Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

Results of the JBIC FY2018 Survey:

- Outlook for Japanese Foreign Direct Investment (30th Annual Survey)-

November 2018

Strategic Research Department, Corporate Planning Group
Japan Bank for International Cooperation

JAPAN BANK FOR INTERNATIONAL COOPERATION

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I. Survey Overview

I.1. Survey Overview

Survey Overview

1. Objective and Targets

This survey is conducted in order to research and analyze the current status and future prospects for the overseas business development of the Japanese manufacturing industry. The companies targeted in this survey are manufacturing companies that have three or more overseas affiliates (including at least one production base).

2. No. of companies questionnaires were mailed to

1,012 companies

3. Response status

(1) No. of valid responses: 605 companies (by post: 330 companies, online: 275 companies)

(2) Response Rate: 59.8%

4. Survey period

(1) June 28 through August 1 (collection deadline), 2018
(*Responses received until September 25 are counted as valid)

(2) Phone interviews and company visits conducted during the above period

5. Survey topics

(1) Basic Data

(2) Business Performance Evaluation

(3) Overseas Business Prospects

(4) Promising Countries/Regions over the Medium-term

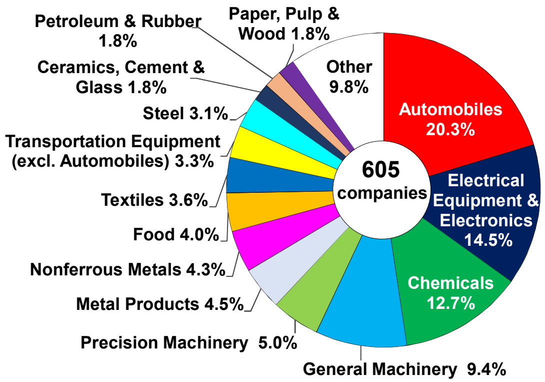
(5) Impacts of Protectionism*

(6) Views on Environmental Regulations and Development of Environment-related Business*

(7) Time Series Analysis*
(* this year's independent survey topic)

Note: The chemicals industry shall cover chemicals (including plastic products) and pharmaceuticals, while the general machinery industry, electrical equipment & electronics industry, automobiles industry, and the precision machinery industry shall cover corresponding assemblies and parts hereinafter unless otherwise specified.

Figure 1: No. of Respondent Companies (By Industrial Classification)



(companies)

Industry Type	FY2017	FY2018	Proportion
Automobiles	118	**123**	20.3%
Electrical Equipment & Electronics	91	**88**	14.5%
Chemicals	85	**77**	12.7%
General Machinery	58	**57**	9.4%
Precision Machinery	24	**30**	5.0%
Metal Products	27	**27**	4.5%
Nonferrous Metals	22	**26**	4.3%
Food	28	**24**	4.0%
Textiles	25	**22**	3.6%
Transportation Equipment (excl. Automobiles)	17	**20**	3.3%
Steel	16	**19**	3.1%
Ceramics, Cement & Glass	12	**11**	1.8%
Petroleum & Rubber	12	**11**	1.8%
Paper, Pulp & Wood	7	**11**	1.8%
Other	60	**59**	9.8%
Total	602	**605**	100.0%

Note: In this survey, automobiles, electrical equipment & electronics, chemicals, and general machinery industries are collectively referred to as "major 4 industries."

Figure 2: No. of Respondent Companies (Capital (non-consolidated))

(companies)

Paid-in Capital	FY2017	FY2018	Proportion
Less than ¥300 mn.	117	**118**	19.5%
¥300 mn. up to ¥1 bn.	75	**83**	13.7%
¥1 bn. up to ¥5 bn.	136	**137**	22.6%
¥5 bn. up to ¥10 bn.	76	**74**	12.2%
¥10 bn. or more	176	**174**	28.8%
Holding company	22	**19**	3.1%
No response	0	**0**	0.0%
Total	602	**605**	100.0%

Note: In this survey, "mid-tier firms/SMEs" refers to companies with paid-in capital of less than 1 billion yen.

Figure 3: No. of Respondent Companies (Net Sales (consolidated))

(companies)

Net Sales	FY2017	FY2018	Proportion
Less than ¥10 bn.	70	**72**	11.9%
¥10 bn. up to ¥50 bn.	220	**211**	34.9%
¥50 bn. up to ¥100 bn.	92	**99**	16.4%
¥100 bn. up to ¥300 bn.	110	**112**	18.5%
¥300 bn. up to ¥1 trillion	54	**55**	9.1%
¥1 trillion or more	42	**41**	6.8%
No response	14	**15**	2.5%
Total	602	**605**	100.0%

I.2 Executive Summary

1. Overseas business performance of Japanese manufacturing companies for FY2017 was mostly robust and satisfactory throughout the regions. Their business attitude continues to be cautiously positive and aggressive not only in overseas but domestic.

For FY2017, on the back of a strong global economic growth, the overseas revenue ratio reached a record high of 37.3%, and high level of satisfaction was expressed. The response rate of “Good performance of sales” was high especially in China and the EU, while “Good performance of exports” stood out in ASEAN. Meanwhile, the level of revenue satisfaction dropped again in North America, with many companies expressing “Difficult to get customers” and “Difficult to cut costs” as dissatisfactory reasons. Reflecting this preferable business performance, the number of companies answering “Strengthen/expand” for their future business prospects increased, but signs of wariness are also seen in the lowered overseas revenue prospect for FY2018.

2. Companies seem to prioritize regions/countries to strengthen their business overseas since they also want to put more resource on domestic business, and thus votes for the Promising Countries survey polarize with China in the lead.

As for the promising countries over the medium-term, the gap between the percentage shares of the top 6 countries and the rest widened. China and India attracted high expectations from all industries in terms of “market growth potential” and “market size.” On the other hand, the gap between the US and Mexico widened, led by the automobile industry. This indicates that they seem to have begun to select countries in line with their priority, as they also need to distribute their scarce resource to strengthen domestic business.

3. Protectionism affects revenue and trade transactions, and could impact FDI in the future.

About 30% of the respondent companies answered that revenue and trade transactions will “Decrease” if protectionism prevails. As for Foreign Direct Investment (FDI) and domestic production, most of the respondents chose “No impact” and “Not sure,” while 10% to 20% answered “Decrease”. The latter numbers suggest that prolonged protectionism could potentially cause Japanese companies to pause or reduce FDI in the future. Meanwhile, as for the US-Mexico agreement for the USMCA, the “quantitative restrictions on auto imports” and the “minimum wage provision”are thought to be relatively important for Japanese manufacturers.

4. Although environmental regulations are tightening especially in China and the EU, certain amount of Japanese companies regard this growing momentum for environmental sustainability as a business chance.

While 50% to 70% of companies doing business in China and the EU responded that local environmental regulations have been “Strengthened,” 30% to 40% of them said the effects on business will be “positive”. For now, Japanese companies are conducting environment-related business in various fields (e.g. air-pollution management and sewage/wastewater treatment), but for future prospects, business related to energy-saving (including fuel-efficient cars), especially in China, are attracting much attention.

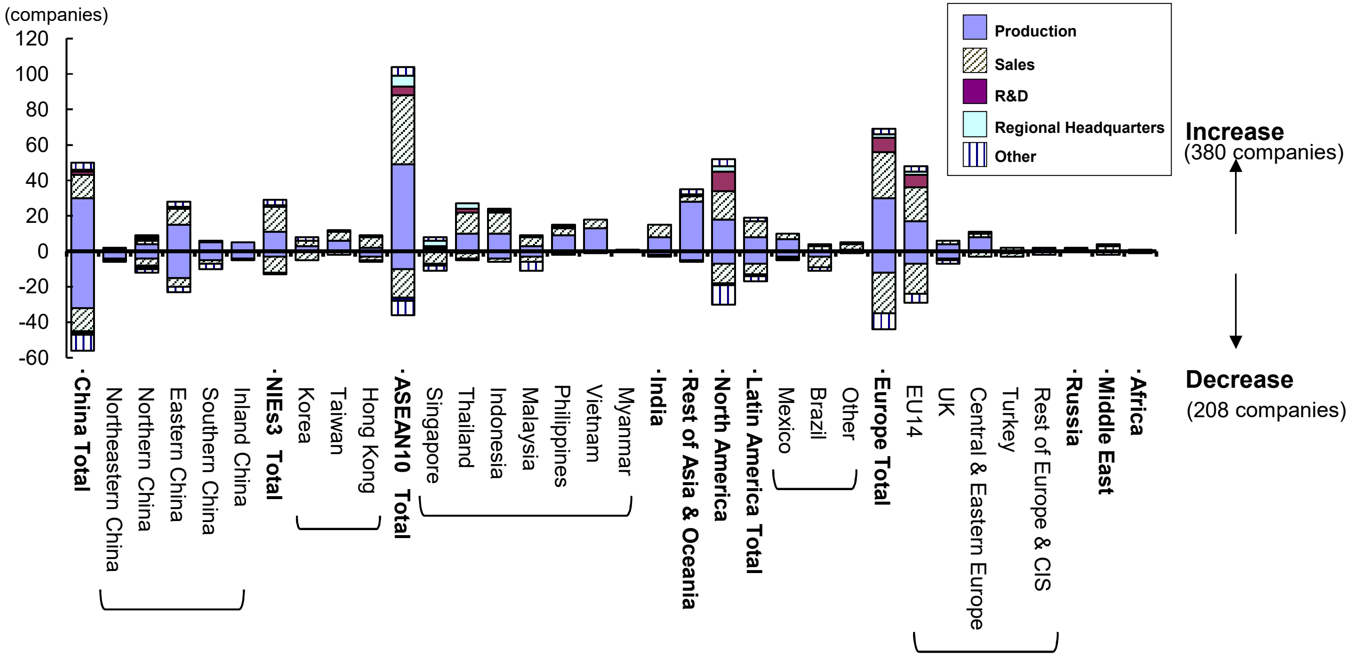
5. Moving forward, careful assessment of negative impacts stemming from economic slowdown in the US and China and/or continuing uncertainty over trade affairs will be necessary.

This year’s survey results are showing that Japanese manufacturing companies intend to strengthen their business both in Japan and overseas, leveraged by their favorable result in the past year. Hence, in the coming year(s), further development in overseas production and sales is expected, especially in the fields of advanced technology, labor-saving devices, e-commerce, and supply chain optimization. In the meantime, concerns over negative impact on business, such as growth slowdown in the major economies, trade conflicts, and Brexit issue, remain. It will become much more significant to closely monitor these factors and make flexible decisions in a timely manner, not only to maximize their business opportunity but also to keep the pace of “next-generation” technology advancement.

II. Overseas Business Performance

II.1. Basic Data: Number of Overseas Affiliates of Respondent Companies

Figure 4: Increase/decrease in the Number of Overseas Affiliates (FY2017)



The Classification of Major Regions

- **NIEs3** (Korea, Taiwan, Hong Kong)
- **ASEAN5** (Singapore, Thailand, Indonesia, Malaysia, Philippines)
- **ASEAN10** (ASEAN5 and Vietnam, Myanmar, Cambodia, Laos, Brunei)
- **North America** (US, Canada)
- **EU14** (Germany, France, Italy, Netherlands, Belgium, Greece, Luxembourg, Denmark, Spain, Portugal, Austria, Finland, Sweden, Ireland)
- **Central & Eastern Europe** (Poland, Hungary, Czech Republic, Slovak Republic, Bulgaria, Romania, Slovenia, Albania, Croatia, Serbia, Montenegro, Bosnia-Herzegovina, Former Yugoslav Republic of Macedonia)

The Classification of Areas in China

- **Northeastern China** (Heilongjiang, Jilin, Liaoning)
- **Northern China** (Beijing, Tientsin, Hebei, Shandong)
- **Eastern China** (Shanghai, Jiangsu, Anhui, Zhejiang)
- **Southern China** (Fujian, Guangdong, Hainan)
- **Inland China** (Provinces other than those mentioned above and autonomous regions)

Figure5: Distribution of Overseas Affiliates

(1) One or more overseas affiliates for production

	Country/Area	No. of respondents (company)	Proportion
1	China	469	78.8%
2	Thailand	293	49.2%
3	North America	253	42.5%
4	Indonesia	195	32.8%
5	India	142	23.9%
6	Vietnam	139	23.4%
7	Mexico	134	22.5%
8	EU 14	126	21.2%
	Taiwan	126	21.2%
10	Malaysia	113	19.0%
11	Korea	109	18.3%
12	Philippines	90	15.1%
13	Brazil	71	11.9%
14	UK	59	9.9%
15	Central & Eastern Europe	54	9.1%

(2) One or more overseas affiliates for sales

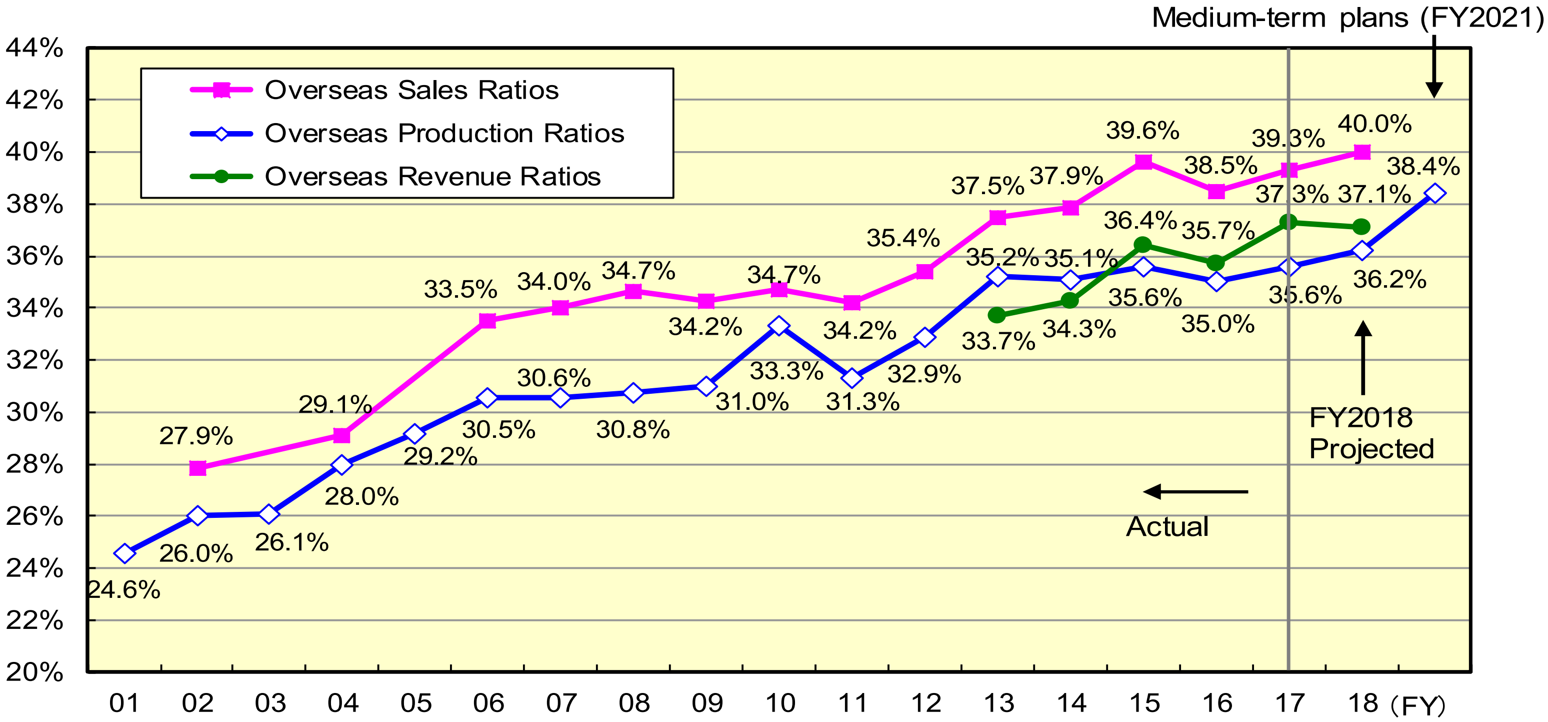
	Country/Area	No. of respondents (company)	Proportion
1	China	340	57.1%
2	North America	295	49.6%
3	Thailand	207	34.8%
4	EU 14	202	33.9%
5	Singapore	182	30.6%
6	Hong Kong	157	26.4%
7	Taiwan	152	25.5%
8	Korea	144	24.2%
9	Indonesia	124	20.8%
10	India	120	20.2%
11	UK	102	17.1%
12	Malaysia	96	16.1%
13	Mexico	85	14.3%
14	Vietnam	79	13.3%
15	Brazil	71	11.9%

■ Increase in the number of production and sales bases in ASEAN10, and R&D bases in North America and Europe stands out

- The total increase in the number of overseas affiliates in FY2017 was 380 (production:184, sales:131, research and development: 29, regional management:12, other:24), 11 less than that of FY2016 (391 companies). The number of increase in ASEAN10, production bases and sales bases in particular, stands out (104 companies), followed by Europe (69), North America (52), and China (50). Also of note was the record high increase in the number of R&D bases in North America (11) and Europe (8) (mainly in chemicals and electrical equipment & electronics). On the other hand, the total number of decreased overseas affiliates in FY2017 was 208 (production: 79, sales: 78, research and development: 3, regional management: 3, other: 45). China's number of decrease was the biggest (56 companies), followed by Europe (44), ASEAN10 (36), and North America (30). In China, automobiles and chemicals increased bases, while electrical equipment & electronics reduced, suggesting a change in the industrial distribution of Japanese companies' number of affiliates in China.

Note 1: Figure 4 shows answers from the respondent companies.
Note 2: The percentages in Figure 5 = (the number of answers to the respective choices) / (the total number of companies responding to this question (595 companies)).

Figure 6: Overseas Production / Sales / Revenue Ratios (FY2001 onward, All industries)



Note 1: Calculation methods of various indicators (all consolidated basis)

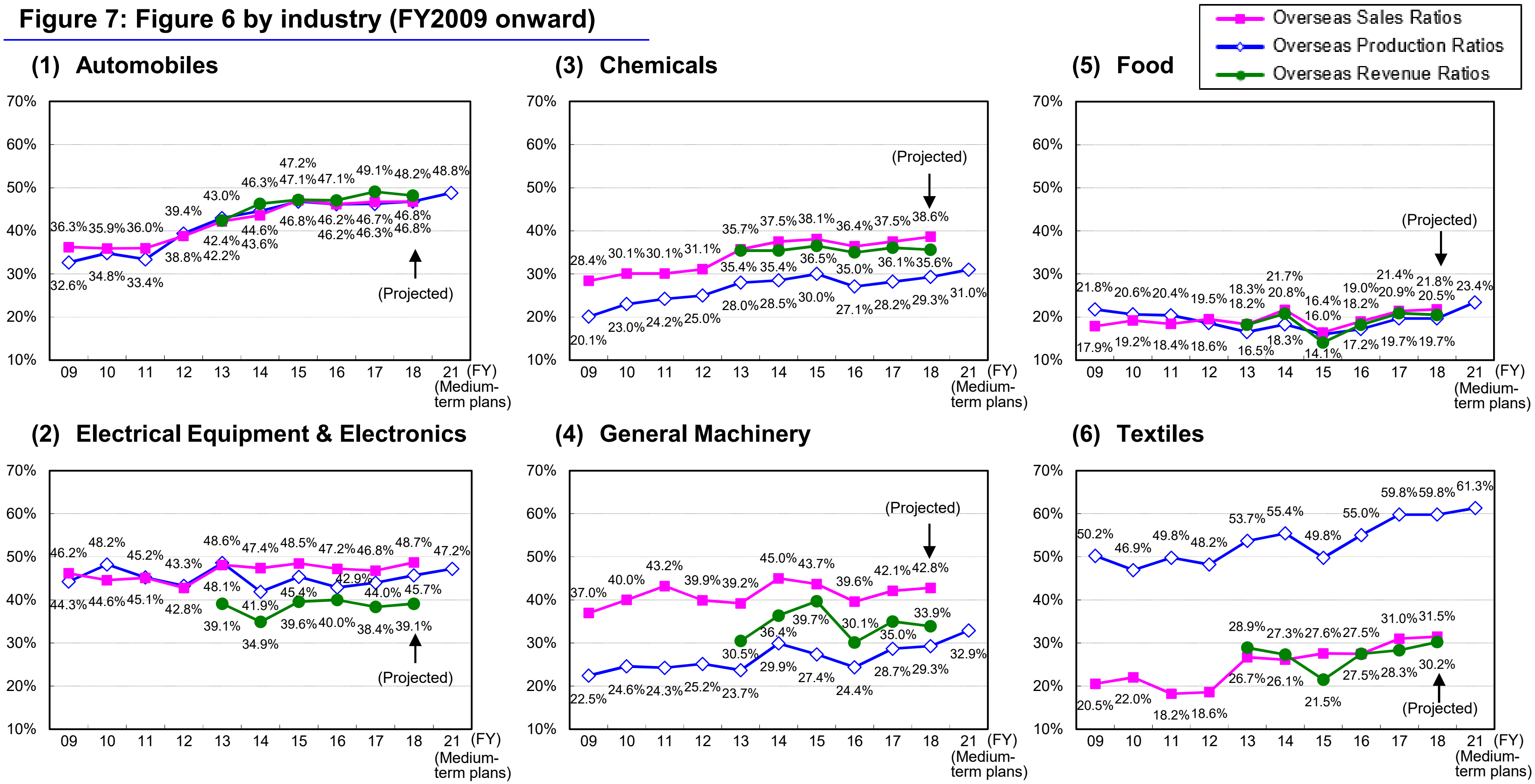
- Overseas Production Ratios = (Overseas Production) / (Domestic Production + Overseas Production)
- Overseas Sales Ratios = (Overseas Sales) / (Domestic Sales + Overseas Sales)
- Overseas Revenue Ratios = (Overseas Operating Revenue)/ (Domestic Operating Revenue + Overseas Operating Revenue)

Note 2: In the graph, the respective ratios were calculated by simply averaging the values the respondent companies provided.
Note 3: Overseas Sales Ratios were not surveyed in 2003 and 2005.

■ Overseas production ratio and Overseas sale ratio both remain at high levels; Overseas revenue ratio also reaches record high, but prospects for FY2018 show sign of wariness

- The overseas production ratio in FY2017 reached 35.6%, marking a recovery from the temporary drop in FY2016. It is expected to increase to 38.4% in the medium term, which indicates that the companies are still eager to expand their ability to produce overseas. The overseas sales ratio rose to 39.3%, also recovering from 38.5% in the previous year. Moreover, the overseas revenue ratio marked 37.3%, exceeding the record of high of 36.4 % in FY 2015. During FY2017, business sentiment of companies improved especially in Asia and Europe, and this appears to have propped up sales and revenue overseas. However, overseas revenue prospects for FY2018 was 37.1%, slightly lower than that of FY2017, representing companies' concerns over factors such as global economic slowdown.

Figure 7: Figure 6 by industry (FY2009 onward)



■ By industry, Automobiles and Electrical equipment & electronics continue to have high overseas production ratios

- For FY2017, overseas production ratio continued to be high especially in automobiles (46.3%) and electrical equipment & electronics (44.0%).
- In chemicals, both ratios of overseas production and revenue recovered from the fall in FY2016.
- In general machinery, the overseas sales ratio was higher than the overseas production ratio, suggesting that companies are selling domestically produced products overseas.
- In textiles, unlike general machinery, the overseas production ratio was higher than the overseas sales ratio, suggesting that companies are selling products produced overseas in Japan.
- In food, while all the ratios are at low levels, they are in a rising trend.

II.4. Performance Evaluations: Evaluations of Degrees of Satisfaction with Net Sales and Profits

Q Which of the following applies to your company's FY2017 net sales and profits when compared with initial targets (by countries/regions)?
Response: 1. Unsatisfactory, 2.Somewhat unsatisfactory, 3.Can't say either way (almost the same as initially planned), 4.Somewhat satisfactory, 5.Satisfactory

Figure 8: Satisfaction with Net Sales/Profits (total averages)

(FY of performance)	FY2013	FY2014	FY2015	FY2016	FY2017
Net Sales	2.71 (+0.08)	2.66 (▲0.05)	2.56 (▲0.10)	2.67 (+0.11)	2.75 (+0.08)
Profits	2.65 (+0.09)	2.62 (▲0.03)	2.61 (▲0.01)	2.65 (+0.04)	2.68 (+0.03)

Note 1: These figures are simple averages of assessments by country and region.
Note 2: Numbers in parentheses indicate the increase/decrease over the previous year's assessments.

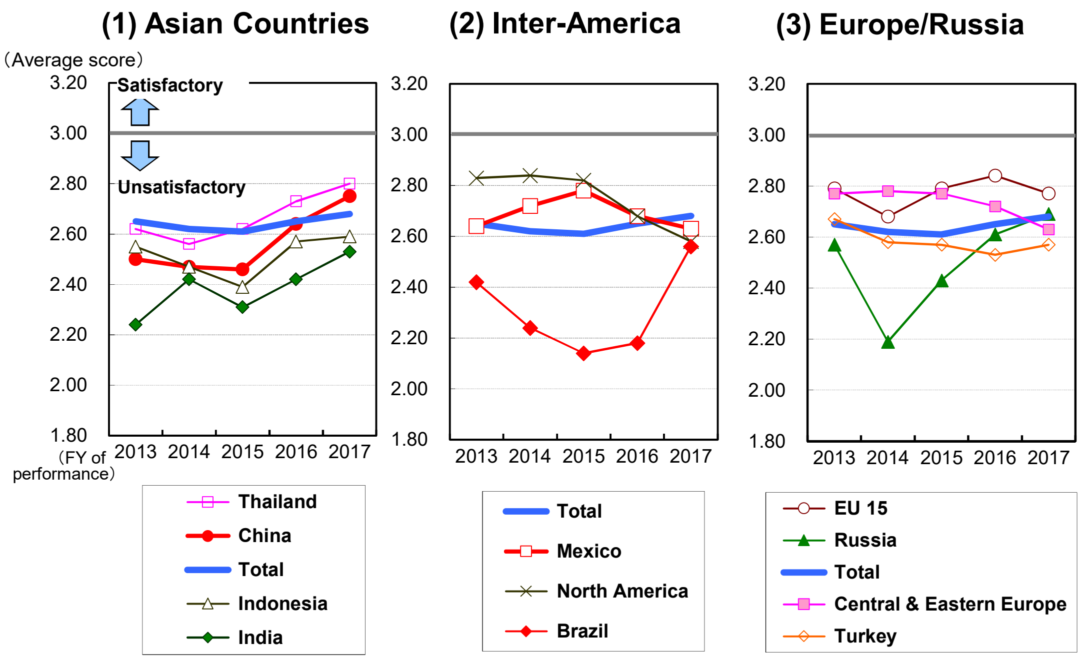
Figure 10: Countries/Regions Respondent Companies Answered as More Profitable than Japan

	Country/Region	"More Profitable than Japan" responses (1)	Responses per region/countries (2)	Ratio: [(1)/(2)]
1	Thailand	105	354	29.7%
2	China	132	477	27.7%
3	Vietnam	49	188	26.1%
4	North America	86	375	22.9%
5	EU15	49	247	19.8%

(1): The number of countries/regions which had "more profitable than Japan" responses for FY2017.

(2): The sum of the number of companies that responded to the question on the evaluation of satisfaction with sales and profits, and the number of companies that did not respond to the question on but responded "more profitable than Japan."

Figure 9: Satisfaction with Profits (by region)



Note 1: See p56 for more detailed data collated by country/region.

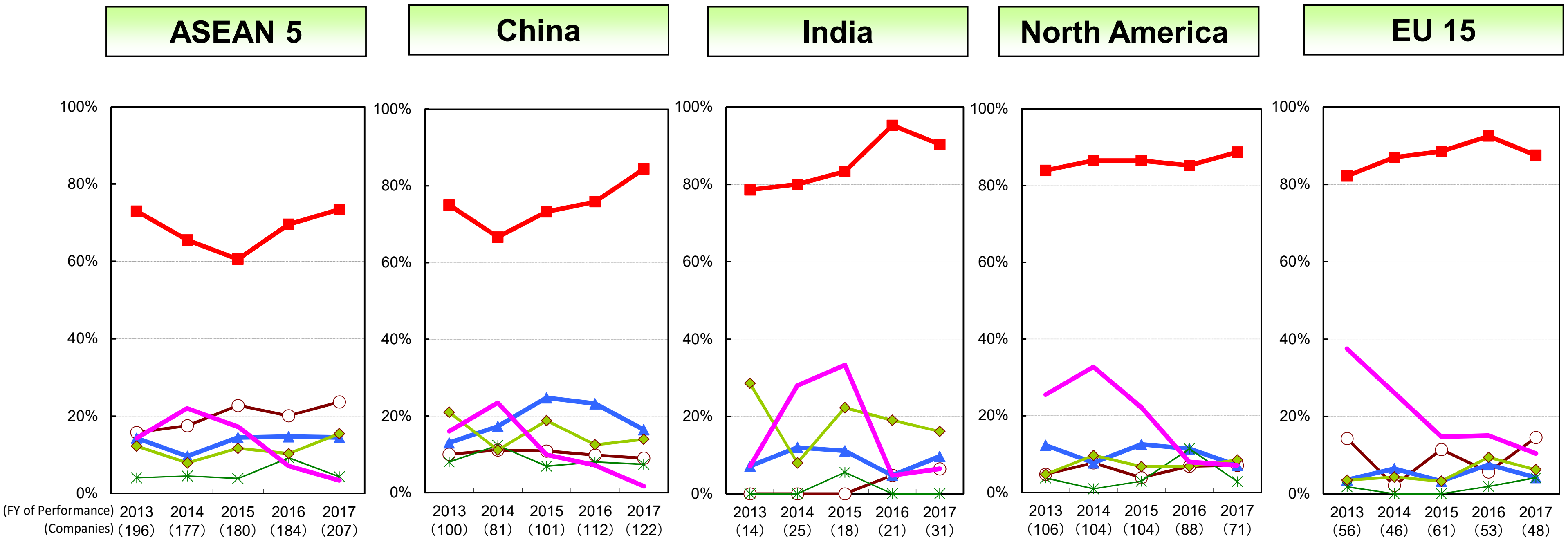
■ Satisfaction with net sales and profits hits five-year high

- Satisfaction with "net sales" rose 0.08 points from the previous year to 2.75, and satisfaction with "profits" rose 0.03 points from the previous year to 2.68, both marking the highest score in five years (Figure 8).

■ Profit satisfaction rises in Asia, while dropping in North America and Central and Eastern Europe

- Looking at the results by region, profit satisfaction of Thailand, China, and EU15 exceeded the overall average (Figure 9). An improving trend can be seen throughout Asia, and satisfaction rose especially in China (from 2.64 to 2.75), Indonesia (from 2.57 to 2.59), and Thailand (from 2.73 to 2.80),.
- In Asia, while not shown in the figure, the country with the highest degree of profit satisfaction was Vietnam (2.85), which was also the case in the previous year. Also, many companies chose Vietnam as a country "more profitable than Japan", following Thailand and China (Figure 10).
- In the Americas, North America and Mexico maintained relatively high levels of satisfaction, but the ratio is in a downward trend. There was a significant increase for Brazil, possibly reflecting the positive GDP growth after two years of negative economic growth.
- While Europe and Russia maintained relatively high levels, a slight fall in EU15 and Central and Eastern Europe can bee seen. Russia recovered to the level prior to the Ukrainian crisis (2014).

