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Topics *There has been a movement to commercialize digital yuan*

Although the issuance of digital currencies by central banks poses a number of challenges, China has started demonstration experiments, such as the provision of the digital yuan as a commuter transportation subsidy to public servants. Foreign companies will also participate in the demonstration.

■ **Introduction experiment has begun**

The Chinese government is making steady progress toward putting the digital yuan into practical use. On January 10, 2020, the People's Bank of China (China's central bank) announced a review of its fintech efforts, "Fintech Development Plan 2019 Financial Technology," via WeChat (an SNS operated by Tencent). In its review, the People's Bank of China said, "The overall design of the legal digital currency, standardization of specifications, research on impacts, and multi-institutional research and experiments were basically completed."

Since then, restrictions on activities to contain the outbreak of the novel coronavirus infection have temporarily put a halt to the activities of the team involved in issuing the digital yuan. However, when economic activities resumed around the middle of February, movements related to the digital yuan became active again.

For example, on April 29, state-run broadcaster China Central Television (CCTV) distributed a web news program entitled "The People's Bank of China has created the digital currency! Payments by smartphone without an internet connection are now possible." Other media also featured photos and highlights of digital yuan accounts. The outbreak of the coronavirus pandemic may have made people feel more cautious toward using cash or credit cards and more positive about contactless payments.

The following three points are noteworthy in the movement toward the practical application of the digital yuan. First, digital yuan verification tests have begun in some regions. Specifically, the four cities involved are Suzhou in Jiangsu Province, Shenzhen in Guangdong Province, Xiongan New Area in Hebei Province, and Chengdu in Sichuan Province. The areas around the venue of the 2022 Beijing Winter Olympics will also be covered.

In Xiangcheng in Suzhou, a city with a population of 740,000, civil servants and employees of major companies have been instructed to open a digital yuan account by the end of April, and from May, half of their commuting expenses will be paid with the digital yuan.

However, it will not be easy to expand the digital yuan nationwide. Central banks face a number of challenges in issuing digital currencies using blockchain technology. Security is one of the biggest issues. In order for digital currencies to circulate in a safe manner to all people, they must be protected from "malicious participants" that attempt to tamper with transaction data and conduct illicit transactions.

As Professor Masashi Nakajima of Reitaku University pointed out in his paper "Possibility of Digital Currency Issuance by Central Banks" (World Economic Review, November/December 2018 edition), if a digital currency is operated as an "open type" blockchain in which anyone can participate in order to make it available to anyone, just like paper money or coins, the approval of transactions would require time and costs, and it would also take time to finalize transactions. The Chinese government has started to operate the digital yuan as a kind of "closed" blockchain with a fairly limited number of participants, but there are still more hurdles before it can significantly expand the number of participants.

■ **Differentiation from existing cashless payments is necessary**

Second, sufficient consideration has been given to convenience. First of all, the digital yuan can be used without an internet connection. This is a major difference compared to Alipay and WeChat Pay, with which payments are conducted using a QR code. Even if you do not have an internet connection, such as 4G or Wi-Fi, you can still make payments or send the digital yuan by bringing two smartphones in close proximity. This suggests that the digital yuan will use wireless communication technologies such as NFC and Bluetooth on smartphones. The difference from Apple Pay and Google Pay, both of which already use wireless technology to make contactless payments on smartphones, is that the digital yuan can be transferred without an internet connection.

The hurdles for adoption have also been lowered. To use the digital yuan, an individual could use the existing smartphone apps for Alipay and WeChat Pay, as well as those of financial institutions. According to photos in the media, the smartphone apps of the Agricultural Bank of China and China Construction Bank can already display digital yuan balances on a trial basis. The photos also show icons for changing

cash in other accounts to the digital yuan, changing the digital yuan in an account to cash, and viewing a log of transactions and remittances made in digital yuan. In addition, there are icons for scanning a QR code, displaying a user's QR code, and bringing two smartphones in close proximity, which indicates that it is also possible to make payment via QR code.

