

ASIA MONTHLY

February 2022

<i>Topics</i>	<i>Why dose Xi Jinping administration rush to common prosperity?.....</i>	<i>1</i>
<i>Topics</i>	<i>Indonesia aims at industrial advancement through EVs</i>	<i>3</i>



<https://www.jri.co.jp/en/reports/asia/>

This report is the revised English version of the February 2022 issue of the original Japanese version (published 27th Jan.).

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 and its interviewee 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 Why dose Xi Jinping administration rush to common prosperity?

The Xi Jinping administration is promoting common prosperity, knowing that it will put downward pressure on the economy. The reason for this seems to be a decrease in the public's willingness to tolerate income inequality, caused by the transformation of society. This decrease in tolerance is symbolized by the emergence of “内卷” (nei juan) and “躺平” (tang ping).

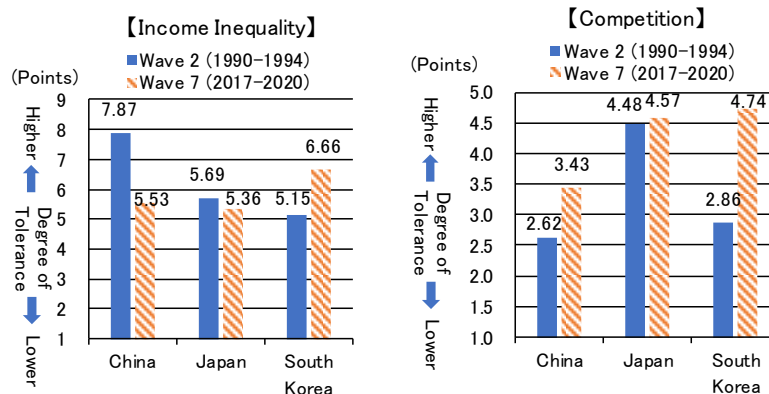
■ Tolerance for inequality has declined

“共同富裕” (gongtong fuyu, meaning common prosperity) refers to the efforts made to create a society in which all people can share in its affluence, and it can be interpreted as an attempt to boost confidence in the Communist Party by addressing issues of inequality, such as income disparity, that have been put on the back burner under China's rapid economic development. On the other hand, common prosperity has been viewed as a factor that puts downward pressure on the economy. At the Communist Party of China (CPC) Central Committee for Financial and Economic Affairs meeting held in August 2021, referring to the three industries of real estate development, learning support, and information technology, the government indicated that “the logic for developing (these industries) is undergoing a significant change and their contribution to growth will decline.” As of September 2021, 180,000 cram schools, which were made nonprofit, and 384 real estate development companies, for which lending regulations were tightened, had gone bankrupt. In the tech industry, many companies are also facing financial difficulties due to antitrust fines and the protection of gig workers' rights.

Why is the Xi Jinping administration trying to promote common prosperity, despite the risk that it will become a negative factor for the economy? This issue is easier to understand when approached from the perspective of tolerance for inequality. It is the World Values Survey (WVS) that clarifies public tolerance for inequality in China. The WVS is an international project that examines the cultural, moral, religious, and political values of people from different countries, and China has been participating in the survey from an early stage.

The WVS measures tolerance for income inequality by presenting opposing views of income inequality—from “Incomes should be more equal” (Score 1) to “Income should be an incentive for individual efforts” (Score 10)—and letting respondents indicate where their views fall. Comparing three Asian countries (China, Japan, and South Korea), it is clear that public tolerance for income inequality has declined significantly in China. This is in line with the declining tolerance for competition and suggests that China is transforming into a society that is less receptive to competition.

<Tolerance for Income Inequality and Competition (Median Value)>



Source: Prepared by The Japan Research Institute, Limited based on WVS

Note 1: The figure after “Wave” indicates the number of the survey. The figures in parentheses indicate the survey period.

Note 2: For the graph on the left, the higher the value, the higher the tolerance for income inequality, while for the graph on the right, the higher the value, the lower the tolerance for competition.