Figure 11: Reasons for Satisfactory Profitability



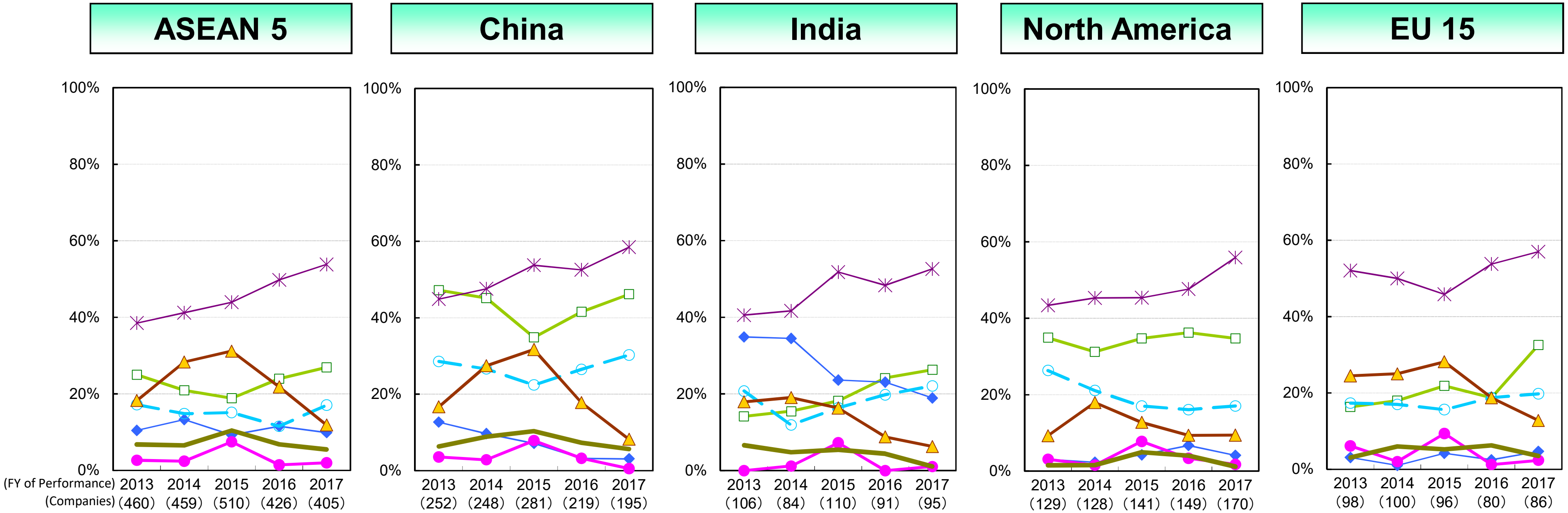
Note: Companies who responded with “4. Somewhat satisfactory” and/or “5 Satisfactory” regarding profitability were asked for the reasons on a region/country basis. The percentages represent the ratios of each choice to the total number of responses (shown in parentheses under the fiscal year of performance) for reasons given for the relevant region/country. Multiple responses were possible.

1. Good performance of sales in the country/region
2. Good performance of exports in the country/region
3. Successful cost cuts (personnel, materials, etc.)
4. Cost cuts via consolidation of manufacturing
5. Manufacturing facilities brought fully on line
6. Foreign exchange gains (including effects of Yen rates in consolidated accounting)

■ **“Good performance of sales” at high level in all regions; “Good performance of exports” at high level in ASEAN5**

- In all the countries/regions, “Good performance of sales in the country/region” continued to have a high response rate. Also, “Good performance of exports” stood out in ASEAN5, and “Successful cost cuts” stood out in China, and “Manufacturing facilities brought fully on line” in India. These characteristics suggest that business conditions and profit drivers differ in each country/region.
- As for “FX gains,” together with the weakening of the yen in recent years, its contribution to profit is also weakening.

Figure 12: Reasons for Unsatisfactory Profitability



Note: Companies who responded with "1. Unsatisfactory" and/or "2. Somewhat unsatisfactory" regarding profitability were asked for the reasons on a region/country basis. The percentages represent the ratios of each choice to the total number of responses (shown in parentheses under the fiscal year of performance) for reasons given for the relevant region/country. Multiple responses were possible.

1. Difficulty in cutting costs (personnel, materials, etc.)
2. Not brought fully on line right after establishment
3. Demand for discounts from customers
4. Difficulty in getting customers (intense competition)
5. Shrinking market due to economic fluctuations
6. Decreased competitiveness of products due to a strong yen
7. Foreign exchange losses (including effects of yen rates in consolidated accounting)

■ "Difficulty in getting customers (intense competition)" continues to be the top reason behind unsatisfactory profitability

- In all countries/regions, the top reason for unsatisfactory profitability was "Difficulty in getting customers (intense competition)" with more than 50% of response rates in each region, and thus it appears that Japanese companies continue to face intense competition in overseas markets.
- "Difficulty in cutting costs" gained high response rate in China, North America, and EU15, and it appears that due to the strong economy, expenses for personnel and raw materials have been rising.

■ "Shrinking market due to economic fluctuations" falls, especially in Asia and Europe

- The response rate of "Shrinking market due to economic fluctuations" fell in all regions. It dropped significantly in ASEAN5 (from 20.9% to 12.1%), China (from 17.8% to 8.2%), and EU15 (from 18.8% to 12.8%), and thus it appears that the respondent companies have been enjoying the benefits of the strong economy in these areas.
- In India, the response rate of "Not brought fully on line right after establishment" continued to be in a downward trend. Taking into account that the ratio of companies that chose "Manufacturing facilities brought fully on line" as the reason of satisfaction is decreasing in Figure11, it seems that companies' past investments in India have reached the operation stage.

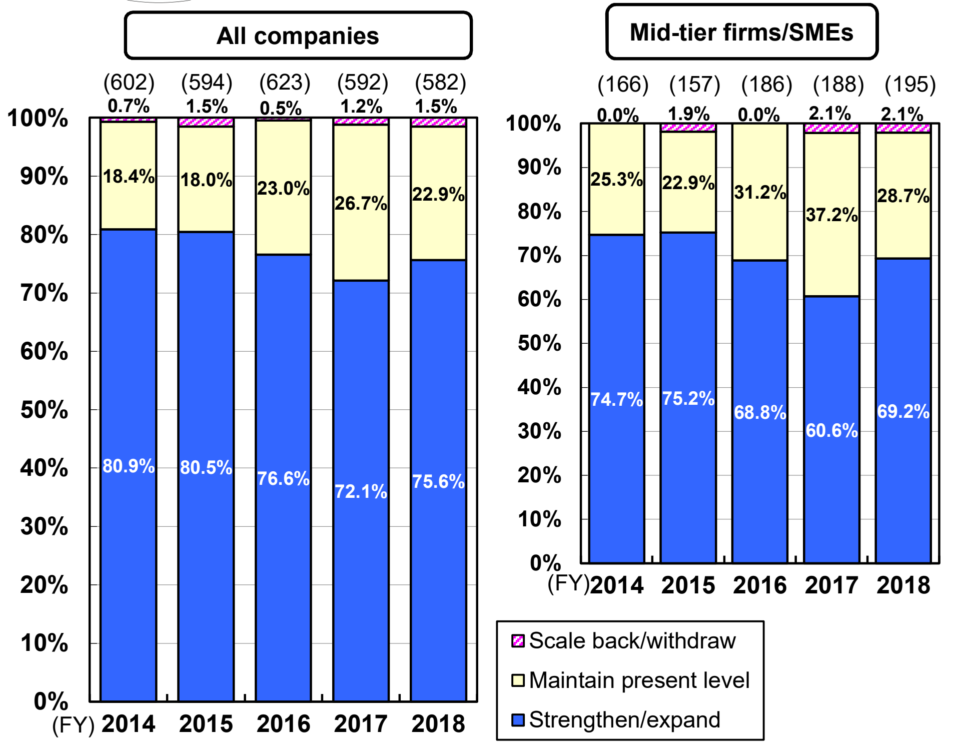
III. Business Prospects and Promising Countries/Regions

III.1. Business Prospects: Medium-term Prospects for Overseas & Domestic Operations

Q Question concerning medium-term (next 3 yrs. or so) prospects for overseas and domestic operations.

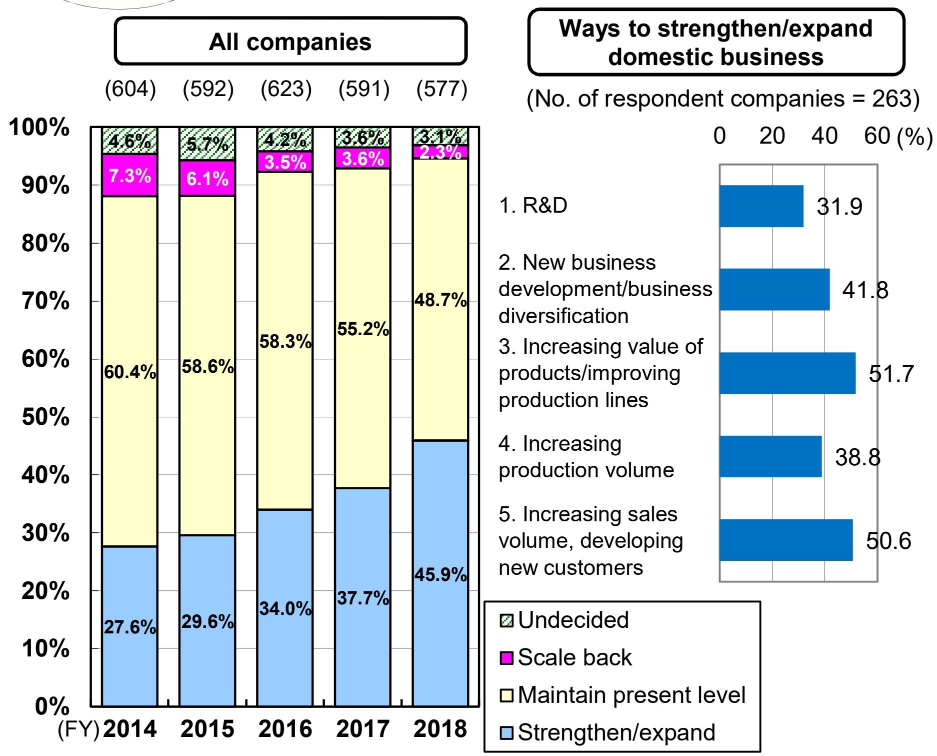
Overseas

Figure 13: Medium-term Prospects (next 3 yrs. or so) for Overseas Operations



Domestic

Figure 14: Medium-term Prospects (next 3 yrs. or so) for Domestic Operations



■ Response rate of "Strengthen/expand" for overseas business rose to 75.6%, putting a stop to the downward trend since FY2012

・ As for the medium-term prospects for overseas business, 440 companies (75.6%) responded "Strengthen/expand." The response rate of "Strengthen/expand" for overseas business had been in a declining trend from the peak of 87.2% in FY2011, as more companies were focusing on maintaining their present business scale through actions such as consolidating factories and strengthening existing bases, but this year, the downward trend came to a halt. Ways to strengthen business include "Introducing new production facilities to meet the rising demand in Asia," "Expanding business for the upper-income market in China," "Reorganizing production/sales system in anticipation of the rise in demand of EV-related business," etc. The response rate of "Strengthen/expand" among mid-tier firms/SMEs is lower than the rate of the large corporations, but it still increased by 8.6 points to 69.2%.

■ 45.9% of companies intend to "Strengthen/expand" domestic business, continuing to increase since 2011

・ As for the medium-term prospects for domestic business, the response rate for "Strengthen/expand" increased substantially to 45.9%, recovering to the level prior to the 2008 financial crisis. As for ways to strengthen/expand, common responses were "Increasing value of products/improving production lines" and "Increasing sales volume, developing new customers," the background to which is companies actively investing to upgrade domestic facilities. Also, "Focusing on mass production of standardized products in overseas bases, while strengthening ability to produce wide range of value-added products in small volumes in domestic bases" remained to be a common response.

Note: "Overseas operations" is defined as production, sales and R&D activities at overseas bases, as well as outsourcing of manufacturing and procurement overseas.

III.2. Business Prospects: Medium-term Prospects for Overseas & Domestic Operations (By Industry)

Figure 15: Medium-term Prospects for Overseas Operations

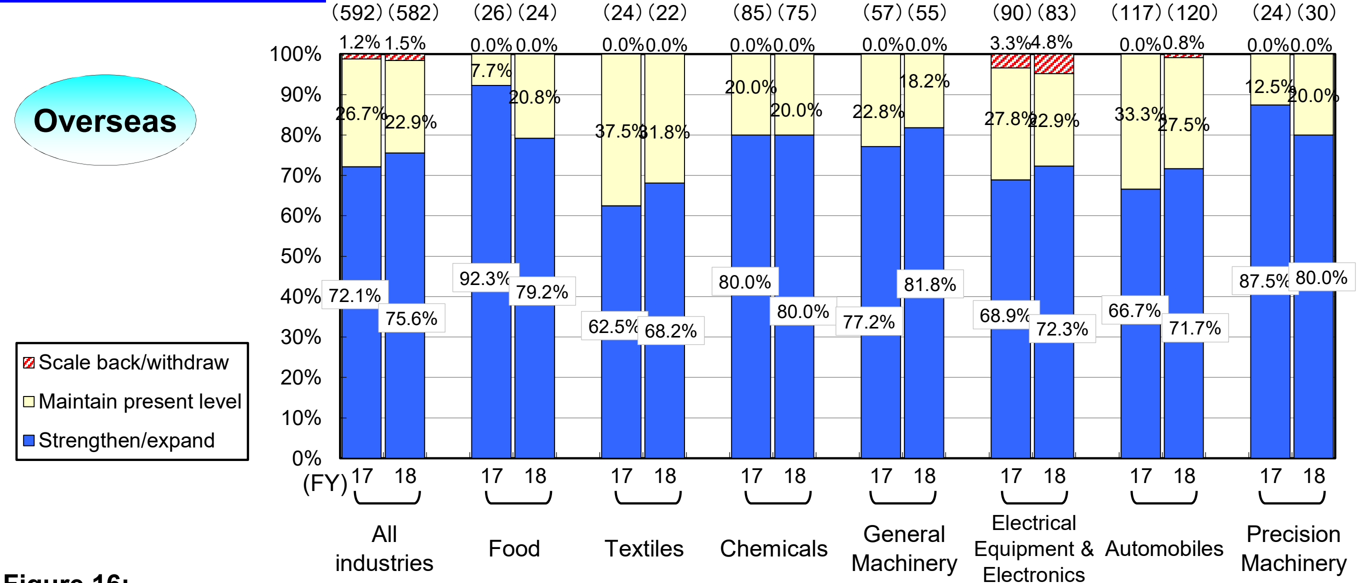
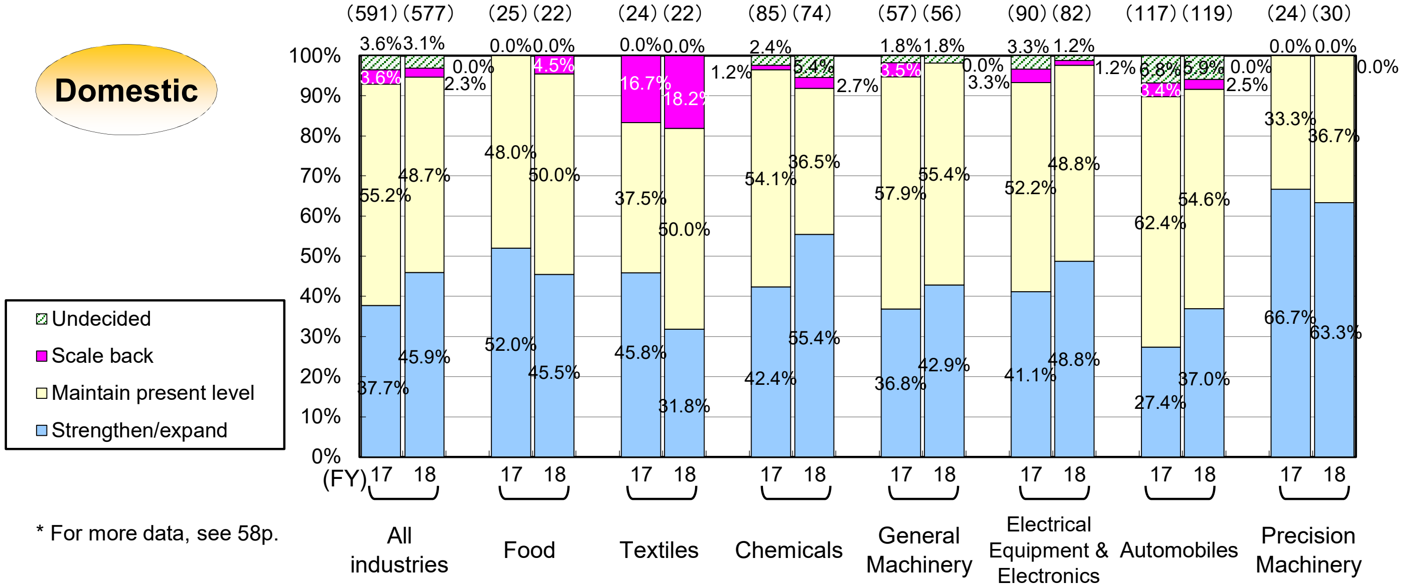


Figure 16: Medium-term Prospects for Domestic Operations



* For more data, see 58p.

■ Intention to “Strengthen/expand” overseas operations turns to an increase in automobiles and electrical equipment & electronics

- Most of the industries saw an increase in the response rate of “Strengthen/expand” for overseas business. Automobiles increased for the first time in six years, and electrical equipment & electronics increased for the first time in four years.
- “Strengthen/expand” in food and precision machinery both declined but remained high at around 80%.
- This year, “Strengthen/expand" was at 80% or above in general machinery, chemicals, nonferrous metals and precision machinery. Though not shown in the picture, steel was the only industry with a response rate below 60% (52.9%), and is in a declining trend.

■ Intention to “Strengthen/expand” domestic operations increases in major industries

- Response rate of “Strengthen/expand” for domestic business was high in precision machinery (63.3%), chemicals (55.4%), electrical equipment & electronics (48.8%), with the biggest year-on-year increase for chemicals at 13 points. Common ways to strengthen domestic business were “Increasing sales volume” and “Developing new customers.”
- Automobiles increased 9.6 points from 37.0% in FY2017. Though not shown in the figure, common ways to strengthen their business were “Increasing production volume,” and “Increasing value of products/improving production lines.”
- In textiles, response rate for “Scale back” was 18.2%, which continues to be high compared to other industries.

Figure 17: Shift in intentions to Strengthen/Expand Businesses (FY2000-2018)

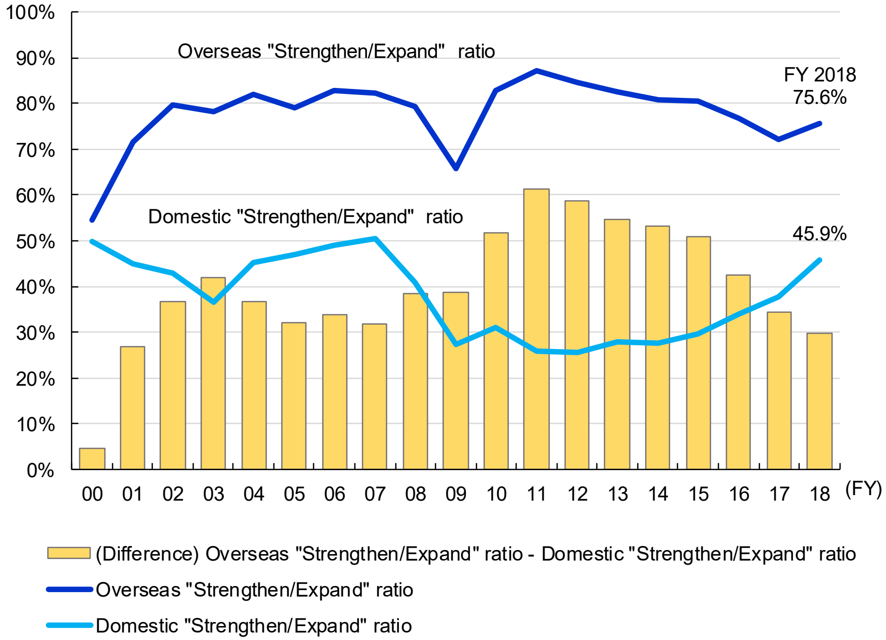


Figure 18: Cross Analysis of Prospects for Overseas and Domestic Businesses

Medium-term Prospects (next 3 yrs. or so)			
Overseas business	Domestic business	No. of respondent companies	Proportion
Strengthen/expand (431 companies)	Strengthen/expand	230	53.4%
	Maintain present level	179	41.5%
	Scale back	10	2.3%
	Undecided	12	2.8%
Maintain present level (132 companies)	Strengthen/expand	32	24.2%
	Maintain present level	92	69.7%
	Scale back	3	2.3%
	Undecided	5	3.8%
Scale back/withdraw (9 companies)	Strengthen/expand	2	22.2%
	Maintain present level	7	77.8%
	Scale back	0	0.0%
	Undecided	0	0.0%

(n= 572 companies)

*For data by industry, see 60p.

■ Weight on Domestic business is increasing

- From the time series analysis, it can be seen that the response rate of “Strengthen/expand” for overseas business is hovering at a high level, while that of domestic business is significantly increasing in recent years. After the 2008 financial crisis, Japanese manufacturers have strengthened their overseas business against the backdrop of the strong yen, but in the last few years, it seems they are focusing more on domestic business. (Figure17)(For details see p.50.)

■ “Strengthen/expand” at record high levels for both domestic and overseas business

- Of the companies that responded with “Strengthen/expand” for overseas business, 94.9% responded “Maintain present level” or “Strengthen/expand” for domestic business as well, and this rate has been in an upward trend since FY2012 (Figure 19). 230 companies (53.4%) responded “Strengthen/expand” for both overseas and domestic business, the highest level since this cross analysis were first complied in 2010.
- At the same time, 10 companies (2.3%) responded with “Strengthen/expand” for overseas business while choosing to “Scale back” on domestic business, down from 17 companies (4.0%) in the previous survey.

Figure 19: Ratio of Companies that responded “Strengthen/expand” for overseas business, at the same time responding “Strengthen/expand” or “Maintain present level” for domestic business

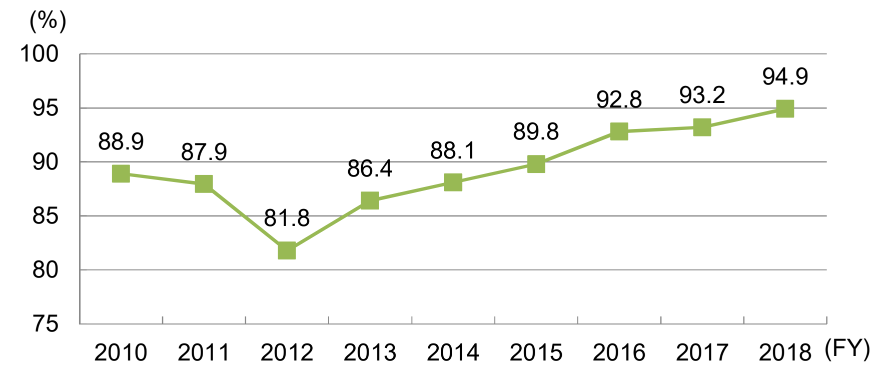
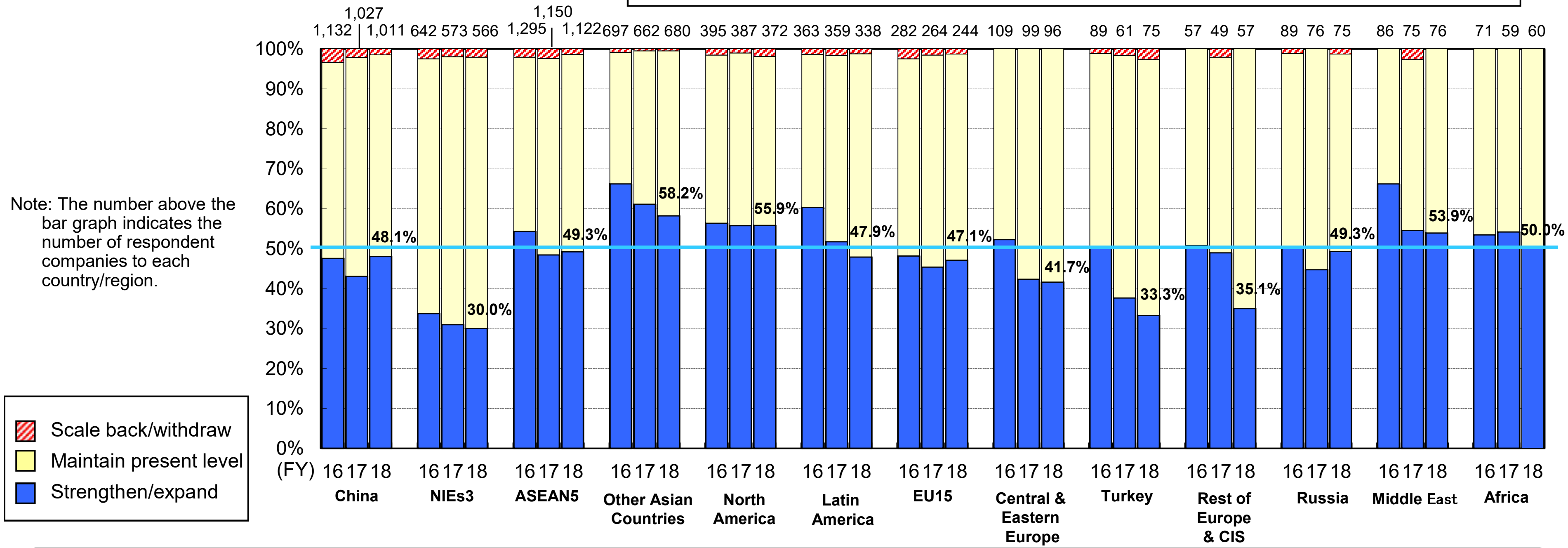


Figure 20: Medium-term Prospects for Overseas Operations (by region)

Q Companies were asked about medium-term (next 3 yrs. or so) prospects for businesses in countries/regions where they are currently operating or planning to operate.

Note: The number above the bar graph indicates the number of respondent companies to each country/region.



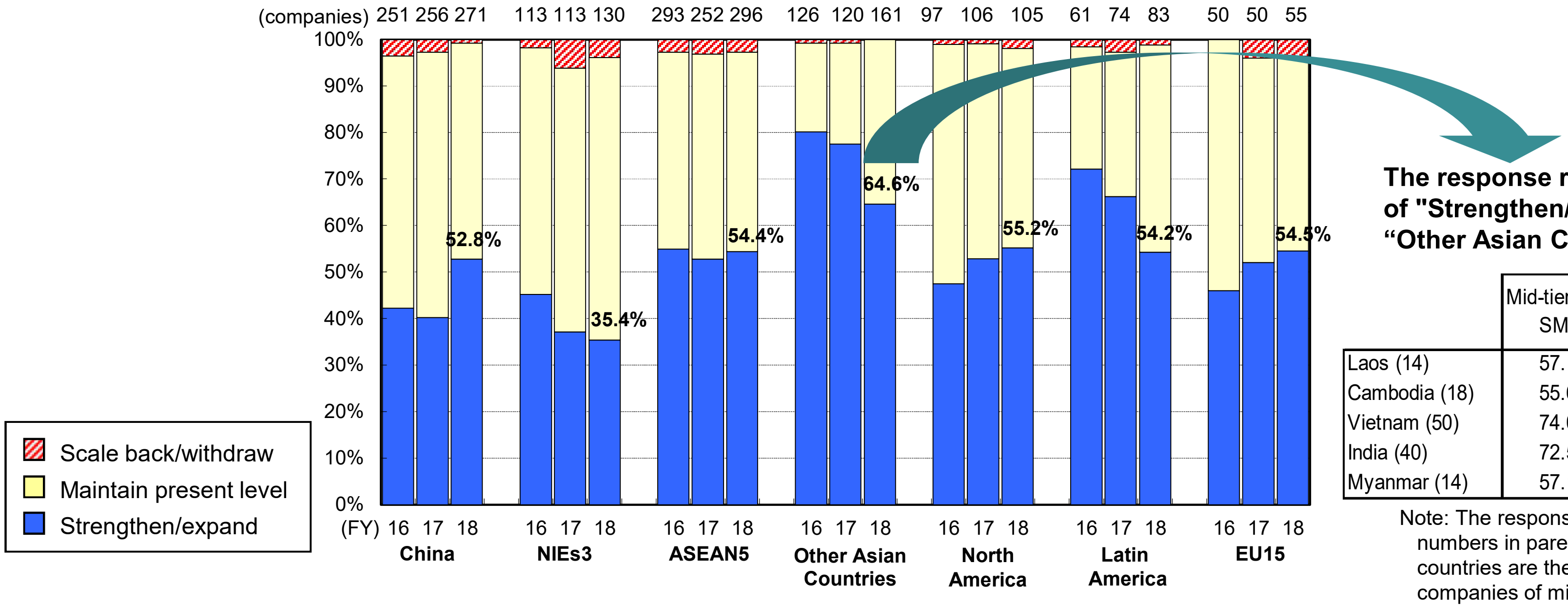
■ Intention to "Strengthen/expand" business continue to be strong in China, North America and EU15, while weakening in other areas; companies seem to be prioritize certain countries/regions

- Response rate of "Strengthen/expand" increased for China, ASEAN5, EU15 and Russia. The biggest rate of increase was seen in China (from 43.1% to 48.1%). Though not shown in the figure, the response rate was highest in general machinery at 55.9%, and the strong demand for machineries related to semiconductors, machine tools, and industrial robots seemed to have played a big role. Also, within China, strong intention to strengthen sales through agencies was shown especially for the Inland area.
- Looking at ASEAN5 by country, as shown in Figure 21, response rate of "Strengthen/expand" increased in Thailand (53.3%) and Malaysia (46.2%), while "Maintain present level" increased in Singapore, Indonesia, and the Philippines, showing differences within the region.
- In Latin America, Central & Eastern Europe, Turkey, Rest of Europe & CIS, Middle East and Africa, intention to "Strengthen/expand" is in a weakening trend. Within Latin America, the rate of decrease has been particularly big in Mexico. As for Turkey, it seems that factors such as heightened geopolitical risk and unstable foreign exchange rates affected the companies to weaken their appetite for business.

■Intention to "Maintain present level" strengthen in Other Asian Countries

- Response rate of "Strengthen/expand" for Other Asian Countries remained high at 58.2%. The driving force (though not shown in the figure) was India (70.9%) and Vietnam (64.0%), the only two countries with "Strengthen/expand" ratios of over 60%. On the other hand, in countries other than Laos, response rate of "Maintain present level" has been gradually increasing since FY2016, showing a weakening in intentions to "Strengthen/expand" business in the area (See p.59).

Reference: Medium-term Prospects for Overseas Operations (by region) <Mid-tier firms/SMEs>



The response rate of "Strengthen/Expand" in major "Other Asian Countries"

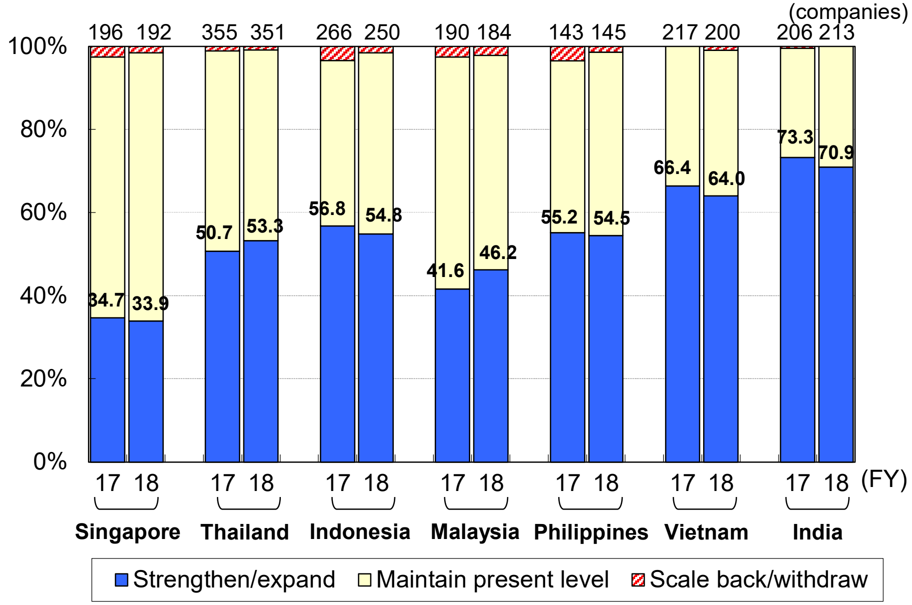
	Mid-tier firms/ SMEs	Large Corporations	Difference (points)
Laos (14)	57.1%	31.0%	26.1
Cambodia (18)	55.6%	42.1%	13.5
Vietnam (50)	74.0%	60.7%	13.3
India (40)	72.5%	70.5%	2.0
Myanmar (14)	57.1%	59.2%	-2.1

Note: The response rate of Y2018.The numbers in parentheses on the right side of countries are the numbers of respondent companies of mid-tier firms/SMEs.

