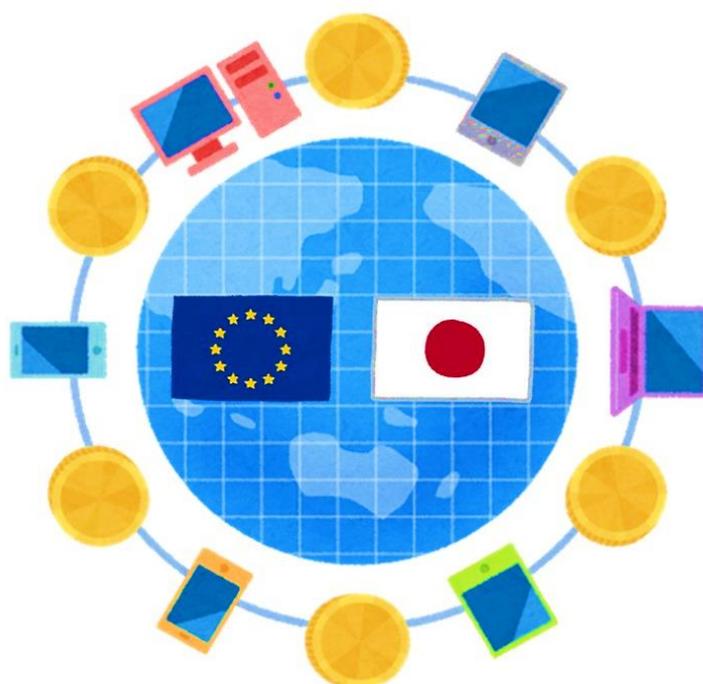


EU-Japan business cooperation in third markets

Focus on the digital economy

A guide for EU small and medium-sized enterprises



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ABOUT THE EU-JAPAN CENTRE FOR INDUSTRIAL COOPERATION

The EU-Japan Centre for Industrial cooperation is a unique venture between the European Commission (Directorate-General for Internal Market, Entrepreneurship and SMEs, DG GROW) and the Japanese government (Ministry of Economy, Trade and Industry, METI). It aims at promoting all forms of industrial, trade and investment cooperation between the European Union (EU) and Japan and at improving EU and Japanese companies' competitiveness and cooperation by facilitating exchanges of experience and know-how between EU and Japanese businesses. The EU-Japan Centre for Industrial Cooperation has its head office in Tokyo and an office in Brussels.



This report has been conducted as part of the MINERVA Market & Policy Intelligence Programme of the EU-Japan Centre for Industrial Cooperation.

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EXECUTIVE SUMMARY

Cooperation between European and Japanese companies for joint projects in third markets is a growing and promising business trend that has been highlighted in previous reports (see [“Recommended pre-readings”, p. 3](#)). This report, based on substantial research with industry stakeholders, government officials, and other organisations, aims to provide an overview of business opportunities and best practices for EU-Japanese joint projects in third markets with a focus on the digital economy.

A substantial political momentum exists towards building cooperation with Japan in third markets, and other countries are also working with Japan in this context, though priorities may differ or indeed be compatible to those of the EU. There are thus opportunities to enhance cooperation with Japan, perhaps also at the multilateral level.

Surveys in some EU Member States, such as Germany, suggest considerable cooperation with Japanese companies in third markets. This report examines examples from across the EU, and across a variety of industry sectors now being shaped by the digital transition, in a range of third country markets. It suggests that in general, cooperation between European and Japanese companies in third markets presents an opportunity for both sides to complement each other’s strengths such as in technologies, networks, market intelligence, financing, and leveraging pre-existing subsidiaries that may be used for joint projects in third markets.

The report also suggests that business opportunities remain largely untapped in emerging countries, which have made ASEAN countries, African countries and Eastern European countries, among others, particularly attractive for EU-Japan business cooperation in third markets. In the case of Africa, EU companies, including small and medium-sized enterprises (SMEs), have a larger network and more expertise in Africa than Japanese companies. This gives them a competitive advantage and makes them privileged like-minded partners in the region. Indeed, Japan is increasingly looking at Africa through discussions under the Tokyo International Conference on African Development (TICAD) and projects undertaken under the Free and Open Indo-Pacific vision. In the case of Asia and in particular ASEAN countries, EU companies can benefit from the well-established presence of Japanese companies, in particular *sogo shosha*, to reach these markets in addition to the Japanese market.

This report will present an overview of business opportunities by taking into account the following trends: (i) the growing need for smart cities and smart rural solutions which often require innovative digital solutions; (ii) the growing importance given by governments and businesses to

development issues and the Sustainable Development Goals (SDGs); and (iii) the growing need for digital transformation, in particular for the healthcare sector, which has been accelerated by the COVID-19 pandemic. Despite the existence of some challenges, the report shows that EU technologies are sought-after in various fields such as smart healthcare, smart manufacturing, smart agriculture, smart services, smart mobility, cybersecurity and digital solutions applied to the circular economy such as waste management and renewable energy.

The report mainly targets an audience of European companies, with a focus on SMEs as they seem to be involved to a lesser extent than large companies in EU-Japan business partnerships in third markets. This report attempts to create more awareness about opportunities and success stories to show that EU SMEs can grow and achieve their international ambitions globally in cooperation with Japanese partners, and vice versa. In addition, many companies have highlighted the importance of trilateral partnerships between European, Japanese and third-market partners, as local partners can provide expertise to better adapt the EU-Japan business model to the local environment, local people and their lifestyles.

The report lays out recommendations to EU SMEs to help them be involved in EU-Japan joint projects in third markets. First, a competitive advantage such as a well-established presence and a solid network and expertise in a third market is an asset for a Japanese partner looking to set foot in this country. Moreover, a highly innovative technology, such as digital solutions applied to industries outside the traditional IT sector like agriculture, renewable energy or healthcare, can provide added value for joint projects in emerging markets if this technology has already been successfully deployed in an emerging market context elsewhere.

The report also presents recommendations to the EU-Japan Centre for Industrial Cooperation to better support EU SMEs in being involved in EU-Japan business partnerships in third markets with the creation of a dedicated helpdesk, cooperation with European partners in third markets and the creation of an annual survey to assess EU SMEs' interest, experience and challenges on the topic.

Finally, the conclusion of this report is that EU-Japan business cooperation in the digital economy in third markets is a promising trend that is likely to keep growing in upcoming years.

RECOMMENDED PRE-READINGS

The author recommends the following pre-readings to better understand the general trend of EU-Japan business cooperation in third markets before reading the present report that focuses on the digital economy:

- **Report published by the EU-Japan Centre for Industrial Cooperation**
Marbot, M. (2020), *Analysis of EU-Japan business cooperation in third countries*. Available at: <https://www.eu-japan.eu/publications/analysis-eu-japan-business-cooperation-third-countries>
- **Report published by the German Chamber of Commerce and Industry in Japan**
German Chamber of Commerce and Industry in Japan, KPMG (2020), *Economic outlook – German Business in Japan 2020*. Available at: <https://japan.ahk.de/en/infothek/surveys-and-studies>
- **Agreement between the EU and Japan**
European External Action Service (2019), *Partnership on sustainable connectivity and quality infrastructure between the European Union and Japan*. Available at: <https://eeas.europa.eu/headquarters/headquarters-homepage/68018/partnership-sustainable-connectivity-and-quality-infrastructure-between-european-union-and-en>

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AFDB	African Development Bank
AHK	German Chamber of Commerce and Industry in Japan
AI	Artificial Intelligence
ASCN	ASEAN Smart Cities Network
ASEAN	Association of Southeast Asian Nations
AU	African Union
B2B	Business-to-business
BRI	China's Belt and Road Initiative
D4D Hub	Digital for Development Hub
DFFT	Data Free Flow with Trust
DG CONNECT	Directorate-General for Communications Networks, Content and Technology
DG INTPA	Directorate-General for International Partnerships
DRC	Democratic Republic of the Congo
DTT	Digital terrestrial television
EBO WWN	European Business Organisation Worldwide Network
EBRD	European Bank for Reconstruction and Development
EEAS	European External Action Service
EEN	Enterprise Europe Network
EIB	European Investment Bank
EPA	Economic Partnership Agreement
ETSI	European Telecommunications Standards Institute
EU	European Union
EurWORK	European Observatory of Working Life
Fintech	Financial technology
FOCAC	Forum on China-Africa Cooperation
FOIP	Free and Open Indo-Pacific
HPC	High Performing Computing

ABBREVIATIONS AND ACRONYMS

ICT	Information and communication and technologies
IoT	Internet of Things
IT	Information technology
ITS	Intelligent Transportation Systems
JBIC	Japan Bank for International Cooperation
JICA	Japanese International Cooperation Agency
MDB	Multilateral Development Bank
METI	Japanese Ministry of Economy, Trade and Industry
MIC	Japanese Ministry of Internal Affairs and Communications
MOFA	Ministry of Foreign Affairs of Japan
MoU	Memorandum of Understanding
NDICI	Neighbourhood, Development and International Cooperation Instrument
NEXI	Nippon Export and Investment Insurance
NPOs	Non-profit organisations
ODA	Official development assistance
SDGs	Sustainable Development Goals
SME	Small and medium-sized enterprise
SPA	Strategic Partnership Agreement
TICAD	Tokyo International Conference on African Development
TPO	Trade promotion organisation
UAE	United Arab Emirates
UNCDF	UN Capital Development Fund
UNDP	United Nations Development Programme
UNESCO	United Nations Educational Scientific and Cultural Organisation
UNICEF	United Nations Children’s Fund
U.S.	United States of America
USAID	United States Agency for International Development
VR	Virtual reality

DEFINITIONS

Keywords used in this report are defined below¹:

- **“EU company”** refers to a company registered and with headquarters located in one of the 27 Member States of the European Union: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.
- **“Japanese company”** refers to a company registered and with headquarters located in Japan.
- **“Third markets”** refers to any country which is not Japan or one of the 27 EU Member States.
- **“SME”** refers to small and medium-sized enterprises as defined by the European Union², which means that SMEs employ less than 250 people and have either an annual turnover that does not exceed €50 million, or a balance sheet total not exceeding €43 million.
- **“Large company”** refers to companies which do not fall under the definition of an SME.
- **“Collaboration”** refers to a form of cooperation that is not necessarily bound through a legal contract. Two or more companies collaborate when they share common interests in a certain area of activity. Collaborations are sometimes formalised in a document such as Memorandum of Understanding (MoU).
- **“Partnership”** refers to the broadest term to define a legal contract between two or more companies, whereby two or more companies agree to pursue a certain set of objectives while remaining independent organisation. Such a relationship may induce that participating companies share risk and responsibility.

¹ The report has kept the definitions provided in the Centre’s previous report on EU-Japan business cooperation in third markets in order to remain consistent with its content. Source: Marbot, M. (2020). *Analysis of EU-Japan business cooperation in third countries*.

² European Commission (2012). *SME definition*. Website available at: https://ec.europa.eu/growth/smes/sme-definition_en
EUR-Lex (2003). *Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (Text with EEA relevance) (notified under document number C (2003) 1422)*. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32003H0361>

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INTRODUCTION

CONTEXT AND RELEVANCE

The internationalisation of European companies, in particular small and medium-sized enterprises (SMEs), outside the European Union (EU) is a major aspect of the EU's competitiveness strategy. The European Commission found evidence that the internationalisation of SMEs in non-EU markets helps them grow, innovate and develop their competitiveness. In addition, EU SMEs generally do not grow and innovate alone. They usually enter strategic networks to meet the right international partners and to enter into business cooperation that will help them achieve their international ambitions³.

While acknowledging the relevance of bilateral partnerships between EU and Japanese companies in the EU and in Japan, the present report deals with EU-Japan business cooperation in third markets, with a **focus on opportunities for EU SMEs and opportunities in the digital economy**. EU-Japan business alliances in third markets is a business model that has attracted many EU, Japanese and third-market small and large companies. The business model has been supported not only by political ambitions from the EU and Japan, but also by third markets which have shown interest in seeing EU-Japan business alliances taking place in their countries to involve local companies, boost the local private sector and **contribute to the development of the country**.

Industries are gradually becoming more digital which creates many new business opportunities in various fields, but also forces companies to adapt themselves to a more digital world. **Small companies and start-ups are often at the forefront of digital innovation** and are able to support the digital transformation of other companies in sectors such as healthcare, agriculture and mobility, hence supporting them to become more competitive, resilient and sustainable. This report explores opportunities in the digital economy for EU-Japan business cooperation in third markets.

PURPOSE

The first report on the topic of EU-Japan business cooperation in third markets published by the EU-Japan Centre for Industrial Cooperation provides general information on the characteristics of the companies involved in this type of cooperation, the characteristics of the partnerships, and general information on business opportunities, challenges and best practices.⁴

³ European Commission (2011). *Small Business, Big World – a new partnership to help SMEs seize global opportunities*. Available at: <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0702:FIN:EN:PDF>

⁴ Marbot, M. (2020). *Analysis of EU-Japan business cooperation in third countries*.

The present report attempts to address the following questions:

- What are the **business opportunities** in the digital economy for EU-Japan business cooperation in third markets? Which **areas of the digital economy** are particularly promising for partnerships in third markets?
- Which **third markets have growing needs in the digital field** and could be relevant targets for trilateral alliances with EU, Japanese and third-market businesses?
- How could organisations like the EU-Japan Centre for Industrial Cooperation **promote and facilitate such alliances**?
- What **schemes, challenges and best practices should companies, and in particular SMEs**, know before considering such alliances?

The main purpose of the present report is to **provide an overview of business opportunities in the digital economy for EU-Japan business cooperation in third markets**. Specifically, the report aims to provide information on **how EU SMEs can be involved in such cooperation**. The report aims to inform Japanese and EU companies, and in particular EU SMEs, and attempts to support the EU-Japan Centre for Industrial Cooperation in the preparation of future activities, in the promotion of this business trend, and in its own goal of improving its services to EU SMEs.

METHODOLOGY

The research for this report was undertaken between March and December 2020. The report is based upon desk-based research; participation to conferences, pitching and matchmaking events related to the topic; a survey and interviews with relevant stakeholders from the EU and Japanese public and private sectors, ranging from SMEs to large corporations, government officials, researchers and non-governmental organisations. The research was limited by a lack of public data on the involvement of EU SMEs in third-market partnerships with Japanese companies in the digital economy. However, informal information provided by companies suggested that the topic is an emerging trend which could therefore increase the quantity of data in upcoming years.

METHOD	TARGET	NUMBER	DATES
Interviews	European companies (mainly SMEs)	20	Jun. – Dec. 2020
Interviews	Japanese companies (mainly large companies)	6	Jun. – Dec. 2020
Interviews	EU Trade Promotion Organisations, e.g. EU Member States' embassies and chambers of commerce	23	Jun. – Sep. 2020
Interviews	Government officials: EU, Japan, U.S., Australia	7	Jun. – Oct. 2020
Survey	European SMEs	40	Aug. – Sep. 2020
Survey	Japanese companies (large and small companies)	8	Aug. – Sep. 2020

1. POLICY BACKGROUND

1.1. AGREEMENTS BETWEEN THE EU AND JAPAN



Three key agreements signed between the EU and Japan can support EU-Japan business cooperation in third markets with opportunities for SMEs and in the digital economy.

- a) The **EU-Japan Economic Partnership Agreement (EPA)**⁵, which entered into force on 1 February 2019, focuses on trade relations, removes tariffs and other trade barriers in key sectors and aims to foster cooperation and harmonisation on international standards.
- b) The **EU-Japan Strategic Partnership Agreement (SPA)**⁶, which also entered into force on 1 February 2020, focuses on political relations. The SPA highlights a commitment on both sides to shared values such as democracy, the rule of law and human rights, as well as joint efforts to tackle global issues such as climate change and the security of the cyberspace. **The values laid out in the SPA and the scope of the agreement on the security of cyberspace are also fundamental when dealing with the digital economy.**
- c) The **Partnership on Sustainable Connectivity and Quality Infrastructure between the European Union and Japan** (hereinafter referred as the EU-Japan Connectivity Partnership)⁷, signed on 27 September 2019, is the cornerstone of the EU-Japan connectivity strategy and therefore a general framework for EU-Japan business cooperation in third markets. The EU-Japan Connectivity Partnership highlights the importance to achieve connectivity goals by involving the private sector and to work with “*partner third countries*” in building more connectivity, notably in the regions of the **Western Balkans, Eastern Europe, Central Asia, Indo-Pacific and Africa**.
 - Specifically, the sixth paragraph of this agreement mentions **digital connectivity** as a key pillar of EU-Japan cooperation in third markets with an emphasis on **sustainable development in developing countries through digital and data infrastructures** as well as policy and regulatory frameworks. In the agreement, the EU and Japan confirm that the digital economy depends on an open, free, stable, accessible, interoperable, reliable and secure cyberspace and on data free flow with trust (DFFT). Specific areas of the digital

⁵ European Commission (2018). *EU-Japan Economic Partnership Agreement*. Available at: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1684>

⁶ EUR-Lex (2018). *EU-Japan Strategic Partnership Agreement*. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3A4359401>

⁷ European External Action Service (2019). *Partnership on sustainable connectivity and quality infrastructure between the European Union and Japan*. Available at: https://eeas.europa.eu/headquarters/headquarters-homepage/68018/partnership-sustainable-connectivity-and-quality-infrastructure-between-european-union-and_en

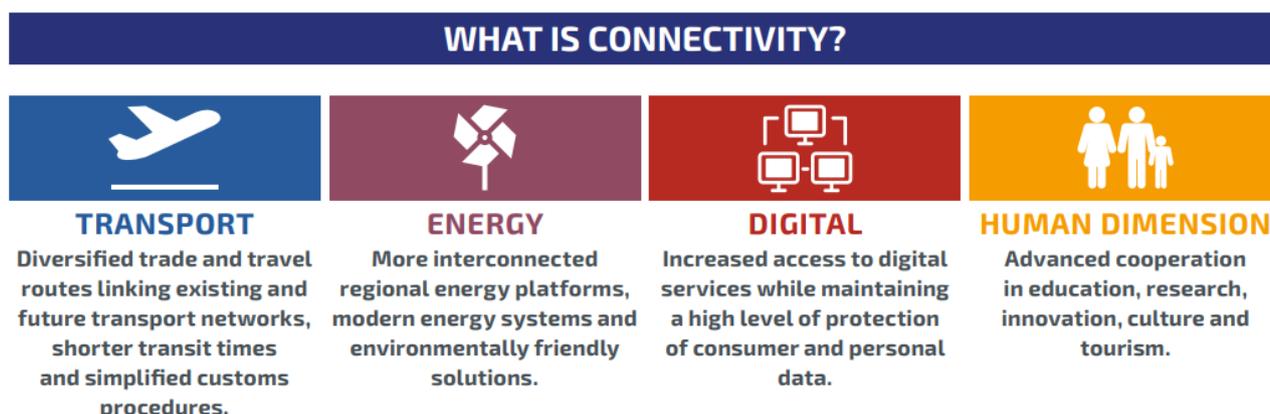
economy are mentioned as key areas for innovation: artificial intelligence (AI), cloud, quantum computing and blockchain.

- The EU-Japan Connectivity Partnership also mentions three Memorandums of Understanding (MoUs) expected to facilitate private sector finance for EU-Japan joint projects in developing and emerging markets. The MoUs were signed (i) between the European Investment Bank (EIB) and the Japan International Cooperation Agency (JICA)⁸; (ii) between the EIB and the Japan Bank for International Cooperation (JBIC)⁹; (iii) and between the EIB and the Nippon Export and Investment Insurance (NEXI).

1.2. WHAT IS CONNECTIVITY?

Connectivity can be defined as networks and flows. As shown in Figure 1, the EU strategy for connecting Europe and Asia presents four key pillars of connectivity: **transport, energy, human and digital connectivity.**

Figure 1. Four pillars of the EU strategy for connecting Europe and Asia



Source: European External Action Service (2019). *Connecting Europe and Asia, The EU strategy*¹⁰.

Therefore, digital connectivity and efforts toward cooperation between EU and Japanese businesses in the digital economy in third markets is amongst the priorities of EU-Japan relations with third markets. Among all EU institutions, the European External Action Service (EEAS) is the main actor in the EU-Asia connectivity strategy, in cooperation with relevant Directorates-General of the European Commission, such as the Directorate-General for International Partnerships (DG INTPA)¹¹

⁸ Japan International Cooperation Agency (2019). *Signing of Memorandum of Understanding with the European Investment Bank*. Available at: https://www.jica.go.jp/english/news/press/2019/20191018_41.html

⁹ European Investment Bank (2018). *EIB new cooperation with the Japan Bank for International Cooperation (JBIC) and with the Nippon Export and Investment Insurance (NEXI)*. Available at: <https://www.eib.org/en/press/all/2018-264-eib-new-cooperation-with-the-japan-bank-for-international-cooperation-jbic-and-with-the-nippon-export-and-investment-insurance-nexi>

¹⁰ European External Action Service (2019). *Connecting Europe and Asia, the EU strategy*. Available at: https://eeas.europa.eu/headquarters/headquarters-homepage/50699/connecting-europe-asia-eu-strategy_en

¹¹ Since 16 January 2021, DG INTPA has replaced the Directorate-General for International Cooperation and Development (DG DEVCO).

for development projects. In addition, the EEAS appointed an Ambassador at large for Connectivity in 2019 to reinforce the EU's actions and presence on the topic.

The EU-Japan agenda on connectivity aims to further develop the global presence of both economies and in particular to present the EU and Japan as **like-minded partners** accessing new markets and creating new trade routes together with third markets. Collaboration with like-minded third markets is also an increasingly important point for the EU. Cooperation between European and Japanese companies in third markets is the opportunity for both sides to complement each other's strengths such as their respective networks in Asia, Africa, Eastern Europe and Latin America, as well as their technologies, market intelligence, financing and existing subsidiaries in third markets.

1.3. JAPANESE POLICY BACKGROUND



1.3.1. Overseas Market Expansion Strategy 2020

In its Overseas Market Expansion Strategy 2020, the Japanese Ministry of Internal Affairs and Communications (MIC) lays out **20 priority digital projects, called *Niimaru projects*, to carry out overseas over the next 3 years**¹². The aim is to facilitate the market entry of Japanese companies in the targeted countries and regions, and to promote their technologies in these third markets, with the help of intergovernmental dialogues and JICA's funding.

In addition, MIC highlights that the *Niimaru projects* aim to achieve the following key objectives:

- Promote international cooperation toward the **achievement of the Sustainable Development Goals (SDGs)**¹³.
- Strengthen global competitiveness.
- Promote international digital strategies.

The Japanese government has been quite active in promoting the SDGs in its public relations strategy and its policies in general. **Achieving SDGs by working on projects in the digital economy is particularly relevant for EU-Japan business partnerships in third markets** and will be further explained in this report.

[Table I](#) below lays out the 20 *Niimaru projects* which consist in 20 sub-sectors of the digital economy to be implemented through projects in a selection of specific third markets (countries or regions) and aiming at the three above-mentioned key objectives.

¹² Ministry of Internal Affairs and Communications of Japan (2020). *Ministry of Internal Affairs and Communications' Overseas Expansion Plan 2020*. Available at (in Japanese): https://www.soumu.go.jp/menu_news/s-news/01tsushin07_02000002.html, p.47.

¹³ United Nations (2015). *The 17 Goals*. Available at: <https://sdgs.un.org/goals>

TABLE I: Niimaru projects

	Sub-sector	Target country / region	Objective to implement	Policy initiatives and goals
1	5G / Local 5G	Asia, India, South America, North America, Europe and Africa	Promote international digital strategies	Facilitate market entry and promote Japanese 5G technologies in third markets
2	Land broadband	Philippines	Achieve SDGs with international cooperation	Collaborate with JICA and local governments to build sustainable infrastructures and provide better Internet access
3	Data centres	Uzbekistan	Strengthen global competitiveness	Enter the maintenance business of data centres in Uzbekistan
4	Mobile phone industry	Asia, Africa	Strengthen global competitiveness	Enter the telecommunication market
5	Optical submarine cables	Asia, South America	Promote international digital strategies	Have Japanese companies building undersea cables in Asia-South America routes and discuss security issues through high-level intergovernmental dialogues
6	Digital terrestrial television (DTT)	Countries which have adopted the Japanese DTT method in Asia, Latin America and Africa	Strengthen global competitiveness	Provide expertise and technology to change from analog television to DTT. Sell Japanese broadcasting equipment and systems
7	Fibre optic for quantum networks	Europe and North America ¹⁴	Promote international digital strategies	Expand business overseas by improving market entry and business environment
8	High-altitude platform stations and Low-Earth Orbit satellites	Asia, Africa	Achieve SDGs with international cooperation	Provide support, mainly to countries right below the equator in Asia and Africa, with the aim to commercialise Japanese High-altitude platform stations and Low-Earth Orbit satellites

¹⁴ The Japanese version refers to “Western countries”.

