

ASIA MONTHLY

August 2017

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Topics *Indian visitors to Japan expected to increase in mid to long term*

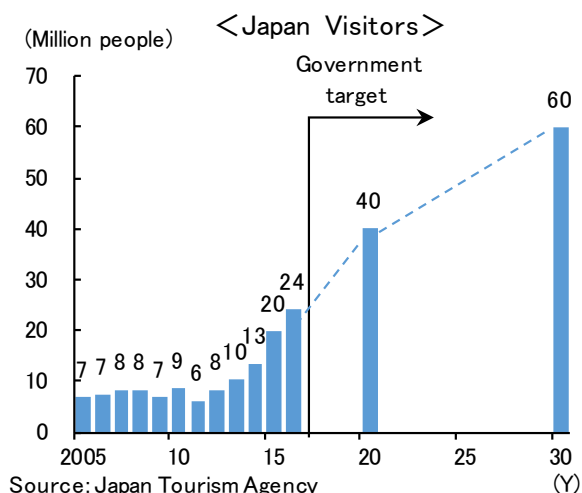
The number of visitors to Japan from India in 2016 was 120,000, the lowest number among the major Asian nations. However, with population growth and rising income levels, this number is expected to grow to around one million in the 2030s.

■ Despite the magnitude of the potential, the number of Indian visitors to Japan recently is low

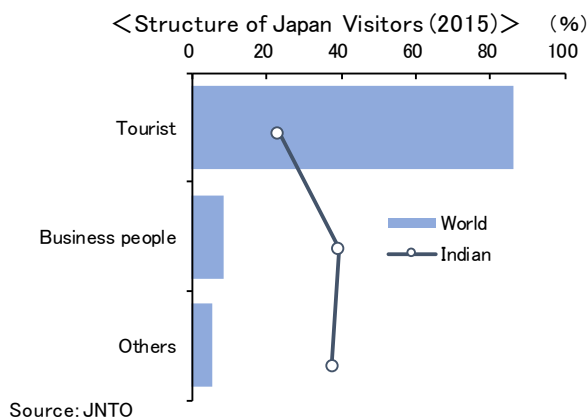
Encouraged by factors such as 1) a range of measures aimed at attracting visitors, including the easing of visa requirements, 2) continuing yen depreciation after the start of Abenomics, and 3) rising income levels among Asian economies, the number of foreign visitors to Japan has continued to increase since 2012, and reached its highest level ever of 24 million in 2016. The government aims to promote the appeal of sightseeing in Japan, utilizing the opportunity of hosting of the 2020 Tokyo Olympic and Paralympic Games, increasing the number of visitors to 40 million by 2020, and to 60 million by 2030.

With the aim of further increasing the numbers of visitors to Japan, the Japan National Tourism Organization (JNTO) has set 20 countries and regions in Asia, Europe and the US as priority areas, and is working on a range of measures to attract tourists. India is one of the target countries. Given the size of the population and the room for future expansion of the middle tier, India has a particularly large potential, along with that of China. However, despite its population of 1.3 billion, the 120,000 visitors from India to Japan in 2016 was the lowest number among the major Asian nations. In order to grow the numbers of foreign visitors to Japan by 2030 and beyond, the enhancing of measures to attract Indian visitors is an important point.

Among the characteristics of Indian visitors to Japan is, first of all, the low ratio of tourists. Around 85% of visitors to Japan from around the world are tourists, but the number of visitors from India who are tourists is only around 20%, with the majority visiting for business or official reasons (figure, lower right). Further, more than 80% of Indian visitors to Japan are first time visitors, and the ratio of repeaters is very noticeably low in comparison with other countries. In addition, due to the slow social advancement of women in the labor market, the ratio of males among business visitors is especially high, and the proportion of visitors concentrating mainly in the Tokyo metropolitan area is very high, so that the structure of Indian visitors to Japan is quite different from those of



Source: JNTO



other countries.

