

# Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

—Results of the JBIC FY2014 Survey: Outlook for Japanese Foreign Direct Investment (26th Annual Survey)—

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## 1. Introduction

The Japan Bank for International Cooperation (JBIC) conducted a survey on trends in overseas business operations by Japanese manufacturing companies. As in previous years, this year's survey was sent out at the beginning of July and responses were collected by September (no. of target companies: 1,021, no. of valid responding companies: 617, valid response ratio: 60.4%). This year's valid response ratio once again exceeded 60%, after reaching 63.0% last year. As well as continuing to make efforts to make the survey easier to answer in the future, we would once more like to express our gratitude to the companies who cooperated in the survey.

This year's survey included the items normally asked each year, which include "Prospects for Overseas and Domestic Business Operations", "Evaluations of Overseas Business Performance" and "Promising Countries or Regions for Overseas Business Operations". Specific topics for this year were the "Competitiveness of Japanese Manufacturing Companies and Trends in Global Production Systems", and the "Involvement of Japanese Manufacturing Companies in Overseas Infrastructure-related Business".

## 2. Prospects for Overseas and Domestic Business Operations

The FY2013 overseas production ratio<sup>1</sup> was 35.2%, exceeding the actual FY2012 ratio (32.9%) by 2.3 percentage points. The overseas sales ratio<sup>2</sup> was 37.5% also exceeding the previous year's result (35.4%) by 2.1 percentage points. Both were record highs. This trend is unchanged in projections for FY2014, and over the medium term (to FY2017) the overseas production ratio is projected to climb to 39.9%, just short of the 40% level. Looking at the medium-term overseas production ratio by major industry, for electrical equipment & electronics it is projected to exceed 50%, and reach 52.3%. The overseas income ratio<sup>3</sup> has also been added to the survey starting this year. The actual ratio for FY2013 was 33.7%, which comes very close to the overseas sales ratio. Given these results, it can be said that the relative importance of overseas business is increasing for Japan's manufacturing industry.

In addition, regarding the medium-term prospects for over-

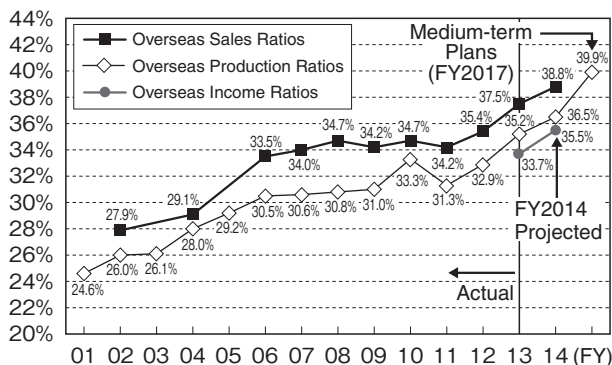
seas operations, 80.9% of respondent companies indicated "strengthen/expand", making this year the 5<sup>th</sup> consecutive year since the collapse of Lehman Brothers that over 80% have responded in this way, suggesting a continued strong overseas-oriented stance.

In terms of the medium-term prospects for domestic operations, 27.6% of respondent companies selected "strengthen/expand", which represents basically no change since the previous survey. Around 60% of the companies indicated that they were "maintaining the present level". Those indicating "scale back" declined to 7.3%, from 8.2% in the previous survey.

If we look at the mutual relationship between overseas business and domestic business, nearly 90% (88.0%) of companies indicating an intention to "strengthen/expand" their overseas business (484 companies) also indicated that they will "maintain" their domestic business at present levels or "strengthen/expand" it. This means that strengthening/expanding overseas business is not necessarily tied to scaling back domestic business.

