Key points

➢ The value of foreign direct investment (FDI) from the world to the Association of Southeast Asian Nations (ASEAN) has continued to expand in recent years. The percentage of Japanese outward FDI balance that is to ASEAN is 11%, higher than that to China (9%). However, this is lower than what would be needed to match the percentage of South Korean FDI to ASEAN, which is 14%.

➢ In the fields of household appliances, automobiles, retail, and the like, Japanese corporations have steadily strengthened operations in ASEAN. In addition to expanding R&D functions and amplifying production and sales centers, cases utilizing mergers and acquisitions (M&As) are starting to stand out.

➢ ASEAN, with abundantly high growth, is a market that Japanese businesses cannot ignore. However, Chinese, South Korean, and Western companies are similarly paying attention, and competition will inevitably intensify. Through developing products that precisely understand the needs of the local consumers, deploying efficient operations that take advantage of the trade liberalization and the like in the ASEAN region, and the like, increasing competitiveness is indispensable.

Percentage of outward FDI balance that is to ASEAN

Note, Source: See Figure 2.
Introduction

This chapter overviews the directionality and strategies of corporations in ASEAN. Section 1 is an analysis based on foreign direct investment (FDI) data. First, the FDI trends for the whole world are overviewed, and then the placement of ASEAN as an investment target is investigated. Next, having seen to what extent the six countries/regions of Japan, the US, the EU, China, South Korea, and Taiwan have invested in ASEAN, the history and characteristics of FDI towards ASEAN are discussed for each country and region, including India as well. Section 2 considers the three industries of household electric appliances, automobiles and retail, includes information obtained from on-site hearings, and provides commentary on industry trends centered on the strategies of Japanese, South Korean, and Western corporations. Finally, as an addendum, the establishment of administrative headquarters in Asia that is accelerating in Singapore, as well as the movements of Japan’s service industry, which proceeds with active operations in ASEAN, are discussed. By combining section 1, which analyzes FDI data, and section 2, which states industry trends through individual corporate strategies, market shares, and the like, corporate ASEAN strategies are discussed from a multi-tiered perspective.

1. Analysis based on FDI statistics

1.1 Investment (stock) from the world to ASEAN, a recent expansion stands out

The total FDI balance of the entire world as a stock broke past $20 trillion in 2010, and rose 1.5% year-over year in 2011 to reach $21 trillion. This figure dropped by a wide margin in 2008 due to the effects of the Lehman shock, but recovered thereafter.

By region, the EU had the greatest inward foreign direct investment (inward FDI) balance, at $7.2 trillion, or 36% of the global total. Asia ($3.9 trillion), which surpassed the US in 2008, reached 21% at the end of 2011, and is ranked second. The US ($3.5 trillion), at 17%, is a close third.

Examining the inward FDI of Asia by country/region, Hong Kong has the greatest figure ($1.1 trillion), constituting 6% of the FDI balance of the entire world. Following next is ASEAN ($1.0 trillion) at 5%, a close second. The value of FDI entering ASEAN has grown rapidly in recent years (Figure 1). By contrast, China is also trending upwards, but has only a 3% share, falling short of ASEAN.2

---

1 In this chapter, 1.1, 1.5—1.6, and 2.2 are written by Kabe, 1.2—1.3 and 2.1 by Ushiyama, and 1.4, 1.7, and 2.3 by Yamada.

2 However, it is thought that no small amount of the FDI to Hong Kong is routed through to the mainland.
Looking from the investing side, what degree of importance does ASEAN have?

Figure 2 depicts outward FDI by investor country/region, listing where the investments were destined. The figure considers Japan, the US, the EU, China, South Korea, and Taiwan, totaling 6 countries/regions. The balance by region for outward FDI is summarized for each country/region. The figures are fundamentally from the end of 2011.

Figure 2: Outward FDI balances by country/region for Japan, the US, the EU, China, South Korea, and Taiwan

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
<td>964,651</td>
<td>4,155,551</td>
<td>13,892,055</td>
<td>424,781</td>
<td>201,654</td>
<td>201,189</td>
</tr>
<tr>
<td>Asia</td>
<td></td>
<td>257,755</td>
<td>590,857</td>
<td>760,596</td>
<td>298,423</td>
<td>89,809</td>
<td>128,864</td>
</tr>
<tr>
<td>China</td>
<td></td>
<td>83,379</td>
<td>54,234</td>
<td>99,428</td>
<td>-</td>
<td>37,466</td>
<td>94,304</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td>-</td>
<td>116,533</td>
<td>123,818</td>
<td>1,366</td>
<td>3,715</td>
<td>16,897</td>
</tr>
<tr>
<td>NIEs</td>
<td></td>
<td>46,874</td>
<td>100,096</td>
<td>210,428</td>
<td>263,131</td>
<td>13,375</td>
<td>6,609</td>
</tr>
<tr>
<td>ASEAN (CLM)</td>
<td></td>
<td>n.a.</td>
<td>8</td>
<td>5,337</td>
<td>5,215</td>
<td>3,269</td>
<td>n.a.</td>
</tr>
<tr>
<td>India</td>
<td></td>
<td>15,416</td>
<td>24,663</td>
<td>45,525</td>
<td>657</td>
<td>2,556</td>
<td>50</td>
</tr>
<tr>
<td>Middle East</td>
<td></td>
<td>5,298</td>
<td>35,905</td>
<td>99,713</td>
<td>5,010</td>
<td>3,985</td>
<td>n.a.</td>
</tr>
<tr>
<td>Europe</td>
<td></td>
<td>215,484</td>
<td>2,307,697</td>
<td>-</td>
<td>24,450</td>
<td>37,995</td>
<td>30,244</td>
</tr>
<tr>
<td>US</td>
<td></td>
<td>275,504</td>
<td>-</td>
<td>1,581,143</td>
<td>8,993</td>
<td>40,307</td>
<td>22,363</td>
</tr>
<tr>
<td>Central/South America</td>
<td></td>
<td>122,223</td>
<td>831,151</td>
<td>936,043</td>
<td>55,172</td>
<td>11,797</td>
<td>23,399</td>
</tr>
<tr>
<td>Africa</td>
<td></td>
<td>8,081</td>
<td>56,632</td>
<td>321,061</td>
<td>16,244</td>
<td>1,617</td>
<td>1,288</td>
</tr>
</tbody>
</table>
Note: South Korea is 1980-2012 (aggregate until publication in November 2012) and Taiwan is the cumulative value for 1952-2011. The CLMs are Cambodia, Laos, and Myanmar. Europe refers to the EU for Japan only.

References: Produced from the following statistics:
South Korea: Export-Import Bank of Korea, Foreign Investment Statistics.
EU: Eurostat “EU direct investment outward stocks detailed by extra EU destination country”

Notable in the investment of each country/region to ASEAN is how much investment from China and South Korea is in Cambodia, Laos, and Myanmar (the CLMs). Constituting 24% and 11% respectively of the overall investment to ASEAN, it can be seen that businesses from both China and South Korea are active in investing in the least developed countries of ASEAN.

Figure 3 graphs the outward FDI movements of each country/region in an easy-to-understand manner. According to this graph, Japanese FDI towards the US and the EU is over 50% of the total, while that towards ASEAN is the highest among Asian destinations at 11%. By contrast, US investment in Europe exceeds 50% of the total, and the EU also has a large proportion going to “other” (much of which is directed into the EU region), and the amount going to ASEAN is no more than about 2%. Meanwhile, China’s investment in ASEAN is no more than 5%. By contrast, South Korean investment in ASEAN is 14% of the total.
Figure 3: Share of outward FDI balances for Japan, the US, the EU, China, South Korea, and Taiwan by destination

Note: Same as Figure 2. The sizes of the pie graphs are the same regardless of the FDI amount.
Sources: Same as Figure 2.
Finally, looking at the situation for the inward FDI balance of each ASEAN country, Singapore is far in the lead, exceeding $500 billion in 2011. This is thought to be due to the inclusion of investment passing through Singapore destined for other parts of ASEAN in addition to investment in Singapore. After Singapore, the next largest value is in Indonesia, which rose past Thailand in 2009 to reach second place.

Even if the size of Singapore’s inward FDI balance is considered to be exceptional, the other ASEAN countries are also exhibiting upward trends. Although it has had a high growth rate for the past several years, Indonesia stands out in particular. Indonesia’s inward FDI balance was in excess of $30 billion before the Asian Currency Crisis, but repatriation of investments resulted in a sharp drop to $7.1 billion in 2002. However, it then recovered quickly and broke past $100 billion in 2009. $170 billion was reached in 2011.

1.2 Investment by Japanese corporations in ASEAN\(^3\): Forays by “non-manufacturing” also accelerating

Below, the trend for investment to ASEAN will be examined for each country/region.

As seen in Figure 2 above, the FDI balance from Japanese corporations to Asia is less than that towards the US but greater than that to Europe. Within the investments that are to Asia, those to ASEAN outstrip those to China and the NIEs\(^4\), taking the number one spot.

Looking back at the history of Japanese businesses investing in ASEAN, cases of deploying production bases began to appear as early as 1960-1970 in response to the import substitution policies of the ASEAN countries, but it was after the Plaza Accords in 1985 that investment accelerated. A rapid appreciation of the yen proceeded, and Japanese corporations were forced up against an overriding imperative to cut costs. Thus, they actively entered the NIEs of South Korea, and Taiwan, as well as the ASEAN countries, centered on Thailand, Malaysia, and Indonesia, and rushed to build production/export bases.

---

\(^3\) Here, ASEAN consists of six countries of Singapore, Malaysia, Thailand, Philippines, Indonesia and Vietnam.

\(^4\) Here, the countries/regions of South Korea, Taiwan, and Hong Kong are referred to as the NIEs. Singapore is included in ASEAN.
Japanese corporate investment in ASEAN has often been contrasted with the movement of that in China, but looking at the graph of the past values, no particularly obvious tradeoff relationship can be seen (Figure 4). But recently, the rapid rise in labor costs in China, repeated labor troubles, the intensification of anti-Japanese activities, and the like are causing more people to be “China sick.” As a result ASEAN is garnering increased attention as a place to distribute risk, and there is an increasingly common view considering China and ASEAN to be alternatives to each other.

The investment destinations in ASEAN by Japanese corporations up to now started with the founding members such as Thailand and Malaysia, and have spread to the later members such as Vietnam. In the mid-1990s about a decade after the Plaza Accords, the “Doi Moi” policy of reform and opening up in Vietnam shifted into high gear, causing an investment boom in the country. In 1997, the Asian Currency Crisis caused the boom to vanish, but in the 2000s, infrastructure such as industrial parks was developed, and investment in Vietnam rose once again. Then, around 2010, the CLM countries of Cambodia, Laos, and Myanmar began to draw attention. This was caused, as was seen in Chapter 2, by economic reforms proceeding in each country, and efforts being made to strengthen foreign capital invitations.

