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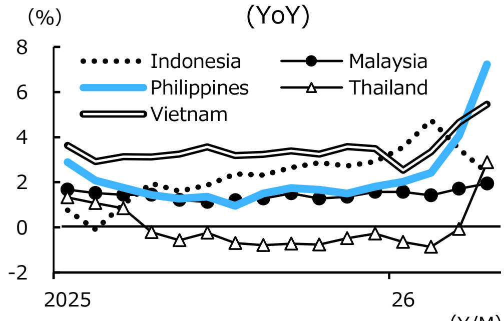
Topics *Iran conflict spurs Japan to strengthen cooperation with ASEAN*

Japan has begun providing support to ASEAN through its POWERR Asia initiative. Assistance is being advanced not only for the procurement of resources such as crude oil, but also for decarbonization industries and supply chains for critical minerals, leading to a renewed strengthening of Japan–ASEAN cooperation, which had shown signs of stagnation.

■ Financial support for ASEAN countries through POWERR Asia

With the situation surrounding Iran remaining serious, growing concerns about resource procurement have led to increased uncertainty about the economic outlook for ASEAN. On March 10, the Thai government decided to reduce energy use in government buildings, and began urging public institutions to save electricity and have employees work from home. Later, on March 18, the Vietnamese government asked Japanese Prime Minister Sanae Takaichi to supply it with some of Japan's oil stockpile. In the Philippines, meanwhile, a national energy emergency was declared on March 24 to safeguard energy security. These three resource-importing countries are highly dependent on Middle Eastern crude oil and natural gas, and this contributed to a rapid rise in inflation through April.

<Inflation Rates in ASEAN Countries>
(YoY)



Source: JRI based on CEIC

Japan has begun bolstering support for these ASEAN countries. At the Asia Zero-Emission Community (AZEC) Plus online Summit on energy resilience on April 15, Japan announced the launch of the Partnership on Wide Energy and Resources Resilience Asia (POWERR Asia), a new cooperation framework aimed at strengthening supply chains across Asia. Prime Minister Takaichi stated that AZEC, which seeks to deliver energy security, economic growth, and decarbonization simultaneously, would evolve into "AZEC 2.0" by incorporating the perspective of economic and energy resilience, supported by approximately $10 billion in assistance. Soon afterwards, during her visit to Vietnam on May 2, the Japanese government designated its first project under this framework, deciding to support crude oil procurement for the Nghi Son refinery.

<Japan's Framework for Decarbonization and Energy Resilience Support for ASEAN>

Asia Zero Emission Community (AZEC)

・Proposed in January 2022 by then-Prime Minister Kishida, with the aim of sharing the philosophy that Asian countries will pursue decarbonization, and cooperating to advance energy transitions.

・Partner countries total 11 nations: ASEAN countries (excluding Myanmar), Australia, and Japan.

↑Evolving AZEC by incorporating economic and energy resilience

Partnership on Wide Energy and Resources Resilience Asia (POWERR Asia)

Financial support etc., totaling approx. US$10 billion

【Emergency Response】Supply procurement and supply-chain maintenance

Financial support for local companies (Credit provision for crude oil procurement, etc.)

Fiscal support for Asian governments (Loans for partner countries that are part of Japan's supply-chain, etc.)

Strengthening collaboration with international organizations (Coordination with ADB financial support, etc.)

【Structural Response】Asia Economic and Energy Resilience Initiative

Strengthening energy supply systems (Support for building crude oil stockpiling systems, etc.)

Diversifying energy sources (Development of LNG, Biofuels, Nuclear power, Critical minerals, etc.)

Upgrading industry (Energy-efficiency investment, Introduction of new technologies, etc.)

Source: JRI based on METI

Measures under POWERR Asia constitute financial support rather than direct assistance, such as sharing crude oil. However, they carry significance beyond straightforward energy support in two respects: first, they may alter ASEAN's increasing tilt toward dependence on China; second, they will facilitate not only the build-up of oil stockpiles but also energy and resource supply chain development in partnership with Japan.

