



Tracking the Tigers

Market Commentary

August found Southeast Asia plunged into financial crisis with both markets and currencies hammered. Selling was indiscriminate as investors decided to sell first and ask questions later. The questions are serious ones. Will growth slow dramatically? Will governments offer sound leadership to address problems? Which companies will be jeopardized by borrowed US dollars?

There are no simple answers in a region that offers wide diversity in both governments and listed companies. The current financial pain will weed out many unsound companies. Proper governmental leadership will help assure that any slowdown is relatively brief.

Overall, Singapore, Indonesia and the Philippines have earned high marks, while Malaysia and Thailand have been disappointing. Thailand has shown a serious lack of leadership. Malaysia has shown a high level of immaturity on the part of its leaders.

No developing country has ever ascended to wealth in a straight path. Eventhough Asia's rise has been fast, it has suffered many setbacks over the years. While great care must be taken to find sound companies, we believe the current crisis offers tremendous opportunity for long term investors.

China

The 15th Party Congress will begin shortly and all eyes will be watching for important policy changes. It is expected that a major effort will be proposed to restructure the many loss making state owned enterprises. The new "party" line seems to be that a prolonged period of capitalist developments will be required before socialism can arrive.

Hong Kong

Hong Kong's currency peg withstood pressure during recent weeks. While the market has been volatile, the underlying economic environment remains healthy. Food prices pushed up inflation in July to 6.5% YoY from 5.4% in June. The government believes GDP growth will be 5.5% for the full year.

Indonesia

In stark contrast to Malaysia's stance, the Indonesian government scored points by introducing positive measures in the face of market and currency turmoil. Most significantly, a foreign limit of 49% ownership on new shares has been abolished. In addition, Indonesia has announced tariff reductions and encouraged the import of capital goods relative to consumer items.

Malaysia

Anti-market actions taken by Malaysia's Prime Minister in recent weeks has undermined years of good relations with foreign investors. Rather than countering market pressure with sound policies, the PM attacked foreign investors, labeling them as "rogue speculators" responsible for all of the country's troubles. Signs of sanity have begun to emerge following a brutal sell-off which halved the market's valuation in a matter of days.

Philippines

President Ramos is continuing support for a constitutional change which would allow him to run again in the coming election. While Ramos is widely respected, memories of Marcos make such a move very controversial. The Philippine market won't make much progress while this constitutional issue is outstanding.

Singapore

Consumer price inflation picked up to 2.1% YoY in June. Singapore's markets have been rattled by events in neighboring Malaysia but this is one city state whose economic strength is undisputed. We are therefore increasingly positive on the outlook for Singaporean stocks.

South Korea

While not directly impacted by currency woes in South East Asia, Korea continues to face the challenge of restructuring its economy. Although rumors of significant corporate restructuring are growing, no concrete action has yet emerged.

Taiwan

Taiwan's desire for international recognition faces a serious threat from China's efforts to bribe away those few nations that recognize Taiwan. Taiwan's President has indicated a willingness to travel to China for direct talks in early 1998.

Thailand

Amid very serious currency weakness, a major political debate has begun. A new constitution is being seriously proposed which would make major steps towards reducing money politics. Any sign of positive policy change would be welcomed by both foreign and domestic investors.

Market Commentary (continued)

Currently visiting companies in SE Asia has reinforced our belief in emphasizing sound company management. Those companies that have been well managed stand to be significant winners as much of the competition suffers from over-expansion. A new emphasis on cost cutting and maximizing investment returns is evident across the region.