

Chapter 2 Acquisition of growing markets (emerging market development)

While emerging markets which expand remarkably in recent years have become integrated in the world economy, taking in the demands of emerging countries and competing with business from other countries without delay is an essential and effective response to expand the economic activity of Japan's high productivity sector. Furthermore, it is important to have an appropriate division of roles at both domestic and foreign bases to also implement upgrades to Japan's business supply chain and improve productivity.

First, this chapter will show the importance of expanding business to emerging countries through outlining various microeconomic and macroeconomic indicators, while listing the risks involved in expanding business to emerging countries.

Second, section 2 gives an analysis of the situation of emerging countries for Japan's business, and the competition state with business from other countries. Third, section 3 shows the direction of our trade policies towards promoting the expansion of Japanese companies to emerging countries, based on the analysis of Section 1 and 2. Finally, Section 4 presents specific initiatives in accordance with the direction shown in Section 3. In addition, definitions for regional classification of the world used in this chapter are listed in Supplementary notes 5. Furthermore, there are cases that include regions for the expressions "advanced country" and "emerging country".

Section 1 The importance of expanding business to emerging countries

While the Japanese market is becoming relatively small in the world market in recent years, expanding Japanese high productivity sectors is essential, and the importance of expanding business to emerging countries is increasing more and more.

However, aspects vary from region to region when saying that a country is an emerging country, and the significance of expansion is different for each region. Therefore, this section outlines various economic indicators for microeconomics and macroeconomics by region, and analyzes the growth potential of each region. It also touches on risk from expanding business to emerging countries.

1. Growth potential of emerging countries

(1) Economic growth outlook for emerging countries

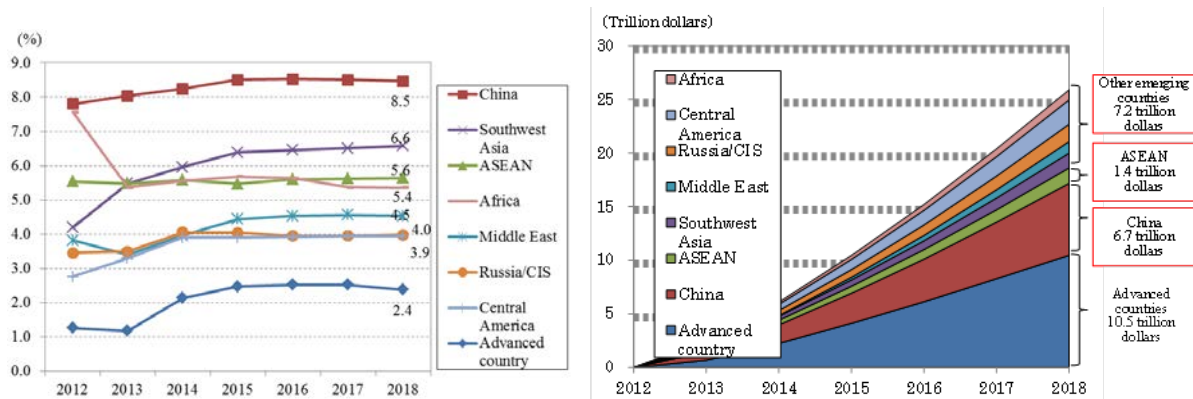
Starting with an overview from the GDP growth outlook, when looking at the outlook for real GDP growth rate by region based on IMF, in 2018, China grew 8.5% compared to the previous year, Southwest Asia grew 6.6%, and ASEAN grew 5.6%, which shows an outlook of maintained high economic growth rate in the Asia region. The real GDP growth rate in 2018 for advanced countries is expected to be 2.4%, and from 2010 to 2018, the lowest real GDP growth rate is consistently expected in all regions and sections (Figure II-2-1-1).

From 2012 to 2018, when looking at the nominal GDP increase amount by region, while a 25.9 trillion dollar increase is expected for the entire world, a 10.5 trillion dollar increase is expected for advanced countries and a 15.3 trillion dollar increase is expected for emerging countries. Furthermore, approximately 60% of the nominal GDP increase amount for the entire world is expected to come

from emerging countries (Figure II-2-1-2).

(Left) Figure II-2-1-1 Real GDP growth rate by region

(Right) Figure II-2-1-2 Nominal GDP increase amount by region (increase amount from 2012 to 2018)



Note: The real GDP growth rate for each region is the sum value calculated by multiplying the nominal GDP weight for each year with the real GDP growth rate of the country that belongs to each region. Nominal GDP weight is a percentage of each country that makes up the nominal GDP sum total of each region.

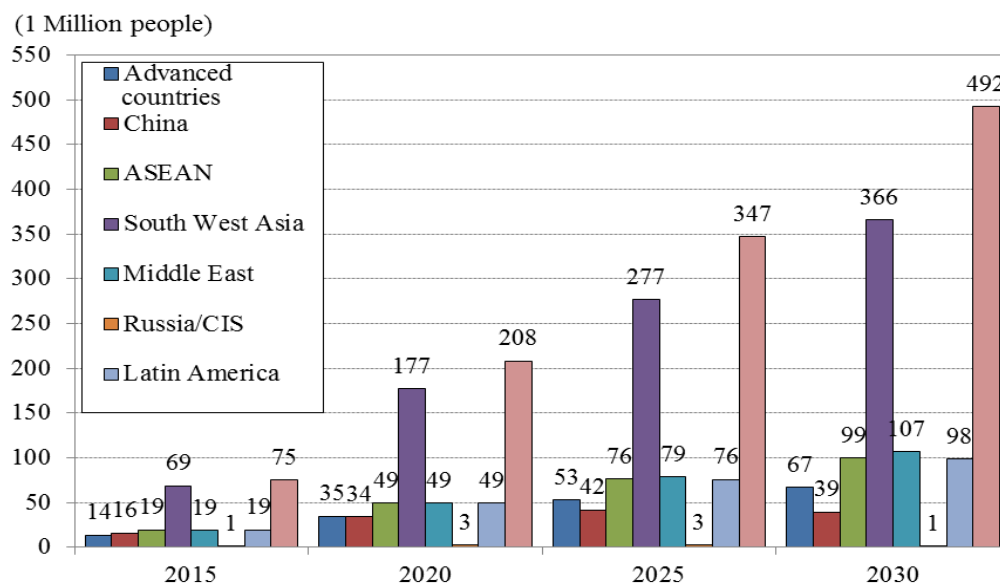
Source: *World Economic Outlook*, April 2013 (IMF).

(2) Population trends in emerging countries

(A) Overview

Next, looking at the population growth by region, the population of Japan peaked in 2004 and has continued to decline, while the population of emerging countries is expected to explode. According to the United Nations World Population Prospects, from 2012 to 2030, the outlook for the entire world is an increase from 7.05 billion people to 8.32 billion, an increase of 1.27 billion people, and 95% of this increase is expected to come from emerging countries. In particular, the populations of Africa and Southwest Asia are expected to increase drastically, during the same period, the outlook for population increase in Africa is 490 million and in Southwest Asia this figure is 370 million (Figure II-2-1-3).

Figure II-2-1-3 Amount of population increase by region (increase amount from 2012 to 2030)



Note: Uses medium variant.

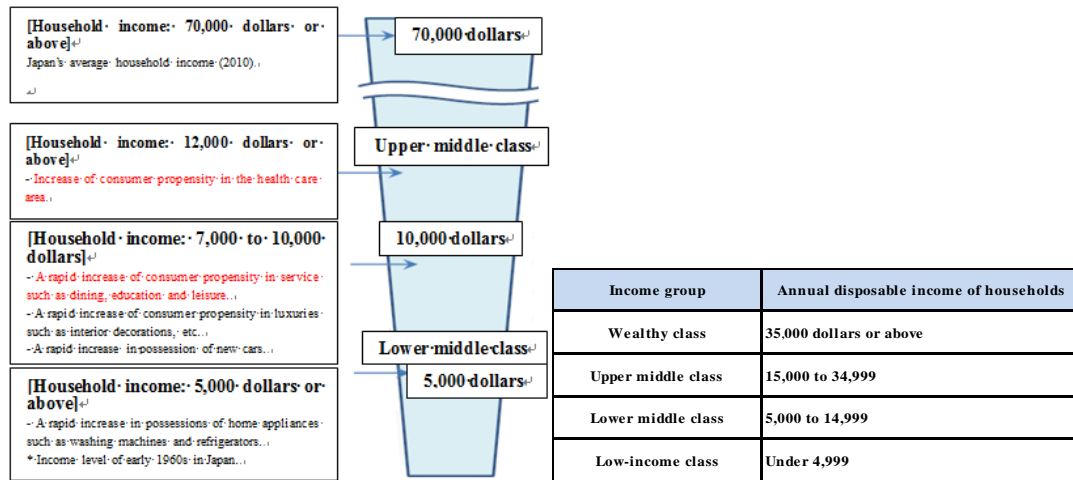
Source: *World Population Prospects: The 2010 Revision* UN.

(B) Population trends by income group

To evaluate the attraction of a consumer market, it is important to understand which income group is expanding, and not just look at the increase in overall population alone. The rise in income changes the propensity for consumption among people. According to the Ministry of Economy, Trade and Industry(2012), if the annual disposable income of a household exceeds 5,000 dollars, the ownership rate of household appliances such as washing machines and refrigerators rapidly increases, and around the 7,000 to 10,000 dollar mark, the consumer propensity for various services such as eating out, education and leisure pursuits rapidly increases, and if the value exceeds 12,000 dollars, the consumer propensity for the health care sector increases (Figure II-2-1-4). It is believed that in general, a region that has a high income group population which is increasing is more attractive to Japanese business, which is especially good at creating high quality, high functionality products. Figure II-2-1-5 below shows the definition for income groups and a breakdown.

Figure II-2-1-4 Image of consumer propensity by income group

Figure II-2-1-5 Definition for income groups



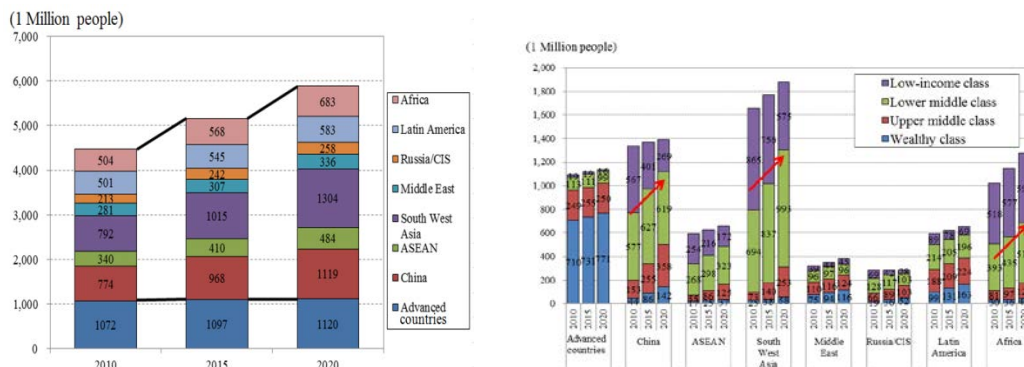
Source: *SHIN CHUKANSOU KAKUTOKU SENRYAKU – ASIA WO CHUSHIN TOSHITA SHINKOUKOKU TO TOMONI SEICHO SURU NIHON* – (Ministry of Economy, Trade and Industry).

The population of middle class and wealthy class (household annual disposable income of 5,000 dollars or more) in the entire world is expected to rise from 4.48 billion to 5.89 billion from 2010 to 2020. Among this number, figures for advanced countries are expected to show a rise from 1.07 billion to 1.12 billion, while emerging countries are expected to show a rise from 3.4 billion to 4.77 billion, approximately a 1.4 billion increase. As a result, 81% of the entire world's middle class and wealthy class will be from emerging countries in 2020 (Figure II-2-1-6).

When further analyzing in detail the change of population by income group in each region, the population of upper middle class and wealthy class is expected to increase in China and Southwest Asia. The population of the lower middle class is expected to also increase in Africa (Figure II-2-1-7).

(Left) Figure II-2-1-6 Middle class and wealth class population by region

(Right) Figure II-2-1-7 Population by income group by region



Note: Household budget population by disposable household income. Calculated by multiplying the household budget rate of each income group with the population.

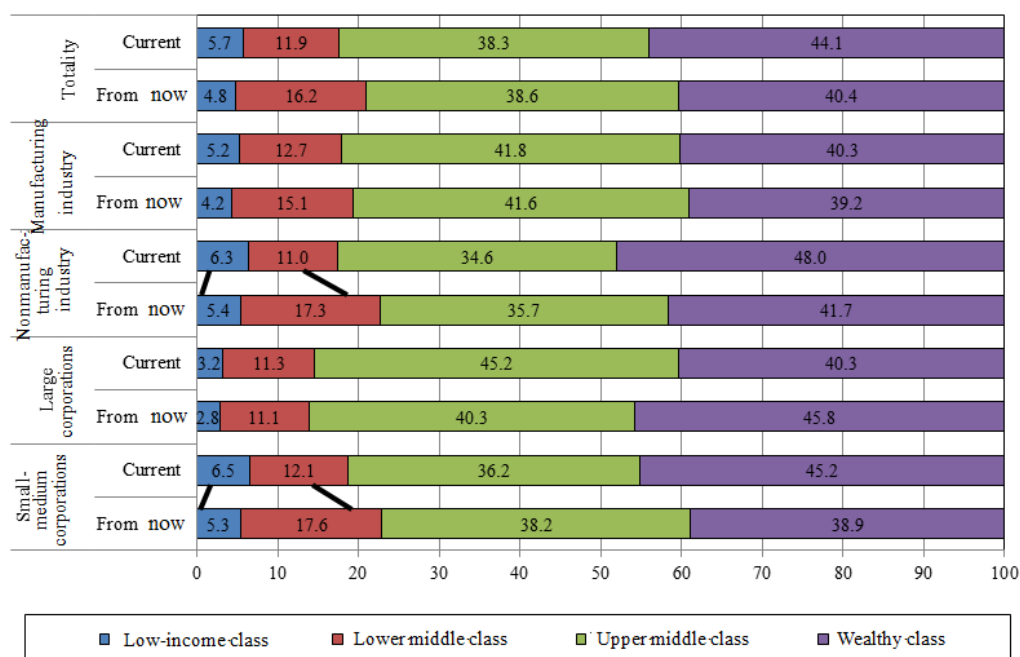
The household budget rate for each income group in 2015 and 2020 was estimated with Euromonitor.

Source: Euromonitor International 2013, *World Population Prospects: The 2010 Revision* (UN).

The data shows that income groups that are expanding are different for each region. However,

which income group of the foreign market will Japanese companies target in the future? According to a business survey investigating which income group Japanese companies target currently and in the future in destination countries and regions for foreign direct investment, it was discovered that many of Japanese companies mainly target the upper middle class and wealth class. However, the percentage of companies that will target lower middle class in the future is increasing, especially among non-manufacturing industries as well as SMEs, and it will be possible to see the target base broaden (Figure II-2-1-8).

Figure II-2-1-8 Income groups targeted in destination countries and region for foreign direct investment



Source: *Survey on overseas strategy of Japanese companies for the consideration of the international trading policy* (Teikoku Databank).

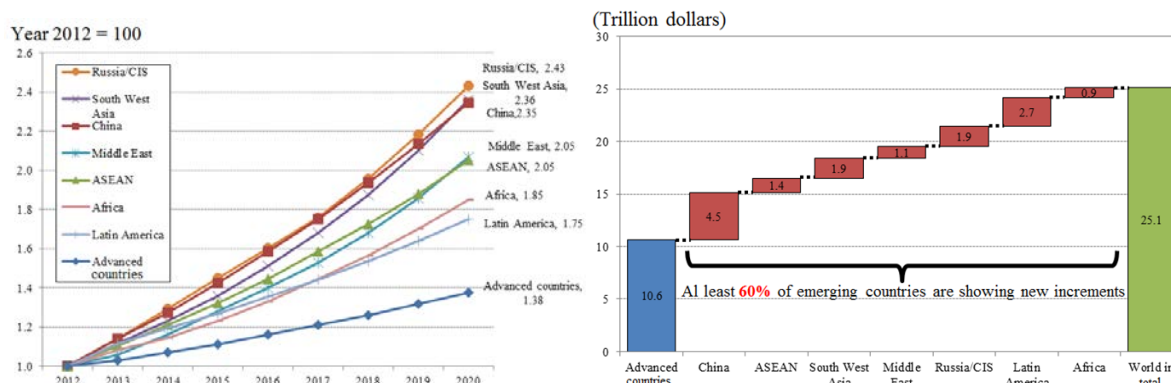
(3) Consumer market in emerging countries

(A) Consumer spending

Along with the increase in middle class and wealth class, consumer spending is also forecast to increase. When looking at the increase rate for consumer expenditure by region from 2012 to 2020, Russia, the Commonwealth of Independent States (CIS), Southwest Asia, and China are expected to increase by a factor of 2.4 (Figure II-2-1-9). When looking at the increase amount of consumer spending, during the same time period, at least 60% of total consumer spending increase is expected to come from emerging countries (Figure II-2-1-10).

(Left) Figure II-2-1-9 Increase rate for consumer expenditure (2012 to 2020)

(Right) Figure II-2-1-10 Increase amount for consumer expenditure (2012 to 2020)



Note: There is a lot of missing data for the African region due to data restriction.

Source: Euromonitor International 2013.

(B) Penetration rate of durable consumer goods

As explained previously, the world income level is rising, and is expected to increase the consumer propensity for durable goods. The penetration rate for the major types of durable consumer goods in Japan is already high, and most of the demand for durable goods that occur from now will be comprised of demands to replace the product simply. Therefore, it is probably important for Japanese manufactures of durable consumer goods to acquire new demands from emerging countries that are expected to expand.

This section will confirm the current penetration rate in emerging countries of durable consumer goods such as vehicles, color televisions, air conditioning systems, refrigerators and microwave ovens. In Figure II-2-1-11, the changes in the penetration rate of durable goods for general households in Japan is shown in the line graph, and markers are used to indicate the penetration rate of durable consumer goods in 2012 for emerging countries. This allows us to see which period's penetration rate in Japan corresponds to the current penetration rate in emerging countries.

When looking at how the penetration rate for Japan's durable consumer goods increased, it fluctuates depending on the product. However, in general, the graph shows an S-shaped trend, and for the expansion to emerging countries, it is important to catch the timing for when the penetration rate will rapidly rise. For example, the penetration rate, for such as refrigerators in Indonesia (30.6%), microwave ovens in Turkey (10.7%) and vehicles in South Africa (28.3%), are at the point on the graph just before the line where an S-shape begins to bend, so in the future, this probably means that there will be a rapid increase for the products.

The graph illustrates the percentage of households with access to various consumer goods in 1961 and 2012 for five countries: India, China, Russia, Brazil, and Turkey. The goods are Car, Color TVs, Air conditioners, Refrigerator, and Microwave ovens. The graph shows a general upward trend for all goods across all countries, with Refrigerators and Color TVs reaching the highest penetration rates (near 100%) by 2012. Cars and Air conditioners show lower but still significant growth, while Microwave ovens show the lowest penetration rates throughout the period.

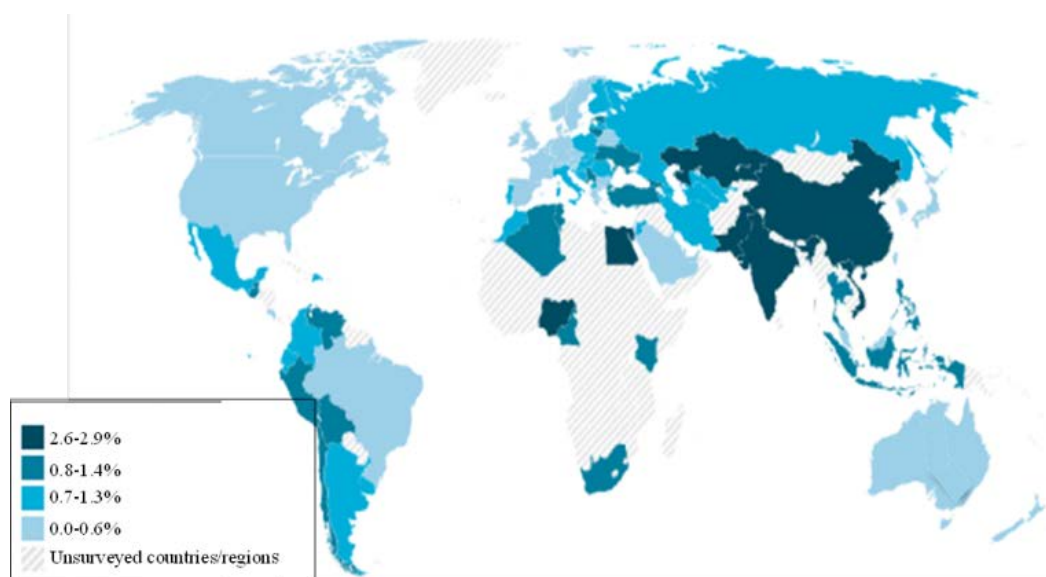
Country	Good	1961 (%)	2012 (%)
India	Car	0.4	8.4
	Color TVs	0.4	95.7
	Air conditioners	0.4	67.3
	Refrigerator	0.4	98.6
	Microwave ovens	0.4	12.8
China	Car	0.4	84.2
	Color TVs	0.4	96.8
	Air conditioners	0.4	88.5
	Refrigerator	0.4	98.0
	Microwave ovens	0.4	33.7
Russia	Car	0.4	98.0
	Color TVs	0.4	98.0
	Air conditioners	0.4	88.5
	Refrigerator	0.4	98.0
	Microwave ovens	0.4	50.7
Brazil	Car	0.4	95.9
	Color TVs	0.4	95.7
	Air conditioners	0.4	76.2
	Refrigerator	0.4	95.9
	Microwave ovens	0.4	38.5
Turkey	Car	0.4	95.3
	Color TVs	0.4	95.3
	Air conditioners	0.4	76.2
	Refrigerator	0.4	95.3
	Microwave ovens	0.4	10.7

Next, this section looks at the growth rate for the penetration rate concerning vehicles, color televisions and air conditioning systems. Figure II-2-1-12 to Figure II-2-1-14 show the world map with the expected annual average growth rate for the penetration rate of each durable consumer goods from 2012 to 2017. The darker the blue color on the map, the higher the annual average increase rate for the penetration rate of that country.

