日本貿易振興機構（ジェトロ）

ASEAN における経済安全保障および地政学リスク動向

Economic Security and Geopolitical Risk Trends in ASEAN

【要約】

2026 年 7 月に開催された第 59 回 ASEAN 外相会議では、不確実性が高まる国際環境の下、域内の団結と経済的強靭性の強化が確認された。デジタル経済枠組み協定（DEFA）は 11 月の首脳会議での署名を目指す一方、データ・人工知能（AI）規制など加盟国間の実装面の格差が課題となっている。エネルギー分野では、電力需要の増加や中東情勢を背景に、長期的な脱炭素化に加え、電力の安定供給、系統整備、輸入燃料への依存低減が重視されている。サプライチェーン多角化の恩恵を受ける ASEAN だが、米国が原産地や強制労働への規制を厳格化し、ASEAN 経由の中国製品への監視を強めている。このため、ASEAN を生産・輸出拠点とする企業には、実質的な現地付加価値とサプライチェーンの透明性を示すことが一層求められる。各国では、内政・経済面の不確実性を抱えながら、戦略産業の育成が進む。インドネシアでは検察庁と国家警察間の緊張や中央銀行総裁の交代を巡り、政策運営への不透明感が高まっている。マレーシアでは地方選挙での野党躍進でアンワル政権の勢力図に変化が生じている一方、AI ガバナンスやエネルギー市場改革、EV の現地生産を重視する政策が進む。フィリピンでは、成長鈍化への対応として投資優遇策や税収確保策を進めるとともに、AI・デジタルインフラや EV 製造への投資誘致を強化している。シンガポールは 2027 年の ASEAN 議長国就任を見据え、デジタルインフラの安全性とレジリエンス向上に取り組む。タイは、アヌティン政権の政治的基盤が安定し、EV、AI、データセンターなどへの投資誘致を進めている。ベトナムは外資誘致の重点を量から質へ移し、半導体、人材育成、技術移転、再生可能エネルギー利用を重視している。日本企業には、人材育成や技術移転、現地調達などを通じた貢献の可視化に加え、米国の監視を念頭に置いたサプライチェーンの透明性向上、制度形成段階からの関与が求められる。また、地政学リスクや内政・規制の変化を前提に置いた事業策定や規制対応、資金調達に柔軟性を持たせることが重要となる。

【免責条項】

本レポートで提供している情報は、ご利用になる方のご判断・責任においてご使用下さい。ジェトロでは、できるだけ正確な情報の提供を心掛けておりますが、本レポートで提供した内容に関連して、ご利用になる方に不利益等が生じたとしても、ジェトロおよび執筆者は一切の責任を負いかねますので、ご了承下さい。

ASEAN POLICY AND ECONOMY UPDATES

POLICY AND ECONOMIC UPDATES

ASEAN Foreign Ministers' Meeting highlights regional resilience amid external shocks

The 59th ASEAN Foreign Ministers' Meeting, held in Manila on 21 July under the Philippines' chairmanship theme, *Navigating Our Future, Together*, underscored ASEAN's continued focus on unity, economic resilience, and rules-based cooperation in an increasingly uncertain geopolitical environment.

Ministers reaffirmed their commitment to implementing *ASEAN 2045: Our Shared Future* and explored opportunities to deepen regional integration. Discussions also centred on strengthening supply-chain resilience and expanding cooperation in a range of emerging priority areas, including artificial intelligence, the digital economy, green growth, food security, and energy security.

While the meeting remained heavily shaped by security issues – including Myanmar, the South China Sea, and the Middle East crisis – its economic significance lies in ASEAN's attempt to preserve centrality and practical cooperation at a time when geopolitical tensions are increasingly affecting trade routes, energy prices, and investment flows.

The overall message of the meeting suggests that ASEAN will continue to prioritise connectivity, digital integration, energy resilience, and external partnerships as key pillars of regional competitiveness, although implementation will remain uneven across member states.

DEFA moves ASEAN closer to a rules-based digital market, but implementation will decide its value

ASEAN's conclusion of negotiations on the Digital Economy Framework Agreement marks one of the region's most commercially relevant integration milestones in years. The agreement is designed to create common rules for digital trade, cross-border data flows, e-commerce, digital payments, cybersecurity, AI, fintech, source code protection, and online consumer protection. Signing is targeted for the 49th ASEAN Summit in November 2026.

If implemented well, DEFA could reduce regulatory friction for companies operating across multiple ASEAN markets and support the region's ambition to double its digital economy to around USD 2 trillion by 2030. The risk is that ASEAN's digital ambition will again run ahead of national implementation. Data localisation, cybersecurity rules, payment interoperability, digital ID systems, and AI governance still vary sharply across member states. For businesses, DEFA should be treated less as an immediate single-market breakthrough and more as a signal of where regulatory convergence, digital infrastructure spending, and cross-border platform opportunities will concentrate over the next several years.

Energy security returns as a hard constraint on ASEAN growth

ASEAN's energy agenda is shifting from long-term transition planning to near-term security management. The implementation of the ASEAN Plan of Action for Energy Cooperation 2026–2030 and renewed focus on the ASEAN Power Grid reflect a more urgent policy recognition that growth in data centres, EVs, advanced manufacturing, and digital services will be constrained by power availability, grid resilience, and clean-energy access. Regional targets for higher renewable energy shares and lower energy intensity are politically useful, but the bigger commercial issue is whether

ASEAN can move from bilateral power trading and national-level procurement toward bankable cross-border energy arrangements. The region's dependence on imported oil and gas, exposure to Middle East shocks, and rising electricity demand make energy policy central to industrial competitiveness. Investors should expect more government intervention in power planning, renewable procurement, LNG infrastructure, grid upgrades, and data-centre approvals as energy becomes both a resilience issue and a market-access issue.

Impact of U.S.-China Tensions

ASEAN is benefiting from China+1 flows, but the region is no longer a low-scrutiny safe harbour

U.S.-China tensions continue to create upside for ASEAN as companies diversify manufacturing, electronics, EV, battery, solar, and digital infrastructure supply chains away from China. However, the opportunity is becoming more conditional. Washington is increasingly focused on rules of origin, forced-labour compliance, transshipment, Chinese content, and strategic-sector exposure, while Beijing's excess capacity is pushing more intermediate goods, machinery, consumer products, and capital into Southeast Asia.

ASEAN is therefore being pulled in two directions. On the one hand, it is benefiting from investment and trade flows redirected by geopolitical decoupling. On the other, it faces increasing scrutiny over whether manufacturing activity in the region is genuinely local or merely an extension of China-linked supply chains operating under an ASEAN banner. The implication is clear: the next phase of China+1 will reward countries and firms that can prove local value creation, transparent sourcing, labour compliance, and diversified inputs. ASEAN remains a connector economy, but connector status now comes with compliance costs.

Policy and Industry Developments in Strategic Sectors

Strategic sectors are moving from promotion to managed industrial policy

Across ASEAN, strategic sectors are no longer being treated as ordinary investment categories. Digital infrastructure, semiconductors, EVs and batteries, critical minerals, renewable energy, LNG, and AI are increasingly tied to national security, energy resilience, industrial upgrading, and geopolitical positioning. Governments still want foreign investment, but the quality bar is rising: approvals are more likely to be linked to technology transfer, local supplier development, workforce training, clean-energy access, cybersecurity, data governance, and export-market credibility. Data centres illustrate the shift most clearly. ASEAN markets want hyperscaler and AI infrastructure investment, but power and water constraints are forcing regulators to tighten standards and prioritise projects that bring broader economic value. Similar dynamics are emerging in EVs, batteries, semiconductors, and critical minerals, where governments want to move beyond assembly or raw exports into deeper value-chain participation. The investment window remains attractive, but policy is becoming more selective, more resource-aware, and more transactional.

Impact and Advice for Japanese Companies

Japanese companies may benefit from positioning as trusted partners in a more fragmented ASEAN market

For Japanese companies, ASEAN's direction is broadly positive but less comfortable than before. The region still wants Japanese capital, technology, manufacturing discipline, and long-term partnership, especially in autos, electronics, energy, infrastructure, healthcare, and advanced manufacturing. But Japanese firms should not assume incumbency will protect market share. Chinese competitors are moving faster in EVs, batteries, solar, digital infrastructure, and consumer technology, while U.S. policy is making supply-chain compliance a board-level issue. The strongest Japanese positioning will combine reliability with relevance: deeper localisation, credible supplier development, energy-efficient technology, compliance-ready production, and visible contribution to national industrial goals. Companies using ASEAN as an export base should stress-test rules of origin, labour controls, China-linked inputs, cybersecurity exposure, and data-governance obligations. Companies investing for domestic or regional growth should engage early with economic, energy, digital, and industry agencies to shape implementation details before rules harden. In short, ASEAN is still an opportunity story, but operating conditions are becoming more complex.

Indonesia

Political Updates

Elite Competition Escalates, Increasing Urgency for Government Consolidation

Arrest of a key Attorney General's Office official raises signs of institutional tension among law enforcement agencies. A police raid on properties linked to former Deputy Attorney General for Special Crimes Febrie Adriansyah uncovered 74 kilograms of gold and USD 26.4 million in cash, drawing significant public attention and underscoring the ongoing institutional tensions between the Attorney General's Office and the national police.[1] Reports suggest the assets were linked to an investigation involving a coal power plant procurement project in Sumatra and a pension fund corruption case. The development also follows the Attorney General Office's handling of other high-profile corruption investigations, including cases related to the Free Nutritious Meals (MBG) programme involving a high-ranking police official.[2] The timing of Febrie's sudden arrest, combined with accounts from internal sources, has fuelled speculation that the move was a police response to the Attorney General Office's recent arrests in the MBG investigation.

Beyond the recent arrests, the dispute points to intensifying competition among key political actors around President Prabowo. Febrie and the Attorney General Office are widely perceived to have links with the Indonesian Armed Forces (TNI), partly through his role in the Forest Area Enforcement (PKH) task force led by Defence Minister Sjafrie Sjamsoeddin. By contrast, the police are linked to House Deputy Speaker Sufmi Dasco Ahmad and former President Joko Widodo, given Police Chief Listyo Sigit Prabowo's appointment during the presidency of Joko "Jokowi" Widodo. These alignments suggest that law enforcement activity is intersected with elite bargaining inside the governing coalition.

Local political survey and consulting agency Saiful Mujani Research Centre (SMRC) reported a sharp decline in President Prabowo's approval rating to 51 percent in July 2026, compared to 81.2 percent in November 2025.[3] According to the agency, the decline was driven by mounting economic pressure, rising cost-of-living concerns, and challenges in implementing flagship initiatives such as the free school meals programme and the Red-and-White Village Cooperatives (KDMP). The survey is consistent with earlier indications of declining public approval. Indikator Politik had previously recorded a more gradual drop, from 85 percent in October 2024 to 79.9 percent in early 2026, while another survey, whose findings were not publicly disclosed, reported a similar level of public

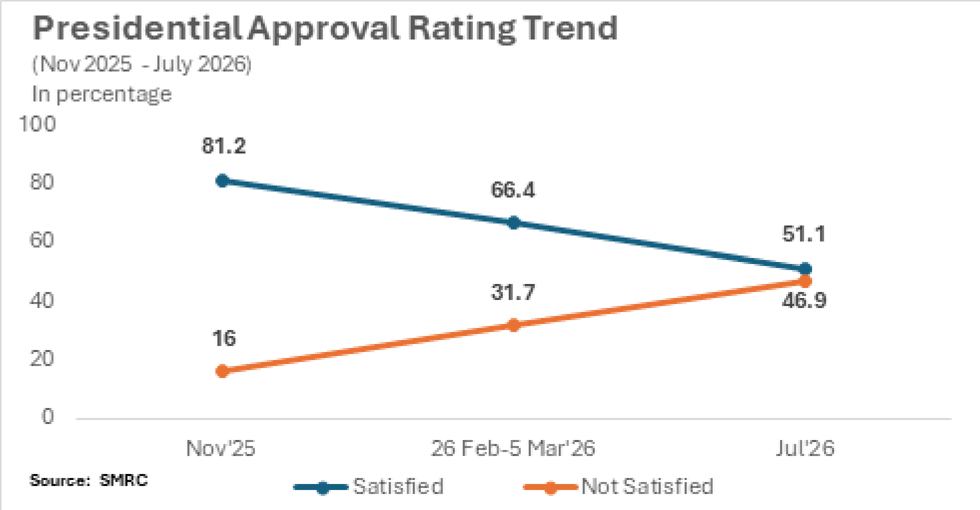
---

[1] Huru-hara Polisi-Jaksa, *Tempo,* July 10, 2026. https://www.tempo.co/hukum/konflik-polisi-jaksa-febrie-adriansyah-kasus-korupsi-2274804.