The following five points may be cited as reasons the number of visitors to Japan from India is low in comparison with other countries. First, there is the geographical factor. The distance between Japan and India is over 5,000 kilometres, so that travel to Japan inevitably incurs higher costs and greater travelling time, in comparison with travel from Korea, China, Taiwan and other countries and regions in Northeast Asia. Second, there is the low level of incomes in India. In 2015, the average Indian traveler to Japan spent a total of around 250,000 JPY on travel and accommodation, which is higher than the nominal per capita GDP (\$1,616, approx. 190,000 JPY) in India in fiscal 2015. Third, Japan-India economic ties are still weak. Japan's main trade and investment partners are

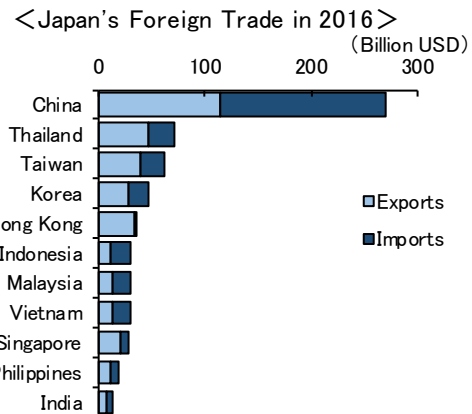
China, Thailand, Taiwan, Korea and other countries in Northeast and Southeast Asia, so the number of business visitors from India is relatively low. Fourth, there are troublesome procedures involved in obtaining a visa to travel to Japan. Although measures have been introduced to try to alleviate the situation, such as the issuing of multiple re-entry visas, etc., would-be visitors still have to provide a range of documentation, including a travel itinerary, and proof of ability to meet expenses during their stay. Fifth, there is the inadequacy of Japan's receptive environment. The fact that there are only a limited number of restaurants that can accommodate the dietary restrictions of Hindus and Muslims, and that staff in Japan's tourism industry are not able to speak English well enough, are among the reasons that limit the number of visitors from India.

■ Indian visitors to Japan to increase to around 1 million by 2030

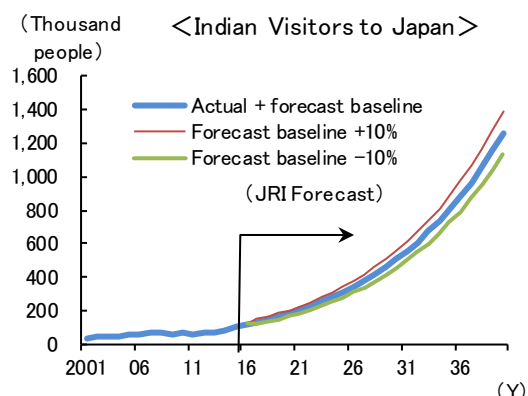
Looking forward to the expected numbers of Indian visitors to Japan in the future, due principally to 1) the continued growth trend in the population, mainly in the production age population, and 2) the expansion of the middle income tier, who are able to enjoy foreign travel, following economic growth, and other factors, the growth trend is thought likely to continue. Calculating the future number of Indian visitors to Japan, based on the relationship between the income levels and departure rates (annual number of people who travel abroad as a proportion of total population) of Asian countries, and the predictions for India's future economic growth rates and demographics, it is expected that the number will reach about 1 million in the 2030s, increasing to a point where the number of Indian visitors to Japan will exceed the current numbers of Thai visitors to Japan. Since India's population is thought likely to be the world's biggest by that time, India's potential demand is greater than that of China. Also, although the hosting of the 2020 Olympic and Paralympic Games in Tokyo is a perfect opportunity to showcase Japan's appeal, given the fact that there were no significant increases in the numbers of Indian visitors to the host countries at the time of the 2008 Beijing Olympics or the 2012 London Olympics, it would be a mistake to overestimate the effect of hosting the Olympic Games.

