

3rd St.Petersburg Japan-Russia Investment Forum

Japanese Firms Entering the Russian Market and Further Investment Opportunities in & around St Petersburg

日本企業のロシア進出とサンクトペテルブルグへのさらなる期待

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Nomura Research Institute, Ltd.
Consulting Division

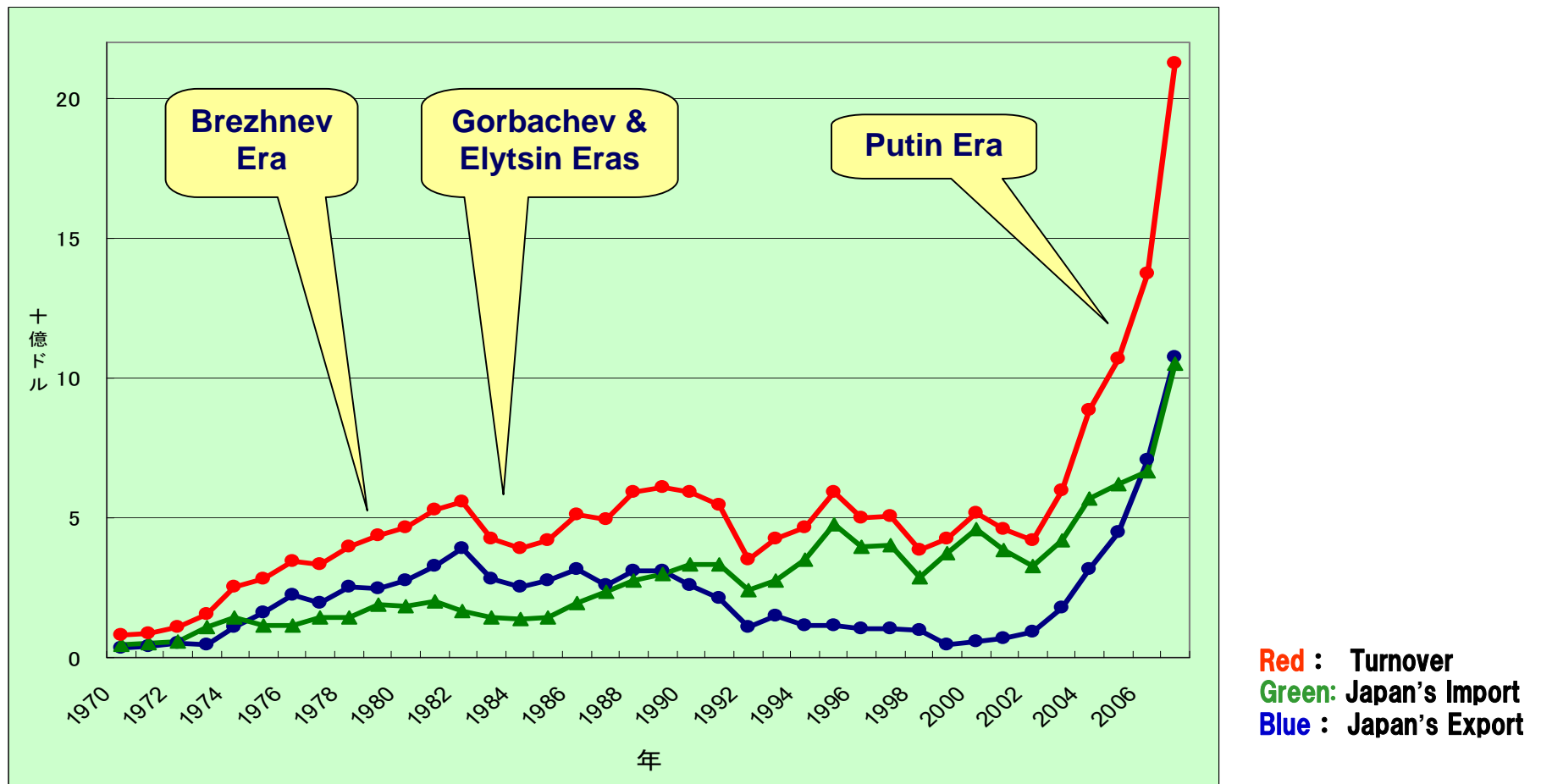
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Rapid Increase of Japan's Export to Russia since 2000

