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Topics China's Internet Plus policy and its development

In China, personal services utilizing the Internet have developed at a rapid pace and are attracting attention from around the globe. From 2015 the "Internet Plus" policy has developed as a means of leveraging the Internet in order to improve the competitive strength of existing industries, and its progress has attracted much interest.

■ Internet business expanding rapidly in China

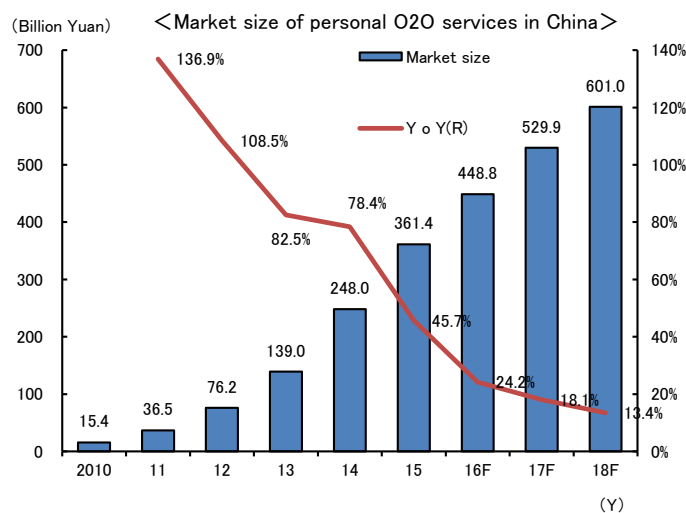
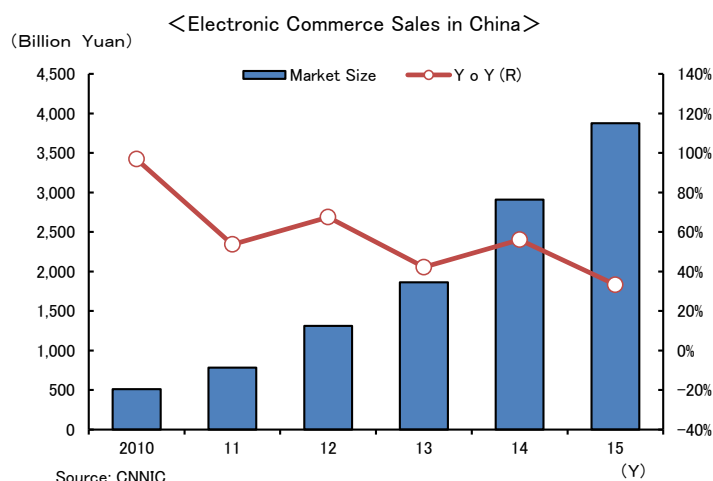
The worldwide number of Internet users at the end of June, 2016, is assumed to have been around 3.6 billion persons, of which 700 million are Chinese, making China home to the largest number of Internet users in the world. The diffusion rate among the population is still only around 50%, but the 13th Five Year Plan has set a target of a mobile broadband diffusion rate of 85% of the population by 2020.

In China, general use of the Internet began in the latter half of the 1990s. The Chinese government gradually tightened its restrictions on the Internet and, from 2007 onwards, Internet services provided by several influential US companies were blocked, one after another. As a result, Chinese companies were able to occupy a monopolistic position in the various sectors of the Internet, with Baidu as the search engine, Alibaba for e-commerce and Tencent for social network services (SNS).

A strong characteristic of these Chinese Internet companies in the beginning was their tendency to copy the business models of US companies, but they gradually became able to develop unique business models of their own. For example, e-commerce has grown rapidly since 2010, with China emerging as the world's biggest market. In 2015, China's Internet shoppers numbered 413 million people. The market scale (B2C) reached 3.88 trillion yuan, with e-commerce accounting for 12.0% of total retail value, surpassing that of the US (8%).

In addition, the O2O Chinese market, where offline services are provided to online customers, has developed. Dispatch services, household services, delivery services and the like can be delivered to the user by the provider using smartphones only, and without the customer having to visit a shop. At first glance this may seem no different than regular net-shopping, but its special feature is that it is used as a service beyond simply purchasing goods, and can be provided to a specific location in a very short time. The scale of this market in 2015 was over 360 billion yuan, and is expected to grow in the future.

