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Asia's Stock Markets: A Survey of
Institutional Investors' Current Perceptions
and Practices**

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PORTFOLIO INVESTMENT IN SOUTHEAST ASIA'S STOCK MARKETS: A SURVEY OF INSTITUTIONAL INVESTORS' CURRENT PERCEPTIONS AND PRACTICES

Abstract

This paper provides the results of a global survey of investment practices and perceptions by major portfolio investors currently active in the five Southeast Asian equity markets (Bangkok, Jakarta, Kuala Lumpur, Manila and Singapore). In addition to providing the survey results, the paper also proffers some initial interpretation and analysis. The findings shed light on the capacity of Southeast Asia's equity markets to provide an adequate conduit for the attraction and of foreign portfolio capital into the corporate sectors of their home countries, as part of the on-going post-crisis recovery process. The findings also indicate which of the Southeast Asian equity markets enjoy a more favourable reputation with foreign institutional investors.

Introduction

Above and beyond the impact of the Asian financial crisis on the five major equity markets of Southeast Asia in 1997-99, the global portfolio investment industry is going through rapid change. This change poses new challenges for all emerging (and developed) equity markets, both from the perspective of policy-makers that regulate these markets, and participants that invest in these markets. In particular, the substantial gains registered by the major US equity markets in recent years is prompting a re-evaluation of the relative risks and rewards associated with emerging market equity investing, including the equity markets located in Southeast Asia (Bangkok, Jakarta, Kuala Lumpur, Manila, and Singapore). For example, while the NASDAQ index registered a rise in excess of 80% in 1999, the returns for the markets of Southeast Asia were less impressive, despite the technical – or 'dead cat bounce' – corrections of 1999, witnessed after the financial haemorrhaging of 1997-98.¹ Even excluding the 'turbo-charged' NASDAQ, figure 1 clearly shows that while the performance of the five Southeast Asian markets was broadly commensurate with

those of the Dow Jones Composite, NYSE Composite and S&P 500 indices during the first half of the 1990s, they have all lagged the US markets since mid-1997, by quite a substantial margin.² Although one or two years' stock market performance should not be the basis on which to judge long-run investment potential, such a substantial margin in performance should invite some investigation into the factors that might lie behind it.

For example, much has been written about a new, technology-driven paradigm in business, the primary beneficiaries of which are anticipated to be 'hi-tech' and internet-related firms – the bulk of which are listed in the US stock markets – as opposed to most 'conventional' corporates currently listed in Southeast Asian and emerging equity markets. Therefore, while portfolio investors might seek to gain investment exposure to a particular emerging market, the actual stocks that are present on that particular equity market may be perceived to be relatively poor performers (including those in 'sunset industries'), and therefore of limited merit to an institutional investor with a global investment mandate.³ This perceived paradigm shift is also contributing in part to a change in the ways portfolio investors value and compare listed stocks, seemingly away from established 'valuation' and 'fundamental' techniques, and more towards 'momentum' and 'index-tracking' methods.

The consolidation of the portfolio investment industry is also resulting in the concentration of substantial funds in the hands of a more limited number of investors, which then seek equity markets with higher levels of liquidity, in order to support the substantial 'positions' that they wish to take in listed firms. These liquidity demands sometimes can not be met by particular emerging markets, as they lack sufficient 'depth' and 'volume'. In other words, an asymmetry may be developing between the equity markets of many developing countries and the major institutional investors located in developed countries; with the latter too big for the former. Whereas the S&P 500 index alone had a capitalisation of US\$13.4 trillion at end-1999, Southeast Asia's five stock markets combined had an aggregate capitalisation of just US\$465 billion – less than 4% of the size.⁴ (Put another way, the aggregate capitalisation of the five Southeast Asian stock markets is less than Microsoft alone.) Figure 2 illustrates quite clearly the extent to which the capitalisations of Southeast Asia's

equity markets have contracted recently, relative to the US markets, in US dollar terms. Immediately prior to the Asian financial crisis, Southeast Asia's equity markets had a cumulative capitalisation that was slightly over 9% of all US listed stocks, yet this fell to below 3% within a year. Such a contraction has very important implications in terms of global index 'weightings' (on which a substantial proportion of institutional investors will base their global asset allocations), and the amount of resources fund managers will be prepared to assign in order to track and analyse equities in these markets.

But why should any of the above be of concern to the economies of Southeast Asia? If one regards stock markets as having little utility to the real economies of this region, then a discussion of the challenges facing foreign portfolio investment inflows to Southeast Asia might be regarded as an irrelevance. However, in Southeast Asia's post-crisis recovery process there is a need for substantial capital, some of which will have to be sourced from overseas. Commercial bank lending may provide part of the answer, although excessive reliance on bank credit prior to 1997 resulted in the burdensome corporate leverage levels that helped bring on – and then exacerbate the pain incurred by – the Asian financial crisis. (For countries like Indonesia and Thailand, the post-crisis recovery process is primarily, although not exclusively, one of corporate sector debt restructuring.) Besides, most domestic banks are still struggling with non-performing loan levels that make new credit activities unduly onerous, while foreign banks are still contracting their loan portfolio exposure to the region.⁵ Plans to develop a regional bond market may also play a part in the re-financing of Southeast Asia, but only in the medium and long-term. This leaves the region's equity markets as one of the primary vehicles by which Southeast Asia can attract and digest foreign capital inflows necessary to finance the post-crisis corporate recovery programme. It is for this reason that an appreciation of the current practices and perceptions of foreign portfolio investors active in the equity markets of the region is of utility.

The Survey

The survey was in the form of a questionnaire, which was distributed in mid-December 1999. The questionnaire was mailed to 305 portfolio investors, located in

four of the world's major financial centres – Hong Kong, Singapore, Britain and the US – that were identified as having investment remits that included Southeast Asia's equity markets.⁶ Identifying pertinent portfolio investors was done by reference to various data sources.⁷ In building up the survey sample from the various databases, all duplicate references for the same firm within a single country were stripped out. The number of responses to the mail-out was 31, providing a 10.2% response rate. Breakdowns of the sample – by location, by scale of *global* funds under management, by scale of *Southeast Asian* funds under management, and by years of experience investing in Southeast Asia – are provided in figures 3 to 6. Just under half the respondents are located in Singapore (Hong Kong and Singapore combined represented two-thirds of all respondents), almost 60% have over US\$10 billion in global equity funds under management, 68% have in excess of US\$500m invested in Southeast Asia's equity markets, and a similar proportion have more than ten years experience investing in the region. Roughly 40% of the sample have less than 5% of global equity funds invested in the region, 26% have between 5% and 10% of their total equity funds in the region, and 23% have more than 20% of total equity funds allocated to Southeast Asia.⁸

While the 10.2% response rate to the mail-out is not particularly high, this is perhaps not surprising, given that the questionnaire asked fund managers to provide data that some might regard to be proprietary information on their chosen methods of stock selection, current 'positions', and so on. This may well have deterred some institutional investors from replying to the questionnaire.⁹ Nonetheless, we regard the response rate to be sufficiently significant for such an exploratory piece of empirical research, and we believe that the respondents provide an indicative cross-sample of the fund management industry as a whole, based on the information they gave about their organisations and their investment approaches. It is also not too surprising that the response rate from the Singapore element of the sample was stronger than for other locations, as one would expect a substantial proportion of global portfolio assets invested in Southeast Asia to be managed from the major financial centre within the region itself. Therefore, the strong response rate from Singapore need not be interpreted as an over-representation of 'Singapore money' or a 'Singapore investment perspective' per se, since a fairly substantial proportion of these will be

assets held by non-Singaporean institutions, albeit managed from a Singapore office.¹⁰ That said, it might have been preferable to get a slightly larger rate of response from the US sub-sample, if only to better reflect the very considerable scale of funds under management in this economy.

Survey Results

Fund managers were asked to indicate whether there was a minimum capitalisation level which listed firms in Southeast Asia must attain, in order to be eligible as candidates for their investment portfolio. Although the responses were broadly uniform across the five equity markets of the region (see figure 7), a fairly diverse range of ‘floor’ limits was apparent, with roughly a third of respondents stating that they had no minimum limit, and almost 40% requiring a capitalisation figure in excess of US\$100m. With regard to other minimum criteria, a third of the sample stated that a certain level of trading volume was necessary for stocks in their portfolios, typically measured by average daily trading volume.¹¹ A similar uniformity across the five Southeast Asian stock markets was also apparent in the maximum proportion of shares that fund managers are willing to hold in an individual listed company (see figure 8). Just under 80% of all respondents have a ceiling on the proportion of total outstanding shares they are prepared to hold in a firm, that is set at 10% or less (and in some cases, much less).

Given the above constraints, respondents were then asked to what extent is it easy or difficult to invest in each of the Southeast Asian equity markets (see figure 9). Singapore ranked highest, by a long way, with 80% of respondents regarding investing in this equity market as ‘easy’ or ‘very easy’ (and the remaining 20% being neutral on the issue). No respondents regarded the Singapore market to be ‘difficult’ or ‘very difficult’ to invest in. This contrasts with Jakarta, where just 26% regarded this equity market as being ‘easy’ or ‘very easy’ to invest in, and over 48% regarded it ‘difficult’ or ‘very difficult’ to invest in. Perceptions of Bangkok and Manila were only slightly better than those for Jakarta. Kuala Lumpur ranked second after Singapore, with only slightly over 13% ranking this market as ‘difficult’ or ‘very difficult’ to invest in, while over 36% regarded it to be ‘easy’ or ‘very easy’ to invest in (the remainder being neutral on the ability to invest in this equity market). The

surveyed fund managers were then asked what general improvements would be most useful in making investing in the Southeast Asian equity markets easier (see figure 10). The improvements selected by more than 40% of the sample were: improve the level of disclosure (over 96%); improve the regulatory regime that pertains to the stock markets (almost 76%); improve market liquidity (72%); improve the diversity of firms listed (48%); and improve general trading and settlement operations (48%).

Respondents were asked to describe their overall investment approach in the equity markets of Southeast Asia. Over half the sample (52%) defined themselves as ‘growth’ investors, 13% regarded themselves as ‘value’ investors, and just 6.5% stated they were ‘index’ investors. The remaining 29% selected a fourth, ‘other’, category, of which most seemed to employ a mixture of both value and growth orientations. Perhaps not surprisingly, none of the sample defined their investment approach as being ‘momentum’-oriented. (See figure 11.) In terms of asset allocation methods, 23% of the sample adopt a ‘bottom-up’ method, 16% adopt a ‘top-down’ approach, and 61% use a mixture of both methods. When comparing stocks, 23% of the sample do this on a country basis (ie. comparing stocks within the same market, even when in different business sectors), while 13% do so on a sectoral basis (ie. comparing stocks within the same sector, even when across different markets), and 64% use a combination of both.

Of the various statistical methods employed by institutional investors to measure and compare stock performance and valuations, the following were cited by at least two-thirds of the sample: P/E ratio (87%), price to book (84%), RoE (81%), EV/EBITDA (81%), RoA (65%), discounted cash flow (65%). See figure 12 for the full set of responses. The vast majority of the sample (84%) stated that the use of such statistical methods was either ‘entirely the same’ or ‘roughly the same’ as prior to the Asian crisis; only 16% said their use of statistical methods had changed since the first half of 1997. With regard to more subjective measures of listed companies in Southeast Asia – see figure 13 – the following attributes were judged to be ‘important’ or ‘very important’ by the majority of the sample: general management ability (97% of respondents), respect for minority shareholders (97%), focus on core business (95%), the *quality* of information disclosed (93%), company debt levels (83%), and the *volume* of information disclosed (57%).

