

Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

—Results of the JBIC FY2017 Survey:

Outlook for Japanese Foreign Direct Investment (29th Annual Survey)—

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1. Introduction

The Japan Bank for International Cooperation (JBIC) has released its “Survey Report on Overseas Business Operations by Japanese Manufacturing Companies.” For this year’s survey, as in other years, questionnaire forms were sent out beginning in July, and responses were collected through up to September (number of companies mailed: 1,001, number of companies providing a valid response: 602, valid response rate: 60.1%). JBIC would like to express its appreciation to the companies that cooperated with this survey.

In this year’s survey, the companies were given questions regarding the survey’s usual topics of “Evaluations of overseas business performance,” “Overseas business prospects,” and “Promising countries/regions over the medium-term,” as well as individual subjects such as “Services provided by, and services received by manufacturing companies” and “Business management of overseas bases.”

2. Ratios of Overseas Production, Overseas Sales and Overseas Income

The overseas production ratio¹ in FY2016 was 35.0%, which fell from FY2015 (35.6%). Meanwhile, it is expected to increase to 38.5% in mid-term plans (FY2020), showing that Japanese manufacturing companies’ intention to expand overseas production has not changed. In FY2016, the ratio of overseas sales² was 38.5%, and the overseas income³ was 35.7%, each decreasing from the previous year by 1.1 points and 0.7 points. Nevertheless, they are expected to increase again in FY2017 (Figure 1).

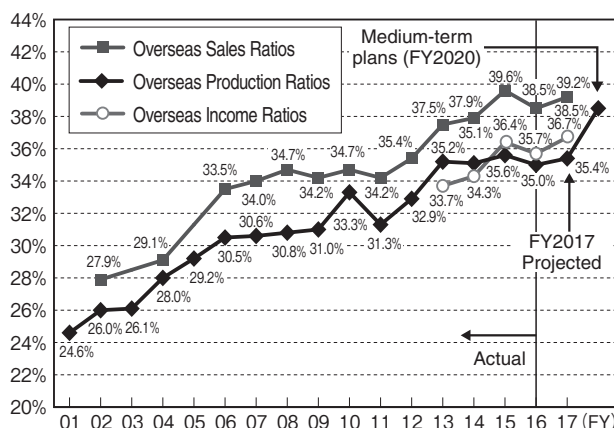
Out of the four major industries (automobiles, electrical equipment & electronics, chemicals, and general machinery), overseas production ratio in FY2016 was highest for “automobiles” with 46.2%. The FY2017 forecast was 46.6% and medium-term plans was 47.4%, showing that the automobile industry intends to maintain a high overseas production ratio going forward.

Note 1: (Overseas Production) / (Domestic Production + Overseas Production)

Note 2: (Overseas Sales) / (Domestic Sales + Overseas Sales)

Note 3: (Overseas Operating Income) / (Domestic Operating Income + Overseas Operating Income)

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



3. Medium-term Prospects for Overseas Operations and Domestic Operations

The ratio of companies that responded “Strengthen/expand” for overseas operations over the medium term (next 3 years or so) was 72.1% (Figure 2). The ratio of “Strengthen/expand” intention has been gradually declining from the peak of 87.2% in FY2011, and there appears to be a slowdown in the Japanese manufacturing companies’ intention to strengthen overseas operations. In interviews with companies that

