Chapter 3　Toward a new concept for overseas development of Japanese economy

Overcoming the world economic crisis (its aftermath) and the shock of earthquake disaster

After the previous world economy crisis and the earthquake disaster, the presence of emerging countries around Asia has become clearer. This chapter depicts a future image of the possibility of overseas development of the Japanese economy with full realization of the needs for harmonious coexistence with the fast-growing Asian countries and industrial compartmentalization. In section 1, we discuss and analyze what direction exists to secure necessary space for manufacturing industries of Japan in the emerging countries of Asia. Additionally we indicate that Japan's contributions in offering problem solving ideas to the emerging Asian nations can give Japan a big business opportunity. In section 2, we define the overseas development concept by getting into full swing in emerging countries as "localization", and after having described the characteristics and problems therein, we will indicate how the movement toward "localization" influences the Japanese economy, and see how a proper balance between the "localized industries" and the Japanese economy can be achieved.

Section 1　Re-examination of the global market, and the strategy of the Japanese manufacturing industry

In emerging countries[1] all over the world including Asia where economic growth is remarkable, the "market" is spreading quantitatively, and improving qualitatively, backed by the rise in income. This section analyzes factors like markets of the emerging countries where sudden growth is anticipated in the future, the present status and forecasted future of the income group, competitiveness of Japanese manufacturing industries , and finally, the measures to be taken to secure the necessary market venues in the emerging economies.

In this section, the criteria of each income group are given as follows.

Income group	Household disposable income per annum
High-income class	35,000 dollars and above
Upper middle income class	More than 15,000 and below 35,000 dollars
Lower-middle income class	More than 5,000 and below 15,000 dollars
Lower-income class	Below 5,000 dollars

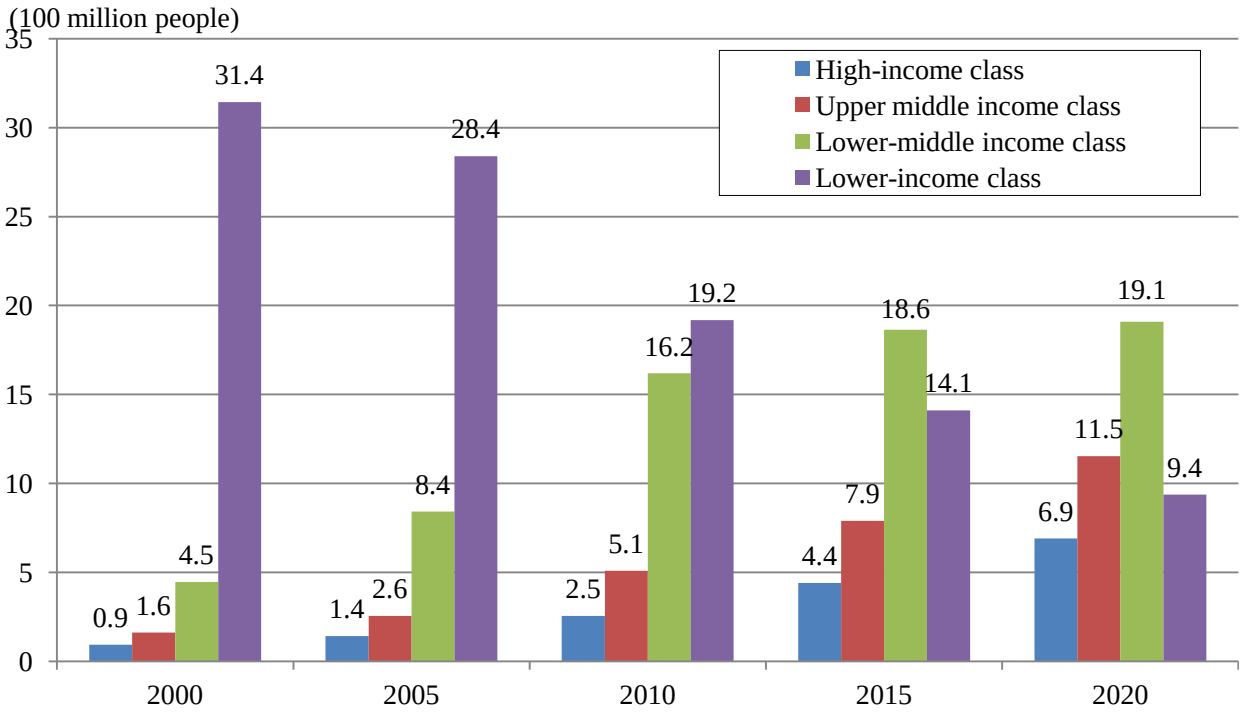
1. Income group in emerging countries that is growing rich

The population structure of the emerging economies is categorized by income group. This is true as long as the income of the emerging economies are above 4,300 million. It showed that the

[1] Here, considering economic scale and data restrictions, the necessary information concerning the emerging countries are collected from following 27 subject countries and regions, such as, China, Hong Kong, Korea, Taiwan, India, Indonesia, Thailand, Vietnam, Singapore, Malaysia, Philippine, Pakistan, Turkey, United Arab Emulates (UAE), Saudi Arabia, South Africa, Egypt, Nigeria, Mexico, Argentina, Brazil, Venezuela, Peru, Russia, Hungary, Poland and Rumania.

high-income class accounted for 5.9%, upper middle-income class 11.8%, lower-middle income class 37.6%, and low-income class 44.6%. About half (1,920 million) of the population belonged to the lower-income class, while in 2020, they expect that the high-income class will account for 14.7%, the upper middle-income class 24.6%, lower middle income class 40.7% and the low-income class 20.0%. This indicates that approximately 40% (1,840 million) of the population of emerging countries (4,690 million) will belong to the upper middle-income class or the high-income class (Figure 3-1-1-1).

Figure 3-1-1-1 Change of population of emerging countries by income group



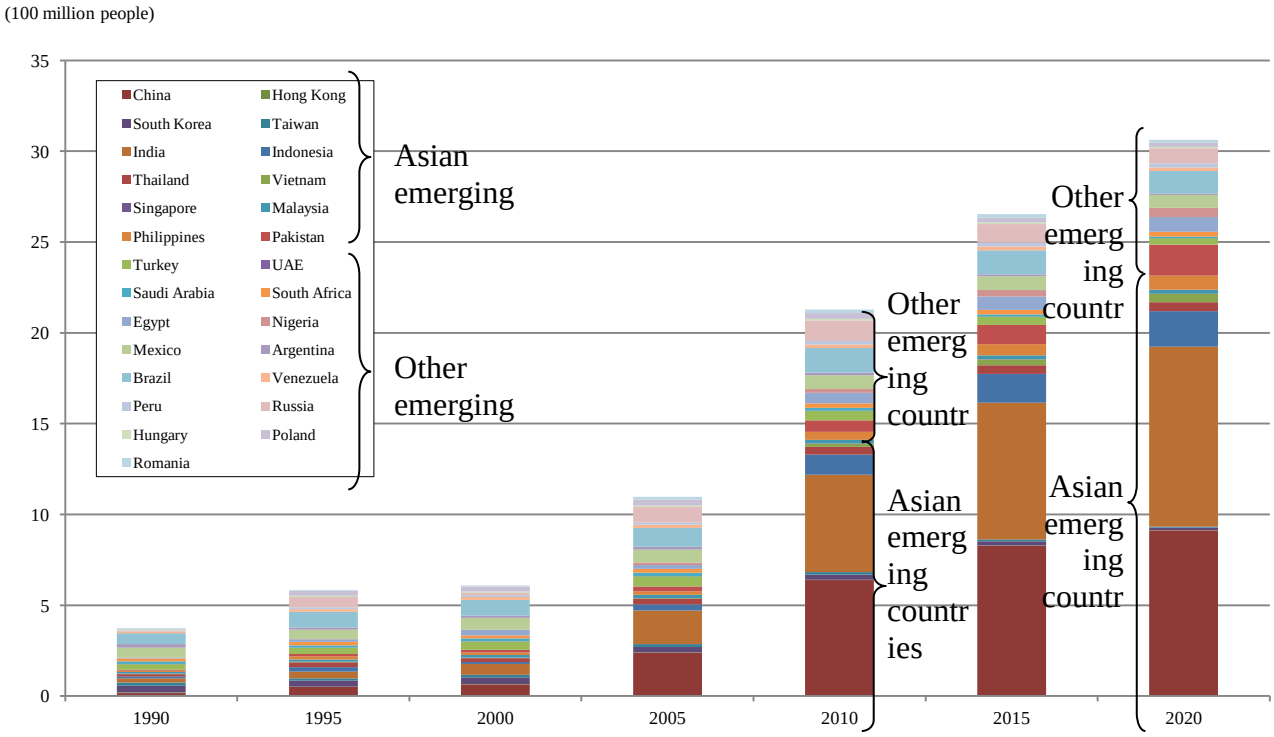
Notes: Household population categorized by household disposable income. House household ratio for each income group x population. Data for 2015, 2020 are estimated.
Sources: Euromonitor International 2011.

The countries with the largest population income group in 2010, where the number of upper middle income class or high-income class was the largest were 11 countries mainly in Middle East and Central and South America (in Asia only NIEs), but this number will expand to 16 countries in 2020. On the other hand, the number of countries where low-income class was the largest was eight in 2010. They came mainly from Asia and Africa. But, the number of countries in this category will decrease to three in 2020, and they are Vietnam, South Africa, and Nigeria. As for the ratio of people in the low-income group in Vietnam and South African, there is no big difference with the people of the lower-middle income group/class in each country. This number will eventually decrease to less than 50% (72.1% in Nigeria) in 2020.

(1) Status of the people in the middle-income class and the future growth potentials

The middle-income class of the population in the Asia's emerging countries was 240 million in 2000, and it grew six times larger to 1460 million in 2010. It is expected to grow about 10 times larger in 20 years, amounting to 2310 million in 2020. On the other hand, as for other emerging countries, it grew from about 370 million in 2000 to 670 million in 2010, and is further expected to grow up to 750 million in 2020. But there is no similar growth in other countries except those in emerging Asian countries. As for the middle income class in the emerging countries in 2020, 11 countries in emerging Asian economies will surpass the scale of 16 other emerging countries, and will account for more than 75% of the whole middle income population. It is anticipated that by 2020, the entire group of the emerging economies will grow into a large market of 3.06 billion (Figure 3-1-1-2).

Figure 3-1-1-2 Changes in middle income group in emerging countries/regions



Notes: Note: Household population categorized by household disposable income. House household ratio for each income group x population Data for 2015, 2020 are estimated figures presented by the Euromonitor Russia are not included in the 1990 population
Sources: Euromonitor International 2011.

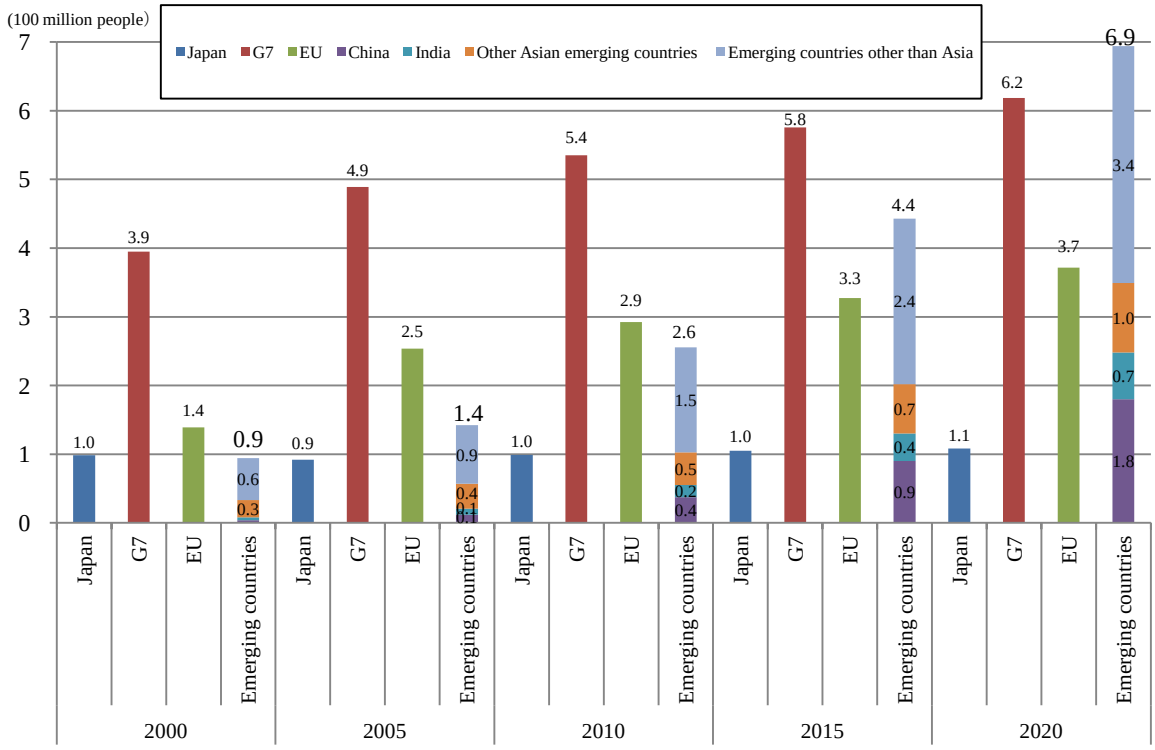
(2) Status of the people in high-income class and the future growth potentials

As for the high-income class of the population, although developed nations (540 million in G7) had more than double the number of people classed under this group of the emerging countries (260 million) in 2010. However, the emerging economies showed an extremely high growth rate in

the high-income class of their population. From 2010 through 2020, the growth rate of the high-income class of the population of the developed nations is expected to be approximately 1.2 times greater than before, while that of the emerging countries will be about 2.7 times greater. The emerging Asian countries, in particular, should be about 3.4 times larger than the previous years. The high-income class of the population of 11 emerging Asian countries accounts for the majority growth of the total number of emerging countries and exceed that of 16 non-Asian emerging countries. Above all, China, with a faster growth rate, is rapidly growing about 4.8 times larger than before, and it is expected that China will take up more than 50% of the scale of entire lot of the emerging Asian countries, and more than 25% of that of the entire grouping of the emerging nations.

As a result of the above, the high-income class of population of the emerging countries which was about 100 million in Asian emerging countries and about 150 million in other emerging countries in 2010, will be about 350 million in Asian emerging countries, about 340 million in other emerging countries totaling about 690 million in 2020. This figure indicates that the high-income class in emerging economies is anticipated to grow and exceed the scale of EU in 2015 and that of G7 in 2020 (Figure 3-1-1-3).

Figure 3-1-1-3 Comparison of changes in high income group between developed countries and emerging economies



Notes: Household population categorized by household disposable income. House household ratio for each income group x population Data for 2015, 2020 are estimated figures presented by the Euromonitor

Sources: Euromonitor International 2011

(3) The expansion of the market of Asian emerging countries

(A) General view of the market of Asian emerging countries

The market of the emerging Asian countries is characteristic in that, its output is low as its per capita GDP is generally low except the NIEs3 and Singapore, even though its population account for approximately 50% of world population, The nominal per capita GDP of Asian emerging countries in 2010 was 3,446 dollars and this indicates that this is affected by the fact that per capita GDP of the nations with huge population is generally low. The nominal per capita GDP of China with its 1.3 billion people is $ 4,382, while that of India with 1.2 billion people is $1,265 (Table 3-1-1-4).

Table 3-1-1-4 Overview of Asian emerging countries/regions

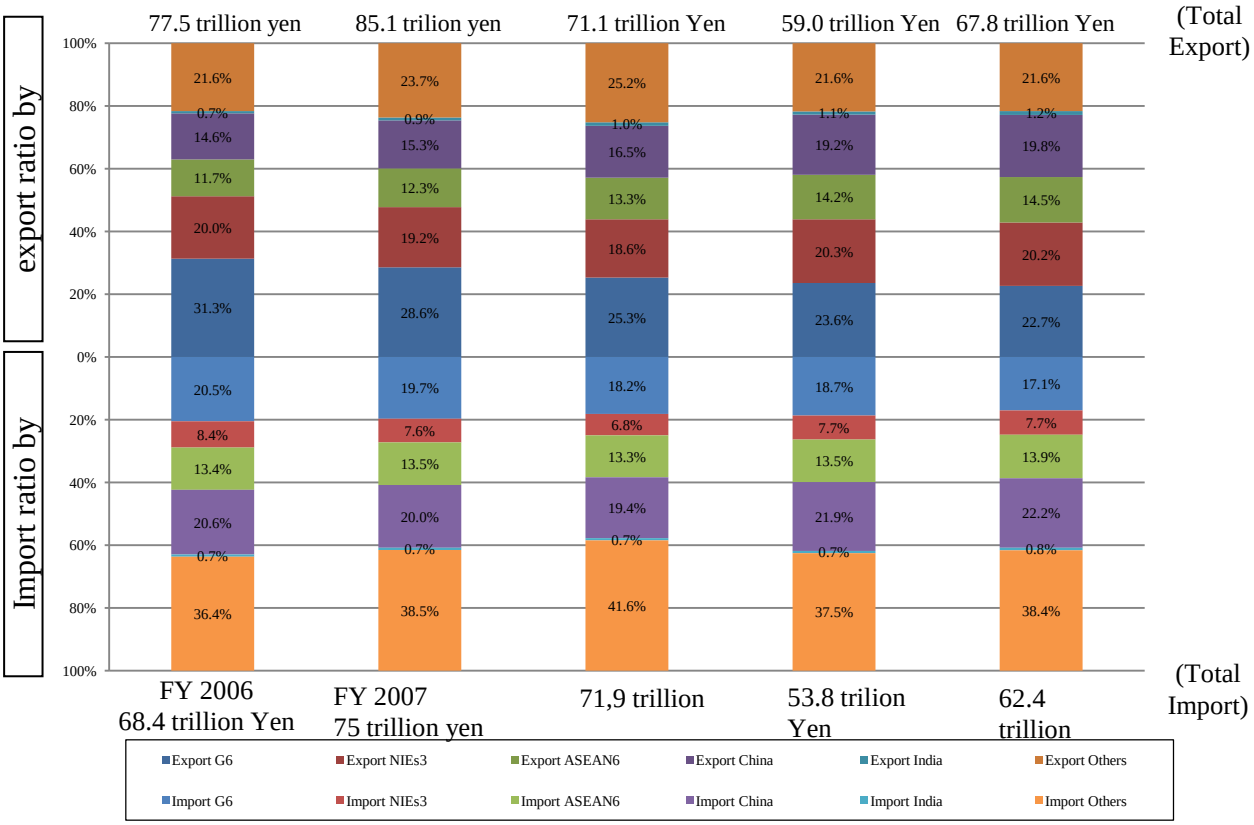
Country	Population (1 million people)		Average annual growth rate	Nominal GDP ($1 billion)		Average annual growth rate	Nominal GDP per capita (US$)		Average annual growth rate	GNP per capita world ranking	
	2010	2015		2010	2015		2010	2015		2010	2015
China	1,341.4	1,375.3	0.50%	5,878.3	10,061.8	11.35%	4,382	7,316	10.79%	93	81
India	1,215.9	1,299.2	1.33%	1,538.0	2,516.3	10.35%	1,265	1,937	8.90%	134	130
Hong Kong	7.1	7.4	0.81%	225.0	320.2	7.31%	31,591	43,180	6.45%	25	23
South Korea	48.9	49.7	0.31%	1,007.1	1,476.0	7.94%	20,591	29,713	7.61%	34	31
Taiwan	23.3	24.4	0.90%	430.6	692.2	9.96%	18,458	28,375	8.98%	38	34
NIEs3	79.4	81.5	0.53%	1,662.7	2,488.4	8.40%	20,951	30,538	7.83%	Equal to 34th rank	Equal to 30th rank
Singapore	5.2	5.6	1.74%	222.7	305.0	6.49%	43,117	54,176	4.67%	15	14
Malaysia	28.3	30.7	1.70%	238.0	336.2	7.16%	8,423	10,939	5.37%	65	66
Thailand	63.9	65.8	0.60%	318.9	460.5	7.63%	4,992	6,997	6.99%	87	84
Indonesia	234.4	250.0	1.30%	706.7	1,212.3	11.40%	3,015	4,849	9.97%	106	101
Philippines	94.0	103.7	1.97%	188.7	269.2	7.36%	2,007	2,597	5.29%	121	121
Vietnum	88.3	93.7	1.20%	103.6	176.3	11.23%	1,174	1,882	9.91%	138	132
ASEAN6	513.9	549.5	1.35%	1,778.5	2,759.6	9.18%	3,461	5,022	7.73%	Equal to 103th rank	Equal to 98th rank
Asian emerging countries 11	3,150.7	3,305.6	0.96%	10,857.4	17,826.0	10.42%	3,446	5,393	9.37%	Equal to 103th rank	Equal to 97th rank
Japan	127.5	126.5	-0.16%	5,458.9	6,379.7	3.17%	42,820	50,450	3.33%	16	17
USA	310.0	325.0	0.95%	14,657.8	17,993.1	4.19%	47,284	55,361	3.20%	9	9
Canada	34.1	36.5	1.41%	1,574.1	2,000.0	4.91%	46,215	54,741	3.44%	11	10
UK	62.2	64.3	0.67%	2,247.5	3,050.5	6.30%	36,120	47,418	5.59%	22	22
Germany	81.6	80.8	-0.20%	3,315.6	3,857.0	3.07%	40,631	47,741	3.28%	19	21
France	63.0	64.4	0.46%	2,582.5	3,112.3	3.80%	41,019	48,317	3.33%	18	20
Italy	60.3	61.6	0.40%	2,055.1	2,424.5	3.36%	34,059	39,383	2.95%	23	24
G7	738.7	759.1	0.55%	31,891.5	38,817.0	4.01%	43,175	51,135	3.44%	Equal to 15th rank	Equal to 17th rank
World (184 countries)	6,818.1	7,191.6	1.07%	62,887.8	85,367.2	6.30%	9,224	11,870	5.17%		

Source: "World Economic Outlook Database, April 2011"(IMF)

As of 2010, the Asian emerging countries are the big market for us, accounting for 55.7% of the whole export amount and 44.6% of whole import amount of Japan. Geographically and

economically, Japan and Asia have close relations (Figure 3-1-1-5).

