

Indosuez Asia's Decade of Achievement

TEN years since its founding in Hong Kong in 1982, Indosuez Asia Investment Services Limited (ISAIS) continues to break new ground and set new records.

In June 1990, Banque Indosuez, the parent of ISAIS, acquired the United Kingdom-based Gartmore Investment Limited, which led to the creation of the Gartmore Indosuez Group.

As a result, the business of Gartmore Fund Managers (Far East) Limited was merged with the business of Indosuez Asia Investment Services Limited. With this merger, ISAIS added 12 unit trusts to its comprehensive range of investment products and services.

On January 3 this year, ISAIS launched the industry's first open-ended country fund in Korea, and is awaiting authorisation for the fund from the Hong Kong Securities and Futures Commission.

A China country fund, the US \$25 million Shanghai Fund, is ready for launch. A third fund dealing with derivatives is also due to be introduced shortly.

The Korea Fund and other initiatives are very much in the ISAIS tradition of pioneering country funds, explains Salim Chaar, Managing Director and Chief Executive of Indosuez Asia Investment Services Limited. "We believe in the growth potential of the Asia-Pacific region and the emerging markets in this area."

No other geographic region today offers the kind of investment opportunities which countries in this area do. We know this region, we specialise in it. We have an excellent record in researching and understanding the economies of this region and the companies which offer value.

No less, we have been at the forefront in creating new products and services to help our clients lock into the opportunities in this region. We maintain very close links with our institutional and private clients," notes Chaar, who was named Managing Director in October 1991, having earlier served ISAIS as Chief Operating Officer.

Since the merger between ISAIS and Gartmore Fund Managers (Far East) Limited, Chaar says all Gartmore's operations in Hong Kong have been integrated with ISAIS operations.

ISAIS has ten Fund Managers with the division headed by Jeremy Higgs who is the Director of Investments. Salim Chaar gives the ISAIS fund management team the highest marks.

He notes: "Their combined experience in the Asia-Pacific region is one of our fundamental strengths. It is this experience which enabled them to weather some really tough times over the last few years."

There was the crash of '87, the events following the Tiananmen situation, and the impact on the markets of the Gulf War. The knowledge and professionalism of our fund management team made it possible for us to move forward

the fact that we have pioneered country funds in the emerging markets in this region.

The quality and depth of the research we undertake, and the cumulative understanding of, and experience in, the Asia-Pacific region of our senior Fund Managers are equally important factors."

Investments Director Jeremy Higgs concurs saying, "Our philosophy at Indosuez is to continue the researching ourselves of those fundamentally attractive companies and the dynamics of the Asian economic region."

In a scenario Higgs has developed he sees "the average GDP growth throughout this region doubling the more mature growth rates of the OECD nations." Notes Higgs, "Given

company's marketing strategies. Site visits not only enable Fund Managers to judge the quality of the company, but equally important, its potential for growth and sustained earnings."

"We cut out the guesswork with this approach," notes Salim Chaar.

The vigorous, dedicated approach to company research and the economic outlook in each country has from the earliest days allowed ISAIS to approach portfolio construction — asset allocation, sectoral distribution, core investments and recommended buys — with an extremely high degree of professionalism.

"It also allows ISAIS managers to take a long-term view in looking at investment op-

tions for our clients, and transcends the problems in markets that are inherently volatile."

In the final analysis, our central concern is creating value through investment into companies with above average earnings growth," Jeremy Higgs emphasises.

Looking ahead, ISAIS Managing Director Salim Chaar, is extremely bullish about the potential growth of the economies in the Asia-Pacific region and the opportunities for investment that will surface.

In an upbeat scenario, Chaar says "Growth in real terms in these countries will be around 6% over the next three to five years. Population growth in Asia will add over 500 million new consumers by the end of the current decade, and per capita income in the emerging economies will exceed US\$ 4,000, excluding China."

