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Topics *Current situation and outlook for the admission of Indian workers to Japan*

The admission of Indian workers to Japan has been limited. Against the backdrop of environmental changes both in India and Japan, however, the number of Indian workers in Japan is anticipated to increase in the future.

■ The number of workers from Asia has been rapidly increasing in Japan

Against the backdrop of labor shortages, among other factors, the number of foreign workers in Japan has been rapidly increasing. The number of foreign laborers, which had recorded approximately 790,000 in 2014, reached 1.28 million in 2017, hitting a record high. The increase in the number of foreign laborers in recent years has been prompted by part-time jobs for technical intern trainees and foreign students mainly from Vietnam, China, the Philippines and Nepal. Despite an increase in the admission of workers from China and Southeast Asia, no significant changes have been observed in the admission of workers from India, which is known as the world's largest source of laborers.

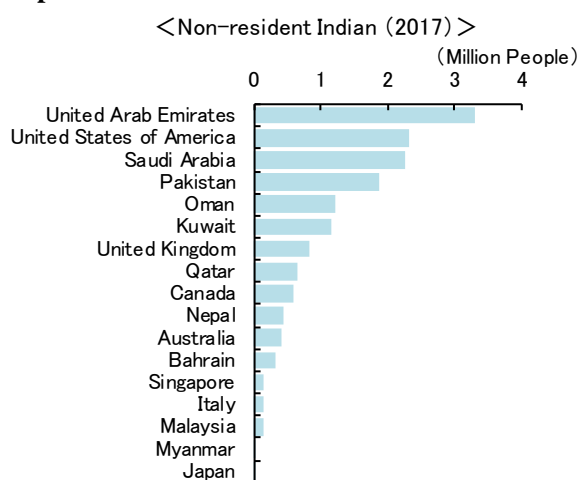
■ Why has the number of Indian workers in Japan been limited?

As for the reasons why the number of Indian workers in Japan has been limited, we can point out the lack of appeal of Japan as a place to work in addition to the fact that an infrastructure to send and accept Indian workers has not been developed. Looking at the environment surrounding unskilled laborers, many Indian workers have been employed in countries in the Middle East with geographical and cultural proximity such as the UAE, Saudi Arabia, Oman, etc. as well as English-speaking nations such as the United States, the United Kingdom, Australia and Singapore.

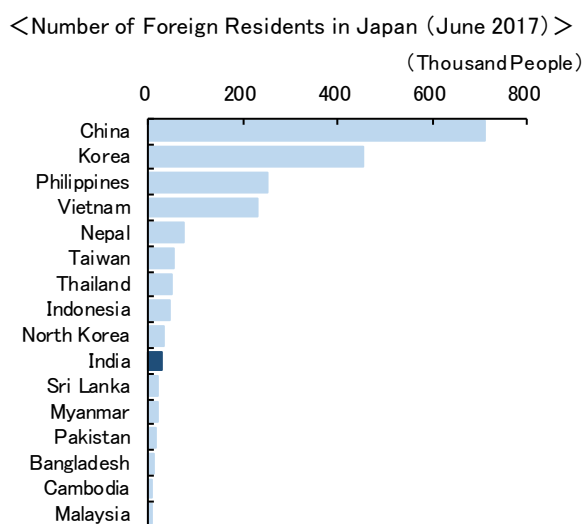
Other factors inhibiting the admission of Indian workers include the facts that Japan has not permitted the admission of unskilled laborers in principle except for the case of technical intern trainees and that the establishment of certified sending organizations under the technical intern training program has been delayed in India.

Meanwhile, highly-skilled workers and foreign students on a career path tend to strongly wish to be employed or study in English-speaking nations such as the United States. While Japan has aimed to attract highly-skilled Indian workers mainly in the IT field, there have been constraints including the high Japanese proficiency required for employment in Japan, an opaque promotion system and a corporate culture unique to Japan, and an undeveloped education environment for their children. Under such circumstances, the number of Indians living in Japan has remained at a low level relative to other Asians living in Japan with approximately 30,000 in total. Meanwhile, although geographical distance and dietary constraints may also be factors behind

the delay in the admission of Indian workers, it is difficult to regard them as major inhibitors given the rapid increase in recent years in the number of students and technical intern trainees from Nepal which is close to India in terms of geographical location and culture.



