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Topics Korean economy and society at a turning point

In recent months, traditional government policies are being rethought in Korea. Conventional policies have not contributed as much as expected to the improvement of the people's standards of living, and have resulted in a concentration of economic power in the chaebol.

■ “Korean model” forced to switch

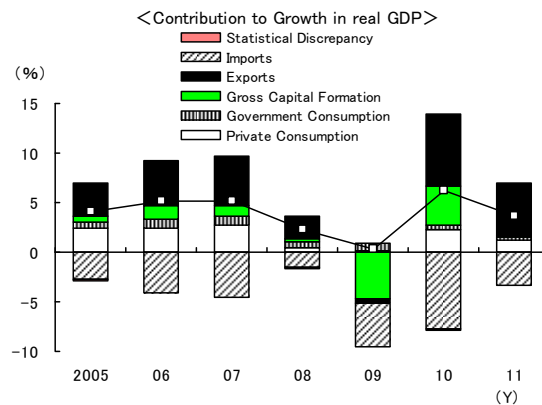
There are some Korean companies, such as Samsung Electronics and Hyundai Motors that have demonstrated outstanding performance in world markets. Meanwhile, within Korea, criticism of the chaebol corporations is on the rise again recently. Part of the reason for this is that the deregulation (abolishing the limits on total investments by chaebol, and the small and medium sized enterprises fixed industry restriction system, etc.) that had been advanced under the Lee Myung-bak administration resulted in the expansion of the chaebol corporations' business areas. The resulting concentration of economic power in the chaebol put pressure on small and medium sized enterprises.

A characteristic feature of the Korean economy is that exports have a high degree of contribution to economic growth, and around 70% of exports go through chaebol companies. The real GDP growth rate for 2011 was 3.6%, and the export contribution to growth was 5.3%. Export expansion is being supported by 1) companies' development of new overseas markets (developing products to meet local needs, and advertising activities), especially in the new emerging markets, 2) the government's expansion of its FTA (free trade agreement) network, 3) the cheap won, and so on.

In Japan, the “Korean model”, which led the way in globalization, is highly praised in some quarters, but this is not the case in Korea. Not only has there been no improvement in the last ten years in the difficulties that young people face in finding work, or in the instability of the employment environment, but there problems such as the widening income disparity and increasing poverty, stemming from the fact that chaebol dependent economic growth has not resulted in that much improvement in the standards of living of the people.

First, with regard to the employment environment, statistically speaking, Korea's unemployment rate is low, but this does not necessarily reflect the actual situation, and deviates significantly from what the people feel.

One reason for the low jobless rate is that, when the economy deteriorates, the number of those not seeking employment increases. In addition to abandoning job hunting activities, there is an increase in the number of young people attending employment prep-schools and civil service test prep-schools, as well as those attending graduate school. “Actual unemployment” among young people is said to be over 20%, and even for those graduating from the top flight universities, the so-called SKY (SNU, Korea, Yonsei) universities, only a handful can secure regular employment with large companies. There are a great many highly educated unemployed. The increase in the numbers of those going on to study at university, as well as the popular desire to work for a large company, is part of the background to this. Also significant is the fact that, in the wake of the currency crisis, companies have tended to focus their



attention on new graduates, and that there is not enough high quality employment where people can leverage their knowledge and technical ability in regular employment. It is interesting to note that the university entrance rate has been coming down since peaking at 83.8% in 2008 and was 72.5% in 2011. This may be because it is difficult to expect results that are worth the investment in education.

Another reason that is keeping the unemployment rate low is the number of self-employed. One factor behind this, in addition to the poor development of the distribution industry, is the great number of businesses started by those who have retired “emeritus” from major companies. Even if these self-employed businesses fail due to economic deterioration, they do not always show up in the unemployment figures.

