

**CLM** Analysis  
**HD** **China**, Japan **Lead** Asia's **M**&A Race  
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When it comes to merger activity, not all regions in Asia are created equally. North Asian companies are doing deals at a breakneck pace, but their once-active Southeast Asian counterparts have been conspicuously absent.

Blockbuster acquisitions of U.S. assets by **Chinese** and Japanese companies in January made it the busiest start to the year for Asia's deal makers on record. **M**&A volume in the Asian-Pacific region rose 60% to \$67.2 **billion** from a year earlier, and the volume of Asian companies buying companies in other regions more than tripled to \$24.8 **billion**, according to Dealogic, in no small part due to Suntory Holdings Ltd.'s \$13.6 **billion** all-cash deal to acquire Beam Inc., the second-largest maker of American whiskey and owner of Jim Beam.

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Also in January, **China**'s Lenovo Group Ltd. pulled off two multibillion-dollar deals in the space of a week, buying International Business Machines Corp.'s low-end server business for \$2.3 **billion** in cash and stock and Google Inc.'s handset business for \$2.91 **billion**. Last week, Industrial & Commercial Bank of **China** Ltd. bought a controlling interest in South Africa's Standard Bank Group Ltd.'s global markets business for \$765 **million**.

But **M**&A activity in Southeast Asia, which had seen a substantial pickup in deal activity in recent years, is faltering. Investors seeking higher returns had flocked to emerging markets over the past few years but that is drying up now that the U.S. Federal Reserve has started tapering its bond-buying program. With political turmoil in Thailand, the region's second-largest economy, and uncertainties ahead of parliamentary and presidential elections in the region's biggest economy Indonesia, it doesn't look like the region will regain its glory days anytime soon.

Last year, Southeast Asia **M**&A accounted for 18% of deal activity in Asia Pacific, but the figure is down to around 13% so far this year, according to Dealogic.

"There's a lot of political instability and a lot of people have been sitting on the sidelines because they've seen these markets as overpriced," said Keith Pogson, a partner in Ernst & Young's Asian-Pacific financial services office.

"If the question is 'Do people want to do deals in Southeast Asia?' The answer is yes. If the question is 'Do they want to do it in 2014?' That's a question mark, watch this space."

The deal boom in Indonesia started to fizzle last year, following new regulations that limited foreign investors to taking a maximum initial **stake** of 40% in domestic banks and capped foreign ownership of **mining** assets to less than 50%. Concerns about the country's economics have also weighed heavily on the rupiah, which is down around 19% against the U.S. dollar since the middle of last year.

"I anticipate straight **M**&A deal volume to be lower [in Indonesia,] certainly for this first quarter," said Charlie Wilson, a partner at international law **firm** White & Case who focuses on **M**&A in Southeast Asia, particularly in Indonesia. "There's been a shift to more joint-venture work, from corporates, from downright acquisitions."

Case in point: Australian telecom giant Telstra Corp. entered into a joint venture with PT Telekomunikasi Indonesia, or Telkom, last month to help grow its business in the Southeast Asian country.

While Mr. Wilson sees the potential for deal activity in Indonesia to pick up postelections, he doesn't expect the same for Thailand, where political turmoil has been dragging on for months. Protesters disrupted weekend elections in the kingdom and the opposition is seeking to nullify the results.

But there is still hope for Southeast Asia--its economies are still growing at a faster pace than much of the developed world. Japanese firms, for example, have been eager acquirers of assets in the region and that hasn't changed just yet.

"I think Japan [buying] into Southeast Asia will continue to be a trend--they just have fewer markets to play in 2014 because of the political issues," said Rob Sivitilli, J.P. Morgan's head of M&A in Asia, excluding Japan. Singapore, Malaysia and the Philippines could attract Japanese investments this year, he said.

Also, the M&A boom in North Asia could have a knock-on effect.

"Big deal activity is surging, which could be a psychological benefit for everyone else because it's in the headlines," Mr. Sivitilli said. "If the big companies are moving now, that may have a ripple effect through the market which has been slow."

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