

# **Consumer Trends and Expansion of Retail Markets in Growing ASEAN Economies**

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- I Why the Current Emphasis on Southeast Asia?
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Given that Japan's domestic market is shrinking, Japanese companies have been paying more and more attention to overseas markets. In particular, if China and India are included in the equation, the GDP of the Asian region has already exceeded that of North America or the European Union (EU). The total GDP for the ASEAN countries has grown to the same level as the GDP of each of three significant emerging economies, that is, Brazil, Russia and India. This paper examines five of these ASEAN countries, namely, Indonesia, the Philippines, Vietnam, Thailand and Malaysia. All of these countries have a high proportion of young people and will continue to enjoy this demographic bonus for some time to come, presenting significant potential for economic growth. These countries are expected to see their middle classes grow in terms of population and provide the engine that will drive growth in the ASEAN countries.

Nomura Research Institute (NRI) has conducted a consumer survey in the major cities of the Southeast Asian region. The results of this survey revealed that despite there being major differences in consumption, lifestyles and culture, there were some commonalities in terms of the maturity of consumption in each country. However, the pace of the expansion of the middle classes and the rate of growth vary country by country. Therefore, when selecting target markets, companies must collect sufficient information to form a clear view of the markets.

The retail markets of Southeast Asia are presently exhibiting a high rate of growth and offer a large scope for further growth in the future. While the overall trend is for the government of each country to relax the regulations governing foreign participation in its markets, the climate still remains somewhat unstable. Therefore, prior to and after entering these markets, it is necessary to carefully check the development status of infrastructure, trends in government policies and other matters that can be present as risks in doing business. Although there are many challenges and obstacles to overcome, Southeast Asia is definitely an attractive new market for business development. It is still not too late to start moving towards market entry.

# I Why the Current Emphasis on Southeast Asia?

## 1 Asian economies greet their largest-ever growth phase

Recent years have seen Japan’s domestic market shrinking such that, regardless of the industry, overseas markets have been attracting more and more attention.

As of 2012, of the world’s population of 7 billion, 60 percent (4.2 billion) live in Asia. The United Nations predicts that the population of Asia will continue to grow steadily with the majority of growth occurring in China and India. As a result, Asia’s population will reach 5.1 billion by 2050. Given that there is no prospect of any significant future population growth in developed regions such as North America and Europe, it goes without saying that among the world’s consumer markets, those in Asia will take on more and more importance.

While the population of Asia has been growing steadily, so too has its economy. In 2011, the nominal gross domestic product (GDP) of the Asian region including China and India had already exceeded that of North America and the European Union (EU). While the average rate of growth between 2010 and 2015 is predicted to be 4.2 percent in North America and 3.4 percent in the EU, the rate in Asia is expected to be much higher, at 8.4 percent.

If we confine our examination to the total GDP of the ASEAN (Association of Southeast Asian Nations) countries, we find that it has reached the same level as each of the BRIC countries, with the exception of China, that is, Brazil, Russia and India (Figure 1).

In addition, the proportion of young people in these countries is high, and they will continue to enjoy this demographic bonus for many years to come, a topic which is discussed later in this paper. Combined with increasing direct investment by foreign-owned companies, governments’ promotion of economic reform, industrial advances and measures for promoting industrialization, such advantage gives rise to the potential for significant economic growth, which is the region’s greatest appeal.

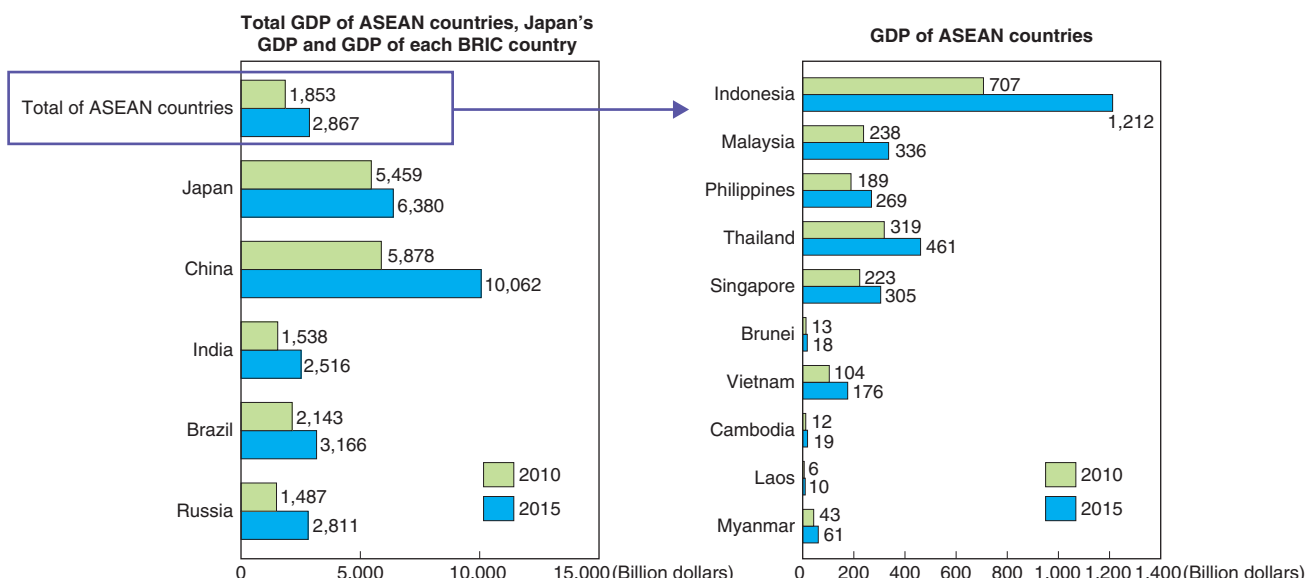
## 2 Economic growth in major ASEAN countries

A look at the trends in the economic growth of each ASEAN country over the last few years reveals that just like Japan, many were affected by the global financial crisis triggered by the collapse of Lehman Brothers in September 2008 (Figure 2). Nevertheless, while the situation differs from country to country, the general overall trend is towards recovery.

Indonesia is notable in that it is typical of a country that is rich in resources and has a thriving agriculture based on ample usable land. The country has a steadily growing economy. As its population continues to grow, the country is expected to become an economic powerhouse (Figure 3). The next challenge that Indonesia must take on to ensure the continued growth of its economy is the transition from primary to secondary industries.

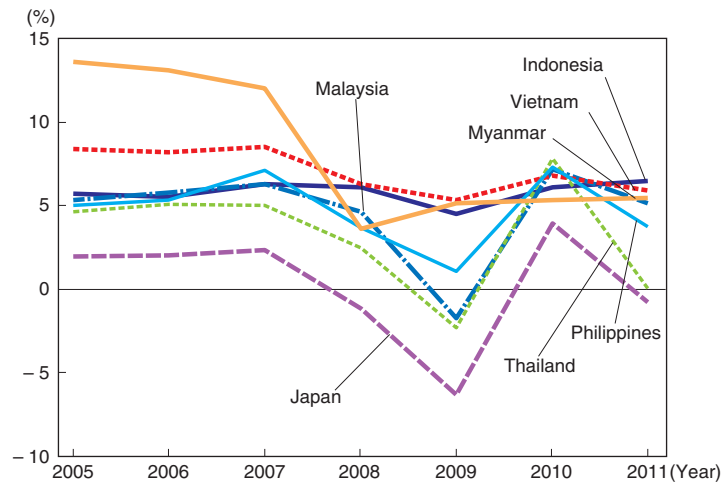
The trends in per capita GDP (Figure 4) indicate that among the ASEAN countries, Malaysia exhibits a particularly high rate of growth. The structural reforms undertaken by Malaysia’s government in various fields with the goal of “becoming a fully developed country by

