2004
2003
2002
2001
2000
1999
1998
1997

THE KWR INTERNATIONAL ADVISOR

January 2004 Volume 5 Edition 1

In this issue:

(full-text Advisor below, or click on title for single article window)

(complete Advisor in PDF format - 1.4 MB)

Editor: Dr. Scott B. MacDonald, Sr. Consultant

Deputy Editors: Dr. Jonathan Lemco, Director and Sr. Consultant and Robert Windorf, Senior Consultant

Associate Editor: Darin Feldman

Publisher: Keith W. Rabin, President

Web Design: Michael Feldman, Sr. Consultant

Contributing Writers to this Edition: Scott B. MacDonald, Keith W. Rabin, Jonathan Lemco, Jonathan Hopfner and Michael Priess

Advertisers in this Edition: AsiaLinks, Asia Times, Asia Today, Asian Business Watch, Business Promotion Asia, Buyside, CSFB Data & Analytics, Coudert Brothers, eMergingPortfolio.com, FacilityCity, Indonesian Business, Site-by-Site, Terrapin, and Wee Beastie

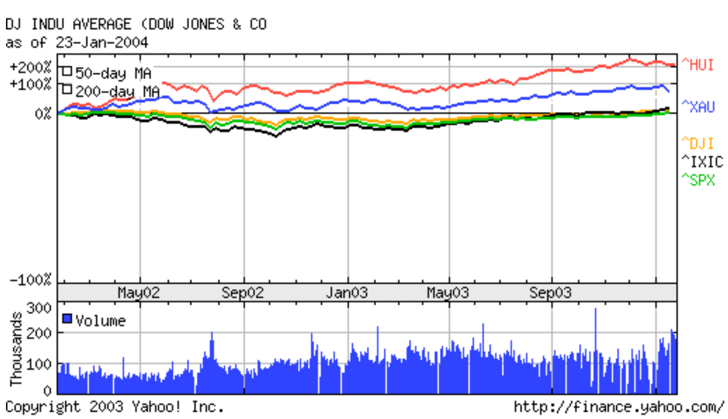
To obtain your free subscription to the KWR International Advisor, please click here to register for the KWR International mailing list

Will Gold and Precious Metals Sustain Their Momentum into 2004?

By Keith W. Rabin

NEW YORK (KWR) If you invested in gold during the 1990s, it was clearly an exercise in frustration. However, the tide turned in the early 2000's as long depressed metals prices came roaring back. Gold is becoming one of the new "hot" ideas for the general investing public, though dedicated gold investors have long been positioned to take advantage of the improved pricing environment. Where is gold going? While there is likely to be some continuing consolidation occurring over the near term, we see gold continuing to rise over coming years as a number of key factors favor an upward sloping price projection. Although we are not so bold to predict that gold will go over $500 an ounce over the coming year, it still has room to go and constitutes a sound investment opportunity.

Depending upon ones investment orientation, the performance of precious metals over the past few years has either been surprising or the natural byproduct of the excessive worldwide fiscal and monetary stimulation caused by U.S. Federal Reserve Board policy. Furthermore, a higher degree of political risk, directly linked to the new cold war of the 21st century – terrorism, societal upheaval related to the globalization of markets -- and resistance to that process – as well as a falling out of the former major Cold War allies over the Iraq war have contributed to the greater degree of market uncertainty that favors precious metals. To this we add the decline of the dollar and extremely low interest rates, all of which enhance the value of gold as a storehouse of value. As a result, both the unhedged Gold Bugs (^HUI) and hedged Gold/Silver Index (^XAU) have substantially outperformed the Dow Jones, Nasdaq and S&P Index over the past two years.



As readers of numerous analytical reports we are actively aware of the current debate as to whether gold remains in a "multi-year secular bullish trend" or whether the current consolidation seen since gold hit multi-year highs late last year will now enter into a full-blown correction. The answer is over the short term no one really knows for sure, but we think the question itself misses the point.

In addition to all the fundamental reasons often used to create a bullish case for gold, we believe one of the key reasons that gold-related shares will continue their upward projection is that overall equity supply trends will lead to a further appreciation over time. Despite all the talk seen in recent months from investors and the financial media, the entire capitalization of the entire gold and silver market as of late November, according to Mineweb, totaled only $120 billion.

To provide a simple comparison, General Electric and Microsoft have market capitalizations exceeding $300 billion, and Walmart and Intel both exceed $200 billion. Coca Cola registers about $120 billion, roughly the same size as the entire market for all gold and silver companies.

Coca Cola is admittedly a large company with over 56,000 employees. However, as present trends continue and investors around the world increasingly turn to hard assets as a safe haven and store of value, it is hard to see how demand for precious metals and related equities will not continue.

It may be true that gold and precious metal shares are overbought at the present time, (a situation not helped by the central bank of Germany's recent decision to sell their gold reserves) and that the sector is gaining a lot more attention within the financial media. In addition a lot of the present volatility might be attributed to aggressive hedge funds seeking to gain quick profits by bidding up or down prices. Despite all of this, however, most retail investors have minimal gold exposure and have not yet begun to focus on metals at the present time. Even if one looks at the major copper and nickel companies, such as Phelps Dodge and Inco, which have also appreciated strongly over the past year, the actual investment is relatively small. While both of these firms have developed loyal followings, together they are not as large as Newmont Mining, the largest gold mining company. Newmont has a market cap slightly over $17 billion as opposed to Phelps Dodge ($6.8 billion) and Inco ($7.1). To provide a point of comparison, Eastman Kodak has a market cap of $8.6 billion.

