

Southeast Asia

CONFERENCE REPORT

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Death of ASEAN?



- With the increased attention focused on North Asia, the view that ASEAN has lost its relevance is increasingly becoming consensus.
- Whilst it is true that North Asia is a larger economy, we are of the view that it is too early to pronounce the death of ASEAN. Analysts are often also too simplistic in their view that there is a crowding out of ASEAN by China. Adjusted for the size of the economy, Thailand receives more FDI than China.
- The continued relevance of ASEAN lies in that it remains a dominant commodities and natural resources producer (Indonesia, Malaysia, Brunei, Myanmar), possesses low cost land and labour (Vietnam, Indonesia, Thailand), and has a large domestic market of about 500m people with a relatively high savings rate. Moreover, ASEAN's geographical location is of strategic importance to the US, Japan, China, and Europe. Most importantly, the ROEs for foreign investments have remained high.

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The death of ASEAN?

Has ASEAN lost its glory?

Of late, there has been much discussion of ASEAN – the key focus of investors in the late 1980s and early 1990s – and whether the region has lost its glory. There is even talk that ASEAN is a has-been facing imminent death. The usual reasons trotted out are the rise of China and the rapidly increasing industrial and technological might of Taiwan and Korea – which lead investors to focus on North Asia at the expense of Southeast Asia.

Consensus has always been quick to pronounce the death of a region ...

History has shown that the consensus has always been quick to pronounce the death of a region. Only two years ago it was decided that India would never be able to compete with China due to the latter's superior regulatory environment. Today the same analysts are touting India as the new "service centre" for the world. The current consensus is that North is better than South, and that reminds us of how wrong the consensus can sometimes be.

... but has mostly been off the mark

In the 1960s, when analysts were asked to predict Asia's three future financial centres, the consensus was inevitably Manila, Rangoon, and Colombo. Manila was viewed as having one of the best prospects thanks to the Philippines' wealth (it was one of the richest countries in Asia at that time), large population, and Western style democratic and legal system. Rangoon had excellent British legal and accounting standards, huge natural resources, and was one of the busiest aviation hubs in Asia. Colombo was another natural choice, as an administrative centre for Commonwealth countries with an English speaking population and good universities and infrastructure.

Still too early to conclude

Our view is that, while continued attention will continue to be focused on the North Asian economies in the short term, it is still too early to pronounce the death of ASEAN. In this report, we discuss the following:

Reasons for the focus on North Asia

1. North Asia is larger economically.
2. The Asian liquidity crisis adversely affected ASEAN.
3. The China FDI factor.
4. The slower export growth.
5. The smaller stockmarket.

ASEAN fact vs fiction

1. Competition from China for FDI.
2. Perceived weak legal structure.

The future of ASEAN

1. Focus on comparative advantages.
2. ROEs remain high in ASEAN.
3. Regaining cost-competitiveness.
4. Trade route to link Japan/China to Europe and Middle East.
5. Able to stimulate demand domestically with large population, high savings rate.

North Asia the place to be?

Consensus is forget about ASEAN as ...

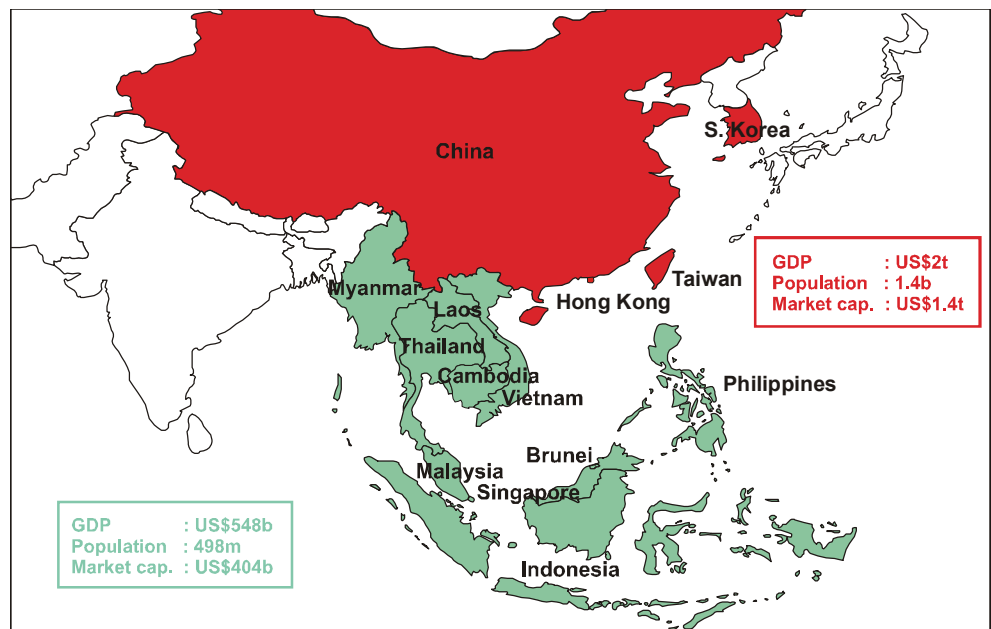
For most investors considering Asia, it is obvious that the current consensus is forget about ASEAN and focus on North Asia. There are several commonly cited reasons for this:

1. North Asia is larger economically

... North Asia's GDP is 3.6x ASEAN's ...

When foreign investors look at Asia, they see a big economic bloc in North Asia. The combined GDP of China, Hong Kong, Korea, and Taiwan by the end of 2001 was US\$2t while ASEAN's was only 27% of this at US\$548b. In terms of market potential, North Asia has a population of 1.4b with a per capita income of US\$1,495. ASEAN has a population of 498m and a per capita income of US\$1,100.

North-South divide?



Source: BNP Paribas Peregrine

ASEAN – An overview

Country	Population (m)	GDP (US\$ b)	1999–01 real GDP growth (%)
Brunei	0.3	4.8	6.0
Cambodia	12.1	3.1	7.0
Indonesia	212.6	143.4	3.0
Laos	5.2	1.7	6.4
Malaysia	23.8	88.0	4.9
Myanmar	48.3	7.1	—
Philippines	50.8	70.8	3.7
Singapore	4.2	83.5	4.9
Thailand	62.3	116.1	3.7
Vietnam	78.7	29.5	6.1

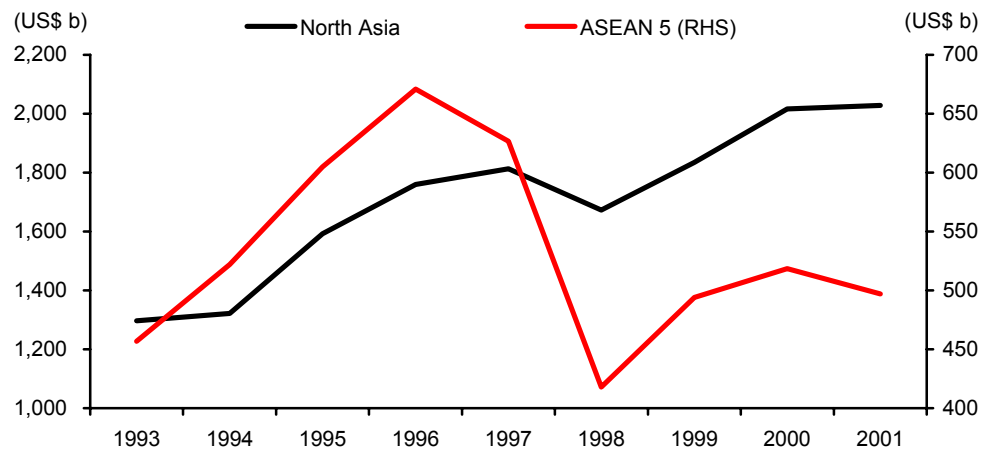
Sources: CEIC; World Bank; IMF

... ASEAN 5 GDP is still 26% below pre-crisis peak ...