[2] AGO Names New Suspect in MBG Corruption Case: Active Police Officer and BGN Official, *Jawawa,* July 2, 2026. https://jawawa.id/newsitem/ago-names-new-suspect-in-mbg-corruption-case-active-police-officer-and-bgn-official-1782978718.

[3] Survei SMRC: Tingkat Kepuasan Publik atas Pemerintahan Prabowo 51 Persen, *Kompas.com*, July 26, 2026. https://nasional.kompas.com/read/2026/07/26/19123771/survei-smrc-tingkat-kepuasan-publik-atas-pemerintahan-prabowo-51-persen.

dissatisfaction.[4] The diminishing approval levels could push the administration toward short-term corrective measures, including budget adjustments, personnel changes, or more visible intervention in priority programmes.



Political tension and growing public distrust compounds pressure for cabinet consolidation. Speculation about a widening rift between President Prabowo and former President Jokowi has intensified amid the apparent sidelining of Vice President Gibran Rakabuming Raka, Jokowi's son, from key decision-making processes. Recent cabinet meetings, in which Gibran was notably assigned a less prominent role, have further fuelled perceptions of a political distancing between the two camps. Although a number of Jokowi-aligned figures continue to hold ministerial positions, Prabowo's efforts to consolidate authority and balance competing political interests are likely to result in additional cabinet reshuffles in the coming months.

Economic Policy Updates

Bank Indonesia Leadership Transition Adds Uncertainty to Economic Policy

Uncertainty is amplified by the resignation of Bank Indonesia Governor Perry Warjiyo, two years before the end of his term.[5] Senior Deputy Governor Destry Damayanti has assumed the role of acting governor pending the appointment of a permanent successor. Market discourse has focused on whether the next governor will preserve Bank Indonesia's pro-stability posture or move closer to the government's growth-oriented agenda, particularly if the administration seeks greater liquidity support for priority programmes. Among the names being discussed are Finance Minister Purbaya Yudhi Sadewa and Deputy Governor Thomas Djiwandono, both of whom are generally regarded as being more closely aligned with the government's growth-oriented economic agenda.

Bank Indonesia's monetary stance remains a key concern as policymakers balance currency stability against a weakening growth outlook. Since May, the Indonesian central bank has raised rates by a cumulative 100 basis points, including an off cycle increase in June, before holding the benchmark rate

[4] Survei Indikator Politik: Kepuasan Kinerja Presiden Prabowo 79,9%, *detikNews,* February 8, 2026. https://news.detik.com/berita/d-8346552/survei-indikator-politik-kepuasan-kinerja-presiden-prabowo-79-9.

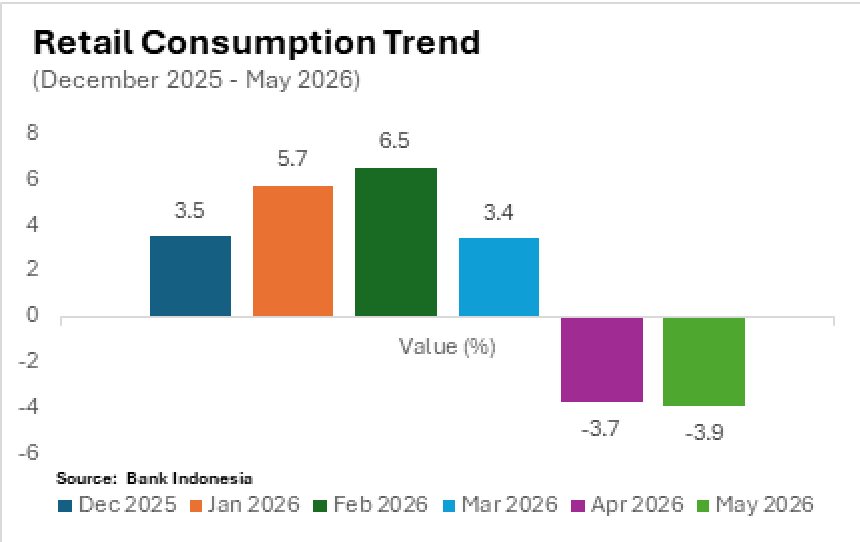
[5] Perry Warjiyo mundur dari jabatan Gubernur Bank Indonesia, *IDNFinancials,* July 27, 2026. https://www.idnfinancials.com/id/news/66590/perry-warjiyo-mundur-dari-jabatan-gubernur-bank-indonesia.

at 5.75 percent in July.[6] The decision suggests that a there is a recognition that tighter monetary policy alone can do little to stabilise the rupiah when exchange rate pressures are being driven primarily by fiscal concerns and weakening investor confidence. Despite aggressive intervention, the rupiah has depreciated by approximately 8 percent year-to-date, much lower than most of its regional peers, against the U.S. dollar, suggesting that markets remain focused on policy credibility and fiscal discipline.

The appointment of a new governor will be a key test of Indonesia's macroeconomic policy direction. The transition comes amid mounting pressure on the government to sustain growth, attract investment, and finance priority programmes amid elevated subsidy spending and debt servicing costs. Recent legislative changes, including through the Indonesia International Financial Centre (PFII) Law and revisions to the Development and Strengthening of the Financial Sector (P2SK) Law, expanded Bank Indonesia's mandate to support economic growth alongside its traditional monetary policy functions.[7] While these measures may provide greater policy flexibility, markets are likely to judge the incoming governor not only on their commitment to exchange rate stability, but also on their ability to maintain central bank independence in the face of mounting pressure for growth-oriented fiscal support.

Consumption Weakens Amid Narrow Policy Buffers

At the same time, demand-side indicators point to softer household consumption – which accounts for more than half of Indonesia's GDP. Retail sales and broader economic data suggest consumers are becoming more constrained by higher living costs and weaker purchasing power. Retail consumption has contracted by 3.9 percent year in May 2026, marking the second straight month of contraction (3.7 percent in April), the steepest fall since May 2023. Household spending appears to be increasingly supported by credit rather than savings. In June, the Mandiri Savings Index contracted by 5.7 percent, while the Loan Index rose to 24.6 percent, suggesting that consumers are drawing more heavily on borrowing as savings levels decline. For businesses, the implications are likely to vary across sectors. Export-oriented manufacturers may benefit from the weaker currency through improved competitiveness, while consumer-facing industries could face slower demand growth as households become more cautious in their spending.



[6] Breaking News! BI Rate Tetap 5,75% di Juli 2026, *CNBC Indonesia,* July 22, 2026. https://www.cnbcindonesia.com/market/20260722135819-17-752929/breaking-news-bi-rate-tetap-575-di-juli-2026.

[7] Indonesia seeks global funds with international finance hub, *Antara News,* August 3, 2026. https://en.antaranews.com/amp/news/425196/indonesia-seeks-global-funds-with-international-finance-hub.

While the government is more open to businesses, Indonesia enters H2 2026 with a narrower economic buffer than earlier in the year. Inter-ministerial task forces such as the debottlenecking task force helped businesses to resolve regulatory and technical issues. Recent elite infighting and uncertainty over appointments to the central bank chair, however, could add pressure on policy credibility and macroeconomic stability.

IMPACT OF U.S.-CHINA TENSIONS

Indonesia remains committed to maintain U.S.-China balance

Indonesia maintains strategic neutrality by pursuing closer collaboration with both China and the United States. Indonesia became a founding member of the World Artificial Intelligence Cooperation Organisation (WAICO), opening room for greater cooperation with China's AI governance priorities. According to Coordinating Minister for Economic Affairs (CMEA) Airlangga Hartarto, membership will provide opportunities to collaborate on AI governance, standards development, talent training, and capacity-building initiatives, while also allowing Indonesia to help shape the organisation's future direction and institutional framework. Indonesia joined 28 other founding members, including Brazil, Russia, Malaysia, Cambodia, Myanmar, South Africa, and Serbia. Privately, some senior officials have shared with Vriens & Partners their scepticism about the practical value of WAICO membership and whether its benefits justify the associated costs.

The balancing act is reflected in the government's parallel involvement in the accession process to the U.S.-led Pax Silica economic security initiative. The initiative seeks to strengthen cooperation among trusted partners across the AI supply chain, including semiconductors, critical minerals, digital infrastructure, advanced manufacturing, and energy. Indonesian officials have indicated that Jakarta is exploring participation in Pax Silica while simultaneously engaging with WAICO, underscoring its preference to maintain strategic flexibility and attract investment from both U.S.- and China-linked technology ecosystems. On the other hand, U.S. views are evolving, as one Jakarta-based U.S. official noted that Washington will not force Indonesia to choose sides.

Indonesia's hedging strategy suggests that regulatory fragmentation along geopolitical lines remains unlikely in the near term. The Indonesian government prioritises preserving access to competing technology ecosystems and investment pools over aligning exclusively with either bloc. For Japanese companies, this creates opportunities to position trusted technology, infrastructure, and supply-chain solutions as part of Indonesia's effort to avoid dependence on a single external partner.

Indonesia Continues Negotiation and Implementation of Key Free Trade Agreements

The United States and the European Union remain key pillars of Indonesia's trade diversification strategy, but recent developments highlight growing uncertainty in both markets. Effective July 24, 2026, the United States imposed an additional 10 percent tariff on Indonesia, targeting manufacturing overcapacity and forced-labour related imports. The Indonesian government is in consultation with the United Sates Trade Representative (USTR) to affirm its commitment in eliminating forced labour. In parallel, Indonesia edges closer to full ratification of the Indonesia-European Union Comprehensive Partnership Agreement (IEU-CEPA). CMEA Airlangga Hartarto confirmed on July 2 that the European Commission had formally submitted the IEU-CEPA and its Investment Protection Agreement to the EU Council for final approval, with targeted ratification before the EU generalised scheme of preferences (GSP) tariffs expire on January 1, 2027.

The government continues efforts to diversify trade and investment partnerships while accelerating negotiations with major economic partners. Jakarta also continues leveraging its regional and bilateral trade agreements including the Regional Comprehensive Economic Partnership and a series of ASEAN FTAs, as well as pending arrangements with the Eurasian Economic Union (EAEU) and Gulf Cooperation Council (GCC) countries to reduce dependencies on any single market. For businesses, the broader implication is that Indonesia is expected to remain open to trade and investment, but policymakers will increasingly prioritise measures that support export earnings, foreign exchange inflows, and economic growth**.**

Policy and Industry Developments in Strategic Sectors

Indonesian government accommodates industry demands to relax of Export Proceeds (DHE) onshoring and reducing scope of DSI

Centralisation of commodity exports remains a government priority, although implementation is gradual and selective. Danantara Sumberdaya Indonesia's (DSI) role has evolved from a proposed export monopolist into an export oversight body following pushback from industry associations and major exporters. Under the revised model, DSI is expected to focus on transaction reporting, price monitoring, scrutiny of transfer pricing and under-invoicing practices, and oversight through the Directorate General of Customs and Excise's (DJBC) export system. The full implementation of commodities export centralisation is set for January 2027, with a pilot phase expected to commence in September 2026, while key operational, regulatory, and interagency coordination arrangements are being finalised.

Separately, the government is preparing targeted exemptions under the Export Proceeds Foreign Currency (DHE) onshoring regime for selected partner countries. Under the proposed framework, eligible mining companies would only need to retain 30 percent of DHE funds for three months in designated non-SOE banks, compared with the standard DHE requirements. Current exemptions cover companies with a minimum 10-percent foreign ownership based in the United States, China, Canada, and Australia, while exemption for the European Union remains under ministerial review. The banking sector has advocated extending similar exemptions beyond mining, agriculture, and fisheries, so exporters can continue using private and foreign banks. The adjustments suggest that industry feedback can still shape implementation details, even as the administration keeps its broader objective of expanding visibility over strategic export flows**.**

Priority Projects: Energy and Infrastructure Takes Centre Stage

Energy and infrastructure remain central to the government's investment agenda despite rising fiscal and governance concerns. Recent government messaging points to continued development of major gas fields and waste-to-energy projects, while President Prabowo continues to promote an ambitious 100 GW solar target. However, the line ministry's more measured reference to 17 GW within two years suggests that implementation may be more pragmatic than the headline target implies.

Impact and Advice for Japanese Companies

Indonesia's near-term investment environment will remain challenging, while long-term development priorities persist. Policymakers continue to navigate slowing growth, foreign exchange volatility, and heightened scrutiny over fiscal and monetary policy. These pressures are unlikely to alter the government's priority on downstream industrialisation, renewable energy, and supply chain diversification which remain central to President Prabowo's economic agenda. But recent adjustments to DSI and DHE frameworks also demonstrates that while policymaking may be more interventionist and implementation timeline less predictable, the government is responsive to industry feedback.

For Japanese companies, the current dynamic favours a long-term investment approach. Firms pursuing strategic manufacturing, energy transition, or supply chain diversification projects should continue advancing their pipeline investments while building greater flexibility into project execution, regulatory compliance, and financing assumptions. Investors should closely monitor policy consistency, political appointments, and fiscal developments. These will be key indicators of whether Indonesia can regain investor confidence while sustaining its ambitious growth agenda. Although policy volatility is likely to remain elevated in the coming quarters, Indonesia's structural fundamentals, including its large domestic market, resource base, and clear intention to industrial upgrading, continue to support long-term investment outlook.