Figure 3-1-1-5 Change in ratio by trade partner/region to total import and export of Japan

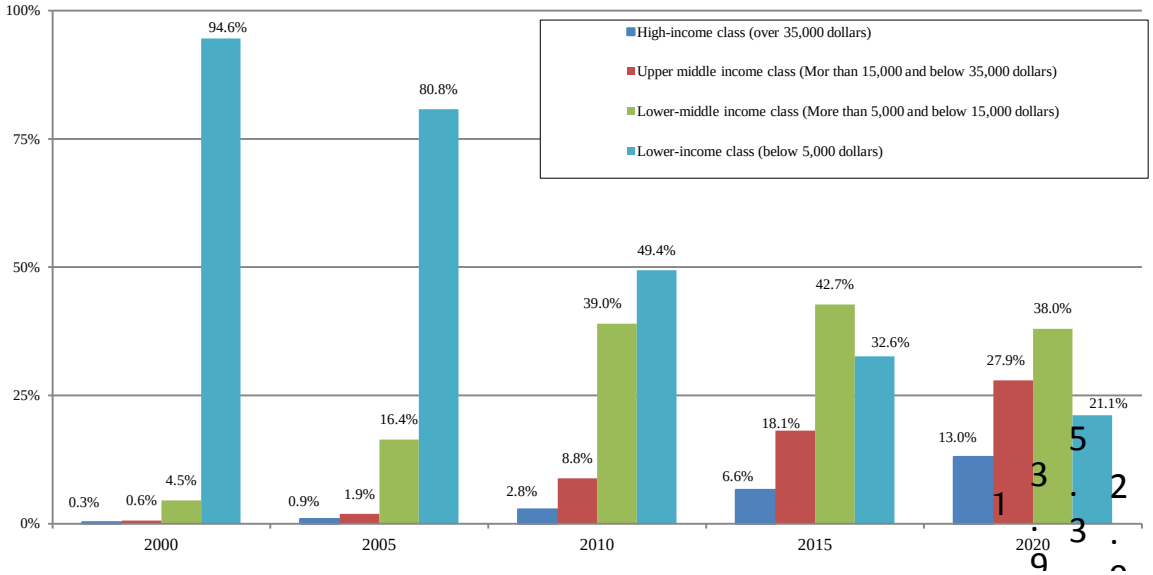


Source: Global Trade Atlas

(B) Targeting the upper middle income and the high-income classes which are rapidly increasing in Asian emerging countries

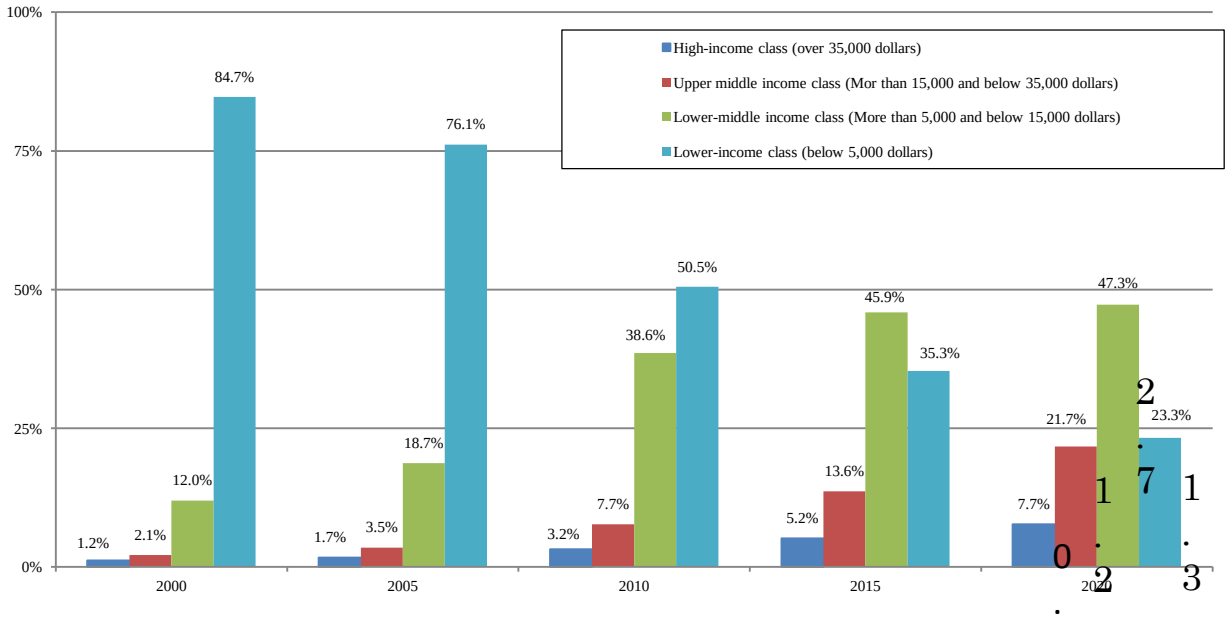
When viewing the growth of income class of Asian emerging countries by nation and region, it is noticed that China and ASEAN indicate similar trend, and upper middle income class as of 2010 account for only about 10%, but it will increase to about 40% in 2020. In particular China will form the high-income class market with 180 million people, although high-income class is expected to be only 13% in the expected population of 1,380 million people in 2020 (Figure 3-1-1-6, Figure 3-1-1-7). It is anticipated that ASEAN6 will be polarized in 2020 into three groups: Singapore, Malaysia, and Thailand where the upper middle income class or above will be more than 50%. In two other Asian countries: Indonesia and Philippine, the upper middle income class or above will be more than 25%; and in Vietnam the low-income class will be about 50%.

Figure 3-1-1-6 Ratio at each Income Level in China



Notes: Household population categorized by household disposable income. House household ratio for each income group x population. Data for 2015, 2020 are estimated figures presented by the Euromonitor. The number on the bar graph of 2020 is number of people (100 million people).
Source: Euromonitor International 2011

Figure 3-1-1-7 Ratio at each Income Level in ASEAN6



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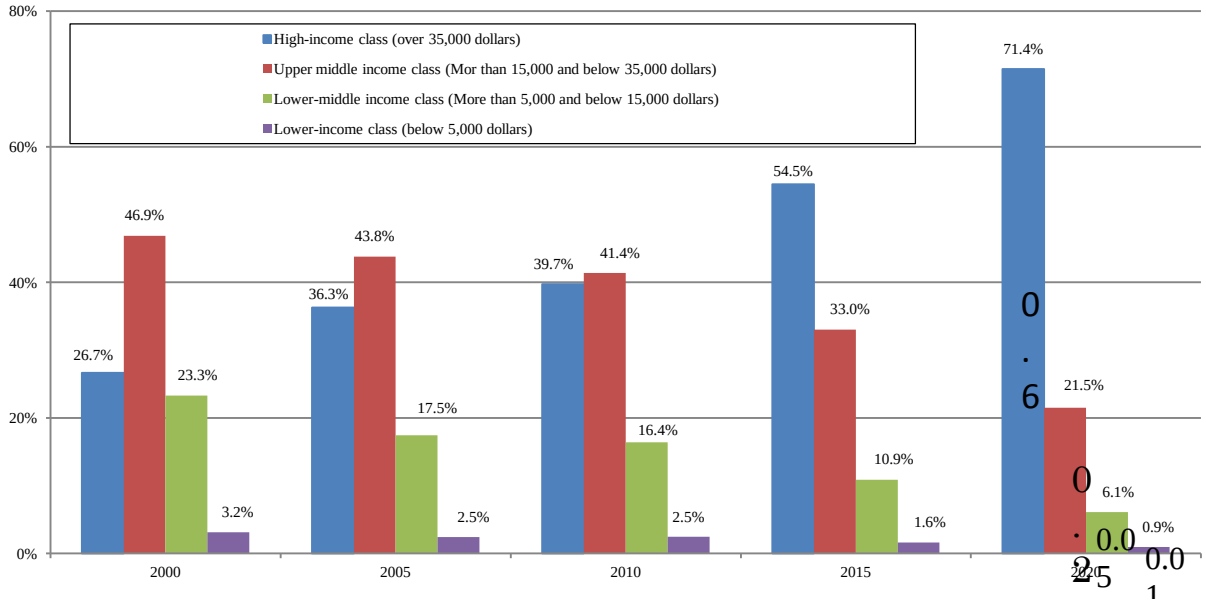
Source: Euromonitor International 2011

It may be said that NIEs3 have already become wealthy nations in 2010, and in 2020, they will be wealthier with the high-income class accounting for over 70% of their population like the developed nations (G7) in 2010. However, because of their small size of population (approximately 80 million people), they may be a bridgehead to enter into the Chinese market in addition to their own regional markets investing first in Hong Kong and Taiwan (Figure 3-1-1-8).

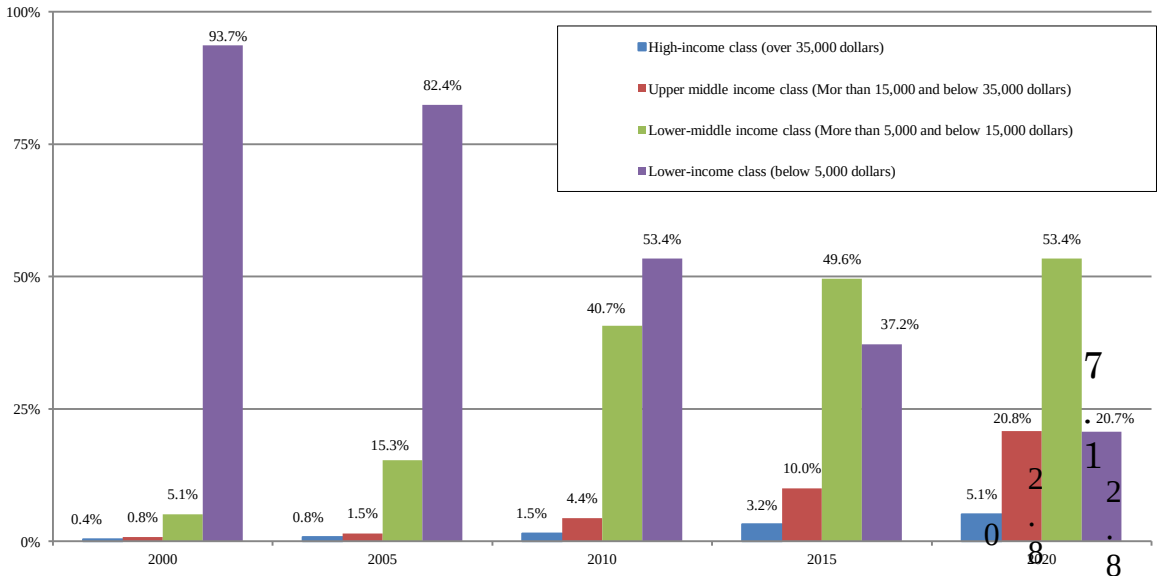
Figure 3-1-1-8 Ratio at each Income Level in NIEs3



Notes: Household population categorized by household disposable income. House household ratio for each income group x population. Data for 2015, 2020 are estimated figures presented by the Euromonitor. The number on the bar graph of 2020 is number of people (100 million people).
Source: Euromonitor International 2011

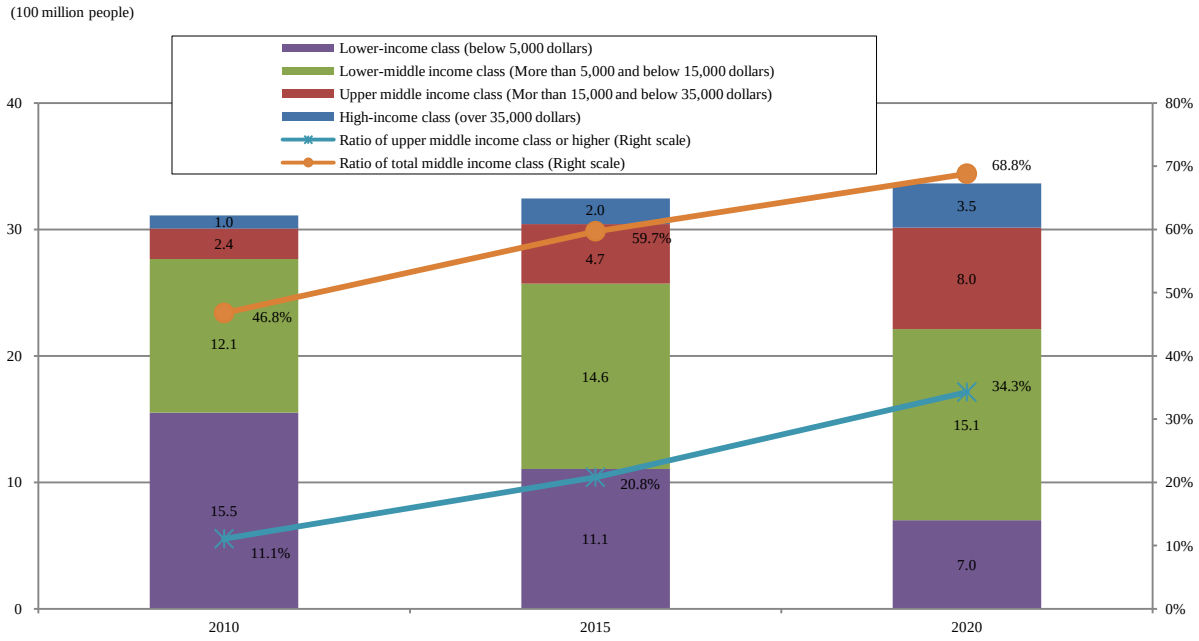
In India, the lower-middle income class or under was more than 90% in 2010, and it might be over 70% in 2020. However, if the percentage of the upper middle-income class or above grows higher than 25% in 2020, the huge market with 350 million people is expected to appear from the total expected 1,330 million people in 2020 (Figure 3-1-1-9).

Figure 3-1-1-9 Ratio at each Income Level in India



Notes: Household population categorized by household disposable income. House household ratio for each income group x population. Data for 2015, 2020 are estimated figures presented by the Euromonitor. The number on the bar graph of 2020 is number of people (100 million people).
Source: Euromonitor International 2011

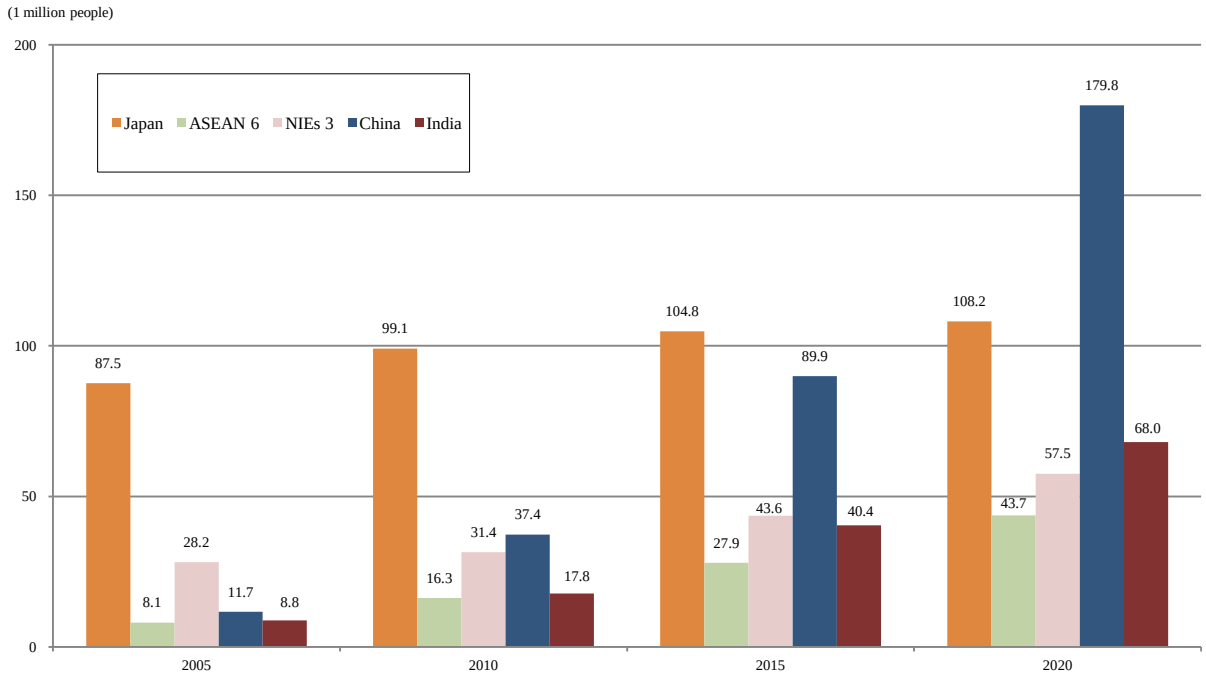
Figure 3-1-1-10 Changes in population for each income group, and ratio of upper middle income group and higher



Notes: Household population categorized by household disposable income. House household ratio for each income group x population. Data for 2015, 2020 are estimated figures presented by the Euromonitor.
Asia includes China, Hong Kong, Taiwan, South Korea, India, Indonesia, Thailand, Vietnam, Singapore, Malaysia, and Philippines.
Source: Euromonitor International 2011

As for the income group of the Asian emerging countries, higher the income, the greater the rate of growth will be. The high-income class increases rapidly with two times growth rate of that of the middle-income class (Figure 3-1-1-10). Except for India where the lower-middle income class accounts for the majority of its people, the ratio of the people in the upper middle-income class and higher will exceed the size of the lower-middle income class of the emerging Asian economies in 2020. In terms of the size of the high-income class, in 2020, it is expected that China will largely exceed Japan, and the entire grouping of the emerging Asian economies in a scale being three times larger than Japan (Figure 3-1-1-11).

Figure 3-1-1-11 Changes in population of disposable income per annum 35,000 dollars and above in Asian various countries/regions



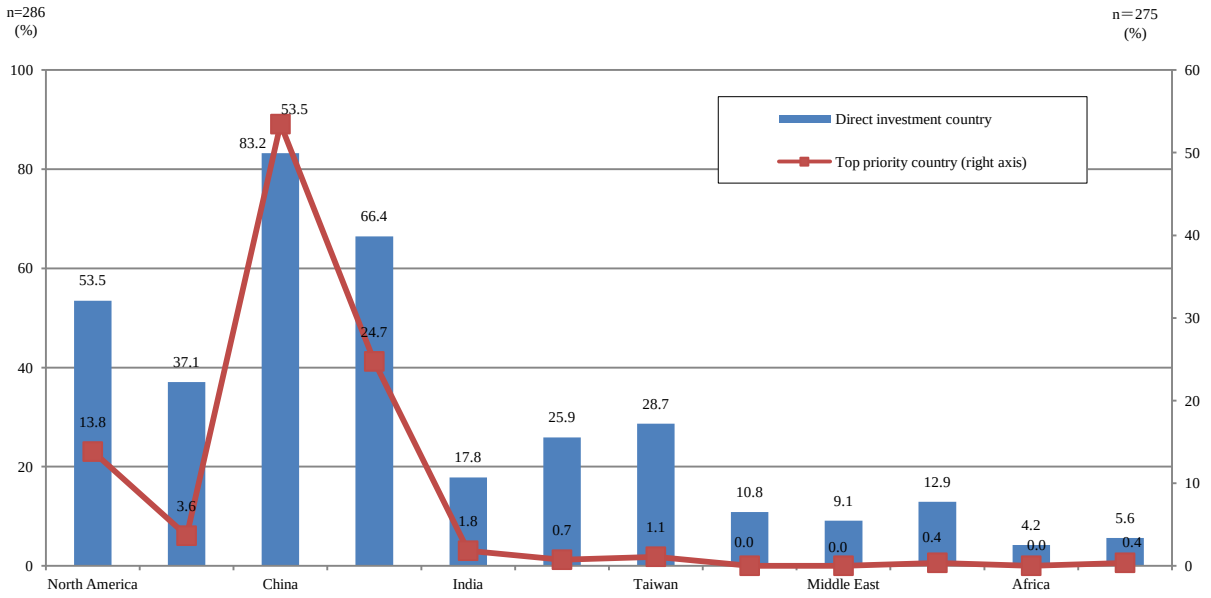
Notes: Household population categorized by household disposable income. House household ratio for each income group x population. Data for 2015, 2020 are estimated figures presented by the Euromonitor. The number on the bar graph of 2020 is number of people (100 million people).
Source: Euromonitor International 2011

2. Strategy for the emerging Asian markets

(1) Japanese manufacturing industry developing mainly in the wealthy Countries/Regions

According to a questionnaire-based survey by the Japan Economic Foundation, many companies are investing in China, ASEAN, and the United States. Companies, which give overriding weight to China, are more than half of the lot, and the companies targeting much of ASEAN come next, accounting for about a quarter. There are not so many companies making an investment in India at present, and their priority is not high (Figure 3-1-2-1).

Figure 3-1-2-1 Countries in which Japanese manufacturers invest in direct at present and place top priority in investment

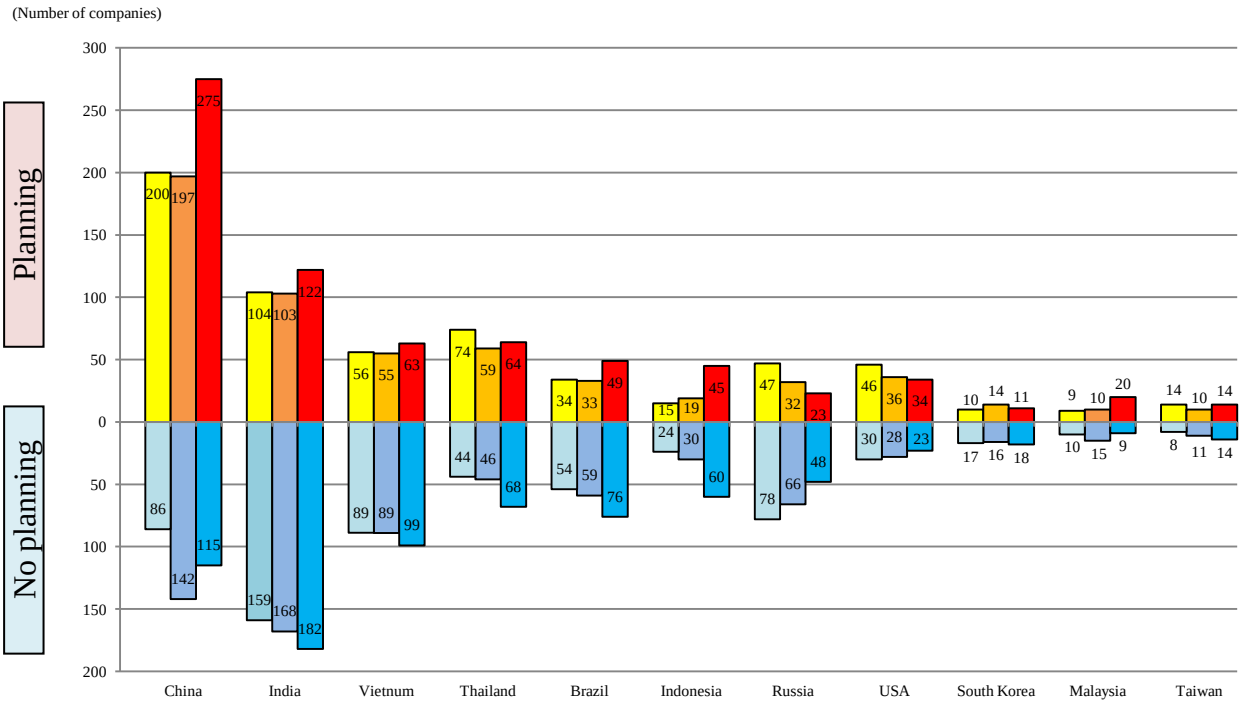


Sources: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" Japan Economic Foundation

In addition, as for the countries /regions that the Japanese manufacturing industries regard as promising on a short term basis (say, three years), the names of the emerging countries of Asia come to the fore, which are judged as promising, according to the results of a questionnaire based survey conducted by Japan Bank for International Cooperation (JBIC). However, as for India and Vietnam where upper middle income class or higher is expected to be only around a quarter or less of the total population in 2020, the companies, 60% of such companies which regard the region as promising, do not have a concrete plan, and 90% of them do not have any base point at all. They are only looking forward to the future. On the other hand, the countries for which many Japanese companies have an actual business plan, 40% or more of their population is expected to belong to the upper middle income and high-income classes in 2020, such as China (business plan rate[2] 71%), Malaysia (69%), USA (60%) and Thailand (48%) (Figure 3-1-2-2).