2. The Asian liquidity crisis adversely affected ASEAN

The Asian liquidity crisis has led to the crippling of many of the previously fast growing ASEAN economies. However, most of North Asia escaped unscathed. China continues to go from strength to strength. Korean and Taiwanese industries in general were humming along due to strong global demand for high technology and IT products. Even though some of the Korean *chaebols* also faced a crash crunch after Jul 1997, and a number collapsed under a mountain of debt, their technological know-how and market knowledge soon allowed them to rebound from the lows. This is in sharp contrast to the ASEAN 5 (Indonesia, Malaysia, the Philippines, Singapore, and Thailand), where GDP is still 26% below the pre-crisis peak.

Economic output



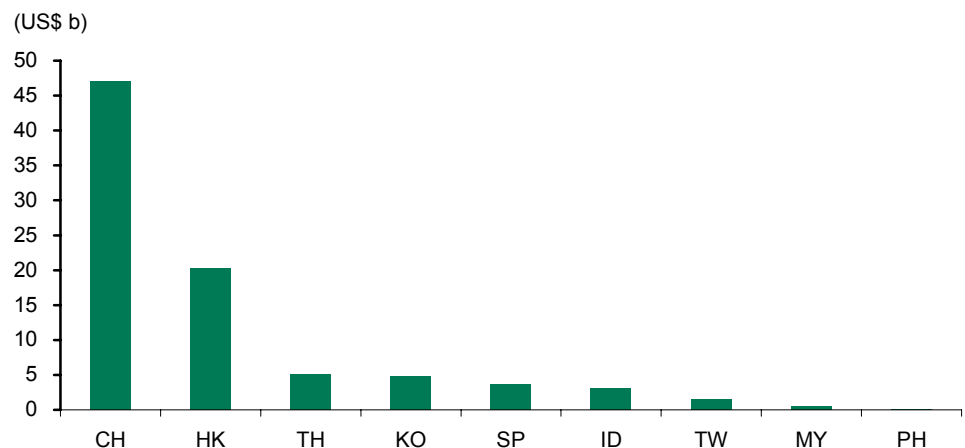
Sources: CEIC; BNP Paribas Peregrine

... FDI into ASEAN much lower than North Asia ...

3. The China FDI factor

What rocks ASEAN's confidence more is the fact that China continues to be a magnet for FDI in the region – actual FDI in 2001 reached US\$47b. By contrast, the combined inflow into the ASEAN 5 during the same period was only US\$12.4b. The concern here is that ASEAN may suffer from deteriorating growth momentum, for FDI was one of the primary factors behind the strong growth in the 1980s and early 1990s given the region's savings-investment gap.

FDI into Asia (2001)



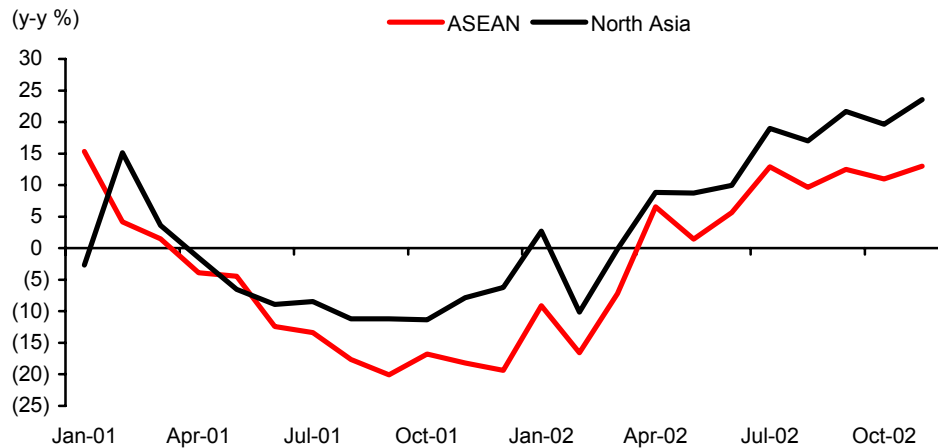
Sources: CEIC; BNP Paribas Peregrine

... ASEAN exports are also lagging, and ...

4. The slower export growth

Not surprisingly, export recovery has also lagged behind North Asia, as ASEAN is perceived to suffer from an inability to move up the value chain to compete against the likes of TSMC, UNC, and Samsung Electronics, while its economic growth over the last decade or so has driven up labour costs. In this respect, China is deemed to be chipping away at ASEAN's global share of items such as textile exports and shoes. North Asia's exports totalled US\$805b in the last 12 months, while the ASEAN 5 only reached US\$367b.

Asia's export growth



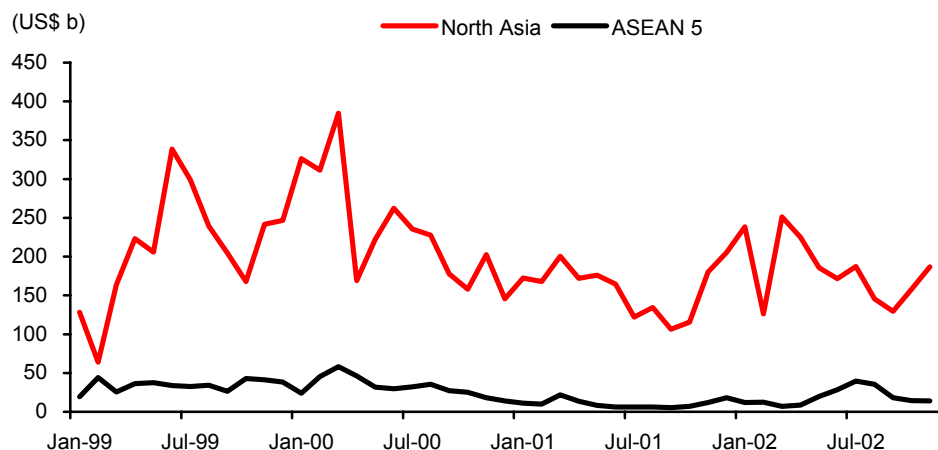
Sources: CEIC; BNP Paribas Peregrine

... ASEAN 5's market capitalisation is 29% of North Asia's

5. The smaller stockmarket

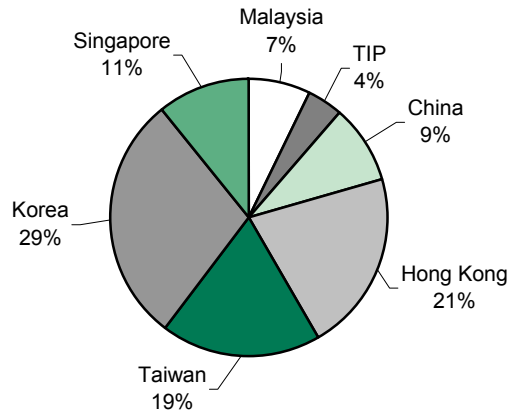
As ASEAN's industrial activity grew at a slower pace, the development of its capital markets also suffered. North Asia's monthly stockmarket turnover last year averaged US\$119.6b, the ASEAN 5 only managed US\$11.6b. This should not come as a surprise – North Asia's stockmarket capitalisation stands at US\$1.4t, 3.5x the ASEAN 5's US\$404b. Consequently, the North Asian markets account for more than three quarters of the weight of the MSCI Far East free ex-Japan index at 76.8%.