The above responses broadly ‘dovetail’ with the major weaknesses that are perceived to exist in the corporate sectors that lie behind the equity markets in Southeast Asia (see figure 14). A lack of adequate transparency was cited as a weakness in the corporate communities of all five regional economies, by at least 60% of our sample. Apart from problems of opacity, the other three main weaknesses identified in the corporate sectors of the region included issues like: low corporate governance levels, insufficient minority shareholder rights, inadequate banking sectors, and political interference. In cumulative terms (ie. the proportion of respondents identifying the various perceived weaknesses), it seems that Indonesia’s corporate sector is the most inadequate, while Singapore’s corporate sector is markedly stronger than the rest of the region.

The sample’s collective views on the changes made in the *corporate sectors* of Southeast Asia since the financial crisis are quite sobering (see figure 15). Only Singapore and Thailand are perceived as having enacted changes to their corporate sectors that are ‘net positive’ – in other words, the number of respondents that perceive the changes to be positive outweigh those who view the changes as negative. For Thailand, 55% of respondents said their general view of the changes in the corporate sector had improved, while 82% said their view of Singapore’s corporate sector had either ‘improved’ or ‘much improved’. Those whose views on the corporate sectors of Indonesia, Malaysia and the Philippines had improved was less than 20%, in each country, whereas 42% of respondents said their view of corporate change in Indonesia had ‘worsened’ or ‘much worsened’, with 39% saying the same for Malaysia, and 26% for the Philippines. A broadly parallel pattern was also apparent in the sample’s general view of how the Southeast Asian *equity markets* had changed since the financial crisis (see figure 16). Seventy-nine percent of respondents said their general view of Singapore’s equity market had either ‘improved’ or ‘much improved’ since the crisis, and 63% said the same for Bangkok. Only 30% of respondents for Jakarta, 33% for Kuala Lumpur, and 27% for Manila stated that their view had ‘improved’ (none said their view had ‘much improved’ for these three equity markets). A third of respondents said their view of the Jakarta equity market had worsened since the crisis, and 23% said the same for Manila.

Twenty seven percent of the sample said their view of the Kuala Lumpur equity market had either ‘worsened’ or ‘much worsened’ since the crisis.

Not surprisingly, the above views broadly conform with the responses given to questions posed on how impressed respondents were to the post-crisis reforms and business liberalisation measures that the Southeast Asian countries have enacted (see figures 17 and 18). Again, the sample seemed most impressed with Singapore’s post-crisis reform measures, followed by Thailand. In these two countries, the number of respondents who were impressed with reforms enacted out-numbered those who were unimpressed. Perceptions of the post-crisis reforms in Indonesia, Malaysia and the Philippines were much less favourable, with 58% of respondents either ‘unimpressed’ or ‘very unimpressed’ with Indonesia’s reforms, 52% thought the same of Malaysia, and 45% for the Philippines. A broadly similar pattern is also evident in perceptions of business liberalisation measures, with Singapore ranking highest (83% either ‘impressed’ or ‘very impressed’), followed by Thailand (26% ‘impressed’ or ‘very impressed’). Malaysia ranks lowest, with 58% of respondents either ‘unimpressed’ or ‘very unimpressed’ with the business liberalisation measures enacted in the country since the crisis, compared with 45% for Indonesia and 32% for the Philippines.

Given these recent changes in perceptions – either positive or negative – towards Southeast Asia’s economies and equity markets, one might have expected the amount of funds allocated to the region to also have changed. Yet the profile of the fund managers sampled, in terms of the proportion of total global equity funds they have invested in the Southeast Asia region, varies little between the first half of 1997 (ie. immediately prior to the onset of the Asian crisis) and the time of the survey (ie. end-1999). See figure 19. While it was not possible to ask respondents for details of their portfolio exposure in Southeast Asia over time, we were able to get an indication of which equity markets constituted their largest and smallest investment exposure, both immediately prior to the onset of the Asian crisis (ie. 1H1997) and at the time of answering the survey (ie. end-1999). The responses are provided in figures 20 and 21, and are broadly in tandem with the perception changes depicted above. It is interesting to note that the proportion of respondents who have their largest exposure in Singapore has risen between 1H1997 and end-1999, from roughly 70% to 82%. No respondent had their largest exposure in Thailand prior to the Asian financial crisis,

adding credence to the assertion made in an earlier paper [Freeman (2000)] that equity investors were aware of the fragility of the Thai corporate sector in the run-up to July 1997; seemingly more so than other elements of the financial industry.¹² Fewer respondents have their maximum exposure in Indonesia and Malaysia at present than they did in the first half of 1997. With regard to the Southeast Asian market with the lowest exposure, it is perhaps not surprising to see that Indonesia – the economy most adversely impacted by the Asian crisis – has the highest ranking (58%) among our respondents, and this figure is greater than for Indonesia in 1H1997 (42%). Post-crisis, Manila's ranking as the market with the lowest exposure has declined to 15%, from 44% prior to the Asian crisis, perhaps reflecting part the relatively limited extent to which the Philippine economy was impacted by the regional financial crisis.

The sampled fund managers were then asked to what extent are the performances of each of the Southeast Asian markets influenced by: the volume of capital flowing in and out; retail investor participation, and the actual 'fundamentals' of the companies listed (see figures 22 to 24). With regard to market performance being 'driven by volume', 96% of respondents thought Bangkok was either wholly or partly driven by volume, 88% for Jakarta, 81% for Manila, and 73% for Kuala Lumpur. Only 48% of respondents thought Singapore's equity market is partly driven by volume (and none thought it was wholly driven by volume). Singapore was the only equity market where at least a few (12% of respondents) thought volume flows had absolutely no impact on market performance. With regard to the importance of retail investors, 83% of respondents regarded this group of 'punters' to be either important or very important in the performance of the Kuala Lumpur equity market, 82% for Bangkok, 59% for Jakarta, 53% for Manila, and 45% for Singapore. And finally with regard to company 'fundamentals', 93% of respondents regard the fundamentals of companies listed on the equity market as important or very important in the performance of the Singapore stock market, 70% for Manila, 69% for Bangkok, 63% for Kuala Lumpur, and 62% for Jakarta. Conversely, only 3% of respondents thought company fundamentals were unimportant in the performance of the Singapore equity market, compared with 10% for Manila, and 14% for Bangkok, with 13% and 17% judging corporate fundamentals to be either unimportant or wholly irrelevant for market performance in Kuala Lumpur and Jakarta respectively.

The apparent sensitivity of Southeast Asia's individual equity markets' performance to those of the other equity markets in the region, and the major markets beyond (eg. New York, London and Tokyo), is quite striking. See figures 25 and 26. Roughly 60% of respondents regard all five equity markets in Southeast Asia to be 'very sensitive' or 'sensitive' to the performance of their contemporaries in the region. With regard to the same markets' sensitivity to the major global equity markets, the range of views is much more diverse. Almost 87% believe the Singapore stock market is either 'sensitive' or 'very sensitive' to the performance of the 'majors', compared with 63% for Bangkok, 61% for Manila, 43% for Jakarta, and 42% for Kuala Lumpur. Put another way, it appears that for those seeking a Southeast Asian market that offers the greatest hedge against the major global equity markets, Kuala Lumpur is the most attractive in the region (and Singapore the least attractive), at least in this specific regard. Figure 27 shows that Singapore is much more sensitive to the performance of the major global equity markets than it is to the regional markets, whereas Kuala Lumpur seem more sensitive to the performance of the regional markets. Bangkok, Jakarta and Manila equity markets broadly seem equally sensitive to the major global and regional equity markets. As one brokerage house pondered in a commentary recently, perhaps the Asian equity markets have become rather like a warrant on the US equity markets.¹³ In other words, they provide relatively little diversification with the US equity markets; performing in tandem with – if not wholly correlated with – the bigger markets.

As an alternative to gaining exposure to the Southeast Asian economies by investing in domestic companies listed on their home country's equity market, the sample was asked whether they could gain exposure to the region's economies by investing in transnational companies, with operations in these regional economies, but listed in one of the major global markets. As figure 28 indicates, between 20% and 27% of respondents said they could get some limited exposure by this means for the economies of Malaysia, the Philippines, Singapore and Thailand, and a third said the same for Indonesia. However, between 50% and 57% of respondents stated that this method of gaining exposure was either 'inadequate' or of 'no utility' at all, for gaining investment exposure to the five economies of Southeast Asia.

Fund managers were asked to identify which business sectors they regarded to be under- and over-represented in the equity markets of Southeast Asia (see figures 29 and 30). There was a notable degree of consensus here, with the IT and electronics industry being cited by most as under-represented in all of the region's equity markets. On average, across the five equity markets, 70% of respondents said the IT industry was under-represented, while 60% said the same thing about the electronics industry. Similarly, two sectors were cited by a substantial proportion of respondents as being over-represented in the equity markets of Southeast Asia: banking and finance, and property development. (Note that these are two sectors have been hit hardest by the regional financial crisis, and in the case of some countries they remain in extremely poor shape.) On average, across the five equity markets of the region, 78% of respondents regard the banking and finance sector to be over-represented, and 36% said the same thing about the property development industry. When then asked to identify which business sectors would potentially be of most interest in terms of new IPOs (initial public offering), respondents not surprisingly cited those sectors that were currently under-represented in the region's equity markets, and shied away from those sectors currently over-represented. Figure 31 shows that the sectors where appetite for IPOs was apparently greatest were: IT, electronics, and communications. On average across the five markets, 91% of respondents expressed a potential interest in IT sector IPOs, with 67% saying the same for both the electronics sector and the communications sector. There also appears to be some lesser 'IPO appetite' in the commerce, food and beverages, and travel and tourism sectors within Southeast Asia.

Finally, the respondents were asked to give their forecasts on a small number of issues (figures 32 to 35). On the time it will take for Southeast Asia to return to sustained economic growth, a third (33%) said this would occur before end-2000, 53% said it would happen between end-2000 and end-2003, and the rest opted for after end-2003. When asked if the ASEAN Free Trade Area (AFTA) will be beneficial to investment in Southeast Asia, 61% believed it would be 'beneficial' or 'very beneficial', and 32% were neutral. When asked the same of the ASEAN Investment Area (AIA), 46% perceived it would be 'beneficial' (none thought it would be 'very beneficial'), and 50% were neutral on the issue. Should the newest members of ASEAN (Cambodia, Laos, Myanmar and Vietnam) open their own equity

markets, respondents were asked if they would be likely to seek exposure to these new markets. As figure 35 shows, slightly over 53% said they were 'likely' or 'very likely' to seek exposure to future equity markets in Cambodia, Laos and Myanmar, while 65% said the same for Vietnam. Roughly 30% said they were 'unlikely' or 'highly unlikely' to seek exposure to future equity markets in Cambodia, Laos and Myanmar, while 19% said the same for Vietnam.

Some Commentary And Analysis Stemming From The Survey Results

Issues relating to Southeast Asia's market capitalisation and liquidity levels are worthy of careful consideration. With the exception of Singapore, it is conceivable that these markets are getting to a stage where they lack adequate levels of liquidity deemed necessary for major institutional investors. Not only may this be true of the region's markets as a whole, but also with regard to individual companies listed on these markets, given that the majority of fund managers are unwilling to hold more than 10% – and in some cases, much less than 10% – of a firm's total outstanding shares. As a result, a spectrum of listed firms may effectively be disqualified from potential foreign investor interest, because of their lack of scale, particularly when measured in US dollar terms. (The regional currency devaluations witnessed in 1997-98 will not have helped in this regard, given that a substantial proportion of institutional investors measure their holdings in US dollars.) It is not wholly conceivable that the potential universe of stocks that major foreign institutional investors will be willing and able to consider in the Southeast Asian markets could contract to quite a limited number. While the presence of domestic investors and smaller or specialised foreign 'boutique' investment firms can ensure that investor appetite for 'small-cap' stocks does not diminish altogether, the exclusion of the large global investors would be unfortunate.

