Section 2　International comparison of overseas business activities

This section defines the international position of Japan's overseas business activities through a macro-basis comparison with major countries, and overviews Germany's and South Korea's initiatives to expand overseas business activities. Based on these, we will show reference points to follow.

This section also presents the current situation and characteristics of Japanese enterprises' business development in emerging economies using some examples and analyses.

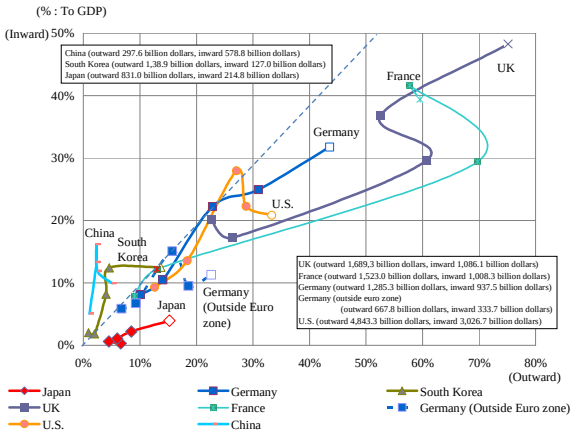
1. International comparison of inward and outward foreign direct investments

Here, to confirm the international position of Japan's overseas business activities, we will overview inward and outward FDIs in terms of investment balance (ratio to GDP), investment return rate, and investment return amount (ratio to GDP) through the comparison with those of other major advanced countries.

(1) Trends in investment balance

First, we will look at the international level of the Japan' inward and outward FDI-to-GDP ratio. Japan' GDP ratios are found to be about 15% in 2010 at a lower level compared with European major countries and the U.S., with slightly over 30% of the U.S., slightly over 40% of Germany and slightly over 70% of the UK. South Korea is characterized as its level being close to Japan in 2010 (Figure 3-2-1-1).

Figure 3-2-1-1
Ratio of outward and inward foreign direct investment balance of major counties to GDP (all industries)



Note: The absolute amount of the country is plotted to the upper right in the order of calendar year 1985, 1990, 1995, 2000, 2005, and 2010. China does not include Hong Kong.
Source: *International Comparison Statistics* (Institute for International Trade and Investment), *Stat* (OECD).

Japan's direct investments are biased toward outward investments and it was often pointed out that particularly inward investments remained at a low level, but to be precise, outward investments are also found to never to have been at a high level internationally.

Further, as for inward FDI balance-to-GDP ratios, Japan shows slightly under 5% in 2010, a particular low level among major countries compared with South Korea with slightly over 10%, both

Germany and the U.S. with slightly over 20%, and the UK with slightly over 40% (Figure 3-2-1-1).

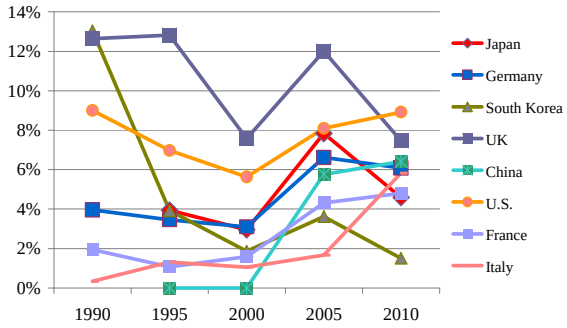
Germany has kept both outward and inward FDIs at a level higher than Japan even in terms of non-euro zone excluding the euro zone. It indicates how high Germany's level is compared with Japan.

(2) Trends in investment return rate

Next, we will compare trends in Japan's inward and outward investment return rates. First, outward FDI returns of Japan were the third-highest after the UK and the U.S. in 2005 but remained at the level lower than the U.S., the UK, Germany, and France in 2010 (Figure 3-2-1-2).

Figure 3-2-1-2

Rate of outward foreign direct investment returns of major countries

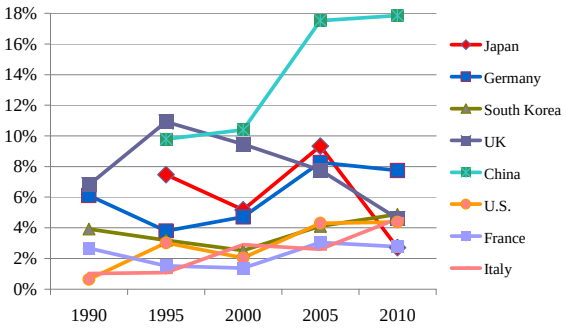


Note: Calculated by dividing the investment return of the year by the investment balance at the end of the same year.
Source: *International Comparison Statistics* (Institute for International Trade and Investment).

Inward FDI return rates also remained at a high level in 2005 but at the lowest level among major countries in 2010. Japan's inward FDIs on a flow basis have been sluggish since 2010. This move suggests that investment environment should be enhanced to ensure that returns may increase to attract inward FDIs in the future (Figure 3-2-1-3).

Figure 3-2-1-3

Rate of inward foreign direct investment returns of major countries

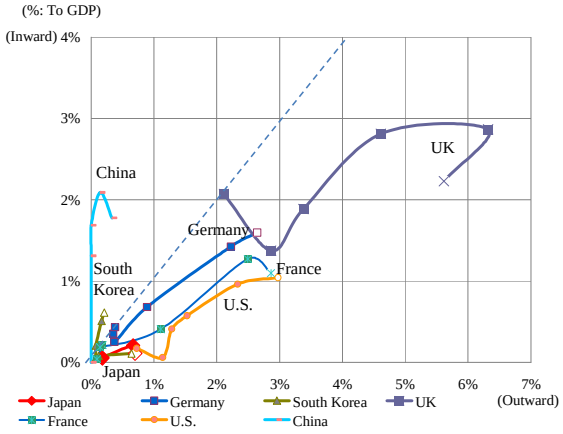


Note: Calculated by dividing the investment return of the year by the investment balance at the end of the same year.
Source: *International Comparison Statistics* (Institute for International Trade and Investment).

(3) Trends in investment return amount

Finally, we will compare trends in outward and inward investment return amount. The higher (A) investment balance or (B) investment return rate, or the higher the both, invest returns will be larger. As discussed earlier, Japan's outward and inward FDI balance is not large compared with major countries, and return rates also have remained at a low level in recent years compared with major countries. Therefore, investment returns from both inward and outward FDIs also remain low compared with the international level. Specifically looking at inward and outward investment return amount-to-GDP ratio, outward investments of Japan showed slightly under 1% in 2010, a low level compared with the UK with slightly under 6%, and the U.S., Germany, and France with slightly under 3%. Inward investments of Japan were around 0.1% in 2010, the lowest level among major countries when comparing with European counties and the U.S. (1 to 2% mark), as well as even South Korea (Figure 3-2-1-4).

Figure 3-2-1-4
Ratio of outward and inward foreign direct investments returns of major counties to GDP



Note: The absolute amount of the country is plotted to the upper right in the order of the calendar year 1985, 1990, 1995, 2000, 2005, and 2010. China does not include Hong Kong.
Source: *International Comparison Statistics* (Institute for International Trade and Investment).

2. Characteristics and support measures for Germany's overseas business activities

From here, we will analyze characteristics and support measures for Germany's overseas business activities, leading to implications with Japan.

(1) Characteristics of Germany's overseas business activities

(A) Spread of regions

Germany uses its locational advantages as it locates in the center of Europe, thereby developing full-scale overseas business activities centering on regions within Europe. Seventy percent of exports and 80% of direct investment balance are directed at EU regions[30]. As for outward FDI amount by region, Europe overwhelmingly occupies the top spot, followed by North America, but Asia remains at

30 For Germany's trade trends, refer to Chapter 1, Section 2 and Chapter 2, Section 2.

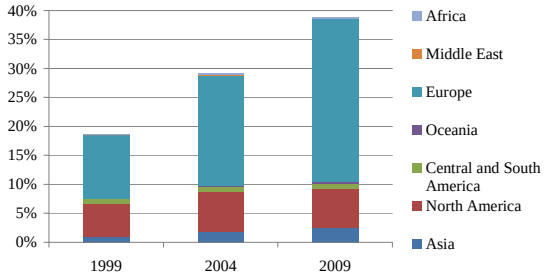
a low level though increasing (Figure 3-2-2-1).

The majority of Germany's exports are directed at Europe and in particular, exports to three East European countries (Czech Republic, Hungary, and Poland) have seen rapid growth after the eastward expansion of the EU in 2004 in line with the growth of exports to emerging economies (Figure 3-2-2-2).

For outward FDIs as well, those in three East European countries (Czech Republic, Hungary, and Poland) are growing fast as with Asian emerging economies (Figure 3-2-2-3). Looking at return rates of outward FDIs, Germany's rates remain higher than those of Japan (Figure 3-2-2-4).

Figure 3-2-2-1

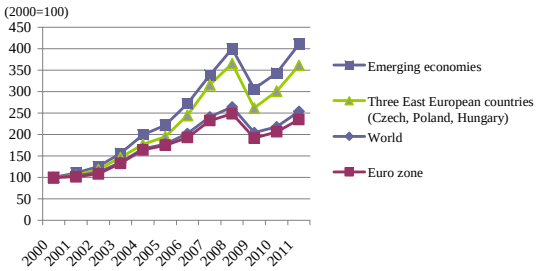
Germany's outward foreign direct investment balance by region (ratio to GDP)



Source: *Stat* (OECD).

Figure 3-2-2-2

Germany' exports of goods to Europe



Source: CEIC database, *DOTS* (IMS).

(B) Differentiation strategy by SMEs ("Hidden Champion")

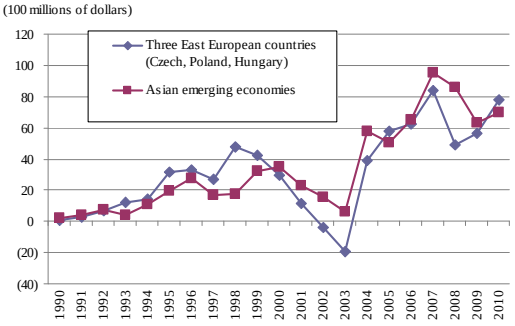
The outstanding characteristic of Germany's overseas business activities is international development by SMEs. According to the Small and Medium Enterprise Agency, 2.8% of Japanese SMEs with 300 or less employees are engaging in direct exports, but according to the survey by the European Commission, 20% of German SMEs with less than 250 employees are engaging in direct exports. For direct investments as well, the percentage of Japanese SMEs making direct investments remains at 8.5% while German SMEs making direct investments account for as high as 18% (Figure 3-2-2-5). Exports tend to concentrate on a few enterprises in Japan and the U.S. but are dispersed in more enterprises in Germany (Figure 3-2-2-6).

Of particular note is that some German mid-sized enterprises that hold the world's top or second market share have emerged by developing overseas business. Hermann Simon, a German business

scholar, called particularly good-standing German mid-sized enterprises as “Hidden Champions”[31]. A Hidden Champion is defined as an enterprise meeting the following three requirements: (A) an enterprise that is one of top three companies in a specific area in the world or a top company in the continental Europe, (B) an enterprise with sales of $4 billion or less, and (C) an enterprise that is not generally known. It is said that many mid-sized enterprises represented by this Hidden Champion assume the source of the competitive edge of German manufacturers.

Figure 3-2-2-3

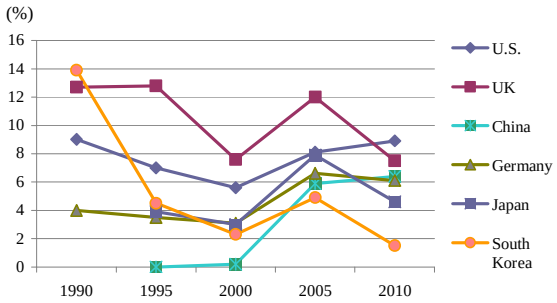
Germany’s outward foreign direct investment (net: flow)



Source: *Stat* (OECD).

Figure 3-2-2-4

Rate of outward foreign indirect investment returns of major countries



Source: *International Comparison Statistics* (Institute for International Trade and Investment).

31 Simon’s definition of an enterprise called “Hidden Champion” refers to a “mid-sized enterprise” in this paper because the enterprise has a scale larger than a Japanese SME.

Figure 3-2-2-5

Ratio of overseas business development by Japanese and German SMEs (%)

	Japan	Germany	France	Italy	Spain
Ratio of enterprises engaging exports	2.8%	19.2%	19.0%	27.3%	23.8%
Ratio of enterprises making outward foreign direct investments	0.3%	17.2%	15.1%	7.0%	12.3%

Source: *2012 White Paper on Small and Medium Enterprises in Japan* (Ministry of Economy, Trade and Industry) (*Industry Statistics* (Ministry of Economy, Trade and Industry) and *Economic Census* (Ministry of Internal Affairs and Communications) are reedited again), *Internationalisation of European SMEs* (European Commission (2010)).

Note: In the Figure, Japanese SMEs with employees of 300 or less and EU SMEs with employees of less than 250 are shown.

Figure 3-2-2-6

Ratio of exports of top 10% enterprises to total exports (%)

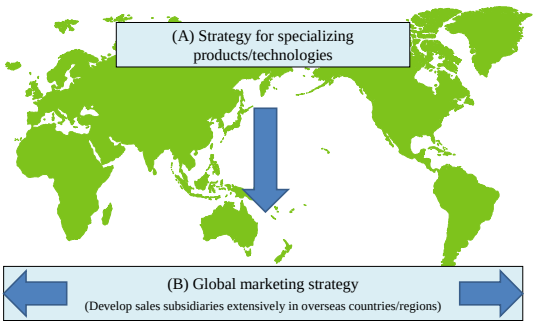
Japan	Germany	U.S.	France	Italy	Spain
92%	96%	69%	86%	78%	79%

Source: *The Global Operations of European Firms: The second EFIGE Policy Report* (Navaretti, Giogio Baraba: Bugameli, Matteo: Schivardi, Fabiano: Altomonte Carlo: Horgos, Daniel Horgos and Maggioni, Daniel (2011)), *Internationalization of Contemporary Japanese Enterprises Panel Data Analysis* (Ryuhei Wakasugi (2011)).

