

# ASIA MONTHLY

## October 2020

<i>Topics</i>	<i>Digitization in India</i> .....	1
<i>Topics</i>	<i>Can we really shift away from our “dependence on China”?</i> .....	3



<https://www.jri.co.jp/english/periodical/asia/>

This report is the revised English version of the October 2020 issue of the original Japanese version (published 29th Sep.).

This report is intended solely for informational purposes and should not be interpreted as an inducement to trade in any way. All information in this report is provided "as is", with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability and fitness for a particular purpose. In no event will JRI, its officers or employees be liable to you or anyone else for any decision made or action taken in reliance on the information in this report or for any damages, even if we are advised of the possibility of such damages. JRI reserves the right to suspend operation of, or change the contents of, the report at any time without prior notification. JRI is not obliged to alter or update the information in the report, including without limitation any projection or other forward looking statement contained therein.

## Topics Digitization in India

Digitization is making steady progress in India. The number of Internet services subscribers has exceeded 700 million. The government is also promoting digitization to improve the efficiency of society as a whole, and has recently been working on digitizing the medical field.

### ■ The spread of smartphones increasing Internet usage

India has seen steady progress in digitization in recent years. The number of Internet subscribers increased by 450 million over five years, from 270 million in 2014 to 720 million in 2019 (Telecom Regulatory Authority of India). The number of users who use the Internet at least once a month surpassed 500 million for the first time in 2019 (Internet and Mobile Association of India). Most access to the Internet is through smartphones. In India, the proliferation of smartphones over the past few years, fueled by low-price devices as well as mobile phone charges that have fallen to the world's lowest levels, have led to an increase in Internet usage.

The most common use of the Internet is for social networking services (SNS), followed by entertainment, such as listening to music and watching movies. Ride-hailing apps have become popular, not only for car taxis but also for motorbike taxis and auto-rickshaws (three-wheel taxis), and are becoming a daily staple, especially in urban areas. The use of E-Commerce is also gradually increasing, and the EC adoption rate (E-Commerce as a percentage of total retail sales) is now 5% (India Brand Equity Foundation, 2020), approaching that of Japan at 6.8% (Ministry of Economy, Trade and Industry, 2019).

However, the spread of electronic payments has been somewhat slow. While electronic payment methods, such as debit cards and electronic money, are becoming the dominant means of payment on the Internet, cash still dominates the vast majority of payments made in physical stores. In 2016, as part of the government's measures against the black-market economy, the use of large banknotes, which account for 86% of banknotes in circulation, was abolished. Immediately following this, the use of electronic payments temporarily increased due to cash shortages, but after a while people went back to using cash and electronic payments did not take root. QR code payments, which led China to become a cashless country, are also growing in India, but so far they haven't seen the explosive growth that occurred in China.

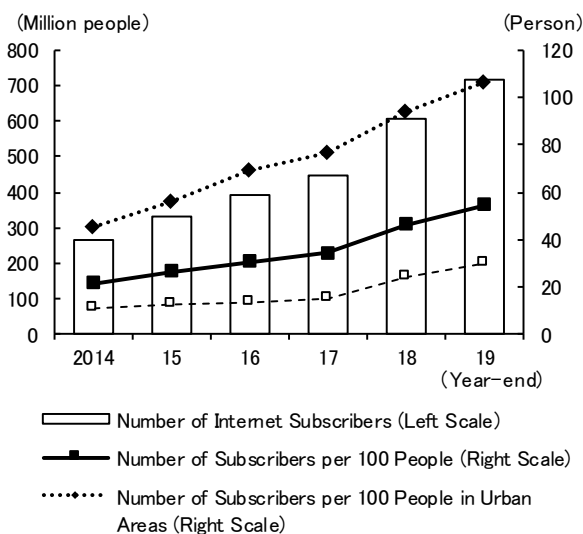
In response to the spread of the novel coronavirus in India, a nationwide lockdown was carried out over a long period of time, which was one of the strictest measures in the world implemented to stop the spread of the virus. As a result, the shift from physical transactions to online transactions accelerated in a number of areas, and the use of electronic payments also grew rapidly. We will need to watch closely whether this trend will continue even after the spread of the novel coronavirus subsides.

