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# Mizuho Economic Outlook & Analysis

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November 2, 2018

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## *Japan's foreign direct investment trends in Asia*

### *Investment growth in the field of next-generation automobiles*

#### < Summary >

- ◆ Japanese corporations' foreign direct investment (FDI) in Asia has shown an upward trend in the manufacturing sectors in ASEAN and China. Transportation equipment has been the driving force, boosting production to meet rising demands in China, enhancing the development of new energy vehicles in Thailand, and promoting local production in the Philippines.
- ◆ In the non-manufacturing sector, Japan's FDI in China rose in the financial and insurance industries amid increasing deregulation, in addition to the wholesale and retail industries, but decreased in the overheating real estate industry now being curbed by the Chinese authorities. Meanwhile, Japan's FDI in some ASEAN countries declined in the real estate and service industries.
- ◆ The key factors affecting Japan's future FDI in Asia include the impact of United States protectionism, growing business opportunities as a result of improving Japan-China diplomatic relations, and national elections in Thailand, Indonesia, and India during the first half of 2019.

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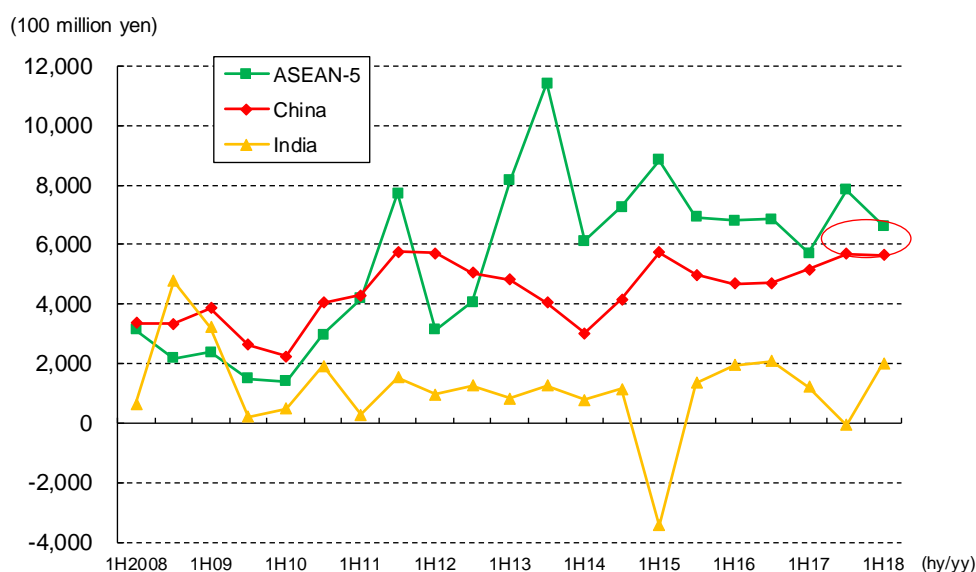
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## 1. Introduction

In Asia, Japanese corporations' foreign direct investment (FDI) in ASEAN-5 (Thailand, Malaysia, Indonesia, Philippines, and Vietnam) recovered during the second half of 2017 and maintained a high level on average despite a decline in the first half of 2018. On the other hand, FDI in China remained at a lower level than in ASEAN, but grew steadily, and FDI in India returned to positive growth during the first half of 2018 (Chart 1).

This report examines Japan's FDI trends in China and ASEAN (Thailand, Malaysia, Indonesia, Philippines, and Vietnam [ASEAN-5 nations] and Cambodia, Laos, and Myanmar) from the second half of 2017 to the first half of 2018, summarizes the factors behind these trends, and analyzes the key elements for Japan's future direct investment in Asia.

Chart 1: Japan's FDI in Asia



Notes: 1. In Asia, ASEAN-5, China, and India were selected.  
2. The data represent the half-year total of monthly statistics, and do not correspond to the two-quarter total of quarterly statistics by industry in Charts 2-10.  
Source: Bank of Japan, *Balance of Payments*.

## 2. Strong FDI growth in China driven by the manufacturing sector

### (1) Robust investment in the manufacturing sector

When dividing the trends of Japan's FDI in China into the manufacturing and non-manufacturing sectors on a half-year basis, the manufacturing sector in particular has experienced robust growth since the second half of 2017 (Charts 2-3).