In a bid to secure a world market share, Hidden Champions (A) use their products and technologies only in their strong areas, and (B) conduct global marketing. One example of a dishwasher manufacturer for this strategy is that if a certain manufacturer of dishwashers finds its strength in hotel/restaurant use-dishwashers, the manufacturer limits customers to only hotels and restaurants rather than expanding business to hospitals, schools, enterprises, or various organizations. But in this case, the manufacturer provides customers with water purifiers and detergents as well as relevant services together with dishwashers. By doing so, the manufacturer will have not broad and shallow involvement with customers but narrow and deep involvement with customers, thereby enabling the manufacturer to provide high-quality products and services that competitors cannot imitate (Figure 3-2-2-7 and Figure 3-2-2-8).

Figure 3-2-2-7

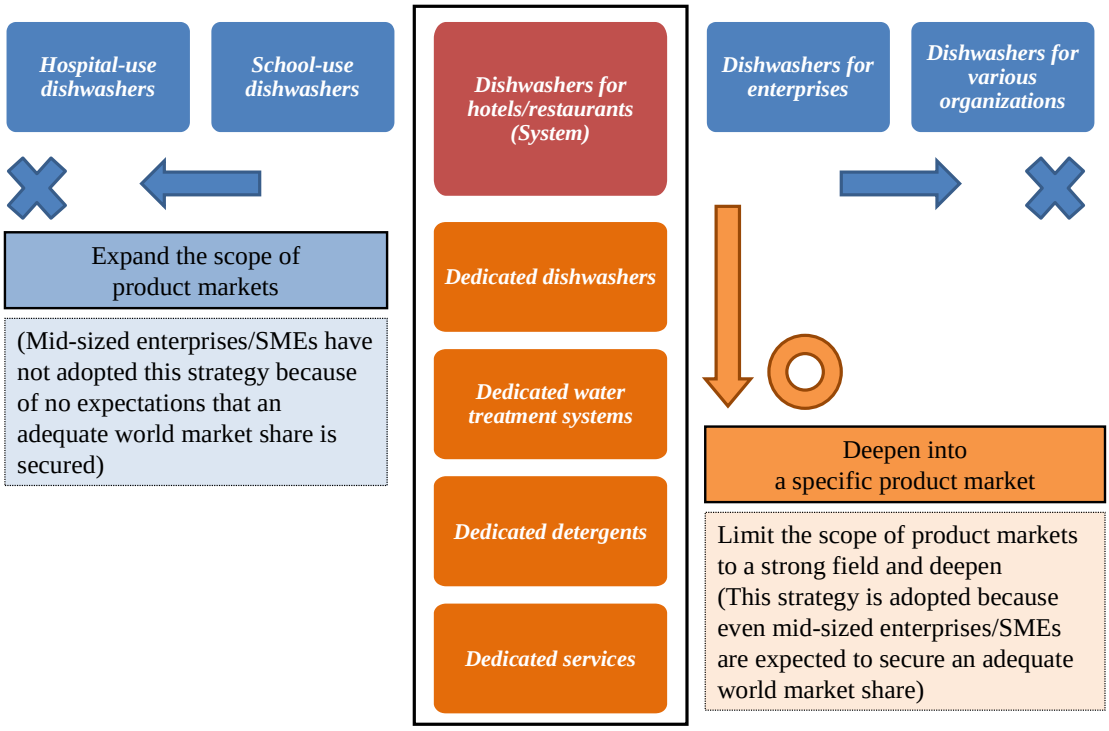
Two key pillars of Hidden Champion strategy



Source: Prepared by the Ministry of Economy, Trade and Industry in reference to *Hidden Champion of 21st Century* (Hermann Simon).

Figure 3-2-2-8

Example of dishwasher strategy



Source: Prepared by the Ministry of Economy, Trade and Industry in reference to *Hidden Champion of 21st Century* (Hermann Simon).

Indeed, German SMEs have not long been enjoying a strong competitive edge. This is because there was a background where many uncompetitive enterprises were weeded out and only powerful enterprises survived in the midst of the expansion of the European integration and the influx of inexpensive products from East Europe where labor wages are low, resulting in an increase in market players. On the other hand, another factor behind this is that German SMEs were traditionally pushing international development in the stage far earlier than Japan. For example, in the automobile industry, there existed affiliations between German auto manufacturers and small and medium parts manufacturers, but in the 1960s auto manufactures began to enter neighboring countries, including

France, etc. and small and medium parts manufacturers also came to undertake overseas business following auto manufacturers. In this process, it becomes clear there was a growing trend that auto manufacturers did not procure all auto parts from affiliated manufacturers. This led to encouraging parts manufacturers to devote development and sales efforts in order to survive international competition.

Hidden Champions of 500 to 1,000 enterprises are said to exist in Germany, and Hosoya (2009) concluded that many of SMEs and mid-sized enterprises called "monodzukuri global niche top enterprises" of nearly 1,000 companies that exist in Japan fall under the Hidden Champion status[32]. For example, Hosoya said a parts manufacturer that originally started in Kyoto was previously a typical Hidden Champion and the reason that the manufacturer has not relocated its headquarters to Tokyo even now is that it has been conducting overseas direct transactions from an early stage. A difference between Japan and Germany is said to be in that no systematic research has been conducted[33].

(C) Strategy for value-added products (Made in Germany)

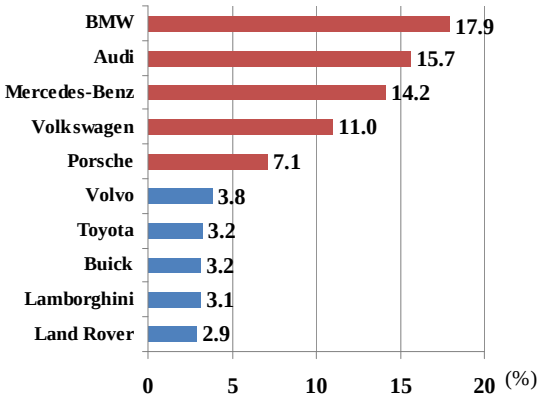
In Germany, in addition to mid-sized enterprises, large enterprises also place strong focus on quality of "Made in Germany," and many of them have succeeded in development and sale of high unit price products. For example, branding is particularly prominent among manufacturers. Daimler is keeping production of high-grade cars only within Germany and exporting them to the world at a high price. In addition, Volkswagen (VW) is securing markets through the VW brand and at the same time promoting differentiation of luxury brands of its group. Through such thorough branding, German enterprises have acquired a "longing position" leading to a success in capturing demand of emerging economies while avoiding price competition as much as possible. The survey on foreign car manufacturers that Chinese people like most reveals that German enterprises occupy the top five spots compared with only Japan's Toyota ranked in top 10 enterprises (Figure 3-2-2-9).

32 The Small and Medium Enterprise Agency has been announcing "300 of Japan's Vibrant Monodzukuri (Manufacturing) SMEs" every year since 2006. Of which a considerable number of SMEs could be "Hidden Champions" or candidates thereof. Japanese Hidden Champions Assuming a Key Role in Regional Economic Vitalization (Yuji Hosoya (2009)), Research Institute of Economy, Trade & Industry

33 "Impulse of knowledge Recombination" (Ministry of Economy, Trade and Industry (2010))

Figure 3-2-2-9

Foreign car manufacturers that Chinese people like most



Note: German autos are shown in purple and other manufacturers' autos in green.
Source: China Net website.

As a result, German cars have gained earnings in China backed by the "Made in Germany" brand, with export prices enjoying a high of the average unit price of $83,500 in the case of China's imports, more than double the car ($39,000) imported from Japan[34].

In addition, machining center export unit prices have come to U.S. $430,000 for German export unit prices, outstripping Japan's $140,000. For consumer goods as well, the unit price of a fountain pen ($21.87) is far higher than Japan's price ($1.37) (Figure 3-2-2-10).

Figure 3-2-2-10

Export item unit price of Germany and top export share country

Product	Germany		Countries ranked first in exports (other than Germany and Japan)			Japan	
	Unit price	Exports (millions of dollars)	Country	Unit price	Exports (millions of dollars)	Unit price	Exports (millions of dollars)
Machining center	**430 thousand dollars**	1,791				**140 thousand dollars**	4,494
Manufacturing machinery for ropes or cables	**280 thousand dollars**	146				**40 thousand dollars**	17
Diesel engine for vessels	**230 thousand dollars**	1,008	South Korea	**60 thousand dollars**	1,858	**50 thousand dollars**	929
Hydraulic press	**84 thousand dollars**	392				**73 thousand dollars**	189
Car (over 3,000cc)	**67 thousand dollars**	24,623	Canada	**23 thousand dollars**	25,992	**35 thousand dollars**	24,295
Camera for plate making	**30 thousand dollars**	3	U.S.	**259**	63	**20 thousand dollars**	2
Optical microscope	**10 thousand dollars**	302				**1,651**	16
Dishwasher (industrial use)	**4,539**	257	Italy	**1,531**	268	-	-
Electrical shaver	**36**	200	China	**9**	382	**37**	35
Fountain pen	**21.9**	108				**1.4**	11
Chinaware (for dining table/kitchen)	**9.7**	516	China	**1.5**	2,429		53
Direct-current motor	**6.9**	1,539	China	**0.8**	2,434	**4.5**	562
Thermostat	**5.4**	519				**1.7**	137
Ballpoint pen	**0.8**	315	China	**0.1**	816	**0.5**	412
Toothbrush	**0.7**	228	China	**0.1**	445	-	-

Note: 2011 data, the unit price is a price per piece, excluding chinaware.
Source: Global Trade Atlas.

34 Automobiles with engines 3,000cc or less (HS code: 870324)

Germany is clearly found to export high unit price products through the valued-added product strategy of mid-sized and large enterprises. As a result, Germany's terms of trade remain stable though terms of trade of Japan and South Korea, where the ratio of the manufacturing industry to the whole economy is high as with Germany, are worsening[35]. Thus, the valued-added product strategy can be a useful reference for Japanese enterprises and the whole Japanese industry that are strong in manufacturing as with Germany.

(2) Support measures for overseas business activities

As discussed above, both German mid-sized and large enterprises have proactively been developing overseas. Many of them ceased to be subcontractors and established their brands by utilizing many years of experience. Support of the government and various organizations for overseas business activities has played a major role in such development of enterprises. Here, we will present initiatives to assist overseas business activities of mid-sized enterprises and eliminate trade barriers stemming from the expansion of the EU.

(A) Support for overseas business activities of mid-sized enterprises

In Germany, a variety of enterprises, such as major and mid-sized enterprises, are carrying out overseas business activities. Major enterprises could have an overseas presence independently and support systems have been launched for mid-sized enterprises by the government and the private sector[36]. Roughly speaking, there are three tiers of support, a multilayered assistance system by the government and private organizations, namely (1) Germany Trade and Invest, (2) overseas chambers of commerce, and (3) embassies/consulates.

Referring to business activities in a certain country/region, to begin with, support from Germany Trade and Invest can be utilized. Germany Trade and Invest is a subordinate organization of the Federal Ministry for Economic Cooperation and Development of Germany and its missions include the promotion of the trade and investments from Germany directed to the outside of the country and those from the outside of the country directed to Germany. The public corporation provides local information on over 150 countries worldwide to German enterprises that wish to spread outward direct investments, and conducts surveys according to their purpose. It also offers information concerning Germany's business environment to foreign enterprises that have interest in investments in Germany, and introduces local partners as well as responds to consultations on legal matters, including taxation systems. The public corporation can be said to be an organization similar to the Japan External Trade Organization (JETRO).

In the next stage, the German chambers of commerce assist overseas business expansion. All limited

35 For the trend in Germany's terms of trade, refer to Chapter 2 Section 3

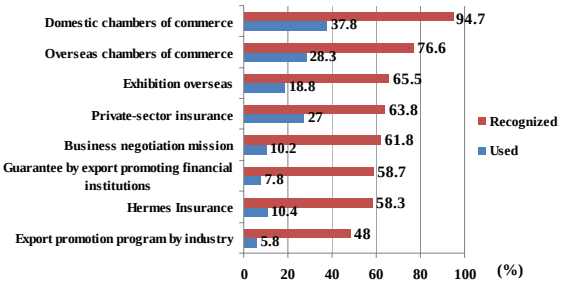
36 According to a hearing survey with Germany Trade and Invest, most of service users were mid-sized enterprises. But a large-scale survey requested by a major enterprise in 2011 shows that the provision of services to large enterprises may also increase in the future in considering overseas business activities in a distant region where no offices of enterprises are located.

liability companies incorporated in Germany are obliged to participate in the German chambers of commerce, and participants not only promote amity and exchange of information between them but also develop energetic activities[37]. The German Chamber of Commerce and Industry develops branch offices at 120 sites in 80 countries across the world and is said to cover over 98% of countries where German enterprises are actually involved with trade and investments, etc. Large offices are operated with a staff of 70 including local staff in Indonesia, and 80 employees in India. The overseas chambers of commerce introduce local partners to enterprises that actually conduct business overseas and hold negotiations with the relevant organizations. In addition, they are working with domestic chambers of commerce in various regions, enabling support of the exchange of information and the provision of consecutive information from the region to overseas.

Finally, if any trouble occurs concerning taxation systems and laws and regulations in the process of overseas business activities, embassies and the consulates take charge of negotiations with local authorities. In addition to these triple support systems, various programs are provided.

