

Japanese Companies' Strategies in Response to the Rise of Inland China's Economy

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I ncreased public spending has been very effective in turning around the Chinese economy, which has achieved a remarkable V-shaped recovery. In particular, in the inland areas where the effect of the global financial crisis that started in 2008 was negligible, a high-growth cycle has come to stay, with improved infrastructure and increasing urbanization, higher personal incomes, greater demand for homes and consumer goods and an inflow of capital invested by private-sector enterprises in pursuit of new business opportunities.

Purchases of homes and major durable consumer goods tend to begin when monthly household incomes exceed 5,000 yuan (renminbi) in the inland areas and 8,000 yuan in the coastal areas. While we refer to such consumers as the “next-rich” segment (those who have attained middle-class status), a survey conducted in September 2009 revealed that between 60 and 70 percent of this segment had purchased a car in the last three years. Even respondents who did not own a car stated that they intended to buy a car within the next two years.

This survey also revealed that about 30 percent of this next-rich segment have put past historical issues behind them, and currently have a positive image of Japan and Japanese people. The next-rich segment enjoys high incomes and high employment positions, and has a diverse sense of values. The outdated impression that Chinese people dislike Japan should be discarded.

From the perspective of Japanese companies, the inland Chinese market presents both opportunities and threats. The added value that comes with the positive reputation of Japanese products is offset by the need to have a system that can endure fierce competition in terms of cost performance. Specific measures to establish such a system would include selecting and limiting products to only necessary functions, locally procuring as many parts and components as possible and forming partnerships with Chinese counterparts.

I Inland Growth Driving the Chinese Economy

1 Increased Public Spending Supports V-Shaped Recovery of Chinese Economy

Between January and September 2009, the real GDP (gross domestic product) growth rate of the Chinese economy was 7.7 percent. With the lowest growth rate (6.1%) occurring in the first quarter, the economy has recovered to a level of 8.9 percent in the third quarter from July to September. Accordingly, it has become almost certain that the growth rate for all of 2009 will exceed 8 percent. Although exports continue to fall with September seeing a year-on-year decrease of 15.2 percent, increased investment in fixed assets (up 25.7% between January and September 2009), which has been enabled by large-scale public spending and a looser monetary policy, has supported a V-shaped recovery of the economy. While China's economic system is sometimes described as "state capitalism (capitalism that is managed by the state)," the country has been leveraging the benefits of "big government" to get past the recent global financial crisis.

This is not the first time that China has had to invoke large-scale stimuli to overcome a financial crisis. Around ten years ago, the government invested heavily in the Great Western Development Strategy. This program was first put forward by Deng Xiaoping in the 1980s as a means of developing the western areas of China in a concentrated manner to catch up with the coastal areas that were developed ahead of the western areas. It was 1999, during the time when President Jiang

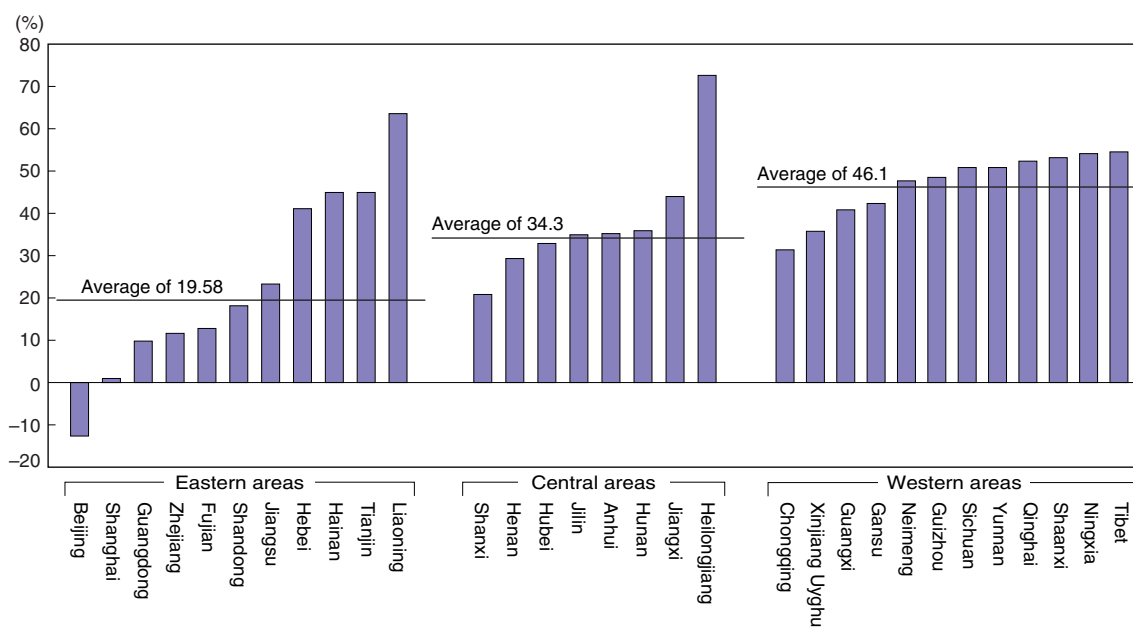
Zemin was in the administration, that specific plans for this program were announced. In 1998, the Asian financial crisis caused the growth of Chinese exports to drop to near zero. In the following year, the GDP growth rate fell to its lowest level (7.6%) of the 1990s. As overseas demand dried up, the government launched the Great Western Development Strategy to stimulate domestic demand.

At that time (1999), China's GDP was 9 trillion yuan and the central government's fiscal revenue was only about 1 trillion yuan in total. Because these amounts were insufficient for financially supporting the Great Western Development Strategy, the country was in a situation that it had to seek investment from other countries including Japan. Thinking of those days, the country is now in a quite different situation because it can finance a large-scale stimulus package amounting to 4 trillion yuan (total project cost) within its domestic market, which started in the second half of 2008 and will be spent in two years.

2 High Economic Growth Started Inland

China's current economic growth including that of its inland areas is being supported by investment in fixed assets. Of the total 4 trillion yuan to be spent in public work projects in 2009 and 2010, 45 percent is allocated to the development of infrastructure such as railways, roads and airports, and emphasis is placed on the inland areas rather than the coastal areas (Figure 1). In launching this stimulus package, the Hu Jintao administration gives highest priority to narrowing economic gaps in the inland areas and building a "harmonious society." Accordingly, this public spending functions as a policy

Figure 1. Growth of China's investment in fixed assets (first quarter of 2009, year-on-year change)



Note: Nominal investment in fixed assts in urban areas.
 Source: Compiled based on data published by the National Bureau of Statistics of China.

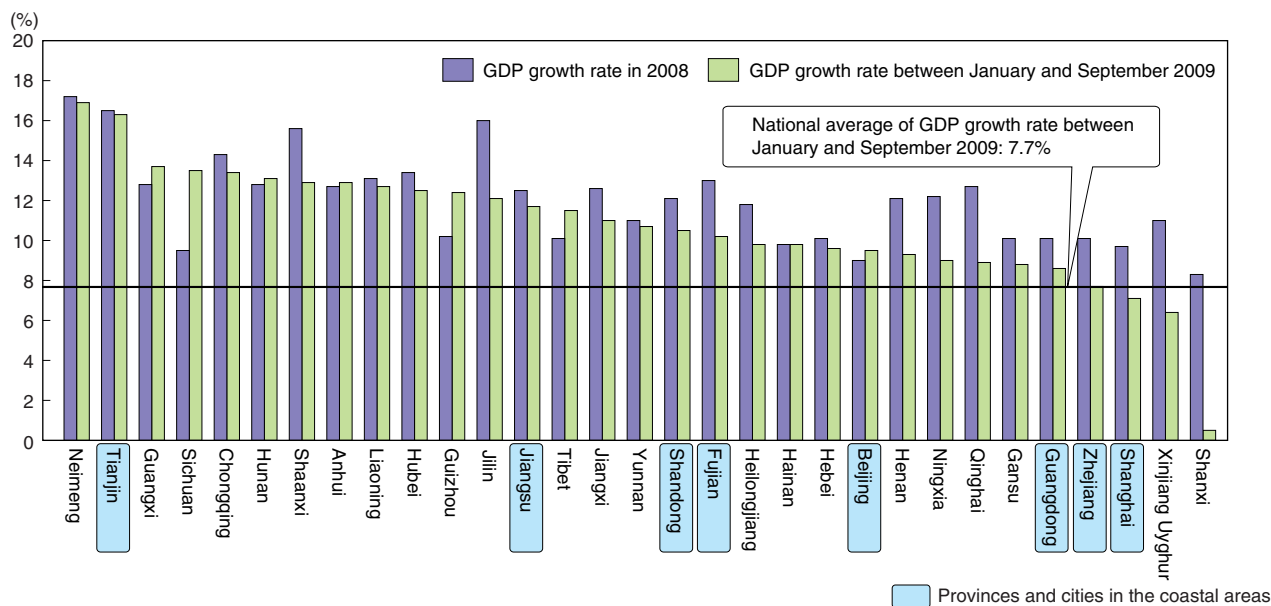
that kills two birds with one stone, which aims at boosting the economy and bridging economic gaps.

