



WHO'S THE CRONY NOW?

One of the most difficult parts of the "Asian Crisis" for long-term investors has been the accusation of crony capitalism. While we all know that corruption exists everywhere and certainly contributed to Asia's difficulties, there is widespread acceptance of the view that Asia is particularly corrupt and somehow deserved its crash. Long Term Capital Management's demise raises some interesting issues.

First, there is the simple fact that even Wall Street's heaviest hitters can be financially ruined by unforeseen events. The default of Russia hit LTCM's many positions just as the devaluation of SE Asian currencies undermined many previously respected Asian companies. No corruption was involved in either case. It was just a simple miscalculation of risk.

Secondly, the Fed's involvement in saving LTCM bears a noticeable resemblance to the cronyism so many observers have condemned Asia for in the past. The notion that we save our own rich

speculators while forcing key Asian financial institutions to the breaking point before providing assistance is thick in its irony.

Charges of cronyism are suitably vague and subjective and defy accurate analysis. Of course, parts of Asia have very serious problems with corruption. Other parts, however, are run no worse and perhaps better than most Western economies. A recent "corruption index" produced by Transparency International placed both Hong Kong and Singapore ahead of the U.S.

What is clear is that a vast discount has been placed on Asian assets partially due to the perception of corruption. What should be far more important to long-term investors are the recent changes in many Asian economies, including the relative stability of the local currencies, falling interest rates, bank reforms and the huge swing to trade account surpluses.

COUNTRY REVIEW

CHINA

The central government continues to flex its muscles over the provinces with the closure of Guangdong International Trust and Investment Co. p. While certainly not a positive event, it does demonstrate the government's determination to clean up the financial system and bring the provincial governments up to proper standards. The government continues to work to tighten loopholes in its currency dealings so that any fiscal stimulus will remain in the domestic economy and not leak offshore.

HONG KONG

Chief Executive Tung made a long policy address that highlighted a wide variety of policy initiatives. Foremost on the agenda was the property market. The government will slow its efforts to provide affordable housing in an effort to stem further declines. We continue to be weary of the property market and believe

prices, which have fallen approximately 55%, could have further to go. This price decline is hard