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The basic framework of the world's economy is moving on from the G7 (group of seven industrialized nations) to the G 20 (group of the world's 20th largest economies). The G20 summit, which was first held in 2008, is composed of the developed countries/regions, the four BRIC countries (Brazil, Russia, India and China), as well as Argentina, South Africa, Turkey, Mexico, Saudi Arabia, Indonesia, and others, all of which are becoming important players in the global economy.

While Japanese companies have started to recognize the importance of these emerging economies as markets, in many cases, they have yet to decide on which markets, other than BRICs, they should be targeting. One of the chief reasons is that compared to BRICs, especially China, the size of the economies of the countries is very modest and therefore is difficult for them to evaluate.

Nomura Research Institute (NRI) has developed the "SPEC approach" as a framework for evaluating the potential of these emerging markets. SPEC is an acronym of its three evaluation aspects, that is, size, profitability and entry cost.

Based on this framework, the potentiality of non-BRIC emerging economies, that is, post-BRIC emerging markets, was evaluated from the perspective of Japanese companies. The results indicate that the Arabian Gulf countries, Mexico, Indonesia, Turkey and Thailand are the top five promising markets for Japanese companies.

The keys to success in these post-BRIC countries/regions include: (1) the importance of a regional headquarters, especially, the possibility of setting up a base in Turkey for expansion into the Middle East, Africa and Central Asia; (2) measures to deal with increasing incomes of low-income segments; and (3) forming partnerships with leading local enterprises.

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I Why "Post BRICs" Now?

1 From the G7 to the G20

In the wake of the collapse of Lehman Brothers in 2008, the framework of the global economy has changed dramatically. A typical move reflecting this change is the shift from the G7 (group of seven industrialized nations) to the G20 (group of the world's 20 largest economies). As such, not only advanced economies but also emerging economies are now major stakeholders in the global economy. The G20 includes the developed countries/regions, the four BRIC countries (Brazil, Russia, India and China), as well as Argentina, Turkey, Mexico, Saudi Arabia, Indonesia, South Africa and others.

Unlike in 2009, the global economy is expected to experience positive growth in 2010. However, growth is considered to remain sluggish in all of the developed countries including the US. In contrast, high economic growth is expected for the emerging economies such as China. Looking at the Japanese economy, we see that increased exports to China and other emerging economies have been contributing to a rapid recovery of performance of many Japanese manufacturers. As such, the rise of emerging economies has been having a huge influence on the global economy.

2 Different enterprises see promise in different emerging economies

When we talk about emerging economies, most people tend to think of the four BRIC countries mentioned above. Then, which economies are attracting attention after the BRICs? At present, there is no clear global consensus. The name "BRICs," in referring to the current group of four emerging economies has caught on around the world partly due to the easy-to-remember name. Following on from BRICs as groups of emerging economies, are, for example, VISTA (Vietnam, Indonesia, South Africa, Turkey and Argentina) and NEXT11 (Mexico, Turkey, Indonesia, Bangladesh, Pakistan, Egypt, the Philippines, Vietnam, Korea, Iran and Nigeria). However, neither of these terms has entered into everyday use.

At this point, it should be pointed out that among the countries mentioned above, some might offer promise as new markets while others might be strong as production sites or as sites for research and development. Some might offer a combination of these functions. It is not yet clear how to differentiate them. Accordingly, in this paper, focus is placed on those countries that offer promise as new markets.

There are some points in examining promising countries as new markets. Different people will have different opinions about which countries offer the greatest promise. By way of example, if you take the perspective of US companies, Mexico's physical proximity makes the country an important emerging market, and doing business in this country is relatively easy. In contrast, the problems presented by Southeast Asian countries such as their different cultures and physical distance from the US make it difficult for companies to view these markets as promising. On the other hand, for Japanese companies, Asia can be considered as being close to home. For many years, they have had relationships in this region such as through establishing production bases, making it easy for them to approach these new markets.

Furthermore, whether the relevant country offers promise depends not only on a company's home country, but also on the products or services that the company offers. For example, in the United Arab Emirates (UAE), particularly in the Emirate of Abu Dhabi, many construction projects are planned and in progress (as of January 2010, demand for construction in the Emirate of Dubai had not yet recovered to the level prior to the country's financial crisis), making the UAE very attractive to the construction industry. However, given that the population of the country is relatively small, operation there is not such an attractive proposition for companies manufacturing consumer goods.

In addition, even within the same industry, the country that offers the greatest promise will vary depending on a company's situation. If we consider the Japanese electronics industry, for example, and look at Company A and Company B, we find that Company A has already recorded a decent profit on its sales in Country X, but Company B has been slow to expand abroad. In this case, Company A's interest is not in Country X but in other promising countries, while Company B is concerned with how it can increase its sales in Country X.

As such, it is natural for companies to have different ideas on which countries offer the greatest potential. Accordingly, it is not easy to form a global consensus regarding the post-BRIC economies.

3 China's economic scale is exceptional

Figure 1 shows the top 10 countries by GDP (gross domestic product) among those with a per capita GDP of up to $15,000. From this figure, we can see that among the so-called "emerging economies," China is in a class of its own in terms of scale, with a GDP of more than 4 trillion dollars. Following China are Russia, Brazil and India (BRIC countries). Mexico has a GDP that is barely in excess of one trillion dollars. These countries are followed by Turkey, Poland and Indonesia, with GDPs of less than one trillion dollars.

In other words, China is an exception in that it offers a very important market to many companies. However, with respect to countries other than China, for the reasons described above, it is very difficult for companies to evaluate which countries offer the greatest potential.

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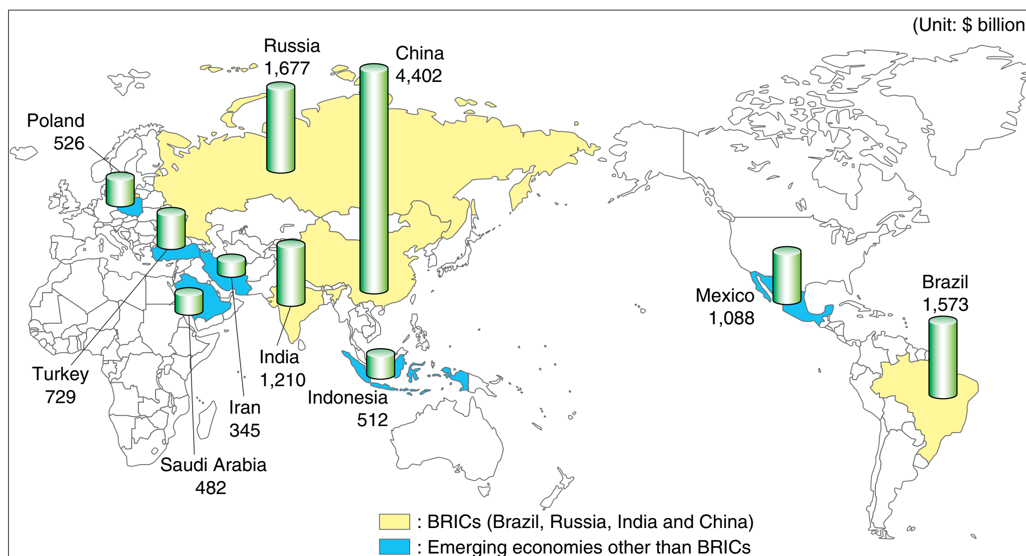
Figure 1. Top 10 emerging economies by GDP among those with a per capita GDP of up to $15,000 in 2008



Note: GDP = gross domestic product.
Source: International Monetary Fund (IMF), World Economic Outlook, April 2009.

