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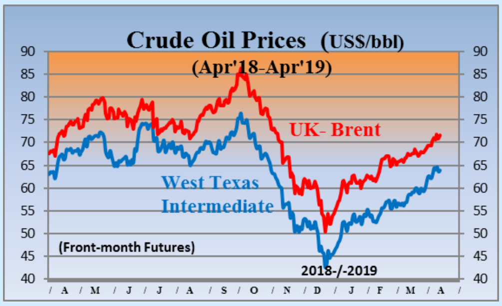
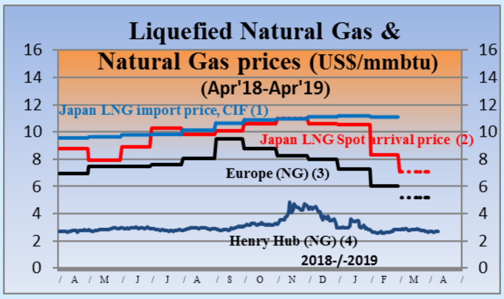


Source:
(1) DOE-EIA
(2) Investing.com



Sources:
(1) Ministry of Finance "Japan Trade Statistics"
(2) Ministry of Economy, Trade and Industry (arrival month basis)
(3) Estimated by World Bank (Netherland Title Transfer Facility)
(4) DOE-EIA, NYMEX (Front-month Futures)
(5) Investing.com and Finance.Yahoo.com

Source: x-rates.com

Source: Investing.com and Finance.Yahoo.com

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1. US: Changing Political Environment for Big Tech

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Despite the failure of the second US-North Korea summit, some experts give credit to President Trump for avoiding "defeat" by not making deals casually. This is a reasonable view. Needless to say, defeat here means defeat in domestic politics by the Democratic Party, not Kim Jong-un. Regarding North Korea, the day after the Treasury Department announced sanctions on Chinese companies that did business with North Korea, President Trump tweeted the withdrawal of the Treasury sanctions on Pyongyang that had been unveiled "earlier in the day," causing serious concerns over the control of diplomatic policy. However, the United States is currently focusing on special counsel Robert Mueller's investigative report on Russia's meddling in the previous presidential election and the involvement of the Trump administration. With the report concluding that there is no evidence of the Trump administration's involvement, the possibility of impeachment looks unlikely for the time being.

However, polls conducted at the end of last year show that 62% (24% of Republicans) think the president is lying about the Russia case. The presidential election could intensify as those voters who still harbor doubts even after the Mueller report fight to prevent the president's reelection as the only way to achieve justice. Amid these internal troubles, the US-China trade talks continue. As is widely known, the trade friction between the US and China is a battle for dominance in the high-tech industry including ICT. Currently, the political environment in the US for the high-tech industry is shifting, particularly for the four Big Tech companies.

Conventionally, the IT industry has overwhelmingly backed the Democratic Party: 90% of the donations and more than 80% of the votes from the IT industry (companies and employees) went to the Democratic Party and its candidates in recent presidential elections. Analysts believe the IT industry supports the Democrats because the industry has high regard for "the role of the government as investor in forming social capital and supplying highly-educated resources with entrepreneurial spirit," and this philosophy is more closely aligned with the Democrats than the Republicans. This has also been true regarding actual policies. The IT industry emphasizes the importance of diversity and welcomes the immigrant workforce, and has thus been critical of the Trump administration's ban on immigration and disregard for minority rights.

However, companies are becoming increasingly frustrated with the Democratic Party as it set out to regulate Big Tech based on the Personal Data Notification and Protection Act and Anti-trust Laws after issues such as data monopoly, vulnerability in data security, and the non-transparent collection and use of data by Big Tech were unveiled, with a prominent Democratic lawmaker promising to break up Big Tech. Further, while IT companies like Google and Microsoft are making active efforts to curb climate change, Big Tech is also teaming up with Big Oil, digitalizing oil and gas field operations to improve their efficiency. In addition to expanding production and saving costs, the collaboration's goals include reducing the risk of exploration by using AI to analyze terrestrial data and expanding profit opportunities by predicting fluctuations in the supply and demand for fuel ahead of others using big data, including data on oil and gas operations. Such collaboration between Big Tech and Big Oil is being criticized as accelerating climate change.

