

World Focus

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VIEWPOINT

Korean Lessons for Competitive Success

The Winter Olympics in Vancouver recently drew to a close. This quadrennial festival of sports includes some events that we do not often see, and many of the scenes were gripping to watch on TV. In Japan's case, the competition that drew the greatest attention—and the highest ratings—was the women's figure skating, which unfolded as a battle between South Korea's Kim Yu-na and Japan's Mao Asada. South Korea certainly made its presence felt in Vancouver, coming away with six gold medals, including Kim's, and 16 medals in all, placing fifth in the world by this measure.

The Olympics are billed as a festival of peace, but they are at the same time a stage on which countries compete to show their might. So, even though the events are sporting, the rivalry is intense, and the results are emblematic of the rise and fall in countries' power profiles.

South Korea's higher profile is not limited to the Olympics and other sporting arenas, such as ladies' professional golf; it has also become prominent recently in the world of business. Names like Samsung and LG have taken top place in the global markets for products ranging from flat-screen TVs to semiconductors and mobile phone handsets, and

Hyundai Motor is now expanding its sales in China, India, and other emerging economies. These companies' successes are attributed to the strategies that they have tailored to match the needs of each market.

A news story that was of particular note in this connection was the report that a consortium led by the Korea Electric Power Corporation won the contract for construction of a set of nuclear power plants in the United Arab Emirates. It is a huge project, involving a total of \$40 billion, including operational support funding. Reportedly the top-level sales effort by President Lee Myung-bak was instrumental in closing the deal. Here too we see South Korea's strategic approach at work.

The emerging countries now face the need to undertake major improvements in their social infrastructure, including water supply and sewerage systems, electric power supplies, railways, roads, airports, and seaports, in order to keep up their economic growth. It has been estimated that the total demand for infrastructure in the world between now and 2030 will be more than \$40 trillion. By its nature, infrastructure is highly public, and in international competition for contracts it is crucial to have government support in

various forms, including institutional finance and trade insurance. Success depends to a considerable degree on the integrated strength of the nation.

A prime example of integrated national strength at work is seen in China's success in quickly springing back from the global economic downturn, which it was able to do by fully tapping the power of its state capitalism.

At the Olympics, victory ultimately depends on the prowess of the athletes themselves. In the business arena as well, success in winning contracts depends largely on the competitive prowess of the companies involved—but, like it or not, governments are coming to play an increasingly important role. We have entered an age in which Japan's corporations may be unable to make their way on the global stage unless they can work together with the Japanese government to tap the nation's integrated strength.

■ *Akio Okawara, February 5, 2010*

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GLOBAL NETWORK

This column presents selected topics and trends viewed from the perspective of members of the Sumitomo Corporation Group working on the front lines of its global business network.

China: Springtime in the northeast

China's three northeastern provinces, Liaoning, Jilin, and Heilongjiang, are richly endowed with natural resources including oil, natural gas, and coal, and they are also a major source of corn, soybeans, rice, and other agricultural products. Jilin and Heilongjiang also have extensive forests. The three provinces all achieved economic growth rates of more than 11% last year, well above the national figure of 8.7%, and they are playing important roles in the development of the Chinese economy.

The province of Liaoning is part of both the northeast coastal economic zone and the Bohai Sea rim economic circle. It includes the city of Dalian, which functions as the international logistical hub and financial and economic center for the northeastern provinces; about 600 Japanese companies have operations there. Shenyang, the province's capital city and administrative center, has thriving automobile and automobile parts industries.

Jilin is centermost of the three provinces, bordering Russia to the northeast and North Korea to the southeast. Changchun, its capital, is the province's administrative, economic, and cultural center, and it is also the site of China's first automobile manufacturer, First Automobile Works Group. In addition, it is China's biggest railway car development, production, and export base,

home to Changchun Railway Vehicles Co., which produces the Shinkansen-based CRH2 model trains used for some of China's high-speed rail service.

Heilongjiang is the northernmost of China's provinces, bordering Russia to the north and northeast. It has developed as a base for heavy industry, including such companies as Harbin Electric, and it also has a highly developed agriculture and forestry sector, serving as China's top producer of sunflowers, soybeans, and flax and leading the country in the amount of timber felled.

