

## **Chapter 2: Southeast Asia: Continuing Economic Development**

In Chapter 2, we will take a look at the emerging countries of Southeast Asia and why these countries are experiencing high economic growth. We will also learn why emerging markets are so important to Japanese companies. Let's begin by looking at a few definitions.

### **1. What is an Emerging Country?**

You may have heard the term emerging countries or emerging markets recently. The term emerging markets is generally defined as a country which has achieved high economic growth in recent years due to the independence of their colonies after World War II, but there is no clear definition.

If we look back in history a little, we can see that Japanese companies have not been very interested in emerging and developing countries. In order to cope with the strong yen after the Plaza Accord in 1985, Japanese companies manufactured Japanese brand products in China and Southeast Asia, where labor wages were low, and sold them mainly to developed countries in Europe and the United States. However, the subprime mortgage crisis in the U.S. in 2007 triggered a global financial recession, and the economies of developed countries in Europe and the U.S. continued to be in recession, resulting in economic stagnation. Since that time, not only Japan but also other developed countries have started to pay attention to emerging countries as new markets. As the development of emerging countries continued to be remarkable, the world's major corporations began to seriously look at emerging markets.

### **2. What are the BRICS countries?**

You've probably also heard the term BRICS, also known BRICs. In this book, we will use BRICS. In general, BRICS stands for countries that were colonies of powerful countries such as the United Kingdom and France before World War II but have become independent and achieved high economic growth after the independence. BRICS is the acronym for Brazil, Russia, India, China, and South Africa. BRICS countries are also characterized by their large populations and

economies. This textbook does not focus on the BRICS countries, but on the emerging countries of Southeast Asia, which are more familiar to Japanese students.

In this book, we will study the case of Japanese entrepreneurs working in the emerging countries of Southeast Asia, namely China, Thailand, Vietnam, Indonesia, the Philippines, Cambodia, and Myanmar.

### 3. Economic Trends in Emerging Economies

#### 3.1. GDP Per Capita

Let's start with an overview of GDP per capita (Table 1). GDP per capita is a measure of a country's Gross National Product (GDP) divided by its population and is an indicator of the wealth of its people, assuming it is distributed fairly.

**Table 1: Trends in GDP per capita in emerging economies in Southeast Asia (2000, 2010, 2019)**

Country	GDP per Capita (US dollars)			Increase (times)
	2000	2010	2019	
Malaysia	4,044	9,041	11,414	2.8
China	959	4,551	10,217	10.7
Thailand	2,007	5,076	7,807	3.9
Indonesia	780	3,122	4,136	5.3
The Philippines	1,073	2,218	3,485	3.2
Laos	325	1,141	2,534	7.8
Vietnam	390	1,318	2,715	7.0
India	443	1,357	2,100	4.7
Cambodia	303	786	1,643	5.4
Myanmar	191	979	1,408	7.4
Singapore	23,852	47,237	65,233	2.7
Japan	38,532	44,508	40,247	1.0
Korea	12,257	23,087	31,846	2.6

**Source:** Compiled from World Development Indicators

**Table 2: Area and Population of Emerging Asian Countries**

Country	Land Mass (1,000km <sup>2</sup> )	Population (100,000 people)
China	9,597	1,398
India	3,287	1,366
Indonesia	1,905	271
Thailand	513	70
Malaysia	330	32
Vietnam	331	96
The Philippines	300	108
Myanmar	677	54
Cambodia	181	16
Laos	237	7
Japan	378	126
Korea	100	52
Singapore	0.7	5.7

**Source:** IMF World Economic Outlook Databases,  
the World Bank Development Indicators (2019)

Table 1 shows how much the per capita GDP of the emerging economies in Asia has increased over the past 20 years, from 2000 to 2019. It shows that Malaysia has the highest GDP per capita in monetary terms, followed by China and Thailand. GDP per capita, or in other words, purchasing power, has increased significantly in emerging countries. Among them, China's economic growth has increased more than tenfold in about 20 years. Even in countries with low GDP per capita, such as Laos, Vietnam, and Myanmar, economic growth is significant, and high consumption can be expected in these countries soon.

