

JBIC Today

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Special Feature

The Exciting Russian Far East

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Determining the company's long-term strategy is key for financing of urban development projects



**JAPAN BANK FOR
INTERNATIONAL COOPERATION**

Japan-Russia Government Initiative Boosts Expectations Toward and Interest in Japan.

CEO, the Japanese Project Promotion Vehicle in the Far East LLC

Alexey Khachay

Intense gaze on QOL-related fields What is the potential for business in the Russian Far East?

In the Russian Far East, there has long been a strong need for and interest in Japanese technology and investment. Their desire of offering untapped markets to Japan seemed to strengthen after Japan proposed the Eight-point Cooperation Plan in 2016 and initiatives of both the Japanese and Russian governments were revealed. Specific markets include resource recycling, waste treatment plants, biofuel production, transport infrastructure improvement, greenhouse cultivation, and marine product development for the Japanese market. From the total number of projects that I have consulted on to date, the effect of the both

governments initiatives is quite apparent.

However, we cannot necessarily say that a sufficient number of those projects have come to fruition although the various business ideas have been proposed. One barrier that is impeding the progress of business may be the difference in the sense of speed between Japan and Russia. In Japanese companies, the process leading to the conclusion of a contract tends to take longer. There have also been cases in which, even though the project proponents had excellent technologies and schemes, they failed to make their proposal look attractive due to a lack of preparation, so they were unable to adequately respond to demand from the Russian side.

The approach to risk is also different. Certainly, advancing into the Far East does involve some risks, but there is no such thing as a business without risk, and it is the same in areas other than the Far East. What is important is to have measures in place to mitigate those risks in an unknown land. Being overly cautious from a fear of risk will only take up more time, so we recommend that Japanese parties find a local partner they can trust and ask us for support when necessary.

What kind of areas look promising? The Japanese people have this strong image that the Russian Far East is rich in natural resources, but the government is looking for ways to improve the quality of life (QOL) of the people of Russia and the Far East, so this is an area in which it may be easier to get projects going.

Greenhouse cultivation is one example. In Russia, it is difficult to grow produce in open fields year-round because of the climatic conditions, so it relies on imports for fresh vegetables. However, the balance between the quality

Mr. Khachay explaining to Japanese companies about the benefits of having a local partner they can trust

and price of imported produce is not appropriate. So, if we can use Japanese technology to establish greenhouse growing environments, it will be possible to distribute domestically grown vegetables of good quality.

There are also high expectations for medical-related technology and investment, and there is growing interest among the public in preventive medicine, which leads to extension of the average longevity. There is also strong demand for Japanese recycling technology that makes building insulation materials out of waste products (polystyrene foam). Another area we want to consider is the use of wood pellets made from the region's abundant wood supply.

Waste treatment and resource recycling should also become major markets. In the new urban zones, initiatives are being implemented to change the environment from a community-building perspective, such as apartment building management companies introducing bins for the trash separation.

We look forward to seeing Japanese companies move into various areas.

Bringing New Vitality to Hokkaido by Supporting Local Companies' Overseas Expansion

Executive Director, Hokkaido Corporation

SHOJI Takeshi

Approaching the issues from different angles from the large trading firms Something we can do precisely because of our close local ties

In the 2000s, there was much discussion about new globalization policies for local companies in Hokkaido in the context of local revitalization. Its geographical vicinity to Russia is one of Hokkaido's advantages. There have been trading firms that excel in business in China and Asia, but there were none that excelled in business with Russia, so, in 2015, with investments from the Hokkaido Bank, Ltd., producers' associations, and other investors, Hokkaido Corporation was established as an entity for realizing the globalization of Hokkaido.

Our first project was a greenhouse cultivation project in the Republic of Sakha. The project owners were originally considering the use of greenhouses made with glass from Europe, but because of the land's permafrost, the differences in temperature between the seasons caused the framework of the greenhouses to warp, breaking the glass. The Republic of Sakha, through the Hokkaido Bank, Ltd., consulted with our company about whether Japan might have a suitable technology. In Japan, stretchable fluorine-based films for agricultural use are used in greenhouses. We proposed this material because there is no concern about it breaking like glass, and I am pleased to say that our proposal was accepted. We were able to answer the wishes of the local communities, who want

to provide their children with safe vegetables to eat.