**Figure 1. Nominal GDP (gross domestic product) in 2010 and predicted nominal GDP in 2015**



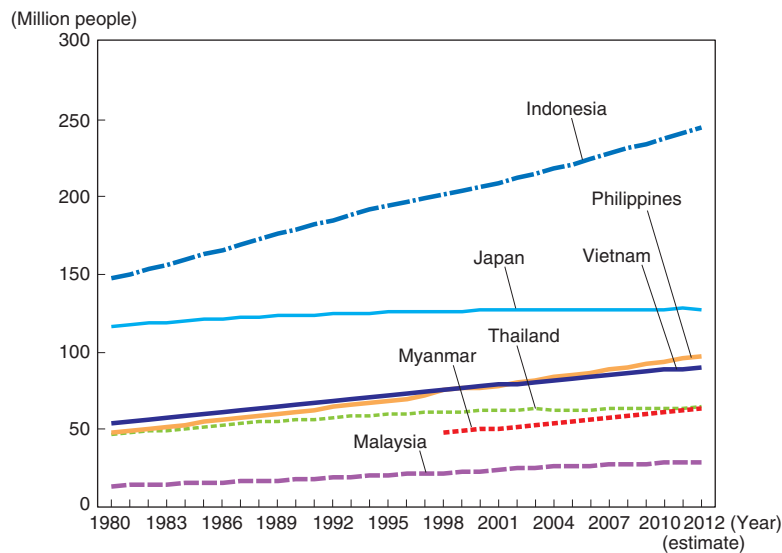
Notes: ASEAN = Association of Southeast Asian Nations, BRIC = Brazil, Russia, India and China. Source: Compiled based on “World Economic Outlook Database, 2011,” the International Monetary Fund (IMF).

**Figure 2. Trends in rates of economic growth between 2005 and 2011**



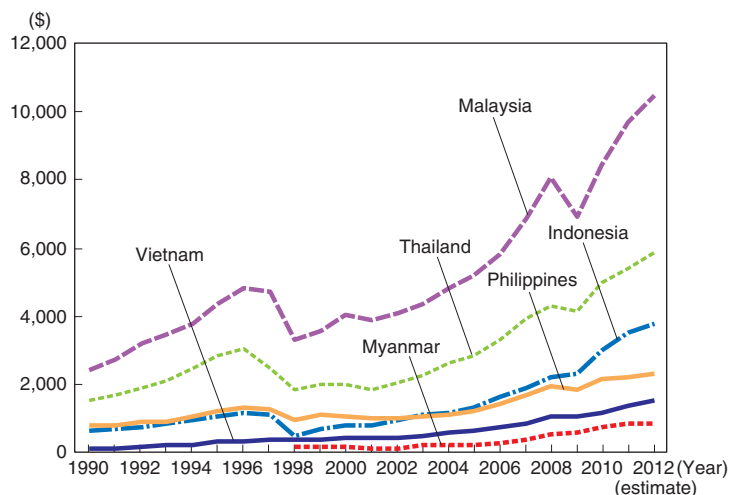
Source: Compiled based on IMF World Economic Outlook, April 2012.

**Figure 3. Trends in population between 1980 and 2012**



Source: Compiled based on IMF World Economic Outlook, April 2012.

**Figure 4. Trends in per capita GDP between 1990 and 2012**



Source: Compiled based on IMF World Economic Outlook, April 2012.

2020” are paying off and the country has a steadily growing economy. Compared to its neighbors, Malaysia enjoys stable social conditions and security, and is building a solid position as an “honor student” among the ASEAN countries.

Thailand was the first of the ASEAN countries to be successful in making manufacturing its major industry. Despite a period of no growth after the floods of 2011, the country has continued to show steady growth in comparison with its neighbors.

However, during the same period, the Philippines, Vietnam and Myanmar failed to achieve similar growth. When ASEAN was formed in 1967, the Philippines was expected to grow. However, the country was not able to foster its own industries. The country now depends on its citizens working abroad to send money home to fund domestic consumption. While the country attempts to revitalize its economy by promoting tourism, the continuing security deterioration hinders such development.

While Vietnam is a socialist country, it has just entered a phase where its main goal is economic growth. As such, compared to its neighbors, Vietnam faces the challenges of macroeconomic instability including exchange rates.

Given that Myanmar has only recently transitioned back to a civilian government after many years of military rule, increasing attention is being paid to this untapped market. Since 2012, when economic sanctions imposed by the United States and the EU were relaxed, interest in the market has been increasing rapidly. Nevertheless, the lack of foreign currency, the predominance of primary and food processing industries (the country lacks the technology needed for industrialization) and an underdeveloped infrastructure have all stood in the way of growth.

### 3 Period of demographic bonus forms the basis for economic growth

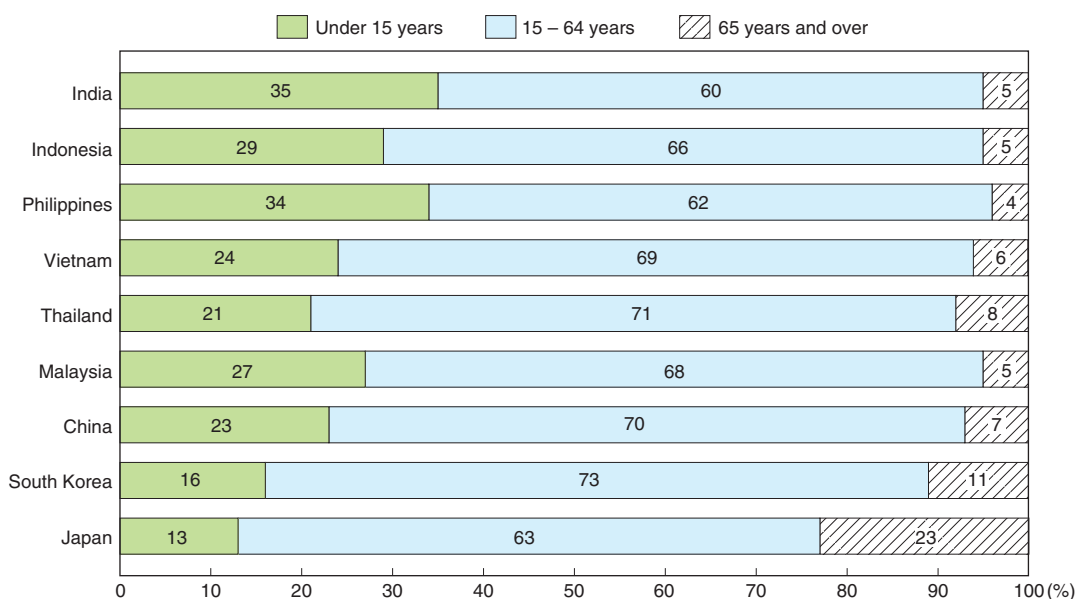
The period of demographic bonus refers to the period during which the working-age population (those aged between 15 and 64) is at least double the size of the rest of the population (the dependent population referring to those aged 14 and below and elderly people aged 65 and above). This demographic advantage stimulates domestic consumption, making high economic growth a likelihood. Counter to demographic bonus is the concept of demographic onus. Demographic onus refers to the state where the dependent population is on the increase. Japan enjoyed a period of demographic bonus between 1965 and 1990. However, the country is currently in a period of demographic disadvantage.

According to estimates by the United Nations, many of the ASEAN countries are currently in a period of demographic bonus (Figure 5), and this trend is expected to continue for some time. Specifically, South Korea is expected to be in this period between around 1990 and 2020, Thailand between around 1995 and 2030, China between around 2000 and 2030, Vietnam between around 2005 and 2040 and Indonesia between around 2010 and 2040. Furthermore, India, which is particularly significant given its huge population, is expected to enter its period of demographic bonus in 2020.

### 4 Complex area with each country having its own languages and culture

Up to this point, Southeast Asia has been seen as a single, all-encompassing area. However, a look at the area from the perspective of markets and consumer trends reveals some surprising differences between countries. As shown

Figure 5. Demographic structure of India, major ASEAN countries, China, South Korea and Japan



Source: UN, Demographic Yearbook system, Demographic Yearbook 2009 – 2010.

