ASIA MONTHLY

April 2013

株式会社日本総合研究所

http://www.jri.co.jp/english/periodical/asia/

Topics Economic reform of China's confirmed at NPC

At China's National People's Congress in March, the personnel who will lead the new administration and its economic structural reform strategies were approved, along with major economic policies. While the Xi Jinping administration plans for stable growth, it will also need to prove its executive ability as it strongly pushes reform.

■ This year's NPC more significant than usual

China's National People's Congress (NPC, the equivalent of a parliament) in March attracted attention at home and abroad as the forum at which it would be explained what kinds of economic strategy would be adopted by the new Xi Jinping leadership, appointed by the National Congress of the Communist Party of China in November, 2012, and to what extent they would advance structural reform. Also, as key personnel of the Communist Party step down at the end of their terms of office, there were expectations of a significant changing of the guard among the nation's leadership. Thus, a great deal of attention was focused on which personnel would be presented to and approved by the NPC as the transfer of power from the Hu Jintao administration to the Xi Jinping administration is completed. For these reasons, this year's NPC may be said to have been more anticipated, and more highly significant, than usual.

■ New economic development model and urbanization pushed through

On March 5, Wen Jiabao, then premier, delivered the *Report on the Work of the Government*. From the Report the following three points may be highlighted as major characteristics of the planned economic strategies and economic structural reforms of the Xi administration. Also, at a conference of the Politburo of the Communist Party of China on February 23, the Report was discussed and it was agreed that the Report should be deliberated upon at the NPC. It may be concluded that the intentions of the new Xi administration are reflected in the Report on the Work of the Government.

＜Report on the Work of the Government＞

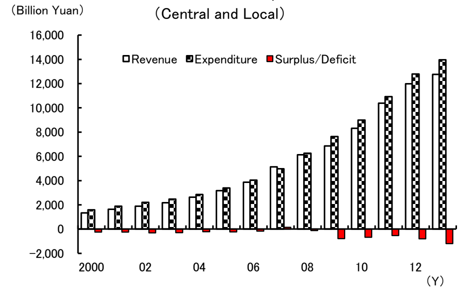
Field	Main Points
Numeric Main Targets in 2013	・Real GDP Growth Rate around 7.5% ・M2 Increase Rate around 13% ・Fiscal Deficit is 1.2 trillion (around 2% of GDP)
Basic Policy on Structural Reform	・Conversion Acceleration of An Economic Development Method ・Actively yet Prudently Promote Urbanization ・Early Implementation of Concrete Measures Based on the Policy of Income Distribution Reform

Source : Web Site of the Chinese Government

The first characteristic is the setting of targets with the "sustainable and healthy economic development" propounded by the Xi leadership kept in mind.

For example, the real GDP growth target for 2013 has been set at around 7.5%. The Report on the Work of the Government of a year ago made no mention of "around". Judging from recent actual performance figures (7.8% growth for the whole of 2012, 7.9% growth for the October to December quarter, 2012, compared to the same period in the previous year) and the numerical targets for these levels, it might be inferred that the leadership does not intend to adhere too strongly to the actual size of the growth rate figure in the short term.

＜National Revenue and Expenditure＞
(Central and Local)



Note : Until 2011 are financial closing, 2012 is budget implementation, 2013 is budget proposal basis
Source : National Bureau of Statistics *China Statistical Yearbook 2012*, 2013 Budget Proposal (March 5 published)

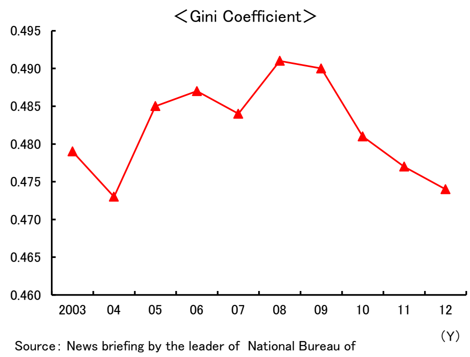
Further, the growth target for the money supply (M2) has been set at around 13%. In comparison with the 27.7% target set for 2009 as part of economic stimulus measures, this is a low level. It may also be considered something of a statement of intent to the effect that there are no plans for monetary easing as a means of short term economic stimulus.

