

Chapter 3 Supporting industries and companies with potential to advance into foreign markets

This chapter provides a discussion on support for Japanese companies to expand overseas and export infrastructure, which were brought up as priority sectors for strategic initiatives in developing countries, from the perspective of assisting infrastructure export, overseas expansion of the non-manufacturing industry, and overseas expansion of outstanding SMEs as assistance for companies that show potential to expand overseas.

Section 1 Overseas expansion of mid-market companies and SMEs

This section will show the direction of approaches to expand the activity of mid-market companies and SMEs in international markets, after arranging the features of these mid-market companies and SMEs that receive a lot of global attention as sources of labor absorption and economic growth. First, as a precedent of overseas expansion of mid-market companies and SMEs, this section will look at German mid-market companies and SMEs that are greatly contributing to domestic economic growth. Furthermore, there will also be an introduction, using examples, of Japanese mid-market companies and SMEs that have been successful in overseas expansion similar to the German companies.

1. Mid-market companies that receive a lot of international attention

There has been a lot of attention to the fact that those which showed great resistance to the effects of the economic shocks that were brought about by the downturn of the economy due to financial turmoil such as the Lehman Shock and the United States subprime loan problems, were mid-market companies and SMEs, mid-market companies in particular.

There are survey results to show that mid-market companies contributed to the creation of around 190 thousand jobs, which was greatly above the approximate 90 thousand jobs that small companies created, while large companies were reducing around 1.5 million employees in the four EU countries of Germany, France, Italy and the United Kingdom, from 2007 to 2010, when the economy began to stagnate.¹ (Figure II-3-1-1). These mid-market companies, regardless of the fact that they accounted for less than 2% of all the companies in number in the four EU countries, created sales, employment and a GDP percentage that was each approximately 30% of all the companies in the region, so these mid-market companies were a source of support for the economic activities in the four EU countries (Figure II-3-1-2). A true representative of this are the German mid-market companies (*Mittelstand* in German), which have been successful in the global market due to their outstanding business model of (1) specializing their services and specific goods, (2) proactively acquiring foreign demands, and (3) meeting the needs of their customers through after sales service (more details are given later).

Not just in Europe, but also in the United States, there are glimpses of cases in which mid-market companies were the underlying strength of the economy. Mid-market companies² occupy about one

¹ The range of the mid-market companies set up by the national center for the middle market (translated as *Medium sized company*.) is Germany: annual sales of 20 million to 1 billion euro, United Kingdom: annual sales of 20 million to 1 billion euro, France: annual sales of 10 million to 500 million euro, Italy: annual sales of 5 million to 250 million euro.

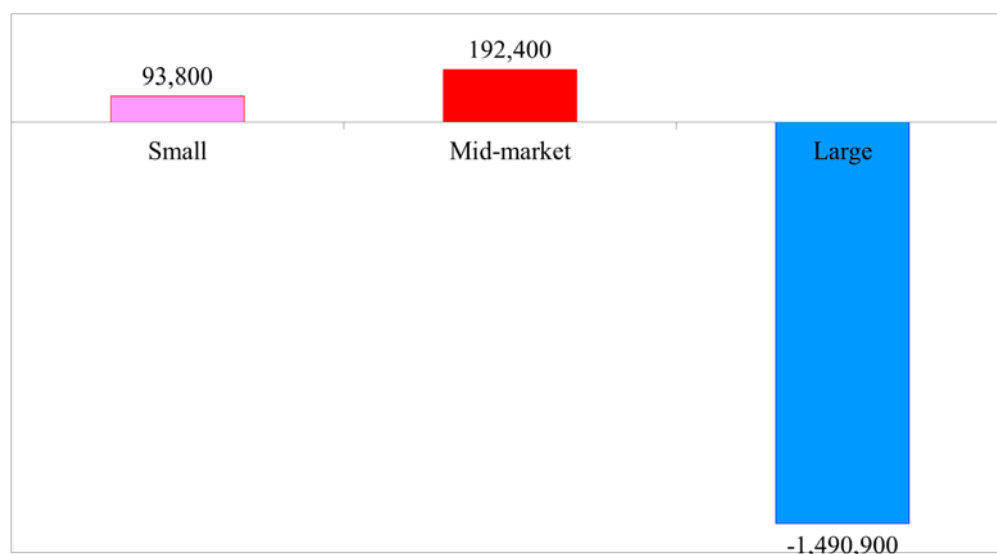
² United States mid-market companies based on national center for the middle market have annual sales of

third of the GDP in the United States, but when looking at the growth of sales and employment, they show a performance that ranks among the S&P500 companies (and in some cases are superior) (Figure II-3-1-3).

We can see the favorable performance of similar sized companies also in Japan. Based on “Basic survey of Japanese Business Structure and Activities”, companies that had a sales growth rate in the top 20th percentile (top 20% in the sample order) were subdivided by their size of capital, and then an average for the growth rate by capital size was calculated, which then showed that the growth rate for mid-market companies tended to be high (Figure II-3-1-4). Furthermore, as for the net increase in employment from 2001 to 2008, large companies showed a net reduction, while SMEs contributed to a net increase (Figure 3-1-5).

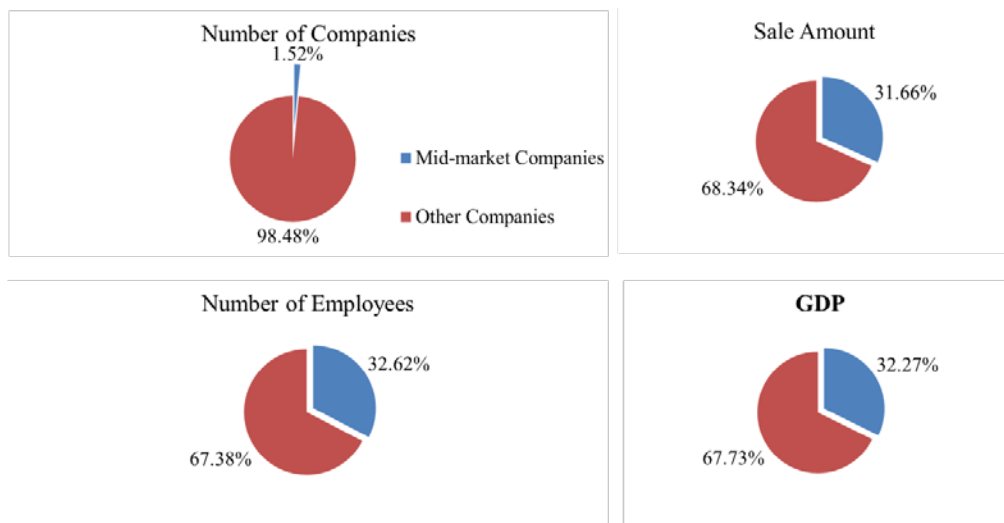
Below, for mid-market companies that have been the source for growth at the heart of the economy, let us look at such things as examples of German *Mittelstand* companies and why they are successful, and examples of Japanese mid-market companies that rank equal with German *Mittelstand*,

Figure II-2-1-1 Changes in employment from 2007 to 2010 (split by company size for the four EU countries)



Source: *The Mighty Middle: Why Europe's Future Rests on its Middle Market Companies* (Natal center for the middle market (2012)).

Figure II-2-1-2 Position of mid-market companies for the four EU countries economy



Source: *The Mighty Middle: Why Europe's Future Rests on its Middle Market Companies* (National center for the middle market (2012)).

Figure II-2-1-3 Revenue growth rate (left) and employment growth rate (right) for US mid-market companies

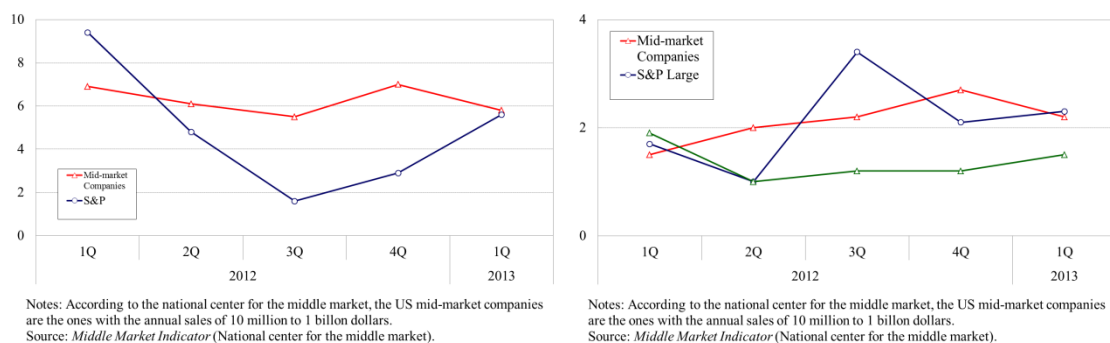
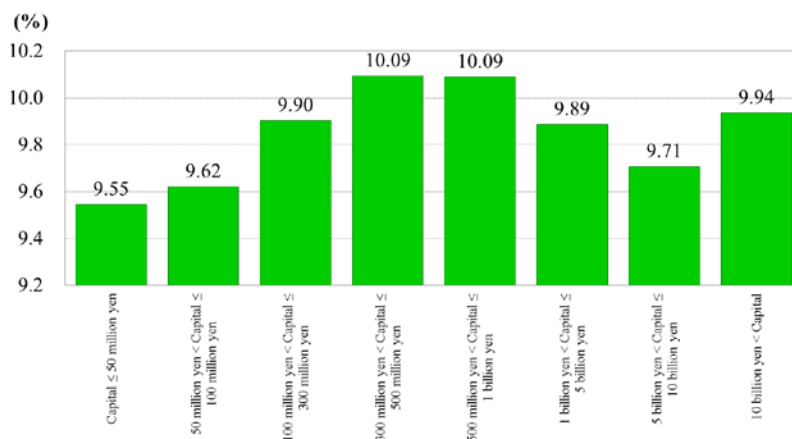
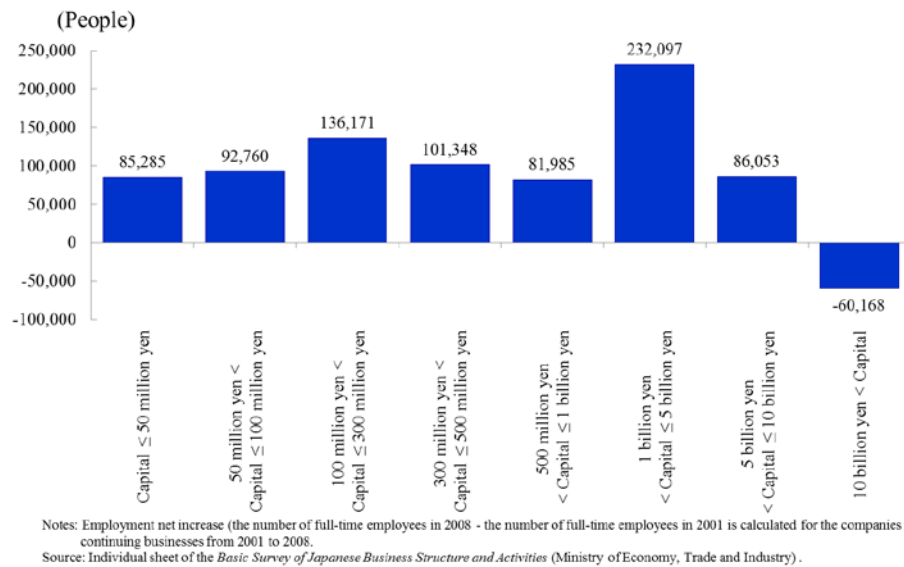


Figure II-2-1-4 Average growth rate for companies in the top 20th percentile for sales growth rate (by size of capital)



Notes: Sales growth rate from 2001 to 2008 is calculated in geometric mean. The mean value of sales growth rate for companies in the top 20% by size of capital is taken.
Source: Individual sheet of the *Basic Survey of Japanese Business Structure and Activities* (Ministry of Economy, Trade and Industry).

Figure II-2-1-5 net increase in employment (by company size)

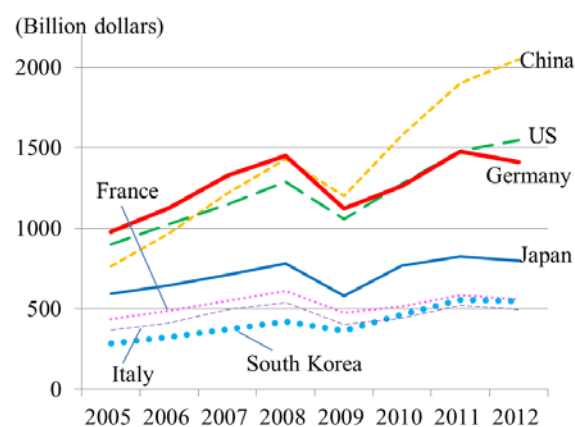


2. German mid-market companies and SMEs

(1) Overview of German mid-market companies and SMEs

While German exports decreased in 2012 compared with the previous year, in response to the effects of a decrease in demand within Europe due to the European debt crisis, export value reached almost twice as much as Japan, to maintain 3rd place in the world after China and the United States (Figure II-3-1-6). Furthermore, the export value per capita (in 2011) and the export value per GDP was the best in the world (Figure II-3-1-7, Figure II-3-1-8), which boasted of their extraordinary ability to export goods in comparison to their size.

Figure II-3-1-6 Exports of major countries



Source: Global Trade Atlas.

Figure II-3-1-7 Export value per capita for major countries (2012)

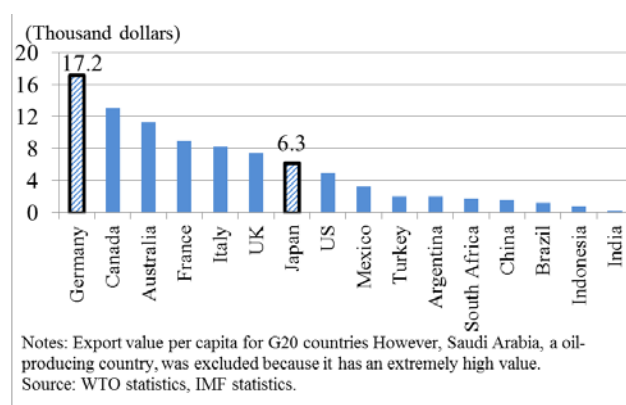
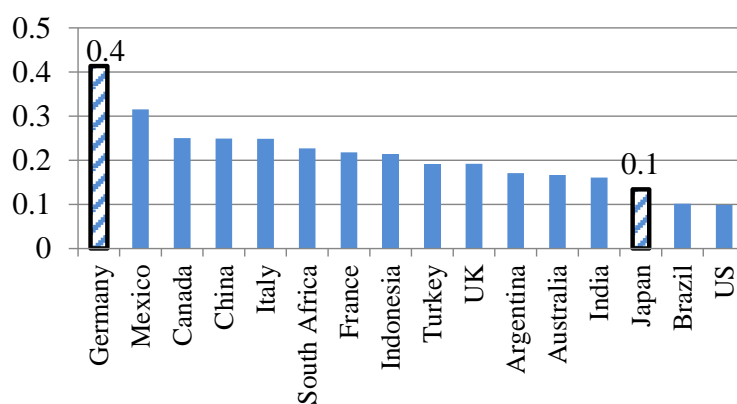


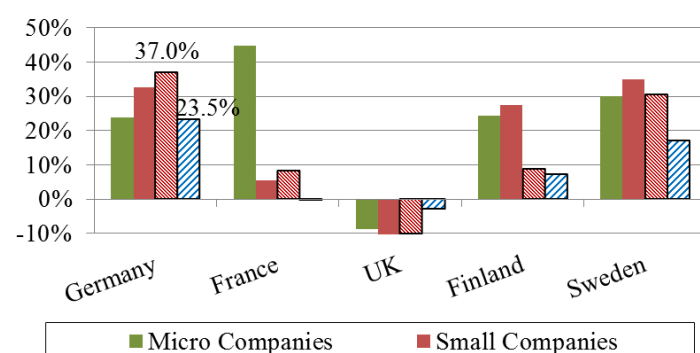
Figure II-3-1-8 Export to GDP ratio of major countries (2012)



Notes: Export value per nominal GDP for G20 countries. However, Saudi Arabia, an oil-producing country, was excluded because it has an extremely high value.
Source: WTO, IMF.

German companies, which underpin German exports, have greatly increased their added value over the past several years. However, when looking at the company size, it is clear that SMEs (EU definition: 249 or less employees), not large companies, play the role of an engine for the German economy greatly increasing their added value (Figure 2-3-1-9).

Figure II-3-1-9 Change in added value (2005 to 2011)



Notes: (Number of employees) Large companies with 250 employees or more, medium companies with 50 to 249 employees, small companies with 10 to 49 employees, micro companies with 1 to 9 employees Expected value for 2011.
Source: *Annual Report on European SMEs 2012* (European Commission).

When looking at the percentage of SMEs to the German economy, it account for 99% or more of the number of companies, over 60% of employees, and over 50% of the added value. In comparison with the United States and Japan, while it is almost the same in the percentage of the number of SMEs, it is higher in Japan and Germany in the percentage of added value and the number of employees than the United States (Table II-3-1-10).

Table II-3-1-10 Ratio of SMEs to national economy

	Germany	Japan	US
Number of Companies	99.6%	99.7%	99.7%
Number of Employees	61%	62.8%	49.1%
Added value	52%	49.3%	43.9%

Notes:

- Small and medium companies: <Japan> 300 full-time employees or less (wholesale = 100 or less, retail/restaurant = 50 or less), or capital of 300 million yen or less (wholesale = 100 million yen or less, retail/restaurant/service = 50 million yen or less), <Germany> Less than 500 employees or annual sales of less than 50 million euro, <US> Less than 500 employees.

- <Japan> 2007 (added value)/2009 (number of companies/employees), <Germany> 2012 (number of companies)/2010 (number of employees, added value), <US> 2007 (added value)/2010 (number of companies/employees).

Source:

"White Paper on Small and Medium Enterprises" (Small and Medium Enterprise Agency), Federal Ministry of Economics and Technology (Germany), Bonn IfM Research Institute, Office of the U.S. Trade Representative, United States Census Bureau, "Science, Technology and Industry Scoreboard 2011" (OECD).

Furthermore, during the European debt crisis, German SMEs, in particular medium sized companies³, continued to increase employees in contrast to other major European countries (Figure

³ EU definition: Number of employees is 50 to 249 people.

II-3-1-11, Figure II-3-1-12), and contributed to the historically low unemployment rate⁴ in Germany (Figure II-3-1-13).

Figure II-3-1-11 Number of employees (Germany) (left)

Figure II-3-1-12: Number of employees (medium sized companies in major countries) (right)

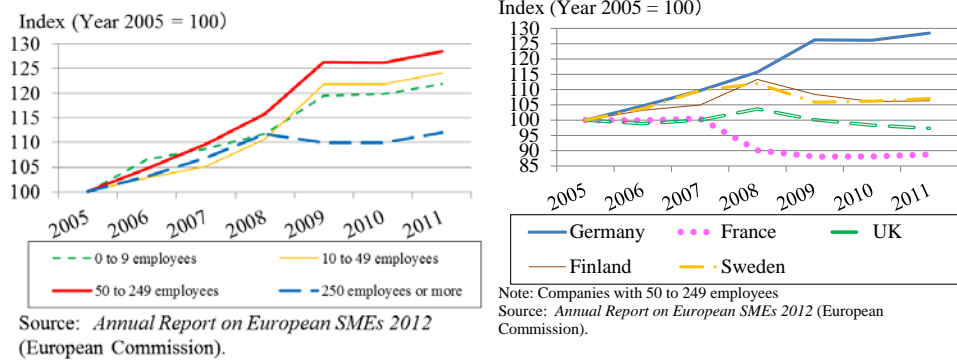
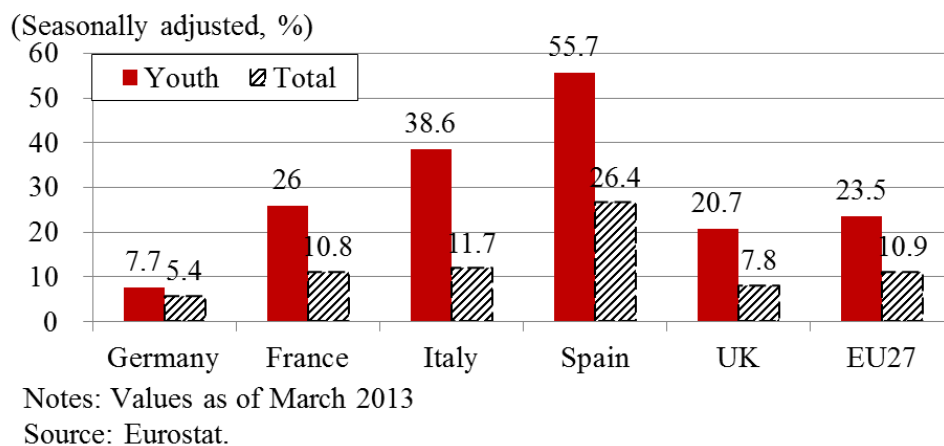


Figure II-3-1-13 Unemployment rate in major European countries



(2) Concept and features of German Mittelstand

(A) Overview

As we have just seen, SMEs take the center position in the German economy. Especially, mid-market companies that represent the concept of *Mittelstand* are said to have bolstered the German economy. *Mittelstand* is characterized by features, such as specialization to specific product segmentation, globalization, family-owned, and management from a long term perspective (Table II-3-1-14) This section will give an overview of the kind of points that make *Mittelstand* strong.

In addition, the concept of the *Mittelstand* in Germany, is one that includes all companies with “*Mittelstand* type features”, and also encompasses larger-scale companies than the definition⁵ of official small and medium sized companies.

⁴ Unemployment rate in February 2013 was 5.4% (Eurostat).

⁵ IfM Bonn (Bonn Institute for research into small and medium sized companies: Institut für Mittelstandsforschung Bonn) definition: Less than 500 employees and annual sales of less than 50 million euro, EU definition: Less than 250 employees and annual sales of less than 50 million euro.

Table II-3-1-14 *Mittelstand* features⁶

<Strategic features>
-Specialization for differential products
-Globalization
-Focus on close relationship with customers and after-sales service
-Focus on brand and quality
-Innovation/R&D investment
-Long-term relationship with employees
<Attributes>
-Most of their businesses are B to B.
-Many of them engaged in relatively old industries, and few in the ICT sector
-Spread across rural areas. Rooted in the region.
-Family-owned/family run

(B) Specialization for differential products and globalization

The German *Mittelstand* uses the expressions “Don’t dance where the elephants play.”⁷ and “We only focus on one thing, but we do it better than anyone else.”⁸, which means they aim to not battle against other companies in intensely competitive business sectors, and also aim to stand as the best in the world at the business sector they have specifically differentiated. Furthermore, by proactively exporting and penetrating foreign markets, it is said they can maintain a business scale even for specialized markets (Figure II-3-1-15).

Figure II-3-1-15 *Mittelstand* basic strategy



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

In addition, a large percentage of companies in Germany are export companies (Figure II-3-1-16).

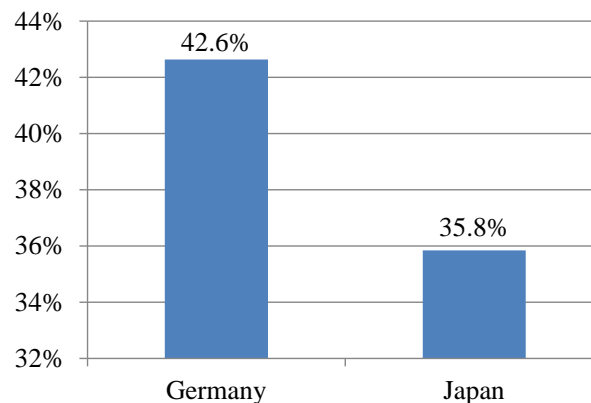
⁶ Simon (2009), Federal Ministry of Economics and Technology (Germany) (2012), or refer to hearing survey with companies.

⁷ Favorable slogan in *Mittelstand*.

⁸ Concept of German company Flexi (dog leash manufacturer, boasts a 70% share of the world market for retractable dog leashes) (Simon (2009)).

Germany has the feature of being geographically located in the center of Europe, and comes from a historic background that had a system of monarchy state rivalry until the latter half of the 19th century, and it is said that one of the reasons that Germany does so well in trade throughout the world is that it has a low sense of resistance towards cross-border trading. The German *Mittelstand* proactively uses global personnel, and expands over a large scale outside of its nation in places such as Africa, China and Japan, as well as Europe, and captures the local demands.

Figure II-3-1-16 Percentage of export companies



Notes: Manufacturing industry. German companies: with 50 employees or more, exporting outside the EU. Japanese companies: with 50 employees or more, and capital of 30 million yen or more. Results of 2010.
Resource: Basic Survey of Japanese Business Structure and Activities, Eurostat.

(C) Direct sales and after-sales service

Most of the sales for *Mittelstand* are direct sales. Furthermore, by selling after-sales service with their product, they are able to maintain the opportunity to pick up on the needs of their customer, which leads to improved products. Even when using an agent, there are many cases in which agents have a framework to provide an after-sales service from the agent through a well-established training system.

- German *Mittelstand* example - Delo⁹ -

Established in 1961 as a small and medium manufacturer of industrial adhesive, Delo is currently expanding globally focusing on a specialized adhesive that can be customized to meet its customers' needs such as for use in solar panels, smart cards and automobiles. It employs around 300 people and in 2011 their sales were 44.2 million euros with foreign sales at 58.6%. They hold 80% of the global share for smart card adhesive.

<Foreign sales and customer support>

For foreign business, Delo began exporting via a distributor, and then gradually opened overseas subsidiary companies based on their customer growth. Then they assigned local personnel that could speak the local language as "onsite sales engineers" to areas with promising markets. Their idea was that for sector products that were used in technically unique production processes, their personnel

⁹ JETRO (2012c).

must actually go to the customers' company site and give them advice face-to-face, rather than give written or oral explanations. Furthermore, they would listen to customer requests, provide proposals to resolve issues, and would cooperate closely with their customer to overcome problems to advance product development.

In addition, Delo has a perfect customer support system that includes consulting and has a high competitive edge in the rapidly growing Chinese market.

<Research and development>

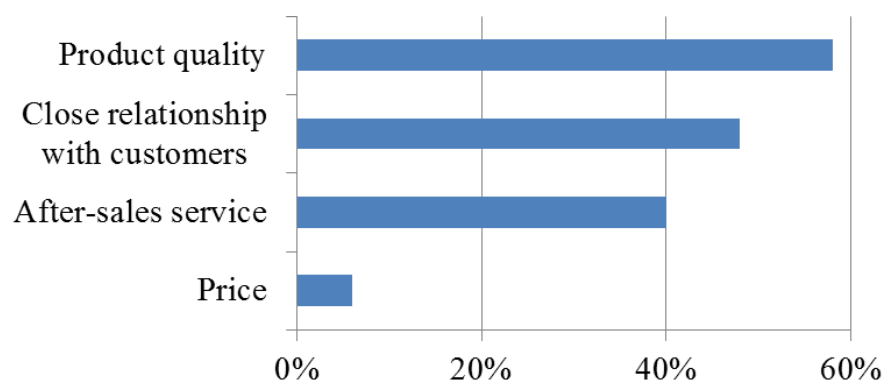
Delo invests around 15% of its annual revenue into research and development to advance its innovation. It only produces the product at its main factory in Germany, and keeps its technology confidential within the company instead of releasing it through patents.

(D) Emphasis on brand and quality

Mittelstand does not compete on price but instead wins or loses on the quality of their product. Some companies move part of their production abroad to lower their costs, but *Mittelstand* places importance on maintaining a high quality by such means as keeping production within Germany. Furthermore, they are serious about not only keeping production within Germany for “German made”, but also selling the product with their own company brand, to establish and maintain a high brand price.

According to the survey taken by the “Hidden Champions”¹⁰, which are companies that have been especially successful among the German *Mittelstand*, price has an extremely low position as a competitive advantage (Figure II-3-1-17).

Figure II-3-1-17 Competitive advantages of the Hidden Champions



Notes: Items picked up as "competitive advantages" in the survey by the "hidden champion" companies

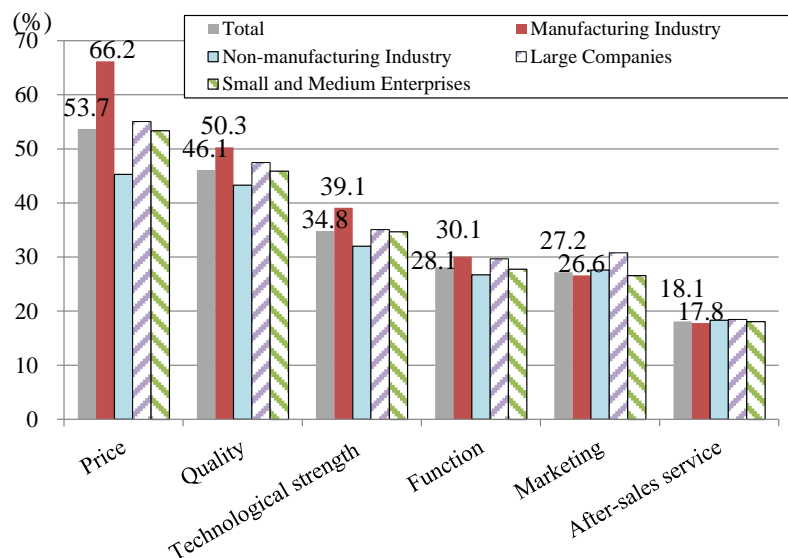
Source: *Hidden Champion of the 21st Century* (Hermann Simon).

At the same time, while Japanese products are valued highly for their quality, they tend to focus on competitive pricing. According to a survey, in answer to the questions “What is most important to establish a product or service that is popular throughout the world?”, those that said ‘price was the

¹⁰ Definition: Company must fulfill the following three points: (1) top 3 in the world for specific sector or 1st in the continent of Europe, (2) sales are less than 5 billion euro, (3) be generally not known. (Simon (2009))

most important' was 54% of the total number asked and 66% of the manufacturing industry, which was higher than the replies of “quality” and “technological strength” (Figure II-3-1-18).

Figure II-3-1-18 Improvement points that Japanese companies stress as important for international expansion



Notes: Survey responses. Responses from Japanese companies on improvement points required for establishing the world-class products / services (multiple responses) As of February 2013.
Source: *Survey on Overseas Strategy of Japanese Companies for the Consideration of the International Trading Policy* (Teikoku Databank).

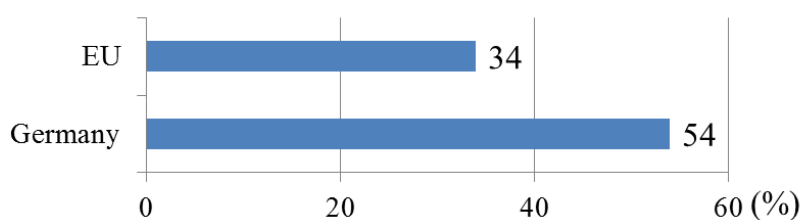
(E) Innovation and research and development investment

It is said that they are able to conduct research and development over the long term, since many of the *Mittelstand* are family-owned or family-run companies, and they stand superior to their competitors by ongoing innovation.

When looking at the percentage of companies that conduct innovation, 54% of SMEs in Germany between 2008 and 2010 worked on new innovations for the market, higher than SMEs of Europe total at 34% (Figure II-3-1-19). Furthermore, medium sized companies in Germany are conducting innovation¹¹ on the same level as the average large company in the EU (Figure II-3-1-20).

¹¹ Not just new innovations for the market, but also new innovations for their company.

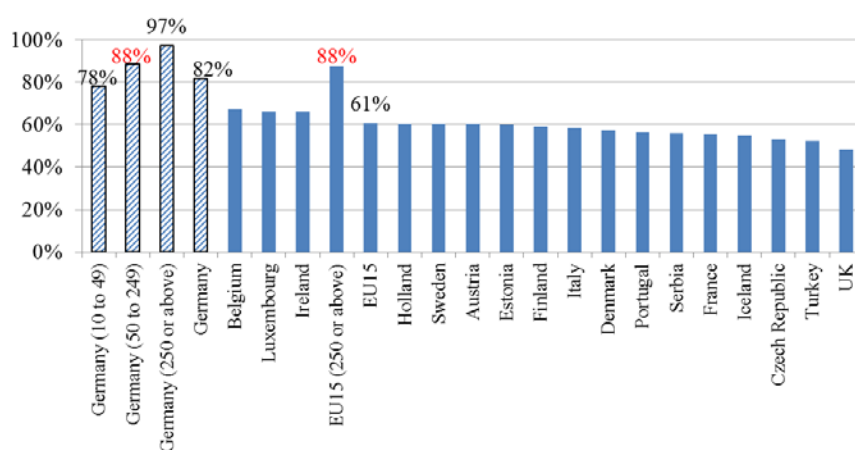
Figure II-3-1-19 Percentage of small and medium companies conducting new innovation for the market



Notes: Percentage of companies conducting new innovation for the market from 2008 to 2010 among the small and medium companies (with 250 employees or less (EU definition).

Source: Documents from the Federal Ministry of Economics and Technology of Germany.

Figure II-3-1-20: Percentage of companies conducting innovation



Notes 1: Percentage of the number of companies (excluding construction) that responded as conducting innovation between 2008 and 2010.

Notes 2: The numbers in parentheses after the country names indicate company sizes (based on the number of employees). The country names without parentheses indicate the total size.

