Section 3 The presence of Japan in Asia and future challenges of Japanese companies/industries

In the preceding section, we viewed the current state of the world's GVCs focusing on Japan. In this section, we are going to look at the presence of Japan and its position in Asia where Japanese companies are deeply incorporated in GVCs.

First, we would like to verify the current state of the economic relationship between Japan and ASEAN, which became the starting point for Asia to develop its sophisticated forms of[242] international division of work.

1. Progress of East Asia's inter-process division of work upon Japan's advance to ASEAN

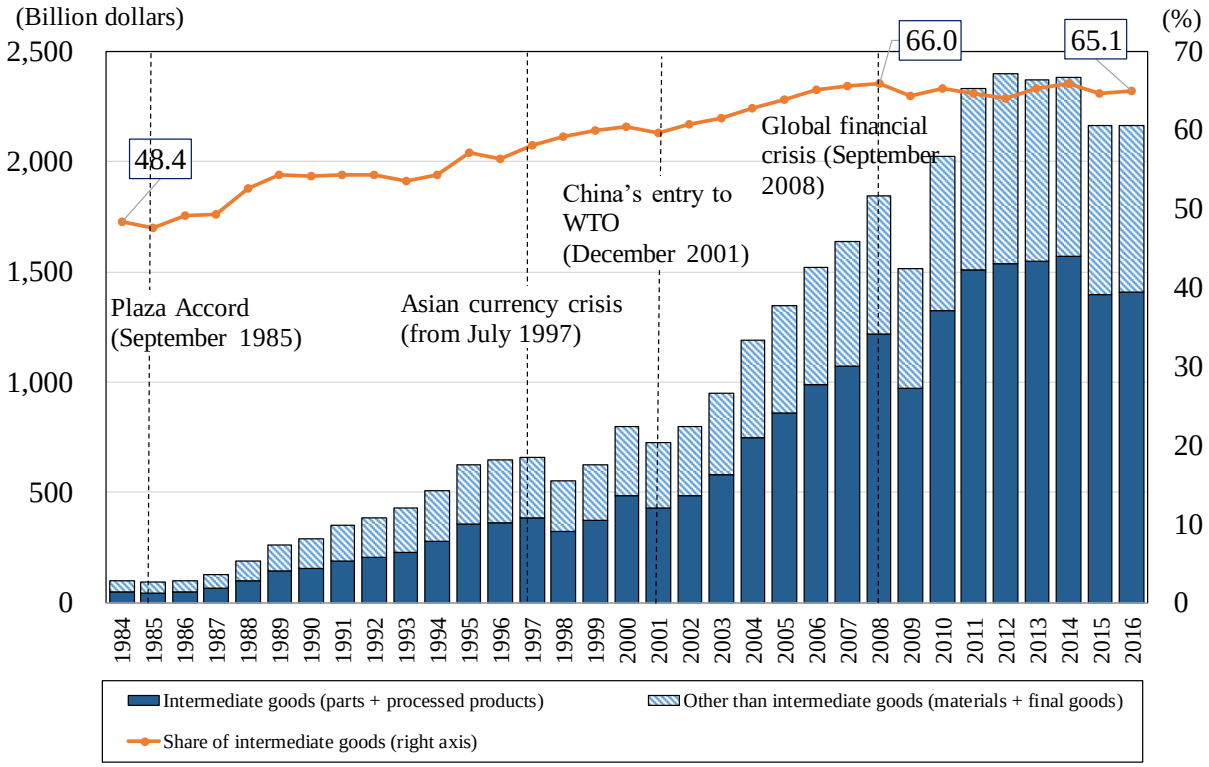
In Asia, particularly in East Asia, following Japanese companies' active direct investments[243] since the late 1980s, the inter-process division of work has progressed, and the intra-regional production network has been developing.

In 1984, the value of trade within the East Asia region was about US$100 billion. In 2016, it was about US$2.2 trillion after the peak of about US$2.4 trillion in 2012. In addition, the share of intermediate goods (parts and processed products) among the value of trade in 1984 was 48.4%. Although it remained flat after the peak of 66.0% in 2008, it was 65.1% in 2016, remaining at a high level. (Figure II-3-3-1)

242 Kimura (2018). He indicated that international production and distribution networks (Ando and Kimura, 2005) or the development of international division of work by production process or task, which is the so-called second unbundling (Baldwin, 2011), was adopted by only Mexico, Costa Rica, and a few countries in Eastern Europe other than East Asian counties, and that no country outside of East Asia had formed an industrial cluster, and only Mexico was just in the beginning stage.

243 The purpose of the investments was mainly to utilize cheap labor typified in the export-processing manufacturing industry against the background of growth of emerging countries, rising cost of labor in Japan, and trend of strong yen in the mid-1980s, mid-1990s, and early 2010s. Against the background of growth of ASEAN economies, NIEs companies expanded their business in ASEAN, following Japanese companies. By the early 1990s, the production network of Japan, NIEs, and ASEAN was established. Since then, intra-industry trade (intra-company trade) has rapidly increased in Asian countries.

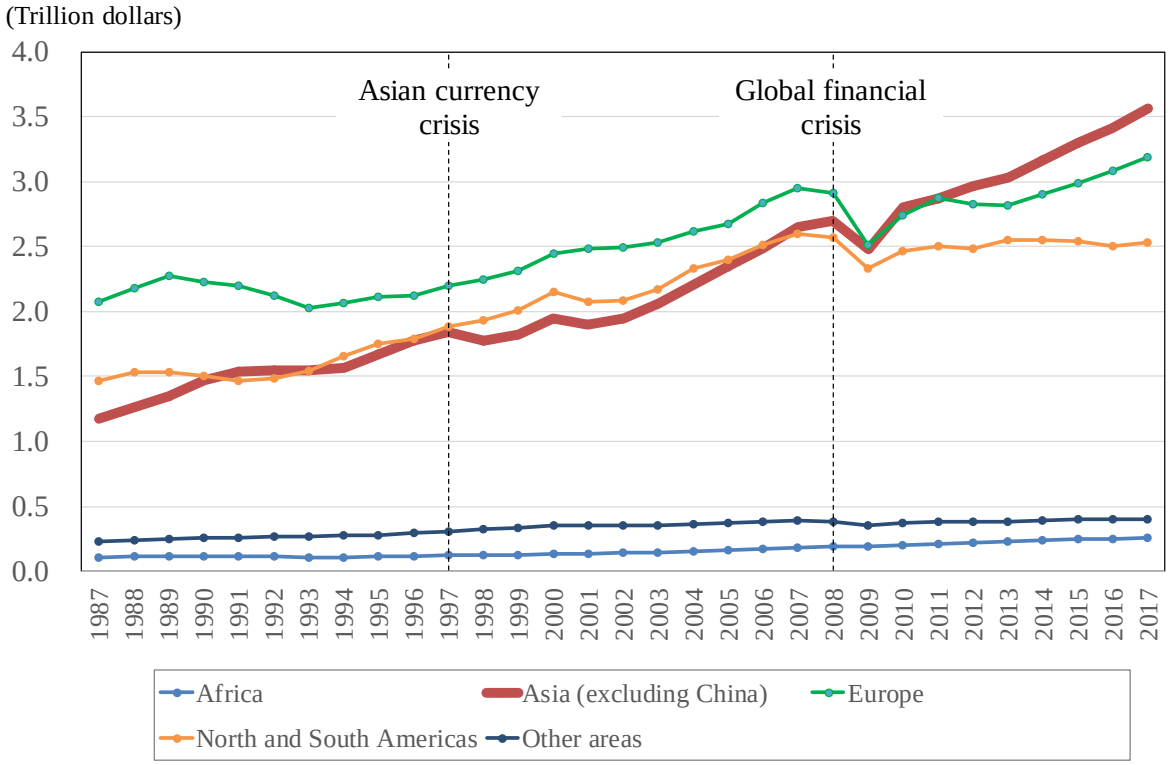
Figure II-3-3-1 Changes in the value of trade within the East Asia region and shares of intermediate goods among the value



Source: RIETI-TID2016

Against the development of this international inter-process division of work, the actual value added of the Asian manufacturing industry significantly expanded around the time of the Global Financial Crisis, exceeding North and South America and Europe, and Asia became the world's largest manufacturing base. (Figure II-3-3-2)

Figure II-3-3-2 Changes in the actual value added of the manufacturing industry (by region)



Notes: Actual value added in the 2010 standard. Mainland China is excluded due to no single manufacturing item.
Source: *National Accounts Main Aggregates* (UN)

Japan developed international inter-process division of work by firstly positioning ASEAN as an important production base in Asia. This strategy not only enhanced Japanese companies' competitiveness in the manufacturing industry but also significantly contributed to ASEAN's industrialization and industrial cluster. After that, Japan shifted production bases from ASEAN to China in the 2000s when China joined the WTO. In recent years, however, more and more Japanese companies have been considering ASEAN an important production base again on the back of various factors, including rising wages in China.

Going forward, a mutually complementary relationship between Japan and ASEAN is considered indispensable for growth on both sides, whereas its relationship has been changed recently. Here, we will verify the nature of the change, in order to grasp Japan's current status in ASEAN.

2. Japan's shrinking presence in ASEAN's trade and its background

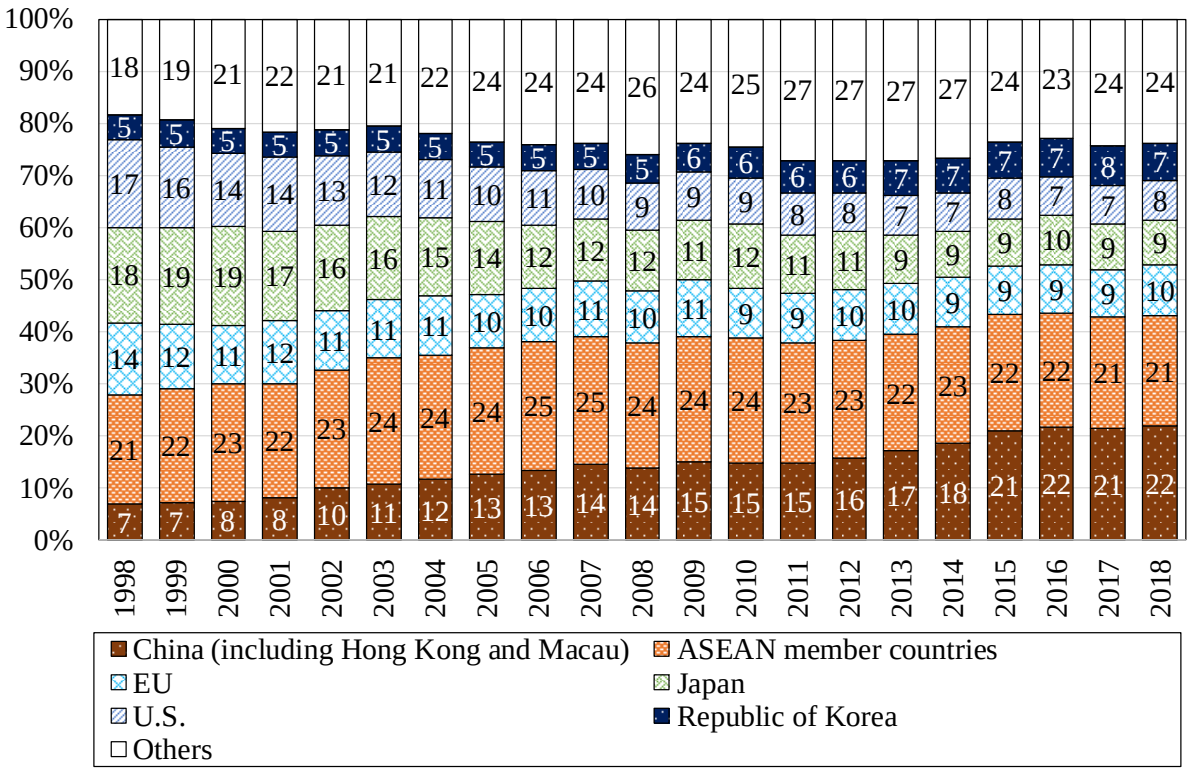
First, when viewing ASEAN member countries' imports from the world in the value base, they expanded from US$278.3 billion in 1998 to US$1,422.9 billion in 2018, increasing by a factor of about 5.1 times over the past 20 years, while the expansion of imports by ASEAN member countries from Japan during the same period was about only 2.4 times[244]. On the other hand, during the same period,

244 The expansion of imports from EU by ASEAN was about 3.6 times and that from the US was about 2.3 times.

ASEAN member countries' imports from China expanded 16.1 times, imports from Republic of Korea expanded 7.6 times, and the value of trade within ASEAN expanded about 5.1 times. As a percentage of imports from ASEAN, Japan's share was 18% in 1998, second to the share within ASEAN, but decreased by half to 9% in 2018. On the other hand, China's share significantly increased from 7% to 22% during the same period.[245] (Figure II-3-3-3)

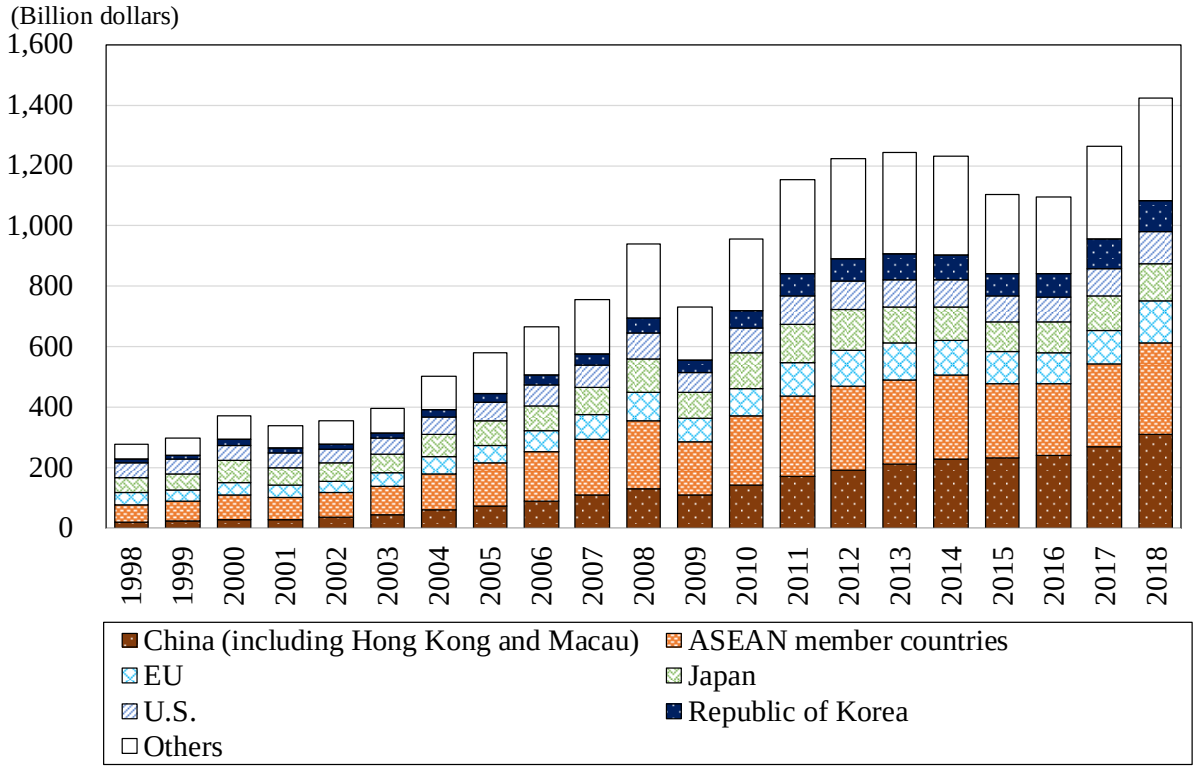
Figure II-3-3-3 ASEAN member countries' imports from the world

(Percentage basis)



245 Republic of Korea's share remained about 5% during the period from 1998 to 2008, and thereafter it was on a slightly upward trend and reached about 7% in 2018.

(Value basis)



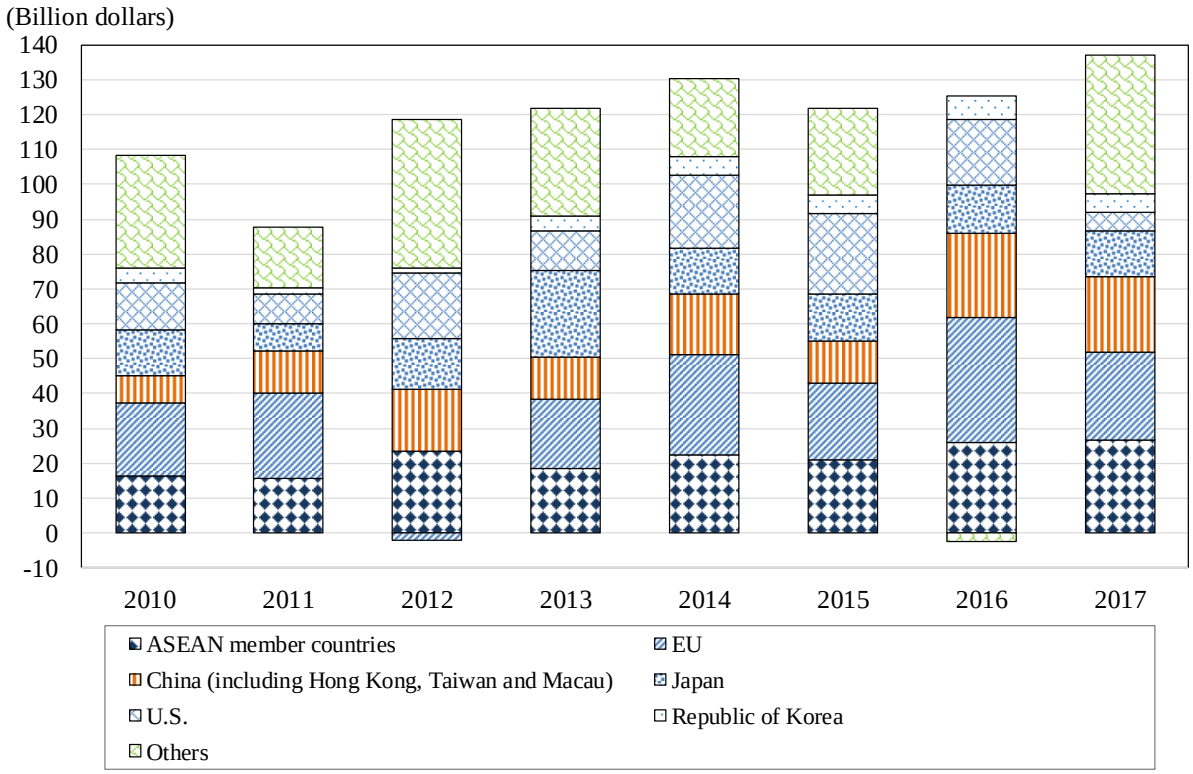
Source: IMF Direction of Trade Statistics

Next, let's take a view of foreign direct investment to ASEAN.[246]

Major investors are ASEAN member countries, EU, China (including Hong Kong, Macau, and Taiwan), Japan, the U.S., and Republic of Korea. Recently, while Japan's investment remained the same, investments within ASEAN, from EU, and from China have been increasing. (Figure II-3-3-4)

246 Published value by ASEAN Secretariat (flow-based and net-based). Value in 2017 was the highest (as of April 2019)

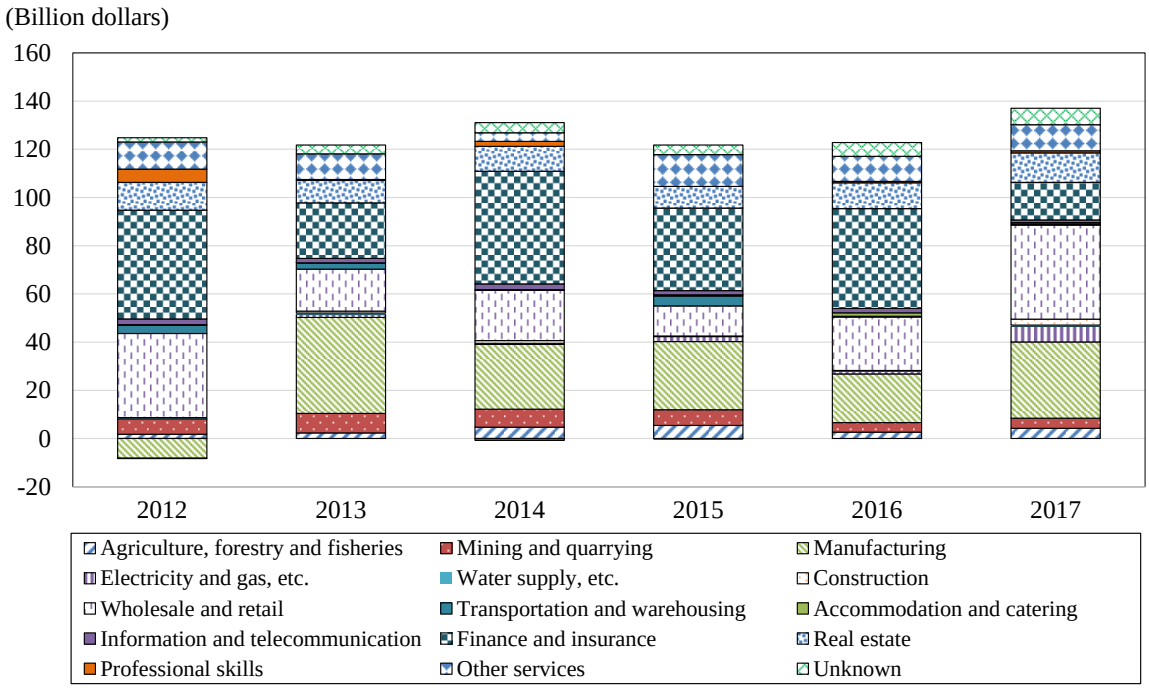
Figure II-3-3-4 Changes in the value of investment to ASEAN (by major country)



Notes: Flow-based and net-based
Source: ASEAN Secretariat

Major target industries for investment are manufacturing, wholesale and retail, finance and insurance, real estate, and other services. In 2017, investment in the finance and insurance industries decreased while investment in the wholesale and retail industries and the manufacturing industry increased. (Figure II-3-3-5)

Figure II-3-3-5 Value of intra-investment in ASEAN



Notes: Flow-based and net-based
Source: ASEAN Secretariat

In the investment area, although Japan's investment was recently overshadowed by the steady trends in investment within ASEAN member countries as well as investment from EU and China, it can be said that investment from Japan has remained firm.