TABLE I: Niimaru projects

	Sub-sector	Target country / region	Objective to implement	Policy initiatives and goals
9	Broadcasting (content)	ASEAN ¹⁵	Strengthen global competitiveness	Cooperation between broadcasters, local governments, local industries, tourism stakeholders. Co-produce content about the charm of Japan to broadcast overseas. Aim at 4,500 items by 2022.
10	Cybersecurity	United States of America (U.S.), Europe, Israel, ASEAN, India and South America	Promote international digital strategies	Practical workshops to reinforce ASEAN and South America's capacity building. Aim at more than 650 people trained in ASEAN by 2022. Exchange cybersecurity information with the US, Israel, ASEAN, etc.
11	Smart cities	ASEAN, India, South America, Europe and North America	Strengthen global competitiveness	Promote Japanese businesses overseas expansion through public-private partnerships. Aim to be involved in smart city projects.
12	Radio systems (Intelligent Transportation Systems (ITS), Airport systems)	ASEAN, India, U.S.	Strengthen global competitiveness	Introduce Japanese systems through demonstration. Send public-private delegations to the target countries. Aim to receive orders.
13	Radio systems (weather/rainfall radar)	Thailand	Strengthen global competitiveness	Demonstrate the usefulness of flood control by using Japanese systems and promote their introduction in Thailand with the aim to receive orders.
14	Information and communication technologies (ICT) applied to healthcare (smart healthcare)	ASEAN, Latin America, Europe and North America, India and Africa Strengthen global competitiveness	Achieve SDGs with international cooperation	Following the success of the commercialisation of Japanese mobile telemedicine systems in Chile and Brazil, to further expand to Latin America + Southeast Asia, Europe and North America. Promote AI-powered diagnosis systems, medical systems using ICT.

¹⁵ ASEAN refers to the Association of Southeast Asian Nations.

TABLE I: <i>Niimaru projects</i>				
	Sub-sector	Target country / region	Objective to implement	Policy initiatives and goals
				Promote the “Maternity health record book” app to Africa.
15	ICT applied to disaster prevention	Latin America, ASEAN	Achieve SDGs with international cooperation	Prevention through high-level intergovernmental dialogues and demonstrations of Japanese strengths in this field. Encourage the adoption of ICT applied to disaster prevention to boost sales of Japanese technologies.
16	Smart agriculture	South America, Africa	Achieve SDGs with international cooperation	Improve agricultural systems with ICT, support capacity building and promote Japanese products. Following positive results until now, to further expand in other countries in the target regions to boost sales.
17	Postal service	ASEAN, Russia	Strengthen global competitiveness	Provide e-money services and cross-border e-commerce solutions to sell Japanese products in the target regions.
18	Digital government services (e-government), statistics	Europe, ASEAN	Strengthen global competitiveness	Try to meet the demands of other countries in need for e-government and statistical services to further deploy Japanese solutions overseas.
19	Fire fighting	ASEAN, United Arab Emirates (UAE)	Strengthen global competitiveness	Promote Japanese equipment, standards and certification systems. Support capacity building.
20	Administrative counselling	ASEAN, Uzbekistan, Iran	Achieve SDGs with international cooperation	Collaborate with local ombudsmen. Promote the Japanese administrative counselling system.

Source: Ministry of Internal Affairs and Communications of Japan (2020)¹⁶
(tentative translation and summary).

¹⁶ Ministry of Internal Affairs and Communications of Japan (2020), *Ministry of Internal Affairs and Communications’ Overseas Expansion Plan 2020*. Available at (in Japanese): https://www.soumu.go.jp/menu_news/s-news/01tsushin07_02000002.html, p.47-51.

In conclusion, MIC's Overseas Market Expansion Strategy 2020 seems to be a relevant framework to match European businesses with Japanese companies for the *Niimaru projects*.

1.3.2. Japanese Free and Open Indo-Pacific vision

Japan's Free and Open Indo-Pacific (FOIP) vision aims to create "*a rule-based international order through comprehensive efforts for the promotion and consolidation of fundamental principles, economic prosperity with connectivity and commitment for peace and stability*"¹⁷ in the Indo-Pacific region. Therefore, from an economic point of view the FOIP vision promotes the creation of an **economic area based on stability and prosperity**.

Various actions are conducted by Japan and partner countries under the FOIP vision, such as infrastructure projects, disaster risk reduction, counterterrorism, counterpiracy and maritime security and safety, mine cleaning and post-conflict management.

Japan intends to cooperate on the FOIP with various partners sharing the same vision. In principle, no country is excluded to partner with Japan on projects in line with the FOIP vision. As of May 2020, the Ministry of Foreign Affairs of Japan (MOFA) mentioned efforts and cooperation on FOIP with the following partner countries: the ASEAN, Mekong countries, India, New-Zealand, Australia, the Pacific Islands and Countries, the U.S. and Canada. **The EU is also considered as a partner for cooperation on FOIP** through the EU strategy connecting Europe and Asia and the EU-Japan Connectivity Partnership. A certain number of EU Member States have also cooperated with Japan on an individual basis such as France, Germany, Italy and the Netherlands.

The FOIP vision promotes three connectivity aspects which will ultimately open business opportunities in the digital economy in the region: **(i) physical connectivity with ports, railways, energy and digital infrastructures, (ii) people-to-people connectivity with education and training, and (iii) institutional connectivity with EPAs and the harmonisation of common rules**. Infrastructures are key for a sustainable international connectivity and Japan jointly promotes the FOIP with quality infrastructure investment as endorsed in the G20 Principles for Quality Infrastructure Investment.¹⁸ Therefore, considerable efforts were made at the institutional level to promote cooperation and connectivity between Japan and like-minded partners in the Indo-Pacific region.

Japan has recently promoted the FOIP more actively in Southeast Asia, Africa, and Latin America, which is likely to **stimulate trade cooperation between Japan and the targeted countries**.

¹⁷ Ministry of Foreign Affairs of Japan (2020). *Japan's effort for a free and open Indo-Pacific*. Available at: https://www.mofa.go.jp/policy/page25e_000278.html

¹⁸ Ministry of Foreign Affairs of Japan (2019). *G20 Principles for quality infrastructure investment*. Available at: https://www.mofa.go.jp/english/international_policy/convention/g20/annex6_1.pdf

These recent moves from Japan are likely to **open joint business opportunities for EU and Japanese companies in third markets**, including in the digital economy. The promotion of the FOIP can also be seen as a strategic move to reinforce regional alliances while other countries like China have been expanding their influence.¹⁹

1.3.3. Tokyo International Conference on African Development (TICAD)

The co-organisers of the Tokyo International Conference on African Development (TICAD) officially decided on 16 July 2020 to hold the TICAD8 in Tunisia in 2022²⁰. This event will provide an opportunity to **address development issues in Africa** and to **create a platform for businesses** to discuss development projects and to showcase technologies that can tackle local issues.

MOFA announced that the field of **healthcare will be a key pillar of TICAD8**, not only to maintain Japan's ongoing efforts to support Africa in this field, but also to support the continent in recovering from the COVID-19 pandemic.²¹

TICAD8 could be a relevant business matchmaking platform, not only for Japanese and African businesses, but also for EU companies. For example, TICAD6 in Kenya was the opportunity for France and Japan to organise a **side-event** and to promote **French-Japanese business collaboration in Africa**. The event resulted in the **signature of 4 MoUs** in the fields of sustainable cities, solar energy and water management between African, Japanese and large French companies.²² This example could be replicated at a larger scale by involving EU companies, including SMEs, and by aiming at additional industries such as healthcare and the digital economy which are growing industries.

1.3.4. Digital Agency

Since he took office in September 2020, Japanese Prime Minister Suga has set digital reforms as a top priority for Japan. The launch of a new **Digital Agency** on 1 September 2021 is expected to lead to widespread digitalisation both in the public and private sectors.²³ The Digital Agency aims to improve the digitalisation of public services in Japan and to move toward the Japanese concept of **Society 5.0**. Japan proposed the concept of Society 5.0 in its 5th Science and Technology Basic Plan

¹⁹ NHK World Japan (2020). *Suga visits Southeast Asia on first trip*. Available at: <https://www3.nhk.or.jp/nhkworld/en/news/backstories/1340/>

²⁰ MOFA (2020). *The Eight Tokyo International Conference on African Development (TICAD8) to be held in Tunisia*. Available at: https://www.mofa.go.jp/press/release/press4e_002865.html

²¹ MOFA (2020). *Fight against COVID-19 – Japan's contribution through the TICAD*. Available at: <https://www.mofa.go.jp/files/100124482.pdf>

²² Ministry of Foreign Affairs of Japan and French government (2016). *Joint event on the France-Japan Partnership for Africa organized in the Framework of TICAD VI*. Joint press release available at: <https://www.mofa.go.jp/files/000183524.pdf>

²³ Jiji Press (2020). *Japan decides to launch Digital Agency in Sept. 2021*. Available at: <https://jen.jiji.com/jc/eng?g=eco&k=2020122100889>

and defines it as “a human-centred society that balances economic advancement with the resolution of social problems by a system that highly integrates cyberspace and physical space”.²⁴

The creation of a new agency to tackle the situation of Japan falling behind in the digital field is potentially a major step into the digital economy. With the creation the agency, **business opportunities in the digital economy are expected to grow in Japan**, which could lead to **more business opportunities in third markets** in the future.

1.4. EU POLICY BACKGROUND



1.4.1. InDiCo

InDiCo is a project funded by the European Union and coordinated by the European Telecommunications Standards Institute (ETSI).²⁵ The project aims to build the bridges needed between a selection of countries to **facilitate the transition toward a digital economy**. The project supports the exchange of best practices regarding policies and technologies. It also aims to boost **common work on standards** to build an open global market and to **facilitate interoperability** of products, services and technologies between the selected countries.

InDiCo’s technical scope is on cybersecurity, distributed ledger technology, 5G, the Internet of Things (IoT) and intelligent transport systems.

InDiCo is not a joint project between the EU and Japan, but a collaboration between the EU and six key trading partners: Brazil, China, India, Japan, South Korea and the U.S.

Therefore, concrete work on digital standards between these countries could facilitate bilateral trade and open more business opportunities in the digital economy for EU-Japan business cooperation in the countries mentioned above.

1.4.2. Workshop on cybersecurity

The EU-Japan Digital Strategy Workshop takes place twice a year between the Directorate-General for Communications Networks, Content and Technology (DG CONNECT), MIC, the Japanese Ministry of Economy, Trade and Industry (METI) and EU and Japanese industries. In October 2020, METI mentioned during the EU-Japan Digital Strategy Workshop that a **cybersecurity training initiative between the EU, Japan and the U.S. directed at participants from Southeast Asian countries** was to be carried out in a virtual format in March 2021.

²⁴ Cabinet Office (n.d.) *Society 5.0*. Available at: https://www8.cao.go.jp/cstp/english/society5_0/index.html

²⁵ Indico-ICT standards (2020) *Indico ICT standards*. Available at: <https://www.indico-ictstandards.eu/>

This cybersecurity training is a promising initiative for more connectivity between the EU, Japan, the U.S. and Southeast Asia in terms of human connectivity, with regard to the training aspect and the exchange of knowledge, and in terms of digital connectivity with regard to the cybersecurity industry.

1.4.3. Digital4Development Hub

In December 2020, European Commission President Ursula von der Leyen officially launched the Digital4Development Hub (D4D Hub).²⁶ The D4D Hub is a global multi-stakeholder platform dedicated to support a human-centric digital transformation under **a single European digital development strategy**.

The D4D Hub will have branches in **Africa, Asia, Latin America, the Caribbean and countries of the EU's Eastern Neighbourhood**²⁷. The first regional branch will be the AU-EU²⁸ D4D Hub, to be **launched in early 2021 with activities in Africa**.

All relevant stakeholders can take part in the D4D Hub, which includes the public sector, academia, the civil society and the **private sector**. Therefore, the D4D Hub is a new approach for the EU regarding development initiatives. DG INTPA which is in charge of the EU development policy and to orient funds toward development projects around the world, including in the digital field, has mainly worked with the public sector and non-profit organisations (NPOs) until now, but not directly with the private sector. **The inclusion of businesses in the EU's development strategy is key to effectively tackle development issues and boost the private sector in third markets.**

The five key principles of the D4D Hub are:

- Local ownership and win-win partnerships **taking into account the local demand**,
- Multi-stakeholder involvement and perspective,
- A sustainable green and digital transformation,
- A human-centric approach,
- Data security and protection.

Eleven EU Member States²⁹ support the D4D Hub which was initiated by a Letter of Intent.³⁰ The letter mentions **cooperation in the digital field with partner countries for development purposes**; sustainable, responsible and inclusive digital economy investments in partner countries; collaboration during the implementation of joint projects; and cooperation on **norms, standards** and

²⁶ Digital4Development Hub (2020). *D4D Hub, EU International partnerships*. Available at: <https://www.d4dlaunch.eu/>

²⁷ The six countries of the EU's Eastern Neighbourhood are Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

²⁸ "AU" refers to the African Union.

²⁹ Belgium, Estonia, Finland, France, Germany, Lithuania, Luxembourg, Netherlands, Portugal, Spain and Sweden.

³⁰ D4D Team Europe (2020). *Joint Letter of Intent to foster a "Team Europe" approach implementing Digital4Development (D4D) in partner countries*. Available at: <https://toolkit-digitalisierung.de/app/uploads/2020/12/MoU-D4D-Hub.pdf>

preconditions to ensure that the goals and activities of the D4D Hub are in line with international laws as well as with EU values and principles. The “*Team Europe Approach*” mentioned in the letter of intent refers to an **approach between like-minded partners** among EU Member States as well as in non-EU partner countries to achieve together joint initiatives and projects. **Like-minded partners can be understood as partners sharing the values promoted by the EU.** While this point could limit the scope under which countries and stakeholders would be able to join these initiatives, and therefore limit the coverage of the actions initiated by the EU, it would make sure that key principles and values - such as human rights, the rule of law, privacy, transparency, openness and democracy - are taken into account when designing and implementing digital-for-development projects.

With the D4D Hub, business opportunities are likely to arise in many third markets, starting with Africa through the new regional branch “AU-EU D4D Hub”. A close follow-up on this initiative would be useful to better understand how the D4D Hub will involve the private sector, and if Japanese companies will be able to join this platform.

1.4.4. Initiatives by EU Member States

In addition to EU policies and initiatives to create more digital connectivity and more business cooperation with Japanese businesses in third markets, some EU Member States have also launched individual initiatives with Japan:

- In 2019, **France and Japan** agreed on a roadmap for future cooperation between both countries during the 2019-2023 period which includes cooperation in the Indo-Pacific.³¹ The potential of French-Japanese joint projects in Africa was also presented during the 3rd French-Japanese Business Summit in November 2020, with an event focusing on “*growth opportunities in Africa: towards new business partnerships*”³².
- In 2019, **Italy and Japan** discussed possible future investments and joint initiatives for better connectivity between East Asia and Mediterranean Europe with a focus on the FOIP.³³
- In 2020, **Germany**³⁴ and the **Netherlands**³⁵ published policy guidelines about individual and EU cooperation with partners in Asia, and in particular with the Indo-Pacific region.

³¹ MOFA and French government (2019). *Roadmap for French-Japanese cooperation to open new horizons between France and Japan, within the exceptional partnership's framework (2019-2023)*. Available at (in French): <https://www.mofa.go.jp/files/000492473.pdf>

³² CCI France Japon (2020). *2020 French Japanese Business Summit: Key Takeaways Videos*. Available at: <https://www.ccifi.or.jp/actus/n/news/2020-french-japanese-business-summit-key-takeaways-videos.html>

³³ Embassy of Italy to Japan (2019). *Meetings of Minister Moavero with the Prime Minister of Japan, Shinzo Abe, and with Hon. Akira Amari, President of the Italy-Japan Parliamentary Friendship Association*. Available at: https://ambtokyo.esteri.it/ambasciata_tokyo/ja/ambasciata/news/dall_ambasciata/2019/06/riunioni-del-ministro-moavero-con.html

³⁴ German Federal Foreign Office (2020) “*Germany-Europe-Asia: shaping the 21st century together*”: *The German Government adopt policy guidelines on the Indo-Pacific region*. Available at: <https://www.auswaertiges-amt.de/en/aussenpolitik/regionaleschwerpunkte/asien/german-government-policy-guidelines-indo-pacific/2380510>

³⁵ Government of the Netherlands (2020). *Indo-Pacific: guidelines for strengthening Dutch and EU cooperation with partners in Asia*. Available at (in Dutch): <https://www.rijksoverheid.nl/documenten/publicaties/2020/11/13/indo-pacific-een-leidraad-voor-versterking-van-de-nederlandse-en-eu-samenwerking-met-partners-in-azie>

1.5. OTHER FOREIGN CONNECTIVITY INITIATIVES

Similar foreign initiatives on connectivity including a digital connectivity aspect are worth mention to show that the EU-Japan Connectivity Partnership is not the only active partnership in this field. Alternative initiatives may create business competition that EU SMEs should acknowledge.

1.5.1. Japan-India cooperation in the Indo-Pacific, including Africa

In 2018, Japan and India confirmed their joint cooperation for development purposes in the Indo-Pacific region, including Africa. Both sides agreed to cooperate for more connectivity in the region, **including digital connectivity**.³⁶ India is one of Japan's long-term partners in the digital field and the Confederation of Indian Industry has been active in Africa for more than 20 years³⁷, which makes **India a privileged partner for Japanese companies wishing to set foot in Africa**, and therefore a competitor for EU companies already established in Africa.

1.5.2. Japan-U.S. cooperation in the Indo-Pacific

While many countries have partnered with Japan under the FOIP, the U.S. has certainly been one of the most active partners. The U.S. has shown that partnerships with Japan in third markets are **highly promising and can benefit all parties involved**, which means the U.S., Japan and Indo-Pacific countries.

First, the U.S. and Japan issued a joint statement in 2018 on advancing a **free and open Indo-Pacific through energy, infrastructure and digital connectivity cooperation**³⁸, and the resulting joint cooperation has already initiated several projects. Indeed, during the Second Public-Private Sector Roundtable Discussion on U.S.-Japan Cooperation on Third Country Infrastructure that took place in 2018, the U.S. and Japan laid out a list of 10 cases of commercial collaboration and market development, two types of joint financing and three initiatives to reinforce capacity building in third markets.³⁹

³⁶ Prime Minister's Office of India (2018). *India-Japan Fact Sheets: India-Japan Development Cooperation in the Indo-Pacific, including Africa*. Available at: https://www.pmindia.gov.in/en/news_updates/india-japan-fact-sheets-india-japan-development-cooperation-in-the-indo-pacific-including-africa/

³⁷ Confederation of Indian Industry (n.d.). *Africa*. Available at: https://www.cii.in/InternationalRegions.aspx?enc=6Zpu9+0MgRzmLc1BDCqTC6Hnaop1iVSI005XnW3ESJ70EdhVpVHfcan+AKC6FqKC_UuzBTxB5I4p7T8V46lwHOQ==

³⁸ White House (2018). *Remarks by Vice President Pence and Prime Minister Abe of Japan in Joint Press Statements*. Available at: <https://trumpwhitehouse.archives.gov/briefings-statements/remarks-vice-president-pence-prime-minister-abe-japan-joint-press-statements/>

³⁹ United States Department of State (2018). *Joint Statement of the Second Public-Private Sector Roundtable Discussion on US-Japan Cooperation on Third Country Infrastructure*. Available at: <https://2017-2021.state.gov/joint-statement-of-the-second-public-private-sector-roundtable-discussion-on-u-s-japan-cooperation-on-third-country-infrastructure//index.html>

To achieve cooperation on energy and digital connectivity the U.S. and Japan have established two strategic partnerships aiming at **joint cooperation in third markets**:

- The **Japan-United States Strategic Energy Partnership (JUSEP)** which aims to deepen cooperation in the power sector and transmission grid development, in particular in the Mekong region and in Africa.⁴⁰
- The **Japan-United States Strategic Digital Economy Partnership (JUSDEP)** which is a working group that was launched in 2019 under the U.S.-Japan Policy Cooperation Dialogue on the Internet Economy. JUSDEP aims to align Japanese and U.S. diplomatic, foreign assistance and financing efforts to support secure digital connectivity and the digital economy in developing countries with a focus on the Indo-Pacific region. JUSDEP has prioritised cooperation on smart cities with an initial focus on the ASEAN, capacity building on cybersecurity and the development of secure and reliable telecommunications infrastructures such as submarine cables.⁴¹

1.5.3. Japan-U.S.-Australia cooperation in Palau

The first project delivered under the Trilateral Partnership for Infrastructure Investment in the Indo-Pacific between the U.S., Australia and Japan is a **digital connectivity project** that aims to build an **undersea fibre optic cable to Palau**.⁴² The official announcement took place in October 2020 during the annual Indo-Pacific Business Forum organised by the U.S.⁴³ The \$30-million project will connect Palau to the world's longest undersea cable, the ECHO Cable Network connecting Singapore to the U.S.. As Palau is currently connected to only one submarine cable, the country has a vulnerable position if the cable were to be damaged, and this second connection aims at strengthening Palau's telecom resiliency as soon as 2021.

Each party will contribute as follows⁴⁴:

- The **U.S. Government** will provide \$4.6 million, including \$3.8 million from the U.S. Agency for International Development (USAID) and \$800,000 from the U.S. Government's Transaction Advisory Fund.
- The **Republic of Palau** will use \$7 million of U.S. funding made available under an agreement between both countries. A **Palauan company** will contribute \$1 million to undertake the construction of the submarine cable.

⁴⁰ United States Department of State (2019). *President Donald J. Trump and Prime Minister Shinzo Abe Advance the United States' and Japan's Global Partnership*. Available at: <https://2017-2021.state.gov/president-donald-j-trump-and-prime-minister-shinzo-abe-advance-the-united-states-and-japans-global-partnership//index.html>

MOFA (2021) *Japan's effort for a free and open Indo-Pacific*, p.9. Available at: <https://www.mofa.go.jp/files/100056243.pdf>

⁴¹ Idem

⁴² United States Department of State (2020). *The United States partners with Australia and Japan to expand reliable and secure digital connectivity in Palau*. Available at: <https://2017-2021.state.gov/the-united-states-partners-with-australia-and-japan-to-expand-reliable-and-secure-digital-connectivity-in-palau//index.html>

⁴³ Indo-Pacific Business Forum (2020). *Indo-Pacific Business Forum - Homepage*. Website available at: <https://www.indopacificbusinessforum.com/>

⁴⁴ United States Department of State (2020). *The United States partners with Australia and Japan to expand reliable and secure digital connectivity in Palau*.

- The **Government of Australia** will contribute nearly \$10 million, including \$9 million from the Australia Infrastructure Financing Facility for the Pacific.
- The **Government of Japan** will approve a financing package through **JBIC and NEXI**.

This recent joint collaboration between Japan, Australia, the U.S. and Palau shows the existing **possibilities for future joint projects between the EU and Japan in third markets, including in the digital economy and in digital infrastructures**. The specificity of the targeted third market and the **need for multiple partners for expensive and technical projects** like undersea cables justify alliances between foreign partners in third markets.

1.5.4. China's connectivity initiatives

China's large connectivity and infrastructure project known as the Belt and Road Initiative (BRI) aims at building two routes (a belt and a road): a land route called the "*Silk Road Economic Belt*", and a maritime route called the "*21st Century Maritime Silk Road*".⁴⁵ These routes aim to cover Central Asia, Europe, Africa, the Middle-East and Southeast Asia to create more connectivity and trading routes. In addition, China mentioned in 2019 that cooperation in the **digital economy would be one of the priority areas of the BRI**⁴⁶, which would ultimately create a **Digital Silk Road**.

The Digital Silk Road would include the participation of China in providing digital infrastructures such as fibre optic cables and network equipment, data centres, smart city projects, e-commerce and mobile payment deals to countries involved in the BRI. If successful, the Digital Silk Road would enable Chinese companies to enhance their growth potential in high-tech industries, and would spread China's cyber standards in countries involved in the BRI⁴⁷.

The Digital Silk Road is an alternative to the EU-Japan Connectivity Partnership and the other above-mentioned initiatives involving India, the U.S. and Australia. **Every digital connectivity initiative implies the promotion of its own values, digital standards and technologies**. The targeted third markets have more and more choice among the many foreign companies interested in developing digital connectivity. Third markets have the possibility to make foreign companies compete to obtain the best deal at the best price. They can also create competition by setting quality criteria that meet their needs and reflect their values by requesting specific digital standards ensuring secure, reliable, interoperable, sustainable, accessible and affordable digital connectivity.