As a result, between January and September 2009, the GDP growth rate of Guangxi, Sichuan, Hunan, Anhui and Guizhou provinces, Tibet autonomous region and Beijing exceeded that in 2008, as shown in Figure 2. Except for Beijing, where fixed asset investment significantly increased by more than 50 percent, all of these municipalities are located in central or western China. In 2009, the Chinese economy was driven by inland growth, showing the “west high and east low” pattern. When we look at Figure 2, we see that between January and September 2009, the national average GDP growth rate was 7.7 percent, with only Zhejiang province, Shanghai, Xinjiang Uyghur autonomous region and Shanxi province falling below this percentage. Compared with the nationwide totals adjusted and announced by the National Bureau of Statistics of China, the values announced by the municipal governments, as shown in

Figure 2, appear to be inflated. However, this difference could be attributed to differences in statistical methods such as in handling inter-province transactions. The fact remains that the growth rate of the inland areas is much greater than that of the coastal areas.

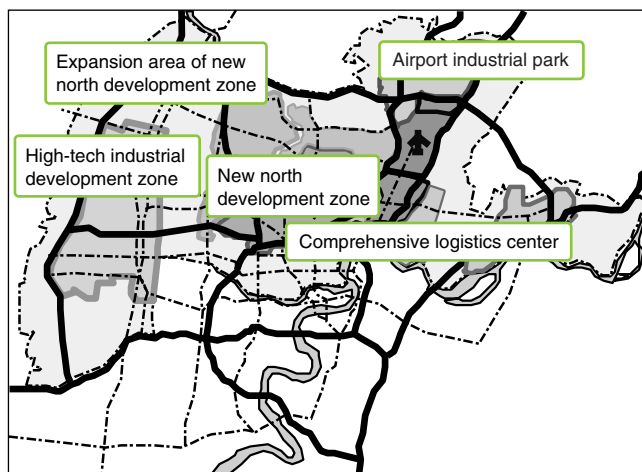
For example, in Chongqing city, to which the central government gives priority among the inland areas for economic development, the “model area of inland open economy in China” is being developed. In Chongqing, the Two Rivers New Area (the development zone centered on the point where the Yangtze River that runs through the center of Chongqing meets the Jialing River that is a tributary of the Yangtze River) is planned to be developed and to cover 960 km² (nearly 1.5 times the area of Tokyo’s 23 wards). This area is scheduled to be designated as China’s third new area, following the Shanghai Pudong New Area and the Tianjin Binhai New Area, which are two national development zones (Figure 3). By 2015, 40 billion yuan will be spent for the

Figure 2. GDP growth rate by province/city in 2008 and between January and September 2009



Source: Compiled based on data announced by each municipal government and published by the news media.

Figure 3. The “Two Rivers New Area” Plan in Chongqing



construction of infrastructure alone. In the Two Rivers New Area, clusters of leading-edge manufacturing, financial and service industries will be built. At the same time, this area will serve as the hub of the inland areas to access overseas markets. For example, bonded area centers will be set up at the Cuntan Harbor in the upper reaches of the Yangtze River and at the Jiangbei International Airport. Despite its inland location, the government is promoting the city as a base for export industries open to the world market. Chongqing is the city where the central government places the greatest emphasis as the key for developing the inland economy in the 2010s.

While the priority is not as high as that given to Chongqing, all other inland cities are experiencing a rush of infrastructure construction projects such as subways, expressways and high-tech industrial parks.

3 Rapid Growth of Urban Economy and Start of a High Growth Period

Investment in the inland areas is not limited to the field of public work projects. Investment by the private sector

such as in offices, plants and real estate is also rapidly increasing, as well as by foreign capital companies.

Figures 4, 5 and 6 show photographs taken by the author in August 2009 as part of a field survey conducted in Baoji city, Shaanxi province. Baoji city is located about 170 km to the west of Xi'an, the capital of Shaanxi province. Baoji has a population of 3.76 million (as of 2007) and a per-capita GDP of \$2,322 (as of 2007; about 1/4 that of Shanghai), and is a typical mid-level inland city (a so-called Tier III city). Looking at the photos in Figure 4, we find that the main streets of the city look exactly like those of major cities in the coastal areas. There are large-scale shopping malls where we see the stores of overseas brands. As shown in Figure 5, we also see the construction of an increasing number of condominiums, which are found only ten minutes drive into the suburbs. Along with the rise in personal incomes, 2009 saw more and more import automobile dealerships setting up their bases in Baoji (Figure 6). With the development of infrastructure in the city, people have been moving in from the surrounding areas, leading to the vitalization of commerce and service

Figure 4. Main streets and large-scale shopping malls in Baoji, Shaanxi



Figure 5. Condominium construction site in the suburbs of Baoji



Figure 6. Import automobile dealerships in the suburbs of Baoji**Figure 7. Construction of secondary centers in the suburbs of Xi'an**

industries. Augmented by the increase in personal incomes, the consumer market has been growing rapidly. All the indicators point to the start of a high growth period.

In Xi'an, the provincial capital (a Tier II city), the speed of development is even faster. The city has already passed the initial development phase that is being experienced by Baoji. Every day, there are heavy traffic jams. As a means of reducing such congestion, the construction of a subway system is moving ahead rapidly. Furthermore, to ease urban congestion, secondary centers have been constructed in the suburbs (Figure 7). This pattern of development involving the development of public transportation and urban extension is by no means inferior to that of major cities in the coastal areas. Over the last few years, it is probably fair to say that the pace of development in the inland cities has far outstripped that in the coastal areas.

While the inland economy is being supported by large-scale public investment in the development of infrastructure, the actual situation is that this is not the only factor behind the current growth. Large amounts of private sector capital are also being invested. The current high growth of the inland economy is being achieved based on a spiral, domestic demand-driven model of economic growth where urban infrastructure has been developed through increased public spending, which has led to a population inflow from surrounding areas,

which has accelerated consumer spending as well as capital investment by domestic and overseas companies.

Seventeen years have passed since Deng Xiaoping's South Touring Talk and the opening of Shanghai's Pudong New Area in 1992, which led to high economic growth centered on the coastal areas where the population is 500 million. The inland areas, where the population is 800 million, are now set to experience high growth. While high economic growth in the coastal areas has mostly been driven by investment of foreign capital and the promotion of exports, investment in infrastructure and rapid growth of urban economy are functioning as engines to promote the current high growth in the inland areas.

II Comparison of the Next-Rich Segment in the Inland and Coastal Areas

In this chapter, the features of the next-rich segment that is expanding in the inland areas are discussed based on the results of an Internet survey. At the beginning of September 2009, Nomura Research Institute (NRI) conducted an Internet survey jointly with Searchina Co., Ltd., a Japanese research company specializing in China. The survey targeted Beijing, Shanghai and Guangdong

in the coastal areas, and Heilongjiang, Shaanxi, Anhui, Sichuan and Hunan provinces in the inland areas for a total of 334 samples. The targeted respondents were those whose monthly household income is 8,000 yuan or more and less than 15,000 yuan in the coastal areas, and 5,000 yuan or more and less than 8,000 yuan in the inland areas. Restricting the survey targets to households in these income brackets produced relatively few samples. Nevertheless, we see consistency among data acquired in each area, and the survey results were not much different from the actual situation we personally experienced through our consulting activities.

Since 2004, we have been surveying the actual consumption patterns of China's next-rich segment. The next-rich segment is not particularly well off, but has sufficient income to rent or even buy a home, as well as buy expensive durable consumer goods such as a car and a flat-screen TV. People in this segment generally enjoy a pleasant lifestyle. Recently, the terms "middle income bracket" and "middle class" have also often been used. However, the middle class is usually thought of as being a somewhat broader segment, including slightly lower incomes than the next-rich segment. The segment to which we pay attention is that which includes purchasers and users of Japanese products and services. From this perspective, it might be better to define the next-rich segment as the upper middle class and/or the precursors of the wealthy segment.

