ASIAN ECONOMIC PERSPECTIVE 1986

FINANCIAL WOMEN'S ASSOCIATION OF NEW YORK

FWA Delegation Encounters the Century of the Pacific

By Margaret Daly, Money, Automotive and Features Editor
Better Homes and Gardens

"There is no question that the next century will be the century of the Pacific," Ambassador Mike Mansfield told the FWA Asian delegation during its two-week tour of Tokyo, Beijing, and Hong Kong in May. The hour-long roundtable meeting with the U.S. ambassador to Japan was one of nearly two dozen informal, yet in-depth, interchanges between industry and government leaders of the three countries and the group of 20 women and four men representing the FWA.

Some of the FWA delegates were Asian hands already; others were visiting for the first time. All were struck by the vitality of each country, as well as the candor and graciousness of our hosts in discussing economic and business concerns.

"They were all so open and willing to extend their time and hospitality," reports Joan Bristol, Vice President, Mortgage Finance, Citicorp. Adrienne Glasgow, treasurer of D. Glasgow & Sons, Inc., a fifteen-million-dollar garment business, agrees. "I was pleased at the high level of people we met. We were talking with people who made the decisions."

Several major themes emerged during the trip: Japan's emergence as an international financial center, despite unfamiliar economic problems at home. The remarkable differences among the three countries' cultures and economies. The formidable role of the Pacific Basin in an increasingly global economy. The tantalizing economic potential of the People's Republic of China. The promises and perils of 1997, when China resumes sovereignty over Hong Kong.

Japan: Growing international financial center

"We want to create a global trading system," said Genzo Fujimoto, Senior Advisor to the President, Nikko Securities. Among the means to this end are a freer formation of interest rates, deregulation of large bank deposits, and development of bond futures; increasing use of the yen for transactions; a growing preference for liquid assets, and communications systems.

In the push to increase import demand, Japan must deregulate in all areas of the economy, according to Toyoo Goyhten, director general of the International Finance Bureau at the Ministry of Finance. "But that is a difficult task in the face of 100 years of unique

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The Financial Markets: Views of A Portfolio Manager

By Barbara I. Jacobs, Vice President
Equitable Investment Management

Managing an international portfolio has its challenges (15 different stock markets, currencies, economies and political situations) and its frustrations, but it is also a great deal of fun. A comparison of the three Asian capitals we visited brings the point home.

Hong Kong–intensely energetic, with minimal regulation and a simple, low-rate tax structure–certainly exhibits the most capitalistic political and economic system in Asia. Tokyo is capitalistic too, but with more regulations and a more structured way of doing business. Even China allows individual initiative on a limited scale, and may open a stock market.

Like the U.S. stock market, those in Japan and Hong Kong operate on the auction principle. Both also have listing require-

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Japan, China, Hong Kong Move To Freer Capital Markets

By Mary Jo Bury, Vice President
W. Greenwell & Co.

Though the globalization of financial markets continue to build, the markets are far from homogeneous. Still, considerable strides have been made despite many handicaps.

In Japan, deregulation of the financial system is hampered by structural elements in place since the post-WWII occupation. Legislation similar to the Glass-Steagall Act has delayed the development of European style "universal banks," as securities firms resist changing the system.

Lending institutions also are affected. For example, commercial banks may arrange only short-term financing, while credit banks and insurance companies are active in the long-term market. The irony is clear: While Japanese banks and securities firms aggressively seek to participate fully in worldwide markets, they steadfastly attempt to preserve their own individual niches at home from outside interference.

Japan's changing markets

Despite the impediments, Tokyo is taking many steps to stimulate financial market growth. An offshore market has been approved, where non-resident transactions will be conducted free of withholding tax, interest regulations, and reserve requirements. The Euroyen market, negligible two years ago, is developing as a bond and credit market now that restrictions on issuers are being eased. Japanese institutions also are issuing international bonds, transacting interest and currency swaps, and participating in syndications with foreign financial institutions.