According to Figure 5, investment in ASEAN by Japanese corporations decreased year-over-year in 2008, when the global financial crisis arose, but it rose again as early as the following year in 2009, and exhibited a 2.2-fold jump year-over-year in 2011. This pace exceeded the 1.7-fold
increase in investment to China, and that to ASEAN surpassed that to China in absolute terms for the third year running. The ranking by investment amount from Japan to ASEAN starts with Thailand at number 1, Singapore at number 2, and Indonesia at number 3. Among these Thailand’s figure rose 3.2 times year-over-year, and Indonesia jumped by a factor of 7.4, setting a new record in monetary value as well\(^5\) (Figure 5).

Figure 5: Japanese FDI to ASEAN (net, units of $100 million)

\[\begin{array}{cccccc}
& Singapore & Thailand & Indonesia & Malaysia & Philippines & Vietnam \\
2005 & 10 & 20 & 30 & 40 & 50 & 60 \\
2006 & 15 & 25 & 35 & 45 & 55 & 65 \\
2007 & 20 & 30 & 40 & 50 & 60 & 70 \\
2008 & 25 & 35 & 45 & 55 & 65 & 75 \\
2009 & 30 & 40 & 50 & 60 & 70 & 80 \\
2010 & 35 & 45 & 55 & 65 & 75 & 85 \\
2011 & 40 & 50 & 60 & 70 & 80 & 90 \\
\end{array}\]

Source: Produced from JETRO statistics.

The jump in investment to Thailand in 2011 was primarily caused by there being many companies that supplied recovery funds due to the massive flood damage that was sustained that fall. However, this also reflected the fact that there were many companies that wished to continue to put effort into operations in Thailand, which with a concentration of supporting industries such as parts manufacturers, is abundantly alluring for locating factories. There was a rapid rise in corporations moving to invest in Indonesia with its population of 240 million, expecting an expansion in the domestic market. In particular, moves by automobile and food product manufacturers stood out. Also, even in the Philippines, which was lagging behind on producing an investment environment compared to the other ASEAN countries and which had been teased as being “inferior” or “held back a year in school,” forays by electronic component manufacturers gained steam and investment by Japanese companies nearly doubled.

1.3 Investment by US corporations in ASEAN\(^6\): The greatest “income source” in Asia

Looking at US outward FDI by region, Europe is rather consistently the largest investment destination both by flow and by balance. The next largest are Asia (including Oceania) and

---

\(^5\) According to JETRO’s Tsusho Koho (21 March 2012), the values of investment to Singapore and to Vietnam also set new records.

\(^6\) Here, ASEAN consists of five countries of Singapore, Malaysia, Thailand, Philippines and Indonesia.
Central and South America, but Europe has quite a lead on both. A large difference is that Japan’s FDI to Asia and to the West compare favorably, and at least by the numbers, Asia is comparatively less important to the US businesses.

However, if China, India, the NIEs, and the ASEAN countries are extracted from Asia, the sum of the FDI balances of these embodying “emerging Asia,” expanded by a factor of 14 in 2011 compared to 1990, with a growth rate that was 10 times greater than that of the total of US FDI balances. Within this, investment to China grew 153-fold and to India grew 66-fold, exhibiting momentum far surpassing that towards ASEAN (13-fold) and the NIEs (9-fold). 7

By balance, ASEAN is the largest investment destination for the US in Asia (Figure 6). ASEAN surpassed Japan in 2001, rising to the top spot. The FDI balance to ASEAN in 2011 reached 1.4 times the magnitude of that to Japan, 2.9 times that to China, and 6.4 times that to India.

**Figure 6: Changes in US FDI balance to Asia**

![Graph showing changes in US FDI balance to Asia](image)

Note: ASEAN is the five countries of Singapore, Malaysia, Thailand, the Philippines and Indonesia. the NIEs are the three countries/regions of South Korea, Taiwan, and Hong Kong.
Source: Produced based on US Commerce Department statistics.

ASEAN, which has the greatest accumulation of assets, can be called an important destination of business deployment in Asia to US businesses.

Singapore is at the core of US business investment in ASEAN. The FDI balance (at the end of 2011) to this country was about $116.6 billion, constituting 70% of all US FDI to ASEAN. This percentage continued to rise from the mid-1980s, exceeding 50% in 2001, and trending at around 70% since 2003.

---

7 ASEAN being on a five-country basis of Singapore, Malaysia, Thailand, the Philippines, and Indonesia, and the NIEs being on a three-country/region basis of South Korea, Taiwan, and Hong Kong.
Looking at the FDI balance to Singapore by sector based on the statistics of the US Commerce Department, “holding companies” (about $65.3 billion) was the highest, followed by “manufacturing” (about $21.4 billion) and “finance” (about $13.7 billion). These top three sectors account for nearly 90% of the total.

It is thought that the reason why “holding companies” is so high is that there are more US companies that are strengthening operations in the ASEAN region by placing regional headquarters in Singapore, which is superior in finance and in infrastructure such as communication. Examples of companies in this situation include consumer goods manufacturer Proctor & Gamble (P&G), computer companies Dell and Hewlett Packard (HP), oil company ExxonMobil, finance company Citi Group, and the like.

1.4 Investment by European Companies in ASEAN: Strength supported by history

The value of FDI (as a stock) to ASEAN from Europe has expanded steadily in recent years, reaching about €180 billion at the end of 2010. However, two-thirds of this (€120 billion) was to Singapore. Although the next largest amounts went to Indonesia and Thailand, the amounts were respectively around €20 billion and €15 billion, there being a tremendous gap with Singapore (Figure 7).

For multinational corporations, bases opened in Singapore often serve an “Asia supervision headquarters” type of a function. It is believed to be common for capital from the EU to be routed through Singapore and then to flow to various parts of ASEAN. By country, Swiss investment in ASEAN has been trending at a steady level, German investment has been trending slightly upward in recent years, and French investment has been trending slightly downward.

Figure 7: FDI balance from 27 EU countries to major ASEAN countries

Source: Produced from Eurostat
Looking at FDI to the major ASEAN countries by investor country share,\(^8\) of that to Thailand (2010), Japan provided by far the most at about 36%, followed by the Netherlands (9.2%) in the number two spot. Of investment to Indonesia, the top spot was taken by Singapore (30.9%), followed by the UK (11.7%). The former colonial master of the Netherlands (3.7%) had only a small share but ranked fifth. Among other countries, the top spot for investment to Vietnam was taken by the Netherlands, and to Malaysia by Germany.

Europe thus showed its presence in the ASEAN countries, but it is not possible to apprehend a relationship between European corporations and ASEAN when looking at FDI trends as a flow. This is because many European businesses with long business histories in Asia reinvest funds earned in the region as part of an autonomous operational expansion process, and are able to grow sufficiently without taking in capital from the outside. In the case of Unilever Indonesia, by becoming listed on the Indonesia Stock Exchange starting in January 1982, and the like, the company has engaged in localization of operations from an early stage. This strategy was effective, resulting in operating income in FY2011 at 5.455 trillion rupiahs, double the value from four years prior.

1.5 Investment by Chinese companies in ASEAN: Rapidly rising investment in the CLMs

The balance of Chinese FDI to ASEAN rose dramatically since 2006, and exceeded $20 billion in 2011 (Figure 8). One of the driving forces behind this was investment in Cambodia, Laos, and Myanmar (CLM), the least developed ASEAN countries. This value reached a total of $5 billion in 2011, having increased to a full quarter of all Chinese investment in ASEAN as a balance. China is actively expanding to the developing and emerging countries of the world, as exemplified by resource-related investments in Africa, and this movement was also seen in ASEAN. A move to expand influence over the CLMs can be seen in the investments centered in infrastructure.

Next, the value of Chinese FDI investments in ASEAN will be examined by country. The top ranked country is Singapore, followed by Myanmar ($2.1 billion), which has been at the position following Singapore since 2009. The third country is Cambodia ($1.7 billion), having had this position since 2010.

---

\(^8\) Amount executed or amount approved during a year based on statistics from each national government.
During the military junta era that continued until the transition to a civilian government in March 2011, Myanmar effectively cut off economic relations with Japan and the West and became internationally isolated. Amidst these circumstances, China put effort into economic exchanges with Myanmar. Cambodia also brought the relationship closer while increasing aid and investment. In China’s outward FDI trends, there is also the projection of a diplomatic strategy of expanding influence in Southeast Asia by drawing in the least developed ASEAN countries. For the record, China’s FDI to Laos is the lowest among the CLMs at $1.2 billion, but this is a high level of investment at basically the same amount as Thailand ($1.3 billion) and Vietnam ($1.2 billion).

Looking at Chinese FDI balances to ASEAN by industry, the top spot is infrastructure building in electricity, gas, and roads (17.7%), and is primarily directed towards Singapore, Myanmar, Cambodia, Laos, and Indonesia. For example, Chinese corporations are building an oil pipeline and a hydroelectric plant in Myanmar, and are developing copper mines and the like in Laos. Investment in manufacturing is directed towards a variety of countries, including Vietnam, Thailand, Cambodia, Singapore, Malaysia, Indonesia, and Laos. Within this, major household appliance makers such as Haier are deploying production bases in Thailand.

1.6 Investment by South Korean corporations in ASEAN: Active investment in Vietnam and Indonesia

In South Korea’s cumulative external FDI by country/region, the US ($40 billion) and China ($38 billion) have held the number one and two spots for the past several years (Figure 9). They are followed by Europe ($34 billion) in the number three spot, but of note here is ASEAN ($28 billion)
billion) in the next spot.

In the trendline for investment in ASEAN, an upward trend has continued since the mid-1990s, and this has been spurred on yet more since the mid-2000s. Investment in the US, the EU, and China have similarly jumped, and amidst South Korean corporations expanding FDI across the globe, it can be seen that effort is also being put into investment in ASEAN.

Since the 1997 Asian Currency Crisis, outward FDI by South Korean companies can be said to have accelerated amidst corporate restructuring, but there is no sense that there was a sudden jump after the currency crisis.

Of the investment in ASEAN, the greatest share goes to Vietnam. Since overtaking Indonesia in 2007, Vietnam has maintained the leading position among investment destinations in ASEAN by country, and with growth that is also more extreme than that of investment towards other countries.

Aside from Samsung Electronics deploying a large-scale cellular phone factory in Vietnam, LG Electronics also has a production base for large household electrical appliances, and it is thought that the investment trends of these major corporations is being reflected in the investment patterns identified.

By country, investment in Indonesia has also grown rapidly since the latter half of the 2000s, and the growth of investment in Cambodia and Myanmar has also started to become notable since around 2008-9.

Of South Korea’s cumulative FDI values to ASEAN, investment in the CLMs totals an 11% share, a magnitude similar to the value for Malaysia. South Korean businesses are actively investing in resources/energy and real-estate-related deals in the CLMs, reflecting the attitude of South Korean corporations of putting importance on opening emerging markets.

Figure 9: South Korean FDI to ASEAN by country (2012 cumulative amounts)

![Diagram showing investment distribution by country.]

Source: Export-Import Bank of Korea, Foreign Investment Statistics.
1.7 Investments by Indian companies in ASEAN: A pillar of the “look east” policy

Indian corporations, which for many years had continued an “inward-looking” and domestic demand-reliant operating style, began to turn their eyes abroad around the latter half of the 2000s, roughly matching the period of time when India’s economic growth started really hopping. With market opening and the introduction of foreign capitalization, Indian corporations also were exposed to competition, and began to think seriously about expanding to overseas markets. The staged regulatory easing of external commercial borrowing (ECB) also provided a tailwind. In FY2005, Indian outward FDI, which had been trending at around $2 billion dollars per year, jumped at once to almost $8 billion, and exceeded $18 billion in 2007. By industry, the majority went to manufacturing and the finance/insurance/real estate sectors.

