5. Economies of the Middle East, Africa, Latin America and Russia

(1) Economies of the Middle East and Africa

The Middle East and Africa are located on a part of the Eurasian continent and the vast African continent and forms an expansive economic zone with population of 1,244.53 million[90] people with nominal GDP of $2,863 billion[91]. The income level in the region varies very much from country to country (see Figure 1-2-5-1). The population increase in the region is high and most of countries maintain a 2-3% annual growth rate.

(A) Overview of macro-economy

The economies in the Middle East and Africa[92] drastically slowed down in 2009 receiving the impact of the global financial crisis, however, it maintained positive growth. Real GDP growth rates in the Middle East and North African countries that had demonstrated over 5% of year-on-year growth from 2003 to 2008 decreased its pace to a 2.4% increase from the previous year due to the drop of oil prices and the plunge of direct investment. This trend was also observed with Sub-Saharan African countries of which real GDP growth rate stayed at 2.1% in 2009. However, this was a steady move while the world economy drastically decelerated. This is partially due to the move by some of the Middle East and African countries that improved their fiscal balance taking advantage of recent resource price surge and implemented drastic economic stimulus measures. The economies in the both regions are projected to recover to a 4% level of year-on-year growth in 2010 (see Figure 1-2-5-2).

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90 2009. Forecasts by the United Nations. The United Nations “World Population Prospects : The 2008 Revision”

91 2009, IMF “World Economic Outlook Database April 2010”

92 IMF data includes the following 20 countries as the Middle East and North African countries:
Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen. It counts 47 countries as Sub-Saharan African countries. This paper uses this definition for all IMF statistics unless there is a note.

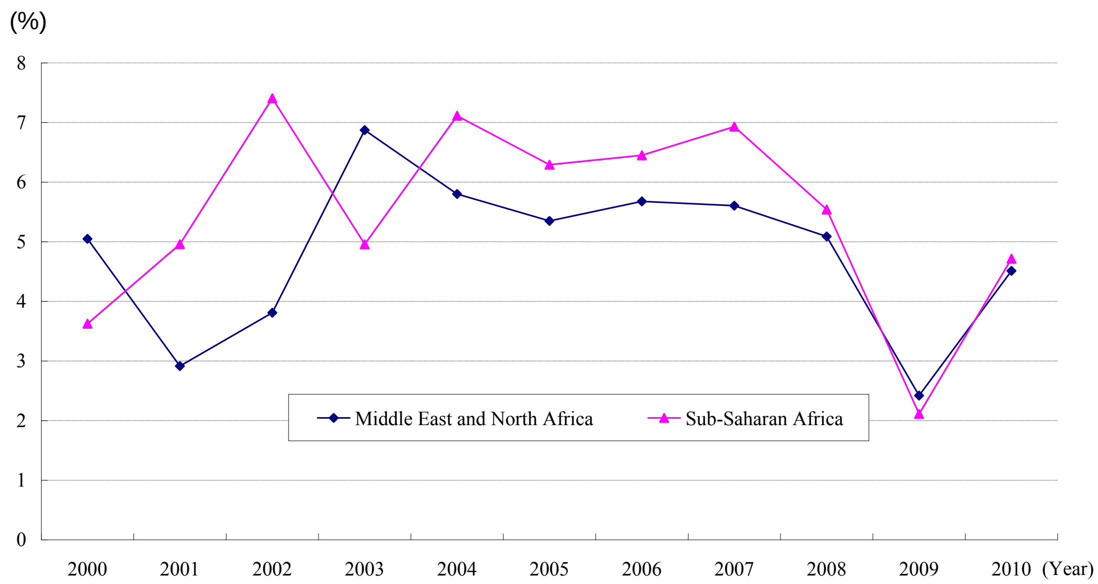
1-2-5-1 Major Economic Indicators of Middle Eastern and African Nations

Country		2009 Nominal GDP (billion dollars)	2009 per capita GDP (dollar)	Per capita ranking (Global)	2010 Population (million)	2050 Population Projection (million)	Population Growth Rate (%)
Middle East Oil Producing Countries	Saudi Arabia	369.7	14,486	42	26.2	43.7	2.61
	UAE	230.0	46,857	8	4.7	8.3	4.24
	Kuwait	111.3	31,482	24	3.1	5.2	3.55
	Qatar	83.9	68,872	3	1.5	2.3	10.45
	Oman	53.4	18,013	37	2.9	4.9	2.13
	Bahrain	20.2	19,455	34	0.8	1.3	2.43
African Countries	South Africa	287.2	5,824	74	50.5	56.8	1.32
	Egypt	188.0	2,450	115	84.5	129.5	2.08
	Nigeria	173.4	1,142	134	158.3	289.1	2.67
	Algeria	140.8	4,027	92	35.4	49.6	1.67
	Morocco	90.8	2,865	107	32.4	42.6	1.30
	Angola	68.8	3,972	93	19.0	42.3	3.22
	Libya	60.4	9,529	54	6.5	9.8	2.27
	Sudan	54.7	1,398	127	43.2	75.9	2.40
	Tunisia	40.2	3,852	96	10.4	12.7	1.04
	Kenya	32.7	912	145	40.9	85.4	2.96
	Ethiopia	32.3	390	173	85.0	173.8	2.93
	Ivory Coast	22.5	1,052	139	21.6	43.4	2.49
	Tanzania	22.3	551	159	45.0	109.5	3.13
	Cameroon	22.2	1,115	135	20.0	36.7	2.58
	Uganda	15.7	474	164	33.8	91.3	3.67
	Ghana	15.5	671	154	24.3	45.2	2.47
	Zambia	13.0	1,086	136	13.3	29.0	2.66
	Senegal	12.7	994	142	12.9	26.1	2.95
	Equatorial Guinea	12.2	9,580	53	0.7	1.4	3.05
	Botswana	11.6	6,407	70	2.0	2.8	1.55

Notes: 1. GDP includes values projected by the IMF.
2. Population projected by the United Nations.
3. Population growth rate reflects average growth rate from 2000 to 2010.

Source: *World Economic Outlook Database April 2010 (IMF)* , *World Population Prospects : The 2008 Revision (UN)*

1-2-5-2 Trends in Real GDP Growth Rates for Middle East and African Nations

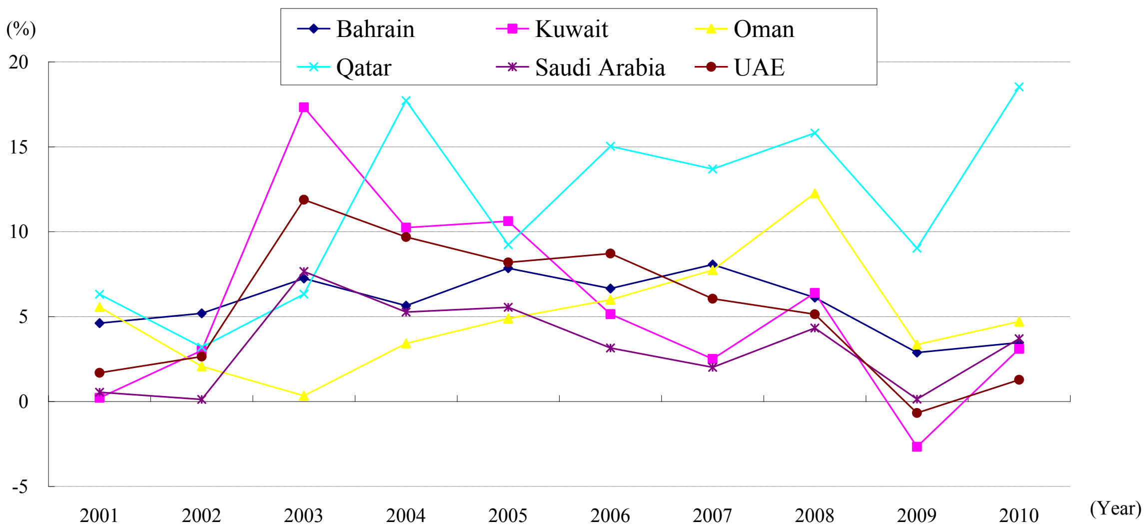


Notes: 2010 based on IMF projections.
Source: World Economic Outlook Database April 2010, (IMF)

(a) Micro-economic trend in the Middle Eastern countries

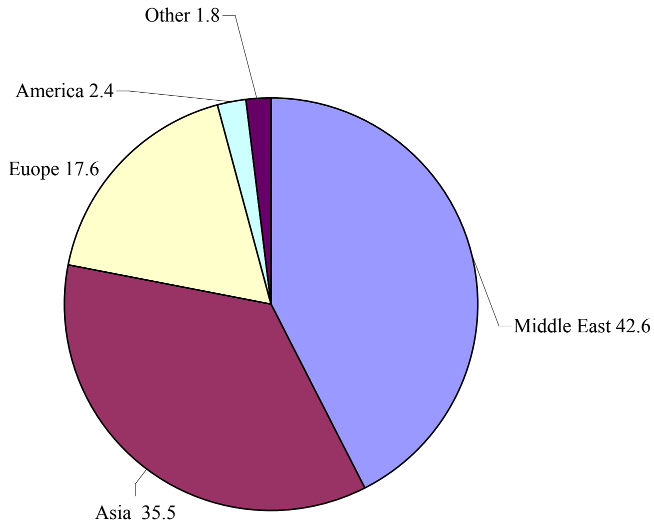
The GDP growth of the Gulf Cooperation Council (GCC) member countries among the Middle Eastern countries, except Qatar of which LNG production was doubled, showed a significant decrease and Kuwait and UAE registered negative growth in 2009 (see Figure 1-2-5-3). The slowdown of economic growth of oil exporting countries reflects the effect from OPEC's price stabilization effort through the reduction of oil production. UAE also received significant influence from the downsized international trade and financial markets and the drop of real estate prices.

Under these circumstances, the Middle Eastern countries implemented various measures against the economic crisis. For example, central banks provided support to financial organizations implementing liquidity supply measures such as the infusion of capital to financial organizations and the assurance of fund supply through loans. In addition, Kuwait, Saudi Arabia and UAE extended guarantee for deposits of commercial banks. Moreover, in the Middle Eastern countries, Sovereign Wealth Funds (SWF) played an important role for the stabilization of economy and financial sector (see Figure 1-2-5-4). The Kuwait Investment Authority (KIA), for example, disposed some of overseas assets and deposited the capital to domestic banks and contributed for the supply of liquidity. Furthermore, Kuwait and Oman utilized SWF and establish funds to invest in stock markets. Moreover, Qatar Investment Authority and KIA worked on the recovery of the market through the acquisition of shares of financial organizations[93].



Notes: 2010 is based on IMF projections.
Source: World Economic Outlook Database, April 2010, (IMF)

93 IMF "Regional Economic Outlook: Middle East and Central Asia, May2009"



Notes: Percentages that make up total operation amount of 380 million dollars at the end of 2009.
Source: Sovereign wealth Funds 2010, (IFSL)

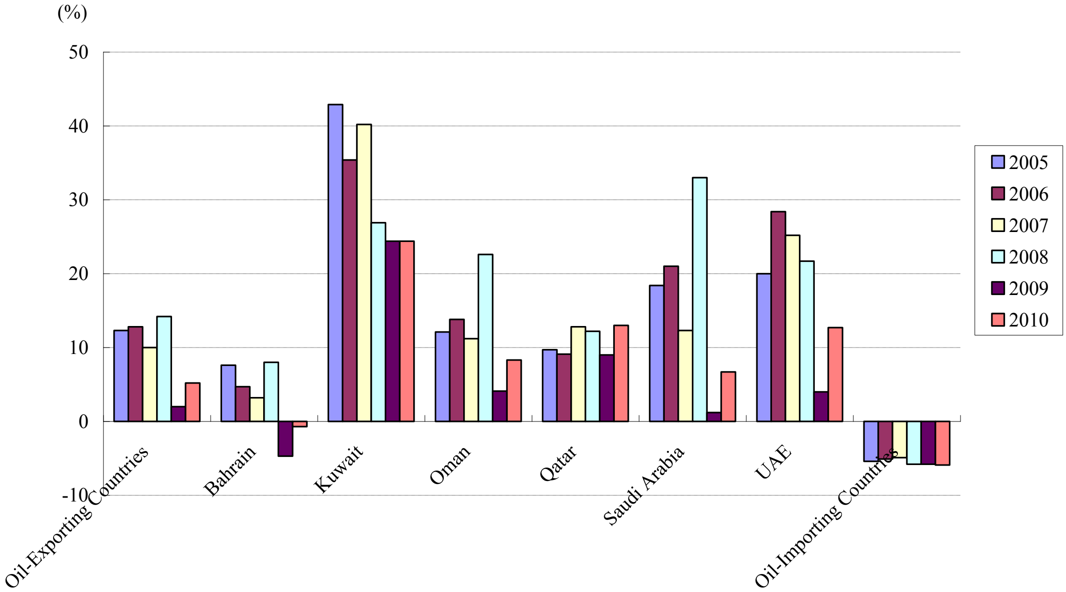
Saudi Arabia and UAE also supported economy increasing public spending. Particularly Saudi Arabia executed the largest economic stimulus measures compared to the programs of other G20 member countries and announced a five-year investment plan that is worth total $400 billion. This was supported by a substantial current account surplus that reflected the surge of oil prices[94]. While their revenue declines due to the slowdown of economy, many oil exporting countries are in the conditions that they can allocate a large amount of public spending as an economic stimulus measure. Even immediately after the financial crisis, they have been promoting large-scale development projects in the area of petrochemistry, housing construction, power supply, water supply (both clear water supply and sewage facilities), transportation and medical services. As of the end of March 2010, the investment projects of total over $2 trillion are under planning or execution and their detail will be mentioned later. It is regarded that this type of fiscal government expenditure strongly supported the economy[95].

Lately, the improvement of international environment for capital acquisition and an increase of primary product prices are contributing for the recovery of economic activities. However, due to the increased fiscal expenditure and the influence from worsened economy, mainly exporting countries would likely shrink their fiscal surplus in 2009 (see Figure 1-2-5-5). While the reserves for public spending rapidly decrease, the economic structure is vulnerable to the fluctuation of the oil prices.

94 IMF "World Economic Outlook, Oct 2009" p.88

95 The ratio of spending by public sector and private sector in development project varies by country, however, the average ratio of public spending of GCC countries is estimated as about 40%. (Hideki Nukaya "SEKAIKINYUUKIKIGONO CHUUTOUWANGAN SHOKOKU – KEIZAITAKAKUKANI MUKETA TORIKUMITO TOUSHINO HENKA(The Middle East after the Global Financial Crisis – Measures for Economic Diversification and Changes in Investment Style) (Institute for International Monetary Affairs "Newsletter" September 25, 2009)

1-2-5-5 Trends in Fiscal Balance (as Prop. Of GDP) of Middle East Nations (by Oil Exporting/Importing Nations)



Notes: 1. "Oil-Exporting Countries" consist of 12 countries - the six GCC states, Algeria, Iran, Iraq, Libya, Sudan, and Yemen. "Oil-Importng Countries" consist of 10 countries - Afghanistan, 、Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Syria, and Tunisia

2. 2009 and 2010 based on IMF projections.

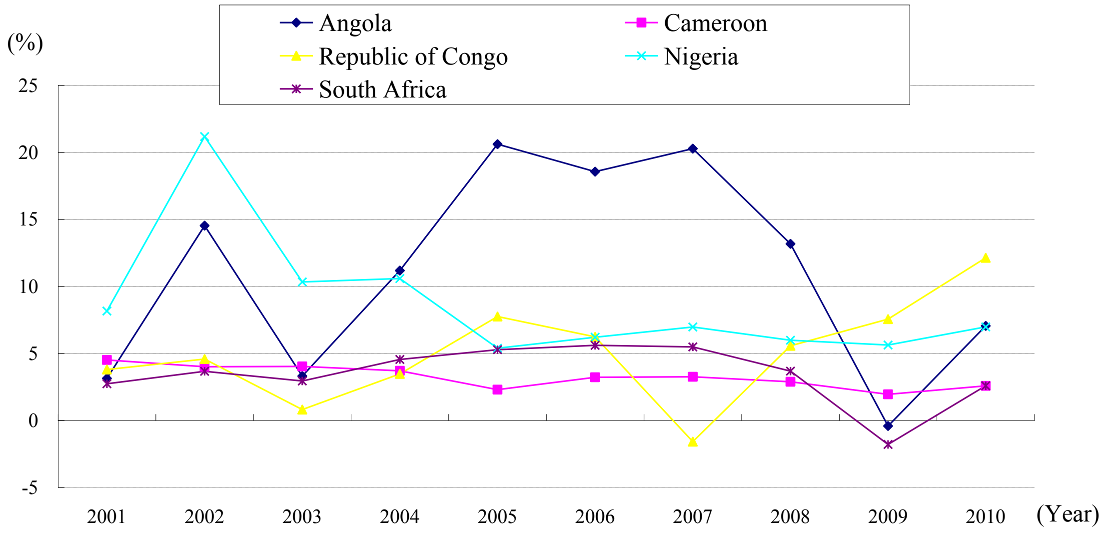
Source: Regional Economic Outlook : Middle East and Central Asia, Oct 2009, (IMF)

(b) Micro-economic trend of African countries

The economy of African countries greatly slowed down affected by the contraction of international trade and the turmoil in financial markets due to the global financial crisis. At first, the crisis gave severe impact on South Africa that is highly integrated into the world financial markets. Afterwards, shrank world demand adversely impacted on oil exporting countries such as Angola and Nigeria, then industrial product exporting countries including Morocco and Tunisia and primary product exporting countries such as Botswana. A sharp drop of real GDP growth rate was recorded in South Africa which registered minus 1.8% growth and Angola also showed a sharp decline in its growth rate (see Figure 1-2-5-6).

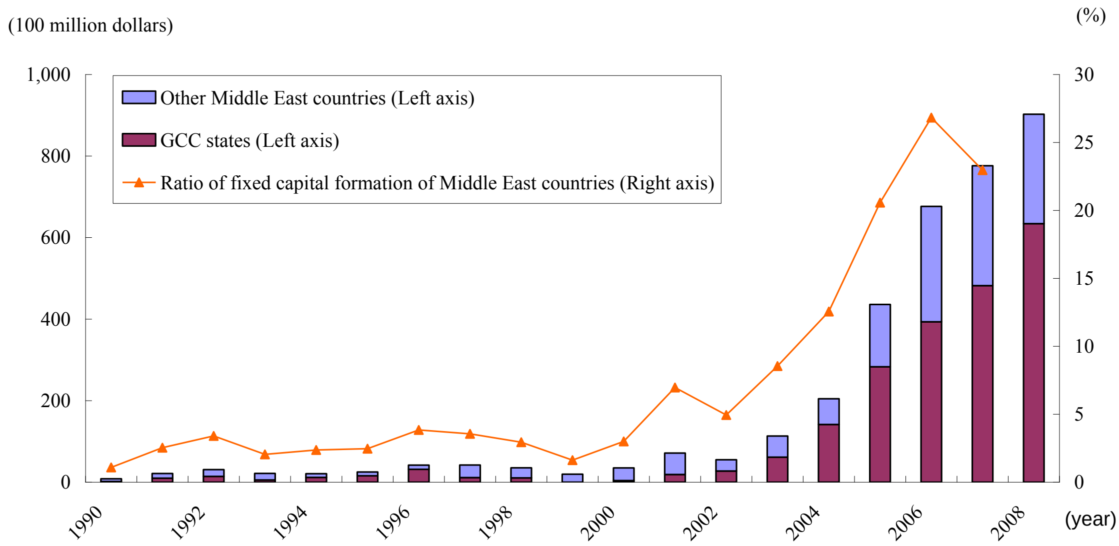
However, most oil exporting countries have been improving their fiscal balance while they achieve high economic growth benefited from the recent crude oil price hike and the expansion of inward direct investment. Therefore, they could utilize “built-in-stabilizer of fiscal policy” that automatically stimulates total demand through social welfare programs and others during recession, and some countries had enough reserves to implement economic stimulus measures[96]. High growth has been strengthening Sub-Saharan African countries providing more resistance against recessions as domestic saving ratio to GDP increased from 19.3% of 2003 to 22.7% of 2008 and the real GDP per capita expanded. Moreover, subsequent improvement of primary product prices is supporting the recovery of economy and the pace of economic recovery in 2010 is expected to be stronger.

[96] IMF “Regional Economic Outlook: Sub-Sahara Africa, Oct2009”



Notes: Angola, Cameroon, Republic of Congo and Nigeria are oil-exporting countries.
2010 is based on IMF projections.
Source: World Economic Outlook Database, April 2010, (IMF)

1-2-5-7 Trends in Direct Investment into Middle East Nations



Notes: 1. "Other Middle East countries" are Iraq, Jordan, Lebanon, Palestinian Territories, Syria, Turkey, and Yemen.
2. "Fixed capital ratios of Middle East countries" consist of the fixed capital formation of direct inward investments made by the GCC and other Middle East countries listed above.
Source: World Investment Report 2009, (UNCTAD)

(B) Foreign direct investment that supports the growth of the Middle East and Africa

(a) Expansion of foreign inward direct investment

Both the Middle East and Africa[97] experienced a rapid expansion of inward direct investment after

[97] UNCTAD "World Investment Report" defines the following countries as "West Asia": Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, Syria, Turkey, United Arab Emirates and Yemen. However, for convenience, this paper calls these countries as "the Middle Eastern countries". Moreover, UNCTAD counts total 55 countries as African countries: 6 countries of North African region, 17 countries of West African region, 10 countries of Central African region, 12 countries of East African region and 10

2003- 2004[98] (see Figure 1-2-5-7 and Figure 1-2-5-8). In both areas, foreign direct investment accounts for some 20-30% of total fixed asset formation and is serving as a driving force of economic development.

One of the reasons for the expansion of inward direct investment is the recent progress in the business environment facilitation in these areas. IFC[99] released "Doing Business" report that summarized the business environment development status of each country. According to the 2010 report, 17 countries among 19 countries in the Middle East and North Africa area of the world major regions had promoted the modification of the business environment such as the reduction of the minimum capital requirement to establish a company, the abolishment of regulations, the simplification of procedure to acquire construction permit, and the unification of contact points to process paperwork for the start of business. Moreover, Rwanda, Liberia, UAE and Egypt were nominated among "Top 10 countries that promoted the business environment development in the world".

(b) Investment trend in the Middle East

(i) Investment overview for major GCC member countries

Inward direct investment in GCC member countries has expanded for six consecutive years by 2008. The expansion of inward investment in 2008 mostly attributes to the increase of investment in Saudi Arabia. The inward direct investment in Saudi Arabia reached $38.22 billion growing 57.2% from the previous year in 2008 and accounted for 60.3% of total investment in GCC member countries (see Figure 1-2-5-9). As for its investment area, petrochemistry and petroleum refinery obtained a large share with total $12.0 billion of investment and the investment in real estate properties amounted $7.9 billion[100].

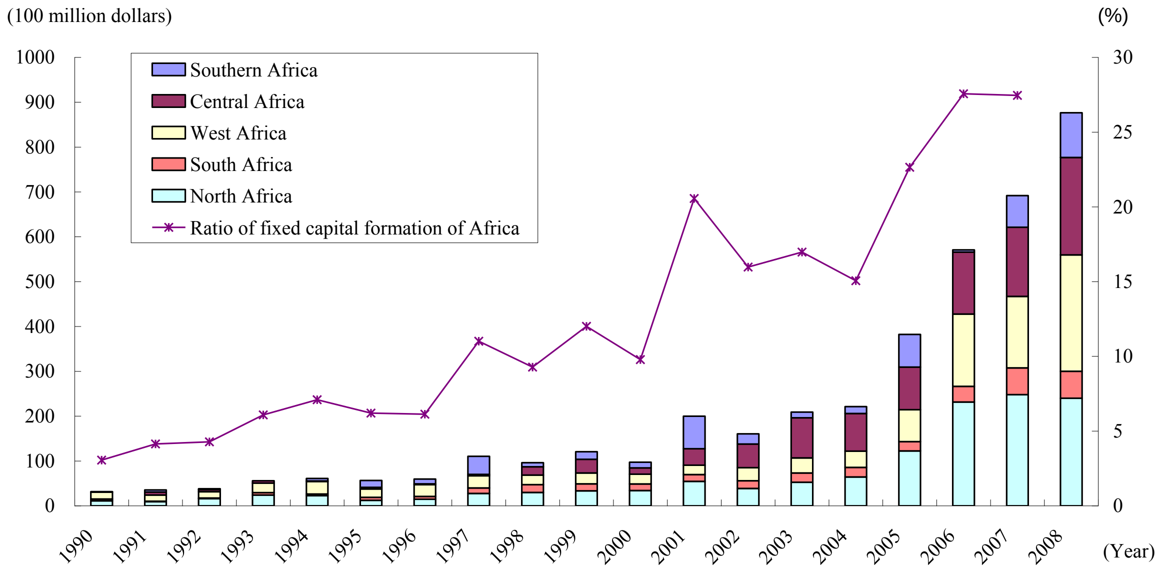
countries of South African region.

98 According to the immediate release by UNCTAD, inward direct investment showed negative growth due to the cancellation and postpone of cross-border M&A affected by the global financial crisis in 2009. (UNCTAD", Global Investment Trends Monitor", No. 2, Geneva: 19 January 2010)

99 International Finance Corporation

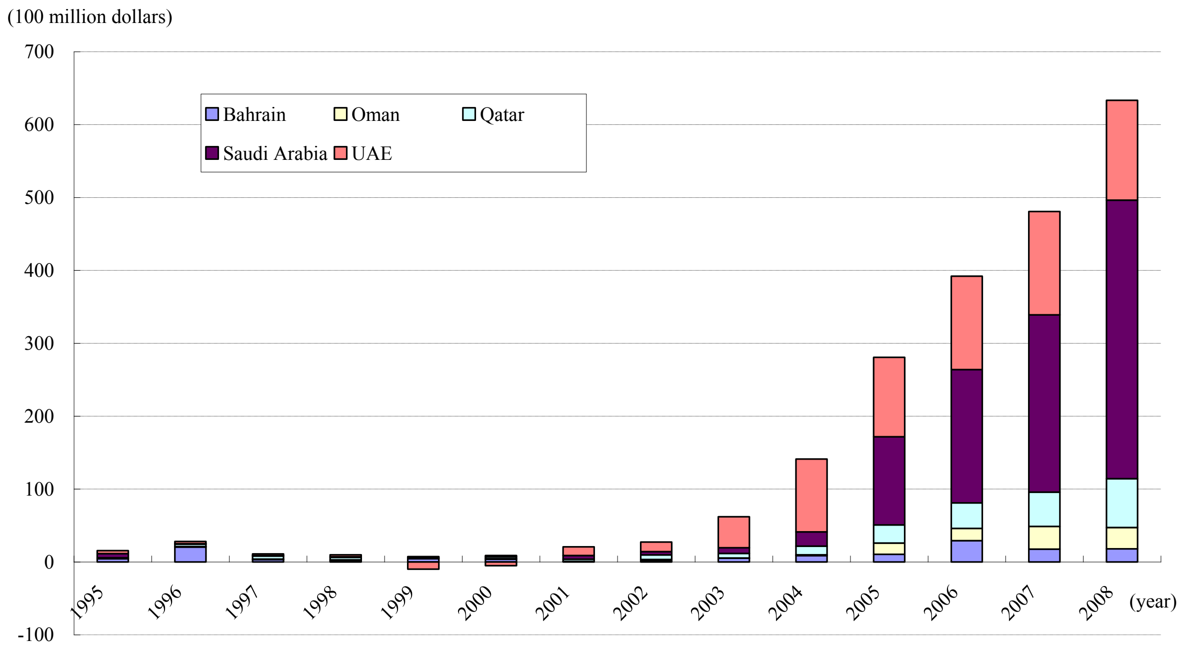
100 UNCTAD "World Investment Report"

1-2-5-8 Trends in Direct Investment into Africa



Notes: "Fixed capital ratios of Africa" consist of the fixed capital formation of direct inward investments made by African countries.
Source:World Investment Report 2009, (UNCTAD)

1-2-5-9 Direct Investment Between GCC Nations (by Country)



Source: World Investment Report 2009, (UNCTAD)

On the other hand, UAE, the second largest recipient of direct investment in the region, experienced a 3.4% decrease from $14.18 billion of 2007 to $13.7 billion of 2008. The global financial crisis has given a negative impact on tourism in Dubai, real estate markets and the financial sector. The direct investment in Qatar, of which amount follows UAE, is mostly resource and infrastructure-related such as LNG, power supply, water supply and communication and amounted some $6.7 billion showing a 42.6% increase from the previous year.

(ii) Project investment status

Direct investment in the Middle East countries kept expanding by September 2008 supported by the increase of crude oil prices and the accompanying robust economic growth. GCC member countries launched large scale investment projects in various areas including petroleum refinery, petrochemistry, power supply, water supply, communication, real estate, tourism and leisure with their affluent funds gained from oil price increase.

However, after the third quarter of 2008, the favorable business cycle took a negative turn due to the declined crude oil prices and the world economy that suddenly cooled down. Large-scale projects for oil, gas and infrastructure were forced to be postponed. According to MEED, a research company in the Middle East, as of March 30, 2010, total $2,272.8 billion of projects are under planning or execution in the GCC member countries. However, the project amount in all 6 GCC member countries started declining from a year before and the total project size in GCC member countries decreased by 14.6% from the previous year. In addition, the total suspended projects amounted $621.6 billion.

Meanwhile, Iraq has demonstrated a significant increase of investment due to the expectation for the post-war recovery while GCC member countries were affected by the global financial crisis (see Table 1-2-5-11).

(c) Direct investment in Africa and its diversification

Direct investment in Africa in 2008 registered $87.65 billion increasing by 26.7% from the previous year due to its progress of business environment development despite the outbreak of the global financial crisis. The breakdown shows that the investment in North African countries accounts for 27.4% while that in 47 Sub-Saharan African constitutes 72.6% of the total. The data by country shows Nigeria was the recipient of largest direct investment of $20.28 billion in 2008 accounting for 23.1% of the total direct investment in African countries.

1-2-5-10 Trends in Value of Cross Border M&A by Middle East Corporations (by Field)

(Unit: 100 million dollars)

	2007	2008	2009
Primary Industry	1.44	0.03	--
Mining, Crude Oil	1.40	--	--
Secondary Industry	24.49	52.24	0.39
Foodstuff, Beverages, Tobacco	5.81	17.20	--
Coke, Petroleum, Nuclear Fuel	--	20.50	--
Chemicals, Chemical Products	7.81	--	0.59
Automobiles, Transportation	--	0.27	--
Tertiary Industry	203.83	94.51	13.52
Electricity, Gas, Waterworks	4.79	0.51	11.45
Export and Import Trade	0.38	18.61	--
Transportation and Communication	96.34	29.00	0.06
Finance	78.03	36.82	0.20
Business Services	8.10	2.06	1.04
Total	229.76	146.77	13.91

Notes: 1. "Middle East Countries" consist of 12 countries - GCC states, Iraq,
Jordan, Lebanon, Palestinian Territories, Syria, Turkey, and
2. Data for 2009 is compiled from the months January through to
Source: *World Investment Report 2009*, (UNCTAD)

1-2-5-11 Value of GCC/Gulf Nation Projects

(Unit: 1 million dollars,%)

Country	Money amount of projects in progress and being planned (as at 30	Money amount of projects in progress and being planned (as at 30 March,	Year-to-Year Comparison	Money amount of stopped projects (30 March, 2010)
Bahrain	675.69	680.49	-0.7%	140.43
Kuwait	2,895.32	3,084.82	-6.1%	248.13
Oman	1,049.34	1,089.43	-3.7%	69.70
Qatar	2,213.98	2,226.69	-0.6%	252.11
Saudi Arabia	6,226.24	6,448.41	-3.4%	715.37
UAE	9,667.64	13,093.93	-26.2%	4,790.00
Total GCC	22,728.21	26,623.77	-14.6%	6,215.74
	0.00	0.00		0.00
Iran	3,354.42	3,064.36	9.5%	48.00
Iraq	2,290.74	1,566.95	46.2%	210.00
Total Gulf Countries	28,352.01	31,255.08	-9.3%	6,473.74

Source: MEED

Angola follows Nigeria recording $15.55 billion of investment which consists of 17.7% of the African total. This means that oil exporting countries took the first and second largest share. Egypt with $9.50 billion of direct investment which accounts for 10.8% of the African total and South Africa with $9.01 billion which consist of 10.3% lined up in the rank.

Many multinational companies as well as African companies invested their gain from commodity market in Africa to expand their businesses by establishing new offices and promoting new investments. In addition, one of the characteristics of recent direct investment in Africa is the progress of diversification of investment target. So far, the main investment targets were commodities and natural resources supported by the hike of the prices. However, the trend of cross-border M&A shows that the direct investment in the manufacturing industry and the service industry is also increasing (see Figure 1-2-5-13).

