式には、香港の一流実業家および金融関係者12人の2日間にわたる訪問があったことにはなっていない。ベトナム政府は、自国に投資を誘致するためにはどうしたらよいか、その方途を熱心に探ろうとしていた。一方、香港の実業家の方は、ベトナム政府がどのような法律や保証を用意して、自分たちの努力を保護してくれようとしているのか、知りたがっていた。会合では何も解決されず、また何も約束されなかったが、双方ともある種の期待感を持って別れることができた。

その時以来、長期的にはこの地域で最大の成長市場、と多くの人々が考えるこの国に、一体どんな機会が待っているのかを探ろうと、先の実業家一行に加わった多くや、そのほかの数十人の実業家たちがベトナムの主要都市へ間断なく、人目を忍ぶこともなく押しかけた。

ロンドンのロイズ・バンク・ファンド・マネジメントのウイリアム・ナイト氏など一部の人たちは、まずベトナム、それからおそらくは後日カンボジアでの合弁事業に乗り出すであろうタイ企業を投資対象にした、タイで運用されるベトナム・ファンドを設定する計画について検討しているところである。

役員の一人が11月にハノイに飛んだジャーディン・フレミングも、香港以外に本拠を置いたベンチャーキャピタル・ファンドの設立を構想している。

彼らのアイデアやその他の似かよった着想はおそらく、資産運用における新しいアプローチの先駆となるだろう。カントリー・ファンドは1989年という年を特徴づけるものだった。しかし、1990年第1四半期

ベトナムとのビジネスで先鞭

インドネシアは、ベトナムとの外交・通商関係を過去40年にわたって維持してきた、数少ない非同盟諸国の一つである。歴史的にも、第二次大戦後に誕生した両国の建国の父であるベトナムのホー・チ・ミンとインドネシアのスカルノは、自国を植民地時代の過去から脱却させようと導くそれぞれの主義主張に対して、互いに深い敬意を抱いていた。

それ故に、ベトナムが今再び西側に門戸を開放しようとするに際し、インドネシア企業であるスマ・グループがベトナムで、商社、銀行、国際航空会社、ホテル再開発会社を含む一連の合弁事業に真っ先に乗り出したとしても、なんら驚くには当たらない。

それらのプロジェクトは大規模にして、長期にわたるものである。しかし、結果はすでに明らかなものがある。

インドヴィナ・インターナショナル・リミテッド（IIL）という名の合弁商社は、1988年6月以降、ベトナム戦争(1965～75年)で置き去りにされた数千トンの金属スクラップをインドネシアのセメントとバーター取り引きし、それを台湾と韓国に売却してきた。

さらに、IILは貨物船をチャーターし、インドネシアをはじめ、フィリピンやタイから調達したトヨタ車、オートバイ、ビール、食器類、小型発電機、自動車用バッテリー、タイヤ、歯磨き、食料品、ミネラルウオーター、その他のさまざまな欧米商品をベトナムに運んでいる。


ブディマン・エフェンディ氏

香港に本拠を置くこの商社は、毎月ベトナムとの間を往復する2隻の船を持ち、平均すると年間約2,500万米ドル相当の商品を売っている。

ベトナムにおけるインドヴィナの活動を指揮しているのは、同グループのマネジング・ディレクター、ブディマン・エフェンディ氏（36才）で、同氏は状況を見るために、香港から定期的に通っている。

目下、国際航空会社の設立について、スマ・グループとベトナム観光・民間航空当局との間で、協議が進められている。この新会社は、近代的な欧米の航空機を使用し、現在の国営航空会社が持つ、あるいは交渉中の他国との相互乗り入れ権を引き継ぐことになるのではなかろうか。インドネシア側は、航空機確保のために資金協力するほか、技術とマーケティングの専門知識も提供する考えを持っている。

子会社のスルマン・インターナショナル・ホテルズ・リミテッドを通じて、スマは、ベトナムの歴史的建造物である2つのホテル、ホー・チ・ミン市のマジェスティックとハノイのメトロポールを改装し、運営、管理する計画を持っている。

だが、何といっても、ベトナムにおけるスマの活動の中でひときわ輝かしく光彩を放っているのは、インドヴィナ銀行という名のベトナム初の合弁民間商業銀行の設立である。この銀行は、長期的に見てアジアで最も大きな成長力を秘めている市場分野のひとつと多くの人が考えている、外国為

Summa Group

エドワルド・スルヤジャヤ氏

替サービスと貿易金融、さらには開発融資と手数料ベースのアドバイザリー・サービスを提供することになっている。

ベトナム産業貿易銀行（BITV）と西独デュッセルドルフにあるスマ・ハンデルスバンク(SHBA)との間で交わされた合弁企業設立契約によれば、授権資本1,000万米ドル､当初の事業継続期間は20年とされ、さらに20年の延長条項が付けられている。

インドヴィナ銀行は開発銀行として、IMF、アジア開発銀行、国際金融公社といった国際機関に働きかけ、協力しながらベトナムの再活性化に大きな役割を果たしていく構想となっている。

合弁契約の一部に含まれていることだが、エフェンディ氏をはじめとする経営陣は、ベトナム政府に協力し、スマ・グループがアジアやヨーロッパでの金融・投資活動から得た豊富な経験を生かして、同国の金融政策や銀行制度の草案を作成する作業に手を貸している。

