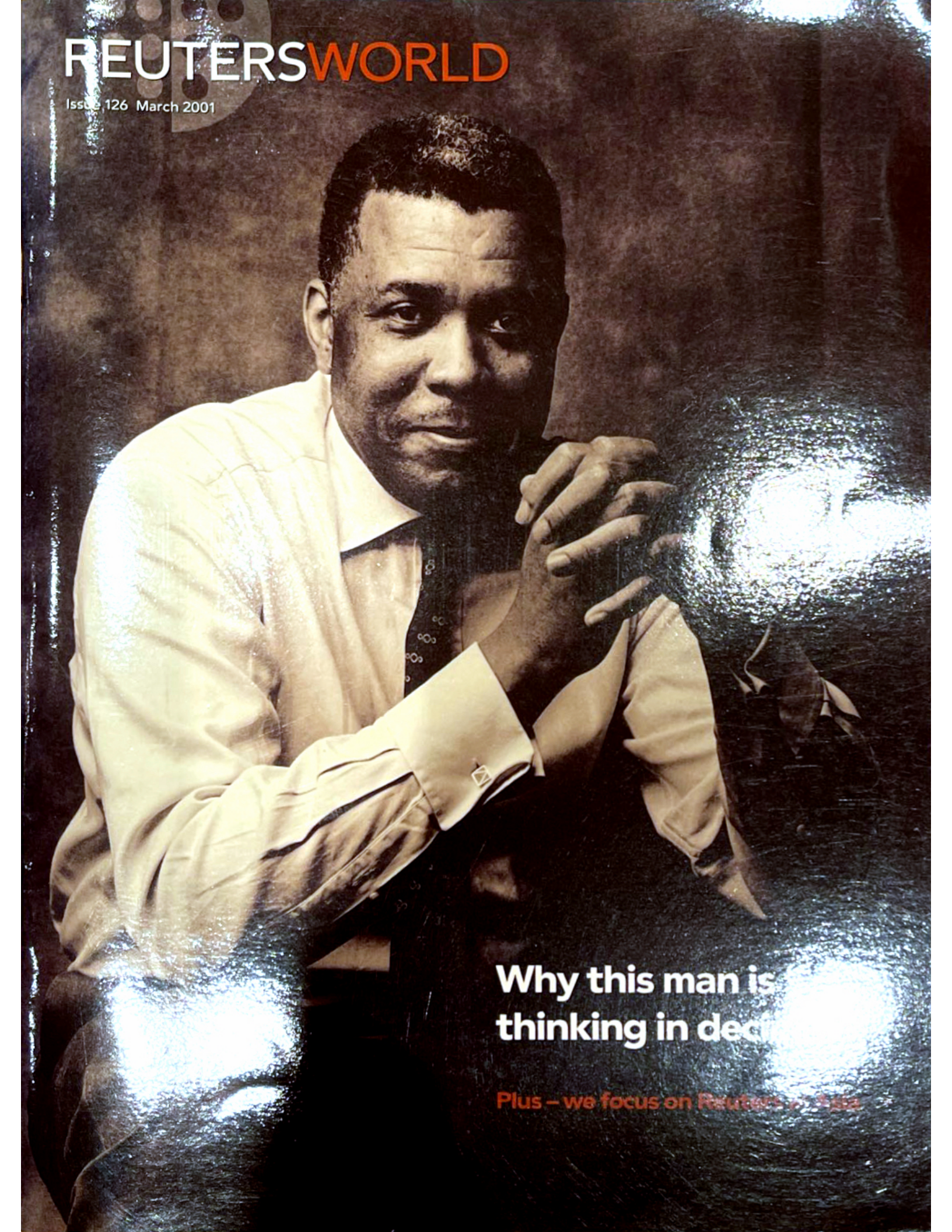


# REUTERSWORLD

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**Why this man is  
thinking in decisions**