The three northeastern provinces, which are all achieving steady development, are also a popular destination for tourists from Japan and Russia. It is a region full of vitality, and its springtime is now arriving.

■ *Xing Tao, Changchun*

Ukraine: A country looking both east and west

Ukraine has an area of 600,000 square kilometers, about 1.6 times Japan's, a population of 46 million, a "black earth" belt of fertile soil, and a steel industry that accounts for about 40% of gross domestic product, centering on the iron ore and coal endowments in the eastern part of the country. In the part of the country to the east of Kiev (Kyiv), the capital, the majority of the population is Russian-speaking; to the west, meanwhile, the further one goes, the more one finds Ukrainian used exclusively. The east tends to look to Russia, and the west to Europe.

The global financial crisis of 2008 dealt a heavy blow to Ukraine, with its fragile financial foundations and lack of political stability. The

country's currency depreciated by about 70%, and it was forced to rely on emergency support from the International Monetary Fund in order to avoid default. GDP in 2009 was down 15% from the previous year. Toward the end of the year the economy started to show signs of picking up, including improvement in exports, but unemployment continued to be above 9%, and people in the east were feeling great discontent with the government. It was in this context that Ukrainian voters went to the polls on January 17 to elect a new president.

The two top vote getters in the first round of voting were Prime Minister Yulia Tymoshenko and Viktor Yanukovich, whose support base is in the east and whose election as president in 2004 was overturned by the "Orange Revolution." In the second round of voting, which pitted these two against each other on February 7, Yanukovich emerged victorious. He won by a substantial margin of 890,000 votes, reflecting popular discontent with the deterioration of the economy under Prime Minister Tymoshenko. But as many as 1 million voters, or more than 4% of the total, cast ballots indicating they supported neither of the two. The outcome reflects the fact that the instability of the government since the Orange Revolution has led to widespread distrust of politics among the Ukrainian people.

After his inauguration as president on February 25, Yanukovich started his five-year term with moves to balance Ukraine's foreign policy between the European Union and Russia. He headed to the headquarters of the EU in Belgium for his first foreign trip; Russia was his second destination. The people of the coun-

try, located between Europe and Russia, are hoping for an economic recovery and for stability in both domestic and foreign affairs.

■ *Shiro Nishioka, Kiev*

Vietnam: Seeking regionally balanced development

Vietnam is a long country from north to south. It is a distance of about 1,200 kilometers in a straight line from Hanoi, the capital, in the north to Ho Chi Minh City, formerly Saigon, in the south. The climate differs greatly: Hanoi has four seasons, but in Ho Chi Minh City the weather is tropical throughout the year. And while the streets of Hanoi retain some of the quiet feel of traditional rural communities, the atmosphere is more free-wheeling in Ho Chi Minh City, which has been linked to the rest of the world economically ever since the eighteenth century as a distribution center for rice and as an international trading city.

In economic terms, Ho Chi Minh City is more prosperous than Hanoi: As of 2006 its residents had an average monthly income of 1.48 million dong (\$93), against 1.05 million dong (\$66) for Hanoi residents. This can be attributed to the fact that it was quicker to take in foreign capital and has built up an industrial base. In recent years, however, the north-south gap in terms of industrial locations has narrowed. Since the 1990s there has been a drive to attract foreign investors mainly to the north, and numerous foreign companies, particularly from Japan, set up large-scale manufacturing facilities in that part of the country. Development of the central part of the country has also been progressing. Recently Da Nang, the main city of the central region, has attracted attention as the eastern end of the East-

West Economic Corridor in the Greater Mekong Subregion. And Dung Quat, about 100 km to the south of Da Nang, is the site of Vietnam's first oil refinery. It was completed in 2009 and is expected to turn out a volume of petrochemical products equivalent to 30% of Vietnam's total demand.

Vietnam is currently keeping up rapid economic growth. However, in order to maintain the rise of the country's economic strength, it will be important to achieve regionally balanced development and a sense of national unity among the people. With two major national projects, a high-speed train system linking Hanoi and Ho Chi Minh City and a north-south expressway, the government is showing its determination to pull this long country together.