[2] The business plan rate refers to the percentage of companies, which have the specific business plan in the country concerned, of the total number of companies that regard the country concerned as promising.

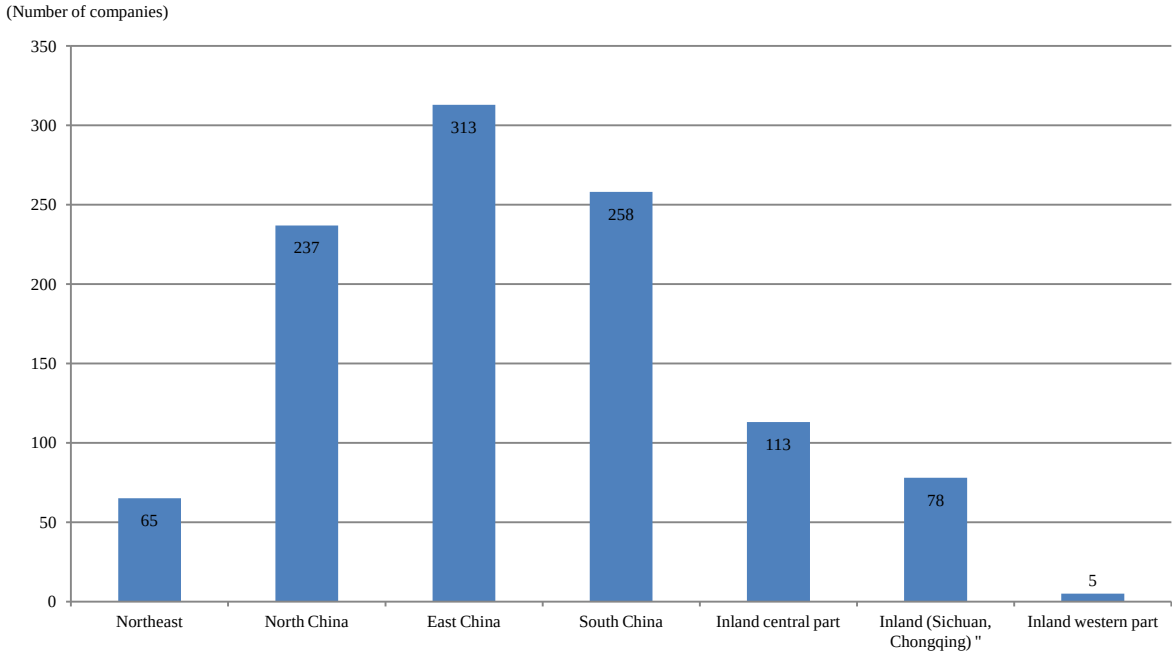
Figure 3-1-2-2 Specific business plan in the countries/regions which Japanese manufacturing industry regards as promising for medium-term (next three years)



Notes: Bar graph of each country shows the results of questionnaire reply, from the left, 2008, 2009, and 2010 respectively.
Sources: Survey on the overseas business development of Japanese manufacturing industry enterprise -Answer to questionnaire about direct overseas investment in 2010 (22nd) - Japan Bank for International Cooperation

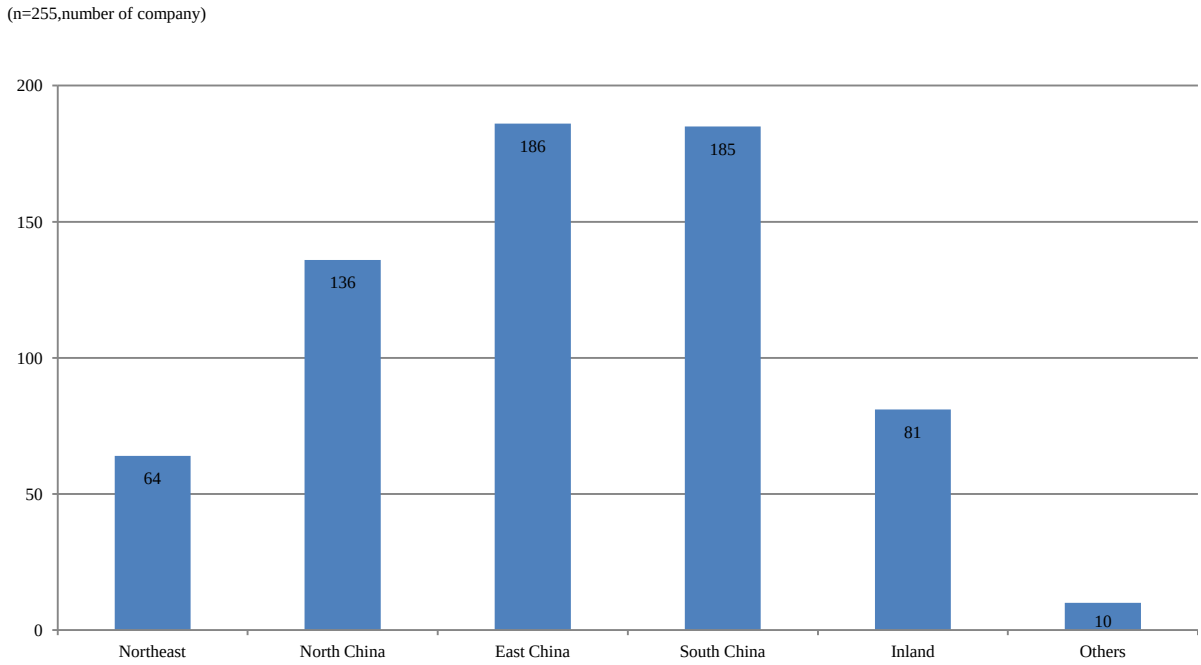
As for China the targeted areas of choice as regarded most promising by Japanese companies, lie mainly in the wealthy coastal regions around Shanghai, Shenzhen and Beijing (Figure 3-1-2-3). According to Japan Economic Foundation (2011), the data collected on the chosen target area for business in China, display the similar trend (Figure 3-1-2-4).

Figure 3-1-2-3 The regions which Japanese manufacturers regard as promising in China



Notes: The figures of regions refers to sum total that was selected as top 3 promising regions in China by the companies which nominated China for the promising country.
Sources: Survey on the overseas business development of Japanese manufacturing industry enterprise -Answer to questionnaire about direct overseas investment in 2010 (22nd) - Japan Bank for International Cooperation

Figure 3-1-2-4 Regions in China which will be the target of business in China

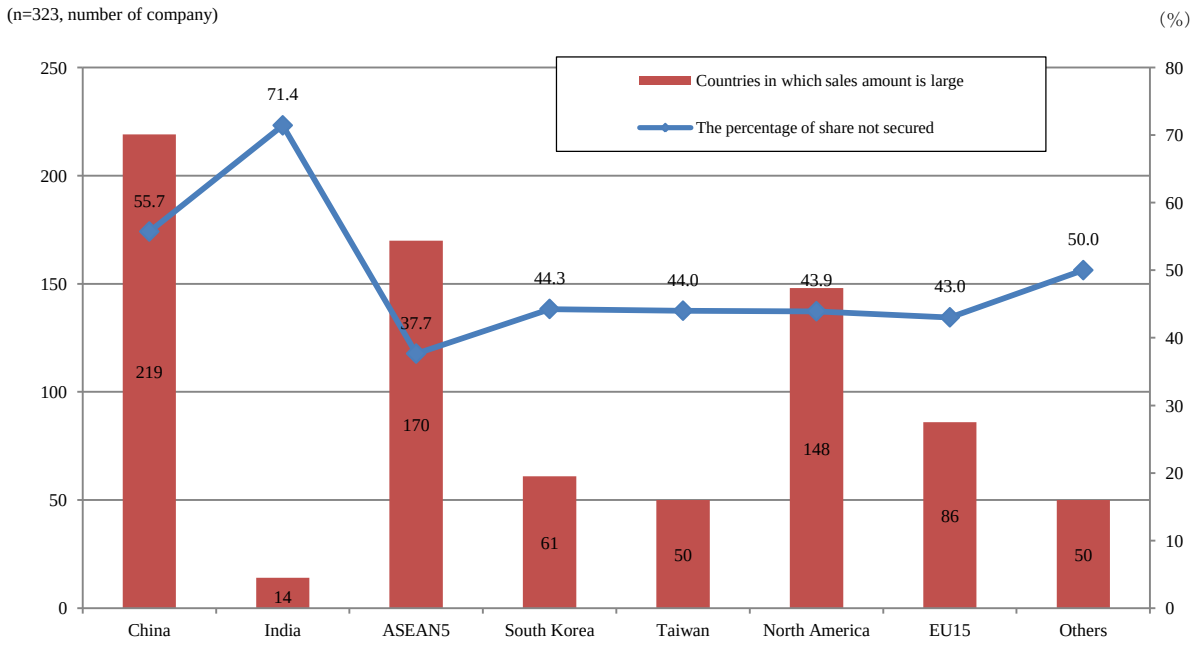


Source: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

(2) Establishing a standing position of admiration from the middle-income class of the emerging countries, with high value added product, which are advantageous in many practical ways

According to a survey by circulating a questionnaire conducted by the Japan Economic Foundation, Japanese companies have a big sales amount in China, ASEAN5 (Thailand, Philippines, Indonesia, Malaysia, and Vietnam), and North America. However, although there are many Japanese companies which maintain a big sales amount in China, the ratio of their market share is less than 10 percent or more compared to their market share in ASEAN5 and North America. In addition, there are few companies whose sales amount in India is big, and the companies which cannot secure a share in the Indian market are more than 70% which means that they have had a hard fight there (Figure 3-1-2-5).

Figure 3-1-2-5 Countries/regions in which Japanese manufacturers have large sales amount and Situation of share for amount in the countries/regions



Notes: Total may not become 100% due to rounding off.
ASEAN5 refers to 5 countries-Thailand, Philippines, Indonesia, Malaysia, Vietnamese
Source: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

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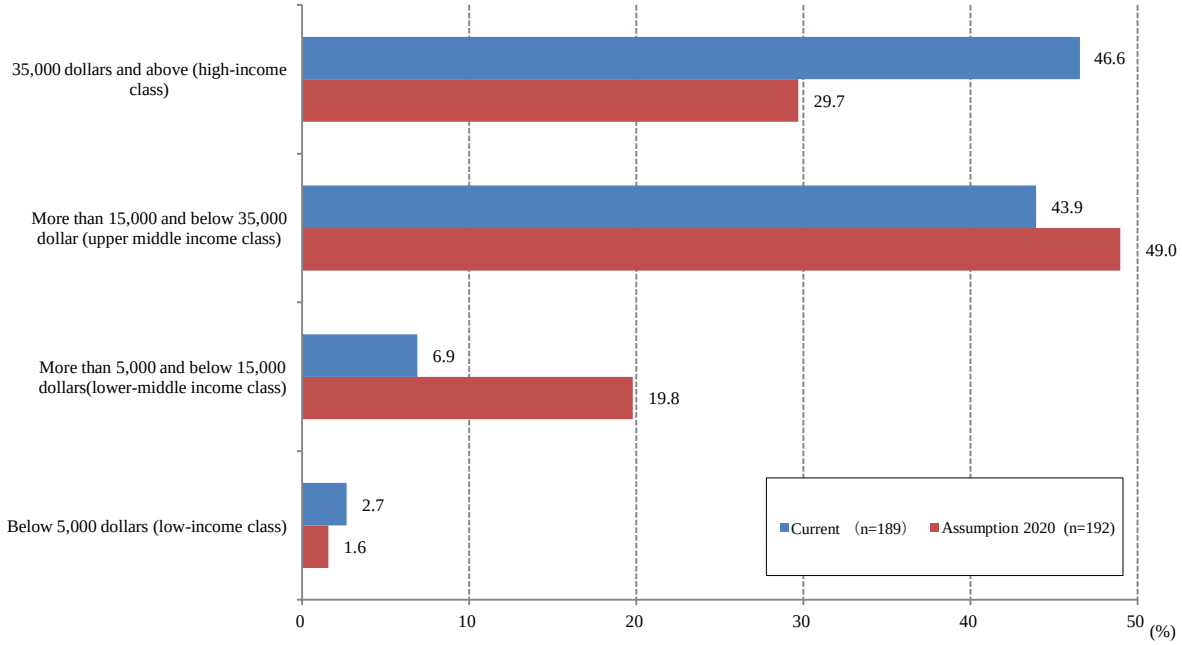
upper middle income class which accounts for 90%, but, in 2020, the movement to widen the purchasing people to lower-middle income class can be noticed (Figure 3-1-2-6).

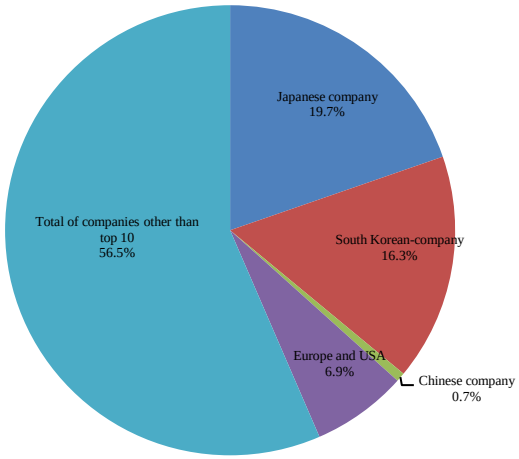
Figure 3-1-2-6 Ratio of the largest purchasing power group of Japanese manufacturers products



Notes: Total may not become 100% due to rounding off.
Sources: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

Actual share data similarly supports the above trend. Taking AV equipment for an example about the market capture situation of Japanese company, the data showed that while world share of the Japanese-affiliated company maintains high ratio of about 40% for the share in sales amount, but share by quantity of AV equipment accounts for about 20% (Figure 3-1-2-7, Table 3-1-2-8).

Figure 3-1-2- 7 Share of the number of AV equipment sold to the world (2009)



Notes: AV equipment: total of video equipment, picture reproduction equipment and audio equipment.
Share of Japanese, Korean, Chinese, Europe and the U.S.A. companies represent only the share of the world top ten companies.
Japanese, Korean, Chinese, Europe and the U.S.A. companies are included in Companies other than Top 10 (share less than 1.1%).represent only the share of the world top ten companies.
The share (1.3%) of TCL-Thomson (China-Franc Joint Venture) are divided into European and USA companies and Chinese companies.
Source: Euromonitor International 2010

Table 3-1-2-8 Production value and Japanese company's share of AV equipment

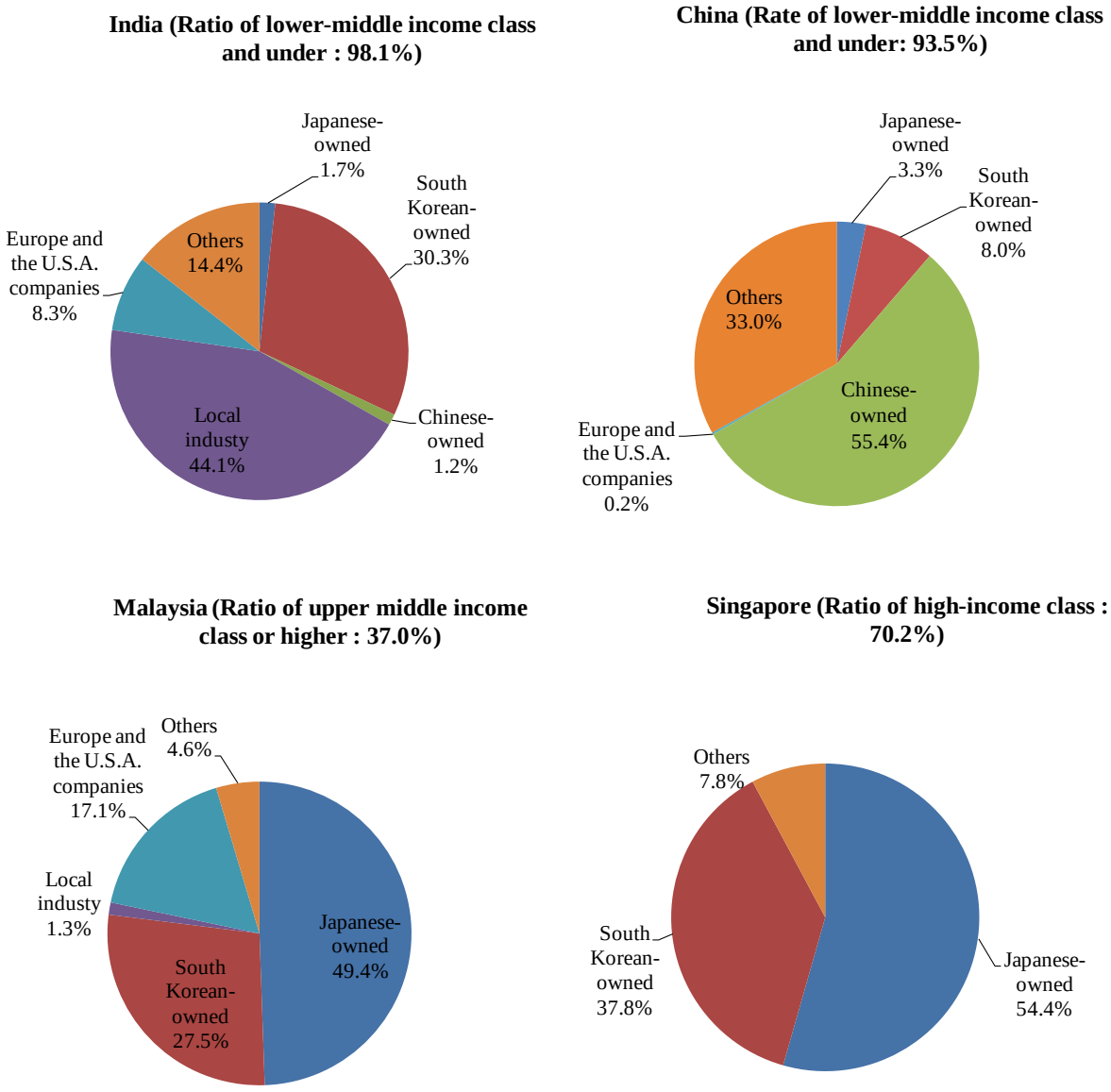
(Unit: 100 million yen)

	2007	2008	2009	2010	2011
World	150,587	147,001	135,182	145,284	153,981
Japanese company	52,622	57,388	52,517	59,110	60,902
Share of Japanese company	35%	39%	39%	41%	40%

Notes: AV equipment- total of thin-screen TV, picture reproduction equipment, and audio equipment.
Data of 2010/2011 are JEITA estimates / forecasts
Source: Electronics and IT Industries Association

Furthermore, in the Asian market, although Japanese companies are forced to have a hard fight in the country of low income level for quantity of share competition, in the country having high income level, they maintains the high ratio even for quantity share (Figure 3-1-2-9). From this situation, we can understand that Japanese companies are capturing the market, targeting high-income class through the advantage of high value added products.

Figure 3-1-2-9 TV & Projector Share of the number by country (2009)



Notes: Total may not become 100% due to rounding off.
Lower-middle income class or under -disposable income per annum below 15,000 dollars. The upper middle income class or higher- more than 15,000 dollars, High-income class - 35,000 dollars and above.
Sources: Euromonitor International 2010

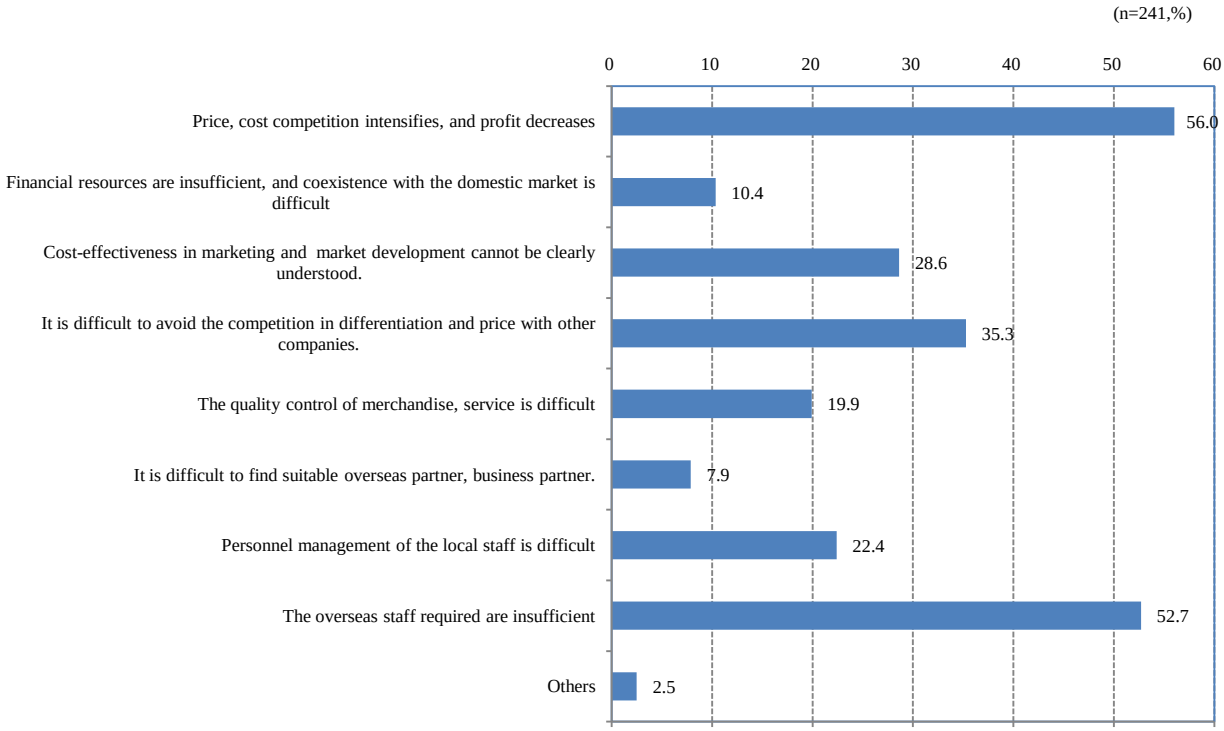
Although it is absolutely essential to respond to middle income class in emerging countries which is and will be the present and the future big market, it will be important for Japanese company to keep the market of high-income class making use of the advantage of high value added products of our country, in order for Japanese company to establish a standing position of “admiration” from the middle income class which will become more wealthy in the near future.

For one example, as a German company intending for “sellable products even at high price”, we pick up Volkswagen (VW Corporation) here. The actual sales results of each brand according to the VW Corporation for China in 2010 showed that the higher priced car, Audi brand, whose sales

operating income ratio was 9.4% indicates higher growth rate of 7.9% compared with the previous year than the VW brands whose income ratio was 2.7% [3]. In other words, this means that they have captured the market for high-income class, which showed remarkable higher growth than middle-income class market in China. In this way, the final profit of VW Corporation increases almost eight-times higher compared with the previous year.