Additionally, the 2013 budget proposal (central and local) booked the largest deficit ever, at 1.2 trillion yuan. At first glance this might be interpretable as a significant increase in government spending in order to boost economic growth, but the fact that 1) the promotion of tax reduction measures, such as replacing sales taxes with a value added tax, cannot be expected to result in a significant increase in tax revenue, and that 2) increased social security related fixed government expenditure has enlarged the fiscal deficit, are being quoted as major reasons for the increased spending. In addition, neither the *Report* nor the budget proposal incorporate plans to secure high levels of economic growth by adding infrastructure projects. Judging from fiscal policy also, the Xi administration appears clearly to prioritize sustainable economic development rather than high levels of growth.

The second characteristic is that the government appears to be taking pains to push forward with structural reform, all the while employing ambivalent expressions in order to inhibit excessive reaction. While there is agreement that the aim should be to convert the economic growth model to one that is driven by consumption, the high growth-oriented local governments have not yet softened their negative stance towards central government's policy of restraining investment. In response to this issue, inherited from the previous Hu Jintao administration, the Report affirms the key role in economic growth played by investment. However, such affirmation is limited to the "current stage", and the Report calls for a switch from quantity to quality of investment, along with measures to enhance private consumption. From this it may be inferred that the Xi administration's intent is on encouraging local voluntary initiative while implementing the switch from an investment driven development model to a consumption driven one.

Moreover, new premier Li Keqiang, since his promotion within the party in November, 2012, has been calling for the promotion of urbanization, calling it a supporting pillar of the stimulation of domestic demand. Under these circumstances, though there has been some interest in how the issue would be treated, the Report on the Work of the Government offered only the conventional "actively yet prudently promote urbanization" kind of language. This may be seen as an attempt to rein in irresponsible development of areas that are not suitable for cities with large populations. On the other hand, the Report is clear in its mention of accelerating the pace of reform of the residence permit system, which currently hampers the population shift from rural areas into the cities, and prevents former residents of agricultural communities from gaining permanent city residence. In comparison with the traditional ambiguous stance, the government's willingness to tackle residence system reform head on, and to promote urbanization, has come to the fore.

The third characteristic is the ongoing struggle to tackle income and wealth disparity. According to the National Statistics Bureau, China's Gini coefficient is falling, having peaked at 0.491 in 2008. Although the income gap is gradually being improved, it is still very large. In fact, there are many indications that, as income disparity expanded and became entrenched, discontent among the people is increasing. Concerned about this situation, in February the government announced its policy with regard to income distribution reform, and the Report on the Work of the Government made clear mention of efforts to push through the early implementation of concrete measures based on the policy, in order to reduce the income gap and to work to ensure that the benefits of development are more evenly distributed.



Source : News briefing by the leader of National Bureau of Statistics (January 18)

■ Top two leading economic reform

By the time of the closing of the NPC on March 17, the state's new leaders had been chosen. General Secretary Xi Jinping was appointed State President, giving him control of the three top positions of state, party, and military. Deputy Premier Li Keqiang who is the second fiddle within the communist party, was appointed new Premier. Since 1998, it has been the practice that second fiddle within the party is appointed Chairman of the Standing Committee of the National People's Congress, and the third ranked is appointed Premier. This year the practice has been changed and the aim seems to have been to create the strong impression that the top two (General Secretary Xi Jinping and Premier Li Keqiang) in the Xi Jinping administration are prepared to take the lead in pushing ahead with economic reform.

＜Major Personnel elected by NPC＞

Position	Full Name
President	1) Xi Jinping
Chairman(The Central Millitary Commission)	1) Xi Jinping
Premier	2) Li Keqaing
Chairman(The National People's Congress)	3) Zhang Dejiang

Note : Showing within the Communist Party's ranking

The new administration of Xi Jinping has had its economic policy and structural reform initiatives approved by the NPC, and will now be tasked with implementing them. While working to achieve stable economic growth, the administration's executive skill in pushing ahead with reform will be put to the test.