■ Mid-tier firms/SMEs: intention to "Strengthen/expand" overseas business increases in China, North America, and EU15

- As for overseas business prospects of mid-tier firms/SMEs, response rate of "Strengthen/expand" in China increased significantly, up 12.6 points from the previous survey (from 40.2% to 52.8%), reaching the highest level in the last five years and exceeding that of large corporations by 6.4 points. Through interviews, companies from various industries showed eagerness to put more effort in their business in China, to capture the demand which is rising against the backdrop of the strong Chinese economy, and also the improvement of China-Japan relationship might have affected the companies' mind positively.
- In North America and the EU15, "Strengthen/expand" increased for the third consecutive year, and reached the level of ASEAN5 (54.4%). At the same time, in NIEs3, Other Asian Countries, and Latin America, the response rate of "Strengthen/expand" decreased, suggesting that mid-tier firms/SMEs are increasingly being selective about which countries/regions to strengthen business in.
- Among the mid-tier firms/SMEs, the region with the highest response rate of "Strengthen/expand" was "Other Asian Countries" (64.6%). The rate is high compared to the that of the large corporations (56.3%), but compared to the previous year's survey, it significantly decreased by 12.9 points. "Strengthen/expand" was over 80% in Myanmar, Cambodia and India In the previous survey, but all three countries saw a drop in the response rate (India: from 81.3% to 72.5%, Myanmar: from 84.6% to 57.1%, Cambodia: from 81.8% to 55.6%).
- "Strengthen/expand" in ASEAN5 maintained the same level as the previous survey at 54.4%. By country (though not shown in the figure), the ratio increased in Thailand (from 49.0% to 56.0%), but decreased in Singapore, Indonesia, Malaysia and the Philippines. Also, "Strengthen/expand" decreased in NIEs3 and Latin America.

Figure 21: Medium-term Prospects for Overseas Operations (ASEAN5, Vietnam & India)



Note 1: The number above the bar graph indicates the number of respondent companies to each country/region.
Note 2: The figures in the bar graph in Figure 21 are proportions of the companies responding "strengthen/expand" (unit: percentage).

■ Intention to "Strengthen/expand" business in major Asian countries remains at high level, especially in India and Vietnam

- Response rate of "Strengthen/expand" in India was 70.9%, dropping slightly from FY2017 but still high, and in Vietnam it also continued to be strong at 64.0% (Figure 21). These two were the only countries with "Strengthen/expand" over 60%, with increasing number of companies showing eagerness to strengthen their sales by using agencies and by bolstering existing bases (Figure 23). In addition, intention to strengthen sales also increased in Malaysia, Thailand and Singapore.
- Compared to the FY2017 results, "Strengthen/expand" increased in Thailand (from 50.7% to 53.3%) and Malaysia (from 41.6% to 46.2%) (Figure 21).
- In Indonesia, although the response rate of "Strengthen/expand" exceeded 70% until FY2015, after that it has been in a decreasing trend, hitting 54.8% this year, down 2.0 points from the previous year (Figure 21).

* Figures 22 and 23 summarize the specific ways by the companies responding "strengthen/expand" in Figure 21 by production and sales (Multiple responses possible). The figures on the bar graph were calculated based on the number of respondent companies regarding each country and region in Figure 21.

Figure 22: Ways to strengthen/expand (Production)

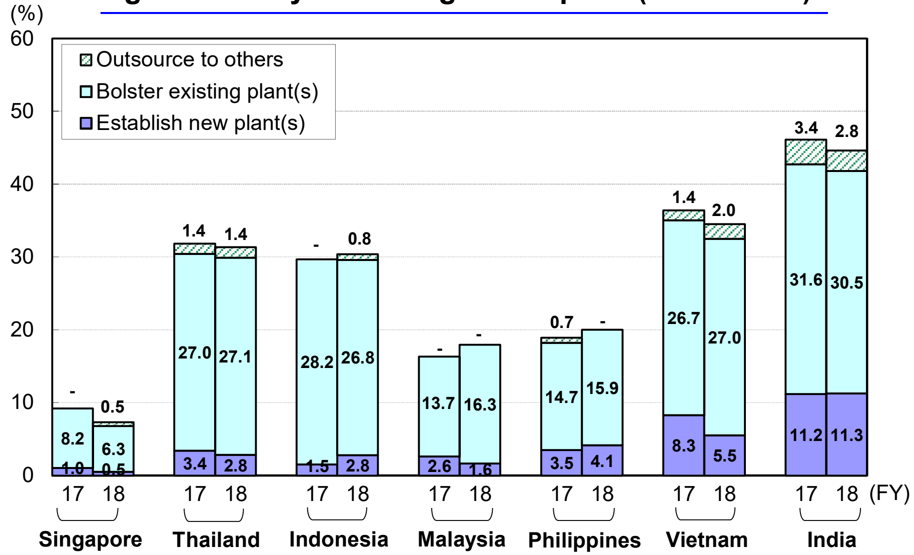


Figure 23: Ways to strengthen/expand (Sales)

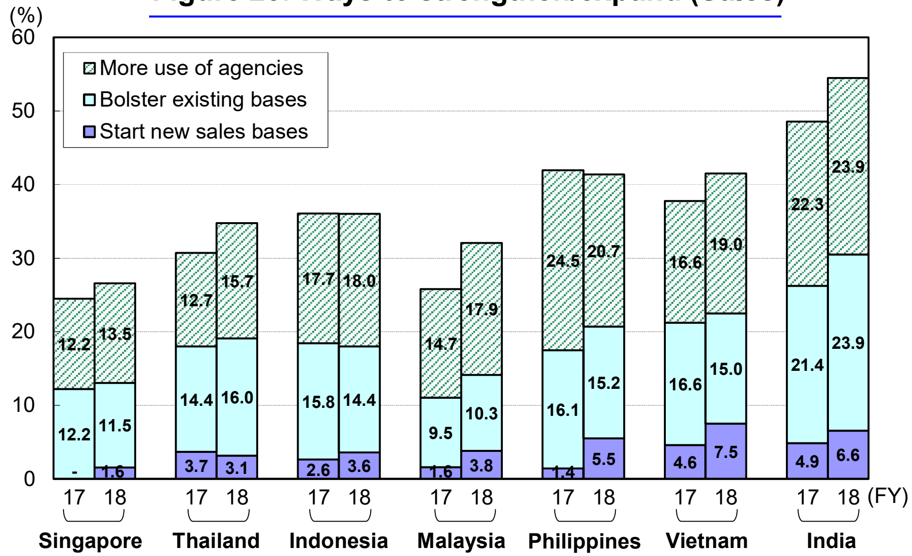
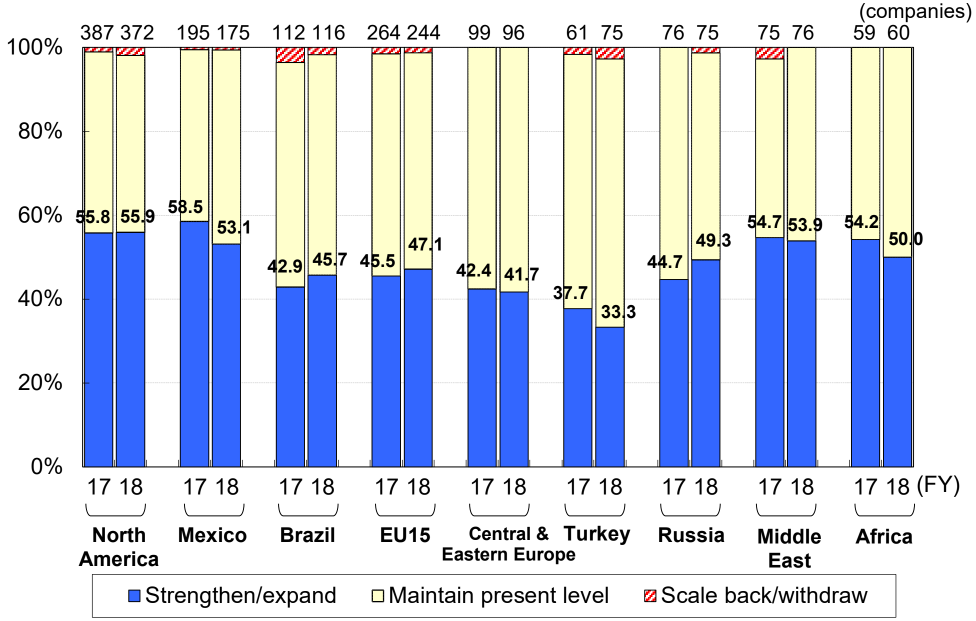


Figure 24: Medium-term Prospects for Overseas Operations (Americas, Europe, Middle East & Africa)



Note 1: The number above the bar graph indicates the number of respondent companies to each country/region.
Note 2: The figures in the bar graph in Figure 24 are proportions of the companies responding "strengthen/expand" (unit: percentage).

■ **No big change in North America, while intention to "Maintain present level" increases slightly in Mexico**

- Response rate of "Strengthen/expand" in North America and EU15 increased from the previous survey mainly on the sales side, while in Mexico it decreased by 5.4 points from FY2017, due to the political/economic uncertainties such as the trade negotiations with the US. Also, in Brazil, "Strengthen/expand" has been in a declining trend since 2011, but the response rate increased compared to FY2017 (from 42.9% to 45.7%). In Russia, with the economy gradually recovering since 2017, "Strengthen/expand" increased by 4.6 points from the previous survey.
- As for the ways to strengthen/expand production, mainly voted by the automobile-related companies, intention to "Establish new plant(s)" increased in North America (from 3.6% to 6.5%), while decreasing in Mexico (from 7.2% to 3.4%) (Figure 25).

■ **"Maintain present level" edges up in Middle East and Africa**

- In the Middle East, "Strengthen/expand" declined for two years in a row. Also in Africa, it dropped by 4.2 points this year, especially in "Establish new plant(s)" on the production side (from 6.8% to 1.7%). As for Turkey, "Strengthen/expand" continued to decline (from 37.7% to 33.3%) , becoming the second lowest, following NIEs3 (30.0%), among all countries/regions.

* Figures 25 and 26 summarize the specific ways by the companies responding "strengthen/expand" in Figure 24 by production and sales (Multiple responses possible). The figures on the bar graph were calculated based on the number of respondent companies regarding each country and region in Figure 24.

Figure 25: Ways to strengthen/expand (Production)

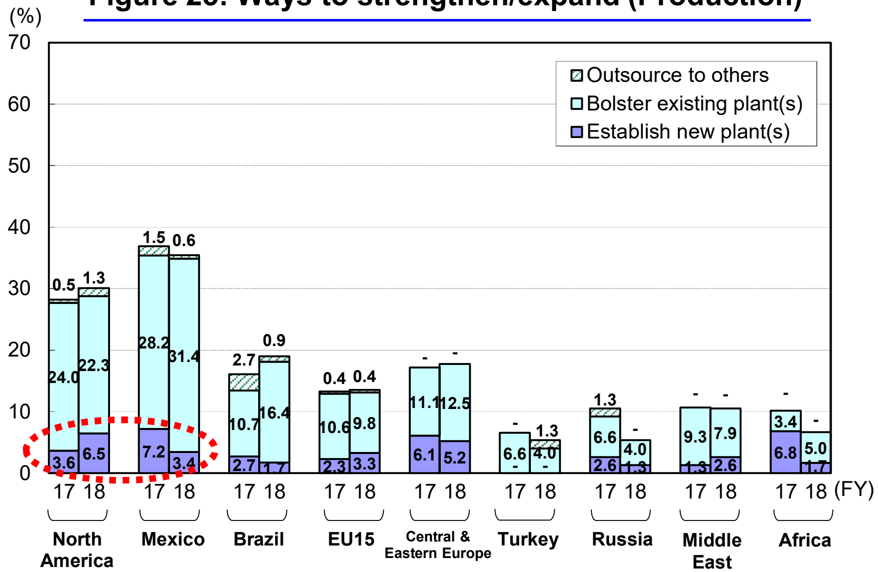
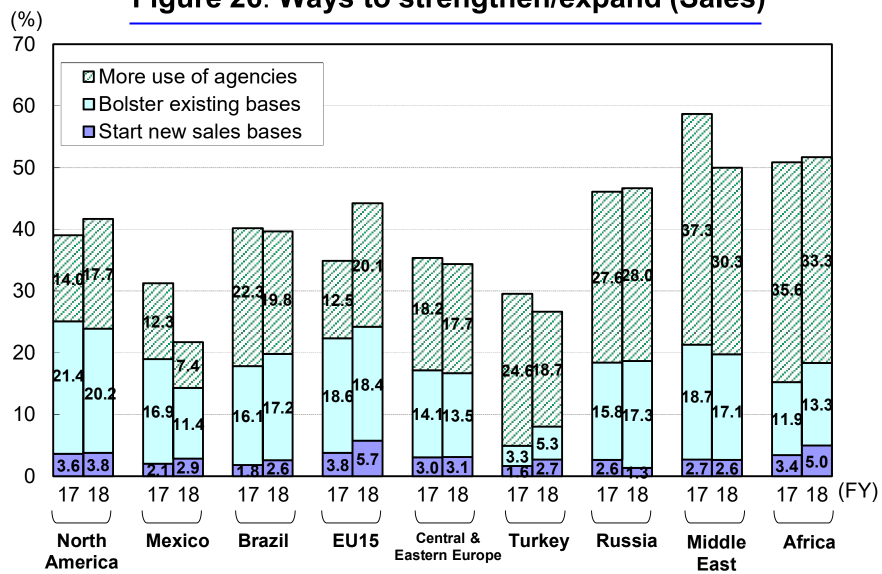


Figure 26: Ways to strengthen/expand (Sales)



III.5. Promising Countries/Regions over the Medium-Term: FY2018 Results

Q The respondents were each asked to name the top 5 countries that they consider to have promising prospects for business operations over the medium-term (next 3 yrs. or so). (Multiple responses)

Figure 27: Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs. or so)

* Percentage share = No. of respondents citing country/region / Total No. of respondent companies

Ranking 2018	←	Ranking 2017	Country/Region	No. of Companies 2018	No. of Companies 2017	Percentage Share(%) 2018	Percentage Share(%) 2017
			(Total)	431	444		
1	―	1	China	225	203	52.2	45.7
2	―	2	India	199	195	46.2	43.9
3	↑	4	Thailand	160	153	37.1	34.5
4	↓	3	Vietnam	146	169	33.9	38.1
5	―	5	Indonesia	131	147	30.4	33.1
6	―	6	US	124	116	28.8	26.1
7	―	7	Mexico	59	81	13.7	18.2
8	―	8	Philippines	43	47	10.0	10.6
9	―	9	Myanmar	37	40	8.6	9.0
10	↑	12	Malaysia	36	26	8.4	5.9
11	↑	16	Germany	25	13	5.8	2.9
12	↓	10	Brazil	24	28	5.6	6.3
13	↓	10	Korea	22	28	5.1	6.3
14	―	14	Taiwan	19	17	4.4	3.8
15	↓	13	Russia	16	19	3.7	4.3
16	↓	14	Singapore	15	17	3.5	3.8
17	↑	20	Cambodia	13	9	3.0	2.0
18	↓	18	Australia	12	10	2.8	2.3
19	↓	17	Turkey	9	12	2.1	2.7
20	↑	23	Laos	7	5	1.6	1.1
20	↑	32	France	7	2	1.6	0.5

Note 1: The countries and regions other than those listed above included North America (15 companies, 3.5% of the total), EU/Europe (12 companies, 2.8% of the total).
Note 2: In case several countries came in the same ranking, they are listed by the order of the previous year's ranking.
Note 3: See p.64 for pre-FY2016 results.

■ China maintains first place, with its percentage share increasing substantially

- China maintained the top spot, as in the previous survey. Its percentage share rose 6.5 points from the previous survey to 52.2%, and this was the largest margin of increase among the major countries. By industry, percentage shares increased particularly in general machinery, precision machinery. With capital investment increasing under the "Made in China 2025" plan, demands for foreign companies' products and technologies are increasing, resulting in strong sales of semiconductors and machine tools. Also, the rising income level in China is spurring growth of online sales of consumer goods (health-care related products, etc.) and durable goods (passenger vehicles, etc.).
- India fell to the second place in FY2017, but its percentage share recovered to 46.2% this year, as confusion, such as elimination of large denomination bills, has subsided.

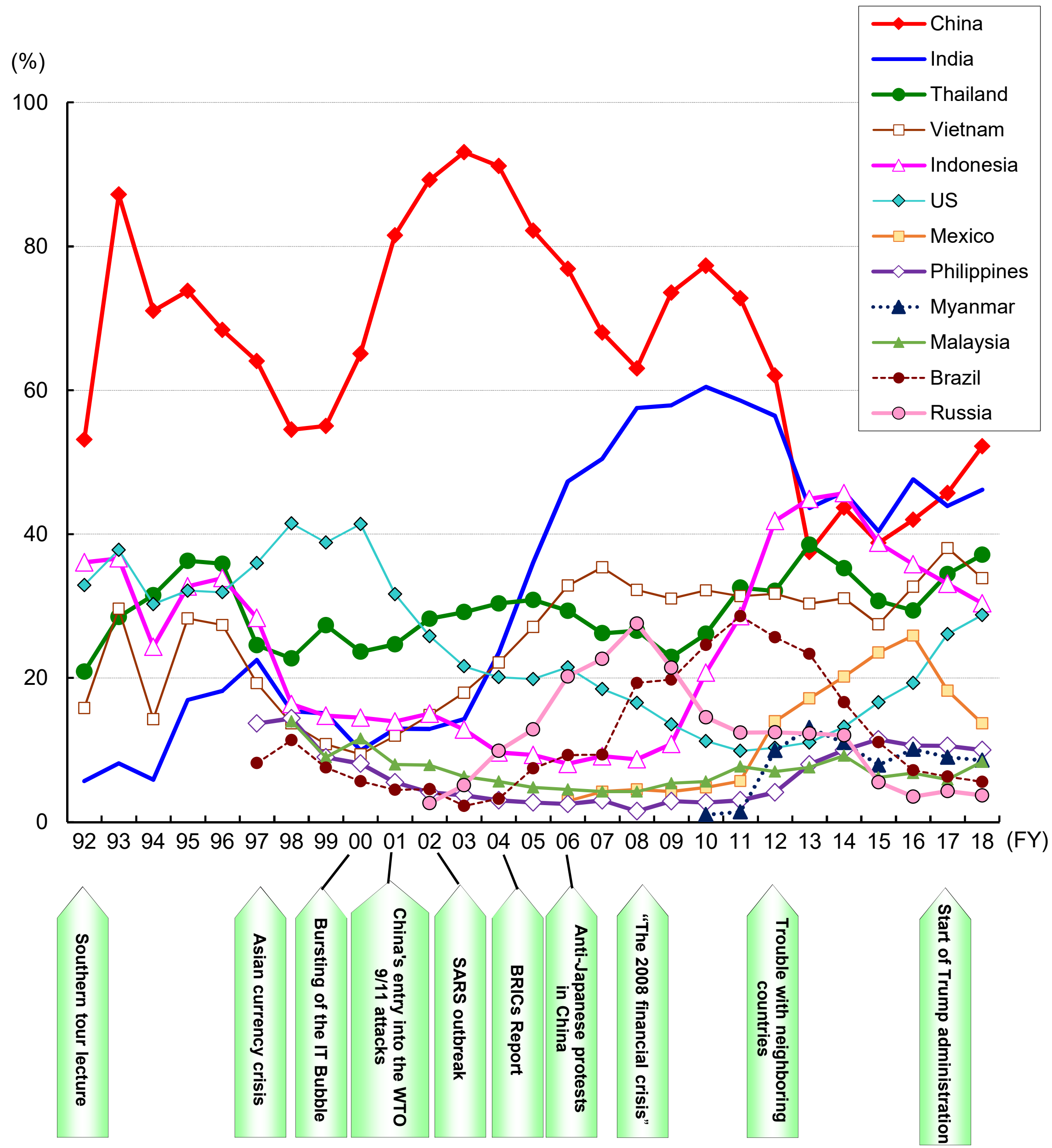
■Thailand's share continue to increase, while Vietnam's decrease slightly

- Thailand's share continued to increase from the previous survey, rising to third place, supported by the votes from the automobiles industry. Economic recovery and impact of the "first-car buyer incentive" scheme by the Yingluck administration in 2011-12 (sales recovery from the slack growth following the last-minute demand, and the end of a five-year restriction on selling cars bought under the scheme, etc.) seem to have casted positive effects.
- Vietnam fell to fourth and its percentage share declined from 38.1% to 33.9%, owing to the impact of the new nontariff trade barriers (under the Decree issued in Jan 2018), car exporters and manufacturers must obtain Vehicle Type Approval certification by authorities in the exporting countries, etc.).

■Percentage share for the US rises gradually, while Mexico's continues to fall

- The US remained in sixth with percentage share of 28.8%, increasing by 2.7points from the previous survey. However, compared to the high margin of increase in the previous survey (6.8 points), this year's growth was relatively small.
- When we compare the preliminary results (July) and the final results (September), the percentage shares for the US fell from 31.1% (July) to 28.8% (September), while that of China increased from 52.1% to 52.2%. The heated trade conflict between the US and China seems to have had some impact on the percentage shares.
- While Mexico stayed at seventh place, its percentage share fell to 13.7%, 4.5 points down from the previous survey. Malaysia rose to tenth supported by steady exports. Germany's percentage share also increased, mainly in general machinery.

Figure 28: Change in Percentage Shares (FY1992-2018)



■ Percentage shares polarize again, with China and India in the lead

- The percentage shares had been converging in the recent years, but this year the polarizing trend became clear, with China and India increasing their lead. China's percentage share is likely to keep rising, as it is increasing appeal as a sales base with a big e-commerce market, and also as an R&D base. India can also be expected to keep its rising trend, with its infrastructure being more developed and industry-clustering in progress.

■ Thailand, Vietnam and Indonesia in three-cornered competition

- So far, each of the three countries had different features for being promising: Thailand as an export base, Vietnam as the provider of inexpensive and qualified labor force, and Indonesia as a large market. Thus there used to be seen some difference in industries choosing each countries as promising. However, it seems that the competition between these countries is expected to further intensify, driven by factors such as industry consolidation and geographical supply chain expansions, as well as progress in labor-saving investments and more Chinese companies entering markets.

■ Increasing gap between US and Mexico

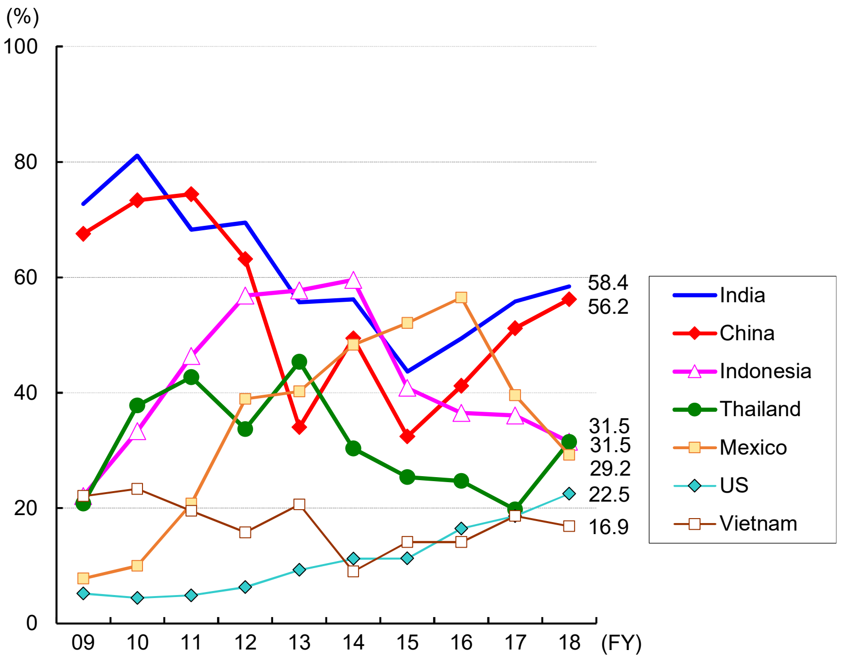
- In this year's survey, US and Mexico represents the dividing line between the higher tier and lower tier. During the data collection process, the percentage share of the US decelerated as the period of survey neared the end, while Mexico recovered in contrast. Given that this survey was conducted when both countries reached the preliminary agreements for the NAFTA replacement deal, the gap between the two countries' percentage shares can be expected to shrink as long as the uncertainty surrounding the trade negotiations continue to be cleared up. However, there is a strong intention to "wait and see" regarding the trade negotiations among the companies, suggesting that it will take some time for Mexico to regain its momentum. (Refer to p.36, "IV. Impact of Protectionism")

■ Percentage shares of countries in the eighth and lower gradually declining

- The percentage shares of Myanmar, the Philippines and Brazil are declining. This suggests that Japanese companies are cautious about expanding their business globally, while putting effort in strengthening their domestic operations at the same time.

III.6. Promising Countries/Regions over the Medium-Term: Change in Percentage Shares (By Industry)

Figure 29: Trend of percentage shares (Automobiles)



■ In automobiles, shares of India and China increase, while Mexico and Indonesia fall

- Looking at the percentage shares by industry, India and China further increased their shares in automobiles. In both countries, in addition to their enormous markets, the countries' industrial development policies are highly recognized: such as the so-called "C.A.S.E" capabilities, including electric vehicles.
- Regarding market growth, in 2017, India surpassed Germany in auto sales, and its percentage increase was also high, 10% year-on-year. In Thailand, sales volume increased for the first time since 2013, and led to the increase in percentage share as a promising country this year.
- Meanwhile, Mexico's percentage share continued to decrease, its rank dropping to fifth. The percentage share of US grew steadily as in the previous survey.

■ India ranks first in Electrical Equipment & Electronics, while China at the top in Chemicals and General machinery

- In electrical equipment & electronics, India came up to first place, as industrial clustering progressed, including R&D bases. Vietnam fell to third from first in the previous year, and Thailand is closing gap with active IoT investment.
- In chemicals, China ranked first. China is seen as promising by companies trading raw materials, and also those that can take advantage of the strict environmental regulations.
- Also in general machinery, China ranked first against the backdrop of increasing demand for industrial machinery and labor-saving robots. Also, though not shown in the figure, China ranked first in precision machinery and textiles, so its popularity rose in broad range of industries.
- In food (though not shown in the figure), Indonesia rose to first place after staying in second place for two consecutive years.

Figure 30: Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs. or so) (By Major 4 Industries)

Automobiles

Rank	Country	FY2018 (Total 89)	FY2017 (Total 86)
1	India	52	48
2	China	50	44
3	Indonesia	28	31
3	Thailand	28	17
5	Mexico	26	34
6	US	20	16
7	Vietnam	15	16
8	Philippines	9	6
9	Brazil	8	12
10	Myanmar	6	2

Electrical Equipment & Electronics

Rank	Country	FY2018 (Total 59)	FY2017 (Total 69)
1	India	36	31
2	China	26	27
3	Vietnam	20	32
4	Thailand	19	17
5	US	11	19
5	Philippines	11	14
7	Indonesia	10	20
8	Myanmar	8	7
9	Malaysia	7	4
10	Mexico	6	7

Chemicals

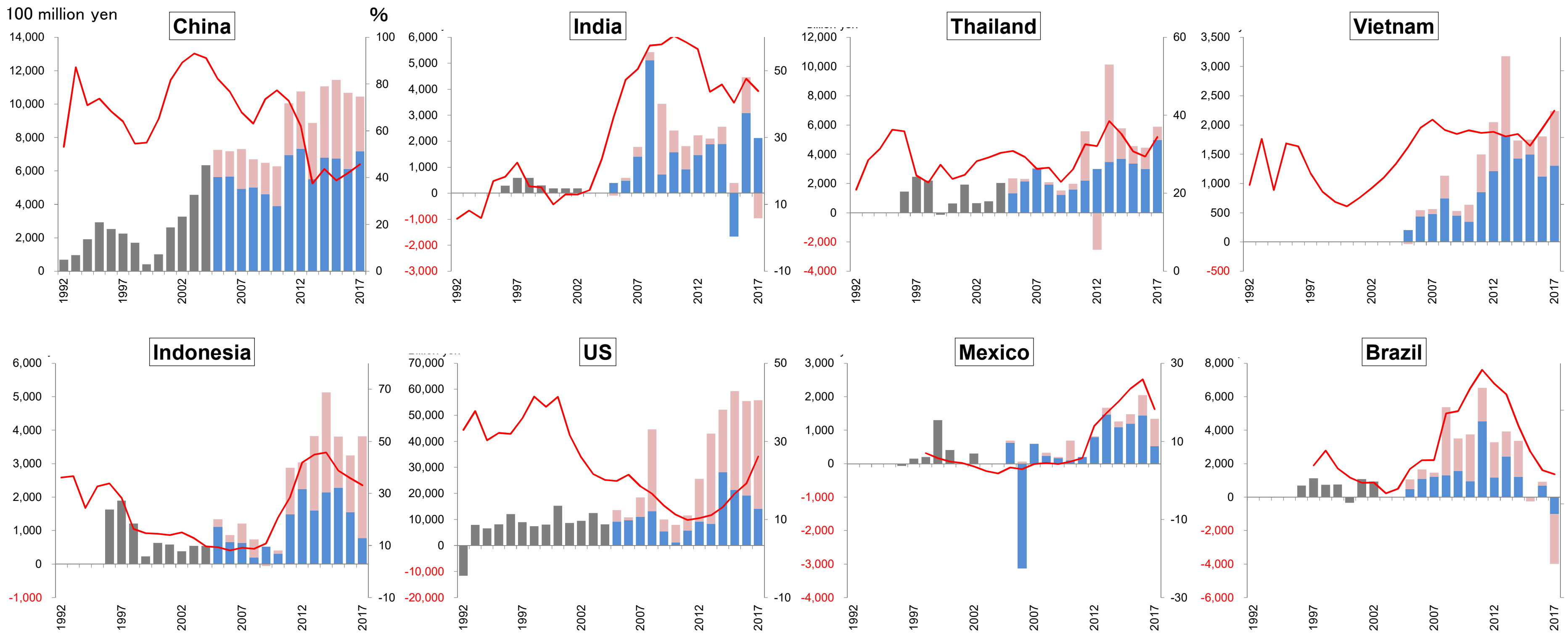
Rank	Country	FY2018 (Total 55)	FY2017 (Total 61)
1	China	37	37
2	Vietnam	27	28
3	India	25	27
4	Thailand	23	31
5	US	22	18
6	Indonesia	17	16
7	Mexico	6	9
7	Korea	6	6
9	Malaysia	5	4
9	Taiwan	5	2

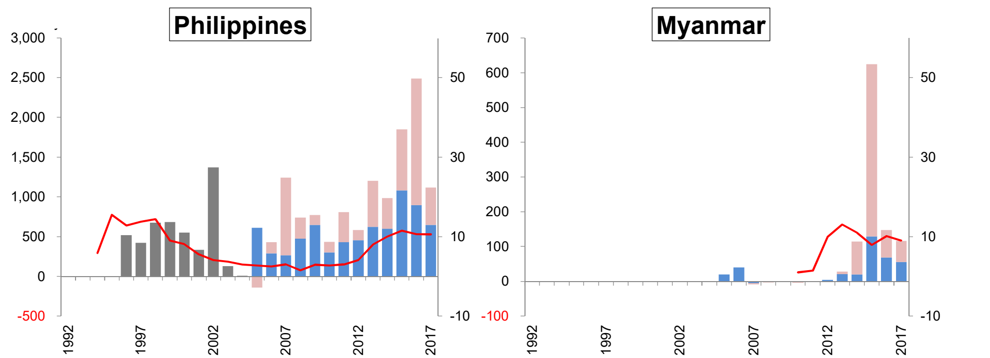
General Machinery

Rank	Country	FY2018 (Total 47)	FY2017 (Total 48)
1	China	24	20
2	India	19	24
2	Thailand	19	20
2	Vietnam	19	19
5	Indonesia	17	19
6	US	16	13
7	Germany	6	0
8	Myanmar	5	6
9	Mexico	4	5
9	Malaysia	4	3
9	Philippines	4	3

III.7. Promising Countries/Regions over the Medium-Term: Percentage Share and Outward FDI of Japan

Figure 31: Percentage Share and Outward FDI of Japan (1992-2017)





■FDI ■FDI (Manufacturing) ■FDI (Non-Manufacturing)
— Promising Country Percentage Share (right axis)

■Correlation between percentage share and outward Japanese FDI can be seen

- We conducted an analysis on the relationship between the percentage share as medium-term promising countries in our Promising Country/Region Survey and the actual amount of outward FDI from Japan, using long-term data (1992-2017).
- The results show some correlation between our Survey data and FDI. Specifically, in countries that are in the phase of receiving initial FDI from Japan, percentage shares tend to rise ahead of actual inflow of direct investment(e.g., Indonesia, India, Vietnam, Myanmar).