Among the manufacturing industry, the share for non-metal is large. In Algeria, Nigeria, and South Africa, although the size is small, there were new investments in the area of chemistry, chemical products, textile, clothing and leather products, automobile and other transport machinery[101]. In the service industry, Industrial and Commercial Bank of China has invested $5.6 billion to acquire 20% of shares of the Standard Bank of South Africa and this investment significantly increased direct investment in the financial sector. Furthermore, Vodafone Group Plc of the U.K. purchased 70% of stocks of Ghana Telecommunications Company Limited with $900 million (see Table 1-2-5-14).

Inward direct investment in African countries is small amounting $9.31 billion in 2008, however, there are investments conducted by African companies in the region. For example, Dangote Group, one of Nigeria's major companies, has invested $380 million in Sephaku Cement in South Africa and acquired some of its shares. Dangote Group is a conglomerate that operates in various areas including cement, sugar-refining, salt manufacture, flour milling, port services and logistics and real estate. Furthermore, Altech Stream Holdings purchased 51% of shares of Infocom, an Internet service provider in Uganda.

1-2-5-12 Examples of Delayed Projects in GCC Nations

Field	Country	Investor	Amount
Aluminum refinery	Saudi Arabia	Rio Tinto Alacan (Canada) / Maaden (Saudi Arabia)	10 billion dollars
Oil refinery	Saudi Arabia	Saudi Aramco (Saudi Arabia) / ConocoPhillips (U.S.A)	10 billion dollars
Oil refinery	Saudi Arabia	Saudi Aramco (Saudi Arabia) / Total (France)	10 billion dollars
Waterworks and Electricity	Saudi Arabia	Sumitomo (Japan) / Malakoff (Malaysia) / AI Jomaih (Saudi Arab	5.5 billion dollars
Power generation and Desalinatio	UAE	ADWEA (UAE) (60%) / GDF Suez (France)(40%)	2 billion dollars
Electricity and Waterworks	Bahrain	Gulf Investment Corporation (Kuwait) / GDF Suez (France)	2.2 billion dollars

Source: *World Investment Report 2009*, (UNCTAD)

(C) Investment environment of the Middle East and Africa and its business operation issues

(a) High trade costs

Trading barrier generally indicates high tariff but complicated process to arrange trade is also a part of trading costs. Related to this issue, UNCTAD summarized the number of documents required for trade and their standard processing period by major country and region in the world. It clearly shows the high costs in Sub-Saharan African region.

[101] UNCTAD, "World Investment Report 2009"

1-2-5-15 Procedures, Time and Costs Involved in Trade (2009)

	Export			Import		
	Required Number of Documents	Required Number of Days	Cost per Container (dollars)	Required Number of Documents	Required Number of Days	Cost per Container (dollars)
OECD Member Countries	4.5	10.7	1,069.10	5.1	11.4	1,132.70
East Asia and Pacific	6.7	23.2	902.3	7.1	24.5	948.5
Central and South America	6.9	19.7	1,229.80	7.4	22.3	1,384.30
East Europe and Central	7.1	29.7	1,649.10	8.3	31.7	1,822.20
Middle East and North	6.5	23.3	1,024.40	7.6	26.7	1,204.80
Sub-Saharan Africa	7.8	34.7	1,878.80	8.8	41.1	2,278.70

Source: *Economic Development in Africa- Report 2009* , (UNCTAD)

For example, the number of documents required for export is average 4.5 kinds of document in OECD member countries versus 7.8 kinds in Sub-Saharan African countries. Sub-Saharan African countries demands more kinds of document to be prepared and submitted compared to developed countries. The number of days required for export is average 10.7 days in developed countries versus 34.7 days in Sub-Saharan African countries. Export costs per container are $1,878.8 which is 1.8 times larger than that of developed countries.

On the other hand, the data of the Middle East and North Africa region is about the same as that of East Asia, Central and Eastern Europe. The export costs per container in the Middle East and North Africa are lower the average costs of OECD member countries (see Table 1-2-5-15).

(b) Obstacles for local operations

Many institutions release country rankings regarding obstacles for business operations measuring various factors including political stability, corruption, infrastructure, finance, procedure to start a business, employment and education standard using indexes and totaling the points[102].

1-2-5-14 Direct Investments into Africa (Top 10 as of 2008)

Rank	Acquisition Amount (100 million dollar)	Bought-out Company		Field	Acquiring Company		株式取得
		Company	Country		Company	国	割合（%）
1	150.18	OCI Cement Group	Egypt	Cement	Lafarge SA	France	100
2	56.17	Standard Bank Group Ltd	South Africa	Finance	ICBC	China	20
3	22.00	Devon Energy Corp	Equatorial Guinea	Crude Oil and Natural Gas	Undisclosed	Equatorial Guinea	100
4	9.00	Ghana Telecommunications Co Ltd	Ghana	Wireless Telephone	Vodafone Group PLC	U.K.	70
5	7.32	DRC Resources Holdings Ltd	Republic of Congo	Mixed Metal	Central African Mining & Expl	U.K.	50
6	7.00	Alstom SA (Pty) Ltd	South Africa	Electricity and Distribution of Electricity	投資家グループ	U.K.	100
7	6.70	Egyptian Container Handling Co	Egypt	Maritime Cargo Handling	非公開	UAE	90
8	6.26	OML 125	Nigeria	Crude Oil and Natural Gas	Oando PLC	Nigeria	50
9	5.13	Lafarge Titan Egypt	Egypt	Cement	Titan Cement Co SA	Greece	50
10	4.75	Banco de Fomento Angola	Angola	Finance	Unitel SA	Angola	50

Notes: Covers acquisitions of stocks of more than 10%. When both the acquiring and acquired companies are from the same country, the

Source: *cross-border M&A database* , (UNCTAD)

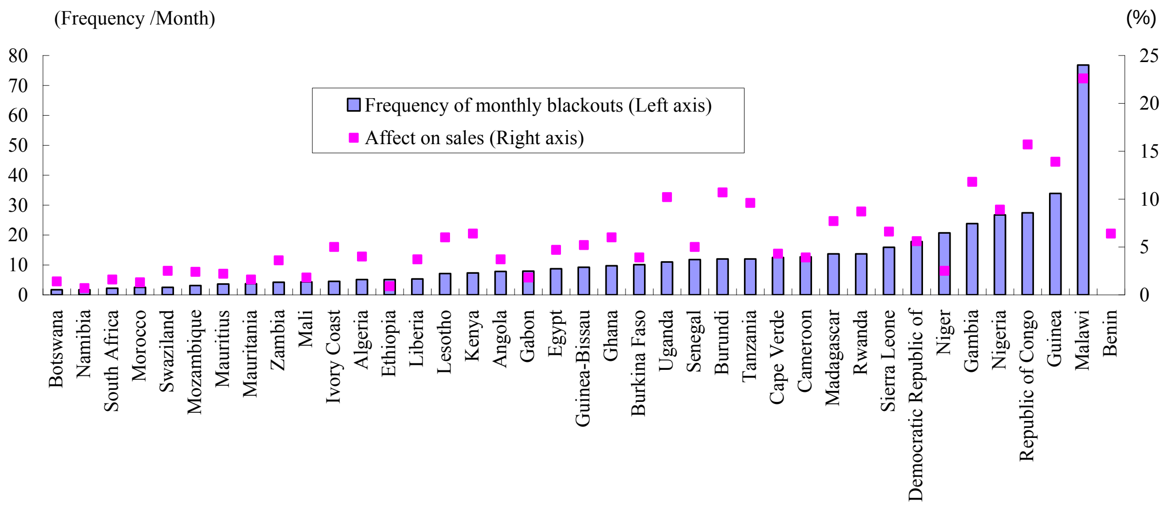
[102] For example, there are Governance Matters" by World Bank, "Corruption Perception Index" by Transparency International and "Doing Business" by IFC.

1-2-5-15 Procedures, Time and Costs Involved in Trade (2009)

	Export			Import		
	Required Number of Documents	Required Number of Days	Cost per Container (dollars)	Required Number of Documents	Required Number of Days	Cost per Container (dollars)
OECD Member Countries	4.5	10.7	1,069.10	5.1	11.4	1,132.70
East Asia and Pacific	6.7	23.2	902.3	7.1	24.5	948.5
Central and South America	6.9	19.7	1,229.80	7.4	22.3	1,384.30
East Europe and Central	7.1	29.7	1,649.10	8.3	31.7	1,822.20
Middle East and North	6.5	23.3	1,024.40	7.6	26.7	1,204.80
Sub-Saharan Africa	7.8	34.7	1,878.80	8.8	41.1	2,278.70

Source: *Economic Development in Africa- Report 2009* , (UNCTAD)

1-2-5-16 Frequency and Effect on Sales of Blackouts in African Nations



Notes: "Affect on sales" reflects the ratio of amount of loss from sales amount due to blackouts.。
Source: The Africa Competitiveness Report 2009, (World Economic Forum)

For example, the evaluation of infrastructure often points out the power shortage in African countries as an obstacle for operations. Many countries experience about 10 times of power failures a month and some countries have 20 to 30 times of them a month (see Figure 1-2-5-16). The power failure causes losses that are equivalent to 4-5% of sales although it varies from country to country.

(c) Degree of corruption

Corruption Perception Index that is annually announced by Transparency International, a NGO that internationally combats corruption, shows that the degree of political corruption varies by country and cannot be generalized by region such as “the Middle East” and “Africa”.

In 2009, only 9 countries in the Middle East and Africa were ranked within top 50 countries with least corruption among 180 surveyed countries. Contrarily, there are 40 countries that were ranked as 100 or within subsequent orders.

On the other hand, Qatar, which is the top country in the Middle East and North African region in the least corrupted country ranking, is 22nd in the world and competitive with Japan and the U.S. Some Sub-Saharan African countries are ranked better compared to China, India and Brazil that are gaining attention as emerging countries (see Table 1-2-5-17).

1-2-5-17 Ranking of Recognition of Political Corruption

	Overall Ranking	Regional Ranking	Country	CPI Score
Middle East and North Africa	22	1	Qatar	7.0
	30	2	UAE	6.5
	32	3	Israel	6.1
	39	4	Oman	5.5
	46	5	Lebanon	5.1
	49	6	Jordan	5.0
	63	7	Saudi Arabia	4.3
	65	8	Tunisia	4.2
	66	9	Kuwait	4.1
	89	10	Morocco	3.3
Sub-Saharan Africa	37	1	Botswana	5.6
	42	2	Mauritius	5.4
	46	3	Cape Verde	5.1
	54	4	Seychelles	4.8
	55	5	South Africa	4.7
	56	6	Namibia	4.5
	69	7	Ghana	3.9
	79	8	Burkina Faso	3.6
	79	9	Swaziland	3.6
	89	10	Lesotho	3.3
	89	10	Malawi	3.3
	89	10	Rwanda	3.3
Asia Pacific	1	1	New Zealand	9.4
	3	2	Singapore	9.2
	17	5	Japan	7.7
	39	7	Korea	5.5
	79	13	China	3.6
	84	14	India	3.4
Americas	8	1	Canada	8.7
	19	2	U.S.A.	7.5
	75	12	Brazil	3.7

Notes: The higher the CPI score, the lower the corruption. Maximum score is 10.

Source: Corruption Perception Index 2009, (Transparency International)

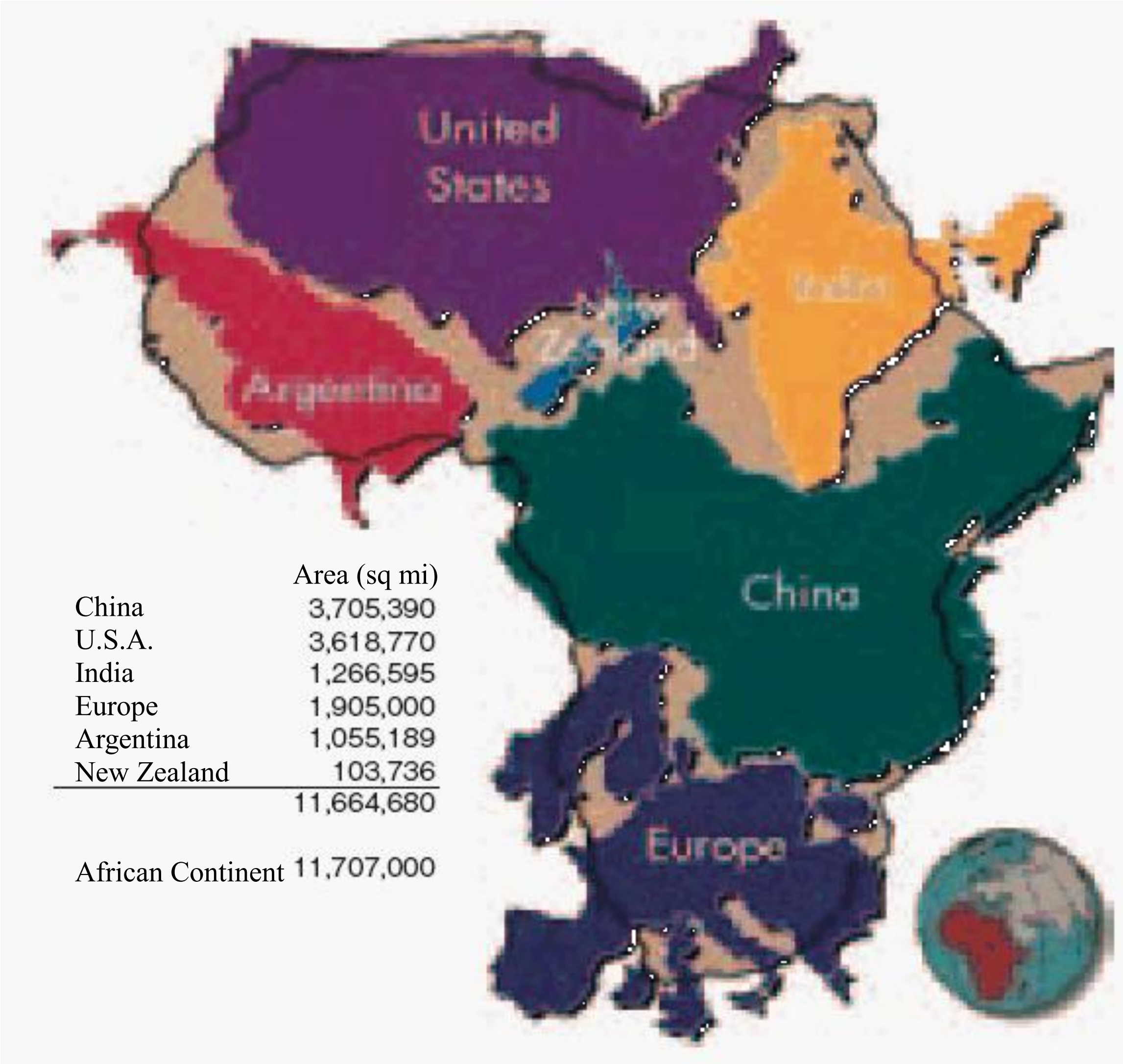
(D) Market potential of the Middle East and Africa

(a) Market potential of the Middle East and Africa: the size of economy and income level

The continent of Africa is vast. The area of Africa constitute about 20% of whole world and larger than the total area of China, the U.S., India, Europe, Argentina, and New Zealand (see Figure 1-2-5-18).

According to the United Nations, the population of Africa is about 1 billion people as of 2010 and projected to exceed 20% of the world population superseding that of East Asia by 2050 (see Figure 1-2-5-19). Besides its large total population size, Africa holds a high ratio of younger people and the group of people under 20 years old accounts for 50.7% of the total population (see Figure 1-2-5-20). Even compared to the demography of China (see Figure 1-2-5-21), India (see Figure 1-2-5-22), South East Asia (see Figure 1-2-5-23) and Latin America (see Figure 1-2-5-24), Africa has a structure that has a larger population for younger age group. As for the income level, Africa's national income constitutes a large share of the world total. In the future when the young people play the main role for the consumption in Africa, there is a possibility that consumption will increase further.

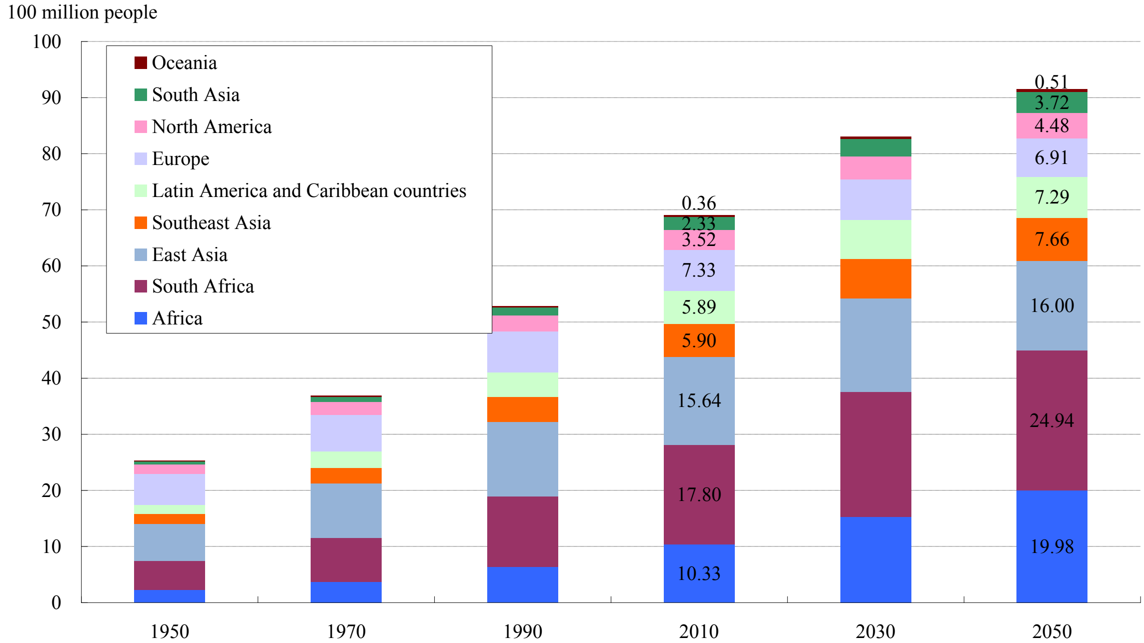
1-2-5-18 Comparison of the Areas of the African Continent and other Countries



Source: Africa Interactive Maps, 1998, (Bediako Lamose-Smith, W and Joseph School)

http://www.africamaps.com.afim_frame.html

1-2-5-19 Trends in World Population by Region



Notes: Medium estimates for regional population projections .
Source: World Population Prospects , (U.N.)

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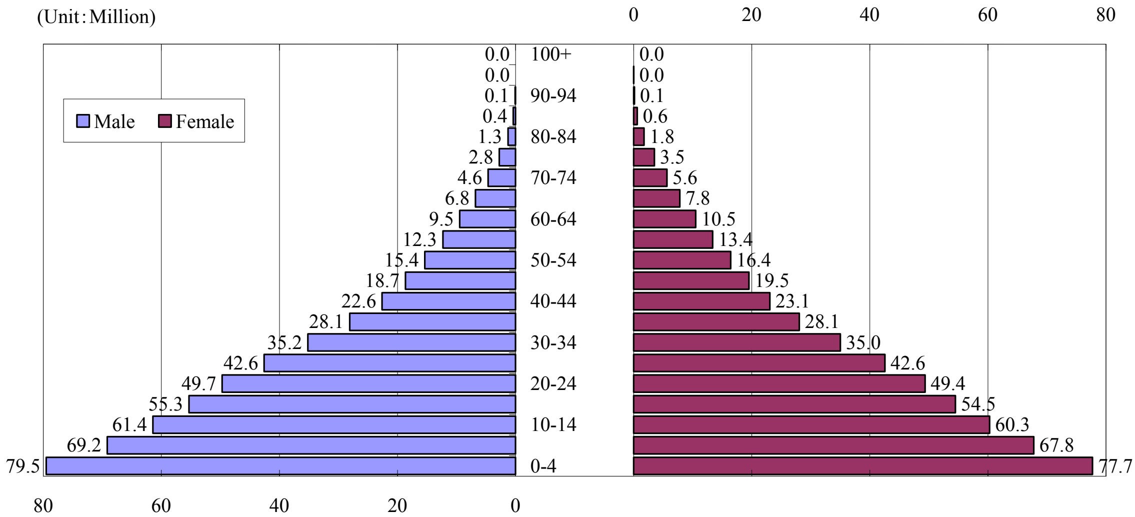
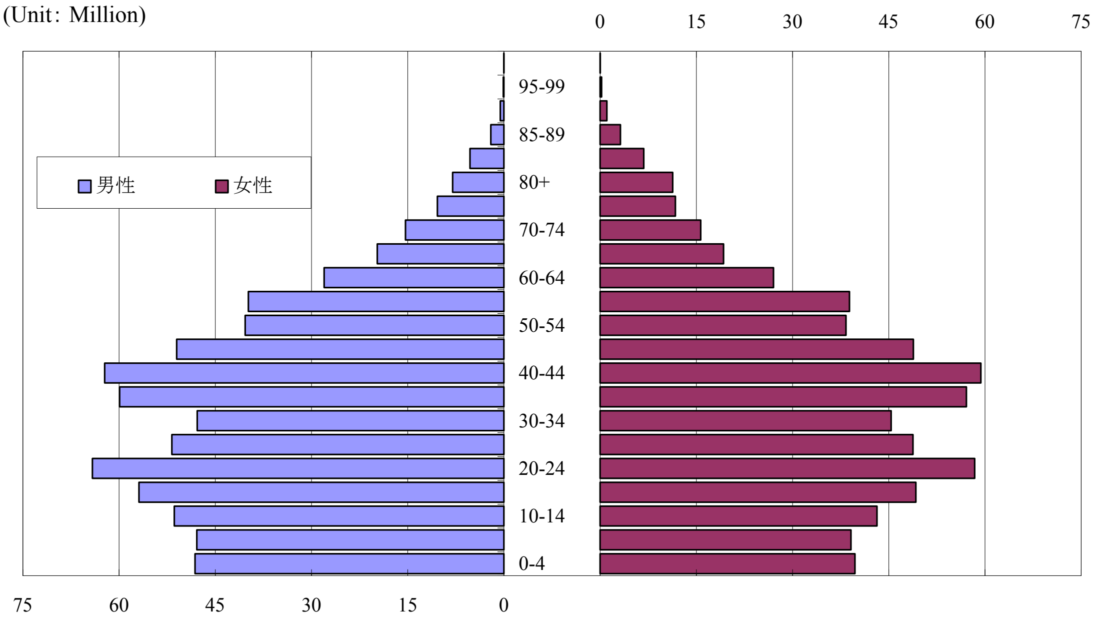


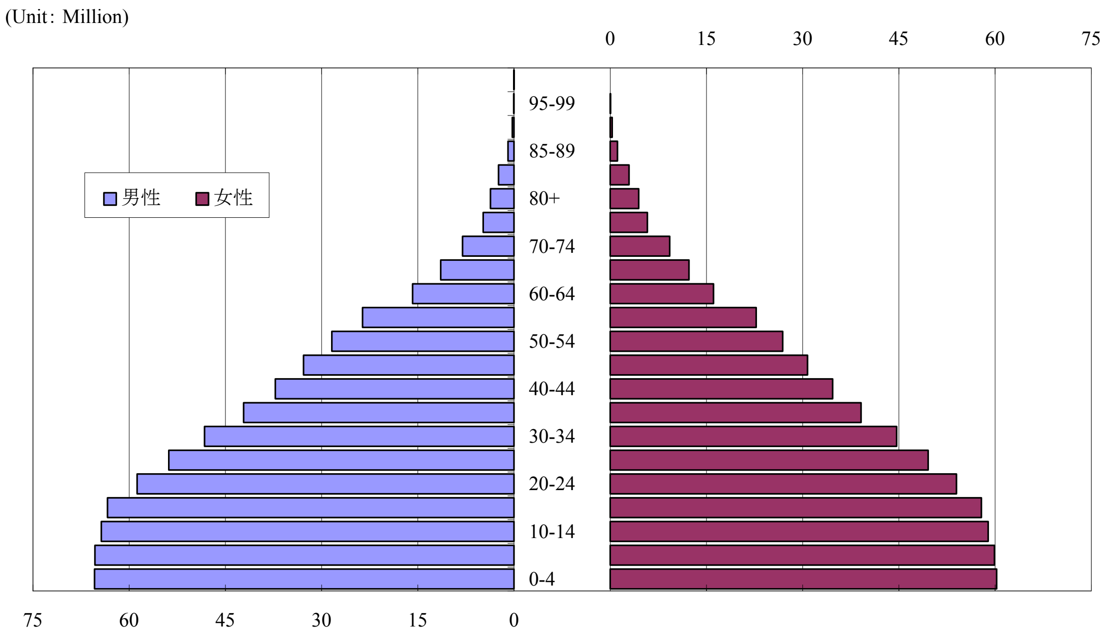
Notes: U.N. population projections.
Source: World Population Prospects : The 2008 Revision, (U.N.)

1-2-5-21 Age Distribution of Chinese Population (2010)



Notes: U.N. population projections.
Source: World Population Prospects: The 2008 Revision, (U.N.)

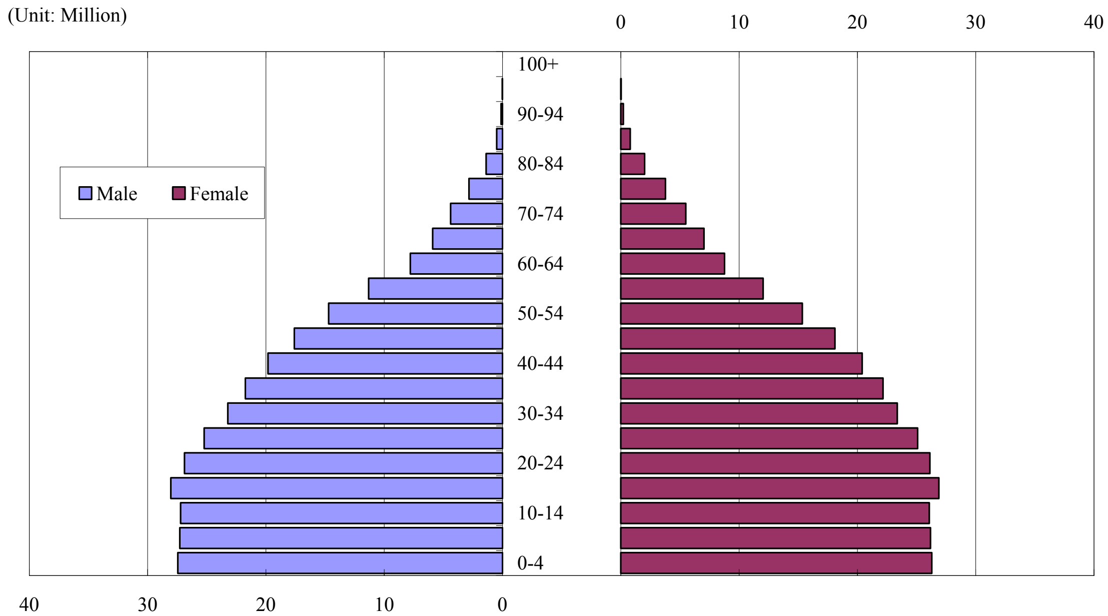
1-2-5-22 Age Distribution of Indian Population (2010)



Notes: U.N. population projections.
Source: World Population Prospects: The 2008 Revision, (U.N.)

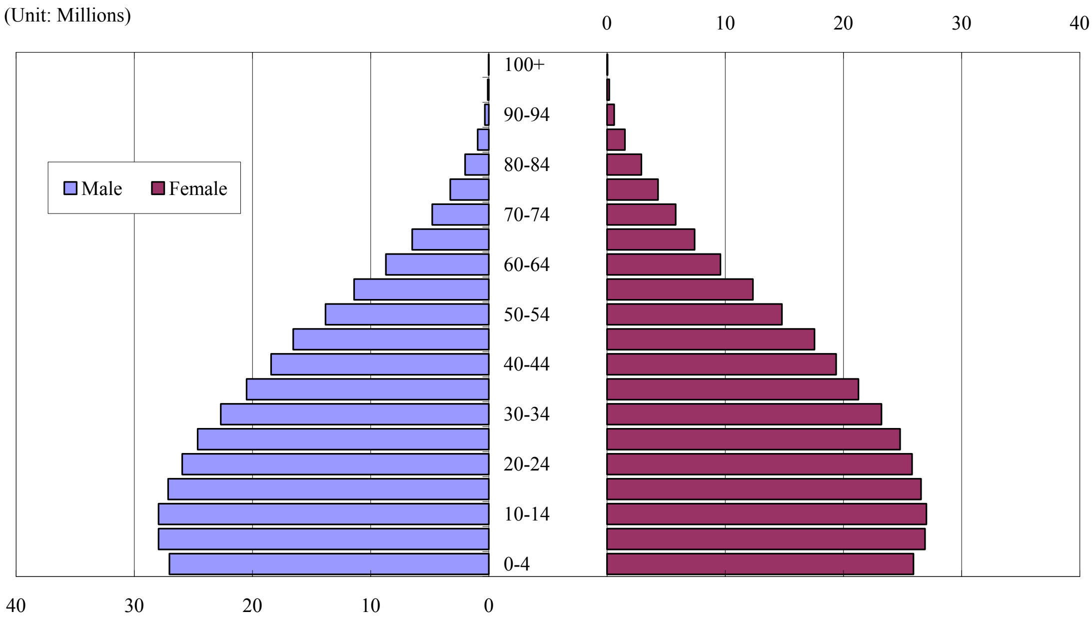
According to IMF's data for the income level of the Middle East and Africa as measured by per-capita GDP at purchasing power parity (PPP), the number for the Middle East and North Africa was $4,112 in 1990, increased to $5,747 in 2000 and projected to exceed $10,000 in 2015. The data for Sub-Saharan countries was $1,185 in 1990 and estimated to grow about 2.4 times to $2,842 in 2015 (see Figure 1-2-5-25). In African countries, gross national income per capita exceeds $10,000 in Equatorial Guinea, Libya and Seychelles achieving higher income per capita compared to that in BRICs (Brazil, Russia, India and China). Furthermore, 11 African countries hold higher gross national income per capita than that of China. The comparison with the income of India shows 21 African countries have higher income levels (see Table 1-2-5-26). While there are most seriously affected countries in Africa, there are also many countries with higher income level than that of China or India.

1-2-5-23 Age Distribution of South-East Asian Population (2010)



Notes: U.N. population projections.
Southeast Asia consists of ASEAN 10 and East Timor.
Source: World Population Prospects: The 2008 Revision, (U.N.)

1-2-5-24 Age Distribution of Central and South America, and Caribbean Population (2010)

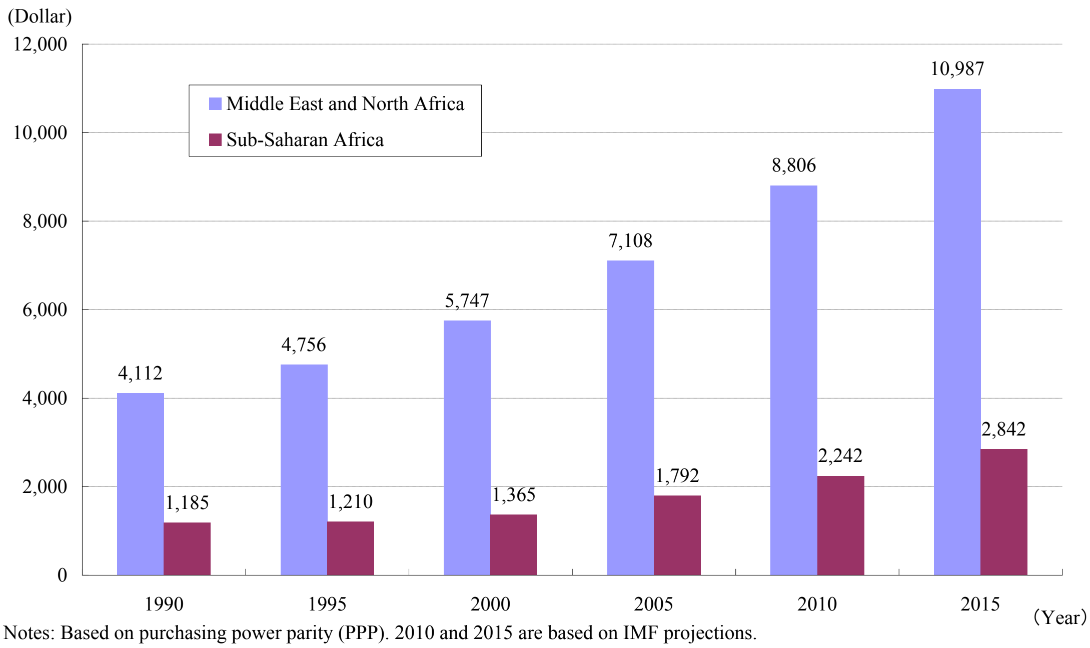


Notes: U.N. population projections.
Source: World Population Prospects : The 2008 Revision, (U.N.)