It is quite telling that over three-quarters of the fund managers surveyed are seeking greater disclosure for listed Southeast Asian firms, along with an improvement in the regulatory regimes. Such improvements could reasonably be expected to increase the volition with which institutional investors perceive Southeast Asia's stock markets and listed stocks, and it lies wholly within the capabilities of the pertinent state bodies to make not insubstantial positive advances in both these areas.

Where pertinent bodies and policy-makers (quite rightly) have less capability is in directing listed firms how to run their businesses. However, listed firms themselves may find it of utility to know that the majority of portfolio investors appear to be growth-oriented in their approach (either wholly or partially), giving some indication as to the sorts of business models and strategies that are likely to derive greatest interest from foreign fund managers. It is also worth noting that companies with good track records on general management ability, respect for minority shareholder rights, strategic focus, quality information disclosure, and low debt levels are likely to find greater favour with institutional investors. One senses that minority shareholder rights is an issue that has come to the fore in the immediate aftermath of the financial crisis, and is one cause of heightened risk perceptions towards these emerging markets. Looking ahead, foreign institutional investors are likely to be more focused on the degree to which firms behave with regard to minority shareholders, and their performance in this regard could have a bearing on actual asset allocation decisions.

It is apparent that foreign institutional investors (the foreign ‘consumers’ of Southeast Asian equity paper, as it were) are not wholly satisfied with the sectoral distribution of firms listed on the region’s equity markets (the markets from which they source their ‘supplies’). Southeast Asia’s equity markets appear to have excess ‘capacity’ in those business sectors hit hard by the financial crisis – such as banking and finance, and property development. Conversely, they seem to have a paucity of ‘supply’ in terms of listed equities in the business sectors most closely associated with the ‘new paradigm’: electronics, IT and communications. While policy-makers should not seek to continually chase the latest fad in investment thinking, there could be a long-term challenge posed by any growing perception that Southeast Asia’s equity markets only provide exposure to sunset industries, rather than sunrise industries. This challenge will be of even greater significance if the recent trend towards more sector- and theme-oriented fund management – as opposed to country- or region-oriented funds – continues to burgeon.

With the notable exception of Singapore, the performances of the Southeast Asian equity markets seem surprisingly influenced by a number of factors other than the corporate ‘fundamentals’ of the companies listed on them, in terms of: volume flows, retail participants, sensitivity to other equity markets in the region, and the

world's major equity markets. While such influences are to be expected, the strength of influence is quite striking, and illustrates the extent to which a 'fundamental analysis' approach to investing in Southeast Asian equities is not adequate as the sole analytical tool. For companies listed – or seeking to list – on these regional markets, such a reality poses some challenges to those who wish to see their share performance broadly reflect their own intrinsic business performance. If this is the case, then it seems that Singapore is the most attractive equity market within the Southeast Asia region, although its sensitivity to the major global equity markets should also be borne in mind.

Although Singapore's equity market – and underlying business environment – appears to stand out as being well ahead of the other markets of the Southeast Asia region, in almost all categories, the fact that the others appear as 'also rans' may prove to be a rather mixed blessing in the long-run. If Singapore is to achieve its ambition of becoming a major financial centre, it probably requires a 'corporate hinterland' that extends beyond Singapore's state borders. While neighbouring Southeast Asian economies might have been expected to provide such a role, the responses from this survey suggest that their capability to do is somewhat limited, at least at present, and that Singapore may need to also look beyond the immediate region. This contrasts with, say, Hong Kong, which can draw on the proximate 'corporate hinterland' of mainland China as an additional platform of support for the development of its financial centre.¹⁴

The point above leads on to an issue that may, quite rapidly, confront all the equity markets of Southeast Asia; the desirability of establishing stock market alliances – both between each other and/or beyond the region – in order to provide the crucial levels of critical mass (eg. market capitalisation and equity market liquidity) demanded by the new breed of mega-institutional investors. Policy-makers in some countries may be rather reluctant to see such a process, given the national potency often attached to stock markets, sometimes regarded as totems of a country's modernity. But if domestic corporates choose not to list on their home country stock market, preferring instead to seek a listing in an overseas equity market that provides a more conducive or competitive secondary market platform, then policy-makers may be confronted with little choice. There are already some indications that Asian

corporates in relevant sectors are finding the attractions of the NASDAQ – including substantial liquidity, and offering a higher profile with institutional investors – quite persuasive, and ‘voting with their feet’.¹⁵

Finally, based on a slightly anecdotal impression, one can begin perceive a widening in the margin of performance between the Northeast Asia equity markets (ie. Taipei, Seoul, Tokyo and Hong Kong) and the markets of Southeast Asia. The former currently host a more impressive array of stocks in those sectors attracting greatest institutional investor interest, with Southeast Asia trying to catch up. Should such a situation persist, then one might expect to see the Northeast Asian markets perform in a manner that parallels the NASDAQ index, while the Southeast Asian markets perform in a manner closer to the Dow index. The issue of investment ‘themes’ and sectoral allocation of global funds appears to be coming more prominent, with a proportional decline in the allocation of money on a country-by-country basis. Put another way, more portfolio investors are comparing listed stocks in the same sector, across borders, rather than comparing stocks in varying sectors within the same equity market. This is even true in the retail marketing of investment funds, such as unit trusts, according to various sectors, and even conceptual themes. The implication is that a cement company in Thailand, for example, is competing with its sectoral peers in other countries for institutional investor interest (rather than competing with other Thai firms, in differing sectors). Similarly, an equity market in Southeast Asia that does not provide a spectrum of listed companies in a particular sector is unlikely to attract funds from portfolio investors that focus on this same sector. Yet right now, technology and IT stocks are ‘the in thing’, and Southeast Asia’s equity markets seemingly have less to offer in this regard.¹⁶

NOTES

1. Singapore's ST Industrial index rose 67% in 1999, the Kuala Lumpur Composite was up 47%, the Manila Composite rose 7%, and Bangkok's SET index was up 30%. *Asiaweek*, 31 Dec. 1999 – 7 Jan. 2000, p. 113.
2. This difference in performance resembles in part the recent divergence between the performance of the Dow (largely, but not exclusively, made up of NYSE-listed stocks) and the NASDAQ indices. But even the 'laggard' Dow has been performing more consistently than any Southeast Asia regional index.
3. For an example of this broad argument, see *Far Eastern Economic Review*, 13th January 2000, p. 76. "... technology isn't Southeast Asia's selling point. The region's importance to Asian institutional investors shrank during the crisis, largely because its bourses fell by more than those elsewhere. And it's even lower on the lists of investors looking for technology plays. Only the Singapore market has a substantial number of tech plays, and those stocks played a central role in the stockmarket's disproportionately strong performance." Also see Greenspan (2000).
4. *Asiaweek*, 31 Dec. 1999 – 7 Jan. 2000, p. 113. At end-1998, the same five regional equity markets had an aggregate capitalisation of just US\$282 billion, prior to the rallies of 1999.
5. The latest figures from the IIF show that, having recorded net outflows of US\$49bn and US\$39.1bn in during 1998 and 1999 respectively, this year commercial banks are forecast to withdraw net US\$3.1bn from emerging markets. With regard to the Asia Pacific region, commercial banks net withdrew US\$58.5bn and US\$30.7bn from the region in 1998 and 1999 respectively, and are forecast to withdraw a further US\$14.2bn in 2000. See IIF (2000), pp. 1-3.
6. The survey was conducted with funding assistance from the IDRC, as part of an associated project, entitled "Portfolio Investment and Structural Adjustment: The Case of Thailand". The authors wish to acknowledge, with thanks, the input of the IDRC.

7. The sources comprised of the following: the FT Guide to Investment Managers in Asia (1998 edition); *Nelson's Directory of Investment Managers* (1998 edition); the investment advisors list contained on the Monetary Authority of Singapore website; the membership list contained on the Investment Association of Singapore website; the membership list contained on the Hong Kong Investment Funds Association website; 'authorised' and 'FSA-recognised' fund managers listed in the Financial Times newspaper.
8. The remaining 11% were unwilling to indicate the proportion of their total equity funds currently allocated to the region.
9. In order to encourage fund managers to respond to the questionnaire, we assured them that all replies would be completely anonymous. However, some may have been concerned that a subtle means of marking on the questionnaire would have allowed us to identify each reply surreptitiously. There is little one can do to re-assure respondents that this was not the case. It is also conceivable that some institutional investors would have been unwilling to reply to the questionnaire for fear of contravening disclosure regulations in their home country, notably with regard to listed investment funds. This latter issue may have been particular true for the US sub-sample, and may explain in large part the fairly low response rate from this country.
10. Although Singapore represented 22% of the aggregate population to whom questionnaires were sent, it constituted 48% of the respondents sampled.
11. Ways that individual portfolio investors actually measure the degree of liquidity in a specific stock seem to vary. One respondent stated "we must be able to complete an investment within 5 days", two referred to a minimum of US\$500,000 per day trading volume, one stated "we do not want to own more than five days average trading volume", while another applied a ratio that divided minimum daily turnover by the size of his/her 'position' in the stock. However, the most common measure appears to be some form of calculation based on the average daily trading volume of a stock, over a certain period (eg. 10 or 5 days).
12. See Freeman (2000), pp. 2-3. Judging by the performance of the SET index in the years leading up to July 1997, it appears that portfolio equity investors

were more cognisant than their counterparts in the commercial banks, and even the ratings agencies.

13. A warrant is an equity derivative, giving the holder the option to buy a specified number of shares in a specific stock at a specified price, before a specified deadline. Warrants tend to perform in tandem with the underlying stock to which they pertain, but are much more volatile in their behaviour. The brokerage house quote is as follows: “Welcome to 2000. Who knows if Asia is a warrant on Wall Street – but if it is and if Wall Street goes, we could be back to square one in Asia. Asia needs these strong stock markets to continue, otherwise the horrendous balance sheets could pop up again. Did you realise that practically no one has written off their Asian exposure? There are billions of US dollars that have still not been written off from the Asian crisis.” ING Barings, *AsiaTalk*, 14th January 2000, p. 9.
14. Of course, any policy – or more ‘organic’, market-driven shift – to develop Shanghai as China’s premier financial centre could be expected to dilute the capability of Hong Kong to play such a role.
15. While some Asian corporates are conducting dual or multiple listings, others are opting for a single listing in the US. This trend also poses some interesting challenges for those institutional investors focusing on emerging markets. While the actual companies they invest in may be located in countries that qualify to be included within their emerging markets universe, the stock in the company is sometimes being traded on an equity market that is outside of the emerging markets. The prospect of Asian equity markets linking up has been discussed by the head of the Monetary Authority of Singapore, Deputy Prime Minister Lee Hsien Loong. See *The Business Times* (Singapore), 8th March 2000, p. 8.
16. This is how one brokerage house recently depicted this trend. “Global funds are now investing more on a thematic basis than a country-specific or economic basis. It’s not ‘Asia’ anymore, it’s ‘technology’. Investors should be looking at relative valuations from Sausage Software in Melbourne to Egghead.com in Silicon Valley, and everywhere in-between. ING Barings, *AsiaTalk*, 15th February 2000, p. 12. The same brokerage house also made

the following comment about Southeast Asia's equity markets recently: "If you've been monitoring Southeast Asia in the past month, the term 'statistically insignificant mango markets' may have danced across your table more than a couple of times. It's become the big gag. The term was coined by an economist who was then quoted in one of the Singapore newspapers. Now it's caught on like wildfire. Well, to defend the 'mango markets', one of my friends on the desk has suggested launching a new index, called the MANDAQ. It would comprise, he says, the top thirty most corrupt/nepotistic companies in ASEAN, which have the worst 'old economy'-style management and poorest treatment of minority shareholders." *AsiaTalk*, 8th March 2000, p. 8.

