

ASIA MONTHLY

April 2023

<i>Topics</i>	<i>Will China's measures to tackle its falling birth rate work?</i>	<i>1</i>
<i>Topics</i>	<i>Concerns over prolonged high interest rate in South Korea</i>	<i>4</i>



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

This report is the revised English version of the April 2023 issue of the original Japanese version (published 28th Mar.).

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 Will China's measures to tackle its falling birth rate work?

The Xi Jinping administration has been focusing on measures to combat China's declining birth rate, abolishing the so-called "one-child policy," for example. An increasing number of cities are providing subsidies to households with multiple children. To what extent have these policies been successful? Will China's birth rate stop declining?

■ The total fertility rate is now below that of Japan

China's birth rate is declining at a rapid pace. The rate of natural increase, which represents the change in population per 1,000 people, was -0.06‰ (per mille) in 2022, the first negative rate since 1960, when many people died of starvation due to the failure of the Great Leap Forward. The rate of natural increase is the difference between the death rate and the birth rate. When the birth rate is less than the death rate, it is negative, and the population declines. China's rate of natural increase has declined significantly since 2017, and over the past few years the country's population seems to have suddenly started to fall.

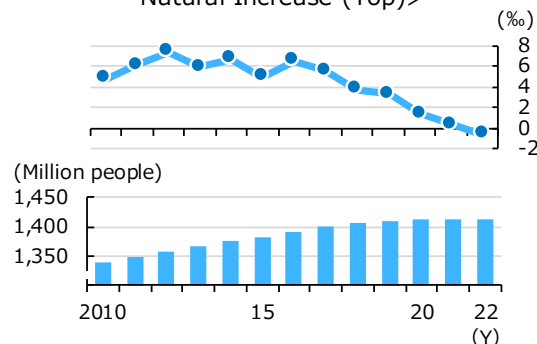
The total fertility rate, which is the number of children a woman has during her lifetime (ages 15-49), is also continuing to decline. The total fertility rate in 2021 was 1.15, a significant drop from 1.64 in 2010 and even lower than Japan's 1.37. Although the recent fall in the total fertility rate has been caused in part by the COVID pandemic, the United Nations, in its World Population Prospects 2022, which was released in July 2022, expects China's total fertility rate to remain below 1.4 until 2050.

■ How effective has the easing of restrictions on births been?

The Xi Jinping administration has become increasingly concerned about the birth rate, which is declining faster than expected, and at the end of 2015 it abolished the "one-child policy" to allow two children, while in July 2021 it announced a policy that permits up to three children. To what extent have these relaxations of restrictions on births been effective?

Although the government has not released definitive figures on the number of births by birth order, estimates suggest that the number of second births in 2016 was up 33.0% from the previous year to 10.15

<China's Population (Bottom) and Rate of Natural Increase (Top)>



Source: Prepared by JRI based on data from CEIC

Note: Figures for 2010 and 2020 are from the national population census conducted at 10-year intervals. Figures for the years in between are based on sample-based population surveys.

<Births in China by Birth Order>

Year	First Child		Second Child		Third or Subsequent Child		Total	
	Births (unit: 10,000)	%	Births (unit: 10,000)	%	Births (unit: 10,000)	%	Births (unit: 10,000)	%
2013	924	52.0	679	38.2	174	9.8	1,777	100.0
2014	916	48.3	795	41.9	186	9.8	1,897	100.0
2015	713	43.1	763	46.1	179	10.8	1,655	100.0
2016	697	37.1	1,015	54.0	169	9.0	1,881	100.0
2017	755	42.8	870	49.3	139	7.9	1,764	100.0
2018	643	42.2	734	48.2	145	9.5	1,522	100.0
2019	621	42.4	684	46.7	161	11.0	1,466	100.0
2020	521	43.2	536	44.4	149	12.4	1,206	100.0
2021	457	43.0	457	43.0	148	13.9	1,062	100.0

Source: Prepared by JRI based on local news reports

Note: Figures for 2021 are estimates compiled by the local media based on data from the National Bureau of Statistics and the National Health Commission

million, which was more than the number of first births, suggesting that the scrapping of the one-child policy at the end of 2015 had some success.