As GDP per capita rises in emerging economies and the purchasing power of the people increases, the number of people with high disposable income, known as the middle class, as discussed below, will increase. In other words, the emerging economies of Asia are expected to grow not only as production markets but also as consumer markets.

### **3.2. Base of the Economic Pyramid (BOP)**

Have you ever heard of the term Base of the Economic Pyramid? The definition varies, but it generally means a class of people whose annual per capita income is less than \$3,000.

The BOP population is said to be about 4 billion, accounting for 70% of the world's population. In a nutshell, it refers to the 4 billion low-income consumers who make up the majority of the world's population. The BOP segment is considered to be the next new market after the emerging countries achieve economic growth. However, these countries also face social issues such as poverty caused by low-income levels, and sanitation problems caused by inadequate living and social infrastructure.

Among Japanese companies, Fast Retailing (which operates UNIQLO), for example, has established Grameen UNIQLO in Bangladesh and is actively expanding its store network to find a market in the BOP segment.

### **3.3. Needs in Emerging Markets**

In this section, let's examine Asia from the perspective of consumption. In Japan, where we live, the number of cram schools and prep schools has been decreasing since 2000 due to the declining population, and the service industry has been shrinking. In addition, as the society matures, Japanese people only buy things they like, and consumption is declining overall. On the other hand, for example, Singapore is experiencing active consumption due to the increase in GNP per capita, but the population is small, and the environment is not conducive to a large expansion in the size of the consumer market.

Table 3 shows the percentage of household income in emerging economies in Asia. In emerging economies, the Engel's<sup>1</sup> coefficient is declining with economic growth, and there is a change in what households are spending. When people's income increases and their basic consumption needs are met, they start to spend

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<sup>1</sup> Engel's law states that as people's income rises, they spend a declining proportion of their income on food even if the actual amount they spend on food increases. Thus, Engel's coefficient — the proportion of money spent on food in household expenses — is seen as an indicator of a nation's standard of living.

money on selective consumption. For example, when incomes are low, people spend more on necessities such as food, but when incomes rise, they spend much less on necessities and more on things like motorcycles, cars, and cell phone communication. In many of the emerging economies in Asia, we are in a growth spiral. As their economies grow, people are employed more, wages rise, and disposable income increases.

### 3.4. The Emergence of a Middle Class

Let's look at how income stratification is changing in Asia. In general, a family income of \$100,000 or more is classified as "wealthy," \$45,000 to \$100,000 as "high income," \$5,000 to \$45,000 as "middle class," and less than \$5,000 as "low income."

From Table 4, we can see that a middle class with annual incomes between \$5,000 and \$45,000 is growing in the emerging countries of Asia. Among them, the growth of the lower middle class with annual income between \$5,000 and less than \$15,000 is remarkable. In addition, among the low-income group, the middle- and lower-income groups are decreasing, and the percentage of the upper income group is expanding. From the various data presented in this chapter, we can see those emerging economies, which have been regarded by developed countries as production markets with low labor wages, are now expected to become profitable consumer markets.

**Table 3: Trends in the percentage of household income in emerging Asian economies**

Household Income Bracket	1995	(Japan)	2000	(Japan)	2005	(Japan)	2010	(Japan)
US\$1,000 and above	64%	100%	78%	100%	90%	100%	97%	100%
US\$5,000 and above	4%	100%	3%	100%	5%	100%	58%	100%
US\$15,000 and above	0%	100%	0%	99%	1%	100%	13%	97%
US\$35,000 and above	0%	97%	0%	92%	0%	90%	3%	81%

US\$55,000 and above	0%	79%	0%	59%	0%	53%	2%	60%
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**Source:** World Consumer Lifestyles Databook 2007, 2013, Euromonitor International from National Statistical Office / UN. Countries covered are Malaysia, China, Thailand, Indonesia, the Philippines, Vietnam, and India. Data for Laos, Myanmar, and Cambodia are not available.