Source: United Nations, "Trends in International Migrant Stock The 2017 revision"



Source: Ministry of Justice

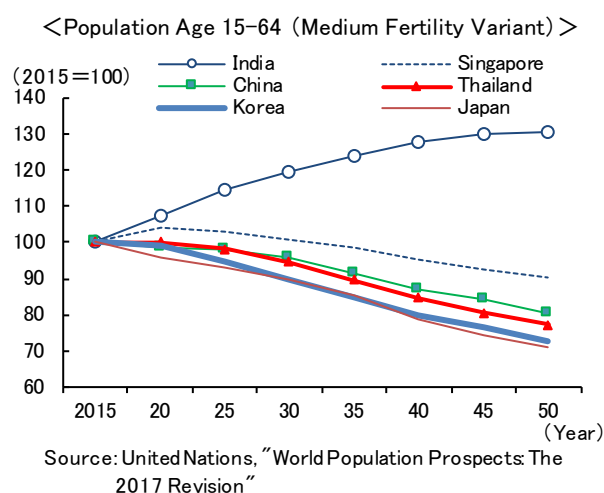
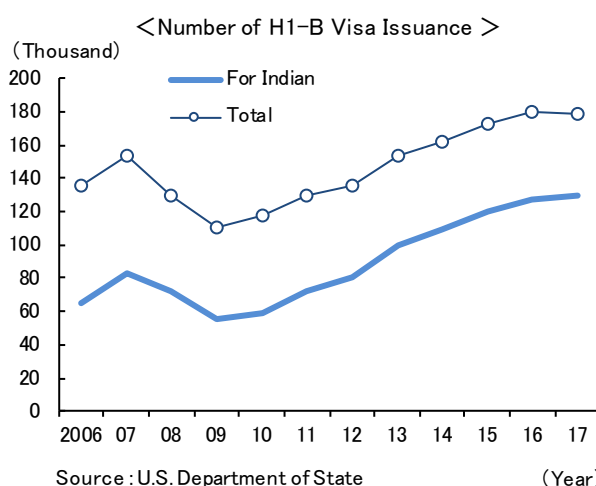
■ Environment for sending and accepting Indian workers has significantly changed in recent years

Despite the aforementioned situation, the movement that Indian workers will wish to work in Japan is likely to be boosted in the future given the following points. Firstly, a certified sending organization for unskilled laborers was established in accordance with the memorandum on cooperation for the technical intern training program concluded between Japan and India in October 2017. The Indian side aims to dispatch the first intern trainees under the organization management scheme by mid-2018. In addition, labor demand in oil-producing countries, which had been the major accepting countries for unskilled Indian workers, has been sluggish against the backdrop of a sharp decline in resource prices in 2015 and 2016, which will serve as a factor pushing forward the employment of such workers in Japan. Meanwhile, Japan has been suffering from labor shortages primarily in the fields of construction and nursing care due to increasing demand for infrastructure and urban development towards the 2020 Tokyo Olympic and Paralympic Games as well as the rapidly aging society. Shri Dharmendra Pradhan, Minister of Skill Development and Entrepreneurship of India also mentioned that India will aim to dispatch 300,000 intern trainees in the future.

In terms of highly-skilled workers, while Japan has been strengthening its system to promote the admission of Indian workers by developing a points-based system, Europe and the United States have been tightening the rules for accepting immigrants. Due to such trends, Indian workers who find it difficult to find a job in Europe and the United States will likely consider working in Japan in the future. In the United States which is the largest accepting county of highly-skilled Indian workers, the issuance of H1-B visa for workers with highly specialized expertise has been reduced since the inception of the Trump administration. Visa issuance in 2017 declined from the previous year. While the number of visas issued for Indians, which accounts for more than 70%, slightly increased, the tightening of H1-B visa issuance will significantly affect the selection of countries for employment by Indian workers.

These changes in the environment will provide Japan with opportunities to attract desirable laborers, mainly highly-skilled workers. In addition, an expansion of the admission of Indian workers will not only address labor shortages in Japan but also promote the expansion of businesses in India by utilizing Indian workers with experience of working for Japanese companies and attract Indian tourists who will travel to Japan to visit their fellow Indians living in Japan. However, attention must be paid to the fact that global competition for acquiring talents has been increasingly intensified in the face of the falling birthrates in Asian countries. Therefore, in the case where Japan is stuck in preliminary discussions on the acceptance of foreign laborers and the development of acceptance conditions does not progress, it is highly likely that Indian workers, mainly high-skilled workers, will move to destinations other than Japan. In order to deepen personnel exchange with India, which will likely maintain extremely high potential as a sending nation of workers and tourists on the back of continuously increasing population in the future, it is necessary for Japan to take urgent measures to develop an adequate acceptance system.