⁴⁵ State Council of the People's Republic of China (2015). *Full text: Action plan on the Belt and Road Initiative*. Available at: http://english.www.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm

⁴⁶ Second Belt and Road Forum for International Cooperation (2019). *Xi Jinping Chairs and Addresses the Leaders' Roundtable of the Second Belt and Road Forum for International Cooperation (BRF)*. Available at: <http://www.beltandroadforum.org/english/n100/2019/0429/c22-1392.html>

⁴⁷ Eder, T., Arcesati, R., Mardell, J. (2019). *Networking the "Belt and Road" – The future is digital*. Available at: <https://merics.org/en/analysis/networking-belt-and-road-future-digital>

2. WHY A FOCUS ON THE DIGITAL ECONOMY?

2.1. WHAT IS THE DIGITAL ECONOMY?

2.1.1. Meaning of “digital economy”

According to the European Observatory of Working Life (EurWORK), there is no official definition of the digital economy.⁴⁸ Nonetheless, the European Commission considers that digitalisation **affects all businesses and all industries**, to various extents. Therefore, the digital economy is a **cross-sectoral economy**, referring to the use of digital technologies in all industries. It is in permanent evolution thanks to companies, entrepreneurs, consumers, researchers, scientists and programmers imagining and creating disruptive technologies day after day. New technologies create new industries and new ways to do business. Defining the digital economy is therefore a challenge by its broad meaning, its cross-sectoral aspect and its permanent evolution.

The digital economy goes beyond the terms “information technology (IT)” or “information and communication technology (ICT)”. Taking into account the **application of digital technologies to other industries** such as agriculture, healthcare and transport is important to understand the extent of the digital economy.

2.1.2. Digitalisation and digitisation

Among the many components of the digital economy, two words should be defined to better understand the types of business opportunities that the digital economy can offer: digitalisation and digitisation. EurWORK defines the two terms as follow:

- **Digitalisation** transforms the way that businesses work and interact with each other as well as with their clients. Digitalisation happens when businesses are transformed by widely adopting digital technologies such as IoT, AI, sensors and virtual reality (VR).⁴⁹
- **Digitisation** is a component of digitalisation. It refers to processes that transform elements of the physical world into a digital form that can be processed by a computer, for example with the help of sensors; or vice versa, by using technologies like 3D printing that transforms digital information into an element of the physical world⁵⁰.

⁴⁸ EurWORK (2018). *Digital economy*. Available at: <https://www.eurofound.europa.eu/observatories/eurwork/industrial-relations-dictionary/digital-economy>

⁴⁹ Idem.

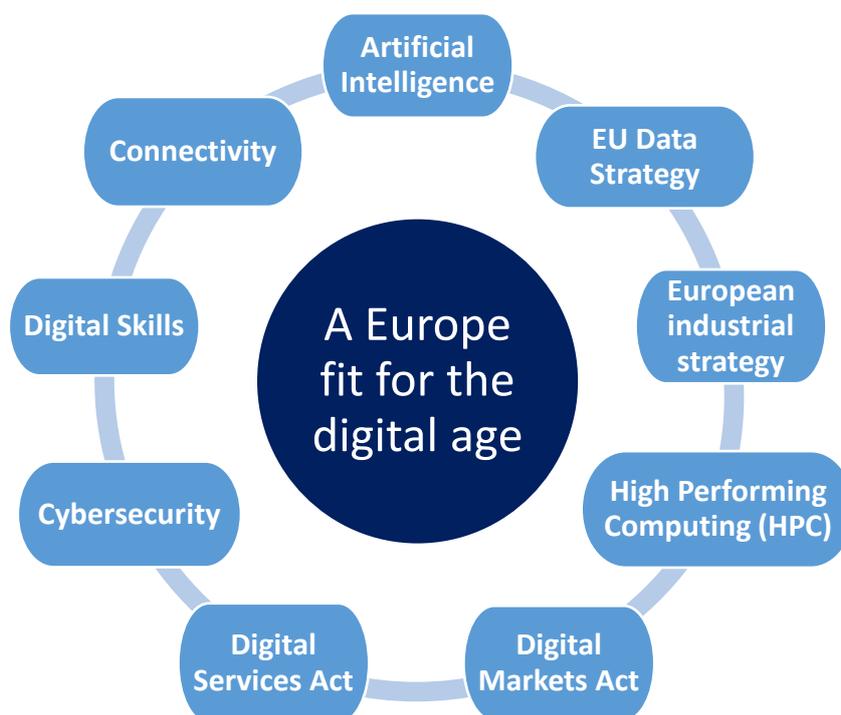
⁵⁰ EurWORK (2018). *Digitisation*. Available at: <https://www.eurofound.europa.eu/observatories/eurwork/industrial-relations-dictionary/digitisation>

2.2. A GROWING TREND THAT AFFECTS BUSINESSES AND OPENS OPPORTUNITIES

2.2.1 EU policies to support digital connectivity and the digital economy

“A Europe fit for the digital age” is one of the EU’s six priorities for the 2019-2024 period.⁵¹ The EU’s digital strategy aims to address how digital technologies are changing people’s lives and transforming businesses, as well as how they can contribute to a more sustainable and green Europe, by focusing on nine actions as shown below in [Figure 2](#).

Figure 2. Nine priority actions for a Europe fit for the digital age



The EU puts digital connectivity and the digital economy at the heart of its priorities and policies. The **digital economy is a “hot topic”** which is likely to open new business opportunities related to the digital economy and spur actions from the EU private sector, including EU SMEs. A focus on the digital economy when analysing EU-Japan business cooperation in third markets is therefore in line with current priorities.

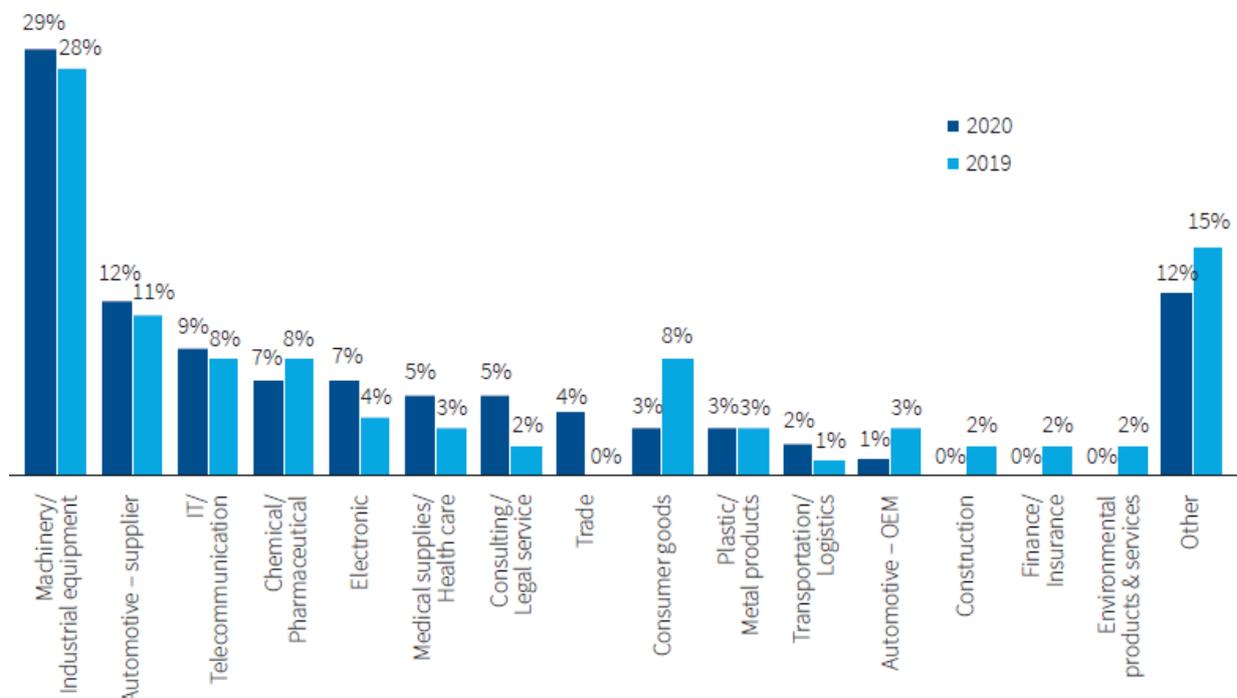
⁵¹ European Commission (2019). *A Europe fit for the digital age*. Website available at: https://ec.europa.eu/info/strategy/priorities-2019-2024/europe-fit-digital-age_en

2.2.2 EU SMEs affected by the digital transformation: case study of German companies in Japan

A report about economic outlooks for German businesses in Japan published in 2020 by the German Chamber of Commerce and Industry in Japan (AHK Japan) shows how businesses can be impacted by digitalisation and digitisation. The report is based on a survey which was answered by 92 German companies, the majority of which were SMEs.

Figure 3 provides a breakdown by sector of the companies surveyed by AHK for their 2020 report. The chart shows that AHK surveyed companies across **multiple sectors**, with no specific focus on traditional digital industries such as ICT and telecommunications.

Figure 3. Breakdown by sector of the companies surveyed by AHK Japan in 2020



Source: German Chamber of Commerce and Industry in Japan, KPMG (2020). *Economic outlook – German Business in Japan 2020*⁵²

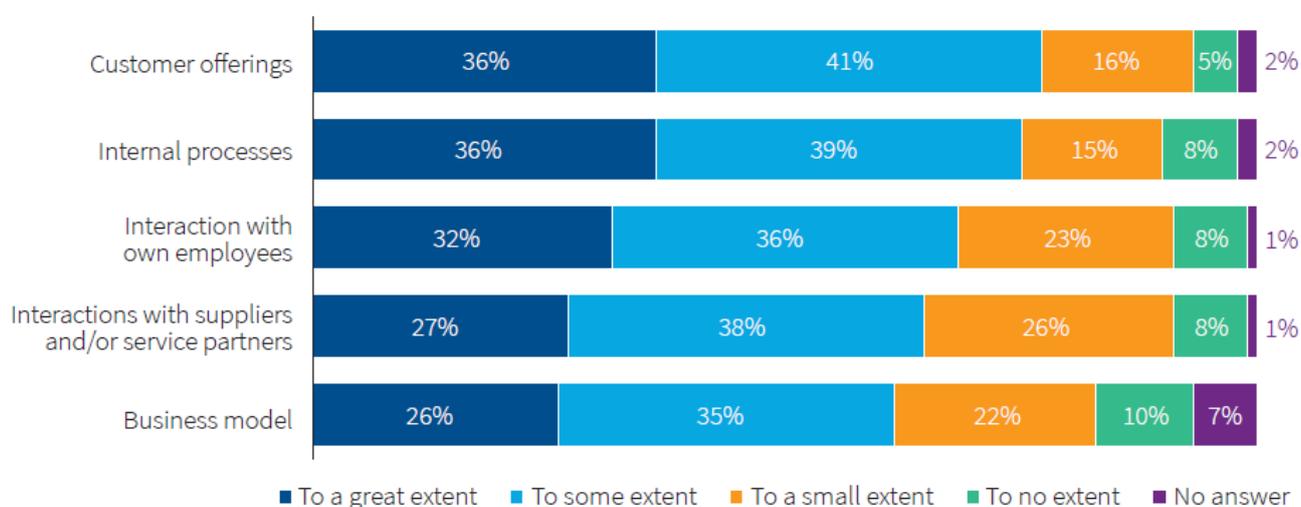
The report shows that 71% of the respondents mentioned that the digitalisation of services and industries has affected their business in Japan, which is a 12% increase from the 2019 survey⁵³. In the report, **digitalisation is ranked as the second top influence on business activities in Japan after globalisation**. In addition, the report highlights that technological development in the digital sector is changing the way products are manufactured, the way services reach the market, the way decisions are made and affect businesses’ daily life with a new market logic. The majority of the respondents

⁵² German Chamber of Commerce and Industry in Japan, KPMG (2020). *Economic outlook – German Business in Japan 2020*. Report available at: <https://japan.ahk.de/en/infothek/surveys-and-studies>, p.23.

⁵³ Idem, p.14.

notice the impact of digitalisation and digitisation “in every core aspect of their business”, which means that it has an impact on their business model, their interactions with partners and employees, their customer offerings and their internal processes (as shown in [Figure 4](#)). Figure 4 shows that **most companies across all sectors are impacted by digitalisation and are likely to transform their business to become part of the digital economy** and in order to survive. Digital transformation can open business opportunities not only to adapt companies’ offerings to the digital economy, but also to change companies from the inside.

Figure 4. Impacts of digitalisation on the business activities of German businesses in Japan

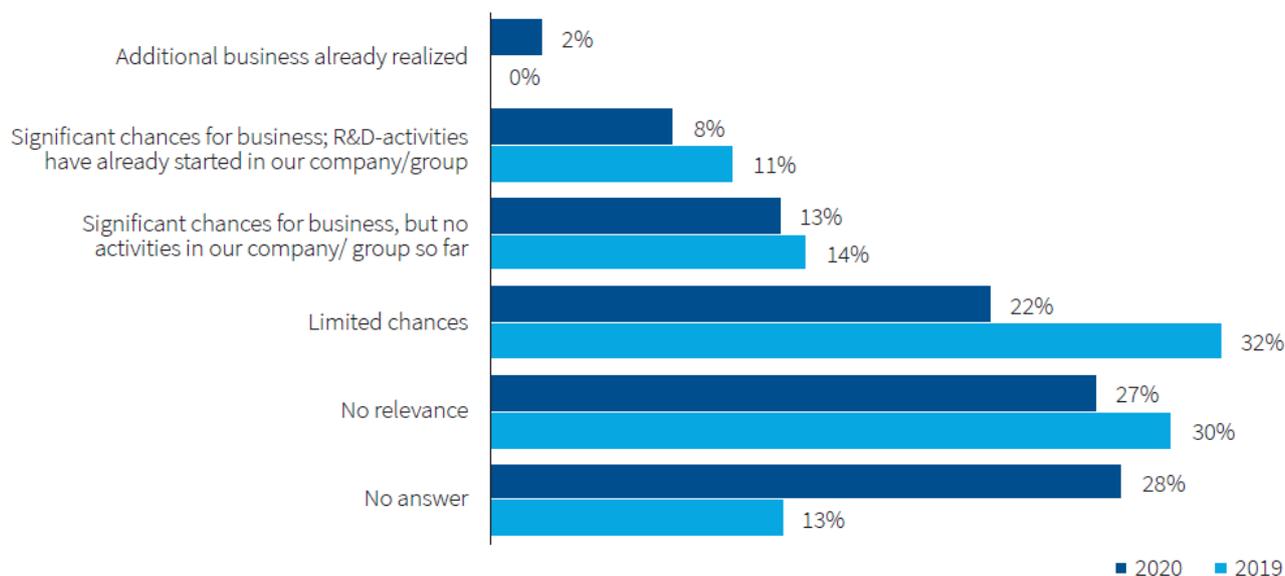


Source: German Chamber of Commerce and Industry in Japan, KPMG (2020). *Economic outlook – German Business in Japan 2020*⁵⁴

Nonetheless, despite the need for a digital transformation, the study shows that **67% of the respondents do not pursue any cooperation to promote digital innovation with a third party**. In addition, [Figure 5](#) shows that when questioned about the impact of the Japanese concept of “Society 5.0”, almost half of the respondents answered that the concept had no relevance or limited chances to impact their business. More data would be necessary to assess the opinion of more EU companies in the long term but the German study already shows that **a certain gap exists between companies’ needs and ambitions, and high-level policies** and concepts such as the Society 5.0.

⁵⁴ German Chamber of Commerce and Industry in Japan, KPMG (2020). *Economic outlook – German Business in Japan 2020*. Report available at: <https://japan.ahk.de/en/infothek/surveys-and-studies>, p.16.

Figure 5. Impact of the Japanese “Society 5.0” initiative on German companies’ business



Source: German Chamber of Commerce and Industry in Japan, KPMG (2020). *Economic outlook – German Business in Japan 2020*⁵⁵

The data provided by the German study are useful to show that German SMEs doing business in Japan are **impacted by digitalisation**, and are therefore **part of the digital economy**. Nonetheless, the German study might not reflect the opinions of all EU businesses in Japan. A **more comprehensive and systematic data collection would be necessary** to better assess the opinions of EU companies regarding the digital economy and alliances with Japanese partners in third markets.

2.3. RELATED TRENDS AND BUSINESS OPPORTUNITIES

2.3.1. Why is the digital economy relevant for EU-Japan joint projects in third markets?

As mentioned above, the digital economy is not only a “hot topic” to discuss. The increasing digitalisation of all industries makes the digital economy bigger and bigger and affects companies of all sizes and from all around the world. Covering the digital economy is therefore crucial when analysing future business opportunities in the EU, in Japan and in third markets.

On the one hand, **Japanese companies are still falling behind in the digital field**, which makes them more open to partner with innovative foreign companies, including EU SMEs as long as they can provide **technologies that can be customised**. In addition, the Japanese aging population is likely to make the digital transition slower than other countries. On the other hand, EU companies

⁵⁵ German Chamber of Commerce and Industry in Japan, KPMG (2020). *Economic outlook – German Business in Japan 2020*. Report available at: <https://japan.ahk.de/en/infothek/surveys-and-studies>, p.17.

have been active in third markets that are still considered as unfamiliar to Japanese companies. These two points give a competitive advantage to EU companies for projects in the digital field in third markets. Indeed, they can be seen as excellent partners with **complementary strengths** for Japanese companies. EU tech SMEs are particularly relevant as they can **add a specific digital technology** needed in a large project undertaken by a Japanese company in third markets.

The EU-Japan Connectivity Partnership highlights five regions in which the EU and Japan intend to work in the field of digital connectivity: **the Western Balkans, Eastern Europe, Central Asia, Indo-Pacific and Africa**. These regions are in line with what has been done by the private sector according to past case studies of EU-Japan business alliances in third markets.⁵⁶ Among the target regions, many countries are referred to as “*economies in transition*”⁵⁷, “*developing economies*”⁵⁸ and “*least developed countries*”⁵⁹ by the United Nations⁶⁰, which implies the existence of many untapped business opportunities, including in the digital economy, to contribute to the development of these three categories of countries. The present report will refer to these three categories as a whole with the terms “**emerging countries**”, or “**emerging markets**”.

Emerging countries have their own development issues to tackle. For example, to improve agricultural systems and food transformation in order to reduce hunger, or to improve healthcare systems and capacity building to improve people’s health and well-being. The use of **digital technologies can be very powerful to tackle development issues**. That is why **involving the private sector in development projects** is important to obtain effective results.

Thanks to today’s level of innovation, digital technologies can help emerging countries in **leapfrogging**. Leapfrogging can help tackle development issues in a more effective way and in less time that it took today’s most developed countries to do so in the past.

Leapfrogging is a concept that is increasingly used in emerging countries. Leapfrogging happens when a technology provides the capacity to skip stages of an industrial path considered as less efficient, more expensive and more polluting to directly reach a more advanced stage.

⁵⁶ Marbot, M. (2020). *Analysis of EU-Japan business cooperation in third countries*, p.17-19, p.129-130

⁵⁷ Most countries in Central Asia are categorised as economies in transition by the United Nations.

⁵⁸ Most Asian and African countries are categorised as developing economies by the United Nations.

⁵⁹ 33 out of 54 African countries were categorised among the least developed countries in the world by the United Nations.

⁶⁰ United Nations (2020). *World Economic Situation and Prospects*. Available at: https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP2020_Annex.pdf

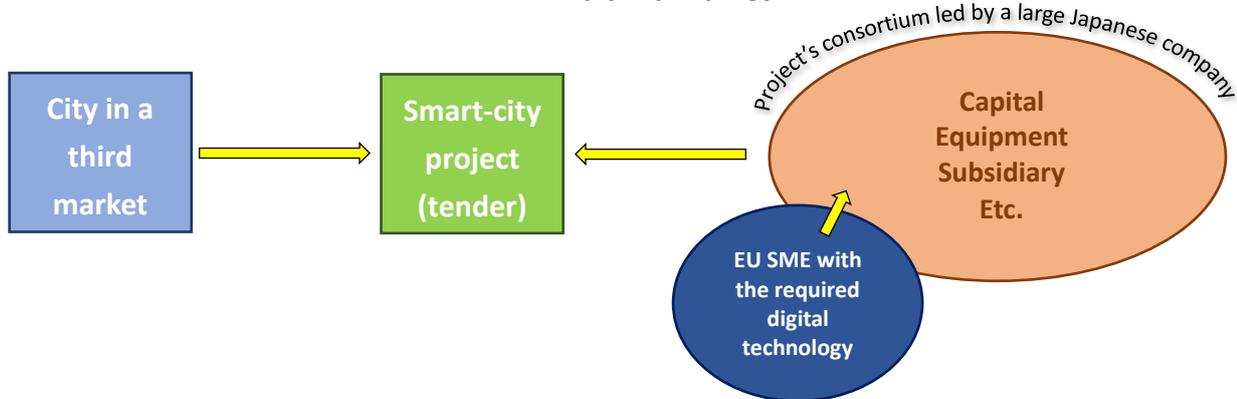
2.3.2. Smart city and smart rural

Smart city

Smart city is a “hot topic” in the digital economy that can open business opportunities for EU-Japan business alliances in various industries such as smart mobility, smart building and smart services. The Japanese *Niimaru projects* put smart cities among the priority sectors for the overseas expansion of Japanese companies. To involve them in smart-city projects, Japan intends to promote Japanese companies in **public-private partnerships** in ASEAN, India, South America, Europe and North America.⁶¹ Another smart city initiative aiming at the Asian market is the City of Yokohama’s **Y-PORT project**.⁶² Y-PORT promotes innovative urban solutions developed by Japanese companies in Yokohama for smart-city projects in Asia. Y-PORT is a platform that brings together the Japanese private sector and the Asian public sector to encourage public-private partnerships.

The interest of the Japanese government and of Japanese companies in smart-city projects in Asia is an opportunity for EU tech companies, including SMEs with **state-of-the-art technologies**, to **join projects’ consortia**. Indeed, large Japanese companies often have expertise in winning tenders in Asia and have a lot of capital. However, they sometimes lack specific technologies, which leads them to partner with an EU SME to work together on a project in Asia.

Figure 6. Example of an EU SME taking part in a smart-city project with a large Japanese company in a third market



Smart rural

Emerging countries also need smart rural solutions to support their local communities living in **remote areas and lacking access to basic services** such as electricity, water, healthcare and transport. Smart rural projects require **leapfrogging and “to do more with less” thanks to frugal innovation**.⁶³ Innovative digital tools are used to achieve development in rural areas, which makes smart-rural projects very promising for EU-Japan business cooperation in third markets.

⁶¹ Ministry of Internal Affairs and Communications of Japan (2020). *Ministry of Internal Affairs and Communications’ Overseas Expansion Plan 2020*.

⁶² City of Yokohama, Y-PORT Center Office (2020). *Y-PORT – Yokohama partnership of Resources and Technologies*. Available at: <https://yport.city.yokohama.lg.jp/en>

⁶³ Frugal innovation is needed to deliver affordable high-quality products and services with limited resources.

2.3.3. Sustainable Development Goals (SDGs)

The SDGs are closely related to the digital economy. Indeed, like the digital economy, the SDGs cover various development issues and therefore various industrial sectors as shown in Figure 7. Consequently, projects in the digital economy undertaken by EU-Japan business alliances in emerging markets should take the SDGs into account, **from the preparation to the implementation phase.**

Figure 7. The Sustainable Development Goals⁶⁴

SUSTAINABLE DEVELOPMENT GOALS



Addressing the SDGs is crucial, whether a project is a development project *per se* or not. Indeed, **industrial projects can have a high development impact.** For example, an EU-Japan industrial project in a third market can have a high development impact by creating jobs, skills, infrastructures and added value to the goods produced locally. Addressing the SDGs and sustainability in general is not merely a philanthropic idea. In a world with increasing inequalities and conflicts globally, and an increasing deterioration of the planet, sustainability is necessary in order to make plans in the long term, including for industries. Therefore, a proper **assessment of the impact of a project on the local community** is important, and SDGs can be good end goals to aim for in order to better design a project.

In conclusion, **development projects and industrial projects are compatible.** While the work of non-governmental organisations remains important, the inclusion of the private sector can stimulate the local economy and the local community to trigger development outcomes.