Large increases in color televisions are forecast for countries in Central and South America such as Peru, countries in Southwest Asia such as India, countries in Africa such as South Africa, Nigeria and Kenya (Figure II-2-1-13).

The growth rate for the penetration rate of durable consumer goods by region, as shown, has an irregular pattern depending on the product.

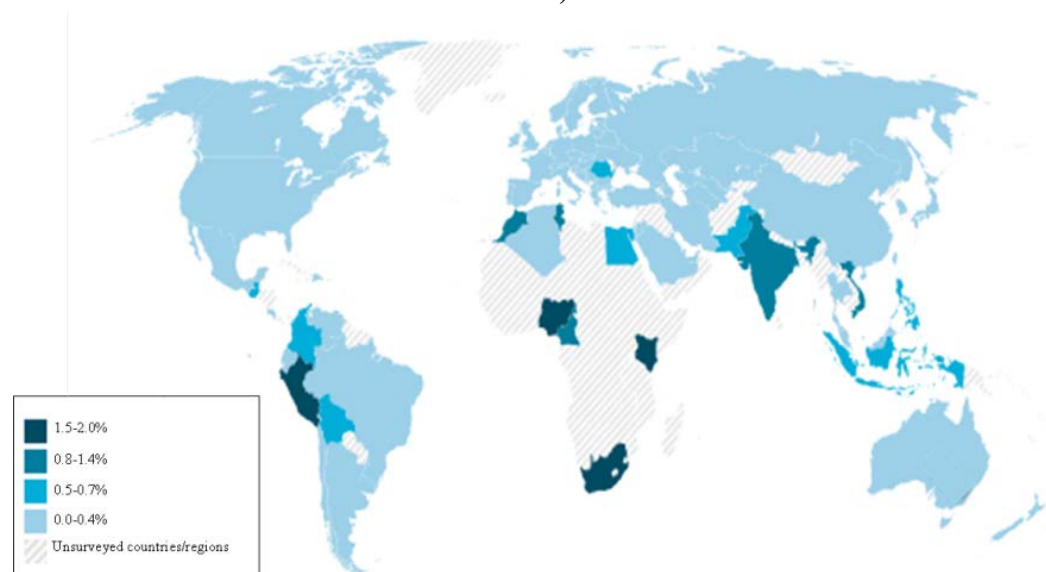
Figure II-2-1-12 Annual average increase rate for penetration rate of vehicles (2012 to 2017)



Note: If, for example, the penetration rate increased from 50% to 55%, the increase rate is calculated as 10%.

Source: Euromonitor International 2013.

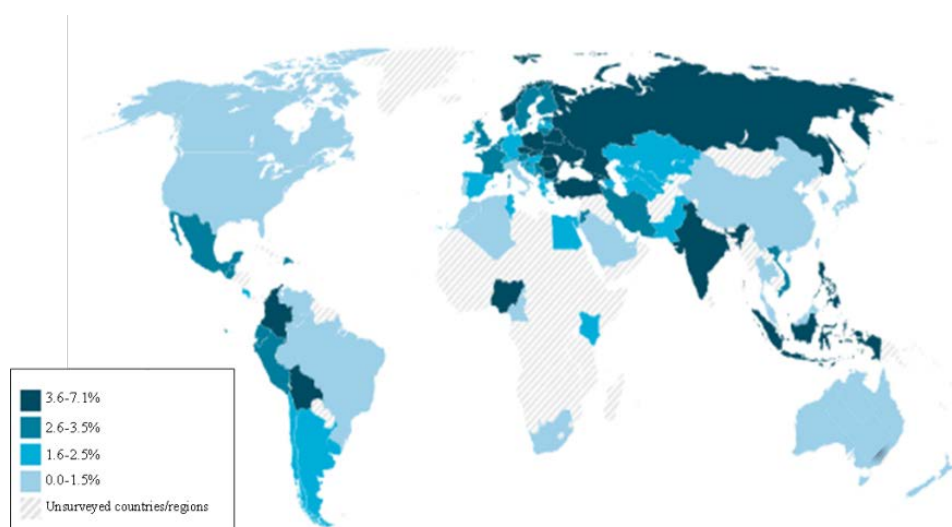
Figure II-2-1-13 Annual average increase rate for penetration rate of color televisions (2012 to 2017)



Note: If, for example, the penetration rate increased from 50% to 55%, the increase rate is calculated as 10%.

Source: Euromonitor International 2013.

**Figure II-2-1-14 Annual average increase rate for penetration rate of air conditioning systems
(2012 to 2017)**



Note: If, for example, the penetration rate increased from 50% to 55%, the increase rate is calculated as 10%.

Source: Euromonitor International 2013.

(4) Infrastructure demands of emerging countries

(A) General infrastructure demands

This section looks at the infrastructure demands of emerging countries. According to the Japan Bank of International Cooperation (JBIC) survey, issues for business expansion in countries and regions are that the percentage of companies that said that “infrastructure facilities are incomplete” in India, Indonesia and Vietnam was consistently high over the last five years (Figure II-2-1-15), and in Myanmar, where Japanese companies are strengthening their motivation to expand business due to democratization in recent years, the percentage of companies that stated “incomplete infrastructure facilities” as a problem has risen to 72.1%.

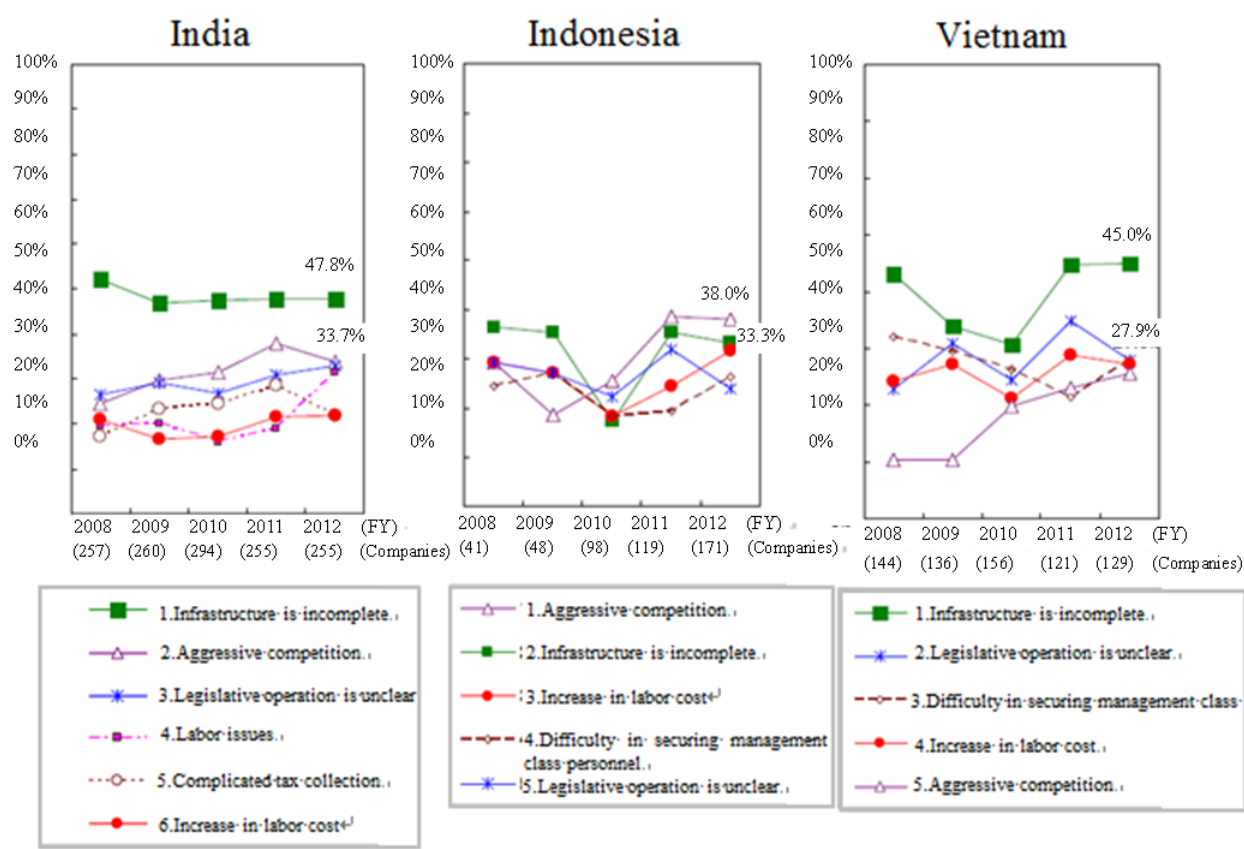
In this way, poor infrastructure facilities in emerging countries become a problem for Japanese companies to develop in these countries. However, when looking from a different view, it can be said that this is a great opportunity for Japanese companies to export infrastructure system to emerging countries. It is said that many of the business model of Japanese companies are based on the premise of a complete infrastructure (for example, the expansion of convenience stores require a high level communication system and a road network), upgrading the infrastructure of emerging countries is expected to facilitate the foreign expansion of Japanese business.

The radar charts in Figure II-2-1-16, looking from the top and working clockwise, show the infrastructure situation of emerging countries in terms of access to water (rural), access to water (city), road and pavement rate, internet users per 100 people, cell phone subscribers per 100 people, land phone subscribers per 100 people, electrification rate, and delivery power loss rate.

In general, the percentage of cell phone subscribers is high in emerging countries but it can be seen that infrastructure is incomplete for communication in terms of internet users and land phone

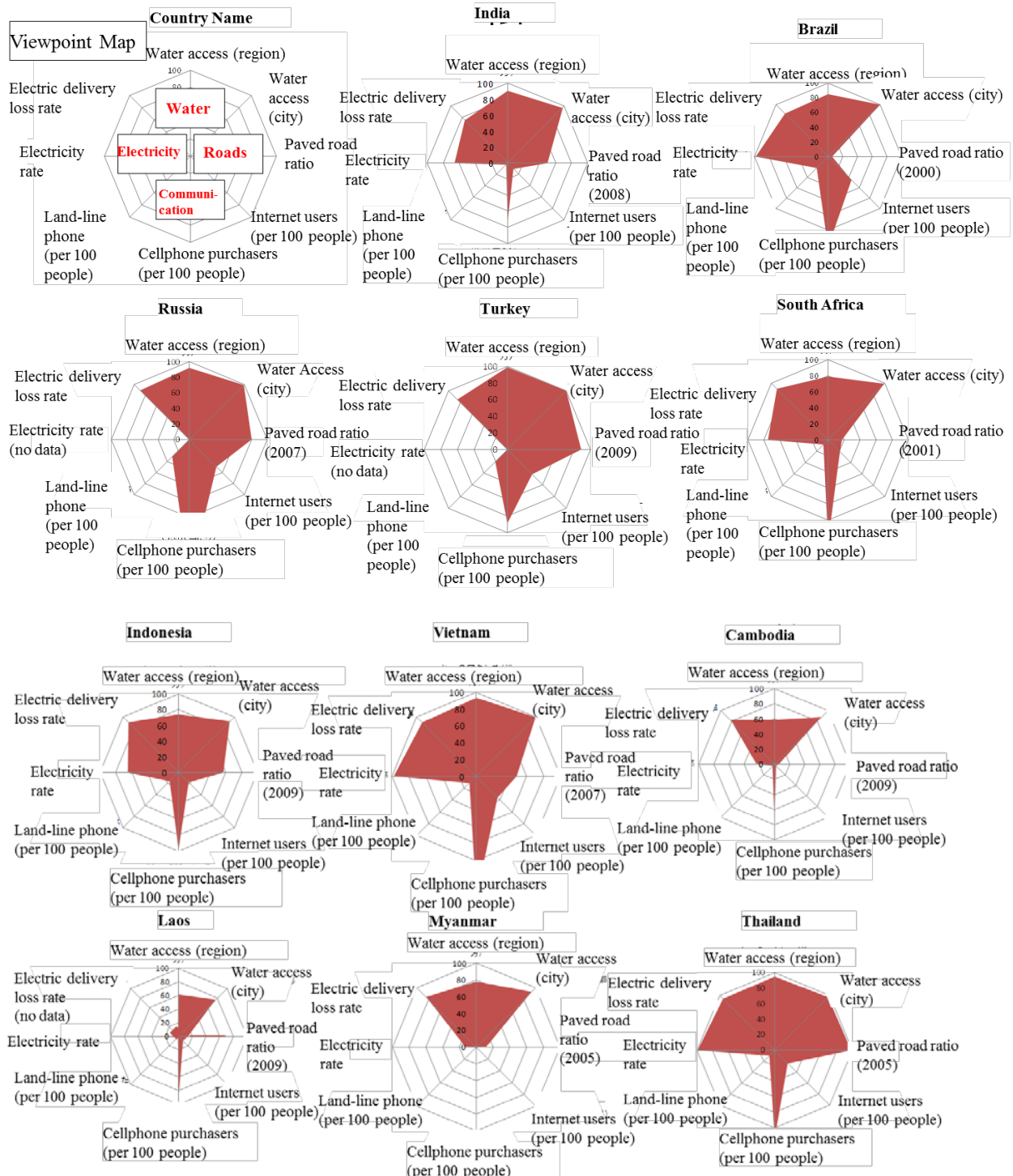
subscribers. Brazil, South Africa and Myanmar are especially low in terms of road and pavement rate. Delivery power loss rate is high in all of the emerging countries in terms of electricity (the higher, the less loss). The electrification rate is notably low in Laos DR, Cambodia and Myanmar. The water system is not sufficiently developed in places such as Cambodia, Indonesia and Laos DR in terms of access to water from rural areas.

Figure II-2-1-15 Percentage of companies that stated “incomplete infrastructure” as a problem for countries and regions that have good prospect for business expansion in the mid-term (next three years)



Source: FY2012 Survey (the 24th) Report on Overseas Business Operations by Japanese Manufacturing Companies (JBIC).

Figure II-2-1-16 Infrastructure situation of each countries



Note: The higher the value for delivery power loss rate, the smaller the loss rate (shown as 100 – delivery power loss rate).

2010 data was used for access to water (rural) and access to water (city). 2011 data was used for internet users per 100 people, cell phone subscribers per 100 people, and land phone subscribers per 100 people. 2009 data was used for access to electricity and delivery power loss rate. The data point for road and pavement rate is shown in the graph.

Source: *BRICs economy outlook and effects on the world economy* (Marubeni Research Institute (2012)), *World Development Indicator* (World Bank).

(B) Municipal infrastructure demands

Given the fact that the advancement of urbanization has a direct impact on infrastructure demands, the demand for municipal infrastructure system such as water systems and building construction is expected to grow along with the advancement of urbanization. According to the United Nations world Urbanization Prospects, the number of cities with a population of over 1 million people in the entire world is expected to increase from 449 cities to 668 cities from 2010 to 2025. 89% of these cities are in emerging countries and most of these increases will be in China. It is expected that there will be 163 cities in China alone by 2025, which is more than the total combined for emerging countries at 127 cities. Africa is expected to see 43 more cities where the population will exceed 1 million people for the first time in this period, and will be the region with the next largest number after China of cities among the emerging countries (Figure II-2-1-17).

A “win-win” situation can be expected for both Japan and these emerging countries when Japan proactively exports its superior infrastructure to this type of emerging cities.

Figure II-2-1-17 Change in cities with over 1 million people in emerging countries

	2010	2025	New Increments
Advanced Countries	110	133	23
China	94	163	69
ASEAN	21	37	16
South West Asia	55	81	26
Middle East	33	50	17
Russia/China	23	26	3
Latin America	63	85	22
Africa	50	93	43

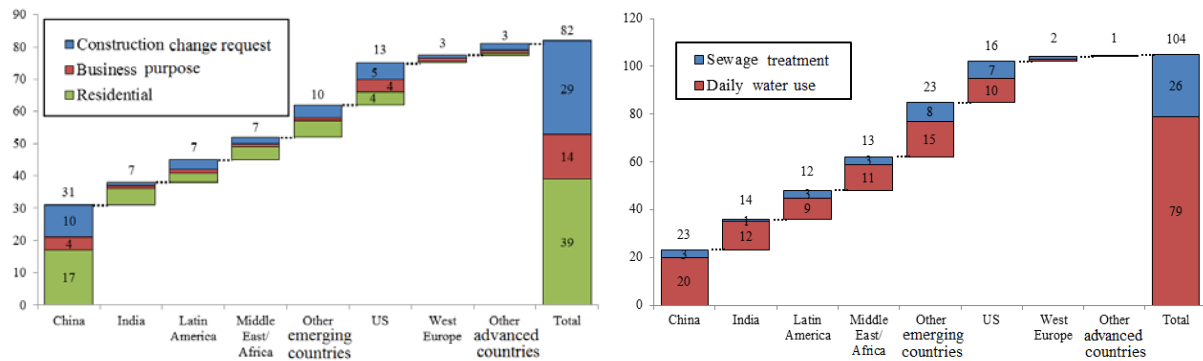
Source: *World Urbanization Prospects 2011* (UN).

As an example of municipal infrastructure system demands that are forecast to increase along with the advancement of urbanization, this section looks at the demands for city floor space and city water systems. From 2010 to 2025, the city floor space combining rebuilding demands, for business use, and for residential use, is expected to increase to 82,000 km² for the whole world. However, 76% of this figure is forecast to occur in emerging countries (Figure II-2-1-18).

City water system demands combining sewage treatment and water for daily use in the same period is expected to grow to 104 billion m³. However, 82% of this figure is forecast to occur in emerging countries (Figure II-2-1-19).

(Left) Figure II-2-1-18 Total urban floor space growth by region, 2010-25

(Right) Figure II-2-1-19 Total urban municipal water demand growth by region, 2010-25



Source: *Urban world: Cities and the rise of the consuming class* (McKinsey Global Institute).

(5) Emerging counties as production bases

The attraction of emerging countries has been outlined until previous section as mostly consumer markets. Below is an outline from business surveys and a production cost perspective such as wages, and money to rent industrial estates, as the attraction of emerging countries as locations to select sites for production bases.

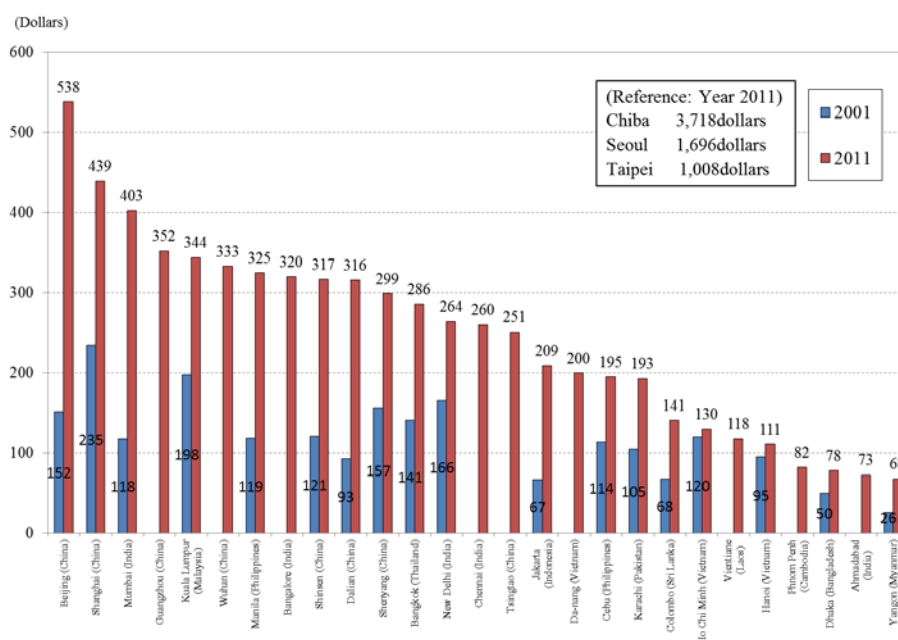
(A) Production costs

When looking at the base monthly salary for a worker (general factory employee), the amount increased by 3.5 in Beijing from 152 to 538 dollars, and the amount increased by 1.8 in Shanghai from 235 to 439 dollars from the 2001 fiscal year to 2011 fiscal year, to show that wages are rapidly growing in coastal areas of China.

In the ASEAN area, there is a division between a group that receives wages higher than each region of China (excluding coastal areas) such as Kuala Lumpur (Malaysia), Manila (Philippines) and Bangkok (Thailand), and a group that receives wages lower in comparison to other regions such as Hanoi (Vietnam), Phnom Penh (Cambodia) and Yangon (Myanmar).

In India, there are regions with a relatively high wage such as Mumbai and Bangalore, while Ahmedabad, in 2011, had a low monthly wage compared to other regions at 73 dollars and was the largest disparity in wages throughout the country (Figure II-2-1-20).