Figure 2. Medium-term Prospects (next 3 yrs or so) for Overseas Operations

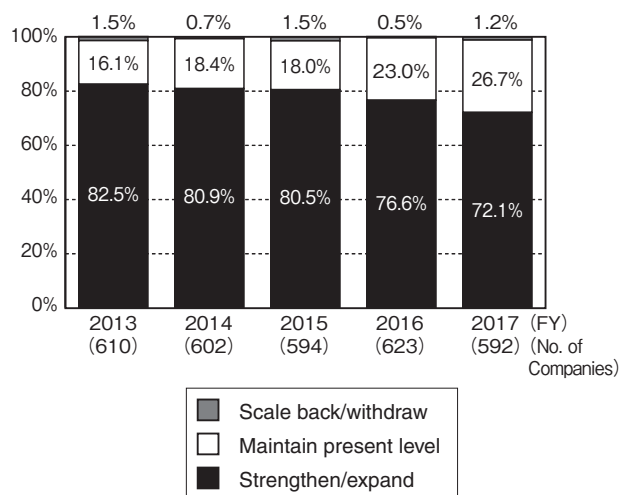
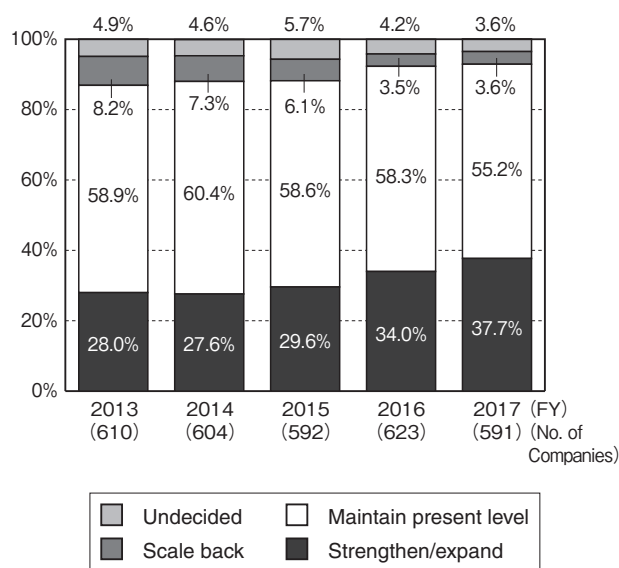


Figure 3. Medium-term Prospects (next 3 yrs or so) for Domestic Operations



responded “Strengthen/expand” for the previous year and “Maintain present level” for this year, their reasons for changing answers included “to consolidate manufacturing bases,” “to focus on existing bases,” “insufficient global human resources,” and “uncertain international situation.”

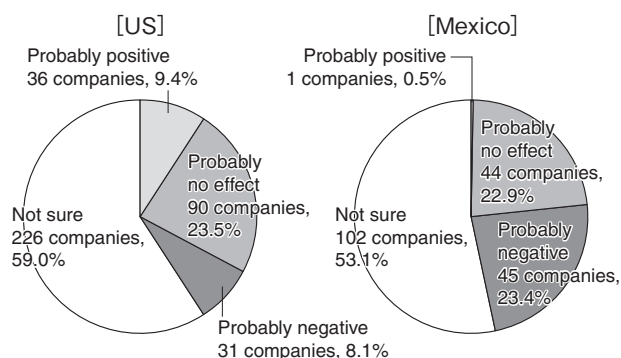
The ratio of companies that responded “Strengthen/expand” for domestic operations over the medium term has been in a gradual increasing trend, increasing by 3.7 points from 34.0% in the previous year to 37.7% in FY2017 (Figure 3).

4. Effects of the Trump Administration and Brexit

Companies were asked about the effects of the Trump administration on their business in NAFTA member countries (the United States, Canada, and Mexico). As for the effect of the Trump administration on business in the United States, “Not sure” took first place (59.0%), and this was followed by “Probably no effect,” “Probably positive,” and “Probably negative” (Figure 4). As for future business development, companies appear to be making judgments carefully by paying close attention to policy trends. Among the four major industries, general machinery had the highest response ratio of “Probably positive.”

As for the effect of the Trump administration on business in Mexico, while the most common response was “Not sure” at

Figure 4. Effect of the Trump Administration



53.1%, the response rate of “Probably negative” was high at 23.4%, and the result differed from those of the United States (Figure 4). Looking at the results by four major industries, the response rate of “Probably negative” was high in electrical equipment & electronics and automobiles, amounting to 28.6% and 26.5%, respectively.

Companies were also asked about the effect of Brexit on business in the United Kingdom and in EU15 excluding the United Kingdom (hereinafter referred to as “EU14”). For the United Kingdom, over half of the companies responded “Not sure,” and more than 20% responded “Probably negative,” while for EU14, the response rate for “Probably negative” was only 9.9%. Looking at the effect of Brexit in the United Kingdom by the four major industries, the response rate of “Probably negative” was highest in chemicals, at 29.4%.

5. Rankings of Promising Countries

The respondent companies were each asked to name five promising countries/regions for overseas business over the medium-term, and the tallied results are shown in Figure 5. China took first place for the first time in five years. Its percentage share rose 3.7 points from the previous year to 45.7%. Over 90% of the companies that named China as a promising country responded that it is promising in terms of sales, and thus there continue to be high expectations regarding China as a huge market.

India, which came in first place for the third consecutive year until last year, fell to second place this year. Although its percentage share dropped by 3.7 points, it remained above 40%, and thus it continues to gain high expectations for business from the respondent companies.