China's push for growth

China's financial system is in the throes of change. This is a result of the government's decision two years ago to transform the bank-

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Making The Financial Community Rounds–Globally

By Lucille V. Corrier, Chair, Asian Delegation and Director of Marketing and Communications, Touche Ross Financial Services; and Norma J. Niehoff, FWA President 1985-1986, and National Director, Metropolitan Life Insurance

1986 is the year of the Tiger. For the Financial Women's Association of New York it is the year of the Tigress as we return from our third international fact gathering trip, a highly successful foray into the financial markets of Asia–current and future.

Events of the past two years have made it clear that the era of globalization of financial markets not only has dawned, but, to paraphrase Kipling, the sun is coming up like thunder!

Reaching out across the sea to the men and women who shape the economic destiny of other financial communities, and hence, our own, has become one of our trademarks. Coupled with stateside programs to educate members involved and/or interested in international work, the overseas on-site meetings reinforce the organization's commitment to an international focus.

With each successive outreach abroad, the goals have been streamlined, the preparation more precise and the interest more intense. The delegations seek out information ranging from long-term strategies to new trends. They are sensitive to business and cultural attitudes that will help them make more informed and enlightened decisions in their workplaces at home. And they continue to impart information and attitudes reflecting U.S. markets that help their hosts do likewise. At the same time, both sides of the table are building relationships and making important contacts that will become mutually advantageous.

As New York and other financial markets have expanded and grown, so has the FWA's involvement in these markets as more and more financial community professionals seek the support, educational and professional development and other growth opportunities offered by the FWA.

We are proud of our success in putting members in touch with business and government leaders and decision makers who affect the status of the markets and effect changes in regulations and procedures, as well as traditions. Meeting these leaders in New York and Washington, we are both pleased and grateful to say, has become a staple in our annual offerings to members and friends. Adding the leadership of foreign financial capitals became the next logical step.

Corrier and Niehoff

Recognizing that relatively few members can fit the overseas trips into their schedules, the FWA is eager to share the benefits of these sessions with all. Accordingly, we are establishing an International Resources capability to provide members access to personal and corporate contacts and information gained on these trips. Today, we have members who have relocated overseas but retain their membership status. We may not be too far from the day when the demands of an international marketplace and the opportunities offered will encourage us to expand our organizational horizons to those communities we visit. But, more immediately, the future calls for a post-Big Bang examination of the London market this winter and, perhaps, a second inroad to Southeast Asia, including possibly Australia, New Zealand and Singapore. It is our custom to be in the forefront of financial market activity, be it at home or abroad. ■

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Freer Capital Markets *Continued from page 1*

ing structure to a profit-making one. Previously, investment funds were allocated as non-refundable loans from the state budget. Now they will be arranged as commercial loans with regular interest payments.

There has been talk of reopening the Shanghai stock market, though the country's central bank, the People's Bank of China, denies the rumors. The concern: Bank deposits, sorely needed to finance internal economic growth, would fall if companies were allowed to raise funds through share and bond issues, thereby loosening the government's control over access to investment funds and creating direct competition with the government's ability to borrow domestically at low rates.

The Chinese government has limited access to raising funds in foreign capital markets. The Bank of England has barred China from raising funds in the London Eurodollar-bond market, for example, because sterling-denominated Chinese bonds, issued prior to the 1949 Communist takeover, are still in default. Signs of change are evident, however, as the $80 billion Bank of China, the only international Chinese bank, is arranging a $200 million issue of 10-year floating rate notes through DeutscheBank AG, West Germany's largest bank. This could help lessen anxiety regarding the development of domestic financial markets.

Hong Kong on the rise again

Hong Kong seems in an ideal position to reassert its position as an important center for financial markets in the Far East. Having rebounded from the severe slump in the early '80s caused by uncertainty over the 1997 reversion to Chinese sovereignty, the financial community has worked to organize the stock exchange of Hong Kong as a fully regulated body, with state-of-the-art automated systems in place in time for the exchange's official opening in October. There has been a concerted effort to remove the speculative excesses which have surrounded the market, while retaining the free and unfettered competitive spirit which has contributed to the development of the region. ■

"Surplus of Regulators, Outmoded U.S. Regulations," Says Siebert in Hong Kong

By Muriel Siebert, Chairman and President, Muriel Siebert & Company

Excerpts from a speech before the business and law division of the Hong Kong American Chamber of Commerce, the FWA of Hong Kong, and the FWA of New York Asian Delegation.