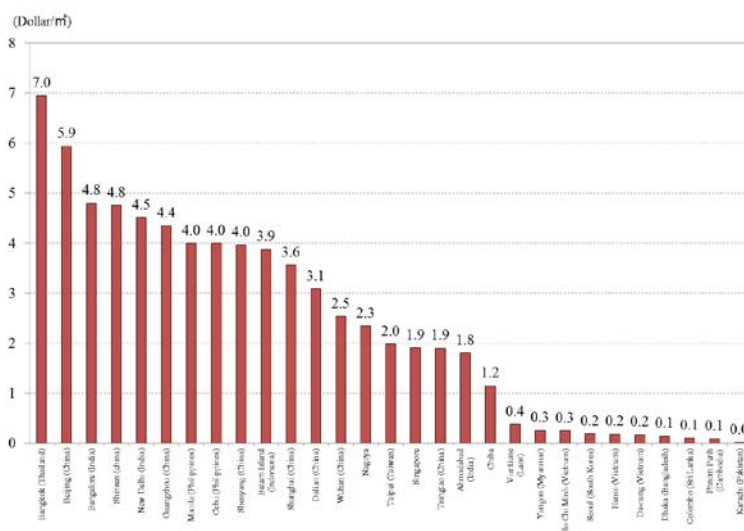
Figure II-2-1-20 Base monthly salary for workers (general factory employee)



Note: The average was calculated when there was a large gap between the amounts of money.
Source: *Survey of Investment Related Costs in Asia and Oceania* (JETRO).

Next, when looking at rent for industrial estates and comparing in 2011, Bangkok (Thailand) was 7.0 dollars per m², most regions of China exceeded 3 dollars per m², Nagoya was 2.3 dollars per m², and Taipei was 2.0 dollars per m², so this shows there were many regions where the rent was high in comparison to advanced regions. In Southeast Asian countries other than ASEAN5 such as Vietnam, this figure was generally below 0.2 dollars per m². There will probably be a desire in the future to investigate any move into these emerging regions including the possibility of prior investment (Figure II-2-1-21).

Figure II-2-1-21 Money to rent industrial estates (per square meter, 2011)



Notes: The average was calculated when there was a large gap between the amounts of money.

Source: *Survey of Investment Related Costs in Asia and Oceania* (JETRO).

(B) Reasons to take a promising view on production bases

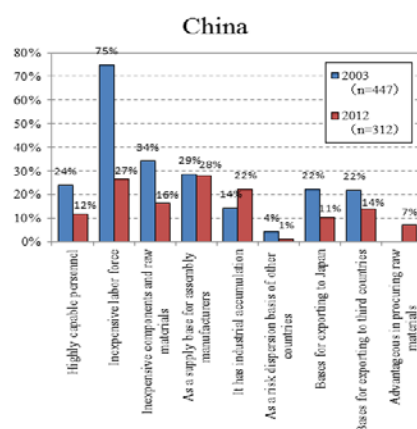
According to the JBIC survey that investigated promising reasons with regards to the production perspective for countries and regions to be considered as mid-term promising business expansion locations for the Japanese manufacturing industry, there has been a sharp decline in the percentage of companies that gave the promising reasons of “an inexpensive labor force” and “inexpensive components and raw materials” for doing business in China from surveys done in the 2003 fiscal year to the 2012 fiscal year. In the meantime, the percentage of those that said “it has industrial accumulation” has risen, and there has been a sideways movement for a percentage to use China “as a supply base for assembly manufacturers”. The existence of a supply chain in China can be thought of as a promising reason.

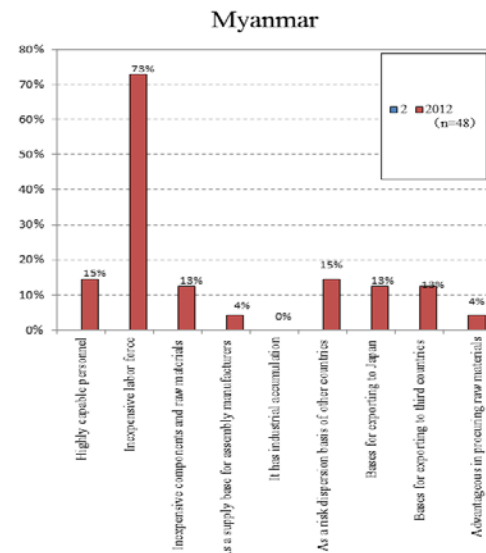
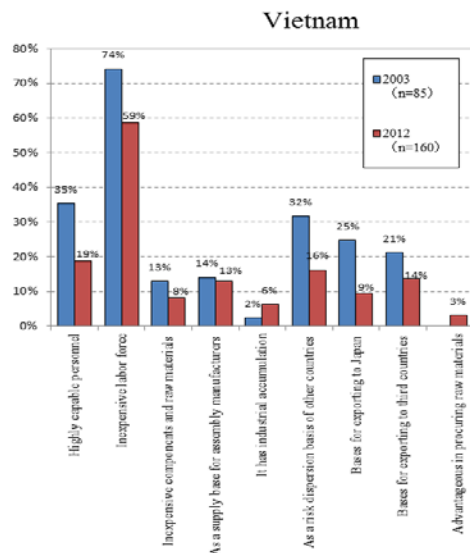
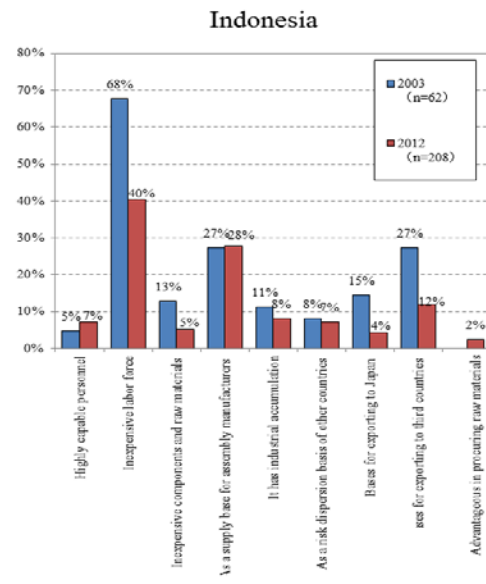
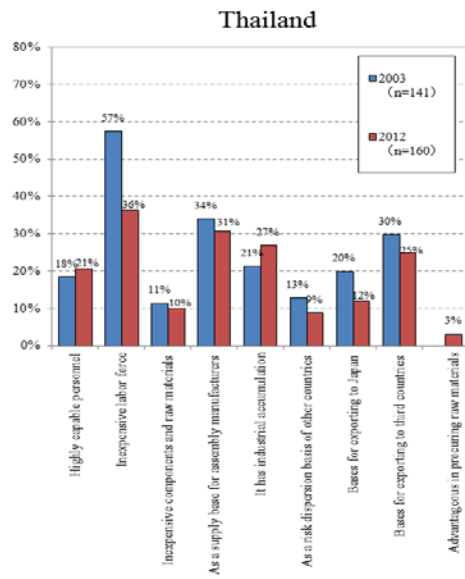
Furthermore, the percentage of companies that gave the promising reasons of “it has industrial accumulation”, “as an export base to third countries” and “as a supply base for assembly manufacturers” for Thailand was remarkably high compared to other regions. Therefore, the existence of a supply chain is thought to be an attractive point for the Japanese manufacturing industry. For other ASEAN regions, the percentage of companies that gave the reason of “inexpensive labor force” was high.

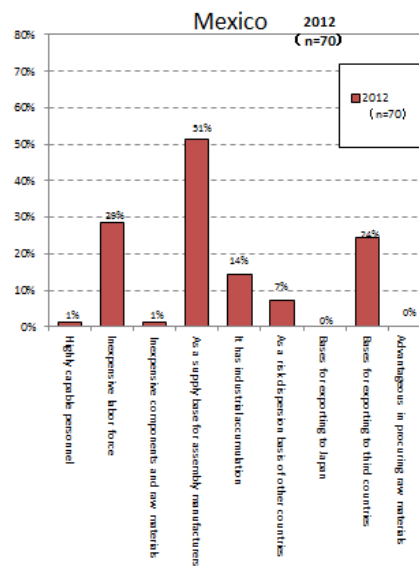
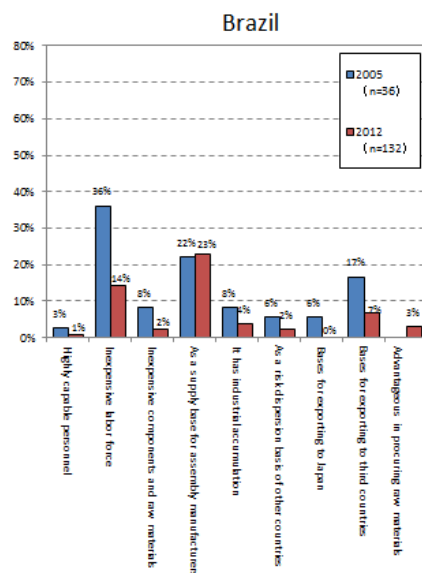
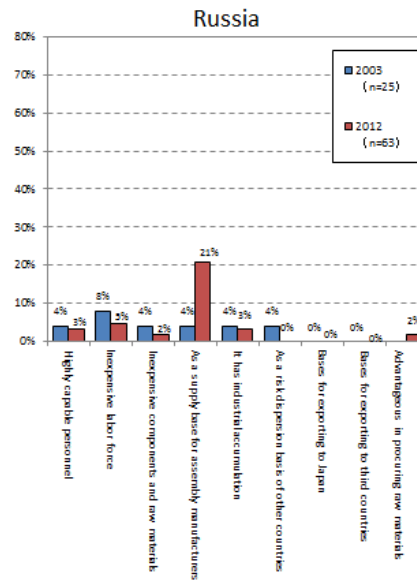
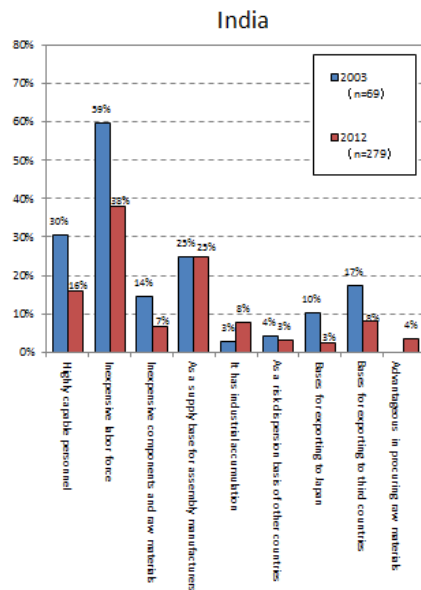
Similar to China, there was a sharp drop in the percentage who stated an “inexpensive labor force” for India. The percentage of promising reasons for production bases in Russia was low compared to other regions in general.

For Central and South America, in comparison to the previous survey, ratings for Brazil have dropped in general. The percentage for Mexico was especially high compared to other regions “as a supply base for assembly manufacturers”, and further stood out with the promising view of being used “as an export base to third countries” (Figure II-2-1-22).

Figure II-2-1-22 Promising reasons for countries and regions to be mid-term promising business expansion locations







Source: FY2012 Survey (the 24th) Report on Overseas Business Operations by Japanese Manufacturing Companies (JBIC).

2. Risks involved in expanding business to emerging countries

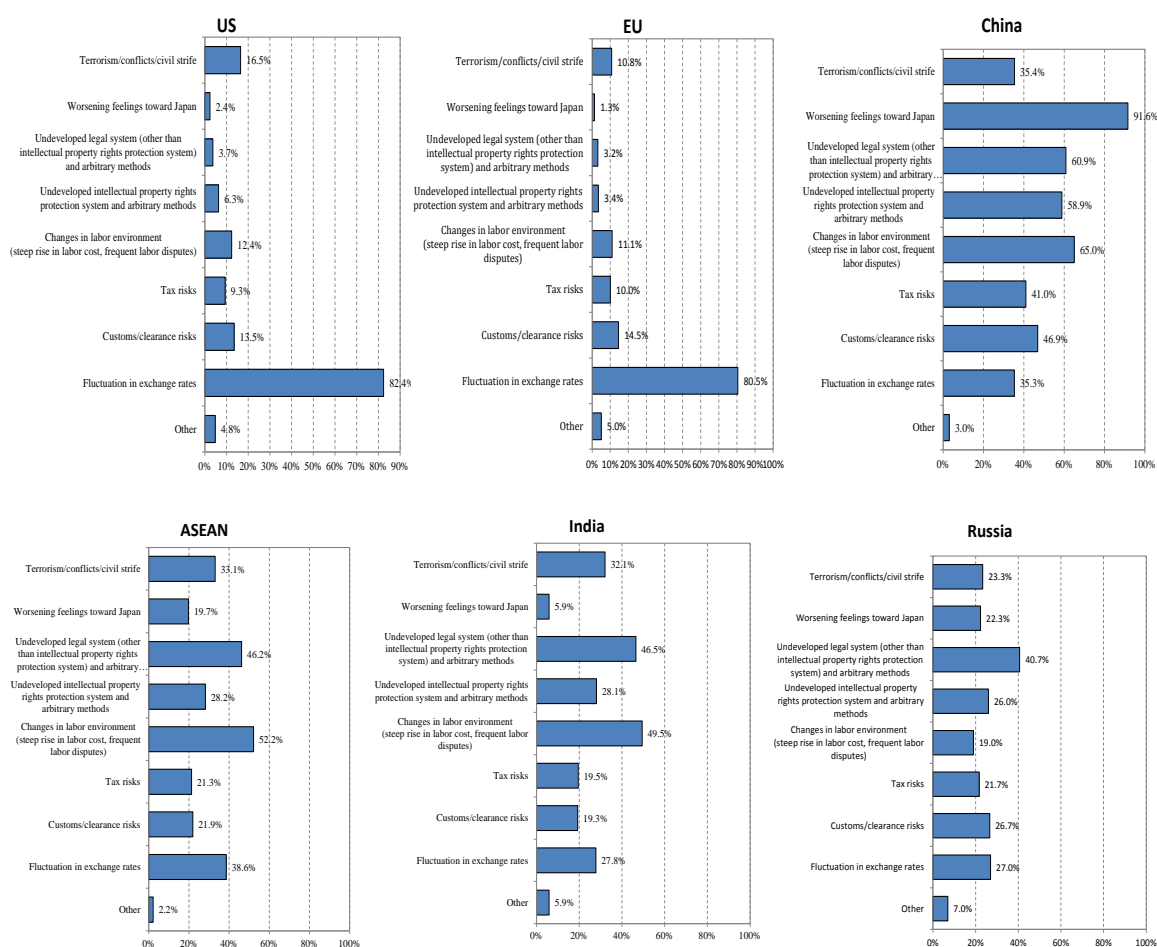
As shown until now, emerging countries have a high potential for growth and they are becoming more and more important for Japan. Meanwhile, there have been protest activities in China in September 2012 against Japan, and the hostage of foreigners including Japanese nationals in Algeria in January 2013, so it is also a fact that Japanese companies came to recognize more about risks associated with expanding to emerging countries. Below is a study on the risks involved in expanding business to emerging countries.

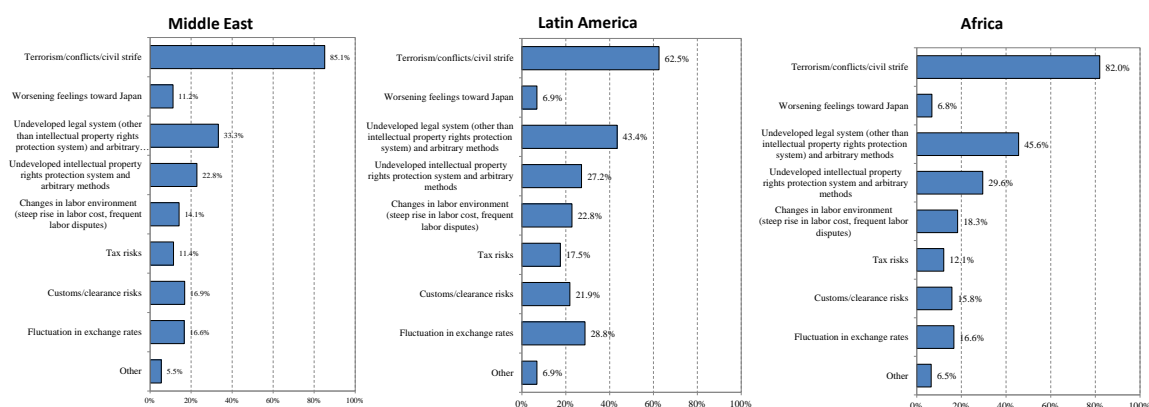
(1) Different business risks by region

To begin with, this section will confirm what kind of risks Japanese companies regard as a problem in foreign business activities. According to a corporate survey, the percentage of companies that view “currency exchange” risk as a problem in the United States is 82% and EU is 81%, which is the majority, but the percentage for other risks is low. For China, 92% view “worsening feelings toward Japan” as a problem, and the percentage of companies that view other risks as a problem is high compared to other regions. Similarly, the percentage of companies that view any risk in Russia as a problem is high compared to other regions. For ASEAN and India, the percentage of companies that view “an undeveloped legal system (other than systems to protect intellectual property rights) and arbitrary implementation of laws” as a problem is 46% and 47% respectively, while the risk of “changes in labor environments (upsurge of personnel cost and frequent labor disputes)” is 52% and 50% respectively. For Central and South America, the Middle East, and Africa, the vast majority of companies view the risk of “terrorist attacks, conflicts and insurgency” as a problem (Figure II-2-1-23).

As can be seen, risks associated with foreign business activities that are viewed as problems by Japanese companies are different depending on the region, and the Japanese government is required to support based on the circumstances of each region.

Figure II-2-1-23 Risks viewed as problems for foreign business activities





Source: *Survey on overseas strategy of Japanese companies for the consideration of the international trading policy* (Teikoku Databank).

(2) Protest activities against Japan inside China

As a reported example of a risk involving expansion in an emerging country, this section outlines the protest activities against Japan that took place in China in September 2012. The protest activities continued for approximately one week all over China and serious damage was caused to shops and factories of Japanese companies in quick succession in all regions. Companies are still calculating the damage cost and it is difficult to arrive at an accurate figure due to the different calculation methods used by each company. However, at this point, it has been confirmed that around 1 billion yen to 10 billion yen in damages was caused in total (Figure II-2-1-24).

In addition to the physical damage to shops and factories, Chinese consumer expectations sharply downturned towards Japanese products and many stopped or held off buying them. In particular, sales of Japanese vehicles greatly dropped because there was a trend for Chinese consumers to avoid buying them after being scared that their car would be damaged in protest. When looking at the total number of vehicles shipped from Japanese companies, in September 2012, there was a 40.8% drop compared to the previous year, and in October of the same year, there was a 59.4% drop, which showed a large decrease for vehicles sales (Figure II-2-1-25).

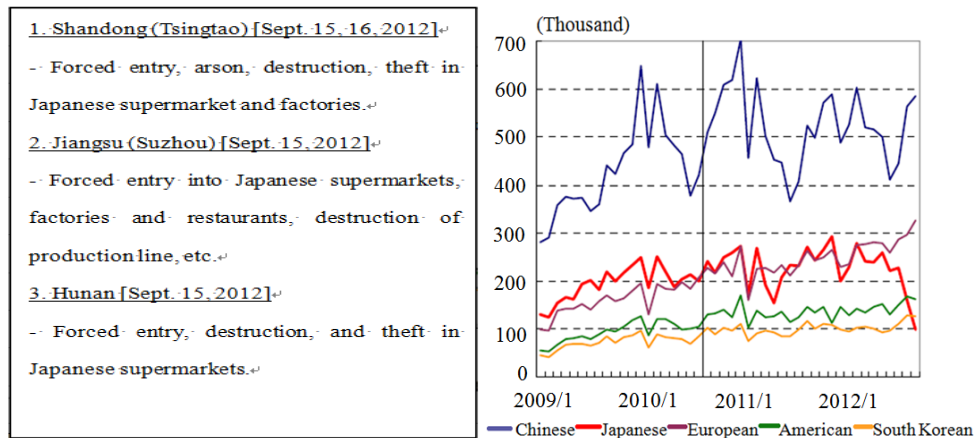
According to the JBIC survey that was taken after the protest activities, 63.3% of companies replied with “we need to reconsider” and “we must respond carefully” in terms of business in China. In the 2010 fiscal year survey¹, in light of the fact that over half (54.3%) replied to the same question with “there will be no particular changes”, Japanese company awareness changed due to the protest activities, and will probably mean that Japan will take a more cautious stance about business in China.

Furthermore, for companies that responded with “we need to reconsider business in China” and “we must respond carefully” for the JBIC survey, it has been confirmed that 74% of the companies will continue initiatives into business in China, after investigating the corporate ideas of these companies with regards to future business and market in China, and they have also adopted a policy that stresses the importance of diversifying risk to other countries and regions (Figure II-2-1-26).

¹ JBIC conducted an additional emergency survey as a result of the Japanese patrol boat and Chinese fishing boat collision incident that occurred near the Senkaku Islands in the fiscal year of 2010.

