4. Other Asian Economy

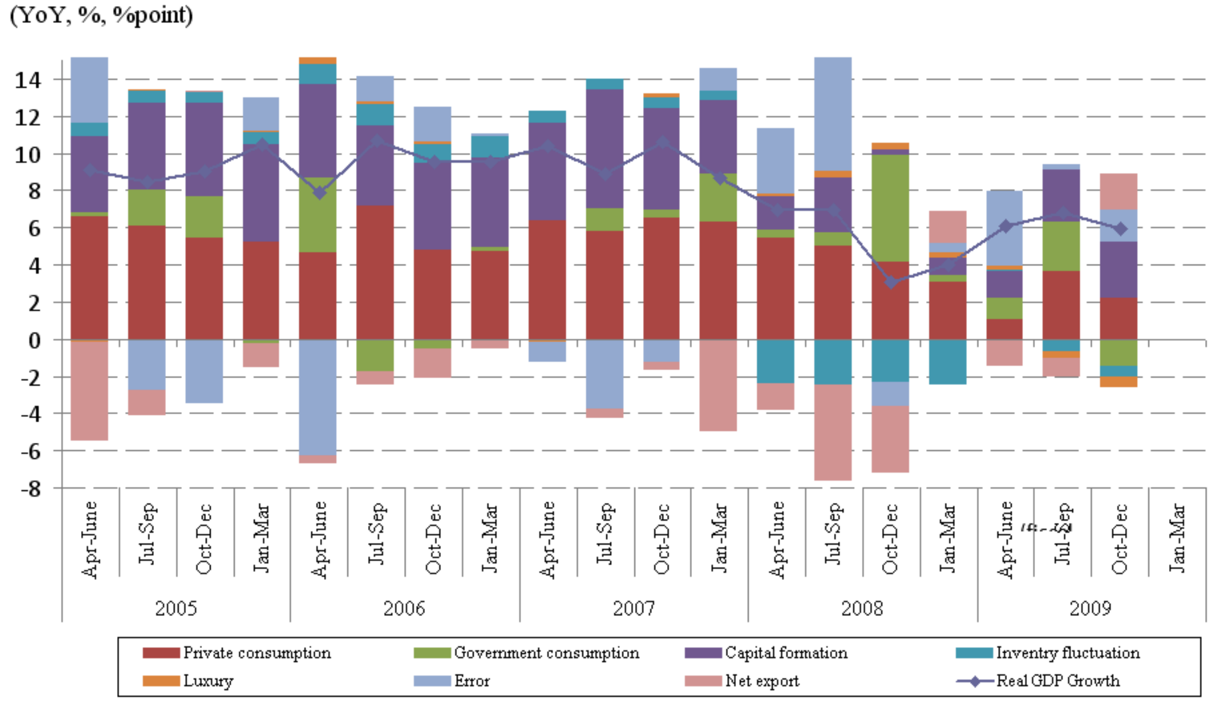
(1) Indian Economy

(A) Overview of the Indian economy

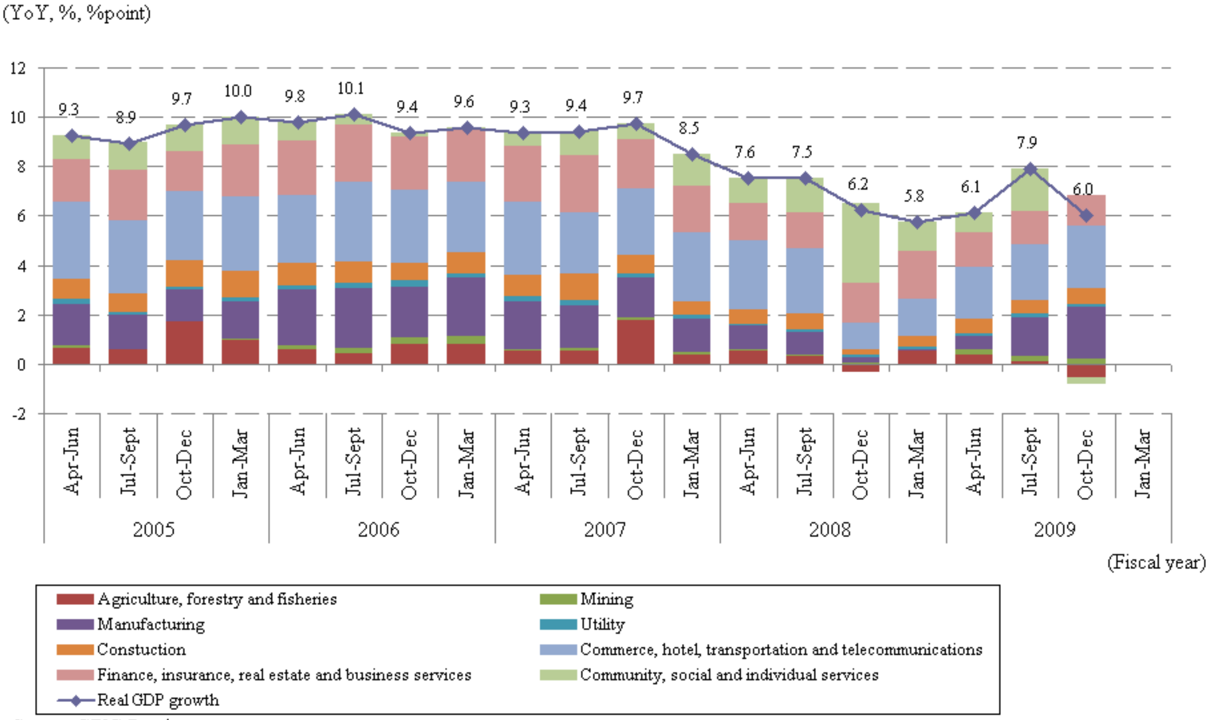
The Indian economy slowed down its economic expansion from the end of 2008 to the beginning of 2009 influenced by the deteriorated International economy. However, supported by the effect of the government economic stimulus measures, the economy started recovering led by the growth of domestic demand and achieved the level of development that is higher than that of other countries and regions.

India's real GDP growth and percentage contribution by demand component shows that the growth of two pillars that have been supporting domestic demand, which are fixed capital formation and personal consumption, slowed down, but recovered in the period from July to September 2009. Real GDP growth by industry (see Figure 1-2-4-2) shows that the negative growth of agricultural sector lower the growth rate, but the service sector that accounts for 70% of GDP shows a robust increase.

1-2-4-1 Real GDP Growth Rate and Contributing Elements in India



1-2-4-2 Real GDP Growth Rate and Contributions by Industry in India



Source: CEIC Database

(a) Influence of the world economic crisis through the financial sector

One of the reasons for the slowdown of fixed asset formation is the influence of the deteriorated world economy on Indian economy through the financial markets. In the past, from 2005 to 2007, Indian economy achieved high economic growth marking more than 9% year-on-year increase. During the period, Indian companies increased their dependence on domestic and overseas capital to satisfy their vigorous capital investment needs.

Let us see the trend of Indian capital account balance (see Figure 1-2-4-3) first. It shows that the capital balance surplus started increasing sometime around 2002 and reached 4 trillion rupee, which is equivalent to 10% of nominal GDP, in 2007. Later, the surplus started declining in the beginning of 2008 and at the end of the year, and India posted a capital account deficit. The trend of real GDP growth rate during this time correlates the movement of capital. It is assumed that the expansion of capital inflow improved the financing environment for Indian companies and served as one of the contribution factors for the capital investment growth[71].

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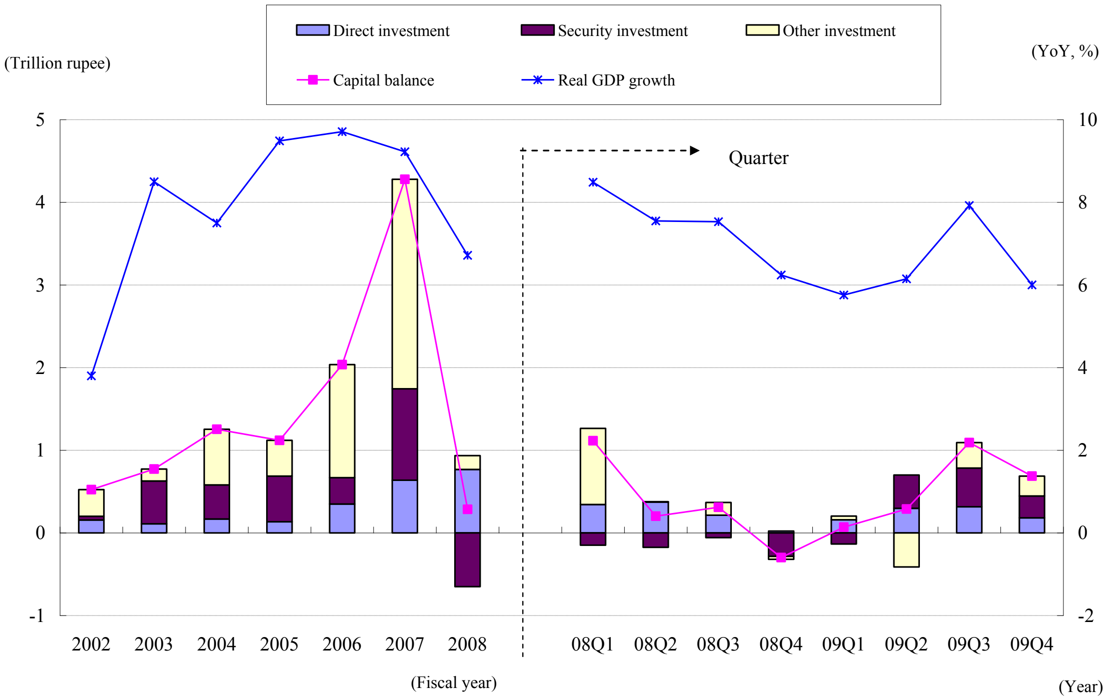
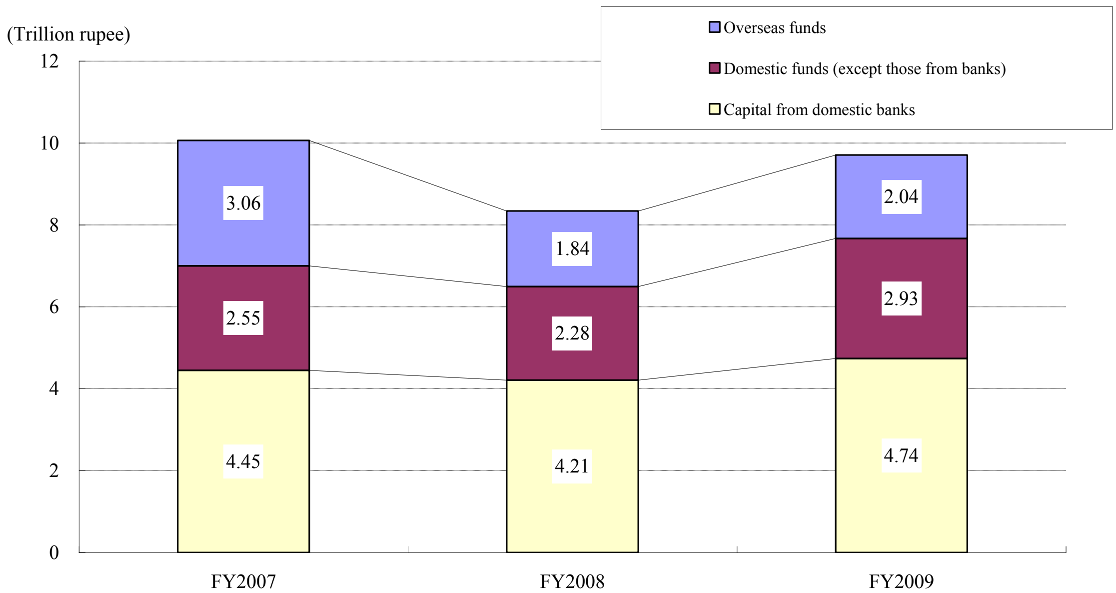
71 Mohan, Rakesh (2008) "Global Financial Crisis and Key Risks: Impact on India and Asia," RBI Monthly Bulletin, November 2008" pointed out that increase of infused capital contributed to the appreciation of Rupee and invited the RBI's intervention by selling rupee to stabilize the market. Then, the supply of rupee in the market expanded and it indirectly caused the relaxation of the domestic financial market.

1-2-4-3 Trends in Real GDP Growth Rates and Capital Balance in India



Source: CEIC Database

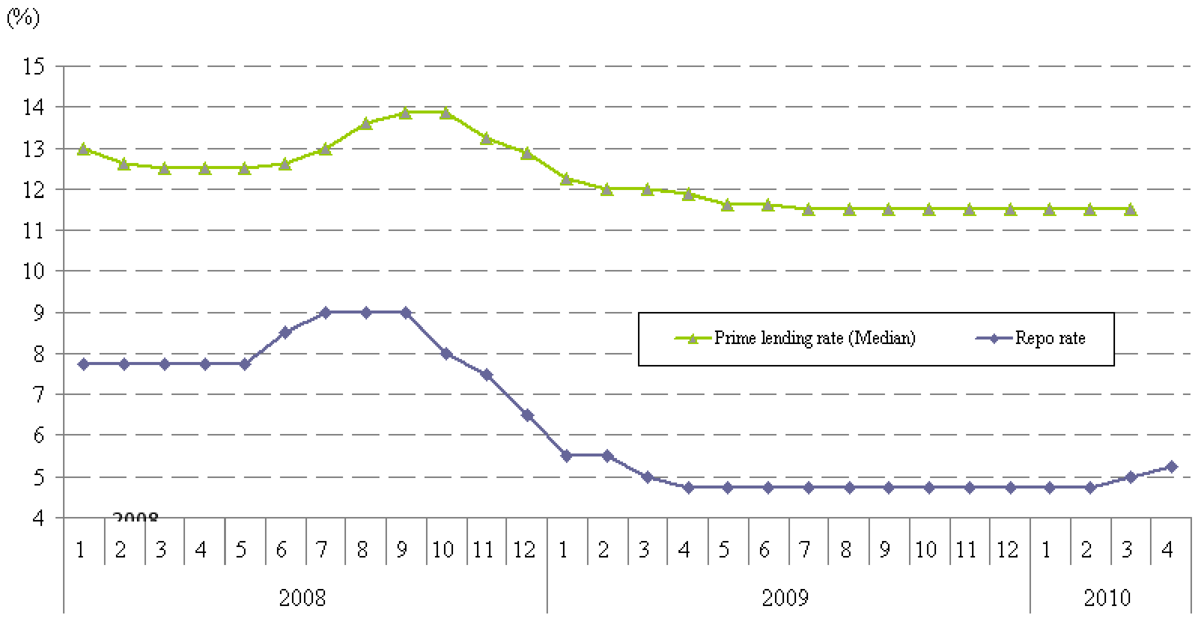
1-2-4-4 Capital Procurement in the Corporate Sector in India



Notes: "Overseas funds" includes direct investment and borrowings. "Domestic funds (except those from banks) consists of issuance of Commercial Paper (CP), stock listing and private placement bonds.

Sources: *Macroeconomic and Monetary Developments 2009-10（Apr 19, 2010）*(RBI) and *Macroeconomic and Monetary Developments Third Quarter Review* (Jan 28, 2010)

1-2-4-5 Trends in Prime Lending Rate and Repo Rate in India



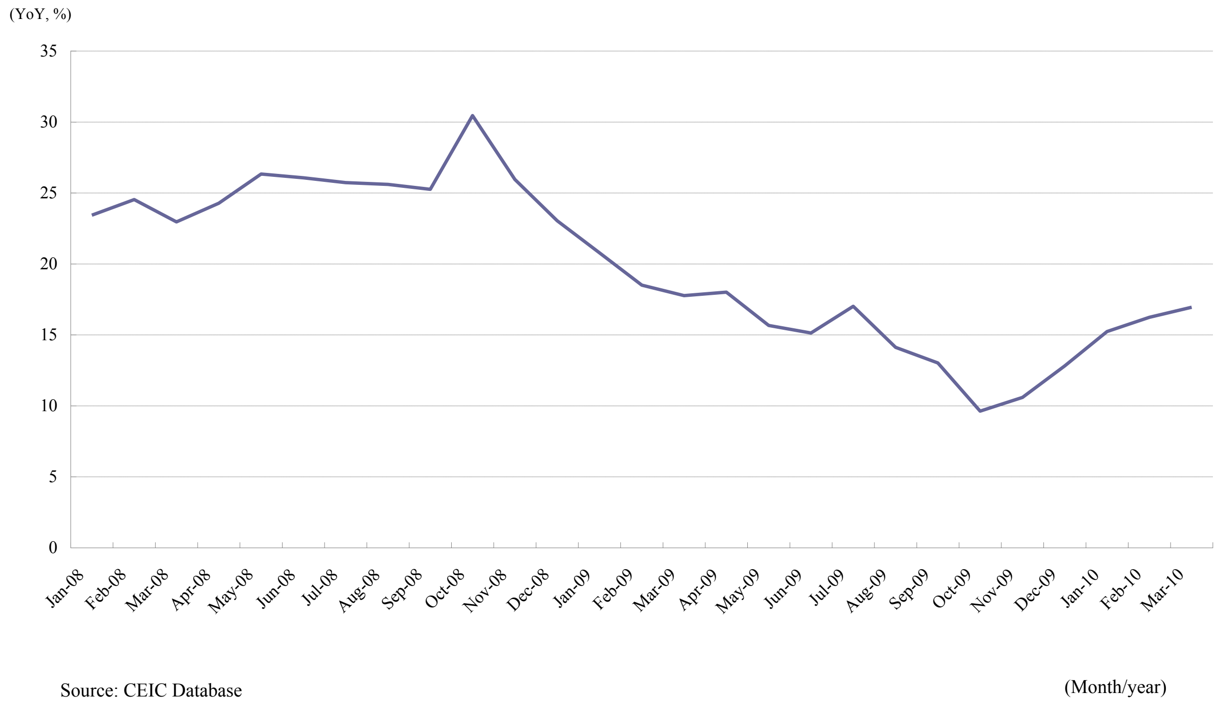
Source: CEIC Database (Month/year)

After the world financial crisis, investors in each country strengthen their stance to avoid risks and consequently the capital inflow to India decreased. It became difficult for companies to raise funds from abroad through borrowings and the issuance of securities. (see Figure 1-2-4-4). In this way, Indian companies' fund-raising amount shrank primarily due to the decreased overseas financing and this restrained the growth of capital investment.

Under these circumstances, the Reserve Bank of India (RBI) implemented the credit easing measures to increase capital flow and support the economy. The repo rate, India's policy interest rates, was reduced several times, however, the decline of major lending rates was slow (see Figure 1-2-4-5) and the credit extended by commercial banks became sluggish (see Figure 1-2-4-6). According to the RBI, this is due to the bank's financing cost that stayed high because of the deteriorating financing environment mentioned above and the bank's tight stance for lending.

With regards to the personal consumption that was as stagnant as capital investment, due to the tightening financing environment, the automobile sales of which 80% is presumedly financed by loans showed year-on-year negative growth from October 2008 to January 2009 (see Figure 1-2-4-7).

1-2-4-6 Provision for Credit Growth in Indian Commercial Banks



Source: CEIC Database

(b) Government support of the economy and its direction

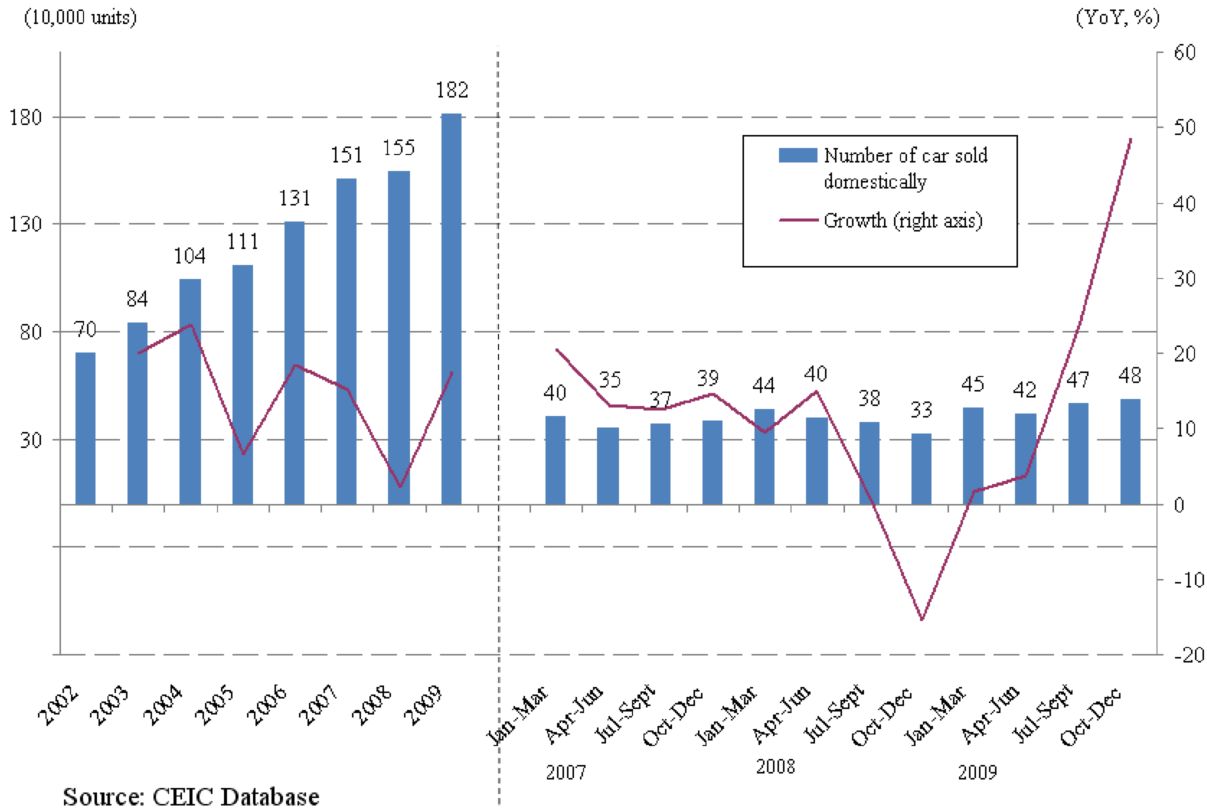
In response to the slowdown of economy, the Indian government announced urgent economic measures for the stabilization of domestic economy in December 2008 and subsequently provided additional economic stimulus packages in December 2008 and February 2009 and infused capital to governmental financial organizations. Due to the effect of these programs, the domestic demand advanced a little and the economy hit the bottom in the beginning of 2009. The number of automobile sales that took a sharp downturn rapidly recovered with the effect from 2% commodity tax cut and the credit easing measures and demonstrated a strong growth rate in the beginning of 2009 due to the rebounded demand after the sudden decrease started from the middle of 2008.

However, the downsizing of the economic stimulus measures mentioned above and the review of the monetary relaxation policy are expected after 2010.

As for fiscal policy, factors such as the implementation of urgent economic measures increased the budget deficit that was 2.7% of GDP in 2007 to 6.0% in 2008 and 6.7% in 2009 (see Figure 1-2-4-8)[72]. Therefore, the 2010 budget presented a phased-plan to reduce the budget deficit to 5.5% of GDP in 2010 and 4.8% in 2011. At the announcement of a budget on February 26, 2010, the Indian Ministry of Finance introduced the policy to restore its public finance by implementing measures including a phased deficit reduction plan that is executed over some years and the partial increase of indirect taxes that were eased as a part of economic measures while paying attention to the course of economy.

