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2008

Asia

Web Trends

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ASIA OVERVIEW

Summary



A long-standing pioneer in mobile technology, the Asian region has matured into a dominant force in the growing online economy. This voracious rise has been fueled by the dropping cost of web access and extensive new infrastructure investments. An increased focus on web strategies by Asian businesses has also sparked a wave of native startups capable of taking on and beating giants such as Google.

China, Japan and Korea have all experienced rapid increases in broadband connectivity and the number of Internet users. Key trend indicators only point upwards as Asia's Internet penetration rates still average only 15% compared to 30% in the rest of the world. These three countries also collectively represent the largest mobile phone subscriber base in the world, mirroring their break-neck growth in desktop-based Internet usage.



Economists have highlighted that more people online does not automatically translate to Asian users following the online habits of their Western counterparts. As businesses' reliance on online revenue climbs, user experience, localization and cross-cultural branding become increasingly critical for growth and success.

Engaging non-English speaking audiences not only reaches target country audiences, but also taps the large pools of immigrants and expatriates abroad. The business opportunities stemming from that are most apparent in the United

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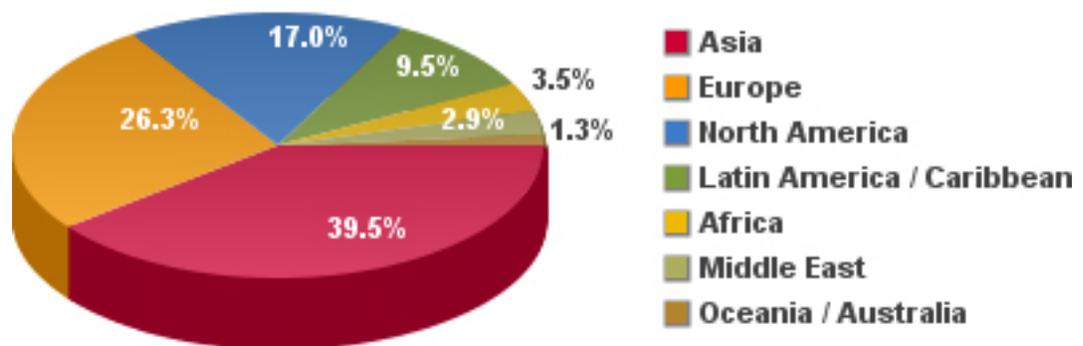
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States. According to the most recent census, Asian-Americans have a lower median age and higher median income compared against the total U.S. population.

Asia has a healthy online business environment that still has underdeveloped niche audience markets. Grabbing even small slices of this massive pie translates into lucrative sources for both traffic and revenue. Japan is the biggest market in the region with annual online sales averaging \$38.4 billion, making it more than 1/3 the size of the US market. Second is South Korea with sales of \$6.3 billion, followed by China and Taiwan tied for third, each with about \$1.1 billion.

World Internet Users by World Regions



Source: Internet World Stats - www.internetworldstats.com/stats.htm
1,463,632,361 Internet users for June 30, 2008
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Statistics

Estimated Population	<u>3.8 billion (2008)</u>
Number of Internet Users	<u>529.7 million (2008)</u>
Internet Penetration	<u>15.3% (2008)</u>
Broadband Internet Connections	<u>105.8 million (2007)</u>

Top Countries by Internet Users

<i>Country</i>	<i>Number of Users</i>	<i>% Growth (2000-2008)</i>
1) China	253 million	1,024.4%
2) USA	220.1 million	130.9%
3) Japan	94 million	99.7%
4) India	60 million	1,100%
5) Germany	52.5 million	118.9%
6) Brazil	50 million	900%
7) UK	41.8 million	171.5%
8) France	36.2 million	325.3%
9) South Korea	34.8 million	82.9%
10) Italy	34.7 million	162.9%

Number of Broadband Subscribers (2007)

<i>Country</i>	<i>Broadband Subscribers</i>	<i>% of Country's Internet Users</i>
1) United States	66,213,257	21.9 %
2) China	48,500,000	3.7 %
3) Japan	27,152,349	21.1 %
4) Germany	17,472,000	21.2 %
5) South Korea	14,042,728	27.4 %

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Number of Domains (2008)

1) 1,428,582,349	United States
2) 238,248,010	United Kingdom
3) 157,202,978	China
4) 147,679,910	Japan
5) 103,896,733	Germany
6) 80,689,620	France
7) 73,727,193	Canada
8) 64,361,101	South Korea
9) 40,817,650	Netherlands
10) 39,699,241	Italy

Top 10 Internet Languages

- 1) English
- 2) Chinese**
- 3) Spanish
- 4) Japanese**
- 5) French
- 6) German
- 7) Arabic
- 8) Portuguese
- 9) Korean**
- 10) Italian

Countries by Percentage of Users Shopping Online

- 1) South Korea (99%)**
- 2) UK (97%)
- 3) Germany (97%)
- 4) Japan (97%)**
- 5) US (94%)

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Summary

Although Japan has lost altitude as an economic powerhouse since the 1990's, it still ranks as the world's second largest economy after the United States. Japan is the number one consumer of brand names goods (40%+ of total), which is highly disproportionate to its population. The country is also the fourth largest exporter, sixth largest importer and a world leader in technology and machinery.

