Topics  China's medical policies impact social stability

Spiraling medical costs directly threaten to have a negative impact on the standard of living in China. The disparity in terms of expenditure is even more serious than that of income, and a reform of the medical system is essential to eliminating the wealth disparity between urban and rural communities, and even to maintaining social stability.

- Income disparity between urban and rural communities at highest ever levels
  China's President Hu Jintao, at an awards ceremony for those who had made contributions to the success of the Olympiad, stated that the success of the Olympic Games was due to the combined efforts of the nation in the rapid growth in the thirty years since the start of the Chinese economic reform. Also, the success was due to the unity and hard work of China's diverse ethnicities and the support of the peoples of the world and the international society. The Olympic Games fully satisfied the self esteem of the government and the Chinese people. The effect of strengthening the Chinese people's sense of themselves as a great nation may be considered likely to be a firm foundation in support of further economic development in the foreseeable future.

  However, such changes in national awareness cannot always be guaranteed to bring positive results. It needs to be borne in mind that it can also be an agent of amplified popular dissatisfaction with the Communist party and the Chinese government. The people's sense of themselves as a great nation cannot be sustained by the Shanghai Expo and ongoing space exploration alone. The people will always look at their own standards of living in order to determine whether their economic development is befitting that of a great nation. Attention is on the efforts of the party and the government to build a society where each and every citizen feels that they are enjoying the benefits of economic development.

  Income disparity is one index that may be used to indicate the level of progress in addressing this issue. However, based on the data from recent years, it would be difficult to suggest that anywhere near a satisfactory level of results had been achieved. The Ministry of Agriculture announced in August that, while the per capita net income in agricultural communities for 2007 posted a significantly high 9.5% growth, the growth of per capita disposable income in urban communities exceeded this to such a degree that the income disparity was the highest ever at 3.3 fold.

  In no way does the Chinese government regard the issue of income disparity lightly. In China, it is the established practice that the government announces its priority policy for that year as the "No. 1 Document". The so-called 'three agricultural issues' which means the fatigue of agriculture, rural areas and farmers has been the "No. 1 Document" for five consecutive years since 2004. With the abolition of the agricultural tax, etc., in 2006, the Hu Jintao - Wen Jiabao system may be said to have worked aggressively to raise the minimum level of agricultural incomes. Nevertheless, the absence of any significant improvement in the income disparity between urban and rural communities would appear to suggest that there is still a need for policies that are designed specifically to redress the wealth disparity.

- Spiraling medical costs a problem for society
  The debate over the issue of wealth disparity between urban and rural communities tends to focus on incomes, but the disparity is actually greater when it comes to expenditure and it would be more appropriate to approach the issue from expenditure, in terms of how it impacts people’s standards of living. The most prominent examples are the spiraling costs of medical care and education. These two weigh heavily on the budgets of low income families, and are among the main causes of the vicious cycle of poverty. Given this situation, while a range of measures in support of agricultural communities, such as free compulsory education in agricultural communities since 2006, have been implemented, efforts to improve the situation with regard to medical expenses still lag very far behind and are a source of increasing popular dissatisfaction.

  According to the results of an opinion poll in the 'Blue Book of Chinese Society 2007' announced by the Chinese Academy of Social Sciences Institute of Sociology, it is clear that ordinary Chinese people regard the high cost of medical care as the most serious social issue. 58% of the respondents cited the difficulty of access to medical care, and its high cost, as their chief concern, well above the number two concern, employment and unemployment, cited by 33% of respondents. Medical expenses, unlike other types of expenditure, are very difficult to control, which factor not only impacts the standards of living of
the poor, but also of those households that have managed to escape poverty levels ('xiao kāng', the moderately well off lower middle class).

Medical expenses have risen sharply since the mid '80s, when market principles were introduced into the practice and provision of medicine. Disposable income in urban communities increased 7.8 fold in the years between 1990 and 2006, but the increase in medical expenses over the same term has far outstripped this at 24.1 fold growth. In the agricultural communities also, net incomes have increased 5.2 fold, whereas medical expenses have increased 10.1 fold. Expenditure on health as a proportion of incomes was 7.1% in urban communities in 2006, and 5.3% in urban communities, meaning a heavier burden for city dwellers. However, given that the structure of public health insurance is different in the cities and in the rural communities, it cannot always be said that farmers have been freed from illness as a factor affecting their lifestyles.