In the manufacturing sector, FDI in transportation equipment and general machinery

rose during the second half of 2017, propelled particularly by transportation equipment, with the investment amount exceeding 100 billion yen since the first half of 2017. With China now becoming the world's largest automotive market, and Japanese completely built car manufacturers approaching their production capacity limits, this surging investment is strengthening production by expanding assembly lines and shifting to electric power to manufacture China's subsidized new energy vehicles, including electric cars.

In addition, in line with the "Made in China 2025" plan<sup>1</sup> to upgrade its manufacturing sector in view of the 13th Five-Year Plan (2016-2020) and the subsequent 14th Five-Year Plan (2021-2025), the Chinese government is promoting the manufacturing of machine tools and related products in response to the rising demands for manufacturing process automation and the local production of semiconductor equipment for import substitution. These policies have contributed to attracting steady investment from Japanese manufacturers.

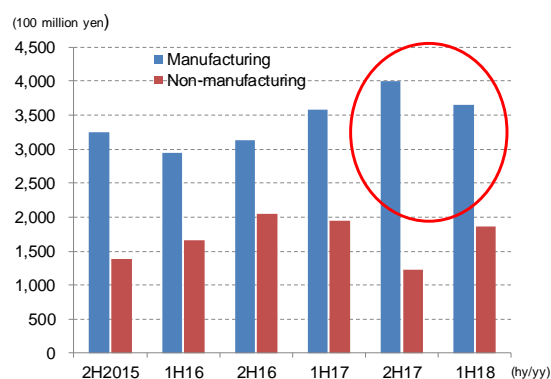
**Chart 2: Japan's FDI in China (by industry)**

Industry/Year	1H2015	1H16	2H16	1H17	2H17	1H18
Manufacturing	3,244	2,937	3,135	3,581	3,995	3,646
Food	221	64	70	128	248	-812
Textile	-78	-40	65	21	113	64
Lumber and pulp	135	0	14	-5	-98	3
Chemicals and pharmaceuticals	197	219	273	310	367	673
Petroleum	21	23	20	19	20	21
Rubber and leather	80	117	130	103	23	42
Glass and ceramics	188	129	-6	116	310	302
Iron, non-ferrous, and metals	87	121	74	-37	114	245
General machinery	1,071	985	1,096	611	837	1,067
Electric machinery	454	677	593	1,157	671	689
Transportation equipment	752	646	784	1,119	1,227	1,210
Precision machinery	6	43	7	-4	30	0
Non-manufacturing	1,391	1,661	2,055	1,946	1,227	1,867
Farming and forestry	0	0	5	0	0	0
Fishery and marine products	0	-15	3	3	0	0
Mining	-82	16	-1	-9	-43	15
Construction	26	26	39	1	13	-8
Transportation	9	90	39	21	28	-2
Communications	19	0	-7	-28	17	0
Wholesale and retail	1,001	1,080	1,319	1,316	1,452	1,317
Finance and insurance	141	464	493	560	-86	615
Real estate	131	-12	68	27	-218	-26
Services	127	64	88	50	85	46
Total	4,636	4,598	5,190	5,526	5,222	5,513

- Notes: 1. Investment amounts of 50 billion yen or more are shaded.  
 2. Negative values refer to repatriation involving withdrawal, dissolution, etc. (the same in Charts 6-10).  
 3. The totals of manufacturing, non-manufacturing, and all industries are not equal to the totals of "manufacturing," "non-manufacturing," and "total," respectively, on this table because they also include "other manufacturing" and "other non-manufacturing" (the same in Charts 6-10).  
 4. Less than three reports are indicated as "0" (the same in Charts 6-10).

Source: Bank of Japan, *Balance of Payments*.

**Chart 3: Japan's FDI in China (by manufacturing and non-manufacturing)**



Source: Bank of Japan, *Balance of Payments*.

<sup>1</sup> See Sako (2016) for details.

## **(2) Slow investment in the non-manufacturing sector**

Japan's FDI in the Chinese non-manufacturing sector is maintaining a brisk pace in the wholesale and retail industries, suggesting high expectations for China as a thriving consumer market. Likewise, investment in the financial and insurance industries increased during the first half of 2018, with China opening up these industries to foreign investors and deregulating foreign ownership restrictions.<sup>2</sup>

FDI in the real estate industry, however, remains stagnant. With the Chinese government tightening regulations on real estate speculation since the second half of 2016, uncertainties over the future of housing prices are seen as contributing to the investment slowdown in the real estate industry.