Moreover, the Middle East and Africa has affluent class of people although the number is limited compared to other countries and regions. According to a research conducted by Capgemini and Merrill Lynch, the population of the affluent that owns over $1 million of asset reaches some 400,000 people in the Middle East and some 100,000 people in Africa in 2008. Although these numbers are far from that of U.S. (460,000 people), Japan (1,366,000 people) and Germany (810,000 people), the figure for the Middle East is larger than that of China (364,000 people) and the data for Africa is about the same level as the one for Brazil (131,000 people), Australia (129,000 people) and Spain (127,000 people)[103].

[103] Capgemini and Merrill Lynch,“ World Wealth Report 2009”

1-2-5-25 Trends in per capita GDP for Middle East/North Africa and Sub-Saharan Africa



Notes: Based on purchasing power parity (PPP). 2010 and 2015 are based on IMF projections.
Source: World Economic Outlook Database, April 2010, (International Monetary Fund)

1-2-5-26 Per capita Gross National Income for African Nations (2008, USD)

(Unit: US dollar)

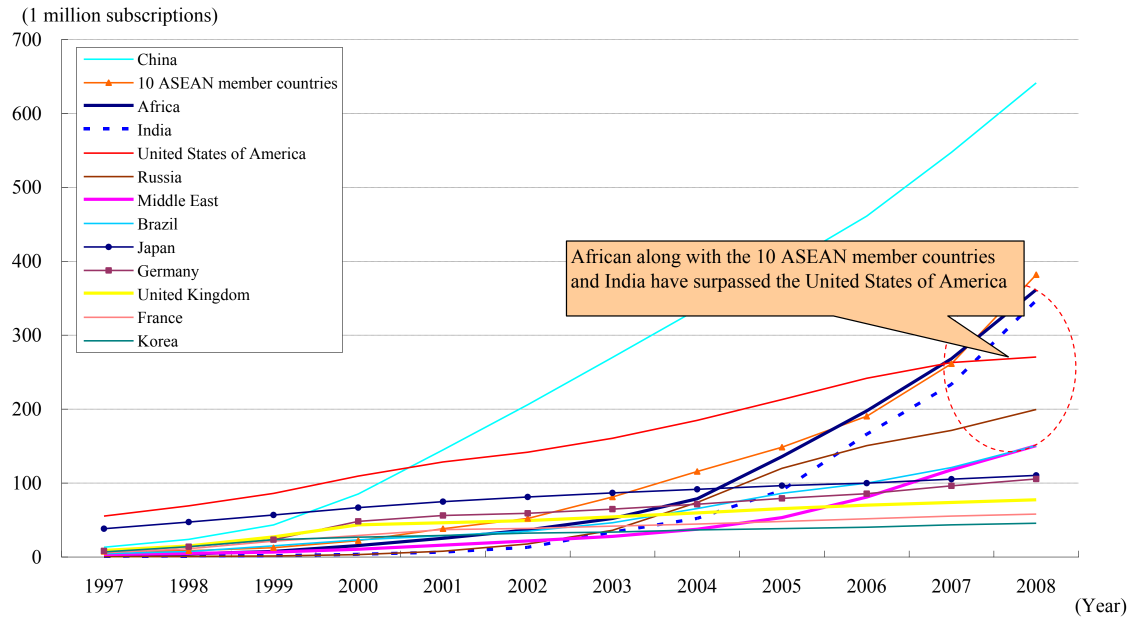
Equatorial Guinea	14,980	Egypt	1,800	Rwanda	440
Libya	12,380	Republic of Congo	1,790	Tanzania	440
Seychelles	10,220	Nigeria	1,170	Madagascar	420
Mexico	9,990	Cameroon	1,150	Uganda	420
Russia	9,660	Djibouti	1,130	Central Africa	410
Chile	9,370	Sudan	1,100	Togo	410
Gabon	7,320	Lesotho	1,060	Gambia	400
Brazil	7,300	**India**	1,040	Mozambique	380
Mauritius	6,700	Sao Tome and Princip	1,030	Guinea	350
Botswana	6,640	Ivory Coast	980	Nier	330
South Africa	5,820	Senegal	980	Sierra Leone	320
Namibia	4,210	Zambia	950	Eritrea	300
Algeria	4,190	Comoros	750	Ethiopia	280
Tunisia	3,480	Kenya	730	Malawi	280
Angola	3,340	Benin	700	Guinea-Bissau	250
China	2,940	Ghana	630	Liberia	170
Cape Verde	2,800	Mali	580	Democratic Republic	150
Swaziland	2,600	Chad	540	Burundi	140
Morocco	2,520	Burkina Faso	480		

Source: *World Development Indicators* , (World Bank)

With regards to African economy, Africa is recently making a remarkable development as a consumer market as well. The number of subscriptions of mobile phone, for example, recorded some 270 million exceeding the level of the U.S. in 2007 and expanded to some 360 million in 2008. This is at the competitive level with ASEAN 10 countries total, and India (see Figure 1-2-5-27). In addition, Africa has 51 cities/city areas with 1 million or higher population (see Table 1-2-5-28). Consumption is expected to grow and diversify due to the increasing population and further development of cities.

Moreover, African countries are lately promoting multinational economic integration. Once this scheme is realized, the attractiveness of Africa as a huge consumer market will increase further (see Figure 1-2-5-29 and Figure 1-2-5-30).

1-2-5-27 Trends in Global Cell Phone Subscribers



Notes: Mobile telephone subscriptions.
Source: World Development Indicators, (World Bank)

1-2-5-28 African Cities with Populations of Greater than 1 million People (as of Jan 1, 2010)

(Unit: Thousan)

	Country	City	Population		Country	City	Population
◎	Egypt	Cairo	15,200	◎	Morocco	Rabat	1,890
	Nigeria	Lagos	11,800	◎	Madagascar	Antananarivo	1,860
◎	Democratic Republic of Congo	Kinshasa	8,900	◎	Zambia	Lusaka	1,830
	South Africa	Johannesberg	7,550	◎	Cameroon	Yaounde	1,750
◎	Sudan	Khartoum	4,975	◎	Burkina Faso	Ouagadougou	1,700
	Egypt	Alexandria	4,575	◎	Guinea	Conakry	1,690
	Ivory Coast	Abidjan	4,400		Nigeria	Kaduna	1,670
	Morocco	Casablanca	3,975		Ghana	Kumasi	1,630
	South Africa	Cape Town	3,775		Democratic Republic of Congo	Lubumbashi	1,570
	South Africa	Durban	3,650		Togo	Lome	1,520
◎	Ghana	Akula	3,575		Democratic Republic of Congo	Mbuji-Mayi	1,520
◎	Kenya	Nairobi	3,500	◎	Somalia	Mogadishu	1,500
	Nigeria	Ibadan	3,375	◎	Republic of Congo	Brazzaville	1,430
	Nigeria	Cano	3,375		Algeria	Oran	1,260
●	Tanzania	Dar es-Salaam	3,225		Nigeria	Benin City	1,240
◎	Algeria	Alger	3,175		Nigeria	Port Harcourt	1,230
◎	Ethiopia	Addis Ababa	3,100	◎	Libya	Tripoli	1,210
◎	Angola	Luanda	3,100	◎	Sierra Leone	Freetown	1,200
◎	Senegal	Dakar	2,675		Benin	Cotonou	1,150
◎	South Africa	Pretoria	2,525		Morocco	Fez	1,110
◎	Tunisia	Tunis	2,325		Nigeria	Maiduguri	1,100
◎	Zimbabwe	Harare	2,300	◎	Liberia	Monrovia	1,080
	Cameroon	Douala	2,200		South Africa	Port Elizabeth	1,070
◎	Uganda	Kampala	1,970		Nigeria	Zaria	1,030
◎	Mali	Bamako	1,920	◎	Chad	N'Djamena	1,020
◎	Mozambique	Maputo	1,910				

Note: 1. ◎ denote capital cities

2. ● denotes Tanzania where the legal capital is Dodoma, however Dar es-Salaam is the actual operating capital where the government agencies are resident. and where economic center is also located.

3. There are some cases where the value is a sum total of neigboring cities.

Source: *The Principal Agglomerations of the World*, (Brinkhoff, T.) Website, http://www.citypopulation.de

(b) Business chances in the Middle East Countries

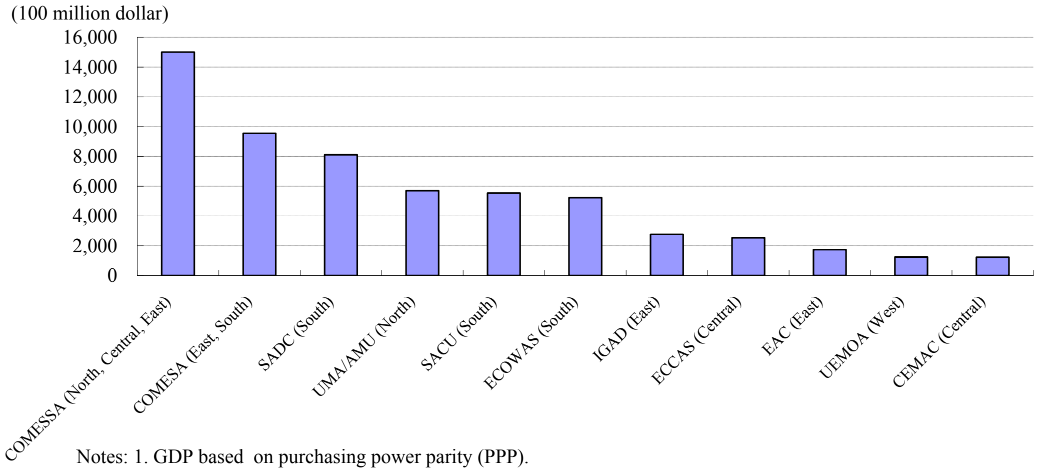
In the Middle Eastern countries, new business chances are arising as well as conventional resource energy related businesses (see Table 1-2-5-31).

For example, in the area of transportation, UAE decided to establish "Ethihad Trains Company" that is a federal government's fully-owned company. It aims to construct modern railroad networks that connect all areas in UAE and is expected to reduce total transportation costs through the facilitating railroad networks. In Dubai, "Dubai Metro", an automated rail system that connects the airport and city center, Jebel Ali Free Zone, started its operation in September 2009. Saudi Arabia also announced its Riyadh Metro construction plan. The Gulf countries are booming with its railroad rush[104].

Moreover in GCC states, the health and SPA industry has been growing and Epoc Messe Frankfurt GmbH promotes "Wellness and Spas Middle East" (see Table 1-2-5-31). The company recorded 2.3

[104] Namie Tsujigami "DOBAI METORO KAITSUUNO SHAKAITEKI INPAKUTOTO WANGANSHOKOKUNIOKERU TETSUDOUKENSETSURASSHU" (Japan Corporation Center for the Middle East "JCCME NEWS: Middle East Status Analysis" February/March 2010 issue

billion dirham (some $626.3 million) of total sales for its SPA business in 2008 and its largest market is UAE[105].



Notes: 1. GDP based on purchasing power parity (PPP).
2. Multiple counts of multiple member countries.
3. Those in parentheses is a rough indication of countries that make up the continent of Africa.
Source: WEO Database April 2010, (IMF)

In addition, in the Middle East, the health and medical service industry is gaining attention as a growing sector due to the increasing diabetic patients and obese people. In Saudi Arabia, 25 to 27% of people is suffering from diabetes and in UAE, 70% of adults is overweight. Under these circumstances, GCC member states started an education program that encourages people to review "health risk and eating habit". According to Proleads, a database company, the amount of hospital and health insurance-related projects invested by private and public institutions of GCC states totals 54.1 billion dirham (some $14.8 billion)[106].

(c) African business gaining momentum

(i) Africa as the BOP (Base of the Economic Pyramid) market

According to a report by IFC, there are 486 million people who belong to so called BOP layer of which annual income per capita is $3,000 or less. It also estimates the size of African BOP market as $4,290 (see Table 1-2-5-32). On the other hand, the size of BOP market is $3,470.0 billion in Asia, $509.0 billion in Latin America and 458.0 billion in East Europe and the size of Africa stand comparison with the one for Latin America and East Europe (see Figure 1-2-5-33).

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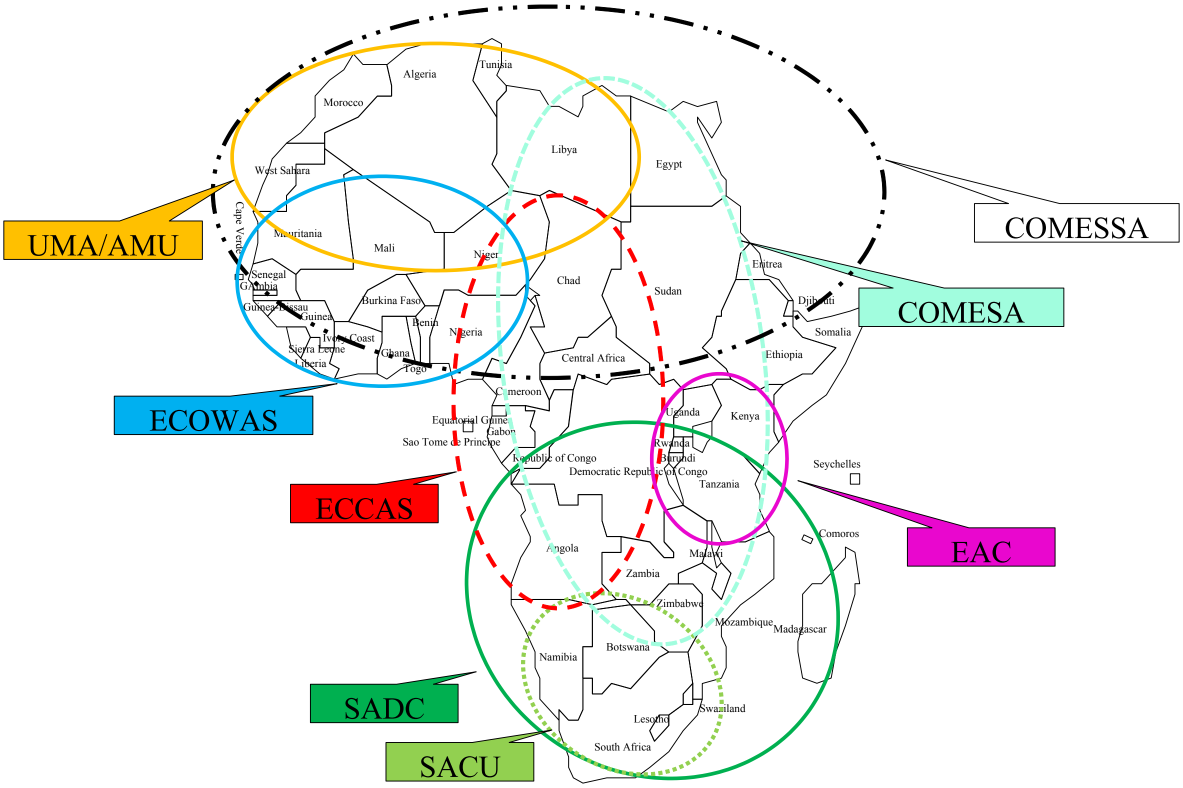
105 Yoshiki Hatanaka "IGAIINI HOUFUNA CHUUTOU/WANGANSHOKOKUNIOKERU ARATANA BIZINESU CHANSU" (Japan Corporation Center for the Middle East "JCCME NEWS: Middle East Status Analysis" August/September 2009 issue

106 Yoshiki Hatanaka "ARATANA SEICHOUBUNYATOSHITE KYUUFUJOUSURU HOKEN/IROUSANGYO" (Japan Corporation Center for the Middle East "JCCME NEWS: Middle East Status Analysis" June/July 2009 issue

1-2-5-30 Major Regional Economic Communities in Africa



Source: *African Economy in 2025: How will African economy develop?*, 2009, Tanaka, H.

1-2-5-31 New Businesses/Industries in Middle Eastern Countries

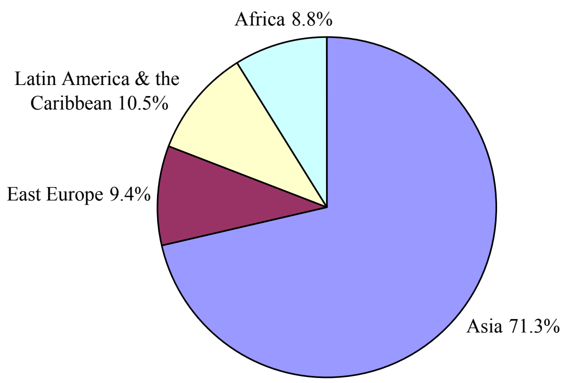
Country	Company / Business Name	Field	Overview
UAE	Etihad Railway	Railway network maintenance	• Capital: 1 billion dirham (approx. 272.3 million dollars) (100% ownership by UAE federal government, newly established) • Scope of Business: Transportation of passengers, lease, rental, purchase, sales, maintenance and servicing of cars, etc.
Oman	Haya Water	Construction of sewage and wastewater treatment facilities	•• Order placement and contracts of 5 projects through the Muscat Wastewater Project. • Estimated total investment amount: 13 billion Oman riyal (approx. 34 billion dollars) • Scope of Business：Design new sewage treatment plants, construction of drainage for sewage, construction of water catchment system, construction of plants for purification, sludge treatment, etc.
Saudi Arabia	Riyadh Metro	Construction of metros	• Work commencement for the construction plan for a light railway, Riyadh Metro that would run through Riyadh was announced as being official on 10 November, 2009. • Riyadh Metro is placed under the jurisdiction of the Riyadh Development Authority and plans to purchase cars from a Spanish company. • Acquisition cost of cars: 612 million riyal (163.2 million dollars)

UAE	Hewlett Packard (HP)	Recycle	• Started ink cartridge recycle business for the Middle East called HP Planet Partners Program.
UAE and Gulf countries	Epoch Messe Frankfurt	Health and hot spring	• Development of a spa business (health and hot springs) in the Gulf countries.

Source: Japan Cooperation Center for the Middle East

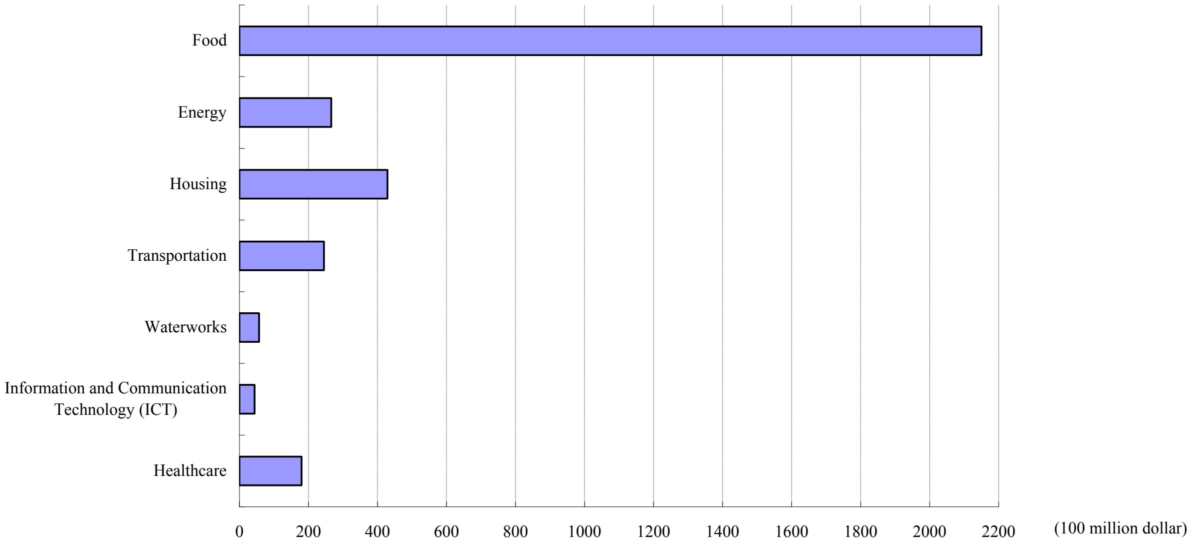
1-2-5-32 BOP Population and Income in Africa

	BOP Population (1 million people)	Ratio of BOP (%) for the entire populaton	BOP Income (million)		Ratio of BOP (%) for gross income
			PPP	Dollar	
All of Africa	486.0	95.1	429,000.0	120,000.0	70.5
Cameroon	14.7	95.0	15,354.1	4,710.1	75.6
Ivory Coast	15.6	95.0	14,242.9	6,536.1	75.9
Egypt	65.6	95.0	83,544.1	10,151.1	85.8
Mali	12.6	100.0	9,202.7	2,769.2	100.0
Mozambique	17.6	95.0	12,917.6	2,408.3	71.1
Nigeria	121.0	100.0	74,419.2	27,572.1	100.0
Senegal	9.3	95.0	9,303.8	2,942.6	72.6
South Africa	33.6	75.0	43,511.1	10,072.7	30.9
Tanzania	36.2	100.0	11,318.0	5,408.2	100.0
Uganda	23.8	95.0	22,303.5	3,696.5	76.8



Source: The Next 4 Billion (2007), (IFC)

1-2-5-34 BOP Market Scale in Africa (by Field)



Source: The Next 4 Billion (2007), (IFC)

There is estimation for the size of health and medical services, telecommunication technology, water supply, transportation, housing, energy and food product market. According to IFC, the largest BOP market in Africa is food product market of $215.0 billion followed by housing ($42.9 billion), energy ($26.6 billion), transportation ($24.5 billion) and health and medical services market ($18.0 billion) (see Figure 1-2-5-34).

(ii) Companies that are actively operating finding business chances in Africa

In Africa, businesses in various areas are gaining momentum and many companies are launching large scale projects (see Table 1-2-5-35).

For example, Netcare Limited is expanding its medical service business. The company offers variety of medical services starting from the management of private hospital, emergency medical services and emergency transportation services in South Africa and is rapidly growing backed by increasing demand derived from the recent expansion of middle class. When the company was listed on a stock market in 1996, it used to manage 6 hospitals. Later it actively accomplished buyouts and currently manages 52 private hospitals in South Africa.

1-2-5-35 Companies Expanding in Sub-Saharan/African Nations

Country	Company Name	Field	Overview
South Africa	Netcare, Ltd.	Medical services	• Year of listing on JSE: 2008 • Sales revenue: 21.735 billion rand (2008) • No. of hospitals: 108 (52 in South Africa, 56 in the U.K.)
South Africa	Tiger Brands, Ltd.	Food	• Year of establishment: 1921 • No. of employees: 10,417 • Annual sales revenue: 20.4304 billion rand (30 September, 2009)

			• South Africa's biggest food manufacturer. Roughly 30 brands dealing mainly in canned and frozen foods, retort pouch foods, seasonings, confectionery, baby foods, etc.
South Africa	Shoprite Holdings, Ltd.	Sales	• Year of establishment: 1936 • No. of employees: 66,000 • Annual Sales Revenue: 59.3186 billion rand (30 June, 2009) • Annual operating income: 2.1864 billion rand (30 June, 2009)
Kenya	Oriflame Africa, Ltd.	Cosmetics	• Year of establishment: 2008 (HQ in Sweden established in 1967) • Sales revenue: Undisclosed (1.3291 Euros for HQ) • Profits: Unknown (926.1 million Euros for HQ) • No. of employees: 75 (7,500 for overall group) • Sales staff: 25,000 (2.9 million for overall group)
Kenya	Grundfos LIFELINK	Infrastructure	• Year of establishment: 2008 年 10 月 • Sales revenue: 1,879.2 万 Kenyan shillings (2009 JETRO estimates) • No. of employees: 7
Kenya	Essar Telecom	Mobile telephone	• Year of establishment: 2008 Parent company is Essar Communications Holdings Limited (ECHL), one of India's Essar Global Limited's subsidiary companies in the communications field. • Sales revenue: Undisclosed • No. of employees：250
Nigeria	Flour Mills of Nigeria, PLC	Food	• Year of establishment: 1960 • Sales revenue: 147.4 billion naira (2008) • Net profits: 10.3 billion naira (2008) • No. of employees: approx. 1,221 (3,644 if group companies are included) • Nigeria's conglomerate business dealing with a wide range of operations such as milling, manufacturing pasta, harbor operation, manufacturing cement, international transactions, mixing and packing fertilizer into bags, etc.

Source: *SUB-SAHARAN AFRICA SHUYOKOKU NO SHOHI SHIJO, March, 2010*, (JETRO)

Moreover, Shoprite Holdings Ltd. a large retail company in South Africa, operates 1,240 shops of supermarkets, furniture shops, daily goods discount shops and others in 17 countries including South Africa. Its main business is the supermarket, "Shoprite," that targets people with low income, however, it also operates supermarkets for people with high income in South Africa.

As for a foreign capital company, Oriflame East Africa Ltd., which is a subsidy of Oriflame Cosmetics SA headquartered in Sweden, operates in Morocco, Egypt and Kenya. While the company handles 1,500 items in 61 countries in the world, it sells 400 items in Kenya where it started its operations in 2008. The operation in Kenya is the first move in Sub-Saharan Africa. The company has chosen Kenya because the size of market is small but it has less competition. Oriflame views Kenya as an appropriate market to learn lessons from to form future strategies in Africa[107] and it shows its strategic stance toward the African market.

In the area of infrastructure, Grundfos Lifelink A/S, a group company of Grundfos A/S of which

[107] JETRO "SABUSAHARAAFURIKANO SHOUHISHIJO (Consumer market of major Sub-Saharan African courtiers)" (March 2010)

headquarters is located in Denmark, introduced a money transfer system that utilizes solar panels and mobile phones to provide a community water supply system that is environment-friendly and of which maintenance administration costs are transparent and minimized.

(d) Japanese companies' trade, investment and business operations

(i) Trade and investment relations between Japan and the Middle East

The trend of Japan's trade and investment towards the Middle East and Africa shows that the exports to the Middle East doubled in the past 10 years registering $23.26 billion in 2009. The three largest export items are transport machinery, machinery and electronic appliances that account over 70% of exports to the Middle East (see Table 1-2-5-36). On the other hand, over 90% of imports from the Middle East consist of mineral fuel and crude oil (see Table 1-2-5-37).

1-2-5-36 Trends of Top 10 Exported Items from Japan to the Middle East

(Unit: 100 million dollars)

1995		2000		2005		2009	
Transportation equipmer	32.6	Transportation equipment	48.0	Transportation equipmer	89.2	Transportation equipment	####
Machinery & equipment	19.0	Machinery & equipment	20.2	Machinery & equipment	32.0	Machinery & equipment	44.9
Electronic appliances	14.9	Electronic appliances	12.8	Electronic appliances	18.4	Electronic appliances	24.0
Rubber	4.3	Rubber	4.3	Iron and steel products	9.6	Rubber	12.8
Optical equipment	3.0	Iron and steel products	3.4	Rubber	8.0	Iron and steel products	10.4
Iron	3.0	Optical equipment	3.1	Iron	4.6	Iron	6.3
Iron and steel products	2.8	Iron	2.8	Optical equipment	4.5	Optical equipment	4.5
Hand woven products	2.4	Re-export goods	2.5	Re-export goods	3.0	Re-export goods	3.7
Re-export goods	1.9	Hand woven products	1.5	Plastics	1.8	Plastics	3.6
Hand crated fibers	1.7	Hand crated fibers	1.2	Hand woven products	1.5	Railroad signal equipmen	2.6
Middle East Total	95.9	Middle East Total	####	Middle East Total	####	Middle East Total	####

Source: *World Trade Atlas*

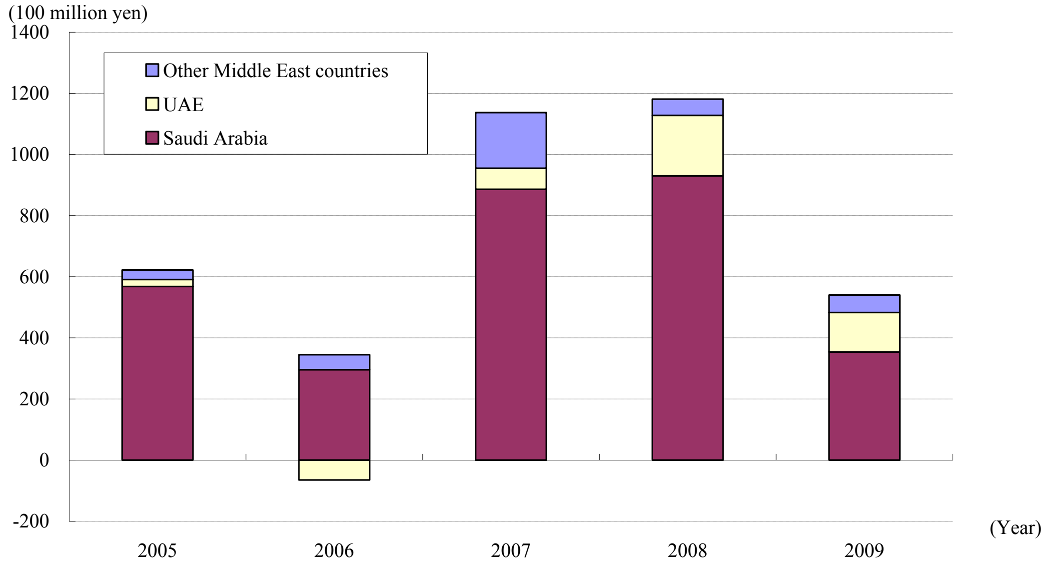
1-2-5-37 Trends of Top 10 Imported Items from the Middle East to Japan

(Unit: 100 million dollars)

1995		2000		2005		2009	
Mineral fuel, crude oil, etc.	####	Mineral fuel, crude oil, etc.	####	Mineral fuel, crude oil, etc.	852.8	Mineral fuel, crude oil, etc.	####
Precious stones and metals	8.9	Precious stones and metals	3.4	Organic chemistry	4.1	Organic chemistry	4.2
Organic chemistry	4.5	Organic chemistry	3.0	Aluminum	3.3	Electronic appliances and equipment	3.2
Aluminum	3.6	Aluminum	2.7	Optical equipment	2.0	Aluminum	1.6
Machinery and equipment	1.0	Electronic appliances and equipment	1.1	Precious stones and metals	1.9	Chemical fertilizer	1.4
Iron	0.9	Machinery and equipment	1.1	Machinery and equipment	1.4	Marine products	1.4
Fruits, nuts	0.7	Optical equipment	1.0	Electronic appliances and equipment	1.2	Optical equipment	1.4
Copper and brass strips	0.7	Chemical fertilizer	1.0	Chemical fertilizer	1.1	Machinery and equipment	1.2
Carpet	0.6	Preserved foods	0.6	Re-import goods	1.1	Salt, sulphur, soil, rock	1.0
Preserved foods	0.6	Mineral ore, slag, ash	0.5	Marine products	0.9	Precious stones and metals	0.8
Middle East Total	####	Middle East Total	####	Middle East Total	875.4	Middle East Total	####

Source: *World Trade Atlas*

1-2-5-38 Direct Investment from Japan to the Middle East



Source: International Balance of Payments Statistics, (Bank of Japan)

Moreover, outward direct investment in the Middle East marked a 100 billion yen level for two consecutive years in 2007 and 2008, however, shrank to 5.7 billion yen in 2009[108] (see Figure 1-2-5-38). In 2008, the investments in the countries that have projects with substantial budgets were notable such as the investments in Saudi Arabia in the area of chemistry, pharmaceuticals and medical services, finance and insurance and the one in UAE for its construction, wholesale and retail industry.

(ii) Trade and investment relations between Japan and Africa

The exports to Sub-Saharan African countries registered $9.49 billion in 2009 and the major export items were automobile, general machinery and vessel (see Table 1-2-5-39). The major imports items have been gem and precious stone, mineral fuel and crude oil (see Table 1-2-5-40). The direct investment achieved its record-level of 100 billion yen for three consecutive years from 2006 to 2008, however, curtailed to 25.8 billion yen in 2009.

(iii) Japanese companies' business operations

As for Japanese companies' business operations, Mitsubishi Heavy Industries, Ltd. and Pebble Bed Modular Reactor (Pty) Ltd (PBMR) of South Africa agreed on the joint development of pebble bed modular reactor (PBMR) considering the possibility of the cooperation for plant construction and market development in the future as well and signed Memorandum of Understanding (MOU) on February 3, 2010[109]. A series of Japanese companies, mainly

108 Outward direct investment statistics by Ministry of Finance (International trade balance base, net and flow)

109 Mitsubishi Heavy Industry News "KOGATAKOUONGASURO PBMRNO KAIHATSUDE MOU O TEIKETSU: SHOURAITEKINIWA PULANTOKENSETSUYA SHIJOUKAITAKUDEMO KYORYOKUWO KENTOU (Sealed MOU for the development of small-sized high temperature gas-cooled reactor, PBMR. Projecting cooperation for plant construction and market development)" (Issued on February 4, 2010, No. 4902)

automobile parts companies, made advancement to Morocco that provides various preferential taxation systems in Tanger Free Zone. Specifically speaking, in 2008, Sumitomo Wiring Systems, Ltd. branched out into the suburb of Rabat and Makita Corporation advanced to Tanger. In 2009, Fujikura Ltd. started its operation in Tanger and Sojitsu Corporation expanded to Casablanca. In March 2010, Denso Corporation launched its operation in Tanger[110].