過去10年の間に、スマ・グループは、10か国で40以上の事業を経営し、4,000人以上の従業員を雇用する真にグローバルな企業に成長した。

スマの発展の基礎を築いたのは、インドネシアにおける名門企業家一族の一員であるエドワルド・S・スルヤジャヤ氏(41歳)で、独創性に富んだ起業家の才の持ち主である。同氏は、年間16億ドルを上回る売り上げを誇り、米国を除くフォーチュン500大企業のひとつに数えられている、アストラ・グループにおける一族の支配権を完全なものとするためには、金融部門を持つことが必要だと考えていたのである。

銀行業務をはじめ、国際的な金融活動はスマ・グループの事業の根幹である。デュッセルドルフに本拠を持つスマ・ハンデルスバンクは、インドネシア国外にできた最初のインドネシア系民間銀行である。他方、スマ・インターナショナル・ファイナンス（香港）は、1979年以来、地域の顧客にマーチャントバンクとマネーマーケットのサービスを提供してきた。

金融分野におけるスマの国際的な動きは、フランスと香港にも及んでいる。ソシエテ・ジェネラルと組んで、ジャカルタに合弁銀行を設立したが、これは輸出を志向するヨーロッパ（主としてフランス）とインドネシアの企業を主なサービス対象としている。この提携によってスマは、フランス最大手の銀行が持つ広範な国際ネットワークにアクセスできることになった。

最近、オランダのインドネシア・オーバーシーズ銀行（インドヴェル）は、スマと組んで、香港にインドヴェル・スマ・ファイナンス・カンパニー・リミテッドと呼ぶ合弁銀行を設立した。この合弁銀行は、前身のスマ・インターナショナル・ファイナンス・カンパニー・リミテッドの確立した地盤の上に、インドネシア系の金融機関としては前例のない発展を遂げている。

インドネシア国内における同グループの中核的存在は、1989年初めに買収したバンク・スマである。それまでは伝統的なリーテイル銀行であったバンク・スマに対しては、抜本的な改革の手が加えられた。経営陣は、インドネシア企業の増大するニーズを満たし、高度化する要請に応えるため、商業銀行業務および企業金融、国内ならびに国際的な貿易金融、投資、プロジェクト・ファイナンスといった中心的分野を近代化しながら、伸ばしていくことを最重点課題としてきた。

この金融サービス・グループの将来は、とりわけ増大するインドネシア経済のニーズを先取りすることに、拠り所が求められていくだろう。インドネシアにおける金融市場の規制緩和は、新たな機会の出現を意味すると思われ、これからの伸びが見込まれる主な分野は、投資銀行ならびにマーチャントバンク業務であろう。

近々、スマ・グループは、国際的な大手マーチャントバンクとの合弁で、マーチャントバンク業務と証券業務のフルサービス提供に乗り出す計画を発表することになっている。それには証券の引受とトレーディング、調査、資産運用、コーポレートファイナンスのアドバイザリー・サービスなどが含まれることになろう。

インドヴィナ・インターナショナルおよびスマ・グループについて、くわしいことは以下までお問い合わせください。

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買物リスト

ベトナムが抱く経済的野心の成否は、昨年12月のカンボジアからの撤退以後、ベトナムとの政治経済的関係の修復を図ろうとする国際社会の約束いかんにかかっている。ハノイ政権は10年間にわたり、世界銀行とアジア開発銀行（ADB）の２大拠出金負担国である米国が実施し、日本が追随した直接投資の禁止措置にじっと耐えてきた。

投資の禁止措置はまだ、公式には生きているが、ワシントンや東京が動き出す前に、国際機関の方がベトナムとの関わりを持ち始めることになるかもしれない。

実際に過去６か月、ADBと世銀の職員が投資機会をうかがうために、頻繁にベトナムを訪れている。

ベトナムはIMFに対し、３億米ドルにのぼる新たな商業銀行ローンに関する支援を求めている。そのうちの１億3,000万ドルは、1970年代の終わりにIMFから借り、88年末以来滞っていたローンの返済に当てられることになろう。

そうした返済遅延があったため、IMFはベトナムに対して信用供与の道を合法的に閉ざしてきたのである。

残りの1億7,000万ドルは、インフレと戦い、大きく穴のあいた財政赤字を減らし、わずかでもハードカレンシーの外貨準備をつくろうという、IMFのエコノミストとともに練り上げた12か月計画の実行に使われることになろう。ちなみに、昨年のインフレは、３桁台から穏当な２桁台にまで落ち着いている。

ADBに対しては、地域援助ベースでさまざまなインフラストラクチャー整備のためのプロジェクト・ローンを要請している。そうしたプロジェクトの一つには、２億ドルを投じるサイゴン港再開発計画が含まれている。

繁栄への挑戦

の結果にも表れているように、あらゆる兆候から見て今後２～３年間、商品が急増する反面、それと同様なペースで投資対象市場が拡大しないため、短期間で成果を挙げることは難しくなりそうである。多くの新興市場では、これまでが最高にいい目をみてきたのかもしれない。タイとインドネシアの両国は好調を持続するだろうが、1989年の収益率は維持できない。