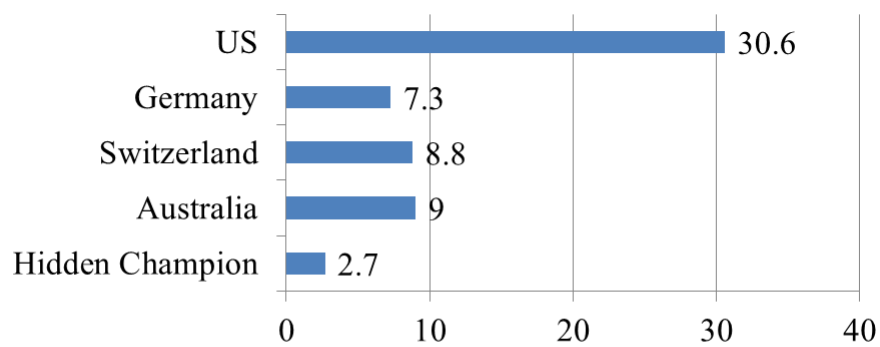
Source: Eurostat.

(F) Long term relationship with employees

Mittelstand looks at the long term, including the time past the next generation, and invests in the skill and ability of its employees. It is said that companies take care of their employees, and that the employees have a strong sense of belonging at the company. In actual fact, the employee turnover rate at the Hidden Champions companies is comparatively lower than other countries (Figure II-3-1-21). Many companies believe that the skill and experience of employees are important as the foundations of the company, and once they lose such talent, they can never get it back. Even during the European debt crisis, these companies continued to keep their employees (Figure II-3-1-11 on previous page).

Furthermore, many companies are contributing to the cultivation of trainees from vocational schools under a dual system (apprenticeship) as they look from a long term perspective, and are not just intent on improving the continued technological strength of employees at their own company.

Figure II-3-1-21 Employee turnover rate



Notes: Turnover rate of employees after joining and leaving the (%) company

Source: *Hidden Champion of the 21st Century* (Hermann Simon).

(G) Spread across rural areas

In Germany, industries have been spread across rural areas. The manufacturing industry, with its background of outstanding machine manufacturing technology, has been spread across each region, and from the 1990s, the government widely expanded the industry to each region with its cluster development policy (Figure II-3-1-22). In each region, it is said that partnerships with research institutes and universities, and mutual cooperation between companies has contributed to raising the level of the entire German industry.

Furthermore, *Mittelstand* also spread across rural areas due to dispersed clusters, and has contributed to local communities being rooted in the region (Figure II-3-1-23).

Figure II-3-1-22 Geographical spread of Germany's industrial clusters

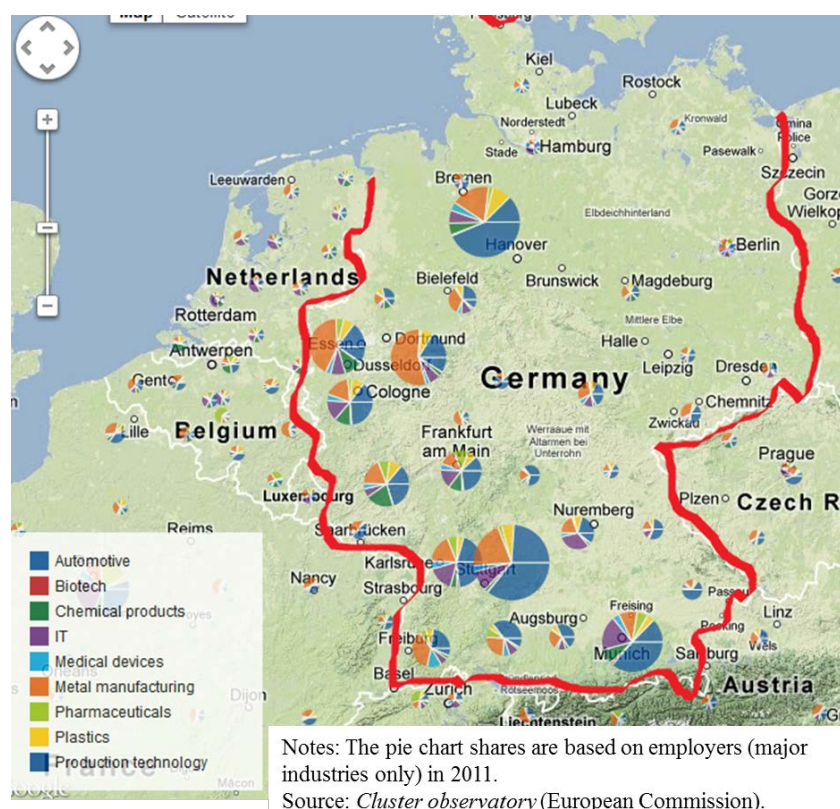
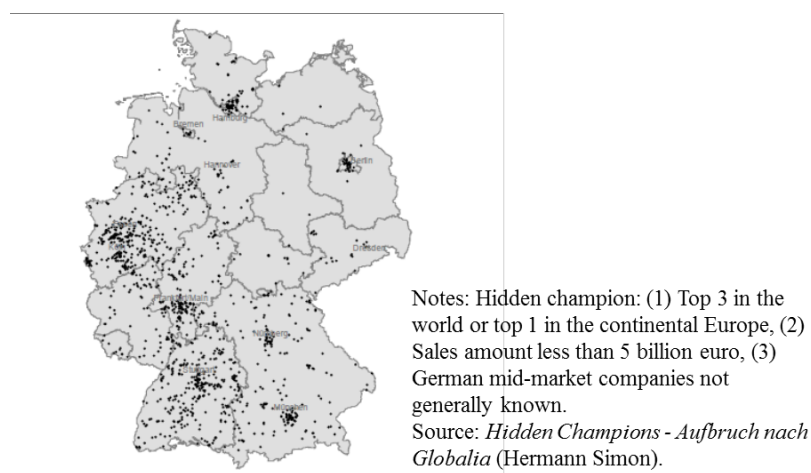


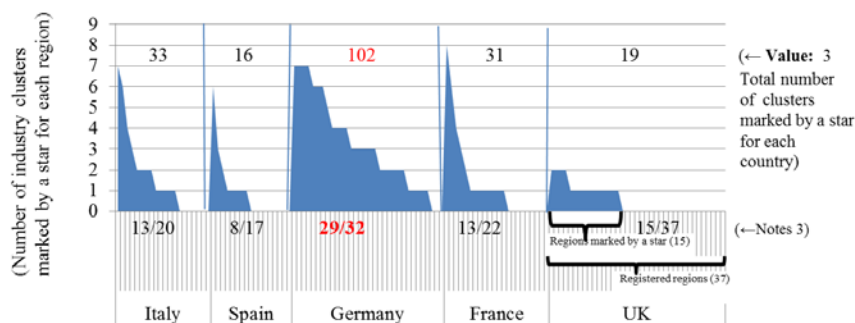
Figure II-3-1-23 Geographical spread of Germany's Hidden Champions



Regions that have industrial clusters have been registered from each country in the EU by the European Commission's "EU Cluster Observatory". Among them, Germany has a high percentage of regions with clusters that have been marked by a star to show that it is a location with a "high influence of knowledge" as a criterion for the degree of concentration towards size and the industry (29 of the 32 registered regions for Germany have more than one cluster marked by a star for major manufacturers). There are also many clusters marked by a star for each of these regions (regions that have clusters marked by a star in Germany have on average 3.5 types of business at the clusters marked with a star for the major manufacturers, which is more than Italy with 2.5 types, France with

2.4 types and the United Kingdom with 1.3 types.) (Figure II-3-1-24).

Figure II-3-1-24 Industry clusters for major countries in Europe



Notes 1: "Marked by a star" = Industry clusters are evaluated as a "high influence of knowledge" (: one or more "stars (*)" of three kinds defined in European Cluster Observatory are obtained).
 *Scale (The employment scale is within top 10% in the same industry cluster), Specialization (The regional employment percentage is two times or more than the employment percentage of the same industry in the EU), Concentration (The employment scale is within top 10% of the regional cluster).
 Notes 2: "Industries": Automobile, biotech, chemical products, plastics, pharmaceuticals, medical devices, manufacturing technology, metal manufacturing, IT.
 Notes 3: Number of regions with industry clusters marked by a star / Number of regions registered in the European Cluster Observatory.

Source: European Cluster Observatory.

(H) Family-owned /family-run

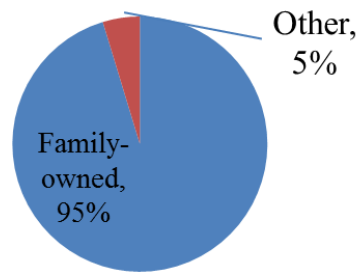
Mittelstand are family-owned businesses, which makes them quick to decide management terms because they are not hindered by outside involvement, and they have the advantage of being able to invest for the long term.

In Germany, 95% of all companies are family-owned (Figure II-3-1-25). According to a survey for family-owned companies, 90% or more responded that "business management based on long term goals and strategy" and "Prioritizing business over profit for individual shareholders of the company" is extremely important (Figure II-3-1-26). It is understandable that family-owned companies, which are not influenced by external shareholders, are able to manage their business with long term vision.

Furthermore, of the family-owned companies, the percentage of the family owners involved in the management committee is over 80% according to the survey, and it is said that many of the companies are both owned and managed by the family (Figure II-3-1-27). Furthermore, even in cases that the company is externally managed, a family owner sits as a member of the advisory board, and there are many cases in which the family maintains their involvement in managing the company¹².

¹² *Institute für Mittelstandsforschung Bonn* (2012).

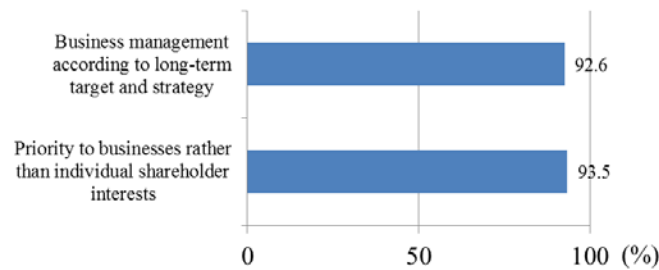
Figure II-3-1-25 German company ownership



Notes: 2010.

Source: Documents from the Federal Ministry of Economics and Technology (Germany).

Figure II-3-1-26 Survey results for what is important for German family-owned companies

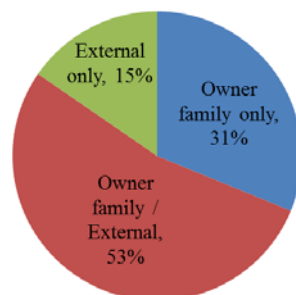


Notes 1: Response rate of "high" from the levels (high / medium / low) for in each survey item.

Notes 2: The target is German family-owned companies. The average number of employees at the surveyed companies is 1486 (Median: 450).

Source: *Major family business in Germany 2012 Spring Survey* (Ifm Bonn).

Figure II-3-1-27 Management structure of German family-owned companies



Notes: The target is German family-owned companies. The average number of employees at the surveyed companies is 1486 (Median: 450).

Source: *Major family business in Germany 2012 Spring Survey* (Ifm Bonn).

(3) Systems and environment that support the Mittelstand

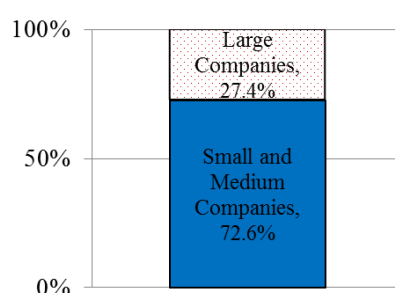
(A) Dual system

Dual system is an education system for young people that have completed a compulsory education of nine to ten years in length, and has fostered workers and skilled workers. This learning from a theoretical foundation at vocational schools and putting into practice training in a specialist field within a company is an important factor that bolsters the competitiveness of Germany's small and medium companies, and improves employment of young people¹³, because the dual system creates many high quality skilled workers that can contribute to innovation, with ability to support a high quality product.

Vocational training qualifications acquired after completion of the training are important prerequisites to enter the labor market, and the majority¹⁴ of young people are participating in this system, and 50% to 60%¹⁵ of these job trainees go on to work at the company where they got training.

While the cost of vocational schools comes out of public funding, such as states and municipalities, the in-company part of the training is funded by the training companies in general¹⁶. The federal government provides assistance to enterprises in a limited way, such as aid for collaborative training structure for small sized companies¹⁷. SMEs take on 70% of in-company training (Figure II-3-1-28). Since securing the number of technical personnel is an important issue for Germany with its aging population and declining birth rate, it is highly beneficial to the training companies that there is a high possibility of vocational students entering the company after completing their training. Meanwhile, there are companies that take in vocational students due to the social awareness that it contributes to the cultivation of technical personnel in the region.

Figure II-3-1-28 Percentage of German companies that take in vocational students (by company size)



Notes: 249 employees or less for small and medium companies (EU definition). As of the end of 2010.

Source: Bonn Ifm.

It is believed that a good image of SMEs account for being the majority that take in vocational students. Because their flexibility, and the compact size makes quick promotion possible, it is said that many outstanding young people knock on the front door¹⁸ of SMEs that have the technological power. Also, the trend for young people to work at companies where they were born is thought of one of the

¹³ Federal Ministry of Economics and Technology (Germany) (2012).

¹⁴ 2010, 51.49% (CEDEFOP) (2012).

¹⁵ Federal Institute for Vocational Education and Training (BIBB) (2012).

¹⁶ Japan International Cooperation Agency Research Institute (2005).

¹⁷ European Commission (2012).

¹⁸ Based on hearing survey for German chamber of commerce.

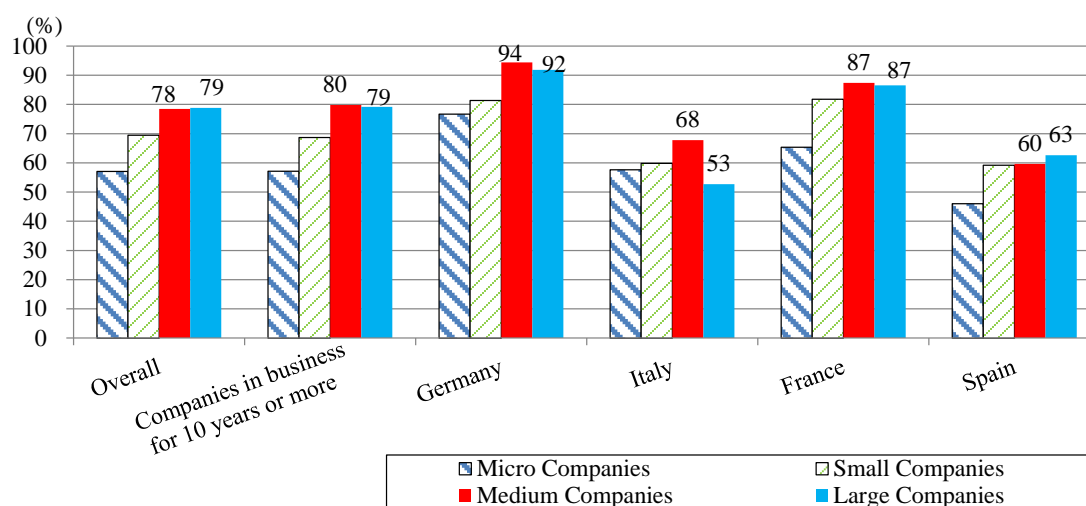
reasons that vocational students are taken in at local small and medium companies.

(B) Financing

In Germany, each SME has a long and close relationship with a local bank. It enables most banks to have enough credit information on companies so that SMEs can also easily obtain long term and low-interest fund. In Germany, 94% of medium sized companies responded that they were able to receive almost all of the bank financing they had requested, which was higher than large companies, inferring a favorable financing environment for SMEs (Figure II-3-1-29).

In addition, in the whole of the euro area, the smaller the company size the greater the percentage that responds with it being the biggest problem to accessing funds. However, in Germany, the percentage that places access to funds for SMEs as the biggest problem is lower than that for large companies, and it is said that the financing environment for SMEs is comparatively good (Figure II-3-1-30).

Figure II-3-1-2 Percentage of companies that were able to receive almost the entire bank loan they asked for

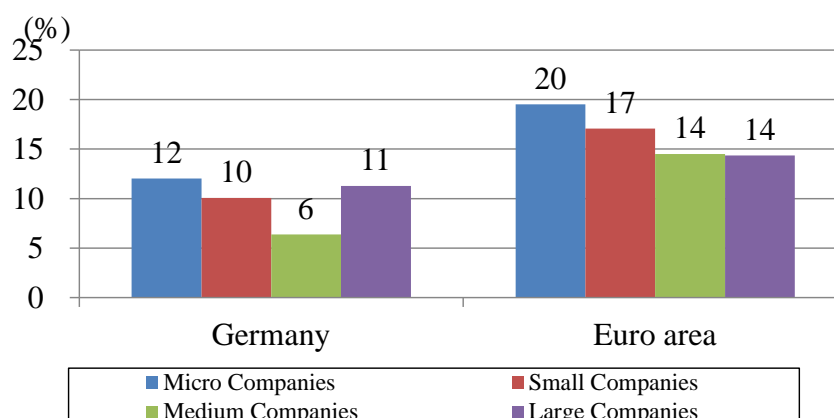


Notes 1: The total of "all successful" and "almost successful" responses for the requested amount of bank loan in the fund procurement survey.

Notes 2: Large company data by country is based only on the countries that disclosed the data.

Source: *Survey on the Access to Finance of SME - April 2012 to September 2012* (ECB).

Figure II-3-1-30 Percentage of companies that see access to finance as the most pressing problem (by size)



Notes 1: Ratio of responses considering finance access issues as most pressing.

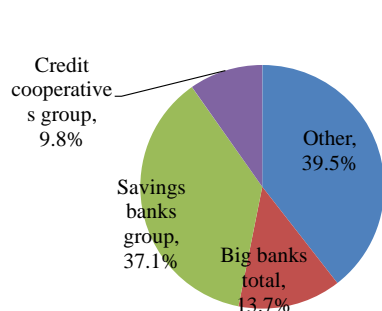
Notes 2: Company scale (number of employees): micro companies 1 to 9, small companies 10 to 49, medium companies 50 to 249, large companies 250 or more.

Source: *Survey on the Access to Finance of SME - April 2012 to September 2012* (ECB).

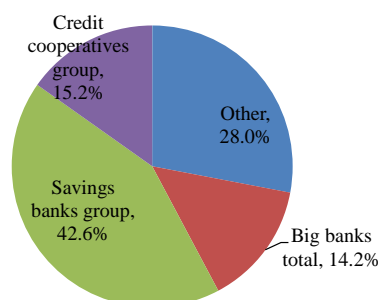
Banks that take deposits and loan money in Germany are divided into the main groups of private commercial banks, savings banks, and cooperative banking groups. Among these, the savings banks group, which boasts the biggest share of financing for small and medium companies (43%) and financing for private companies (37%) is said to be supporting the access to finance of small and medium companies (Figure II-3-1-31, Figure II-3-1-32).

Figure II-3-1-31 Financing for companies (left)

Figure II-3-1-32 Financing for small and medium companies (right)



Notes: Savings banks group includes Landes banks and savings banks. Big banks total is the total of Deutsche Bank, Dresdnerbank, Commerzbank, Unicredit, and Postbank. Balance as of January 2013.
Source: Deutsche Bundesbank.



Notes: Savings banks group includes Landes banks and savings banks. As of the end of 2011.
Source: German savings banks group (2011).

Furthermore, the savings banks group received 40% of Germany's personal deposits and 30% of

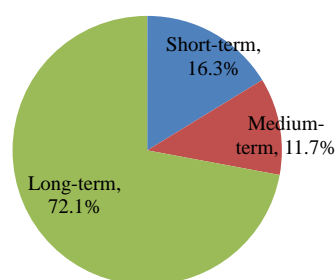
Germany's corporate deposits. This stable capital becomes a source of local business activities¹⁹.

Most of savings banks are financial institutions established and owned by the local authority, and operate focusing around retail deposits and lending, serving as a house bank for local municipalities and enterprises²⁰. They do not just lend money, but can also be used for investment banking and export financing, which is tenured by the top banks within the same group, such as the Landes bank. This allows them to integrally support the financial needs of local companies²¹.

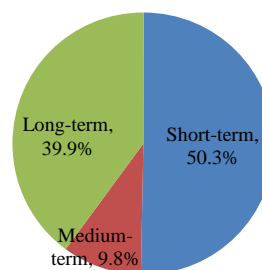
Based on a close relationship with local companies and source of stable funding, large portion of the savings banks lending to companies is long-term, and the percentage of long-term lending over five years is over 70%, while that of the big banks is 40 % (Figure II-3-1-33, Figure II-3-1-34). While big banks decreased their lending due to the 2009 economic crisis, savings banks rather increased their lending, providing a sufficient amount of funding to companies(Figure II-3-1-35).It lead to increasing the recognition of savings banks' sound management.

Figure II-3-1-33 Savings banks lending to companies (by term) (left)

Figure II-3-1-34 Big banks lending to companies (by term) (right)



Notes: Short term) 1 year or less, medium term) over 1 to 5years, long term) over 5years. Balance as of January 2013.
Source: Deutsche Bundesbank.



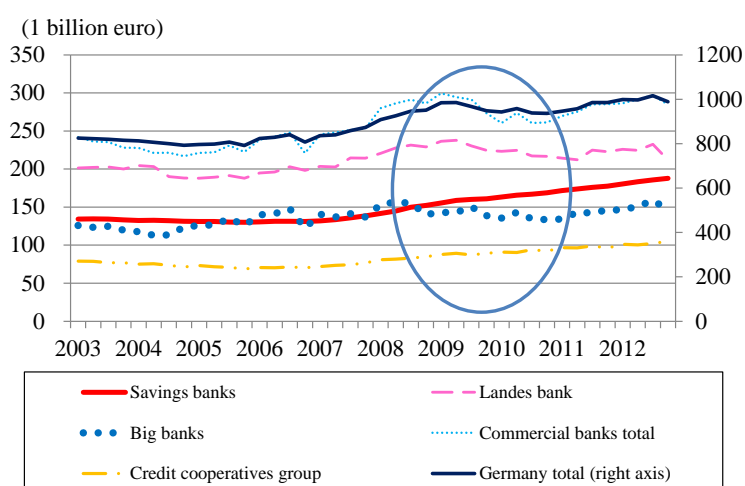
Notes: Short-term) 1 year or less, medium-term) over 1 to 5years, long-term) over 5years. Big banks is the total of Deutsche Bank, Dresdnerbank, Commerzbank, Unicredit, and Postbank. Balance as of January 2013.
Source: Deutsche Bundesbanks.

¹⁹ IMF (2011), Savings Banks Finance Group (2011).

²⁰ Hamori (2011).

²¹ Includes state banks owned by the state government (state level is 7 banks) and Deka Bank owned by the savings bank association (federal level is 1 bank). The former settles funding among savings banks and manages assets and program financing for the state government. The latter maintains assets within the same group, while as a universal bank performs a wide range of tasks such as giving credit and investment banking to companies (Saita (2008), Deka Bank (2012)).

Figure II-3-1-35 Change in lending to companies from German domestic banks



Notes: Commercial banks total includes Big banks. Values from the first quarter in 2003 to the fourth quarter in 2012.
Source: Deutsche Bundesbank.

Financial institutions with their roots in local communities including savings banks are also used by the federal government. All financing for small and medium companies from the KfW (state development bank)²² is provided through local financial institutions, and allows small and medium companies to receive new financial assistance with a simple credit check²³.

(C) Research institutes and universities

In Germany, it is said that research institutes and universities around the country contribute greatly towards the transfer of technology to companies. Below will introduce approaches of the main research institutes, which are said to be particularly big contributors towards the industry among a variety of public research institutes, and universities.

The Fraunhofer research institute has 80 research units²⁴, and is said to be Europe's largest application oriented research institute. Its main goal is to augment industrial competitiveness of Germany and Europe from a technical aspect, and clearly distinguishes itself from research institutes focusing on basic research. With the mission to promote research of direct utility to enterprise and of benefit to society, it transfers technology to companies through spin offs from corporate sponsored research and independent research projects, patents and licensing, and business incubation.

For the many individual project ideas, the institute performs step-by-step and systematic reviews to narrow them down to projects that can be released to the market and lead them to spin offs or creates management teams to promote the technology transfer (in 2011, license earnings was 125 million euros and 30 spin offs).

²² German Reconstruction Credit Institute. As well as financing for small and medium companies, it finances consumers, home building and public infrastructure, export and projects.

²³ Japan Finance Corporation for Small and Medium Enterprise Research Institute (2005), KfW website (<https://www.kfw.de/KfW-Group/About-KfW/Arbeitsweise/Kreditvergabe-%C3%BCber-Hausbanken/>).

²⁴ 60 establishments within Germany.

In 2011, about 80% of 1.8 billion euro business volume was assigned to sponsored research. Of the source of funding for sponsored research, 30% came from companies and the remainder came from public institutes such as the German federal and state governments, and the EU²⁵.

The Max Planck Society is made up of 80 establishments that specialize in basic research. Each year they release over 13,000 academic articles, and have achieved the number one position in the world as a research institute for the number of cited papers.

Because they are a public institute, they are obliged to provide the community with access to the results of their research. They have set up an internal organization for transfer of knowledge and technology through assisting spin offs, acquiring patents and permitting licenses (in 2012, license earnings was 19 million euros, with about 100 spin offs since 1990)²⁶.

Approximately 80% of the 1.46 billion annual budget is provided by the federal and state governments²⁷.

The Helmholtz Association is the largest research organization in Germany (annual budget is 3.76 billion euro), and has 17 large-scale institutes. The institutes are divided into those focusing on basic research and those on technological developments. The latter type uses “spin- off model”, seeking partners who utilize their research results, and collaborative projects with private enterprises to contribute to the transfer of technology to industry (in 2011, license earnings was 16 million euros, with about 55 spin offs from 2007 to 2011). Two thirds of their budget comes from the German federal and state governments²⁸.

For universities, Germany boasts the 3rd most number of universities in top 400 universities in the world ranking²⁹, after the United States and the United Kingdom (Figure II-3-1-36).

In terms of transfer of technology, universities of applied sciences of highly practice-oriented and highly linked to careers, contribute to improving competitiveness of SMEs in the region through applied research and the transfer of technology³⁰, while technical universities perform high quality research for the basic research sector. Subsidies from the federal government to universities of applied sciences for applied research and transfer of technology has increased in recent years, and the budget increased from approximately 10 million euro in 2005 to 40 million euro in 2012.

The transfer of the research results is effectively conducted by the intellectual property

²⁵ Fraunhofer-Gesellschaft (2011), or website of the same institute.
(<http://www.fraunhofer.jp/ja/aboutus/FhG.html>)

²⁶ Max Planck Innovation website. (<http://www.max-planck-innovation.de/en/>)

²⁷ Max Planck Society website. (http://www.mpg.de/186435/Facts_Figures)

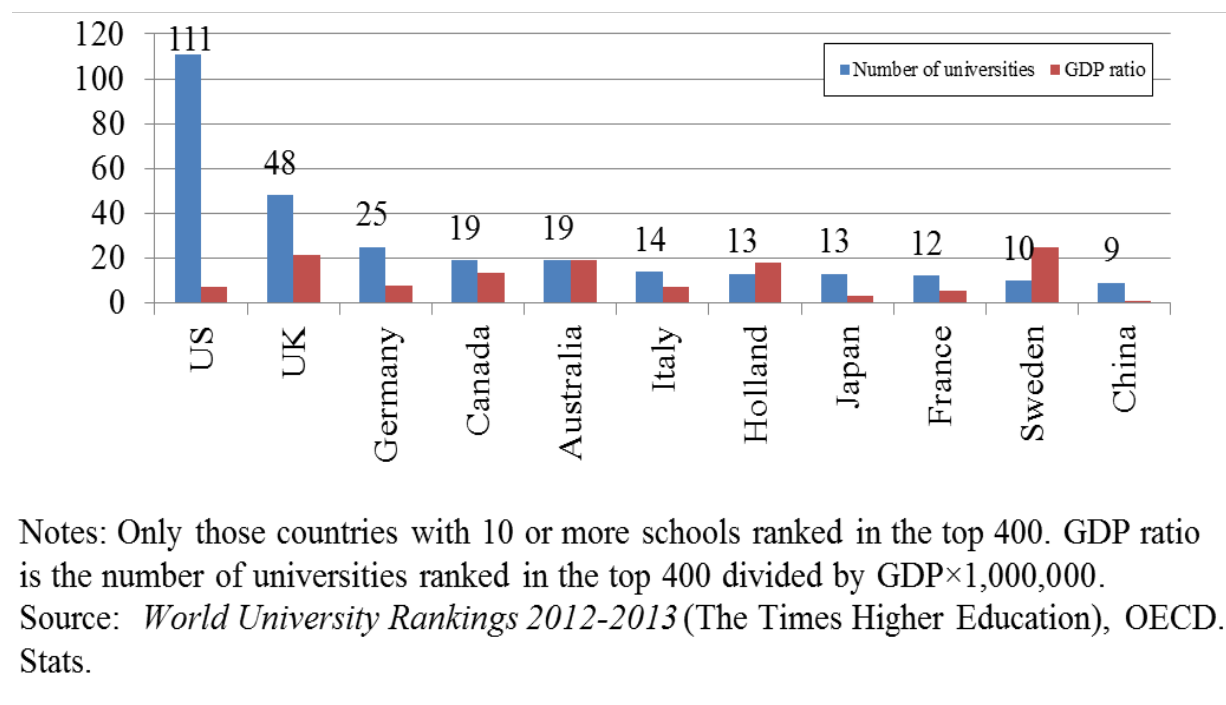
²⁸ Development Bank of Japan (2005), Helmholtz Association website.

²⁹ Carried out by The Times Higher Education *World University Rankings 2012-2013*. Based on (<http://www.timeshighereducation.co.uk/world-university-rankings/2012-13/world-ranking>). Ranking is based on evaluation of paper citations, research, research income per researcher, teaching level, international outlook, and industry income.

³⁰ Federal Ministry of Education and Research (Germany) website.
(<http://www.bmbf.de/en/1952.php>, <http://www.bmbf.de/en/19918.php>)

management organization³¹ inside and outside of universities, contributing to business activities in clusters around the country alongside research institutes³².

Figure II-3-1-36 Number of universities ranked in the world top 400 by country

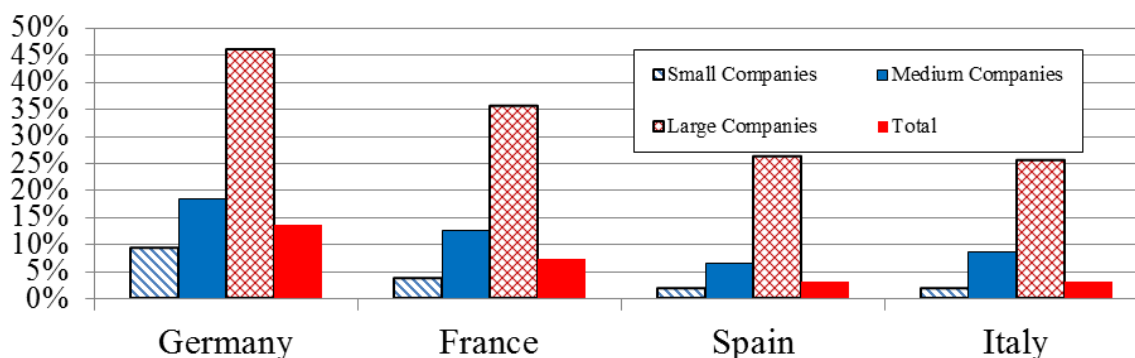


Among German medium sized companies, 19% cooperate with higher education institutions including universities (Figure II-3-1-37) and 8% cooperate with government and public research institutions. German companies, which are supported by productive universities and research institutes, have become the best foreign technology cooperating partners for SMEs in Europe (Figure II-3-1-38).

³¹ Such as the Steinbeis Foundation, PROvendis (North Rhine-Westphalia), ipal (Berlin), Bayerische Patentallianz GmbH (Bavaria), TLB (Baden-Württemberg).

³² National Center for Industrial Property Information and Training (2008).

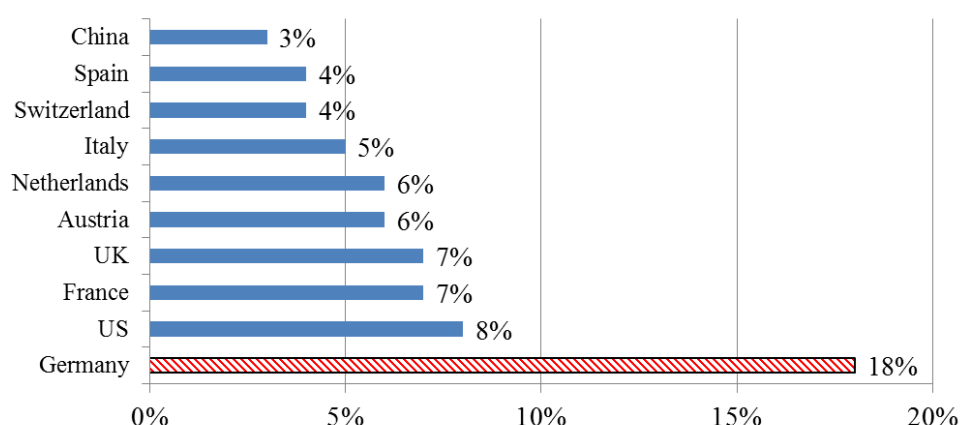
Figure II-3-1-37 Percentage of companies that cooperate with universities and higher education institutions



Notes: Calculated from the innovation company ratio and the ratio of innovation companies cooperating with universities and higher education institutions. Data of 2010. Excluding construction.

Source: Eurostat.

Figure II-3-1-38 Top 10 foreign technology cooperating partners for small and medium companies in Europe



Notes: Survey in 2009. Technology cooperating partner countries of European small and medium companies that implement technology cooperation with foreign companies.

Source: *Internationalisation of European SMEs* (European Commission).