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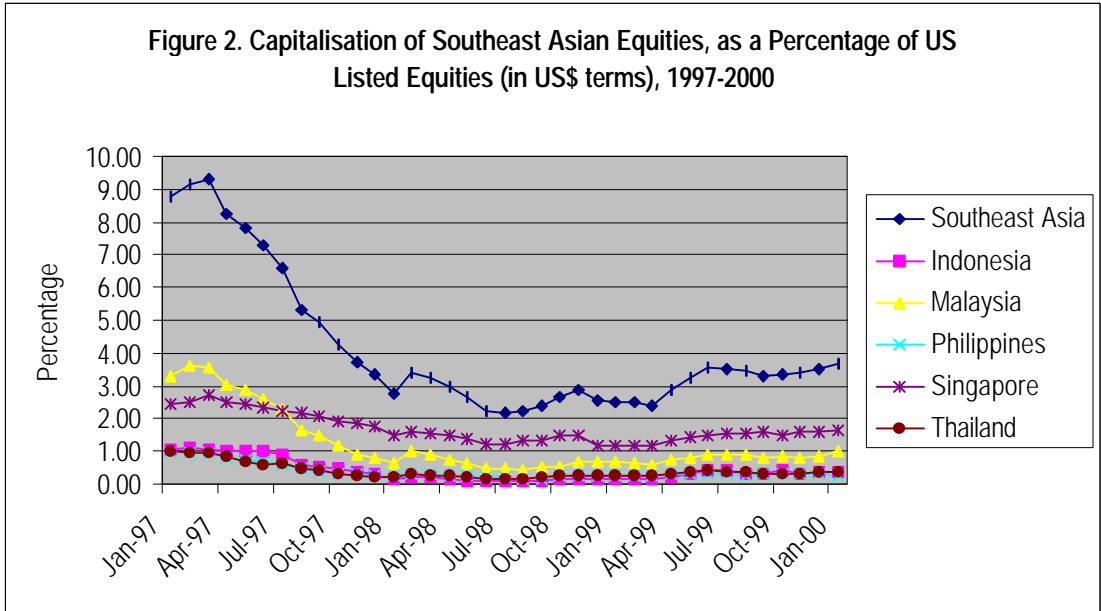
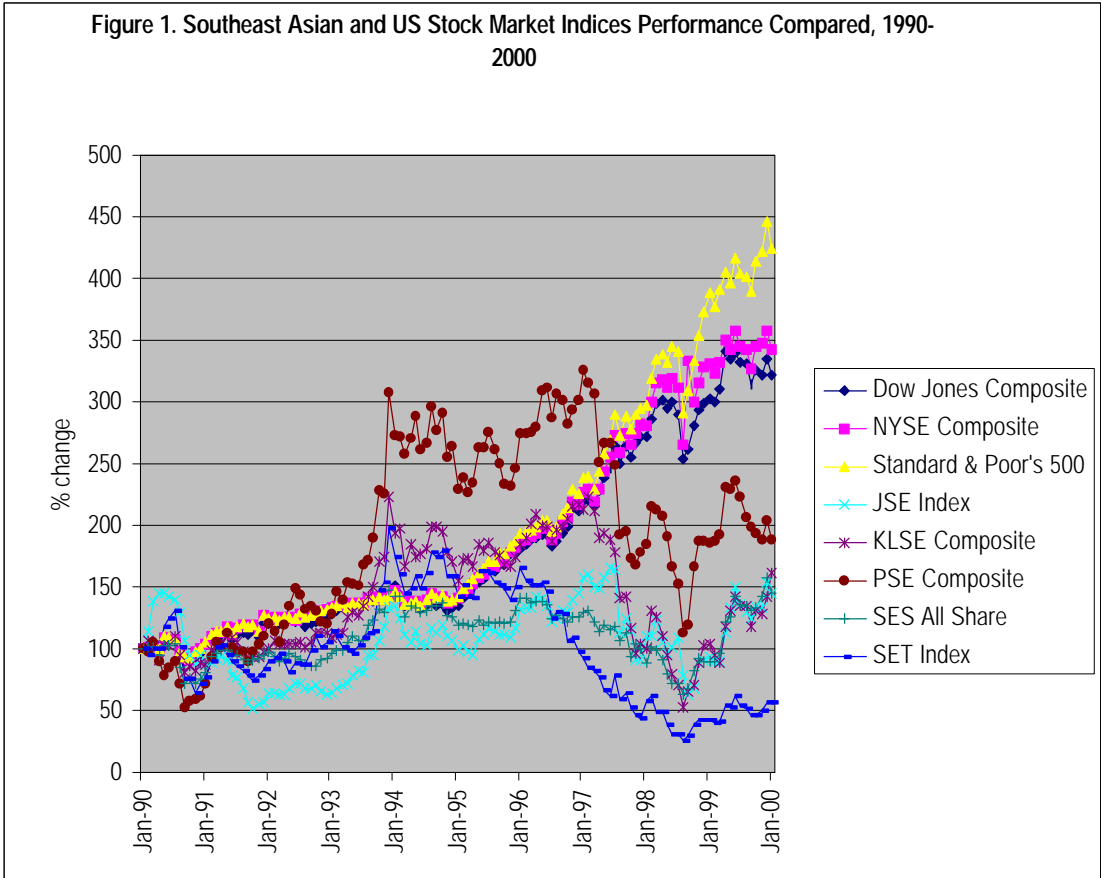


Figure 3. Breakdown of Sample, by Location

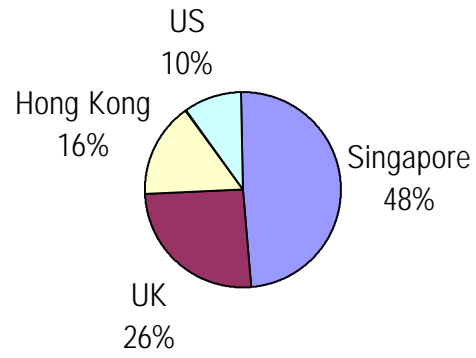


Figure 4. Breakdown of Sample, by Size of Global Equity Funds under Management

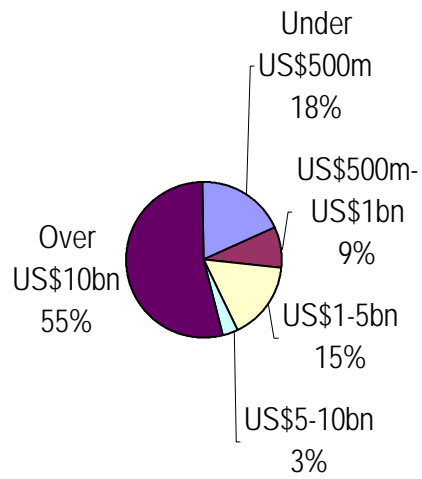


Figure 5. Breakdown of Sample, by Size of Southeast Asia Equity Funds under Management

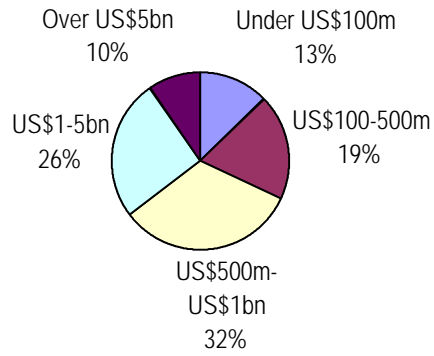


Figure 6. Breakdown of Sample, by Length of Experience Investing in Southeast Asia

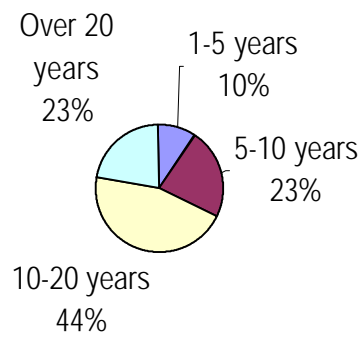


Figure 7. Minimum Capitalisation of a Firm to be Eligible for Investment

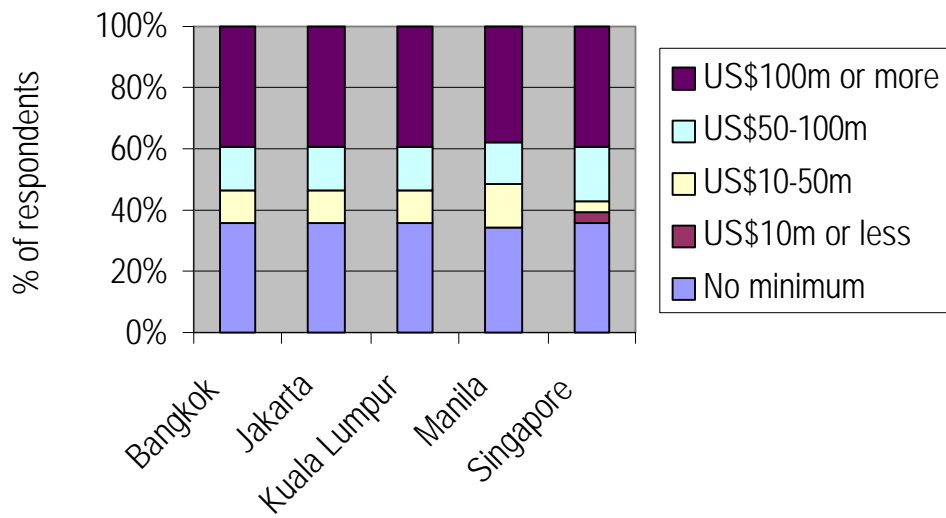


Figure 8. Maximum Proportion of Outstanding Shares in Listed Company

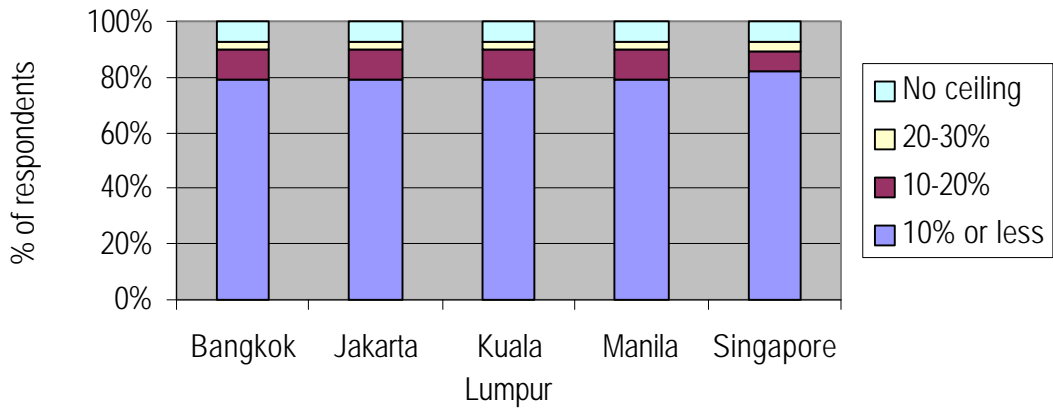
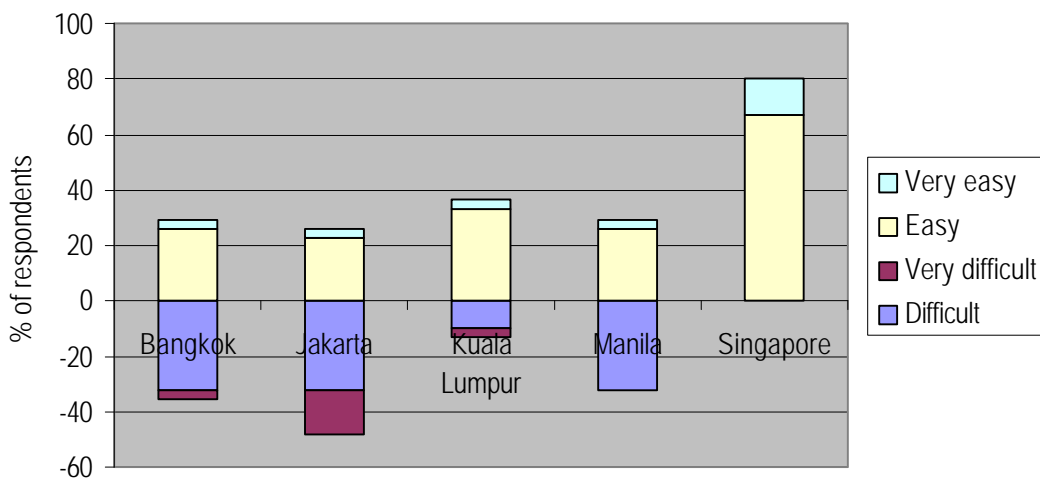


Figure 9. Respondents Perceptions of the Ease or Difficulty of Investing in Each of the Southeast Asian Equity Markets



*Those respondents that replied 'neutral' are not shown in this figure.

