

# ASIA MONTHLY

## October 2019

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## Topics *Cashless payments increasing in Southeast Asia*

In Southeast Asia, with the spread of smartphones, both financial and non-financial corporate entities have started offering cashless payment services centered on mobile payments.

### ■ Characteristics of cashless payment services in Southeast Asia

In recent years, cashless payment services have emerged in Southeast Asia, led mainly by mobile payments. One factor for this is the rapid penetration of smartphones. Another is the fact that many countries remain a cash-based society, with workers receiving wages in cash for instance, so there is ample room for a shift to go cashless. Offered are services that can be easily used by people who have had difficulties in making payments.

Let's take a look at what kind of cashless payment services are available in Southeast Asia. While many services are similar to those in developed countries, some are more unique, whose characteristics can be described by the following three features.

First, mobile payment services are popular, reflecting the high penetration rate of smartphones. If you look at the other side of the coin, the spread of smartphones has made it possible to offer payments under a variety of schemes using this device.

Second, the system can be used by those who have had difficulties dealing with financial institutions, specifically, those who do not have bank accounts, those who do but do not have access to nearby branches or ATMs, and those who do not have credit or debit cards. A typical way for a user to secure funds for mobile payments is to hand cash to an agent and have it loaded in the app. Some agents are exclusive, but in many cases local grocery stores, general stores and convenience stores serve as agents.

Third, the technology used is not necessarily cutting-edge. Some payment services are based on advanced technologies such as blockchain. However, for instance, QR codes for QR code payments, which have been rapidly expanding recently, are relatively low-tech, developed in Japan a quarter of a century ago. As long as the service is easy to use and inexpensive, it doesn't matter whether it's high-tech or not.

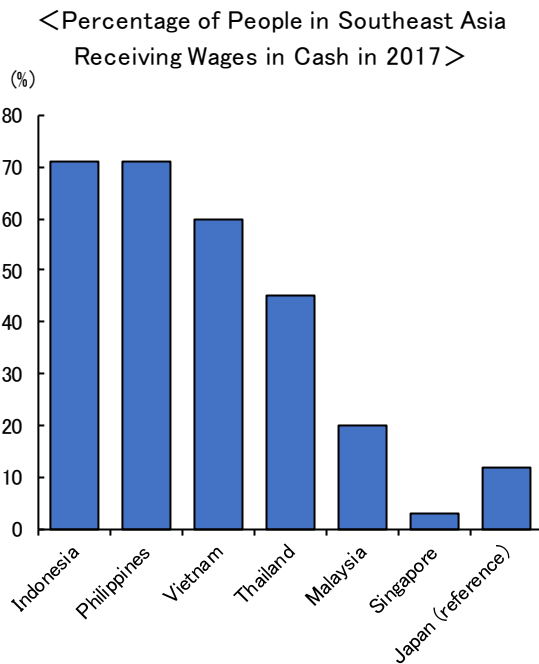
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### ■ Two streams for cashless payments

Southeast Asia is diverse in the situation under which payments are conducted, and therefore the expansion patterns for cashless payments is also likely to differ from country to country. Southeast Asian countries can be broadly divided into (i) Singapore, Malaysia, Thailand, and (ii) other countries, depending on the stage of development in payments.

Singapore, Malaysia and Thailand face fewer issues concerning payments than other Southeast Asian countries. For this reason, expanding the use of cashless payments will not lead to a dramatic resolution of these challenges. On the other hand, governments of the three countries are actively working to promote cashless payments, which could serve as a favorable tailwind. In these countries, the future outlook will be a further spread in cashless payments by filling in the gap where payments made by cash still prevail.

The devices used for such purposes will likely consist of a mix of plastic cards and smartphones. This is because of factors such as the relatively wide usage of plastic cards, fairly high penetration of bank accounts, and the fact that ATM cards that also function as debit cards are already in the hands of



Source: World Bank "Global Financial Inclusion Database"  
 Note: Of wage recipients, percentage of those who received wages in cash

consumers.