(Shotaro Kumagai)



Taiwan Growth driver shifting from external demand to internal demand

■ Growth rate has remained at the 3% level for three consecutive quarters

Taiwan's real GDP in the January to March quarter of 2018 grew 3.0%, compared to the same period in the previous year, achieving growth at the 3% level for the third consecutive quarter.

In terms of the contribution of individual demand items, the contribution of gross capital formation remained negative for three consecutive quarters with a contraction of -0.4% points in the same period due mainly to a drop-off period in the investment cycle of leading semiconductor manufacturers. On the contrary, exports grew 4.9% in the same period, continuing to boost the growth rate. This was driven by electronic components such as semiconductors on the back of the expansion of global IT demand. Furthermore, private consumptions remained brisk with growth of 1.6% in the same period thanks to the favorable employment and income situations as well as asset effects due to a rise in stock prices and real estate prices.

In terms of the future outlook, it is expected that the momentum of exports as a growth driver will decelerate due to the levelling off of global smartphone demand, which is likely to result in a slight decline in the growth rate.

Having said that, Taiwan will likely maintain solid growth at around the mid-2% level in 2018, underpinned by brisk internal demand.

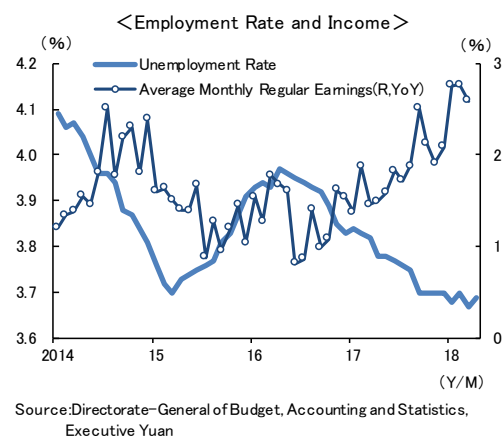
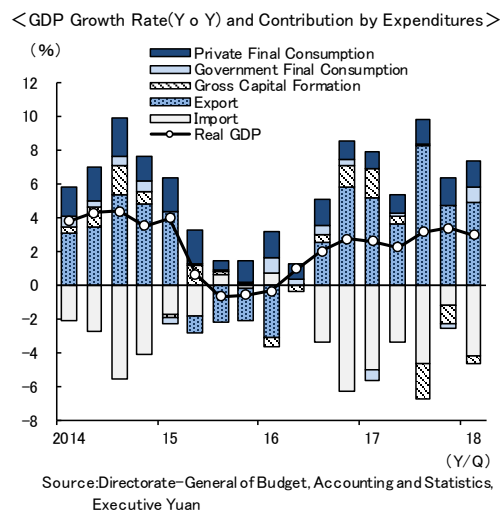
Specifically, gross capital formation, which is currently sluggish, is anticipated to grow significantly in the future owing to the following reasons: 1) full-fledged commencement of the Taiwanese government's large-scale infrastructure projects (Forward-looking Infrastructure Development Program) mainly in the railway field is anticipated; 2) there will be restoration demand and an increased demand for earthquake-resistant measures following the Hualien Earthquake in February 2018; and 3) leading semiconductor manufacturers are planning to boost capital investment towards the mass production of advanced fine processors with circuit wiring of several nm.

Moreover, there are favorable conditions for consumer spending. While salaries for soldiers, public servants and teachers in 2018 increased for the first time in seven years since 2011, up 3% from the previous year, this is expected to influence salary increases in the private sector, thus boosting income expansion from a macro-economic perspective.

■ Attention must be paid to Taiwan's countermeasures against competition from Chinese and South Korean semiconductor manufacturers

China, which has become the center of production bases of electronic equipment and the world's largest semiconductor market in recent years, has upheld a policy of focusing on the domestic production of semiconductors shifting from imports as part of its industrial policy called "Made in China 2025." As multiple projects to construct large-scale semiconductor plants in China are in progress with the support of the Chinese government, the plants are expected to gradually commence production in the future. Furthermore, South Korea, which had focused on the production of memories in the past, has made clear its intention to shift its focus to foundry business (semiconductor foundry with a focus on the fabrication of devices other than memories), which had been dominated by Taiwanese companies, in the future. As Taiwan has a small domestic market and is heavily dependent on the export of semiconductors, it is concerned that the traction of the semiconductor economic growth, which had driven the Taiwanese economy, will be weakened as a result of the rise of Chinese and South Korean semiconductor manufacturers.