Figure 10. Ways to Make Investing in Listed Companies Easier

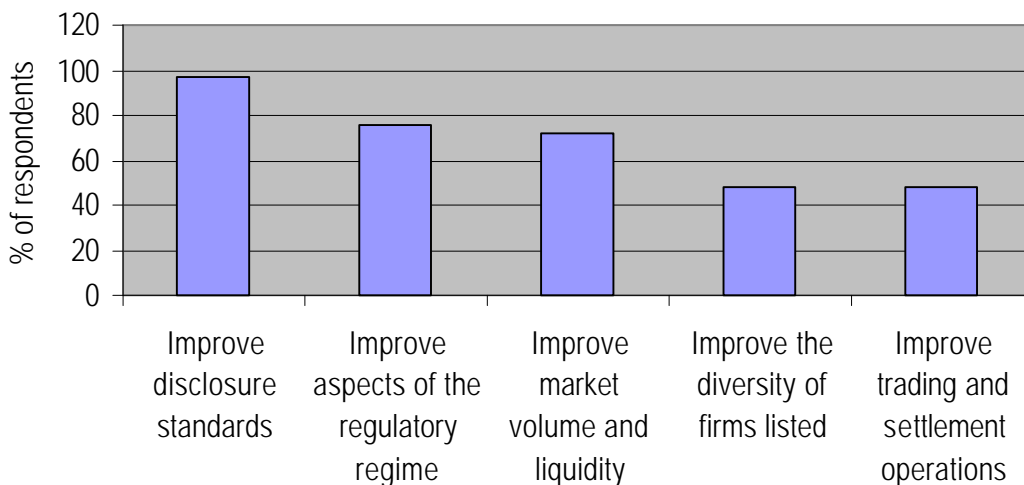


Figure 11. Investment Approaches to the Southeast Asian Equity Markets

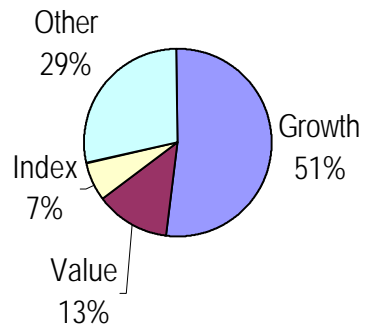


Figure 12. Statistical Methods Used by Sampled Fund Managers

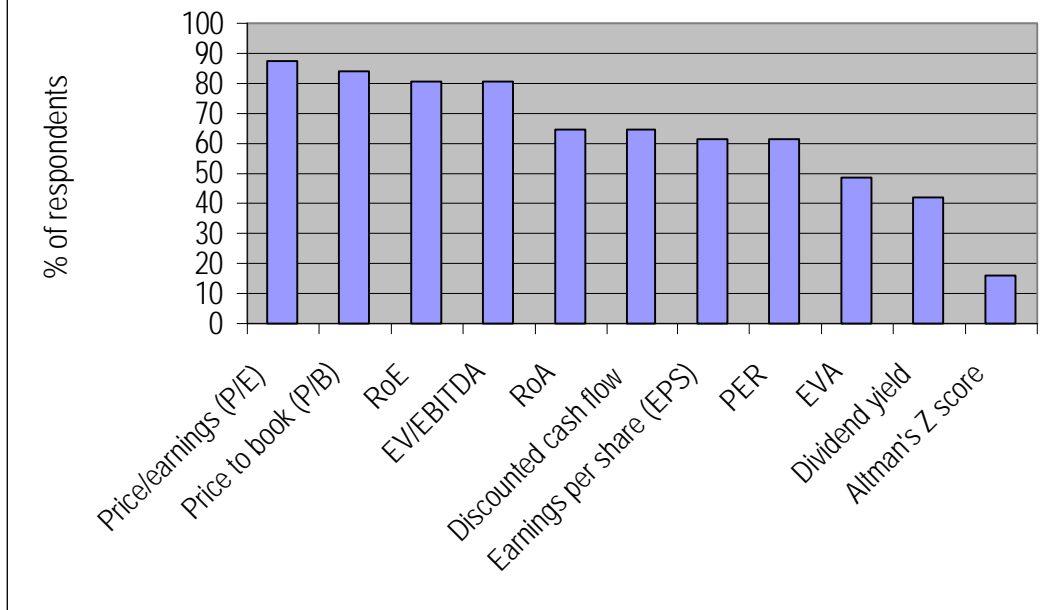


Figure 13. Ranking of Subjective Measures for Listed Southeast Asian Firms*

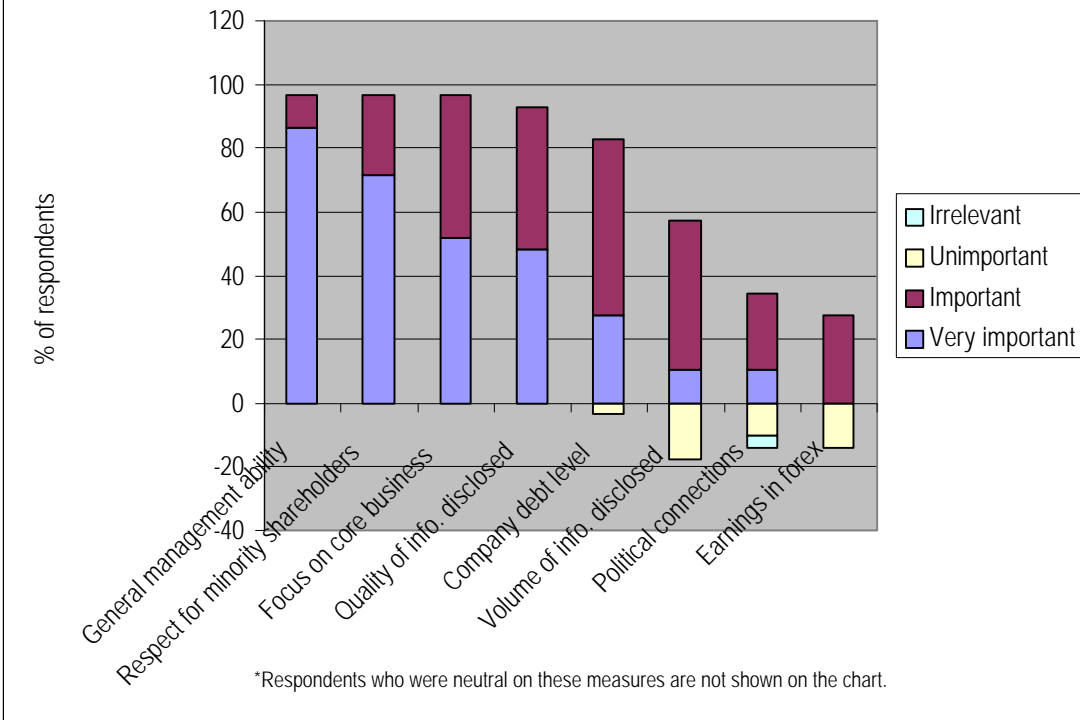


Figure 14. Primary Weaknesses of the Business Environments Behind Southeast Asia's Equity Markets

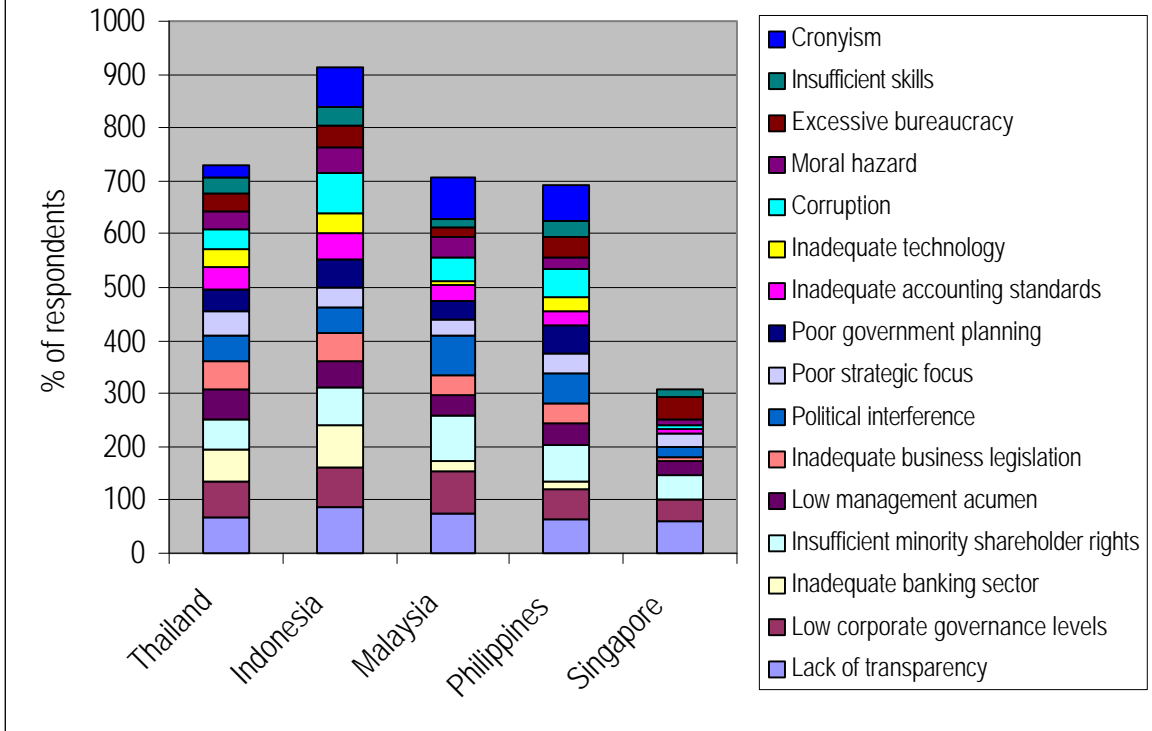
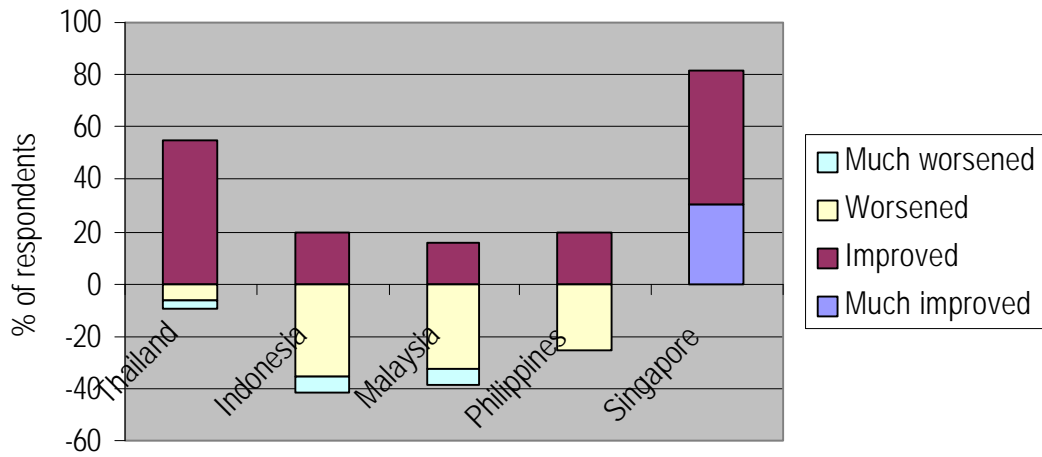
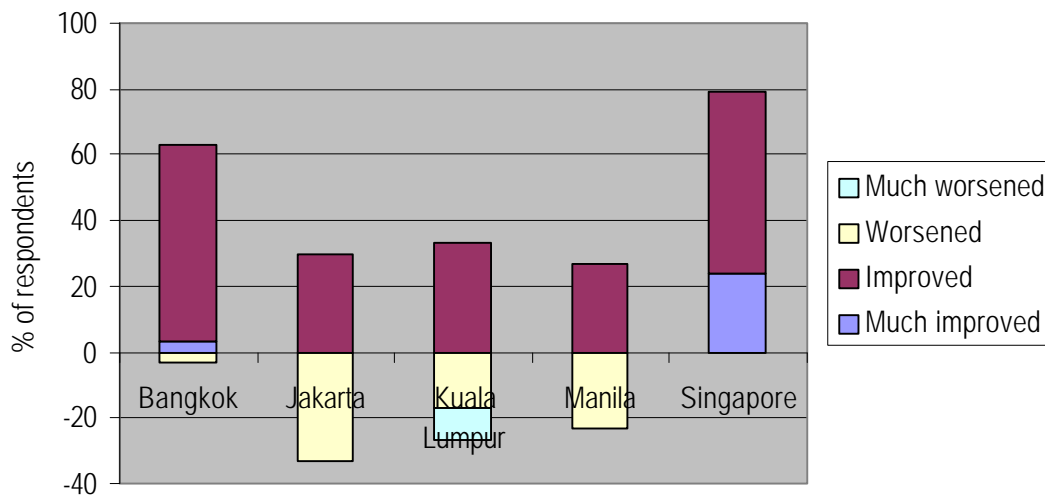