In Southeast Asian countries other than the three aforementioned, cashless payments are expected to expand, driven by problem-solving services, due to serious issues concerning payments. While some governments have pledged to promote cashless payments, their efforts have yet to reach full scale compared to those by the aforementioned three countries. Hence, the expansion of cashless payments is expected to be driven mainly by the private sector.

These countries could jump from cash payments to mobile payments without going through the card payment stage. The vast majority of people own smartphones even if they do not have bank accounts. Plastic cards are not in widespread use, and card infrastructure such as payment terminals is not in place.

Taking these into account, it is natural from the start for smartphones to be used as a cashless payment device.

**■ Cashless payments to grow steadily**

It remains to be seen whether Southeast Asia will jump on the bandwagon to become an advanced region in cashless payments. Nevertheless, the use of cashless payments is expected to grow steadily, supported by private and government initiatives in Singapore, Malaysia, and Thailand, and by the need to resolve payment challenges in other countries.

In recent years, China has entered the cashless payment market in Southeast Asia, increasing its presence in the region. At the same time, local players, from financial institutions to non-financial entities, and from existing companies to start-ups, are actively developing cashless businesses. Against this backdrop, players who enable people to make payments smoothly and effortlessly in everyday life, whether local or foreign, will dominate the cashless payment market in Southeast Asia.

(Kaori Iwasaki)

<Bank Account and Card Ownership Rates, and Mobile Phone Subscription Rates in Southeast Asia in 2017>

(%)

	Bank Account Ownership Rate	Debit Card Ownership Rate	Credit Card Ownership Rate	Mobile Phone Subscription Rate
Singapore	97.8	91.8	48.9	148.2
Malaysia	85.1	73.8	21.3	133.9
Thailand	81.0	59.8	9.8	176.0
Indonesia	48.4	30.8	2.4	173.8
Vietnam	30.0	26.7	4.1	125.6
Philippines	31.8	21.0	1.9	110.4
Laos	29.1	12.7	0.6	54.1
Myanmar	25.6	4.9	0.1	89.8
Cambodia	17.8	7.2	0.6	116.0
Japan (reference)	98.2	87.0	68.4	133.5

Source: World Bank "Global Financial Inclusion Database", "World Development Indicators"

## Topics *China's industrial subsidies have been on the rise*

In China, the scale of industrial subsidies is expanding. In particular, the demand for telecommunications, computer and other machinery manufacturing industries as well as the automobile industry are rapidly increasing. On the other hand, an increase in industrial subsidies may intensify international criticism and lead to an increase in non-performing loans.

### ■ What lies behind the expansion is industrial development and securing employment

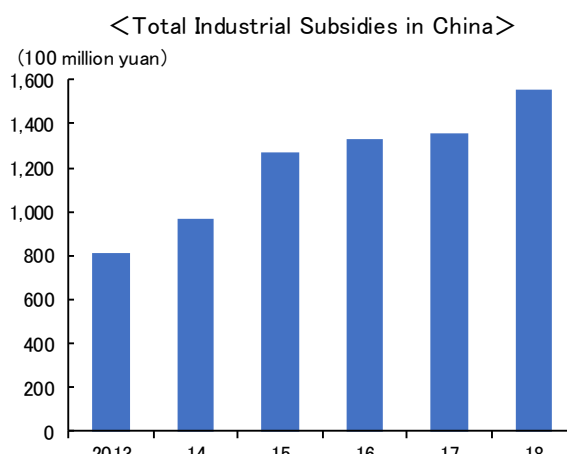
In recent years, the total amount of industrial subsidies in China has been increasing. According to a tally of the financial statements (annual report) of all 3,683 listed companies, the total amount of subsidies in 2018 was 155.1 billion yuan, up significantly from 81 billion yuan in 2013. The growth rate over the past five years reached an annual average of 13.9%.