The goal is not the spread of the New Rural Cooperative Medical System

In China, the systems for providing public health insurance in the cities and in rural communities are completely different. In urban communities, the Basic Medical Insurance System for Urban Workers, which is mainly for the employees of state-run corporations and government employees, is spreading, as is the New Rural Cooperative Medical System in agricultural communities. Whereas the former system is supported by insurance contributions from the companies and employees (2% of an individual's wages, and 6% paid by the company), the latter system is supported by payments from individual farmers and the government (10 yuan paid by the individual, 20 yuan shared by the central and local governments). The basic purpose of medical insurance is to prevent people's standards of living from being eroded by illness, but restrictions on financial resources have meant that the welfare provision of the New Rural Cooperative Medical System is quite limited in comparison with the Basic Medical Insurance System for Urban Workers.

According to a 2005 survey of agricultural communities by the Chinese Academy of Sciences Centre for Agricultural Policy, it costs on average RMB417 to be seen by a doctor, and RMB3,618 for a stay in hospital. The former figure equates to 12.4% of a farmer's net income in that year, and the latter 104.3%. However, the rebates provided by the New Rural Cooperative Medical System amount to no more than RMB14.3 (3.4%) and RMB225 (6.2%), respectively. While the compulsory insurance payments required by the system differ considerably from region to region, the per capita RMB30 is 1/55 of the RMB1,469 in the cities (calculated at 8% of the average urban worker's salary). The low rate of increase in medical expenditure in rural communities may be seen as the result of curbs on medical expenses.

The New Rural Cooperative Medical System started in 2003 with a trial implementation, and has spread at a remarkable pace, with the encouragement of central government, and by the end of 2007 had a subscription rate of 86.2%. The government's view is that this will solve the problem of poverty in agricultural communities. Nevertheless, as can be seen from the fact that the difficulty in obtaining medical treatment and its high cost are cited as problems in the 'Blue Book of Chinese Society 2007', the New Rural Cooperative Medical System has not yet completely reformed farmers' access to medical services.

In the Third National Health Survey conducted in 2003, the percentage of poor families that answered 'illness and injury' in response to the question why they were poor was the highest at 30.0%, well above the 15.2% scored for that answer in the previous survey (1998). The government is now preparing the fourth such survey, and it is very likely that the situation has worsened. The government needs to move on from the stage of setting the spread of the New Rural Cooperative Medical System as a policy target and needs now to concentrate on overhauling the medical system in its entirety, such as restraining medical costs by tackling problems on the provision side in order to improve the quality of service.

(Yuji Miura)
Korea  Concern over the impact of the weak won

■ Sudden won depreciation and its pronounced impact

Since September, won depreciation has reached fever pitch. The won's exchange rate against the US dollar plummeted from $1 = 1,089 won at the end of August to 1,207 won at the end of September and as low as the 1,400 won level on October 9. As part of the background to the won's depreciation since the beginning of the year, there are factors such as 1) worsening economic fundamentals, such as an expanded current account deficit, accelerating inflation and a slowing economy, 2) political instability, and 3) the withdrawal of risk money as the global credit crunch takes its toll. However, factors other than the above may be cited in the recent and sudden depreciation of the won.

First, the dollar supply has decreased. Exporters have begun to incline strongly away from the securing of dollar funds for the payment of imported raw materials towards pooling export proceeds to hand. As a result, the supply of dollars to the market is dwindling. It is believed that this situation has been encouraged by the increasing difficulty of procuring dollar funds in the international financial markets.

Another factor is the amplification of market unease. The failure of exchange rate intervention to halt the won's depreciation has led to a decline in the foreign currency reserves, as well as an increase in recent years of short term foreign debt, leading to fears in the market of a recurrence of the currency crisis, and inducing dollar purchasing. In this connection, the government attempted to shore up the deficiency in liquidity by pumping $10 billion dollars from the currency reserves into the financial institutions on September 29, and $5 billion into support for small and medium sized enterprises on October 2. However, this move was seen by the market as depleting the foreign currency reserves and actually accelerated the won's fall. This indicates that the government has not fully explained the current economic situation, or its economic policies.

The won's large depreciation is beginning to have a heavy impact on business administration. This impact includes 1) rising costs of raw materials, 2) greater foreign exchange revaluation losses incurred by exporters in futures transactions, and 3) losses in currency option transactions known as 'knock-in knock-out' (KIKO).

■ Caution over spreading impact of weak won

On October 9, The Bank of Korea, citing 1) greater risk of economic downturn, 2) relaxed inflationary pressure due to the fall in the international price of crude oil (the consumer price index increase rate fell from 5.9% in July to 5.1% in September), and 3) loan reluctance on the part of domestic financial institutions due to a state of confusion among the international money markets, lowered the policy interest rate 0.25% points. This move may also be regarded to have had some element of international policy coordination.

