

Section 2 Restructuring of Japanese global strategies urged by world economic crisis

Section 1 pointed out that, as a task of the Japanese economy, it is important to enter various markets with economic growth potential, instead of merely being dependent upon markets of specific countries and regions, and that emerging economies and the Asian economic zone, which are expected to attain high economic growth despite the occurrence of the financial crisis, are at this moment anticipated as prospective targets for new market exploration. This section highlights emerging economies and the Asian economic zone, which will prospectively grow into promising markets for the Japanese economy.

This section, first of all, analyzes distinctive characteristics of emerging economies and the Asian economic zone, while focusing on China and India as examples, and analyzes the preferences of customers living in urban areas of these two countries. This section then introduces Japanese-owned companies' awareness of present circumstances involving emerging economies and the Asian economic zone, and their commitments, which would serve as key factors for expanding business to the markets of these countries and regions. Furthermore, this section discusses Japan's possible contributions in finding solutions to worldwide problems, such as climate change and food shortages, which have been arising in emerging economies and the Asian economic zone.

1. Changes in the structure of the global economy due to the world economic crisis

(1) Emerging economies and resource-rich countries gaining weight in the global economy

(A) Expansion of emerging economies' economies

After the occurrence of the financial crisis in September 2008, amid the sharp exacerbation of economic situations in countries throughout the world, emerging economies' economies also suffered deep impacts; however, their growths are still more vigorous than that of developed countries. For example, all of the BRICs countries, i.e. China, India, Brazil and Russia, attained economic growth rates in excess of 5% in 2008. As for economic growth rates for 2009, China expects to mark 6.5% and India expects to mark 4.5%, arousing expectation for their remarkable future growth, in contrast to the expectation for developed countries, which will suffer negative growth.¹

Emerging economies are increasing their presence in a series of discussions for drawing up measures against the financial crisis. A summit meeting to tackle financial and global economic issues was held in Washington in November 2008, and was participated in mainly by the leading twenty countries,² but also by emerging economies in addition to the Group of Seven (G7) countries. In addition, twenty countries, including emerging economies, participated in the London Summit held in April 2009. The share of the 11 emerging economies³ that participated in these meetings to global nominal GDP was 14.4% in 1998, and had risen to 21.8% as of 2008, and their further growth can be

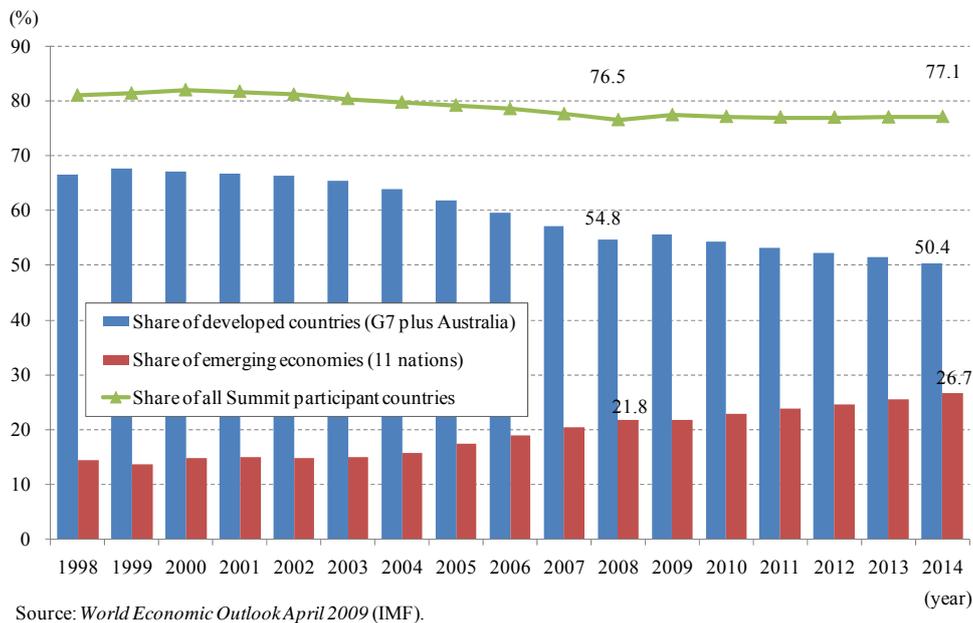
¹ IMF, "World Economic Outlook April 2009"

² The leading twenty countries included Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the UK, the U.S. and the EU presidency nation.

³ Meaning eleven countries excluding G7 (Canada, France, Germany, Italy, Japan, the U.K. and the U.S.), Australia and the EU presidency nation, from among the twenty countries mentioned in Supplementary Note 2.

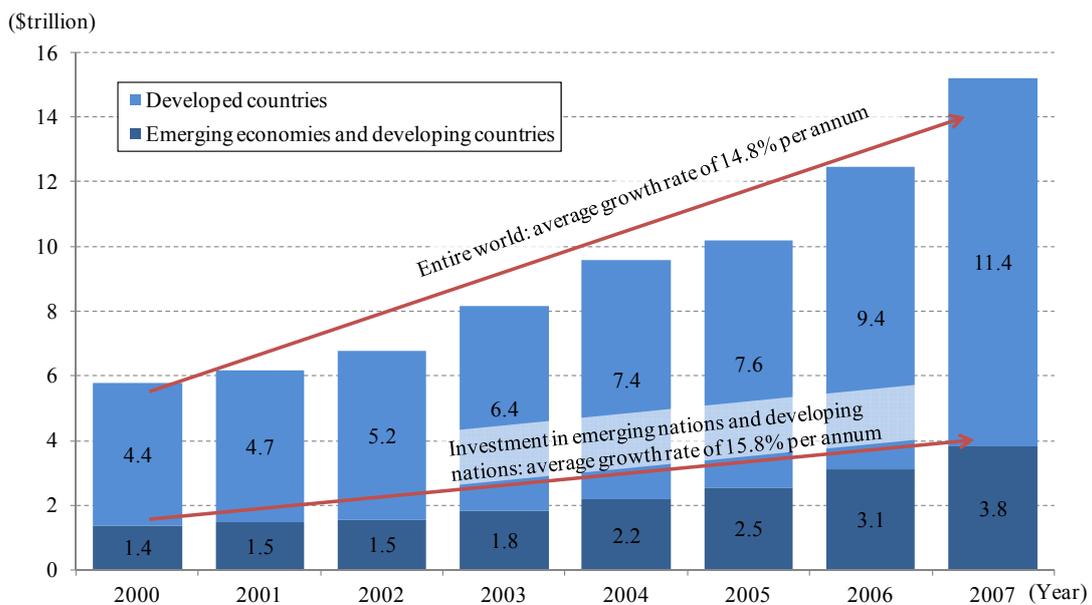
expected (Figure 2-2-1-1).

Figure 2-2-1-1 London Summit participants' shares of global nominal GDP



Such a high growth rate has led to the expansion of direct investment in emerging economies. The world's average increase of inward direct investment outstanding for the period from 2000 to 2007 was 14.8% per annum. In contrast, the average increase rate of inward direct investment in emerging economies and developing countries marked 15.8% per annum (Figure 2-2-1-2).

Figure 2-2-1-2 Increasing inward direct investment in emerging economies and developing countries



Notes: The developed countries as referred to herein are the 33 economies defined as advanced by IMF, and the emerging economies and developing countries are countries other than the advanced economies.
Source: *World Investment Report 2008* (UNCTAD).

(B) Emerging economies abound in diverse attractiveness

There is a variety of emerging economies and they abound in diverse attractiveness as markets. A comparative review of emerging markets based on various indices shows that, at this moment, countries in the Middle East are ranking high in GDP per capita on the basis of purchasing power, and countries such as China, Mexico and Russia are ranking high as exporting partners (Figure 2-2-1-3). In particular, the value of China's imports in 2007 ranked third in the world, following the U.S. and Germany, and exceeding that of Japan.

Figure 2-2-1-3 Ranking of emerging nations/resource-rich countries

	Population (2008)	GDP per capita (purchasing power parity basis) (2008)	GDP growth rate (2008)	Inward direct investment flow (2007)	Imports (2007)	Crude oil production quantity (2007)	Natural gas production quantity (2007)
1st	China 1.33 billion	Qatar \$86 thousand	Qatar 16.4%	China \$83.52 billion	China \$9.6 trillion	Saudi Arabia 12.6%	Russia 20.6%
2nd	India 1.19 billion	Brunei \$50 thousand	Angola 14.8%	Russia \$52.46 billion	Mexico \$2.7 trillion	Russia 12.6%	United States 18.8%
3rd	Indonesia 0.23 billion	Kuwait \$40 thousand	Timor-Leste 12.8%	Brazil \$34.59 billion	Russia \$2.2 trillion	United States 8.0%	Canada 6.2%
4th	Brazil 0.19 billion	UAE \$39 thousand	Azerbaijan 11.6%	Mexico \$24.69 billion	India \$2.2 trillion	Iran 5.4%	Iran 3.8%
5th	Bangladesh 0.16 billion	Bahrain \$35 thousand	Ethiopia 11.6%	Saudi Arabia \$24.31 billion	Turkey \$1.7 trillion	China 4.8%	Norway 3.0%
6th	Pakistan 0.16 billion	Bahama \$27 thousand	Equatorial Guinea 11.3%	India \$22.95 billion	Poland \$1.6 trillion	Mexico 4.4%	Algeria 2.8%
7th	Nigeria 0.15 billion	Oman \$24 thousand	Rwanda 11.2%	Turkey \$22.03 billion	Malaysia \$1.5 trillion	Canada 4.1%	Saudi Arabia 2.6%
8th	Russia 0.14 billion	Saudi Arabia \$29 thousand	Belarus 10.0%	Poland \$17.58 billion	Thailand \$1.4 trillion	UAE 3.5%	United Kingdom 2.5%
9th	Mexico 0.11 billion	Seychelles \$22 thousand	Peru 9.8%	Chile \$14.48 billion	UAE \$1.3 trillion	Venezuela 3.4%	China 2.4%
10th	Philippines 0.09 billion	Trinidad and Tobago \$21 thousand	Turkmenistan 9.8%	UAE \$13.25 billion	Brazil \$1.3 trillion	Kuwait 3.3%	Turkmenistan 2.3%

Note: Ranking among countries and regions, excluding 33 economies defined as advanced by IMF (Australia, Austria, Belgium, Canada, Cyprus, Czech, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, South Korea, Luxembourg, Malta, the Netherlands, New Zealand, Norway, Portugal, Singapore, Slovakia, Slovenia, Spain, Sweden, Swiss, Taiwan, the United Kingdom and the United States).

Note: Ranking among countries, including 33 advanced economies.