⁶⁴ United Nations (2015). *The 17 Goals*. Available at: <https://sdgs.un.org/goals>

2.3.4. Impact of the COVID-19 pandemic

The COVID-19 pandemic has urged both high-income and low-income countries to achieve a **digital transformation of businesses and of society**, and to **diversify their economies and their supply chains**. The pandemic has also accelerated the use of smart healthcare systems such as telemedicine, which is a field particularly relevant for communities living in remote areas.

In 2020, a survey suggested that 70% of Japanese companies with domestic plants were planning to revise their supply chains, with *“57.1% indicating that they will stop purchasing from a single country in order to diversify sources”*.⁶⁵ The respondents also indicated that the **pandemic has accelerated the use of digital technologies** with an 87% increase in spending on equipment for teleworking, a 63.6% increase on spending for cybersecurity and 61% of respondents planning to switch to digital tools such as e-seals to handle internal paperwork.

The pandemic has spotlighted many businesses’ flaws and revealed new needs in various industries that could be addressed thanks to digital technologies as shown in [Figure 8](#).

The impact of the COVID-19 pandemic will certainly last for the next few years and new similar crises are likely to happen again. Companies have to adapt and innovate as their business model has probably become obsolete. Digitalisation will be key for companies that will pivot their business to adapt to the “new normal” and be more resilient to future crises.

Regarding emerging markets, the European Investment Bank (EIB) published in 2020 a paper showing Africa’s digital solutions to tackle COVID-19 with the aim to create awareness on the topic, to encourage the development of new ideas and to identify investment to contribute to the response to the crisis.⁶⁶ Indeed, **Africa has been seriously impacted by the pandemic, affecting small and informal businesses, as well as poor people the most**. The paper shows 23 concrete case studies⁶⁷ of digital solutions deployed in Africa and worldwide to tackle issues related to the crisis such as remote learning, access to healthcare and virtual government business continuity. The companies developing software for these projects partnered with various international, public and private entities such as the United Nations (UNDP, UNICEF, UNCDF, UNESCO), local governments, and large local companies. Most of the software developers mentioned in the EIB’s paper are African SMEs, and two EU SMEs are also included: KaiOS.ai (Netherlands) and Famoco (France). No Japanese company

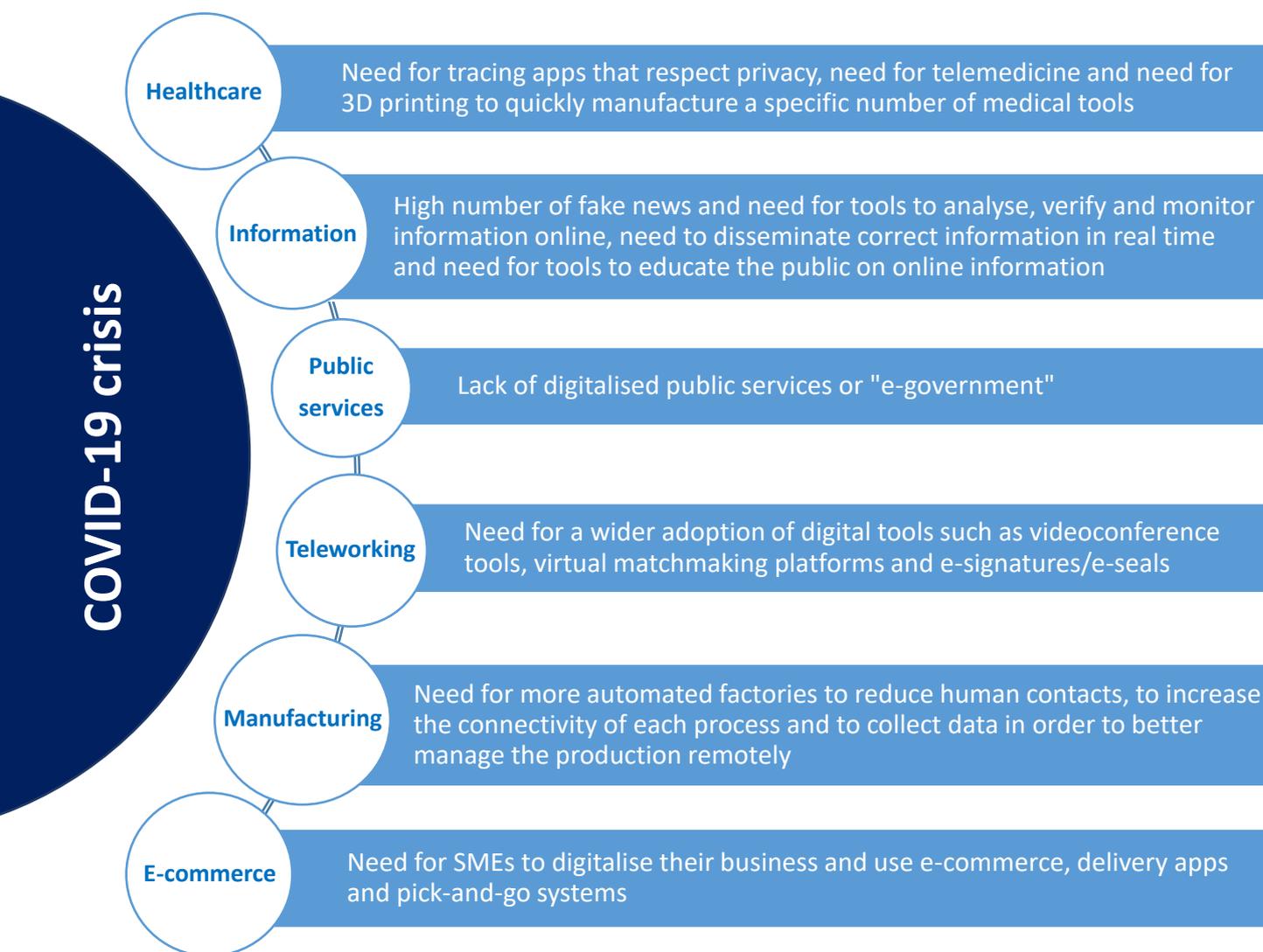
⁶⁵ Hayashi, E. (2020) *70% of Japan execs plan changes to supply chain: Nikkei survey*, in *Nikkei Asia*. Available at: <https://asia.nikkei.com/Business/Business-trends/70-of-Japan-execs-plan-changes-to-supply-chain-Nikkei-survey>

⁶⁶ European Investment Bank (2020). *Africa’s digital solutions to tackle COVID-19*. Available at: https://www.eib.org/attachments/country/africa_s_digital_solutions_to_tackle_covid_19_en.pdf

⁶⁷ Idem, p.34-57.

appears in the list. However, large American companies such as Zoom, Microsoft, Dataminr and Zipline seem to have participated in the development of digital solutions in Africa during the crisis.

Figure 8. Examples of digital tools needed to tackle issues faced by businesses and the society during the COVID-19 crisis



At the policy level, the EU and Japan have committed to ensure an economic recovery for more sustainable, inclusive and resilient economies in line with the SDGs, a green transition and a digital transformation.⁶⁸ Both sides have stressed the need to make global supply chains more resilient through efforts on rule-making on e-commerce. The EU and Japan have also committed to **assist emerging countries** not only with short-term assistance but also with mid-to-long term assistance to **strengthen their healthcare systems** and address the economic impact of the current crisis.

⁶⁸ European Commission (2020). *Joint press release: Japan-EU Leaders' meeting*. Available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_20_942

2.4. WHICH KEY AREAS OF THE DIGITAL ECONOMY ARE PROMISING?

Partnerships in the digital economy often involve tech companies that add digital solutions to existing products and services in various industries as shown in Figure 9.

Figure 9. Digital economy: the application of digital technology to other industries



2.4.1. Smart healthcare



Smart healthcare systems are needed in both high-income countries and low-income countries, at different levels. In emerging countries, where healthcare systems are not always fully developed and therefore not fully digitised, the need for leapfrogging is high. When addressing healthcare issues with digital technologies in emerging markets, foreign companies and other stakeholders in the medical field have to develop **ground-breaking solutions** that will be adapted to the local needs and environment. **Healthcare systems are an important infrastructure** of a society. However, some emerging countries do not have healthcare infrastructures covering their whole population. Communities living in remote areas with no or little access to services in general are often deprived of basic medical support. Digital solutions such as telemedicine can help tackle these inequalities and provide virtual infrastructures replacing the lack of physical ones. The [case study](#) provided in this report only shows a small part of the many opportunities that smart healthcare can offer and the COVID-19 pandemic has accelerated the need for health technology, or “medtech,” that **includes digital solutions**.

TABLE II: Keywords – Smart healthcare

Electronic Health Records	Patient portals	Telemedicine	Clinical decision support
Cloud computing	Medical imaging	Robotics	Internet of Things
Artificial Intelligence	Big Data analytics	Additive manufacturing (3D printing)	Wearable technology (e.g. exoskeletons)
Medical training using e-learning, Virtual Reality and Augmented Reality	Biometrics	Mobile applications	Personalised health data platform for preventive care

Case study – Smart healthcare

CHARACTERISTICS OF THE COMPANIES⁶⁹

	NEC Corporation		Simprints Technology Ltd.
Size	Large	Size	SME (<50 employees)
HQ	Tokyo, Japan	HQ	Cambridge, United Kingdom
About	NEC is a Japanese multinational information technology and electronics company that provides IT and network solutions, including cloud computing, AI, IoT platform and telecommunications equipment and software.	About	Simprints is a nonprofit tech company developing biometrics solutions to integrate them into existing mobile tools and workflow. Simprints system integration and operations help delivering essential services to vulnerable communities in emerging countries.

	The GAVI Alliance
Type	Global public-private partnership
About	GAVI works with governments, international organisations, foundations, the vaccine industry and the civil society to increase access to immunisation in low-income countries.

Partnership				SDGs covered	
Type of partnership	Third market	Year	Details on joint project(s)		
Collaboration (MoU)	Bangladesh, Tanzania	2019	Biometric solutions to improve vaccine immunisation coverage		

DETAILS ON THE PARTNERSHIP

In 2019, NEC signed an MoU with Gavi – the Vaccine Alliance – and Simprints Technology Ltd. to develop and use **biometrics to improve immunisation coverage** of children in developing countries⁷⁰. As half of all children under five years old in Sub-Saharan Africa are not systematically registered at birth, and therefore not in possession of an official identity, health practitioners struggle to ensure these children receive the vaccines that they need at the right time. The biometrics initiative provides the world's first **scalable fingerprint identification** solution giving children a **digital ID linked to a medical record**. The project combines each partners' strengths as follow: Gavi provides its expertise in immunisation, Simprints provides biometric fingerprint technology and NEC provides a reinforced authentication engine. Both companies managed to **adapt their technologies to their new target**, young children whose fingerprints tend to be blurred due to their softness. The initiative was launched in **early 2020 in Bangladesh and Tanzania** and aims to boost children's immunisation coverage, and to support health practitioners in keeping track of children's vaccination record. The consortium's digital solution can help reach children living in remote areas and in impoverished communities and have the potential to become the **standard** for mass vaccination in low-income countries.

⁶⁹ The United Kingdom was still in the transition period with the European Union at the time of the partnership. Therefore, the partnership counts as an example of EU-Japan business cooperation in third markets.

⁷⁰ NEC (2019). *Gavi, NEC, and Simprints to deploy world's first scalable child fingerprint identification solution to boost immunisation in developing countries*. Available at: https://www.nec.com/en/press/201906/global_20190606_01.html

2.4.2. Smart industry (or smart manufacturing)



The digital economy is often associated to the concept of “Industry 4.0” which is regarded as the fourth and next phase in the **digitalisation of the manufacturing sector**. Industry 4.0 is the term given to production processes with fully integrated automated facilities which communicate with one another”⁷¹. Smart industry can be achieved with the use of various digital solutions such as sensors, cameras, robots and software. The use of digital solutions in factories and other industrial facilities helps companies to have a better overview of their productivity and their flaws, and therefore to better manage their business. Smart industry can help **increase productivity, reduce costs and facilitate tasks** done by humans. In light of the COVID-19 pandemic, smart industry and automation were seen as a way to better protect workers by reducing human contacts and enabling the remote management of factories.

The present report aims to support the matchmaking of EU SMEs and Japanese companies for joint projects in third markets. Smart industry covers a wide range of industries but the author noticed based on the fieldwork undertaken a particular interest from Japanese companies toward EU companies, including SMEs, in the following three sectors:

- **AI technologies** applied to the **circular economy** and the **waste management sector for the Japanese and the Asian market**. Indeed, Europe is well-known for its expertise in recycling and managing waste, and **AI technologies that can segregate specific minerals and materials in waste** such as plastic in order to be reused are particularly sought-after.
- **Software connecting and digitising each step of a given production process** to one another, so that physical information is translated into data that will be analysed and processed by a computer. Ultimately, this process can build a **digital twin** of a factory and help boost productivity and reduce costs.
- Digital solutions applied to the **energy, and in particular renewable energy, and mining sectors** are sought-after by Japanese companies looking to invest in these sectors in emerging markets.

TABLE III: Keywords – Smart industry

Digital twin	Automation	Internet of Things	Big Data processing
5G	3D printing	Robotics	Internet of Things
Artificial Intelligence	Big Data analytics	Additive manufacturing (3D printing)	Smart factory Industry 4.0

⁷¹ EurWORK (2018). *Digital economy*. Available at: <https://www.eurofound.europa.eu/observatories/eurwork/industrial-relations-dictionary/digital-economy>

Case study – Smart industry⁷²

CHARACTERISTICS OF THE COMPANIES

	ACCESS Co, Ltd		IoTerop SAS
Size	Large	Size	SME (<50 employees)
HQ	Tokyo, Japan	HQ	Montpellier, France
About	ACCESS Co., Ltd. Develops browser software for the Internet. The company designs custom browsers for manufacturers of electronics such as cellular phones, portable e-mail devices, handheld PCs, video game consoles, and car navigation systems.	About	IoTerop is a software solution provider for the secure, interoperable and remote management of connected objects in the world of the Internet of Things (IoT).

Partnership				SDGs covered
Type of partnership	Third market	Year	Details on joint project(s)	
Partnership	Southeast Asia	2019	Software / IoT solution	

DETAILS ON THE PARTNERSHIP

In October **2019**, IoTerop and ACCESS Systems signed a **partnership agreement**. This partnership was enabled by the fact that IoTerop executives have had a long-term relationship with ACCESS. Some of them used to work for a company belonging to ACCESS, before this company was acquired by another. They reconnected with ACCESS after founding IoTerop in 2016 and signed a partnership agreement in 2019.

The partnership is as follows: as IoTerop is actively expanding its activities overseas, it relies on the **market intelligence and business development expertise of ACCESS Systems in Southeast Asia**, with one of the ultimate goals being to then enter the Japanese market. According to IoTerop, ACCESS Systems motivation in the partnership relies on its interest in IoTerop technology.⁷³

⁷² Based on Marbot, M. (2020). *Analysis of EU-Japan business cooperation in third countries*, p.49.

⁷³ Vialatte, H. (2019). Ioterop leve 1,5 million pour ses solutions de gestion a distance des objets connectes, in Les Echos Entrepreneurs. Available at: <https://business.lesechos.fr/entrepreneurs/financer-sa-creation/0602024268598-ioterop-leve-1-5-million-pour-ses-solutions-de-gestion-a-distance-des-objets-connectes-332613.php>

2.4.3. Smart agriculture



Agriculture is one of the most important industries for many third markets, and in particular emerging countries. Emerging countries need various technologies that the EU and Japan can provide, such as digital technology and biotechnology, to better manage land, to improve productivity and to better anticipate and resist to natural disasters. Access to quality equipment and to e-commerce for farmers in impoverished and remote areas can be improved thanks to **digital platforms** and **fintech**. The combination of various tools such as **drones, sensors and space technologies** is also useful to make accurate analyses of land and crops. EU SMEs already active in third markets in the agricultural sector might want to **expand** their business either within the same country or toward neighbouring countries. A partnership with a large Japanese company that can bring capital can be a way to achieve such projects and also to **combine smart agriculture with smart industry** if the aim is to scale up a business from the agricultural sector to the food-processing sector.

2.4.4. Smart services



Smart services cover many industries such as, but not limited to, **fintech, e-government services and e-education**. Many EU countries are far more advanced in e-government services than Japan and emerging countries, which makes EU companies relevant partners for EU-Japan joint projects in third-markets. Depending on the requirements set by third markets, EU companies can offer an added value in terms of **security** and **standards that respect privacy** and other values defended by the EU.

As for fintech, digital “**pay-as-you-go**” solutions are widely used in emerging countries and can be applied to many industries. For example, digital pay-as-you-go solutions can provide affordable access to energy to off-grid communities if **linked to energy sources** such as solar power plants or wind farms. An EU SME developing pay-as-you-go solutions can partner with large Japanese companies operating energy projects in emerging countries.

Smart services, in particular in emerging countries, must be **adapted to the local communities** and the local environment. Digital services must be **affordable, easy to use** and able to **function in an environment with scarce resources** such as a limited access to electricity and the Internet. Frugal innovation and leapfrogging are particularly important to effectively **reach end users**. For example, Africa has achieved leapfrogging in the banking system by developing affordable fintech services on mobile phones which do not require the Internet.

Access to **e-education** can be challenging, in particular during the COVID-19 pandemic, in areas that do not have access to the internet and digital equipment. Appropriate digital infrastructures and affordable equipment are necessary. In addition, the creation of proper educational content that are qualitative, adapted to the digital format and adapted to their audience is also part of the many business opportunities of the e-education industry.

Capacity building, or developing professional (digital) skills, is also one of the main needs in emerging countries and one of the areas in which EU SMEs could act at the grassroots level. Indeed, the private sector can contribute to capacity building by setting up local co-creation hubs or training programmes taking place in vocational training schools in emerging countries.

2.4.5. Smart mobility



Many countries face mobility issues such as heavy traffic, pollution, high rate of car accidents, lack of connection between different transportation modes and lack of transportation from stations to homes, often called the “last mile”. Digital solutions applied to the transport industry can vary from **mobile applications to AI-powered surveillance systems to monitor traffic**. Smart mobility solutions also have to be adapted to the local end users and the local environment, with some countries using mainly two-wheelers, especially in Africa and Southeast Asia. Large smart mobility projects are generally smart-city projects initiated by local tenders, which means that in the case of an EU-Japan partnership, one side should have **expertise in winning tenders** in the target country.

2.4.6. Cybersecurity



Cybersecurity does not only apply to e-government services. **Industrial projects also need strong cybersecurity systems**. Many case studies of EU-Japan business cooperation in third markets include large industrial projects in the infrastructure and energy sectors. The companies involved handle sensitive data that need to be secured. Nonetheless, local companies do not always have the type of cybersecurity system required by a large infrastructure or energy company. Therefore, EU cybersecurity SMEs already active in third markets would be relevant partners for large Japanese companies looking to invest in new projects such as infrastructures, power plants and factories.

3. REGIONS WITH OPPORTUNITIES FOR EU-JAPAN BUSINESS COOPERATION IN THE DIGITAL ECONOMY

The EU-Japan Connectivity Partnership highlights five regions in which the EU and Japan intend to work with partner countries in the field of connectivity, including digital connectivity: **the Western Balkans, Eastern Europe, Central Asia, Indo-Pacific and Africa.**

What is the Indo-Pacific?

In order to be more specific in breaking down which regions have opportunities for EU-Japan joint projects in the digital economy in third markets, **the report will not refer to the Indo-Pacific as a whole** and will mention individual regions included in the Indo-Pacific instead. Indeed, despite the global growing interest in the Indo-Pacific in recent foreign policies, **no official definition on the limitations of the region** has been approved. The EU Institute for Security Studies defines the Indo-Pacific as a way to shift from the *“traditional ‘Asia-Pacific’, focused on the US and its East Asian allies”*⁷⁴ to a new geopolitical construction which encompasses **new strategic actors such as India, the Middle-East and Africa.**

As any imaginary space, the definition of the Indo-Pacific region may vary according to whom is imagining it, which has resulted in the construction of a region with *“contested interpretation”*.⁷⁵ For example, in the absence of an official definition, Germany considers the Indo-Pacific to be *“the entire region characterised by the Indian Ocean and the Pacific.”*⁷⁶ Such a broad definition might be helpful at a political level, but it lacks precision from a business point of view and for those who wish to identify business opportunities in specific markets.

Most definitions of the Indo-Pacific region include Oceania, and Asian and African countries linked to the Indian Ocean and the Pacific Ocean, as well as the seas connecting both oceans. Sometimes, definitions also cover the Middle-East as well as the American continent, and therefore Latin America. The present report uses the **Japanese FOIP vision** to refer to the Indo-Pacific region, as the FOIP shows the extent of the Indo-Pacific region with **projects taking place in Asia, Africa and the Pacific Islands, and ongoing discussions with Latin America.**

⁷⁴ European Union Institute for Security Studies, Pejsova, E. (2018). *The Indo-Pacific – A passage to Europe?*. Available at: <https://op.europa.eu/en/publication-detail/-/publication/54dfc694-48fc-11e8-be1d-01aa75ed71a1/language-en/format-PDF/source-69846028>.

⁷⁵ Das, U. (2019). *What is the Indo-Pacific?*, in *The Diplomat*. Available at: <https://thediplomat.com/2019/07/what-is-the-indo-pacific/>

⁷⁶ German Federal Foreign Office (2020) *“Germany-Europe-Asia: shaping the 21st century together”*: *The German Government adopt policy guidelines on the Indo-Pacific region.* Available at: <https://www.auswaertiges-amt.de/en/aussenpolitik/regionaleschwerpunkte/asien/german-government-policy-guidelines-indo-pacific/2380510>

3.1. COMPLEMENTARITY BETWEEN EU AND JAPANESE COMPANIES

Some regions are particularly promising for EU-Japan business cooperation in third markets because of the **EU and Japan's respective economic and cultural ties and strong presence and history in these regions**. A study conducted by the German Chamber of Commerce and Industry in Japan shows that **Africa, the Indo-Pacific, Central Asia and Southeast Europe are the most targeted regions for EU-Japan joint business cooperation.**⁷⁷

3.1.1. Regional complementarity

Cooperation between European and Japanese companies in third markets is an opportunity for both sides to complement each other's strengths such as via **existing subsidiaries overseas**, and to use them for joint projects in third markets.

According to companies interviewed on the topic, as Japanese companies are often well-established in Asia, and in particular in ASEAN, **EU companies, including SMEs, can take advantage of a Japanese company's network in Southeast Asia** to either start a collaboration there, or to replicate a pre-existing partnership to a foreign Asian market.

Likewise, EU companies, including SMEs, are well-established in foreign markets such as Eastern Europe, the Western Balkans, Central Asia, Africa and Latin America because of shared languages, and strong political, historical and cultural ties. **Japanese companies can take advantage of EU companies' networks** in these regions to either set foot in these markets, or to replicate an existing partnership with an EU partner in these markets.

Depending on their origin, EU companies, including SMEs, are likely to be more present in some regions than others. For example, Spanish companies have a large network in Latin America, French companies have a large network in Africa and Greek companies have a strong network in the Western Balkans.

[Table IV](#) provides an overview of existing regional strengths of EU and Japanese companies, based on the responses given by EU companies, including SMEs, Japanese companies and EU Member States' embassies when questioned on the topic. The responses show that **EU and Japanese companies' regional strengths are complementary**, which reinforces the relevance of EU-Japan business alliances in third markets.

⁷⁷ German Chamber of Commerce and Industry in Japan (2020). *EU-Japan Connectivity "The next great game"*, p.3.

TABLE IV: Regions of activity and of interest for EU and Japanese companies									
		Western Balkans	Eastern Europe	Caucasus	Central Asia	Asia	Pacific	Africa	Latin America
EU	Existing presence								
	Limited presence and interest to improve business presence								
Japan	Existing presence								
	Limited presence and interest to improve business presence								

3.1.2. Strategic complementarity in Asia

The companies interviewed for this study showed that every business partnership is unique and that a **case-by-case approach** is often necessary when considering partnerships between EU and Japanese companies for projects in Japan and in other Asian markets. However, their testimonials showed some **recurrent patterns** leading to the conclusion below.

The expression of interest can either come from the EU or the Japanese side, and can come either from a large or a small company.

Expression of interest from EU SMEs

EU SMEs interested in finding Japanese partners for the Asian market can be divided into two categories:

- EU SMEs first interested in the Japanese market before considering other Asian markets**

As shown in [Figure 10](#), successful companies usually set up a local office in Japan. After solidifying their business in Japan and building trust with Japanese partners for a certain time, some partnerships are extended to other Asian markets through the Japanese partner's network.