However, the effect was short-lived. Since 2017, the number of second births has declined, and second births as a percentage of all births has also decreased. Since there is no evidence of a significant decline in the population of women of childbearing age in 2013-21, it is clear that the effect of the abolition of the one-child policy has disappeared. The decline in the number of second births since 2017 has been larger than that of first births, and can be seen as one of the reasons for the decline in the birth rate.

■ Subsidies are being introduced to encourage couples to have children

China's fertility policy has begun to shift its emphasis from easing restrictions on births to encouraging births. In July 2021, the Communist Party and the State Council (government), in the Decision on Optimising Fertility Policy and Facilitating Long-term Balanced Population Development ("the Decision"), allowed people to have three children, stating that maternity policy needs to be revised to maintain human capital and domestic demand to support high-quality economic development, that the diverse needs of the population would be addressed, and that issues related to marriage, childbirth, childcare, and education would be resolved.

The Decision was reinforced by the Guiding Opinions on Further Improving and Implementing Measures to Support Stimulation of Childbirth ("the Opinions"), which were jointly promulgated by the National Health Commission and the National Development and Reform Commission in July 2022. Although the Opinions overlap with the Decision in many areas, they take a comprehensive view of marriage, childbirth, childcare, and education, and state that proactive support measures will be taken in the areas of finance, taxation, insurance, education, and housing.

The Opinions are expected to bring about new changes, as they state that the unprecedented policy of providing subsidies to families with children should be introduced. In the city of Panzhihua in Sichuan Province, it was announced that, as a result of providing a childcare subsidy of RMB 500 per month per child up to age three to households with multiple children in 2021, the number of births increased by 1.62% over the previous year, while the number of second and third births rose by 5.6% and 168.4%, respectively. The city provided a total of RMB 950,000 in subsidies in 2021, and expanded this over tenfold to 10 million yuan in 2022.

Some cities have begun to offer subsidies to multi-child households for the purchase of homes. The city of Jiaxing in Zhejiang Province will offer a subsidy of RMB 300 per square meter (capped at RMB 50,000) to families with two children and RMB 500 per square meter (capped at RMB 100,000) to families with three children for the purchase of a new home. This policy is viewed as killing two birds with one stone as it will not only halt the declining birth rate, but also help the stagnant housing market to bottom out.

■ Subsidies are not expected to be effective

However, these subsidies are not expected to have enough impact to spark a desire to have more children, and are thus unlikely to be decisive in checking the declining birth rate.

Childcare subsidies are limited in terms of amount and duration, and are viewed as inadequate to encourage childbearing. The annual childcare subsidy in Panzhihua, Sichuan Province, is RMB 6,000, equivalent to 12.5% of disposable income in the city, which was RMB 47,915 in 2021, so the subsidy can by no means be described as small. However, it will not alleviate families' concerns about how to pay the RMB 627,000 in education expenses that are said to be required to get a child through

<Breakdown of Cost of Raising a Child in China from Birth to College Graduation>

Period	Expenditure (RMB)	Total (RMB)	Percentage of Total Cost
Pre-natal Expenses	10,000	10,000	1.6
Delivery Expenses	15,000	15,000	2.4
0-2 years	Average per year 21,559	64,677	10.3
Birth - 2 years	—	89,677	14.3
3-5 years	Average per year 33,559	100,677	16.1
6-14 years	Average per year 24,072	216,648	34.5
15-17 years	Average per year 26,072	78,216	12.5
Birth - 17 years	—	485,218	77.4
18-22 years	Average per year 35,500	142,000	22.6
Birth - 22 years	—	627,218	100.0

Source: Prepared by JRI based on local news reports

college.

The subsidies for home purchases are also insufficient. The subsidy in Jiaxing, Zhejiang Province, is by no means paltry, as the maximum award is RMB 100,000, but the average price of a 100m² home in the city in 2021 was RMB 1.32 million. RMB 100,000 will only slightly lighten the mortgage repayment burden and is unlikely to be impactful as a means of spurring couples to have multiple children.

