

# Asian Investment Monitor August 2018

## Overview

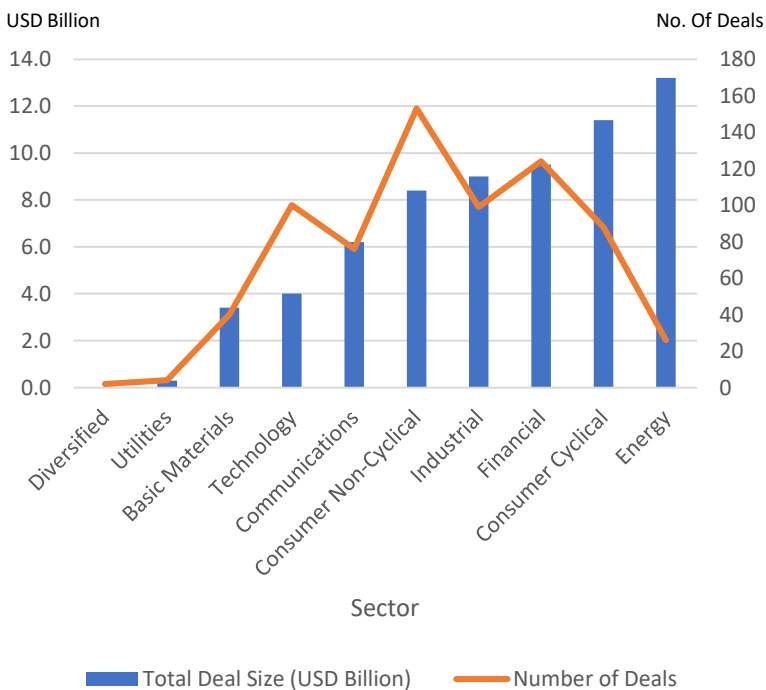
### China and Japan

In August 2018, the Trump administration placed additional tariffs on Chinese goods, forcing China to revive its relationship with Japan as an ally in the ongoing trade war with the United States. The relationship between China and Japan has been deteriorating since the 1990s and the current circumstances present an opportunity to restore it—that is, if the two nations can agree on key issues such as their currency swap arrangement. Japan is taking a cautious approach when it comes to rebuilding ties with China as some politicians within its government still see China as a security threat. Japan’s Prime Minister Shinzo Abe has reiterated that he will put the interests of Japan ahead of any political alliance—a stance which may hinder attempts to rebuild ties.

### Australia

The month of August saw Scott Morrison enter office as Australia’s new Prime Minister—the country’s fifth in five years. Morrison has inherited a Liberal Party which is deeply divided over issues including climate change and energy policy. The new Prime Minister has stated that the key priorities on his political agenda include issues surrounding Australia’s economic and national security as well as further unification of the Liberal Party as the country prepares itself for another election in 2019. Prime Minister Morrison must now act quickly to resolve issues within the Liberal Party and press ahead with his political agenda. Otherwise, he may find himself in a similarly unwanted position as his predecessors.

## Total Deal Size and Volume by Sector



## Deal Activity

704 M&A/PE transactions (Source: Bloomberg) were completed in August with a total deal value of USD64.8 Billion, compared to July which saw the closing of 666 transactions with an aggregate value of USD41.9 Billion originating from Asia.

Notable transactions completed in August included:

- SoftBank Group Corp acquired 10.8% of Yahoo Japan Corp for USD1.9 Billion.
- Anhui Leimingkehua Co Ltd acquired 100.0% of Huaibei Mining Co Ltd for USD7.3 Billion.
- Mitsubishi UFJ Financial Group Inc acquired an 20.0% in Bank Danamon Indonesia Tbk PT for USD1.2 Billion.

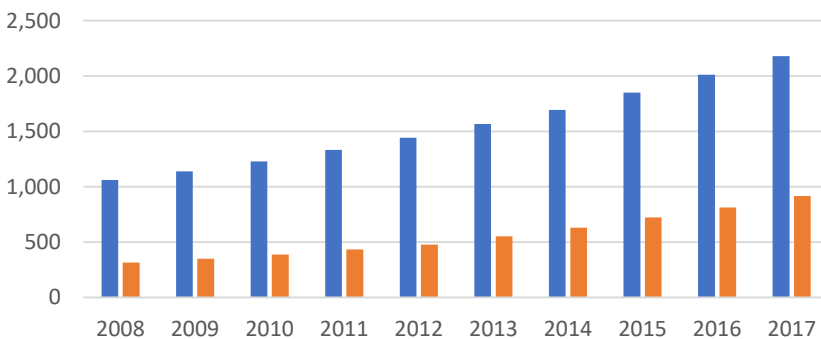
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## Focus Industry: Renewable Energy

Asian countries are seeking alternatives to traditional energy sources to meet rising demand from their developing economies. Concerns regarding traditional fossil fuels such as security of supply, price volatility and environmental degradation have drawn governments' attention to renewable energy sources. The capacity of renewable energy in **Asia has almost doubled over the past five years**, reaching 918 gigawatts ("GW") in 2017, with China and India being the largest contributors. **Solar capacity in China is now 36 times more than it was five years ago**—it currently produces 130GW of solar power, which exceeds the government's target for 2020. India's renewable energy generating capacity rose 18% last year, which accounted for the largest increase since 2001. **In 2017, India contributed 10% to the global growth in renewable energy capacity.**

### Total Renewable Energy Generation Capacity in Gigawatts

■ World ■ Asia



Source: International Renewable Energy Agency (2018)

An increase in transaction volumes has occurred in the renewable energy sector in 2016 and 2017. The sector saw USD241.6 Billion in new investments worldwide, adding 138.5GW to global capacity. **47% of this amount was invested in Asia Pacific countries.** In October 2017, New York-based Global Infrastructure Partners and China's sovereign wealth fund agreed to purchase a portfolio of Asian wind and solar energy projects from Singapore-based Equis Pte Ltd for USD3.7 Billion.

Non-government renewable energy developers are restricted by limited access to bank financing. Whilst this financing gap creates opportunities for private investors, it has been determined that many renewable energy projects are 'unbankable' without some form of government support, thus discouraging the private sector. Land procurement is an additional issue investors face when assessing renewable energy projects. Certain countries require a developer to secure the land prior to commencement of a project, which can be a challenge in nations with foreign ownership restrictions. Furthermore, the lack of a reliable legal framework and coherent government policy in some Asian countries are among the issues which hinder private sector investments in renewable energy across the region.

## Investment Manager Commentary

- Given China's growing leverage and political influence in Asia and globally, Japan may appear receptive to a possible political rapprochement of the two countries. However, the prospect of such reconciliation taking place is highly questionable. Although Japan is in discordance with the United States in the area of trade, one must not forget that Japan has been a long-time political ally to the U.S., acting as a part of America's efforts to monitor China's ambitious climb to become the next superpower. Additionally, Japan and China have yet to settle some key strategic differences and disputed territorial claims, as well as Japan's invasive history which still remains a sensitive topic in China. With these factors in mind, it appears that any rebuilding of relations between Beijing and Tokyo may be challenging from the beginning.
- The robust economic and demographic growth in Asia sets a solid foundation for future renewable energy development. As many Asian countries are undergoing a period of consumption growth, it can be expected that more consumers will seek cleaner alternative fuel options as they gradually recognise the environmental damage brought forth by traditional fossil fuels. Rising awareness for environmental protection along with backing by policymakers will work hand in hand to drive up the demand for renewable energy across the region.

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