(Data sources) Ministry of Finance's "Monthly Finance Review (Balance of Payments Feature: Balance of Payments by Region)" (1992-2004)
Bank of Japan's "Balance of Payments (Direct Investment by Industry and Region)" (2005-2014)
Bank of Japan's "Balance of Payments (Direct Investment Flow)" (2015-2017)
Note: There is no data industry based data for 2005 and before, so only the total amount is shown.

III.8. Promising Countries/Regions over the Medium-Terms: Reasons and Issues (Top 10 countries)

No. 1: China

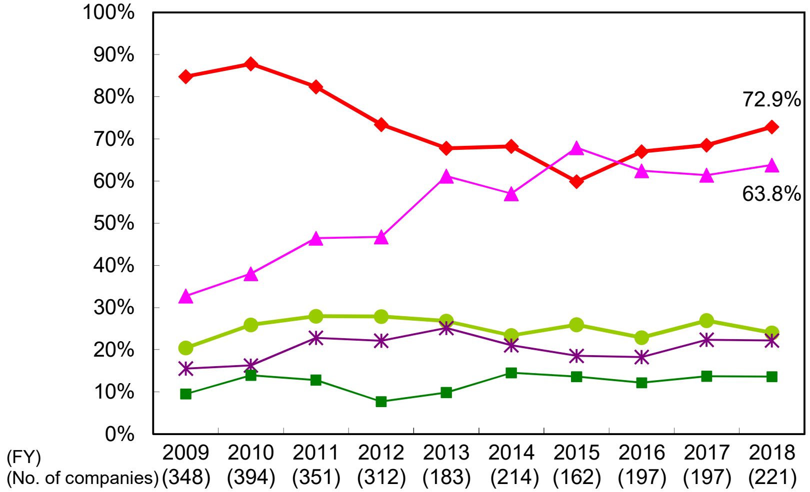
Reasons

(Note 1) (Note 2)

(Total No. of respondent companies: 221)

		No. of companies	Ratio(Legend)
1	Future growth potential of local market	161	72.9%
2	Current size of local market	141	63.8%
3	Supply base for assemblers	53	24.0%
4	Concentration of industry	49	22.2%
5	Developed local infrastructure	30	13.6%

Past Trend

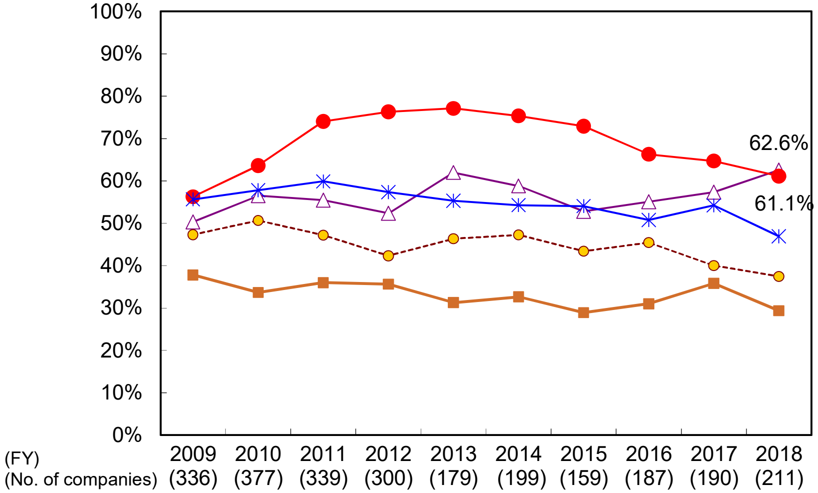


Issues

(Total No. of respondent companies: 211)

		No. of companies	Ratio(Legend)
1	Intense competition with other companies	132	62.6%
2	Rising labor costs	129	61.1%
3	Execution of legal system unclear	99	46.9%
4	Insufficient protection for intellectual property rights	79	37.4%
5	Restrictions on foreign currency/ transfers of money overseas	62	29.4%

Past Trend



- The top two reasons for choosing China as a promising country were the same as FY2017; “Future growth potential of local market” (72.9%) and “Current size of local market” (63.8%), which shows that the Chinese market continues to be highly anticipated. Third place was “Supply base for assemblers” (24.0%), and fourth place was “Concentration of industry” (22.2%).
- The top issue was “Intense competition with other companies” (62.6%), with its ratio on an upward trend since FY2015. Second was “Rising labor costs” (61.1%), which has been declining since FY2013, but remains at a high level of over 60%. Third place was “Execution of legal system unclear” (46.9%). Fourth place was “Insufficient protection for intellectual property rights” (37.4%), and fifth place was “Restrictions on foreign currency/ transfers of money overseas” (29.4%), both at high levels compared to other countries.

Note 1: The “No. of companies” here refers to the number of companies that responded to questions concerning “reasons for being a promising country” and “issues” out of the number of companies that listed the country/region in Figure 27. For this reason, the number of companies here may not be the same as in Figure 27.
Note 2: “Ratio” refers to the number of companies that cited “reasons for being a promising country” or “issues “ divided by the total number of respondent companies.

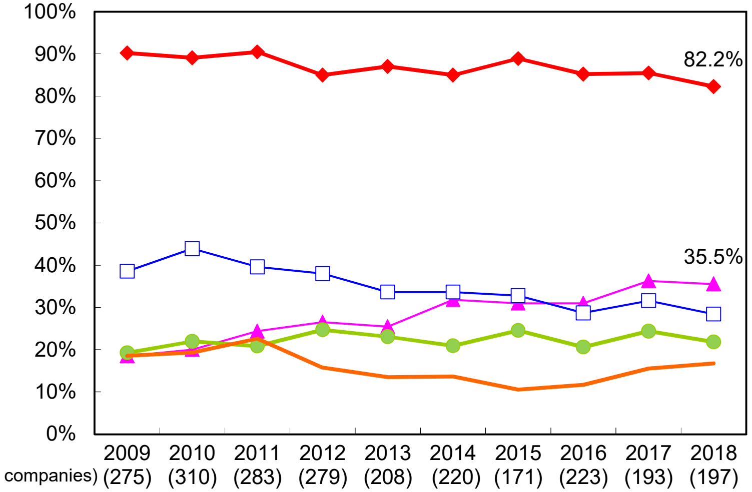
No. 2: India

Reasons

Past Trend

(Total No. of respondent companies: 197)

		No. of companies	Ratio (Legend)
1	Future growth potential of local market	162	82.2%
2	Current size of local market	70	35.5%
3	Inexpensive source of labor	56	28.4%
4	Supply base for assemblers	43	21.8%
5	Qualified human resources	33	16.8%

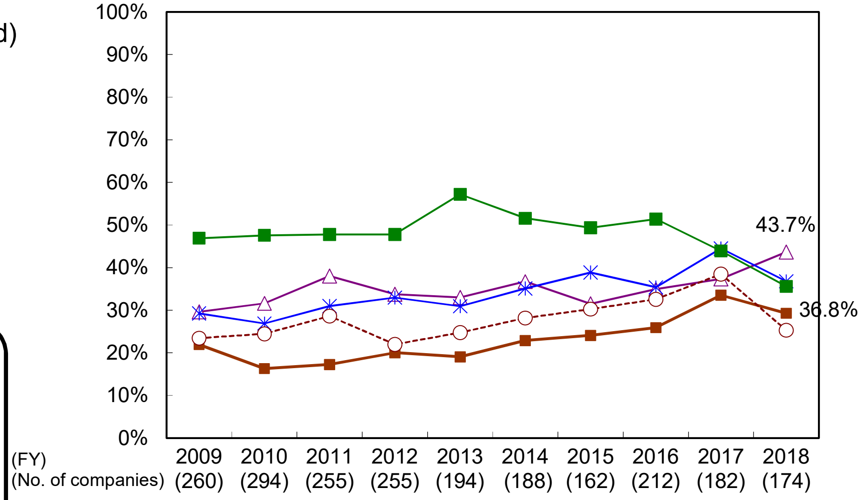


Issues

Past Trend

(Total No. of respondent companies: 174)

		No. of companies	Ratio (Legend)
1	Intense competition with other companies	76	43.7%
2	Execution of legal system unclear	64	36.8%
3	Underdeveloped infrastructure	62	35.6%
4	Execution of tax system unclear	51	29.3%
5	Complicated tax system	44	25.3%



- The top reason was "Future growth potential of local market" with a ratio of 82.2%, which was the highest among the top 10 countries. Second place was "Current size of local market" (35.5%), which has been increasing gradually, showing that India is becoming more attractive as a market.
- As for issues, "Execution of legal system unclear," which was the top issue in the previous survey, continued to be high at 36.8%, but ranked second after declining by 7.7 points. The top issue for this year was "Intense competition with other companies" (43.7%), increased by 6.3 points from 37.4% in the previous year. "Underdeveloped infrastructure" (35.6%), which had been the first place issue for many years and was second last year, fell to third. Fourth place "Execution of tax system unclear" (29.3%) and fifth place "Complicated tax system" (25.3%) fell from the previous fiscal year, suggesting that tax system reforms implemented in FY2017 have been fairly well received.

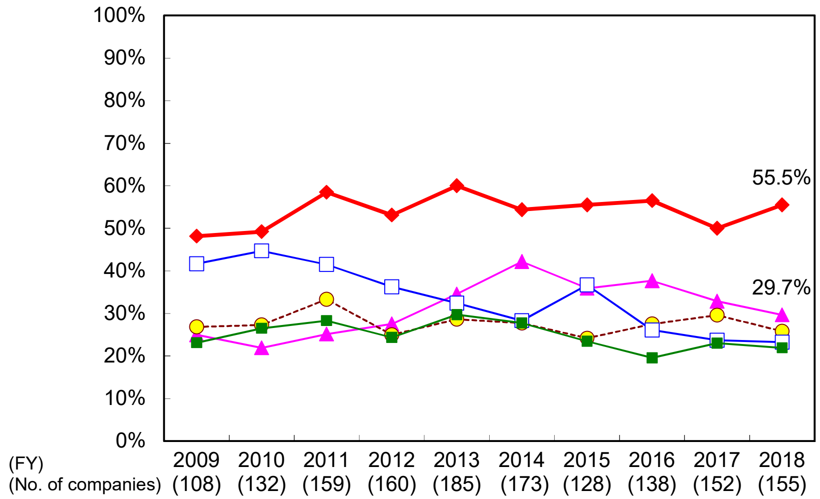
No. 3: Thailand

Reasons

Past Trend

(Total No. of respondent companies: 155)

		No. of companies	Ratio (Legend)
1	Future growth potential of local market	86	55.5%
2	Current size of local market	46	29.7%
3	Base of export to third countries	40	25.8%
4	Inexpensive source of labor	36	23.2%
5	Developed local infrastructure	34	21.9%

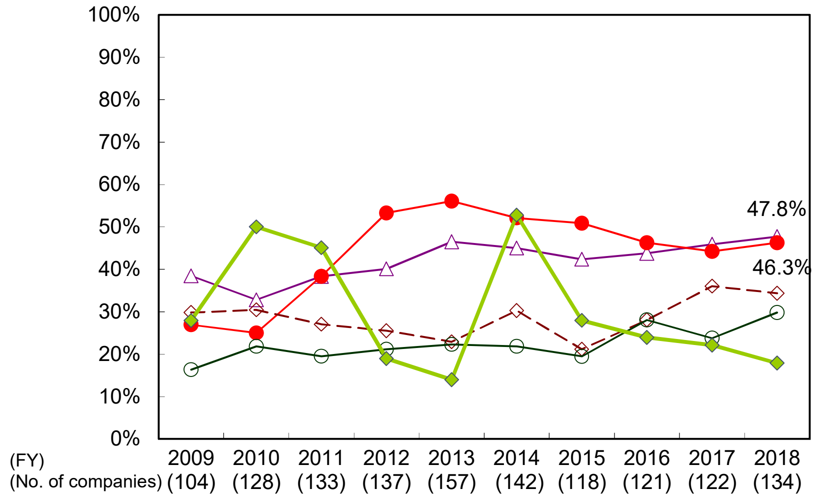


Issues

Past Trend

(Total No. of respondent companies: 134)

		No. of companies	Ratio (Legend)
1	Intense competition with other companies	64	47.8%
2	Rising labor costs	62	46.3%
3	Difficult to secure management-level staff	46	34.3%
4	Difficult to secure technical/engineering staff	40	29.9%
5	Security/social instability	24	17.9%



- Market-related reasons continued to hold the top ranks, as “Future growth potential of local market” (55.5%) took first place, and “Current size of local market” (29.7%) took second place. Third place “Base of export to third countries” (25.8%) is increasing votes as one of the attractive features of Thailand. “Inexpensive source of labor,” which was ranked first in FY2007, has been gradually declining and fell to 23.2% this year.
- As for issues, like last year, “Intense competition with other companies” (47.8%) took first place, and its ratio has been increasing within the 40 to 49% range since FY2015. Like last year, second place was “Rising labor costs” (46.3%), and though it is in a decreasing trend, it still remains at a high level. Third place “Difficult to secure management-level staff” (34.3%) is also high. “Security/social instability,” which once reached 52.8% in the past, has decreased to 17.9%.

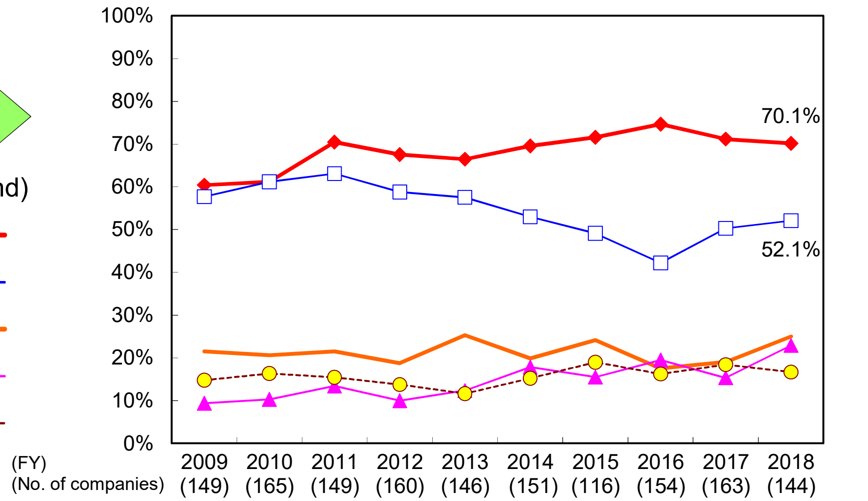
No. 4: Vietnam

Reasons

Past Trend

(Total No. of respondent companies: 144)

		No. of companies	Ratio	(Legend)
1	Future growth potential of local market	101	70.1%	
2	Inexpensive source of labor	75	52.1%	
3	Qualified human resources	36	25.0%	
4	Current size of local market	33	22.9%	
5	Base of export to third countries	24	16.7%	

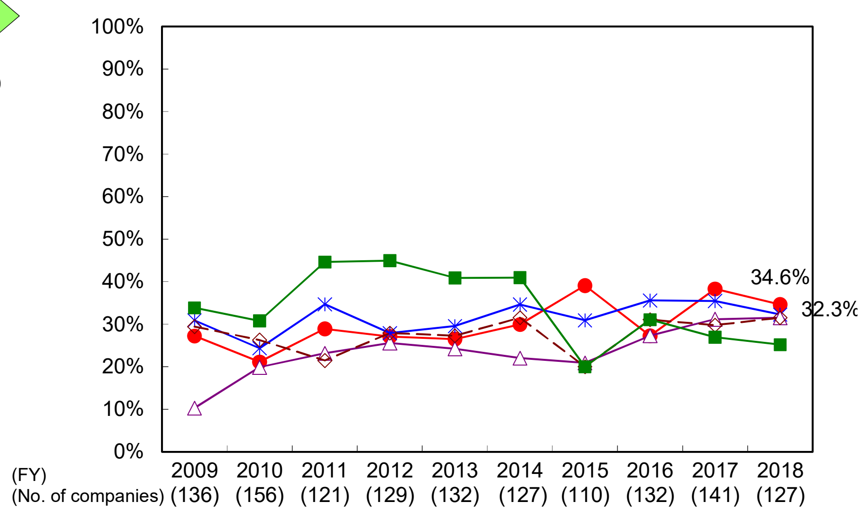


Issues

Past Trend

(Total No. of respondent companies: 127)

		No. of companies	Ratio	(Legend)
1	Rising labor costs	44	34.6%	
2	Execution of legal system unclear	41	32.3%	
3	Intense competition with other companies	40	31.5%	
3	Difficult to secure management-level staff	40	31.5%	
5	Underdeveloped infrastructure	32	25.2%	



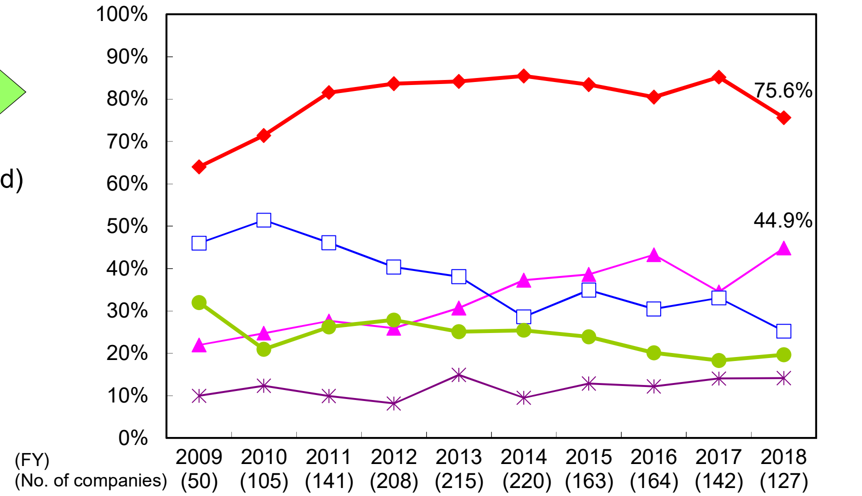
- Like last year, the top reason was “Future growth potential of local market,” with a ratio of 70.1%. The second place “Inexpensive source of labor” had been in a decreasing trend in recent years, but this year it rose to 52.1%, the highest level among the top 10 countries after Myanmar (66.7%) and the Philippines (54.8%). This high rating alongside “Qualified human resources” (25.0%) is a distinctive feature of Vietnam. “Social/political situation stable” had a high ratio (16.0.%), making Vietnam, the US and Malaysia (both 23.5%) the only countries with a double-digit ratio for this response among the top 10 countries.
- “Rising labor costs” (34.6%) took first place as an issue. “Execution of legal system unclear” (32.3%) ranked second and “Intense competition with other companies” (31.5%) ranked third. Fifth place “Underdeveloped infrastructure” fell by 1.8 points from the previous year but continued to be at a high level (25.2%).

No. 5: Indonesia

Reasons

Past Trend

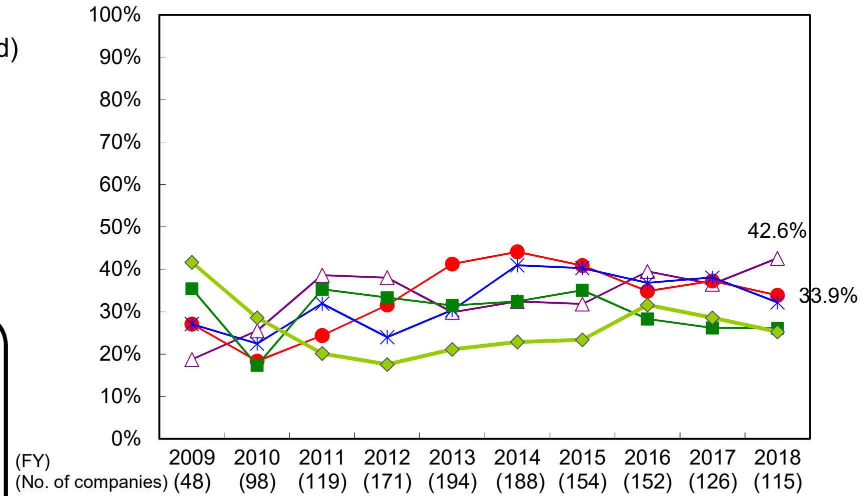
	(Total No. of respondent companies: 127)	No. of companies	Ratio (Legend)
1	Future growth potential of local market	96	75.6%
2	Current size of local market	57	44.9%
3	Inexpensive source of labor	32	25.2%
4	Supply base for assemblers	25	19.7%
5	Concentration of industry	18	14.2%



Issues

Past Trend

	(Total No. of respondent companies: 115)	No. of companies	Ratio (Legend)
1	Intense competition with other companies	49	42.6%
2	Rising labor costs	39	33.9%
3	Execution of legal system unclear	37	32.2%
4	Underdeveloped infrastructure	30	26.1%
5	Security/social instability	29	25.2%



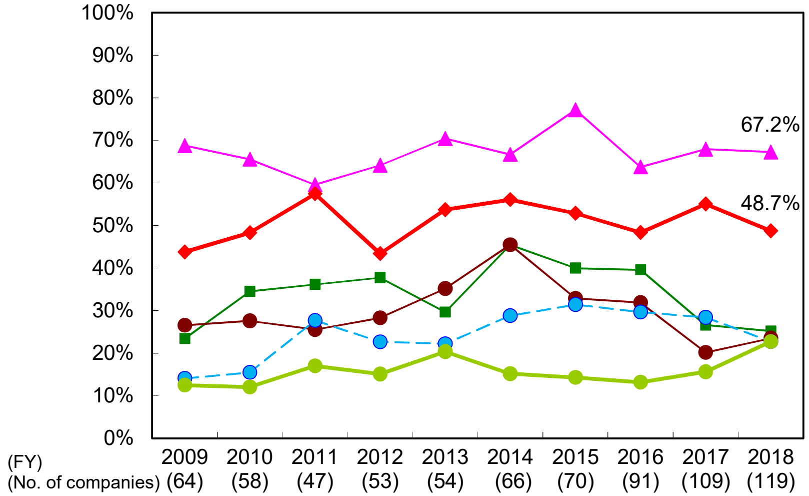
- The top reason was "Future growth potential of local market." The ratio was 75.6%, the second highest after India, showing that expectations for the market's future potential remain high. However, the ratio has declined from the previous year, in contrast to China and Thailand. On the other hand, the ratio of second place reason "Current size of local market" (44.9%) increased by 10.4 points from the previous year. Third place "Inexpensive source of labor" (25.2%) declined significantly, by 7.9 points from the previous year.
- The top issue was "Intense competition with other companies" (42.6%), which ranked third in the previous survey. "Rising labor costs" (33.9%) was second, declining somewhat from the previous year, and "Execution of legal system unclear" (32.2%), which ranked first in the previous year, was third, hitting the lowest level since FY2013. This suggests that system-related reforms are being fairly well received.

No. 6: the United States

Reasons

Past Trend

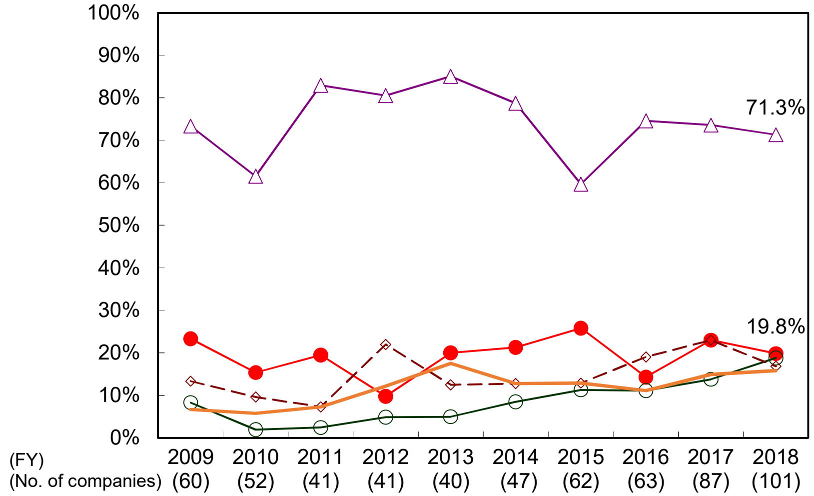
	(Total No. of respondent companies: 119)	No. of companies	Ratio	(Legend)
1	Current size of local market	80	67.2%	
2	Future growth potential of local market	58	48.7%	
3	Developed local infrastructure	30	25.2%	
4	Social/political situation stable	28	23.5%	
5	Profitability of local market	27	22.7%	
5	Supply base for assemblers	27	22.7%	



Issues

Past Trend

	(Total No. of respondent companies: 101)	No. of companies	Ratio	(Legend)
1	Intense competition with other companies	72	71.3%	
2	Rising labor costs	20	19.8%	
3	Difficult to secure technical/engineering staff	19	18.8%	
4	Difficult to secure management-level staff	17	16.8%	
5	Increased taxation	16	15.8%	



- As for reasons for being promising, “Current size of local market” (67.2%) took first place and “Future growth potential of local market” (48.7%) took second place. The ratios of these reasons fell from the previous year, but remain high, showing that the level of anticipation toward the huge US market continues to be high both in current and future terms.
- As for issues, “Intense competition with other companies” (71.3%) remained in first place, and many companies named the harsh competitive environment as a challenge. Labor-related issues occupied second place and lower (“Rising labor costs” (19.8%), “Difficult to secure technical/engineering staff” (18.8%), “Difficult to secure management-level staff” (16.8%), and “Increased taxation” (15.8%)). However, the ratios were all low compared to “Intense competition with other companies,” showing the maturity of the market.

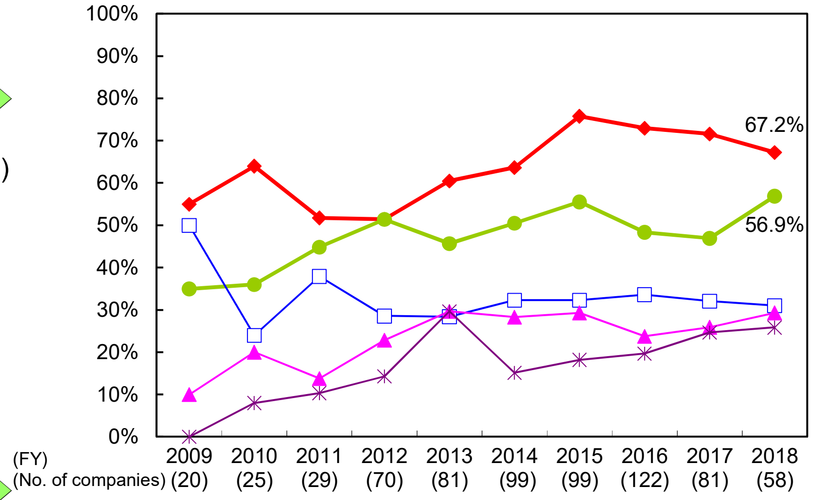
No. 7: Mexico

Reasons

Past Trend

(Total No. of respondent companies: 58)

		No. of companies	Ratio	(Legend)
1	Future growth potential of local market	39	67.2%	
2	Supply base for assemblers	33	56.9%	
3	Inexpensive source of labor	18	31.0%	
4	Current size of local market	17	29.3%	
5	Concentration of industry	15	25.9%	

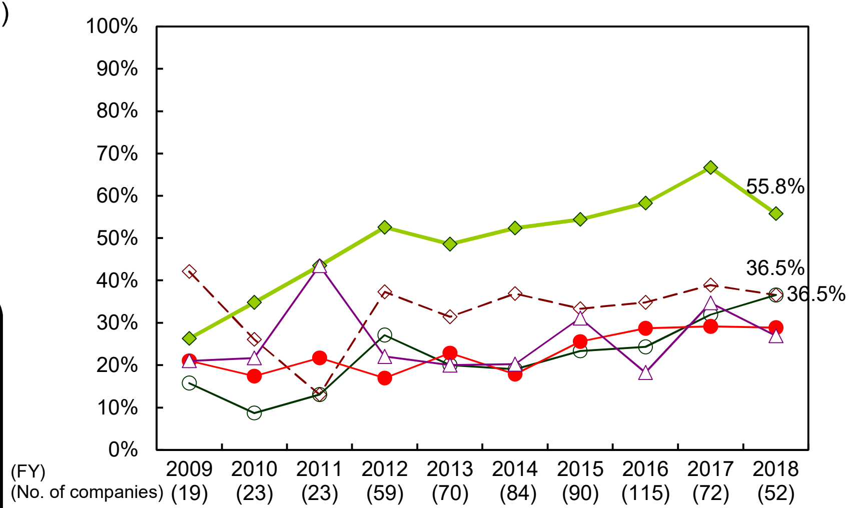


Issues

Past Trend

(Total No. of respondent companies: 52)

		No. of companies	Ratio	(Legend)
1	Security/social instability	29	55.8%	
2	Difficult to secure management-level staff	19	36.5%	
2	Difficult to secure technical/engineering staff	19	36.5%	
4	Rising labor costs	15	28.8%	
5	Intense competition with other companies	14	26.9%	



- As for reasons for being promising, “Future growth potential of local market” (67.2%) took first place, as it did in the previous year. The ratio of second place “Supply base for assemblers” (56.9%) was the highest among the top 10 countries, which shows that there are many business forays by automobile-related companies in Mexico. The ratio of fifth place “Concentration of industry” increased by 1.2 points from 24.7% in the previous year to 25.9%, and this appears to be recognized as one of the attractive features of Mexico.
- As for issues, “Security/social instability” (55.8%) took first place. While this had been in an increasing trend since FY2013, it fell this year by 10.9 points compared to FY2017. This reflects the high expectations toward the new administration, which came to power on a platform of anti-corruption and security measures. However, this ratio remains to be the highest among the top 10 countries, and whether it keeps declining will depend on how the policies are implemented. The ratios of “Difficult to secure management-level staff” (36.5%), “Difficult to secure technical/engineering staff” (36.5%), and “Rising labor costs” (28.8%) indicate that companies face labor-related issues that comes from actual operation.