The development of O2O services has attracted the attention of investors worldwide, and Chinese Internet related investments have grown at a rapid pace. Examination of the trends of Internet related investments by venture capital between 2012 and 2015 shows China leading the US in 2015 in terms of



both monetary value and numbers of investment projects.

■ **What is Internet Plus?**

In the March, 2015, Report on the Work of the Government, Premier Li Keqiang introduced the “Internet Plus” concept. Internet Plus is the fusion of the Internet with existing industries, in an attempt to create new businesses and business models. In addition to the application of smart technologies to existing industries, it is also hoped that the Internet Plus policy will have the effect of stabilizing employment and expanding consumption. Internet Plus was announced in document form as a Guiding Opinion in July, 2015, to be promoted integrally along with the “Made In China 2025” policy, aimed at strengthening the competitiveness of the manufacturing industry, as a fundamental part of supply side structural reform. The basic concept being demonstrated here is to leverage China’s superiority in terms of scale in Internet business, to accelerate the improvement of levels of development in the areas of consumption and production, and to enhance development capabilities in industrial sectors, turning them into new engines of growth.

Internet Plus outlines 11 key focus areas in which fusion is to be promoted actively. These are 1) entrepreneurship and innovation, 2) collaborative manufacturing, 3) modern agriculture, 4) smart energy, 5) inclusive finance, 6) public services, 7) logistics, 8) e-commerce, 9) transportation, 10) green ecology, and 11) artificial intelligence.

■ **Assessment and outlook of Internet Plus**

An examination of China’s Internet Plus reveals it to be a future industrial vision that compares with Society 5.0 and the fourth industrial revolution, now the subject of debate in Japan. The industrialized nations are competing fiercely to construct CPS (cyber physical systems) in which various kinds of data in the real world are gathered using sensor networks and the like, then big data processing technology is leveraged to analyze these data and turn them into knowledge, and the information and value created through this process is used to vitalize industry and solve societal issues. China’s Internet Plus is not that different from the industrialized nations in terms of its general direction and specific targets. Moreover, China has several points working in its favor.

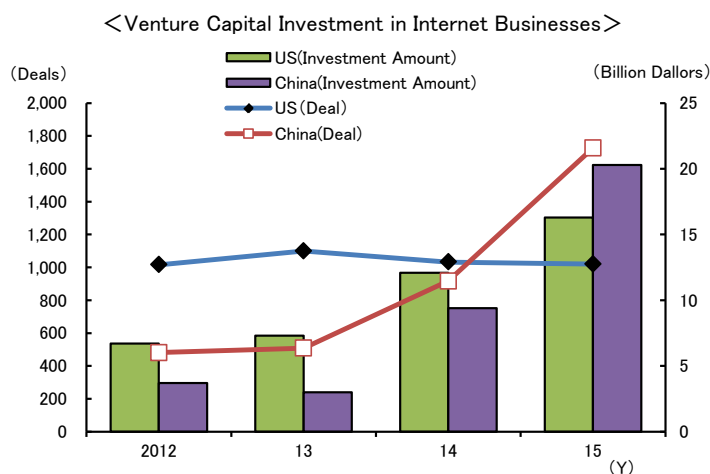
First, China has a huge population of smartphone users, and therefore has the potential for unique development in the area of personal services.

Second, since the corporate sector has been rather inefficient until now, there is the possibility that the leveraging of networks could result in the achievement of high levels of efficiency. Japan’s corporate sector is already considerably efficient, making it often difficult to embark upon new IT investments from a cost effectiveness perspective. As the spread of cloud services causes IT costs to fall, China could enjoy the benefits of the latecomer.

Third, as the promotion of innovation has been clearly stated in policy objectives, wherever the development of new business models clashes with existing regulations and systems, there could be greater opportunity to review regulations and systems.

In some of the priority areas listed in the plan, specific action plans have already been presented and are in the execution stage. In addition, as a result of the creation and innovation policies that the Chinese government is simultaneously pushing forward with, many entrepreneurs are tackling the development of new services utilizing the Internet, and it is anticipated that many new business models will emerge in the coming months and years. As the global competition in the construction of CPS spreads, it is possible that China will take the lead in some areas, and a careful watch should be kept on future trends.

