Section 4 Mekong, India, and Africa – Regions with rich potential

Amidst the increasingly severe domestic business environment, there has been a rise in Japanese companies that are working to expand overseas in search of markets or to develop new projects. As a destination for this corporate business expansion, the importance of the Mekong region continues to increase. There is also the potential for further development of economic ties with India, with its large population and high level of economic growth. Some companies that are considering India as an export base have emerged, as opposed to focusing on its domestic market. Signs of growth are beginning to appear in some parts of Africa, which is not only a supplier of abundant natural resources, but also holds possibilities as a future market. In these countries and regions with rich potential, Japan intends to proactively provide assistance so that both the donor side and the recipient side may accelerate growth.

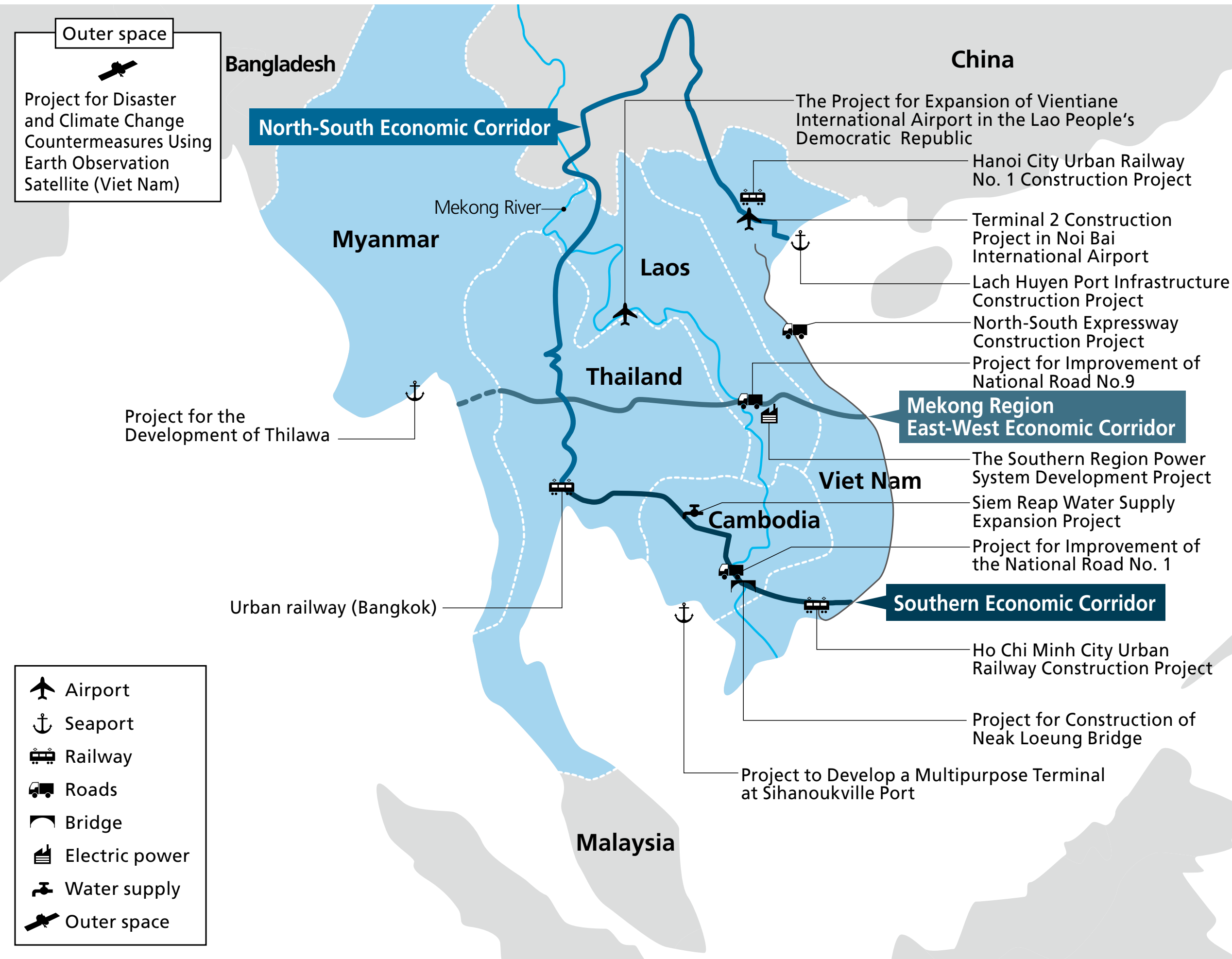
1. Mekong

Many of the countries in the Mekong Region of the Mekong River Basin (Cambodia, Laos, Myanmar, Thailand, and Viet Nam) have experienced long periods of war and conflict. Even after the war in Viet Nam that lasted for more than 30 years until 1975, tragic massacres under the rule of Pol Pot continued in Cambodia. Finally, with the Cambodian peace agreement in 1991, peace was established over the entire region, albeit a mere 20 years ago. During this time, the Japanese government consistently contributed to stability and development in the Mekong region, treating it as a pillar of Asian diplomacy. The countries in the Mekong region have all traditionally been pro-Japanese and possess a wealth of natural resources and workforces. Japanese companies have a particularly high level of interest in the region. Unlike other ASEAN countries, Mekong region countries are landlocked with adjacent national borders. There are vast inland areas that remain undeveloped. In other words, intra-regional cooperation for development in areas, such as infrastructure development and resource development, is indispensable. Based on this point, the Japanese government is cooperating for the development of infrastructure and industry in the Mekong region, while grasping the specific needs of the industry active in the region. In addition, Japan is also proactively working to assist intra-regional cooperation for regional development.