(Left) Figure II-2-1-24 Examples of damage due to the protest activities against Japan in China

(Right) Figure II-2-1-25 Factory shipping status for cars in China by national origin

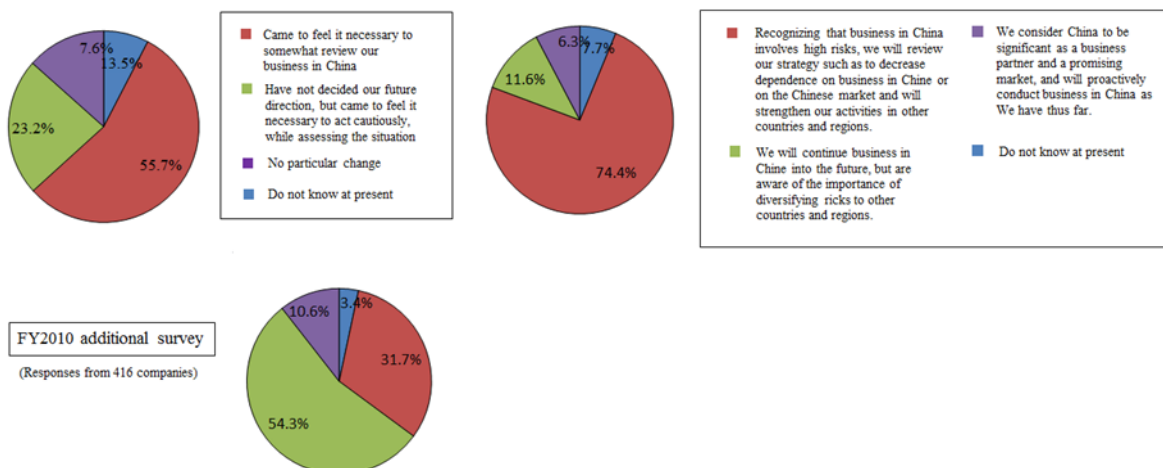


(Left) Source: Ministry of Economy, Trade and Industry as reported by each company.

(Right) Source: *HANNICHI DEMO IKOUNO CHUUGOKU JIDOUSHA SHIJOU – GENCHI HIARINGU WO FUMAETE* – (Mizuho Corporate Bank – Industrial Research Department).

Original source: Fourin's monthly report on the Chinese automotive industry.

Figure II-2-1-26 Forecast of business in China and the Chinese market in the future, and changes in awareness towards business in China



Source: JBIC FY2012 Survey (the 24th) Report on Overseas Business Operations by Japanese Manufacturing Companies.

(3) Terrorism against Japanese citizens in Algeria

As a reported example of a risk involving expansion in an emerging country, this section raises the terrorist incident against Japanese citizens in Algeria that occurred in January 2013. As can be seen from the corporate survey (taken after the incident) shown in Figure II-2-1-23, 82% of Japanese companies view the risk of “terrorism, conflicts and insurgency” as a problem for business activities, and it is believed that this type of risk greatly inhibits expansion.

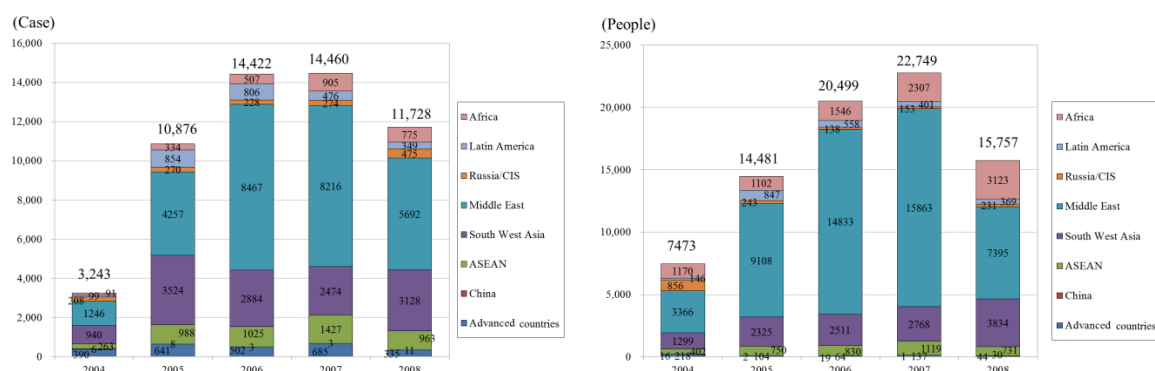
Before giving a summary of the terrorist incident, we confirm the general status of past

international terrorism for Africa. When looking at the number of international terrorist incidents that occurred from 2004 to 2008 by region, about half of them occurred in the Middle East, and the number of incidents in Africa was fourth in the world after Southwest Asia and ASEAN. However, during this same time period in Africa, the number of incidents increased by a factor of 8.5 from 91 to 775 incidents (the total for all regions during this time increased by a factor of 3.1) (Figure II-2-1-27). Furthermore, about half of the number of deaths due to international terrorism that occurred in this time period was in the Middle East, while Africa was third place after Southwest Asia for the number of deaths incurred due to terrorism. However, the number of deaths increased by a factor of 2.7 from 1,170 to 3,123 people during this time period in Africa (the total for all regions during this time increased by a factor of 2.1) (Figure II-2-1-28).

As can be seen, the number of international terrorist incidents in Africa does not stand out in high numbers in comparison to other regions, but it can be said that the trend for such incidents has risen in recent years.

Figure II-2-1-27 Occurrences of international terrorism

Figure II-2-1-28 Deaths due to international terrorism



Source: World Bank website.

The terrorist incident against Japanese citizens in Algeria on January 16, 2013, resulted in the tragic death of 37 hostages from eight countries including ten Japanese citizens, when an Islamic militia group captured hostages from a natural gas refining plant near In Amenas in Algeria.

In response to the incident, the Japanese government formed an investigation committee to respond to the terrorist incident involving Japanese citizens in Algeria. The response of the government was investigated for this incident, and a government basic policy was collated regarding such matters as the expected state of protection for Japanese citizens and companies overseas during emergency situations such as terrorism or disturbance incidents.

Within the report from the investigation committee, the following four points were given as basic policy for the government, (1) eliminate vertical division between each government ministry, and sufficiently call upon powers available to the official residence, (2) build a more efficient and effective information exchange and cooperation system between the public and private sectors, (3) improve assistance to victims and similar persons, and (4) establish a manual so that the entire government can respond together to this type of incident.

In the future, in order to allow Japanese citizens and companies to be active safely overseas, it is necessary to use what this incident has taught us so that the government can work together as one.

Section 2 Japan's business expansion into emerging countries and competitive circumstance in emerging countries

As seen in the previous section, although expanding business in emerging countries is associated with risks, the possibility for growth in emerging countries is increasing, and there is great significance for Japanese companies to expand in emerging countries. In the future, it will be necessary to incorporate the demands of emerging countries, without losing ground to competitors from other countries, in order to expand the economic activities of Japan's highly productive companies. Section 2 will analyze the competitive circumstance with companies from other countries for markets in emerging countries, while confirming the state of Japan's business expansion in emerging countries from the perspective of trade (including infrastructure system export), investment, production systems, and local sales.

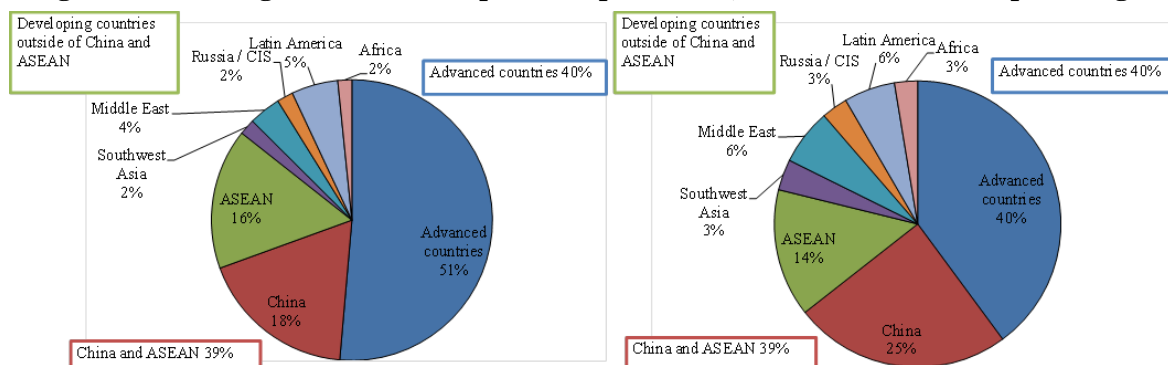
1. Japanese export to emerging countries

(1) Overall condition of general export

To begin with, when looking at the percentage of each region that accounts for Japanese exports, more than half (51%) of all exports from Japan go to advanced countries. However, South Korean exports 40% of its total to advanced countries, which is lower in comparison to Japan.

For emerging countries, Japan exports 34% of its total to China and ASEAN, and 14% of Japan's total exports go to emerging countries outside of China and ASEAN. South Korea exports 39% of its total to China and ASEAN, and 21% of South Korea's total exports go to emerging countries outside of China and ASEAN, which means that South Korea is exporting a higher percentage of its total exports to emerging countries outside of China and ASEAN in comparison to Japan (Figure II-2-2-1).

Figure II-2-2-1 Regional share of Japanese exports (left), and South Korean exports (right)



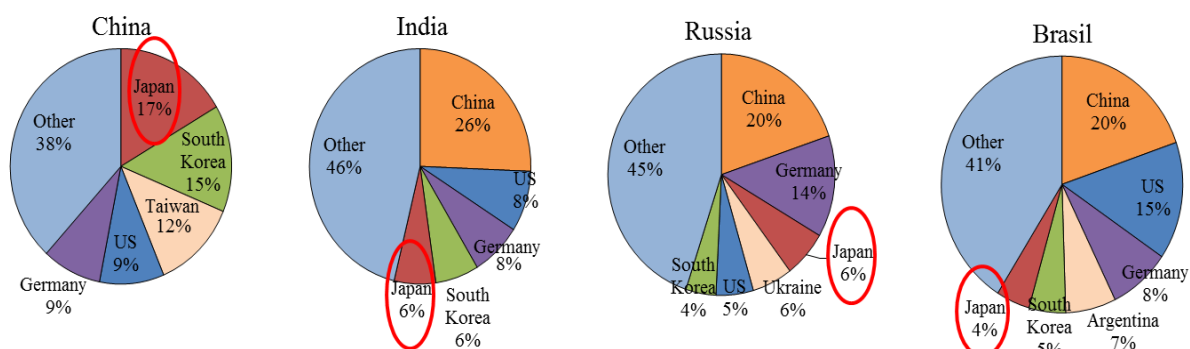
Source: Global Trade Atlas.

This confirms that the percentage of Japanese exports to emerging countries outside of China and ASEAN are lower than those of South Korea. However, looking at the opposite, how much does Japan hold for the share of imports in emerging countries? To focus attention on Japan's major export goods, we will confirm the level of imports, excluding foodstuff, mineral fuels and precious metals. When looking at the percentage that accounts for imports in China, India, Russia and Brazil, Japan has the largest share in Chinese market, but is behind China and Germany in Indian, Russian and Brazilian markets. Japan is also behind the United States and South Korea in Brazilian and Indian markets

(Figure II-2-2-2).

Based on these facts, it can be said that Japan holds nowhere near a high share of imports in emerging countries.

**Figure II-2-2-2 Each country's share among imports of emerging countries
(excl. food, mineral fuel, and precious metals) (2012)**



Note: Foodstuff is type HS1 to 24, mineral fuels are type HS25 to 27, precious metals are type HS71.
Source: Global Trade Atlas.

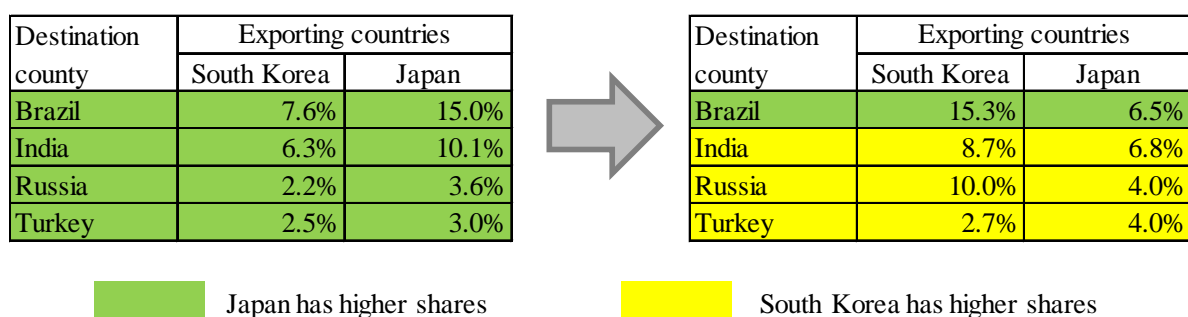
(2) Overall circumstances of intermediate goods export

Japan's export share to emerging countries is decreasing also for intermediate goods, which are thought to give Japan a competitive edge in comparison to final goods.

When looking at the percentage that Japan and South Korea hold for intermediate goods imports of electrical equipment in emerging countries, in 2000, Japan had acquired a greater share than South Korea in Brazilian, Indian, Russian and Turkish markets. However, in 2010, the reverse can be seen, in which South Korea has a greater share in Brazilian, Indian and Russian markets (Figure II-2-2-3).

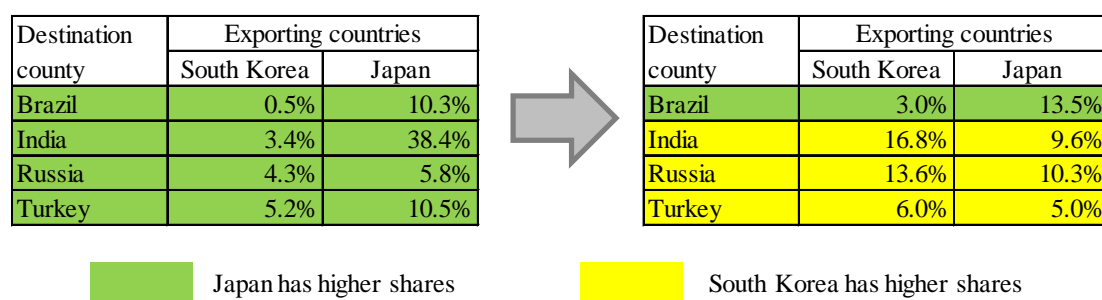
A similar trend can also be seen for transport equipment as was seen for electrical equipment. When looking at the percentage that Japan and South Korea hold for intermediate goods imports of transport equipment in emerging countries, in 2000, Japan had acquired a greater share than South Korea in Brazilian, Indian, Russian and Turkish markets. However, in 2010, the reverse can be seen, in which South Korea has a greater share in Indian, Russian and Turkish markets (Figure II-2-2-4).

Figure II-2-2-3 Percentage that Japan and South Korea hold for intermediate goods imports of electrical equipment in emerging countries
(Left: 2000, Right: 2010)



Source: RIETI-TID2011.

Figure II-2-2-4 Percentage that Japan and South Korea hold for intermediate goods imports of transport equipment in emerging countries
(Left: 2000, Right: 2010)



Source: RIETI-TID2011.

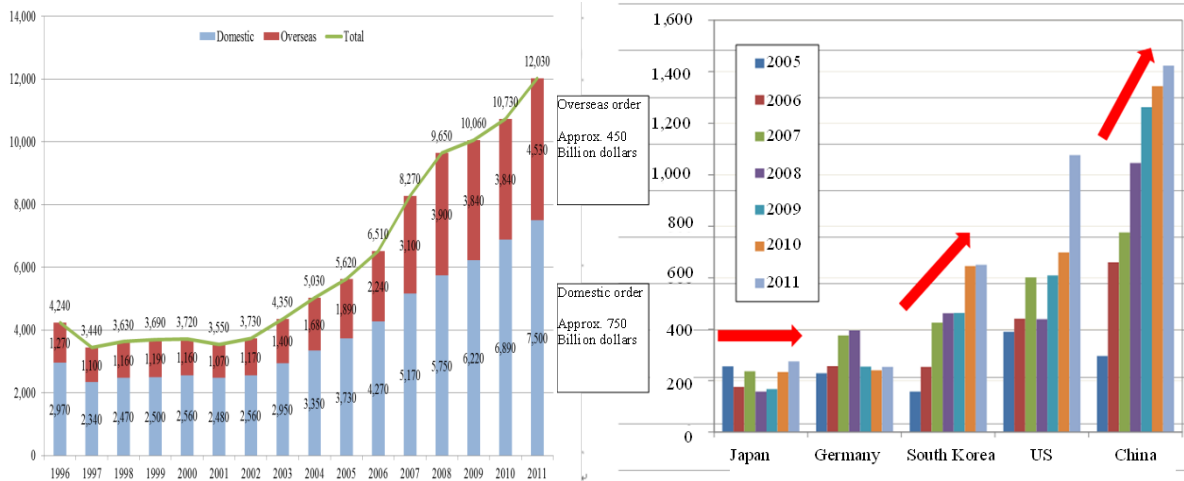
(3) Overall circumstance of infrastructure system export

As seen in Section 1, the infrastructure system in many emerging countries has not been fully developed, and this is a great opportunity to export Japan's excellent infrastructure system. When looking at the demands of world infrastructure, in 2011, this increased to 1.2 trillion dollars per annum, of which about 40% is made up of overseas orders. While overseas orders are expanding, from 2005 to 2011, South Korea and China considerably increased their plant engineering exports by approximately a factor of 4, and proactively acquired orders. Meanwhile, Japan's plant engineering export remained almost unchanged during the same period, and has not sufficiently acquired the demands of world infrastructure, which are expanding (Figure II-2-2-5, Figure II-2-2-6).

When looking at the shares of companies receiving infrastructure orders by their nationality in Asia, the Middle East, Central and South America, and Africa, Japan has 9% for Asia, which is behind Europe, America and China. For the Middle East, Central and South America, and Africa, Japan has 5%, 1% and 2% respectively, which is far behind China and South Korea (Figure II-2-2-7).

(Left) Figure II-2-2-5 World infrastructure system demands (sales base)

(Right) Figure II-2-2-6 Plant engineering export part records (hundred million dollars)



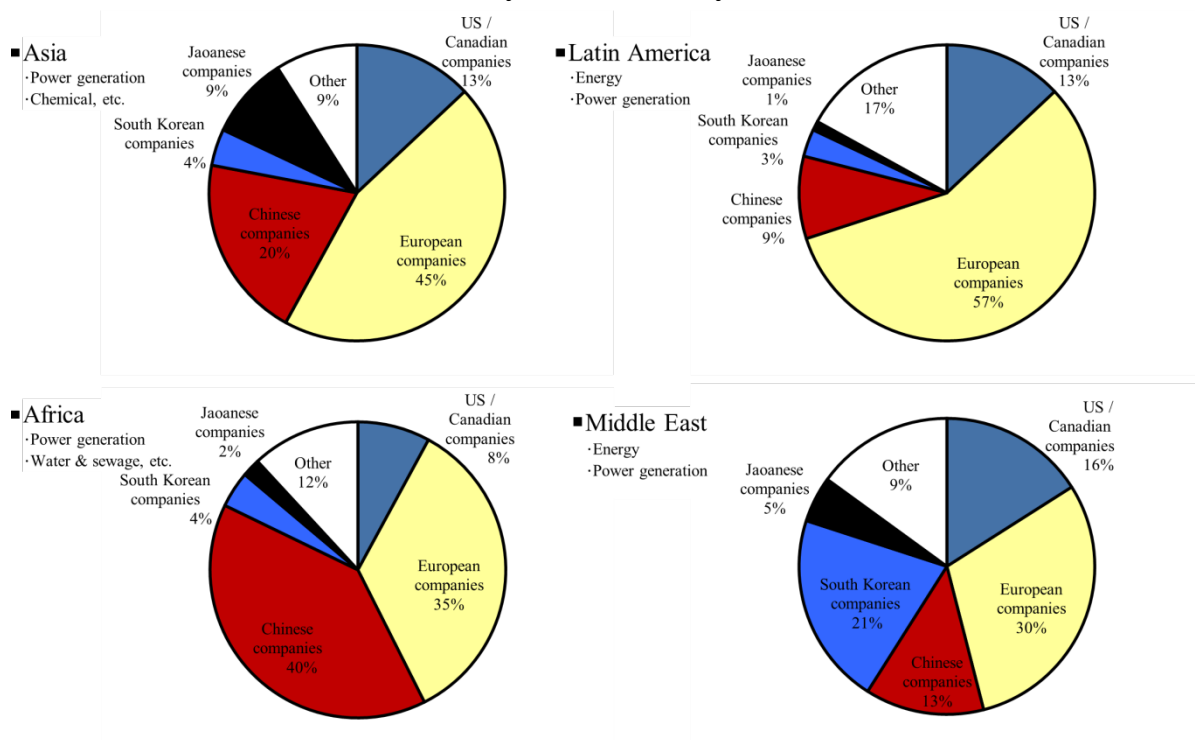
(Left) Source: ENR Top 225 International Contractors 2012.

Note: US, and China have high values, which include civil engineering and construction.

(Right) Source: 2011NENDO KAIGAI PURANTO ENJINIRINGU SEIYAKU JISSEKI CHOUA HOUKOKUSHO (Japan Machinery Center for Trade and Investment)

Figure II-2-2-7

Shares in each region of companies receiving infrastructure orders by their nationality (2011)



Source: Export multilateral support survey (Plant engineering (PE)).