Other factors are wealth disparity and poverty. With the exception of farmers and single person households, an examination of income disparity (disposable income basis) shows that the Gini co-efficient (where the closer the value is to 1, the greater the inequality) rose from 0.277 in 2003 to 0.288 in 2010. The income rate of the upper 20% against the lower 20% rose from 4.43 to 4.81, indicating the widening gap. Further, poverty is on the rise, with the relative poverty rate (the percentage of the population falling below 50% of the median in the distribution of income) increasing from 11.4% to 12.5%.

■ Policy rethink progressing

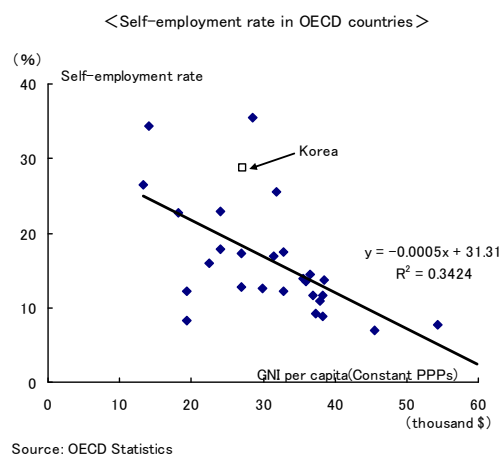
Criticized for having a bias towards big business, the government has decided to rethink its original policies of tax reduction and deregulation. In November, 2010, the Distribution Industry Development Act was revised. The revised Act prohibits large stores from opening up within 500 metres of traditional markets. Also, near the end of the year, the Commission for Shared Growth for Large and Small Companies was formed, initiating a system designed to allow large and small and medium sized companies to share profits. In September, 2011, at the end of consultations with the ruling party, the corporate tax reduction for large corporations, which had been planned for the following year, was withdrawn (the reduction will be implemented for small and medium sized enterprises). Also, from this year, large corporations have been asked to withdraw from businesses that are usually the business sphere of small and medium sized enterprises, and to restrict working on holidays (outside the scope of working hours regulations), in order to create employment. Incidentally, although the recent trend in Korea is for working hours to become shorter, they are still the longest among the OECD nations.

The chaebol companies which are controlled by the owner-families have been pro-actively returning some of their profits to society by establishing foundations and making donations, etc. In recent times Samsung, Hyundai and the Lotte Group have announced their withdrawal from the bakery business, and appear to be following the government line.

Facing a general election in April and presidential elections in December, the ruling Grand National Party (Hannara) was made to feel a sense of crisis when it was defeated in the Seoul mayoral elections last October (losing to Park Won-soon, a critic of the concentration of economic power in large corporations). In December, the opposition Democratic Party joined forces with a non-parliamentary minority to form a new political party (Democratic United Party), and proposed policies designed to strengthen restrictions on the chaebol. These developments have spurred Hannara to speed up their policy changes. In January, the party announced a new policy designed to improve welfare and enhance employment measures, with the aim of “the establishment of fair economic order”. Additionally, in February, the party was scheduled to change its name to Saenuri (New Frontier Party).

Given that economic growth creates business opportunities, rather than growth or employment, the policy needs to be one that pursues “growth with employment”, and in this the nurturing of small and medium sized enterprises with potential (high levels of technical prowess and growth potential) will be very important, because this will not only create employment but will also help to prevent the concentration of economic power in the chaebol corporations. It may be considered that one issue facing Korea in the years ahead is the shift away from an economic growth model that relies too heavily on the chaebol corporations.

(Hidehiko Mukoyama)



Source: OECD Statistics

Taiwan Export deceleration results in negative growth

■ Negative economic growth for two consecutive quarters

Taiwan's real GDP growth rate (flash report) for the period October to December, 2011, was 1.9% compared to the same period in the previous year, falling below the 3.4% posted in the previous quarter (4.0% for the whole year 2011). Private sector consumption was up just 1.7% and export growth slowed to 0.4% (imports were down 7.6%), resulting in total capital formation, including inventory investment, falling to minus 19.2%. On the supply side, manufacturing growth slowed from 3.7% in the previous quarter to minus 1.8%, while wholesale and retail grew 1.7%. Overall, though the drop in consumption has been fairly mild, exports and investments have decelerated rapidly. The growth rate in the previous quarter (annualized) was minus 0.98%, the second consecutive negative growth quarter following Q3, July to September (minus 0.83%).