Most metals-oriented conferences and events – while attracting more attention in years past – still do not attract anywhere near the interest of more mainstream investments. At one presentation held last week highlighting a Canadian gold exploration company here in New York for retail and small institutional investors, there were little more than a dozen people in attendance. From the questions it was clear most could not even distinguish between exploration and mining companies. That seems hardly the sign of a market top, when all people with a possible interest are invested. Even precious metals-oriented mutual funds are relatively small. Cursory research reveals none of these funds have net assets exceeding $1 billion. The bottom line is that the small investor – who helps create a bubble of rising prices and expectations – has yet to be fully engaged.

Many analysts reject the supply argument noted above on the grounds that ultimately equities are valued based on earnings and gold and precious metals companies have not delivered in that regard. There is certainly some truth to this line of thinking, however, we would argue given the nature of the mining process, all increases in the price of the underlying metal above extraction and administrative costs will fall to the bottom line. As a result, a sustained increase in metals prices will likely lead to dramatic upside surprises in the profitability of mining companies. It is also important to note that many mining companies – in gold and otherwise – have considerably reduced their inventories. There is a less supply than in the past, while demand is on the rise for gold as well as copper, nickel, zinc and many other commodities.

Furthermore, given the sparse investment into new mining properties that has taken place over the past two decades, we could begin to see an upturn in the M&A environment within the sector as major producers seek to acquire properties that can help to boost their reserves.

On the other hand, higher prices for gold has also led to an increasing number of secondary financings. After a $1 billion financing last November, Newmont Mining, the world's largest gold producer, filed with regulators last week to raise up to $200 million for a possible acquisition and to sell up to another $1 billion in debt and stock. While we still believe the aggregate amount is still small compared to the demand that will arise over the next few years, though many analysts point to the dilutions and added supply that will result as evidence that the move in precious metals has past.

This may indeed be true over the short term, and there may indded be better entry opportunities in the near future – however, the basic fundamentals, which include, but are not limited to, a declining dollar, highly simulative central banking policy in the U.S. and many other economies, strong growth in China, India and other developing countries, as well as the relatively low level of investment and equity supply following an almost two decade bear market in the commodity sector -- all point to continuing appreciation over time. While we do not necessarily see gold going over $500 in the near term, it has room to run and the potential to surprise on the upside, especially if – and ultimately when -- greater uncertainty begins to creeps back again into equity markets.

The New Banking Order in the United States

By Scott B. MacDonald

NEW YORK (KWR) -- Although there appeared to be little momentum on the U.S. banking consolidation side following Bank of America's purchase of Fleet Boston, this changed with J.P. Morgan Chase/Bank One announcement of an agreement to merge on January 14, 2004. The two banks agreed to form a bank holding company with $1.1 trillion in assets. Following this news, Sovereign Bancorp announced it was acquiring Massachusetts-based Seacoast Financial Services for $11 billion. These acquisitions have brought the issue of bank consolidation back to the front burner. They have also made bank stocks much more interesting. Just when it looked like a boring year for the banking sector, the consolidation game picked up. It is about to accelerate.

What is evident is that there is a large gap in terms of the size of the nation's three major banks and the next tier of institutions. The actions of Bank of America and JPM are likely to force many bank management teams to reassess the banking environment and determine whether to expand business through organic growth or look for possible merger partners and acquisition targets. This is particularly true for Wells Fargo, Wachovia, US Bancorp, Fifth Third, Sun Trust, KeyCorp. and Bank of New York. In a sense, a failure to move is likely to invite a suitor - welcome or not.

Taking heed of the changing banking environment, two large southern regional banks, Union Planters and Regions, announced on January 24, that they were merging. Combined, the two companies would rank as one of the largest banks based in the Southeast, boasting just under $81 billion in assets and nearly $56 billion in deposits. This has left many investors and analysts looking at other southern banks, such as Sun Trust, BB&T, First Tennessee, and Colonial – among others.

Banks by	**Market Cap.***	**Assets****
1. Citigroup	$258 billion	$523 billion (Estimated total assets $1.2 trillion)
2. Bank of America & FBF	$163 billion	847 billion (Estimated total assets $940 billion)
3. JPM and Bank One	$131 billion	893 billion (Estimated total assets around $1.1 trn)
4. Wells Fargo	$95 billion	370 billion
5. Wachovia Bank	$63 billion	332 billion
6. US Bancorp	$53 billion	192 billion
7. Fifth Third Bank	$33 billion	55 billion
8. Bank of New York	$26 billion	97 billion
9. Sun Trust	$20 billion	119 billion
9. BB&T	$20 billion	68 billion
9. National City	$20 billion	100 billion
10. PNC	$17 billion	61 billion
11. KeyCorp.	$12 billion	75 billion

* Source: MSN. Ranking based on market capital, not total capital.
** Federal Reserve, June 2003.