In fact, many companies seem to be struggling to determine the overseas markets, other than China, to which they should assign management resources. When a company has to turn to overseas markets, in particular, emerging markets, to increase its sales, it has to ask which country offers the greatest promise. Particularly, non-BRIC emerging economies, that is, those countries and regions that are referred to as "post BRICs" in this paper, seem to be very difficult for many Japanese companies to appraise.

To support such Japanese companies, Nomura Research Institute (NRI) has developed a framework that enables them to evaluate the potential of emerging markets.

II Promising Post-BRIC Countries and Regions

1 "SPEC approach" evaluates the potential of emerging markets from three aspects

When evaluating the potential of promising emerging markets, we considered three aspects. They are:

(1) Market size
(2) Competitive environment (Profitability)
(3) Cost of entry

Aspect (1): The market size is the most basic indicator, given that a company's sales will depend on whether the current market is large or small.

Aspect (2): The competitive environment, or the competitive situation among companies in a given country, will have an effect on the profitability of a company. In other words, in those countries where competition is very fierce, the profit margin will be smaller, whereas larger profit margins should be possible in those countries where competition is relatively lax for some reason. Accordingly, even if the size of the market is modest, the market will be ranked as being more promising if larger profit margins can be expected.

Aspect (3): The cost of entry relates, self-evidently, to cost. From the perspective of companies that are headquartered in Japan, the primary products and services that are offered on the Japanese markets would naturally be offered for overseas markets as a company's main products and services. However, whether those products and services would be successful overseas is affected by many different factors. With mobile phones, for example, it would be difficult to introduce the same products as those offered in Japan in countries that have adopted communications standards and rules different from those in Japan. Similarly, differences in culture would make it difficult for products that are closely related to culture such as foodstuffs to be successful in countries with different cultures. Because Japanese companies find that some countries are easy to enter and others are relatively difficult, this viewpoint was included as the third evaluation index.

As such, Aspects (1), (2) and (3) are used to evaluate a market comprehensively to determine whether it offers any promise for Japanese companies. Because this framework, which we use to assess the promise of emerging markets, incorporates three elements, it is named after the initials of those elements, namely, the "SPEC (Size, Profitability and Entry Cost) approach."

The SPEC approach has two characteristics. One is that those countries that appear promising will vary depending on the country of a company for which the analysis is conducted. For example, the SPEC approach can indicate that those emerging economies that appear

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promising to a Japanese company may not necessarily be attractive to a US company.

The second characteristic is that analysis is possible by industry and business sector (for consumers, companies or governmental organizations). To offer this second characteristic, the SPEC approach uses the "GTAP (Global Trade Analysis Project) 7" database developed by Purdue University in the United States. In this database, the world is divided into 113 countries and regions, and contains input-output tables (economic statistics covering inter-industrial transaction flows as well as the amounts of production, the amounts of imports and exports and sales to the consumer and government sectors by industry) for each such country/region.

In fact, it is possible to use the SPEC approach to evaluate the potential of not only emerging economies but also developed economies. In this paper, however, this evaluation framework is only applied to emerging economies other than BRICs, or the post-BRIC countries, to identify the markets that offer the greatest promise to Japanese companies.

2 Market size

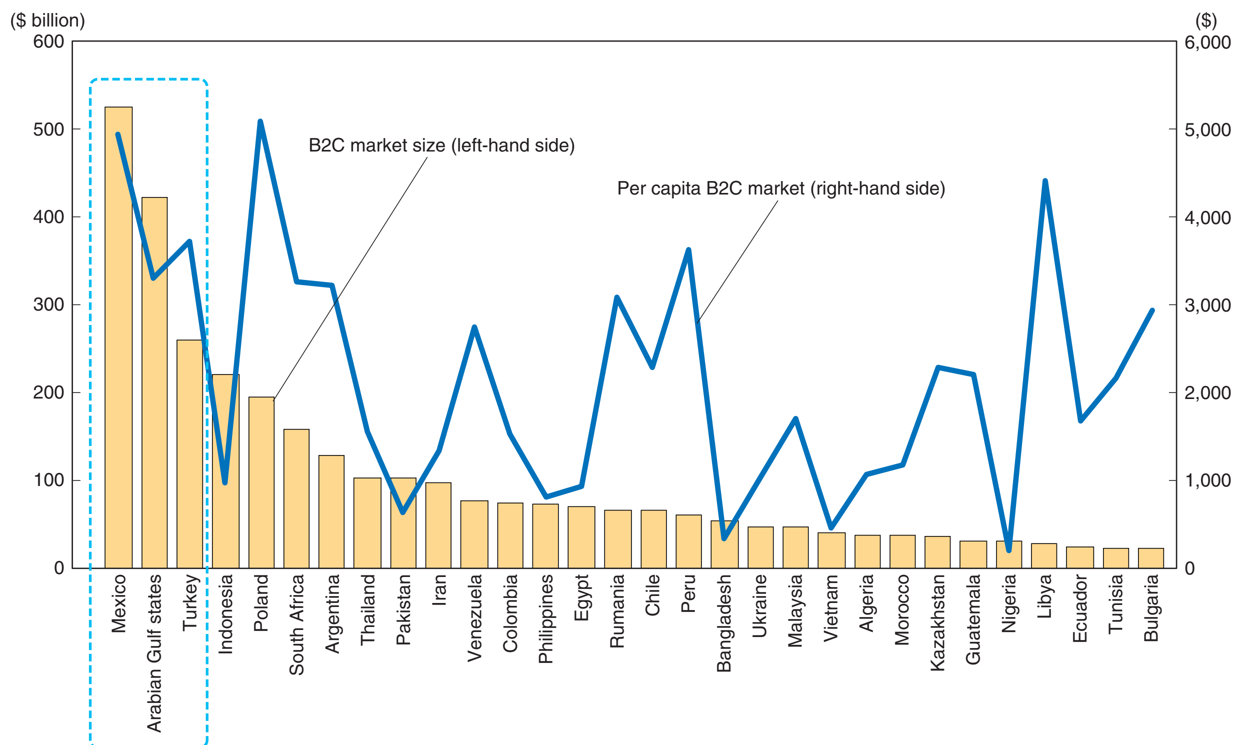
As a practical example of applying the SPEC approach, this section examines the B2C (business to consumer transactions) market scale for all industries combined. Figure 2 shows the scale of the B2C market of those countries for which the per capita GDP is less than $15,000. From this figure, we see that among those non-BRIC countries, Mexico has a very large B2C market. While the following countries are combined for reasons of restrictions in data collection and come next to Mexico, the Arabian Gulf countries (including the six GCC (Gulf Cooperation Council) member countries such as Saudi Arabia and the United Arab Emirates and, to the north of these countries, Syria, Lebanon, Jordan and Iraq) also have large B2C markets. After these countries come Turkey, Indonesia and Poland.

Looking at the market scale on a region-by-region basis, we see that the largest B2C market in the Middle East and Africa is the group of Arabian Gulf countries, while in Latin America, it is Mexico, in Asia, Indonesia, and in Eastern Europe and the CIS (the Commonwealth of Independent States made up of the independent states of the former Soviet Union (hereinafter referred to as the "former Soviet"), but excluding the three Baltic states), the largest B2C market is Poland.