In contrast, according to the questionnaire-based survey of the Japan Economic Foundation, many Japanese companies point out the decline of profit (56.0%) and difficulty in achieving differentiation and in avoiding price competition (35.3%). This is kind of problem that the Japanese manufacturing industry faces in the market development in emerging countries (Figure 3-1-2-10).

Figure 3-1-2-10 The problem inside and outside company being faced in emerging countries market development



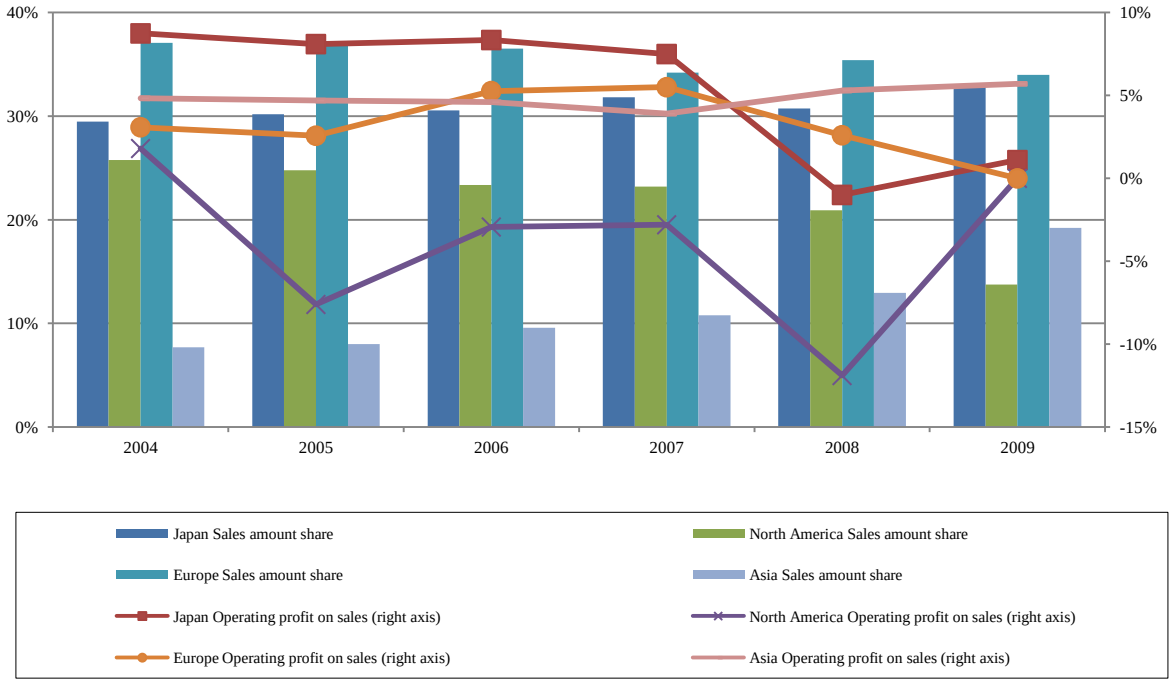
Source: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

Actually, according to the Japan Machinery Center for Trade and Investment, the Japanese company secures sales amount share, but in later years they have had a hard fight in terms of sales operating income ratio (Figures 3-1-2-11 and 3-1-2-12). In the background of income reduction, even though the Japanese company recognize that advantage of the business in the emerging countries is high-performance and high quality, but the weak point is the price reduction (Figure 3-1-2-13), one of the reasons is that Japanese companies have continued to realize the price

[3] Volkswagen Annual Report 2010 (http://annualreport2010.volkswagenag.com/servicepages/welcome.html).

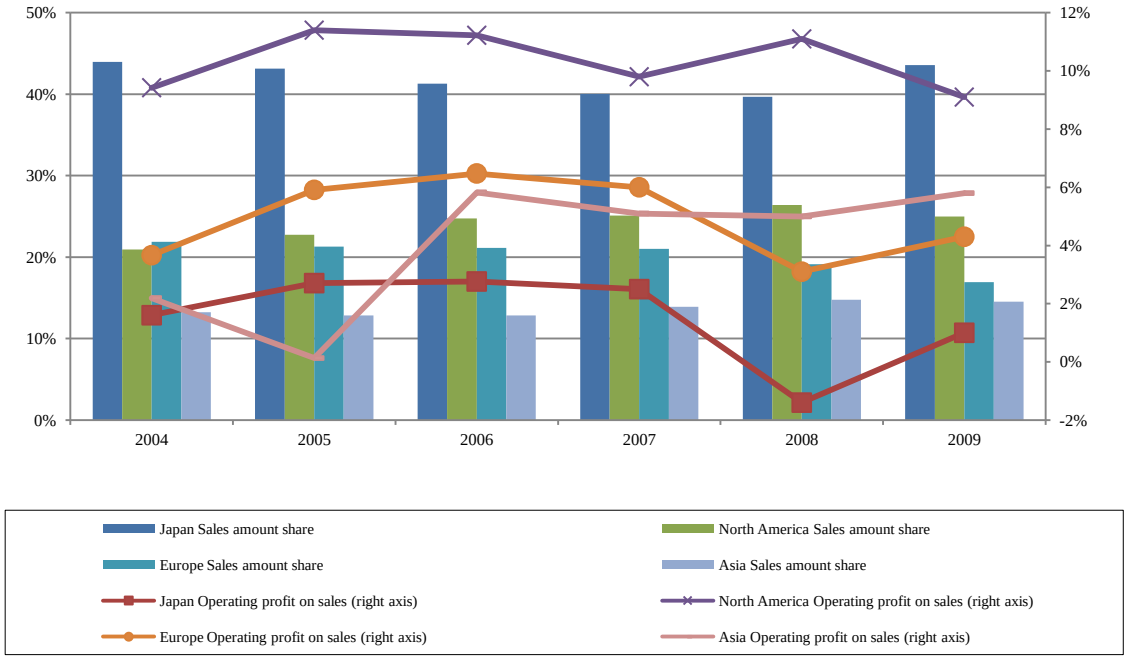
reduction while maintaining functionality and good quality of the products about development of products for the market development in emerging countries, from the time extending before the financial crisis until the present time. However, in future, the development method, which may cause income reduction, will have to be decreased greatly. On the contrary, Japanese companies will involve themselves in high added value product marketing, and follow the trend of the emerging countries market, which are becoming wealthier. On the other hand, there is a trend of getting the market of the lower-middle income class by large price reduction with lowering function and quality of the products sold (Figure 3-1-2-14).

Figure 3-1-2-11 Sales amount share and operating profit on sales by various companies group of Japan, the United States and Europe, and Asia (automobile)



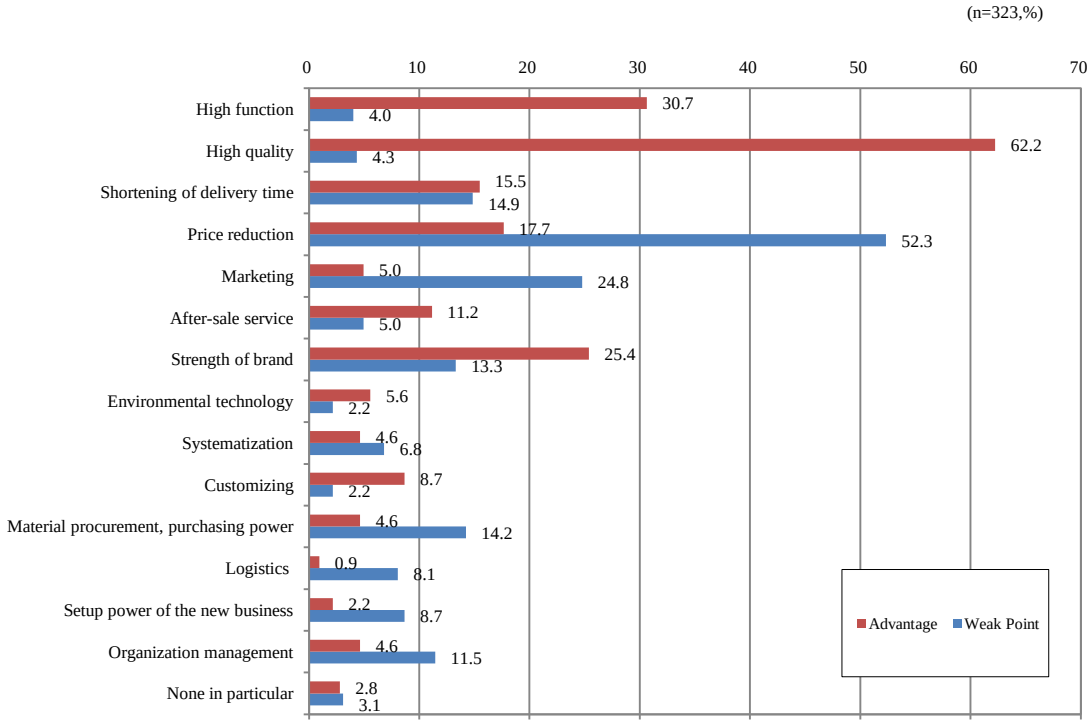
Source: "Actual situation of international competitiveness of Japan, the United States and Europe and Asian machinery industries" Japan Machinery Center for Trade and Investment

Figure 3-1-2-12 Sales amount share and operating profit on sales by various companies group of Japan, the United States and Europe, and Asia (household appliance)



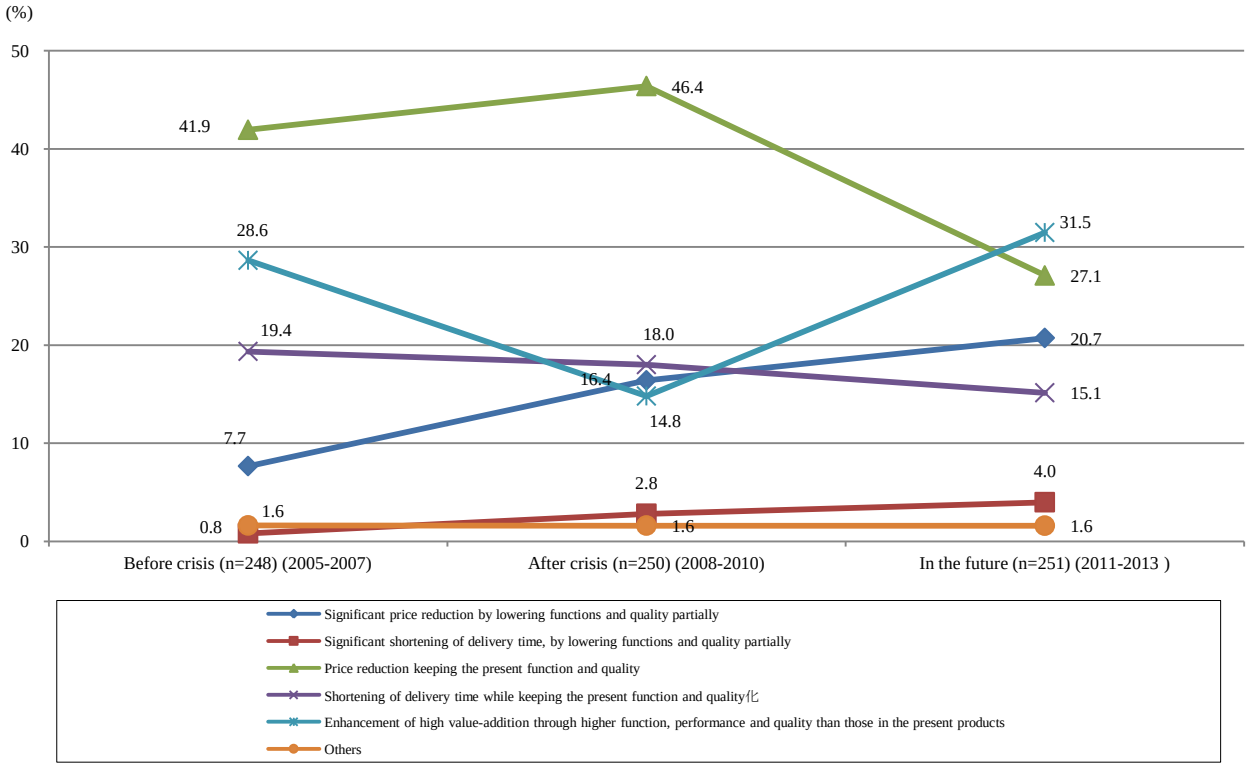
Source: "Actual situation of international competitiveness of Japan, the United States and Europe and Asian machinery industries" Japan Machinery Center for Trade and Investment

Figure 3-1-2-13 Advantage and weak point of the business in the emerging countries



Source: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

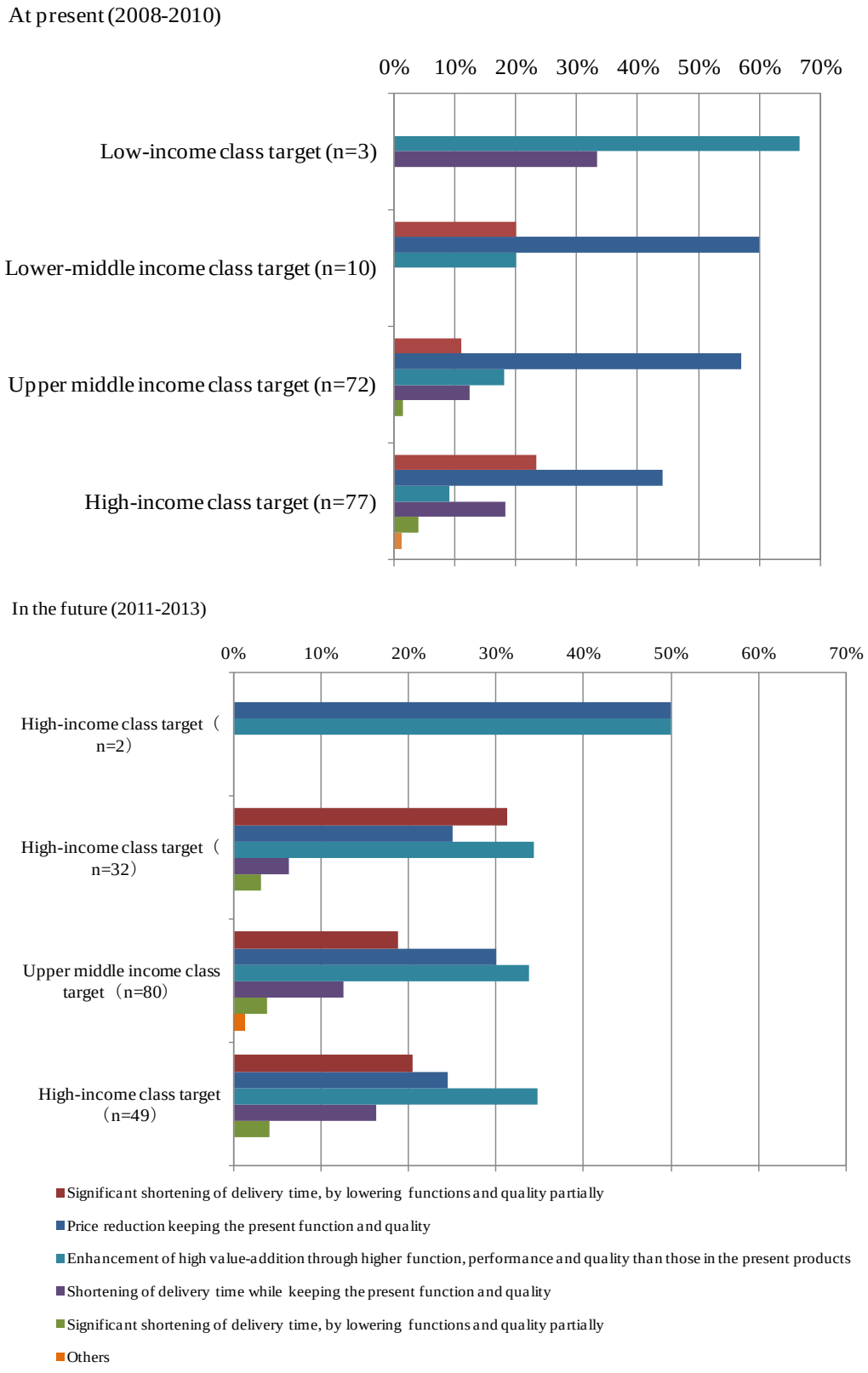
Figure 3-1-2-14 Product development method for market development in emerging countries before and after the financial crisis and in the future



Notes: Total may not become 100% due to rounding off.
Sources: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

Until now, the mismatch of method of developing products and targeting income group has been observed; for example, the company targeting low income group is intending to produce high value added product, or the company that wishes to sell high value added product to high income class tends to aim at price reduction more. However, the future directivity tends to match the method with the target income group generally (Figure 3-1-2-15).

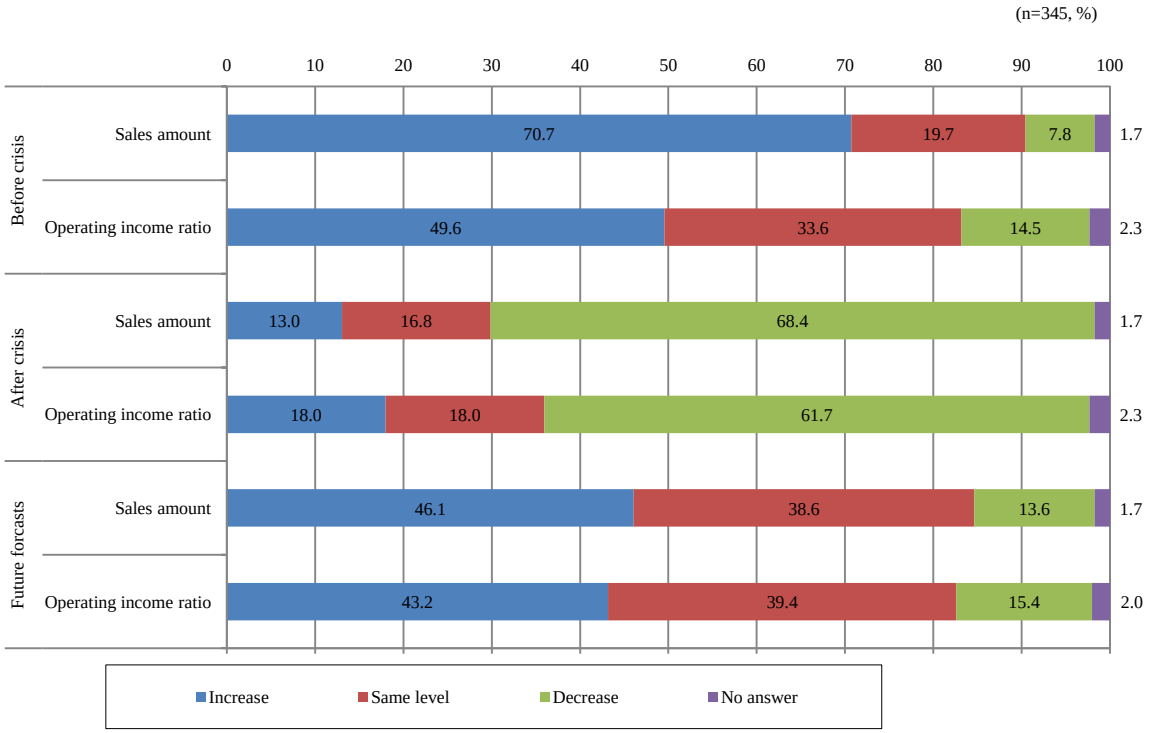
Figure 3-1-2-15 Product development method for market development in emerging countries by income group which Japanese manufacturers are targeting for



Notes: Total may not become 100% due to rounding off.
Source: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

Reflecting on a trend of such an income oriented policy, as for the future earnings forecast, although the sales amount will not recover completely, we consider that the operating profit on sales will recover to the level equal to that existing before the financial crisis (Figure 3-1-2-16).

Figure 3-1-2-16 Change of business records of Japanese manufacturers (before and after financial crisis and future forecasts)

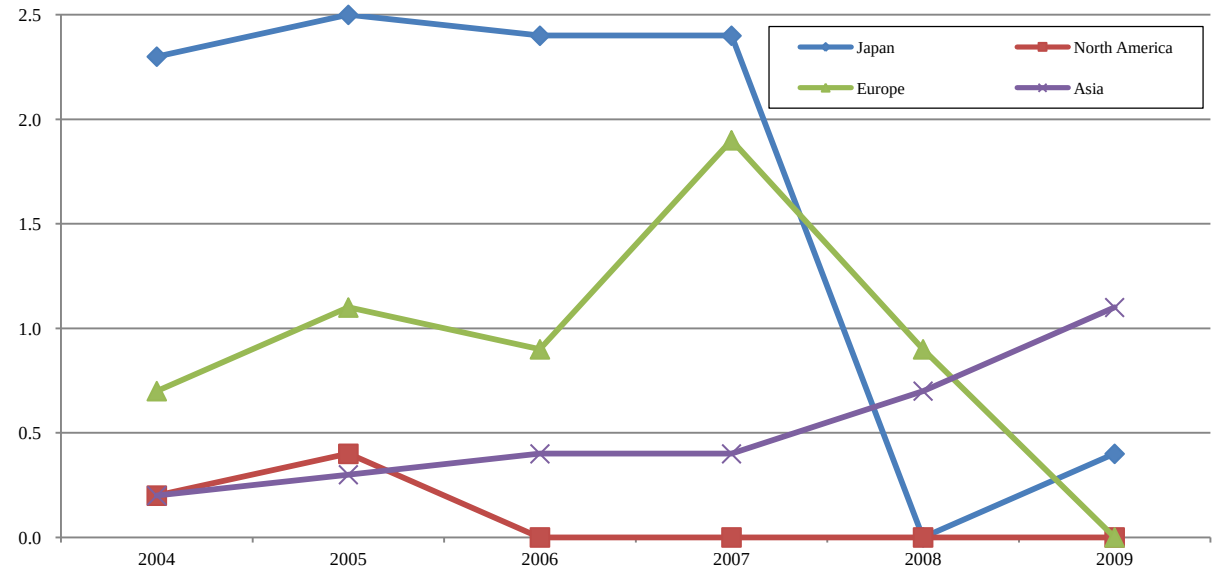


Notes: Total may not become 100% due to rounding off.
Source: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

(3) Commoditization (generalization) of business and Development of overseas production

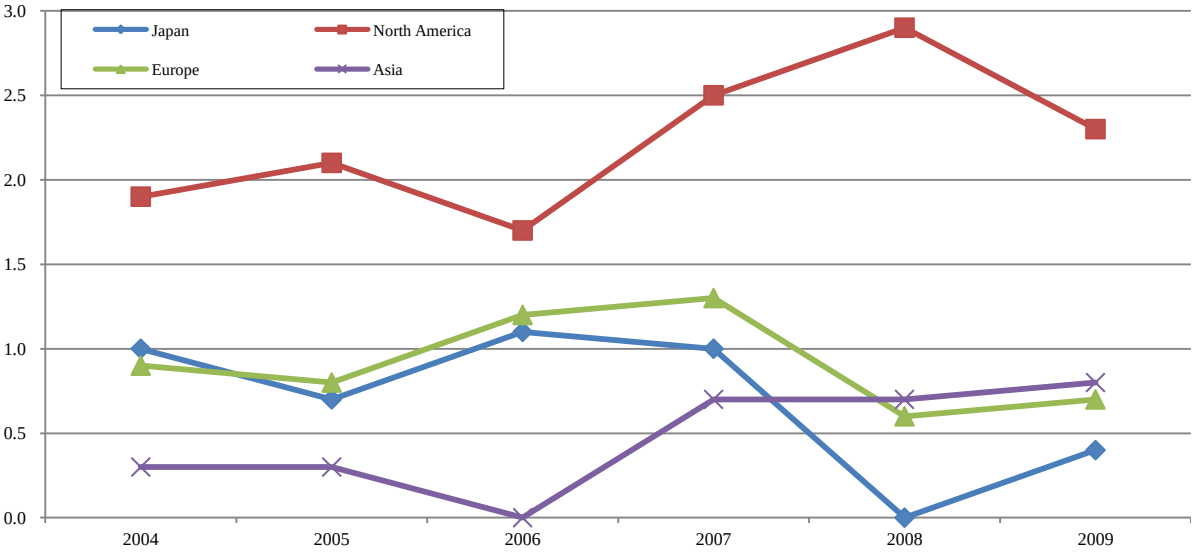
In the background where Japanese company cannot get the share of the low income level country and lower-middle income class completely, there may be some causes such as improved technology of companies in the emerging countries, and commoditization (generalization) of products that Japanese companies were once dominant previously. According to the Japan Machinery Center for Trade and Investment, in terms of the international competitiveness index (operating profit on sales × sales amount share × 100), the rise of the Asian enterprise is remarkable, and in later years the Japanese companies lost the lead (Figure 3-1-2-17, Figure 3-1-2-18).