As shown above, the shrinking presence of Japan in ASEAN is remarkable in trade rather than in investment. This situation may have the following various background factors:

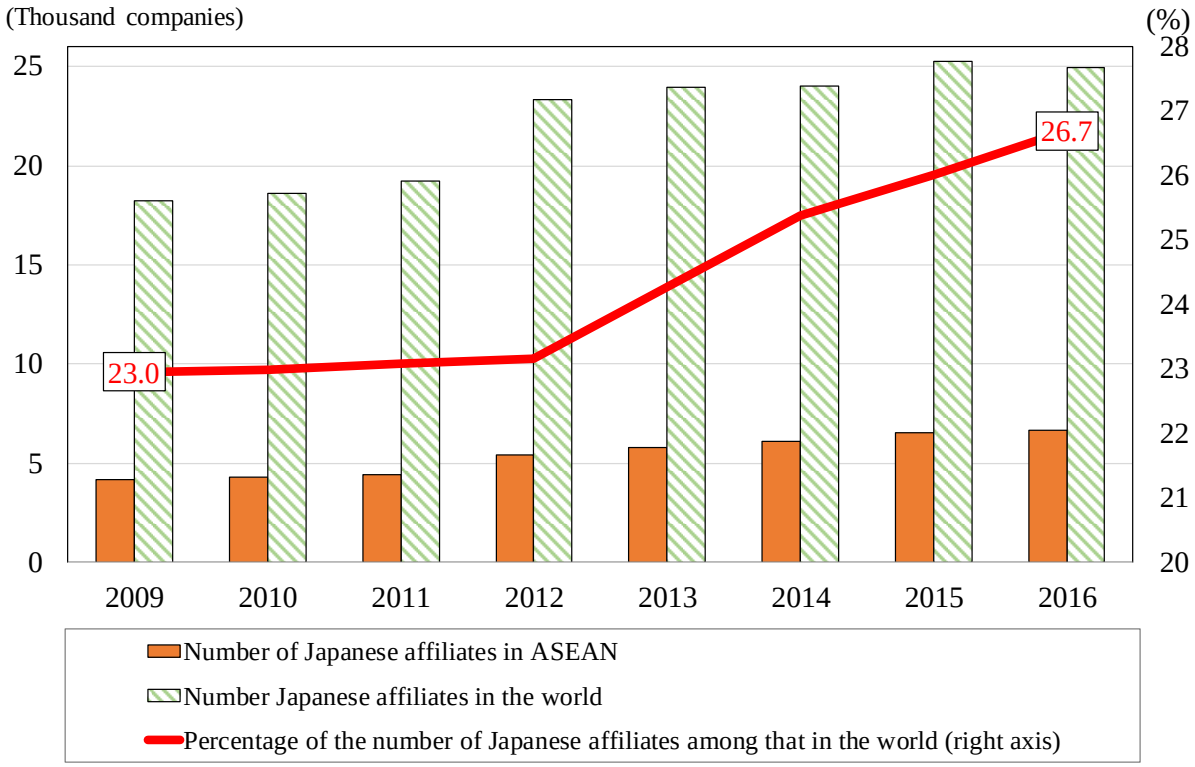
(1) Expansion of Japanese companies in ASEAN

As Japanese companies proactively established their local affiliates in ASEAN, local production in ASEAN replaced ASEAN's imports from Japan, resulting in a decrease in ASEAN's imports from Japan. In the background of expansion of Japanese companies in ASEAN, they initially intended to reduce labor cost, but recently an increasing number of Japanese companies have aimed at market development in order to produce products closer to consumers.

Although the number of local affiliates in ASEAN (hereinafter called affiliates in ASEAN) of Japanese companies has been increasing year by year, in recent years, its growth has slowed down.[247] Meanwhile, the growth in the number of affiliates of Japanese companies worldwide also slowed down. Thus, the ratio of the number of affiliates in ASEAN among the total number of overseas affiliates worldwide increased year by year from 23.0% in 2009 to 26.7% in 2016. This indicates that Japanese companies preferred and focused on ASEAN when they established affiliates. (Figure II-3-3-6)

247 Some have pointed out that this is due to no room for expansion (saturated).

Figure II-3-3-6 Changes in the number of affiliates of Japanese companies(worldwide and in ASEAN)



Notes: Please note that the figures above are simply sums of the figures of respective items in valid responses every year. The increase in the number of affiliates in fiscal 2012 reflects the development of population information for various statistical surveys through an economic census survey.

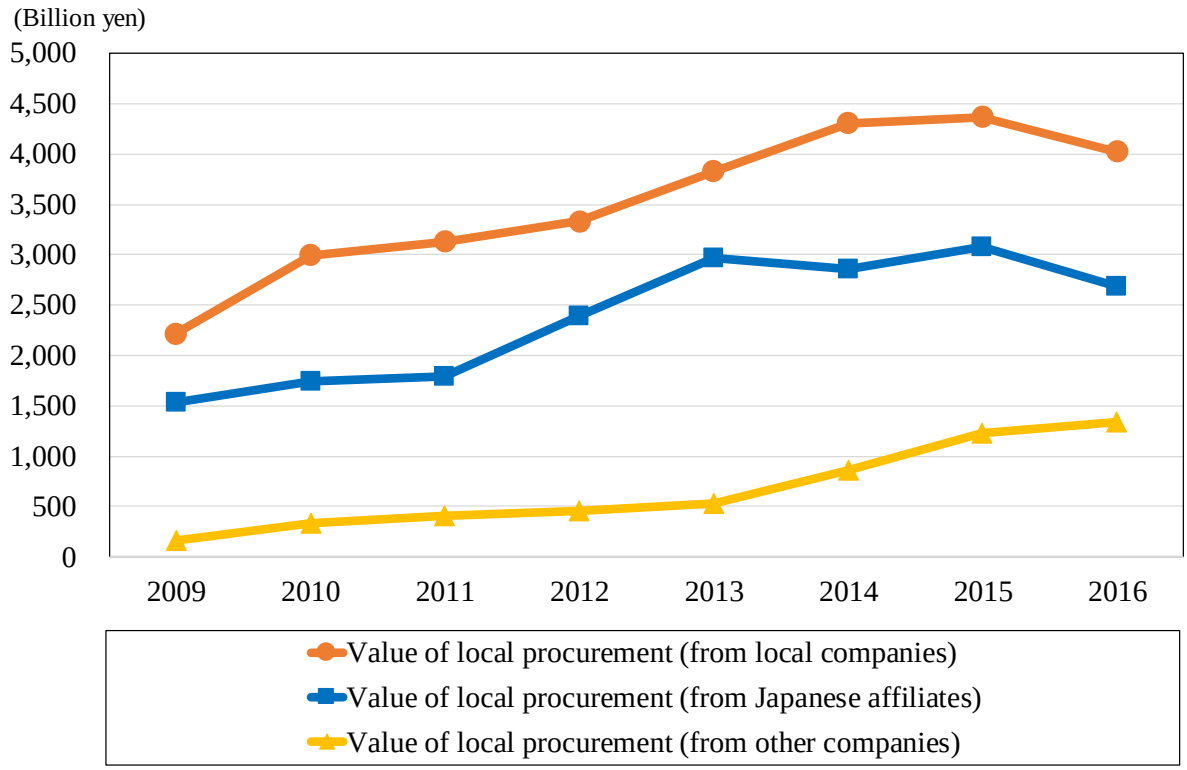
Source: Recalculation of questionnaire results of *Basic Survey on Overseas Business Activities* by Ministry of Economy, Trade and Industry, Japan

(2) Increase in local procurement in ASEAN

In recent years, the value of local procurement by affiliates in ASEAN has generally been on an increasing trend, although it has recently decreased. It is assumed that constant procurement from local companies reflected the growth of local companies. In addition, despite the low level, procurement from "other companies;" i.e., neither Japanese affiliates nor local companies,[248] has increased since fiscal 2014, showing diversification of suppliers. For example, it is considered that additional options of foreign companies as suppliers resulted in the decrease in imports from Japan. (Figure II-3-3-7)

248 *Basic Survey on Overseas Business Activities* (overseas affiliate survey form) shows "value of local procurement=procurement from Japanese affiliates + from local companies +from other companies."

Figure II-3-3-7 Changes in the value of local procurement by Japanese affiliates in ASEAN and the breakdown of suppliers (local companies, Japanese affiliates, and other companies)



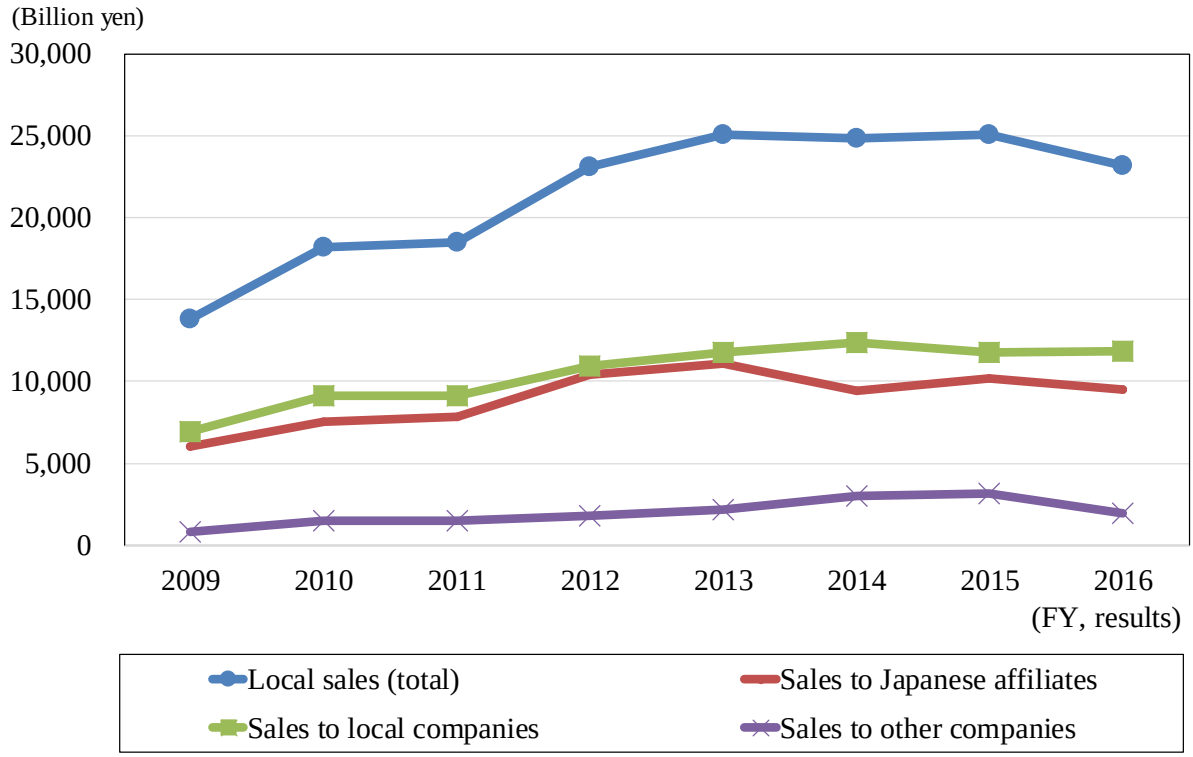
Notes: Please note that the figures above are simply sums of the figures of respective items in valid responses every year.
Source: Recalculation of questionnaire results of *Basic Survey on Overseas Business Activities* by Ministry of Economy, Trade and Industry, Japan.

(3) Japanese companies that do not capture demand in ASEAN

Although the ASEAN market has been expanding thanks to factors such as the large population of 650 million within the area,[249] the majority of the population consisting of the young generation, and the rising middle-income class in line with the rise in the income level, the sales amount of affiliates in ASEAN (Figure II-3-3-8), including the amount of sales to local companies (Figure II-3-3-9), was generally flat or on a decreasing trend. The supposed reason is that Japanese affiliates failed to capture "new" demand in ASEAN, and ASEAN may have changed their import country from Japan to other countries, which may have led to a decrease in the value of procurement from Japan by Japanese affiliates in ASEAN, resulting in the decrease in the value of imports from Japan.

249 Data from WEO of IMF, April 2019. The total population of ten ASEAN member countries (actual figure in 2018). It is estimated to be 660 million in 2020.

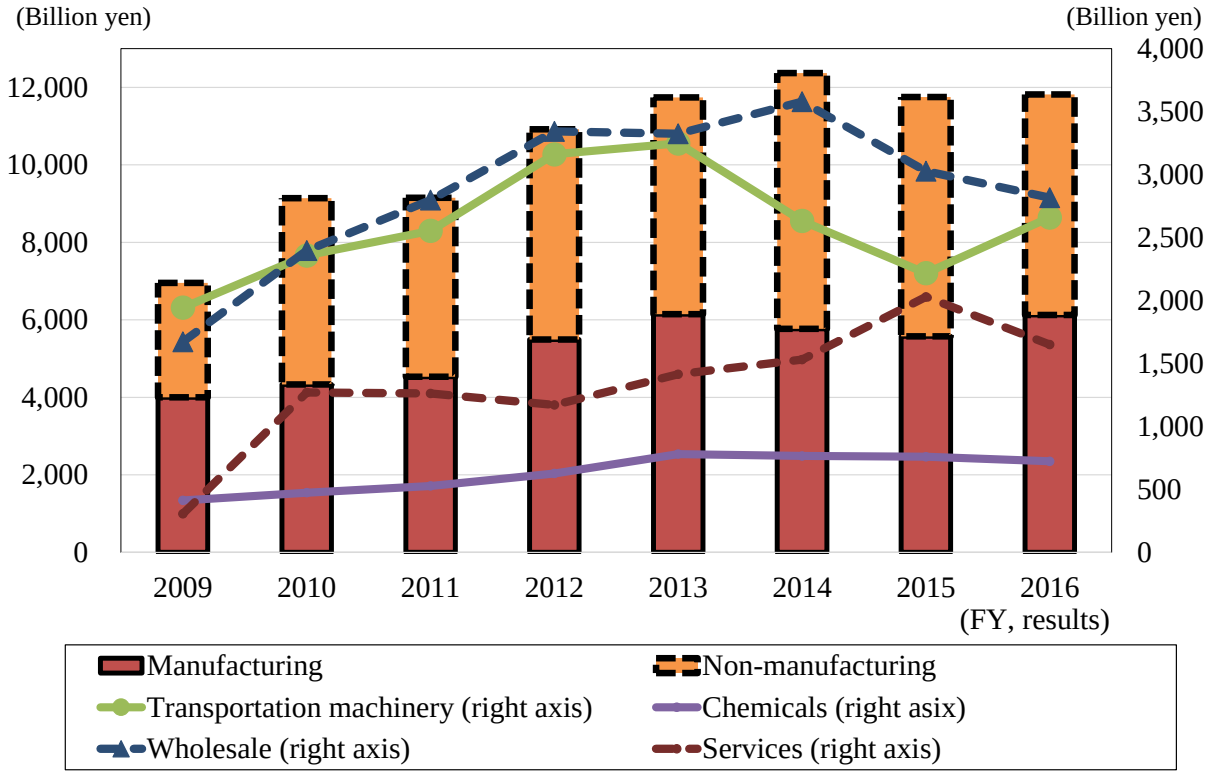
Figure II-3-3-8 Changes in the amount of local sales of Japanese affiliates in ASEAN and purchasers (to Japanese affiliates, local companies, and other companies)



Notes: Please note that the number of affiliates, statistical population, increased from the 2013 survey (actual value in 2012) (This was due mainly to extracting and complementing from the List of Economic Census for Business Frame)

Source: Disclosure of *Basic Survey on Overseas Business Activities* on the website of Ministry of Economy, Trade and Industry, Japan.

Figure II-3-3-9 Changes in the amount of sales by affiliates in ASEAN to local companies and industries (manufacturing and non-manufacturing industries)



Notes: Of the amount of local sales, this is the amount of sales to local companies. As representatives of manufacturing industries and non-manufacturing industries, the two industries having the highest amount are selected for each category (manufacturing industry: transportation machinery industry and chemical industry/non-manufacturing industries: wholesales industry and service industry)

Source: *Basic Survey on Overseas Business Activities* (disclosure on the website of Ministry of Economy, Trade and Industry, Japan.

The breakdown[250] of the amount of sales to local companies shows 51.9% to the manufacturing industry and 48.1% to non-manufacturing industries, almost on a par with each other. In addition, the top two industries accounting for a high proportion of the manufacturing industry were the transportation machinery industry (43.4% of the manufacturing industry) and the chemical industry (11.8% of the same), while the top two industries of the non-manufacturing industries are the wholesale industry (49.5% of the non-manufacturing industries) and the service industry (29.0% of the same).

We referred to the fact that Japan failed to capture "new" demand in ASEAN and that ASEAN may have changed their import country from Japan to other countries.[251] In this paragraph, we have made comparative verification of trends of exports to ASEAN by the major players of Japan, China, and Republic of Korea with regard to four product items of electric machinery, general machinery,

250 Calculated based on the 2016 results.

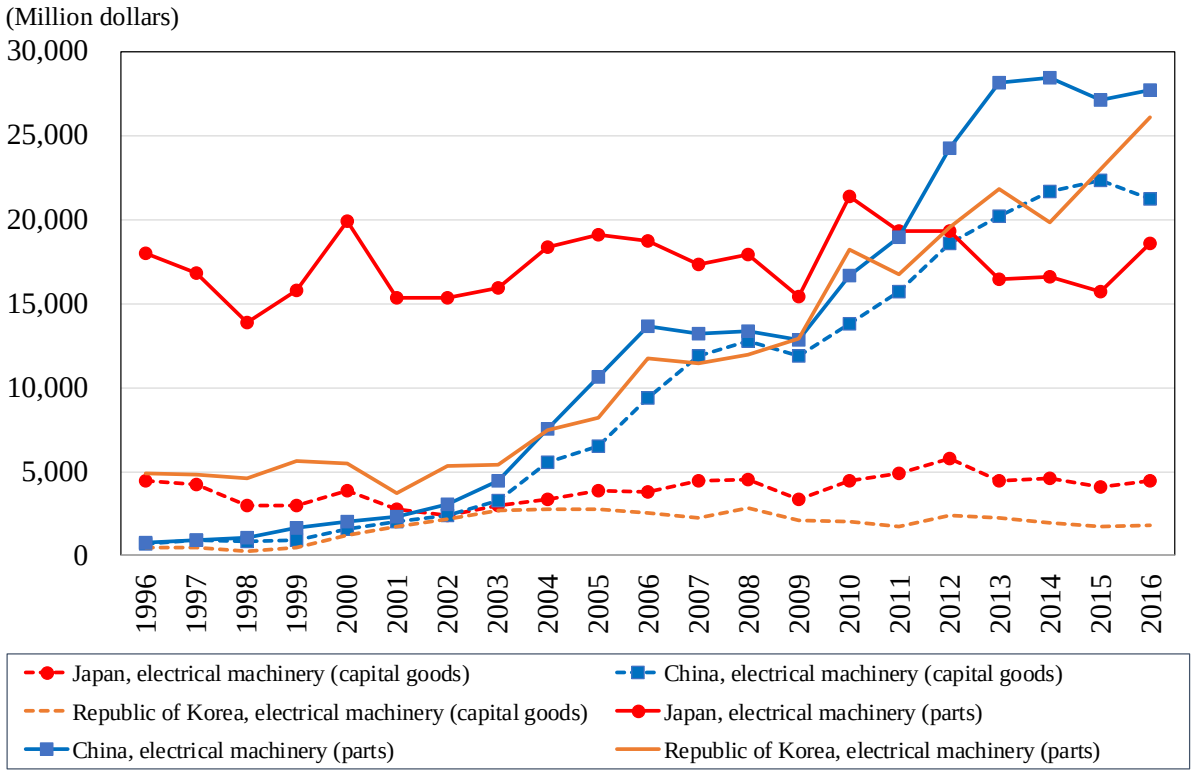
251 According to the White Paper Manufacturing Industries (Monodzukuri) 2019, the Japanese manufacturing industry tends to recognize advantages in "technological development capability," "product quality," and "problem-discovery and problem-solving capabilities" compared with those of other countries (the U.S., Germany, and China), while it tends to recognize disadvantages in "automated production and labor-saving" and "product planning capability and marketing capability." This will serve as a useful reference for identifying factors for losing demand to other countries.

transportation machinery, and precision machinery (each item is classified into capital goods and parts), which are major product items in the production networks, as well as Japanese import items.

As a result, our verification indicates that demand for electrical equipment (component) in ASEAN has been captured by China and Republic of Korea and demand for electrical equipment (capital goods) has been captured by China. (Figure II-3-3-10) Republic of Korea is well-known for intra-company division of labor,[252] which characterizes its trade style, focusing on exports of electrical equipment (components).

Demand for both parts and capital goods of general machinery may have been captured by China and Republic of Korea, and particularly, China has been remarkably expanding its presence in the general machinery (capital goods) field (Figure II-3-3-11).