Figure 15. General Views on the Changes in the Corporate Sectors in Southeast Asia, since the Crisis*



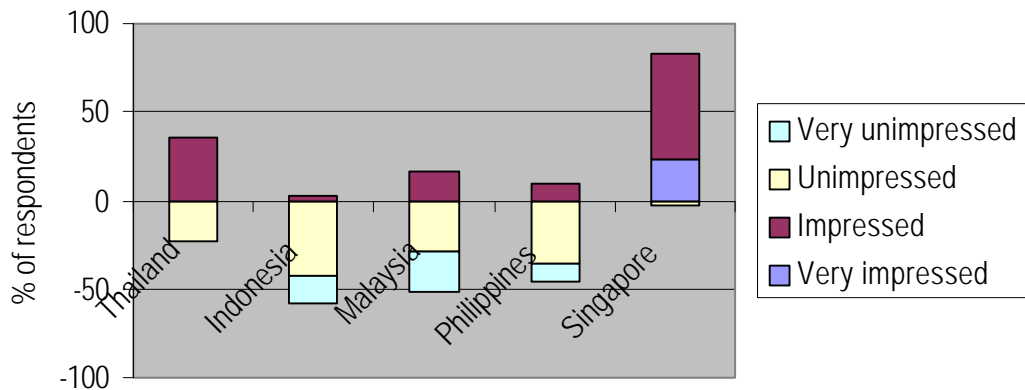
*Those respondents that held a neutral view are not depicted in this figure.

Figure 16. General View on the Changes in Southeast Asia's Equity Markets, since the Crisis*



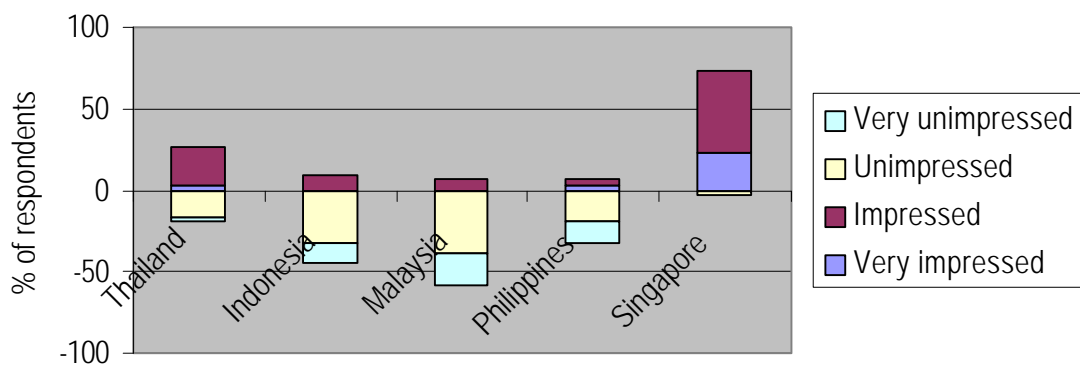
*Respondents who held a neutral view are not depicted in this figure.

Figure 17. Perceptions of the Post-Crisis Reforms Enacted by the Southeast Asian Countries*



*Respondents who were neutral on this issue are not indicated in the figure.

Figure 18. Perceptions of the Post-Crisis Business Liberalisation Measures Enacted in the Southeast Asian Countries*



*Respondents that were neutral on this issue are not shown in this figure.

Figure 19. Proportion of Global Equity Funds Invested in Southeast Asia

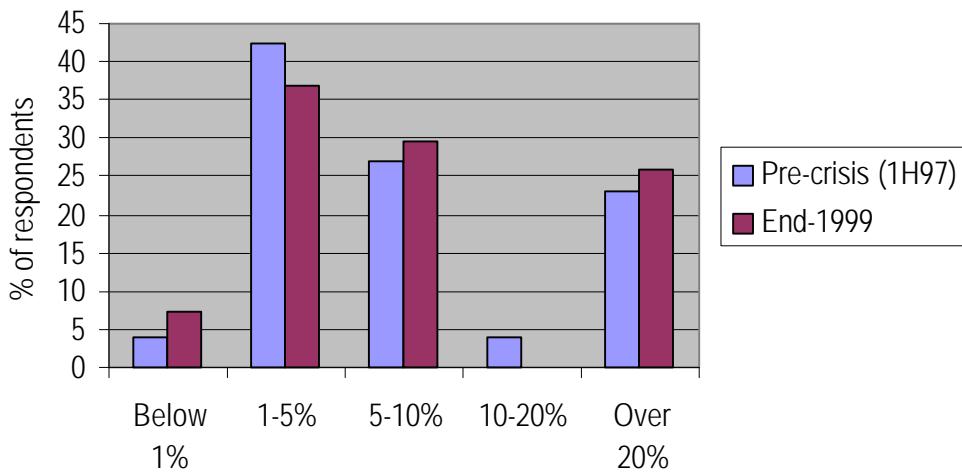


Figure 20. Largest Investment Exposure in Southeast Asia, 1H97 and End-1999 Compared

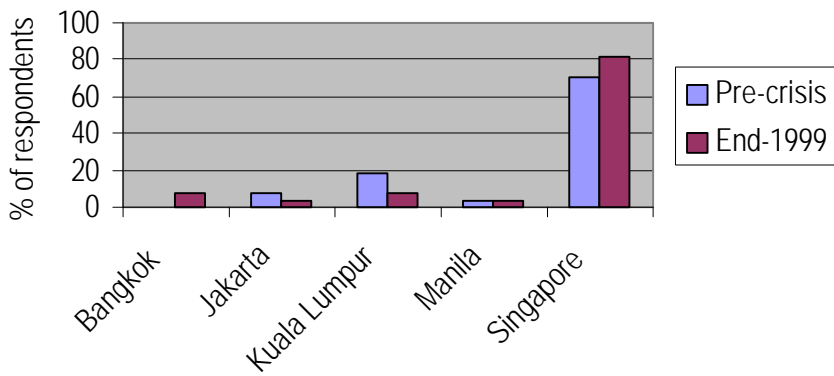


Figure 21. Smallest Investment Exposure in Southeast Asia, 1H97 and End-1999 Compared

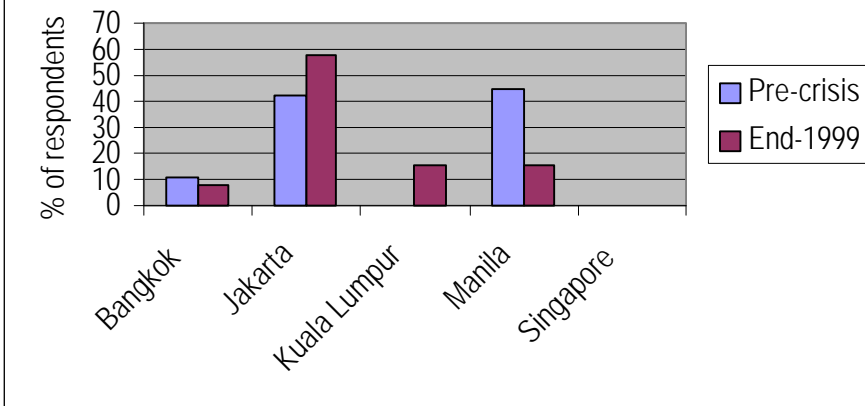


Figure 22. Extent to which the Southeast Asian Equity Markets' Performances are 'Driven by Volume'

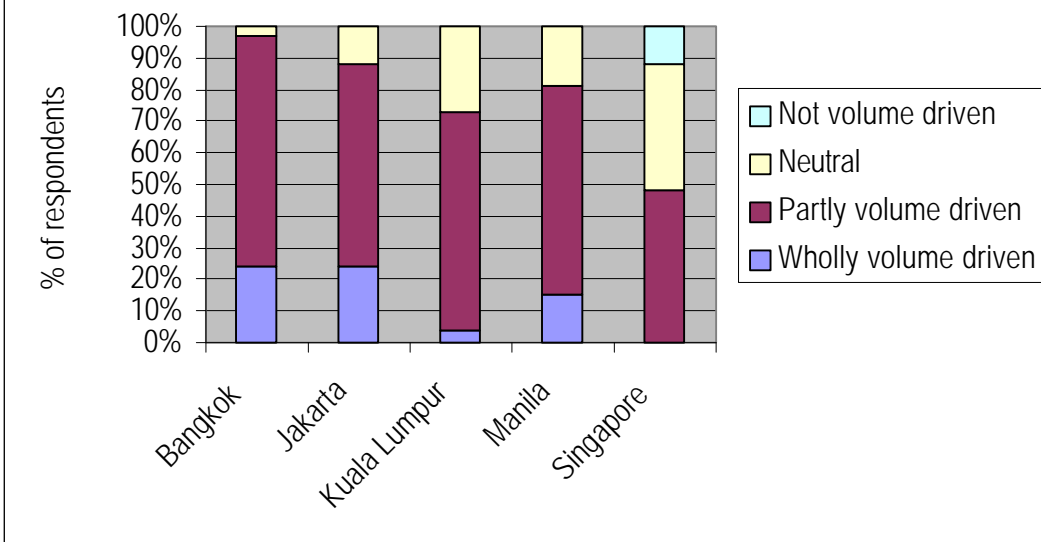


Figure 23. Importance of Retail Investors in the Performance of the Southeast Asian Equity Markets