1-2-5-39 Trends of Top 10 Exported Items from Japan to Africa

(Unit: 100 million dollars)

1995		2000		2005		2009	
Transportation equipmen	24.6	Transportation equipmen	18.2	Transportation equipmen	37.2	Transportation equipmen	35.6
Shipping	17.9	Machinery and equipmen	9.2	Machinery and equipmen	13.4	Machinery and equipmen	17.4
Machinery and equipmen	11.7	Shipping	7.2	Shipping	10.9	Shipping	14.7
Electronic appliances	5.8	Electronic appliances	3.8	Electronic appliances	4.9	Electronic appliances	5.9
Iron	2.5	Rubber	2.0	Rubber	3.0	Iron and steel products	3.5
Optical equipment	2.3	Iron	1.7	Iron and steel products	2.1	Rubber	3.2
Rubber	2.0	Optical equipment	1.2	Iron	2.0	Iron	3.0
Iron and steel products	1.6	Re-export goods	0.9	Optical equipment	1.6	Re-export goods	1.8
Railroad signal equipmen	1.2	Railroad signal equipmen	0.9	Re-export goods	0.9	Optical equipment	1.8
Plastics	0.6	Iron and steel products	0.8	Hand crafted fibers	0.7	Plastics	1.6
Africa Total	75.2	Africa Total	50.5	Africa Total	82.1	Africa Total	94.9

Source: *World Trade Atlas*

1-2-5-40 Trends of Top 10 Imported Items from Africa to Japan

(Unit: 100 million dollars)

1995		2000		2005		2009	
Precious stones and metals	8.3	Precious stones and metals	13.5	Mineral fuel, crude oil, etc	31.5	Mineral fuel, crude oil, etc	28.6
Marine products	7.8	Mineral fuel, crude oil, etc	6.9	Precious stones and metals	20.1	Precious stones and metals	24.9
Mineral fuel, crude oil, etc	6.3	Marine products	6.0	Transportation equipment	9.9	Mineral ore, slag, ash	7.9
Iron and steel	4.0	Iron and steel	3.0	Iron and steel	6.9	Iron and steel	4.6
Mineral ore, slag, ash	3.1	Mineral ore, slag, ash	3.0	Mineral ore, slag, ash	5.4	Marine products	4.4
Lumber	2.9	Lumber	2.6	Lumber	4.8	Lumber	2.9
Copper and copper produc	2.4	Aluminum	2.3	Marine products	4.3	Transportation equipment	2.8
Other base metals	1.4	Nickel	1.4	Aluminum	3.1	Aluminum	2.7
Spice, coffee, tea	1.1	Transportation equipment	1.2	Nickel	1.8	Cocoa	1.4
Salt, sulphur, soil, rock	1.1	Other base metals	1.0	Spice, coffee, tea	1.1	Seeds, fruits, etc	0.9
Africa Total	47.1	Africa Total	49.6	Africa Total	98.9	Africa Total	90.9

Source: *World Trade Atlas*

There are Japanese companies that have been aggressively promoting their businesses accommodating to the local condition. For Example, Ajinomoto Co., Inc. processes the packing of its umami seasoning product, "AJI-NO-MOTO", in West African Seasoning Co., Ltd. in Nigeria and exports to the Republic of Ivory Coast and other neighboring countries including Burkina Faso, Mali, Guinea and Liberia[111]. Ajinomoto has been steadily increasing its sales taking a low-price and small package strategy so that the poor can afford it. The company focused that a consumer tends to find a particular price range approachable and this price varies depending on his/her life style and income level. It also found that in Nigeria, many consumers generally purchase food products including umami seasonings using the most widely used bill, a 5 naira bill. Hence Ajinomoto introduced a 5 naira package for 15 grams of "AJI-NO-MOTO" in the market in 2000. As a result, its sales demonstrated a 10-fold increase from 2000 to 2008 in Nigeria[112].

[110] *JETRO TSUSHOKOUHOU* (April 19, 2010)

[111] JETRO "SABUSAHARAAFURIKANO SHOUHISHIJO (Consumer market of major Sub-Saharan African courtiers) HONPEN March 2010" (http://www.jetro.go.jp/j.le/report/07000211/honbun.pdf)

[112] Ajinomoto Co., Inc. "KAIHATSUTOJOUKOKUNIOKERU UMAMICHOUMIROU *AJINOMOTO*NO BIJINESU (Umami seasoning

1-2-5-41 Sanyo Electric LED Lantern (Photo Courtesy of Sanyo)

Moreover, Sanyo Electric Co., Ltd. started its sales of solar energy LED lantern (see Figure 1-2-5-41). Electrification rate of Uganda is 20% in cities and only 4% in rural areas[113]. As mentioned before, there are many power failures in Africa. Considering Africa's potential to form a large market for home electrical appliances, Sanyo is trying to establish its brand in Africa.

Furthermore, Japanese trading companies are aggressively expanding their businesses seeking after abundant mineral resources through the development of oil field in Ghana, Gabon, Libya and Egypt, the establishment of cement factory in Angola, the production of nickel in Madagascar, the refinery of aluminum and the process of wood chip in Mozambique. As the background of this trend, there is China which has been accelerating its advancement to the region. Chinese companies that proceed with its resource development and social infrastructure development are sending a large amount of capital and workers to the area. It was reported that the number of Chinese immigrants in Africa exceeded 1 million people superseding the number of Japanese residents of some 7,700 people as of 2008[114].

In addition, in Saudi Arabia, Kubota Corporation announced the establishment of company that manufactures and sells heat-resistant cast tubes for petrochemical plants in March 2009. In April 2009, J-Power Systems Corporation and Marubeni Metals Co., Ltd. announced the inauguration of company to manufacture and sell submarine power cables for the development and production of oil and gas fields in Saudi Arabia's coastal areas.

(e) Notable leap of Chinese and Korean companies

Lately, Chinese and Korean companies are making remarkable development in the Middle East and Africa.

For example, while the home electronics appliance market in South Africa exhibits a various price

product, Ajinomoto, business in developing countries)" (March 10, 2009)

113 The Asahi Shimbun, November 20, 2009

114 The Yomiuri Shimbun, January 11, 2010

range of products and the polarization of popular products due to the wide-spread income level, Korean makers such as LG Electronics and Samsung Electronics hold dominant shares of white goods including washing machine, refrigerator and vacuum. People related to home electronics appliance industry pointed out that “Korea was ahead of others entering the South African market more than 10 years ago and established the brand over the long-term.[115]” In Kenya, Korea’s dominance is notable in the home electronic appliances market and Chinese companies are making remarkable achievement in the two-wheeled vehicle market. While Japanese makers’ two-wheeled vehicle is 90,000 to 120,000 Kenya shilling, Chinese makers price their products at 50,000 to 80,000 Kenya shilling and are attracting consumers with low prices.

Moreover, the advancement of Korean and Chinese companies to Saudi Arabia is accelerating in these years. Korean major construction companies took a lead to enter the market when a construction boom occurred in the Middle East in the 1970s. Recently, the development of Korean companies is observed not only in the construction industry but also in the manufacturing and communication industry. Furthermore, as for Chinese players, Chinese government enterprises are advancing in the area of resources and construction (see Table 1-2-5-42 and Table 1-2-5-43).

1-2-5-42 Korean Companies Doing Business in Saudi Arabia

Company Name	Industry Category	Investment Amount (10 thousand	Investment Ratio (%)	Year of Foray
LG Electronics	Manufacturing	485.3	49	2006
Hyundai Engineering and Construction Co., Ltd.	Construction	266.6	49	1979
GS Engineering and Constructio	Construction	213.3	49	1981
Obayashi Corporation	Construction	133.3	50	1974
Daiichi Kensetsu	Manufacturing	93.3	50	2003
Samsung Engineering & Construction Co.	Construction	80.0	100	2000
Hanwah Engineering & Construction	Construction	66.0	95	2006
Techang Building	Construction	53.3	100	2002
Doosan Heavy Industries	Construction	53.3	100	2005
サムフン情報通信*	Communication	35.3	100	2005

Source: *JETRO SENSOR, August, 2008* *This company doesn't have English commercial name.*

1-2-5-43 Chinese Companies Doing Business in Saudi Arabia

Company Name	Industry Category
China National Petroleum Corporation	Petroleum
Zhongyuan Petroleum Exploration Bureau (ZPEB)	Petroleum
	Petrochemistry
China Civil Engineering Construction Corporation (CCECC)	Construction
Sinopec No. 5 Construction company	Construction
Sinopec No. 2 Construction company	Construction
China National Chemical Engineering Co., Ltd	Construction
China Railway Engineering Corporation No. 7 bureau	Construction
China Railway Engineering Corporation No. 18 bureau	Construction
China National Material Groups Corp Ltd. Import and Export Corporation.	Construction

Source: *JETRO SENSOR, August, 2008*

[115] JETRO “SABUSAHARAAFURIKANO SHOUHISHIJO (Consumer market of major Sub-Saharan African courtiers)” (March 2010)

Column 11 Brisk China's investment in Africa

In these years, Chinese companies' investment in Africa is rapidly expanding. The trend of China's direct investment in Africa shows that the direct investment was some $500 million in 2006 but increased 10 times to some $5.5 billion in 2008 (see Column Figure 11-1)

In 2008, Industrial and Commercial Bank of China (ICBC) invested $5.6 billion[116] to purchase 20% of shares of the Standard Bank of South Africa. This is the largest among recent investments in South Africa. The Standard bank is the biggest bank in Africa and known for its accumulation of Africa business information and its track record of business for the low-income group and the BOP market. Major African banks establish its own communication networks and locate ATMs even in rural areas to widely collect small amount of deposits and gain earnings from money transfer and others. The acquisition of the Standard bank intended to procure this type of know-how as well[117].

In addition, China National Offshore Oil Corporation (CNOOC) acquired a 45% of interest of Nigerian oil field as its additional investment after spending $2.3 billion in 2006[118]. With this type of large-scale investments, Africa became the second largest investment target of China following Asia (see Column Table 11-2)

The Chinese government is also trying to strengthen the tie with African countries. Since the domestic supply of the resources including oil, iron, copper, aluminum and nickel that are crucial for the social infrastructure development is not sufficient, the Chinese government has been actively promoting summit-level mineral resource diplomacy since 2005. President Hu Jintao officially visited 5 countries including Saudi Arabia, Mali, Senegal, Tanzania, and Mauritius from February 10 to 17, 2009. Moreover, on November 8, 2009, the 4th ministerial conference of Forum on China-Africa Cooperation (FOCAC) was held in Sharm El-Sheikh, Egypt, having attendants including Chinese Premier Wen Jiabao and Presidents and ministers from 49 African countries. FOCAC convened the first meeting in October 2000. Since then, China has been making proposals to provide cooperation to African countries in the area of debt reduction, human resource development, medical services, trade and investment. While consolidating views from African countries, China has been promoting the comprehensive cooperative structure for politics, economy and culture to support Africa. The conference, with the theme of "deepening the new type of China-Africa strategic partnership for sustainable development," adopted "the Declaration of Sharm el-Sheikh" and "Sharm el-Sheikh Action Plan (2010-2012)" and agreed that the parties will strengthen the cooperation in the area of politics and economy. Moreover, three ministry-level leaders including Yang Foreign Minister visited African countries in January 2010. Chinese Foreign Minister visited Africa for 20 consecutive years.

Japan has been hosting Tokyo International Conference on African Development (TICAD) with the lead of the Japanese government with the cooperation from the United Nations, United Nations Development Programme (UNDP), the World Bank and others since 1993. TICAD stands for Tokyo International Conference on African Development and it is the international conference that discusses

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116 Table 1-2-5-14 listed previously
117 Katsumi Hirano (2009) "MINAMIAFURIKANO SHOGEKI"
118 UNCTAD "World Investment Report 2009"

the development in Africa. In addition to a summit-level meeting held every five years, it sponsors ministerial conferences. In May 2008, the 4th Tokyo International Conference on African Development (TICAD IV) was convened in Yokohama. As final products, the conference issued three documents; “Yokohama Declaration” that presents political will regarding the measures and directions for development of Africa, “Yokohama Action Plan” that is a roadmap to exhibit detailed TICAD process plan based on the Yokohama Declaration and “TICAD Follow-up Mechanism” that is used to verify the progress of TICAD process execution.

Column 12 Course of Dubai

Dubai gained attention as a base to advance into the Middle East market with the expectation for the peace that would be brought about after the end of the Iraq War in 2003 and the hope that the Middle East will bloom again having the Iraq market as its core. Furthermore, the crude oil price hike backed by the increased oil demand in emerging countries which had registered $147 per barrel in July 2008 also increased the expectation to the Middle East market and drew people’s interest to Dubai further.

The expectation comes from the assumption that Dubai would not be severely affected by the Iraq War since it is 700km away from the Iraq border located at the other end of the Persian Gulf. Other points of attraction were the most comfortable living environment among the oil producing countries that allows people to maintain a Western life style, and the well-facilitated economic infrastructure that is necessary to launch offices, including airports and ports that can be served as a hub for the neighboring areas.

In fact, the number of Japanese business establishments in Dubai was about some 100 from 2000 to 2003, rapidly increased to some 140 in 2005 and some 280 in 2009 (see Column Figure 12-1).

Under these circumstances, so called “Dubai Bubble” collapsed triggered by the Lehman shock in September 2008. “Dubai Bubble” is a real estate market bubble in Dubai. At that time, it was estimated that 60% of properties sold in second hand markets was still under construction[119].

The bubble was intensified with the outflow of U.S. dollar fund that had been purchasing the UAE currency expecting the appreciation of the UAE currency against U.S. dollar from the end of 2007 to the beginning of 2008[120] (see Column Figure 12-3). It means that the expectation for the appreciation of the UAE currency against U.S. dollar drove the large amount of purchase of the UAE currency with the currency of non-GCC member countries and consequently the financial assets of banks in UAE swelled. Each country in UAE actively used the financial assets to provide loans. Then, there was an outflow of foreign asset. As a result, banks were suffering from the shortage of liquidity before the Lehman shock. Then the Lehman shock hit the market, so that the shortage of liquidity not only in Dubai but also in the whole financial sector in UAE became significantly severe.

In the real economy, the major reasons for the Dubai shock and the need of the restructuring of Dubai government enterprises were Dubai’s offshore development and its associated requirement for financing. More than half of the offshore development projects only completed the construction of the foundation part which is a man-made island and has not constructed anything on the top. Their

119 HSBC report information
120 The GCC Banking Sector: Topography and Analysis/IMF Working Paper/Apr 2010

development costs have been financed with short-term loans. Since uncompleted business cannot generate any profits, it was a natural result that they have troubles reimbursing their debts.

Under such situation, on November 25, the Dubai government and the government enterprises made an announcement which is called "Dubai shock" and gave an impact on the world. The announcement was regarding Nakheel PJSC and its parent company, Dubai World, and informed that the extension of their payment by the end of May 2010 and the establishment of restructuring plans.

The restructuring plans were released on March 25, 2010. The focus of the plans is how to process their debts. Concretely, it is divided into following options: (i) payment as scheduled, (ii) refinance (deferring the payment), (iii) Conversion of debts into stocks, and (iv) swap with collateral (swap with other properties). Issues are if creditors would agree on the concrete policies and if the part of fund that the Dubai government needs to prepare on behalf of them can be actually procured or not.

Most of creditors who had been skeptical before the restructuring plans were issued seemed to evaluate the fact that the companies presented their direction for now. However, since it is not still certain if the companies can clear the issues mentioned above, rating agencies that need to have strict views on markets and banks that will have severe negotiations are not still convinced with the restructuring plans.

On the other hand, the real economy of Dubai, that observed decreased population after the Lehman shock, has been steadily improving since the fall of 2009.

In particular, the hub function of air flight services and logistics is steadily developing. The number of passengers who use the Dubai International Airport is the 6th largest in the world airports (see Column Table 12-4) and its container throughput ranking improved to the 3rd (see Column Table 12-5). The data shows the remarkably sound condition of the Dubai International Airport being ahead of other airports that marked a large minus growth from the previous year.

Reportedly[121], the number of residents in Dubai was 1.6 million people and its daytime population was 2.4 million people in 2009. The number of residents increased to 1.8 million people in 2010. The main contributor is considered to be the inflow of people from its neighbor, Emirate of Sharjah of UAE.

While the statistics for the number of hotel guests by country issued by Dubai Department of Tourism and Commerce Marketing shows a 40% decrease of Japanese guests stayed in hotels in Dubai in 2009 from the previous year, shopping malls remain vibrant. Dubai has been offering series of ravishing events including PGA European Tour, Barclays Dubai Tennis Championships, Dubai World Cup for G1 horse racing and performances by Elton John and Sting. This type of stamina to seamlessly execute projects would be one of the characteristics of the Dubai economy.

Dubai has been steadily developing by functioning as the hub for the logistics and air flight services in the Middle East and Africa. It is a matter of course that a hub function of certain areas is heavily influenced by the economic conditions in the region. For Example, Emirates Airlines is still expanding through its own efforts such as the increase of flight routes[122], however, it will likely

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121 UAE Interact website（http://www.uaeinteract.com/docs/10,000_new_residents_arrive_in_Dubai_per_month/40354.htm）

122 The airline has flight services to over 100 cities in the world. In March 28, 2010, along with the expansion of annual flight takeoff and landing at Narita airport, Emirates Airlines decided to start 5 flights a week. Besides, from the Middle East, Etihad Airways will have 5 flight services a week and Qatar will have 7 services per week to Narita airport.

receive more influence from the world economic conditions. Once the world economy recovers, it is expected that the growth rate of Dubai economy will leap again.

Column 13 Targeting the market with 1.8 billion of Muslims, Acquisition of Halal certificate, Malaysia at the entrance of the Islamic world

The number of Muslims in the world is estimated to reach 1.8 billion people according to the Malaysian government[123]. The Islamic world is largely gaining attention as a new market due to its expected population growth and economic development. For the business operations in such emerging markets, the important point is the deep understanding of cultural difference and customs. In this column, we would like to introduce the case of Malaysia that utilizes "Halal certification system" which is a standard for food products that observe the commandments of Islam to approach Muslim markets aiming to become the center of the Halal industry.

1. Halal certificate system

Halal means things and actions that are recognized as lawful under the doctrine of Islam. Besides pork and alcohol, the doctrine of Islam prohibits the use of dog meat, animals with fangs, predatory birds, crocodiles, genetically modified foods as ingredients of food products. The food ingredients that are not prohibit requires a check of the processing detail by Muslim examiners. As another requirement, halal foods should not be contacted with non-halal foods through storage, processing and distribution. The Halal certificate sets the standards for safe food products that follow the doctrine of Islam and screens raw materials, production processes and product quality. It then accredits certified products and displays the conformation. The targets of Halal certificate include not only food products but also food additives, food supplements and places to offer food products such as restaurants[124]. Although Halal certificate is a discretionary standard, Halal mark displays have strong influence over the Muslim consumers' selection of products. The understanding of Halal standard is one of important elements for foreign companies trying to enter Muslim markets to gain business opportunities.

2. Halal certificate system in Malaysia

There is no internationally unified Halal standard. Since each country sets up its own standard, there are many cases that one product certified as a Halal product in one country gets rejected as a non-Halal product in another country. Moreover, since the Halal qualification and screening methods are not systematically consolidated, it is pointed out that non-Muslim companies find them hard to understand.

Under these circumstances, Malaysia aiming to become the hub for the Halal industry in the world consolidated the Halal requirements as one of national standards under its laws and regulations. The government employed the strict interpretation for the Malaysian Halal products to receive recognition in any other countries. As its actual implementations, Department of Islamic Development Malaysia

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123 *JETRO SENSOR* (November 2009)

124 Japan Food Industry Center, "MAREISHIA *HALAL* SEIDONO GAIYO (Overview of Halal in Malaysia)" (March 2008) and Council of Local Authorities for International Relations website (http://www.clair.or.jp/j/forum/forum/sp_jimu/226_2/index.html)

(JAKIM) under the Office of the Prime Minister of Malaysia conducts Halal standards tests. HDC which was established under the Ministry of International Trade and Industry (MITI) in 2006 manages the promotion of the Halal standard tests and the Halal industry through the provision of information to overseas, the expansion of market and the arrangement of education while in other Muslim countries religious groups often manage and control Halal certificate system. The Halal standard itself was established within the framework of the Malaysian laws and regulations[125].

National religion of Malaysia is Islam, so that Malaysia has high population of Muslims. Taking the advantage of its position as an advanced Muslim country, it announced its policy to become the Halal hub in the 3rd Industrial Master Plan for 2006 to 2020. The economic development of Islamic world with some 1.8 billion of believers in the world is tremendous. According to the estimate by the Malaysia government, the size of Halal market exceeds $2.1 trillion a year. The Malaysia government has been promoting various measures to promote the Malaysian Halal certificate to be recognized in the Islamic markets in the world[126] (see Column Table 13-1).

Under these circumstances, many international food product companies including McDonald's Corporation and Nestle SA acquired the Malaysian Halal certificate. Japanese companies including Ajinomoto Co., Inc., Yakult Honsha Co., Ltd, and Taisho Pharmaceutical Co., Ltd. also obtained the Malaysian Halal certificate considering both Malaysia market and the world Islam market as their future strategic plans. However, the number of Japanese certificate holders is not high and is only 12 as of February 2010[127].

To be successful in emerging markets, it is inevitable to strive to be localized conquering the barrier of culture and customs. People's attention goes to companies that aim to access the world Muslim market with 1.8 billion people by deepening their understanding of Halal having Malaysia as its footstep.

(2) Latin American economy

(A) Macro-economic trend

(a) Overview of Latin American economy

The Latin American countries form a huge economic zone with a total population of some 492.80 million people with nominal GDP of $3,734.8 billion[128]. As for the size of economy of each country, Brazil is the largest followed by Mexico, Venezuela, and Argentina in order. Per capita nominal GDP widely varies ranging from Bolivia with less than $2,000 to Venezuela with over $10,000 (see Table 1-2-5-44).

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125 *JETRO TSUSHOKOUHOU* (June 27, 2008)

126 Japan Food Industry Center, "MAREISHIA *HALAL* SEIDONO GAIYO (Overview of Halal in Malaysia)" (March 2008) and Council of Local Authorities for International Relations website (http://www.clair.or.jp/j/forum/forum/sp_jimu/226_2/index.html)

127 *JETRO TSUSHOKOUHOU* (June 27, 2008) and Halal Industry Development Corporation (HDC) Website (http://www.hdcglobal.com/portal/)

128 In this report, Latin American countries include 5 Mercosur member countries (Argentine, Brazil, Paraguay, Uruguay and Venezuela), 4 sub-member countries (Chile, Bolivia, Peru, Ecuador and Columbia) and Mexico. (In fact, the participation of Venezuela to Mercosur will be formalized after Paraguay congress ratifies and Venezuela is currently attending meetings without having voting rights.)

1-2-5-44 Scale of Latin American Countries (Population, nominal and real GDP, nominal per capita GDP)

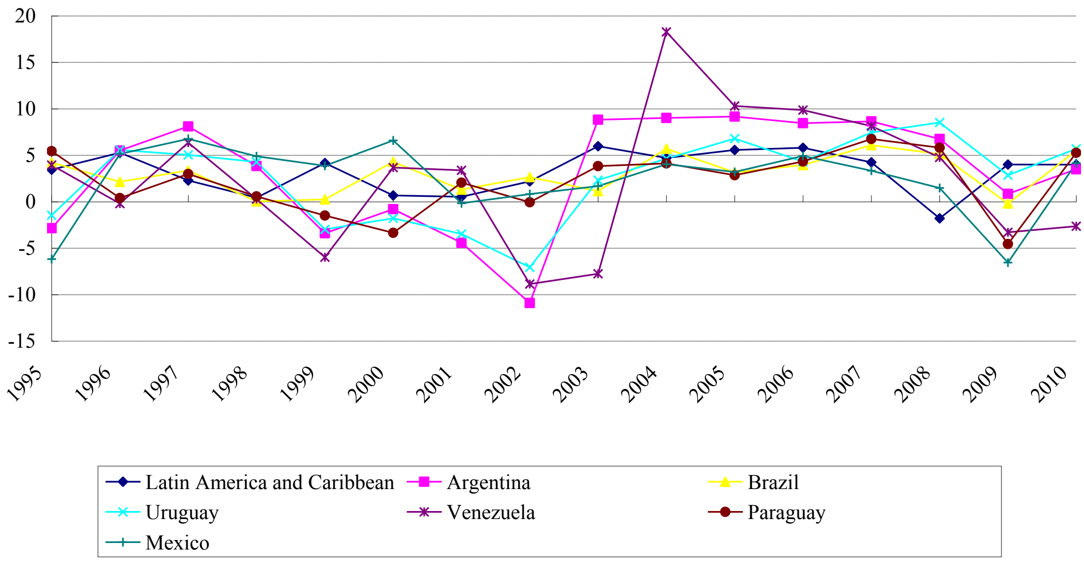
Latin America Scale per Country (population, nominal and real GDP, nominal GDP per capita

2009

	Population (Millions)	Nominal GDP (1 billion dollars)	Real GDP Growth Rate (%)	Nominal GDP per capita (dollar)
Argentina	40.1	310.1	0.9	7,725.66
Brazil	191.5	1574.0	-0.2	8,220.36
Uruguay	3.3	31.5	2.9	9,425.53
Venezuela	28.6	337.3	-3.3	11,789.00
Paraguay	6.3	14.7	-4.5	2,336.89
MERCOSUR Member Countries	269.8	2267.6	-	-
Chile	17.0	161.8	-1.5	9,525.37
Bolivia	10.2	17.6	3.3	1,723.51
Peru	29.1	126.8	0.9	4,356.03
Ecuador	14.1	57.3	0.4	4,059.26
Columbia	45.0	228.8	0.1	5,087.43
Mexico	107.6	874.9	-6.5	8,134.75
Total	492.8	3734.8	-	-

Source: *World Economic Outlook, April 2010* , (IMF)

1-2-5-45 Trends in Real GDP Growth Rates of MERCOSUR Member Countries and Mexico (Comp. prev. year)



(b) Overview

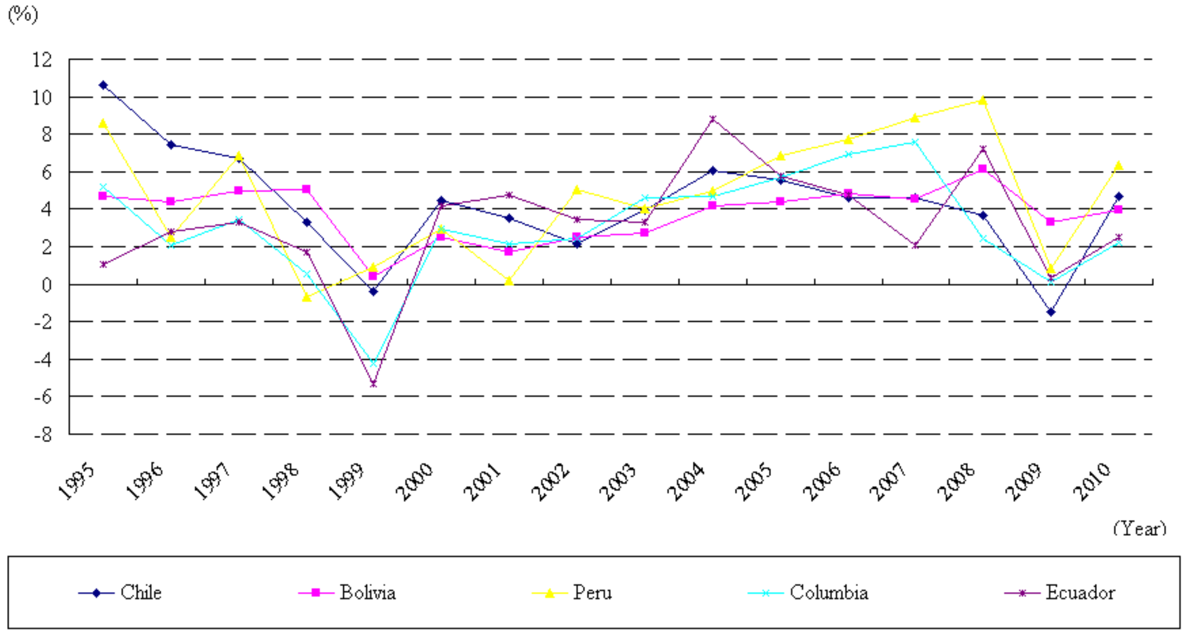
(i) Slowing down Latin American economy

Due to the influence from the global financial crisis, the Latin American economy greatly reduced its speed of growth in 2009. The trend of real GDP growth rate shows that the Latin America and the Caribbean region had been maintaining some 5% of year-on-year growth after entering the latter half of the 2000s, but it dipped to 4% growth in 2009 (see Figure 1-2-5-45). The data by country indicates that only three countries including Uruguay, Bolivia and Peru kept positive growth despite drastically slowing down its growth, while all other countries registered minus growth (see Figure 1-2-5-46). Among them, Mexico marked minus 6.5% growth demonstrating its rapid recession.

According to the International Monetary Fund (IMF), this decline in the economic growth rate is the result of decreased consumption, investment and exports due to the deteriorated foreign capital acquisition environment with declined foreign capital inflow influenced by the outbreak of the global financial crisis, shrank overseas demand and reduced money transfer to home countries by migrants and workers who moved from Latin America to other countries such as the U.S.

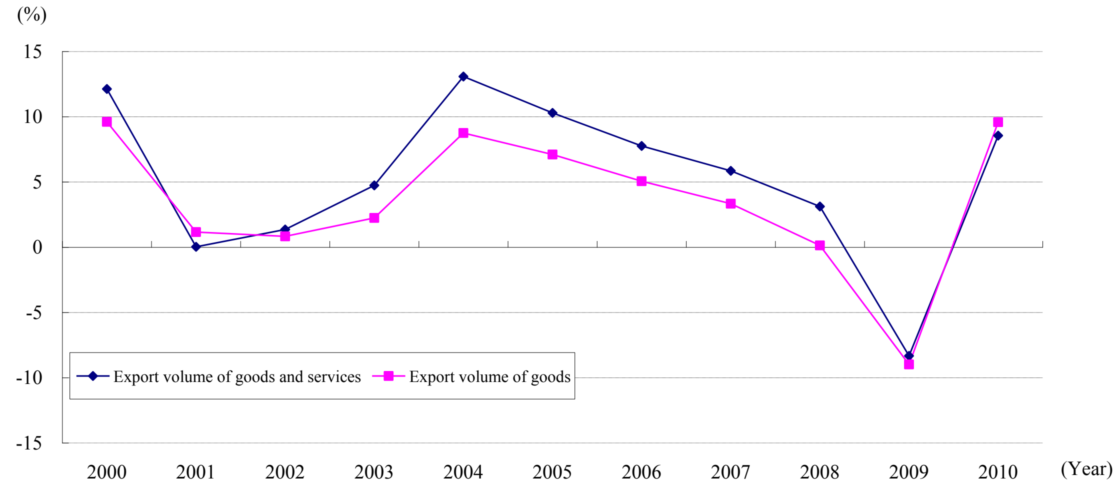
In fact, the trade trend shows that the total exports of goods and services from the Latin America and the Caribbean region decreased by 8.3% in 2009 from the previous year (see Figure 1-2-5-47). Economic Commission for Latin America and the Caribbean of the United States (ECLAC) estimates that particularly the trade amount of oil exporting countries significantly declined in 2009 (see Figure 1-2-5-48).