The per capita will be US\$9,000 in these countries if we exclude China and Indonesia. The capital markets in each of these countries are gradually opening up to foreign investments, Taiwan and Korea being good examples, and China is gradually moving towards a market economy."

"China," observes Jeremy Higgs, "is going to be an ex-

cellent investment opportunity for those investors willing to take a long term view."

For sure there will be some hiccups along the way. There are elections due in the Philippines and Indonesia and it is not always easy to determine what the impact of these events will be on the investment environment.

But one has got to see beyond these events and judge what the long-term earnings opportunities are going to be like. This is why the research we undertake and the emphasis we put on it, is so central to our long-term investment strategy."

Aguably, ISAIS has one of the best research operations in the industry. Apart from micro-and macro-economic studies of the countries in this region, which its research arm conducts regularly, ISAIS routinely studies and evaluates every single company whose stock it invests in.

The team of Fund Manager and their support staff visit companies targeted for investment. These visits involve exhaustive discussions with the management of each company, careful evaluation of the product line or service and the

cost of extra imports tourism requires, but harder to take proper account of how much foreign exchange leaks out because of the way tourist facilities are owned and managed.

Complex as it may be, tourism has massive economic importance, and no government can afford to ignore its costs and benefits."

— GEMINI NEWS

Geoff Tansey is a British writer and journalist who deals with development matters. He was EIE's guest at Denarau.

Japanese Move into Pacific Island

Geoff Tansey writes from Suva

TEN green-garlanded Fijian singers, five strumming guitars, serenaded the tourists at the Regent Hotel each evening. The singers, naked to the waist, wear aulos, the Fijian wrap-around garment. Fijians serve drinks and free hors d'oeuvres — fish pieces and pizza.

A familiar scene, with variations and different songs and singers at any tourist centre. Tourism is the second largest industry in the world and expected to overtake oil as No 1 by 2000.

The World Tourist Organisation says that in the 40 years since mass tourism began, annual average tourist activity has risen by 7.1 per cent in arrivals and by 12.5 per cent in receipts based on current prices.

Fiji is diversifying its economy away from dependency on sugar. A study of the contribution of tourism in Fiji shows that it accounts for about 15 per cent of GDP, 25 per cent of gross export earnings and employs 12 per cent of the labour force.

The study, compiled by Fijian government planner Anita Nair while she was at the Development and Project Planning Centre (DPPC) at the University of Bradford in Britain, shows that the apparent foreign exchange earning can be deceptive.

Nair found that only 45 per cent of foreign exchange brought into Fiji in 1985 by tourism was retained. The rest "leaked."

Imports needed to meet tourist tastes — the costs of advertising and marketing Fiji abroad and the high degree of foreign ownership — resulted in high profit and wage repatriation abroad.

Moreover, not all foreign exchange comes through official channels. Nair estimated that between 12-16 per cent was not registered.

In Fiji and the Pacific the tourism industry is moving into foreign control. The Fiji Regent, for example, lies next to the Sheraton. Both are 300-bed hotels in Denarau resort, near the international airport. Both belong to the Japanese company EIE International, which also owns the resort.

EIE — it stands for Electronic and Industrial Enterprises — is investing F\$300 million at Denarau as part of its tourism investment in the Pacific. At 680 acres, Denarau island is bigger than Hawaii's Waikiki, which has 30,000 rooms.

Mass tourism is not planned

The Japanese are moving into control of the tourism industry in the islands of the South Pacific. In Fiji one electronic and industrial enterprise will soon own four new hotels, a golf course, marina and shopping village. Some Fijians fear Denarau island, which is bigger than Hawaii's Waikiki, could become a Japanese enclave. The company manager says not. Gemini News Service reports how Fiji, in diversifying away from sugar, looks to tourism as a big foreign exchange earner.

here. EIE will have four new hotels, bringing the bed total to 1650, a championship golf course, marina and shopping village, and 618 townhouses and villas in a project expected to create 5,000 jobs.