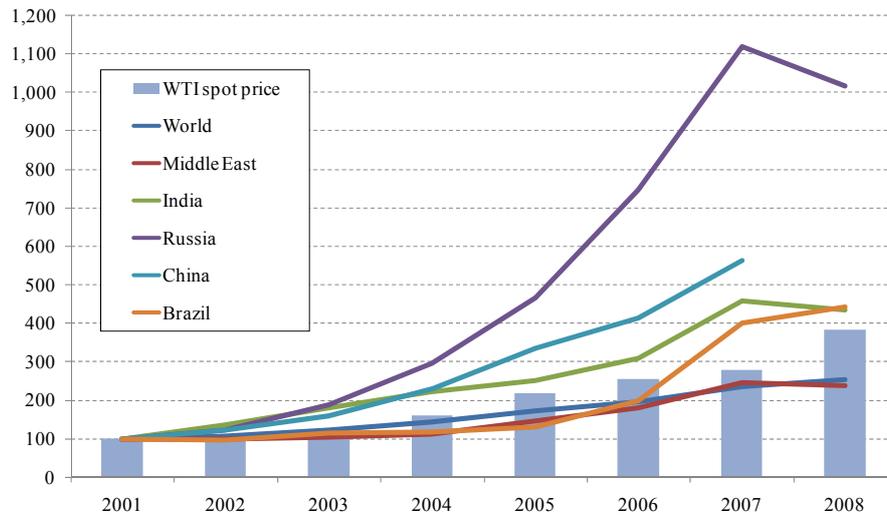
Source: *Statistical Review 2008* (BP).

Source: *World Economic Outlook, April 2009* (IMF), *World Trade Investment Report 2008* (UNCTAD), *International Trade Statistics 2008* (WTO).

(C) Resource-rich countries rich in funds

From among emerging economies, Russia, China, Mexico, the United Arab Emirates, etc. are rich in natural resources such as crude oil and natural gases, and rank high in production of primary energy. Emerging economies that possess natural resources have increased their foreign reserves, reflecting the soaring resource prices which continued until last summer (Figure 2-2-1-4).

Figure 2-2-1-4 Amount of foreign reserve increasing in emerging nations (Year 2001 = 100)



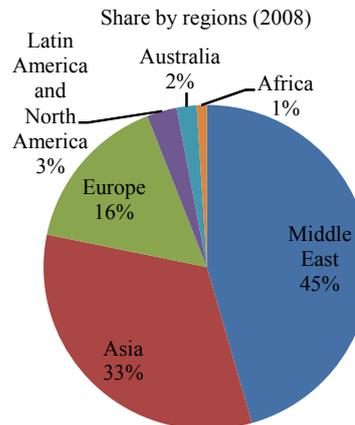
Note: WTI spot price is an annual average price.
 The Middle East countries include Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, the UAE and Yemen.
 Source: IMF International Financial Statistics (U.S. Energy Information Administration website).

In addition, with regard to SWFs (sovereign wealth funds) that are established for purposes such as investment of surplus yielded from resource exports and the aim of accumulating fund reserves for the future, the equity holding ratio therein per country or region shows the prominent presence of top-ranked crude oil and natural gas producing countries, such as countries in the Middle East (Figure 2-2-1-5).

Figure 2-2-1-5 Equity holding in SWF by countries and regions

	\$ billion	Share (%)
UAE	957	25
China	764	20
Singapore	464	12
Saudi Arabia	433	11
Norway	301	8
Kuwait	264	7
Russia	225	6
Others	492	13
Total	3,900	100

Source: *Sovereign Wealth Funds 2009* (International Financial Service, London).



Source: *Sovereign Wealth Funds 2009* (International Financial Service, London).

Viewing from the medium- to long-term standpoint, the world's resource demand will continue to rise. World Energy White Paper published by IEA envisions a scenario in which the crude oil price will rise to a level not less than \$122/bbl on a substantial basis, or \$206/bbl on a nominal basis, by 2030. Moreover, the price of natural gas is connected to the crude oil price and is on an upward trend, which would be a positive factor for the economies of resource-rich emerging economies (Figure

2-2-1-6).

Figure 2-2-1-6 Medium- to long-term situation of resource prices

		Import price	2007	2010	2020	2030
Substantial basis (price of 2007)	Crude oil	IEA average (dollar/bbl)	69.33	100.00	110.00	122.00
	Natural gas	U.S. (dollar/Mbtu)	6.75	12.78	14.57	16.13
		Europe (dollar/Mbtu)	7.03	11.15	12.71	14.19
		Japan LNG (dollar/Mbtu)	7.80	12.70	14.52	16.05
Nominal basis	Crude oil	IEA average (dollar/bbl)	69.33	107.34	148.23	206.37
	Natural gas	U.S. (dollar/Mbtu)	6.75	13.72	19.64	27.28
		Europe (dollar/Mbtu)	7.03	11.97	17.13	24.00
		Japan LNG (dollar/Mbtu)	7.80	13.63	19.56	27.16

Notes: The price on a nominal basis is based on an assumed inflation of 2.3% per annum starting from 2008.

Source: *World Energy Outlook 2008* (IEA).

(D) Strengthening ties between Japan and emerging economies

In recent years, ties between Japan and emerging economies have rapidly strengthened.

For example, the value of exports from Japan to emerging economies and developing countries for the five years from 2003 to 2008 increased by 99.4%, and far exceeded the growth rate of the value of exports to developed countries. In particular, exports to Russia, and Central or East Europe countries, such as Ukraine, Bulgaria, and Slovakia, have conspicuously increased.

A comparative review of Japanese-owned companies' status of overseas business development as of 2002 and 2007 shows that the number of Japanese-owned companies that expanded business to developed countries has decreased by 2.7%, but the number of Japanese-owned companies that expanded business to emerging economies and developing countries increased by 10.5%, which proves that Japanese-owned companies place high value on emerging economies (Figure 2-2-1-7).

Figure 2-2-1-7 Transition of exports from Japan to emerging nations, and transition of number of Japanese-owned companies operating in emerging nations

Value of exports from Japan

		2003 (¥100 million)	2008 (¥100 million)	Growth rate within five years
Aggregate value of exports from Japan		545,484	810,478	48.6%
Value of exports to developed countries		372,793	466,150	25.0%
Value of exports to emerging economies and developing countries		172,691	344,329	99.4%
Countries showing high growth rate	1 Cayman Islands	11	238	2014.9%
	2 Georgia	15	237	1472.7%
	3 Ukraine	170	2,101	1132.9%
	4 Russia	2,040	17,148	740.6%
	5 Bulgaria	19	146	665.5%
	6 Slovakia	75	482	539.8%
	7 Romania	76	466	516.0%
	8 Bahama	339	1,867	450.6%
	9 Angora	61	329	441.2%
	10 Marshall Islands	151	806	433.1%

Notes: This figure excludes countries whose imports from Japan were less than ¥10 billion in 2008.

Source: *Trade Statistics* (Ministry of Finance).

Number of Japanese companies operating abroad

		As of November, 2002	As of November, 2007	Growth rate within five years
Entire world		4,134	4,080	-1.3%
Developed countries in total		7,719	7,508	-2.7%
Emerging economies and developing countries in total		6,294	6,953	10.5%
Countries showing high growth rate	1 Russia	36	62	72.2%
	2 UAE	32	50	56.3%
	3 Vietnam	204	310	52.0%
	4 Poland	54	81	50.0%
	5 India	143	206	44.1%
	6 Saudi Arabia	20	28	40.0%
	7 Cayman Islands	25	32	28.0%
	8 China	1,939	2,421	24.9%
	9 Czech	57	71	24.6%
	10 South Africa	34	41	20.6%

Notes: The “number of Japanese companies operating overseas” refers to the number of Japanese companies with overseas affiliated companies in which they make equity investment. The figure excludes the countries which have less than 20 such Japanese companies as of November, 2007.

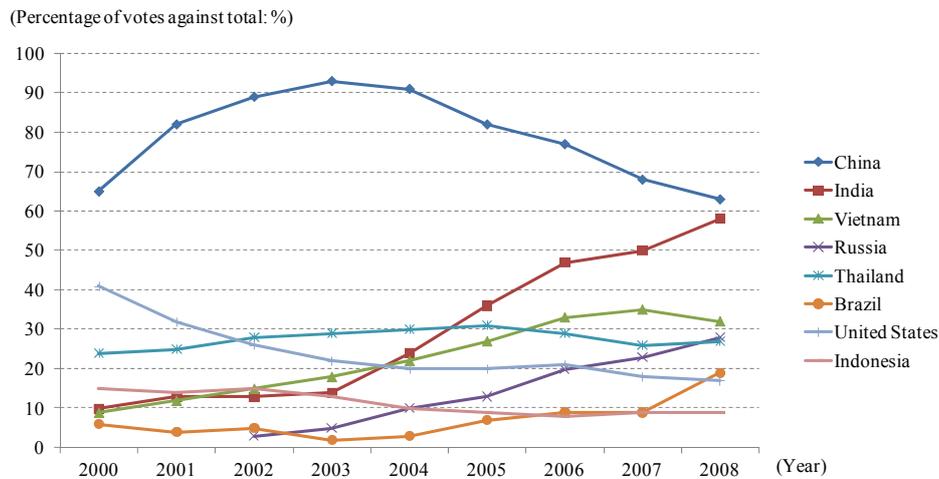
Source: *KAIGAI KIGYO SHINSHUTSU SORAN* 2003 and 2008 (Toyo Keizai).

Secondly, the following paragraph looks at countries and regions Japanese-owned companies consider attractive as targets for future business expansion.

According to JBIC (2009),⁴ the most attractive country or region for business expansion from a medium-term perspective (approximately three years), was China, while India ranked second and Vietnam ranked third. From among the developed countries, the U.S. came in seventh, but it is obvious that many Japanese-owned companies, in general, find emerging economies as targets which are more attractive than developed countries (Figure 2-2-1-8). Such results suggest that ties between Japan and emerging economies will continue to strengthen.

⁴ JBIC (2009), “Survey Report on Overseas Business Operations by Japanese Manufacturing Companies”

Figure 2-2-1-8 Attractive countries and regions targeted for business expansion, from a medium-term perspective (approximately for three years from now on)

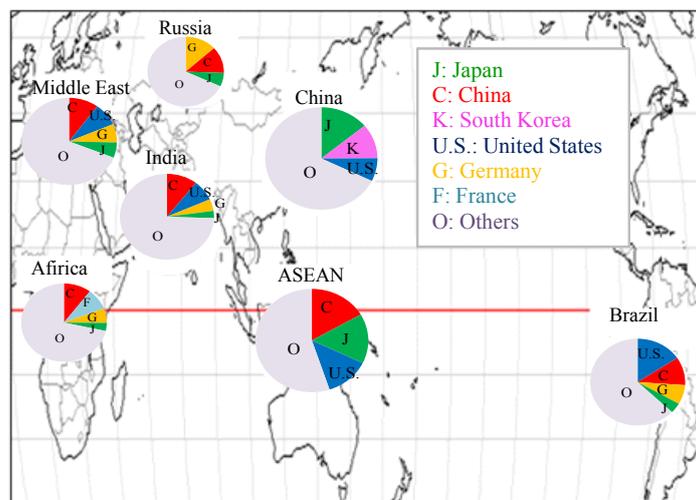


Notes: Each company was asked to give the names of five or less countries or regions that it found attractive as targets for business expansion, from a medium-term perspective (approximately for three years from now).
Source: *Report on Japanese Manufacturers' Overseas Business Operations* (JBIC).