- ※ 1 : (Overseas Production) / (Domestic Production + Overseas Production)
- ※ 2 : (Overseas Sales) / (Domestic Sales + Overseas Sales)
- ※ 3 : (Overseas Operating Income) / (Domestic Operating Income + Overseas Operating Income)

Figure 1. Ratios of Overseas Sales, Overseas Production and Overseas Income



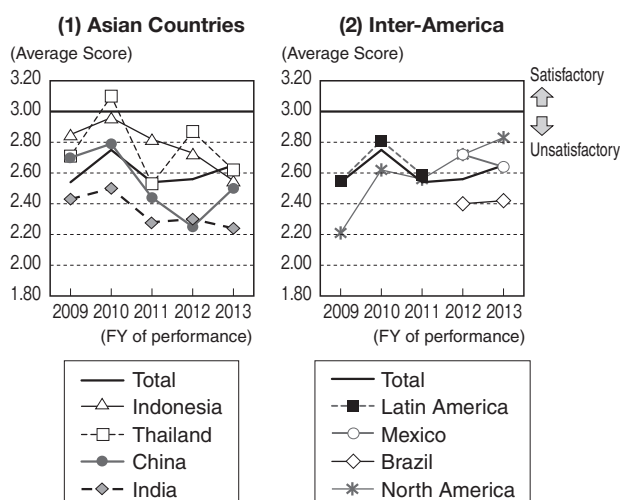
## 3. Evaluation of Degrees of Satisfaction with Profits (Actual Results for FY2013)

In the same way as previous years, this survey asked responding companies about their degree of satisfaction in profits by

country/region (applicable period: FY2013 annual closing of accounts). A five grade evaluation was applied. If the original plans for the year were fulfilled, the company awarded the evaluation of 3, if results were better than originally planned, the evaluation was 5 (satisfactory) or 4 (somewhat satisfactory) and if the plans were worse than originally planned, the evaluation was 2 (somewhat unsatisfactory) or 1 (unsatisfactory). The FY2013 results (average of all industry types) was 2.65, which is higher than the previous survey (2.56).

When we look at degrees of satisfaction with profits by region, North America (2.83), EU15 (2.79) and Central & Eastern Europe (2.77) all exceeded the overall industry average, with many respondent companies citing good performance of sales and foreign exchange gains as the reason. At the same time, the evaluation for Thailand, which exceeded the overall industry average in the previous survey, fell from 2.87 last year to 2.62, while, similarly, Indonesia also fell from 2.73 to 2.55, though it can be surmised that this reflects in both cases deceleration in their respective economies. The country/region with the lowest rating for satisfaction with profits was India (2.24), which remained at a low level. The country with the lowest rating in the last survey was China, but it improved from 2.25 to 2.50 in this year's survey. However this is still below the overall industry average (Figure 2).

Figure 2. Satisfaction with Profits (By region)



#### 4. Ranking of Promising Countries and the Impact of Recent International Affairs

##### (1) Outline of Ranking of Promising Countries

The respondents were each asked to name the top 5 countries/regions that they consider to have promising prospects for business operations over the medium-term (the next 3 years or so) and the results are shown in Figure 3. In this year's survey, India was ranked 1<sup>st</sup>, which has been the first case since the survey began. In 2<sup>nd</sup> place was Indonesia and China rose to 3<sup>rd</sup> from its 4<sup>th</sup> place in the previous survey. On the other hand, number of companies voting Thailand decreased

significantly and Thailand fell to 4<sup>th</sup> place. The difference in votes between India, Indonesia and China was not large and the voting ratio for top three countries was almost 45% and balanced out.

1<sup>st</sup> place India had been ranked 2<sup>nd</sup> from the FY2005 survey up through the previous survey, so its relative promise has been well regarded for some time. The number of companies voting for India in this year's survey increased to 229, from 213 in last year's survey, and 85.0% of companies indicating "promising" cited "future growth potential of local market" as the reason, so India continues to be highly appealing as a market. At the same time, 51.6% of the respondent companies cited "undeveloped infrastructure" as an issue.