"Along with technology, regulation–and deregulation–has had so much to do with the changing face of Wall Street. Most of the regulations, believe it or not, were passed in the era of bathtub gin.

"We really have a surplus of regulators. The regulators were fine as long as Wall Street, the commercial banks, the S&Ls, and the savings banks all stayed in their own backyards and performed their own functions. However, modern electronic communications technology has made many of our regulations outmoded. The electronic age has thrust the financial services industry into an era of making markets and becoming market participants, in the U.S. as well as overseas.

Regulation by legal loophole

"The blurring of distinct lines separating different factions of the financial services industry increases every day. We now have regulation by legal loophole. The attorneys are having a field day. Morgan Guaranty was hired by Hiram Walker to fend off an unwanted suitor–Gulf Canada Corporation. Citibank is now using its own officers to screen customers as prospective buyers and

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Insurance: Japan Ranks 3rd in World; China Begins to Advertise

By Myra L. Tobin, Managing Director, Marsh & McLennan and FWA President 1986-1987

The direct written premium of the non-life insurance business in Japan approximated $30 billion, or 7.6 percent world market share, in fiscal 1984. The U.S. accounts for more than 50 percent of the world market, excluding the Eastern Bloc countries. The Japanese market ranks third following the USA and Germany.

Auto insurance and fire insurance are the leading lines of business. The sharp growth of personal accident business has been assisted by an increase in the saving-type long-term family personal accident policies in which investment income must be returned to policyholders subject to the loss experience. Since 1975, the premium amount of ordinary insurance has doubled, while the saving-type insurance has increased six times.

The investment challenge

The rapid growth of refundable assets, now accounting for 32 percent of total assets, has dramatically changed the investment activity of non-life insurance companies in Japan. Obligated to pay such refundable assets plus investment income to the policyholders upon expiration of the policies, the insurance company is challenged to invest its funds to earn a higher profit or yield than other savings products provided by other financial institutions.

With the low interest rate in the Japanese domestic market, the quest for a higher-yield investment has accounted for the dramatic increase of Japanese funds invested in U.S. Treasury Bonds since 1977. Although interest rates in the U.S. have declined during this

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The Far East–Things Just Ain't What They Used To Be

By Susan Bondy, President, Money Matters and The Bondy Group; Syndicated columnist with News America Syndicate

Japan: Problems, but a booming stock market

Behind all the prosperity, modernization, and technological advances in Japan loom two very serious problems: 1) The recent strengthening of the yen is greatly hurting Japan's export trade. 2) Japan is now saddled with a gigantic budget deficit–one of the largest deficits among industrialized nations.

To solve these problems the government is trying to stimulate domestic consumption, that is, encourage Japanese to buy more. Although this is a good theoretical solution, its implementation is very complex. The prospects for increasing inflation coupled with the well-ingrained Japanese habit of squirrelling away excess money (Japanese save 17 to 20 percent of their paychecks) will make any recovery slow and painful.

Despite the difficult dilemmas facing the Japanese economy, their stock market has been going higher and higher. This can be partially explained by the fact that trade surpluses together with strong consumer saving habits have made many Japanese institutions cash "rich." A substantial part of this money gets invested in stocks which, in turn, fuels the Japanese stock market.

The easiest and most diversified way to own Japanese securities is to invest in one of the numerous Far East (or Pacific Basin) mutual funds. Since Japan's stock market is so large and active, these funds have most of their assets concentrated in Japanese securities. There are, also, a few mutual funds which invest only in Japanese securities. However, with mutual funds you have no control over which stocks are purchased.

