

FINANCE/BUSINESS

**In Asia, it's all about politics VIEWPOINT BUSINESS ASIA by Bloomberg**

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Here is proof that the Asian political world has turned upside down: In Malaysia, the opposition leader Anwar Ibrahim and former Prime Minister Mahathir Mohamad are in agreement on the state of the economy there.

It is the kind of news that has old Asia hands yelling: "No way!" Yet Anwar, who in 1998 was imprisoned for almost six years on charges he claims were trumped up by Mahathir to destroy his political career, is indeed reading from the same page as his one-time mentor.

The Anwar-Mahathir affair was one of the most bizarre episodes of the 1997 Asian financial crisis. It made headlines, captivated investors and led then President Bill Clinton to refuse to attend a global summit in Malaysia.

Now, both agree that Mahathir's handpicked successor, Abdullah Ahmad Badawi, has achieved nothing since taking over the country in 2003. And both are speaking out, early and often. Caught in the crossfire as barbs fly around Kuala Lumpur, investors are wondering how much attention policy makers are paying to raising growth and attracting more foreign investment.

Sadly, politics getting in the way of financial trends is becoming all too familiar in Asia.

"Things have gotten more complicated in Asia," says Claudia Zeisberger, program director of the Asia Pacific Institute of Finance at Insead in Singapore. "It used to be that you could just follow economic statistics. Now you almost have to be a political insider to know where to invest."

President Chen Shui-bian of Taiwan is fighting for his political life amid corruption charges and attempts to remove him from the presidency. In Thailand, military leaders are struggling to calm markets unsettled by a Sept. 19 coup that ousted Prime Minister Thaksin Shinawatra.

President Roh Moo Hyun of South Korea has been trying to fill cabinet posts vacated after the North Korean nuclear test last month. Credit rating companies, meanwhile, are pondering what another test by Kim Jong Il's regime in the North might mean for South Korea, the third-biggest Asian economy.

President Gloria Macapagal Arroyo of the Philippines seems to live under the constant threat of popular uprisings and military coup attempts. Last week, the Permanent Peoples' Tribunal tossed another curveball at markets when it decided to convene in The Hague to try the Arroyo administration for alleged killings of political activists.

Political risk can dog business deals, too. Take the Singapore based Temasek Holdings's \$1.9 billion purchase of majority control of Shin Corp. Temasek bought the stake from Thaksin's family, who did not pay tax on a transaction that set the Thai prime minister's ouster in motion.

"Temasek's troubles in Thailand suggest that the company's managers overlooked the extent to which the Shin takeover might involve significant political risks," says Bruce Gale, a political-risk consultant in Singapore who has covered Southeast Asia for almost two decades.

All this is a reminder that the biggest danger for Asia is not economics, but politics. When you consider the major surprises in Asian markets in recent years, most came not from news on gross domestic product, fiscal trends or inflation, but from instability at the highest levels of government.

The good news is that many investors are taking the political hiccups in stride. One reason is the belief that the benefits of the 10 percent-plus economic growth in China trump internal squabbles in one country or another. Another reason is all the heavy lifting Asia has done since the late 1990s.

Financial systems have been strengthened, foreign currency debt reduced, foreign exchange reserves

rebuilt, companies made more transparent and efforts are afoot to reduce corruption. Perhaps that is why political turmoil in Malaysia, the Philippines, Taiwan, Thailand and elsewhere has not prevented their markets from outperforming those in the United States or Japan.

For better or worse, Asia seems to have settled into a familiar pattern. More and more, investors are observing many of the region's fledgling democracies electing leaders who end up ruling undemocratically and sidestepping constitutions to achieve political ends.

The Philippines and Thailand once were considered democratic role models in Asia. Now that both have had elected leaders who allegedly abused power and were ousted, the region is looking elsewhere for exemplars. Interestingly, it may be Indonesia, a nation often seen as a cautionary economic tale, that becomes democracy's standard bearer in the region.

Amid political disorder, investors are still finding ways to profit. The Thai baht is up 12 percent against the dollar this year, while the Philippine peso has gained 6.6 percent. The Korean won is up 7.6 percent, while the Malaysian ringgit is up 3.6 percent.

Even after the North Korean nuclear test, the South Korean Kospi stock index gained 8.3 percent this year in dollar terms. Efforts to remove the president have not kept the Taiwan Taiex index from rising 9.7 percent. And political wrangling in Manila is not undermining the Philippine Stock Exchange index, which has surged 42 percent.

It is a reach to say investors are becoming immune to political surprises. A more likely explanation is that the potential of Asia is so bright that investors are willing to stomach some geopolitical risk in the short run if long-term returns are good.

The stakes will rise if investors become less tolerant. It is up to governments to raise their political game by acting more transparently and predictably. Meanwhile, investors will have to get better at reading Asian political tea leaves along with economic ones.

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