Mizuho Economic Outlook & Analysis

November 16, 2017

Trends in Japan's Foreign Direct Investment (FDI) toward Asia

Since the second half of 2016, FDI toward China has been rising, driven by the manufacturing industry

< Summary >

◆ Although Japanese corporations' foreign direct investment (FDI) toward Asia has been sluggish since the second half of 2015, FDI toward China began to rise once again in the second half of 2016. One of the factors driving investment was demand for automation in response to Chinese policy.

◆ As for FDI toward ASEAN, investment in the manufacturing industry was sluggish due to factors such as the cool down of investments in transportation machinery in Indonesia. Investment in the non-manufacturing industry stayed strong in countries with robust domestic demand, but was sluggish overall.

◆ It is necessary to pay attention to the key elements that influence Japan's FDI toward Asia, including the tightening of environmental regulations in China, Thailand 4.0 and the political situation in Thailand for ASEAN, and the direction of trade friction with the United States in Asia as a whole.

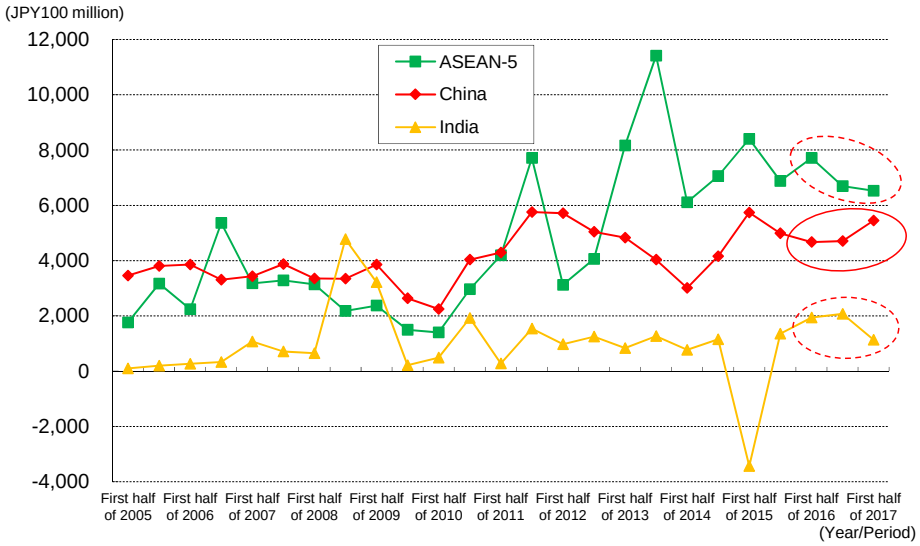
Mizuho Research Institute Ltd.
Koji Sako, Senior Economist, Research Department - Asia
koji.sako@mizuho-ri.co.jp

1. Introduction

Since the second half of 2016, Japanese corporations have maintained a high level of foreign direct investment (FDI) toward the ASEAN-5 (Thailand, Malaysia, Indonesia, the Philippines, and Vietnam), but overall FDI toward Asia declined in the first half of 2017. On the other hand, while FDI toward China has remained at a level below that of FDI toward ASEAN, it has continued to grow (**Chart 1**).

This paper looks at the trends of Japan's FDI toward China, the ASEAN-5, and CLM (Cambodia, Laos, and Myanmar) from the second half of 2016 through to the first half of 2017, summarizes the factors behind these trends, and considers the points to take note of with regard to future FDI toward Asia.

Chart 1: Japan's FDI toward Asia



Note: 1. For countries in Asia, data for ASEAN-5, China, and India have been extracted.
2. The data takes the total of two quarters from quarterly statistics.
Source: Bank of Japan, *Balance of Payments*

2. Recovery in FDI toward China driven by the manufacturing industry

(1) Strong investment in the manufacturing industry

Breaking down the trends of Japan's FDI toward China by manufacturing and non-manufacturing industries for every half a year, we see that growth in FDI for the manufacturing industry has been especially prominent after the second half of 2016 (**Charts 2 and 3**).

In the manufacturing industry, FDI increased in the general machinery sector in the second half of 2016, and in the electrical equipment sector in the first half of 2017. The Chinese government is pushing forward on the "Made in China 2025" plan, which seeks to strengthen the manufacturing industry in anticipation of the 13th Five-Year Plan (2016 – 2020) and the 14th Five-Year Plan (2021 – 2025) that follows. As a part of these efforts to boost its manufacturing sector, the establishment of semiconductor facilities—aimed at the production and import substitution of machine tools and its related products, in response to the growth in demand for automation in manufacturing processes—has kept up a steady stream of investment from the Japanese manufacturing sector.