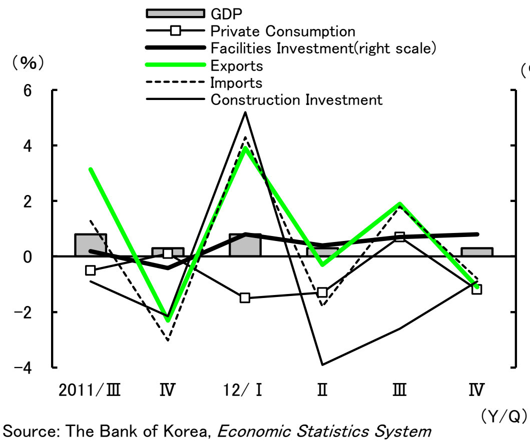
(Junya Sano)

Korea Choppy start for Park administration

■ New administration faces tough economic climate

South Korea's real GDP growth rate for the October to December quarter, 2012, compared to the same period in the previous year, was 0.3%, improving on the previous quarter's performance for the first time in four quarters. While exports and total fixed capital formation slumped, private sector consumption grew 0.8%, but it should be noted that faster consumption growth was largely in response to economic stimulus measures. The policy interest rate was lowered in July and in October and, in addition, the special consumption tax on automobile and major household appliances was reduced by 1.5% points in October. As a result, sales of automobiles were boosted into the 140,000 vehicle range in November and December, but the tax reduction came to an end in late December, and sales fell to the 110,000 vehicle range in January, and the 100,000 vehicle range in February.

＜Growth Rates of Korea's GDP (QoQ)＞



Source: The Bank of Korea, *Economic Statistics System*

The second point that needs to be borne in mind is the slow pace of recovery of exports. Exports (customs cleared basis) had begun to stage something of a recovery from the autumn of last year, but the recovery lacked vigor, and export growth in the January to February time frame was a mere 0.6%, compared to the same period in the previous year. Korea's biggest export destination, China, provided encouragement as its economic growth began to accelerate again, but it cannot be expected to return to former levels. And, in recent weeks, the impact of the weak yen and strong won is a source of worry. This impact began to make itself felt when Hyundai Motors' operating profit for the October to December quarter fell by 12%, compared to the same period in the previous year and, from the beginning of this year, sales of automobiles in the US have struggled to grow.

The third point is that investment growth is stagnating. The value of private sector machinery orders (excluding vessels), which serves as an indicator of future facilities investment performance, has stopped its downward slide, but is still at a low level. Also, as the real estate market continues to languish, there is little prospect of a recovery in construction investment.

■ New administration faces tough economic climate

President Park Geun Hye's maiden speech spoke of 1) a "*new way forward on the basis of a mutually reinforcing cycle of national advancement and the happiness of the people*", 2) the advancement of "a creative economy and economic democratization" in order to realize this, and 3) the "convergence of science and technology with industry" in pursuit of a creative economy. The address also spoke of a "Second Miracle on the Han River", referring to an economic recovery made possible by the concerted effort of all the people, in the same way as high levels of economic growth were realized in the 1970s. The reasons for propounding economic recovery include the fact that the traditional pattern of economic growth, dependent on the global development of the chaebol groups, has not necessarily resulted in improved quality of life for the people, and many people are dissatisfied and uneasy about their current and future standards of living.

The job of promoting a creative economy has gone to the newly created Ministry of Future Planning and Science, but the establishment of this Ministry has been delayed due to disagreement between the ruling and opposition parties with regard to the reorganization of government ministries and departments. Also, President Park's basic stance is to demand that the chaebol face up to their social responsibilities, while at the same time acknowledging the role that the chaebol groups have to play in economic development. However, as the economy, investments in particular, struggles to grow, there are concerns about how far the chaebol groups can be pushed.

The new president's ability will be tested as to how far she can advance her policies under these difficult circumstances.