Market turnover



Sources: CEIC; BNP Paribas Peregrine

MSCI Far East ex-Japan weights



Source: MSCI

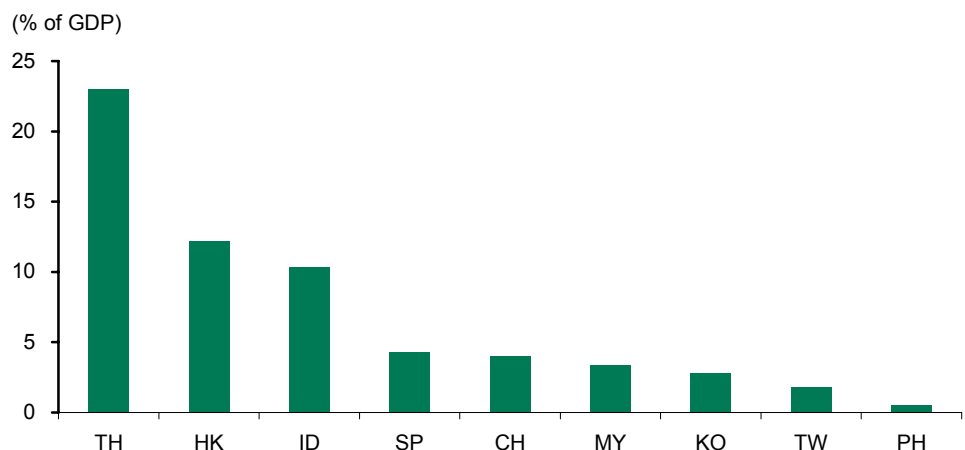
ASEAN fact vs fiction

1. Competition from China for FDI

Looking purely at FDI flows can be misleading

As noted above, by absorbing the lion's share of FDI in the region China has caught the world's attention. Will this spell the demise of ASEAN industries? Not necessarily, since looking purely at the level of flows can be misleading. Set against the size of the recipient economy, the yawning performance gap disappears. Based on approved FDI applications in 2001, at 23% of GDP Thailand was ranked highest, Hong Kong was second among the countries under comparison at 12.2%, Indonesia third at 4.2%, and Singapore fourth at 4.3%; the Philippines was unfortunately ranked last. However, as we noted in our Oct 2002 China report, *Behind the Bamboo Curtain*, close to half of the mainland's FDI may be due to round tripping, a possibility also highlighted in a recent Singapore government report. If this is true, Malaysia could be ranked ahead of China.

FDI as percentage of GDP (2001)



Sources: CEIC; BNP Paribas Peregrine

A matter of proper perspective; use ratio of FDI to GDP...

What we have highlighted is akin to what the chief economist of the International Finance Corp, Guy Pfeffermann, has called the "lions and sparrows" problem.

"Some countries are lion-sized – such as China and Brazil. Others are sparrow-sized. An example is the Barbados. And some are in between. It would be absurd to expect the Barbados (a sparrow) to 'consume' or 'eat up' as much FDI in raw dollar figures as China or Brazil (two big lions).

"Whatever distinguished economists think about 'excessive concentration', what matters to the people of the developing world is obtaining FDI to make a difference. And the amount that is 'enough' depends on the size of the economy."

... to determine the meaningful level of FDI for each economy

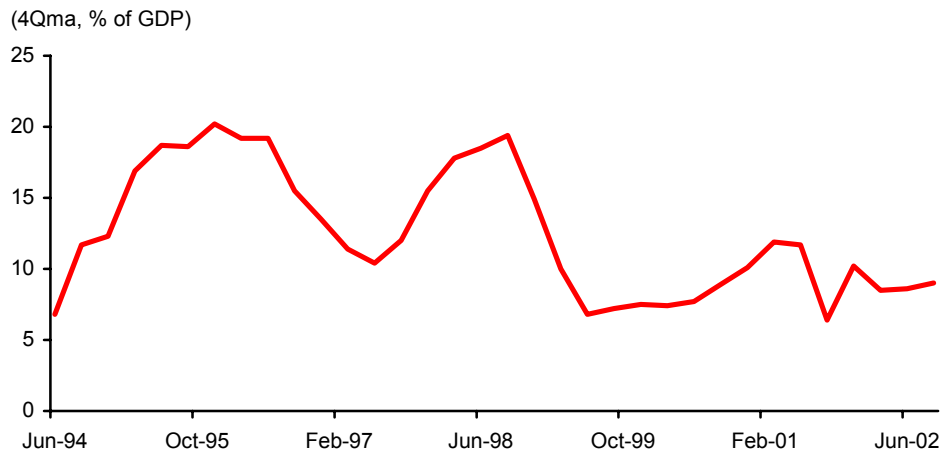
Among developing nations, it turns out that Lesotho, a small country in southern Africa, has the highest FDI-to-GDP ratio. Lesotho has a GDP of only US\$789m compared to a global GDP of US\$31t, but the contribution of FDI to its GDP was a high 21.8% from 1997–2000. But what does Lesotho manufacture to attract FDI? It produces clothing, footwear, and other light goods. The idea is simple. A country only needs to attract a level of FDI that is meaningful to its economy. In addition, we note that there was no dramatic plunge in FDI in Thailand and Indonesia

FDI flows are not a cause for concern

Approved FDI applications in both Indonesia and Thailand have not seen a drastic drop that would warrant the outcry over falling competitiveness. As seen in the chart below, approved FDI in Indonesia as a percentage of GDP is, on average, close to 2001's level and still above the lows of 1999. For Thailand, although the ratio on a moving average basis is lower, it is still a healthy 17.9%, similar to the 2000 level. The Philippines is an exception, where FDI as a percentage of GDP peaked in mid-1997. Perhaps the bright spot might be that FDI is picking up from the lows of 2000 and heading up again. This positive trend is expected to continue due to the high ROEs from direct investment in these countries.

Approved FDI in Indonesia

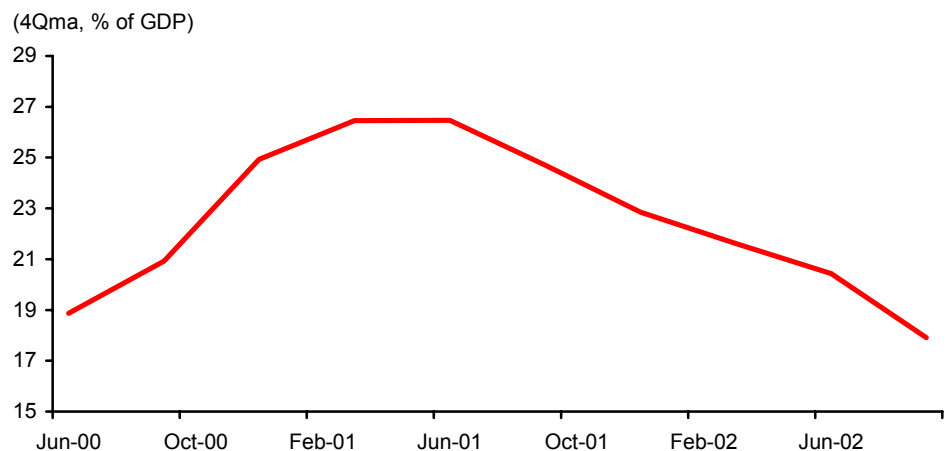
Holding steady



Sources: CEIC; BNP Paribas Peregrine

Approved FDI in Thailand

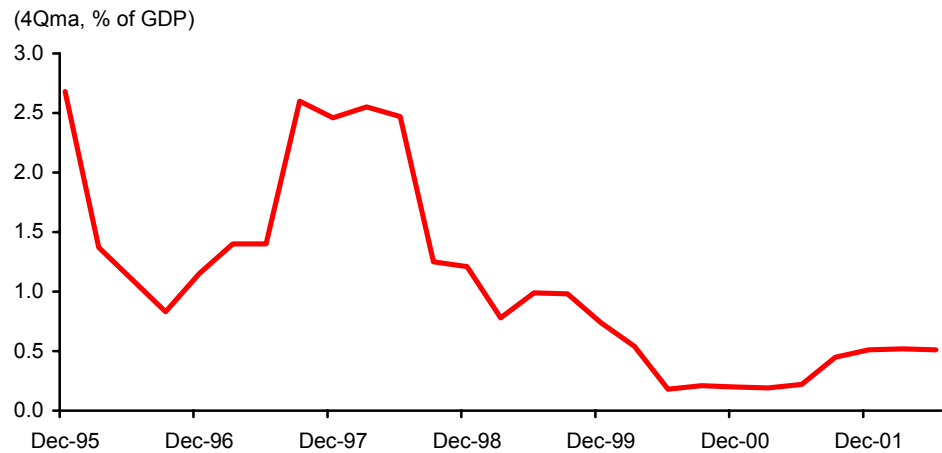
Lower but still at 2000 levels



Sources: CEIC; BNP Paribas Peregrine

Approved FDI in the Philippines

Heading up again



Sources: CEIC; BNP Paribas Peregrine

ASEAN 5 scored better than North Asia on strength of legal structure ...