Separated by a margin of just one vote, 2<sup>nd</sup> place Indonesia increased from 219 companies in the previous survey to 228 companies, and, like India, "future growth potential of local market" (85.5%) was cited as a reason, so Indonesia continues to be highly regarded. However, 44.1% of companies indicated "rising labor costs" as an issue, so Indonesia's appeal as a low-cost production base has been declining somewhat.

Figure 3. Promising Countries/Regions for Overseas Business over the Medium-term

Ranking	Country/Region (Total)	No. of Companies		Percentage Share (%)	
		2014 499	2013 488	2014	2013
1	India	229	213	45.9	43.6
2	Indonesia	228	219	45.7	44.9
3	China	218	183	43.7	37.5
4	Thailand	176	188	35.3	38.5
5	Vietnam	155	148	31.1	30.3
6	Mexico	101	84	20.2	17.2
7	Brazil	83	114	16.6	23.4
8	USA	66	54	13.2	11.1
9	Russia	60	60	12.0	12.3
10	Myanmar	55	64	11.0	13.1
11	Philippines	50	39	10.0	8.0
12	Malaysia	46	37	9.2	7.6
13	Turkey	26	23	5.2	4.7
14	Singapore	25	19	5.0	3.9
15	Cambodia	20	12	4.0	2.5
15	Korea	20	28	4.0	5.7
17	Taiwan	19	23	3.8	4.7
18	Germany	9	10	1.8	2.0
19	France	7	2	1.4	0.4
19	Saudi Arabia	7	4	1.4	0.8
19	South Africa	7	10	1.4	2.0

3<sup>rd</sup> place China was cited as promising, with "future growth potential of local market" (68.2%) and "current size of local market" (57.0%) as the top reasons. The main issues indicated were "rising labor costs" (75.4%), "intense competition with other companies" (58.8%) and "execution of legal system unclear" (54.3%).

Looking at the other ranked countries, Thailand, which was 3<sup>rd</sup> in the previous survey, and Brazil, which was 6<sup>th</sup>, were 4<sup>th</sup> and 7<sup>th</sup> respectively in this year's survey, as both countries lost votes and dropped one place. In Thailand's case, the worsening of domestic economic conditions and the recent

security/social instability were both likely factors. In Brazil's case, votes decreased from 114 to 83 companies, against a backdrop of stagnating economy in recent years and lower expectations for the future. By contrast, Mexico, which ranked 7<sup>th</sup> in the previous survey, increased its vote total from 84 to 101 companies in the current survey, eclipsing Brazil for 6<sup>th</sup> place.

Myanmar, which placed 10<sup>th</sup>, remained in the top ten after an 8<sup>th</sup> place finish in the previous survey, while the Philippines (11<sup>th</sup>) and Malaysia (12<sup>th</sup>) maintained the same position as in the previous survey. Singapore and Cambodia both rose from the previous survey, placing 14<sup>th</sup> and 15<sup>th</sup> respectively, as the presence of ASEAN countries continues to grow.

## **(2) Reasons for Not Listing as Promising Countries**

In the rankings of promising countries in the previous survey, votes for China and India decreased substantially (by 136 and 77 companies respectively compared to the FY2012 survey). In this year's survey, votes for both countries increased, but were still well short of their recent peaks (399 companies for China and 312 for India in FY2010). For India, Indonesia, China, Thailand and Vietnam, the countries in the top five promising countries over the medium term in the previous year's survey, the companies that did not cite them among the top five were asked the reasons why (with multiple responses possible).

The biggest reason companies gave for not listing China and Thailand was "we are already conducting business of a certain scale", with approximately half of the companies that responded selecting this reason. Many companies have already entered China and Thailand and this is likely why the countries are not seen as especially promising over the medium term. There were also many companies that indicated "local labor costs are rising" and "the local social/political situation is unstable". By contrast, for India and Vietnam, the most common reason was "we do not consider the country a target region for our company's business", with over 40% of responding companies giving this as a reason. "there is a lack of infrastructure in the area" was also cited by many responding companies. In Indonesia's case, the most common responses among companies were "we are already conducting business of a certain scale", and "we do not consider the country a target region for our company's business" (response ratios for both were around 30%).

