China’s real estate market has expanded rapidly and has powered China’s economic growth. Particularly in recent years, there is strong real estate demand in small and medium sized cities. Meanwhile, housing prices in the larger cities are now over ten times annual incomes, and calls have been made for price restriction measures to be implemented.

### Strong demand in small and medium sized cities

Real estate development investment in China has expanded rapidly in recent years. Regional governments have sold land acquired at minimal cost to government-affiliated real estate companies for low prices. The real estate companies have earned huge profits by developing and building property, especially housing. Real estate development investment has also been a key driver of China’s rapid economic growth. Since the introduction of private housing ownership in 1998, real estate development investment has consistently expanded at a faster pace than economic growth. While nominal GDP doubled in the years between 2005 and 2010, real estate development investment trebled in that same five year period. This pattern is reflected in a continual rise in the contribution of real estate development investment to nominal GDP, which reached 13.1% in 2011.

Housing is the mainstay of China’s real estate market. Japan’s housing bubble is generally defined as a rapid upward trend in land prices. Land is the main focus of real estate transactions in Japan, since land can be privately owned, and a market has evolved in which land can be bought and sold. In China, land is owned by the government and cannot therefore play a central role in real estate transactions.

Offices and commercial facilities are also classed as real estate, but the amount of such property is very small compared with housing. In 2011, investment in commercial buildings was worth 737 billion yuan, equivalent to 11.9% of the nationwide real estate development investment total. The same investment figure for office buildings was 254.4 billion yuan, just 4.1% of the total, while that for housing was 4,430.8 trillion yuan, 71.8% of the total.

In China’s housing market, residential property demand is strong in many areas in and around small and medium sized cities. Demand in small and medium-sized cities, which make up the overwhelming majority in China, remains ahead of supply because the area of new subdivision housing sold exceeds the area of new construction completions.

The strength of real demand in small and medium-sized cities is driven by the dynamism of urbanization and rising income levels. Urbanization generates substantial new housing demand in cities. The urban population has risen dramatically because of migration from rural to urban areas. Between 2006 and 2009, the populations of small and medium-sized cities increased by a total of 42.29 million. Rising income levels have meanwhile become a source of sustained replacement demand. Income levels in inland China have consistently shown double-figure growth over the past 10 years. People are steadily relocating from aging condominiums with poor facilities and living environments into better units in newly built condominium complexes.

### Challenge of reducing big cities housing prices ratio to average annual incomes

An important issue is to curb real estate prices in major cities and resort areas, where the ratio of price to annual income remains persistently high. Housing prices in the major urban areas of Shanghai and Beijing and the resort areas of Hainan Province have risen dramatically because of increased purchasing

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**Construction Completions and Sales of New Subdivision Housing (2011)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Eastern</th>
<th>Central</th>
<th>Western</th>
<th>National totals</th>
</tr>
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<tbody>
<tr>
<td>Sales</td>
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<td>Sales</td>
<td>Completions</td>
<td>Sales</td>
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<tr>
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<tr>
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<tr>
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<td>35.45</td>
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<tr>
<td>Tianjin</td>
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<td>16.42</td>
<td>7.34</td>
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<tr>
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<td>Hainan</td>
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<td>7.62</td>
<td>3.32</td>
<td>4.30</td>
</tr>
<tr>
<td>Tibet</td>
<td>0.18</td>
<td>0.19</td>
<td>0.18</td>
<td>0.19</td>
</tr>
</tbody>
</table>

Note: With the exception of Hainan, regions in which the area of sales exceeds the area of construction completions are classified as regions with housing shortages (shaded). Since the ratio of subdivision housing sales prices to household incomes in these regions has remained stable at around 6 times for the 10 years, we can conclude that housing shortages are being caused by real demand.

Source: The Japan Research Institute, Ltd., based on the National Bureau of Statistics of China
for investment purposes. Because housing prices have risen faster than incomes, the average selling price for subdivision housing has climbed to over 10 times the annual household income. At this level, housing is no longer affordable for those planning to buy homes. On this basis, it may be reasonable to conclude that a housing bubble is occurring in major cities.

This situation reflects the high rates of return on housing investment. With interest, a 1 million yuan deposit in 2004 was worth 1.12 million in 2008. A condominium in Beijing purchased for 1 million yuan in 2004 could be sold for 1.3 million in 2008.

