

## HONG KONG BACK ON TOP

**H**ong Kong has the most efficient capital market in the world, according to the recently released 2006 Milken Institute Capital Access Index. This represents a return to the top spot, after slipping to second place in 2005. The United Kingdom dropped from last year's first-place ranking to third place, due mainly to a decline in its macroeconomic environment score, which takes into consideration a variety of variables, such as the rate of inflation, lending and tax rates, and general financial sophistication.

The top 10 markets, with 2005 ranking in parentheses:

- |                       |                     |
|-----------------------|---------------------|
| 1. Hong Kong (2)      | 6. Australia (7)    |
| 2. Singapore (3)      | 7. Switzerland (12) |
| 3. United Kingdom (1) | 8. Netherlands (13) |
| 4. Canada (10)        | 9. Ireland (10)     |
| 5. United States (4)  | 10. Sweden (5)      |

The bottom 12 (numbers 111-122) are, alas, all in Africa: Madagascar, Sierra Leone, Zimbabwe, Angola, Ethiopia, Guinea, Rwanda, Burundi, Togo, Niger, Chad, and the Republic of the Congo

For the full listing, along with a discussion of how the rankings are calculated, go to [www.milkeninstitute.org](http://www.milkeninstitute.org).

## THUMBS UP FOR PROPOSED ORLANDO HOSPITAL

**A** proposed pediatric specialty hospital would provide a substantial boost to Orlando, Florida's prospects for building and sustaining a life sciences cluster, according to an economic impact report by the Milken Institute.

The report outlines how the Nemours Children's Hospital, which would take two years to build, would create an estimated 5,000 jobs during the construction phase, and more than 2,600 permanent jobs once it's open for business.

Nemours, a pediatrics specialty practice in five states and the sponsor of the Orlando economic impact report, plans to invest \$258 million in the construction of a children's hospital, including neonatal intensive care units and pediatric specialties in areas such as rheumatology, allergies/immunology and dermatology, which don't exist at current area hospitals. The report is available at [www.milkeninstitute.org](http://www.milkeninstitute.org).

## CHINA'S RELIANCE ON EQUITY CAPITAL HIGHLIGHTED

**X**inhua Finance and the Milken Institute have released an update for their Market Adjusted Debt (MAD) Indicator for the second and third quarters of 2006 – both of which dropped from the prior year. The MAD Indicator is designed to provide insight into trends in China's debt capital market. It measures the capital structure of Chinese companies, using a long-term debt-to-equity ratio based on market value instead of book value.

The indicator is one of the eight Xinhua Finance/Milken Institute China Indicators designed to measure transparency and data quality in China's burgeoning financial markets. For more information, visit [www.milkeninstitute.org/chinaindicators](http://www.milkeninstitute.org/chinaindicators) or [www.xinhua-finance.com/en/charts/mad.html](http://www.xinhua-finance.com/en/charts/mad.html).

## **CAP GREENHOUSE GASES, TRADE RIGHTS**

The Milken Institute, along with Stark Investments and law firm Baker and McKenzie, released a new policy brief, "A Cap and Trade Program Design for Greenhouse Gases." The brief outlines the case for a market-based approach to limiting greenhouse gas emissions, in general, and a cap-and-trade program, in particular. Limiting total emissions and allowing industry to buy and sell rights to emit would use market forces to minimize the cost of the program, the brief concludes.

Unlike some cap-and-trade proposals now before Congress, the Milken/Stark/Baker-McKenzie approach would put no ceiling on market prices for emissions rights. Price regulation, the report argues, would "reduce costs to emitters at the risk of undermining market price signals, slowing technological innovation, and delaying the achievement of emissions targets."

A free copy can be downloaded from (yes, you got it) [www.milkeninstitute.org](http://www.milkeninstitute.org).

## **HEDGE FUNDS IN DETAIL**

"Hedge Funds and Global Financial Markets," a new study from the Milken Institute, is an in-depth look at the dimensions of the global hedge-fund industry. The analysis offers a breakdown of the industry in terms of size, age, domicile, location, strategies, management fees and lockup periods. Additionally, it provides insights into the relationships among selected characteristics of hedge funds, and both the fund's returns and its likelihood of surviving.

Among the conclusions:

- The size of management fees and performance incentives are positively associated with the likelihood of a fund's survival over time.
- Funds domiciled outside the United States and funds with assets invested outside the

United States are more likely to endure.

The report is available at [www.milkeninstitute.org](http://www.milkeninstitute.org).

## **INVESTING IN EMERGING MARKET SMES**

The Milken Institute and the Boston College Institute for Responsible Investment co-hosted a Financial Innovations Lab on investing in emerging-market small- and medium-size enterprises (SMEs) last December in New York City. Attendees included institutional investors, emerging-market analysts, private equity funds, corporations, foundations, rating agencies, capital aggregators and international development agencies. Participants explored mechanisms for increasing investment in emerging-market firms, understanding that a robust SME sector can contribute significantly to the growth and stabilization of developing economies. For more information, visit the Financial Innovations Labs section under Events at [www.milkeninstitute.org](http://www.milkeninstitute.org).

## **RESTRUCTURING FINANCES IN TODAY'S CHINA**

Milken Institute Senior Fellow James Barth is co-editor of a new book on China's financial markets, *Financial Restructuring and Reform in Post-WTO China* (Kluwer Law International). The book focuses on the challenges China faces as it liberalizes its financial system as part of its obligations as a member of the World Trade Organization. The authors point to the vulnerabilities in China's financial system, and the challenge to finding the balance between efficient and robust markets, and the need for properly structured regulatory institutions that meet international standards. Contributors include Douglas Arner, Berry Hsu, Wei Wang and Zhou Zhongfei.

This book is available from the publisher at <http://www.kluwerlaw.com>. 