■ *Toshiro Takayama, Hanoi*

Tohoku, Japan: Hopes for a boost from a new bullet train link

The six prefectures of the Tohoku region, occupying the northern portion of Honshu, Japan's biggest island, extend across 63,000 square kilometers, accounting for 17% of Japan's total area. But their population is only about 7% of the national total, and it is scattered across the region, centering on the prefectural capitals. So one of the key issues for regional development has been the improvement of transportation infrastructure to facilitate movement both within the region and between the region and the Tokyo area. In December this year the Tohoku Shinkansen bullet train line of East Japan Railway Co. (JR East), which currently extends north from the capital as far as Hachinohe, is scheduled to start service on a new section linking Hachinohe with Shin-Aomori Station, serving the capital city of Aomori Prefecture at the

northern end of the region. This will make it possible to travel from Tokyo to Aomori in three hours and 20 minutes.

The existing bullet train lines, including the Yamagata Shinkansen and Akita Shinkansen, already reach all six prefectures of Tohoku, and with completion of the Hachinohe-Aomori segment, the high-speed rail network will link all six prefectural capitals. Construction of the new line to Aomori cost a total of ¥459.5 billion, and it is hoped that its opening will create positive economic effects.

The JR East's Shinkansen General Rolling Stock Center is located in Tohoku about 15 km northeast of Sendai Station on the Tohoku Shinkansen. This extensive facility employs a workforce of over 1,200 people handling a wide range of operations on the approximately 1,200 railway cars of JR East's Shinkansen system, including those of the Nagano and Joetsu lines, extending from everyday maintenance to periodic complete checks, remodeling, the bringing in of new cars, and the scrapping of old ones.

Progress is also gradually being made on other types of transportation infrastructure within this region, and the improvement in accessibility is helping support industrial development. In addition to industries like electronic parts, information-technology devices, and semiconductors, the region also has a growing collection of plants set up by automobile companies, such as Central Motor Co. The construction of the new Shinkansen line and other infrastructure projects have created jobs and have led to temporary increases in demand, but even more important is their ongoing impact, including the indirect effects of the projects and the demand relating to maintenance, control, and operation of the new infrastructure.

■ *Motoyasu Hazama, Sendai*

WORLD OPINION

Toyota CEO undergoes congressional grilling

On February 24 Toyota Motor's President Akio Toyoda appeared before a US congressional committee to offer testimony concerning the recent string of problems involving the company's cars. The questioning was harsh; at hearings like this, both legislators and witnesses are very intent—and the members of Congress are all the more so in election year when a hearing is the target of close media scrutiny, as this one was. It offers them a superlative chance to raise their own profile.

I went to sit in on the hearing and allowed what I thought would be ample time, arriving two and a half hours before it was to begin. But due to the very long line, I ended up waiting six hours before I finally gained admission to the hearing chamber. When I went in, the executives from Toyota were raising their right hands and taking an oath. Looking around the room I saw some American employees from Toyota who had come to show their support for the company; they could be recognized by their badges carrying the words "I am Toyota in America."

When the chief executive officers of the Big Three US motor companies, which had been forced to seek government bailouts during the recession, came to Washington to give congressional testimony, they came under a relentless verbal barrage, and one of them even lost his job afterward. By comparison with that, the grilling this time was actually relatively tame. Perhaps lawmakers were taking consideration of the \$18 billion that Toyota has invested in the United States and the

170,000 people that work for it directly or indirectly. Or perhaps they were restraining themselves to avoid the appearance of a conflict of interest, inasmuch as the US government has become a big shareholder in General Motors and Chrysler as a result of the rescue packages it implemented. It is also possible that they were simply unable to muster the same sort of harsh words for a Japanese CEO like Toyoda, whose demeanor is so different from that of American executives. But one thing is for sure: The picture has definitely changed from back in the days of "Japan bashing" over bilateral trade friction. Toyota has established itself as an American company, and quite a few members of Congress spoke up in its support.

The gauntlet of the current round of hearings will wind down this week, but the criminal investigation has not yet even started. Future developments will also have a major bearing on the prospects for civil product liability suits. The troubles of Japan's top automaker may well heat up again before they are over.