When we began the survey in 2004, we defined the next-rich segment as a bracket of people whose annual household income is around 50,000 yuan in the inland areas and around 100,000 yuan in the coastal areas. Because the costs of housing and daily necessities vary considerably between the inland and coastal areas, there

must be a considerable difference between the annual incomes of the next-rich segment in the two areas. Accordingly, this time, based on preliminary interviews with car dealers and volume home electronics retailers regarding purchasers of large-scale durable consumer goods, we defined the monthly household income of the next-rich segment as listed in Table 1.

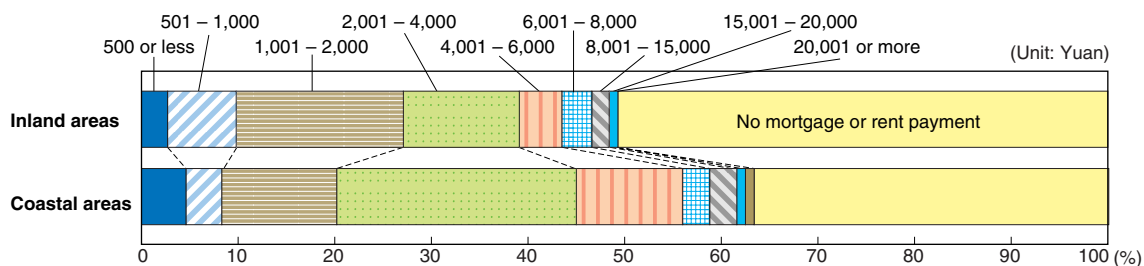
1 Difference in Monthly Household Income of Next-Rich Segment in Coastal and Inland Areas Is as Great as 3,000 Yuan

When we consider the difference in the cost of living between the coastal and inland areas, we assume that there will also be a difference of at least 3,000 yuan in the monthly income of the households that we define as included in the next-rich segment. By way of example, when we look at survey findings about monthly mortgages or rent payments (Figure 8), we find that more than 50 percent of the inland next-rich segment have no mortgage or rent payments to make. Even among the respondents making such payments, the monthly payment being made by 50 percent of such respondents is 2,000 yuan or less. Accordingly, when we consider mortgage or rent payments alone, we see a difference of around 2,000 – 3,000 yuan in the monthly costs between the coastal and inland areas. When I visited Xi'an in the summer of 2008, I saw a bank advertisement soliciting the purchase of a "60 m² condominium room in the suburban area for a deposit of 15,000 yuan and monthly payments of 500 yuan." A monthly payment of 500 yuan would not be enough to even rent an apartment in Shanghai or Beijing. As such, in any attempt to define the next-rich segment, we need to note that there are

Table 1. Overview of Internet surveys targeting the next-rich segment

Survey period	September 2009	
Survey areas	Coastal areas	Beijing, Shanghai, Guangdong
	Inland areas	Heilongjiang, Shaanxi, Anhui, Sichuan, Hunan
Target subjects	Next-rich segment (N = 334)	
	Coastal areas	Monthly household income: 8,000 or more and less than 15,000 yuan
	Inland areas	Monthly household income: 5,000 or more and less than 8,000 yuan

Figure 8. Monthly mortgage or rent payment



Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

actually large differences in personal incomes between the inland and coastal areas.

2 Workers in General Companies Also Rise to the Next-Rich Segment

Because the survey was conducted via the Internet, the next-rich segment that was targeted in this survey naturally consisted of respondents in their 20s and 30s who have a relatively high level of IT literacy (Table 2). Most respondents in the next-rich segment work in the corporate sector. In the coastal areas, the percentage of respondents working in foreign-capital companies is higher than that in the inland areas by 4.5 points. In contrast, the percentage of respondents who are professionals (lawyers, doctors, accountants, etc.) is somewhat higher than that in the coastal areas.

Interviews with inland Japanese car dealers revealed that the majority of buyers of 150,000 yuan (the price of a best-selling, compact Japanese sedan) and more expensive passenger cars are self-employed small business owners or high-ranking government officials with monthly salaries of at least 10,000 yuan. Recently, however, sales of passenger cars that are one rank lower than the above-mentioned cars to middle-management company employees have increased. Even though the salary of such middle managers does not exceed 5,000 yuan per month, households where both the husband and wife work at outside jobs can easily bring in more than 5,000

yuan per month. As such, in the inland areas as well, even regular company employees have become able to enter the next-rich segment (Table 2). In terms of the number of family members, the households of nearly half of all respondents are made up of three persons, which are known as nuclear families.

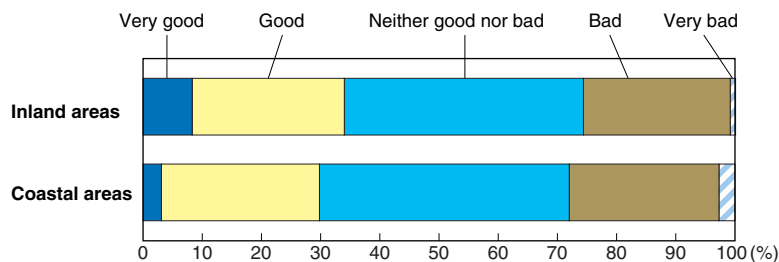
How does the next-rich segment consider the current economic climate? Figure 9 shows that there are no major differences between those in the coastal and inland areas as far as their feelings about the economy are concerned. To the question of “How do you feel about the current state of the economy?” about one-third responded with “very good” or “good.” If we add those who responded “neither good nor bad,” the respondents who selected these answers constitute more than 70 percent. In other words, only a little more than 20 percent of the respondents felt that the economy was “not good.” These findings suggest that the feelings of China’s next-rich segment about the current economy are not at all pessimistic. Furthermore, to the question of “What do you estimate your income will be one year from now?” more than 70 percent responded that “it will probably increase,” slightly less than 30 percent answered that “it will likely remain the same,” while less than 10 percent replied that “it will probably fall.” Similarly, respondents are also optimistic in terms of their future income prospects. Here again, there is little difference between those residing in the coastal and inland areas (Figure 10).

Table 2. Attributes of respondents to Internet survey

(Unit: %)

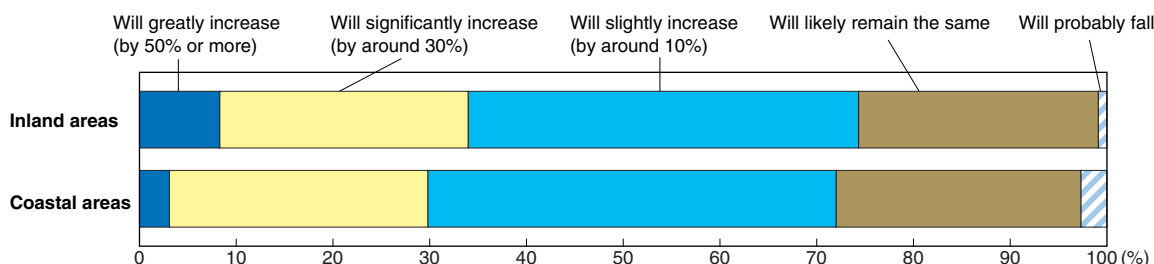
		Coastal areas	Inland areas
Age	20 or younger	0.0	0.4
	21 – 30	46.8	43.1
	31 – 40	38.5	36.9
	41 – 50	11.9	13.3
	51 – 60	2.8	4.0
	61 or older	0.0	2.2
	Total	100.0	100.0
Workplace	Government agency, state operated company	25.7	27.1
	Domestic capital private sector company	26.6	23.1
	Foreign capital company	32.1	27.6
	Self-employed small business owner	8.3	8.4
	Professional (lawyer, doctor, accountant, etc.)	7.3	12.9
	Farmer	0.0	0.4
	Unemployed	0.0	0.4
	Total	100.0	100.0
Number of household members	1	2.8	3.1
	2	13.8	17.3
	3	54.1	47.6
	4	17.4	19.1
	5 or more	11.9	12.9
	Total	100.0	100.0

Figure 9. Current feelings about economic situation



Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

Figure 10. Household income prospects over the next year



Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

3 Great Interest Shown by the Next-Rich Segment in Durable Consumer Goods

Figure 11 shows the answers to the question about the areas where they plan to spend money. The responses of the next-rich segment were again very similar in the coastal and inland areas. The respondents all showed their high interest in foodstuffs, dining out and clothing, which represent the areas directly related to daily living. High interest was also shown in housing, real estate and automobiles. Regardless of where they live, the next-rich segment is driving the boom of home and car purchases. While home appliances fall under the category of durable consumer goods, as do automobiles, the appliances were ranked high in the inland areas as products on which consumers want to spend money in the future. However, the demand for these appliances is not so high in the coastal areas as compared to that for automobiles. This is considered attributable to the fact that the demand for home appliances among the next-rich segment in the coastal areas is already generally saturated.