3 Competitive environment

In any event, we cannot say unconditionally that those countries or regions where the market scale is largest offer the greatest potential. When we look at China, for example, while the market is certainly exceptional

Figure 2. Top 30 countries/regions in terms of B2C market size covering all industries in 2008



Notes:1) The target countries are those countries with a per capita GDP of less than $15,000 excluding BRICs (Brazil, Russia, India and China). 2) The Arabian Gulf states include the following countries (these countries were combined for reasons of restrictions in data collection): the six GCC (Gulf Cooperation Council) member countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates (UAE), Israel, Iraq, Jordan, Lebanon, Syria and Yemen.
Source: Compiled based on the GTAP (Global Trade Analysis Project) 7 Data Base (2009 version).

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among emerging economies, we realize that profit margins in China are rather small if we consider the level of competition. In the Chinese market, in addition to competition among foreign companies, there is also the threat of many local companies that intensify this competition, making it especially difficult to generate a profit depending on the type of business.

The SPEC approach uses the "capital share" evaluation index to identify a country's competitive environment. This concept is used in economic statistics, whereby the amount of production (sales) by type of industry is divided into "intermediate inputs such as raw materials plus labor share (wage payments) plus capital share." Capital share belongs to the enterprise itself and its investors, that is, it is the "enterprise's operating surplus plus its cost of capital."

Strictly speaking, although capital share is not intended to be used as a measure of corporate profitability, it is adopted as an alternate index of profitability because this value falls along with the profit margin of a company.

Figure 3 shows the distribution of competitive environments in the B2C markets of emerging economies, with the vertical axis indicating market size (overall B2C market) and the horizontal axis showing capital share (average of all industries). Note that this figure also includes BRICs. The first feature that is evident when we look at market size is that China remains an overwhelmingly large market. When we look at the horizontal axis, however, we see that capital share in China is even lower than the average value of that in emerging economies, indicating China's tougher competitive environment.

The upper right quadrant of this diagram includes the Arabian Gulf countries, Turkey and Indonesia, all of which have larger than average markets and higher than average capital share value (approximately equal to expected profit margins). The lower right quadrant of the figure includes Iran and Nigeria, which have small markets but high capital share value.

Then, what could cause the capital share value to be high? Of course, in those countries that have high costs of capital, this value also tends to be high. However, there are some other possible reasons. For example, in some regions such as the Arabian Gulf countries, there are few local competitors, while in others such as Turkey conglomerates dominate the market, creating a kind of oligopoly. In the case of Iran, given that it is very difficult for foreign companies to enter the market for political reasons, competition is relatively lax.

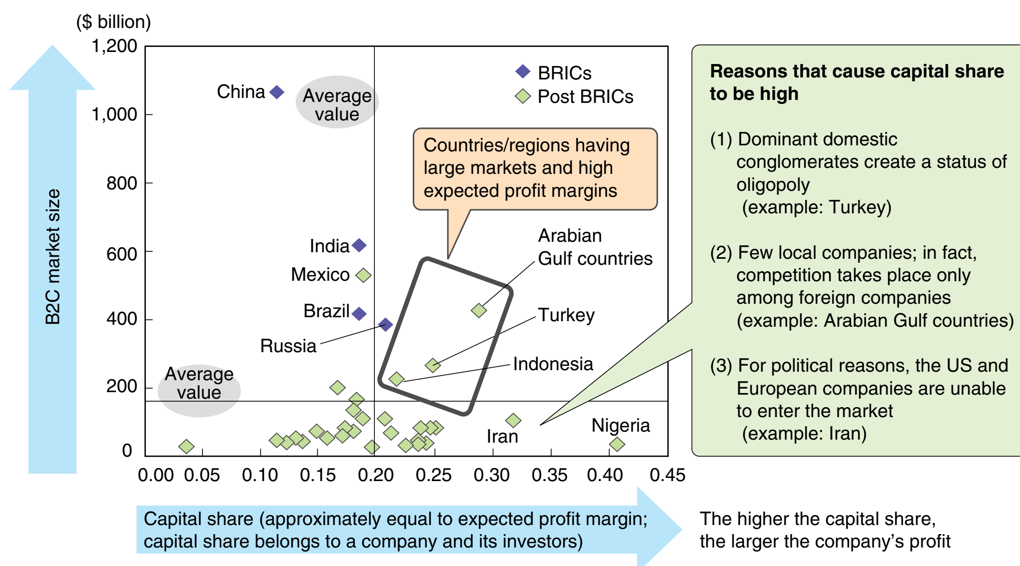
4 Cost of entry

To obtain a quantitative evaluation of the cost of entry, we adopted the "CAGE" framework, which was developed by Professor Pankaj Ghemawat of Harvard University. The name "CAGE" is taken from the initial letters of the following:

(1) Culture
(2) Administration
(3) Geography
(4) Economy

According to Professor Ghemawat, when a company considers moving into overseas markets, it needs to evaluate the differences between its home country and the country into which it intends to move in terms of the above four aspects. As the differences between the two countries increase, it will likely to be more difficult for a company to do business in such a country. To this end, we calculated the "CAGE score" using a calculation

Figure 3. Distribution of competitive environments in top 30 countries/regions in terms of the B2C market size covering all industries



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method that was developed by NRI (Figure 4). Using this method, the gap between Japan and the world's emerging economies in terms of these four aspects was calculated within a range of "– 1" to "+ 1." A value approaching "+ 1" indicates a relatively small gap between the two countries (meaning the market of the relevant country is easy to enter), while a value nearing "– 1" indicates a larger gap (meaning the market of the relevant country is difficult to enter).

Based on this scoring, emerging economies are classified into the following three categories.

The first category is those that exhibit a small gap relative to Japan but where, at the same time, Japan has no special advantage in terms of market entry. For example, countries in Southeast Asia exhibit a positive CAGE score relative to Japan, indicating a small gap between each of them and Japan. However, when viewed relative to China, the gap is even smaller. The reasons for this smaller gap include: (1) physical proximity between the countries, (2) similarity in income levels, (3) signing the China-ASEAN (Association of Southeast Asian Nations) FTA (Free Trade Agreement) and (4) presence of Chinese communities in ASEAN countries. In other words, China is better positioned than Japan to enter the Southeast Asian markets.

The second category consists of those countries that exhibit a large gap with Japan. Such countries include Egypt, Morocco and other North African countries as well as South Africa, all of which are easier for European countries to enter than Japan. In other words, if a company—even a Japanese company—has offices in Europe, these European offices should play a central role in entering the emerging economies around Europe. In fact, the majority of Japanese companies having European headquarters are doing so.

The third category consists of those countries that are difficult to enter because there is a large gap when viewed not only from Japan but also from the US or Europe. Such countries include Iran and the countries of the former Soviet Union. To put it another way, in terms of competitiveness in these countries, Japanese companies can be on an equal footing with US and European companies.

5 Comprehensive evaluation based on the SPEC approach

(1) Top five promising markets for all industries

By means of the SPEC approach, the three aspects (market size, profitability, cost of entry) were comprehensively evaluated, and the markets showing the greatest promise for Japanese companies were identified. Table 1 lists the top five promising markets from the perspective of all industries.