Another project that was quite rewarding involved onions. Onions are a popular vegetable in Russia as well, but the standards are not as strict as in Japan, which meant there is inconsistency of size, and spoiled onions can sometimes be found in shipments. When conducted some research with the aim of delivering delicious, Hokkaido-grown onions to Russia, we found that Russian consumers preferred smaller onions. This prompted us to take the small onions generated through the distribution process in Japan and export them to Russia. It took some effort to set up an export scheme, but the quality of the Japanese product was recognized, and we are now shipping to a large supermarket chain in Russia. Today, we export more than 200 tons of Kitami-grown onions annually.

As well as agricultural produce, we are involved in the marine product business. In Russia, salmon and trout farming is a popular business, and there are several hatcheries in the Far East. However, the equipment they are using is not necessarily the most up to date. One of our shareholders has been manufacturing hatchery equipment for more than 30 years, so we have taken on the role of a sales representative and made a proposal to introduce Japan-made equipment to the local hatcheries. As you know, salmon and trout are very popular in Japan, and they are imported in large quantities from Russia. If cutting-edge, Japan-made equipment were to become more widely used over there, productivity would increase, and Japan could import larger quantities of delicious salmon and trout. The equipment manufacturers would also be able to open up new markets for

their products in the Far East.

As these examples show, there will likely continue to be demand in businesses related to the local production activity in the future. The size of the market for food and daily necessities is determined by the size of the population, but there is still plenty of room to open up new business areas. I believe that the people over there are looking forward to the introduction of Japan-made equipment and systems that will help improve their productivity.

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on its website.
<https://hkdc.co.jp/en/>

One-Stop-Shop Service Meeting Diverse Needs Opening up Growing Asian Cosmetics Markets

Nihon Kolmar Co., Ltd.

Nihon Kolmar offers a one-stop-shop service to meet the diverse needs of its client companies, including planning, development, and manufacture of cosmetics.

It is now venturing into Southeast Asian markets, which show conspicuous growth, establishing a local subsidiary in Vietnam to join those in South Korea and China.

Leading contract manufacturer of cosmetics, whose strengths lie in technology and know-how accumulated over 100 years

There is a leading cosmetic company tucked away in Osaka. That company is Nihon Kolmar Co., Ltd.

“In addition to original equipment manufacturing (OEM), in which we conduct manufacturing based on the customer’s formula, we have established our own unique business model, which we call “original design manufacturing (ODM),” to provide various kinds of contracted services, including planning, concept design, formula development, packaging design, packaging



President and C.O.O., Nihon Kolmar Co., Ltd.
and Chairman, Kolmar Vietnam Co., Ltd.

KANZAKI Yoshihide

selection, and efficacy evaluation, as a one-stop-shop service.” So explains Nihon Kolmar President, KANZAKI Yoshihide, in his brief description of the company. The company has established a solid position as a leader in OEM and ODM in the cosmetics industry.

The company was founded in 1912. The current president’s grandfather, KANZAKI Yoshiomi, manufactured and sold his own brand of cosmetic products under the company name Kinryoen, but the Kinryoen factory burned down during the Second World War. After the war, president at the time made a fresh start specializing in contract manufacturing, taking advantage of the company’s experience of in-house product development. With OEM operations alone, the company would have been forced to compete on cost, so instead, it pursued its own value-adding efforts, which naturally led to a focus on ODM.

In 1968, the company formed a business alliance with an American OEM cosmetics manufacturer, Kolmar Laboratories, Inc., and changed its name to Nihon Kolmar in 1972. This alliance prompted the company to capture demand from European and American manufacturers that were entering the Japanese market during Japan’s period of high economic growth, and it started developing and manufacturing more diverse products.

Through these experiences, Nihon Kolmar has built up a wealth of advanced production equipment and human capital that is unrivaled by any other competitor. Today, it has production sites in seven locations in Japan, including Yao in Osaka Prefecture and Unnan in Shimane Prefecture. Although multi-location operations have some cost inefficiencies, they lead to greater stability of management. With its equipment and machinery, including in-house design facilities, Nihon Kolmar accommodates all kinds of production needs, from small lots to mass production, in a stable and flexible manner. While many OEM/ODM manufacturers specialize in development and manufacture in specific domains, Nihon Kolmar is the only company of its kind to handle all categories of cosmetic products, including skin care, makeup, hair care, body care, and fragrances. Its R&D staff account for approximately 15% of the company’s entire workforce, and the R&D headcount is comparable with some of the major cosmetics brand manufacturers. The R&D staff wear the same kind of workwear as the factory floor workers instead of white lab coats so that they can go to the production floor at any time. Nihon Kolmar also has a marketing department, a rarity among contract-only manufacturers, in which marketing staff who have transferred from the R&D department propose products from the developer’s

perspective, taking market trends and consumer tastes into account. It sends 1,000 SKUs of new products into the market every year.