Similar conditions existed in Japan before the collapse of the bubble. In a public opinion survey on land conducted by the Prime Minister’s Office in June 1988, 64.1% of respondents thought that land offered greater advantages than other assets, such as savings and shares of stock. In the second half of the 1980s, Japan saw massive amounts of money flood into the real estate market, causing land prices to rise dramatically.

The Chinese government implemented tighter monetary policies in order to try to restrain the rise in housing prices in the big cities. Interest rates were raised five times, in October and December, 2010, and February, April and July, 2011, while the deposit reserve ratio was increased twice in November, 2010, and once every month between December, 2010 and June, 2011.

In addition to financial policies, a series of real estate price curbing measures was introduced. For example, in January, 2011, central government issued the so-called “New Eight Articles”, comprising eight real estate market regulation measures, and called upon local governments to set their own targets for the curbing of real estate prices. In Beijing and Shanghai, the government announced restrictions on second-home buying and the purchasing of houses by persons who will stay in the cities for less than 5 years. Similar measures were subsequently introduced in small and medium-sized cities.

Against the backdrop of the government’s price curbing policies, the sharp rise in housing prices has started to slow. However, in terms of a comparison with annual income rates, housing prices in large cities and resort areas are still very high. In Beijing, Shanghai and Hainan, there is still a need for price curbs to be implemented in order to stabilize real estate prices. The ideal situation would be that, in the interim, income levels would continue to rise, causing housing prices to come down in comparison with annual income rates. Once housing prices come down to a level of about six times the average household annual income, then much of the dissatisfaction felt by the public with regard to housing will begin to ease.

It remains to be seen, whether the Chinese government will be able to control the real estate bubble in the big cities.

(Shinichi Seki)
Korea  Domestic and foreign demand still slow

■ 0.9% growth for January to March

Korea’s real GDP growth rate for January to March, 2012, was 0.9%, compared to the previous quarter, thanks to outstanding growth in facilities investment. This figure is well up from 0.3% growth posted for the previous quarter, October to December. In terms of demand items, private sector consumption grew 1%, total fixed capital formation 3.7% (facilities investment: 10.8%, construction investment: minus 0.7%), exports 3.4%, and imports 4.5%.

However, this quarter’s gains are largely due to a recoil from the negative growth posted by almost all demand items in the period October to December (and July to September for facilities investment). Given the fact that growth in the same period in the previous year (3.3% for October to December) was only 2.8%, domestic and foreign demand must be said to lack impetus.

In terms of recent trends, export growth (customs cleared basis) fell from minus 1.4% in March, compared to the same period in the previous year, to minus 4.7% in April (flash report). By country and region (statistics till the 20th), exports to South America grew 96.5%, and the Middle East 34.9%, strong performances in both cases, whereas those to the US grew at 5.6%, China 1.7% and EU minus 16.7%. Exports to Japan fell to minus 11.3%, in recoil from the previous year’s high growth (special post-earthquake demand). Recent characteristics include 1) a large drop compared to the previous year in the level of exports to Europe, where the economic situation is worsening, 2) the loss of impetus in exports to Asia, against the backdrop of a slowdown in the Chinese economy, and 3) comparatively solid growth in exports to the US.

Further, automobile sales also have continued to fall below the previous year’s levels since October, 2011 (January and February calculated together in order to cancel out the effect of the changing timing of the Lunar New Year holiday). This is believed to have been caused by increased household debt, in addition to the failure of real gross domestic incomes (GDI) to grow because of inflation and economic deceleration.

■ Concerns over the slow pace of consumption recovery

While it is anticipated that export growth will gradually strengthen as the global economy recovers, private sector consumption is being seen as one factor that may well hinder economic recovery. Though there was positive growth in the period January to March, this was no more than 1.6% compared to the same period in the previous year. There is encouraging news in that the consumer price index that was in the 4% range (compared to the same month in the previous year) at the end of 2011 fell to 2.6% in March, and 2.5% in April, but given that income growth is likely to be marginal for the time being, there is concern over the potential negative impact of the full scale implementation of measures to curb household debt.

The government, in order to restrain household debt, announced its Comprehensive Measures on Household Debt in mid 2011 (mainly targeting the city banks), followed by Loan Restraint Measures targeting non-bank financial institutions and insurance companies (featuring lower deposit to credit ratios for credit unions, tougher finance restrictions for those with high credit risk, and insurance companies’ loan provision ratios increased to the same level as those of banks).

Given the foregoing, consumption trends will need to be watched as carefully as exports in the months ahead.