2. Perceived weak legal structure

Again, this is not necessarily accurate. According to the Cato Institutes' *2002 Economic Freedom of the World* report, at 56, the average rank achieved by the ASEAN 5 for legal structure and security of property rights is still higher than the North Asian 4's 59.

Legal structure comparison

	Legal structure and security of property rights (ranking)	Overall economic freedom (ranking)
China	92	101
Hong Kong	28	1
Korea	60	38
Taiwan	56	30
North Asia	59	43
Indonesia	104	77
Malaysia	67	51
Philippines	81	38
Singapore	16	2
Thailand	59	56
ASEAN 5	56	37
Myanmar	107	122

Source: Economic Freedom of the World 2002

Overleaf is a list of factors that were used to measure the legal structure and the enforcement of property rights.

Legal structure and security of property rights

- A Judicial independence: The judiciary is independent and not subject to interference by the government or parties in disputes (GCR).
- B Impartial courts: A trusted legal framework exists for private businesses to challenge the legality of government actions or regulation (GCR).
- C Protection of intellectual property (GCR).
- D Military interference in rule of law and the political process (ICRG).
- E Integrity of the legal system (ICRG).

Source: Economic Freedom of the World 2002

... and only slightly behind on overall competitiveness

In a separate survey by the World Economic Forum, Singapore was ranked 5 on the economic competitiveness league, Malaysia 26, Thailand 34, the Philippines 40, and Indonesia 47. By contrast, Hong Kong was ranked 9, Taiwan 24, Korea 27 and China 31. Thus, the ASEAN's 5 average rank was 30, not far behind North Asia's 23. This should help further dispel investor pessimism on ASEAN.

The future of ASEAN

We do not subscribe to the thesis that ASEAN has lost its relevance

With current sentiment so much in favour of North Asia instead of ASEAN, it is no surprise that some are starting to question the viability of ASEAN as an economic bloc? In our view, whenever the consensus is too quick to pronounce the death of a region, the downfall never materialises. Just two years ago analysts were arguing that India had no hope due to the competition from China. But the major structural improvements in India in the last few years, especially in the IT sector, have now led that same group of analysts to argue that India will become the service centre of the world with China the manufacturing equivalent. We do not subscribe to the thesis that ASEAN has lost its relevance, and highlight some of its key competitive advantages below.

1. Focus on comparative advantages

"What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. The general industry of the country, being always in proportion to the capital which employs it, will not thereby be diminished... but only left to find out the way in which it can be employed with the greatest advantage."

(Adam Smith, The Wealth of Nations)

Focus on comparative advantage means a refocus on commodities

There is hope for ASEAN – a return to basics and use of its relative competitive advantage. Thailand, Indonesia, and Malaysia, which formed the Tripartite Rubber Corp in Jul 2002, are abundant in natural resources and account for 80% of the world's natural rubber output. In addition, both Malaysia and Indonesia supply more than 80% of global palm oil.

World commodities production ranking

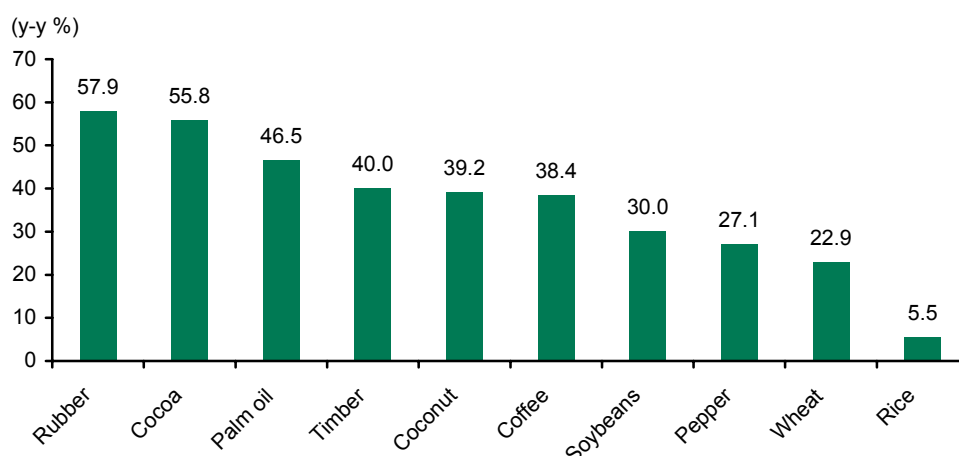
Commodity	Country
Rubber	Thailand (1)
Palm oil	Malaysia (1), Indonesia (2)
Natural gas	Indonesia (6)
Coal	Indonesia (8)
Oil	Indonesia (15)

Source: Various

This served ASEAN well in 2002 given surge in commodity prices

2002 has been a banner year for most ASEAN countries, thanks to the sharp rise in commodity prices due to the combination of stronger China demand, El Niño, and a lack of supply. This has led to prices surging by 20–60%, resulting in stronger income growth for countries that are dependent on the crops in question.

Agricultural commodity prices



Sources: CEIC; DataStream

Major Southeast Asian crops

Country	Crop
Indonesia	Rice, maize, rubber, oil palm, tobacco
Cambodia	Rice, rubber, maize
Laos	Rice, maize
Malaysia	Rice, rubber, coconut, oil palm, pineapple
Myanmar	Rice, maize, beans and pulses, rubber, sugar cane
Philippines	Rice, maize, coconut, sugar cane, abaca, tobacco
Thailand	Rice, rubber, maize, cassava, kenaf
Vietnam	Rice, sugar cane

Source: BNP Paribas Peregrine

Agriculture sector accounts for around 40% of TIP jobs

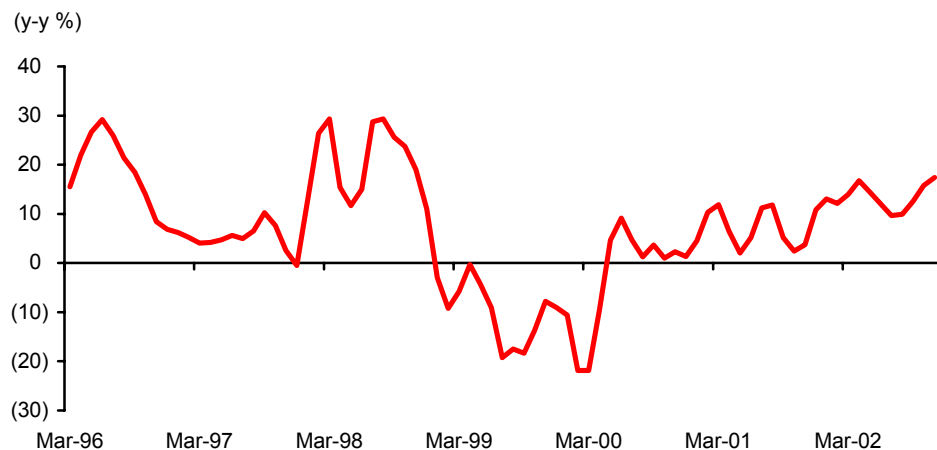
This has clearly helped overall domestic consumption, as most have a buoyant agriculture sector. In the TIP economies of Thailand, Indonesia and the Philippines, the sector accounts for some 40% of total employment. In Thailand, where prices rose steadily in 2002, the figure is about 48%. No wonder, then, that its farmers' incomes have also been rising.

