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Topics India sets sights on the early spread of electric vehicles

In India, although achieving a stable supply of electrical power is just one of a range of problems that still need to be overcome, there is, nevertheless, a rapidly accelerating momentum towards the spread of electric vehicles.

■ India plans to make all new vehicles electric by 2030

In recent years, the Indian government has been tightening up regulations, such as restrictions on exhaust gas emissions and traffic regulations, in an attempt to take countermeasures against the increasingly serious problem of air pollution and to limit carbon dioxide emissions. Companies, principally in automobile related industries, are finding themselves stretched to comply with environmental regulations. One part of the initiative which is attracting a great deal of attention both at home and abroad is the plan to promote electric vehicles (EV).

The government is working to promote the spread of EV and plug-in hybrid vehicles (PHV), based on its National Electric Mobility Mission Plan (NEMMP) and in March of 2016, then Minister of Power, Piyush Goyal, announced that the government was considering a plan to have all new vehicles sold in India converted to EV by 2030, in order to further accelerate this development. In a meeting with NITI Aayog, the Indian government's main "think tank" in April of 2017, Prime Minister Modi presented a policy for the full advancement of transition to EV, and is expected to announce a new plan for the spread of EV soon. In Europe, France and the UK have announced plans to ban sales of fossil fuel automobiles from 2040. In Asia also, this trend has been followed by China and Indonesia, who have set out policies calling for a complete shift to EV, for example, and the drive towards the spread of EV is happening on a global level. However, in consideration of the fact that India's domestic electrical power infrastructure is still in the stage of development, this is a very ambitious project for India.

Further, although NMEM (National Mission for Electric Mobility) has set a target of increasing cumulative domestic sales of EV to between six and seven million vehicles by 2020, latest domestic sales of EV and PHV are only around several tens of thousands of vehicles annually, and there is a huge gap between the target and the reality. For this reason, there is strong skepticism as to the feasibility of the goal of transitioning all new car sales to EV by 2030. Nevertheless, the Modi administration has proved already that it is not afraid of short-term economic turmoil, having already undertaken such bold reform moves as demonetizing high denomination bank notes and introducing GST, for example, and there is every possibility that the government is prepared to adopt drastic measures in order to lend momentum to the spread of EV, such as placing restrictions on the sale of gasoline powered vehicles and providing large subsidies for the production and purchase of EV. Sales of passenger cars in India are around four million per year, already greater than the combined sales total for ASEAN5 (Indonesia, Thailand, the Philippines, Malaysia, Vietnam) and with the expansion of the middle income tier in the future, the market is expected to continue to expand over the mid to long term. For that reason, the spread of EV in India will not only affect India's industrial structure, but will also have a significant impact on other countries, due to structural changes in India's demand for imports of intermediate goods and sources of power.

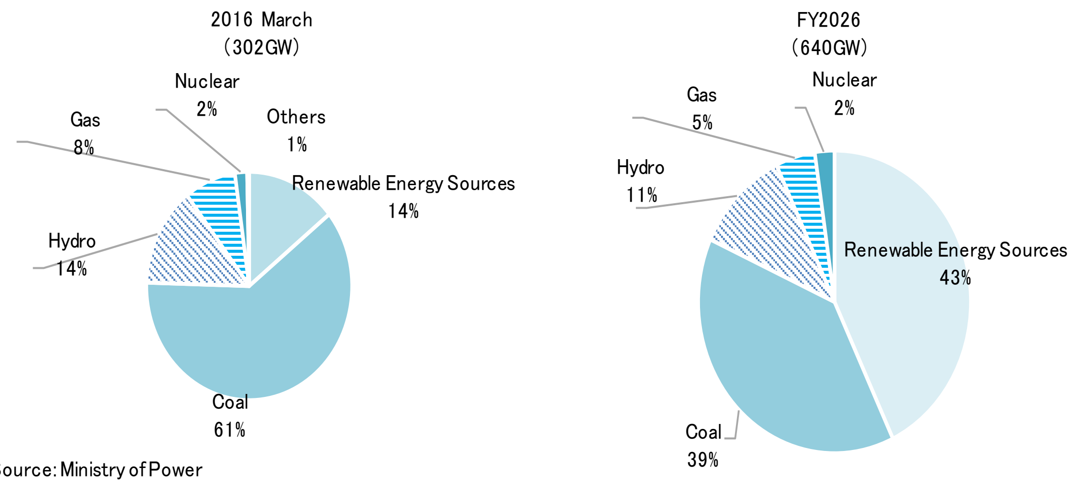
■ The development of a stable power supply system is the key to whether EV can be spread