In addition, FDI in transportation equipment has been bullish. This is the result of a growth in investment to increase the production of engines and parts, due to the strong performance of automobile sales.

(2) Strong investment in wholesale and retail sectors for the non-manufacturing industry

With regard to investment in the non-manufacturing industry, FDI in the wholesale and retail sectors remained sound, suggesting the consumer market's high expectations of China.

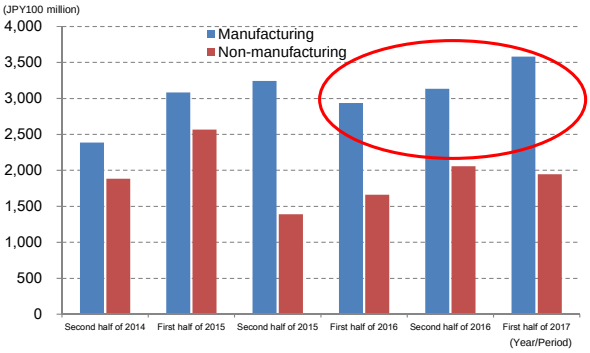
On the other hand, investment in the real estate sector has maintained its sluggish pace. The Chinese government tightened regulations on real estate speculation at the end of September 2016, and the uncertain outlook for housing prices is believed to be one of the factors contributing to the slump in real estate investment.

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

(Unit: JPY100 million)

Industry/Year	Second half of 2014	First half of 2015	Second half of 2015	First half of 2016	Second half of 2016	First half of 2017
Manufacturing	2,387	3,083	3,244	2,937	3,135	3,581
Food products	96	113	221	64	70	128
Fiber	12	22	-78	-40	65	21
Wood and pulp	7	70	135	0	14	-5
Chemicals and medical	283	218	197	219	273	310
Oil	5	8	21	23	20	19
Rubber and leather	13	188	80	117	130	103
Glass, soil, and stone	117	49	188	129	-6	116
Iron, non-ferrous metals, metals	163	204	87	121	74	-37
General machinery	657	777	1,071	985	1,096	611
Electrical equipment	217	612	454	677	593	1,157
Transportation equipment	703	695	752	646	784	1,119
Precision equipment	-4	16	6	43	7	-4
Non-manufacturing	1,886	2,567	1,391	1,661	2,055	1,946
Agriculture and forestry	0	3	0	0	5	0
Fisheries	0	0	0	-15	3	3
Mining	0	0	-82	16	-1	-9
Construction	10	11	26	26	39	1
Transportation	18	22	9	90	39	21
Communications	2	25	19	0	-7	-28
Wholesale and retail	910	1,046	1,001	1,080	1,319	1,316
Finance and insurance	661	987	141	464	493	560
Real estate	174	371	131	-12	68	27
Services	48	71	127	64	88	50
Total	4,274	5,650	4,636	4,598	5,190	5,526

Chart 3: Japan's FDI toward China (by manufacturing/non-manufacturing industries)



Source: *Balance of Payments*, Bank of Japan

Note: 1. Investments of JPY 50 billion and above are shown in the cells shaded in grey.
2. Negative figures are indicative of a flow of funds back to Japan due to factors such as withdrawal and termination of joint ventures (the same applies to Charts 6 – 10).
3. The industry total does not match the grand total due to the inclusion of “Other manufacturing” and “Other non-manufacturing” sectors (the same applies to Charts 6 – 10).
4. Number of investments is shown as “0” when the number of investments reported is less than 3 (the same applies to Charts 6 – 10).
5. The ellipse with solid lines represent an increasing trend, while the ellipse with dotted lines indicate a decreasing trend (the same applies to Charts 6 – 10).

Source: Bank of Japan, *Balance of Payments*

3. FDI toward ASEAN-5 is a mixture of growth and decline, with Thailand and Vietnam on one end and Indonesia and the Philippines on the other end of the spectrum

Next, we take a look at Japan's FDI toward the ASEAN-5, categorized by the main countries in this group.

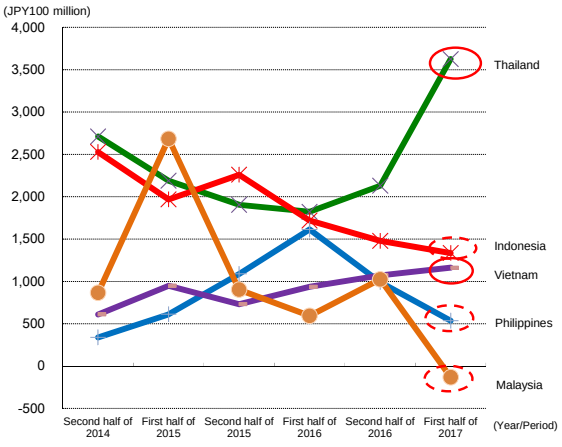
Firstly, an overview of the investment situation by country shows a prominent growth in Japan's FDI toward Thailand (**Chart 4**). While FDI toward Vietnam has also maintained its growth momentum, FDI toward Indonesia and the Philippines has continued to decline. For Malaysia, the outflow of funds exceeded the inflow of funds in the first half of 2017. As a result, Japan's FDI toward the ASEAN-5 as a whole fell during that period.