## **3. Manufacturing sector as a driving force behind FDI in ASEAN-5**

Next, this report looks at Japan's FDI in ASEAN-5 by major countries.

First, an overview of Japanese corporations' FDI by country shows a remarkable investment increase in Indonesia and Malaysia during the second half of 2017 and in Thailand during the first half of 2018 (**Chart 4**). FDI in Vietnam maintained growth during the second half of 2017 and the first half of 2018, while FDI in the Philippines continued on a downward trend. As for Malaysia, capital outflows exceeded inflows during the first half of 2018, resulting in an overall FDI decline in ASEAN-5, as mentioned earlier.

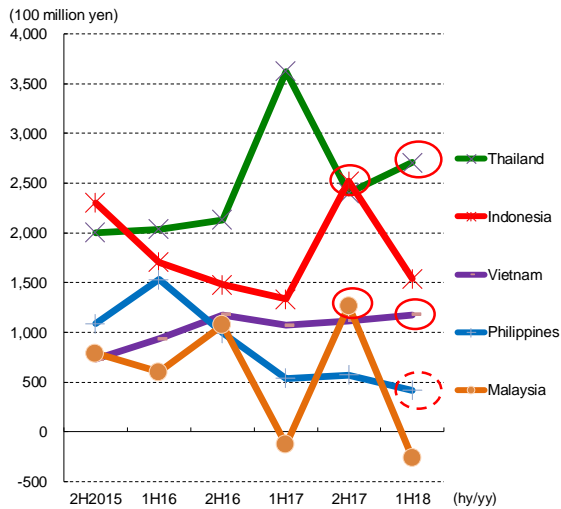
Looking at FDI in ASEAN-5 in terms of their manufacturing and non-manufacturing sectors, investment in the manufacturing sector is recovering (**Chart 5**), with transportation equipment among the major industries following a general recovery trend. Meanwhile, overall investment in ASEAN-5's non-manufacturing sectors dropped during the first half of 2018.

The following are Japan's FDI trends in each ASEAN country by industry.

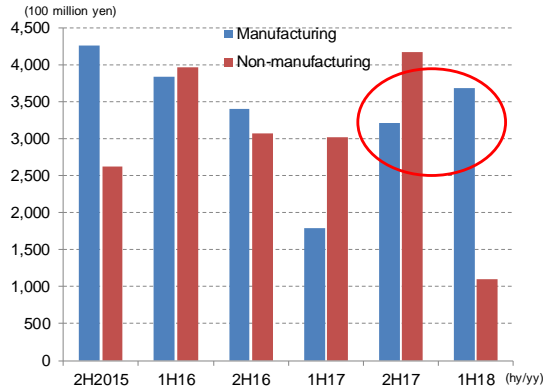
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<sup>2</sup> At the Boao Forum for Asia in April 2018, Governor Yi Gang of the People's Bank of China announced the removal of foreign equity restrictions on banks and financial asset management firms, the lifting of foreign ownership limits to 51% in securities and insurance companies, with no restrictions on foreign ownerships after three years, and the implementation of these measures within a few months.

**Chart 4: Japan's FDI in ASEAN-5**



**Chart 5: Japan's FDI in ASEAN-5 (by manufacturing and non-manufacturing)**



Note: The data represent the half-year total of monthly statistics, and do not correspond to the two-quarter total of quarterly statistics by industry in Charts 5-10.

Source: Bank of Japan, *Balance of Payments*.

Source: Bank of Japan, *Balance of Payments*.

**(1) Thailand: Robust growth in transportation equipment with advanced technologies as well as non-manufacturing**

First, in Thailand, where Japanese companies are concentrated, Japan's FDI shows remarkably robust growth in transportation equipment. Japanese completely built car manufacturers, latecomers to the Thai market, made large-scale investments to build new factories during the first half of 2017. Aside from this, the investment cycle of engine vehicles is almost approaching its end. On the other hand, during the period from the second half of 2017 to the first half of 2018, investment approvals were issued one after another for hybrid and electric vehicles (combined engine), and this investment boom in the new energy vehicle and related fields seems to have shored up robust growth (**Chart 6**).

In addition, FDI in the wholesale and retail industries and the financial and insurance industries rose during the first half of 2017 and the second half of 2018, respectively, suggesting that domestic demand in Thailand, now recognized as an upper-middle income economy, is also drawing attention.