Figure 3-1-2-17 Index of international competitiveness of company group in Japan, USA, Europe and Asia (automobile)



Source: "Actual situation of international competitiveness of Japan, the United States and Europe and Asian machinery industries" Japan Machinery Center for Trade and Investment

Figure 3-1-2-18 Index of international competitiveness of company group in Japan, USA, Europe and Asia (household appliance)



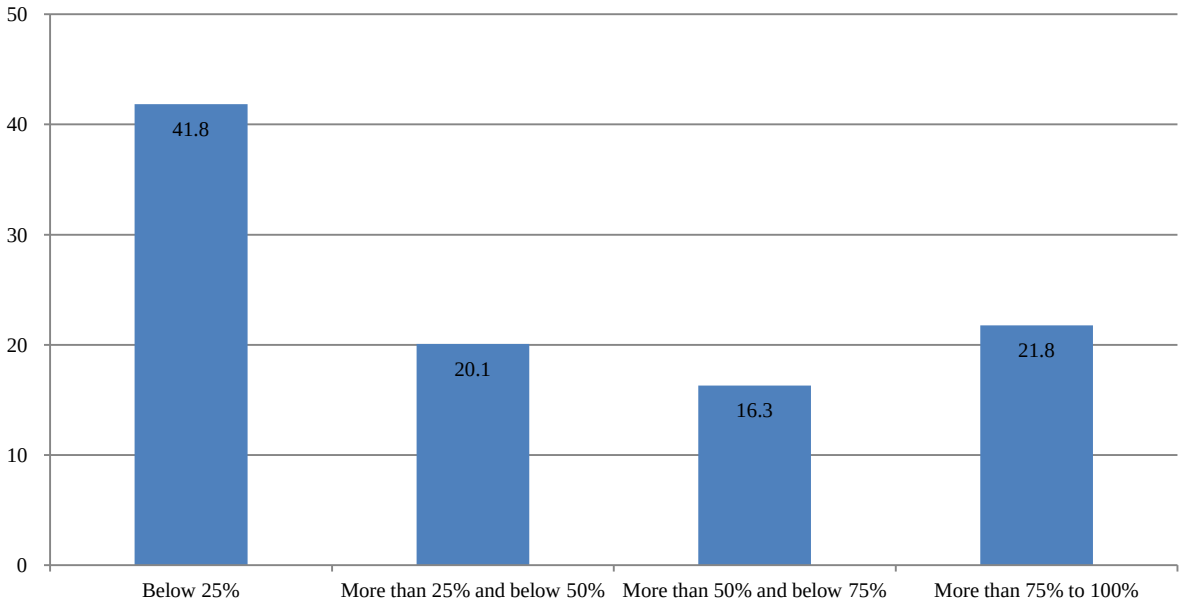
Source: "Actual situation of international competitiveness of Japan, the United States and Europe and Asian machinery industries" Japan Machinery Center for Trade and Investment

According to the questionnaire-based survey of the Japan Economic Foundation, approximately 40% of Japanese companies recognize that commoditized (generalized) product accounts for more

than half of their sales amount (Figure 3-1-2-19).

Figure 3-1-2-19 Percentage of commoditization (generalization) product business in sales amount of Japanese manufacturers

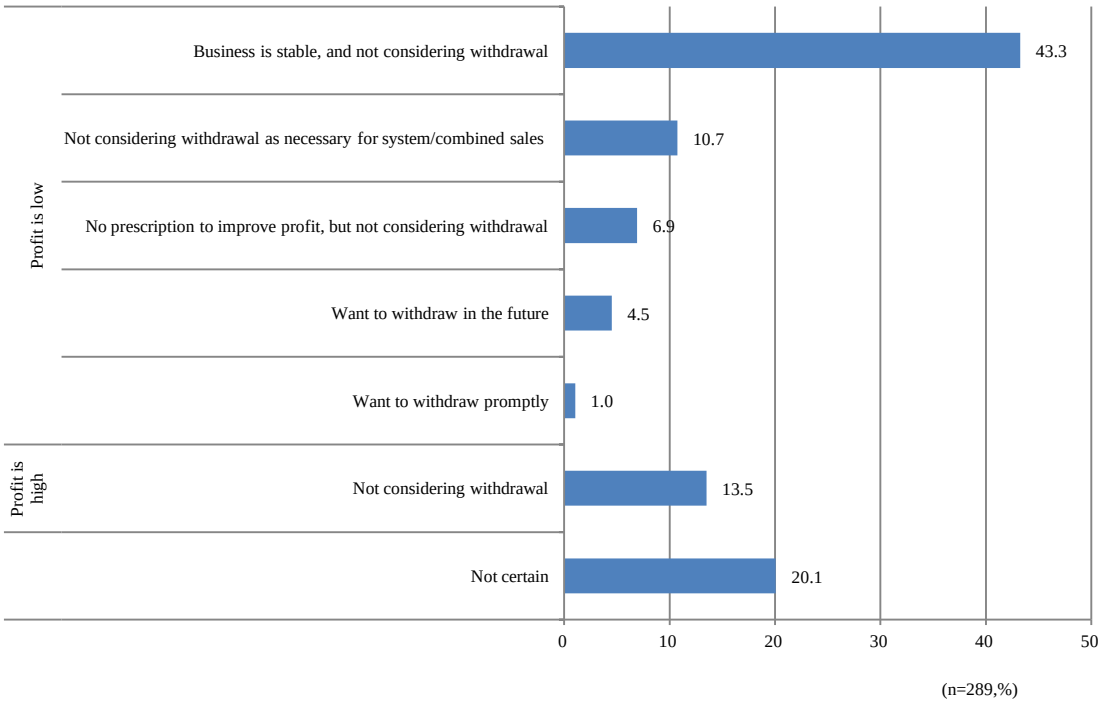
(n=239,%)



Notes: Total may not become 100% due to rounding off.
Source: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

As for the profit of the commoditized (generalized) product business and future policy to deal with the business, except those companies that do not have any clear answer, 80% or more of them recognizes the low profit. The 20% of the above companies are considering to withdraw from the business, or have no better choice but to continue the business for the time being without actions to overcome the situation (Figure 3-1-2-20).

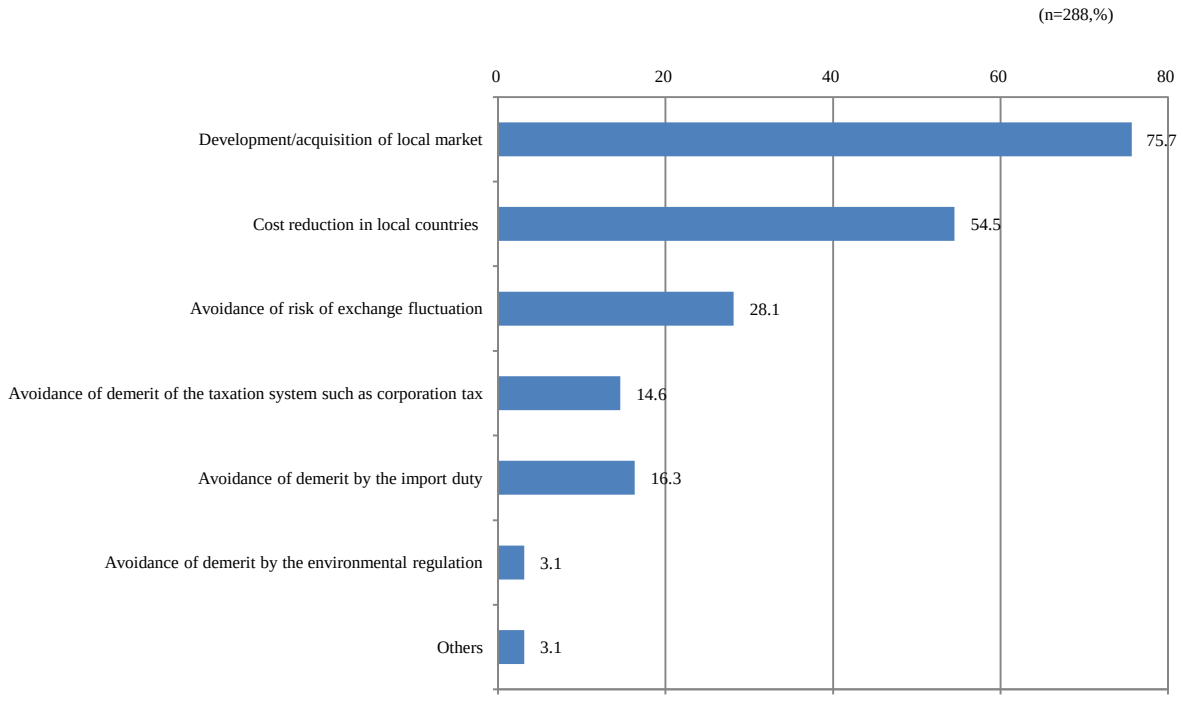
Figure 3-1-2-20 Profit of commoditization (generalization) product business of Japanese manufacturers and future policy



Notes: Total may not become 100% due to rounding off.
Source: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

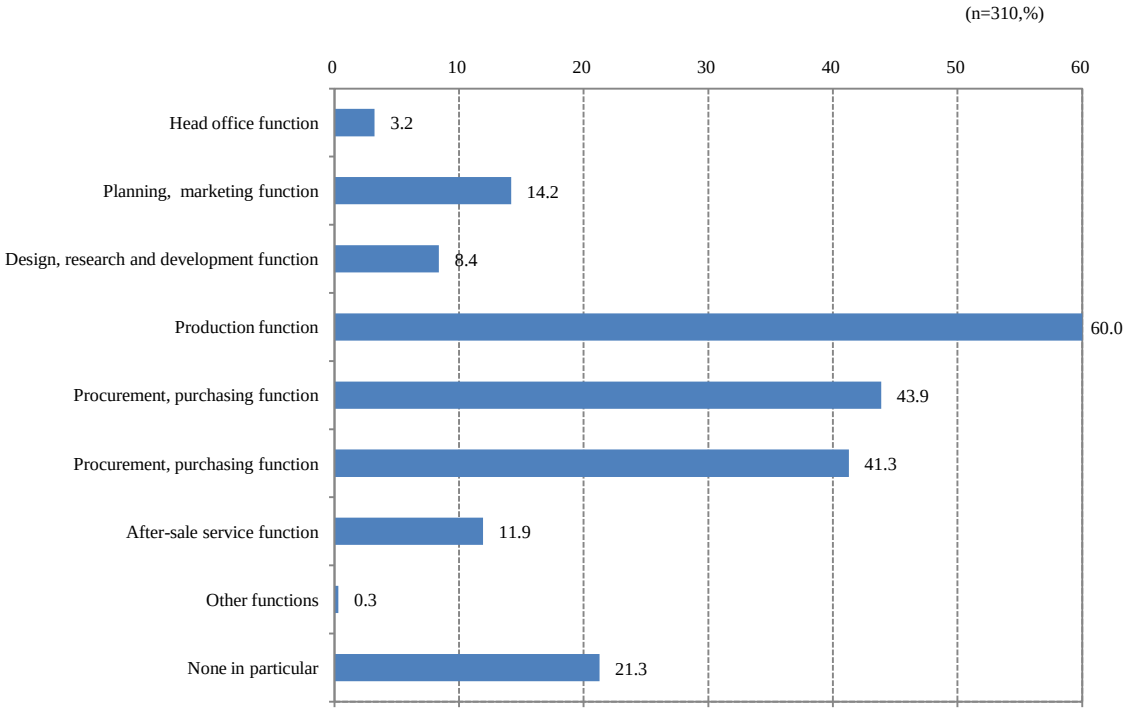
According to the questionnaire-based survey of the Japan Economic Foundation, under this situation, the Japanese manufacturing industry is making direct overseas investment to acquire the emerging countries market as a main purpose, by cost reduction to improve the profit (Figure 3-1-2-21). As for the function that will be thought much of in overseas trade in the future, nearly 60% companies list up the production function as most important one, then 40% companies list up the trade, sale function and procurement and purchasing function (Figure 3-1-2-22). The trend for shifting production function to overseas locations has been already reflected in some products. The AV equipment already underwent a change of the domestic production ratio in around 20% from before 2007, and the car, which was around 50% until 2008 reduces the ratio year by year. On the other hand, as for the electronic parts and device, more than 50% are still produced in Japan (Figure 3-1-2-23).

Figure 3-1-2-21 Purpose of direct investment that Japanese manufacturers place top priority



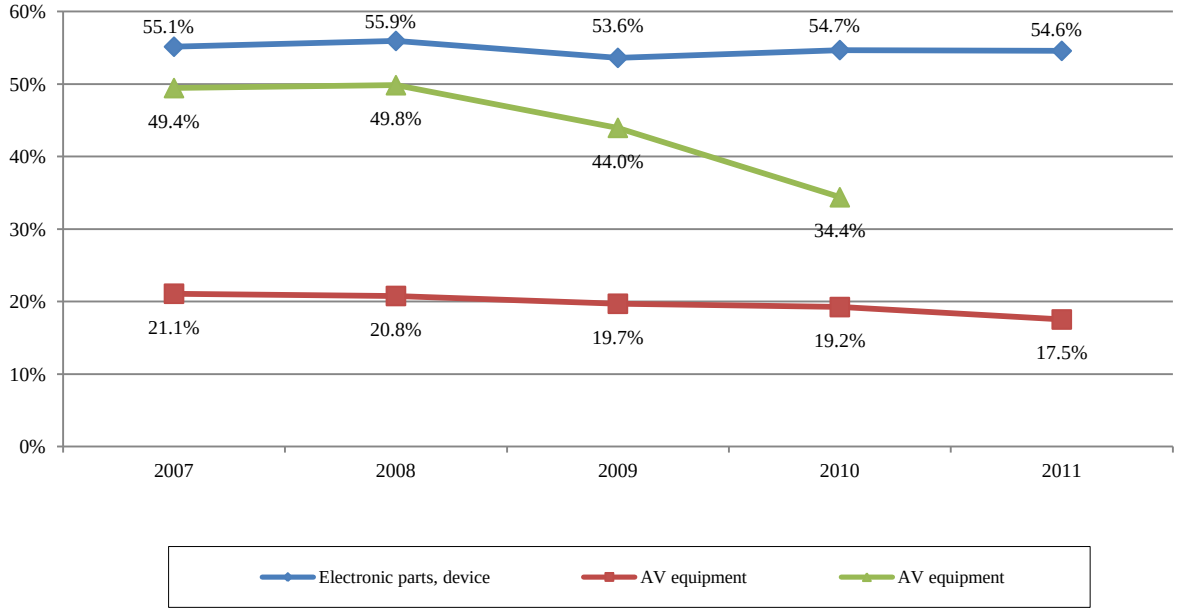
Source: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

Figure 3-1-2-22 Function that is considered to have more weight in overseas than in Japan in the future



Source: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

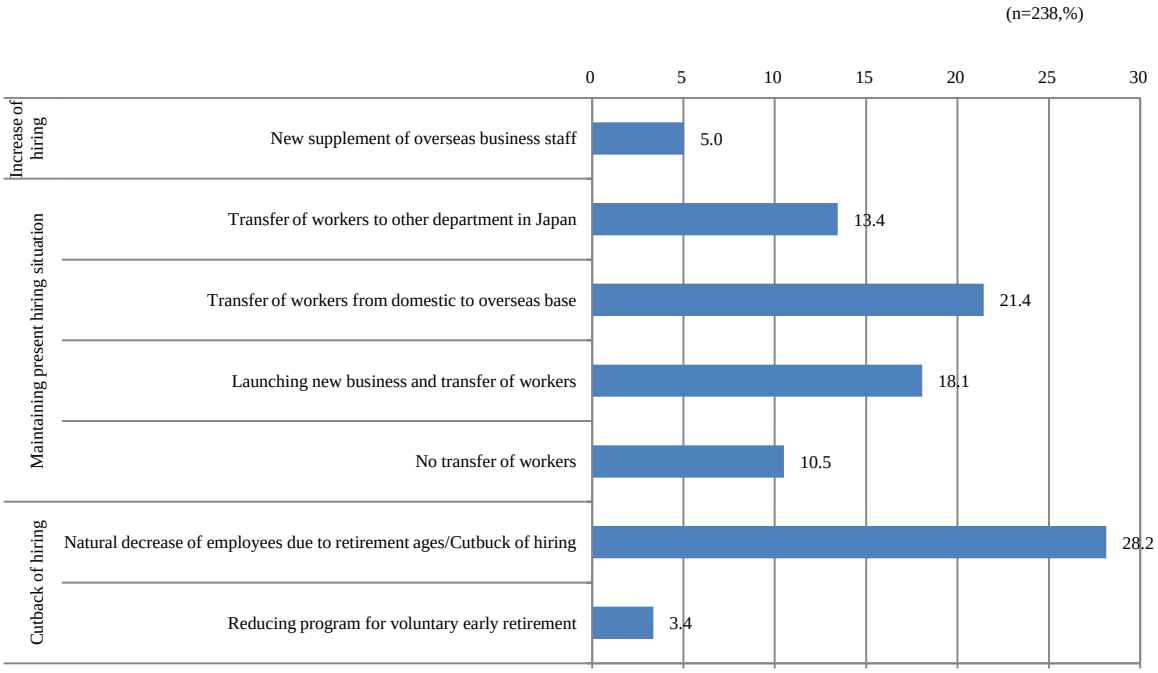
Figure 3-1-2-23 Change of domestic production ratio of Electronic parts, device, AV equipment, and automobile



Notes: AV equipment: total of thin-screen TV, picture reproduction equipment, and audio equipment. Data of 2010/2011 are JEITA estimates / forecasts
Source: "World production forecasts of electronic intelligence industry" (2009 /2010) Electronics and IT Industries Association

Based on questionnaire-based survey of the Japan Economic Foundation, about the domestic employment in the situation where overseas share is growing, more than 30% of companies adopt the policy to limit hiring. On the contrary, only 5% of companies adopt policy for employment expansion (Figure 3-1-2-24). As mentioned above, more than 50% of the electronic parts and devices are still produced in Japan.

Figure 3-1-2-24 Policy for the domestic employment in the case of increasing weight of various functions of company in overseas



Source: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

However, according to the Japan Machinery Center for Trade and Investment, constituent ratio of “electronic parts” among the total sales of the main 16 machine-associated industries is around 5%, and securing of export scale and job creation is difficult to make up for decline of ratio in major industrial domestic production which account for the core of the export of our country including car and household appliance (Table 3-1-2-25). It is important how we promote the export industry that should be left inside Japan in the future.

Table 3-1-2-25 Operation trend of Japanese companies in main 16 machine-associated industries (2009)

Main 16 machine-associated industries	Sales amount ($100 million)	Sales amount constituent ratio	Sales amount world share	Operating profit on sales
Automobile	3,933	35.7%	33.1%	1.1%
Household appliance	1,064	9.7%	43.6%	1.0%
Service software	915	8.3%	26.8%	8.8%
Heavy electric machinery, industrial equipment	860	7.8%	29.1%	4.2%
Automobile parts	731	6.6%	29.0%	3.7%
Computer	697	6.3%	19.0%	1.5%
Office equipment	607	5.5%	54.5%	8.4%
Electronic parts	563	5.1%	24.8%	0.8%
Information, communications equipment	504	4.6%	13.3%	2.4%
Construction, agricultural machine	364	3.3%	25.2%	5.0%
Plant and Engine	235	2.1%	13.0%	6.3%
Shipbuilding	142	1.3%	23.7%	3.9%
Semiconductor production device	126	1.1%	48.1%	0.0%
Medical equipment	117	1.1%	10.2%	13.3%
Aviation and space	115	1.0%	4.5%	0.7%
Machine tool	45	0.4%	34.4%	0.0%

Source:"Actual situation of international competitiveness of Japan, the United States and Europe and Asian machinery industries" Japan Machinery Center for Trade and Investment

3. Emerging countries' challenge for growth and our contribution to it by the business which Japanese manufacturing industry regards as promising

(1) Promising business for the future overseas market development

In "Industrial Structure Vision 2010", the Ministry of Economy, Trade and Industry positioned the following 5 industries as 5 Strategic Areas, i.e. "Infrastructure related/system sales", "Environment and energy problem solving industry", "Creative industries (fashion, content, etc.)", "Medical, nursing, health, and child care services" and "Frontier fields (robots, space, etc.)", and estimated the scale of creation of market and employment in 2020 as approximately 179.3 trillion yen for production value (plus 149 trillion yen from 2007 level) (including the ripple effect to other sections), and approximately 8,658,000 people (plus 2,579,000 from 2007 level) with the number of the employees (Table 3-1-3-1).