■ Society has been transforming due to the spread of social media

Such transformation is believed to have occurred due to a shift in the center of gravity of inequality from income to assets as well as a expansion of the comparison target for measuring disparity with the spread of social networking services (SNS). In a survey of migrant workers (rural household registration holders who migrated to the city for work purposes) conducted by the National Bureau of Statistics in 2010, migrant workers selected the following comparison targets to judge their own living conditions, in descending order: (1) migrant workers in the same city (23.6%), (2) urban household registration holders (23.4%), and (3) rural residents in their hometown (19.3%). Similar surveys have not been conducted

since then, but the spread of SNS seems to have completely upended this situation.

WeChat, an instant messenger app developed by Tencent with more than one billion users, was launched in 2011. Weibo, which has more than 500 million users, was launched in 2009. China saw explosive growth in social networking services in around 2010, and these services have given users opportunities to get a glimpse into the daily lives of an unspecified number of strangers.

Since much of the information appearing on SNS constitutes “success stories,” it sometimes heightens viewers’ feelings of inferiority. The Royal Society for Public Health (RSPH) of the U.K. reported in May 2017 that many young people develop negative feelings of anxiety and loneliness as well as an inferiority complex through consuming social media. It is not surprising that similar effects have occurred in China, reducing the tolerance for inequality.

The negative influence of social networking services on society can be seen in the fact that pessimistic sentiments such as “内卷” (nei juan, meaning involution) and “躺平” (tang ping, meaning lying flat) are prevalent among young people. 内卷 (nei juan) refers to the situation where the value of any effort made is diminished because everyone else is also competing fiercely, making it impossible to achieve worthwhile results. 躺平 (tang ping) refers to a lifestyle adopted by those who reject the pursuit of materialism and are reluctant to compete, work, get married or have children.

The reason for the rise in 内卷 (nei juan) and 躺平 (tang ping) is that the environment surrounding young people has become more difficult. One example of this is the difficulty in finding employment. According to the National Bureau of Statistics of China, the unemployment rate for urban youth aged between 16 and 24 was 15.4% in June 2021, and the unemployment rate for those aged between 20 and 24 and older age groups was higher. The Bureau did not give specific figures, apparently because the unemployment rate was much higher than the previous year’s 19.3%.

Another example is that long working hours, referred to as “996,” have become common. The term 996 is shorthand for working from 9:00 a.m. to 9:00 p.m. six days a week. With the founders of major tech companies referring to workers willing to do these hours as their ideal employees, the 996 schedule has become common, especially in the tech industry. A review of this practice has only just begun, with the government and the Supreme People’s Court ruling 996 illegal in August 2021.

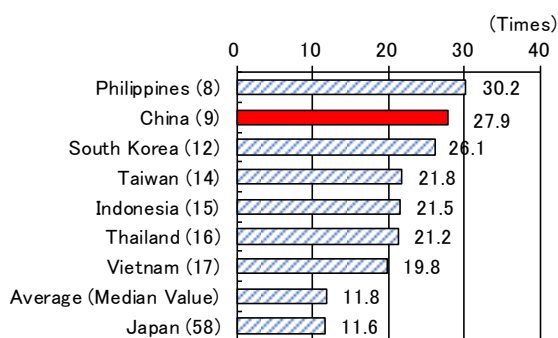
A final example is housing loans. According to NUMBEO, a provider of lifestyle-related information for major cities around the world, China’s house-price-to-income ratio (the ratio of house prices to annual income) was at a very high 27.9 times as of June 2021. Furthermore, given the fact that China has consistently ranked high in the house-price-to-income ratio rankings over the past 10 years, houses are becoming unaffordable even for middle-income earners. In China, many people consider marriage as the time to buy a house, and the rise in housing prices is said to be a remote cause of the increase in the number of unmarried people and the declining birth rate.

■ There is another interpretation of common prosperity

Social transformation as symbolized by the rise of 内卷 (nei juan) and 躺平 (tang ping) represents a departure from the society created by the Communist Party, or even a rejection of the leadership itself, and it indicates a failure of the traditional governing mechanism, which was designed to boost confidence in the Communist Party through economic growth and the resulting rise in incomes. The Xi Jinping administration’s haste to achieve common prosperity can be traced to a growing sense of crisis over the issue. In this sense, common prosperity can be interpreted as the search for a new governance mechanism by the Xi Jinping administration, which has realized that the traditional governance mechanism has ceased to function.

