

ASIA WEEKLY:
Two Asian Anniversaries



**For the Week Ended
July 3, 2003**

July 1st and 2nd represent two important days for Asia, the sixth anniversaries of the handover of Hong Kong to China and the attempt to manage a devaluation of Thailand's currency.

Despite years of dire predictions, the Hong Kong Handover that occurred on July 1, 1997 was a very positive moment in the ex-colony's history, and the many fears for Hong Kong's future have not come to pass. This is not to say things are easy! Competition with Mainland China has been intense, and Hong Kong has lost jobs and has seen a dramatic fall in property prices. A deflationary environment has been very hard on corporate profits.

Despite these challenges, Hong Kong remains a vital city with a tremendous long-term role to play in the region. While the city has not suffered from a meddling China, it has struggled to find a new identity as a "Chinese" city under the less than inspiring leadership of its current leader, Tung Chee-hwa. We believe the very large protest seen in recent days against the new Article 23 addition to Hong Kong's Basic Law may be as much about Tung's incompetence as any real perceived threat to civil liberties. Just the fact that hundreds of thousands of people can march the streets of the city with no threat of violence or intimidation is a testament to freedom that remains alive and well in this tiny subset of the new China.

On July 2, 1997, Thailand's devaluation was the spark that set off the great financial firestorm commonly remembered as the Asian Financial Crisis. By the end of this meltdown, many Asian economies had been shaken to the core. Indonesia had a revolution, and Russia defaulted. The final disaster of what became a global crisis was the destruction of some of Wall Street's proudest, as the giant hedge fund, Long Term Capital Management, was brought to its knees and the U.S. Federal Reserve intervened to save global banks. That a relatively small country in Southeast Asia could initiate such a chain of events is a grim reminder that, in many ways, broad diversification across many asset classes is the only prudent way to control risk.

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