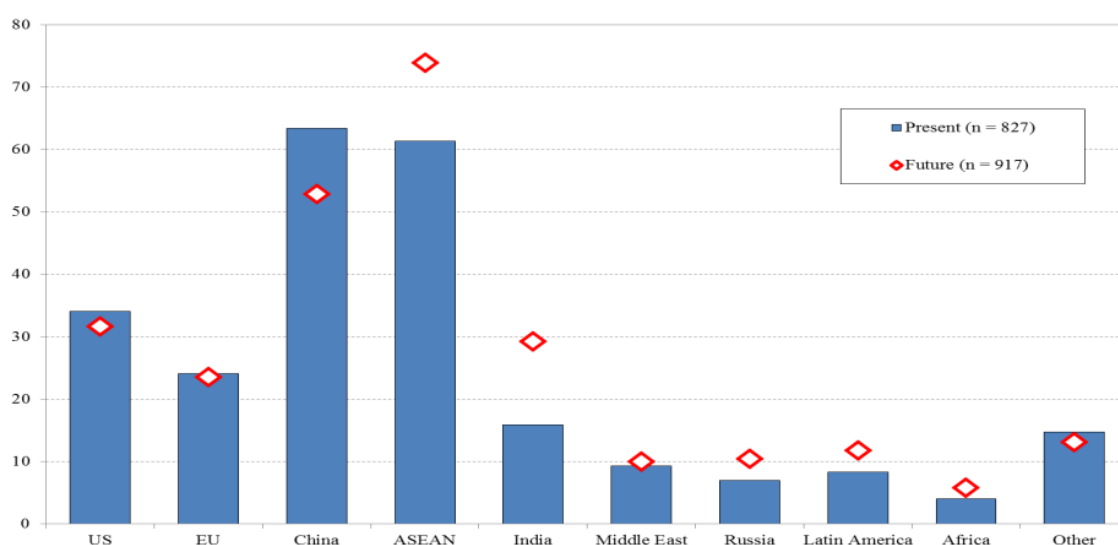
(4) Future export policy of Japanese companies

Japan's export to emerging countries is behind foreign competitors in every region. However,

which regions do Japanese companies intend to focus on and expand their exports in the future? According to a corporate survey investigating countries and regions that focus on current and future export locations, a high percentage of companies are currently focused on China and ASEAN. However, in the future, the percentage for China will decrease, while the percentage for ASEAN will further increase. Furthermore, the percentage of companies that focus on India in the future will increase (Figure II-2-2-8).

As can be seen, China's existence is, as ever, important as an export location for Japanese companies, and it is believed that the importance of ASEAN and India in the future will further increase.

Figure II-2-2-8 Countries and regions being focused on as export locations (current and future)



Source: *Survey on overseas strategy of Japanese companies for the consideration of the international trading policy* (Teikoku Databank).

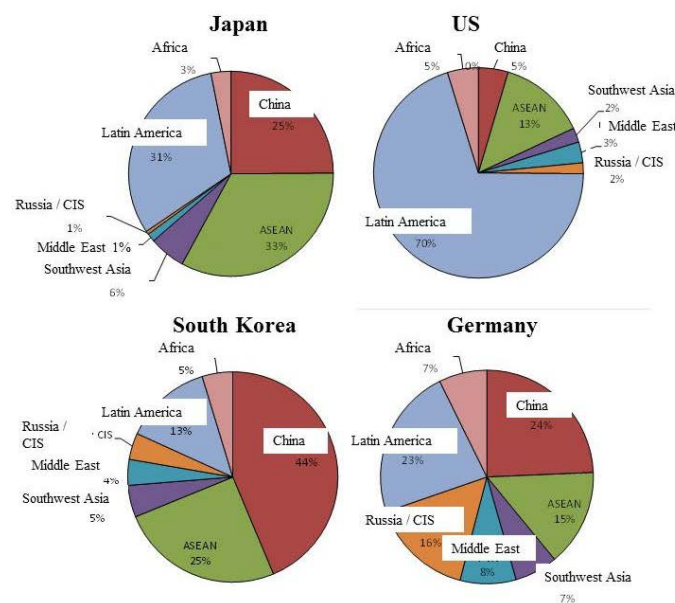
2. Japan's investment in emerging countries

(1) Overall circumstances of foreign direct investment

This section will confirm the overall circumstances of Japan's foreign direct investment in emerging countries. When looking at the regional share of foreign direct investment balance for Japan, South Korea, the United States and Germany, it can be seen that Japan attaches too much importance on Asia with a share of 64%. For emerging countries outside of Asia, Japan has a high share of 31% in Central and South America. South Korea, similar to Japan, has a high share in Asia at 74%, and for emerging countries outside of Asia, has a higher percentage for the Middle East, Russia and CIS in comparison to Japan.

The United States has an overwhelming percentage (70%) of the share in the geographically close region of Central and South America. Germany's share level is to same degree in all regions (Figure II-2-2-9).

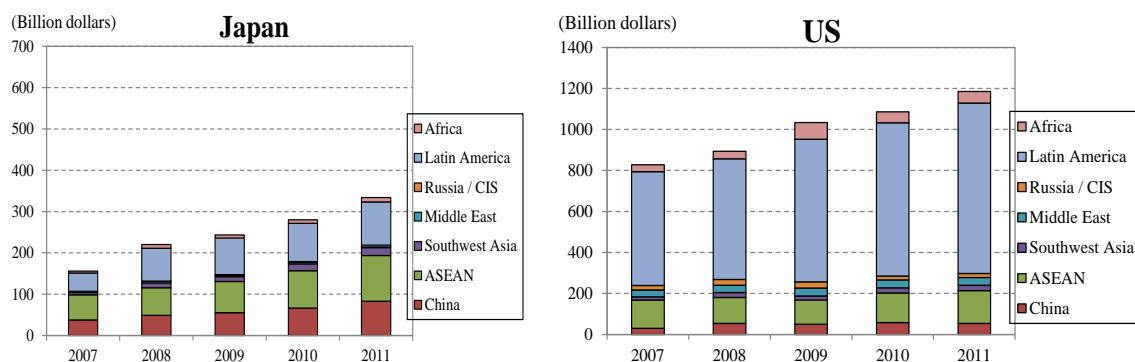
**Figure II-2-2-9 Foreign direct investment balance in emerging countries for each country
(percentage by region)**

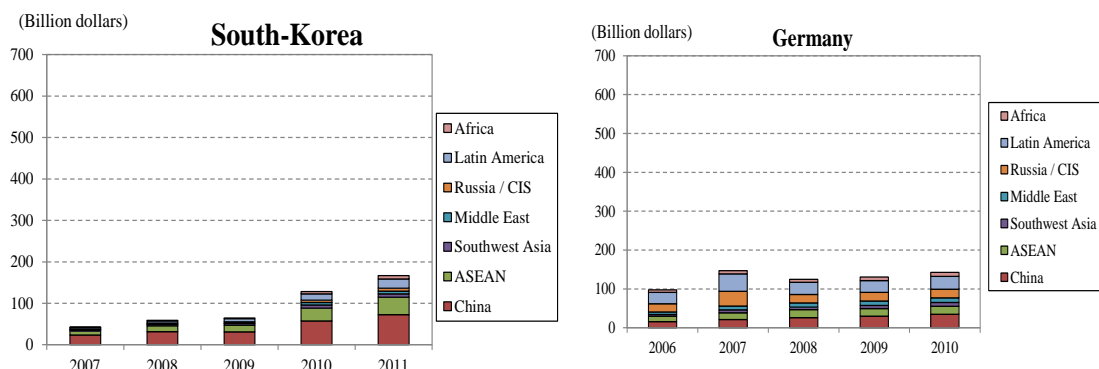


Note: Values for Japan, South Korea and the United States are from 2011, Germany is from 2010.
Source: OECD STAT.

When looking at the actual amount for the foreign direct investment balance in emerging countries for each country, Japan is just under 30% of the United States but has a higher level than Germany and South Korea. However, South Korea's foreign direct investment balance in emerging countries has been growing rapidly from 2009 to 2011, and overtook Japan's foreign direct investment balance in emerging countries in 2007 (Figure II-2-2-10).

**Figure II-2-2-10 Foreign direct investment balance in emerging countries for each country
(actual amount)**



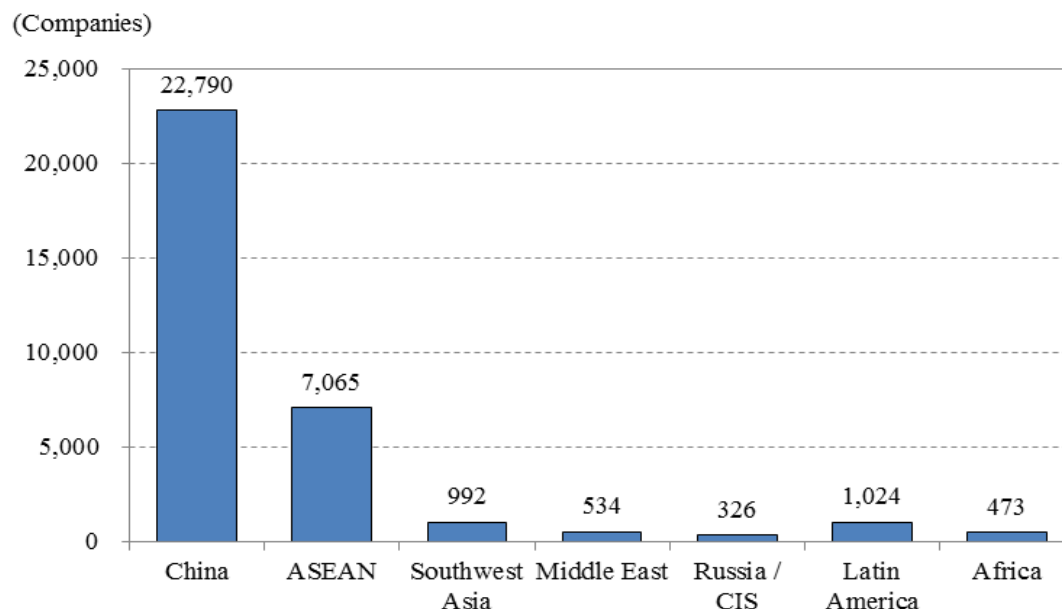


Source: OECD STAT.

(2) Number of Japanese companies in emerging countries

Next, looking at the number of Japanese companies doing business in emerging countries, 33,204 companies in total, 22,790 of them are in China, and 7,065 are in ASEAN, which shows they are concentrating in these regions. For emerging countries outside of China and ASEAN, there are 992 companies in Southwest Asia, 534 in the Middle East, 326 in Russia and CIS, 1,024 in Central and South America, and 473 in Africa, which shows that expansion has been slow (Figure II-2-2-11).

Figure II-2-2-11 Number of Japanese companies doing business in emerging countries (by country and region)



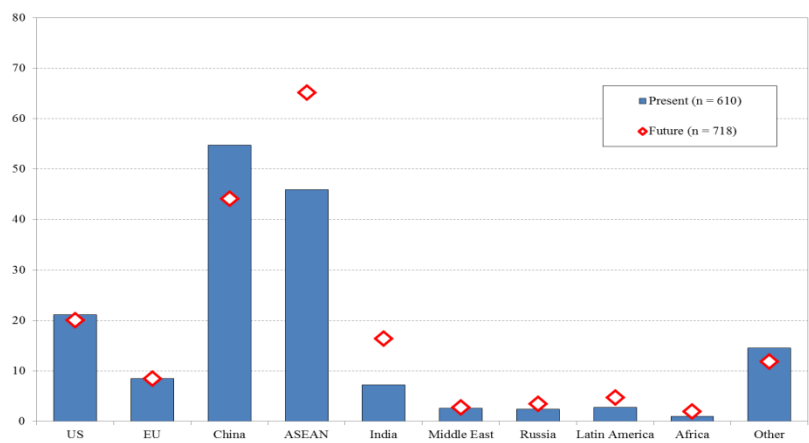
Source: Ministry of Economy, Trade and Industry from such as JETRO and Ministry of Foreign Affairs website.

(3) Foreign direct investment intentions of Japanese companies

Currently, foreign direct investment in emerging countries outside of China and ASEAN from Japan is low. However, which regions do Japanese companies intend to focus on and expand their

foreign direct investment in the future? According to a corporate survey investigating countries and regions that focus on current and future direct investment locations, a high percentage of companies are currently focused on China and ASEAN. However, in the future, the percentage for China will decrease, while the percentage for ASEAN will further increase. Furthermore, the percentage of companies that focus on India in the future will increase. For emerging countries outside of Asia, it is not possible to see any marked changes from now and into the future (Figure II-2-2-12).

Figure II-2-2-12 Countries and regions being focused on as direct overseas investment locations (current and future)

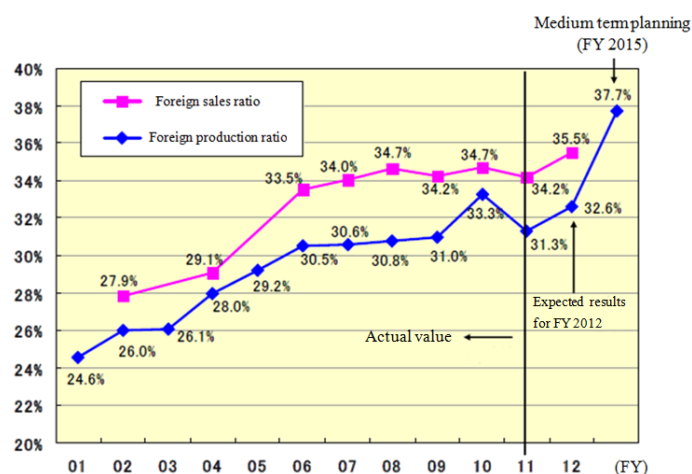


Source: *Survey on overseas strategy of Japanese companies for the consideration of the international trading policy* (Teikoku Databank).

3. Japan’s local production in emerging countries

This section gives an outline of Japan’s local production status in emerging countries. First, when looking at the foreign production ratio from the corporate replies of the JBIC survey regarding foreign business expansion of Japanese manufacturing companies, from the 2002 fiscal year to the 2012 fiscal year (expected performance), there was a rise from 24.6% to 35.5%, and for the foreign sales ratio there was an upward trend (Figure II-2-2-13).

Figure II-2-2-13 Change in foreign production ratio and foreign sales ratio



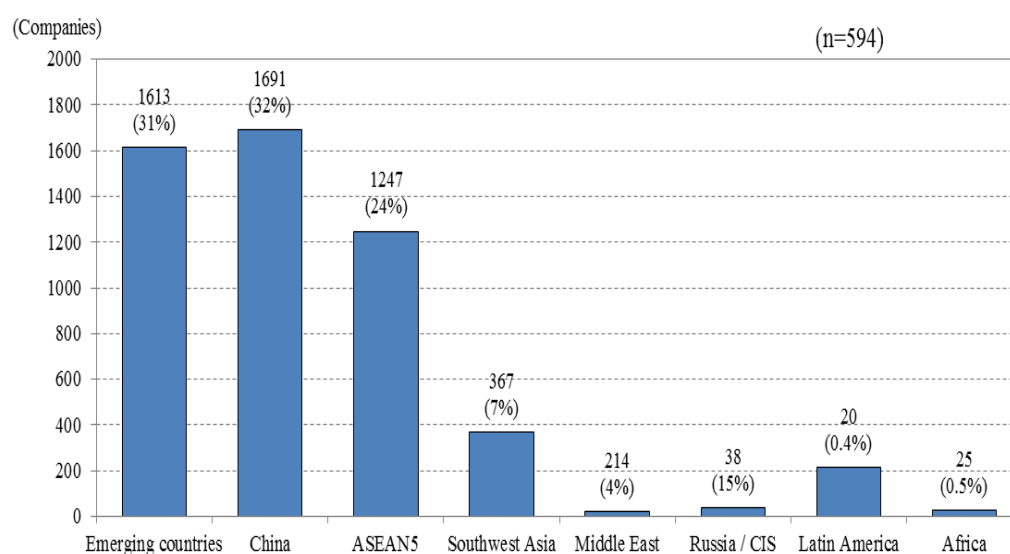
Note: Foreign production ratio = (foreign production output) / (domestic production output + foreign production output)

Foreign sales ratio = (foreign sales) / (domestic sales + foreign sales)

Source: JBIC FY2012 Survey (the 24th) Report on Overseas Business Operations by Japanese Manufacturing Companies.

When looking at the breakdown by region of overseas affiliates that have function as a production base, there are 1,613 companies (32%) in advanced countries, 1,691 companies (31%) in China, and 1,247 (24%) in ASEAN5, showing these three regions account for 87%. It can be said that local production in Russia and CIS, the Middle East and Africa is at a particularly low level in comparison to other regions (Figure II-2-2-14).

Figure II-2-2-14 Breakdown by region of overseas affiliates that have function as a production base



Note: Southwest Asia includes Southeast Asian countries (such as Vietnam) other than ASEAN5.

Source: JBIC FY2012 Survey (the 24th) Report on Overseas Business Operations by Japanese

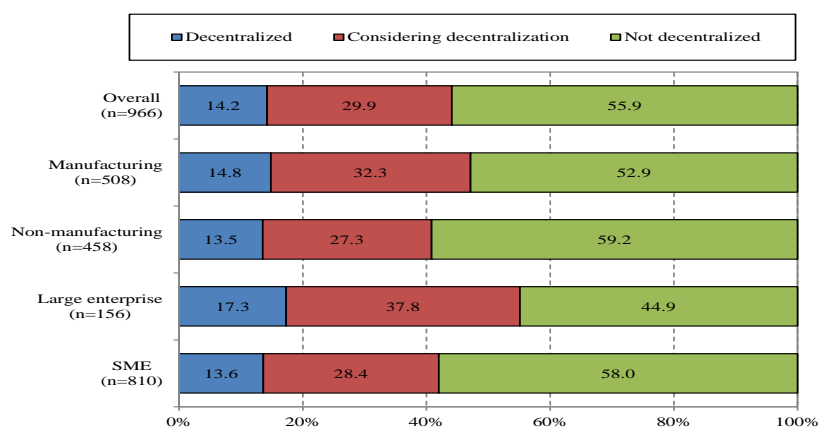
Manufacturing Companies

As previously stated, in response to the changes in the domestic business environment and the situation overseas, there have been discussions on the necessity of decentralizing production bases in recent years. According to the corporate survey that investigated the decentralization of production bases as a provision against risks that interrupt the supply chain, 14.2% of all companies replied that they “are decentralizing”, and 29.9% of companies replied that they are “investigating decentralization”. In particular, 55.1% of large companies replied that they “are decentralizing” or “investigating decentralization”, which shows a high level of interest (Figure II-2-2-15).

In addition, among the regions where companies currently have their own production base, there are regions that companies feel the need to be decentralized, and while these companies are looking at countries and regions as promising locations to decentralize to, there are many companies that believe it is first necessary to decentralize production bases in China, and many companies view ASEAN as a promising location to which to decentralize their bases. ASEAN is also viewed as a promising location to decentralize Indian and Japanese production bases.

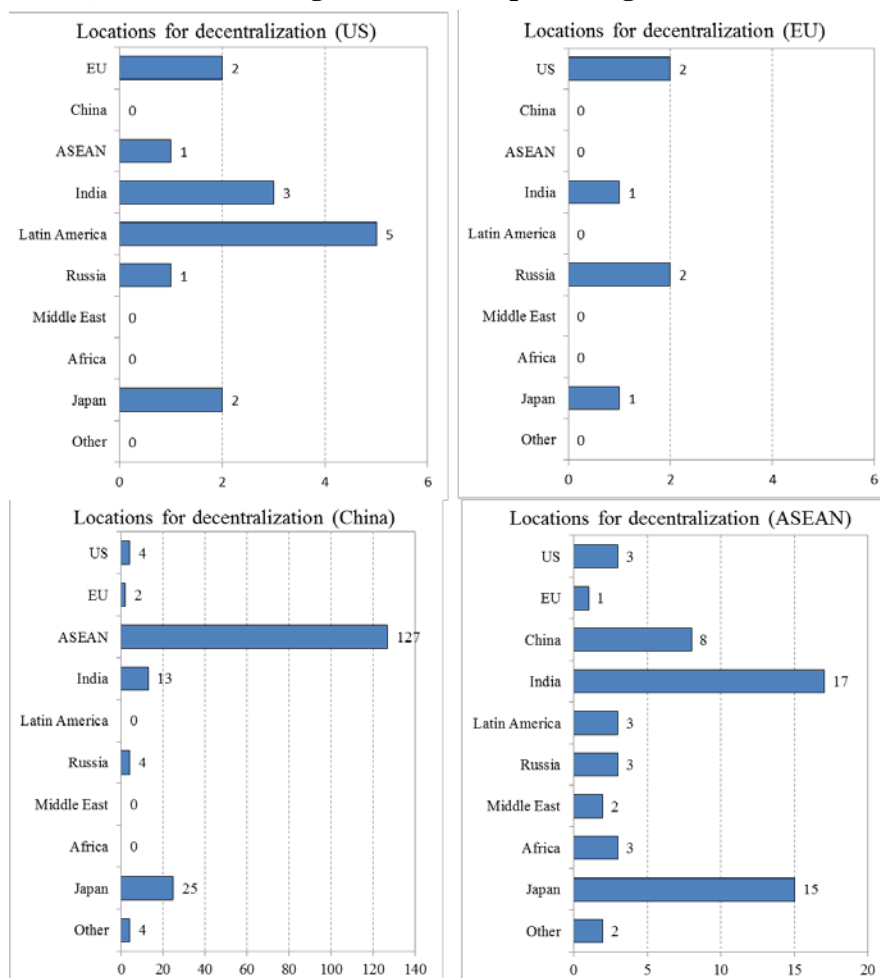
And the opposite can be said, that there are many companies that view India and Japan as promising locations to decentralize production bases in ASEAN (Figure II-2-2-16).