(Hidehiko Mukoyama)
Hong Kong  
Economy slows, and the new Chief Executive-elect

■ Economy slows
Hong Kong’s economy has continued to slow since the spring of 2011. Until now, domestic demand had posted strong growth performance and had supported the economy, but in recent months the stagnation in foreign demand has begun to affect domestic demand also.

As far as foreign demand is concerned, exports for the period January to March suffered the effects of the global economic slowdown and converted to negative growth, compared to the same period in the previous year, at minus 1.5%. Exports to China were minus 2.1% in the same period, and those to the US minus 0.2% and Europe minus 4.2%.

In terms of domestic demand, growth in real retail sales turnover for the period January to March was a sluggish 15.9% compared to the same period in the previous year. In particular, automobile sales growth was a wafer thin 1.8%. In addition to external demand industries like the transportation industry, the employment situation in domestic demand industries such as construction, retail, food and drink and accommodation, is worsening and this has been a factor in cooling consumer sentiment. The unemployment rate for January to March was 3.4%, 0.1% points up from October to December.

The consumer price index peaked in July, 2011, at 7.9%, compared to the same period in the previous year, and by March, 2012, had fallen to 4.9%. However, the increase rate for food prices is still high at 7.3%.

■ Hong Kong’s new Chief Executive-elect, Leung Chun-ying
At the fourth term Executive Council elections in March, 2012, pro-China Leung Chun-ying was elected to the post of Chief Executive. Mr. Leung received 689 votes, putting him well ahead of his rivals, Henry Tang with 285, and Albert Ho with 76. He takes office on July 1.

The Chief Executive is the highest ranking officer of the Executive Council, Hong Kong’s Cabinet. The Chief Executive is named by indirect election by the 1,200 strong Election Committee, and appointed by the National People’s Congress in Beijing. The term of office is five years, and the Chief Executive may be re-elected only once. The current Chief Executive is Donald Tsang, elected in June, 2005, and re-elected in March, 2007. He is due to step down at the end of June, 2012.

The government of Hong Kong is comprised of the Executive Council, the equivalent of a Cabinet, and 12 bureaus, which are Hong Kong’s equivalent of government ministries. The Chief Executive has the right to appoint and dismiss senior government officers. These officers are the equivalent of government ministers, and comprise the three Secretaries (Secretary for Justice, Chief Secretary for Administration, and Financial Secretary) who directly support the Chief Executive, and 12 Bureau Directors.

Chief Executive-elect, CY Leung, has taken a clear stance on prioritizing the housing issue. On May 4, Chief Executive-elect Leung announced that proposals for the reform of his own administrative organs were passed by the Executive Council, and are due to be implemented on July 1. Of the 12 policy bureaus, the Development Bureau and the Transport and Housing Bureau are to be abolished, with the Development Bureau’s Lands and Planning Division being merged with the Transport and Housing Bureau’s Housing Department to become the new Housing Planning and Lands Bureau. Also, the Transport and Housing Bureau’s Transport Branch and the Development Bureau’s Works Branch are to be merged into the new Transport and Works Bureau. By bringing housing policy and land supply policy together in one policy bureau, the aim is to speed up decision making and ensure the stable development of the real estate market. Further, it is highly likely that, Chief Executive-elect Leung will promote senior personnel that are capable of implementing the expansion of housing and land supply.

(Shinichi Seki)
Vietnam  Economic growth for 2012 between 4.5 and 5.5%

- **Real GDP growth rate for January to March 4.1%**

  Vietnam’s real GDP growth rate for the period January to March was 4.1%, compared to the same period in the previous year, the lowest level since January to March, 2009. The contribution for supply side items was 0.5% points for agriculture, forestry and fisheries, 1.4% points for industrial production and construction, and 2.3% points for services. A breakdown of the figures for industrial production shows that both manufacturing and non-manufacturing performed very poorly, at 1.4% points and 0.01% points, respectively. The underpinning cause has been the tight monetary policy. According to Central Bank, the credit growth rate at the end of March had slipped to negative growth at 2.0% down from the end of the previous year.

  April’s industrial production index was up 7.2% compared to the same period in the previous year. The production volume of major industrial products in the period January to April shows foreign demand related items were generally solid, such as crude oil (up 10.8% compared to the same period in the previous year), natural gas (4.7%, similarly), marine produce (16.5%), textiles (9.5%), and footwear (18.5%). On the other hand, domestic demand related items performed poorly, and this was a factor in holding down the industrial production index. Among these items, poor performance in construction related items, such as cement (down 6.4% compared to the same period in the previous year) and steel bars (12.4%, similarly), was particularly noticeable.