**(2) Indonesia: Recovery in transportation equipment but a decline in real estate**

As for Indonesia, Japan's FDI in transportation equipment picked up after plunging during the first half of 2017 (**Chart 7**). Automobile sales in Indonesia remained sluggish

at between roughly 1.2 million and 1 million units during the early 2010s, but slowly increased, if not fully recovering, in the latter half of the 2010s at 1.06 million in 2016 and 1.08 million units in 2017, after bottoming out at 1.01 million units in 2015. This increase was due in part to Japanese automotive parts and other manufacturers resuming their investment activities.

FDI in the non-manufacturing sector rose in the insurance and financial industries during the second half of 2017, but FDI in the real estate industry slumped during the first half of 2018 amid solid investment trends. This investment was likely affected by the continuing fall of the Indonesian rupiah against the US dollar since the beginning of 2018, forcing Indonesia to protect its currency by raising interest rates.<sup>3</sup>

**Chart 6: Japan's FDI in Thailand  
(by industry)**

Industry/Year	2H2015	1H16	2H16	1H17	2H17	1H18
(Unit: 100 million yen)						
Manufacturing	1,335	1,354	1,336	3,246	1,881	1,129
Food	-39	-26	60	28	57	-48
Textile	28	96	12	38	16	14
Lumber and pulp	-27	82	46	71	49	41
Chemicals and pharmaceuticals	60	212	76	553	112	204
Petroleum	12	0	1	0	0	0
Rubber and leather	110	67	107	150	27	-23
Glass and ceramics	10	17	72	43	27	83
Iron, non-ferrous, and metals	145	191	81	297	291	146
General machinery	332	169	163	113	267	-75
Electric machinery	373	269	534	513	512	295
Transportation equipment	279	213	62	1,274	404	398
Precision machinery	34	29	46	72	41	40
Non-manufacturing	569	468	794	379	521	1,579
Farming and forestry	3	0	0	0	0	0
Fishery and marine products	2	6	0	0	0	0
Mining	0	0	0	0	0	0
Construction	8	35	8	9	8	98
Transportation	55	53	9	23	-11	24
Communications	0	0	0	3	-16	31
Wholesale and retail	222	178	266	239	322	170
Finance and insurance	232	157	457	62	142	1,397
Real estate	-1	5	12	30	85	38
Services	26	2	23	-14	-20	-213
Total	1,904	1,823	2,130	3,625	2,402	2,707

Note: Investment amounts of 10 billion yen or more are shaded.

Source: Bank of Japan, *Balance of Payments*.

**Chart 7: Japan's FDI in Indonesia  
(by industry)**

Industry/Year	2H2015	1H16	2H16	1H17	2H17	1H18
(Unit: 100 million yen)						
Manufacturing	1247	815	681	214	565	1010
Food	21	85	2	88	48	55
Textile	18	18	-20	7	6	28
Lumber and pulp	55	-8	21	-252	-38	-33
Chemicals and pharmaceuticals	192	64	121	66	78	117
Petroleum	0	0	0	0	0	0
Rubber and leather	-5	-13	-7	24	-21	-16
Glass and ceramics	50	52	53	26	24	39
Iron, non-ferrous, and metals	127	102	56	1	53	95
General machinery	59	35	37	45	86	85
Electric machinery	62	10	70	87	8	80
Transportation equipment	556	449	289	25	215	476
Precision machinery	2	5	17	-5	-2	44
Non-manufacturing	1012	903	798	1121	1955	530
Farming and forestry	0	30	12	-207	0	0
Fishery and marine products	6	2	2	1	2	-1
Mining	-29	4	104	-75	-19	28
Construction	33	29	11	13	29	2
Transportation	45	82	19	11	28	10
Communications	97	0	0	-2	-7	-5
Wholesale and retail	90	126	190	149	53	108
Finance and insurance	282	437	194	125	1551	198
Real estate	383	104	113	243	153	77
Services	46	35	-31	100	75	10
Total	2259	1719	1479	1335	2520	1540

Note: Investment amounts of 10 billion yen or more are shaded.

Source: Bank of Japan, *Balance of Payments*.