Those services are recognized broadly and used frequently. According to the survey conducted by the German Chamber of Commerce and Industry, 95% of enterprises answered that they have recognized domestic chambers of commerce are providing projects to support overseas business expansion and 38% of enterprises have actually used the projects[38]. For overseas office development as well, the majority of enterprises have known that they can use and are frequently using "overseas chambers of commerce" (78%), "exhibitions overseas" (66%), "private sector insurance" (64%), "business negotiation missions" (62%), "guarantees by export promoting financial institutions" (59%), and "Hermes Insurance[39]" (58%) (Figure 3-2-2-11).

Figure 3-2-2-11
Utilization of supporting institutions in developing overseas



Source: *Questionnaire Survey of Outward Foreign Direct Investments* (German Chamber of Commerce and Industry (2012)).

Next, we will examine not only support services offered by governments but also where consulting is provided when German enterprises undertake overseas business activities. The questionnaire as

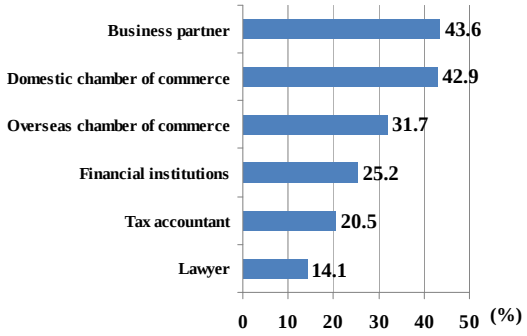
37 For technology development support by German Chamber of Commerce and Industry, refer to Chapter 3 Section 4 "Germany's initiatives toward strengthening of locational competitiveness."

38 The parameter is an enterprise that answered questionnaires contained in the survey conducted by the German Chamber of Commerce and Industry, so German enterprises as a whole do not always recognize and use support services at the same percentage.

39 An export guarantee organization of the German government

referred to earlier revealed that enterprise's answer "business partner" accounted for the highest percentage (44%), followed by "domestic chamber of commerce" (43%). Thus, those close to enterprises ranked high rather than experts versed in specialized fields such as "financial institutions" (25%), "tax accountant" (20%), and "lawyer" (14%). Local chambers of commerce closer to everyday business activities are an important advisor also for overseas development (Figure 3-2-2-12)[40].

Figure 3-2-2-12
Advisors for German enterprises' overseas business activities



Source: *Questionnaire Survey of Outward Foreign Direct Investments* (German Chamber of Commerce and Industry (2012)).

Such German's support measures could be a reference for Japan because emerging economies, including China, are a key site of overseas business activities for both Japan and Germany and export industries in Japan and Germany are significantly contributing to their economic growth. First of all, it is effective to strengthen and promote the use of networks of chambers of commerce, etc. There are 80 Japanese chambers of commerce in 39 countries across the world but their activities are mainly the sharing of information and the promotion of mutual amity in many cases. Thus, unlike Germany where technologies are mutually provided, activities that directly lead to positive effects on business are inactive. Therefore the creation of networks, which will strengthen the functions of chambers of commerce and be of help to business activities of SMEs, is called on. Serving of German domestic chambers of commerce as a consultation window for overseas development is also a reference for Japan. The expansion of the domestic base of support organizations becomes effective to promote overseas business activities of Japanese enterprises.

3. Characteristics of South Korea's overseas business activities and support measures

For South Korea, whose domestic economic scale is relatively small compared with other major countries, capturing external demand is one of most important challenges to maintain economic growth. Here, we will summarize South Korea's aggressive overseas business activities and examine government's initiatives to support the activities.

40 For technology development support for SMEs by German Chamber of Commerce and Industry, refer to Chapter 3 Section 4 "strengthening of Germany's locational competitiveness."

(1) South Korea's overseas business activities

(A) Overview of macro data

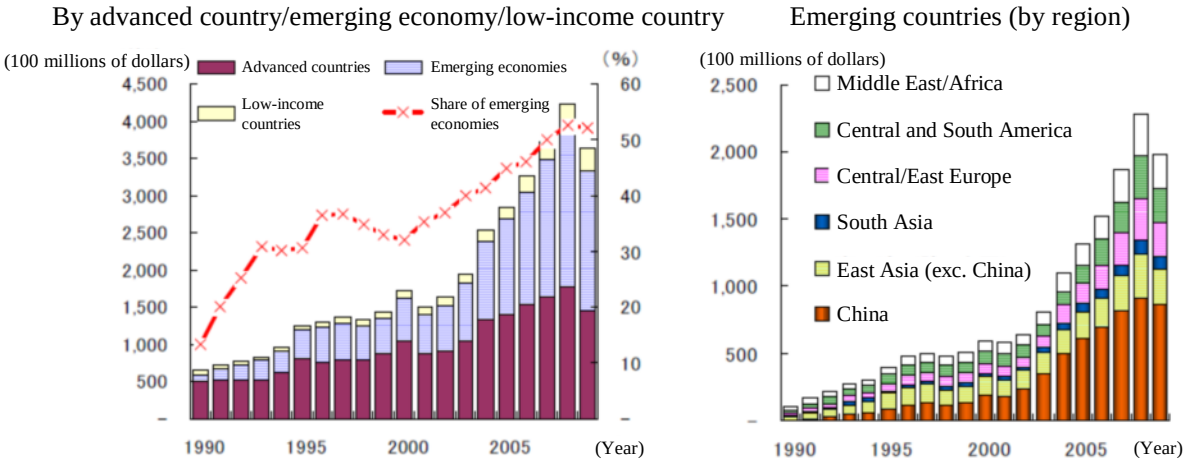
To begin with, we will overview macro data on South Korea's overseas business activities. South Korea's export amount of goods has been on the increase year by year since 2000 and in particular exports to emerging economies have been growing significantly. Exports to emerging economies saw few declines after the failure of Lehman Brothers and continue rising steadily (Figure 3-2-3-1).

Looking at exports to emerging economies in more details, half the exports are for China, and other half is exported to East Asian economies other than China, Central and East Europe, Middle East, and Africa at about the same percentage (Figure 3-2-3-1).

Next, South Korea's external foreign direct investments have increased since 2006 to around triple the previous value. In particular, exports to East Asian economies other than China, Europe, and Central and South America show strong growth. On the other hand, outward FDIs in China slowed down after the failure of Lehman Brothers (but recovered in 2010). Overall trends indicate that South Korea's outward FDIs in China that occupied a high share have been expanding to other regions since the late 2000s (Figure 3-2-3-2).

Figure 3-2-3-1

South Korean's export of goods by export destination

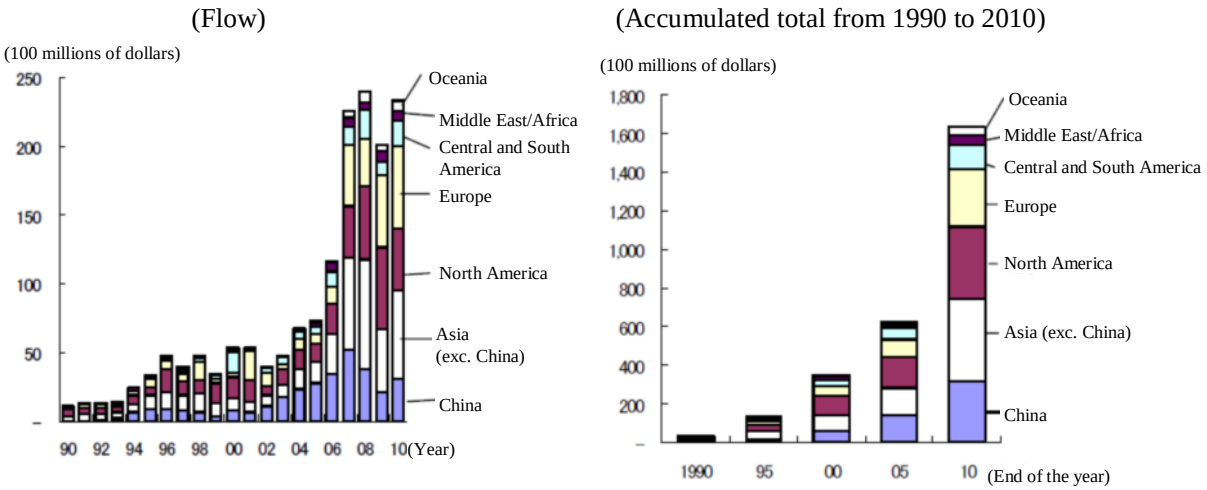


Note: Advanced countries are 33 countries in total, including G7, EU member countries, Australia, Asian NIEs, etc. Emerging economies are those with per capita GDP (2010) of 1,000 dollars or more except advanced countries. Low-income countries are those with per capita GDP of less than 1,000 dollars.

Source: *Direction of Trade Statistics* (IMF).

Figure 3-2-3-2

South Korean's outward foreign direct investment



Note: Asia (exc. China) includes East Asia, South Asia, and Central Asia.
Source: The Export-Import Bank of Korea.

We will examine South Korea's outward FDIs in more details. FDIs of manufacturers as a whole more than doubled from 33 trillion won to 69 trillion won during 2006 and 2010. The ratio of FDIs of manufacturers to the total investments (inward + outward) of manufacturers rose from 38.7% to 44.0%. It follows that more than 40% of investments were overseas investments (Figure 3-2-3-3).

On an industry-by-industry basis, automobiles increased from 12 trillion won to 14 trillion won during the same period but its ratio to the total investment declined from 70.6% to 48.5%. Outward FDIs for electronics parts, etc. more than doubled from 11 trillion won to 25 trillion won during the same period and the ratio to the total investments also rose from 48.2% to 57.8%. It follows that 50% of investments by 10 industries included in other 24 industries were outward FDIs (Figure 3-2-3-3).

Finally, we will refer to the number of overseas residents (excluding people with permanent resident status and citizenship) that is another indicator to show the vitalization of South Korea's overseas business activities. Japanese overseas residents in 2010 were 760,000, or 0.8% of Japan's total population and South Korean overseas residents stood at as many as 1,650,000, or 3.4% of South Korea's total population. In terms of overseas residents by region, South Koreans residing in Vietnam particularly remained at about 17,000 in 2004, but sharply rose to as many as 84,000 in 2010 (Figure 3-2-3-4).

Such a large number of overseas residents show a willingness of South Korea's overseas business activities while increased overseas residents will form overseas South Korean communities and could be a factor to further bolster overseas business activities of South Korean enterprises.

Figure 3-2-3-3

South Korean's outward foreign direct investment and ratio to total investment (manufacturers)

(Billions of won)

	2006		2010		Amount growth rate (2006 to 2010)
	Amount	Ratio	Amount	Ratio	
Manufacturing	33,487	38.7%	68,992	44.0%	106%
Food	849	20.4%	2,103	37.2%	148%
Beverages	126	10.4%	382	13.0%	203%
Cigarettes	-	-	-	-	-
Textiles	613	40.5%	1,162	9.0%	90%
Apparel, apparel accessories, and fur skins	494	40.6%	1,199	51.8%	143%
Leathers, bags, and shoes	82	40.6%	348	75.2%	324%
Lumber and wood products (exc. furniture)	33	37.4%	27	23.5%	-18%
Pulps, paper, and paper products	32	4.8%	59	4.0%	84%
Printing, and record medium replication	30	43.2%	64	43.0%	113%
Cokes, briquette coal, and petroleum refining products	533	6.8%	1,950	50.2%	266%
Chemicals and chemical products (exc. drugs)	1,436	21.9%	4,721	37.4%	229%
Substances for medical use and drugs	70	9.5%	88	6.4%	26%
Rubber and plastic products	1,096	37.4%	2,111	71.7%	93%
Non-metal minerals	195	9.5%	432	13.2%	122%
Primary metals	1,892	30.4%	5,955	28.6%	215%
Metalworking products (exc. machinery and furniture)	425	42.4%	609	46.2%	43%
Electronic parts, computers, images, audios, and communication equipment	10,957	48.2%	25,044	57.8%	129%
Medical and precision optical instruments, and watches and clocks	307	39.7%	590	58.0%	92%
Electrical equipment	581	27.8%	1,610	53.9%	177%
Miscellaneous machinery and equipment	727	21.6%	3,373	53.3%	364%
Automobiles and trailers	12,341	70.6%	14,091	48.5%	14%
Miscellaneous transport equipment	552	18.5%	2,653	24.4%	381%
Furniture	28	48.4%	64	47.9%	129%
Miscellaneous products	86	40.3%	181	57.7%	110%

Note: The orange shows industries with the ratio of outward foreign direct investments to total investments by industry exceeding 50%.

Source: *Basic Survey of Corporate Activities* (Economic Statistics Planning Section, Economic Statistics Bureau, South Korean National Economic Statistical Office).