EIE manager in Fiji, Suva-born Andrew Thomson, says: "We don't want to be like the Mediterranean." He praises government building policy which forbids hotel construction above the height of a coconut tree, makes two stories the limit.

Some Fijians fear the resort could become a Japanese enclave. Thomson discounts that, saying: "We wouldn't cater for large group travel."

At present most visitors to both hotels are independent travellers from Australia. Americans come second at the Regent and Japanese at the Sheraton, followed by New Zealanders, Europeans, and Canadians.

However, all the island governments are vulnerable to the vagaries of the international airline market. Airline service or routing changes can affect tourism dramatically.

Tahiti is said to have lost 10,000 stopover visitors a year when one airline cancelled its three flights and another cut one flight.

This is one reason why governments want their own airline and why EIE wants a stake in them. In Fiji EIE bought 6 per cent of Air Pacific, the government-owned carrier. It also has a 10 per cent interest in Air Tahiti and 15 per cent in Air Caledonie and bought up three large hotels in Tahiti in 1989.

The Japanese company owns resorts and hotels in Australia, New Zealand, Tahiti, New Caledonia and Hawaii and financial services and travel, transport and communications interests — all part of its strategy to build an integrated tourism business.

EIE began in electronics in 1948 and that remains its main business. The property development side, founded by Harounori Takahashi in 1977, now has over US\$7 billion in assets.

Yet it has cash flow difficulties because of a decline in property values, high interest rates and involvement in some projects which have fared less well.

EIE's experience raises

questions over the long-term viability of a new foreign exchange-earner that also relies so much on foreign capital and a fickle international market.

Dr Steven Curry, director of research and post-graduate programmes at the DPPC, who has a special interest in tourism, points out that airlines, hotel chains and tour operators can all affect a resort's or a country's fortunes.

Hotel chains can switch preference from owning to managing hotels under a contract. Tour operators can have a major impact as they have a virtual monopoly over information.

They bring it together and package it even though individual tourists may not think they are on a package tour. Airline seats and hotel rooms are block-booked and marketed individually to independent travellers worldwide.

Curry also says governments, especially small ones, often spend more than they think on infrastructure and other services needed to attract tourists.

In looking at cost-benefits, it is easier to account for the

tremely interesting investment area in the next year or two. We have seen the first B shares successfully launched. We are monitoring and researching China in great depth at the moment."

Hopefully Indosuez will have some news very soon which will allow investors to play the China equities market.

"We are forecasting growth in China at overall 8% for 1992, and much higher for those more dynamic areas in southern China. Here we are looking at an area of 240 to 250 million people. The potential is enormous. It is worth recalling when we pioneered the Malacca Fund, the capitalisation in the Indonesian stock market was barely US\$1 billion and there were only around 24 listed stocks."

Now there are over 136 stocks. All things being equal, there is no reason why Shenzhen and Shanghai should not develop similarly," Higgs observes.

Jeremy Higgs looks at India and the countries of the sub-continent as extremely promising. The dramatic economic reforms introduced by the Rao government, Higgs notes, is making India a very attractive investment area by the day.

Higgs underlines that ISAIS is the only foreign fund management company with direct experience of investing in the Indian equity markets.

Noting how diverse Asia is, Salim Chaar explains that starting from India on the sub-continent and moving through to Thailand and Indochina, the growth triangle (Singapore, Malaysia, Indonesia) in Southeast Asia, China, and Northeast Asia, the factor which stands out is the sustained growth in the volume of intra-regional trade. Adds Chaar, "The growing inter-regional trade and investments between the Asian countries and Japan exceeded the volume between Japan and the United States for the first time in 1991."

All Asian economies are moving forward together. As a result many new and significant opportunities are emerging, ISAIS was and will remain the pioneer for equity investments in Asia."

— EXECUTIVE

cost of extra imports tourism requires, but harder to take proper account of how much foreign exchange leaks out because of the way tourist facilities are owned and managed.

