

# ASIA MONTHLY

## May 2020

<i>Topics</i>	<i>China 2020 GDP growth seen turning negative</i> .....	<i>1</i>
<i>Topics</i>	<i>Vietnam's participation in the TPP-11 has been successful</i> .....	<i>3</i>



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

This report is the revised English version of the May 2020 issue of the original Japanese version (published 28th Apr.).

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 China 2020 GDP growth seen turning negative

In China, economic activity shrank on a nationwide scale due to the downward pressure from the novel coronavirus. Taking into account the decline in income, continuation of infection control countermeasures, contraction of external demand, and supply chain disruptions, we forecasts chinese economic growth at -0.3% in 2020.

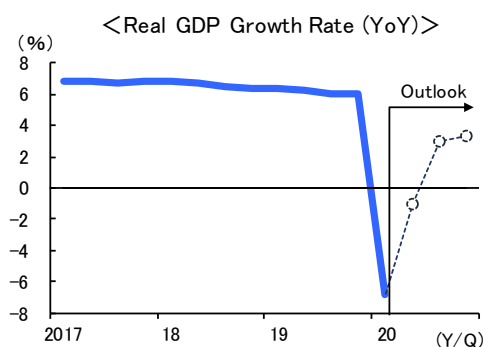
### ■ Although the worst is over, the pace of recovery remains slow

China's GDP growth rate in the January-March period fell sharply, down 6.8% year-on-year. Retail sales, investment in fixed assets, and exports were down 19.0%, 16.1%, and 13.4% year-on-year, respectively. The novel coronavirus has done far more damage to the Chinese economy than the collapse of Lehman Brothers. Although the initial response was slow after the infection was confirmed in Wuhan, Hubei Province late last year, the Chinese government restricted the movement and outings of Chinese citizens, the operation of factories and stores, and the construction of buildings nationwide for about a month from late January. As a result, economic activity declined rapidly.

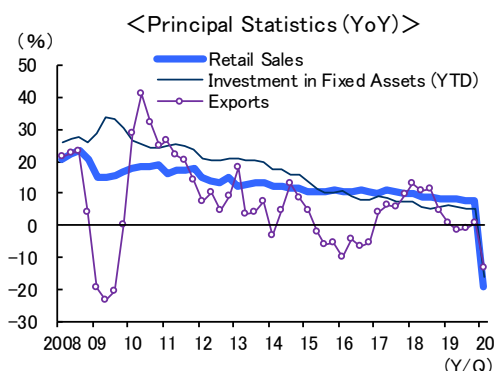
At its worst, Wuhan and other major cities such as Beijing and Shanghai saw the amount of pedestrian traffic on the streets drop by 70% from levels before the coronavirus outbreak. Even in Guangdong Province, which recorded 1.7% of the total confirmed cases and is located far from Wuhan, more than 70% of companies ceased operations. It is assumed that plant operations, store operations, and construction works were largely halted in other provinces as well.

With such drastic measures taken, the Chinese economy is emerging from the worst. In February, the government ordered the resumption of economic activity after concluding that the spread of the disease had peaked. As a result, the number of people coming and going has increased, and moves to resume operations have spread across the country. Economic activity is on the way to recovery.

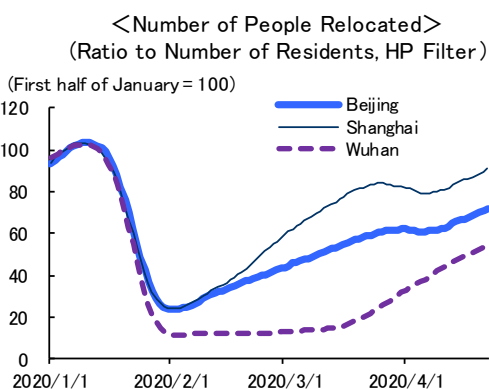
However, the pace of economic recovery has been slow. Even in late April, passenger traffic by car, train, airplane, and ship was down 60% from the same period last year. Automobile sales in March were down 43.3% year-on-year, and restaurant sales were down 46.8% year-on-year, showing a severe downturn. Pedestrian traffic in major cities has also recently stalled. Companies that have resumed operations are facing a sharp drop in demand. One of the reasons for this is the decline in income. Total profits of industrial enterprises from January to February decreased by 38.3% compared to the same period of the previous year, and the earnings of food services and hotels, transportation, and wholesale and retail businesses in particular showed a large decline. Facing a cash crunch, companies have already postponed investment, laid off staff, and cut wages to a certain extent. In fact, the unemployment rate soared to 6.2% in February. These statistics were produced by visiting households across the country, and farmers without an urban census register were



Source: The Japan Research Institute, Ltd., based on "System of National Accounts" by the National Bureau of Statistics of China



Source: The Japan Research Institute, Ltd., based on "Trade Statistics" by the General Administration of Customs and "Total Retail Sales of Consumer Goods" and "China Fixed Asset Investment" by the National Bureau of Statistics of China



Source: The Japan Research Institute, Ltd., based on "Baidu Migration" by Baidu

also surveyed. While the government has released monthly data on the unemployment rate since January 2017, the lowest rate had been 4.8% and the highest rate had been 5.4%. With the number of unemployed people increasing rapidly, per capita disposable income in the January-March 2020 period rose 0.8% from the same period last year, a sharp drop from the 8.9% year-on-year increase recorded for the full year in 2019.