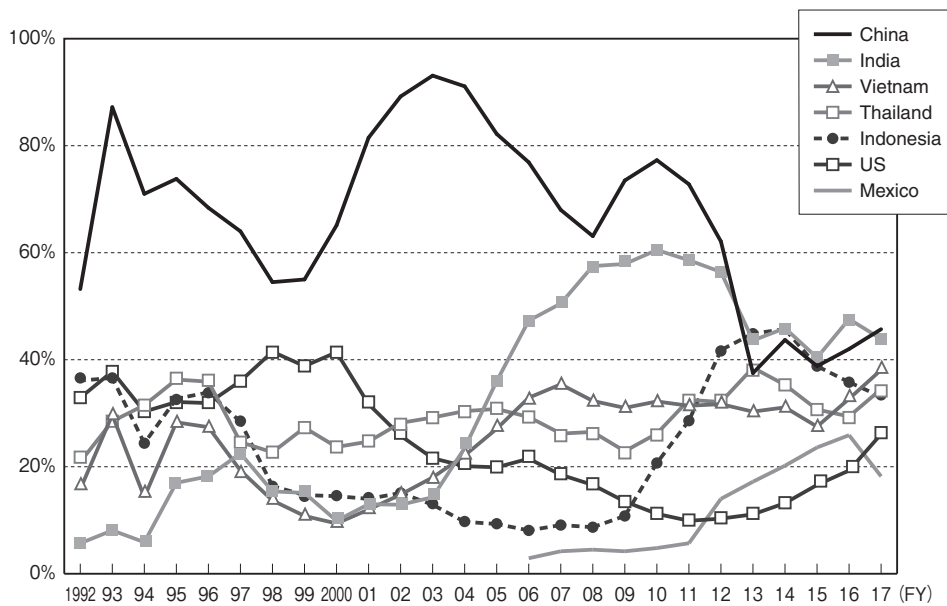
The third place country was Vietnam, which had a percentage share of 38.1%, up 5.4 points from the previous year, and increased for the second year in a row. Thailand rose from fifth place in the previous year to fourth place, and its per-

Figure 5. Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs or so)

Ranking	Country/Region (Total)	No. of Companies		Percentage Share (%)	
		2017	2016	2017	2016
2017 ← 2016		444	483		
1 ▲ 2	China	203	203	45.7	42.0
2 ▼ 1	India	195	230	43.9	47.6
3 ▲ 4	Vietnam	169	158	38.1	32.7
4 ▲ 5	Thailand	153	142	34.5	29.4
5 ▼ 3	Indonesia	147	173	33.1	35.8
6 ▲ 7	US	116	93	26.1	19.3
7 ▼ 6	Mexico	81	125	18.2	25.9
8 — 8	Philippines	47	51	10.6	10.6
9 — 9	Myanmar	40	49	9.0	10.1
10 — 10	Brazil	28	35	6.3	7.2
10 ▲ 16	Korea	28	15	6.3	3.1
12 ▼ 11	Malaysia	26	33	5.9	6.8
13 ▲ 15	Russia	19	17	4.3	3.5
14 ▼ 12	Singapore	17	23	3.8	4.8
14 ▼ 13	Taiwan	17	22	3.8	4.6
16 ▼ 14	Germany	13	20	2.9	4.1
17 — 17	Turkey	12	12	2.7	2.5
18 ▲ 19	Australia	10	11	2.3	2.3
18 ▲ 29	Canada	10	3	2.3	0.6
20 ▼ 17	Cambodia	9	12	2.0	2.5

* Percentage share = $\frac{\text{No. of respondents citing country/region}}{\text{Total No. of respondent companies}}$

Figure 6. Top 7 Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs or so): Percentage Shares



percentage share increased significantly from 29.4% to 34.5%.

Indonesia, which was previously in third place, fell to fifth place this year. Its percentage share declined from 35.8% in the previous year to 33.1%, falling for the third year in a row.

The sixth place country was the United States with a percentage share of 26.1%, up 6.8 points from the previous year. Its margin of increase was the highest among all the countries and regions. Meanwhile, Mexico fell from sixth place in the previous year to seventh place. Its percentage share, which was in an increasing trend since 2012, fell significantly from the previous year (7.7 points) to 18.2%. The ratings of the United States and Mexico were divided reflecting concerns regarding the policy trends of the Trump administration of the United States.