As for picking individual stocks, there are currently two schools of thought. Some investment professionals prefer to invest only in Japanese companies which provide goods or services inside Japan. Others feel that companies which export goods have already seen the high yen crisis discounted in their price, and now present a fair value for the future.

You may purchase stocks directly from the Tokyo Exchange or you can buy American Depository Receipts (ADRs). ADRs are blocks of foreign stocks which are listed on U.S. exchanges and, therefore, their prices are regularly quoted in the newspapers. Most brokers can execute either transaction.

Just remember when buying Japanese securities, you face two risks–currency risk (the yen could go higher) and market risk (the yen-denominated price could drop).

China: Opening up to the world

China looks like a country which just recently stumbled into the 20th century. And it did. Beijing is sprinkled with brand-new skyscrapers and hotels. The people look healthy and well-groomed, but the dress is very drab and monotone–no reds (no pun

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Overheard On A Junk In Hong Kong Harbor...

By Shoya Zichy,
Real Estate Advisor

"It's a bit like bird droppings," quips the journalist, referring to the rash of British home investments now dotting the continent of Europe. A number of Hong Kong expatriates, it appears, are preparing to depart this bastion of *laissez-faire* capitalism which has long borne their political and social imprint. The whispered remarks drift in the wind, as the junk, a replica of 19th-century splendor, speeds away from the harbor. Clustered guests discuss, as usual these days, the fate of Hong Kong after 1997.

Our hostess, aristocratic and deeply rooted in the island's traditions, speaks musingly of the children off to English boarding schools establishing their roots, roots which for the last 25 years she and her husband dismissed but, which of late, haunt them with an aching sense of loss. The question at hand is when to strategically exit without appearing to be abandoning the ship. "Probably in three years," she adds. "It's not only that our friends are leaving, but the atmosphere is different."

"I can understand her," admits a Chinese professor, once out of her earshot. "They've contributed substantially to this community, generally walking that fine line between an unregulated and lawful society. In her case, in particular, there are countless hours over the years raising money for the young and the elderly for whom no social benefits existed. Now they feel a bit like nursemaids on their way out, with their legitimacy diminishing by the day." Notwithstanding that, the effort continues.

Commitment to the future

The Hong Kong government has just launched a massive lower-income housing program, with the first 80,000 units about to begin. The commercial sector rallies as well. A major trading company that two years ago moved its legal address out of Hong Kong is now increasing local resources to introduce new businesses such as ethnic fast-food chains. And when mainland China backed Britain into a political corner, explains the professor, they took the only stance left–a moral one–and hammered out an agreement which on paper, at least, safeguards the island's political and economic integrity for 50 years after 1997.

"We Chinese, however, are very pragmatic," he adds ruefully. "The stakes are high for Peking's credibility and Hong Kong's survival, so whatever law prevails it will be propped primarily by need and, of course, in some cases greed." The professor's two brothers are in Canada and his sister and brother-in-law recently migrated to Australia. They will fulfill residency requirements that should permit others in the family to follow, should the need arise. "Of all groups in Hong Kong," he adds, "the most affected is the upper-middle and middle-class professional."

As for the powered Chinese money class, new U.S. citizens are cropping up on a regular basis. Mama flies to Los Angeles several months before delivery, gives birth and returns to Hong Kong in time for the Chinese equivalent of the christening festivities.

"Money is the only passport I need," explains a 30-year-old entrepreneur. "I have given my kids the most valuable safeguard of all–choice of nationality. As for me, I'll stay as long as I can make money; after that, I'll move elsewhere." Still, beneath the Rolex watch beats a Chinese pulse. Family, clan, tradition and staying among one's own are stakes deeply imbedded in the psyche of his race. So with typical fatalism, he hopes it will work and, if not, for the moment the potential windfall is right at home, at least for the next five years. To the opportunistic, the lure is clearly trade with China.

