Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

—Results of the JBIC FY2016 Survey: Outlook for Japanese Foreign Direct Investment (28th Annual Survey)—

Research Division, Policy and Strategy Office for Financial Operations
Japan Bank for International Cooperation

1. Introduction

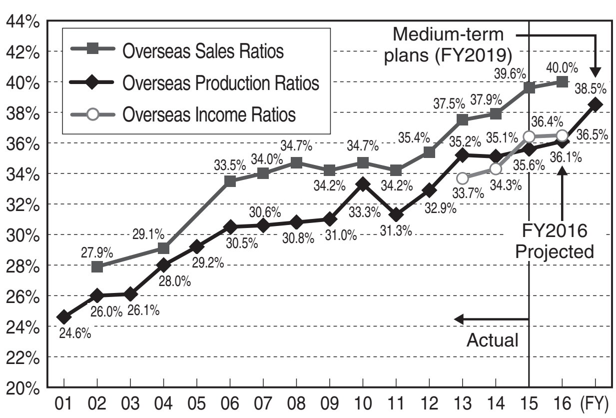
The Japan Bank for International Cooperation (JBIC) has released its "Survey Report on Overseas Business Operations by Japanese Manufacturing Companies." For this year's survey, as in other years, questionnaire forms were sent out beginning in July, and responses were collected in September (number of companies mailed: 1,012, number of companies providing a valid response: 637, valid response rate: 62.9%). JBIC would like to express its appreciation to the companies that cooperated with this survey.

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

In the FY2015 results, the overseas production ratio[1] was 35.6%, and this was up slightly from the FY2014 results (35.1%). Meanwhile, in the FY2015 results, the overseas sales ratio[2] was 39.6% and the overseas income ratio[3] was 36.4%, and these increased year-on-year by 1.7 points and 2.1 points respectively. As such, there was a trend in which Japanese manufacturing companies expanded overseas production and boosted the positioning of their overseas business operations in terms of sales and income (Figure 1).

As for overseas production ratio (FY2015 results), out of the four major industry types (automobiles, electrical equipment & electronics, chemicals, and general machinery), automobiles had the highest at 46.8%. Meanwhile, as for equipment & electronics, ratios of overseas production and overseas sales have both been above 40% since eight years ago, and there have not been any significant changes since then.

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



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)

3. Medium-term Outlook regarding Overseas Operations and Domestic Operations

The ratio of companies that responded "Strengthen/expand" overseas operations in regard to medium-term prospects (next 3 years or so) was 76.6% (Figure 2). Although this was the first time that the ratio fell below 80% since the survey in FY2009 following the collapse of Lehman Brothers (65.8%), it remains at a high level.

Looking at the response ratio of "Strengthen/expand" regarding domestic operations, there was a significant decline to 27.2% in FY2009 following the collapse of Lehman Brothers, and in FY2011—the year of the Great East Japan Earthquake—and FY2012, the results were over 25%. Subsequently the ratio hovered between 25% and 29% for a while,