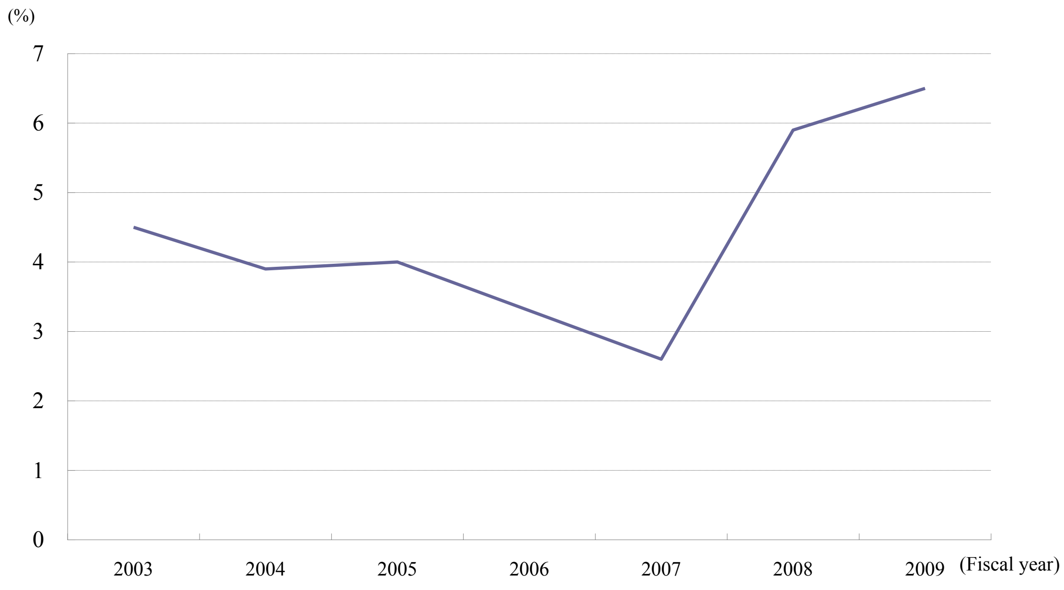
72 There is concern that the expansion of fiscal deficit would invite the rise of interest rates that hinder the investment activities by private sector. In response to IMF "Report on The Observance of Standards and Codes, India I. Fiscal Transparency" (2001), the Indian government executed "Fiscal Responsibility and Budget Management (FRBM) Act" in 2004. Based on this act, the Indian government has been trying to reduce fiscal deficit by setting a fiscal deficit target. (Japan Center for International Finance, 2006 "INDO KEIZAINO SHOKADAITO TAIINKEIZAIKYOURYOKUNO ARIKATA")

1-2-4-7 Trends in Number of Passenger Vehicles Sold Domestically in India



Source: CEIC Database

1-2-4-8 Budget Deficit as a Proportion of GDP in India



Source: *Economic Survey 2009-10* (Department of Commerce, Government of India) (Released on February 25, 2010)

India has been reviewing its monetary relaxation policy since the inflation rates of items particularly food products are going up due to the shortage of rainfall (see Figure 1-2-4-9)[73]. While the ratio of the agricultural sector of India to GDP is a little less than 20% and low, the agricultural population

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[73] India is the second largest sugar cane producer after Brazil and at the same time, it is the world largest sugar consuming country. The decreased production of sugar cane in India due to draught tighten the balance of sugar supply and demand and became one of the factors for the hike of international price of sugar.

account for 70% of total popualtion[74]. Therefore, the influence of drought over the total economy is not insignificant because it will harm personal consumption in rural areas. There is concern that inflation would go up if the monetary policy remain relaxed after the recovery of economy, and RBI already started taking tighter monetary policy reducing the cash reserve rate by 0.75% in February 2010 and increasing policy interest rates (the repo rate) by 0.25% in March and April 2010 each.

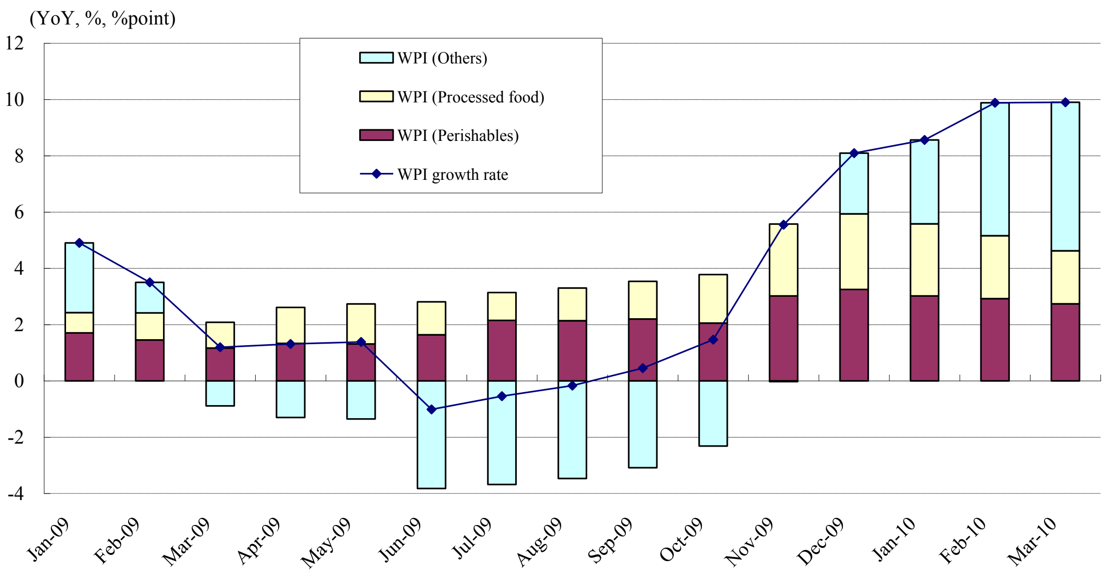
(B) India as an attractive consumer market

(a) India with huge population

There is a high expectation to India with a population of 1.2 billion people as a consumer market. It has the second largest population in the world after China's. The United Nations predicts that India will replace China as the world's most populous country around 2030.

India is attractive as a consumer market not only because of its vast population but also because of population structure. The Indian population largely consist with people aged less than 65 years old and has a high ratio of young people (see Figure 1-2-4-10). In addition, the analysis of the population in cities and rural areas presents a forecast for the continuos growth of the population in cities[75].

1-2-4-9 Trends in Indian Wholesale Price Index (WPI) Growth and Contributions by Item



Source: Department of Commerce, Government of India, CEIC Database

(b) Improving income levels

Although India holds huge population, the existence of the poor is often discussed as an issue when it is considered as a consumer market. The World Bank reported that 76% of people live with $2 or less per day as of 2005. According to the India Planning Commission, the poor consists about 30%

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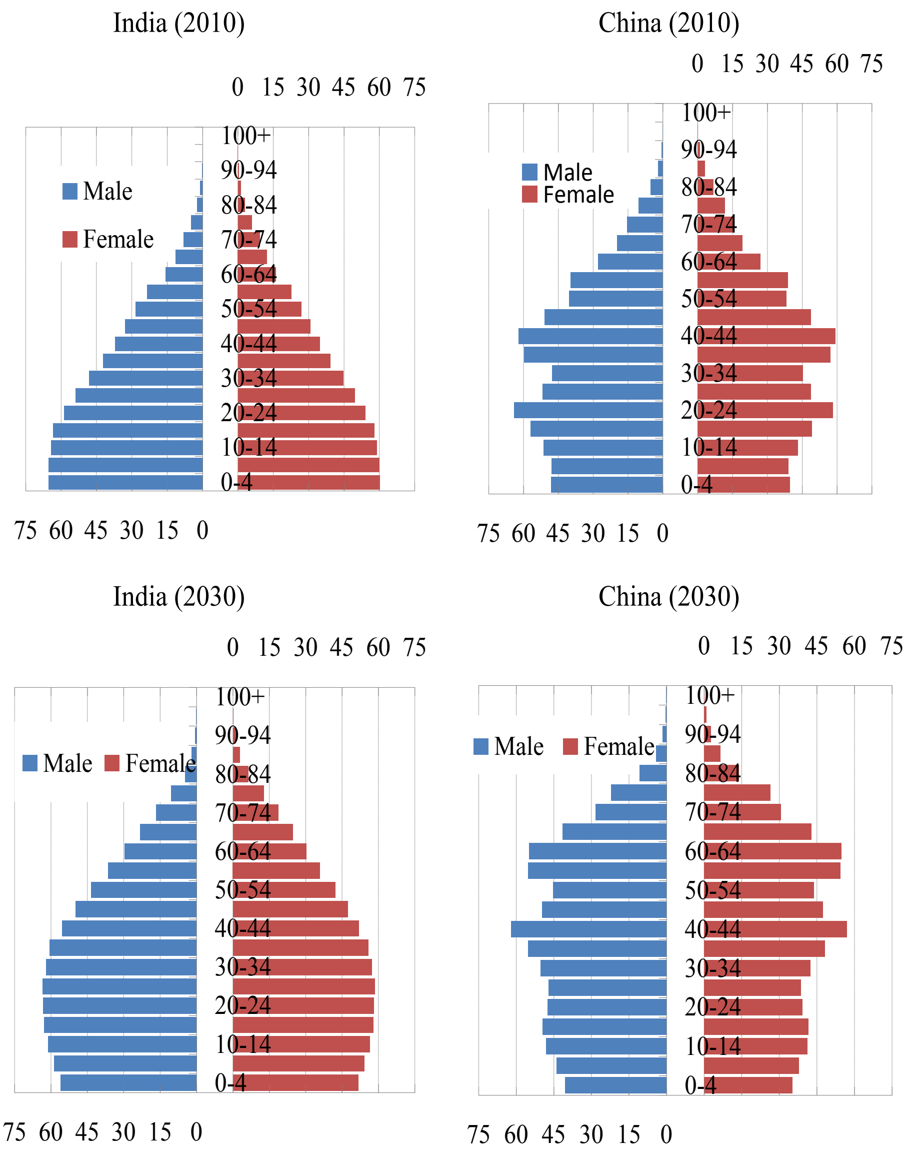
74 Source: 2001 Census by the Indian government. Census is carried out once every 10 years.

75 The statistics issued by the United Nations, "World Urbanization Prospects, The 2007 Revision" estimates that India's population ratio in cities will increase from 27.7% of 2000 to 40.7% in 2030.

of the population as of 2004 (see Table 1-2-4-11)[76]. However, the ratios of the poor both in cities and rural areas are decreasing.

1-2-4-10 Expected Population By Age Groups in India and China



Source: *World Population Prospects, The 2008 Revision* (The United Nations)

76 India uses the monthly amount to purchase the minimum calorie requirement (Cities: 2,100 kcal/per person per day, Rural areas: 2,400 kcal/per person per day) to define a poverty line and population in poverty. Meanwhile, the India Planning Commission is considering to review the definition and to use the consumption of basic education and medical services as a guideline.

1-2-4-11 Indian Poverty Ratio/Number of Poor (Urban and rural areas)

India's poverty ratio and number of poor (Urban and rural area)

	Poverty Ration(%)		Number of poor (million people)	
	1993-94	2004-2005	1993-94	2004-2005
Rural	37.3	28.3	244.0	220.9
Urban	32.4	25.7	76.3	80.8
Total	36.0	27.5	320.4	301.7

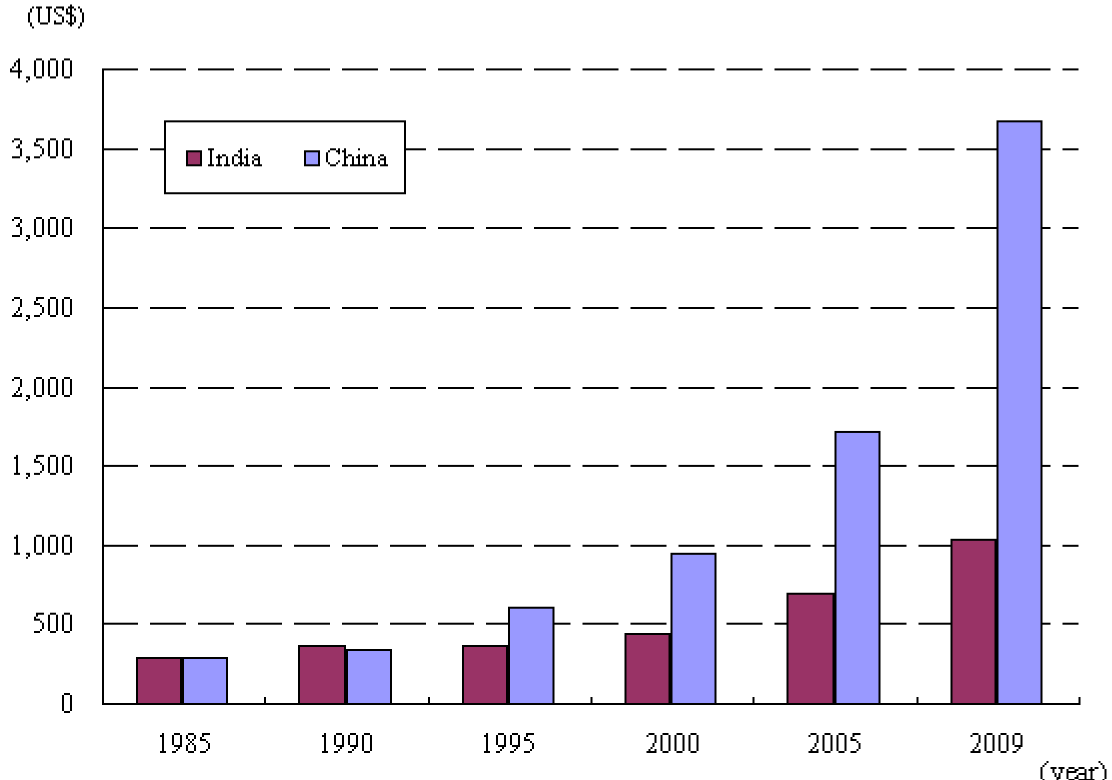
Note: The definition of the poor in India is people whose monthly consumption is less than the poverty line, calories consumption per capita person, 2,100 kcal in urban area and 2,400 kcal in rural area.

Source: India Planning Commission website

On the other hand, as for the nation's income level, India's nominal GDP per person was at the same level with that of China in 1980. However, the recent China's level is triple of that of India (see Figure 1-2-4-12). This is partially due to the delay of India's economic liberalization which was conducted in 1991 while China has opened its economy in 1978.

Even after the consideration of these factors, the attractiveness of India as a consumer market is increasing. Firstly, in these years, the middle-income class is rapidly expanding while the economy progresses at a fast pace. According to a research by National Council of Applied Economic Research (NCAER), while the income levels of Indian people are divided into several classes from the poor (annual income: 90,000 rupee or less) to the rich (10,000,000 rupee or more), the ratio that adds up the new middle class (90,000 to 200,000 rupee) and the middle class (200,000 to 1,000,000 rupee) increased from 27.6% of 2001 to 46.7% of 2009 (see Table 1-2-4-13).

1-2-4-12 Trends in per capita GDP (India and China)



Note: Data for 2009 is forecast by IMF

Source: *World Economic Database April 2010* (IMF)

Moreover, according to a research by an overseas private organization, the number of affluent people who own $1 million or more of assets including deposits, stocks and real estate properties counted 84,000 people in 2008[77]. Although the number shows a 31.6% decrease compared to the data of 2007, 123,000 people, it indicates that India certainly has a so-called high-end market as well as the middle class market.

1-2-4-13 Trends in Ratio of Households at each Income Level in India

(Unit:%)

Income (Unit: 1,000 rupee)	Japanese yen equivalent (Unit:1,000 yen)	1995-96	2001-02	2005-06	40,087
10,001-	21,002 -	0.0	0.0	0.0	0.1
1,001-10,000	2,102 - 21,000千円	0.2	0.4	0.8	1.7
201-1,000	422～2,100	2.7	5.7	8.1	12.8
91-200	191 - 420	17.5	21.9	26.2	33.9
90 and less	189 and less	79.6	71.9	64.9	51.5

Note:Exchange rate: 1 rupee=JP2.1, FY2009 is forecast.

Source: *The Great Indian Market: Results from the NCAER's* (Market Information Survey of Households National Council of Applied Economic Research) (NCAER)(Augst 9, 2005)

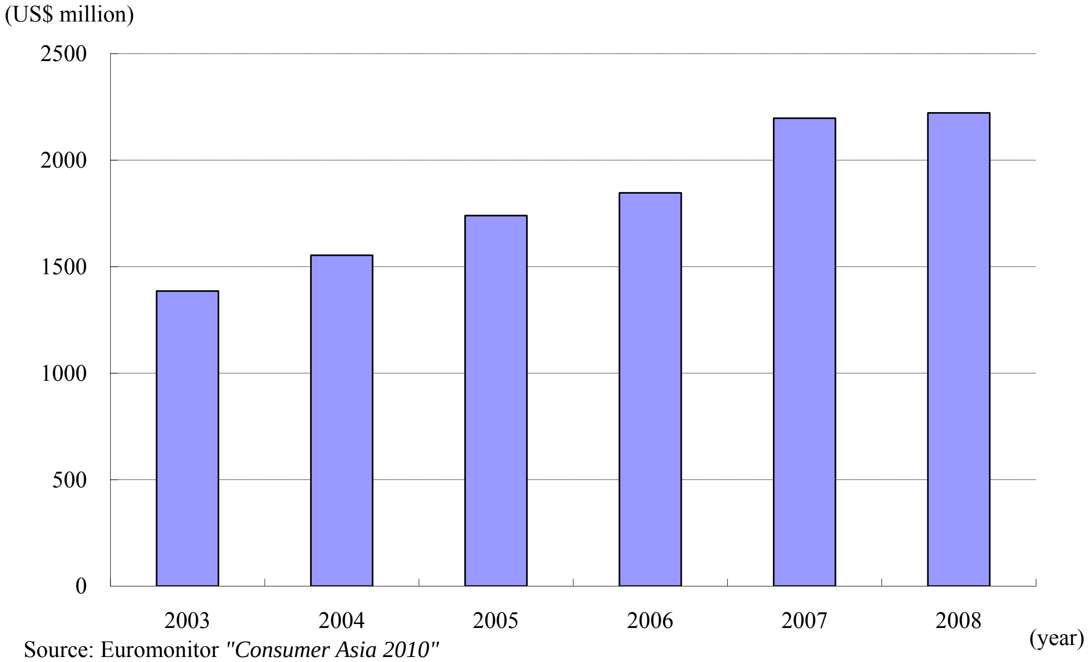
(c) Expanding retail market

Since there is no public statistics for the size of Indian consumer market, it is hard to accurately grasp the size. However, some private organizations publicize various research reports. The estimated market size varies depending on a research. For example, India Retail Report 2007 by KSA Technopak estimates the size of Indian retail market as 12 trillion rupee (about $260 billion) while BMI India Retail Report 2010 by Research and Markets reports the total amount of retail sales was $427 billion in 2009. Euromonitor International calculated the total amount of retail sales in India in 2008 as $222.19 billion (see Figure 1-2-4-14). The average annual growth rate from 2003 to 2008 recorded 13.6% and the retail sales amount rapidly increased. Comparison of its market size with that of other Asian countries shows that the size of Indian market exceeds that of Korea and Indonesia (see Figure 1-2-4-15).

According to Euromonitor, the breakdown of Indian consumption shows that the expenditure for beverage and food products is the largest accounting for 35.8% of total consumption (see Figure 1-2-4-16). The expenditure for housing and automobiles is also high. As for the daily expenditure, expenses for clothing, health and medical services, education, and communication account for 3-4% each of the total consumption.

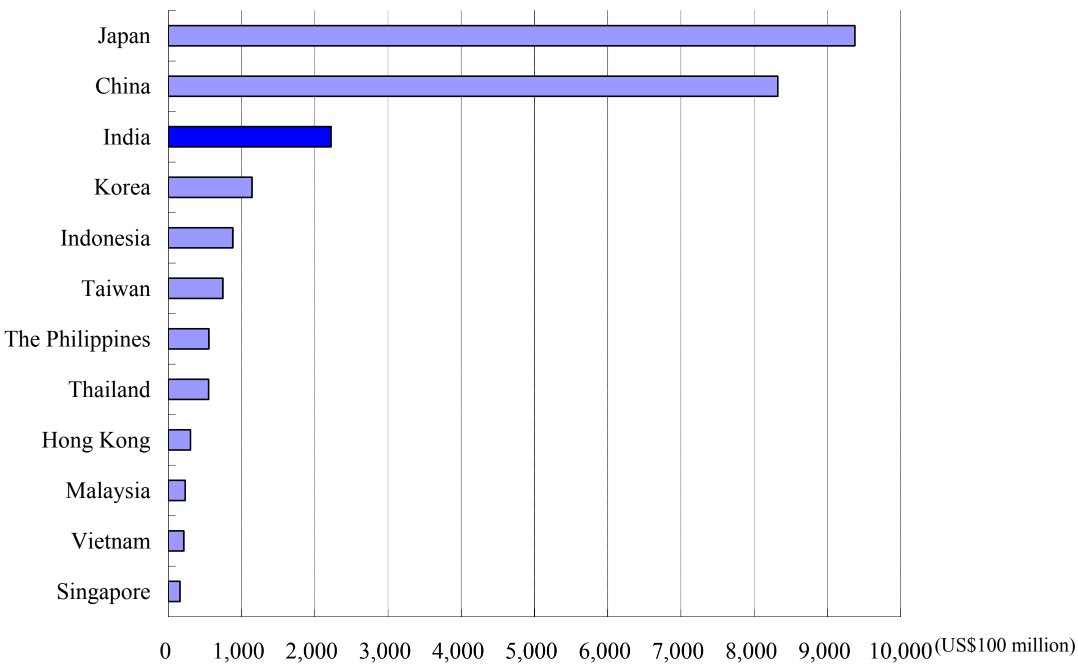
77 Capgemini and Merrill Lynch, “ World Wealth Report 2009”

1-2-4-14 Trends in Retail Sales in India



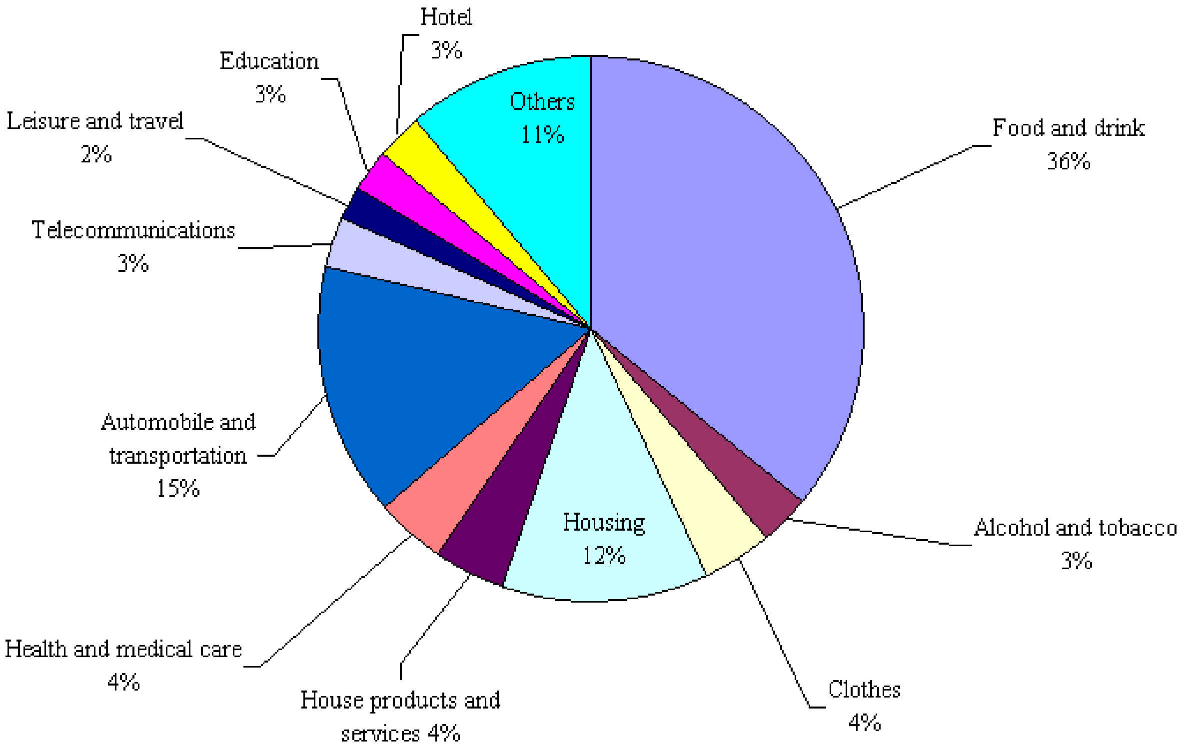
Source: Euromonitor *"Consumer Asia 2010"*

1-2-4-15 Scale of Retail Sales in India and Various Asian Countries



Source: *Consumer Asia 2010* (Euromonitor)

1-2-4-16 Breakdown of Consumer Expenditure in India



Source: *World Consumer Spending 2009/2010* Euromonitor

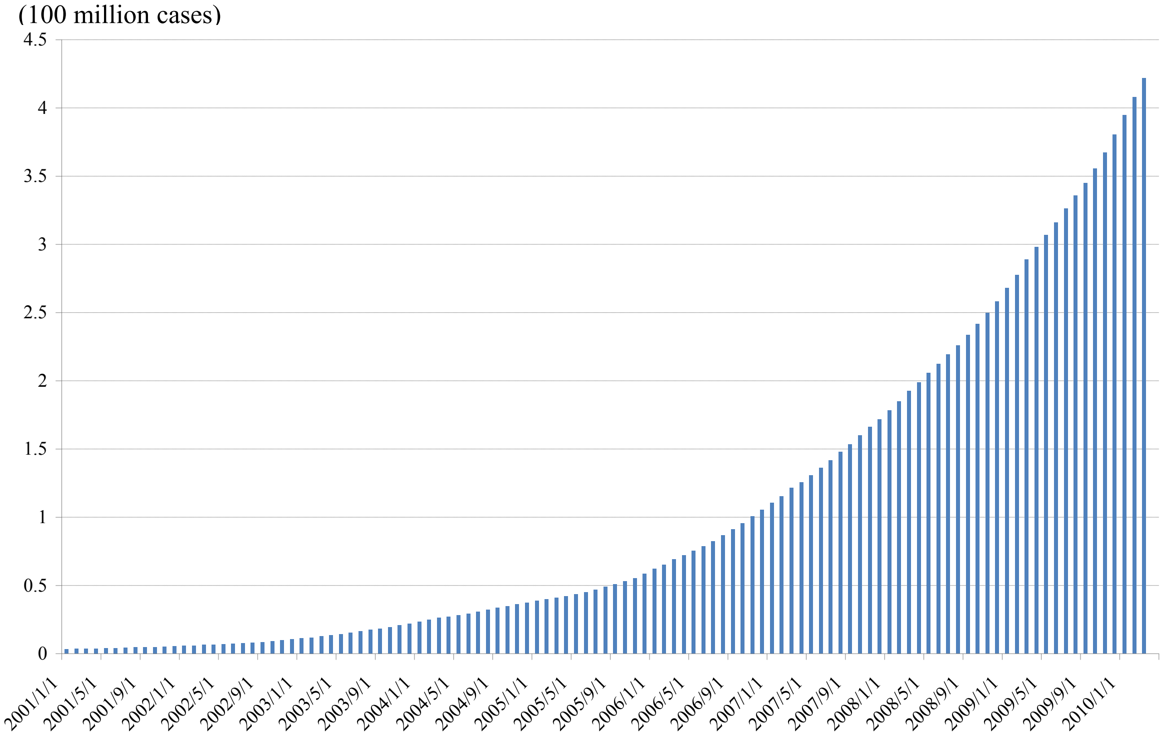
Among total expenditure, communication related costs are increasing its share in the total amount. The data of Euromonitor shows that the share of communication cost in the total was 3.1% in 2008 but it was only 0.87% in 1990. The expense for communication devices including mobile phone grew 32 times from 1990.