**Table 1. Southeast Asia is a complex area consisting of countries having their own languages and culture**

Country	Currency	Official language	Major ethnic group	Religion	Major industries
Indonesia	Rupiah (IDR)	Indonesian	Malay	Islam (89%)	Manufacturing (24%), agriculture, forestry and fishery (15%), commerce, hotels and restaurants (14%), mining (12%)
Philippines	Philippine Peso (PHP)	Filipino, English	Malay	Roman Catholicism (83%)	Agriculture, forestry and fishery (34% of the working population is engaged in these industries)
Vietnam	Dong (VND)	Vietnamese	Kinh (about 86%)	Buddhism (80%)	Agriculture, forestry and fishery, mining, light industries
Thailand	Baht (THB)	Thai	Thai	Buddhism (94%)	Agriculture (more than 40% of the working population is engaged in agriculture, which accounts for 12% of GDP), manufacturing (around 15% of the working population is engaged in manufacturing, which accounts for about 34% of GDP and about 90% of exports)
Malaysia	Ringgit (MYR)	Malay	Malay (66%) Chinese (25%) Indian (8%)	Islam (61%)	Manufacturing (electrical equipment), agriculture and forestry (natural rubber, palm oil, lumber), mining (tin, crude oil, liquefied natural gas (LNG))

Sources: Compiled based on basic information on countries and regions published by Japan's Ministry of Foreign Affairs, IMF World Economic Outlook April 2012, reports published by the Japan External Trade Organization (JETRO) and statistics published by Japan's Ministry of Internal Affairs and Communications.

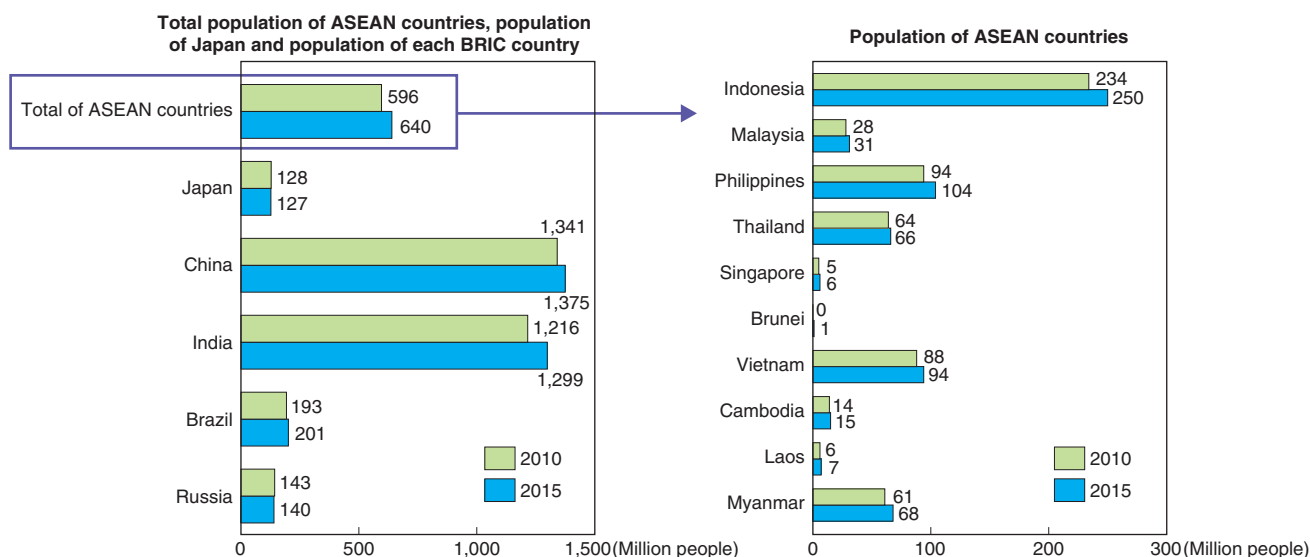
**Table 2. Overview of each ASEAN country**

Country	Area (as compared to Japan's land area)	Population in 2011	Population in major cities	Population in the middle and upper income segments <sup>Note</sup> (JETRO's estimate for 2015)	Per capita GDP in 2011 (\$)
Indonesia	1,890,000 km <sup>2</sup> (5 times)	240 million	Jakarta: 9.59 million	40.29 million	3,797 Jakarta: About 10,000
Philippines	300,000 km <sup>2</sup> (0.8 times)	95.86 million	Manila: 11.55 million	14.10 million	2,329
Vietnam	330,000 km <sup>2</sup> (0.9 times)	89.32 million	Hanoi: 6.45 million Ho Chi Minh City: 7.12 million	5.98 million	1,498 Ho Chi Minh City: About 3,500
Thailand	510,000 km <sup>2</sup> (1.4 times)	64.08 million	Bangkok: 6.88 million	20.63 million	5,851 Bangkok: About 20,000
Malaysia	330,000 km <sup>2</sup> (0.9 times)	28.73 million	Kuala Lumpur: 1.63 million	24.64 million	9,700
Japan	380,000 km <sup>2</sup>	130 million	Tokyo (23 wards): 8.95 million	—	45,920

Note: Population in the middle and upper income segments represents the sum of people in the high income and upper-middle income segments as specified below, where income refers to household disposable income.

- High income segment: Annual income of \$35,000 or more
- Upper-middle income segment: Annual income of \$15,000 – \$34,999
- Lower-middle income segment: Annual income of \$5,001 – \$14,999

Sources: Compiled based on basic information on countries and regions published by Japan's Ministry of Foreign Affairs, IMF World Economic Outlook April 2012, JETRO reports, NRI questionnaire survey and Euromonitor 2010.

**Figure 6. Population scale in 2010 and 2015**

Source: Compiled based on IMF World Economic Outlook Database, 2011.

in Table 1, Southeast Asia consists of countries that are completely different in terms of language, ethnicity, religion and industry, even though they are neighbors.

Moreover, as shown in Table 2, there are major differences in per capita GDP between the national average and that of a large city in each country. In addition, major cities in each country all have populations that are more than a certain scale. Therefore, when examining a market, looking at the country as a whole could lead to misreading the market.

In this paper, attention is given to five ASEAN countries, namely, Indonesia, the Philippines, Vietnam, Thailand and Malaysia, which were outlined in Section 2, Chapter I as major ASEAN countries based on the fact that these five countries have per capita GDPs that are already more than a certain scale and are expected to grow further, and that they have populations that are more than a certain scale (Figure 6).

## II Consumer Trends in Five Major Countries

### 1 Growth of middle class population and changes in lifestyle and consumer awareness

Nomura Research Institute (NRI) undertook a survey in October and November of 2011 to examine, compare and analyze the basic life values, consumer awareness and shopping behaviors of people living in major cities of emerging economies. This survey was conducted in eight major cities in Southeast Asia (360 respondents in

each), with the data being collected through face-to-face interviews (Table 3). This paper discusses the results of this quantitative survey as well as the results of the qualitative research implemented as part of the above-mentioned survey.

As economic growth continues and young middle-class population expands, various changes occur in lifestyle and consumption. For example, in China's large coastal cities in the mid-2000s, a new, young middle class appeared that came to be known as the petit bourgeois (hsiao-tze). These young people adopted a western lifestyle, buying their furniture at IKEA and MUJI and drinking coffee and wine. Even discounting the fact that many of these young people have spent time studying abroad or work for foreign-owner companies, it is true that new changes have occurred in their overall lifestyles including dining, clothing and shelter, work styles, shopping, fashion, communication with people and leisure-time activities, as simulated by overseas movies and television shows.

The above example points to the fact that highly motivated consumption in the growing markets where the proportion of the young middle-class population is high can form the foundation based on which new needs and fads are created.

The trends and phenomena that are currently seen in these five countries include an increase in health and safety awareness as well as in brand consciousness. Regardless of the country, these trends are evident in various fields such as food, clothing and shelter, entertainment, education and medical care.