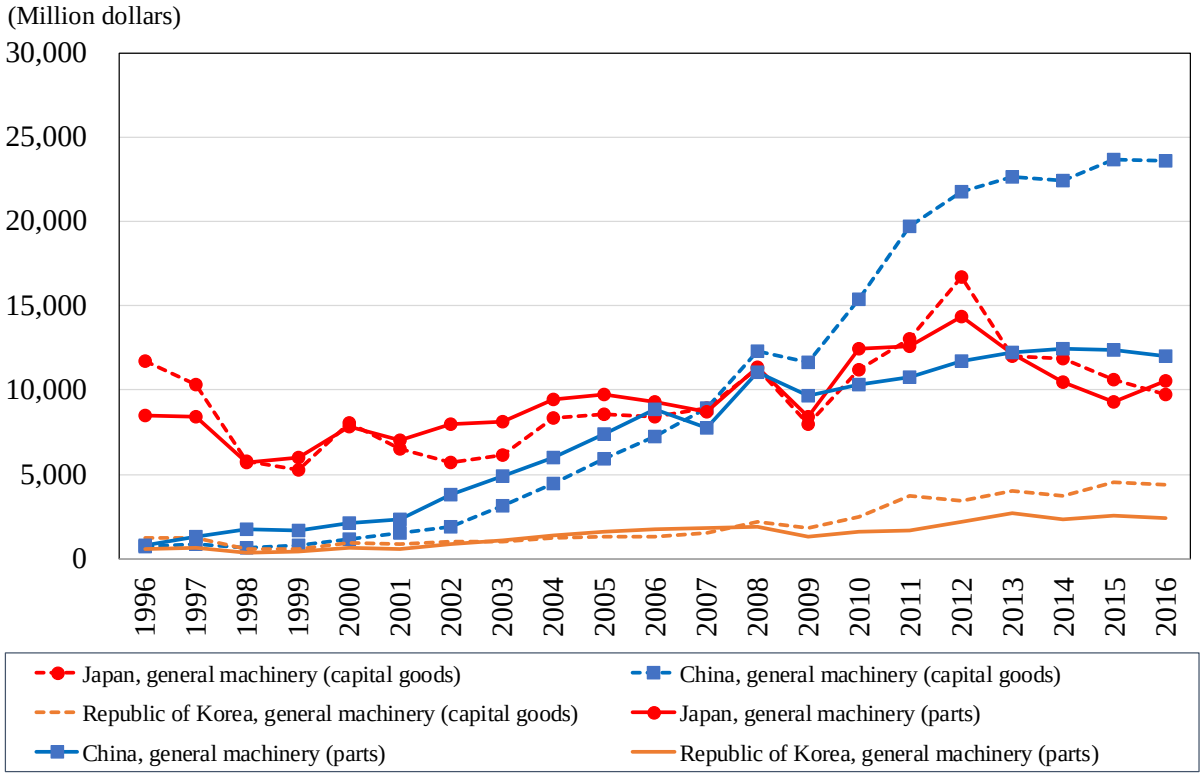
Figure II-3-3-10 Changes in export values of electrical machinery (capital goods and parts) to ASEAN (comparison between Japan and China)



Notes: Myanmar and Laos are not included in ASEAN.
Source: RIETI-TID

252 LG and Samsung are often taken as examples.

Figure II-3-3-11 Changes in export values of general machinery (capital goods and parts) to ASEAN (comparison among Japan, China, and Republic of Korea)

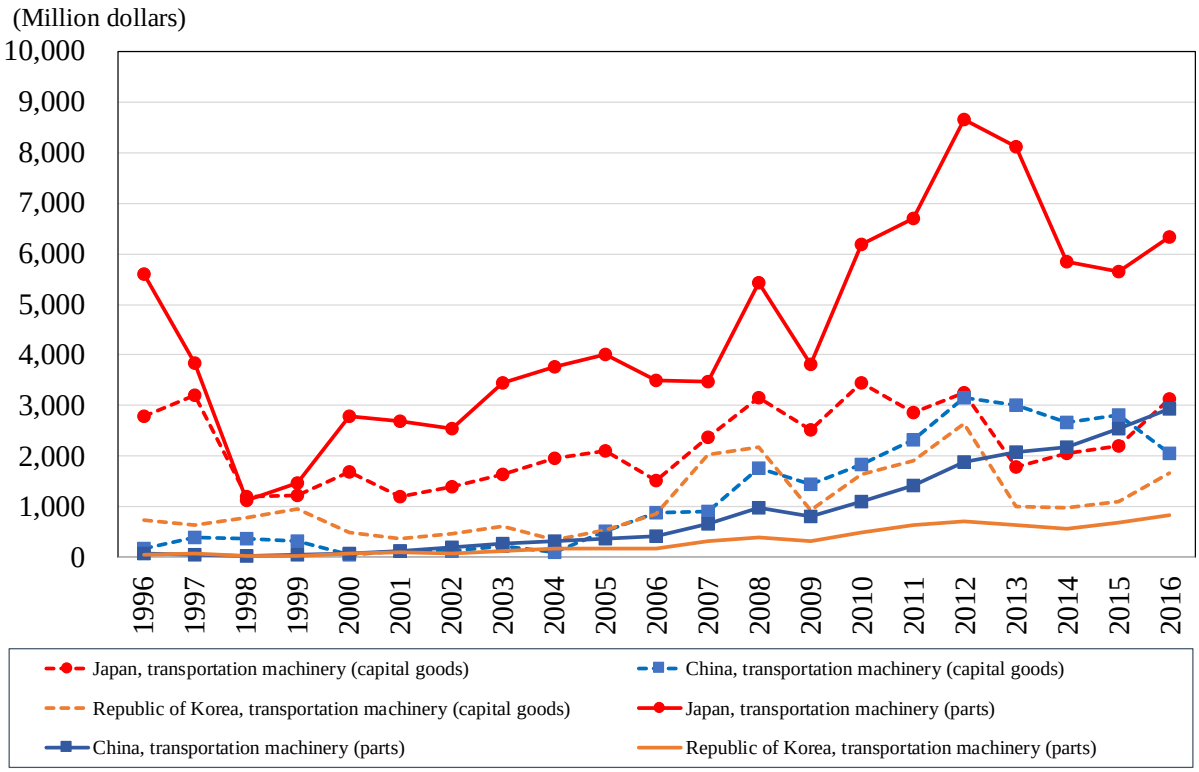


Notes: Myanmar and Laos are not included in ASEAN.
Source: RIETI-TID

With regard to transportation machinery, the Figure shows that the value is low because it is considered that the local supply chain for the product has matured more than for other products,[253] and Japan has advantages in both parts and capital goods compared to the other countries. (Figure II-3-3-12)

253 It can be assumed that since the transportation machinery industry handles heavier and larger machinery than the other machinery industries, it prefers places of advanced industrial clusters for production bases, in view of transportation cost.

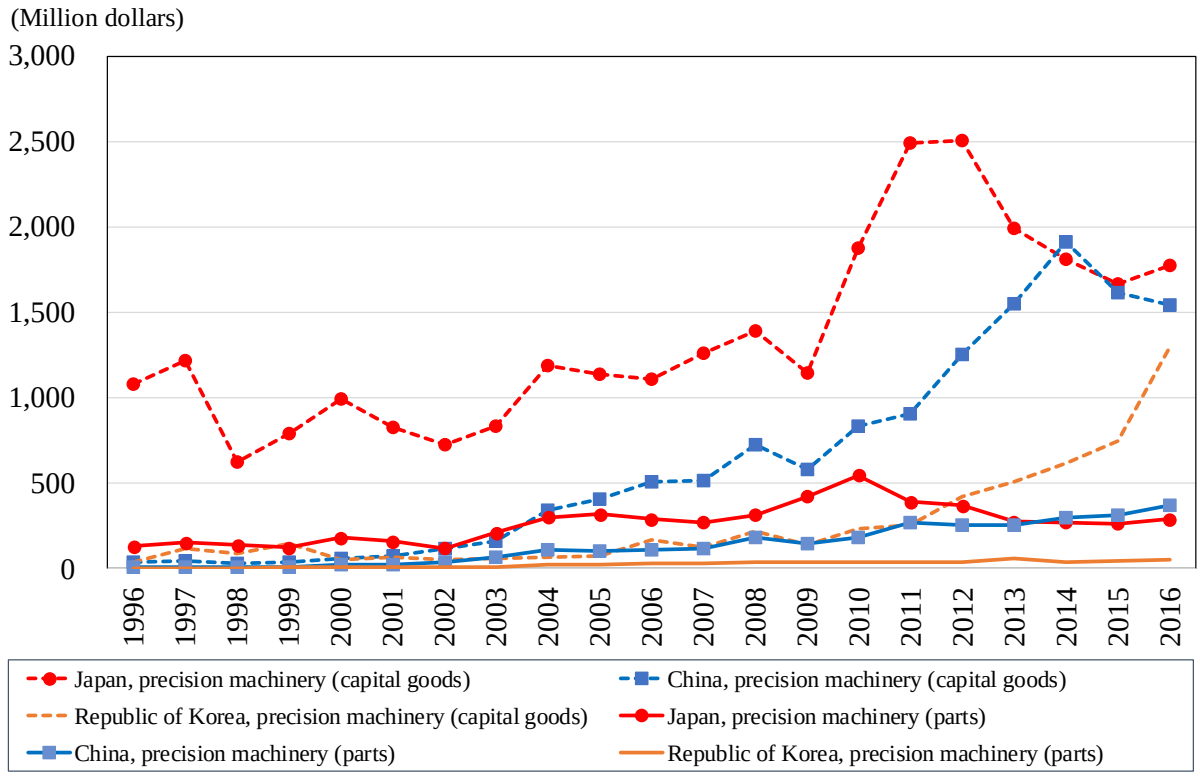
Figure II-3-3-12 Changes in export values of transportation machinery (capital goods and parts) to ASEAN (comparison among Japan, China, and Republic of Korea)



Notes: Myanmar and Laos are not included in ASEAN.
Source: RIETI-TID

We can see that the value of precision machinery was at a lower level than transportation machinery and the values of recent export of parts from the three countries were almost the same (Figure II-3-3-13).

Figure II-3-3-13 Changes in export values of precision machinery (capital goods and parts) to ASEAN (comparison among Japan, China, and Republic of Korea)



Notes: Myanmar and Laos are not included in ASEAN.
Source: RIETI-TID

However, it should be noted that the same product group varies in functions, quality, and price. Separate, detailed analysis is required for understanding how countries export their products, in terms of whether they supply a small volume of expensive products, or a large volume of inexpensive general products to secure benefits of scale.[254]

3. Changes in Japanese companies' business style; shift from "emphasis on profit in exports of goods" to "emphasis on profit in dividends and royalties"

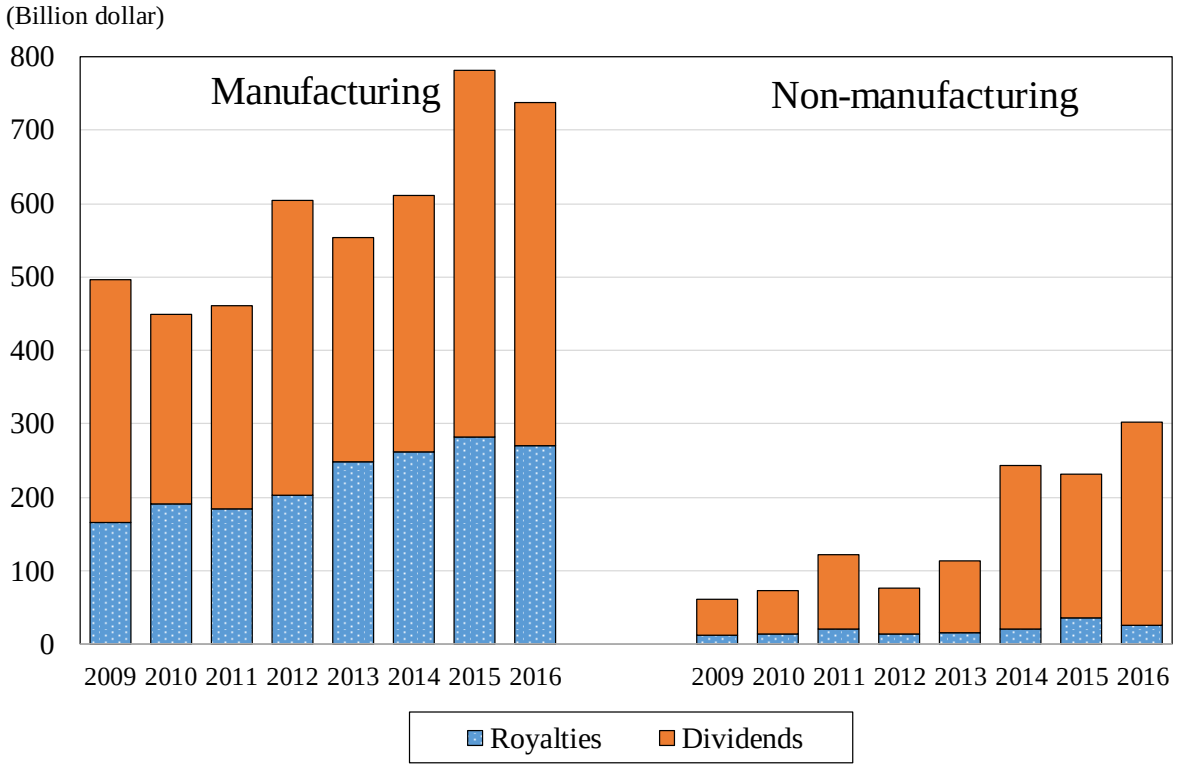
We have mentioned that the presence of Japan in trade with ASEAN (particularly imports from the world) shrank because of various background factors such as local expansion of Japanese companies in ASEAN, growth of local companies in ASEAN, and procurement from other countries in place of Japan. On the other hand, we can see changes in Japanese companies' business models to secure profits through payment of dividends and royalties paid by affiliates to Japanese investors in place of traditional export of parts and components.

Classifying the amount of such payment to Japanese investors by the manufacturing industry and

254 It is said that Japanese companies that recognized advantages in the quality of their products competed in terms of high added values and high-priced products. While they achieved customers' trust in Japanese brand by that strategy, it is pointed out that they failed to capture demand in the volume zone favored by young people and the middle-income class, who were attracted to the other countries.

non-manufacturing industries, we can see that the amount from the manufacturing industry is larger than that from the non-manufacturing industries and that the amount of dividends from the non-manufacturing industries has recently became larger (Figure II-3-3-14).

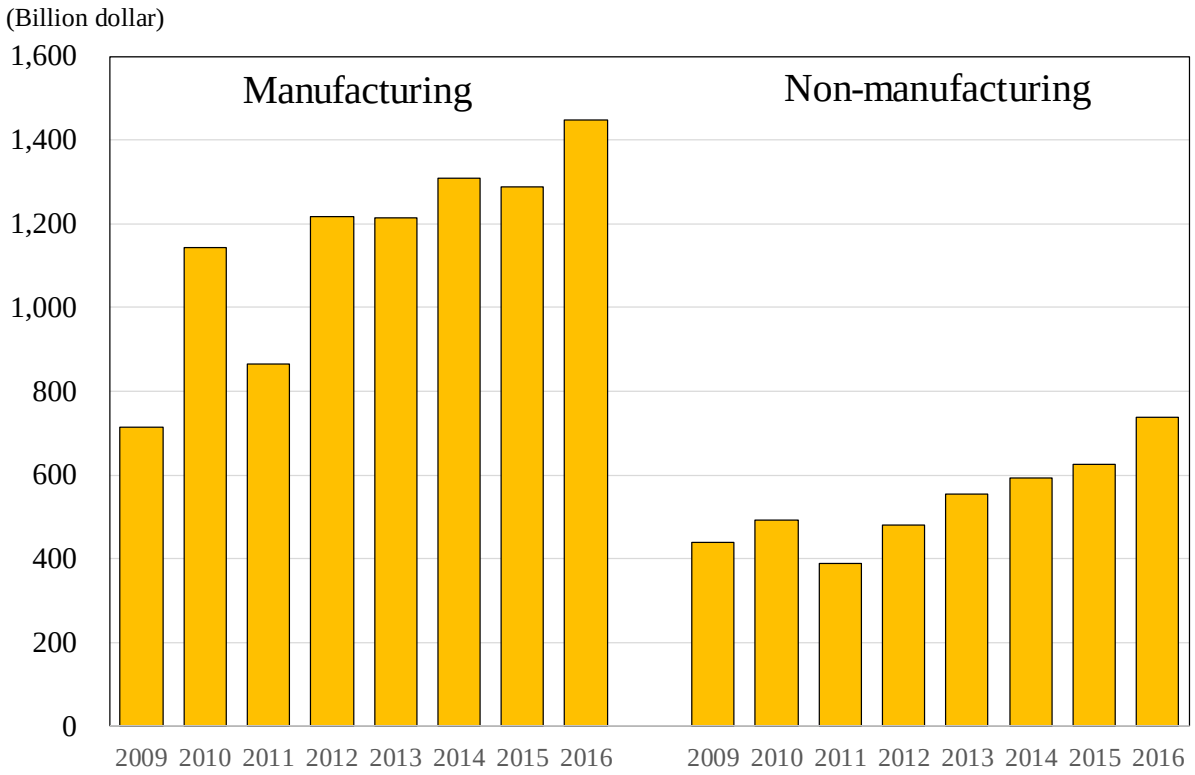
Figure II-3-3-14 Changes in payment by Japanese affiliates in ASEAN to Japanese investors (royalties and dividends)



Notes: Please note that the values above are simply sums of the values of respective items in valid responses every year.
Source: Recalculation of questionnaire results of *Basic Survey on Overseas Business Activities* by Ministry of Economy, Trade and Industry, Japan.

The net income of Japanese affiliates in ASEAN has generally been on an upward trend (Figure II-3-3-15). For reference, although there were no specific characteristics in the share of dividends in net income as it moved up and down year by year; the share of dividends in the 2016 net income was 49.9% in all industries, 45.5% in the manufacturing industry, and 59.5% in non-manufacturing industries. (Figure II-3-3-16).

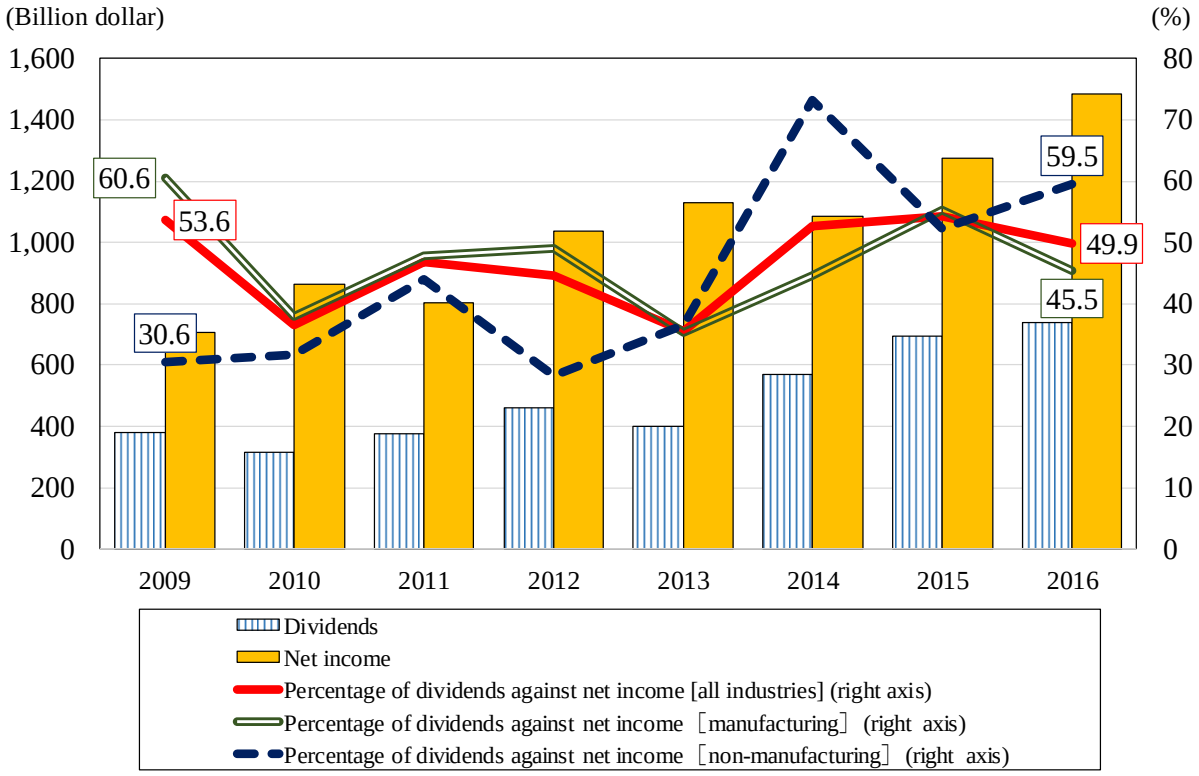
Figure II-3-3-15 Changes in net income of Japanese affiliates in ASEAN



Notes: Please note that the values above are simply sums of the values of respective items in valid responses every year.

Source: Recalculation of questionnaire results of *Basic Survey on Overseas Business Activities* by Ministry of Economy, Trade and Industry, Japan.

Figure II-3-3-16 Changes in net income and dividends of Japanese affiliates in ASEAN



Notes: The figure is a graph of the total "net income," total "dividends," which are payment from the net income to Japanese investors, and the share of "dividends" in the "net income" of Japanese affiliates in ASEAN10 according to the questionnaire results of *Basic Survey on Overseas Business Activities* by the Ministry of Economy, Trade and Industry, Japan. The graph was created from the affiliates that stated both dividends and net income, which are different from a simple addition of the values of respective items.

Source: Recalculation of questionnaire results of *Basic Survey on Overseas Business Activities* by Ministry of Economy, Trade and Industry, Japan.

4. Strong capital ties between Japanese companies and companies in ASEAN - comparison with China and Republic of Korea

We have mentioned that Japanese companies have an aspect of securing profits not only by exporting goods but also by receiving royalties and dividends. In this regard, we have verified to what extent companies in ASEAN and Japanese companies, not Japanese affiliates, have capital ties, by comparison with China and Republic of Korea.

As a result, when extracting only companies (Global Ultimate Owners) whose comprehensive ownership was registered 100%,[255] we found that there were 4,423 companies in Japan, 3,613 companies in China, and 352 companies in Republic of Korea. This suggests that capital ties between Japanese companies and companies in ASEAN are comparatively strong.

In addition, countries and industries of investee companies vary between the three countries.