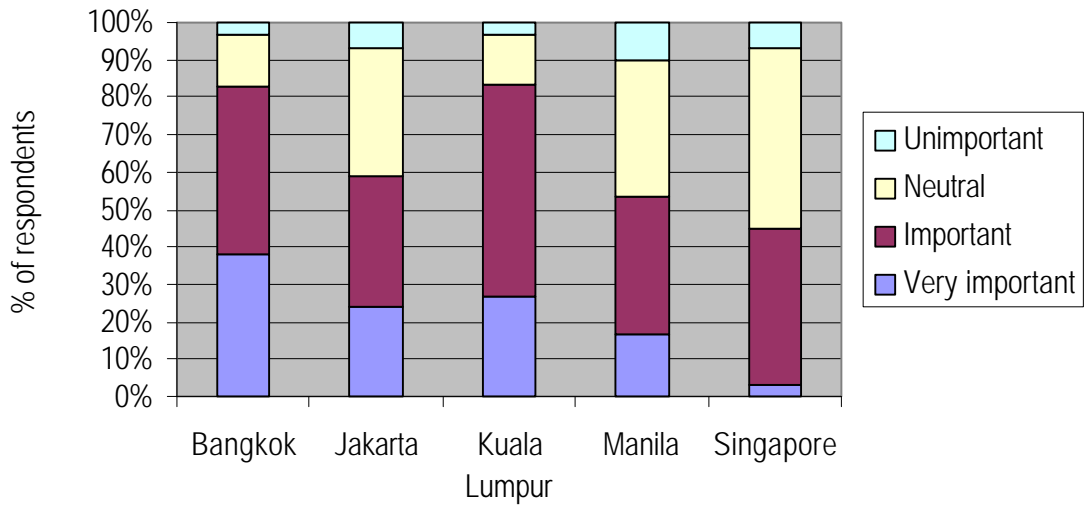


Figure 24. Importance of Company Fundamentals in the Performance of the Southeast Asian Equity Markets

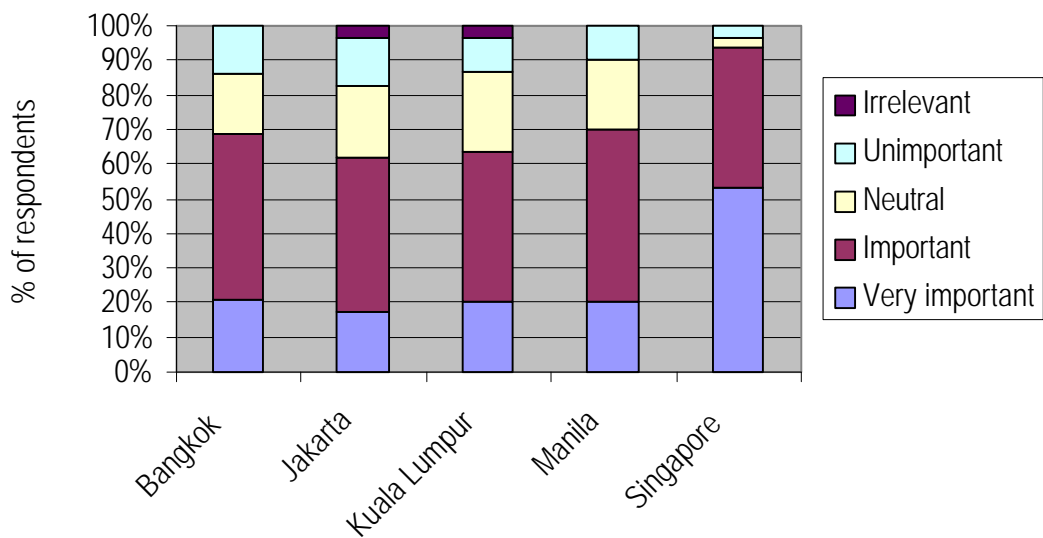


Figure 25. Sensitivity of Southeast Asian Equity Markets' Performance to the Major Global Equity Markets

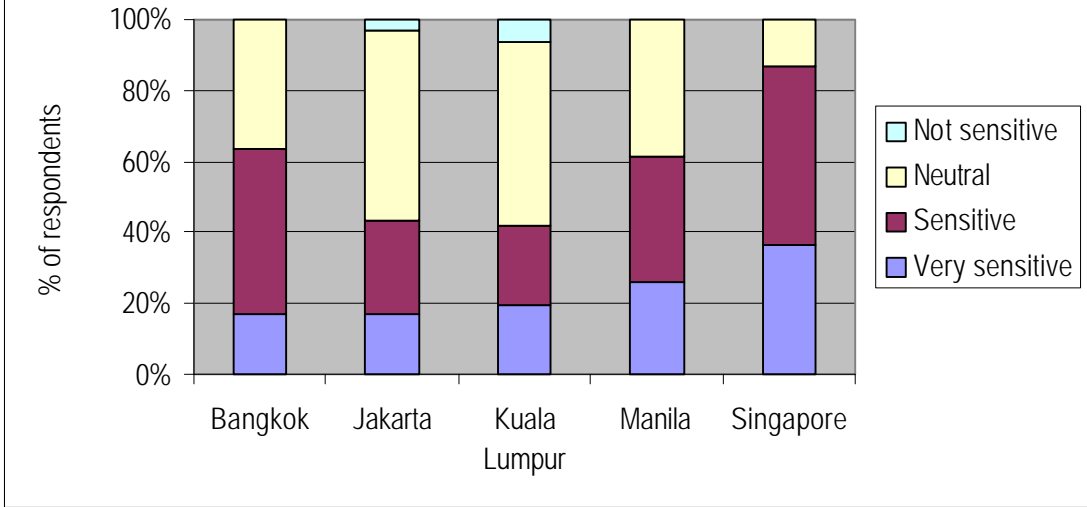


Figure 26. Sensitivity of Southeast Asian Equity Markets' Performance to the Region's Other Equity Markets

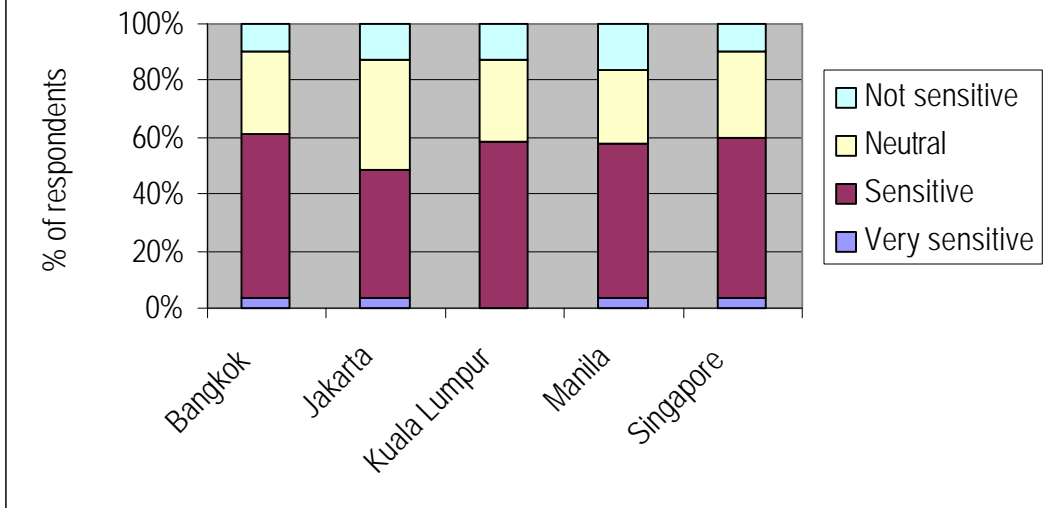


Figure 27. Sensitivity of Southeast Asian Equity Markets to Major and Regional Markets, Compared

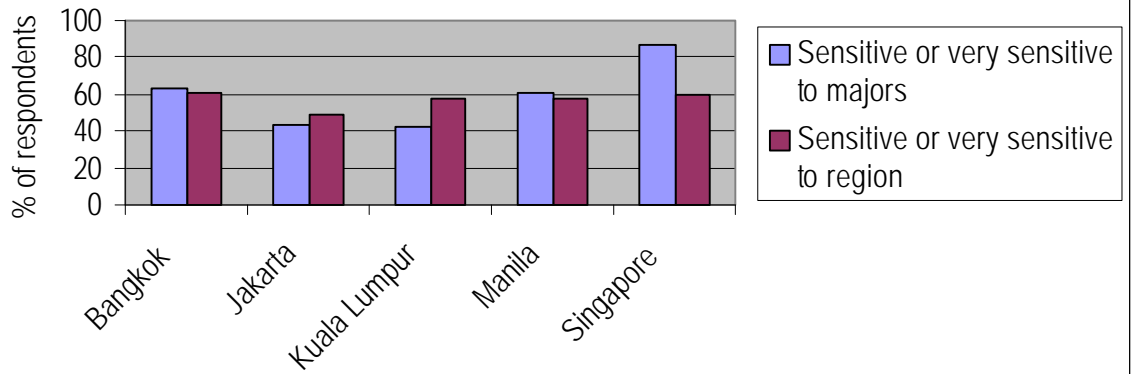
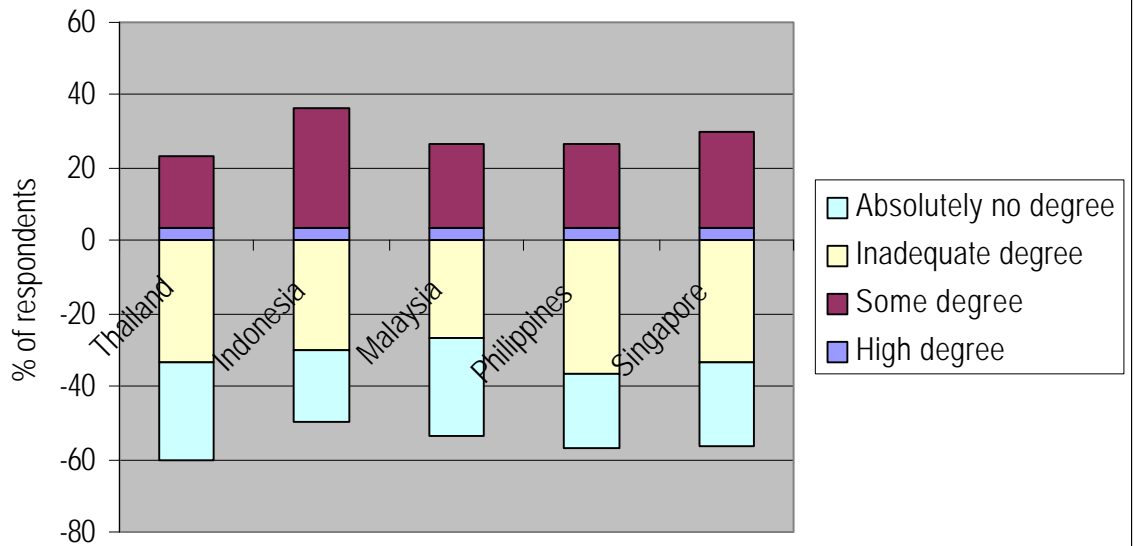


Figure 28. Extent to which Portfolio Investors can Gain Exposure to the Southeast Asian Economies through Investing in Transnational Companies Listed on the Major Global Markets*



*Those respondents that replied 'neutral' are not indicated in this figure.