Equal in importance, if not exceeding that of homes and real estate, are the costs of children’s education and schooling. Although apparent inland, this tendency is more marked in the coastal areas. Among the consumer markets targeting the next-rich segment, the education field seems to offer great promise. In addition, there appears to be a high interest in domestic travel, which is more pronounced in the inland areas.

This survey revealed that more than 80 percent of the next-rich segment already own a flat-panel TV (LCD or plasma TV) (Figure 12), while more than 90 percent already have a desktop PC (Figure 13). With respect to desktop PCs, a similar survey targeting the next-rich segment (questionnaire-based interview survey aimed at

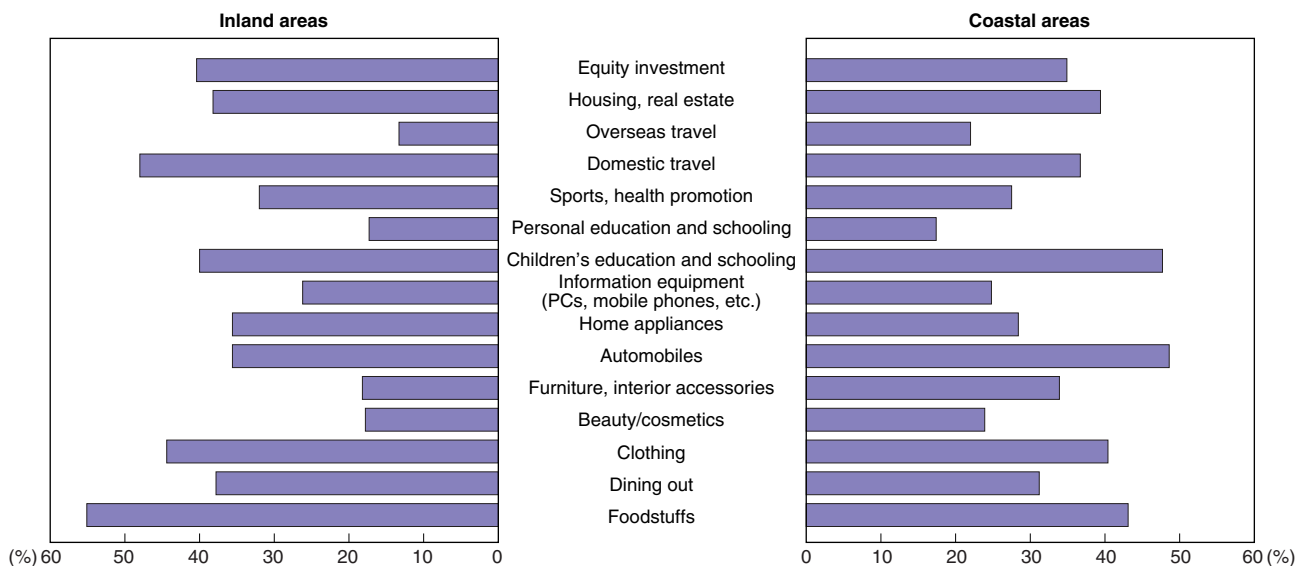
households with an annual income of at least 100,000 yuan) that was conducted two years ago also revealed that more than 90 percent of respondents already owned a desktop PC. Therefore, the current similar results should come as no surprise. This time, however, flat-panel TV ownership stands at more than 80 percent, while two years ago it was only around 30 percent. Because the next-rich segment that was targeted this time consisted of high-ranking employees who are highly IT-literate from among company employees, it is likely that their particularly high interest in the latest home appliances is evident in these survey results.

4 Car Ownership by the Next-Rich Segment Grows Rapidly over the Last Three Years

Looking at car ownership, we find that 60 percent of the next-rich segment in the inland areas are already owners, while in the coastal areas, the rate is 70 percent (Figure 14). Moreover, as shown in Figure 15, around 80 percent of those car owners purchased their vehicles in the last three years. While this rate obviously includes persons who replaced their cars, it is reasonable to assume that the majority of respondents are first-time purchasers. Car sales in China reached 7.2 million units in 2006, 8.7 million in 2007, 9.3 million in 2008 and 13.6 million in 2009. Of this latter number, 10.3 million were passenger cars, making China the world’s largest car-buying market. The results of this survey also make us easily imagine that the next-rich segment supported the explosive growth of car sales in the last two to three years.

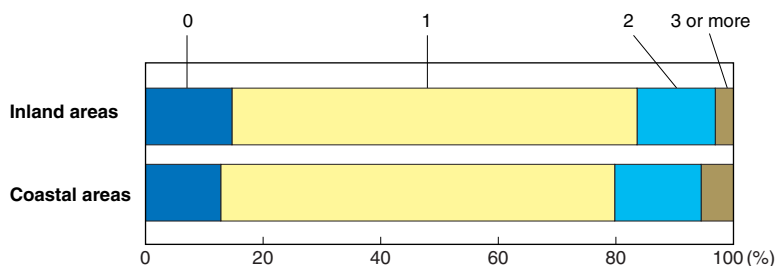
Figure 16 shows that there is a notable difference between the engine displacements of cars sold in the inland areas versus those sold in the coastal areas. In the

Figure 11. Areas of future spending (five priorities)



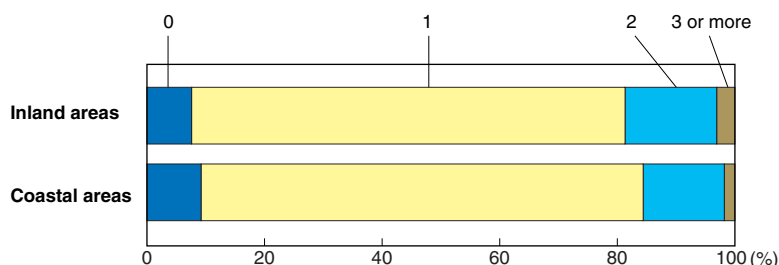
Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

Figure 12. Ownership of flat-panel TVs



Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

Figure 13. Ownership of desktop PCs



Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

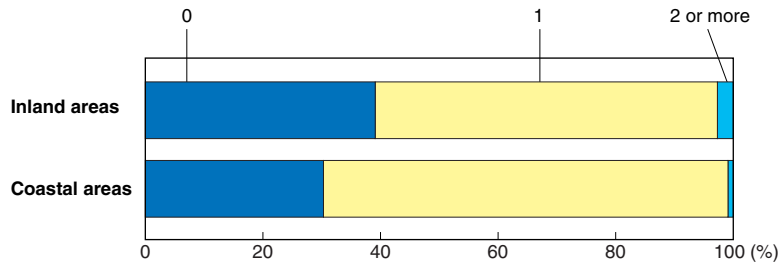
inland areas, small cars of 1600 cc or less are the largest sellers (a little less than 60% of overall car ownership), while in the coastal areas, mid-size and large cars of 1601 cc or above account for around 60 percent of overall car ownership.

Reflecting such patterns of car selection, in the inland areas, slightly less than 70 percent of respondents paid up to 150,000 yuan for their car, while slightly less than 30 percent paid up to 100,000 yuan. On the other hand, in the coastal areas, a little less than 50 percent of respondents paid 150,000 yuan or more, with less than 20 percent replying that they paid up to 100,000 yuan. This means that cars in the 100,000-yuan range sell well in the inland areas, while those in the 150,000-yuan range sell well in the coastal areas, creating a difference of around 50,000 yuan (Figure 17).

To the question of “When do you intend to buy a car” that was asked of respondents who do not own cars, a little less than 70 percent in the coastal areas replied that they intended to buy a car “within two years.” The rate was also high in the inland areas, with slightly less than 50 percent selecting the same answer (Figure 18). In both the inland and coastal areas, only about 20 percent of respondents stated that they had “no plan to buy a car.” As such, it is reasonable to assume that the majority of respondents in the next-rich segment who do not own a car will be new car owners within the next few years.