Next, looking at data of Japan's investment toward the ASEAN-5 by manufacturing and non-manufacturing industries, we see that the FDI for the manufacturing industry has leveled off (**Chart 5**). In the key industries, despite a decline in investment in the transportation equipment sector in Indonesia, the electrical machinery sector presented a general trend of recovery.

On the other hand, Japan's FDI in the non-manufacturing industry performed well in countries such as Indonesia, which has overwhelmingly robust domestic demand; however, FDI in the ASEAN region as a whole fell in the first half of 2017.

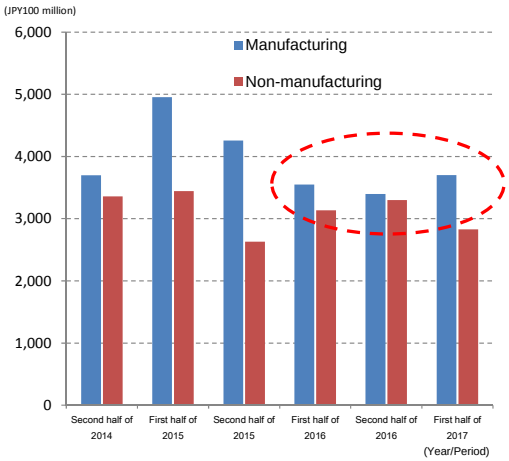
Below, we will look at investment trends in each country by the type of industry.

Chart 4: Japan's FDI toward ASEAN-5



Source: Bank of Japan, *Balance of Payments*

Chart 5: Japan's FDI toward ASEAN-5 (by manufacturing/non-manufacturing industries)



Source: Bank of Japan, *Balance of Payments*

(1) Thailand: Growth in the transportation equipment sector with new entrants into the market, and recovery in the electrical equipment sector

Firstly, in Thailand, where there is a concentration of Japanese corporations, growth in the production of engines and powertrains by manufacturers already present in the market, as well as entry into the market by the new player Fuji Heavy Industries, Ltd. through a merger with a Malaysian company, with the aim of commencing factory operations in 2019 to introduce high-end vehicles into the market, have contributed to the growth in the transportation equipment sector in the first half of 2017 (**Chart 6**).

Furthermore, investment in the electrical equipment sector increased in the second half of 2016. One of the factors behind this growth was the large-scale investment in the area of air-conditioning with steady demand within and outside the ASEAN region.

(2) Indonesia: Decline in the transportation equipment sector, and steady investment in the non-manufacturing sector

In Japan's FDI toward Indonesia, investment in the transportation equipment sector, which has driven investment to date, declined. Although the automotive sector has kept up a strong momentum in recent years with a scale exceeding that of Thailand, it registered a decline from the second half of 2015 to the second half of 2016 (**Chart 7**). This is due to a continued adjustment in the sales volume of automobiles in Indonesia from around 1.2 million units to about 1 million units, moving from 1.23 million units in 2013 and 1.21 million units in 2014, to 1.01 million units in 2015 and 1.06 million units in 2016. Corresponding with this trend, investment in the supporting industries of iron, non-ferrous metals, and metals also fell.

On the other hand, investment in the non-manufacturing sector has remained strong in sectors such as wholesale and retail, and real estate. This is believed to be the result of continued investment aimed at capturing domestic demand in one of the major powers of the region, which has a nominal GDP (approximately US$930 billion) and population (approximately 260 million people) that make up about 40% of the total for the ASEAN region.