(E) Status of Japan in emerging markets

As described thus far, ties between Japan and emerging economies are strengthening; however, these countries do not always regard Japan as their important partner. For example, looking at the importing partners of emerging economies and regions in 2007, in regard to China and ASEAN countries, imports from Japan constitute the largest and second largest proportion to their respective imports, however, such proportion is relatively small in the case of other emerging economies and regions (Figure 2-2-1-9). In addition, Japanese products compete intensively with products exported from South Korea in the Chinese market, and with products exported from China in other markets.

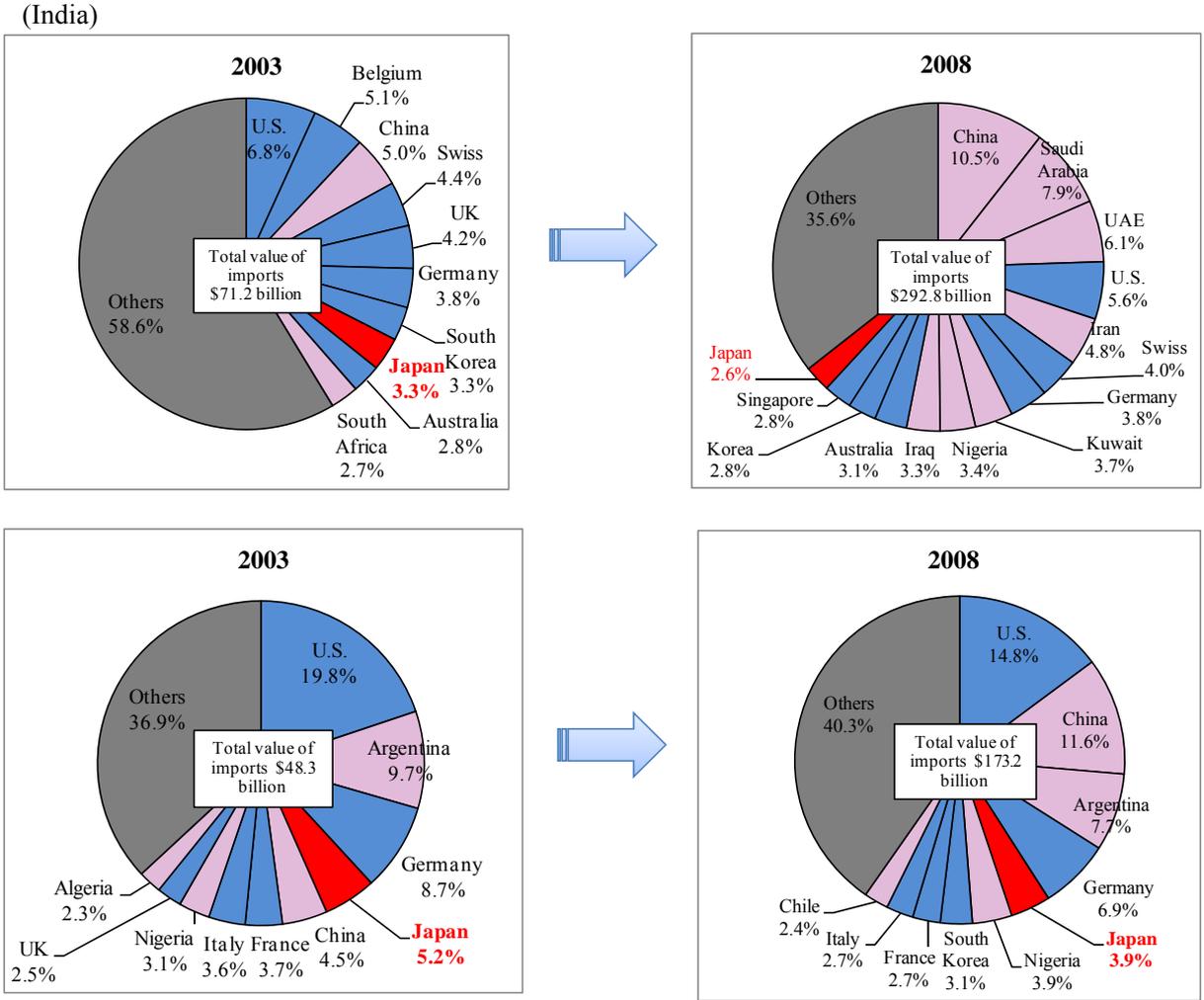
Figure 2-2-1-9 Emerging economies and regions' imports from major countries (2007)



Notes: Regarding each country's import partners, portions constituted by the top three countries and Japan are indicated separately, and those of other countries are categorized as "others."
Source: *DOT* (IMF).

Looking at the respective import status of India and Brazil, which are in the midst of sharp economic growth, India increased the value of its imports from around the world by 4.1 times in the five-year period from 2003 to 2008, and Brazil increased such imports by 3.6 times. The value of imports from Japan increased, but the growth rate was relatively small, pushing down Japan's ranking as these nations' importing partner. In addition to Japan, the positions of other developed countries in emerging markets, such as the U.S. and the UK, are also showing the same tendency of falling. Meanwhile, it was China which has come to show its prominent presence in these markets. The value of India's imports from China is now 8.6 times as much it was in 2003, and the value of Brazil's imports from China is now 9.3 times as much as it was in 2003. This may be due to the facts that many multinational corporations utilize China as their production and exporting hub, and in addition to this, that exports from Chinese companies are thriving. In addition to China, resource-rich emerging economies also have come to show their strong presence in markets (Figure 2-2-1-10).

Figure 2-2-1-10 Changes in emerging economies' importing partners



Notes: The parts highlighted pink represent emerging nations.
 Source: World Trade Atlas

(2) Asian countries striving to shift from export-led growth to growth led by domestic demand

From among emerging economies, Asian countries such as China and ASEAN countries have

accelerated the division of labor process, and established a production network within the region, based on which they have been actively carrying out intraregional intermediate products trading and exporting final products worldwide to regions including Europe and the U.S., and thereby they have affirmed their position as the “world’s factory.”⁵

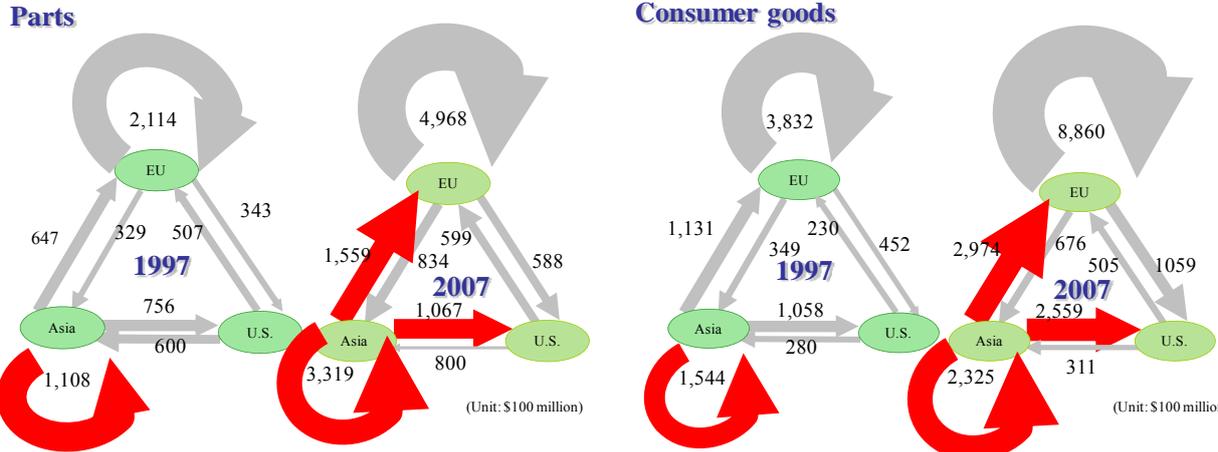
Asian countries, which have achieved economic growth through the processing trade but now face the economic recession in Europe and the United States, have begun to shift their visions to growth through expansion of domestic markets.

(A) Changes in production and trade structures in Asia

Since the beginning of 2000, Asian countries, including China and ASEAN countries, have accelerated expansion in their triangular trade by utilizing a production network, wherein they import intermediate products from within the region, and process such products into final products to be exported to other regions, including Europe and the U.S. Looking at the transition in the international trade of parts and consumer goods between Asia and the U.S. and between Asia and EU for the purpose of verification of this expansion, one can see that the value of intra-Asian exports of parts tripled in the period from 1997 to 2007, and that a production network has been developing within Asia (Figure 2-2-1-11).⁶

On the other hand, with regard to consumer goods, intra-Asian trade has been increased by 1.5 times, however, exports to EU and the U.S. showed increase larger than that, which shows that production network in Asia has come to be heavily dependent on exports of consumer goods to Europe and the U.S.

Figure 2-2-1-11 Transition in value of exports of parts and consumer goods among Asia, U.S. and EU



Notes: Here Asia means Japan, South Korea, China, Hong Kong, Taiwan, Singapore, Malaysia, Indonesia, Thailand, Philippines, Vietnam, Cambodia, Brunei, India, Australia and New Zealand. Source: RIETI-TID 2008 (Research Institute of Economy, Trade and Industry).

