

Chapter 2 Japan growing with Asia's development - Asia-Pacific framework toward sustainable growth

Section 3 Expansion of Asian consumer market. Targeting to be a quality market.

The section 2 confirmed while Asia is gaining attention as consumer market, the East Asia production network is evolving into a network that facilitates a sales base and R&D center.

This section will provide analysis on Asia as consumer market from various angles. As consumption market, Asia is comparable to NAFTA and EU in terms of economic size and trade volume, however, GDP capital is small recording only one fourth of NAFTA or EU. The disparity of GDP per capita by country and region is also large in Asia. Thus, as a consumer market, Asia has different characteristics compared to NAFTA to EU. This section will confirm each characteristics and sales style of goods and service consumed in Asia and verify the possibility for Asian consumer market to grow further and become one of the largest consumer market in the world.

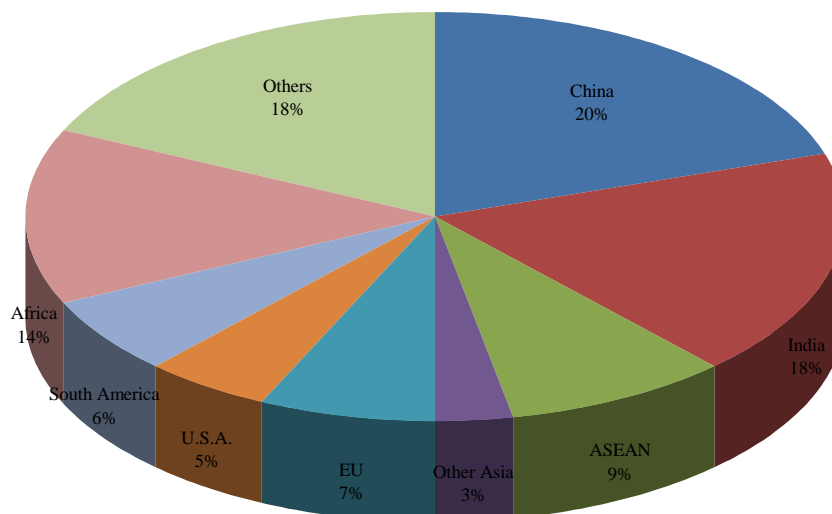
1. Enhancing Asian consumer market

(1) Expanding middle-income segment

Asia holds some population giants such as China with 1.3 billion people and India with 1.2 billion people and the total population of Asia account for about 50% of world population (see Figure 2-3-1-1). As people's purchasing power increase along with economic development, Asia with massive population will give a large impact on the world.