(Yuji Miura)

<House-Price-to-Income Ratio of Asian Countries and Regions (As of June 2021)>



Source: Prepared by The Japan Research Institute, Limited based on NUMBEO

Note: Figures in parentheses indicate the ranking among 111 countries/regions.

Topics *Indonesia aims at industrial advancement through EVs*

Indonesia aims at the conversion of its industrial structure with a focus on EV policy. In recent years, the country's EV industry has been attracting increasing attention, with foreign companies in related fields having made significant inroads. But there are also many challenges in terms of the development of markets and related industries.

■ In line with the global shift to EVs, abundant nickel resources have become a weapon

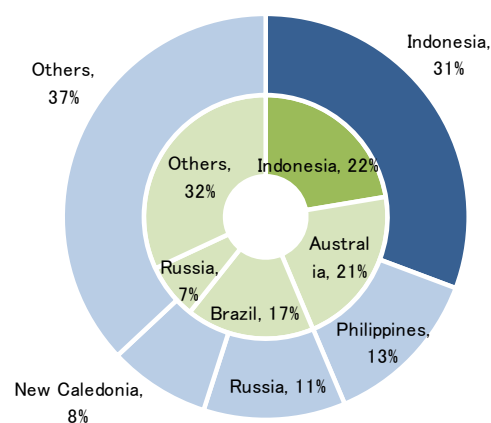
As the world shifts from gasoline-powered vehicles to electric vehicles (EVs), attention is turning to Indonesia, which has the world's largest nickel reserves and is the top producer. At present, nickel is used as an important raw material along with lithium and cobalt in many EV batteries. As the production volume of EVs increases in the future, demand for batteries for them is expected to increase, as is demand for raw materials. The International Energy Agency (IEA) expects nickel demand to be 20 to 25 times greater by 2040 compared to 2020 levels. According to a report on supply chain vulnerabilities for critical products released by the Biden administration, demand for nickel as a cathode material is increasing in line with efforts to improve the energy density of batteries, and the supply and demand balance of the metal may become extremely tight in the next three to seven years.

■ Inward direct investment related to EVs is becoming active

The Indonesian government has been promoting the development of EV-related industries that make use of the country's abundant nickel resources, and aims to shift its industrial structure away from its conventional reliance on natural resources in order to focus on high-value-added sectors. As part of these efforts, the government enacted Presidential Regulation regarding the Acceleration of Battery Electric Vehicle Programs for Road Transportation in 2019 and implemented a nickel embargo in 2020, thereby encouraging a shift to more domestic smelting. In 2021, the government established Indonesia Battery Corporation, a state-owned enterprise, with the aim of developing the economy as a production base for EV batteries. In this way, Indonesia is aiming to build an ambitious ecosystem that will perform everything from nickel production to smelting, battery manufacturing for EVs, EV production, and battery recycling.

The Indonesian government estimates the amount of investment required for the accumulation of the EV industry at 35 billion dollars. "With regard to the plan over the next five to ten years to build lithium-ion batteries and

<Nickel Reserves (Inner Circle) and Production (Outer Circle) by Region (2020)>



Source: Prepared by The Japan Research Institute, Limited based on U.S. Geological Survey

<Principal EV-related Policies in Indonesia>

Policies related to EV production	
Reduction and exemption of corporate tax for investments that meet certain conditions under the Investment Law.	
Reduction of import duties on imports of EV-related components.	
Regulations to gradually increase the local procurement rate of raw materials for EV production.	
The production target (including HVs) is 400,000 units in 2025, 600,000 units in 2030, and 1 million units in 2035.	
Policies related to purchasing	
Luxury tax benefits shifted from low-cost green car (LCGC) to electric vehicles (EVs).	
Among EVs, BEVs and FCVs are favored over HVs and PHVs.	
Policies related to EV battery supply chain	
The export of unprocessed nickel is prohibited in order to promote smelting, which will increase the added value of resources.	
Established a state-owned EV battery manufacturing company to produce battery cells for domestic EVs.	