Figure 3-2-3-4

Number of overseas Japanese and South Korean residents (excluding people with permanent resident status and citizenship)

(Number of residents)

		2004	2006	2008	2010
Total overseas residents	Japan	659,003	735,378	755,724	758,788
	South Korea	1,147,355	1,545,436	1,650,360	1,647,112
South Korea		20,332	20,866	20,837	21,545
Japan		100,874	98,019	105,527	116,508
China	Japan	98,172	124,476	124,480	129,805
	South Korea	287,246	523,222	418,560	374,364
Thailand	Japan	31,823	40,249	43,195	46,232
	South Korea	19,375	24,870	20,034	17,333
Indonesia	Japan	10,699	10,346	10,702	10,856
	South Korea	22,782	30,404	31,366	35,828
Philippines	Japan	10,524	10,880	13,193	13,726
	South Korea	45,620	86,138	114,829	95,849
Malaysia	Japan	9,322	9,036	8,233	8,445
	South Korea	5,843	14,900	14,531	14,365
Singapore	Japan	20,242	25,068	22,277	24,548
	South Korea	5,850	11,298	11,785	14,666
Vietnam	Japan	3,774	4,607	6,794	8,462
	South Korea	16,576	53,798	84,564	83,638
India	Japan	1,796	2,151	3,122	4,327
	South Korea	4,443	7,347	8,313	9,860
Australia	Japan	26,063	31,220	32,400	31,312
	South Korea	34,118	50,926	71,062	59,667
Other Asia/Oceania	Japan	31,709	29,953	32,772	33,905
	South Korea	24,832	23,154	23,964	28,866

		2004	2006	2008	2010
North America	Japan	244,644	263,756	269,480	261,770
	South Korea	462,053	502,231	618,527	661,429
Central and South America	Japan	10,649	10,868	11,703	12,522
	South Korea	21,641	21,586	22,771	25,664
West Europe	Japan	123,107	132,912	133,970	129,076
	South Korea	74,361	71,779	74,428	73,331
East Europe/CIS	Japan	5,779	6,862	7,156	6,855
	South Korea	10,955	16,875	15,881	16,864
Middle East	Japan	4,828	6,292	8,321	8,051
	South Korea	5,587	8,310	12,259	17,163
Africa	Japan	6,028	5,799	7,060	7,323
	South Korea	9,409	9,089	10,443	10,949

		2004	2006	2008	2010
Overseas resident ratio	Japan	0.5%	0.6%	0.6%	0.6%
	South Korea	2.4%	3.3%	3.4%	3.4%

[Total population]	2005	2010
Japan	127,767,994	128,057,352
South Korea	47,278,951	48,580,293

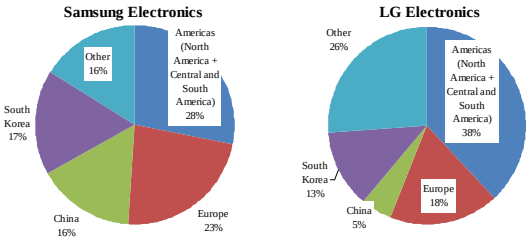
Source: *Statistics on Japanese Nationals Overseas* (Ministry of Foreign Affairs of Japan), *Current Situation of Overseas Korean* (Ministry of Foreign Affairs and Trade of South Korea).

(B) Overseas business activities of large enterprises

Next, we will look at overseas business activities of South Korean large enterprises. Referring to a country/region-basis composition ratio of sales of Samsung Electronics and LG Electronics, the South Korean leading electrical/electronics manufacturers, both enterprises are selling their products across the board in the Americas region (North America + Central and South America), European region, China, and other regions (Middle East + Africa, etc.) and sales in South Korea remain at a 10% mark (Figure 3-2-3-5). Domestic sales ratios of some Japanese leading enterprises show around 20% with Honda, just over 20% with Komatsu, about 30% with Toyota, and about 50% with Panasonic. Thus, Samsung Electronics and LG Electronics are found to be selling their products actively in the markets throughout the world.

Figure 3-2-3-5

Composition of sales of Samsung Electronics and LG Electronics by country/region



Source: *2010 Sustainability Report* (Samsung Electronics and LG Electronics).

Other large enterprises are also actively developing overseas business, and 14 South Korean enterprises ranked in the global top 500 enterprises selected by *Fortune* (2011) (Figure 3-2-3-6).

Figure 3-2-3-6

Left: South Korean enterprises in the ranking of Fortune Global 500 (2011)

Right: Number of world top 500 enterprises by country

(Millions of dollars)

Ranking	Name of enterprises	Sales	Earnings
22	Samsung Electronics	133,781	13,669
55	Hyundai Motor	97,408	4,708
82	SK Holdings	78,435	570
161	Posco	52,462	3,618
171	LG Electronics	48,236	1,062
220	Hyundai Heavy Industries	38,996	3,241
238	GS Holdings	36,570	699
271	Korea Electric Power Corporation	34,110	-62
321	Hanwha	30,041	230
333	Samsung Life Insurance	28,773	1,674
440	LG Display	22,072	1,000
489	Doosan	19,937	229
492	Samsung C&T Corporation	19,765	406
498	Korea Gas Corporation	19,563	178

Ranking	**Countries**	**Number of enterprises**
1	U.S.	133
2	Japan	68
3	China	61
4	France	35
5	Germany	34
6	UK	30
7	Switzerland	15
8	South Korea	14
9	Netherlands	12
10	Italy	10

Source: U.S. Fortune website.

(C) Overseas business activities of SMEs[41]

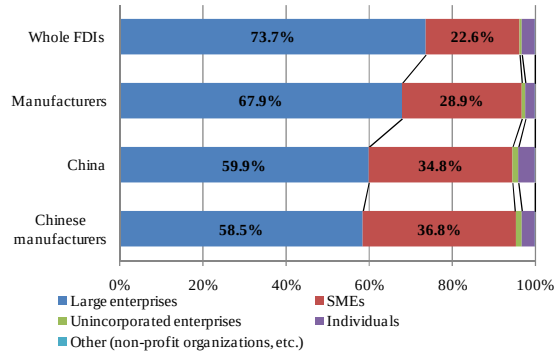
In South Korea, overseas business activities of large enterprises are prominent while those of SMEs are also active. Looking at outward foreign direct investments by scale of investing enterprises (the total value from 1990 to 2011), the investment value of SMEs accounts for only about 23% of the total, but for the number of new overseas enterprises established (the total value from 1990 to 2011), SMEs make up about 49% of the total of newly established enterprises. Including individual firms and individuals, about 89% of the total is established by enterprises other than large enterprises. In addition, it is found that the percentage of SMEs and individual firms becomes higher in case of China and the manufacturing sector (Figure 3-2-3-7 and Figure 3-2-3-8).

Thus, in South Korea, overseas business activities of not only large enterprises but also SMEs are becoming active. The following refer to government initiatives that bolster the overseas business activities of South Korean enterprises.

41 In the definitions of SMEs set forth in the South Korea's "Small and Medium Enterprise Basic Law," a SME refers to that with employees of less than 300 or capitalization of 8 billon won or less, and is also subject to unique standards by industry. For example, employees for manufacturing industry should be less than 300, for wholesalers, etc., less than 200, and for education services, etc., less than 100. Capital for manufacturing industry should be 8 billion won or less and for construction and transport industry, etc., 3 billion won. Sales for information service industry, etc. should be 30 billion won or less, for wholesalers, etc., 20 billion or less, and for education services, etc., 10 billion won.

Figure 3-2-3-7

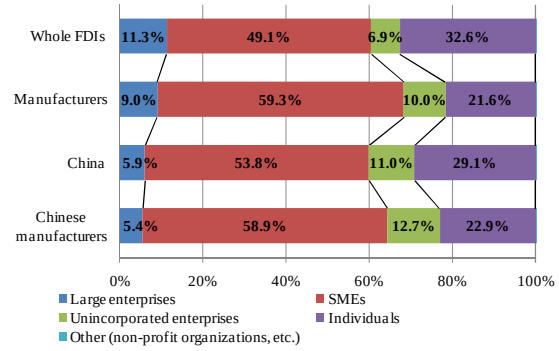
Outward foreign direct investment amount by transaction (the total from 1990 to 2011)



Source: The Export-Import Bank of Korea.

Figure 3-2-3-8

Number of new overseas enterprises established by scale of enterprise (the total from 1990 to 2011)



Source: The Export-Import Bank of Korea.

(2) South Korea's initiatives to strengthen trade structure

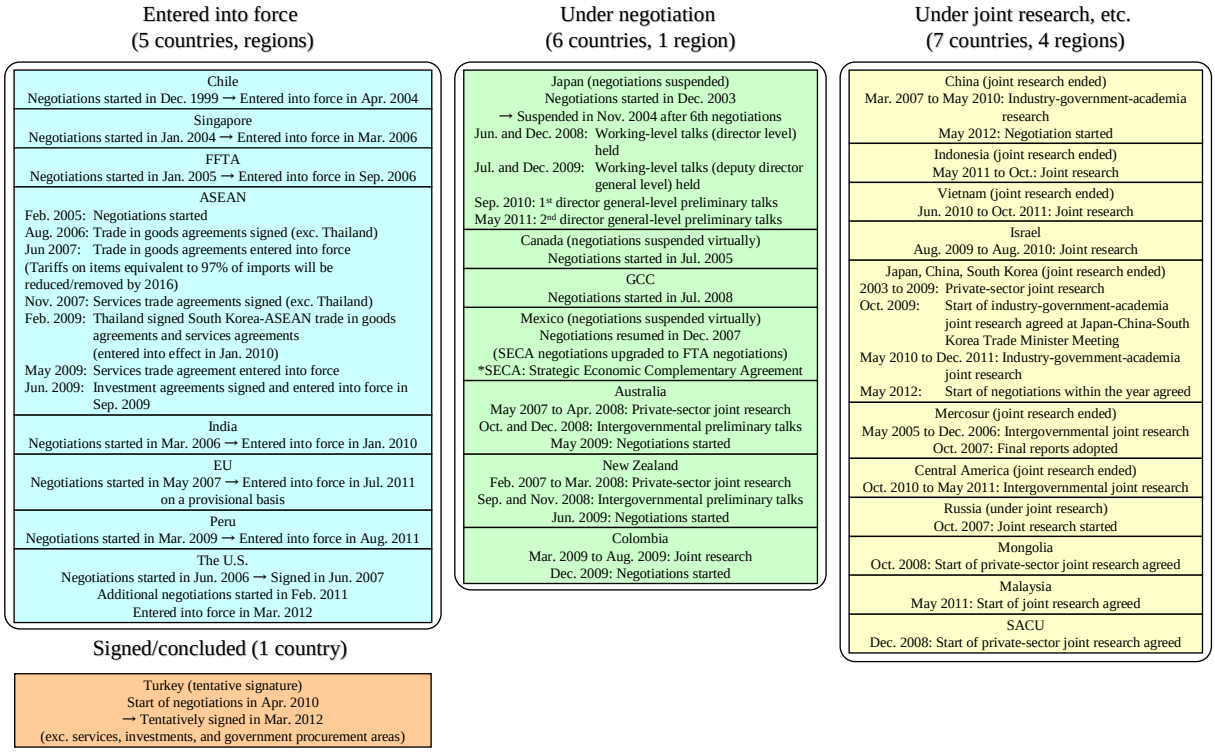
(A) Creation of FTA networks

A measure that the South Korean government aggressively focuses on to strengthen the base of capturing foreign demand is the creation of FTA networks. Since 2003, South Korea has been actively promoting FTA negotiations with major countries/regions across the world. The nation's FTA negotiation progress as of April 2012 includes five countries and three regions where the agreement entered into force, one country/region that tentatively signed the agreement, seven countries and one region where the agreement is under negotiation, and six countries and four regions where the agreement is under joint research (Figure 3-2-3-9).

FTA target countries/regions-to-total trade value ratio was as low as 15.1%, but rose to 24.6% because an FTA with the EU entered into force in July 2011, and then rose to 33.9% following an FTA with the U.S. that entered into force in March 2012 (Figure 3-2-3-10).

Figure 3-2-3-9

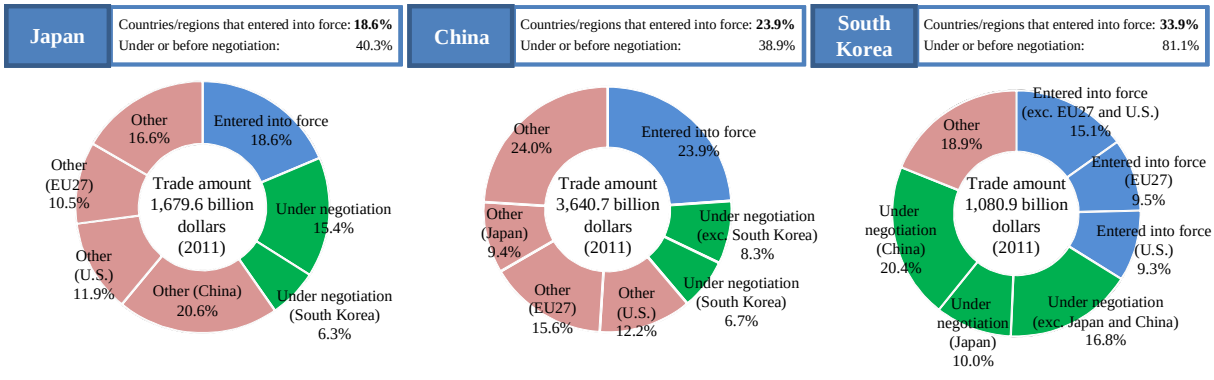
South Korea's FTA promotion activities (as of April 2012)



Source: Ministry of Economy, Trade and Industry.

Figure 3-2-3-10

Ratio of the amount of trade with FTA partner countries/regions of Japan, China, and South Korea



Source: Ministry of Economy, Trade and Industry.

FTAs with the EU and the U.S. are the first full-scale FTAs for South Korea in terms of both the scale and a high level[42] of the economy of partner countries/regions, with the impact of the FTAs gaining attention. According to the "economic effects of South Korea-EU FTA" (October 2010) announced jointly by 10 South Korean government research institutes, the FTA with the EU is expected to increase the real GDP by 5.6%, the number of workers by 253,100, exports by $2,537 million, and imports by $2,175 million. The industries that are expected to be most benefited from the

42 The ratio of immediate removal of partner countries /regions (item basis) is 97.3% for the EU-South Korea FTA and 87.3% for the U.S.-South Korea FTA (mining and industrial products).

FTA with the EU include South Korea's major industries, such as electrical/electronic products, machinery, precision machinery, and automobiles, etc., for which custom duties are removed immediately or reduced (Figure 3-2-3-11).

According to the analysis of the Korea Institute for International Economic Policy (KIEP), the FTA with the U.S., will raise the South Korea's GDP by 5.7% and create 350,000 jobs 10 years after it has entered into force.

Assessment of actual effects of the EU-South Korea FTA is difficult as it has not been long since the FTA became effective and in addition demand from the EU declined due to European debt crisis, but statistical data shows that South Korea's auto exports to the EU grew 91% year on year to $1,837 million (approx. 140 billion yen) for the period of four months from July 1 when the FTA with the EU came into effect.

Thus, the conclusion of the FTA with the EU and the U.S., two huge markets, has significantly strengthened South Korea's FTA networks.