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

(Unit: JPY100 million)

Industry/Year	Second half of 2014	First half of 2015	Second half of 2015	First half of 2016	Second half of 2016	First half of 2017
Manufacturing	1,645	1,813	1,335	1,354	1,336	3,246
Food products	-89	-68	-39	-26	60	28
Fiber	43	42	28	96	12	38
Wood and pulp	51	66	-27	82	46	71
Chemicals and medical	90	77	60	212	76	553
Oil	0	0	12	0	1	0
Rubber and leather	45	66	110	67	107	150
Glass, soil, and stone	40	62	10	17	72	43
Iron, non-ferrous metals, metals	304	359	145	191	81	297
General machinery	188	115	332	169	163	113
Electrical equipment	123	218	373	269	534	513
Transportation equipment	765	762	279	213	62	1,274
Precision equipment	38	52	34	29	46	72
Non-manufacturing	1,066	374	569	468	794	379
Agriculture and forestry	0	0	3	0	0	0
Fisheries	0	0	2	6	0	0
Mining	0	-1	0	0	0	0
Construction	6	11	8	35	8	9
Transportation	33	49	55	53	9	23
Communications	11	-10	0	0	0	3
Wholesale and retail	229	128	222	178	266	239
Finance and insurance	672	130	232	157	457	62
Real estate	9	15	-1	5	12	30
Services	19	29	26	2	23	-14
Total	2,711	2,188	1,904	1,823	2,130	3,625

Note: Investments of JPY10 billion and above are shown in the cells shaded in grey.
Source: Bank of Japan, *Balance of Payments*

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

(Unit: JPY100 million)

Industry/Year	Second half of 2014	First half of 2015	Second half of 2015	First half of 2016	Second half of 2016	First half of 2017
Manufacturing	1,017	1,290	1,247	815	681	214
Food products	50	23	21	85	2	88
Fiber	-2	39	18	18	-20	7
Wood and pulp	51	84	55	-8	21	-252
Chemicals and medical	6	117	192	64	121	66
Oil	0	0	0	0	0	0
Rubber and leather	9	38	-5	-13	-7	24
Glass, soil, and stone	13	19	50	52	53	26
Iron, non-ferrous metals, metals	144	240	127	102	56	1
General machinery	30	23	59	35	37	45
Electrical equipment	24	2	62	10	70	87
Transportation equipment	592	662	556	449	289	25
Precision equipment	3	6	2	5	17	-5
Non-manufacturing	1,511	679	1,012	903	798	1,121
Agriculture and forestry	30	24	0	30	12	-207
Fisheries	1	0	6	2	2	1
Mining	-5	-4	-29	4	104	-75
Construction	63	18	33	29	11	13
Transportation	65	69	45	82	19	11
Communications	4	0	97	0	0	-2
Wholesale and retail	37	64	90	126	190	149
Finance and insurance	1,093	295	282	437	194	125
Real estate	61	134	383	104	113	243
Services	31	16	46	35	-31	100
Total	2,528	1,968	2,259	1,719	1,479	1,335

Note: Investments of JPY10 billion and above are shown in the cells shaded in grey.
Source: Bank of Japan, *Balance of Payments*

(3) Vietnam: Growth in the chemicals and medical as well as electrical equipment sectors, and growth in the finance and insurance sector

Japan's FDI toward Vietnam remained strong in the electrical equipment sector of the manufacturing industry (**Chart 8**). In addition to an increase in production for electronic parts such as small motors, new investment in areas such as semiconductor-related components and wiring equipment to fulfill domestic demand have also contributed to this strong FDI performance. Moreover, due to factors such as the construction of new factories by manufacturers of medical equipment, investment in the chemicals and medical sector also increased in the second half of 2016, while investment in the transportation equipment, general machinery, and precision equipment sectors remained steady.

In the non-manufacturing sector, the finance and insurance sector registered an increase in investment in the second half of 2016 as a result of the acquisition of the stocks of local financial institutions by Japanese financial institutions. It is noteworthy that investment aimed at capturing domestic demand in the country, which has a population of about 90 million, is on the rise.

Vietnam has drawn attention for the opening up of its domestic market and its access to the United States during the signing of the Trans-Pacific Partnership (TPP) in February 2016. Although the future of the TPP became uncertain with the declaration by US President Donald Trump to withdraw from the TPP after that, this sense of uncertainty was dispelled, to a certain degree, when 11 countries excluding the United States reached a general agreement on the partnership on November 9, 2017. If the TPP

is signed by these 11 countries, there is a possibility that Vietnam could come under the spotlight once again as an export hub and market.

(4) Malaysia: Steady investment in the electrical equipment and growth in the communications sector despite an outflow of funds in the chemicals and medical sector

With regard to Japan's FDI toward Malaysia, negative figures were recorded for investment in the chemicals and medical sector in the first half of 2017 (**Chart 9**). This was the result of withdrawal from the market by polycrystalline silicon manufacturers, due to a downturn in the market. On the other hand, investment in the electrical equipment sector remained steady.

In the non-manufacturing industry, investment in the communications sector is on the rise. The Innovative Network Corporation of Japan, which is a Japanese public-private investment fund, has invested in a leading communications infrastructural company in Malaysia that establishes communications towers in the ASEAN region and its neighboring countries and leases this infrastructure to local mobile service operators. This has contributed to the growth in investment. The future trend of large-scale investments that place a high expectation on the increase in the overseas activities of Malaysian corporations will draw attention moving forward.