(Tetsuo Fujita)



Source: Pricewaterhouse Coopers

Taiwan Clear recovery in export growth

Exports driving recovery

Taiwan's economy is continuing to recover. Real GDP growth in the July to September quarter of 2016 was 2.0% compared to the same period in the previous year, quickening the pace from the previous quarter (1.1%, similarly), and the highest level since the January to March quarter of 2015.

Part of the reason for this has been the improvement in exports, which had continued to stagnate from the April to June quarter of 2015.

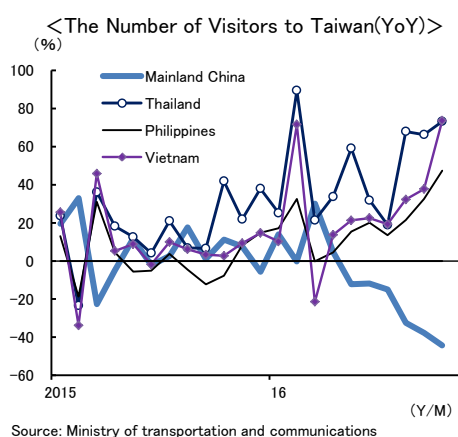
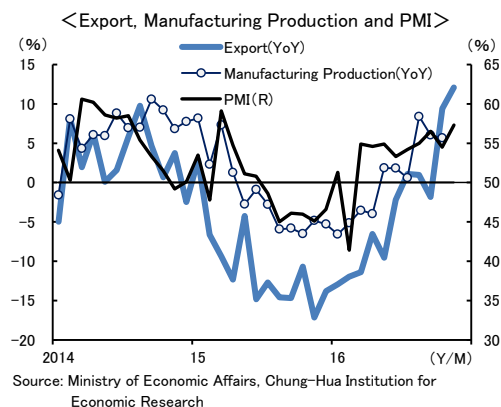
Recent export trends show that November's growth was high at 12.1%, compared to the same month in the previous year (hereafter the same). In terms of individual export items, with the launch of new smartphone models, exports of semiconductors and electrical equipment grew a massive 17.9%, and iron and steel exports continued to grow at 15.5%, encouraged by an improvement in the excess supply situation. In terms of export destinations, exports to China, which had been struggling till now, grew a strong 23.4%, and those to the US 9.1%, and the recovery in export growth is becoming clearer.

Along with the recovery in exports, production in the manufacturing industry has continued to improve, particularly in electronic parts and components, a leading industry in Taiwan. As regards production trends in October, electronic parts and components continued strongly at 14.1% growth, while manufacturing overall posted 5.7% growth. Against this backdrop, the manufacturers' PMI, which serves as an indicator of business confidence, has stayed above the benchmark 50 level, and it is anticipated that the corporate sector will continue to recover.

However, there is still the concern that export orders received, which are an indicator of future export growth performance, are slowing, having peaked in August, 2016. This suggests that orders for electronic parts and components for the latest smartphone models have run their course, and that there is a possibility that the increase in export growth may be running out of momentum. There is also growing concern over the global emergence of protectionist policies, and attention will need to be paid to export trends in the future.

Rapidly increasing numbers of visitors from Southeast Asia

Since the May inauguration of the Democratic Progressive Party's Tsai Ing-wen, the number of visitors to Taiwan from the Chinese mainland has fallen drastically, shrinking by 44.3% in October. On the other hand, as Taiwan pursues stronger links with Southeast Asian countries in its "New Southbound Policy", visitors from Thailand (up 73.2%) and the Philippines (up 47.4%) have been increasing at a quickening pace. Part of the reason behind this may be said to be the waiving of visa requirements for countries in Southeast Asia and South Asia. The range of targeted countries is expanding gradually, from Thailand in August to Vietnam and the Philippines in September, and so on. Visitors from these countries account for around 10% of visitors to Taiwan, and these measures have yet to make up for the dwindling number of visitors from mainland China, who account for 40% of the total. However, as the New Southbound Policy spreads, it is expected to provide support to the export of services. Attention needs to be paid to the foreign diplomacy and trade policies of the Tsai administration, as it attempts to switch away from a China dependent economic structure.