In order to increase the number of visitors from India to Japan ahead of schedule, it will be very important to develop more attractive Japan tourism promotions, and to develop Japan's receptive environment. With regard to Japan tourism promotion, the "Cool Japan" strategy is being developed jointly by the government and the private sector as a means of spreading Japan's appeal overseas through the promotion of Japanese animé, TV dramas, fashion, etc., and the conscious enhancement of India-focused initiatives within this strategy may be expected to lead to a significant increase in the number of Indian visitors in the future.

(Shotaro Kumagai)



Source: UN Comtrade



Source: JRI's estimation based on IMF, World Bank, and Japan Tourism Agency Data

Korea Greater expectations of new administration

■ Economy generally robust

The Korean economy is continuing to recover, with exports in the role of growth as the driver. Export growth (dollar based) in June, 2017, was 13.6%, compared to the same period in the previous year (hereinafter the same), growing positively for eight consecutive months. In terms of individual items, though the growth in exports of automobiles and iron and steel contracted, exports of semiconductors grew 52.0%, powered by continuing global demand, and those of petrochemicals grew 15.6%, boosted by the recovery in product prices. In terms of individual countries, while the growth in exports to China slowed to 5.1% due to the contraction in automobile exports, exports to the EU were up 21.1%, and those to ASEAN 27.2%, continuing strongly. As a result of this recovery in exports, the manufacturers' PMI topped 50, the point which differentiates between good and poor performance, for the first time in 11 months. Against the backdrop of ongoing global recovery, the future outlook is that Korean exports will continue to grow solidly.

Retail sales growth in the household sector has been sluggish since the latter half of 2016. Part of the background to this has been the deterioration of consumer sentiment due to political turmoil, starting with the impeachment of the previous president. However, in recent times, the consumer confidence index has soared to a six and a half year high on the strength of expectations of the economic booster effect of the employment policies of the new administration. Given the expectation of an asset effect in the wake of rising share and housing prices, there is a strong probability that personal consumption will gradually regain its strength.

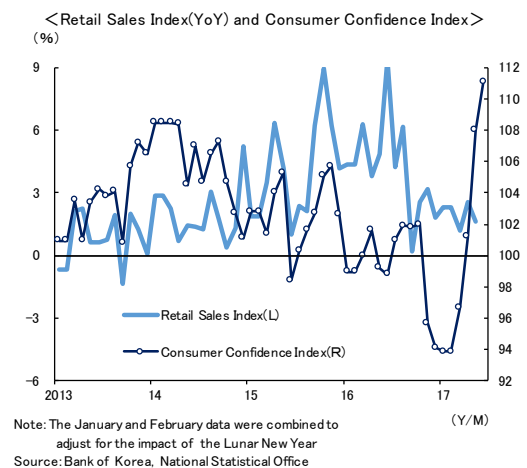
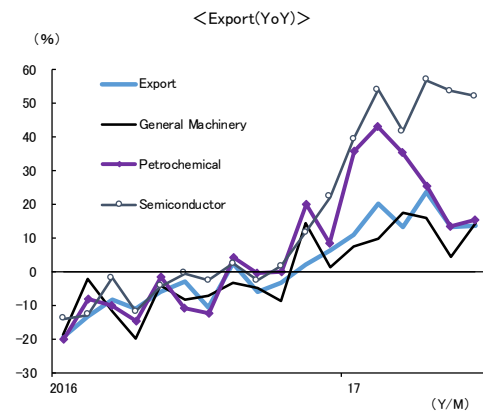
However, the following two points are causes of concern with regard to the future of the economy. The first is the prolonging of China's tightening of restrictions in the wake of the political confrontation around the deployment of the THAAD missile defence system. The number of visitors to Korea from China dropped sharply by 64% in May. In addition, the impact of the decline in Korean cars' share of sales in China is being felt widely. The second is the changing monetary policy stance. Bank of Korea governor, Lee Ju-yeol, has expressed concern over the expansion of household debt and the overheating of the real estate market, and has mentioned a review of the easy monetary policy. Though higher interest rates do contribute to curbing the overheating of demand, there is also a concern that growth in personal consumption may be hindered due to the increased burden of debt repayment.