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

(Unit: JPY100 million)

Industry/Year	Second half of 2014	First half of 2015	Second half of 2015	First half of 2016	Second half of 2016	First half of 2017
Manufacturing	474	819	644	506	629	724
Food products	55	58	20	-62	36	22
Fiber	3	3	10	15	33	15
Wood and pulp	14	11	7	19	40	19
Chemicals and medical	71	45	83	37	157	125
Oil	11	238	182	3	0	0
Rubber and leather	-4	38	8	2	-30	-32
Glass, soil, and stone	30	-16	-2	36	23	39
Iron, non-ferrous metals, metals	30	45	75	69	20	32
General machinery	87	68	40	42	41	140
Electrical equipment	36	146	40	133	146	135
Transportation equipment	70	87	116	120	121	108
Precision equipment	16	43	29	75	32	114
Non-manufacturing	136	130	87	430	441	439
Agriculture and forestry	2	0	3	3	0	0
Fisheries	0	0	0	0	0	0
Mining	0	-6	0	0	0	0
Construction	-40	-31	18	11	13	27
Transportation	0	16	5	17	24	32
Communications	0	10	0	7	5	0
Wholesale and retail	-22	-75	-57	166	7	58
Finance and insurance	107	104	71	121	345	163
Real estate	51	57	13	28	4	88
Services	37	47	6	37	34	51
Total	610	949	731	936	1,070	1,163

Note: Investments of JPY 10 billion and above are shown in the cells shaded in grey.
Source: Bank of Japan, *Balance of Payments*

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

(Unit: JPY100 million)

Industry/Year	Second half of 2014	First half of 2015	Second half of 2015	First half of 2016	Second half of 2016	First half of 2017
Manufacturing	404	574	521	354	299	-790
Food products	8	13	30	8	12	22
Fiber	29	4	7	9	10	11
Wood and pulp	11	22	15	0	16	12
Chemicals and medical	389	133	178	154	97	-1,114
Oil	0	0	0	0	0	0
Rubber and leather	13	22	16	2	10	1
Glass, soil, and stone	-32	168	11	4	-118	-5
Iron, non-ferrous metals, metals	35	18	7	1	8	33
General machinery	-38	121	129	16	15	55
Electrical equipment	-100	-84	-16	20	141	114
Transportation equipment	36	30	54	81	64	76
Precision equipment	-6	7	30	32	9	-2
Non-manufacturing	462	2,110	382	240	726	659
Agriculture and forestry	0	2	2	0	0	0
Fisheries	0	0	0	0	0	0
Mining	12	1,630	91	13	-2	-2
Construction	1	1	-12	-16	-10	10
Transportation	6	81	22	12	0	28
Communications	304	68	44	3	516	455
Wholesale and retail	45	-27	125	111	17	54
Finance and insurance	87	348	95	110	106	29
Real estate	1	-17	2	-11	7	20
Services	6	36	11	19	72	43
Total	866	2,684	903	594	1,025	-131

Note: Investments of JPY 10 billion and above are shown in the cells shaded in grey.
Source: Bank of Japan, *Balance of Payments*

(5) Philippines: Decline in investment in the electrical equipment sector, and continued investment aimed at capturing domestic demand

In Japan's FDI toward the Philippines, investment in the electrical equipment sector, which has driven investment in the manufacturing industry to date, declined. However, a growth in investment was registered in the food products and transportation equipment sectors in the second half of 2016.

In the non-manufacturing industry, investment increased in the services sector. The Philippines has a population of about 100 million, coming second after Indonesia in the ASEAN region, also draws attention as the second largest consumer market after Indonesia. Hence, we can see a rise in the level of investments carried out with the anticipation of a growth in domestic demand.

(6) Cambodia, Laos, Myanmar: Myanmar takes another leap forward

Cambodia, Laos, and Myanmar (CLM) have come under the spotlight in recent years as new investment destinations in the ASEAN region. It is relatively easy to build supply-chains in these three countries, which adjoin Thailand where there is a concentration of Japanese corporations, and labor costs are relatively low. Until 2013, FDI in these countries focused mainly on Cambodia, which preceded the other two countries in developing industrial parks. However, the sudden hike in minimum wage in Cambodia in 2013[1] has brought about sluggish investment toward the country since then.