By establishing production and R&D frameworks that are capable of accommodating client company corporate customers’ every need, it has built up a customer base of some 350-400 companies, including major Japanese and overseas manufacturers. In the year ended March 2020, it recorded net sales for Nihon Kolmar alone of about JPY47 billion, increasing its revenue for the 16th consecutive year.

Also meeting the needs of local companies overseas Establishes operations in Vietnam with sights on Southeast Asian market

While building firm foundations in Japan, Nihon Kolmar has also expanded into overseas markets from an early stage. “Around 1970, when we were still only the size of a small, neighborhood factory, our spirit of challenge led us to start exporting to the Philippines and Thailand. I understand that, because finished products attracted high tariffs, the raw materials would be prepared to a certain stage before being sent to those countries, where they would be made into the finished product,” recounts President KANZAKI.

From the 1990s, it started building production plants overseas and launched its global expansion with OEM/ODM in earnest. After learning that South Korea, which had previously had tight restrictions, would be permitting OEM of cosmetics, it established Korea Kolmar Co., Ltd. with a local partner in 1990. As a pioneer OEM/ODM company, it proceeded to capture business from Korean cosmetics manufacturers and opened up the market in that country.

In the mid-1990s, it began researching the possibility of entering the Chinese market. “We heard from companies that had entered the Chinese market before us that pressure from shareholders was so strong in China that, unless we had a wholly-owned subsidiary, it would be impossible to maintain corporate governance, so we awaited our chance.” In 1997, when restrictions on foreign capital were eased and it became possible for foreign entities to have 100% ownership, it established a subsidiary, Kolmar Cosmetics (Suzhou) Co., Ltd., in Suzhou, Jiangsu Province. In addition to Chinese cosmetics manufacturers, it captured OEM/ODM demand from companies in Hong Kong and those that had entered the market from other industries.



Left: The completed Vietnam factory. Operations will commence once permits and approvals have been obtained.
Above: Izumo Factory, which has obtained FDA (USA) approval

Following Korea and China, from the mid-2010s, Nihon Kolmar next set its sights on the rapidly growing Southeast Asian market. It determined that, given the similarities in skin types with the Japanese and the high degree of trust in Japanese products, it would be easier to establish a good reputation in that market. “Over several years, we researched the individual markets of the Southeast Asian region and the Indian market and, taking into account factors such as the living environment for Japanese staff to be posted there and the national character of the local populace, in 2017, we chose to locate our base of operations in Vietnam.”

In 2018, Kolmar Vietnam Co., Ltd. (KVCL) was established and the decision was made to build a factory on the outskirts of Ho Chi Minh City. Nihon Kolmar had met and had associated informally with JBIC at business association meetings and the like in the past, so it decided to use joint finance with them and Sumitomo Mitsui Banking Corporation.

“This was the first time we had done business with JBIC, but it proved very useful, as we were able to obtain the kind of information that could only come from a bank that had abundant experience in overseas loans. As our excellent partner, we look forward to receiving their support in areas besides financing.”

Construction of the Vietnam factory is already complete. Production will commence once the permits and approvals, including a Certificate of Eligibility for Cosmetic Manufacturing, have been obtained. Armed with the OEM/ODM skills and expertise it has refined over many years, the company hopes to venture into the Southeast Asian market and make even further leaps forward.

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- Employees
- 2,087(as of March 2020)
- Sales Volume
- JPY47.037 billion (Year ended March 2020; Nihon Kolmar(unconsolidated))
- Business Lines
- [1] Private Label Cosmetics R&D/Contract Manufacturing
- [2] Private Label Quasi-Drug R&D/Contract Manufacturing
- [3] Distribution of Materials related to Items 1 and 2
- [4] Import and Distribution of Foreign Cosmetics/Toiletries, and Pertinent Sub-Materials
- [5] Technical Services and Material Export to Overseas Cosmetics Manufacturers
- [6] Merchandising Health Foods & Beverages, and Soft Drinks
- [7] Manufacture and Distribution of Plastic Products

Generating momentum and sense of unity are essential to international negotiations



Director, Division 3, New Energy and Power Finance Department II

UCHINO Mika

I was involved in the establishment of the credit line for JBIC's Global action for Reconciling Economic growth and ENvironmental preservation (GREEN) operations with Corporación Andina de Fomento (CAF). This is JBIC's third GREEN financing to CAF, following similar loans extended in 2011 and 2016. Our main focus had previously been on projects that are effective in reducing

greenhouse gas emissions, but after the establishment of the Global Facility to Promote Quality Infrastructure Investment for Environmental Preservation and Sustainable Growth (QI-ESG) in 2018, we have expanded the eligibility for finance to projects that contribute to environmental preservation in a broader manner. This new scheme has allowed JBIC to finance a wider range of projects, such as water supply and water pollution prevention, through CAF. This is a major feature of this loan.