■ Japan‐ASEAN economic cooperation could leave stagnation behind and regain momentum

As U.S.–China tensions intensify, structural changes in U.S.–China trade have led ASEAN to be chosen as a base for trade rerouting and production relocation, and in recent years ASEAN has been strengthening its economic ties with China, particularly in the area of trade. In the decarbonization field, too, Japan's emphasis on gradual transition has been overshadowed by Western-led decarbonization finance and China's growing presence in renewable energy and EV-related investment, contributing to a sense of stagnation in Japan–ASEAN cooperation. Several initiatives have aimed to support Asia's energy transition, notably the G7-led Just Energy Transition Partnership (JETP). However, hardly any progress has been made because the framework reflected Europe's more radical decarbonization stance, including strong demands for coal-fired power phaseout, and gave insufficient consideration to the circumstances of ASEAN countries. In contrast, AZEC, proposed by Japan in 2022, aims for net zero emissions through "various and practical pathways tailored to meet the circumstances of each country," and prioritizes coordination and cooperation with ASEAN members. With the announcement of POWERR Asia as a concrete measure, energy security and supply chain resilience, which have become increasingly important in recent years, have been added as priority areas. As a result, AZEC has become a more attractive framework for ASEAN countries and is providing momentum for renewed strengthening of Japan–ASEAN economic cooperation, which had seemed to be stagnating.

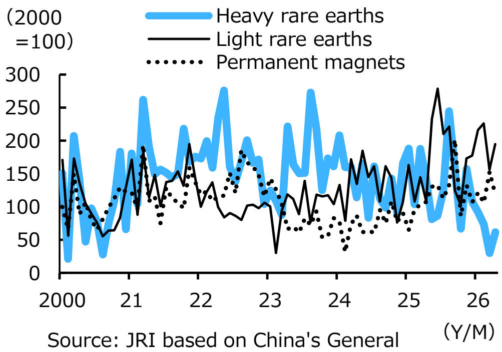
■ Cooperation is expected in critical minerals, where Japan faces difficulties

POWERR Asia includes not only assistance to ASEAN countries for alternative sourcing of crude oil and petroleum products and support for Japanese companies and others to maintain production in ASEAN, but also infrastructure development for diversifying energy sources by raising the shares of LNG, biofuels, next-generation solar power, and nuclear power in the energy mix, as well as industrial support for critical mineral development. Currently, the initiative tends to be viewed as ASEAN relying on Japan for crude oil procurement, but it needs to be noted that it has increased the potential for coordinated industrial development aimed at a broader energy transition.

Cooperation in critical minerals is particularly significant. Japanese firms remain highly dependent on China for rare earths, and since the end of 2025, amid deteriorating Japan–China relations, the Chinese government has tightened export controls on rare earths bound for Japan, resulting in procurement delays being reported. Attesting to this is the fact that exports of rare earths to Japan, especially heavy rare earths, have declined sharply.

Against this backdrop, expectations are rising for cooperation with Vietnam, which possesses some of the world's leading rare earth reserves. Yet although Vietnam has large reserves, actual production has not increased, so Japanese support is expected to be provided for mining as well as refining and processing. In addition, according to the May 17

<China's Rare Earth Exports to Japan>
(Volume basis: kg)



Source: JRI based on China's General Administration of Customs

<Production and Reserves of Rare Earths>

	Mine production (Ton, 2025)	Reserves (Ton)
China	270,000	44,000,000
Brazil	2,000	21,000,000
Australia	29,000	6,300,000
Russia	2,600	3,800,000
Vietnam	150	3,500,000
United States	51,000	1,900,000
Greenland	–	1,500,000
Tanzania	–	890,000
South Africa	–	860,000
Canada	–	830,000
Malaysia	110	710,000
Myanmer	22,000	–
Thailand	4,800	–
India	2,900	–
Madagascar	2,700	–
Nigeria	1,500	–

Source: JRI based on USGS

edition of the Nikkei newspaper, Sumitomo Metal Mining plans to increase production of rare earths in the Philippines, specifically scandium, which is recovered during nickel ore processing. The Philippines also has reserves of nickel and copper, while Indonesia has reserves of nickel and bauxite, and both nations rank among the top countries in the world for such reserves. Moreover, Indonesia has strengths in refining and processing industries, which are important for countering China's dominance in critical mineral supply chains.

With the deterioration and prolongation of the Iran conflict serving as a catalyst, Japan's economic cooperation with ASEAN countries, which had been showing signs of stagnation, is now moving toward renewed strengthening. In particular, cooperation in the critical minerals field, where Japan faces significant challenges, is likely to deepen. Developments in Japan–ASEAN cooperation will therefore continue to receive close attention going forward.