### (3) Vietnam: Strong growth in general machinery and a rise in wholesale and retail

Japan's FDI in Vietnam's manufacturing sector showed strong growth in transportation equipment and general machinery (**Chart 8**). The growth in transportation equipment was attributed to Japanese completely built car manufacturers switching from imports and sales to local production of their SUVs in Vietnam. Investment in general machinery exceeded 10 billion yen during the first half of 2017, followed by the second half of 2017 and the first half of 2018. The general machinery industry is expanding the variety of businesses, including small motors and gear reducers that have created a brisk demand for factory automation robots.

<sup>3</sup> See Kikuchi (2018) for details.

In addition, FDI in the Vietnamese wholesale and retail industries increased during the first half of 2018 as well. With Japanese shopping malls springing up, it is noteworthy that more investments have been injected to boost domestic demand in Vietnam with its population of roughly 90 million.

#### (4) Malaysia: Recovery in chemicals and pharmaceuticals but capital outflows in services

Japan's FDI in Malaysia has returned to a recovery trend in chemicals and pharmaceuticals during the first half of 2018, but slumped in electric machinery (**Chart 9**).

The non-manufacturing sector experienced large-scale investment in the service industry during the second half of 2017, but capital outflows exceeded inflows during the first half of 2018. As an upper-middle income economy among ASEAN countries, Malaysia is an attractive market with strong purchasing power. Nevertheless, a Japanese government-backed fund was reported to have withdrawn its investments in large retailers,<sup>4</sup> suggesting that competition has become increasingly fierce.

**Chart 8: Japan's FDI in Vietnam (by industry)**

(Unit: 100 million yen)

Industry/Year	2H2015	1H16	2H16	1H17	2H17	1H18
Manufacturing	644	506	629	724	578	723
Food	20	-62	36	22	33	9
Textile	10	15	33	15	21	27
Lumber and pulp	7	19	40	19	32	45
Chemicals and pharmaceuticals	83	37	157	125	92	38
Petroleum	182	3	0	0	-15	-15
Rubber and leather	8	2	-30	-32	-4	8
Glass and ceramics	-2	36	23	39	41	36
Iron, non-ferrous, and metals	75	69	20	32	24	66
General machinery	40	42	41	140	136	128
Electric machinery	40	133	146	135	-16	77
Transportation equipment	116	120	121	108	120	189
Precision machinery	29	75	32	114	41	33
Non-manufacturing	87	430	441	439	538	452
Farming and forestry	3	3	0	0	2	-1
Fishery and marine products	0	0	0	0	0	0
Mining	0	0	0	0	0	0
Construction	18	11	13	27	22	20
Transportation	5	17	24	32	18	14
Communications	0	7	5	0	3	-2
Wholesale and retail	-57	166	7	58	85	128
Finance and insurance	71	121	345	163	287	173
Real estate	13	28	4	88	81	71
Services	6	37	34	51	37	27
Total	731	936	1070	1163	1116	1175

Note: Investment amounts of 10 billion yen or more are shaded.

Source: Bank of Japan, *Balance of Payments*.

**Chart 9: Japan's FDI in Malaysia (by industry)**

(Unit: 100 million yen)

Industry/Year	2H2015	1H16	2H16	1H17	2H17	1H18
Manufacturing	521	652	299	-790	389	312
Food	30	20	12	22	17	26
Textile	7	19	10	11	14	9
Lumber and pulp	15	16	16	12	53	6
Chemicals and pharmaceuticals	178	251	97	-1,114	34	107
Petroleum	0	0	0	0	0	1
Rubber and leather	16	12	10	1	-3	8
Glass and ceramics	11	-113	-118	-5	8	-93
Iron, non-ferrous, and metals	7	9	8	33	57	-9
General machinery	129	31	15	55	52	84
Electric machinery	-16	161	141	114	58	22
Transportation equipment	54	145	64	76	71	92
Precision machinery	30	41	9	-2	14	18
Non-manufacturing	382	966	726	659	878	-573
Farming and forestry	2	0	0	0	0	0
Fishery and marine products	0	0	0	0	0	0
Mining	91	11	-2	-2	-45	-73
Construction	-12	-26	-10	10	0	-5
Transportation	22	12	0	28	8	5
Communications	44	519	516	455	9	12
Wholesale and retail	125	128	17	54	33	15
Finance and insurance	95	215	106	29	345	103
Real estate	2	-4	7	20	2	17
Services	11	92	72	43	509	-611
Total	903	1,618	1,025	-131	1,267	-260

Note: Investment amounts of 10 billion yen or more are shaded.

Source: Bank of Japan, *Balance of Payments*.

