

Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

—Results of the JBIC FY2013 Survey: Outlook for Japanese Foreign Direct Investment (25th 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: 992, no. of valid responding companies: 625, valid response ratio: 63.0%). This year's response ratio was almost as high as the record response ratio of 63.4% achieved in 2004, due in part to the introduction of the option to respond using the internet from this 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.

In addition to the same categories as previous years such as "Prospects for Overseas and Domestic Business Operations", "Evaluations of Overseas Business Performance", "Promising Countries or Regions for Overseas Business Operations", this year's survey added categories such as "Business Prospects in China" in order to look at the impacts of current relationships with neighbouring countries. In addition, there were questions on individual themes such as "Infrastructure Needs & Issues in Business Operation Countries" and "Global Management Issues and Future Strategies".

2. Prospects for Overseas and Domestic Business Operations

The FY2012 overseas production ratio was 32.9%, exceeding the actual FY2011 ratio (31.3%) by 1.6 percentage points. The overseas sales ratio (actual results) was 35.4% also exceeding the previous year's results (34.2%) by 1.2 percentage points. The overseas production ratio fell to 31.3% in the previous survey due to the impact of the Thai flood crisis and a decrease in demand for products with high overseas production ratios such as HDDs (Hard Disk Drives) but it recovered to the 2010 survey level (33.3%) in this year's survey. Furthermore, a medium-term (FY2016) increase in the overseas production ratio to 38.6% is projected. 82.5% of responding companies chose "strengthen/expand" for prospects for overseas business over the medium term, maintaining a continued high level. It can be said that the overseas operations of Japanese manufacturing companies are in a continued trend of expansion.

If we look at medium-term domestic business prospects, 28.0% of companies responded that they would "strengthen/expand", the first increase in this ratio in three years.

There has also been a recovery of business confidence in domestic business with a turnaround in medium-term domestic prospects in a wide range of industry types.

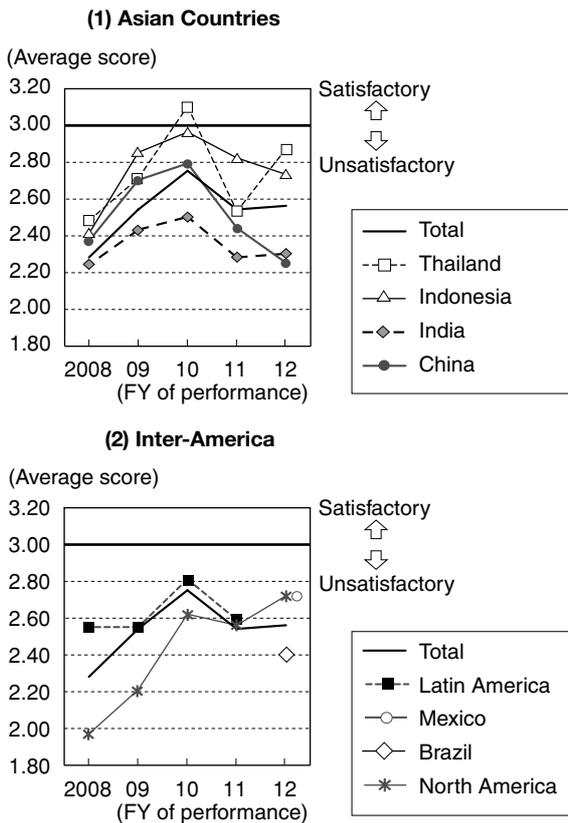
If we look at the mutual relationship between overseas business and domestic business prospects, approximately 90% of companies that will "strengthen/expand" overseas business will either "maintain" or "strengthen/expand" domestic business. Approximately 85% (591) of responding companies responded that there was some kind of impact of overseas business operations on domestic operations when asked about specific impacts in this year's survey. These impacts were, in order from high to low, "information, etc. obtained from overseas business will contribute to domestic business development" (38.2%), "increase in no. of employees with overseas business experience will improve domestic organizational strength" (36.0%) and "streamlining of domestic business" (33.5%). The expansion of overseas business was shown to contribute to a quantitative expansion in domestic business in a number of different ways with almost 40% of companies in general machinery responding that increases in exports to customers, etc. led to "increase in domestic production of the company's products". In overseas business operations, there had been always the image that know-how that was cultivated in Japan was transferred abroad but there were cases in which know-how obtained in overseas operations has contributed to domestic business. It was observed that a positive cyclicity is being created between overseas and domestic businesses.

3. Evaluation of Degrees of Satisfaction with Profits (Actual Results for FY2012)

In the same way as previous years, this survey asked responding companies about their degree of satisfaction in profits by country/region (applicable period: FY2012 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 FY2012 results (average for all industry types) were almost the same as the previous survey (2.54) at 2.56 (Figure 1).