On the other hand, Japan's FDI toward Myanmar has been on the rise since 2014 (**Chart 11**). The Thilawa industrial park, located in the suburbs of Yangon and built through public-private support from Japan, commenced operation in September 2015. With that, investment in Myanmar saw a dramatic increase in the first half of 2015, and continued to grow through the second half of 2015. A general election was held in Myanmar in November 2015, and a new government administration led by Aung San Suu Kyi, serving concurrently as State Counsellor and Union Minister for Foreign Affairs, was established in effect in March 2016. FDI for the first half of 2016, which coincided with the period of the transition of power, fell significantly partly as a result of delays in authorization procedures. This recovered in the second half of 2016, and remained relatively steady in the first half of 2017. Going forward, it is expected to continue growing.

[1] Minimum wage in the sewing industry was $61 in 2012, $80 in 2013, $100 in 2014, $128 in 2015, $140 in 2016, and $153 in 2017.

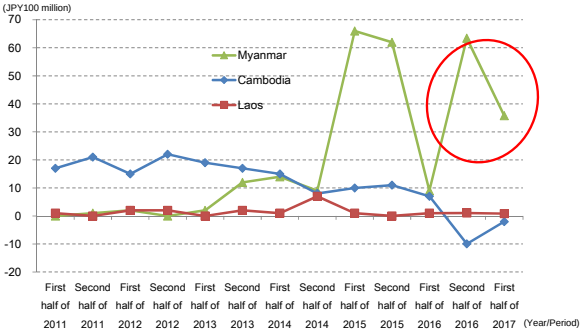
Chart 10: Japan's FDI toward Philippines (by industry)

(Unit: JPY100 million)

Industry/Year	Second half of 2014	First half of 2015	Second half of 2015	First half of 2016	Second half of 2016	First half of 2017
Manufacturing	159	459	510	522	453	306
Food products	34	40	91	94	109	104
Fiber	0	0	0	0	0	0
Wood and pulp	0	0	0	-1	-2	1
Chemicals and medical	12	9	27	14	13	16
Oil	0	0	0	0	0	0
Rubber and leather	-2	11	0	0	11	19
Glass, soil, and stone	2	0	7	64	6	0
Iron, non-ferrous metals, metals	-67	-7	53	97	72	-19
General machinery	3	4	1	3	2	4
Electrical equipment	109	318	141	138	88	64
Transportation equipment	30	30	71	67	130	91
Precision equipment	19	28	12	-1	3	-5
Non-manufacturing	182	153	578	1,091	538	230
Agriculture and forestry	0	0	0	0	1	0
Fisheries	0	0	0	0	0	0
Mining	0	0	-13	0	0	0
Construction	2	12	8	4	5	3
Transportation	1	1	0	-3	27	10
Communications	0	0	36	0	0	-3
Wholesale and retail	24	40	69	68	104	22
Finance and insurance	61	5	297	877	78	26
Real estate	22	18	23	17	26	11
Services	0	15	58	9	219	237
Total	339	612	1,088	1,613	991	536

Note: Investments of JPY 10 billion and above are shown in the cells shaded in grey.
Source: Bank of Japan, *Balance of Payments*

Chart 11 Japan's FDI toward CLM (Manufacturing industry)



Source: Bank of Japan, *Balance of Payments*

4. Points to note in considering Japan's FDI toward Asia going forward

In conclusion, this paper focuses on the following three points as key elements that have an impact on Japan's FDI toward Asia going forward.

(1) "Made in China 2025," which has begun in earnest, and its impact

The recovery in Japan's FDI toward China during the period under consideration is the result of growth in investment in the manufacturing industry in response to the Chinese government's policy of enhancing the sophistication of its industries. The Chinese government is pushing forward the policies of "Made in China 2025," which seek to correct the manufacturing industry's over-emphasis on heavy manufacturing as well as develop high-tech, next-generation industries. In this process, it has designated 10 key industries to focus on (**Chart 12**). For now, there are heightening expectations that Japan will be its technological partner in these fields, and these expectations underpin the rise in Japan's FDI toward China's manufacturing industry since the second half of 2016.

On the other hand, it is necessary to pay attention to the fact that products of existing industries may be forced to evolve into next-generation industries and products under the policies of "Made in China 2025." For example, with respect to the sector of energy-saving and new-energy vehicles (NEV), positioned as one of these 10 key industries, the Chinese government announced in September 2017 the introduction of an NEV regulation in 2019, which would make it mandatory for automotive manufacturers to satisfy a 10% quota in production and sales of new-energy vehicles (electric vehicles (EV) and plugged-in hybrid vehicles (PHV) are considered as NEV under this regulation). This is expected to have an impact on FDI by the Japanese automotive

industry. While the NEV rate will begin at 10%, this percentage could potentially rise in the future as the regulation becomes more stringent.