1-2-5-46 Trends in Real GDP Growth Rates of Associate MERCOSUR Member Countries (Comp. prev. year)



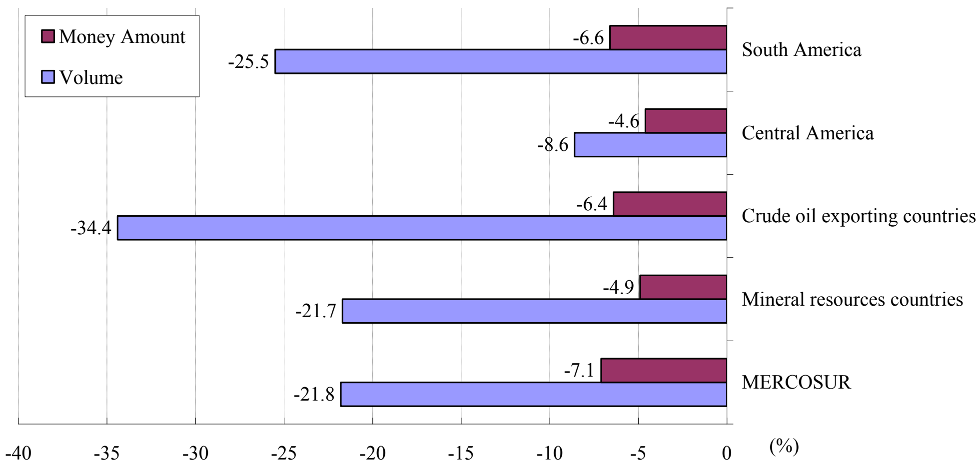
Notes: 2010 based on IMF projections.
Source: World Economic Outlook, April 2010, (IMF)

1-2-5-47 Trends in the Export of Goods and Services from Latin American Region Economies



Notes: 2010 based on IMF projections.
Source: World Economic Outlook, April 2010, (IMF)

1-2-5-48 Growth in Exports for Latin American Region Economies (2009, Comp. prev. year)



Notes: 2009 based on ECLAC projections.
Source: Preliminary Overview of the Economies of Latin America and the Caribbean 2009, December 2009 (ECLA)

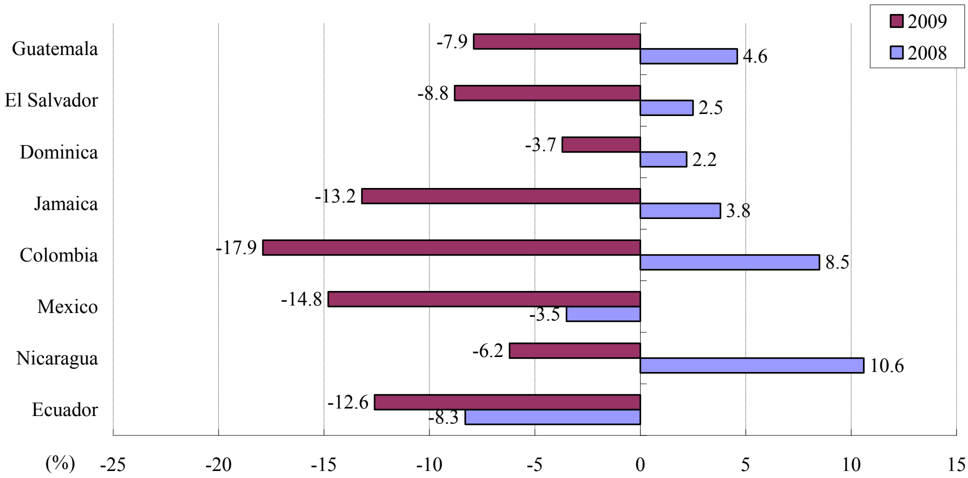
As for the money transfer to home countries by overseas workers and migrants, ECLAC projects that the year-on-year growth of 2009 demonstrates a substantial negative growth (see Figure 1-2-5-49). In Latin America, the money transfer to home countries has been gaining attention as one of the capital flow from developed countries along with direct investment and ODA. One of the reasons is its large size of capital flow. In some countries, the size of home money transfer exceeds that of foreign direct investment and ODA[129].

The size of home money transfer in Latin America indicates that it exceeds 10% of GDP in Guatemala and Nicaragua and it actually reaches 20% of GDP in Haiti and Honduras. The ratio of

129 Kenichiro Matsui (March 1, 2009) “CHUUNANBEICHIIKINO KYOURISOUKINTO ORANDABYOU” (“KOKUSAI KINYUU” No.1198)

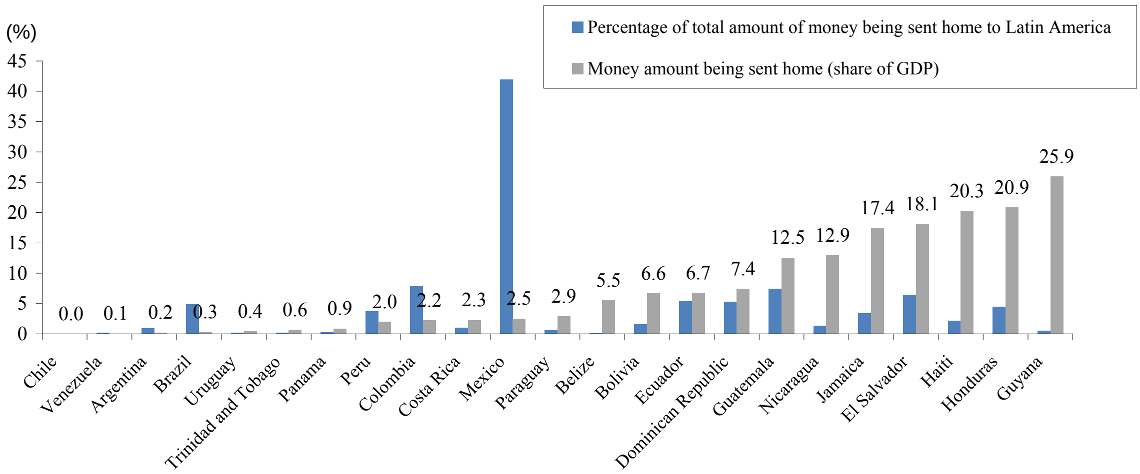
home money transfer to GDP of Mexico is 2.5%. However, since the size of GDP is large, the home money transfer of Mexico accounts for 40% of total of the transfer to Latin America region (see Figure 1-2-5-50).

1-2-5-49 Year on Year Comparison of the Growth of Hometown Remittances to Latin American Countries (2008, 2009)



Notes: 2009 based on ECLAC projections.
Source: Preliminary Overview of the Economies of Latin America and the Caribbean 2009, December 2009 (ECLA)

1-2-5-50 Scale of Hometown Remittances to Latin American Countries



Source: Latin America Economic Outlook 2010 , 2009, (OECD)

It is assumed that the home money transfer which is important to each economy shrank because the economy of the countries that workers stay became stagnant due to the global financial crisis. According to OECD, the number of Latin American workers and migrants abroad exceeded 20 million which is equivalent to 4 to 5% of the population of the region[130]. The destination of over 70% of such workers is the U.S. (see Figure 1-2-5-51). It is considered that the significant

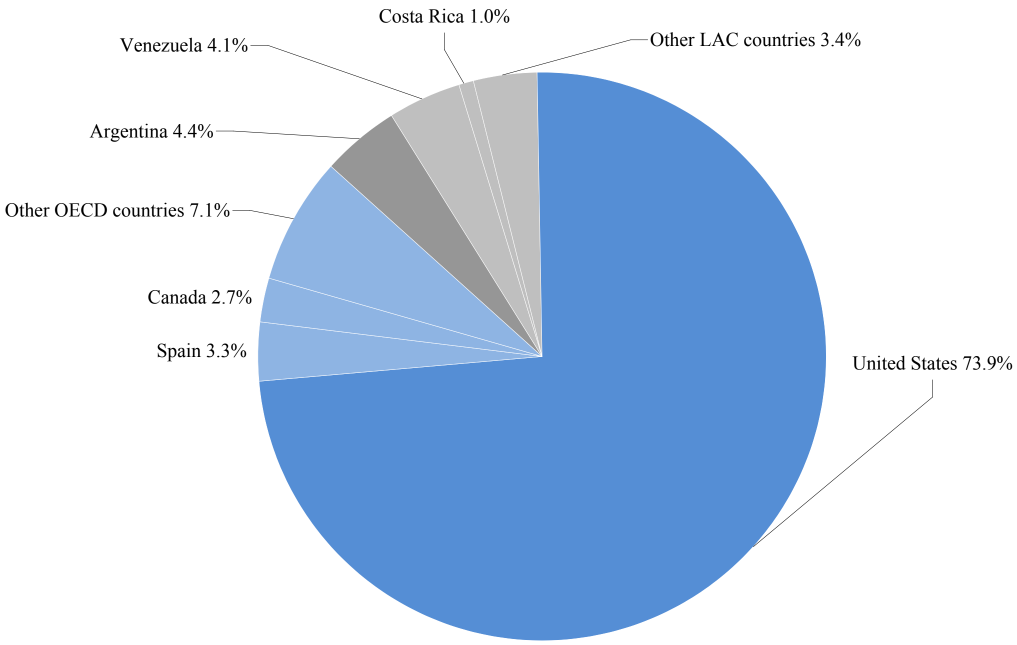
[130] 2000. Source: OECD, Latin American Economic Outlook 2010

slowdown of American economy due to the global financial crisis dramatically reduced the home money transfer to Latin American countries.

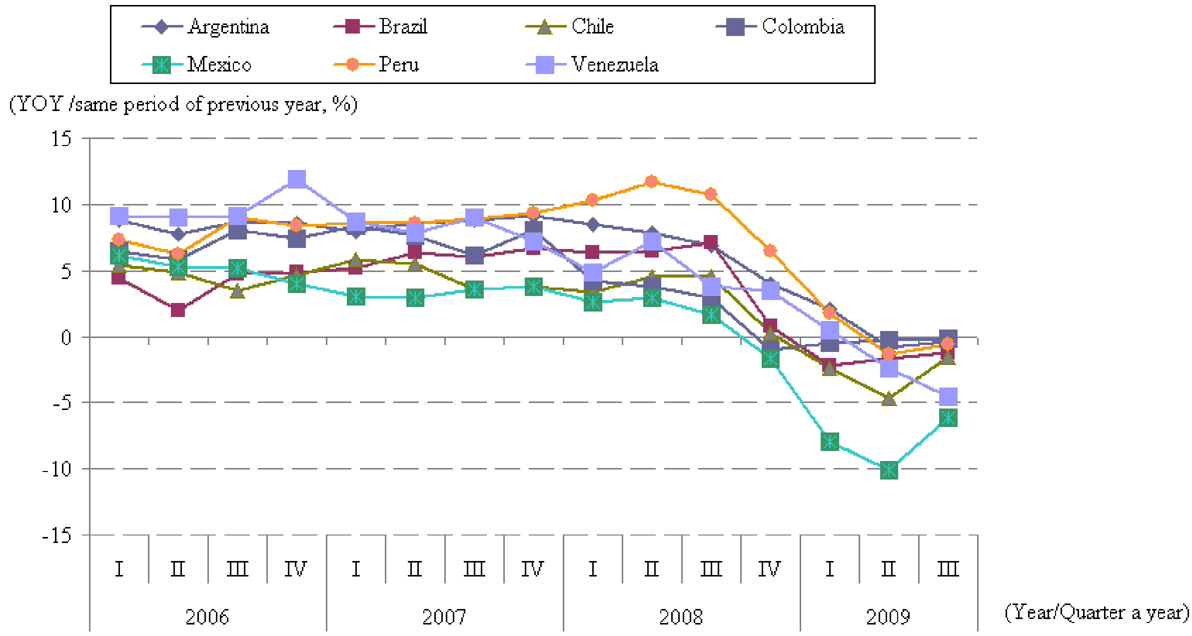
(ii) Recovering Latin American economy

Although Latin American economy slowed down with the impact of the global financial crisis, it hit the bottom during the first and second quarter of 2009 and started recovering (see Figure 1-2-5-52). The background for the recovery of Latin American economy includes not only the political measures of each government and the influence from gradual recovery of the world economy, but also the fundamentals of Latin America which have been improving its soundness compared to the past, as mentioned later.

1-2-5-51 Share of Source of Foreign Earning Workers/Immigrants from Latin American Countries



Source: Latin America Economic Outlook 2010, November 2009 (OECD) q1-2-5-52 Trends in Real GDP Growth Rates for Major Latin American Countries (Comp. Prev. year)



Source: Statistics bureau and central bank of each country

1-2-5-53 Economic Crisis Policies of Latin American Countries

		Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay	Venezuela
Tax reduction	Corporate tax				■ *	■	■	■ *		■	■ *	
	Personal income tax	■		■	■ *	■		■ *				
	External trade tax	■		■ *			■	■				
	Taxes on goods and services			■ *								
	Social contributions	■						■ *				
Public spending	Infrastructure investment	■	■	■	■	■	■	■	■	■	■	
	Housing		■		■ *	■		■	■	■	■	
	Support for SMEs and agricultural producers			■	■	■		■	■	■	■	■
	Support for strategic sectors		■	■	■					■		
	Direct transfers to households	■ *			■ *				■			

Notes: Shaded area represents fields where measures have been made. * Indicates inclusion of time limited measures.
Source: *Economic Survey of Latin America and the Caribbean (2008-2009)* , (ECLAC)

[Success of the immediate measures by international organizations and each government]

Firstly, IMF and the World Bank took measures against the global financial crisis and expanded the loan commitment to increase liquidity supply. Then, regional organizations immediately implemented measures against financial turmoil in Latin America as well. To be specific, three organizations including Inter-American Development Bank (IDB), CAF (Corporación Andina de Fomento) and FLAR (Latin American Reserve Fund) announced on October 13, 2008 that they would secure loan commitments worth $9.3 billion to insure the liquidity supply to the region. The allocations of IDB, CAF and FLAR are $6 billion, $1.5 billion and $1.8 billion, respectively. It was highly evaluated that regional organization promoted togetherness among countries in the region by immediately arranging loan commitments after the outbreak of the Lehman shock[131].

Each government also executed measures (see Table 1-2-5-53). The Brazilian government, for example, announced its measures to support small-to-medium-sized financial institutions immediately after the outbreak of the global financial crisis on October 2008. With this scheme, a bank that suffers from the capital shortfall affected by the global financial crisis to issue shares and a governmental financial institution will purchase the shares. For the households, from October to December 2008, the government announced the tax cut for the financial transactions related to the loans to purchase motorbikes, the income tax cut for individual and the credit guarantee of 5.0 billion real extended by the Ministry of Agriculture, Livestock and Food Supply to the agriculture sector. For companies, it lowered the tax on industrial goods in the automobile industry.

Moreover, the Mexican Government announced "Programme to Boost Growth and Employment" on October 2008. It intended to facilitate 65.1 billion peso of government spending and 174.3 billion peso of loans and guarantee. For companies, the government implemented measures such as the enhancement of loans and guarantee for small-to-medium-sized enterprises and the expansion of loans for infrastructure-related projects. To support households, the measures included the freeze of gasoline prices, a 10% reduction of LPG price, the promotion of replacement of goods and housing with energy-efficient ones and the enhancement of housing loans.

[Influence from the price hike of food products and resources]

In Latin America, agricultural products and natural resources are important industries. For example, in Brazil, the agriculture sector accounts for some 20% of total working population and exports 40% of total exports. The list of top 10 exporters of major agricultural products shows that Brazil is the second largest exporter of corn after the United States and the top exporter of sugar handling almost 50% of the world exports. Besides, Argentina, Paraguay and Uruguay are also ranked high as in the exporter list (see Figure 1-2-5-54).

As for mineral resources, Brazil is ranked among top 10 producers of iron ore, bauxite and nickel, and Chile is the top producer of copper with the largest production share of 36.1% (see Table 1-2-5-55). Furthermore, with regards to crude oil, Latin America has a 10.7% of world crude oil reserve. In Latin America, Venezuela with the Orinoco Belt[132] with one of the largest oil reserve in the world is the top oil producer and Mexico is the runner-up in the region[133]. Brazil is expected to significantly increase its oil production through the development of deep-sea oil field.

Latin America that presents these traits had been receiving the benefit from recent price hike of resources and food products. Immediately after the global financial crisis, the prices of food products and natural resources declined and gave negative impact on the local economy in Brazil.

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131 Kenichiro Matsui "GUROUBARUKINYUUKIKINO NANBEIKEIZAINO EIKYOU – SEKAIDOUJIFUKYOUNONAKADE KEIZAIPAFOUMANSUNO KAKUSAGA HIROGARUKA (The Influence of the Global Financial Crisis over the Latin American Economy – Will the economic performance disparity widen in the concurrent world recession?)" (Institute for International Monetary Affairs "Newsletter" January 16, 2009)

132 Recoverable reserve of the Orinoco Belt is estimated as 235.0 billion barrel. (Japan Oil, Gas and Metals National Corporation "VENEZUERA: *PDVSA*, ORINOKOBERUTOCHOUJUUSHITSUYU PUROJEKUTOWOHAJIME SUBETENO SEKIYUPUROJEKUTONO KAHANO SHUTOKUE" (June 15, 2007)

133 Share of 2008. The share to the world reserved is 7.9% for Venezuela, and 0.9% for Mexico. (British Petroleum website "Statistical Review of World Energy June 2009")

However, the subsequent recovery of prices of food products and natural resources will likely provide positive influence to the economic growth of Latin America (see Figure 1-2-5-56).

[Improved economic fundamentals]

Based on the recent improvement of economic fundamentals, the vulnerability against external factors is diminishing compared to the past.

In the past, Latin American economy often suffered from foreign credit crises and financial crises. In 1994, Mexico currency crisis occurred in 1994 and affected Argentina. In Argentina, a large amount of deposit was withdrawn due to the fear for the possible denomination of currency. In 1999, a currency crisis occurred in Brazil as well. While Brazil has a structure to constantly make up for its deficit with foreign borrowing, markets became more cautious about a possibility that the government would be short of foreign capital. The fear drastically reduced the inflow of capital to the market and often created problems.

Moreover, in the first half of the 2000s, Brazil had a presidential election and the Lula administration of the worker's party was established. Due to the fear for the drastic policy changes initiated by the administration, there were series of events such as the depreciation of currency, the increase of country risk premium and the drop of stock prices[134]. In the midst of this confusion, the sentiment of overall Latin America became sluggish and the growth rate dropped.

However, in Brazil, Lula President changed his policies after his inauguration to contain such confusion. He inherited the previous administration's basic policies including fiscal balance and open economy and restored the trust in the international communities. After the middle of the 2000s, many Latin American countries accomplished steady economic development. As a result, the region as a whole maintained around 5% of annual growth.

1-2-5-54 Top 10 Countries Exporting Major Agricultural Products

(Thousand tons, %)

	Corn			Wheat			Sugar			Soybean Oil			Beef			Pork		
Rank	Country	Export Volume	Share	Country	Export Volume	Share	Country	Export Volume	Share	Country	Export Volume	Share	Country	Export Volume	Share	Country	Export Volume	Share
1	U.S.A.	52,072	62.0	U.S.A.	23,814	19.1	Brazil	23,850	46.5	Argentina	5,220	55.0	Brazil	1,555	21.9	U.S.A.	1,887	34.5
2	Brazil	9,000	10.7	EU-27	19,000	15.2	Thailand	5,800	11.3	Brazil	1,500	15.8	Australia	1,390	19.5	EU-27	1,250	22.9
3	Argentina	8,000	9.5	Canada	18,500	14.8	Australia	3,700	7.2	U.S.A.	1,474	15.5	U.S.A.	785	11.0	Canada	1,130	20.7
4	Ukraine	5,000	6.0	Russia	18,000	14.4	UAE	1,700	3.3	Paraguay	250	2.6	India	675	9.5	Brazil	645	11.8
5	South Africa	1,500	1.8	Australia	15,000	12.0	Guatemala	1,515	3.0	Bolivia	229	2.4	Argentina	560	7.9	China	230	4.2
6	Serbia	1,500	1.8	Ukraine	9,000	7.2	EU-27	1,475	2.9	EU-27	190	2.0	New Zealand	525	7.4	チリ	142	2.6
7	EU-27	1,500	1.8	Kazakhstan	7,500	6.0	Colombia	1,035	2.0	Russia	110	1.2	Canada	475	6.7	Mexico	86	1.6
8	Paraguay	1,000	1.2	Argentina	2,500	2.0	South Africa	900	1.8	China	100	1.1	Uruguay	310	4.4	Australia	45	0.8
9	India	1,000	1.2	Turkey	2,300	1.8	Cuba	800	1.6	Malaysia	80	0.8	Paraguay	210	3.0	Korea	20	0.4
10	Thailand	750	0.9	Uruguay	1,200	1.0	Mexico	690	1.3	Norway	68	0.7	Colombia	180	2.5	Vietnam	10	0.2
	Other	2,635		Other	7,859		Other	9,812		Other	263		Other	445		Other	20	
	Total	83,957		Total	124,673		Total	51,277		Total	9,484		Total	7,110		Total	5,465	

Source: *Production, Supply and Distribution Online Database* , 2009, (U.S. Department of Agriculture)

[134] Japan Center for International Finance "KISO REPOUTO: BURAZIRU (Fundamental Report: Braizil)"

1-2-5-55 Top 10 Countries Producing Major Resources

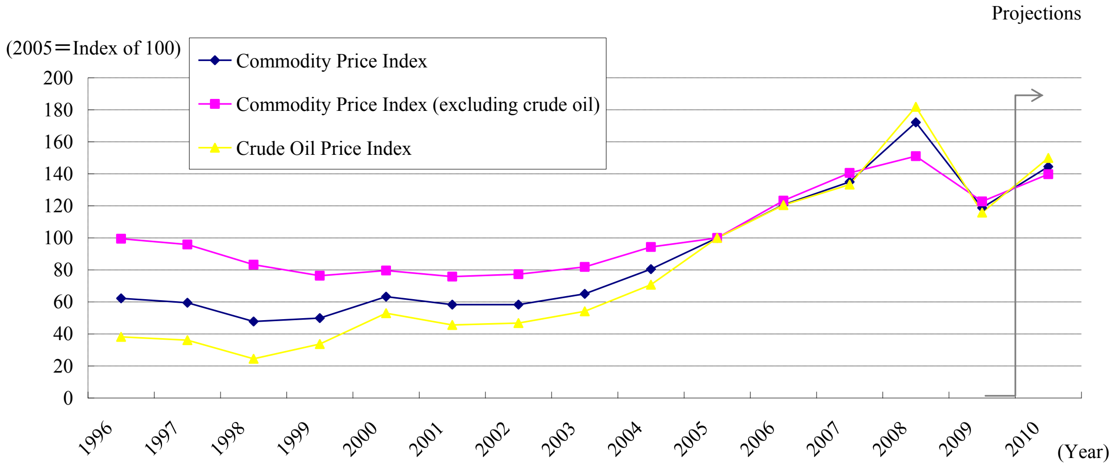
(Thousand tons, %)

Rank	Iron Ore			Bauxite			Copper		
	Country	Production Volume	Share	Country	Production Volume	Share	Country	Production Volume	Share
1	China	707,000	38.4	Australia	61,389	29.9	Chile	5,557	36.1
2	Brazil	354,674	19.3	China	35,000	17.1	Peru	1,190	7.7
3	Australia	299,009	16.2	Brazil	22,000	10.7	U.S.A.	1,170	7.6
4	India	180,000	9.8	India	21,210	10.3	China	946	6.1
5	Russia	105,000	5.7	Guinea	18,500	9.0	Australia	871	5.7
6	South Africa	42,083	2.3	Jamaica	14,000	6.8	Indonesia	773	5.0
7	Canada	32,834	1.8	Russia	6,300	3.1	Russia	740	4.8
8	Iran	31,538	1.7	Venezuela	5,500	2.7	Canada	589	3.8
9	Kazakhstan	23,834	1.3	Surinam	5,230	2.6	Zambia	528	3.4
10	Mexico	12,205	0.7	Kazakhstan	4,900	2.4	Poland	452	2.9
	World Total	1,841,971		World Total	205,000		World Total	15,400	
Rank	Lead			Zinc			Tin		
	Country	Production Volume	Share	Country	Production Volume	Share	Country	Production Volume	Share
1	China	1,500	39.1	China	2,900	26.6	China	135	41.4
2	Australia	645	16.8	Australia	1,518	13.9	Indonesia	102	31.3
3	U.S.A.	410	10.7	Peru	1,444	13.3	Peru	39	12.0
4	Peru	345	9.0	U.S.A.	803	7.4	Bolivia	18	5.4
5	Mexico	101	2.6	Canada	623	5.7	Brazil	10	2.9
6	Canada	99	2.6	India	572	5.3	Congo	4	1.1
7	India	87	2.3	Mexico	427	3.9	Vietnam	4	1.1
8	Bolivia	82	2.1	Ireland	401	3.7	Niger	3	1.0
9	Poland	62	1.6	Kazakhstan	386	3.5	Rwanda	3	0.8
10	Russia	60	1.6	Sweden	215	2.0	Malaysia	3	0.8
	World Total	3,840		World Total	10,900		World Total	326	
Rank	Silver			Nickel			Molybdenum		
	Country	Production Volume	Share	Country	Production Volume	Share	Country	Production Volume	Share
1	Peru	3	16.6	Russia	280	16.9	China	81	37.2
2	Mexico	3	14.2	Canada	255	15.3	U.S.A.	56	25.6
3	China	3	12.8	Indiaネシア	229	13.8	Chile	34	15.5
4	Chile	2	9.2	Australia	160	9.7	Peru	17	7.7
5	Australia	2	8.9	New Caledoni	125	7.5	Mexico	8	3.6
6	Poland	1	6.2	Colombia	101	6.1	Canada	8	3.5
7	U.S.A.	1	6.0	China	85	5.1	Armenia	4	1.9
8	Russia	1	5.7	Philippines	78	4.7	Iran	4	1.7
9	Canada	1	4.1	Cuba	75	4.5	Russia	4	1.7
10	Kazakhstan	1	3.8	Brazil	58	3.5	Mongolia	2	0.9
	World Total	21		World Total	1,660		World Total	218	

Notes: Values of bauxite, lead, tin and molybdenum are based on 2008 data, the rest are based on 2007 data.

Source: *Minerals Yearbook 2007* , (US Geological Survey), *Minerals Yearbook 2008* , (US Geological Survey)

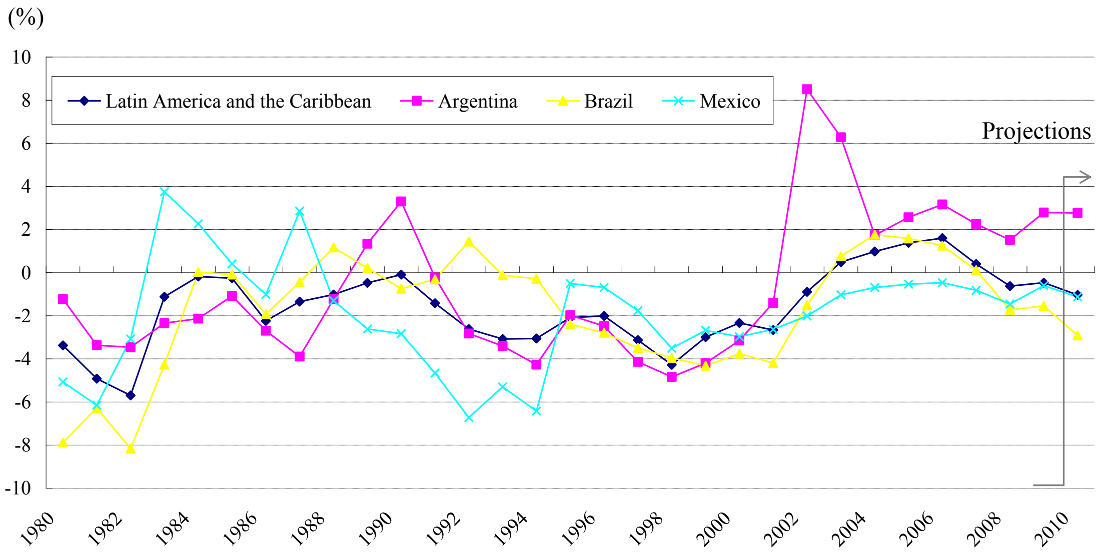
1-2-5-56 Trends for Commodity Price Index and Crude Oil Price Index



Notes: 2010 based on IMF projections.
Source: World Economic Outlook April 2010 (IMF)

Under these circumstances, the current balance of each Latin American country has improved as well. The governments used to consistently end with deficit from the 1990s to the beginning of the 2000s. However, later, some countries reduced their deficit and some started registering surplus supported by the brisk world economy and price hike of resource prices (see Figure 1-2-5-57).

1-2-5-57 Current Account Balance as Proportion of GDP for Latin American and Caribbean Countries

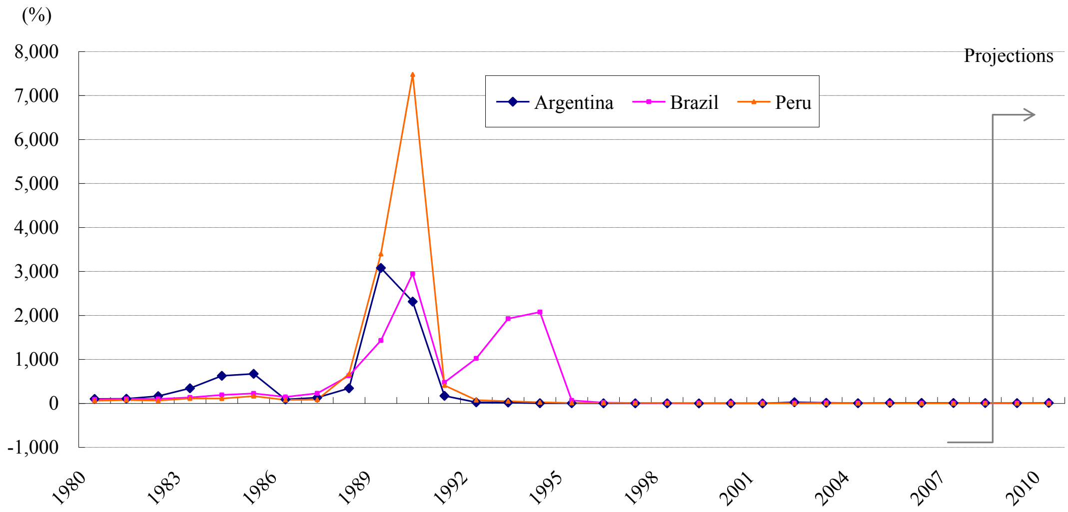


Notes: 2010 based on IMF projections.
Source: World Economic Outlook Database, April 2010, (IMF)

In addition, many Latin American countries have experienced an annual inflation rate of 100% in the past. Argentina, Brazil and Peru have experienced hyper inflation with an annual rate of over 1,000%. However, as of today, prices are under control supported by active fiscal policy and hyper inflation is a thing of the past (see Figure 1-2-5-58 and Figure 1-2-5-59).

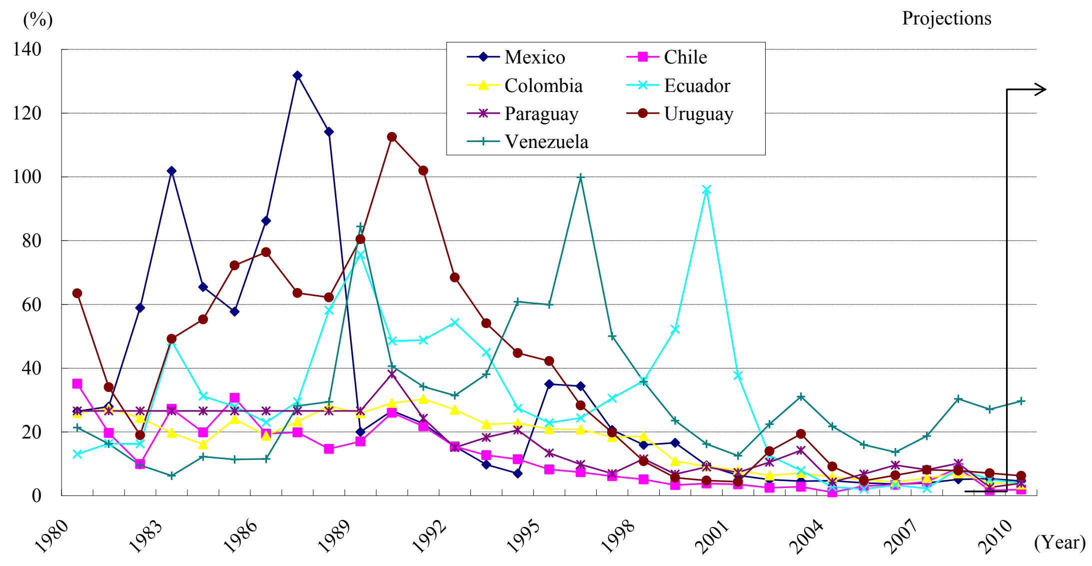
Furthermore, countries including Brazil, Mexico, Venezuela and Peru invested the gain received from the highly priced resources into the poverty management policy in the country. They took active measures such as the provision of direct allowance to poor families and raise of the minimum wage. For example, Brazil executed "Bolsa Familia" program in 2003. This is a program to offer subsidy to the low-level income group; it provides cash as living costs to poor families with 15 years old or younger children on condition that school aged children has to attend school and infants have to receive a periodic health check-up and vaccination. Scope of the program counted 11.10 million households with 44.00 million people in 2006. In 2008, the age limit of children and the maximum allowance amount were raised. The government directly supported poor family by providing cash. The parents that are the subjects of the support program are required to be responsible for their child's education and health. Beyond being a mere financial support, the program aimed to modify the domestic income gap taking the medium-and-long-term views.