(D) German Chambers of Commerce worldwide network (AHK)

The German Chambers of Commerce worldwide network is an organization formed to cooperate autonomously with German companies and local companies, and has 120 bases in 80 countries throughout the world. It operates with the goals of responding to the specific needs of local companies involved with German companies that are expanding in the area as their partners.

More specifically, it provides information regarding the law and tax systems, and data on the industry and market, as well as provides supports for fairs. Furthermore, it acts as a bridge between German companies and local organizations, in addition to carrying out surveys on information relating

to a specific local company. It also tirelessly works to introduce research cooperating organizations and partner companies to the local area. Also, it introduces young people to foreign companies that take them in for vocational training.

The organization does not just receive revenue for member expenses, but also receives money from the government and has a public function. In particular, it is one of the three pillars along with overseas diplomatic establishments and the German Trade and Invest development organization (GTAI) for overseas economic development policy of the federal government, and plays an important role in supporting such things as export aid initiatives for German companies led by the Federal Ministry of Economics and Technology³³.

(E) Government support

Based on the idea that large companies can individually expand internationally, support from public administration and the private sector is mostly given to the *Mittelstand*.

Supports for international expansion for small and medium companies from the federal government is mostly (1) business matching support measures such as assisting displays at foreign trade fairs and dispatch of mission, transmitting information that introduces German products and services, and establishing detailed information databases on companies and products to directly search for customers on the internet, and (2) measures including trade insurance, investment guarantees and bilateral investment agreements.

Furthermore, these policies led by the federal government are provided through cooperation of organizations stretching a network over the world, including the GTAI (to follow) and AHK (above).

The Federal Ministry of Economics and Technology, in 2010, announced that public support for international economic activities from companies was clarified to give emphasis towards small and medium companies in a policy of “Foreign Trade and Investment Campaign³⁴”. According to this, export initiatives for renewable energy and energy efficiency sectors performed for all companies from 2003, should be coordinated for assisting small and medium companies, should be extended to the sectors such as healthcare and security technology, and trade insurance and investment guarantees should be improved in order to be able to meet the needs of small and medium companies.

The German Trade and Invest development organization (GTAI) is an organization supporting foreign policy almost entirely funded by the federal government (budget of 17 million euro in 2012), with around 50 affiliates in the world, has its mission to promote foreign trade and investment, and promote Germany as a business location with the goal of attracting foreign direct investment³⁵, performs surveys for various intentions and provides local information from abroad.

(4) *Mittelstand* examples

³³ Based on hearing from German Chambers of Commerce worldwide network and their website.

³⁴ Federal Ministry of Economics and Technology (2010), *Foreign Trade and Investment Campaign*.

³⁵ Mashiro Ito (2012) “DOITSU NO TAIGAI KEIZAI SEISAKU”, *GIJUTSU TO BUNKA NIYORU NIHON NO SAISEI*, National Diet Library.

This completes the overview on the characteristics and surrounding environment of *Mittelstand*. The following section will give specific examples to introduce companies that personify these features that have been explained so far. In addition, non-German examples will be given based on the growth of middle-market companies and small and medium companies that conform to globalization worldwide.

(A) Rational

This company has a 54% global share in professional cooking ovens. It is a listed company with 1,300 employees. The founding family owns 70% of the company shares but is not directly involved in the management. Sales for 2012 were 440 million euros, with an export percentage of 85% and capital of 11.37 million euros. (When it started overseas expansion around 1991, sales were 53 million and there were 347 employees).

<Global expansion and direct sales>

As well as in European countries, the company has local subsidiaries in the United States, Canada, Japan, Russia, Brazil, China, Ukraine, India and the Middle East, and sells its product in over 100 countries. Its production base is only in Germany. In all countries it sells its products through direct sales from subsidiary companies, and for countries where it does not have a subsidiary, it uses a sales partner company located in that country to directly sell its products.

<Specialization of differentiated products, innovation, and customer service>

Instead of being an integrated kitchen manufacturer, Rational handles separate food preparation appliance units that are specialized for ovens.

Using the catch-phrase “Because details make the difference”, they are extremely particular about the details of their design and functionality. Their design, which seeks to make it easier for chefs to use in their kitchen, is different from other companies’ products, even down to the handles. Product development is done by thoroughly reproducing the cooking methods of chefs from around the world and then making improvements with regard to any problem or wish that is brought up during the process. Many of their products support 56 languages. Selecting the language automatically changes the display to the cooking specifications of that country.

Production and development take place in Germany. The development staff is comprised of physicists, designers, chefs and nutritionists. Their research development location has high security and even top executives at Rational have difficulty getting into certain areas. Furthermore, they have acquired many patents to prevent other companies from imitating their products.

To clearly understand what their customers want, the company employs 250 former chefs, who engage in sales, applied research and consulting. They keep in constant contact with customers to give proposals and services from the point of view of the customer, and hold reports and discussions daily at their head office concerning the needs of their customers throughout the world. Also, due to their service network, they are able to quickly resolve problems when they occur.

<Personnel>

Rational places a lot of emphasis on training its personnel, and as well as technology training for its employees, has them train in sales and marketing. Furthermore, all of its foreign managers and top

executives have been invited to Germany to take this training.

Figure II-3-1-39 Rational product



(B) Kärcher

This company is the largest cleaning equipment manufacturer in the world. Its product range includes high pressure cleaners, and 3,000 types of cleaning equipment such as steam cleaners, floor cleaners, sweepers, vacuum cleaners and dry ice blasters. It is a family-owned and managed German company that employs 9,600 people. Its sales for 2011 were approximately 1.9 billion euros (its sales in 1974 were 20 million just before it penetrated the Brazilian market with its first non-European base), and it exports over 80% of its goods.

<Product specialization and global expansion>

After its establishment in 1935, it began by developing pre-heating burners for aircraft engines, and then expanded into a wide range of businesses such as round iron stoves, cooking stoves and handcars. In 1950, it developed the first industrial hot-water high-pressure cleaner in Europe, and then around 1974, during the biggest economic depression since the war, it was forced to select a business to focus its management resources on and chose high pressure cleaning. In 1975, after it established a factory in Brazil, which was its first branch office outside of Europe. It expanded with 16 distribution companies over ten years in places such as North America, Africa and Australia. Furthermore, in 1984, it penetrated the household market by applying its technology from products used for industry. Currently, it is specializing in cleaning equipment, and has local subsidiaries in 60 countries in the world, with sales agents in 190 countries. It holds production bases in Germany, as well as several countries in Europe and South America.

<Differentiated products, innovation, and research and development>

The company puts great value on quality and has pride and confidence in its brand. It promotes innovation based on the concept of “makes a difference” and “daily improvements”, and performs thorough research into ergonomics. For example, their high pressure cleaners are designed to be held easily with low recoil so that the user does not become tired. Furthermore, the unique design of the nozzle on the high pressure cleaner has been devised to be able to maintain the same output of water from one end to the other, so that it can clean items evenly the first time, which provides a differentiated product.

The company invests about 5% of sales each year, including poor business performance years, into its research and development, such as joint research with universities. It is also serious about the design of its products. The company’s products are unified under one color, household products are

yellow, while those for industrial use are grey (Anthracite)³⁶.

<After-sales service>

The company stresses importance on after-sales service. For industrial products, it has a customer management system so that it can provide constant support to customers. To maintain a rapid response maintenance service, in addition to its own engineers at sales bases, it also has partner stores that have received official technological training at the company so they are able to provide support to the customer. Furthermore, needs and requests expressed by the customer are then reported back to Germany.

<Personnel training>

The company has specialist education and training centers within Germany, where training courses are available every week for employees to learn foreign languages, and acquire technology and product knowledge, which contributes to maintaining a highly skilled work force, such as engineers that know everything about the product.

Furthermore, for employees in the Asia and Pacific area, training takes place in Singapore. Before a new product in the new field is released for sale, engineering managers from each country travel to Germany and receive training.

In-house training for young vocational trainees is performed proactively, and opportunities are provided for young people to acquire various vocational training qualifications including technical design, mechanical engineering and management. Also, for students of the French-German machine technology course at the Karlsruhe Technical University, the company has set up a scholarship, not just to foster future engineers with specialist knowledge, but also to help facilitate intercultural knowledge.

<Family-run and long term management>

The company is family-owned and the Kärcher founding family's presence is strong within the company. The profits are invested back into the company to continue their business, and contribute to protecting the community and environment. In addition to this, the owners contribute towards the growth of the company by reinvesting their own profits in the company instead of just taking it for themselves.

Furthermore, the Kärcher corporate culture has influenced its employees as well. Many employees identify with the company and with their work and have continued to work for decades at the company.

³⁶ Industrial products were also yellow until 2012, but this changed from 2013.

Figure II-3-1-40 Kärcher products



Left: Professional ride-on type carpet cleaning machine
Right: Home pressure washer (Balcony cleaner)

(C) Stihl

This company's main product is chainsaws. It is a family-owned and managed German company that employs 12,000 people. In 2011, its sales were 2.6 billion euros, its export ratio was 89.4%, with a 35% share of the world chainsaw business. When it started proactively expanding overseas in 1973, its sales were approximately 15 million euros.

<Global expansion>

The company was founded in 1926, and then began exporting to the United States and Russia in 1931. In 1966, they took over a distributor, which they had already had good relations with, and established a branch office in Austria. From 1973, they accelerated their global expansion (establishing foreign branch offices in succession in Brazil, Switzerland, and the United States). Currently, they have branch offices in 32 foreign countries, and over 120 agents to sell their products in 160 countries.

To lower costs, they have production bases in Switzerland, Austria, the United States, China and Brazil, as well as within Germany. They maintain quality by adopting quality criteria that are the same at all production bases. Also, to prevent technology leaks, they split production regions by production and process, such as in China where they focus on assembly, while high end products are produced only in Germany.

<Differentiation by focusing on brand and after-sales service>

The company has a wide range of products that are engine tools used mostly for the forestry industry, such as brush cutters and blowers, with their focus on chainsaws. They do not use home improvement centers but instead sell through dealers at specialist shops, so they can keep their product and service together. All dealers receive training from Stihl, and when selling the product they give instructions face-to-face with the customer because they are very much aware of the chance that a serious accident could result if the customer does not use the product correctly when they have been given insufficient information about the product, or they use the product without using adequate equipment. Also, if the customer's product breaks down, the dealer comes to make repairs, which reduces the time that the customer is unable to use the product.

Furthermore, the company is thorough about keeping the design the same for its products such as

logos and catalogs.

<Research and development>

The company puts a lot of effort into developing its products, and has its own development center to the scale of 25 billion yen in Germany. The environment allows developers to work unhindered and the company is in the top 41 companies that people want to work for in Germany. In addition, they proactively invest over the long term, for example, for the development of brush cutters for the Japanese market, they took five years to complete a product that thoroughly met the needs of Japanese customers by adding a thin gear chain function and making it more compact. Furthermore, all component units of the product are manufactured at the company, so their strength lies in the fact that they can develop products that meet their customer needs.

<Investing in employees>

To maintain the quality of their customer service, they have a system in which a person must complete training for each particular product before they are able to give support for that product, and they provide e-learning via the internet and seminars to allow employees to catch up at any time on information for new products.

In addition, the company also proactively takes on vocational students based on the dual system in Germany.

<Family-run>

Currently the grandson of the founder, Dr. Stihl is the president of the company. The family owns all of the shares in the holding company, and is involved in managing the company, so they are able to quickly resolve issues. Since the company has not offered shares to the public, there is no need to publish their results every quarter, so they can create management plans for the medium and long term. Also, managers at subsidiary companies have decision making authority within the scope of their annual budget, and most matters are determined and implemented by the subsidiary company themselves. The president in Germany is contacted multiple times a year, but he always sends a reply within 24 hours.

(D) Wagner

A German company manufacturing paint spraying equipment. It has 1300 employees, owned by two foundations. Annual turn-over is about 300 million Euros. Export ratio is 65-70%. It has a 20% world share for powder paint coating machines. In 1959, the year before it started exports, it had 57 employees, with a turn-over of 1.4 million Euros. In 1971, when it established its first foreign subsidiary in Switzerland, it had 400 employees.

< Globalization>

It started exporting in the 1960's, and became one of the world's top manufacturers of spray guns. It currently sells in more than 50 countries through 20 subsidiaries and 300 distributors abroad. Its core devices of nozzles and spray guns are made in Germany and Switzerland.

In China, it produces quality products in its own factory, and has outsourced production for low-end products. It plans to expand the sales of products in China and South-East Asia produced its own factory in China.

< Specialization of products, Innovation>

After the foundation of “Wagner” in 1946, the founder applied helicopter making technology, which he had been engaged in at his former job, to blow-off nozzles, and in 1953 it developed its first electric spray gun type painting machine.

It specializes in coating technology in 3 sectors including industry, construction contractors, and consumer (DIY). It produces unique products, for example,

- (1) products producing an air flow around the spray to prevent scattering of paint,
- (2) electrification of spray products enables them to reach around circular objects to improve productivity.
- (3) products with units for mixing various liquids enabling simultaneous application of paints and additives.

Furthermore, it does not only sell products, but as a solution to making improved coating by machines it makes proposals utilizing knowledge and functionality.

<After services>

It places much value on maintenance services and as a rule has qualified company staff to demonstrate, operate and service their industry machines. As for machines for construction contractors, whole sellers or distributors handle sales, while most of them do not cover maintenance services, so Wagner is striving to build-up a network of service shops often run by retired people with industry experience or with machine servicing skills.

< Business in long term orientation >

The founder, with no successor, established Wagner foundations (in Germany and Switzerland), which own the holding company for all units of Wagner-Group. The company, owned by foundations, is able to reserve profits and turn it into investment. And it makes 3-5% of annual turn-over into development investment.

(E) HAZET

HAZET is a hand tool maker dealing with 500 employees in many fields of industry and largely with auto mechanics tools. It is a German family-owned, family-run company. Annual turn-over is >80 million Euros. It has a quarter share of the world for torque wrenches.

<Quality>

It was established in 1868.

As for auto mechanics tools, it started providing special tools for each automaker (Volkswagen, Mercedes-Benz, Opel, BMW) after 1950.

Now many European automakers adopt HAZET products for their manufacturing lines, including regular tools as well as special tools for their high quality.

It maintains its high quality by producing 75% of its products in 3 domestic factories, “made in Germany”.

As they are a full assortment supplier, they buy some components abroad, i.e. Switzerland or Asian countries, which of course satisfy the same high quality requirements as in Germany.

<Specialization and Innovation>

It focuses on innovation to explore specialization of products and invests a double-digit percentage of its annual turn-over in R&D.

It implements joint development with other companies including Japanese companies, and co-researches with universities as necessary.

Its hand adjustable torque wrench³⁷ is a high quality product manufactured using very high technology and makes HAZET one of the world’s largest three makers.

It takes care not only to provide good functionality but also good design, standardizing the products with blue, its company color.

It was awarded “Innovation TOP 100³⁸” in 2011 and 2012, which targets German SME companies.

Its thinking appears in the following words, “Creative ideas and fresh thinking are more than a means of increasing revenue for us”, “we want to make a difference” (said by HAZET managing partner M.J. Hoffmann).³⁹

<Customer needs>

It attaches the biggest importance to customer needs. It understands customer needs through technical support staffs aggregating companies’ requests directly, and through participation in fairs and internet surveys.

The marketing team is responsible for catalogues and brochures published at least twice a year featuring all new products, as well as customer training courses.

It implements not only customer training at its training center, but also tours using special customized vans loaded with the latest tools and equipment so that technical experts can demonstrate products on customers premises.

<Sales abroad>

In many cases of sales abroad, particular partner companies import and sell products as agents.

When sales agency gets a new customer, HAZET always sends company employees to the place to explain its products to the customer directly.

³⁷ A torque wrench is a tool used to precisely apply a specific torque (turning force) to fastener such as a nut or bolt (from Wikipedia). (http://en.wikipedia.org/wiki/Torque_wrench)

³⁸ It is implemented by comparamedia from 1992, coordinated by N.Franke Vienna University of Economics and Business Administration, with partners including German Association for Small and Medium-Sized Businesses, Fraunhofer Society, etc.

³⁹ HAZET website. (http://www.hazet.com/fileadmin/media/x_englisch/HAZET_Top100.pdf.)

The president himself also promotes the sales by talking with customers directly.

(F) Tente⁴⁰

Tente is a German family-owned and managed company that employs 1,100 people, whose main product is casters for general purpose, medical, industrial and heavy duty use. In 2011, their sales were 150 million euros, and export percentage 70% (in 2010), their medical bed casters take up 80% of the global share. (1988, when they accelerated their global expansion, their number of employees was 400⁴¹).

<Global expansion>

The company was established in 1923, and starting with its set up of a base in the Republic of South Africa in the 1970s, it then went on to expand its sales network in Europe in the 1980s. In recent years, it has established branch offices in Russia and Poland, and is focusing its development on the East European market. Its Japan branch office was established in 2005. Due to the European financial crisis, its sales dropped by 20% in 2009, however, its diverse international sales network helped to alleviate the damage.

<Production bases>

The company has sales bases throughout the world, and 90% of its production takes place in Germany to lower the risk of intellectual property leaks.

<Customer needs and product development>

The company has an established reputation regarding their technological strength such as the durability and smooth movement of their casters. Furthermore, by cooperating with their engineers and designers and developing products for specific sales points, they are well ahead of other companies when understanding the finer needs of each country in the world. For example, in response to opinions from nursing homes that said they wanted to move more easily around the beds, they added a fifth motor driven caster under the center of a standard four caster bed⁴².

In addition, the company focuses its attention on design to meet the high level needs of its customers in terms of appearance, since casters are normally installed at highly visible locations, and they have won many awards from the German Designer Club and International Association for Universal Design.

<Investing in employees >

The company focuses on training its employees to have the capacity to deal with different cultures in order to provide location sensitivity, so it can understand the needs of its customers in foreign markets. Within Germany, after completing compulsory education, even students from vocational schools that have taken vocational training in companies under the dual system can expect the chance of working with the company after graduating, and are made to act as a guide for foreign customers, and travel with them to negotiations, so that they can have the opportunity to develop the capacity to

⁴⁰ JETRO (2011).

⁴¹ The number of employees provided by Tente.

⁴² Normally four casters are used but the fifth caster can be lowered to the floor when necessary. It uses motor power so that the bed can be easily moved in the selected direction.

deal with different cultures. This type of investment in its employees, alongside its technological strength and design, is the driving force of the company and allows it to achieve such a high global share.

(G) Elobau⁴³

Elobau is a German family-owned/family-run company with 520 employees, that provides agricultural machinery to its customers in the world, and whose core technology is non-contact sensors. In 2012, their sales were 67 million euros and their export percentage was 62%⁴⁴.

<Product specialization>

The company was established in 1972 with the aim of using their sensors in the agricultural sector. Using their magnetic sensor technology, they developed a magnetic contact switch that detects objects without needing to make contact. They proposed a system, which supplies feed to cows when they approach the sensor and cause it to respond, to dairy farmers who were troubled with feeding costs. Then they expanded their business with non-contact sensors as their core technology, and are currently expanding their business into construction equipment and the material transport sector, in addition to their main business in the agricultural equipment sector.

<Flexible support for customer requests and particular attention to domestic production>

The company sees the power to flexibly respond to requests from its customers as the advantages of SMEs and mid-market companies, setting the company's motto "a flexible development system and reliable product supply". In order to update their production lines directly based on the customer needs assessed by the German developers, the development and production departments maintain a strong relationship, and they restrict their production bases to Germany so that they can meet the delivery of their goals "within two weeks of the order being placed".

<Foreign sales bases>

To penetrate foreign markets, they place agents at locations where their customers are, and after that it gradually makes them local subsidiaries.

Current foreign subsidiaries are located in advanced countries such as, the United States, France, Japan, United Kingdom and Sweden. Many of its customer companies are shifting their production bases to developing markets such as China, where most production is of models without high functionality such as sensors; therefore, this does not have any direct influence to the company's business opportunity as it is a supplier of sensors. Furthermore, the company considers that over-expanding its geographical coverage might make it difficult to maintain the meticulous correspondence to the customer needs (the ability to respond quickly and with flexibility to a high-mix low-volume order), and it is currently narrowing down the countries to cover.

<Personnel>

The company focuses on training its personnel and has developed an online training system to share knowledge and information with employees outside of Germany. And they give vocational

⁴³ JETRO (2012a).

⁴⁴ Information provided by Elobau.

training for up to 15 trainees each year. In 2012, they were selected to be in the top 100 companies⁴⁵ that provided job satisfaction for its employees in Germany.

(H) Felco⁴⁶

Felco is a Swiss company that has 140 employees, and manufactures and sells pruning shears for agriculture. It is a family-owned stock company (private), and the founding family is currently involved in the management of the company.

<Global expansion>

The company was established in 1945, and three years later began foreign export to France, Netherlands, Germany and the Republic of South Africa. Currently, their biggest market is North America and they have recently expanded into South America. In 1980, after the retirement of their dealer in Belgium, with which they had a good relationship for many years, they established their first subsidiary in Belgium and started to directly sell overseas. Currently, they have subsidiaries in other countries such as France, Australia, Germany, Africa, Canada and the United States, and are selling products in 120 countries.

<Direct sales>

At first, they played a passive role and made agreements on a first-come first-served basis with traders who wanted to sell their products, but then in the 2000s they increased direct sales, and currently sell 70% of their products through direct sales. Although going through dealers in each country is beneficial from a cost perspective, they are changing their sales network to direct sales to ensure conveying accurate users' voices, which are the best source of information for product development.

<High-quality, regional characteristics and technology hoarding>

They developed shears when it was first founded, which were easy to use with an ergonomic design pursuing usability for farmers, being lightweight due to their aluminum handles, and with iron blades to make it easy to keep their sharpness by edging. Currently, their top-selling shears are the second product they developed 50 years ago. And compared to copies flooding the market, while they look similar, their toughness and cutting edge are said to feel completely different when using them.

Furthermore, the company keeps an uncompromising stance on quality, and has custom ordered some items such as screws to adjust the opening of the shears from Swiss watch components manufacturers. The company has sites in regions known as central locations for watch manufacturing, which provides them with technological superiority. Also, even though their product is mostly made from aluminum, they are different from normal shears, and are tough enough not to break should an adult attempt pull the handles apart with all their strength.

Since the company has continued to use the same technology for a very long time, they are unable to protect it with patents. However, their level of quality is extremely difficult to imitate.

Furthermore, they purchased the company which manufactured the aluminum parts they used to

⁴⁵ Sponsored by The Great Place to Work® Institute from 1991 targeting all countries of the world.

⁴⁶ JETRO (2012b).

outsource to, because more than half of its business was for Felco. It also purchased an electrical parts company from which it imported electrical parts for its power-assisted shears, and set up a production system which allowed it to protect its technology. Due to these factors, it is able to use the term “Swiss Made” on its products as proof of quality.

<High added value>

Although the company’s pruning shears include compressor type and power-assisted type, most of its products are standard shears. However, they cost around 80 Swiss francs (1 Swiss franc is about 90 yen) and so are expensive in comparison to shears from other companies. However, they come with a lifetime guarantee and can be used for decades by replacing parts (about 12 Swiss francs), which is cost-effective when using them for many years and offsets the initial high price.

(I) Envirotainer⁴⁷

Envirotainer is a Swedish company with 150 employees that leases special containers for pharmaceutical products. They occupy the top position in the world for leasing special containers for pharmaceutical products and in 2011 their sales were 50 million euros with a 100% export ratio.

<Product specialization and global expansion>

The company was established in 1985, and developed a special container with a temperature control function in 1995, and then began leasing them to major air cargo service providers the following year. The land and sea transportation sector gives high priority to volume of shipment and is extremely competitive on price rather than quality. This meant that it was difficult for an SME that is seeking to create high added value, to engage in this work. Therefore in 2002, it specialized its lease business to air cargo for pharmaceutical products and high grade items (such as high quality fresh food and lenses), and then around 2008, it completely shifted its business to leasing special containers, turning itself from a manufacturer into a service industry.

Almost 100% of its sales are from exports. Therefore, it has expanded its business into Dallas, where the airline industry is gathered in the United States, Frankfurt, the center for airline services in Europe, and Sydney and Singapore for the Asia Pacific region. Among its customers are most of the major airline cargo carriers, including Lufthansa Cargo, Scandinavian Airlines, American Airlines Cargo, and Cathay Pacific Cargo.

<Maintenance service>

Since their business model completely shifted to leasing special containers, they are focused on providing maintenance and repair service as a fundamental part of their leasing business, and also give practical training to their customers on how to handle their special containers. For sectors such as pharmaceutical products, where high quality is imperative and strict operation and management are required from a logistics point of view, the company has developed a maintenance and repair system, to periodically check the condition of the containers they lease, and provide maintenance and repairs.

<Creating high added value and technology development>

Since the quality of the containers is extremely important, manufacturing, maintenance and repairs

⁴⁷ JETRO (2012b).

are performed at the domestic company base, never subcontracted. Furthermore, they have partnered with a major United States company that makes refrigeration equipment for transporting items, and instead of using dry ice, they have developed a new model with ability to control the temperature between 0 to 20 degrees using an air conditioning system powered by rechargeable batteries. They are innovating technology and developing next generation products based on their customer needs and based on the strategy of creating high added value,.

<Market development>

For air cargo carriers that are direct customers, the company markets its product by providing services as leverage such as container maintenance and repair, and training for people that handle the containers. Furthermore for pharmaceutical product manufacturers, as they are indirect customers, it also proposes new technology and services, and proactively does marketing advocating the effectiveness of adopting its product.

3. Examples of global top echelon SMEs in Japan

There are also many excellent SMEs (global top echelon medium-sized, and small to medium companies) in Japan that boast the top share of specific sectors in the world similar to the German *Mittelstand*. This section will introduce a number of them as examples.

(1) Mayekawa Manufacturing Company

Mayekawa Manufacturing is a company whose main business is its refrigeration engineering, such as in the manufacture and sales of industrial freezers, and it has 2,200 employees with a capital of 1 billion yen.

(A) Overseas expansion and selling method

Mayekawa Manufacturing was established in 1924, and its first overseas expansion was when it exported a freezer plant to the Soviet Union in 1961. In 1964, it established its first overseas base with a factory in Mexico. It currently has overseas bases at 86 locations in 34 countries (the six locations in Mexico, Brazil, United States (two locations), Belgium and South Korea are all production bases with the remainder being sales or service bases) (Figure II-3-1-41). The company has never participated in mergers and acquisitions or a joint venture, so all its expansion has been 100% by the company itself.

Its selling method in the advanced countries of Europe and the United States has mostly been done using sales agents until now. However, it is proceeding in the direction of gradually increasing direct sales in Europe and the United States as it has done already in Asian and Latin American countries.

Figure II-3-1-41 Mayekawa Manufacturing overseas bases



Source: Mayekawa Manufacturing website.

(B) The importance of durable products and high value added services

Mayekawa Manufacturing's main technology is in freezing, refrigeration and preservation storage. By proposing solutions that meet the needs of a wide variety of customers from sectors such as seafood processing, low temperature goods distribution, agriculture and livestock, beverages and the dairy industry, it provides high quality industrial freezers, of which it holds the top global share at around 35%, and it especially boasts over an 80% global share for freezing equipment on refrigerator ships. One of the reasons it can boast of such a high share is that its products are durable and last a long time, while also being high quality. Similar looking products are cheaply made by manufacturers in developing countries. However, Mayekawa's products last much longer and break down far less, showing its high durability.

Another reason it has obtained such a high share is that it places a great deal of importance on adding high value services for its customers. It not only provides after-sales service to quickly respond to problems or periodic inspections, by such means as having service personnel placed in each region, and having established a system to deliver parts quickly, but also to explain the cause of problems, and it is working hard to provide "before-sales service" with proposals to make improvements so that the problem will not occur again.

(C) Long term employment of company staff

At Mayekawa Manufacturing, people believe that it is possible to make high quality items by having its workers, who have honed their skills through their long service to the company, become involved in the manufacturing process for all parts while thinking about other parts and the entire product both implicitly and in a sensory way. Due to this, it has not set up a retirement system in a general sense. A retirement allowance is paid when a worker reaches 60 years old, and if the worker meets the prerequisites of (1) being healthy, (2) has the desire and willingness, and (3) wishes to work with young staff members, they can continue to work on for however long they wish.

(2) Hosokawa Micron Group

Hosokawa Micron Group is a company that employs 355 people within Japan (1,465 in the group), whose main business is the manufacture and sale of powder and particle processing equipment^{*48}.

(A) Overseas expansion centered on mergers and acquisitions

Hosokawa was established in 1916, and set up a local subsidiary in the United Kingdom in 1960 (Hosokawa International), and then began to fully progress in expanding overseas. In 1962, it entered a cross-license agreement with NAUTA MIX, a mixer manufacturer in the Netherlands, and then in 1982 it bought NAUTA MIX. After this, in the 1980s, a time in which it was rare for Japanese companies to buy out foreign companies, Hosokawa continued its overseas expansion through mergers and acquisitions to master powder technology, by buying up companies such as US Filter Systems in the United States and Alpine in Germany (both were companies working in the powder business). In particular, Alpine, established in 1898, was an older company with a history 18 years longer than Hosokawa. It was highly regarded as an established business in powder technology, and reigned as the unchallenged world brand for powder equipment. Hosokawa Micron Global, as of June 2013, has 17

^{*48} Equipment used to grind, mix, dry and weigh powder raw materials in a manufacturing process.

companies in 13 countries in the world, and has expanded to 26 bases, including sales offices (Figure II-3-1-42). After Hosokawa Micron bought out each foreign company, it was unusual in the fact that it left management of its local subsidiary to the local president and employees, and continued operations with respect for the brand that each company had worked hard to build locally. Also, the company periodically gathered the presidents and research managers from its main companies at the group's head office in Japan and held international sales meetings and research and development talks. This allowed it to unify its intentions on management and promote effective research development on a global scale.

Figure II-3-1-42 Hosokawa Micron overseas local subsidiaries



Source: Hosokawa Micron Group documentation.

Its selling method is mainly to sell directly through local subsidiaries, and it is expanding using local agents and trading companies. In addition, it works hard to educate its agents by regularly inviting them to Japan, Germany or the United States to attend seminars and training meetings.

(B) High quality and specialization to differentiated products

Hosokawa Micron has specialized in powder technology and expanded all its equipment for powder to perform actions such as grinding, sorting, mixing, drying, measuring and analyzing. It is rare in the world to find a powder equipment manufacturer that covers all these processes for powder processing. Powder equipment is used in a wide range of industries such as medical, food, automobile, chemical, IT related, plastics, mineral mining and recycling, and is a niche market with a market size assumed to be around 150 billion yen in Japan, and 500 billion yen in the world. Hosokawa Micron's share in the world has risen to around 10% and it has maintained the top position for many years. In this market, its main target customers are high end users that seek high value added products based on advanced powder processing technology in each industrial sector, and the company is easily differentiated from competitors by its high quality products rather than its total global share. There are many manufacturers that make powder equipment that is multipurpose. However, since there are only a few manufacturers that can make equipment with features required for advanced powder processing, Hosokawa holds a significant share of the sector for advanced equipment. Furthermore, the company's mission is to always develop powder equipment that meets the requirements of a cutting edge market, it has set an annual sales goal for its new products at 30%, and to invest 800 million to 1 billion each

year into research and development to proactively develop new products.

Hosokawa's production bases are only located in countries that are traditionally known for "product creation" namely Japan, Germany, Netherlands, the United Kingdom and the United States, and there are no bases in developing countries. The reason for this is that each production order received is completed according to the customer's specification, and manufacturing advanced powder equipment that needs to be customized differently for each customer absolutely requires design ability and production technology that has been cultivated from long years of experience and knowhow.

(C) Adding high value

The latest technological needs of the world for high value added processes involving powder that other companies have a hard time of resolving are brought to the Hosokawa Micron test center. The number of these issues can amount to 3,500 each year. As the world leading company for powder technology, Hosokawa has specialized in its powder technology, and takes advantage of its accumulated skills and knowhow to respond to these issues, thus maintaining the strength of its brand.

(3) Nippon Kodoshi Corporation

Nippon Kodoshi Corporation (hereafter known as NKK) is a company with 433 employees, whose main business is manufacturing and selling separators^{*49} for aluminum electrolytic capacitors. In recent years, it has been manufacturing separators to support capacitors in the automobile, low energy and new energy sectors (for example, in the past, power steering in cars used hydraulics. However, in recent years, for eco-friendly cars to become more energy efficient, electrical components are used due to the adoption of electrical power steering, and many capacitors are used).

(A) Extremely high global share in a specialized market

NKK was established in 1941, and then in 1943 it began to manufacture separators for aluminum electrolytic capacitors. From 1963, it started to export to countries such as China, Taiwan and Brazil. Many mid-tech and high-tech product manufacturers purchase the separators for aluminum electrolytic capacitors from NKK, and all Japanese manufacturers, as well as manufacturers from China, South Korea, Taiwan and Europe purchased its products, so that its global share is 60%. It also has products that have a high share^{*50} of the world market such as separators for electric double layer capacitors with a 97% share, and separators for conductive high polymer solid aluminum electrolytic capacitors with a 98% share.

When looking at which region NKK is selling its separators for aluminum electrolytic capacitors (based on NKK estimates), comparing the year 2000 (fiscal year from April 1 to March 31) and 2011 (end of March 2012), there has been a trend showing that NKK has increased its sales in China and ASEAN (Figure II-3-1-44).

^{*49} Separators for aluminum electrolytic capacitors are paper made parts (thinner than a human hair) that have the role of isolating the anode aluminum foil of the aluminum electrolytic capacitor from the cathode aluminum foil (has the property of allowing AC to pass through but not DC, used in electric circuits along with resistors and coils as a passive component).