(B) Support for using FTA

South Korea is actively expanding FTA networks but has not utilized them much. According to the survey by the Korea International Trade Association, the rate of using the FTA in South Korea (the percentage of enterprises that answered they use a preferential tariff at the time of exports from South Korea) was 26.4% for large enterprises, and 16.3% for SMEs[43]. Kim Yang-Hee, the professor of Daegu University, said that SMEs are insufficient in the basic understanding of regulations on the origin of products and even if SMEs understand the regulations, procedures to obtain a certificate of origin are heavy burdens on them in terms of both IT technology and money, so they have not received the preferential tariff treatment in many cases unless the tariffs of partner countries are so high.

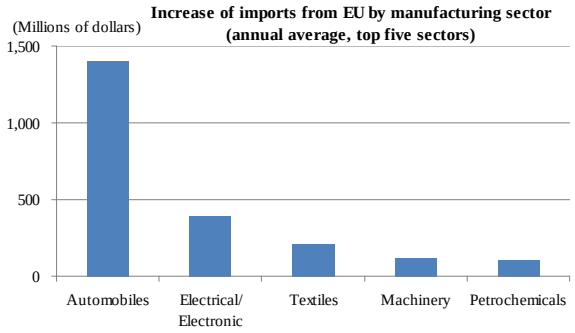
In an effort to raise the rate of using the FTA, in South Korea, mainly the Korea Customs Service holds nation-wide seminars to make the FTA well known to the public. In addition, the "FTA Trade Comprehensive Support Center," which supports SMEs' use of the FTA, was established in February 2012 jointly by the government and the private sector. At the center, information concerning preferential tariffs and standards on the origin of products are provided to SMEs by various organizations, such as the Korea Trade-Investment Promotion Agency (hereinafter "KOTRA"), the Trade Association, Small & Medium Business Corporation, and Korea Chamber of Commerce and Industry, as well as specialists of tariffs, accounting and IT area, thereby helping SMEs in the custom clearance and the examination of the government of the trade partner. Consulting services for a certificate of origin, which is said to be a prime bottleneck, are said to be provided by a support group that visits the site.

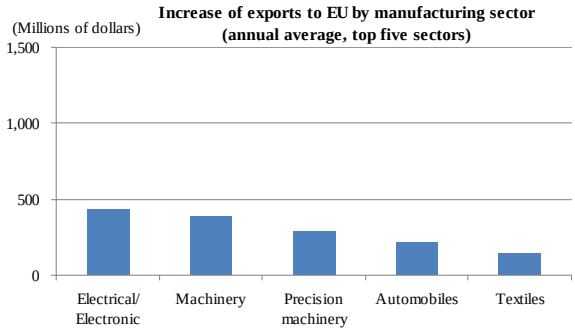
43 Those are the data before the EU-South Korea FTA became effective and are obtained from the Korea International Trade Association's survey in 2008 targeting 505 enterprises in South Korea on the percentage of enterprises that have used preferential tariff treatment in the process of their actual business.

Figure 3-2-3-11

Economic effects expected by South Korea-EU FTA enforcement

Items	Effects of South Korea-EU FTA
Real GDP (long-term)	- 5.6% increase
Employees (long-term)	- 253,100 increase (agricultural and fishery: 900, manufacturing: 33,200, services: 219,000)
Trade with EU (annual average for 15 years after entry into force)	- Exports: Increase of 2,537 million dollars, imports: increase of 2,175 million dollars, trade surplus: increase of 361 million dollars (of which, for manufacturing, exports: increase of 2,520 million dollars, imports: increase of 2,125 million dollars, trade surplus: increase of 395 million dollars)





Note: The figures are estimated by 10 organizations of South Korean government institutes.
Source: *Economic effect analysis of Korea-EU FTA* (October 2010) jointly announced by 10 organizations of South Korean government institutes.

(C) Introduction of more efficient custom clearance procedures

South Korea has achieved a significant change in its trade environment through the introduction of electronic custom clearance procedures. Here we will refer to the electronic customs clearance system (UNI-PASS) introduced by South Korea in 2009.

In 2009, the Korea Customs Service introduced so-called “UNI-PASS” electronic customs clearance system that combines seven operations, including import clearance, export clearance, tax collection, import cargo management, export cargo management, tax refunds, and a one-stop clearing service window, and succeeded in drastically shortening clearance hours for both exports and imports. According to the Korea Customs Service, import customs clearance procedures can be completed in about two hours by using the UNI-PASS compared with up to four hours recommended by the UNCTAD for completing clearance. In addition, export clearance procedures usually take one day to complete but the time required is shortened to less than two minutes, and also refund procedures for custom duties usually take four days to complete but are completed within one hour.

The system has been not only used in South Korea but also exported to developing economies that highly depend on customs duties and import surtaxes. Kazakhstan first introduced the system in 2005 and then the countries using the system are spreading to Dominican Republic, Mongolia, Guatemala, and Ecuador, etc.

Thus, South Korea seeks to expand FTA networks, and facilitate trade by supporting the use of the FTA and introducing more efficient clearing procedures to ensure that the effect of the networks are maximized.

(3) Support for SMEs' overseas business activities

Next, we will examine support for overseas business activities of South Korean SMEs. Though large enterprises' success in overseas markets is emphasized, the South Korean government is also focusing on support for SMEs' overseas business activities. The following address the initiatives of KOTRA and the Korea Small and Medium Business Administration.

(A) KOTRA's support for overseas business activities

KOTRA is a South Korean government organization established under the control of the Ministry of Knowledge Economy of Korea to promote trade and attract investments, and is equivalent to Japan's JETRO.

(a) Development of overseas offices

Of particular note is that KOTRA develops overseas offices extensively across the world. JETRO operates 73 offices in 55 countries/regions worldwide while KOTRA holds 111 offices in 76 countries/regions worldwide (as of April 2012). The number of countries/regions where JETRO does not develop offices but KOTRA develops offices is one in Asia, three in Central and South America, three in Europe, three in CIS, five in the Middle East, and seven in Africa. Thus, KOTRA holds many offices in emerging economies centering on the Middle East and Africa where JETRO has no presence. In major countries such as China and the U.S. as well, KOTRA are providing support to enterprises by holding an office in the cities different from those where JETRO develops an office (Figure 3-2-3-12).

Figure 3-2-3-12

Comparison of overseas offices of JETRO and KOTRA

Cities where only a KOTRA office is located (43 cities)		Cities where only a JETRO office is located (7 cities)
[Asia]	[Europe]	[Asia]
➢CHANGSHA (China)	➢FRANKFURT (Germany)	➢BANGALORE (India)
➢CHONGQING (China)	➢HAMBURG (Germany)	[North America]
➢HANGZHOU (China)	➢MUNICH (Germany)	➢ATLANTA (U.S.)
➢NANJING (China)	➢SOFIA (Bulgaria)	➢SAN FRANCISCO (U.S.)
➢CHENGDU (China)	➢ATHENS (Greece)	➢HUSTON (U.S.)
➢SHENYANG (China)	➢ZAGREB (Croatia)	[Central and South America]
➢XIAMEN (China)	[CIS]	➢SAN JOSE (Costa Rica)
➢XIAN (China)	➢NOVOSIBIRSK (Russia)	[Europe]
➢ZHENGZHOU (China)	➢VLADIVOSTOK (Russia)	➢DUSSELDORF (Germany)
➢TAIPEI (Taiwan)	➢KIEV (Ukraine)	➢BERLIN (Germany)
➢VIENTIANE (Laos)	➢ALMATY (Kazakhstan)	
[Oceania]	➢BAKU (Azerbaijan)	
➢MELBOURNE (Australia)	[Middle East]	
[North America]	➢BAGHDAD (Iraq)	
➢SILICON VALLEY (U.S.)	➢AMMAN (Jordan)	
➢DALLAS (U.S.)	➢MUSCAT (Oman)	
➢DETROIT (U.S.)	➢KUWAIT (Kuwait)	
➢MIAMI (U.S.)	➢DAMASCUS (Syrian Arab Republic)	**KOTRA: 76 countries. 111 offices**
➢WASHINGTON D.C (U.S.)	[Africa]	**JETRO: 55 countries, 73 offices**
[Central and South America]	➢ALGER (Algeria)	
➢GUATEMALA (Guatemala)	➢CASABLANCA (Morocco)	* Red letters show cities where JETRO does not have an office in the same country (exc. Taiwan).
➢HAVANA (Cuba)	➢TRIPOLI (Libyan Arab Jamahiriya)	
➢SANTO DOMINGO (Dominican Republic)	➢ACCRA (Ghana)	
	➢ADDISABABA (Ethiopia)	
	➢DOUALA (Cameroon)	
	➢KHARTOUM (Sudan)	

Source: JETRO website, KOTRA website.

(b) Project of serving as company offices

The projects of KOTRA range widely, including projects for marketing, exhibitions, serving as company offices, attracting investments, and attracting overseas human resources, as well as IT support centers and export incubator projects. Here we will take up the project of serving as company offices.

The project of serving as company offices provides a daring service where overseas KOTRA Business Center (KBC) assumes a role of SME's overseas branches while KOTRA itself is deeply involved with the management of a specific enterprise and pushes overseas development of the enterprise. Enterprises subject to the project directly exchange information via e-mail, telephones, faxes, etc. with KBC and may utilize KBC as a branch of the enterprise to the extent possible.

The company office project is classified into the conclusion of overseas export contracts, finding of agents, market research, and others provision of simple information, etc., depending on the purpose of participation. In case the purpose of participation is the conclusion of export contracts, generous support is extended, including support for conducting a survey on local market trends in export items (demand, marketability, competitive situation, etc.) in question, finding of new customers, and an export consultation follow-up such as a buyer reaction survey, and support for making appointments when a business operator subject to the company office project makes a business trip to the country or region, and support for other activities, including the management of existing customers and business communications (Figure 3-2-3-13). Items that cannot be supported by KBC in view of the legal nature, including substitute signing of contracts and solution to legal disputes, are excluded from its services.

Support by the company office project is provided mainly to manufacturers of promising export items in the areas under the jurisdiction of KBC, and also provided to exporters of intangible goods such as software and cultural items (Figure 3-2-3-14). Whether the project serving as company office is applied to items of business operators who apply for participation in the project is subject to a final decision of the relevant KBC on the basis of overall consideration of KBC's terms and conditions on the local market and a possibility of support. The use fee charged to a large enterprise (30 major enterprises announced by the Korea Fair Trade Commission) doubles.

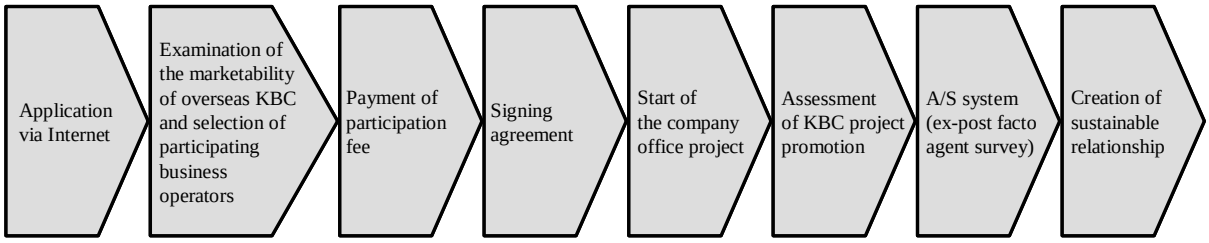
The Ministry of Knowledge Economy of Korea announced that 1,650 business operators were selected and a total of $400 million of exports was created in the 2008 company office project (Figure 3-2-3-15). In 2009, the ministry increased the budget and the number of staff for the project.

(B) Initiatives of Korea Small and Medium Business Administration

Next, we will discuss the initiatives of the Korea Small and Medium Business Administration. The Korea Small and Medium Business Administration is a South Korean government organization established in 1996 under the control of the Ministry of Knowledge Economy of Korea to strengthen SMEs' competitive edge, and is equivalent to Japan's Ministry of Economy, Trade and Industry, and Small and Medium Enterprise Agency.

Figure 3-2-3-13

Flow from application for the project of serving as company office to provision of support



Source: *Handbook for the Company Office Project* (KOTRA).

Figure 3-2-3-14

Example of promising items list for the KOTRA's local project of serving as company office (as of 2009)

Regions	Nations	KBC	Items	Reasons of selection
Europe	Germany	Frankfurt	Automobiles	• Global outsourcing strategies of finished car and parts business operators, etc. in German regions will increase the opportunities for South Korea-made auto parts to expand.
	Germany	Hamburg	Parent environment/ green industry	• Because Germany is the world strongest country for renewable energy and a promising export market for solar/wind power, etc.
	Hungary	Budapest	Medical	• New demand backed by newly-established hospitals and demand for replacement of aging facilities will increase.
North America	U.S.	Silicon Valley	IT fusion	• Securing export product competitiveness of this area • Exports may be created through the support of the company office project for the largest local import demand. • As a result of the support by the company office project, there was a high possibility of creating export achievements when support was provided to business operators subject to such a project in the field of IT fusion, including communication modules, optical cables, etc. rather than finished electrical/electronic products.
Japan	Japan	Fukuoka	Machinery plan	• Industrial sectors related to a Japanese large enterprise, such as Toyota Motor Kyushu Inc., etc. seeks to enter into an extensive alliance with South Korean enterprises. • Now that the contract ratio of dies and plant parts are high, such areas should be strengthened strategically and intensively to expand exports to Japan.
China	Taiwan	Taipei	IT fusion	• EIU survey revealed that Taiwan has a second strong IT industrial competitive edge in the world and large demand for exports/joint ventures in the IT promising area such as semiconductors, displays, solar areas, etc.

Source: *Handbook for the Project of Serving as Company Office* (KOTRA).