Another factor is the continuation of infection control measures. As of mid April, there are still measures to encourage railway passengers to sit at spaced intervals and to restrict restaurant operations. The Politburo Standing Committee, chaired by Chinese President Xi Jinping, reaffirmed its policy of resuming economic activities on April 8, but stressed the importance of measures to combat the infection. Unless the global outbreak of the novel coronavirus is brought to an end, the government will have no choice but to continue such measures to prevent the spread of the virus, in addition to international border control.

#### ■ Declining income and shrinking external demand are expected to weigh on the economy

As for future prospects, the downward trend in income levels and the continuation of infection control measures are expected to continue to weigh on the economy, while the contraction of external demand is likely to become clear. The outbreak of the novel coronavirus has spread to more than 180 countries, and the World Health Organization (WHO) declared the outbreak a global pandemic in March. The governments of various countries have imposed similar activity restrictions to those of China, albeit with differences in degree. There is a risk that external demand will fall further than it did following the Lehman Brothers collapse due to a global economic downturn, which is said to be the worst since the Great Depression.

Furthermore, supply chain disruptions are also expected to depress economic activities. The suspension of factory operations and immigration restrictions by various countries are putting a brake on the flow of goods and people around the world. Just as China's exports to Japan were halved in February, exports from other countries to China could fall sharply. Even if the Chinese government orders the resumption of economic activities, if the supply chain for products and parts is disrupted, it is likely that corporate production activities will not return to normal levels any time soon.

Against this backdrop, the Chinese government is taking quick action. However, the focus of the economic stimulus package is on safety nets to prevent bankruptcies of small and medium-sized enterprises (SMEs) and worsening employment conditions. Specifically, these measures include the reduction or exemption of social security costs for enterprises along with tax reductions, expansion of loans to SMEs by state-owned banks, postponement of interest payments by enterprises, and provision of employment adjustment subsidies, all of which are intended to support SMEs facing financial difficulties. While measures such as the distribution of gift certificates, expansion of 5G-related investment, and deregulation of car purchases have been taken, measures to stimulate demand have generally been limited. The Chinese government remains cautious about the rapid expansion of bank loans and public investment, as was the case during the era of the Lehman Brothers collapse, even though external demand is likely to decline significantly. In addition to the desire to prevent the problem of excessive debt and nonperforming loans from becoming more serious, measures to stimulate demand will not be fully effective unless the outbreak of the coronavirus is brought to an end and measures to combat the infection are ended.

Although there are some expectations that the issuance of special government bonds will lead to large-scale stimulus measures, the use of special government bonds is limited to 32 items in four categories, such as strengthening emergency medical capabilities, building an infection prevention system, strengthening local medical examination and treatment capabilities, and developing infrastructure for urbanization. In addition, even if infrastructure investment expands, it is expected to increase by about 10% over the previous year, and it is not expected to increase by 50% as it did after the collapse of Lehman Brothers.

For the time being, China's economy will lack strength, and the April-June period is expected to see negative growth for the second consecutive quarter. Economic growth will likely continue to fall far below cruising speed in the second half of the year, and the entire year of 2020 is forecast to see the first negative growth period in 44 years on a full-year basis. Looking at the prevalence of the novel coronavirus infection and measures against it, there is a time lag of about one month for the United States and Europe and about two months for Japan. China's experience will suggest how large the impact of the novel coronavirus pandemic on the world economy will be and how difficult it will be to make a V-shaped recovery.

(Shinichi Seki)

## Topics Vietnam's participation in the TPP-11 has been successful

Distrust of the TPP-11, which entered into force about a year ago, is growing in Vietnam. However, Vietnam's share of imports by the countries that have ratified the TPP-11 has increased beyond the trend, and its participation in the TPP-11 can be said to have been successful.

### ■ Disappointment with the TPP-11 has been growing

One year and three months have passed since the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), also known as TPP-11, took effect in Vietnam. At the time of effectuation, the prevailing view in Vietnam was that the Vietnamese economy would benefit greatly from the TPP-11, but since the beginning of 2020, local media and exporters have increasingly voiced the view that the TPP-11 has been a disappointment.

Indeed, Vietnam's exports to some of the TPP-11 countries (Australia, Canada, Japan, Mexico, New Zealand, Singapore) in 2019 were not good. By country, exports to Canada and Mexico accelerated, but those to Japan, New Zealand, and Singapore slowed and those to Australia started to decline. Judging from these facts, it is inevitable that criticism

to the effect that the expected increase in exports did not eventuate despite Vietnam's participation in the TPP-11 would arise. However, in order to properly evaluate the movement of exports, it is necessary to consider not only the export competitiveness of Vietnam itself, but also the external environment and economic trends of the export partner countries. Therefore, the outcomes of Vietnam's participation in the TPP-11 will be examined from various angles in the following paragraph.