The Philippines came in eighth place and Myanmar came in ninth place, both keeping the same spots that they had in the previous year. Like FY2016, Brazil came in 10th place, but its percentage share (6.3%) has been declining since 2011. South Korea, which previously came in 16th place, rose in the ranking, taking a spot in the top 10 for the first time since 2006, 11 years ago (Figures 5 and 6).

6. Services Provided by Manufacturing Companies

As for services provided by Japanese manufacturing companies, in this year's survey, companies were asked what kind of services they currently provide in each countries/regions (Japan, North America, Europe, China, India, and Other Asian Countries). In all of the countries/regions, "Maintenance and after-sales services" had the highest response rate, followed by "Customization services" and "Consulting and solution services." "Providing knowledge and/or technologies to other companies" were being provided more in emerging countries such as China and Other Asian Countries compared to developed countries, and the response rate of "Product rental, leasing, sales finance, etc." was low in all the countries/regions. While the response rate of "Providing val-

ue for customers using big data and/or IoT" is currently low, the percentage is in a rising trend in future plans in all of the industries, and intention to strengthen such services was particularly high in general machinery.

As for the reasons for providing services, the top reason was "Essential for selling products" (88.7%), followed by "To differentiate ourselves from other companies" (55.2%) (Figure 7). Meanwhile, as for challenges in providing services, "Intense competition with rival companies" (64.4%) had the highest response rate, followed by "Lack of experts

in the field" (50.8%) (Figure 8). Moreover, the reasons and challenges for providing services differed somewhat depending on

Figure 7. Services Provided by Manufacturing Companies (Reasons)

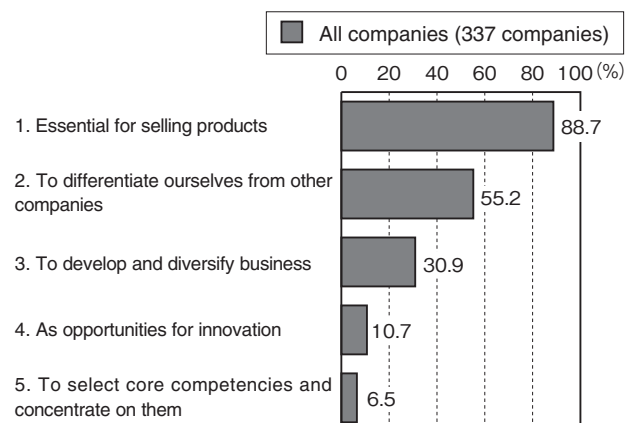
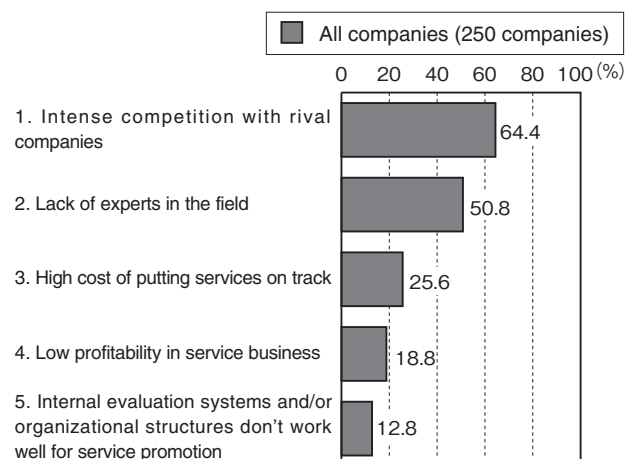


Figure 8. Services Provided by Manufacturing Companies (Challenges)



the type of services. For example, “Providing value for customers using big data and/or IoT” tends to be carried out in “To develop and diversify business” but “Lack of experts in the field” is a challenge. On the other hand, “Solution services” are provided in order “To differentiate ourselves from other companies” but “Intense competition” is a challenge.

7. Services Received by Overseas Affiliates of Manufacturing Companies

As for services received by manufacturing companies overseas, the respondent companies were asked whether they are currently receiving services or not, the types of the firms/companies that provide the services (Japanese, local, or European/American), and the quality of services, each for the different major local markets.

For “Legal/accounting/tax services,” a high ratio of companies used local firms/companies in Europe, North America, and China, and as for the quality of services, Japanese firms/companies were rated relatively highly.