Figure 3-2-3-15

Budget and results of the project of serving as company office

■ Budget and result of the company office project for 2008

Budget	Business operators supported by the project	Dedicated staff members	Business operators per dedicated staff member	Export result
5,220 million won	1,650 operators	2008: 198 staff members ⇒ 2009: 290 staff members	2008: 8.3 enterprises ⇒ 2009: 7.0 enterprises	Total 400 million dollars

■ 2009 budget for the company office project

Projects	Budget (100 million won)	Remarks
Personnel cost for staff dedicated to the company office project	94.5	Employment of dedicated staff members (290)
Company office project exclusive for industries	11.2	Employment of dedicated human resources and holding of consulting session
Holding of forum/ consulting session on the company office project	8.0	Holding of forum/ consulting session on the company office project
Good-standing buyer management	8.5	Close management of good-standing local buyers, including a follow-up
Subtotal	122.2	

Source: *2009 Trade and Commerce Promotion Comprehensive Measures* (Ministry of Knowledge Economy of South Korea).

(a) Export promotion support

The Korea Small and Medium Business Administration is providing overseas marketing support necessary for exports by sales volume and export capacity of SMEs (project of strengthening export capacity). For a small enterprise with its exports of $1 million or less, the agency is encouraging exports to increase through export education, development of designs for public relations, provision and publication of market information, export marketing, or other means. According to the Korea Small and Medium Business Administration, the number of South Korean SMEs engaging in exports is around 80,000 (about 2.6% of the total South Korean SMEs) and it sets a target of increasing exporting enterprises to 100 thousand (about 3.3% of the total South Korean SMEs) in five or six years[44] (the direct export ratio of Japanese manufacturing SMEs was 2.8% [45] (2009)).

For an enterprise with exports of $1 million to 5 million, the agency selects “promising exporting SMEs” on the basis of detailed assessment items, including promising export potential, export activity capacity, technological capacity (ability to offer services), and financial soundness, and fosters exporting enterprises through the preferential support of export support organizations, such as the Small & Medium Business Corporation, and KOTRA.

Further, the agency has been strengthening on-line marketing support since last year, and specifically, helps SMEs export overseas using websites, such as popular G-Market and Alibaba widely used in South Korea, that allow online transactions. This support offered at a low cost is expected to be provided actively in the future (Korea Small and Medium Business Administration, 2012).

44 Hearing survey with the Korea Small and Medium Business Administration
45 2012 White Paper on Small and Medium Enterprises in Japan

(b) Fostering strong SMEs

The Korea Small and Medium Business Administration also aims to foster enterprises (Hidden Champions) that have distinct technologies and can perform well in global markets, even though they are small sized.

Specifically, technology development support is provided whereby a weakness and strength in products handled by SMEs that apply for support are evaluated by the South Korean government and the weakness is rectified so as to lead to exports. The characteristics of the support are that the government not only provides support in response to the SME's request but also points out the weakness of the enterprise and gives direct guidance to the enterprise (Korea Small and Medium Business Administration, 2012).

(4) Implications with Japan for promotion of overseas business activities

As discussed above, the South Korea is working to lead to a FTA effect by expanding FTA networks, disseminating the procedures for FTA, and introducing more efficient custom clearing procedures. Support for overseas business activities is aggressively provided primarily by KOTRA in the form of deep involvements with corporate management as represented by the project of serving as company office. Furthermore, the Korea Small and Medium Business Administration is seeking to foster strong SMEs (Hidden Champions) by offering technology development support.

Implications with Japan require the promotion of a high level economic partnership with major trade partners and the prevention of Japan's trade and investment environment from being inferior to those of other countries. Japan has been striving to pursue more speedy customs clearing procedures since the major revision of laws and regulations in 2005, but lags behind other countries in the introduction of paperless procedures, carry-in and-out of bonded areas, simplification of the filing system, and 24-hour, 365-day receipt of procedures. So there is still room for improvement.

It is also important to strengthen Japanese enterprises themselves that are doing overseas business coupled with the improvement of overseas business environment. South Korean products that were said to be "cheap but shoddy" have been enhanced to "mid-price and mid-quality" and have succeeded in global markets centering on emerging economies. In recent years, however, price competition is more and more intensified due to the emergence of other enterprises of emerging economies. As seen in the initiatives of the Korea Small and Medium Business Administration, South Korea is striving to improve technological competitiveness. Any technological improvement in South Korean products in the future will bring fiercer competition to Japanese enterprises. Therefore, in anticipation of future fiercer competition, the promotion of differentiation of products is important for Japan.

In addition, many SMEs, which have world-level technologies and are engaging in domestic business, are said to exist in Japan (Hosoya 2009), and therefore it is also crucial to find such strong SMEs and encourage overseas business activities

4. Current situation of overseas business activities expanding to emerging economies

The economy of emerging nations sees a partial slowdown but is expected to continue strong and

bolster the growth of the world economy[46]. In the future, capturing the growth of emerging economies could become increasingly important for the Japanese economy. Here, we will clarify the actual situation of business activities of Japanese enterprises in the first-growing emerging markets. First, we will analyze the challenges that Japanese enterprises face and the future possibilities, etc., taking, as an example, India and Brazil that attract particular attention among emerging economies, and then define the wide-ranging challenges and needs that Japanese enterprises face in the emerging markets on the basis of a questionnaire survey.

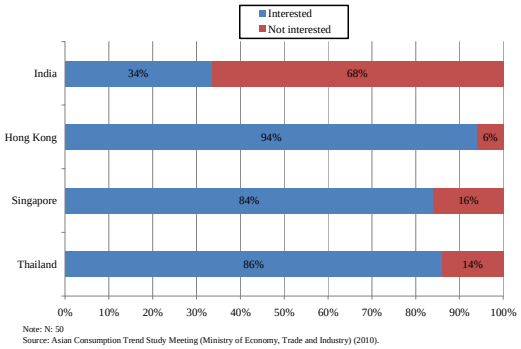
(1) India

(A) Difficult India's market

The word "OKY" is exchanged sometimes among the staff of Japanese enterprises stationed in India. This is a slang meaning "do here" and used sometimes as an answer when the staff is asked by the management that "you are performing well in Southeast Asia, such as Indonesia and Thailand, but why you do not succeed in India" (Figure 3-2-4-1).

Thus, Japanese enterprises often see India as a part of Asia, posing a problem between headquarters and a local office, but many of European and the U.S. enterprises do not regard India as a part of Asia and tend to use the regional category of "India, Africa, and Middle East." It is pointed out that there is a preference unique to India's people and complicated, high-cost distribution structures in India. These different views may constitute a factor that causes Japanese enterprises to face difficulty entering India's markets.

Figure 3-2-4-1
Interest in "Japan" and "Japanese products/services"



Note: N: 50
Source: Asian Consumption Trend Study Meeting (Ministry of Economy, Trade and Industry) (2010).

(B) Marketing methods

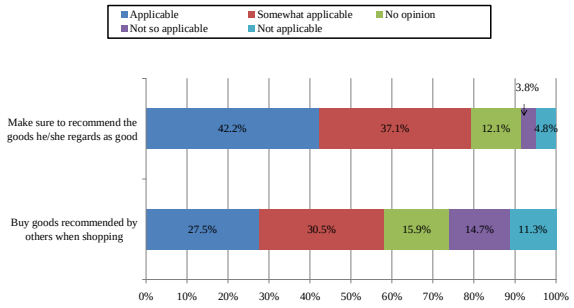
India's people are likely to place emphasis on information obtained via the word of mouth and TV commercials. They are said to be somewhat conservative in shopping (wish to avoid a failure). It is believed that such tendency would lead to trust in "reliable" information, such as information from the word of mouth of an acquaintance and TV commercials.

Enterprises use popular actors and cricket players, etc. for TV commercials, and advertise products

46 For the economy of emerging nations, refer to Chapter 1, Section 1.

using the Bollywood film[47] (for example, cinema characters wear relevant clothing products in a cinema). But recently, it is said that, to respond to the dilution of product images derived from heavy usage by limited famous people, a method to enhance brand images by use of the creative industry (ad agencies) is also emerging[48].

Figure 3-2-4-2
Diffusion of trust through word of mouth



Note: N: 1,200
Source: March 2012 *Global Insight Report Vol.2* (Dentsu Innovation Institute).

(C) Vegetarian country

There are many vegetarians in India, so vegetarians of Indian employees dispatched to Japan for training often face dietary restrictions (example: they cannot eat soba because its soup is prepared from “tuna”). In addition, a Japanese-made refrigerator that is brought to India cannot be used as it is in some cases because its vegetable storage is small. Further, Japanese food without any arrangement may not be a good business in many cases because vegetarians cannot eat eggs and *dashi* soups.

(D) Collaboration with local enterprises

It is said that local enterprises are powerful in India and around 60% of them are owner companies with a top-down system in making decisions. Advantages in collaboration with those local enterprises include the securing of sales channels, labor management and marketing, etc. Relationships with those local enterprises may pose a risk of causing troubles if no detailed terms and conditions are set forth in a contract with them, but on the other hand the creation of a relationship with such enterprises which are capitalizing on their financial resources and the building of unique networks only for local enterprises under the top-down management methods, will also become a great advantage for Japanese enterprises.

(E) BOP business (how to sell in the market where people do not have a custom to shampoo originally)

(a) Change in the way of thinking

Generally, price setting is made using a cost-accumulation formula of raw materials costs + personnel costs + selling and administrative expenses + other costs. But a certain European

47 Means a cinema industry, with “Bombay,” the former name of “Mumbai,” and “Hollywood” mixed.
48 April 2012 JETRO sensor

consumption goods manufacturer ceased to use the formula, set a price (e.g. one rupee) that seems to be acceptable by poor people and curtailed costs in the price. As a result, compact and single-use shampoos went on sale.

(b) Diffusion method

It is said that there are a few pastimes in the region where TVs are not so much diffused so picture-story show caravans were effective. Further, it is also pointed out that a method is effective whereby products are sold to children through school classes for health education and then sold to their family, a final target.

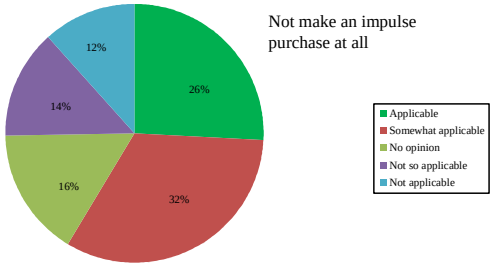
(F) Complicated and high-cost distribution structure

Many of retailers are family-operated retail stores and such stores said to number about 10 million in India, but distribution networks delivering materials to those 10 million stores have yet to be systemized. Because of this, enterprises are required to construct distribution networks in every province, and road transit permissions necessary. Besides, taxation systems are complicated. For example, in case goods are imported from overseas (Japan), transported from province A to province B, and then delivered to retail stores, various taxes are imposed, including import duties at entry as first tax, commodity tax and value-added tax (VAT) as second and third taxes in province A, and the CST, central sales tax (cross-province tax) as fourth tax. In addition to these taxes, a tax called a border tax is imposed when products transported from province A to province B are intended to be sold in province B (tax rate varies from province to province). Importer margins, warehouse charges and transportation fees are added those taxes. In addition, a tax is imposed in a specific province (Maharashtra, etc.) called “Octroi” on goods for the purpose of sale in municipalities (cities, etc.) and specific regions. Even if goods do not cross over the province, VATs are imposed on the goods to be sold in the same province. As stated above, there exists a complicated and high-cost structure in India.

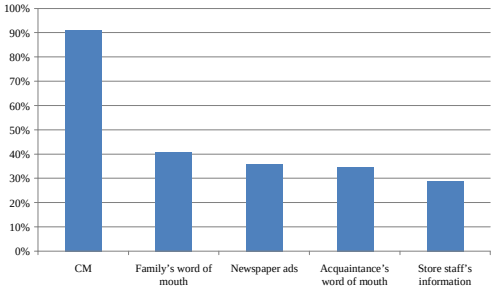
(G) Difficult business environment

India's government decided in November 2011 to make foreign capital open to the retail sector but this measure was indefinitely postponed by resistance from local governments. In contrast, the wholesale sector has been open to foreign capital. Therefore, European and the U.S. enterprises are said to enter the wholesaler sector and then seek to find opportunity to enter the retail sector. The consumer goods market is dominated by European and the U.S. enterprises.

Figure 3-2-4-3
Response to the impulse buying of India's people (left figure)
Information sources referred to by India's people (case of flat TV) (right figure)



Note: N: 1,200
Source: March 2012 *Global Insight Report Vol.2* (Dentsu Innovation Institute).



Note: N: 810 Multiple replies
Source: March 2012 *Global Insight Report Vol.2* (Dentsu Innovation Institute).

(H) Initiatives of Japanese enterprises

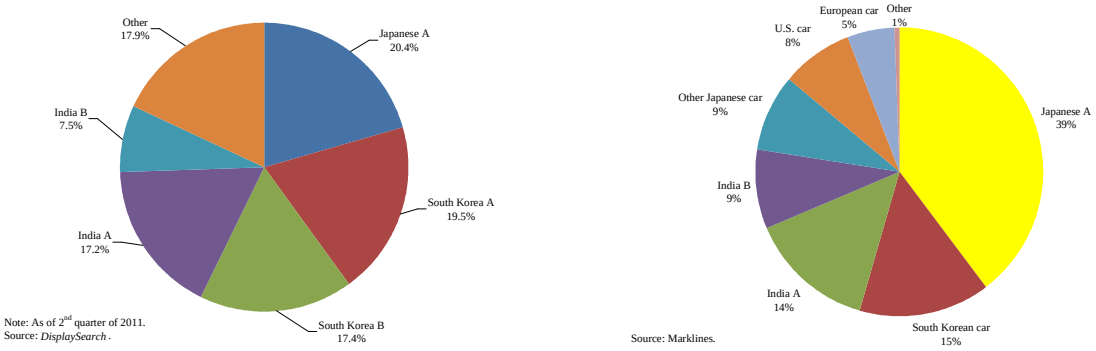
It is said that, in the home appliance area, South Korean enterprises dominate volume zones by concentrating investments (gaining a scale merit by investments made at a stretch) in India, and European and the U.S. enterprises also dominate consumer goods markets. For the flat-panel TV market, three strongest enterprises of two South Korean manufacturers and one Japanese manufacturer have dominance over the market (Figure 3-2-4-4). Another Japanese manufacturer has newly launched LCD televisions in the market and is acquiring market share. The factor behind the popularity of Japanese-made flat TVs is said to be the acceptance by consumers of excellent energy saving functions and responses to weak radio waves and blackouts, etc. specific to India, coupled with a success in the use of cricket players in advertisements[49]. In addition, efforts to promote localization, including the establishment of a R&D (Research & Design) center in India and the development of designs, etc. tailored to India, are considered to have led to success. Originally, many of Japanese products, which had faced fierce competition in the Japanese consumer market, have excellent functions. Of course, the products containing functions that consumers consider wasteful will not be sold, but is there any ground acceptable to India's people in conservative Japanese products?