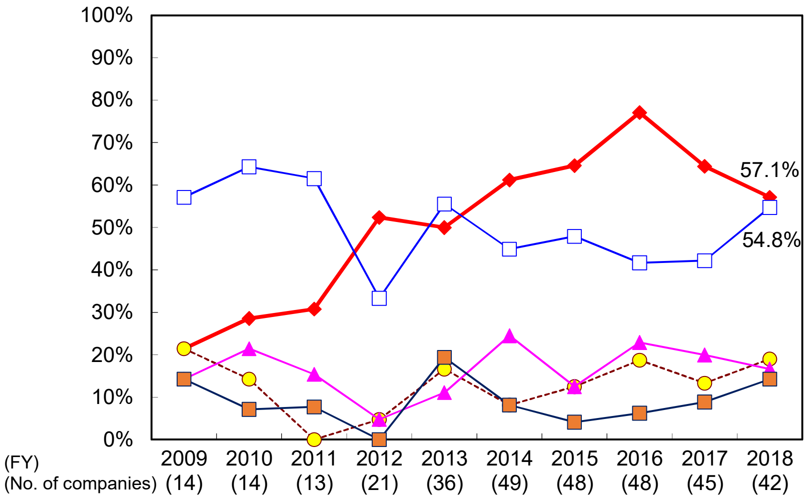
No. 8: Philippines

Reasons

(Total No. of respondent companies: 42)

		No. of companies	Ratio	(Legend)
1	Future growth potential of local market	24	57.1%	
2	Inexpensive source of labor	23	54.8%	
3	Base of export to third countries	8	19.0%	
4	Current size of local market	7	16.7%	
5	Base of export to Japan	6	14.3%	

Past Trend

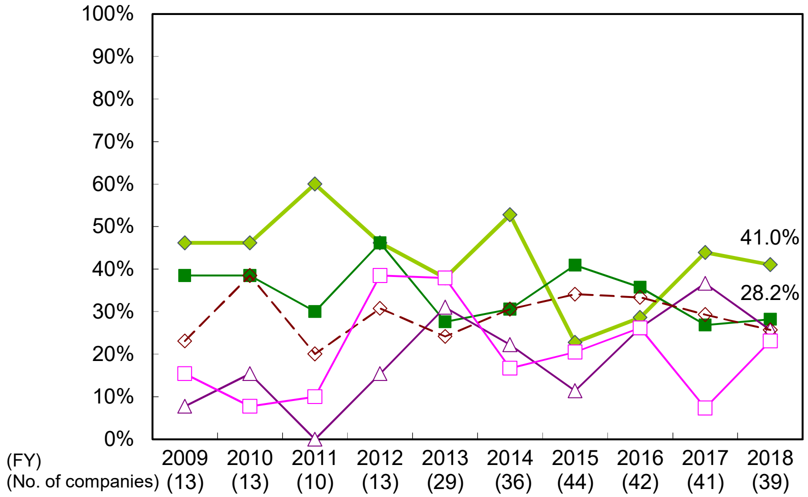


Issues

(Total No. of respondent companies: 39)

		No. of companies	Ratio	(Legend)
1	Security/social instability	16	41.0%	
2	Underdeveloped infrastructure	11	28.2%	
3	Intense competition with other companies	10	25.6%	
3	Difficult to secure management-level staff	10	25.6%	
5	Underdeveloped local supporting industries	9	23.1%	

Past Trend



- As for reasons, “Future growth potential of local market” (57.1%) took first place, and while anticipation regarding the future potential of this market continues to be high, the ratio of this response dropped by 7.3 points from the previous year. Second place was “Inexpensive source of labor” (54.8%), the highest among the top 10 countries after Myanmar. Third place “Base of export to third countries” (19.0%) and fifth place “Base of export to Japan” increased slightly.
- Like last year, the first place issue was “Security/social instability.” Its ratio dropped 2.9 points from the previous year to 41.0%, but remains high. Frequent terrorist attacks and clashes with Islamic extremists in the southern part of the country have caused strong security-related concerns.

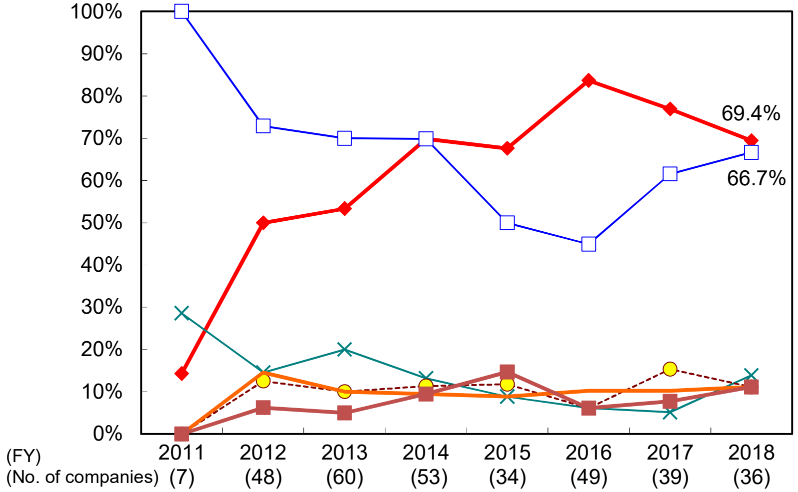
No. 9: Myanmar

Reasons

(Total No. of respondent companies: 36)

		No. of companies	Ratio	(Legend)
1	Future growth potential of local market	25	69.4%	
2	Inexpensive source of labor	24	66.7%	
3	Good for risk diversification to other countries	5	13.9%	
4	Base of export to third countries	4	11.1%	
4	Qualified human resources	4	11.1%	
4	Tax incentives for investment	4	11.1%	

Past Trend

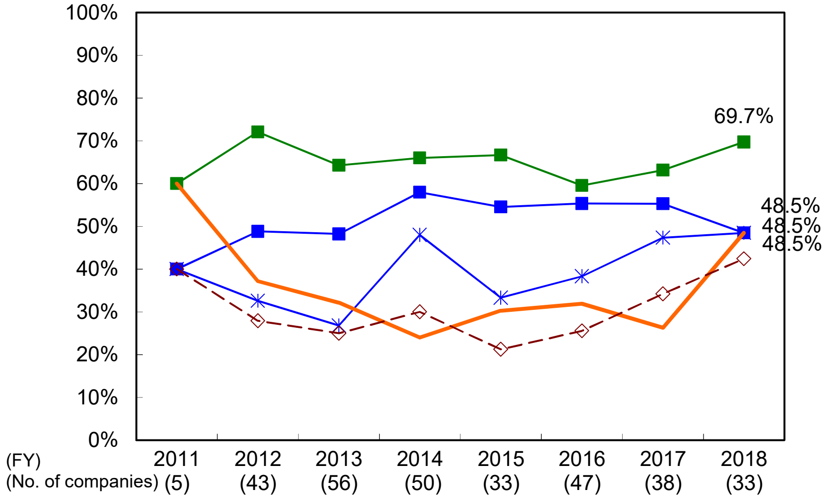


Issues

(Total No. of respondent companies: 33)

		No. of companies	Ratio	(Legend)
1	Underdeveloped infrastructure	23	69.7%	
2	Underdeveloped legal system	16	48.5%	
2	Execution of legal system unclear	16	48.5%	
2	Lack of information on the country	16	48.5%	
5	Difficult to secure management-level staff	14	42.4%	

Past Trend



- The top reason for being promising was “Future growth potential of local market” with a ratio of 69.4%, though it has been decreasing since FY2016. Second place was “Inexpensive source of labor” (66.7%), whose ratio increased, was the highest among the top 10 countries, and this continues to be an attractive feature of Myanmar.
- As for issues, like the previous year, “Underdeveloped infrastructure” took first place, and around 70% of companies that listed Myanmar as a promising country named this as an issue. Second place (48.5%) were “Underdeveloped legal system,” “Execution of legal system unclear,” and “Lack of information on the country.” Fifth place was “Difficult to secure management-level staff” (42.4%). Apparently, with the increase in Japanese companies doing business in Myanmar, issues that comes out from actual local operations are increasingly mentioned.

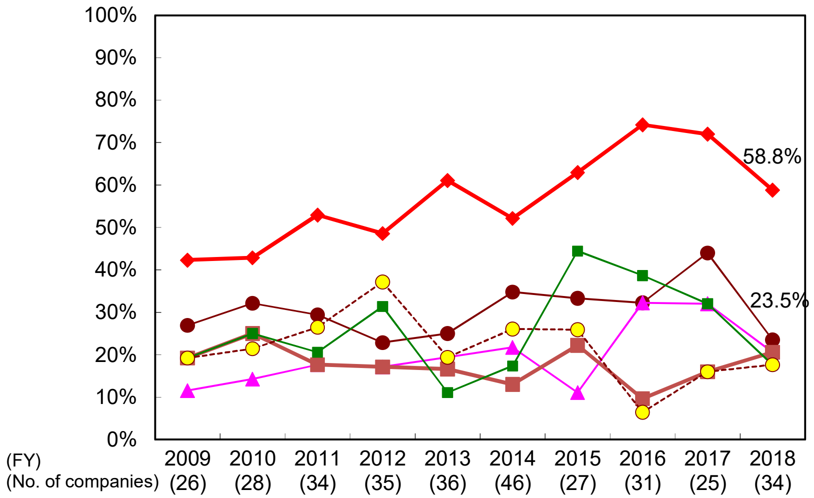
No. 10: Malaysia

Reasons

Past Trend

(Total No. of respondent companies: 34)

		No. of companies	Ratio
1	Future growth potential of local market	20	58.8%
2	Social/political situation stable	8	23.5%
3	Current size of local market	7	20.6%
3	Tax incentives for investment	7	20.6%
5	Developed local infrastructure	6	17.6%
5	Base of export to third countries	6	17.6%

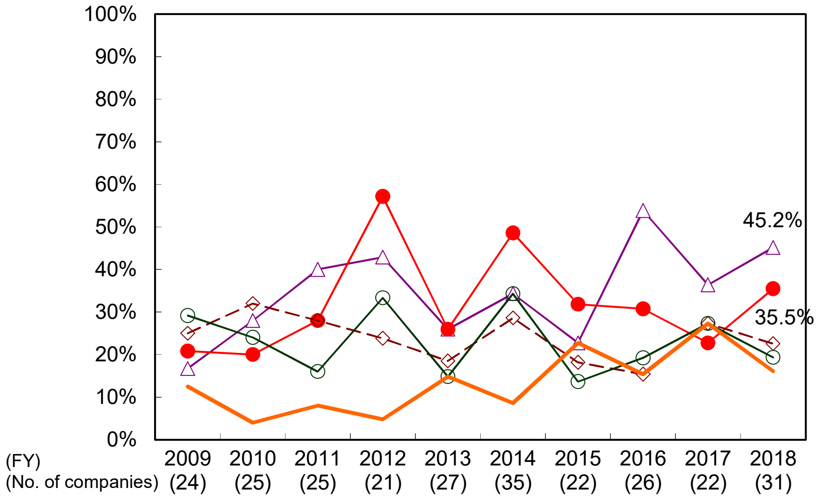


Issues

Past Trend

(Total No. of respondent companies: 31)

		No. of companies	Ratio
1	Intense competition with other companies	14	45.2%
2	Rising labor costs	11	35.5%
3	Difficult to secure management-level staff	7	22.6%
4	Difficult to secure technical/engineering staff	6	19.4%
5	Lack of information on the country	5	16.1%



- The top reason for being promising was “Future growth potential of local market” (58.8%) and second was “Social/political situation stable” (23.5%). While its appeal as a promising market is declining, fifth place “Base of export to third countries” (17.6%) is gradually increasing against a backdrop of strong exports.
- The first place issue was “Intense competition with other companies” (45.2%), which is at a high level. Second place was “Rising labor costs” (35.5%), showing that the labor market is maturing against a backdrop of the country’s stable economic foundation.

Q

This question is put to those respondents who did not list China, India, Vietnam, Thailand or Indonesia in their top 5 most promising countries over the medium term in Figure 27 above. Please select the reasons that apply from options 1-7 below for each individual country. (Multiple responses possible)

Figure 32: Reasons for Not Listing the Following Countries As Promising Countries over the Medium-term

	China (No. of respondent companies = 213)			India (No. of respondent companies = 188)			Thailand (No. of respondent companies = 236)			Vietnam (No. of respondent companies = 222)			Indonesia (No. of respondent companies = 244)		
1	1. We are already conducting business of a certain scale and do not intend to expand our business beyond that	60.6%	-	4. There is a lack of infrastructure in the area	34.6%	-	1. We are already conducting business of a certain scale and do not intend to expand our business beyond that	53.4%	-	1. We are already conducting business of a certain scale and do not intend to expand our business beyond that	30.6%	-	1. We are already conducting business of a certain scale and do not intend to expand our business beyond that	33.6%	-
2	3. Local labor costs are rising	42.7%	-	5. The local legal system has not been developed enough	20.7%	-	2. Intense competition with other companies is increasing	21.2%	-	4. There is a lack of infrastructure in the area	19.4%	-	4. There is a lack of infrastructure in the area	17.6%	-
3	2. Intense competition with other companies is increasing	26.3%	-	1. We are already conducting business of a certain scale and do not intend to expand our business beyond that	20.7%	↑	3. Local labor costs are rising	13.6%	-	2. Intense competition with other companies is increasing	12.2%	-	2. Intense competition with other companies is increasing	16.0%	-
4	6. The local social/political situation is unstable	7.0%	↑	2. Intense competition with other companies is increasing	19.1%	↓	7. The local economy is stagnating	8.9%	-	3. Local labor costs are rising	8.6%	↑	6. The local social/political situation is unstable	11.9%	↑
5	5. The local legal system has not been developed enough	5.2%	↑	6. The local social/political situation is unstable	9.0%	-	6. The local social/political situation is unstable	5.5%	-	5. The local legal system has not been developed enough	6.8%	↓	3. Local labor costs are rising	11.5%	↓
6	7. The local economy is stagnating	4.7%	↓	3. Local labor costs are rising	5.9%	-	4. There is a lack of infrastructure in the area	2.5%	-	6. The local social/political situation is unstable	5.0%	↑	5. The local legal system has not been developed enough	10.2%	↑
7	4. There is a lack of infrastructure in the area	0.0%	-	7. The local economy is stagnating	3.2%	-	5. The local legal system has not been developed enough	2.1%	-	7. The local economy is stagnating	4.1%	↓	7. The local economy is stagnating	7.8%	↓

Note: The arrows to the right of the country ratios show change in ranking. The dash means “no change,” the up arrow means “rose,” and the down arrow means “fell.”

■ Reasons for not listing countries as promising: “Already conducting business of a certain scale,” “Intense competition with other companies,” and “Rising labor costs”

- The most common reason for China, Thailand, Vietnam and Indonesia was “We are already conducting business of a certain scale and do not intend to expand our business beyond that.” Its response ratios were relatively high for China at 60.6% and Thailand at 53.4%. “Local labor costs are rising” was also high for every country, suggesting that their role as a production base will change in the medium term.

■“Lack of infrastructure” still a common reason

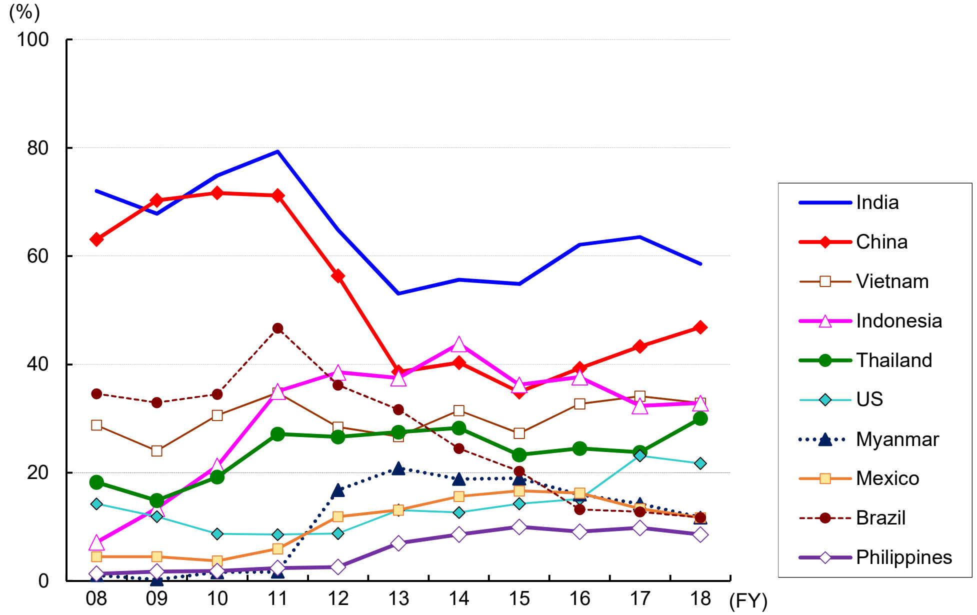
- The main reason for not listing India as a medium-term promising country was “There is a lack of infrastructure in the area” (response ratio of 34.6%), which was also the case with Vietnam (19.4%) and Indonesia (17.6%). Also, “The local legal system has not been developed enough” (20.7%) was more cited for India compared to other countries, indicating that there is still room for system-related improvement.

Figure 33: Promising Countries/Regions for Business Development over the Long-term (next 10 yrs. or so)

(1) FY2018 Results

Ranking 2018	←	Ranking 2017	Country/Region	No. of Companies 2018	No. of Companies 2017	Percentage Share(%) 2018	Percentage Share(%) 2017
			(Total)	350	337		
1	―	1	India	205	214	58.6	63.5
2	―	2	China	164	146	46.9	43.3
3	―	3	Vietnam	115	115	32.9	34.1
3	↑	4	Indonesia	115	109	32.9	32.3
5	―	5	Thailand	105	80	30.0	23.7
6	―	6	US	76	78	21.7	23.1
7	―	7	Myanmar	41	48	11.7	14.2
7	↑	8	Mexico	41	45	11.7	13.4
7	↑	9	Brazil	41	43	11.7	12.8
10	―	10	Philippines	30	33	8.6	9.8

(2) Trend in Percentage Share



■ India stays at the top as an promising country in the long term, but China is closing in

- India has ranked first for nine straight years, but its percentage share fell by 4.9 points. China remained in second place, and its percentage share increased by 3.6 points from the previous year, maintaining the uptrend.

■ Indonesia rises to third place with increased share

- Vietnam and Indonesia ranked third with the same percentage. In particular, Indonesia's percentage share and rank as a long-term promising country rose as companies highly assessed the gradual recovery in automobile sales volume, which slumped several years ago, along with its market size and growth potential.

■ Thailand's rate of increase in percentage share the largest among major countries

- Thailand's rank rose as a medium-term promising country, but remained at fifth as a long-term promising country, the same as the previous year. However, its percentage share increased by 6.3 points, the largest among major countries.

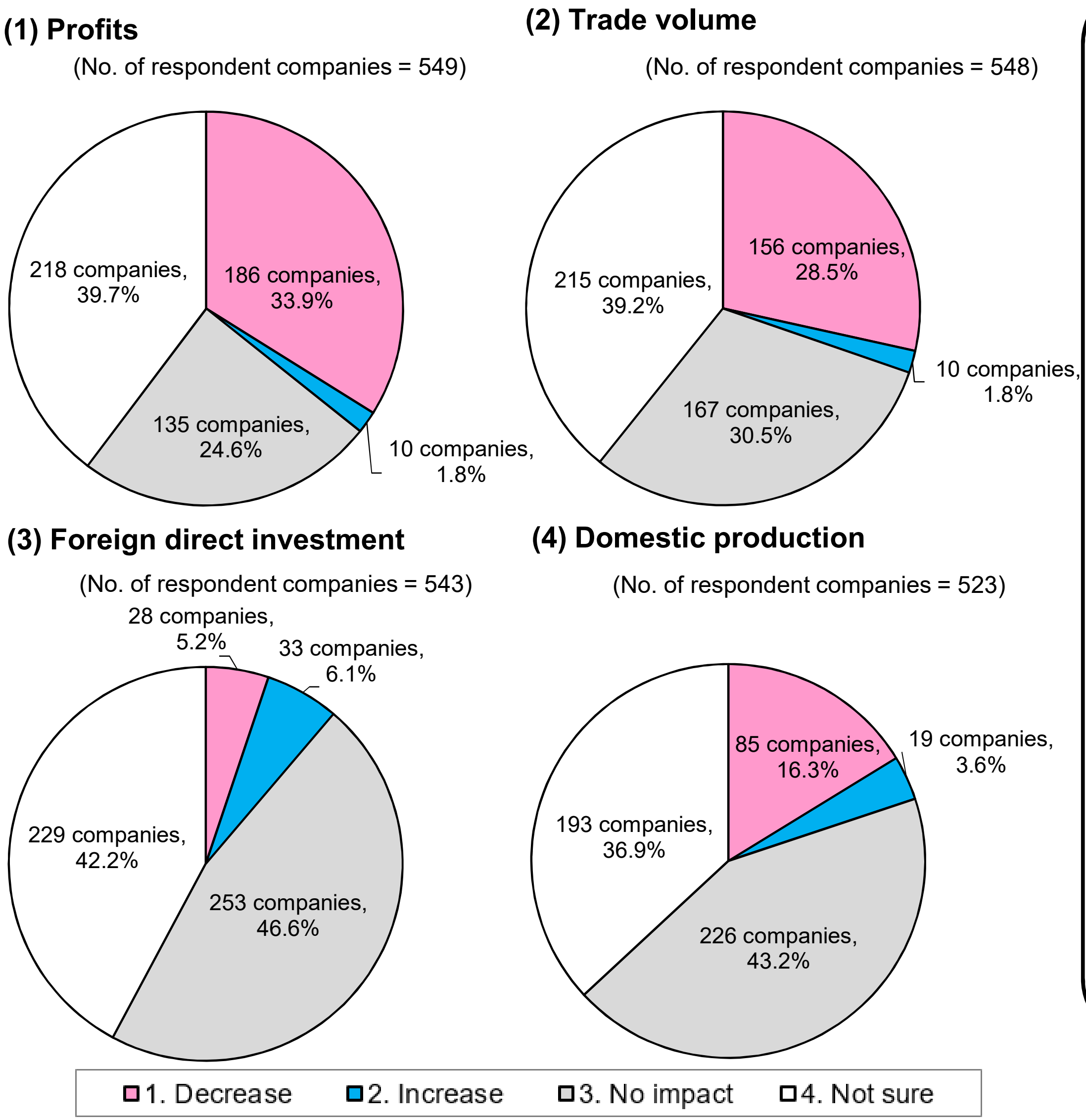
■ The US's percentage share declines

- The percentage share of the US increased sharply in FY2017, but declined this year. This seems to reflect the concerns over its trade policy.
- When comparing the preliminary results (July) and the final results (September), percentage share for the US fell from 22.2% to 21.7% while that of China increased by 3 points, from 43.9% to 46.9%, which means that China increased its percentage even though the trade tensions with the US were heightening at that moment.
- Mexico, Brazil, and Myanmar tied for seventh place. Mexico and Brazil's percentage shares decreased, but their rank rose. On the other hand, Myanmar's rank and percentage share both went down. Myanmar's share peaked at 20.8% in FY2013 and started to decline, and this year it hit 11.7%, suggesting that the investment boom has gradually subsided.

IV. Impact of Protectionism

Q 2018 has seen increased global trade tensions among countries (high tariffs imposed on specific items, etc.) Circle the answer that best describes the impact that continued or strengthened protectionism might have, or has already had, on your company's (1) profits, (2) trade volume, (3) foreign direct investment, and (4) domestic production.

Figure 34: Impact of protectionism



■Negative impact can already be seen in "revenue" and "trade transactions" but not so much in "foreign direct investment" and "domestic production"

- As for the impact of protectionism, considerable amount of companies are already expecting a decrease in "Revenue" and "Trade volume." Meanwhile, negative impacts on "Foreign direct investment" and "Domestic production" were yet to be seen, which indicates that companies are starting to acknowledge the short-term effects first.
- As for "Foreign direct investment" and "Domestic production," although negative effects did not appear strongly in the overall results, when we compare the preliminary results (answers up to July) and the final results (September), the latter had a slightly higher response rate of "Decrease." This suggests that prolonged protectionism will likely start to cast a negative impact on long-term investment activities.

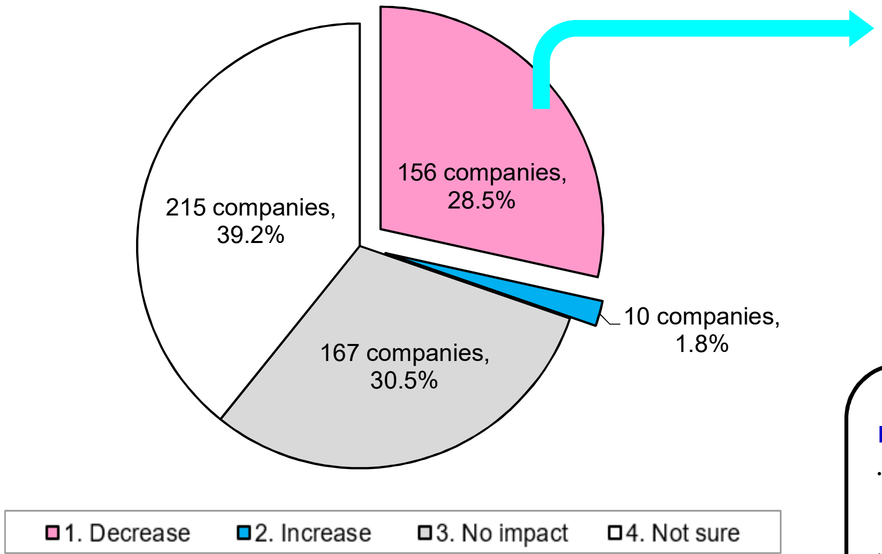
■30% of companies concerned about revenue decrease

- As for profits, "decrease" had a high response rate of 33.9%. By industry, the response rate of "Decrease" was the highest in nonferrous metals (56.0%), followed by automobiles with 50.9% (note that half of the nonferrous metals companies handle automobile-related products). Since the possibility of an additional automobile tariff by the US government was widely reported during the survey period, this might have affected the auto-related companies to strongly expect a fall in profits.
- When asked how the profits will "Decrease," companies not only mentioned the negative impact of raised tariffs, but also voiced concerns over the deterioration of business environment caused by the prolongation of the US-China trade dispute, such as "Decrease in capital investment among clients that export to US/China", "Decline in demand due to the economic slowdown in China", "Slowdown of flow of business resulting in delayed market growth," and "Oversupply of goods in the Asian markets resulting from the inflow of Chinese products that were previously destined for the US."

Figure 35: Impact on trade volume

(1) All Companies

(No. of respondent companies = 548)



(2) Major 4 Industries

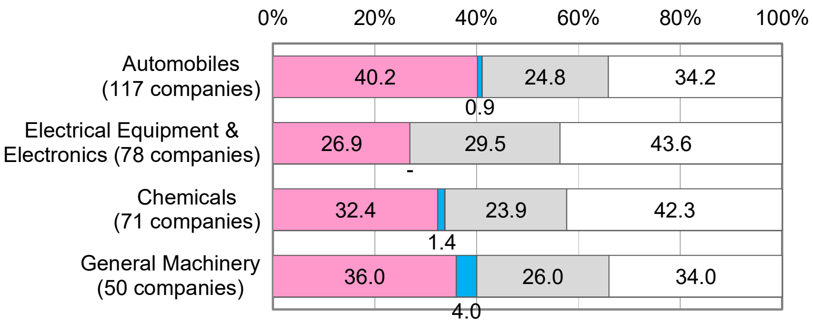
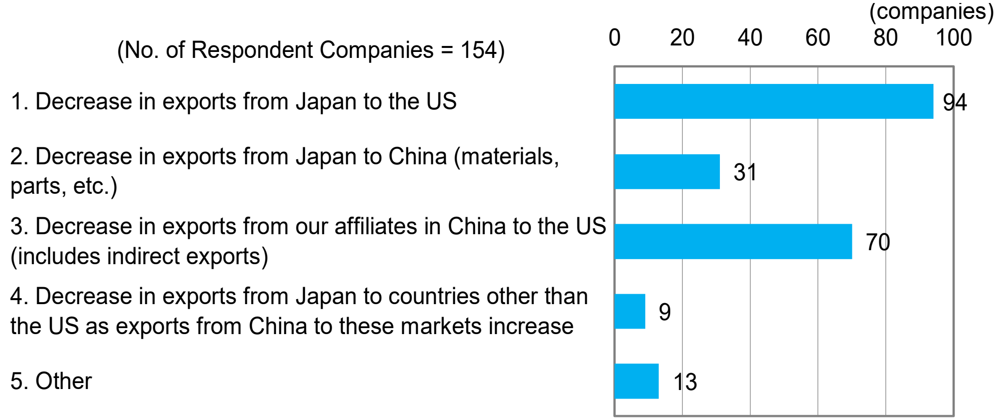


Figure 36: Reasons for decrease in trade volume



■ 30% of companies are concerned about decrease in trade volume

- As for the effects on trade volume, while "Not sure" had the highest response rate at 39.2%, and second highest was "No impact" at 30.5%, and 28.5% of companies expected a decrease in trade volume.
- By industry, automobiles had the highest ratio of companies expecting a decrease in trade volume, at 40.2%. In interviews, some said they were mostly worried about the possibility of an additional automobile tariff by the US.

■ Considerable number of companies expect decline in export volumes to the US

- As for reasons for choosing "Decline," the most common response was "Decrease in exports from Japan to the US" (94 companies), followed by "Decrease in exports from our affiliates in China to the US" (70 companies). More than half of the companies expecting a trade volume decrease are anticipating a fall in exports to the US.
- On the other hand, a small number of companies (1.8%, 10 companies) answered that they expect an increase in trade volume. When asked about their intention for choosing "Increase," they showed concerns over the trade policy trends of the major countries, but voiced their need to "maximize business opportunities by keeping up with the demand," and thus it does not necessarily mean that protectionist policies are positively motivating companies to increase trade.

Figure 37: Impact on FDI

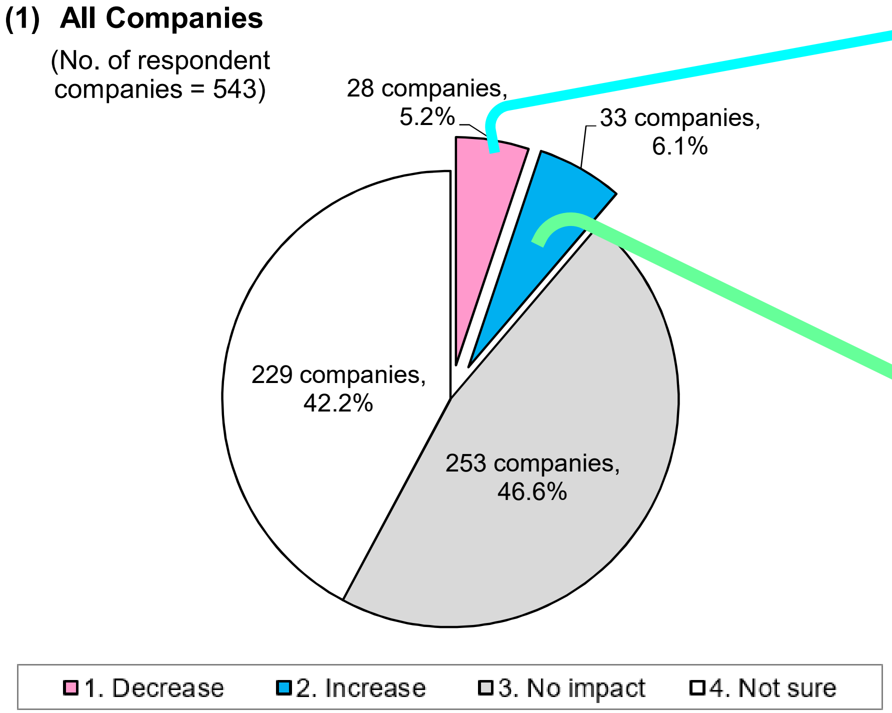


Figure 38: Reasons for decrease in FDI

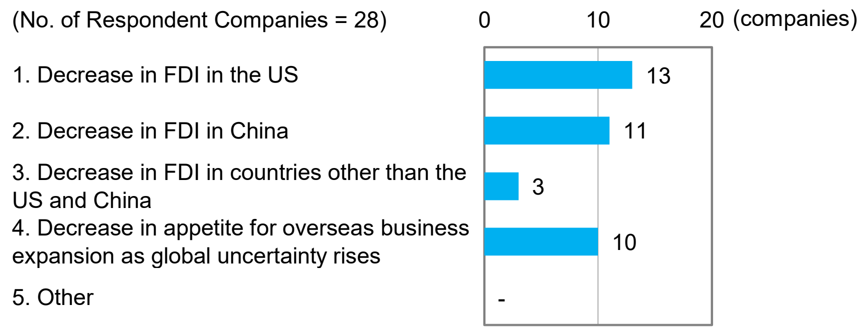
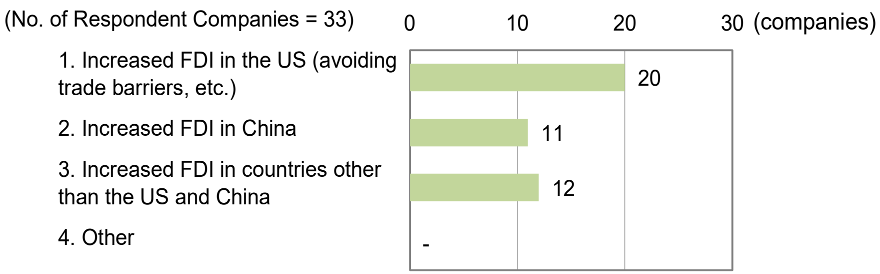


Figure 39: Reasons for increase in FDI



■ Impact on FDI are yet to be seen

- As for the impact of protectionism on FDI, the most common response was “No impact” at 46.6%, and movements toward restructuring supply chains or withdrawing overseas bases seem to be limited, at least at this point. However, in interviews, within the companies that chose “No impact” on FDI, there were some that showed a passive desire to maintain a status quo, saying “We are holding off on investment decisions due to increasing global uncertainty.” Moreover, many responded that they were “Not sure” of the impact, suggesting that it is possible that these companies might move to cut back or withdraw FDI depending on future policy trends.