On the other hand, if the use of the digital yuan becomes widespread, it could diminish the role of banks, and this could lead to the problem of reducing convenience for the public. This is the so-called "bank omission" problem. When individuals and businesses can make direct electronic payments with anyone using digital currencies issued directly by the central bank, they no longer have to withdraw cash at ATMs or bank counters. The need to have a deposit for settlement in a bank with the purpose of remittance or withdrawal will be reduced. If banks' deposits, which are the source of loans, decrease drastically, it will have a serious impact on their financial intermediation function.

Therefore, instead of issuing the digital yuan directly to individuals or companies, the Chinese government designed the system to issue the digital yuan through banks and fintech companies, and to have these financial institutions provide digital yuan payment and remittance services. This system allows financial institutions to issue the digital yuan for their existing banknotes. These measures are designed to prevent the instability of bank deposits.

■ Foreign companies are also participating in the demonstration

Third, a larger pilot will soon begin in Xiongan New Area. The National Development and Reform Commission held a briefing on the introduction experiment of the digital yuan at Xiongan New Area on April 22. The session was attended by the People's Bank of China; the Xiongan New Area Smart City Federation with board members from high-tech companies such as Huawei and Baidu; the Big Four banks; Ant Financial and Tencent; as well as local companies including real estate developers, restaurants, hotels, movie theaters, supermarkets, convenience stores, fitness gyms and bookstores; as well as foreign companies such as Starbucks and McDonald's.

It is noteworthy that the National Development and Reform Commission is the leader of the introduction experiment. While there are many challenges associated with the issuance of digital currencies by central banks, the issue of international currencies is one of them. Because the digital yuan is a challenge to the hegemony of the dollar, it could further intensify the confrontation between the United States and China. As strong opposition from abroad is expected, it seems inevitable that the National Development and Reform Commission, the most influential of the central ministries and agencies, will take the initiative.

The Xiongan New Area is a new urban development project promoted by President Xi Jinping himself. Under this so-called "China's 1,000-Year Project," President Xi Jinping has created a policy to promote the successful development of the world's most advanced high-tech city using AI and big data, and to expand the Xiongan New Area model both domestically and internationally. The announcement of the establishment of the digital yuan in this project can be seen as an expression of the Xi Jinping administration's determination to make the digital yuan a reality, and to transform China into a technology and economic superpower, even if the confrontation between the United States and China escalates.

(Shinichi Seki)

Topics India is moving to ease its lockdown measures

The Indian government faces the difficult task of controlling the spread of the novel coronavirus while simultaneously resuming economic activities.

■ The government has extended the lockdown three times

As the novel coronavirus (COVID-19) pandemic spreads to many countries, India, which has fewer hospital beds and doctors per capita than middle- and high-income countries, has taken more stringent lockdown measures than other countries since late March to prevent a medical breakdown.

First, the government issued the “Janta Curfew,” calling for people to refrain from going out between 7 a.m. and 9 p.m. Later, when Tamil Nadu and the Delhi metropolitan area implemented their own lockdowns, including the closure of state borders, the central government extended these lockdowns across India a few days later. The measure prohibited interstate travel except for the transportation of daily necessities and the provision of medical services, and most factories and offices were closed.

Despite these stringent lockdowns, the number of new COVID-19 cases has increased since April, particularly in urban areas with poor sanitation and densely populated low-income housing. As a result, the cumulative number of confirmed cases surpassed that of China in mid-May, making India the country with the highest number of COVID-19 cases in Asia.

Against this backdrop, the government has extended the initial three-week lockdown period three times in April and May, and now plans to continue it until the end of May. Some experts predict that the outbreak of the coronavirus pandemic will not peak until around June or July, so measures are likely to be repeatedly extended.

While efforts to curb the spread of the virus have faced obstacles, the government is also struggling to cope with a sharp increase in the number of jobless people as a result of the suspension of economic activities. In India, a comprehensive labor force survey is produced only once every few years, so it is not possible to quantify recent changes in the employment environment from official statistics.