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

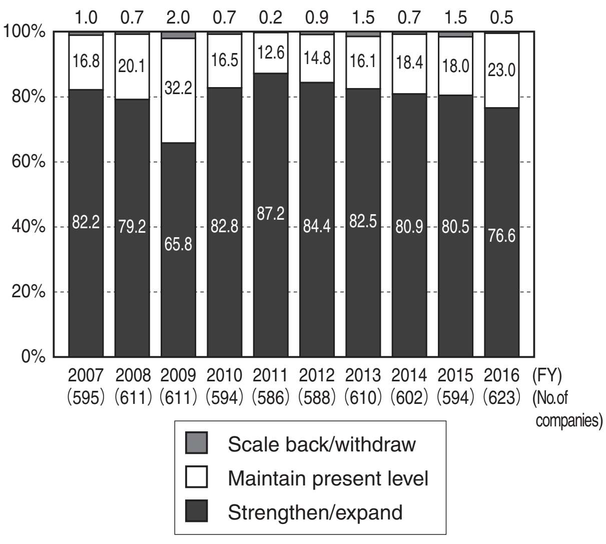


Figure 3. Medium-term Prospects (next 3 yrs. or so) for Domestic Operations

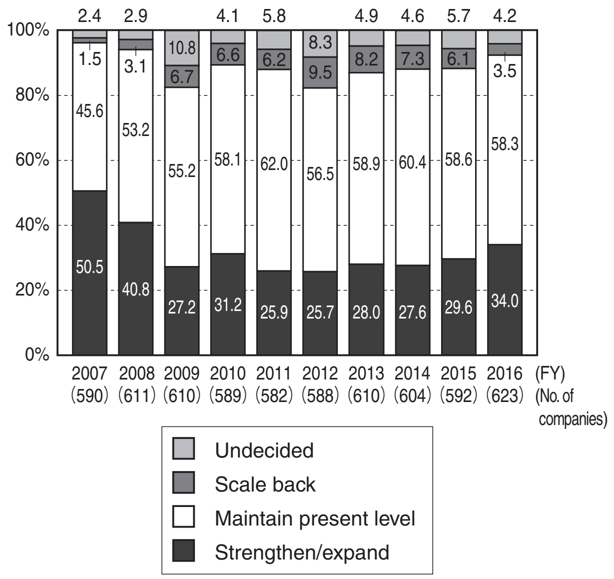


Figure 4. Promising Countries/Regions for Overseas Business over the Medium-term

Ranking 2016 ← 2015			Country/Region (Total)	No. of Companies 2016 (483)	No. of Companies 2015 (433)	Percentage Share (%) 2016	Percentage Share (%) 2015
1	—	1	India	230	175	47.6	40.4
2	—	2	China	203	168	42.0	38.8
3	⬇	2	Indonesia	173	168	35.8	38.8
4	⬆	5	Vietnam	158	119	32.7	27.5
5	⬇	4	Thailand	142	133	29.4	30.7
6	—	6	Mexico	125	102	25.9	23.6
7	—	7	USA	93	72	19.3	16.6
8	—	8	Philippines	51	50	10.6	11.5
9	⬆	10	Myanmar	49	34	10.1	7.9
10	⬇	9	Brazil	35	48	7.2	11.1
11	—	11	Malaysia	33	27	6.8	6.2
12	⬆	13	Singapore	23	20	4.8	4.6
13	⬆	16	Taiwan	22	16	4.6	3.7
14	⬆	17	Germany	20	14	4.1	3.2
15	⬇	12	Russia	17	24	3.5	5.5
16	⬇	14	Korea	15	17	3.1	3.9
17	⬇	14	Turkey	12	17	2.5	3.9
17	—	17	Cambodia	12	14	2.5	3.2
19	⬆	24	Australia	11	4	2.3	0.9
20	⬆	27	Iran	8	3	1.7	0.7

but in the FY2016 survey it stood at 34.0%, and thus recovered to 30% or above for the first time in six years (Figure 3).

4. Rankings of Promising Countries

The respondent companies named five promising countries/regions for overseas business over the medium-term, and the tallied results are shown in Figure 4. The first place country was India for the third consecutive year. Its percentage share rose by 7.2 points from the previous year (40.4%) to 47.6%.