Increasing interdependence

The symbiotic relationship of Hong Kong and its northern neighbor date back several centuries, when Hong Kong imported the heralded tea, china, opium and silk. Today, China earns 40 percent of its foreign currency from Hong Kong and is the island's largest supplier of imports. It also absorbs the bulk of Hong Kong's exports, second only after the U.S., a volume up sevenfold from 1979. Capitalizing on the inside track, Hong Kong Chinese have pledged $8 billion, and actually paid $3 billion, making up 60 percent of all direct investments to the PRC. They constitute 70 percent of all foreign joint ventures and have contributed much of China's new tourist infrastructure–particularly hotels. In return, China's direct investments into Hong Kong are now publicly stated at $4 to $5 billion but privately estimated to be five times as high. With such interlocking circles, it is not surprising that the money class is mum over the more distant future of its homeland.

Two systems, one country is how the public agreement reads. "It's a bit untested," admits one confidentially. Hong Kong per capita income is 20 times that of China. No matter how much they push, the sheer size of the Chinese population makes it impossible to narrow the gap. Furthermore, it is not in the Chinese character to own something they cannot control. So, some believe a hybrid will evolve, one that may perhaps more closely resemble the Hungarian model–small private firms side by side with the monolithic structures of the State.

Meanwhile, Hong Kong, with its lack of unemployment, rising real estate prices and active stock market, is progressing at a healthy clip. The majority, flexible as always, play by the ever-changing rules while waiting, watching and moving the chips. Place your bets ladies and gentlemen! ■

Insurance *Continued from page 3*

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period, there has continued to be a rapid growth in Japanese investments in foreign securities since 1983 because there is still a two- to three-percent higher interest rate earned on these funds compared to Japanese domestic investment opportunities. The downside risk in foreign investment is the currency risk, and this is a serious concern as the yen appreciates against the U.S. dollar. Investment by insurance companies in foreign securities is regulated and was restricted to 10 percent of total assets. Due to the change in investment attitudes and increased pressure to seek the higher yields, in April, 1986 this restriction was eased to 25 percent.

A changing investment philosophy

As the growth of the Japanese economy has slowed, there has been a decline in the domestic loan market. In contrast, the yen-dominated foreign loan has become the vehicle for access to the foreign financial markets. Done through syndication with commercial banks and other financial institutions, this has become a remarkable investment for non-life insurance companies in the 1980s and characterizes a more aggressive investment philosophy. This is in sharp contrast to the investment portfolios of thirty years ago, which consisted mainly of Japanese stocks and bank deposits. The investment philosophy was built on liquidity and credibility.

Today, the pursuit for profits, the speed of communication and movement of money requires these institutions to become bigger players in the world financial arena.

An expanding insurance market in China

In China, insurance operations are entirely different. The People's Insurance Company was formed by the government in 1949 to transact the various types of domestic and foreign insurance including international reinsurance. Reinsurance agreements are maintained with more than 1,000 other companies in 120 countries and regions. Life insurance was introduced in 1982.

Although the company was originally a part of the People's Bank of China, it became a separate economic entity, directly responsible to the State Council, on January 1, 1984, after a structural reform of the Chinese financial system. From 1959 to 1979 only insurance business with a "foreign element," such as marine cargo coverage on imports and exports, could be written. The future will be different, according to one official. Advertising of personal insurance products has already begun and will be expanded as the market grows. ■

The Financial Markets *Continued from page 1*

ments. But fundamental analysis is not the only mover of stock prices. The differences among markets is one of the fascinations of managing an international portfolio.

We take high-quality research for granted in the U.S., for example. The quality and quantity of research on foreign companies is just now improving rapidly. True, research has been available for years on Sony, Hitachi, and NEC. But those are not the spectacular stocks of recent times. Investors purchasing Mitsubishi Estate or Nomura Securities could have doubled their money in the first three months of this year.

Domestic stocks have led the market rise in Japan, while the traditional, export-oriented companies have suffered the impact of the stronger yen. Their products are much more expensive in dollars, and they must cut yen prices in order to maintain market share. Further, any dollar earnings they do have are worth much less than last year when translated into yen.

