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Topics *China's strategic allocation of government subsidies*

The Chinese government is targeting support not only at the manufacturing sector but also at non-manufacturing sectors that significantly impact on the competitiveness of manufacturing competitiveness, such as transportation and information/communications. It is not only spending significantly more than other countries but is also employing a wide range of policy instruments.

■ A clear strategy

Chinese government subsidies have attracted international attention in recent years as one of the reasons for the country's overproduction and cheap exports. Financial data from listed companies reveals a clear strategy behind China's government subsidy allocation.

The government subsidies received by 2,857 listed manufacturing companies from 2015 to 2023 totaled 1.0119 trillion yuan. Their ratio to net sales - the subsidy ratio - was 0.63%. Dividing the 2,857 companies into 15 sectors, the subsidy ratio for information/communications equipment and electronic parts/devices was the highest at 0.95%, followed by general, production, and commercial machinery (0.87%), chemicals (0.71%), railway vehicles, ships, and aircraft (0.71%), and automobiles (0.68%). These figures reflect the fact that many of the priority sectors in the "Made in China 2025" industrial vision belong to the machinery and chemical industries.

A further breakdown reveals another feature of China's approach to subsidy allocation: , the government has been focusing support on nascent sectors among those in the "Made in China 2025" priority list. The subsidy ratios for sectors that had already grown to a certain degree, including new energy vehicles, shipbuilding, railway vehicles, and organic chemical materials, were 0.87%, 0.85%, 0.73%, and 0.65% respectively over the same period. While these figures exceeded the manufacturing industry average, the subsidy ratios for nascent sectors, such as machine tools and robots, semiconductors, agricultural machinery, and biopharmaceuticals, were even higher, standing at 2.35%, 2.32%, 1.04%, and 1.00% respectively.

■ Transportation and information/communications also targeted

Government subsidies for 1,568 non-manufacturing companies totaled 592 billion yuan during the same period. Although the subsidy ratio was only 0.20% overall, when the data is split into 13 sectors, transportation and postal services (0.53%) and information and communications (0.48%) stand out.

The reason for the high subsidy ratio in transportation and postal services is that Chinese government positioning lower logistics and transportation costs as a strategic goal. In 2016, it set a target of cutting the

<Subsidy Ratios by Sector in China>

	(%)
All Listed Companies(4,425)	0.35
Manufacturing(2,857)	0.63
Information/Communications Equipment and Electronic Parts/Devices(442)	0.95
General, Production, and Commercial Machinery(521)	0.87
Chemicals(561)	0.71
Railway Vehicles, Ships, and Aircraft(64)	0.71
Automobiles(157)	0.68
Plastic and Rubber Products(103)	0.64
Electrical Machinery(285)	0.64
Paper and Pulp(37)	0.64
Ceramics and Stone Products(105)	0.63
Metal Products(81)	0.61
Textiles(105)	0.54
Food and Beverages(164)	0.50
Non-ferrous Metals(81)	0.27
Iron and Steel(31)	0.21
Other Manufacturing(120)	0.42
Non-manufacturing(1,568)	0.20
Transportation and Postal Services(109)	0.53
Information and Communications(367)	0.48
Leasing and Commercial Services(61)	0.37
Electric Power, Gas, and Water Supply(125)	0.37
Other Mining(44)	0.25
Retail(96)	0.24
Metal Mining(26)	0.17
Real Estate(102)	0.15
Crude Oil and Natural Gas(7)	0.15
Finance and Insurance(126)	0.12
Construction(101)	0.10
Wholesale(81)	0.09
Other Non-manufacturing(323)	0.78

Sources: JRI based on financial data from each company and Wind
Note: Figures for 2015-23 are cumulative. Figures in parentheses are the number of companies.

ratio of total domestic logistics costs to GDP from 16.0% in 2015 to 14.0% in 2020. More recently, it has set a new target of reducing the ratio from 14.4% (the figure achieved in 2023) to around 13.5% by 2027. With this policy in place, the government has allocated an especially large share of subsidies to maritime and air transportation.

One reason for the high subsidy ratio in information and communications is that the "Made in China 2025" priority sectors

include information and communications sectors such as semiconductor design and AI. In addition, the government is strongly promoting digitalization in line with plans such as the "Outline of National Informatization Development Strategy." It also provides generous support to cybersecurity-related companies, with an eye to national security.