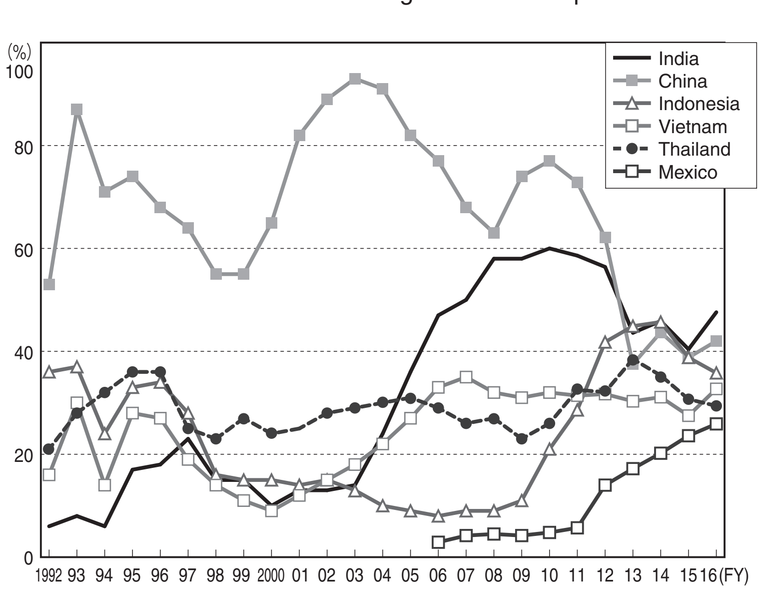
Like the previous year, the second place country was China, and its percentage share increased by 3.2 points from 38.8% to 42.0%. Harsh aspects of the business environment in China were mentioned, such as the economic slowdown and rise in personnel expenses, but it appears that 4 out of 10 companies have high expectations regarding China.

Indonesia was tied with China for second place in the previous year, but it dropped to third place this year. Indonesia's percentage share stood at 35.8%, with about one-third of the respondent companies viewing it as promising, but it seems that local business development has been difficult, and the percentage of companies achieving income as initially planned has been in a declining trend over the past several years.

The fourth place country was Vietnam, and its percentage share was 32.7%, up 5.2 points from the previous year. This was the second largest gain after 7.2 points for India. Thailand, which was in fourth place in the previous year, fell to fifth place. The Philippines was in eighth place last year and kept that ranking, and Myanmar, which was in tenth place in the previous year, moved up one spot to ninth place.

Among the top 10 promising countries over the medium-term, seven were Asian countries, and Mexico took sixth place and USA took seventh place. Mexico kept its same ranking, but both the number of responding companies and its percentage share increased from the previous year. Looking at the trend regarding its percentage share, there appears to have been a sharp rise starting in FY2012 (Figure 5). There are particularly high expectations regarding Mexico in the automobile industry, and looking at the results by industry, Mexico was the first-place promising country over the medium-term in "automobiles" for the second year in a row. Nevertheless, this survey was conducted before the presidential election in the United States, so it will be necessary to pay

Figure 5. Promising Countries/Regions for Overseas Business over the Medium-term: Percentage Shares of Top Six Countries

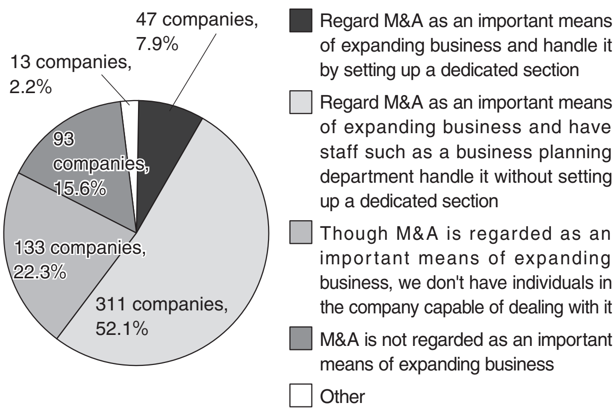


attention to the policy trends of the Trump administration in the United States going forward.

5. Status of Cross-border M&A and Issues

While business expansion using M&A has been increasing in recent years, the response ratio of "recognize M&A as an important means for expanding business" accounted for 82.2% of the whole, up 5.4 points from the previous year, and thus it appears that M&A is being increasingly widely recognized as a means of expanding business. In addition, in regard to the state of companies' handing of M&A, 60% of the respondent companies are dealing with M&A, answering either "have a dedicated M&A section" (7.9%) or "corporate staff is in charge of M&As" (52.1%), up from the level in the previous year's survey (Figure 6). In regard to areas that the companies thought they inadequately handled in implementing overseas M&A, the responses "Analyze synergetic effect well enough" and "Prepare/carry out post-merger integration (PMI) well enough" were given.