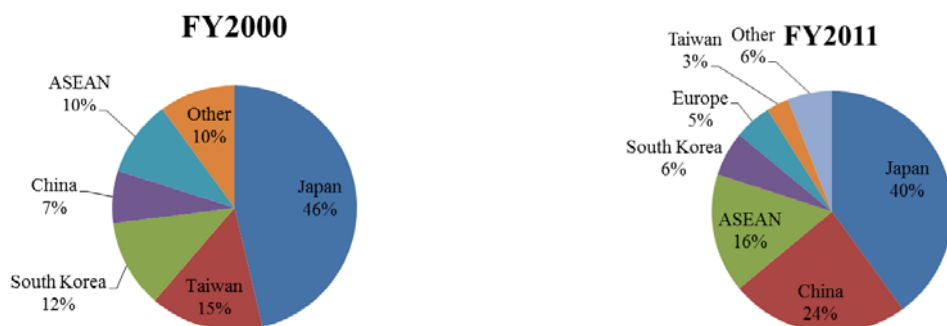
^{*50} NKK estimation.

Figure II-3-1-43 Separators for aluminum electrolytic capacitors



Source: NKK.

Figure II-3-1-44 Sales region for NKK products (Separators for aluminum electrolytic capacitors)



Source: NKK.

The company has only expanded into Malaysia with an overseas local subsidiary. The reason for this is that its major customers have mostly penetrated the Malaysian market (especially Japanese companies). Its production base is basically centered on Japan because of the concern over intellectual property leaks, but some of its production is done in Malaysia.

Furthermore, it has built strong, close ties with its customers with its sales, and its strong point is its ability to directly understand the market trend.

(B) High quality, high added value and specialization to differentiated products

There are two main reasons that NKK has achieved a huge share both in Japan and overseas for its separators for aluminum electrolytic capacitors. The first is that while other paper manufacturers are concentrating on manufacturing products using a mass production method for such as paper and cardboard, NKK works with separators, which is a small niche sector of the market. During the period of advanced growth in Japan, NKK responded seriously to the manufacture of separators used in aluminum electrolytic capacitors that were desired by fast growing home appliance manufacturers. The other reason is that NKK manufactures a high quality product due to its development department. From the lessons of the previous chairman that showed how to grow NKK with the words “don’t compete with competitors, compete with customers,” NKK performs research and development to create products that have a quality that exceeds those expected by the customer, and the basic policy of the NKK research and development department is to create overwhelmingly superior products in terms of performance and quality. NKK attends to the needs of its customers, and trains its personnel to

think for themselves about what the customer is seeking. In addition, the results of this type of personnel training allow the company to quickly respond with after-sales service, which gives it an advantage that close competitor companies are unable to match, so that the added value of NKK products is increased.

(C) Use of domestic and international trade fairs

NKK is expected to support “environmental and energy applications” in the future, and is proactively using such things as domestic and international trade fairs to accelerate its penetration into new sectors such as low energy and new energy sectors.

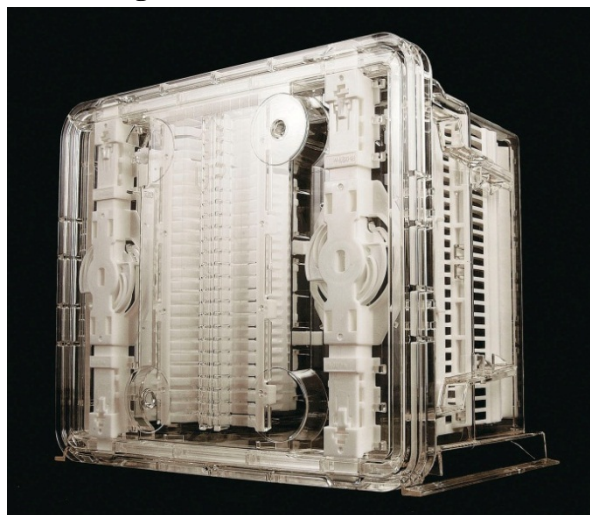
(4) Miraial CO., LTD.

Miraial is a company that employs 457 people and whose main business is manufacturing and selling silicon wafer containers.

(A) High global share and customer support with a method similar to direct sales

Miraial was established in 1968, and in the following year was successful in developing and producing a container for the silicon wafer process using a fluorocarbon resin, and from 1973, created a mass production system and began to export overseas. In 1999, to match the trend of large diameter silicon wafers, it succeeded in developing a 300 mm FOSB that conformed to the SEMI standard, which is a “world standard”. This same product is its main product and occupies over half the global share to this day (Figure II-3-1-45). The reason for the company’s success is its quick planning to standardize its products, the development of world standard products while applying the characteristics of traditional Japanese craft, and always being ahead of its competitors.

Figure II-3-1-45 300 mm FOSB



Source: Miraial

Furthermore, it is currently working to obtain a high share with a next generation 450 mm silicon wafer container, and is promoting the improved performance and sale of this product. It sells many of its products overseas but has a persistent stance on its products being made in Japan. Also, since it

has already established sales routes, it does not have any bases overseas.

Miraial has two methods for selling its products; it sells directly to wafer manufacturers or device manufacturers, or sells through traders. For technical improvements and after-sales service, sales representatives directly respond to customers, so it uses a method that is very similar to direct sales.

(B) High quality and high added value

Since silicon wafers are very delicate items, advanced quality containers are in demand to allow silicon wafers to withstand changes in temperature and air pressure and vibration during transport; even more importantly, it is important to not allow silicon wafers to come into contact with impurities such as metallic compounds and ionic material that would pollute them. Miraial responds to these needs. It makes high-purity original raw materials by cooperative development with raw material manufacturers, uses a clean room environment, and consistently does all the creation work from mold design and manufacture to formation, inspection and shipping. Furthermore, to accompany its steady progress with semiconductor technology, it responds to various requests from its wafer and device manufacturers, improves and repairs production equipment and performs quality tests beginning with its molds, and continues to invest in research and development to create containers that will not allow damage to the silicon wafers they contain. As a result of this type of daily dedication, Miraial has maintained a high share of approval from wafer manufacturers and device manufacturers throughout the world.

(C) Protecting technology

As explained above, silicon wafer containers are a product that demands an extremely high level of quality. Therefore, it is a basic premise that they meet the specification requirements, and it can be said that it is important to accumulate knowhow to pursue further added value. Also, to prevent leaking any acquired technology and knowhow, the company has protected its technology by taking measures such as entering agreements with the raw material manufacturer that co-develops the raw material to prevent technology leaks, and the company manufactures the molds itself.

Combining the above analysis with the analysis in Part 1 Chapter 2 Section 2, we can generalize as below.

There are Japanese companies that have not penetrated foreign markets despite having high productivity. In particular, SMEs are slow in penetrating foreign markets, and it can be said that there are many companies that have the confidence and proactive willingness to penetrate foreign markets, so there is a lot of potential to penetrate these markets.

As shown in the analysis in this section, SMEs play their role as a source of labor absorption and economic growth in the world, and the growth of this type of companies that have adapted to globalization are getting a lot of attention. Medium sized companies in Germany that receive this kind of attention have excellent corporate tactics such as specialization of differentiated products, proactive sales in foreign markets, and have established closed relationships with customers through after-sales service, and have been successful in acquiring a high market share in the world for a specific sector. Meanwhile, there are excellent SMEs that actually exist in Japan that can boast the top global share in

a specific sector, and it is believe there are many companies in Japan with hidden potential to succeed among companies that have not sufficiently become engaged in penetrating foreign markets yet.

It is important to support SMEs that have not sufficiently penetrated foreign markets yet from among those that have the potential to do business in the world market, and from this perspective, as discussed in the previous chapter Section 4, it is important to work hard to perform such actions as strengthening local support systems by establishing one-stop contact points, and reinforcing relationships between each support organization.

Column 8 Examples of other excellent medium sized companies

1. Example of corporate spin-off from Keiretsu (business groups)

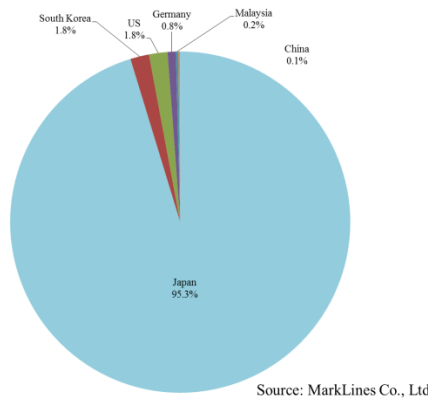
UNIVANCE Co., Ltd.

(1) Trigger for Keiretsu split and state of overseas expansion

UNIVANCE Co., Ltd. is a company that was established in 1937 and employs 1,269 people, whose main business is gears and the manufacture of units such as transmissions for agricultural vehicles, HEV gear boxes^{*51}, FR-4WD transfer cases^{*52}, and manual transmissions. The company was formerly a keiretsu company for vehicle manufacture but due to the launch of a policy by the automobile company to sell shares held for the keiretsu parts manufacturer, including shares of this company, the company separated from the keiretsu and began to operate as an independent company. However, before this happened, due to a change in the automobile company's investment policy in Indonesia (because while the company had already begun preparing investment for the Japanese manufacturer to penetrate Indonesia, the Japanese manufacturer had decided not to penetrate into the Indonesia market), the company developed its own customers locally, and other Japanese vehicle manufacturers, Japanese vehicle parts manufacturers, and foreign vehicle manufacturers became its customers. The company has foreign production bases in the United States, Thailand and Indonesia. In the United States, the company produces agricultural machinery and four-wheel drive vehicle parts, and vehicle parts specifically designed for the United States. In Thailand, the company delivers parts for United States vehicle manufacturers. In Indonesia, Japanese vehicles have a large share of the market (Column Figure 8-1) so this is the company's most important overseas base, and the company has implemented a Japanese production line here. Furthermore, the company is able to obtain information that is difficult to access by the company alone such as information regarding changes to regulations for business and the development of laws that are changed frequently by JETRO and the company's main local bank.

*51 Gear box for hybrid cars.

*52 A part that can switch from rear wheel drive to four-wheel drive.



Column Figure 8-1 Japan car share for Indonesia

Japanese production bases manufacture products as production factories but are also developing production lines to expand overseas and develop products as a mother factory. The best employees are brought to these mother factories from factories overseas and undergo training to improve the quality of its work. The turnover rate for UNIVANCE employees in Indonesia and Thailand is high, but the company provides training for employees as a means of stopping this.

(2) Strategy for keiretsu split

After the company split from the keiretsu, it ascertained which sector it could do well in and has concentrated on a part for small lot production. During the keiretsu period, it was enough to following the instructions of the keiretsu parent company regarding technology development and production volume, but after splitting from the keiretsu, it was necessary to add initiatives for marketing and benchmarks to increase sales routes to companies outside of the keiretsu. Marketing means looking into what customers wants in terms of product performance, the amount of product, and the price they are willing to pay, while benchmarks mean analyzing the performance of rival company products. As a result, the company has promoted the development of new technology and strengthened the “UNIVANCE flow of creating products,” which is done at low cost with high-mix low-volume production that is not profitable for production at large companies, and it is efficiently distributing management resources. More specifically, (1) it is expanding highly competitive part units that support fuel efficiency and are lightweight (four-wheel drive units), (2) it is expanding its business and strengthening its competitiveness using its core technology, and (3) it is expanding and strengthening its overseas bases.

2. Example of a company that embraces both domestic and overseas demands

Hachi-ban Co., Ltd.

Hachi-ban Co., Ltd. (hereafter Hachi-ban ramen) is a ramen chain restaurant, whose main product is vegetable ramen that was sold from shops along Route 8 in Ishikawa Prefecture in 1967.

Hachi-ban ramen’s foreign expansion has the unique approach of starting suddenly in countryside locations rather than big cities. Within Japan, its restaurants are located around the Hokuriku district, where its head office is located, and without opening restaurants in large cities such as Tokyo or Osaka (as of February 2013, it had opened restaurants in Tokyo and Saitama), it opened its first restaurant in

Thailand in 1992, where it began to proactively open restaurants. When looking at the number of restaurants, the number does not vary greatly between its number within Japan and those overseas (Column Table 8-2 and Column Figure 8-3).

Column Table 8-2 Number of Hachi-ban ramen restaurants in Japan and overseas

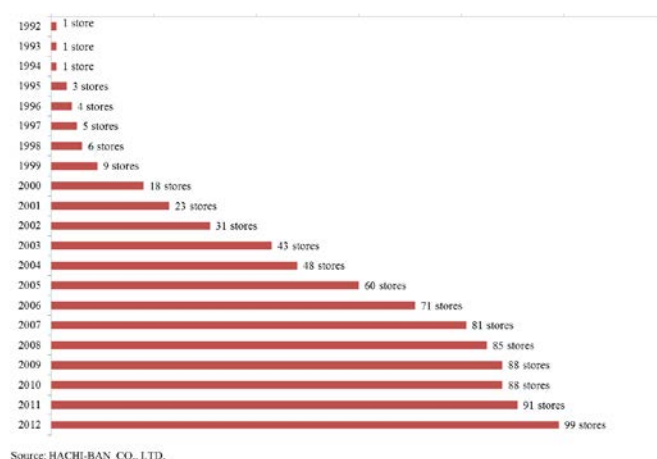
As of February 1, 2013

	Business type	Store name	Number of stores
Domestic	Ramen	Hachiban ramen, Ramen ganpachi, etc.	143
	Japanese cuisine	Hacchouya, Chohachi, Nofudo, etc.	11

	Countries/regions of expansion	Store name	Number of stores
Overseas	Thailand	Hachiban ramen	100
	Hong Kong	Hachiban ramen, Ramen ganpachi	5
	Dalian	Hachiban ramen	3
Grand total			262

Source: HACHI-BAN CO., LTD. IR documentation

Column Figure 8-3 Change in number of restaurants each year in Thailand



The company has expanded overseas into Thailand, Hong Kong and the Chinese continent. Out of these, Thailand continues to expand steadily so that in February 2013, the company had expanded to 100 restaurants. When looking at the company's expansion into Thailand, it has mostly opened restaurants in local cities, such as 73 restaurants in the central area such as Bangkok, nine restaurants in the east such as Pattaya, and Chiang Mai in the north, and Phuket in the south, to establish its name in each region of the country. Furthermore, its menu is based on Japanese flavors (such as hachi-chan men, miso ramen, zaru ramen, and fried rice) due to appeal the Japanese brand and Japanese flavor to the mainstream. However, in other regions of Thailand, it has dishes on its menu that are preferred in local regions such as tom yam kung ramen and boiled duck ramen. Ingredients are procured locally, and in 2006, it established a central kitchen that can supply cooking ingredients to 200 restaurants. The ingredients and food are also cooked and processed at the central kitchen, and it has adopted a system that transports the food, cooked and packaged ready for each single customer, by cold storage. This

system allows the company to provide the ingredients more quickly and at a more stable quality (standardized). It has also established specialist quality management features that allow the food and ingredients to be supplied more safely and securely.

In Hong Kong, it opened a restaurant Ramen moto-hachi in 2003, and there are now five restaurants, including the standard type of Hachi-ban ramen.

Soups and sauces are manufactured by DFC (Double Flowering Camellia) an affiliate company in Thailand, which supplies business bases in Japan, and foreign locations in addition to Thailand. This has improved productivity for the company and contributed to a decrease in the cost percentage of all its restaurants. In addition, the company's sales are managed by Hachi-ban Trading Thailand, which was established in 2005.

The restaurants are set up the same way as in Japan with furniture such as tables and chairs and cooking equipment. However, counter seating used in Japan, has not been adopted much in its restaurants in Thailand. This is due to the local lifestyle of the people (Column Figure 8-4).

Column Figure 8-4 A look inside a Hachi-ban ramen restaurant in Thailand



Source: Hachi-ban Co., Ltd.

As above, the company's competitive strategy is to proactively penetrate the Southeast Asia and China markets that are growing more than markets in large cities in Japan, and it can be said that it is thoroughly succeeding in expansion by such means as cleverly incorporating local elements into a business that has a high domestic demand with a strong sense of Japan in its ramen products.

Section 2 Overseas expansion of the non-manufacturing industry

As we have seen in Part 1, there are many companies with a high productivity among the companies that have not expanded into foreign markets, and while the non-manufacturing industry has been especially slow to expand into foreign markets in comparison with the manufacturing industry, there are many companies that have the confidence and proactive desire to penetrate foreign markets, and it is believed to be a sector with high potential. In this section we will analyze overseas expansion of Japan's non-manufacturing industry⁵³, which is expected to further expand overseas, and introduce policies to assist overseas expansion of Japan's non-manufacturing industry.

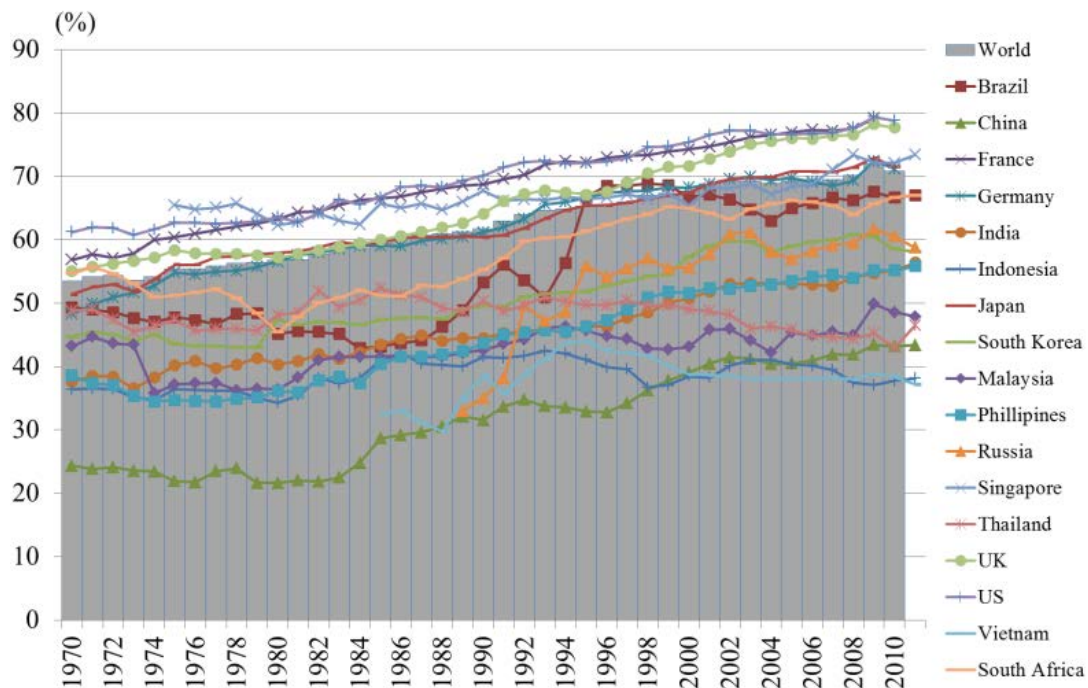
More specifically, this section will (1) show that while the presence of the non-manufacturing industry is increasing and overseas expansion is moving forward in world economics, overseas expansion of Japan's non-manufacturing industry is slow and there is room to advance this, (2) show the significance and necessity of promoting overseas expansion of the non-manufacturing industry, from the perspective of such things as the future outlook for domestic and foreign markets, and the positive impact on overseas expansion of the non-manufacturing industry, (3) analyze overseas expansion of each business of the non-manufacturing industry, (4) present policies from the Ministry of Economy, Trade and Industry to resolve issues for overseas expansion of the non-manufacturing industry, and (5) introduce assistance policies for overseas expansion of Cool Japan, medical equipment and services.

1. The increase in importance of the non-manufacturing industry in world economics

The presence of the non-manufacturing industry in world economy is increasing each day. When looking at the change in value added shares in the non-manufacturing industry that make up the GDP, from the 1970s, the value added shares have continued to grow along with the growth in each country in the world (share for entire world went from around 53.4% in 1970 to around 70.9% in 2010), and in particular from the 1990s, it continued to grow in advanced countries, and rapidly increased in developing countries such as BRICs. Even in Japan, in 2010, the shares greatly increased from around 51.3% in 1970 to around 71.4% in 2010 (Figure II-3-2-1).

⁵³ Non-manufacturing industry in this section, except where otherwise noted, are business types equivalent to G. Telecommunication companies, H. Transportation and postal activities, I. Wholesale and retail trade, J. Financial and insurance, K. Real estate and goods rental and leasing, L. Scientific research, professional and technical services, M. Accommodations, eating and drinking services, N. Living-related personal services, and amusement services, O: Education learning support, P. Medical, healthcare and welfare, Q. Compound services, R. Services N.E.C. in the Japan Standardized Industrial Classification (revised November 2007).

Figure II-3-2-1 Change in value added shares for non-manufacturing industry that make up the GDP of each country

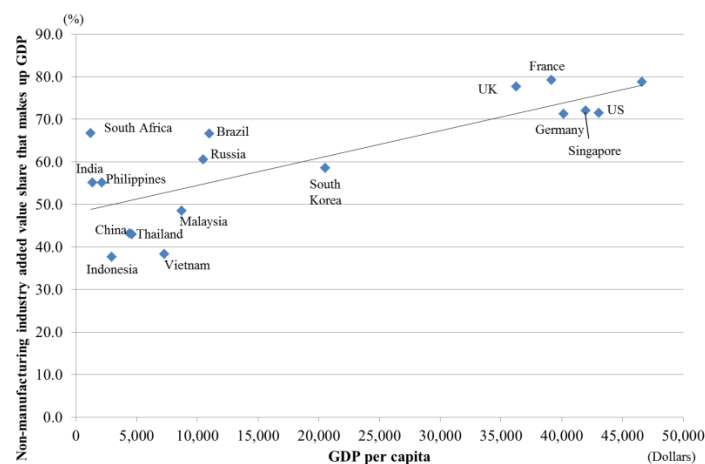


Note: "World" described here is the World Bank *WDI*.

Source: *WDI* (World Bank).

Furthermore, there is a trend that the larger the GDP value per capita for a country, the larger the non-manufacturing industry share that makes up the GDP (Figure II-3-2-2). In the future, it is expected that the non-manufacturing industry share that makes up the GDP will further increase as the GDP value per capita increases along with the economic growth of developing countries.

Figure II-3-2-2 Relationship GDP per capita and non-manufacturing industry share that makes up the GDP

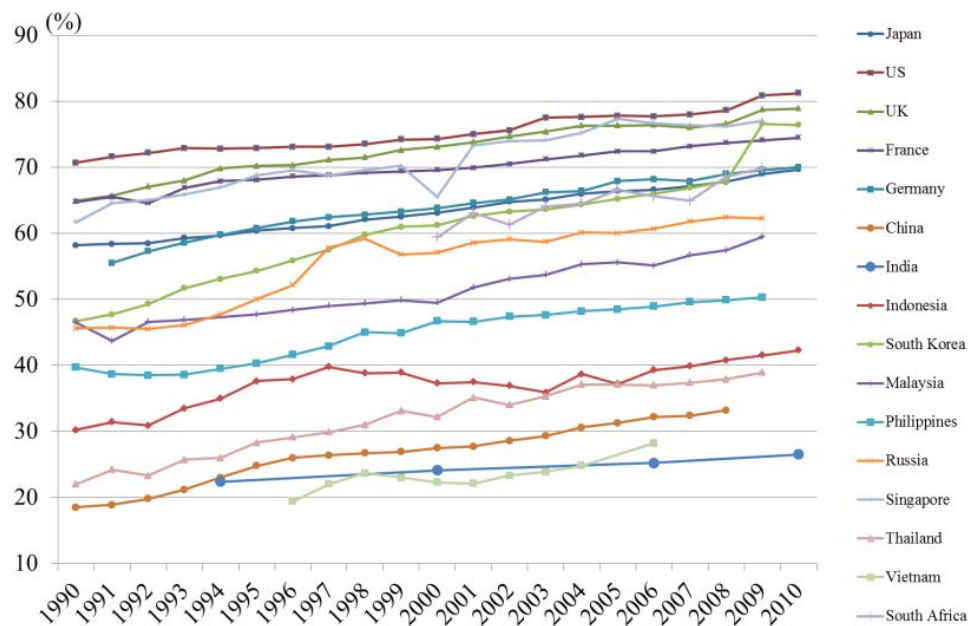


Note: Due to data restrictions, data for France shows figures from 2009. Others are from 2010. Straight line is trend line.

Source: *WDI* (World Bank).

Even when looking from the employment perspective, the presence of the non-manufacturing industry in world economy seems to be increasing. When looking at the number of employees in the non-manufacturing industry as a percentage of the number of employees in all industries in each country, in 2010, it was over 70% in Europe, the United States, and Japan, and it was still lower in developing countries than in advanced countries. It is also possible to see that the percentage has greatly increased since 1990 (Figure II-3-2-3).

Figure II-3-2-3 Change in non-manufacturing employees as a percentage of employees in all industries for each country



Source: WDI (World Bank).

As we can see, the presence of the non-manufacturing industry is increasing both from an added value in GDP perspective and from an employment perspective, so that in the future its importance will most likely continue to increase in world economy.

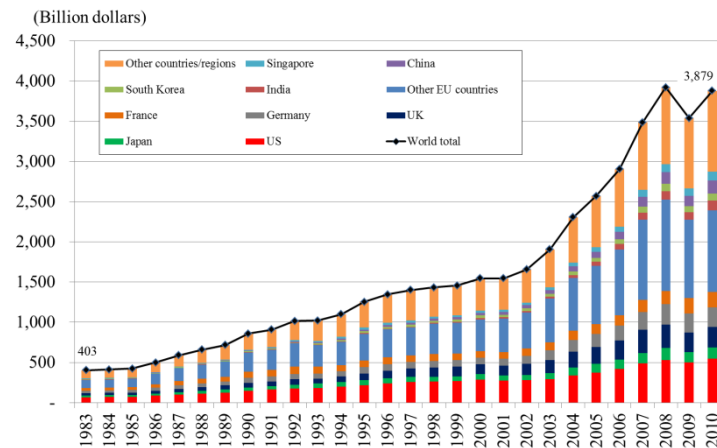
2. The state of overseas expansion for Japan's non-manufacturing industry

Japan's non-manufacturing industry occupies around 70% of the value added share of GDP as explained above. However, overseas expansion of the non-manufacturing industry is said to be slow in comparison to the manufacturing industry. Therefore, this section will give an overview and compare Japan's manufacturing industry with each country from the perspective of service exports and investment and other similar business.

(1) Comparison of service export value with each country

The global service export value in 2010 was 3.9 trillion dollars approximately, which has increased by a factor of around 9.6 since 1983 when it was 0.4 trillion dollars approximately (Figure II-3-2-4, Figure II-3-2-5).

Figure II-3-2-4 Change in world service export value in the non-manufacturing industry



Source: *WDI* (World Bank).

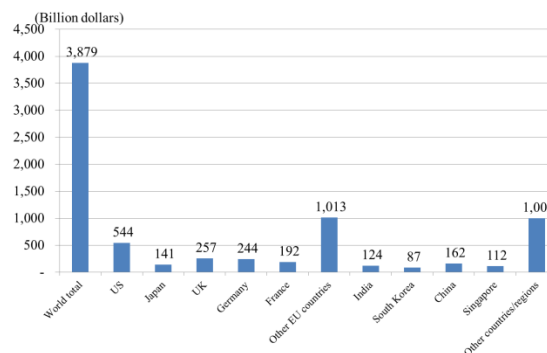
Japan's service export value in 2010 has remained at around 141 billion dollars, which is 6.4 times more in comparison to the figure in 1983. However, in comparison with the export value for advanced countries such as the United States (increased by around a factor of 8.5 to 544 billion dollars), the United Kingdom (increased by around a factor of 8.8 to 257 billion dollars) and Germany (increased by around a factor of 8 to 244 billion dollars), Japan is lagging behind in both the export value size and growth rate. In addition, when compared to developing countries, the size of Japan's export value is around the same level, and Japan's growth rate is much lower. In particular, when compared to China, Japan's export value is also lower (Figure II-3-2-5, Figure II-3-2-6).

Figure II-3-2-5 Service export value index for each country

Service export value index for each country in 2010 (1983=1)	
World	9.63
US	8.48
Japan	6.41
UK	8.83
Germany	8.08
France	5.60
India	37.62
South Korea	13.57
China	65.42
Singapore	14.34

Source: *WDI* (World Bank).

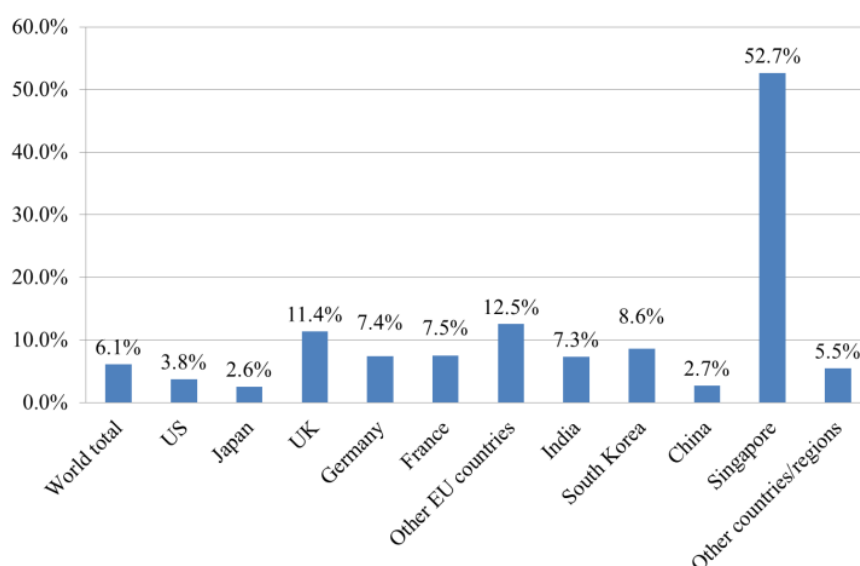
Figure II-3-2-6 Service export value for each country (2010)



Source: *WDI* (World Bank).

Furthermore, when looking at the service export value to GDP ratio, Japan has remained at 2.6%, which shows that it is at a lower standard in comparison to Europe, the United States and the developing countries (Figure II-3-2-7).

Figure II-3-2-7 Service export value to GDP ratio for each country (2010)

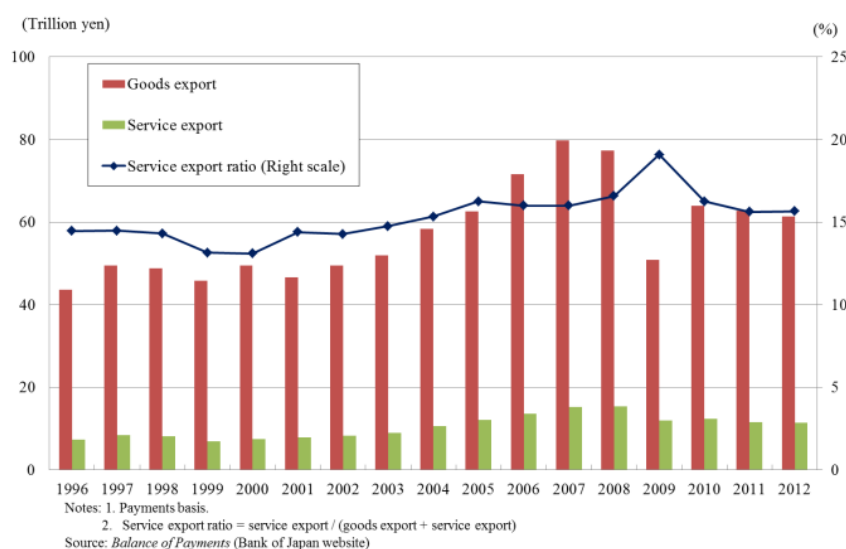


Source: *WDI* (World Bank).

(2) Comparison of Japan's service export with Japan's export of goods

When comparing Japan's service export with Japan's export of goods, it still remains at a small value, but the rate of service export shows a trend of moderate increase over the long term. Also, due to the effects of the Lehman Shock in 2009, export of goods greatly fell, but the service export decreased moderately, and so it is said that service export has a stability that is not much affected by the economic climate (Figure II-3-2-8).

Figure II-3-2-8 Change in Japan's goods and service export



The change in Japan's balance on services has constantly been in the red, and this deficit has shown a trend in decreasing following increases in the service export value. Furthermore, the service trade specialization coefficient ((service export - service import) / (service export + service import)) has shown a decrease in its negative margin (Figure II-3-2-9, Figure II-3-2-10).

Figure II-3-2-9 Change in Japan's balance on services

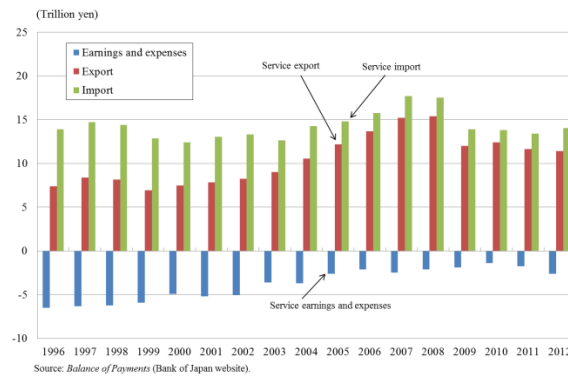
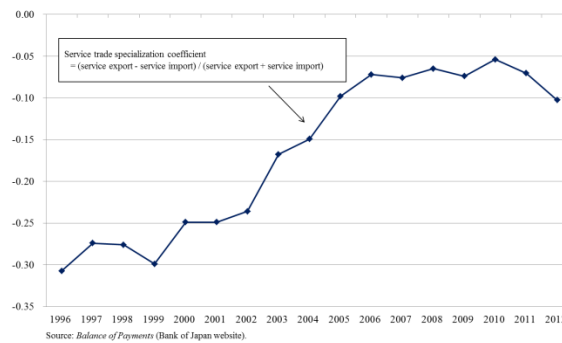


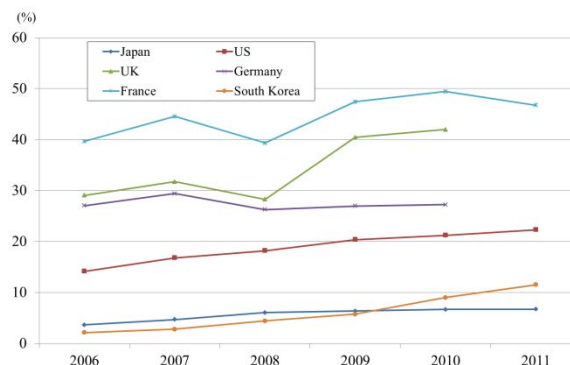
Figure II-3-2-10 Change in Japan's service trade specialization coefficient



(3) Comparison of the direct overseas investment of Japan's non-manufacturing industry with that of each country

When comparing the direct investment balance to GDP ratio of the non-manufacturing industry in each country, in 2011, Japan remained at 6.7%, which was left far behind by the United States (22.3%) and France (46.7%). In addition, South Korea, which had always been behind Japan previously, began to grow through direct overseas investment after the latter half of the 2000s, so that by 2010 it was above Japan (Figure II-3-2-11).