Labour force employed in the agriculture sector (2001)

('000 persons)	Agriculture	Total employed	Agriculture/total (%)
Taiwan	706	9,383	7.5
Thailand	15,409	33,484	46.0
Philippines	11,252	30,090	37.4
Malaysia	1,503	9,535	15.8
Indonesia	39,744	90,807	43.8
Korea	2,193	21,362	10.3

Source: Asian Development Bank

Farmers' incomes in Thailand



Source: BNP Paribas Peregrine

ROE on FDI in ASEAN higher than China's ...

2. ROEs remain high in ASEAN

The normal perception of investors is that better returns lie in the North, whilst ASEAN is trapped in a low growth, low return environment. It might surprise some, but studies have shown that the return on equity on US direct investments in the Malaysian and TIP markets is at least as good – if not better – than in most emerging markets. The average ROE from Indonesian FDI is as high as 22.2%, almost double China's 14.1%; Thailand comes in at 17.1%, Malaysia at 18.4%, and the Philippines at 16.4%. This should help to dispel some pessimism levelled against the ASEAN economies.

ROE from US FDI by destination country

(%)	1995–98	1997–01	Average
China	13.8	14.3	14.1
India	5.8	5.7	5.8
Indonesia	24.1	20.3	22.2
Korea	12.6	13.0	12.8
Malaysia	19.4	17.4	18.4
Philippines	18.3	14.5	16.4
Thailand	18.5	15.6	17.1
Argentina	11.0	3.0	7.0
Brazil	14.1	6.9	10.5
Chile	13.8	8.2	11.0
Mexico	14.8	13.8	14.3

Sources: IMF; US Dept of Commerce; BNP Paribas Peregrine

... hence, we caution against excessive pessimism

On this basis, the lower pay and longer working hours of China's labour force seem less relevant. What is key in the foreign investor's equation is return on equity. For the same reason, despite its massively higher costs, the US is still a major recipient of foreign investment. Thus, we caution investors against excessive pessimism when it comes to ASEAN. With its economic fundamentals remaining sound and signs of further progress in restructuring and reform, ASEAN will remain on investors' radar screens for a long time to come.

ASEAN is cost-competitive, especially with the addition of Indochina economies

Vietnam steadily attracts FDI due to its low cost base

3. Regaining cost-competitiveness

It is a fact of life that investments gravitate to where returns are the highest, and one of the key considerations, especially in the lower-end technology sector, is labour and land costs. Due to the Asian liquidity crisis, the wage levels of the original ASEAN 5 countries have fallen sharply in US dollar terms.

Another important development is the liberalisation of Vietnam. Investors are increasingly considering the country, especially its shoe industry. For example, Kingmaker and Yue Yuen already have operations in Vietnam to produce shoes for export to the US and Europe. In the last few years other factories in Vietnam have also been contracted by Nike to produce its sneakers. In addition, Swedish furniture retailer IKEA also shifted orders for chairs, tables, and wardrobes to craftsmen in Vietnam.

Comparison of labour costs

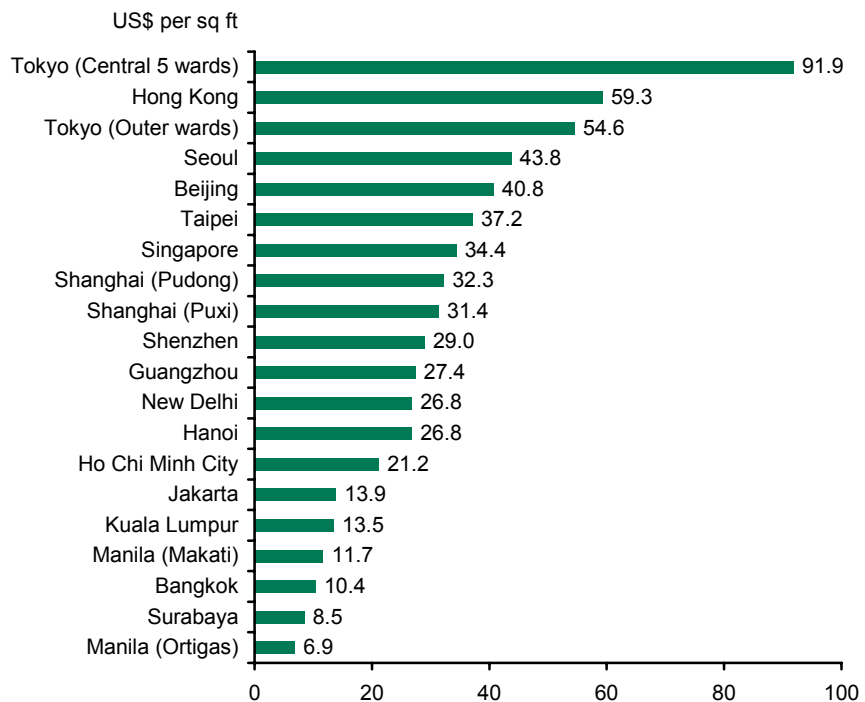
	US\$ per month
Shenzhen	
Inner	72
Outer	55
Indonesia	66
Myanmar	15
Vietnam	40

Source: KOCHAM

Equally competitive on office rentals

In addition, the region's once troublesome asset inflation has dissipated thanks to the bursting of the property bubble. Currently, property prices in ASEAN are now lower than those in most North Asian countries.

Office rentals



Source: DTZ Research

4. Trade route to link Japan/China to Europe and Middle East

Geographical advantage

Due to its strategic location as the trade route linking Japan and China to both the Middle East and Europe, ASEAN is strategically located to reap any growth from these regions. Moreover, with the war on terrorism, the ASEAN region has increasingly become more important strategically to the United States.

Becoming more important strategically with the West's war on terror

We would not be surprised if there were increasing aid to Indonesia and other ASEAN countries, as the Western world would like to maintain a harmonious ASEAN to ensure that it does not have to fight a battle on too many fronts. This could turn the region into another Pakistan. What do we mean by that?

Pakistan was a large aid recipient on the back of its support for the US

Pakistan is finally reaping the financial rewards of its unwavering support for the US-led war against terrorism. The International Monetary Fund (IMF) decided in Jul 2002 to release a US\$114m poverty reduction loan to the government – part of its overall three-year US\$1.37b Poverty Reduction and Growth Facility (PRGF) arrangement. But this was not the only money Pakistan raised. The Canadian International Development Agency (CIDA) announced in a press release that its government had pledged US\$10.2m to "improve the lives of Pakistani women and provide quality basic education to Afghan refugee children in Pakistan".

According to a Dow Jones report, Pakistan was scheduled to receive about US\$9.5b in loans and grants from its richer counterparts. It is this new flow of money that led to Pakistan to become one of the world's best performing markets in 2002.

Pakistan stockmarket (KSE 100 index)



Source: DataStream

5. Able to stimulate demand domestically

Large population offers a second pillar of growth

Korea and Thailand demonstrate that countries with large populations and high savings rates can opt for a different economic growth model. In the past, most Asian countries aimed for an investment-led growth scenario. However, the success of Korea and Thailand has led to a rethinking of this assumption. Increasingly, we see more and more ASEAN countries (especially those with large populations) targeting higher consumption via having stimulate domestic demand policies.

Avoiding deflation by adopting more stimulative policies

This is especially true now, where it is very obvious that the countries that reflat did not suffer from deflation, and those that did not suffered. Besides Korea, monetary authorities in Malaysia and TIP appear to have taken bolder steps in pump-priming their economies. In Thailand and Indonesia, monetary base growth for most of 2002 was around 10% y-y, in sharp contrast to Taiwan's -9% and Singapore's 5%. The more accommodative stance by these economies' central banks no doubt contributed to the stronger private consumption growth.