Shanghai's total fertility rate in 2022 was 0.7, much lower than Tokyo's 1.12 (2021). Despite the abandonment of the zero-COVID policy, China's birth-rate decline is expected to further accelerate in the future due to urbanization and higher levels of education, which will result in households bearing a greater burden in terms of housing and education costs.

(Yuji Miura)

Topics Concerns over prolonged high interest rate in South Korea

In South Korea, support for labor unions by the previous administration has led to higher wages, and there are concerns that inflation is here to stay. If interest rates remain high due to protracted inflation, this could put downward pressure on the economy by increasing the financial burden on households.

Interest rates have been hiked repeatedly in South Korea

The Bank of Korea, the country's central bank, has been raising interest rates for the past year and a half. At the end of February this year, the policy rate and long-term interest rate had each risen by about two percentage points from their 2019-end levels, the largest increase among major Asian economies.

The rapid pace of interest rate hikes is due to a rapid acceleration of inflation against a backdrop of 1) higher resource prices, 2) currency depreciation, and 3) soaring house prices. Energy prices, including electricity, gas, and gasoline, rose due to high resource prices globally. In South Korea, which depends on imports of resources such as crude oil, mineral fuels account for the highest share of imports, so rising resource prices have significantly increased total imports in monetary terms. This has led to an entrenched trade deficit since March 2022, which has caused the South Korean won to fall sharply against the U.S. dollar, pushing up the prices of a wide range of imported goods. During this period, house prices continued to climb at a high rate of over +10% year on year (YoY) through April 2022, which pushed up rents.

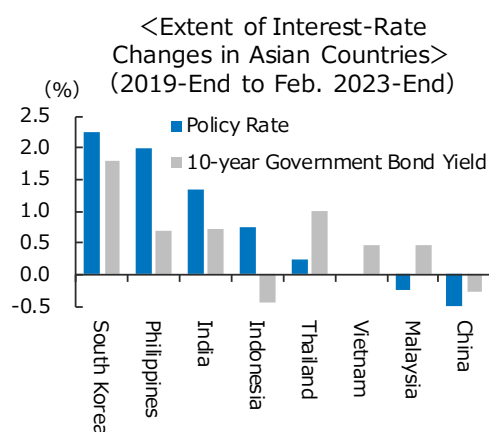
However, the above three inflationary pressures are gradually abating, and CPI inflation is slowing after peaking at +6.3% YoY in July 2022. With the world economy slowing, the surge in resource prices weakening, and the pace of U.S. interest rate hikes slowing, downward pressure on the South Korean won is easing. In addition, housing demand has cooled as mortgage interest rates have risen in response to rate hikes, and house prices have begun to decline after peaking in July of last year.

With concerns about future inflation receding, at its February meeting the Bank of Korea left its policy rate unchanged (at 3.5%) for the first time in eight meetings. Market participants increasingly believe that the policy rate will remain unchanged.

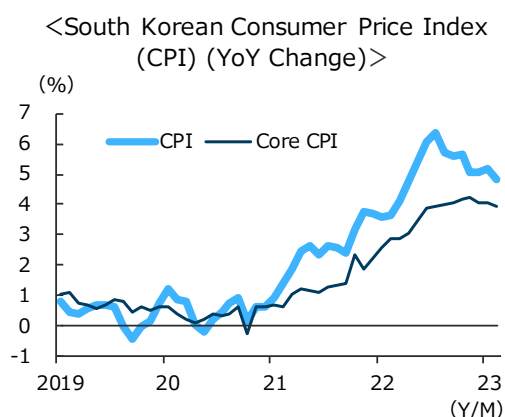
Prolonged high inflation due to rising wages is a worry

However, it is unclear whether inflation in South Korea will begin to subside. Although inflation is declining thanks to calmer energy prices, core inflation, which excludes food and energy, remains high at around +4%. This high core inflation rate is due to rising wages.