1-2-5-58 Inflation Rates of Latin American Countries (Argentina, Brazil and Peru)



Notes: 2010 based on IMF projections.
Source: World Economic Outlook Database, April 2010, (IMF)

Trends of Inflation Rates for Latin American Countries (Mexico, Chile, Columbia, Ecuador, Paraguay, Uruguay, Venezuela)



Notes: 2010 based on IMF projections.
Source: World Economic Outlook Database, April 2010, (IMF)

In recent Latin America, the poverty ratio started steadily declining while these measures provide positive effect (see Figure 1-2-5-60). OECD pointed out that the poverty rate which increased up to 47.0% in 1992 decreased to 33.2% in 2008.

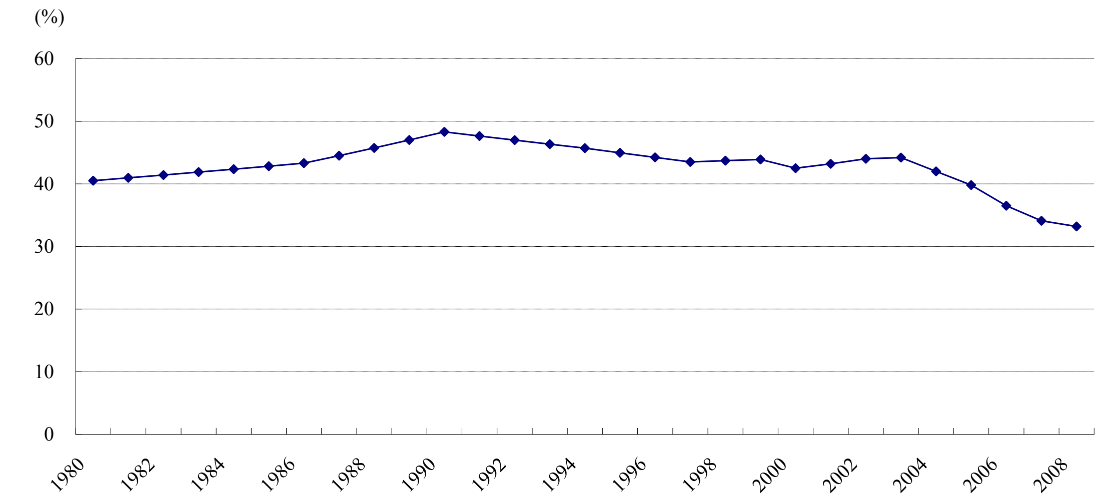
(c) Trend of each country and region

As previously mentioned, backed by the improvement of fundamentals and other factors, the Latin American economy has strengthened its resistance against external negative economic factors. Thus, overall Latin America succeeded to avoid substantial economic turmoil after the outbreak of the global financial crisis.

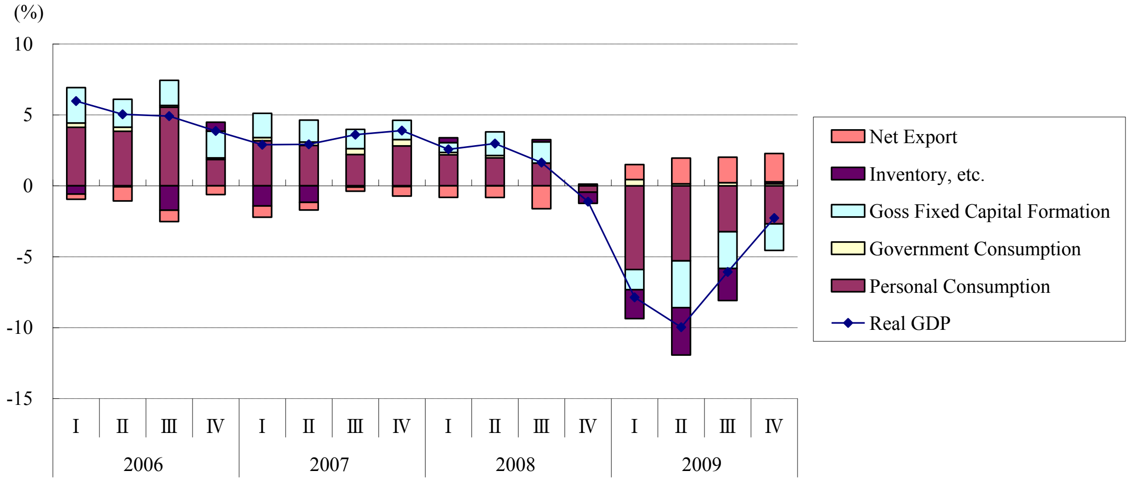
Below, we would like to analyze the economic characteristics of major Latin American countries and summarize their potential risk factors.

(i) Mexican economy with strong tie with the U.S.

This world economic crisis has given a serious impact particularly on Mexico in Latin America and the real GDP growth rate of Mexico dramatically declined. The trend of real GDP growth by demand component shows that personal consumption and capital investment largely improved the growth rate (see Figure 1-2-5-61).



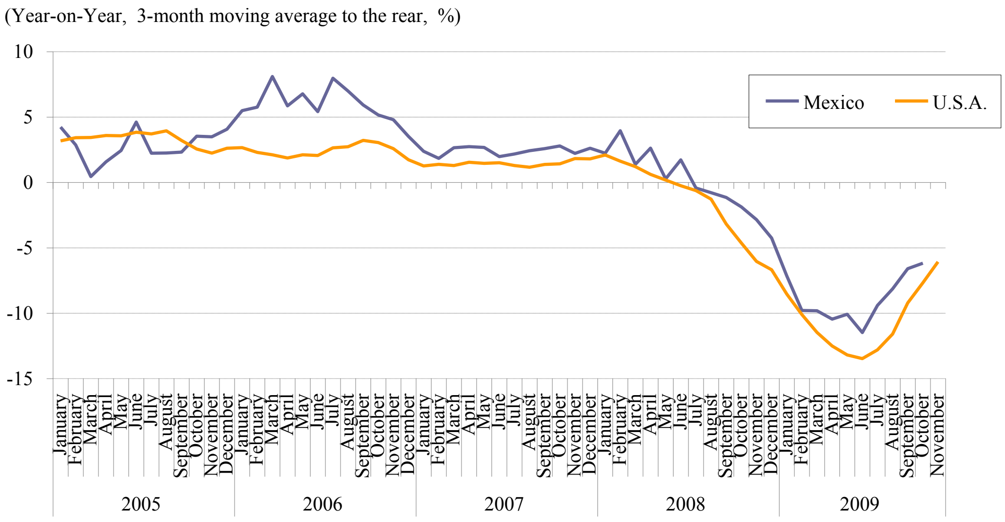
Notes: Ratio of poverty headcount in Latin America's population. Poverty is the condistion where income is lower than the cost to sustain basic dietary needs.
Source: Latin America Economic Outlook 2010, 2009 (OECD)



Source: CEIC Database

The rapid deterioration of economy is considered to be the result of the progress in the integration of the Mexican economy and the U.S. economy after NAFTA took effect compared to other countries in Latin America.

Firstly, the industrial production index of Mexico (see Figure 1-2-5-62) shows the similar trend with that of the U.S. Then, Mexico's exports to the U.S. accounts for 80% of total exports (see Table 1-2-5-63) which is equivalent to about the quarter of GDP. Moreover, the stock base inward direct investment in Mexico from 1999 to 2009 shows that the U.S. is the top investor that invested 54.1% of total amount. Utilizing its geographical advantage, Mexico has been highly attracting the direct investment from the U.S. as the export and production base for the U.S. market (see Figure 1-2-5-64).



Notes: Index for Mexico in 2003 is 100, for U.S.A. in 2002 is 100.
Source: CEIC Database

Significant reduction of the demand due to the slowdown of the U.S. economy rapidly deteriorated the exports of Mexico as well as its production. Inward direct investment in the manufacturing industry also declined (see Figure 1-2-5-65). As mentioned earlier, the home money transfer from overseas workers also dropped sharply, and personal consumption declined considerably[135]. However, afterwards, the implementation of government economic stimulus measures and the gradual improvement of U.S. economy supported the bottoming out of the Mexican economy.
The U.S. economy that the Mexican economy is highly integrated into is extremely influential and it is viewed that the trend of U.S. economy will deeply affect the degree of the recovery of the Mexican economy.

(ii) Commodity export and domestic demand, the keys for Brazil and Argentina
[Trend of Brazilian economy: Overview of the economy]
On the other hand, in recent Brazil, exports and domestic demand have been the driving force of the economy. After 2001, private consumption and fixed asset formation steadily expanded (see Figure 1-2-5-66) partially due to the interest rates cut and exports considerably increased because of the enlarged overseas demand mainly from the U.S and the rise of primary product prices. Later, Brazil's resources and potential gained attention and foreign direct investment and securities investment expanded. Inflow of foreign capital caused the appreciation of real and the production of exporting companies shrank. However, supported by the sound economy with the expansion of exports and direct investment, the unemployment rate lowered and real wages increased (see Figure 1-2-5-67). This trend resulted in the increase of personal consumption and the expansion of capital investment of companies that targeting to increase their production for domestic market and

135 In addition, the factors that caused recession include the constraint of economic activities due to the prevalence of Influenza A(H1N1) and the inflation rate that stayed at high level due to the hike of grain prices while the agriculture imports are increasing and the increase of import prices backed by the depreciation of peso.

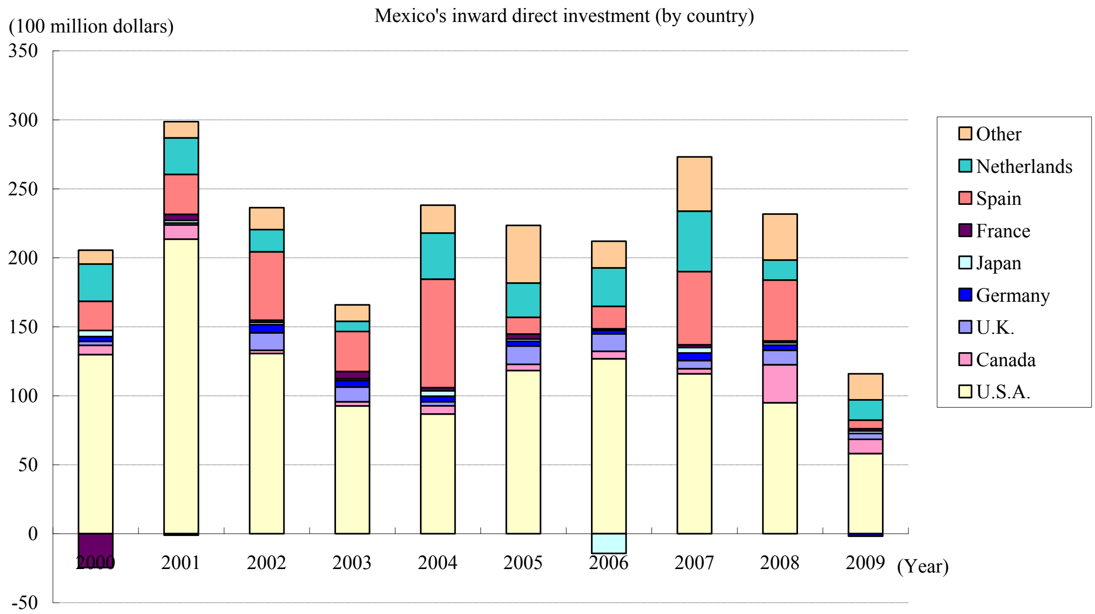
demonstrated a favorable economic cycle.

1-2-5-63 Trends in Import/Export Composition of Mexico by Major Countries/Regions

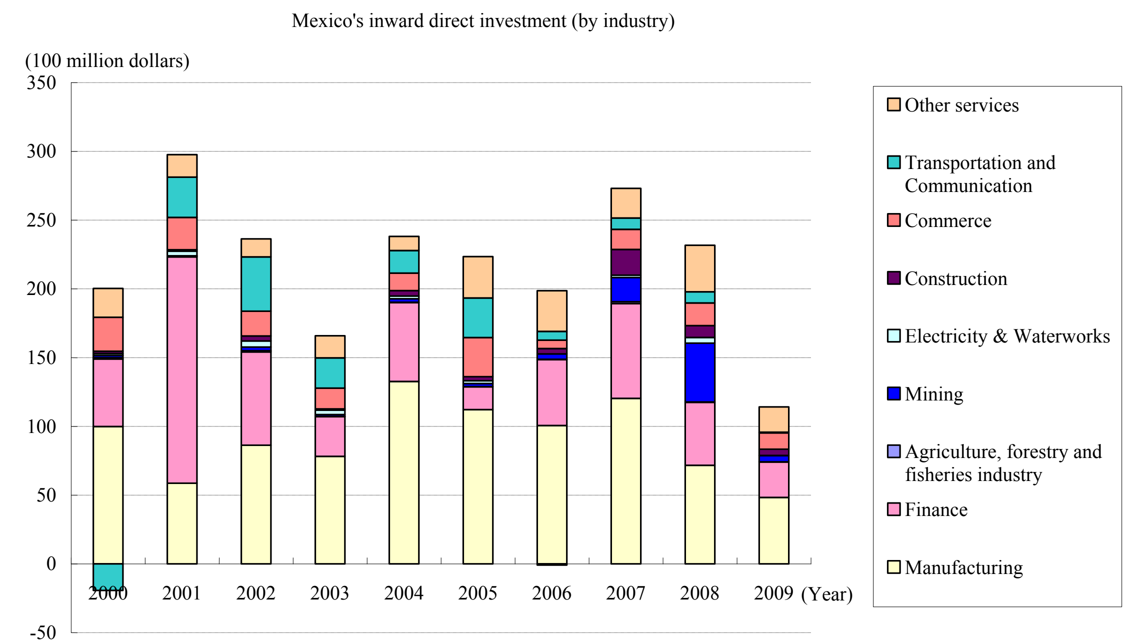
(%)

Countries and Regions	Export (Notes 1)								Import (Notes 1)					
	1995	2000	2005	2006	2007	2008	2009	1995	2000	2005	2006	2007	2008	2009
North America	84.6	90.2	87.7	86.8	84.5	82.6	84.2	76.2	75.4	56.2	53.8	52.4	52.3	51.1
U.S.A.	82.0	88.0	85.7	84.7	82.1	80.2	80.5	74.3	73.1	53.4	50.9	49.6	49.2	48.0
Canada	2.6	2.1	2.0	2.1	2.4	2.4	3.6	1.9	2.3	2.8	2.9	2.8	3.0	3.1
Central America (Notes 2)	1.0	0.9	1.1	1.1	1.3	1.4	1.3	0.1	0.2	0.6	0.6	0.5	0.6	0.8
ALADI Notes 3)	4.5	2.0	2.8	3.3	4.1	4.8	4.4	2.0	2.3	4.8	4.9	4.4	3.9	3.5
EU	4.7	3.5	4.3	4.4	5.1	5.8	4.9	9.4	8.6	11.6	11.3	11.9	12.6	11.6
EFTA (Notes 4)	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.6	0.5	0.6	0.5	0.5	0.5	0.6
NIES (Notes 5)	1.0	0.5	0.5	0.6	0.6	0.6	0.6	3.0	4.0	6.0	7.1	7.5	7.3	7.3
Japan	1.3	0.7	0.7	0.6	0.7	0.7	0.7	5.5	3.7	5.9	6.0	5.8	5.3	4.9
Panama	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0
China	0.3	0.2	0.5	0.7	0.7	0.7	1.0	0.7	1.7	8.0	9.5	10.5	11.2	13.9
Israel	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other	2.1	1.7	2.1	2.2	2.6	2.8	2.3	2.6	3.4	6.0	6.2	6.1	6.2	6.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

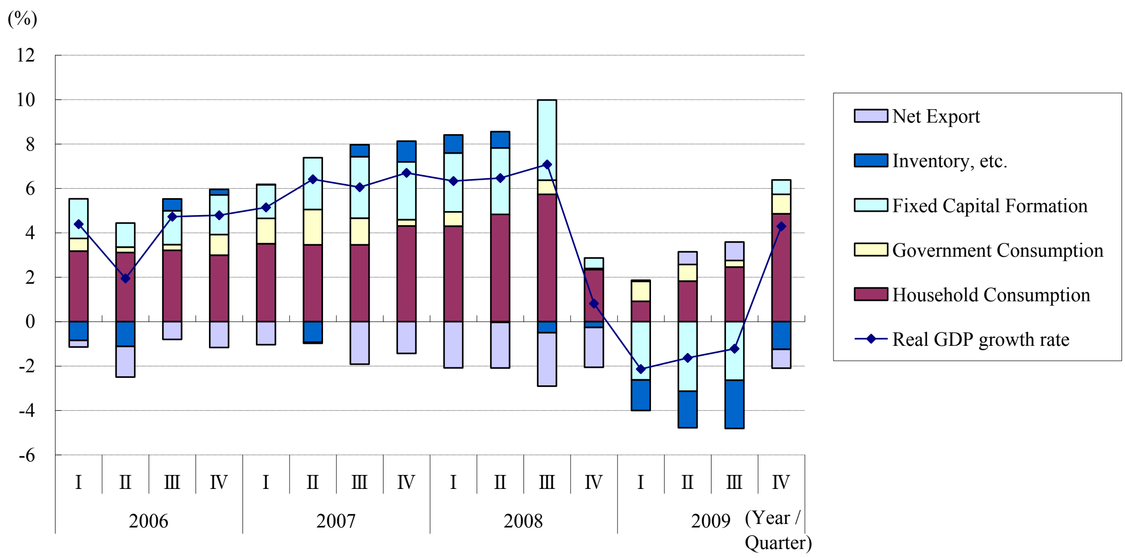
Notes: 1. Export includes freight charge and insurance fees, import is customs statistics. 2. Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua 3. Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Paraguay, Peru, Uruguay, Venezuela, Cuba (Joined 5 August, 1999) 4. Iceland, Norway, Switzerland 5. Korea, Taiwan, Hong Kong, Singapore
Source: CEIC Database.



Source: CEIC Database



Source: CEIC Database

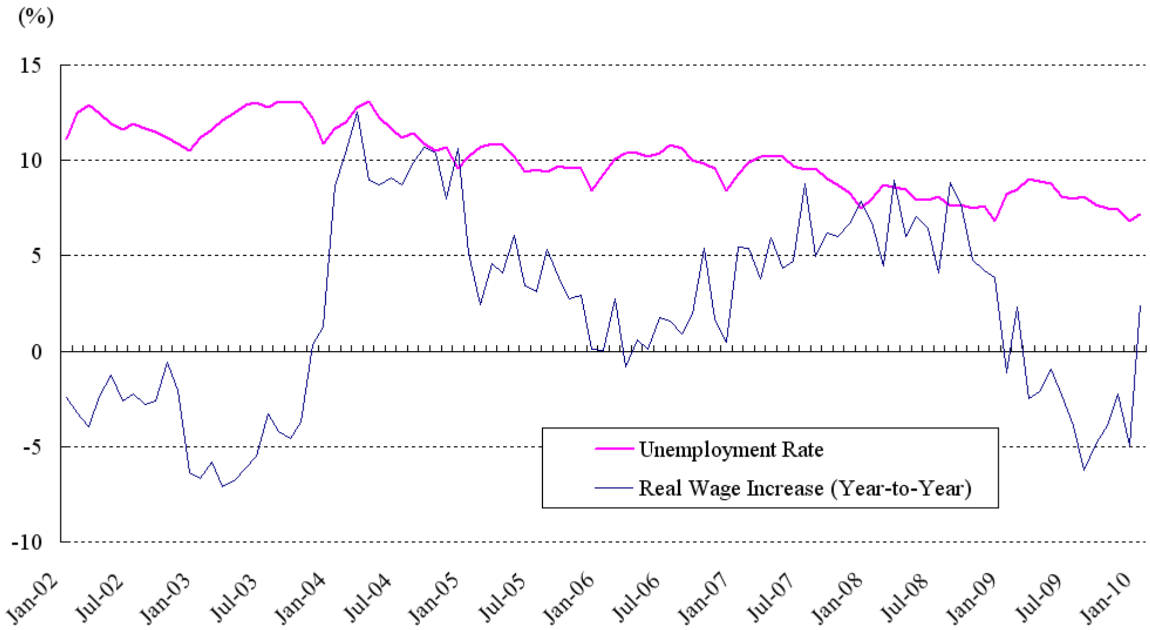


Source: CEIC Database

High-speed Train Line project is under execution to improve social infrastructure before 2014 World Cup for soccer and Rio De Janeiro Olympic in 2016. The initial investment costs of the project to construct a railroad of some 500km as a total connecting Rio De Janeiro, San Paulo and Campinas is estimated as some 1.7 trillion yen[136]. Once the high-speed train service starts, people can travel the major three cities within two and a half hours with maximum speed of some 300 km per hour and the convenience will be improved. There is a possibility that foreign investment will be more vigorous.

[136] The Yomiuri Shimbun Online August 26, 2009

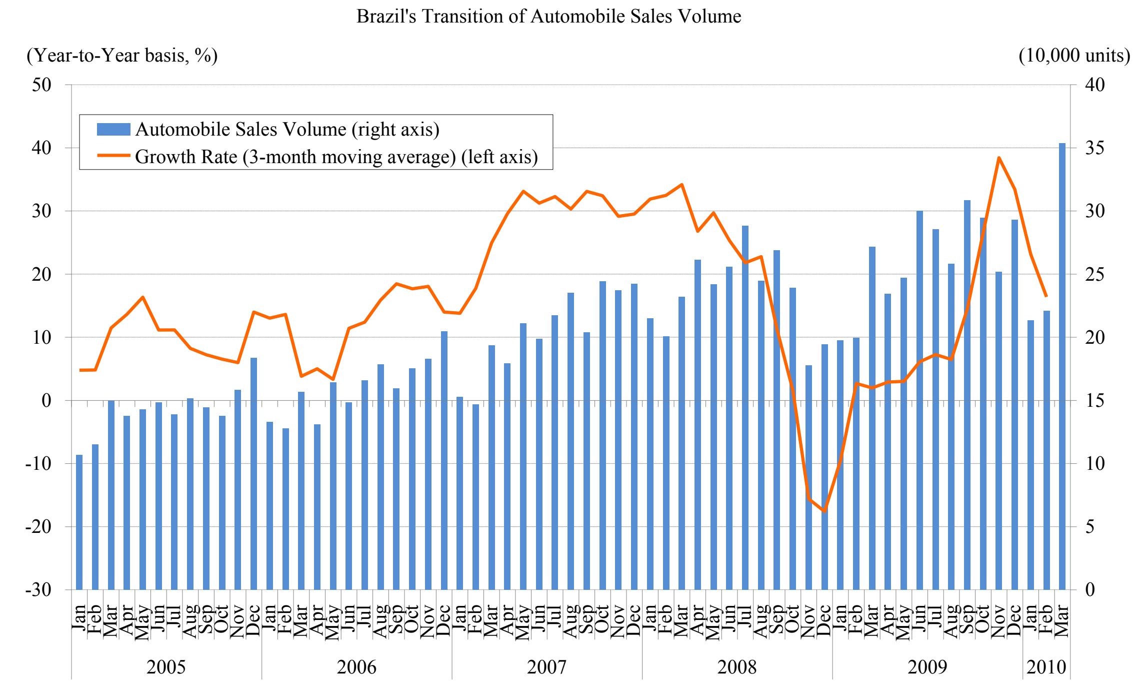
1-2-5-67 Trends in Unemployment Rate and Real Wage Increases in Brazil



Source: CEIC Database

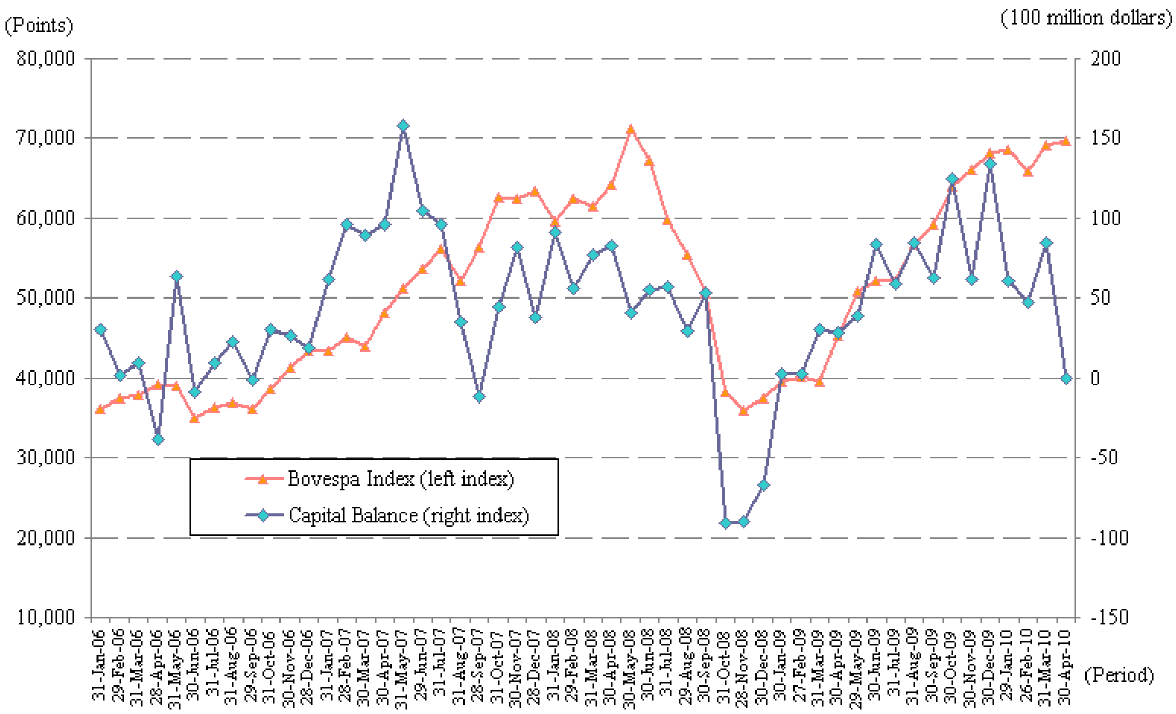
Due to the impact from the global financial crisis, the capital investment by companies largely declined, however, personal consumption, despite the drop of the growth rate, kept supporting the increase of GDP growth rate. Later, factors such as the effect from government's tax cut of durable consumption goods including automobile (see Figure 1-2-5-68) and the decrease of policy interest rates by 500bp as total after January 2009 contributed for the recovery of personal consumption which has been serving as an engine of economic growth. In addition, exports, mainly the ones for Europe and China, are steadily recovering. The recovery of consumption and exports resulted in a rapid expansion of domestic production. Again, the economy started showing the expansion through a favorable business cycle with domestic and external demand. Inflow of foreign capital to Brazil is increasing due to the high expectation for the economic growth and its level of interest rates which is high even if there is a large-scale rate cut compared to the world standard. Money supply increased and part of liquid funds was invested in shares and real estate properties. The stock market demonstrates that share prices rebounded almost to the highest level before the global financial crisis (see Figure 1-2-5-69). Furthermore, the currency, real, has been strong against the U.S. dollar. Under these circumstances, the financial authorities decided to lower the reserve requirements on February 24, 2010 and started reviewing the monetary relaxation policy (see Figure 1-2-5-70).

1-2-5-68 Trends in Automobile Sales in Brazil



Source: ANFAVEA（National Association of Motor Vehicle Manufacturers; Brazil)

1-2-5-69 Trends in Capital Balance and Stock Index in Brazil



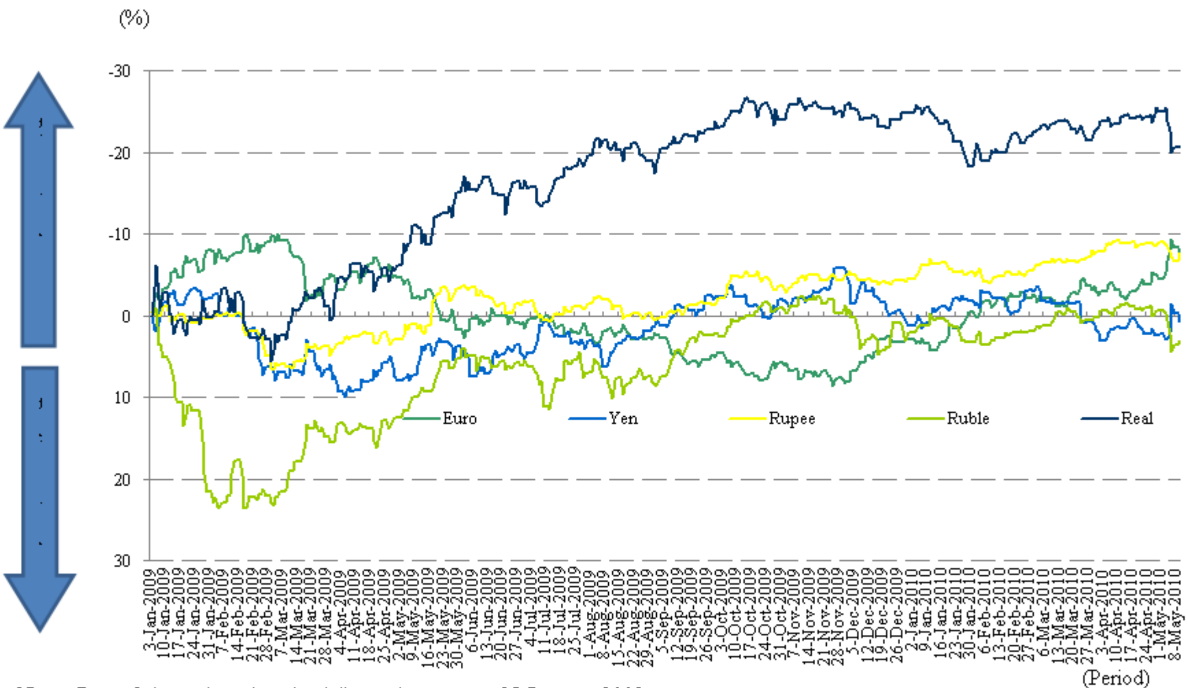
Notes: Bovespa Index - monthly mean values.
Source: CEIC Database (Capital Balance), Bloomberg (Bovespa Index)

[Trend of Brazilian economy: Trend of trade]

As for the trade of Brazil, the export items largely consist of primary products such as soybeans, coffee beans, orange juice, cacao, and iron ore and the ratio of primary products in the total exports is recently increasing. In 2009, primary products account for 40.5% of total exports, and

semimanufactured goods and industrial goods contribute for 13.4% and 44.0%, respectively (see Table 1-2-5-71). While the demand for semimanufactured goods and industrial goods from developed countries and Latin American countries stayed sluggish, the demand for resources recovered in some countries including China and increased the share of primary product exports.
Moreover, Brazilian trade by partner shows that the contribution by China (13.2%), the U.S. (10.3%), EU (22.2%), Latin America (23.3%) and other areas (over 30%). From 2003 to 2009, the share of the U.S. largely decline while the share of China and Latin America considerably increased. In 2009, China became its largest trade partner replacing the position with the U.S. (see Table 1-2-5-72).

1-2-5-70 Rate of Change of Major Currency Exchange Rates against the USD



Notes: Rate of change based on the dollar exchange rate of 3 January, 2009.
Source: Bloomberg

Compared to Mexico, the weight of trade partners is more diversified among countries. Therefore, the factors that give an influence over the course of Brazilian economy would be the trend of primary product prices as for the trade items and the trend of demand from China and Latin America as well as developed countries in terms of the trade partners.

(iii) Trend of Argentine Economy

In Argentina, exports and domestic demand are serving as an engine to drive the economy. The Argentine economy shifted to a floating exchange rate at the time of the economic crisis in 2002 and the currency was depreciated. As a result, the export competitiveness improved and production activities expanded. The expansion of domestic production improved the employment environment (see Figure 1-2-5-73) and this contributed for the increase of personal expansion. Personal consumption accounts for some 65% of Argentine GDP and has been strongly supporting the economic growth. Exports of soybean and other agricultural products (see Figure 1-2-5-74), which consist of a quarter of total exports, rose backed by the factors such as expanded demand from China[137].