Private consumption spending – A tale of two regions

(y-y %)	Mar-01	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02	Sep-02	Average 1Q02–3Q02
Hong Kong	2.80	2.81	1.25	(1.06)	(0.30)	(2.40)	(1.47)	(1.39)
Taiwan	1.14	0.55	0.74	1.71	1.61	2.36	2.29	2.09
Singapore	7.12	2.24	(2.14)	(4.93)	(1.55)	(0.26)	(0.52)	(0.78)
Korea	1.46	4.07	4.84	6.58	8.39	7.65	6.14	7.39
Malaysia	3.77	1.71	2.17	3.29	3.03	5.36	3.97	4.12
Thailand	4.02	4.16	3.35	3.38	3.66	3.92	5.02	4.20
Indonesia	4.20	4.76	5.61	6.93	6.64	5.88	4.94	5.82
Philippines	3.48	3.30	3.73	3.79	3.48	3.67	4.07	3.74

Source: BNP Paribas Peregrine

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Appendices

Appendix 1: ASEAN challenges

Larger membership raises the risk of goal divergence

To remain a formidable economic body, ASEAN must continue to strive towards greater economic integration. However, the divergences within ASEAN seem to have grown. For a start, membership has been extended to the low-income Indochinese economies that are rudimentary with respect to market economic principles. In addition, political divergences remain, involving dissenting views on the use of controls in transborder trade and capital transactions, and on the extent of involvement in partner countries' internal issues. Such dissent can strongly impede common targets, such as the implementation of AFTA or an ASEAN free investment zone.

Even the core members are not homogeneous

Even the older members of ASEAN are no more homogeneous, differing in size, income levels, extent of industrialisation, and historical and political backgrounds. Incorporating the new members widens the differences, especially when they are far behind the older members in terms of health, income, education, and infrastructure development. Differences in per capita GDP among ASEAN countries are wider than those in the EU and the US.

Comparison

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Brunei	Cambodia	Laos	Vietnam
PCs per 1,000 people	9.9	103.1	19.4	483.1	24.3	70.1	1.1	2.6	8.8
Internet users	2,000,000	3,700,000	2,000,000	1,200,000	2,300,000	30,000	6,000	6,000	200,000
High tech (% of mfg exports)	16.2	58.9	58.6	63.0	32.0	8.9	—	—	—
Life expectancy at birth (years)	66.0	72.5	69.3	77.7	68.8	76.2	53.8	53.7	69.1
Illiteracy rate, adult female (%)	17.3	15.9	4.7	11.2	5.9	11.9	20.0	65.2	8.3
Illiteracy rate, adult male (%)	7.8	8.3	4.4	3.6	2.7	5.4	16.4	34.7	4.4
Agriculture, value added (% of GDP)	16.4	8.4	15.2	0.1	10.2	2.9	37.1	52.9	24.3

Source: World Bank

Appendix 2: ASEAN overview*

The Association represents the collective will of the nations of to bind themselves together in friendship and co-operation and, through joint efforts and sacrifices, secure for their peoples and for posterity the blessings of peace, freedom, and prosperity.

The ASEAN Declaration, Bangkok, 8 August 1967

Establishment and membership

The Association of Southeast Asian Nations or ASEAN was established on 8 August 1967 in Bangkok by the five original Member Countries, namely, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined on 8 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July 1997, and Cambodia on 30 April 1999.

The ASEAN region has a population of about 500 million, a total area of 4.5 million square kilometres, a combined gross domestic product of US\$737 billion, and a total trade of US\$ 720 billion.

Objectives

The ASEAN Declaration states that the aims and purposes of the Association are: (i) to accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian nations, and (ii) to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter.

In 1995, the ASEAN Heads of States and Government re-affirmed that “Co-operative peace and shared prosperity shall be the fundamental goals of ASEAN.”

Fundamental principles

The Treaty of Amity and Co-operation (TAC) in Southeast Asia, signed at the First ASEAN Summit on 24 February 1976, declared that in their relations with one another, the High Contracting Parties should be guided by the following fundamental principles:

- Mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations;
- The right of every State to lead its national existence free from external interference, subversion or coercion;
- Non-interference in the internal affairs of one another;
- Settlement of differences or disputes by peaceful manner;
- Renunciation of the threat or use of force; and
- Effective co-operation among themselves.

* Excerpted from the ASEAN Secretariat website

Political co-operation

The TAC stated that ASEAN political and security dialogue and co-operation should aim to promote regional peace and stability by enhancing regional resilience. Regional resilience shall be achieved by co-operating in all fields based on the principles of self-confidence, self-reliance, mutual respect, co-operation, and solidarity, which shall constitute the foundation for a strong and viable community of nations in Southeast Asia. Some of the major political accords of ASEAN are as follows:

- ASEAN Declaration, Bangkok, 8 August 1967;
- Zone of Peace, Freedom and Neutrality Declaration, Kuala Lumpur, 27 November 1971;
- Declaration of ASEAN Concord, Bali, 24 February 1976;
- Treaty of Amity and Co-operation in Southeast Asia, Bali, 24 February 1976;
- ASEAN Declaration on the South China Sea, Manila, 22 July 1992;
- Treaty on the Southeast Asia Nuclear Weapon-Free Zone, Bangkok, 15 December 1997; and
- ASEAN Vision 2020, Kuala Lumpur, 15 December 1997.

In 1992, the ASEAN Heads of State and Government declared that ASEAN should intensify its external dialogues in political and security matters as a means of building co-operative ties with states in the Asia-Pacific region. Two years later, the ASEAN Regional Forum or ARF was established. The ARF aims to promote confidence-building, preventive diplomacy and conflict resolution in the region. The present participants in the ARF include: Australia, Brunei Darussalam, Cambodia, Canada, China, European Union, India, Indonesia, Japan, Republic of Korea, Laos, Malaysia, Myanmar, Mongolia, New Zealand, Papua New Guinea, Philippines, the Russian Federation, Singapore, Thailand, the United States, Vietnam.

Through political dialogue and confidence building, no tension has escalated into armed confrontation among ASEAN members since its establishment more than three decades ago.

Economic and functional co-operation

When ASEAN was established, trade among the Member Countries was insignificant. Estimates between 1967 and the early 1970s showed that the share of intra-ASEAN trade from the total trade of the Member Countries was between 12 and 15 percent. Thus, some of the earliest economic co-operation schemes of ASEAN were aimed at addressing this situation. One of these was the Preferential Trading Arrangement of 1977, which accorded tariff preferences for trade among ASEAN economies. Ten years later, an Enhanced PTA Programme was adopted at the Third ASEAN Summit in Manila further increasing intra-ASEAN trade.

The Framework Agreement on Enhancing Economic Co-operation was adopted at the Fourth ASEAN Summit in Singapore in 1992, which included the launching of a scheme toward an ASEAN Free Trade Area or AFTA. The strategic objective of AFTA is to increase the ASEAN region's competitive advantage as a single production unit. The elimination of tariff and non-tariff barriers among the member countries is expected to promote greater economic efficiency, productivity, and competitiveness.

The Fifth ASEAN Summit held in Bangkok in 1995 adopted the Agenda for Greater Economic Integration, which included the acceleration of the timetable for the realization of AFTA from the original 15-year timeframe to 10 years.

In 1997, the ASEAN leaders adopted the ASEAN Vision 2020, which called for ASEAN Partnership in Dynamic Development aimed at forging closer economic integration within the region. The vision statement also resolved to create a stable, prosperous and highly competitive ASEAN Economic Region, in which there is a free flow of goods, services, investments, capital, and equitable economic development and reduced poverty and socio-economic disparities. The Hanoi Plan of Action, adopted in 1998, serves as the first in a series of plans of action leading up to the realization of the ASEAN vision.

In addition to trade and investment liberalization, regional economic integration is being pursued through the development of Trans-ASEAN transportation network consisting of major inter-state highway and railway networks, principal ports and sea lanes for maritime traffic, inland waterway transport, and major civil aviation links. ASEAN is promoting the interoperability and interconnectivity of the national telecommunications equipment and services. Building of Trans-ASEAN energy networks, which consist of the ASEAN Power Grid and the Trans-ASEAN Gas Pipeline Projects are also being developed.