If we exclude BRICs, that is, if we consider the so-called post-BRIC countries, we find that the most promising market is that of the Arabian Gulf countries. As mentioned in Section 2, these countries consist of the six GCC member countries such as Saudi Arabia and the United Arab Emirates and, to the north of these countries, Syria, Lebanon, Jordan, Iraq and Israel.

In second place is Mexico. Because the Mexican market is easy for American companies to enter, Japanese companies could easily be at a disadvantage depending on the type of business. Nevertheless, the large market size and high expected profit margins put the Mexican market into second place. A representative Japanese company that has been successful in Mexico is Toyo Suisan Kaisha, Ltd., which is well known for its "Maru-chan" line of instant noodles. According to the

Figure 4. NRI's CAGE scoring system

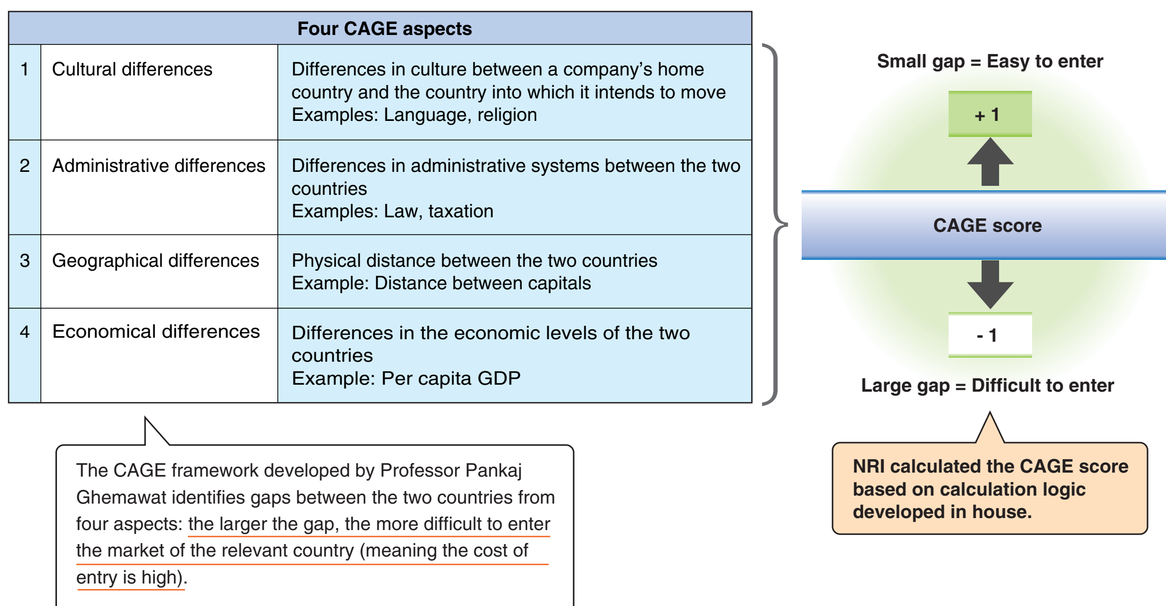

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Table 1. Top five promising post-BRIC countries/regions for Japanese companies (all industries)

1st place	Arabian Gulf countries	• While the market size is next to Mexico, the expected profit margin is higher than average. • This region ranks first although the gap relative to Japan is large.
2nd place	Mexico	• The market size is the largest; the expected profit margin is average. • While the physical distance from Japan is far, Mexico ranks second because of the Japan-Mexico FTA (Free Trade Agreement).
3rd place	Indonesia	• The market size is the fourth largest; the expected profit margin is higher than average. • Indonesia ranks third because the gap relative to Japan is smaller than that relative to other countries.
4th place	Turkey	• The market size is the third largest; the expected profit margin is higher than average. • Turkey ranks fourth because the gap relative to Japan is large.
5th place	Thailand	• The market size is the eighth largest; the expected profit margin is average. • Thailand ranks fifth because the gap relative to Japan is small.

June 27, 2009, edition of *Nihon Keizai Shimbun*, Toyo Suisan held an 80 percent share of the Mexican instant noodle market. In the period ending March 2009, the company increased its net profit in North America by 9 percent.

In third place is Indonesia. Several Japanese companies have already entered the market of Indonesia, where the population is 230 million. Japanese companies that have been successful in Indonesia include Ajinomoto Co., Inc. and Unicharm Corporation.

Turkey is in fourth place. Japanese companies that have recently entered the Turkish market include pharmaceutical manufacturers such as Takeda Pharmaceutical Company Limited and Daiichi Sankyo Co., Ltd. We should also note that in 2009, Takeda also set up its own sales office in Mexico.

Thailand is in fifth place. Thailand has a very long relationship with Japanese companies. Its importance as a production base has been recognized for many years. In the future, it is also expected to become important as a promising market.

In fact, these five countries and regions all have had a very long involvement with Japanese companies. Mexico, Turkey and Thailand are important production bases (and also development centers) for Japanese automobile and electronics manufacturers. The Arabian Gulf countries have long been important markets for trading, construction, plant and financial companies.

While these countries and regions already have close relationships with Japanese companies, up until now there was a tendency to see these countries/regions as production bases or, at best, as markets only for specific industries. Over the last few years, however, the economies of these countries have begun to grow, making them increasingly promising markets. Companies such as Ajinomoto and YKK Corporation have been operating in the markets of these countries and regions for a considerable time. From now on, however, many other Japanese companies will come to recognize the potential of these markets.

(2) Evaluation either by industry or home country possible

So far, the degree of promise of a country or region's market was evaluated from the perspective of all industries. However, the SPEC approach also enables evaluation on an industry-by-industry basis. At the end of this paper, for reference purposes, the top five promising countries and regions are listed for each of the major industries. These top five countries and regions differ slightly depending on the type of business. For example, Turkey is the most promising market for processed food, while the Arabian Gulf countries do not appear in the top five. Although the Arabian Gulf countries offer a large market, low capital share (meaning low expected profit margin) prevents the region from ranking any higher. In this way, the ability to identify which country offers the greatest promise for which industry is one of the major features of the SPEC approach.

Another characteristic that should be pointed out is that the countries that offer the greatest promise vary depending on the home country of the companies performing the analysis. So far, we have looked at those countries and regions that offer the greatest potential for Japanese companies. From the perspective of American companies, however, the promising countries/regions will differ. Specifically, for US companies, the top five countries/regions are Mexico, the Arabian Gulf countries, Turkey, South Africa and Poland. In the top five for Japanese companies, South Africa and Poland do not appear. On the other hand, the US top five does not include Thailand and Indonesia. From a US perspective, these Southeast Asian countries are relatively distant geographically and culturally, as well as in terms of administrative systems, indicating that US companies would find it less easy to enter these markets than would Japanese companies.