When we look at degrees of satisfaction with profits by

Figure 1. Satisfaction with Profits by Region



region, we see, first of all, that Thailand and Indonesia were the two countries/regions that exceeded the averages in all industries (2.87 and 2.73 respectively) and, in particular, Thailand recovered from the impact of the 2011 floods and had the highest degrees of satisfaction of all the target countries. Meanwhile, the country/region with the lowest degrees of satisfaction with profits was China (2.25), the lowest of all the target countries due to the boycott of Japanese products since last summer, etc. By industry, the most remarkable result was the decrease in degrees of satisfaction in automobiles (2.66→2.16). Moreover, degrees of satisfaction with profits in India (2.30) remained stagnant, the lowest result after China. Outside of Asia, North America (2.72), Mexico (2.72) and Russia (2.60) exceeded the all industry average for degrees of satisfaction with profits.

4. Ranking of Promising Countries and Reasons for Reduction in China's Voting Share

(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 2.

In this year's survey, China, which had held the top rank since 1992 when the survey took its current form, fell to 4th place. India maintained its 2nd place but its number of votes fell (290→213 companies). In such circumstances, Indonesia rose to 1st place and Thailand took 3rd place with the voting share for the 4 highest ranking countries balanc-

Figure 2. Promising Countries/Regions for Overseas Business over the Medium-term

Ranking	Country/Region (Total)	No. of Companies		Percentage Share (%)	
		2013	2012	2013	2012
		488	514		
1	Indonesia	219	215	44.9	41.8
2	India	213	290	43.6	56.4
3	Thailand	188	165	38.5	32.1
4	China	183	319	37.5	62.1
5	Vietnam	148	163	30.3	31.7
6	Brazil	114	132	23.4	25.7
7	Mexico	84	72	17.2	14.0
8	Myanmar	64	51	13.1	9.9
9	Russia	60	64	12.3	12.5
10	USA	54	53	11.1	10.3
11	Philippines	39	21	8.0	4.1
12	Malaysia	37	36	7.6	7.0
13	Korea	28	23	5.7	4.5
14	Taiwan	23	22	4.7	4.3
14	Turkey	23	23	4.7	4.5
16	Singapore	19	16	3.9	3.1
17	Cambodia	12	13	2.5	2.5
18	Germany	10	6	2.0	1.2
18	South Africa	10	3	2.0	0.6
20	Laos	9	3	1.8	0.6

ing out at around 40% (Figure 2).

The number of votes for top-ranked Indonesia increased slightly in comparison to the previous survey from 215 to 219 countries. The result is that Indonesia is seen as attractive due to its large market with a population of 250 million shown by the fact that over 80% of companies that regarded Indonesia as promising gave "future growth potential of local market" as the reason for this. However, the impact of the large decrease in number of votes for both China and India, which took 1st and 2nd places in the previous survey, is high. India and China stayed in 1st and 2nd places respectively as promising countries over the long term (the next 10 years or so).

The number of companies that selected Thailand, which took 3rd place, increased by 23 from 165 to 188. In the same way as Indonesia, 60% of companies that regard Thailand as promising gave "future growth potential of local market" as the reason it is promising and the number of countries that acknowledge it as promising is increasing, particularly with a focus on automobiles.

In the previous survey, Mexico leapt from 12th to 7th place and it maintained 7th place in this survey. Its number of votes increased from 72 to 84 companies and it slightly closed the gap with Brazil in 6th place with its stagnant economy.

Myanmar, which took 10th place in the previous survey further increased its number of votes in this survey (51→64 companies) to take 8th place. The survey showed that the ratio of companies with actual business plans also increased by around 20% and a steady increase in companies that are considering business in Myanmar due to inexpensive labour costs.

Among countries that did not make the top 10, the Philippines, which obtained an investment-grade ranking from credit-rating companies, came in at No. 11 with a strong showing in votes. The number of votes for Laos was

low at 9 but it managed a rank of 20. Its presence as a country in ASEAN has become even stronger.