In fact, the expansion of mobile phone market is significant. The trend of the number of mobile phone subscription shows that the number rapidly increased after exceeding 100 million in November 2006 and registered about 420 million in March 2010 reaching a 400 million-level only after 3 years and a few months (see Figure 1-2-4-17). According to the World Bank, the number of mobile phone subscription in India exceeded that of the U.S and followed that of China in 2008 (see Figure 1-2-4-18).

In the light of above, Indian market is expected to continue its rapid growth taking advantage of its vast market, however, there are also some issues related to retail business operations.

One of such issues is the market entry regulation in the retail industry. India imposes the following regulations on foreign companies that conduct direct investment in Indian retail industry: (i) A company should sell all the products under one brand. (A retail company may not have more than one brand as its own brands.) (ii) The brand used in the international market shall be used as it is. (It is not allowed to promote a brand that is uniquely developed for Indian market.), and (iii) A retail company that deals only one brand product should produce only the products. (A company is not permitted to sell products using different labels for their produced items and/or replacing labels of imported goods with their own brand label.) Many issues for logistic infrastructure and services are pointed out[78] such as delayed deliveries that cause the damage of goods and significantly underdevelopment cold chain.

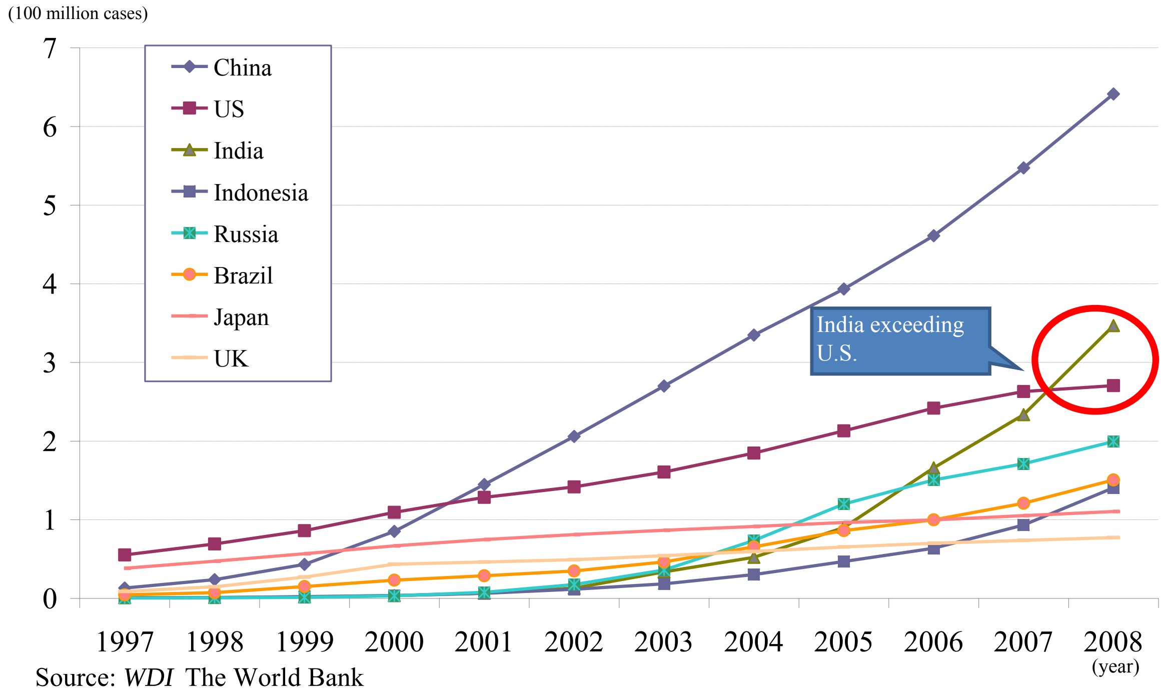
1-2-4-17 Trends in Number of Cell Phone Accounts in India



Source: CEIC Database

78 Ministry of Economy, Trade and Industry "KOURIGYOUNO KOKUSAITENKAINIKANSURU CHOUSAHOUKOKUSHO" (May 2008)

1-2-4-18 Trends in Number of Cell Phone Applications for Major Countries



Source: *WDI* The World Bank

We would like to see India to promote deregulation. Furthermore, companies that operate in India's retail industry need to assure appropriate logistics networks, for example through an alliance with a logistic company.

(C) Trend of overseas direct investment and the relations with Japan

(a) India's industry structure and trend of inward direct investment

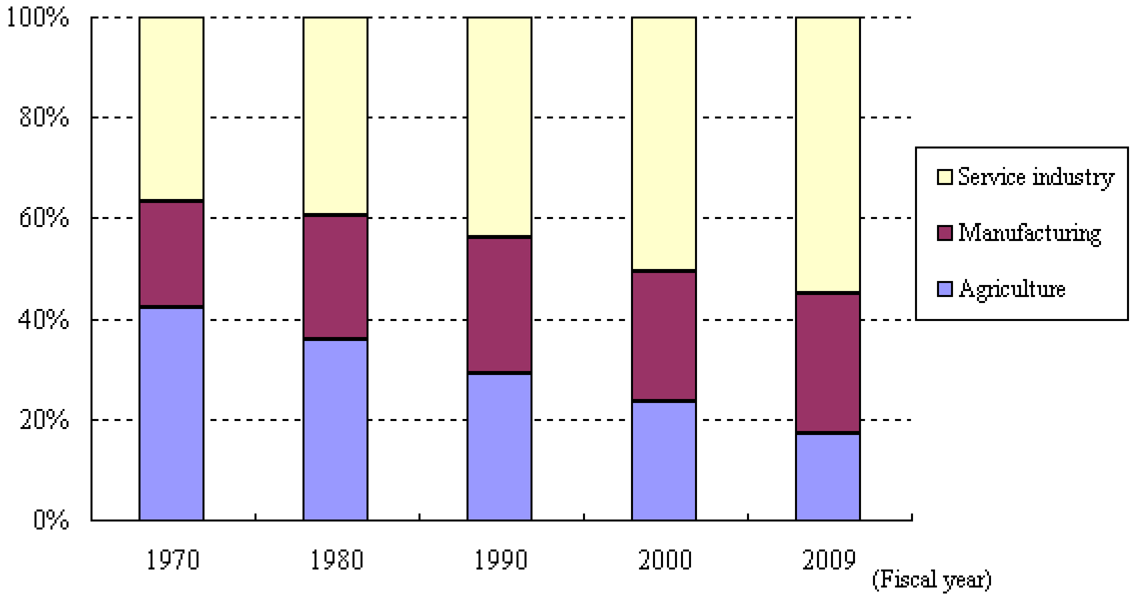
(i) The service industry that leads the high growth of India

Service industry constitutes a large share of the industry structure of India. Nominal GDP ratio by industry shows that the ratio of the service industry increased from 36.8% to 54.9% from 1970 to 2009 (see Figure 1-2-4-19). Being different from other Asian countries, India has been achieving its high growth lead by the service industry.

Among the service industry, IT service and software business are the ones to represent India. Companies in the U.S. and Europe first paid attention to India for their Business Process Outsourcing (BPO) needs including call center, back office, book keeping, labor management and general administration to reduce their costs and promote reorganization of their businesses. As a result, the businesses rapidly expanded after 1990s[79].

[79] According to Indian software service association, NASSCOM, BPO service export share by region is 60% in the U.S. and 30% in Europe (Fiscal year 2008)

1-2-4-19 Composition of GDP by Industry in India



Source: CEIC Database

As for the trend of Indian IT exports (see Figure 1-2-4-20), the exports of software service have been strongly growing since the middle of 2000 serving as one of pillars for Indian export industries. The Indian government set up a special committee for information technology and software development in 1998. The committee established goals to achieve $50 billion of software exports and $10 billion of hardware exports by 2008[80] and has been nurturing the industry. This type of political support is considered as a part of reasons for the sudden development of the industry.

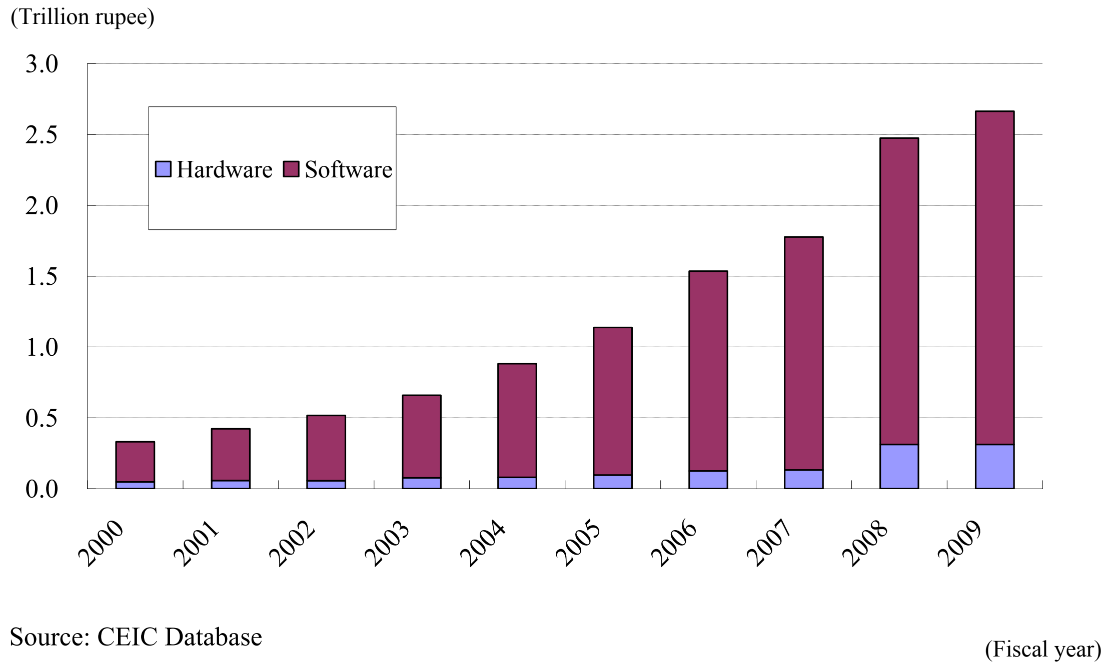
The advancement of the service industry can be recognized with the current account balance of India. While its trade deficit continues, services balance is maintaining its surplus and containing the increase of current account deficit (see Figure 1-2-4-21)

(ii) Expansion of manufacturing industry spurred by the economic liberalization

The manufacturing sector constitutes 28.2% of GDP as of 2009 (see previously listed Figure 1-2-4-19). Since the liberalization in 1991, a number of foreign manufactures have entered various markets and supported the progress of manufacturing industry. For example, in the case of automobile-related industry, the market was oligopolistic having only a few Indian companies by the beginning of 1990s under the domestic product promotion policy. There are currently numbers of major foreign car manufactures producing in India. As Hyundai Motor India Limited and Maruti Suzuki India Limited are active exporting small-sized energy-efficient cars to European countries in these years, companies are now more interested in utilizing India not only as a base for production and sales but also as a base for export (see Figure 1-2-4-22).

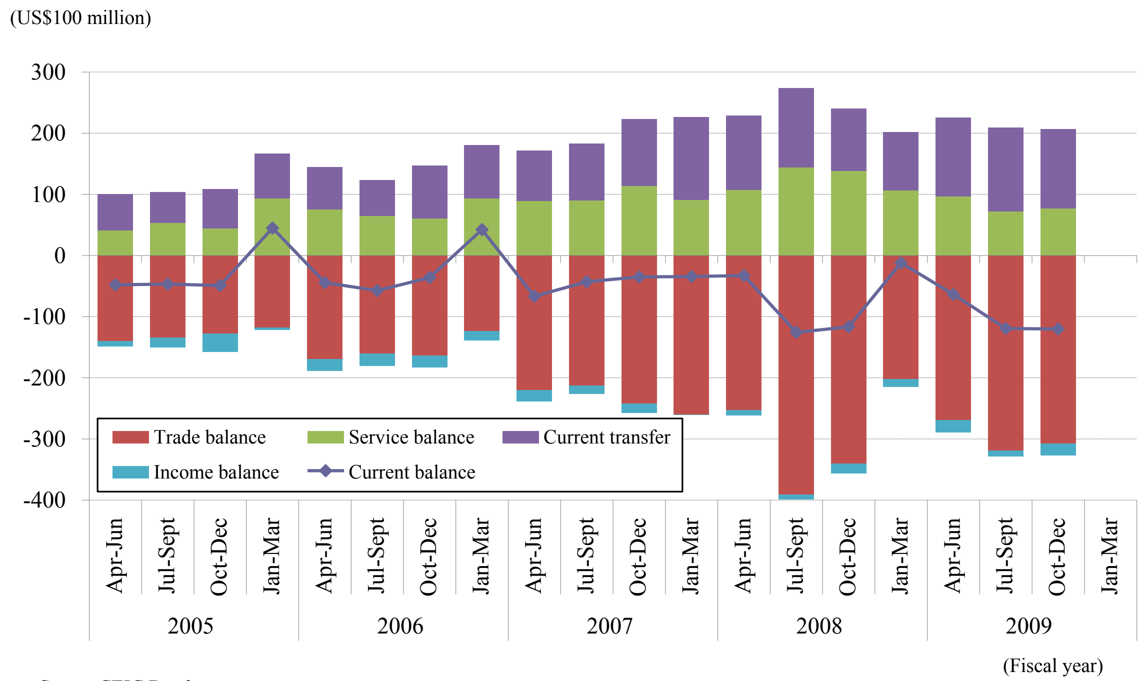
80 Japan Center for International Finance “INDO KISO REPOUTO: SANGYOKOUZOU” (August 20, 2009)

1-2-4-20 Trends in IT Related Exports in India (Software/Hardware)



Source: CEIC Database

1-2-4-21 Indian Capital Account Balance



Souce: CEIC Database

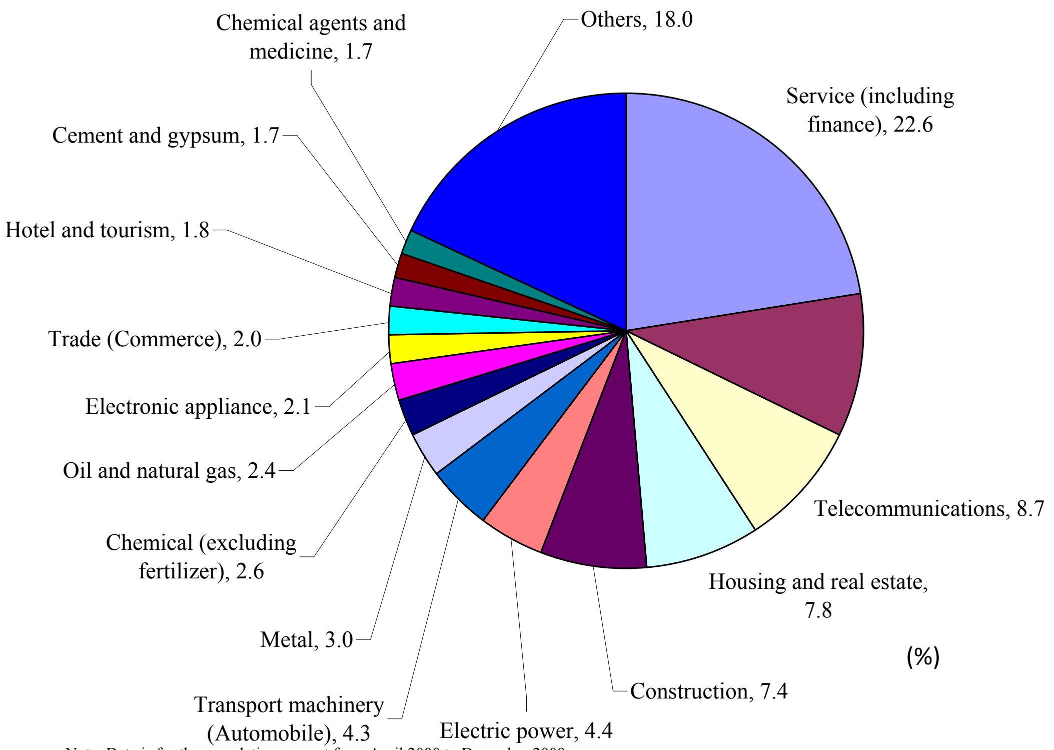
(iii) Trend of inward direct investment in India

Foreign direct investment in India rapidly increased after 2005 and reached $33 billion which is a 107% increase from the previous year in 2008. However, it reduced to $26.9 billion due to the slowdown of world economy in 2009 (see Figure 1-2-4-23).

Cumulative direct investment in India from April 2000 to December 2009 shows the largest share of the investment to the service industry including finance which is a 22.6% of the total,

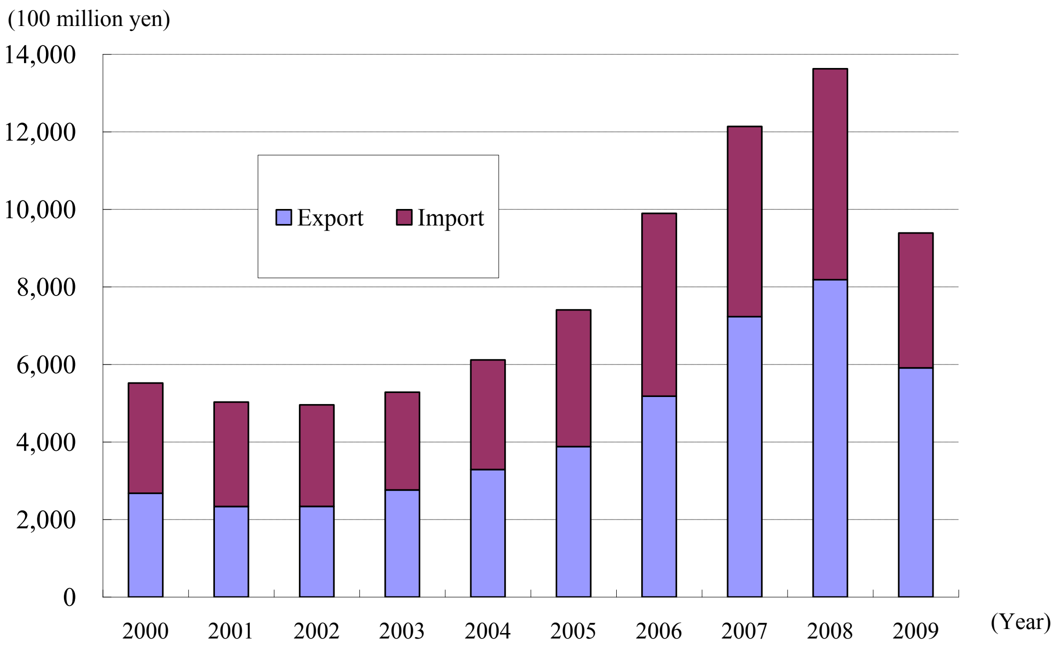
India are rapidly expanding these years (see Figure 1-2-4-25 and Figure 1-2-4-26)[81]. The direct investment in India in 2008 was about to reach the level of that to China due to the increase of large-scale investments.

1-2-4-24 Breakdown of Direct Investment in India



Note: Data is for the cumulative amount from April 2000 to December 2009.
Source: *Fact Sheet on Foreign Direct Investment* (February 12, 2010) (Department of Commerce, Government of India)

1-2-4-25 Trends in Indian Trade Volume with Japan



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

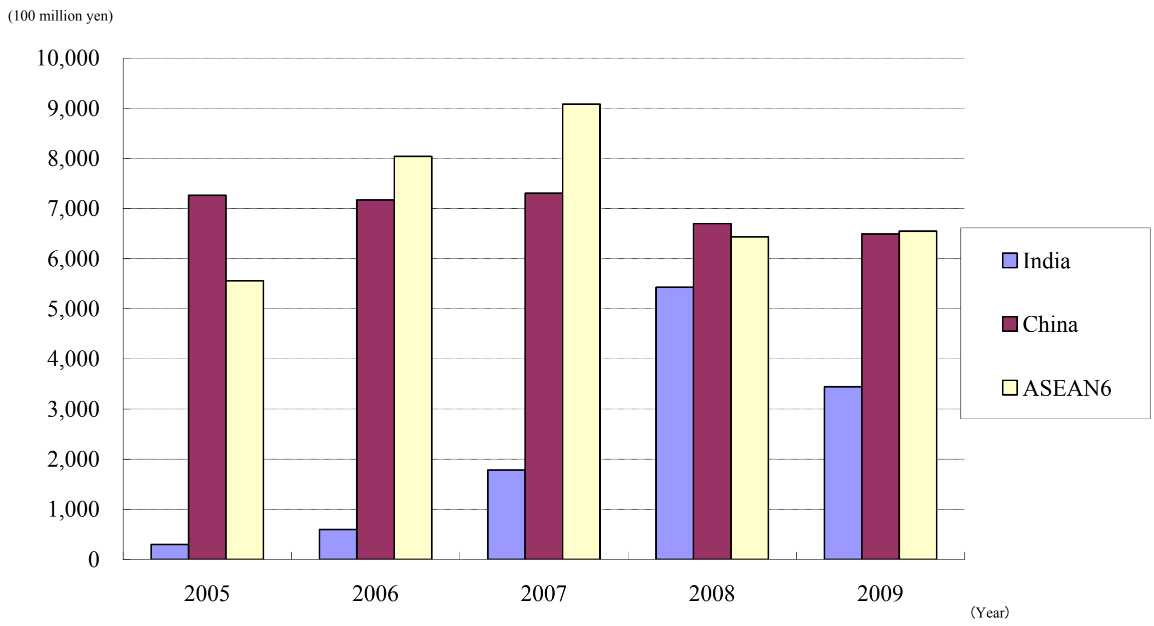
81 Both trade value and direct investment shrank due to the slowdown of world economy in 2009.