■ *Ryota Yoshimura, Washington, March 2, 2010*

Intensifying international competition for nuclear plant orders

On February 16, US President Barack Obama announced that the federal government would provide loan guarantees for the building of next-generation nuclear power plants. There are currently more than 100 nuclear power plants in operation in the United States, and they supply about one-fifth of the country's electric power. But no new nuclear plants have been built for over 30 years.

The move to promote nuclear power in the United States reflects the view that it can both reduce emissions of carbon dioxide and promote job creation, which is a major priority for the administration. In an editorial on February 20, the *Washington Post* wrote favorably about nuclear power generation: "The merits of nuclear power have been debated for years. Such power has drawbacks, not least the waste that reactors produce and that the government cannot decide where to store. But given that nuclear power produces essentially no carbon emissions, it's an appealing option for consistent and relatively clean electricity generation." And in a February 18 editorial, the *New York Times* noted the improvement in the nuclear industry's safety record and the advances that have been achieved in nuclear power technology.

Moves to build nuclear power plants have also emerged recently in a number of other countries. At the end of December the United Arab Emirates awarded a major order for construction of nuclear reactors to a consortium led by Korea Electric Power. South Korea's President Lee Myung-bak, who was formerly chairman of Hyundai Construction and is quite familiar with the nuclear power plant business, visited the UAE to support the consortium's bid.

Vietnam is also now undertaking nuclear power plant construction projects. The contract for the first plant, which will be constructed in the south, has already been effectively awarded to Russia, but Japanese and French and other companies are now vying for the contract for the second one. The competition for nuclear business is heating up both in the Middle East and in Asia.

■ *Masahiko Adachi, March 2, 2010*

ECONOMIC TRENDS

According to figures released by the Cabinet Office, Japan's gross domestic product grew by 1.1% in real terms from the previous quarter in October–December 2009, marking the third consecutive quarter of expansion. Exports and consumer spending both continued to increase, rising by 0.5% and 0.7%, respectively, and capital investment registered a positive change for the first time in seven quarters, increasing by 1.0%. The contribution of domestic demand turned positive, at 0.6 percentage points, showing that the pickup in exports has been extending to the domestic sector in such forms as capital investment. The GDP gap shrank from -7.0% in July–September to -6.1% in October–December, but this still amounts to a substantial ¥30 trillion shortage of demand, and thus the deflationary pressure remains strong.

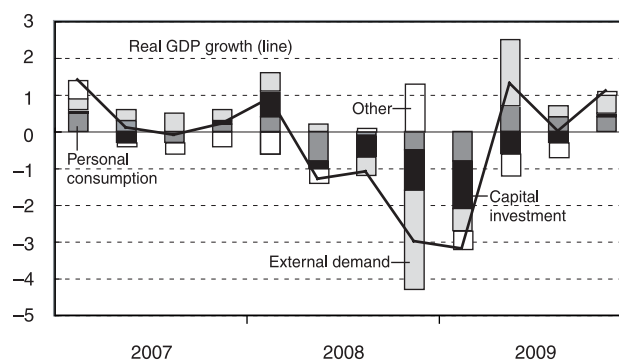
In the United States, the recovery has been spotty. Production activity continues to follow an upward trend, but consumer sentiment has deteriorated, and residential sales have been falling again despite the earlier improvement resulting from tax cuts and other policy support measures. Aiming to return monetary policy to a more normal footing, the Federal Reserve Board decided to hike its discount rate from 0.5% to 0.75% on February 19. But the prospects for the economy are still shrouded in uncertainty, and there is little chance that the Fed will move in the near future to tighten policy by raising its benchmark short-term interest rate, the federal funds target rate.

In the euro area, the recovery power of domestic demand has been anemic, and the smoldering sovereign risk problems of Greece and other countries have also been acting as a drag, causing the upturn to lag behind those of Japan and the United States. Real GDP grew by 0.1% over the previous quarter in October–December; though the figure was positive, it was down from the 0.4% recorded in July–September.

According to the China Federation of Logistics and Purchasing, China's purchasing managers' index for manufacturing was 52.0 in February, down from 55.8 in January; it was the lowest level for the PMI in a year. The decline is seen as reflecting the impact of the Lunar New Year holidays, a temporary factor. Meanwhile, however, the authorities have shifted their monetary policy from accommodative to a neutral stance in the face of the emergence of inflationary pressures and concerns over an asset bubble, and the prospect of a slowdown in the pace of growth is becoming widely accepted.