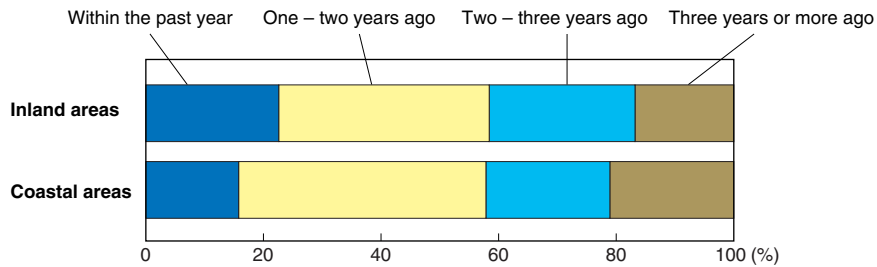
The majority of the respondents in this survey were in their 20s and 30s. While these generations are generally considered first-time car purchasers, it is likely that they will purchase another five or six cars during their lifetimes. Currently, it is said that the largest number of car

Figure 14. Car ownership



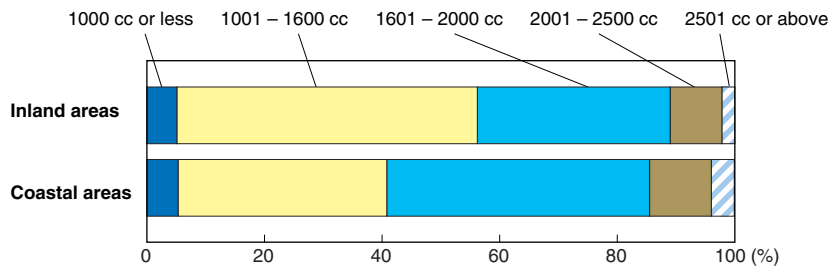
Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

Figure 15. When did you last buy a car? (responses by car owners)



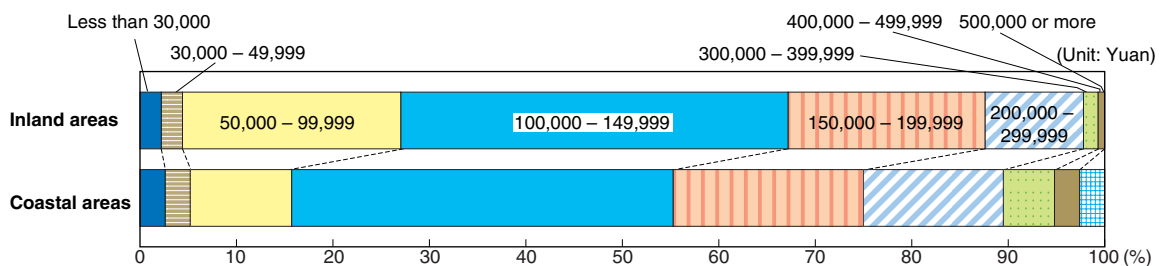
Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

Figure 16. What is your car's engine displacement? (responses by car owners)



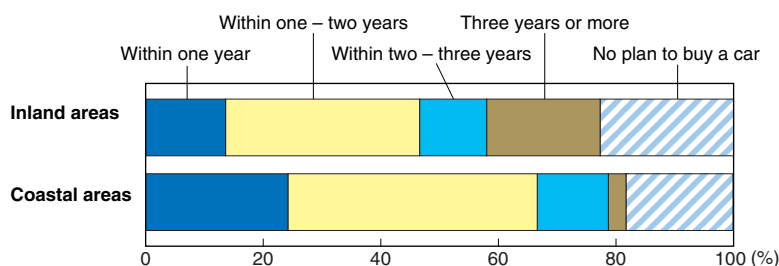
Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

Figure 17. How much did you pay for your car? (responses by car owners)



Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

Figure 18. When do you intend to buy a car? (responses by those who do not own a car)



Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

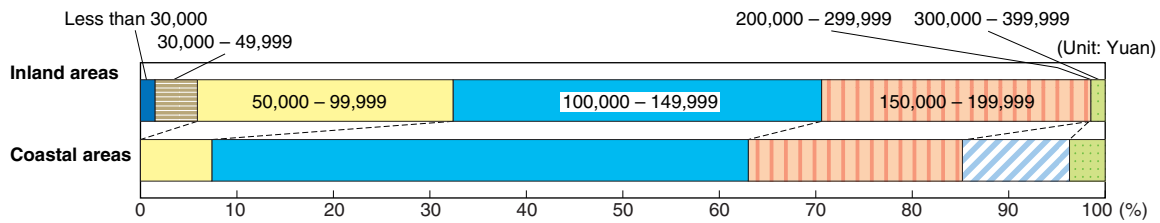
purchasers in Japan are in their 50s. These data indicate how attractive Chinese users are because they offer substantial potential. For those respondents who answered that they “do not currently own a car,” the price of a car that they intend to buy is a little lower than the price paid by those who “already own a car.” In the inland areas, respondents assume that the price will be on the order of 100,000 yuan, which is not any different from the price paid by current car owners. However, in the coastal areas where half of current car owners paid 150,000 yuan or more for their vehicles, more than 60 percent of non-car-owners answered that they did not intend to spend more than 150,000 yuan. While the downward trend of car prices probably has some influence, it should be noted that those persons in the next-rich segment who have not yet purchased a car seem intent on spending less than the price paid by those who already own one (Figure 19).

5 The Next-Rich Segment Uses the Internet to Acquire Product Information

Although we must remember that this survey was conducted via the Internet, a notable feature of the results of this survey is that the largest number of respondents stated that they used “sites on the Internet” to acquire information when buying a car, exceeding the number of those who relied on the “opinions of friends, family members and relatives (word of mouth).” In China, word of mouth is usually afforded much greater weight than TV or magazine advertising. With equal importance, the next-rich segment relies on the Internet to gather information from various websites. Accordingly, the Internet now has enormous influence on purchasing decisions (Figure 20).

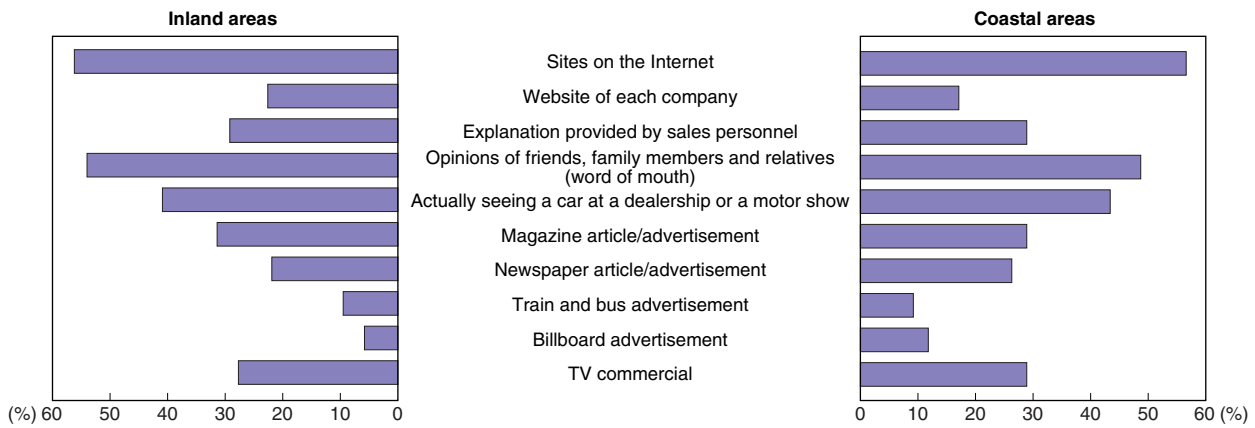
When we consider the factors, other than price, that play a major role in the selection of a car, we find that in

Figure 19. What is the price of the car you intend to buy? (responses by those who do not own a car)



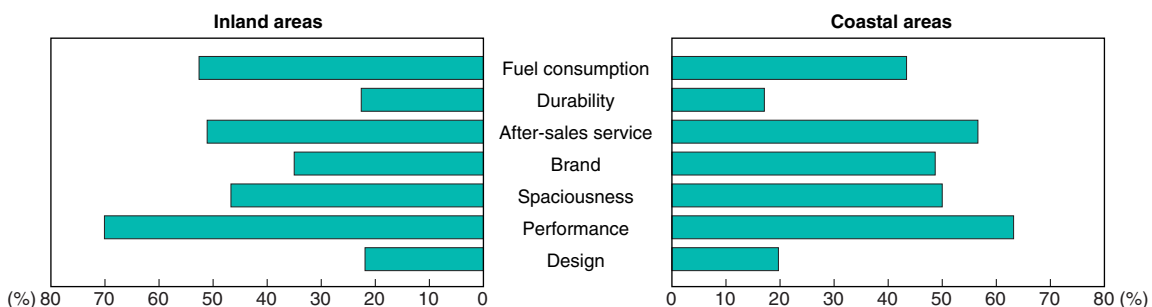
Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

Figure 20. Information sources used to gather information when purchasing a car (responses by car owners)



Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

Figure 21. Three priorities other than price in selecting a car (responses by car owners)



Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

both the coastal and inland areas, “driving performance” is given the highest priority. In the inland areas, “fuel consumption” comes second (Figure 21). This tendency is not limited to cars, with maintenance cost being an important factor in the purchase of many products in the inland areas. “After-sale service” is also highly evaluated both inland and at the coast. On the other hand, “brand” is seen as being important in the coastal areas, but not to the same extent inland. The next-rich segment in the inland areas appears to place an emphasis on practical values such as performance, economy and after-sales service, rather than design and brand.