The area of food culture is the one in which these trends are particularly prominent. For example, in

**Table 3. Overview of "NRI Survey of Consumer Shopping Behavior in Eight Southeast Asian Cities"**

<b>Survey purpose</b>	<ul style="list-style-type: none"> <li>Understanding consumer lifestyle and behavior in each Southeast Asian city</li> <li>Examining the purchasing channels of daily necessities and food, how often convenience stores are visited, owned electrical home appliances, etc.</li> </ul>																								
<b>Survey cities</b>	Hong Kong, Taiwan (Taipei), Singapore, Malaysia (Kuala Lumpur), Indonesia (Jakarta), Philippines (Manila), Vietnam (Ho Chi Minh City), Thailand (Bangkok)																								
<b>Survey method</b>	<ul style="list-style-type: none"> <li>Personal visit interviews in cities other than Hong Kong, where street intercept interviews were conducted</li> <li>Questionnaires that were prepared in English and then translated into each local language were used</li> </ul>																								
<b>Time spent for survey</b>	25 minutes per respondent																								
<b>Respondent prerequisites</b>	<ul style="list-style-type: none"> <li>Men and women aged between 15 and 69</li> <li>Class C or above in socio-economic classification (SEC)</li> <li>Respondents not involved in industries such as mass media, advertising and market research</li> </ul>																								
<b>Number of respondents</b>	<ul style="list-style-type: none"> <li>360 respondents in each city</li> <li>Total of 2,880 respondents in all eight cities</li> <li>Age allocation in each country</li> </ul> <table border="1"> <thead> <tr> <th>Age</th> <th>Male</th> <th>Female</th> </tr> </thead> <tbody> <tr> <td>15 – 19</td> <td>30</td> <td>30</td> </tr> <tr> <td>20 – 29</td> <td>30</td> <td>30</td> </tr> <tr> <td>30 – 39</td> <td>30</td> <td>30</td> </tr> <tr> <td>40 – 49</td> <td>30</td> <td>30</td> </tr> <tr> <td>50 – 59</td> <td>30</td> <td>30</td> </tr> <tr> <td>60 – 69</td> <td>30</td> <td>30</td> </tr> <tr> <td>Total</td> <td>180</td> <td>180</td> </tr> </tbody> </table>	Age	Male	Female	15 – 19	30	30	20 – 29	30	30	30 – 39	30	30	40 – 49	30	30	50 – 59	30	30	60 – 69	30	30	Total	180	180
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50 – 59	30	30																							
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Total	180	180																							
<b>Survey period</b>	October 6, 2011 – November 27, 2011																								

Indonesia, there has been a wine boom, while Malaysia has seen a boom in the sales of organic food. In addition, both countries have continued to see increased interest in Japanese food. In Vietnam, the westernization of the diet is moving forward with a boom in fast food. In both Thailand and the Philippines, there is an increased awareness of health and food safety, especially among the wealthy and middle classes. Other changes have also started to appear in these countries. These include a shift from the Southeast Asian cultural tradition of eating many times a day (four or five times a day, but in relatively small quantities) to the norm of most developed countries of three meals a day, the purchase of ready-to-eat, cooked foods and the use of frozen food products.

According to the research findings of Euromonitor International, the proportion of households with a refrigerator as of 2011 varied greatly between countries. It stood at 89 percent in Thailand, 86 percent in Malaysia, 43 percent in Vietnam, 41 percent in the Philippines and 30 percent in Indonesia. The same variation can be seen in the case of washing machines, with the rate of penetration being 93 percent in Malaysia, 54 percent in Thailand, 32 percent in the Philippines, 30 percent in Indonesia and 18 percent in Vietnam.

This major range for the spread of home appliances equals the scope for changes in lifestyle. If, in the future, households in those countries and cities in which the spread of home appliances has so far been poor come to possess as many laborsaving devices as their developed country counterparts, regardless of age or gender, lifestyles will change drastically.

When a country successfully climbs the steps of economic development, increased incomes, growth of the middle class population and the spread of consumer durables (home appliances), the lifestyles and consumption behavior of the people living in that country will certainly undergo major change.

A look at current lifestyle values (concept of everyday life), as determined by the results of the NRI Survey of Consumer Shopping Behavior in Eight Southeast Asian Cities (Table 4), reveals that in five countries, the proportion of people responding that they were “satisfied with their current lifestyles” exceeded the value for Japan, suggesting that people in those countries are by and large satisfied with the lives that they currently lead.

At the same time, almost every respondent answered that he or she “would like to be better off economically than he/she is now.” Many pursue social and economic success as seen in their answers such as that they “want to receive appointments/titles,” they “would prefer to develop their own business” and they “think that in order to receive a high income one needs to take a completely different path from everyone else.” These attitudes clearly differentiate these consumers from those in Japan, where society has already matured and economic growth has slowed.

A common feature in each of the five countries that are in the growing phase is that while consumers are satisfied with their current lifestyles, all are honest about striving for a higher level of economic affluence.

When we look at how emerging markets have grown in the past, we find that economic affluence would lead

**Table 4. Lifestyle values (concept of everyday life)**

(Unit: %, proportion of respondents who answered “I agree” and “somewhat agree”)

	Japan	Malaysia (Kuala Lumpur)	Indonesia (Jakarta)	Philippines (Manila)	Vietnam (Ho Chi Minh)	Thailand (Bangkok)
Rather than expressing my own opinion, I want to keep in harmony with others	85	84	79	59	81	93
I don't really want to do things that require effort and discipline	23	38	34	21	48	48
As a general rule, one should listen to one's superiors	67	86	87	85	73	59
I would like to receive an appointment/title so that I can publicly show my status/position	28	59	68	70	58	74
I would prefer to develop my own business than work for a leading company	35	76	73	90	72	83
I think that in order to receive a high income one needs to take a completely different path from everyone else	33	84	71	81	76	73
It is ok not to work if the type of job that I would like to do is not available	4	38	35	29	39	59
In the future, I would like to be better off economically than I am now	—	96	97	94	95	94
At this current time, I am well satisfied with my life	68	94	86	81	84	94

Sources: Japan: “NRI Questionnaire Survey of 10,000 Consumers” conducted by Nomura Research Institute (NRI) in 2009 [Note 1](#). Southeast Asian countries: “NRI Survey of Consumer Shopping Behavior in Eight Southeast Asian Cities” conducted by Nomura Research Institute in October – November 2011.



to changes in lifestyles and lifestyle values, which would then give rise to major changes in consumption awareness and the propensity to consume. Southeast Asia is no exception to this pattern, with the above-mentioned trend toward the westernization and modernization of lifestyles already taking place in five countries.

From now on, especially in the major cities where modernization is moving ahead most quickly, it is very likely that both values and behavior will come to further approximate those in developed countries. Therefore, as Southeast Asia moves into the growing stage, it might possibly follow the same route as that taken by Japan, China, South Korea and Taiwan, even only partially, which enables us to predict the challenges the region will face. In addition to demographic issues such as a declining birth rate, aging population and shrinking household size, the region will also face the process in which once the market is saturated with consumer goods, consumer needs will transition to services, and it will become difficult to sell products without the addition of tailored services. This means that the difficulties faced in expanding the market will only increase.

## 2 Coexistence of price sensitivity and demand for quality

To the questions about the consumption awareness among consumers in the five countries (Table 5), many respondents answered that they “will choose those items that fit their own lifestyles.” However, at the same time,

when asked about the emphasis placed when making a purchase for each product, most respondents selected “price” as the most important factor.

Furthermore, with the exception of Vietnam, the number of respondents selecting “I will try and buy the cheapest, most economical item” was greater in four countries than it was in Japan, while the number claiming that “I will carefully check if the quality meets the price before buying” was lower in Indonesia, Vietnam and Thailand than in Japan. Generally speaking, during the growth period of an emerging economy, the tendency is towards price sensitivity, and a similar trend can actually be seen in all five countries.

Then, what is likely to happen in the future? Taking the example of China as being typical of an emerging economy to look at how economic growth had been related to the propensity to consume in the past, we can assume that the proportion of people who place “price” first among their priorities will gradually decrease. As a result, the market will shift to one in which mature consumers place greater emphasis on quality.