(Kentarō Matsuda)

Vietnam Economy performs solidly, but dong depreciation is a worry

■ Growth rate appears to have accelerated in Q4 also

Vietnam's economy is continuing to improve. Private consumption, which accounts for two thirds of real GDP, has continued to perform solidly, against the backdrop of a low inflation rate, and so on. Real retail of consumer goods and services in the January to November period was 7.6%, compared to the same period in the previous year. While this was below 2015's 8.3% for the same period, it is, nevertheless, higher than the same figure for usual years. Dollar denominated exports in the October to November period grew 10.0%, compared to the same period in the previous year, gaining slightly on the July to September period (9.3%, similarly). In terms of individual export items, phone and spare parts, computer and electronic components, and aqua products, pushed up the total export growth figure.

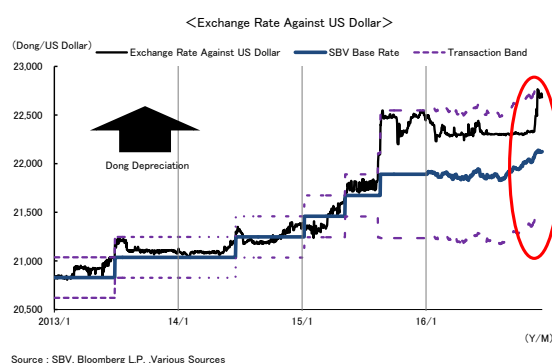
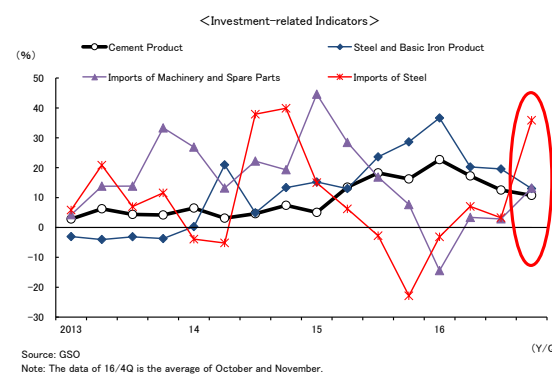
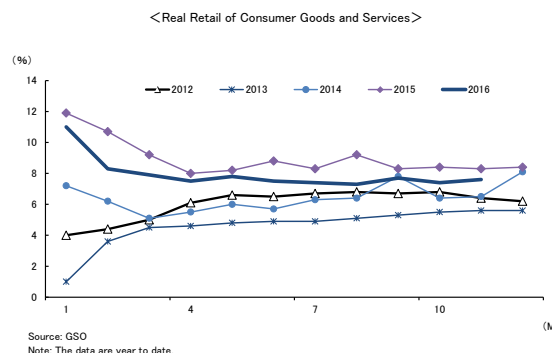
Gross fixed capital formation has continued to grow steadily, supported not only by strong growth in consumption and exports, but also by expanded investments on the part of foreign companies, which increased significantly in 2015. In fact, in the October to November period, the production indices for cement, and steel and basic iron, grew strongly at 10.8% and 13.0%, respectively, compared to the same period in the previous year, and imports of machinery and spare parts, as well as of steel were also up significantly from the June to September quarter, posting growth rates of 13.2% and 35.9%, respectively.

This trend appears to have been continued in December also, and there is a strong possibility that the economic growth rate in the October to December quarter will turn out to have accelerated from that of the July to September quarter.

■ Dong continues to depreciate after US presidential election

In 2017 also, a continuing strong growth in private consumption, encouraged by comparatively low inflation rates, and an expansion in exports following further economic recovery in the US, will provide a tailwind so that Vietnam's economy is expected to continue to grow at a higher rate than other Asian new emerging economies.