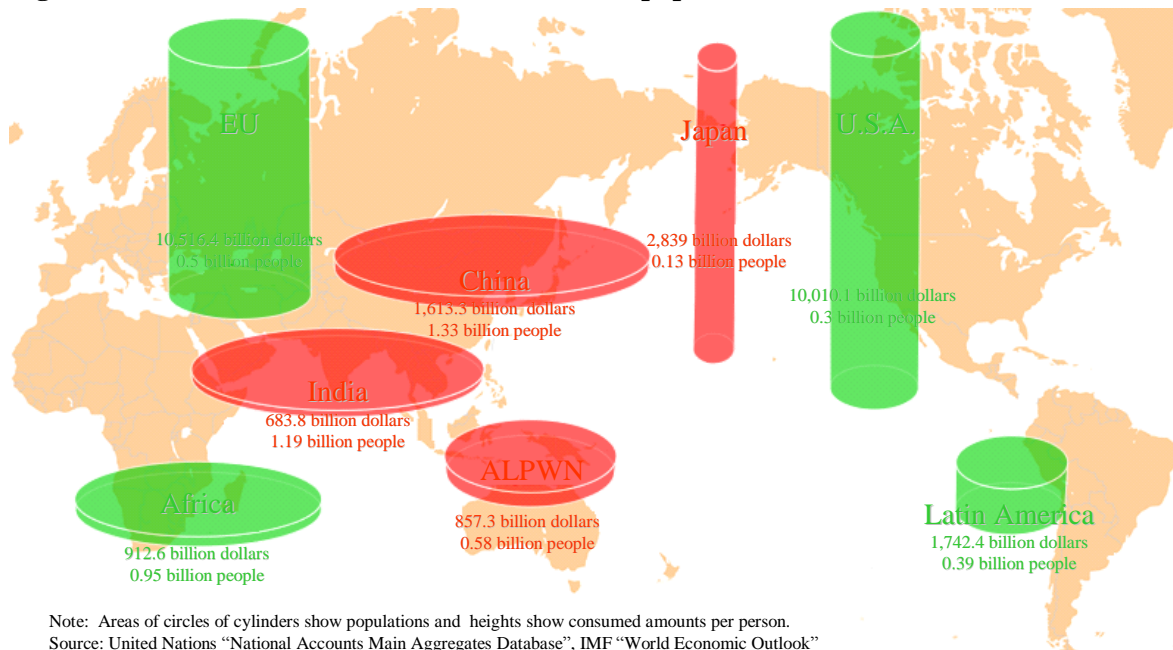
Consumption per capita of China, India and ASEAN in 2008 is \$1,215, \$576 and \$1,478, respectively. The numbers are smaller than that of the U.S. of \$32,883 and that of Japan of \$22,233. However, if we view them as country or region as a whole, the consumption of China, India and ASEAN register \$1,613.3 billion, 683.8 billion and 857.3 billion, respectively. These numbers represent the solid presence as one of the major consumer market (see Figure 2-3-1-2).

Figure 2-3-1-1: World population demographics by country or region (2008)



Source: IMF, "World Economic Outlook, April 2010"

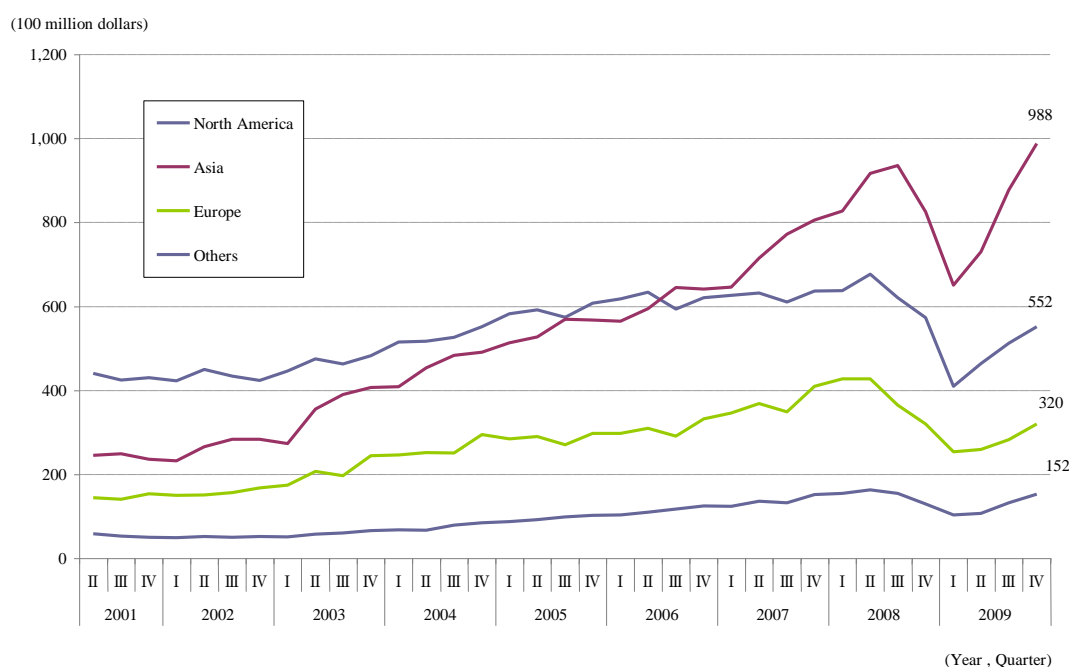
Figure 2-3-1-2: World consumer market sizes and population (2008)