In order to realize the spread of EV, there are a great many challenges to be overcome, such as the improvement of cruising ranges through the advancement of battery technology, the development of battery charging infrastructure, reviews of taxation and subsidy systems in order to promote the production and purchase of EV, and changing the awareness of consumers with regard to environmental conservation, but for India the biggest challenge will be the development of a stable electrical power supply system.

At the end of 2016, the Ministry of Power released a draft energy plan which called for doubling India's electrical power supply over the next ten years or so, while gradually reducing the environmental impact through the use of solar energy, wind energy and other forms of renewable energy. However, given the fact that the efficiency of power generation using renewable energy is at the mercy of climatic conditions, and the high cost of installing electricity generators, it is unclear as to whether India can establish a stable power supply system that will be able to meet the growing demand in response to the spread of EV.

For this reason, it will be extremely important to control electrical power demand by promoting car-sharing businesses at the same time. In addition, a report issued by the aforementioned NITI Aayog in May of 2017 forecast that, if EV and car-sharing can be widely spread together, then the automobile transportation energy demand in 2030 will be able to be cut by about 60%, compared to what it would be if these were not spread. This means that, if the spreading of these two can be successfully achieved, then it is likely that imports of mineral fuels from the Middle East, a major cause of India's trade deficit, can be significantly reduced.

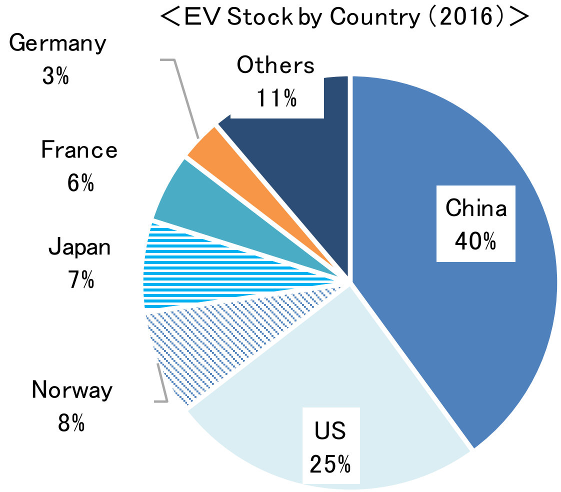
<Energy Supply Plan in India>



Source: Ministry of Power

Meanwhile, given the fact that the EV production systems of India's large domestic automobile manufacturers are still in very early stages, until these domestic systems can be properly developed, increased imports of completed vehicles and their parts and components from China and the US, which currently account for about 60% of the global production and sales of EV, will probably result in a further increase in India's trade deficit with China, and a reduction in the trade surplus with the US. Also, since EV have fewer parts and components than gasoline powered vehicles do and the barriers to market entry are low, it is expected that movements to further the spread of EV will accelerate in India and other countries in the future. There is every possibility that the current picture of a US-China dominated global production and supply scenario may be quickly repainted, and the situation demands close attention.

<EV Stock by Country (2016)>



Source: IEA "Global EV Outlook 2017"

(Shotaro Kumagai)

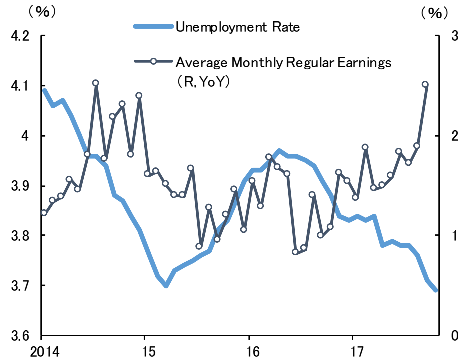
Taiwan *Healthy domestic and foreign demand*

■ Solid growth continues

The Taiwanese economy continues to see improvements in the figures for both domestic and foreign demand.