Those factors combined mean what Japanese users do or don't do online has a real impact on markets around the globe. This is especially clear in the mobile device department - the Japanese have a thriving keitai (multifunction smart phone) culture with the same number of users accessing the net through their keitai as desktop computers. This statistic makes the Japanese market fundamentally different from other markets.

A report by the Japanese government's Ministry of Internal Affairs and Communications found Japanese consumers check four retailers on average each time they research a product online. This is reflected in Internet advertising, which grew 24% in 2007. The innovative Quick Response (QR) barcodes for communicating product or service information via mobile devices has quickly become ubiquitous among successful Japanese businesses.

Social media is still evolving in Japan, but in ways that do not reflect the opinion transaction and viral growth patterns seen in English-speaking countries. The engagement level, however, is the highest in the world as indicated by Japan's 1.35 billion blog entries, which make it the world's number one blogging nation.

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Statistics

Population	<u>127.7 million (2008)</u>
Urban Population	<u>84.4 million (2005)</u>
	<u>85.4 million (2010)</u>
Native Japanese Living in North America	<u>396,000</u>
Japanese-Americans	<u>1.2 million (2000)</u>
Japanese Speakers (primary/native speakers)	<u>128 million</u>
Japanese Speakers (secondary/non-native speakers)	<u>2 million</u>
Japanese Speakers in U.S.	<u>804,000</u>
Number of Internet Users	<u>87.5 million (2007) 68% pop.</u> <u>95.4 million (2011) 75% pop.</u>
Internet User Growth	<u>99.7% (2000-2008)</u>
Home Internet Connections	<u>47.7 million (2007)</u>
Mobile Phone Subscribers	<u>152 million (2007)</u>
Number of 3G Users	<u>45.9 million (2006)</u>
Users Accessing Internet with Mobile Devices	<u>53.1 million (2007)</u>
Number of Domains	<u>147.7 million (2008)</u>
Number of Blogs	<u>244,000 (2008)</u>

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Top 10 Highest Traffic Sites (2007)

- 1) Yahoo Japan
- 2) Google Japan
- 3) Microsoft Network (MSN)
- 4) Rakuten
- 5) NTT Group
- 6) FC2
- 7) Nifty
- 8) Livedoor
- 9) Wikipedia Japan
- 10) GMO Internet Group

Top 3 Search Engines (2007)

- 1) Yahoo Japan
- 2) Google Japan
- 3) Windows Live Search (Microsoft)

Gross Domestic Product (GDP)	<u>\$4.886 trillion (2007)</u>
Total Ad Spending	<u>\$59.6 billion (2007)</u>
Online Ad Spending	<u>\$3.2 billion (2006)</u>
	<u>\$6.7 billion (2010)</u>
Mobile Ad Spending	<u>\$964 million (2008)</u>
	<u>\$2.7 billion (2011)</u>
Income Per Capita	<u>\$34,180 (2007)</u>
Disposable Income Per Capita	<u>\$21,576 (2006)</u>
Growth in Disposable Income	<u>3.9% (2001-2006)</u>
Average Annual Amount Spent Online Per User	<u>\$428 (2006)</u>
	<u>\$730 (2010)</u>
Retail E-commerce	<u>\$36 billion (2006)</u>
	<u>\$58.3 billion (2010)</u>

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Summary

China had a big year in 2008. Not only was it the host of the long awaited Beijing Summer Olympics; it also was the year China surpassed the United States on key web fronts. By a large margin the country now has the world's largest number of users online and highest number of broadband connections.

The Chinese telecom market is the largest in the world, and several new 3G networks were licensed and switched on this year, giving a large swath of that market higher data transmission speeds. The mobile sector is still expanding at 18%+ going into 2008.

Much is at stake in China, which has grown rapidly from a developing country to an economic powerhouse. According to a U.S.-China Business Council survey, 83 of the 100 U.S. firms responding were profitable last year in China. The country is not currently the biggest Asian market for online business, but it clearly has the most promise. A new middle class is emerging, and the country has experienced double digit growth in disposable income in urban areas. With only 19% of China's population online, the country's high web growth is likely to continue.

iResearch, a Chinese market research firm, estimated that China's e-commerce market will be worth \$6.5 billion by 2007, nearly a six-fold increase over 2004. China currently ranks number one worldwide in e-commerce for clothing and accessories. According to Access Markets International (AMI), small Chinese businesses are largely responsible for the projected 46% rise in e-commerce this year. Spending has mainly focused on services like Internet connections, online shopping and online games, but continues to expand incrementally towards higher cost products.