MALAYSIA

POLICY AND ECONOMIC UPDATES

Anwar loses ground as Barisan Nasional (BN) build momentum through state elections

The Johor and Negeri Sembilan elections marked the strongest electoral showing for the United Malays National Organisation (UMNO) and Barisan Nasional (BN) since the formation of the unity government. In Johor, BN expanded its legislative majority from 40 to 48 seats, while in Negeri Sembilan it successfully wrested control of a state previously led by Pakatan Harapan (PH).[8] The results reinforced BN's argument that it remains the most competitive Malay-based political force in Peninsular Malaysia and demonstrated its ability to attract support beyond its traditional base. At the same time, PH suffered from weaker grassroots mobilisation, declining turnout among segments of its traditional support base, and growing public dissatisfaction over cost-of-living pressures and reform delivery.[9]

More significantly, the state elections highlighted the emergence of BN and PH as direct competitors despite remaining partners in the federal government. Johor BN leaders openly framed Johor as the first step in rebuilding the coalition's national political dominance, with campaign rhetoric increasingly focused on differentiating itself from Anwar's administration rather than defending the unity government.[10] The trend was reinforced by informal electoral cooperation between BN and elements

---

[8] BN wins bigger majority in 2026 Johor polls; wipeout for PN, Bersama and Muda, *The Edge*, July 11, 2026. https://theedgemalaysia.com/node/810332; N Sembilan state polls: BN-PN sweeps PH in Negeri Sembilan with two-thirds majority, *The Edge*, August 2, 2026. https://theedgemalaysia.com/node/812981

[9] PH losses among Johor Chinese voters mainly due to low turnout, says Ong, *Free Malaysia Today*, July 30, 2026. https://www.freemalaysiatoday.com/category/nation/2026/07/30/ph-losses-among-johor-chinese-voters-mainly-due-to-low-turnout-says-ong; Govt works on Budget 2027 as Anwar faces subsidy costs, fiscal pressures and living cost challenges, *The Vibes*, July 23, 2026. https://www.thevibes.com/articles/news/125343/govt-works-on-budget-2027-as-anwar-faces-subsidy-costs-fiscal-pressures-and-living-cost-challenges

[10] Malaysia's Barisan Nasional is going solo in name only, *East Asia Forum*, July 14, 2026. https://eastasiaforum.org/2026/07/13/malaysias-barisan-nasional-is-going-solo-in-name-only/.

of federal opposition Perikatan Nasional (PN), particularly PAS, in selected constituencies.[11] While the arrangement remains tactical rather than ideological, it demonstrated the willingness of long-time rivals to cooperate when electorally advantageous and has fuelled speculation that future federal alignments may look different from the current unity government configuration.

However, BN's growing assertiveness has not translated into an imminent breakdown of the federal coalition. Senior UMNO leaders, including Deputy Prime Minister Ahmad Zahid Hamidi, have continued to publicly affirm support for the unity government, reflecting the reality that BN currently benefits from both federal incumbency and state-level momentum[12]. The resulting dynamic is an increasingly unusual political arrangement in which coalition partners are competing aggressively at the state level while preserving cooperation in Putrajaya, allowing BN to strengthen its electoral position without assuming the risks associated with triggering a federal political crisis.

DAP faces difficult choices after repeated electoral setbacks

The biggest loser from recent state elections has arguably been the Democratic Action Party (DAP), which has now suffered major setbacks across Sabah, Johor, and Negeri Sembilan.[13] Particularly damaging was the defeat of DAP secretary-general Anthony Loke in his traditional stronghold of Seremban, a result that would have been considered highly improbable only a few years ago.[14] Together with losses across several urban and mixed constituencies, the results have reinforced a growing perception among party members that cooperation with UMNO is eroding DAP's traditional support base, particularly among voters who remain sceptical of the party's partnership with its former political rival.[15] The setbacks have also raised broader questions about whether the unity government's compromises are delivering sufficient political returns for DAP compared to the electoral costs increasingly borne by the party.

The losses have raised uncomfortable questions within the party over the political cost of continued cooperation with the Madani Government ahead of its National Congress in September. For now, Anthony Loke and national DAP leadership continue to publicly support the unity government for its full term.[16] However, the Congress is expected to serve as an important bellwether for whether party

---

[11] BN-PAS non-formal alliance adds a new twist, *The Edge*, July 7, 2026. https://theedgemalaysia.com/node/809531.
[12] DPM Zahid denies claims of BN–Perikatan–GPS–GRS meeting, reaffirms support for unity government, *Malay Mail*, July 21, 2026. https://www.malaymail.com/news/malaysia/2026/07/21/dpm-zahid-denies-claims-of-bnperikatangpsgrs-meeting-reaffirms-support-for-unity-government/228439.
[13] Three strikes, DAP’s out? Loss in Malaysia’s Negeri Sembilan puts coalition on notice, *South China Morning Post*, August 3, 2026. https://www.scmp.com/week-asia/politics/article/3362709/three-strikes-daps-out-loss-malaysias-negeri-sembilan-puts-coalition-notice.
[14] DAP's Anthony Loke loses Chennah in major Negeri Sembilan upset, *The Edge Malaysia*, August 1, 2026. https://theedgemalaysia.com/node/812971.
[15] DAP quits Melaka govt after appointed reps bill passed, *Free Malaysia Today*, July 14, 2026. https://www.freemalaysiatoday.com/category/nation/2026/07/14/dap-quits-melaka-govt-after-appointed-reps-bill-passed; DAP warned against Cabinet exit after electoral setbacks [WATCH], *New Straits Times*, August 3, 2026. https://www.nst.com.my/amp/news/nation/2026/08/1503007/dap-warned-against-cabinet-exit-after-electoral-setbacks.
[16] DAP committed to Unity Govt despite role review after Sabah loss, says Loke, *The Malaysian Reserve*, July 24, 2026. https://themalaysianreserve.com/2026/07/24/dap-committed-to-unity-govt-despite-role-review-after-sabah-loss-says-loke/.

leaders continue to prioritise coalition stability or push for a recalibration of relations within the unity government to limit its losses among its traditional urban Chinese voter base.[17]

Policy continuity and strong growth numbers maintained despite political turbulence

Despite mounting speculation, Prime Minister Anwar Ibrahim has continued to rule out an early general election, arguing that his government's priority remains governance, economic reforms, and cost-of-living management.[18] While political attention has increasingly focused on BN's resurgence and growing strain within PH, the administration has continued to advance its legislative agenda, including competition reforms, amendments to the Communications and Multimedia Act, institutionalisation of Malaysia's AI governance framework, and long-term energy security initiatives[19]. The result is a political environment that appears increasingly contentious, but where policymaking and economic management remain largely uninterrupted.

The government's confidence is supported by a stronger-than-expected economic backdrop. Malaysia's economy expanded by an estimated 5.8 percent in the second quarter of 2026, up from 5.4 percent in the previous quarter, driven by manufacturing growth, a rebound in mining and quarrying activity, and continued strength in AI-related semiconductors and investment activity.[20] The stronger first-half performance has prompted several economists to revise growth expectations upwards, while Bank Negara Malaysia (BNM) recently indicated that full-year growth is likely to reach the upper end of its 4-5 percent forecast range.[21] Inflation has remained manageable despite disruptions to global energy markets, allowing BNM to maintain a supportive monetary policy stance and reinforcing perceptions that Malaysia has weathered the Middle East-related energy shock better than many regional peers[22].

IMPACT OF U.S.-CHINA TENSIONS

Malaysia focuses on targeted engagement with Washington amid evolving U.S. trade measures

Following the United States Trade Representative (USTR)'s latest forced-labour-related tariff measures, MITI has focused its efforts on technical engagement with U.S. counterparts and demonstrating improvements to labour compliance frameworks rather than escalating the dispute

[17] DAP to decide stay in unity government or otherwise at Aug 16 congress [WATCH], *New Straits Times*, August 3, 2026. https://www.nst.com.my/news/nation/2026/08/1503547/dap-decide-stay-unity-government-or-otherwise-aug-16-congress-watch.

[18] 'Give it time', PM says on calls to dissolve Parliament, *The Star*, July 15, 2026. https://www.thestar.com.my/news/nation/2026/07/15/give-it-time-pm-says-on-calls-to-dissolve-parliament.

[19] Malaysia passes competition law amendments, *The Sun*, July 6, 2026. https://thesun.my/news/malaysia-news/malaysia-passes-competition-law-amendments/; Dewan Negara Passes Communications And Multimedia Amendments, *Business Today*, August 3, 2026. https://www.businesstoday.com.my/2026/08/03/dewan-negara-passes-communications-and-multimedia-amendments/; AI Malaysia replaces NAIO to drive country towards AI Nation by 2030, *The Edge Malaysia*, July 28, 2026. https://theedgemalaysia.com/node/812301; Malaysia to invest RM43b in grid upgrades through 2027, *The Malaysian Reserve*, June 3, 2026. https://themalaysianreserve.com/2026/06/03/malaysia-to-invest-rm43b-in-grid-upgrades-through-2027/#google_vignette.

[20] The State of the Nation: Forecasts upped above 5% on strong advance 2Q GDP, 2H normalisation seen, *The Edge Malaysia*, July 27, 2026. https://theedgemalaysia.com/node/811505.

[21] Malaysia's 2026 growth likely at upper end of 4-5% range despite energy supply shock - Bank Negara governor, *The Star*, July 28, 2026. https://www.thestar.com.my/business/business-news/2026/07/28/malaysia039s-2026-growth-likely-at-upper-end-of-4-5-range-despite-energy-supply-shock---bank-negara-governor.

[22] Bank Negara keeps OPR at 2.75pct as growth, inflation stay balanced, *New Straits Times*, July 9, 2026. https://www.nst.com.my/business/corporate/2026/07/1484448/bank-negara-keeps-opr-275pct-growth-inflation-stay-balanced.

publicly.[23] Unlike previous trade disputes, the government's response has been notably technical rather than political. Working-level engagement within MITI has focused on labour compliance, supply-chain transparency, and direct negotiations with U.S. counterparts, reflecting a broader assessment that the commercial relationship remains too important to jeopardise through public confrontation.[24]

At the same time, Investment, Trade and Industry Minister Johari Ghani confirmed in Parliament that the proposed Malaysia-U.S. Agreement on Reciprocal Tariffs (ART) remains unratified as policymakers await greater clarity on the legal durability of U.S. tariff policies and future trade arrangements.[25] Johari's remarks suggest Malaysia may be deliberately slowing implementation of the agreement rather than abandoning it outright. Putrajaya appears reluctant to bind itself to commitments negotiated under a tariff regime that remains subject to legal and political challenge in the United States. In practice, this allows Malaysia to preserve engagement with Washington while avoiding commitments that could become politically costly should U.S. trade policy shift again.

Separately, officials in the Prime Minister's Office have begun developing a proposed Economic Security Framework, reflecting a growing view that the government should respond more systematically to external shocks. Informed by both recent U.S. trade measures and disruptions arising from the Strait of Hormuz crisis, the initiative is intended to reduce the need for ad hoc responses to future tariff disputes, supply-chain disruptions, and other forms of economic coercion.[26] Rather than representing a major policy shift, the framework signals a push towards incorporating economic security considerations more directly into future policymaking.

Malaysia continues to deepen strategic economic links with China amidst reduced geopolitical pressure from Washington

While managing relations with Washington, Malaysia has shown little indication of reducing engagement with China in sectors that policymakers consider economically strategic. Chinese investment remains significant across digital infrastructure, manufacturing, and technology-related sectors, while Malaysian officials continue to position the country as an open destination for both Western and Chinese capital.[27] This approach reflects Kuala Lumpur's longstanding preference for strategic neutrality rather than economic alignment with either camp. A notable development during the reporting period was the completion of Malaysia's first reported cross-border transaction settled in yuan without relying on the SWIFT payment system, highlighting growing efforts by both countries to deepen financial integration and reduce transaction frictions.[28] Rather than viewing U.S. and

[23] Malaysia faces 10% duty under US's new Section 301 tariffs over forced labour import rules, *The Star*, July 24, 2026. https://www.thestar.com.my/business/business-news/2026/07/24/malaysia-faces-10-duty-under-uss-new-section-301-tariffs-over-forced-labour-import-rules.

[24] Malaysia working to plug legal gap raised in US forced labour probe, says Miti, *The Edge Malaysia*, June 4, 2026. https://theedgemalaysia.com/node/805780.

[25] Malaysia-US ART still not ratified amid US tariff changes, says Johari, *The Malaysian Reserve*, June 23, 2026. https://themalaysianreserve.com/2026/06/23/malaysia-us-art-still-not-ratified-amid-us-tariff-changes-says-johari/.