Table 3-1-3-1 Effect by "Industrial Structure Vision 2010" Ministry of Economy, Trade and Industry to the 5 Strategic Area

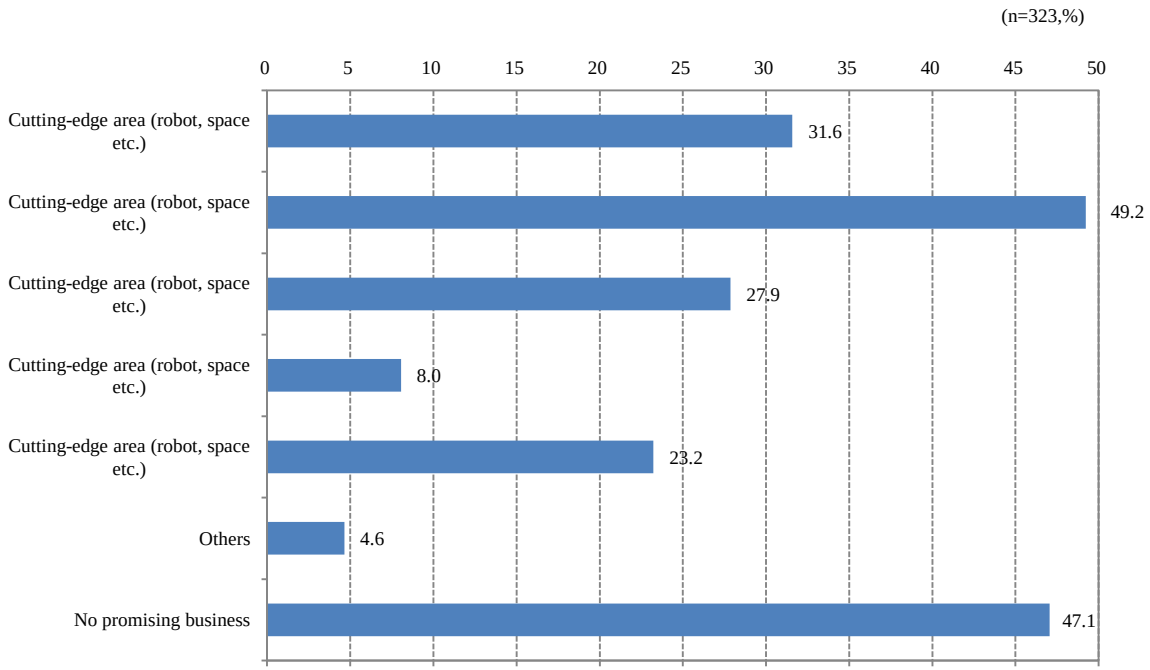
	Production value (market size)		Number of employees	
	2020	Increase and decrease from 2007	2020	Increase and decrease from 2007
5 Strategic Areas	Approx. 179.3 trillion yen	+83.2 trillion yen		
Infrastructure-related / System export (nuclear energy, water, railroad) etc.)	Approx. 13.4 trillion yen (19.7 trillion yen when overseas portion included)	+12.3 trillion yen (+18.2 trillion yen when overseas portion included)	Approx. 285,000 people	+ 187,000 people
Environment, energy problem solving industry (smart grid, next-generation automobile etc.)	Approx. 30.6 trillion yen	+23.7 trillion yen	Approx. 661,000 people	+ 362,000 people
Medical care, care, health, child care service	Approx. 30.5 trillion yen	+12.9 trillion yen	Approx. 3,252,000 people	+ 1,134,000 people
Culture industry (fashion, contents, food, sightseeing)	Approx. 30.5 trillion yen	+6.9 trillion yen	Approx. 3,261,000 people	+ 264,000 people
Cutting-edge area (robot, space etc.)	Approx. 30.5 trillion yen	+27.4 trillion yen	Approx. 1,199,000 people	+ 632,000 people
Ripple effect to other sectors by the above 5 areas		+65.8 trillion yen		
	Total	+149.0 trillion yen	Approx. 8,658,000 people	+ Approx. 2,579,000 people

Source: "Industrial Structure Vision 2010" Ministry of Economy, Trade and Industry (http://www.meti.go.jp/committee/summary/0004660/index.html)

According to the questionnaire survey of the Japan Economic Foundation, about 50 % of Japanese manufacturing industry list the Environment and energy field business as the business

that they regards promising for overseas market development, then the Water business and Traffic infrastructure business and Medical, nursing, health, and child care services are listed by 30%, Frontier fields (robots, space, etc) by 20% (Figure 3-1-3-2). Although the companies, which cannot find promising business, account for nearly half, as for the idea for future promising business (by what do we make money and how do we employ), it is considered that there is no difference between public and private sectors.

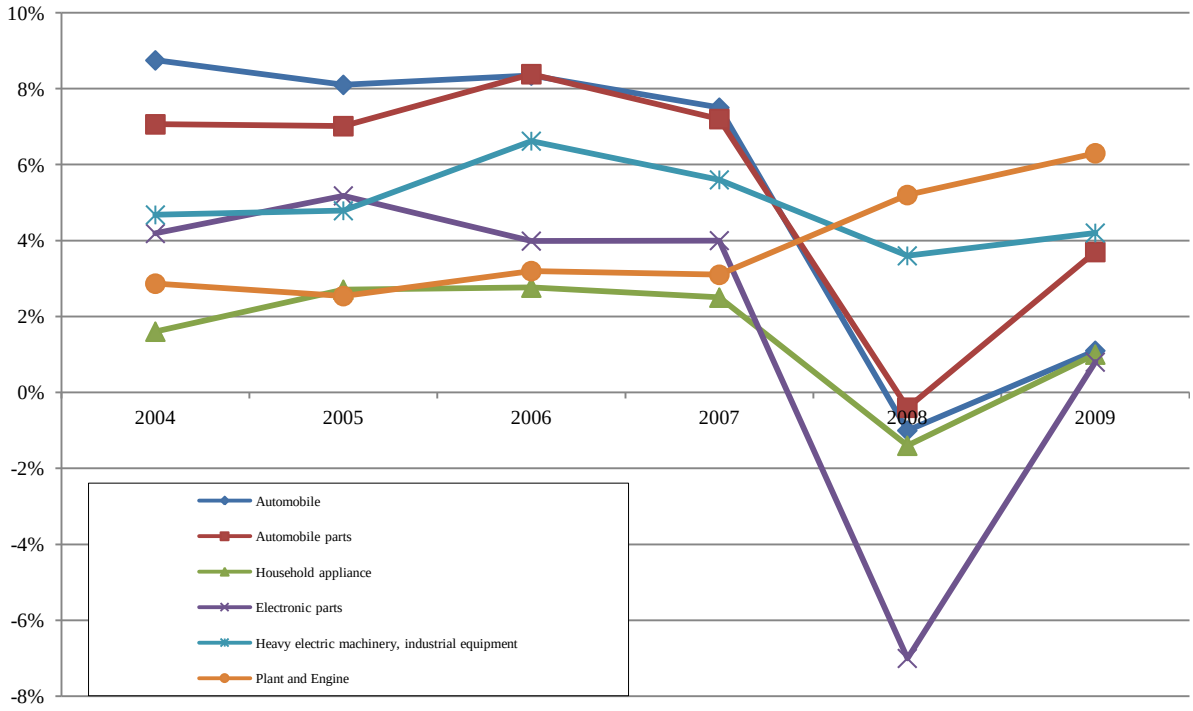
Figure 3-1-3-2 The field of business considered to be promising toward overseas market development



Source: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

According to the Japan Machinery Center for Trade and Investment, of the main 16 machine-associated industries which are considered to have relation with 5 Strategic Areas, the following business fields are included; “Services and software” “Heavy electric machinery, industrial equipment” “Plant and Engineering” “Medical equipment” “Aviation and Space” etc. Sales amount constituent ratio of overall 5 industries is more than 20%, and the operating profit on sales is as high as 6.6% (Table 3-1-2-25). The “Heavy electric machinery, industrial equipment” “Plant and Engineering” which relate to the two top fields business that Japanese company regards as promising business, have stable parameters in sales amount and profit rate, in comparison with “car” and “household appliance” which are the core business of our country up till now (Figure 3-1-3-3). It is considered that the 5 Strategic Areas businesses are the businesses, which maintain the domestic employment, and the core of the export of our country.

Figure 3-1-3-3 Change of operating profit on sales of the company group related to automobile, household appliance, infrastructure



Source:"Actual situation of international competitiveness of Japan, the United States and Europe and Asian machinery industries" Japan Machinery Center for Trade and Investment

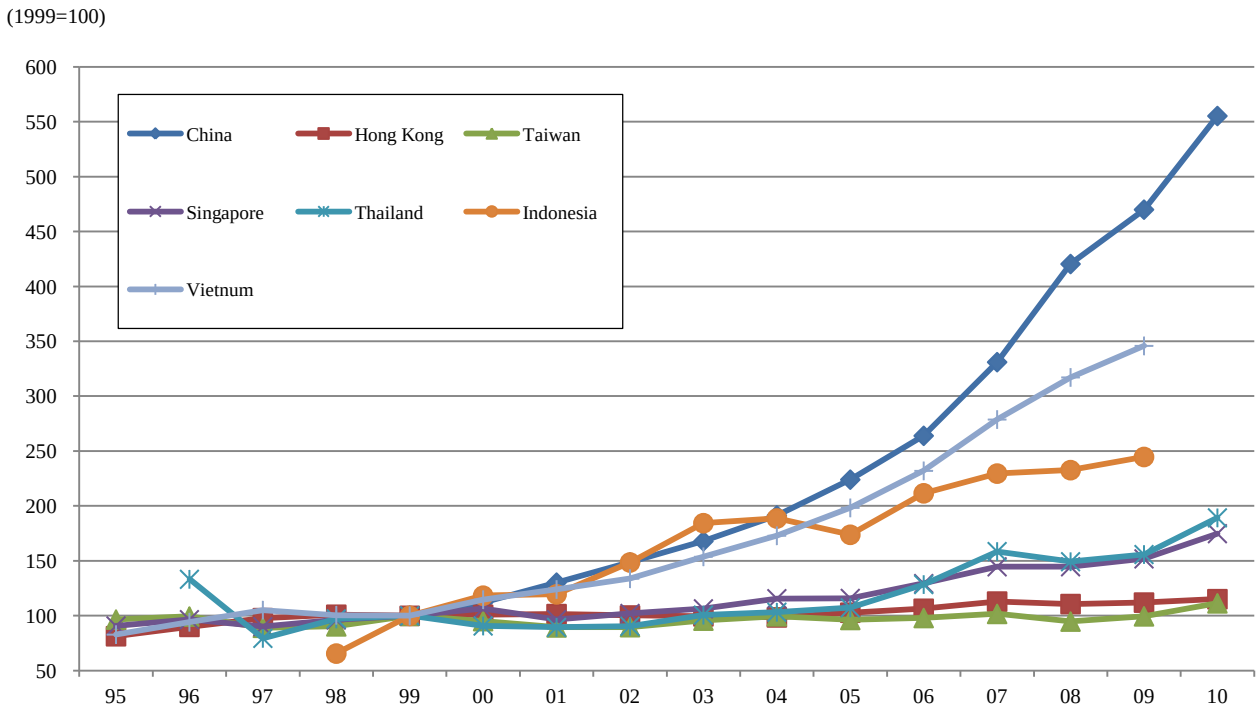
(2) Harmonious coexistence with the Asian emerging countries and contribution to problem solution by Japanese strategic fields business

Asian emerging countries are growing rapidly, but there are some problems that must be settled in order to accomplish further growth. In this section, we will discuss about a harmonious coexistence model with the Asian emerging countries, where, Japan not only make money through the product sale of car and household appliance, but also Japan will make contribution to solve the challenge of Asian emerging countries, and Japan also make growth in the strategic fields business utilizing compartmentalization with industry of the Asian emerging countries.

(A) The contribution to the difficult problem of remarkable rise of personnel expenses in the Asian emerging countries

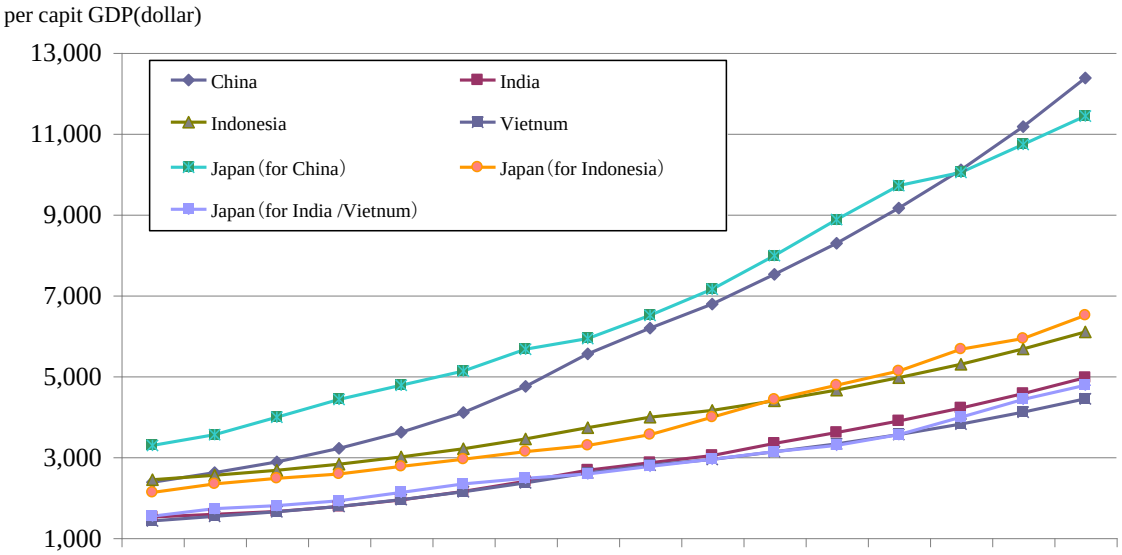
The wages in the recent Asian emerging countries are remarkably increasing, especially in the countries where the low-income class ratio is high (Figure 3-1-3-4). When comparing the growth of per capita GDP (purchasing power parity) of China, India, Indonesia, and Vietnam with that of our country, it is found that China's per capita GDP in 2010 is the same level of Japan's per capita GDP in 1968, Indonesia is equivalent that in 1961, and Vietnam, and India in 1957, 1958 respectively (Figure 3-1-3-5).

Figure 3-1-3-4 Change of wage index in Asian emerging countries/ regions



Source: CEIC (Wage data of various countries)

Figure 3-1-3-5 Chronological comparison of per capita GDP (purchasing power parity) of China, India, Indonesia, Vietnam and Japan



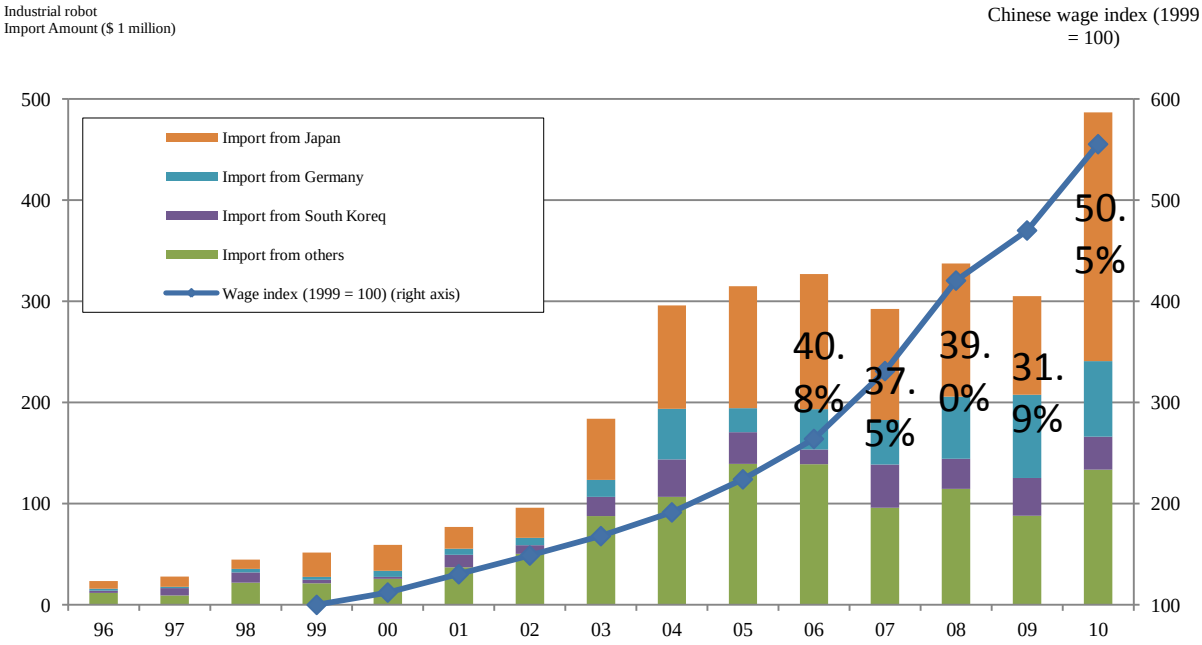
China/India/ Indonesia/ Vietnum	2000	2005	2010	2015
Then in Japan (for China)	1958	1963	1968	1973
Then in Japan (for Indonesia)	1951	1956	1961	1966
Then in Japan (for India/ Vietnum)	1947	1952	1957	1962

Source: "World Economic Outlook Database, April 2011" Angus Maddison (IMF)

Situations of these countries are similar with that of our country at the high economic growth period when we caught up the preceding Europe and America, by starting a full-scale automation of the factory. In particular China, as similarly to Japan, which reached the second in the world of capitalistic nations with GNP in 1968, ranked the second in the world in terms of GDP in 2010.

The manufacturing industry of China is now in a difficult situation in securing of work force mainly in the coastal place due to remarkable rise of wages. It can be said that China began to enter into the turning points to automation system from their conventional labor-intensive type. Actually, the import of industrial robots increases in proportion to increase in wages (Figure 3-1-3-6).

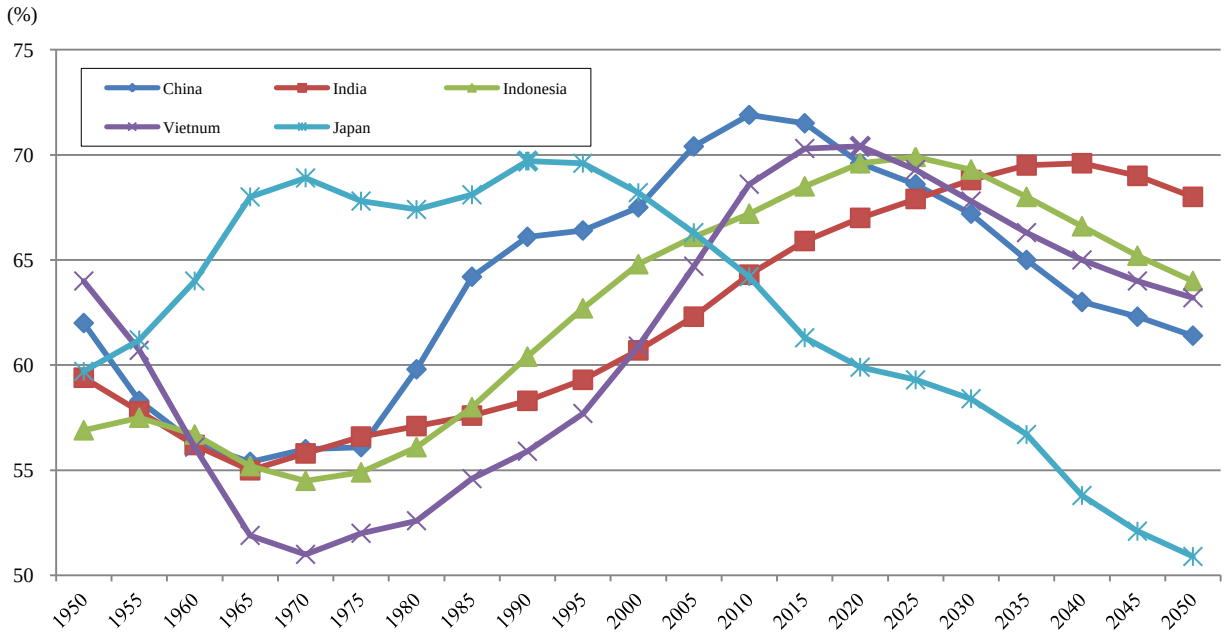
Figure 3-1-3-6 Change of wage level of China and import of industrial robot



Notes: Numerical value (%) of the import from Japan indicates The ratio of import amount from Japan in the total import of China.
Source: Compile from the data by CEIC (Chinese wage data), Global Trade Atlas (Chinese import data, HS cord 847950)

In addition to the increase in wages, Asian emerging countries began to reach a peak of the productive population similar to the previous case of Japan (Figure 3-1-3-7). In particular China reached the peak of the productive population ratio in 2010. From the point of decrease of work force in the future, it can be said that the Asian emerging countries should begin studying the introduction of automated equipment.

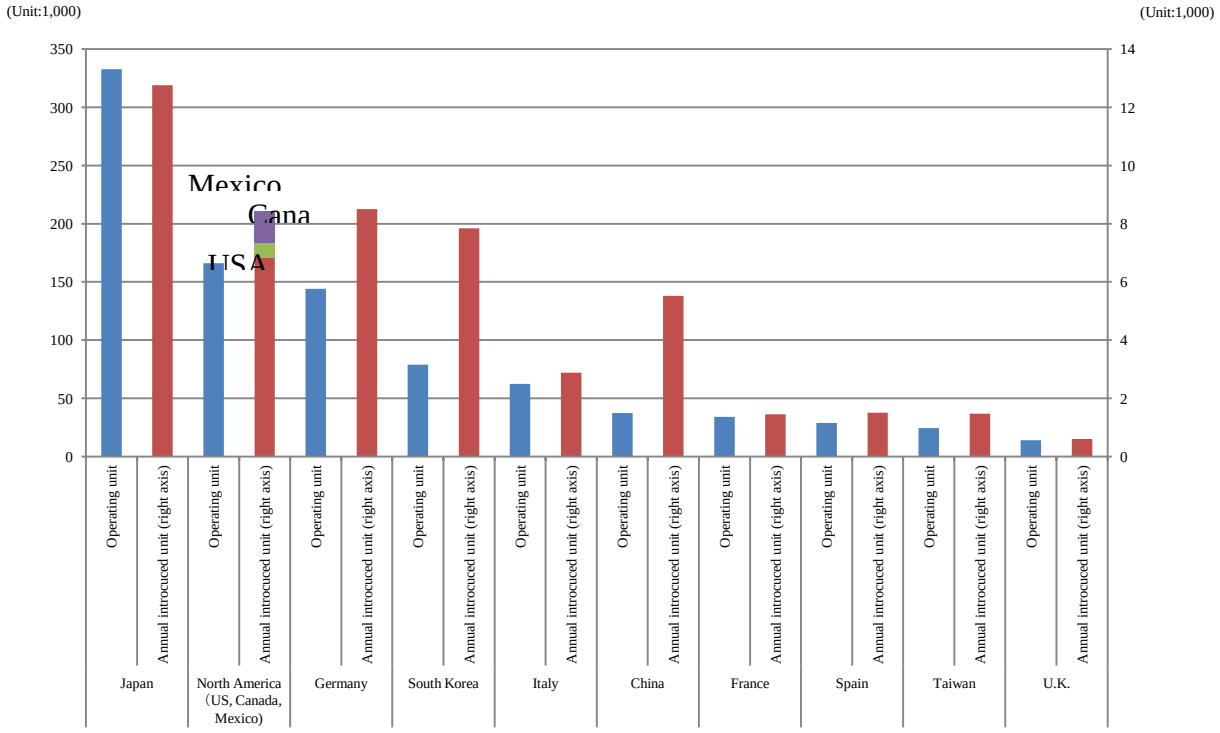
Figure 3-1-3-7 Change of ratio of productive population in Japan, China, India, Indonesia, and Vietnam



Notes: The year which has the large square point indicates the year when the productive population ratio reaches the peak in the country.
Sources: "World Population Prospects, The 2008 Revision" 2008 (United Nations)

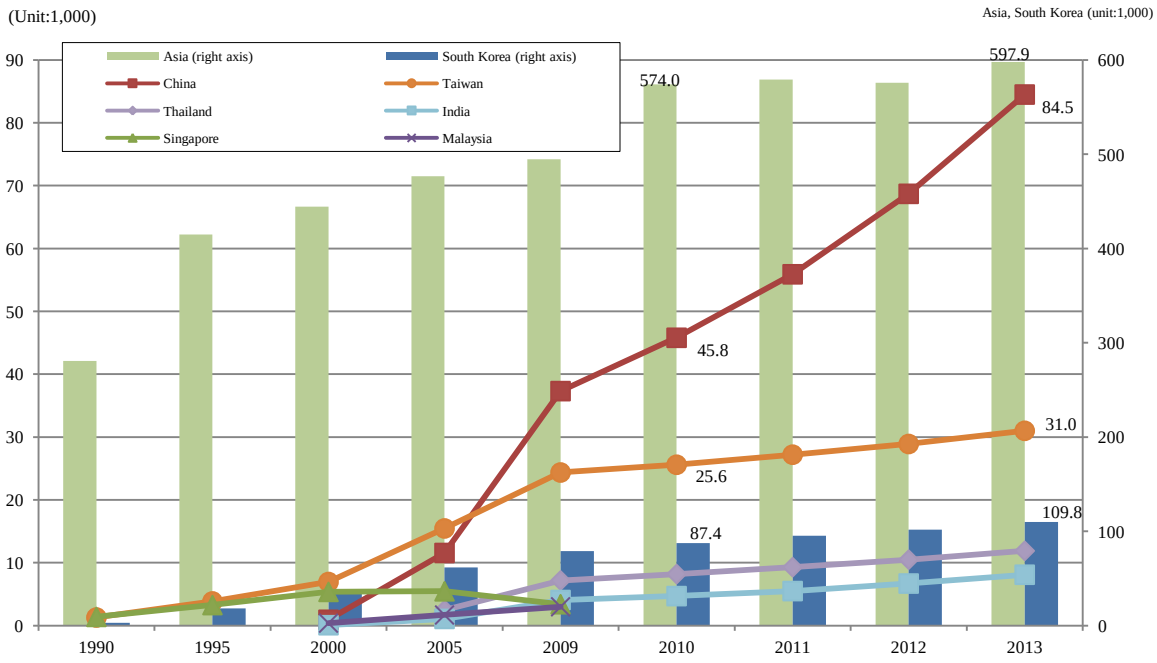
The automated technology/industrial robot technology of our country hold the prominent position overwhelmingly in the world (Figure 3-1-3-8). Japan accounts for nearly 50% of all the import of the industrial robot of China (Figure 3-1-3-6). It is expected that the introduction of the industrial robot advances in various Asian countries/regions where increase in wages and aging will rapidly advance to in the future (Figure 3-1-3-9). In the situation of overseas advance of Japan's manufacturing industry, it is expected that a production technology based in our country will make contribution in solving the problems of remarkable rise of personnel expenses in growing Asian emerging countries/regions.