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China's online businesses previously heavily copied ideas from more developed markets, however, entrepreneurs are increasingly introducing non-derivative innovations. Although controversial actions by the Chinese government in respect to Internet companies such as Google, Yahoo! and Microsoft are problematic, overall, red tape hampering business has dissolved in most industries except banking and insurance. Jimmy Hexter, head of McKinsey's Beijing office, says finding and retaining talent topped concerns over government barriers for the first time this year.

As increasing numbers of Chinese go online, the real boom is likely to come in online advertising as China presently accounts for a slim 1.8% of total Internet market spending. This presents a window of opportunity to enter the market while cost and competition are both low. Total ad spending in China leapt to \$31 billion this year, in part due to the Olympics. Projections are that this wave of marketing is not a one-off event, but firms will continue to capitalize on their initial campaigns.

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Statistics

Population	<u>1.3 billion (2008)</u>
Urban Population	<u>530.7 million (2005)</u> <u>607.2 million (2010)</u>
Chinese Speakers in the U.S.	<u>1.7 million</u>
Chinese-Americans	<u>2.9 million (2000)</u>
Mandarin Speakers (primary/native speakers)	<u>882 million</u>
Mandarin Speakers (secondary/non-native speakers)	<u>178 million</u>
Cantonese Speakers Outside China	<u>66 million</u>
Number of Internet Users	<u>253 million (2008) 19% pop.</u>
Internet User Growth	<u>1,024.4% (2000-2008)</u>
Home Internet Connections	<u>84.7 million (2008)</u>
Mobile Phone Subscribers	<u>500 million (2008)</u>
Number of 3G Users	<u>22.7 million (2006)</u> <u>106.1 million (2008)</u>
Users Accessing Internet with Mobile Devices	<u>44 million (2007)</u>
Number of Domains	<u>157.2 million (2008)</u>
Number of Blogs	<u>47 million (2007)</u>

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Top 10 Highest Traffic Sites (2007)

- 1) Baidu
- 2) QQ
- 3) Sina
- 4) Sohu
- 5) 163
- 6) Taobao
- 7) Yahoo China
- 8) Google China
- 9) Google US
- 10) Tom

Top 3 Search Engines (2007)

- 1) Baidu
- 2) Google China
- 3) Yahoo China

Gross Domestic Product (GDP)	<u>\$3.251 trillion (2007)</u>
Total Ad Spending	<u>\$61.36 billion (2007)</u>
Online Ad Spending	<u>\$5.9 billion (2007)</u>
Mobile Ad Spending	<u>\$14.6 billion (2007)</u>
Income Per Capita	<u>\$31,610 (2007)</u>
Disposable Income Per Capita	<u>\$1,182 (2008)</u>
Growth in Disposable Income	<u>14.4% (2008)</u>
Average Annual Amount Spent Online Per User	<u>\$35.5 billion (2006)</u>
Retail E-commerce	<u>\$85.5 billion (2008)</u>

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Summary

South Korea is best described as the world's most connected society. It consistently tops key rankings such as internet access, broadband penetration, and mobile phone ownership. An astounding 90 percent of the country is 3G connected, and there is nation-wide coverage of South Korea's version of Wimax. South Korean mobile operator SK Telecom also launched the world's first commercial 3.5G service in 2008.

Despite being the easiest country in which to access the Internet, the government is discussing measures to curb online anonymity and debate. Although this makes it the first democratic government to do so, many predict the unpopular measures will fail.

The market has almost reached saturation in South Korea , with nearly the entire population carrying at least one mobile phone. This has proven to be a large factor driving South Koreans enthusiastic embrace of online shopping – the highest in the world with 99% of Internet users having purchased through a web store.

The downside to the above trends is that South Korea's economy has been stuck in low gear since the Asian economic crisis in the early part of the millennium. Disposable income is still limited, meaning online spending still focuses largely around gaming and low-margin high-volume products. According to ZenithOptimedia, internet ad spending reflects a thriving but competitive environment with its 40% growth to nearly \$10 billion.