(ii) Rigorous direct investment by Japanese companies

As the analysis of the trend of Japan’s direct investment in India by target (see Figure 1-2-4-27) indicates, the investment targets are diversifying and the investment size is enlarging. There were series of large-scale investments; in 2008, Daiichi Sankyo Co., Ltd. acquired some 480 billion yen of stocks of the largest Indian producer of generic drug, Ranbaxy Laboratories Limited, and Yakult Honsha Co., Ltd. launched a joint venture to establish a factory with Groupe Danone SA of France; in 2009, NTT Docomo, Inc. purchased about 260 billion yen of shares of Tata Group’s telecommunication service arm.

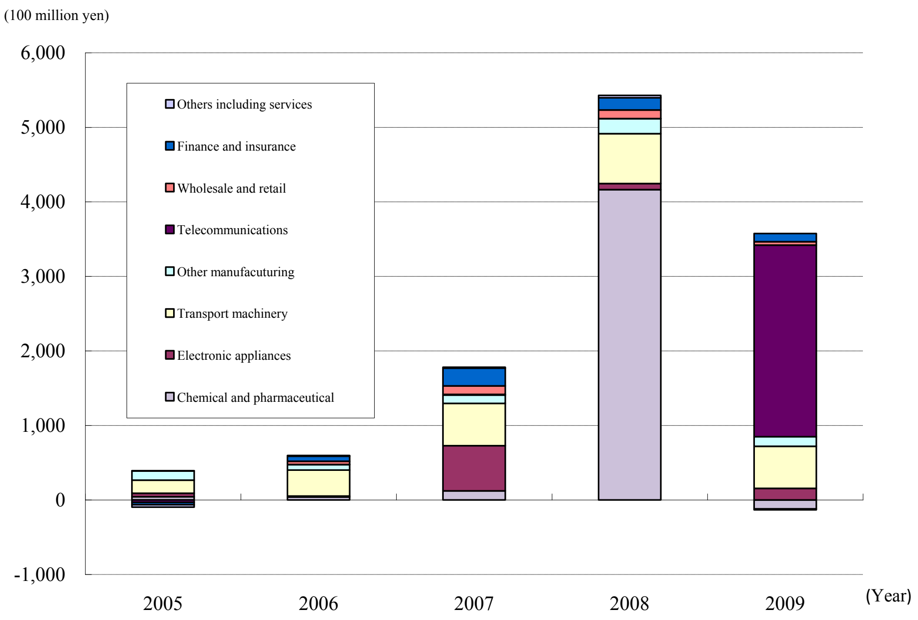
As of October 2009, 627 Japanese companies advanced to India and established 1,049 operation sites. According to the research in 2008, the number of Japanese companies operating in India was 550 and the number of sites was 838, so that the number of companies increased by 127 which is a 14% increase from 2008 to 2009. As indicated, Japanese companies are continuously promoting their active expansion to India (see Figure 1-2-4-28).

1-2-4-26 Trends in Direct Investment by Japan into India, China and ASEAN



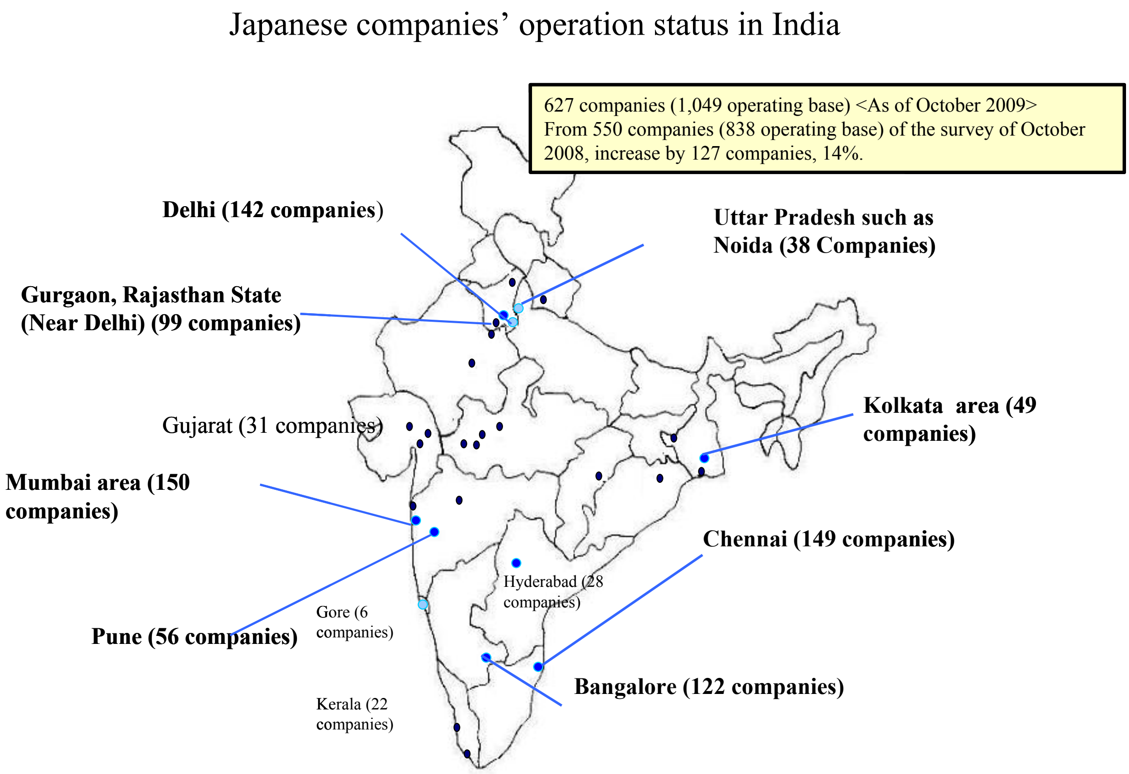
Source: *International Banking Statistics* (Bank of Japan)

1-2-4-27 Trends in Amount of Direct Investment by Japan into India (by Field)



Source: *International Banking Statistics* (Bank of Japan)

1-2-4-28 Japanese Companies' operation status in India



Notes: 1. Consolidated the number of Japanese company's branches, representative offices, companies funded by Japanese companies and companies that was established by Japanese people in India (As of October 2009)
Source: Embassy of Japan in India

(iii) Necessity of infrastructure facilitation

India's undeveloped infrastructure is often mentioned as one of the issues that Japanese companies operating in India are facing. According to a survey conducted by JETRO researching Japanese companies operating in India, the underdevelopment of logistics infrastructure was ranked as one of the most critical issues related to production along with the shortage of power supply (see Table

1-2-4-29). Moreover, the questionnaire survey by JBIC also shows that the highest ratio of companies recognizes the underdeveloped infrastructure as one of the operation issues in India (see Figure 1-2-4-30).

As previously mentioned, India’s manufacturing sector has been developing since the economic liberalization in 1991. It is pointed out that the further development of the manufacturing industry requires the improvement of the underdeveloped infrastructure and the amendment of the labor laws and regulations that favor workers. These issues apply not only to the manufacturing industry but also to other operations such as retail activities in India.

The Indian government, which is aware of the needs for infrastructure facilitation, announced its 11th five-year plan and revealed its policy to promote the development of fundamental infrastructure including roads, power supply, communication and water supply by raising the ratio of fixed asset formation to 35.1% of GDP (see Table 1-2-4-31 and Table 1-2-4-32).

Japan is promoting its cooperation to facilitate the investment environment in India. As one of such schemes, the Japanese government and the Indian government are promoting development under “Delhi-Mumbai Industrial Corridor Project”[82].

1-2-4-29 Management Problems in India

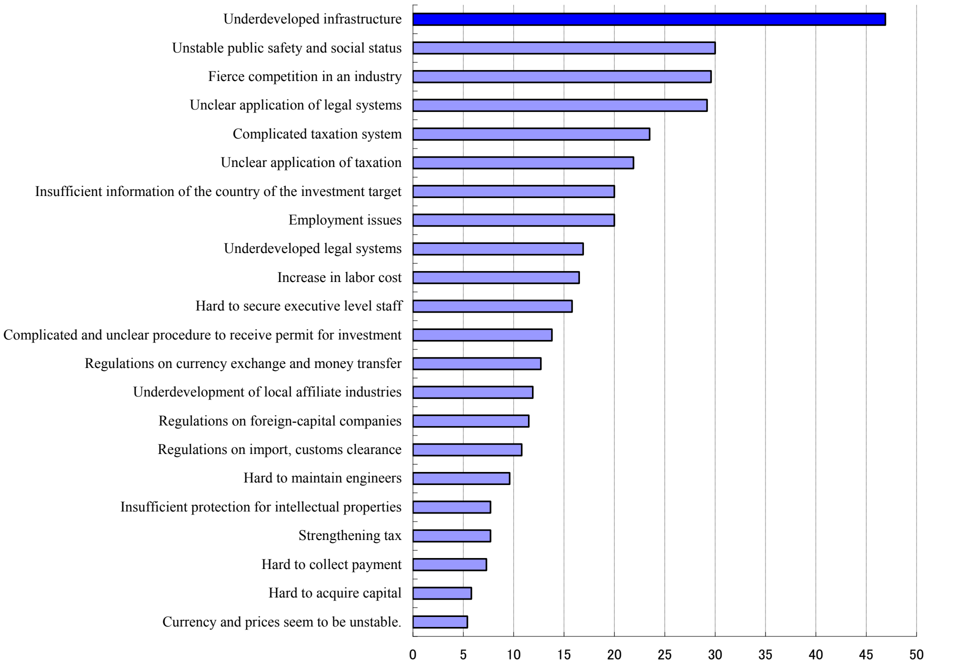
・ Management issues in India

	Effective answer	No.1	No.2	No.3	No.4	No.5
Sales	172 companies	Emergency of competitors (competition of costs)	Price reduction request from major business partners	Hard to develop new customers	Reduction of orders (No.3 with the same number of answers)	Sluggish major sales market (Stagnant consumption)
	100.0	52.9	45.9	26.2	26.2	24.4
Production	67 companies	Power shortage	Underdeveloped logistic infrastructure (No.1 with the	Hard to obtain raw material and parts in local markets.	Increase of acquisition costs	Hard to maintain quality
	100.0	56.7	56.7	47.8	46.3	38.8
Finance and foreign currency ex	157 companies	Fluctuation of local currency against yen	Burden of tax (corporate tax, transfer price tax	Fluctuation of local currency against US$	Insufficient cash flow needed for business expansion	Fluctuation of yen against US$
	100.0	47.1	40.8	40.1	29.9	17.2
Employment	161 companies	Increase of wages	Costs of dispatched Japanese staff	Turnover ratio	Hard to find human resource (Middle management)	Hard to localize management posts and person in charge of operation
	100.0	62.7	49.1	32.3	31.1	16.2
Regulations on Trade	147 companies	Complicated customs clearance procedure	Customs clearance takes long time.	Insufficient publication of notices and	Unclear assessment on the imposition of tariff	Unclear tariff classification assessment
	100.0	68.0	59.9	39.5	28.6	19.1

Notes: Top 5 for each item. Upper column: Actual issues, Lower column: Number of companies answered such (%)
Source: *Survey of Japanese-affiliated firms in Asia and Oceania* (JETRO)(March 2010)

1-2-4-30 Issues in India Faced by Japanese Manufacturing Companies

82 Refer to Chapter 2 Section 4 for detail.



Source: *Survey report on overseas business operations by Japanese manufacturing companies (Preliminary version) (November 2009)*
Japan Bank for International Cooperation (JBIC)

1-2-4-31 Fixed Capital Investment Target in India's 5 Year Plan

• Fixed capital investment target in the Five Year Plan (vs. GDP)

(Unit: %)

Item	Breakdown	The 10th Five Year Plan FY02-06	The 11th Five Year Plan FY07-11
Fixed capital investment (vs. GDP)		32.1	36.7
	Public sector	7.1	28.7
	Private sector	25.1	8.0
Domestic savings (vs. GDP)		31.9	34.8
	Household	23.7	23.0
	Private companies	6.3	7.3
	Public companies	4.1	4.0
	Government	-2.2	0.5

Source: *Eleventh Five Year Plan 2007-12 Volume1* (2008) Planning Commission, Government of India

1-2-4-32 Targets of India's 11th 5 Year Plan

• Goals for the 11th Five Year Plan

Area	Item	Target
Infrastructure	Road	Complete road facilitation for the villages with population of 1,000 or more by 2009
	Airport	Modernization of 4 airports in major cities and other 35 airports
	Port	Enhancement of port facilities
	Electricity	Provision to all households by fiscal year 2009
	Communication	Number of telephone service subscribers: 0.6 billion people, The subscription rate in rural areas: 25%
Health and medical care	Water	Facilitation of clean drinking water service by 2009

Source: *Eleventh Five Year Plan 2007-12 Volume1* (2008)(Planning Commission, Government of India)

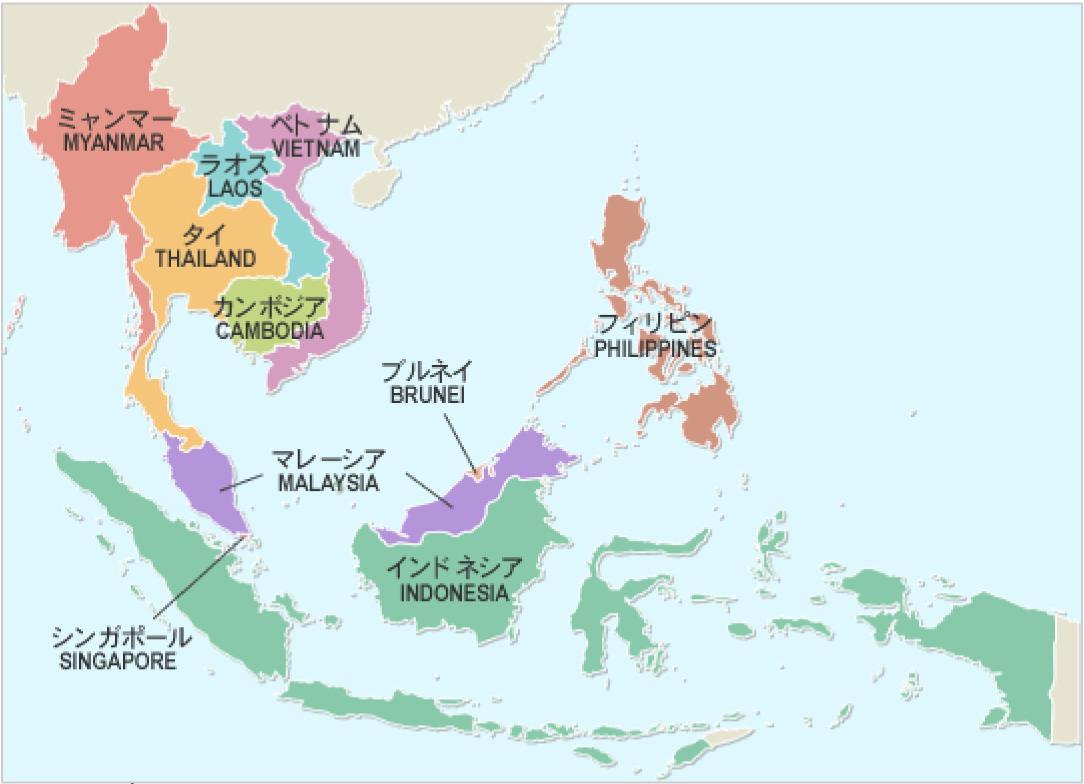
(2) ASEAN economy

(A) Overview of ASEAN economy

ASEAN is the first regional cooperative organization in Southeast Asia founded under "The Declaration of the Establishment of the ASEAN" (see Figure 1-2-4-33). It consists of countries with various political systems, cultures, races, languages and maturity stages of economic development. The population size of ASEAN 10 member countries is 580 million people and greatly exceeds that of other regional cooperative organizations such as EU with 500 million people, NAFTA with 440 million people and MERCOSUR with 240 people[83]. Combined nominal GDP is \$1.5 trillion. As for the size of economy, Indonesia is the largest (\$512 billion) followed by Thailand (\$273 billion) and Malaysia (\$222 billion). The sum of GDP of five countries including Indonesia, Thailand, Malaysia, Singapore and the Philippines accounts for 90% of total ASEAN GDP. Singapore has the highest nominal GDP per person, \$38,000 while the GDP of Myanmar is less than \$500 and about 87 times smaller that of Singapore (see Table 1-2-4-34).

[83] World Bank, "World Development Indicators database"

1-2-4-33 Geographical Relationship of ASEAN Countries



[Ongoing recovery of ASEAN member countries after the world economic crisis]

Due to the success of their active foreign capital invitation policies, each ASEAN country achieved high real GDP growth of 4 to 9% from 2002 when the influence from the collapse of IT and stock market bubble was banished till the outbreak of world financial crisis (see Figure 1-2-4-35). Although each country experienced economic downturn after the world economic crisis, according to ADB, the economy of developing countries in Asia including ASEAN member countries is expected to grow in 2010 since the world economy will likely to improve for some extent and the effect of fiscal and financial economic stimulus measures is expected to last.

[Impact of the world economic crisis on ASEAN and its recovery pattern]

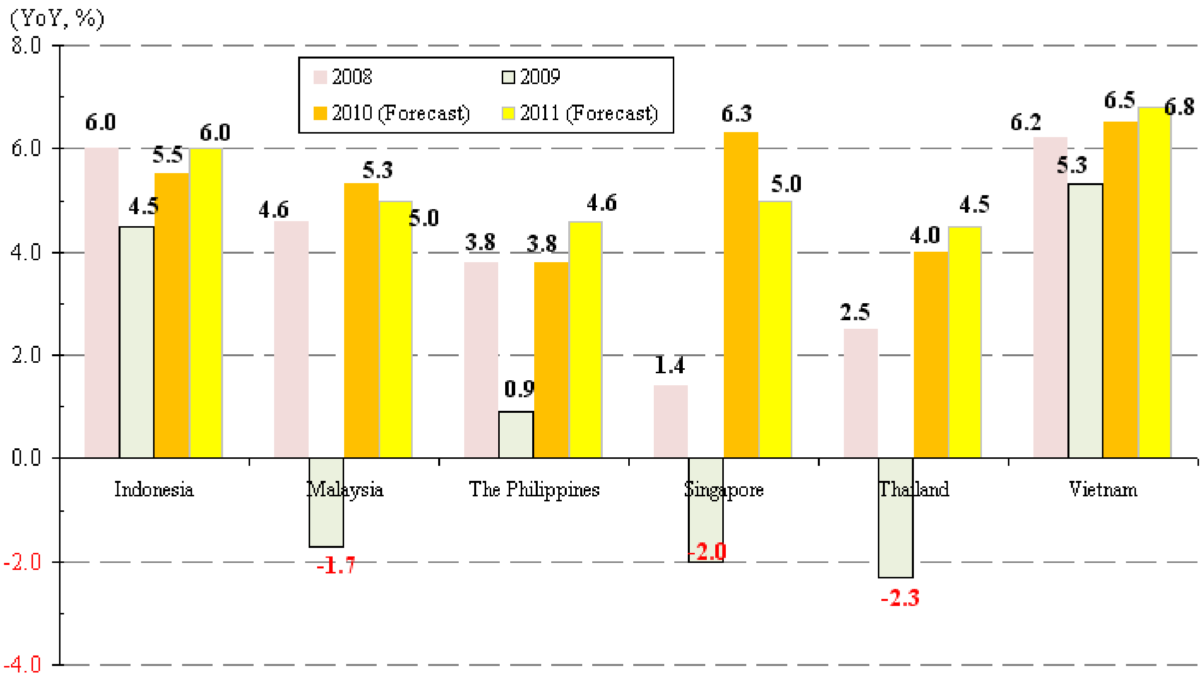
The impact from the world economic crisis on the financial sector in ASEAN was relatively limited compared to that in developed countries reflecting each member country's effort to implement healthy micro-economic policies, for example by accumulating foreign currency reserves to avoid falling into the current account deficit (see Figure 1-2-4-36) after learning lessons from the Asian currency crisis in 1997. However, since ASEAN and the U.S. and European countries have been deepening their mutual dependence in the real economy that includes export and production through the expansion of trade and investment, ASEAN member countries were also significantly affected by the crisis due to the declined demand from the U.S. and European countries. Consequently, the economy of ASEAN member countries, particularly the ones with high export-dependency, largely declined. (see Figure 1-2-4-37) Especially in the first quarter of 2009, the real GDP growth of most member countries slowed down and many countries registered negative year-on-year growth. However, a recent trend after the second quarter shows the recovery supported by factors including the domestic demand within Asia partially due to the economic stimulus measures implemented in each country. (see Figure 1-2-4-38).