Some different kinds of investments

International portfolio managers also may invest in types of foreign companies which have few listed equivalents in the U.S. For example, publicly listed real estate companies are extremely important in Japan and Hong Kong. Hong Kong Land's sleek buildings and skywalks dominate Hong Kong Island. Mitsubishi Estate owns land and buildings in Tokyo's "Wall Street," the Maranouchi District.

Neither company's stocks are valued on an earnings basis; their P/E ratios are well above general market levels. Instead, Hong Kong Land's stock price moves with its estimated net asset value, and Mitsubishi Estate's price has skyrocketed based on its estimated "hidden," or "latent" assets.

The concept of hidden assets has been *the* theme in the Tokyo market this year. One reason us that Japan is about the size of California, but is quite mountainous. Only 20 percent of the land is habitable, yet Japan's population is one-half that of the United States. Not surprisingly, vacant land is at a premium. Thus companies which own land have a latent asset, since it is carried on the balance sheet at book, a below-market value.

Another type of hidden asset involves cross-holdings of stock among Japanese companies–a common practice. Most of these holdings, purchased many years ago, are carried at cost, not current value, on the balance sheet. As the stock market rises, so does the value of the shareholdings, and investors respond by bidding up the value even more.

There is also no U.S. counterpart to the "sogo shosha," or general trading company, which can offer a full range of basic trading services, including linking buyers and sellers, contract negotiations, collection of invoices, provision of insurance and warehousing.

More than the fundamentals

An investor looking only at pure fundamentals, such as potential earnings and market share, would have missed much of the move in Japanese stocks. The earnings outlook for many companies is not outstanding, yet the Tokyo market keeps rising. One reason is the current liquidity situation: A strong flow of funds, mainly from Japanese institutional investors, has created a demand which is greater than supply.

The economic fundamentals in Hong Kong are excellent. Still, the specter of 1997, when China will resume sovereignty over Hong Kong, sometimes hangs heavily over the stock market. However, Chinese leader Deng Xiaoping has pledged that Hong Kong will remain capitalistic for 50 years after 1997. There will be "one country, two systems."

Growing globalization

As communications and transportation make the world smaller, companies are looking to expand their markets overseas. The Pacific Basin is one of the fastest growing areas. Many U.S. security analysts are already looking at their industries on a global basis. After all, can one analyze General Motors without considering Toyota and Honda?.

When managing an international portfolio, there is no substitute for face-to-face evaluation, despite access to many international research reports. So much more is gained by personal observation. Company managements answer questions in a different manner when they know they will not be quoted. One is also more likely to pick up nuances that cannot be discerned in a written report or a transpacific telephone call.

An advantage of managing an international portfolio from New York is that local events in the foreign markets do not unduly influence the portfolio manager. The perspective gained by distance can be very valuable; however, visits to the various companies are invaluable, too. ■

Century of the Pacific *Continued from page 1*

traditions and systems in the financial market," he said. Among many steps taken, have been the privatization of some industries, with more to follow. "It's a little like old families selling their silverware bit by bit," he added.

Cultural changes are not easy to come by in this tradition-bound nation. "We used to follow the Confucian philosophy of worry first, enjoy later. Now young people purchase on credit in anticipation of their bonus," explained Shijuro Ogata, Deputy Governor, International Relations of the Bank of Japan. "The lifetime philosophy is changing," he said.

Caryn Callahan, securities analyst and specialist in the electronics industry for Merrill Lynch/Japan, commented, "American women can function more easily here in business than men, because negotiations require tact, patience, and reading between the lines."

Many FWA delegates noted the sense of respect found among the Japanese for others. Said Marion Gibbons, Account Executive, Kidder Peabody. "The polite 'good mornings' by the food sellers on the bullet trains, the automatic door openers on the cabs and the white gloves on the taxi drivers was refreshing".

China adopts market economy

"We want to open to the outside world. We're making the Chinese economy more and more a market economy," Shang Ming, Chief Economist, People's Bank of China said. Chen Gen Tsin, General Manager, Trust and Consultancy Company of the Bank of China, listed accomplishments toward this goal. "In 1979, we had only 10 joint ventures. Today, we have over 2,300, plus 3,200 cooperative–non-equity–activities and 120 foreign companies wholly owned." He added that they can act more rapidly now that the Bank of China has been decentralized. "We can build a new factory and be in operation within a year," he said.