(Minoru Nogimori)

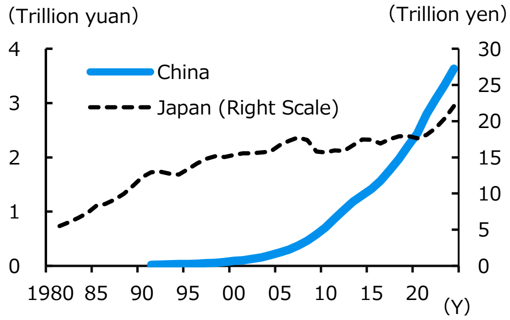
Topics China's R&D investment is expanding

China's sustained expansion of R&D investment is a trend that was not observed in Japan after the collapse of its asset bubble, even though a parallel is often drawn between China's current situation and Japan's post-bubble experience, in that both are characterized by prolonged economic stagnation. This trend thus calls for a reassessment of the excessively pessimistic views that have been expressed about the Chinese economy.

■ R&D activities are burgeoning

China's research and development (R&D) investment continues to expand steadily. The Organisation for Economic Co-operation and Development (OECD) defines R&D expenditure as the total of personnel costs, raw material costs, purchases of tangible and intangible fixed assets, lease fees, and other expenses incurred by companies, public institutions, universities, and other entities when conducting R&D activities. According to OECD statistics, China's gross R&D spending increased significantly from 1.3016 trillion yuan in 2014 to 3.6327 trillion yuan (approximately 84 trillion yen, calculated at 1 yuan = 23.2 yen) in 2024. The share of the corporate sector in gross expenditure rose slightly from 69.7% in 2014 to 71.4% in 2024.

<Gross R&D Expenditure>



Source: Prepared by JRI based on data from OECD
Note: Totals for companies, public institutions, universities, etc.

A notable point is that whereas Japanese companies became reluctant to invest in R&D and capital equipment after the bursting of the real estate bubble in around 1990, Chinese firms have continued to expand R&D investment despite the collapse of China's real estate bubble in around 2020.

Behind this trend are micro-level factors such as the "animal spirits" of Chinese entrepreneurs, a strong technological orientation, and pressure from fierce competition, as well as significant macro-level factors, including the government's commitment to medium- to long-term support, continued economic growth despite deceleration, and the fact that China's previous level of R&D expenditure was low by international standards.

First, the Chinese government's commitment to medium- to long-term support is believed to provide companies with a sense of stability, thereby encouraging them to invest in R&D. Since Xi Jinping came to power in 2012, his government has positioned the nation's "innovation-driven development strategy" as a core national policy. It has set the goal of making the country a world-class science, technology, and innovation powerhouse by 2050, and aims to promote increases in R&D expenditure across industry, academia, and government by 2030. In line with such medium- to long-term plans, China has also announced specific medium- to long-term strategies such as "Made in China 2025" for manufacturing and the Next-Generation Artificial Intelligence Development Plan for artificial intelligence. It has also announced the Five-Year Plan for Science and Technology Innovation, as well as other five-year plans for fields such as robotics. More recently, against the backdrop of intensifying U.S.–China tensions and changes in the international environment, China has made establishing itself as a science and technology powerhouse through "self-reliance and strength" its highest priority, with policy emphasis on overcoming technological bottlenecks and indigenizing core technologies.

Another difference from Japan after its bubble collapse is that while China's economic growth has slowed somewhat in recent years, it is still fairly rapid. Japan's real GDP growth rate was stuck at around +1% to +2% from the 1990s onward, whereas China's remains at +5% as of 2025. As its economy has expanded, companies' cash flow, which funds R&D investment, has increased.

In addition, while Japan's R&D expenditure as a proportion of GDP in around 1990 was already higher than in the U.S. or Germany, the figure for China in 2024 (2.7%) remains below those for Japan (3.6%), the U.S. (3.4%), and Germany (3.1%). In other words, this international comparison shows that Japan had limited room to increase R&D expenditure at the time its real estate bubble collapsed, whereas China still has ample room to do so.