### ■ Digitization promoted by the government

The government has been promoting digitization in India to improve the efficiency of society as a whole. A campaign named "Digital India," which was launched in 2015, set three goals: (i) to provide digital infrastructure to all citizens; (ii) to provide government services on demand; and (iii) to empower the citizens through digitization.

One of the measures for digitization implemented by the government is the "JAM Trinity" project, an

<Number of Internet Subscribers in India>



Source: Telecom Regulatory Authority of India, "Indian Telecom Services Performance Indicator Report"

initiative to enable low-income earners to open basic bank accounts (Jan Dhan Yojana), link them with a national ID (Aadhaar), and make them accessible on mobile devices (Mobile). The objective is to provide social security benefits and subsidies directly to recipients. Thanks to this project, the government was able to quickly provide cash to 200 million low-income women as a countermeasure against the novel coronavirus.

The government has recently been working on digitizing healthcare to improve India's poor healthcare situation. As part of this effort, the Health ID initiative was launched. This system sets a Health ID corresponding to each person, links it with their medical information, and with their consent, shares it with hospitals and doctors. The system will initially be on a voluntary basis, and will be piloted in six union territories. The initiative is ambitious even from a global perspective. The government must overcome various challenges in bringing it to fruition, but if successful, it is expected to become a model for electronically sharing medical information on a national basis.

#### <Overview of India's Health ID Initiative>

The pillar of the "National Digital Health Mission" by the Modi Administration

A unique National Health ID is set for each citizen

- At present, it is optional, but will be set for all citizens eventually
- Health ID is tied to National ID (Aadhaar) or mobile number

Health ID links to personal medical information

- Health condition, diagnosis, prescription, discharge summary, etc.

Medical information is stored in cloud-based lockers

- Lockers owned by individuals
- Individuals can view their medical information in apps on mobile devices or on websites

Individuals share medical data with doctors and hospitals

- What to share and how long to share are decided by individuals

Source: Prepared by The Japan Research Institute, Limited based on various media reports

#### ■ Business opportunities are growing

The digital revolution in India is still only halfway there. As noted above, the absolute number of Internet subscribers is high, but it still represents only 54.3 per 100 people. In addition, the number of Internet subscribers is only 23.9 per 100 people in rural areas, indicating that the gap between urban and rural areas remains significant. The EC adoption rate is far lower than China's 20.7%, (Ministry of Commerce of China, 2019). India still has much room for digitization, and as digitization progresses in various fields, available data will increase explosively on the back of a population of 1.3 billion.

Despite India's stagnant economy and the novel coronavirus pandemic, leading IT companies mainly in the United States but also in other countries around the world have accelerated their investments in India this year. A series of plans was announced, including massive investment in local IT companies in India, the launch of a large-scale fund for the development of digital infrastructure, and support for the digitization of local SMEs. In addition to expectations for India's digitalization, it is anticipated that the deterioration of India-China relations will reduce the activities of Chinese IT companies, which have a large presence in India, thus creating new business opportunities. It can be said that the opportunity to reap the fruits of India's digitalization by being involved in this process is greater than ever.

(Kaori Iwasaki)

## Topics Can we really shift away from our "dependence on China"?

Triggered by the novel coronavirus pandemic, there have been active discussions on reviewing the supply chain, particularly how to shift away from our "dependence on China." However, on paper, this is not so easy or even rational to do.