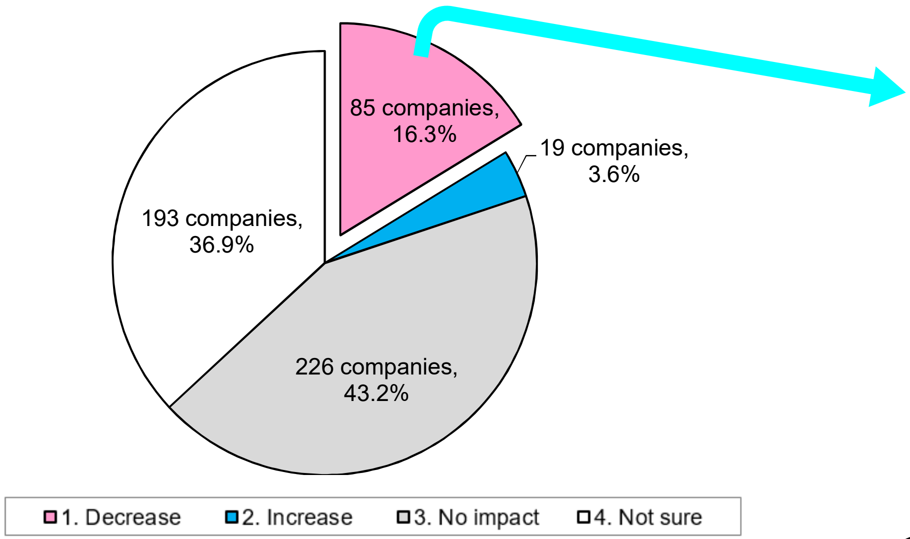
■ The Number of companies choosing “Increased FDI in countries other than the US and China” is relatively large

- For FDI, only 6.1% (33 companies) responded with “Increase,” and the respondents were mainly auto-related. When asked about the reasons why they chose “Increase,” some companies said “The market size of US and China is too big and is hard not to be attracted to, so we will continue to invest in these countries regardless of their trade policies,” suggesting that their answers are not necessarily influenced by protectionism. Meanwhile, 28 companies (5.2%) responded with “Decrease.”
- When comparing the reasons for increasing/decreasing FDI, for the US, the number of companies that chose “Increase” (20companies) was larger than that of “Decrease” (13companies). On the other hand, as for China, “Decrease” and “Increase” shared the same number (11 companies). Interestingly, as for FDI in the countries other than the US and China, “Increase” (12 companies) largely exceeded “Decrease” (3 companies). While it needs to be noted that the number of companies that gave these answers is very small, it seems that protectionism could have a impact on FDI trends not only in the countries and regions implementing such policies, but in other countries and regions as well.

Figure 40: Impact on domestic production

(1) All Companies

(No. of respondent companies = 523)



(2) Major 4 Industries

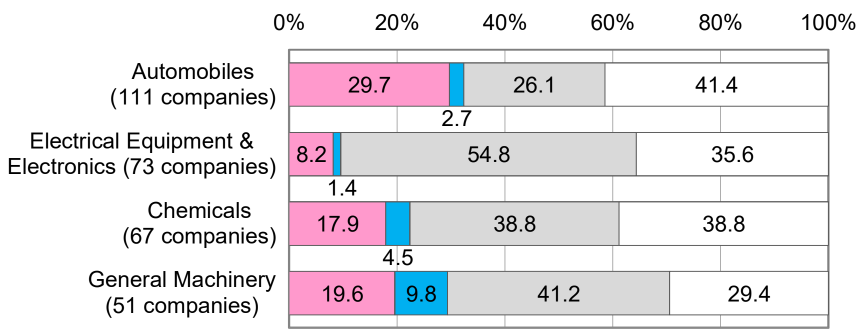
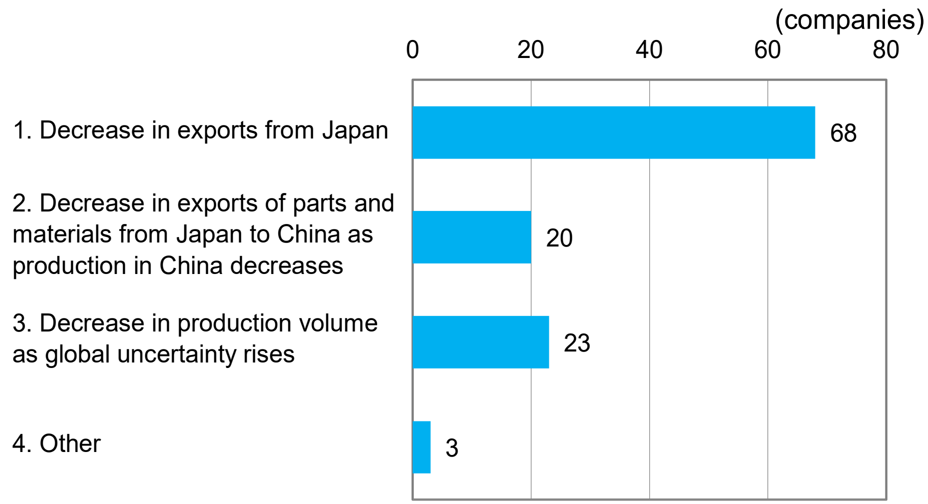


Figure 41: Reasons for decrease in domestic production

(No. of respondent companies = 83)



■ Exports from Japan might decrease

- As for the effects of protectionist policies on domestic production, the most common response was "No impact" (43.2%), and this was followed by "Not sure" (36.9%).
- While the response rate of "Decrease" (16.3%) in domestic production was small compared to that of profits (33.9%) and trade volume (28.5%)(see p.37), in interviews, some companies said that they "expect domestic production to decrease if trade volume decreases." By industry, automobiles had the highest response rate of "Decrease".
- When asked why domestic production will decrease, the most common response was "Decrease in exports from Japan" (68 companies), followed by "Decrease in production volume as global uncertainty rises" (23 companies).

Overview of Additional Survey

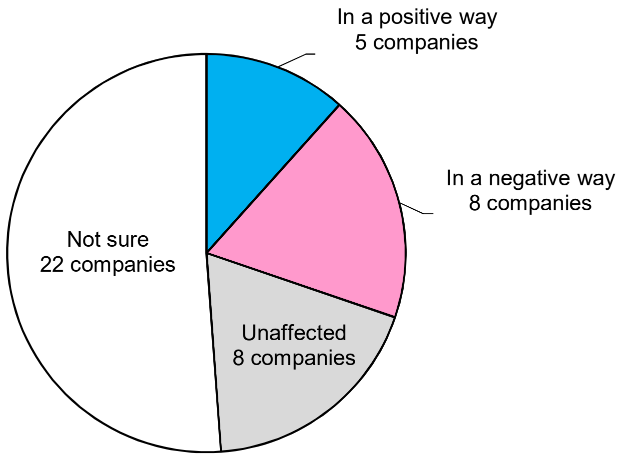
1. Target companies: Companies that named Mexico and Canada as medium-term promising countries
2. No. of companies survey sent: 59 (delivery and response by e-mail)
3. Responses Returned: 41 companies (Response rate: 69.5%)
4. Survey period: October 3rd ~10th, 2018
(*Responses received on or before October 17 are counted as valid)
5. Survey details:

Q1. In relation to the North American Free Trade Agreement (NAFTA) replacement deal, preliminary agreements were developed between the US and Mexico on August 27th, and between the US and Canada on September 30th. There are increasing expectations that a three-country framework will be maintained. In regard to the effects that these agreements will have on your company, please select the responses that closely match your thoughts. (Multiple responses possible)

Q2.Please select the points that you consider will be important to your companies business. (Multiple responses possible)

Q3.As for the business development of your company in response to the agreements, please select the choices that closely match your thoughts. (Multiple responses possible)

Figure 42: Q1 Effects of the agreements



■Provisions directly connected to local production and sales, such as "local procurement requirement" and "quantitative restrictions on auto imports," gained attention

- When companies were asked which part of the USMCA agreement will be important to their business, the most common responses were "quantitative restrictions on auto imports" and "import ceiling for auto parts," followed by "wage clause" and "local procurement requirement," and all of them are directly connected to local production/sales. Also, 11 companies responded with "Reducing uncertainty and unpredictability of the investment environment, " and in interviews some positively said, "for a year we were taking a wait-and-see attitude for our new base in Mexico, but now we can start operating at last."
- As for future business development based on the agreements, while "Wait-and-see" was the most common response, some companies already chose "Review of supply chain and suppliers" and "Review of company's production system."

Figure 43: Q3. Agreement points important to business

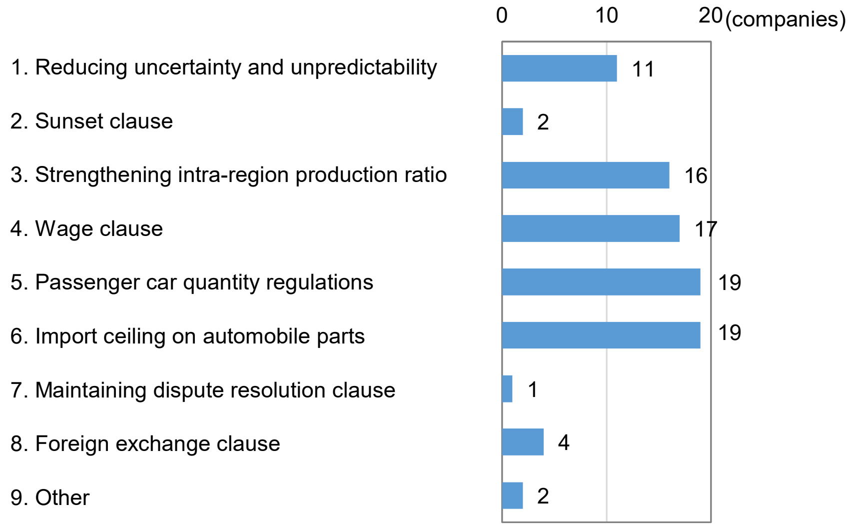
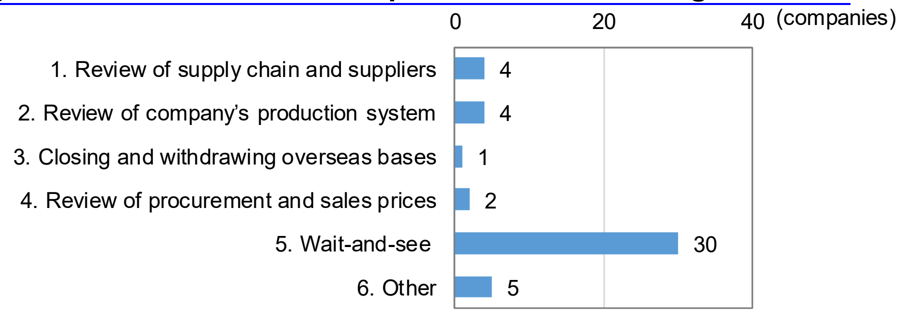


Figure 44: Q3 Business development based on the agreements



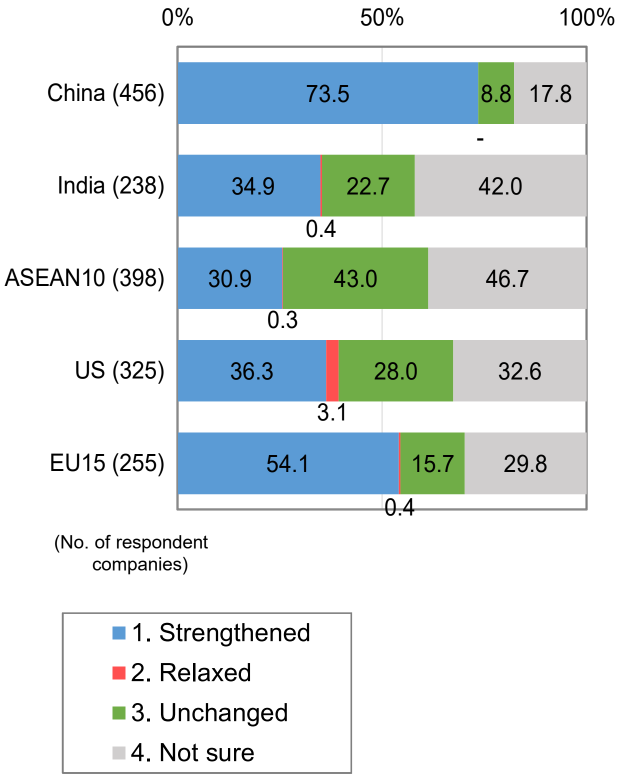
V. Views on Environmental Regulations and Development of Environment-related Business

V.1. Views on Environmental Regulations

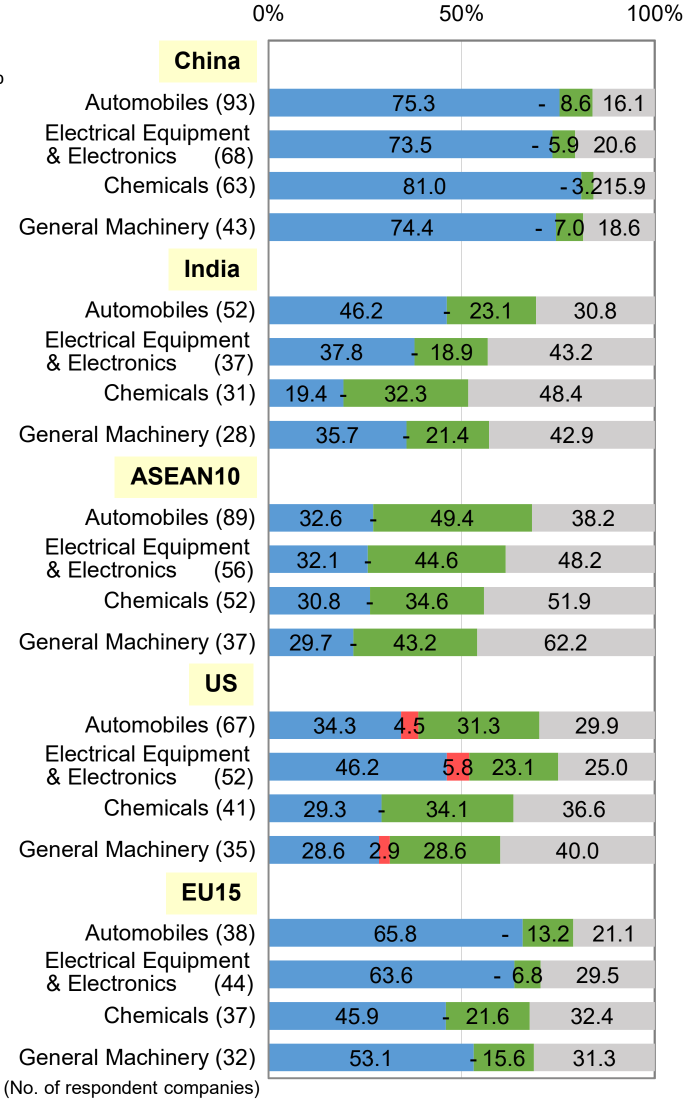
Q If your company is doing business in the following countries/regions, please circle the answer that best describes your view on the status of the environmental regulations that have been introduced in the last 5 years (one answer for each place of business).

Figure 45: Views on Environmental Regulations

(1) All Companies



(2) Major 4 Industries



■ The Number of companies feeling "Environmental regulations are being strengthened" the biggest in China

- Among the countries/regions Japanese companies are doing business in, China received the most responses for "Environmental regulations are being strengthened," (73.5%), followed by EU15 (54.1%), the US (36.3%), and India (34.9%).
- Of the companies that answered "Environmental regulations are being strengthened" in China, almost all have local factories, and the majority (210 companies) have them in the Eastern region (Shanghai, etc.).
- As for the US, the response rate of "Environmental regulations are being strengthened" was relatively low. On the other hand, 3.1% of the respondents, mostly auto-related, answered that regulations are being "Relaxed," and it seems to reflect the recent actions taken by the US government (easing emissions regulations, etc.).
- For ASEAN10, only 30.9% of companies responded with "Strengthened," and this was the lowest percentage of all the countries/regions.

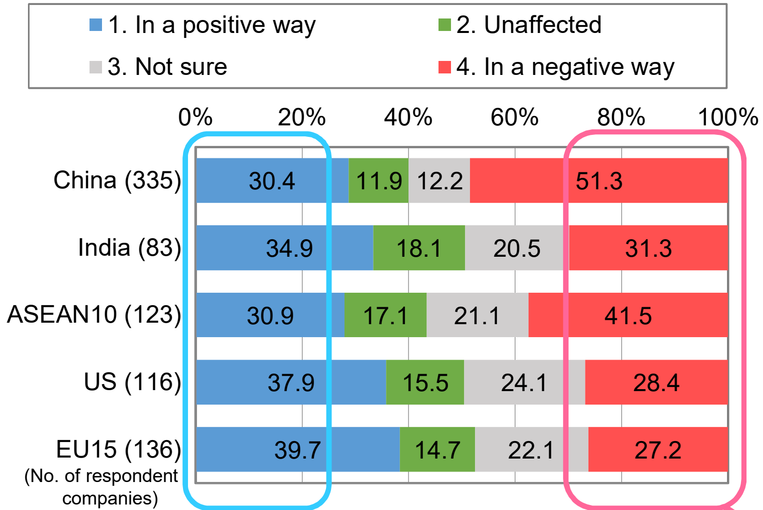
■ By industry, all four industries feel environmental regulations are "Strengthened" in China, while Automobiles and Electronics especially feel the tightening in EU15

- In all industries, 70% to 80% of companies responded that environmental regulations are being "Strengthened" in China. Especially in chemicals (81.0%), companies with local factories stated that emissions and waste water regulations are being strengthened.
- Also, 65.8% of automobiles companies and 63.6% of electrical equipment & electronics companies responded that environmental regulations are being strengthened in EU15, and 46.2% of electrical equipment & electronics responded so for the US.

Q

For each country/region for which you chose "Strengthened" in the previous question, please circle the answer(s) that best describe(s) how the tightening of regulations has affected your local business. (Multiple answers for one country are possible if you expect different effects on different type of businesses.)

Figure 46: Effects of the tightening of environmental regulation on business



■ Some view the tightening of environmental regulations negatively due to increasing costs etc., while others feel positive effects such as creation of new demands

- As for the effects of the tightening of environmental regulations on business, China received the most responses of "In a negative way" (51.3%), followed by ASEAN10 (41.5%). In contrast, EU15 and the US received more responses of "In a positive way" than "In a negative way," showing differences among the regions.
- As for "In a positive way," in almost all of the countries and regions, the majority of companies responded with "Increased demand for our environment-friendly products" (72.9%). Thus, it seems that for companies that handle environment-friendly products, areas that are tightening regulations are generating high demands.
- As for "In a negative way," there was no difference between advanced and developing countries, and as for specific effects, "Increase in the cost of production" received the most responses in all the countries/regions. However, in China, "Need to relocate or close our local factories" received a relatively large number of responses. In interviews, some companies, mainly those with production bases near urban areas such as Shanghai, expressed that they not only had to relocate or close their factories but also had to "find alternative suppliers due to sudden and forced shut downs of local suppliers."
- Also, some companies commented, "While the environmental regulations of EU15 are strict, they are not hard to comply with as they are announced in advance and the application standards in penal provisions are clear." These voices show that not only the regulations themselves but also how they are applied are important for the companies, and in this regard, China was the country that received the most responses of "Hard to comply with regulations which are applied in an unclear or complicated way."

Figure 47: Specific positive effects

(No. of Responses = 144)

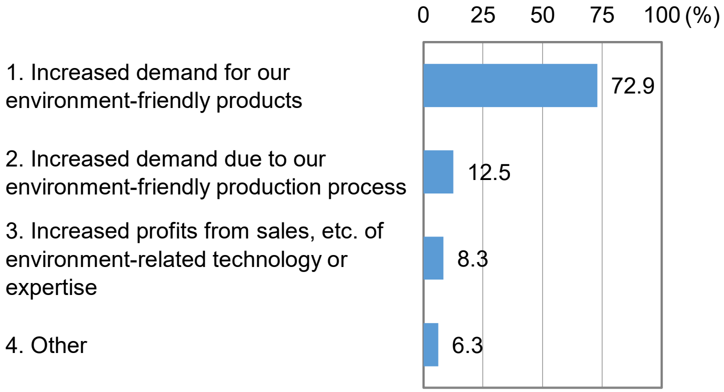
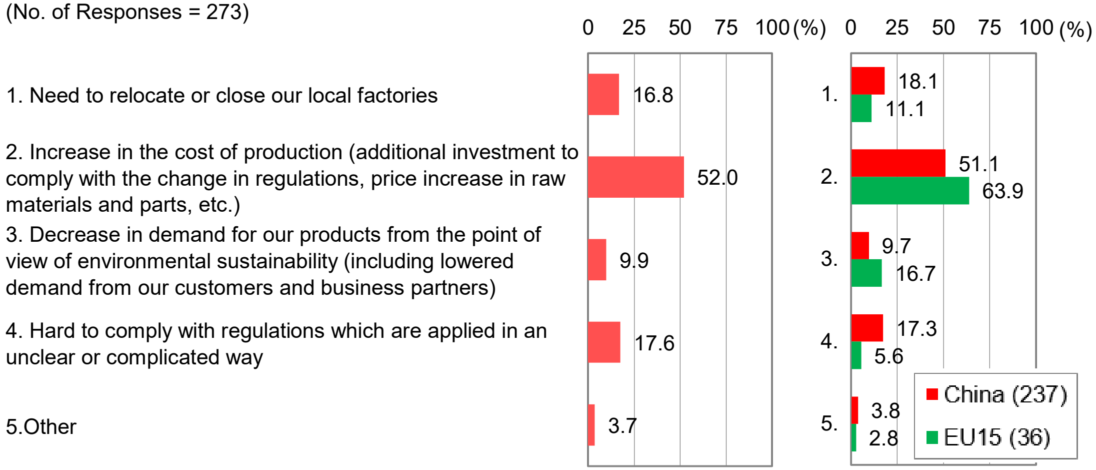


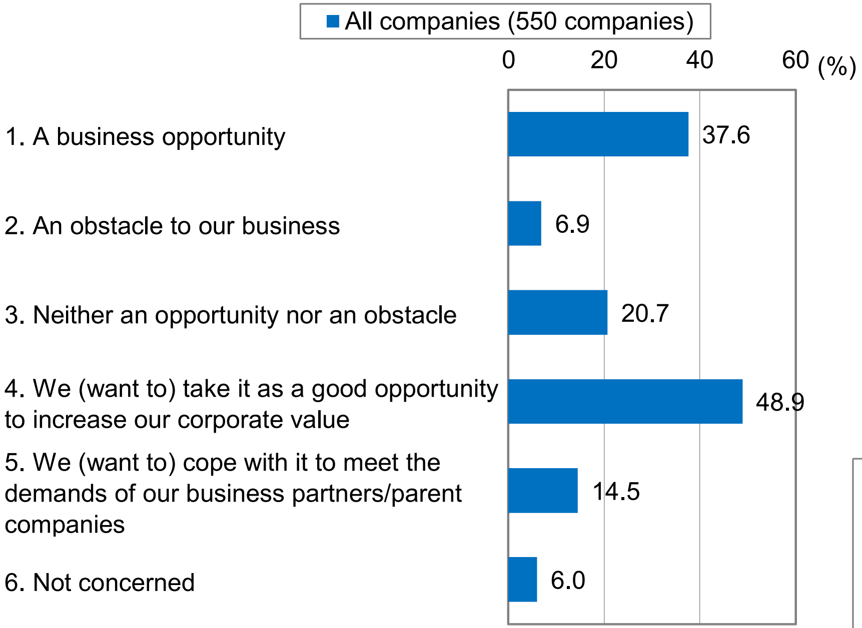
Figure 48: Specific negative effects

(No. of Responses = 273)



Q How does your company view the the growing momentum for environmental sustainability in the international society? Please circle the answer(s) that apply. (Multiple answers possible)

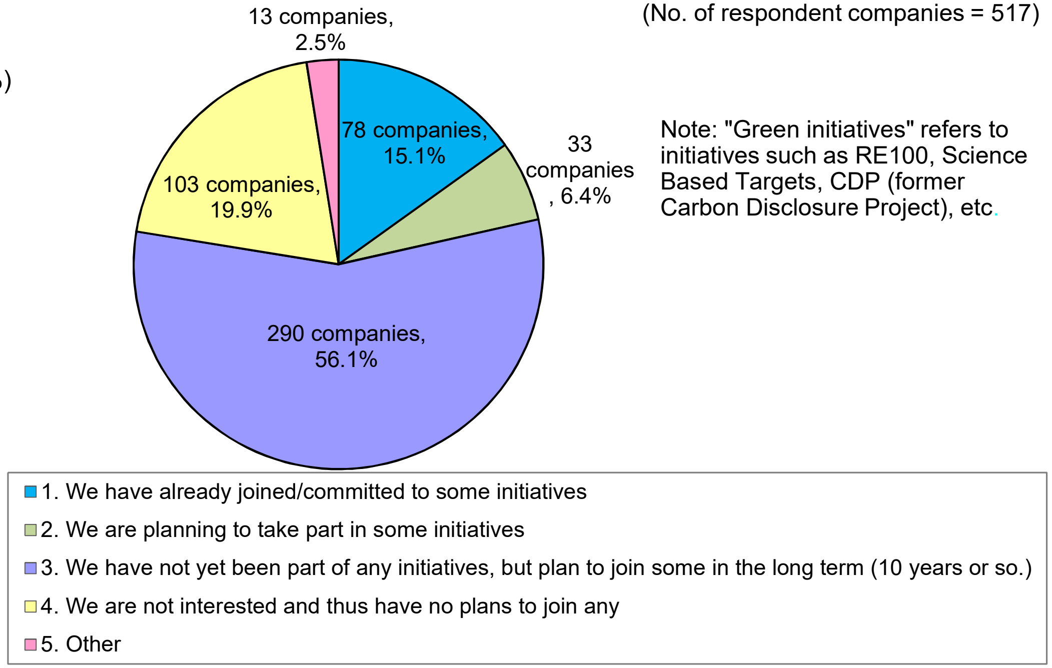
Figure 49: Growing momentum for environmental sustainability



Q Please circle the answer that best describes your company's commitment to the green initiatives.

Figure 50: Commitment to green initiatives

(No. of respondent companies = 517)



Note: "Green initiatives" refers to initiatives such as RE100, Science Based Targets, CDP (former Carbon Disclosure Project), etc.

■ Almost half of the respondents are taking a proactive stance toward the growing global momentum for environmental sustainability

- Many companies are proactively carrying out green initiatives in response to the global momentum for environmental sustainability. In Figure 49, the response “We (want to) take it as a good opportunity to increase our corporate value” had the highest response rate among the choices, and by industry, it was especially high in chemicals (62.5%). Also, considerable number of companies take this momentum as “A business opportunity” (37.6%). While not shown in the figures, looking at the results by company size, the answer “A business opportunity” was popular among large corporations (42.8%), and not so much among mid-tier firms/SMEs (27.7%). Within the major 4 industries, it was high among general machinery companies (58.8%), and lowest among automobiles companies (18.4%).

■ Some companies have already committed to international initiatives

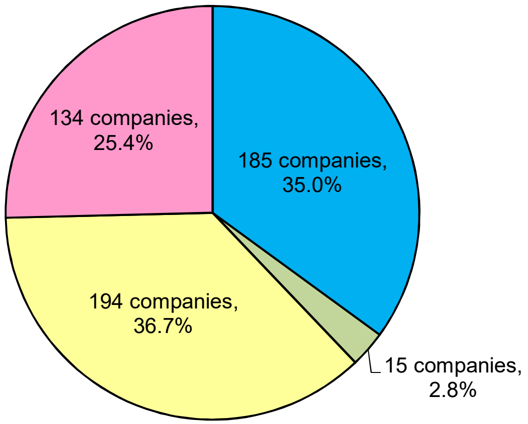
- In Figure 50, the response rate of “We have already joined/committed to some initiatives” was 15.1%. While not shown in the figures, looking at the results by company size, 18.9% of large corporations chose this answer, while only 7.9% of mid-tier firms/SMEs did so. There were no significant differences among industries. The specific initiatives companies are taking include cross-industrial RE100 and SBTi; moreover, commitments such as acquiring Environmental Management System certification and participation in industry-specific evaluation platforms were also heard. In interviews, some companies said, “Customers are increasingly asking us to provide evaluation results by third party organizations.”

Q Please circle the answer that best describes your company's approach to global environment-related business (see Note).

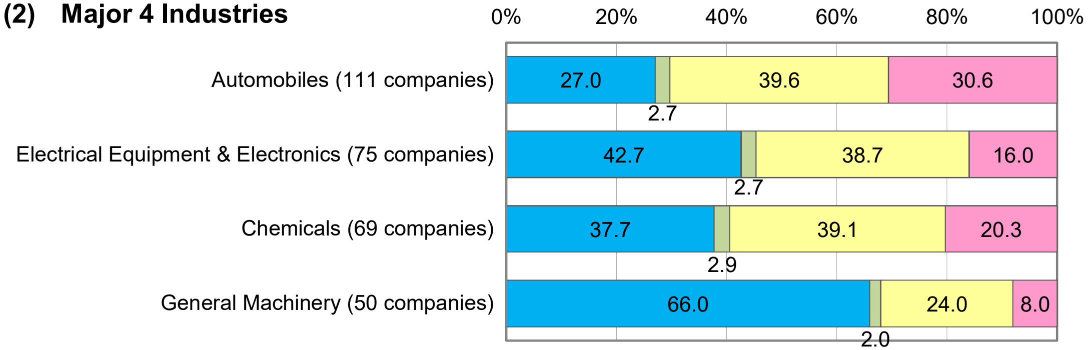
Figure 51: Current approach to global environment-related business

(1) All Companies

(No. of respondent companies = 528)



(2) Major 4 Industries



- 1. We are already engaged in such business
- 2. Not engaged in such business yet, but have a concrete plan
- 3. No business/plan but are interested in developing such business in the long term (10 years or so)
- 4. No business/plan/interest

Note: "Environment-related business" refers to business related to climate change (renewable energy, EV, energy-saving, etc.) and other areas where the aim is to reduce environmental impact (pollution reduction, sewage/waste water treatment, etc.) through technical assistance, production/sales/export of equipment, after-sales services, investment, O&M, etc. This does not include actions such as using renewable energy in order to reduce CO2 emissions in your plants/supply chain.