Typical patterns of consumption are such that once a consumer experiences high levels of quality, he or she will come to expect such levels of quality, and will demand even higher levels of quality. This maturing of consumers has generally been seen in developed economies and mature markets. Based on the survey results described above, we can expect the five countries that are currently just in their growth phases to have much the same potential. In other words, even though consumers in these countries currently stress price above all else, the consumer markets will become more and more

**Table 5. Consumption awareness**

(Dark shaded portions indicate 50 percent or higher; unit: %)

	Japan	Malaysia (Kuala Lumpur)	Indonesia (Jakarta)	Philippines (Manila)	Vietnam (Ho Chi Minh)	Thailand (Bangkok)
I will try and buy the cheapest, most economical item	45	64	68	76	39	58
Even if the price is a little expensive, as long as the quality is good I will buy it	44	48	41	83	54	59
I will carefully check if the quality meets the price before buying	63	61	49	90	34	40
I will choose those items that fit my own lifestyle	35	53	56	76	63	50
I will often purchase an item if the people around me say that it is good	23	32	18	37	53	25
I often give people advice on products and shops	10	21	15	44	23	22
I will try as much as possible to purchase domestic produce	52	34	43	82	28	22
I will consider how safe a product is before buying	38	51	45	88	52	48
I will buy items from well-known manufacturers rather than unknown ones	42	21	7	77	22	18

Sources: Japan: “NRI Questionnaire Survey of 10,000 Consumers” conducted by Nomura Research Institute (NRI) in 2009 [Note 1](#). Southeast Asian countries: “NRI Survey of Consumer Shopping Behavior in Eight Southeast Asian Cities” conducted by Nomura Research Institute in October – November 2011.

active with economic growth and increasing incomes. Higher quality products and services will appear in these markets. As people come to recognize these higher levels of quality, their consumption values will naturally mature and they will recognize these values.

Such recognition of values will give Japanese companies, which have their strengths in high levels of product and service quality, an undeniable chance to succeed in the market. By assuming the emergence of new markets and consumers who will recognize such strengths, Japanese companies should be tailoring their strategies now.

### 3 Overview of five major countries and important points to note

Features of each of the five countries that are being considered here are outlined below.

#### (1) Indonesia: World's largest Muslim country

Indonesia is an island nation made up of around 18,000 islands with a total land area that is around five times that of Japan. The population is around twice that of Japan, at around 240 million, making Indonesia the world's fourth most populous country.

The island of Java, where the capital, Jakarta, is located, is around a third of the size of Japan, and is home to around half the population. Urbanization is progressing, albeit with an overemphasis on Jakarta.

Around 90 percent of the population of Indonesia is Muslim, such that they pray regularly throughout the day from early in the morning, and practice the Ramadan fast once a year. Meals consist of halal food (prepared in accordance with Muslim law) and alcohol is not consumed.

However, in comparison with its Muslim neighbor, Malaysia, Indonesia is very flexible with respect to changes in lifestyle including food culture. In fact, Jakarta already boasts a large number of foreign brand stores selling their products and offering services. Although the popularity of these stores varies between Malay and Chinese customers, they are generally always bustling. While Indonesia traditionally has an "eat at home" culture, there has been an increase in the popularity of casual restaurants and food courts especially among the middle and upper classes. Social networking services (SNS) have taken off to the point where the country has the world's second largest number of Facebook users. European soccer and Japanese anime and music are also popular. Overall, Indonesia is a country that is generally flexible in showing interest in anything new, and is a fertile market for newcomers.

#### (2) Malaysia: A growing market that is about to achieve developed nation status

By promoting industrialization and the creation of an information technology (IT) infrastructure, Malaysia

plans to achieve developed nation status by 2020. The government is implementing its Bumiputera policy that gives preferential treatment to Malay people and enterprises in various aspects so as to attain stability in the country's society. The country has a land area that is about 0.9 times that of Japan, while its population is about 20 percent that of Japan, at 28.73 million.

The capital, Kuala Lumpur, has seen a surge in the number of rich tourists from the Middle East. Malaysia is also known as "the world's largest Islamic financial market." Middle Eastern female tourists can be seen walking around upscale shopping malls wearing black "abaya" robes that completely cover their bodies. If you look closely, you can see Louis Vuitton bags, Bulgari watches and Cartier rings hidden under these abayas.

While there are many strict Muslims in Malaysia, in general, the country is relatively culturally tolerant with the exception of religious taboos.

In Malaysia, because it is common for both the husband and wife to work, many households employ immigrant maids from the Philippines and Indonesia. According to estimates made by the Japan External Trade Organization (JETRO), by 2015, around 80 percent of the total population will be in the middle and upper classes. Among the five countries, the activities of Malaysia's consumers, including their perceptions and values, correspond most closely to those of developed countries.

#### (3) Thailand: A growing middle class; now maturing

Relative to Malaysia, described above, Thailand is the runner-up in terms of growth and development. According to the JETRO estimates, by 2015, 30 percent of the entire population is expected to be in the middle and upper classes. The capital, Bangkok, has many large shopping malls, and it is common to see people using smartphones as they walk down the street.

Compared to Japan, Thailand's area is about 1.4 times greater, while its population, at 64 million, is about half. While originally an agricultural economy, it has successfully given rise to manufacturing and has also succeeded in developing its tourism industry, which makes it one of the few countries in Southeast Asia to have a balanced industrial structure.

Thailand has seen the emergence of one new trend after another, including the online purchasing of clothing and a move to a health-oriented boom in its culture of eating out. Despite the market being strictly regulated, a number of foreign-owned companies have been entering the market because of its high appeal.

The situation in Thailand is not all good news. As its population ages and the birth rate falls, the population will decline more quickly than that of other countries. The country also faces the issue of the widening gap between the rich and the poor. Nevertheless, there is no denying that Thailand is already moving towards maturity in terms of its propensity to consume.

#### **(4) The Philippines: A market characterized by small-lot sales that now faces difficulties related to growth**

The Philippines is a country made up of about 7,000 islands with a population of 95.86 million – about 90 percent of that of Japan. While the biggest challenge facing the country is industrial development to encourage the overall development of the country, the Philippines still relies on remittances from abroad to support its economy. The Philippines economy is characterized by men often taking unskilled jobs, while women move into managerial positions. Although the population has grown, the middle class has not, so that the consumer market has also failed to grow. In the business world, the very small Chinese population (constituting only 1.5 percent of the total population) holds a considerable amount of power, as represented by SM Prime Holdings. The only area showing development is business process outsourcing (BPO). Because many people work in call centers, they have become regular customers of convenience stores. In Manila, such a large customer base has made it easy for convenience stores to become popular.

The consumer market is characterized by “small-lot sales” and “small-quantity, small-pack sales.” Store shelves carry many products, including food and daily necessities such as shampoo and detergent, which are offered in small lots and in single-use sizes. While such products are certainly expensive, they sell well in the Philippines. Those Japanese companies that have done well in the Philippines such as Ajinomoto, Mandom and Yakult have all adopted these small-size packages. The main reason for the popularity of these small packages has nothing to do with economic common sense. Rather, it stems from the fact that many people are paid on a daily basis and find themselves wondering whether “they can now actually pay for a product.”

There is a strong tendency to use money for the benefit of family and friends, with no expense spared when it is for communication with others. Regardless of the income level, there has been explosive growth in the number of people adopting mobile phones. The national characteristic of always wanting to be close to people and family is cited as a possible reason for this popularity.

#### **(5) Vietnam: A market similar to that of China just before modernization**

Vietnam is a long, narrow country that runs from north to south, a little narrower than Japan (0.9 times), with its political center in the north and its economic center in the south. The population has been increasing steadily over the last 30 years in the same way as in the Philippines. Currently it is at 89 million.

Since 2011, many foreign-owned retail and food service businesses, including several from Japan, have successively entered the market. Vietnam is one of the

countries to which particularly close attention is paid within Southeast Asia. Economically, Vietnam is a somewhat unusual market that is scarcely influenced by overseas Chinese merchants. The country has reached the point where it needs investment to fuel its future growth.