In Latin America and the Caribbean, with rapid economic growth and urbanization, there has come the need to develop infrastructure such as water and sewage systems and energy. Water supply and water pollution prevention projects are not only meaningful from an environmental perspective, but also are crucial in improving quality of life in the local community. They also contribute to the achievement of SDGs by the individual countries in the region. My job is to support these projects on the financial side, as well as to introduce outstanding Japanese technologies in the field of environmental preservation. It is a job I find extremely rewarding. Because of travel restrictions to some Latin American countries, in some cases, it is quite difficult for us to be directly involved. I believe that it is significant that working through CAF in these projects has enabled JBIC to help even in those regions that are more difficult to reach.

CAF's headquarters are located in Venezuela, where there is ongoing political

instability, but its operations are divided among other locations, such as Colombia and Peru. So, as well as having to coordinate with multiple locations, the novel coronavirus pandemic further complicated matters, and ultimately, we had to conduct the negotiations online while working from home. In circumstances where it is difficult to negotiate face-to-face, it is critical to generate the momentum to reach agreement and to move forward with a sense of unity with our counterparts. In addition to aiming towards a predefined signing date from an early stage, when CAF's President and CEO visited Japan and met with the Deputy Governor of JBIC, we agreed the importance of this project for both organizations, thus fostering awareness between us and our counterparts about making mutual efforts toward the early achievement of our goals.

Having said that, CAF is also a group of development finance professionals. Their way of negotiation is extremely rigid and it has been no easy task to break that down, but there are points on which we are never able to compromise, such as how to respond in the event that economic sanctions are imposed. While both sides made full use of their respective negotiating tactics, ultimately, we came to a satisfactory agreement on every matter and they were greatly appreciative. That sense of accomplishment in having find common ground with your counterparts as one team is indescribable and one of the best moments of this job.

Determining the company's long-term strategy is key for financing of urban development projects

Our team was engaged in providing finance for a real estate complex development by the Kajima Group in Myanmar. Myanmar has been achieving steady economic growth since its transition to civilian rule in 2011. Bordered by China, India, and Thailand, it is located in a geographically important area on both land and sea routes. There is strong potential for Myanmar's future growth to impact greatly on the growth of the entire Asian region, and the country could really be described as a frontier market.

Yankin Township in Yangon, where this project is planned, is an important location where business, housing, and administrative functions are concentrated. With the aim of well-ordered urban development in anticipation of future economic progress, the Government of Myanmar requested the Government of

Japan to propose a development plan for the project, which would serve as a model for public land development through public-private partnership. This eventually led to the adoption of a proposal by the Kajima Group, which has an abundant track record in development projects in Asia, North America, Europe, and elsewhere.

This project is a BOT* project extending for about 70 years (50 years after construction plus two 10-year extensions). As this is not the kind of project that is completed when a property is developed and sold, it requires looking closely at the future of Japan and Myanmar, and properly identifying and examining how the project should be positioned and tackled as part of the company's long-term strategy. After multiple discussions with the Kajima Group, we confirmed that their project had been meticulously designed with a vision that took the interests of all stakeholders into account, in addition to the general real estate development plan. With a key concept of "The Garden for the People," it strived to contribute to the local community, with such things as establishing a children's library and securing evacuation zones in the event of a disaster, and work on technology transfer to local students and architect-engineers. We also confirmed that this was a project that took global environmental preservation into consideration, such as the introduction of the Building Energy Management System (BEMS), which is being used in Japan.

The project matched exactly three of the action plans stated in JBIC's Third Medium-term Business Plan, namely,



UTSUNOMIYA Toshio, Deputy Director, Division 1, Corporate Finance Department (right) said, "Mr. KATO accurately identified the important points for the formation of this project and gave us appropriate advice from broader perspectives in a timely manner." SUENAGA Makoto (left) of the same division at the time, added, "It is precisely because Mr. KATO provided direction on issues where we were struggling to set the right direction that we were able to close these negotiations successfully."