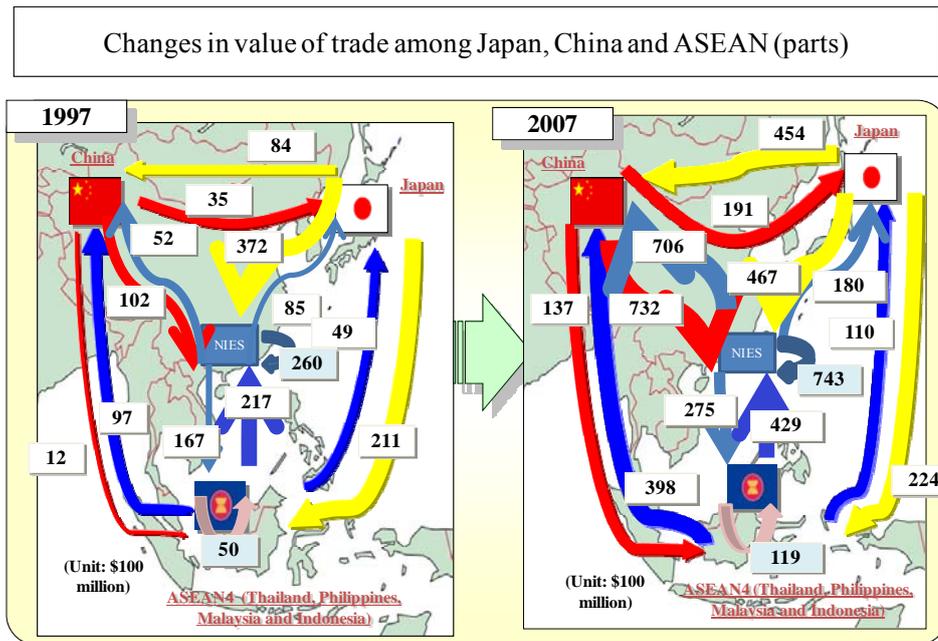
Notes: Here Asia means Japan, South Korea, China, Hong Kong, Taiwan, Singapore, Malaysia, Indonesia, Thailand, Philippines, Vietnam, Cambodia, Brunei, India, Australia and New Zealand. Source: RIETI-TID 2008 (Research Institute of Economy, Trade and Industry).

⁵ Chapter II, Section 1, 3., Ministry, Economy, Trade and Industry (2008), *White Paper on International Economy and Trade 2008*

⁶ RIETI-TID2008. For itemization of parts and consumer goods, refer to Supplementary Note 1-1.

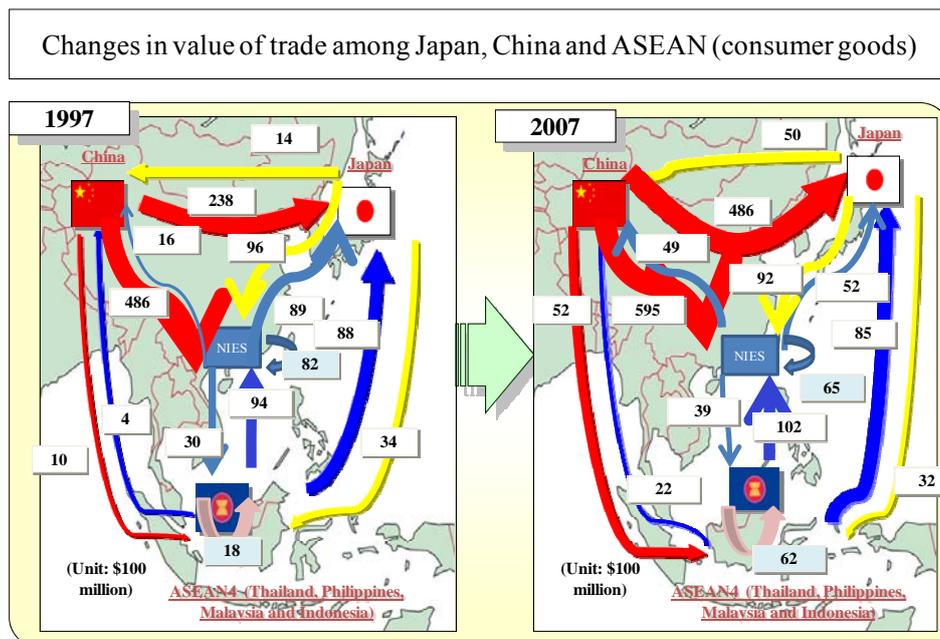
Secondly, looking at the change in intra-Asian trade between 1997 and 2007, the value of parts exported from Japan to ASEAN and NIEs countries remained almost unchanged. However, the value of parts exported to China became more than five times as large, which indicates the growing presence of China as a production hub, among Asian nations. (Figure 2-2-1-12) In addition, exports of parts from China and ASEAN countries to Japan or from ASEAN countries to China sharply increased, revealing an enhancement in their ability to supply parts and the establishment of the strongest production network by companies in Asia.

Figure 2-2-1-12 Changes in trade of parts and consumer goods among Japan, China and ASEAN



Source: RIETI-TID 2008 (Research Institute of Economy, Trade and Industry).

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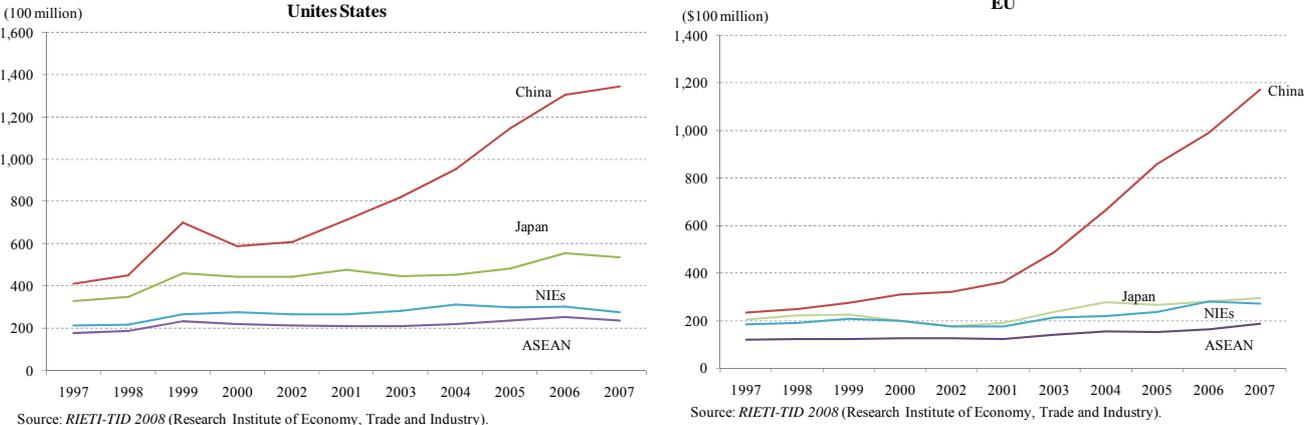
Source: RIETI-TID 2008 (Research Institute of Economy, Trade and Industry).

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In contrast, the transition in trade of consumer goods in Asia shows that all regions showed increased in their trade value. For example, the value of exports from China to Japan increased from \$23.8 billion in 1997 to \$48.6 billion in 2007, which was increase by 2.1 times. However, the scale of the consumer goods trade is smaller than that of the parts trade.

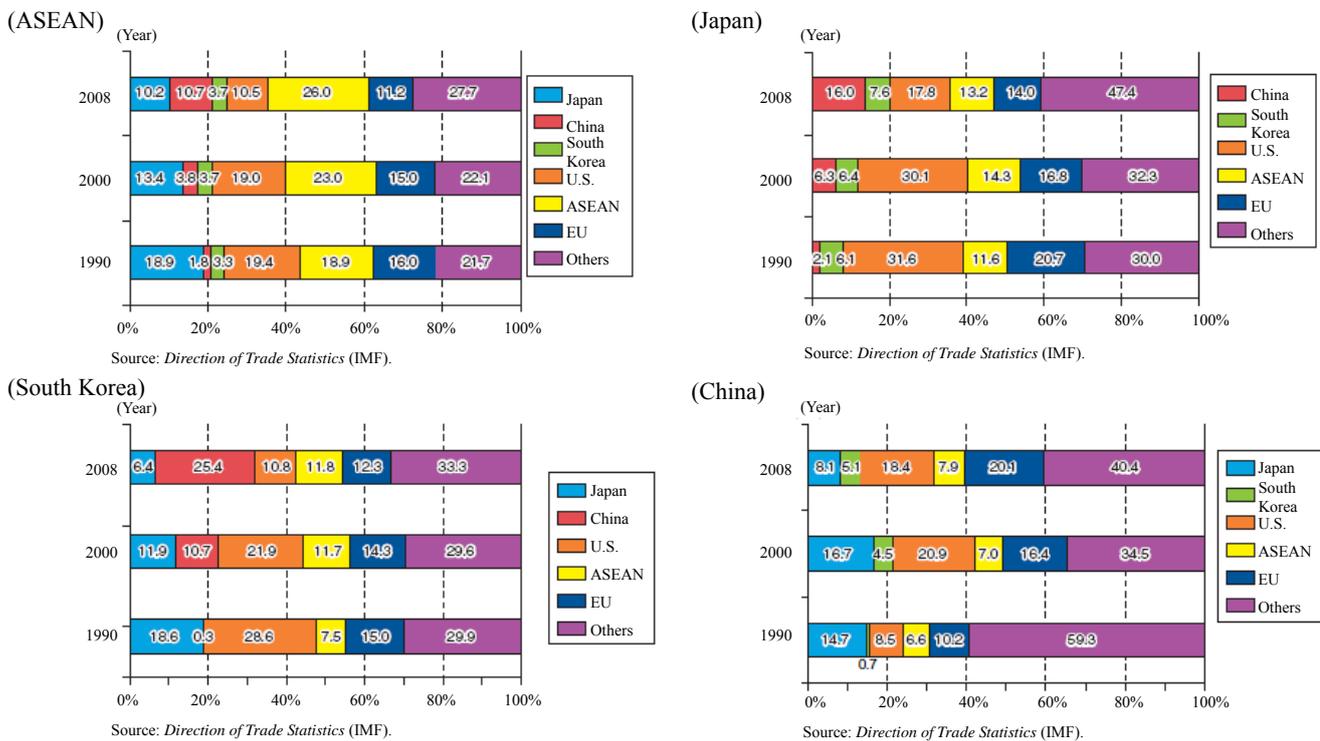
China, which procures parts from within Asia, has secured its position as an important hub for the supply of final products for Europe and the U.S. Looking at the purchasing ratio of final consumer goods purchased by the U.S. and EU, by dividing Asia into China, ASEAN countries, NIEs countries and Japan, imports by both the U.S. and EU from Japan, ASEAN countries and NIEs countries showed only slight growth, but imports from China have leaped in the 2000s. This shows a growing tendency wherein final consumer goods are exported from China to Europe and the U.S. (Figure 2-2-1-13).

Figure 2-2-1-13 Transition of value of imports of final consumer goods, itemized by importing partner



The composition of exports by Asian countries also shows change in the structure of production and trade in Asia. The proportion of exports to China has grown in Japan, ASEAN countries and South Korea, and these countries have expanded their functions as supplier of intermediate goods, including parts, to Asia and China. As for China, it is not only the proportion of exports to the EU that has increased; the exports to all other regions are also gaining weight, which shows China’s expansion in function as a supplier of final goods worldwide in addition to Europe and the U.S. (Figure 2-2-1-14).