Figure 6. Positioning of Cross-border M&A (all companies)



6. Supply Chain Modalities and Issues

As for supply chain modalities, in this year's survey, questions were asked regarding issues, procurement policies, and risk tolerance. In regard to supply chain issues, "Easily affected by foreign exchange risk" was the most common response at 58.9%. The other responses were "The supply chain is not being managed sufficiently by headquarters because of an increase in suppliers and in cross-border transactions" (23.1%) and "Unable to sufficiently understand the risk of supply disruptions" (21.5%) (Figure 7). Out of the four major industry types (automobiles, electrical equipment & electronics, chemicals, and general machinery), automobiles had the highest ratio of companies that responded "The supply chain is not being managed sufficiently by headquarters because of an increase in suppliers and in cross-border transactions" (37.7%).

As for procurement rate, responses that the rate of local procurement in the medium-term will increase amounted to 71.8%. The companies were asked what they take into consideration when deciding on regions where they will increase their rate of procurement from, and most of the companies responded that they focus on prices of raw materials, parts, etc. (80.1%) and their quality (83.7%). The companies that responded that they focus on shipping cost (32.1%) or shipping time (15.4%) were asked whether they took into consideration FTAs and EPAs, including the TPP, and the majority of the companies (50.7%) responded that they did.

Figure 7. Supply Chain Issues

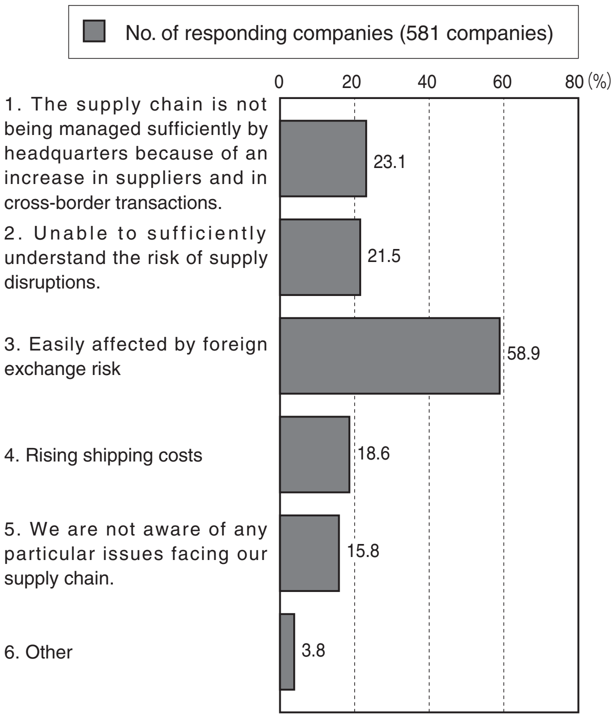
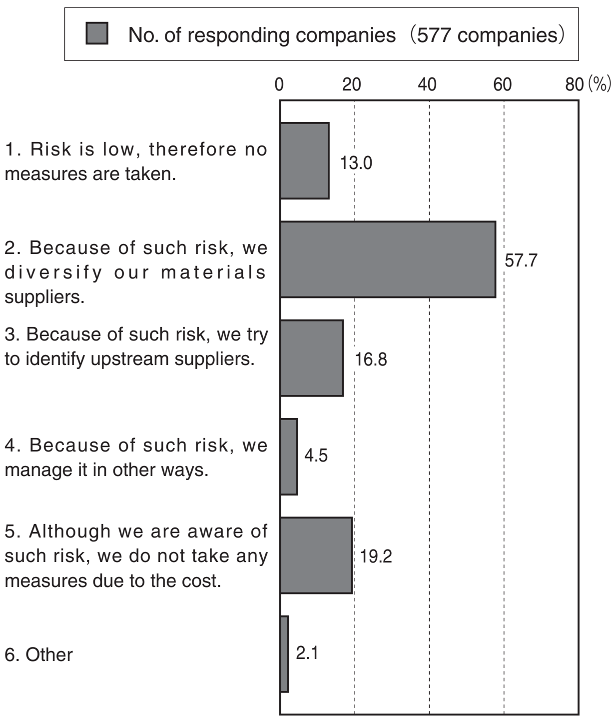