[26] Govt mulls Economic Security Framework to shore up supply chains amid geopolitical risks, *The Edge Malaysia*, July 28, 2026. https://theedgemalaysia.com/node/812244.

[27] Malaysia Attracts RM92.8 Billion in Q1 2026 Approved Investments, Expected to Create Over 50,000 New Jobs; Domestic Investments Up 13%, *Malaysian Investment Development Authority.* *https://www.mida.gov.my/media-release/malaysia-attracts-rm92-8-billion-in-q1-2026-approved-investments-expected-to-create-over-50000-new-jobs-domestic-investments-up-13/.*

[28] China cuts durian settlement to 30 minutes with first outbound e-CNY payment to Malaysia, *South China Morning Post*, August 1, 2026. https://www.scmp.com/business/banking-finance/article/3362358/china-cuts-durian-settlement-30-minutes-first-outbound-e-cny-payment-malaysia?module=perpetual_scroll_0&pgtype=article.

Chinese engagement as mutually exclusive, policymakers continue to pursue parallel economic relationships wherever possible.

Malaysia-EU trade talks, Japan-Malaysia MOC signalling enhanced economic diversification efforts

The Malaysia-EU Free Trade Agreement (MEUFTA) has emerged as an increasingly important pillar of Malaysia's diversification strategy. Discussions between Malaysian and European officials have continued at an unusually rapid pace, with both sides seeking to capitalise on growing demand for alternative trade and investment partnerships amid uncertainty surrounding U.S.-China relations. Recent engagements between European delegations and Malaysian policymakers on the sidelines of the EU-ASEAN Business Council (EU-ABC) meetings reinforce expectations that negotiations could conclude within the next year.[29] More broadly, MEUFTA reflects Malaysia's effort to expand strategic optionality and reduce dependence on any single major economic partner. The ultimate significance of the agreement, however, will depend less on its conclusion and more on whether it can generate meaningful increases in trade, investment, and supply-chain integration between Malaysia and Europe.

The same diversification logic is increasingly apparent in Malaysia's relationship with Japan. During Prime Minister Anwar Ibrahim's visit to Tokyo in June, Malaysia and Japan signed four memoranda of cooperation (MOC)[30] covering maritime security, environmental sustainability, solid waste management, and medical device regulation, alongside letters of intent on energy security and energy transition cooperation. While largely sector-specific, the agreements are consistent with the Madani Government's broader efforts to cultivate strategic partnerships with middle powers that are viewed as politically stable, technologically advanced, and less exposed to major-power rivalry. Together, the EU and Japan initiatives reflect a wider attempt by Putrajaya to expand its economic options amidst growing uncertainty surrounding both U.S. trade policy and the future trajectory of U.S.-China relations.

Policy and Industry Developments in Strategic Sectors

Digital sovereignty emerges as a central pillar of industrial policy

Malaysia has increasingly framed digital policy through the lens of technological sovereignty and strategic autonomy. The launch of Malaysia Digital 2030[31] and the government's ongoing work on a National Technology Sovereignty Framework[32] reflect a shift from simply promoting the digital economy towards actively shaping how critical technologies are governed and deployed. Policymakers are increasingly linking AI, semiconductors, cloud infrastructure, cybersecurity, and digital public services to broader questions of economic resilience and national competitiveness. At the same time, discussions surrounding a dedicated Data Commission suggest growing interest in strengthening oversight of strategic digital assets. While Malaysia remains dependent on foreign technology stacks from both the United States and China, recent initiatives indicate that policymakers are seeking

---

[29] European firms to meet Johari as Malaysia-EU FTA targets 2027 conclusion, *The Malaysian Reserve*, July 30, 2026. https://themalaysianreserve.com/2026/07/30/european-firms-to-meet-johari-as-malaysia-eu-fta-targets-2027-conclusion/.
[30] Malaysia, Japan sign four MoCs to strengthen strategic cooperation, *New Straits Times,* June 10, 2026. https://www.nst.com.my/news/nation/2026/06/1459660/malaysia-japan-sign-four-mocs-strengthen-strategic-cooperation.
[31] Anwar unveils Malaysia Digital 2030: Targets 30pc GDP, 500,000 jobs, 95pc services online by 2030, *Malay Mail,* June 29, 2026. https://www.malaymail.com/news/malaysia/2026/06/29/anwar-unveils-malaysia-digital-2030-targets-30pc-gdp-500000-jobs-95pc-services-online-by-2030/225648.
[32] Mosti develops National Technology Sovereignty Framework to protect nation's critical technologies, *The Edge Malaysia,* June 22, 2026. https://theedgemalaysia.com/node/807739.

greater influence over the country's long-term digital architecture rather than relying solely on market forces.

Government institutionalises AI governance, with federal AI Bill expected by year-end

Following Vietnam's passing of the AI Bill in March, Malaysia has undertaken some of the region's most ambitious AI governance initiatives during this reporting period. The government formally institutionalised the National AI Office under a new permanent structure known as AI Malaysia (AIM)[33], while Prime Minister Anwar Ibrahim simultaneously launched the National AI Action Plan 2026-2030. The framework includes AI Growth Zones, sector-specific adoption programmes, an AI Safety Institute, and a federal AI Governance Bill expected by the end of 2026. Public consultation documents for the Bill suggest the legislation will establish a central AI authority operating alongside sector regulators through a co-regulatory model broadly aligned with emerging international approaches.[34] Beyond regulation, the government's objective is to position Malaysia as an "AI Nation" by 2030 while encouraging investment in higher-value digital industries.

Energy transition policy shifts toward grid readiness, storage, and market reform

Malaysia's energy transition agenda continues to mature beyond renewable energy deployment towards resolving underlying infrastructure and market constraints. The announcement of the 2,500MW LSS6 programme on July 20th marks the first large-scale solar tender to mandate battery energy storage systems (BESS)[35], reflecting growing recognition that grid stability and dispatchability are becoming as important as renewable generation capacity itself. Policymakers have also increasingly acknowledged that future renewable energy growth will depend on transmission upgrades, energy storage, and more efficient electricity market design. At the same time, regulators continue to advance reforms such as CRESS, ENEGEM, and post-Gas Framework Agreement (GFA) market liberalisation, signalling a broader shift towards a more flexible and market-oriented power sector. Taken together, recent developments suggest Malaysia's focus is moving from attracting renewable energy investment towards ensuring that the underlying electricity system can support sustained industrial growth, data centre demand, and long-term energy security.

Automotive policy tying EV market access to local production comes into force

Malaysia's automotive policy saw a significant shift during the reporting period as new restrictions on fully imported electric vehicles (CBU EVs) formally came into effect on July 1st, replacing the more permissive regime that had underpinned rapid EV market growth since 2022.[36] Under the new framework, imported EVs must meet a minimum declared cost, insurance and freight (CIF) value of MYR 200,000 (USD 48,806) and minimum power output of 180kW (245PS), effectively confining future CBU EV imports to premium market segments. The policy follows the expiry of the government's earlier EV incentive regime and substantially raises barriers for lower-priced imported EV models, particularly those originating from China.

The move reflects a broader shift in MITI's automotive strategy away from stimulating EV adoption through imports and towards using EV policy as an instrument of industrial development. While incentives for locally assembled (CKD) EVs remain in place, the new framework effectively signals that

[33] AI Malaysia replaces NAIO to drive country towards AI Nation by 2030, *The Edge Malaysia,* July 28, 2026. https://theedgemalaysia.com/node/812301.

[34] Public Consultation Feedback: Proposed Artificial Intelligence (AI) Governance Bill, *Unified Public Consultation,* Undated. https://upc.mpc.gov.my/view-consultation/264.

[35] Govt launches LSS6 program to boost renewable energy capacity, *New Straits Times,* July 16, 2026. https://www.nst.com.my/news/nation/2026/07/1490212/govt-launches-lss6-programme-boost-renewable-energy-capacity.

[36] Revised policy on imported electric vehicles to protect local ecosystem, says Miti, *The Edge Malaysia,* July 8, 2026. https://theedgemalaysia.com/node/809864.

long-term access to Malaysia's EV market will increasingly depend on production commitments, local partnerships, technology transfer, and participation in domestic supply chains.

Impacts and Advice for Japanese Companies

Political uncertainty is rising, but federal policy continuity remains likely

Japanese companies should expect Malaysia's political environment to become increasingly contentious over the next 12 months as Prime Minister Anwar Ibrahim faces mounting pressure from a resurgent BN, deteriorating electoral performance by PH, and growing questions over the long-term viability of the unity government. However, recent state election results do not yet point to an immediate collapse of the federal coalition. Instead, Malaysia is entering a period where coalition partners are likely to compete more aggressively at the state level while continuing to cooperate in Putrajaya. Japanese firms should closely monitor the upcoming Melaka state election — due by December 2026 — and the evolving relationship between PH and BN, as both will serve as important indicators of whether state-level rivalry begins to affect federal policy coordination and investment decision-making. Despite the political noise, key initiatives in digital governance, industrial policy, energy transition, and infrastructure development are expected to continue moving forward under the current administration.

Industrial policy is becoming more selective, creating opportunities for long-term investors

Malaysia's latest policy developments suggest a gradual shift away from purely investment-led growth towards greater emphasis on domestic value creation, technology development, and economic resilience. This trend is visible across sectors, from AI governance and digital sovereignty initiatives to renewable energy reforms and the new EV framework that increasingly links market access to local production commitments. While the policy environment remains broadly welcoming to foreign investment, future incentives and regulatory support are likely to favour investors that contribute to local supply chains, technology transfer, talent development, and long-term industrial capabilities. For Japanese companies, this creates opportunities in areas aligned with government priorities, including semiconductors, advanced manufacturing, energy transition, digital infrastructure, mobility, and industrial technologies. Companies with an established local presence and long-term investment horizon are likely to be better positioned than purely export- or import-oriented business models as Malaysia's industrial strategy continues to evolve.

Philippines

Policy and Economic Updates

President Ferdinand Marcos Jr. reiterates focus on flagship projects that can generate near-term results in his latest State of the Nation Address (SONA).

The SONA, an annual presidential address outlining the administration’s latest accomplishments and priorities, served as an avenue for President Marcos to project stability and control, after a year marked by global and domestic pressures. Strengthened social protection measures to improve food security, energy security and health outcomes figured prominently in his remarks, reinforcing the administration’s core goal to address the needs of ordinary Filipinos. President Marcos assured continuing government support for households still confronted with the lingering effects of the oil crisis and rising costs, with income tax breaks and other subsidies in the pipeline.[37] As a follow-up to his previous SONA, which triggered the investigations into anomalous flood control projects and

[37] What Marcos said in his fifth SONA, from A-S, *Philippine Star*, July 28, 2026. https://www.philstar.com/headlines/2026/07/28/2545149/what-marcos-said-his-fifth-sona-s.

exposed deeply entrenched corruption practices, President Marcos reiterated that his anti-corruption drive is not over and disclosed that legal action awaits former House Speaker Martin Romualdes, his first cousin and among the alleged masterminds behind the flood control scandal. Looking ahead, the President vowed to maximise the last two years to complete reforms already underway and bring immediate relief to sectors who need it most.[38]

As the Marcos Administration enters its final stretch, efforts will be poured into cementing the President's *Bagong Pilipinas* (New Philippines) legacy. There is urgency to accelerate project rollout and prioritise immediate reforms over longer-term structural reforms to restore public trust that has dipped and given the opposing Duterte faction more grounds to challenge Marcos' leadership.[39] Despite being the subject of an impeachment trial, Vice President Sara Duterte continues to enjoy more stable and favourable public perception, which her team intends to leverage all the way through the 2028 presidential elections.[40]

While political developments may dominate national news, the business climate is expected to remain stable in the near-term. Investment promotion will continue to be top-of-mind for government, as it seeks increased private sector support to revitalise the economy and drive growth.

While the Philippines recently attained upper-middle-income status, the administration remains under pressure to strengthen domestic revenues and attract new investments, amid declining growth outlooks.

The World Bank reclassified the Philippines as an upper-middle-income country, the first upgrade in nearly four decades, with gains across major industries fuelling an economy-wide shift and an increase in gross national income per capita.[41] However, this is not expected to immediately ease economic pressures, as the country continues to face slowed economic growth. The annual growth forecast has been slashed from 5 to 6 percent to 3.5 to 4.5 percent[42] and Asian Development Bank estimates reveal that the country may face its slowest post-pandemic expansion this year.[43] Inflation projections were also adjusted from 2 to 4 percent to 6 to 7 percent, which may further dampen household spending. The government's reactive efforts include a more aggressive campaign for investments, as seen in the updated Strategic Investment Priority Plan (SIPP) that lays out preferential trade incentives for high-value sectors, such as automotives, renewable energy, digital infrastructure and mining.[44] Alongside this, top economic managers will be pushing new domestic revenue streams to bridge gaps left behind by the government's subsidy-focused crisis response and planned individual income tax reliefs. Among the new tax measures reportedly eyed for congressional approval are an OECD-backed global

---

[38] Fifth State of the Nation Address (SONA) of His Excellency Ferdinand R. Marcos Jr., President of the Philippines to the Congress of the Philippines, *Presidential Communications Office*, July 27, 2026. https://pco.gov.ph/presidential-speech/fifth-state-of-the-nation-address-sona-of-his-excellency-ferdinand-r-marcos-jr-president-of-the-philippines-to-the-congress-of-the-philippines/.