Figure II-3-2-11 Direct overseas investment balance to GDP ratio (non-manufacturing industry)



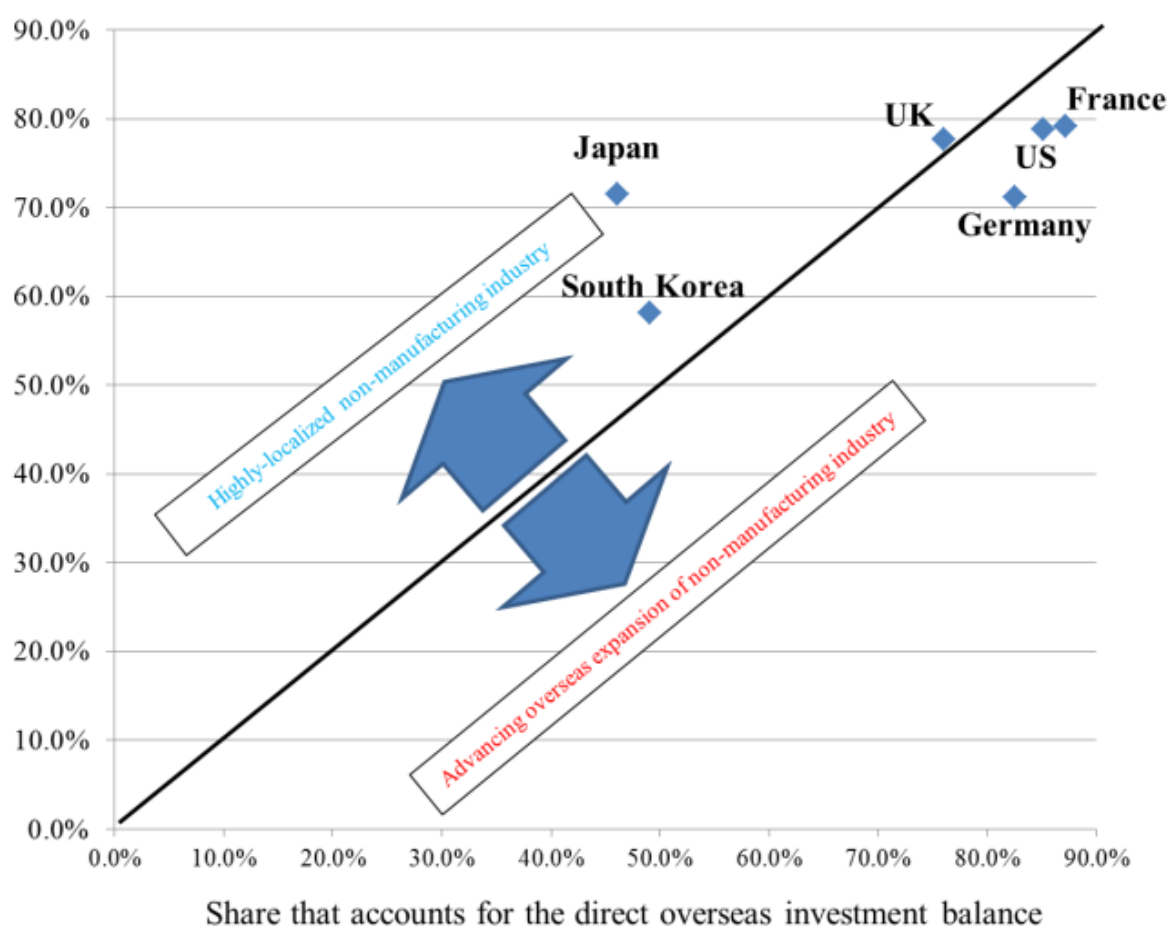
Note: Figures for the UK and Germany in 2011 were not published.

Source: OECD Stat, *World Economic Outlook 2012 Oct* (IMF).

Furthermore, the percentage of the non-manufacturing industry that accounted for the total direct overseas investment balance was 46.1% for Japan in 2011, which was greatly below the United States (85.1%) and France (87.1%). As seen in (1), though the added value share of the non-manufacturing industry in GDP was not much lower in comparison to other countries, the percentage that accounted

for Japan's direct investment balance was clearly lower than Europe and the United States, and Japan's non-manufacturing industry is said to be currently introverted, highly localized and slow in developing overseas (Figure II-3-2-12).

Figure II-3-2-12 Percentage of the non-manufacturing industry in the entire direct overseas investment balance and the added value share of the non-manufacturing industry in GDP of each country



Note: 1. Due to data restrictions, share that accounts for nominal GDP is 2010 for Japan, US, UK and Germany, 2011 for South Korea, and 2009 for France.
 2. Due to data restrictions, percentage that account for direct overseas investment balance is 2011 for Japan, US, France, and South Korea, and 2010 for Germany and the UK.
 Source: OECD Stat, *WDI* (World Bank).

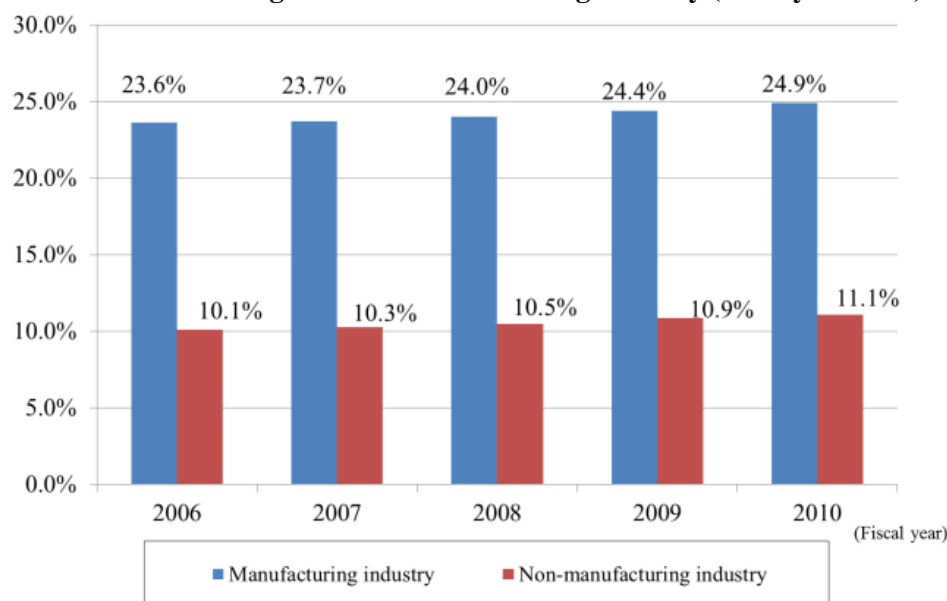
(4) State of expansion of foreign subsidiaries, related companies, and overseas branches of Japan's non-manufacturing industry

Next, this section gives a comparison of the state of direct overseas investment of Japan's non-manufacturing industry with the manufacturing industry.

The percentage of companies that own foreign subsidiaries and related companies is slowly increasing in both the non-manufacturing and manufacturing industry. However, the non-manufacturing industry is still lower than the manufacturing industry in 2010 fiscal year, and the manufacturing industry was at 24.9% while the non-manufacturing industry remained at 11.1%

(Figure II-3-2-13).

Figure II-3-2-13 Percentage of companies that own foreign subsidiaries and related companies of the manufacturing and non-manufacturing industry (fiscal year 2010)

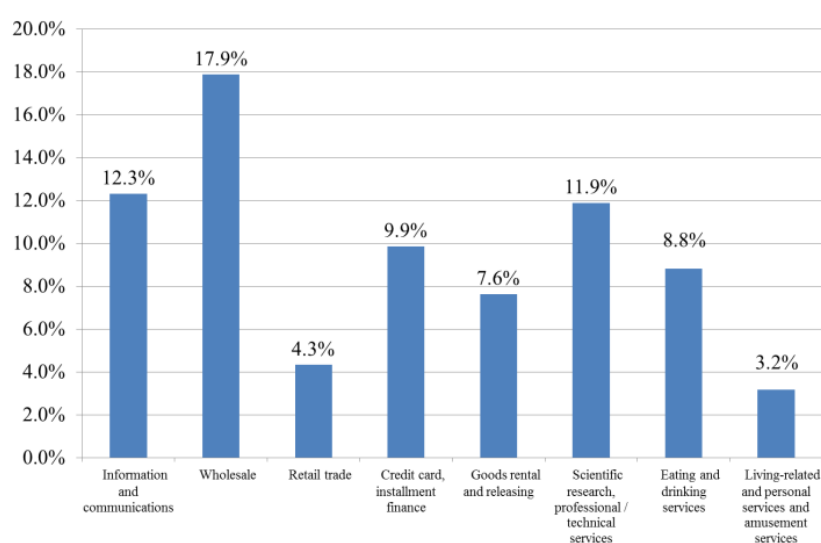


Note: Non-manufacturing industry does not include transport and real estate here.

Source: *KIGYO KATSUDOU KIHON CHOUSA* (Ministry of Economy, Trade and Industry)

Among the non-manufacturing industry, the percentage of companies that own foreign subsidiaries or related companies is high for wholesale trade and telecommunication companies, while living-related personal services and amusement services, and retail trade have a low percentage (Figure II-3-2-14).

Figure II-3-2-14 Percentage of companies that own foreign subsidiaries and related companies in the non-manufacturing industry (2010 fiscal year)

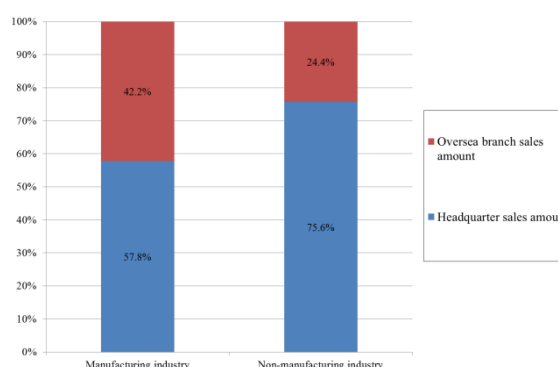


Source: *KIGYO KATSUDOU KIHON CHOUSA* (Ministry of Economy, Trade and Industry).

Furthermore, when looking at main office company sales and overseas branch sales as a

percentage of the total sales for companies that have expanded overseas, sales from overseas branches in the manufacturing industry account for over 40%, while in the non-manufacturing industry they account for 24% (Figure II-3-2-15).

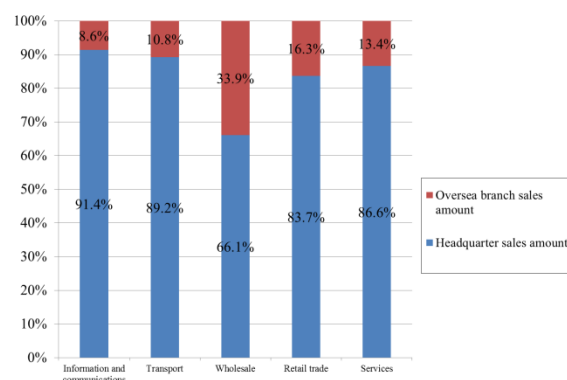
Figure II-3-2-15 Sales comparison for main office company and overseas branches for both the manufacturing and non-manufacturing industry (2010 fiscal year)



Source: *KAIGAI JIGYOU KATSUDOU KIHON CHOUA* (Ministry of Economy, Trade and Industry).

When comparing among the non-manufacturing industry, the percentage of sales from overseas branches of traders (33.9%) and retailers (16.3%) were high (Figure II-3-2-16).

Figure II-3-2-16 Percentage sales of overseas branches and main office companies in the non-manufacturing industry (2010 fiscal year)



Source: *KAIGAI JIGYOU KATSUDOU KIHON CHOUA* (Ministry of Economy, Trade and Industry).

As seen above, export and direct overseas investment of Japan's non-manufacturing industry is below that for manufacturing countries, and Japan's non-manufacturing industry has low values for the percentage of companies that own foreign subsidiaries and related companies, and the ratio of sales from overseas branches compared with sales from main office companies is low. From these facts we can say that Japan's non-manufacturing industry is slow in expanding foreign markets and there is further room for them to expand in the future.

3. Significance and necessity of promoting overseas expansion of the non-manufacturing industry

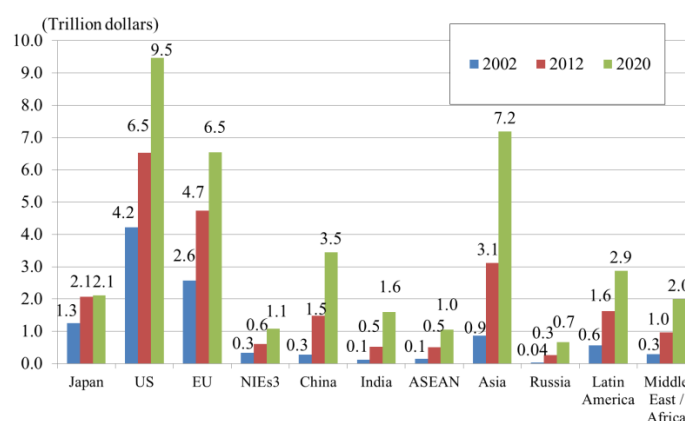
While the importance of the non-manufacturing industry in the world economy is increasing, we have shown that Japan's overseas expansion of the non-manufacturing industry is slow in comparison to each advanced country and the manufacturing industry, and there is further room to grow.

In this section we will discuss the significance and necessity for the overseas expansion of Japan's non-manufacturing industry and supporting it.

(1) Increasing overseas service expenditure

According to the forecast of the change in service expenditure⁵⁴ in the future, Japan will remain at around 2.1 trillion dollars from 2012 to 2020 and will show no growth, while the United States and Europe will show steady growth. Furthermore, developing countries will show strong growth, with China at 3.5 trillion dollars to greatly draw ahead of Japan. Also, the total service expenditure in Asia (China, India, ASEAN, NIEs3) is expected to be 7.2 trillion dollars and in EU is expected to be 6.5 trillion dollars, far above Japan (Figure II-3-2-17, Figure II-3-2-18).

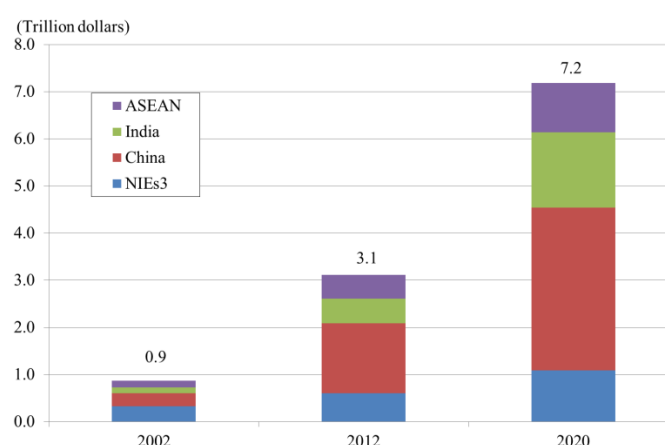
Figure II-3-2-17 Change in service expenditure in each country and region



Notes: Nominal base, dollar conversion. 2020 figures are estimates.

Source: Euromonitor International.

Figure II-3-2-18 Past results and expected values for Asia service expenditure



Notes: 1. Nominal base, dollar conversion. 2020 figures are estimates.

2. Figures on graph are total amounts for four countries' economic zones.

Source: Euromonitor International.

⁵⁴ Defined as Consumer Expenditure on Services in Euromonitor International. See the supplementary notes for details.

As shown above, Japan's service expenditure is continuing to lag, while it is continuing to grow overseas, centered around Europe, the United States, and developing countries within Asia. For the Japanese non-manufacturing industry to increase sales and earnings, it is believed that it must proactively expand overseas, and acquire the non-manufacturing industry market overseas centered on developing countries that are expanding.

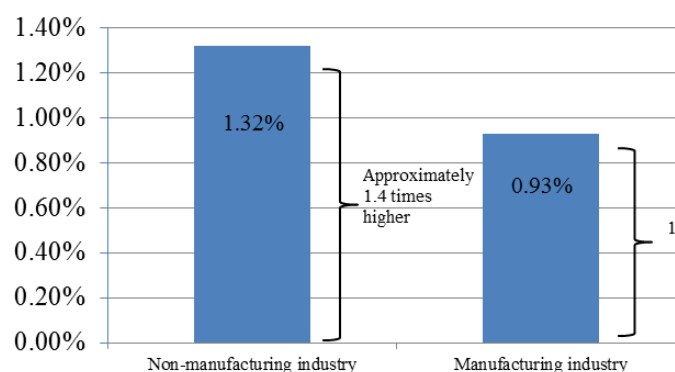
(2) Positive impact on overseas expansion of the non-manufacturing industry

This section will look at the positive impact that occurs along with the overseas expansion of companies in the non-manufacturing industry.

(A) Effects on productivity

First, look at the effects on productivity. The TFP increase rate for companies that are directly investing overseas compared to the entire manufacturing industry, including companies that are not directly investing overseas, is increasing at 0.93% on average per annum, while companies that are directly investing overseas in the non-manufacturing industry have a higher TFP increase rate at 1.32% on average per annum. Companies that are directly investing overseas show a high TFP increase rate in comparison with average companies in the same industry for both the manufacturing and non-manufacturing industry, and the non-manufacturing industry is approximately 1.4 times higher in comparison with the manufacturing industry (Figure II-3-2-19).

Figure II-3-2-19 TFP increase effect from one year overseas production activities
(TFP increase rate and comparison for listed companies penetration overseas and all listed companies in same industry)



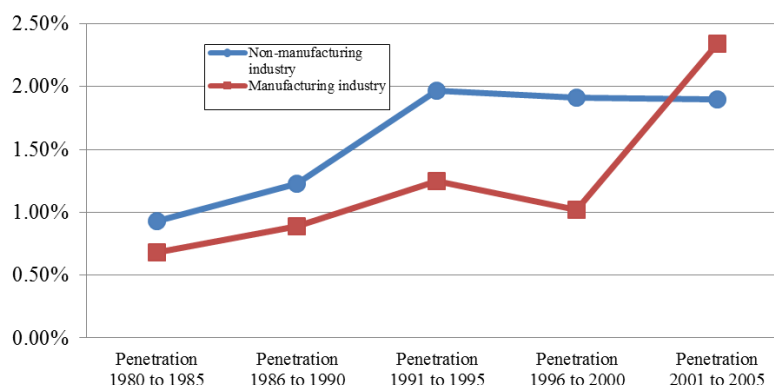
Note: Shows the TFP increase rate difference for when the average value for each industry type has the standard value of 0%.

Source: *Choice for FDI and Post-FDI Productivity* 2007 (Ito Yukiko).

Also, when looking at the sustainability of the TFP increase effect for companies that directly invest overseas, the TFP increase rate for the manufacturing industry was high at 2.34% on average in comparison with the entire manufacturing industry immediately after investing (within one to five years). However, sustainability is low, since six to ten years from the time of the investment, the TFP increase rate was around 1% on average in comparison with the entire manufacturing industry. In contrast, the non-manufacturing industry sustainability is high, since after about 10 to 15 years from

the time of the investment, the TFP increase rate continues to be high at around 2% on average in comparison with the entire non-manufacturing industry (Figure II-3-2-20) ⁵⁵.

Figure II-3-2-20 Change in TFP increase rate by year of overseas penetration at the point of 2005 (versus the same industry average)



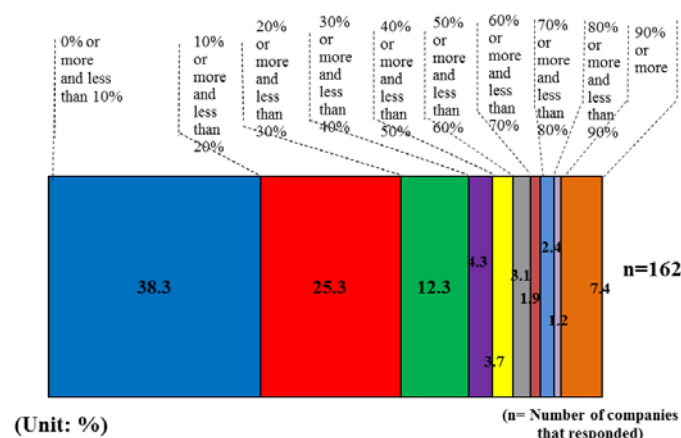
Note: Shows the TFP increase rate difference for when the average value for each industry type has the standard value of 0%.

Source: *Choice for FDI and Post-FDI Productivity* 2007 (Ito Yukiko).

(B) Effects on Japanese product and service demand

Now look at the effects of overseas expansion in the non-manufacturing industry on Japanese product and service demand. According to survey results, 60% of Japanese non-manufacturing companies that have overseas bases answered that products and services imported from Japan account for 10% or more of their procurement and buying amount, and the establishment of overseas bases for Japanese companies in the non-manufacturing industry triggers a fixed amount of product and service export from Japan (Figure II-3-2-21). It is said that a demand for Japanese products and services from Japanese companies in the non-manufacturing industry that have expanded foreign markets can be expected, and that this will benefit companies within Japan.

Figure II-3-2-21 Percentage of products and services from Japan that account for procurement and buying amount at overseas bases of Japanese companies in the non-manufacturing industry



⁵⁵ Figure II-3-2-20 shows the TFP increase rate for 2005 for companies that directly invested overseas by decade. For example, companies that directly invested overseas from 1980 to 1985 show how much they were able to sustain the TFP increase effect 21 to 25 years later in 2005.

Source: *Survey on overseas strategy of Japanese companies for the consideration of the international trading policy* 2013 (Teikoku Databank).

As seen above, companies in the non-manufacturing industry that expand overseas increase the rate of productivity and contribute towards increasing productivity for Japan's industries. Furthermore, the increase in demand for Japanese products and services is said to have a positive effect on the Japanese economy.

(C) Examples of overseas expansion of the non-manufacturing industry that has a ripple effect on goods and other industries from service

There are many companies in the non-manufacturing industry that are expanding overseas, which caused a ripple effect on service goods and other industries. This section introduces several examples and shows the effect they have.

(a) Example of overseas expansion for TSS Production

We introduce TSS Production, which is a TV program production company in Hiroshima. This company is expanding overseas by partnering with the French media and using the strategy of expanding its distribution in Paris.

TSS Production produces and airs a program called "Japan in Motion" transmitted over a 30 minute window from a French cable TV office called "NOLIFE" to around 6.5 million households interested in Japan and subscribe to the channel. The program basically introduces famous places in Japan, world heritage sites, gourmet items and festivals for about 9 minutes, talks about Japanese pop music and albums in France for about 9 minutes, and then information and company products geared towards pop culture such as Japanese fashion, culture, and Akihabara, and Japanese traditions and culture for about 9 minutes. People between the ages of 25 to 34 make up the main audience for NOLIFE and Japan in Motion has a high popularity among the programs aired by NOLIFE.

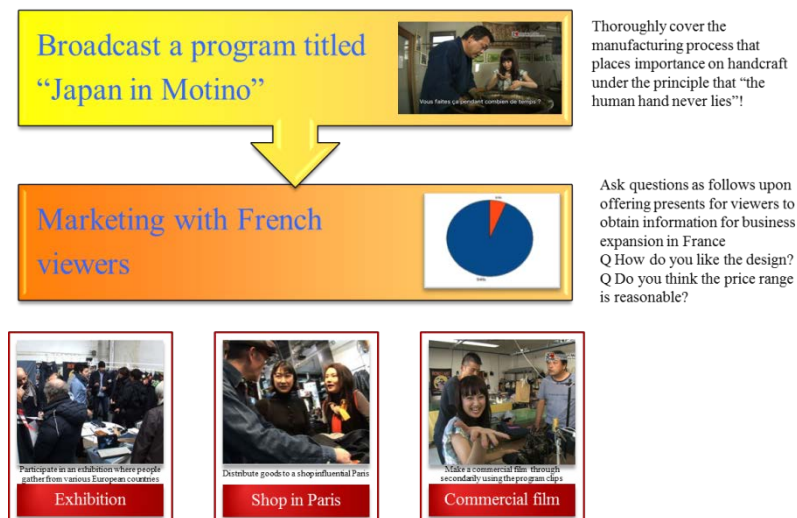
Japan in Motion introduces products during the program, and asks viewers to take questionnaires on the products in terms of the design and price on its website, so it conducts marketing surveys, and based on the results of the surveys it makes product plans and selects products that will probably succeed. Furthermore, it also employs a method of creating sales through stores and exhibitions that cooperate with the program, which is a business model that has a large ripple effect on service goods and other services. Examples of the effects caused by this scheme will be introduced.

Effect 1 Overseas expansion of Momotaro Jeans

When Momotaro Jeans from Collect Co., Ltd. in Okayama Prefecture first penetrated the French market, it experienced slow sales growth since each pair of jeans was handmade, of high quality and were expensive. Under these conditions, Japan in Motion began to introduce its jeans on its own show in 2010. At first, a popular TV personality gave a lot of coverage during the program to the jeans' manufacturing process, which the personality highly regarded as a hand-made product, and explained how good the product was. After that, a survey questionnaire on the program's website was conducted for marketing purposes asking the audience about the design and price range to expand the product in France. As a result, it changed the manufacturing process, dropped the price and released a new

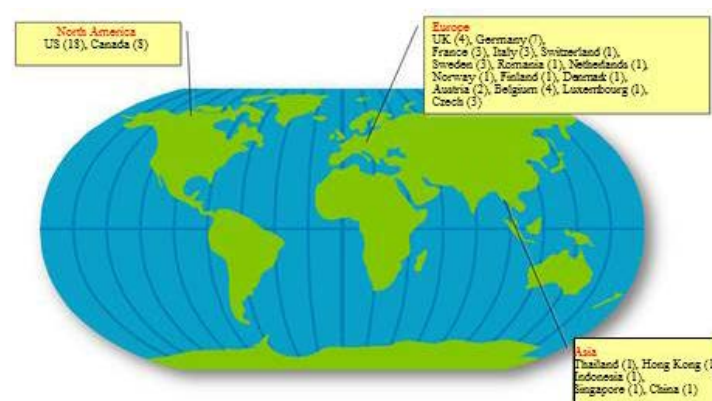
version of the Momotaro Jeans. After this, Collect entered a partnership with TSS Production and the local coordinator and proposed business talks with stores that had influence over French consumers. It then held talks with two of Paris's well-known stores and advertised the jeans on commercials during the show, which resulted in Momotaro Jeans being a sudden big hit in France. Furthermore, it displayed the jeans in November 2011 at a show in Paris that attracted buyers from each country in Europe, which allowed it to hold business talks with 19 companies in 13 countries throughout Europe and America, and not just France. In addition, six months later, it was able to contract with 78 companies in 20 countries in the world, including Asia (Figures II-3-2-22 and II-3-2-23). As a result of this initiative, sales of Momotaro Jeans in 2011 were more than double sales in 2010.

Figure II-3-2-22 Scheme for overseas expansion of Momotaro Jeans



Source: *HEISEI 24 NENDO CONTENTS SANGYO KYOUKA TAISAKU SHIEN JIGYO (CONTENTSU WO KAKUTOSHITA CHIKI SHIGEN NO KAIGAI HASSHIN OYOBI HANRO KAITAKU NI MUKETA PLATFORM KOUCHIKU JIGYO) NI KAKARU JISSHI HOUKOKUSHO* (TSS Production Co., Ltd.).

Figure II-3-2-23 State of overseas contracts for Momotaro Jeans (as of November 2011)

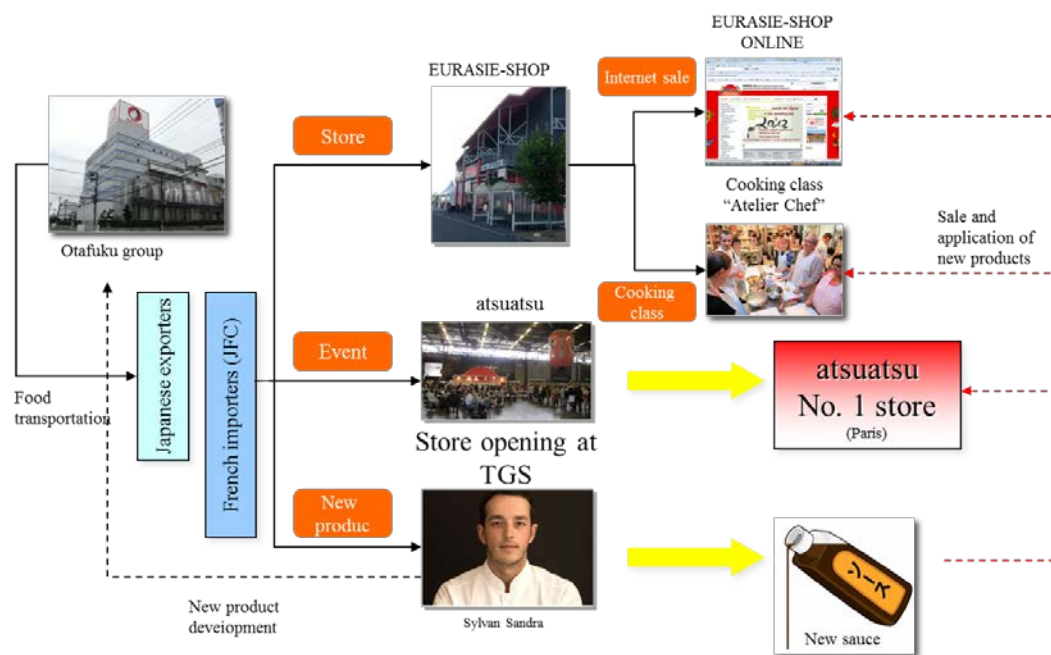


Source: *HEISEI 24 NENDO CONTENTS SANGYO KYOUKA TAISAKU SHIEN JIGYO (CONTENTSU WO KAKUTOSHITA CHIKI SHIGEN NO KAIGAI HASSHIN OYOBI HANRO KAITAKU NI MUKETA PLATFORM KOUCHIKU JIGYO) NI KAKARU JISSHI HOUKOKUSHO* (TSS Production Co., Ltd.).

Effect 2 Sales increase for Otafuku sauce in France and increase in popularity of okonomiyaki

Otafuku Group has been spreading okonomiyaki as an alternative Japanese food to sushi in France, and in order to increase its sales at Otafuku sauce it used Japan in Motion in 2012 to air its products. A popular TV celebrity introduced how good okonomiyaki was and how great Otafuku sauce was on the show, and okonomiyaki commercials were shown during the program using a popular Vocaloid character for about 15 seconds. Surveys were available from the program website about the price and menu, and as a result of this the company opened okonomiyaki stalls at a gaming event called TGS in France and was successful in achieving a large amount of profit in the region of 3 million yen in two days, and this prompted the company to open its first store selling Hiroshima style okonomiyaki in Paris in May 2013. During this time, the company introduced cooking recipes using Otafuku sauce in collaboration with the program and its website, which promoted sales at its internet store and the use of the cooking lessons. It also had a famous French chef develop a new sauce for it on a show, which was done together by Otafuku Group and TSS Production (Figure II-3-2-24). This led to increase sales in Otafuku sauce in France.

Figure II-3-2-24 Scheme for expanding Otafuku sauce in France



Source: *HEISEI 24 NENDO CONTENTS SANGYO KYOUKA TAISAKU SHIEN JIGYO (CONTENTSU WO KAKUTOSHITA CHIKI SHIGEN NO KAIGAI HASSHIN OYOBI HANRO KAITAKU NI MUKETA PLATFORM KOUCHIKU JIGYO) NI KAKARU JISSHI HOUKOKUSHO* (TSS Production Co., Ltd.).

Effect 3 Increase in popularity of Harajuku fashion and the number of French tourists in Hiroshima

Kyary Pamyu Pamyu, who is also popular in France, introduced Harajuku fashion in the program, which led to a rise in popularity and sales of Harajuku fashion in France in addition to rising her popularity and the sales of the goods relating to her. Also, from 2009 to 2011, the idol group Passpo introduced the famous places and the charm of Hiroshima on the program, which is thought to be a reason for the increase in French tourists in Hiroshima.

(b) Overseas expansion for Kokuyo

Kokuyo Furniture Co., Ltd. of the Kokuyo group previously sold office furniture and fixtures as its main business. However, it now also provides services such as office and store design, and advice on store opening plans, which has had the synergistic effect of also increasing profits from its sales of office and fixtures. The company's overseas expansion has penetrated such places as Southeast Asia centered on China, and it is also experiencing success in other foreign locations because of the business model that has a synergistic effect on its furniture sales and services. This section will explain the state of expansion in China, which is the center of its overseas expansion.