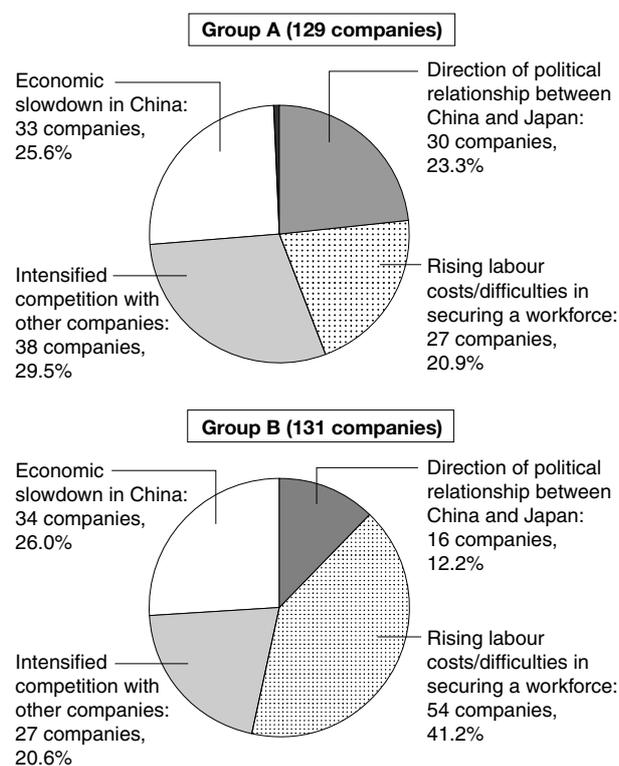
(2) Reasons for Reduction in China's Voting Share

Of the companies (319) that responded that China was promising in the previous survey, 280 also responded to this year's survey and almost half of these (139) nominated China as being a promising country while the remaining 141 companies did not nominate it as a promising country. In this year's survey, companies with overseas affiliates in China were asked to choose one of the following 5 categories concerning medium-term concerns with respect to "Business Prospects in China": direction of political relationship between Japan and China, rising labour costs/difficulties in securing a work force, intense competition with other companies, Chinese economic slowdown and other. Figure 3 shows the results for Group A of 129 companies that continue to see China as a promising country and Group B of 131 companies that removed China from the list of promising countries.

In Group B which removed China from the list of promising countries, the greatest concern was "rising labour costs/difficulties in securing a work force" (41.2%). Meanwhile, the greatest concern of Group A which continued to regard China as a promising country, was "intense competition with other companies" (29.5%) and "rising labour costs/difficulties in securing a work force" did not exceed 20.9%. The percentages of companies in both Group A and Group B that stated "direction of political relationship between Japan and China" as their greatest concern were 23.3% and 12.2% respectively but this was not the greatest concern in either group.

Furthermore, the medium-term business stance of these

Figure 3. Medium-term Concerns for Business in China



companies in China (three choices: strengthen/expand, maintain the present level, scale back/withdraw) saw different response trends in each group. The ratio of companies with the stance of "strengthen/expand" for business in China in the previous survey was 74.0% for Group A and 75.1% for Group B with 3 out of 4 companies having the stance of "strengthen/expand" but in this year's survey, the ratio of companies that chose "strengthen/expand" was 66.2% for Group A but fell to less than half for Group B at 43.8% and there was majority of 52.7% for "maintain the present level".

However, although the category of "scale back/withdraw" has increased in comparison with the previous survey, the ratio was only 3.5% (10 companies).

In addition, when we look at the reasons that companies nominated China as a promising country in this survey, 67.8% responded "future growth potential of local market" and 61.2% responded "current size of local market". It can be understood that companies that continued to nominate China as a promising country value the size and growth potential of the Chinese market.

Companies that continued to nominate China as a promising country in this year's survey value China as a market and the greatest concern of companies that removed China from the list of promising countries in this year's survey was shown to be rising labour costs/difficulties in securing a work force. The division between companies that are concerned about labour costs, etc. and those that continue to recognise China as promising as a market can be thought to be one factor in the large-scale reduction in China's voting share.

5. Global Management Issues and Future Strategies

One of the topics of this year's survey, "Global Management Issues and Future Strategies", included 4 categories: (1) Initiatives in Emerging Markets, (2) Product Competitiveness in Emerging Markets, (3) Basis for Overseas Transfer of Headquarter Functions and (4) Current Status of Introduction of Global IT Systems. This report will explain the survey results for (1) Initiatives in Emerging Markets.

In order to research the sales of Japanese manufacturing companies in global markets in this survey, we asked questions about major customers in both developed and emerging markets and the results are shown in Figure 4.