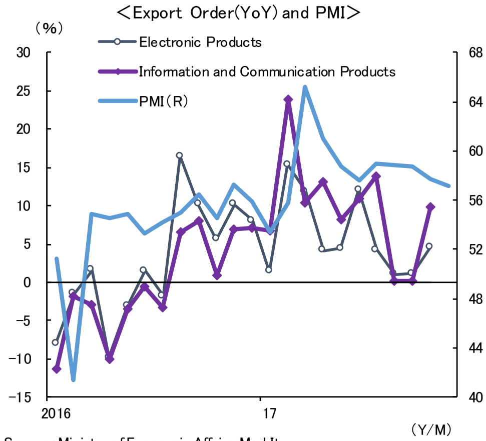
In terms of recent retail sales figures, those for October grew a strong 3.2%, compared to the same period in the previous year. The reasons for this include 1) improvements in the employment and incomes environments, and 2) improved consumer sentiment. Exports have expanded following the global economic recovery, and the unemployment rate is at 3.7%, its lowest level in 15 years and three months. As corporate performance continues to improve, regular wages in September grew at the rate of 2.5%, continuing the upward growth trend. In response to these improvements in the employment and incomes environments, consumer confidence indices, which indicate how consumers are feeling about the economic situation, are maintaining high levels. In 2018 also, in addition to a 3% increase in the salaries of civil servants and military personnel, given the anticipated growth in exports, the number of those employed is expected to continue to increase. For the foreseeable future, growth in private sector consumption is expected to remain firm. However, civil servant pension and retirement payment investment interest rates are due to be lowered from July of 2018, so it is expected that growth in consumption will be blunted to a slight degree.

<Employment Rate and Income>



Source: Directorate-General of Budget, Accounting and Statistics, Executive Yuan

<Export Order(YoY) and PMI>



Source: Ministry of Economic Affairs, MarkIt

November's exports (US$ basis) grew 14.0% compared to the same period in the previous year (the same hereinafter). Electronic parts and components posted strong 16.0% growth, and major export items, such as plastic and rubber products and chemical products, all remained strong. In terms of individual countries, exports to China expanded by an impressive 18.3%, and those to Europe grew strongly at 10.0%. Export orders received, an indicator of future performance, have been on a clear upward tangent recently, in response to the expansion in demand for new smartphone products. Under these circumstances, the manufacturers' PMI is well above 50, the midpoint between improvement and deterioration, so exports are expected to continue to grow strongly. The number of foreign visitors to Taiwan is beginning to rise again, after a continued period of stagnation. The number of visitors from mainland China had slumped particularly heavily, and this figure recovered to 22.5% growth in October. Also, the number of visitors from the Philippines and Vietnam continues to grow significantly, on a year on year basis. In the future, service exports are also expected to provide support to economic growth.

■ First new Central Bank governor in 20 years

As the US interest rate hikes continue, differences are beginning to appear in the monetary policies of the countries of Asia, such as Korea beginning to raise interest rates. Taiwan's Central Bank has been lowering the policy interest rate gradually since 2012, and currently has it set at the low level of 1.375%. Against this backdrop, a successor to Perng Fai-nan, who will have served as the governor of Taiwan's Central Bank for the last 20 years, is due to be appointed in February of 2018. Deputy Governor Yang Chin-lung is seen as a strong contender as his successor, so there is expected to be no great change in policy stance. The consumer price rise increase rate is currently settled in the low 0% range and there is only a very slight possibility of a switch to a tighter monetary policy in the short term.

To the extent that expanding the interest rate differences between Taiwan and the West runs the risk of triggering capital outflow, the new governor will be tasked with monetary policy management that can sustain stable growth.