■ Challenges aplenty for the new administration

On June 5, the administration of Moon Jae-in announced an 11.2 trillion won supplementary budget. This backs up the new administration's policy stance of prioritizing employment, with the creation of 12,000 public service jobs and 24,000 social service related jobs. However, as the opposition steps up its objection to the defiant appointment of the Foreign Minister, legislative debate faces a tough road ahead, and there are concerns that the passing of the budget will be delayed.

In addition, President Moon Jae-in held his first talks with US President Trump at the end of June. At those talks, President Trump expressed his unwillingness to tolerate the US trade deficit with Korea, and the risk of a rethink of the US-Korea FTA is emerging. As the geopolitical risk posed by North Korea intensifies, in addition to domestic policy management, foreign policy issues are shaping up to present the new administration with significant challenges.

(Kentaro Matsuda)



Thailand *Policy interest rate stays unchanged*

■ June consumer prices grow negatively, year on year

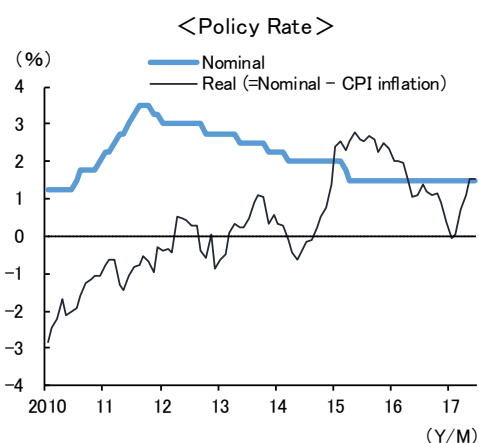
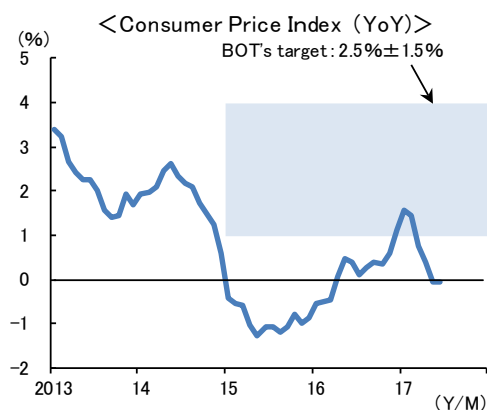
While a healthy employment situation underpins consumption growth, the Thai economy continues to recover gradually, driven by the recovery in export growth. On the other hand, against the backdrop of slowing food inflation and a decline in energy prices, etc., the consumer price increase rate (compared to the same period in the previous year), with the exception of the year end, 2016, continues to fall below the lower limit of Central Bank's target ($2.5\% \pm 1.5\%$). Food price growth converted to negative growth, in response to which the composite index for June, 2017, grew negatively for the second consecutive month, albeit by the wafer thin margin of -0.05%, compared to the same period in the previous year. The core inflation index, excluding food and energy, was 0.4%, similarly, falling below the target range (0.5% to 3.0%).

While low inflation does have the merit of promoting consumption by increasing real purchasing power, if deflation takes root, it will discourage consumption through the mechanisms of the blunting of wage increase rates, the pushing up of real household debt levels, and increases in real interest rates. Therefore, attention needs to be paid when inflation falls significantly below the target for a prolonged length of time. In fact, signs of the impact that low inflation has on wage increase rates are already being seen, with the average private sector wage in the January to March quarter of 2017 growing -0.7%, compared to the same period in the previous year, the first negative growth since the October to December quarter of 2009, when the economy suffered significantly in the wake of the Lehman shock. In terms of the external environment, the expansion of the current surplus following the improvement in export growth, the stabilization of the domestic political situation and the progress of intra-regional integration within ASEAN have encouraged an increase in investment from overseas, and there is a risk that these and other factors will result in a stronger baht and consequent further downward pressure on commodity prices. Based on these factors, in March of this year, the closing statement of the IMF annual meeting recommended that Thailand implement monetary relaxation, in order to escape the vicious cycle of low inflation and low growth.