■ 30% of companies are engaged in environment-related business, with especially high ratio in general machinery

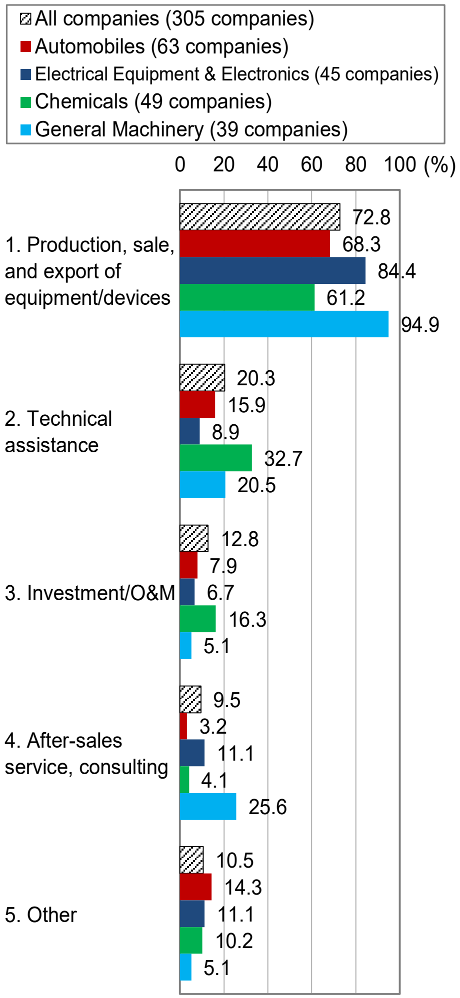
- The ratio of companies engaged in environmental business was 35.0%. Looking at the results by company size, 42.0% of large corporations responded that they are doing such business, while only 21.9% of mid-tier firms/SMEs did so. However, 43.7% of mid-tier firms/SMEs answered that they "are interested in developing such business in the long term (10 years or so)," while 33.0% of large corporations did, showing that interest in green business appears to be stronger among mid-tier firms/SMEs. Within the major 4 industries, this response was popular among general machinery companies (66.0%), and compared to other industries, they appear to be utilizing their strengths in businesses in the area of pollution reduction, sewage/waste water treatment, etc.

■ While many companies answered "No interest," some of them nonetheless are conducting environment-related business

- Among the major 4 industries, automobiles had the highest response rate of "No business/plan/interest" regarding environment-related business (30.6%). Most of these companies consist of auto-parts manufacturers, but when looking at them individually, many actually handle products that contribute to improving fuel efficiency and reducing environmental impact. It might be the case that they aren't aware that their business is "environment-related," or have no interest in this kind of business but are handling one nonetheless.

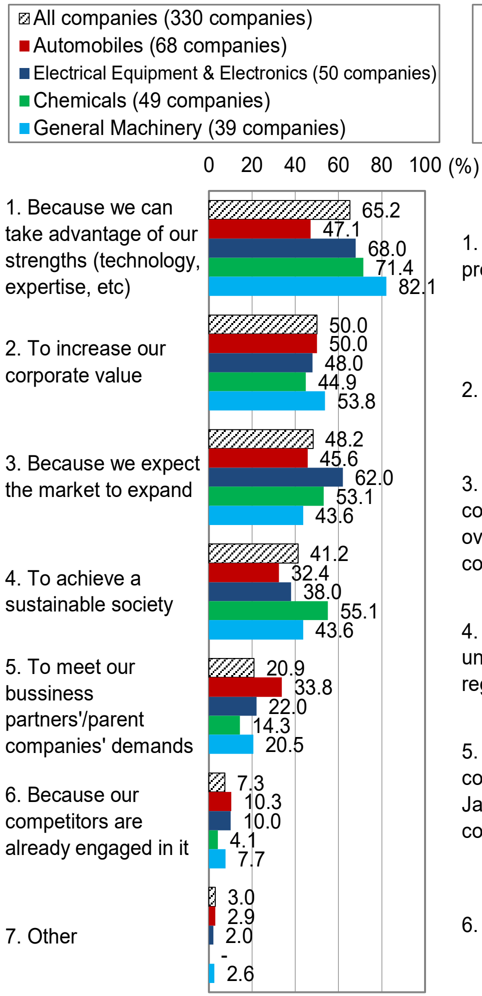
Q How does your company carry out environment-related business? Please circle the applicable answer(s). (Multiple answers possible)

Figure 52: Form of environment-related business initiatives



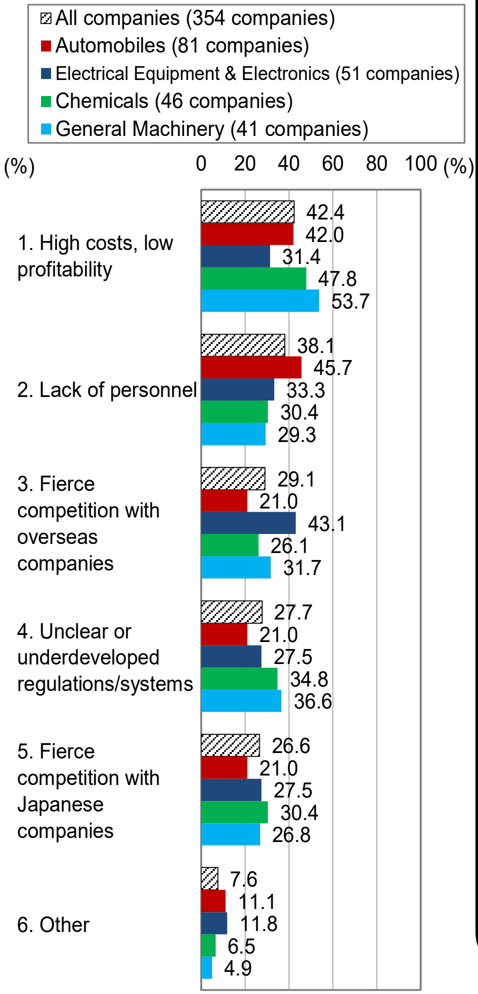
Q Circle the reason(s) your company carries out environment-related business. (Multiple answers possible)

Figure 53: Reasons for engaging in environment-related business



Q Circle the the issue(s) that your company experiences when carrying out environmental businesses. (Multiple answers possible)

Figure 54: Issues related to environment-related business



■Most common form of environment-related business: "Production, sale, and export of equipment/devices" (72.8%)

- When asked about the types of their environment-related business, "Technical assistance" was high in chemicals (32.7%), and "After-sales service, consulting" was high in general machinery (25.6%).

■Top reason for engaging in environment-related business: "Because we can take advantage of our strengths (technology, expertise, etc.)" (65.2%)

- As for the reasons for carrying out environment-related business by industry, "Because we can take advantage of our strengths (technology, expertise, etc.)" gained the highest response rate in general machinery (82.1%), while "Because we expect the market to expand" was chosen the most in electrical equipment & electronics (62.0%), "To achieve a sustainable society" was the most popular answer in chemicals (55.1%), and "To meet our business partners' demands" gained a high response rate in automobiles (33.8%).

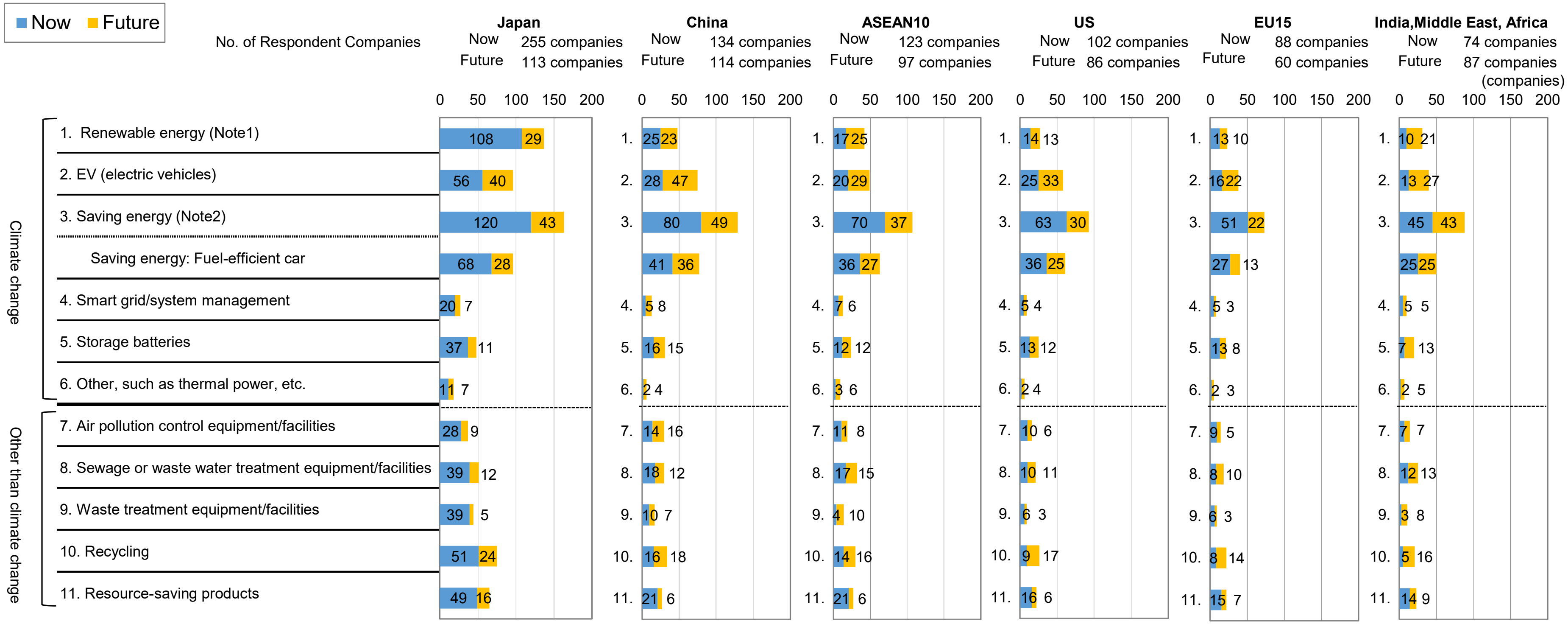
■Top issue: "High costs, low profitability"(42.4%)

- Looking at the issues related to environment-related business for the major 4 industries, in automobiles, "Lack of personnel" became the top issue (45.7%), while in electrical equipment & electronics, "Fierce competition with overseas companies" was most chosen (43.1%). In the automobile industry, due to a diversification of powertrains and shifting of industrial structures, there is a demand for human resources who can handle new business fields.

Q

In which environment-related field does your company do, or plans to do, business, and in which of the following regions? If you neither have an existing business nor a plan, are you interested in doing business in any of the following fields/regions in the long term (10 years or so)?
If you already have an existing business or a plan, please circle the corresponding field(s)/region(s) in the "Now" column. If you have neither but are interested in doing business in the long term, circle the appropriate field(s)/region(s) in the "Future"column. (Multiple answers possible)

Figure 55: Existing environment-related business and plans for the future



Note1: Renewable energies… Solar, Geothermal, Hydro, Wind, Biomass, Other Renewable energies.
Note2: Saving energy … Steel, Cement, Electrical equipment & electronics, Automobiles, General machinery, Other Saving energy.

■ In the future, environment-related business in the field of automobiles (EV and fuel-efficient car) in China are expected to expand

・ Among climate-change related businesses, "EV" and "Fuel-efficient car" attracted strong long-term interest, and the number of companies choosing China as their country of interest were especially high. While not shown on the graph, companies that already do or has a plan for EV related business mostly came from the automobiles and electrical equipment & electronics industries. On the other hand, companies that currently do not have any plan but showed interest to get involved in the future included chemical companies as well, which suggest that a broad range of industry will enter the EV-related market in the future. As for green businesses not related to climate change, infrastructure business, especially in the field of sewage, waste water, and industrial waste treatment, are already carried out in ASEAN and India, and this trend seems to continue in the long run.

VI. Time Series Analysis

Figure 56: Ratios of Overseas Production

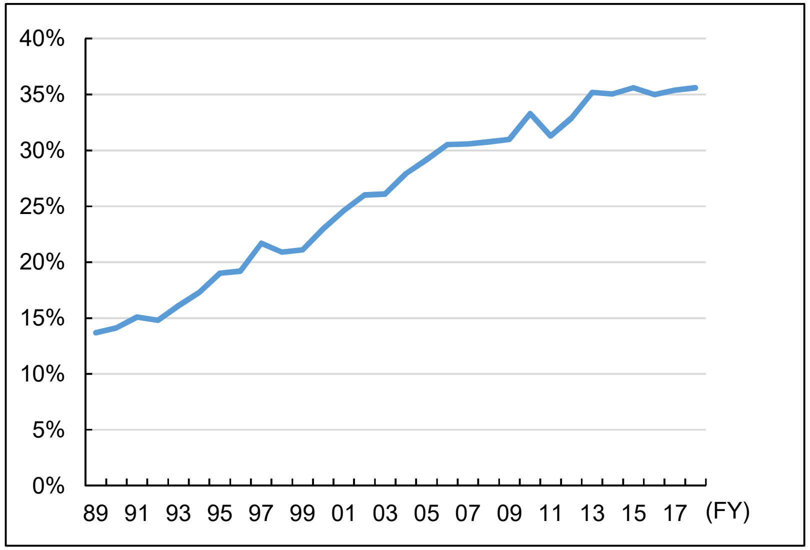


Figure 57: Percentage of mid-tier firms/SMEs

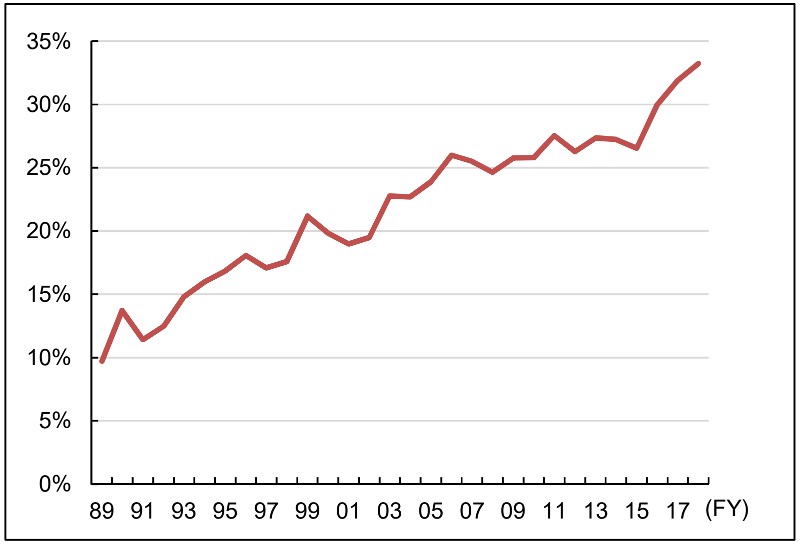
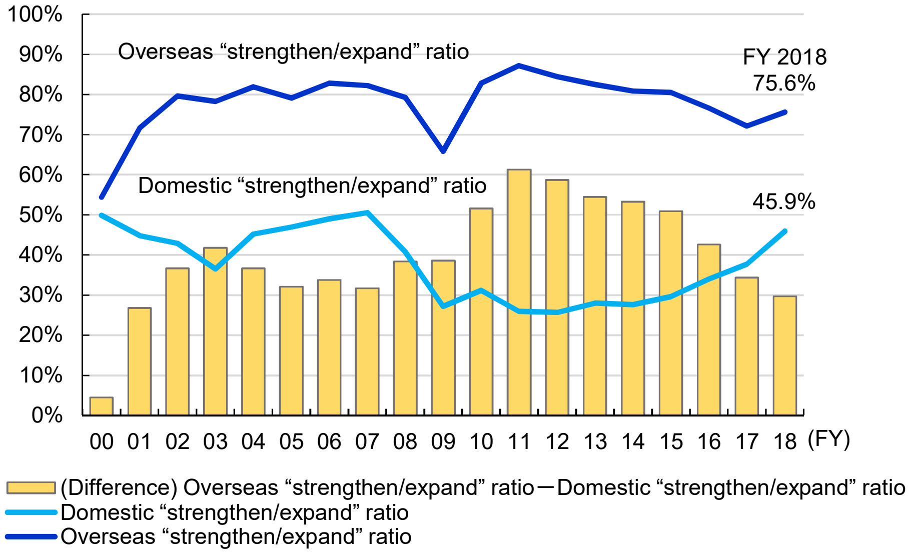


Figure 58: Attitudes toward Strengthening Businesses



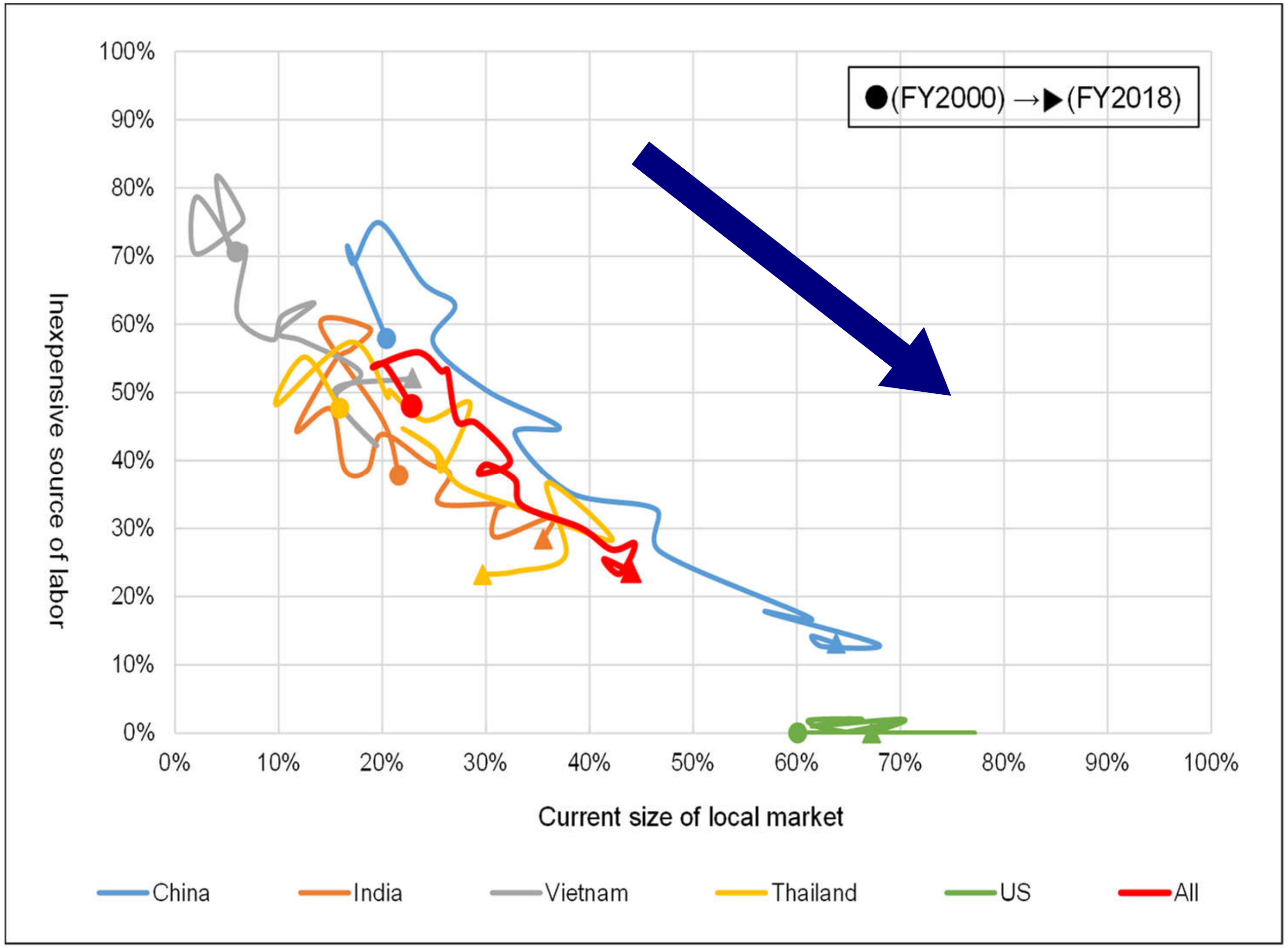
■ Growth of overseas production ratio is in a slowing trend; percentage of mid-tier firms/SMEs among respondents continue to rise

- While the overseas production ratio has risen from 13.7% to 35.6% over the past 30 years, it has started to level-off in the recent years. The percentage of mid-tier firms/SMEs (companies with capital below 1 billion yen) among respondent companies has also risen from 9.7% to 33.2% over the past 30 years.

■ Response rate of “Strengthen/expand” for Overseas business is high, but intention to Strengthen/expand Domestic business is on the rise

- In FY2000, the response rates of “Strengthen/expand” for overseas and domestic businesses were both around 50%, but gradually they diverged, and their difference hit the widest in FY2011, right after the Great East Japan Earthquake. Although the overseas “Strengthen/expand” ratio temporarily dropped after the 2008 financial crisis, it has managed to maintain a high level, supported by the strong yen and high growth in Asia.
- Partially affected by the strong yen, the domestic “Strengthen/expand” ratio hovered around 30% after the “2008 financial crisis.” Recently it is in a rising trend, especially focusing on investment for equipment upgrades, research and development, new business development, and developing new customers. It appears that companies are taking a pause from expanding their overseas production, and are flexibly changing their way of business to maximize revenues.

Figure 59: Shift in reasons for choosing promising countries/regions (2000 through 2018)



■ Reasons for choosing promising countries/regions shift from "Labor force" to "Market"

- Reasons for choosing the major promising countries* as promising has shifted from "Inexpensive source of labor" to "Current size of local market." This shift has been particularly dynamic in the case of China. India's and Thailand's trends are similar to that of the overall average, while Vietnam seems to be following the patterns of the top countries. "Inexpensive components/raw materials" also appears to be on a downward trend.

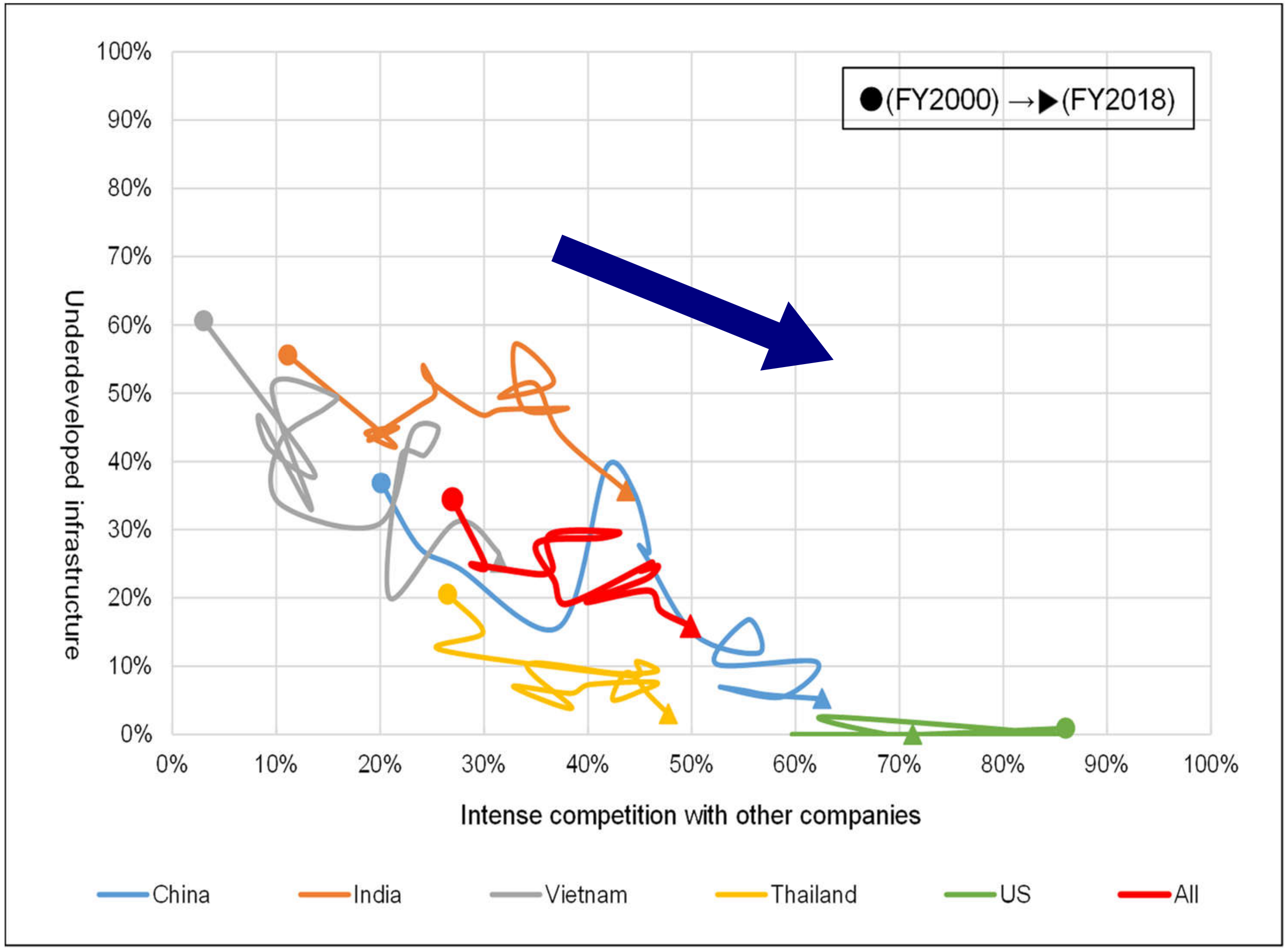
■ Roles of overseas bases have changed over the years

- Though not shown in the figure, the "Reasons" also include responses related to the positioning of overseas bases. In this regard, while "Supply base for assemblers" has been attracting certain number of votes since FY2000, "Base of export to third countries" is in a gradual decline, and "Base of export to Japan" is rarely chosen in the recent years. From these changes, it can be seen that expectation for the overseas bases seem to have changed over the years.

* "Major promising countries" refers to those that had the data available for every year during FY2000 - FY2017 (China, India, Vietnam, Thailand, Indonesia, and the US).

VI.3. Time Series Analysis: Promising Countries/Regions (Issues)

Figure 60: Shift in issues for the promising countries/regions (2000 through 2018)



■ Issues of the promising countries shift from "Infrastructure" to "Competition"

- As for issues regarding the major promising countries, there has been a gradual shift from "Underdeveloped infrastructure" to "Intense competition with other companies." It can be seen that the response rate of "Underdeveloped infrastructure" tends to rise once or twice after companies expand their business into the respective countries, but as more companies enter the market and the infrastructure gets better, the response rate falls gradually. It seems that while there are high hurdles to entering countries when they are still in the middle of infrastructure development, entering such countries after development means that companies will face intense competition.

■ As for issues related to systems, there has not been a notable change over time

- While not shown in the figure, the "Issues" also include responses related to "Systems," such as legislation, tax, and foreign capital regulation. The response rates of these system-related issues tend to move up/down reflecting short-term events such as changes in systems introduced by governments, but no overall pattern could be seen over time.

Figure 61: Correlations between Percentage Shares of Promising Countries/Regions and Various Indicators (based on FY2001-2017 Survey results)

Variable items		Variables used for the verification	Variable name	Data source	Statistical Significance ([1] high → [5] low)
Explained variable	Percentage Share as a promising country/region	Percentage shares from the Promising Country/Region survey		JBIC	
Explanatory variables	Economic stability	Foreign exchange volatility	xvol	CEIC	No
	Market size	Nominal GDP (logarithm)	LOG_ngdp	IMF	(2)
	Labor cost	GDP per capita (logarithm)	LOG_gdppc	IMF	(1)
	Administrative procedures	Number of procedures for starting business (logarithm)	LOG_prc	World Bank	None
	Accumulation of Japanese companies	Number of Japanese residents (logarithm)	LOG_jpop	Ministry of Foreign Affairs, Japan	(5)
	Tax burden	Total tax rate	tax_rt	World Bank	None
	Infrastructure development	Power access ratio in urban areas	elcrurb_rt	World Bank	(3)
	Distance	Distance from Japan (logarithm)	LOG_dist	CEPII	(4)
	Quality of human resources	-	–	–	–

Note 1: We took the logarithms of the explanatory variables that come out In large real numbers (nominal GDP, etc.) in accordance with the other variables.

Note 2: As we were unsuccessful at finding an appropriate variable for "Quality of human resources," this category was excluded from the analysis.

Note 3: As for the statistical significance, the explanatory variables are ranked by the order of the t-Stat's size (Variables with a t-Stat less than 1.7 (absolute value) and p-value more than 0.05 are determined to have no statistical significance).

(Reference) Summary Output

Regression statistics	
Multiple correlation R	0.79360409
R Square	0.62980746
Adjusted R Square	0.62158096
Standard Error	10.9423514
Observations	369

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Section	-52.136	23.913	-2.180	0.030
fxvol	0.084	0.074	1.131	0.259
LOG_ngdp	15.286	1.420	10.763	0.000
LOG_gdppc	-28.437	1.828	-15.557	0.000
LOG_prc	-3.132	4.033	-0.777	0.438
LOG_jpop	4.891	1.100	4.445	0.000
tax_rt	0.029	0.057	0.507	0.613
elcurb_rt	1.662	0.241	6.901	0.000
LOG_dist	-12.817	2.246	-5.707	0.000

■ It is assumed that the percentage shares of our Promising Country/Region Survey are highly related to "Labor cost," "Market size" and "Infrastructure development"

- In order to understand what kind of factors affect the countries' rankings in our Promising Country/Region Survey and how much, we conducted a multiple regression analysis using open source data provided by various organizations.
- The explained variable is the percentage shares of our Promising Country/Region Survey, and data of the top 20 countries over an 18years period (FY2000-2017) was used. For the explanatory variables, we set nine categories that can be seen as typical foreign investment determinants of Japanese companies, and picked open-source data that best represent each category. When choosing the data, emphasis was put on the length of term and variety of the data set (a data set that covers more countries for a longer term was preferred.)
- Based on this regression model, the numerical values of the Coefficient of Determination (R Square) and the adjusted-R square were within the range of 0.62 to 0.63 (in other words, 62% to 63% of the values fit the model), which suggest that the results are, on the whole, statistically significant.
- As for correlation with the percentage shares, the explanatory variables with statistical significance (significance level = 5%) were, "Labor cost (GDP per capita)," "Market size of the country concerned (nominal GDP)," and "Infrastructure development (power access ratio in urban areas)." It can be said that factors such as inexpensive labor cost, large market, and high rate of power accessibility, etc. affect the countries' rankings in our Survey more than other factors.
- Meanwhile, the results showed that factors such as "Economic stability (size of foreign exchange fluctuations)" and "Administrative procedures (number of procedures for starting business)" are not statistically significant.