Japan's Trade with USSR and Russia since 1970



出所: 日本側通関統計をもとに作成

Widening business opportunities, emerging with the process of expansion of personal consumption and social investment in Russia

■ Russia – on the way to becoming the largest market in Europe and entering the age of extensive investment under head-office leadership

| Companies | Business in Russia – current status and future outlook |
|---------------------------------------|---|
| Company A (automaker) | <ul style="list-style-type: none">- Targeting a five-fold increase in sales volume over the next five years- 2007 sales up about 50% from 2006- Total investment of more than 100 billion yen (for projects including construction of a second plant)- Hoping to build a setup for production of 200,000 vehicles/year by 2015 |
| Company B (AV equipment manufacturer) | <ul style="list-style-type: none">- Russia – the 4th biggest sales market after Japan, the USA, and China- Outlook for 20% rise in the growth rate of Russian sales- Start of extensive investments directly managed by the head office |
| Company C (machinery manufacturer) | <ul style="list-style-type: none">- Targeting sales of 120 billion yen, up 50% from 2007, in 2011- Plant start-up scheduled for 2010 |

Current Directions of Activities by Japanese Companies which Established Presence in Russia

- Self-Control of Import and Distribution Flow (Russia as a “Normalized Market”)
- Diversification of Sectors where Japanese Businesses Advance
- Direct Investment for Local Production

⇒ For many Japanese companies, Russia has been made integrated into their global market and supply chains

⇒ For each of the key aspects, St Petersburg can play a strategically important role! It possesses or should have ...

- ✓ Customs Clearance Points, Sea Ports
- ✓ Transport Routes from Finland and the Baltic states
- ✓ Functions as a Host City (Personnel, Offices, Living Conditions for Expats)
- ✓ Support by the Local Government, esp. for Manufacturing Investment Projects of Small and Sizes
- ✓ Supply of Modernized Industrial Infrastructure
- ✓ Supply of Good-Quality Labour Forces & Creation of New Labour Forces (Education)

Rapid Increase of Presence by Japanese Companies in St Petersburg

| | |
|------------------------|---|
| ■Automobiles | Toyota*, Nissan*, Suzuki* |
| ■Automobile Components | Toyota Boshoku* |
| ■General Manufacturing | NEC*, Hitachi*, JTI*, Olympus, Shimadzu, Sumitomo Heavy Industries, Daifuku, Mitsubishi Electric, Sony, Ricoh |
| ■Transport & Logistics | "K" Line, Kintetsu World Express, Toyo Trans, Nippon Express, NYK Line, Yusen Air & Sea Service, |
| ■Finance & Insurance | BTMU, Tokyo Marine Nichido, Mitsui Sumitomo Insurance |
| ■General Trading | Toyota Tsusho Machinery, Itochu, Sumitomo Corp., Sumitec, Marubeni, Mitsui |