[39] Marcos' net satisfaction rating rises to -7 in June, *Philippine Daily Inquirer*, July 15, 2026. https://newsinfo.inquirer.net/2263845/marcos-net-satisfaction-rating-rises-to-7-in-june.

[40] SWS: Sara Duterte's net satisfaction rating rises to 31 points, *Philippine Daily Inquirer,* July 16, 2026. https://newsinfo.inquirer.net/2265120/sws-sara-dutertes-net-satisfaction-rating-rises-to-31-points.

[41] World Bank: PH now an upper-middle income country, *Philippine News Agency*, July 1, 2026. https://www.pna.gov.ph/articles/1278510.

[42] DBCC cuts PH 2026 growth target to 3.5-4.5%, *Philippine Daily Inquirer,* June 23, 2026. https://business.inquirer.net/596658/dbcc-cuts-ph-2026-growth-target-to-3-5-4-5.

[43] ADB sees slowest post-pandemic Philippine growth in 2026, *Manila Bulletin,* July 9, 2026. https://mb.com.ph/2026/07/09/adb-sees-slowest-post-pandemic-philippine-growth-in-2026.

[44] Memorandum Order No. 47, Series of 2026 – Approving the 2026 Strategic Investment Priority Plan, *Official Gasette,* June 2, 2026. https://www.officialgasette.gov.ph/2026/05/21/memorandum-order-no-47-s-2026/.

minimum tax package[45], designed to retain tax revenues of big multinational enterprises within the country, and excise taxes on sweetened beverages and cigarettes.[46]

Economic interventions will remain a top priority for the Marcos Administration in its final two years, as the country's dismal growth performance continues to increase public scrutiny over Marcos' leadership. It remains to be seen whether the updated SIPP can present a compelling case for increased investments in high-value sectors, which has been consistently framed by President Marcos as key pillars in the domestic growth strategy. More broadly, it is unclear if these measures will even be enough to reverse or counter the effects of the successive global and domestic shocks.

The updated SIPP may help guide decision making for Japanese firms assessing future investment and expansion plans in the Philippines. Companies operating in the high-value sectors covered by the SIPP may benefit from stronger government support and greater receptiveness to investor concerns. At the same time, industry should also be on the lookout for the planned global minimum tax package and excise tax increases, which could raise costs for affected multinational enterprises and companies linked to the sweetened beverage and tobacco value chains.

Impact of U.S.-China Tensions

The Philippines and U.S. commit to fast-track the Pax Silica partnership, but public scrutiny and reservations surface over environmental, social and national security implications.

Negotiations are underway with the U.S. State Department to nail down the framework agreement for the 1,620-hectare AI Hub that will be home to advanced computing, semiconductor manufacturing and related frontier industries in New Clark City. Agreement signing is eyed for November 2026 to ideally coincide with U.S. President Donald Trump's visit to the Philippines to attend the 49th ASEAN Summit in Metro Manila.[47] With Pax Silica figuring into top American economic priorities, the government is committed to keeping up with the accelerated pace and tapping into the projected USD 70 billion in investments and generating up to 190,000 direct jobs and up to 800,000 indirect jobs over a 25-year period.[48] However, these growth plans have also been met with growing public scrutiny among civil society groups, who cited concerns over the expected strains on domestic energy and water resources, displacement of local farmers[49] and possible diplomatic immunity for American firms and workers.[50] Some social justice-focused lawmakers are also set to conduct inquiries into the partnership and its publicised benefits, which may further heighten public interest.[51] Vriens &

---

[45] Philippines begins drafting Global Minimum Tax legislation, *GMA News Online,* July 17, 2026. https://www.gmanetwork.com/news/money/economy/995192/global-minimum-tax-legislation/story/.

[46] Higher vape taxes, green levies to offset P50-B tax relief cost – R. Quimbo, *Philippine Daily Inquirer,* July 28, 2026. https://newsinfo.inquirer.net/2272981/higher-vape-taxes-green-levies-to-offset-p50-b-tax-relief-cost-r-quimbo.

[47] Philippines, US may ink Pax Silica AI hub framework by November, *Philippine Star*, July 19, 2026. https://www.philstar.com/business/2026/07/19/2543025/philippines-us-may-ink-pax-silica-ai-hub-framework-november.

[48] BCDA: Pax Silica development to proceed under Marcos admin, creating up to 190K jobs, *BusinessMirror*, July 23, 2026. https://businessmirror.com.ph/2026/07/23/bcda-pax-silica-development-to-proceed-under-marcos-admin-creating-up-to-190k-jobs/ .

[49] Scientists, environmentalists, farmers hit Pax Silica AI hub, *The Manila Times*, July 19, 2026. https://www.manilatimes.net/2026/07/19/news/national/scientists-environmentalists-farmers-hit-pax-silica-ai-hub/2386994.

[50] Myths vs facts: BCDA allays fears on controversial Pax Silica project, *Philippine Daily Inquirer*, July 23, 2026. https://newsinfo.inquirer.net/2269211/myths-vs-facts-bcda-allays-fears-on-controversial-pax-silica-project.

[51] Akbayan seeks House probe into PH's Pax Silica deal with US, *Philippine Daily Inquirer*, July 29, 2026. https://newsinfo.inquirer.net/2273776/akbayan-seeks-house-probe-into-phs-pax-silica-deal-with-us.

Partners sources shared that, behind closed doors, some government officials closely involved in the project are also reportedly expressing reservations over the negotiations, despite publicly advocating for the fast-tracked approach, a disconnect that may affect project rollout.

Notably, President Marcos used the SONA as an opportunity to publicly back Pax Silica for the first time, citing the planned AI Hub as a major driver for industrial competitiveness, especially in the lucrative global AI and technology value chains. Taken together with the strong push from the U.S., who appears determined to leverage enduring ties with Philippines to reduce dependence on Chinese inputs, there is uncertainty at this point on the likelihood of growing public criticism and planned congressional inquiries forcing a rethink of the government's blueprint for the AI Hub. Given the strategic location in New Clark City, the AI Hub is also envisioned to elevate the status of the Luzon Economic Corridor and deliver significant gains for the trilateral initiative of the Philippines, the U.S., and Japan.

Developments related to the AI Hub may be an early stress test for the broader Pax Silica alliance, which includes Japan as among its signatories. The government's response to emerging concerns over environmental strains, national security and social and economic protections will be central in crafting compelling investment prospects for major components of the supply chain and strengthening the Luzon Economic Corridor.

The Philippines seeks to negotiate the U.S. Section 301 tariffs down from 12.5 percent to 10 percent.

Following the expiration of U.S. President Donald Trump's temporary 10 percent tariffs, the Philippines was included among the countries subject to the 12.5 percent forced-labour tariffs. The Department of Trade and Industry (DTI) has pledged to continue negotiations with the US Trade Representative to bring rates back down to 10 percent and reiterate the country's position against forced labour. The appeal will be anchored on longstanding compliance with international labour laws and the recent creation of an inter-agency committee tasked with investigating allegations of forced labour in goods production and recommending enforcement actions. Together with the DTI, the Department of Labour and Employment, Department of Finance, Bureau of Customs, Board of Investments and Philippine Economic Zone Authority are now empowered to protect ethical trade practices and bar entry of goods found to have been produced using forced labour.[52] The DTI estimates that 34 percent of Philippine exports, valued at USD 6.25 billion, may be affected by the new tariff, with firms involved in the apparel, footwear, toys and leather and travel goods value chains currently the most exposed. However, major exports, such as electronics, semiconductors, critical minerals, coconuts and bananas, remain exempted[53].

This development is expected to accelerate the country's trade diversification strategy and lend momentum to planned discussions to update the Japan-Philippines Economic Partnership Agreement (JPEPA) in the near term, which may present more opportunities for Japanese firms doing business with the Philippines. Alongside this, negotiations for free trade agreements with the European Union and the United Arab Emirates are also in advanced stages and may be expected to soon help cushion impacts from the protectionist U.S. trade policies.

---

[52] US Slaps Philippines with 12.5% Tariff Over Forced Labor Concerns, *Manila Bulletin,* July 24, 2026. https://mb.com.ph/2026/07/24/us-slaps-philippines-with-125-tariff-over-forced-labor-concerns.

[53] Philippine Exports Worth $6.25 Billion Exposed to 12.5% US tariff — DTI, *BusinessWorld,* July 27, 2026. https://bworldonline.com/top-stories/2026/07/27/765914/philippine-exports-worth-6-25-billion-exposed-to-12-5-us-tariff-dti/ .

Policy and Industry Developments in Strategic Sectors

The launch of the EV Incentive Strategy (EVIS) and renewed backing for internal combustion engine (ICE) vehicle production strengthens prospects for domestic automotive manufacturing.

The PHP 60 billion (~USD 979 million) EVIS outlines the mechanics for subsidies that may be availed by up to four passenger and commercial EV manufacturers for a maximum of ten years.[54] Programme participants may choose between fiscal incentive support, where the government subsidises no less than 30 percent of capital expenses, such as research and development and training, or production volume incentive that obligates government to pay a fixed cost per manufactured unit. The former requires a minimum investment capital of PHP 5 billion (~USD 82 million), while the latter calls for production capacity of at least 10,000 units. Government support will be released through tax payment certificates that may be used to settle income tax and import duties, among others. While the EVIS' pilot run will involve only four manufacturers, with Toyota and Mitsubishi having indicated early interest, the government may explore additional slots and funding after initial programme review. This development forms part of the Marcos Administration's dual-track automotive manufacturing strategy, with the recent revival of incentive support for ICE vehicle production. Despite earlier plans to deprioritise, the PHP 9 billion (~USD 147 million) package, known as the Revitalising the Automotive Industry for Competitiveness Enhancement (RACE) programme, is back on track due to continuing commercial demand for 4-wheel ICE vehicles, with three manufacturers eyed for targeted support.[55] However, top investment managers reiterated that EV manufacturing will continue getting the lion's share of benefits, given stronger links to advanced technology.[56]

While RACE may sustain near-term ICE production, higher support for domestic EV production may strengthen downstream linkages of priority critical minerals and electronics supply chains, given the prominent role of semiconductors in EV manufacturing. A greater multiplier effect across several high-value sectors may be expected, as the Philippines prioritises a more sustainability-focused and tech-backed automotive production strategy. Given the administration's broader goal of 50 percent EV adoption by 2040, the EVIS will be critical in increasing availability and driving down costs, lending further momentum to existing initiatives on EV import duty exemptions and EV prioritisation in government fleet renewal programmes.[57]

Japanese automakers and suppliers remain closely linked to the domestic automotive industry, as longstanding partners in flagship programmes. The near-term implementation of EVIS and planned finalisation of RACE within the year will surface more long-term opportunities for Japanese firms across the broader automotive value chain to support assembly and component manufacturing. The release of the EVIS will be followed by more specific implementing guidelines, which will be helpful for firms seeking to navigate the application process and eligibility requirements.

More policies finalised to provide greater policy certainty and connectivity support, as the Marcos Administration continues campaign for digital infrastructure investments.

---

[54] Gov't unveils P60-B incentive to pitch PH as EV makers' hub, *Philippine Daily Inquirer*, July 31, 2026. https://newsinfo.inquirer.net/2274609/govt-unveils-p60-b-incentive-to-pitch-ph-as-ev-makers-hub.

[55] Government revives RACE program, *Philippine Star*, June 10, 2026. https://www.philstar.com/business/2026/06/10/2534007/government-revives-race-program.

[56] Gov't eyes P60-B perks for EV makers, *Philippine Daily Inquirer*, July 13, 2026. https://business.inquirer.net/600131/govt-eyes-p60-b-perks-for-ev-makers.

[57] Marcos: Goal is half of cars on road in 2040 must be electric vehicles, *Philippine Daily Inquirer*, July 27, 2026. https://newsinfo.inquirer.net/2271697/marcos-goal-is-half-of-cars-on-road-in-2040-must-be-electric-vehicles.