ASEAN co-operation has resulted in greater regional integration. Within three years from the launching of AFTA, exports among ASEAN countries grew from US\$43.26 billion in 1993 to almost US\$80 billion in 1996, an average yearly growth rate of 28.3 percent. In the process, the share of intra-regional trade from ASEAN's total trade rose from 20 percent to almost 25 percent. Tourists from ASEAN countries themselves have been representing an increasingly important share of tourism in the region. In 1996, of the 28.6 million tourist arrivals in ASEAN, 11.2 million or almost 40 percent, came from within ASEAN itself.

Today, ASEAN economic co-operation covers the following areas: trade, investment, industry, services, finance, agriculture, forestry, energy, transportation and communication, intellectual property, small and medium enterprises, and tourism.

Desiring to build a community of caring societies, the ASEAN leaders resolved in 1995 to elevate functional co-operation to a higher plane to bring shared prosperity to all its members. The Framework for Elevating Functional Co-operation to a Higher Plane was adopted in 1996 with a theme: "Shared prosperity through human development, technological competitiveness, and social cohesiveness." Functional co-operation is guided by the following plans:

- ASEAN Plan of Action on Social Development;
- ASEAN Plan of Action on Culture and Information;
- ASEAN Plan of Action on Science and Technology;
- ASEAN Strategic Plan of Action on the Environment;
- ASEAN Plan of Action on Drug Abuse Control; and
- ASEAN Plan of Action in Combating Transnational Crime

External relations

The ASEAN Vision 2020 affirmed an outward-looking ASEAN playing a pivotal role in the international community and advancing ASEAN's common interests.

ASEAN has made major strides in building co-operative ties with states in the Asia-Pacific region and shall continue to accord them a high priority. Co-operation with other East Asian countries has accelerated with the holding of an annual dialogue among the leaders of ASEAN, China, Japan, and the Republic of Korea. In 1997, a joint statement between ASEAN and each of them was signed providing for framework for co-operation towards the 21st century. In November 1999, the leaders of ASEAN, China, Japan and the Republic of Korea issued a Joint Statement on East Asia Co-operation outlining the areas of co-operation among them.

The ASEAN Summit of 1992 mandated that "ASEAN, as part of an increasingly interdependent world, should intensify co-operative relationships with its Dialogue Partners." Consultations between ASEAN and its Dialogue Partners are held at the Foreign Ministers' level on an annual basis. ASEAN's Dialogue Partners include Australia, Canada, China, the European Union, India, Japan, the Republic of Korea, New Zealand, the Russian Federation, the United States of America, and the United Nations Development Programme. ASEAN also promotes co-operation with Pakistan on certain sectors.

Consistent with its resolve to enhance co-operation with other developing regions, ASEAN maintains contact with other inter-governmental organizations, namely, the Economic Co-operation Organization, the Gulf Co-operation Council, the Rio Group, the South Asian Association for Regional Co-operation, and the South Pacific Forum.

Most ASEAN Member Countries also participate actively in the activities of the Asia-Pacific Economic Co-operation (APEC), the Asia-Europe Meeting (ASEM), the East Asia-Latin America Forum (EALAF).

Structures and mechanisms

The highest decision-making organ of ASEAN is the Meeting of the ASEAN Heads of State and Government. The ASEAN Summit is convened every year. The ASEAN Ministerial Meeting (Foreign Ministers) is held on an annual basis. Ministerial meetings on several other sectors are also held: agriculture and forestry, economics, energy, environment, finance, information, investment, labour, law, regional haze, rural development and poverty alleviation, science and technology, social welfare, transnational crime, transportation, tourism, youth, the AIA Council and, the AFTA Council. Supporting these ministerial bodies are 29 committees of senior officials and 122 technical working groups.

To support the conduct of ASEAN's external relations, ASEAN has established committees composed of heads of diplomatic missions in the following capitals: Brussels, London, Paris, Washington D.C., Tokyo, Canberra, Ottawa, Wellington, Geneva, Seoul, New Delhi, New York, Beijing, Moscow, and Islamabad.

The Secretary-General of ASEAN is appointed on merit and accorded ministerial status. The Secretary-General of ASEAN, who has a five-year term, is mandated to initiate, advise, coordinate, and implement ASEAN activities. The members of the professional staff of the ASEAN Secretariat are appointed on the principle of open recruitment and region-wide competition.

ASEAN has several specialized bodies and arrangements promoting inter-governmental co-operation in various fields: ASEAN University Network, ASEAN-EC Management Centre, ASEAN Centre for Energy, ASEAN Agricultural Development Planning Centre, ASEAN Earthquake Information Centre, ASEAN Poultry Research and Training Centre, ASEAN Regional Centre for Biodiversity Conservation, ASEAN Rural Youth Development Centre, ASEAN Specialized Meteorological Center, ASEAN Tourism Information Centre, and ASEAN Timber Technology Centre.

In addition, ASEAN promotes co-operative activities with organizations with related aims and purposes: ASEAN-Chambers of Commerce and Industry, ASEAN Business Forum, ASEAN Tourism Association, ASEAN Council on Petroleum, ASEAN Ports Association, ASEAN Vegetable Oils Club, and the ASEAN-Institutes for Strategic and International Studies. Furthermore, there are 53 Non-Governmental Organizations (NGOs), which have formal affiliations with ASEAN.

Appendix 3: Economic forecasts

Indonesia

(%)	1998	1999	2000	2001	2002E	2003E	2004E
Real GDP	(13.1)	0.8	4.9	3.3	3.7	4.3	4.5
Private consumption	(6.2)	4.6	3.6	5.4	5.6	3.8	4.2
Public consumption	(15.4)	0.7	6.5	8.2	7.0	5.0	1.7
Gross fixed capital formation	(33.0)	(18.2)	21.9	0.3	(1.6)	2.3	5.0
Exports	11.2	(31.8)	26.5	1.9	3.5	8.4	4.5
Imports	(5.3)	(40.7)	21.1	8.1	10.1	6.8	4.5
Sector							
Agriculture	(1.3)	2.2	1.7	0.6	4.0	4.0	4.9
Manufacturing	(11.4)	3.9	6.1	4.3	3.5	4.2	4.2
Construction	(36.4)	(1.9)	5.5	4.0	3.9	3.8	5.2
Finance	(26.6)	(7.2)	4.3	3.0	3.4	4.0	4.6
Trade	(18.2)	(0.1)	5.6	5.1	4.0	4.6	3.6
Inflation	57.6	24.4	3.8	11.5	11.9	9.0	9.5
External trade							
Trade balance (US\$ b)	21.5	24.7	28.6	25.4	24.5	24.1	25.0
Current account (US\$ b)	4.1	5.8	8.0	6.9	5.0	4.2	4.3
As % of GDP	4.2	4.1	5.3	4.8	2.7	1.9	1.8
Credit growth	32.5	(55.8)	20.5	11.0	12.3	13.5	12.9
Money supply (M2)	62.3	11.9	15.6	13.0	9.9	10.2	11.5
Interest rate	38.0	12.6	14.3	17.6	13.1	11.0	11.0
Fiscal balance							
As % of GDP	0.7	0.2	(1.3)	(3.6)	(2.5)	(1.9)	(1.5)
Currency							
Rupiah/US\$ (end of period)	8,025	7,100	9,595	10,400	8,940	8,500	8,300