Looking at the destinations of Indian outward FDI for the past few years (as flows by fiscal year) by country/region, Singapore and Mauritius together account for nearly half (Figure 10). These are followed by the Netherlands, the UAE, the UK, the British Virgin Islands, and the like.

Figure 10: Indian FDI amounts by partner country/region (as flows in units of $100 million)
At least 98% of Indian FDI to ASEAN (FY2011, as a flow) was focused on Singapore. The second and third places were taken by Vietnam and the Philippines, but with only miniscule values, and there was almost no investment in Thailand, Malaysia, or Indonesia. Singapore is a major base to which over 1400 Indian corporations have expanded. It also seems to be common to establish an ASEAN regional controlling company in Singapore, temporarily collect funds there, and then make investments to other countries within the region.

Since Indian corporations arrived later to the Western markets, they were not able to take a strategy of building new factories or creating sales networks from scratch, and instead chose the route of using the cash that had been stored up for many years without any uses and buying local companies for every sales channel. Tata Steel’s acquisition of major Anglo-Dutch steel company Corus, and Tata motor’s acquisition of Jaguar and Land Rover are representative examples, and there was the judgment to use M&As to “obtain a brand that would originally have taken massive investment and a long time to nurture” (Tata Group President Ratan Tata).

In recent years, in ASEAN as well, M&As have been increasingly active in the consumer goods sector. For example, consumer product heavyweight Marico Industries Ltd. made acquisitions in the same industry in Malaysia, Singapore, and Vietnam (2010-2011), and a similar conglomerate-style consumer product heavyweight Godrej Consumer Products Limited acquired an Indonesian household product manufacturer (April 2011).

2. Corporate trends by industry

2.1 Household electric appliance industry: Japanese and South Korean manufacturers collide;

Chinese corporations also put energy into opening markets

ASEAN has a population of about 600 million, and is expected to grow at a high level in the future. The competition between foreign household electric appliance manufacturers has been intensifying around this promising market. In the region, starting in the 2000s, the two main South Korean corporations of Samsung Electronics and LG Electronics launched a serious offensive against the Japanese corporations that had had the dominant position in the market. In response, Japanese companies have strengthened their operations in the ASEAN market in recent years, and the pattern of “Japan-South Korea collision” has become more entrenched. Recently, newly arrived Chinese corporations are also going forward with active management, and the marketplace is becoming a battle royale.

In this paper, first, the moves regarding the Indonesian market, which is the largest market in the region, will be observed as a case exemplifying the situation discussed above. Next, the
movements by other ASEAN countries such as Thailand and Vietnam, as well as cases by corporations aiming to rebuild manufacturing/sales systems with a close eye on the trade liberalization movement in ASEAN will be introduced. Furthermore, the characteristics of the ASEAN market centered on the power relationships between Japanese and South Korean manufacturers will be discussed from statistics of household electric appliance market share in each ASEAN country. Finally, the promise of the ASEAN market will be confirmed, and the nature of the ASEAN strategy of Japanese corporations will be lightly touched on.

**Haier makes serious inroads into the Indonesian market**

With 240 million people, Indonesia has the largest population in the region. In this country, the movements of Haier, a Chinese company that is the largest manufacturer of household electric appliances in the world, have been notable recently. Haier acquired the large household electric appliance operations of Sanyo Electric in four Southeast Asian countries in March 2012. With that, the company gained at once the factories and sales centers of Sanyo that had been engaging in business in Indonesia since the 1970s. Up until this point, Haier had been forced into a bitter fight of repeated forays and withdrawals in Indonesia. A reason for this is they had a system of leaving everything up to the local sales agents, and so did not provide sufficient follow-up support to customers. However, with the acquisitions from Sanyo, Haier launched a serious foray.

In July of the same year, the former Sanyo manufacturing subsidiary in Indonesia was renamed PT. Haier Electrical Appliances Indonesia and the sales subsidiary was renamed PT. Haier Sales Indonesia, and both companies were put under the Southeast Asian business umbrella company, Haier Asia International Co., Ltd. In the future, under a new system, the brand Haier, which has low recognition, will expand sales in addition to the SANYO brand, which already has many loyal users in Indonesia, and the company is brimming with energy, stating that “by 2016, we will be part of the top three in the local household appliance market” (President and Director Yutaka Itamochi).

**South Koreans continue active management: Samsung Electronics, LG Electronics**

Meanwhile, the South Korean corporations, which were said to have “deployed flashy advertising activities from the first half of the 2000s, and have engaged in active product introductions” (the head of a Japanese household appliance manufacturer), continued to be in high spirits. In 2011 alone, LG Electronics expanded the number of service center locations in Indonesia by 11 in a single swoop, bringing the total to 63 locations. Additionally, starting in

---

9 The four countries are Indonesia, Malaysia, Thailand, and the Philippines.
10 NNA, 1 February 2011
February 2012, LG started a “patrolling maintenance service,” in which three engineers ride a small bus that is dispatched to residential areas. With the slogan that “we will complete service within 24 hours [from being contacted by a customer],” LG has further upgraded its service system. Also, by selling air conditioners having the function of repelling mosquitoes, which are the vector for Dengue fever, LG has continued to put effort into introducing an “Indonesia model” that includes local needs into product development, and also has been proceeding with a plan to build a new factory in the country to respond to the increased demand for large household appliances.

To both LG Electronics and Samsung Electronics, among emerging markets to which energy is to be applied, Indonesia is considered an important target of business deployment. Sales (2011, the same below as well) by the Indonesian arm of LG Electronics were 1.9664 trillion won, about 30% less than the Indian subsidiary, but still the largest magnitude in the ASEAN region, greatly exceeding sales in Thailand (Figure 11). Net profit was 34.1 billion won, about three times that of the Thai subsidiary. The number of employees of the Indonesian subsidiary rose to 2733, the most in the ASEAN region. Meanwhile, sales by the Indonesian arm of Samsung Electronics ranked third in the Asia/Oceania region after Australia and Thailand. With favorable sales of cellular phones and flat-screen televisions, sales doubled year over year in 2012, growing to around $1.5 billion dollars. With this momentum, it appears that there is the possibility that sales in Indonesia will surpass those in Thailand to reach the number 2 position.

---

11 LG Electronics (2012a).
12 Tsusho Koho, 7 May 2010.
13 NNA 22 November 2010.
14 LG Electronics (2012a).
15 NNA 30 April 2012. It appears that China and India are not included “Asia/Oceania” as it is used here.
A foreign company retailer: “It is not only that the price is lower [than those made by Japanese manufacturers], the design is also refined. Japanese brands are seen as lasting a long time, but the South Korean brands are improving in quality, and are no longer selling just on price.”

Many voices were heard from industry participants in the city of Jakarta saying that the South Koreans are becoming much more powerful rivals for the Japanese. Regarding the sales power of the South Korean corporations, a mass merchandiser of household appliances noted that “Japanese corporations will send Indonesian staff, but the Korean corporations will often send Korean staff to diligently make the sales themselves,” and that “the Japanese corporations are being blown away by an ability to plan and an ability to propose sales promotion activities.” The sales style of the South Korean corporations is generally imagined to be “fierce” or “attacking,” but there was the comment (from the leader of a Japanese manufacturer) that “the resident staff of the South Korean corporations will be immediately recalled back to Korea if their performance is poor, so they work desperately hard.” In Indonesia, which is particularly important even among emerging markets, it does not appear that South Korea will ease up their fight in the market as they will struggle to keep their lead.

The Japanese fight back, desperate to improve competitiveness: Panasonic, Sony, Hitachi

What are the Japanese household electric appliance companies up to? Below, the result of a hearing survey conducted in Jakarta of both Panasonic and Sony will be examined. They have been keeping an eye on the promise of the Indonesian market since the latter half of the first decade of the 2000s, and have strengthened their sales in the region at once.
First, we will look at Panasonic. “We began to seriously face the Indonesian market around 2008 or 2009” (relevant party to Panasonic). Then, in the three-year business plan that started in FY2010, an important strategy was upheld of “expanding overseas business centered on the emerging countries,” and a policy regarding Indonesia as one of the central countries in this regard was officially announced. Amidst this sequence of events, as the first global volume zone (V zone) product for emerging markets, a refrigerator built to local specifications was introduced in Indonesia as part of upgrading the product line, and at the same time, the number of service centers that engage in repairs was increased as part of reinforcing the operating foundation. With the high growth in the Indonesian market expanding the “pie” of the market as a whole, which acted as a tailwind, Panasonic caused sales of household electric appliances in this market to “double over the past 3-4 years” (Ichiro Suganuma of PT. Panasonic Gobel Indonesia).

However, if past “glory” is taken into account, it is not possible to be contented with the current state of affairs. Panasonic made its serious entry into Indonesia early on, in 1970. That year, it founded local companies and joint ventures, and engaged in building a “mini-Matsushita” that worked at producing and selling diverse products including televisions, washing machines, and air conditioners. Afterwards, the company’s products (under the “National” brand) gradually penetrated the market, and “after the ‘golden period’ of the 1980s-90s, the company maintained its top market share position, with over 30% of the Indonesian household electric appliance market, until around 2003” (Mr. Suganuma). However, with the turn of the millennium, the South Korean companies of LG and Samsung began to grow, and the current “Panasonic” brand continued to lose market share, and has now dropped to around 10%.

Next, let us examine Sony. It was the spring of 2010 when the company set forth with the “management reform” of the sales subsidiary PT Sony Indonesia (President Satoshi Arai of the subsidiary). It had been already 15 years since the founding of the subsidiary. For Indonesia, which comprises numerous islands and extends over quite a distance in the east-west direction, deploying bases to the regional cities is an important strategy, but the subsidiary had no bases outside the capital of Jakarta, and a business operation structure had effectively not been prepared. As a result, starting in the spring of 2011, branch offices were deployed to the major cities, including Surabaya (on the island of Java), Yogyakarta (Java), Bandung (Java), Makassar (Sulawesi), and Medan (Sumatra), and their number has been increased to nine.

The number of “sales promoters” for Sony products who are dispatched to household electric

---

16 In the Panasonic Annual Report for FY2010 and FY2011, India, Vietnam, and Indonesia were described as the “three major growth markets,” and it is reported that sales in these countries were favorable.
17 As of September 2012, Panasonic has 15 companies in its group in Indonesia and about 30,000 employees.
18 The number at the time of the hearing in mid-September, 2012.
appliance mass merchandisers and the like was also increased fourfold from the spring of 2010 to about 400 people. A series of strategies took effect, and centered of televisions and computers, 2011 sales jumped 50% year-over-year. In 2012 as well, sales grew by 60%, and so among Sony’s overseas local subsidiaries, this one is expected to secure a top-class growth rate.