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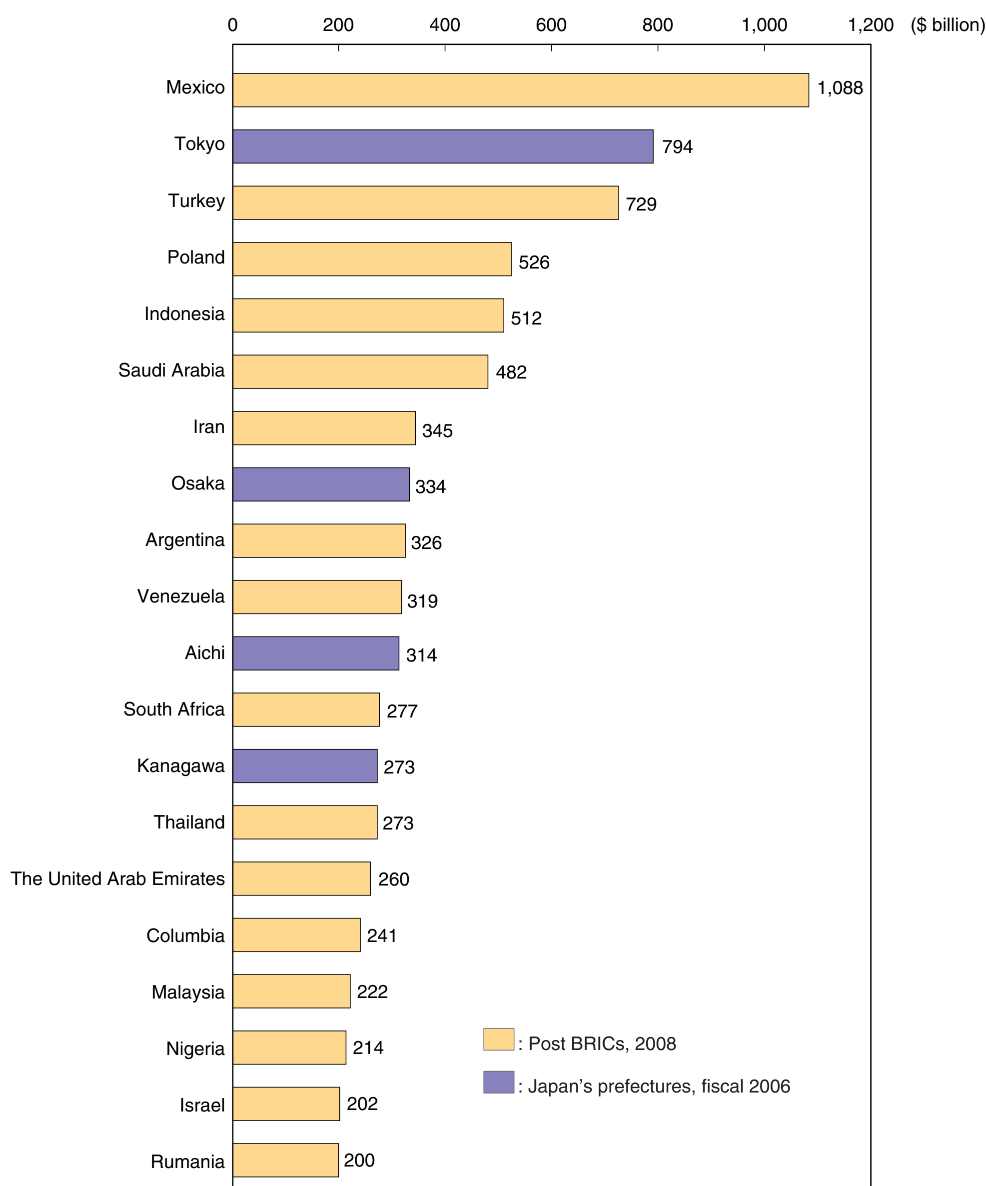
III Keys to Success in Promising Post-BRIC Countries/Regions

1 Single country offers a small market

Based on the discussion so far, what are the keys to Japanese companies achieving success in those five countries/regions that are identified as offering the most promising markets? Before reviewing these keys, let's look at the characteristics of these promising five countries/regions.

The first characteristic is that in these identified countries/regions, the size of the market in any single country/region is actually small. For reference purposes, Figure 5 compares the GDPs of the post-BRIC emerging economies with the GRPs (gross regional products) of Japan's prefectures. If we look at this comparison, we can see that the only single country that has a larger economy than that of Tokyo is Mexico, with Turkey, Indonesia and Saudi Arabia having smaller economies than Tokyo. The economies of Thailand and the United Arab Emirates are smaller than that of Kanagawa prefecture. Of course, while Japan is now experiencing low economic growth, these emerging economies are experiencing high rates of economic growth. Eventually, the scale of their economies will come to equal and even surpass some currently larger economies. Nevertheless, if we look at these countries as markets, it can be said that no single

Figure 5. Comparison of GDPs of major post-BRIC countries/regions with GRPs (gross regional products) of Japan's prefectures



Note: The 2008 data in the IMF report were used for the GDPs of post-BRIC countries/regions; the data in the Annual Report on Prefectural Accounts (2006) were converted to dollars using the average exchange rate in 2006 ($1 = ¥116).

Source: Compiled based on the IMF World Economic Outlook, April 2009 and the Annual Report on Prefectural Accounts 2006 published by the Cabinet Office, Government of Japan.

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country offers a particularly attractive market. Accordingly, companies should aim to move into multiple markets simultaneously.

2 "Emerging economies" and "re-emerging economies"

So far, the author has simply referred to countries and regions that are compared and evaluated in this paper as "emerging economies." However, it is not actually correct to refer to all such countries in this way. Among those countries that have been mentioned as promising emerging economies, Turkey, Mexico and some others actually started to experience growth to some extent toward the end of the last century, rather than just recently, and already have a per capita GDP in excess of $10,000.

Figure 6 shows the relationship between income inequality and the level of a country's economy. The curve shown in this figure is known as a Kuznets curve, from the work of economist Simon Kuznets.

The leftmost side of the figure shows countries that have relatively impoverished economies where, for example, the per capita GDP is only a few hundred dollars. Because the entire country is poor, the income gap is small. In these countries, the economic growth that may result from industrialization, etc., not only causes an increase in per capita GDP (horizontal axis), but also leads to a larger disparity in incomes within the country. In other words, we see the appearance of "the rich." Often, this segment goes on to form a conglomerate. When the economic level (per capita GDP) of the country increases to some extent, the disparity in wealth also grows considerably, which tends to throttle any further economic growth. The center section of Figure 6 corresponds to this state, in which the economy stagnates. This discrepancy in incomes manifests itself as a class structure within the society.

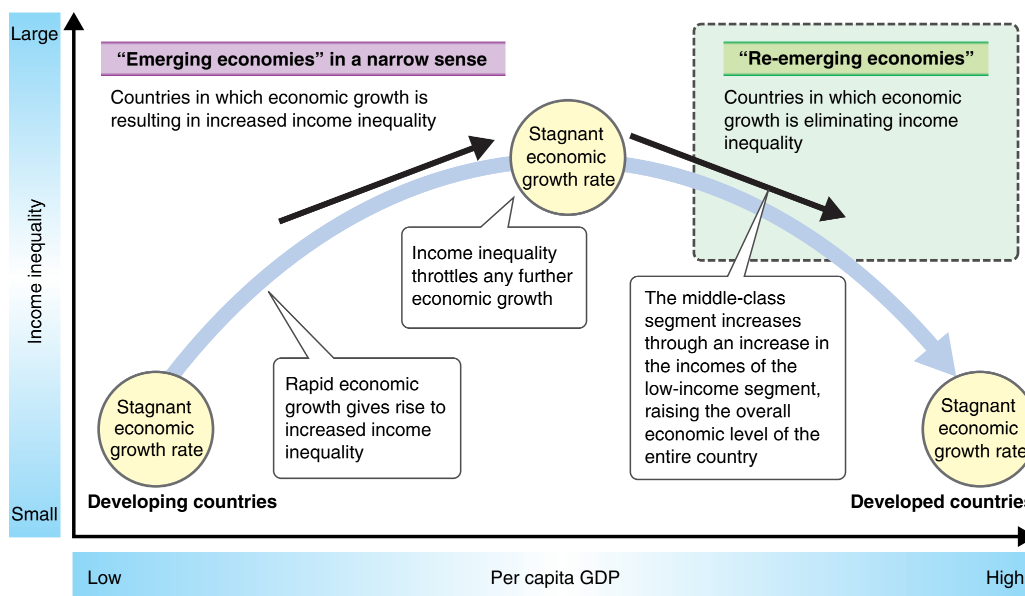
In such countries, economic growth might resume because of one particular factor, that is, an increase in the incomes of the low-income segment. We can say, therefore, that there are two patterns of economic growth: one where "economic growth gives rise to income disparity" (left of Figure 6) and the second where "economic growth eliminates income disparity" (right of the figure).