**Table 4: Distribution of Households by Income Group in Asia (Unit: %)**

			1995	2001	2008
Lower rank	Lower Income Bracket	Less than 1,000 USD	29.1	20.1	7.5
Mid rank		Between 1,000 USD and 2,500 USD	44.4	49.0	25.0
Upper rank		Between 2,500 USD and 5,000 USD	11.1	15.4	30.6
Lower rank	The Middle Class	Between 5,000USD and 15,000 USD	5.1	5.9	24.0
Upper rank		Between 15,000 USD and 45, 000 USD	4.4	5.3	7.7
Upper Class	Income	Between 45,000 USD and 100,000 USD	3.9	3.3	3.9
The Wealthy		Over 100,000 USD	1.9	0.9	1.3
Total			100.0	100.0	100.0

**Source:** Consumption in Asia, pp.39

Note: Asia is defined as Japan, China, India, South Korea, Singapore, Thailand, Indonesia, Vietnam, the Philippines, Malaysia, and Pakistan.

#### **4. Japanese Companies' Expansion into Asia**

If you visit Bangkok or Hong Kong, you will probably be surprised to find many Japanese convenience stores in the city. The convenience store Family Mart opened its first store in Taiwan in 1988, and as of the end of April 2021, it had opened 8,000 stores, mainly in Asia. Seven-Eleven also began opening stores in Beijing, China in 2008, and as of December 2020, it has 9,884 stores and is rapidly expanding its store network in Asia. At convenience stores, customers can put items in their baskets and pay at the cash register without having to use the local language.

Restaurant chains such as *Yoshinoya*, *Watami*, and *Mos Burger* are also expanding their outlets in Asian countries. You might think that living in an emerging Asian country would be difficult, but there is a *Takashimaya* department store in Bangkok and a *Sogo* department store in Hong Kong. There is an *Aeon Mall* in Phnom Penh, Cambodia. When the author visited Phnom Penh in the spring of 2017, she ate at the food court in the AEON Mall and ate Japanese food at *Watami Teishoku* Restaurant. Even if it is your first visit to an Asian country, you can enjoy your stay without feeling uncomfortable.

As for hotels, apart from hotels for tourists, there are also hotels for Japanese business travelers. These hotels are equipped with Wi-Fi, and all errands can be done in Japanese. The hotels in Myanmar and Cambodia even offered Japanese food for breakfast.

As stated in the previous section, people in the middle classes will buy high quality products even if the price is a little higher. For example, Ms. Kurihara, who will be introduced in Chapter 4, has a store in a Japanese department store in Bangkok, Thailand, selling a variety of Japanese products of high quality that are good for health. Mr. Kikuchi, an event producer in Chapter 5, Vietnam, is based in Ho Chi Minh City, and plans and implements events for Japanese companies in Southeast Asian countries. As you can see, large and small companies that focus on the middle classes are expanding into Asia, especially the emerging countries of Asia, and there is a great deal of room for Japanese to be active locally.

#### **4.1. The Growing Service Industry in Asia**

Japanese companies have been exporting their products to Europe and the United States, mainly in the manufacturing industry, but in recent years they have been expanding their business to emerging countries. Service industries such as distribution, retail, food service, and education, which used to be considered domestic industries, are now expanding overseas, especially in Asia. The service industry is characterized by the fact that the service itself is invisible. As such, it is necessary to have the local employees understand the service, and overseas expansion of the service industry is not as easy as one might think in Japan. However, as an overall direction, Japanese companies are expanding their business in the Southeast Asian market and this trend will continue.

In Chapter 1, we learned that to cope with globalization, Japanese companies are shifting from a Japanese-style employment system to a performance-based employment system. In Chapter 2, we learned that Southeast Asia is becoming an attractive market for Japanese companies. In the next chapters, Chapters 3 to 9, you will learn about Japanese people who are active as entrepreneurs in Southeast Asia.

## Tasks

1. Please look at Table 1 and Table 2, explain what you can decipher about the emerging countries in Southeast Asia. Describe the graphs and use additional resources from the internet or the library to support your findings.
2. Explain your thoughts on why the emerging economies of Asia are becoming richer, citing examples from the text and your own research.
3. What do you think Asia will look like in 2030?

## Notes:

The definition of "emerging economies" in this book is based on Ken Mori's "What are Emerging Economies?" (Intellectual Asset Creation, January 2013). Mori's paper used data from 2010, but this document has reviewed the data and used data as of 2016 to classify them.

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