

TRACKING THE TIGERS

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MARKET COMMENTARY

While the Yen dominates discussions of Asian markets, the real factor underlying the region is the increasing reality of recession. Most Asian economies have not faced a recession in over a decade. The slowdown has been far more severe than it should have been due to the structural failure of fixed exchange rate currency regimes. Looking forward, it is not the Yen that matters to markets, it is the recessionary forces taking their normal cyclical path.

Despite a rapid deceleration of growth and plummeting domestic consumption, the "Asian Crisis" is over. Now we face the very painful but ultimately much more mundane pain of recession. Floating currencies everywhere except the special cases of Hong Kong and China represent a fundamental and very positive change to regional dynamics.

There are those who speak of a depression in Asia, not a recession, with three to five years before economies revive. They expect the

region to fail to resolve the deficiencies of the banking systems, fail to allow significant asset sales of debt burdened companies, and generally fail to allow market forces to function. They have the excellent example of Japan as a case for general Asian incompetence.

There certainly are dangers in each economy for this sort of dysfunction. The evidence of past experiences, however, has shown that Asian governments are quite capable of dealing with crises and of managing periods of significant transition. The fixed exchange rate system that has now collapsed was a solution to past crises that worked admirably for over a decade. Tragically, it was not discarded when its usefulness had been outlived. Today, Korea, Thailand, and Indonesia have new governments. Radical IMF programs have been adopted. Asia is still deep in the woods, but there seems little reason to believe that action is not being taken and that markets will not soon wonder about a recovery.

COUNTRY REVIEW

CHINA

Clinton's visit to China has put an end to the claims of those who say nothing has changed. With public discussion over issues that were untouchable under Deng, China's new political leadership is proving to be flexible about politics as well as economics. This came as no surprise to us. Our many trips to China in recent years have shown a country which, while it is struggling to enter the global economy, is offering individuals a level of freedom and opportunity unimaginable just a decade ago. China does not wish to rule Asia, possesses little strategic threat to the US, and will be our most important trading partner in coming years.

HONG KONG

The market has remained burdened by the depth of the property downturn. While the market had hoped a 40% drop in property prices would be enough, years of dramatic price rises mean