However, the unemployment rate compiled by the Centre for Monitoring Indian Economy (CMIE) rose from around 8% a few months ago to over 20% in April, indicating that the employment environment appears to be deteriorating rapidly. Due to interstate mobility restrictions, poor nutrition and increased suicide among the unemployed, who cannot even return to rural areas, are becoming serious social problems.

<Development of Lockdown Measures in India>

Announcement Date		Measures
March	19	The central government announces that it will implement the “Janta Curfew” starting on March 22, calling for people to refrain from going out between 7 a.m. and 9:00 p.m.
	20	The Government of Tamil Nadu announces a lockdown, including the closure of state borders, from March 21 to 31.
	22	The Delhi Metropolitan Council announces a lockdown, including the closure of state borders, from March 23 to 31.
	24	The central government announces a three-week nationwide lockdown beginning March 25. The measures include the prohibition of interstate travel, except for the provision of medical services and the transportation of daily necessities, as well as the shutdown of factories and offices.
April	14	The central government announces an extension of the lockdown until May 3 as well as a policy to approve economic activities in some industries in areas with a low risk of infection from April 20 (Detailed guidelines published the following day).
May	1	The central government announces that the lockdown will be extended until May 17. The entire country is divided into three zones according to the degree of the spread of infection, and in areas where the risk of infection is low, some economic activities are allowed to resume with additional conditions. (Note: The country is divided into “Red Zone,” “Orange Zone” and “Green Zone” in order of severity of infection.)
	17	The central government announces an extension of the lockdown until the end of May. It allows vehicles to travel across state borders and eases restrictions on economic activity in all three zones, except for areas where there is a particularly high risk of infection.

Source: Prepared by The Japan Research Institute, Limited, based on releases from the Press Information Bureau and various media reports

The government has been trying to provide free food and cash benefits to low-income earners. However, as the limits of such measures approach, the government is moving to gradually ease the lockdown despite the fact that the spread of COVID-19 has continued since the middle of April. In May, the government divided the whole country into three zones according to the status of the spread of infection and allowed the resumption of economic activities according to the severity levels. In addition, after the lockdown was extended again in mid-May, interstate travel was conditionally allowed, and in principle all zones were allowed to resume economic activities except for certain prohibitions.

However, since it is up to the state government to decide the extent of relaxation, it is expected that the resumption of economic activities will vary from state to state. As two states must agree on inter-state movement and some states are imposing restrictions such as isolation for a certain period of time, it will likely take time for the disruption of the supply chains between the states to be resolved.

■ Fiscal consolidation has been temporarily shelved

The government’s fiscal policy stance has been changing in the wake of the rapid economic slowdown caused by the lockdown. Since the launch of the Modi administration, the government has been tightening fiscal policies to reduce the deficit, and the economic stimulus package announced in late March was only a small one.

In May, however, the government announced a large-scale economic package totaling 20 trillion rupees, equivalent to about 10% of the nominal GDP to combat the ailing economy caused by the extended lockdowns. Direct fiscal spending is limited because the stimulus package includes credit guarantees for loans extended to small and medium-sized firms and the provision of liquidity through the Long-Term Repo Operations (LTRO) by the Reserve Bank of India. However, it is inevitable that the fiscal deficit will grow sharply due to tax cuts and a decrease in tax revenues as a result of the economic downturn. Given that the ratio of the fiscal deficit to the nominal GDP expanded by about 5% when Lehman Brothers collapsed, the ratio of the fiscal deficit to the nominal GDP of the general government in fiscal 2020 (April 2020 to March 2021) may exceed 10%.

Therefore, once the economy recovers following the gradual resumption of economic activities and the expansion of fiscal and monetary policies, fiscal stabilization is expected to become a major issue for the Indian economy. The balance between economic growth and a reduction in the fiscal deficit will depend on whether or not the government can accelerate reforms in areas where government subsidies are large, such as electricity, finance and agriculture.

(Shotaro Kumagai)

<Status of COVID-19 infection in India>