■ R&D investment expansion is most pronounced in high-tech fields

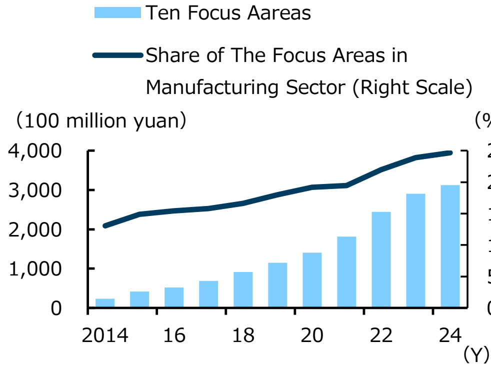
The gross R&D expenditure of all the manufacturing companies listed on the three stock exchanges of Shanghai, Shenzhen, and Beijing increased from 182.1 billion yuan in 2014 to 1,264.5 billion yuan in 2024. This data, obtained from annual securities filings, includes not only spending on in-house R&D but also on outsourced R&D. By contrast, the OECD R&D expenditure data presented above covers only spending on in-house R&D by companies, public institutions, and universities. This is to avoid double-counting and to capture nationwide R&D activity trends. Because the definitions differ, absolute figures and growth rates cannot be compared directly. Nevertheless, both datasets indicate the same direction for R&D expenditure, i.e., ongoing expansion.

In the "Made in China 2025" document released by the Chinese government in 2015, ten focus areas were identified, and a national strategy of aggressive and targeted investment in these areas was presented. According to an independent tally, total R&D investment in the ten focus areas increased by a remarkable factor of 13.1 over the subsequent decade. As a result of this rapid increase, the share of focus areas in total R&D investment by listed manufacturing companies has risen from 13.1% in 2014 to 24.7% in 2024.

In particular, storage batteries and solar cells have seen an approximately 26-fold jump in R&D investment and a roughly 10-fold increase in sales over the past decade, positioning them as powerful drivers for the upgrading of China's manufacturing sector and the country's energy transition. Lithium-ion batteries, the dominant storage battery type, are used in electric vehicles (EVs) and energy storage systems (ESS), making them indispensable products for supporting green transformation (GX), for which there is an international consensus. They also have broad applications in electrical and electronic devices.

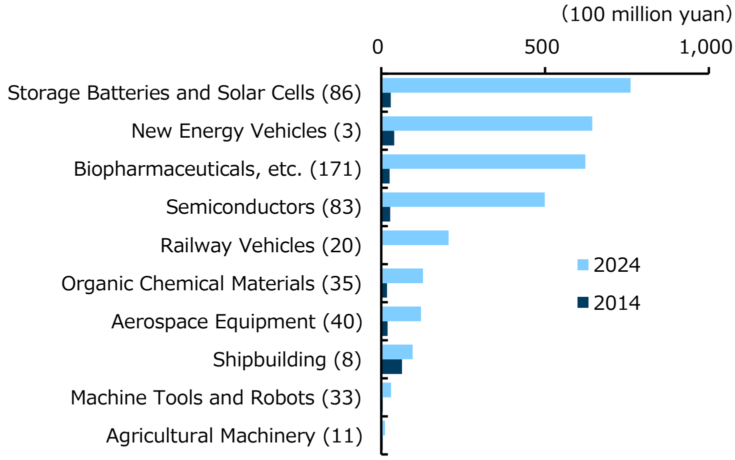
In addition, R&D investment in the field of new energy vehicles has soared by about 16 times over the ten-year period, while sales have risen by around 14 times. China's new energy vehicle market, which includes EVs, plug-in hybrid vehicles, and fuel cell vehicles, has expanded rapidly since 2021 thanks to longer driving ranges, shorter charging times, lower prices, the proliferation of charging stations, and various government support measures. Against this backdrop, non-state-owned automakers in particular have been steadily strengthening their technological capabilities through aggressive R&D investment. R&D investment has also increased markedly in biopharmaceuticals and medical devices, semiconductors, and railway vehicles. Through R&D investment, Chinese companies have been developing new technologies, brands, products, and production/sales processes, which is likely contributing to

<R&D investment in "Made in China 2025" focus areas>



Source: Prepared by JRI based on financial data from listed companies and data from Wind
Note: As of December 31, 2024, there were 490 companies in the "Made in China 2025" focus areas.

<R&D Investment in Each of Ten Focus Areas>



Source: Prepared by JRI based on financial data from listed companies and data from Wind
Note: Figures in parentheses are the number of companies as of December 31, 2024.

productivity improvements.

As the above discussion has shown, R&D activities are burgeoning in China. When considering future prospects for China's economic growth and how to compete and cooperate with Chinese firms, it is important to take such facts fully into account.

(Shinichi Seki)