- EU SMEs specifically interested in Japan as a gateway to Asia ([Figure 11](#))**

Some EU SMEs specifically aim at doing business in Southern and South-Eastern Asian markets. They can offer a specific technology and are interested in the Japanese business community in Asia for various reasons such as capital, complementary technology, well-

established presence and network in Asia or expertise in winning local public tenders. Such EU SMEs often offer new technologies that support large Japanese companies in either improve an existing business or launch new projects.

Figure 10. EU SMEs first interested in the Japanese market before considering other Asian markets

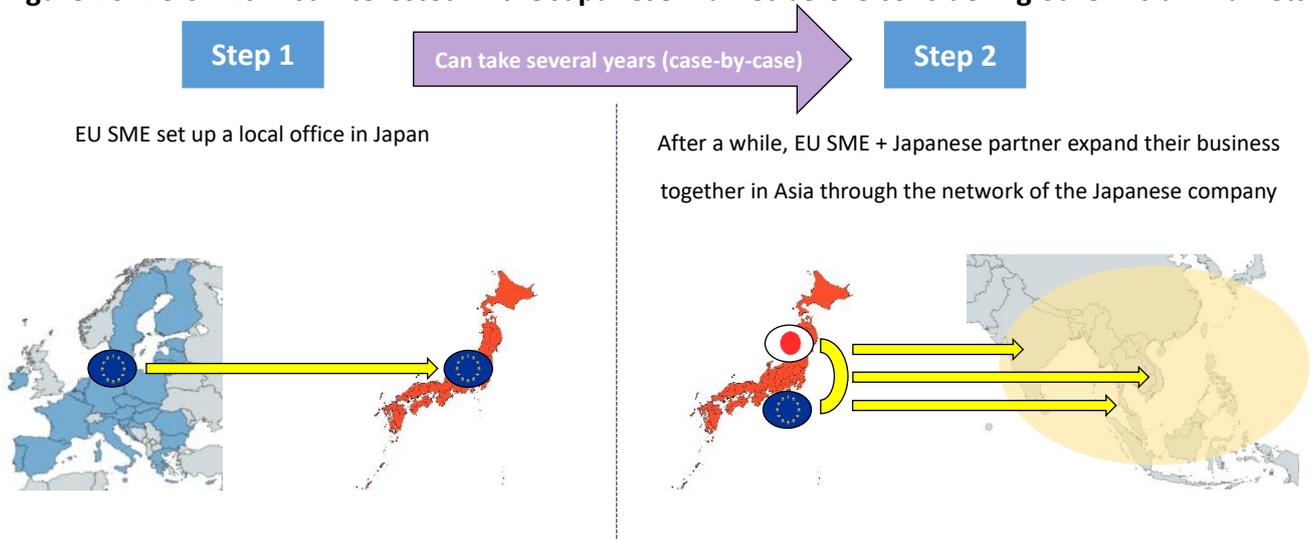
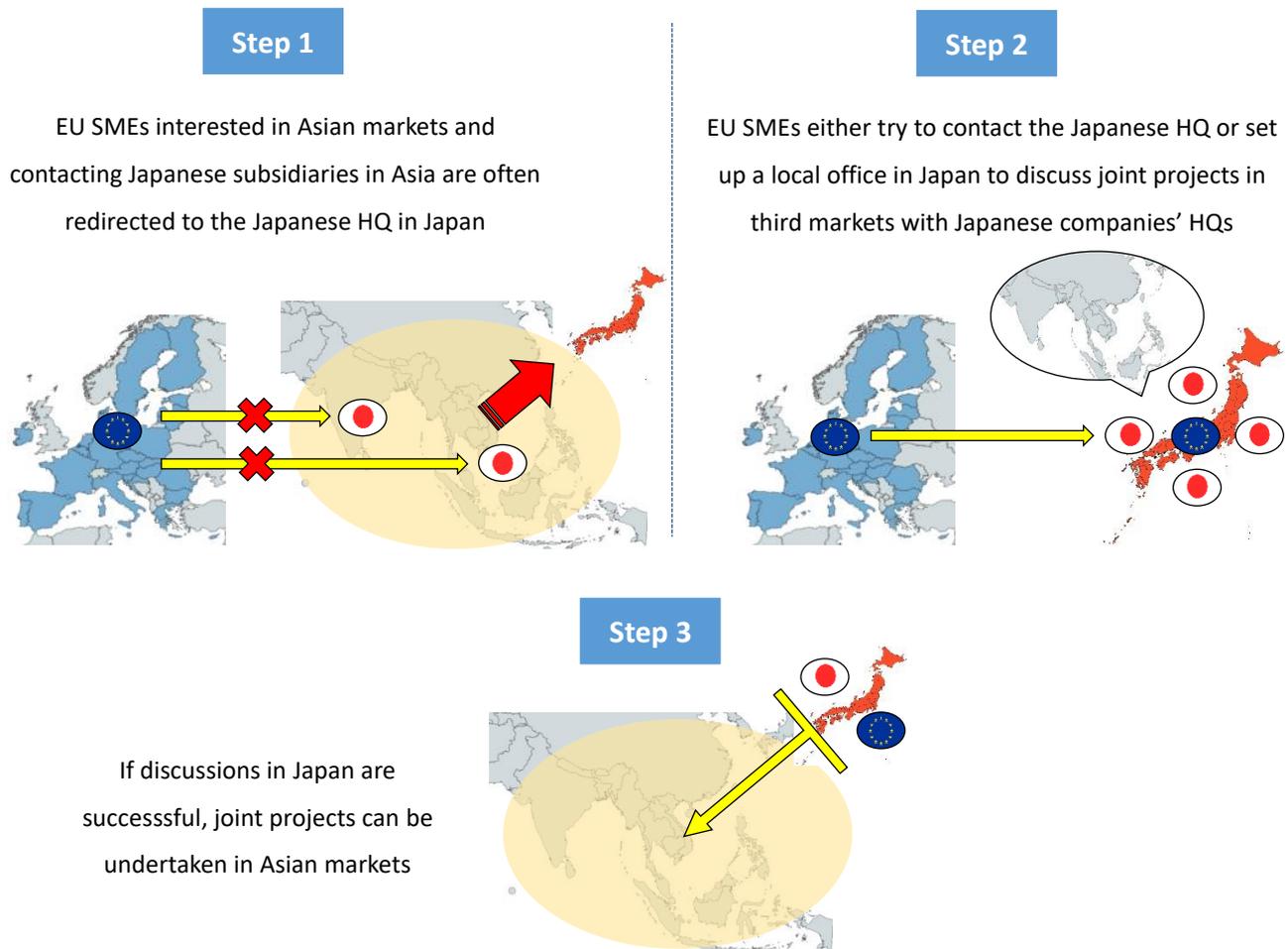


Figure 11. EU SMEs specifically interested in Japan as a gateway to Asia

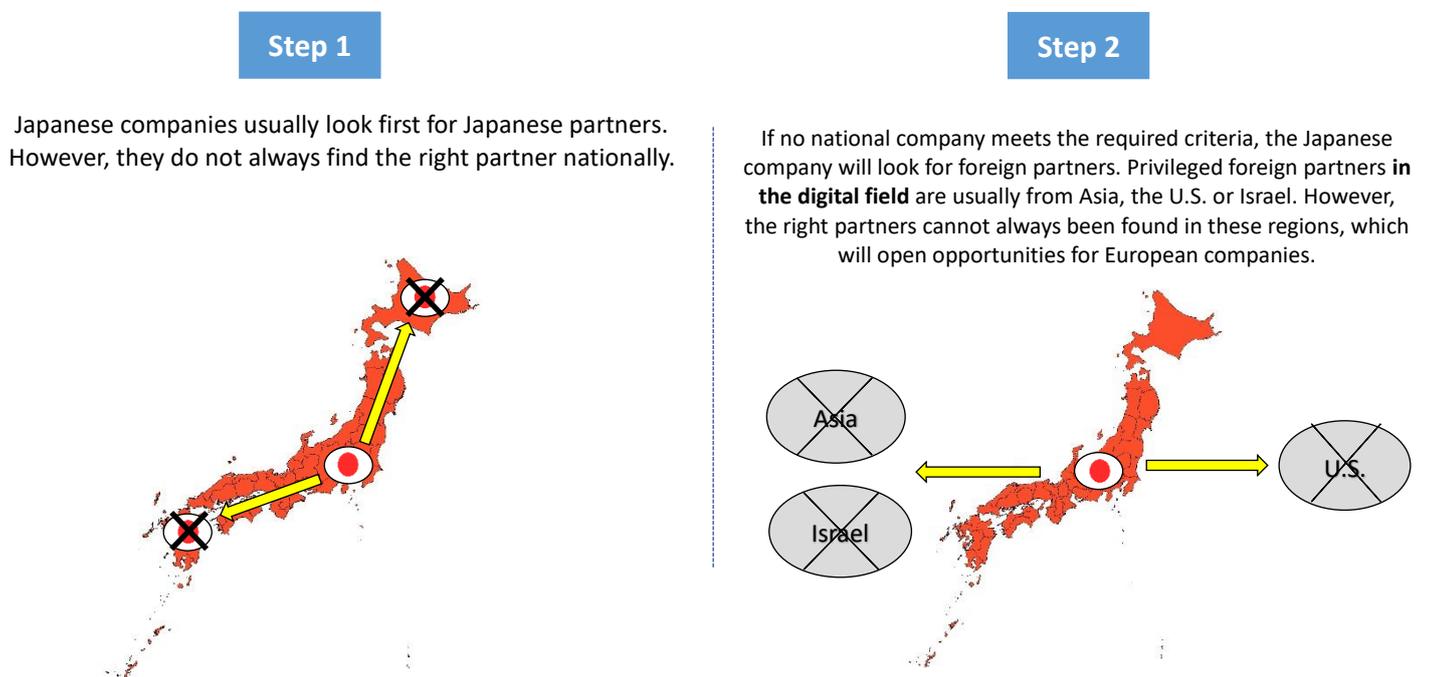


As shown in [Figure 11](#), successful EU companies under the second scheme reported that **a local office in Japan is often necessary to conduct business with Japanese subsidiaries in Asia**. While having a presence in Asia is helpful to approach Japanese subsidiaries, the **decision-making for projects taking place in Asia generally takes place at the headquarters in Japan**. Therefore, a certain number of EU companies reported to have an office or a representative in Japan only to conduct business in Asia with Japanese partners.

Expression of interest from Japanese companies

Japanese companies, generally large companies, can also be looking for **EU SMEs with specific technologies, including digital ones**, to add value to an existing business in Asia, or to undertake a new project in Asia. These companies are often Japanese trading houses, or *sogo shosha*,⁷⁸ which are well-established in Asia. They are active in various industries such as mining, energy, infrastructure and manufacturing, which are part of the digital economy. [Figure 12](#) shows how an expression of interest from a Japanese company to an EU company can take place for a joint project in Asia.

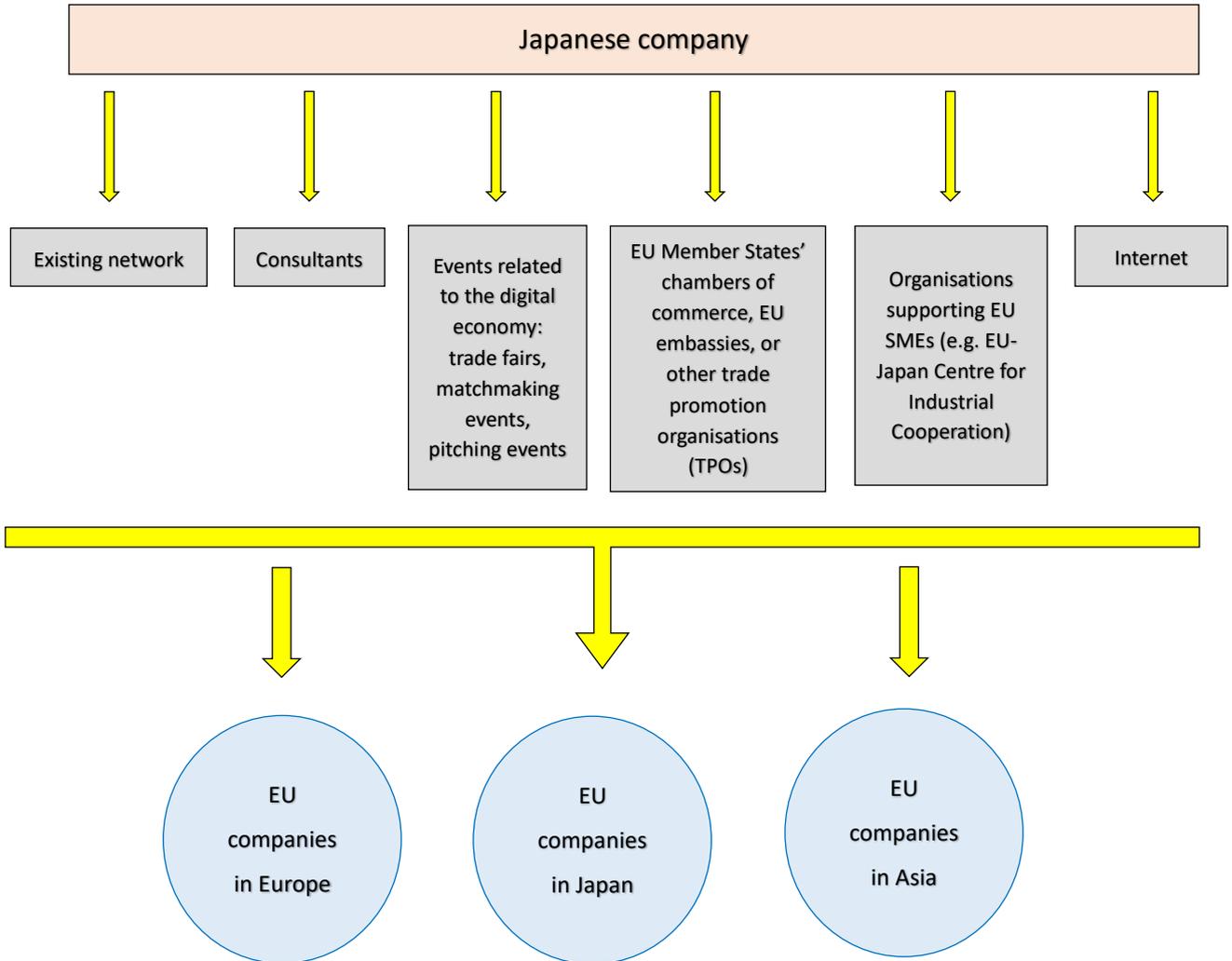
Figure 12. Japanese companies looking for an EU partner in the digital field for a project in Asia



⁷⁸ Major *sogo shosha* are, but not limited to, Mitsubishi, Mitsui, Sumitomo, Itochu, Marubeni, Toyota Tsusho and Sojitz.

Step 3

Depending on the time available to them and on their budget, Japanese companies look for EU partners in various ways



3.1.3. Strategic complementarity in other third markets

EU SMEs which are **already active in third markets** such as Africa, Eastern Europe, the Western Balkans or Latin America, can be divided into two categories:

1. EU SMEs already successful in third markets, which have not considered partnering with Japanese companies

Some EU SMEs interviewed for this study mentioned that they were already doing business in third markets, outside of Asia, and that they have not considered partnering with Japanese companies in these third markets. Potential partners in third markets are generally local or

European partners. Indeed, EU SMEs and Japanese companies are often **not aware of the possibility and the benefits** of partnering up for joint projects in third markets.

However, after discussing the benefits of EU-Japan business alliances in third markets, the EU SMEs interviewed were open to consider such cooperation and to receive further information on opportunities. Once awareness is created, this first category of EU SMEs are more likely to switch to the second category.

2. EU SMEs already successful in third markets and looking to scale up their business by partnering with a large company

These EU SMEs have often been working with local companies, local public entities and local end users for a while. After solidifying their business in a third market, they might aim to scale up their business by either (i) expanding within the country, or (ii) expanding in neighbouring countries.

Figure 13. Example of an EU SME already well-established in South Africa and looking to scale up a business within the same country by partnering with a large company

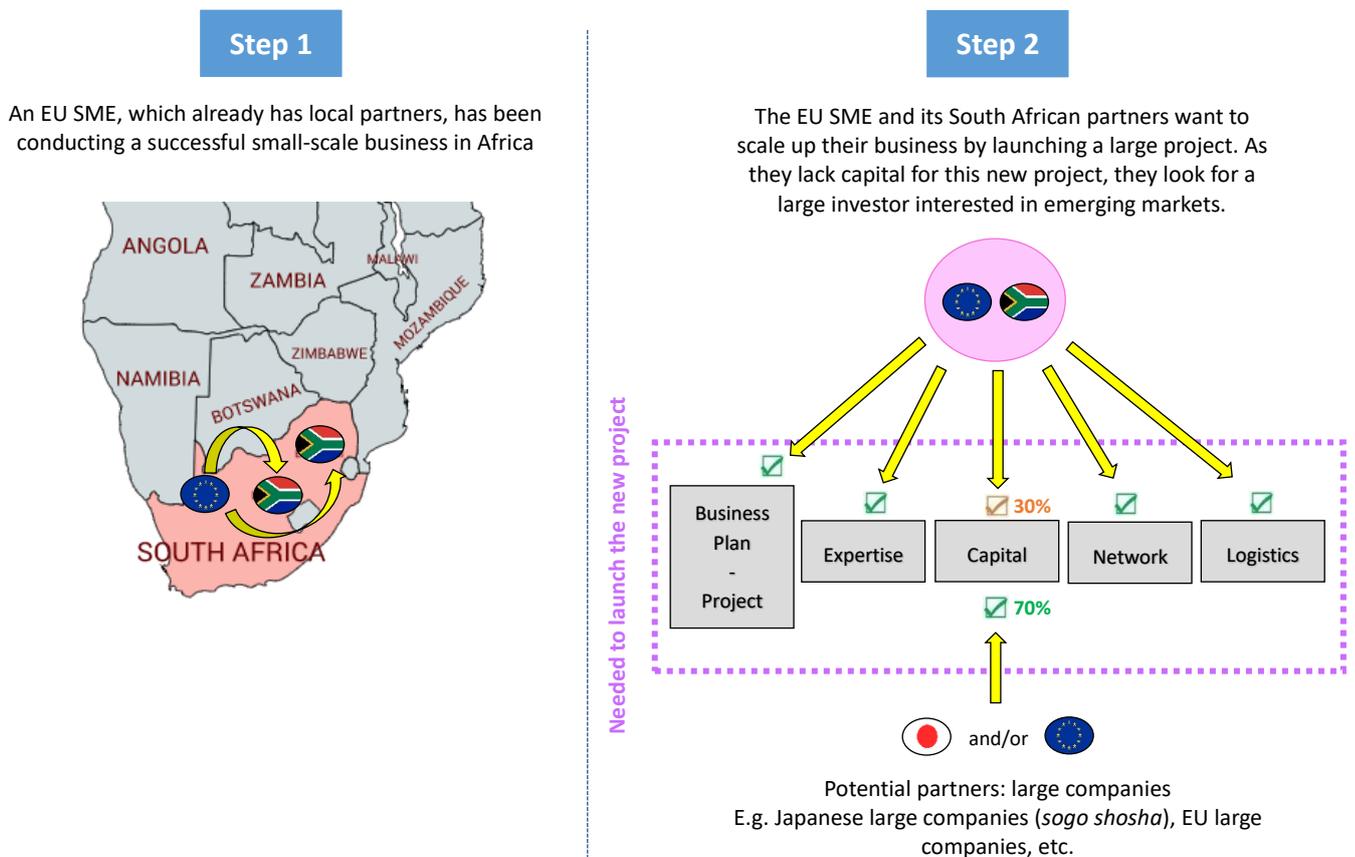


TABLE V
Why is it strategic for EU SMEs and Japanese companies
to partner in third markets outside Asia?

 EU SMEs	 Large Japanese companies
<p>Privileged partners for the Japanese side when already well-established in third markets outside Asia:</p> <ul style="list-style-type: none"> • Expertise and existing network in third markets • More likely to have knowledge and access to European and/or third-market insurance and legal services 	<ul style="list-style-type: none"> • “<i>Conservative</i>” and less likely to consider business opportunities in “<i>unfamiliar</i>” markets alone.
<ul style="list-style-type: none"> • Need investors or business partners to scale up an existing business 	<ul style="list-style-type: none"> • Look for new projects to invest in • Can be supported by banks (AfDB, ADB, JBIC) and by agencies like JICA <p>Specificities of <i>sogo shosha</i>:</p> <ul style="list-style-type: none"> • More likely to be active and interested in markets outside Asia • Have a lot of capital to invest in large and expensive projects requiring financial assets, equipment and human resources • Have expertise in many industries covered by the digital economy, including large infrastructures
<p>Why would EU SMEs not partner with large EU companies in third markets?</p> <ul style="list-style-type: none"> • Possibility that many EU SMEs have already successfully explored • EU SMEs can also join a consortium of large EU and Japanese companies for a joint project in third markets 	<p>Large Japanese companies and <i>sogo shosha</i>:</p> <ul style="list-style-type: none"> • Can offer more capital, a more diversified expertise and a better acceptance in third markets compared to large European partners. Indeed, many third markets outside Asia have a positive image of Japanese companies, notably for their reputation to provide qualitative products and services.

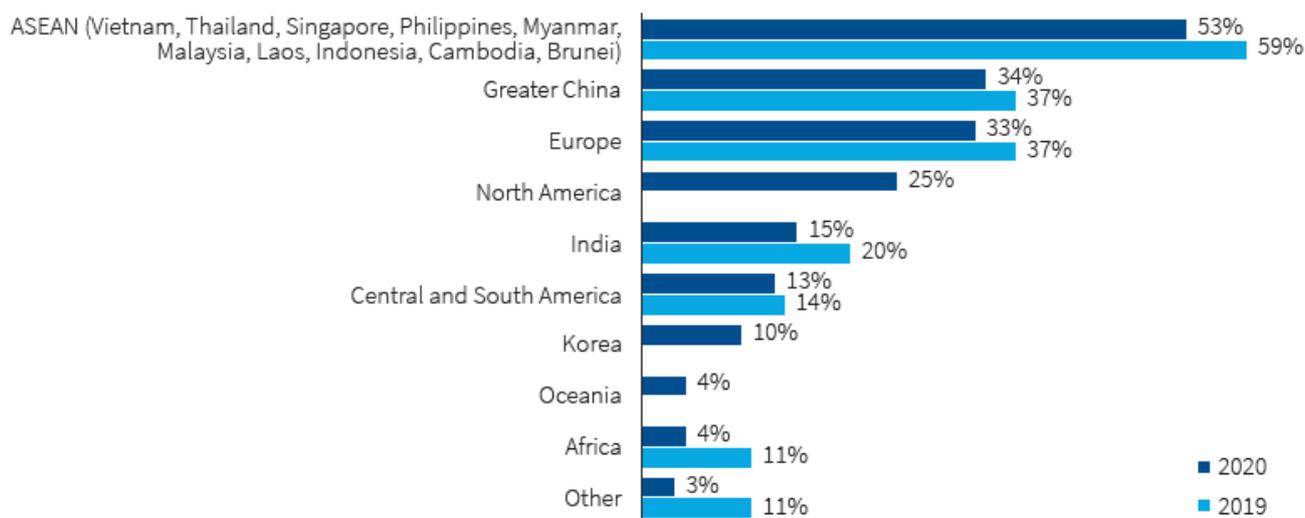
3.2. FOCUS ON 3 REGIONS

3.2.1. Survey

The present report mainly focuses on three regions that were mentioned by EU companies and Japanese companies, and in particular SMEs, as regions of interest for projects related to the digital economy. The three regions are **Africa, Southeast Asia and Eastern Europe/Western Balkans**. A fourth point will briefly mention opportunities in other regions.

Based on a survey launched in 2019 that gathered responses from German SMEs and large companies present in Japan in various industries, AHK Japan produced the bar chart below. The chart shows the region in which the respondents have been involved with Japanese partners outside Japan. ASEAN, China and Europe reach the top three positions far ahead the other regions.

Figure 14. Regions in which projects are planned, are currently in progress or have already been executed with Japanese partners outside Japan



Source: AHK Japan (2020)⁷⁹

Although this chart provides a useful overview of German businesses' activity with Japanese partners in third markets, the results are too limited to provide information on (i) EU companies from the **27 EU Member States**, (ii) the ambitions of **SMEs** specifically, and (iii) the ambitions of companies **in the digital field**. Consequently, the author launched another survey in order to cover these three key points.