#### (5) The Philippines: Recovery in electric machinery

Japan's FDI in the Philippines increased in the semiconductor post-processing field and recovered in electric machinery during the second half of 2017 (**Chart 10**). In

<sup>4</sup> Shares were sold to Japanese department stores, but the amount is undisclosed.



addition, investment in transportation equipment has grown steadily despite its investment scale about half or one third that in Thailand and Indonesia. In response to the Philippine government's introduction of an automotive industry development plan,<sup>5</sup> Japanese completely built car manufacturers and supporting industries are contributing to investment growth.

#### **(6) Cambodia, Laos, and Myanmar: Tremendous growth in Myanmar**

In recent years, Cambodia, Laos, and Myanmar (CLM) have been drawing attention as new investment destinations in ASEAN.

Up until 2013, Japan's FDI in these three relatively low labor cost countries had focused mainly on Cambodia with more developed industrial parks than the other two nations. However, Cambodia's rapid minimum wage hikes since 2013<sup>6</sup> have held back investment, and the country's manufacturing sector faced more capital outflows than inflows during the first half of 2018.

Alternatively, Japan's FDI in Myanmar has been on the rise since 2014 (**Chart 11**). After the Thilawa industrial park, located in a suburb of Yangon and supported by Japan through public-private partnerships, started operations in September 2015, investment began expanding mainly in this industrial park. FDI dipped in the first half of 2017, but rebounded during the second half of the same year. Since operation of the Thilawa industrial park, investments have focused on Myanmar's domestic demand, including steel and pesticides.

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<sup>5</sup> The automotive industry development plan provides tax benefits for completely built car manufacturers that produce over 200,000 units within a period of six years. Mitsubishi Motors and Toyota Motor are carrying out this plan.

<sup>6</sup> The minimum monthly wage in the sewing industry was 61 US dollars in 2012, 80 dollars in 2013, 100 dollars in 2014, 128 dollars in 2015, 140 dollars in 2016, 153 dollars in 2017, 170 dollars in 2018, and will be raised again to 182 dollars in early 2019.

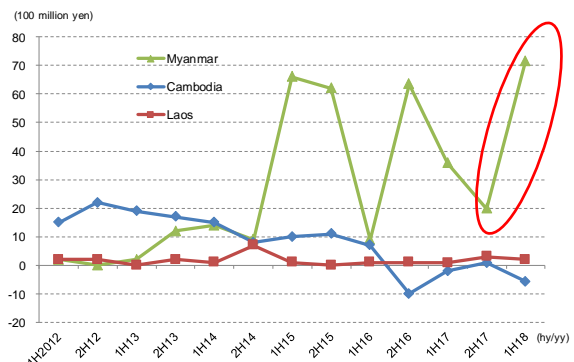
**Chart 10: Japan’s FDI in the Philippines  
(by industry)**

Industry/Year	2H2015	1H16	2H16	1H17	2H17	1H18
Manufacturing	510	522	453	306	340	300
Food	91	94	109	104	43	45
Textile	0	0	0	0	0	0
Lumber and pulp	0	-1	-2	1	-1	-4
Chemicals and pharmaceuticals	27	14	13	16	21	33
Petroleum	0	0	0	0	0	0
Rubber and leather	0	0	11	19	5	4
Glass and ceramics	7	64	6	0	24	-6
Iron, non-ferrous, and metals	53	97	72	-19	-33	-22
General machinery	1	3	2	4	5	6
Electric machinery	141	138	88	64	129	116
Transportation equipment	71	67	130	91	91	97
Precision machinery	12	-1	3	-5	5	-10
Non-manufacturing	578	1,091	538	230	231	119
Farming and forestry	0	0	1	0	0	0
Fishery and marine products	0	0	0	0	0	0
Mining	-13	0	0	0	-2	1
Construction	8	4	5	3	-2	6
Transportation	0	-3	27	10	19	3
Communications	36	0	0	-3	0	4
Wholesale and retail	69	68	104	22	71	47
Finance and insurance	297	877	78	26	35	47
Real estate	23	17	26	11	16	-72
Services	58	9	219	237	28	22
Total	1,088	1,613	991	536	572	419

Note: Investment amounts of 10 billion yen or more are shaded.

Source: Bank of Japan, *Balance of Payments*.

**Chart 11: Japan’s FDI in CLM  
(manufacturing)**



Source: Bank of Japan, *Balance of Payments*.