Currently, NEV make up less than 3% in market share of the Chinese automotive market. However, with just one year and several months left until the enforcement of the NEV regulation, there is a need to inject additional investment in order to satisfy the 10% quota. Manufacturers that fail to attain this production and sales quota will be penalized by being made to purchase rights known as “NEV credits” from companies that have sold more than the minimum required volume of EV and PHV. As such, manufacturers face the risk of incurring a downturn in profits if they fail to make the switch from the production and sale of existing car models.

Against this backdrop, Japanese manufacturers are expected to step up production of EV and PHV moving forward. However, amidst the mountain of challenges they face, including realignment with the gasoline cars that currently make up the majority of vehicles sold, and working with the related suppliers, it appears likely that the Japanese automotive industry will be forced into dealing with a tough situation.

Chart 12: Ten key industries in "Made in China 2025"

1. Next-generation information technology industry
2. High-end numerical control machine tools/robots
3. Aerospace and aviation equipment
4. Maritime engineering equipment and high-tech vessels
5. Advanced rail transportation equipment
6. Energy-saving/New energy vehicles
7. Electrical equipment
8. Agricultural equipment
9. New materials
10. Biomedicine

Source: Made by MHRI based on materials from the Chinese Academy of International Trade and Economic Cooperation (CAITEC)

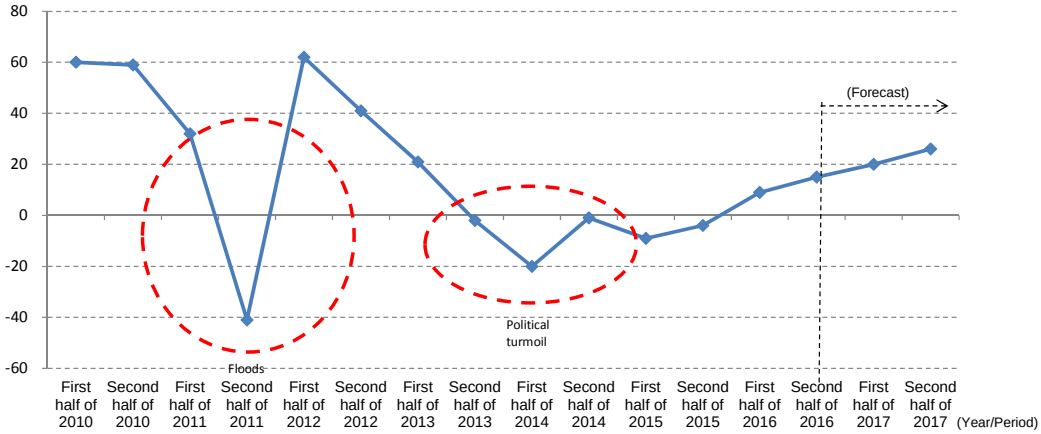
(2) Outlook for Thailand 4.0 and the political situation in Thailand

Since 2016, the improvement in business confidence in Thailand at long last should be a piece of good news (**Chart 13**). Furthermore, the Thai government has put forth the "Thailand 4.0" vision. While "Thailand 3.0" let the Thai manufacturing industry focus on the heavy chemical industry, its evolution into "Thailand 4.0" aims to provide high added value through a focus on high-tech industries.

In the aspect of the advancement of the manufacturing industry, Thailand 4.0 is similar to China's "Made in China 2025" plan in that the Thai government has designated five existing industries and five new industries as priority industries under this vision (**Chart 14**). With the development of the Eastern Economic Corridor (EEC) along the eastern coast of Thailand, where Laem Chabang Port—a leading deep-sea port in Thailand that has one of the most advanced areas of industrial concentration in the country—is located, and the Thai government's strong push and support for the "Thailand 4.0" vision, the EEC project is gradually attracting interest among Japanese corporations. This factor is expected to give a boost to Japan's FDI toward Thailand.

On the other hand, there is a need to pay attention to the political situation in Thailand. A new constitution was promulgated and enforced after it was signed by the new King Maha Vajiralongkorn in April 2017, and a general election based on the new constitution is scheduled to be held in 2018 toward the transition from military rule to a democratic government. While there are views that Thaksin's supporters, which are based in the rural areas in the northeastern part of Thailand, have lost their pillar of spiritual support after former Prime Minister Yingluck was charged by the military administration with negligence of duties and attempted to defect from the country following her brother, former Prime Minister Thaksin, in August 2017, the foundation of support itself stays strong. In the general elections, voices pointing out the victory of the Thaksin faction remain deeply rooted. There is a need to pay attention to whether the general elections will proceed smoothly, and whether the country is able to achieve a smooth transition into democratic rule.