This can be attributed to the following two points. The first is industrial development. In recent years, the Chinese government has been trying to create new businesses and revitalize industries by collecting and accumulating various data on consumption and production using IoT and sensors and analyzing it using big data and artificial intelligence (AI). In 2015, the government drew up an industrial vision called "Made in China 2025" in which priority areas were specified, such as semiconductors, AI, and electric vehicles (EV). As a result, subsidies for these areas expanded.

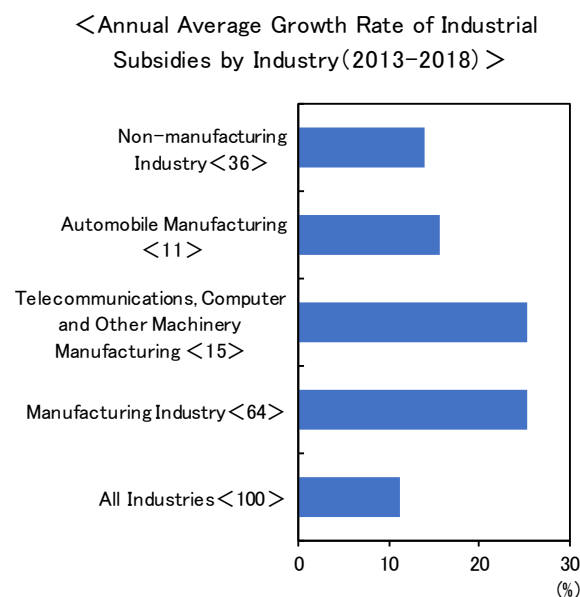
In fact, the industrial subsidies of 356 listed telecommunications, computer and other machinery manufacturers in 2018 amounted to 23.5 billion yuan, and the annual average growth rate for the past 5 years was 25.3%, which was much higher than the average of all industries. In addition, subsidies are provided to semiconductor manufacturers that have introduced Chinese-made semiconductor manufacturing equipment. A major problem with the quality of Chinese-made equipment is the low production efficiency of semiconductors and low maintenance efficiency. However, if subsidies are used to mass-produce Chinese-made equipment, the quality of the equipment will improve and in-house production will be promoted.

Industrial subsidies for 130 listed automobile manufacturers (including parts manufacturers) totaled 17.0 billion yuan, an increase of 25.2% on an annual average. Last year for example, China provided an enormous subsidy of 2.9 billion yuan to Changan Automobile Co., Ltd., a state-owned company, for the development of electric vehicle production and the start of operations at a new plant in Hefei.

The Chinese government has provided subsidies for industrial development in the past. For example, over a 10 year period beginning in 1986, a total of 200 million yuan in financial assistance was spent on the in-house production of semiconductor integrated circuits. Industrial subsidies have long been an important tool for industrial policy along with low-interest loans and foreign capital regulations. However,



Source: Prepared by the Japan Research Institute, Ltd. (Y) based on annual reports of all 3,683 listed companies and the Wind Database



Source: Prepared by the Japan Research Institute, Ltd. based on annual reports of all 3,683 listed companies and the Wind Databases  
Note: Figures in < > indicate shares in 2018

judging from the amount of subsidies and government funds, the Chinese government is emphasizing industrial development more than ever before.

The second reason for the increase in the total amount of industrial subsidies is to secure employment. When local state-owned enterprises are in financial difficulty, local governments often use subsidies to help them secure staff. The total amount of subsidies to listed companies over the past five years also increased significantly in 2015 and 2018, when the economic slump was evident.

In China, both the central and local governments provide subsidies; however, judging from the securities reports of listed companies, more subsidies are provided by local governments.