So far, only progressive members of the Democratic Party are criticizing Big Tech, but this did not exist in 2016. The IT industry is the second largest donor after the oil industry, and may have a significant impact on US politics going forward if the industries decide to work closer together, resulting in a possible change in which party they back.

2. EU: Developments in Foreign Direct Investment Regulations

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Recently, EU and other European countries are establishing new regulations on foreign direct investment and ramping up existing ones. On March 5, the EU Council adopted a regulation establishing a framework for the screening of foreign direct investments into the EU, the first comprehensive framework for the EU. The new rules will create a cooperation mechanism where member states and the Commission will be able to exchange information and raise specific concerns. Further, the regulation prescribes the members' rights to retain the power to review and potentially block foreign direct investment on security and public order grounds. The new regulation was published on March 21, will enter into force 20 days later, and will apply 18 months later.

Meanwhile, the European Commission has issued a report analyzing the situation of foreign direct investment in the EU. The report confirms a continuous rise in foreign company ownership in key sectors in the EU and an increase in investments from emerging economies, such as China. While traditional investors (US, Canada, Switzerland, Norway, Japan, Australia) account for 80% of all foreign-owned assets across the EU economy, the report also notes that investment by state-owned enterprises has grown in recent years, with such companies from China, Russia, and the UAE making three times more acquisitions in the EU in 2017 than in 2007. The report also mentions other notable trends such as the high foreign ownership in some key sectors such as oil refining, pharmaceuticals, electronic and optical products, and electrical equipment, and a surge in investments from emerging economies, notably China, for aircraft manufacturing and specialized machinery, and from India for pharmaceuticals.

The report also covers the gas and electricity sector in the energy area. The share of assets owned by foreigners is small in most of the 11 subsectors of the gas and electricity sector. Developed Asia, Australia, New Zealand, Central and South America, and India are not investing in the sector, and other foreign investors appear to be specialized, with GCC investors holding a strong position in the "gas manufacturing" subsector, the USA and Canada having a solid presence in "distribution of gaseous fuels" and Russian investors in "trade of gas through pipelines." The report indicates that most of the acquisitions conducted between 2015 and 2017 were in the "electric power generation" and "electricity distribution" subsectors, which matches the recent change in the portfolios of European companies.

China is often singled out for criticism regarding foreign investment restrictions. The European Commission and the High Representative for Foreign Affairs and Security Policy set out 10 concrete actions for EU Heads of State or Government to discuss and endorse at the European Council of 21 March. According to the policy statement, to fully address the effects of foreign state ownership and state financing in the internal market, the Commission will identify before the end of 2019 how to fill the gaps with the existing law. Any developments must be closely monitored, together with the outcome of the discussions in the European Council this month. Regarding Brexit, UK Prime Minister Theresa May has asked the EU for a three-month extension of the Brexit deadline based on the view of the House of Commons Speaker that a third vote on the PM's withdrawal deal is unacceptable. The European Council subsequently agreed to extend the deadline to May 22 provided that the House of Commons passes the proposed withdrawal deal next week, showing that the EU is demanding that a clear withdrawal date be fixed as soon as possible. The Brexit situation remains chaotic.

3. China: Basic Policy for Government Activity in 2019

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The National People's Congress (NPC) that ended on March 15 adopted the basic policy for government activity regarding China's internal politics and foreign affairs for 2019.

Regarding the economy, which is the focus of attention in and outside the country, the economic growth rate fell 0.2 points to 6.6% year-on-year in 2018, the lowest in 28 years, due partly to the impact of the US-China trade war. For 2019, the growth target was lowered to 6.0-6.5% from the previous year's target of around 6.5% citing additional downward pressure on the economy. At a press conference after the closing of the NPC, Prime Minister Li Keqiang stressed that "we will not let economic growth slip out of a reasonable range" and that "facing new circumstances, we will do our best to keep China's economic growth stable." These statements suggest that 6% growth is the absolute minimum that must be kept for securing employment and social stability. All available fiscal and monetary policies will be mobilized to achieve this goal, including a 6.5% increase in fiscal spending, a 2 trillion yuan (approx. 33 trillion yen) reduction in the tax and social security burden of companies, and a reduction of the deposit reserve ratio and financing costs.