Its main customers in China began with Japanese companies that had penetrated the Chinese market, and then it moved on to local Chinese companies and global companies. The company's main strengths lie in that it owns local subsidiaries that have interior design and construction qualifications in China, it is familiar with the Chinese market due to its experience as a stationery and furniture manufacturer, and it has accumulated expertise on making up stores, local procurement of construction and local support, hence it has acquired a reputation as a company that can be relied upon. Examples of offices and stores that the company is working on will be introduced here. As an example of making up office and commercial space, the company gets favorable comments from local banks and other similar establishments in China which it did not have spaces where customers could relax (to take good care of them while they wait) such as waiting areas at office receptions and information desks in stores, things that are commonplace in Japan. Another example of stores, the company proposed that Chinese department stores create show windows on storefronts as can be seen at department stores in Japan and European countries, the United States, and other advanced countries. After adopting this, it became popular for Chinese people to take photographs as souvenirs at these locations (Figure II-3-2-25). Furthermore, through increased talks with customers, the company has supported rebranding and new business developments, and has supported making up stores that arouse consumer appetite and make them feel good by getting consumers to enter stores and supporting the transition from "Needs Shops" to "Wants Shops" (changing consumers' belief from the idea that "they will go to a shop only when they need to" to "they wonder if they have something of interest in that store, enter the store, see something they want and buy it"). In addition, it creates direct signs and displays for Japanese manufacturers and this has also contributed to the promotion of its sales.

Figure II-3-2-25 Kokuyo store make up example (show window at Chinese department store)



Source: Kokuyo

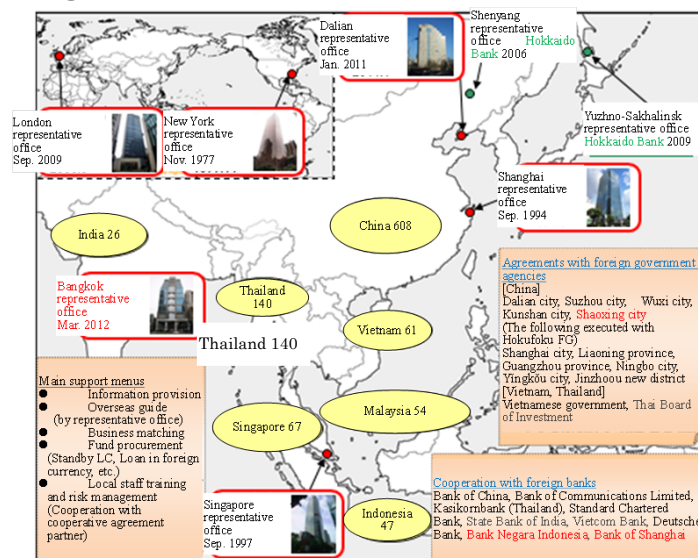
As explained above, Kokuyo has been able to increase its sales by using its office furniture and fixtures when providing services such as making up office and stores.

(c) Hokuriku Bank

Hokuriku Bank, based on the growing strength of the Asia region starting with China, has seen an increase in its customers who are considering penetrating the markets in these regions, and to respond to their needs, is providing various assistance.

The bank has set up representative offices (at six locations in total, two in New York and London, two in China, and two in Thailand and Singapore), and are active in such as investment agreements with foreign administrative institutions and those that issue standby letters of credit⁵⁶ for customer loans from local banks, providing information and business matching (Figure II-3-2-26).

Figure II-3-2-26 Hokuriku Bank overseas network



Note: Figures on the map are the number of customer companies that have penetrated each country
Source: Hokuriku Bank.

The bank has business ties with foreign banks, namely the Bank of China, the Bank of Communications Limited, the Kasikornbank, the Standard Chartered Bank, the Vietcom Bank, the State Bank of India, the Deutsche Bank AG, the Bank Negara Indonesia, and the Bank of Shanghai. Currently, it is creating an environment to allow customers that have penetrated the market locally to receive loans from these foreign banks, and also making efforts to cooperate with opening accounts locally and issue standby letters of credit.

The bank frequently holds seminars and business matching events for customers locally and in Japan, and joint host with such organizations as the Ministry of Economy, Trade and Industry, Toyama Prefecture, local banks, JETRO, NEXI, audit firms and membership organizations (Hokuriku

⁵⁶ A letter of credit that shows the customer requesting the issue of the letter is creditworthy based on the credit of the issuing bank (Hokuriku Bank): This is different to two generation loans. Also, this avoids current law exchange risks when using local currency.

Choujou meetings), and the 13th meeting was held in the 2012 fiscal year. Furthermore, by 2012, it had held individual consultation meetings 10 times since 2004.

Furthermore, the bank performs cross border lending as one of its businesses for China and ASEAN. This is direct financing based on the foreign currency to local subsidiaries in China and ASEAN from domestic bank branches, and has done this four times at this point. For customers, this contributes to diversify source of financing for corporate located overseas. It also supports local subsidiaries, enabling it to expand its sales routes, and promotes information sharing, personnel training and risk management support through seminars. The bank's philosophy for assisting its customers is "think globally, act locally." Overseas penetration of SMEs is a "thorny path" (due to problems with things like the differences in language, culture, the temperament of its citizens, and the education of young people), hence the bank understands the hardship of small and medium companies and their philosophy is necessary to support the expansion of community based business styles (the word globalization, does not give the correct sense of overseas expansion; it takes effort and must be regarded as an extension of domestic trading).

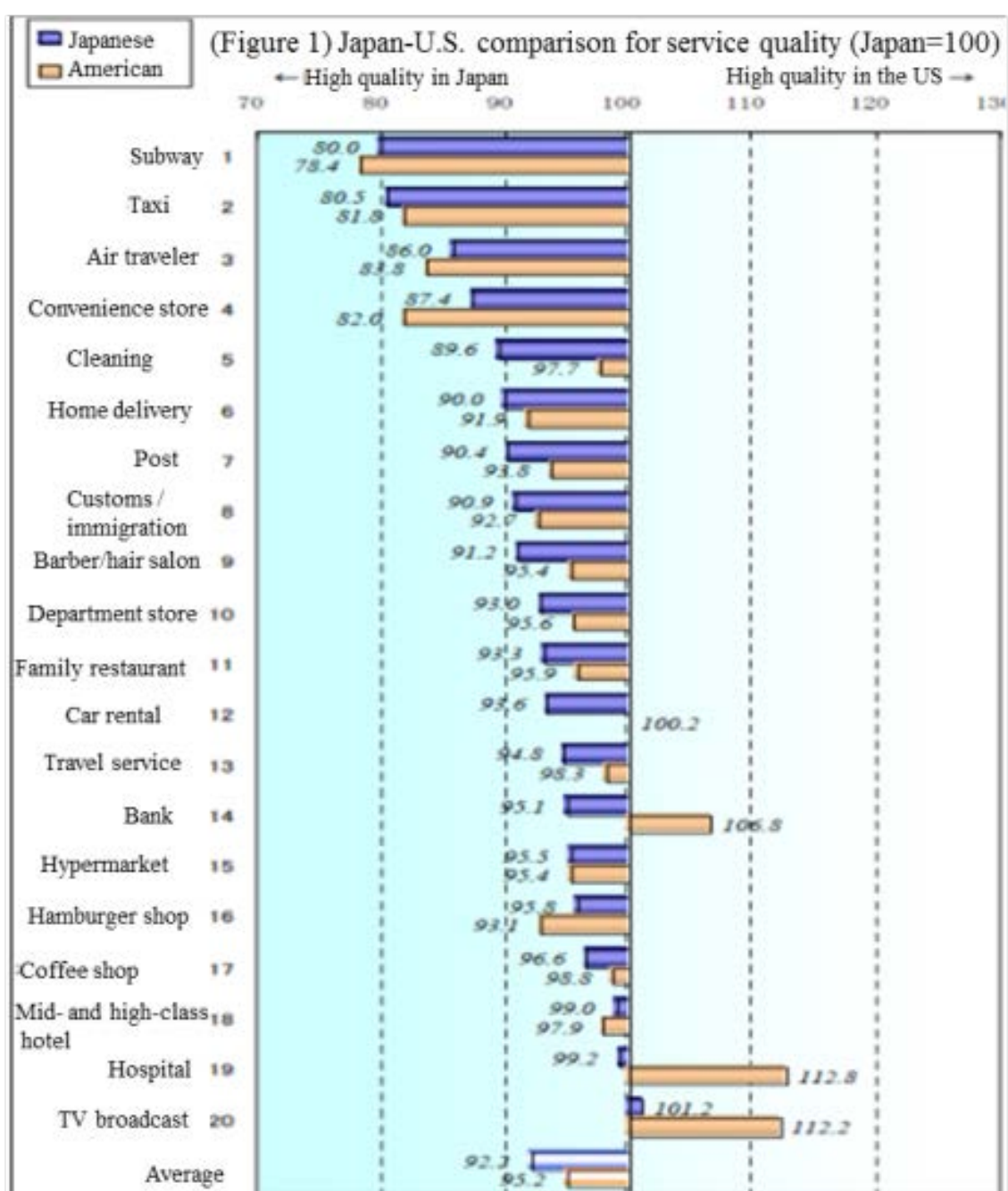
This type of overseas expansion of the Hokuriku Bank promotes the overseas expansion of companies centered on SMEs of other industries, and it is said to contribute to increased sales and market expansion for these companies.

(3) High-quality Japanese services

This section will show that both consumers and producers think that Japanese services are high-quality, based on the results of a survey.

First, according to a survey of Japanese people who have experience living in the United States and Americans who are living in Japan to compare the quality of services between the United States and Japan, it is found that both Japanese and Americans generally think that Japanese services are higher-quality than American services for such as convenience stores and home parcel delivery, but this excluded banks, hospitals and TV broadcasting from consumers' perspective(Figure II-3-2-27).

Figure II-3-2-27 Japan-US comparison for service quality (Japan=100)



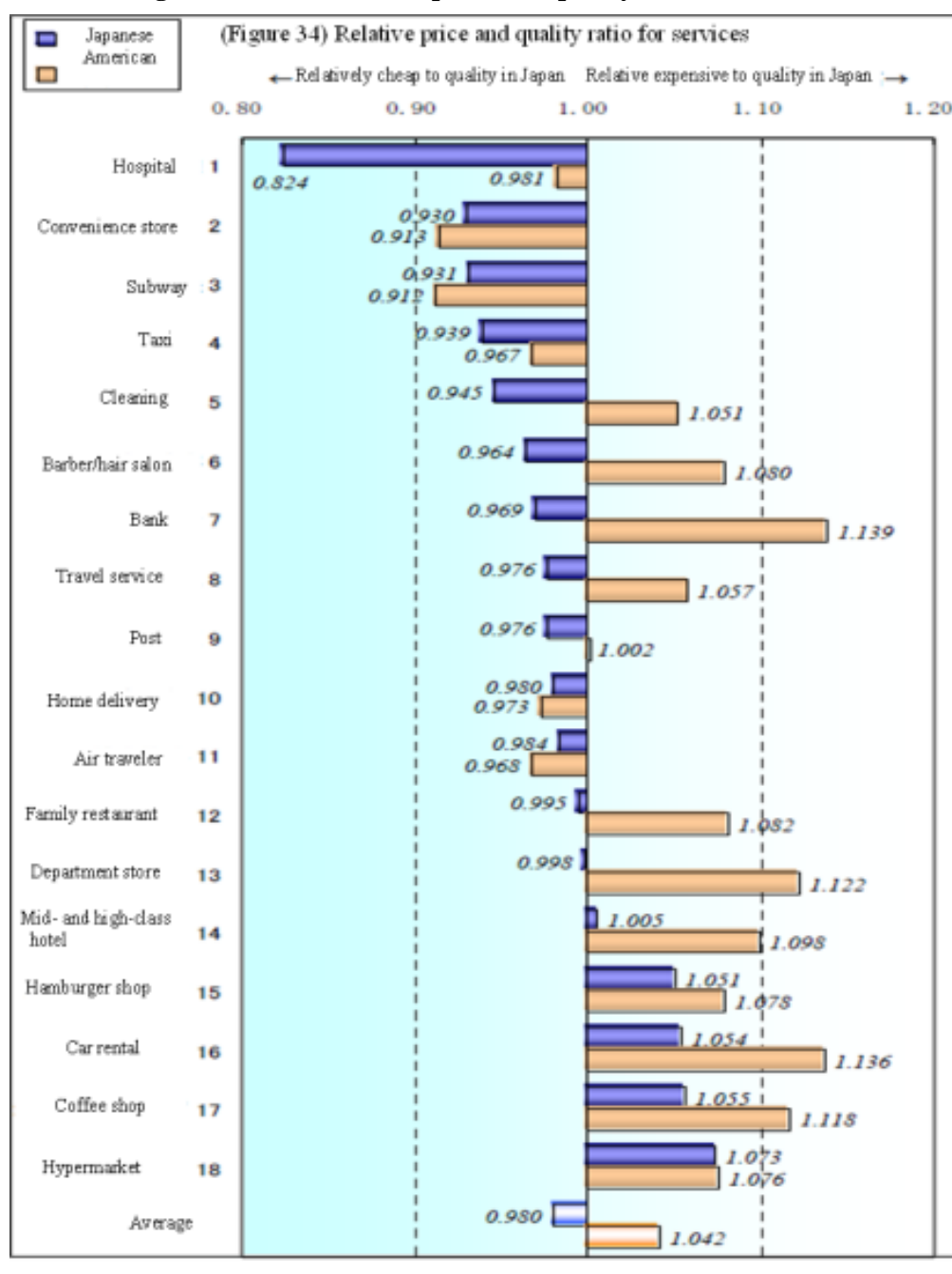
Note: 1. Survey for number of points given for quality of services experienced in the US when setting the Japanese service quality at 100.

2. Number of replies: Japanese 555, Americans 500.

Source: *The statistics on the production and distribution market of media soft*, March 31, 2009 (Institute for Information and Communications Policy).

There are some sectors of Japanese services centered around such as banks, car rental and coffee shops, which are evaluated to be comparatively expensive in comparison to American services though they are high-quality, but there were some services that were evaluated to be cheaper (Figure II-3-2-28).

Figure II-3-2-28 Relative price and quality ratio for services



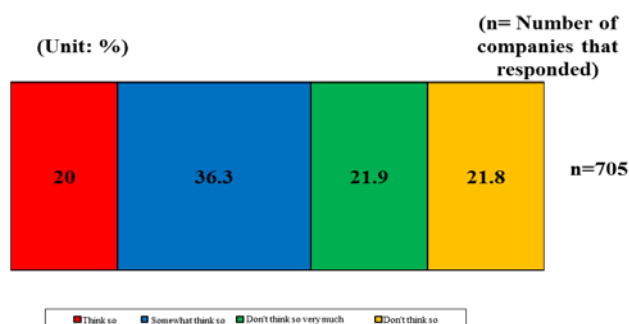
Note: Relative price and quality ratio are divided by the Japan-US relative price and quality.

Calculates the Japan-US ratio of money that must be paid to receive the same standard of services in Japan. If this is below 1.00, Japan is comparatively cheaper, 1.00 means that Japan and the US are the same, and if it is above 1.00, Japan is comparatively more expensive.

Source: *The statistics on the production and distribution market of media soft*, March 31, 2009 (Institute for Information and Communications Policy).

According to the survey for producers, when approximately 56% of the non-manufacturing companies that have not begun to expand overseas start to expand overseas, it is believed that the company's existing products and services will become popular around the foreign local market (excluding the foreign local Japanese companies) (Figure II-3-2-29).

Figure II-3-2-29 When starting overseas expansion, companies that believe their existing products and services are accepted by the foreign local market (excluding the foreign local Japanese companies)



Source: *Survey on overseas strategy of Japanese companies for the consideration of the international trading policy 2013* (Teikoku Databank).

There are Japanese services that receive a high evaluation for both quality and price from consumers, and it may be possible for the Japanese service industry to acquire foreign demand in these sectors. With regards to the producers, many of them are confident in their products and service, but it is said that they are not taking the next step to expand overseas.

As explained above, while the foreign service market is expanding around developing countries, expanding the Japanese non-manufacturing industry, which has been evaluated by itself and others to be high-quality, into foreign markets is expected to have a favorable effect on various aspects such as other industries and companies, and not just increasing sales of the company that is expanding, and it is said that there is significance and a necessity to expand overseas and provide assistance to achieve this.

4. Analysis of overseas expansion of the non-manufacturing industry by type of business

Until now, these reports have looked at overseas expansion of the entire non-manufacturing industry. However, this section will now focus on the overseas expansion for the content industry and the retail industry in particular and analyze by business.

(1) Overseas expansion for the content industry

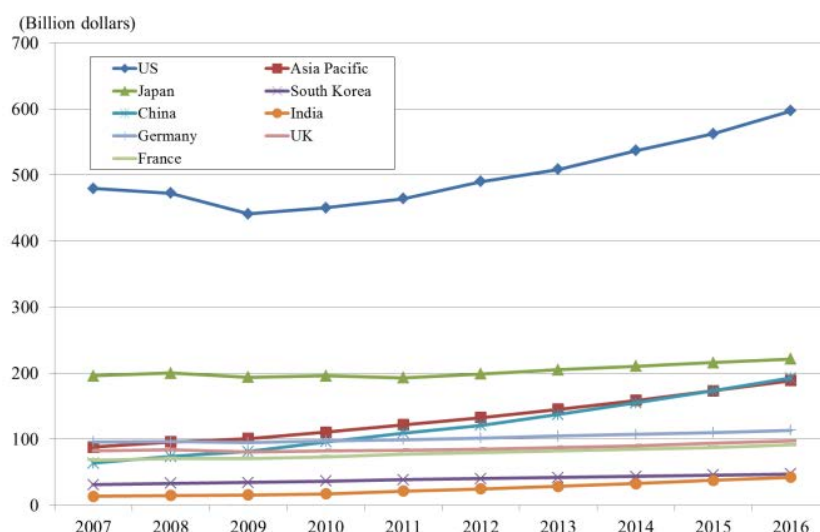
(A) The current state of overseas expansion for Japan's content industry and market expansion for the world's content industry

The size of the market for the Japanese content industry such as movies, anime, TV programs, games and books in 2001 was around 192.8 billion dollars, which was 2nd in the world behind the United States at around 463.9 billion dollars. However, due to the effects of a declining birth rate and increase in the elderly, and the recession in recent years, this industry has been on the decline (comparing 2011 to 2007 showed an annual ratio increase by a factor of 0.98), and is expected not to show a large increase in the future.

Meanwhile, the content market centered around developing countries such as China and the Asia

Pacific region⁵⁷ is expanding, and comparing 2011 to 2007 showed an annual ratio increase by a factor of 1.7 and 1.9 (around 109.1 dollars, and around 121.7 dollars), and is expected to further increase in the future (Figure II-3-2-30).

Figure II-3-2-30 Actual results and predictions for content market for each country and region



Note: Figures from 2012 are predicted values.

Source: *Global Entertainment and Media Outlook: 2012-2016* (PWC).

However, the Japanese content industry has not fully established itself in these foreign markets that are expanding. Japanese content has a high reputation, but the overseas export ratio is approximately 5%, which is comparatively low against the United States with 17.8% (in 2008), and it can be said that the state of Japan's content industry is lagging behind in overseas expansion⁵⁸.

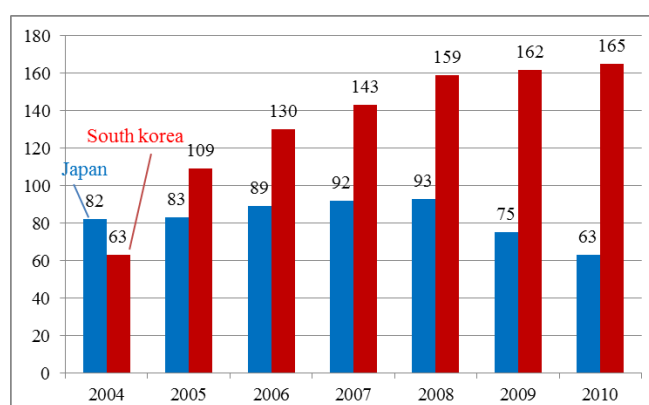
(A) The current state of overseas expansion for Japanese terrestrial TV programs

The export value of Japan's terrestrial TV programs has shown a trend in decreasing in recent years. The export value in 2010 was around 6.3 billion yen and the export ratio was 0.22%. South Korea has been showing the complete opposite trend versus Japan, so that in 2004, even though Japan's export value was larger, the following year's value for South Korea was above Japan. The export value of South Korean TV programs in 2010 was 16.5 billion yen, which was around 1.5 times greater than Japan. When looking at the export ratio, South Korea's was 3.03%, around 13 times greater than Japan (Figure II-3-2-31, Figure II-3-2-32). Japan's TV broadcasting is larger than South Korea's in the domestic market, and even though it has potential, it is said to be in a state where it is not fully utilizing this potential.

⁵⁷ The Asia Pacific region is Australia, Hong Kong, India, Indonesia, Malaysia, New Zealand, Pakistan, Philippines, Singapore, Taiwan, Thailand and Vietnam.

⁵⁸ Ministry of Economy, Trade and Industry *CREATIVE SANGYO NO GENJO TO KADAI* (March 29, 2013).

Figure II-3-2-31 Change in export value of Japan-South Korea terrestrial TV programs



Note: South Korea's export value was converted into yen using the average exchange rate for 2010 (1 US dollar = 88.09 yen, Trade Statistics of Japan Ministry of Finance).

Source: *CREATIVE SANGYO NO GENJO TO KADAI* March 29, 2013 (Ministry of Economy, Trade and Industry).

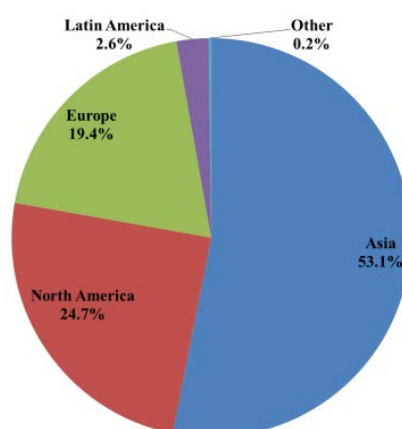
Figure II-3-2-32 Overseas export ratio and domestic market size for Japan-South Korea terrestrial TV broadcasting

	Domestic market size	Overseas export ratio of broadcasting programs
Japan(2011)	39680	0.15%
Korea(2010)	5440	3.03%

Source: *CREATIVE SANGYO NO GENJO TO KADAI* March 29, 2013 (Ministry of Economy, Trade and Industry).

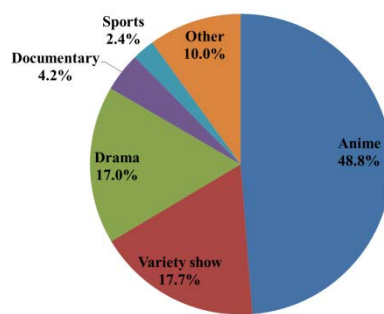
Japanese TV programs were mostly exported to Asia in 2011, which is culturally and geographically close, and took up 53.1% of exports, with the United States coming in next place (Figure II-3-2-33). Furthermore, for the type of exported programs, anime was overwhelmingly the largest export at 48.8%, with dramas and variety programs taking a low percentage in comparison to anime (Figure II-3-2-34).

Figure II-3-2-33 Export location of Japanese TV programs



Source: *The statistics on the production and distribution market of media soft* March 2013 (Ministry of Internal Affairs and Communications, Institute for Information and Communications Policy).

Figure II-3-2-34 Percentage of exported programs by type

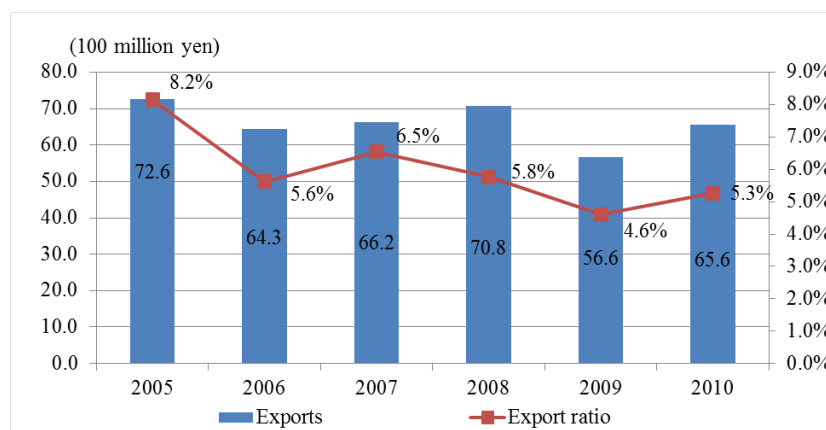


Source: *The statistics on the production and distribution market of media soft* March 2013 (Ministry of Internal Affairs and Communications, Institute for Information and Communications Policy).

(C) The current state of overseas expansion for Japanese movies

Overseas export of Japanese movies has seen slow growth, and the export ratio also shows a decreasing trend, so that while it was at 8.2% in 2005, it dropped to 5.3% in 2010 (Figure II-3-2-35). When looking at the type of movies, there were many anime movies exported, and besides anime, there were other types of movies that have been a big hit overseas in recent years such as *Departures*, winner of the Academy Award for Best Foreign Language Film in 2009, and *Confessions* in 2010. Japanese film companies are creating movies with only the principal idea of succeeding at theatres in the Japanese cinemas, while overseas expansion consistently use movies for a secondary business such as packages (DVD and similar), broadcasting and distribution after the movie has played at cinemas. However, there are leading film distribution companies that are showing positive developments towards overseas expansion⁵⁹.

Figure II-3-2-35 Change in Japanese movie content exports



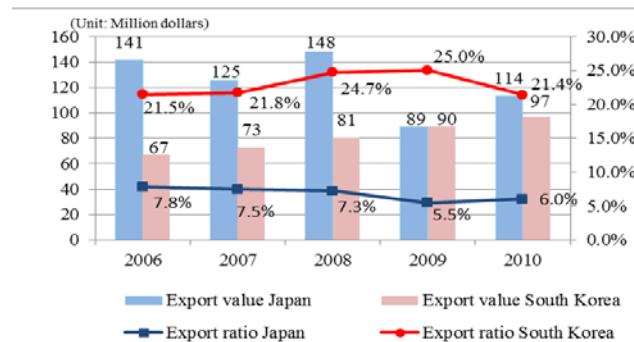
Source: Created by Ministry of Economy using information from Trade and Industry Motion Picture Producers Association of Japan, Inc.

⁵⁹ Digital Content Association of Japan, *HEISEI 24 NENDO CHITEKI ZAIKANKEN WORKING GROUP TOU SHINGAI TAISAKU JIGYO*.

(D) The current state of overseas development for Japanese anime

Japanese anime exports have shown a decline in recent years. In 2010, it was around 110 million dollars with an export ratio that remained at 6%. Meanwhile, South Korea has shown an increase in exports each year, and their export ratio was 21.4% in 2010, over three times greater than Japan (Figure II-3-2-36).

Figure II-3-2-36 Change in overseas exports and export ratio for Japan-South Korea anime



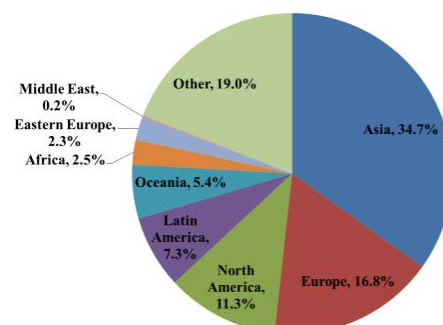
Source: Created by Ministry of Economy using information from *2012 Anime Industry Report* (The Association of Japanese Animations), *KONTENTSU SANGYO TOUKEI 2011* (Korea Creative Content Agency).

On the other hand, popularity for Japanese anime has not dropped, and in fact the number of visitors at the Anime Expo (the largest anime and manga event in North America) and the Japan Expo in Paris (the largest Japanese culture event in Europe) has increased. However, it should be noted that local promoters of these events receive the profits while Japan does not.

Furthermore, regulations are strict on children's cartoon in foreign markets such as Western Europe. These are barriers to stop Anime that is normally broadcast to children in Japan from being broadcast overseas.

When looking at the percentage by region of agreement locations for Japanese anime in 2011, Asia was 34.7%, Europe was 16.8% and North America was 11.3% (Figure II-3-2-37). Cartoons that are gaining in popularity are Pokemon, Doraemon, Naruto and Crayon Shin-chan and so on.

Figure II-3-2-37 Percentage by region of agreement locations for Japanese anime

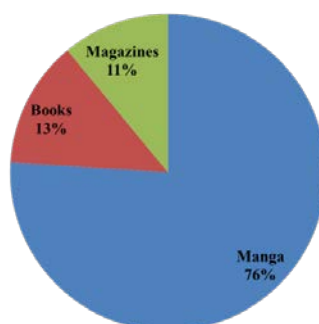


Source: *HEISEI 24 NENDO CHITEKI ZAISANKEN WORKING GROUP TOU SHINGAI TAISAKU JIGYO* (Digital Content Association of Japan).

(E) The current state of overseas expansion for Japanese published goods

The overseas sales for Japanese published goods in 2011 was 11 billion yen⁶⁰, three quarters of which were manga, and have become the main source of earnings of overseas sales (Figure II-3-2-38).

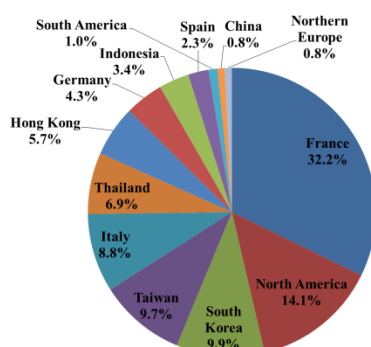
Figure II-3-2-38 Percentage of overseas sales by type of published goods



Source: *HEISEI 24 NENDO CHITEKI ZAISANKEN WORKING GROUP TOU SHINGAI TAISAKU JIGYO* (Digital Content Association of Japan).

Most manga is sold in Europe and the United States with locations such as France (32.2%) and North America (14.1%) being the main focus of sales, which is different to Japanese TV programs and anime (Figure II-3-2-39).

Figure II-3-2-39 Percentage of overseas sales by country (manga)

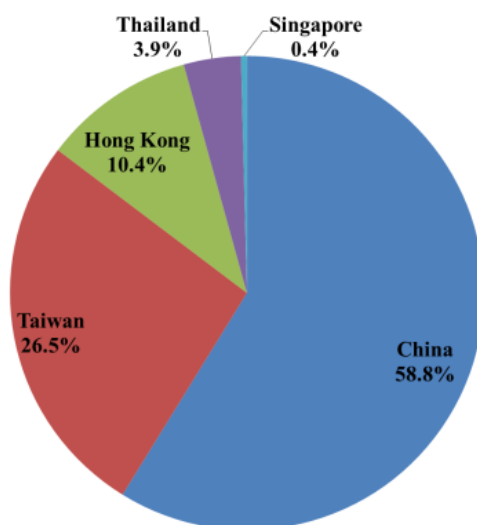


Source: *HEISEI 24 NENDO CHITEKI ZAISANKEN WORKING GROUP TOU SHINGAI TAISAKU JIGYO* (Digital Content Association of Japan).

The percentage of sales for each country that accounts for overseas sales of magazines and books is centered on East Asia in countries such as China, South Korea and Taiwan. In particular, fashion magazines are popular in China, and account for 58.8% of magazine sales, while book sales are at 36.1%, which suggests that China is the main destination for Japanese magazine and book sales (Figure II-3-2-40, Figure 3-2-41).

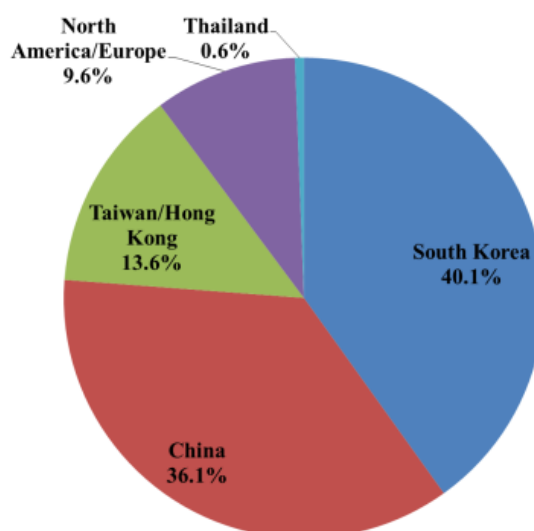
⁶⁰ Digital Content Association of Japan, *HEISEI 24 NENDO CHITEKI ZAISANKEN WORKING GROUP TOU SHINGAI TAISAKU JIGYO*.

Figure II-3-2-40 Percentage of overseas sales by country (magazines)



Source: *HEISEI 24 NENDO CHITEKI ZAISANKEN WORKING GROUP TOU SHINGAI TAISAKU JIGYO* (Digital Content Association of Japan).

Figure II-3-2-41 Percentage of overseas sales by country (books)

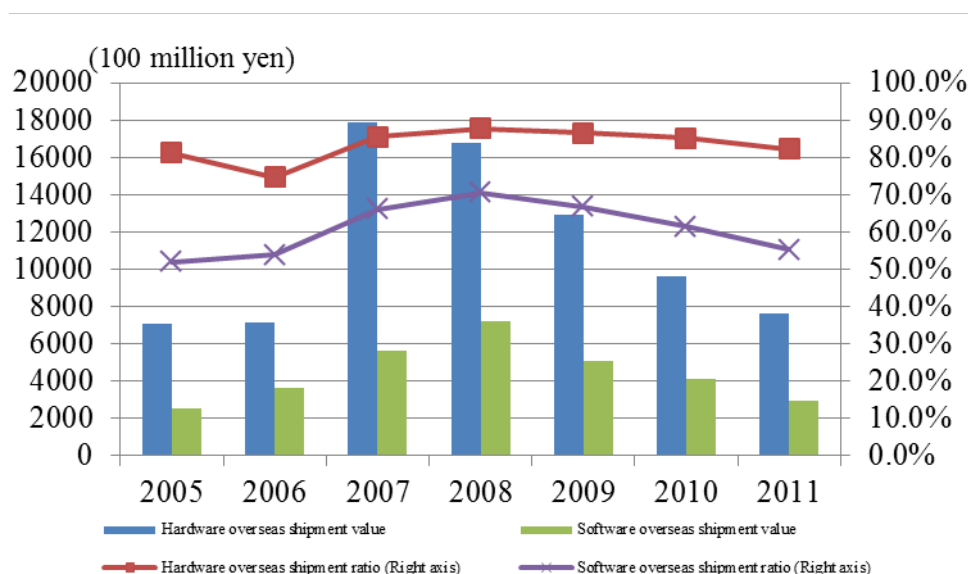


Source: *HEISEI 24 NENDO CHITEKI ZAISANKEN WORKING GROUP TOU SHINGAI TAISAKU JIGYO* (Digital Content Association of Japan).