Figure 2-2-1-14 Transition of major exporting partners of ASEAN, Japan, South Korea and China



Thus, in Asia, the trade of intermediate products has expanded, and final products processed in the region are primarily exported from China to Europe and the U.S. However, imports by Europe and the U.S. have been sharply reduced since the global financial crisis began in 2008. Asian countries have actively committed to luring foreign capital to improve their industrial clusters as production and exporting hubs, but the global financial and economic crisis has given rise to the necessity to set a new strategy for targeting wide-range emerging markets, including Asia and other regions, in addition to the markets of developed countries such as Japan, the U.S. and Europe.

(B) Asian economic zone arousing expectation as a consumption market, as its economy grows

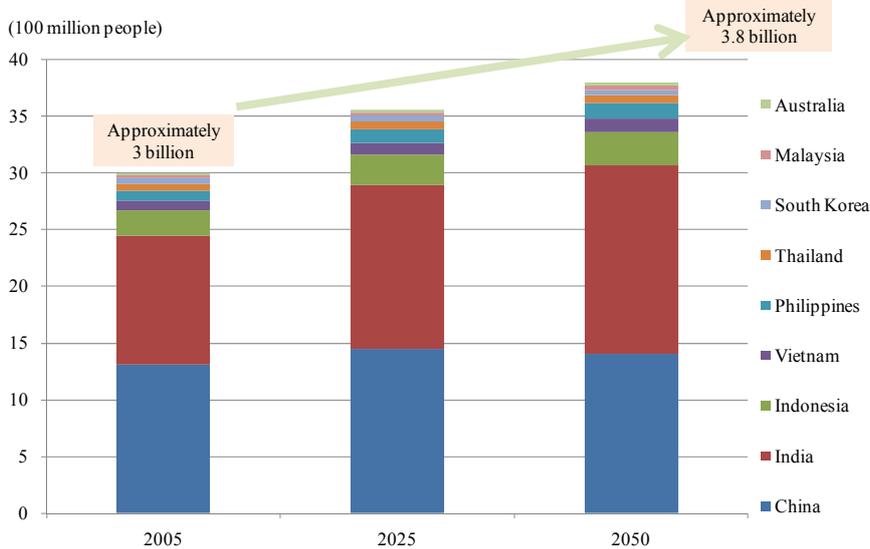
As the next issue, the following paragraphs discuss the possibility of Asia becoming a consumption market equivalent to Europe and the U.S.

(a) High population growth rate

Developed countries in Asia, such as South Korea and Japan, suffer issues of declining birthrates and aging; however, the population of Asian countries is still tending to increase. A survey conducted by the United Nations predicted that populations of Asia in 2050 will reach a total of 3.8 billion (Figure 2-2-1-15). Among Asian countries, the ASEAN countries, with a combined population of 0.59 billion, have pyramid-type population distributions, under which the proportion of young people to the entire population is very large. In addition to their large population, one of their attractive points as a market is the abundance of young people, which will provoke future consumption demand. Asia's urbanization rate has been increasing steadily (Figure 2-2-16). As far as certain income classes living

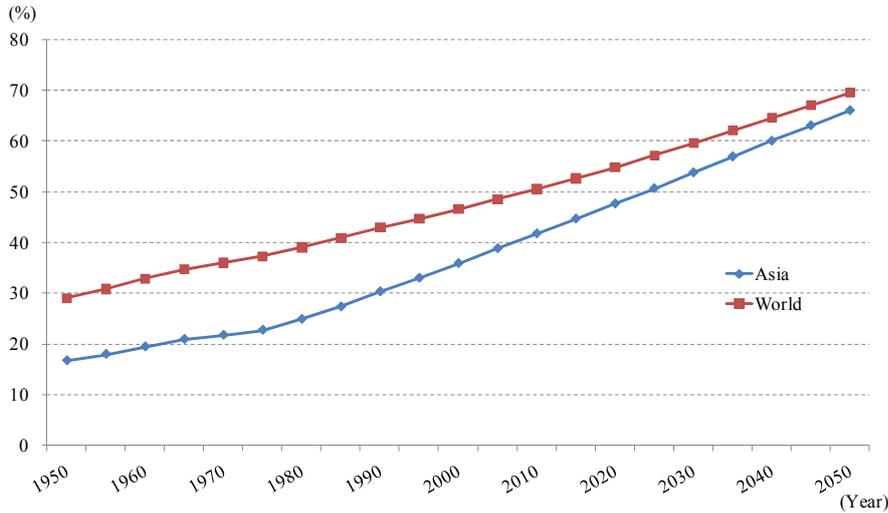
in urbanized Asia are concerned, on the assumption that improvement in infrastructures and development of industries accelerates urbanization in Asia, the income disparity among such classes will become small.⁷ A sharp growth in GDP per capita would give rise to an increase in the so-called urban middle-income class.

Figure 2-2-1-15 Change in Asia's population



Source: *World Population Prospects: The 2006 Revision* (United Nations).

Figure 2-2-1-16 Transition of urbanization rate of the world and Asia



Notes: Asia as referred to in this figure means ASEAN+6.
 Source: *World Urbanization Prospects, the 2007 Revision* (United Nations, 2007).

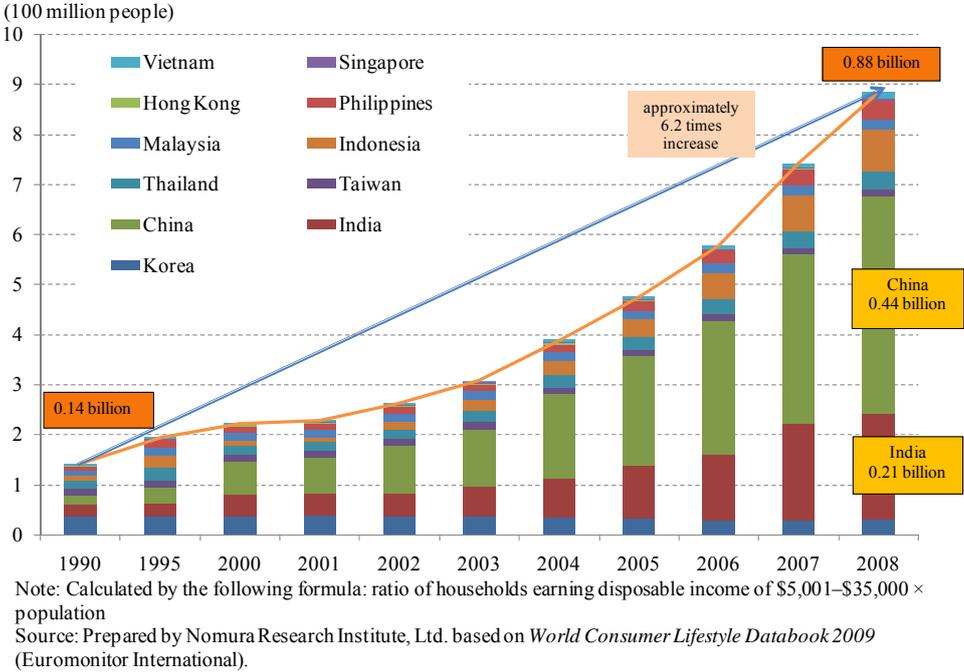
(b) Surging middle-income class population

In Asian countries, the increase in GDP has continued to push disposable income upward. The population of households earning a disposable income between \$5,001 and \$35,000 in Asia (excluding Japan) marked approximately 0.14 billion in 1990, and then jumped to approximately 0.88 billion in

⁷ Chapter II, Ministry of Economy, Trade and Industry (2008), *White Paper on International Economy and Trade 2008*

2008, becoming 6.2 times larger (Figure 2-2-1-17).

Figure 2-2-1-17 Transition in population of households earning disposable income of \$5,001–\$35,000

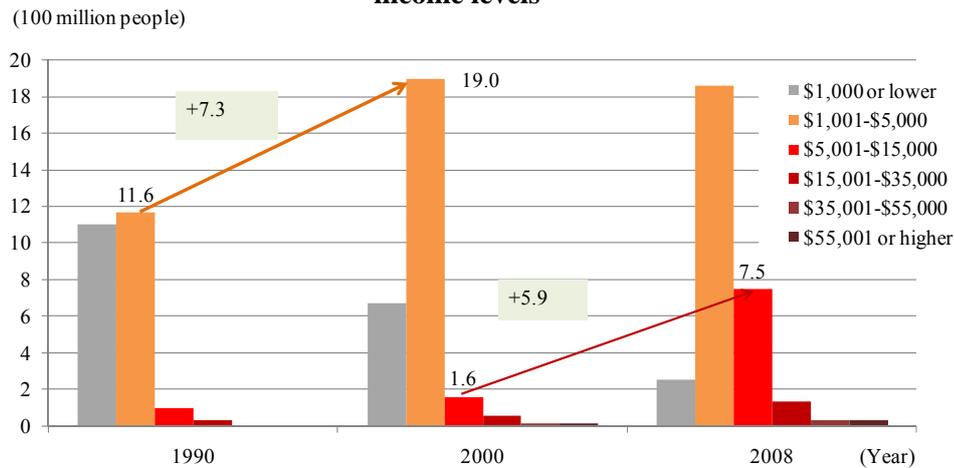


The breakdown of such change can be described as follows: between 1990 and 2000, the income class earning \$1,001–\$5,000 showed a conspicuous increase from approximately 1.16 billion to 1.9 billion; but between 2000 and 2008, the upper income class earning \$5,001–\$15,000 showed a conspicuous increase from 0.16 billion to 0.75 billion (Figure 2-2-1-18). In Asian countries, the volume zone of income (i.e. income class with the largest population) has gradually shifted to the upper income class, and the upper income class is expected grow even further. The average disposable income per resident of Shanghai City increased from 11,718 RMB in 2000 to 26,675 RMB in 2008, which was an increase of approximately 2.3 times, and the total retail value of social consumer goods⁸ in 2008 increased to 453.7 billion RMB, which is an increase of approximately 2.4 times compared to 186.5 billion RMB in 2000. The foregoing data shows that the large appetite of the urban middle-income class toward consumption activities can enormously revitalize the economy, thereby enhancing Asia’s attractiveness as a consumption market.⁹

⁸ The term “total retail value of social consumer goods” means the total retail value of products consumed during citizens’ day to day lives, such as that related to restaurant business, newspaper publishing business, postal service, wholesale/retail business and any other services.

⁹ According to China’s demand for major household appliances in 2010, which was estimated by the Japan Electrical Manufacturer’s Association, room air conditioners and electric refrigerators are expected to attain a high growth rate of at least 30%, and electric rice cookers at least 50%.

Figure 2-2-1-18 Transition of number of households in Asia, categorized by household disposable income levels



Notes: In this figure Asia means China, Taiwan, Hong Kong, South Korea, India, Singapore, Malaysia, Indonesia, Philippines and Vietnam.
 Calculated by the following formula: ratio of the households earning the relevant level of household disposable income \times population
 Source: Prepared by Nomura Research Institute, Ltd. based on *World Consumer Lifestyle Databook 2009* (Euromonitor International).