"I was struck by the changes taking place, especially the entrepreneurial small firms that were flourishing," said Al Brod, President, A.T. Brod & Co., Inc., an NYSE firm.

Hong Kong: Capitalism personified

"Seeing Tokyo first, then China, then Hong Kong was like jumping back and forth in time," said Ellen Abrams, Vice President/ Research, Shearson Lehman Brothers. "We're a buccaneering, spirited place," Bernard Asher, General Manager, Planning, told the delegation at the Hong Kong & Shanghai Bank.

"You can accumulate and retain capital here," said Dereck Murphy, Acting Commissioner, Commission for Securities and Commodities Trading. "Don't assume that the squatter areas you see are poor. Some people there have half a million in the bank."

In reference to Hong Kong's relationship with China, John Yaxley, J.P., Secretary of Economic Services, stated, "We are beginning to see how the two economies interrelate. Hong Kong is at a turning point; we must move upmarket and into high tech."

Concerning the Sino-British agreement, Robert Peirce, Deputy Political Advisor for the Hong Kong Central Government, noted, "Our main achievement was that although the Chinese had expected to have a very brief outline agreement, instead, we have a very detailed, internationally binding agreement." He added that recent agreements concerning the GATT and passports have served to ease some of the community's jitters about the future.

According to Nigel Rich, Finance Director, Hong Kong Land Company, "1997 is the ultimate conundrum. China will have to learn Hong Kong's principles of noninterventionism. But I believe that Hong Kong will remain a tourist center, and a major regional manufacturer and financial system, as a part of China, and the gateway to two-way trade with China." ■

Siebert in Hong Kong *Continued from page 3*

sellers of assets. Manny Hanny used its clout to save Chrysler. Was that a loan or was that investment banking?

"The leveraged buyouts are being advised and financed by banks. So even though we have a Glass-Steagall Act, we have found legal ways to circumvent some of the provisions. The banks are also underwriting municipals and commercial paper, and offering investment banking services on a global basis. In some cases this is made possible by operating overseas away from U.S. regulations. Two banks, Citibank and Morgan, have publicly stated that they have studied the possibility of giving up their banking charter in order to be more competitive with Wall Street.

"The insurance companies have expanded into selling mutual funds and have acquired investment firms, members of the NYSE, and investment advisors as part of their efforts to gain an additional share of the market. Insurance companies are running pension plans, getting equity stakes in real estate, loaning money, advising on LBOs, and becoming limited partners in some of the buyouts. Even the mutual funds have turned the tables and are setting up non-bank banks to make personal, auto, and mortgage loans, and are becoming brokers, buying firms on the NYSE.

"In turn, Wall Street has invaded the turfs of the banks. Securities firms offer cash management accounts, including checking accounts, and provide lines of credit collateralized by securities and real estate. The money market mutual fund, made possible by electronics that enabled conventional banking to be bypassed, skirted Regulation T, which says "a bank takes deposits and makes commercial loans." There is now over $200 billion in the money market funds. Merrill Lynch's CMA account is another truly innovative development made possible by a combination of Wall Street thinking and electronics.

Buy socks & stocks at Sears

"Changes in regulation come very slowly. Ten years ago discount brokerage came into existence and Day One we were there. Now, discount brokerage has 25 percent of the individual market and is probably growing. It has not killed the industry, but has provided another service: lower rates and a good piece of the trading that's going on because you can get in and out of a stock for an eighth of a point if you are trading in volume. That has brought out a new group of investors or traders.

"This has happened because of two regulations. One was ERISA, the regulation that governs pension plans. That was ten years ago. Basically, ERISA said that if you had a fiduciary responsibility you have to get the cheapest execution at the lowest cost–and be able to justify paying for research and other services. For a while, it was very tough on the research firms, but they're being paid today. At the same time, the regulators decided on negotiated rates. With the two coming together, they've created the ability to offer a new product.