Figure 8. Supply Chain Risk Resilience



Furthermore, in regard to supply chain risk resilience, the companies were asked how they manage the risk of supply disruption caused by earthquakes, floods, fires, or other force majeure, and the most common response was "Because of such risk, we diversify our materials suppliers" at 57.7%. The other responses were "Although we are aware of such risk, we do not take any measures due to the cost" (19.2%) and "we try to identify upstream suppliers" (16.8%) (Figure 8).

There was a higher percentage of the "we do not take any measures due to the cost" response among mid-tier firms/SMEs (28.5%) than large corporations (15.1%), and among the four major industry types, the response "we try to identify upstream suppliers" was highest in "automobiles" (32.1%).

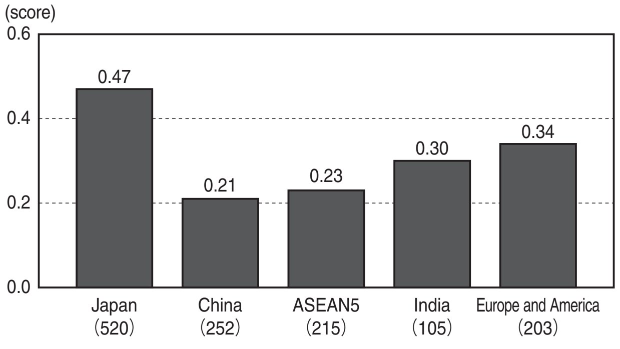
7. Roles of Production Bases and R&D Bases

As for the roles of production bases in Japan, 60.4% of companies gave the response "To improve the production process and bring these improvements and know-how to other production bases," and 60.4% gave the response "To train human resources/To transfer skills."

The majority of the companies in China, ASEAN5 and India gave the response "To produce products which meet the needs of the market" or "To produce products at low cost," while 70.3% of the companies in Europe and America, gave the response "To produce products which meet the needs of the market," followed by "To produce innovative products" at over 30%.

Looking at the medium-term budgets of R&D bases by region, the most common response was "this will be increased in Japan," and thus Japan will continue to play a central role in R&D (Figure 9). Nevertheless, among "automobiles," there appeared to be a trend of increasing the R&D budget in Europe and America. As for ways in which companies want to strengthen R&D, "Focusing on innovative products" was the most common response at 73.6%, and in China, ASEAN5, India, and Europe and America, the most common response was "Focusing on developing products that meet market needs."

Figure 9. Medium-term Budget of Research and Development Bases



(Note 1) The point average is calculated with "increase" as +1, "maintenance of the status quo" as 0, and "decrease" as -1.
(Note 2) The figures within the parentheses are the numbers of responding companies.

8. Competition in the Global Market

As for the competitors of Japanese companies in the global market, as in the results of the survey the year before last, the largest competitors in the markets of India, North America, EU15, and Brazil are European/American companies. The biggest competitors in the ASEAN5 market are Japanese companies, and the biggest competitors in the China market are Chinese companies.

In an assessment of competitiveness in Asian emerging markets, assessments of European/American companies were mostly on par with those of respondent companies (but there were assessments of "above own level" regarding brand strength). Nevertheless, in regard to Chinese companies and Indian companies, the assessments of price competitiveness were considerably higher than those of the respondent companies.

The companies were asked about what efforts they were taking to increase market share. The responses were: "Develop/produce products that meet local customer needs" and "Strengthen price competitiveness," and applied to efforts over the past three years, and indicated priorities for the next three years. It appears that in the next three years, more focus will be given to the efforts "Enhance quality of local human resources" and "Give chances of promotion to local staff/managers" than in the past three years (Figure 10).

From the perspectives of reducing costs and maintaining and boosting the motivation of local human resources, the development and promotion of local human resources at overseas production and sales bases will be an issue.

Figure 10. Efforts Having Impact on a High Sales Share of Major Products