*BOT (Build Operate Transfer): A form of project delivery in which a private entity is responsible for the construction, maintenance, management, and operation of a facility, and the ownership of the facility is transferred to a public agency or other entity after the project comes to an end.



Deputy Director General, Corporate Finance Department

KATO Taro

"To support Japanese companies in expanding into frontier markets," "To support infrastructure projects that are highly important on the policy front," and "To further promote global environmental preservation." Above all, we could sense from the Kajima Group's proposal their commitment and passion to mobilize all of the resources at their disposal to create the kind of urban environment that will be best for Myanmar and the region. We really wanted to contribute to the realization of the Kajima Group's magnificent goal, so we put all our energies into it.

Through several visits to Myanmar and Singapore, where I had multiple discussions and negotiations with the Kajima Group's people, I was able to see their passion for this project and their strong desire for our support. That was an invaluable experience for me. Ultimately, we were most delighted that we were able to meet their expectations.

Third Credit Line for CAF under GREEN Operations

JBIC signed on March 23 a loan agreement to set up a credit line totaling up to USD200 million (of which the JBIC portion is USD100 million) with Corporación Andina de Fomento (CAF). This credit line is intended to finance, through CAF, the necessary funds for environment-related projects in the Latin American and Caribbean member nations of CAF, as part of JBIC's Global action for Reconciling Economic growth and ENvironmental preservation (GREEN) operations. This loan follows similar loans made to CAF in March 2011 and April 2016. The credit line is co-financed with Mizuho Bank, Ltd. (lead arranger), The Juyo Bank, Ltd., The Bank of Yokohama, Ltd., The Hachijuni Bank, Ltd., The Bank of Saga, Ltd., and The Gunma Bank, Ltd. under JBIC's Growth Investment Facility. JBIC will also provide a partial guarantee for the co-financed portion.

<https://www.jbic.go.jp/en/information/press/press-2019/0324-013310.html>



Logo of Corporación Andina de Fomento (CAF)



Loan for Mixed Use Development Project by Japanese Company in Myanmar

JBIC signed on March 31, 2020 a loan agreement amounting up to USD 276 million (JBIC portion) with Kajima Myanmar Holding Pte. Ltd. (KMH) in Singapore, which is invested in by Kajima Corporation (Kajima) together with the Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development (JOIN). This loan is intended to finance the real estate complex development project by Kajima Yankin PPP Co., Ltd. (KYP), a subsidiary of KMH in Myanmar. The project, consisting of a hotel, a long-term stay hotel, offices, and commercial facilities, is planned in Yankin Township, Yangon, Myanmar.



Development and operation of real estate complex consisting of hotels, offices, and other facilities



<https://www.jbic.go.jp/en/information/press/press-2019/0331-013319.html>

The Eighth Annual Policy Dialogue Meeting between Mexico and JBIC

Discussing cooperation in the fields of infrastructure, energy and promotion of investment in Mexico

The Japan Bank for International Cooperation (JBIC) held the 8th annual policy dialogue meeting with the Government of Mexico in Mexico City on February 18, 2020. This annual policy dialogue meeting was organized based on the framework agreed upon in the Memorandum of Understanding signed on February 22, 2011, with the Ministry of Finance and Public Credit of Mexico.

With the signing of the revised United States-Mexico-Canada Agreement (USMCA) in late 2019 (entered into force on July 1, 2020), Mexico will face changes to existing supply chains due to stricter local procurement requirements, as well as an opportunity for further industrial diversification.

Officials from the Government of Mexico explained the concept of the national infrastructure plan of Mexico, details of the USMCA, the investment plans of Mexico's state-owned power company and its state-owned petroleum company, and both parties discussed ways to strengthen their cooperation based on these areas.



Participants of the 8th annual policy dialogue, including Dr. Herrera (Minister of Finance) and Dr. Marquez (Minister of Economy) from Mexico, MAEDA (Governor) from JBIC



The meeting was a forum for enthusiastic sharing of information and exchanges of opinions.



United Mexican States

Population

Approx. 126.19 million (2018, World Bank)

Area

1.96 million sq. km. (Approx. 5 times Japan)

Capital

Mexico City

Language

Spanish

Total nominal GDP 2018

USD1,223 billion (IMF)

Japan's major exports to Mexico

Automotive components, automobiles, steel flat roll products, etc.

Japan's major imports from Mexico

Electric equipment, scientific optical instruments, pork, etc.

Information from Ministry of Foreign Affairs unless otherwise noted.

Visit the address below for Topics about this matter

<https://www.jbic.go.jp/en/information/topics/topics-2019/0326-013320.html>



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