In recent months, export growth (customs cleared basis) was 1.3% in November, compared to the same period in the previous year, and 0.6% in December, falling to almost the same levels as in the previous year. Exports to China and Hong Kong, which account for about 40% of the total, could only manage minus 2.9% growth, while those to the EU were down to minus 14.8%, slowing by double digits for two consecutive months. January had fewer working days than the previous year, due to the Lunar New Year holiday (which fell in February in 2011), and export growth fell to minus 16.8% (those to China and Hong Kong down to minus 25.9%).

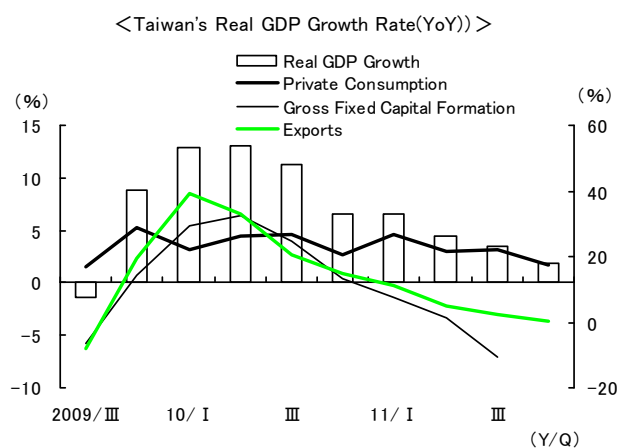
Meanwhile, the unemployment rate (seasonally adjusted), which had been rising for two consecutive months due to slowing exports, fell to 4.22% in December. Reasons for the unemployment rate coming down in spite of worsening economic conditions include the fact that consumption related industries have been comparatively robust, and that election related employment (both a general election and Legislative Yuan election were held in January) increased. However, the manufacturing industry's average working hours and wages (including overtime payments) for December were lower than in the previous year, and there is a possibility that the income and employment environments will deteriorate in the future.

■ Government focusing on economic countermeasures

The Executive Yuan's Directorate General of Budget, Accounting and Statistics announced in January that it had decided to revise the real GDP growth forecast for 2012 downwards from the original 4.19% to 3.91%. Ma Ying-jeou's administration's focus for the foreseeable future will probably be on economic countermeasures. The economy suffered deterioration as a result of the strong challenge from DPP candidate Tsai Ing-wen. In addition to the existing economic countermeasures, November, 2011, saw the addition of an extra ten items, such as 1) support for corporate financing, 2) export promotion, 3) accelerated infrastructure development, and 4) measures to attract more tourists. Then, in December, additional measures put forward included a plan to allow young people to experience farm work, increased pace of construction of the National Conference and Exhibition Center (Nangang Exhibition Center expansion) and the Kaohsiung World Trade Exhibition and Conference Center, and construction plans for housing at Airport Line A7 station (provisional name) of the mass rapid transit MRT) system connecting Taipei and Taoyuan airport.

Taiwan is extremely vulnerable to the effects of the global economy, and the effectiveness of any economic countermeasures will likely be limited. If economic deceleration turns out to be more serious than originally forecast, then it may be expected that additional measures will be forthcoming.

(Hidehiko Mukoyama)



Source: Directorate General of Budget, Accounting and Statistics

Thailand Post-flood recovery advancing

■ Signs of recovery from flood damage

Although floods that worsened over the latter half of 2011 caused unprecedented damage to the Thai economy, it showed signs of recovery from December. Though the manufacturers' production index for December was minus 25.8%, compared to the same period in the previous year, the pace of contraction had softened considerably from the previous month's minus 47.2%, and exports also are trending towards recovery, improving to minus 2.1%, similarly, from minus 12.5% in the previous month.