### ■ Globalization will begin a "reverse rotation"

The spread of the novel coronavirus has exposed the vulnerability of the global supply chain, which emphasizes efficiency. Hubei Province, the source of the infection, has the fourth largest concentration of automobile production companies in China after Guangdong Province, Jilin Province, and Shanghai City, so the impact of the lockdown of Wuhan City and other major cities in Hubei Province quickly spread throughout the world. The delay in procuring parts from China forced Japanese, Korean and European automakers to temporarily adjust their production.

As a result, a review of the supply chain has emerged as an urgent issue not only in Japan but also in Europe and the United States. In the review, since the longer the supply chain is, the more vulnerable it is to the risk of disruption, the dominant opinion is that the supply chain should be shortened by shifting from offshoring to reshoring production bases. The claim that globalization will begin a "reverse rotation" and shape a new post-coronavirus supply chain is persuasive.

A survey of 3,000 people working for listed companies conducted by the Japan Center for Economic Research and Nikkei Inc. in September found that 59.6% of respondents supported the government's policy of returning to domestic production. In addition, 41.2% said China's importance as a production base would decline. Since reshoring inevitably leads to a review of China's role at the center of the global supply chain, it is natural to think that the shift away from "dependence on China" will accelerate.

### ■ What will the future trends be in reshoring and decentralization?

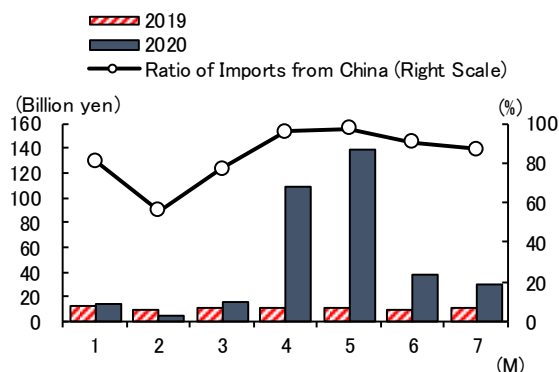
Will reshoring really progress in the future? In April, the Japanese government announced an emergency economic package to combat the novel coronavirus, saying that it would actively support the expansion of domestic production capacity, including the return of production bases to Japan. In response, nonwoven masks and other products began to be manufactured domestically. However, this does not mean that all masks will be made in Japan.

Japan imported 10 times and 13 times as many masks in April and May 2020, respectively, compared to the same months of the previous year, with most imports coming from China. As the ratio of domestically produced masks was estimated to be only about 30% in 2019, it cannot be said that the shift away from "dependence on China" is proceeding steadily. It has been reported that domestic mask production in Germany failed due to a series of withdrawals by domestic mask makers. Domestic manufacturers are required to take a strategy based on competition with cheaper Chinese products.

Japan's emergency economic package supports not only the return of production bases to Japan but also their diversification. When production is concentrated in a single location, the supply chain becomes vulnerable, so diversification is intended to decentralize production bases. Although no specific countries are mentioned in the policy, it is clear that the intention is to disperse production bases concentrated in China to ASEAN and other countries.

The trend toward decentralization is more evident in the United States, where relations with China are deteriorating. The graph below shows the year-on-year growth rate of U.S. imports from major Asian countries and regions on the horizontal axis and the following year's import growth rate on the vertical axis. The value above the dotted line indicates an increase in imports from the country or region in question. The size of

<Changes in Japan's Mask Imports Between January and July 2020>



Source: Prepared by The Japan Research Institute, Limited based on trade statistics of the Ministry of Finance

Note: Nonwoven masks are designated HS630790029 (however, suit covers, paper yarn woven baskets, and blanket wrappers are also included).

the bubble indicates the size of the import increase or decrease (a dark color indicates a decrease, while a light color indicates an increase). In 2019, U.S. imports from China decreased by 16.2%, or 87.6 billion dollars, year-on-year, while those from Vietnam increased by 35.5%, or 17.5 billion dollars, year-on-year, and those from Taiwan increased by 18.6%, or 8.5 billion dollars, year-on-year. This can be understood to reflect the dispersal to Vietnam and Taiwan of export bases to the United States.