Figure II-2-2-15 State of initiatives for decentralization of production bases against risks that interrupt the supply chain

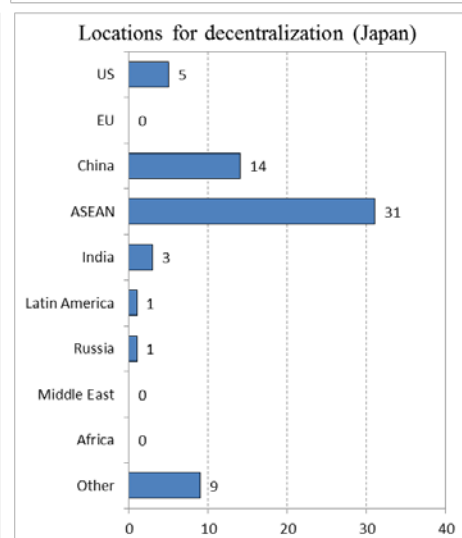
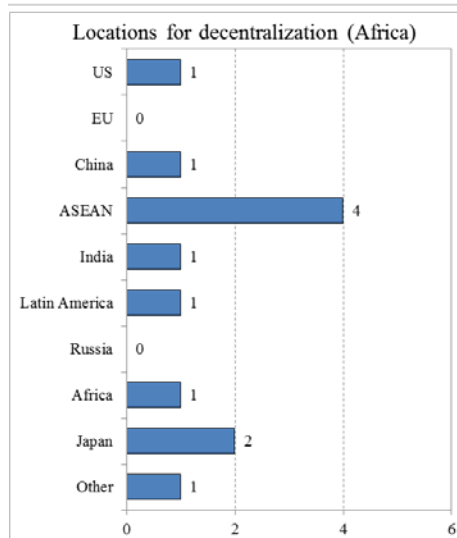
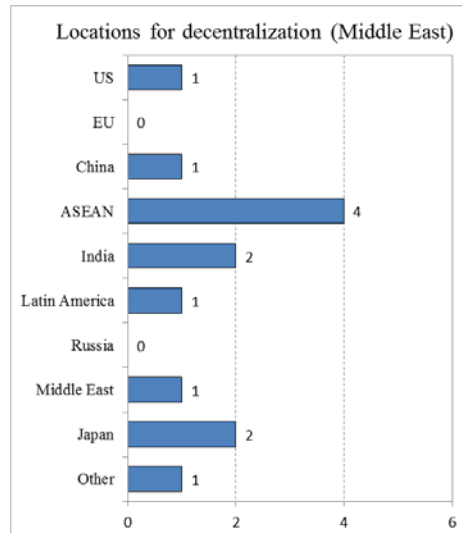
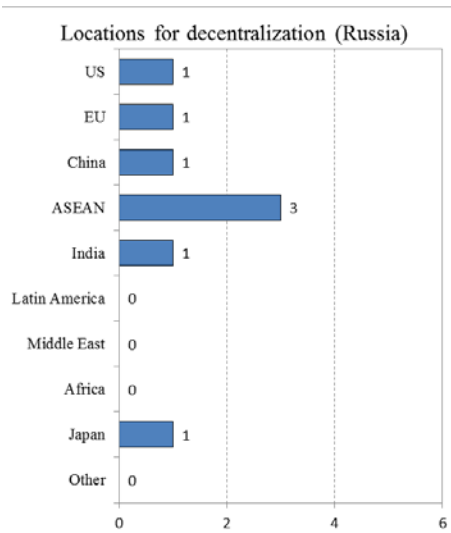
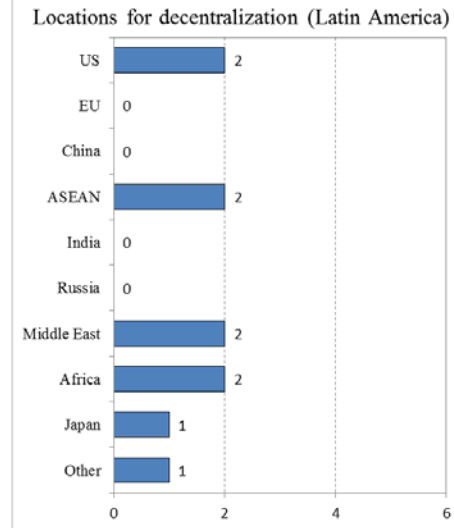
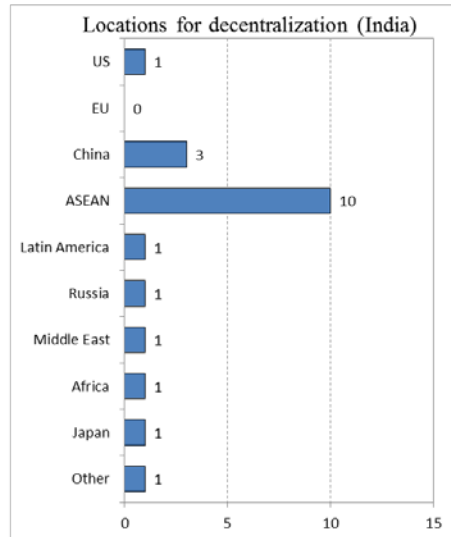


Source: *Survey on overseas strategy of Japanese companies for the consideration of the international trading policy* (Teikoku Databank).

Figure II-2-2-16 Regions where production bases are located for companies that feel the need to decentralize and, countries and regions viewed as promising locations for decentralization²



²It is necessary to be aware that samples for some countries and regions were small.



Note: The total number of corporate replies for each region does not match because there were several possible answers.

Source: *Survey on overseas strategy of Japanese companies for the consideration of the international trading policy* (Teikoku Databank).

4. Local sales related

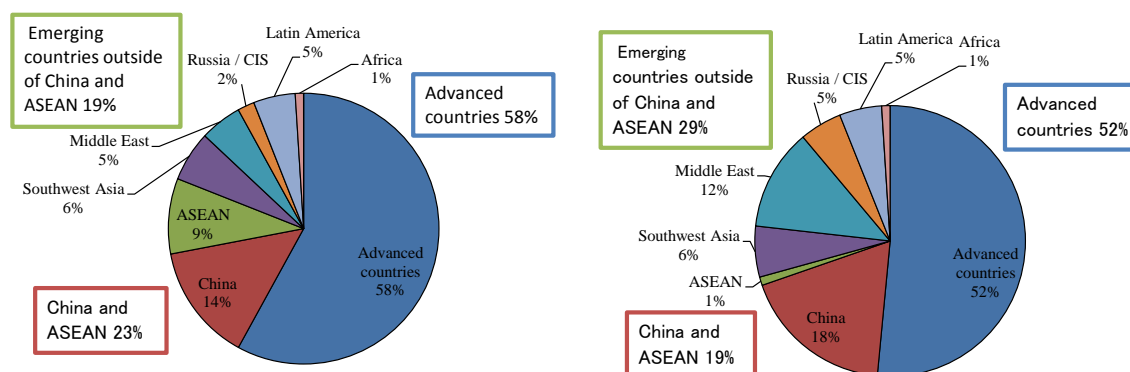
Japan's share of the import value of emerging countries is at a lower level in comparison to other competing countries. However, Japanese companies are establishing supply chains centering on Asia, and preparing local production systems for the local sales amount or export systems to send goods from an overseas base to a third country. Therefore, with a view to evaluate the state of expansion into emerging countries for Japanese companies, it is necessary to confirm the state of the local sales share for Japanese products and not just the export amount.

(1) Japanese vehicle sales in emerging countries

This section first confirms the regional breakdown for the number of vehicle sales for Japan and South Korea. Japan's sales are 58% in advanced countries, 23% in China and ASEAN, and 19% in emerging countries outside of China and ASEAN. While South Korea's sales are 52% in advanced countries, 19% in China and ASEAN, and 29% in emerging countries outside of China and ASEAN. As can be seen, this is similar to the shares for export by region in that South Korea has a high percentage in emerging countries outside of China and ASEAN in comparison to Japan.

For the breakdown of number of vehicle sales in emerging countries outside of China and ASEAN, Japan has a relatively high percentage at 5% in Central and South America. On the other hand, South Korea has high percentages of 12% in the Middle East and 5% in Russia and CIS in comparison to Japan (Figure II-2-2-17).

Figure II-2-2-17 Percentage by region that accounts for number of vehicle sales for Japan (left) and South Korea (right)

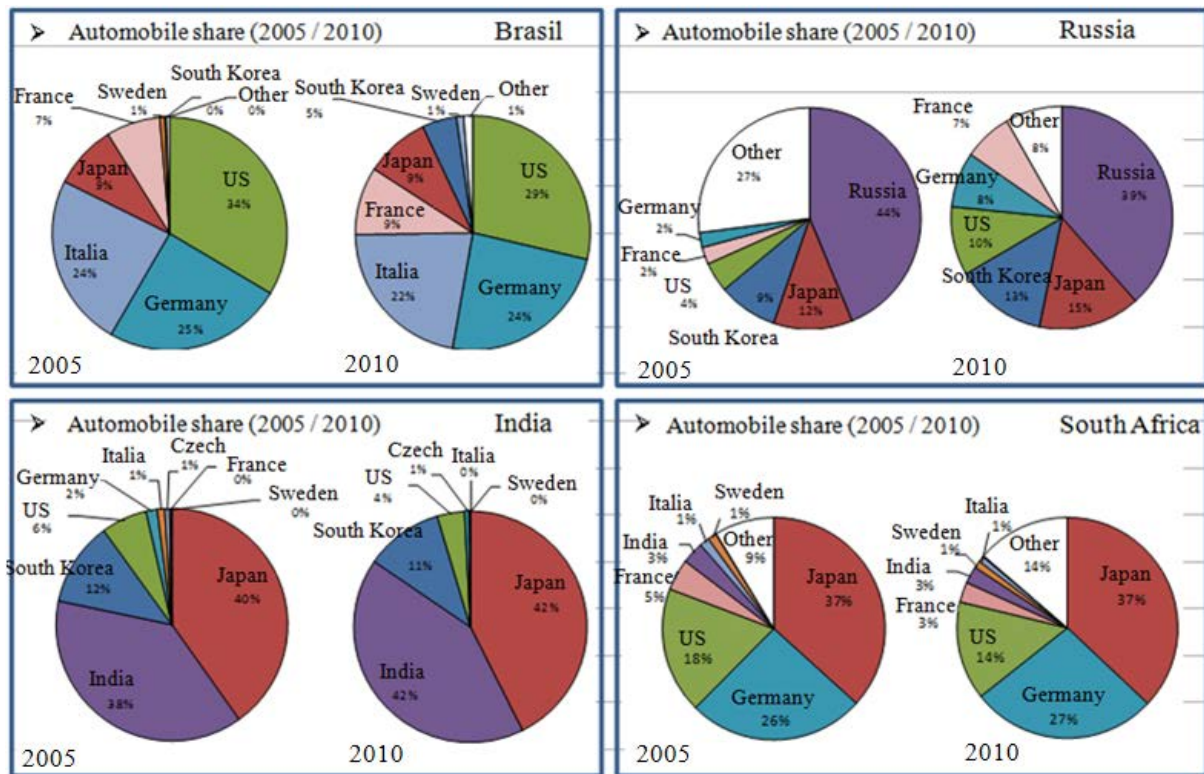


Source: MARKLINES.

How much of the share of vehicle sales has Japan obtained in emerging countries? When looking at the local sales share (number of units base) of passenger vehicles in emerging countries, Japanese manufacturers have the top share in India and South Africa with 42% and 37% respectively. In Russia, Japan comes in second place (15%) after a local manufacturer. In Brazil, European and United States manufacturers are at the top with Japanese manufacturers in 5th place with 9% of the share. When looking at the change in shares from 2005 to 2010, Japanese manufactures experienced either no change or a slight increase in each market share (Figure II-2-2-18).

From this data, it can be said that Japanese manufacturers are maintaining a steady presence in the vehicle market in emerging countries.

Figure II-2-2-18 Local sales share of passenger vehicles



Source: MARKLINES.

(2) Japanese household appliance sales in emerging countries

Next, this section confirms the sales of Japanese household appliances in emerging countries. The household appliance market has long continued to be highly competitive internationally due to the rapid advancement of companies such as Samsung and LG. Japanese companies are particularly struggling in the TV and tuner market.

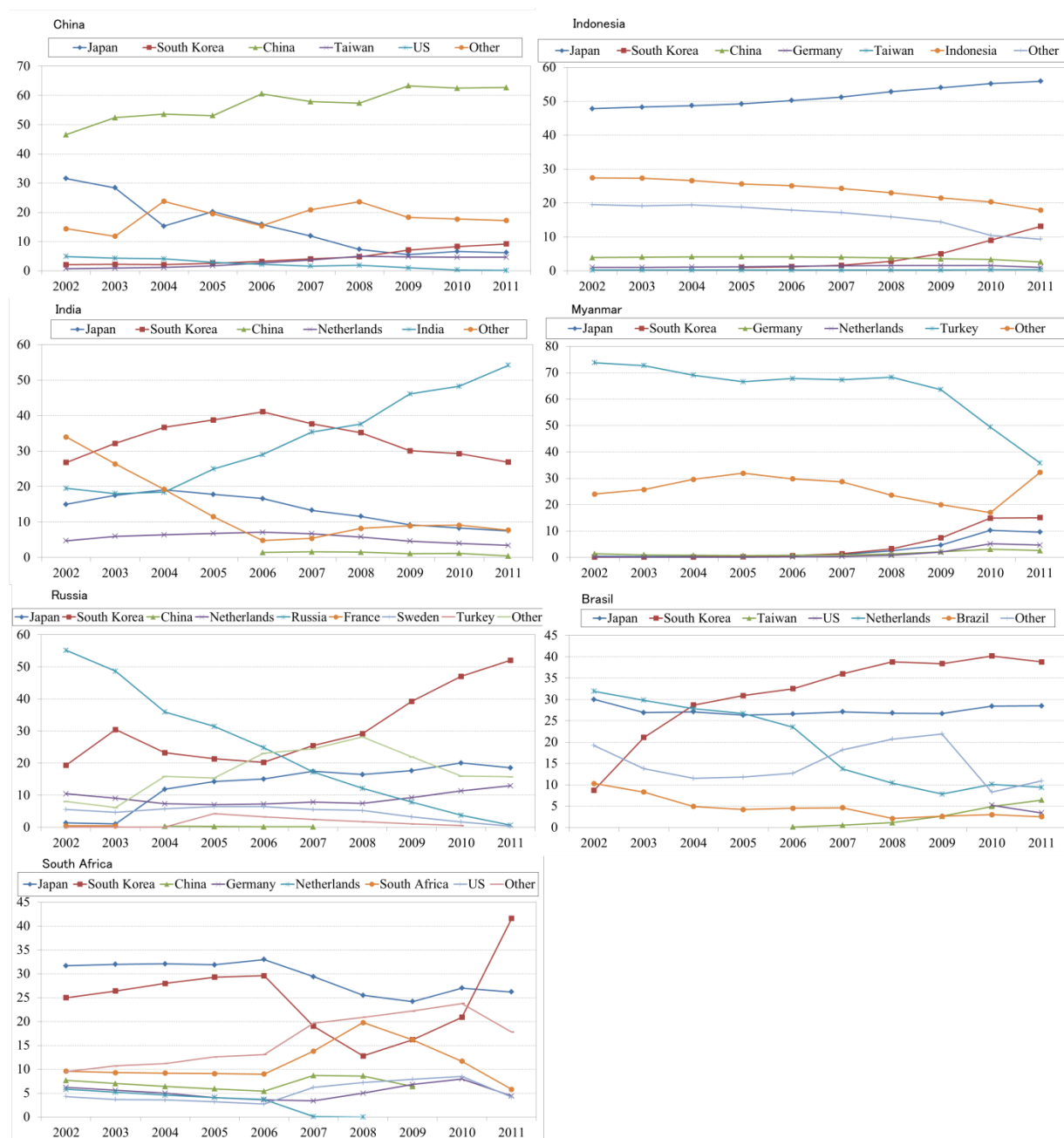
When looking at the local sales share of TVs and tuners in emerging country markets from 2002 to 2011, the Japanese companies share in Indonesia increased, while during the same period in China and India their share decreased. In Turkey, Brazil, and South Africa, the South Korean companies share rapidly increased. In Russia during the same period, the Japanese companies share increased while the South Korean companies share increased by more, and the difference in the share between Japan and South Korea did not shrink (Figure II-2-2-19).

On the other hand, the situation for the camera and video camera market in emerging countries is different from the TV and tuner market; Japan is maintaining its local sales share. From 2002 to 2011, when looking at the local sales share of cameras and video cameras in emerging countries, the Japanese companies share in Indonesia, India and Brazil has increased, and Japanese companies have maintained a high share in China, Turkey and Russia. For South Africa, the share for United States and South Korean companies has increased slightly, while Japanese companies are maintaining a high

share as before (Figure II-2-2-20).

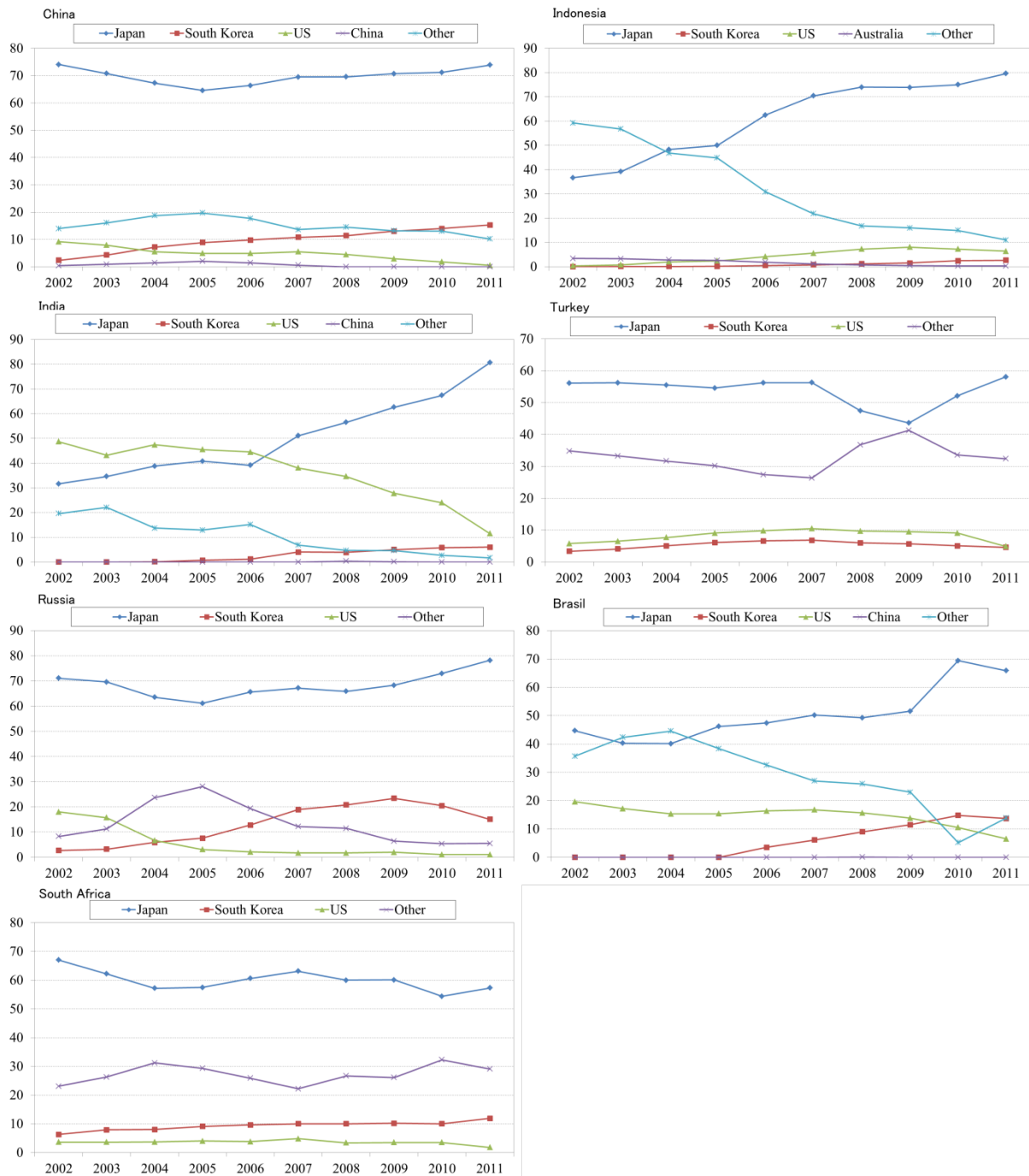
As can be seen, foreign competition is catching up to Japan in the TV and tuner market, while Japanese manufacturers are maintaining a high share in the camera and video camera market, so it can be said that Japan's presence is patchy for the household appliance market in emerging countries.

Figure II-2-2-19 Local sales share for TVs and tuners



Source: Euromonitor International 2013.

Figure II-2-20 Local sales share for cameras and video cameras



Source: Euromonitor International 2013.

5. Competition in emerging country markets

Japanese companies have a particularly high local sales share in China and ASEAN, and maintain a fixed presence. However, South Korean and Chinese companies are catching up in terms of local sales share of receiving infrastructure orders and some products, so the competition is increasing in intensity. The following section will further analyze in detail the competition with companies from other countries in emerging country markets.