By mid December, all industrial plants had been drained of flood water and, as of February, factories are hurrying to repair and renew plants and machinery. According to a questionnaire survey carried out in January by the Japan External Trade Organization (JETRO), the majority of the responding companies answered that they would be able to maintain a pre-flood scale of business, and it is expected that the majority of companies will be able to resume production by mid March.

In the first half of 2012, it is expected that there will be demand for replacement purchases of household goods, plant and equipment on the part of damaged homes and factories, and that consumption that had been restrained during the time of the flooding will begin to recover. The private consumption index conducted by the Bank of Thailand stood at minus 1.9%, compared to the same period in the previous year, in November, but had switched to 0.1% positive growth by December. Furthermore, in the service industry's business confidence index for December, with regard to both present and outlook, "better" beat out "worse".

■ Plan to invest BT350 billion in flood prevention and disaster recovery

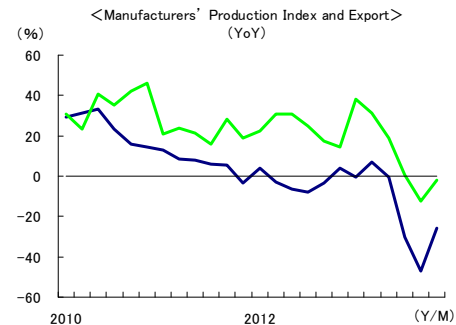
In order to ensure recovery from the flood damage, it will be essential for this year's flood prevention programs and mid to long term disaster countermeasures to be implemented. Under the direction of the Strategy Committee for Water Resources Management and the Strategy Committee on National Reconstruction, plans are for Bt150 billion to be invested within this year, and to reach Bt350 billion finally. An emergency decree has already been issued with regard to the issue of government bonds for the purpose of raising this capital.

Thailand's public debt ratio (against GDP) is just over 40%, which is well below the 60% mark, usually considered the danger level for developing countries. However, in addition to the implementation of the Yingluck administration promised expected total of Bt2 trillion, flood related expenditure means that there will definitely be a rapid increase in the level of public debt.

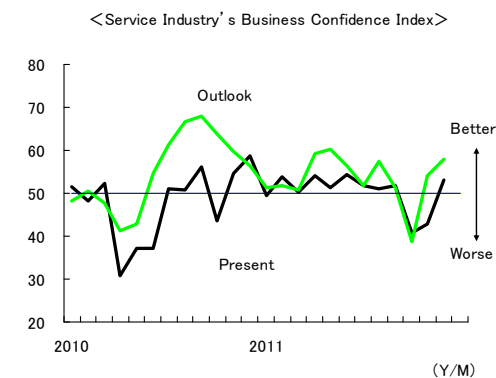
The government decided to shift the Financial Institutions Development Fund (FIDF) debt, Bt1.14 trillion, that was used to cover the losses of the 1997 currency crisis, to the Bank of Thailand's account. This meant that the Bank became responsible for the interest on the debt (over Bt60 billion per annum). By isolating this debt from state finance, the government has been able to reduce the public debt ratio, opening up further room for the issue of government bonds. However, many have criticized the move on the grounds that it amounts to nothing more than statistical pretense.

In fact, what the Yingluck administration needs to do is conduct a review of election promises criticized as being populist. Although a rethink of election promises carries with it the possibility of a negative influence on the government's approval rate, it is essential that the road to recovery from unprecedented damage is ensured. It is to be hoped that the administration will be able to demonstrate sufficient leadership to convince the people.