障害物

では、次にファンドマネジャーたちが大きな長期的キャピタルゲインおよびインカムゲインを求めていく先はどこであろうか。比較的魅力に富んだ選択肢は、適当なパートナーを見つけ、小規模なプライベート・プレースメントの形で行う直接投資かもしれない。

ベトナムに関して言えば、見かけの動きの乏しさに惑わされてはならないだろう。東京、ソウル、台北、香港、ジャカルタのビジネスマンたちは、これまでにある期間、彼らなりにソロバンを弾いてきた。障害は米国政府だが、カンボジア問題が解決すれば、もはや米国としても動きのすべてを阻止できる立場ではなくなるから、外国資本に対して、すぐにでも門戸が開放されるだろう（かこみ記事参照）。

ベトナムは、外国の機関投資家から見ると、かすかな興味の対象以上の存在、というにはあまりにも程遠い。ベトナムには資本市場がない。国際金融界から忌避されてきた、債務の負担にあえぐ国である。米国をはじめ、ほとんどの西側諸国がとっている禁輸措置と、ベトナムの主要輸出先という役割を果たしてきたコメコンが最近、崩壊を見せてきたことにより、ベトナムの対外貿易は大幅に縮小している。ベトナムの経済基盤は85パーセントまでが農業だが、残りの15パーセントを占める製造業も旧式の機械ばかりで、工場設備がどうしようもないほど悪い。インフラストラクチャーは、近代社会のニーズから何十年も遅れており、発展する現代社会の要求にはとうてい応えられない。

6,300万のベトナム国民には、独特の活気ある資質が備わっているし、日本を除くアジア諸国の中では最も識字率が高い。

しかしながら、6,300万のベトナム国民には、独特の活気ある資質が備わっているし、日本を除くアジア諸国の中では最も識字率が高い。１人当たりの平均年間所得が168米ドルという経済的にどん底の数字や、戦争で荒廃した国という漠然とした想像を裏切る、緑豊かな豊潤な国である。

戦争が終わってから15年が経った。もう黒いパジャマで歩き回る人はいない。爆弾の痕のクレーターは塞がれ、葉を取り払われたジャングルでは植林が行われている。使われた砲弾や焼けた戦車は回収され、スクラップとなって、セメントと交換に他国に船積みされていく。

“ドイ・モイ”

歴史に照らして物事を決める――あるいはナショナリズムが、ベトナム人の考え方を特徴づけるものである。ベトナムは、ソ連型や中国型の革命的共産主義社会では決してなかった。中国流の企業風土を保っていたのだが、1950年代の終わりごろに西

最近の成果－フローティング・ホテル

側によって冷淡にされたため、モスクワとの政治経済同盟の利益を手に入れようとして、共産主義イデオロギーの採用を余儀なくされたのである。

ベトナムは、東欧に吹き荒れる改革のペースに歩調を合わせようとはしていないが、もっと市場志向型の社会主義経済にするべく転換を図り始めるとともに、老齢化したハノイの一党支配の共産党指導層も、自分たちの立場について評価しなおしている。

公式には、ベトナムの政治経済の再評価はベトナム語で"ドイ・モイ"、つまり"革新"と呼ばれている。"グラスノスチ"および"ペレストロイカ"という、ゴルバチョフが標榜したテーマに基づき、2年前に導入されたもので、政治的自由と自由市場の原理を組み合わせたものである。ベトナムはお手本であるソ連に比べ、その半分の時間で、より大きく成功を収めてきたが、原因は政治的抑圧のベールを除去することに見合ったペースで、国民の増大する消費ニーズを満たす努力を払ってきたからである。

"ドイ・モイ"は今や、ベトナム人の生活のあらゆる面で一角を占めており、彼らが抱く繁栄の夢がかなうかどうか、カギを握る重要な要素となっている。今、もし政府が流れを逆転させようと試みるならば、自らの終局を演じることになるだけだろう。

正しいスタートを切る

ベトナムの将来にとって重要なことは、たくさんの外国投資を幅広く誘致することである。政府は、適切な足場の上に経済をテイクオフさせ、21世紀にはアジアの中で他国に伍していける競争力をつけようと、一所懸命である（かこみ記事参照）。

昨年、ベトナムは4億4,000万ドルの外国投資を受け入れたが、そのうちの4分の3は、ベトナムが大きな期待をかけている石油探査に関係するものであった。今のところ、製造業に対する投資案件はほとんどない。

昨年、ベトナムは4億4,000万ドルの外国投資を受け入れたが、そのうちの4分の3は、ベトナムが大きな期待をかけている石油探査に関係するものであった。

ハノイの政策立案者たちには、傘やスニーカーといった、かつては東南アジアの成長を支えたが、見捨てられてしまった軽工業の新しい中心地となることに将来を見いだそうする考えはないようだ。貧しく、低コストの労働集約的な社会でこそあるが、歴史上ライバル関係にあるタイの影にかくれたまま次の10年間を過ごすつもりは、まったくない。ベトナムが切望するのは、サイゴンがインドシナにおける商業活動の中心地で、バンコクが交易ルート上の二次的な経由地であると見なされていた栄光の時代を取り戻すことなのだ。