6 The Next-Rich Segment Has a Good Impression of Products of Japanese Manufacturers

This section introduces the survey results regarding the next-rich segment’s preferences for products made by either domestic or overseas manufacturers. Their preferences appear to differ depending on the product. With domestic manufacturers being favored for foodstuffs and clothing, overseas manufacturers are favored over domestic manufacturers (in descending order) in cars, IT equipment, cosmetics and home appliances (Table 3). Furthermore, products made by overseas manufacturers seem to be more popular in the coastal areas than inland.

The following section examines how the next-rich segment felt towards Japan and the products of Japanese manufacturers. First, Table 4 shows the general impression that people have of Japan. In the coastal areas, 35.8

percent of respondents answered that they “like” Japan, while the figure is a little lower inland, at 30.7 percent. In Shanghai and Guangdong, in particular, the ratio of respondents saying that they “like” Japan was around 40 percent.

According to Searchina, with whom we collaborated on this survey, another survey (conducted of 9,300 samples in February 2009), which was not limited to the next-rich segment but which used the same panel (fixed set of persons who were targeted by the survey), revealed that when asked about discriminatory (hostile) feelings towards Japan, 17 percent of respondents had no ill feelings toward Japan, answering “None” or “Nearly none.” These results are quite different from those shown in Table 4. In other words, we did not intend to use a panel for this Internet survey that consisted of many persons who liked Japan. When the next-rich segment was separated from this panel and we looked at only their responses, we found that many people expressed their liking for Japan.

Furthermore, a group interview survey conducted by Searchina of the wealthy segment (those with an annual income of at least 250,000 yuan) produced many positive responses when the respondents were asked their opinions about Japanese-made products, Japanese manners, Japanese food and Japanese cities.

Although only a theory, we can probably assume that the next-rich segment, with higher incomes and higher levels of education, is much more generous than typical Chinese people in their feelings towards Japan. Considering past historical issues, it can naturally be assumed

Table 3. Comparison of products made by domestic or overseas manufacturers in terms of preference

(Unit: %)

	Foodstuffs		Clothing		Cosmetics		Home appliances		Information equipment		Automobiles	
	Coast	Inland	Coast	Inland	Coast	Inland	Coast	Inland	Coast	Inland	Coast	Inland
Prefer domestic manufacturers	38.5	48.9	33.0	45.3	21.1	16.4	23.9	25.3	18.3	13.8	12.8	12.4
Prefer overseas manufacturers (including joint ventures)	27.5	20.0	36.7	20.0	66.1	57.8	52.3	49.8	64.2	63.6	69.7	65.8
No preference	33.9	31.1	30.3	34.7	12.8	25.8	23.9	24.9	17.4	22.7	17.4	21.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

Table 4. General impression of Japan

(Unit: %)

	Coastal areas	Inland areas	Beijing	Shanghai	Guangdong	Heilongjiang	Anhui	Shaanxi	Sichuan	Hunan
Like	35.8	30.7	27.8	38.9	40.5	26.1	33.3	27.9	36.4	29.8
Neither like nor dislike	45.9	52.4	50.0	41.7	45.9	52.2	57.8	53.5	45.5	53.2
Dislike	18.3	16.9	22.2	19.4	13.5	21.7	8.9	18.6	18.2	17.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

that most Chinese people must have had a dislike for Japan. Nevertheless, the next-rich segment has a positive image of modern-day Japan and the Japanese people of today. Because the values of the next-rich segment have been rapidly diversifying, the fixed impression that Chinese people dislike Japan should be discarded. It should rather be noted that consumption values and brand preferences vary considerably depending on income, occupation and region. Accordingly, there is no meaning in conducting a survey that targets Chinese consumers as a whole.

As is clear from Tables 5 and 6, the next-rich segment has an extremely positive image of Japanese products. Given these high preferences, Japanese companies

should fully leverage the attraction and strength of Japan in conducting any marketing activities aimed at this segment.

III Field Surveys Reveal Increasing Consumption in the Inland Areas

In August and September 2008, we visited Xi'an city of Shaanxi province and Changsha city of Hunan province to conduct field surveys. This chapter introduces the results of these surveys.

Table 5. What is your impression of products made by Japanese manufacturers (including those made by Chinese subsidiaries)? (Automobiles)

(Unit: %)

	Coastal areas	Inland areas	Beijing	Shanghai	Guangdong	Heilongjiang	Anhui	Shaanxi	Sichuan	Hunan
Like Japanese-made products (including those made in China)	56.9	50.2	41.7	52.8	75.7	54.3	44.4	51.2	47.7	53.2
Neither like nor dislike	27.5	34.2	36.1	30.6	16.2	34.8	40.0	27.9	38.6	29.8
Dislike Japanese-made products (including those made in China)	15.6	15.6	22.2	16.7	8.1	10.9	15.6	20.9	13.6	17.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

Table 6. What is your impression of products made by Japanese manufacturers (including those made by Chinese subsidiaries)? (Home appliances)

(Unit: %)

	Coastal areas	Inland areas	Beijing	Shanghai	Guangdong	Heilongjiang	Anhui	Shaanxi	Sichuan	Hunan
Like Japanese-made products (including those made in China)	78.0	64.9	72.2	75.0	86.5	67.4	64.4	65.1	61.4	66.0
Neither like nor dislike	14.7	25.8	22.2	11.1	10.8	19.6	33.3	25.6	31.8	19.1
Dislike Japanese-made products (including those made in China)	7.3	9.3	5.6	13.9	2.7	13.0	2.2	9.3	6.8	14.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Compiled based on the results of the Internet survey jointly conducted by NRI and Searchina in September 2009.

1 Salaried Employees Having High-Rank Positions Can be Regarded as Part of the Next-Rich Segment

Table 7 shows the guidance wage levels (monthly incomes) for the labor market published by Changsha city in September 2009. In this publication, wages are indicated for a large number of jobs and positions in order to provide guidelines when wages are revised. When we look at the median income bracket (standard type), we find high incomes earned by corporate executives (directors, plant general managers), lawyers, electronic engineers and employees of financial institutions (bank sales staff). In these jobs, the monthly salary generally exceeds 5,000 yuan in the high income bracket. Even in the median income bracket, people having these jobs are at a level exceeding the monthly household income of 5,000 yuan if a two-income family is assumed. In cities like Changsha, the provincial capital (a so-called Tier II city), even salaried employees can be considered as falling under the next-rich segment if they have high managerial positions.

2 Xi'an City Sees First Year of Motorization in 2009

Several automobile dealers who were interviewed in the city of Xi'an unanimously pointed out the dramatic increase in sales that started in early 2009. In late 2008, the collapse of Lehman Brothers caused anxiety among consumers about the future economy and adversely affected consumption even in the inland areas. However, subsequent large-scale public expenditures dispelled such psychological anxiety. Because the inland areas have not been so highly dependent on exports in contrast to the coastal areas, the inland areas were not so directly affected by the financial crisis. As such, in January 2009, consumers began to increase their purchases of major durable consumer goods.

A Japanese car dealer we interviewed said that while 140 cars were sold in July 2008, 260 units were sold in July 2009, up 86 percent on a year-on-year basis. The owner of this dealership expressed the situation as that "2009 is the first year of motorization in Xi'an."

Table 7. Guidance wage levels (monthly incomes) for the labor market in Changsha (excerpt)

(Unit: Yuan)

	Median income bracket	High income bracket
Corporate director	5,408	19,096
Plant general manager	5,253	18,208
Lawyer	4,363	7,283
Electronic engineer	3,285	6,336
Bank sales staff	3,267	6,072
Production manager	3,154	11,388
Administrative manager	3,025	10,919
Finance manager	2,961	12,529
Machine design engineer	2,473	5,154
Insurance sales staff	2,392	3,583
Accountant	2,345	6,110
Building engineer	2,217	3,861
Public relations manager	2,199	8,364
Medical doctor	2,167	5,187
Sales manager	2,156	9,915
Caster	2,147	2,688
Real estate development staff	2,075	3,605
Car repairman	2,005	3,713
Software engineer	1,983	5,874
Blacksmith	1,908	3,318
Programmer	1,899	3,341
Pharmacist	1,614	2,383
Sales staff	1,400	2,462
Accounting staff	1,375	2,214

Note: These guidelines are published for the three classifications of low, median and high income brackets.
Source: Published by the Changsha Labor and Social Security Bureau on September 22, 2009.