The most likely banks in play as possible acquisitions include: PNC, KeyCorp, which must expand or be bought) BB&T and National City. Beyond this group, Sovereign Bancorp, which has been in and out of talks with Royal Bank of Scotland and Comerica are also frequently mentioned. Another combination is Wells and Wachovia, which would create a coast-to-coast bank and propel the new institution into the same range of assets and market value as JPM-One. We also think that HSBC, Royal Bank of Scotland and ABN Amro all could become more active in 2004 and 2005 about expanding their U.S. operations. All three have U.S. holdings and would find any new acquisition an opportunity to broaden their retail, commercial and consumer footprints in the U.S. market.

As for the proposed merger of JPM and Bank One we think it makes considerable sense, especially since Bank One's more plain vanilla business is likely to reduce some of the volatility inherent in JPM's investment banking business. There is a strong possibility the combined bank will be rated Aa3/A+/AA- - if the combined management team is able to demonstrate a well-constructed integration plan. Both rating agencies have ratings for each bank, which are one notch apart. Fitch rates both banks at A+. S&P already put Bank One's A rating on Credit Watch positive and affirmed JPM's A+ rating due to the "excellent fit" of the merger. The rating agency observes the merger addressing certain weaknesses in the franchises of the two banks - JPM achieves significant scale in branch banking, while Bank One gains a stronger corporate banking business. S&P sees the merger as upgrading the combined institution's national businesses. Fitch has put both banks on rating watch positive as it expects both banks will benefit from the greater balance in the businesses of the combined bank and its stronger branch network.

Moody’s has indicated it expects the merger to be net positive for JPM and has placed it on review for a possible upgrade. This positive view is based on Bank One’s substantial and more geographically diversified consumer and business banking base helping JPM’s more limited role as a New York metro area regional bank. Furthermore, the national lending businesses (credit cards, autos, mortgages, and student loans) are complementary. This bolsters JPM’s position as a universal bank that competes in the investment banking arena. Moody's noted this is a very large merger that entails considerable execution risk. Nonetheless, both predecessor firms have management teams that are experienced at acquisitions. Management is forecasting cost savings of $2.2 billion over three years and Moody's indicated it is reasonably confident that cost synergies can be achieved.

While we see 2004 as a year of consolidation for the U.S. banking sector, we would be cautious over whether the process is likely to continue into 2005. Not every bank is ready to be bought or acquired or wants to become a Citigroup or a JPM Morgan Chase. And considerations must be given to maintaining profitability and prudent banking practices. But there are enough banks that do want to grow and maintain their independence, which keeps the banking sector a place to watch in the U.S. stock market.

Site-By-Site !
Global and Domestic Investment Information

A Delicate Balance: Thailand’s increased prosperity brings new risks

By Jonathan Hopfner

BANGKOK (KWR) Few would contest the Thai economy is undergoing a spectacular resurgence. Gross domestic product (GDP) growth surged to over 6 percent last year and is projected by analysts such as Lehman Brothers to reach 7 percent in 2004. The stock market, racking up gains of over 100 percent in 2003, is scaling dizzying heights, and consumer confidence, as measured in a recent MasterCard poll, is the highest in the Asia-Pacific region. Thanks to more efficient tax collection, government revenues are exceeding targets. International reserves are holding steady and inflation remains low. And all this at a time when many of the world’s economic players, continue to underwhelm or even disappoint in comparison.

Arguments remain, however, as to who or what is responsible for this stellar performance. The government, and an ever-growing circle of admirers in Asia and beyond, credit it to the forward-thinking policies of Prime Minister Thaksin Shinawatra, who through a series of carefully orchestrated spending initiatives fostered economic growth based on domestic demand. Others see it as the fortunate convergence of a series of external factors that have little to do with “Thaksinomics” and warn that the administration’s appetite for spending on debt-relief and universal health care programs will eventually put the country in a precarious fiscal position.

While Shinawatra no doubt deserves much of the credit for convincing Thais it is once again safe to go out and spend their money, it also seems true that the Thai economy is being at least partially supported by a set of happy coincidences. The first is the relative weakness of the baht, which, though scraping back some territory recently, has shed nearly half its value since hitting its peak against the US dollar before the 1997 economic crisis. This has provided a much-needed boost to exports, which have found a willing and relatively new market in China. Since 1999, when they totaled $1.85 billion, exports to China have surged to $4.5 billion in the first ten months of last year. High prices for commodities such as rice, rubber, and tapioca have contributed further to Thailand's favorable trade balance. The administration has spoken much of the need to "balance" the economy by reducing its dependence on exports, but has taken few steps towards this goal. A recent decision to spend $97 million this year on heightening safety and standards among local food producers demonstrates the importance the government continues to attach to the sale of Thai agricultural products on the international market.

Domestically, rock-bottom interest rates have helped companies restructure their debts – many left over from the excesses of the period prior to the 1997 crash – and encouraged households to borrow money for purchases, boosting domestic consumption in the process.

The question now is how long these circumstances will last. Despite government efforts to slow the baht's rise, it gained steadily against the dollar last year. With the US reluctant to shore up the dollar against Asian currencies due to its ballooning trade deficit, it is likely to rise further. According to the independent Thailand Development Research Institute (TDRI), household debt is increasing at a dangerous speed; from three times monthly income in 1994 to 5.5 times in 2002. While this rate remains relatively low compared to other countries in the region, much of it is accounted for by households under the 900 baht ($23) per month poverty line. They have seen their debts soar to 19.8 times monthly income in 2002. With mortgage loans up 14 percent in the last year and land sales up 39 percent, the Bank of Thailand (BOT) has warned that the country is fast moving towards a property bubble, a situation eerily like that which preceded the 1997 crisis.