India's culture, customs, and needs, etc. should also be considered. In case of automobiles, at the beginning of the liberalization of foreign capital in the 1980s, India's government considered that a car accommodating about six persons is suitable in India because India tends to have large families. An Indian manufacturer (later, became a joint venture partner of a Japanese manufacturer and now, its major shareholder is a Japanese manufacturer), as a result of its own market survey, concluded that the needs of India's people are a car accommodating four fellow passengers or less, a car mainly used for commuting is compact, and fuel efficient. The car model of the Japanese manufacturer who is a joint venture partner of the manufacturer met those needs. This joint manufacturer changed the production method of India's state-run auto enterprise with low productivity to a Japanese-style method, and India's side took charge of general affairs, financial affairs, and marketing. Through these measures,

49 Details are not described here, but a Japanese manufacturer used a soccer player in Brazil. A South Korean manufacturer signed a sponsor contract with a professional soccer team that is a contact superior to that of the Japanese manufacturer.

the joint enterprise now takes the top spot in India's auto market.

Figure 3-2-4-4
Share of flat TVs (left figure) and automobiles (right figure) in India



However, competition is fierce in India's market. As discussed above, consumers are conservative in purchases. But when a rival enterprise launched energy-efficient diesel cars with the fuel price lower than gasoline, sales of new model gasoline-fueled cars of the Japanese manufacturer declined significantly and in response, the Japanese manufacturer replaced the new-model gasoline cars with diesel cars and marketed them (In India, the diesel oil price is set lower than the gasoline price for poor people). Thus, it follows that what consumers pursue most is an inexpensive price and fuel-efficiency, and TV commercials also place emphasis on good fuel consumption.

Meanwhile, South Korean manufacturers (with conditional targets of achieving 70% of local procurement within four years in exchange for its sole capital contribution), active technology transfer, and exporting 50% of sales, etc.) are now catching up in the market and the other two Japanese manufacturers who lagged behind also have made a full-scale entry in the market by launching strategic cars for emerging economies. A top-ranking Japanese manufacturer will launch multi-passenger cars (not large vehicles but compact vans) envisaged initially by India's government. This attempt is considered to be made in anticipation of market needs but the future development attracts a lot of interest. The South Korean manufacturer succeeded in exports to Europe and now India is served as an exporting base.

(2) Brazil

(A) Brazil cost

It is said that there are various problems called "Brazil cost" [50] in Brazil, including a complicated taxation system, an inflexible employment system, and an immature hardware/financial infrastructure. First, for the taxation system, 56 types of taxes are imposed and the tax burden ratio reaches as high as 35% of GDP[51]. This ratio is on par with that of advanced countries and is higher than the U.S., Canada, and Japan with the highest level among BRICs. In addition, filing for tax payments, etc. takes 2,600

50 White Papers on International Economy and Trade 2009 and 2011
51 The website of the Japan Chamber of Commerce and Industry in Brazil
http://jp.camaradojapao.org.br/brasil-business/advocacia/custo-brasil/

hours[52], resulting in Brazil being ranked bottom among 183 nations. In Japan, tax filing hours takes 330 hours. This clearly indicates that Brazil's taxation system is very complicated. This means, in short, that, if simply calculated, tax processing in Brazil requires eight times the amount of hours that it does in Japan, leading to an increase in overhead costs and a squeeze in operating income for enterprises. For employment, legal risks involved in the dismissal of regular employees (there are lawyers exclusive for dismissal lawsuits) is also pointed out. In addition, for financing, borrowing interest rates are high in Brazil so it is difficult to earn profits by a small investment.

(B) Problems in Japanese-style management

Board members of Japanese enterprises are stationed in Brazil for two to three years while European and the U.S. enterprises delegate their management functions to the local people in about 10 years in many cases (more localization is achieved and the management is viewed from a long-term perspective). The top executive of successful Japanese enterprise is a Japanese national but a No.2 executive is sometimes a Brazilian (Japanese Brazilian). The top executive of Japanese enterprises in the country does not stay there for only a short period, and therefore an inward-oriented approach seeking directions of headquarters (headquarters-looking attitude) is often seen. In addition, the top management of headquarters is prone to heavy dependence on successes experienced in advanced countries, and market strategies for emerging markets also tend to be based on past successful experiences in advanced countries.

(C) Response to economic crisis (differences between Japan, and European and the U.S., and Japanese enterprises hanging in there)

It is said that, when the economic crisis that occurred in Brazil in the 1980s, European and U.S. enterprises carried out proactive management with an eye to 10 years ahead and overcame the crisis. Some European and the U.S. enterprises as well that had withdrawn from Brazil appreciated the Real Plan[53] implemented in 1994 and reentered Brazil in the middle of the 1990s.

52 The website of The World Bank
http://www.doingbusiness.org/reports/global-reports/doing-business-2012

53 Under this plan, a currency system was shifted to the dollar-peg system where all currencies in the market are linked to the dollar in July 1994 in order to end the hyperinflation that occurred in the 1980s. This measure ended the hyperinflation. But effective exchange rates said to be high, so this system collapsed in 1998 following the Russian currency crisis and shifted to the current floating rate system.

Table 3-2-4-5

Tax burden ratio (to GDP) (left table) and hours required for tax administrative operations (right table) in major countries

France	44.60%
Italy	43.10%
Germany	40.60%
UK	38.90%
U.S.	26.90%
Canada	32.20%
Japan	28.30%
Brazil	34.40%
Russia	34.10%
India	18.60%
China	18.00%
Argentina	26.10%
Chile	18.60%
Mexico	8.20%

Note: As of August 2011
Source: World Bank, IMF, OECD, and Economy Watch.

UK	110
Canada	131
France	132
U.S.	187
Germany	221
Italy	285
Japan	330
India	254
Russia	290
China	398
Brazil	2600

Unit: Hour
Source: *Doing Business 2012* (World bank).

In contrast, Japanese enterprises that were forced to withdraw from Brazil in the 1980s had to make negative settlement in Japan due to the subsequent burst of the bubble economy and did not turn an eye on overseas development for some period of time. In the 1990s, they embarked on overseas development to keep their competitive edge but the attempt focused on Asia, for example Japanese enterprises were oriented toward ASEAN countries even when outward direct investments increased in 1997[54]. Lagging behind European and the U.S. enterprises by around 15 years, Brazil has regained attention among Japanese enterprises.

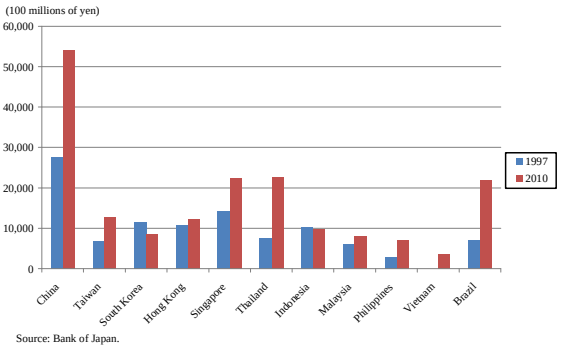
However, the Brazilian market situation is harsh for "boomeranged enterprises" which withdrew from and returned to Brazil because the market faces oligopolistic control[55] by Brazilian enterprises and European and U.S. enterprises were fighting over the remaining market.

Some Japanese enterprises maintained their production and sales bases in Brazil without withdrawal when many Japanese enterprises forcibly withdrew from Brazil in the 1980s. A two-wheel vehicle Japanese manufacturer, which held an overwhelming share in Brazil at that time, considered a temporary withdrawal but opted to stay in Brazil and continues holding its share in Brazil to date.

54 A Joint Report to Construct Japan-Brazil Alliance for the 21st Century (October 2000 The Japan Federation of Economic Organizations)

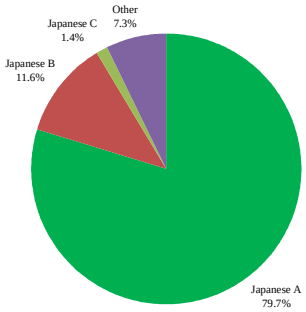
55 As it is a high interest rate market, enterprises with small capital and minus cash flows are acquired. Acquired enterprises gain cash and have the advantage to manage cash at high interest rates and thus, oligopolistic control proceeds.

Figure 3-2-4-6
Japan's direct investment balance



Source: Bank of Japan.

Figure 3-2-4-7
Share of motorcycles



Note: Other is mainly Chinese manufacturers.
Source: Brazil Motorcycle Manufacturers Association (ABRACICLO).

The manufacturer noticed that Brazilian people considered a motorcycle an important item of property and therefore, made much of the voice of the customer, as well as to non-price competitiveness, including responses to rough road driving, a response to flex fuels, and maintenance services. As a result, the manufacturer has maintained overwhelming support in Brazil even in the midst of strong cost competitiveness of Chinese products.

In recent years, Japanese enterprises entering the Brazilian market are increasing through M&As rather than own capital. Under this circumstance, Japanese enterprises that intend to make an entry will have a good chance if they actively focus on technologies and close services that are Japan's strength in order to prevent involvement in a simple price competition.

(D) Comparison of electrical/electronic manufacturers with South Korean enterprises in Brazil

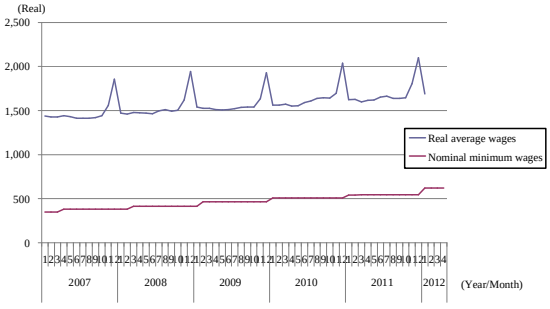
When comparing with Japanese and South Korean electrical/electronic manufacturers operating in Brazil, a Japanese enterprise found that there will be differences in the quality of parts (duel to parts subcontractors). In general, South Korean enterprises consider that if "defective products are found, such products should be replaced with new ones (products are breakables)" while as it is said Japanese enterprises stick to "manufacturing products that do not break down," they adopt a management strategy that maintains high quality by using high-performance parts.

As generally labor costs are surging (partly due to a price sliding system[56]), automation is promoted at plants. Japanese enterprises are conducting close training (on-site training and one at Tokyo headquarters) depending on the classes of workers from the viewpoint of maintaining quality. For example, they are actively fostering human resources while adhering to "quality," for example they are providing periodical training to engineers at a mother plant[57] and have achieved "the same quality in any place."

(E) Sales method (personal computers)

In general, price competitiveness of a bundle[58] is a major factor to sell PCs. A Japanese enterprise previously shipped its products to stores mainly for high-income earners but now sell them to stores for middle income earners. South Korean enterprises are said to be using a huge amount of money for promotion expenses (consolidated advertisement fees of a South Korean electrical/electronic manufacturer and promotion expenses in 2011 came to $2.7 billion and $4.2 billion dollars, respectively), to place many flashy full-page ads in newspapers, run TV commercials on prime tim e time TV, and determine where to exhibit products in the store. The factor behind is that is in many cases, the allocation of advertisement expenses to a specific market in the world has been determined by the South Korean headquarters and then the expenses are allocated to various regions worldwide.

Figure 3-2-4-8
Real average wage and nominal minimum wage



Note: The reason for the increase of real average wages in December is the payments of "13-month salary" under the labor law of Brazil.
Source: Real average wages (Institute of Geography and Statistics of Brazil), nominal minimum wages (Brazilian Labor Union).

(F) Brazil's potential

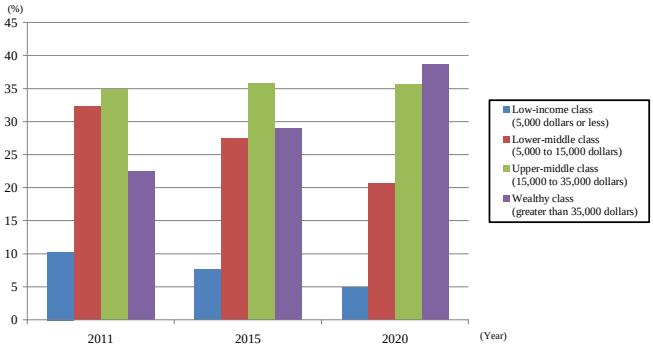
As discussed earlier, heavy tax burdens, high personnel costs, and the higher real cause a negative impact on Brazil's international competitiveness. This is discussed in Chapter 1, Section 6 and could also be a background of a rising protectionism and IPI (Imposto sobre Produtos Industrializado: a tax imposed on industrial products) tax reduction incentives in Brazil. In some cases the IPI tax reduction has become two or three times the prices in case of using local manufacturers. Therefore, South

56 For example, minimum wages are calculated based on the economic growth rate two years ago (7.5% of 2010) plus the latest annual inflation rate.
57 This is one of the ways of how an experimental plant should be and means the plant for which a manufacturing technology developed in Japan is applied for the first time.
58 This means that, as an OS is installed in personal computers, products are sold together with other products attached.