Given that Vietnam is a socialist country, the gap between the rich and the poor is relatively small in comparison with neighboring countries. Furthermore, the living conditions of the poorest demographic are better than those in other countries. It remains common for people to both go to bed and rise early, and to buy goods while they are on their motorcycles, which is a unique shopping style. Among some of the wealthy Vietnamese, there is a growing tendency towards a lifestyle that is more akin to that in developed countries.

### **III Growth Potential of Retail Markets in Southeast Asia and Points to Note for Market Entry**

#### **1 Retail markets still have considerable room for modernization**

The retail market has a major influence on consumption in those emerging economies that are in their growth phase. This is obvious because the market provides a means of buying goods. In short, the degree to which modern retail outlets and the services they offer are developed determines the drive behind consumption in a country and in its cities.

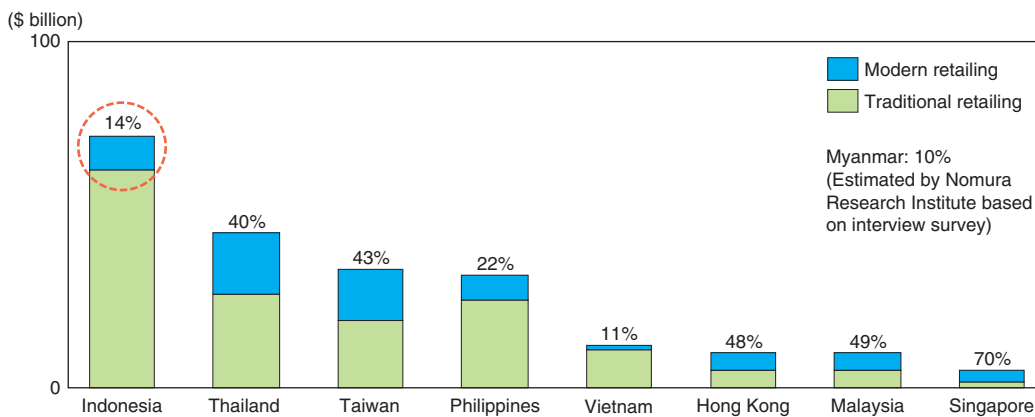
In this chapter, the scale of the grocery retail market where foodstuffs are sold to consumers in each of the five countries is discussed. In addition to the five countries, the data for Taiwan, Hong Kong and Singapore are also provided for reference purposes (Figure 7). Within the region, the largest market is that of Indonesia, followed by those of Thailand, Taiwan and the Philippines.

The grocery retail market can be divided into two types, namely, traditional and modern retailing (Figure 8).

As the term “traditional” suggests, traditional retailers refer to community merchants that have been trading in the same location for a long time, where those selling fresh produce (known as the wet market) are also included. The traditional retail market is characterized by a predominance of small, neighborhood stores, often in the form of mobile stalls. The name for these stalls varies from country to country, being a “warung” in Indonesia and a “sari-sari” in the Philippines. Nevertheless, regardless of the country, they are always present and are still popular among many people.

On the other hand, modern retailing refers to retail stores that are run by modern chain operations such as

**Figure 7. Proportion of modern retailing in the entire grocery retail market as of 2010**



Source: Compiled based on Euromonitor data.

**Figure 8. Traditional and modern grocery retailers**



supermarkets and convenience stores. Modernization in this area is often pushed along by the opening of branch stores by major foreign-owned retailers. Table 6 lists the main sales channels in each of the five countries, as well as the noteworthy features of each.

The development of modern retailing and the progress of motorization are inseparable. At present, large-scale shopping centers (SC) and hypermarkets are often being built on the outskirts of cities where they do not infringe any regulations and where ground rent is affordable, despite the fact that car ownership in the emerging economies of Asia is still low. Given that the lack of a car makes shopping in remote areas more difficult, the frequency of purchases that a person can go shopping and the amount of goods that they can buy are both limited.

In four of the five countries, with the exception of Malaysia where car ownership is high, NRI's survey reveals that the main means of going shopping are "walking" and "motorcycles" (Table 7). In Malaysia, modern retailing is progressing with the use of hypermarkets proving particularly popular. It is probably fair to say

that the high rate of car ownership has much to do with such popularity.

The progress of modern retailing is different in each of the five countries. As shown in Figure 7, traditional retailing accounts for 86 percent of the entire grocery retail market in Indonesia, with the majority of the population not making use of modern retailing. On the other hand, in Thailand and Malaysia, more than 40 percent of the market is already modern retailing. As is apparent from NRI's findings, there is a significant difference in the rate of use and the purchase frequency for convenience stores and hypermarkets in the major cities of the five countries (Table 7).

Generally, the size of the market being commanded by modern retailing is increasing steadily in each country. By looking at the growth rate and scale of the retail grocery market for 2005 – 2010 in each country, and plotting these as the axes of a graph, the characteristics of each country become clear (Figure 9).

In the case of Malaysia, while the market growth rate is high, the scale of the market itself is relatively small. In terms of the competitive environment, competition

**Table 6. Features of shopping places in each country**

Country	Main shopping channels	Features and trends
Indonesia	<ul style="list-style-type: none"> <li>• Warung (small grocery store)</li> <li>• Pasar (fresh food market)</li> <li>• Convenience stores run by local companies</li> </ul>	<ul style="list-style-type: none"> <li>• Jakarta has been seeing the successive opening of stores of various sizes, large and small</li> <li>• During holidays and weekends, families go to large shopping centers</li> </ul>
Philippines	<ul style="list-style-type: none"> <li>• Sari-sari (small grocery store)</li> <li>• Hypermarkets</li> </ul>	<ul style="list-style-type: none"> <li>• Although people buy goods at traditional stores, the use of large shopping centers is increasing</li> </ul>
Vietnam	<ul style="list-style-type: none"> <li>• Fresh food markets</li> <li>• Nearby traditional stores</li> <li>• Supermarkets</li> </ul>	<ul style="list-style-type: none"> <li>• While modernization is progressing steadily, the problem is that it is difficult to go to large shopping centers located in remote areas because many people use motorcycles</li> </ul>
Thailand	<ul style="list-style-type: none"> <li>• Convenience stores</li> <li>• Grocery stores</li> <li>• Hypermarkets</li> </ul>	<ul style="list-style-type: none"> <li>• The retail market consists of large stores located in city outskirts and small stores located in cities</li> <li>• During holidays and weekends, families go to large shopping centers</li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>• Hypermarkets</li> <li>• Grocery stores</li> </ul>	<ul style="list-style-type: none"> <li>• During holidays and weekends, people go to hypermarkets by car to stock up. During weekdays, they only buy goods in short supply at grocery stores</li> </ul>

Notes: Traditional retailing: Grocery stores, neighborhood stores and fresh food markets (called wet markets). Modern retailing: Convenience stores, supermarkets, hypermarkets and shopping malls.