(Hidehiko Mukoyama)

Thailand *Enhancing export for emerging and developing economies*

■ Q4 economic growth 18.9%

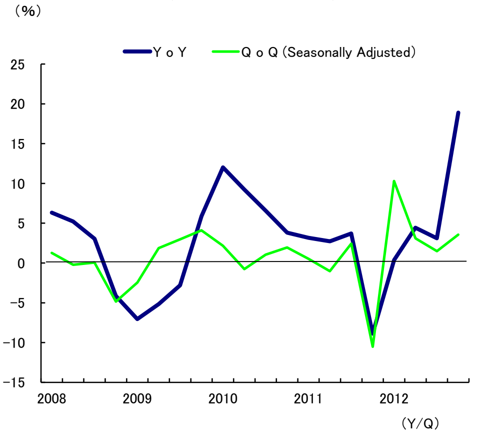
Thailand's real GDP growth rate in the October to December quarter in 2012 was 18.9%, compared to the same period in the previous year, a big jump up from 3.1% in the previous quarter. One of the main reasons was the fact that the same period in the previous year was suffering a major slump as a result of the widespread flooding, but even the seasonally adjusted growth rate was 3.6% compared to the previous quarter (1.5% for the July to September quarter), thus the economic recovery continues.

Domestic demand has been a driver of economic growth, with economic stimulus measures (raising the minimum wage level and providing tax rebates for new automobile purchases) and infrastructure development for flood countermeasures making significant contributions. As a result, private sector consumption grew 12.2%, compared to the same period in the previous year, and fixed capital formation grew 23.5%, similarly, to a high level.

The forecast is that domestic demand will continue to be the driver of economic growth in 2013. Additionally, exports in 2013 will be expected to recover to some extent. Stopped production and other interruptions caused by the flooding meant that exports inevitably fell in the first half of 2012, but they began to recover during the latter half of the year, posting 18.5% growth in the October to December quarter, compared to the same period in the previous year, worth $57.2 billion. In particular, automobile related exports posted a record high of $8 billion, accounting for over 14% of the export total.

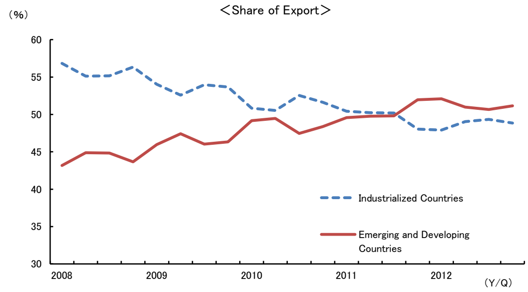
In recent years, Thai exports to emerging economies and developing countries have been increasing, with that share of total exports rising from 44% to 51%, exceeding the share of exports to industrialized countries. On the other hand, the government is earnestly trying to expand Thai exports to Europe and the US. Thailand has already expressed its willingness to participate in TPP (Trans-Pacific Strategic Economic Partnership Agreement), and in March reached agreement to begin an FTA with the EU from May.

<Growth Rate of Real GDP>



Source: NESDB

<Share of Export>



Note: Industrialized Countries: EU15, NAFTA, Japan, NIEs, Australia, New Zealand; Emerging and Developing Countries : the Rest of World
Source: Bank of Thailand

<Approved Investment Applications>

(Unit, Million Baht)

	2011		2012	
	Unit	Worth	Unit	Worth
Japan	484	158,968	761	348,430
Singapore	58	25,176	103	19,418
Netherlands	21	4,252	36	17,971
U.S.	28	8,238	49	17,890
Hong Kong	19	4,518	33	12,864
Australia	21	1,196	27	12,452
Taiwan	40	6,035	58	11,711
China	36	16,922	38	7,901
Others	197	53,142	252	100,317
Total	904	278,447	1,357	548,954

Source: Thai Board of Investment

■ Healthy foreign direct investment

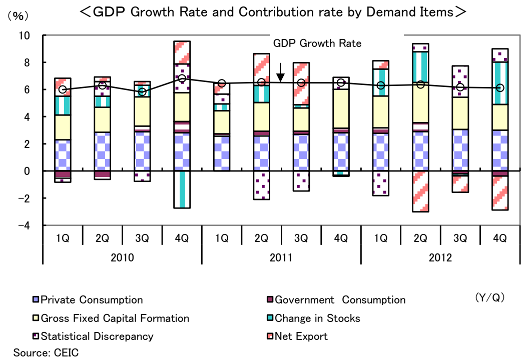
Such changes in the export structure are expected to be encouraged by expanded investment on the part of foreign enterprises, in particular, Japanese businesses' expansion of their production networks. Despite fears of the impact the flooding would have, BOI (Thai Board of Investment) reported a sudden growth of 1,357 approved investment applications (up 50.1%, year on year) for 2012, worth Bt549 billion (20 billion dollars: up 97.1%, similarly). Japanese investments numbered 761, which is 56.1% of total, worth Bt348.4 billion (12 billion dollars), accounting for 63.5% of total. It should be noted that Thailand is working to enhance its functionality as an export and production base targeting emerging economies and developing countries, in addition to the industrialized countries.