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Russians Invade Beijing

"THERE you see the end of the great Russian empire," says a Beijing-based Moscow journalist as he gestures toward the Yabao market on the edge of Beijing's foreign embassy district.

Even in the dead of winter, the open-air clothing stalls are doing a brisk business. Their customers are mainly Russians, with a few Ukrainians and Byelorussians.

It is the latest wave of East European traders to hit the

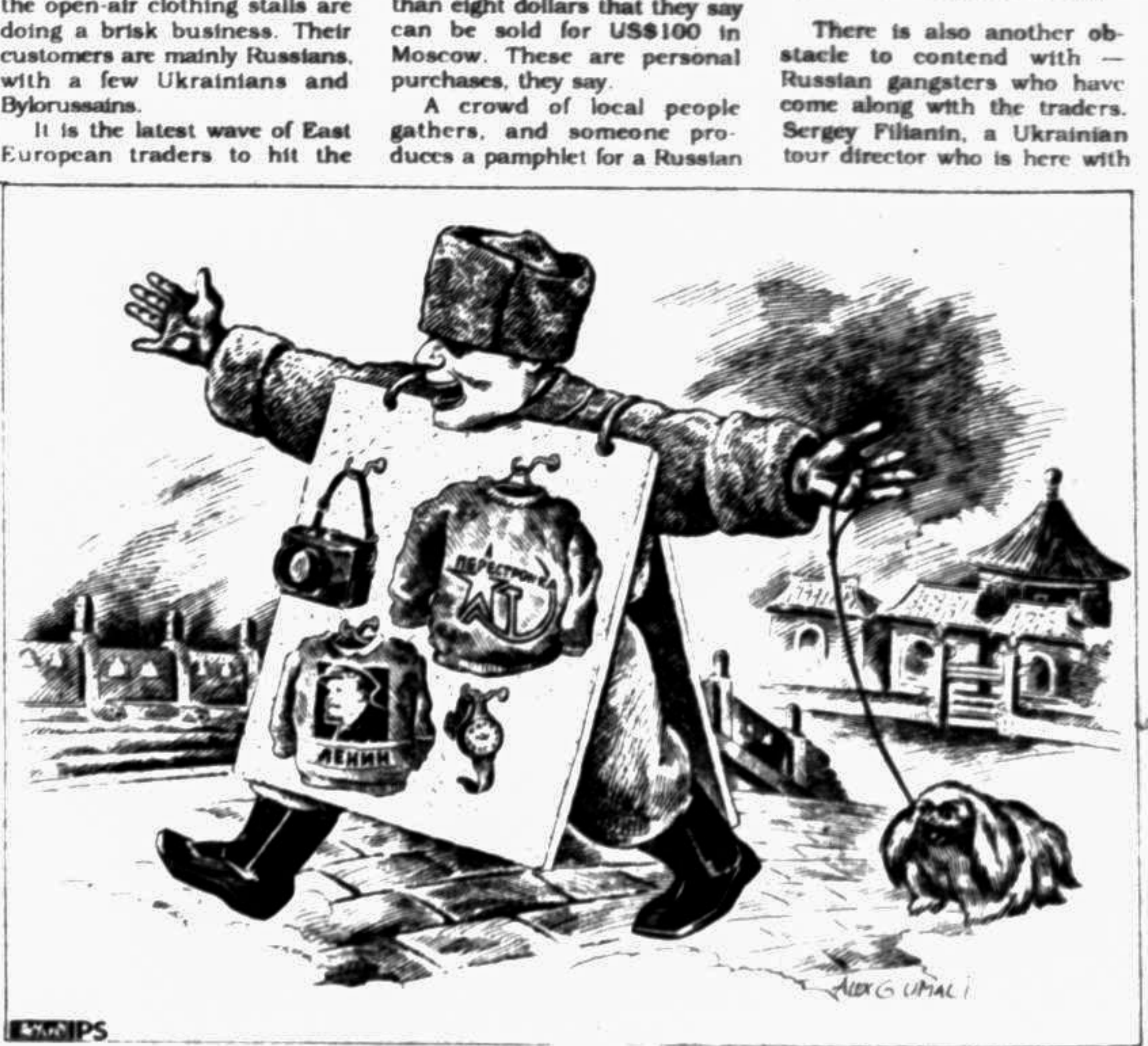
latter get free plane tickets after working seven years for the airline.