(3) Trends in middle-income class consumers in emerging markets

The following focuses on the kind of consumption activities of the middle-income class in emerging economies.

According to an internet survey¹⁰ targeting consumers of China and India implemented by the Japan Economic Foundation in 2009, most of the Chinese respondents had purchased a cellular phone, personal computer, slim-type TV and DVD device (Figure 2-2-1-9). As for the origins of such products, the largest proportion of consumers had purchased Chinese products, in regard to all categories of products targeted for the survey. Comparing the European or U.S. products with Japanese products, Japanese products gained a larger share of slim-type TVs and DVD devices, and European and U.S. products gained a larger share of all other product categories.

Secondly, with regard to preferences for nationalities of manufacturers of products that the consumers wished to purchase, the survey showed a decrease in the ratio of respondents preferring Chinese products and an increase in the ratio of respondents preferring Japanese products. The ratio of respondents preferring European and U.S. products was larger than the ratio preferring Japanese products, showing the popularity of European and U.S. products. In addition, a comparative review of income classes of purchasers of Japanese products and Chinese products suggests that purchasers of Japanese products belonged to a higher income class than purchasers of Chinese products. With regard to slim-type TVs and DVD devices, in the comparatively low-income classes, the number of consumers having purchased Japanese products exceeded the number of people having purchased Chinese products.

¹⁰ The internet survey implemented under the Japan Economic Foundation, “SHIHON IDO TO WAGAKUNI SANGYO KYOSORYOKU NI KANSURU CHOSA KENKYU HOKOKUSHO.” It is estimated that the research targets in the middle-income class and earning considerable income, judging from the fact that they can use the internet. See Supplementary Note 2-4 “Survey on Actual Status of Consumers.” It should be noted that the results referred to herein are based on only a small number of samples.

Figure 2-2-1-19 Countries of origin of products purchased by Chinese consumers, and distribution thereof by income

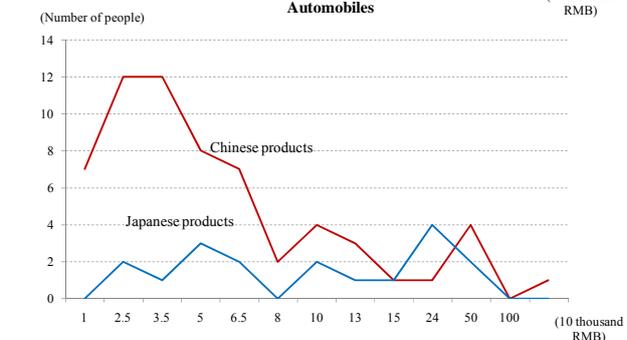
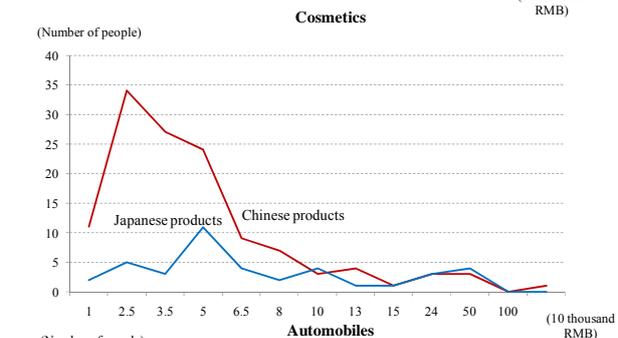
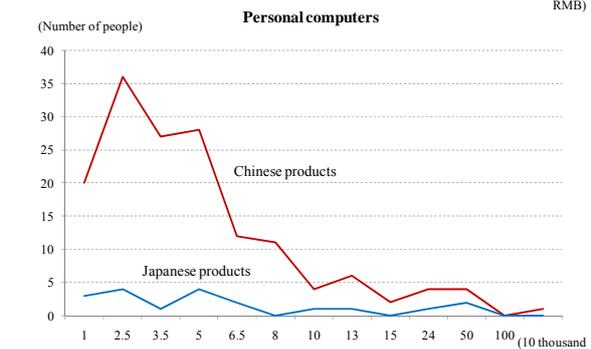
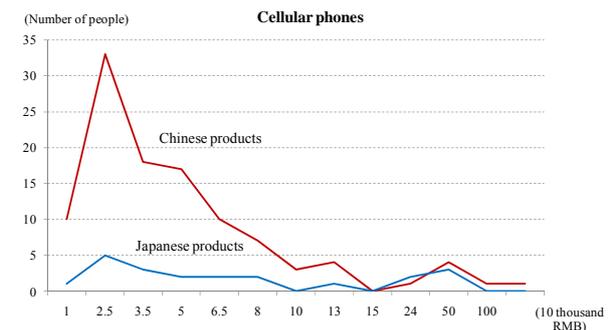
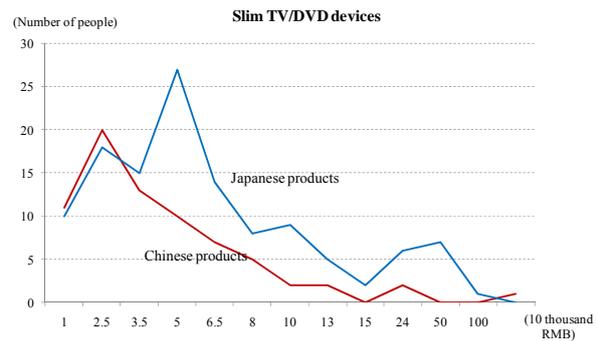
Slim TV/DVD devices, etc. (China)	Total	Origin of manufacturers of products preferred by customers				
		China	Europe and U.S.	Japan	Others	
Total	200	46	45	104	5	
	100.0	23.0	22.5	52.0	2.5	
Origin of products customers purchased	China	65	27	18	20	0
		33%	41.5	27.7	30.8	0.0
	Europe and U.S.	20	2	9	8	1
	Japan	95	8	17	69	1
		48%	8.4	17.9	72.6	1.1
Others	8	2	2	2	2	
	4%	25.0	25.0	25.0	25.0	
Customers who have not purchased products	25	9	3	12	1	
	13%	36.0	12.0	48.0	4.0	

Cellular phones (China)	Total	Origin of manufacturers of products preferred by customers				
		China	Europe and U.S.	Japan	Others	
Total	200	73	100	13	14	
	100.0	36.5	50.0	6.5	7.0	
Origin of products customers purchased	China	88	49	32	4	3
		44%	55.7	36.4	4.5	3.4
	Europe and U.S.	90	19	65	5	1
	Japan	14	5	3	5	1
		7%	35.7	21.4	35.7	7.1
Others	21	7	6	0	8	
	11%	33.3	28.6	0.0	38.1	
Customers who have not purchased products	4	1	2	0	1	
	2%	25.0	50.0	0.0	25.0	

Personal computers (China)	Total	Origin of manufacturers of products preferred by customers				
		China	Europe and U.S.	Japan	Others	
Total	200	98	77	18	7	
	100.0	49.0	38.5	9.0	3.5	
Origin of products customers purchased	China	130	81	35	12	2
		65%	62.3	26.9	9.2	1.5
	Europe and U.S.	49	11	34	3	1
	Japan	13	1	7	5	0
		7%	7.7	53.8	38.5	0.0
Others	13	2	7	1	3	
	7%	15.4	53.8	7.7	23.1	
Customers who have not purchased products	8	5	2	0	1	
	4%	62.5	25.0	0.0	12.5	

Cosmetics (China)	Total	Origin of manufacturers of products preferred by customers				
		China	Europe and U.S.	Japan	Others	
Total	200	88	71	26	15	
	100.0	44.0	35.5	13.0	7.5	
Origin of products customers purchased	China	102	65	22	11	4
		51%	63.7	21.6	10.8	3.9
	Europe and U.S.	60	12	41	6	1
	Japan	29	2	9	15	3
		15%	6.9	31.0	51.7	10.3
Others	12	4	3	2	3	
	6%	33.3	25.0	16.7	25.0	
Customers who have not purchased products	29	12	6	3	8	
	15%	41.4	20.7	10.3	27.6	

Automobiles (China)	Total	Origin of manufacturers of products preferred by customers				
		China	Europe and U.S.	Japan	Others	
Total	200	73	74	47	6	
	100.0	36.5	37.0	23.5	3.0	
Origin of products customers purchased	China	53	28	13	12	0
		27%	52.8	24.5	22.6	0.0
	Europe and U.S.	24	4	18	2	0
	Japan	10	1	5	4	0
		5%	10.0	50.0	40.0	0.0
Others	2	0	2	0	0	
	1%	0.0	100.0	0.0	0.0	
Customers who have not purchased products	118	43	39	30	6	
	59%	36.4	33.1	25.4	5.1	



Source: SHIHON IDO TO WAGAKUNI SANGYO KYOSORYOKU NI KANSURU CHOUSHA KENKYU HOKOKUSHO (The Japan Economic Foundation).

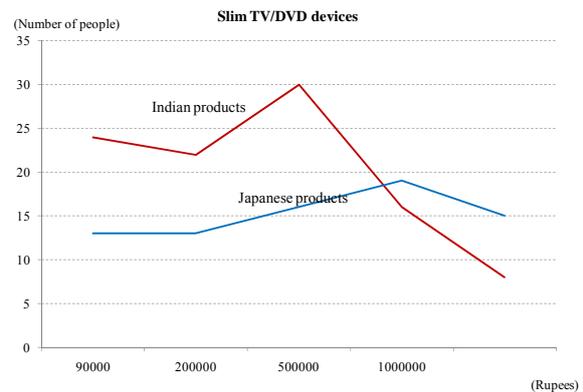
On the other hand, looking at the status of purchases of various products by Indian consumers, like China, most of the respondents had purchased a slim-type TV, DVD device, cellular phone and personal computer (Figure 2-2-1-20). As for the origins of the products, another similarity to China is that the largest proportion of Indian consumers had purchased Indian products, in regard to all categories of products targeted for the survey. Comparing European and U.S. products with Japanese products, Japanese products gained the larger share of slim-type TVs and DVD devices, and tied in the shares of automobiles and cellular phones.

With regard to preferences for nationalities of manufacturers of products that the consumers wished to purchase, many respondents answered that they wished to purchase Indian products. However, with regard to electrical appliances and cellular phones, the survey showed a decline in the ratio of respondents preferring Indian products and an increase in the ratio of respondents preferring Japanese products. The preference ratio of Japanese products was higher than that of European and U.S. products.