Banks, too, especially the state-owned institutions that have bankrolled much of the government's development efforts, continue to be saddled with uncomfortable bad debt burdens. Non-performing loans as a percentage of total lending reached 23.72 percent at the Small and Medium Enterprise Development Bank, 17.02 percent at the Government Housing Bank, and 11.51 percent at the Industrial Finance Corporation of Thailand in the first nine months of 2003.

None of this is to say that the economy will once again suffer the kind of devastating bust it did in 1997 – the government's abundant foreign exchange reserves and steady revenue stream should preclude that – but unbridled optimism may be equally unwarranted. A stronger baht, higher interest rates, and the inevitable downturn in spending when households struggle to service the debt they have amassed could all conspire to quickly unravel the gains Thailand has made over the past few years.

Crucially, some forces within the government seem well aware of these possibilities, and are already taking steps to prevent them. BOT Governor Pridiyathorn Devakula, while far more publicity-shy than the Prime Minister, may prove an equally important actor in the economy's success or failure; he warned on Jan. 15 that import growth, household debt, and property prices were all reaching unsustainable levels, and that the central bank was concerned Thailand was on the verge of "walking too fast and then stumbling."

The central bank already appears to be taking action to correct any possible imbalances. The government approved a plan put forward by the BOT and the Ministry of Finance (MOF) for the streamlining of the financial sector. Under the framework institutions failing to meet stricter minimum capital requirements will be forced to merge with their larger counterparts or bring their operations to an end.

While the MOF said the goal of the plan was to strengthen local institutions to allow them to better compete in the international market, analysts believe it is also intended to reduce the number of burgeoning consumer credit firms that have sprung up in the midst of Thailand's recent prosperity. The weeding out of the sector's smaller players will make it easier for the BOT to supervise their lending practices.

With forces like the MOF and BOT conscious of the risks Thailand faces and prepared to take steps to reduce them, the country's strength will likely stand on firmer foundations. And if its growth continues apace, it will become increasingly apparent that Shinawatra has contributed to, rather than single-handedly created, Thailand's success.

Buyside
IDEAS FOR TODAY'S INSTITUTIONAL INVESTORS

Bonds may be Thailand's story this year

By Michael Preiss

HONG KONG (KWR) There are some recent developments in Thailand, which could make the country even more interesting to investors in 2004. Last year Thailand was the market for equities. The SET being the best performing Asian equity market (+135%) and the Thai baht has risen (+8.7%) against the US dollar in 2003.

In 2004, however the investment story in Thailand might be corporate bonds.

More than 30 blue chip Thai companies are expected to have their corporate bonds listed and traded on the domestic market in the 1st quarter of 2004.

The deepening of the domestic corporate bond market helps the government's objective of not only having quantity of growth but also "quality" of growth.

This is because of the following reasons: Corporate bonds provide added fuel for the already fast-growing economy, while at the same time, reducing the risks of overheating.

The reason being that it offers companies and investors a less risky alternative to the stock market, better asset allocation, capital structures and as an end result, better risk and capital raising diversification.

The Thai economy is expected to grow by over 6% in 2004, which would make it Asia's third-fastest growing economy after China and Vietnam. Private sector economists are even more bullish, forecasting growth this year to be at around 6.4% and 8% for 2004.

Prime Minister Thaksin is even more ambitious and wants economic growth to reach 10% in 2005. However, without a liquid and well functioning bond market this most probably would lead to an overheating of the economy and misallocation of capital.

Non-performing loans are still putting a drag on quality growth but the increased issuance of liquid debt securities will help in assisting the workout and restructuring of bad debts.

In addition, more corporate bonds issues will result in better capital structures for companies, a lower weighted average cost of capital as well as providing an alternative to bank financing.

Another added advantage of the bond market is that of channeling funds to the right sectors of the economy. Bank lending sometimes tends to be politically motivated, but the scrutiny and more democratic nature of the bond market helps an economy to best allocate capital for productive rather than speculative use.

For this very same reason, Chinese authorities at present are carefully studying and implementing the enhancement of their local currency denominated bond markets.

Thailand has shown leadership by setting up the Bond Market Exchange (BMX), a new trading platform for corporate bonds. Trading liquidity of listed companies has been improved, an efficient clearing and settlement system has been introduced and as a result a wider array of alternatives has been provided.

Before the launch of the BMX, bond trading was the domain of the Thai Bond Dealing Centre (TBDC) whose purpose was to provide infrastructure for the secondary bond market and to facilitate discussion of issues related to bond market development.

Pricing transparency however was low and there was no scope for retail investors to get involved. Even among institutional investors most of the activity was concentrated on government rather than corporate bonds.

This in turn lead to little interest by companies to issue corporate bonds due to a lack of investor interest and subsequent low liquidity and transparency.

But now this is all changing. Last month the BMX started trading with Bt141 billion of bonds (US$3.5 billion) from some of Thailand's leading companies: Siam Cement, Thai Airways, National Finance (the country's biggest finance company) Advanced Info Services (the nation's largest mobile phone company by subscribers, and its parent Shin Corp, (Prime Minister Thaksin's main company).