**Table 7. Rate of use and purchase frequency for of each type of store in each country**

Upper row: Rate of use (percentage calculated by excluding those who do not use the indicated type of store)  
Lower row: Average purchase frequency per user per month

■ : Rate of use is 50% or higher   ■ : Rate of use is 80% or higher

City	Traditional retailing			Modern retailing					Main means of transportation (in order of increasing use)
	Fresh food market	Nearby traditional small stores	Grocery stores	Supermarkets	Hypermarkets	Department stores	Shopping malls	Convenience stores	
Jakarta (Indonesia)	76% 9.8	92% 17.7	71% 13.0	42% 1.6	40% 1.0	27% 0.8	46% 1.1	10% 1.8	Walking, motorcycles
Manila (Philippines)	86% 13.5	86% 19.8	87% 5.6	81% 3.3	78% 4.2	81% 2.2	76% 2.4	69% 6.3	Buses, cars, walking
Ho Chi Minh City (Vietnam)	92% 13.3	92% 9.3	41% 3.2	91% 2.6	49% 1.5	7% 0.8	12% 0.8	14% 1.7	Motorcycles
Bangkok (Thailand)	83% 11.0	36% 6.7	96% 15.7	65% 3.2	94% 3.2	70% 1.9	60% 2.0	95% 16.4	Walking, cars, motorcycles
Kuala Lumpur (Malaysia)	75% 5.6	64% 5.0	93% 8.5	65% 2.5	96% 2.2	78% 1.6	73% 1.6	81% 4.6	Cars, motorcycles
Singapore	70% 6.2	61% 3.9	72% 4.6	98% 6.8	77% 1.5	88% 1.7	95% 4.0	86% 4.8	Walking, buses
Taipei (Taiwan)	82% 8.6	52% 2.0	65% 4.5	95% 3.2	95% 1.7	81% 1.1	58% 1.4	100% 17.2	Walking, motorcycles, cars
Hong Kong	79% 11.3	65% 3.2	59% 5.0	100% 7.3	92% 4.4	90% 3.3	95% 4.9	98% 11.2	Walking, buses

Source: "NRI Survey of Consumer Shopping Behavior in Eight Southeast Asian Cities" conducted by Nomura Research Institute in October – November 2011.

has already intensified with the arrival of major overseas retailers. Similarly, the Vietnamese market exhibits a high rate of growth although it is still relatively small. Nonetheless, an attractive aspect of the Vietnamese market is that, compared to Malaysia, the competitive environment is not as demanding.

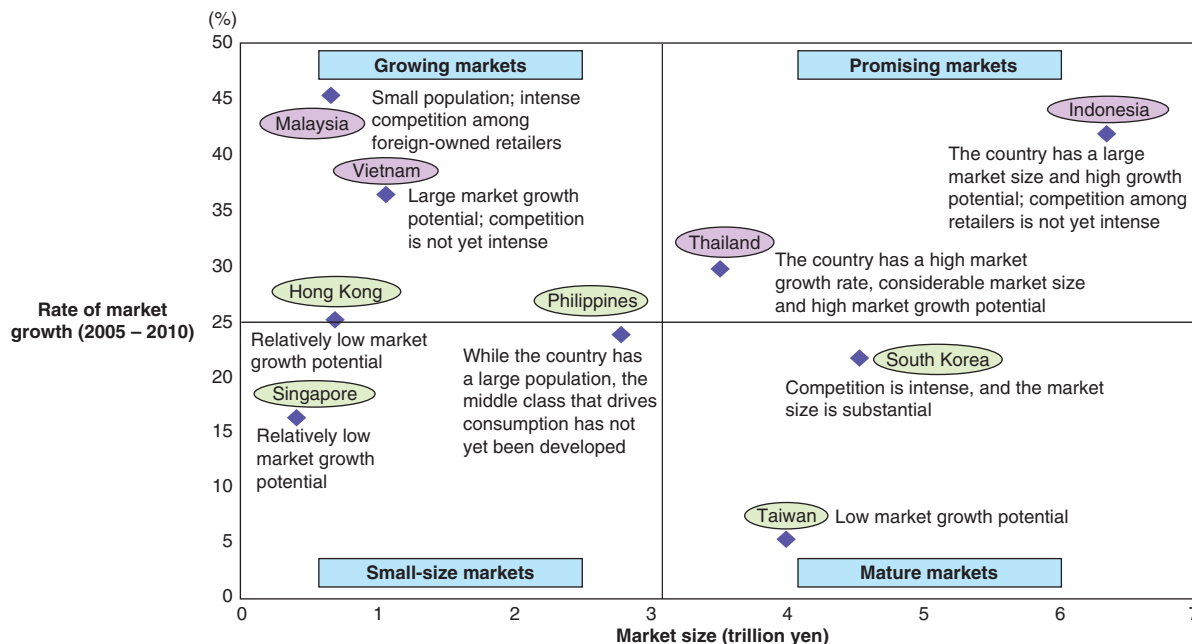
Indonesia and Thailand both fall into the quadrant of "promising markets" where the rate of market growth is high and the market itself is large. In particular, Indonesia still has substantial room for modernization, with modern retailing currently accounting for only 14 percent of the entire retail market, which offers considerable possibilities for entry by foreign-owned retailers. Given the size of Indonesia's population, it is fair to

assume that the country's market can still be developed to a large extent.

## 2 Growth of the middle classes and increase in foreign investment are key to the growth of modern retailing in Asia

In recent years, European and American retail giants have also been focusing their attention on the Asian market. Wal-Mart Stores, Inc. of the U.S., the world's largest retailer in terms of sales, has entered the Asian market, adopting a clear policy of "concentrating its resources on China and India." Carrefour of France announced its decision to pull out of the Thai, Malaysian

Figure 9. Growth rate and size of the grocery retail market in each country



Note: Japan's market size is 31.9 trillion yen and the growth rate is declining at 11%.  
 Source: Compiled based on Euromonitor data.

and Singaporean markets and instead to concentrate on Indonesia. Carrefour is trying to make a comeback in the Asian market by skillfully leveraging its policy of selection and concentration. The UK's Tesco chain has opened stores in Thailand and Malaysia, while Germany's Metro Group has outlets in Vietnam.

Japanese convenience stores, namely, Lawson, Family Mart and Mini Stop, have advanced aggressively to join 7-Eleven, which already has many stores in the region. Among supermarkets, Aeon has placed expansion within Asia at the core of its business strategy. As described in Chapter II, the population of the middle and upper classes is expected to increase further. These people are consumers who could appreciate the benefits of modern retailing once they use such retailing and could easily switch from traditional retailing. By targeting such consumers, these companies are now developing their bases for their future efforts.

### 3 Beautiful roses have thorns

While the Southeast Asian retail market is appealing as a new market from many aspects, there are many issues that need to be considered (Table 8). Among these issues, the following warrant special attention.

#### (1) Regulations restricting foreign participation in the retail market

A major obstacle to a foreign retailer's entry into Asian markets is the regulations that are in place to protect domestic companies. Such regulations consist of mainly:

- (1) Regulations related to investment for the establishment of a company

- (2) Regulations governing the opening of branch outlets
- (3) Regulations limiting the products that can be sold

Regarding restrictions on the opening of stores (Item 2), in Thailand and Indonesia, for example, location regulations are imposed that specify the areas where stores can be opened depending on store floor space. In Vietnam, permission from the government is required to open the second and subsequent stores. An example of restrictions on the products that can be sold (Item 3) is that in Thailand, food and beverage products can only be sold by Thai companies. That is, currently, it is not possible for a foreign-owned company to single-handedly open a convenience store or supermarket in Thailand. Instead, it is necessary to establish a joint venture with a local company.

#### (2) Underdeveloped infrastructure

Cases are often found in which infrastructure such as electricity, water service and transportation (air, sea and land), which we take for granted for our day-to-day comfort in Japan, has not yet been well developed. In terms of distribution, in some countries and regions, a cold chain has not yet been developed. There are huge differences between cities, with development sometimes being hampered by geographic factors, which require careful attention. Such infrastructure shortfalls are not limited to visible infrastructure. Institutional infrastructure is also often found lacking. There are cases where taxation is complex and/or there is no financial infrastructure. It is always necessary to keep in mind that there is almost no country or region where "business is easy and straightforward."

### (3) Relationships with the government, real estate costs and labor issues

In Southeast Asia, while Japanese companies have been hesitant to make a move, Taiwanese and Korean retailers were quick to enter the market by positively making investments at a relatively early stage. One representative example is Lotte Mart, which runs modern retail stores such as hypermarkets. Lotte Mart's strategy of expanding its business in Asia was explicitly demonstrated in the company's opening of stores in Ho Chi Minh City, Vietnam.

Its first store was opened in 2008, well ahead of any other foreign-owned retailers. The location is District 7, Phu My Hung, Ho Chi Minh City. Phu My Hung is a newly developed area and includes an exclusive, high-class residential zone located in the south of the city. A Taiwanese company undertook a large-scale development project and started the construction of high-rise housing in this area. At the stage when there were only building frames, Lotte Mart opened its first store. However, car ownership is very low in Vietnam, and this district is not one that anyone in the city center would likely visit by motorcycle for shopping. While the store is likely to attract customers with its novelty as the first instance, normal theory would point out that it will take some time before the store builds up a regular clientele.