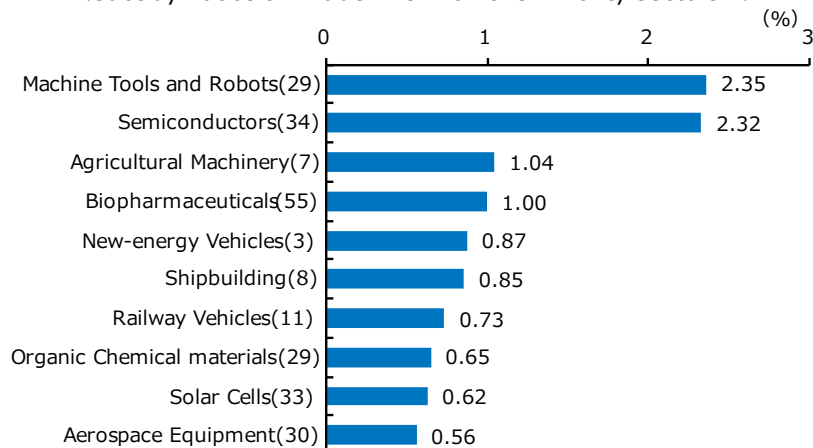
■ The remarkable scale and diversity of China's industrial policies

In addition to subsidies, the Chinese government also employs policy instruments such as tax incentives and low-interest loans. As will be described below, two characteristics of China's industrial policy can be pointed out. First, the spending is on a remarkable scale compared to other countries. Second, the government is employing a wide variety of policy instruments.

The Center for Strategic & International Studies (CSIS), a U.S. think tank, defines industrial policy as "any state intervention that aims to reallocate resources to support certain firms or sectors", and groups the industrial policy expenditures of major countries and territories into the following seven categories:

1) direct subsidies (financial support given directly to companies), 2) R&D tax incentives (preferential tax treatment to stimulate corporate R&D spending), 3) government support for R&D (direct financial assistance to companies conducting R&D, e.g. research subsidies for state projects, 4) other tax incentives (preferential tax treatment for operations unrelated to R&D), 5) low-interest loans (loans from state-owned

<Subsidy Ratios of "Made in China 2025" Priority Sectors >



Sources: JRI based on financial data from each company and Wind
Note: Figures for 2015-23 are cumulative. Figures in parentheses are the number of companies.

<Industrial Policy Expenditures as Percentage of GDP (2019)>

	China	South Korea	France	Japan	Germany	Taiwan	U.S.	Brazil
Total	1.73	0.67	0.55	0.50	0.41	0.41	0.39	0.33
Direct Subsidies	0.38	0.05	0.01	0.10	0.05	0.00	0.01	0.07
R&D Tax Incentives	0.07	0.12	0.28	0.10	0.00	0.20	0.12	0.05
Government Support for R&D	0.07	0.18	0.19	0.07	0.10	0.02	0.15	0.01
Other Tax Incentives	0.38	0.16	0.02	0.00	0.12	0.07	0.11	0.13
Low-interest Loans	0.52	0.12	0.04	0.22	0.13	0.01	0.00	0.07
State Investment Funds	0.07	0.04	0.00	0.02	0.00	0.10	0.00	0.00
China-specific Types of Support	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: JRI based on CSIS [2022] "Red Ink: Estimating Chinese Industrial Policy Spending in Comparative Perspective"

banks or financing offered at interest rates lower than market levels, as indicated by credit spreads), 6) investment by state investment funds (equity investment in domestic companies, including private equity and venture capital funds), and 7) China-specific types of support.

Looking at total industrial policy expenditure as a percentage of GDP in major countries and territories in 2019, China stands out at 1.73%, followed by South Korea (0.67%), France (0.55%), Japan (0.50%), Germany and Taiwan (both 0.41%), the U.S. (0.39%), and Brazil (0.33%). If we break down the subsidies, we see that direct subsidies are remarkably high in China, standing at 0.38% compared to 0.10% or lower in the other countries. China is also top in the ‘other tax incentives’ category (0.38%). China is also the leader in low-interest loans (0.52%), well ahead of Japan (0.22%) and Germany (0.13%).

China further stands out because of the diversity of its policy instruments. While South Korea employs six of the seven industry-promoting tools listed above, China-specific types of support include land sales at below-market prices, implicit credit guarantees for state-owned enterprises, and debt-equity swaps. In contrast, the U.S. does not offer low-interest loans or operate state investment funds and provides few direct subsidies. Germany has no R&D tax incentives or state investment funds, and France has no state investment funds. Japan, too, does not offer tax incentives for activities other than R&D, and it does not have any large government investment funds.