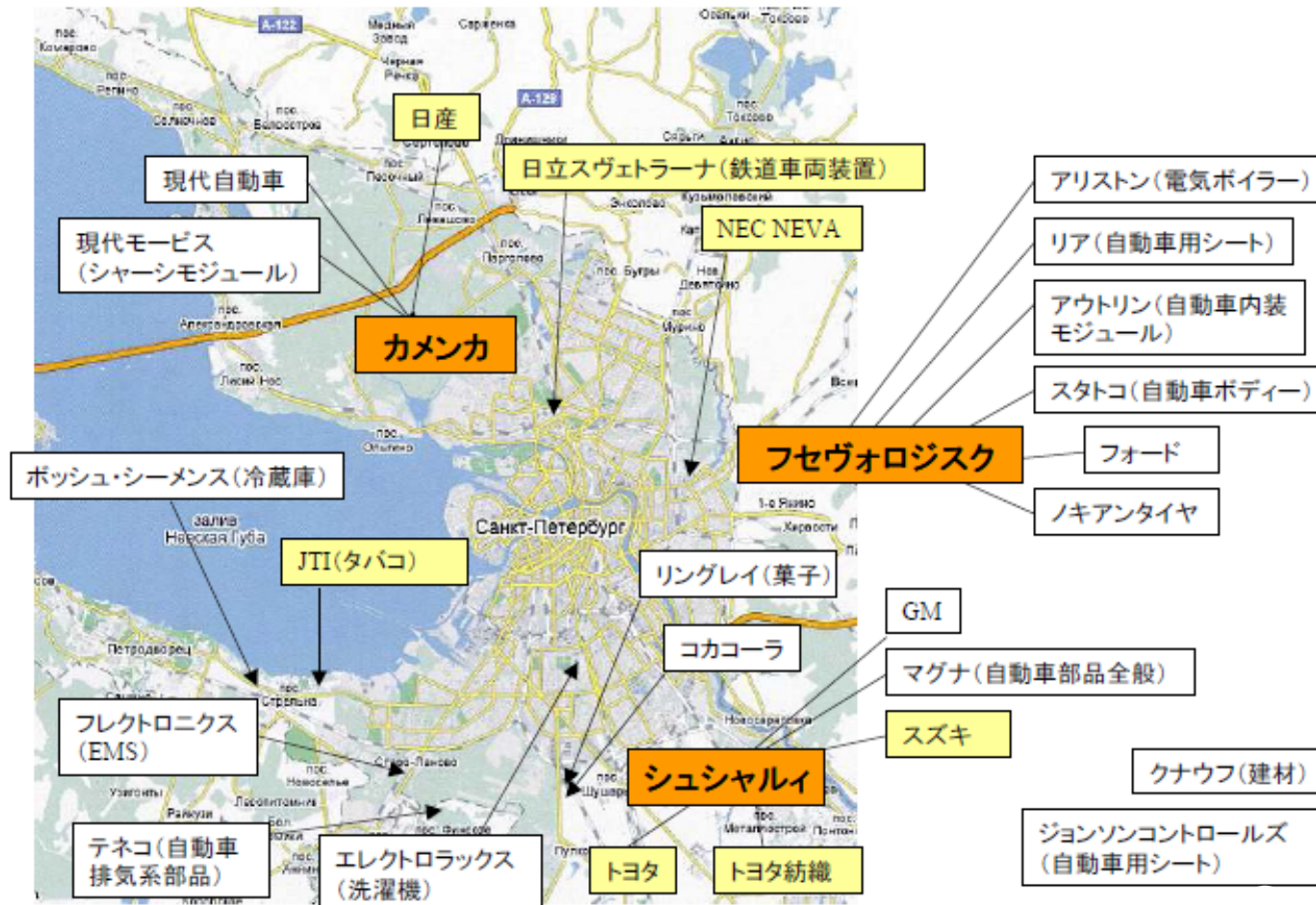
* Operates production facilities

In total c. 50 companies; c. 230 Japanese expats registered

Source: Compiled from information by JETRO St Petersburg

Japanese and other countries' Investment Projects in St Petersburg

サンクトペテルブルク周辺の外資系製造業



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Some Apprehensions about Risks Associated with Business in Russia among Japanese Companies

■ At the stage of constructing the sales setup

- Elevated labor costs and retention of talented human resources
- Customs clearance procedures, logistics arrangements, acquisition of first-rate sales agencies, etc.

■ At the stage of production in Russia

- Difficulty of acquiring well-outfitted industrial sites
- Complexity of the system of authorization and licensing in all stages from land acquisition to plant construction
- Difficulty of recruiting human resources and steep increase in wage costs due to the labor shortage

■ Worries about improvement of productivity after plant start-up

- Assurance of the supply of management personnel to support plant operation
- Finding cooperating firms to support cost competitiveness

Possible Need for an Improved HRD Infrastructure to Make the Manufacturing Industry More Competitive

Factors governing competitiveness in the manufacturing sector*

| | | |
|------------------|--|---|
| Government level | <ul style="list-style-type: none"> - Public infrastructural investment - Tax incentives - Regulatory relaxation | <ul style="list-style-type: none"> - Rule of law (spirit of strict compliance with laws and regulations) - System of higher education - Labor ethics |
| Corporate level | <ul style="list-style-type: none"> - Automation systems - Management information systems - CAD/CAE systems | <ul style="list-style-type: none"> - "Kanban" (Just-In-Time) system - Cell production system - On-site improvement system - Development of human resources for "monodukuri" |

"Hard" initiatives

"Soft" initiatives

**Prepared by NRI based on information by Dr. Junjiro Shintaku, Professor, University of Tokyo*

Towards Deeper Russian–Japanese Economic Interactions via St. Petersburg

- Arrangements for one–stop provision of services related to siting by Japanese firms
 - Japan Desk in St.Petersburg
 - Representative office in Japan
 - Stronger roles to be played by JETRO, Japan Center and TIP–RO