Mr. Arai stated that “the head office in Japan is rapidly becoming more interested in Indonesia.” With the goal of surveying the market and developing products, there has been a rapid rise in the number of people sent on business from the head office, and it feels as though local business development has a favorable tailwind. In the future, it is planned that Sony Indonesia will further promote the deployment of branch offices to the regional cities, and increase the “sales promoters” to the 700-person level by March 2013.19 Also, cellular phones are spreading like wildfire in Indonesia, and this has ballooned into a market rivaling that for household appliances. As a result, there is a plan to expand sales of cellular phones in the future as an important product.

The move to expand operations in Thailand and Vietnam as well

Naturally, companies in the industry are earnestly expanding operations in the other ASEAN countries as well. These moves stand out in particular in Thailand and Vietnam. In both countries, there are many companies that are upgrading their production systems by augmenting existing factories building new ones, and the like.

The concentration of the automobile industry in Thailand has progressed to the point that it is called the “Detroit of Asia,” but there are also many factories for major foreign manufacturers of household electric appliances, and is the best production base in ASEAN. Based on calculating the fraction of total production volume in ASEAN that is production in Thailand for the major Japanese household electric appliance manufacturers20 based on the statistics of Fuji Keizai (2012), washing machines were nearly 100%, refrigerators were about 80%, and air conditioners were about 50%. For the South Korean companies of Samsung and LG as well, the numbers were high, with washing machines at about 90%, refrigerators at about 40%, and air conditioners at nearly 100%.

In Thailand, the Japanese companies of Toshiba, Sharp, Mitsubishi Electric, and the like, the South Korean companies of LG and Samsung, the Chinese companies of GD Media Holding Co., Ltd, and the like, and furthermore the European companies of Electrolux and the like are competing

---

19 According to Mr. Arai, this will be short of the estimated 1500 people employed in such positions by the South Korean corporations such as Samsung or LG.
20 For refrigerator and air conditioners, the numbers were totaled for the 5 companies of Sharp, Toshiba, Panasonic, Hitachi, and Mitsubishi Electric, and for washing machines, the numbers were totaled for the four companies of Sharp, Toshiba, Panasonic, and Hitachi.
to increase production of various products including refrigerators, washing machines, air conditioners, and televisions. This gives the feeling of a lineup of the most powerful global manufacturers, and it appears that Thailand will further increase in depth as a production base for household electric appliances. Meanwhile, Vietnam has lower costs than Thailand, and so is being watched as a new production base. Panasonic is building a new factory there for refrigerators and washing machines, and plans the most expansive production base in ASEAN surpassing Thailand. Toshiba and Samsung also are reported to be planning production of household appliances in Vietnam. There are many cases where these series of moves are not only for domestic demand in Thailand and Vietnam, but also keep in sight exports to other ASEAN countries.

The issue of reconstructing production/supply networks

When building a production/sales strategy in ASEAN, the trade liberalization that is being promoted in the region towards the founding of an “economic community” is an important element. In the region, the primary six countries including Singapore and Thailand eliminated tariffs between them in 2010, and it is planned that the less developed four countries including Vietnam and Myanmar will also eliminate their tariffs in 2015.\(^{21}\) As a result, it will become more and more important for companies that are active in the ASEAN region to consider the countries in the region not as “points” but as being part of a “plane.” Specifically, it is vital to form an optimal production/supply network that, while taking into account production and distribution costs and the like, cleverly combines factories located in multiple countries in the region. ASEAN has already implemented free trade agreements (FTAs) individually with the major countries outside the region such as Japan, China, and South Korea, and so taking advantage of these external FTAs is a valid option for companies as well.

Based on this sequence of events for trade liberalization, there is the move to rebuild production and supply networks in ASEAN in the household electric appliance industry. For example, the large household appliances that Haier is selling in Indonesia are imported from factories in China and Thailand, but as mentioned earlier, the company plans to investigate taking advantage of the Indonesian factories formerly of Sanyo Electric, as well the former Sanyo factories in Vietnam in the future. Since it will become possible to import Vietnamese products duty-free starting in 2015, the company is considering that “since both countries have similar income levels, products for the Vietnamese market could be introduced to the Indonesian market as well” (Haier).

Meanwhile, Panasonic is currently producing about half of the air conditioners sold in Indonesia in Malaysian factories, the remainder being produced in domestic factories, and is producing most air

\(^{21}\) For the details of trade liberalization in ASEAN, see Chapter 1.
conditioners in the Indonesian factories. In the future, the three options of Indonesian factories, other ASEAN factories, and Chinese factories will be combined “to consider an optimal supply network” (President Suganuma of PT. Panasonic Gobel Indonesia). In ASEAN, the company is also planning to build a new factory for large household appliances in Vietnam, and this factory would become a new supply source candidate. There is also the possibility of taking advantage of an FTA to import products for the Indonesian market from Chinese factories.

Japanese companies remain a large presence in the ASEAN market

Below, the characteristics of the ASEAN market will be discussed from the market shares of the primary household appliance products. Here, the balance of power between the Japanese manufacturers and their main rival, the South Korean manufacturers will be examined.

Figure 12 lists market shares for washing machines, refrigerators, and microwaves in the main ASEAN countries as investigated by the British research company Euromonitor International. The top three companies are listed for each country. The shares in India are also noted for reference.
Figure 12: Market share of major appliances in each ASEAN country

### Washing Machines (2011)

<table>
<thead>
<tr>
<th>Country</th>
<th>Company</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indonesia</strong></td>
<td>LG</td>
<td>25.7</td>
</tr>
<tr>
<td></td>
<td>Sharp</td>
<td>23.1</td>
</tr>
<tr>
<td></td>
<td>Sanken</td>
<td>18.6</td>
</tr>
<tr>
<td><strong>Vietnam</strong></td>
<td>Sanyo</td>
<td>42.2</td>
</tr>
<tr>
<td></td>
<td>LG</td>
<td>22.0</td>
</tr>
<tr>
<td></td>
<td>Toshiba</td>
<td>12.1</td>
</tr>
<tr>
<td><strong>Thailand</strong></td>
<td>LG</td>
<td>27.4</td>
</tr>
<tr>
<td></td>
<td>Hitachi App.</td>
<td>13.8</td>
</tr>
<tr>
<td></td>
<td>Samsung</td>
<td>11.9</td>
</tr>
</tbody>
</table>

### Refrigerators (2011)

<table>
<thead>
<tr>
<th>Country</th>
<th>Company</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indonesia</strong></td>
<td>Sharp</td>
<td>31.8</td>
</tr>
<tr>
<td></td>
<td>LG</td>
<td>20.9</td>
</tr>
<tr>
<td></td>
<td>Panasonic</td>
<td>15.1</td>
</tr>
<tr>
<td><strong>Philippines</strong></td>
<td>Electronics</td>
<td>19.2</td>
</tr>
<tr>
<td></td>
<td>Sharp</td>
<td>16.5</td>
</tr>
<tr>
<td></td>
<td>Panasonic</td>
<td>16.3</td>
</tr>
<tr>
<td><strong>Malaysia</strong></td>
<td>Toshiba</td>
<td>17.4</td>
</tr>
<tr>
<td></td>
<td>Panasonic</td>
<td>17.4</td>
</tr>
<tr>
<td></td>
<td>Electronics</td>
<td>10.5</td>
</tr>
<tr>
<td><strong>Thailand</strong></td>
<td>LG</td>
<td>24.6</td>
</tr>
<tr>
<td></td>
<td>Panasonic</td>
<td>17.8</td>
</tr>
<tr>
<td></td>
<td>Hitachi App.</td>
<td>11.0</td>
</tr>
</tbody>
</table>

### Microwaves (2011)

<table>
<thead>
<tr>
<th>Country</th>
<th>Company</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indonesia</strong></td>
<td>Sharp</td>
<td>43.0</td>
</tr>
<tr>
<td></td>
<td>Panasonic</td>
<td>23.8</td>
</tr>
<tr>
<td></td>
<td>LG</td>
<td>23.0</td>
</tr>
<tr>
<td><strong>Philippines</strong></td>
<td>Exatech</td>
<td>34.5</td>
</tr>
<tr>
<td></td>
<td>GE</td>
<td>32.5</td>
</tr>
<tr>
<td></td>
<td>Sharp</td>
<td>27.8</td>
</tr>
<tr>
<td><strong>Malaysia</strong></td>
<td>Panasonic</td>
<td>42.0</td>
</tr>
<tr>
<td></td>
<td>Sharp</td>
<td>30.0</td>
</tr>
<tr>
<td></td>
<td>Samsung</td>
<td>17.0</td>
</tr>
<tr>
<td><strong>Thailand</strong></td>
<td>LG</td>
<td>34.0</td>
</tr>
<tr>
<td></td>
<td>LG</td>
<td>32.0</td>
</tr>
<tr>
<td></td>
<td>Panasonic</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Note: Market shares are on a volume basis. Bold names are Japanese companies. However, the large household appliance operations of Sanyo Electric in four Southeast Asian countries were acquired in 2012 by Chinese company Haier. Figures for India are listed for reference. Some company names are partially abbreviated.

Source: Based on survey by Euromonitor International.
What can be understood from this table is the fact that Japanese companies continue to be strong players in the household electric appliance markets of the ASEAN countries. Although the places where the South Korean companies of Samsung and LG take the top spots stand out, the Japanese presence overall is large.

Specifically, for refrigerators, four of the five ASEAN countries listed have a Japanese company in the number one spot, of which in Thailand and Malaysia, Japan is monopolizing the top three spots. Also, a Japanese company has the top spot in the three countries of Vietnam, the Philippines, and Malaysia for washing machines, and in the three countries of Malaysia, Vietnam, and Indonesia for microwaves.

This situation is clearly different from the market in India. There, the South Korean companies of Samsung and LG monopolize the top two spots for refrigerators, washing machines, and microwaves, and their combined market share is roughly half at 45-53%.

In other words, despite being an emerging market in the same continent of Asia, there are differences in the competitive landscape between ASEAN and India, and Japan has an advantage relatively speaking in the former. In India, with enormous potential demand and high visibility, the structure of “South Korean advantage, Japanese inferiority” is widely known and so it is common for this to be accepted as the view by all emerging markets as a whole. However, ASEAN does not fit with this scenario.

Where do the differences stem from? As seen in the example of Panasonic earlier, in response to import duty hikes by the ASEAN countries, the Japanese household appliance industry began deploying a production base within ASEAN in the 1960s-70s, but at the time, there were not yet any examples of South Korean manufacturers making forays. Meanwhile, there were cases of Western manufacturers expanding to ASEAN, but it is said that they were not able to knock the superiorly competitive Japanese manufacturers from their advantageous position. The ASEAN market, where Japanese brands established a foothold in this way, has the strong flavor of being Japan’s “home turf,” and came to be known as a market where sales would be made even without trying” (industry participant).

On the other hand, there is India. Actually, Japanese companies arrived there before the South Koreans did. LG founded a wholly-owned subsidiary in India in 1997 as a serious foray to the area, but the major Japanese manufacturers had already entered the area. However, the Japanese corporations “prioritized investments in China, ASEAN, and the like, and so did not have leeway to

---

22 However, it must be kept in mind that the large household appliance operations of Sanyo Electric in four Southeast Asian countries (Thailand, the Philippines, Malaysia, and Indonesia) were acquired by the Chinese company Haier.
allot managerial resources to India” (Park, Amano 2011). As a result, it is said that the local management base was fragile in terms of product development and sales.