#### 4. Future points of focus on Japan’s FDI trends in Asia

Lastly, this report concludes by focusing on the following three factors that may affect Japan’s future FDI trends in Asia.

##### (1) US protectionism

US-China trade friction has been escalating since March 2018. As of writing this report, the United States has imposed additional tariffs on 250 billion dollars’ worth of Chinese imports, or roughly 50% of Chinese imports into the US. Furthermore, vigilant to the aforementioned “Made in China 2015” plan, the US has been keeping a close eye on sensitive high-tech technology transfers to Chinese companies and has even restricted transactions with certain Chinese firms.<sup>7</sup> This series of actions can also affect to some degree Japanese corporations’ investments in China and collaboration with Chinese businesses.

Under these circumstances, the ASEAN region is expected to become a potential investment-destination alternative to China. In fact, Mizuho Research Institute’s questionnaire survey conducted in February 2018,<sup>8</sup> just before the US-China trade dispute erupted, revealed that many Japanese companies chose Vietnam and Thailand as destinations for transferring their production facilities from China (**Chart 12**).

However, it should be noted that many ASEAN countries also run trade surpluses with the United States. The US Department of the Treasury releases its “Semiannual

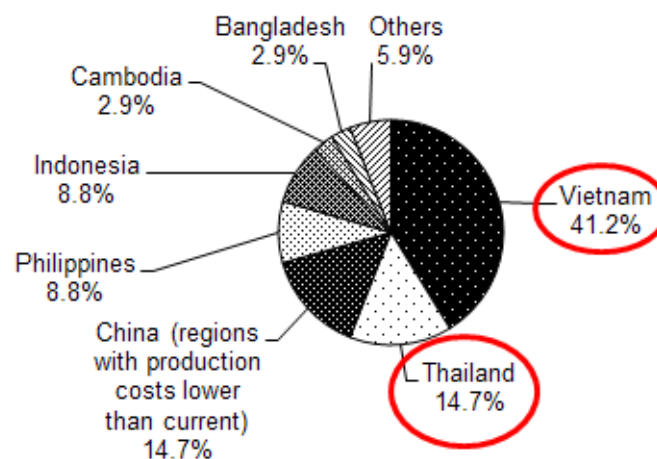
<sup>7</sup> See Mizuho’s One Think Tank (2018) for details.

<sup>8</sup> See Sako (2018) for details.

Report on International Economic and Exchange Rate Policies” pertaining to the exchange rate against the US dollar as a source of trade friction, and designates a nation as a currency manipulator according to three criteria: (1) a minimum 20 billion dollar trade surplus with the US, (2) a current account surplus in excess of 3% (ratio to GDP), and (3) repeated interventions in currency markets.<sup>9</sup> Based on these criteria, Vietnam, Thailand, Malaysia, among ASEAN countries, possibly meet the second criterion of a current account surplus.

To deal with the US-China trade conflict, it is necessary to consider that even when shifting production bases from China to ASEAN, the new transfer destinations also face the risk of becoming embroiled in new trade tensions with the United States.

**Chart 12: Destinations or candidate sites for production base transfers from China**



Note: Selected from China, Thailand, Malaysia, Indonesia, Vietnam, Philippines, Cambodia, Laos, Myanmar, Bangladesh, and others.

Source: Mizuho Research Institute (MHRI), *Survey Regarding Business in Asia*.

## (2) Normalization of Japan-China diplomatic relations

In May 2018, Chinese Premier Li Keqiang paid an official visit to Japan for the first time in eight years; in October of the same year, Japan’s Prime Minister Shinzo Abe officially visited China for the first time in seven years; and in 2019, Chinese President Xi Jinping will proactively consider visiting Japan. These moves indicate that momentum is rising toward normalizing Japan-China diplomatic relations severely damaged by the Senkaku Islands dispute in the fall of 2012, which is good news for Japanese companies.

While the above-mentioned questionnaire survey has shown Japanese companies’

<sup>9</sup> According to the report in October 2018, no countries and regions were designated as currency manipulators, but in Asia, China, Japan, South Korea, and India are on the monitoring list.

renewed interest in China, during Prime Minister Abe’s official visit to China, both countries agreed to create common standards for next-generation electric vehicles and to promote economic development of third countries (mainly intended for ASEAN countries) (**Chart 13**). These agreements will likely boost Japanese corporations’ investment in China and collaboration with Chinese firms.