Source: Prepared by The Japan Research Institute, Limited based on information

EV factories in Indonesia, foreign investment has already been attracted,” Coordinating Minister for Maritime Affairs and Investment Luhut Binsar Pandjaitan has said.

In response to Indonesia’s policy, foreign companies including those from China and South Korea have been implementing EV-related investments and announcing plans. China’s Contemporary Amperex Technology Co., Limited (CATL), the world’s leading manufacturer of EV batteries, plans to build an EV battery plant that is scheduled to start operation in 2024. In addition to starting EV production in Indonesia from March 2022, South Korea’s Hyundai Motor is also constructing a factory for EV batteries in a joint venture with LG Chem, which has the world’s second largest EV battery market share, with a plan to build an integrated production platform covering everything from EV batteries to finished EVs.

■ There are a lot of problems to be solved in order to upgrade the industrial structure

However, the domestic EV market is still underdeveloped, and there is a possibility that insufficient policies to attract foreign capital will hinder Indonesia’s efforts to transform its industrial structure.

The EV market in Indonesia is quite small. Even when combining sales of hybrid vehicles (HVs), plug-in hybrid vehicles (PHEVs), and battery EVs (BEVs), EV sales account for less than 0.4% of all new vehicle sales. Given the high price of EVs and the lack of charging infrastructure, it will take time for the EV market expansion to get going. For foreign companies entering the market, it will be necessary in the meantime to export EVs from Indonesia to overseas areas of demand, which will increase the cost disadvantage.

In addition, Indonesia has been promoting industrialization since the 1980s with the aim of upgrading its industrial structure. However, the manufacturing industry’s share of the country’s real GDP has continued to decline since the mid-2000s, and inward direct investment has also stagnated since 2013. The Omnibus Law on Job Creation, which includes the relaxation of restrictions on foreign investment, was enacted in 2020. But Indonesia’s policies to attract foreign investment to the manufacturing industry, such as for the development of infrastructure, are still insufficient.

Meanwhile, in its National Blueprint for Lithium Batteries, released in June 2021, the U.S. Department of Energy (DOE) set a goal of developing nickel-free batteries by 2030 to strengthen the supply chain. It should also be noted that there are uncertainties around the technological innovation of EV batteries, which could pose a major risk to Indonesia’s industrial upgrade policy.

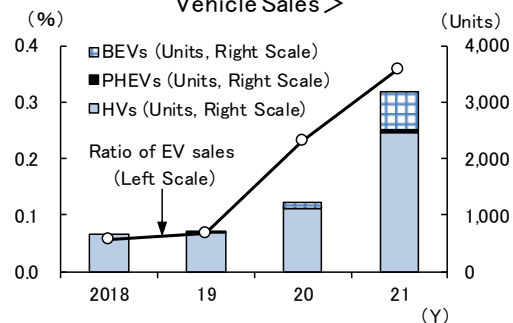
(Mitsuhiro Matsumoto)

<Examples and Plans Concerning EV-related Investments by Foreign Companies>

China	Tsingshan Holding Group and others are building nickel smelters (scheduled to start operation in 2022) CATL plans to build an EV battery plant (scheduled to start operation in 2024) SAIC-GM-Wuling Automobile (SGMW) plans to build a finished vehicle plant
South Korea	Hyundai Motor is building a finished car plant (scheduled to start production in March 2022) Hyundai Motor and LG have started construction of an EV battery plant (mass production scheduled to start in 2024)
Japan	Toyota is considering investment for EV development including HVs Sumitomo Metal Mining plans to build a nickel refinery
Germany	BASF plans to build a nickel smelter (scheduled to start operation in mid 2020s) Volkswagen is considering battery-related investment
Taiwan	Hon Hai plans to build an EV battery plant and an EV plant
U.S.	Tesla is considering building a battery plant
U.K.	U.K. government has announced joint investment in EV battery supply network

Source: Prepared by The Japan Research Institute, Limited based on information announced by the Indonesian government and various companies

<Ratio of Electric Vehicle (EV) sales to New Vehicle Sales>



Source: Prepared by The Japan Research Institute, Limited based on Association of Indonesian Automotive Industries (GAIKINDO)
Note: Ratio of EV sales are based on the total sales of HVs, PHEVs and BEVs.