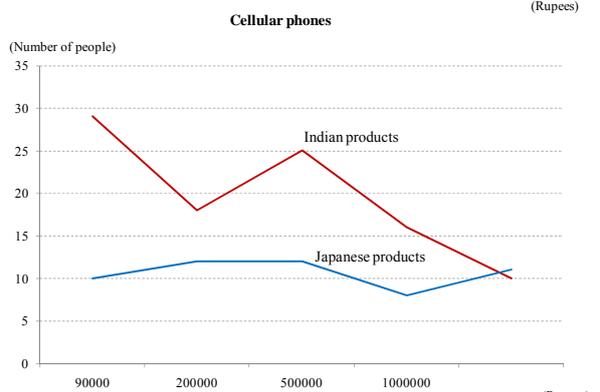
A comparative review of income classes of purchasers showed that, in respect to all categories of the products, purchasers of Japanese products belonged to the higher income class, compared to the volume zone of purchasers of Indian products.

Figure 2-2-1-20 Countries of origins of products purchased by Indian consumers, and distribution by income

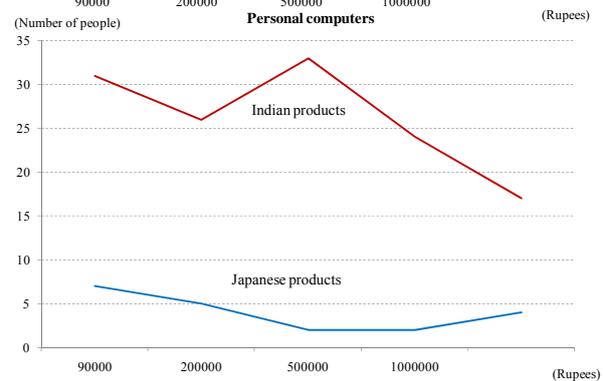
Slim TV/DVD devices, etc. (India)		Total	Origin of manufacturers of products preferred by customers			
			China	Europe and U.S.	Japan	Others
Total		200	82	17	84	17
		100.0	41.0	8.5	42.0	8.5
Origins of products which customers purchased	China	94	63	6	18	7
		47%	67.0	6.4	19.1	7.4
	Europe and U.S.	28	8	8	11	1
		14%	28.6	28.6	39.3	3.6
	Japan	75	9	6	51	9
	38%	12.0	8.0	68.0	12.0	
Others	15	5	2	8	0	
	8%	33.3	13.3	53.3	0.0	
customers that have not purchased product	11	5	1	3	2	
	6%	45.5	9.1	27.3	18.2	



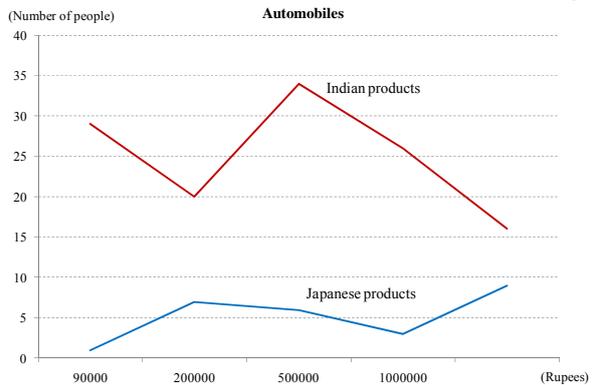
Cellular phones (India)		Total	Origin of manufacturers of products preferred by customers			
			China	Europe and U.S.	Japan	Others
Total		200	78	32	52	38
		100.0	39.0	16.0	26.0	19.0
Origins of products which customers purchased	China	97	64	5	17	11
		49%	66.0	5.2	17.5	11.3
	Europe and U.S.	50	10	19	8	13
		25%	20.0	38.0	16.0	26.0
	Japan	49	8	3	29	9
	25%	16.3	6.1	59.2	18.4	
Others	27	5	6	5	11	
	14%	18.5	22.2	18.5	40.7	
customers that have not purchased product	2	2	0	0	0	
	1%	100.0	0.0	0.0	0.0	



Personal computers (India)		Total	Origin of manufacturers of products preferred by customers			
			China	Europe and U.S.	Japan	Others
Total		200	102	44	28	26
		100.0	51.0	22.0	14.0	13.0
Origins of products which customers purchased	China	129	86	17	11	15
		65%	66.7	13.2	8.5	11.6
	Europe and U.S.	57	17	25	8	7
		29%	29.8	43.9	14.0	12.3
	Japan	18	3	5	8	2
	9%	16.7	27.8	44.4	11.1	
Others	15	3	6	4	2	
	8%	20.0	40.0	26.7	13.3	
customers that have not purchased product	3	3	0	0	0	
	2%	100.0	0.0	0.0	0.0	



Automobiles (India)		Total	Origin of manufacturers of products preferred by customers			
			China	Europe and U.S.	Japan	Others
Total		200	125	25	29	21
		100.0	62.5	12.5	14.5	10.5
Origins of products which customers purchased	China	119	85	11	11	12
		60%	71.4	9.2	9.2	10.1
	Europe and U.S.	24	7	10	4	3
		12%	29.2	41.7	16.7	12.5
	Japan	26	7	5	10	4
	13%	26.9	19.2	38.5	15.4	
Others	4	2	1	1	0	
	2%	50.0	25.0	25.0	0.0	
customers that have not purchased product	46	34	3	6	3	
	23%	73.9	6.5	13.0	6.5	

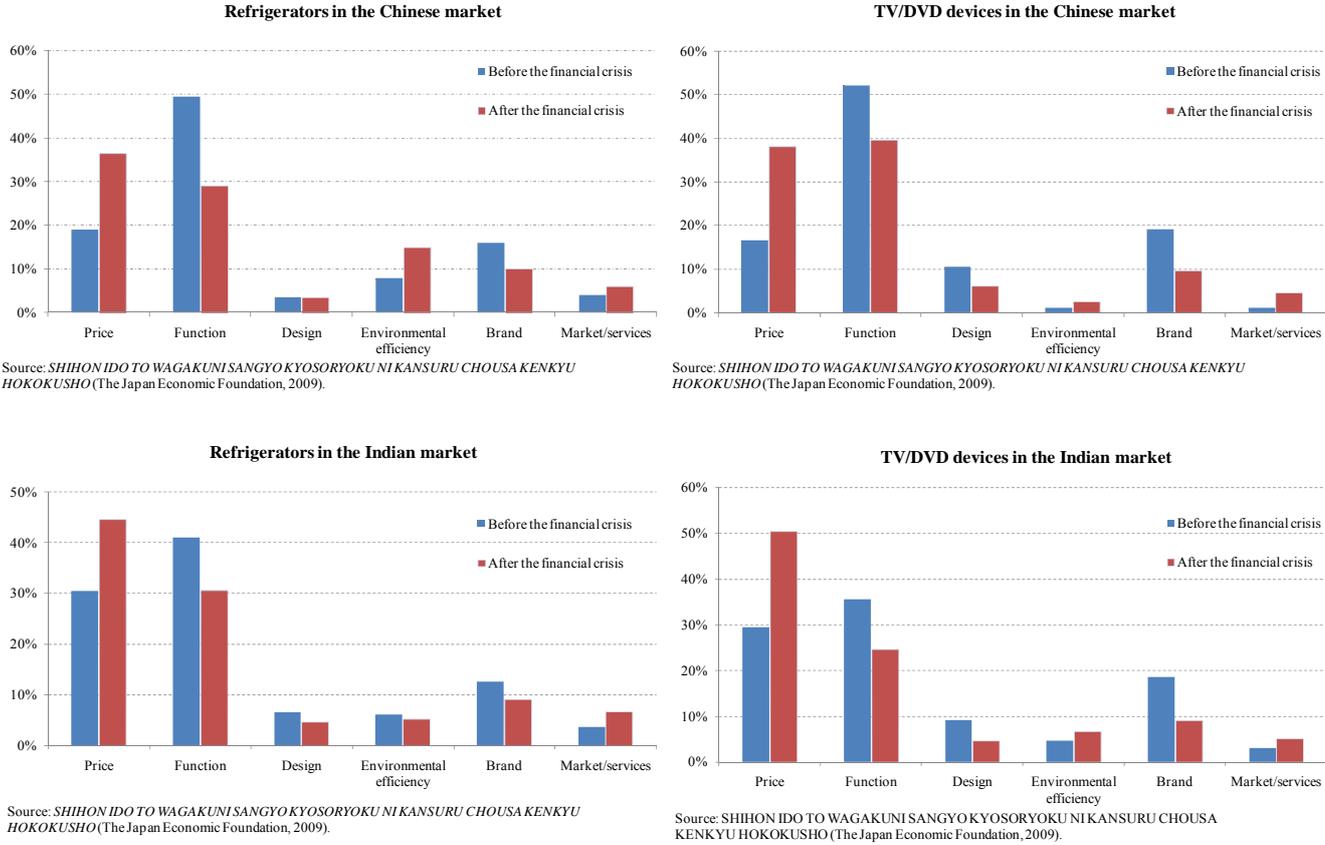


Source: SHIHON IDO TO WAGAKUNI SANGYO KYOSORYOKU NI KANSURU CHOUSHA KENKYU HOKOKUSHO (The Japan Economic Foundation).

In both China and India, the number of purchasers of Japanese products was generally less than that of purchasers of local products. However, with regard to some categories of products, comparatively many respondents answered that they wished to purchase Japanese products, inferring a potential demand for Japanese products.

In general, Japanese products are regarded to be high-quality and expensive.¹¹ The consumers targeted for this survey had regarded function as the first priority. However, after the economic and financial crisis, they have tended to become price-sensitive (Figure 2-2-1-21).

Figure 2-2-1-21 Particulars which consumers prioritize (comparison between before and after financial crisis)



Under the same survey, questions related to food, daily necessities, etc. also showed the results that the respondents inclined to be price-sensitive and to prefer goods produced in their own countries. Therefore, developing business in emerging markets, which is different from business in Japan and involves income class distribution and various degrees of growth, requires multifaceted approaches, including the further narrowing of target zones, the establishment of a brand image and building brand awareness, and the development of products tailored to the tastes of customers in the targeted regions.

¹¹ According to “Global HABIT 2008,” implemented by HAKUHODO Incorporated, targeting men and women aged from 15 to 54 in 14 cities in Asia, the U.S. and Europe (500–800 people for each city), 70% of the respondents believed that Japanese products have an of high-quality (46.9%, in case of European products, which ranked second). The Japanese products the respondents considered to be good quality were digital cameras, household appliances, large-screen slim-type TVs, and cars (in descending order).

<<Example Case>>

[Businesses concentrated on exports became oriented on both exports and domestic demands — Vietnam Wacoal Corp.]