1-2-5-71 Brazil's Export Structure (Primary Goods, Semi-manufactured Goods and Industrial Goods)

Brazil's Export Structure (primary goods, semi-manufactured goods, industrial goods) (Unit: 1 million dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2009 composition ratio
Primary Goods	12,564	15,349	16,959	21,186	28,529	34,732	40,285	51,596	73,028	61,969	40.5%
Iron ore	3,048	2,932	3,049	3,456	4,759	7,297	8,949	10,558	16,539	13,247	8.7%
Coffee	1,559	1,208	1,195	1,302	1,750	2,516	2,928	3,378	4,131	3,761	2.5%
Soybean	2,188	2,726	3,032	4,290	5,395	5,345	5,663	6,709	10,952	11,424	7.5%
Semi-manufactured Goods	8,499	8,244	8,965	10,945	13,433	15,963	19,523	21,800	27,073	20,499	13.4%
Valves	1,601	1,246	1,160	1,744	1,722	2,034	2,479	3,012	3,901	3,309	2.2%
Raw sugar	761	1,401	1,111	1,350	1,511	2,382	3,936	3,130	3,650	5,979	3.9%
Semi-processed iron and steel	1,360	1,082	1,410	1,619	2,124	2,304	2,277	2,340	4,002	1,734	1.1%
Industrial Goods	32,559	32,957	33,068	39,764	53,137	65,353	75,018	83,943	92,683	67,349	44.0%
Airliners	3,054	2,839	2,335	1,939	3,269	3,168	3,241	4,719	5,495	3,860	2.5%
Automobiles	1,768	1,951	2,005	2,656	3,352	4,395	4,597	4,653	4,916	3,245	2.1%
Orange juice	1,019	813	869	910	790	796	1,043	1,543	1,145	706	0.5%
Total Exports	55,119	58,287	60,439	73,203	96,678	118,529	137,807	160,649	197,942	152,995	100.0%

Source: *CEIC Database*

1-2-5-72Brazil's Export Structure (Export counterparts)

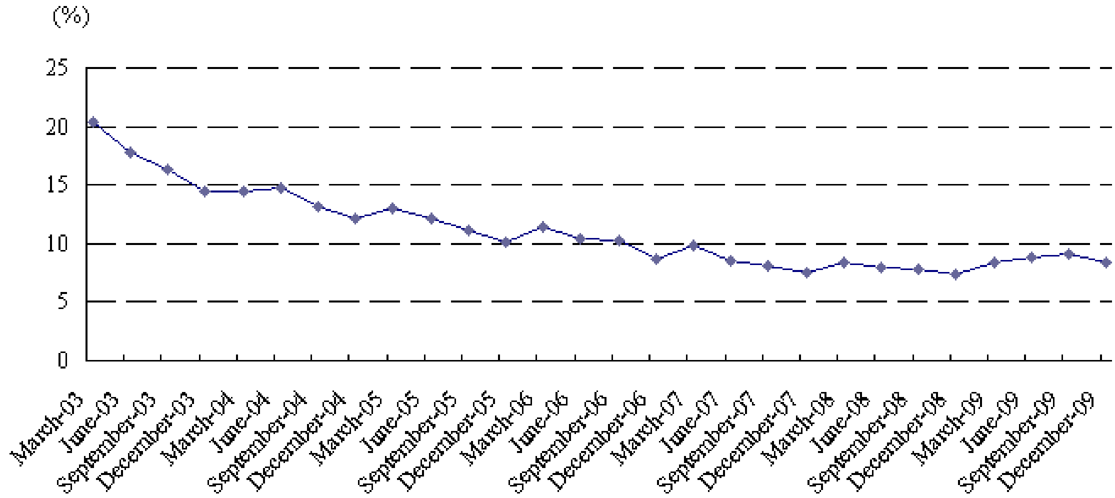
Brazil's Export Structure (Export counterparts) (%)

	2003	2004	2005	2006	2007	2008	2009
Latin America	17.7	20.4	21.5	22.9	22.9	25.9	23.3
Argentina	6.2	7.6	8.4	8.5	8.5	8.9	8.4
EU	24.8	25.0	22.4	22.5	22.5	23.4	22.2
U.S.A.	23.1	21.1	19.2	18.0	18.0	14.0	10.3
Japan	3.2	2.9	2.9	2.8	2.8	3.1	2.8
China	6.4	5.6	5.8	6.1	6.1	8.3	13.2
East Europe (including Rus	3.1	2.6	3.3	2.8	2.8	2.8	2.2
Middle East	3.9	3.8	3.6	4.2	4.2	4.1	4.9
Africa	3.9	4.4	5.1	5.4	5.4	5.1	5.7
Total Exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Banco Central do Brasil

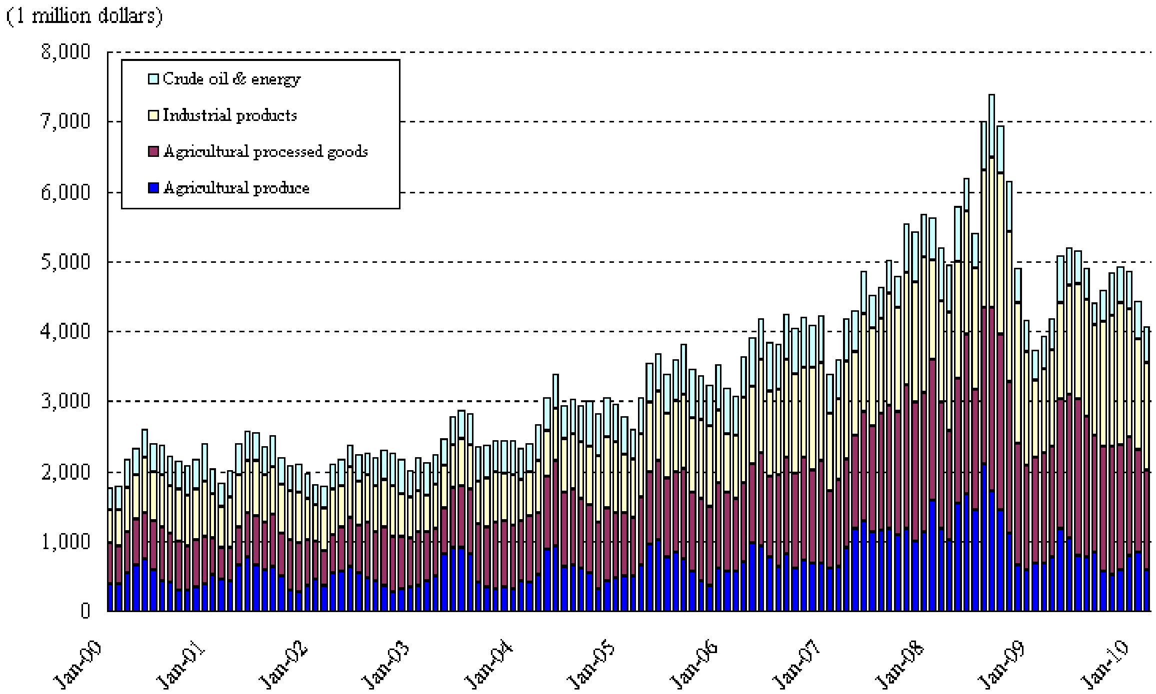
137 Masato Horie "ARUZENCHINKEIZAINO GENJOTO KONGONO TENBOU (The Current Status and Prospect of the Argentine Economy)" ("KOKUSAI KINYUU" No.1198, March 1, 2009)

1-2-5-73 Trends in Unemployment Rate in Argentina



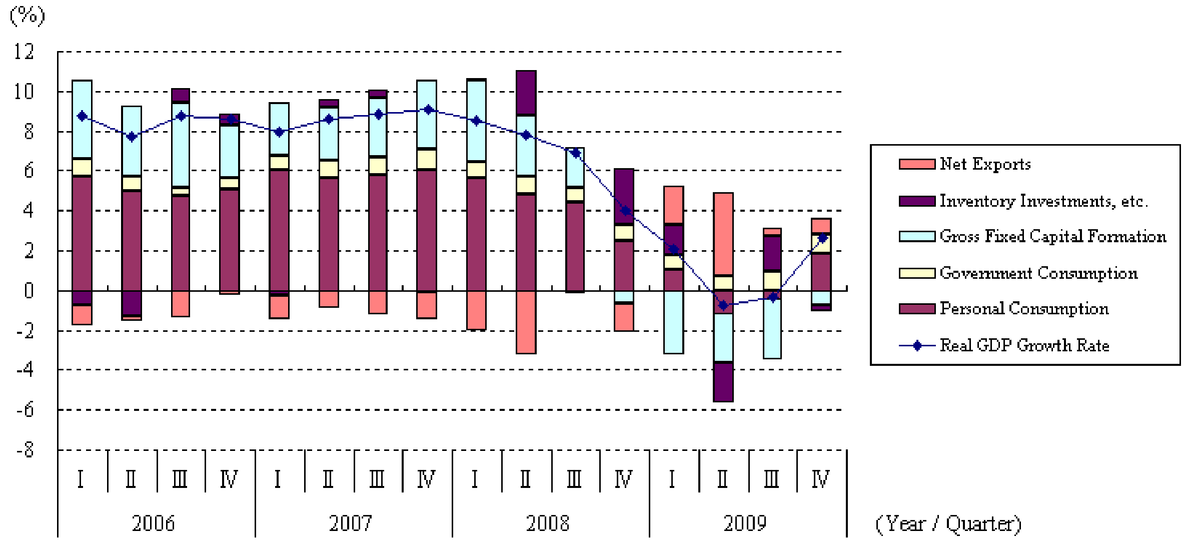
Source: CEIC Database

1-2-5-74 Trends in Amount of Exports by Item in Argentina



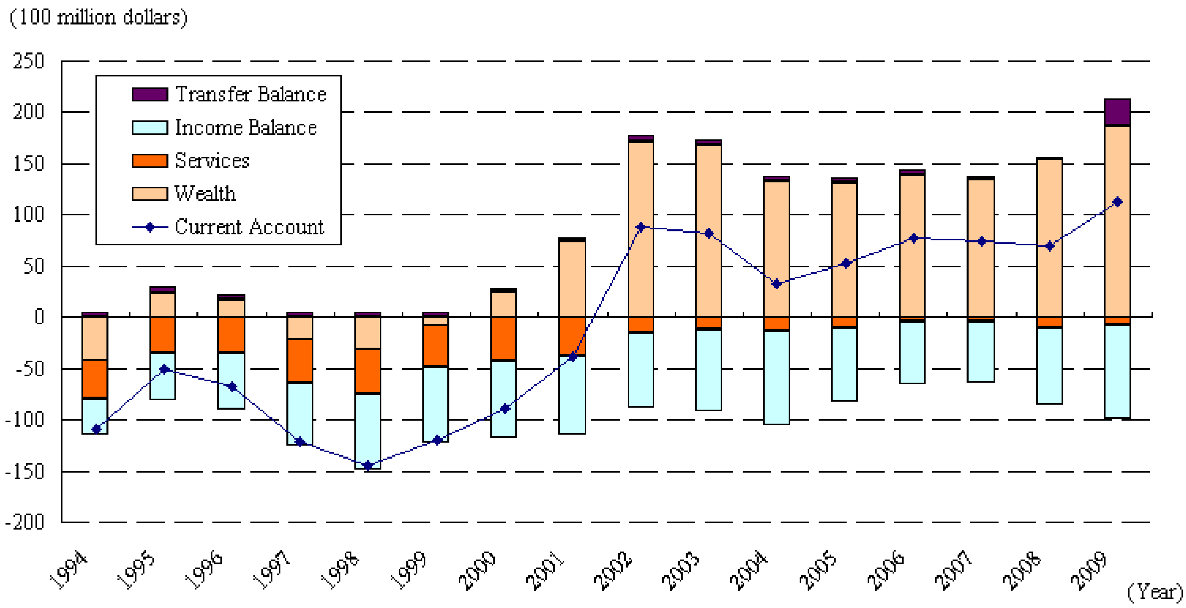
Source: CEIC Database

1-2-5-75 Contributing Items to Real GDP Growth Rate in Argentina (Comp. Prev. Year)



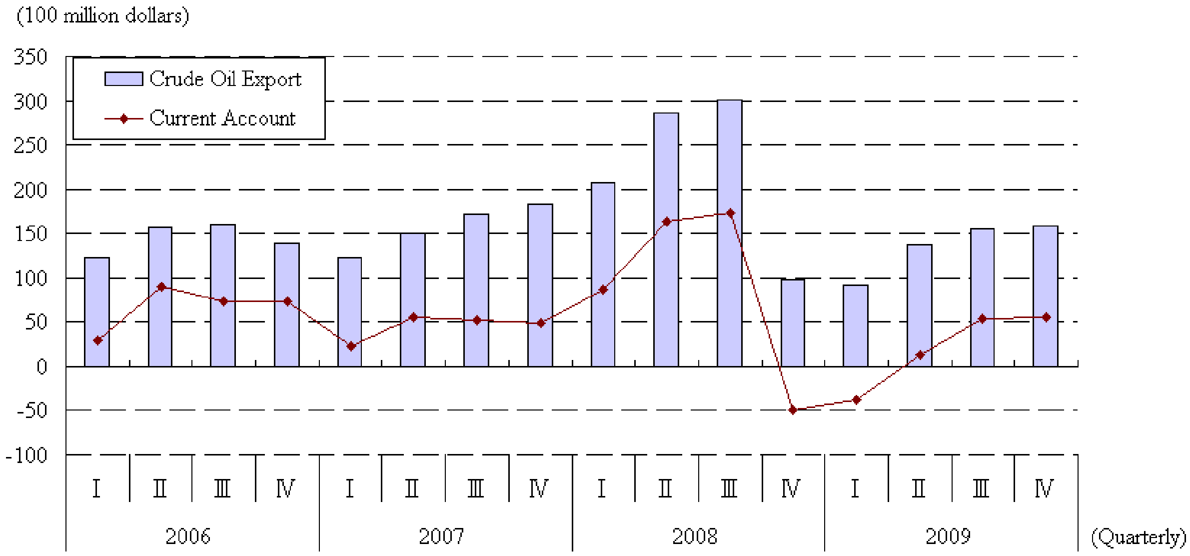
Source: CEIC Database

1-2-5-76 Capital Balance Trends in Argentina



Source: CEIC Database

1-2-77 Trends in Crude Oil Exports and Capital Account Balance for Venezuela



Source: Central Bank of Venezuela

Due to the global financial crisis, the Argentine economy plunged into negative growth, however, it is gradually recovering (see Figure 1-2-5-75). As for trade, exports registered minus year-on-year growth for 12 consecutive months from November 2008 to October 2009, however, it started demonstrating a sign of moderate recovery.

As for current balance, Argentine has been maintaining surplus these years (see Figure 1-2-5-76). In the future, there is a possibility that export will expand along with the recovery of world economy. At the same time, since the growth of domestic demand is not strong, the increase of import will likely to be restrained and current surplus may continue.

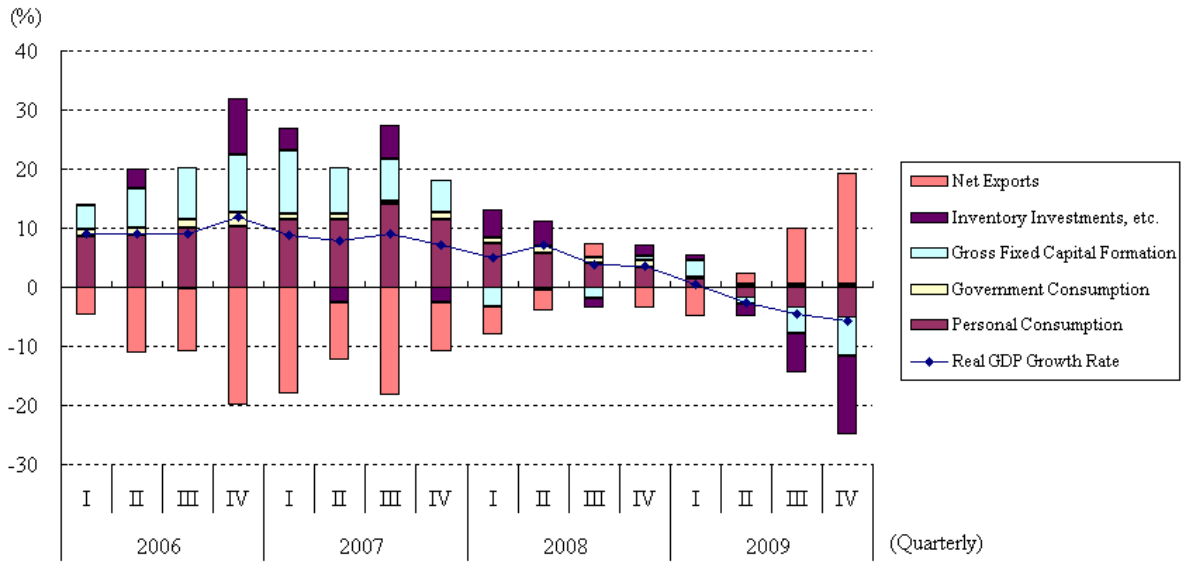
(iv) Venezuela that is dependent on oil resources

The Venezuelan economy is structurally dependent on the oil sector. In the 2000s, the ratio to GDP is declining due to the shortage of investment in the oil sector and the decreased production volume due to the political instability. However, the oil sector still holds 10% of GDP of the country and 80 to 90% of total exports.

Due to the high dependency on oil sector, the stagnant crude oil prices after the summer of 2008 and the slowdown of the world economy caused the sluggish oil exports from Venezuela and the deceleration of Venezuelan economy (see Figure 1-2-5-77). In the midst of the recovery of the world economy after the crisis, the Venezuelan economy registered year-on-year real GDP growth rate of minus 5.8% in the fourth quarter of 2009 and marked the third consecutive negative quarterly growth (see Figure 1-2-5-78).

Oil price hike before the first half of 2008 brought high economic growth to Venezuela, however, it did not directly result in the diversification of the export items (see Table 1-2-5-79). The change of industry structure did not progress. The growth which is dependent on resources is very vulnerable to the trend of resource prices. For the future stable development, it is inevitable to implement the medium-and-long-term measures such as the utilization of oil revenue for nurturing other industries.

1-2-5-78 Contributing Elements of Real GDP Growth Rates in Venezuela (Comp. Prev. Year)



Source: Central Bank of Venezuela

(B) Strengthening economic ties in Latin America and relations with Japanese companies

(a) Strengthening the economic ties in the region

In Latin America, the Treaty of Asunción was signed in 1991 and Mercosur, the Common Market of the South, was inaugurated as a tariff alliance that imposes the common tariff to foreign countries in January 1, 1995. In principle, tariffs in the region were abolished and regional free trade was promoted (see Table 1-2-5-80).

The inauguration of Mercosur has brought the active expansion of the regional free trade. For example, the export from Argentine to Mercosur member countries was 14.7% of total exports but increased to 31.9% in 2000. After 2001, the share of the export to emerging countries such as China increased and the share of the export to the Mercosur member countries decreased to 19 to 20% in the middle of the 2000s. However, with the contribution of the economic expansion of Brazil, the share started increasing again (see Table 1-2-5-81).

Moreover, the trade statistics comparison among Mercosur member countries in 2003 and 2008 shows that Paraguay and Uruguay substantially increased the export share to the member countries. The ratio is not as high as that of EU with substantial regional trade ratio, however, the regional ratio in Latin America is increasing backed by the establishment of the tariff alliance (see Table 1-2-5-82). Business alliance and investment by companies in the region is also blooming.

1-2-5-79 Venezuela's Trends in Real GDP Growth Rate (by Divisions)

Venezuela's Transition of Real GDP Growth Rate (by division) (%)

	2008 - Q1	2008 - Q2	2008 - Q3	2008 - Q4	2009 - Q1	2009 - Q2	2009 - Q3	2009 - Q4
Real GDP Growth Rate	4.9	7.2	3.8	3.5	0.5	-2.6	-4.6	-5.8
Petroleum Division	1.8	2.1	4.4	1.5	-5.0	-3.9	-9.6	-10.2
Non-Petroleum Division	5.0	8.0	3.9	3.8	1.4	-2.0	-3.1	-4.0
Mining	-3.2	2.5	0.9	-15.3	-11.1	-9.8	-18.3	-4.8
Manufacturing	1.3	4.7	-0.3	0.1	-0.6	-8.3	-9.1	-6.9
Electricity and Waterwo	-1.2	7.9	9.5	6.2	3.6	3.9	4.0	5.5
Construction	-1.1	9.5	3.7	2.2	2.7	0.5	1.8	-3.5
Commerce	5.9	7.7	1.9	3.9	0.7	-6.8	-11.0	-13.9
Transportation and War	5.5	6.7	0.5	3.3	1.2	-4.9	-10.7	-16.9
Communication	18.5	27.2	13.9	12.9	9.8	7.6	11.8	10.5
Finance and Insurance	-3.9	-9.4	-5.1	-0.1	-2.8	1.9	-3.6	-4.7
Real Estate and Rental	3.4	3.8	1.6	1.8	-0.2	-2.1	-2.9	-2.8
Community, Social, and	10.1	9.9	9.6	8.7	4.2	4.4	3.8	0.6
Government Service	6.4	6.6	4.1	4.6	1.0	3.3	2.4	2.8

Source: *CEIC Database*

1-2-5-80 The Objectives and Principles of Mercosur

The objectives and principles of MERCOSUR

(1) Enable free distribuion of wealth, service and production factors through the elemination of regional tariffs and non-tariff bariers.

(2) Establish common external tariff through the adoption of common trading policies and a standpoint of collaboration of regional, international Establish
common external tariffs through the adoption of common trading policies and a collaboration f

(3) Collaboration of macroeconomic policies, as well as in economic policies for different sectors such as foreign trade、agriculture, industries, fiscal and
monetary issues, foreign currency exchange and capital, service, taxation, transportation t

(4) Collaboration of the legal system for the related fields to reinforce the integration process.

Source: MOFA's website

1-2-5-81 Composition ratio of Argentina's Export Counterpart Countries/Regions

Composition ratio of Argentina's export counterpart countries and regions (%)

Export	2003	2004	2005	2006	2007	2008	2009
MERCOSUR	18.9	19.7	19.1	21.4	22.3	23.1	24.9
NAFTA	14.6	14.3	14.7	13.1	11	10.5	9
EU	20.2	18	17	17.2	17.7	18.7	18.5
Other	46.3	48.1	49.2	48.3	49	47.8	47.7
Total	100	100	100	100	100	100	100
Import	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
MERCOSUR	37.3	36.6	38.4	37.1	36.2	35.4	33.9
NAFTA	18.7	19.2	17.4	16.4	15.6	15.6	17
EU	19.7	18.9	16.8	17	16.7	15.7	16.5
Other	24.3	25.3	27.4	29.4	31.5	33.3	32.6
Total	100	100	100	100	100	100	100

Source: *NDEC* (Instituto Nacional de Estadística y Censos, www.indec.gov.ar)

For example, a Brazilian state-owned oil company, Petrobras (Petróleo Brasileiro S.A), and a Venezealan state-owned oil company, Petróleos de Venezuela S.A. (PDVSA), announced that they had reached a final agreement on the joint-investment in the construction of heavy-oil factory, Abureu e Lima, on October 30, 2009. Petrobras said the operation would start in 2012[138]. In 2008, there was a large-scale M7A by Latin American companies. A Peruvian gold mining company, Cia de Minas Buenaventure SAA, has purchased a Brazilian metal and mineral developing company, Mineracao Taboca SA, with $447.00 million. In addition, an Argentine grain processing company, Grupo Los Grobo SA, has acquired a Brazilian soybean producing company, Sementes Selecta, with $455.00 million.

1-2-5-82 Share of Exports/Imports between MERCOSUR Member Countries (2008 and 2003)

Export and Import Amount Between MERCOSUR's Member Countries (2008)

（1 million dollars, %)

Export							
	Argentina	Brazil	Paraguay	Uruguay	Venezuela	Member Co	Worldwide
Argentina		16,551.0	889.0	1,376.0	1,486.0	20,302.0	70,588.0
		23.4	1.3	1.9	2.1	28.8	
Brazil	16,943.0		1,984.0	1,491.0	5,654.0	26,072.0	197,942.0
	8.6		1.0	0.8	2.9	13.2	
Paraguay	1,096.4	810.7		595.4	10.2	2,512.7	4,336.0
	25.3	18.7		13.7	0.2	58.0	
Uruguay	485.5	1,248.7	83.7		229.4	2,047.3	6,420.8
	7.6	19.4	1.3		3.6	31.9	
Venezuela	28.0	626.0	1.0	5.0		660.0	93,242.0
	0.0	0.7	0.0	0.0		0.7	
Import							
	Argentina	Brazil	Paraguay	Uruguay	Venezuela	Member Co	Worldwide
Argentina		17,670.0	1,206.0	534.0	31.0	19,441.0	57,413.0
		30.8	2.1	0.9	0.1	33.9	
Brazil	16,551.0		811.0	1,249.0	626.0	19,237.0	173,107.0
	9.6		0.5	0.7	0.4	11.1	
Paraguay	889.0	1,984.2		83.7	221.9	3,178.7	8,303.7
	10.7	23.9		1.0	2.7	38.3	
Uruguay	1,513.1	1,639.8	654.9		6.0	3,813.8	8,943.4
	16.9	18.3	7.3		0.1	42.6	
Venezuela	1,806.0	5,435.0	11.0	252.0		7,504.0	49,602.0
	3.6	11.0	0.0	0.5		15.1	

Notes: The figures in the lower row represents the relevant country's share of total worldwide amo

Source: Direction of Trade Statistics, (IMF)

[138] JETRO (November 6, 2009) TSUSHO KOUHOU "*PDVSA*TONO KYOUDOUSEIYUJO KENSETSUNI SEISHIKIGOUI– BURAZIRU (Formal agreement on the joint-construction of oil factory with PDVSA – Brazil)"

Export and Import Amount Between MERCOSUR's Member Countries (2003)

（1 million dollars, %)

Export							
	Argentina	Brazil	Paraguay	Uruguay	Venezuela	Member Co	Worldwide
Argentina		4,663.0	445.0	543.0	140.0	5,791.0	29,566.0
		6.6	0.6	0.8	0.2	8.2	
Brazil	4,561.0		707.0	404.0	606.0	6,278.0	73,084.0
	2.3		0.4	0.2	0.3	3.2	
Paraguay	66.4	424.9		243.1	6.5	740.8	1,241.5
	1.5	9.8		5.6	0.1	17.1	
Uruguay	154.9	470.8	47.8		3.9	677.5	2,770.7
	2.4	7.3	0.7		0.1	10.6	
Venezuela	8.0	276.0	3.0	1.0		288.0	23,990.0
	0.0	0.3	0.0	0.0		0.3	
Import							
	Argentina	Brazil	Paraguay	Uruguay	Venezuela	Member Co	Worldwide
Argentina		4,708.0	295.0	164.0	9.0	5,176.0	13,834.0
		8.2	0.5	0.3	0.0	9.0	
Brazil	4,673.0		475.0	538.0	276.0	5,962.0	48,291.0
	2.7		0.3	0.3	0.2	3.4	
Paraguay	402.7	605.1		59.2	2.9	1,069.8	1,865.3
	4.8	7.3		0.7	0.0	12.9	
Uruguay	571.7	459.8	10.7		1.1	1,043.2	2,205.9
	6.4	5.1	0.1		0.0	11.7	
Venezuela	154.0	666.0	7.0	4.0		831.0	9,256.0
	0.3	1.3	0.0	0.0		1.7	

Notes: The figures in the lower row represents the relevant country's share of total worldwide amo

Source: Direction of Trade Statistics, (IMF)

(b) Market penetration of Japanese companies

The level of Japanese companies’ investment in Latin America is not high at all. However, there are some companies that pay attention to the resources and potential of Latin America and are actively operating in the market.

The trend of direct investment by Japanese companies shows that the investment balance of outstanding direct investment in Argentine from 2003 to the end of 2008 was $494.00 million, which is only 0.6% of total outstanding direct investment in Argentine. In this period, the outstanding investment balance of China was $979.00 million, which is low but the double of the size of Japan. The investment in Mexico presents similar trend. While Mexico’s outstanding inward direct investment from 1999 to the end of September 2009 demonstrated $226.6 billion of surplus, the investment from Japan was only 0.9% of total which is $1.99 billion.

According to a research conducted by the Japan External Trade Organization (JETRO), Japanese companies operating in Latin America pointed out the fluctuation of exchange rate, the increase of labor cost, taxation, custom clearance and logistics as the issues for their operations[139]. These are considered to be the part of the reasons why the level of direct investment from Japan is low. In

[139] JETRO (January, 2010) “DAI 10KAI ZAICHUUNANBEI NIKKEISHINSHUTSU KIGYOUNO KEIEIJITTAI CHOUSA (The 10th Business Status Research for Japanese Companies Operating in Latin America)”

addition, Japanese companies often make a packaged invest making investment in one main country and another neighboring country, such as “China-Plus-One” and “ASEAN-Plus-One” as their investment scheme in Asia. For example, in Brazil, with that exception that some automobile companies and automobile parts makers are making investment targeting Mercosur and the Mexican market, many companies are basically making investment for the production and sales in the domestic market. Therefore, the investment pattern observed in Asia is very rare[140]. Another reason for the sluggish Japanese investment in Latin America would be the recognition of Japanese companies that Asia has highly integrated production networks while the degree of unification of Latin American economies is low.

However, Japanese companies are steadily advancing its steps to Latin American so far. For example, in the Mexican automobile sector, Nissan Motor Co., Ltd., Honda Motor Co., Ltd. and Toyota Motor Corporation implement local production of finished cars. As for automobile sales, Mitsubishi Motors Corporation started its sales through the dealers of Chrysler Group LLC. in 2003 and Mazda Motor Corporation began its sales in 2005. Companies including Suzuki Motor Corporation and Isuzu Motors Limited established their local corporations after the Japan-Mexico EPA was signed. In Argentine, Sanyo Electric Co., Ltd., NEC Corporation and YKK Corporation operate locally. Furthermore, Toyota Tsusho Corporation focused attention on Salar de Olaroz as the source of lithium supply and signed a memorandum on January 2010 to jointly carry out a feasibility study for the development of lithium resources with Orocobre Ltd. of Australia. Lithium is essential for the popularization of hybrid cars and electric cars. Toyota Tsusho has a plan to start a joint venture company based on the feasibility study and began its operation in 2012[141].

In Brazil, Takeda Pharmaceutical Company announced its plan to establish a 100%-owned sales subsidiary in December 2009[142]. As the first Japanese home electronic appliances maker, Hitachi Appliances, Inc. launched its production of home-use air conditioners and released its policy to introduce 20 energy-efficient models targeting the affluent class in cities by the fall of 2010[143].

While future growth of the region is expected and the economic ties in the region will likely to improve, we would like to see more Japanese companies to launch active business operations.

Column 14 Microfinance proliferating in Latin America

In Latin America, Microfinance is rapidly gaining attention these years. “Microfinance” provides the financial services including small loans for the poor and low-income clients. When it started in the 1970s, NPO had been providing small amount of loans to the women of the low income group. Since then, the diversification and specialization of services have progressed[144]. As of today, Microfinance developed and started offering services of “micro-credit”, small loans, and “microfinance” which means saving, insurance, pension and money transfer services. As a new financing scheme,

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140 JETRO (March 26, 2010) TSUSHO KOUHOU “NIHONKIGYOUNO TAIBURAZIRUTOUSHIPATANGA TAYOUKA (Diversification of investment pattern of Japanese companies in Brazil)

141 The company press release dated on January 20, 2010

142 The company press release dated on December 2, 2009

143 The Nikkei dated October 29, 2009

144 Inter-American Development Bank (IDB) Press release (October 1, 2009) “IDB urges microfinance industry to reach out to millions of underserved people in Latin America and the Caribbean”

microfinance is increasing its importance for small businesses, individuals and entrepreneurs who belong to the poor and low-income group to start businesses and for financial organizations that provide services.

In fact, the growth of the microfinance industry in Latin America is incredible. According to the Multilateral Investment Fund (MIF) of Inter-American Development Bank (IDB), there are 636 financial organizations that provide microfinance in Latin America at the end of 2008. The total of loans increased from $1.2 billion of 2001 to $10.9 billion in 2008 and the number of borrowers increased from 1.8 million people to 9.5 million people during the same period (see Column Figure 14-1).

The progress of the microfinance industry in Latin America is supported not only by strong demand but the contribution of the political backup by each government is also large. A research[145] of EIU[146] shows that the business environment of microfinance in Latin America is better facilitated than the other areas in the world. The research evaluated three areas, "legal framework for microfinance", "investment environment" and "degree of the development of the microfinance industry" using total 13 indexes[147] and Latin America received the highest total score (see Column Table 14-2). The evaluation by country ranked 6 Latin American countries including Peru, Bolivia and Ecuador within top 10 (see Column Table 14-3). EIU points out that one of the points that countries ranked high share is that they nurture and develop the microfinance industry through the facilitation of laws and regulations.

The development of microfinance also slowed down affected by the global financial crisis. According to a research conducted by MicroRate, a microfinance rating agency, for 42 microfinance companies, the year-on-year growth of the total amount of microfinance loans of the 42 companies was some 40% from 2002 to 2007, however, it estimated to decline to 20% in 2008 and then 10% in 2009. This is because microfinance organizations tightened the credit requirements reflecting the downsized financial market and reduced the credit amount per case. Moreover, as a background, while microfinance rapidly developed and competition became fierce, some of microfinance organizations were increasing their market share by easing credit requirements to obtain more clients[148].

However, it is often pointed out that, as one of characteristics of microfinance, the strength of microfinance shines when the business environment is deteriorating. Once the number of unemployed people increases and business environment worsens, most of unemployed people and cottage industry will not be able to arrange their finance through general commercial banks. This will increase the demand for microfinance.

President Moreno of IDB addressed at the opening of the Inter-American Forum on Microenterprise

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145 Economist Intelligence Unit. It is a company established in 1946 to analyze countries, industries and businesses in the world.

