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Topics *What is China's new "dual circulation" development model?*

In July, Chinese President Xi Jinping announced that the country will "aim to create a new development model that promotes both domestic and international cycles with a focus on the domestic general cycle." The aim of the model is to strengthen the supply chain, expand consumption and promote exports.

■ "Dual circulation" has been attracting attention as a keyword

Recently, "dual circulation" has come to attract attention as a keyword to indicate the Xi Jinping administration's new economic development model. This was triggered by a decision made by the Politburo Standing Committee (PSC) on May 14, 2020, which stated, "We will build a new development model in which dual circulation at home and abroad is mutually promoted by fully taking advantage of domestic demand in our country, which has an extremely large market and much room for further expansion."

When Chinese President Xi Jinping said at a meeting with business executives on July 21, "We aim to create a new development model that promotes both domestic and international cycles with a focus on the domestic general cycle," intellectuals at home and abroad began to express their various interpretations of the dual circulation concept. President Xi reiterated this in an important statement issued on October 14 at a ceremony commemorating the 40th anniversary of the establishment of the Shenzhen Special Economic Zone. At present, however, the government has not explained the dual circulation concept in detail.

Like the "Belt and Road Initiative (BRI)," dual circulation may become a major topic of conversation around the world, but remain a vague concept. This will not only cause people to have a variety of expectations, but will also serve the role of granting authority to President Xi. It is noteworthy that Professor Akio Takahara of the University of Tokyo points out that "it's not clear who coined the BRI. However, it is well known that it has created a great sensation abroad since the BRI concept was proposed. Although its identity is not clear, the concept sounds nice and obscure enough to stir people's imagination and provide hope." ("China's Foreign Policy and World Order", Showado, 2020, p. 21.)

According to Professor Takahara, the BRI concept has the following three aims: shifting emphasis from the "America First" policy to the "Eurasian First" policy, which includes neighboring regions; eliminating excess production and construction capacity; and granting President Xi authority. So, what is dual circulation? And what is its purpose?

■ China is set to reinforce its supply chain

I think the dual circulation concept has three aims.

The first is to strengthen the supply chain. Due to the Trump administration's restrictions on the export of production equipment and parts to Huawei and Semiconductor Manufacturing International Corporation (SMIC), risk of disruption in the development of 5G base stations and the production of semiconductors has already been realized, resulting in slowing growth in the high-tech sector. The U.S.-China conflict is likely to intensify after the U.S. presidential election. The United States is wary of a rising China in political, economic, diplomatic, and security areas, and is focused on the battle particularly in the high-tech sector. U.S. presidential debates have shown that both Trump and Biden will take a tough stand against China. In the future, food and energy supplies may also be subject to sanctions. In addition, it is possible for the U.S. government to restrict the U.S. dollar supply, which would have a significant impact on trade with Chinese companies.

Against this backdrop, the Xi administration will work to strengthen the supply chain. The focus will be to reduce China's dependence on the United States for strategic materials such as semiconductors, food and energy by expanding the subsidy system and strengthening relations with resource-rich countries as well as emerging nations. It is also expected that China will redouble its efforts to internationalize the yuan, including the use of digital yuan, in trade settlements.

In light of the U.S.-China decoupling theory prevailing in the United States, it is necessary to keep in mind the possibility that the world will be divided into two groups in the fields of high-tech, resources and international currencies—a group comprising Europe, the United States and Japan among others, and a group centered around China.

■ China's consumption is expanding

The second aim of dual circulation is to expand consumption. In order for China to achieve long-term sustainable economic development, it is essential to shift from an investment-led economy to a consumption-led one. China's per capita GDP is about 10,000 dollars, and there is great potential for

income growth. As of 2019, the ratio of final consumption to GDP was 55%, while that of personal consumption to GDP was only 39%. From the perspective of international comparison, there is considerable room for an increase in the consumption ratio. Chinese households tend to accumulate savings for retirement and child-rearing, and the savings rate is at a high level internationally.