"There also has been an invasion by non-financial companies through the acquisition of financial entities or by offering services through their own outlets. The one-stop financial center is here. Sears Roebuck is leading the way. If there is any doubt that the company is serious about the financial services industry, it just recently introduced its own card to compete with the major credit cards. Now at Sears it's possible to buy everything there from stocks to socks.

Needed: Regulation by function

"These innovations are among the many that led to the breakdown of the former pristine lines between banking, securities, and insurance. They were made possible by electronics as well as good attorneys. As a result, we do not have uniformity of regulations. People doing the same function are regulated by different rules.

"Our regulatory structure is clearly outmoded. It is controlled by several regulatory agencies, in some cases vying hard for the turf. For example, look at banks doing discount brokerage business. If they do it directly through the bank, they have one regulator. If they do it through a holding company they have another. That case is being fought in the Supreme Court. Then we have the Congress, which has been trying to pass laws to clear up some of these inequities, but can't seem to pass the new laws because the lobbyists come in.

"We need regulation by function, not by industry. Regulation should not impede growth, but should do what it was created to do, which is to protect the public.

An international electronic marketplace

"It is impossible to discuss effects of technology without acknowledging the revolution in international financing creating 24-hour-a-day trading, worldwide. The power of the world's central banks to control economic activity is restricted by what happens in the electronic marketplace. In New York, for example, an international payment system for Eurodollars handles a daily volume of about $300 billion, many times the total reserves of the world's major central banks. Walter Wriston once told me that they start paying out in the morning, and before any money comes in to them they have transferred out the whole bank's capital.

"The new technology has made trading centers around the globe into a single international market, encouraging the development of new financial products, accelerating the pace of trading and adding to its volatility. It has made cooperation between countries mandatory.

"We're in a vastly changing world of finance. Each country has its own parochial rules and requirements. Yet today, it's truly a worldwide monetary system.

"Hong Kong's position as a financial center of international significance is a permanent fact of life. The unification of the stock exchange will help its clout on the international finance scene. The ascendancy of Hong Kong as one of the world's financial powerhouses has contributed importantly to this system. The future shape of world financial markets will be materially influenced by what evolves in Hong Kong in the future." ■

The Far East *Continued from page 3*

intended), no purples, no greens, no yellows.

Only one percent of Chinese people have any form of life insurance. This number is expected to double in each of the next five years. China has a population of over one billion, so each percent represents 10 million people. Can you imagine an American insurance company with 10 to 20 million *new* clients each year?

As attractive as it may seem, investing in China is still almost impossible for Americans. There are no Chinese stocks offered to foreigners, and Chinese bonds which are available abroad do not trade in America. This is due to an unsettled dispute regarding some 1920 Chinese railroad bonds which have been in default for quite some time. The current Chinese government disclaims any responsibility, while the U.S. insists on resolving this matter before allowing new Chinese securities to be issued or sold over here.

China needs everything, but can't afford to pay in foreign currency. Those who want to do business in China should be prepared to take payment in kind or in countertrade.

China has a long way to go, but when you think of where it came from, you have to admire the great strides that have been made.

Hong Kong: Accelerating growth

Beautiful, modern, efficient, clean, and growing rapidly, Hong Kong is also waiting, with no small measure of discomfort, for 1997 when it will be returned to China. The terms and conditions of this change have just been spelled out after long negotiations between Margaret Thatcher and Chinese officials, but the citizens of Hong Kong anticipate the possible consequences.

Nevertheless, Hong Kong is a capitalist dream: low taxes, little government intervention in private business, no politicians, no unemployment, and an industrious labor force.

The Hong Kong Stock Exchange is brand new, ultramodern, and super-computerized–and one of the most volatile markets seen in recent years. With the current strong economy Hong Kong securities present some good opportunities for risk-takers. With the Hong Kong dollar pegged to the U.S. dollar, there is no currency risk with Hong Kong securities. ■