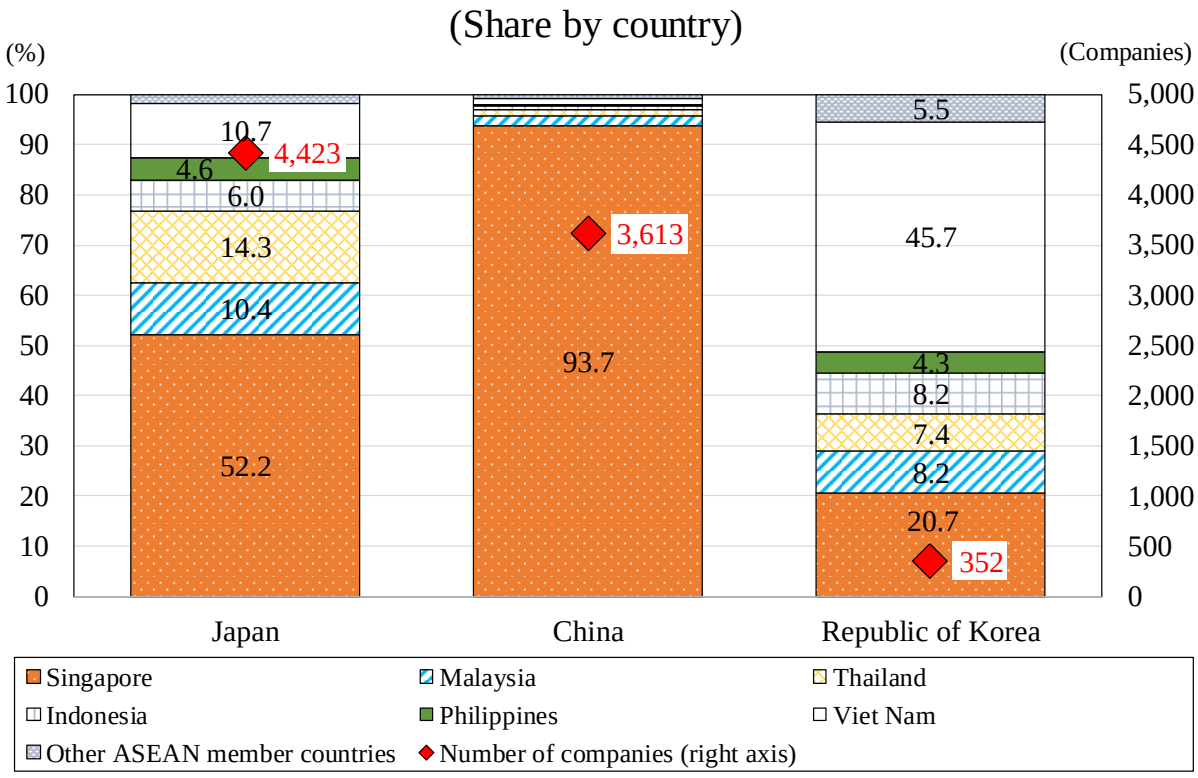
By country, Japan made a majority of investment in Singapore while the remainding investment is

255 This is extracted from the Orbis database of Bureau van Dijk, and there are some points to be considered, such as not being limited to direct and wholly owning parent company and exclusion of companies whose ownership is unknown.

diversified in multiple countries such as Thailand, Vietnam, and Malaysia. On the other hand, China and Republic of Korea are characterized by investing in specific countries; China's investment in Singapore is about 94%, and Republic of Korea invested in Singapore as well as Vietnam (45.7%).[256]

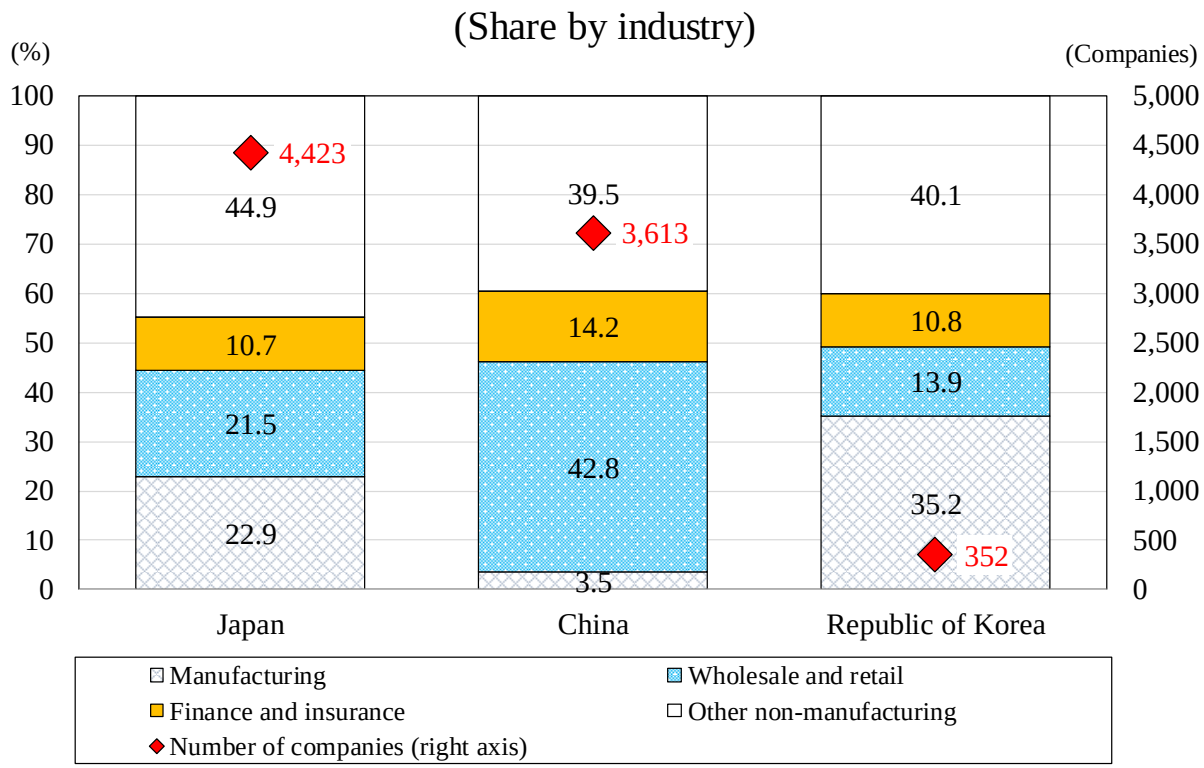
By industry,[257] all three countries invested more in non-manufacturing industries than in the manufacturing industry; Japan's share is 77%, China's share is 96.7%, and Republic of Korea's share is 64.8% (Figure II-3-3-17).

Figure II-3-3-17 Number of investing companies and their shares by country and industry (comparison among Japan, China, and Republic of Korea)



256 Reasons why companies in the three countries prefer Singapore as an investment country seem to be Singapore's good business environment and its high advantages in the role of headquarters in the ASEAN region.

257 Industry of not parent companies but subsidiaries in ASEAN



Notes: Extracted Global Ultimate Owner (GUO) companies whose comprehensive ownership is registered as 100%. Please note that they are not limited to direct wholly owning parent company, and companies whose ownership is unknown are excluded.
Source: Bureau van Dijk (Zephyr) (downloaded on March 8, 2019)

5. Changes in ASEAN economy

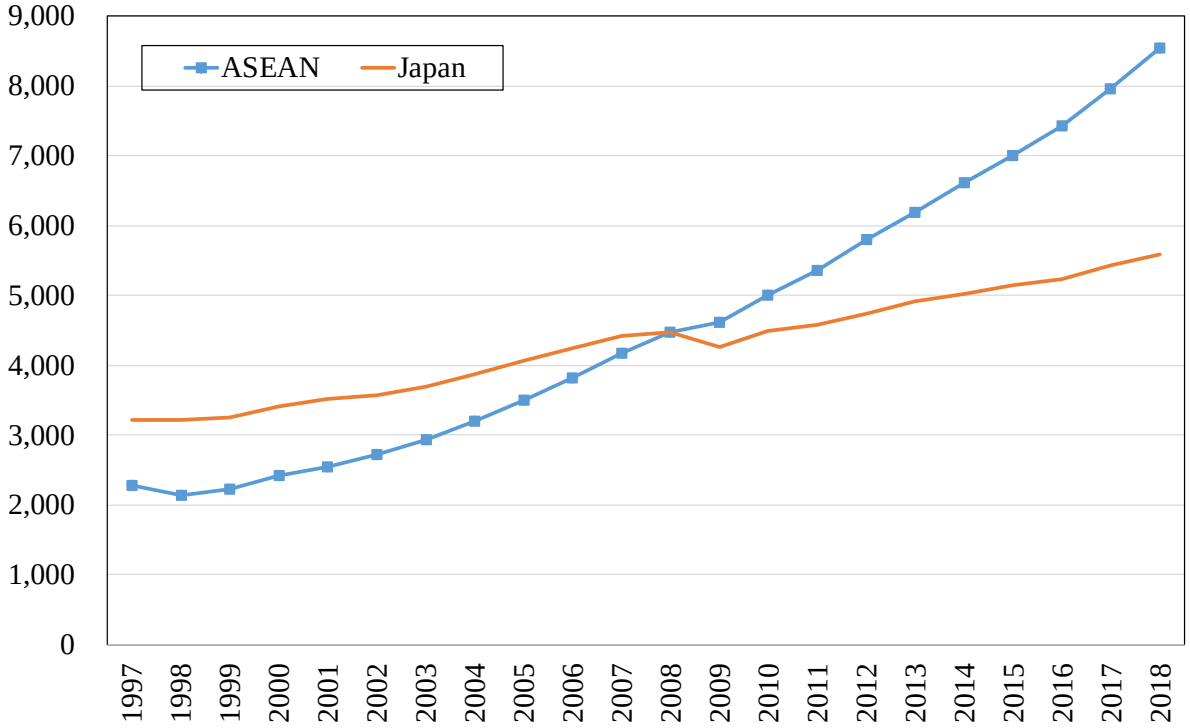
As mentioned above, we have viewed the current state of and changes in economic relations between Japan and ASEAN from a Japanese perspective. It can be considered that changes in interactions between the two are attributed to not only changes in Japanese companies' business models but also ASEAN's growth and changes. Below we describe changes in ASEAN itself.

(1) Expansion of nominal GDP of ASEAN

The value of nominal GDP of ASEAN (purchasing power parity basis) exceeded that of Japan in 2008 and has been expanding. (Figure II-3-3-18). It can be said that the economic level of consumers in the entire ASEAN region has been increasing at a higher pace than that of Japanese consumers, although of course there are significant differences among countries and areas.

Figure II-3-3-18　Changes in nominal GDP of ASEAN (purchasing power parity)

(Billion dollars)

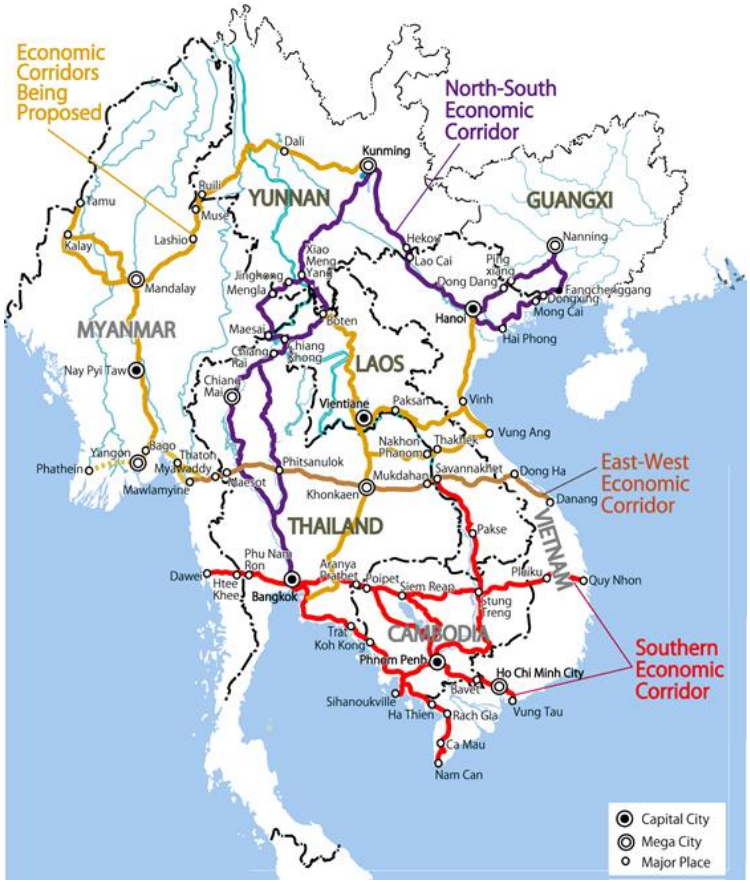


Source: IMF WEO Database, April 2019

(2) Progress of economic integration of ASEAN member countries

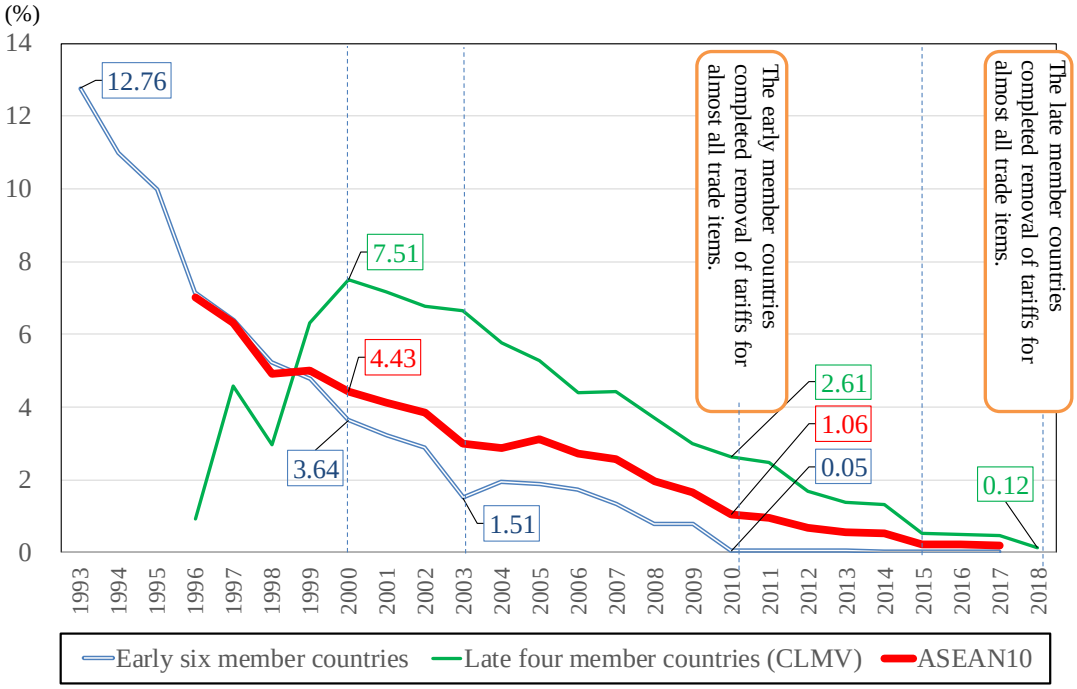
Thanks to the development of cross-border infrastructure in ASEAN, including economic corridors of east and west, the southern area, and north and south, logistics and transportation among ASEAN member countries and with neighboring countries have been active (Figure II-3-3-19). This movement has enhanced the economic linkage in ASEAN in line with the removal of tariffs on almost all goods from January 2018 (Figure II-3-3-20). With these developments, it is considered that trade and investment both within and outside ASEAN will further expand, further strengthening its participation in GVC.

Figure II-3-3-19 ASEAN's typical economic corridors



Source: Prepared by Dr. Masami Ishida, Institute of Developing Economies JETRO

Figure II-3-3-20 Progress of removal of tariffs in ASEAN member countries



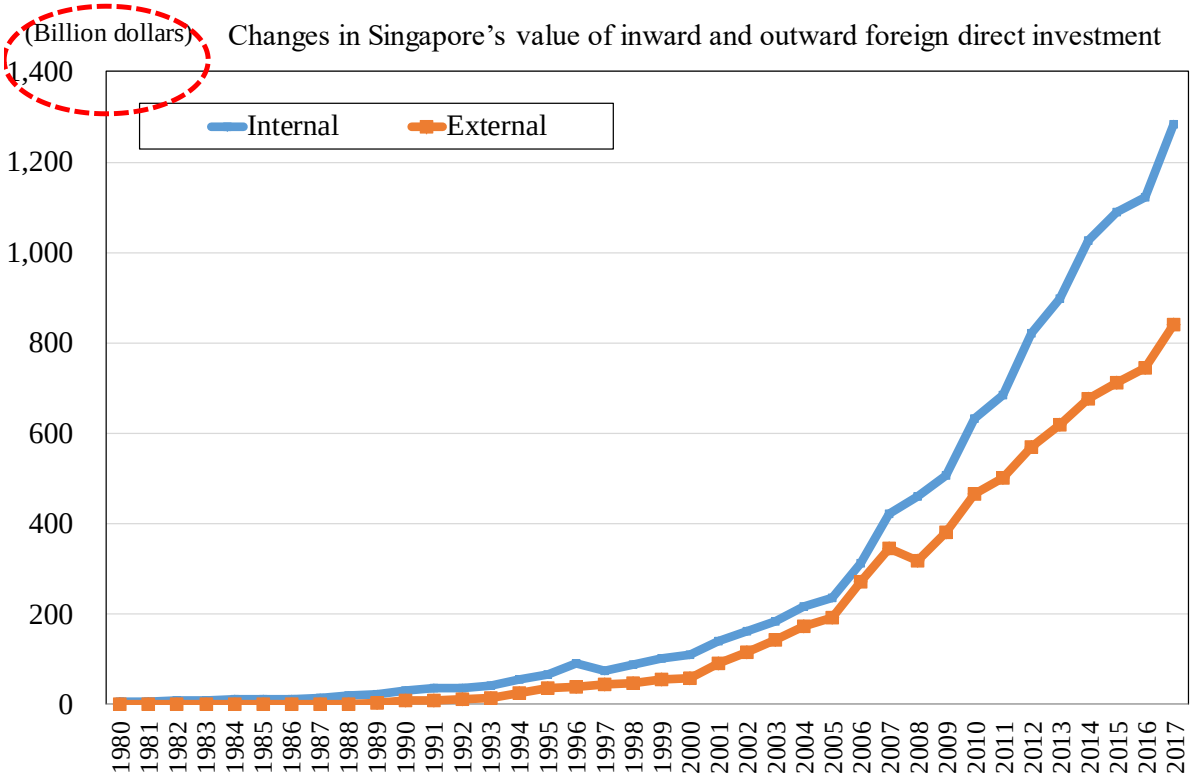
Source: Data of ASEAN Secretariat. The percentage of CLMV in 2018 was quoted from the figures calculated by Dr. Sukegawa.

(3) Active foreign investment by companies in ASEAN -changed from investee to investor-

As mentioned in (1) and (2) above, in the favorable environments for the growth of the ASEAN economy, Singapore and Malaysia took a lead in investment, followed by Thailand, and in Indonesia, the Philippines, and Vietnam, investments are currently expanding.

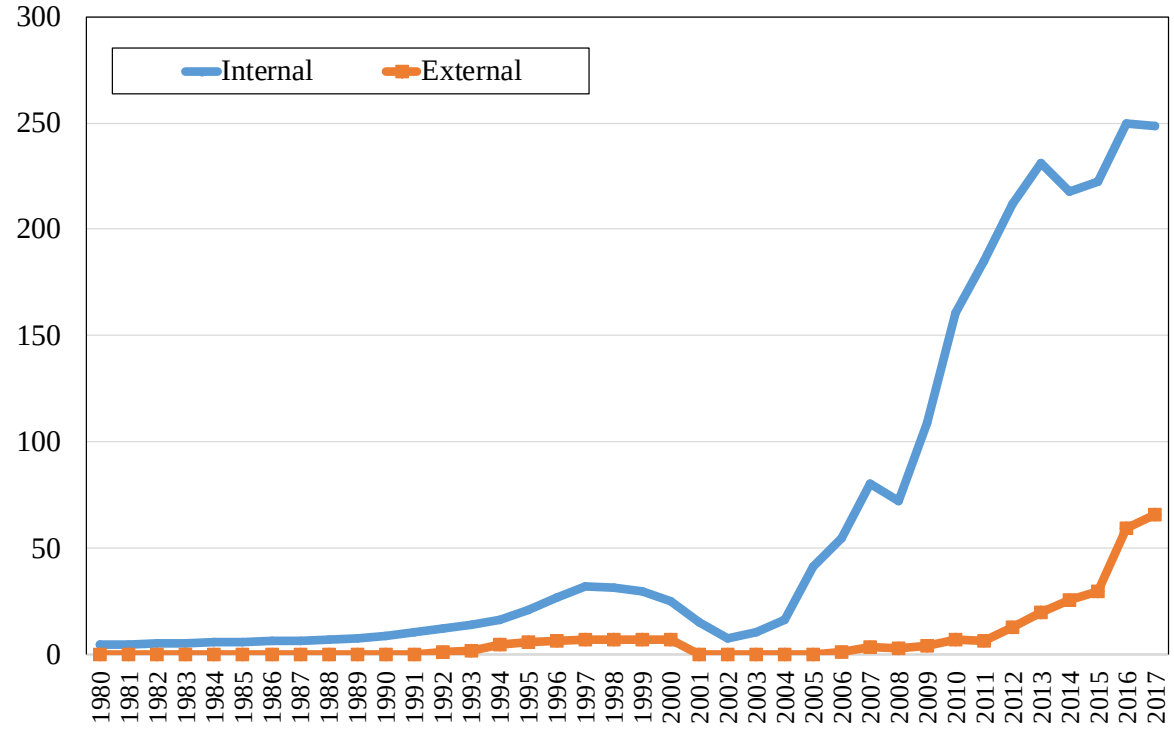
It is notable that Singapore's value is high, and Malaysia had a year when foreign investment exceeded domestic investment (Figure II-3-3-21).

Figure II-3-3-21 Changes in foreign direct investment by major ASEAN member countries (foreign and domestic investment)



Source: UNCTAD

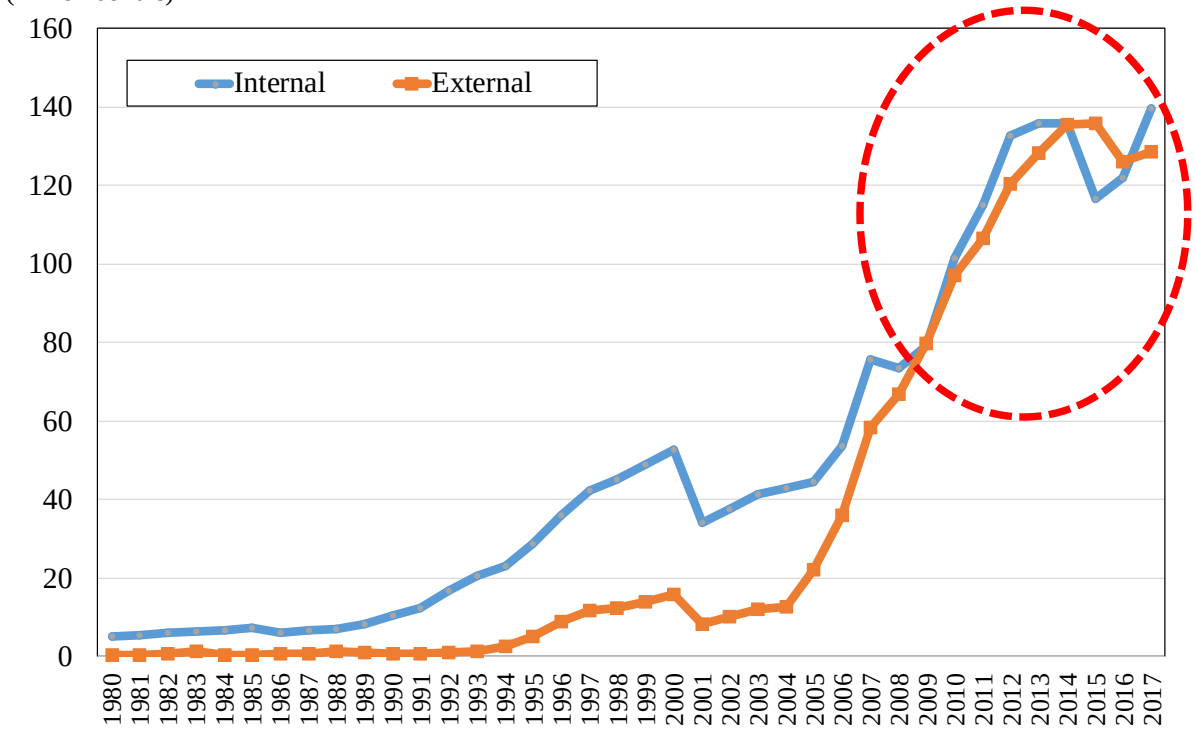
(Billion dollars) Changes in Indonesia's value of inward and outward foreign direct investment



Notes: The values of direct foreign investment in 2001 to 2005 are recorded as zero because they were not disclosed.

