



## ASIA TIGERS ARE IN A BULL MARKET

So you think the NASDAQ is hot? Up 46% since September 1st. Over the same period, the MSCI Far East Free Ex-Japan Index is up 55%, and our Pacific Tiger Fund handsomely surpassed that performance. The big difference is indices and funds in Asia have about another 100% to go to reach 1997 highs.

Boosted by lower interest rates, strengthening currencies, major government reforms, foreign direct investment and corporate restructuring, most of Asia is at the beginning of a powerful bull market, one that we believe will last for years. Locals have led this one, sensing the impending recovery in the economies and eager to recoup the painful losses of the last two years. Foreigners have only been dragged in kicking and screaming as they underperform global indices.

Most observers have either been baffled or outraged that Asian markets should be recovering. Despite bear markets of historic

proportions, distorted analysis somehow finds Asia "over-priced" or simply solves the problem by declaring half the world "irrelevant". We suppose this is a classic end to a great bear market.

Despite the importance of government-driven reform processes (outlined in our Country Commentary), the investment story in Asia for 1999 is about corporate restructuring. With M&A activity picking up dramatically and massive overhauls by many of the region's large conglomerates, the Tigers have entered into a period of long-term change. The kind of corporate transformation that occurred in the US over the last 20 years will now occur in Asia over a period of 3 to 5 years.

In 1999, investment returns will not be dependent on GDP growth. Instead, finding savvy, shareholder-driven management and globally competitive companies are the name of the game in what looks to be a very exciting year in Asia.

## COUNTRY REVIEW

### CHINA

With its restricted capital account, China was able to close itself off from most of the financial contagion that buffeted Asia, but the message embodied in the region's collapse was not lost on policymakers: reform or perish. Larger state owned enterprises (SOEs) are consolidating and cutting labor costs to enhance efficiency; smaller SOEs are being left alone to fail. The ailing financial system is also seeing reform, as the government is taking steps to create a central bank and to mop up the country's overwhelming NPL burden.

### HONG KONG

Hong Kong's currency peg has eroded the territory's competitiveness: exports are slipping despite a strengthening yen, and the territory is now one of the most expensive places in the region to do business. Furthermore, the new China-backed government has tarnished Hong Kong's free market reputation by supporting local share and property markets. Despite this bad news, Hong Kong remains one of the most liquid, stable markets in the region. Local businesses