Figure 22. Scenes at a major Japanese car dealership in Xi'an soon after it opened for the day

Why did sales increase sharply in 2009? Interviewees pointed to the following three factors:

- (1) The number of households with annual incomes of at least 8,000 yuan, who are the principal buyers of Japanese cars, has been increasing.
- (2) In 2009, increased efforts began for sales promotion activities such as advertising.
- (3) Corporate demand has been increasing along with an increase in public work projects.

Figure 22 shows scenes that we observed at a major Japanese car dealership in Xi'an. Although this photograph was taken on a weekday only a little after the dealership opened at 9:00 a.m., most sales booths were already filled, and a queue had formed for the repair and maintenance department.

A wave of economic development has also extended over the surrounding area of the city of Xi'an. There are many cases where wealthy people continue to live in their homes, but their spouses and children live in Xi'an for reasons such as receiving a better education. In addition, the suburbs of the city are becoming increasingly urbanized. Due to such expanding urbanization, some farm owners acquired several million yuan in return for compulsory purchases of their land. Generally, these farm owners first buy a house, and then go on to buy a car. In Xi'an, the households of workers in the city whose incomes have increased, wealthy families who move from the surrounding areas to Xi'an and farm owners who sold their land-use rights all contribute to the increased consumption by purchasing expensive durable consumer goods.

In the case of Japanese cars, top sellers consist of small cars costing around 150,000 yuan and medium/large cars costing 200,000 yuan or more, with wealthy householders being the main buyers of the latter. Of these buyers, small business owners account for nearly half. While these owners operate their own companies, at the same time, they also hold a post in a governmental organization. Because they have multiple sources of income, they can afford to replace their cars with more expensive ones, or even buy a second car. Such rapid increases in car sales that have been observed in major inland cities such as Xi'an involve all levels of cars from low-priced models to luxury cars partly because wealthy people who continue to increase

their incomes are replacing their cars and/or purchasing additional cars.

This phenomenon is not limited to Xi'an. Much the same can be found in central and western provincial-capital-level cities. China's overall car sales in 2009 were up 46 percent over the preceding year. This explosive growth is being supported by the inland markets.

IV Chinese Enterprises Thriving in the Inland Markets

The expansion of the inland China market has presented Chinese companies with huge opportunities to move ahead. Table 8 lists car sales in China for the first half of 2009. We can see that Chinese brands hold sixth, seventh and ninth places in this ranking. Particularly notable is seventh place BYD Auto, which has seen a year-on-year growth of 176 percent. BYD Auto is a wholly owned subsidiary of BYD Company Limited, which is a private-sector company that was established in 1995. BYD is the world's largest manufacturer of lithium (rechargeable) batteries. In 2003, BYD purchased Qinchuan Auto Company Limited in Xi'an and established BYD Auto to enter the field of automobile manufacturing.

The total sales of the BYD Company group in 2008 were 26.8 billion yuan, of which 8.6 billion yuan were derived from its automobile sales. In 2006, three years after the acquisition of Qinchuan Auto in 2003, the "F3," which was the company's first self-developed car (Figure 23, left), was released. This model was a huge success, propelling the company to a top-ten ranking in the first half of 2009, only six years after its establishment. The F3 is in the compact car segment known as the A Class, which is experiencing the highest growth in the inland market. The price range of the 1.6 L class of the F3 is between 60,000 and 100,000 yuan, which is tactically set within reach of the next-rich segment in the inland areas.

Among imported cars, typical of this 1.6 L class, are the "Elantra" made by Beijing-Hyundai, which is priced between 80,000 and 120,000 yuan (Figure 23, right), and the "Corolla" made by FAW Toyota, which

Table 8. Passenger car sales by manufacturers in China for the first half of 2009

Automobile manufacturer	First half of 2009		First half of 2008		Year-on-year growth rate (%)
	Rank	Sales (units)	Rank	Sales (units)	
Shanghai Volkswagen Automotive Co., Ltd. (Shanghai VW)	1	306,231	2	264,992	16
FAW-VW Automobile Co., Ltd. (FAW-VW)	2	304,427	1	268,664	13
Shanghai General Motors Co., Ltd. (Shanghai GM)	3	264,827	3	211,911	25
Beijing-Hyundai Motors Co., Ltd.	4	235,607	7	137,857	71
Dongfeng Nissan Motor Co., Ltd.	5	198,416	6	145,817	36
Chery Automobile	6	180,019	5	174,283	3
BYD Auto Co., Ltd.	7	176,814	15	64,072	176
Guangzhou Honda Automobile Co., Ltd.	8	151,019	8	126,590	19
Geely Automobile	9	147,019	9	121,690	21
FAW Toyota Motor Sales Co., Ltd.	10	142,417	4	190,639	-25

Source: China Association of Automobile Manufacturers (CAAM).

Figure 23. BYD Auto's F3 (left) and Beijing-Hyundai's Elantra (right)

is priced between 120,000 and 180,000 yuan. The Corolla is a little too expensive for the next-rich segment whereas the Elantra is priced within their reach. However, because the F3, which is domestically produced and is in the same class, is not inferior to imports in terms of features and is priced from 60,000 yuan, it is no surprise that it has become such a big success in the inland market.

In January 2009, to promote the spread of compact cars, China halved the sales tax on cars of an engine capacity of 1.6 L or less (reduced from 10% to 5%). On top of this, a car purchase assistance program was adopted for rural areas. These measures led to the sales of vehicles of a capacity of 1.6 L or less accounting for more than 70 percent of total passenger car sales. Among these compact cars, BYD Auto's F3 became the best-selling car of 2009 with annual sales of 280,000 units, which was an unprecedented number for a single model of a vehicle. At the meeting of the Standing Committee of the State Council held on December 9, 2009, it was decided that the sales tax on small cars would also be reduced for 2010 (from 10% to 7.5%), and the car purchase assistance program would be continued, paving

the way for a continued boom in the sales of small cars in the Chinese market.

BYD Auto achieved success by starting its business by targeting the next-rich segment in the inland markets where price is stressed over and above quality. At the same time, unlike other domestic manufacturers, BYD Auto is also known as the company that put considerable effort into its R&D activities to develop independent brands. In the BYD Shenzhen Pingshan Industrial Park, the company has set up a large-scale R&D center where more than 3,000 automotive engineers are working. In Beijing, the company has a car-body pressing plant that was acquired from Beijing Jeep. While the company has yet to master some technologies such as engines and electronic control systems, the company employs first-rate engineers who have been recruited from around the world including Japan, to whom the company offers high managerial positions, in pursuit of becoming technologically independent. In addition, by leveraging the company's core competence (batteries), the development of an electric vehicle is well under way (as of 2009, trial electric cars had been developed). The company plans to enter the

mass production phase in 2010 for targeted users such as government organizations and taxis.

Unlike Chery Auto and Geely Auto, which are traditional Chinese manufacturers that receive backup from local governments and, in return, are heavily subject to government involvement, BYD Auto is a newly emerging manufacturer that is characterized by its abundant entrepreneurial spirit. However, if BYD Auto, which is still at the stage of developing technological abilities, did not have the benefit of the inland markets that are its home base, the company would not have been able to achieve the success that it has attained. In this sense, BYD Auto is a company that gains its prowess by taking advantage of the inland markets.

In addition to car manufacturers, many other domestic manufacturers have been growing by achieving success in the inland markets. For example, let's look at China's LCD TV market. Supported by moves to replace CRT televisions with LCD sets, the 2009 market saw a year-on-year increase of 80 percent (based on quantity sold), making China the world's largest market for these TVs. During the first half of 2009, domestic TV manufacturers enjoyed a market share (based on quantity sold) of around 70 percent, showing a huge increase from the first quarter of 2008, in slightly more than one year, when their share was only 40 percent. The principal reason for this surge in the market share of domestic manufacturers stems from the rise of the inland market. Currently, the rapid growth of the market is being driven by the next-rich segment in the inland areas. Accordingly, Chinese manufacturers offer inexpensive products priced between 3,000 and 5,000 yuan aiming specifically at this market. While Korean and Japanese manufacturers have attempted to lower their prices, it is simply not possible for them to compete with Chinese manufacturers in terms of price.