(Keiichiro Oizumi)

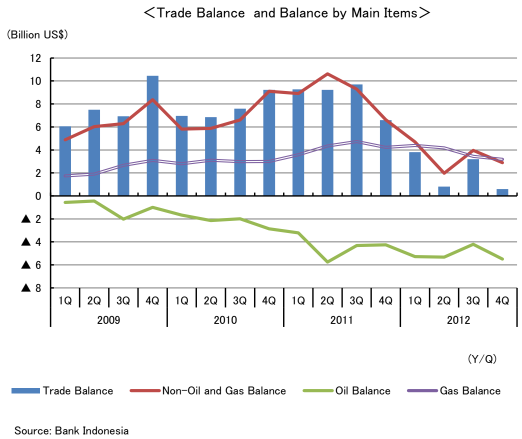
Indonesia *BI forecasts 6.2% growth for Q1*

■ 6.2% growth for 2012

Indonesia's real GDP growth rate for the October to December quarter, 2012, was 6.1%, compared to the same period in the previous year, coming in slightly below expectations, with 6.2% growth for the whole year. In terms of the contributions of individual demand items in the October to December quarter, private consumption was robust, but net exports suffered significant negative growth. Investment in non-construction fields also lost some impetus, and saw its contribution decline somewhat.



International balance of payments statistics reveal that the balance of trade surplus contracted significantly in 2012. Main causes included a bigger deficit in the crude oil balance of payments, and a contraction in the balance of payments surplus for non-crude oil and gas. While production of crude oil has stagnated, economic development has meant a greater degree of consumption, from which it is expected that there will be a significant expansion in the crude oil balance of payments deficit in the future.



The decline in the non-crude oil and gas balance of payments surplus has been due in part to the falling prices of primary industrial produce, a major export item for Indonesia. According to World Bank, the international price of palm oil, which was $1,107 (per ton) in the January to March quarter, 2012, fell to $1,088 in the April to June quarter, to $993 in July to September, and $809 in October to December. Falling prices of coal and natural rubber also combined to cause the surplus to shrink.

■ Current account deficit edging towards improvement

Indonesia's balance of current account in 2012 was a $24.2 billion deficit. This is the first time that the balance has drifted into the red since the Asian currency crisis of 1997. Though the accompanying depreciation of the rupiah continues, the capital account balance surplus is expanding, so the pace of depreciation has been gentle. Direct investment in 2012 was $14.4 billion, 9.0 times that in the previous year, with securities investments increasing 2.4 times over the same period, to $9.2 billion. The securities market has stayed robust since the start of 2013, and the Jakarta Composite Index reached the 4,800 point range in March, for the first time in its history.

One source of concern that is surfacing recently is the rise in commodity prices. The consumer price index increase rate for February, 2013, was 5.3%, well above the figure for January (4.6%, similarly). This has been influenced by the rise in the price of garlic and other spices (44.0% similarly). Bank Indonesia views this as a temporary phenomenon and, at the March Monetary Policy Committee, voted to keep the policy interest rate (BI rate) at 5.75%. However, although the increase in commodity prices due to higher electricity charges and a raise in the minimum wage level has been modest, it nevertheless covers a very wide range of products, and it is expected that there will be no alternative to raising the policy interest rate in the near future.