## **(3) Impact of International Affairs**

In this year's survey, companies were asked whether recent international affairs were considered in their responses on the medium term prospects for overseas business operations (the next 3 years or so) in regions where business is being conducted or planned, in order to understand whether recent international affairs are indeed having an impact on the overseas business operations of respondent companies.

Looking at the results, there has been a high percentage of companies indicating that when considering their own business prospects they considered not only the political and

social situation in that country or region but also in countries and regions with strong economic ties to it. In particular, "political & diplomatic relations in China and ASEAN countries" and "trends in ASEAN economic integration" were widely indicated for NIEs3, China and ASEAN countries, "economic sanctions against Russia" for all regions of Europe, and "tapering of quantitative easing (QE) in the USA" for Asia, Europe and Latin America. So there is still widespread awareness of various situations occurring outside of the country or region where business is conducted or planned, particularly in countries and regions with economic ties to the country or region.

## **5. Competitiveness of Japanese Manufacturing Companies and Trends in Global Production Systems**

One of the topics in this year's survey was the "Competitiveness of Japanese Manufacturing Companies and Trends in Global Production Systems". Questions were asked on 1) competition in the global market, 2) local production and delivery (sales) within Asia – current and future, 3) prospect for division of labor in production system in Asia, 4) domestic and overseas production bases – trends in the division of roles, 5) research & development (R&D) bases in Japan and abroad – trends in the division of roles, and 6) current situation of R&D bases in Japan. This section is focusing on competition in the global market and trends in the division of roles between domestic and overseas production and R&D bases.

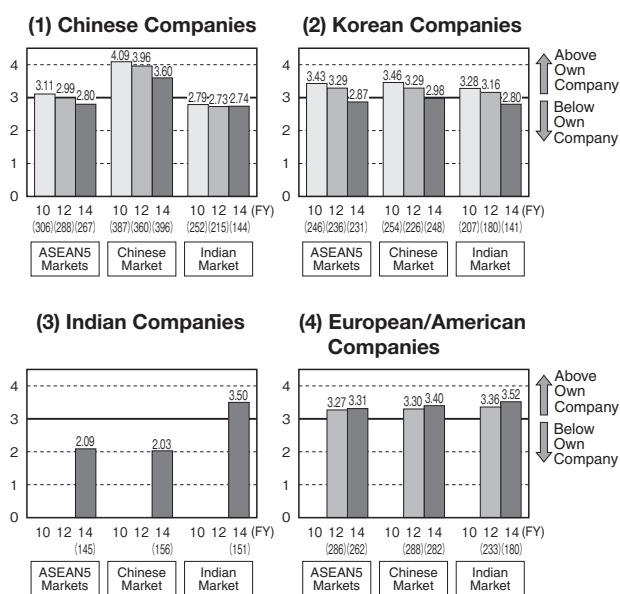
### **(1) Competition in the Global Market**

With regard to the competitors of Japanese companies in the global market (ASEAN5, China, India, North America, EU15 and Brazil), the biggest competitors in India, North America, EU15 and Brazil are European/American companies, which were indicated by responding companies in the following percentages, 54.5% for EU15, 48.7% for Brazil, 46.0% for North America and 27.9% for India. In the ASEAN5 market, the biggest competitors are other Japanese companies (32.2%), while in China and India, the strong presence of local companies as competitors was indicated.