When we visited a volume home electronics retailer in Baoji city, Shaanxi province, we found that there were basically no customers around the displays of Japanese products but there were many around the displays of the Chinese brands. The salespeople at the displays of the Japanese products lamented that "at these prices, explaining the differences between the products is futile." This means that while Japanese manufacturers' products certainly offer very advanced functions and are considered as being more durable, such superior factors alone are not enough to justify the difference in price.

Since China began to fully endeavor to dismantle its state-run economy in 1997, China's new economy is only 12 years old. Many private-sector companies that have accumulated their strengths in their home territory, that is, the inland markets, have yet to embark on head-to-head competition with overseas companies. Even in those fields where comprehensive technological abilities are required such as automobiles, Chinese companies will lead the way one after another.

V Achieving Success in the Inland Next-Rich Markets

1 Need to Re-examine Business Processes

In both the coastal and inland areas, China has entered a period of rapid expansion of the markets targeting the next-rich segment. Between 2011 and 2012, Korea's Samsung Electronics and LG Display will set up leading-edge LCD panel plants, the former in Suzhou city and the latter in Guangzhou city. China's largest LCD panel manufacturer, BOE Technology Group Co., Ltd., and leading Chinese consumer electronics manufacturers, TCL Corporation and Inovision Optoelectronics Co., Ltd. (IVO), are all constructing eighth-generation plants, which will be operational in 2011. A huge investment of between \$3 billion and \$4 billion is being put into each of these plants. Japan's Sharp Corporation has announced that it plans to enter into a joint venture to produce LCD panels. It seems that a major battle for the LCD market will begin in China.

On the other hand, there is some good news for Japanese companies. NRI Papers No. 146 entitled "Growing beyond Galapagosization," which was written by Fumikazu Kitagawa and released on September 1, 2009, suggested three important strategies for Japanese companies to be successful in emerging markets:

- (1) Selling Japan's perspectives
- (2) Developing ideas to balance price and value
- (3) Developing a matchless management system

This Internet survey also revealed that the next-rich segment has a positive opinion of the quality and services of Japanese products.

In fact, over the last year or so, I have often heard from acquaintances in Chinese companies that they would like to learn more about the positive aspects of Japan. At first, I thought that these feelings would be limited to persons with some sort of affinity for Japan. In fact, however, nowadays there is an overall and spreading feeling among China's wealthy and next-rich segments that yearns for Japan's quality of life. Simply being a Japanese company is a sufficiently great point of differentiation and constitutes added value.

Another point that this survey revealed is that there is a difference in incomes between the next-rich segments in the coastal and inland areas, and that the inland next-rich segment appears to be much more sensitive to price and features, with top-selling models being one rank lower than those at the coast. In other words, to be successful in the inland market, it is imperative that manufacturers cut costs by limiting product features and by procuring as many parts and components as possible locally. In order to promote the procurement of parts and

components in local markets, it is necessary to equip local subsidiaries with design functions (decentralizing a design and development system) and to establish a system that provides technical guidance to local suppliers.

Fujifilm has achieved a rapid increase in the sales of digital cameras designed specifically for emerging markets and priced less \$100 by making full use of EMS (electronics manufacturing services). As seen in this case, any such efforts to be successful also require fundamental measures such as redesigning the business model, in particular, implementing a procurement (sourcing) reform. Daikin Industries entered into a partnership for the procurement of parts and components and the manufacture of metal molds with Gree Electric Appliances, Inc., China's largest manufacturer of air conditioners. As Daikin's partnership suggests, another strategy to be successful would be to tie up with a rival manufacturer that excels in offering low-priced products in emerging markets. Becoming successful in business that targets the next-rich segment requires abandoning any idea of doing everything alone and, depending on the circumstances, rebuilding business processes from scratch.

Japanese companies may sometimes look down on Chinese management and technology. If we think that we have nothing to learn from our rivals, haven't we already lost the competition with them? Chinese companies have expertise in offering simple functions at low costs, which is something that Japanese companies still need to learn.

From now on, we will be seeing more and more companies like BYD Auto that achieve success by taking advantage of the inland economy. However, these companies will not simply be our rivals. Just as Daikin Industries does, as one effective strategy, we need to look at the world's emerging markets and consider entering into alliances with these companies in order to become cost competitive.

2 Injecting Substantial Management Resources over the Next Five Years

In August 2004, I wrote a paper entitled "China's Rapidly Growing Market: Issues and Suggested Responses," which was published as NRI Papers No. 81. In that paper, I predicted the rise of China's "bourgeoisie" (which is now referred to as the "next-rich segment"), i.e., those households with annual incomes of 50,000 to 100,000 yuan.

According to the estimate at that time, the next-rich segment was considered only as a minority. Specifically it accounted for around 15 percent of all households in the coastal areas including Shanghai and Beijing, and around 3 to 4 percent in the major inland cities such as Chongqing and Chengdu. In other words, whereas the Chinese market had been polarized—only a small number of wealthy people seeking high-quality products versus the general public demanding low-price products, I

foresaw the growth of the next-rich segment, leading to the growth of middle-grade products. In the market that I foresaw, overseas and Chinese companies would wage a fierce marketing battle. Accordingly, I suggested that Japanese companies would need to be prepared for such an era. In the five years that have passed since then, the next-rich segment has grown much more quickly than was ever expected, and now constitutes a huge consumer market.

As a result, what is likely to happen in China over the next five years? The high growth in the increasingly urbanized inland areas seems destined to continue for a while. On the other hand, it is not reasonable to assume that the current level of public spending would continue forever, and the current explosive market expansion of durable consumer goods will gradually level off. Nevertheless, in the inland areas, the migration of people from rural to urban areas is being accelerated, giving rise to a new consumer market, where we clearly see the definite beginning of long-lasting growth led by domestic demand. In the same way as occurred in the coastal areas, at least over the next ten years, the inland markets will see a high level of growth in which increased consumption attracts further investment, and increased incomes lead to further expansion of consumption.

Meanwhile, the economy of the coastal areas will continue to mature. Technological innovation brought about by intense competition will further advance many types of industries. These advanced industries will produce increasingly higher value-added consumer products. For example, the period around 2004 came to be known as the first year of motorization in the coastal areas. After the passage of ten years, it is considered that a large number of car owners who purchased entry level cars around 2004 will replace their cars with mid-size or high-class, luxurious vehicles. In December 2009, we visited a Japanese car dealership in Shenzhen, where we found that even the most expensive car on display had been sold and waiting times for delivery were on the order of two to three months. Thanks to the effects of a policy of monetary easing and increased stock prices, car sales in the coastal areas have also been recovering rapidly. As such, the coastal areas will come to resemble advanced countries in that their markets will be driven by replacement demand, and there will be a greater demand for more expensive models.

Nevertheless, there remain many challenges including the environment, energy, economic disparity and the lack of a social security system. Taking cars as an example, there is a pressing need for measures to protect the environment and reduce energy consumption. While car sales in 2009 in China exceeded 13 million units, the number of cars owned per 1,000 residents is about 250 in Beijing and about 150 in the major coastal cities. In the inland areas, the number is between 50 and 100. When we consider that this number is 800 in the US and 600 in Japan, it becomes clear that the Chinese market

offers huge room for future expansion. From 2015 onwards, annual sales could be on the order of between 25 million and 30 million units. As the market grows larger, however, environmental and energy issues will become more critical. In March 2009, the Chinese government passed an automobile industry adjustment and promotion policy. In July and September of the same year, the government announced a series of policies related to new energy vehicles (electric and plug-in hybrid vehicles). China is putting much more effort into overcoming these problems than is Japan.

How can China achieve sustainable economic growth? Strong political leadership is essential to implement drastic measures when they are necessary. Putting market principles aside, “state capitalism,” under which the government takes a part in controlling the market at critical stages, may turn out to be to the country’s advantage in some aspects.

Within the next five years, there will be Japanese companies whose business performance in China

exceeds that in Japan. These companies must develop a robust management base in China that is equal or superior to that in Japan. Considerable management resources including organizations, human resources, IT and funds must be injected into China. Rather than leaving Chinese business up to some departments or group companies in Japan, it is time for Japanese companies to take a serious approach to strengthening a business infrastructure in China by setting up a full-blown Chinese headquarters. While many Japanese companies are currently struggling to generate profits on a company-wide basis, they should not lose their resolve for investment in China.

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