そうした夢は、あるいはまったく非現実的かもしれないが、10年にわたる孤立状態から一気に脱け出し、外国投資誘致の激しいレースの中で、投資および金融に関して新しくかつ非常に魅力的な法律を制定できたという点は、同地域のライバルたちより有利さを持っている。

現状では、ベトナムが持つ1988年9月の投資法は、おそらく東南アジアで最も自由主義的なものである。この投資法によれば、企業についても土地についても、100パーセント所有することが外国人も認められ、法人税率は15～25パーセントとなっている。投資元本と外国企業が保有する土地や資産は没収や国有化から守られており、利益やロイヤリティをハードカレンシーで送金する権利も保証されている。

だが、潜在的な投資家には、そうした説明の背後にも多くの不安や困惑の種がある。1988年9月の投資法が定めている広範な約束事は、これから、国際金融に関する規則、租税条約、会計基準、労働法などで補足されていくことになっている。それらのすべてこそ外国投資を誘致し、逃がさないために必要不可欠な要素なのである。

70年代の終わりの中国への外国投資ラッシュの時にもあったことだが、しばしば操業に関する詳細が決定される前に、合弁事業の交渉が発表され、事実上、一方はただ時間とカネを浪費しているにすぎないのに、ビジネス活動しているような印象を与えている。

すでに、ベトナムで仕事をしている外国のビジネスマンたちは、ルールが結果を変えてしまっているのにルールを守って行動しようと努めることは、成功する見込みのない状況であり、市場の可能性に対する見通しよりも、そちらの方が大きいウエートを持つことに気づいている。

「ベトナムはだれか契約が何を意味し、取引は両者にとって互恵的なものでなければならないことを知っている人を必要としている」と、ベトナム側とのうんざりするような交渉の場から出てきた、ある不機嫌なビジネスマンは語っている。そして、「この国には、物事を始めようとする前に、全

ギリシャ経済レポートNo.5

インタートラスト・ファンズ・マネジメント
シニア・エコノミスト
ディミトリオス・パパリスティディス

経済ハイライト

ここ４か月間ギリシャを動かしてきた３派連立内閣は、きびしい経済問題への取り組みを怠たり、日常的な小さな問題の解決に専念している。

このため、引き続くインフレ圧力、大きな公的借り入れ需要、増大する経常収支赤字などの問題は、来る４月８日の総選挙で生まれる新政府の課題として残されたままである。ＩＭＦの専門家が今年２月に取りまとめた最近の調査結果によれば、ギリシャ経済は最近５年間で最も悪い状態に陥る危険性がある。さらにＩＭＦは、もっときびしい緊縮政策がとられなければ、マクロ経済はいっそう悪化するだろう、と予想している。この調査は、特に以下の諸点を指摘している。

＊ＧＤＰに対する公的借り入れ需要の割合は、90年には前年より３ポイント以上高い22.5％にまで上昇する。

＊消費者物価指数の上昇は、89年が16％であったのに対し、今年は18％に達する。

＊90年の実質ＧＤＰ伸び率は、前年の推定2.5％に対し、２％にとどまる。

＊90年の経常収支赤字は25億ドルを上回り、89年から目立った変化はない。

＊マネーサプライの増加は、M3が89年の24％に比べ、90年には19～21％と予想されているが、この数字は昨年、中央銀行が定めた目標の18～20％を上回る。

しかし、マクロ経済面の暗い見通しは、主として過剰人員を抱え、非効率的で、お荷物になっている公的部門に関係した話である。それとは対照的に民間部門の多くは、地下経済活動によって繁栄を謳歌している。最近の調査によれば、国家経済の30～40％を占め、公式統計の数字を大きく狂わせている。

ASEの最新動向

アテネ証券取引所（ASE）株価総合指数は、昨年11月の総選挙以降、続いてきた政局不安定からくる相場の落ち込みを、1990年の最初の２か月間で取り戻しただけでなく、最高を記録した（図参照）。

このことは、株式市場が国の経済発展に貢献するものであるという点で、どの政党、どの社会階層にも異論が無く、多かれ少なかれ、政治の動向からは独立した存在となってきた徴候である。さらに、そうした方向性を明示するものとして、左翼陣営に属する政治家でさえも、国有企業の売却によって多数の公営企業を民営化する考え方に理解を示すようになってきた事実が挙げられる。

株式の需要サイドでは、利益を最大化するため、確定利付証券よりも業績がよい企業の株式に投資して、より高いリターンを得ようとする機関投資家および個人投資家が新たに登場してきている。その一つの好例が、89年６月に発足したインターアメリカン・グリーク・ファンドであり、高リターンに後押しされて、その資産は今年３月末までに10倍増の5,000万ドルに達している（その間にファンドの株価は56％上昇した）。同時に、ギリシャ株式に対して米国および欧州のファンドが示す高い投資意欲も、株価上昇の大きな要因となった。

供給サイドでは、ますます多くの優良企業が市場で資金を調達するようになっている。その結果、既上場企業と新規上場企業とを合わせ、数件の有償増資が実施された。以上のような傾向は、市場の流動性（１日当たりの売買代金が昨年の３倍に増え、平均630万ドルにのぼる）と一般的な高金利によって促されている。後者は、従来からの銀行貸し越しをひどい高金利金融にしてしまった。