1-2-4-34 Status of 10 ASEAN Economies

	Population	Nominal GDP	Nominal GDP per capita	Total trade amount	Total export amount	Total import amount	Japan-bound export amount	Import amount from Japan	Japan's direct investment	Japan's direct investment balance
Year	2009	2009	2009	2008	2008	2008	2008	2008	2008	2008
Unit	100 million persons	US$ billion	US$	US$ billion	US$ billion	US$ billion	US$ billion	US$ billion	100 million yen	100 million yen
Brunei	0.004	11	26,835	13	10	3	4.2	0.2	42	-
Indonesia	2.32	539	2,325	266	137	129	27.7	15.1	739	7,699
Malaysia	0.28	191	6,838	356	200	157	21.5	19.6	618	6,990
The Philippines	0.92	161	1,750	110	49	60	7.7	7.1	737	7,042
Singapore	0.05	177	37,946	659	339	320	16.7	25.9	1,122	17,615
Thailand	0.67	264	3,939	352	173	179	19.7	33.6	2,093	18,533
Cambodia	0.14	11	790	12	4	8	0.1	0.2	38	-
Laos	0.06	6	895	4	2	3	0.02	0.1	3	-
Myanmar	0.60	28	459	14	7	7	0.3	0.2	-4	-
Vietnam	0.87	92	1,063	143	63	81	8.5	8.6	1,130	2,986
ASEAN total	**5.91**	**1,480**	**2,504**	**2,104**	**984**	**946**	**106.5**	**110.7**	**6,518**	**61,078**
World total	**67.34**	**57,937**	**8,604**	**32,550**	**16,019**	**16,531**	**682.4**	**829.3**	**132,320**	**617,400**

Note: Nominal GDP per capita = Nominal GDP/Population
Sources: [Nominal GDP] World Economic Outlook Database April 2010 (IMF), [Trade amount] DOT, (IMF), [Direct investment amount] Balance of Payments Statistics Ministry of Finance, Japan and Bank of Jap

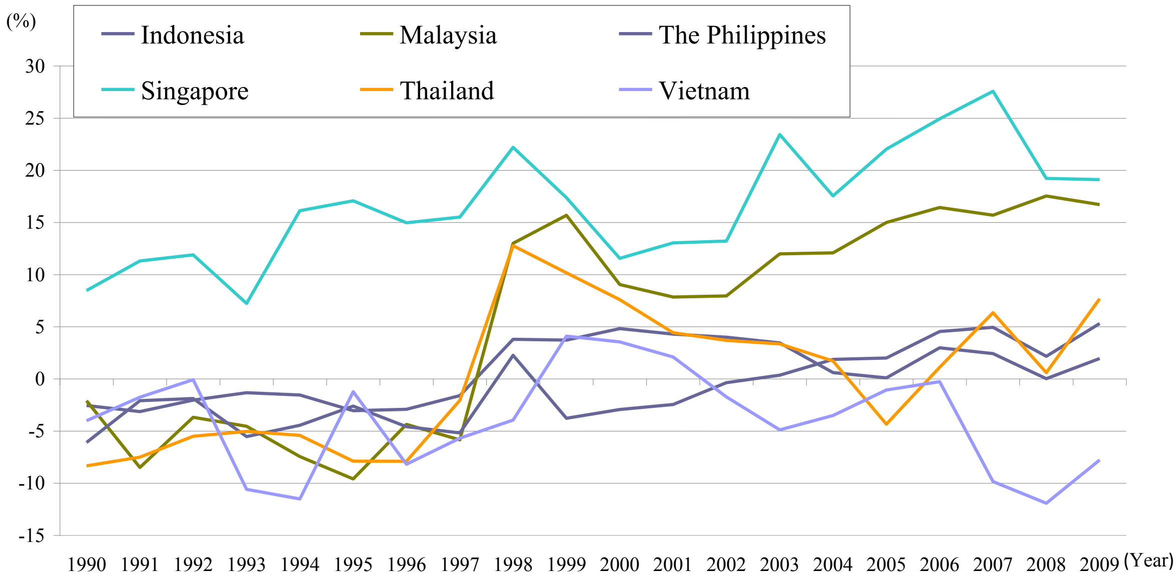
1-2-4-35 Trends and Outlooks of GDP Growth Rates by Region



Source: *Asian Development Outlook 2010* (April 2010) (Asian Development Bank)

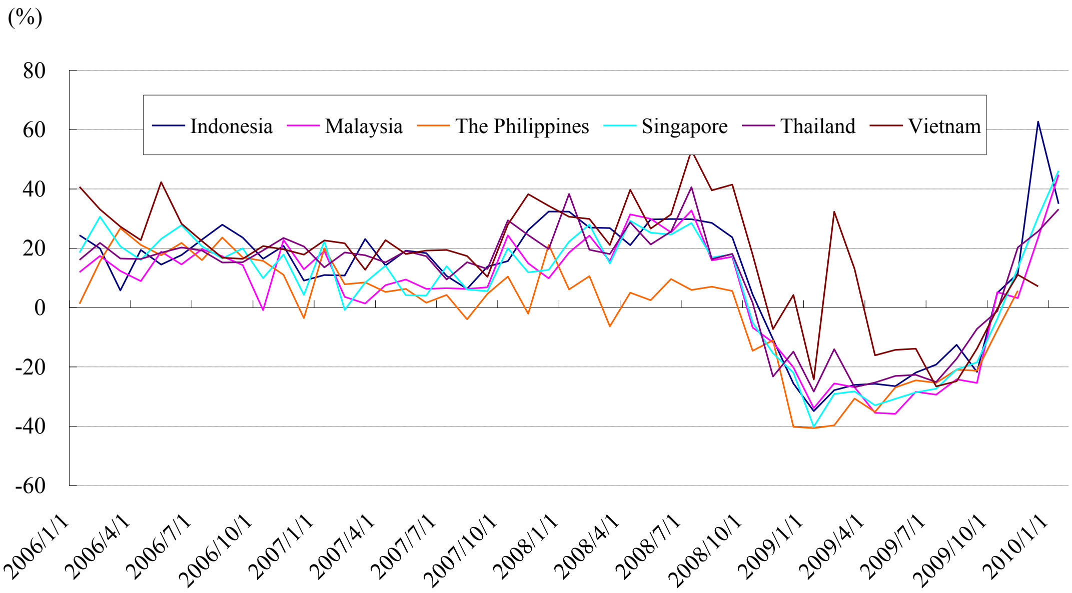
The influence of the crisis on each country in the world and its recovery pattern can be broadly divided into two groups; “domestic demand-driven model” and “export-driven model”. “Domestic demand-driven model” indicates the countries and regions that maintain high economic growth having their domestic demand as its core even after the crisis. In ASEAN, it applies to Indonesia that has high dependency on domestic demand (consumption and investment) (GDP growth rate in 2009: 4.5%, Estimated GDP of 2010: 5.5%[84]) and Vietnam (2009: 5.3%, 2010:6.5%). "Export-driven model" means the countries and regions that have high dependency on export (see Figure 1-2-4-39) and experienced a downturn of exports due to a sharp decline in demand from developed countries after the crisis but improved its economy due to the factors such as the increased export to China after the crisis. In ASEAN, it applies to Singapore (GDP growth rate in 2009: minus 2.0%, Estimated GDP of 2010: 6.3%), Malaysia (2009: minus 1.7%, 2010: 5.3%) and Thailand (2009: minus 2.3%, 2010: 4.0%).

1-2-4-36Trends in Current Account Balancesfor ASEAN6



Note: Data for Malaysia and Vietnam in 2009 are estimates.
Source: *World Economic Outlook Database, April 2010* (IMF)

1-2-4-37 Growth in ASEAN6 Exports (Compared to Same Month Prev. Year, %)



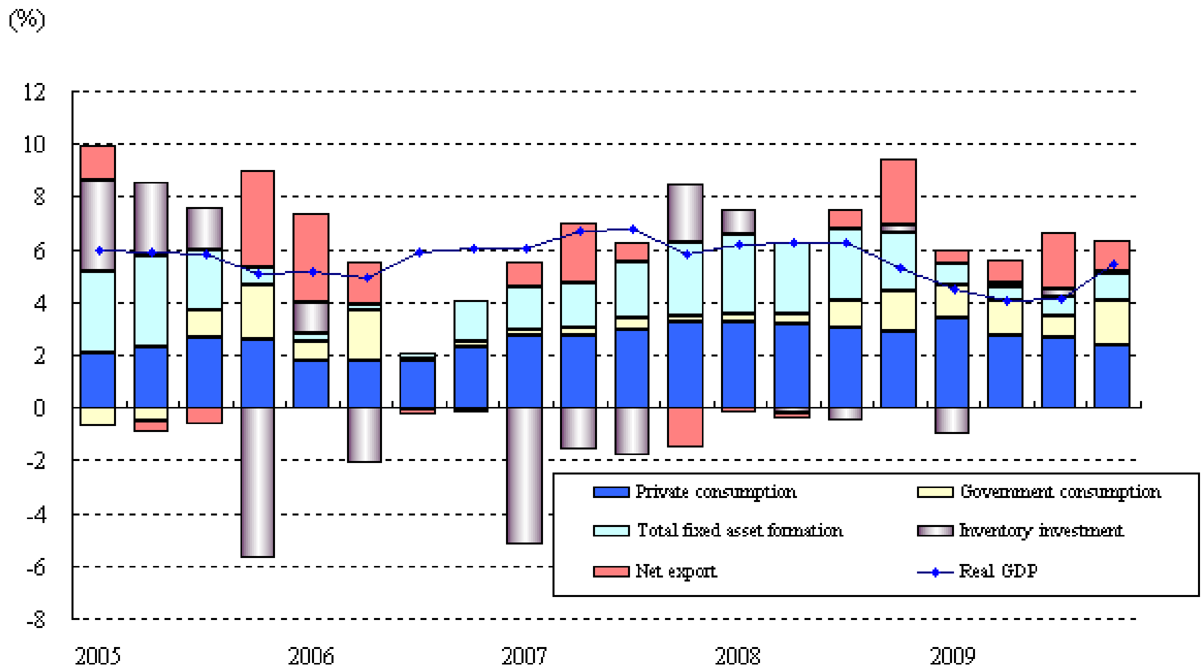
Source: CEIC Database

84 Economic forecasts for 2010 is by "Asian Development Outlook 2010" issued by Asian Development Bank. (April 2010)

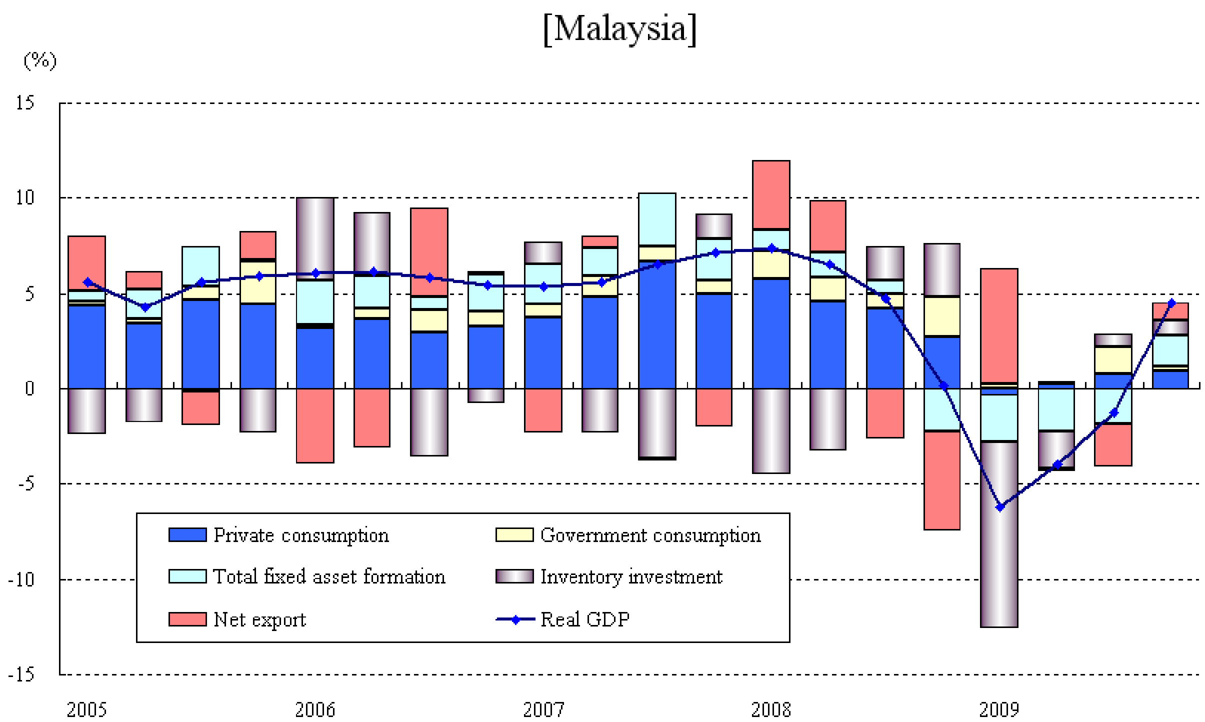
[Trend of direct investment in ASEAN]

As the result of the active acceptance of direct investment from Japan, the U.S. and European countries since 1990s (see Figure 1-2-4-40), ASEAN member countries, labor-intensive industries of developed countries were transferred to ASEAN and developed as the processing and assembly bases for the final products bound for the U.S. and European countries. As for direct investment amount (stock) in ASEAN, Japan is the largest investor followed by the U.S., the U.K, and the Netherlands (see Figure 1-2-4-41). According to the time-series data of investing countries, foreign investment in ASEAN was on the upward trend after 2002, however, the foreign investment in ASEAN 6 excluding Indonesia and Vietnam decreased in 2008 (see Figure 1-2-4-42).

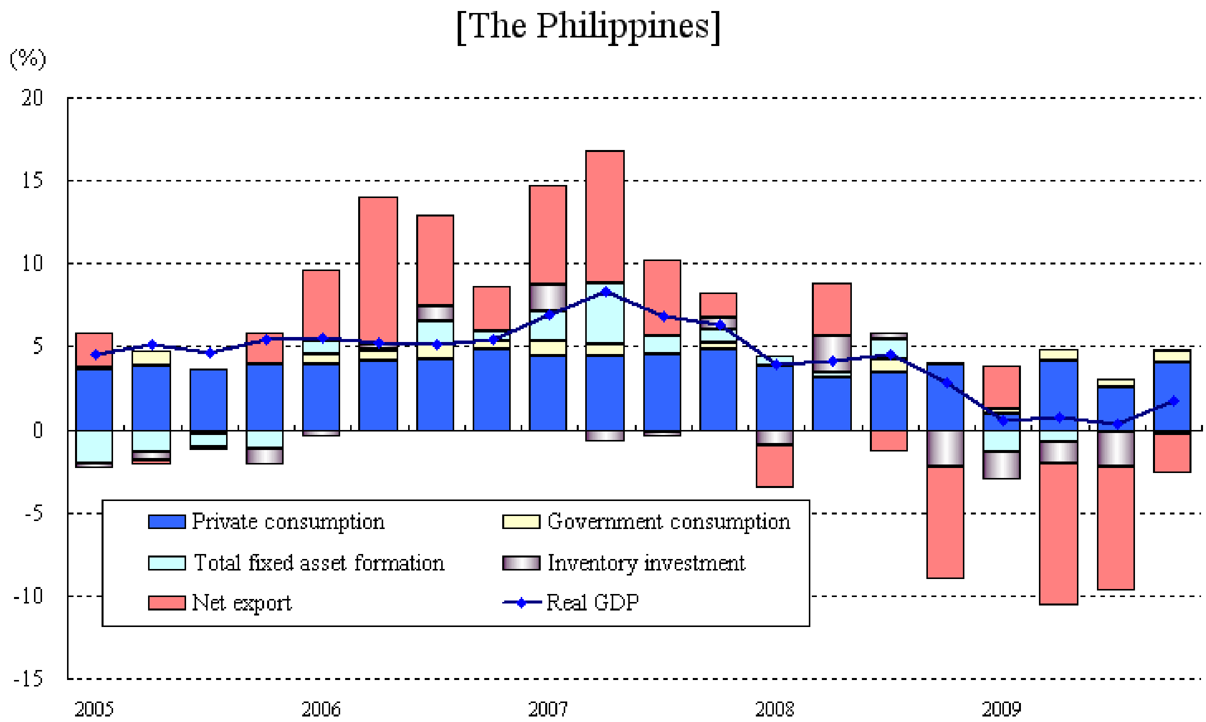
1-2-4-38 Inflation-adjusted Economic Growth Rate and Contributions by Demand Items in Each Country



Source: CEIC Database

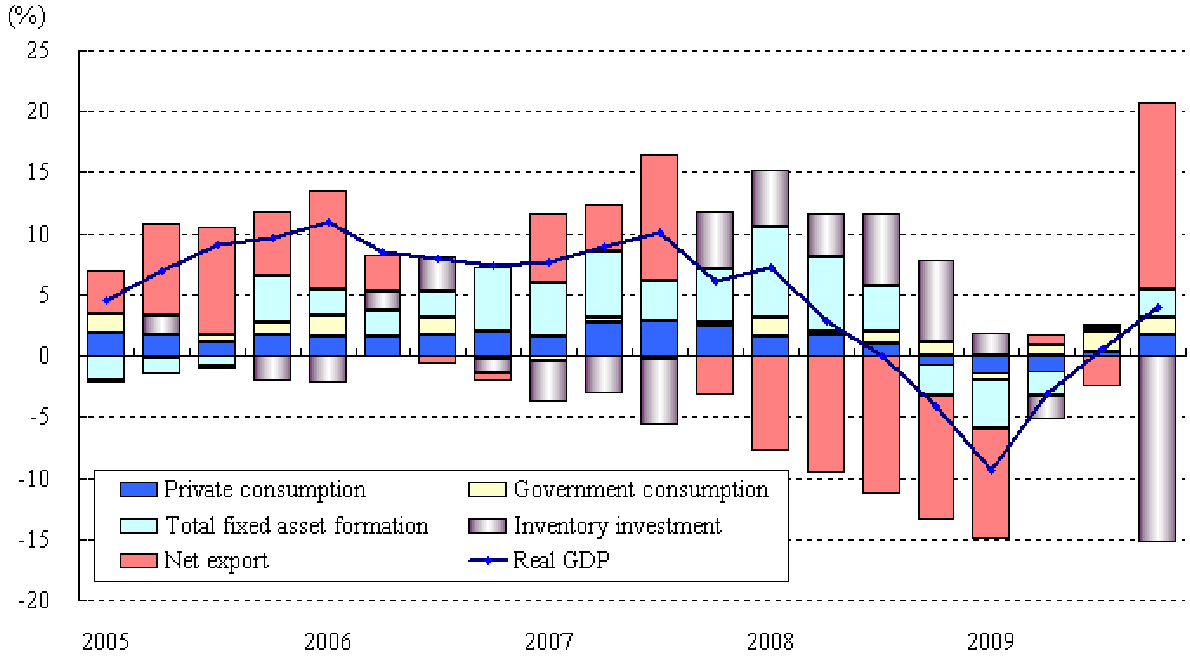


Source: CEIC Database



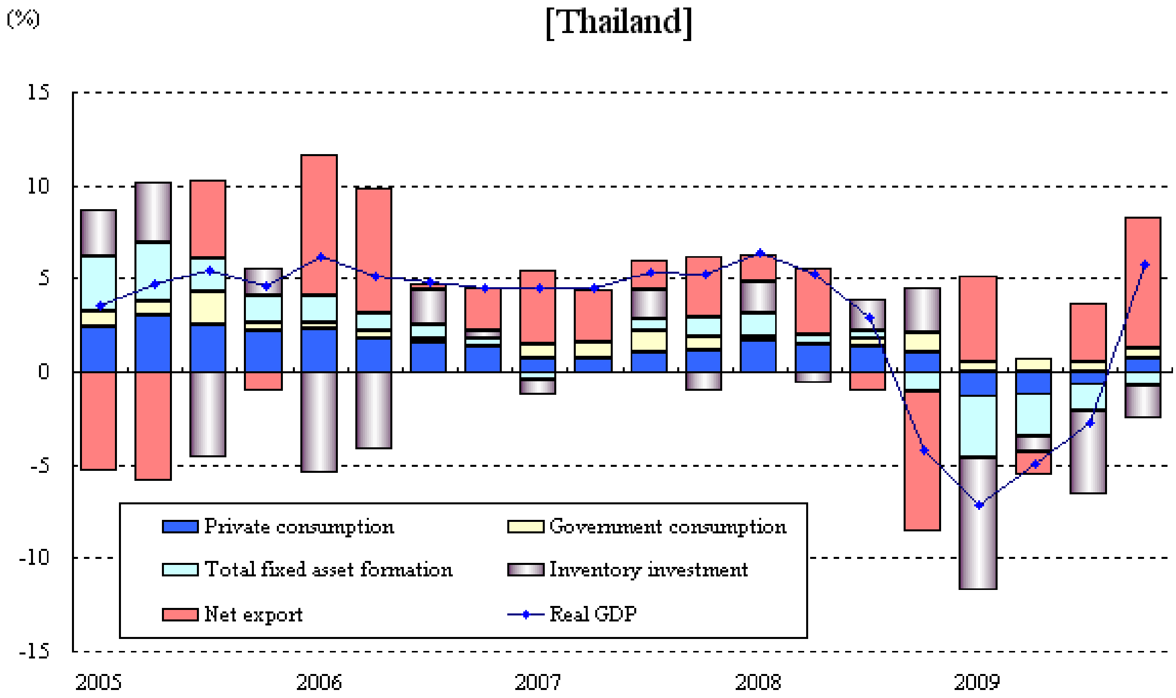
Source: CEIC Database

[Singapore]



Source: CEIC Database

[Thailand]



Source: CEIC Database

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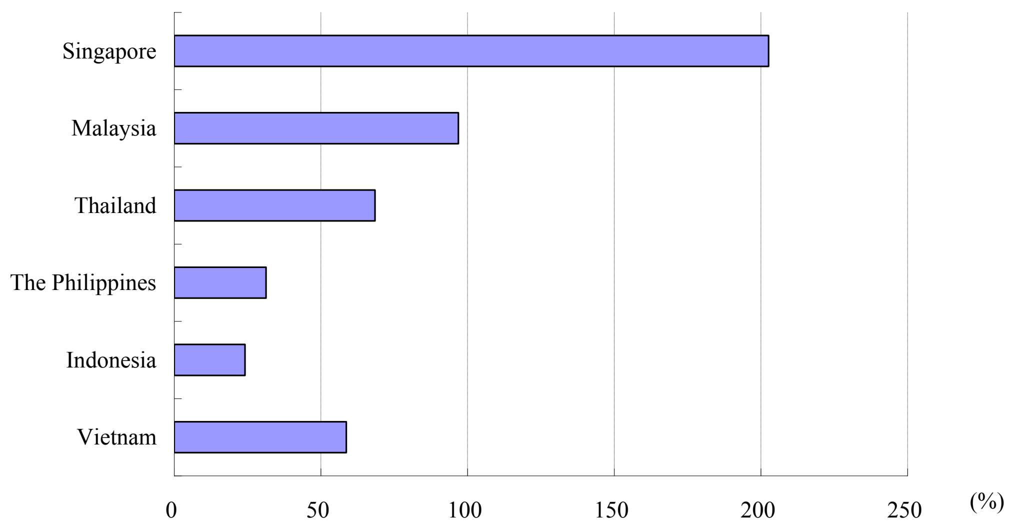
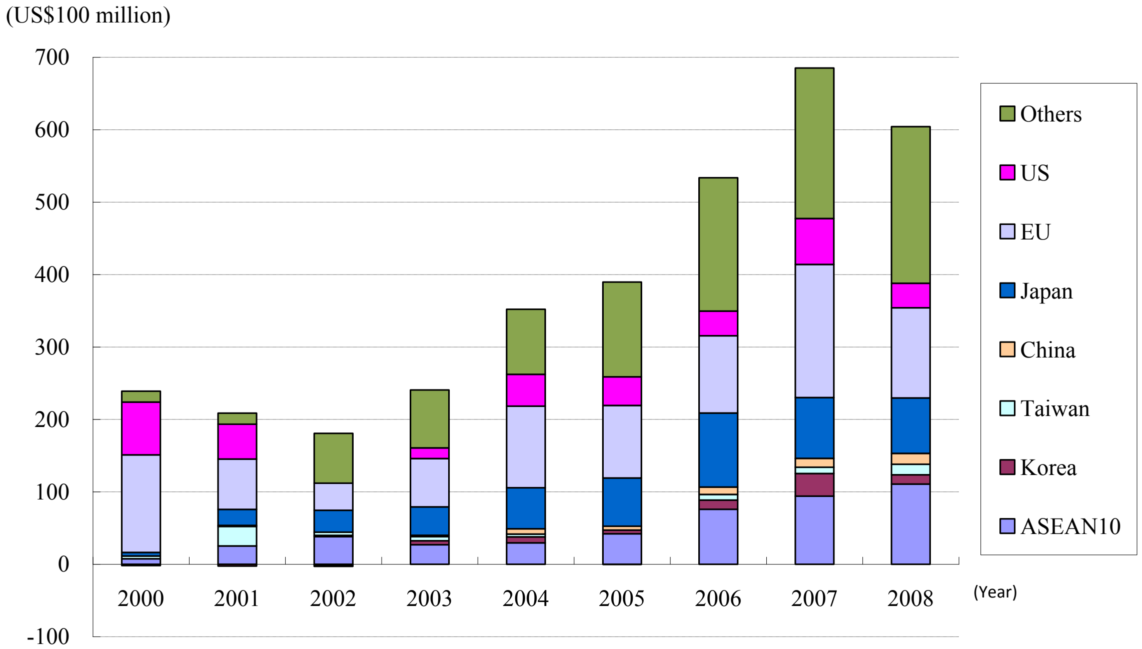


Notes: 1. Export dependency=Exports/GDP
2. Exports of Vietnam is only goods exports.
Source: CEIC Database

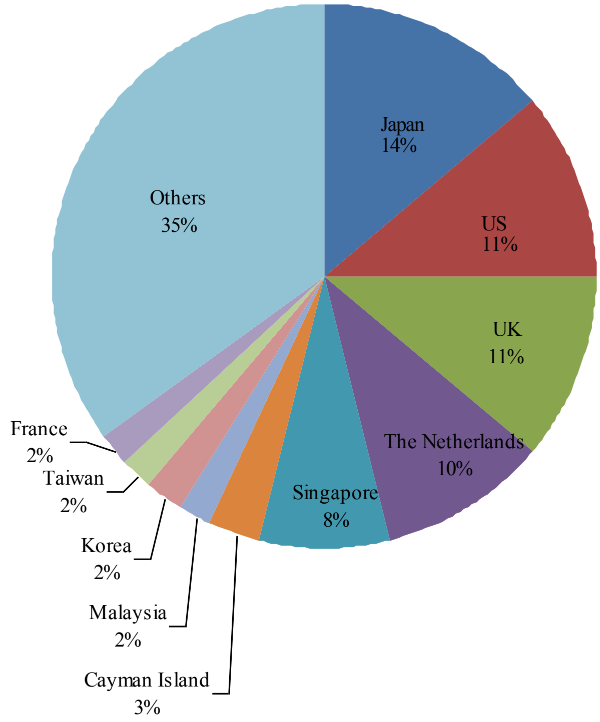
1-2-4-40 Trends in Direct Investment (Flow) to ASEAN (by Investing Country/Region)

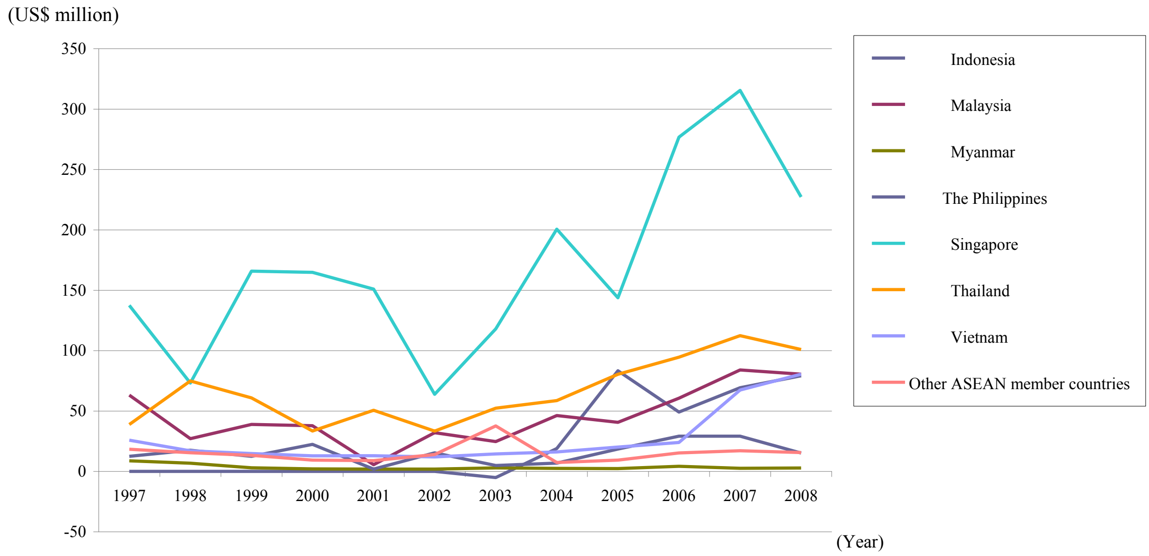


Source: *ASEAN Statistical Yearbook, 2008*

1-2-4-41 Direct Investment to ASEAN by Country/Region (1999-2008)

Note: Cumulative data from 1999 to 2008
Source: Japan ASEAN Centre website





Source: *FDI STAT* (UNCTAD)

[ASEAN's robust domestic demand]

ASEAN member countries, particularly the ones with large population, have been gaining attention as a consumer market, and its domestic demand is steadily increasing. The trend of automobile and motorcycle sales (see Figure 1-2-4-43 and Figure 1-2-4-44) shows a temporary decline in the consumption after the crisis, however, it recovered to the pre-crisis level.