Chart 13: Changes in business confidence among Japanese corporations in Thailand



Note: Calculated by deducting the percentage of companies that responded that business sentiment of their company has declined (or would decline) as compared to half a year ago from the percentage of companies that responded that business sentiment has improved (or would improve).

Source: Made by MHRI based on materials from the Economic Research Committee of the Japanese Chamber of Commerce, Bangkok (JCC)

Chart 14: Priority industries under Thailand 4.0

Five existing industries	Five new industries
1. Robotics	1. Next-generation vehicles
2. Aircraft/Logistics	2. Smart electronic equipment
3. Biofuels/Biochemicals	3. Tourism for high-income earners/Medical welfare tourism
4. Digital	4. Agriculture/Biotechnology
5. Medical hub	5. Food for the future

Source: Made by MHRI based on materials from the Thailand Board of Investment

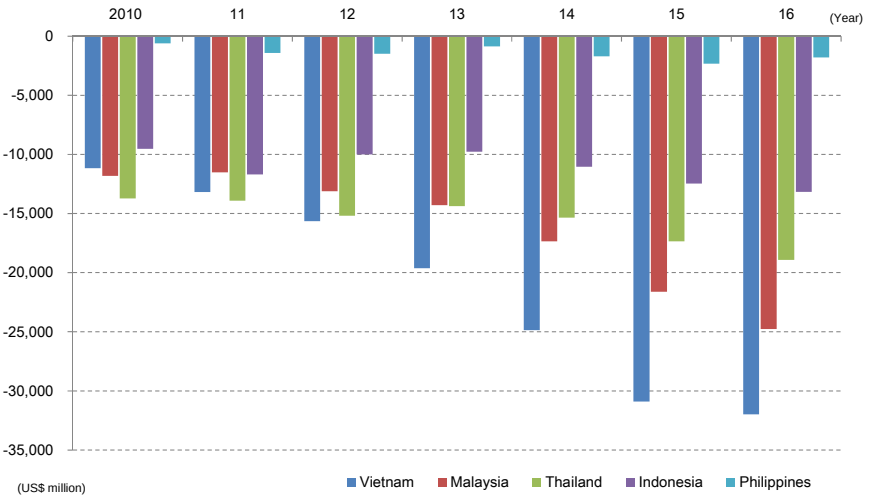
(3) Outlook for regional conflicts, and trade and commerce with the United States

In the Philippines, a mopping-up operation for Islamic extremists has been underway at Marawi, located in the western part of the island of Mindanao, since May 2017. By October, the operation was mostly concluded with the suppression of the extremists. However, martial law has been imposed on the region until the end of the year, and it appears that the embers of unrest are still smoldering. In Myanmar, the conflict between the Islamic Rohingya tribe in the western part of the Rakhine State and the government's military has intensified since August 2017, and a large number of refugees has flowed into neighboring Bangladesh as a consequence of the conflict. Both of these conflicts are

geographically far away from areas that Japanese corporations are concentrated in, so no direct impact has been observed as of now. However, there is a need to pay attention to the reactions of the international community to the government's response. Countries in the West are particularly sensitive to human rights issues, and there are concerns that any economic sanctions imposed on these countries may cause disruption to exports to Europe and America.

In early November, President Trump visited Asia. In addition to visiting Japan, China, and Korea, he also visited ASEAN to participate in the APEC Economic Leaders' Meeting held in Vietnam, as well as to participate in the U.S.-ASEAN Summit Meeting in the Philippines. These visits are expected to contribute to strengthening relations between the United States and Japan, China, and Korea, as well as with ASEAN countries. On the other hand, the United States has a trade deficit with Japan, China, Korea, and countries of ASEAN (**Chart 15**). Although its trade deficit with ASEAN is less than one-tenths that of its trade deficit with China, the United States perceives the trade imbalance as a problem, and included not only Japan and China, but also four countries in ASEAN (Vietnam, Malaysia, Thailand, and Indonesia) as target countries for investigations on unfair trade in April 2017. The respective countries of ASEAN have shown signs of putting in place measures to ease the pressure to resolve the imbalance, such as expanding its aircraft purchases and energy imports from the United States. However, the possibility remains that the Trump administration may put even greater pressure on these countries to reduce the trade deficit. It is necessary to pay attention to the possibility that the United States may demand a solution to the trade imbalance problem from ASEAN, in addition to Japan, China, and Korea.

Chart 15: ASEAN-5 trade balance toward the United States



Source: Made by MHRI based on CEIC Data

With respect to reference material, refer to the following for the original Japanese report.
https://www.mizuho-ri.co.jp/publication/research/pdf/insight/as171116.pdf