The reasons for this include a delay in the development of social security, the shorter average period of employment and unstable employment conditions amid unfair competition faced by private enterprises, and the inability to receive public nursing care and childcare services in cities where people live due to restrictions on the family registration system. The Xi Jinping administration has been working to raise productivity and income level through innovation, improve the social security system, and reform the family registration system. Although these efforts have produced some results, much room for improvement remains.

■ China is promoting exports

The third aim of dual circulation is to promote exports. China will continue to focus its efforts on attracting foreign investment, acquiring human resources, and attracting foreign markets through these efforts. It is true that China has a large potential market with a population of 1.4 billion, and it is conceivable that China will develop by placing greater emphasis on its domestic economy. However, ignoring superior technology, human resources and discerning consumers in developed countries as well as large potential markets in emerging countries could significantly lower China's economic growth ceiling. In order to achieve long-term economic growth, it is necessary to exchange human resources, trade and investment with the rest of the world, rather than solely focus on the domestic market.

The Xi administration seems to have the same idea. The original idea for dual circulation came from the concept of "international general circulation" in the late 1980s which was proposed by Wang Jian, a researcher at the former State Planning Commission (current National Development and Reform Commission (NDRC)). The concept is to foster labor-intensive industries by demonstrating the superiority of labor, actively attract foreign companies, utilize foreign capital and markets, and achieve significant growth for both imports and exports. Indeed, the Chinese economy thereafter achieved high growth through such a development model.

However, rising labor costs have increased the need to shift to higher value-added industries rather than relying on labor-intensive industries. Moreover, the key to attracting foreign firms is shifting from cheap labor to the size of Chinese markets. The presence of Chinese capital in the world has also increased dramatically since the late 1980s. The old development model based on the concept of international general circulation seems to be becoming unsuitable.

For this reason, the Xi administration could have chosen to name the new development model 'domestic general circulation.' In such a case, it becomes clear at a glance that the government would shift from a development model in which exports and investment drive economic growth to a model in which consumption drives growth.

However, the Xi administration has named the new development model 'dual circulation.' The People's Daily and other government-affiliated media have strongly warned that China should not fall into a "closed domestic cycle." It also announced a policy to strongly support companies that are developing "Chinese Services" such as face recognition function for video cameras using AI and big data, and smart city utilizing cloud computing. The Xi administration is expected to aim to create a development model in which exports, investment and consumption can lead economic growth in a balanced manner through "dual circulation."

(Shinichi Seki)

Topics Covid-19 pandemic has hit hardly the ASEAN employment environment

Given the latent unemployment figures and widening disparity, the employment environment in ASEAN may be more severe than the unemployment rate indicates. Although each country has come up with its own countermeasures, it will take time to restore employment.

■ The employment environment in ASEAN is deteriorating

As the spread of the novel coronavirus continues, the employment environment in ASEAN has drastically deteriorated.

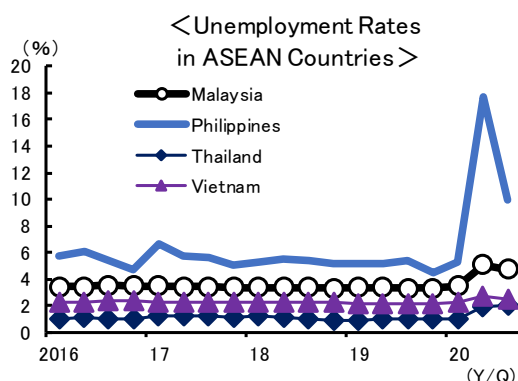
Unemployment rates in ASEAN countries rose in the April-June 2020 period. In the Philippines, the unemployment rate was 17.7%, the worst level ever under current statistics. After this period, restrictions on activities were gradually eased and the unemployment rate fell in the July-September period. However, it remains significantly high compared to the same period of the previous year, and the severity of the employment environment has not changed. As for the unemployment rate in Indonesia, which has the largest economy and population in the ASEAN region, the data is released only for February and August each year, and the figure for August 2020 is not yet available. It is therefore difficult to confirm the impact of the coronavirus pandemic on Indonesia's employment statistics. However, based on the unemployment rate in February (5.0%) and the National Development Planning Agency's 2020 full-year unemployment rate forecast (9.2%), it is estimated that the unemployment rate in August will reach around 14%.