In developed markets, major customers are Japanese manufacturers (348 companies) and European/American manufacturers (264 companies) and in emerging markets, they are Japanese manufacturers (390 companies) and emerging/local manufacturers (244 companies) which shows that transactions are also being made with local companies, etc. focusing on sales to Japanese manufacturers. In addition, there were 130 companies that only have transactions with Japanese manufacturers in developed markets and 154 that only have transactions with Japanese manufacturers in emerging markets with the result that almost a quarter of responding companies only have transactions with Japanese manufacturers. Further, when asked about medium-term expansion of sales channels in emerging

Figure 4. Current Major Customers in Overseas Markets

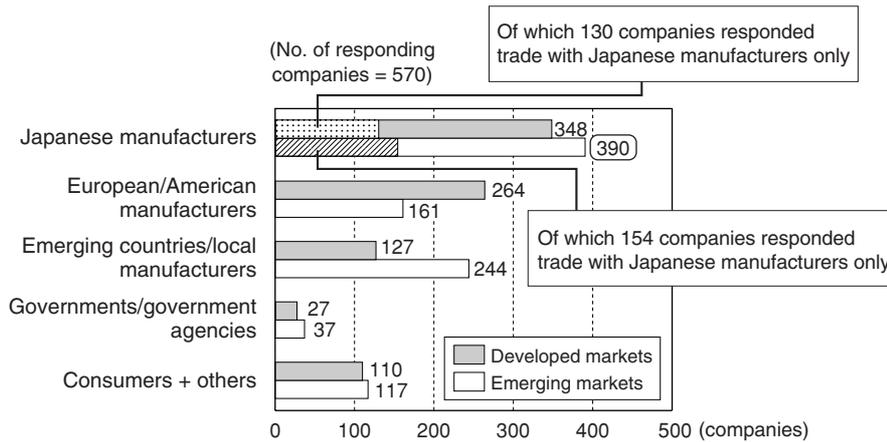


Figure 5. Income Band Targets and Current Business Results in Emerging Markets

	Over all	Target Income Band				Current Business Results in Overseas Markets		
		High-income Band	Middle-income Band	Low-income Band	Ratio of High- & Middle-income Bands	Better than originally planned	Roughly the same as originally planned	Ratio of good/same plans
ASEAN	66	39	52	9	86%	6	36	64%
China	69	40	52	6	91%	7	18	36%
India	34	14	26	6	82%	0	12	35%
Latin America	27	11	24	4	85%	4	7	41%
Russia/CIS	33	17	25	4	88%	7	10	52%
Middle East	23	12	18	4	83%	0	10	43%
Africa	17	7	14	4	76%	0	6	35%

countries, 60.5% of responding companies have the policy of expanding sales to Japanese manufacturers with which they do not already have a relationship.

Meanwhile, 44.4% of responding companies are considering expanding sales to European/American manufacturers and 43.1% are considering expanding sales to local manufacturers. This shows that there are prospects for expanding transactions with non-Japanese manufacturers.

Major transactions for responding companies in this year's survey were B to B transactions and only around 15% of responding companies are implementing sales to consumers (B to C transactions). Overseas destinations for B to C transactions are China (69 companies), ASEAN (66 companies), North America (59 companies) and Europe (50 companies) but main income targets in emerging markets are the high-income band (more than 35,000 dollars) and the middle-income band (between 5,000 and 35,000 dollars) and only a few companies are targeting the low-income band.

Moreover, regions for the majority of companies that responded "better than originally planned" or "roughly the same as originally planned" for business results that pertain to B to C transactions were only the ASEAN market (64%) and the Russia/CIS market (52%), highlighting the situation

in which companies are facing an uphill battle depending on the region.

6. Infrastructure Needs in Business Operation Countries

This survey asked about infrastructure needs and issues such as electricity supply, industrial water and transportation/communications in countries/regions in which companies already have business operations.

68.0% of responding companies chose "do not consider that there are any particular issues" for electricity infrastructure (total number of responses: 2343 companies), 28.3% responded "there are issues but there is no great impact on business operations" and 3.6% responded "there are issues and they affect business" and the total of the last two figures show that approximately 30% of responding companies recognise that there are issues with the electricity infrastructure in business operation countries. By country, the highest ratio of companies responded that there were issues in India. 39.9% responded "there are issues but there is no great impact on business operations" and 17.8% responded "there are issues

and they affect business" and the total of these show that 57.7% of responding companies recognise that there are issues.

90.4% of responding companies chose "do not consider that there are any particular issues" for industrial water, 9.2% responded "there are issues but there is no great impact on business operations" and only 0.4% responded "there are issues and they affect business" (total number of responses: 2198 companies). The mainstream opinion was that there are no issues with industrial water.

For transportation/communications infrastructure, companies were asked which infrastructure out of "roads", "rail", "ports & harbours", "airports" and "communications networks" require the quickest improvements and the response was, independent of the country/region, "roads" (58.5% of total number of responses from 1396 companies) and countries in which the ratio was particularly high were Indonesia (79.6%) and India (75.1%). The next infrastructure most in need of improvement is "communications networks" (24.4%). In company interviews there were many people who were looking for improvements in quality with comments such as "calls do not connect easily" and "there is interference during data transmission."