

MSCI Keeps Gate Closed on Korea Upgrade

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For decades after World War II, Swiss banks greedily hoarded gold stolen by Nazi Germany in its racist deportations — unyielding until international shame forced them to act.

In a similar fashion, Geneva-based MSCI (Morgan Stanley Capital International) sits on top of its massive, racist EAFE (Europe, Australasia and Far East Index), which is followed by two trillion dollars in portfolio investments.

MSCI makes sure all its EAFE gold is reserved only for the right people. European countries are handed EAFE gold easily, but for non-Japan Asia only former English colonies like Hong Kong, Singapore and New Zealand are allowed anywhere near it.

MSCI is completely deaf to arguments that Korea deserves its share of the EAFE gold. EAFE gold is verboten for inferior people like the Koreans.

For nearly ten years, EAFE constituents have been: Japan, Germany, France, the U.K., Italy, Spain, the Netherlands, Australia, Switzerland, Belgium, Sweden, Austria, Denmark, Hong Kong, Norway, Finland, Portugal, Ireland, Singapore, New Zealand and Greece.

Korea has the biggest steel company in the world. Korea has the biggest shipbuilding company in the world.

Korea has the biggest TV tube company in the world. Korea has the biggest high-speed Internet provider in the world.

Korea has the biggest memory chip company in the world, which last year was also the most profitable company in the world.

Does any of this have any impact whatsoever on MSCI? The answer is no.

For MSCI, the Rugby Sevens in Hong Kong qualify it for the EAFE gold.

For fund managers, market capitalization is important; Korea's market capitalization is number 12 in the world — ahead of most EAFE countries. For fund managers, liquidity is important; Korea's trading value is the seventh largest in the world.

Korea's economy is the world's 9th largest — ahead of all but five EAFE countries. And Korea has the world's second highest foreign reserves, making it more immune from currency crisis than even the U.S.

Does any of this matter at all to MSCI? Once again, the answer is no. For MSCI, caning schoolboys in Singapore proves it follows the European model enough to qualify for the EAFE gold.

Only a minuscule amount of pocket change goes to MSCI's Emerging Markets (EM). Emerging Markets is a ghetto.

The Emerging Markets are backwards, barely yet emerged from primitive, agrarian tribalism — unlike the advanced, modern (read: white) Western European world.

But what's this? Korea has the world's highest broadband penetration rate, 70 percent, miles



ahead of the rest of the world (The U.S. lags at 20 percent). How did that happen? Korea's wireless penetration is even higher (75 percent), close to the highest level in the world.

Do Korea's many extraordinary technological accomplishments signal anything to MSCI? Once again, no. EAFE gold instead goes to New Zealand, a country with its very own accomplishments — in sheep ranching. The entire New Zealand stock exchange only trades about \$50 million per day, but it's a well-mannered former English colony, and thus deserves the EAFE gold.

Of course, MSCI does have a quantitative hurdle in its dusty old rulebook for EAFE admittance. However, it's not anything useful to fund managers like huge, recognizable world-class companies, market cap, or trading value.

It's based on gross domestic product (GDP). That's good for Korea, since Korea's GDP is 9th largest in the world. Correction, it's based on GDP per capita.

Again, good, as Korea's purchasing power parity per capita GDP has been at or ahead of EAFE's Portugal for four years now. Correction again, MSCI instead requires EAFE countries exceed the World Bank's arcane Atlas Method High Income GNI per capita level — an outmoded measure if there ever was one.

But even according to this incredibly restrictive gauge that has no bearing whatsoever on actual investability, Korea still qualifies for the EAFE gold, as its Atlas Method GNI per capita was \$9,460 in 2001, \$9,936 in 2002, and \$12,020 in 2003 — always handily above the World Bank's intimidating High Income hurdle. Any action from MSCI? Of course not.

MSCI's only real competitor, FTSE, has already put Korea on its official "observation list" for a planned upgrade to developed market status.

This is good, but far less money follows FTSE than MSCI, and while FTSE has important U.K. and European indices, it does not have anything encompassing Europe and Asia with such an enormous following as EAFE.

In lieu of FTSE's observation list, MSCI has a "worldwide investor consultation," during which it polls investors whether

a change to their indices should be made.

MSCI published a press release stating that it classifies countries as emerging when there is "a general perception by the investment community that the country should be considered emerging."