In these years, Asia is rapidly developing as consumer market. Japanese local subsidiaries' regional sales in Asia, partially affected by the increase of the number of Japanese local subsidiaries in Asia, recorded the highest exceeding that in North America in the second quarter of 2006 (see Figure 2-3-1-3). After the second half of 2008, the sales of each region declined due to the global financial crisis. However, while North American market and European market are still stagnant, Asia quickly recovered to the level prior to the global financial crisis.

In addition, the breakdown of sales of Asian local subsidiaries by country and region shows 44% of share of China (Hong Kong inclusive) and 38% of ASEAN4 amounting about 80% of total (see Figure 2-3-1-4).

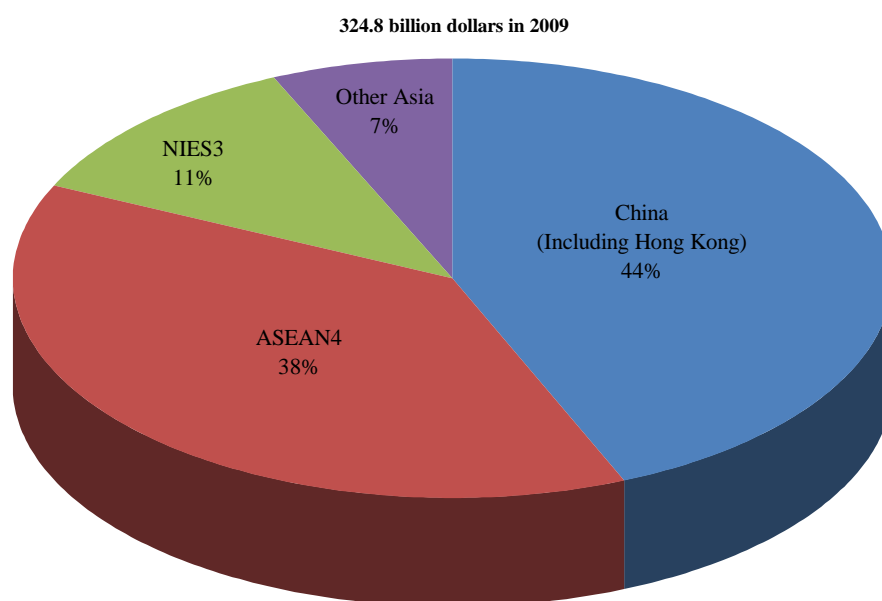
Figure 2-3-1-3: Trends in sales volume by region for local subsidiaries of Japanese companies



Source: Ministry of Economy, Trade and Industry, "Quarterly Survey of Overseas Subsidiaries"