Source: BNP Paribas Peregrine

Malaysia

(%)	1998	1999	2000	2001	2002E	2003E	2004E
Real GDP	(7.4)	6.1	8.3	0.4	4.0	4.7	5.2
Private consumption	(10.2)	2.9	12.5	2.8	4.2	4.6	5.2
Public consumption	(8.9)	17.1	3.0	17.6	12.0	8.8	6.1
Gross fixed capital formation	(43.0)	(6.5)	25.7	(2.8)	2.1	5.2	5.1
Exports	0.5	13.2	16.1	(7.5)	4.5	6.8	6.0
Imports	(18.8)	10.6	24.4	(8.6)	7.4	7.0	5.7
Sector							
Agriculture	(2.8)	0.5	2.0	1.8	1.3	1.6	1.4
Mining and quarrying	0.4	6.9	1.9	1.6	2.9	1.6	3.0
Manufacturing	(13.4)	11.7	19.1	(6.2)	5.3	6.6	7.1
Construction	(24.0)	(4.4)	1.0	2.3	3.3	3.5	3.5
Wholesale and retail	(3.4)	3.1	4.8	3.0	4.2	2.9	4.8
Transport, storage and communication	(0.3)	4.3	11.0	7.5	4.6	3.9	3.0
Finance Services	(1.9)	5.9	4.4	9.5	7.0	7.3	6.8
Inflation	5.2	2.7	1.6	1.4	1.9	2.2	2.6
External trade							
Trade balance (US\$ b)	14.9	19.1	16.1	14.4	14.0	15.3	17.6
Current account (US\$ b)	9.5	12.6	8.5	7.3	7.4	7.8	8.6
As % of GDP	13.2	15.9	9.4	8.3	7.9	7.8	8.0
Credit growth	3.4	(0.9)	6.6	7.1	4.5	8.0	9.0
Money supply (M2)	1.5	13.7	5.2	2.2	6.3	6.0	6.5
Interest rate	6.5	3.2	3.3	3.3	3.2	3.3	4.0
Fiscal balance (as % of GDP)	(1.8)	(3.2)	(5.8)	(5.5)	(4.7)	(3.9)	(3.4)
Currency							
RM/US\$ (end of period)	3.80	3.80	3.80	3.80	3.80	3.80	3.80

Source: BNP Paribas Peregrine

Philippines

(%)	1998	1999	2000	2001	2002E	2003E	2004E
Real GDP	(0.6)	3.4	4.4	3.2	3.8	3.8	4.0
Private consumption	3.4	2.6	3.5	3.6	3.7	3.7	4.2
Public consumption	(1.9)	6.7	6.1	0.3	1.7	1.2	1.5
Gross fixed capital formation	(11.2)	(2.3)	3.1	(2.2)	1.5	4.3	4.5
Exports	(21.0)	3.6	17.7	(5.2)	7.6	6.3	8.5
Imports	(14.7)	(2.8)	4.0	(0.8)	3.8	5.3	8.9
Sector							
Agriculture	(6.4)	6.5	3.4	3.7	0.6	2.7	5.3
Manufacturing	(1.1)	1.6	5.6	2.9	2.2	3.4	5.4
Construction	(9.6)	(1.6)	1.4	(3.6)	3.5	4.0	3.1
Finance	4.4	1.9	0.9	1.2	3.3	3.9	4.5
Trade	2.4	4.9	5.2	5.6	4.6	3.8	4.0
Inflation	9.7	6.8	4.3	6.1	3.1	3.8	4.2
External trade							
Trade balance (US\$ b)	(0.2)	4.3	6.7	2.6	2.5	2.6	1.4
Current Account (US\$ b)	1.5	7.4	9.0	4.6	4.4	4.2	4.6
As % of GDP	2.4	9.7	12.1	6.4	6.0	4.8	4.7
Credit growth	(4.8)	0.4	7.2	(3.6)	1.3	2.4	6.5
Money supply (M2)	8.0	19.3	4.8	6.9	10.9	9.7	9.4
Interest rate	13.4	8.9	13.6	8.9	5.2	6.0	7.0
Fiscal balance							
As % of GDP	(1.9)	(3.8)	(4.1)	(4.0)	(5.1)	(4.2)	(3.6)
Currency							
Peso/US\$ (end of period)	39.1	40.3	50.0	51.4	53.3	52.0	52.0

Source: BNP Paribas Peregrine

Singapore

(%)	1998	1999	2000	2001	2002E	2003E	2004E
Real GDP	(0.1)	6.9	10.3	(2.0)	2.2	4.0	4.5
Private consumption	(3.8)	6.4	9.9	0.5	(0.4)	2.4	3.0
Public consumption	8.0	6.1	14.0	6.6	4.6	4.9	6.9
Gross fixed capital formation	(6.1)	(4.0)	6.3	(4.6)	(10.0)	3.4	6.0
Net exports	59.3	19.3	2.7	31.8	15.4	2.7	1.4
Sector							
Manufacturing	(0.6)	13.6	15.3	(11.5)	7.8	7.6	9.5
Construction	2.8	(8.8)	(1.7)	(2.1)	(10.0)	(0.6)	3.0
Transport and communication	6.4	7.5	8.5	2.7	5.3	4.8	4.5
Financial services	(7.4)	5.1	4.6	2.2	(4.2)	1.6	2.0
Wholesale and retail	(4.1)	7.1	15.2	(2.8)	1.8	2.9	2.9
Inflation	(0.3)	0.5	1.3	1.0	(0.4)	1.2	2.0
External trade							
Trade balance (US\$ b)	8.3	3.6	3.3	5.8	7.5	7.7	7.6
Current account (US\$ b)	19.7	16.5	15.9	17.9	19.4	20.9	22.0
As a % of GDP	24.0	20.0	17.2	20.9	22.2	22.6	22.1
Credit growth	5.9	(2.9)	4.7	5.8	0.4	3.7	7.2
Money supply (M2)	9.7	8.5	(2.0)	5.9	1.4	3.0	5.0
Interest rate	1.8	2.8	2.9	1.3	0.8	1.2	2.2
Fiscal balance							
As a % of GDP	0.7	3.5	2.5	(0.9)	(0.2)	0.5	0.7
Currency							
S\$/US\$ (end of period)	1.65	1.67	1.73	1.85	1.74	1.75	1.75

Source: BNP Paribas Peregrine

Thailand

(%)	1998	1999	2000	2001	2002E	2003E	2004E
Real GDP	(10.5)	4.4	4.6	1.8	4.5	4.0	4.1
Private consumption	(11.5)	4.3	4.9	3.7	3.8	3.7	4.1
Public consumption	3.9	3.2	2.6	2.8	2.5	1.5	0.8
Gross fixed capital formation	(44.3)	(3.2)	5.5	0.7	5.7	2.0	4.8
Exports	8.2	9.0	17.6	(4.2)	10.9	8.2	7.4
Imports	(21.6)	10.5	27.3	(8.3)	7.3	13.2	11.0
Sector							
Agriculture	(1.5)	2.2	4.8	1.6	4.4	3.9	4.1
Manufacturing	(10.9)	11.9	6.0	1.2	4.2	4.2	3.9
Construction	(38.3)	(6.8)	(9.4)	(3.0)	9.2	8.4	5.7
Finance	(29.6)	(33.7)	(6.1)	1.5	8.5	1.3	4.5
Trade	(13.2)	3.4	3.8	1.6	4.7	3.7	4.1
Inflation	8.1	0.3	1.6	1.7	1.6	1.9	2.0
External trade							
Trade balance (US\$ b)	12.1	8.6	7.7	3.6	4.4	6.4	8.6
Current account (US\$ b)	14.3	12.5	9.3	6.2	6.0	5.2	4.2
As % of GDP	12.8	10.1	7.6	5.4	4.9	3.9	3.0
Credit growth	(20.5)	(9.5)	(9.5)	(5.9)	(1.0)	5.0	10.6
Money supply (M2)	9.5	2.1	3.7	4.2	5.0	6.0	9.2
Interest rate	4.0	1.5	1.5	2.5	1.8	1.8	2.5
Fiscal balance							
As % of GDP	(2.7)	(2.6)	(2.2)	(2.6)	(2.1)	(2.4)	(1.9)
Currency							
THB/US\$ (end of period)	36.7	37.5	43.3	44.2	43.2	42.0	42.0

Source: BNP Paribas Peregrine

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