Given the scale and range of instruments employed by China's industrial policy, it may result in unfair trade practices. This is a key reason for the country attracting criticism for lacking consideration for international rules and other nations' interests.

(Shinichi Seki)

Topics *Asia's pivot to nuclear power*

India and ASEAN countries are getting serious about building nuclear power plants. A stabler electrical power supply should accelerate industrial site development, while reducing fossil fuel imports can be expected to improve their trade balances. Nevertheless, there are also numerous problems that the countries will need to overcome.

■ India and ASEAN countries building nuclear power plants in earnest

In India and ASEAN countries (in this report, 'ASEAN countries' refers to Vietnam, the Philippines, Indonesia, Malaysia, and Thailand), moves to expand nuclear power generation are in full swing. The countries have announced plans to significantly expand nuclear power plant capacity over the medium to long term. The ASEAN countries, in particular, are aiming to put their first commercial reactors into operation in the 2030s.

Efforts to build nuclear power plants have accelerated since the end of last year. In November 2024, Vietnam revived its nuclear power plant construction program, which had been halted in 2016 and chose Russia and Japan as its preferred partners. India announced amendments to its Atomic Energy Act (which regulates private investment in nuclear power plants) and Civil Liability for Nuclear Damage Act (which regulates the right to seek reimbursement from suppliers of nuclear material or equipment in the event of an accident) in February 2025. The revisions were aimed at encouraging private sector involvement in nuclear power initiatives. Like Vietnam, the Philippines is reviving its existing nuclear power plant program. In June 2025, a national nuclear safety bill was passed establishing a nuclear regulatory authority.

■ Some background to the nuclear power promotion

Behind the expanding nuclear power plant construction in Asia is each country's desire to diversify its sources of power to meet both decarbonization targets and growing electricity demand. Vietnam, Malaysia (2050), Indonesia (2060), Thailand (2065), and India (2070) have each set net-zero greenhouse gas emissions targets (to be achieved by the years in parentheses).

On the other hand, the IEA's STEPS (Stated Policies Scenario) suggests that electricity demand in India and ASEAN will triple between 2023 and 2050 amid population growth, economic growth, the diffusion of household appliances, and an expansion in air conditioning demand. Currently, 60% to 80% of the electricity demand in each country is met by thermal power generation, with coal-fired generation the main power source in all countries except Thailand.

While coal-fired power plants emit more greenhouse gases than natural gas-fired power plants, they enable a stable electrical power supply. Although these countries are actively promoting renewable energy development, including solar and wind, to support decarbonization,

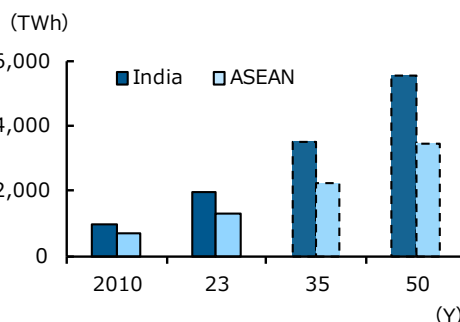
<National Nuclear Energy Policies>

India	- Expand plant capacity from the current 8.8GW to over 100GW by 2047. - Reactors totaling 13.6GW are currently under construction or planned.
Vietnam	- Expand plant capacity to 14GW by 2050. - Put reactors totaling 4–6.4GW into operation in 2030–35.
Philippines	- Expand plant capacity to 4.8GW by 2050. - Put plant of over 1.2GW into operation by 2032.
Indonesia	- Expand plant capacity to 36GW by 2060. - Put plant of 0.25–0.5GW into operation by 2032.
Malaysia	Put plant into operation by 2031.
Thailand	Put plant of 0.6GW into operation by 2037.

Sources: JRI based on announcements from national governments and various media reports

Note: Japan's plant capacity as of May 2025 was 33GW (Japan Atomic Industrial Forum, Inc.).

<Electric Power Demand Outlook >



Source: JRI based on IEA
Note: 'ASEAN' is the total for the 10 ASEAN countries. Figures for 2035 and beyond are projections based on the IEA's STEPS.

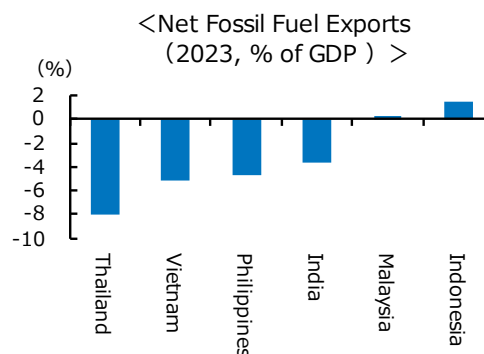
there are concerns about power supply instability as the amount of electricity generated is weather-dependent. In light of this, they are aiming for an energy mix that takes into account supply stability, and so are keen to replace some of their coal-fired power capacity with nuclear power, which can generate electricity in a similarly stable manner.