In recent years, against the backdrop of the rise of the middle class and intensification of the U.S.-China confrontation, an increasing number of Japanese companies have been watching developments in the ASEAN economy. However, the employment situation, which has an impact on consumer purchasing power and social conditions, is also an important factor in looking ahead. The impact of the spread of the novel coronavirus on ASEAN employment is summarized below, and future prospects will be discussed.

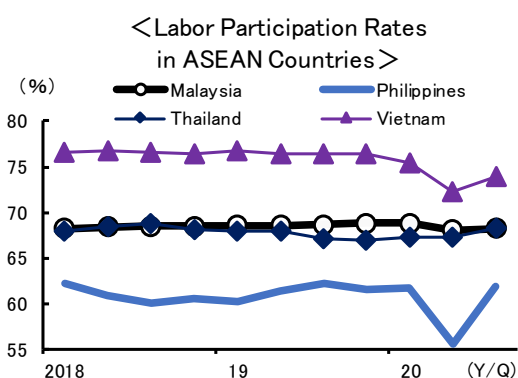
■ The employment situation is worse than the unemployment rate indicates

The sharp downturn in the economy caused by the outbreak of the novel coronavirus has resulted in two characteristic movements in the labor market.

The first is the increase in latent unemployment. Uncertainty over the future due to prolonged restrictions on economic activity may have resulted in more workers withdrawing from the labor market than during past recessions in many countries, including in Asia. In fact, in Malaysia and Vietnam, the labor participation rate from the April-June 2020 period was lower than the same period of the previous year. If the latent unemployment rate for the July-September period is calculated by regarding the year-on-year difference in the labor participation rate as latent unemployment, then the latent unemployment rate is 5.2% (official unemployment rate: 4.7%) in Malaysia and 5.4% (official unemployment rate: 2.5%) in Vietnam, demonstrating disparity. Although Vietnam in particular has maintained positive growth even amid the coronavirus pandemic, and the negative impact on economic



Source : Each country's statistical department, CEIC
 Note1 : Indonesia is excluded from the graph because its published semi-annually.
 Note2 : Malaysia and Thailand used the July and August statistics for July-September period of 2020.



Source : Each country's statistical department, CEIC
 Note : Malaysia and Thailand used the July and August statistics for July-September period of 2020.

activity is considered to be relatively small, the latent unemployment rate is much higher than the official unemployment rate. In addition to the Philippines, where the official unemployment rate has soared, the employment situation has deteriorated more than the statistics show. Of ASEAN countries, however, Thailand's labor participation rate has not declined exceptionally. This is thought to be due to the fact that the government took measures such as providing unemployment insurance to those who were on furlough regardless of orders from the central and local governments or the decisions of employers, thereby preventing the exit of workers from the labor market.

The second characteristic movement in the labor market is the widening disparity. The upper right chart plots the ratio of the year-on-year difference in the number of workers in Malaysia, the Philippines, Thailand, and Vietnam in the April-June 2020 period by industry on the vertical axis, and the wage gap by industry when the industry average in 2018 is set as 1 on the horizontal axis. Among these industries, the agriculture, forestry and fisheries, wholesale and retail, and other service industries saw a sharp decline in employment. Apart from agriculture, forestry and fisheries industries being affected by structural changes to industrialization and natural disasters, these are the areas in which teleworking is difficult and where activities have been severely affected by the spread of the novel coronavirus. It is noteworthy that wages in these industries are generally lower than the overall average. As for other services, data from the Philippines, Thailand, and Vietnam, for which a data breakdown is available, show that the number of persons in employment for the leisure and entertainment services sector have been declining, with a wage ratio of 0.93 for this sector, which is lower than the average for all industries. Restrictions on activities introduced to control the outbreak of the novel coronavirus may have mainly deprived low-wage workers of employment. As such widening disparity can lead to social unrest and destabilize the political environment, it is an urgent issue for the governments of ASEAN countries to address.