Hopes for the growth potential of the ASEAN market

With the turn of the millennium, the South Korean companies of Samsung and LG accelerated their business expansion targeting the emerging markets of the world including ASEAN and India. Amidst this situation, the Japanese corporations had the Indian market, which they had essentially left alone, taken by the South Korean companies. By contrast to the Japanese companies, which had mainly been exporting products from Japan to India, the South Korean companies “took advantage of the competitive advantage resulting from [local] factory production” (Hiraga, 2010), and so it has been also noted that strategic differences decided the outcome between Japan and South Korea.

However, in the ASEAN market, where Japan has many years of business development history and where “there is a strong following for Japanese brands” (Japanese household electric appliance manufacturer), the Japanese corporations maintained their place as major players even while being exposed to the South Korean offensives.

Today, while hopes are fading for the Japanese market due to long-term deflation, population decline, and the like, amidst rising encouragement to “incorporate Asian domestic demand” from both the governmental and private sectors, Japanese household appliance companies increased to traditional levels the importance of and were strongly cognizant of the ASEAN market, which is an “inner stronghold,” and are in a frenzy to strengthen management in the local areas.

Even though the flagship household electric appliance companies across the board are facing deeply severe circumstances, are reviewing their businesses and being forced to reduce personnel, they will not turn their eyes from the Asian emerging nations with their abundant growth potential. It is expected that the value and allure of the ASEAN market, where the Japanese corporations traditionally have strength, will increase in leaps and bounds.

Conclusion

The Japanese companies built an advantageous position early on in the ASEAN market, but the South Korean companies rose swiftly in the 2000s. Exemplified by the actions of Haier, the Chinese companies also began to become more serious about opening new markets. The Japanese companies had a presence in the “home turf” of ASEAN, but amidst a stagnating market back home, 23 Regarding the emerging country strategy of the South Korean companies, see Noguchi (2010), and Kim (2011).
they turned once more to the growth potential of the ASEAN market, and set forth with strengthening operations in the region. In the future, it is a fact that the competition in the region centered on Japan and South Korea will intensify much more. There is no guarantee that the Japanese corporations will be able to hold onto their advantageous position in the future as well.

In this situation, to the Japanese electric household appliance companies, product development for incorporating the rapid rise of the middle class in the ASEAN region is called for yet more. Each company is putting efforts into introducing products with local specifications to match the lifestyles of each country, but as the rival South Korean companies are already strengthening these moves of their own, further strengthening of developmental capabilities is indispensable.

Also, voices are heard from Japanese household appliance manufacturers in ASEAN that “the Japanese head office stresses an ‘ASEAN emphasis,’ but specific strategies are unclear, and just the encouragement is arriving first,” and that “there is the sense that the local businesses in each country of the region are struggling separately from each other, and whole-company linkages and solidarity cannot be felt.” It is also a prerequisite for winning at competition to widely share the importance of the ASEAN market, with its abundant growth potential, within companies, and to maintain/expand operation at a whole-ASEAN level by conducting production, supply, sales, R&D, financial affairs, cultivation of human resources, and the like under an ASEAN supervision organization having clear authority and responsibility.

2.2 The automobile industry: The surpassing presence of the Japanese companies, non-Japanese companies also paying attention to high growth

The increasingly important ASEAN market

To Japan’s automobile manufacturers, ASEAN is a historical market that was opened up starting in the 1950s-60s. In 1952, Nissan Motors established the first local affiliate for a Japanese automobile manufacturer in Thailand. In 1962, Toyota Motors founded Toyota Motors Thailand, starting production in 1964. ASEAN, where Japanese companies in this manner built an early foothold, appeared to be their exclusive territory. However, the individual market size of each ASEAN country is smaller than that of the West or a rapidly expanding China, and so it gave a plain impression that did not stand out very much.

However, recently, the movement to recognize the importance of Southeast Asia has quickly gained steam, and so the ASEAN strategy of the automobile companies once again has come to draw attention. There are two reasons why this region, where business had proceeded from an early period, has come to take the spotlight.

The first is the growth in the ASEAN market. Incomes rose alongside economic growth, and in
particular the demand for automobiles, which are a big-ticket item, can be expected to expand further due to the increase in the size of the middle class. Particularly in ASEAN, liberalization of intra-regional trade is progressing due to AFTA (the ASEAN Free Trade Agreement), and the primary six countries including Thailand, Singapore, and Malaysia eliminated tariffs in 2010. The remaining four countries (Vietnam, Cambodia, Laos, and Myanmar) will follow suit in 2015, and the plan is for the ASEAN Economic Community (AEC) to launch in the same year. It has become possible to apprehend ASEAN not just as individual markets but also from the perspective of an overall market of the region, and it has also become possible to pursue economies of scale.

Aside from 2009 when the effects of the Lehman Shock were felt, the automobile market in ASEAN has been growing steadily, reaching 2.59 million vehicles in 2011 (Figure 12).24 Looking by country, Indonesia, with its rapid economic development, rose 17% year-over-year to 890,000 in 2011, surpassing Thailand to become the largest market in ASEAN. However, in 2012, Thailand was in good form, exceeding 1 million vehicles in a cumulative total from January-September, to surpass Indonesia (with 810,000 vehicles) by a comfortable margin, and it is expected to return to the top position in the ASEAN market.

The second reason is the risk of China. The Chinese market is large, reaching 18.5 million vehicles (in 2011), and Japanese corporations have expanded production ability in China and put energy into disseminating Japanese car brands. This situation entered a deep chill due to the movement to shy away from Japanese brands stemming from the Senkaku Islands problem in China, and so the automobile companies across the board were faced with slowing sales in China. As a result, sales in the period ending in March 2013 are expected to fall short of initial predictions despite supplementing with sales in other regions such as North America and Southeast Asia (Nikkei Shimbun, 10 November 2012). This indicates that to the manufacturers, business in China changed from being a driver of results to being a risk factor.

---

24 Covering Thailand, Malaysia, Indonesia, the Philippines, Singapore, Vietnam, and Brunei.
The production share of Japanese businesses exceeds 80%.

From the perspective of market magnitude, ASEAN (where 2.59 million vehicles were sold in 2011) is far behind the Chinese market (18.5 million vehicles) and the US market (13.04 million vehicles). However, from a different perspective, the importance of ASEAN can be understood from the aspect of being the production base for Japanese companies.

The automobile production by Japanese corporations in Thailand, Indonesia, and Malaysia reached a total of 2.33 million in 2011, which is 83% of the total production in the three countries (FOURIN, 2012). Compared to production by Japanese corporations in other regions, this is a level comparable to that in the EU (1.3 million vehicles), North America (3.07 million vehicles), and China (2.81 million vehicles).

The production of automobiles in Thailand by Japanese companies goes back to the 1960s. In the 1960s, industrialization of Thailand was promoted by import substitution policies, and so in addition to the investment benefit from the Thai Board of Investment, there was also a tax exemption benefit where the import tariffs when importing CKD components and assembling an automobile in the country were only half of that when importing a completed vehicle (Kawabe, 2011). The entry of factories into Thailand, which began in this manner, has had a long history, and as will be discussed later, it came to play a role not just as a production base, but also as an export center.

As indicated in Figure 14, the factories of the Japanese corporations are deployed widely across ASEAN in Thailand, Indonesia, the Philippines, and Malaysia. However, there is the strong sense that they are focused especially on Thailand and Indonesia. In Thailand Japanese automobile
manufacturers have a production share of 94%, and in Indonesia this is particularly prominent at 99% (Figure 15). In Malaysia, government-linked manufacturers are large, but even so the Japanese corporations have a 25% share. In this way, to Japanese corporations, ASEAN has an important position as a production base, but in the background to this is the inroads made by parts manufacturers and the progression of education. There is also the progress made in building a local production network.

Figure 14: Primary production bases for Japanese/foreign automobile manufacturers

Source: Produced from materials released by each company.
Sales share in the ASEAN market is in the order of Toyota, Mitsubishi, and then Isuzu.

Next, the automobile sales of the Japanese manufacturers in ASEAN will be examined. Figure 16 indicates the share for the Japanese corporations in the ASEAN market (the total for Thailand, Malaysia, Indonesia, the Philippines, Vietnam, and Singapore) in 2011, and the total for the Japanese companies rose to 74%. Toyota Motors had the largest share at 30%, and combined with Daihatsu and Hino Motors, which are part of the Toyota Group, this value reaches 37%. This is followed by Mitsubishi motors, Isuzu motors, Honda, and Nissan. Aside from Malaysian national automobile manufacturers (Perodua, Proton), the non-Japanese group such as Ford each is less than 3%. Compared to the Japanese group where six companies had at least a 5% share, the others remain in the minority. In this way, the presence of the Japanese companies in ASEAN is overwhelming both in production and in sales.

Next, the automobile sales of the Japanese manufacturers in ASEAN will be examined. Figure 16 indicates the share for the Japanese corporations in the ASEAN market (the total for Thailand, Malaysia, Indonesia, the Philippines, Vietnam, and Singapore) in 2011, and the total for the Japanese companies rose to 74%. Toyota Motors had the largest share at 30%, and combined with Daihatsu and Hino Motors, which are part of the Toyota Group, this value reaches 37%. This is followed by Mitsubishi motors, Isuzu motors, Honda, and Nissan. Aside from Malaysian national automobile manufacturers (Perodua, Proton), the non-Japanese group such as Ford each is less than 3%. Compared to the Japanese group where six companies had at least a 5% share, the others remain in the minority. In this way, the presence of the Japanese companies in ASEAN is overwhelming both in production and in sales.

### Figure 16: Share of automobile sales by brand in each country of ASEAN

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Toyota</td>
<td>35%</td>
</tr>
<tr>
<td>2</td>
<td>Mitsubishi</td>
<td>14%</td>
</tr>
<tr>
<td>3</td>
<td>Mazda</td>
<td>13%</td>
</tr>
<tr>
<td>4</td>
<td>Nissan</td>
<td>10%</td>
</tr>
<tr>
<td>5</td>
<td>Isuzu</td>
<td>10%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Toyota</td>
</tr>
<tr>
<td>2</td>
<td>Mitsubishi</td>
</tr>
<tr>
<td>3</td>
<td>Mazda</td>
</tr>
<tr>
<td>4</td>
<td>Nissan</td>
</tr>
<tr>
<td>5</td>
<td>Isuzu</td>
</tr>
</tbody>
</table>

Source: Produced based on FOURIN (2012) data.
ASEAN is a primary sales market for Japanese corporations.

Figure 17 indicates the importance of the ASEAN market to Japanese companies from a different perspective. The top 20 countries by automobile sales by country for each company are ranked, and it was investigated whether any ASEAN countries would be included in the list. It can be easily inferred that to Japanese corporations, Thailand, Malaysia, Indonesia, and the Philippines are important sales destinations to each company.

Figure 17: ASEAN countries appearing in list of top 20 countries for sales by country for each company.