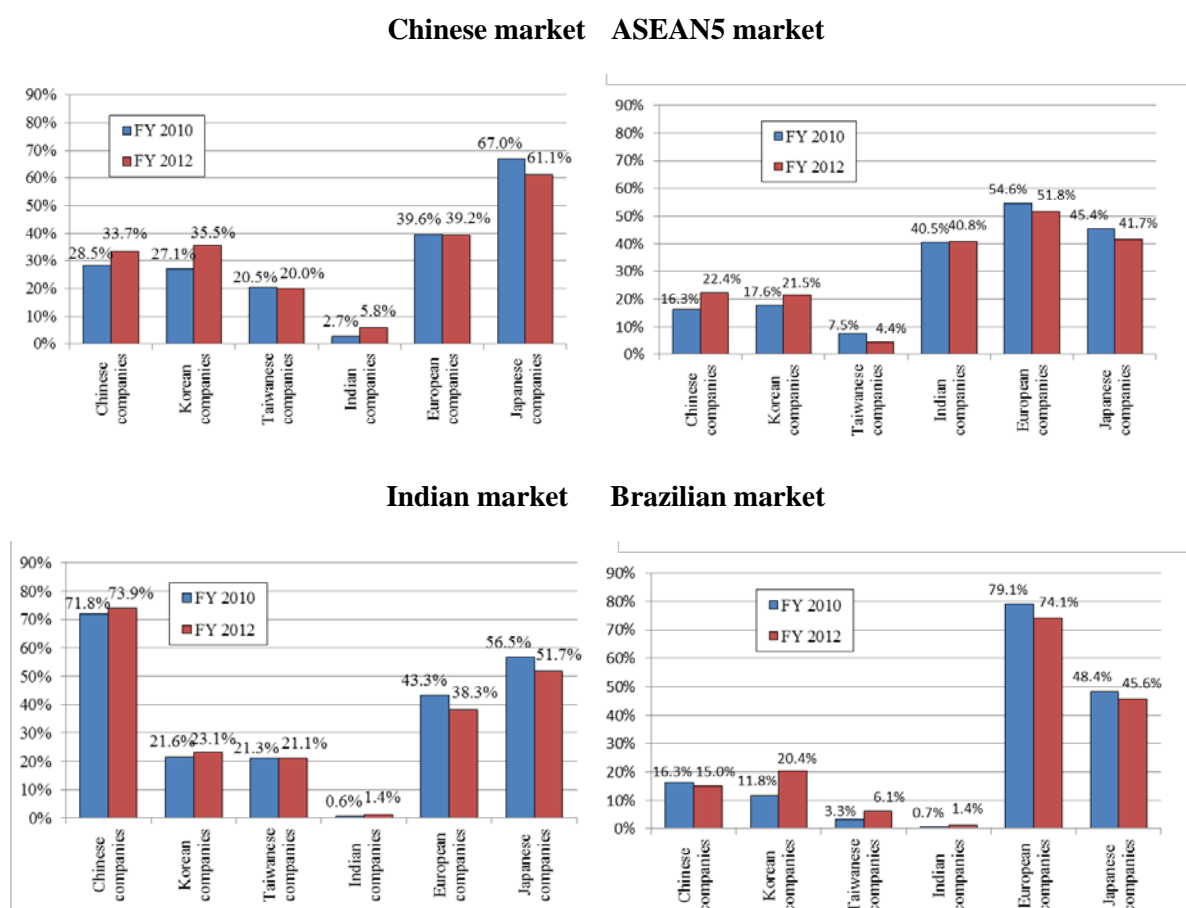
(1) Japanese manufacturing companies competing with foreign companies

According to the JBIC survey investigating competitors in emerging country markets for the Japanese manufacturing industry, the percentage of Chinese companies competing with Japan is overwhelmingly high and is getting higher for the Chinese market. The percentage of South Korean companies competing with Japan has also slightly increased from the fiscal year survey from 2010 to 2012. For the ASEAN5 market, the percentage of Japanese companies is high, but in comparison to the previous survey, the percentage of Chinese and South Korean companies is gaining ground on European and American companies and increasing (Figure II-2-2-21).

For the Indian market, the percentage of European, America and Japanese companies is high but has decreased in comparison to the previous survey. In its place, the percentage of Chinese and South Korean companies has increased.

For the Brazilian market, the percentage of European and American companies is overwhelmingly high, but in comparison to the previous survey, the percentage of South Korean companies has rapidly increased.

Figure II-2-2-21 Competition location for each market



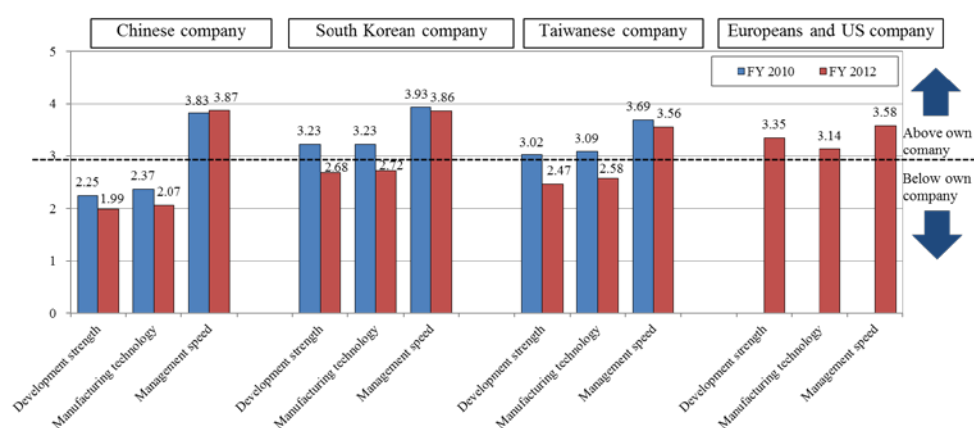
Source: FY2012 Survey (the 24th) Report on Overseas Business Operations by Japanese Manufacturing Companies (JBIC)

Next, when looking at the JBIC survey that evaluated companies from other countries against Japanese companies concerning product development strength, manufacturing technology,

management speed, and selling power in each emerging country market in Asia, there was a high percentage of Japanese companies evaluated as beating Chinese, South Korean and Taiwanese companies in terms of product development strength and manufacturing technology. However, many of these companies were evaluated as lagging behind in terms of management speed. European and American companies received a higher evaluation for all categories over Japanese companies (Figure II-2-2-22).

For selling power, companies from other countries were evaluated as being better for all markets except Chinese and Taiwanese companies in the Indian market. It can be seen that it is important for the Japanese manufacturing industry to improve selling power for emerging country markets (Figure II-2-2-23).

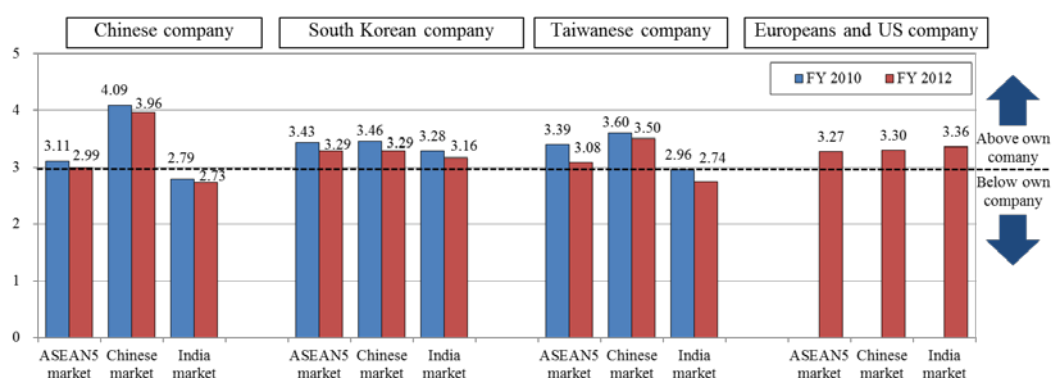
Figure II-2-2-22 Evaluation of competitor location companies in emerging country markets in Asia (all industries)



Note: The emerging country markets in Asia are the ASEAN5 market, Chinese market and Indian market.

Source: FY2012 Survey (the 24th) Report on Overseas Business Operations by Japanese Manufacturing Companies (JBIC).

Figure II-2-2-23 Evaluation of selling power of competitor location companies in emerging country markets in Asia (all industries)



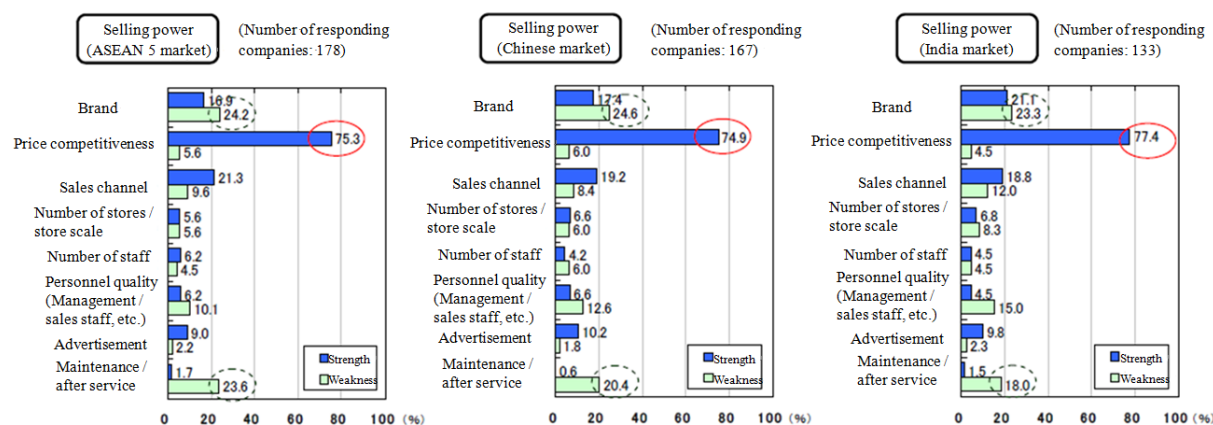
Note: The emerging country markets in Asia are the ASEAN5 market, Chinese market and Indian market.

Source: FY2012 Survey (the 24th) Report on Overseas Business Operations by Japanese Manufacturing Companies (JBIC).

(2) Japanese company brand strength in emerging countries

In order to increase the selling power of Japanese products, the key is to improve the brand image of Japanese companies, something which applies to the expansion in not just emerging countries but any country. Previously, the high selling strength of South Korean products was largely due to their moderate price setting and consumers believed that the brand strength of Japanese products was high (Figure II-2-2-24). However, in recent years, the brand strength of South Korean companies has caught up with Japan.

Figure II-2-2-24 Evaluated strengths and weaknesses for selling power of South Korean companies



Source: FY2012 Survey (the 24th) Report on Overseas Business Operations by Japanese Manufacturing Companies (JBIC).

When looking at the brand strength of Japanese companies in emerging countries, according to the brand image survey carried out in Beijing and Shanghai “Brand China 2011”, out of all Japanese companies, the best were Sony rated at 54th in Beijing, and Canon rated at 34th in Shanghai, and as a whole Japanese companies had to be content with taking a low placing (Figure II-2-2-25).

For brand ranking in India, Maruti Suzuki was ranked 5th, and Hero Honda was ranked 7th, both within the top 10, which was a result of their business expansion in India over many years. Toyota ranked at 30th and Honda ranked at 35th, were both below Hyundai, which was at 29th placed in the brand evaluation. For the electrical equipment industry, all Japanese companies were ranked below LG (13th) and Samsung (48th) (Figure II-2-2-26).

For brand ranking in Africa, Toyota and Honda put up a good fight to take 5th and 17th place respectively. For the electrical equipment industry, Samsung was ranked 10th and LG 16th, with the rank of Japanese companies out of range (Figure II-2-2-27).

As can be seen, the Japanese vehicle industry in emerging countries maintains a fixed level and brand strength, while the electrical equipment industry is struggling.

Figure II-2-2-25 Brand ranking in China (2011)

Beijing			Shanghai		
Ranking	Brand name	Deviation	Ranking	Brand name	Deviation
1	Microsoft	82.6	1	Microsoft	87.2
2	Haier	80.6	2	intel	79
3	Lenovo	78.8	3	Apple	77.5
4	IBM	78.4	3	IBM	77.5
5	LI-NING	77.9	5	Nokia	75.9
6	Apple	74.9	6	Haier	75.3
7	baidu.com	73.9	7	taobao.com	73.3
8	Tsinghua University	73	8	Lenovo	72.9
9	Harvard University	72.9	9	Tencent	72.5
10	Tencent	71.2	10	Tsinghua University	72.3
11	Monmilk	70.6	11	Google	72.1
11	Sohu.com	70.6	12	Disney	70.9
13	Beijing University	70.2	12	FAW-Volkswagen	70.9
14	Nokia	69.9	14	Volkswagen	70.5
15	FAW-Volkswagen	69.8	15	BMW	70
16	taobao.com	68.9	16	Coca-Cola	69.1
17	163.com	68.6	16	Siemens	69.1
17	Cambridge University	68.6	18	NIKE	68.9
19	Intel	68.3	19	Ferrari	68.3
20	Google	68.1	19	PORSCHE	68.3
54	NIKE	61.2	34	Canon	65.3
99	Sony	57.2	53	Sony	62.9
99	Canon	57.2	56	Panasonic	62.7
99	Nikon	57.2	65	Nikon	61.2
100	Japan Paint	55.7	75	Sony Ericsson	60.2

Note: Responses from 21,000 people.

Source: Nikkei Marketing Journal (dated December 5, 2010)

(Left) Figure II-2-2-26 Brand ranking in India

(Right) Figure II-2-2-27 Brand ranking in Africa (2012)

Company	2010 ranking	2009 ranking
Tata	1	2
Reliance	2	4
Airtel	3	1
Infosys	4	5
Multi Suzuki	5	6
ADAG	6	3
Hero Honda	7	7
HDFC BANK	8	11
IOCL	9	14
Time of India	10	8
LG	13	13
Hyundai	29	33
Toyota	30	35
Honda	35	41
Samsung	48	49
Sony	64	64
Yamaha	71	68
Sony ENT TV	79	82
Canon	83	87

Ranking	Company name	Businss	Country
1	MTN	Telecoms services	South Africa
2	Shell	Oil and gas	Netherlands
3	Coca-Cola	Beverages	US
4	Nike	Apparel	US
5	Toyota	Auto	Japan
6	Absa	Banks	South Africa
7	NNPC	Oil and gas	Nigeria
8	Vodafone	Telecoms services	UK
9	Heineken	Beverages	Netherlands
10	Samsung	Electronics	South Korea
11	HP	Electronics	US
12	McDonald's	Retail	US
13	Eskom	Utilities	South Africa
14	Shoprite	Retail	South Africa
15	Pepsi-Cola	Beverages	US
16	LG	Electronics	South Korea
17	Honda	Auto manufacturers	Japan
18	Dangote	Consumer, non-cyclical	Nigeria
19	Airtel	Telecoms services	India
20	Mercedes-Benz	Auto manufacturers	Germany

Source: 4Ps Business and Marketing, 23 September, 2010, pp11-14, Brand Africa.

Column 5 Sony's brand strategy in India

Column Figure 5-1 Sony's brand strategy in India



Photos: Provided by Sony.

With the rise of foreign competitors, the competition of consumer electronics market in India has intensified. However, to improve their brand image and awareness, Sony has taken various

initiatives in India.

In March 2013, amidst the brisk growth of the smartphone market, Sony appointed Katrina Kaif, one of the top Bollywood actresses, as their brand ambassador, and advertised their most strategic model, Xperia(TM)Z. The television commercial ran about 16,000 times, as well as the outdoor advertisements over 230 locations throughout the country, and the product hands-on events were held at over 50 locations. These very concentrated marketing activities contributed to raising sales vertically right from the launch of the product.

Furthermore, Sony established Sony Entertainment Television in 1995, and after breaking into India's TV broadcasting industry, they quickly grew a Hindi general entertainment channel, which continues to maintain a high popularity after almost 20 years. With huge awareness generated from the entertainment business, how to unify that with the electronics business to further expand their entire business throughout India is a key challenge for Sony.

Furthermore, as a place to directly communicate their brand message, Sony has expanded the number of stores in India to approximately 300, such as Sony Center, which is a store for exclusively selling Sony products. It is believed that this type of store contributes to improving the image and awareness of the Sony brand in India (column Figure 5-1).

Section 3 Regional strategies depending on circumstances in each emerging country

Sections 1 and 2 showed that circumstances such as the level of economic development, the level of penetration by Japanese companies, and the competition environment with other companies are different by countries and regions. In order to capture the market in emerging countries, it is necessary to understand the situation in each emerging country and then proceed with strategic initiatives that are tailored towards each emerging country.

Therefore, based on the circumstances for each region, this section will categorize emerging countries into three groups as follows: (1) China and ASEAN, (2) Southwest Asia, Middle East, Russia and CIS, Central and South America, and (3) Africa. For each of these categorized countries, Japanese government will “assist Japanese companies to expand into emerging markets”, “export infrastructure system” and “maintain the supply of resources”.

1. Three types of emerging countries

The following shows the current situation, issues, and the basic policies for the three groups of emerging countries (Figure II-2-3-1).

(1) China and ASEAN: Full market penetration

(A) Current situation and issues

The first group consists of China and ASEAN countries. As seen in previous sections, approximately 30 thousand Japanese companies, mainly manufacturing companies, have penetrated this region, and have already formed industrial clusters. In addition to its importance of being the production base, consumer market in this region is expanding due to its growing number of middle class and the rich. It is believed that business opportunities for Japanese products will increase based on the need for high quality goods and services.

However, competition with other countries has recently been escalating, even in the industries such as vehicles and household appliances, in which Japanese companies used to have substantial share.

(B) Basic policy

In order to further tap into the ASEAN market, we will strengthen competitiveness in manufacturing sectors by means such as upgrading supply chains, and will also promote non-manufacturing industries to expand their businesses into the market. Japan seeks to obtain “full market penetration” in this region.

(2) Southwest Asia, Middle East, Russia and CIS, Central and South America: Achieve critical mass

(A) Current situation and issues

The second group consists of Southwest Asia, The Middle East, Russia, CIS and Latin America. The wealthy and middle classes have grown, the market size is large and the growth rate is high. However, Japanese companies are lagging behind Western and Korean companies regarding the

market share.

Furthermore, there are many resource-rich nations in this region, and it is necessary to build and strengthen economic relationships in order to maintain Japan's energy sources.

(B) Basic policy

These are the markets Japan must come from behind. While considering the various factors such as the market size and competition situation, it is necessary for Japan to narrow its options down to promising sectors and achieve critical mass by engaging in those sectors.

(3) Africa: Create a successful example

(A) Current situation and issues

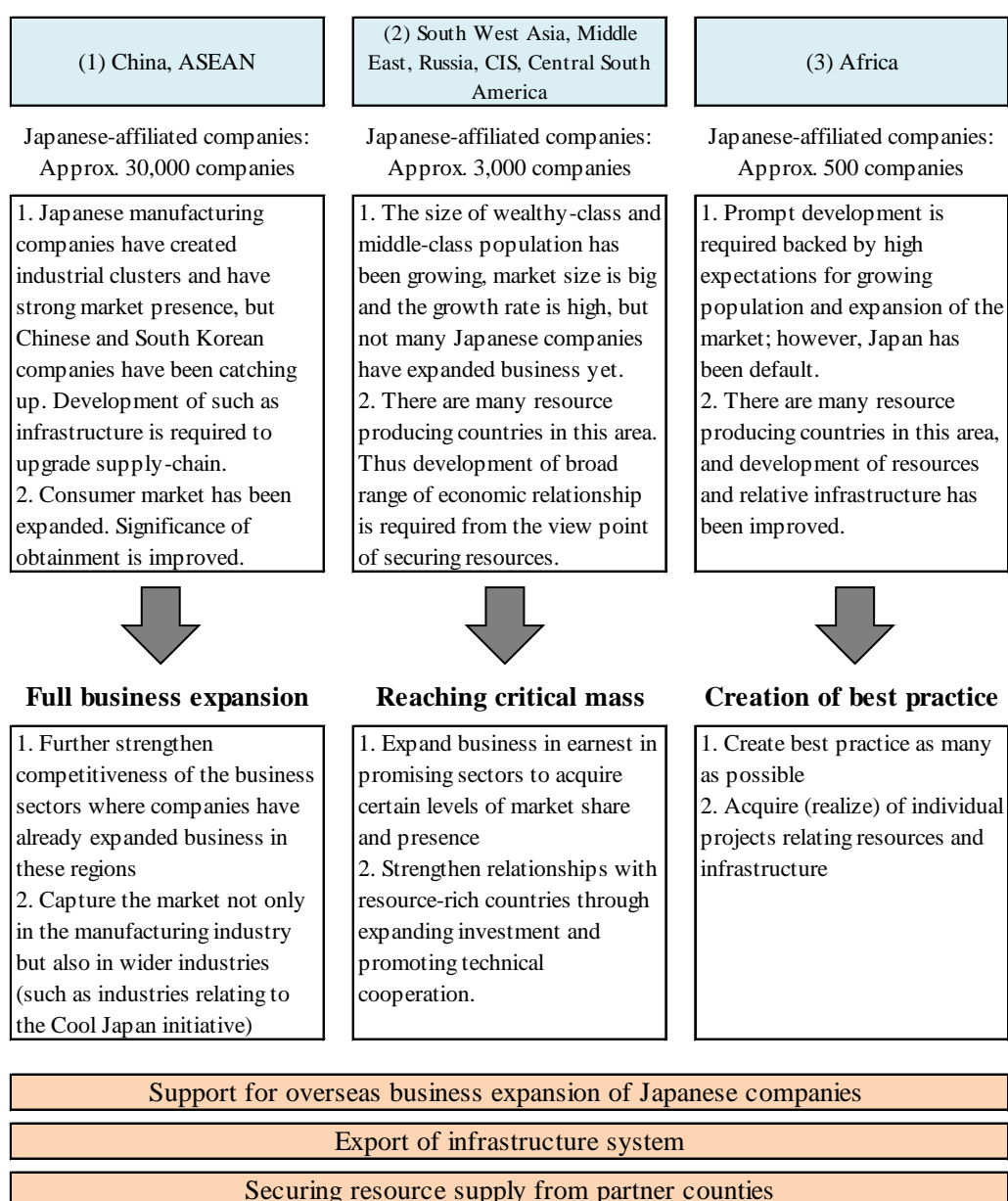
Third is the African countries. This region will have a huge population increase, which should lead to a large scale increase of the market. However, the presence of Japanese companies in Africa is extremely low and they are losing out by not being there.