[Trade among ASEAN, China and India]

As for the trend of ASEAN's net export to China and India, the amount of export to China is larger than that to India. The trade amount with China is further expanding after the conclusion of FTA between ASEAN and China in January 2010 (see Figure 1-2-4-45 and Figure 1-2-4-46). ASEAN's India-bound net exports have been showing positive growth across the economic crisis (see Figure 1-2-4-17).

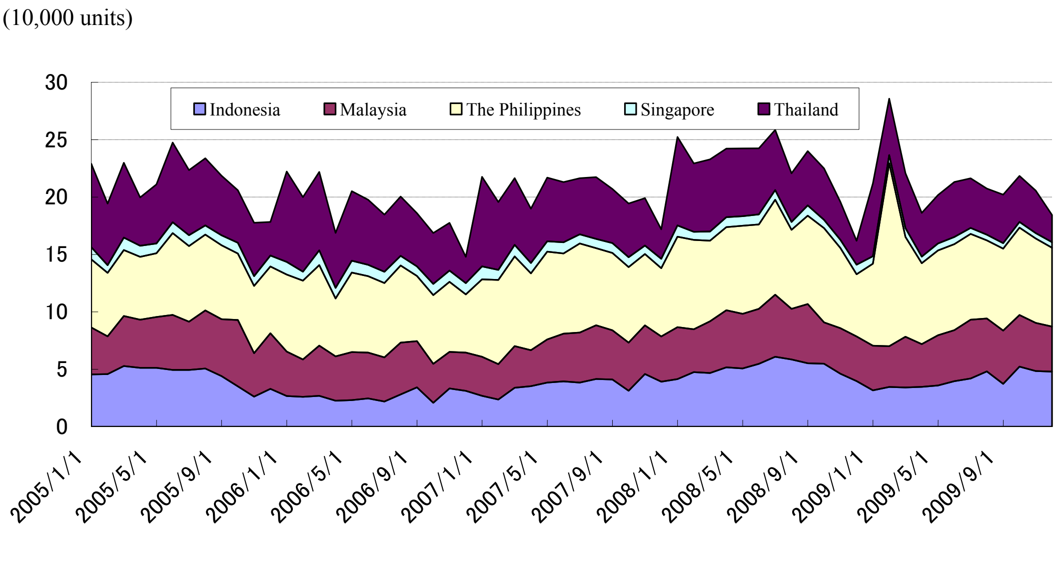
(B) Economic conditions by country

Followings are the overview of three countries; India and Vietnam that are attracting attention for their robust domestic demand, and Singapore which by contrast is highly export-dependent and open to foreign countries.

[Sound growth of Indonesia supported by its robust domestic demand and its export of affluent natural resources]

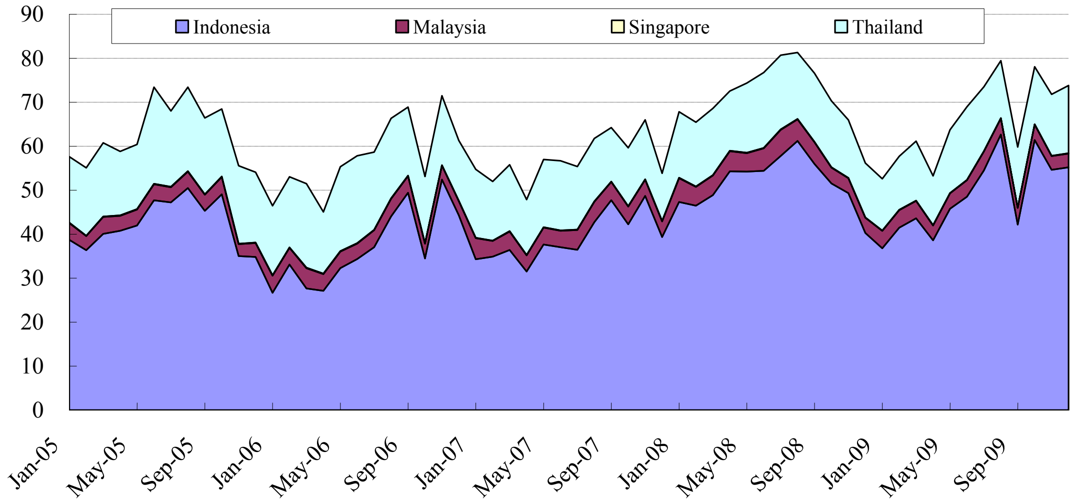
Indonesia has been achieving the economic growth of 4 to 6% since 2005. While the real GDP growth rate of 2009 registered a year-on-year 4.55% increase supported by the robust domestic demand, export and other factors, many people view the impact of the world economic crisis on Indonesia was small. Private consumption in both 2008 and 2009 maintained a 2 to 3% level of growth, and net exports in the both third and fourth quarter of 2009 showed a 1 to 2% level of increase (see Figure 1-2-4-48).

1-2-4-43 Trends in New Registration and Sale of Automobiles in ASEAN6



Source: For Indonesia, each issue of "*Automotive Market Trend*" ASTRA International and for others, CEIC Database.

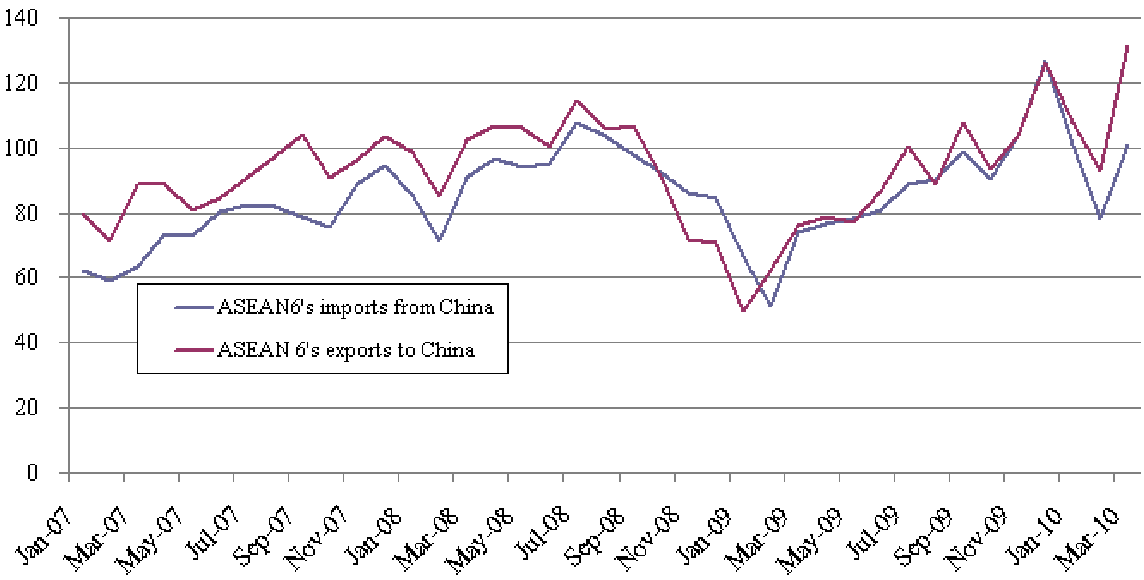
(10,000 units)



Source: CEIC Database

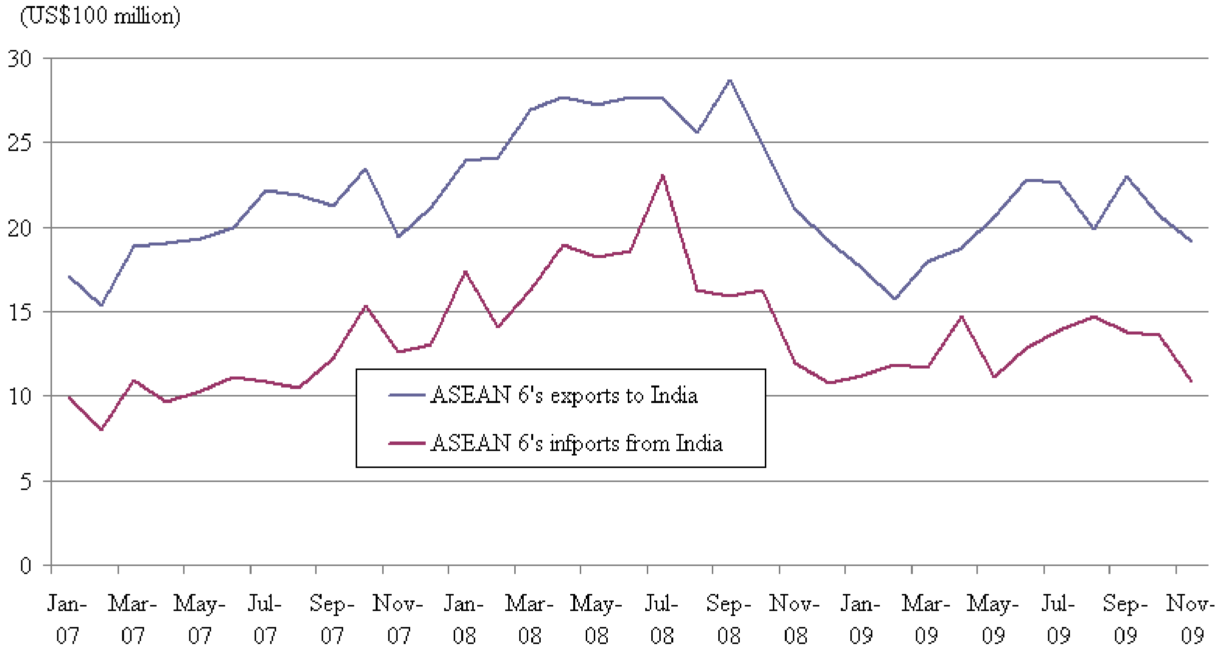
1-2-4-45 Trends in Chinese Trade with ASEAN6

(US$100 million)



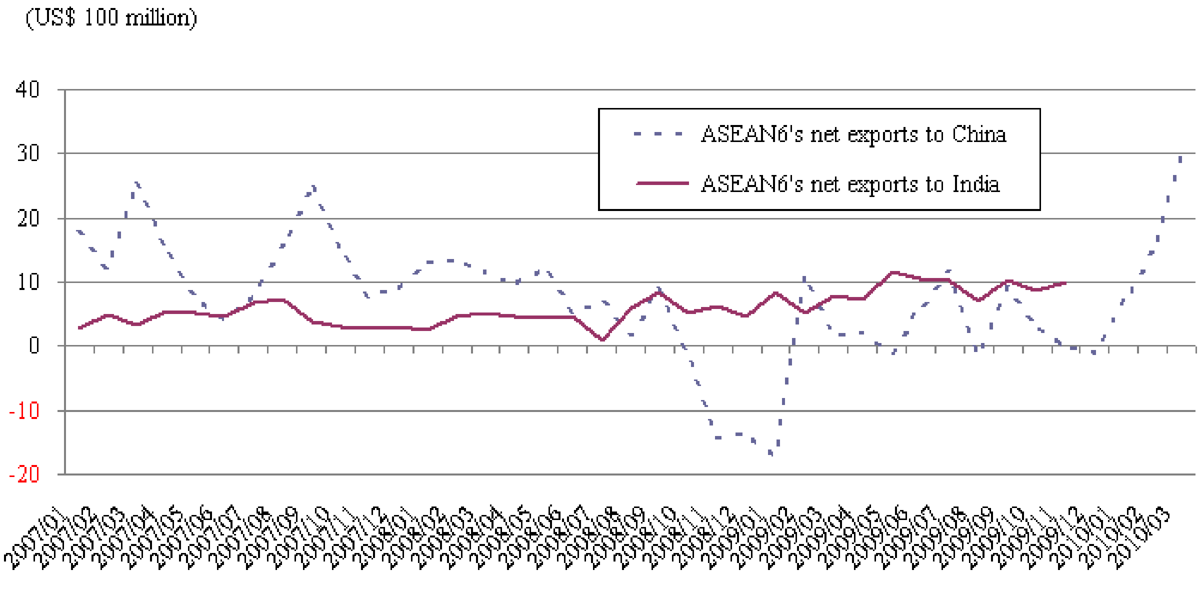
Note: ASEAN6 includes Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.
Source: CEIC Database

1-2-4-46 Trends in Indian Trade with ASEAN6



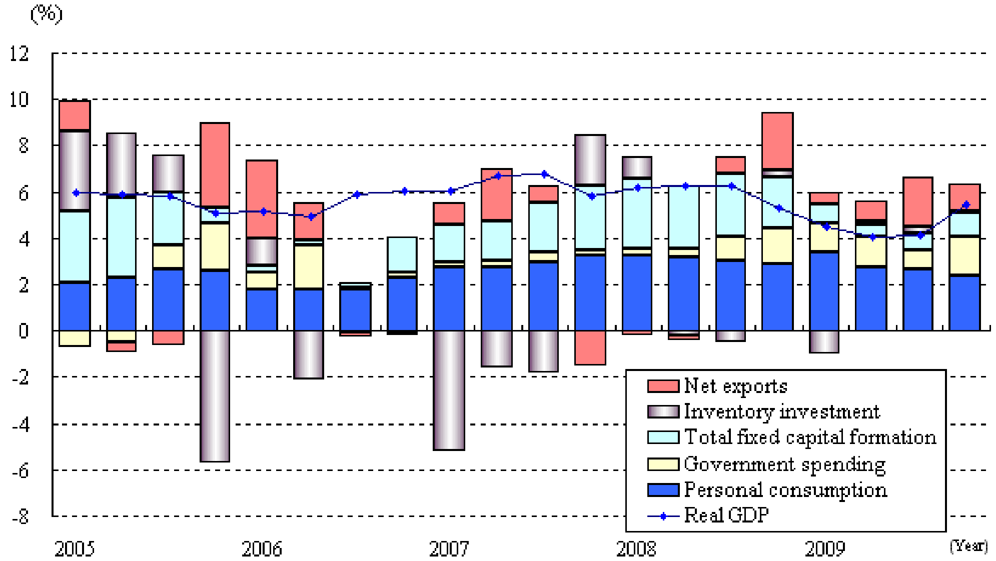
Note: ASEAN6 includes Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.
Source: CEIC Database

1-2-4-47 Trends in Net Exports to India and China from ASEAN6



Note: ASEAN6 includes Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.
Source: CEIC Database

1-2-4-48 Contributions of Elements of Indonesian GDP

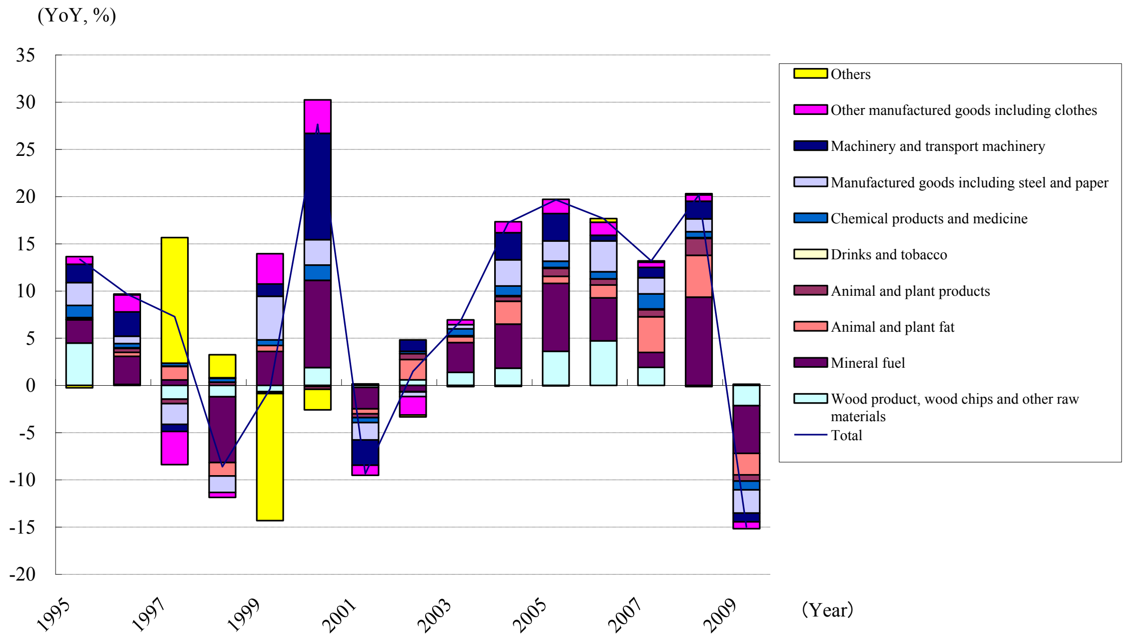


Source: CEIC Database

The population of Indonesia that supports robust domestic demand is about 228 million people and the largest in ASEAN. This number accounts for about 40% of total population of ASEAN and the fourth largest in the world. Major export items are mainly natural resources including oil and gas (21%), animal and plant oil (9%) and mineral fuel (8%) (2008)[85] (see Figure 1-2-4-49).

Indonesia's largest export destination is Japan (see Figure 1-2-4-50) and the Japan-bound export items are mainly natural resources including oil, minerals and rubber, machinery such as electrical appliances and fishery products (see Figure 1-2-4-51).

1-2-4-49 Trends in Indonesian Exports by Item



Source: CEIC Database

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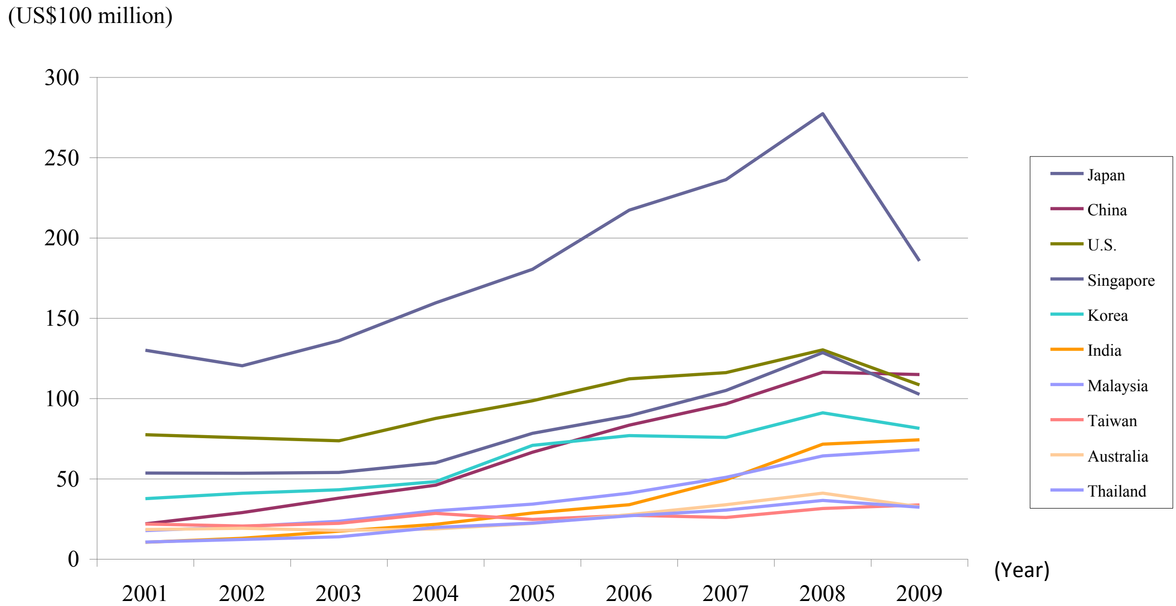
85 Source: Statistics by the Indonesian government

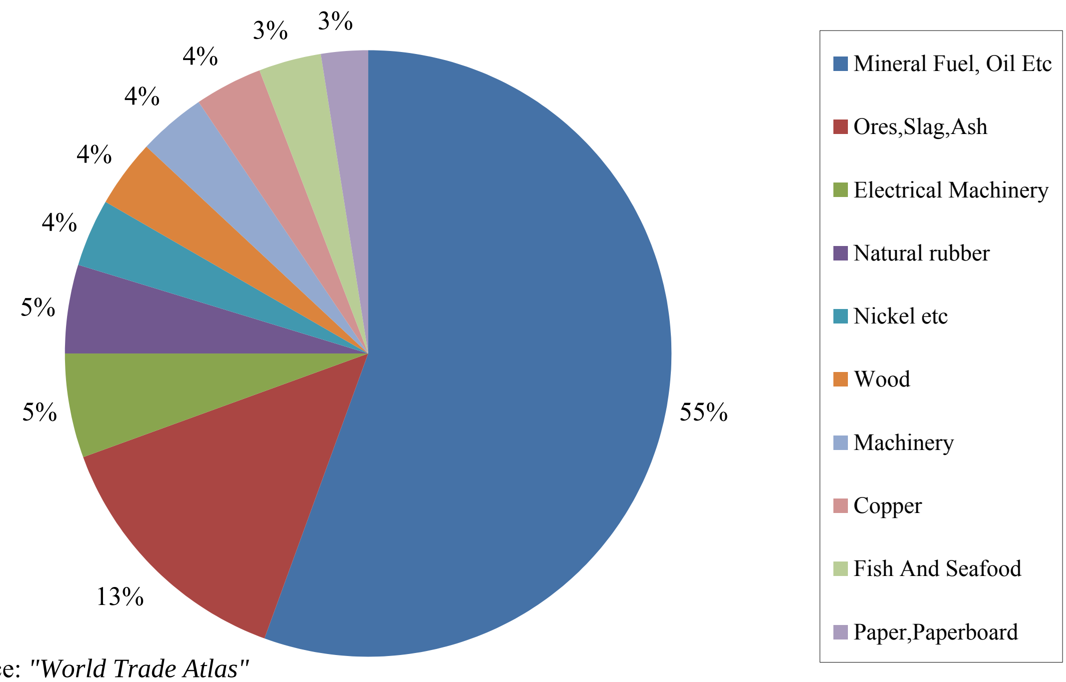
1-2-4-50 Trends in Major Indonesian Export Destination Countries/Regions



Source: *"World Trade Atlas"*

Indonesia announced "The National Medium Term Development Plan 2010 to 2014" in April 2010 and presented strategies for 10 items including "Higher economic growth" "Improvement of unemployment ratio and expansion of employment opportunities" and "Reduction of poverty ratio". In the plan, detailed numerical targets were presented such as "Increase of GDP per person from current $2,540 to $4,500 by 2014. Lower 7.9% of current unemployment rate to a 5-6% level. Maintain about 7% of GDP growth. Reduce poverty ratio to 8-10%." As for investment, Indonesia set up a target to accept $35 billion (about 3.2 trillion yen) of investment by foreign companies in 2014, which is 3.2 times larger than the actual amount of the last year, 2009, which is $10.8 billion (about 1 trillion yen), and for the investment by Indonesian companies as 177.9 trillion rupiah (about 1.9 trillion yen), which is 4.7 times higher than the actual record of 2009, which is 37.8 trillion rupiah (about 400 billion yen). The government announced its policy to promote large scale infrastructure investments such as power plant, highway, and railway projects utilizing both foreign and domestic capital. The execution of this plan is expected to bring the economic growth due to the increase of domestic demand supported by large-scale infrastructure investments, affluent resources and increasing population as well as the inflow of foreign investment capital.