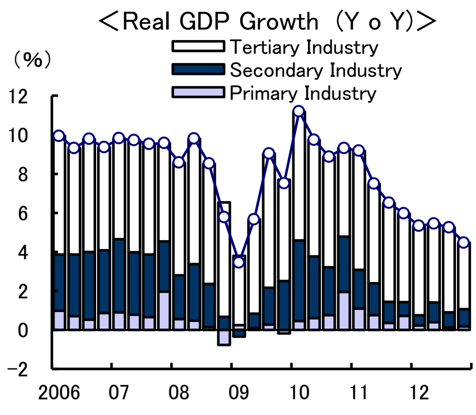
Citing strong private consumption, etc., BI is forecasting a growth rate of 6.2% for the January to March quarter, 2013. It is expected that, as exports to China and the US recover, and exports expand due to the rise in prices of primary products, the current account deficit will gradually contract, while the capital account surplus will continue to grow at a fast pace going forward.

(Yuji Miura)

India Both economic stimulus and fiscal consolidation are needed

■ Real GDP growth slows to 4% range in Q4, 2012

India's economic stagnation is turning out to be a protracted one. The real GDP growth rate figure for the October to December quarter, 2012, announced at the end of February, was 4.5%, compared to the same period in the previous year, the lowest figure since the growth rate plummeted (to +3.1%) in the January to March quarter, 2009, in the wake of the Lehman Brothers collapse. In terms of individual industries, while there was a slight acceleration in growth in manufacturing in secondary industries, this was partly in recoil to the significant slump that occurred when production of transportation related machinery temporarily stopped due to labor disputes among automobile manufacturers in October, 2011, and in reality it must be concluded that a weakening trend is continuing.

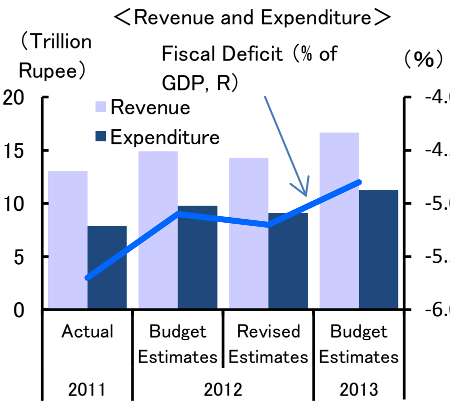


Source: MOSPI

Among tertiary industries, growth rates contracted across all sectors, mainly finance, insurance, real estate, and business services. Meanwhile, demand side GDP, calculated slightly differently from supply side GDP, showed signs of a slight acceleration in growth, mainly for consumption and investment, compared to the same period in the previous year (2.7%, similarly) at 4.1%, but this is still a fairly low level. Incidentally, the provisional estimated GDP, issued in advance of the actual GDP, for fiscal 2012 (April, 2012, to March, 2013) suggests that the growth rate is 5.0%, compared to the previous fiscal year, its lowest level in ten years.

■ Slight contraction in fiscal deficit against nominal GDP for fiscal 2013

The government announced the proposed budget for fiscal 2013 on the same day that the GDP figures for the October to December quarter, 2012, were announced. Given the need to try to buoy the flagging economy, and in the runup to the elections planned for 2014, government expenditure is planned to increase by 16.3% against the expected value for the previous fiscal year, mainly for things like social services for low income earners, agricultural development, and expenditure on roads and harbor infrastructure.



Source: Ministry of Finance

Meanwhile, the need to make a significant improvement in the fiscal deficit has become a pressing issue, and a variety of measures have been incorporated into the budget, including reductions in subsidy payments, temporary tax increases targeting high income earners and corporations in order to increase government revenue, higher commodities taxes on SUVs and high displacement motor bikes, and so on. As a result, while there will be an expansion in the level of the fiscal deficit, it is expected that its ratio against nominal GDP will improve slightly from minus 5.2% expected for fiscal 2012, to minus 4.8%.

In addition to these kinds of fiscal policies, in response to the recent deceleration in the pace of increase in wholesale prices, it is expected that there will be further easing of monetary policy in the months ahead. Therefore, there is anticipation that the growth rate will be able to stage a rally of sorts, centered mainly on public works investment and housing investment. However, given that 1) monetary easing will need to be implemented very carefully, keeping a watchful eye on deeply rooted inflationary pressures, and 2) it takes a long time to obtain investment approval and to acquire land, due to the inefficiency of the government's administrative work, it is likely that the pace of recovery will be rather pedestrian.

(Shotaro Kumagai)