Japan has a close relationship with countries in the Mekong region. The Mekong-Japan Foreign Ministers' Meeting has been held every year since 2008 and the Mekong-Japan Summit Meeting has been held annually from 2009. At the Fourth Mekong-Japan Summit Meeting held in Tokyo in April 2012, the Tokyo Strategy 2012 was adopted to put forward a new vision for Mekong-Japan cooperation with the target year of 2015. Within this strategy, new pillars for cooperation were established and include "enhancing Mekong connectivity" (support for intra-connectivity), "developing together" (facilitation of investment and trade), and "ensuring human security and environmental sustainability" (support for disaster risk reduction, maternal and child health, etc.). In addition, as a tangible means of achieving these goals, Japan pledged approximately ¥600 billion in ODA for a period of three years after FY 2013 and presented a list of 57 flagship infrastructure projects for each country with an estimated total worth of about ¥2.3 trillion. These include the following projects: improvement of National Road No. 9 as East-West Economic Corridor of the Mekong region; developing Southern Region Power Systems Development Project in Laos; the Project for Constructing the Neak Loeung Bridge in Cambodia (South Economic Corridor of the Mekong region); and a project for developing Thilawa special economic zone in Myanmar. Furthermore, the "Mekong-Japan Action Plan for Realization of the Tokyo Strategy 2012" was adopted at the Fifth Mekong-Japan Foreign Ministers' Meeting held in Phnom Penh, Cambodia in July 2012.

With the increase in infrastructure construction and operations conducted through public-private partnership, projects using ODA are also being conducted based on proposals from Japanese companies and with the prerequisite of using ODA loans for project implementation. Specifically, these projects include the implementation of the Lach Huyen Port Infrastructure Construction Project, and the Utility Management of Environment-Friendly Industrial Parks and Water Supply Project" in Long An Province using Private Sector Investment Finance, both in Viet Nam. Surveys are also being conducted towards project formation for the Long Thanh International Airport Construction in Viet Nam.

Cooperation using Japanese ODA in the Mekong Region (primary infrastructure)



Cambodia	Thailand	Viet Nam	Myanmar	Laos
Capital: Phnom Penh	Capital: Bangkok	Capital: Hanoi	Capital: Naypyidaw	Capital: Vientiane
Population: 14.3 million	Population: 69.52 million	Population: 87.84 million	Population: 62.42 million	Population: 6.29 million
Per capita GDP: $900	Per capita GDP: $4,971	Per capita GDP: $1,412	Per capita GDP: $804	Per capita GDP: $1,320

Source: World Bank Statistics (2011 values). Statistics for Myanmar only from IMF statistics. (2011 estimated values)

Project to Improve National Road No. 1 in Cambodia
Children can commute to school safely on walkways where repairs have been completed. This type of road continues all the way to Neak Loeung.
(Photo: Satoshi Takahashi/JICA)

Project for Construction of Neak Loeung Bridge in Cambodia
Vietnamese engineers survey the planned site for construction of the Neak Loeung Bridge. (Photo: Koji Sato/JICA)

2. India

The number of Japanese companies hoping to expand into India continues to rise. As the domestic market shrinks due to the effects of an aging population and low birth rate, there are many companies that perceive India as the next largest market after China. Coupled with the high rate of economic growth in recent years (8.5% growth rate for average Gross Domestic Product (GDP) from 2006 to 2011), as of October 2102, the number of Japanese companies that have expanded into India has risen to 926. The amount of trade between Japan and India also went from ¥495.8 billion in 2002 to ¥1.4253 trillion in 2011. Direct investments increased greatly from ¥18.7 billion in 2002 to ¥221.5 billion (provisional value) in 2012.

The Indian government has also become more open to accepting foreign capital by easing restrictions, etc., and many Japanese companies are focusing their attention on the country and its high potential for growth. According to a survey conducted by the Japan Bank for International Cooperation (JBIC) for Japanese companies in FY2011, India beat China as the most promising country for business expansion in the long term.

The Comprehensive Economic Partnership Agreement (CEPA) that came into effect in August 2011 has also provided a positive boost. Under this agreement, both countries will remove tariffs on approximately 94% of the trade volume over the next 10 years, and a large increase in bilateral trade is expected. Japanese companies that see India as an export base have also increased, positioning the country as a global base for exports to Europe and Africa.