Given these circumstances, the boosting of import prices by the recent and sudden depreciation of the won means that it will be difficult to break the cycle of the falling price of crude oil leading to restrained inflation and improved current account balance (the current account deficit is mainly caused by the rising price of crude oil adversely impacting the balance of trade), leading in turn to further interest rate reductions. The won's recent depreciation is caused in part by a plethora of domestic and foreign factors, and it would seem likely that the situation will begin to correct itself towards the end of the year, but attention should be paid to the fact that the impact of the weak won is likely to spread further in future.

(Hidehiko Mukoyama)
Thailand  Increase cost of living in metropolitan area

- Bangkok household incomes and expenditure fail to grow

The anti-government demonstrations in and around Bangkok continue to drag on. Against this backdrop, the fact cannot be ignored that the incomes of citizens living in the Bangkok metropolitan area* have failed to grow and that the burden of the cost of living is increasing.

In 2006, the average monthly household income in the metropolitan area was Bt 33,088 approximately twice the national average. Though it represents only 4.0% annual growth compared to 2002, this is below the national average of 6.7%. Considering that the consumer price index rose by 3.6% over the same period, in real terms, there has been almost no growth in incomes. Furthermore, monthly average expenditure has grown by a similarly low annual average of 3.5%.

Additionally, while the annual average growth rate in household debt outside of the metropolitan area has exceeded double digits and the disparity with the metropolitan area is gradually contracting, the debt outstanding of the metropolitan area has fallen below 2002 levels. Part of the background to this is a series of measures aimed at vitalizing local economies and prioritizing assistance to low income families, such as the rural investment fund, the promotion of “One Village, One Product”, and granting moratorium periods for the repayment of agricultural loans, initiated by the Thaksin administration and continued by the Samak administration and the new Somchai administration. In other words, since 2001, the residents of the metropolitan area have not been able to enjoy fully the fruits of the economic expansion or the benefits of government policies.

*The Bangkok metropolitan area comprises the city of Bangkok and the provinces of Nonthaburi, Pathum Thani and Samut Prakan.

- Rising commodity prices increase cost of living in the metropolitan area

In this situation, rising commodity prices caused by the soaring price of crude oil caused the cost of living to increase. The average monthly expenditure of metropolitan households on transportation and communications increased from Bt4,156 in 2002, to Bt5,366 in 2006, growing as a percentage of total consumption expenditure from 19.7% to 22.2%. The Bangkok metropolitan area is a motorized society and the rising price of gasoline in particular is having a severe impact on household budgets. The household survey in 2007 has not yet been published, but there can be no doubt that the increases in gasoline as well as other fuel prices and food prices have caused the cost of living to increase again. In the interest of political stability, the Somchai administration will need to come up with policies focused on raising income levels in the metropolitan area.

(Keiichiro Oizumi)
India  Real GDP growth in Q1, fiscal 2008, slows to 7.9%

■ Real GDP growth 7.9% in Q1, fiscal 2008

India's real GDP growth rate for the period April to June, 2008, was 7.9% (compared to the same period in the previous year), a new low for quarterly growth for the first time in about three and a half years. In industry, the combined factors of the global economic deceleration and the accompanying sluggish performance of exports, and rises in domestic interest rates, have resulted in a continued deceleration in the manufacturing industry. The growth rate for the industrial production index for the same period was 5.2%, the lowest quarterly growth rate in the last six years. The deceleration in production can be seen across all kinds of goods, but particularly noticeable has been that of capital goods, down to 6.5%, whereas healthy performance in durable equipment investment had previously supported double digit growth in that sector. Businesses view the economy with trepidation and there are concerns that durable equipment investment will decelerate slightly in the near future. Meanwhile, durable consumer goods, which had posted minus 1.0% growth in the previous fiscal year, managed to break free of the vicious cycle and posted 3.8% growth. However, automobile sales remain slow and in July fell to minus 1.7% year-on-year growth, for the first time in about two and a half years. This would appear to have been caused by the fact that domestic petrol prices were raised in June and that over half of sales are loan-financed, so that the rise in loan interest rates has had an effect.

The service sector has been able to sustain fairly solid growth but, if the economy continues to lose momentum, the impact is likely to affect services as well.

■ Future outlook and risk factors

In the foreseeable future, some deceleration in the economy is unavoidable. In terms of growth rates by expenditure items in Q1, domestic demand is comparatively strong but, in terms of external demand, import growth continues to outperform export growth. Though the external sector is relatively small in terms of its economic scale, as the international financial crisis worsens and the economies of the industrialized nations continue to decelerate, India cannot avoid being affected to a certain degree, and the Reserve Bank has revised its forecast for real GDP growth for fiscal 2008 from its original forecast of between 8.0% and 8.5% down to 8.0%. The Asian Development Bank's latest forecast is 7.4%.

Additionally, the likely movement of inflation is causing concern. The wholesale price index, which had switched to an increase since last November, reached 12.5%, compared to the same month in the previous year, in August.