Mexico and Turkey are said to be examples of the latter phenomenon. Although both countries exhibit very large disparities in incomes, in recent years, Mexico has seen increasing remittances from migrant workers, leading to a higher income growth rate in the low-income segment (based on data as of 2008 prior to the global financial crisis). In Turkey, in an effort to increase the incomes of the lowest-income segment, Prime Minister Recep Tayyip Erdogan has increased public spending in the central regions, where incomes are relatively low.

The author has collectively referred to those countries with a per capita GDP of less than $15,000 as "emerging economies" in a broad sense. In stricter terms, however, the author describes those countries in which economic growth is resulting in increased income inequality as "emerging economies in a narrow sense," while referring to those countries in which economic growth is eliminating income inequality as "re-emerging economies." This is because re-emerging economies have once experienced sustainable economic growth. It is worth pointing out that the author noticed that the economic growth rate in emerging economies in which their economies are growing while increasing income inequality tends to be higher than that in re-emerging economies.

Putting this more specifically, China and Vietnam fall into the category of emerging economies, while Turkey,

Figure 6. Relationships between a country's economic growth and income inequality (Kuznets curve)



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Mexico, Brazil and Russia are classified as re-emerging economies. India, however, is difficult to classify because the country exhibits the characteristics of both emerging and re-emerging economies.

3 Two characteristics of re-emerging economies

Re-emerging economies have two distinct features that are not seen in emerging economies in a narrow sense. The first is the increasing incomes of the low-income segment, as described above. More precisely, the economic level of re-emerging economies is modestly high. Even the incomes of the low-income segments in these countries are not as low as are those of the lowest-income segments in India and the poorest countries in Africa. In countries such as Mexico, therefore, the low-income segment is making installment purchases of Japanese home appliance products. As such, this segment could also be considered customers of Japanese companies.

Meanwhile, the lowest-income segments of India and Africa (known as BOP, the bottom of the pyramid) have recently been attracting attention as customers. For many Japanese companies, however, approaching these customers is extremely difficult. For such Japanese companies, rather than targeting the low-income segment in India as the first step of approaching these customers, it is much more realistic and practical to target the same segments in Mexico and Turkey.

The second characteristic is that, as described in Section 2, re-emerging economies are seeing the appearance of a wealthy class that often forms a conglomerate. Among the five most promising markets for Japanese companies, this trend is particularly noticeable in Turkey, Mexico and Indonesia. These conglomerates have developed many businesses on a nationwide basis, with distribution networks established throughout their countries.

From the manufacturer's perspective, because it is very difficult to find a nationwide distribution network in emerging economies in a narrow sense, the manufacturer practically has to create its own network. Once a distribution network has been built, however, it constitutes a greatly valuable asset and gives the company a major competitive advantage over other manufacturers.

On the other hand, however, establishing partnerships with leading local companies (conglomerates in many cases) that have nationwide networks in re-emerging economies provides a means of avoiding such difficulties and offers a ready-made distribution network through which products can be readily distributed throughout the country. Of course, the disadvantage of this approach for manufacturers is a low margin. At the same time, however, products can be quickly made available nationwide.

4 Three keys to success in post-BRIC countries/regions

Considering the characteristics explained in Section 3, there are three important keys to success in promising post-BRIC countries/regions.

(1) Regional headquarters

In non-BRIC countries/regions, because the market scale of any single country is relatively small, the key to success is to efficiently deploy business in as many countries as possible. This point is particularly important in the case of the Arabian Gulf countries, Central Asia and Africa, where the scale of the economy of any one country is relatively small although many countries are involved.

(2) Measures for the low-income segment

In re-emerging economies whose typical examples include Mexico and Turkey, the incomes of the low-income segment have recently been rising. US retail giant Wal-Mart Stores, Inc. has been successful in Mexico, as has the local consumer electronics retailer Elektra, both of whom have expanded their businesses by targeting the low-income segment.

(3) Partnerships with leading local companies

Needless to say, in the promising post-BRIC countries and regions defined above, establishing partnerships with leading local companies is more important than in other emerging economies. Adopting both approaches—building a company's own distribution network and at the same time leveraging networks that leading local companies have already developed through establishing partnerships to rapidly expand their distribution networks—is an important strategy in these post-BRIC markets.

IV Examples of Business in Promising Post-BRIC Countries/Regions

1 Regional headquarters—European and American companies eye Turkey for their regional headquarters

Although no one country in the Middle East, Africa or Central Asia offers a particularly large market, the countries are all adjacent to each other, making it important to conduct business as efficiently as possible in these countries.

When we look at the trends among Japanese companies, the most common pattern is that the Middle Eastern and African markets are overseen by their Asian regional headquarters in Singapore or their European headquarters. However, companies moving ahead of

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other companies such as Sony Corporation, Komatsu Ltd. and Panasonic Corporation have established their regional headquarters in the Emirate of Dubai, which plays a central role for these companies in deploying their businesses in the Middle Eastern and African markets.

On the other hand, the American medical equipment manufacturer GE Healthcare and the Coca-Cola Company are typical of the trend among US companies in that they have recently set up their regional headquarters in Turkey.

Figure 7 shows the locations of Coca-Cola's five regional headquarters around the world. Among these, the Eurasia & Africa Group Headquarters located in Istanbul oversees not only the neighboring Middle Eastern markets, but also those of Russia and the CIS countries.

In much the same way, GE Healthcare has established a regional headquarters in Istanbul, because Turkey offers many advantages as the site for a regional headquarters. In particular, Turkish engineers are educated to very high standards. As mentioned above, the location of Turkey means that it is well placed to oversee not only the Middle Eastern markets, but also Africa, Russia and the CIS countries, to which these engineers can be readily dispatched.

Japanese people tend to think about Turkey as being a crossroads to Europe and Asia. From a business perspective, however, Turkey is rather seen as a part of Europe (or is positioned as a base for exports to Europe) because the country is currently negotiating to become a member of the EU (European Union). However, the US companies that were mentioned previously have a viewpoint opposite to that of Japanese companies and see Turkey as a bridgehead for moving into the markets of the Islamic world (there are many Muslims in the Middle East, Central Asia and North Africa).