  Exports for the period January to April grew 22.6% compared to the same period in the previous year, worth $33.4 billion, and imports 4.5%, similarly, worth $33.6 billion. Mobile phones and electronic products drove export growth, and the balance of trade is more or less balanced. Additionally, the industrial production index does not include figures for mobile phones, and would probably be considerably higher if it did.

- **Central Bank favoring monetary easing**

  April’s consumer price index increase rate was 10.5% compared to the same period in the previous year, well down from 17.3%, similarly, in January. Since the price curbs appear to be nearing a certain level of success, Central Bank has been adopting a more relaxed monetary stance since March, lowering the policy interest rate and allowing the partial recommencement of loans for real estate development, which had been under restraint till now. Nevertheless, given that monetary easing needs to be implemented in gradual stages, always taking commodity price trends into account, and that the GDP growth rate for January to March was so low, the prevailing view within the government is that the growth target of between 6.0% and 6.5% will be difficult to achieve, and that actual growth will be between 4.5% and 5.5%.

  Although the government is anticipating economic recovery due to easier monetary policy, there is no room for undue optimism with regard to the future. According to local press reports, 12,000 companies were forced out of business or into bankruptcy in the period January to March, and some 50,000 companies are said to be in very difficult straits. Some expect the unemployment rate to begin to rise in 2012, and it is difficult to imagine that easier monetary policy will translate immediately into a recovery in private consumption. Actual sales turnover for consumer goods and services in the period January to April continued to disappoint at just 6.1% compared to the same period in the previous year. For the foreseeable future, Vietnam’s economic growth will be forced to rely on foreign demand.

(Yuji Miura)
China  Expanding domestic demand in order to boost the economy

■ Faint hope of rapid recovery of exports

The downturn in trade has become more clear. April’s exports were up 4.9% compared to the same month in the previous year, worth $163.25 billion. While this is a high level in dollar terms, the growth rate has been in decline since the autumn of 2011. Exports to China’s biggest export destination, the EU, have been shrinking for two consecutive months, and exports to industrialized regions and countries generally have been struggling. The blunting of import growth has been even more severe than that of exports, posting only 0.3%, compared to the same period in the previous year, with almost no change.

The future outlook provides very little room for optimism. The amount of export sales at the 111th China Import and Export Fair (known as the Canton Fair, held twice a year in the spring and autumn) which closed on May 5 was only $36.03 billion, just 4.8% up on the previous Fair (autumn, 2011). A spokesman for the Fair cited 1) buyers’ hesitancy and 2) Chinese firms’ concerns about prices of raw materials and exchange rate fluctuation as reasons why a greater proportion of sales contracts is being accounted for by short term contracts. Also taking into account the fact that export sales to major export destinations such as Europe and the US are all below the previous Fair’s levels, it would appear that there is very faint hope of a strong export recovery in the foreseeable future.

■ Domestic demand expansion measures advance gradually

In the midst of this situation, the government is attempting to expand domestic demand through the implementation of a range of measures. In terms of monetary policy, People’s Bank of China’s latest China Monetary Policy Report emphasized the “stable and appropriate expansion of financing” as a priority policy for the time being. Tight monetary policy is gradually being relaxed, and this can be interpreted as showing a willingness to support economic growth from the funding aspect. On May 12, it was announced that the deposit reserve rate would be lowered by 0.5% points (to be implemented as of the 18th of that month).

The government is working out plans to promote imports and link this to the expansion of domestic demand. China’s State Council (central government) released a notice (No. 15 in 2012) regarding “directional opinions on increasing imports and promoting the balanced development of foreign trade”. In addition to the active expansion of imports of the latest advanced technology and equipment, energy and raw materials, etc., the Circular speaks of the “moderate expansion of imports of consumer goods”, in order to stimulate domestic consumption. Specifically, the document mentions considering lowering import duties and related costs. Even though it may have been necessary to soften criticism from abroad, widening the yuan–dollar daily fluctuation band reference value from ±0.5% to ±1.0% (from April 16), will, over the long term, contribute to the expansion of consumption.

Depending upon developing trends in the weeks and months to come, there could very well be further financial easing and positive fiscal policy. While attempting to minimize the disadvantages of measures to expand the economy, such as inflation and the rekindling of soaring real estate prices, the timely implementation of economic stimulus measures will be vital, not only in order to sustain China’s economic growth, but also to ensure the smooth transition to the next administration.

(Junya Sano)