The editor-in-chief of a trade union newspaper and a player for the Spartak hockey team, one of the nation's best, are buying geometrically patterned wool sweaters for less than eight dollars that they say can be sold for US\$100 in Moscow. These are personal purchases, they say.

A crowd of local people gathers, and someone produces a pamphlet for a Russian

scarcity back home, but also because of the lack of import duties or taxes, which were lifted last September. But these advantages are now being offset by the increased cost of travel. Even the twice weekly Trans-Siberian railway trip is becoming more costly.

There is also another obstacle to contend with — Russian gangsters who have come along with the traders. Sergey Filanin, a Ukrainian tour director who is here with



Chinese capital in the past few years. Previous influxes prompted the eager Chinese getthru, or private business people, to learn basic sales terms in Polish, then Serbo-Croatian.

There are also quite a few Romanians buying in Beijing this winter. But the big crowd is Russian, and whether or not the dealer can manage to say "pure wool" in Russian, the most important bargaining is done with pocket calculators.

One trader in his early thirties says he has made a dozen or more trips to Beijing since last July, taking back around 2,000 down jackets each time. The cheapest can be bought for US\$15 in this market and sold for three times that amount to a Moscow shop.

But this is likely to be his last trip as Aeroflot tickets have just skyrocketed to US\$500 round trip, says the trader.

"Moscow is a garbage heap," he declares. He talks at length about the logistics and costs of doing this kind of business. A pained look crosses his face, followed by a long silence before he names his occupation — associate professor of engineering.

Among the after noon shoppers are the manager of a watch factory and a tourism official, both from Minsk, a Ukrainian musician, a waiter, a Nigerian student studying in Kiev and several Aeroflot employees from Moscow. The

camera lens. Andrey Broshkov, the hockey player, does have such a lens in his hotel room, and an agreement is reached to sell it to the Chinese.

The trading goes both ways. The Russians bring in watches, camera, Marlboro cigarettes, even spare parts for Lada cars.

Watches with Bush and Gorbachev portraits, Russian red stars or perestroika logos can be bought in this market, right next to the jeans and jackets. Even casual strollers are approached by Chinese eager to buy the inexpensive but good quality Zenith cameras and Russian watches.

There are indications, however, that the Chinese authorities are cracking down on such activities. In the past few weeks, a sign, in Russian, appeared in a nearby clothing market that is also popular with East European buyers, warning that foreigners are forbidden to sell articles in the street.

Also in recent weeks, television publicity was given to the apprehension of a foreigner carrying into the country another popular Russian trading item — Pekingese puppies. The dogs are much sought after in Beijing where there are none for sale owing to severe restrictions placed on dog ownership in Chinese cities.

The relaxation on Soviet travel restrictions last year made this trade possible. It is lucrative not only because of

a group of 16 people, says that when the racketeers make their move, group members must turn over 10 per cent of the cash they are carrying in return for a promise that they will not be bothered for another three days.

Everyone pays. The publicity in the former Soviet Union about the "savagery of such gangs, which appeared with the collapse of Communist rule, is sufficient to ensure compliance. The fear is that those who don't cooperate in Beijing will be met at the Moscow airport."

Shoppers pointed out about five or seven gangsters in this market — tall, young boys with shaved heads, one with a scar on his face and wearing a gold earring. They patrol the perimeter of the market, occasionally stopping to inspect the merchandise. They make trouble only for Russians. Other foreigners and the Chinese are left alone.

Filanin says he expects his group members to each net about US\$500 on this trip. Most earn about 50 dollars a month, making their profit equivalent to more than five years' wages.