Buyers and sellers can get their bonds or money two days after executing a transaction, one day faster than the settlement for stocks.

Before the launch of the BMX, only 53 of Thailand's 415 listed companies had raised funds through the bond market. Total outstanding issuance amounts to approximately Bt 542 billion or less than 10 per cent of the market value of all the stocks that trade on the Stock Exchange of Thailand.

The BMX's electronic trading and efficient settlement system will open the bond market to retail investors. Hong Kong as well is slowly warming up to the idea of a retail bond market.

However, breaking the dominance of the stock market might be difficult at first. This applies to both Hong Kong and China as well as Thailand -- but it is equally important.

The bond market in Thailand and Asia is still in its early stages. A strong educational push is needed, but there is a lot of room to grow and the outlook is very promising.

The Writer is the Chief Investment Strategist for CFC Securities.

Costa Rica: Stable Democracy Despite Economic Deterioration

By Jonathan Lemco

Costa Rica is something of an enigma. Long before it became fashionable for the large majority of poor emerging market countries to adopt democratic practices, Costa Rica was the exception. Despite a substantial degree of economic inequality, it has long been in the forefront of political democracies. It has also been able to avoid all of the turmoil that engulfed many of its Central American neighbors in the 1980s. Indeed, it has had only two brief periods of violence since the late nineteenth century. Of course, Costa Rica has long benefited from support from the United States. Also, it has not had a standing army within memory. But its ability to retain its largely democratic character over a long period of time is admirable and unusual by any measure.

Like its neighboring countries, Costa Rica remains dependent on agricultural exports as its primary industry. This is problematic, as low coffee prices and an overabundance of bananas have hurt. But unlike its neighbors, it has cultivated a vibrant tourist industry and a fairly strong technology sector as well. Land ownership is now reasonably widespread, and there is a small but growing middle class. Poverty is still readily apparent, but it has declined over the past fifteen years and a strong safety net has been put into place. According to World Bank figures, headcount poverty declined from 27% in 1990 to 21% in 2000. Access to healthcare and primary education is nearly universal.

From an investment perspective, Costa Rica's democratic character, its attractive industries, and its reasonably well-educated population are obvious attractions. The government is, however, faced with the twin challenges of reducing a large deficit and a growing internal debt. Costa Rica's domestic fiscal problems are cited by the credit ratings agencies (Moody's and Standard & Poor's) as particularly troublesome for fixed income investors. They both rate the sovereign in the "BB" range with negative outlooks. The government continues to have trouble curbing expenditures and investors should expect a budget deficit of about 3.0% in 2004. Fortunately, Costa Rica's external debt burden is not particularly odious. The external Debt/Exports ratio is forecast at 58.1% for 2004. In addition, the government has had difficulty passing legislation that would modernize the state-owned electricity and telecommunications sectors. This stalled reform effort has hampered economic growth.

Investors should also pay particular attention to inflationary pressures. Over the past twelve years inflation has averaged 12%, which is second only to Honduras in the Central American region. As of January 2004, it is in the 10.5% range. Also, the monetary and exchange rate regimes promote dollarization, which in turn, limit the scope for relative price adjustments.

But the economy is now improving. Boosted by the manufacturing, construction and financial services industries, Costa Rica's monthly index of economic activity expanded by 5.4% in the twelve months through June 2003 at 5.3%. This is the highest level since July 2000. The latest government forecast, which we regard with skepticism, puts real GDP growth for 2003 at 5.3%. (We expect it to be more in the 4.0% range for 2004). Meanwhile, export earnings increased by 22.4% in the first seven months of the year compared with the same period in 2002. A pending free trade deal with the United States may also help the trade balance. Costa Rica is also a prime beneficiary of the positive disposition that investors have towards all sovereign credits offering decent yields. Its recent issue of US dollar denominated bonds in January was substantially oversubscribed.

Costa Rica is not without its problems. But relative to many other emerging market sovereigns, its economy is open and diversified. More striking is the fact that amidst economic reversals, it has remained a democratic stalwart.

Geo-political Issues – Some Bumps Ahead?

By Scott B. MacDonald

While U.S. economic and corporate news are moving in a generally supportive direction for the U.S. stock market, geo-political factors are aligning on an even more positive trend – at least over the short term. This by no means reflects the view that the threat of a major terrorist attack is not a possibility. Rather, the Bush administration's objective of reducing the scope for radical Islamic attacks and restoring some degree of stability to the Middle East is looking better than it has for some time. Bush now has four things going for his foreign policy:

1) The capture of Saddam Hussein as well as the capture of a number of other high-ranking Baathist former officials in recent weeks is hurting the ability of the opposition to mount large-scale and widespread attacks on U.S. and Allied occupation troops. Rebel operations to the north of Baghdad have almost stopped since Saddam's capture;

2) A new constitution in Afghanistan and upcoming elections indicates that there is an ongoing shift in control to the local Afghan authorities. Along this track, if elections are held, Afghanistan will have its first open elections and the anti-U.S. forces will have to contend with a government elected by the Afghan people rather than imposed from the outside. While this is not likely to stop the fighting, it could help the central government establish greater legitimacy with the population and take away some of the propaganda points for the opposition, including the Taliban;