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Rank</th>
<th>Country</th>
<th>Sales (10,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toyota</td>
<td>4</td>
<td>Thailand</td>
<td>32.6</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Indonesia</td>
<td>28.1</td>
</tr>
<tr>
<td></td>
<td>13</td>
<td>Malaysia</td>
<td>9.2</td>
</tr>
<tr>
<td>Nissan</td>
<td>15</td>
<td>Thailand</td>
<td>3.0</td>
</tr>
<tr>
<td></td>
<td>16</td>
<td>Malaysia</td>
<td>3.0</td>
</tr>
<tr>
<td></td>
<td>19</td>
<td>Indonesia</td>
<td>2.1</td>
</tr>
<tr>
<td>Honda</td>
<td>6</td>
<td>Thailand</td>
<td>11.3</td>
</tr>
<tr>
<td></td>
<td>9</td>
<td>Indonesia</td>
<td>6.1</td>
</tr>
<tr>
<td></td>
<td>10</td>
<td>Malaysia</td>
<td>4.4</td>
</tr>
<tr>
<td></td>
<td>16</td>
<td>Philippines</td>
<td>1.7</td>
</tr>
<tr>
<td>Suzuki</td>
<td>5</td>
<td>Indonesia</td>
<td>7.1</td>
</tr>
<tr>
<td>Mazda</td>
<td>9</td>
<td>Thailand</td>
<td>3.5</td>
</tr>
<tr>
<td>Mitsubishi</td>
<td>4</td>
<td>Indonesia</td>
<td>5.6</td>
</tr>
<tr>
<td></td>
<td>9</td>
<td>Thailand</td>
<td>3.9</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>Philippines</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td>19</td>
<td>Malaysia</td>
<td>1.2</td>
</tr>
<tr>
<td>Isuzu</td>
<td>1</td>
<td>Thailand</td>
<td>15.3</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Indonesia</td>
<td>2.4</td>
</tr>
<tr>
<td></td>
<td>10</td>
<td>Philippines</td>
<td>1.1</td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>Malaysia</td>
<td>0.6</td>
</tr>
<tr>
<td>Ford</td>
<td>20</td>
<td>Vietnam</td>
<td>0.6</td>
</tr>
<tr>
<td>Tata</td>
<td>3</td>
<td>Thailand</td>
<td>0.5</td>
</tr>
<tr>
<td>Proton</td>
<td>1</td>
<td>Malaysia</td>
<td>15.7</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Thailand</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Indonesia</td>
<td>0.2</td>
</tr>
<tr>
<td>Cherry</td>
<td>9</td>
<td>Malaysia</td>
<td>0.3</td>
</tr>
<tr>
<td>GM</td>
<td>n.a.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VW</td>
<td>n.a.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kia</td>
<td>n.a.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hyundai</td>
<td>n.a.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Nissan is 2009 data.
Source: FOURIN (2011)

Aside from Isuzu Motors, the ASEAN countries are not in the top three in the world for any company, but it can be seen that they have the next following importance. To put it another way, even if ASEAN is often hiding in the shadows in the Chinese market and the US/Europe markets, it is fulfilling the role of bearing one end of the overseas business expansion for Japanese companies when seen both from the perspectives of production and of sales.
By contrast, to non-Japanese companies such as VW, Hyundai, and Kia, the ASEAN market is not that large. This suggests that the non-Japanese companies have adopted a strategy aiming for global business expansion through putting effort into larger markets such as China, Europe, and the US.

**Strengthening business in ASEAN**

**Japanese companies: One operation expansion plan after another**

Each company is proceeding to strengthen their ASEAN business while keeping an eye on business expansion to the world.

Toyota plans to introduce a low-cost car for Indonesia during 2012 as a strategic car that puts the focus on ASEAN. Daihatsu produces these in a factory outside Jakarta, and the plan is to sell them under both the Toyota and Daihatsu brands. The car is considered a family car with a displacement of 1000 cc. In parallel to this, production capacity is also being augmented, with the production capacity in Thailand being raised to 760,000 vehicles by mid-2013 (versus 650,000 at the beginning of 2012) and in Indonesia to 230,000 vehicles (versus 110,000) by 2014.

Nissan started the brand “Datsun” exclusively for emerging countries, and it will stand as the third global brand of the company, after the Nissan and Infiniti marques. The plan is to start producing Datsuns in 2014 in Indonesia and India, as well as Russia as a start. The strengthening of the production system is also underway, and with the goal of starting operation in August 2014, a new factory outsize Bangkok in Thailand is being constructed (with an annual production capacity of 75,000 vehicles). According to a new mid-term operating plan announced in 2011, there is a goal of increasing the number of vehicles sold in ASEAN, which was 150,000 in 2010 (with a share of 6%) to 500,000 by FY2016, and raising the share to 15%. The production system is also being doubled from 350,000 in 2011 to 700,000.

Coming just before that was Honda, which started selling an Asia-exclusive vehicle (the compact ‘Brio’) in 2011 in Thailand. The plan is to import these from Thailand to sell in Indonesia as well in 2012, to start local production in existing factories in 2013, and to switch production to a new factory to be built in Indonesia in 2014. The ‘Brio’ was set from 1.07 million yen in Thailand, but with a car from India at 710,000 yen and the like, the setting of the price is being performed flexibly to match the market environment in each country.

Currently, the production system is also being furthered, and work began on a second production line (with an annual production capacity of 50,000 vehicles) in an existing factory in Malaysia. The plan is to start production of hybrids and compact cars such as the Fit (with a local name of ‘Jazz’) in 2013. In Indonesia, work has started on a new factory (with a capacity of 120,000
vehicles) in the suburbs of Jakarta, and the plan is to start producing the ‘Brio’ and the like during 2014.

Mitsubishi came up with the name “ASEAN Challenge 12” in 2011 with the aim of a market share of 12% in five ASEAN countries. In Thailand, which has a central position in this, the plan is to double production capacity, which was 214,000 in 2010, to 460,000 in 2013. In addition to expanding production at existing factories, the production capacity of a third factory that began operations in March 2012 will also contribute.

② Non-Japanese companies: Chinese companies also enhancing market opening

As a production base for overseas companies, Ford completed a new factory in central Thailand with a yearly production capacity of 150,000 vehicles in May 2012 in order to strengthen its production system in Thailand. Until then, joint factories with Mazda had been provided in Thailand, but this time it was a capital contribution made by Ford alone, and for the foreseeable future it will produce vehicles for ASEAN, Australia, and New Zealand. GM has factories in Thailand and Vietnam, and plans to start operations at a new factory (with a production capacity of 40,000) in Indonesia in 2013.

China’s Geely Automobile has up to now consigned production from local corporations in Indonesia, but is proceeding with construction of its own factory. Cherry Automobile will also establish a knockdown production factory in Vietnam as the 17th global production base for the company and as a part of aiming for strengthened sales in emerging markets. The plan is to import undercarriages and other main components from China.

③ ASEAN strengthening its role as a global base

In addition to being a production base and a sales market, ASEAN is also an important center as an export base. The move among Japanese automobile manufacturers to position ASEAN as a part of a global strategy stands out in particular.

One example of this is the “New Mirage” compact car that Mitsubishi is producing in Thailand from July 2012 and then exporting to Japan. Mitsubishi placed the New Mirage as a global compact car, branding it an entry-level car in the emerging countries and as an eco-friendly car in the mature economies, and is producing it in the newly established third factory (with an annual production capacity of 150,000 vehicles). To Mitsubishi, Thailand is the second export base after Japan, and with sales in Thailand as the first step, the company will follow a process of expanding sales destinations sequentially in ASEAN, Japan, Europe, and the like. The Mirage was once
produced in Japan, but Mitsubishi decided to produce the New Mirage in Thailand and to reverse-import it to Japan.

In the same way, Nissan also switched production of the ‘March’ compact car in 2010 from Japan to Thailand, continuing with also producing the ‘Latio’ compact sedan in Thailand and exporting it to Japan. The Latio was developed as a global strategic car for compact sedans, and about 500,000 have been sold in over 150 countries.

It is likely that Toyota is the company taking the most advantage of Thailand as an export base (see Figure 18). Toyota exports 200,000-300,000 vehicles per year, and maintains a level about double that of the other Japanese and US manufacturers. Contributing to this is Toyota’s medium-sized IMV (Innovative International Multi-purpose Vehicle) project for the emerging countries. Shimizu (2010) notes that this project is a representative example of economic cooperation and production network formation in the ASEAN region, the key feature being putting effort in exports.

The IMVs combine a pickup truck, a minivan, and an SUV, and were launched for sale in Thailand, Indonesia, and the like in 2004. The production of the IMV straddles 12 countries, but the greatest scale is in Thailand, with Indonesia coming in second. A production system is provided where of the IMV-related components, the diesel engines are from Thailand, the gasoline
engines are from Indonesia, and transmissions are from the Philippines and India, each of these supplying to the IMV producing countries.

It is believed that the building of such an efficient production network in the region supported the steady growth of exports of the IMV. The IMVs produced in Thai factories are exported to 108 countries account the world, and the total number of units as a 2010 cumulative total exceeded 1 million. “To Toyota, the IMV was the first car not produced or sold in Japan, and its mother factory is Toyota in Thailand” (Kawabe, 2011).

According to Sukegawa (2010), with the backdrop of the AFTA, the production system of companies in ASEAN greatly changed and movements strengthened for 1) coordinating production items and engaging in mutual supply among bases, and 2) gaining sizable profit through consolidating production bases. The movement of 1) stands out for the automobile manufacturers, with the reverse-importation and the IMV being examples of that. Sukegawa (2010) also presented a case where Toyota intensively produced a specific component at factories in each country in the ASEAN region, and then supplied them to each other, and this is also cited as an example of 1) above.

Conclusion

Although there are more and more buyers of automobiles due to rising income levels, the low-cost orientation is common to each country (Wakamatsu, et al., 2012). In the past, a low cost with a high quality was a strength of Japanese products, but in recent years European cars, South Korean cars, and Chinese cars have been strengthening the same path, and despite being in a growth market, the competition in production and sales in ASEAN is expected to intensify in the future.

However, compared to other markets such as the US and China, it should be noted that the brand strength and presence of Japanese automobiles in ASEAN is extremely large. Even in the same ASEAN market it is not infrequent to have cases in other industries where the Japanese brand plays second fiddle to an overseas company, but with sales share reaching 70%, Japanese brand automobiles have an overwhelming presence.

In the past, there was hiding in the shadows of the US and Chinese markets without standing out too much, but there is no alternative but to take advantage of the asset of a production network and the brand strength with so much competitive power. To do so, investment in the areas of equipment, sales, and personnel ahead of other competitors is likely necessary, and it would be necessary in parallel to that to strengthen the strategy of making a debut from ASEAN outward.

To the government of each country of ASEAN putting emphasis on the growth of the domestic
economy, the automobile industry, which has a large knock-on effect in technology transfers and absorbing employment, should have an extremely important position. As with the Indonesian government, there are cases of deploying a strategy placing importance on environmental friendliness, and there is a higher likelihood to be able to take advantage of the strengths of Japanese companies in these areas.