(Keiichiro Oizumi)



Source: Bank of Thailand



Source: Bank of Thailand

Indonesia Optimism receding somewhat, but economy stays strong

■ 2011 economic growth rate is 6.5%

Indonesia's real GDP growth rate for the period Q4, October to December, 2011, was 6.5%. This lifted the growth rate for the whole year to the same 6.5% level. For the present, Indonesia is not suffering any major ill effects from the debt crisis in the eurozone, and the economy is continuing to grow fairly strongly. In terms of the contribution of individual demand items in the fourth quarter, October to December, net exports' contribution slumped by a significant margin to 0.1% points, but the shortfall was made up by investment's rise to 2.9% points.

According to the Investment Coordinating Board, the combined total of domestic and

foreign direct investment for 2011 was 251 trillion rupiah, 4.7% above the government's target. In the period October to December, domestic investments (realized basis) were 7.6% up compared to the same period in the previous year, at 24 trillion rupiah. Investment was strong in mining, paper manufacture and printing, electricity, gas and water, metals, machinery and electrics, transportation, warehousing and communications. In the same period, foreign direct investment was up 25.2% at 46 trillion rupiah, and transportation, warehousing and communications, electricity gas and water, metals, machinery and electrics, food, motorbikes, and transportation equipment were the drivers.

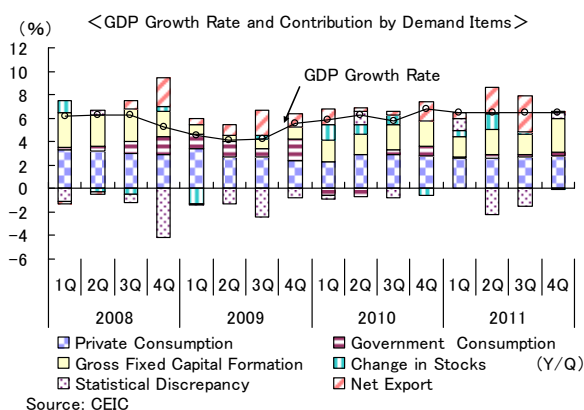
Private consumption continues to be strong, and in 2011, sales of motorbikes were up 8.7% on the previous year at 8.01 million vehicles, and those of automobiles up 16.9%, similarly, at 890,000 vehicles. Growing expectations of improved employment conditions and rising incomes is fuelling robust private consumption.

■ Exports to new emerging economies stagnating

Central Bank is forecasting a 6.5% real GDP growth rate for Q1, January to March, 2012, and between 6.3% to 6.7% for the whole year. Incidentally, in a macro-economic index survey conducted by Central Bank in Q4, October to December, 2011, 60% of economists surveyed forecast an economic growth rate of between 6.1% and 6.5%. This comes in at below the previous survey (conducted during Q3, July to September) forecast of between 6.6% to 7.0%, and also below the fiscal 2012 budget estimate of 6.7%, indicating that erstwhile optimism may be waning.

One reason is the deceleration of export growth. According to Statistics Indonesia (flash report), exports to the new emerging economies in particular, such as China, ASEAN, India have lost forward momentum. For the whole year, the figures were strong, respectively, 53.4% year on year, 19.4% and 35.0%, but for December, compared to the same period in the previous year, they were, respectively, down 7.1%, up 3.8% and down 14.5%. Exports to China, ASEAN and India account for 40% of non-petroleum and gas exports, and if the trend of deceleration continues, export stagnation will follow. If the prices of coal and palm oil fall, export stagnation will become more pronounced. One other reason is commodity prices. Within the government there is some discussion going on as to the cutting of energy subsidies, in order to reduce the fiscal burden. If this goes ahead, gasoline prices will go up by about 40%, and this will push up commodity prices and interest rates, and worsen consumer sentiment without a doubt.

However, at the present, the effects of either will be slight, and in 2012 private consumption and investment will be the drivers, and the prevailing view is that growth will be over 6%. In comparison with neighboring countries, the contribution of net exports to Indonesia's economic growth is low, so even if export growth were to stagnate, the impact on the economy would be limited. Also, the prices of rice and other foodstuffs are expected to continue to be fairly stable, so any increase in the price of gasoline will have only a short term effect.