The finalisation of the long-debated executive order on government data classification and residency introduced more certainty on localisation requirements being limited to government-owned sensitive data. The issuance ends speculations on the administration's approach to data governance potentially covering private sector data and is expected to drive government demand for onshore storage in the coming years, as agencies take stock of their datasets[58]. Complementing this, President Marcos approved the Philippines AI+ Infrastructure Masterplan (PAIIM)[59], the 7-year roadmap designed to build 1.5 gigawatts of AI-ready data centre capacities and generate 500,000 AI-related jobs, as the Philippines strengthens its positioning as the next regional hub for emerging technologies. Up to USD 30 billion in investments is expected to expand computing, connectivity and infrastructure capacities[60]. The government also pursued adjacent reforms to simplify the entry of international cable-laying and repair vessels, given the role of subsea cables as the backbone of AI computing[61]. Harmonising local customs regulations with global rules on temporary duty-free admission of related equipment has become increasingly more relevant, as the Philippines hosts a growing network of cable landing stations.

Recent developments reinforce digital infrastructure as a central pillar of the administration's investment-led growth strategy, which seeks, in part, to be more deeply integrated into global AI supply chains. With economic managers under pressure to sustain foreign investor interest and bolster revenues, data centres and related digital infrastructure have become a continuing focus area due to their large capital requirements and potential to generate long-term downstream demand across multiple industries.

Apart from figuring into national priorities, digital infrastructure is also among the top areas of economic cooperation between the Philippines and Japan and this featured prominently during President Marcos' state visit to Japan in June. Japanese firms in this sector may expect continued government interest in expansion plans and translating investment pledges into tangible outcomes.

The government pushes back inaugural offshore wind energy auction, amid broader challenges in rising power costs and grid reliability concerns.

Originally scheduled for August 2026, the 3,300-megawatt offshore wind energy auction will instead open in December 2026 to give way to additional reviews of implementation timelines, port readiness and permitting requirements. From now until September, the Department of Energy (DOE) is expected to work closely with other agencies to clarify environmental regulations and more accurately recalibrate costs and turnaround times. The entire process has been adjusted to conclude by June 2027[62], ahead of the expected delivery between 2028 and 2030, but demonstrable results will remain heavily reliant on the DOE's ability to address regulatory bottlenecks and prevent projects from stalling at early stages.

---

[58] DICT: EO 119 to boost data security, attract digital investments, *Philippine News Agency*, July 16, 2026. https://www.pna.gov.ph/articles/1279606.
[59] Marcos OKs key initiatives in transport, education, others in 10th ED meet, *Philippine Daily Inquirer*, July 7, 2026. https://newsinfo.inquirer.net/2259339/marcos-oks-key-transport-education-initiatives-others-in-10th-ed-meet.
[60] Govt sees $30B in investments thru digital, AI roadmap*, BusinessMirror*, June 10, 2026. https://businessmirror.com.ph/2026/06/10/govt-sees-30b-in-investments-thru-digital-ai-roadmap/.
[61] BOC issues new rules for foreign cable-laying and repair vessels, *Philippine Daily Inquirer*, July 11, 2026. https://newsinfo.inquirer.net/2261850/boc-issues-new-rules-for-foreign-cable-laying-and-repair-vessels.
[62] DOE sets December date for delayed offshore wind power auction, *Manila Bulletin*, July 28, 2026. https://mb.com.ph/2026/07/28/doe-sets-december-date-for-delayed-offshore-wind-power-auction.

The DOE's focus appears to have been divided between renewable (RE) priorities and more immediate energy security concerns on grid reliability, power transmission and affordability. Peak demand during the summer months significantly strained the country's grids and overloaded power plants, contributing to higher electricity prices that are now among the most expensive in Southeast Asia[63]. Although power affordability strengthens the case for accelerated RE deployment, recent grid disruptions have also reinforced concerns about the readiness of the country's power system to support additional renewable capacity. This increases pressure on the DOE to pursue improvements to transmission infrastructure and grid reliability alongside the implementation of new RE projects to support a more seamless transition.

As new developments in offshore wind are not expected until end-2026, Japanese firms in this sector may see government focusing on advancing existing project awards past the pre-development stage to produce more concrete achievements for the clean energy transition, which has so far been plagued by delays.

Impact and Advice for Japanese Companies

Despite increasingly polarised political developments, executive focus remains on economic interventions to chase down investments in high-value sectors and revive revenue streams, as the Marcos Administration enters its final stretch.

The President's messaging in his latest SONA was clear on completing reforms already underway and bringing relief to households confronted by rising cost, with more social protection measures in the pipeline for his last two years. In the wake of declining growth outlooks, the government is urgently driving investment promotion with the rollout of the updated SIPP, which seeks to attract more capital in high-value sectors, such as automotives, digital infrastructure and renewable energy. Alongside this, additional tax measures are being pushed to offset deficits incurred by increased individual subsidies, as top economic managers seek to stabilise economic performance challenged by global and domestic shocks and heavily scrutinised by political opposition.

In the near-term, the government's aggressive pursuit of investments in EVs and digital infrastructure, especially relating to the Pax Silica-backed AI Hub, may factor into Japanese firms' investment and expansion plans in the Philippines. The government's ability to build and sustain investor confidence in these high-value sectors will be critical in the country's bid to move up these increasingly relevant global supply chains. However, planned measures on global minimum tax and excise tax increases may potentially affect some major multinational Japanese enterprises and companies linked to the sweetened beverage and tobacco value chains moving forward, as there appears to be a coordinated effort between both the executive and legislative to urgently activate new revenue streams.

Singapore

Policy and Economic Updates

Prime Minister Lawrence Wong's July 22 Cabinet reshuffle[64] was defined more by continuity than change.

---

[63] DOE: Philippines power rates now highest in SEA, *Philippine Star,* July 21, 2026. https://www.philstar.com/headlines/2026/07/21/2543545/doe-philippines-power-rates-now-highest-sea.

[64] Changes to Cabinet and Other Appointments, and the Renaming of the Ministry of Trade and Industry, *Prime Minister's Office*, July 22, 2026. https://www.pmo.gov.sg/newsroom/changes-to-cabinet-and-other-appointments-and-the-renaming-of-the-ministry-of-trade-and-industry-jul-2026/.

Like his two previous reshuffles, the changes were incremental. Most senior 4G ministers remain in their existing portfolios, with some, including Foreign Minister Vivian Balakrishnan and Home Affairs Minister K. Shanmugam, having served in the same roles for more than a decade. The approaching 2027 ASEAN Chairmanship provides a practical reason to preserve continuity. However, the reshuffle reflects Wong's preference for gradual renewal over forced change. It also arrived later than the traditional April or May window and followed the unexpected departures of Koh Poh Koon and Muhammad Faishal Ibrahim, suggesting that what was intended as a planned exercise in renewal became one of repairing sudden gaps. Even then, Wong opted for targeted adjustments rather than a broader reset. The bigger question is whether this cautious approach will remain an advantage in a more uncertain world where stability is valued, or whether it will eventually limit Singapore's ability to make difficult strategic choices.

The reshuffle has brought Wong's own leadership team into clearer view. Jeffrey Siow and David Neo were promoted to full ministers, while Jasmin Lau, Goh Pei Ming, Shawn Loh and Foo Cexiang all received larger responsibilities. Together with earlier promotions such as Chee Hong Tat, they form the nucleus of an emerging 5G leadership team. Their accelerated advancement suggests that Wong is increasingly promoting office holders whom he has selected, tested and can work closely with. They are also likely to receive greater policy responsibilities and public exposure over the coming years, giving Singaporeans time to become familiar with the next generation of leaders before the next election. Companies should begin building relationships with this group while they are still shaping their policy instincts and establishing their own networks across government.

The reshuffle also highlighted the constraints under which Wong is operating. Faishal's resignation as Minister-in-charge of Muslim Affairs highlighted the limited number of suitable office holders available to assume politically sensitive portfolios. The appointment of Saqy Mohamad, who remains a senior minister of state rather than a full Cabinet minister, appears to be a convenient arrangement, but also indicates that there were few immediately deployable alternatives. Likewise, Ng Chee Meng's return to Cabinet as Minister in the Prime Minister's Office appears to strike a political compromise. It restores the NTUC Secretary-General to Cabinet, while avoiding a high-profile ministry given his mixed public standing. More broadly, many of the rising office holders come from the civil service or the military, reinforcing the increasingly technocratic character of Wong's Cabinet. While this gives the government strong implementation capability and policy discipline, it also raises questions about whether future Cabinets will have sufficient diversity of commercial and private-sector experience as Singapore navigates a more complex economic environment.

The increase in U.S. tariffs on Singapore exports from the 10 percent baseline to 12.5 percent highlights the growing uncertainty created by a more discretionary U.S. trade policy.

The immediate economic impact is limited because semiconductors, pharmaceuticals and several other major exports remain exempt. The more important strategic implication is Singapore now facing a 12.5 percent tariff on selected exports[65], compared with Malaysia's 10 per cent rate, despite its free trade agreement with the U.S., a longstanding strategic partnership and a bilateral trade surplus. The episode reinforces that traditional indicators of trust are becoming less reliable predictors of market access as U.S. trade policy increasingly reflects broader strategic and domestic policy objectives.

[65] Trump hits Singapore with new 12.5% tariff, affecting one-third of exports to US, *The Straits Times*, July 24, 2026. https://www.straitstimes.com/business/trump-imposes-new-12-5-tariff-on-singapore-on-alleged-forced-labour-ban-violation.

The deeper uncertainty lies in the separate U.S. Section 301 investigation into structural excess manufacturing capacity. Ironically, the semiconductor and AI-related electronics sectors that are currently driving Singapore's economic outperformance could also face the greatest uncertainty if future U.S. trade measures broaden beyond the current exemptions. Singapore has responded by combining calibrated diplomatic engagement with formal rebuttals of the U.S. findings, while reinforcing its reputation as a trusted trading hub through stronger enforcement against false origin declarations. The deeper concern, however, is that U.S. trade policy is becoming more discretionary, making future trade outcomes less predictable even with strong factual and legal arguments.

Singapore is using its 2027 ASEAN Chairmanship to strengthen regional integration while advancing its own strategic and economic priorities.

The government sees the Chairmanship as an opportunity to shape the regional agenda in ways that reinforce Singapore's role as ASEAN's leading hub for trade, technology and innovation. It has identified AI adoption, trusted cross-border data flows, implementation of the ASEAN Digital Economy Framework Agreement (DEFA) and AI governance as key priorities.[66] These closely mirror Singapore's domestic agenda and suggest that it is seeking not only to deepen regional integration, but also to shape regional rules in areas where it has already invested significant capabilities and policy leadership. Singapore is seeking to extend many of the conditions that have underpinned its own success to the regional level, recognising that a more digitally connected and integrated ASEAN also strengthens its own competitiveness.

The Chairmanship will also be PM Wong's first opportunity to shape a regional agenda and demonstrate Singapore's leadership. It provides a platform to advance Singapore's vision of a more integrated ASEAN that is better able to diversify partnerships, attract investment and preserve strategic flexibility amid intensifying U.S.-China competition. A stronger ASEAN also gives Singapore greater collective influence in shaping regional rules and engaging major powers than it could achieve on its own.

Policy and Industry Developments in Strategic Sectors

Singapore's industrial strategy is becoming increasingly tied to the global AI investment cycle.

Singapore's economy grew by 5.7 per cent year-on-year in Q2 2026, driven primarily by strong electronics manufacturing and AI-related demand for semiconductors and semiconductor manufacturing equipment.[67] Electronics exports more than doubled in June, while non-electronics exports remained weak. The divergence highlights both Singapore's competitive strength and its growing vulnerability. The country is capturing an outsized share of the global AI infrastructure and semiconductor investment cycle, but an increasing share of Singapore's growth now depends on the AI-driven technology cycle, which remains exposed to shifts in AI spending, semiconductor demand and geopolitical restrictions.

The government's challenge is therefore converting a cyclical surge in demand into enduring competitive advantages. The Economic Strategy Review positions AI as the organising principle of Singapore's next phase of economic development, with the objective of making Singapore a trusted hub where AI solutions are developed, tested and deployed across sectors such as advanced manufacturing, financial services, healthcare and logistics.

---

[66] Singapore to push for wider regional AI adoption, cross-border data flows as ASEAN chair, *The Straits Times,* July 20, 2026. https://www.straitstimes.com/asia/se-asia/singapore-to-push-wider-regional-ai-adoption-cross-border-data-flows-as-asean-chair.

[67] Singapore's GDP Grew by 5.7 Per Cent in the Second Quarter of 2026, *Ministry of Trade and Industry*, July 14, 2026. https://www.mti.gov.sg/newsroom/singapore-s-gdp-grew-by-5-7-per-cent-in-the-second-quarter-of-2026/.

The harder challenge lies in implementation. Many of the institutional mechanisms underpinning initiatives such as the National AI Council, National AI Impact Programme and AI Missions remain at an early stage of development, with few details announced. The challenge is now building the institutional capability, enterprise adoption and workforce transformation needed to deliver it at scale. Companies that can help bridge this execution gap are likely to find opportunities for partnership with the government.

Two major technology bills expected in H2 2026 will broaden Singapore's approach from cybersecurity towards digital resilience.