Japanese businesses, which have remained true to the idea of quality craftsmanship, have been forced to greatly rethink traditional design, development, production, and sales procedures as a result of the twin waves of digitalization and of globalization. The effect of this is particularly prominent in the electrical industry. The automobile industry also cannot escape that effect, but while keeping an eye on the movement of demand in ASEAN, while proceeding with increased compactness, eco-friendliness, and reduced costs, it is hoped that the accumulation of accomplishments in production and export taking advantage of intra-regional production networks will maintain the strength of the Japanese brands that have been built up since the 1960s.

2.3 Retail: Intertwining internal and external capital and expanding store networks

With a background of an expansion in intra-regional consumption accompanying high growth, in the retail industry in ASEAN, foreign companies including Japanese companies, and furthermore the domestic companies of ASEAN have all set out at once to expand their store networks, and the turf battle is becoming ever more intense. In recent years, the ASEAN countries have been easing regulations on foreign capitalized distribution, which has also provoked competition among companies. This paper first summarizes the industry trends in two ASEAN countries (Indonesia and Vietnam), and introduces the strategies of four companies including major Japanese convenience stores Lawson and Ministop, which were the subject of a field survey. Furthermore, having touched on the movements of a major global garment retailer, the problems in the growth potential and consumer market in ASEAN are mentioned, and the ASEAN strategy of Japanese retailers in the future will be discussed.

Indonesia: One M&A after another

In Indonesia, local small-scale shops have the role of retailers, but since the government allowed foreign capitalization (with conditions) in 1998, the share of large stores has steadily expanded. In 2007, regulations on foreign capitalized retail were significantly eased, and the influx of foreign capitalization for mini markets having a square footage of at least 400 m², supermarkets of at least 1200 m², and department stores of at least 2000 m² became officially recognized. In response, foreign companies including South Korean Lotte Mart, French Carrefour, and the like arrived one
after another. Local high-class supermarkets such as Ranch Market and FoodHall, which received capital as part of the overseas Chinese network, also appeared. Indonesia has a population of 240 million, which is the fourth largest in the world, and with the hopes for a rapid expansion of its market, the country started to become a serious battlezone.

Recent developments in Indonesia’s retail sector that have stood out are: an increase in M&As, the arrival of large-scale commercial facilities alongside urban redevelopment, and a rapid proliferation of convenience stores.

Regarding M&As, the local arm of Carrefour had brought a local retailer under its umbrella in 2008, but then sold 40% of its own stock to another local company in November 2010. Carrefour announced in November 2012 that it would sell its business in Indonesia. Also, Lotte Mart acquired a local discount store in 2008, and now as of September 2012 has about 30 locations. As of November 2012, Carrefour is in the lead in the super/hypermarket sector, with 85 stores. This deployment is what the Lotte Mart and local Hypermarts/Foodmarts under the Matahari group are seeking.

There is also a rush to open stores in Indonesia by the Japanese convenience store companies. In 2009, a 7-11 opened. In August 2011, Lawson opened one store. Since then, Ministop signed an area franchise agreement with local Bahagia in July 2012, and announced that it would enter Indonesia. The plan is to open one store by February 2013. Family Mart joined with local food product and consumer good product heavyweight Wings Group to open one store in the suburbs of the capital in October of the same year, and aims to open 500 stores in 5 years.

Since foreign companies cannot provide equity to convenience store businesses due to equity limits, each company first deploys a store through an area franchise. The Japanese companies continue to consider the possibility of future regulatory easing, and at the same time are first creating a first local foothold, and will accumulate operational knowhow.

Vietnam: A rush for convenience stores to enter

On the point of foreign companies accelerating their inroads en masse and expanding business, Vietnam does not compare unfavorably with Indonesia. The Vietnamese government recognized 100% foreign capitalization in the retail industry in 2009. According to the Ministry of Industry and Trade of the country, retail sales in 2011 reached $2 trillion dong (about $90 billion), a large increase of 29.3% year-over-year. In the country, in the spring of 2011 there were 640

25 In November 2012, it was announced that all shares still held (60% of the total) in the Indonesian local affiliate would be sold to local partners (Nikkei Marketing Journal, 23 November 2012). At the same time, the 84 locations operating in the country will be turned into a franchise chain.
supermarkets, at least 120 shopping centers, and at least 1000 convenience stores, and it is said that this is not keeping up with demand. Vietnam is attractive as a market due to having the next largest population in ASEAN after Indonesia, at 90 million.

Competition among foreign companies is harsh in the convenience store industry. Family Mart founded a joint venture in 2011 with Itochu and the local Phu Thai Group, and is aiming for 40 stores by the end of 2012. With Malaysian “Shop & Go,” the American “Circle K,” and the local “G7 Mart,” domestic and foreign capitalized rivals are competing.

The super and hypermarket area is also bustling with a rush to participate. South Korean Lotte Mart announced a plan to newly open 100 stores by 2018. South Korean E Mart also announced entry into Vietnam in July 2011, and revealed a plan to open 52 stores by 2020. Furthermore, in December, Hong Kong supermarket Giant opened one store in Vietnam. The hypermarket BIG-C, a part of the French Casino Group, which has been strengthening its presence in Asia, has 17 stores in Vietnam as of July 2012. However, the plan is to nearly double this to 29 by the end of 2013.

Large deals by Japanese companies include Aeon and Takashimaya. Aeon established Aeon Vietnam by acquiring a large retail store license in October 2011. The plan is to open the first store in Ho Chi Minh City in 2014. Furthermore, Aeon announced a plan to open a second store in Binh Duong province outside of Ho Chi Minh City in August 2012.

Amidst more and more inroads by foreign circulating capital and the rapid increase in large foreign-capitalized stores, the Vietnamese government imposed an examination called the Economic Needs Test (ENT) when a foreign-capitalized retailer/food store opens its second location onward so that the existing small retailers would not be affected. The Vietnamese Ministry of Industry and Trade determines whether to grant permission after investigating the number of existing stores in the planned store location, supply/demand, and the like, but it has been noted by the foreign-capitalized companies that “it is not clear what the standards for the examination are.” Currently, this is a large barrier to deploying multiple foreign-capitalized stores, and so the government is considering an overhaul having heard the requests of Japanese companies and the like.

**Individual company cases**

Below, the strategies of four stores will be presented based on having performed local hearings: Lawson, which as a Japanese convenience store entered Indonesia in 2011, Ministop, a Japanese store that aims to open its first store in 2013, Aeon, a supermarket that has been actively spreading a store network in Thailand, and French BIG-C, a hypermarket exhibiting a presence in the Thai market as a “hero of foreign capitalizations.”
① Lawson: Keeping expansion out of Jakarta in sight

Lawson signed a license agreement with the Alfa Group, which has the major distributor and mini supermarket chain Alfa Midi in Indonesia. The first shop was opened in the capital city of Jakarta on July 29, 2011, and in the 9 months from the end of that year, opened 60 shops, expanding the store network at a high pace. As of October 2012, there are 78 stores in the country. The author visited Jakarta in mid-September 2012, and the store on Cipete laya street had opened in April of that year. It was in a residential area not far from the center of town. The square footage was about the same as the average for a convenience store in Japan. The largest feature was that an “eat-in corner” had been provided where a total of 30-40 people could sit down inside or outside. The people of Jakarta eat out frequently, and the common style that has taken hold is for 4-5 youths to go to the store and buy snacks or other food and beverages, and then to relax on site. Inside the store, wall-mounted televisions played music videos.

In addition to the national brands of soft drinks (2500-6700 rupiah), beer (18,500 rupiah) is sold since a sales license is not required for beverages with less than 5% alcohol. Sweets, snacks, and Unilever ice cream are arranged neatly, and cigarettes are placed on the counter. There were eight types of prepared meals (12,000 rupiah) including nasi goren and mi goring, which were slightly more expensive than the traditional street food, which can be had for 10,000 rupiah. Also popular were the Oden stew (about 2000-6000 rupiah), store-made beef bowls and curry bowls (about 19,500 rupiah), rice balls (7000 rupiah) and the like, and it was said to be frequented by students of the neighboring Chinese school.

According to Yuichi Hayashi, who has been dispatched from Lawson to the operating company PT. Midi Utama Indonesia Tbk as a Director, “The main-selling items are the Oden, rice balls, fried chicken, cigarettes, beverages, and the like. Converted to Japanese currency rates, sales have been slightly lower than the average per store in Japan.”

In the future, the company will look towards regional expansion. According to Mr. Hayashi, “We would like to open a store in a regional city during 2013.” Candidates include the second largest city of Surabaya on the northern coast of the island of Java, and Makassar (formerly Ujung Pandang) in the southern portion of Sulawesi Island. According to Mr. Hayashi, “We will be able to take advantage of scale [during procurement of products and the like] if we reach about 300 stores, and so we would like to aim there. The GDP per capita in this country is passing $3500. There is a lot of room to further expand consumption. In such an environment, the issue is what business model to adopt that can achieve sustained growth.”
Figure 19: Store counts for Japanese convenience stores (as of September 2012)

<table>
<thead>
<tr>
<th></th>
<th>Singapore</th>
<th>Thailand</th>
<th>Malaysia</th>
<th>Indonesia</th>
<th>Vietnam</th>
<th>Philippines</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Mart</td>
<td>754</td>
<td></td>
<td></td>
<td>25</td>
<td></td>
<td></td>
<td>779</td>
</tr>
<tr>
<td>Ministop</td>
<td></td>
<td></td>
<td></td>
<td>12</td>
<td>327</td>
<td></td>
<td>339</td>
</tr>
<tr>
<td>Seven Eleven</td>
<td>570</td>
<td>6660</td>
<td>1364</td>
<td>76</td>
<td>746</td>
<td></td>
<td>9416</td>
</tr>
<tr>
<td>Lawson</td>
<td></td>
<td></td>
<td></td>
<td>66</td>
<td></td>
<td></td>
<td>66</td>
</tr>
</tbody>
</table>

Source: Produced based on oral surveys and websites of each company.

② Ministop: Towards strengthening product development in fast food

In June 2012, Ministop concluded an area franchise agreement with PT. Bahagia Niaga Lestari, which deploys a high-quality food product supermarket “Ranch 99 Market” in Indonesia. The plan is to open the first location for a convenience store in Indonesia during FY2012. It has also been reported that the aim is to have 300 stores in 5 years, but according to Yoshiyuki Nagayama, who has been sent from Ministop as an advisor to Bahagia, “The number of stores to open will ultimately be determined in accordance with demand.” Similarly to Lawson discussed above, the retail space includes an “eat-in corner” and the plan is to respond to the needs of the customers.

Among Japanese convenience stores, Ministop is said to be strong in the area of fast food, and the idea is for the company to put effort into product development in this area in Indonesia as well. However, according to Nagayama, “the food from street vendors is cheaper, and prepared meal boxes might still be difficult.”

President Director Nugroho Setiadharma of PT. Supra Boga Lestari Tbk., a group company that is advising the business deployment of Ministop, states, “Ministop is not like the existing mini markets like [the local] Alfa or Indomaret, and instead competes with the retail companies upholding new business forms such as Seven Eleven. As place that is freely approachable to consumers, we would like to draw in the type of customer who would go to Starbucks Coffee. The potential is very large.” Regarding products, he indicates high hopes: “We would like to launch new attractive products centered on chicken. [Ministop’s] fast food is easy, high in quality, and competitive.”