However, corporate expansion is not without its problems. As a country in which companies are looking to invest, India's biggest problem lies in costs related to undeveloped infrastructure. In the area of distribution, for example, since passengers are given priority for rail transport, the train schedule is easily disrupted. In addition, transport fares for freight are set higher than fares for passenger travel, and since trunk roads are undeveloped, there are frequent delays and damage to the freight. In response to this, Japanese technology is used to provide assistance through an ODA loan for the Dedicated Freight Corridor Project between Delhi and Mumbai (West Corridor). With this, the freight transport demand that is predicted for the future can be accommodated, and the distribution network will become streamlined. Since many Japanese companies are based in the area surrounding the West Corridor including Delhi and Mumbai, problems with the transport infrastructure that hinder the operations of these companies will be improved.

In India, there is also a serious problem with frequent power outages and a constant shortage of electrical power, making power generating equipment essential for factories. In response to this situation, Japan has provided assistance for the Tamil Nadu Transmission System Improvement Project. Through this, power will be supplied in a stable manner in all areas of the state, including the Chennai area. Consequently, the living environment within the state will be improved, as will the business environment for Japanese companies who have moved into the area, thus encouraging investments. Furthermore, assistance is also being provided in the formulation of a master plan for the overall development in sectors such as transport and electrical power for southern India, where there is a marked presence of Japanese companies.

3. Africa

The average rate of economic growth in Africa has exceeded 5% since 2000. In the 10 years since 2001, the nominal GDP has increased 2.8-fold ($1.62 trillion) and the trade volume has increased 3.6-fold ($970 billion). The amount of foreign direct investment in Africa has increased 5-fold ($55 billion) in the last 10 years, and in 2007, the amount of foreign direct investment in Africa surpassed that of ODA given to Africa. Africa is capturing global attention as a new economic frontier after Asia.

Major factors for strong economic growth in Africa are their abundant natural resources and high rate of population growth. Mineral resources including platinum group metals (95% of global reserves), diamonds (59%), cobalt (49%), and chrome (42%) are concentrated in Africa, where four of the top 20 countries for oil reserves and three of the top 20 countries for natural gas reserves are also located. The improvement of infrastructure that will be advantageous to robust and sustainable economic growth and the development of these natural resources is a pressing issue for Africa. In order to connect major port cities, inland cities, and regions producing resources, infrastructure development plans including corridor plans (North-South Corridor, Nacala Corridor, etc.) for improving road, rail, port, and cross-border facilities are currently underway on national, regional, and continental levels (according to World Bank, the estimated infrastructure demand in Africa is $93 billion annually).

The average population growth rate in Africa is 2.3%, which is the highest among all the continents, and it is predicted that the population will increase by 300 million people every 10 years (The total population in 2010 was approximately 1 billion people). The Gross National Income (GNI) per capita for Africa in 2010 was $1,570, or 1.2 times that of India, which has a similar population, showing the magnitude of Africa's potential as a future consumer market. Currently, movement towards economic integration is advancing in Africa with the goals of establishing Free Trade Areas (FTA) at a continental level by 2017 and a regional level by 2014.

Africa also faces a number of social challenges (poverty reduction, provision of basic social services, etc.). Aiming to overcome them while also establishing business, BOP businesses* are wide-spreading in Africa. As a means for supporting Japanese BOP businesses in Africa, JETRO provides individual consulting services for partner matching and surveys on local needs and markets. JICA also provides assistance for preparatory surveys and investment and loans for relevant operations for promoting a business model that will contribute to resolving development issues at the BOP level.

At TICAD V to be held in Yokohama in June 2013, specific measures will be discussed for encouraging involvement of the private sector in infrastructure development under public-private partnership (PPP) in order to promote robust and sustainable economy, while aiming for quality growth. Considering the present situation in which Africa is attracting global attention because of its economic potential and business opportunities as the next economic frontier after Asia and the expectations of various African nations for increased investments by Japanese companies, the Japanese government, as a national initiative, will support for creating a business-friendly investment environment in Africa and will implement various policies so that TICAD V may become an important opportunity for Japanese companies to expand their business in Africa.

Parliamentary Senior Vice-Minister for Foreign Affairs Masaji Matsuyama tours the Ethiopia Water Technology Center. Japan has been providing technical guidance for the center for many years.
(Photo: Embassy of Japan in Ethiopia)

* Glossary

BOP (Base of Pyramid) business

Refers to businesses that are expected to be useful in resolving social issues for low-income groups* in developing countries. Accounting for approximately 70% of the world's population, or about 4 billion people, low-income groups are attracting attention as a market with potential for growth. This type of business targets low-income groups as consumers, producers, and sellers, which is expected to be useful in providing sustainable solutions to a variety of local societal problems.

Examples: Hygiene products such as detergent and shampoo, water purifying agents , nutritional products, insecticide-treated mosquito netting, solar power panels, etc.

* Low-income bracket: The income bracket with an annual income per capita of $3,000 or less in purchasing power parity. Purchasing power parity is determined by removing differences between price levels to make purchasing power between different currencies equivalent.