3) Libya's admitting that it had a weapons of mass destruction program and that it is now working with the United States and the United Kingdom to dismantle such a program. For anyone arguing that the use of force (or the threat of using force) does not have results, certainly Libya's move to be open about its WMD program and desire for foreign assistance in dismantling it, indicates that in some cases this policy has value. Certainly the significance of Saddam's capture was not missed on long-time Libyan strongman Col. Ghadaffi; and

4) A quietly negotiated, yet effective working agreement with Iran over Iraq. The Iran-U.S. rapprochement is probably the most important as Washington is willing to take some of the pressure off of Iran in terms of trade and allowing Teheran some influence among the Shiites in Iraq (the majority group). In return, Iran is allowing UN inspections of its nuclear facilities, is backing away from the pursuit of nuclear weapons, and is less supportive of anti-U.S. terrorist groups (including whatever al-Qaeda agents are in Iran). The improving relationship is marked by a sharp fall-off in U.S. comments about the Axis of Evil and Iran's calling the United States the "Great Satan". The U.S. humanitarian aid to the victims of the Bam earthquake was also important: that assistance was welcomed and was delivered by U.S. military personnel - previously a big no-no for Teheran.

The outcome of all of this is that the Bush administration ended 2003 in a much stronger position than it was in following the early occupation of Iraq. Yet, problems still remain - there is still no major momentum on a peace agreement between Israel and the PLO, North Korea continues to simmer, and calls for a shift in status from being a province of China to an "independent" Taiwan through a popular referendum all have the makings of being flashpoints during 2004. There are likely to be growing concerns that Asia could see another outbreak of SARS, as there are reports of new cases in Guangdong, China and the Philippines. Avian flue is now rising on the points of concern list.

In addition, the stakes in launching a major terrorist attack on the part of al-Qaeda have risen. Despite the ongoing tapes allegedly by Osama bin-Ladin, al-Qaeda has not launched a major attack on the United States or major allies (UK, Australia and Spain) since 9/11. The heightened airline security for flights from London and Paris during the winter holidays reflected that al-Qaeda is not a spend force. It is thought that al-Qaeda has managed to recruit new agents, who are referred to "White Moors", i.e. Europeans or North Americans, who have converted to Islam and do not fit any easy profiling. This also means that a White Moor would carry a legitimate passport, hence the tightened security in the UK and France, two countries with large Muslim populations.

The international war on terrorism is not over. The risks remain high. However, 2003 ended up in a more positive direction than many had projected. The trick for 2004 is likely to center on how the U.S. handles the delicate issue of political development in Iraq. In particular, Washington will have to strike a balance between maintaining control of Iraq and allowing the Shiites to appear to wrest some sovereignty from the United States. For this to happen the Bush administration will have to be flexible and somewhat thick-skinned. For the Shiites, they will have to carefully measure their rhetoric while not allowing actions to get out of control. The end game for Washington is to have a relatively representative government in place (that means Shiite-dominated) by year-end 2004 so that the Bush administration can demonstrate that Iraq was not a policy disaster - at least until after the November elections. For the Shiites, the end game is the creation of an Islamic republic, which they dominate. Failure for both sides to reach an accommodation could reverse some of the gains made in the international war on terrorism in 2004.

The other major battle zone is going to be Saudi Arabia. Since 2001 there has been an ongoing and marked political polarization between the regime and its supporters and those opposed, in particular, al-Qaeda and liked-minded radical Islamists. The problem is that a majority of the Saudi royal family is corrupt, largely opposed to any changes (including reforms), and has been slow to deal with the radical Islamic threat. In 2003 and early 2004 the regime has made a greater effort to deal with the problem, but those willing to challenge the government also appear to be stepping up their activities. While it would be rash to argue that any change is imminent, the political stability of Saudi Arabia is a major point of concern. There is no mistake that many countries, including China, are actively seeking energy sources outside of the Middle East. Too much dependence on Middle Eastern oil leaves the door open to the political upheavals top come.

Japan Briefs

by Scott B. MacDonald

Japan- Foreign Exchange Reserves Up: Japan's foreign exchange reserves increased by 43% to $673.52 billion at year-end 2003, posting a record high for the fifth consecutive year, according to the Ministry of Finance. The sharp rise is because of repeated and massive interventions in the foreign exchange market by the Bank of Japan in 2003 to stem a rise in the yen's exchange value. The year-on-year increase of about $200 billion roughly matched the Y20 trillion the government spent on intervention. The 43% growth in reserves is the highest since 1995.

In 2003, the Ministry of Finance stepped into the foreign exchange market almost every month through the Bank of Japan, spending more than 1 trillion yen to buy dollars in hopes of offsetting strong selling pressure on the greenback due to the Iraq war. In September alone, the MOF spent over 5 trillion yen, and continued to intervene in the market to the tune of 1.5 trillion yen to 2.0 trillion yen per month from October through December. Consequently, Japan’s foreign currency reserves topped $600 billion for the first time at the end of September and continued to hit all-time highs in each of the following three months. The government has continued to purchase the dollar since the beginning of 2004 as the yen continued to appreciate. This is likely to result in even further increases in Japan’s foreign exchange reserves.