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Statistics

Population	<u>49.2 million (2008)</u>
Urban Population	<u>38.7 million (2005)</u>
	<u>39.9 million (2010)</u>
Korean-Americans	<u>1.3 million (2000)</u>
Korean Speakers (primary/native speakers)	<u>77 million</u>
Korean Speakers (secondary/non-native speakers)	<u>2 million</u>
Korean Speakers in U.S.	<u>1.8 million</u>
Number of Internet Users	<u>34.4 million (2007) 67% pop.</u>
Internet User Growth	<u>82.9% (2000-2008)</u>
Home Internet connections	<u>95% (2008)</u>
Mobile Phone Subscribers	<u>38 million</u>
Number of 3G users	<u>6.3 million</u>
Users Accessing Internet with Mobile Devices	<u>22.14 million (2007)</u>
Number of Domains	<u>64.3 million (2008)</u>
Number of Blogs	<u>15 million (2005)</u>

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Top 10 Highest Traffic Sites

- 1) Naver
- 2) Daum
- 3) Yahoo! Korea
- 4) Cyworld
- 5) Empas
- 6) Nate
- 7) Youtube
- 8) Google
- 9) Google Korea
- 10) Tistory

Top 3 Search Engines (2008)

- 1) Naver
- 2) Daum
- 3) Empas

Gross Domestic Product (GDP)	<u>\$957.1 billion (2007)</u>
Total ad spending	<u>\$7.77 billion (2006)</u>
Online ad spending	<u>\$10 billion (2007)</u>
Mobile ad spending	<u>\$684 million by (2012)</u>
Income Per Capita	<u>\$14,780 (2008)</u>
Disposable Income Per Capita	<u>\$12,888 (2008)</u>
Growth in Disposable Income	<u>1.1% (2008)</u>
Average Annual Amount Spent Online Per User	<u>\$408 (2006)</u> <u>\$762 (2010)</u>
Retail E-commerce	<u>\$278 million (2002)</u> <u>\$390.3 million</u>

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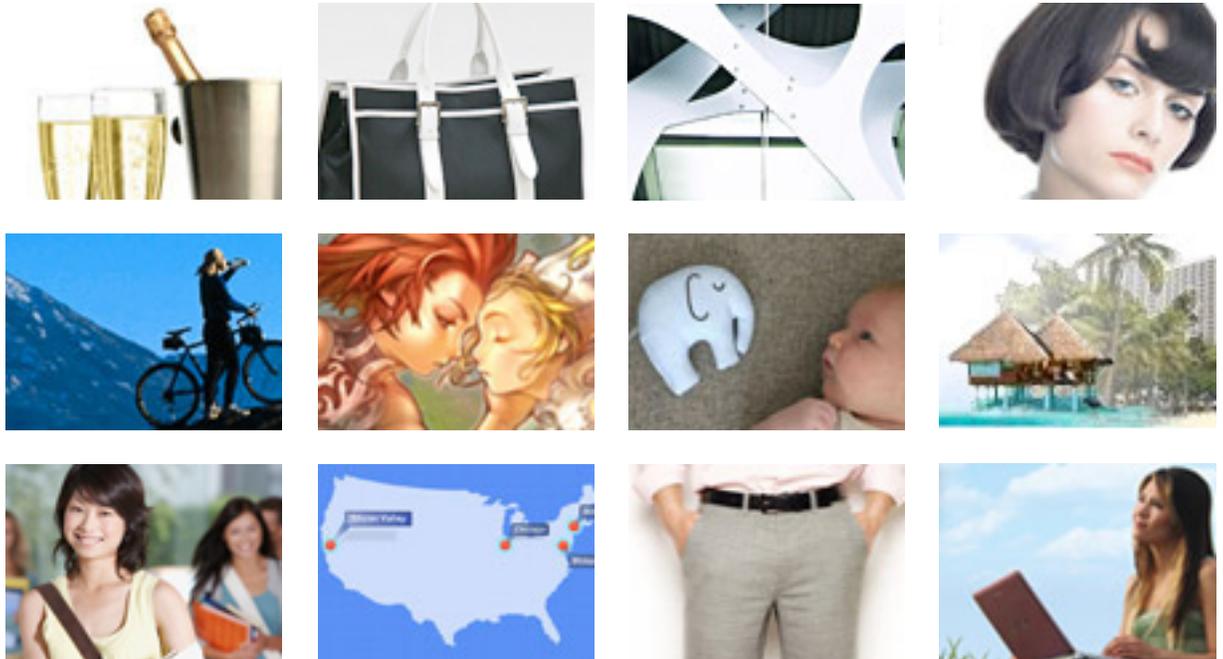
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btrax is a global web strategy and creative agency based in San Francisco. Our team members have backgrounds working for Google, Sony Entertainment, Fujitsu, Oracle, MIT and the United Nations. All of btrax's staff are bi-lingual or tri-lingual to ensure culturally relevant and practical business advice. Our native Japanese, Chinese and Korean professionals can provide comprehensive Asian consultation.

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