■ The economic benefits of nuclear power

Nuclear power expansion is expected to deliver two main benefits for Asian economies.

First, it will attract industry. India and ASEAN countries are working to attract data centers and semiconductor factories, but these require a stable and continuous power supply. Nuclear power is seen as a good fit for such facilities as there is little fluctuation in power generation and the plants can normally operate all year round. Indeed, a major U.S. IT platform company announced in August that it had plans to source power for its data centers from a new small reactor to be built in Tennessee. In Asia too, there is the potential for tech firms to be drawn to areas where nuclear power plants are located.

Second, it will reduce fossil fuel imports, which will improve trade balances. Most Asian countries are net fossil fuel importers. Rising international fuel prices put these countries at risk of trade balance deterioration. Nuclear power can also be expected to catalyze the shift from gasoline-powered vehicles to EVs by stabilizing electricity supply. This too is likely to reduce fossil fuel imports. The resulting improved trade balances should mitigate risks such as currency depreciation, accelerating inflation from rising import prices, and capital outflows.

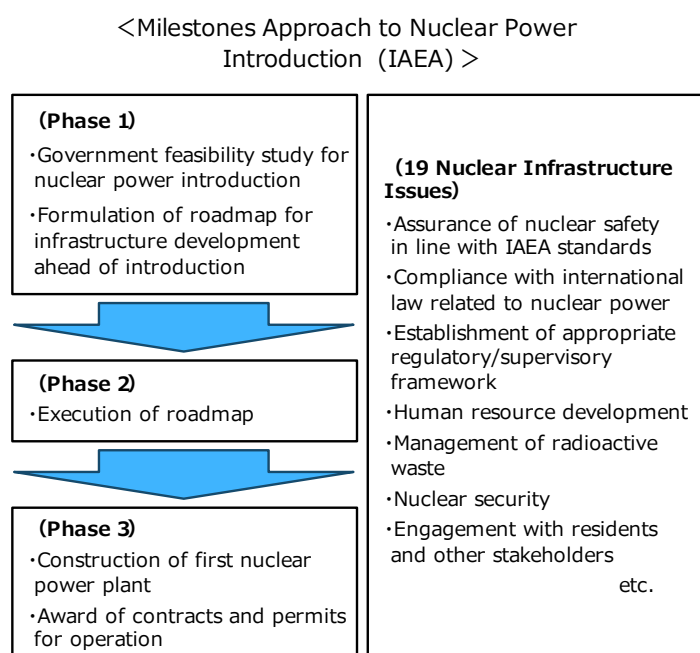


Sources: JRI based on UN Comtrade and IMF
Note: HS code 27 products are defined as fossil fuels.

■ The numerous challenges surrounding nuclear power plant development

However, a mountain of issues surrounding nuclear power will need to be tackled, such as ensuring safety, waste disposal, and curbing the risk of nuclear-weapon proliferation. This makes it unclear whether development will proceed according to the scenarios envisaged by each country. This is especially true of ASEAN countries, which will be operating commercial reactors for the first time. They will need to build domestic systems that address these problems from the ground up.

The IAEA has formulated guidance for countries building nuclear power plants for the first time. They need to successfully complete three phases to address a total of 19 nuclear infrastructure issues such as safety assurance, regulation/supervision, human resource development, and stakeholder engagement. The experiences of other countries show that it takes at least 10-15 years to move from the start of the first phase to the completion of the third phase. Although the IAEA has not specified which phases ASEAN countries are currently in, government announcements and various media reports suggest that Vietnam and the Philippines, which had concrete nuclear power plant construction plans in the past, are in Phase 2 or 3. Meanwhile, the other countries are in Phase 1 or 2. It will



Source: JRI based on IAEA

probably take some time for ASEAN countries to complete Phase 3 respectively.

Given Asia is a region with frequent natural disasters including earthquakes and torrential rain, the countries will need to build sophisticated systems to prepare for unforeseen circumstances as they push on with nuclear power development. They will also need to secure the understanding of their respective publics. We should also bear in mind the possibility of national nuclear power development plans being delayed or suspended, which could cause decarbonization and efforts to strengthen electrical power supplies not to progress as expected.

(Tomohiro Hosoi)