1-2-4-51 Share of Top 10 Items Exported to Japan from Indonesia



Source: *"World Trade Atlas"*

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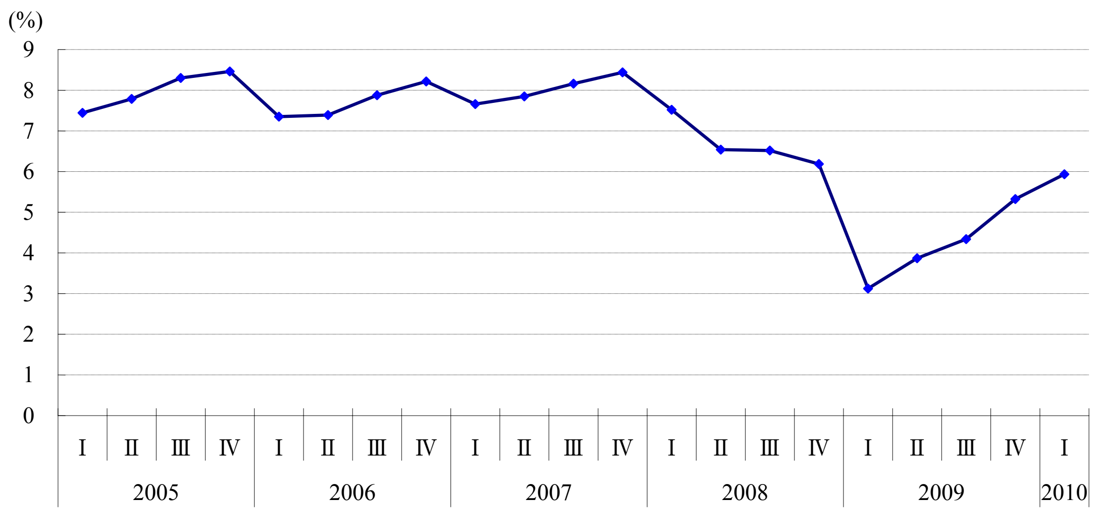
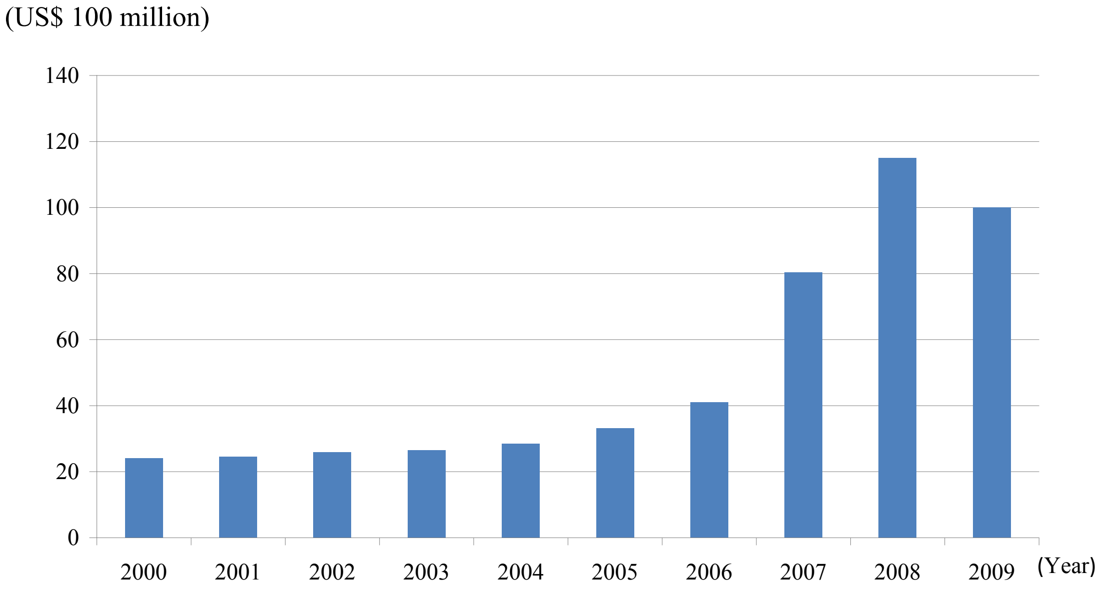


Source: CEIC Database

1-2-4-53 Trends in Amount of Direct Investment into Vietnam

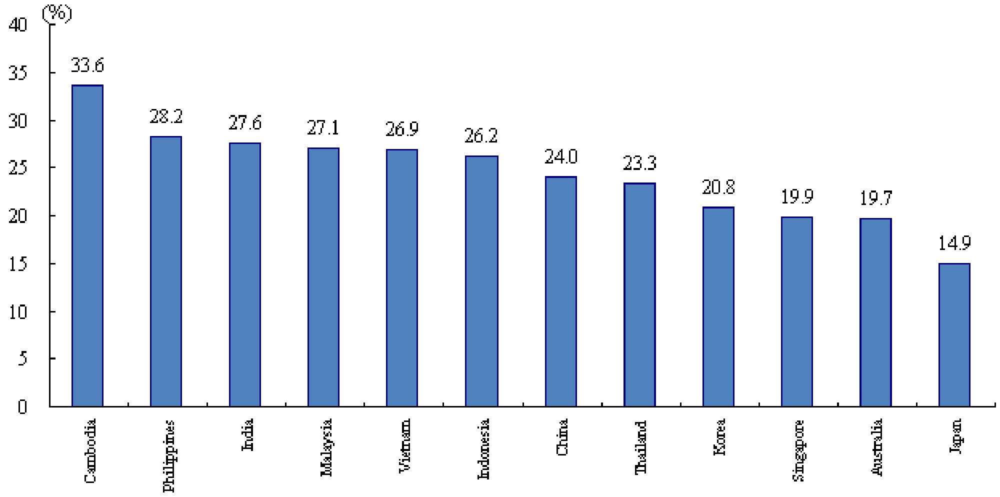


Source; CEIC Database

[Strong growth of Vietnam backed by foreign direct investment and steady private consumption]

Vietnam has been maintaining high economic expansion marking 3-8% of real GDP growth since 2000 and achieved a 5% level of growth in 2009 despite the influence of the economic crisis (see Figure 1-2-4-52). The driving force of this strong growth is considered to be total fixed asset formation including private investment, private consumption and net export (see Figure 1-2-4-53). As for private investment, foreign direct investment is increasing having Vietnam's low-cost and affluent labor market as its background spurred by "China-plus-one", a strategy of foreign companies aiming to disperse investment concentration risk. One of the elements that has been supporting Vietnam's robust domestic demand is its population of 86 million people, which is the third largest in ASEAN member countries after Indonesia and the Philippines. Vietnam is also receiving attention as a potential consumer market due to the concentration of middle-class in cities and the relatively large ratio of younger population (see Figure 1-2-4-54).

1-2-4-54 Youth Population in Asian Countries/Regions



Source: "*World Population Prospects: The 2008 Revision* The United Nations

The consumer prices in Vietnam significantly increased by 23.1% in 2008. This was triggered by overall increase of international commodity prices including energy and food products and the rate of consumer price increase in Vietnam was higher than that of other countries (see Figure 1-2-4-55). This is partially due to the swelled money supply caused by the dollar-buying and dong-selling operation by the central bank that tried to prevent the sudden appreciation of dong while a large amount of foreign currencies flowed into Vietnam during its investment boom. Furthermore, there is a concern for the risks for asset inflation caused by the inflow of capital to a real estate market and stock markets due to the effect of provision of interest subsidy for loans that was introduced as a part of economic stimulus measures in 2009. To continue sustainable economic growth, Vietnam has to cautiously manage its macro-economy such as through the prevention of inflation.

In response to the inflation pressure began in the second half of 2007, Vietnam announced its plan to tighten its monetary policy in April 2008 and strengthened its move to tighten base rate which had been maintained at the same level by February 2008, starting from April 2008. Afterwards, due to the deceleration of economy affected by the crisis, the government started easing its monetary policy around October 2008. However, in the end of 2009, the government decided to increase interest rates started launching an exit strategy (see Figure 1-2-4-56).

[Singapore, an export-dependent country that achieved V-shape recovery along with the recovery of Asia-bound exports]

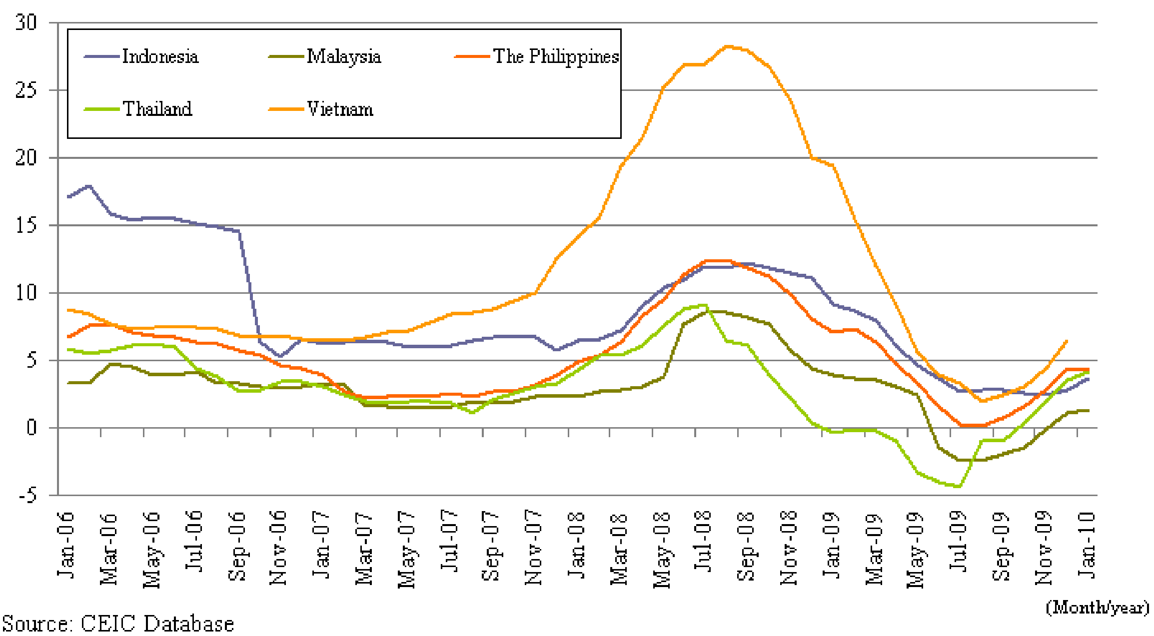
The recovery of Singapore economy largely attributes to the sound exports mainly to Asia (see Figure 1-2-4-57) and its net exports pushed up GDP by 15.33% in the fourth quarter of 2009 (see Figure 1-2-4-58). Singapore gives importance to the assurance of access to the world economy through multilateral free trade framework and recorded the world largest container throughputs by port in 2008, 29.92 million TEU[86] (see Table 1-2-4-59). Most of Singapore export destinations are Asian countries and regions including Hong Kong, Malaysia, China and Indonesia in 2009 (see Figure

86 TEU = twenty-foot equivalent. Unit to describe the volume of container. 5.9m× 2.3m× 2.3m

1-2-4-60) and major export items include machinery such as electrical appliances (see Figure 1-2-4-61).

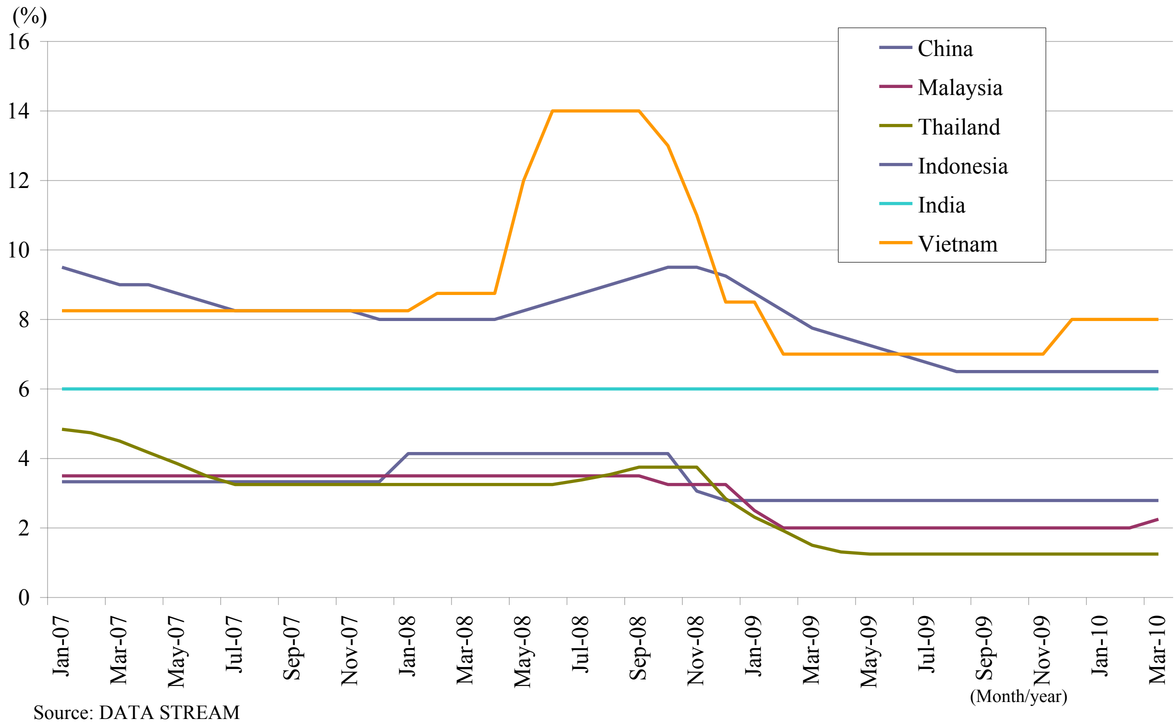
1-2-4-55 Trends in Rate of Increase of CPI in ASEAN Countries

(YoY, %)



Source: CEIC Database

1-2-4-56 Trends in Policy Interest for Developing Asian Economies

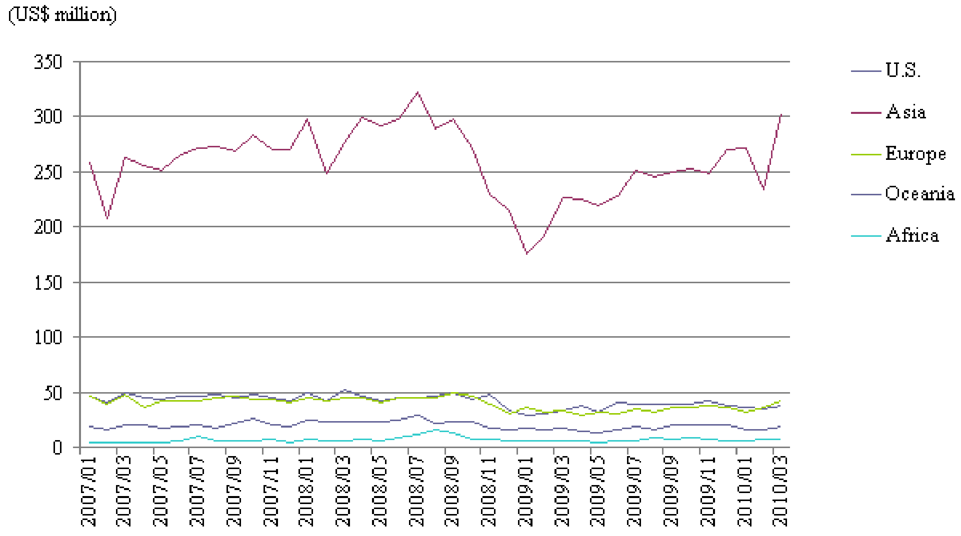


Source: DATA STREAM

With the lead of the government, Singapore has been actively inviting foreign capital. Direct investment stock statistics shows that about a half is that in Singapore (Figure 1-2-4-62).

The Singapore government positioned areas such as biotechnology and biomedical were important and has been conducting various promotion activities. In 2006, the government has established "Biopolice' which is a biomedical research and development center and has been inviting researchers from all over the world by providing research expenses. This type of foreign investment invitation policy has been successful and major foreign pharmaceutical companies have been branching out into Singapore[87]. The export growth by item (see Figure 1-2-4-63) shows the significant growth of exports of medical supplies and medicine and chemical products as well as its major export item of the long-term, electrical appliances, after 2009. Singapore achieved high economic growth of 13.1% in the first quarter of 2010 and the government announced that its major contributors were semiconductor of manufacturing industry and biomedical industry.

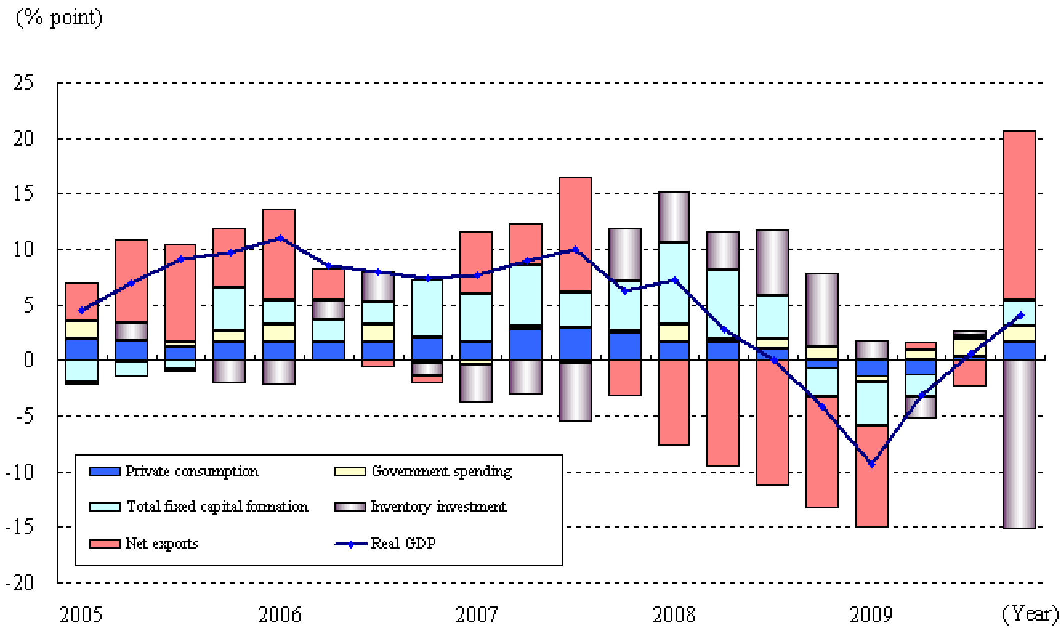
1-2-4-57 Trends in Exports from Singapore to Various Regions



Source: CEIC Database

1-2-4-58 Contributing Elements of Singapore GDP

87 Some Japanese companies including Takeda Pharmaceutical Company Limited also made an advancement to the market. (2008)



Source: CEIC Database

1-2-4-59 Trends in Ranking of Container Handlings by Ports

Trend of port ranking for container handling volume

1988		
Rank	Port	Volume
1	Hong Kong (UK)	403
2	Singapore	338
3	Rotterdam (The Netherlands)	329
4	Kaohsiung (Taiwan)	308
5	Kobe (Japan)	226
6	Pusan (Korea)	207
12	Yokohama (Japan)	145
14	Tokyo (Japan)	140

1998		
Rank	Port	Volume
1	Singapore	1,510
2	Hong Kong (UK)	1,458
3	Kaohsiung (Taiwan)	627
4	Rotterdam (The Netherlands)	601
5	Pusan (Korea)	595
...		
15	Tokyo (Japan)	217
...		
18	Yokohama (Japan)	209
...		
20	Kobe (Japan)	190
...		
28	Nagoya (Japan)	146

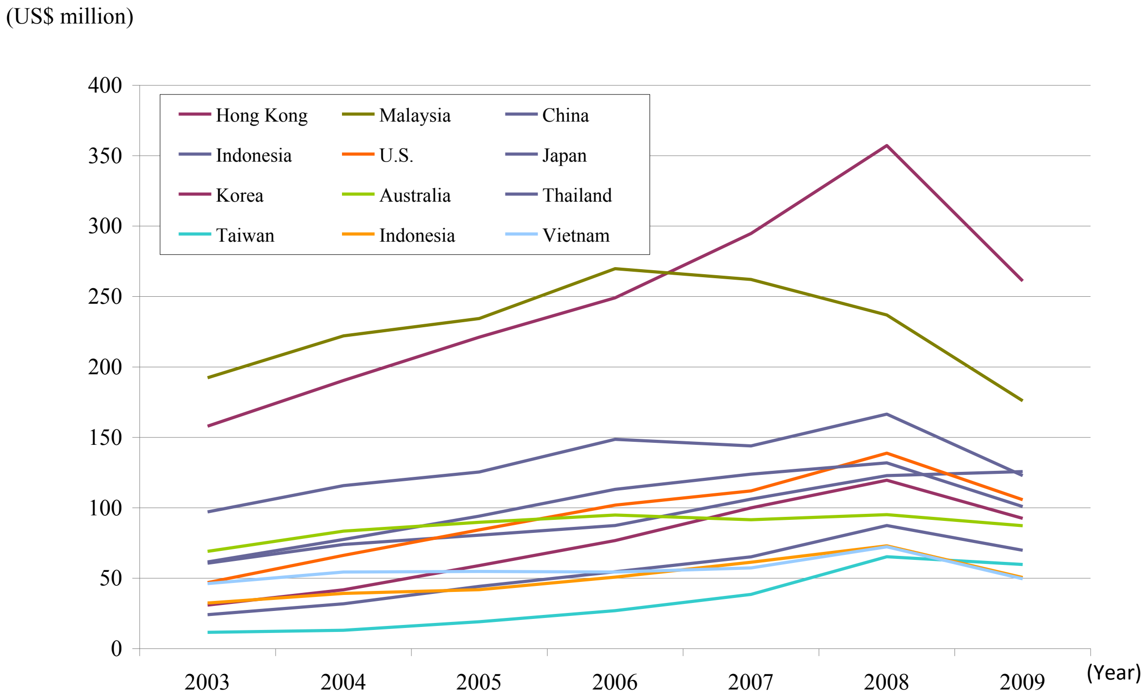
2008		
Rank	Port	Volume
1	Singapore	2,992
2	Shanghai (China)	2,798
3	Hong Kong (China)	2,425
4	Shenzen (China)	2,141
5	Pusan (Korea)	1,343
...		
9	Rotterdam (The Netherlands)	1,080
...		
12	Kaohsiung (Taiwan)	968
...		
24	Tokyo (Japan)	427
...		
29	Yokohama (Japan)	349

Unit: 10,000 TEU(TEU=The number of 20 feet container)

