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The Big Story

Long-term reputation of US markets appears intact

By **PAUL WISEMAN**

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President Barack Obama speaks in the State Dining Room of the White House in Washington on Thursday, Oct. 17, 2013. Lawmakers Wednesday voted to avoid a financial default and reopen the government after a 16-day partial shutdown. (AP Photo/Jacquelyn Martin)

WASHINGTON (AP) — It's going to take a lot more political bungling to do any permanent damage to America's reputation or wreck its financial markets.

The U.S. government's partial shutdown and a near-miss with a debt default was a worldwide embarrassment that distracted political leaders and likely slowed the economy.

Yet the world still runs on U.S. dollars. Foreign investors still see Treasury debt as the safest place to put their money. And foreign companies still view the United States as an ideal place to do business.

"It's a paradox," says Eswar Prasad, a specialist in international economics at Cornell University and the Brookings Institution. "Even when the U.S. is at the center of the financial turmoil, there is no other place that investors can turn to for safety."

Congress certainly stirred up financial turmoil the first two weeks of October with a duel over President Barack Obama's health care law.

But investors didn't panic. The yield on the benchmark 10-year Treasury note was 2.62 percent on Sept. 30, a day before the shutdown began. The prospect of a default should have driven the yield much higher. Instead, the yield barely budged. It never rose above 2.73 percent.

"I think this was a sideshow," says Christoph Kind, head of asset allocation at Germany's Frankfurt-Trust investment firm.

For all the hand-wringing in Washington about a budget crisis, Kind notes that the U.S. government's budget deficit has been sinking.

"The fiscal situation in the U.S. is improving," Kind notes. "The budget deficit is going to be below 4 percent of (the U.S. economy) this year, and it's declining steadily."

No doubt, the standoff — which produced virtually no change in policy — dented America's image and its economy at least temporarily. The last-minute deal reopened the government and suspended the debt limit. But it set the stage for another round of brinkmanship early next year. Repeated over time, a succession of crises might do lasting damage.

"We may have dodged a bullet again, but we think these episodes cumulate," says Robert DiClemente, chief U.S. economist at Citigroup. There's a "risk that at some point investors throw up their hands and say, 'This has gone too far.'"

Outside the United States, "people are somewhat incredulous about it," says Martin Sorrell, CEO of advertising giant WPP. "Going to the edge of a precipice doesn't make much sense. If you ran a company this way, you'd be out of a job."

In Mumbai, Gayatri Bedi, owner of a photography studio, says it was irresponsible for the world's biggest economy to come so close to a default when the rest of the world depends on U.S. stability.

"In India, we don't have a lot of respect for politicians because of corruption and incompetence," she says. "It seems the U.S. politicians are becoming more like Indian ones."

The research firm IHS Global Insight has lowered its forecast for U.S. economic growth in the October-December quarter to a glacial 1.6 percent annual rate from 2.2 percent.

The crisis also distracted U.S. policymakers. Obama, who has been trying to focus U.S. foreign policy on China's rising economic might and other issues in Asia, was forced to skip a regional economic summit in Indonesia.

Congress has yet to make progress on issues important to businesses: immigration reform, an overhaul of corporate tax rates, a long-term deal to shrink budget debts.

"The drama sucks the oxygen from the room," says Nancy McLernon, president of the Organization for International Investment, which represents foreign companies doing business in America.

Still, McLernon says the political dysfunction hasn't made America any less of an attractive market for foreign companies. When she attended a meeting in Britain early this month, most of the British executives there dismissed the standoff as political theater.

Kind, the German investment executive, notes that "the asset quality of Treasuries is unchanged."

British consultant Simon Anholt conducts global surveys that consistently show the United States remains the world's most-admired country. He says he doubts the political tussle will do any measurable damage to America's image.

"America is the most-admired country on the planet by a very wide margin," Anholt says. Foreigners "like American culture. They like American products."

He notes that the United States dropped to No. 7 worldwide after the U.S. invasion of Iraq. When President George W. Bush left office in 2009, it quickly bounced back to first place.

Anholt doubts that any U.S. political crisis will change things.

"We tend to go through our lives with very fixed, sometimes childish clichés about other countries," he says. "We don't change them unless we are forced to."

U.S. politicians have "been trying very hard" to ruin America's reputation, he says, "and they haven't done it yet."

AP Business Writers Christopher S. Rugaber in Washington, David McHugh in Frankfurt, Kay Johnson in Mumbai and Elaine Kurtenbach in Tokyo contributed to this report.

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