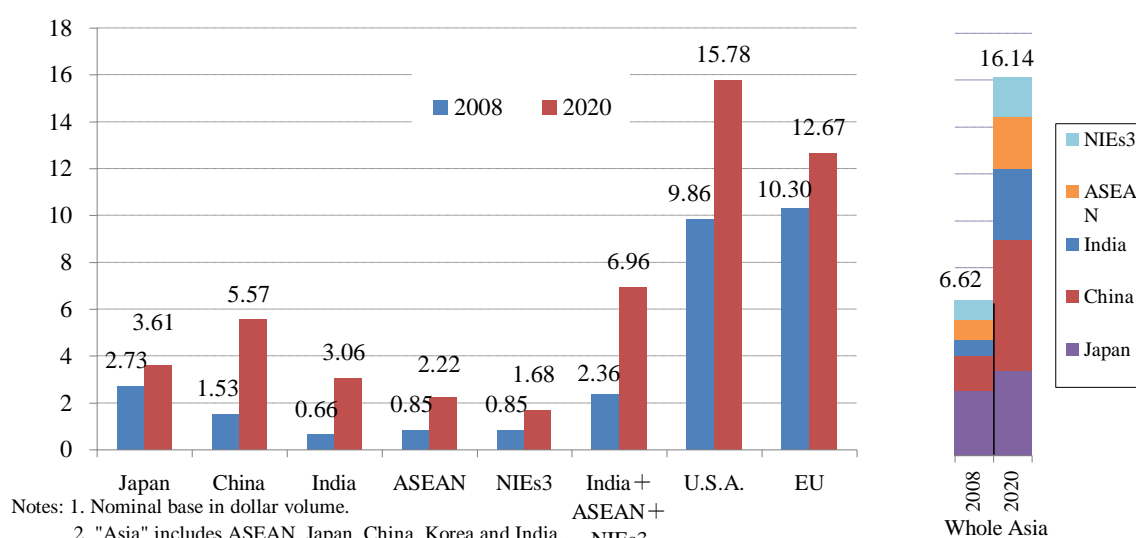
Personal consumption of Asia including China and India is increasing these years and expected to grow further supported by continuous economic development and the popularization of durable consumer goods. In 2020, personal consumption of China is projected to reach \$5.57 trillion surpassing that of Japan. Moreover, in 2020, personal consumption of Asia total is expected to grow to \$16.14 trillion, which is about 4.5-fold of that of Japan, exceeding the number of Europe and being competitive to that of the U.S.¹ (see Figure 2-3-1-5)

Figure 2-3-1-4: Regional breakdown of sales volumes for local subsidiaries of Japanese companies in Asia



Source: Ministry of Economy, Trade and Industry, "Quarterly Survey of Overseas Subsidiaries"

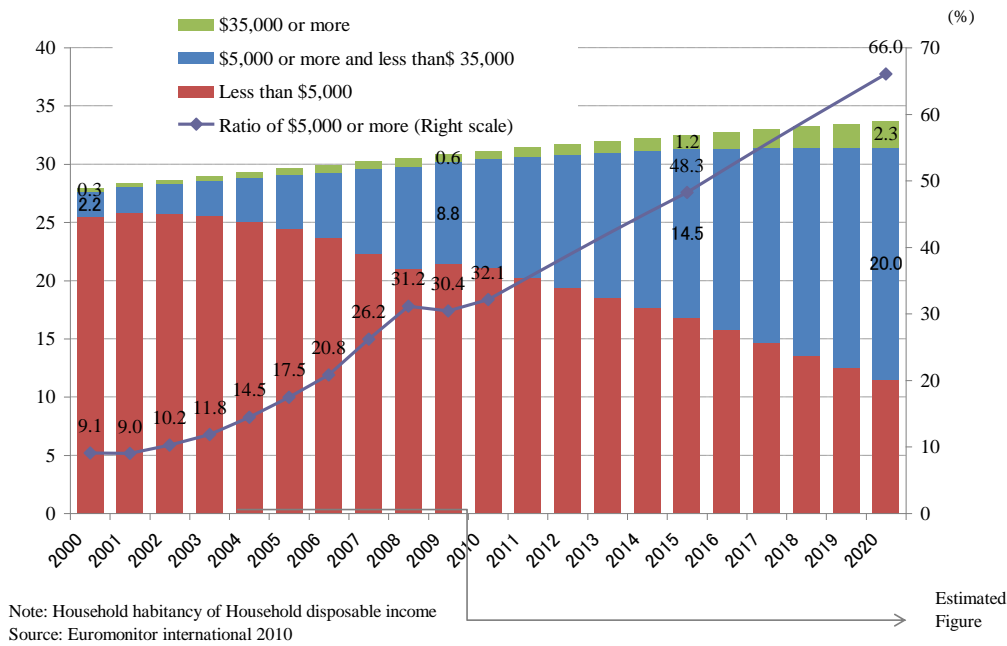
Figure 2-3-1-5: Personal consumption figures and estimates by Asian country or overseas region



¹ The real-base personal consumption estimates for each country and region in 2020 are \$3.39 trillion for Japan, \$4.38 trillion for China, \$12.30 trillion for Asia total (the total of ASEAN, Japan, China, Korea and India), \$12.60 trillion for the U.S. and \$10.41 trillion for EU.