Whilst this "investor consultation" sounds official and scientific, isn't it really an unnecessary waste of time?

Last year, FinanceAsia magazine conducted a poll, which revealed that 83 percent of respondents favored upgrading Korea to a developed market and a huge 90 percent viewed Korea as more developed than EAFE member Greece.

Anyone with the slightest intelligence knows Korea is a developed market already, and has been for a long time.

A few months ago, Credit Lyonnais forecasted that the Korea Composite Stock Price Index (KOSPI) could rise to 2,000 in the event Korea gains admittance to EAFE, Samsung Electronics lists in New York, and retail investors return to the market.

Given that Samsung's CEO is now saying the company will list in New York, Credit Lyonnais' prediction is quite believable. Foreigners already own 43 percent of Korea's stock market. Ten times as much portfolio investment is benchmarked or indexed to EAFE than to EM — in short, there are two trillion dollars worth of managers benchmarking to EAFE who are prevented from investing in Korea at all.

And the Korean retail investors? Sidelined for two years now, they are just looking for something, anything, to restore confidence in the Korean stock market. EAFE gold will certainly provide that, and in a big way.

The stock markets, the economies and the populations of EAFE countries derive enormous benefit from being included in the EAFE private club. Simply put, MSCI's exclusion of Korea from its EAFE index is an injustice, and evidence of MSCI's racist, Eurocentrist bias.

MSCI just sits there in its terrifying, fog-enshrouded Alpine fortress, deathly silent, unyielding, unresponsive in any way. They guard EAFE's two trillion dollars jealously, with suspicion and contempt for inferior peoples judged too lowly, unworthy.

Every once in a while, word leaks out in Korea of emissaries from the Ministry of Finance and Economy (MOFE) or the Blue House on secret missions to plead the case for Korea's inclusion in the EAFE index. No doubt, they never make it past MSCI's towering gate. They are probably thrown into the moat and devoured by serpents.

Isn't it time for Koreans around the world to rise up against MSCI's racist EAFE index?

If Swiss bankers can be shamed into giving up the Nazi gold, then certainly MSCI, even in its forbidding Geneva redoubt, can be shamed into giving Korea its fair share of its EAFE gold. Achtung, MSCI! Korea is on to you. You can't hoard the EAFE gold much longer!



Korea faces hurdles in helping the Korea Stock Exchange become a member of the world's advanced markets club.

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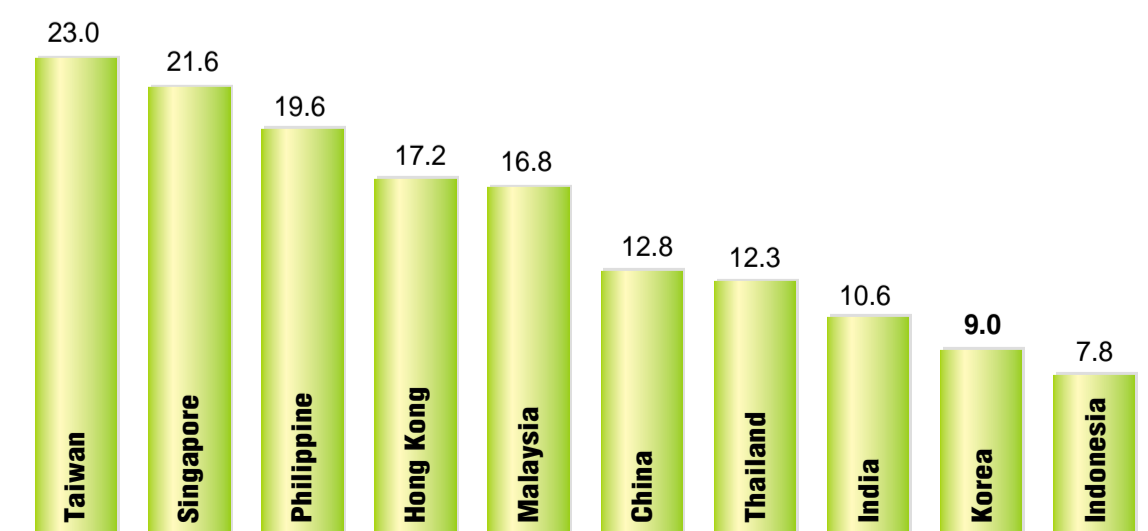
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Asian emerging markets, May 2002



Source: UBS; Seoul Finance Forum

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