(Yuji Miura)

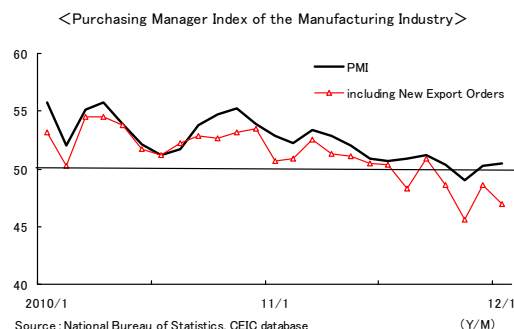
China Fears over economic future persist

Domestic demand strong as ever, while external demand slumps

Judging from indices available up until early February, domestic demand is continuing to expand, but external demand is stagnating, which means that concerns over China's economic future just won't go away.

Total retail sales of consumer goods during the Lunar New Year holiday totaled 470 billion yuan, which represents a 16.2% increase on sales during the same period in 2011. While this level is below the growth rate for the whole year 2011 (17.1%), robust expansion is still continuing, against the backdrop of increasing of private income.

Encouraged by the expansion in domestic demand, January's New Orders Index (part of the Purchasing Managers' Index of the manufacturing industry) was 50.4, exceeding the 50 mark, which indicates expansion in manufacturing, for the first time in three months. The Purchasing Managers' Index overall was 50.5.



However, in terms of the New Export Orders Index, while that index did rally temporarily at the end of the year, it subsequently fell once again, and the slump in external demand is casting a shadow of uncertainty over business confidence in the manufacturing workplace. January's exports were worth \$149.9 billion, down 0.5% compared to the same period in the previous year. This marked the first time in 26 months that export actual performance had fallen below the previous year's level. Even given the fact that the number of working days was four days fewer than last year, due to the Lunar New Year holiday, it is still clear that export growth has weakened. In terms of major export destination countries and regions, exports to the EU and Hong Kong grew negatively compared to the same month in the previous year, while those to Japan and the US could only manage single digit growth, a clear softening of growth across the board.

No significant economic stimulus measures at present

Given these circumstances, there are growing expectations of large scale economic countermeasures. According to an IMF forecast announced on February 6, if the European debt crisis worsens, Chinese economic growth could fall to the 4% range. In that case, the government will need to implement financial deregulation and other fiscal measures (including tax reduction and subsidies on the purchases of durable consumer goods).

Meanwhile, immediately after the Lunar New Year Holiday, the government decided on a policy of enhancement measures in support of small and medium sized enterprises, but concrete financial deregulation measures, such as lowering the reserve ratio requirement and the benchmark interest rate, were not implemented. Measures to promote the new purchases or replacement purchases of some items are apparently being discussed, but these measures are modest in scale in comparison with the series of economic stimulus measures implemented from late 2008. It may be that the government was hesitant about rolling out bold economic measures, due to the magnitude of the adverse effects, such as overheating in the real estate market and soaring commodity prices.

Moving forward, as the government continues to maintain a cautious stance, as to whether aggressive economic stimulus measures will be forthcoming, all eyes will be on the Report on the Work of the Government and the proposed budget, to be presented at the National People's Congress in March.

Decisions	Main Measures
Fiscal Support	<ul style="list-style-type: none"> • Central government contributing 15 billion yuan to set up foundation for development of small business • Free from commission to a part of the cost of registration, and certification for 3 years
Funding	<ul style="list-style-type: none"> • Encourage lending for small business • Support for listing
Others	<ul style="list-style-type: none"> • Facilitate the procedure of customs clearing, and domestic selling for a part of enterprises which meet conditions

Source: Chinese government official site

(Junya Sano)