Figure 2-3-1-6: Trends in population by income class for developing countries in Asia

(100,000,000 people)



While personal consumption increases in Asian emerging countries, the expansion of the middle-income segment with \$5,000 to \$35,000 of household disposal income is gaining attention.

The middle-income segment in Asian emerging countries increased from 220 million people to 940 million people from 2000 to 2010 and exceeded the population size of the U.S. and EU combined (see Figure 2-3-1-6). Furthermore the middle-income segment in Asian emerging countries is expected to expand to 2 billion people in 2020 (see Figure 2-3-1-7). The combination of the middle-income segment and the high-income segment with household disposal income of \$35,000 or larger, will likely reach to 230 million people (see Figure 2-3-1-8) that account for two thirds of Asian emerging countries total population.

Figure 2-3-1-7: Trends for Asia's middle class

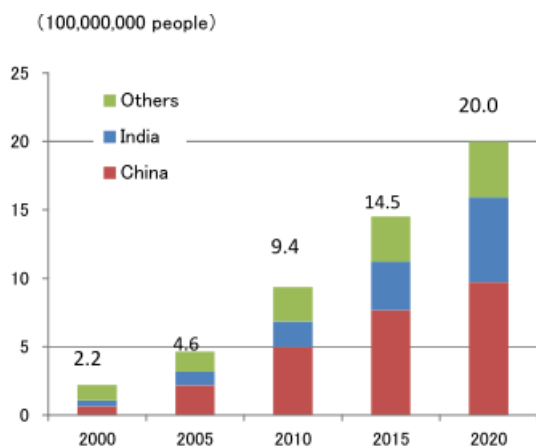
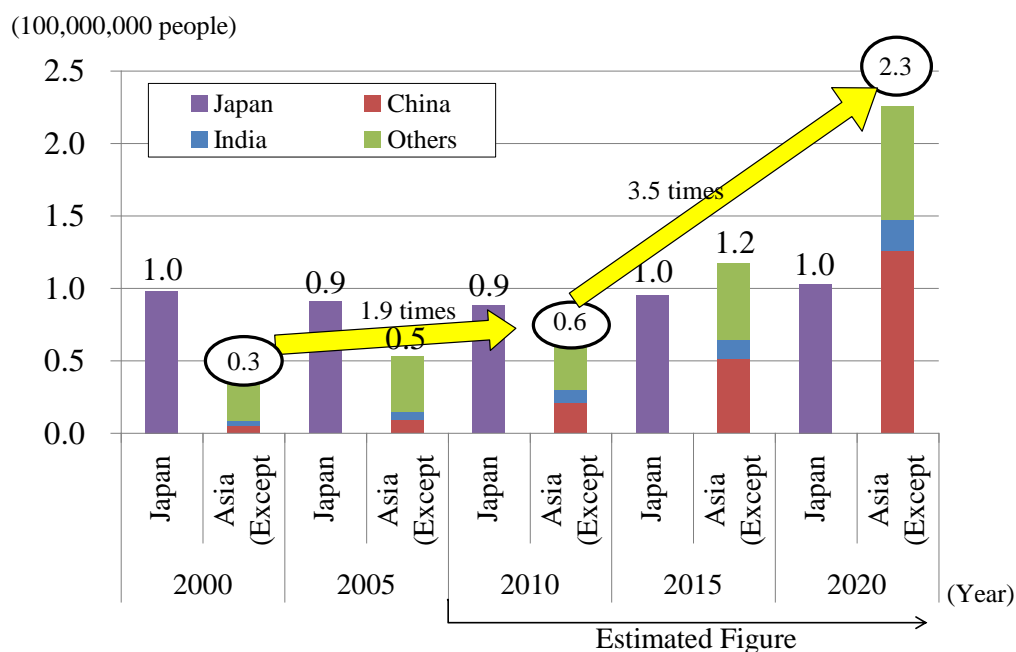