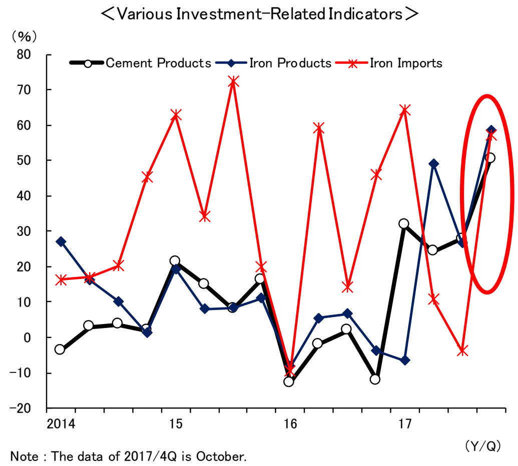
(Kentaro Matsuda)

Philippines Hopes of early improvement in investment environment

■ Signs of weakness, but the economy is expected to perform strongly in the future

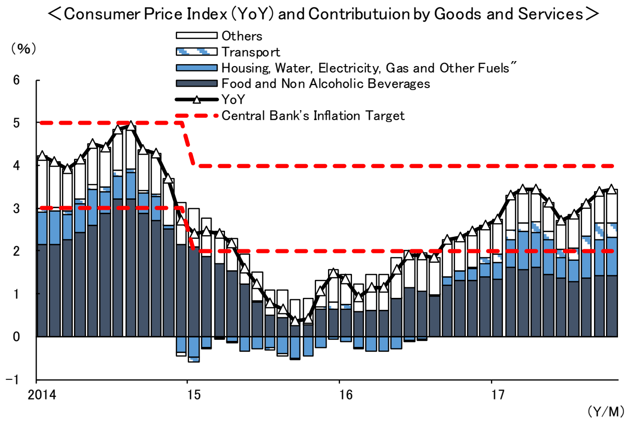
The Philippine economy is currently showing signs of weakness.

Infrastructure investment is one item that has maintained a healthy pace of growth. In terms of investment-related indicators for October of 2017, while growth in capital goods imports has contracted following a lull in private investment, products and imports of cement and steel, which are used extensively in infrastructure development, accelerated from the July to September quarter.



Note : The data of 2017/4Q is October.
Source : PSA

On the other hand, in addition to poor sales of passenger cars and a deterioration in consumer sentiment, the household sector is showing signs of weakness. Sales of passenger cars in October of 2017 could only manage a very low 1.6% growth, compared to the same period in the previous year, which was in response to the transportation authorities' strict crackdown on the registration of vehicle dispatch apps. The consumer expectations index, which is an indicator of consumer sentiment, was 9.5% for the October to December quarter, also down slightly from the previous period (10.2%). This appears to have been due to rising inflation since the summer, in response to higher prices for natural resources, worsening security as a result of extremist activity on Mindanao, typhoon damage and the like.



Source : PSA

Moreover, exports seem to have peaked out. Dollar-denominated exports for October shrank in comparison with the first half of 2017, which posted double digit growth, 6.6% up compared to the same period in the previous year. This is thought likely to have been a recoil in reaction to the sudden increase in exports from the end of 2016.

Even looking ahead to the first half of 2018, it is expected that export growth will continue to lose momentum. However, due to an improved incomes situation following the lowering of personal income tax rates, personal consumption, which at the moment is exhibiting signs of weakness, is expected to recover, and as government infrastructure development work gets fully underway, this and other factors will likely provide support for growth in domestic demand, and it is anticipated that the economy will continue to grow at a solid pace.

■ Foreign investment negative list set to be revised

On November 21, President Duterte took steps to ease restrictions on foreign investment. Specifically, the aim is to ease restrictions on foreign investment and the employment of foreigners in eight categories, including retail trade enterprises, the construction of public works projects and the employment of teachers at higher education levels, in the first scheduled revision of the foreign investment negative list in two years. The Philippines' restrictions on foreign investment are tougher than those of many other ASEAN countries, and this is said to be one reason that the Philippines lags behind other countries in its attempts to attract foreign capital. The revision of the negative list requires parliamentary deliberation, and it is expected that there will be many twists and turns before it can be implemented, but if it is implemented then it is expected that it will contribute significantly to the strengthening of the growth of the Philippine economy in the midterm.