(Michinori Naruse)



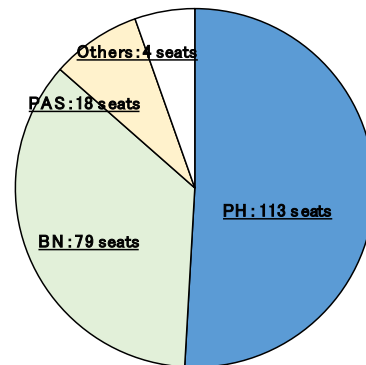
Malaysia Regime change happened for the first time in Malaysia

■ Mr. Mahathir Mohamad was reappointed as Prime Minister of Malaysia

Malaysian politics is facing a significant turning point. The 14th Malaysian general election was held on May 9, 2018, whose ballots were counted on the same day. As a result, contrary to the prediction by a majority of people that the ruling Barisan Nasional (BN) coalition led by incumbent Prime Minister Najib Razak would win, Malaysia's main opposition, Pakatan Harapan (PH), led by former Prime Minister Mahathir, won 113 seats, which allowed PH to form a majority government and achieving Malaysia's first regime change. Former Prime Minister Mahathir was sworn in as the next Prime Minister by the King on the following day.

Since the new Prime Minister Mahathir has a track record of achieving significant development of the Malaysian economy under strong leadership in the past, there have been growing expectations for his strong leadership. Responding to such expectations, the new administration has been actively implementing its campaign promises since the inception of the government. On May 16, the new government announced that the rate of the Goods and Services Tax (GST), introduced in April 2015, will be reduced to 0% on June 1, with a prospect of ultimately abolishing the tax itself, as the reduction of the tax rate can be implemented without deliberation in Parliament. In addition, the new government also decided to review large-scale infrastructure projects and reintroduce a subsidy for gasoline fuel.

< The Result of The 14th Malaysian General Election >



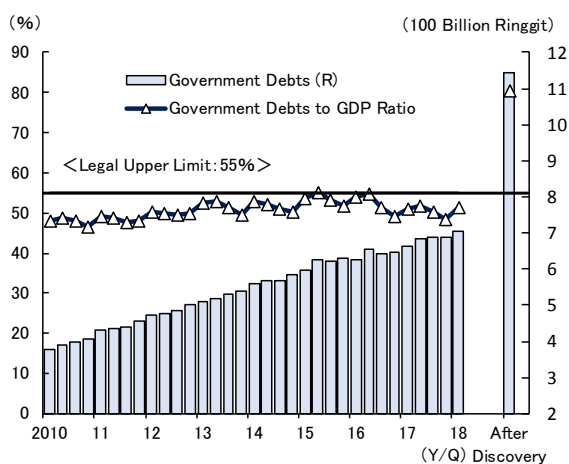
Source : EC

■ Despite the disclosure of hidden debts, a currency crisis will likely be avoided

While realizing campaign promises, the new government has also been probing the scandals involving former Prime Minister Najib. Amid such circumstances, the new finance minister Lim Guan Eng revealed on May 23 and 24 that the government's debts had been underreported by the previous government. In response to this disclosure, stock prices, which had been stable during the general election, plummeted.

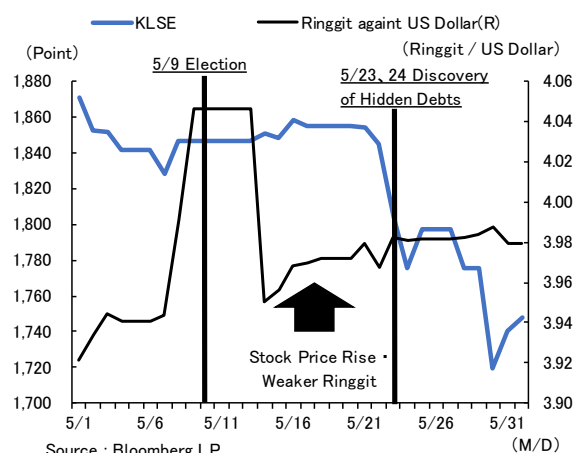
As a recent example of hidden debts revealed after regime change, the debt crisis in Greece is notable. Following the disclosure of hidden debts, the Greek market and economy experienced major turmoil including a sharp fall in government bonds and stocks and significant depreciation of the euro. However, given the fact that Malaysia has a current account surplus and a relatively high level of foreign currency reserves as well as high expectations for the Mahathir administration and its new policies such as the suspension of large-scale public works, we expect that Malaysia will be able to avoid a serious currency crisis. Having said that, due to the effects of the suspension of large-scale public works, Malaysia's growth will inevitably slow down in the second half of 2018.