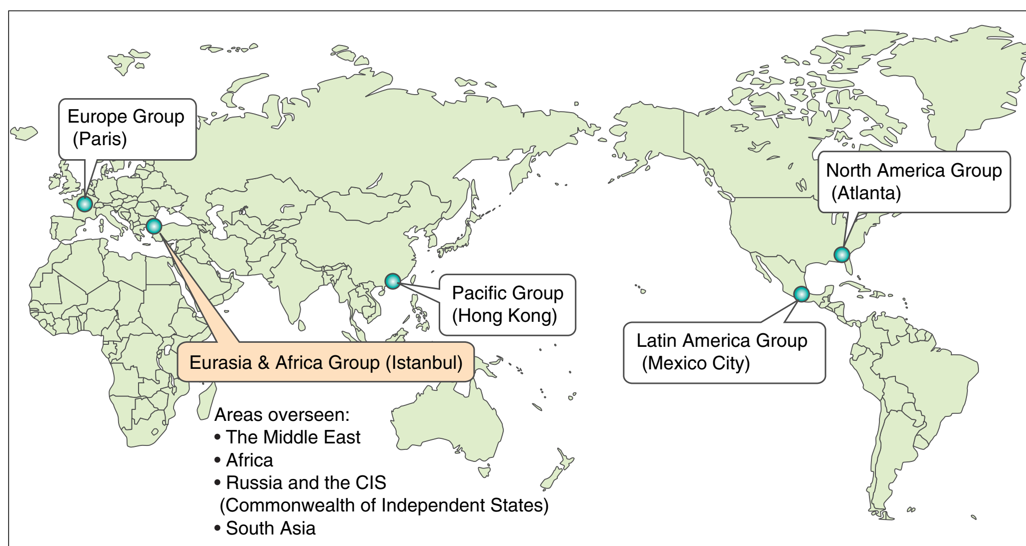
In the future, as the Arabian Gulf countries, Turkey and North African Islamic countries gain importance as markets, from the mid- to long-term perspective, it could well prove important to establish a regional headquarters in Turkey, which is not only another Islamic country but also which, from a business perspective, is very similar to advanced industrial countries.

2 Measures for the low-income segment —Business aimed at the low-income segment expands in Mexico

In recent years, Mexico has seen a major increase in the incomes of the low-income segment. In response to this trend, Wal-Mart has rapidly increased the number of its "Bodega Aurrera" stores (Bodega means warehouse, while Aurrera is the name of the supermarket), which are targeted at the low-income segment. As the name suggests, these stores are little better than a warehouse, but are much smaller than a regular Wal-Mart. Since the 2008 global financial crisis, however, only Bodega Aurrera has been successful enough to substantially increase the number of its stores, which has contributed to Wal-Mart's increased profit.

Local consumer electronics retailer, Elektra, has also been successful in Mexico by targeting the low-income segment (Figure 8). Elektra is part of the Mexican Salinas conglomerate, and has more than 1,000 stores throughout the country. Salinas also owns TV Azteca (television network) and Banco Azteca (banking and financial services). Elektra advertises the products that it wants to promote on TV Azteca, while Elektra stores all have a Banco Azteca counter where customers can open a deposit account with as little as an equivalent of 20 or 30 Japanese yen. Furthermore, through a banking service offered for migrant workers in the US, Elektra

Figure 7. Coca-Cola's five regional headquarters



Source: Compiled based on interviews with Coca-Cola officials and Coca-Cola's website.

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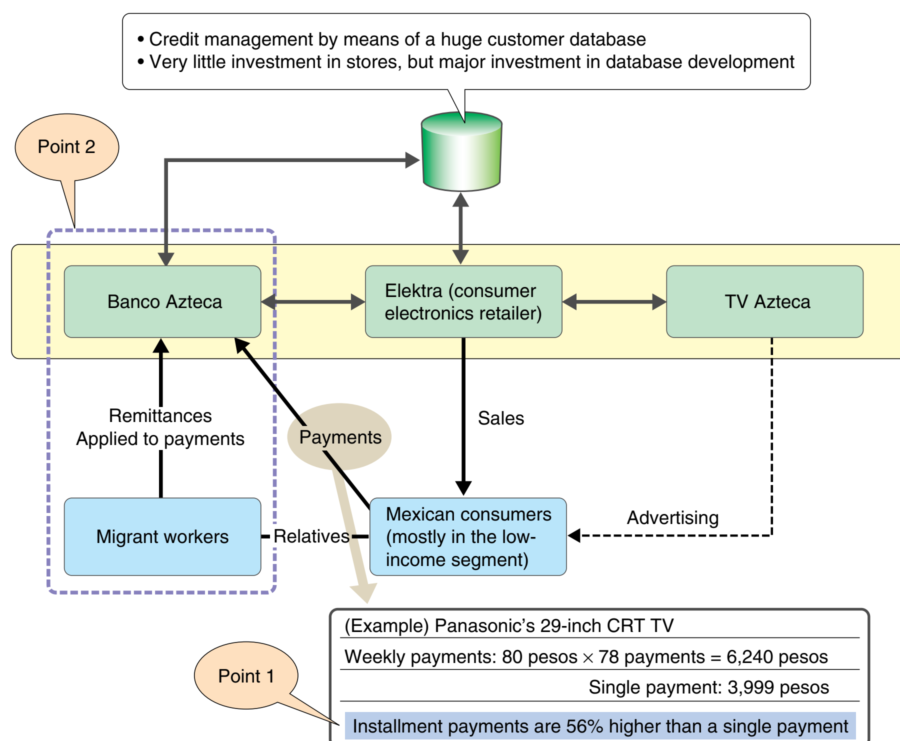
Figure 8. Elektra's business model



monitors customer remittances to understand how the low-income segment handles its cash flow.

Installment payment schemes enable the low-income segment to buy expensive products such as Japanese products, as explained in Chapter III. It should also be noted that such schemes could result in the final price paid being 50 to 60 percent more than it would be if the buyer were to make a single payment. By establishing such a system for business aimed at the low-income segment, Elektra has expanded its business.

The largest investment Elektra has made is in the creation of a huge customer database. When offering installment plans to the low-income segment, credit management becomes extremely important. In the case of Elektra, very little is invested in the stores themselves, with the majority of the company's spending going toward the customer database for credit management. This database covers not only the purchasers themselves, but also the composition of family members and relatives working away from home.

Because it would be very difficult for Japanese companies to build such a database on their own, the strategy of using these distribution networks of leading local companies to sell their products becomes important, which is explained in Section 3 below.

3 Partnerships with leading local companies —Japanese companies succeeding through tie-ups with Turkish enterprises

In the same way as in Mexico, Turkey has many conglomerates. Many of these conglomerates have established nationwide networks, and some have even extended their networks overseas.

Those Japanese companies that have entered the Turkish market and have recorded good sales have entered, almost without exception, into partnerships with leading Turkish conglomerates. Sony has formed a partnership with Turkey's largest conglomerate, Koç Holding, and Toyota Motor Corporation with Sabanci Holding to set up sales companies. In the case of Sony, the company offers their products through the large consumer electronics stores of its conglomerate partner. At the same time, Sony also set up many Sony Centers (shops dealing only with Sony products) in an effort to develop its own distribution network.

Figure 9 shows some of the Turkish companies that have expanded abroad. Turkish enterprises are very international, and often have sales networks in countries that Japanese companies find difficult to enter, such as Iran and Iraq.

According to Daiichi Sankyo, which has set up sales offices in Turkey, the Turkish wholesaler with whom it has dealings also has sales networks in Iran and Syria. Using these networks, the company is able to sell its products not only in Turkey but also in these high-risk countries and regions.

While Japanese companies tend to be very risk-averse, Turkish companies, in contrast, tend to be risk takers. Accordingly, there are many advantages to be gained from Japanese companies collaborating with Turkish companies.