Figure 3-1-3-8 Top Ten countries (as of 2009) of operating industrial robot in the world and number of robot introduced



Notes: Manipulating robot only.
Source: Compiled from statistics data of Japan Robot Association.

Figure 3-1-3-9 Number of operating unit of industrial robot in Asia



Notes: Manipulating robot only. Data after 2010 are estimates.
Sources: Compiled from statistics data of Japan Robot Association.

(B) Contribution to infrastructure development in the emerging countries around Asia

For further growth, the emerging countries of Asia require electricity infrastructure, which have a key role in production activity, and the traffic infrastructure which is indispensable for smooth distribution of goods. For example, according to the ADB[4], approximately 8 trillion dollars is required for improvement of the infrastructure for 11 years from 2010 to 2020 years, for Asia to show a potential growth power in the future (Table 3-1-3-10). Actually, according to the questionnaire result of Japan Bank for International Cooperation (JBIC), many companies pointed out the inadequate infrastructure as a problem of the promising Asian emerging countries. Although generally this problem is resolved, nearly half in India and more than 30% in Vietnam, they have the inadequate infrastructure issue (Figure 3-1-3-11).

Table 3-1-3-10 Asian needs for infrastructure investment (between 2010 and 2020)

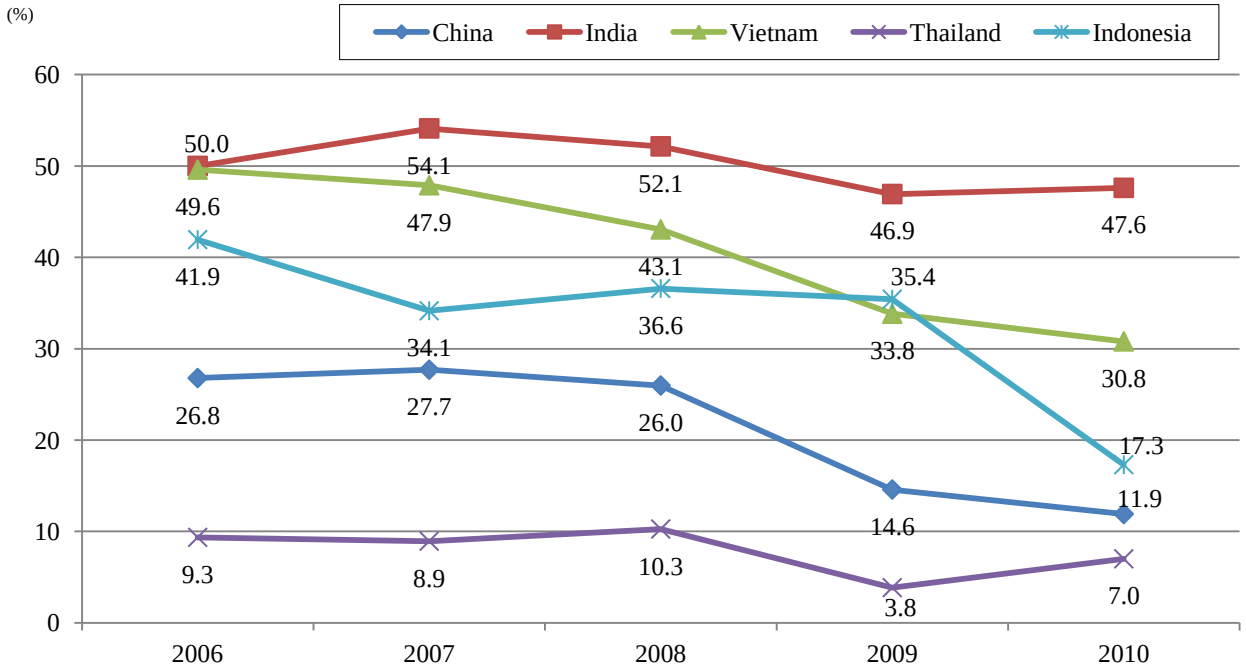
Unit: Billion dollars (Actual prices in 2008)

Sector	New	Updated	Total
Energy (electricity)	3,176	912	4,089
Communications	325	730	1,056
Transportation	1,762	704	2,466
Airport	7	5	11
Port	50	25	76
Railroad	3	36	39
Road	1,702	638	2,341
Water supply/ sanitation	155	226	381
Total	5,419	2573	7,992

Notes: The target countries/regions are Armenia, Azerbaidjan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Brunei, Cambodia, China, Indonesia, Laos, Malaysia, Mongolia, Philippines, Thailand, Vietnam, Bangladesh, Bhutan, India, Nepal, Pakistan, Sri Lanka, Fiji Islands, Kiribati, Papua New Guinea, Samoa, Timor, Tonga, and Vanuatuan.
Source: "INFRASTRUCTURE for a SEAMLESS ASIA" (ADB)

[4] ADB (2009)「INFRASTRUCTURE for a SEAMLESS ASIA」

Figure 3-1-3-11 Change of percentage for Japanese manufacturer to designate the inadequate infrastructure as a problem in the country/region which Japanese manufacturing industry regards as promising for medium-term (about next three years)

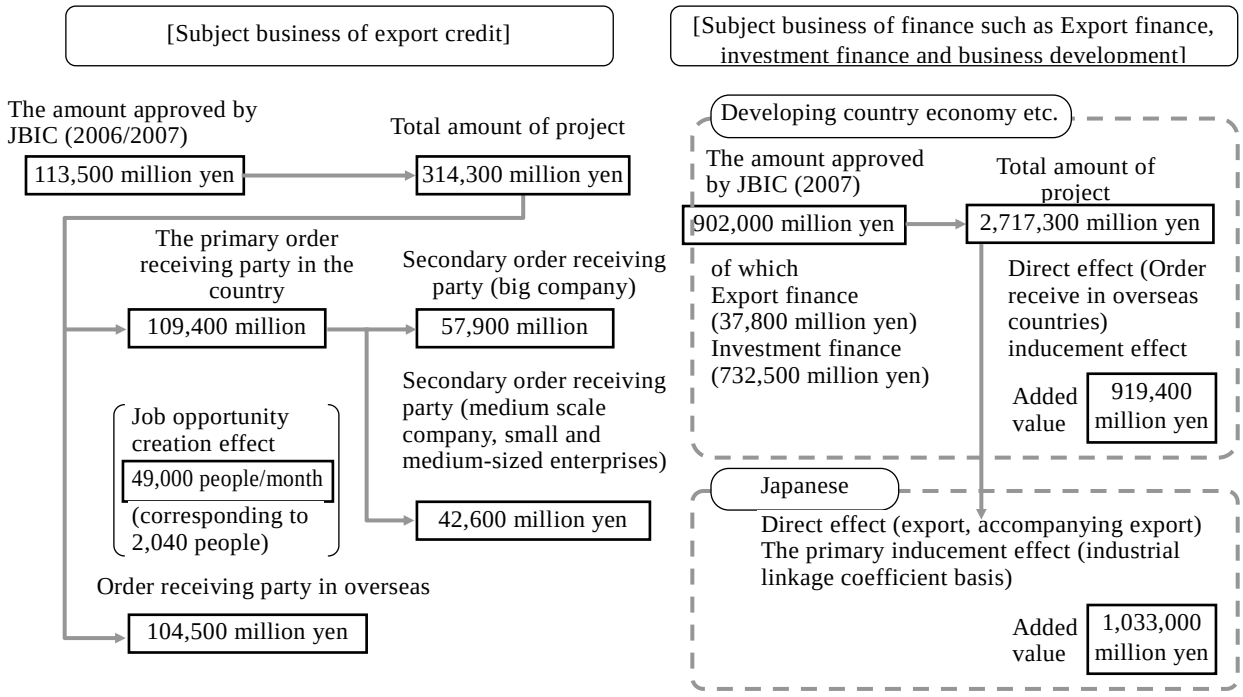


Sources: Compiled from the data of "Foreign Direct Investment Survey" (2006-2010) Japan Bank for International Cooperation

As we mentioned before, about 60% of the Japanese companies that regarded India and Vietnam as the promising market have no specific plan for doing business there. On the other hand, rate of companies that have business plan in China and Thailand are high. This may be attributable to the infrastructure development in China and Thailand. In order for Japanese companies to capture the market in the regions, it is necessary to push forward the infrastructure development in Asian countries immediately.

Pushing forward infrastructure development of Asia contributes not only to the growth of the countries concerned, but also greatly contributes to growth of our country. The export of infrastructure and the investment in an infrastructure project gives great ripple effect to the economy and the employment of our country. According to the analysis by JBIC that is supporting large-sized infrastructure industry, in financial related business such as Export credit, investment finance, and business development project totaling of 2,717,300 million yen have spillover effect of 919,400 million yen to the developing countries, and the influence to the domestic company amounts to 1,033 billion yen (Figure 3-1-3-12). The export from our country of the equipment related to order receiving for plant, is the top tenth class (latex product (HS code 40) and steel product (HS code 73) etc.) in export articles basis comparison (two digits of HS code), which is equivalent to the scale of export of subcompact car and semiconductors (Figure 3-1-3-13).

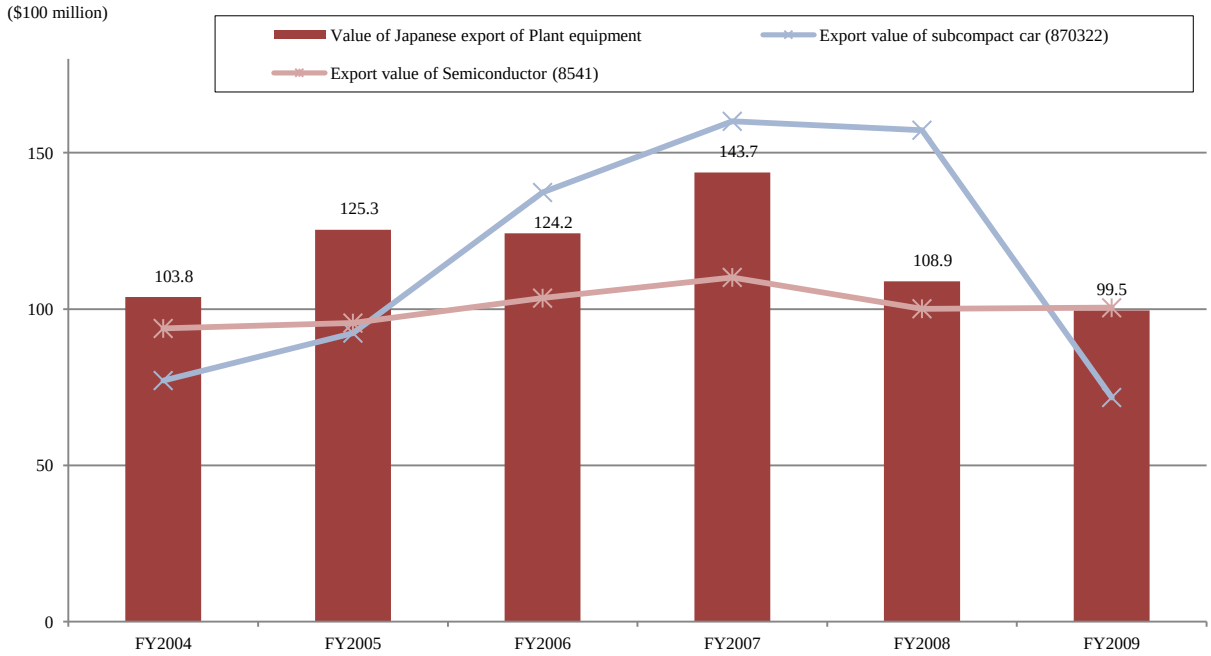
Figure 3-1-3-12 The economic ripple effect of the large-scale project (from policy cost analysis of the JBIC)



Notes: Future inducement effect accompanying the business continuation (secondary inducement effect: industrial linkage effect) in the subject business of the finance such as export finance, investment finance, business development are excluded.

Source: National Policy Unit "package type infrastructure overseas operation promotion business practice staff conference"

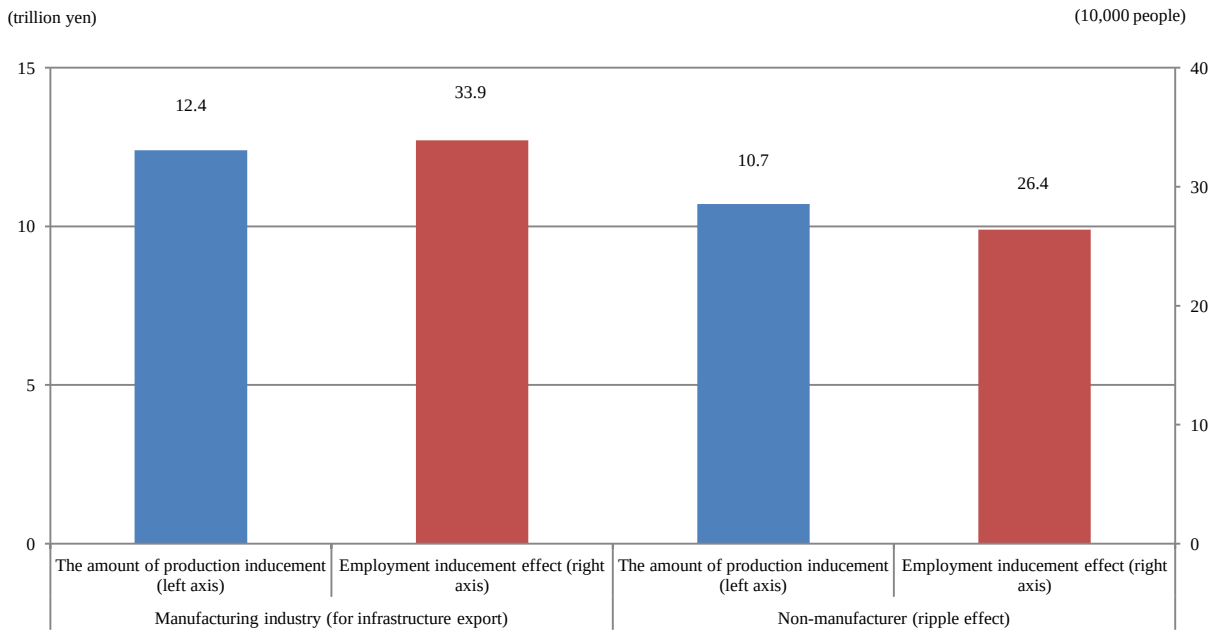
Figure 3-1-3-13 Export value of Japanese equipment related to overseas plant engineering



Notes: The export equipment subject contract until 2007 more than 500,000 dollars per contract, after 2008 more than 1 million dollars and above per contract.
The numerical value in () of subcompact car and semiconductor is HS cord.
Sources: Compiled from the data of Global Trade Atlas, and Japan Machinery Center for Trade and Investment "Overseas plant engineering contracts survey analysis report"

In addition, investing in infrastructure industry and pushing forward overseas development as “a system” will lead to securing of continuous profit. It also leads to upgrading of Japanese industry and increase of added value through acquisition of the high technology and know-how. The “New Growth Strategy” that the government advocates have set the infrastructure market size of 2020 to 19,700 billion yen as target to be achieved. The effect when the target is achieved is supposed to be 23,100 billion yen for the production inducement amount which totals infrastructure export by the manufacturing industry and the ripple effects to a non-manufacturer together, and 603,000 people as an employment inducement effect (Figure 3-1-3-14).

Figure 3-1-3-14 Effect with accomplishment of target of "New Growth Strategy" (infrastructure market scale 19,700 billion yen in 2020)



Sources: Compiled from the data in "Related Cabinet Meeting Materials on Economic Monthly Reports" (February 21, 2011) (Cabinet Office)

(3) Past approach and new viewpoint

(A) Ministers conference related to Package type infrastructure overseas operation

The conference was established in last September to support the receiving of order for important project as a country under the national cross-sectional and politician-led flexible judgment. The ministers of relevant ministries and agencies participated the meeting with the Chief Cabinet Secretary serving as chair and discussed on general support packages such as the strategy categorized by region and field type, a finance support reinforcement plan, personnel training, and technical cooperation.

(B) Implementation of top-level sales

Concerning the project, which is particularly important to our country, it is important to make sales for each project sale at the top-level directly to the foreign government. As can be seen from example of the countries of the world, the top or the cabinet minister of the government frequently participates in the place of the business talk by himself/herself to sell the product of the own country for the aim of receiving of order of the specific project.

(An example of the top-level sales in our country)

• In last October, Prime Minister Kan visited Vietnam, and at the Japan-Vietnam top-level meeting, Japan was chosen as the development partner of rare earth elements in Vietnam and a nuclear power plant construction partner.

(C) Strengthening of the public financial institutions

In the overseas infrastructure development, the large-scale projects that require big amount and long-term fund are anticipated to increase. Such the projects have big risk, and it is expected that public finance support plays an important role. Based on such present situation, the scheme is being developed to cover the risk that cannot be taken on the private enterprise, such as functional enhancement[5] of the government-affiliated organization in line with the decision of the minister meeting.

(D) The cooperation staring from a stage of plan development

Involvement with infrastructure development program of the various countries from the development stage is very important for securing order of the projects, while promoting proper infrastructure development demand for other country, and for making strategic matching with the overseas infrastructure demand and Japanese industrial advantage. The typical examples of these include Delhi/Mumbai Industrial Corridor Project[6], Indonesia Metropolitan Priority Areas (MPA) project[7], and the Core center in South India Development Initiative[8].

(E) A new viewpoint in the overseas infrastructure operation

In the case of the recent earthquake disaster, infrastructure superior in quake resistance and the restoration know-how, man-made satellites, which were used for grasping of the suffering situation, played very important role. Therefore it is important to positively send these advantages of the infrastructure, which played an active part in earthquake disaster, and send the information to abroad.

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[5] Strengthening of the trade insurance by NEXI: Strengthen the currency risk measures for local currency (April), Function reinforcement of the JBIC: Export credit for developed nations were added (April), Function reinforcement of JICA: Reopening of the overseas investing and financing (March).

[6] Japan-India joint projects for regional development for laying a freight exclusive railway between Delhi and Mumbai, and developing the infrastructure such as industrial areas, distribution bases, and power plants based on the private investment.

[7] Japan-Indonesia Joint development projects to determine Master Plan for Establishing Metropolitan Priority Area for Investment and Industry (MPA) in Jakarta Metropolitan Area.

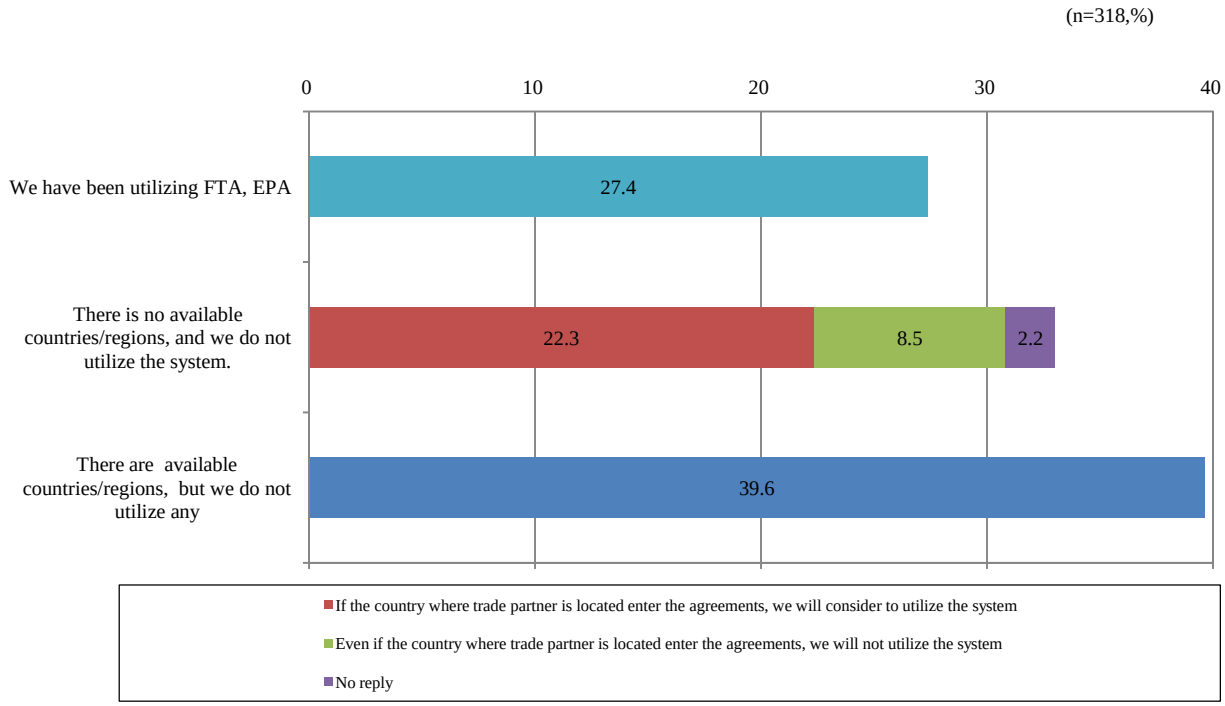
[8] The project to promote the cooperation project formation of Japan and India, by starting up Intergovernmental Working group concerning infrastructure development and business matching with Tamil Nadu state government.