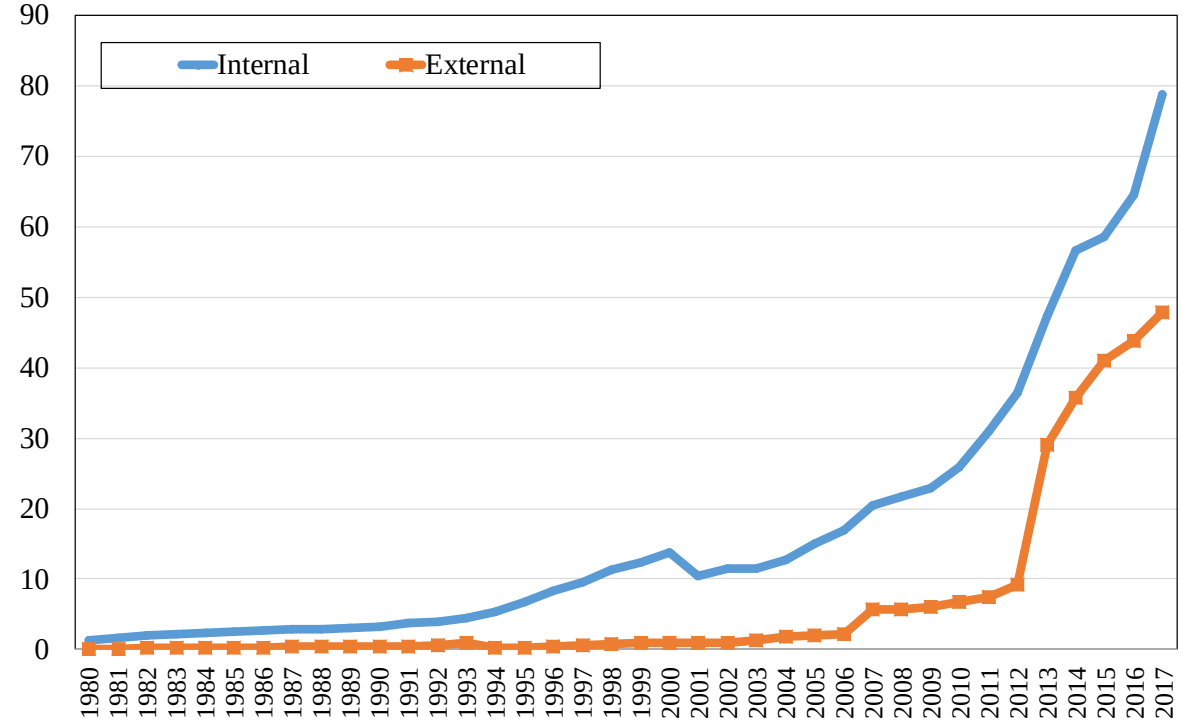
Source: UNCTAD

(Billion dollars) Changes in Malaysia's value of inward and outward foreign direct investment



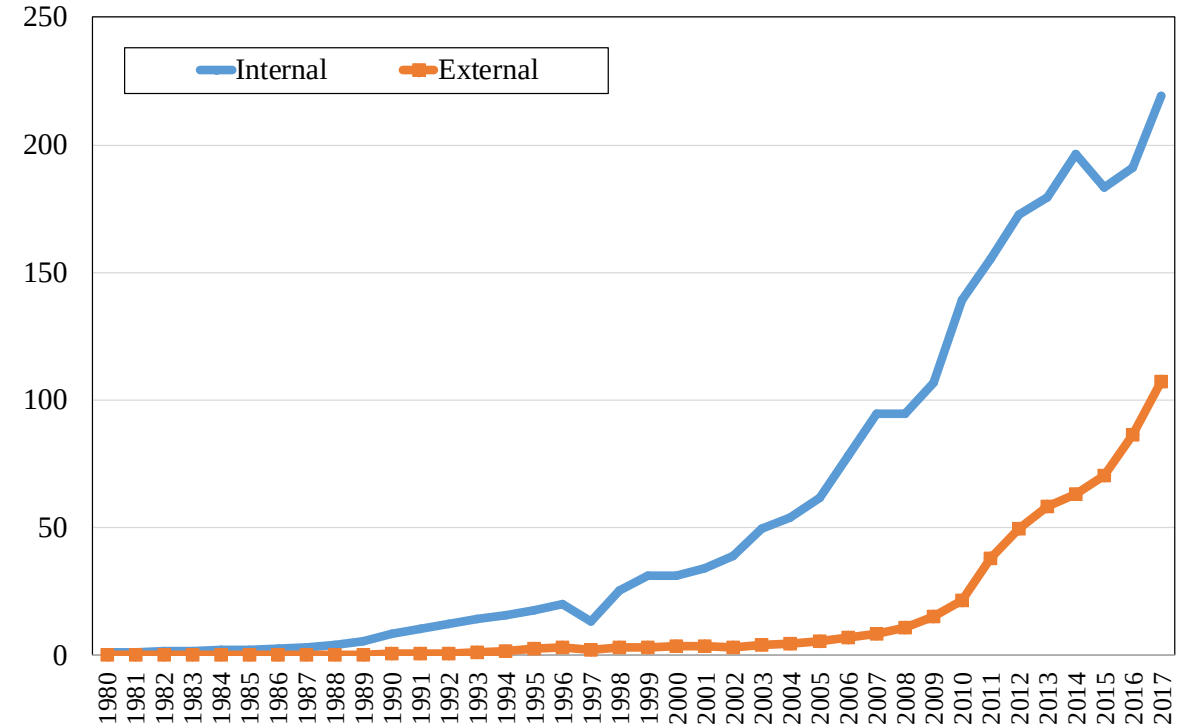
Source: UNCTAD

(Billion dollars) Changes in Philippines's value of inward and outward foreign direct investment



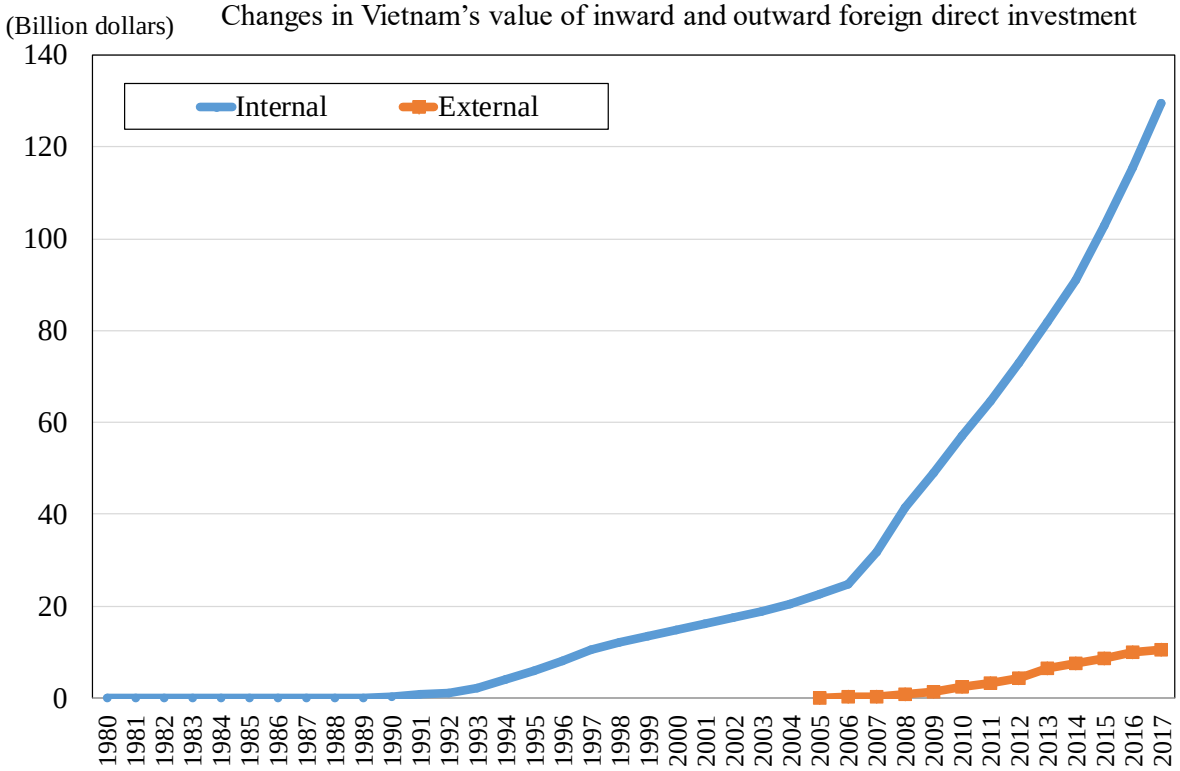
Source: UNCTAD

(Billion dollars) Changes in Thailand's value of inward and outward foreign direct investment



Source: UNCTAD

Changes in Vietnam's value of inward and outward foreign direct investment

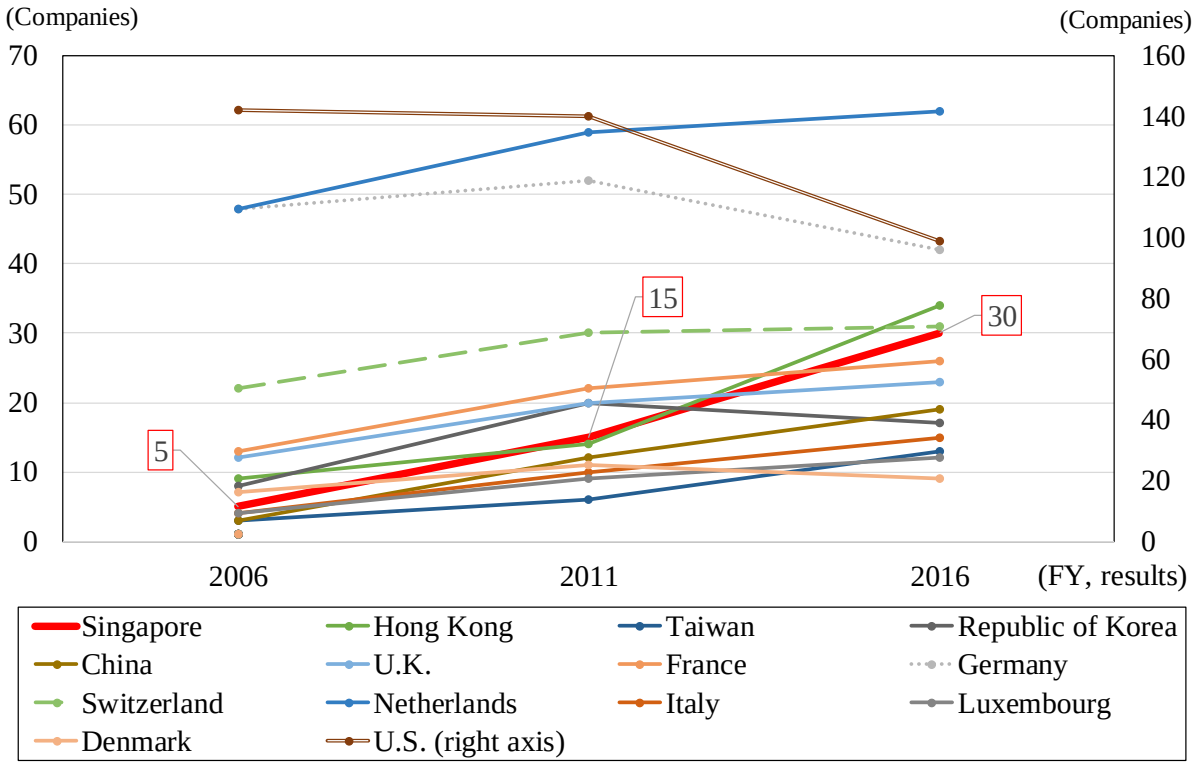


Notes: The values in 1980 to 2004 were recorded as zero because they were not published.
Source: UNCTAD

When we see if there was any change in Japanese parent companies,[258] the number of parent companies of affiliates in Singapore increased by a factor of six times, from five in 2006 to 30 in 2016. (Figure II-3-3-22).

258 Recalculation of questionnaire results of *Basic Survey on Japanese Business Structure and Activities* by Ministry of Economy, Trade and Industry, Japan. The number of parent companies of affiliates in the U.S. significantly decreased from more than 140 in fiscal 2006 and 2001 to 99 in 2016. The number of parent companies of affiliates in Germany also decreased. On the other hand, the number of parent companies of affiliates in China increased by a factor of 6.3 times to 19 and the number of parent companies of affiliates in Hong Kong increased 3.8 times to 34. This indicates that Japanese parent companies shifted their affiliates from the U.S. and Europe to Asia.

Figure II-3-3-22 Changes in the number of Japanese parent companies of affiliates by country and area



Notes: Data on target companies in *Basic Survey of Japanese Business Structure and Activities by Ministry of Economy, Trade and Industry, Japan*. Data of fiscal 2016 are the results of survey in 2017.

Source: From questionnaire results of *Basic Survey of Japanese Business Structure and Activities by Ministry of Economy, Trade and Industry, Japan*.

This may be an index reflecting self-sustainable expansion of ASEAN that has expanded through foreign direct investment.

(4) Sluggish growth in average labor income

We can see ASEAN's high potential growth from the examples in (1), (2) and (3) above. Therefore, in recent years, consumption has been expected to expand both within and outside of ASEAN, thanks to an increase in the middle-class population in ASEAN. At this time, however, it should be noted that average labor income has not reached the level where people can purchase Japanese high value-added and high-priced goods. For example, summarizing wage trends of preceding countries in ASEAN, we can see a gap from the Japanese wage level. (Table II-3-3-23).

Table II-3-3-23 Data on wages in Japan and major countries in ASEAN

	Japan	Singapore	Malaysia	Thailand	Indonesia	Vietnam
Salary for public officials	¥3 to 7 million /year	–	¥0.65 million or more/year *varies significantly depending on job category	¥0.7 to ¥2.05 million/year	¥0.22 to ¥0.45 million /year	¥0.45 million /year
Wages for factory workers and shop workers	¥3 to 4 million /year	¥3.3 million or more/year (factory workers) ¥1.7 million /year (sales workers)	¥0.55million /year	¥0.7 million /year (factory workers) ¥0.5 million /year (sales workers)	¥0.3 to ¥0.4 million/year	¥0.55 million /year (factory workers) ¥0.2 to ¥0.35 million /year (salesclerks)
Legal minimum wage	¥985/hour (Tokyo)	No legal minimum wage system	¥27,000 /month (Malay Peninsula)	¥1,100/day (Bangkok and others)	¥27,000 /month	¥20,000 /month (major cities)
Growth rate of legal minimum wage	3% (from October 2018)	–	¥40,000/month is expected to be raised uniformly by the new government.	–	8.7%	5.30%
Salary for new college graduates	¥206,700 /month (for June 2018)	Singapore State University (science) ¥0.33 or million or more/month (humanities) ¥0.25 million or more/month	¥0.8 to ¥1.05 million/year	–	–	–
Trend in salary	Employees in 2018 were hired in a better job seekers' market than in 2017, and salary showed an increasing trend despite the flat trend in recent years.	Growth rate of total wages increased slightly from 3.1% (2016) to 3.8% (2017)	5% increase in average every year. Salary was raised overall in line with inflation since 2015 when consumption tax was introduced.	Although salary was raised by 5 to 6% every year, its growth rate decreased to 4 to 5% in 2015 to 2018 due to economic slowdown. It is expected to remain the same in 2019.	Salary growth rate of average workers was 10% per year. Overall growth rate was stagnant but salary for director class increased.	Growth rate of salary was 7 to 14%. High growth rate was found in the fields of IT, trading companies, and production technologies, where demand for workers is high.

	Japan	Singapore	Malaysia	Thailand	Indonesia	Vietnam
Inflation in consumer prices	1.2%, 0.5% (2017) -0.1% (2016)	1.0%, 0.6% (2017) -0.5% (2016)	1%, 3.8% (2017) 2.1% (2016)	0.9%, 0.7% (2017) 0.2% (2016)	3.8%, 3.4% (2017) 3.8% (2016)	3.8%, 3.5% (2017) 2.7% (2016)
Number of employees	66.28 million	3.71 million	14.88 million	37.95 million	130 million	56.31 million
Unemployment rate	2.9%	2.0%	3.2%	0.7%	5.2%	2.2%

Source: "Salary Analysis in Asia 2019" by JAC Recruitment Group. Salary for new college graduates in Japan is from 2018 results of Basic Survey on Wage Structure by Ministry of Health, Labour and Welfare.

6. Mutual cooperation between Japan and ASEAN to grow together

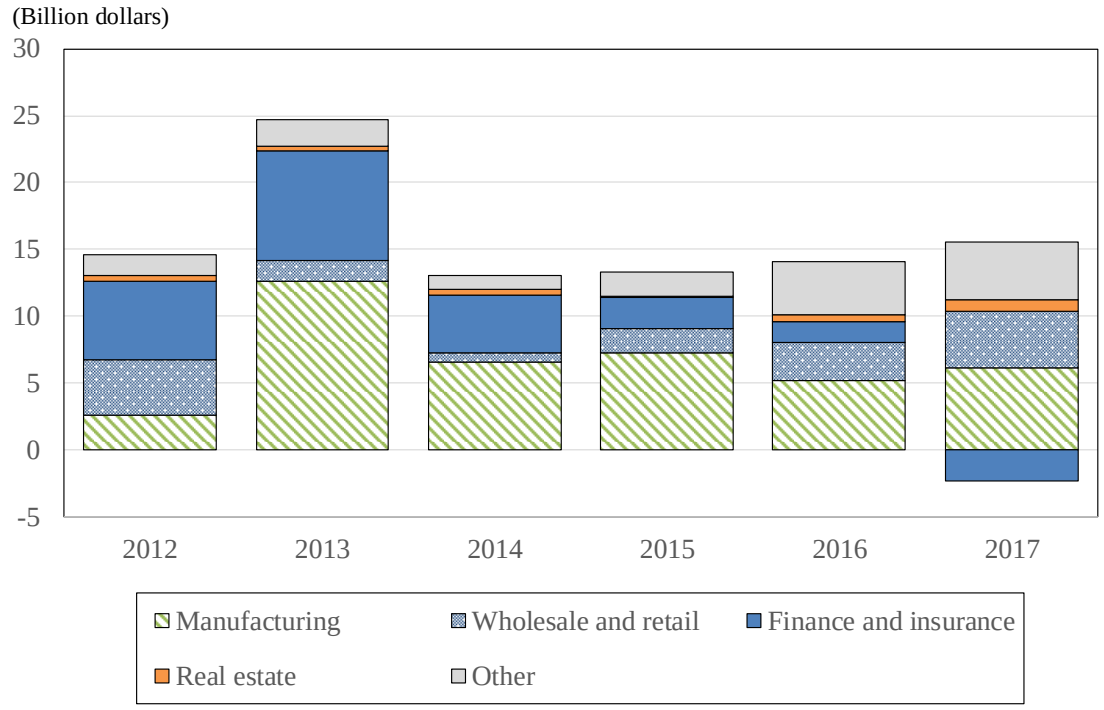
As mentioned above, needless to say, it is important for Japan and ASEAN to cooperate with each other to grow together even in a changing environment. Cases where Japan can contribute to ASEAN's growth are as follows:

(1) Expansion of local employment by Japanese manufacturing industry

In comparison of the value of internal direct investment (by industry) in ASEAN member countries among Japan, China, and Republic of Korea, we can see that Japan and Republic of Korea focused on the manufacturing industry while China focused on the finance and insurance industries and the real estate industry. It may be common to the three countries that investment to wholesale and retail remained solid.

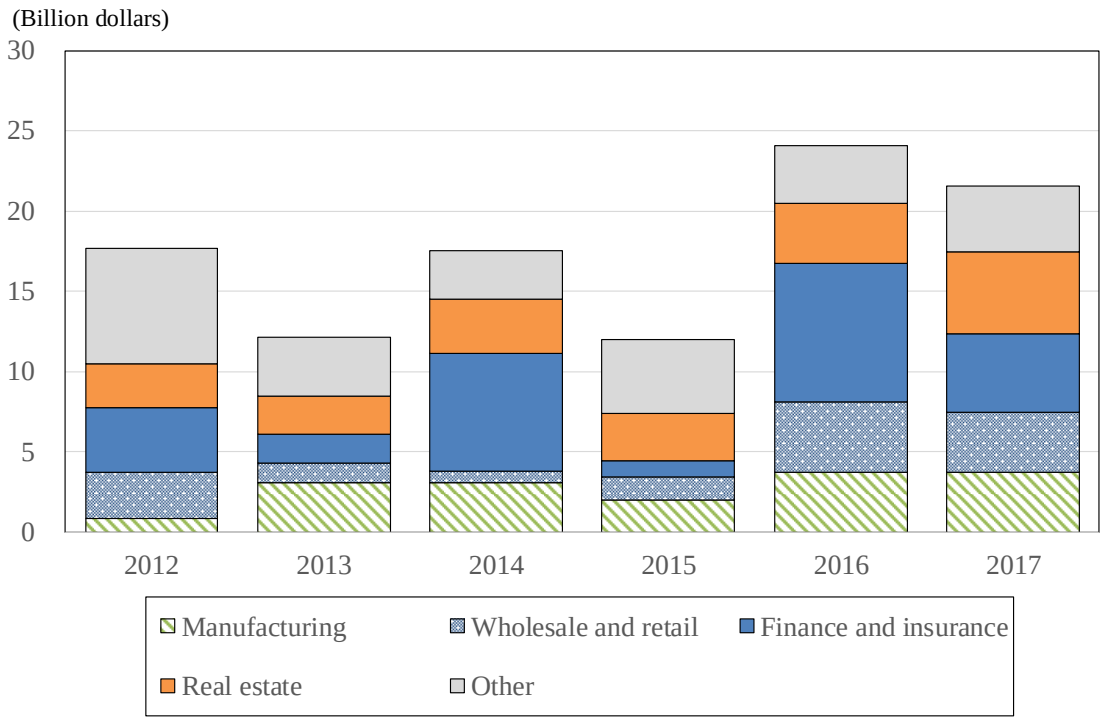
The manufacturing industry contributes to expansion of local employment much more than other industries do. In this regard, we may assume that Japan, where the main investment field is the manufacturing industry and the level of its value is high, contributes to expansion of local employment and consequently to expansion of middle-class population more than the other two countries (Figure II-3-3-24, Figure II-3-3-25, and Figure II-3-3-26).