The government is expected to introduce the Digital Infrastructure Act while also reviewing and strengthening the Cybersecurity Act amid growing concerns over the resilience and security of increasingly critical digital infrastructure. The proposed Digital Infrastructure Act, which completed public consultation in July, would establish a licensing regime for major data centre and cloud providers while introducing statutory requirements covering operational resilience, business continuity, incident reporting and energy efficiency.

Separately, the Cybersecurity Act is expected to place greater emphasis on cyber resilience and the protection of critical information infrastructure in response to increasingly sophisticated cyber threats, especially following the Mythos and OpenAI-Hugging Face incidents[68]. Together, the two initiatives signal a broader shift from protecting critical infrastructure against cyberattacks to ensuring that the digital services underpinning Singapore's economy remain resilient and operational under increasingly complex risks.

Impact and Advice for Japanese Companies

The convergence of multiple policy initiatives makes this an opportune time for Japanese companies to engage the Singapore government.

The government has entered an implementation phase in several strategic areas at the same time. A new generation of ministers is establishing its policy priorities and stakeholder networks following the Cabinet reshuffle. The government is looking to translate its AI ambitions into practical deployment across industry, consult industry on major legislation such as the Digital Infrastructure Act, strengthen Singapore's long-term energy security through multiple technology pathways, and prepare an ambitious 2027 ASEAN Chairmanship centred on AI, digital connectivity, and regional integration. These parallel workstreams create multiple opportunities for companies to contribute ideas, implementation expertise and long-term partnerships at a stage when policies and programmes remain actively shaped. For Japanese companies, engagement is therefore likely to be most effective when positioned not around individual commercial interests, but around practical solutions that help Singapore deliver its strategic priorities domestically and across ASEAN.

Thailand

Policy and Economic Updates

Government secures major legal victory, reinforcing medium-term political stability

[68] Singapore tightens rules governing critical services sectors to counter AI cyberthreats, *The Straits Times*, July 27, 2026. https://www.straitstimes.com/tech/singapore-tightens-rules-governing-critical-services-sectors-to-counter-ai-cyber-threats.

Thailand’s Constitutional Court's ruling on the government's USD 12.3 billion emergency borrowing decree, which had emerged as an early test of the Anutin administration's authority only a few months into its term. The decree, approved in May 2026, authorises the Ministry of Finance to borrow USD 12.3 billion to finance energy-crisis relief measures and support Thailand's longer-term clean energy transition. Opposition lawmakers challenged the measure, arguing that the government had improperly used an emergency decree rather than pursuing normal parliamentary procedures.

On 9 July, the Constitutional Court ruled that the decree was constitutional, unanimously supporting the decree's core borrowing authority and largely upholding the government's argument that elevated energy prices and economic disruptions stemming from the Middle East conflict constituted sufficient grounds for emergency action. The ruling effectively removed one of the most significant political and legal risks facing the government and allowed planned spending programmes to proceed without interruption.

The significance of the decision extends beyond the borrowing programme itself. Prior to the verdict, the case had been widely viewed as a potential threat to government credibility and raised questions about the administration's ability to implement its economic agenda. Had the court ruled against the government, the decree could have been invalidated, forcing the government to restart the legislative process and potentially undermining investor confidence.

The ruling provides an important signal regarding the durability of the current government. Bhumjaithai already controls most major economic ministries and enjoys a relatively stable coalition arrangement. The court decision further strengthens Prime Minister Anutin Charnvirakul's position by removing a major source of political uncertainty and allowing the government to move forward with its economic stimulus, energy-transition, and cost-of-living relief programmes. While challenges remain, including weak economic growth and high household debt, the verdict substantially reduces the likelihood of near-term political disruption and reinforces expectations that the administration will remain in a strong position over the medium term.

Prime Minister Anutin Deepens Economic Engagement with China During the Official Visit

Prime Minister Anutin Charnvirakul conducted an official visit to China in July, meeting President Xi Jinping in Shanghai and promoting Thailand as a destination for investment in EVs, AI, advanced manufacturing, clean energy, and digital infrastructure. Both sides reaffirmed cooperation on trade, technology, connectivity, and industrial development, while China expressed support for the new Thai administration and deeper economic ties.

The visit was heavily focused on investment promotion. In Chengdu, Anutin met leading Chinese companies including Xiaomi, Changan Automobile, InnoLight Technology, and Eoptolink Technology, all of whom were encouraged to make further investments in Thailand. Several firms highlighted Thailand as a key regional manufacturing base and announced plans to expand production, research, and supply-chain activities, particularly in EVs, optical communications, and high-technology industries.

The trip underscored the government's broader economic strategy of attracting high-value industrial investment to support long-term growth. As global companies diversify supply chains, Bangkok is positioning Thailand as a neutral manufacturing and technology hub capable of serving both Chinese and Western markets. The visit also signals continued inflows of Chinese investment into strategic sectors that have traditionally been dominated by Japanese and Western firms.

Commerce Minister’s Washington visit advances U.S. trade talks amid Section 301 tariff risks

Deputy Prime Minister and Commerce Minister Suphajee Suthumpun visited Washington, D.C. on 15–16 July for talks with senior U.S. officials to advance the Thailand-U.S. Agreement on Reciprocal Trade (ART), follow up on Section 301 investigations, and strengthen bilateral trade and investment ties. Thailand emphasised its role as a reliable U.S. partner and signalled flexibility toward U.S. requests within domestic legal and policy limits.

The U.S. welcomed Thailand's efforts but still needs time to review Bangkok's latest proposals. Thailand is seeking to narrow its trade surplus through higher U.S. imports and investment cooperation, following the July 2025 joint statement. The stakes are high: in 2025, the U.S. was Thailand's second-largest trading partner, with total trade of USD 93.7 billion and a Thai surplus of around USD 51.4 billion.[69]

Tariff risk remains unresolved as Thailand faces two U.S. Section 301 investigations, covering structural excess production capacity and the absence of a forced-labour import ban. Washington has preliminarily indicated tariffs of 12.5percent for countries without forced-labour import bans and 10percent for those with such laws or ART arrangements. For export-oriented manufacturers, the key issue is whether Thailand can secure a competitive tariff outcome before the U.S. finalises its measures.

Impact of U.S.-China Tensions

U.S. Section 301 tariffs sharpen pressure on Thailand's export model

Thailand's trade exposure to the U.S. has become a more immediate vulnerability as Washington moves from broad reciprocal-tariff threats toward Section 301-based measures. In late July, the U.S. applied a 12.5percent tariff on Thailand under Section 301[70], citing concerns over structural overcapacity and the absence of a specific ban on goods produced with forced labour. Thai officials are now negotiating an Agreement on Reciprocal Trade to seek a more favourable tariff outcome and have emphasised that Thailand's industrial capacity utilisation remains high, while also preparing legislation to prohibit imports made with forced labour.

The new tariffs are unlikely to derail overall export growth immediately, as electronics and AI-related products remain supported by strong U.S. demand and several key lines are reportedly exempt. However, the measures add uncertainty for rubber, processed food, automotive components, machinery and other sectors exposed to U.S. trade enforcement.[71] For Thailand, the broader risk is that U.S.-China tensions increasingly turn rules of origin, labour compliance, and supply-chain transparency into market-access conditions, requiring exporters to demonstrate that Thailand is not merely a transshipment point for China-linked production.

Anutin's China visit reinforces Thailand's role as a neutral production base for Chinese technology firms

At the same time, Thailand is deepening economic engagement with China to capture investment diverted by geopolitical risk. During Prime Minister Anutin Charnvirakul's July visit to China, Chinese technology and manufacturing firms signalled plans for around USD 1.9 billion[72] in new investment in Thailand, focused on EVs, optical transceivers, semiconductors, microchips, data-centre components, and advanced manufacturing. Anutin's meetings with companies including Xiaomi, Changan Automobile, InnoLight Technology, and Eoptolink Technology highlighted Thailand's appeal as a regional production and innovation hub outside China, supported by the EEC, BOI incentives, and Thailand's existing automotive and electronics base.

---

[69] Suphajee Visits Washington for Tariff Talks, Proposes Increased Imports of U.S. Goods, Awaits Outcome of Two Investigations, *Matichon*, July 18, 2026. https://www.matichon.co.th/economy/news_5811514 .

[70]USTR Takes Action in Forced Labor Section 301 Investigations, *USTR*, 23 July 2026. https://ustr.gov/about/policy-offices/press-office/press-releases/2026/july/ustr-takes-action-forced-labor-section-301-investigations.

[71]Thai exports hit by new US 12.5% Section 301 tariff over forced labour rules, *Nation Thailand*, 24 July 2026. https://www.nationthailand.com/business/economy/40068988.

[72] PM Anutin reassures Chinese firms over Thai investment expansion, *Nation Thailand,* 18 July 2026. https://www.nationthailand.com/business/economy/40068793.

This creates both opportunity and strategic risk. Thailand can benefit from China+1 investment flows and attract higher-value manufacturing, especially in EVs, electronics, AI infrastructure, and data-centre supply chains. However, as U.S. scrutiny of China-linked production intensifies, Thailand will need stronger compliance systems, local-content verification, and supply-chain documentation to preserve access to Western markets. Japanese firms should expect Thailand to remain open to both Chinese and Western capital, but competition from Chinese investors in sectors historically dominated by Japanese companies will continue to intensify.

Policy and Industry Developments in Strategic Sectors

EEC pushes to become regional EV production hub by strengthening domestic supply chains

The Eastern Economic Corridor Office (EECO) is stepping up efforts to position the EEC as a regional hub for electric vehicle production, as global automakers continue to expand investment in Thailand to serve both domestic demand and future exports. At the recent EEC Sectoral Deep Dive Forum 2026, EECO framed the global shift toward EVs, smart vehicles, and digital automotive technologies as a major opportunity for Thailand, particularly as multinational companies pursue China+1 supply-chain diversification. The EEC is being promoted as the core investment destination due to its existing automotive base, infrastructure readiness, and policy support.

Industry participants from BYD, SAIC Motor-CP, Toyota, and BMW[73] emphasised that Thailand's EV transition must proceed alongside the continued competitiveness of the existing internal-combustion-engine supply chain. Their shared message was that long-term success will depend less on EV assembly alone and more on building a deeper domestic ecosystem, including local parts production, workforce upskilling, testing facilities, R&D capacity, and proactive government support. The forum also highlighted the need for international-standard vehicle testing centres, green finance, and skills development for intelligent mobility technologies. The direction suggests that Thailand's EV policy is shifting from investment attraction toward supply-chain localisation and ecosystem development, which will be critical to maintaining its automotive leadership as competition from regional peers intensifies.

Thailand tightens data centre policy as AI infrastructure investment accelerates

Thailand is moving to manage the rapid expansion of data-centre investment more carefully as AI and cloud infrastructure become central to its digital-industrial strategy. The Board of Investment reported a sharp investment surge in the first half of 2026, including large digital, data centre, AI, and advanced-electronics projects. Earlier approvals included major data centre and data-hosting projects worth more than USD 3.1 billion, while industry reports indicate that cumulative data-centre applications in 2025 exceeded USD 23 billion.[74]

Policy is now shifting from pure investment attraction toward resource management and quality control. In June, the BOI updated its data centre promotion conditions, requiring high-efficiency projects to meet stricter technical and sustainability standards, including a Power Usage Effectiveness threshold of 1.3, stronger redundancy and security requirements, water-management plans, and clearer commitments to local workforce development.[75] Separately, the government is advancing a 2,000 MW direct power purchase agreement pilot that would allow qualifying data centre operators

[73] EECO Unveils Plan to Transform the EEC into a Regional EV Hub, Attracting Leading Automakers to Build Domestic Supply Chains, *Bangkokbisnews*, June 30, 2026. https://www.bangkokbisnews.com/auto/1240646.
[74] BOI Rings in 2026 with Seven Data Center Approvals, Bolstering Thailand's Digital Future, *Thailand Board of Investment*, January 15, 2026.
https://www.boi.go.th/un/boi_event_detail?module=news&topic_id=138444&language=en.
[75] Data Centre Boom Pressures Thailand's Power Grid as BOI Reviews Investment Incentives, *Thansettakij*, June 24, 2026. https://www.thansettakij.com/economy/energy/662170.

to procure renewable electricity directly from private generators through the grid, addressing a key requirement for global technology companies with clean-energy commitments.

The direction suggests that Thailand remains open to large-scale digital infrastructure investment, but approvals will increasingly depend on power availability, clean-energy access, water use, land suitability, and visible benefits for the Thai economy. For data centre operators, energy providers, industrial estate developers, and equipment suppliers, this creates a more demanding but potentially more bankable market. Japanese firms with strengths in energy-efficient cooling, power equipment, grid services, renewable procurement, water management, and facility operations may find new opportunities as Thailand seeks to move from headline investment approvals toward sustainable implementation.