■ It is expected to take a considerable amount of time to improve the employment environment

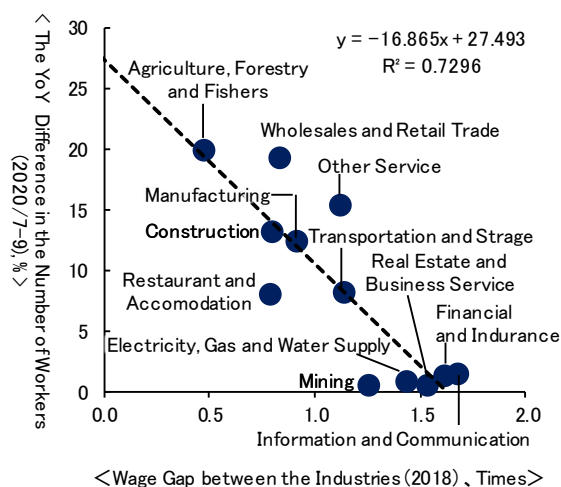
Under these circumstances, the governments of ASEAN countries are making efforts to promote employment. For example, in many countries, the government is helping companies raise funds and maintain employment through tax cuts, reductions in public utility charges, and requests for payment postponements to financial institutions. In the Philippines, the government has also decided to increase the number of jobs related to coronavirus contact tracing.

While the expansion of employment measures is progressing in each country, many measures are seen as safety nets. Measures to stimulate demand, such as boosting domestic tourism and promoting investment in infrastructure, will be important if the government is to increase employment in earnest.

However, the governments of ASEAN countries are highly cautious about the collapse of medical services due to their fragile medical systems, and if there are signs of a rise in new coronavirus cases, they are required to retighten restrictions on activities. Therefore, they have no choice but to be cautious about policies that increase the flow of people. As for infrastructure investment, the administrative capacity of ASEAN countries is lower than that of developed countries, and it is difficult to smoothly implement infrastructure investment within the allocated budget.

Amid continuing economic difficulties, the government's support is indispensable for improving the employment environment in ASEAN countries. However, given their characteristically weak medical systems and poor administrative capacity, we must assume that recovery will take time.

<The Difference in the Number of Workers and the Wage Gap by Industry>



Source : Prepared by The Japan Research Institute, Limited based on each country's statistics, ILO and CEIC
Note : Malaysia, Philippines, Thailand and Vietnam

<Major Employment Measures by ASEAN Countries>

Country	Key Measures
Indonesia	<ul style="list-style-type: none"> ▪ Vocational training and entrepreneurship support for the unemployed and informal sector workers ▪ Funding support for enterprises through various tax cuts including corporate and import taxes, exemption of social insurance premiums, and benefits for micro enterprises, etc.
Malaysia	<ul style="list-style-type: none"> ▪ Wage subsidy programs designed to maintain employment and subsidy programs for companies that employ unemployed persons ▪ Request for deferral of repayment to financial institutions and funding support for companies by means of a loan system with credit guarantee, etc.
Philippines	<ul style="list-style-type: none"> ▪ Funding support through special financing programs for micro, small and medium-sized enterprises which have been affected by the novel coronavirus ▪ Employment of personnel for coronavirus contact tracing and repair of public facilities, employment support for workers who have returned from overseas, etc.
Thailand	<ul style="list-style-type: none"> ▪ Unemployment insurance benefits and vocational training for those on furlough or temporarily unemployed ▪ Funding support such as low-interest loans for businesses, etc.
Vietnam	<ul style="list-style-type: none"> ▪ Funding support through interest-free loans, social insurance premiums and tax cuts ▪ Request to banks to change the terms of the loan, etc.

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

(Yuta Tsukada)