(F) The current state of overseas expansion for Japanese home video games

The overseas expansion of Japanese home video games has shown a decline in overseas shipment value in recent years for both hardware and software. However, the total value was still around 1 trillion and 54.6 billion yen for hardware and software in 2011, which in comparison with other content is a much larger amount. The overseas shipment ratio is also high for software at 55.2% and hardware at 82.2%, and is said to be a representative content for bringing in revenue from overseas (Figure II-3-2-42).

Figure II-3-2-42 Change in overseas shipment value and ratio of home video games



Source: *CESA Games White Paper* (Computer Entertainment Supplier's Association).

(G) The current state of overseas expansion for Japanese music

The overseas expansion of Japanese music (packaged and distribution) is declining for packages sales such as CDs, while the distribution percentage is increasing, so that the entire music market size is getting smaller⁶¹. Japanese music exports are centered on Asia such as Taiwan and South Korea.

For the overseas expansion of live music, in 2012, 255 Japanese bands and artists performed live centered more in Europe and the United States than Asia. These artists performed live in a variety of ways, such as playing on tour, at foreign conventions, and participating in foreign events and festivals.

Also, in recent years, not just the music products and live performance of Japanese artists have been taken overseas, but also the concept of Japanese artists like JKT48 and SHN48, by making young people from the local community into members of a band, localizing the concept and selling it, so that a new format of overseas expansion is also occurring in the music industry.

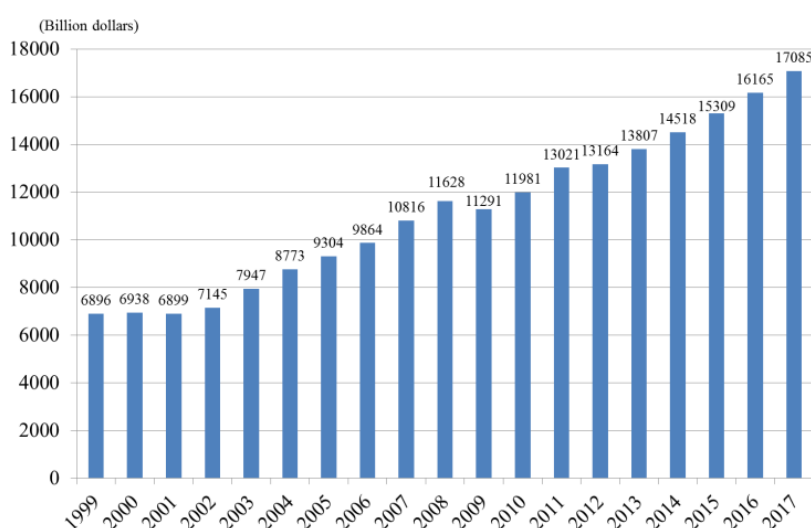
(2) Overseas expansion of the retail industry

(A) The current state and predictions for the global retail market

The size of the global retail industry market is growing each year. The world's total market size in 2012 was around 13 trillion dollars, which was twice what it had been in 1999 at around 6.9 trillion dollars. In the future, it is expected to continue growing and to increase to 17 trillion dollars in 2017 (Figure II-3-2-43).

⁶¹ Digital Content Association of Japan, *HEISEI 24 NENDO CHITEKI ZAIKANKEN WORKING GROUP TOU SHINGAI TAISAKU JIGYO*.

Figure II-3-2-43: Current state and predictions for world's total retail market size

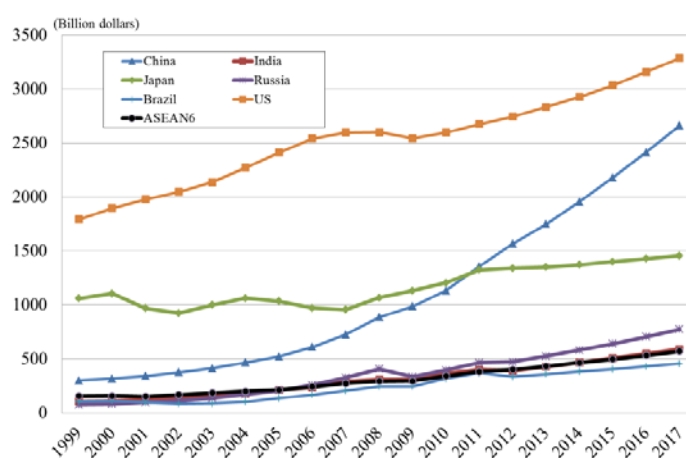


Note: Nominal base, dollar conversion. Estimate values from 2013.

Source: Euromonitor International.

When looking at the market size by country and region, the United States market size in 2012 was around 2.7 trillion dollars, which was overwhelmingly large because this was one-fifth of the entire global market size, and was 1.5 times more than it had been in 1999 at around 1.8 trillion dollars, and it is expected to continue growing in the future. China has a very strong influence on retail market expansion, so that in 2012, it was around 1.6 trillion dollars, which was a market size five times more than it had been in 1999 at around 298 billion dollars, and is the second largest market in the world after pulling ahead of Japan, and it is expected to continue growing in the future. Also, the market size is steadily increasing in developing countries such as Russia, ASEAN6 and India. Meanwhile, Japan's market size shows slower growth and has shown only a 1.2 times increase from 1999 with 1.1 trillion dollars to 2012 with 1.3 trillion dollars, and it is expected that it will not show a large increase in the future (Figure II-3-2-44).

Figure II-3-2-44 Current state and predictions for retail market size in each country and region



Note: Nominal base, dollar conversion. Estimate values from 2013.

Source: Euromonitor International.

(B) The current state of overseas expansion for the Japanese retail industry

The Japanese retail industry has expanded overseas centered on Asia through such means as convenience stores, supermarkets and department stores. In recent years, they have been proactively expanding around China and the Asian countries in particular.

However, European and American supermarkets have more stores overseas than in their domestic market, while Japanese supermarkets have a huge amount of stores in Japan but few stores overseas, which shows that they are slow in expanding overseas (Figure II-3-2-45).

Figure II-3-2-45 Current state of expansion for major Japanese retail stores

	Supermarket Company A	Supermarket Company B	Department store Company C	Department store Company D	Department store Company E	Convenience store Company F	Convenience store Company G	Convenience store Company H	Convenience store Company I	American supermarket Company J	French supermarket Company K	German supermarket Company L
Total number of stores	193	590	22	23	36	43,591	10,314	19,278	4,008	9,426	15,937	2,123
Domestic	180	538	20	10	15	13,590	9,994	8,649	2,054	4,447	5,494	939
Overseas	13	52	2	13	21	30,001	320	10,629	1,954	4,979	10,443	1,184
North America					1	7,627		8		329		
Latin America						1,286				3,341	1,385	
Europe					2	547				538	7,986	1,099
Asia/Oceania	13	52	2	13	18	20,541	319	10,621	1,954	771	1,072	85

Note: Data from January 2012.

Source: Created by Ministry of Economy, Trade and Industry from published data from each company.

There are three main issues that the retail industry confronts when opening stores in such places as developing countries. First, there is the issue regarding laws and regulations. In Asia, many countries impose regulations such as financing and corporate structuring on foreign companies, and there are restrictions on opening stores and the variety of their products, which makes it hard for them to penetrate the market. Next, there is the issue regarding personnel. In order to maintain and provide the same customer service and store setup quality locally as in Japan, there is the issue of securing and training staff from the local populace for both management and workers, and training Japanese staff to manage business operations locally. The third issue is regarding logistics. An infrastructure for transporting goods and cold storage, which is the lifeline for the retail industry, has not been established in many countries and regions. Therefore, this has a huge effect on the transport of goods such as perishable goods.

Figure II-3-2-46 Issues and regulations by sector and country for the retail industry in developing countries

	Regulation on Opening Stores	Regulation on Foreign Capital	Regulation on Items	Other Agenda
China	Upon coming to a franchise, more than two directly-managed stores, and more than one year of management performance are required.	The entry by the enterprise owned only by foreign companies has been enabled for wholesale and retail business since 2004.	No sales of tobacco is permitted in foreign capital for wholesale and retail business	-Material flow infrastructure and cold chain is undeveloped. -There are still cases which are left to the discretion of local officers including customs clearing, etc.
Vietnam	The authorization of ENT (Economic Needs Test) is required for the branch after the second store.	The establishment of a company with 100% foreign capital has been enabled since January 2009.	The major commercial products such as liquor, tobacco and home electronics are control subjects.	-Material flow infrastructure and cold chain is undeveloped. -High in the cost for real estate (Fee for the land) -Labor issue -Cumbersome application procedure
Indonesia	There is regulation on the location of the shop. (The locations for opening stores are limited)	-The entry of department store, shopping center, and supermarket are possible with single owner only if they meet dimensional standard -A convenient store is not possible.	A wide variety of products are subject to sales control such as: food including rice and bread, daily products including clothes, shoes, and stationary and automobile.	-Labor issue (no layoff, need of the compensation to employee at the time of withdrawal, once wage is set, no change later) -Material flow infrastructure and cold chain is undeveloped. -the society holds commission system -High rate of tax -Business development in a form of franchise is subject to a control
India		-Permission was given to entry of foreign capital on multi brand retail business in September 2012 (Opening of stores are still difficult due to control over		-Material flow infrastructure and cold chain is undeveloped. -Maintenance and management of product information -Cumbersome taxation system
Thailand	There is regulation on the location of the shop. (The locations for opening stores	-Starting a retail business with 100% foreign capital is possible if conditions are met. However, the	The sales of tobacco and liquor are on license system	-Material flow infrastructure and cold chain is undeveloped. -Cumbersome taxation system
The Philippines		Starting a retail business with 100% foreign capital is possible if scale of capital and parent		-Material flow infrastructure and cold chain is undeveloped. -High rate of tax
Malaysia		-Impossible for foreign capital to enter convenience store business. -Fulfillment of the least capital condition in each business is required	Purchase of a certain percent of bumiputera products is required.	-The regulation on the floor space differs by every business
Myanmar		Business with 100% foreign capital is permitted. In case of joint venture, more than 35% of foreign capital is necessary.		-Unstable political situation
Cambodia		No principle regulation		-Material flow infrastructure and cold chain is undeveloped. -Difficult to procure product at the site -There is regulation on the style of land ownership
Turkey		No principle regulation		-There is regulation on purchase of real estate by foreigners and foreign companies

Source: *SANGYO KOUZOU SHINGIKAI RYUTSU BUKAI (DAI 6 KAI) SANKOU SHIRYO* (Ministry of Economy, Trade and Industry).

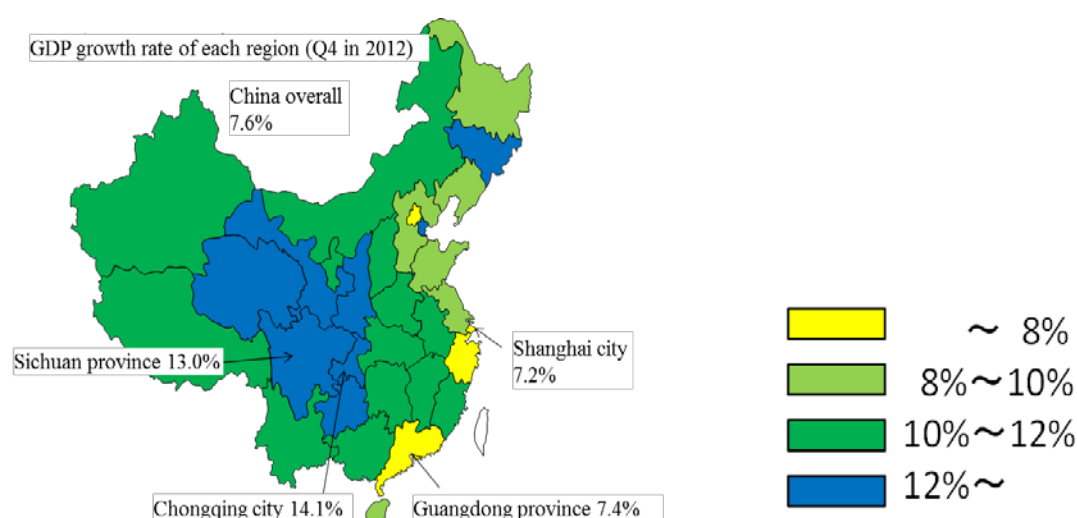
(C) Example of Ito-Yokado overseas expansion

This section will use Ito-Yokado as an example of overseas expansion for a retail company.

(a) Progress into expanding in China

The Chinese market is developing from coastal to inland areas. The real growth rate for GDP in China was 7.8% in 2012 (as announced by the IMF), and the growth rate at inland areas is changing to grow above this (Figure II-3-2-47). Ito-Yokado opened its first store in Sichuan Chengdu in 1997, and then expanded with a total of five stores in Chengdu, and plans to open another two stores by 2014. Also, it opened a store in Beijing in 1998, where it currently has eight Ito-Yokado stores and is expanding its food supermarket stores. Chengdu has accumulated such things as software, aviation, automobile and finance industries in recent years, and is a city experiencing high growth.

Figure II-3-2-47 GDP growth rate in main regions and China GDP growth rate



Source: *China Statistical Yearbook* (National Bureau of Statistics of China).

(b) Development strategy

The service industry, especially the retail industry, is a domestic industry, so Ito-Yokado is also taking the initiative to use community-based management, part of which is that Ito-Yokado has a management concept and thoroughly listens to what customers want now. In China, purchasers centered on the middle class are recently demanding value added and more particular types of items. To provide higher value added products and services to meet these demands, Ito-Yokado is gathering information from its convenience stores, general supermarkets, food supermarkets and restaurants that have expanded as Seven & I Holdings' business in China and also information beyond its own business operations, and it is working on the cooperative development of products. Furthermore, to promote community-based models and to more easily listen to what the customer has to say, it has delegated management authority, and most of the store managers and workers are Chinese.

In addition, the company is increasing its corporate value and to provide a higher added value service, recognizes that a fundamental is to educate its personnel, and is placing a lot of emphasis on training personnel in China.

Other companies in the same industry have developed many stores in many cities, while Ito-Yokado has developed stores in comparatively a few cities (Beijing and Chengdu) at this time. The reason for this is that by having a strategy to open stores with a dominant method (high density multi-store opening system), it can improve awareness of its chain, and improve its distribution, advertising and sales promotion efficiency.

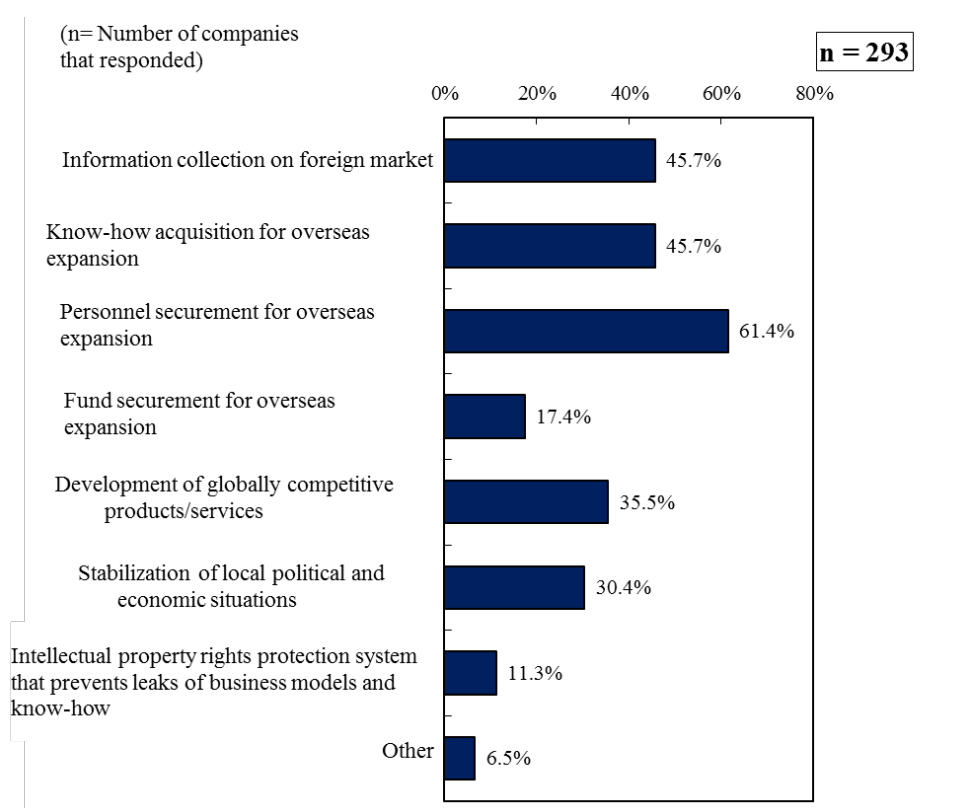
5. Issues when expanding overseas for the non-manufacturing industry

When the non-manufacturing industry expands overseas, there are various issues which are particular for the non-manufacturing industry or common to other industries. This section will clarify what type of issues there are, and what kind of countermeasures to these issues the Ministry of Economy, Trade and Industry carries out.

(1) Current issues

According to the results of a survey, over 60% of companies believe that securing personnel is necessary to resolve dissatisfaction for the future outlook of overseas sales in non-manufacturing companies. Securing personnel is critical for maintaining service quality locally, but because of differences in values and cultural backgrounds, it is difficult to secure personnel at the currently perceived status both domestically and overseas, so the percentage of companies that believe it is necessary to resolve dissatisfaction is increasing. It is also believed that it is mainly important to obtain information concerning markets to penetrate and knowledge about expansion (Figure II-3-2-48).

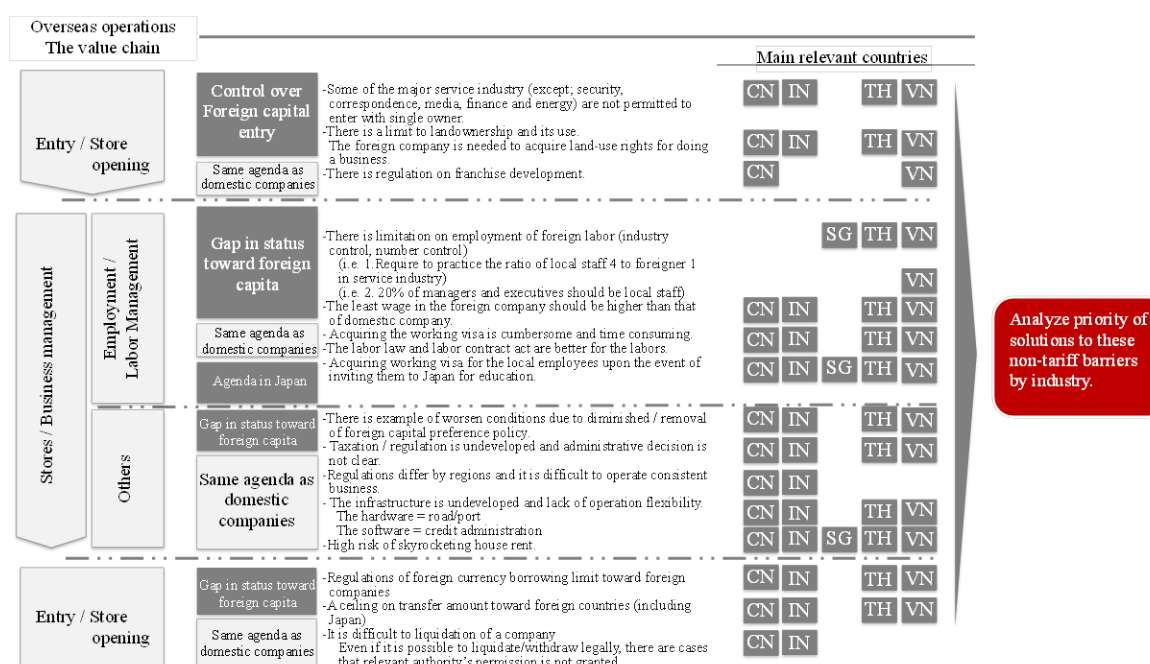
Figure II-3-2-48 Matters believed to be important to resolve dissatisfaction for the future outlook of overseas sales



Source: *Survey on overseas strategy of Japanese companies for the consideration of the international trading policy 2013* (Teikoku Databank).

Also, for overseas expansion in developing countries, many non-tariff barriers exist such as the restriction on foreign investment due to the lack of an established legal system and an arbitrary way of operating, tax systems and labor issues, and various procedures that take several days to complete (Figure II-3-2-49, Figure II-3-2-50).

Figure II-3-2-49 Non-tariff barriers in major developing countries



Source: *HEISEI 22 NENDO SERVICE SANGYO KATSUDOU KANKYOU SEIBI CHOSA JIGYO* (Ministry of Economy, Trade and Industry).

Figure II-3-2-50 Ease of business and number of days required for procedures in various countries (2012)

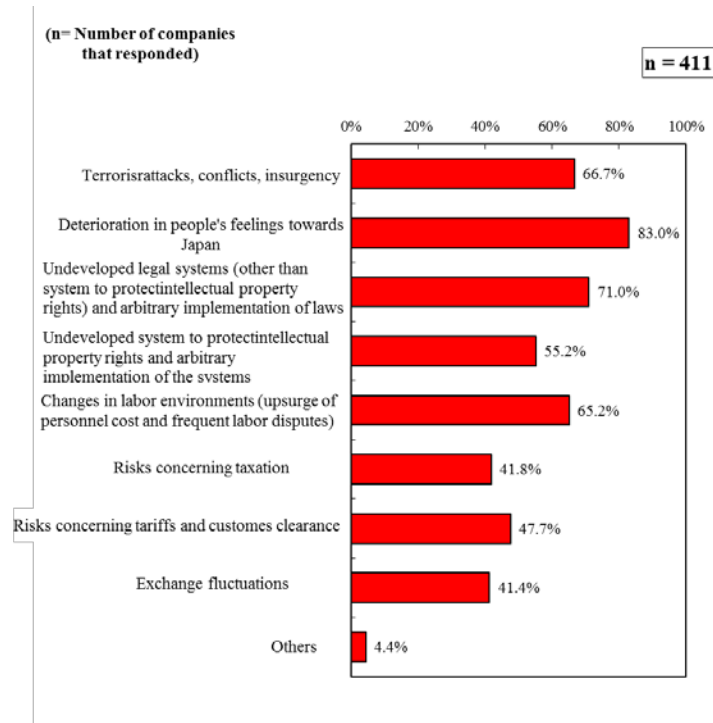
	Number of days required for warehouse construction	Number of days required for agreement execution	Number of days required for business start-up	Number of days required for real estate registration	Ease of business
Japan	193	360	23	14	24
US	27	370	6	12	4
China	270	406	33	29	91
India	196	1420	27	44	132
Indonesia	158	498	47	22	128
Vietnam	110	400	34	57	99
Thailand	157	440	29	2	18
Brazil	469	731	119	34	130

Note: The smaller the number for “Ease of business”, the easier it is for businesses to operate.

Source: *WDI* (World Bank).

When looking at the results of the survey, issues that are problematic when expanding overseas in developing countries, for the most part concern the aspect of security, such as terrorist attacks and conflicts that have recently occurred in Asia, the Middle East and Africa. Following this, the percentage of the non-manufacturing industry concerned about the lack of established legal systems, the arbitrary way of operating it, and labor issues is increasing (Figure II-3-2-51).

Figure II-3-2-51 Risks that are problematic for overseas business activities in developing countries



Note: Developing countries here are China, ASEAN, India, Russia, Near and Middle East, Africa, and Central and South America.

Source: *Survey on overseas strategy of Japanese companies for the consideration of the international trading policy 2013* (Teikoku Databank).

(2) Countermeasures for the issues

To respond to these issues and fully exhibit the potential of Japan's non-manufacturing industry in overseas expansion, it is necessary for the Ministry of Economy, Trade and Industry to (1) carry out trade negotiations (including economic partnership negotiations) to proactively promote improvements for such things as the legal system and foreign investment restrictions, (2) promote negotiations and information exchange in both directions to create the foundations for Japanese services to be received more easily overseas (more precisely, promote the attraction of Japanese services that are excellent services but are not well known, and understand the needs of partner countries at the same time by symposiums and trade fairs that partner with JETRO or similar bodies and dispatch missions from the public and private sector,) , and (3) promote initiatives to countermeasures personnel issues (promote activities for the non-manufacturing industry to assist personnel training that has been used for the manufacturing industry. Ensure access to training in Japan for personnel required in the country where market penetration is taking place, and give instructions to dispatch specialists from Japan. Also, assist overseas expansion for companies by dispatching young company personnel from Japan to developing countries.)

6. Assistance for overseas expansion of Cool Japan

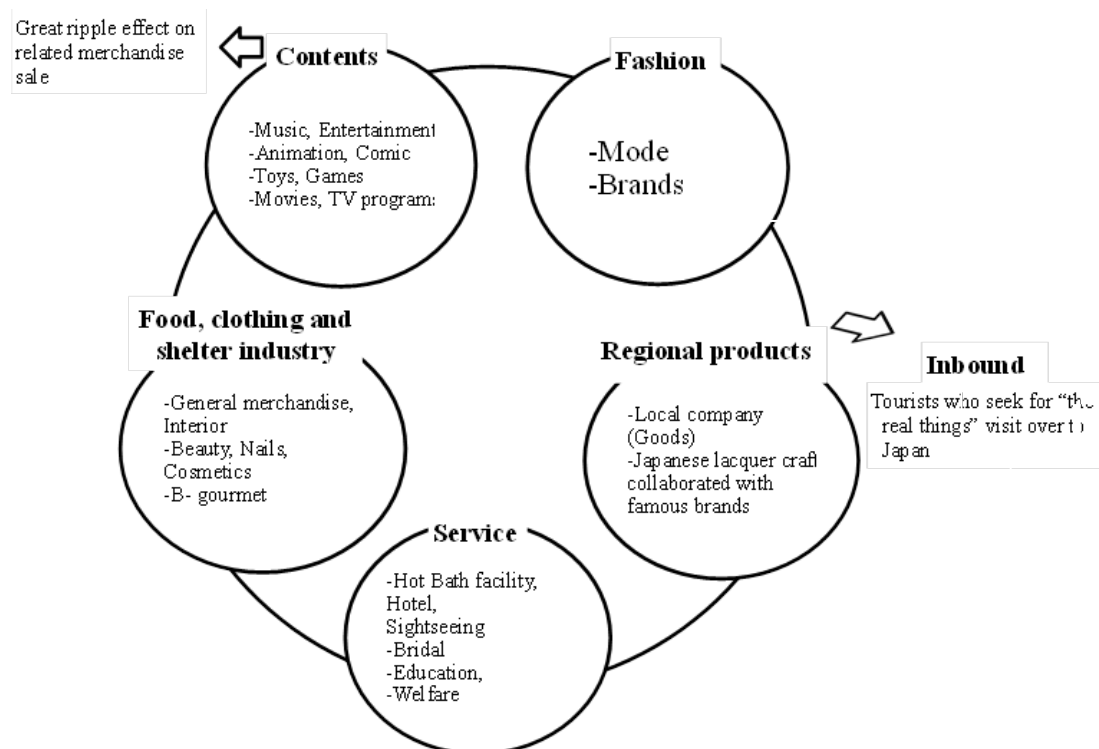
This section has analyzed overseas expansion for the non-manufacturing industry, and it is possible

to see that Japan's non-manufacturing industry has the potential but is slow in expanding overseas. Since the industry has not done well to capture foreign markets that are expanding centered on developing countries, there is probably still much room to grow overseas in the future. Here, we introduce the efforts to assist overseas expansion of Cool Japan, which includes the assistance for promoting overseas expansion of the non-manufacturing industry.

(1) Image of Cool Japan overseas expansion assistance

To assist the overseas expansion of Cool Japan (local products, services, every day essentials, fashion and content that makes use of the characteristics of Japan's lifestyle culture), the goal is to assist companies in a wide range of sectors that are looking to expand overseas, and create economic growth in Japan (companies creating employment and being active) through such means as acquirement strong foreign demand centered on developing countries and inbound marketing to attract attention to Japan such as foreign tourists, and (Figure II-3-2-52).

Figure II-3-2-52 Image of Cool Japan overseas expansion assistance



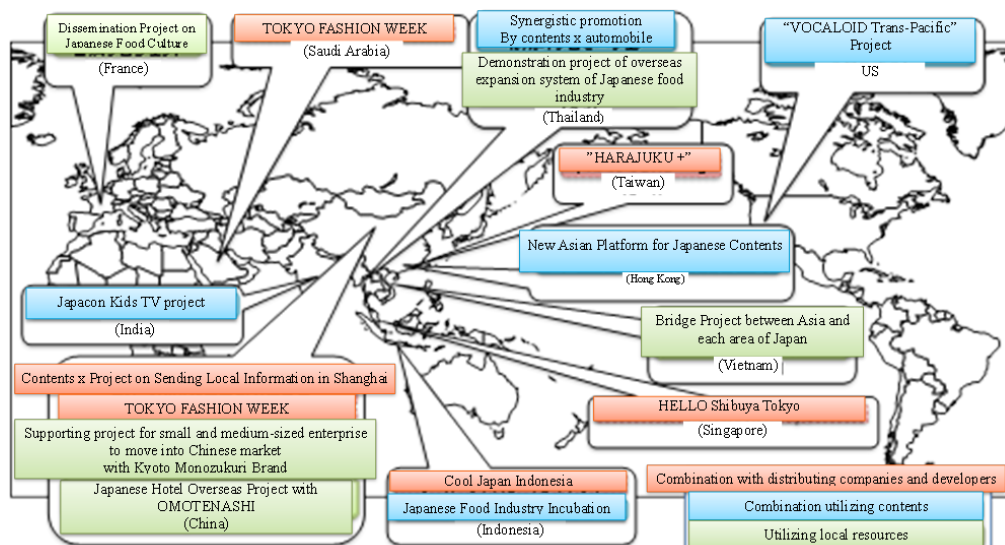
Source: *Cool Japan Strategy Promotion Program* March 2013 (Ministry of Economy, Trade and Industry).

(2) Initiatives to assist overseas expansion of Cool Japan

(A) Cool Japan strategy promotion program

The Cool Japan strategy promotion program assists initiatives to penetrate overseas markets from the early stages by partnering with private companies to create successful examples that stimulate overseas expansion of Cool Japan. The program started from the fiscal year of 2011, and in the fiscal year of 2012, it created 15 projects in the world for the three sectors of partnerships with distribution companies, partnerships that use the content industry, and the utilization of local resources.

Figure II-3-2-53 Cool Japan strategy promotion program (fiscal year 2012)



Source: *Cool Japan Strategy Promotion Program* March 2013 (Ministry of Economy, Trade and Industry).

(B) Cool Japan Matching Grand Prix and international trade fairs for the content market

In October 2012, the Cool Japan Matching Grand Prix was held with participants from content companies, tenant companies, commercial facilities companies and sponsors (64 companies made presentations, and 463 attended to listen). Also, the world's largest general content international trade fair (CoFesta) is held each autumn, which has different types of events for industries that have a high affinity with the content market, such as design and fashion, and the content industry, such as games, broadcasting, manga, anime, music and movies.

(C) Creative industry cooperation and policy dialog with foreign governments

To advance cooperation for the creative industry sector with foreign governments, Japan signed a cooperation agreement with Singapore, India and Indonesia. Japan has agreed to cooperate with the Indian government in April 2012, and Indonesia in October 2012 for the creative industry sector.

(D) Japan Brand Development Assistance Program

Several small and medium companies have partnered to develop new overseas sales routes for small and medium companies, and while formulating strategies for assistance based on their strengths such as materials and technology they own, they have been assisting in initiatives such as developing products and attending foreign exhibitions based on this.

Commercial and industrial associations, chambers of commerce and industry, cooperative business associations, and non-profit organizations can receive assistance, and by the end of August 2012, there have been 271 assistance programs created.

(E) Stock company overseas demand development assistance organization

There are some excellent goods and services in Japan based on a lifestyle culture that Japan is proud of such as content, fashion, Japanese food, amusements and the tourist service. However, it is

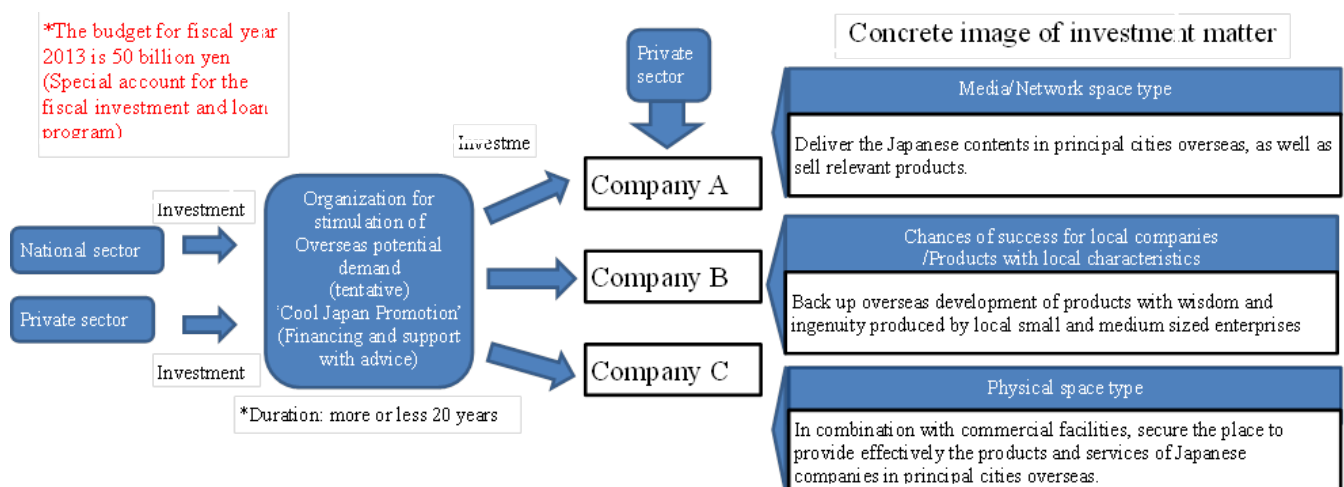
not necessarily the case that large Japanese companies that have already expanded overseas are working on projects with these goods and services.

