

Front  
 China  
 Southeast Asia  
 Japan  
 Korea  
 India/Pakistan  
 Central Asia  
 Oceania  
 Business Briefs  
 Global Economy  
 Asia Crisis  
 Media/IT  
 Editorials  
 Letters  
 Search/Archive

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## Carlyle's tentacles embrace Asia

By Tim Shorrock

- Part 1: [US-Taiwan: The guiding hand of Frank Carlucci](#)

WASHINGTON - When Thailand, South Korea and other Asian countries stood on the brink of bankruptcy in 1999, one of the first United States banks on the scene was the Carlyle Group, the Washington private equity fund known primarily for its US investments in defense and real estate.

That year, George Bush Sr, the former US president and Carlyle's senior adviser for Asia, convened the first meetings of Carlyle's Asia Advisory Board in Bangkok to discuss the region's potential for foreign investment. Since then, Carlyle has become one of the largest foreign investors in South Korea and Taiwan and is quickly positioning itself to become a major player in mergers and acquisitions in Japan. It also hopes to capitalize on China's entry into the World Trade Organization to make a big investment splash on the mainland.

Through its US\$750 million Asia fund, it has made four acquisitions. They include KorAm Bank, one of South Korea's largest private banks, in which Carlyle invested \$145 million for a controlling interest in 2000; Taiwan Broadband, the island's fourth-largest cable company, in which Carlyle has invested \$187 million; Mercury Communications, a South Korean telecom manufacturer recently spun off from the bankrupt Daewoo Group, for \$49 million; and Pacific Department Stores, a joint venture with a Taiwan group that operates a chain of retail stores in mainland China, for \$43 million.

As Japan opens up to foreign investment, Carlyle is hoping to become a premier buyout company. "Finally, finally we're seeing some focus on shareholder value in Japan," Jonathan Colby, a former aide to Henry Kissinger, who is one of Carlyle's managing directors for Asia, told a recent New York conference on private equity in Asia.

Special Reports

Business  
 Technology  
 Careers  
 Travel



Carlyle has created a \$2.2 billion venture fund to buy Japanese companies and banks, which recently agreed to make its first acquisition, a 90 percent stake, worth \$28 million, in the security trucking subsidiary of the bankrupt Daiei Group, Japan's largest retailer. Meanwhile, Carlyle is about to secure its third acquisition in South Korea, where Carlyle and JP Morgan have reportedly offered \$1.2 billion to buy Kumho Industrial, the world's 10th-largest tire maker and a major exporter to the United States and China.

Bush is the most prominent of a long list of Carlyle advisers and managing partners who have parlayed their experience and contacts in government to create one of the world's largest private equity funds. Carlyle's chairman is Frank Carlucci, who was secretary of defense and national security adviser during the Ronald Reagan administration and, prior to that, deputy director of the Central Intelligence Agency (CIA). James Baker III, a former secretary of state and treasury, is Carlyle's senior counselor.

Last year, Carlyle named former British premier John Major to be chairman of Carlyle Europe. Other recent additions include Arthur Levitt, the former chairman of the US Securities and Exchange Commission; William E Kennard, the former chairman of the US Federal Communications Commission; and Afsaneh Beschloss, the former chief investment officer of the World Bank. Carlyle's advisory boards in Europe, Asia and Japan are peppered with executives from major corporations, such as Nestle, Roche, BMW, Toshiba and Fujitsu, and such men of influence as Karl Otto Pohl, the former president of Germany's Bundesbank.

Bush has put together a stellar list of former officials to find investors for the Asia fund and identify potential companies to buy. Some are former heads of state, including Fidel Ramos of the Philippines and Anand Panyarachun of Thailand (Thailand's current Prime Minister Thaksin Shinawatra, a longtime friend of Bush, resigned from the fund before taking office just over a year ago). Others are steeped in the world of securities and banking, such as Liu Hong-Ru, the former chairman of China's Securities Regulatory Commission and Arifin Siregar, the former head of Indonesia's Central Bank; the rest are mere tycoons, such as Sofjan Wanandi of Indonesia's Gamala Group and Frank Shrontz, the former chief executive officer of Boeing.

The board also includes senior executives from Singapore Technologies Ltd, First Philippines Holdings Corp and investment authorities in Abu Dhabi and Kuwait. Every year, Bush gathers his advisers for a meeting somewhere in Asia; the last one, in May, took place in Seoul. Carlyle's Japan's advisory board includes James Abegglen, the chairman of Asia Advisory Services and a longtime business consultant in Tokyo; former US ambassadors to Tokyo Michael Armacost and Thomas S Foley; Taizo Nishimuro, the chairman of Toshiba Corp; and executives from Fujitsu, Sanwa Bank, and Yahoo Japan. Carlucci and Baker are members of both the Asia and Japan advisory boards; Bush only chairs the Asian board.

Colby downplayed the role played by Bush, Baker and other advisers. "They open doors, but we still have to do the hard work of making investments profitable," he said. Carlyle officials said Bush's involvement in the company is limited to giving speeches to investment conferences. "Mr Bush does not and has never represented Carlyle before other governments or government officials," said Chris Ullman, Carlyle's spokesman. "He has made no business deals for Carlyle." Baker, on the other hand, "does much more on the business side".

Investors, however, recognize that the Bush name - and the many contacts Bush developed as president, CIA director and ambassador to the United Nations - carry tremendous weight as he travels around the world on behalf of Carlyle. "Nothing beats the ability to have George Bush call up some contact he's known for the last 20 years to comment on the worthiness of a particular deal," said Pat Macht, a spokesperson for the California Public Employees Retirement System, the world's largest public pension fund, which owns 5.5 percent of Carlyle. That is particularly true in Asia, where personal relationships are key to business deals.