■ Central Bank keeps policy interest rate unchanged

However, despite the recommendation by the IMF, Central Bank has maintained a cautious attitude with regard to any further easing of the monetary policy, concerned as it is about further increases in household debt levels and a rapid rise in real estate prices. The result has been that the policy interest rate (overnight repo rate) has been kept unchanged since it was lowered to 1.5% in April, 2015, but that real interest rates are rising, due to falling commodity prices.

Central Bank is attempting to avoid deflationary risk by restraining baht appreciation through foreign exchange intervention and the relaxation of foreign exchange regulations, all the while keeping the policy interest rate unchanged. In order to escape from inflation that falls below the targets, in addition to these initiatives, it will be important to push ahead steadily with policies to upgrade Thai industry, and structural reform including infrastructure development, thereby enhancing growth expectation and inflationary expectation.



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(Shotaro Kumagai)

China Q2 growth rate 6.9%

■ Economy continues to recover, led by domestic demand

China's real GDP growth rate for the April to June quarter was 6.9%, compared to the same period in the previous year, the same year on year growth rate as the January to March quarter. However, the growth rate compared to the previous period was 1.7%, accelerating from the 1.3% quarter on quarter growth posted in the January to March quarter. Looking at the performance of major economic indices, it may be judged that both domestic and foreign demand are picking up.

It was consumption that did the most to drive economic growth. Supported by the sustained expansion of online sales, June's nominal retail sales grew 11.0%, compared to the same period in the previous year, posting the highest rate of growth since December of 2015. As can be seen from the rise in the consumer confidence index, improved consumer sentiment as a result of the raising of the minimum wage, etc., may be cited as part of the motive force behind this increase.

In terms of investments, investment in fixed assets in the January to June period (excluding rural households) grew 8.6%, compared to the same period in the previous year, and the declining trend of the investment growth rate appeared to have come to a halt. Infrastructure projects continue to be implemented at a strong pace, and the improvement in private sector investment has contributed to the expansion in investments.

Meanwhile, export growth has topped the previous year's levels for four consecutive months since March. In addition to exports to the industrialized economies, exports to new emerging economies and resource rich economies are recovering at a stronger pace. However, the contribution of net exports to the growth rate (6.9%) in the January to June period was 0.3% points, small in comparison with that of investments and consumption. Though export growth has increased, the growth of domestic demand has also led to an acceleration in the pace of import growth.

■ Deceleration expected due to monetary tightening from latter half of year

Looking forward to the performance of the economy from the latter half of the year onwards, it looks like structural adjustment and a tighter monetary position on the part of the administration of Xi Jinping in order to curb the asset bubble will cause a gradual slowing in the growth rate. The policy of strengthening financial supervision that was launched at the State Financial Operations Conference, held in early July, may be said to be a representation of that. The fact that the growth rate in the first half of the year exceeded the year's target (approx. 6.5%), and other signs of an economy that appears to be continuing to overheat, are factors that have contributed to the change to a tighter monetary stance.

It is assumed that the Xi Jinping administration will try to reinforce its power base at the National Congress of the Communist Party of China, to be held in the autumn, and use this as a foundation upon which to push forward with the reform of the financial system, for example, and the restructuring of over-producing industries. These efforts in themselves are indispensable to the sustainable development of the Chinese economy. However, the risk that various monetary tightening policies will go too far as a result of over-emphasis on reform of the financial markets and a shift in the industrial structure cannot be denied. In that case, there is a growing possibility that a sharp fall in real estate and financial asset prices will occur, and that the economy will change to recession. All eyes will be on whether the Xi Jinping administration, in its second term, can manage economic policy in response to the economic situation, all the while maintaining balance between the maintenance of stable economic growth and the furtherance of structural reform.

(Junya Sano)