Asian Business Watch

Japan Views You Can Use

Bank Turnaround – Looking for a Success Story?: Everyone likes a Phoenix-like story of businesses rising from the dead. In Japan, many companies have sadly risen, although they amble along as walking dead zombies. However, this could be changing – albeit slowly. Shinsei Bank, formerly the Long Term Credit Bank that was nationalized by the government and sold to Ripplewood Holdings, a U.S. investment company, will re-list on the Tokyo Stock Exchange by February 19, 2004 though Ripplewood will maintain management rights. Significantly, Shinsei Bank's move will mark the first time a financial institution returns to the stock exchange after being temporarily nationalized. The bank collapsed in October 1998 and was reborn as a private sector-owned bank in March 2000. The new management took advantage of a loan buyback provision that gave the bank the rights to sell loans whose values dropped significantly. The fact that Shinei’s management used this option and played hardball with deadbeat borrowers was not always appreciated by the authorities or the business community, especially during the first couple of years. However, Shinsei’s performance gradually improved. Although the process of rebirth as a public company has been long and painful, Shinsei’s story provides a model for a business turnaround led by a foreign investor.

There are roughly 1.35 billion common shares outstanding, almost all of which are owned by an investment partnership created by nine foreign financial institutions, including Ripplewood. About one-third of the outstanding shares, or roughly 450 million, are expected to be offered in February, with the initial offering price likely to be set at around 1,000 yen per share. The IPO is expected to generate a total of 400 billion yen to 500 billion yen.

Banks – Lending Less: Japanese banks continued to lend less in December while the money supply grew modestly, according the Bank of Japan. Bank lending declined 5.1% year-on-year, deteriorating slightly from a fall of 5.0% in November.

Foreigners in Big to Japanese Markets in 2003: Foreign investors were net buyers of Japanese stocks for the third consecutive year last year, purchasing a net Y8.213 trillion on the Tokyo, Osaka and Nagoya bourses. It was the second-biggest annual net buying of Japanese stocks by foreign investors since the TSE started disclosing trading data in 1981. In 1999, foreign net buying totaled Y9.128 trillion. Foreigners bought a gross Y72.380 trillion of Japanese shares in the year against Y64.167 trillion of sales.

In contrast, local investors were net sellers last year. Among them, the TSE said individuals sold a net Y1.652 trillion last year and investment trusts sold a net Y141.61 billion. Corporations sold a net Y224.51 billion, while financial institutions sold a net Y6.992 trillion, the TSE said. In December, foreign investors were net buyers of Japanese stocks, buying net Y571.96 billion in the month. It was the ninth month of foreign net buying in a row. In November, foreign investors bought a net Y609.51 billion of Japanese shares.

Emerging Market Briefs

By Scott B. MacDonald

Afghanistan – Elections Scheduled: Afghanistan has long been held up as a model of a failed state. Invaded and occupied by the Russians, torn apart by civil war, conquered by the zealots of the Taliban and their al-Qaeda allies, the central Asian country has a new constitution and scheduled elections for June 2004. President Hamid Karzai fought and won a presidential system, which hopefully the majority of Afghans will have the right to vote for in June. The new constitution establishes an Islamic Republic in which the president will rule with the national assembly. Women are recognized as equal citizens and will have close to one fifth of the lower-house seats reserved for them. Two official languages are recognized – Pashtu and Dari. The president's powers are extensive, but are checked by the national assembly, which is given the right of say in fundamental policies, some monetary matters and the right to censure ministers.

Argentina - Argentina's official unemployment rate has dropped from 21.5 percent in May 2002 to 14.3 percent in third-quarter 2003. However, the data is not reliable because it includes government subsidies to hundreds of thousands of people who, though they are not working, are listed as employed simply because they are receiving government money, Buenos Aires daily Clarin reports.

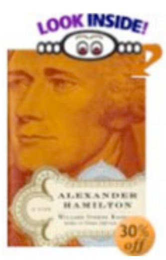
Bhutan - At least 50 people -- including 32 soldiers -- have been killed in southern Bhutan in battles between government troops and Indian separatist rebels, according to reports on Dec. 17. More than 80 soldiers have been wounded and rebels from India's eastern state of Assam say 16 of their fighters have been killed and 50 wounded since fighting started on Dec. 15. The operation is the first Bhutan's 10,000-member army has mounted against the United Liberation Front of Assam (Ulfa) and the National Democratic Front of Bodoland (NDFB), which have been hiding from Indian troops inside Bhutan.

India - Russian Defense Minister Sergei Ivanov and Indian Defense Minister George Fernandes signed a $1.5 billion deal on Jan. 20 to sell the Russian aircraft carrier Admiral Gorshkov to the Indian navy. Russia will refurbish the carrier before delivery in 2008. India is acquiring 28 MIG-29MK jets for the carrier in the deal as well as unspecified parts and components for the carrier, likely to include new missile and radar systems and helicopters.
Indonesian Business .

Book Reviews:
Alexander Hamilton: A Life

William Sterne Randall, Alexander Hamilton: A Life (New York: Harper Collins, 2003). 476 pages. $15.95 paperback.