ASE新規上場会社

1989年12月から以下の会社[1]が上場した。

1)バルカン・エキスポート(BALKAN EXPORT)

年	1986	1987	1988	1989[2]	1990[3]
総資産	29	32	40	53	70
純資産	6	7	11	15	27
売上高	34	32	44	63	81
売上純利益	9	9	11	18	23
純利益	0.7	1.2	2.1	3.8	6.1
1株当たり利益	0.6	0.9	1.2	2.1	2.6

この会社は、欧州でも指折りの木製品メーカーであり、ギリシャでは2番目に大きい。技術的に進んだ設備と製造工程を持ち、製品は品質の優秀さで、国内木製品市場の33%のシェアを占め、また毎年、その生産の約25%を輸出している。

89年12月に1株12.5ドルの価格で750万ドルの株式募集を行ったが、3倍の応募があり、株価は3月初めに23ドルを付けた。

2)マノウリ・ケーブルズ・ヘラス(MANOULI CABLES HELLAS)

年	1986	1987	1988	1989[2]	1990[3]
総資産	21	27	31	38	56
純資産	8	10	12	16	27
売上高	27	38	48	63	84
売上総利益	4	9	7	13	17
純利益	1.4	3.9	2.4	3.6	5.3
1株当たり利益	0.5	1.2	0.6	0.8	1.0

電気通信用ケーブルと電線の一貫メーカーである。Alcatel Groupに属するLes Cables De Lyon S.A.と提携関係にあり、同社から光ファイバー・ケーブル製造のノウハウ提供を受け始めたところである。

同社の顧客層は、ギリシャ、中東、および北アフリカの電力や電気通信関係公益企業であり、EC加盟国のすべてをカバーする販売ネットワークを確立している。

90年1月に1株6.9ドルの価格で810万ドルの株式募集が行われ、応募は16倍に達した。3月初めに取引が開始されれば、株価は15.5ドルに達すると予想される。

3)ビトロス・エスケー(BITROS S.A.)

年	1986	1987	1988	1989[2]	1990[3]
総資産	9	8	17	28	43
純資産	3	4	6	9	18
売上高	15	13	23	35	50
売上総利益	4	4	7	11	15
純利益	1.2	1.5	2.8	3.2	5.0
1株当たり利益	0.5	0.6	0.9	2.0	2.4

ビトロス・エスエーは鋼材加工メーカーで、生産工程で鋼材を使用するあらゆる産業に製品を供給している。同社では、株式募集によって得た資金を、製品の付加価値を高める設備への投資と、借入金への依存度を低めるために使用するとしている。

90年2月に1株10ドルの価格で500万ドルの株式募集が行われ、19倍の応募があった。3月末に取引が開始されれば、株価はかなり上昇すると予想される。

4)エルゴデータ・エスエー(ERGODATA S.A.)

年	1988	1989[2]	1990[3]
総資産	11	14	16
純資産	10	13	14
売上高	1.3	13	19
売上総利益	−0.1	2.6	3.8
純利益	0.2	0.6	1.2
1株当たり利益	0.1	0.4	0.6

最近設立されたこの会社は、エルゴ銀行(「ビジネスウイーク」誌の評価では、収益力が世界でも有数)の系列会社で、ハードウエアとソフトウエアを合わせて供給するシステム・インテグレーションの事業を営んでいる。数多くの米国および日本のコンピューター・メーカーのギリシャにおける代理店となっている。1990年の事業計画には、キャッシュレジスターの製造・販売と、製品販売を促進するためのリース会社をエルゴ銀行と合弁で設立する計画が含まれている。

株式募集は、90年2月に1株6.25ドルの価格で240万ドル行われた。これに対する応募は21倍にのぼり、3月末に取引が開始されれば、株価は大幅に値上がりすると予想される。

(注1) 数字は、1株当たり利益が米ドルである以外、すべて100万米ドル。

(注2) 暫定数字。

(注3) インタートラストの推定。

(注4) ドラクマから米ドルへの換算は、1米ドル=160ドラクマとした。

ギリシャ経済に関するくわしい情報をお求めの方は、下記までご連絡ください。

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体的な青写真を頭の中で描ける人が必要である」とも付け加えている。

ベトナムのお役人たちはよく学習効果ということを口にする。しかし、アジアのどの国にとっても貴重な産業となっている、簡単な民生用エレクトロニクスの組み立て、食品加工、石油製品生産、そしてとりわけ観光といった収益性の高い輸出志向型産業の一部を自国に誘致しようと考え、タイ、マレーシア、インドネシアなどの諸国と本気になって競争しようとしているのであれば、時間の経過は彼らに不利をもたらしている。

ショーウインドーの飾り付け

過去1年半の間に、ベトナムと外国企業との合弁事業が2ダース以上も発表されたが、実際に稼動しているのは、たった2つ——オーストラリアの5つ星豪華ホテルとベルギーのダイヤモンド研磨事業——だけである。

この両合弁事業は、ベトナムがこれから進めようとしている経済開発の型とはどういうものなのか、外の世界に向けて送っているシグナルとともに、ベトナムで事業したいという希望を持っている外国人に対し、何を必要条件として求めようとしているのかを知るための有益なヒントを与えてくれる。