4. Global development support measures of the Japanese manufacturing industry

(A) Export reinforcement support of the Japanese manufacturing industry

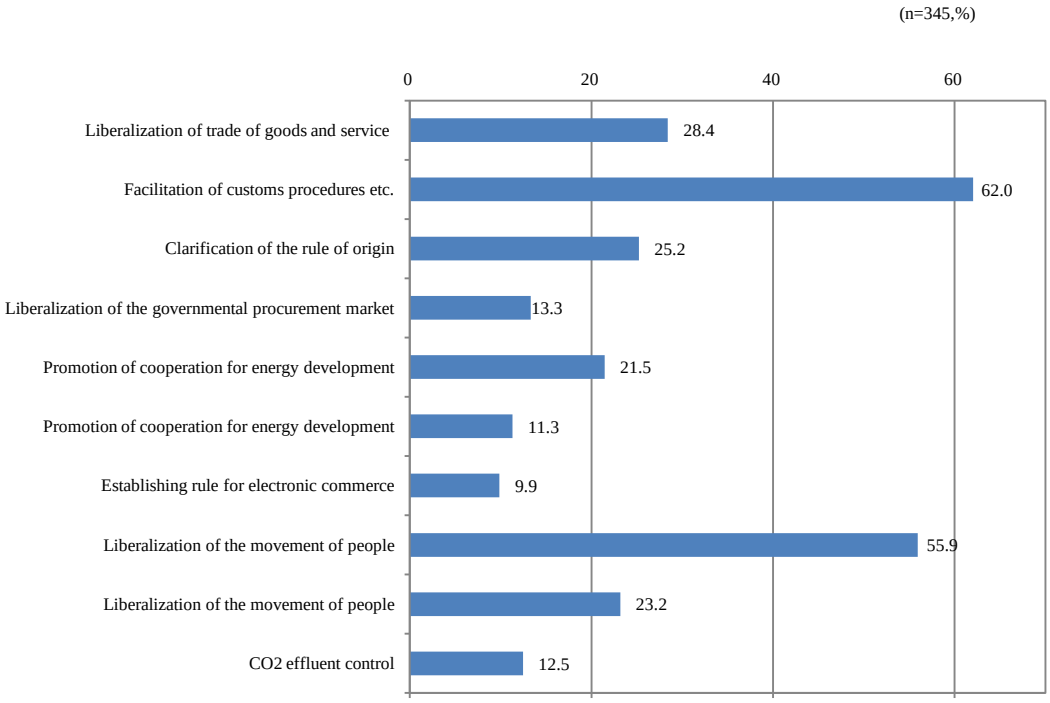
According to the questionnaire survey of the Japan Economic Foundation, Manufacturing industry that makes good use of free trade agreement (FTA), economic partnership agreement (EPA) are about 27%, and the company which does not take advantage of the FTA, EPA due to the reason that there are no countries or few countries available for these system are about 33%, and about 70% of the companies have intention to use the policies if there is any available country/region. This means that nearly half of all companies are positive to utilize the FTA/EPA (Figure 3-1-4-1). The specific data of content that the companies expect for international business clarify that many companies raise the items that relate to the economic cooperation such as “Trade liberalization”, “Facilitation of the customs procedure” and “Clarification of the rule of origin” (Figure 3-1-4-2).

Figure 3-1-4-1 Status of utilization of free trade agreement (FTA), and economic partnership agreement (EPA)



Notes: Total may not become 100% due to rounding off.
Sources: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

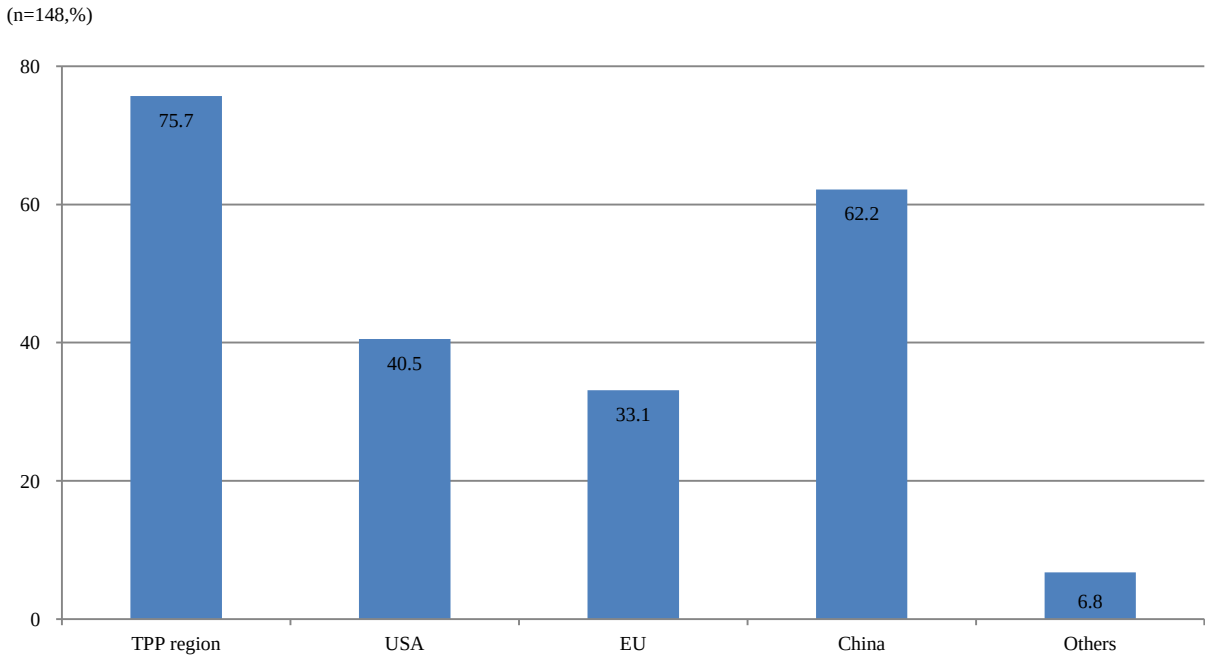
Figure 3-1-4-2 The specific content that Japanese manufacturers strongly require for international business



Source: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition

As the country in which company positive for economic collaboration requires to conclude FTA/ EPA, TPP regions are the top (75%), followed by China (about 60%), then United State (about 40%) and EU (about 30%). Many companies raise these 4 nations/regions as their preferable nations for FTA/EPA (Figure 3-1-4-3).

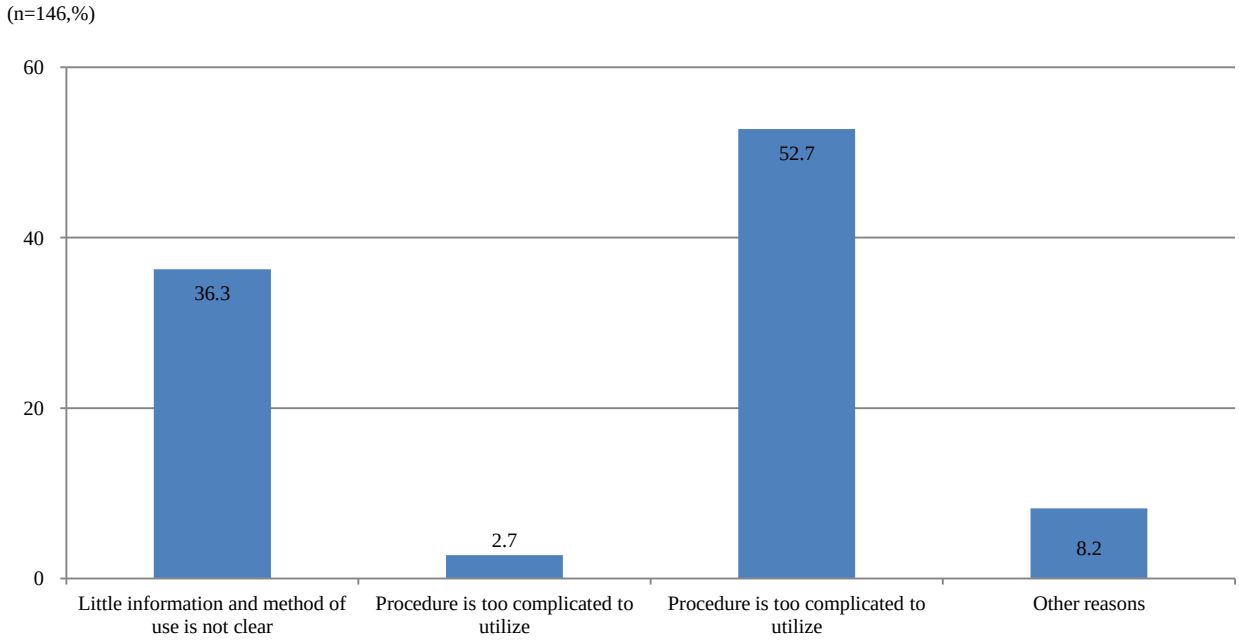
Figure 3-1-4-3 Countries/regions with which the conclusion of free trade agreement (FTA), the economic partnership agreement



Sources: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

On the contrary, approximately 40% of companies do not utilize whereas there is available country/region. In addition, among the companies that do not utilize due to the reason of no available country/region, more than 25% companies would not utilize even if FTA, EPA are concluded with certain country/region. Therefore, companies, which are negative against utilization of FTA, EPA, account for nearly half of the all companies (Figure 3-1-4-1). About 90% of them nominate the reason such as “Advantage is not clear” and “Cannot understand how to utilize”. It can be said that the information of the policies are not sufficiently provided (Figure 3-1-4-4).

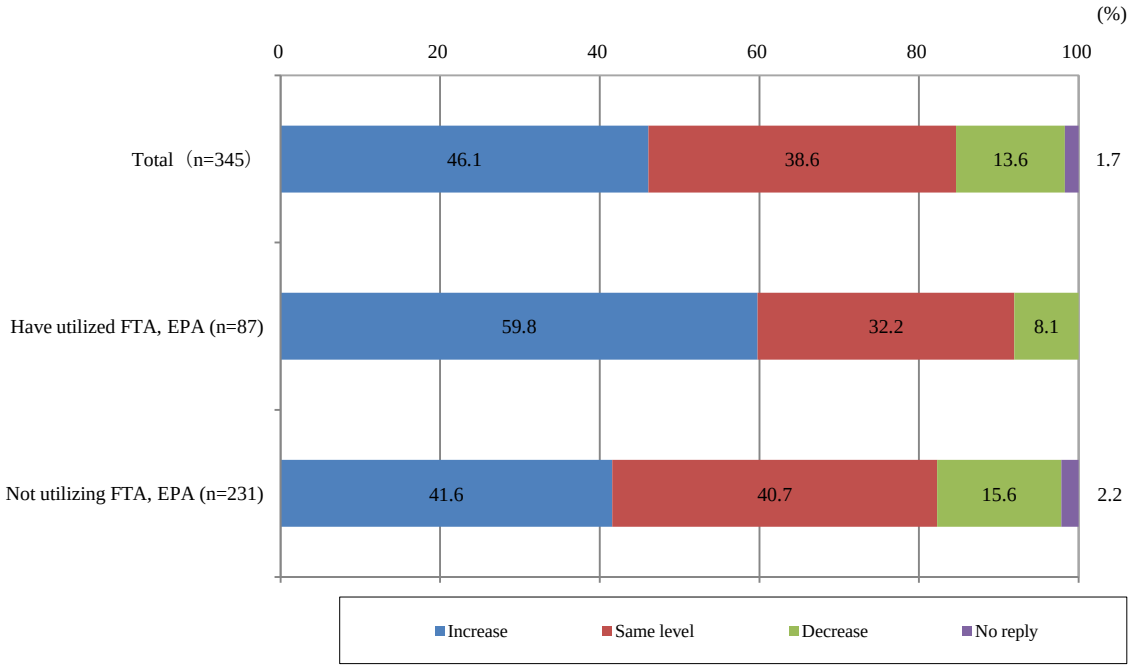
Figure 3-1-4-4 Reason not to utilize free trade agreement (FTA), and economic partnership agreement (EPA)



Notes: Total may not become 100% due to rounding off.
Sources: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

It should be paid attention that according to the questionnaire survey of the Japan Economic Foundation, the companies which utilize FTA/EPA are about 20% more than the companies which does not utilize in terms of reply that they expect better achievement in future (Figure 3-1-4-5).

Figure 3-1-4-5 Future business forecasts (sales amount) by status of utilization of free trade agreement (FTA), and economic partnership agreement (EPA)

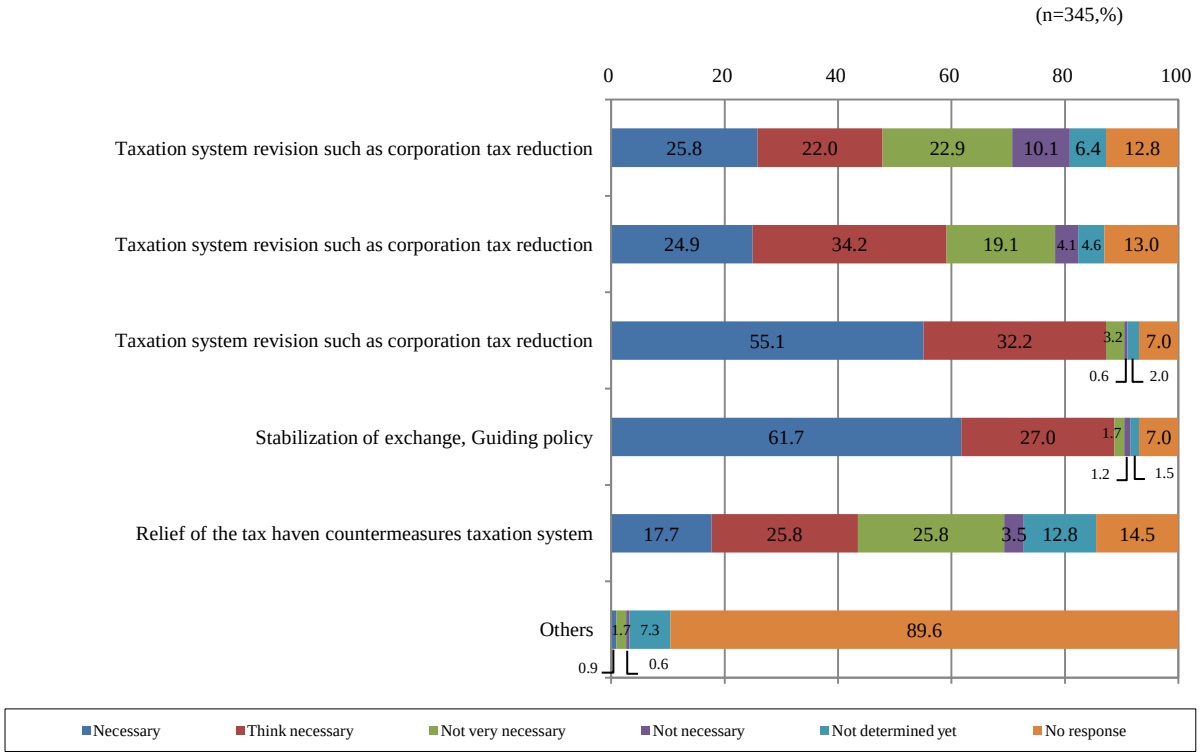


Notes: Total may not become 100% due to rounding off.
Sources: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

(2) Macroeconomic environment preparation support about the Japanese manufacturing industry

According to the questionnaire survey of the Japan Economic Foundation, as a demand for the preparation of the macroeconomic environment, many companies replied that the stabilization of the exchange rate, induced policy and taxation system revision such as corporation tax reduction are necessary (Figure 3-1-4-6).

Figure 3-1-4-6 Requirement for development of the macroeconomic environment

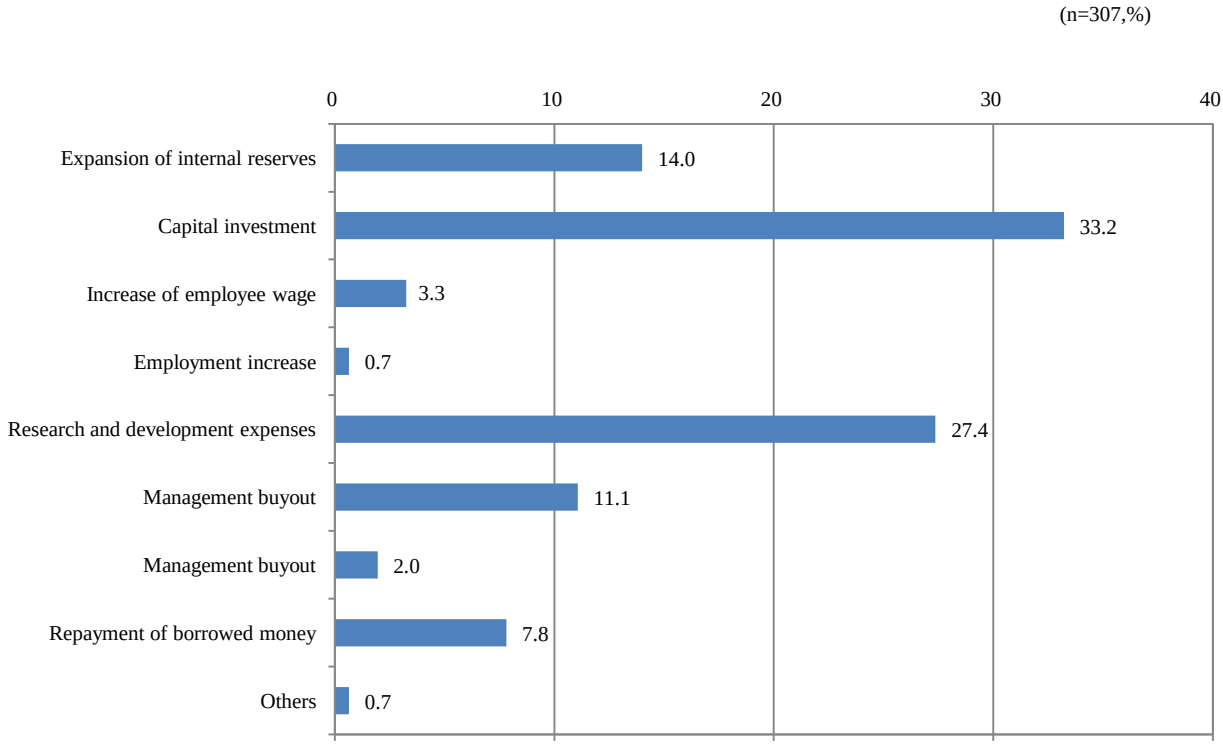


Sources: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

In addition, for the purpose for which surplus of funds made by the arrangement of the macroeconomic environment is spent, capital investments, research and development expenses, and the increase of internal reserves were raised in that order (Figure 3-1-4-7). In fact, as the result of refund of maintenance of the economic environment to the nation's wealth, when we study the use of the overseas subsidiary profit before and after introduction of the foreign dividend exemption system[9], we find that after the introduction the ratio of company that return dividend to Japan largely increases (Figure 3-1-4-8). For the acquisition of the emerging countries market, the development of the macroeconomic environment that provides indirect support to the Japanese companies, which are exposed to severe competition, is expected in the future.

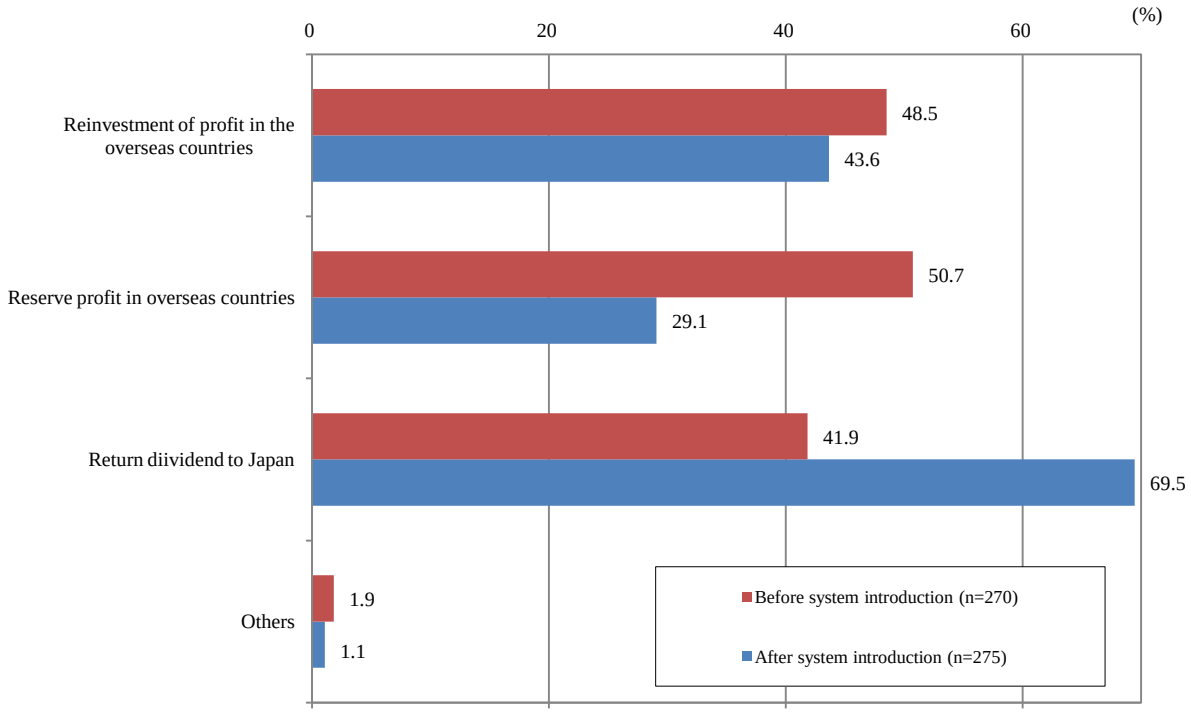
[9] In this system, 95% of the dividends received by a Japanese company from a foreign subsidiary are exempted from the profit, provided that ratio of shareholding is more than 25% and holding period more than six months.

Figure 3-1-4-7 Purpose of use of surplus money created by the development of the macroeconomic environment



Sources: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation

Figure 3-1-4-8 Purpose of use of the overseas subsidiary company profit before and after the introduction of the foreign dividend exemption system



Sources: "Research about Japanese industrial competitive power enhancement corresponding to the change of the competition environment" The Japan Economic Foundation