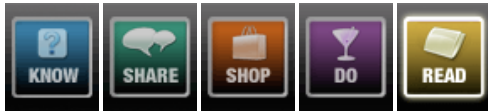


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Story



Asian markets appear resilient to U.S. economic woes

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MICHAEL REKSULAK | Saturday, August 4, 2007 at 12:30 am



The turmoil in worldwide equity markets during the last two weeks carried with it a number of important lessons and seemed to signal fundamental changes ahead in the manner in which Asian and North American markets interact. While traveling in Taiwan and Malaysia, from which this column is filed, I observed some of those indicators firsthand.

To start with, anybody who still harbored doubts about the extent of the softness in the U.S. credit markets has likely been cured of

those misgivings. Considering that the first major wave of interest rate corrections for adjustable mortgage debt will occur in the coming months, it appears (painfully) obvious that the real trial for these markets is still outstanding.

Secondly, the likely increase in foreclosures and resulting further pressures on property values makes it appear as if a recovery of the real estate market will indeed not happen before well into 2008, if not later. Finally, those "sure-fire" hedge fund investments of the last five years have gotten a black eye with this week's filing for bankruptcy protection by two major Bear Sterns hedge funds.

While these disagreeable developments reverberated around the world (and the worst may be yet to come), they also served as a test-case for the resilience of Asian markets. Only a little more than 10 years ago, on July 2, 1997, a catastrophic financial crisis wrecked havoc on Asian economies. Ever since, analysts have waited for signs of the next onset of trouble.

The developments of the last few days may have assuaged some of those worries. Although stock markets around Asia fell, the corrections were manageable. One day after Wall Streets' big sell-off, the numbers were

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significant, but not out of proportion a week ago:

[Hong Kong](#) (-2.8 percent)

[Taiwan](#) (-4.2 percent)

[Singapore](#) (-2.83 percent)

[South Korea](#) (-4.1 percent)

The big three players in the hemisphere, [Australia](#), [China](#) and [Japan](#), also held remarkably steady.

It was, specifically, the muted reaction of the so-called Asian Tigers (the growth economies of [Hong Kong](#), [Malaysia](#), [Taiwan](#), [Singapore](#) and [South Korea](#)), as well as [Indonesia](#) and [Thailand](#), that signaled a novel level of confidence. Not only did local investors, in the face of a volatile period on [Wall Street](#)

and uncertainties about the strength of their primary export market, stay calm, but so too did international investors in those locales.

When discussing these developments with some shareholders in [Kuala Lumpur](#), in a thoroughly unscientific survey, I was struck by their optimism based on the belief in good fundamentals of the regional economies.

A gradually weakening dependency on [U.S.](#) sales as well as current account surpluses in many Asian countries supports this type of buoyancy.

The coming weeks will provide further evidence whether that self-assurance was justified. An average of 8 percent annual growth over the past three years fueled by strong increases in productivity makes it seem as if the Asian Tigers and their neighbors do not always have to be chasing [U.S.](#) developments anymore.

Contrariwise, a recent report by the [Asian Development Bank](#) ([www.adb.org/documents/books/ADO/2007/part010501.asp](#)) warns that much of the impressive growth in intra-Asian trade may be in support of eventual exports to the U.S. Which way the scales really tilt should be revealed by [Wall Street's](#) next big jolt to global equity markets. Its eventual occurrence is out of the question.

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