Korean enterprises, etc. are said to promote the use of products imported from abroad.

A full-scale infrastructure improvement is expected in the future until the Soccer World Cup (2014) and the Rio de Janeiro Olympic Games (2016), and also middle class people are forecast to further increase in the future as shown in Figure 3-2-4-9 because Brazil has a large population and the middle class accounts for more than 50% of its population as stated in Chapter 1, Section 6. In addition, Brazil has a future potential in that it is a resource rich country.

Figure 3-2-4-9
Brazil's prospective income classes



Source: *Euromonitor International 2012* .

(G) India and Brazil

As for India and Brazil, we can say that there is a high possibility of failure in the long run without any analysis of reasons for successful experiences in the past. In addition, to formulate a market strategy, an emphasis should be put on opinions of on-site employees and the moves of other competitors, and successful experiences that merely "we have been performing well so will perform well also in India and Brazil" should be given up. Thus it becomes important to draw up a market strategy meeting local needs. It follows that existing strategies should be reconsidered on a case by case basis and flexible responses are required[59].

(3) Challenges and needs that Japanese enterprises face in emerging economies

Here, we will, on the basis of questionnaire surveys, analyze problems and needs common to Japanese enterprises seeking to enter emerging economies. Specifically, we will examine probable and characteristic problems and needs that Japanese enterprises will face in the process of their business development in emerging economies in terms of (A) systems, (B) human resources, and (C) financing.

(A) Problems in systems

In response to a questionnaire on risks and problems involved in overseas direct investments made in emerging economies, enterprises replied "labor environment" (59%), the highest percentage,

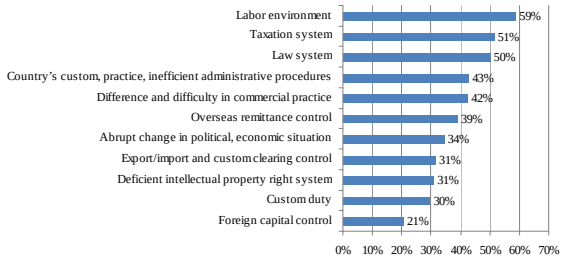
59 Reference literature: *Suzuki's strategy toward India* (R.C. Valvaga (2006)) Chukei Publishing Company, *Super Fundamental, Essence of Failure* (Hiroki Suzuki (2012)) Diamond, Inc., *Continued India's Impulse* (NHK special crew (2009)) Bungeishunju, Ltd.

followed by “taxation system” (51%), “law system” (50%), “country’s customs, practices, and inefficient administrative procedures” (43%). Thus, items characteristic to emerging economies are cited as problems (Figure 3-2-4-10).

(B) Problems in human resources

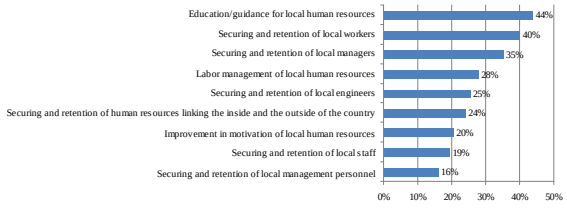
Responding to a questionnaire on human resources, many enterprises replied “education/guidance for local human resources” (44%), “securing and retention of local workers” (40%), and “securing and retention of local managers” (35%) (Figure 3-2-4-11).

Figure 3-2-4-10
Risk and problem involved in overseas direct investments (institutional system) (enterprises with presence in emerging economies)



Note: All applicable questionnaires were answered. Calculated with enterprises (382 enterprises excluding those without answering questions about their capital and industry) making overseas direct investments in emerging economies as a parameter. The same shall apply hereunder.
Source: *Questionnaire Survey of Overseas Business Strategy of Japanese Enterprises* (Mitsubishi UFJ Research and Consulting).

Figure 3-2-4-11
Risk and problem involved in overseas direct investments (human resources) (enterprises with presence in emerging economies)



Note: Up to three applicable questionnaires were answered.
Source: *Questionnaire Survey of Overseas Business Strategy of Japanese Enterprises* (Mitsubishi UFJ Research and Consulting).

By industry and scale of manufacturers, mid-sized enterprises/SMEs have relatively many opinions that considered “labor management of local human resources” (32%) and “securing and retention of local engineers” (30.7%) as problem, and large enterprises also relatively many opinions that considered “securing and retention of local workers” (46.9%) and “securing and retention of local managers” (39%) as problems. For non-manufacturers, both mid-sized enterprises/SMEs (50%) and many large enterprises (50%) have opinions that considered “education/guidance for local human resources” as problems (Figure 3-2-4-12).

(C) Problems in financing

For a questionnaire on problems in financing, “response to exchange rate risk” (58%) held the largest percentage of answers. “Funds procurement in the country/region” (18%) was also a problem. Thus, when Japanese enterprises doing business in emerging economies raise funds, the so-called “parent-subsidiary loan,” where funds are provided to an overseas subsidiary via a domestic parent company, were often used to avoid high interest rates of emerging economies from being applied. Recently, however, in view of coping with the risk of exchange rate fluctuations, the need of local currency-denominated fund procurement using a standby credit, etc. is considered to increase in the investee country/region[60] (Figure 3-2-4-13).

For “response to exchange rate risk” by industry and scale of enterprises, the percentage of manufacturers (mid-sized enterprises/SMEs: 58.7%, large enterprises: 64.4%), who considered it as problem, was particularly high. “Funds collection in the country/region” was more problematic for large enterprises (38.8%) than mid-sized enterprises/SMEs (25.7%). Many manufacturers (particularly mid-sized enterprises/SMEs) chose “Securing of funds for overseas development” as risk and problematic factors (30.7%). “Funds procurement in the country/region” got many answers from non-manufacturing mid-sized enterprises/SMEs (17.6%) but large enterprises (24.6%) also considered it as problem (Figure 3-2-4-14).

Figure 3-2-4-12
Risk and problem involved in overseas direct investments (human resources, industry, scale) (for emerging economies)

	Education/ guidance for local human resources	Securing and retention of local workers	Securing and retention of local managers	Labor management of local human resources	Securing and retention of local engineers	Securing and retention of human resources linking the inside and the outside of the country	Improvement in motivation of local human resources	Securing and retention of local staff	Securing and retention of local management personnel
Mid-sized enterprises/SMEs (total)	44.0%	43.1%	32.1%	30.3%	28.4%	18.3%	22.9%	11.9%	10.1%
Out of which manufacturing	41.3%	46.7%	34.7%	32.0%	30.7%	20.0%	22.7%	12.0%	10.7%
Out of which non-manufacturing	50.0%	35.3%	26.5%	26.5%	23.5%	14.7%	23.5%	11.8%	8.8%
Large enterprises (total)	43.6%	38.8%	36.3%	26.7%	24.2%	26.4%	19.4%	22.3%	18.3%
Out of which manufacturing	40.1%	46.9%	39.0%	25.4%	27.7%	25.4%	18.1%	20.9%	17.5%
Out of which non-manufacturing	50.0%	24.0%	31.3%	29.2%	17.7%	28.1%	21.9%	25.0%	19.8%

Note: Enterprises with the highest percentage of answers are shown in orange and those with second highest percentage in skin color.
Source: *Questionnaire Survey of Overseas Business Strategy of Japanese Enterprises* (Mitsubishi UFJ Research and Consulting).

(D) Roles expected to be assumed by the government

In an effort to reduce risks as discussed above, what kind of roles are expected to be assumed by the government? By problem, (A) in terms of institutional systems, the largest percentage of answers was “approach to the local government” (49%). The factor of these answers could be that “law system” and “systems/practices/inefficient administrative procedures of the country” constitute a problem.

Next, (B) in terms of human resources, many enterprises (18%) answered “support for fostering local human resources” as a problem. “Education/guidance for local human resources” held the largest percentage of responses as problem. Thus, support for fostering human resources is called on to solve

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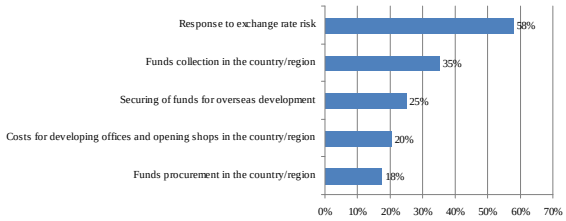
important problems.

Figure 3-2-4-13

Risk and problem involved in overseas direct investments (fund, cost) (enterprises with presence in emerging economies)



Note: Up to three applicable questionnaires were answered.
Source: *Questionnaire Survey of Overseas Business Strategy of Japanese Enterprises* (Mitsubishi UFJ Research and Consulting).

Figure 3-2-4-14

Risk and problem involved in overseas direct investments (fund, cost: by industry/ scale) (enterprises with presence in emerging economies)

	Response to exchange rate risk	Funds collection in the country/region	Securing of funds for overseas development	Costs for developing offices and opening shops in the country/region	Funds procurement in the country/region
Mid-sized enterprises/SMEs (total)	50.5%	25.7%	28.4%	17.4%	21.1%
Out of which manufacturing	58.7%	22.7%	30.7%	5.6%	9.6%
Out of which non-manufacturing	32.4%	32.4%	23.5%	26.5%	17.6%
Large enterprises (total)	60.8%	38.8%	23.4%	21.6%	16.1%
Out of which manufacturing	64.4%	37.3%	24.9%	26.2%	24.6%
Out of which non-manufacturing	54.2%	41.7%	20.8%	26.0%	12.5%

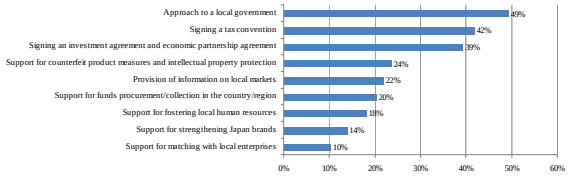
Note: Enterprises with the highest percentage of answers are shown in orange and those with second highest percentage in skin color.
Source: *Questionnaire Survey of Overseas Business Strategy of Japanese Enterprises* (Mitsubishi UFJ Research and Consulting).

In addition, (C) for financing, “support for funds procurement/collection in the country/region” (20%) got many responses. The largest percentage of responses as a problem was “response to exchange rate risk” but for measures expected to be taken by the government, “support for funds procurement/collection in the country/region” obtained the largest percentage of answers.

As for overall support measures to be taken by the government, the largest number of enterprises answered “approach to the local government” (49%), followed by “signing a tax convention” (42%), “signing an investment agreement and economic partnership agreement” (39%), and “provision of information on local markets” (22%) (Figure 3-2-4-15).

Figure 3-2-4-15

Measures expected to be taken by the government to support overseas development (enterprises with presence in emerging economies)



Note: All applicable questionnaires were answered.
Source: *Questionnaire Survey of Overseas Business Strategy of Japanese Enterprises* (Mitsubishi UFJ Research and Consulting).

In addition, we will make clear the trend by industry/scale of enterprises. Opinions hoping for the signing of an investment agreement/economic partnership agreement and a treaty convention are found to occupy a high percentage particularly in manufacturers (large enterprises) (48.0% and 52.0%, respectively). “Approach to the local government” accounted for the highest percentage among all enterprises, and is needed with a high percentage particularly among large enterprises (non-manufacturers) (60.4%) but there is a need of around 40% among mid-sized enterprises/SMEs as well. The factors behind these answers are the significant impact of controls by local governments, such as provincial governments, etc. in emerging economies and there are also opinions hoping to strengthen the approach not only to the national government but also provincial governments, etc.[61]. “Support for matching with local enterprises” were called on most by non-manufacturing mid-sized enterprises/SMEs (14.7%). Thus, there are diversified needs for a support measure depending on the industry and scale of the enterprise (Figure 3-2-4-16).

Figure 3-2-4-16

Measures expected to be taken by the government to support overseas development (industry, scale) (enterprises with presence in emerging economies)

	Approach to a local government	Signing a tax convention	Signing an investment agreement and economic partnership agreement	Support for counterfeit product measures and intellectual property protection	Provision of information on local markets	Support for funds procurement/collection in the country/region	Support for fostering local human resources	Support for strengthening Japan brands	Support for matching with local enterprises
Mid-sized enterprises/SMEs (total)	42.2%	33.9%	29.4%	18.3%	20.2%	22.0%	22.9%	14.7%	9.2%
Out of which manufacturing	41.3%	37.3%	37.3%	22.7%	21.3%	20.0%	26.7%	16.0%	6.7%
Out of which non-manufacturing	44.1%	26.5%	11.8%	8.8%	17.6%	26.5%	14.7%	11.8%	14.7%
Large enterprises (total)	52.0%	44.7%	43.2%	25.6%	22.3%	19.4%	16.1%	13.6%	10.6%
Out of which manufacturing	47.5%	52.0%	48.0%	32.2%	19.8%	20.3%	17.5%	14.7%	9.6%
Out of which non-manufacturing	60.4%	31.3%	34.4%	13.5%	27.1%	17.7%	13.5%	11.5%	12.5%

Note: Enterprises with the highest percentage of answers are shown in orange and those with second highest percentage in skin color.
Source: *Questionnaire Survey of Overseas Business Strategy of Japanese Enterprises* (Mitsubishi UFJ Research and Consulting).

A move to position the cultivation of growing emerging markets as one of challenges in key policy measures is observed in some foreign countries. For example, South Korea expressed in November 2010 a shift from a trade structure centering on advanced countries to a trade structure focusing on G20, including emerging economies, as “direction of trade and investment policy measures in the G20 era” and based on the measure, the country is strengthening the trade infrastructure, including the expansion of support for globalization of SMEs/mid-sized enterprises and KOTRA’s (Korea Trade-Investment Promotion Agency) overseas offices.

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In light of these moves, it is also considered necessary for Japan to implement measures meeting various needs of enterprises for tapping emerging markets.