**Plus – we focus on Reuters in Asia**

# Contents

## News

Update from Reuters around the world  
page 2

## Data Surges as Fractions Fade

The challenge of decimalisation  
page 4

## ASIA: Asia – Thinking Local in a Region of Contrasts

Reuters World talks to Jan Coos Geesink  
page 6

## ASIA: Singapore's Reuter House Sets the Standard in Style

Inside an architectural jewel  
page 8



## ASIA: Fishy Business is Asia's First Incubator

Trading fresh fish - globally online  
page 10

## ASIA: Chinese Revolution Unites Regional Editorial

Greater China is undergoing a reporting revolution  
page 12



## ASIA: Five "Ds" Set Asia Apart

Dr Gerard Lyons takes a look at economic conditions in Asia  
page 14

## ASIA: Hong Kong – Still Soaring as China Market Beckons

We meet Kenneth Tsui  
page 16

## ASIA: Reuterspace Treads Carefully to Build Asian Business

Robert Scott looks at the factors involved in building business  
page 18

## ASIA: Investment Desk Tracks Asian Rollercoaster

Richard Hubbard describes the work of the Desk  
page 20



## ASIA: Hong Kong Traders Turn On to Reuters Joint Venture

Reuters World looks at AFE Solutions  
page 22

## ASIA: Asia Online Leads the Way

Asia latches on to new Reuters product  
page 24



## Glocers Start House-Hunting in London

Tom Glocer checks out London for the family home  
page 26

## Lipper Rides Funds Explosion

Lipper business looks set to keep growing  
page 28



Over half the world's  
population lives in  
Asia. Managing the  
environmental impact  
is a challenge.

Dr Gerard Lyons (left), head of global markets research at Standard Chartered Bank, takes a look at economic conditions in Asia.

# Five "Ds" Set Asia Apart

**D**evaluation and despair characterised Asia after the 1997 economic crisis hit the region hard and highlighted the importance of Asia to the world economy. The global economic, financial and corporate fall-out was huge. Despite tough economic conditions, five dominant themes suggest Asia's prospects look good. The five 'Ds' stand out: debt; deregulation; deflation; demographics and the digital divide.

**Debt.** This is both a dead weight and a driving force for Asia. Some of the countries in most difficulty during the last year have huge debt levels: the Philippines, Indonesia and Thailand have all suffered from high external debt. South Korea, meanwhile, is another country with worries, this time because of domestic debt. During the 1997 crisis, debt servicing caused a liquidity crisis in South Korea. To avoid a repetition, reducing debt is an imperative for many countries. But that takes time.

Instead, Asian central banks have sought a safety net in the event of another crisis: large foreign currency reserves. In fact, Asian central banks have been on a phenomenal buying spree for the last two years, buying dollars and building up their reserves, and in the process helping finance the US trade deficit.

Although debt is a problem now, it may be a future plus. One of the growth markets in coming decades will be Asian fixed income. And not just Japan! As countries across the region develop there will be a need for finance. The 1997 crisis highlighted the problem of relying on international bank lending. Since 1997 lending to Asia has slumped. This has already encouraged some Asian countries to speed up the development of their bond markets – a trend certain to continue. Just as ageing G7 countries are keen to reduce debt, the size of fixed income markets in Asia will grow.

Take China; last year it announced a fifty-year plan to develop its western region. The financial needs will be huge and the funds will undoubtedly be raised in the maturing debt markets in Asia.


**Deregulation.** There is a need for Asia to change, not to become a US clone but to become a new Asia. Globalisation has allowed Asian goods to penetrate world markets. Yet capital flows have caused problems for under-developed capital markets in some Asian countries. One response has been capital controls, in Malaysia. This is always

possible elsewhere, as a short-term defensive measure. More likely though, the region will try and benefit fully from globalisation. 1997 highlighted the problems of crony capitalism. Since then there has been disappointment about the lack of change. But no one should expect change overnight. All regions of the world are being forced into deregulation, as the Internet and financial flows open up markets. Asia is not immune to this trend and will in fact benefit from it. Greater corporate governance and more openness and transparency will happen, alongside gradual deregulation. But patience is required, as different countries will move at different speeds.

**Deflation.** Expect intense competitive pressures. Excess supply of capital and labour across much of Asia will add to competitive pressures. The effect will be intensified by the opening up of the vast low cost Chinese economy. The rest of the world needs to take note. Twenty years ago, goods produced in Asia were cheap and low quality. Now they are cheap but high quality. The lesson for Asia, of course, is that such pressures will contain inflation and allow central banks to keep interest rates low across the region.

**Demographics.** This is a key issue. Over half the world's population lives in Asia. Managing the environmental impact is a challenge. Attention will also focus on the Asian consumer. The two most populous nations, China and India, are seen as potential economic powerhouses that will unleash huge purchasing power.

**Digital divide.** The gap in technology between the developed and developing world is huge. Yet, in Asia, technology will be a plus for the region. North-east Asia benefited from the surge in US technology. India has already shown its software skills and the IT revolution there will boost growth substantially as in Malaysia and Singapore. Meanwhile Japan is already well advanced in I-mode, the next stage in telecommunications technology.

From India to South Korea and China to Singapore it is already clear that there is tremendous potential in Asia. The key to being able to take advantage of this is to analyse and know Asian markets from a local as well as from a global perspective. 

*The views expressed in this article are those of the author, and do not in any way represent the views of the Reuters group.*