However, decentralization does not necessarily mean that the shift away from "dependence on China" has progressed. According to the value-added trade statistics of the Organisation for Economic Co-operation and Development (OECD), an amount equivalent to 20% of Vietnam's exports of textiles and electronic equipment to the United States comes from China as raw materials and parts. Therefore, the decline in U.S. imports from China does not necessarily mean that U.S. dependence on China has declined. Moreover, U.S. imports from Vietnam and Taiwan slowed considerably between January and June 2020, indicating that the spread of the novel coronavirus has not had the same impact on diversification compared to tariff hikes.

### ■ Why will the shift away from "dependence on China" most likely not progress as expected?

The shift away from "dependence on China" is not necessarily rational for the following reasons, and may not progress as expected. A review of the supply chain should proceed with caution after examining these issues.

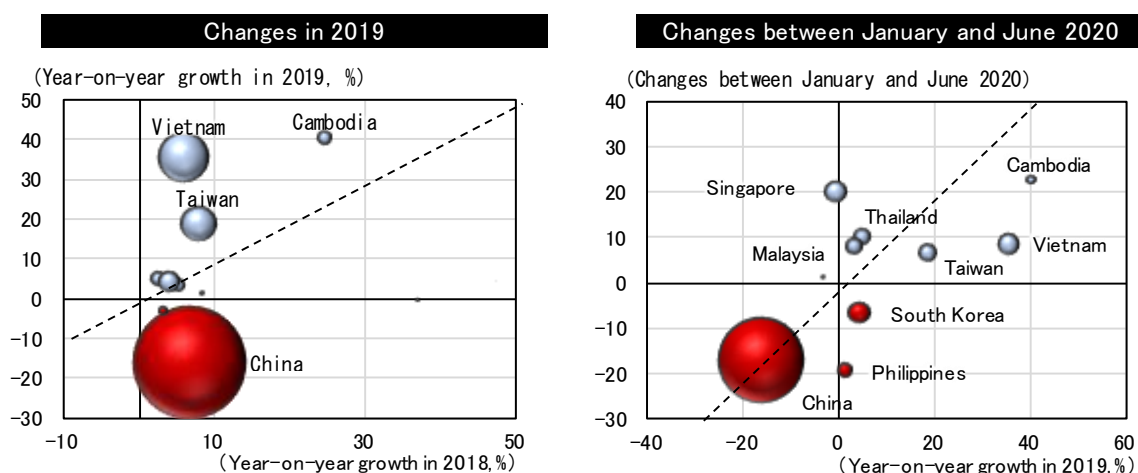
First, China's industrial clusters are so robust that no country can currently replace them. Jörg Wuttke, President of the European Union Chamber of Commerce in China, said in May that China stands out in terms of industrial agglomeration, human resources, technology, and infrastructure, emphasizing that there are larger demerits for decentralization amid the trend where the merits of decentralization are highlighted.

Second, China's importance as a market remains unchanged. According to the World Economic Outlook for June released by the International Monetary Fund (IMF), China will maintain a growth rate of +1.0% in 2020, while all developed countries will post negative growth rates. China is an essential market in terms of scale and growth.

Third, there is a low possibility that a second wave of coronavirus infection will impair China's production capacity. Although China was the starting point for the spread of infection, it is also the most successful country in controlling it. Because infectious diseases do not involve physical damage to production facilities or transportation infrastructure, as with earthquakes and floods, China's production strengths in terms of scale, efficiency, and mobility, as seen in the case of masks, have not been lost.

(Yuji Miura)

### <Changes in U.S. Imports from Major Asian Countries and Regions>



Source: Prepared by The Japan Research Institute, Limited based on CEIC (the original consists of import statistics from the United States Census Bureau)

Note: The size of the bubble indicates the size of the import increase or decrease on a year-on-year basis; dark color indicates negative growth (decrease in imports).