Hedge Funds in Emerging Markets

Hedge Funds are among the most innovative and controversial of financial market institutions. Largely exempt from regulation and shrouded in secrecy, they are credited as having improved efficiency and adding liquidity to financial markets, but also having severely destabilised markets following the Asian financial crisis and the near-collapse of Long-Term Capital Management.

De Brouwer presents a nuanced and balanced account to what is becoming an increasingly politicised and hysterical discussion of the subject. Part I explains the workings of hedge funds. Part II focuses on the activities of macro hedge funds and proprietary trading desks in east Asia in 1997 and 1998, with case-study material from Hong Kong, Indonesia, Malaysia, Singapore, Australia and New Zealand. Part III of the book looks at the future of hedge funds, their role for institutional investors, and policy proposals to limit their destabilising effects.

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Preface

My interest in hedge funds in emerging markets was sparked by my involvement in the Study Group on Market Dynamics, which reported to the Financial Stability Forum Working Group on Highly Leveraged Institutions, in 1999. At the time I was Chief Manager, International Markets and Relations, at the Reserve Bank of Australia, a position I left when I became Professor of Economics at the Australian National University in January 2000.

Much of the information used in this book was collected at that time, in visits to Auckland, Hong Kong, Johannesburg, Kuala Lumpur, New York, Singapore, Sydney and Wellington. A lot of important information was also gathered after that, in visits as an academic to Bangkok, Singapore and Tokyo and in subsequent conversations with market participants and officials.

It is important to stress at the outset that I have not used confidential information collected while I was a central bank official or discussed official meetings in this book. I have consulted widely with officials from relevant national and international authorities about the material presented here, and I am confident that I have not breached any commercial or official confidence. This is not intended to implicate these people; not everyone I consulted necessarily agrees with my analysis and views.

I am deeply indebted to many people for their advice, assistance, information and support in writing this book. It could never have been written but for the willingness of hundreds of market participants and officials to talk, often frankly, about the activities of hedge funds, banks and securities companies in financial markets in 1997 and 1998.

I am grateful in the first instance to my former colleagues at the Reserve Bank of Australia, especially Ric Battelino, Stephen Grenville, Philip Lowe, Bob Rankin and Mike Sinclair. I am deeply indebted to the other members of the FSF Study Group on Market Dynamics, Charles Adams (International Monetary Fund, convenor), Hervé Ferhani

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