In a shift from the extreme pro-labor policies of the previous Moon administration, the current Yoon administration has been pushing for labor market reforms. For example, it has called for wages to be determined based on job performance rather than seniority. The minimum wage was upped by just 5.0% from last year in 2023, more or less the same rate of increase as the previous year (+5.1%). However, the impact of the previous administration's support measures for labor unions has strengthened their



Source: Prepared by JRI based on data from Bloomberg



Source: Prepared by JRI based on data from CEIC

bargaining power, pushing up wages overall. Average monthly wages per worker have continued to grow, by 4.6% YoY in 2021, when the impact of the minimum wage hike was small, and by 4.9% YoY in 2022.

Among the policies implemented by the previous administration were 1) allowing public servants to unionize and 2) revising trade union legislation to allow unemployed workers and laid-off workers to join trade unions. As a result, South Korea's unionization rate (proportion of workers who are members of labor unions) has been rising since the late 2010s and is now on par with the rates seen in advanced countries such as Japan and Germany. Large-scale strikes have been frequent, including two nationwide strikes by truck drivers last year. With the unionization rate rising, labor-management negotiations are becoming rockier, and the power of unions to demand higher wages appears to be growing.

Labor union demands for higher wages are based on the fact that households are struggling due to high inflation, but large wage increases without higher productivity could fuel further inflation. If an upward spiral of rising wages and prices sets in, inflation will become difficult to control.

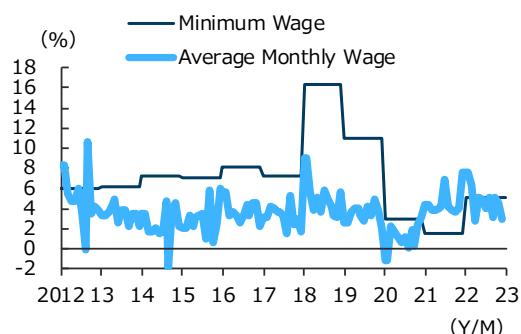
■ Prolonged high interest rates are a concern

If high inflation drags on due to rising wages, policy rate hikes could resume. Bank of Korea Governor Rhee Chang-yong has expressed the view that a policy rate cut should only be discussed when the consumer price inflation rate is on track to fall into the 2% range. The Bank of Korea expects inflation to remain in the 3% range through the end of the year and is thus unlikely to cut interest rates before the year end. With the possibility of continued interest rate hikes lingering in the U.S. as well, there are now concerns that in South Korea high interest rates will continue into next year and beyond.

The housing market has been severely affected by the rapid rise in interest rates to date. The number of housing transactions fell sharply in January (-42.8% YoY). In February, house prices were also down by 4.4% YoY, the largest decline in 23 years (since August 1999). South Korea's household debt stood at 99% of GDP in 2021, above the OECD average of 63.7%. Mortgages account for about 60% of this debt, and more than 70% of mortgages are floating-rate loans. As interest rates have risen, the burden of interest payments on households has swelled, and this has been a factor weighing down on personal consumption. A prolonged period of high interest rates would further increase the burden of interest payments, and could also significantly push down housing prices, leading to reduced consumption because of the reverse wealth effect, which occurs when people feel poorer due to a decline in the value of their assets. It is therefore important to note that protracted high interest rates could substantially worsen the South Korean economy.

(Soichiro Tateishi)

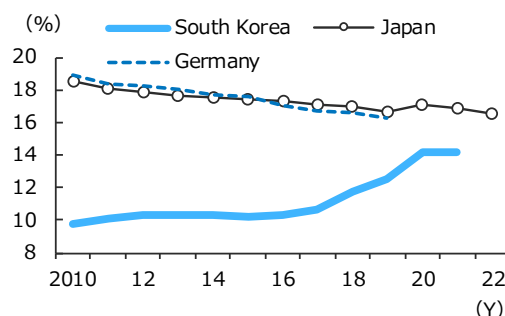
<South Korean Minimum Wage and Average Monthly Wage (YoY Change)>



Source: Prepared by JRI based on data from CEIC

Note: To adjust for the effect of Korean New Year, averages for January and February are the averages of both months.

<Unionization Rates in South Korea, Japan, and Germany>



Source: Prepared by JRI based on data from the OECD, South Korean Ministry of Employment and Labor, and Japanese Ministry of Health, Labour and Welfare