Figure 29. Business Sectors Most Commonly Perceived to be Under-Represented in Southeast Asia's Equity Markets

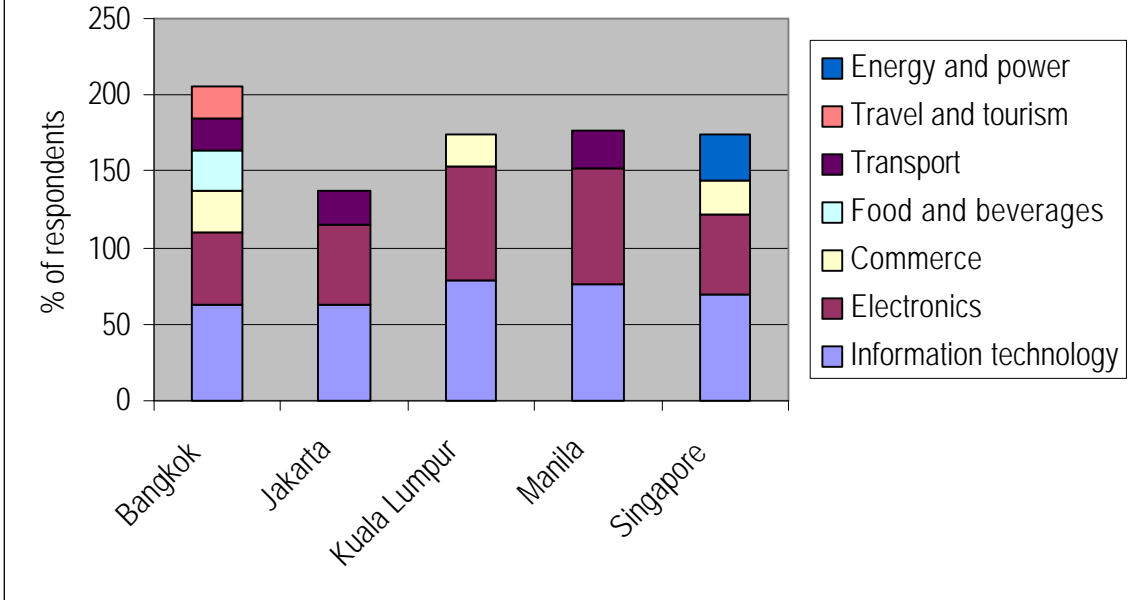


Figure 30. Business Sectors Most Commonly Perceived to be Over-Represented in the Equity Markets of Southeast Asia

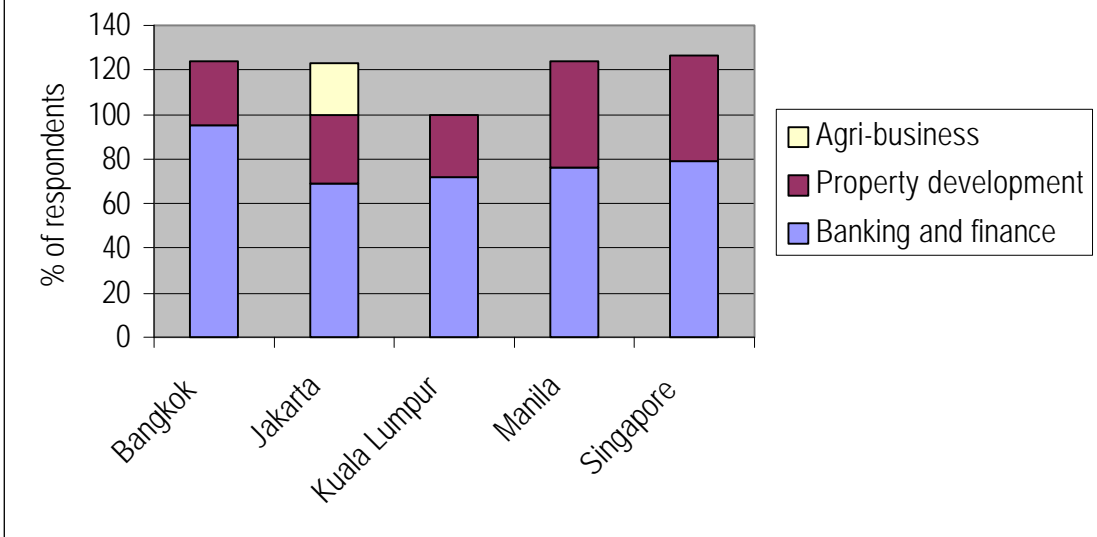


Figure 31. Business Sectors where IPOs would be of Most Potential Interest in Southeast Asia's Equity Markets

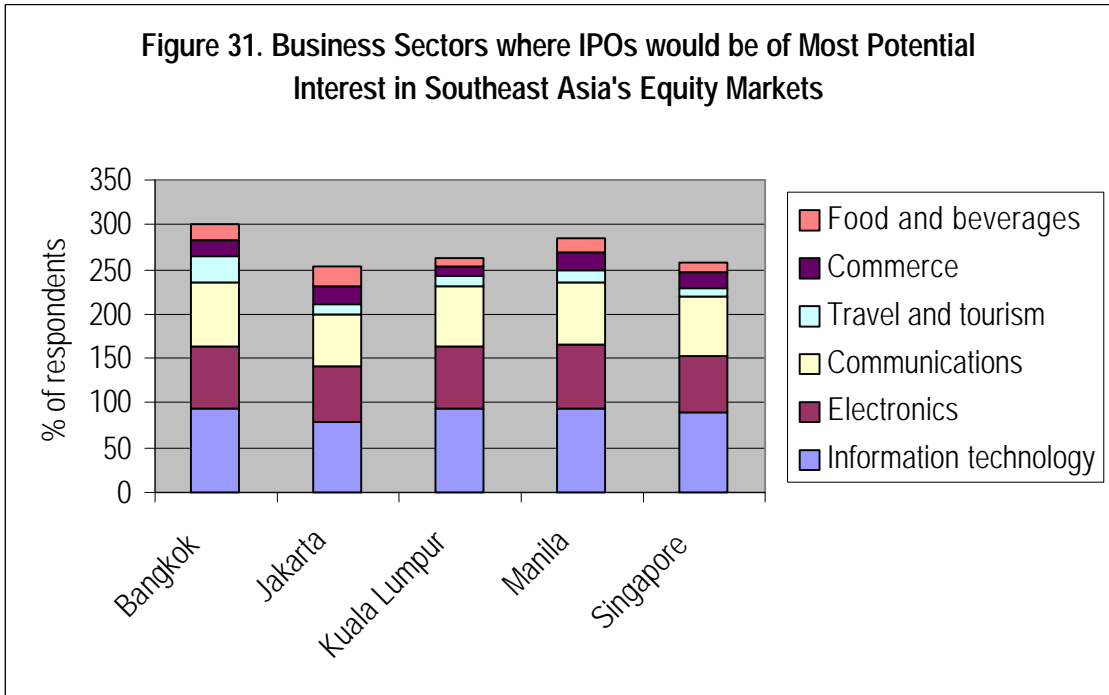


Figure 32. When Will Southeast Asia Return to Sustained Economic Growth ?

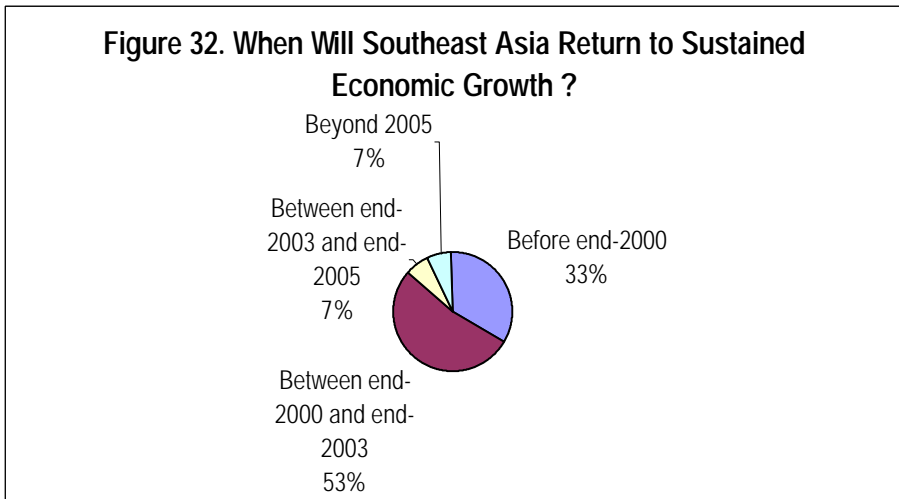


Figure 33. Perceived Impact of AFTA for Investment in Southeast Asia's Equity Markets

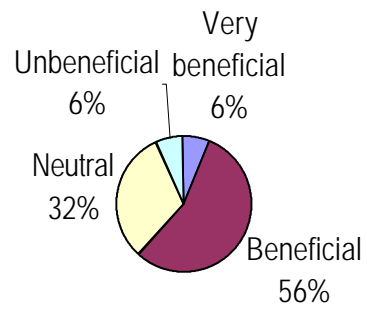


Figure 34. Perceived Impact of AIA on Investment in Southeast Asia's Equity Markets

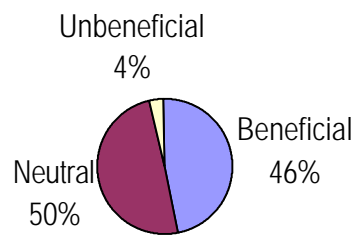
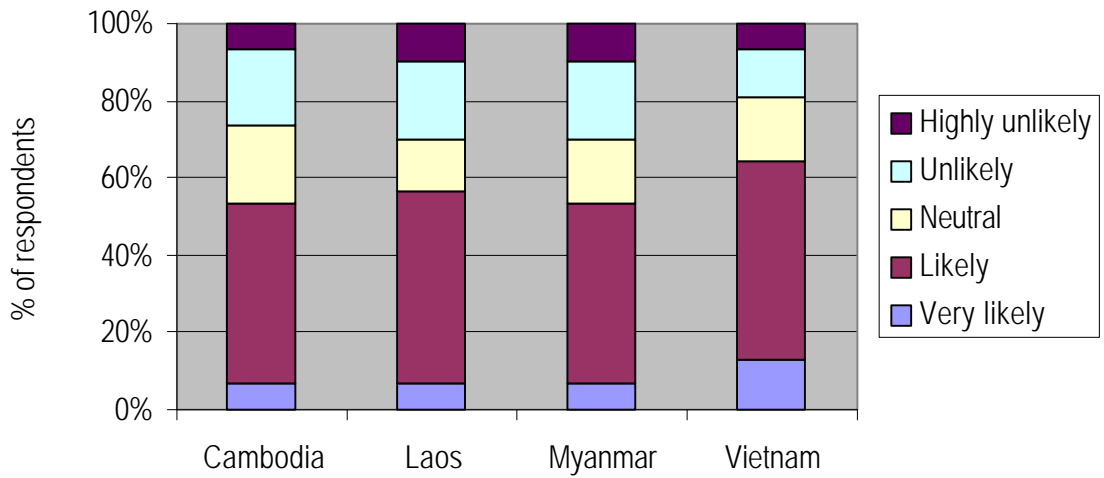


Figure 35. Likelihood of Seeking to Gain Exposure to the Equity Markets of Southeast Asian Transitional Countries, If they Open Stock Markets



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