As a regulatory problem when deploying stores, while saying “of course we will obey the law and obtain necessary licenses,” he frankly notes that “currently, there is a license for supermarkets [under the jurisdiction of the Ministry of Commerce], and a license for fast food [Ministry of Tourism], which are issued by different agencies, and there are also problems with the taxes to be paid being different for each.”
Aeon: Hopes for a food-product-centric supermarket

Thailand is experiencing rapid urbanization, and Aeon (Thailand) Co., is vigorously engaging in enhancing its network of stores in Thailand, where rapid urbanization is underway. As of September 2012, it has opened 17 supermarkets and 31 urban mini-supermarkets called “Maxvalu Tanjai” deployed centered on Bangkok, resulting in a total of 48 locations. The goal is to expand to around 60 stores by the end of 2012, and in the future to achieve the milestone of 100 stores. Compared to the 13 locations at the end of 2010, this would be roughly an 8-fold increase. With three locations opening in Bangkok in July 2012, and one Maxvalu and two Tanjais opening in September, it seems as though there are new openings practically every month.

One Maxvalu location is in Laksi, which is in the suburbs to the north of Bangkok. The sales area has side dishes, prepared box meals, beverages, and the like, and there are also frozen foods arranged neatly. Japanese food such as sushi and tempura also stand out. Managing Director Kenichi Hirao from the local affiliate of Aeon Thailand states, “We are putting effort into the side dishes and prepared box meals. Eating out [at street vendors] is common practice in Thailand, but there are more and more people concerned about the sanitation aspect, and so an opportunity is arising for supermarkets as well. With their refined palates, Thai people can readily accept Japanese cuisine as well.” It is common for both husband and wife to work, and microwaves have become common, and so it is said that side dishes and frozen foods sell well.

Director Hirao mentions that “there are many cases where the ‘Tanjai’ stores are tenants in the first story portion of a condominium block.” There are cases where the building owners themselves directly invite the tenancy, and so despite skyrocketing land prices, a degree of cost advantage is being maintained. With the extension of the BTS (elevated train system), condominium blocks that will be by the train station are being built, and so store opening opportunities are expected to increase. While there are those who note that there are too many large retail shops in the Bangkok city proper, Director Hirao has high hopes for growth potential: “There is still quite a need for food-product-oriented mini-supermarkets. Particularly for weekday shopping, there are many people who go to nearby supermarkets.”

Regarding expansion of stores to the regions, the answer was “not yet.” In April 2012, the minimum wage in 7 provinces including Bangkok was revised to 300 baht per day. The plan is that starting in 2013, the remaining 70 provinces will be raised up to the uniform 300 baht rate. Compared to the situation at the end of March 2012, this will be a 40-90% increase. Related to this, Director Hirao is of the opinion that “if the employment opportunities do exist, then the income level in the regions would rise, resulting in opportunities for the retail industry.”
BIG-C

It was the hypermarket chain BIG-C owned by French company Casino Group that acquired all 42 locations of Carrefour when the latter decided to withdraw from Thailand in November 2010 for about 96 billion yen.

As of September 2012, the Thai affiliate BIG C SUPERCENTER PUBLIC CO., LTD. has a total of 113 locations in Thailand including large and medium sized shops. The plan is to expand this to 300 by 2016. There are also plans for “Mini Big-C” shops, which are classified as convenience stores, to expand from the current 90 locations to 125 at the end of 2012, and ultimately to 950 locations.

Director of Corporate Affairs Kudanara Nagaviroj judged that “the effect of acquiring Carrefour has been more than expected. Marketing costs have dropped, and negotiating power during purchasing has increased.” Considering that “the city of Bangkok is saturated with oversized shops, and land costs are also skyrocketing,” Nagaviroj revealed the idea to focus the future opening of locations in regional cities with marked purchasing power increases.

It is unique that the opening of locations at the border region was considered in the first place. For hypermarkets, candidate locations for new stores include the major tourist areas of Chiang Mai, Phuket, Pattaya, and the like, plus Mukdahan and Udon Thani near Laos to engage shoppers coming across the border. The currency of the Thai baht can also be used in Laos, which is a neighboring country that belongs to the so-called “baht economic zone.” Business power will be reinforced at the border zone, targeting Laotians whose consumption demand is increasing along with rising incomes.

Responding to the tastes and desires of increasingly sophisticated customers is also being emphasized. Since “Thai customers desire shopping that is convenient, quick, and has refined style,” member benefits and a two-week money-back guarantee have been introduced. Already, the disclosure of the farming and breeding methods for perishable foods, freshness checks every two hours in the stores, and the like are being implemented. With online shopping as a given, free delivery is being offered to customers whose purchase is at least 15000 baht. The in-store pharmacy “Pure” has now extended to 90 stores, and is said to be well-regarded.

Business expansion problems

In the ASEAN retail sector, there are problems with the business environment. These are protectionist moves by governments. In each country, traditional ultrasmall retailers such as the pasar (markets) and warung (food stalls) in Indonesia and the sari-sari stores (variety stores) in the Philippines are still in good condition as a tightly knit part of current-day city life, and have
According to JETRO, the ultrasmall “traditional unorganized retail shops” in Vietnam that are mainly family-owned have a 95.7% share, and in Indonesia as well reach 92.7%. Even in Thailand, where large foreign-capitalized distributors are expanding a step ahead of the previous two countries, 80.2% of the retail market is held up by these traditional retailers.

These ultrasmall retailers are numerous and have large political influence, and so they cannot be ignored by the governments and governing parties of each country. The fact the Indonesia does not recognize direct participation of foreign-capitalized companies in the convenience store market is due to protecting these ultrasmall businesses. The regulation of store-opening location discussed above in the context of Lawson also has a similar aim. In September 2012, the governments of both countries released a policy of limiting the number of directly-operated stores to 150 regardless of foreign or domestic capitalization for small retailers (convenience stores, supermarkets, and the like) that have obtained a franchise license. Through this can be seen the intention to take into consideration ultrasmall businesses with the inclination to expand profits as a franchisee of a major convenience store.

As in the case of Indonesia, where democratization progressed at once after the fall of Suharto’s authoritarian administration, there is the possibility that in the ASEAN countries, governments will in the future be pressed to take into account the voices of the people even more than has been conventional in order to respond to issues such as reducing income disparities and democratizing governments. It can also be imagined that policies will turn inward and the protection of local ultrasmall businesses in the retail sector as well will become further committed to. Regulations from religious and pedagogical points of view certainly exist. For example, it is not uncommon for supermarkets, convenience stores, and the like to be restricted from opening stores in the vicinity of schools, temples, and such. As discussed earlier, even in Thailand where the degree of freedom of business operations is relatively high, the times of the day when alcohol can be sold are minutely regulated. Certainly in Indonesia where Muslims are the overwhelming majority of the population, care must be taken in the handling of alcohol and pork, which they avoid.

The intensified competition, rise in land costs, wages, and personnel costs, and the like resulting from the rush to open stores are starting to affect revenues in the retail industry. Shopping malls were opened one after another in downtown Singapore, but sales were sluggish and there are cases where stores have no choice but to close. In Indonesia where in the capital of Jakarta alone there are 73 (as of September 2012) malls crammed in, the popular malls have waiting lists for tenant

---

26 The times when selling alcohol is permissible are 11:00-14:00 and 17:00-24:00, it is prohibited on the day before and day of Buddhist holidays and elections, etc.
stores that are 200 lines long, but the government has frozen approvals for new construction of large commercial facilities, and so it is expected that the supply of malls will drop significantly through 2014.

Conclusion

In the ASEAN countries, along with economic development, it is predicted that business opportunities for the retail industry will further expand. It is also inevitable that competition between domestic- and foreign-capitalized companies will become much more fierce. In places like Singapore and Thailand, there is already starting to be the sense that there is an oversupply of shopping malls and large supermarkets. There is also the possibility of a weeding out process taking place within industries. Handling skyrocketing personnel costs and land costs and cultivating human resources with skills will be major issues.

It is likely that among foreign-capitalized retailers in the future, there will be an increasing tendency to aim to strengthen business operations in Indonesia, Vietnam, and Myanmar, where even among the other ASEAN countries, the populations are relatively high and the levels of income are relatively low. However, just as Indonesia has regulations for protecting ultrasmall businesses, these countries are considered to have many diverse barriers to business such as through land acquisition and store opening rules, even in the context of ASEAN. The fate of these barriers is deeply connected to the movements of the government, and so it will become ever more important for companies that are making inroads to reinforce their own information-collection abilities and to make that useful to management.

The overseas sales rate of Japanese distributors is generally low compared to their counterparts in the West. According to JETRO, among the supermarkets and hypermarkets the overseas sales rate of Carrefour is 61.3%, and of British Tesco is 32.9%, whereas in Japan, the number for Seven & I Holdings is 30.6%, and for Aeon is just 5.4% (all FY2010).

Amidst such circumstances, as touched on in the main section above, Japanese convenience store companies have intensified their shift abroad, and already the net rise in stores overseas of the top five companies has reversed the domestic situation, and there was a 1.5-fold increase in FY2011. In September 2012, Family Mart decided on a capital tie-up with Thai distribution heavyweight Central Group, and set out to use the leverage of business in Asia. In October, a plan was finalized to enter the Indonesian market. Ministop, which is under the Aeon umbrella, is moving forward with an investigation of expanding to Myanmar.

To Japanese retailers, which are facing a shrinking and aging population in the home market, expanding overseas revenue is vital to their survival. When doing so, China, India, as well as
ASEAN, with its significant role in emerging Asia, are leading targets of business expansion. However, there is no uniformity among the ASEAN countries in terms of developmental level, religion, or culture. When making a foray, while seeking cooperation with a local business, there is the need to establish methods and styles that take into consideration the situation in each country. Support for business expansion overseas from the Japanese government and public organizations is called for through providing investment and market information, efforts in diplomacy in order to facilitate trade and investment, and the like.

References

Kawanabe, Nobuo. (2011) *Taitoyota no keieishi [Managerial history of Toyota Thailand]*.


http://www.jetro.go.jp/world/asia/reports/07000338


JETRO Tsusho Koho.


Europe Aid Co-Operation Office (2005) “New Business Opportunities for EU Companies in the ASEAN Area”


——— (2012b) “LG Electronics and Subsidiaries”


Smitha Francis (2011) “0A Sectoral Impact Analysis of the ASEAN—India Free Trade Agreement”

Economic & Political Weekly January 8 2011

Statistical materials (automobile-related)

### ASEAN
- Asean Automotive Federation (AAF)

### Thailand
- Thai Automotive Industry Association (TAIA)

### Singapore
- Motor Traders Association of Singapore (MTA)

### Philippines
- Chamber of Automotive Manufacturers of the Philippines, Inc (CAMPI)
  - [http://campiauto.org/stats-2012.htm](http://campiauto.org/stats-2012.htm)

### Vietnam
- Vietnam Automobile Manufacturers' Association (VAMA)

### Thailand
- The Association of Indonesia Automotive Industries (GAIKINDO)
  - [http://www.gaikindo.or.id/](http://www.gaikindo.or.id/)

### Malaysia
- Malaysian Automotive Association (MAA)