- Developing centers for HRD to raise manufacturing industry competitiveness
 - Management level / Worker level

Towards Deeper Russian–Japanese Economic Interactions via St. Petersburg

■ Further improvement of industrial and transport infrastructure

- Development of industrial parks on the international standard
- Modernization of ports, roads, railways, storages and container–depos
- Assistance for individual production investment projects to secure energy, gas and water supplies
- Cooperation beyond the city border: with neighbouring regions, through the Trans–Siberian Railway, etc.

■ Existing investment projects may also go away if the investment climate deteriorates in comparison with other regions.

- History shows: Western Europe >> Central and Eastern Europe; China >> VietNam
- How to keep the existing investments and still attract further foreign investments? **Possible ANSWER:** The creation of the supporting industry

NRI to Contribute for Development of Business and Investment between Russia and Japan, incl. in St Petersburg



■ Outline of Nomura Research Institute (NRI)

- Established in 1965 as Japan's first "Think Tank" in the non-government sector.
- In 1988 merged with Nomura Computer System. Thus, NRI became a complex information service enterprise, that offers wide ranges of services from research consulting up to development and operation of complex computer system.
- In 2001 listed in the First Section of Tokyo Stock Exchange.
- Annual Sales JPY342.3bn No. of Employees 5,711 (March 2008)

■ Expertise Possessed by NRI's Research Consulting Division

- NRI proposes for building and re-building right corporate strategies, based on its own future forecasts in the world's economy, industry, technology, and lifestyle, which have been formulated through 40-year accumulation of data-bases of its research activities.
- NRI supports government sectors for creation of new industries, regional development, government structural reform, etc., based on its rich experiences as Japan's largest Think Tank that contributed the country's post-war economic and social development.

<Business Sectors>

- Automobiles, electronics, industrial machinery, chemicals and pharmaceuticals, ITC, precision machinery, food processing, commerce, finance, energy and resources, transport, education, etc.

<Expertise in Business Administration>

- Business strategy, organization and HR strategies, general corporate administration, marketing, finance and accounting, supply-chain management, logistics, business innovation, knowledge management, global corporate strategy

<Expertise for Public Sectors>

- Creation of new industry, environment protection and energy-saving, re-constructing of outdated industry, ITC policies, fiscal and financial policy, reform of government corporations

■ Global Network of Nomura Research Institute (NRI)

- Offers research consultation and IT services in 12 major cities in the world.
- Retains one of Asia's largest pool of professional consultants in corporate strategy and IT.
- **As one of the concrete results of the 3rd Russian-Japanese Investment Forum, NRI has decided to open a new branch – IN MOSCOW!**

■ What NRI Moscow Branch Will Do?

- Will provide consulting services by project teams of experts on global business issues based in Japan.
- Will support and enhance **Japanese companies** by conducting researches and offering consultations for strategy-building and expansion-planning for the Russian and CIS markets, as well as building of partnerships with Russian potential counterparts for sales and production.
- Will support and assist **federal and regional state organs** in the Russian Federation by providing expertise in strategy-building for regional and industrial development, attracting foreign investment from Japan and other Asian countries, planning of new city development, planning of new transport infrastructure development, etc., fully utilizing experiences and know-how accumulated by NRI in Japan, China, Korea and other Asian countries and regions.

■ Services for Japanese Companies:

- Feasibility studies for entering into the Russian market
- Support for strategy-building after entry
 - Market research, research on distribution channels, research for market benchmarking, etc.
 - Strategy consultation for local production, agent-relationship, organization of supply-chain management, planning of new sales items, R&D, marketing, etc.
 - Consultation for business administration in HR, risk management, IPR, etc.
- Support for M&A with Russian companies

■ Cooperation with Federal and Regional State Organs in the Russian Federation

- Strategic consultation for promotion of industrial development by sectors, attraction of foreign investment, reform of city structure, planning for renewal of transport infrastructure, etc.

■ Services for Russian Companies

- Strategic consultation for partnership-building with enterprises of Japan, USA, Europe, China, Korea, etc.

3rd St.Petersburg Japan-Russia Investment Forum

Thank You for Listening!

未来創発
Dream up the future.

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