Furthermore, as is the same with the second group, there are many resource-rich nations, and development of resources and related infrastructures are important.

(B) Basic policy

Japan aims to create as many successful cases of advancement into the region as possible. It is necessary to establish an environment in which Japanese companies can invest safely.

Figure II-2-3-1 Strategic initiatives for emerging country markets (overall view)



Source: Ministry of Economy, Trade and Industry.

Column 6 5th Tokyo International Conference on African Development (TICAD V)

Sub-Saharan Africa (area of Africa that lies south of the Sahara desert), which had been troubled by ethnic conflict and poverty, according to the IMF, is expected to reach a growth rate of 5.7% in 2013. For Japan, Africa is about to transform from a region that needs aid into a region for investment.

From June 1 to June 3, 2013, the 5th Tokyo International Conference on African Development (TICAD V) was held in Yokohama. The TICAD, which began in 1993, initiated by the Japanese government, is an international conference that discusses the development in Africa, and is held once every five years among the heads of state. This was the 5th conference.

Over 4,500 people from the 51 countries of Africa including the 39 heads of state, representatives from donor countries, Asian countries, and international and regional bodies, and also representatives

from civil society such as the private sector and NGO attended this conference.

With the theme of “Hand in Hand with a More Dynamic Africa” for the conference, the government gave serious attention to Africa’s self-assistance and self-reliance, and showed the international community Japan’s basic stance towards assisting Africa while focusing on growth. At the same time, the government announced an assistance package of approximately 3.2 trillion yen for Africa to help grow Africa with public and private sector initiatives.

In response to this, Toshimitsu Motegi, the Minister of Economy, Trade and Industry, said that Japan and Africa came up with four initiatives that both create a reliable business partnership and provide cooperation that Japan is familiar with for growth (column Table 6-1).

The first is to promote the penetration of Japanese companies in Africa, double the number of JETRO offices from the current five in Africa, alleviate criteria for accepting trade insurance that applies to 19 countries in Africa, hold a J-SUMIT (Japan Sustainable Mining, Investment and Technology business forum) and African Fair, and plan to promote human and cultural exchange on a non-government level. Furthermore, it was announced that finance assistance of 200 billion yen would be provided for the resource sector at the “Japan-Africa Ministerial Meeting for Resources Development”, with the theme of developing resources in Africa, which was held prior to TICAD.

The second is to promote infrastructure development, a strong area for Japan.

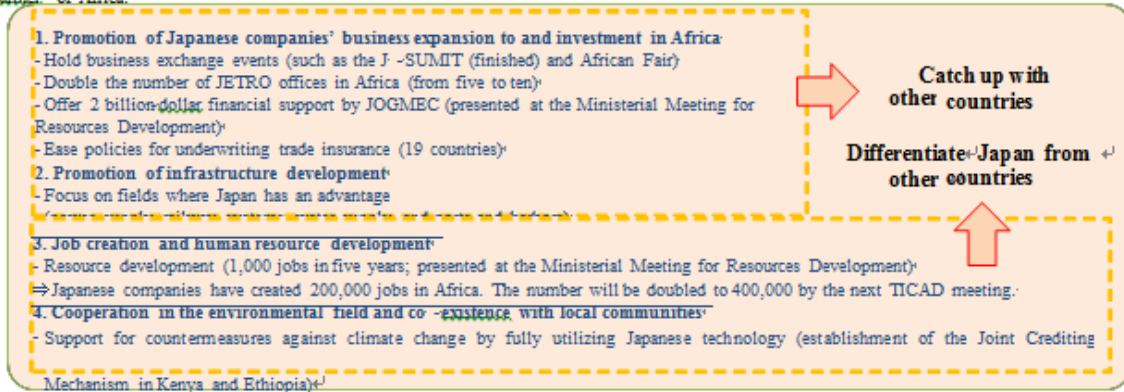
The third is to create local jobs and cultivate human resources, double the number of local employees in Japanese companies, estimated to be currently 200 thousand people, to 400 thousand people over the next five years, and to have the goal of cultivating human resources to the number of 1,000 people for the resource sector.

The fourth is to have cooperation for the environment sector coexist with the local community, and be motivated to hold discussions among the African nations, continuing from the Ethiopia agreement to launch a system that contributes to improving the African economic development and global climate with the “Joint Crediting Mechanism” that promotes the implementation of Japanese environmental technology to developing countries.

After seeing Africa as an investment location, and giving serious attention to Africa’s self-assistance and self-reliance, contribution plans that Japan is familiar with, which focus on growth, are expected to create synergy effects on the economic growth of Africa and Japan.

Column Table 6-1 table Overview of TICAD V

40 top-level participants from 51 countries participated. Mr. Motegi, Minister of Economy, Trade and Industry, attended the subject meeting of TICADV, and made pronouncement on the measures and policies as below in order to contribute to further development in Africa as Japan being a 'reliable business partner' of Africa:



Source: Ministry of Economy, Trade and Industry.

2. How to proceed for priority sectors and each region

From now, the following three sectors have been given special priority in supporting for overseas business expansion, these sectors are “support for overseas business expansion of Japanese companies”, “export infrastructure system” and “securing resource supply from partner countries”. It is necessary to strategically become engaged in each region that has already been classified. More specifically, it is vital for Japan to change its response to each priority sector based on the attributes and differences of Group 3 of the emerging countries.

Based on the above ideas, we will continue to organize the direction of initiatives in each priority business sector in each region.

(1) Support for overseas business expansion of Japanese companies

When supporting for overseas business expansion of Japanese companies, combining and using each type of support under the basic policy in Figure II-2-3-2, such as support for overseas expansion of medium sized, and small and medium companies and the service industry, support that utilizes “Cool Japan”, and assistance to promising sectors, is believed to be an effective plan (Figure II-2-3-3).

As analyzed in Part 1, focusing support to medium sized, and small and medium companies that have the potential but not expanded overseas in comparison to large companies, and the service industry that has been late in expanding overseas compared to the manufacturing industry, is believed to be an effective plan.

Furthermore, for the overseas business expansion initiative of “Cool Japan” as a means of using the attraction of Japan to grow the industry in the future, it is expected that it will show its effectiveness by further accelerating the sales of consumer goods in the first Group, and improving the awareness of the Japanese brand in the second Group and the third Group.

Furthermore, as a business solution industry sector, Japan should confirm which markets are promising and proceed to open up the market in emerging countries for medical devices and services

that are becoming the focus of attention, including the possibility of foreign expansion.

Figure II-2-3-2 Support for overseas business expansion of Japanese companies (basic policy)

(1) China, ASEAN	(2) South West Asia, Middle East, Russia, CIS, Central South America	(3) Africa
<p>* Strengthen Japanese companies' production system through the reinforcement of supply chains</p> <ul style="list-style-type: none"> - Reduction of tariffs and facilitation of trade by establishing the RCEP - Analysis of problems in regional integration and recommendations by ERIA - Development of major distribution routes and power networks (across ASEAN countries) - Support for facilitation of distribution and customs procedures (across ASEAN countries) - Involvement in the development of an industrial complex (in Myanmar) and the capital sphere (in Indonesia) - Support for fostering supporting industries (cooperation for industrialization, etc.) in less-developed countries in the region 	<p>* Specify promising sectors (such as cars and daily necessities) for each country and provide support for full-fledged business expansion</p> <ul style="list-style-type: none"> - Strengthening of networks with local industrial circles, etc. 	<p>* Initiate the interest of companies, create opportunities for business expansion, and support such efforts</p> <ul style="list-style-type: none"> - Enhancement of JETRO's local systems - Hands-on support for individual projects
<p>* Promote Japanese companies' acquisition of emerging markets through the introduction of energy conservation standards</p> <ul style="list-style-type: none"> - Support for the establishment of standards and systems for ecologically-friendly cars and home appliances (in Vietnam, Indonesia, etc.) - Support for the development of legal systems concerning sales finance 	<p>* Strengthen economic relationships and back up business expansion through offering cooperation for making development plans or in energy-related sectors</p> <ul style="list-style-type: none"> - Cooperation for making regional development plans and development of industrial complexes (for example, in India) - Holding of energy forums (for example, in India) 	<p>* Develop an environment where companies can make investment at ease</p> <ul style="list-style-type: none"> - Conclusion of investment agreements (at present, concluded only with Egypt)
<p>* Develop a favorable business environment</p> <ul style="list-style-type: none"> - Response to labor problems and intellectual property-related problems, and development of the cyber security environment 	<p>* Develop a favorable business environment through such means as concluding economic partnership agreements</p> <ul style="list-style-type: none"> - Conclusion of economic partnership agreements (in Turkey and Columbia) 	

Source: Ministry of Economy, Trade and Industry.

Figure II-2-3-3 Support for overseas business expansion of Japanese companies (market capture of specific industries)

(1) China, ASEAN	(2) South West Asia, Middle East, Russia, CIS, Central South America	(3) Africa
SMEs / Service <ul style="list-style-type: none"> - Back up the competitive companies of global niche-top style to expand their business toward new area. - A good number of companies had already made local expansion. - Support the parts manufacturers who develop their business in the third country from the aspects of optimum location in whole Asia. - The Japanese lifestyle has become widespread, and there are big business chances in service industry including dine out. There is a point in making prior investment (in Myanmar, etc.) - Promote easing of regulations through political dialogue and cultivation of local human resources, and support expansion of retail industry. 		
Cool•Japan <ul style="list-style-type: none"> - Based on the Japanese culture, make a profit through combining broadcasting of TV program and development of shopping malls and sale of consumption commodity. 		
Medical Equipment / Service <ul style="list-style-type: none"> - The basic medical system has been almost established. Lifestyle-related diseases measures and prevention measures are prospective market. - Active implementation of prior investment including expansion and networking of medical foreign students toward Japan. 		
<ul style="list-style-type: none"> - Back up the competitive companies of global niche-top style to expand their business toward new area. - Make support for business development of parts manufacturers mainly in the countries where growing numbers of Japanese-affiliated manufacturers have been expanding their business (in India, Brazil, and Mexico, etc.). - There will be possibilities of development of Japanese-affiliated service industries including dine out in the countries where there are growing numbers of high-income class and middle-class population. 	<ul style="list-style-type: none"> - For a global niche-top company with overwhelming advantage, even though it is a SMEs there is a possibility to exploit a new market in Africa. 	<ul style="list-style-type: none"> - In order to promote the basis of Japanese culture in this area, make approach toward the affluent and the general public by various means including attracting movie shooting, holding events.
<ul style="list-style-type: none"> - Promote construction of imaging diagnosis center in the area and soon where advanced medical care has not been available. - Provide total promotion of medical equipment, service and system in the area where new construction and remodeling of hospitals. 	<ul style="list-style-type: none"> - Starting from making cooperation with the government office abroad and holding a “Japan Fair” to improve Japanese recognition as making prior investment 	

Source: Ministry of Economy, Trade and Industry.

(2) Exporting infrastructure system

For exporting the infrastructure system, it is important that the government and companies become engaged as one and the whole government assists the following three projects for each of the three classified regions of the emerging countries (Figure II-2-3-4).

- (1) A project that aims to produce great results, requires clear commitment and takes a long time until completion, by establishing bases for market penetration and acquiring the local market for

Japanese companies, after cooperating with partner countries from the top level of municipal and regional developments, as initiatives for the whole regional development.

- (2) A project that creates pioneering examples that prepare for the following regional expansion through such things as political dialog with the governments of partner nations.
- (3) Individual matters that should win through the fierce competition such as nuclear power plants and high speed railroads.

Figure II-2-3-4 export of Infrastructure system

(1)China, ASEAN	(2)South West Asia, Middle East, Russia, CIS, Central South America	(3) Africa
whole regional development		
1. Resolution of bottleneck, the problems of infrastructure including transportation, distribution, and electric power, of the Japanese-affiliated companies on-site -MPA (JABODETABEK Metropolitan Priority Area) (in Indonesia) 2. Enhanced supply-chain By preparation of the local base -Development of Thilawa special economic zone (Myanmar)	1. Develop the maintenance practice conducted for preparation of the local base in China and ASEAN. - Delhi-Mumbai Industrial Corridor (India)	
Construction of Pace-setting Case Example		
-Lach Huyen Port and Long Thanh International Airport (Vietnam) -ASEAN satellite disaster prevention system (Indonesia, Thailand, etc.)	-Far -east development (Russia) -Water and sewerage (Saudi Arabia)	-Geothermal generation (Kenya)
Individual cases where fierce competition exists		
-Construction of nuclear power plant in Vietnam	-Construction of nuclear power plant in Turkey -Construction of high-speed railway in India	-Electric locomotive for general freight (South Africa)

Source: Ministry of Economy, Trade and Industry.

(3) Securing resource supply from partner countries

Securing a stable and affordable supply of resources is a lifeline for Japan's economy and industry. Currently, there is an uneven distribution of essential items in certain regions, such as that Japan depends on the Middle East where the situation is unstable for over 80% of both crude oil and Liquefied petroleum gas, and also depends on China for over 80% of rare metals such as rare earths, tungsten and antimony. Based on this uneven distribution of regions, it is necessary to form resource strategies to always know what resource can be procured from what region.

It is important to secure a "stable" and "affordable" supply of resources after implementing various political tools such as multilateral assistance for supply sources and procurement interests of Japanese companies through such means as risk money supply based on Japan Oil, Gas and Metals National Corporation (JOGMEC), strengthening relationships between resource countries and consumer countries by holding international conferences such as the LNG Producer and Consumer Conference,

proactively developing resource diplomacy with the government as a whole such as utilizing ODA, and cultivating human resources and cooperating over technology, based on such things as the status of resource countries and regional features, and the needs of resource countries (Figure II-2-3-5).

Figure II-2-3-5 Securing the supply of resource and energy

(1) China, ASEAN	(2) South West Asia, Middle East, Russia, CIS, Central South America	(3) Africa
Oil / natural gas		
Diversify supply sources, secure own interests, and maintain relationships with major supplying countries		
<ul style="list-style-type: none"> • Strengthening of a relationship with Indonesia <securing of own interests> 	<ul style="list-style-type: none"> - Strengthening of a relationship with Russia in the energy sector, etc. <diversification of supply sources> - Strengthening of a relationship with UAE in wide-ranging sectors <ensuring of own interests> - Strengthening of a relationship with Saudi Arabia in wide-ranging sectors <largest oil producing country> 	<ul style="list-style-type: none"> • Strengthening of a relationship with Mozambique in the energy sector <diversification of supply sources>
Mineral resources		
Diversify supply sources <in particular, rare earths and rare metals> and secure supply from Africa, the last frontier		
<ul style="list-style-type: none"> - Strengthening of relationships with Vietnam, Myanmar, etc. in the sector of mineral resources 	<ul style="list-style-type: none"> - Strengthening of relationships with Kazakhstan, etc. in the sector of mineral resources <diversification of supply sources> 	<ul style="list-style-type: none"> - Strengthening of relationships with African countries at the Japan-Africa Ministerial Meeting for Resources Development (May 2013)
Coal		
Diversify supply sources (in particular, secure excellent coking coal)		
<ul style="list-style-type: none"> - Strengthening of a relationship with Mongolia in the coal sector and ensuring of infrastructure 	<ul style="list-style-type: none"> - Strengthening of a relationship with Russia in the energy sector, etc. 	<ul style="list-style-type: none"> - Strengthening of a relationship with Mozambique in the coal sector and ensuring of infrastructure

Source: Ministry of Economy, Trade and Industry.

Column 7 Unicharm Corporation initiatives

Unicharm is a hygiene goods manufacturer that holds the top share in Asia and 3rd in the whole world for paper baby diapers.

In 1984, after establishing a local subsidiary in Taiwan, the company began to expand overseas while focusing on Asia. This caused their sales and profit to increase (sales in FY 1985 were 68.8 billion yen, and in FY 2012 had risen to 495.7 billion yen). Currently, they have expanded into over 80 countries in the world such as in East Asia, Southeast Asia, Oceania, the Middle East and North Africa.

For penetration into foreign markets, they strategically determine the region to move into by considering such things as the market size, whether the market is about to grow, and the competitive environment from other companies that have similar products.

To commercialize their diapers in the local market, they research lifestyle thoroughly such as

staying in close contact and observing the daily lives of their consumers over a long period of time, and plan their products based on the actual living conditions of the local people. Furthermore, they are planning to integrate themselves further in the local region having bought the 2nd biggest local manufacturer in Vietnam in 2011.

In Indonesia, where it is not rare to be paid on a weekly basis, many families are unable to budget for products because they do not have the money on hand; therefore, Unicharm sells smaller packs of diapers, which has received favorable reviews.

In this way, Unicharm is expanding their overseas business by matching to the different lifestyles and business customs of each country (column Figure 7-1).

Column Figure 7-1 Unicharm product for sale overseas



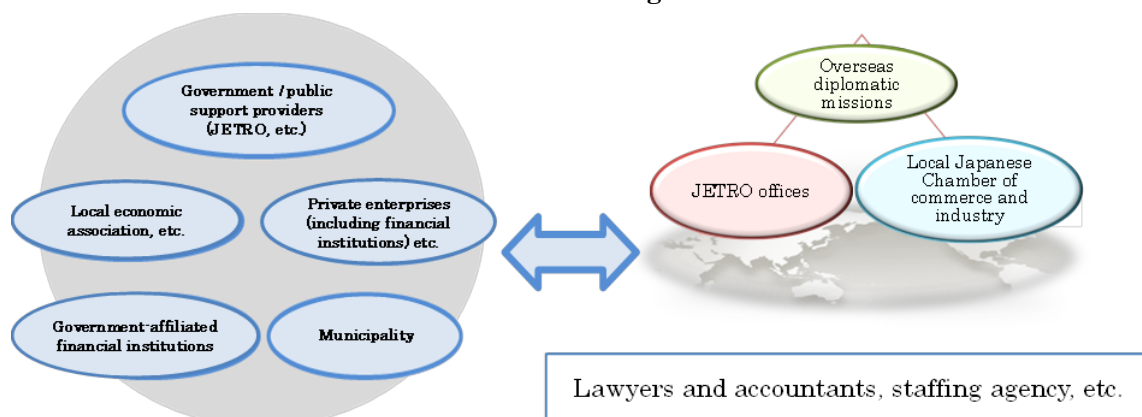
Photo: Taken from Unicharm website.

Section 4 Direction to strengthen policy for strategy implementation

Finally, this section will explain the precise direction for strengthening policy measures required to implement strategic initiatives for emerging countries as discussed until now, or in other words “region strategy”. More specific detail on policy will be given from the next chapter.

First, to promote overseas development of SMEs and the service industry, a system will be developed that seamlessly assists potential and motivated companies. More specifically, there are systems to assist the overseas development of various SMEs and the service industry within Japan. cooperation will be drastically strengthened, and sharing information to assist the company in question and mutual use of assistance measures will be made possible, initiatives that enable focused input and Japanese companies that have penetrated foreign markets will be confronted locally, and a one-stop overseas consultation office will be set up to quickly deal with various problems such as legal, labor and intellectual property issues. At this one-stop overseas consultation office, individual companies can receive consultations, and based on their wishes, will be introduced to reliable specialist bodies such as for legal, labor or intellectual property (Figure II-2-4-1).

**Figure II-2-4-1 Image of cooperation and one-stop overseas consultation office
between assistance organizations**



Source: Ministry of Economy, Trade and Industry.

Second, moving towards developing an environment for Japanese company penetration, securing resources and acquiring infrastructure projects, Japan will mobilize its top sales from the head of state and ministers to private sector negotiations, and achieve initiatives that involve the government and its people as one. These initiatives, including those that have already started, will be drastically strengthened.

Third, as explained in the previous chapter, a business environment will be maintained to allow Japanese companies to operate with stability after penetrating into the local market, and investment agreements and tax treaties will be concluded or revised to eliminate barriers to local penetration and fund reflow, such as maintaining freedom of remittance and adjustment of double taxation. For

example, development will focus on Africa where the conclusion of investment agreements is slow (Figure II-2-4-2).

Figure II-2-4-2 Status of countries that have signed investment agreements

Asia	18
Latin America	4
Middle East	3
Africa	1

Note: Includes EPA investment chapter.

Source: Ministry of Economy, Trade and Industry.

Fourth, development projects in emerging countries are high risk because of the large scale and long time period, and since local governments are strongly involved, it is necessary for the government to come forward and give their backing to these projects. Therefore, the government is using yen loans, JICA's Private Sector Investment Finance, and JBIC loans, and promptly supplying risk money, to encourage the creation of projects that provide strong benefits for Japan. Meanwhile, trade and investment insurance will be reinforced to assist the work of strengthening the response to risks that companies face when developing business overseas, including responses to such things as terrorism and war. By solidifying this type of initiatives with top political diplomacy, Japanese companies expanding overseas will be given full support. Furthermore, initiatives that establish systems such as public financial institutions, are necessary to also achieve this.