Executive Summary of Major Risks in 2010

Overall Country Risk Ranking

- Australia is the best graded country in our report, followed by Singapore, Hong Kong and Japan. Australia scores well in virtually all major categories of risk. Its government system is stable and it has very well developed national institutions that are staffed by professionals and operate largely free from political interference. Social instability risks are lower only in Japan and Singapore. It faces fewer external threats than any other country covered by this report.

- India is the worst-graded country in our report. Although India is trying to position itself as another emerging market success story to rival China, it faces external security risks and internal divisions in the form of terrorist threats, insurrection movements, and state-level disputes that are largely absent from China. These risks, combined with the policy implementation weaknesses associated with a very fragmented multi-party coalition government, the poor quality of physical infrastructure, and suffocating levels of bureaucracy, mean that most comparisons between China and India will show China in a more favorable light.

- The biggest socio-political risk in a single country in Asia in 2010 is that Thailand’s revered king will die, further destabilizing the political environment and causing such a high level of uncertainty that investors delay implementing new plans until they see how the country handles the transition.
• The biggest regional risk is arising from the rapid growth of capital outflow from China, some of which reflects the proceeds from corruption. Although the outflow amounts are hidden behind even bigger capital inflow amounts, they are large and growing. Many other Asian countries are depending on this capital to fuel industries like gaming, hotel, retail business and real estate. In other words, many Asian governments are trying to push their own economies by tapping into China’s underground economy. Sooner or later Beijing might try to crack down on these outflows, shocking other economies in the region and perhaps resulting in diplomatic strains and high-profile scandals.

• Malaysia’s immediate political outlook entails two distinct downside risks. One is if the existing ruling coalition resorts to more authoritarian tactics to hold onto political power in the face of a major challenge by the Opposition. The other is if the Opposition succeeds in gaining political power but then performs very badly as a government, due either to poor policies or to internal disagreements that leave it fractured. Currently, the only thing really uniting different Opposition groups is their desire to overthrow the dominant ruling coalition. On the other hand, if the ruling coalition is able to reform itself or if the Opposition gains political power and is able to be an effective government, Malaysia’s outlook would be much improved.

• There will not be much headway in reducing systemic problems like corruption and bureaucratic inefficiency, especially in countries like India, the Philippines and Indonesia. In most cases, what you see is what you will get. Where there will be changes for the better are in cross-Strait’s commercial relations between China and Taiwan and an emphasis on cooperation between the major powers of Northeast Asia (China, Korea and Japan).

• The biggest security risks in Asia, namely, an outbreak of violence on the Korean Peninsular or between Pakistan and India on the Subcontinent, are likely to stay under control in 2010. These are long-standing risks that investors need to consider, but it would probably be a mistake to put too much weight on them as immediate risks. The longer-term likelihood is that the worst-case scenarios will not happen – if only because their regional and global fallout would be so serious that all parties with an ability to influence the relationships involved will work hard to prevent an outbreak of military conflicts. Moreover, if there were military conflicts, the South would be heavily favored to emerge victorious in the Korean conflict and India would be favored to defeat Pakistan.

• In general, socio-political risks in 2010 are lower for Asia than in 2009. Most countries showed that their governments can manage through very difficult economic times without experiencing a serious increase in social unrest or political turmoil. Since economic conditions in 2010 are likely to be better than in 2009, pressure on governments should be reduced.