146 The research of 55 Latin American countries implemented by EIU receiving requests from IDB, Corporacio´n Andina de Fomento (CAF), and International Finance Corporation (IFC). "EIU「Global microscope on the microfinance business environment, 2009"

147 The indexes include the followings: as indexes for "legal framework concerning microfinance": (i) regulations, (ii) the establishment and operation of MFIs under regulations and surveillance, (iii) the establishment and operation of MFIs that are out of regulations and surveillance, (iv) the capability of regulations and supervising authorities; as indexes for "investment environment" (v) political stability, (vi) the stability of capital market, (vii) legal procedure, (viii) accounting standards, (ix) governance standards, (x) transparency of microfinance institutions; as indexes for "maturity of industry development" (xi) the diversified services of microfinance, (xii) personal credit information agencies and (xiii) the degree of competition.

148 MicroRate (March 2009) "Cautious Resilience: The Impact of the Global Financial Crisis on Latin American & Caribbean Microfinance Institutions"

(Foromic) on September 30, 2009 and commented on the microfinance market as "Although there is potential demand from some million people, despite our effort until today, the microfinance industry satisfies only 15% of demand". Moreover, MFI of IDB estimated that 60 million people cannot receive fundamental financial services[149].

As mentioned earlier, some microfinance organization in Latin America has been reviewing their financing requirements after the outbreak of the global financial crisis. In the future, it is expected that microfinance organization strengthen its management to provide healthy loans to the poor and low-income group to grab business opportunities and contribute for the further bottom-up of the Latin American economy.

(C) Russian Economy

(a) Delayed recovery of Russian economy

Due to the decline of resource prices and the subsequent global financial crisis, the Russian economy significantly shrank and registered a year-on-year real GDP growth rate of minus 7.9% in 2009, which is the first negative growth after 1998. The degree of recession of Russia is larger than that of other emerging countries including China and India, and its recovery is also delayed (see Figure 1-2-5-83).

The deterioration of financial base was also severe. While the revenue declined due to the drastic drop of crude oil and natural gas export tax associated with the decline of resource prices and the reduction of revenue through tax-cuts, government expenditure enlarged due to the implementation of economic stimulus measures. Therefore, current balance which had been maintaining surplus since 2000 took a negative turn registering deficit of minus 6.0% of GDP in 2009 (see Figure 1-2-5-84).

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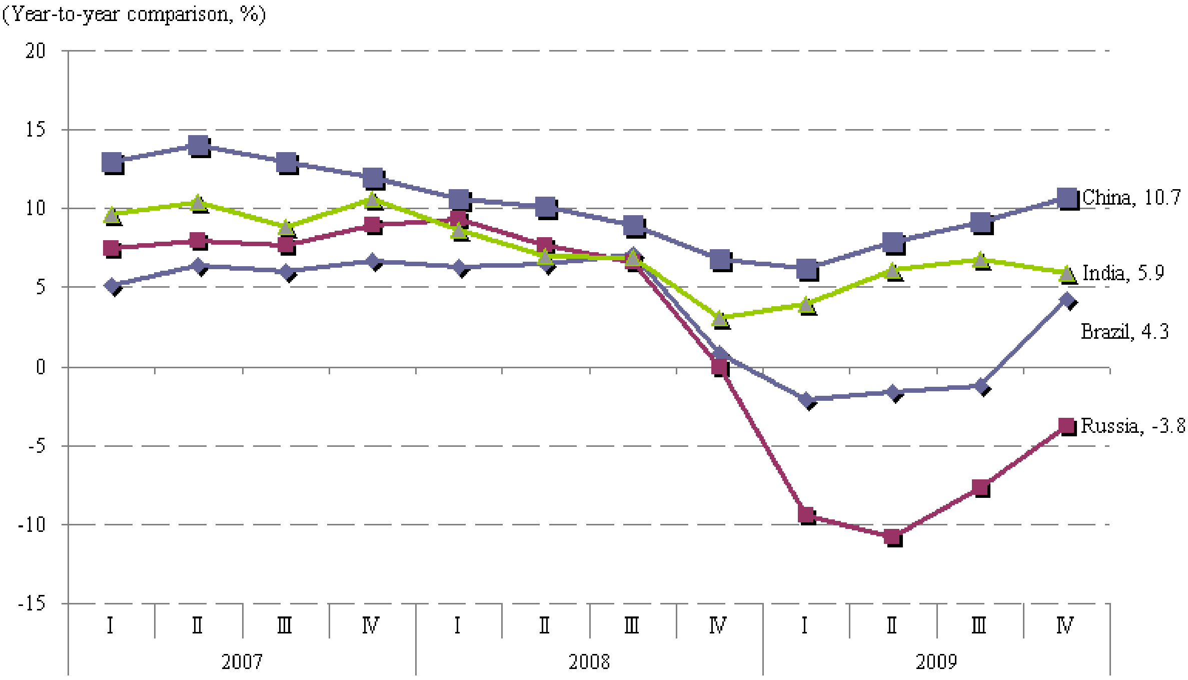
[149] IDB press release (October 1, 2009)

1-2-5-83 Real GDP Growth Rates of BRICs



Source: KAIGAI KEIZAI DATA, etc., (Cabinet Office)

While the employment market remains severe, recently, resource prices and demand began recovering and the effect from government consumption stimulus measures started showing up. These trends have been supporting the bottoming up of domestic production. In addition, personal consumption started showing a sign of recovery and the retail sales rebounded in January 2010 and recorded positive growth after 12 months (see Figure 1-2-5-85).

Russia executed the credit easing policy through policy interest rates cuts in 2010. In March 2010, the government issued an automobile scrap incentive program to promote a replacement of automobile as a part of new car sales promotion measures. It will be necessary to pay attention to the impact from these measures.

(B) Vulnerable economic structure and economic measure issues

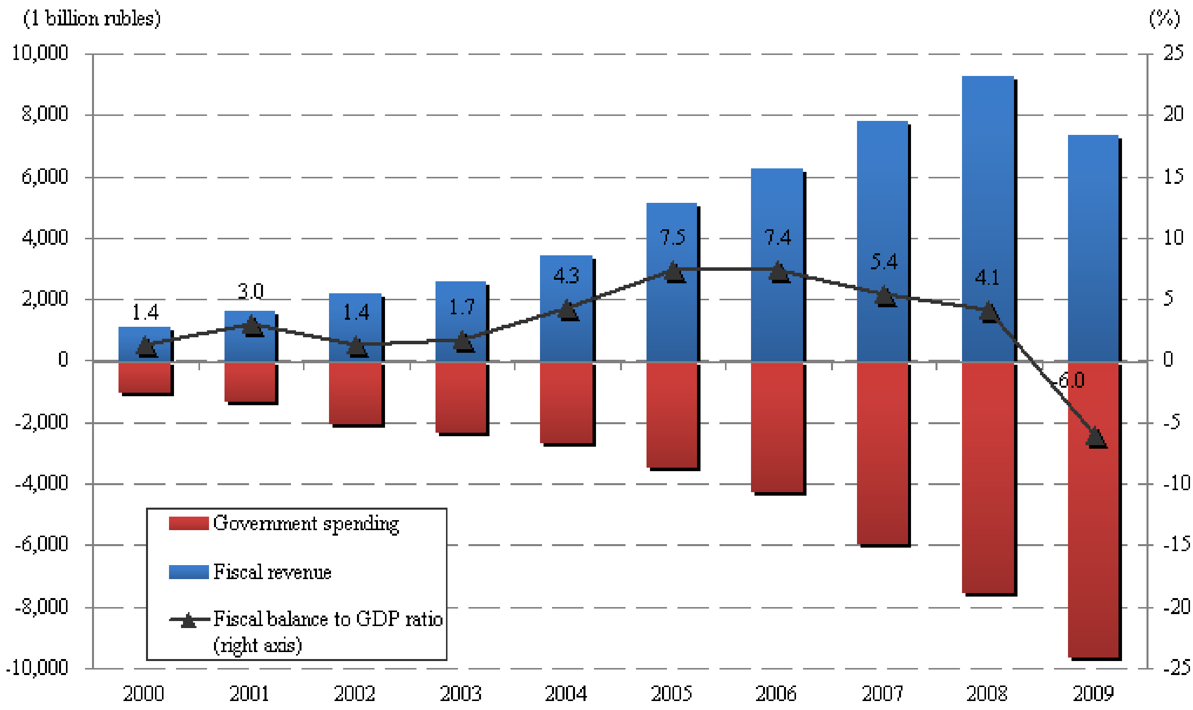
(a) Economy heavily dependent on resources and foreign capital

Russia has achieved average 6.5% of high annual growth from 2000 to 2008. This economic expansion was supported by external factors including the surge of crude oil prices and the inflow of foreign capital. However, under the global financial crisis, the drop of crude oil prices which had been supporting the growth of Russian economy and the sudden outflow of foreign capital worsened the Russian economy.

Russia is blessed with abundant natural resources such as crude oil and natural gas. After the closure of the Russian financial crisis in 1998, along with the increase of crude oil prices, Russia had been making remarkable growth by the summer of 2008 (see Figure 1-2-5-86). Moreover, while the crude prices increased, the Russian economy became more dependent on resources. In 2008, 65.8% of total exports and 47.3%[150] of revenue of the budget in the Government of the Russian Federation was oil and gas-related (see Figure 1-2-5-87).

Meanwhile, the foreign capital flow in the Russian private sector shows the foreign capital inflow was accelerated sometime from 2006. This is viewed as the result of the considerable amendment of foreign currency control law in July 2006 that abolished various regulations on capital transactions. Since then, Russia has the environment that capital can be easily flow in and out. In the forth quarter of 2008, the massive capital of some $130.0 billion flowed out from the market (see Figure 1-2-5-88).

1-2-5-84 Fiscal Balance as Proportion of GDP for Russia



Source: Bloomberg

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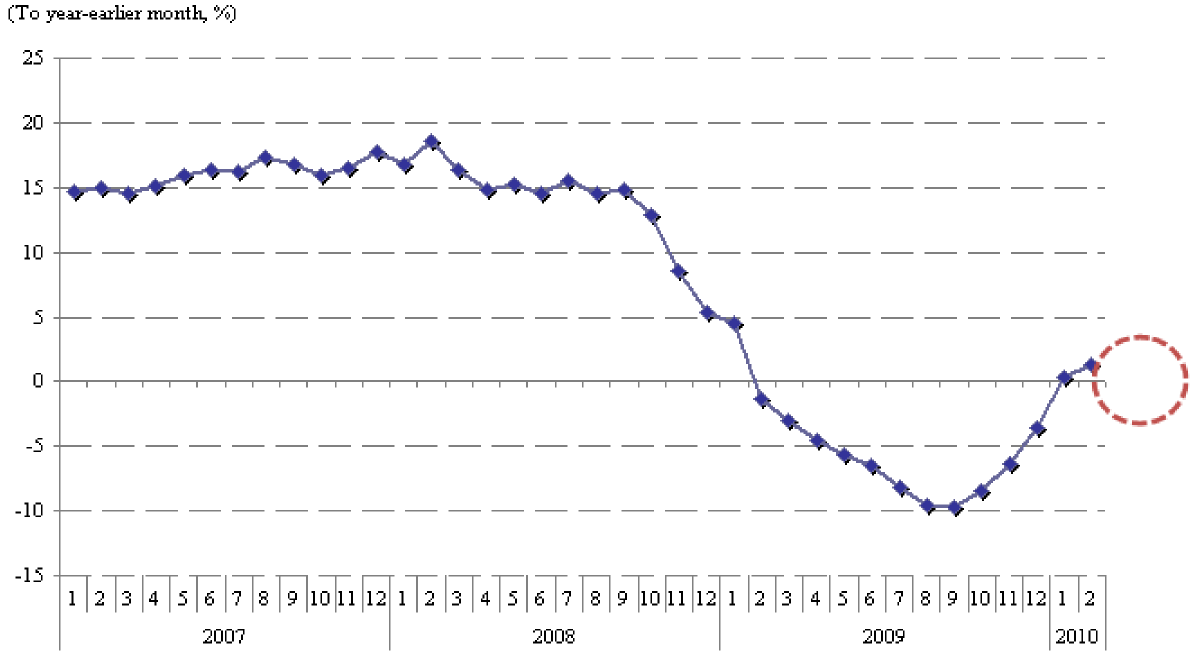
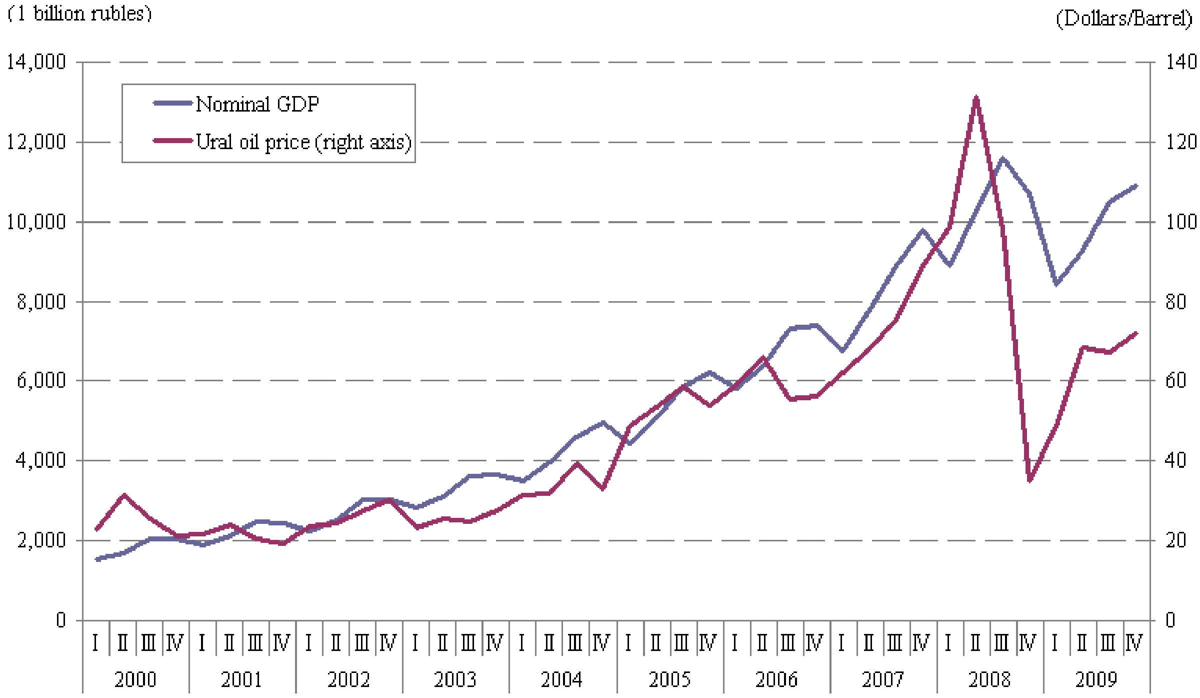
150 State Committee of the Russian Federation on Statistics. Total revenue of Russian Federation budget of 2008 was 9.3 trillion ruble including the revenue related to oil and gas of 4.4 trillion ruble. In 2009, the total revenue was 7.3 trillion ruble including the revenue related to oil and gas of 3.0 trillion ruble showing the decline of oil and gas-related portion to 40.7%.

1-2-5-85 Trends in Retail Sales for Russia



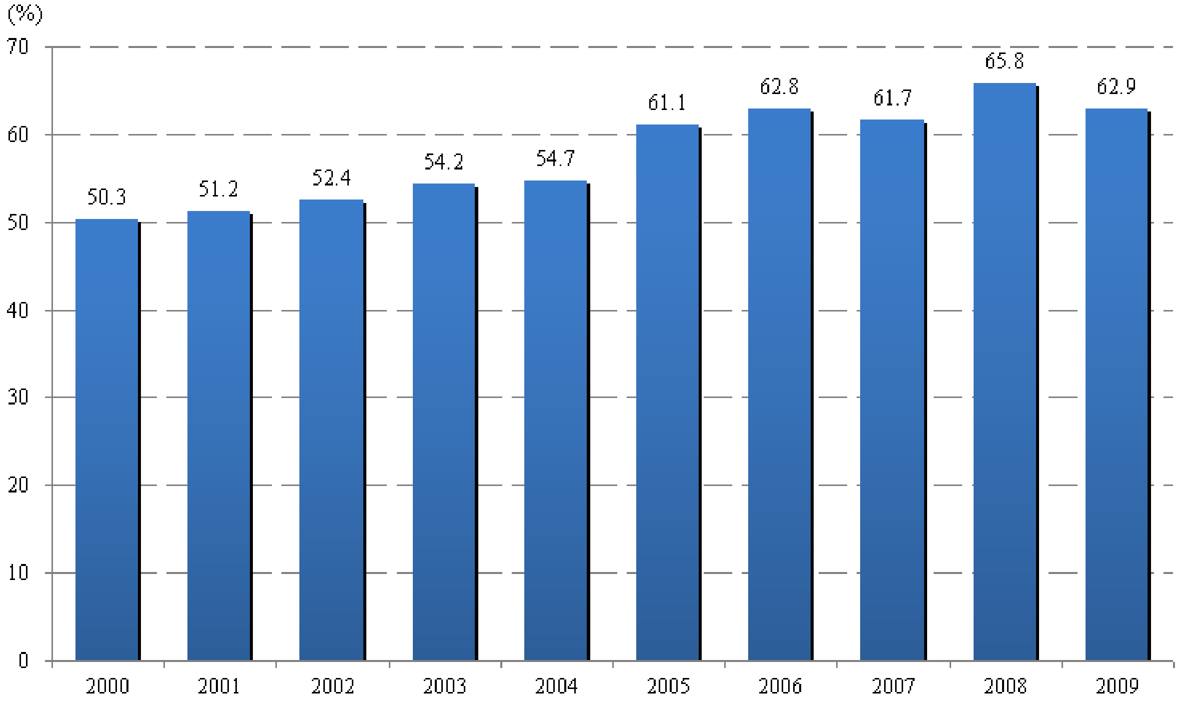
Source: The central bank of Russia Web site

1-2-5-86 Oil Prices and Nominal GDP for Russia



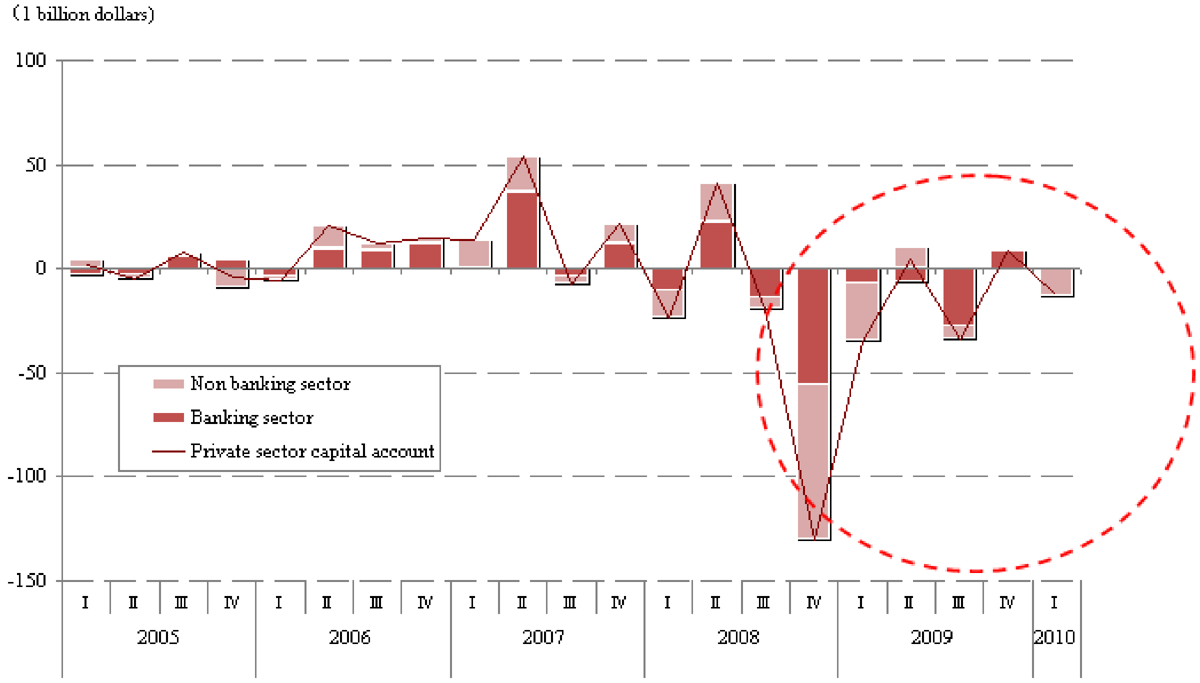
Note： The crude oil price is as at the end of each fiscal year.
Source：Russia state statistical agency and the U.S. energy information administration

1-2-5-87 Trends in Proportion of Oil and Natural Gas in Russian Resource Exports



Source： Statistics on the balance of payment (The central bank of Russia)

1-2-5-88 Private Sector Capital Account in Russia



Source: The central bank of Russia Web site

(b) Economic measures and their effect

Under these circumstances, Russia implemented various measures[151]. However, when the global

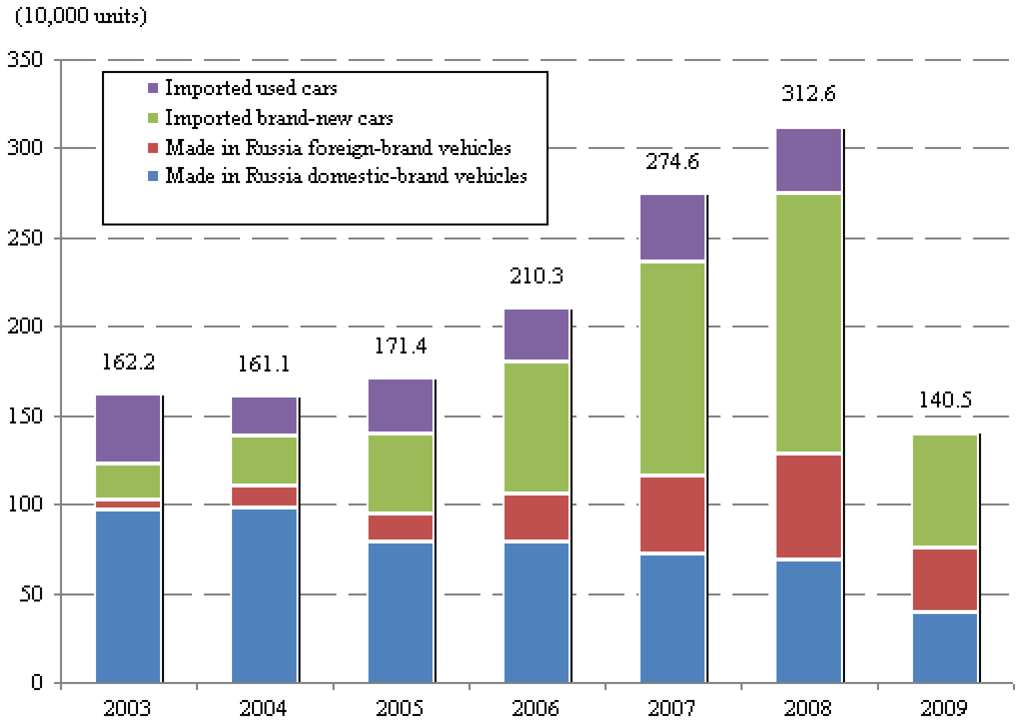
[151] The Russian central bank implemented measures including monetary relaxation, the provision of loans without collateral, loans provided by the central bank, subordinated loans, and loans to support companies and banks to reimburse their external loans and the enhancement of deposit protection scheme. Meanwhile, the Russian government implemented tax cuts and extended financial support.

financial crisis occurred, the Russian government and the financial authorities of Russia forecasted that its impact to Russia would be small. As a result, since the timing of implementation of measures was too late or the effect of measures was limited, recession became worsened.

For example, the government guarantee scheme for bank loans provides high credit risk to banks since it takes long time until the government guarantee is executed when there was a delinquency of debt payment by a corporate client and the amount to be guaranteed is not full. Therefore, Russian banks were reluctant to utilize the government guarantee. Moreover, the utilization rate of the government measure to support automobile industry was low because the program targeted only for pure domestic models and the requirements of loans were severe.

In fact, in Russia, the number of car sold which had been swelling since the middle of the 2000s dropped to some 1.40 million showing a minus 55% year-on-year decrease in 2009. Among them, the decline in the number of imported cars was remarkable (see Figure 1-2-5-89)

1-2-5-89 Trends in Number of Passenger Vehicles Sold in Russia



Source: Russia NIS survey monthly report (April 2010) NIS Foreign trade council
Original source: ASM holdings

(C) Relations with Japan

(a) Trade relations

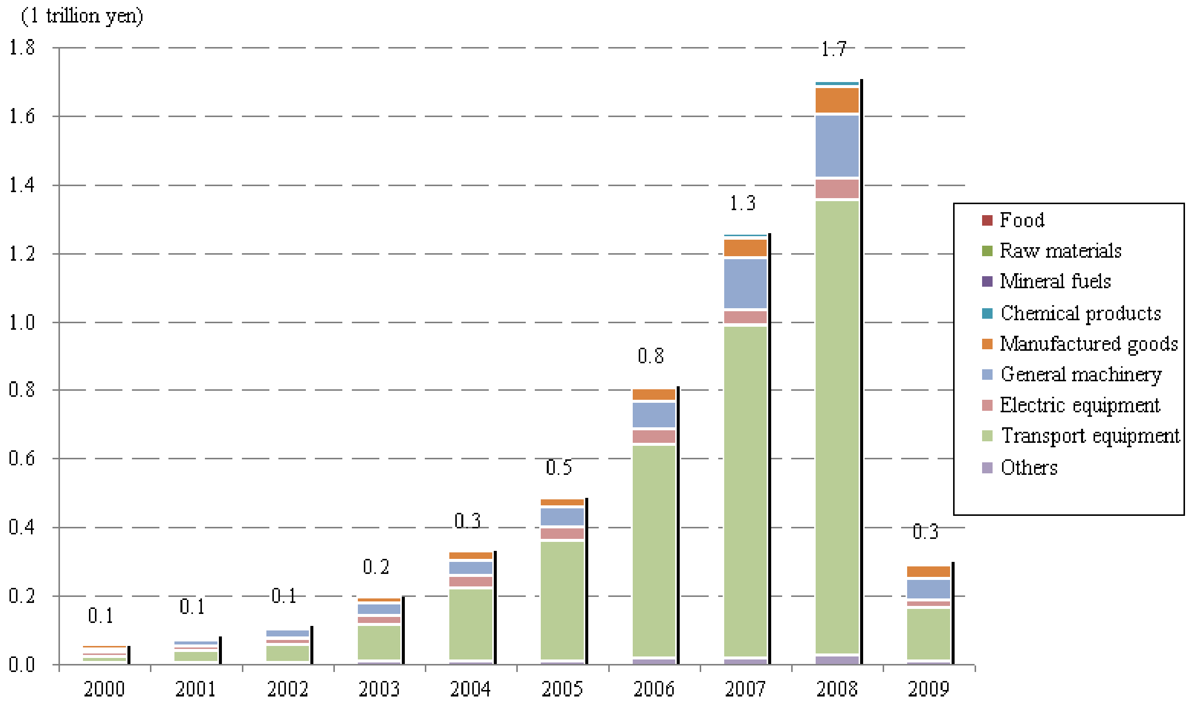
The trade between Japan and Russia which had been expanding in these years significantly dropped in terms of both import and export in 2009.

As for imports, despite the increase of crude oil import volume and the start of LNG imports in the spring of 2009, the imports of mineral fuel in 2009 was 30% lower than the previous year due to the resource prices that was sluggish compared to a year earlier. Moreover product import by raw material such as aluminium and wood products of which tariff was lowered substantially decreased.

In 2009, imports recorded a 40% decline from the previous year (see Figure 1-2-5-90).

On the other hand, the export of transport machinery which accounts for some 80% of Japan's export to Russia drastically dropped due to the sudden contraction of Russia's domestic demand affected by the global financial crisis, significant increase of tariff by the Russian government in January 2009 and the implementation of economic measures to protect domestic cars. The total exports from Japan to Russia fell by 80% (see Figure 1-2-5-91).

1-2-5-91 Trends in Exported Items to Russia



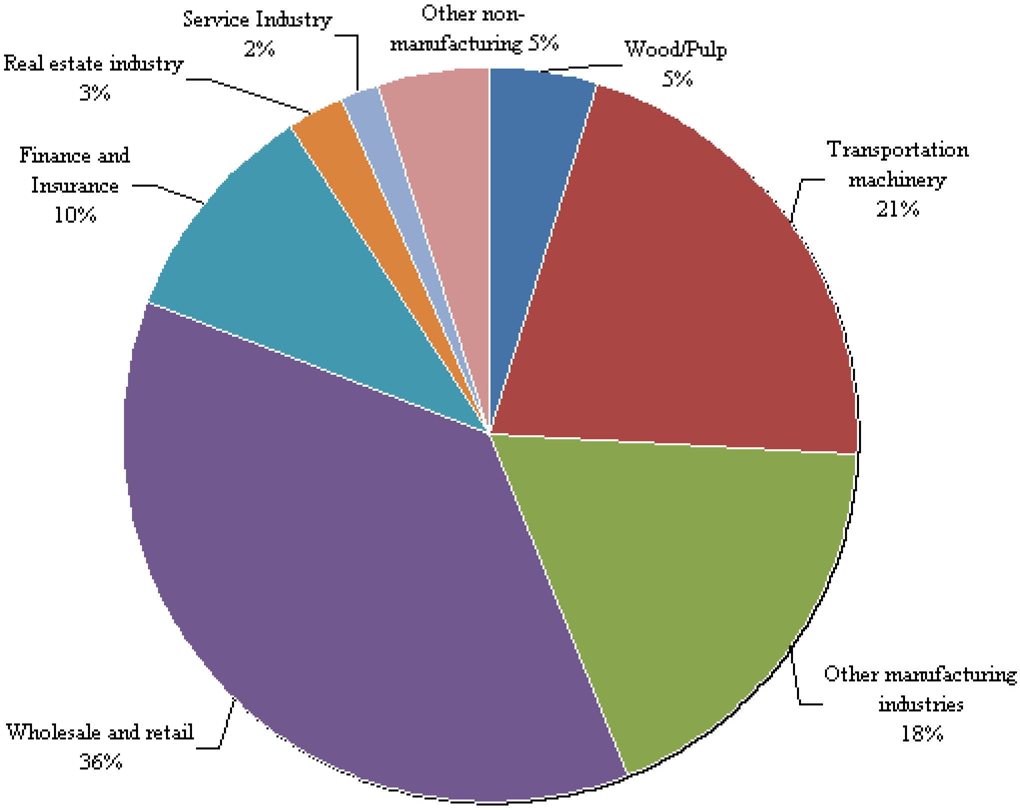
Source: Trade statistics (The Ministry of Finance)

(b) Investment relations

Recent Japanese investment was extended to various industries including transport machinery, food products, rubber, non-manufacturing industry such as wholesale and retail (see Figure 1-2-5-92).

In June 2009, Nissan Motor Co., Ltd. started a new factory for vehicle fabrication in St. Petersburg. In April 2010, Uniqlo Co., Ltd. opened its first retail shop in Moscow. Investments which expect the future growth of emerging country, Russia, have been made.

1-2-5-92 Direct Investment by Industry into Russia



Source: Balance of payment statistics (Bank of Japan)

Column 15 Russian Cosmetic market

After the global financial crisis, the stagnancy of Russian economy stands out compared to the conditions of other emerging countries. However, the cosmetic import is showing remarkable growth in Russia among BRICs.

In 2009, there was some decline, however, the cosmetic imports to Russia[152] jumped by 10 times from 2000 to 2008. This growth is extraordinary compared to that of China, Brazil and India.

Since the time of the Soviet Union, Russian women's interest towards beauty products has been high. Along with the economic expansion in the 2000s, the cosmetic market rapidly expanded.

It is said that some 60 to 70% of Russian cosmetic market consists of imported cosmetic products[153]. Among them, European brands have a commanding share. Top cosmetic exporters to Russia in 2009 were European countries including France, Germany and Poland. Although the import from Japan is currently less than 1%, there is a forecast that predicts the future growth of Japanese and American brands as well as European brands[154].

In 2007, Pola Inc. inaugurated a local corporation and set up a counselling booth at a high-class department in Moscow and Shiseido Co., Ltd. also established a local corporation. It is expected that Japanese cosmetic products gradually start penetrating the Russian market.

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152 It means the products categorized as HS Code 3303 to 3307.

153 Japan Association for Trade with Russia & NIS (2008) "ROSHIANO KESHOU/KOUSUI BUNKA (Cosmetic and perfume culture in Russia)" ROSHIA NIS CHOUSA GEPPOU (Russia NIS Monthly Research Report) August, 2008

154 Euromonitor "Emerging Consumer Market"