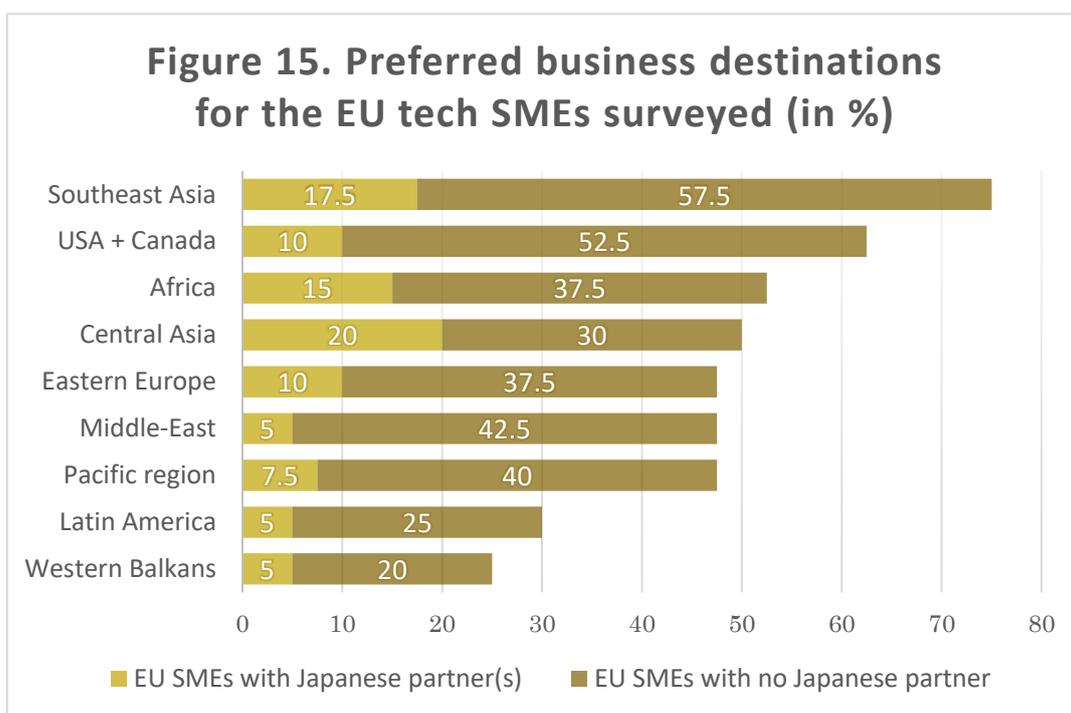
⁷⁹ German Chamber of Commerce and Industry in Japan, KPMG (2020). *Economic outlook – German Business in Japan 2020*. Report available at: <https://japan.ahk.de/en/infothek/surveys-and-studies>, p.12.

Responses of EU SMEs

The author launched a survey to know more specifically which regions outside the EU and Japan were considered as holding opportunities for **EU SMEs in the digital field**. Companies were informed that the aim of the survey was to assess the interest of tech companies for EU-Japan partnerships in third markets. The survey gathered 40 responses from EU SMEs in a wide range of digital sub-sectors such as secure e-government systems, energy efficiency hardware, healthcare software, smart grid analytics, digital banking tools and many more.

The question regarding promising regions for their company outside the EU and Japan was asked in a broad sense **without necessarily focusing on partnerships with Japanese companies**. The respondents could give multiple answers.

The results are summarised in Figure 15 which provides the results collected from August to September 2020.



The interest in the U.S. and Canada was to be expected because of the dynamism of the American and Canadian tech industries. However, the responses rather reflected EU SMEs' ambition to conclude bilateral partnerships with American/Canadian companies, with no plans to partner with a Japanese company. Therefore, the interest for the U.S. and Canada is not necessarily relevant for the topic of EU-Japan business cooperation in third markets, but the high number of responses still shows that Northern America is a top business destination for EU tech SMEs in general.

50% or more respondents showed a strong interest in three regions mentioned in the EU-Japan Connectivity Partnership: **Southeast Asia⁸⁰ (75%), Africa (52.5%) and Central Asia (50%)**. Most countries in these three regions are considered as emerging markets, which implies the existence of many untapped business opportunities, including in the digital economy, to contribute to the development of these countries.

The position of Southeast Asia and Africa at the top of the ranking is particularly justified as more and more business opportunities and innovative projects involving **state-of-the-art digital technologies** are promoted in these regions. For example, **smart city projects** and projects requiring **leapfrogging** and **frugal innovation** are on the rise. These types of projects are particularly promoted in Africa and Southeast Asia, and notably in the ASEAN which has its own in ASEAN Smart City Network (ASCN)⁸¹.

By combining the responses for Eastern Europe and the Western Balkans, the number of responses exceed Central, which makes the eastern and south-eastern regions of Europe particularly promising for future projects in the digital economy.

This survey may not necessarily reflect the opinions of all EU digital SMEs due to the limited number of answers received, but it provides a **first overview of EU tech SMEs' ambitions**. The answers may also vary depending on the type of technologies developed, which are more likely to be used in some specific regions, and on the familiarity of respondents with some third markets because of language, historical or cultural ties. For example, if more Portuguese and Spanish companies had answered the survey, Latin America could have been ranked higher in the list.

In addition to the survey, the author interviewed individually over 40 EU digital SMEs and EU Member States' trade promotion organisations in Japan. These interviews showed that when planning an internationalisation strategy, **many EU SMEs first aim at neighbouring countries, often within the EU**. Then, SMEs aim at neighbouring countries outside the EU and countries with a shared language and strong political, historical and cultural ties, such as Eastern Europe, the Western Balkans, Central Asia, Africa and Latin America. Therefore, many EU SMEs are **already active in third markets** and have a **network and an expertise** in countries that might not be familiar to most Japanese companies.

⁸⁰ Southeast Asia is part of the Indo-Pacific region.

⁸¹ ASEAN (2020) *ASEAN Smart City Network*. Available at: <https://asean.org/asean/asean-smart-cities-network/>

Responses of Japanese companies

A survey was also disseminated to **Japanese tech companies** but the number of responses was too limited to draw concrete conclusions. The top three business destinations indicated were **Eastern Europe, Southeast Asia and the Pacific region**, far ahead the other regions.

The responses to the survey reflect the data collected by the author during interviews conducted in 2020 with Japanese companies and Japanese government officials. Indeed, Japanese companies seem to mainly aim at **business expansion in neighbouring markets like Asia and the Pacific region** which are considered as familiar and in which their network is broad and has been well-established for a long time. **Other markets were often referred to as “remote”, “risky” or “unfamiliar”**.

Indeed, because of the unfamiliarity, the political instability and some recurring issues like corruption in many third markets, finding bankable projects can be challenging. National agencies and **tenders launched by international organisations** often provide a project framework and bankable projects which is reassuring for companies. However **the number of Japanese companies actually looking at and applying to these opportunities remains low**. More promotion on opportunities in third markets would be necessary to **boost the interest and the involvement of Japanese companies in new markets**.

3.2.2. Southeast Asia

As shown in the survey results, Southeast Asia and more specifically ASEAN is a relevant market for EU-Japan business cooperation in third markets. EU companies that are successful in Japan are more likely to replicate their partnerships in Asia through their Japanese partners' network. Japanese companies are well-established in the region and are looking for new partners with specific digital technologies that are **interoperable and that can be customised** for projects in Southeast Asia.

Smart-rural and smart-city projects in Asia have already caught the attention of Japanese companies. For example, the Y-PORT project in Yokohama has generated case studies in the fields of waste management, energy and water supply. As the digital economy is cross-sectoral, smart-city projects in ASEAN are very promising for EU-Japan business cooperation in Southeast Asia.

Finally, Japan has been promoting the FOIP in Southeast Asia with the Prime Minister of Japan making his first official trip abroad to **Vietnam and Indonesia**.⁸² The trip can be seen as a strategic move to reinforce regional alliances while other countries like China have been expanding their influence in the region and beyond.

⁸² NHK World Japan (2020). *Suga visits Southeast Asia on first trip*. Available at: <https://www3.nhk.or.jp/nhkworld/en/news/backstories/1340/>

3.2.3. Africa⁸³

Overview of opportunities

In the near future, EU-Japan joint business alliances in the digital economy have good chances to happen in Africa for three reasons:

- European companies, including SMEs, have a larger network and more expertise in Africa than Japanese companies, which gives them a competitive advantage and makes them **privileged like-minded partners in the region**.
- The African Union (AU), African governments and the African Development Bank (AfDB) have been orienting their **strategies toward the digital transformation** of the continent and promoting the use of digital tools for the development of Africa.⁸⁴
- Japan promoted the **FOIP vision in Mozambique, South Africa, Mauritius and Tunisia** in late 2020⁸⁵ and confirmed bilateral investment and support to Japanese companies wishing to enter the African market. Finally, **TICAD8 will be hosted by Tunisia in 2022**. The event is likely to be a networking and matchmaking platform for Japanese, African and European companies to discuss **trilateral projects in Africa**.

The potential of Africa for trilateral partnerships was presented in November 2020 during the 3rd French-Japanese Business Summit. The event focused on the topic of “*growth opportunities in Africa: towards new business partnerships*”, and **promoted French-Japanese-African business partnerships in Africa**.⁸⁶ The event was an opportunity for African, French and Japanese stakeholders involved in trilateral partnerships to share their experience and success stories, to make recommendations and to encourage further similar business partnerships in the future. The fact that the French Chamber of Commerce and Industry in Japan decided to dedicate its annual Business Summit on this topic is a sign that the French and Japanese business communities want to put this type of cooperation in the spotlight to show the **many opportunities still to be explored**.

Although most companies attending the event were large French and Japanese companies, their success stories remain useful for EU tech SMEs. Indeed, the success stories covered various industries such as energy, logistics, retail and healthcare, and most of them mentioned the use of digital technologies. The event is therefore an additional argument in favour of the digital economy as a key pillar for EU-Japan business cooperation in third markets, and in particular in Africa.

⁸³ A map of Africa is available in [Annex 1](#).

⁸⁴ African Union (2020). *The Digital Transformation Strategy for Africa (2020-2030)*, (p.5). Available at: <https://au.int/en/documents/20200518/digital-transformation-strategy-africa-2020-2030>.

⁸⁵ Ministry of Foreign Affairs of Japan (2020). *Foreign Minister Motegi Visits Tunisia, Mozambique, South Africa and Mauritius*. Available at: https://www.mofa.go.jp/af/af2/page3e_001086.html

Figure 16. The COVID-19 pandemic revealed serious gaps that Africa needs to work on:



The African continent needs **state-of-the-art technologies** that can be provided by foreign companies such as Japanese and EU companies. However, when bringing foreign technologies to Africa, companies **need to localise** them to fit the local environment, lifestyle and people. This raises the question of affordability and availability as some African regions are poor and lack infrastructures.

EU-Africa cooperation in the digital economy

The EU considers **Africa as a major trade partner**. Economic partnership agreements are currently being negotiated between the EU and Central Africa, West Africa, Eastern and Southern Africa, the East African Community and the Southern African Development Community, which is likely to foster **e-commerce** between both regions as well as other aspects of the digital economy.⁸⁷ The EU aims to **combine private-sector investment and official development assistance (ODA)** to contribute to Africa's growth and development and increase business ties with like-minded countries in Africa.

The EU and Africa have conducted several concrete actions in the digital economy which will be pursued in the future. For example, the **EU-AU Digital Economy Task Force** published a report⁸⁸ with the following key actions between the EU and Africa to foster the digital economy in Africa:

- **Digital economy to achieve the SDGs**, through the "mobile economy", or in other words the services provided via mobile phones.
- **African single digital market** sharing the EU vision of a human-centric digital economy.
- Better and affordable access to broadband.

⁸⁷ European Commission (2020). *Overview of Economic Partnership Agreements*. Available at: https://trade.ec.europa.eu/doclib/docs/2009/september/tradoc_144912.pdf

⁸⁸ European Commission (2019). *New Africa-Europe Digital Economy Partnership – Report of the EU-AU Digital Economy Task Force*. Available at: <https://ec.europa.eu/digital-single-market/en/news/new-africa-europe-digital-economy-partnership-report-eu-au-digital-economy-task-force>

- Improvement of **digital skills** through education and vocational training, in particular for girls and women.
- Improvement of business environment and access to finance for companies and entrepreneurs.

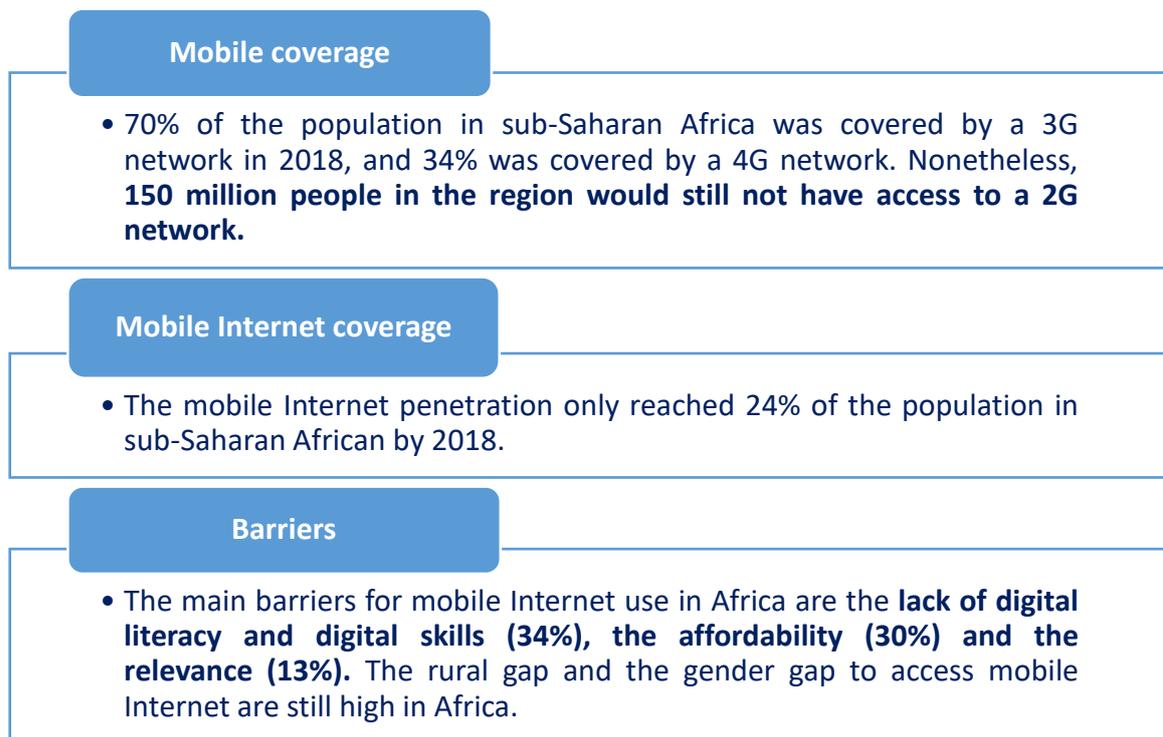
These actions aims to improve the African business environment and digital transformation, in order to attract more and more foreign businesses and to grow the African digital economy.

Finnish study on digital connectivity in Africa

In 2020, the Finnish Ministry of Foreign Affairs published a **study on connectivity in Africa** which focused on four key sectors: energy, transport, research & innovation and digitalisation⁸⁹. The study includes an analysis of each sector and provides recommendation on complementary actions that the EU and Finland could undertake to contribute to digital connectivity in Africa.

First, the study provides an overview of digital connectivity in Africa, which clearly highlights the **importance of mobile phones in the African digital economy**, and which can be presented from 4 perspectives:

Figure 17. Overview of digital connectivity in Africa^{90,91}



⁸⁹ Sutinen E. (2020). 'Digital connectivity', in Hodzi, O., et al. (2020). *Connecting Africa – Perspectives for Energy, Transport, Digitalisation and Research and Innovation*. Ministry of Foreign Affairs of Finland. Available at: https://um.fi/publications/-/asset_publisher/TVOLgBmLyZvu/content/kehityspoliittinen-tilausselvitys-connecting-africa-perspectives-for-energy-transport-digitalisation-and-research-innovation, p. 42-56.

⁹⁰ Idem, p.45.

⁹¹ GSMA (2019) *GSMA Mobile Connectivity Index*. Available at: <https://www.mobileconnectivityindex.com/>

Mobile connectivity index

- The Global System for Mobile Communications Association (GSMA), which represents the interest of mobile operators worldwide, created a mobile connectivity index measuring countries' performance in mobile Internet use based on four key enablers: **infrastructure, affordability, consumer readiness, and content & services**. Countries can be categorised as:
 - **Leaders** (score above 75): countries that generally perform very well across enablers and have very high levels of mobile internet penetration.
 - **Advanced** (score above 65): countries that perform well on 3 enablers and usually have high penetration rates.
 - **Transitioners** (score above 50): countries that perform well on at least 2 enablers.
 - **Emerging** (score above 35): countries that perform fairly well on one or two enablers but show room for improvement on others.
 - **Discoverers** (score below 35): countries that show room for improvement across all 4 enablers and have correspondingly low levels of mobile Internet penetration.

[Table VI](#) shows that in 2019, among the 48 African countries⁹² covered by the GSMA Mobile Connectivity, no African country was ranked among the “leaders” and only Mauritius was ranked as “advanced”. Only 2 sub-Saharan African countries – Ghana and Botswana – were ranked as “transitioners”. North African countries were mainly considered as “transitioners” with Tunisia and Morocco almost ranked as “advanced”. 29 African countries were ranked as “emerging” and 16 African countries were ranked as “discoverers”⁹³.

The mobile connectivity index clearly shows that there is room for improvement regarding digital connectivity in Africa. The index also gives an idea about **what foreign companies should expect when entering a specific African market**, both in terms of opportunities in the digital field and in terms of availability of digital infrastructures, skills, contents and services.

The importance of infrastructures, affordability, consumer readiness and content & services cannot be underestimated. Despite efficient and sustainable digital infrastructures and a phone and Internet coverage in some African countries, **many African people still cannot afford digital services** and cannot access them due to a **lack of digital literacy**, often with gaps between men and women

⁹² Both in North Africa and Sub-Saharan Africa.

⁹³ List of African “discoverers” with their Mobile Connectivity Index score in 2019: South Sudan 12.7, Chad 16.4, Central African Republic 17.2, Niger 18.3, Comoros 24.0, Guinea-Bissau 24.4, Burundi 26.2, Malawi 26.9, Democratic Republic of the Congo 26.2, Gambia 30.3, Madagascar 31.3, Guinea 31.1, Mauritania 32.1, Burkina Faso 32.4, Mali 33.9 and Liberia 34.4. Source: GSMA Mobile Connectivity Index 2019.

as well as between rural and urban areas. Consequently, to **reduce the digital gap** in Africa, technologies should be designed according to the reality of Africa and African people, be affordable and proper training should be given to develop local people’s e-skills.

TABLE VI. Top 5 African Countries according to their Mobile Connectivity Index Score and Enabler in 2019 (ranked in order according to their score)

Mobile Connectivity Index Score	Infrastructure	Affordability	Consumer Readiness	Content and services
Sub-Saharan Africa				
Mauritius (65.8)	South Africa (61.3)	Mauritius (63.9)	South Africa (73.1)	Mauritius (71.8)
South Africa (60.1)	Lesotho (59.5)	Nigeria (55.0)	Mauritius (72.2)	South Africa (56.5)
Ghana (52.0)	Rwanda (58.8)	Botswana (52.5)	Namibia (71.7)	Cabo Verde (52.4)
Botswana (51.3)	Mauritius (56.4)	South Africa (51.7)	Botswana (71.5)	Ghana (51.8)
Kenya (49.6)	Kenya (54.2)	Ghana (48.4)	Cabo Verde (67.3)	Kenya (49.0)
				Gabon (49.0)
North Africa				
<i>North African countries were inserted in the table only if their ranking was higher than the lowest ranked Sub-Saharan countries mentioned above.</i>				
Tunisia (60.0)	Morocco (66.3)	Algeria (56.6)		Egypt (65.5)
Morocco (59.9)	Tunisia (64.1)	Morocco (56.3)		Tunisia (62.6)
Egypt (55.7)		Tunisia (51.1)		Morocco (62.0)
Algeria (53.2)				Libya (55.0)
Libya (50.9)				

Source: GSMA (2019) *GSMA Mobile Connectivity Index*⁹⁴.

Mobile coverage is one of the major component of the digital economy in Africa as most digital services are provided through mobile phones. Therefore, the above-mentioned information is necessary to understand which African countries are currently the most connected and digitally developed, and which African countries need further support to develop digital infrastructures, digital training and more affordable services.

The Finnish study also shows that Europe and Japan are not the only ones involved in the development of African digital connectivity. On the one hand, **China already has a comprehensive collaboration with Africa on digital connectivity** in order to extend its Belt and Road Initiative. On

⁹⁴ GSMA (2019) *GSMA Mobile Connectivity Index*. Available at: <https://www.mobileconnectivityindex.com/>

the other hand, the U.S. private sector has been providing Africa with more connections and access to global data.

Chinese competition in Africa

The Chinese BRI has been particularly effective in Africa. Indeed, every year and for more than 30 years, the first official visit overseas by China has taken place in Africa, which shows that China has considered Africa as a key partner for a long time. The visit of the Chinese Foreign Ministry to Africa is an opportunity to promote bilateral cooperation as well as the BRI. Indeed, during the January 2021 visit, **Botswana and the Democratic Republic of Congo (DRC) signed MoUs with China and became the 45th and 46th African signatories of the BRI**⁹⁵. Finally, the triennial **Forum on China-Africa Cooperation (FOCAC) is expected to take place in 2021 in Senegal** with a focus on “*health, agricultural, digital, environmental, and military and security cooperation; regional connectivity and free trade; and Africa’s industrial capacity*”⁹⁶.

China’s increasing presence in Africa, in particular in providing loans⁹⁷ and in contributing to large infrastructure projects, and the well-established French business community in Africa have also led to **business alliances between large Chinese and French companies in Africa**, such as the Maya-Maya Airport in Congo, the Great Mosque of Algiers in Algeria, and the Soubré Dam in Ivory Coast.⁹⁸

3.2.4. Eastern Europe / Western Balkans

In the survey launched by the author, Eastern Europe and the Western Balkans were mentioned by both EU and Japanese SMEs as promising regions for the digital economy. Additional interviews conducted with Japanese companies showed that their interest is due to the low cost of setting up operations and in hiring skilled staff in these regions, compared to EU Member States. However, opinions on the topic were divided. After carefully considering both options, some Japanese companies would finally choose to set up operations in the EU despite higher costs, as the companies prioritised more skilled staff and better English knowledge. The region spanning from Central Europe to Eastern Europe remains an increasingly active digital hub, with the creation of ecosystems specialising in specific sub-sectors of the digital economy.

⁹⁵ Ministry of Foreign Affairs of the People’s Republic of China (2021). *Foreign Ministry Spokesperson Zhao Lijian’s regular press conference on January 11, 2021*. Available at: https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1845634.shtml

⁹⁶ Albert E. (2020) “China’s Foreign Minister revives Belt and Road on 5-Country Africa Tour” in *The Diplomat*. Available at: <https://thediplomat.com/2021/01/chinas-foreign-minister-revives-belt-and-road-on-5-country-africa-tour/>

⁹⁷ Brautigam, D., Hwang, J. (2019). *China-Africa Loan Database research Guidebook*. Available at: <https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5efd04572cbaa4329d32be1e/1593640026011/SAIS-CARI+Research+Guidebook+2020.07.01.pdf>

⁹⁸ Pairault, T. (2020). *French and Chinese Business Cooperation in Africa*. Available at: <https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5fa956eef6d3991188800be2/1604933359644/PB+50+Pairault+French+Chinese+Business+Cooperation+Africa.pdf>



Figure 18. Non-EU countries in the Western Balkans (in yellow): Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia. Because of its unique position spanning from Europe to the Middle-East, some might, or might not, include Turkey in the Western Balkans.



Figure 19. Non-EU Eastern European countries and countries of the Eastern Partnership⁹⁹ (in yellow): Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

SMEs from EU Member States in Central and Eastern Europe already have a strong presence in the Western Balkans and Eastern Europe. Their expertise and network in these countries, which are usually not well-known by Japanese companies, is a strong competitive advantage making them privileged partners for Japanese companies.

3.2.5. Other third markets

Past case studies have shown that the Japanese and EU private sectors have also undertaken EU-Japan business alliances in **Latin America** and the **Middle East**.¹⁰⁰ Public information shows that these business alliances were mainly agreed between large EU and Japanese companies in industries like energy, desalination and transport infrastructures. Nonetheless, among the EU tech SMEs interviewed for the present study, some of them mentioned past or ongoing discussions with Japanese companies for joint projects in these markets.