(Yuta Tsukada)

China Economy gradually decelerating once again

■ Trade and business confidence are strong

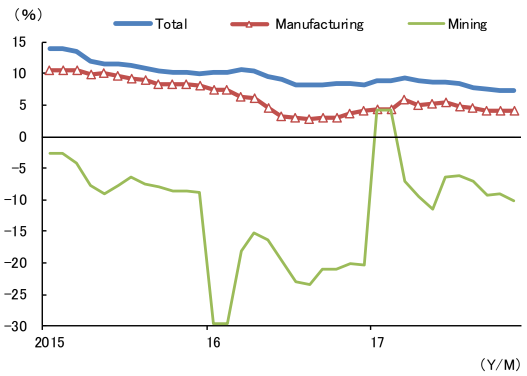
China's economy has begun decelerating again recently. However, the economy has not stalled, and several indicators are continuing to post strong figures.

It is the declining trend in investment growth that is noticeable. Fixed assets investments in the January to November period (excluding rural households) grew 7.2%, compared to the same period in the previous year, 1.4% points down from the January to June period. In terms of individual industries, as manufacturing struggles to grow, the pace of decrease in mining has also increased. The tougher monetary stance that the authorities have adopted in order to prevent overheating has caused the investment growth rate to begin to dip once again.

On the other hand, November's exports (US$ basis) grew 12.3%, compared to the same period in the previous year, the highest export growth rate for eight consecutive months. Against the backdrop of global economic recovery, exports to Hong Kong have reverted once more to positive growth, and those to the industrialized nations and ASEAN have accelerated, so that Chinese exports to all major export markets are performing strongly. An examination of individual export items reveals strong expansion overall.

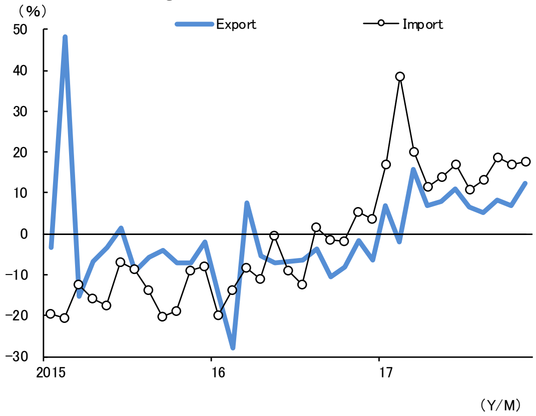
Against this backdrop, corporate sentiment is also continuing strongly. The manufacturing industry purchasing managers' index (PMI) continues at above 50, the midpoint between improvement and deterioration. The November manufacturers' PMI improved 0.2% points on the previous month, and component items, such as new orders received and production, were all generally up, compared to the previous month.

<Fixed Assets Investment (Year to Date, Y o Y)>



Source: National Bureau of Statistics, CEIC

<Change of Trade (US Dollar Basis, Y o Y)>



Source: Customs Statistics, CEIC

■ Along with tighter monetary policy, attention is also being focused on consumption stimulus

Looking ahead to the future, it is thought likely that the Xi Jinping regime will continue to manage the economy with tight monetary policy, in order to push ahead with structural reforms and to clear excessive debt. At the meeting of the Politburo of the Communist Party of China on December 8, structural adjustments and the reasonable control of debt ratios were set as priority items for 2018, and the government's tight monetary stance was emphasized.

However, even allowing for a substantial slump in the economy, the probability of the further tightening of monetary policy is slight, and it is expected that the government will at the same time implement measures to secure the stable growth of the economy. In fact, fiscal side economic stimulus measures are being implemented, such as lowered import tariffs (187 items, including baby diapers and electronic toilet seats) from December, and other consumption stimulus measures. Also, there is little danger of monetary policy being tightened to an excessive degree. The producers' price index for November was up by 5.8%, compared to the same period in the previous year, a slowdown in growth momentum. Consumer prices also are continuing steadily in the 1% range. The need for additional monetary tightening policies for the purpose of curbing inflation has receded, and there is a strong possibility that a significant economic deceleration on the monetary front can also be avoided.

The hope is that, in 2018, the Xi Jinping administration will be able to exercise a proper level of control over the macro-economy, in order to stabilize the economy and advance structural reforms.

(Junya Sano)