Despite this common view, Lotte Mart placed an emphasis on "getting the store open." The company's goal

in doing so was to establish relationships with the government and Vietnamese companies that could become business partners, to gain and improve the recognition of the market and to establish its brand among the middle and wealthy classes, so as to aid in the opening of more stores in the future.

As explained above, as of October 2012, government approval is required in Vietnam for the opening of the second and subsequent outlets by foreign-owned retailers. As such, regardless of any positive strategy, the opening of further stores could not proceed as planned.

Given this situation, Lotte Mart took the risk of moving into the Vietnamese market with the aim of gaining the benefits of an early entrant into the market in anticipation of future deregulation and market expansion. In fact, prior to opening the company's second store, it had to go through nineteen months of difficult negotiations with the government.

At the same time, Lotte Mart has engaged in steady business operations, handling many products made by local companies so as to reduce the proportion of foreign products, while establishing relationships with Vietnamese companies to develop and produce private brand (PB) goods. While European and American retail giants often stick to the policies that they apply to their own countries in foreign markets, Lotte Mart's policy is to "thoroughly understand and conform to the local

**Table 8. Overview of retail markets in Southeast Asia—trends in foreign participation**

Country	Proportion of modern retailing	Points to note
Malaysia	49%	<ul style="list-style-type: none"> <li>Progress has been made in the development of large-scale shopping centers and specialty stores have been opening many branch outlets. As such, competition in modern retailing is already intense</li> <li>In May 2010, the Guidelines on Foreign Participation in the Distributive Trade Services Malaysia 2004 were revised. While this revision lowered the barriers to foreign participation, attention must be paid to the Bumiputera policy (preferential treatment given to Malays) in doing business. Convenience stores are the typical business format for which foreign participation is still not allowed</li> </ul>
Thailand	40%	<ul style="list-style-type: none"> <li>There has been a flurry of construction of large-scale stores and commercial facilities in the suburbs, and the opening of small-scale stores has been increasingly prevalent in cities</li> <li>Foreign-owned retailers such as UNIQLO and IKEA have been entering the market one after another. However, the retail industry is still subject to regulations, and a company with foreign ownership of 50 percent or more is not allowed to do business (these regulations are slated to be relaxed to 70 percent by 2015)</li> </ul>
Philippines	22%	<ul style="list-style-type: none"> <li>Regulations are imposed on foreign participation in order to protect small, domestic traditional retailers such as sari-sari stores</li> <li>Because wholesale functions covering the entire country are not in place, retailers are buying goods directly from manufacturers or through their distributors</li> <li>Underdeveloped infrastructure and heavy tax burden constitute bottlenecks. Because major overseas Chinese retailers have considerable power, the selection of partners becomes important</li> </ul>
Indonesia	14%	<ul style="list-style-type: none"> <li>Pasars (traditional markets) and warungs (small, neighborhood stores) have so far been the mainstream of retail channels</li> <li>The presence of modern retailing has recently been increasing, particularly in Jakarta. Domestic retailers rank high in terms of market share (Indomaret, Alfamart)</li> <li>Store floor space standards, location regulations and regulations regarding the products to be sold are applied to foreign participation. Recently, labor issues have become a problem</li> </ul>
Vietnam	11%	<ul style="list-style-type: none"> <li>Modernization is moving forward, particularly in cities. Most supermarkets are operated by local companies; some are run by foreign-owned retailers</li> <li>The operation of convenience stores and department stores has gradually been increasing, mainly by foreign-owned retailers. However, government approval is required for opening the second and subsequent stores. The regulations imposed on foreign participation remain deep-rooted such as that the permission/approval process is not transparent, which causes bottlenecks</li> </ul>

Source: Compiled based on JETRO reports, miscellaneous published information and NRI interview surveys.

consumption culture.” Although this policy takes time, the company believes that it is the best way to survive in a foreign market. As of October 2012, Lotte Mart had opened four stores in Vietnam, and has set a goal of expanding to 60 stores by 2020. The company’s strategy of “thoroughly and tenaciously becoming locally involved” should provide a suggestion to Japanese companies, but, at the same time, could well be a major threat.

Furthermore, European, American, Korean and Taiwanese companies are also active in lobbying governments with the goal of establishing long-term relationships. Based on such relationships, they promote their businesses and create strong positions that will endure over the long term, which is the principal action they take in moving into overseas markets. In particular, because the retail and service industries are subject to strict regulations that are unlikely to be relaxed, it is very important to establish relationships with the government and related ministries. Many countries and regions prohibit foreign-owned companies from acquiring real estate, forcing them to rent premises and placing them at risk of being subject to rent increases. The amount of rent set for the first year and subsequent rent increases could adversely affect their business operations. Therefore, both at the time of entering the market and subsequently, it is always important to be cautious about acquiring and maintaining real estate.

Finally, the fact that labor issues often become a problem can also be pointed out as risk. For example, in Indonesia, there have recently been many labor disputes, with frequent large-scale demonstrations and strikes aimed at securing pay raises. Furthermore, Indonesia has laws that make it difficult to dismiss employees, which could constitute an obstacle for doing business. Malaysia has the Bumiputera policy, which assures that the Malay population is given preferential treatment, as explained in Chapter II. This policy requires a company to hire at least a certain number of Malay people as its officers, constraining many companies in their personnel management.

These risks and issues related to people, location and the products to be sold present serious problems to retailers.

#### 4 The importance of starting preparations

After the five countries that have so far been described in this paper, markets within the ASEAN region that are next set to attract attention include Myanmar, Laos and Cambodia. While the markets of Southeast Asia are very appealing, there is much to bear in mind. However, currently, there are plans and movements that can quickly lead to the relaxation of an assortment of the regulations related to foreign investment.

One such initiative is to form the ASEAN Economic Community (AEC), which is being studied as a means of creating a competitive single market and production base within the ASEAN region. Studies are underway

with the goal of establishing the AEC by 2015. The AEC blueprint includes liberalizing and facilitating trade and investment, liberalizing the service sector (including easing restrictions on foreign investment) and improving the flow of people and goods so as to change the rules currently imposed by each country that have become obstacles to business.

Another movement is directed towards the establishment of the wide-area Free Trade Agreement (FTA) covering 16 countries in the Asia-Pacific region, with the aim of concluding negotiations by the end of 2015. This FTA is large in both scope and range, involving Japan, China, South Korea, India, Australia, New Zealand and ten ASEAN member countries, and will lead to uniform tariffs and other benefits that are expected to facilitate imports and exports. While the political instability between Japan and China/South Korea is seen as one of the biggest challenges, a positive approach will be needed to ensure that each country is working towards the same goal in pursuit of expanding the economic bloc that is advantageous to each country.

In addition to strengthening their efforts to revitalize the shrinking Japanese domestic market, more and more companies are starting to consider overseas markets as their future core business and their engine for growth. Among the overseas markets, Southeast Asia has the potential to achieve the growth that they seek, but is in no way an easy market to penetrate.

The fact that many countries are friendly to Japan with their cultural similarities (rice-based diet, chopsticks, Buddhism, etc.) is a plus. However, unsurprisingly, any entrant into the Southeast Asia markets must be prepared to experience a degree of pressure in that the markets are completely different from the Japanese market. Nevertheless, consumers will inevitably change. Therefore, the approaches that work in the Japanese market may or may not necessarily succeed overseas. On the other hand, efforts that failed in the Japanese market may possibly be successful overseas. One thing that can be said with certainty is that if a company does not actually rise to meet the challenges of the market, it will not reap any benefits. The author believes that the difficulties presented by the diversities of Southeast Asia present nothing but “possibilities” for business.

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Note:

1 “NRI Questionnaire Survey of 10,000 Consumers 2009” is a door-to-door survey conducted by NRI as part of its own research activities that targeted people aged 15 to 69 across the country. The number of respondents was 10,252.

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