As for “Logistics services,” in all of the markets, local companies were used slightly more than the other companies. As for quality, Japanese logistics companies were rated relatively highly, and such companies were praised for providing careful and attentive service when delivering delicate and fragile products and products requiring temperature management.

As for “Marketing/advertising services,” outsourcing was not common. “Design services” were not used by most of the companies overseas either, showing that most of them are carrying out design internally.

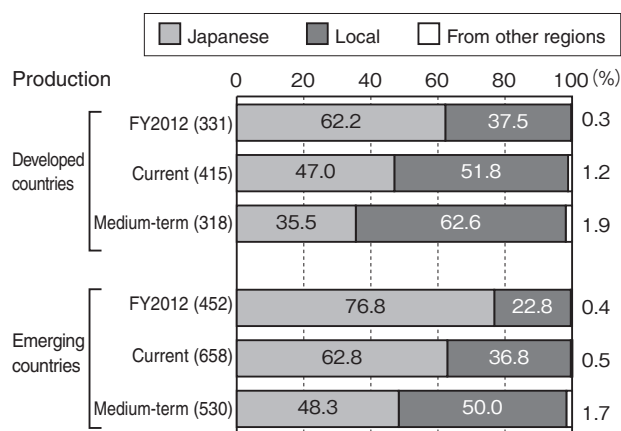
8. Business Management of Overseas Affiliates

In regard to “Transferring of headquarters functions to overseas affiliates,” companies are moving ahead with transferring headquarter functions to emerging countries, especially product design functions and procurement functions. As for headquarter functions in emerging countries, when compar-

ing this year to FY2013, the ratios of companies that have transferred these functions nearly doubled for each function. Over the long term, data shows that the transferring of product design functions to emerging countries will progress further, suggesting that companies are intending to strengthen their ability to develop products that meet the needs of each of the emerging countries (Figure 9).

When looking at who has the substantial responsibility in the companies’ overseas affiliates, comparing this year to FY2012’s similar survey, the ratio of companies with locals holding substantial responsibility is in an increasing trend. Over the medium term, localization is expected to proceed especially in functions such as production, and more than half of the top-level personnel will be locals (Figure 10).

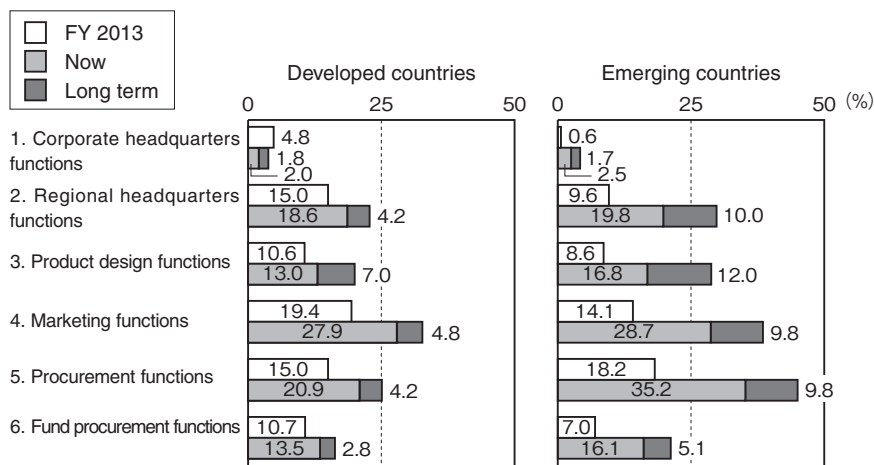
Figure 10. Who has Substantial Responsibility in Overseas Subsidiary



As for challenges related to human resource management at overseas bases, for managers and engineers, more than half of the companies that responded to this question chose “Finding/hiring/retaining qualified human resources,” and for workers, about 60% of the companies named “High turnover rate” as a challenge. As for initiatives taken to promote and train local human resources, responses such as

“Training at headquarters/regional bases” and “Standardizing work processes and sharing management policies globally” had high response rates. As for managers in particular, initiatives such as “Delegation of authority to, and job promotion for, local staff” are being carried out. It appears that especially in the field of procurement and marketing, Japanese companies are focusing on utilizing local human resources who know well about local circumstances.

Figure 9. Transferring of Headquarter Functions



No. of respondent companies: FY 2013 Developed countries 164, Emerging countries 172
 Now Developed countries 214, Emerging countries 279
 Long term Developed countries 87, Emerging countries 148