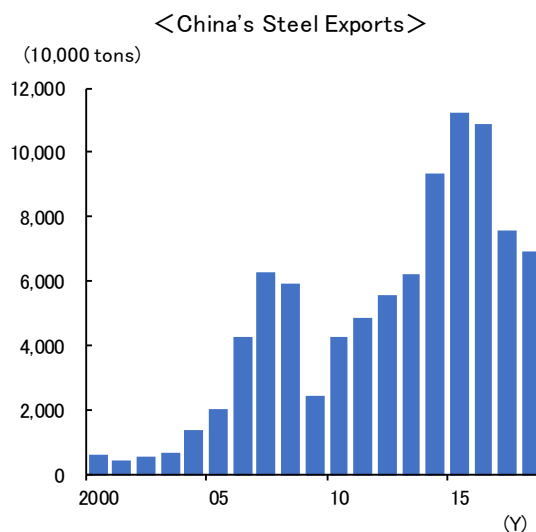
■ **Unfair competition and non-performing loan problems have been caused by industrial subsidies**

Several major problems are associated with China's industrial subsidies. The first is the risk of providing unfair international competition. Excessive production capacity by the Chinese steel industry has been a problem brought up in the summits of 20 countries and regions (G20). As local governments continued to subsidize local steel companies in China, steel production capacity far exceeded domestic consumption, resulting in a surge in exports. In 2015, steel exports reached 112.4 million tons, which was more than Japan's annual production. As Chinese steel products flooded the international market, the market has deteriorated, threatening the management of steel companies around the world. Semiconductors, AI and EVs could follow in steel's footsteps.

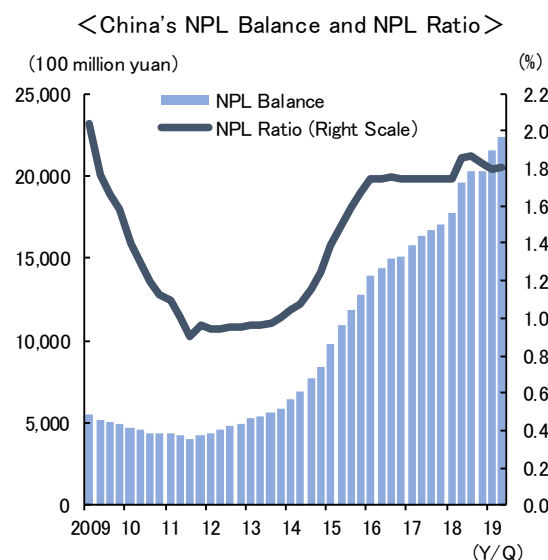
The second problem with China's industrial subsidies is the growing concern of debt and non-performing loans in China. Industrial subsidies have caused serious problems not only in terms of fairness but also in terms of efficiency. In general, although the management efficiency of state-owned enterprises is lower than that of private enterprises, state-owned enterprises that receive subsidies and government debt guarantees can procure funds at lower costs. This makes it easier for state-owned enterprises to assume debts that exceed their repayment capacity, while checks of corporate management by fund providers tend to become loose. As a result, China's corporate debt and non-performing loans could increase further.

Thus, China's industrial subsidies pose a serious problem not only for the United States, which denounces them, but also for other countries in addition to China itself. As for industrial subsidies, it is necessary to establish international rules that can be accepted by many countries at multilateral fora such as the Group of 20. From this point of view, it is noteworthy that the Chinese government reviewed the policy direction of the steel industry after multilateral consultation on the excessive production capacity of the steel industry in China, and as a result, industrial subsidies for 31 listed steel manufacturers decreased by 400 million yuan in 2018 compared to 2013 levels, to a total of 2.2 billion yuan. On the other hand, if the United States continues to intensify its pressure on China by sticking to bilateral negotiations, China is expected to fall into a vicious cycle of further increasing industrial subsidies in an effort to counter the pressure by promoting in-house production of high-tech products and securing employment.

(Shinichi Seki)



Source: "Trade Statistics" by the General Administration of Customs of China



Source: "Quarterly Status of Banking Regulatory Statistics" by the China Banking and Insurance Regulatory Commission (CBIRC)