MoU between NEXI and the EBRD for Central Asia, Eastern Europe and the Western Balkans

On 21 October 2020, NEXI and the European Bank for Reconstruction and Development (EBRD) concluded an MoU¹⁰¹ that aims to create a framework for cooperation between both entities,

⁹⁹ European Neighbourhood Policy and Enlargement Negotiations (2020). Eastern Partnership. Available at: https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/eastern-partnership_en

¹⁰⁰ Marbot, M. (2020). *Analysis of EU-Japan business cooperation in third countries*, p.17-19, p.129-130.

¹⁰¹ Nippon Export Investment Insurant (2020). *MOU on Cooperation between NEXI and EBRD*. Available at: <https://www.nexi.go.jp/en/topics/newsrelease/2020102001.html>

combine their financial expertise and resources, and **support Japanese companies in going overseas by creating new business opportunities**. The development of sustainable infrastructures would be a priority.

The MoU could support EU-Japan business cooperation in third markets covered by the EBRD which are Central Asia, Eastern Europe, the Caucasus, Russia, the Western Balkans, Turkey and Southern and Eastern Mediterranean countries.

4. TYPES OF BUSINESS MODELS

4.1. SHORT-TERM AND LONG-TERM APPROACHES

4.1.1. Short-term approach

The short-term approach is a project-based approach. In other words, EU SMEs and Japanese companies decide that they will cooperate for the duration of a specific project. The cooperation can take place from the start to the end of the project, or only take place for a specific part of the project.

The short-term approach does not necessarily exclude future cooperation. Nonetheless, the initial aim is generally to build a project together, or to achieve the specific part of the project in collaboration with other members of the consortium, and to deliver it in time. As Japanese companies tend to prefer building trust and a solid relationship with a potential partner before agreeing on a long-term cooperation, starting with a short-term project can be a good way to test the collaboration between the EU and the Japanese side before considering further cooperation.

4.1.2. Long-term approach

The long-term approach implies that the EU and Japanese companies intend to cooperate in the long term on several projects in third markets. Discussions with EU companies showed that the initial cooperation can start in various ways:

- **Long-time bilateral partnership replicated overseas** as showed in [Figure 10](#).
- **Partnership aiming directly at third markets** as showed in [Figure 11](#).
- **Buyer/Seller** as showed in Figure 20, which is a model that is relatively accessible to EU SMEs.

Figure 20. Buyer/Seller model

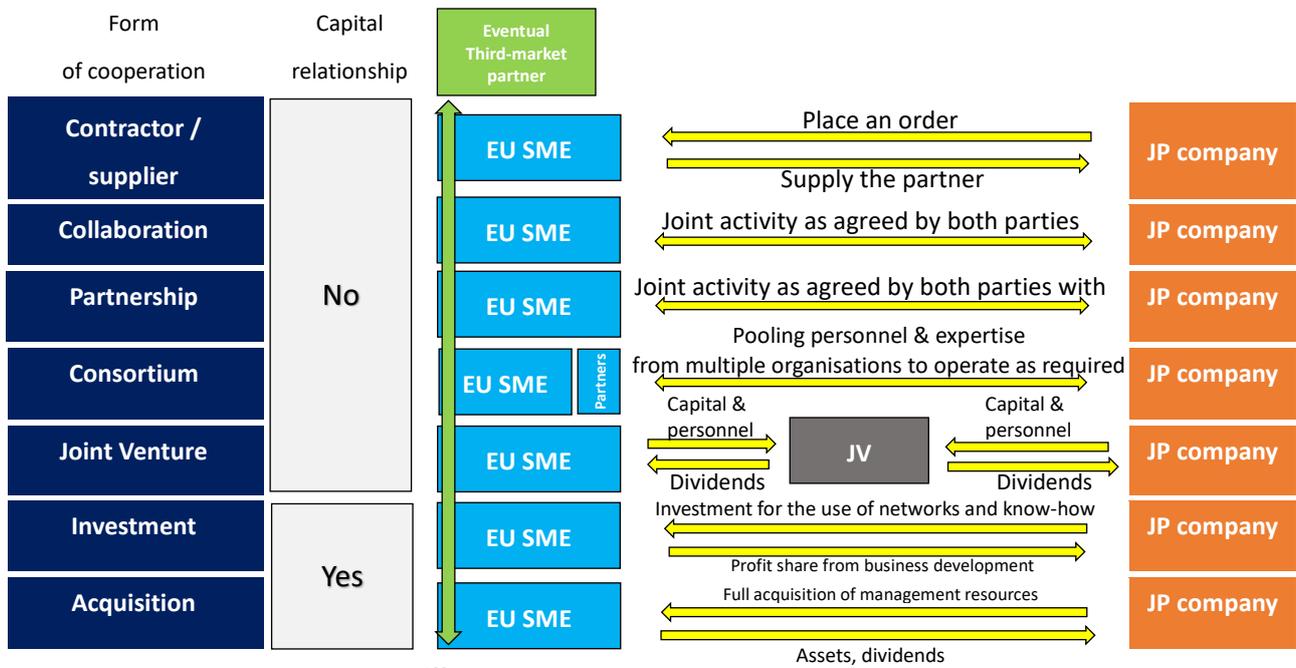
An EU SME sells a product to a Japanese partner which has distribution channels in Asia. The distribution partnership generates more sales for the EU SME.



4.2. TYPES OF PROJECTS

EU-Japan business cooperation in third markets can take several forms of cooperation as shown in Figure 21.

Figure 21. Possible forms of cooperation



Source: © 2020 QUNIE CORPORATION¹⁰²

In addition to the stakeholders mentioned in Figure 21, **multilateral development banks (MDBs)**, such as the African Development Bank (AfDB) or the Asian Development Bank (ADB), can also play a role in EU-Japan business cooperation in third markets by providing **financial instruments** for large and expensive projects in emerging markets. **Beneficiaries are usually large companies.**

4.3. SISTER-CITY PROJECTS

Sister cities are not limited to cultural exchanges. Policy and technical collaboration between cities and regions can also be achieved through sister-city projects.

For example, under the FOIP vision and the Japan-U.S. Strategic Digital Economy Partnership (JUSDEP), **the U.S. and Japan have established a “Smart Sisters Program”**¹⁰³ to facilitate the development of smart cities in the Indo-Pacific region. The program aims to facilitate **technical collaboration, exchange of knowledge and experience as well as joint projects**, between American

¹⁰² Infographic based on an internal document produced by QUNIE Corporation in 2020.

¹⁰³ United States Department of State (2019). *Joint Statement by the United States and Japan on Furthering the Development of Smart Cities in the Indo-Pacific*. Available at: <https://2017-2021.state.gov/joint-statement-by-the-united-states-and-japan-on-furthering-the-development-of-smart-cities-in-the-indo-pacific/index.html>

and Japanese cities and the 26 cities of the ASEAN Smart Cities Network (ASCN). Sister-city projects **involve the public and private sectors** and aim to solve common issues between sister cities and to open opportunities for **U.S.-Japan business cooperation in the Indo-Pacific region**.

Following this example, the **EU and Japan can aim at smart-sister projects in third markets** to complement the actions already undertaken by the U.S. and Japan in the Indo-Pacific region. The EU and Japan can aim at smart-sister projects in other regions such as Africa, Latin America, the Western Balkans or Central Asia. The EU-Japan Regional Cooperation Helpdesk would be a relevant platform to support or even lead such initiatives.

Smart city projects are fully part of the digital economy as various digital technologies can be used to tackle issues encountered by cities as shown in Table VII.

TABLE VII: Three examples of smart city topics related to the digital economy	
Common issues	Possible digital tools and solutions
Air pollution	Sensors; Space technology; Big Data analytics
Mobility (traffic jam, lack of connection between different transportation modes, paper tickets)	Surveillance cameras (including AI-equipped cameras); Mobile application for e-tickets + cashless payment + real-time information on all public transports within a city (bus, train, tram, boat); autonomous trains (AI-powered conductor, telecommunication and signalling systems)
Tourism (lack of centralised information)	One-stop mobile applications to inform tourists about the city's transports, attractions and hospitality services + e-tickets + e-booking

5. INTEREST FROM COMPANIES

The existence of the EU-Japan Connectivity Partnership signed in 2019 might give the impression of a top-down approach to EU-Japan business cooperation in third markets. However, the Partnership is a general framework which has not been fully operationalised yet, and many case studies have shown that the EU and Japanese private sectors, and in particular large companies, have already undertaken joint projects in third markets before the signature the Partnership. Indeed, the previous study published by the EU-Japan Centre on the topic of EU-Japan business cooperation in third markets shows **37 out of 44 case studies that were formalised before 2019**.¹⁰⁴ As the study is not exhaustive, it is likely that more success stories have happened before 2019. Therefore, EU-Japan business cooperation in third markets is **originally a bottom-up approach**, which has been put in the spotlight in recent EU-Japan policies.

In the same study, 39 out of 44 case studies include partnerships between large EU and Japanese companies. Large companies seem to be the most active on the topic, which is certainly due to the size of the projects.

5.1. INTEREST FROM EU SMES

EU SMEs active in third markets outside Asia

EU SMEs seem to be involved to a lesser extent than large companies in EU-Japan business partnerships in third markets. Indeed, they do not have the same resources and network as large companies, and they often are **not aware of the possibility and the benefits** of partnering with Japanese companies in third markets. EU SMEs already present in third markets outside Asia in particular **do not automatically think about partnering with a Japanese company** to expand their business. Local companies, European companies, American companies and Chinese companies generally are a more obvious choices. Consequently, **creating more awareness among EU SMEs active in third markets and among Japanese companies** on the possibility and the benefits of EU-Japan business partnerships in third markets would be a way to foster the creation of partnerships between EU SMEs and Japanese companies in third markets outside Asia..

EU SMEs active in Japan: focus on German companies

The annual study launched by AHK Japan, and which was mostly answered by German SMEs in Japan, shows that **in 2020, 63% of German companies in Japan were involved in projects and business activities with Japanese partners outside Japan**, and in particular in Asia (53% in ASEAN

¹⁰⁴ Marbot, M. (2020). *Analysis of EU-Japan business cooperation in third countries*, p.17-19, p.129-130.

and 34% in Greater China).¹⁰⁵ The number has remained above 60% for the past three years with 69% in 2019 and 64% in 2018. The reasons for such partnerships are provided in Table VIII.

TABLE VIII: Key reasons for EU SMEs to be involved in EU-Japan third-market projects

	2017	2018	2019
1 Making use of our company's global sales & service network	40%	43% ↗	51% ↗
2 Easier accessibility of foreign markets due to internationalization	18%	25% ↗	34% ↗
3 Increasing the (strategic) importance of our Japanese subsidiary	20%	19% ↘	30% ↗
4 Saturation of Japanese market	8%	10% ↗	13% ↗
5 Being able to attain higher margins	3%	5% ↗	5% →

Source: AHK Japan (2020)¹⁰⁶

Based on the results of their survey and their experience with German companies in Japan, AHK Japan mentions **digital connectivity as one of the key pillars of EU-Japan business collaboration** in third markets, with an emphasis on the establishment of a regulatory and data security framework with a focus on DFFT and international rules on e-commerce. AHK Japan also highlights **5 key sectors which are fully part of the digital economy** and which are highly promising for cooperation in third markets: plant engineering, machinery and factory equipment, automotive supply, chemical/pharmaceutical supply and IT/telecommunications. The information gathered by AHK Japan corroborates that **projects in the digital economy are highly promising for EU-Japan business cooperation in third markets.**

5.2. INTEREST FROM JAPANESE COMPANIES

Japanese companies are generally interested in partnering with EU companies in third markets for two reasons:

- **Use EU companies' well-established presence** in unfamiliar markets to set foot in new markets.

¹⁰⁵ German Chamber of Commerce and Industry in Japan, KPMG (2020). *Economic outlook – German Business in Japan 2020*. Report available at: <https://japan.ahk.de/en/infothek/surveys-and-studies>

¹⁰⁶ German Chamber of Commerce and Industry in Japan (2020). *EU-Japan Connectivity "The next great game"*, p.13. Paper pamphlet based on a survey launched in 2019.

- Use EU companies **highly innovative and specific technologies** to improve and grow their business in third markets in which they are already well-established, such as ASEAN. Indeed, Japanese companies are usually **fairly confident in their strengths regarding the Asian market**. However, they are open to partnerships if an EU SME can provide a state-of-the-art technology that can bring a **strong added value** to their business.

Japanese trading houses, or *sogo shosha*, are already very active in the development of infrastructures in third markets and in particular in Asia. According to AHK Japan, *sogo shosha* are driving Japan’s globalisation with the key functions shown in Figure 22. Depending on the project’s needs, European companies partnering with *sogo shosha* in third markets can either be large companies or SMEs with highly innovative technologies. Moreover, more than half of the case studies presented in the previous Centre’s study on cooperation in third markets were undertaken by *sogo shosha*, which shows their strong interest in finding European partners for joint projects in third markets.

Figure 22. Four key functions of *sogo shosha* in EU-Japan business cooperation in third markets



Source: AHK Japan (2020)¹⁰⁷

5.3. INTEREST FROM THIRD MARKETS

Third-market companies, end users and governments recognise the benefits of EU-Japan business cooperation in third markets. Such cooperation can boost the local private sector and stimulate growth and development. The example of the French Japanese Business Summit 2020

¹⁰⁷ German Chamber of Commerce and Industry in Japan (2020). *EU-Japan Connectivity “The next great game”*, p.7. Paper pamphlet based on a survey launched in 2019.

which focused on business opportunities in Africa showed that **African companies and African people benefit from trilateral partnerships with EU and Japanese companies.**¹⁰⁸ Each side provides a complementary strength, hence creating a win-win situation.

Emerging countries are shifting their policies to accelerate the transition toward a digital economy by creating infrastructures and skills. In order to implement digital strategies, the involvement of the private sector is necessary and **local companies often do not have enough human and financial resources as well as enough skills and technologies** to undertake large projects in the digital economy. By partnering with EU and Japanese companies, third-market companies can not only **reinforce their capacity building, but also build expertise** in new projects which will make them grow. Indeed, trilateral projects are the opportunity to exchange best practices and promote digital standards, which can ultimately lead to a **more harmonised global digital ecosystem.**

Finally, emerging countries are more and more interested in switching from the traditional development assistance framework provided by high-income countries to a new way of **achieving development as a direct impact of industrial projects**¹⁰⁹. Indeed, industrial projects in emerging countries can benefit the local population and the local economy in many ways such as by creating jobs, skills, income, taxes and added-value to products produced locally. Industrial projects can take various forms from small-scale to large-scale projects and cover various sectors such as agriculture, infrastructure and energy.

¹⁰⁸ CCI France Japon (2020). *2020 French Japanese Business Summit: Key Takeaways Videos*. Available at: <https://www.cci.fr/actus/n/news/2020-french-japanese-business-summit-key-takeaways-videos.html>

¹⁰⁹ This point was highlighted in several panel discussions during the Eurafrican Forum in 2020. Eurafrican Forum (2020). Available at: <https://www.eurafricanforum.org/>

6. RECOMMENDATIONS TO THE EU-JAPAN CENTRE FOR INDUSTRIAL COOPERATION

The following recommendations aim to improve the support given to EU SMEs in being involved in EU-Japan business cooperation in third markets. Some recommendations presented in a former report were used as a basis,¹¹⁰ and more concrete details were added to match the existing resources of the EU-Japan Centre for Industrial Cooperation (the Centre).

6.1. HELPDESK

The Centre aims to launch new services and new activities on the topic of EU-Japan business cooperation in third markets. A helpdesk dedicated to support such cooperation can complement the Centre's existing services that aim to support matchmaking and partnerships between EU and Japanese companies, and in particular SMEs.

Table IX: Concrete activities of a Helpdesk dedicated to support EU-Japan business cooperation in third markets

Contact point	Purpose
	<ul style="list-style-type: none"> • Respond to inquiries about EU-Japan business cooperation in third markets • Represent the Centre for questions related to the topic
Promotional activities	Purpose
	<ul style="list-style-type: none"> • Create awareness on the topic, in particular among SMEs • Promote the benefits of EU-Japan business alliances in third markets • Promote the competitive advantages of EU SMEs to Japanese companies • Promote business opportunities with Japanese partners to EU SMEs in third markets
	Tools
	<ul style="list-style-type: none"> • Webinars/Seminars • Website: articles, success stories, newsletter subscription + social media • Factsheets: <ul style="list-style-type: none"> ○ About EU-Japan business cooperation in third markets ○ About the Helpdesk, its role, its targets and its services

¹¹⁰ Marbot, M. (2020). *Analysis of EU-Japan business cooperation in third countries*, p.100.

B2B matchmaking activities	Purpose
	<ul style="list-style-type: none"> • Facilitate networking between EU and Japanese companies for discussions about joint projects in third-markets • Support the creation of business partnerships between EU and Japanese companies in third markets
	Tools
	<ul style="list-style-type: none"> • Case-by-case matchmaking • Include a third-market aspect to existing matchmaking activities undertaken by the Centre or by external stakeholders • Organise pitching sessions to promote EU SMEs, and foster networking between EU SMEs and Japanese companies on the topic of business partnerships in third markets

6.2. ANNUAL SURVEY

The present study was limited by the **lack of available public data** on the topic of EU-Japan business cooperation in the digital economy in third markets and in particular the involvement of SMEs. Despite a certain number of surveys launched by Chambers of Commerce and Industry and by institutional stakeholders on the topic, few results are actually made publicly available.

The present report proposes a more **systematic way to collect data** with an annual survey **targeting EU SMEs**. The survey would aim to collect information on EU SMEs' **opinions, ambitions, needs, experience, success stories and challenges** regarding EU-Japan business cooperation in third markets. The results of the survey would be anonymised and summarised in a **public report**.

As only two EU Member States have been surveying their companies on the topic,¹¹¹ this annual survey would help the Centre to cover SMEs **from all EU Member States**.

¹¹¹ Germany: German Chamber of Commerce and Industry in Japan, KPMG (2020). *Economic outlook – German Business in Japan 2020*. France: Ministère de l'Économie, des Finances et de la Relance, Direction générale du Trésor, SER de Tokyo (2020) Energy Transition and Sustainable Cities: Mapping Franco-Japanese cooperation in third countries. Available at: <https://www.tresor.economie.gouv.fr/Articles/2020/04/15/energy-transition-and-sustainable-cities-mapping-franco-japanese-cooperation-in-third-countries>

Table X: Annual survey: publication of results and purpose

Results of the survey to be promoted in an annual report	Purpose of an annual report
<ul style="list-style-type: none"> • Quantitative and qualitative data about EU-Japan business cooperation in third markets involving EU SMEs • Details on trends and opportunities by industries, including the digital economy, by EU Member States and by third markets/regions • Key numbers • Success stories 	<ul style="list-style-type: none"> • Monitor the evolution of the trend of EU-Japan business cooperation in third markets • Show the challenges faced by EU SMEs on the topic • Support the helpdesk’s promotional activities • Better understand the private sector’s needs, in particular from SMEs • Better target promising industries and regions for future activities

6.3. PARTNERS AND INSTITUTIONAL COOPERATION

The Centre intends to launch new activities on the topic of EU-Japan business cooperation in third markets and therefore needs to **grow a new network of partners**. Indeed, these new services would target EU SMEs in Europe, EU SMEs in Japan and **EU SMEs already present in third markets, and in particular emerging countries**, the latter being a new target for the Centre.

In addition to the Centre’s existing network, the channels below can be used to **reach EU SMEs already active in third markets**, and which could be potential partners for Japanese companies looking to enter third markets:

- EU Member States’ trade promotion organisations in third markets, which can also be reached through their counterparts in Japan.
- Enterprise Europe Network (EEN) which has several offices in Africa, Southeast Asia, Latin America, the Western Balkans and Eastern Europe.
- European Chambers of Commerce active in third markets (EBO WWN).¹¹²
- Networking platforms and business associations aiming to bring together EU SMEs and third-market companies.
- **For projects in the digital economy:**
 - Sectoral business associations in Europe promoting digital solutions for third markets, and in particular emerging markets.
 - Sectoral business associations in third markets in which EU SMEs are already active.
 - Matchmaking and pitching events related to the digital economy in third markets.

¹¹² European Business Organisation Worldwide Network (2021). *Homepage*. Available at: <https://eboworldwide.eu/>

Organisations that support the international expansion of Japanese companies to third markets, and in particular emerging countries in which EU SMEs are already active, can also be relevant partners for the Centre.

Interinstitutional cooperation

A **regular and structured dialogue** between the EU and Japan on business cooperation in third markets has not been implemented yet. Instead, the topic of EU-Japan business cooperation in third markets has been mentioned in sectoral dialogues such as on energy and transport. A structured dialogue would be essential to gather all necessary parties covering all industries, and to discuss concrete joint projects in third markets. Existing dialogues and projects between Japan, the U.S. and Australia in third markets (see [Section 1.5](#)) show that establishing a dialogue on business cooperation in third markets is possible, and that there is currently a **window of opportunity** that the EU should not miss.

Without the existence of the above-mentioned dialogue, other initiatives can be undertaken to support EU-Japan business cooperation in third markets in the digital economy. The launch of the global multi-stakeholder platform “**Digital4Development Hub**” (D4D Hub) in 2020¹¹³ and the upcoming opening of the first branch in Africa could open business opportunities for EU and Japanese companies in digital projects in Africa. When the present report was finalised, no further information on the African branch and the concrete involvement of the private sector on this initiative was published. Therefore, a **follow-up with DG INTPA** would be relevant to see if the platform can be used for **networking and discussions on joint projects in Africa** between EU SMEs and Japanese companies.

Moreover, twice a year the EU and Japan hold two major events to follow up on their cooperation in the digital field:

- The **Digital Policy Dialogues** between DG CONNECT, METI and MIC;
- The **Digital Strategy Workshop** between DG CONNECT, ETSI, the EU business community in Japan, METI, MIC and Keidanren.

The Centre can liaise with the EU and Japanese organisers to add the topic of EU-Japan business cooperation in third markets as an **item for discussion on the agenda**, illustrated by case studies. The aim would be to create **awareness about the business opportunities, their benefits and standard setting in third markets** among policy-makers and the business community and to initiate **discussions about concrete projects**.

¹¹³ Digital4Development Hub (2020). *D4D Hub, EU International partnerships*. Available at: <https://www.d4dlaunch.eu/>

Cooperation between EU and Japanese funding bodies is essential to fund joint projects in third markets. The MoUs signed by the EIB with JBIC and JICA have not resulted into concrete developments after more than two years. The new EU multiannual financial framework for 2021-2027 includes a new financial instrument for the EU's external action, the **Neighbourhood, Development and International Cooperation Instrument (NDICI)**¹¹⁴. This instrument will open opportunities for joint projects between the EU and like-minded countries and would therefore be one of the most appropriate tools for the EU to fund EU-Japan joint projects in third markets.

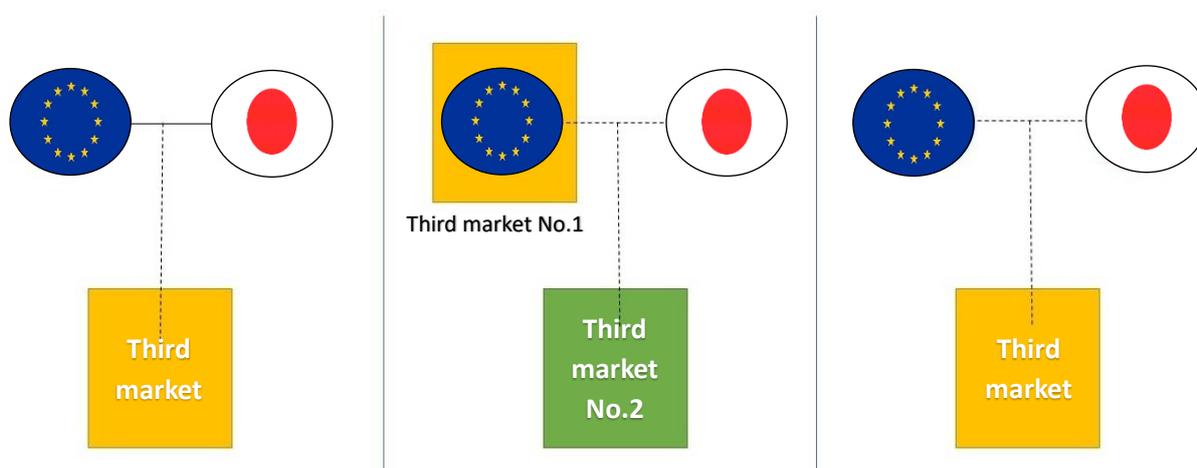
Finally, the EU-Japan Centre for Industrial Cooperation has been the only organisation to actively promote and support EU-Japan business cooperation in third markets. A small number of EU Member States like France and Germany have been active on the topic, but not necessarily with an EU perspective. **Institutional support is essential** from the EU Commission, the EEAS the EIB, the EBRD and Japanese ministries and funding agencies on the EU-Japan Centre's initiatives to support EU and Japanese companies, and in particular SMEs, for joint projects in third markets.