サイゴン・フローティング・ホテルは、オーバーシーズ・ファイナンス・アンド・トレード・コーポレーション（OFTC）という国営企業との1,400万米ドルにのぼる合弁事業である。昨年12月にオープンするや、たちどころに豪華ホテルの客室201をホー・チ・ミン市にもたらした。それまで、このベトナム最大の都市は、外国からの訪問客に“ふさわしい”540室のホテルを持っていた。——そのほとんどは、傾いたベッド、薄暗い照明、水漏れする配管設備、役に立たないコンセント、そして時々はネズミのルームサービスを売り物にしていた。

2年前に7,000万ドルで建造され、よくオーストラリアのグレート・バリア・リーフ沖に停泊していた、この1万3,000トンの平底船を所有するのは、高橋治則社長が率いる日本の不動産デベロッパー、EIEインターナショナルと、パキスタンの大実業家で、アラブ首長国連邦を本拠とする貿易・投資コングロマリット、ミルコン・ガルフ社の社長シャミーン・クラシ氏である。このホテルを運営しているのは、シドニーにあるサウザン・パシフィック・ホテルである。

「これは、ベトナムが西側に望む取引形態を象徴するものだ」と、ホテルの総支配人であるパトリック・インバーデリ氏は語り、さらにこう続ける。「これは発展途上国における目玉商品だ。われわれは彼らに、インスタントのステータスをもたらした。この国で事業などできるのか、と外国人が疑問を投げかければ、ベトナム人はわれわれを指差して、言うだろう。『あれは浮かぶホテルだ。もし失敗だったら、船を動かしてどこかへ逃げて行ってしまっただろう』と」

この合弁事業の条件は、どんな尺度から見ても東南アジアとしては気前がいい。現地でサポート・サービスを提供する報酬として、OFTCが年間75万ドルの“固定利益”を5年間（5年間の継続オプション付きの）受け取るにしても、ホテルの資産と利益は外国の手に残る。さらに、ベトナム政府は10パーセントの客室利用税を受け取るが、フィージビリティ・スタディによれば、その金額は毎年80万ドルを超えるものと思われる。このホテルは、初年度は収支トントンとしても、1991年には約350万ドルの利益を計上し、その後も、ベトナムの観光産業が拡大するにつれて増大し続けるだろう、とインバーデリ氏は予測している。

「ただドルが欲しいだけだったら、彼らはもっと大きな割合の所有権か、もっと多くの前払い金を要求したのだろうが、そうはせず、合弁事業を通じてインフラストラクチャーを形成する ノウハウ を欲しがっている。短期的には、彼らも大儲けできる仕事をつくり出したいと考えているが、将来的には、観光産業を自らの手で経営できるようになりたい、と素直に思っている」と、インバーデリ氏は述べている。

サイゴン・フローティング・ホテルが特に優れている点は、アジアのどの最高級ホテルにも対抗できるほど立派につくられていること、それから、ベトナム側としては僅かな支出で、高給をもらえる教育の行き届いた320人の自国民従業員を使って、わずか4か月のうちに、完全な営業態勢に入ることができたことである。

しかしながら、フランスのブルマン・アンド・アッカー・ホテルチェーンやインドネシアのスマ・グループなどが手掛けている他のホテルの改良あるいは建設工事プロジェクトは、そうした建造物よりも、低コストで長期的な利益を生んでくれる形のものを、と一途に要求するベトナム側の融通のきかない官僚的形式主義の泥沼に入り込んで、滞っている。

ベトナムが自国で最初の100パーセント外国所有の製造業——アントワープに本拠を置く企業、スティーグリッツーグロスマンが経営するサイゴン・ダイヤモンド・カンパニー——を即座に認めた理論的根拠は、メリットの交換条件だった。

同社のマネジング・ディレクター、ピータース・エディー氏が、政府の貿易機関IMEXCO、および工場の賃貸と支援サービスの提供をしてくれるベトナム企業、リー・リフリジレーション・カンパニーと契約をまとめるまでには、7週間しかかからなかった。彼は昨年5月に社員を採用し、トレーニングを開始したが、それから6か月もしないうちに、1日600個のダイヤモンドを製造するまでになっていた。

フローティング・ホテルの計画と同様、ベトナム側は年間30万ドルの“固定利益”を5年間受け取ることに合意した。初期投資額が100万ドルにも満たないそのダイヤモンド会社が、2年以内に750万ドルの売上高を見込んでいるのにもかかわらずである。

しかし、ベトナム側にとって有益な点は、たった1社で当初110人、3年以内に500人まで増えると見込まれる仕事を創出し、しかも1か月の賃金がこの国の平均の5倍に相当する50ドルをハードカレンシーで支給する、新しい、最先端の産業を獲得したことである。

「ダイヤモンド産業を持てるという取引だったから、彼らは合意したのだと思う。なぜかと言えば、ダイヤモンド産業の歴史は、いったん誰かが始めると、必ずほかの誰かが後を追いかける形だから」とエディー氏は言う。

「タイでは4年前に、ダイヤモンド研磨会社が5社あったが、今では30社にもなっている。2国の労働コストを比べた場合、ベトナムの方がまるで安い。ダイヤモンドはこの国の信頼性を高める」とエディー氏は締めくくっている。