Fuel prices, which had been held to single digit increases until May, jumped to a 17.4% increase, due to increases in domestic petroleum prices, etc., and prices of primary products and manufactured goods rose similarly to double digits. Further, the rupee's rate against the dollar continued to be soft, lending momentum to inflation.

Reduced tax revenues as a result of economic deceleration, and increased spending on subsidies in an effort to rein in inflation, are likely to mean that the fiscal deficit will expand in the future. Therefore, it would seem likely to suppose that, for the time being, tight monetary policies will continue to be the order of the day and that inflationary curbs will need to be prioritized. In order to achieve high levels of economic growth, it is essential that a healthy level of domestic demand be sustained. It follows, therefore, that close attention will need to be paid to the trends of international commodity prices, which do affect domestic demand. India depends on imports for about 75% of its petroleum demand, and the falling price of crude oil is expected to lower the inflation rate.  

(Satoshi Shimizu)

### Real GDP Growth Rates by Industrial Origin

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<th>FY2006</th>
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<tr>
<td>Elec. gas &amp; water</td>
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<td>Construction</td>
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<tr>
<td>Real GDP</td>
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<td>Construction</td>
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<td>Comm. social, perso. services</td>
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Source: Center for Monitoring Indian Economy
Vietnam

Real GDP growth 6.5% in January to September

■ Consumption stagnation trend solidifying

Vietnam's real GDP growth rate for the period January to September was 6.5%, compared to the same period in the previous year. Quarter by quarter, the growth rate went from 7.4% to 5.9% and recovered slightly in Q3 to 6.5%. In terms of supply side items, agriculture grew a solid 3.6% in the same period, but industry and construction and services, which have hitherto supported a high level of economic growth, continued to post comparatively low levels of growth at 7.1% and 7.2%, respectively.

Industrial production in the period January to September grew by 16.0%, compared to the same period in the previous year, down from 17.1% in same period in the previous year. However, the extent of the deceleration is fairly slight in comparison with the national income statistics for the industrial-construction sectors described above. This appears to have been due to the failure of profits to grow in key industries such as cement and iron and steel, because of the effects of the soaring prices of raw materials and price controls, so that added value did not grow as much as production.

Though the growth rate for retail sales in the period January to September, on a nominal basis, was high at 30.1%, compared to the same period in the previous year, on an actual basis it was rather low at 6.0%. Automobile sales for January to August were double the figures for the same period in the previous year at 84,876, due to the shift in demand from motorbikes to small cars, but some manufacturers found sales peaking in July and falling thereafter, and expect that sales cannot but fall next year with the raising of the added value tax.

■ Quality of foreign direct investment questioned

The uncertain future of price controls, Vietnam's biggest policy issue, is beginning to soften a little. September's consumer price index grew by 27.9% compared to the same month in the previous year, and up 21.9% compared to the end of the previous year. These are still high figures, but food prices came down on a month-by-month basis for three consecutive months since June. January to September investments, on a nominal basis, were up 26.2%, compared to the same period in the previous year. Viewed by sector, state investments were up 8.0%, non-state 9.6% and foreign investments 165%. Declining housing investments as a result of tight monetary policies, and curbs on government expenditure, have contributed to the restraining of commodity prices.

Efforts to keep the balance of trade expansion in check have also begun to bear fruit. Exports for January to September were up 39.0% compared to the same period in the previous year, at $48.6 billion, and imports were up 48.3% in the same period at $64.4 billion. Viewed on a monthly basis, the balance of trade deficit appears to have peaked in May and has been contracting since, reflecting the blunting of import growth, and if exports to the US do not decline significantly, it seems very probable that the government's target of holding the balance of trade deficit to within $20 billion annually can be achieved. The foreign currency reserves at the end of September were $21.9 billion, up from $20.7 billion at the end of June. Meanwhile, though foreign direct investments appear to be performing solidly enough, their true worth has begun to be questioned within Vietnam. There were 885 foreign direct investments (approved basis) in the period January to September, worth $56.3 billion, well in excess of the figures for the whole of last year (1,544 projects, $21.3 billion). However, some hold the view that the value of approved projects has been pushed up artificially by a sudden increase in the number of projects of dubious practicality. The number of golf course development projects approved this year, including those by domestic enterprises, was 106, three times the approved total in the last 16 years. Part of the reason for this is that, in July, 2006, the right to approve investment applications was devolved to local governments. In September, Central government ordered local governments not to approve any more new golf course development projects. The real GDP growth rate for 2008 looks set to come in below the government's 7.0% target, possibly reaching the worst case scenario upper 6% estimate of the government think tank's Central Institute for Economic Management (CIEM).

(Yuji Miura)