< Government Debts >



Source : Bank Negara Malaysia, Department Statistics Malaysia

< Stocks and Currency Trends Before and After The Election >



Source : Bloomberg LP.

(Yuta Tsukada)

China Making effort to avoid the trade friction with the U.S.

■ Concerns remain for the future outlook despite progress in bilateral discussions

The Chinese government has maintained its attitude of not succumbing to any sanctions with regard to a wide range of trade demands from the Trump Administration. On the other hand, China has also been making every effort to avoid all-out confrontation by continuing bilateral discussions so that the trade disputes with the United States will not intensify further.

The joint statement by the U.S. and China announced following the second trade consultation held on May can be considered as the achievement of such efforts to a certain extent from the China perspective.

For example, the consensus on “taking effective measures to substantially reduce the United States trade deficit in goods with China” may sound like a significant concession from China. However, no reduction targets have been set. The joint statement also contained the following expression: “To meet the growing consumption needs of the Chinese people and the need for high-quality economic development, China will significantly increase purchases of U.S. goods and services.” This will help the Chinese government voluntarily implement measures to expand imports from the U.S. as an initiative beneficial to China rather than as a concession measure.

However, the subsequent development was not in accordance with the predictions of the Chinese government. This was attributable primarily to the fact that the U.S. government announced additional tariffs, which had been suspended temporarily, once again, and the movement towards avoiding the implementation of sanctions regressed (based on the information at the time of writing).

■ Reducing import tariffs from the long-term perspective

While continuing negotiations with the U.S., the Chinese government announced the reduction of import tariffs in late May. While the reduction of tariffs on automobiles and automobile parts is regarded as a measure to avoid trade friction with the U.S., other targets include items with low relevancy to the reduction of the U.S. trade deficit with China such as marine products, apparel, and cosmetics. In addition to boosting consumption through the expansion of imports, the tariff reduction seems to be aimed at utilizing the demand from the U.S. for market opening and correction of trade imbalances as “foreign pressure” and thereby prompting Chinese companies to take serious steps towards the reinforcement of competitiveness.

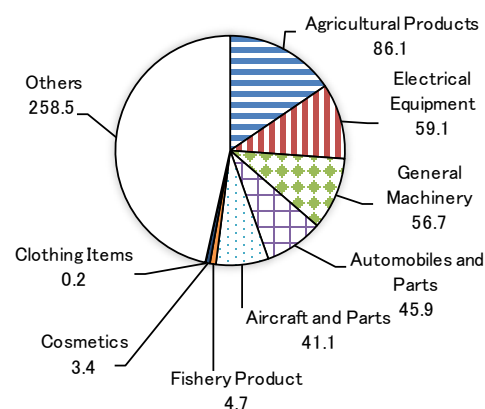
As discussed above, measures including the reduction of import tariffs and market opening by Xi Jinping’s administration are not simply based on the short-term objective of avoiding trade disputes with the United States but also reflect the long-term perspectives of establishing an economic structure driven by consumption and promoting corporate reforms. It will be necessary for us to interpret the policies to be adopted by the Chinese government in the future in such a context.

<U.S.–China Joint Statement (May 19)>

Field/Target	Consensus
Reduction of the United States’ Trade Deficit with China	Take effective measures to substantially reduce the United States trade deficit in goods with China
Reinforcement of Intellectual Property Protection	China will advance relevant amendments to its laws and regulations in this area, including the Patent Law
Encouragement of Investment	Encourage two-way investment and strive to create a fair, level playing field for competition
Continuation of High-Level Consultations	Continue to engage at high levels on the issues and seek to resolve economic and trade concerns in a proactive manner

Source: Website of the Chinese Government

<China’s Import to U.S.
(January to April 2018, 100 Million US\$)>



Source: General Administration of Custom of China “China Customs Statistics” (Apr. 2018)

(Junya Sano)