Morgan Stanley Capital International stock market index February 28, 1990

(in US$ terms)

Figures in brackets indicate position at January 31, 1990

			% change in stock market indices: in 1 month	since January 1, 1990	from high	Price/earnings ratio: February 28, 1990
1	(1)	AUSTRIA	19.5	43.0	nil	60.4
2	(12)	HONG KONG	7.7	4.0	-22.2	10.4
3	(2)	NORWAY	7.2	18.1	-3.2	14.4
4	(4)	SINGAPORE/MALAYSIA	2.1	5.1	-3.1	21.4
5	(19)	UNITED STATES	1.2	-5.7	-7.3	14.0
6	(8)	SWITZERLAND	0.1	-0.1	-4.6	16.4
7	(20)	CANADA	nil	-9.4	-10.3	13.5
8	(6)	DENMARK	-0.2	2.6	-5.2	14.7
9	(5)	W. GERMANY	-2.2	0.6	-9.5	17.9
10	(16)	FRANCE	-2.7	-7.7	-6.4	11.5
11	(3)	FINLAND	-3.0	3.5	-20.1	10.4
12	(7)	UNITED KINGDOM	-3.0	-2.7	-5.8	11.3
13	(18)	SPAIN	-3.0	-9.0	-34.5	10.0
14	(13)	NETHERLANDS	-3.3	-7.2	-7.8	8.9
15	(9)	SWEDEN	-4.7	-5.3	-10.7	14.4
16	(10)	ITALY	-4.8	-5.3	-15.4	13.1
17	(11)	AUSTRALIA	-7.2	-8.2	-24.8	11.6
18	(15)	NEW ZEALAND	-7.7	-12.2	-61.1	17.3
19	(14)	BELGIUM	-9.4	-13.1	-15.9	10.9
20	(17)	JAPAN	-10.4	-15.8	-18.4	45.1

FT-Actuaries world index February 28, 1990

(in US$ terms)

Figures in brackets indicate position at January 31, 1990

			% change in stock market indices: in 1 month	since January 1, 1990	from high
1	(1)	AUSTRIA	21.7	46.2	nil
2	(5)	MEXICO	12.5	20.5	-7.2
3	(17)	HONG KONG	7.2	3.3	-23.7
4	(4)	NORWAY	5.4	16.8	-3.5
5	(13)	MALAYSIA	3.4	3.8	-3.1
6	(7)	SINGAPORE	2.3	8.5	-3.5
7	(23)	UNITED STATES	1.1	-6.0	-8.1
8	(10)	DENMARK	0.4	1.9	-5.4
9	(15)	SWITZERLAND	0.1	-0.3	-15.6
10	(3)	FINLAND	-0.1	10.9	-7.2
11	(24)	CANADA	-0.3	-8.4	-9.6
12	(8)	W. GERMANY	-1.4	1.5	-8.7
13	(6)	IRELAND	-2.1	4.5	-4.5
14	(20)	FRANCE	-2.8	-7.4	-8.6
15	(21)	SPAIN	-3.1	-8.5	-12.1
16	(11)	UNITED KINGDOM	-3.2	-2.4	-5.7
17	(19)	NETHERLANDS	-3.7	-7.6	-8.7
18	(9)	SWEDEN	-6.1	-4.2	-11.1
19	(12)	ITALY	-6.1	-5.5	-17.0
20	(14)	AUSTRALIA	-7.4	-7.5	-22.6
21	(16)	NEW ZEALAND	-8.9	-11.7	-54.2
22	(18)	BELGIUM	-9.3	-13.0	-15.9
23	(22)	JAPAN	-10.0	-15.6	-16.7
24	(2)	SOUTH AFRICA	-12.1	0.8	-21.2

Compiled by the Financial Times, Goldman Sachs and County NatWest Securities Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

Morgan Stanley Capital International stock market index, industry sector

February 28, 1990

(in US$ terms)

Figures in brackets indicate position at January 31, 1990

% change in stock market indices:

		Sector	in 1 month	since January 1, 1990	from high
1	(8)	ENERGY EQUIPMENT	7.1	4.3	-39.4
2	(22)	AEROSPACE/MILITARY	2.2	-3.4	-10.2
3	(4)	ELECTRONIC COMPONENTS	0.9	1.3	-18.2
4	(36)	TELECOMMUNICATIONS	nil	-8.9	-10.2
5	(10)	ENERGY SOURCES	-0.1	-2.8	-3.2
6	(2)	DATA PROCESSING	-0.3	2.9	-36.8
7	(37)	AIRLINES	-1.8	-10.7	-15.0
8	(31)	LEISURE/TOURISM	-1.9	-9.1	-10.0
9	(14)	SHIPPING	-1.9	-6.2	-9.0
10	(34)	BROADCASTING/PUBLISHING	-2.0	-10.6	-16.5
11	(5)	MULTI-INDUSTRY	-2.0	-3.8	-6.4
12	(29)	BEVERAGES/TOBACCO	-2.7	-9.6	-10.2
13	(24)	BUSINESS/PUBLIC SERVICES	-2.8	-8.3	-8.8
14	(3)	ELECTRICAL/ELECTRONICS	-2.9	-2.1	-3.2
15	(9)	AUTOMOBILES	-3.3	-5.9	-8.7
16	(30)	FOREST PRODUCTS/PAPER	-3.5	-10.4	-14.3
17	(17)	MERCHANDISING	-3.7	-8.1	-9.9
18	(21)	CONSTRUCTION/HOUSING	-4.1	-9.0	-16.1
19	(15)	MACHINERY/ENGINEERING	-4.1	-8.2	-9.0
20	(28)	NON FERROUS METALS	-4.2	-10.2	-12.7
21	(23)	FOOD	-4.5	-9.9	-9.9
22	(19)	CHEMICALS	-4.5	-9.0	-10.9
23	(6)	HOUSEHOLD DURABLES	-4.7	-6.8	-8.9
24	(18)	BUILDING MATERIALS	-4.8	-9.2	-10.8
25	(25)	ELECTRICITY & GAS	-4.8	-10.2	-10.6
26	(11)	HEALTH	-5.1	-8.2	-9.7
27	(16)	INSURANCE	-5.4	-9.4	-10.7
28	(32)	STEEL	-5.6	-12.7	-29.5
29	(7)	RECREATION/CONSUMER	-6.1	-8.3	-14.8
30	(13)	INDUSTRIAL COMPONENTS	-7.0	-10.8	-14.3
31	(20)	REAL ESTATE	-7.3	-11.9	-23.9
32	(26)	BANKING	-7.4	-12.8	-19.3
33	(35)	ROAD AND RAIL	-8.1	-16.2	-19.6
34	(27)	COMMODITIES	-8.5	-14.1	-15.2
35	(12)	TEXTILES/APPAREL	-10.0	-13.0	-14.3
36	(33)	FINANCIAL SERVICES	-10.6	-18.0	-41.1
37	(38)	TRADE	-10.7	-22.8	-22.8
38	(1)	GOLD MINES	-14.8	-3.5	-42.2

FT-Actuaries world index, industry sector February 28, 1990

(in US$ terms)

Figures in brackets indicate position at January 31, 1990

% change in stock market indices:

		Sector	in 1 month	since January 1, 1990	from high
1	(10)	CONSUMER GOODS	2.1	-0.8	-3.5
2	(14)	BUSINESS/COMPUTER SERVICES	2.1	-2.1	-6.0
3	(13)	ENERGY (EXCL. OIL)	1.6	2.2	-4.1
4	(15)	AEROSPACE/DEFENCE	0.2	-4.0	-28.0
5	(9)	OIL	-0.4	-3.1	-3.5
6	(2)	OFFICE EQUIPMENT	-1.2	0.5	-33.8
7	(4)	HOLDINGS	-1.6	-3.6	-5.4
8	(7)	AUTOMOBILES	-2.4	-4.9	-8.1
9	(6)	ELECTRICAL EQUIPMENT	-2.9	-5.2	-5.2
10	(27)	MEDIA	-2.9	-8.5	-11.7
11	(3)	ELECTRONIC INSTRUMENTS	-3.0	-2.2	-9.1
12	(35)	UTILITIES	-3.1	-10.8	-15.1
13	(24)	ENGINEERING	-3.2	-8.6	-9.3
14	(29)	BEVERAGES/TOBACCO	-3.3	-9.4	-10.0
15	(21)	METAL GOODS	-3.5	-8.2	-34.0
16	(23)	RETAIL TRADE	-3.7	-8.6	-10.6
17	(33)	FORESTRY/PAPER	-3.8	10.8	-12.3
18	(28)	INSURANCE - AGENT/BROKER	-3.8	-9.2	-9.9
19	(22)	LEISURE/TOYS	-4.0	-8.9	-11.5
20	(18)	BUILDING MATERIALS	-4.1	-8.5	-10.6
21	(25)	FOOD/GROCERIES	-4.2	-9.5	-9.6
22	(5)	HOUSEHOLD DURABLES	-4.3	-6.5	-9.0
23	(16)	CHEMICALS	-4.5	-8.5	-10.1
24	(8)	MANUFACTURING	-4.8	-7.3	-8.6
25	(12)	HEALTH	-5.2	-8.3	-9.9
26	(17)	AUTO COMPONENTS	-5.6	-9.9	-12.9
27	(20)	MINING	-5.6	-10.1	-16.3
28	(31)	HEAVY INDUSTRY	-6.0	12.3	-15.6
29	(32)	TRANSPORT/STORAGE	-6.4	-13.1	-13.8
30	(11)	TEXTILES/APPAREL	-6.9	-9.9	-11.8
31	(26)	REAL ESTATE	-7.1	-12.3	-22.9
32	(19)	INSURANCE - MULTINATIONAL/PROPERTY	-7.3	-11.6	-12.4
33	(30)	COMMERCIAL BANKS	-8.0	-14.0	-14.4
34	(34)	FINANCIAL INSTITUTIONS	-8.8	15.6	-29.2
35	(36)	WHOLESALE TRADE	-9.1	-21.1	-21.2
36	(1)	PRECIOUS METALS	-13.0	-6.1	-16.8

Industry indices are compiled and supplied by County NatWest WoodMac

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