Figure II-3-3-24 Changes in the value of direct investment (by industry) from Japan to ASEAN



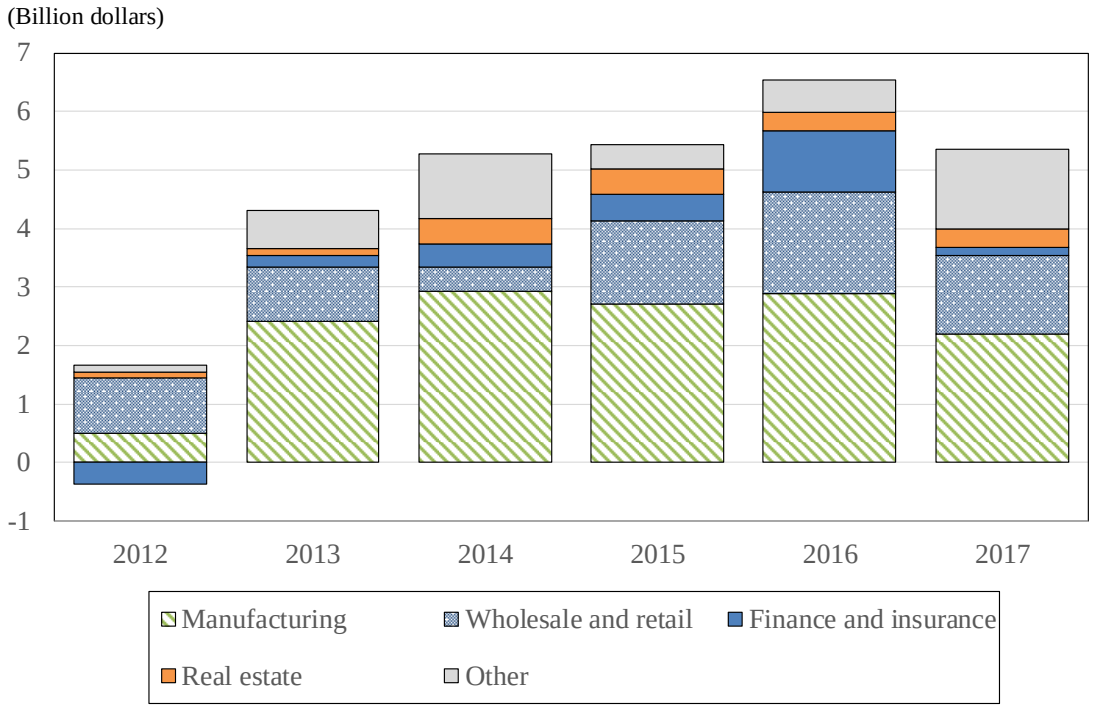
Notes: Flow basis and net basis
Source: ASEAN Secretariat

Figure II-3-3-25 Changes in the value of direct investment (by industry) from China to ASEAN



Notes: Flow basis and net basis. China includes Hong Kong, Macau, and Taiwan.
Source: ASEAN Secretariat

Figure II-3-3-26 Changes in the value of direct investment (by industry) from Republic of Korea to ASEAN



Notes: Flow basis and net basis
Source: ASEAN Secretariat

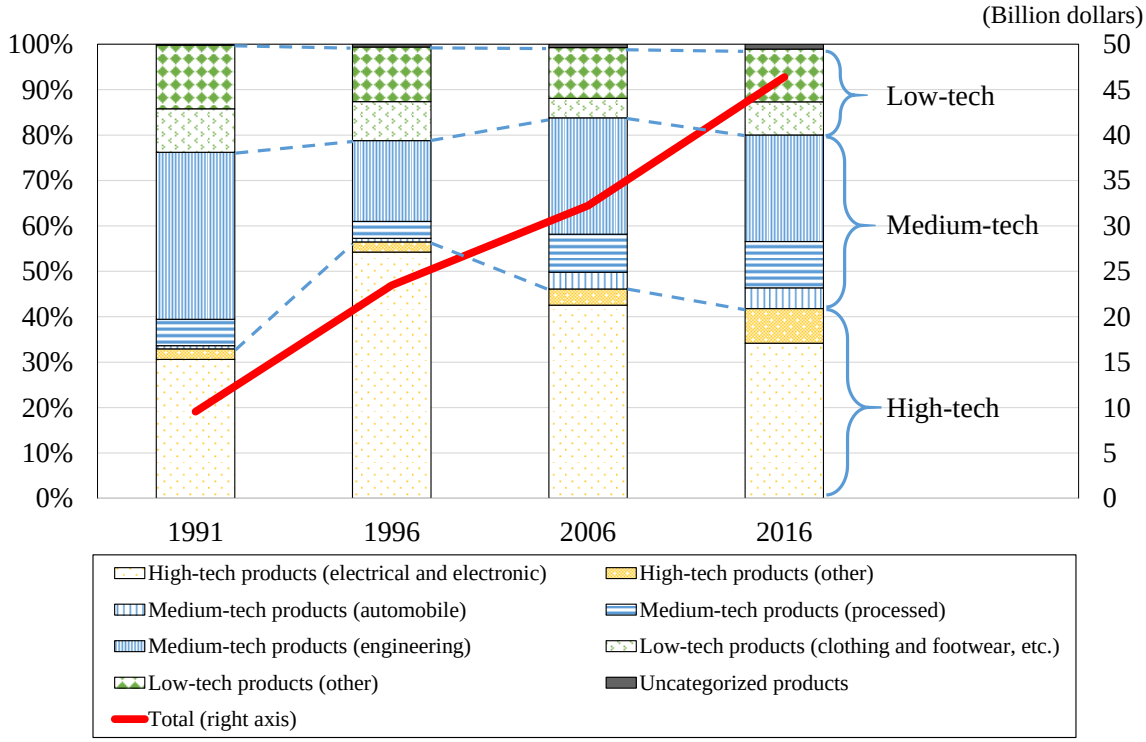
(2) Sophisticated exports (technology transfer)

In order for ASEAN member countries to get out of so-called "middle-income trap" to achieve sustainable growth, sophistication of industries and export goods is necessary. When we look at trends in export product structures of ASEAN to major countries (Japan, China, and Republic of Korea) based on the products by technological categories (Lall 2000)[259] by Professor Lall, we can see that Japan contributed to the sophistication of export products of ASEAN from an early stage. China and Republic of Korea have an equal or larger share of high-tech and medium-tech products than Japan (Figure II-3-3-27, Figure II-3-3-28, Figure II-3-3-29). ASEAN will continue to need their export products to be sophisticated.

Middle-Income Trap

259 This is a method to classify products in STIC 3-digit classification into low-tech products, middle-tech products, and high-tech products, in order to verify the level of sophistication of the export structure of a country. Although the categories classified by this method are not consistent with the actual situation because various technological innovations have been developed since this method was established, the method is still used as an indicator of sophistication of exports at international organizations and others. Professor Lall reported that it is important for a country to export high-tech products for its economic growth because the more high-tech products it exports, the greater the increase in the value of its exports.

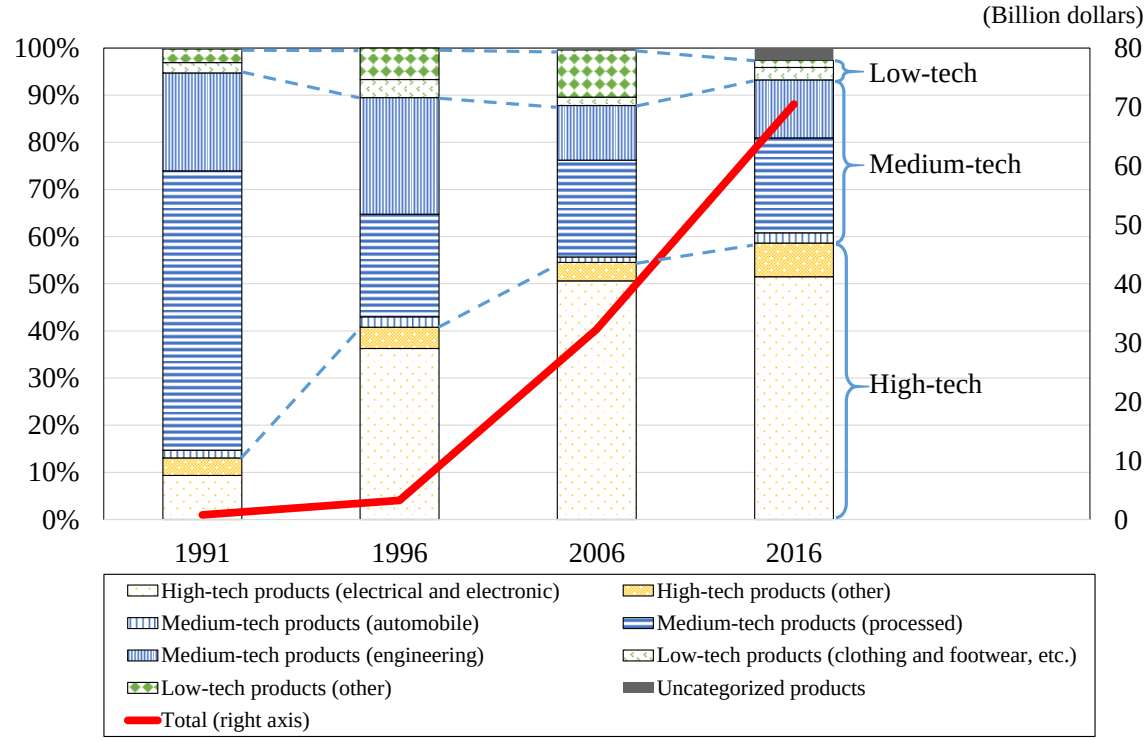
Figure II-3-3-27 Changes in ASEAN's structure of export products to Japan (Lall classification)



Notes: Classification by Lall (2000). The items are limited to products and exclude agricultural produce, using SITC Rev. 3.
The values in 1996 include those in 1991 as replacement because some countries had no data in 1996.

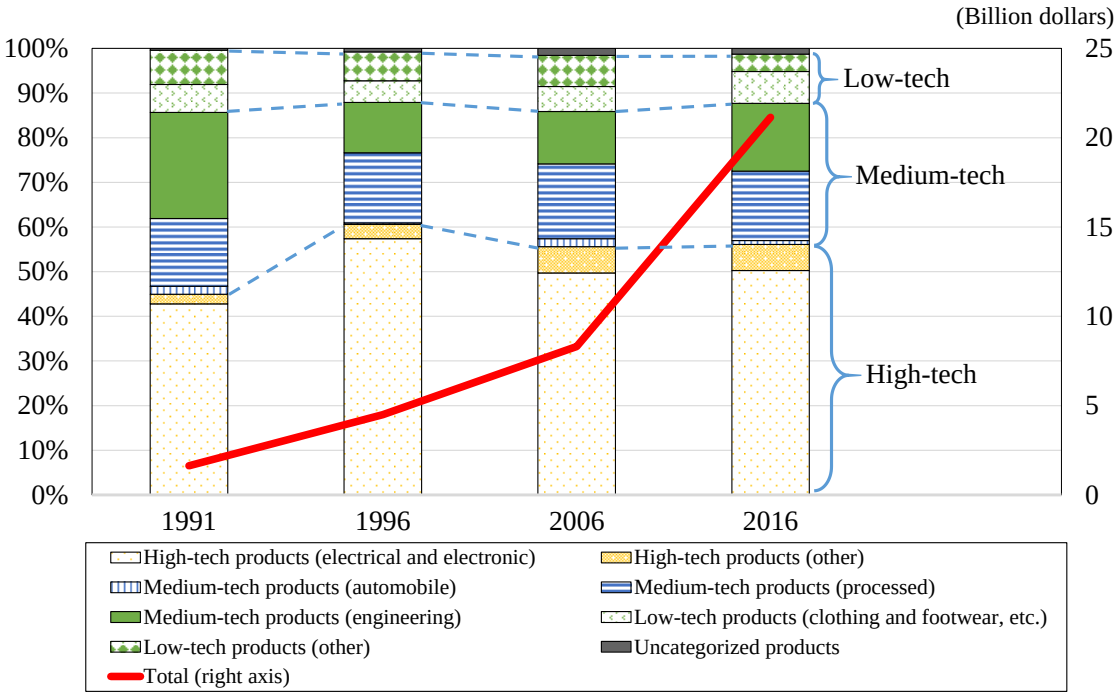
Source: UN COMTRADE

Figure II-3-3-28 Changes in ASEAN's structure of export products to China (Lall classification)



Notes: Source: UN COMTRADE

Figure II-3-3-29 Changes in ASEAN's structure of export products to Republic of Korea (Lall classification)



Notes: Classification by Lall (2000). The items are limited to products and exclude agricultural produce, using SITC Rev. 3.
The values in 1996 include those in 1991 as replacement because some countries had no data in 1996.
Source: UN COMTRADE

Many ASEAN member countries have adopted the production form of NEM (Non-Equity Modes of Operation; not trade or investment but so-called consigned production); the originiator not only serves as a cost center but also contributes to technology transfer to a certain extent.

On the other hand, expansion of consumer markets and joint projects for infrastructure development are example cases where ASEAN can significantly contribute to Japan's growth. ASEAN is likely to be lumped together as one area, but since it is a group of countries with significantly different aspects such as development stage, industrial structure, demographic movements, and business environment, needless to say, one must identify and make use of those differences when entering into their consumer markets and infrastructure markets.

The deepened interactive economic relationship between Japan and ASEAN may further increase ASEAN's presence in the world's production market and consumer market in the future.

7. Direction Japanese companies and industries should take in the future

As described, we have seen the situation where the presence of Japan in ASEAN has been declining. In this section, based on the actual state of GVCs focusing on Japan in the previous section, and expanding the target area to Asia including China, we will consider the direction Japanese companies should take in the future.

(1) Reconsideration of how Japanese companies should earn

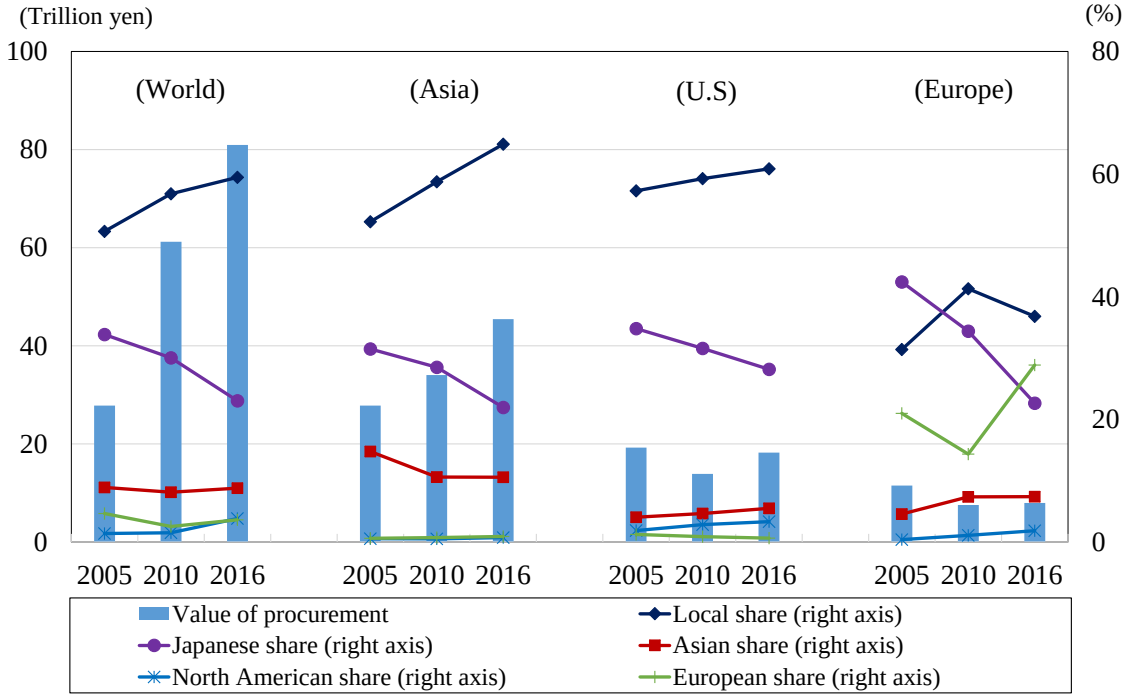
We started being aware of the possibility of a decline in Japan's presence itself from a decline in Japan's share of exports to Asia, particularly ASEAN. However, does that really lead to a decline in Japan's presence? It may be rather a good time to consider changing the viewpoint of Japanese companies' activities. Let's reconsider some issues regarding this point.

(A) Changing the viewpoint of "export from Japan"

Japanese companies' activities have been changing. At first, Japanese companies manufactured final goods in Japan and exported them. Then, as seen above, their activities changed, participating in global value chains (GVCs) where they established overseas affiliates, to which they exported intermediate goods such as key components from Japan. At present, local human resources and companies have grown up to be able to manufacture a certain level of intermediate goods in the host countries. Under these circumstances, we may have to consider that Japanese companies rather promote localization as a corporate strategy to strive to enhance their competitiveness by reducing costs in procurement of materials, utilizing human resources who have thorough understanding of the local situation, and not only exporting but also manufacturing products to meet local needs.

From this point of view, we can see the localization of procurement by Japanese overseas affiliates pointed out in the previous paragraph is a trend not only in Asia but also worldwide, including the U.S. and Europe (Figure II-3-3-30). Particularly, in Europe where economic integration has progressed, more broadly defined "localization," including procurement not only within a country but also within Europe, has been progressing.

Figure II-3-3-30 Shares by supplier of procurement by Japanese overseas affiliates



Source: *Basic Survey on Overseas Business Activities* (METI).

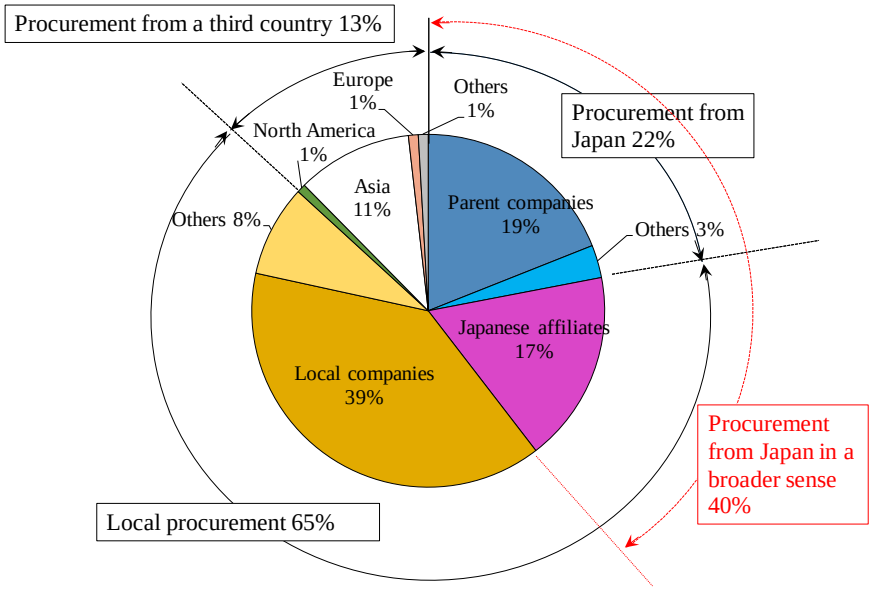
This has occurred against the background of production efficiency, indicating that companies in each area have started creating industrial clusters, including production of intermediate goods. The industrial clusters include not only local companies that have improved their technologies and skills but also Japanese affiliate suppliers of parts. If it is possible to locally procure cheap and high-quality intermediate goods, that will be beneficial for Japanese assemblers located there. It is considered that Japanese companies are required to play the role of supplying more advanced and higher value-added key components that cannot be manufactured by local companies.

Of course, to do so, active research and development and innovation activities by parent companies in Japan will be important. In addition, in order to encourage Japanese affiliates to come to ASEAN and freely conduct business activities, ASEAN member countries will have to improve business environments, including deregulation, protection of intellectual property, and free overseas remittances.

(B) Overseas advancement of Japanese parts-manufacturers

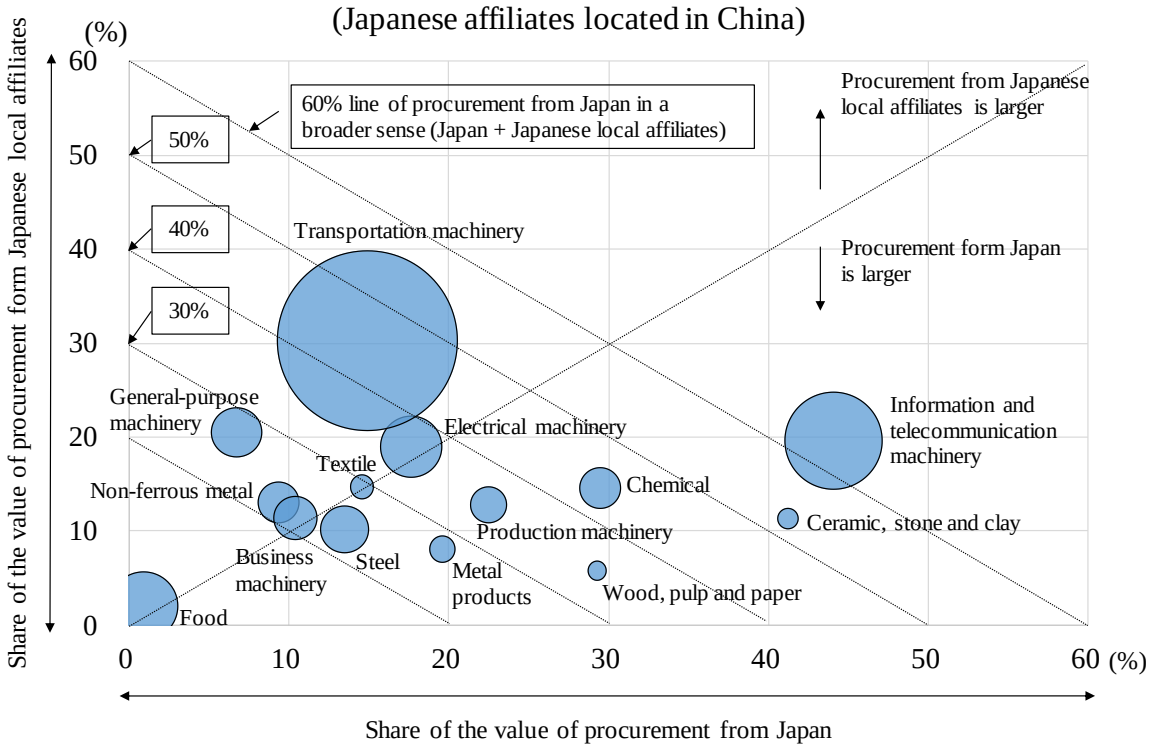
Japanese affiliates, located in the countries, supply a significant share of local procurement. In Asia, for example, they supply about one-fourth of local procurement by Japanese manufacturing affiliates, which is roughly comparable to the value of procurement from Japan (Figure II-3-3-31). This indicates when we add up the value of procurement from Japan (imports) and that from Japanese affiliates, about 40 percent of all the procurement is made from Japanese companies in a broader sense. The procurement by industry is plotted in Figure II-3-3-32. The horizontal axis indicates the share of procurement from Japan, the vertical axis indicates the share of procurement from Japanese affiliates, and the size of the circle indicates the total value of procurement. Industry circles above the 45-degree line indicate more procurement form Japanese affiliates and those below the line indicate more procurement from Japan. The positioning on the upper right indicates more procurement from Japan in a broader sense.