In the area of energy and the environment, energy consumption per unit GDP (energy intensity) decreased by 3.1% in 2018, the percentage of non-fossil energy in primary energy consumption increased by 0.6 points to 14.3% (including 1.9% of nuclear power, up 0.1 point, and 12.4% of hydropower and other renewable energies, up 0.5 points) while CO_2 emissions per unit GDP (emission intensity) decreased by 4%. For 2019, the goals of decreasing energy intensity by 3% and emissions intensity by 3.6% were set. It was also decided to create a national oil and gas pipeline company as part of the system reform to separate transportation from the sale of oil and gas. The aim is to promote competition in the development of oil and gas and reduce supply costs.

Regarding foreign affairs, there is growing pressure to halt the US-China trade war since the summit at the end of last year. Ministerial trade talks have been held on January 30-31, February 14-15, and 21-24 this year, with another one scheduled for March 28-29. The talks have reportedly reached the final stage of adjusting the agreement document. Prime Minister Li has stressed his determination to reach an agreement by pledging to move the negotiations forward and implement any promises in good faith. Further, no reference was made to "Made in China 2025," which has caused alarm in the US.

At the same time, however, he stressed that China will resolutely defend its lawful interests and declared that it will accelerate the development of emerging industries and the establishment of a manufacturing powerhouse as non-negotiable interests. The NPC adopted the foreign (foreign corporate) investment law that prohibits the administrative agencies from forcing foreign companies to transfer technology. Regarding the outcome of the trade negotiations, the Chinese media generally expect a fair and just agreement for both parties and believe that China is prepared for "any new situation," meaning the worst case and suggesting that a one-sided compromise with the US is not an option. Meanwhile, regarding North Korea, which is a key interest for Japan, Prime Minister Li reiterated that China is committed to a denuclearized Korean Peninsula with peace and stability, and stressed that US-DPRK talks should be promoted with patience.

4. Russia: Mounting Frustration with the Putin Administration amid Deepening Diplomatic Woes

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President Putin's popularity has begun to slide. According to a Russian independent polling organization, Levada Center, the approval rate was 64% as of February 2019, down nearly 20% from just after the last presidential election in March 2018. The rate was nearly 90% when the government stirred up patriotism amid the West's sanctions after the annexation of Crimea in March 2014. However, with disposable incomes declining for five consecutive years and people's growing frustration with their lives, the disapproval rate of President Putin has risen to around 35%, the highest to date. In a poll by the Levada Center published in January 2019, 45% answered that Russia is moving in the wrong direction.

Under such circumstances, President Putin visited Crimea on March 18, the fifth anniversary of the annexation, and declared that the internationally-condemned annexation "demonstrated the great power of truth and justice," once again provoking the West. Just before this visit, on March 15 the United States, Canada, and the EU had announced new economic sanctions on Russia that include those Russians involved in the attack and capture of Ukrainian ships in November 2018.

In his annual State of the Union address on February 20, the president made a remark that Russia would be open to disarmament negotiations with the United States while also stating that Russia could counter with state-of-the-art weapons and "would not knock on a closed door," implying that his hardline policy would not change despite the deteriorating relations with the United States. With the official annulment of the Intermediate-Range Nuclear Forces (INF) Treaty with the United States coming into effect in August 2019, some Russian economists and military officials have alarmed that Russia should avoid resuming the arms race with the United States in light of its economic situation.

In his address, President Putin emphasized that Russia has an equal and mutually-beneficial strategic partnership with China, and their bilateral economic partnership is also delivering results. As a matter of fact, however, Russia's frustration about its relations with China is mounting. The intergovernmental agreement on finding collaborative synergy between the Russia-led Eurasian Economic Union and China's Belt and Road Initiative has born no fruit, while Russian companies have found it difficult to participate in China-led infrastructure projects. Russia is currently left out of Sino-US diplomatic bargaining over the Korean Peninsula. The Russians are increasing wary of President Putin's emphasis on Sino-Russian partnership as Russia remains unable to find a way to mend its relations with the West.

On March 11, the IEA published *Oil 2019*, stating that the United States would surpass Russia as the second largest oil exporter by 2024. Meanwhile, on March 18, the OPEC and the OPEC Plus, including non-OPEC countries and Russia, confirmed plans to maintain the scale of the joint production cut until the end of June 2019. However, Russian oil companies are starting to demand the revision of the joint production cut scheme with Saudi Arabia as they watch the United States steadily expand oil production.

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