

Chapter 2 The emerging countries strategy

With the size of Japan's market among global markets shrinking in comparative terms, the importance of expanding into emerging economies is growing. Capturing demand in emerging economies is necessary in order to enable Japanese companies to tap into growing worldwide demand and channel that wealth back into Japan, as well as to promote exports of goods and procurement of components and materials from Japan.

Nevertheless, while there is a tendency to use the generic term "emerging economies", the fact is that the situations differ from one region to another in terms of such matters as their degree of economic development, the extent of expansion into those regions by Japanese companies, and the competitive environment with companies from other countries.

To tap into the growth of emerging economies to the greatest possible extent, it is necessary to promote strategic initiatives based on an understanding of the situation in each emerging economy.

Accordingly, classifying emerging economies into three groups, namely (1) China and ASEAN, (2) Southwest Asia, the Middle East, Russia, and Latin America, and (3) Africa, this chapter outlines the government's policy on initiatives, based on the situation in each region.

Section 1. The three types of emerging market

As well as summarizing the current situation and issues in each of the three groups of emerging markets, the following sets out the government's basic policy on the initiatives that it has launched in each region since 2013.

1. China and ASEAN: full expansion

The first group is China and ASEAN. About 30,000 Japanese companies, mainly in the manufacturing sector, have expanded into this region and have already formed reasonably substantial industry clusters and supply chains locally.

Moreover, due to the growing ranks of those in the middle and wealthy classes in ASEAN in particular, the region is becoming more attractive not only as a production base, but also as a consumer market.

However, although Japanese products such as motor vehicles and household electrical appliances have captured a certain share of the market in the region, foreign competitors have been catching up at a remarkable pace in recent years, so competition is intensifying.

In future, what might be termed "full expansion" will be required, with companies that have already established a presence in the region aiming to achieve deeper expansion by such means as the development of more advanced supply chains by Japanese companies, while also promoting broader industrial expansion – not only within manufacturing industry, but also in the service industry and other sectors – amid growth in consumer markets. The future strategy for this region focuses on using cooperation in infrastructure and human resource development to lay the foundations for expansion in the medium term, and developing markets in conjunction with efforts to enhance systems.

2. Southwest Asia, the Middle East, Russia, and Latin America: achieving critical mass

The second group is Southwest Asia, the Middle East, Russia, and Latin America. This region has a wealthy and middle class, large markets, and high growth rates, but Japanese companies are lagging behind in terms of their expansion into the region when compared with Western and Republic of Korea's companies, so these could be described as markets where Japanese companies need to achieve a turnaround.

Moreover, this region includes many resource-rich countries, so efforts to build and strengthen wide-ranging economic relations are required in order to secure resources.

In these markets, it is necessary to work intensively and strategically on "achieving critical mass" in a select few promising sectors, taking into account a variety of factors, including market scale and the competition situation.

3. Africa: creating examples of success

The third group is Africa. Although this region is expected to undergo substantial population growth through to around 2030, and there are high hopes that markets here will also grow considerably, expansion into this region by Japanese companies is not progressing, so they could be described as losing by default.

Similarly to the second group, there are many resource-rich countries in this region, so progress in resource development and the development of related infrastructure is anticipated.

It will be necessary to create as many examples of success as possible in future, and do the requisite groundwork to ensure that it becomes positioned as a field for business development by Japanese companies as soon as possible, by improving the environment so that Japanese companies can invest in this region with peace of mind. Moreover, bringing individual resource and infrastructure projects to fruition is vital.

Focusing on the three areas of support for overseas expansion by Japanese companies, the export of infrastructure systems, and securing a supply of resources from counterpart countries, it is imperative that Japan implements strategic initiatives based on the distinctive features of these three groups of emerging economies and the differences between them.