Carlyle acquired KorAm Bank shortly after Bush visited Seoul to meet with senior government officials in the Kim Dae-jung government. Carlyle's bid for the bank, according to a detailed account in Business Week, received crucial support from advisory board member Park Tae-joon, a former South Korean general who built Korea's Pohang Iron and Steel Corp into the world's largest steelmaker. (Park later resigned from the board after joining the government.)

Carlyle and other buyout companies are attracted to Asia because, in the aftermath of the financial crisis, the structure of Asian capitalism is changing from family-controlled conglomerates - personified by giant South Korean chaebols such as Hyundai and Daewoo - into smaller companies run by professional managers. Governments, meanwhile, have abandoned social policies that once guaranteed a portion of the workforce lifetime jobs and made layoffs very difficult. That's all changing, even in South Korea, where militant unions have given the country a bad reputation in the eyes of many foreign investors. "Contrary to popular belief, major layoffs are being done in Korea," Colby said at the investment seminar in New York.

Another factor: with banks holding billions of dollars in bad loans that will probably never be repaid, corporations are desperate for investment capital. "Being able to tap private equity is crucial to long-term growth in Asia," explained Ray Hood, director of Asian investments for State Street Bank. For companies like Carlyle, Asia "is where the rewards will be in the next few years. Investment returns will be a complete steal."

The advisory board Bush chairs plays a critical role in determining Carlyle's investment strategies in Asia. Asked how the boards operate, Conway, who attends the annual meetings of the European board, described an expansive process where advisers strategize about how to create and nurture companies with a global reach. At a recent meeting of the European board, he said, the consensus was that "companies that

have been more single-country companies are going to have to expand onto the European stage and ultimately a global stage". To implement the strategy, Carlyle acquired and combined three companies from Italy, German and the United States; in another case, it combined two German and Canadian automotive firms. A member of Carlyle's European board, Conway said, provided key advice when United Defense bought the Swedish defense firm Bofors last year.

On his trips to Asia, Bush is often accompanied by Baker, who is well known in Asia, particularly in Japan and South Korea, for his forceful policies when he was treasury secretary to Reagan. In 1985, Baker was the driving force behind the Plaza Accords that nearly doubled the value of the yen, driving up the costs of Japanese goods and forcing Japanese manufacturers to invest overseas. In 1986, he launched a crackdown on the trade practices of South Korea and Taiwan that forced those newly industrialized countries to shift their exports away from the US market and sell more goods in Europe and Southeast Asia.

Bush himself has had extensive dealings with Asia, particularly Japan. As president, he was popular with the Japanese elite because he played down trade friction in favor of closer strategic ties - a policy followed by his son, George W Bush. In 1991, Prescott Bush, the former president's brother, raised eyebrows in Japan when he signed on as an investment adviser to a man who turned out to be the head of one of Japan's largest criminal syndicates; Prescott, pleading ignorance of his client's background, immediately canceled the deal. In 1990, Jeb Bush, now governor of Florida and the brother of the current president, went to Japan for his Florida real-estate company and explained to investors that his contacts would make it easier for them to buy US property.

George W Bush himself had direct experience with non-performing loans when he was an oil executive and governor in Texas. His knowledge in this area was much in evidence last summer, when Junichiro Koizumi, the Japanese prime minister, paid his first visit to Bush. As Japanese reporters blinked in wonderment, Bush went on at some length to explain the importance of restructuring bad loans and banks.

Carlyle's forte is not only money-making. Its executives also influence policy - sometimes profoundly. Last week, Carlucci, who is chairman of the US-Taiwan Business Council, a coalition of US multinationals doing business in Taiwan, invited Tang Yiau-ming, Taiwan's defense minister, to attend a closed-door summit of US and Taiwanese defense officials sponsored by the council and key US military contractors, including Carlyle's United Defense Industries. Tang's visit, which was capped by a meeting with US Deputy Defense Secretary Paul Wolfowitz, marked the highest-level defense contacts between Taipei and Washington since diplomatic relations were severed in 1979 - and paralleled President Bush's push to expand arms sales to Taiwan, where Carlyle has significant investments.

At the same time, Bush Sr has not been hesitant about offering advice to his son about issues that could affect Carlyle's investments in Asia. Last spring, after President Bush stuck a knife in Kim Dae-jung's

"Sunshine Policy" by saying North Korea couldn't be trusted, Bush Sr sent the president a memo written by Donald Gregg, his former national security adviser who once served as CIA station chief in Seoul, urging the new administration to ease its hardline policies.

A few weeks later, in a decision the New York Times described as "the first concrete evidence of the elder Bush's hand in a specific policy arena", George W said that he was willing to talk to the North "any time, any place". But the president's "axis of evil" speech on January 29, which North Korea took to be a near declaration of war, ended any hopes of rapprochement and led Pyongyang to cancel a February visit by Gregg and several other former diplomats. President Bush tried to soften his rhetoric during his late-February visit to Seoul, but was met instead by the largest anti-US demonstrations of his career. Carlyle, however, is sanguine about the investment climate in Korea. Bush's "axis" speech "doesn't add to my level of concern", said Conway.

Since 1987, Carlyle has invested \$6.4 billion in 233 transactions, with a rate of return of 36 percent on its completed investments. It currently has \$12.5 billion invested around the world.

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