For Filanin's group, this will be the last shopping trip to Beijing, even though "back home prices are going up, the economic situation is getting worse, everything is falling apart."

— IPS

Inept Use Making World's Waters Very Scarce, and Expensive

by Paul Icamina

GROWING food needs land and water. But land for agriculture is getting scarce. Only about a third of land in Southeast Asia and Africa is capable of growing rain-fed, non-irrigated crops.

Is the world running out of water as well? Not really, but it could use this precious resource a lot more wisely and efficiently.

The world — those who have piped water anyway — takes it for granted so much that a lot of water is wasted.

Irrigated agriculture accounts for over 80 per cent of the total water withdrawals in developing countries. Only a small part of this water (typically 25-30 per cent) reaches the plant. Irrigation becomes very expensive when more than half the water is wasted.

The rest seeps underground, causing waterlogging, or evaporates, causing salinity waterlogging and salinity are particularly serious in arid and semi-arid regions like the Euphrates Valley, the Lower Indus Plain and the Nile Delta.

The Food and Agriculture Organisation (FAO) estimates that some 125,000 hectares of irrigated land become uncultivable throughout the world each year as a result of waterlogging and salinisation.

In Australia, production losses from land salinisation and waterlogging in major irrigation areas of the Murray-Darling Basin are estimated at US \$65 million a year. Without intervention, the area affected by high water tables could increase by 500,000 hectares. Lost production could cost US

\$95 million annually by the year 2015 and cost to water users could reach US \$57 million a year.

"Mismanagement of water resources had major implications for economic performance through huge subsidies — over billions of dollars — which contribute to the ubiquitous national budget deficits," says a study made by Ramesh Bhatia, a water specialist at the World Bank, and Malin Falkenmark, a professor of international hydrology, Swedish Natural Science Research Council.

The study, prepared as a

background paper for the International Conference on Water and the Environment, argues that conservation and recycling would release enough water so that a significant part of the urban poor can be given adequate and clean water supplies without additional cost.

Water is expensive. From 1981-90, Malaysia spent about US \$3 billion on water resources development. About US \$1,740 million was spent on water supply, or six times more than was spent in 1966-80. For 1991-95, US \$1.91 billion was allocated for water development, 60 per cent of it for water supply.

From now to year 2000, Mongolia expects to spend about US \$15 billion on water resources, including irrigation systems and waste water

treatment plants. Two-thirds of the cost would come from internal sources. Until 1990 when the government shifted into market economy, all water expenditures were paid by the government. Now about 60 per cent of expenditures will be shouldered by private enterprises, corporations and local authorities.

Messrs Bhatia and Falkenmark note that "water use in agriculture has been characterised by large subsidies where revenues cover only around 10 per cent of the total operation, maintenance and capital costs."

Studies have shown that the most economical sources of additional water for the Beijing and Tianjin region of China would be the reclamation of wastewater to be reused for agriculture, industry and non-potable domestic use.

In India, serious conflicts in water-use between agriculture and municipal uses have occurred. In the cities of Pune, Bombay, Hyderabad, Madras and Vizag, the phenomenal growth in water demand has caused water to be transported over long distances to urban and industrial centres from its existing use in irrigation.

The urban poor also pay much higher prices for water. In Jakarta, Indonesia, only 14 per cent of households in a city of 7.9 million in 1988 had direct connections to water supply. Another 32 per cent bought water from street vendors who charged, according to distance from the public tap, around US \$1 to US \$5.2 per cubic metre. In some cases, households paid vendors as much as 50-60 times more per unit of water than households connected to a water system.

Providing water services to about 3.5 billion people in urban areas of developing countries would require US \$340 billion during year 2000-2020. This means US \$11 to US \$14 billion per year in the next three decades. These aggregated investments are about twice the investments made during 1980-1990.

"Funding in this order of magnitude is not likely to be available," notes Messrs Bhatia and Falkenmark.

— Depthnews Asia



Village life in Fiji: children and teacher leave Bible class