Even if Japanese businesses that include small and medium companies attempt to newly expand these goods and services overseas, many companies are hesitant to invest, and there are few examples of companies that have been successful in this endeavor because (1) there are no bases to gain a foothold, and (2) it is a lack of experience in overseas expansion, personnel and information, and so on. Therefore, these companies are unable to fully demonstrate their potential because business models are not drawn up and there is an insufficient amount of funding from private financial institutions.

So, the government has decided that it is necessary to assist private independent business by providing such things as contributing capital as a means of stimulation, and plans to establish an organization this fiscal year.

This organization will for example (1) purchase local broadcasting time and use it for a Japan channel to transmit content about Japan overseas, and (2) additionally introduce the attraction of excellent Japanese goods and services to foreign consumers at businesses like shopping malls that sell Japanese fashion, food and everyday goods in major foreign cities, and envision businesses that can sell and provide Japanese goods and services.

Figure II-3-2-54 Basic scheme for stock company overseas demand development assistance organization



Source: Ministry of Economy, Trade and Industry.

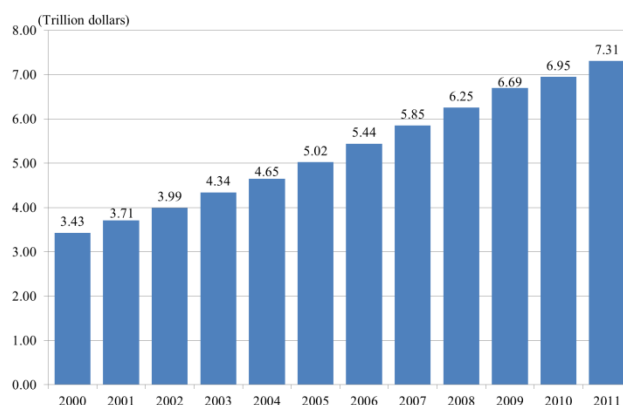
7. Overseas expansion assistance plan for medical equipment and services

(1) The increase in medical care demands in the world

The need for medical care, nursing and a health related industry is growing rapidly due to the economic development in developing countries beginning in Asia and the increases in an aged society in the entire world..

The total health care cost in the world in 2011 reached around 7.3 trillion dollars, which has more than doubled since the year 2000 when it was around 3.4 trillion dollars (Figure II-3-2-55).

Figure II-3-2-55 Change in total health care cost in the world

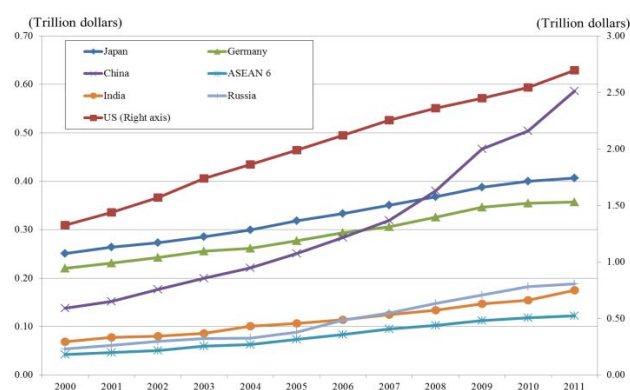


Note: Purchasing power parity (PPP) base. Nominal amount.

Source: *Global Health Expenditure Database* (WHO).

When looking at health care costs by country and region, the United States accounted for an overwhelming amount of around one third of the entire world's health care costs at approximately 2.7 trillion dollars in 2011, a figure that is more than twice that of its 2000 figure at 1.3 trillion dollars. China's health care cost has increased by a great deal. In 2011 it was around 0.6 trillion dollars, which is more than four times the same figure in 2000 at around 0.14 trillion dollars. Also, health care costs in Russia, ASEAN6 and India are gradually increasing, especially in Russia where the cost was around 0.2 trillion dollars in 2011, almost four times what it was at 0.05 trillion dollars in 2000. Japan's health care costs were around 0.4 trillion dollars in 2011 and around 0.25 trillion dollars in 2000, which is an increase by a factor of 1.6, so it has increased but not as much as the United States or developing countries (Figure II-3-2-56).

Figure II-3-2-56 Change in health care costs by country and region



Note: Purchasing power parity (PPP) base. Nominal amount.

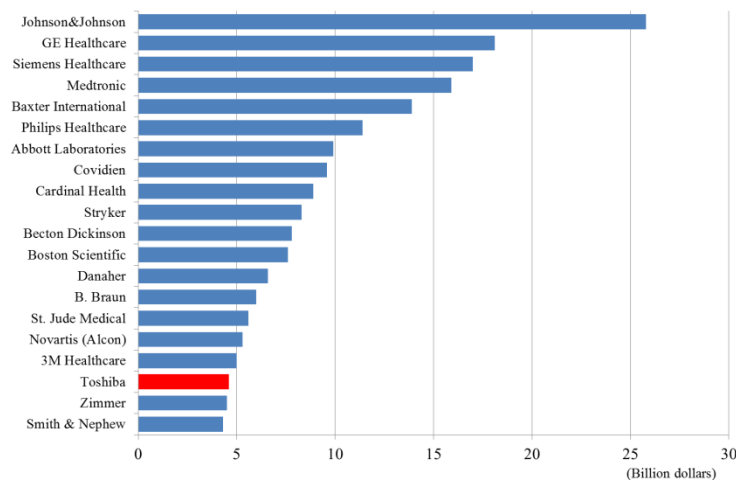
Source: *Global Health Expenditure Database* (WHO).

(2) Plan to promote the overseas expansion of Japanese medical equipment, services and the health and longevity industry

As can be seen, the world demand for health care is increasing, but the overseas expansion of Japan's health care sector is slow in comparison to that of the United States and Europe. For example, when looking at the top 20 companies for sales of medical equipment in the world, only a single

company from Japan is in this list and there is a huge difference with companies from the United States and Europe (Figure II-3-2-57).

Figure II-3-2-57 Top 20 companies for sales of medical equipment in the world



Note: Sales for fiscal year of 2011.

Source: 2012 Top 30 Medical Device Company Report July/August 2012 (MPO Magazine).

The government is currently promoting initiatives for progressing overseas expansion of Japanese medical equipment, services and the health and longevity industry.

As more specific examples of these recent initiatives, in February 2013, to contribute towards improving the current level of health care in Abu Dhabi, Japan signed an agreement to cooperate on health care with the UAE universities and Higher Colleges of Technology in Abu Dhabi for the fields of radiology, endoscopic therapy and organ transplant, which are advanced fields for Japan. Then in May, they agreed to set up a Japan-UAE advanced medical center, which is a foothold in Abu Dhabi for the establishment of Japanese style clinics, and will lead to the promotion of medical equipment and medication exports (Figure II-3-2-58).

Figure II-3-2-58 Examples of recent specific initiatives

Health care cooperation under the attendance of the Japanese Minister for Economy, Toshimitsu Motegi, and H.E. Al Sowaidi, Chairman of the Department of Economic Development for UAE.

- To contribute to improving the local health care standard in Abu Dhabi, both ministers signed an agreement to cooperate on health care and technology used in universities, such as the UAE University and Higher Colleges of Technology in Abu Dhabi in the sectors of radiology, endoscopic therapy and organ transplant. In the future, to contribute towards the current health care cooperation in Abu Dhabi, a Japanese style clinic will be opened in Abu Dhabi, which will give Japan a foothold, and this will lead to the promotion of medical equipment exports.

Cooperation with the Russian government for health care in Japanese highly advanced medical fields

- Japan received great interest from Russia regarding its health care field, and a Japan-Russian seminar was held to discuss the fields of radiology and endoscopy. In April 2013, Japan and Russia will hold a round table meeting to discuss the health care sector, and are planning to visit Japan for training at a Japan center based on the theme of modernizing their health care technology and services.
- Furthermore, a Japanese style diagnostic imaging center is to be opened in April in Vladivostok.

Source: Ministry of Economy, Trade and Industry.

Furthermore, as future initiatives, it is important for the government (1) to utilize ODA, industry innovative organizations, and policy-based finance around the core organization comprised of health care bodies and medical equipment manufacturers (Medical Excellence Japan set up on April 23),

strengthen partnerships with such as JETRO and local embassies, and use initiatives to strengthen sales efforts in developing countries (Figure II-3-2-59), and (2) to create organizations for the health and longevity industry, which is a strong point of Japan, such as means of diet, exercise and lifestyle habits, and create global connection between companies, people and information in Japan to produce further innovation.

Figure II-3-2-59 Plan for overseas expansion of medical equipment, services and the health and longevity industry (specific examples)



Source: *SHINKOUKOKU HENO SENRYAKUTEKINA TORIKUMI NI TSUITE (HOSOKU SHIRYO)*
 April 18, 2013 (Ministry of Economy, Trade and Industry).

Section 3 Assistance with infrastructure systems export and strategic economic cooperation

Capturing the infrastructure demands of developing countries centered on Asia, and connecting this with the activation of the Japanese economy, provides the world with Japan's excellent technology and also contributes to enriching the lives of the local populace. Using this type of cooperation, it is necessary for Japan to aim for growth and prosperity along with the rest of the world. Therefore, it is important to use economic partnerships from this perspective and promote overseas business expansion with the private and public sector combined. Also, this is expected to have the effect of improving Japan's productivity in accordance with penetrating overseas markets as explained in Part 1. The promotion of overseas expansion for Japanese companies that use economic cooperation is explained below from this viewpoint.

1. Infrastructure system export

According to the Organization for Economic Cooperation and Development's (OECD) "Infrastructure to 2030", the total global infrastructure investment amount from 2000 to 2030 is estimated to be over 71 trillion dollars approximately, and it is expected that there will be a huge infrastructure demand in the future. Many of Japan's products and elemental technology are of a high global standard, but are also exposed to severe international competition. Infrastructure development is both large scale and long term, and it is necessary to have the private and public sector work together and promote this development based on strong involvement from local governments.

At this time, in addition to exporting equipment, it is important to promote business investment and the receipt of orders for the infrastructure system, which includes design, construction, operation, and maintenance control. Also, it is necessary to strategically promote the integration of economic cooperation based on regional characteristics such as policy interest, for things like the level of penetration by Japanese companies, local infrastructure needs and resource acquisition.

(1) Development of promotion organizations for infrastructure system export

In January 2013, at the 3rd meeting at the Headquarters for Japan's Economic Revitalization concerning infrastructure export, the prime minister gave instructions "for the chief cabinet secretary to cooperate with related ministers, and at related ministerial conferences to promote initiatives to maintain priority for the safety of Japanese nationals working at sites in each region of the world, secure overseas interest of energy and mineral resource, and boost export for Japan's infrastructure system, which is the most advanced in the world." In response to this, in March 2013, the Ministerial Meeting on Strategy relating Infrastructure Export and Economic Cooperation was held to discuss important matters concerning Japan's foreign economic cooperation and assistance for overseas expansion of infrastructure systems from Japanese companies and overseas interest securement of energy and mineral resource, and to create plans for strategic and effective implementation.

On March 13, the 1st meeting was held to discuss Myanmar, and such things as policies for examining investment activities based on JICA overseas investment and lending to consortiums were shown as priority projects for the development in special economic zones of Thilawa (Figure II-3-3-1).

Also, the 2nd meeting was held to discuss the Middle East and North Africa on April 15, where in addition to regional strategies for these two locations, improvement plans were decided for strategic use of international yen loans. Also, in May, top sales were achieved in Saudi Arabia, UAE and Turkey, according to the prime minister, based on strategies from the 2nd meeting. Furthermore, at the 4th Ministerial Meeting on Strategy relating Infrastructure Export and Economic Cooperation on May 17, infrastructure export strategies that comprehensively included required policies were determined, in addition to promoting infrastructure system exports such as strengthening public finance functions. By steadily and rapidly implementing policies from these strategies, a goal of approximately 30 trillion yen in 2020 has been set for the order value (includes revenue amount from business investment) of Japanese infrastructure systems that are currently estimated to be around 10 trillion yen.

Figure II-3-3-1 Photo taken from 1st Ministerial Meeting on Strategy relating Infrastructure Export and Economic Cooperation on March 13



Source: Cabinet Public Relations Office.

The Ministry of Economy, Trade and Industry, in addition to ministerial cooperation through the Ministerial Meeting on Strategy relating Infrastructure Export and Economic Cooperation as above, has strengthened cooperation with concerned institutes that have specific management conference tools, in order to implement consistent support to reach a finance level from project feasibility studies (FS) that discover and create projects to promote the receipt of orders for individual projects. More specifically, a liaison committee for strategic export related institutes was launched in November 2012 along with JBIC, JICA, JETRO, NEXI and NEDO, and periodically shares information and exchanges opinions on feasibility studies implemented by the Ministry of Economy, Trade and Industry and the progress of projects implemented for demonstration businesses, and makes effort to work together to assist individual projects.

(2) Promoting the establishment of bases for market penetration

Infrastructure system export, not only brings economic benefits to partnering countries due to infrastructure development and direct profits from companies that received orders for projects, but there are also cases in which it contributes towards establishing a business climate for Japanese companies that are penetrating the local region. Therefore, to assist Japanese companies in overseas expansion, it is important to develop for the whole region from the top level of regional development projects, and connect with acquiring the local market and establishing bases for market penetration for Japanese companies.

Japan is moving forward to establish bases for market penetration centered on developing countries through such as consultations on a prime ministerial and ministerial level. These are not individual projects for such things as electricity, water supply and sewerage, or transport, but will connect the integrated development of projects from multiple sectors, and it is believed that this will contribute to promoting orders from Japanese companies. For example, for the plan to develop industrial parks and commercial facilities in special economic zones of Thilawa in Myanmar, as mentioned earlier, Japan is cooperating in this development as a partner, promoting regional development in such places as India and Indonesia, and has been assisting the penetration of Japanese companies into the local markets. Initiatives in each location are shown below.

(A) Myanmar

In recent years, Myanmar has moved towards democracy and a more liberalized economy, which is expected to grow economically, and in the suburbs of Yangon, there has been increased development of special economic zones of Thilawa (around 2400 hectares) that are integrated developments such as industrial parks and commercial facilities (Figure II-3-3-2). In December 2012, the Japanese and Myanmar governments concluded a cooperative memorandum, and agreed that both governments will cooperate and develop these regions, investors in both countries will establish consortiums, and begin commercial operations in 2015. In the future, Japan will continue to hold discussions with the Myanmar government concerning such matters as establishing the infrastructure surrounding electricity, water and roads in the same region.

In May 2013, Prime Minister Shinzo Abe visited Myanmar (it had been 36 years since the last official prime minister visited), and he presented policies to grant a total of 91 billion yen from ODA within the fiscal year along with 40 billion yen for technological cooperation and free funding, in addition to 51 billion yen for three new project international yen loans, while completely cancelling overdue debts in accordance with the international yen loans.

Figure II-3-3-2 Thilawa special economic zones development map

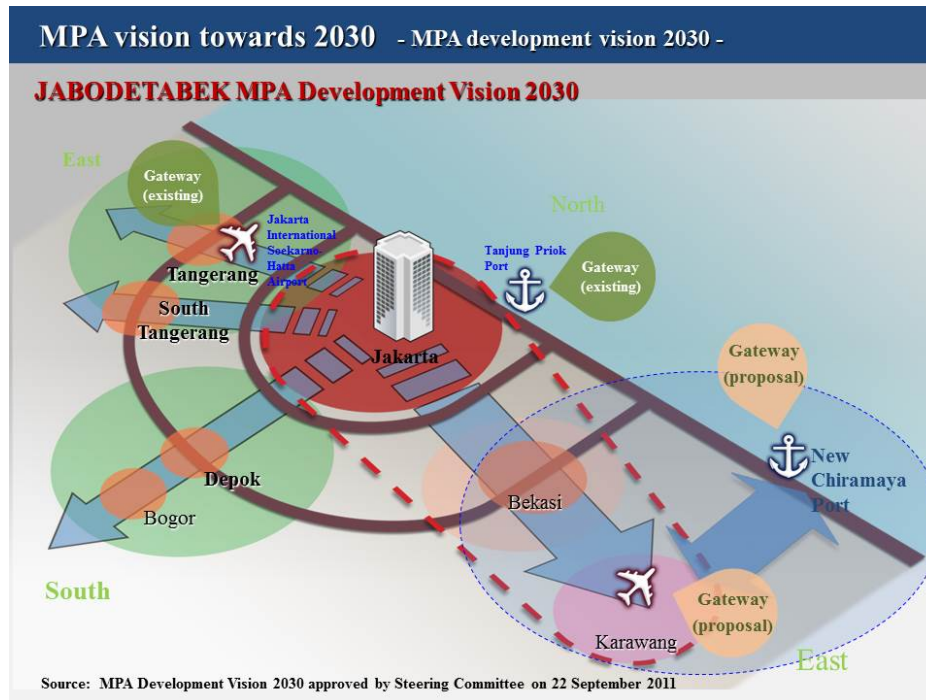


Source: Ministry of Economy, Trade and Industry.

(B) Indonesia

In Indonesia, which has been exposed on its infrastructure development due to its rapid economic development, both Japan and Indonesia are working on plans to promote the Metropolitan Priority Area (MPA) that aims to improve the investment climate and infrastructure development for the Jakarta metropolitan area. In October 2010, ministers from both countries agreed to launch the MPA framework, and in December of the same year, they signed a cooperative memorandum. A steering committee has met for discussions at a ministerial level three times now, and at the 3rd MPA steering committee in October 2012, both countries approved the MPA master plan that looks towards the Jakarta metropolitan area in 2030 (Figure II-3-3-3). During this meeting, 45 infrastructure projects were chosen that aim for completion by 2020, 18 of which are short term implementation projects that will begin construction by the end of 2013. Also, to implement these priority projects, it was confirmed that the estimated total for the projects required funding on the scale of a total of 3.4 trillion yen approximately (foreign aid including Japan ODA is around 1 trillion yen), and it was also confirmed that funds from the private and public sector of both countries will be used in cooperation to realize the MPA projects.

Figure II-3-3-3 October 2012, 3rd MPA steering committee, approved MPA strategy plan overview



Source: MPA strategy plan approved by the 3rd MPA steering committee.

(C) India

In India, development for two regions has been implemented, one to connect Delhi and Mumbai using the Delhi-Mumbai Industrial Corridor (DMIC) project, and the other in the southern region of India with the Chennai-Bangalore Industrial Corridor (CBIC) project.

The DMIC project was started in December 2006 between Prime Minister Shinzo Abe and Prime Minister Manmohan Singh, and is a joint Japan-India regional development plan that will construct a railway for freight between Delhi and Mumbai (supported by international yen loans), and will develop infrastructure such as industrial parks, power stations, harbors, and commercial facilities mainly with private investment around this area. A development corporation has already been set up (DMICDC) with financing from the JBIC, and officials from the JBIC and specialists from the JICA were dispatched to work with them. In 2011, Japan and India established the 9 billion dollar DMIC funding facility, of which 4.5 billion is from Japan and will assist the project through JICA (international yen loans) and JBIC (private co-financing).

At the same time, CBIC will integrally advance infrastructure development in the entire southern region, and plans to perform such tasks as maintain a steady supply of electricity, establish industrial parks for small and medium company penetration, and improve road access around export ports (Ennore port). While holding discussions with the Tamil Nadu state government over short term individual issues such as establishing roads, the Japanese government is lobbying through cooperation to establish the master plan from the central government. The opportunity for negotiations between the heads of state and ministerial level and similar gatherings are being used to have discussions for promoting development in India and to implement corporate bases and

individual projects.

2. Strategic use of economic cooperation

(1) Strengthening finance assistance

In recent years, to accompany the huge growth in business funds and increase in length of the repayment period due to the increase in infrastructure projects, there has been an increase in projects that cannot cover the required funds just in private financial institutions, and there is a demand for an upgrade to public financing that will fill in this gap.

With this issue in mind, JBIC established an overseas expansion assistance funding facility to supply risk money to overseas expansion such as overseas M&A projects and the infrastructure sector of Japanese companies in February 2013. Furthermore, the range of the assistance was increased to cover more, and the overseas expansion assistance financing facility started from April to further promote the overseas expansion of Japanese companies with regards to strong yen emergency support facilities that reached the end of March deadline. In addition, to assist transactions from overseas bases of Japanese companies to within the same country or a third-party country, a scheme was newly set up in February, which provides lending of funds required to export and sell technology and equipment from such places as overseas local subsidiaries at transaction locations for such things as the applicable local subsidiary.

In October 2012, JICA, which assists long term financing for such things as developing countries, reopened an overseas investment and lending function after almost a ten year hiatus that assists with investment and financing for business implemented in developing regions by private sector companies or similar. Development projects are expected to progress due to the vitality of private sector companies. Also, to provide a more attractive system for both international yen loan developing countries and Japanese companies, in April 2013, the following system improvements were performed, and were applied from April 1, 2013 to advance reports. First, prioritized sectors that can provide Japan's excellent technology and expertise were organized and consolidated, and the use of international yen loans was promoted by increasing concessions (loan terms). Also, overseas subsidiaries of Japanese companies are now also eligible for Special Terms for Economic Partnership (STEP), and the calculation rules for Japanese procurement rates have been improved. Furthermore, the system has been improved to increase the attraction of international yen loans, such as abolishing the commitment charge that was imposed on non-outstanding loans, and a floating rate was introduced among semi-advanced countries. These factors are expected to lead to strategic use of international yen loans, growth in developing countries, and a resurgence in Japan's economy.

Furthermore, financial assistance for foreign transactions does not just fund and loan necessary funding, it is also important to share the roles and cooperation of the public and private sector by having public institutes take on the burden of high risk while private companies provide funds, and NEXI trade insurance plays an important function to promote infrastructure system exports. In recent years, the necessity for flexibility and diversification is increasing for items covered by trade insurance, while the forms of transactions and fund procurement are becoming diverse. More specifically, as mentioned earlier, due to the increase of transactions to a third-party country or within the same

country from an overseas base owned by a Japanese company, items covered by insurance for transactions from overseas local subsidiaries, and business funds for infrastructure projects are increasing by a huge amount, so it is important to open paths to fund procurement in foreign currencies also from foreign financial institutions. In addition, awareness has been raised again for the importance of risk control for companies expanding overseas due to the terrorist incident on the liquid natural gas plant that occurred in Algeria in January 2013. There are many cases in which the contractor, who receives the order, is burdened with the economic loss when a high risk incident occurs such as terrorism in regards to receiving orders for overseas infrastructure, and establishing a cover system to use a trade insurance system for this type of loss is thought to be beneficial to expand orders received by Japanese companies.

(2) Strengthening institute development assistance

Assisting the development of institutes such as for environment and safety regulations in developing countries contributes towards increasing local demand for Japanese high quality products and services, improving the trade and investment climate, and by extension promoting overseas business development of Japanese companies.

In particular for infrastructure system exports, Japanese companies show a trend of losing to other countries on cost competitiveness, but on the other hand, are highly competitive in terms of cost for cases of long term operation, reliability and high environmental performance. However, there are many cases in which related parties in partnering countries do not sufficiently understand the importance of elements that are strengths for Japanese companies, and they do not make proper assessments of Japanese companies during the project bidding process. To improve this situation, it is necessary to encourage understanding, among related parties in partner countries that create biddings for projects, to show them the importance of technology and such owned by Japan, and establish an environment that allows Japanese products to receive proper assessments and orders through the assistance of developed institutes in partner countries.

(3) Personnel training assistance

There are existing cases in which partner country related organizations seek local production of infrastructure related products when acquiring infrastructure systems or Japanese companies penetrate the local market. In addition, when also looking from the perspective of cost competitiveness of Japanese companies, local production becomes necessary, which means that it becomes important to train personnel to become the “company president’s right hand man and the head of the business” at the local base for the Japanese company. Based on these conditions, to assist the cost competitiveness of Japanese companies and ensure the opportunity to receive orders, training of industrial personnel required for local business activities is being implemented. In the fiscal year of 2012, 2,202 industrial personnel from developing countries received training within Japan, and 127 specialists were dispatched to the local region. Also, for the export of infrastructure systems, it is important to encourage the use of Japanese products and technology by having related parties in partner countries

sufficiently understand the superiority of Japanese technology and the control of operation and maintenance in comparison with competing nations, and strengthen local key personnel and networks. Therefore, during the preliminary stage of formulating projects, related parties, who make the orders for infrastructure systems, from partner countries will be invited to Japan, and to promote their understanding of such things as the superiority of highly reliable Japanese operation and maintenance technology, and excellent environmental functions from a technological perspective, the government will provide personnel training to instruct them and include such things as tours to sites that have implemented infrastructure within Japan.

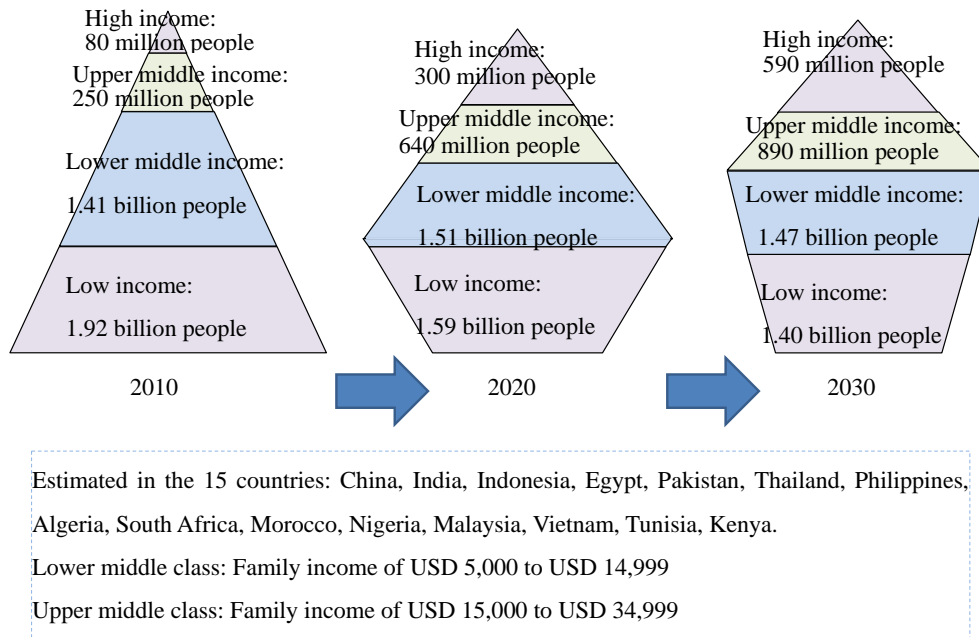
Furthermore, while it is an important issue for Japanese companies to acquire business projects overseas, which begin with infrastructure systems, in addition to the local personnel training explained so far, it is important to educate young Japanese personnel that can support business overseas.

To do this, global personnel from Japanese companies have responded to this current insufficiency, and a foreign internship project was started in the fiscal year of 2012, which dispatches young Japanese personnel to companies in developing countries and governmental infrastructure institutes to promote the construction of a network towards assisting overseas expansion of small and medium companies and promote infrastructure business. To secure companies and institutes to which to dispatch personnel, in addition to the JETRO network and Ministry of Economy, Trade and Industry, after the people who experience training in Japan returned home, they received cooperation from private companies and the AOTS Alumni Society set up in each country. In the fiscal year of 2012, 86 young personnel from Japan were dispatched to 10 countries, and while being engaged in various intern activities locally, they were building human networks that will connect future business, gaining international business experience, and were becoming skilled in local commerce customs and culture while working hard to improve their communication ability. The implementation of this initiative from the fiscal year of 2013 received a lot of interest from companies and other establishments. These domestic and international personnel training initiatives are being used and are promoting the acquisition of infrastructure systems.

(4) Inclusive business promotion

In developing countries in Asia and Africa, the middle income population is increasing due to economic growth. Due to the improvement of lifestyle standards, there is also an increase in demand for home appliances and the service industry, and markets are being formed that Japanese countries just cannot ignore (Figure II-3-3-4). Much attention is gathering around BOP (Base of the Economic Pyramid) business which targets low income groups that in the future will become the middle income in these developing countries, and it is important as a link to acquiring this future middle income by quickly saturating them with a brand image. Meanwhile, many low income earners have social issues (BOP penalty) that are caused by the low income standard, and through business, new business models that resolve these low income earners' issues are being sought.

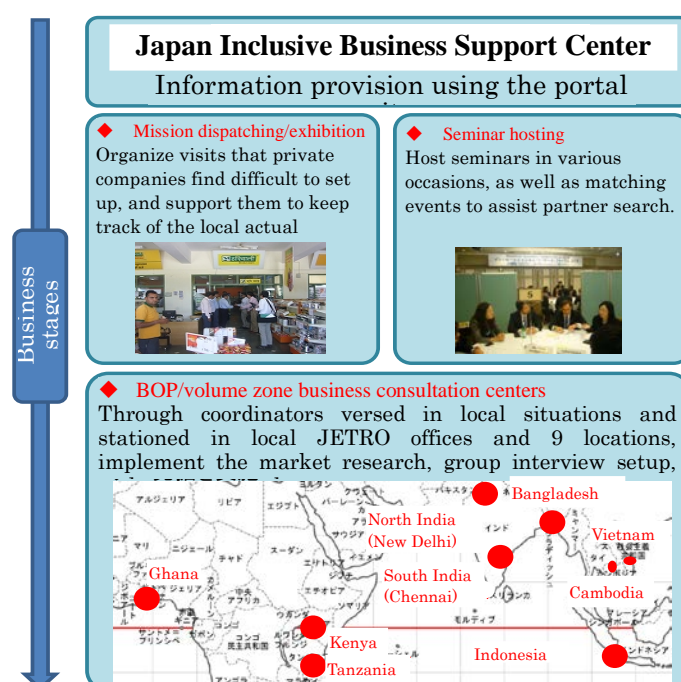
Figure II-3-3-4 Expansion of BOP sectors



Source: Ministry of Economy, Trade and Industry.

The low income earner market in developing countries shows good promise for the future, but there are many problems such as insufficient data and the difficulty in accessing markets, so it is not actually easy to perform business. Therefore, to lower the hurdle to enter inclusive business and promote the spread of Japan's excellent products and services, assistance based on business stages is being provided through JETRO. The composition of specific business projects has been promoted by giving assistance based on company needs, from providing basic data to activities that support companies within the country (Figure II-3-3-5).

Figure II-3-3-5 Japan Inclusive Business Support Center



Source: Ministry of Economy, Trade and Industry.

Column 9 Examples of young corporate personnel participating in foreign internship

<Internship at a government affiliated organization for a junior staff member at a small and medium company>

Dispatched personnel: 25-year-old female

Works for: Small and medium company (Shiga prefecture: various types of analysis and measurement, facilities management, and such)

Dispatched to: Vietnam Ministry of Natural Resources and Environment, Environmental Observation Center

Period of stay: Approximately 3 months

In order for her company to make prior investigations into business development in Vietnam, she was dispatched as a new employee with the goal of such things as improving communication ability, establishing a human network, and surveying the local market. At the government affiliated organization in the location she was dispatched to, she used her knowledge, participated and contributed to local business through technical guidance. She received a high assessment from the location she worked and established a relationship of trust with the local staff. She also greatly improved her communication ability while in Vietnam. After she returned to Japan, her findings, such as the human network she established through the internship, and the information relating to Vietnamese regulations she gathered locally, are expected to be used for business (Column Figure 9-1, Column Figure 9-2).

Column Figure 9-1: Photo of a meeting



Column 9-2: Photo of technical guidance



Source: Ministry of Economy, Trade and Industry.

Source: Ministry of Economy, Trade and Industry.

<Internship at an infrastructure related company>

Dispatched personnel: 30-year-old male

Works for: Infrastructure related company (Head office is in Tokyo, manufactures and sells infrastructure related equipment)

Dispatched to: Adaro Energy Indonesia

Period of stay: Approximately 6 months

This young employee was dispatched to Adaro Energy as an overseas intern with the aim of such things as understanding the Indonesia electric power industry, and the lifestyle customs of people in Indonesia, and to gather information from the country, all of which related to the development of business projects for Indonesia's infrastructure. At Adaro Energy, he created reports about his visits such as the coal mining site, which is the core business of this company, and also gave presentations about issues he had individually researched. Also, he used his knowledge relating to his own company's products to proactively provide proposals to Adaro Energy. He became accustomed to the local culture and customs, established a relationship of trust with the staff, and received a high assessment from the company. After returning to Japan, he is using the human network he established over there, and the knowledge he gained relating to local business practices. These are expected to be used in business in the future (Column Figure 9-3, Column Figure 9-4).

Column Figure 9-3 Kalimantan coal drilling site visit

Column Figure 9-4 Field work at a power station visit



Source: Ministry of Economy, Trade and Industry.
Industry.



Source: Ministry of Economy, Trade and Industry.