Vietnam Wacoal Corp., incorporated in 1997, is one of the overseas affiliates of Wacoal Holdings Corp. (headquartered in Kyoto), and has been carrying out the business of manufacturing and exporting products to Japan and Taiwan since 1998. As a restriction on foreign capital imposed on distribution sectors in Vietnam was lifted in January, 2009, arousing expectation for market expansion backed by inflow of foreign capital, Wacoal began distributing lingerie of the same quality and brand as that sold in Japan, by targeting the wealthy class, who prefer upscale products. As of March 2009, Wacoal has established four distribution hubs. Wacoal intends to achieve market expansion through two channels comprising foreign-owned department stores and its directly managed stores.¹² The China business section of Wacoal Holdings Corp. has launched brands oriented toward young people as well as high-value-added brands, so as to attract a wide range of customers. In addition, Wacoal adopts the advertising character and the promotion activities common to all distribution zones (i.e. China, South Korea, Taiwan, Hong Kong and Vietnam), in order to enhance brand image and publicity and to establish Wacoal's image throughout Asia in a consistent manner.¹³

[Commitment to the creation of value for seasoning and branding strategy — Ajinomoto Co., Inc.]

Ajinomoto Co., Inc. (headquartered in Tokyo) has developed businesses in 21 countries and regions including Asia, Europe, America and Africa and has committed to developing products adapted to local food cultures.

For example, Ajinomoto Vietnam Co., Ltd., which was incorporated in 1991, has been striving to diversify its business. It has done so by developing in 2000 a seasoning oriented toward the Vietnam market that easily makes food taste like traditional Vietnam soup, called "Aji-gnon," and by beginning sales of mayonnaise in 2005. In the sharply growing market supported by improvement in the standard of life thanks to the economic development of Vietnam, Ajinomoto Vietnam Co., Ltd. has expanded its sales through such means as renovating products and packages to reflect customers' needs, active marketing activities, and establishing a direct distribution network covering all areas of Vietnam.¹⁴

(D) Commitment for growth of Asian economic zone

(a) Commitment of Asian countries' governments to stimulating domestic demand

The sharp decline in demand in developed countries has led to a considerable downturn in exports from Asia and a slowdown in Asian economies. As a result, Asian countries have drawn up economic policy measures for stimulating domestic demand, such as improvement in infrastructures and social security systems initiated by government sectors.

China has announced policy measures for industrial development and for stimulation of consumption, aimed at promoting industries, stabilizing society and expanding domestic demand. Such measures include large-scale economic policy measures at a scale of approximately 4 trillion

¹² Article published in NNA Asia dated December 3, 2008

¹³ Based on information contained in the company's website

¹⁴ Based on information contained in the company's website

RMB for the purpose of constructing housing for the low- to medium-income classes and the improvement of rural agricultural areas, such as projects costing 1.5 trillion RMB for accelerating the improvement of important infrastructures including railways, roads, airports and electricity facilities. The measures also include financial aid aimed at encouraging consumption of household electrical appliances, which will be granted for four years from February 2009.

In November 2008, South Korea announced the provision of 14 trillion won in total (approximately ¥1.1 trillion) for the Comprehensive Policy Measures to Overcome the Ongoing Financial Crisis, and in January 2009, it announced the Green New Deal project, for which it will spend a total of 50 trillion won (approximately ¥4 trillion) by 2012. Further, in April 2009, South Korea passed an additional revised budget for FY2009 (28.4 trillion won in total), deciding to increase expenditure by 17.2 trillion won (approximately ¥1.4 trillion). The objectives of the revised budget focus on the creation and maintenance of employment opportunities and stabilization of people's livelihoods.

Among ASEAN countries, the government of Singapore is now in the process of implementing economic policy measures worth 20.5 billion SGD (approximately ¥1.2 trillion), which exceeds the scale of economic policy measures taken at the time of the 1998 Asian currency crisis (12.5 SGD in total). The major items of the policy measures include employment measures, such as employment subsidies payable for employers and job training; aid in support of companies, such as tax cuts; life assistance for the low-income class; and improvement of infrastructures such as medical care and education.

Thailand has announced that it plans to spend approximately ¥3.9 trillion for the three-year period from 2009 to 2011, with the objectives of constructing and improving transportation infrastructures, water supply facilities and education.¹⁵

The Vietnamese government announced economic policy measures totaling \$1 billion at the end of 2008, with the objective of stimulating demand and based on its judgment that the impact of the world economic crisis would be greater than expected. In addition, in May 2009, the Vietnamese government announced a breakdown of policy measures for stimulating demand amounting to 143 trillion dong in total (approximately ¥760 billion), which consist of seven categories, including interest subsidies, the tentative collection of infrastructure improvement funds and the issuance of additional government bonds.¹⁶

Malaysia has drawn up its largest ever economic policy measures, at a scale of approximately ¥1.5 billion, which mainly consists of expanding public investment, assisting companies' fund procurements, and employment measures.

(b) Commitment of World Bank

Affiliated organizations of the World Bank have decided to provide funds amounting to \$55 billion in the forthcoming three years, with the objectives of constructing and improving infrastructures, and promoting employment, economic growth and poverty eradication in developing countries.¹⁷

¹⁵ As of April 9, 2009

¹⁶ Based on "VIET.JO Viet Nam News" dated May 19, 2009

¹⁷ The China's website People's Daily Online, Japanese version, dated April 26, 2009

(c) Demand for construction and improvement of infrastructures

A survey implemented by JBIC, ADB and the World Bank in 2005¹⁸ estimates that, for the five-year period from 2006 to 2010, the potential demand for infrastructure investment in East Asia¹⁹ will amount to \$200 billion or more per annum. Such potential demand for the five years totals \$1 trillion (Figure 2-2-1-22). In addition, according to India's eleventh five-year plan, the demand of infrastructure investment in India will be \$502.8 billion for the five-year period from 2007 to 2011. The total of those figures provides the basis for estimating the demands of infrastructure investment in East Asia at approximately \$1.5 trillion in five years. The above-mentioned survey also introduces the case of Vietnamese government investment, wherein 44% of the fund was allocated for construction and improvement of infrastructures, thereby attaining average economic growth of 7.6% per annum in the past ten years and reducing the population living below the poverty line by 20 million. An enhancement in logistics efficiency, owing to the construction project of national highway No. 5, linking Hanoi and the port of Hai Phong, contributed to the creation of job opportunities at the neighboring industrial complexes. In addition, revitalized product shipping routes encouraged production of high-value-added products in rural agricultural villages. Thanks to the positive effects as mentioned above, the income of residents of such districts rose by 30%, and the poverty rate decreased by 35% for the period from 1998 to 2000.

Mr. Kuroda, the president of ADB, said at the 42nd ADB annual general meeting, that, "For the purpose of reducing the impacts of the financial crisis, it is important to emphasize increasing demand in Asia. It is necessary to support infrastructure for production networks and supply chains in Asia." Mr. Kuroda also pointed out that "it is necessary to establish seamless infrastructure investment across Asia, and to promote intra-Asian trade."²⁰ ADB has prepared an investigation report²¹ remarking the necessity for investment of \$8 trillion for the improvement of international infrastructures in Asia and \$2.9 trillion for improvement of regional infrastructures during the period from 2010 to 2020, averaging \$750 billion per annum.

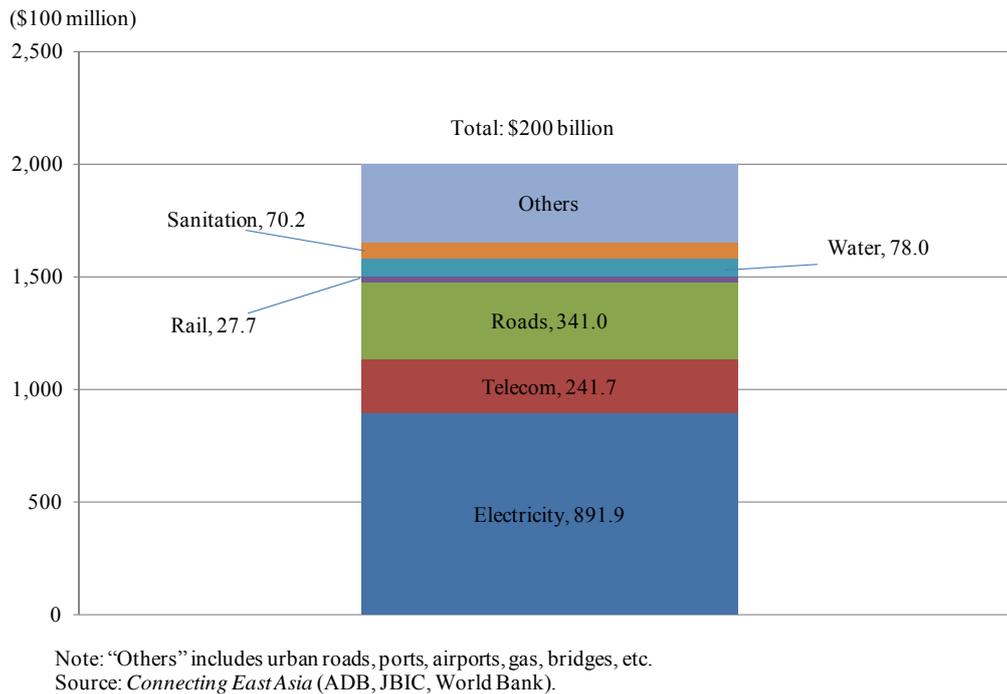
¹⁸ ADB, JBIC, the World Bank (2005), "Connecting East Asia: A New Framework for Infrastructure," March, 2005

¹⁹ It is exclusive of India.

²⁰ ADB News Release

²¹ ADB & ADBI (2009), "Infrastructure for a Seamless Asia"

Figure 2-2-1-22 Estimate of infrastructure demand in East Asia (2006–2010, annual average)



2. Global business environment and Japanese-owned companies’ global strategies after the world economic crisis

In 1. above, the distinctive aspects of the rapidly growing emerging markets and Asian countries are described. This section looks at the way in which Japanese-owned companies regard these emerging economies as their business targets, analyzes the current situations of their business activities carried out in emerging economies, and thereby discusses future tasks.

(1) Overseas markets and income class targeted for business expansion of Japanese-owned companies

The following is the review of the markets on which Japanese-owned companies place high value in expanding their overseas business.

First of all, looking at a survey²² implemented by the Japan Economic Foundation in order to identify the regions targeted for sales expansion by Japanese-owned companies, even after the occurrence of the world economic crisis, Japanese-owned companies anticipate sales expansion in emerging markets such as China, ASEAN4 (i.e. Thailand, Malaysia, Philippines and Indonesia) and India (Figure 2-2-2-1).²³

²² The Japan Economic Foundation (2009a), "EPA/FTA NO SHINTEN TO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAI NI KANSURU CHOSA KENKYUU." For details of the survey, see Supplementary Note 2-2.

²³ With regard to countries and regions that are expected to generate growth in sales in the future, a comparison of the results with those of a survey implemented by the Japan Economic Foundation in 2008 shows that the ranking is unchanged (i.e. China, ASEAN 4, India and North America in descending order), and that there is little difference between Japanese-owned companies pre- and post-world economic crisis