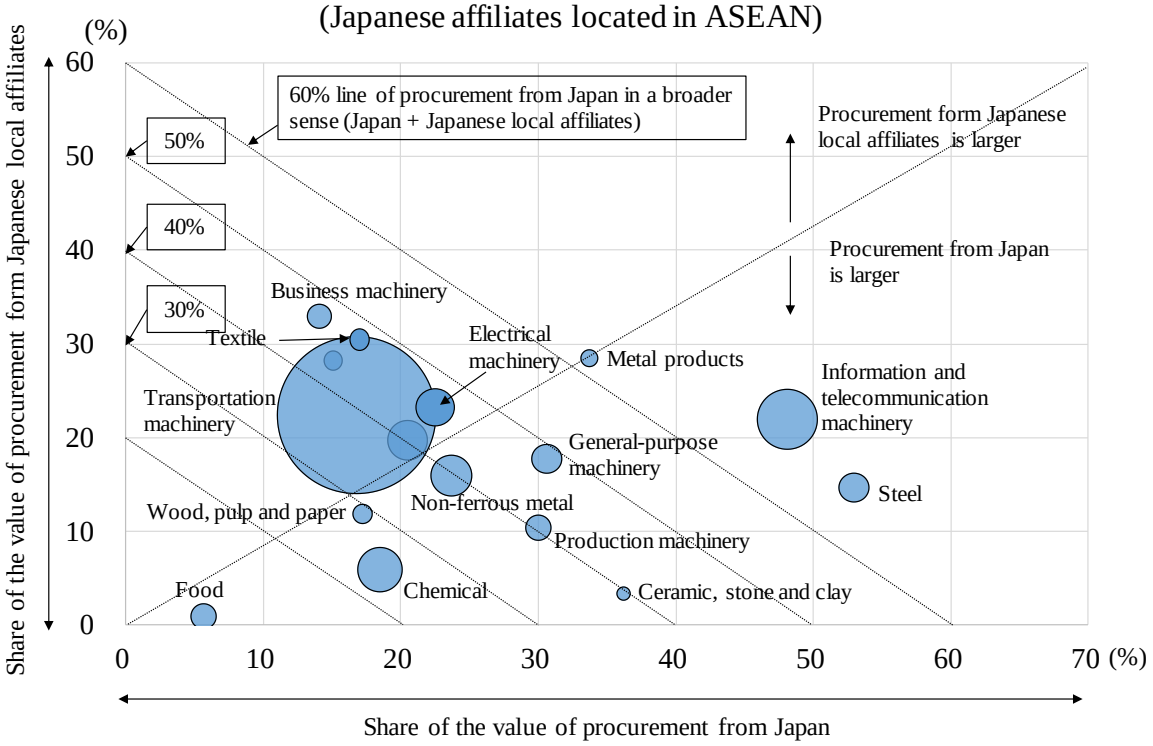
Figure II-3-3-31　Breakdown of procurement sources for Japanese affiliates in Asia (FY2016)



Source: *Basic Survey on Overseas Business Activities* (METI).

Figure II-3-3-32 Procurement from Japan in a broader sense by Japanese manufacturing affiliates in Asia (FY2016)





Notes: Shares against the total value of procurement, including procurement from Japan, host countries,

and third countries. The size of each circle represents the total value of procurement.
Source: *Basic Survey on Overseas Business Activities* (METI).

According to the Figure, although the procurement ratio of import from Japan has declined, "procurement from Japan in a broader sense," including procurement from Japanese affiliates, still accounted for more than 60 percent of the total value in information and communication machinery, and around 40 percent in transportation machinery. Particularly, more than 40 percent of the total value of procurement of information and communication machinery depended on imports from Japan, which indicates there were a lot of key components that could not be procured from local companies. Despite no information in the Figure, while information and communication machinery had 10 percent procurement from Asian countries other than Japan, transportation machinery was overwhelmingly procured from Japanese affiliates and procurement from Asian countries was little. These characteristics of industry are considered to reflect the degree of standardization of components, necessity of adjustment in the process of production, transportation cost, and the technical level.

(C) Diversified corporate earnings

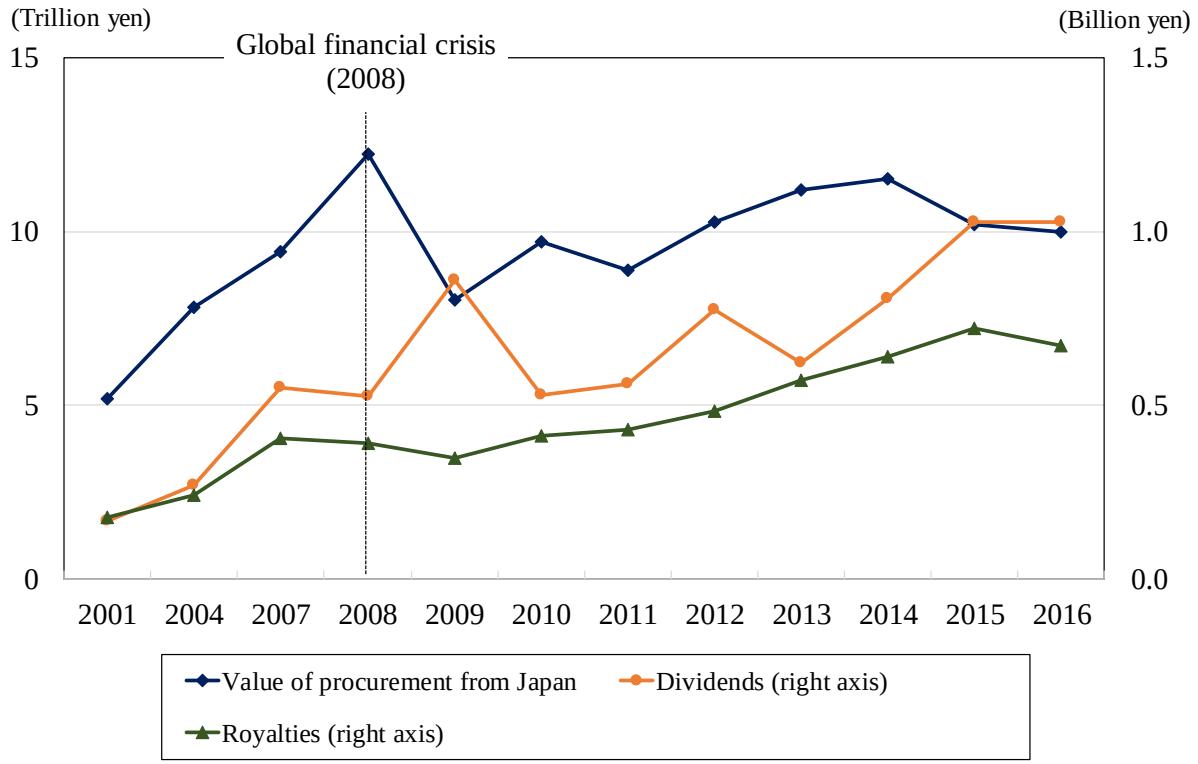
Decrease in procurement of materials from Japan suggests the possibility that the focus on the business model of making earnings by importing from the Japanese parent company will gradually shift to a business model of making earnings on overseas affiliates' sales. In this case, if a company has an overseas affiliate, earnings of the affiliate will be incorporated into the earnings of the parent company through consolidated accounting.[260]

When we look at business relationships between Japan and Japanese manufacturing affiliates located in Asia, since the Global Financial Crisis, the value of procurement from Japan has not recovered to the level before the crisis, but dividends have been on an increasing trend with some yearly fluctuation. (Figure II-3-3-33). Furthermore, royalties steadily increased without yearly fluctuations.[261] At this time, although the combined value of royalties and dividends is about one-tenth of the value of procurement, this ratio has increased since the early 2000s. This is consistent with the trend that in Japan's international balance of payments, primary income (dividend income, etc.) and service income (patent royalties, etc.) have increased in place of income from export of goods. In order to receive dividends from earnings of Japanese overseas affiliates, it is important to increase the appeal of the Japanese market as a reinvestment target through EPA strategies and regulatory and system reforms.

260 Since this kind of business model cannot be used for a Japanese company with no overseas affiliates that is engaged in exporting, such a company may consider overseas expansion, or enhancing its product competitiveness such as sophistication and differentiation of products.

261 Since royalty agreement is generally made based on a certain percentage of sales, it is considered that royalty income is on a steadier trend than dividends, which greatly depend on profits.

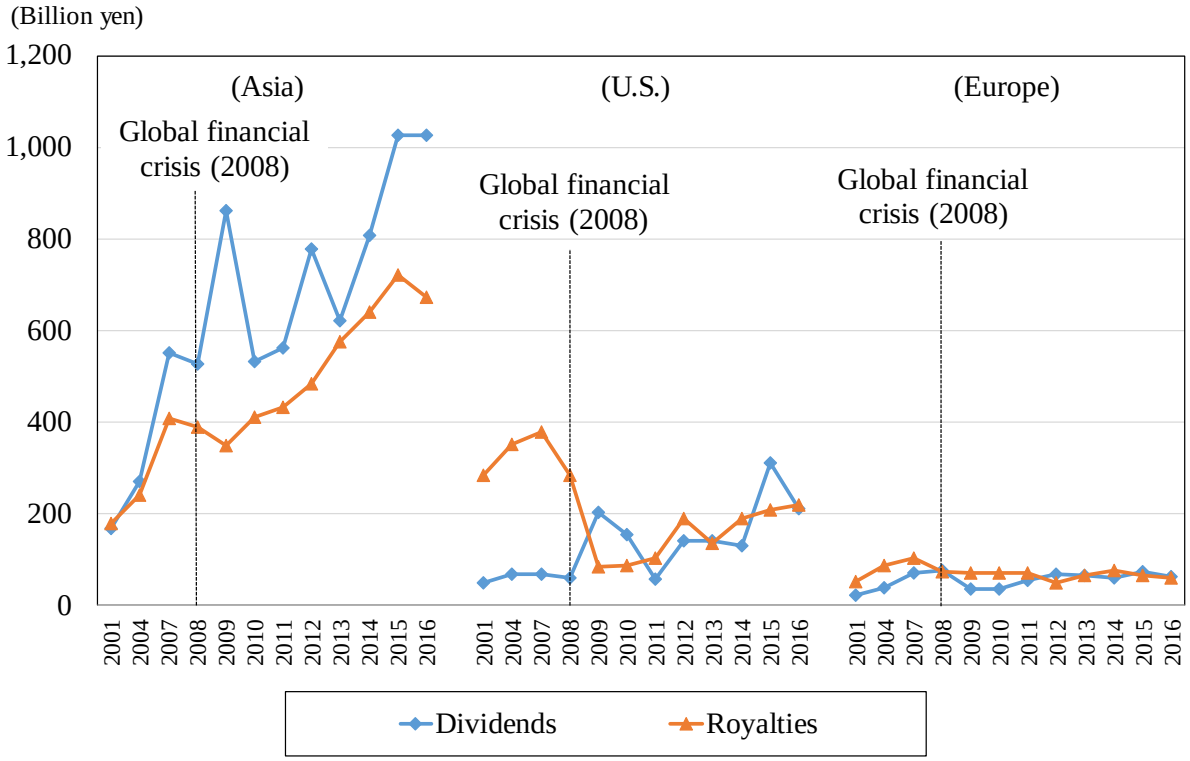
Figure II-3-3-33 Business relationship between Japan and Japanese manufacturing affiliates in Asia (procurement from Japan and dividend and royalty payments to the parent companies)



Notes: 1. The value of dividends and royalties is for the parent company in Japan
2. Before fiscal 2007, survey of dividends and royalties was conducted every three years.
Source: *Basic Survey on Overseas Business Activities* (METI).

Asia is a region where dividends and royalties have significantly increased compared to the U.S. and Europe (Figure II-3-3-34).

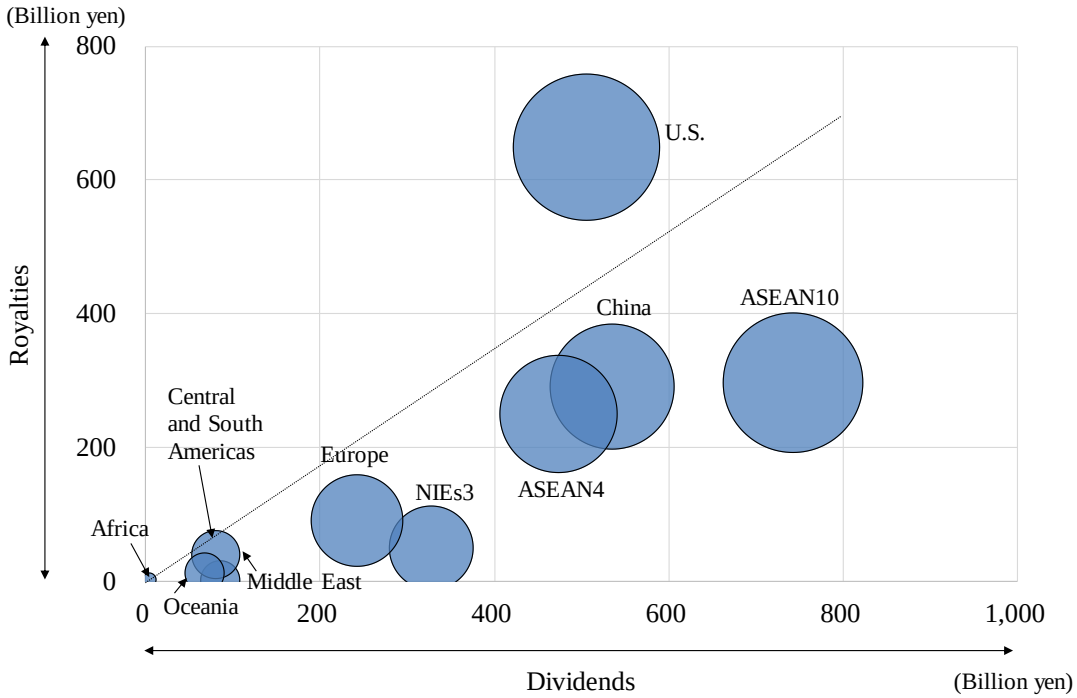
Figure II-3-3-34 Changes in dividend and royalty payments by Japanese manufacturing affiliates to parent companies in Japan



Source: *Basic Survey on Overseas Business Activities* (METI).

When comparing payment of dividends and royalties by location, payment of royalties by Japanese manufacturers in the U.S. is remarkably higher than dividends (Figure II-3-3-35). On the other hand, Japanese manufacturers in Asia remit focusing on dividends to their parent companies. They should probably consider further utilization of royalties, despite the issue of protection of intellectual property rights in the region.

Figure II-3-3-35 Payments by Japanese manufacturing affiliates to their parent companies (FY2016)



Notes: There are overlapping countries in ASEAN4, ASEAN10, and NIEs3.
Source: *Basic Survey on Overseas Business Activities* (METI).

(D) Promotion of sales to companies with no capital ties

As seen in the previous section, exports to overseas affiliates (intra-firm transactions) account for a large share of Japan's exports. Utilizing their own overseas affiliates is considered as important business model. Meanwhile, there are many transactions across nationalities of companies (based on the country of the head office). For example, manufacture of electric equipment (smartphones) involves companies of various nationalities. First, a U.S. company whose head office is located in the U.S. plans and designs a smartphone; next, Japanese companies, German companies, and companies of Republic of Korea, provide key components; then Taiwan's affiliate in China assembles smartphones; and finally, the U.S. company that initially planned and designed the smartphone imports the products to the U.S., being responsible for sales and maintenance. In this highly developed global value chains, regardless of nationalities of companies and the countries of production bases, it is also important to actively increase sales of high-class components to assemblers regardless of whether or not they are their affiliates. When we try to compare the ratios of intra-firm transactions between the U.S. and Japan, we find that the ratio of intra-firm transactions of Japanese companies is drastically higher than that of the U.S. (Table II-3-3-36).[262]

262 In the Japanese statistics, both total exports and parent companies' exports to overseas affiliate were based on the figures of the manufacturers in *Basic Survey on Japanese Business Structure and Activities (METI)*. The U.S. statistics cover all industries, and all exports are the U.S. total exports. If the denominator in the Japanese statistics is Japanese total exports, the ratios of intra-firm transaction in 2015 and 2016 will decline to 44.1% and 45.0% respectively, but still remain higher than that of the U.S.

Table II-3-3-36 Share of exports by head offices of Japanese companies and head offices of U.S. companies to their overseas affiliates

In calculating exports of all companies (Unit: %)

	Japanese companies		U.S. companies	
	2015	2016	2015	2016
Share	Manufacturing 55.8	Manufacturing 56.0	All industries 21.0	All industries 21.9

In calculating exports of companies with overseas affiliates

(Unit: %)

	Japanese companies		U.S. companies	
	2015	2016	2015	2016
Share	Manufacturing 66.0	Manufacturing 68.6	All industries 38.1	All industries 38.8
	All industries 62.7	All industries 65.1		

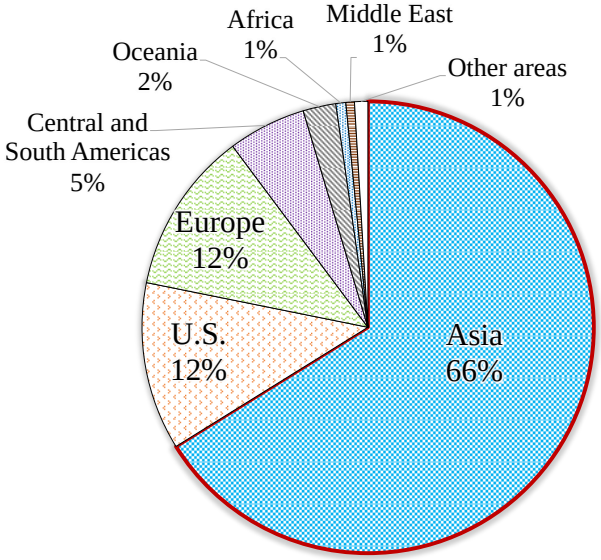
Notes: 1. According to the U.S. statistics, investment ratio to an overseas affiliate must be more than 20%, while in Japanese statistics it must be more than 10%.
2. U.S. statistics are based on the calendar year, while Japanese statistics are based on the fiscal year.

Source: Bureau of Economic Analysis, U.S. Department of Commerce, "Survey of Current Business" (Sep. 2018), "Basic Survey of Japanese Business Structure and Activities by Ministry of Economy, Trade and Industry, Japan," and *Basic Survey on Overseas Business Activities* by Ministry of Economy, Trade and Industry, Japan.

(2) Capturing of local demand and expansion in retail and service industries

Japanese companies proactively advanced in Asia where they had an overwhelmingly large share (about 70 percent) as a destination for overseas affiliates (Figure II-3-3-37). By industry, manufacturing and wholesale accounted for a majority, and shares of retail and service industries were lower than other areas, which may have room for growth in the future. Table II-3-3-38 shows comparison of sales by major industry and region of Japanese overseas affiliates. In Asia, their share of retail and service industries are lower than that of the U.S. and the world's average.

Figure II-3-3-37 Regional distribution of Japanese overseas affiliates (FY2016)



Source: *Basic Survey on Overseas Business Activities* (METI).