There is a difference in attitude toward risk behind Japanese companies being fiercely pursued and eclipsed

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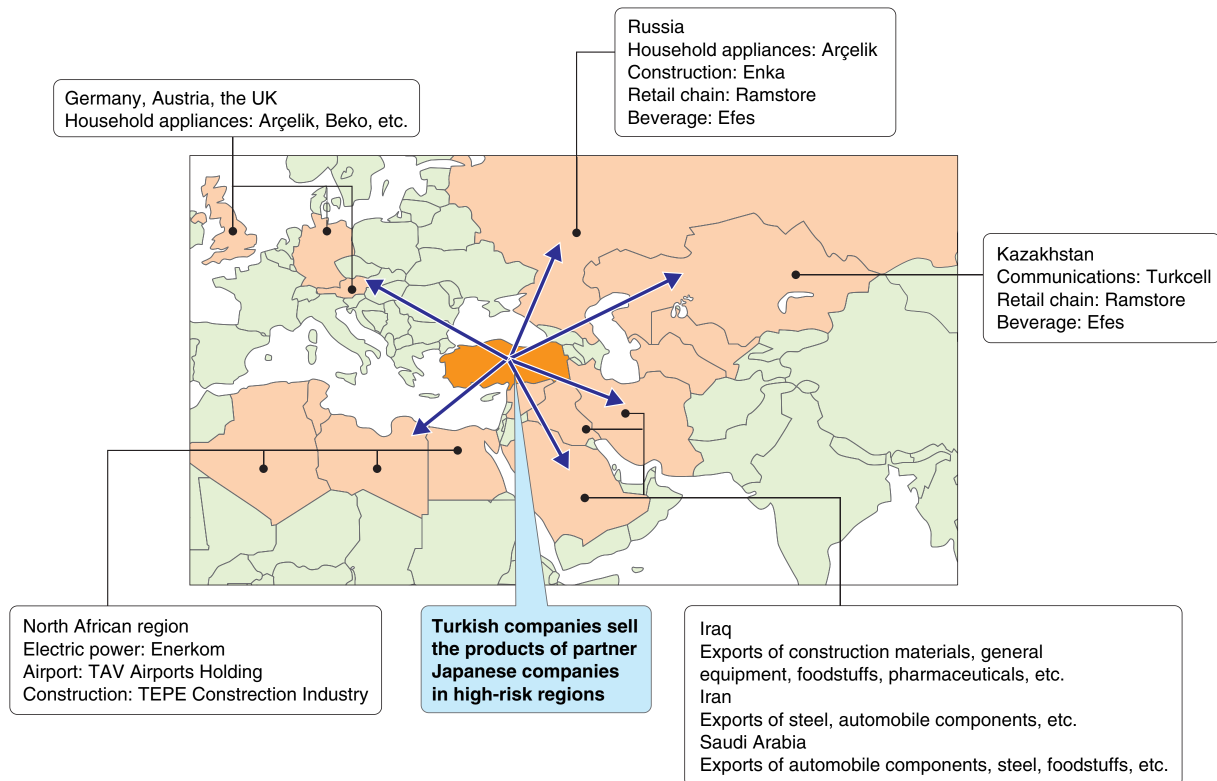
Figure 9. Examples of Turkish companies deploying business abroad



Source: Compiled based on "Turkish Industrial Structure and Trends of Japanese-affiliated Companies in Turkey" published by Japan External Trade Organization (JETRO), February 2008.

by Korean companies in the emerging markets. While business in emerging economies incurs more inherent risks than that in developed countries, Samsung Electronics, LG Electronics and other Korean companies have expanded their businesses by purposefully taking risks. Meanwhile, as mentioned above, Japanese companies are normally very risk-averse, and tend to fall behind in many different aspects.

Considering this tendency, it would be easier for Japanese companies to expand business in emerging markets by adopting the strategy of entering into partnerships with local enterprises (such as those in Turkey) that are more comfortable taking risks, rather than directly exposing themselves to risks in emerging markets.

4 Viewing re-emerging economies as post-BRIC markets

Since the global financial crisis of 2008, the economies of developed nations in particular have been stagnant, and recovery is expected to be slow even in and after 2010. On the other hand, high economic growth is expected to continue in emerging economies such as China. Accordingly, increasingly high expectations are being given to emerging economies as markets that offer the potential for business expansion.

Under such circumstances, it is important for many Japanese companies to adopt the strategy of expanding their own businesses in emerging economies by paying attention not only to BRICs but also to post-BRIC markets.

NRI has developed the SPEC approach to identify which post-BRIC countries offer promising markets for Japanese companies. Based on this approach, for all industries, NRI has identified the Arabian Gulf countries, Mexico, Indonesia, Turkey and Thailand as being the top five most promising countries/regions.

These promising countries have already experienced high economic growth during the last century. Strictly speaking, therefore, it is more accurate to refer to them as re-emerging economies, rather than as emerging economies. In light of the traits of these re-emerging economies, it is more important than in other emerging economies to develop business aimed at the low-income segment, which is seeing an increase in its income, and to enter into partnerships with leading local enterprises.

In particular, for Japanese companies, a key to successful competition with overseas companies in emerging markets is expanding business in high-risk emerging markets through forming partnerships with risk-taking enterprises such as Turkish companies, which was explained in Section 3.

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Reference: Top five promising post-BRIC countries/regions for Japanese companies by industry

Insurance	
1st	South Africa
2nd	Arabian Gulf countries
3rd	Thailand
4th	Poland
5th	The Philippines

Banking, securities	
1st	Turkey
2nd	Mexico
3rd	Indonesia
4th	The Philippines
5th	Chile

Commerce (retail, wholesale)	
1st	Arabian Gulf countries
2nd	Mexico
3rd	Thailand
4th	Poland
5th	Iran

Marine transportation	
1st	Indonesia
2nd	Arabian Gulf countries
3rd	Turkey
4th	Bangladesh
5th	The Philippines

Construction, real estate	
1st	Arabian Gulf countries
2nd	Mexico
3rd	Poland
4th	Indonesia
5th	Bangladesh

Communications	
1st	Arabian Gulf countries
2nd	South Africa
3rd	Indonesia
4th	Turkey
5th	Mexico

Processed food	
1st	Turkey
2nd	Mexico
3rd	Indonesia
4th	Poland
5th	Thailand

Automobiles and components	
1st	Mexico
2nd	Arabian Gulf countries
3rd	Turkey [1]
4th	Thailand
5th	Indonesia

Electronics	
1st	Mexico
2nd	Malaysia [2]
3rd	Arabian Gulf countries
4th	Thailand
5th	The Philippines

Chemical, rubber and plastic products	
1st	Mexico
2nd	Arabian Gulf countries
3rd	Indonesia
4th	Turkey
5th	Malaysia

Paper products, publishing	
1st	Mexico
2nd	Arabian Gulf countries
3rd	Turkey
4th	Poland
5th	Indonesia

Machinery	
1st	Arabian Gulf countries
2nd	Mexico
3rd	Turkey
4th	Thailand
5th	The Philippines

Notes:1) In Turkey, the retail prices of automobiles have risen sharply because a special consumption tax is levied on automobiles. Accordingly, the number of cars sold is limited. 2) In Malaysia, because substantial amounts of the sales of components for a company's own factories are included in total sales, the market is overestimated as compared to the actual market size.

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