### ■ Slowdown in the TPP-11 economies curbs exports

To get to the conclusion first, the slowdown in exports to the TPP-11 countries in 2019 was mainly due to the deterioration of the economies of the TPP-11 countries rather than to the problems of the TPP-11 itself.

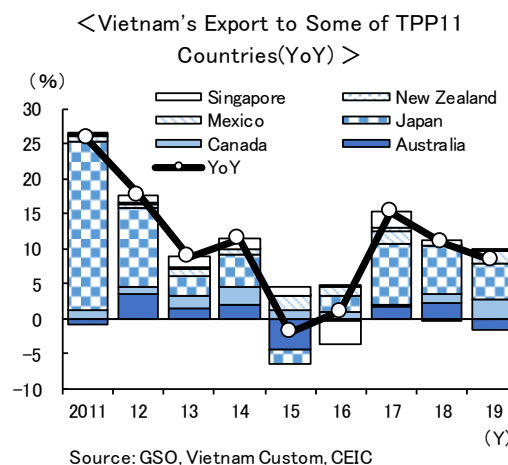
The economies of the countries that have ratified the TPP-11 have been on a downward trend since the middle of 2018. The slowdown in the Chinese economy due to a series of retaliatory tariff hikes between the United States and China and the resulting deterioration in the global economy are believed to be the main reasons for the decline. The slowdown in the economies of the TPP-11 countries has restrained imports by those countries through a worsening employment and income situation as well as a worsening sentiment for capital investment. In fact, imports by the TPP-11 countries in 2019 fell 3.1% from the previous year, the first year-on-year decline in three years. It is considered that exports from Vietnam to the TPP-11 countries in 2019 were sluggish because the contraction in demand for imported goods also affected Vietnamese products.

### ■ Market share of Vietnamese products steadily increased

In order to capture the effects of Vietnam's participation in the TPP-11, it is necessary to eliminate the effects of the economic slowdown in the TPP-11 countries. In doing so, there is a way to see the change of Vietnam's share in the total import value of the TPP-11 countries. This is because even when the economies of importing countries deteriorate and import demand shrinks, if exporting countries are highly competitive, their share of the total amount of imports will increase.

However, there is a point to which we have to pay attention. As a trend, Vietnam's presence in term of the world's imports has been increasing. Vietnam's share of world imports increased 6.2 times over the past 20 years, from 0.22% in 2000 to 1.23% in 2018.

Behind Vietnam's increasing presence in the global imports arena is its distinctive growth model, which makes maximum use of globalization. Since the introduction of the "Doi Moi" in 1986, Vietnam has worked to improve its external relations and investment environment, while at the same time using its cheap and abundant labor force, creating a model for economic growth led by foreign capital and export-oriented manufacturing industries. In other words, although Vietnam is a labor-intensive and



low-value-added export-oriented economy, it has succeeded in increasing its presence in the global import market by actively incorporating itself into the global supply chain.

Even among the countries that have ratified the TPP-11, the growing presence of Vietnamese products can be seen. Vietnam's share of imports by the countries that have ratified the TPP-11 has been rising steadily for four of the countries, although it has been fluctuating widely in Australia, where a high proportion of resources are imported, and Singapore, a hub for intermediate trade. Therefore, in order to accurately grasp the effects of the TPP-11, it is necessary to eliminate this structural change. First, the long-term trend was extracted from Vietnam's share of imports for the TPP-11 countries between 2000 and 2019, and the long-term trend was identified as the structural increase in the competitiveness of Vietnamese products. Next, the difference between the long-term trend and the actual share in 2019 was considered as the effect of the TPP-11.

The results are shown in the figure at the lower right. Vietnam's share of imports by the TPP-11 countries in 2019 exceeded the long-term trend in five countries, with the exception of Singapore. While the global economy slowed, the import share of almost all TPP-11 countries rose, and it can be said that TPP-11 had a positive effect. The combined upside for all TPP-11 countries, including Singapore, is 0.27% points, which is estimated to have boosted Vietnam's GDP by 0.31% points in 2019. In other words, if Vietnam had not joined the TPP-11, its economic growth rate would have dropped below +7% in 2019, suggesting that the perception of the Vietnamese economy, which was solid even amid the conflict between the United States and China, might have been significantly shaken.

**■ Promotion of free trade is expected**

Based on the above discussion, Vietnam's participation in the TPP-11 should be evaluated as not disappointing, but rather as having had a sufficient effect. The global economy is anticipated to deteriorate significantly in 2020 due to the spread of the novel coronavirus. In addition, as resistance to the movement of people and goods between countries increases, the pressure on free trade may intensify. In particular, the question of whether Vietnam can dispel distrust of the TPP-11 and continue to expand the framework of free trade in the medium to long term will be the focus of attention in predicting the sustainable growth of the Vietnamese economy.

(Yuta Tsukada)