Table II-3-3-38 Sales of Japanese overseas affiliates by industry and region (FY2016)

(Unit: billion yen)

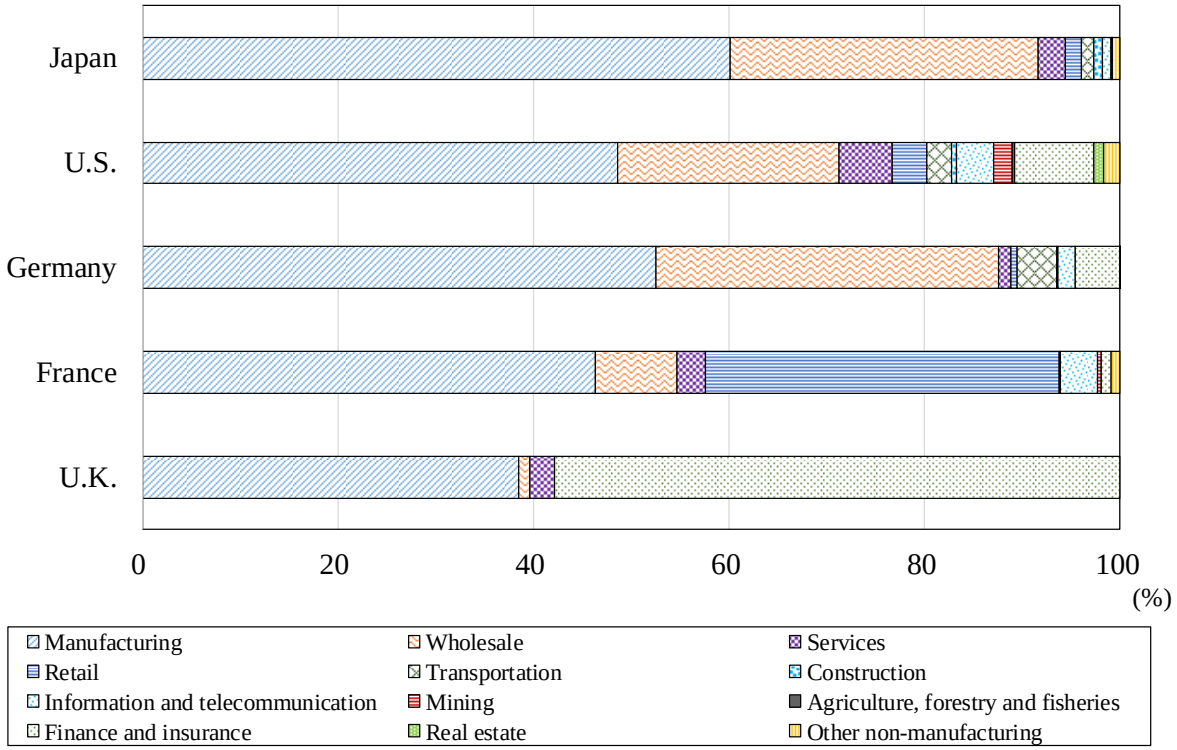
	Asia		U.S.		World	
	Sales	Share	Sales	Share	Sales	Share
Total	111,885	100.0	80,759	100.0	257,647	100.0
Manufacturing	67,203	60.1	30,316	37.5	123,636	48.0
Non-manufacturing	44,683	39.9	50,443	62.5	134,011	52.0
Information and telecommunication	943	0.8	530	0.7	2,844	1.1
Transportation	1,381	1.2	359	0.4	2,788	1.1
Wholesale	35,254	31.5	33,283	41.2	95,198	36.9
Retail	1,826	1.6	5,455	6.8	8,066	3.1
Service	3,181	2.8	7,117	8.8	11,830	4.6

Source: *Basic Survey on Overseas Business Activities* (METI).

In addition, when comparing sales by overseas affiliates of major countries in Asia, Japanese affiliates had a large share of manufacturing (Figure II-3-3-39).[263] As for Japanese affiliates, only sales in the manufacturing and wholesale industries accounted for 90 percent of total sales, and sales in the service and retail industries had limited shares. On the contrary, the U.S. affiliates advanced from various industries such as service, retail, transportation, and information and telecommunication.

263 Although we have strived to enable comparison of statistics of respective countries by arranging industry classification, it is important to note that they are not necessarily consistent. For example, Japanese statistics exclude the parent company of finance, insurance, and real estate business from the survey. The U.S. statistics include Asia and Pacific Ocean countries. As for Europe, since data of only specific countries/regions in Asia were disclosed (China, Hong Kong, India, Indonesia, Thailand, Japan, and Republic of Korea), and there may be cases where data cannot be obtained from specific industries, the figures are determined only from available data.

Figure II-3-3-39 Sales composition of major countries' affiliates by industry in Asia (FY2016)



Source: *Basic Survey on Overseas Business Activities* (METI), website of Bureau of Economic Analysis U.S. Department of Commerce, website of Eurostat

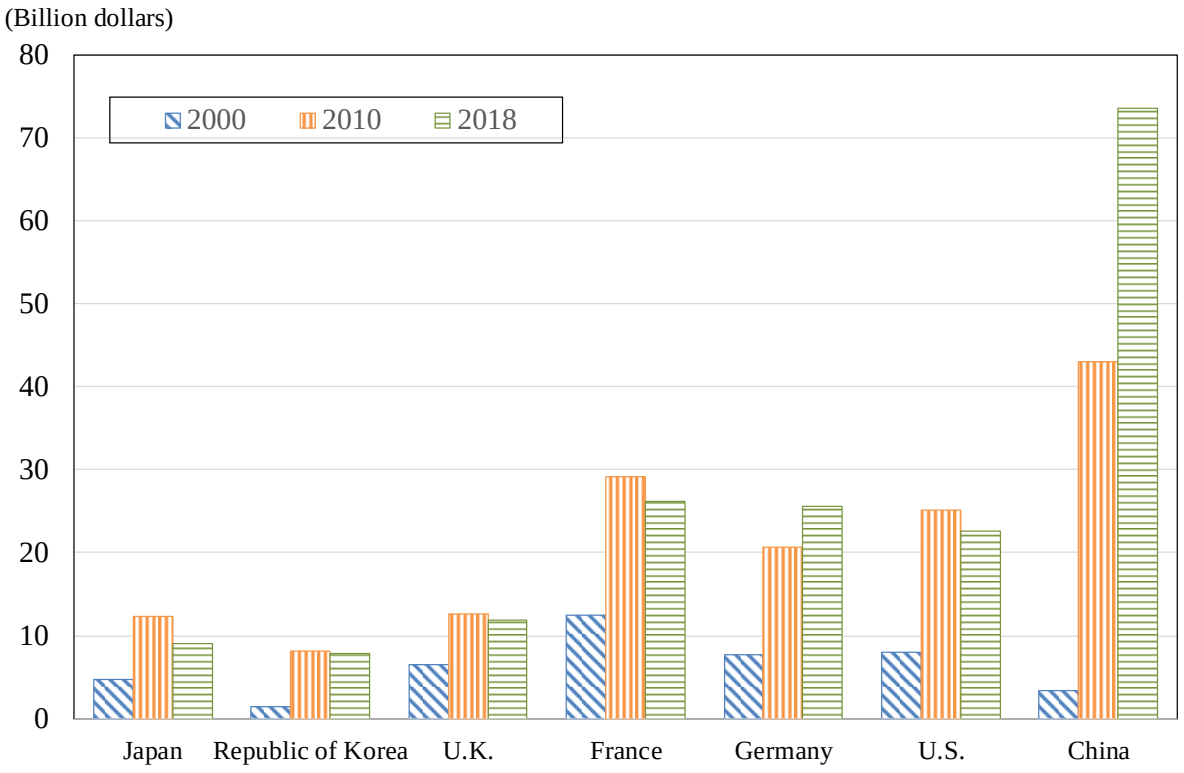
In line with people's income growth, China and other Asian countries have increased in importance as consumer markets. Japanese overseas affiliates need to devise to capture local demand even if they may focus on export in the initial stage. For example, even manufacturers may have a room to increase B to C products (daily necessities). In doing so, some pointed out that it is beneficial to build cooperative relationships with local partners. Particularly, in Asia, companies called platformers that develop new businesses using the internet have been emerging.

(3) Expansion in the growing markets

We have considered focusing on Japanese overseas affiliates' development in Asia. As countries where Japanese overseas affiliates can expand their business, Japan's neighboring Asia has an overwhelmingly large share, followed by the U.S. and Europe, which are advanced and high-income countries, while other countries and areas have limited expansion.

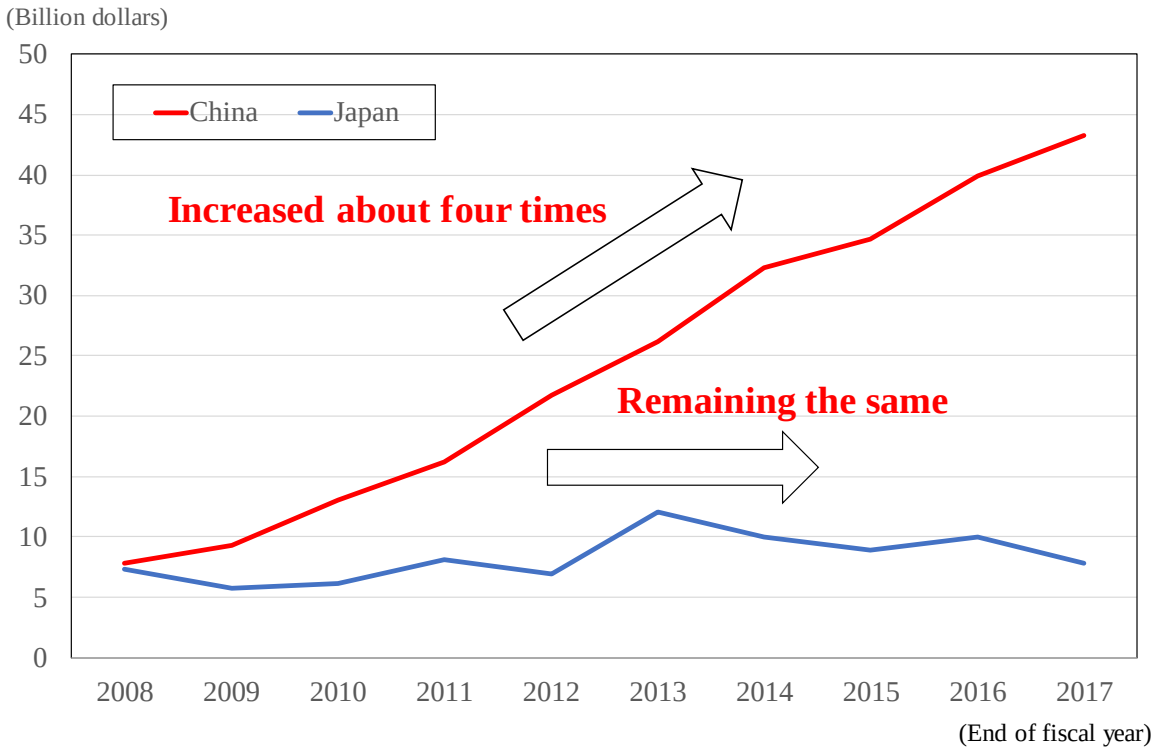
For example, African naitons have been rapidly drawing attention as "new emerging countries" due to their growing populations, but Japanese companies' involvement is smaller than other major countries' (Figure II-3-3-40, Figure II-3-3-41). The same is true for Central and South America (Figure II-3-3-42). Japanese companies should not be left behind in the entry into these growing markets, so they should actively expand their exports and investments in those markets.

Figure II-3-3-40 Exports to Africa by major economies



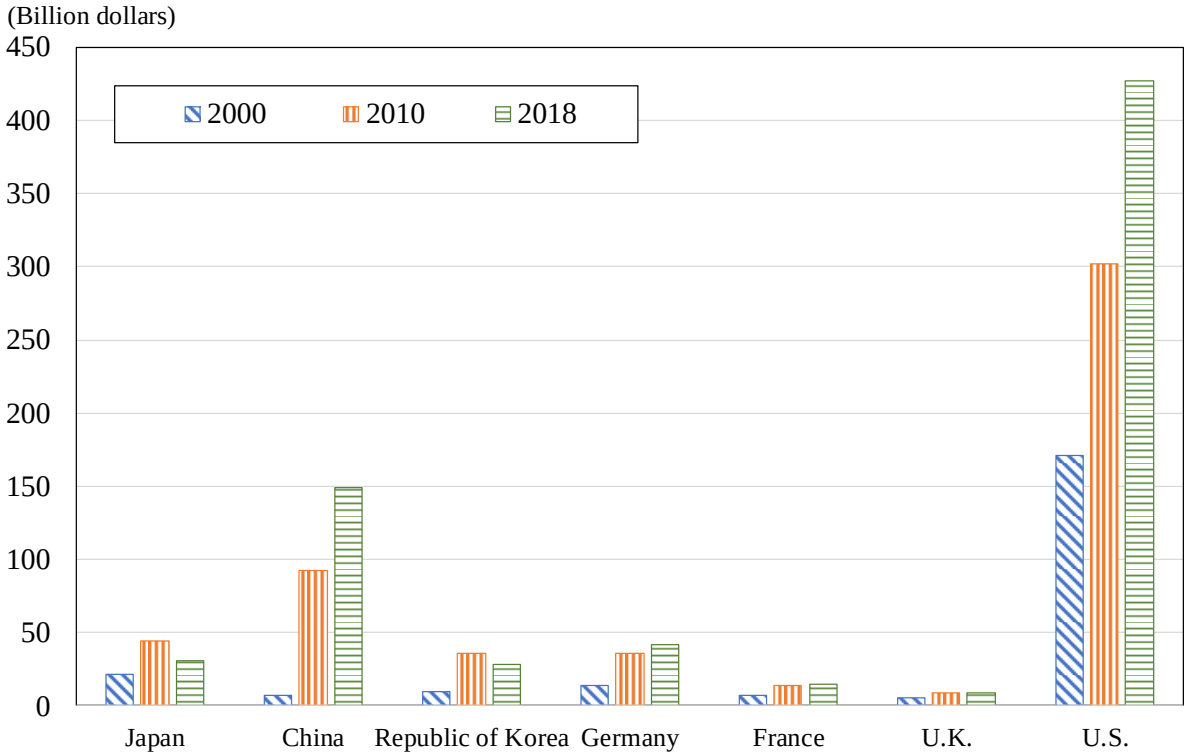
Source: *Direction of Trade* by IMF

Figure II-3-3-41 Changes in the stock of direct investment to Africa (US$ billion)



Source: *Outward Foreign Direct Investment Statistics Report* by Ministry of Commerce of the People's Republic of China, *Direct Investment Statistics* by JETRO

Figure II-3-3-42 Exports to Central and South America by major economies



Source: Global Trade Atlas

Regarding Africa and Central and South America, Table II-3-3-43 shows GDP shares in the world, and the number of Japanese overseas affiliates and their shares of sales. Although it is difficult to generalize because expansion of Japanese overseas affiliates is related to factors such as investment environment of their location and distance from Japan, given the economic scale of Africa and Central and South America in the world, their more active involvement is expected.

Table II-3-3-43 Regional share of GDP, number of Japanese overseas affiliates and their sales value

	Asia	Central and South America	Africa	World total
GDP	33%	6%	3%	100%
No. of companies	66%	5%	1%	100%
Sales	43%	5%	1%	100%

Notes: GDP was in 2018, and the number of Japanese overseas affiliates and sales were in fiscal 2016.
Source: IMF WEO, April 2019, *Basic Survey on Overseas Business Activities* (METI).

We have considered the direction Japanese companies should take by comparing with the U.S. and European companies, focusing on the data considered in the previous section and this section. Of course, the direction they should take varies depending on the company, industry, target country, target market,

and target class. The most important thing may be to consider the strategy tailored to each situation.

Column 10　Japan Mall Project

The size of the B2C EC (Business to Consumer Electronic Commerce) market in the world in 2017 increased by 24% year on year to about $3 trillion dollars. It is estimated that the EC market will expand at an average annual growth rate of 15.6% and reach $12.6 trillion in 2027. When it comes to the potential of the EC market in each country, the world's largest market, China, takes the lead both in terms of EC ratio and EC growth rate. Major western countries, such as the U.S., the U.K., Germany, and France as well as the East Asian region other than China, are expected to contrinue steady growth at an average growth rate of 5 to 15%. Emerging countries focusing on East and South Asian countries and South American countries are expected to grow rapidly due to the development of social infrastructure such as logistics telecommunication and settlement methods, along with high penetration rate of smartphones.[264]

As the EC market grows, sales of daily necessities and general consumer goods such as foods, cosmetics, children's goods, and pharmaceuticals will increase in the EC market. While sales of daily necessities and general consumer goods in the EC market of major 34 countries accounted for six to seven percent of the whole market (2018), the annual average growth rate will reach 22% in five years, far exceeding the growth rate of the off-line market (4%), and the EC market is expected to become a $40 billion market in 2022.[265] Particularly, in emerging countries and developing countries, it is expected to grow at some two times the overall average.

Japanese companies should urgently develop the expanding overseas EC market. When China's major EC business operator the Alibaba Group recorded $30.8 billion sales in one day day in 2018 on "Singles' Day" that is China's largest EX sales event, sales from Japan in the cross-border EC market were ranked top, where the EC market became important for Japanese companies to develop as overseas sales channels.

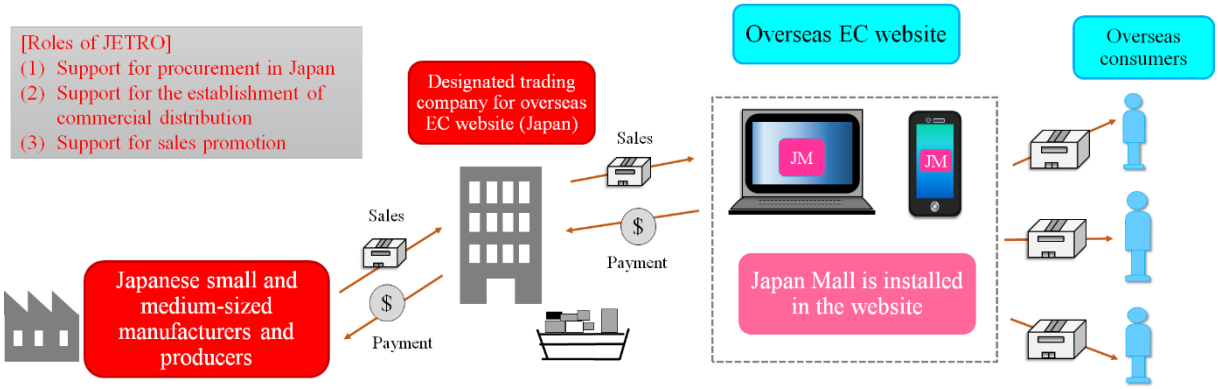
On the other hand, a survey showed that Japanese companies used only 15.9% of EC for their overseas business, indicating that the use of overseas EC by Japanese companies was not enough.[266] Particularly, challenges for small and medium-sized companies to promote overseas sales in the EC market are "reliable settlement system," "shortage of necessary staff," "risks in delivery of goods," "communication in local language," and "lack of information on systems and regulations."[267] In addition, other challenges that they face are to identify in what countries or areas they can sell their products in the EC market where growth speed is fast and players frequently change, and to create effective advertisement for sales of their products.

As measures to solve these challenges, the Japan External Trade Organization (JETRO) is developing an overseas EC sales project (JAPAN MALL PROJECT) to sell daily necessities and general consumers goods whose market is expected to expand in the future. Based on the support of JETRO, promising EC operators overseas purchase Japanese products from a market-in perspective and promote

264 Overseas EC Handbook 2018 by transcosmos inc.
265 FUTURE OPPORTUNITIES IN FMCG E-COMMERCE by Nielsen
266 2018 Questionnaire on Japanese Companies' Overseas Business Development by JETRO (The parameters of questionnaire: 3,385, users of overseas EC: 541)
267 2016 Questionnaire on Japanese Companies' Overseas Business Development by JETRO

PR of whole Japanese products when they sell them. In addition, the project feeds back after-sales data to participating companies for the purpose of developing sales strategy in the overseas EC market and new products. This project has a feature that many overseas EC operators collaborating in this project have partners in Japan such as trading companies, so Japanese companies can deliver their products in Japan, which responds to the challenges that small and medium-sized companies have, and it is a low-risk transaction system.

Scheme of Japan Mall project



<Measures to solve challenges for small and medium-sized companies>

Challenges	What Japan Mall Project can do
No idea about potential countries and EC operators	It is possible to sell products to overseas EC operators in countries and areas in collaboration with JETRO.
Reliable settlement system Shortage of necessary staff Communication in local language	There is no problem with settlement because they can purchase goods through an overseas EC website and goods are delivered through a designated trading company in Japan, and there is no need to communicate in local language and no allocation of experts.
Lack of information on the relevant country's systems and regulations	They don't need to research because the overseas EC website responds to regulations.
Improvement of recognition of their products	Their products are expected to be recognized through JETRO's various promotion activities, including establishment of a special site linked with overseas EC sites.

<Specific activities in fiscal 2018>

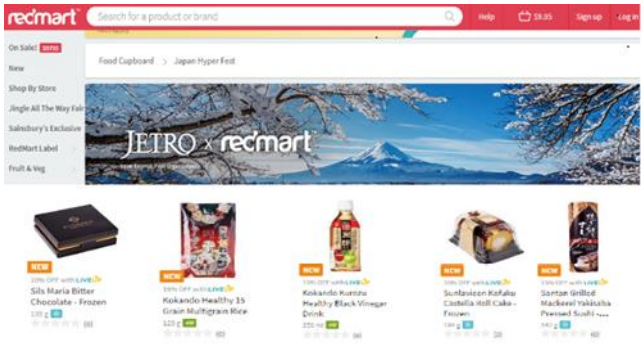
(A) Activities in food sector

RedMart, the largest EC operator in the food market in Singapore, established a cooperative relationship with JETRO for the purpose of increasing the number of Japanese food items to sell directly. RedMart selected about 40 companies and 200 items from 170 companies and 700 items and sold them at a special site on its website. Many items were adopted from small and medium-sized companies. They included healthy and story-telling foods such as allergen-free sweets developed by ITINOKURA (Kagawa Prefecture) and Japanese local products such as seaweed from the Ariake Sea (Fukutoku Nori Co., Ltd., Kagawa Prefecture)

(B) Activities in cosmetics sector

HERMO (Malaysia) and Sociolla (Indonesia), major EC operators in the cosmetics sector in South East Asia, developed a cooperative relationship with JETRO to increase sales items of popular Japanese cosmetics, by purchasing mainly from Japanese small-and medium sized companies. HERMO sold about three million yen in a week through its sales promotion. As Japanese cosmetics have become popular among people outside Asian countries, Boutiqaat (Kuwait), one of the largest cosmetics EC operators in the Middle East, decided to procure products from 15 small and medium-sized companies through support by JETRO.

As a result of activities in fiscal 2018, JETRO expanded the project to 18 countries and more than 20 EC operators in fiscal 2019.



Special website established in RedMart

Promotion utilizing an influencer

<Major activities in fiscal 2019>

(A) Activities in the U.S.

JETRO partnered with Rakuten in the U.S., which is the world's second largest EC market, and will establish a website dedicated to Japanese foods on the Rakuten USA website, aiming to develop the U.S. market through EC with cooperation from major importers of Japanese foods. The website is expected

to be established in September 2019 and operated as a regular site.

(B) Activities in the U.K.

In the U.K., which is the largest EC market in the EU, JETRO partnered with OCADO, the largest EC operator in the food sector in the U.K., and is expected to establish a website dedicated to Japanese foods.

(C) Activities in China

- On China's cross-border EC website Xiaohongshu (RED), which is called Chinese Instagram and attracts many female consumers, JETRO partnered with Japan Post Trading Service Co., Ltd. of the Japan Post group, aiming to develop sales channels of Japanese products for female consumers on the Japan Post flagship shop in RED.
- On China's cross-border EC website of JD.com, the second largest EC platform in China, JETRO partnered with Seiyu, which supplies Japanese products to Walmart with the largest sales in the marketplace, aiming to develop sales channels of Japanese cosmetics, etc.

<Japan Mall project in FY2019>