As mentioned earlier, Japan’s FDI in China’s financial and insurance industries is on a recovery track because of deregulations. While FDI in China’s manufacturing sector, especially its export sector, may cool down due to escalating US-China trade tensions, FDI is expected to expand Chinese domestic demand and its non-manufacturing sector that is likely to open its doors further to foreign investors.

**Chart 13: Japan-China economic cooperation plans**

Fields of cooperation	Outline
Urban development	<ul style="list-style-type: none"> <li>• “Smart city” development in partnership with Japan, China, and Thailand</li> <li>• Infrastructure development in third countries</li> </ul>
Automobiles	<ul style="list-style-type: none"> <li>• Development of electric vehicle fast charger standards in third countries</li> <li>• Collaboration in next-generation in-vehicle systems</li> </ul>
Finance	<ul style="list-style-type: none"> <li>• Joint financing</li> <li>• Collaboration in insurance product development</li> </ul>
Energy	<ul style="list-style-type: none"> <li>• Hydrogen fueling station development in third countries</li> </ul>

Source: Made by MHRI based upon various news media reports.

### **(3) National elections in Thailand, Indonesia, and India during the first half of 2019**

The first half of 2019 will see important national elections take place in Thailand with its high concentration of Japanese companies, and in Indonesia and India with their robust domestic demand attracting strong attention as the next mega markets after China.

Thailand has been under military rule since 2014,<sup>10</sup> and interim Prime Minister Prayuth Chan-o-cha is planning to shift to civilian rule by holding a general election sometime between February and May 2019. The military government has launched a new pro-military political party with the aim of retaining influence after returning to civilian rule. But a general election may see rural area supporters of former prime minister Thaksin Shinawatra emerge once again as the leading party (**Chart 14**). In the present situation, it is highly likely that a coalition government will be formed, but with fears that a coalition government may lead to renewed political turmoil, the country’s

<sup>10</sup> See Inagaki, Miyajima, and Sugita (2014) for details.

political future needs to be carefully monitored. While Japanese businesses have responded to the military government’s “Thailand 4.0” as an initiative to further advance the country’s industries, their FDI trends will depend on whether this economic policy continues after transitioning to a democratic government.

**Chart 14: Major political parties in Thailand**

Political party	Outline	Approval rating
Pheu Thai Party	The former ruling party consisting of supporters of former prime minister Thaksin Shinawatra based in rural villages in north and northeast Thailand. Both Thaksin Shinawatra and his sister and former prime minister, Yingluck Shinawatra, later fled the country.	28.8%
Phalang Pracharat Party	A new military-backed party established in September 2018 that is expected to be the political base for interim Prime Minister Prayuth Chan-o-cha.	20.6%
Democrat Party	The party’s support base lies in urban areas. Despite its losses to the Pheu Thai Party in all national elections, the party may hold the casting vote in the next election.	19.6%
Future Forward Party	A new political party founded by a young businessman in March 2018. The party has presented its policy to remove the military from politics.	15.5%

Note: Approval ratings are based on the poll conducted by the National Institute of Development Administration in Thailand as of October 2018.

Source: Made by MHRI based upon various news media reports.

In Indonesia, the presidential election is scheduled for April 2019. Indonesian President Joko Widodo has launched a series of economic stimulus packages to improve the country’s investment climate, reduce fuel subsidies, and secure financial resources for infrastructure development, but the government has also restored part of the fuel subsidies due to global oil price hikes. Careful attention should be paid to whether President Widodo will be reelected and to whether his reforms will slow down and set back improvements in Indonesia’s investment climate.

India will hold lower house elections in May 2019. The Narendra Modi administration has actively implemented various reforms that include launching the “Make in India” program to vigorously promote foreign manufacturers, cutting fuel subsidies to achieve fiscal consolidation, unifying the different indirect tax rates in each state into the national goods and services tax (GST) system, and abolishing high-value currency notes to eradicate corruption and fraud. However, the administration’s pork-barrel tactics, such as raising minimum crop prices in February 2018, have also

been seen as preparation for the elections. Above all, the focuses of attention are whether Prime Minister Modi will successfully win reelection and whether his reforms will continue if reelected.

In these many ways, it is necessary to take heed of how the forthcoming elections will affect Japanese corporations' foreign direct investment in the future.

**Refer to the original Japanese report by clicking the URL below for the reference material**

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