Real GDP Growth, Japan

(%, quarter-on-quarter change)



Source: Cabinet Office.

In India, meanwhile, the Central Statistical Organisation released figures on February 26 showing that GDP in October–December was up 6.0% in real terms from a year before. This was a slower pace than the 7.9% rate recorded in July–September, but the deceleration is seen as temporary, being attributable to the weather-related decline in agricultural production, which fell by 2.8%. The manufacturing sector recorded an increase of 14.3%, and 10.0% growth was seen in the category of trade, hotels, transport, and communication. According to the outlook on the economy released by the Ministry of Finance on February 25, the real GDP growth rate for fiscal 2009–10 (ending March 2010) is expected to be 7.2%, accelerating to around 8.5% in fiscal 2010–11.

The emerging countries of Central and Eastern Europe have been suffering severe aftereffects from the financial crisis, and they have been slower to recover than Asia's emerging economies. But there is a growing trend to reconsider their prospects more favorably by comparison with those of Greece and other southern countries in Europe, where debt problems have become a serious concern. Even so, the budget deficits in the countries of Central and Eastern Europe have swollen, leaving them with little margin for fiscal stimulus, and so they will still probably require official support from outside sources, such as the International Monetary Fund and the European Union, in order to achieve sustained recoveries.

■ *Soichi Okuda and Ayako Tanabe, March 3, 2010*

INDUSTRY TOPICS

Spread of business using magazine supplements

Japan's magazine publishers are facing a severe downturn, reflecting the impact of the increasingly widespread availability of information provided for no charge over the Internet. Total sales of magazines in 2009 came to ¥1,086.4 billion, below the previous year's level for the twelfth straight year. Last year's figure was 31% less than the peak level recorded in 1997. As a prospective savior for the troubled industry, magazine publishers are now focusing on the use of lavish supplements.

Lavish supplements became an option in 2001 following a relaxation of the rules of the Japan Magazine Publishers Association, but initially few of the supplements were sufficiently attractive to get more people to buy the magazines, and so the hoped-for increase in sales failed to materialize.

In 2007, however, the picture changed. Women's fashion magazines scored dramatic hits with supplements produced in collaboration with popular brands, and one recorded a more-than-fivefold increase in its sales. This put supplements back into the limelight. The addition of supplements that were both of high quality and carried the logos of popular brands made buyers feel that they were getting bargains. This proved attractive to price-conscious consumers during a period of economic downturn. In addition, the fact that the items in the supplements were available only to purchasers of the magazines added a certain "scarcity value" to them, making them all the more popular.

In addition to the supplements produced in collaboration with brands, which set off the boom, a variety of different types of supplements have emerged, such as ones featuring CDs and DVDs, cosmetics, cooking

kits—and even a write-your-own-will kit. Meanwhile, the target market has been broadening to include men as well as women and to extend to children and seniors in addition to young adults. As of 2009, products with supplements accounted for 15% of sales by value out of the 500 top-selling books and magazines. And according to one survey, more than 60% of consumers say they have purchased a magazine because they were attracted by the supplement.

One factor that has made lavish supplements possible is the effort that has been exerted by magazine publishers, including their moves to cut costs through offshore production. But another major element is the active cooperation by advertisers in producing the supplements; they have reevaluated the worth of magazines as an advertising medium that allows them to present consumers with samples of their actual products and to convey their message across a wide range.

Japan's magazine distribution network is said to be the most highly developed in the world. It allows advertisers direct access to consumers through 15,000 bookstores and 40,000 convenience stores across the country. One new CD that was put on the market late last year in the form of a magazine supplement rather than through the usual music distribution network sold 40,000 copies in a single week. And it seems quite possible that new uses of the magazine distribution network will continue to spread.

For publishers, supplements are attractive as a way of countering the decline in magazines' prominence caused by the spread of the Internet: They enhance the value of the magazines, offer the prospect of winning new readers, and also make it possible to deliver more effective advertising. These supplements are now the object of great expectations as a catalyst to increased sales in an industry that has been lagging.

■ *Michiko Imuta, March 3, 2010*

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