Nevertheless, there are several downside risks facing the economy's future, and there is no room for optimism. In particular, the dong's continued depreciation after the US presidential election is a significant cause for concern. The Vietnamese dong depreciated against the dollar by 1.6% in the one month period from November 8 to December 7. If the dong begins to depreciate at a faster pace, this could well cause import inflation and accompanying monetary tightening, which would in turn exert downward pressure on private consumption and exports. Also, in the market, the view has emerged that, depending on the policies introduced by the new Trump administration, the pace of US interest rate hikes from 2017 onwards could quicken, and careful attention will need to be paid to exchange rate trends in the months ahead.



(Yuta Tsukada)

China Tighter risk management of local government debt

■ New policies announced for local government debt management

Looking ahead to China's economic future, attention is drawn to the restoration of the soundness of local government finances. For many years, local governments have been procuring large amounts of capital for the purpose of investment expansion by means other than municipal bonds. If the repayment of municipal debt is delayed overall, then the whole fiscal and financial system could suffer damage.

Given this state of affairs, central government announced its "Local government debt risk contingency plan" in November, 2016 (State Bulletin (guo ban han) 2016, No. 88). The plan is characterized by the following three points.

First, it is a clear statement that the current situation is in need of emergency measures. Specifically, it makes clear that, in the two cases where 1) a local government is unable

to repay its loan principal and interest on time, and 2) where a local government is unable to fulfill its security responsibilities to cover contingent liabilities, in the event that this may induce an overall fiscal and financial risk, then emergency measures will be implemented.

Second, the limitation of responsibilities. For example, against concerns that the repayments of loans held by financing vehicles (local government capital procurement companies) might be delayed, for loans up until the end of 2014, the local government will take responsibility, or partial responsibility (security responsibility, relief responsibility). This may be said to be a statement that financing vehicle debts occurring from 2015 onwards will not be counted as local government debt. In addition, the plan emphasized the self responsibility of city and county level administrations, and of the provincial governments above them, and indicated that central government's policy would be to limit its own involvement to cases which could not be fully handled by the provincial government, and to lead local governments.

Third is the presentation of fiscal restructuring measures. The plan separates local government debt risk into four grades, with countermeasures appropriate to each level of risk (reporting, suspension of bond issue), as well as urging the local governments involved to implement fiscal restructuring. Specific measures include 1) the securing of fiscal resources (for the repayment of debt) through reinforced collection of unpaid taxes and the sales of assets, 2) zero growth or drastic cuts in fiscal expenditure on all but the minimum essential public services, and 3) a review of subsidy expenditures.

■ Economic deceleration pauses

The backdrop to the introduction of these measures to strengthen debt management is central government's sense of crisis over the future of local government finances. This must be considered evidence that, in the structural reform that is being pushed by the Xi Jin-ping administration, the soundness of local government finances underpins fiscal reform. Meanwhile, the economy appears to have stopped decelerating recently and there is less necessity to increase fiscal expenditure for the purpose of buoying the economy. This also is presumed to be a factor in the timing of the introduction of these measures to strengthen risk management. In addition, there is good news in that fixed asset investment growth (excluding rural households) in the January to November period bottomed out at 8.3%, compared to the same period in the previous year, and November's growth in total retail sales of consumer goods picked up speed.

However, the pause in economic deceleration depends in large part on the expansion of infrastructure development and tax cuts, and the recovery in private sector demand still lacks strength. Under these circumstances, if the rush to prioritize stronger debt management results in a sudden tightening of monetary policy, the economy could lose momentum and the risk of local government fiscal collapse could in fact become stronger. The Xi Jin-ping administration will need to come up with a balanced economic management that achieves the restoration of the soundness of local government finances, as well as maintaining steady economic growth.

(Junya Sano)

<Local Government Debt Risk Contingency Plan>

Main Items	Content
The situation is in need of emergency measures	*Local governments are unable to repay their loan principal and interest on time (including some who may be unable to pay at all)
	* Local governments are unable to fulfill security responsibilities to cover contingent liabilities
Dealing with the Debt Problem	*Local governments have primary responsibility. Central government's involvement is limited to cases which could not be fully handled by the provincial governments, and to offering to lead local governments.
Fiscal Restructuring Measures	*Securing of financial resources (for the repayment of debt) through reinforced collection of unpaid taxes, the sales of assets, and the zero growth or drastic cuts in fiscal expenditure on all but the minimum essential public services

Source: Chinese Government Official Web Site