Figure 2-3-1-8: Trends for Asia's wealthy

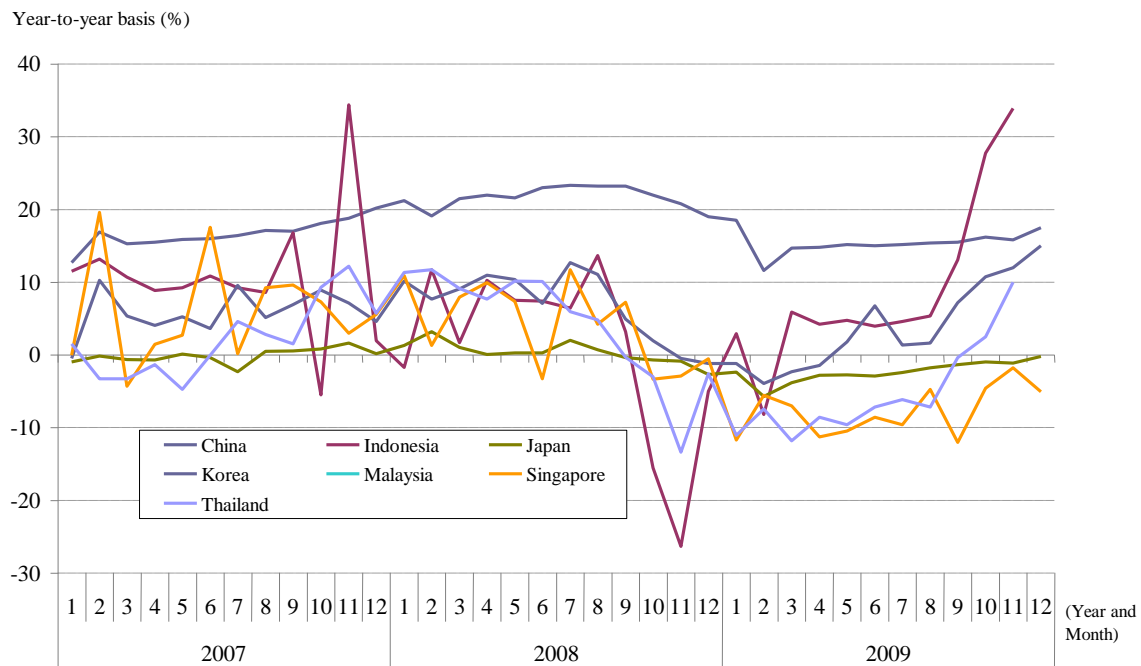


Notes: 1. Household population of household disposable income. "Asia" includes China, Hong Kong, Taiwan, Korea, India, Indonesia, Thailand, Vietnam, Singapore, Malaysia and the Philippines.
 2. Calculated by household budget ratio \times Population
 3. Asian wealthy class means income groups which have household annual disposable income \$35,000 or more.

Figure 2-3-1-9: Trends in consumer confidence index by country



Figure 2-3-1-10: Trends in household expenditures (compared to same month of previous year) by country



Source : CEIC Database

(4) Recovery of consumer confidence

The global financial crisis has been significantly affecting Asia's consumption through reduced exports to countries and regions in Asia and production and employment adjustments. Consumer confidence index in each Asian country largely dropped from the second half of 2007 (see Figure 2-3-1-9)

However, later in Asia, the effect of economic stimulus measures and the expectation for the future growth contributed for the recovery of consumer confidence index of each country in 2009. Indonesia and Korea already improved to the level that exceeds pre-crisis level. As for household expenditure of each Asian country, many countries started demonstrating negative year-on-year growth from the second half of 2008. However, from the second half of 2009, recovery is observed in countries including Korea, Indonesia and Thailand (see Figure 2-3-1-10).

Thus, consumption in Asia recovered from the effect of global financial crisis ahead of others countries and started moving forward for further expansion.