Impact and Advice for Japanese Companies

Thailand offers greater policy stability, but competition and compliance risks are rising

For Japanese companies, Thailand's near-term operating environment is becoming more stable under the Anutin administration. The government's legal victory over the emergency borrowing decree, its control of most key economic ministries, and its continued focus on investment promotion should support policy continuity in areas such as EVs, digital infrastructure, clean energy, and advanced manufacturing. Japanese firms should use this window to deepen engagement with BOI, EEC, energy and industry agencies, particularly where investment plans align with Thailand's push for higher-value production, domestic supply-chain development, and workforce upgrading.

At the same time, Japanese exporters should treat U.S. trade enforcement as a structural risk rather than a temporary tariff issue. Section 301 scrutiny, forced-labour import restrictions, and concerns over transshipment will make origin tracing, labour compliance, and supplier due diligence more important for companies using Thailand as an export base. Firms should review whether Thailand-based production can clearly demonstrate local value creation, non-China-linked sourcing where necessary, and compliance with U.S. and other Western market-access requirements. This will be especially important for electronics, automotive components, machinery, rubber, processed food, and other export-oriented sectors.

Japanese automakers and suppliers also face a more competitive industrial landscape as Chinese firms expand rapidly in EVs, batteries, optical components, semiconductors, data centre equipment, and advanced manufacturing. Thailand will continue to welcome Chinese investment, but policymakers are increasingly focused on localisation, technology transfer, testing facilities, skills development, and ecosystem depth rather than headline investment alone. Japanese companies should respond by emphasising long-term commitments to Thai employment, supplier upgrading, R&D, hybrid and multi-technology transition pathways, and safety or quality standards where they retain comparative advantages.

Vietnam

Policy and Economic Updates

Vietnam maintained strong headline growth in the first half of 2026, but the composition of that growth and rising price pressures point to a more demanding operating environment in the second half of the year. Official data show that GDP expanded by 8.39percent year on year in the second quarter and by 8.18percent in the first six months. Industry and construction grew by 9.81percent in the first half and contributed 47.2percent of total value-added growth, while services increased by

8.09percent and contributed a similar share. However, average consumer price inflation reached 4.38percent, while producer prices for industrial inputs rose more quickly, reflecting higher energy and material costs. The figures indicate that the government's investment- and manufacturing-led growth strategy is generating momentum, although businesses continue to face cost pressures and uncertainty arising from external trade and energy conditions.[76]

The Vietnamese government continued to prioritise public investment, major infrastructure projects and access to credit as its principal near-term growth levers. During this period, senior officials repeatedly instructed ministries, state-owned enterprises and local governments to accelerate project implementation and resolve delayed approvals The State Bank of Vietnam also introduced targeted credit measures, including exemptions for certain large projects from credit-limit calculations and greater lending flexibility for social housing and industrial-zone development.[77] These interventions may support demand for machinery, construction materials, logistics and professional services, but they also reinforce a policy pattern in which capital and administrative attention are concentrated on nationally important projects and large domestic groups. Smaller firms and foreign investors outside priority sectors may continue to face slower approvals and less direct policy support.

A more consequential medium-term shift was the Politburo's issuance of Resolution No. 10-NQ/TW on June 8 on the development of the foreign-invested economic sector. The resolution confirms that foreign investment remains an important part of the economy, while placing greater emphasis on project quality, technology transfer, workforce development, environmental performance and linkages with domestic suppliers. Government communications indicate a transition from broad, input-based incentives towards performance-based support linked to investors' delivery of committed outcomes. The policy therefore does not signal reduced openness to foreign investment, but it does suggest more selective screening and closer follow-up of investment commitments, especially for large projects seeking land, tax or infrastructure incentives.[78]

For Japanese companies, the practical effect will depend on implementing legislation and provincial practice. Investors in semiconductors, advanced manufacturing, green technology, supporting industries and research and development are likely to remain well aligned with national priorities. However, companies should expect authorities to seek clearer evidence of local supplier development, training, technology content and environmental compliance. Existing investors may also face greater pressure to demonstrate spillover benefits when applying for expansion incentives. In the short term, the resolution may add another layer of assessment before a stable performance-based incentive framework is fully established.

Impact of U.S.-China Tensions

U.S. trade enforcement became the most immediate external risk for Vietnam during July. U.S. pressure on Vietnam broadened during June and July, increasing the importance of origin, labour and supply-chain compliance for export-oriented manufacturers. On June 2, the Office of the U.S. Trade Representative concluded that 60 economies, including Vietnam, had failed to impose and effectively enforce a prohibition on imports made with forced labour. On July 23, USTR imposed additional Section 301 duties of 10percent or 12.5percent, with Vietnam placed in the 12.5percent

[76] Socio-economic situation in Q2 and the first six months of 2026. National Statistics Office of Vietnam. July 3, 2026. https://www.nso.gov.vn/du-lieu-va-so-lieu-thong-ke/2026/07/thong-cao-bao-chi-ve-tinh-hinh-kinh-te-xa-hoi-quy-ii-va-sau-thang-dau-nam-2026/.
[77] More Room for Medium- and Long-Term Lending: Three Pillars Supporting Banking-Sector Stability. Vietnam Financial Times. July 31, 2026. https://thoibaotaichinhvietnam.vn/mo-them-du-dia-cho-vay-trung-dai-han-ba-tru-cot-giu-nhip-an-toan-cho-ngan-hang-199564.html.
[78] Party Committee of Ministry of Industry and Trade studies Resolution No. 10-NQ/TW. Ministry of Industry and Trade. June 30, 2026. https://moit.gov.vn/en/news/party-committee-of-ministry-of-industry-and-trade-studies-resolution-no.10-nq-tw.html.

category, subject to product exemptions.[79] Several regional competitors, including Indonesia, Malaysia, Cambodia and Bangladesh, received the lower 10percent rate because of their legal regimes or commitments. The action is separate from other U.S. trade investigations and therefore adds a new compliance-based tariff layer rather than resolving existing uncertainty. USTR also continued an investigation into structural excess capacity covering Vietnam and fifteen other economies, leaving open the possibility of further sector-specific measures.

Vietnam rejected the assessment but also accelerated domestic measures on forced-labour imports, intellectual property enforcement, origin fraud and trade-remedy circumvention. The Government issued Decree No. 292/2026/ND-CP guiding the Law on Foreign Trade Management to prohibit imports produced with forced labour, although the regime will not take effect until September 2026. Vietnamese and U.S. customs authorities also expanded technical cooperation on illegal transshipment and origin verification. These measures may help Hanoi demonstrate responsiveness, but they are unlikely to ease near-term scrutiny of Chinese materials and components processed or assembled in Vietnam before export to U.S.

The risk is particularly relevant for electronics, machinery, solar equipment, steel, textiles, footwear and furniture, where production networks often involve substantial Chinese materials, components or investment. U.S. enforcement is increasingly focused on the economic substance of manufacturing in Vietnam, rather than solely on formal certificates of origin. Exporters may therefore need to retain more detailed records on suppliers, production stages, labour conditions and value added. Japanese companies that source from Vietnamese contract manufacturers should not assume that local assembly alone is sufficient to mitigate U.S. trade risk. Contractual audit rights and traceability requirements may become more important across second- and third-tier suppliers.

The forced-labour tariffs also compound existing U.S. scrutiny of Vietnam over intellectual property, excess capacity, origin fraud and trade-remedy circumvention. In late July, U.S. customs officials reportedly carried out spot inspections at China-linked factories in Vietnam, examining raw material sources, production processes and supporting documents to assess local value added. Although the reporting did not identify significant evidence of illicit transit, and Reuters could not independently verify all details, the inspections point to a more operational, factory-level approach to trade enforcement.[80]

Policy and Industry Developments in Strategic Sectors

Vietnam continued to build a more detailed policy framework for strategic technologies. On June 30, the Vietnamese government issued Decree No. 260/2026/ND-CP, setting out criteria and incentive mechanisms under the Law on High Technology for high-tech enterprises, strategic technologies, and high-tech products manufactured in Vietnam. It operates alongside updated lists of strategic and priority high technologies that also took effect on July 1. Together, these instruments provide a more concrete basis for identifying projects eligible for support, but they also strengthen the government's ability to assess whether an applicant genuinely carries out high-value activities in Vietnam.

The Vietnamese government also began addressing a specific weakness in Vietnam's semiconductor ecosystem: domestic chip designers have had limited access to affordable prototype production. On June 26, the Ministry of Science and Technology launched Vietnam's first national semiconductor trial-production centre under a multi-project wafer model. The centre will pool chip designs from

[79] USTR Takes Action in Forced Labor Section 301 Investigations. Office of the United States Trade Representative. July 23, 2026. https://ustr.gov/about/policy-offices/press-office/press-releases/2026/july/ustr-takes-action-forced-labor-section-301-investigations.
[80] US customs officials inspect China-linked factories in Vietnam, Bloomberg News reports. Reuters. July 28, 2026. https://www.reuters.com/world/asia-pacific/us-customs-officials-inspect-china-linked-factories-vietnam-bloomberg-news-2026-07-28/.

universities, research institutes, start-ups, and companies for fabrication through international foundry partners. The Vietnamese government will fully fund trial-production costs in 2026–2027 and provide partial support through 2030, alongside shared design tools, laboratories, testing facilities and technical services.

The initiative creates opportunities for Japanese foundries, design-software providers, testing and packaging firms, equipment suppliers, and training institutions. Five bilateral semiconductor research projects agreed in July offer an additional channel for collaboration. However, the centre remains a support platform rather than an industrial-scale production base, so companies should assess its value for accessing local talent and future customers without assuming that Vietnam already has a complete fabrication ecosystem.

Energy security was another major policy focus. On July 4, the Government issued Decree No. 272/2026/ND-CP guiding National Assembly Resolution No. 253/2025/QH15 on the implementation of special national energy-development mechanisms for 2026–2030. This followed measures adopted in June allowing licensed coal mines to exceed approved production capacity by up to 15percent. Together, these actions show that Vietnam continues to support renewable energy and grid modernisation, while also using conventional fuels and exceptional administrative measures to protect near-term power supply.

For renewable-energy users and developers, the Vietnamese government issued Decree No. 243/2026/ND-CP, which amends Decree No. 57/2025/ND-CP on direct power purchase agreements between renewable-energy generators and large electricity users and Decree No. 58/2025/ND-CP on the development of renewable and new energy. The amendments expand participation options for industrial park electricity retailers and clarify the treatment of excess self-generated output. They may widen access to renewable electricity for manufacturers that could not contract directly under the original framework. Nevertheless, practical participation will still depend on grid capacity, metering, contractual arrangements and the willingness of relevant electricity-market entities to implement the scheme.

For Japanese energy companies, opportunities remain in renewable power, battery storage, grid equipment, gas-fired power and industrial energy efficiency. However, project viability will still depend on power-purchase arrangements, grid connection, fuel supply, land access and provincial approvals. Companies should therefore assess project-specific implementation conditions rather than rely only on inclusion in national plans.

Vietnam accelerated major airport and urban-rail expansion plans, creating a sizeable medium-term pipeline for transport infrastructure, equipment, financing and transit-oriented development. The Ministry of Construction approved an adjusted national airport plan targeting 36 airports by 2030, including 19 international airports, and 37 airports by 2050. Five airports, including Cao Bang, Gia Binh, Ninh Binh, Van Phong and Con Dao, were added to or upgraded within the international-airport network. Hanoi separately outlined an 18-line urban railway network totalling approximately 979 kilometres and plans to develop the first 500 kilometres during 2026-2035. The scale of the pipeline creates opportunities in engineering, rolling stock, signalling, airport equipment, project finance and transit-oriented development. Nonetheless, land clearance, financing, procurement coordination, and local implementation capacity are likely to remain material schedule risks.

Impact and Advice for Japanese Companies

U.S. trade actions and tighter origin scrutiny are increasing compliance and documentation requirements for Japanese companies operating through regional supply chains. Companies exporting to the U.S. should strengthen supplier-level records on origin, labour practices, production processes, and local value added. Those using Chinese inputs in Vietnam should also assess whether alternative sourcing, additional processing or stronger contractual audit rights are needed.

These trade risks are developing alongside Vietnam's more selective investment policy. Investors seeking new or expanded incentives should align project proposals with the Vietnamese government's emphasis on measurable local contribution. Commitments on R&D, training, local procurement, emissions reduction, and technology transfer should therefore be specific, achievable and supported by clear implementation plans.

At the same time, infrastructure, energy and strategic-technology projects continue to create opportunities for Japanese companies. However, delays in permitting, land clearance, procurement and financing remain common. Companies should use conservative assumptions on timing and ensure that contracts and partnership structures allocate payment, implementation and schedule risks clearly.

Taken together, these developments increase the importance of supply-chain resilience and local execution capacity. Japanese firms should diversify sourcing and logistics arrangements, strengthen local supplier development and maintain close engagement with both central regulators and provincial authorities. This will help reduce exposure to sudden tariff or enforcement changes while improving their ability to participate in Vietnam's industrial and infrastructure expansion.