Reviewed by Scott B. MacDonald



Click here to purchase William Sterne Randall's book, "Alexander Hamilton: A Life", directly from Amazon.com

At a time when tales of U.S. Treasury Department secretaries appear to be all the rage, it is insightful to have at hand an excellent biography of the first man to fill that position, Alexander Hamilton. Although his life has been treated before, William Sterne Randall's account, Alexander Hamilton: A Life is well worth the money. Randall, an accomplished historian with biographies on Washington, Jefferson and Franklin, presents a well-written and vivid re-telling of Hamilton, the bastard son of an English women in the Caribbean, who climbed his way from being a clerk in a West Indian clearing house to become the first Secretary of the Treasury Department and an active participant in the shaping of America's political, economic and financial systems.

The strength of Randall's book is that he makes Hamilton's life, from his birth to his death in 1804, following a duel with Aaron Burr, accessible for the general reader. The story is indeed compelling. Yet, the bulk of the book is on youth and the war years. Less attention is given to his post-Revolutionary career, which for those in finance, is the most interesting. Even so, what Randall does give us has application to the post-stock market bubble of the 1990s. Hamilton was an early believer that the maturing private interest was the glue that would hold American society together and make it succeed. As Randall noted of Hamilton's views: "Just as long as Americans learned to reign in their impulse toward unbridled greed and could control, channel, and regulate their prosperity for the public good, they would be invincible even against English military might." To his credit, Hamilton had an active hand in founding the first bank in the United States, creating the Treasury Department during the first term of President Washington, and bringing the national debt under control.

Hamilton was also the first treasury secretary to effectively deal with a financial panic in 1792, by intervening in the market. As Randall noted: “By acting so fast, Hamilton actually helped the federal budget and cushioned the crash, keeping it from spreading and ruining major taxpayers.”

While Randall portrays Hamilton as a grand architect for the U.S. financial system, he also brings him across as a very human figure, with human weaknesses. Randall conveys some sense of Hamilton’s disdain for the mob, his two affairs outside of his marriage, and an inability to judge some people (such as first deputy at the Treasury William Duer, the man who sparked the financial panic of 1792). At the same time, Hamilton helped pay off the debts of his old comrade at arms, Baron Steuben, an act which kept the older man out of debtors prison.

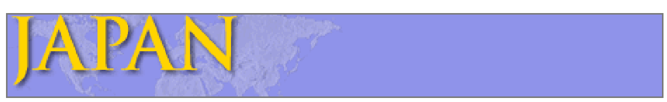
For anyone looking for a good historical read with relevance to today’s world, Randall’s Alexander Hamilton has much to offer.

AsiaLinks

Recent Media Highlights

- Buyside: Are We Entering a dot.Asia Environment?
- JETRO: Economic Recovery Leads to Regional Competition and Development in Japan

---



For pictures and updates of our recent Japan Small Company Investment Conference, click above

---

Past Issues of the KWR International Advisor

- KWR International Advisor #23
- KWR International Advisor #22
- KWR International Advisor #21
- KWR International Advisor #20
- KWR International Advisor #19
- KWR International Advisor #18

- KWR International Advisor #16
- KWR International Advisor #15
- KWR International Advisor #14
- KWR International Advisor #13
- KWR International Advisor #12
- KWR International Advisor #11
- KWR International Advisor #10
- KWR International Advisor #9
- KWR International Advisor #8
- KWR International Advisor #7
- KWR International Advisor #6
- KWR International Advisor #5
- KWR International Advisor #4
- KWR International Advisor #3
- KWR International Advisor #2
- KWR International Advisor #1

KWR INTERNATIONAL **KWR International, Inc.** (KWR) is a consulting firm specializing in the delivery of research, communications and advisory services with a particular emphasis on public/investor relations, business and technology development, public affairs, cross border transactions and market entry programs. This includes engagements for a wide range of national and local government agencies, trade and industry associations, startups, venture/technology-oriented companies and multinational corporations; as well as financial institutions, investment managers, financial intermediaries and legal, accounting and other professional service firms.

KWR maintains a flexible structure utilizing core staff and a wide network of consultants to design and implement integrated solutions that deliver real and sustainable value throughout all stages of a program/project cycle. We draw upon analytical skills and established professional relationships to manage and evaluate programs all over the world. These range from small, targeted projects within a single geographical area to large, long-term initiatives that require ongoing global support.

In addition to serving as a primary manager, KWR also provides specialized support to principal clients and professional service firms who can benefit from our strategic insight and expertise on a flexible basis.

Drawing upon decades of experience, we offer our clients capabilities in areas including:

Research

- Perception Monitoring and Analysis
- Economic, Financial and Political Analysis
- Marketing and Industry Analysis
- Media Monitoring and Analysis

Communications

- Media and Public Relations
- Investment and Trade Promotion
- Investor Relations and Advisory Services
- Corporate and Marketing Communications
- Road Shows and Special Events
- Materials Development and Dissemination
- Public Affairs/Trade and Regulatory Issues

Consulting

- Program Design and Development
- Project Management and Implementation
- Program Evaluation
- Training and Technical Assistance
- Sovereign and Corporate Ratings Service

Business Development

- Business Planning, Development and Support
- Market Entry, Planning and Support
- Licensing and Alliance Development
- Investor Identification and Transactional Support
- Internet, Technology and New Media

For further information or inquiries contact KWR International, Inc.

Tel:+1- 212-532-3005, Fax: +1-212-799-0517, E-mail: kwrintl@kwrintl.com

---