Original source: Informa UK Ltd *"CONTAINERISATION INTERNATIONAL YEAR BOOK 2009"*

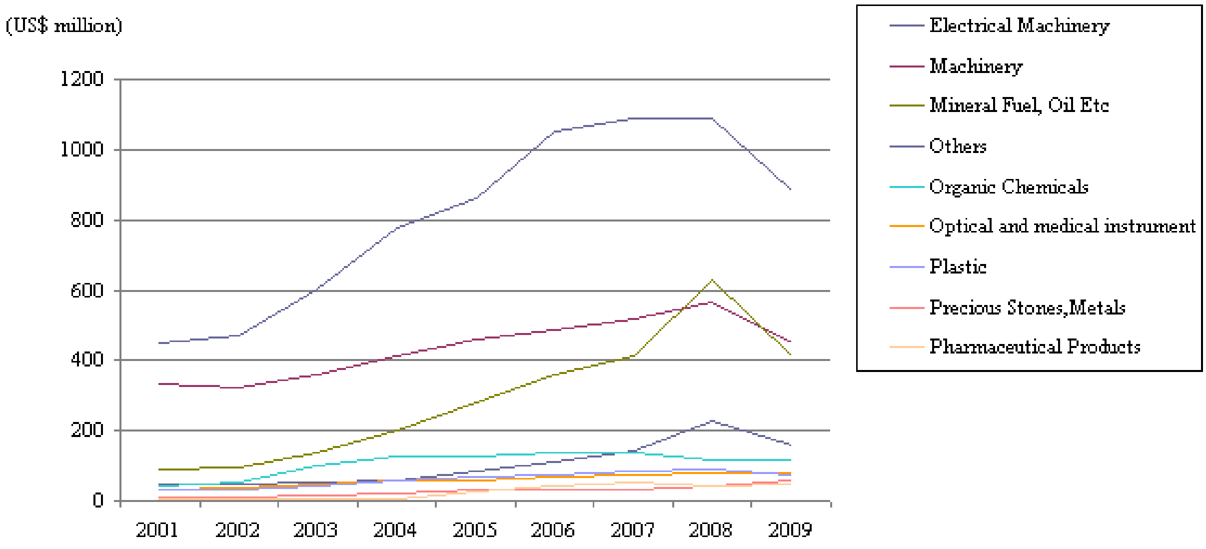
Source: Ministry of Land, Infrastructure, Transport and Tourism *"SEKAINO KOUWANBETSU KONTENA TORIATSUKAI KOSUU RANKINGU (Container handling volume ranking of world port)"*

1-2-4-60 Exports from Singapore (by Country/Region)



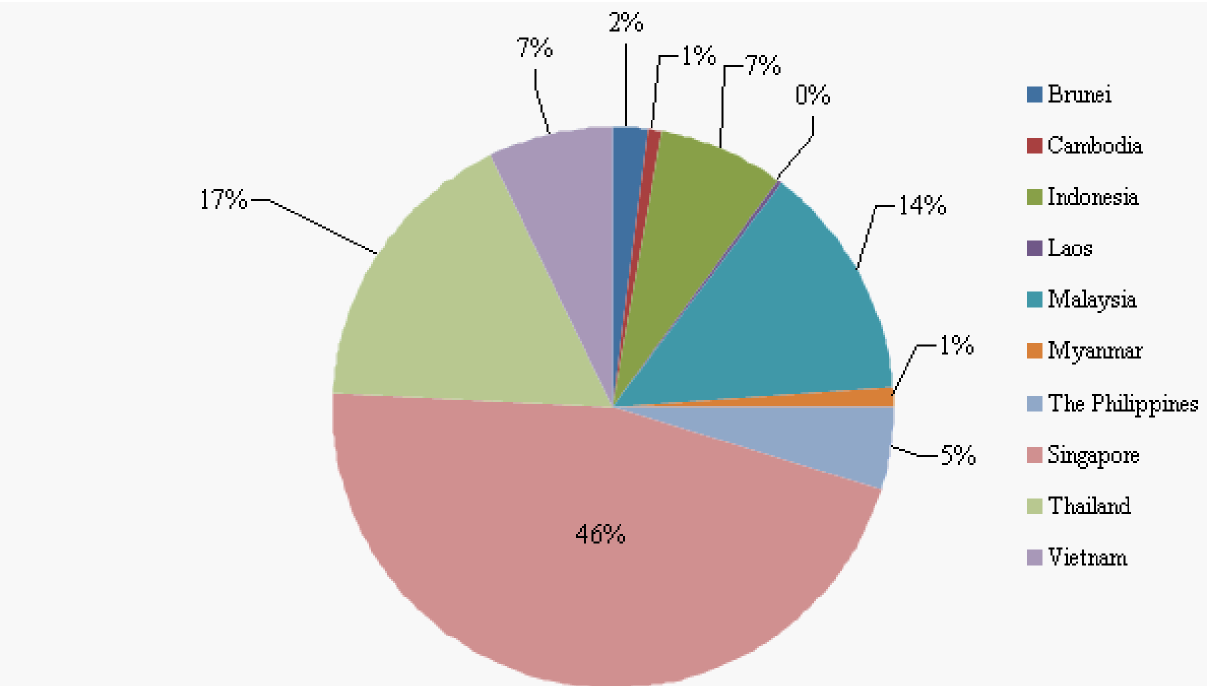
Source: *World Trade Atlas*

1-2-4-61 Exports from Singapore to the World



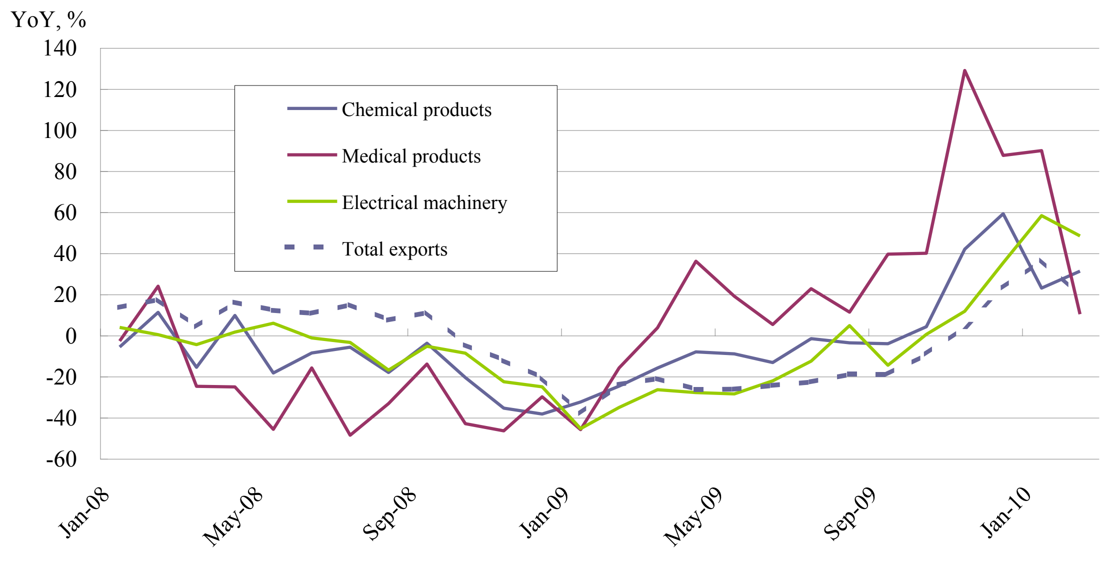
Source: *World Trade Atlas*

1-2-4-62 Direct Investment to ASEAN Nations (by Receiving Country, Sum of 1995-2008)



Source: *ASEAN Statistical Yearbook, 2008*

1-2-4-63Growth in SingaporeExports (Chemicals,Medical, Electrical)



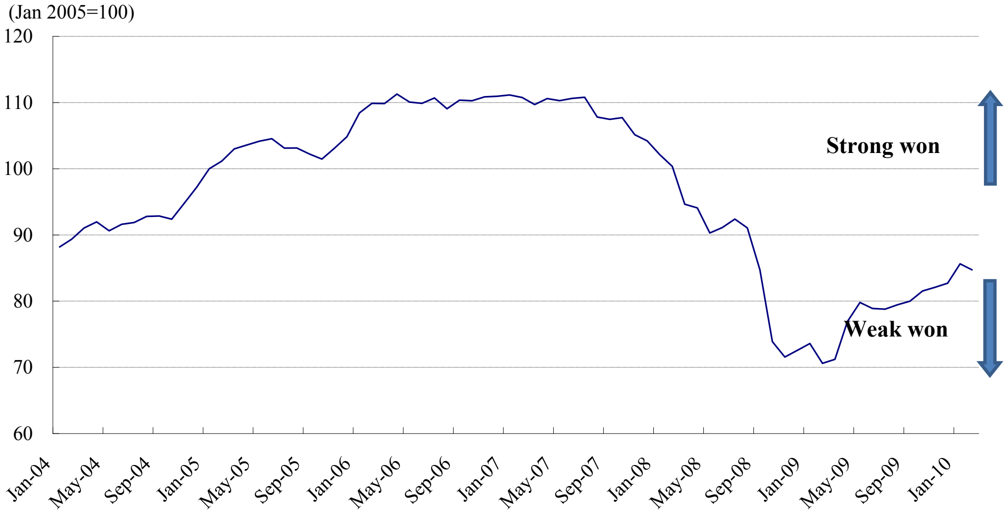
Source: CEIC Database

(C) Korean Economy

Korea holds the population of about 48.75 million people, about $830 billion of GDP and about $17,000 of GDP per capita.

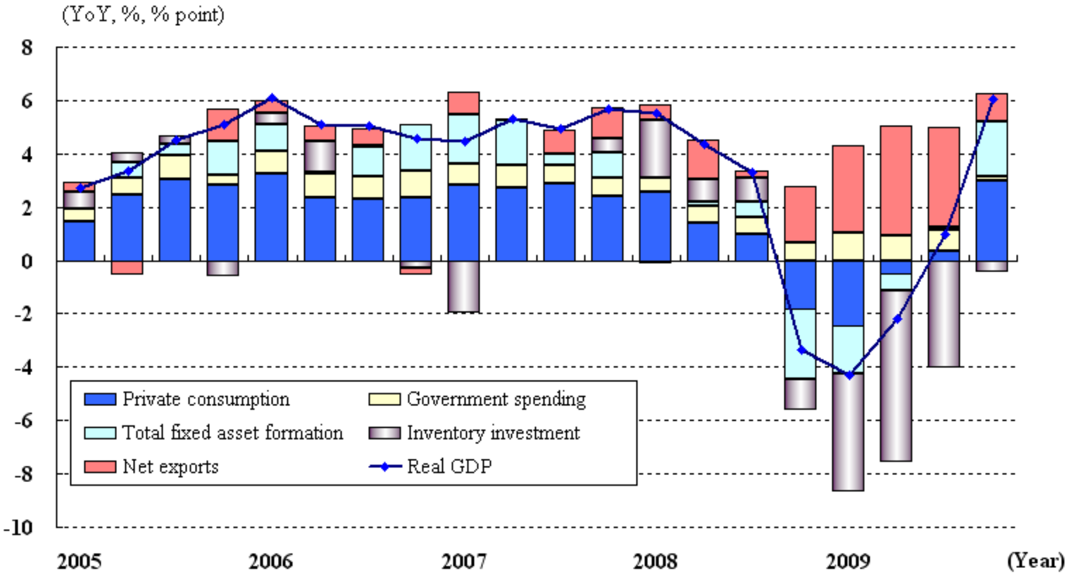
[Korean Economy that quickly recovered after the crisis]

In Korea, the economy quickly sank after the second half of 2008 due to the influence of the financial crisis. In addition to a sharp drop of consumption and investment, significant increase of overseas capital acquisition costs from stock markets and others caused the nosedive of stock prices and accelerated the depreciation of won (see Figure 1-2-4-64). However, after the middle of 2009, while major developed countries were still struggling with negative growth, the Korean economy rebounded being ahead of other countries registering 0.2% of GDP growth in 2009. This is due to the swift recovery of exports mainly to China and the effect from large-scale economic stimulus measures and monetary relaxation policy (see Figure 1-2-4-65).



Source: BIS effective exchange rata indices

1-2-4-65 Trends in Korean GDP and Contributing Elements



Source: CEIC Database

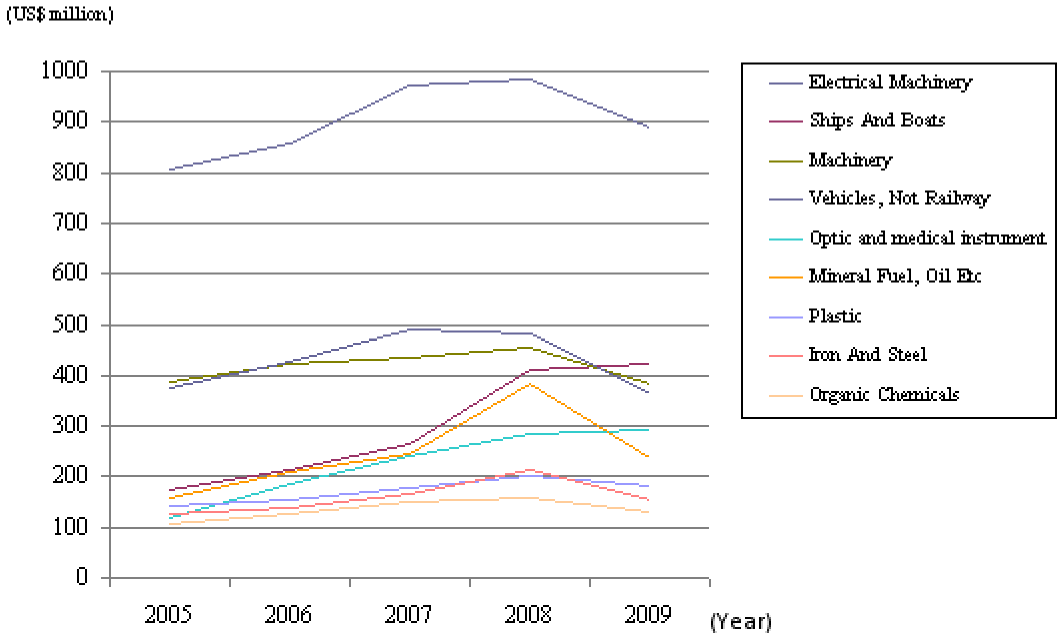
[Trend of Korea's trade]

In 2009, Korea registered its record-high trade surplus to the world, $40.4 billion. This is due to the immediate recovery of the export to emerging countries, mainly China, benefited from "Home Electronics Appliances Subsidy Program in Rural Areas" in China and depreciated won while the import was sluggish because of the drop of oil prices and the stagnant domestic demand affected by the financial crisis. Major export items include electrical appliances that accounts for about quarter of Korea's total exports that registered $363.5 billion in 2009 (see Figure 1-2-4-66). However, Korea holds trade deficits to Japan over the time. Korea's trade deficit to Japan in 2009 recorded $27.7 billion[88] which was the largest trade deficit by country (see Figure 1-2-4-67). About 90% of items exported from Japan to Korea are industrial products including chemical products, machinery devices

88 Korea International Trade Association website

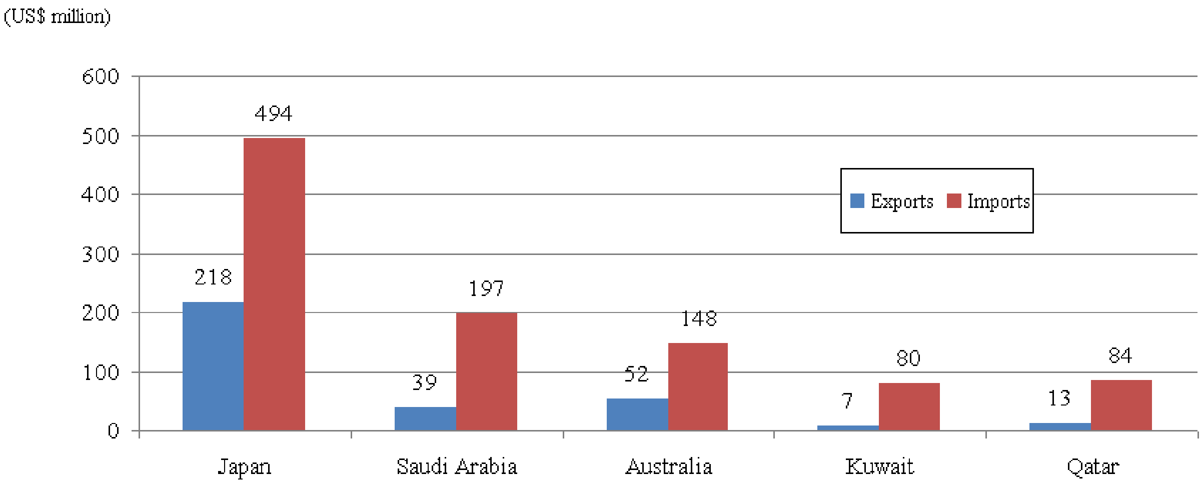
and metal products (see Figure 1-2-4-68).

1-2-4-66 Major Korean Exports



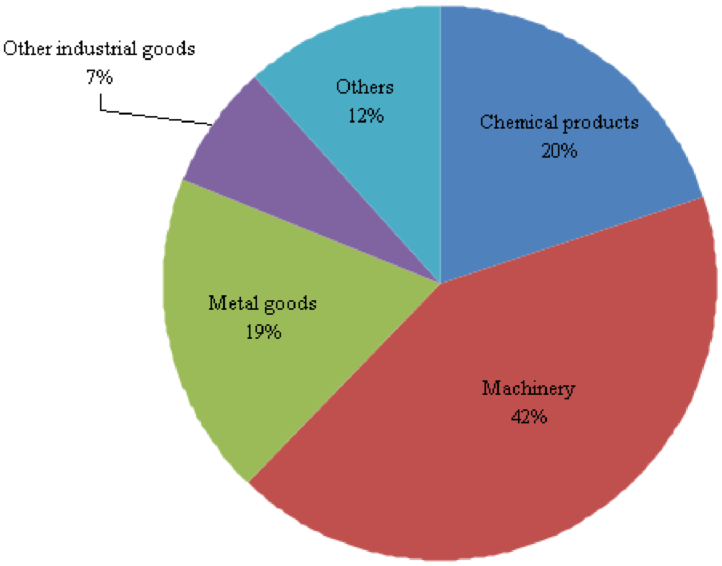
Source: *"World Trade Atlas"*

1-2-4-67 Value of Top 5 Trade Deficits with Korea



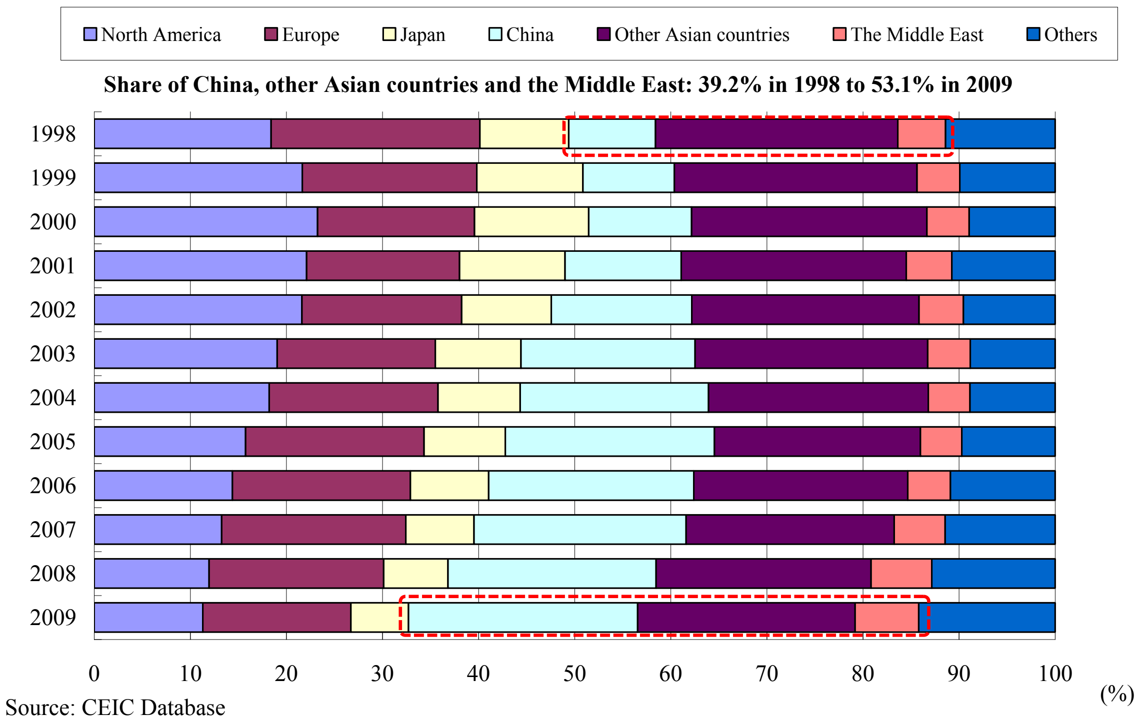
Source: Korea International Trade Association website

1-2-4-68 Major Exports from Japan to Korea



Source: *Japanese Trade Database* JETRO website

1-2-4-69 Destinations of Korean Exports Increasing Among Emerging Nations

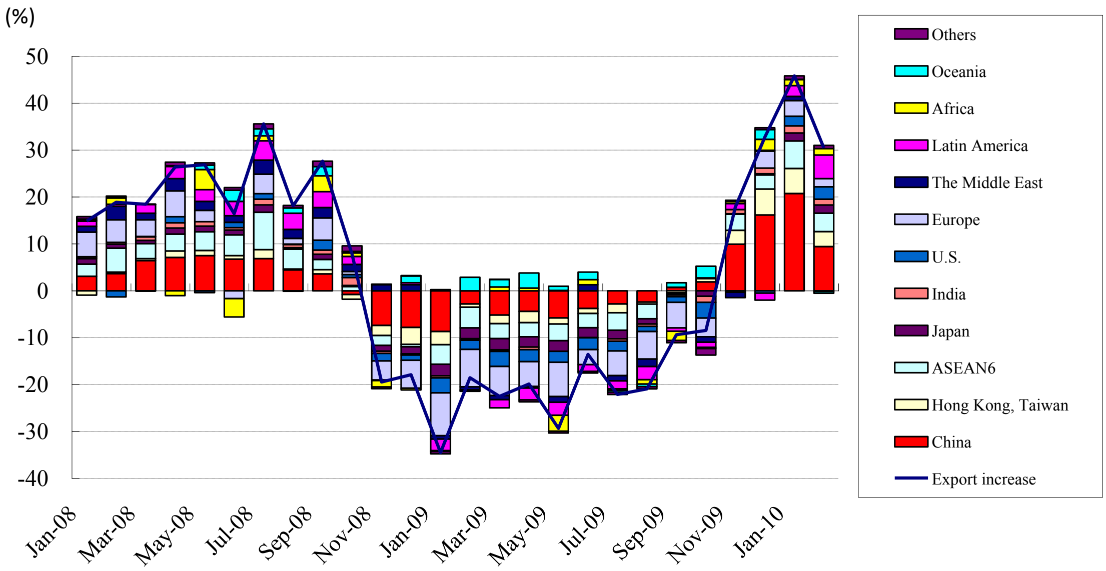


Source: CEIC Database

Recently, the ratio of Korea's exports to Japan, the U.S. and developed European countries is gradually declining (see Figure 1-2-4-69) and the export to emerging countries including China is rapidly uprising (see Figure 1-2-4-70). One of the reasons for such changes is Korean companies' active market development activities in emerging countries that resulted in the notable leap of its share[89] of major products such as home electrical appliances and automobile in the world market.

89 According to an economic review by The Bank of Tokyo-Mitsubishi UFJ Economic Research Office, "KANKOKU KEIZAI PUREZENSUNO KAKUDAINO HAIKEI", about 30% of the world share of flat TV sales accounts for Korean manufactures including 23.2% of Samsung Electronics Co., Ltd. and 10.3% of LG Electronics. (Japanese companies: Sony 15.0%, Panasonic 9.1% and Sharp

1-2-4-70 Trends in Growth in Korean Export Value and Contributions by Country/Region



Source: CEIC Database

8.5%)