¹¹⁴ European Commission (2020). *European Commission welcomes political agreement on future €79.5 billion for a new instrument to finance the EU external action and lead the global recovery through international partnerships*. Available at: https://ec.europa.eu/commission/presscorner/detail/en/IP_20_2453

7. RECOMMENDATIONS TO EU SMES

Section 7 provides recommendations to EU SMEs interested in EU-Japan business cooperation in third markets, in order to help them prepare future projects and to anticipate eventual challenges. These recommendations mainly target the types of EU SMEs shown in Figure 23, which are EU SMEs most likely to be involved in EU-Japan business cooperation in third markets.

Figure 23. Types of EU SMEs most likely to be involved in EU-Japan business cooperation in third markets



Type 1	Type 2	Type 3
<p>EU SMEs already partnering with a Japanese company, in Japan or in the EU, and wishing to <u>replicate the partnership to third markets</u>.</p>	<p>EU SMEs already present in a third market (in yellow) and looking for a Japanese partner to start new projects or to scale up their business in the <u>same third market and/or other countries</u> (in green).</p>	<p>EU SMEs seeking a Japanese partner for the first time to cooperate <u>in Japan, and in third markets</u> (in yellow).</p>

7.1. KEY PREREQUISITES

A certain number of key prerequisites are useful for a successful EU-Japan business alliance in the digital economy in third markets.

Table XI: Key prerequisites for EU SMEs

1	Highly innovative digital technology
	<p>A technology that is not be available in Japan or among other foreign partners will have a competitive advantage. Otherwise, a technology that an EU SME has made available locally and has successfully adapted to the target third market will also attract potential Japanese partners. The technology should be interoperable and customised in order to either integrate or complement the products or services provided by the Japanese partner.</p> <ul style="list-style-type: none"> ○ Example 1: a large Japanese company aims to develop healthcare solutions in an emerging country by combining several digital and medical tools. The company searches a system integrator already present in the target third market (e.g. an EU SME) which can bring together the different components into one solution, and which can adapt the solution to the local environment and the local people (e.g. language, lack of Internet, use of mobile phones rather than computers). ○ Example 2: a large Japanese company opens a power plant in a third market and searches a company already present in the target market (e.g. an EU SME) to provide cybersecurity services and therefore to complement the Japanese company's project.
2	Digital solutions applicable to industries outside the traditional IT sector
	<p>Digital solutions that can be applied to industries such as agriculture, healthcare and energy are increasingly sought-after, in particular in emerging countries, which enables EU tech SMEs to take advantage of the many possibilities offered by the digital economy.</p>
3	Expertise in third markets
	<p>An expertise with third markets will make EU SMEs more attractive to Japanese companies. Expertise can be described by a substantial business activity in a third market, the existence of a subsidiary, knowledge of local legislations, tariffs, insurance and business culture, a network of local partners, suppliers and local agencies, and knowledge of the local environment and lifestyle to adapt the product/service/technology to the local end-users.</p>

4	Expertise in Japan or with Japanese partners in Europe
	If an EU SME does not have expertise in a third market, an existing partnership with Japanese partners is also helpful to replicate this partnership overseas. A presence in Japan with a local subsidiary is likely to foster business cooperation in Japan and in neighbouring countries , where Japanese companies are often well-established. A partnership with a Japanese company taking place in Europe will be easier to replicate in regions like Eastern Europe, the Western Balkans, Africa or Central Asia . Indeed, Japanese companies' European headquarters will usually be the contact points for projects in these markets.
5	Plan to expand an existing business
	Ideally, an SME's expertise in a third market is combined to a project to expand an existing business within the same third market or to cover several third markets. Indeed, after developing a network of local partners and doing business in a third market for a while, some EU SMEs intend to scale up their business with a large project (e.g. factory, infrastructure). As such projects are expensive, EU SMEs look for investors that can bring capital. On the Japanese side, many large companies already have this capital and look for concrete projects in emerging markets that require investors and off takers . In this model, the Japanese company brings capital and takes advantage of the EU company's expertise and network in the target third market.
6	Ability to speak English and more languages
	While speaking Japanese is often a prerequisite to do business in Japan, speaking English is crucial to be able to work with Japanese partners in third markets . In addition, the ability to speak the local language of a third market is also a strength. The diversity of languages within the EU makes EU companies able to do business more easily in Africa, Latin America, Central Asia, Eastern Europe and the Western Balkans.

7.2. MINDSET TO ADOPT

EU SMEs which intend to undertake EU-Japan business cooperation in third markets should shape their mindset with the elements provided in this section.

7.2.1. Complementarity

When interviewed on the topic of EU-Japan business cooperation in third markets, a certain number of EU companies already established in third markets did not see the benefits of partnering with a Japanese company.

Some companies answered that they saw the arrival of Japanese companies as the arrival of a competitor.

- The present report, and in particular [Section 3.1](#), aims to show that Japanese companies can be seen as partners with **complementary strengths**, rather than competitors. Complementary strengths can be regional or strategic. Projects in the digital economy are generally based on **complementarity between the digital field and other industries such as energy, manufacturing and agriculture**. On the one side, a company will provide a specific digital technology while on the other side, the other company will provide capital, engineering, equipment and project management.

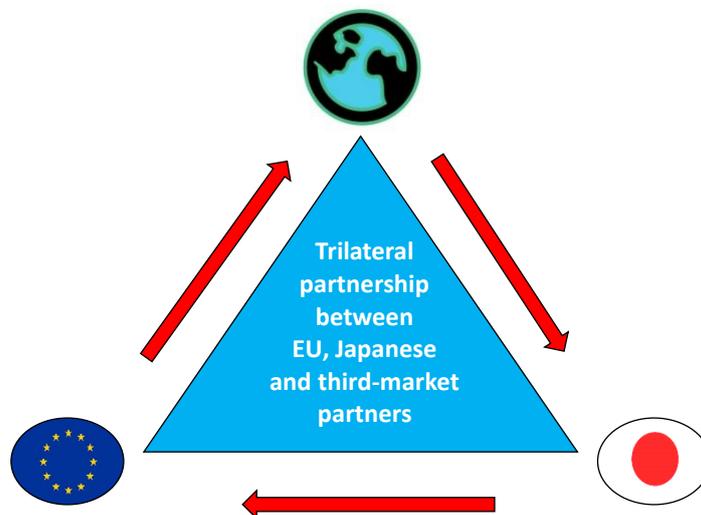
Other companies answered that they were already successful in third markets and did not see the benefits of a partnership with Japanese companies.

- Each business case is unique and indeed, some EU SMEs might not need to partner with a Japanese company in order to expand their business in third markets. Other partners and investors like large EU companies, large American companies or large Chinese companies might have better offers than Japanese companies depending on the target industry and the target third market. Nonetheless, Japanese companies, and in particular *sogo shosha*, often have a large capital, an expertise in infrastructure projects, a good acceptance in third markets and a professionalism that make them excellent partners for projects in third markets, compared to other foreign companies.

7.2.2. Trilateral approach

The present report covers the topic of EU-Japan business alliances in third markets. In reality, such cooperation generally involves an additional party to the two EU-Japan partners: third-market partners. Third-market partners are crucial for the success of an EU-Japan joint project overseas.

Figure 24. Trilateral partnership



EU SMEs already established in third markets usually have a strong network of local partners. From their point of view, the third-market partner is actually the Japanese side. Therefore, another way to present the business cooperation described in this report would be to focus on existing partnerships between EU and foreign partners (e.g. EU-Africa, EU-Asia, EU-Latin America) and to present Japanese companies as third-market partners that can support the expansion of the partnership. From this point of view, the role of the local partner (from Africa, Asia, Latin America) becomes clearer and appears as intrinsic to EU-Japan business cooperation in third markets.

Likewise, Japanese companies already established in Asia already have a strong network of local partners. The arrival of an EU partner, seen as a third-market partner, to boost the Japan-Asia partnership with a digital technology for example, shows the strong trilateral aspect of the business cooperation.

Each party provides a complementary strengths to the trilateral partnership. One of the main strengths of local partners is to support the localisation of the project as shown in the point below.

7.2.3. Localisation

EU-Japan joint projects in third markets have to be localised, which means that they have to be **adapted to local users and their lifestyle**, the local environment and the local culture. Third-market partners are the experts of their own country and know which language should be used, which payment methods are the most common and what kind of design are the most popular.

In emerging markets in particular, localisation supported by local people is crucial as a business model that has worked in Europe or in Japan might not work in emerging markets where resources are different and sometimes scarce. Indeed, access to infrastructure, electricity and the Internet is not always ensured. **Business models have to be adapted** and EU and Japanese companies need to be **flexible and open-minded**.

For an efficient localisation, companies have to address the needs of end users, the affordability of their products and services, the way they deliver them, and the way they promote their business in third markets. **Localisation is closely related to the digital economy**. If the products and services provided by the EU-Japan business alliance involve digital tools (e.g. mobile application), the design, user interface and user experience have to be adapted to the local context. Moreover, the marketing strategy also has to be adapted as advertisement is increasingly taking place online.

7.2.4. Sustainability

As mentioned in [Section 2.3.3.](#), companies involved in EU-Japan business cooperation in third markets have to address sustainability and the SDGs. Companies need to adopt a mindset oriented

toward sustainable projects that will last in the long term and that will encompass sustainability in terms of economic, social, environmental and regulatory impact.

7.2.5. Standards

Standards are closely related to the digital economy. Indeed, international discussions are taking place to regulate digital technology in order for companies and users to develop and use digital tools that are secure, human-centred, and that respect privacy, human rights and democracy. Japan and the EU are like-minded in the digital field which makes Japanese and EU companies more compatible for business partnerships in the digital economy. Projects addressing the topic of “digital for development” will be the opportunity for **like-minded third markets to adopt digital standards promoted by the EU and Japan**, and therefore to join a community of countries with compatible technologies and legislation which will ultimately facilitate trade and technology transfer, as well as the exchange of best practices.

7.3. CHALLENGES TO EXPECT

Companies involved in EU-Japan business cooperation in third markets are likely to encounter the following challenges:

- **Communication:** as trilateral partnerships involve three or more parties from different countries with sometimes different languages and cultures, communication can be a challenge. A good preparation ahead of the project is useful to avoid cultural faux pas and a good knowledge of English is necessary for all parties.
- **Lack of visibility of EU SMEs:** in the digital field, Japanese companies are often more familiar with Japanese, American, Asian and Israeli companies, rather than EU companies. The concept of the EU in general is often not well known, and **some Member States are usually more familiar than others**. Some EU Member States which are not well-known in Japan often have highly innovative SMEs that provide state-of-the-art technologies, and the challenge for these SMEs and EU trade promotion organisations is to not only promote the technologies, but also the country as a whole to **create awareness and trust on the Japanese side**.
- **Time:** partnerships between EU and Japanese companies often take time to be formalised, from a few months to a few years. Japanese companies in general tend to need time to **build trust and a relationship** with a company before agreeing on a partnership, whether the partnership takes place in Japan or in third markets. In addition, during the French-Japanese Business Summit 2020 organised on the topic of opportunities in Africa, Oussouby Sacko, president of Kyoto Seika University described Japanese companies as **less risk-oriented** than

other foreign companies, such as Chinese companies, when considering doing business in unfamiliar markets like Africa.¹¹⁵ According to Sacko, **Japan tends to provide development aid as a first step** in order to contribute to the development of the country and the improvement of the business environment, **with the aim to bring Japanese businesses in these markets at a later stage**. However, it is often **too late** as foreign companies like Chinese companies do not wait to start doing business in these “*high-risk*” markets. They are ready to deal with the risks little by little and are therefore far more present than Japan in Africa and other “*high-risk*” markets. Consequently, Japanese companies have been falling behind in terms of presence in some third markets as they usually require more information, more preparation and more insurance before agreeing on a project in unfamiliar third markets, which is often time-consuming.

7.4. HOW CAN EU SMES START BEING MORE INVOLVED?

EU SMEs interested in partnering with Japanese companies in third markets can make a first step in several ways as presented below.

7.4.1. Get in touch with relevant SME-support offices

EU SMEs can benefit from various services that support their international ambitions. Indeed, the EU has specific programmes and agencies in charge of supporting SMEs, such as the **Enterprise Europe Network (EEN)** which supports EU SMEs in finding partners and doing business abroad.¹¹⁶ EEN contact points are present in every EU Member States and are a first step toward internationalisation. The EU-Japan Centre for Industrial Cooperation is the EEN’s Japanese contact point and is therefore a relevant organisation to contact for EU SMEs looking for Japanese partners. In addition to bilateral business cooperation between EU and Japanese companies, **the EU-Japan Centre intends to launch activities dedicated to EU-Japan business cooperation in third markets**, which remains a topic that is not covered by most EU Member States. EU SMEs present in third markets and looking for investors and business partners, such as Japanese companies for example, for **concrete projects** can therefore **contact the EU-Japan Centre** for support in this regard.

EU trade promotion organisations in Japan and in third markets such as **chambers of commerce and embassies** also support EU companies in finding partners and are therefore relevant entities that can support EU SMEs. Few of them are currently working on connecting EU companies with Japanese partners in their respective third country, but being in touch with these entities is a first step to be involved in relevant events and to be introduced to big players in these third markets.

¹¹⁵ CCI France Japon (2020). *2020 French Japanese Business Summit: Key Takeaway Videos*. Interview of Oussouby Sacko in French language. Available at: <https://www.ccifj.or.jp/actus/n/news/2020-french-japanese-business-summit-key-takeaways-videos.html>

¹¹⁶ Enterprise Europe Network (2020). Enterprise Europe Network. Available at: <https://een.ec.europa.eu/>

7.4.2. Show your strengths

In order to acquire more visibility and to promote their strengths and technologies, EU SMEs can attend **matchmaking and pitching events**, organised either by private organisers or by SME-support offices like the Centre and EU embassies. Physical events are ideal as Japanese companies generally prefer physical meetings with potential partners in order to build trust and a relationship. Indeed, the relationship developed with a Japanese company is extremely important, often more important than the technology itself.

Thanks to the increase in virtual events during the COVID-19 pandemic, EU SMEs have been able to meet Japanese companies more easily by attending virtual networking events. **Virtual meetings do not replace physical meetings**, but it remains a **first step** toward a potential partner that can be followed by email exchanges and physical meetings once international business trips are possible again. Originally, the concept of virtual matchmaking and virtual pitching events is not widely known in Japan which makes the COVID-19 pandemic a delicate situation for EU SMEs looking for Japanese partners. Although Japanese companies have been adapting to the use of digital tools and more and more companies attend such virtual events, Japan in general has been lagging behind in the use of digital tools and the transition to virtual events. By combining support from organisations like the Centre and individual attendance to networking events, EU SMEs can increase their chances to find Japanese partners.

Finally, EU SMEs that are already successful in third markets can show their strengths by giving visibility to their actions and **future ambitions**. Promotion in **press articles**, in particular online, and participation to initiatives undertaken by **international organisations** and **multilateral development banks (MDBs)** will make it easier for Japanese companies to **find and trust** an EU SME in a third market if information is **available online** and if **large international organisations have supported previous projects**.

CONCLUSION: KEY TAKEAWAYS

TABLE XII: Strengths and complementarities of the Japanese and the EU sides

	
<ul style="list-style-type: none"> • Capital to invest • Expertise in the management of large projects (e.g. infrastructure) • Currently looking at emerging markets • Well accepted in most third markets 	<ul style="list-style-type: none"> • EU SMEs already active in third markets and looking to expand their business look for an investor to support their project.
<ul style="list-style-type: none"> • Gateway to Asia, in particular ASEAN, and the Pacific 	<ul style="list-style-type: none"> • Gateway to Eastern Europe, Western Balkans, Africa, Latin America and Central Asia
<ul style="list-style-type: none"> • Japan lagging behind in the digital field 	<ul style="list-style-type: none"> • EU SMEs are more advanced than Japanese companies in the development of innovative digital solutions

Figure 25. Key requirements for third-market partnerships

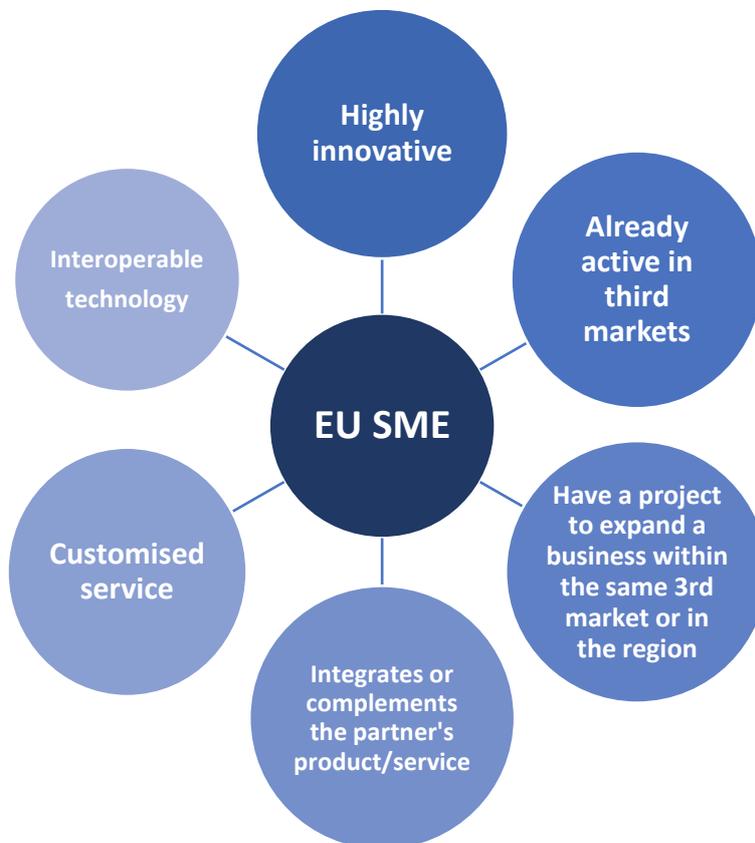


TABLE XIII: Key takeaways

Digital economy	<ul style="list-style-type: none"> • Digital solutions applied to other industries: cross-sectoral. • Not only the traditional IT / ICT sector. • Growing economy: businesses have to adapt. • Digital connectivity between countries.
Trilateral partnerships	<ul style="list-style-type: none"> • Trilateral approach with EU, Japanese and third-market partners.
Complementarity	<ul style="list-style-type: none"> • Consider Japanese companies as partners, not as competitors. • In the digital economy, there is often complementarity between one partner with a digital solution and one partner with an agricultural/medical/mobility solution. • Regional complementarity: Japanese companies well established in Asia-Pacific, EU companies well established in Eastern Europe, Western Balkans, Central Asia, Africa and Latin America. • EU SMEs already well-established in a third market might want to scale up their business in the same third market or in neighbouring countries by launching a large project that needs investors/buyers/technology partners/off-takers: large Japanese companies such as <i>sogo shosha</i> are relevant partners to consider.
Localisation	<ul style="list-style-type: none"> • Fit the local environment and the local lifestyle/people. • E.g. the case study of Simprints, NEC and GAVI shows that if there is not enough infrastructures to vaccinate all children under five years old, one must think out of the box. Instead of waiting for identification and medical infrastructures similar to Europe or Japan to be set up, the consortium created a new customised digital system that can help immunise children living in remote areas and in impoverished communities.
Address sustainability	<ul style="list-style-type: none"> • Sustainable Development Goals (SDGs). • Industry + Development = Compatible.
Digital standards	<ul style="list-style-type: none"> • EU and Japan are like-minded partners. • Work on digital standards with like-minded third markets to create a global harmonised digital ecosystem that will facilitate trade and exchange of information.
Importance of relationships with Japanese partners	<ul style="list-style-type: none"> • Build trust and a relationship is often a priority for Japanese partners.

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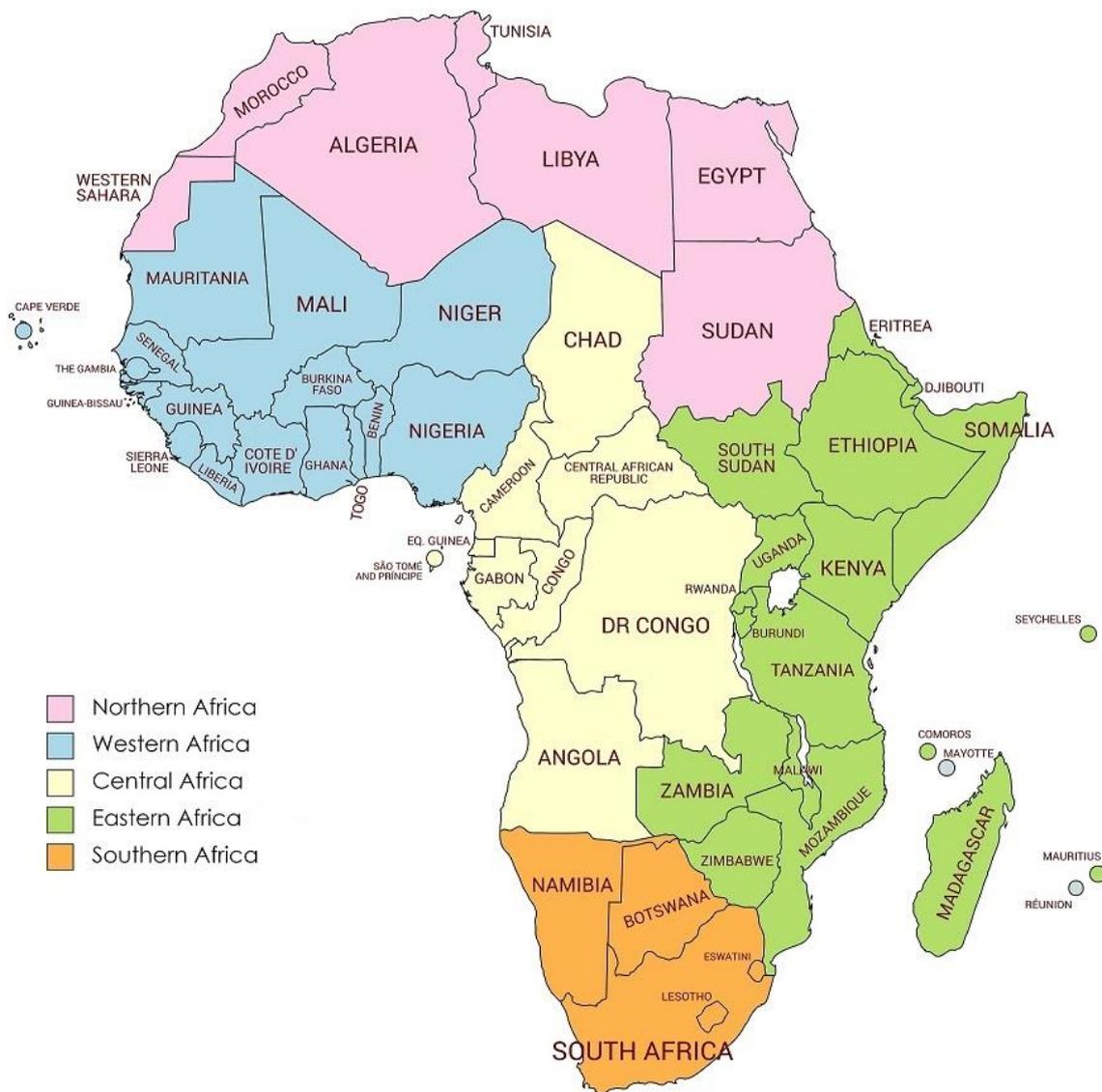
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ANNEXES

ANNEX 1: MAP OF AFRICA

The map shows the five African regions according to the data provided by the United Nations Statistical Commission.¹¹⁷



Created with mapchart.net

¹¹⁷ United Nations Statistical Commission (n.d.). *Methodology – Standard country or area codes for statistical use (M49) – Geographic Regions*. Available at: <https://unstats.un.org/unsd/methodology/m49/> (Accessed: 30 June 2020).