Next, regarding the sales power of competitors in emerging Asian markets (ASEAN5, China, India), companies were asked to give Chinese, Korean, Indian and European/American companies in each market a rating of 1 to 5, with 3 the rating they would give their own sales power, meaning companies with higher sales power than one's own company would receive a 4 or 5 and those lower would receive 1 or 2 (Figure 4). The rating for European/American companies was "above own company" in the ASEAN5, China and Indian markets, and the level has risen since the FY2012 survey, indicating the heightened presence of European/American companies in these markets. By contrast, the ratings for Chinese and Korean companies have been trending downward in each of the markets since the FY2010 survey. In the Chinese

market, Chinese companies received a high rating of 3.60 points, but were below 3 in the other markets. Korean companies were below 3 in each market, as their rating has fallen significantly since the FY2010 survey. As reasons for rating one's own company's sales power higher than competitors, many companies cited high quality and good after-sales service, even more than they did the dwindling price gap caused by yen depreciation. Based on this result, it can be concluded that Japanese companies are regaining their confidence with respect to Chinese and Korean companies in Asian markets.

Figure 4. Estimation of Competitors' Sales Power in Emerging Asian Markets



## (2) Domestic and Overseas Production and R&D Bases – Trends in the Division of Roles

Regarding trends in the division of roles between the domestic and overseas bases of Japanese companies, the survey asked about both production bases and R&D bases. For production bases, companies responded regarding the current state of and long-term prospects (the next 5 years or so) for the roles required at bases in Japan, China, the ASEAN region, India and Europe/America with the roles of production bases divided into “top-runner base”, “innovation hub”, “core component production base”, “base able to respond to a variety of demands”, and “human resource training base”. Regarding bases seen as a “core component production base” and “base able to respond to a variety of demands”, the survey revealed a greater emphasis on bases in China and the ASEAN region in long-term, while with bases for innovation and human resources training, Japan was selected by over 60% of responding companies, indicating that bases in Japan will continue to play an important role.

With respect to bases for R&D, companies were asked to respond the current state of and long-term prospects (in five years or so) for the roles of bases in Japan, China, the ASEAN region, India and Europe/America for each stage of

research, which was divided into “basic research”, “applied research”, and “development research”. Response ratios for companies indicating Japan as the current base for R&D were 76.3% for basic research, 75.3% for applied research and 87.8% for development research—high levels across the board, as a majority of companies selected Japan for R&D. There is almost no change in this trend when the perspective is long-term, indicating that Japan will continue to play a central role in all stages of basic, application and development.

## 6. Involvement of Japanese Manufacturing Companies in Overseas Infrastructure-related Business

This year's survey asked about the involvement of Japanese manufacturing companies with respect to the overseas infrastructure-related business, a question also posed in the FY2011 survey.

Respondent companies were asked whether they think there are any business opportunities in the overseas infrastructure-related business, and 161 companies out of 574 (or 28.0% of the total) responded with “we consider it a business opportunity”, or “we more or less think it is a business opportunity”.

Regarding fields of interest, the most commonly cited response was photovoltaic power generation, the same as in the FY2011 survey. Urban railways, etc. was 2<sup>nd</sup>, followed by high-speed railways, sewage systems, roads and bridges, water supply, and wind-power generation.

Companies that had already entered a given field were then asked to evaluate their performance, and around 60% of the total responded with “better than planned”, or “according to plan”, indicating that business is proceeding smoothly for around 60% of these companies.

In response to the question on medium-term approaches to overseas infrastructure-related business, the percentage of companies indicating “supply of parts/component materials” and “supply of equipment/facilities” was relatively high in nearly all the fields, in part because the survey is administered to manufacturing companies.

Regarding collaboration with other companies in overseas infrastructure-related business, among companies with an interest in such business, 27.0% responded they are already “collaborating” with other companies and 10.8% that they are “considering collaboration”. As collaboration partners, Japanese companies were most common, being cited by 76.6% of the question's respondents. Looking only at companies “considering collaboration”, the same number of companies indicated Japanese companies as indicated a company from an emerging country. As to the purpose of the collaboration, the most common response was “to acquire customers and sales channels”, and the next most common responses were “to acquire technology and know-how” when the collaboration partner was a Japanese or European/American company, and “to improve cost competitiveness” when the partner was a company from an emerging country.