(Appendices)

Appendix I. Basic Data: Overseas Production / Sales / Revenue Ratios

Industry	Overseas Production Ratio ※1										Overseas Sales Ratio ※2								Overseas Revenue Ratio ※3							
	FY2015 (actual)	No. of Companies	FY2016 (actual)	No. of Companies	FY2017 (actual)	No. of Companies	FY2018 (projected)	No. of Companies	Medium-term plans(FY2021)	No. of Companies	FY2015 (actual)	No. of Companies	FY2016 (actual)	No. of Companies	FY2017 (actual)	No. of Companies	FY2018 (projected)	No. of Companies	FY2015 (actual)	No. of Companies	FY2016 (actual)	No. of Companies	FY2017 (actual)	No. of Companies	FY2018 (projected)	No. of Companies
Food	16.0%	21	17.2%	23	19.7%	19	19.7%	19	23.4%	19	16.4%	22	19.0%	25	21.4%	22	21.8%	22	14.1%	22	18.2%	25	20.9%	22	20.5%	22
Textiles	49.8%	25	55.0%	23	59.8%	21	59.8%	21	61.3%	19	27.6%	27	27.5%	24	31.0%	20	31.5%	20	21.5%	26	27.5%	24	28.3%	21	30.2%	21
Paper, Pulp & Wood	13.0%	5	21.0%	5	15.0%	7	13.0%	5	13.0%	5	16.4%	7	17.9%	7	17.0%	10	16.4%	7	13.0%	5	16.4%	7	26.1%	9	30.0%	6
Chemicals (total)	30.0%	82	27.1%	68	28.2%	60	29.3%	60	31.0%	55	38.1%	95	36.4%	83	37.5%	75	38.6%	73	36.5%	82	35.0%	69	36.1%	63	35.6%	62
Chemicals (incl. plastic products)	31.1%	77	28.7%	62	29.4%	55	30.6%	55	32.4%	50	37.8%	90	36.7%	77	38.8%	69	40.1%	67	36.7%	77	34.7%	63	36.9%	58	36.6%	57
Pharmaceuticals	13.0%	5	10.0%	6	15.0%	5	15.0%	5	17.0%	5	43.0%	5	33.3%	6	23.3%	6	21.7%	6	33.0%	5	38.3%	6	27.0%	5	25.0%	5
Petroleum & Rubber	45.0%	12	56.8%	11	50.0%	8	51.3%	8	52.5%	8	38.1%	13	44.2%	12	46.0%	10	46.1%	9	45.0%	13	56.8%	11	58.3%	9	57.5%	8
Ceramics, Cement & Glass	31.7%	12	33.9%	9	32.8%	9	33.9%	9	41.7%	6	42.3%	15	37.7%	11	41.4%	11	41.4%	11	31.7%	12	30.0%	10	42.5%	8	42.5%	8
Steel	17.3%	13	20.6%	9	20.7%	14	18.1%	13	22.5%	12	26.3%	15	22.7%	13	23.0%	15	20.7%	14	13.3%	12	17.2%	9	22.9%	14	20.0%	14
Nonferrous Metals	29.8%	21	30.3%	19	34.5%	22	35.0%	21	35.0%	18	31.4%	25	30.5%	20	34.2%	24	35.0%	23	28.5%	23	29.7%	17	34.5%	22	34.5%	21
Metal Products	38.8%	21	33.9%	27	28.5%	23	29.3%	23	31.8%	22	40.7%	21	37.2%	27	32.5%	24	33.8%	24	43.0%	20	30.6%	27	25.5%	21	25.5%	21
General Machinery (total)	27.4%	51	24.4%	48	28.7%	46	29.3%	44	32.9%	42	43.7%	60	39.6%	52	42.1%	52	42.8%	51	39.7%	51	30.1%	45	35.0%	46	33.9%	46
Assembly	26.2%	42	23.2%	38	28.4%	38	29.4%	36	33.2%	34	44.6%	48	40.6%	41	42.9%	42	43.3%	41	41.0%	42	30.9%	34	35.8%	37	34.5%	37
Parts	32.8%	9	29.0%	10	30.0%	8	28.8%	8	31.3%	8	40.0%	12	35.9%	11	39.0%	10	41.0%	10	33.9%	9	27.7%	11	31.7%	9	31.7%	9
Electrical Equipment & Electronics (total)	45.4%	76	42.9%	77	44.0%	72	45.7%	70	47.2%	65	48.5%	92	47.2%	87	46.8%	84	48.7%	79	39.6%	74	40.0%	74	38.4%	67	39.1%	66
Assembly	40.2%	31	31.3%	30	36.1%	28	37.2%	27	39.4%	27	42.0%	40	39.5%	38	38.0%	37	38.0%	33	32.1%	31	32.5%	32	32.9%	28	33.6%	28
Parts	49.0%	45	50.3%	47	49.1%	44	51.0%	43	52.6%	38	53.5%	52	53.2%	49	53.7%	47	56.3%	46	45.0%	43	45.7%	42	42.4%	39	43.2%	38
Transportation Equipment (excl. Automobiles)	29.6%	13	22.1%	17	27.9%	17	27.4%	17	32.9%	14	37.3%	13	27.5%	16	36.1%	19	36.1%	19	31.9%	13	19.1%	17	28.5%	17	29.1%	17
Automobiles (total)	46.8%	114	46.2%	108	46.3%	113	46.8%	111	48.8%	104	47.1%	117	46.2%	113	46.7%	116	46.8%	114	47.2%	112	47.1%	107	49.1%	111	48.2%	111
Assembly	50.0%	4	56.7%	6	57.0%	5	67.5%	4	71.7%	3	71.0%	5	67.5%	8	71.7%	6	69.0%	5	68.3%	3	57.0%	5	77.5%	4	65.0%	4
Parts	46.7%	110	45.6%	102	45.8%	108	46.0%	107	48.2%	101	46.0%	112	44.6%	105	45.4%	110	45.8%	109	46.7%	109	46.6%	102	48.1%	107	47.5%	107
Precision Machinery (total)	25.3%	34	28.2%	22	27.5%	28	28.2%	28	30.4%	28	44.1%	34	50.2%	21	47.1%	29	48.1%	29	47.3%	31	55.5%	20	41.4%	28	40.7%	28
Assembly	22.2%	25	22.1%	17	22.0%	20	23.0%	20	25.0%	20	48.2%	25	52.6%	17	45.0%	21	46.0%	21	47.6%	23	52.6%	17	40.5%	22	39.1%	22
Parts	33.9%	9	49.0%	5	41.3%	8	41.3%	8	43.8%	8	32.8%	9	40.0%	4	52.5%	8	53.8%	8	46.3%	8	71.7%	3	45.0%	6	46.7%	6
Other	29.4%	54	27.7%	48	26.6%	50	26.4%	49	28.8%	47	30.0%	60	32.1%	56	30.8%	53	31.6%	53	24.6%	54	28.1%	48	32.3%	49	32.7%	48
Overall	35.6%	554	35.0%	514	35.6%	509	36.2%	498	38.4%	464	39.6%	616	38.5%	567	39.3%	564	40.0%	548	36.4%	550	35.7%	510	37.3%	507	37.1%	499

※1 Overseas Production Ratio : (Overseas Production) / (Domestic Production + Overseas Production)
※2 Overseas Sales Ratio : (Overseas Sales) / (Domestic Sales + Overseas Sales)
※3 Overseas Revenue Ratio : (Overseas Operating Revenue)/ (Domestic Operating Revenue + Overseas Operating Revenue)

Evaluations of Degrees of Satisfaction with Net Sales and Profits (details)

(1) Net Sales

FY2014 Performance

	Average	2.66
1	North America	3.03
2	Mexico	2.89
3	NIEs 3	2.86
4	Central & Eastern Europe	2.84
5	EU 15	2.81
6	Vietnam	2.78
7	Turkey	2.58
8	ASEAN 5	2.57
9	China	2.48
10	India	2.46
11	Brazil	2.29
12	Russia	2.24
ASEAN 5 breakdown		
1	Singapore	2.73
2	Philippines	2.72
3	Indonesia	2.53
4	Malaysia	2.51
5	Thailand	2.50

FY2015 Performance

	Average	2.56
1	North America	2.88
2	Vietnam	2.84
3	Central & Eastern Europe	2.83
4	Mexico	2.82
5	EU 15	2.78
6	NIEs 3	2.68
7	Turkey	2.59
8	ASEAN 5	2.46
9	China	2.42
10	India	2.31
11	Russia	2.23
12	Brazil	2.08
ASEAN 5 breakdown		
1	Philippines	2.64
2	Singapore	2.54
3	Thailand	2.52
4	Malaysia	2.38
5	Indonesia	2.29

FY2016 Performance

	Average	2.67
1	Vietnam	2.87
1	EU 15	2.87
3	North America	2.84
4	NIEs 3	2.79
5	Mexico	2.75
6	China	2.66
7	ASEAN 5	2.64
8	Central & Eastern Europe	2.62
9	Turkey	2.54
10	Russia	2.49
11	India	2.48
12	Brazil	2.18
ASEAN 5 breakdown		
1	Philippines	2.78
2	Thailand	2.71
3	Singapore	2.61
4	Malaysia	2.56
4	Indonesia	2.56

FY2017 Performance

	Average	2.75
1	Vietnam	2.92
2	EU 15	2.88
3	China	2.86
4	NIEs 3	2.79
5	ASEAN 5	2.77
6	North America	2.75
7	Mexico	2.71
8	Central & Eastern Europe	2.64
8	Turkey	2.64
10	India	2.61
11	Russia	2.59
12	Brazil	2.51
ASEAN 5 breakdown		
1	Thailand	2.90
2	Philippines	2.82
3	Singapore	2.71
4	Indonesia	2.68
5	Malaysia	2.65

(2) Profits

FY2014 Performance

	Average	2.62
1	NIEs 3	2.86
2	Vietnam	2.85
3	North America	2.84
4	Central & Eastern Europe	2.78
5	Mexico	2.72
6	EU 15	2.68
7	ASEAN 5	2.58
7	Turkey	2.58
9	China	2.47
10	India	2.42
11	Brazil	2.24
12	Russia	2.19
ASEAN 5 breakdown		
1	Singapore	2.73
2	Philippines	2.63
3	Malaysia	2.58
4	Thailand	2.56
5	Indonesia	2.47

FY2015 Performance

	Average	2.61
1	Vietnam	2.86
2	North America	2.82
3	EU 15	2.79
4	Mexico	2.78
5	Central & Eastern Europe	2.77
6	NIEs 3	2.71
7	ASEAN 5	2.57
7	Turkey	2.57
9	China	2.46
10	Russia	2.43
11	India	2.31
12	Brazil	2.14
ASEAN 5 breakdown		
1	Philippines	2.76
2	Singapore	2.65
3	Thailand	2.62
4	Malaysia	2.49
5	Indonesia	2.39

FY2016 Performance

	Average	2.65
1	Vietnam	2.86
2	EU 15	2.84
3	NIEs 3	2.77
4	Central & Eastern Europe	2.72
5	North America	2.68
5	Mexico	2.68
7	ASEAN 5	2.65
8	China	2.64
9	Russia	2.61
10	Turkey	2.53
11	India	2.42
12	Brazil	2.18
ASEAN 5 breakdown		
1	Thailand	2.73
2	Philippines	2.71
3	Malaysia	2.64
4	Singapore	2.57
4	Indonesia	2.57

FY2017 Performance

	Average	2.68
1	Vietnam	2.85
2	EU 15	2.77
2	NIEs 3	2.77
4	China	2.75
5	ASEAN 5	2.70
6	Russia	2.69
7	Central & Eastern Europe	2.63
7	Mexico	2.63
9	North America	2.58
10	Turkey	2.57
11	Brazil	2.56
12	India	2.53
ASEAN 5 breakdown		
1	Philippines	2.81
2	Thailand	2.80
3	Singapore	2.71
4	Indonesia	2.59
5	Malaysia	2.56

Note: Data of companies which answered both net sales and profits were summed up.

Countries/Regions More Profitable than Japan (Descending order by ratio)

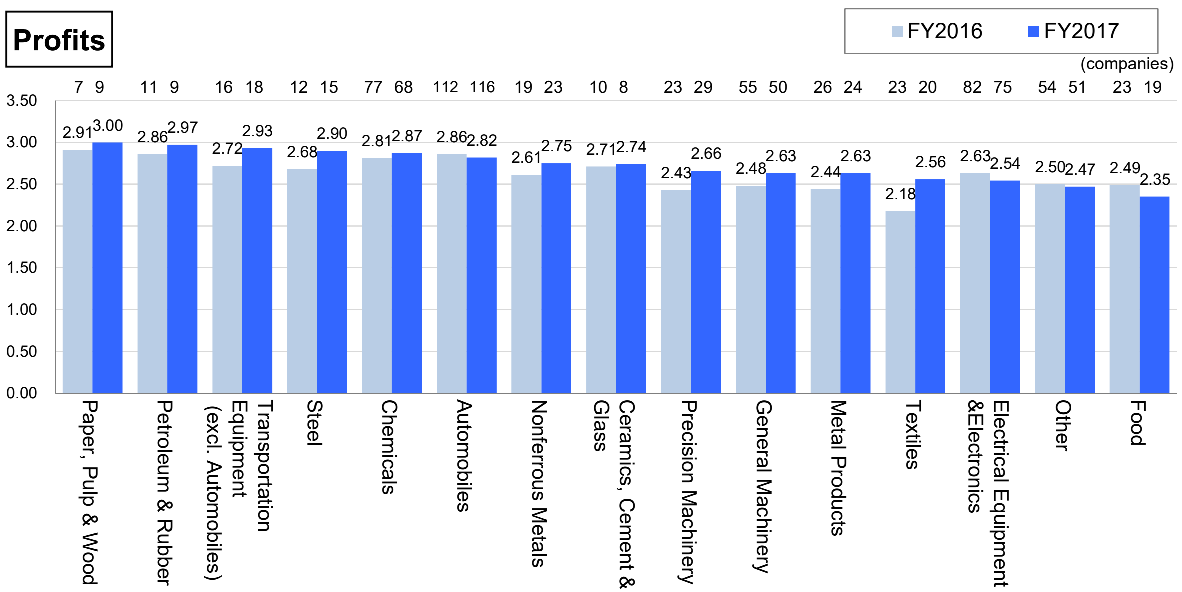
(companies)

	Country/Region	"More Profitable than Japan" responses (1)	Total responses (2)	Ratio: [(1)/(2)]
1	Thailand	105	354	29.7%
2	China	132	477	27.7%
3	Vietnam	49	188	26.1%
4	North America	86	375	22.9%
5	EU15	49	247	19.8%
6	NIEs3	41	219	18.7%
7	Indonesia	45	254	17.7%
8	Malaysia	28	179	15.6%
9	Philippines	21	140	15.0%
10	Central & Eastern Europe	12	92	13.0%
11	India	25	204	12.3%
12	Singapore	24	202	11.9%
13	Mexico	20	169	11.8%
14	Brazil	12	118	10.2%
15	Russia	7	71	9.9%
16	Turkey	6	70	8.6%

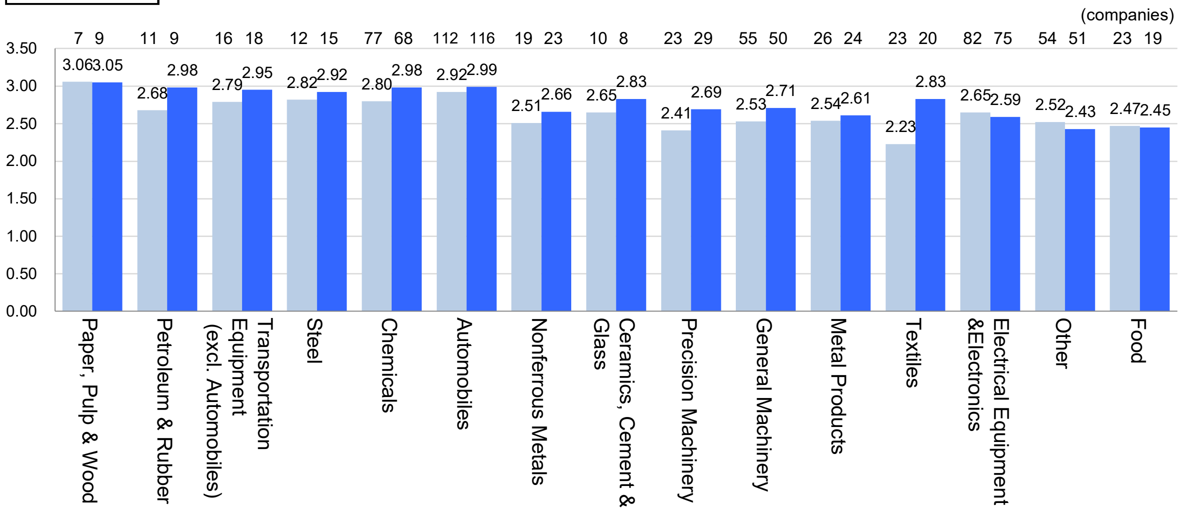
Note: When companies were asked about their profitability in FY2017 in countries/regions in which they had businesses, they were asked to respond regarding the country/region which had higher rates of profitability than Japan. "Total responses (2)" is the sum of the number of companies that responded to inquiries about satisfaction with net sales and profits and those that responded to the comparison of profitability with Japan.

Satisfaction of Net Sales & Profits (FY2017 performance)

Profits



Net Sales



Countries/regions with highest average in satisfaction with profits

Industry	Countries/regions with highest average in satisfaction with profits
1. Paper, Pulp & Wood	Indonesia (5.00)
2. Petroleum & Rubber	Indonesia (4.17)
3. Transportation Equipment (excl. Automobiles)	Vietnam, Myanmar (4.00)
4. Steel	Thailand (3.50)
5. Chemicals	Central & Eastern Europe (3.17)
6. Automobiles	Russia (3.50)
7. Nonferrous Metals	Malaysia (3.25)
8. Ceramics, Cement & Glass	India (3.50)
9. Precision Machinery	Cambodia (3.50)
10. General Machinery	Vietnam (2.86)
11. Metal Products	EU15 (3.40)
12. Textiles	Singapore, Malaysia (3.67)
13. Electrical Equipment & Electronics	Vietnam (2.89)
14. Other	EU15 (2.74)
15. Food	Mexico (3.33)

Note 1: The industries are lined up in order of the size of the numerical value of the average satisfaction with profit. When the figures are the same, they are then lined up in order of the size of the average satisfaction with net sales.

Note 2: The numbers above the graph bars indicate the numbers of respondent companies.

Appendix III. . Business Prospects: Medium-term prospects for Overseas & Domestic Operations (by industry)

Medium-term Prospects for Overseas Business Operations (by industry)

Overseas	Strengthen /expand		Maintain present level		Scale back /withdraw	
	2017	2018	2017	2018	2017	2018
All Industries	72.1%	75.6%	26.7%	22.9%	1.2%	1.5%
Food	92.3%	79.2%	7.7%	20.8%	-	-
Textiles	62.5%	68.2%	37.5%	31.8%	-	-
Paper, Pulp & Wood	71.4%	66.7%	28.6%	22.2%	-	11.1%
Chemicals (total)	80.0%	80.0%	20.0%	20.0%	-	-
Chemicals (incl. plastic products)	81.0%	81.2%	19.0%	18.8%	-	-
Pharmaceuticals	66.7%	66.7%	33.3%	33.3%	-	-
Petroleum & Rubber	66.7%	72.7%	33.3%	27.3%	-	-
Ceramics, Cement & Glass	83.3%	80.0%	16.7%	20.0%	-	-
Steel	66.7%	52.9%	33.3%	47.1%	-	-
Nonferrous Metals	77.3%	84.6%	18.2%	15.4%	4.5%	-
Metal Products	48.1%	76.0%	44.4%	20.0%	7.4%	4.0%
General Machinery (total)	77.2%	81.8%	22.8%	18.2%	-	-
Assembly	78.3%	84.4%	21.7%	15.6%	-	-
Parts	72.7%	70.0%	27.3%	30.0%	-	-
Electrical Equipment & Electronics (total)	68.9%	72.3%	27.8%	22.9%	3.3%	4.8%
Assembly	75.0%	80.0%	25.0%	20.0%	-	-
Parts	64.0%	66.7%	30.0%	25.0%	6.0%	8.3%
Transportation Equipment (excl. Automobiles)	56.3%	57.9%	43.8%	36.8%	-	5.3%
Automobiles (total)	66.7%	71.7%	33.3%	27.5%	-	0.8%
Assembly	87.5%	85.7%	12.5%	14.3%	-	-
Parts	65.1%	70.8%	34.9%	28.3%	-	0.9%
Precision Machinery (total)	87.5%	80.0%	12.5%	20.0%	-	-
Assembly	89.5%	86.4%	10.5%	13.6%	-	-
Parts	80.0%	62.5%	20.0%	37.5%	-	-
Other	74.1%	85.7%	24.1%	12.5%	1.7%	1.8%

Domestic	Strengthen /expand		Maintain present level		Scale back		Undecided	
	2017	2018	2017	2018	2017	2018	2017	2018
All Industries	37.7%	45.9%	55.2%	48.7%	3.6%	2.3%	3.6%	3.1%
Food	52.0%	45.5%	48.0%	50.0%	-	4.5%	-	-
Textiles	45.8%	31.8%	37.5%	50.0%	16.7%	18.2%	-	-
Paper, Pulp & Wood	28.6%	70.0%	57.1%	20.0%	14.3%	10.0%	-	-
Chemicals (total)	42.4%	55.4%	54.1%	36.5%	1.2%	2.7%	2.4%	5.4%
Chemicals (incl. plastic products)	39.2%	55.9%	57.0%	36.8%	1.3%	1.5%	2.5%	5.9%
Pharmaceuticals	83.3%	50.0%	16.7%	33.3%	-	16.7%	-	-
Petroleum & Rubber	25.0%	20.0%	50.0%	70.0%	25.0%	-	-	10.0%
Ceramics, Cement & Glass	25.0%	40.0%	58.3%	50.0%	8.3%	10.0%	8.3%	-
Steel	21.4%	29.4%	71.4%	64.7%	-	-	7.1%	5.9%
Nonferrous Metals	36.4%	50.0%	59.1%	46.2%	-	-	4.5%	3.8%
Metal Products	44.4%	60.0%	51.9%	36.0%	-	-	3.7%	4.0%
General Machinery (total)	36.8%	42.9%	57.9%	55.4%	3.5%	-	1.8%	1.8%
Assembly	34.8%	39.1%	60.9%	58.7%	4.3%	-	-	2.2%
Parts	45.5%	60.0%	45.5%	40.0%	-	-	9.1%	-
Electrical Equipment & Electronics (total)	41.1%	48.8%	52.2%	48.8%	3.3%	1.2%	3.3%	1.2%
Assembly	50.0%	51.5%	42.5%	45.5%	5.0%	3.0%	2.5%	-
Parts	34.0%	46.9%	60.0%	51.0%	2.0%	-	4.0%	2.0%
Transportation Equipment (excl. Automobiles)	11.8%	5.3%	88.2%	94.7%	-	-	-	-
Automobiles (total)	27.4%	37.0%	62.4%	54.6%	3.4%	2.5%	6.8%	5.9%
Assembly	25.0%	33.3%	37.5%	16.7%	-	16.7%	37.5%	33.3%
Parts	27.5%	37.2%	64.2%	56.6%	3.7%	1.8%	4.6%	4.4%
Precision Machinery (total)	66.7%	63.3%	33.3%	36.7%	-	-	-	-
Assembly	68.4%	68.2%	31.6%	31.8%	-	-	-	-
Parts	60.0%	50.0%	40.0%	50.0%	-	-	-	-
Other	41.4%	60.0%	50.0%	38.2%	3.4%	-	5.2%	1.8%

Medium-term Prospects for Overseas Business Operation (by major countries/regions)

Major countries /Regions	NIEs3		ASEAN5		China		Other Asian Countries		North America		Latin America	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Strengthen/expand	31.1%	30.0%	48.4%	49.3%	43.1%	48.1%	61.2%	58.2%	55.8%	55.9%	51.8%	47.9%
Maintain present level	67.0%	67.8%	49.1%	49.3%	54.7%	50.4%	38.4%	41.3%	43.2%	42.2%	46.5%	50.9%
Scale back/withdraw	1.9%	2.1%	2.4%	1.4%	2.1%	1.5%	0.5%	0.4%	1.0%	1.9%	1.7%	1.2%

	EU15		Central & Eastern Europe		Turkey		Rest of Europe & CIS		Russia		Middle East		Africa	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Strengthen/expand	45.5%	47.1%	42.4%	41.7%	37.7%	33.3%	49.0%	35.1%	44.7%	49.3%	54.7%	53.9%	54.2%	50.0%
Maintain present level	53.0%	51.6%	57.6%	58.3%	60.7%	64.0%	49.0%	64.9%	55.3%	49.3%	42.7%	46.1%	45.8%	50.0%
Scale back/withdraw	1.5%	1.2%	-	-	1.6%	2.7%	2.0%	-	-	1.3%	2.7%	-	-	-

Medium-term Prospects for Overseas Business Operation (regions in detail)

Regions in detail	NIEs3			China					Latin America		
	Korea	Taiwan	Hong Kong	North-eastern China	Northern China	Eastern China	Southern China	Inland China	Mexico	Brazil	Others
Strengthen/expand	32.3%	31.3%	25.2%	37.6%	45.4%	51.7%	48.4%	51.4%	53.1%	45.7%	34.0%
Maintain present level	66.7%	67.3%	70.2%	60.7%	53.0%	46.9%	50.0%	47.7%	46.3%	52.6%	63.8%
Scale back/withdraw	1.0%	1.4%	4.6%	1.7%	1.6%	1.4%	1.6%	0.9%	0.6%	1.7%	2.1%

	ASEAN											
	ASEAN5					Other Asian Countries						
	Singapore	Thailand	Indonesia	Malaysia	Philippines	Vietnam	Cambodia	Laos	Myanmar	Brunei	India	Others
Strengthen/expand	33.9%	53.3%	54.8%	46.2%	54.5%	64.0%	46.4%	39.5%	58.7%	23.5%	70.9%	40.8%
Maintain present level	64.6%	45.9%	43.6%	51.6%	44.1%	35.0%	53.6%	58.1%	41.3%	76.5%	29.1%	59.2%
Scale back/withdraw	1.6%	0.9%	1.6%	2.2%	1.4%	1.0%	-	2.3%	-	-	-	-

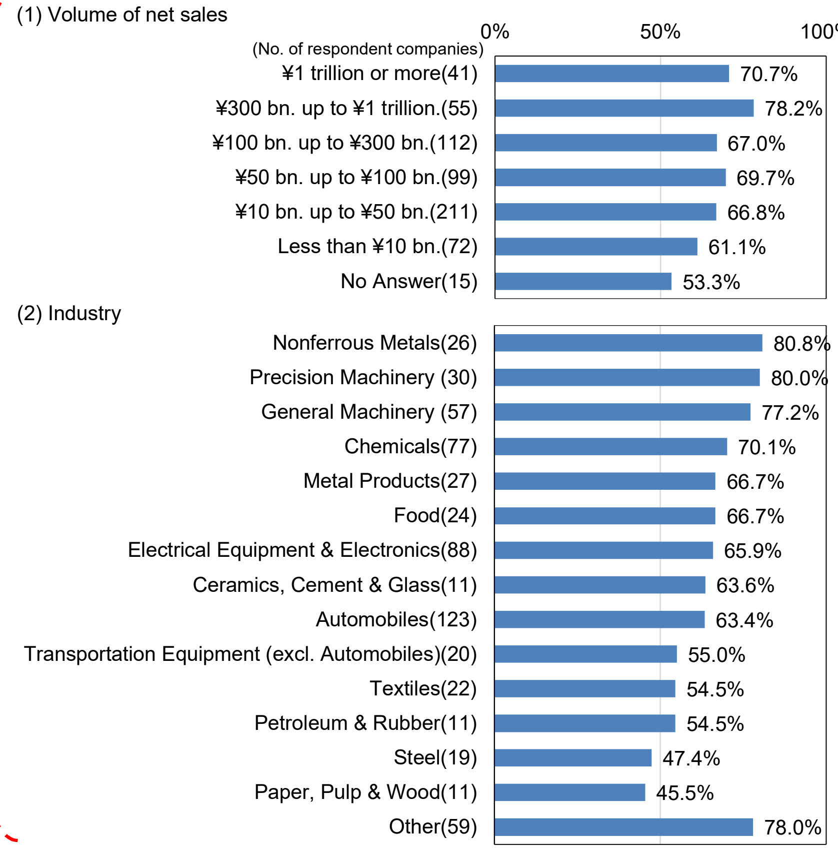
Cross Analysis of Prospects for Overseas and Domestic Businesses

Medium-term Prospects (next 3 yrs. or so)			
Overseas business	Domestic business	No. of respondent companies	Proportion
Strengthen/expand (431 companies)	Strengthen/expand	230	53.4%
	Maintain present level	179	41.5%
	Scale back	10	2.3%
	Undecided	12	2.8%
Maintain present level (132 companies)	Strengthen/expand	32	24.2%
	Maintain present level	92	69.7%
	Scale back	3	2.3%
	Undecided	5	3.8%
Scale back/withdraw (9 companies)	Strengthen/expand	2	22.2%
	Maintain present level	7	77.8%
	Scale back	0	0.0%
	Undecided	0	0.0%

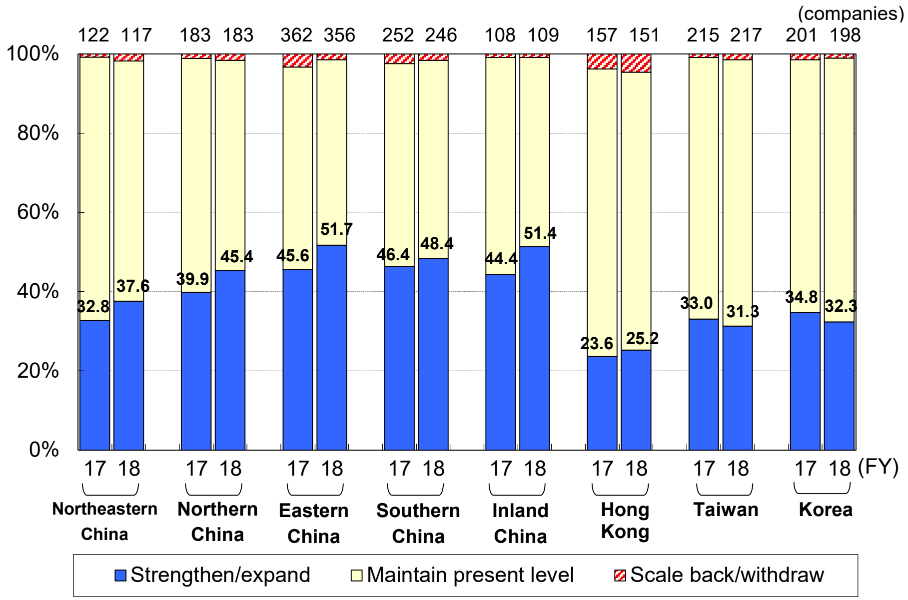
(n= 572 companies)

409 Companies 94.9%

Profile of Companies (409 companies) which selected “Strengthen/Expand” or “Maintain present level” for both Overseas Domestic Business



Medium-term Prospects for Overseas Operations (China/NIEs3)

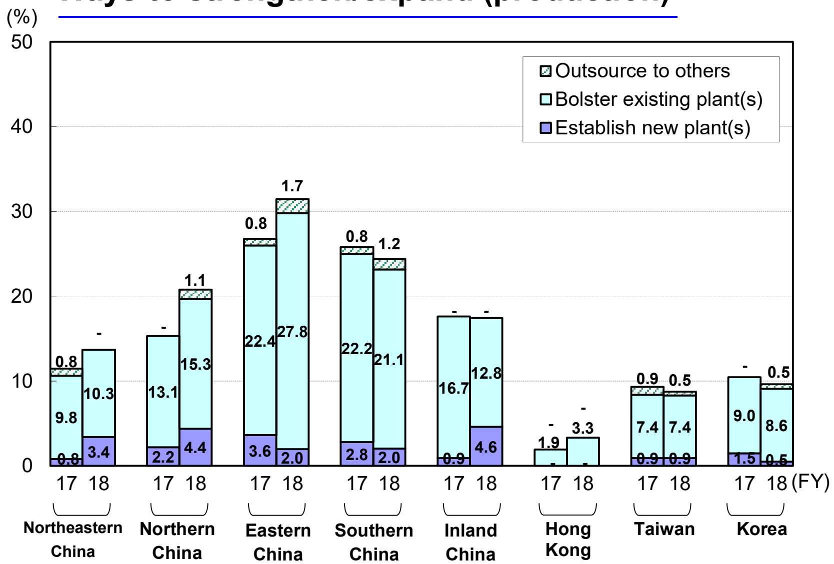


1. Northeastern China: Heilongjiang, Jilin, Liaoning
2. Northern China: Beijing, Tientsin, Hebei, Shandong
3. Eastern China: Shanghai, Jiangsu, Zhejiang
4. Southern China: Fujian, Guangdong, Hainan
5. Inland China - Central: Shanxi, Henan, Anhui, Hubei, Jiangxi, Funan
6. Inland China - Western: Sichuan, Chongqing
7. Inland China - Western: Regions other than Sichuan and Chongqing

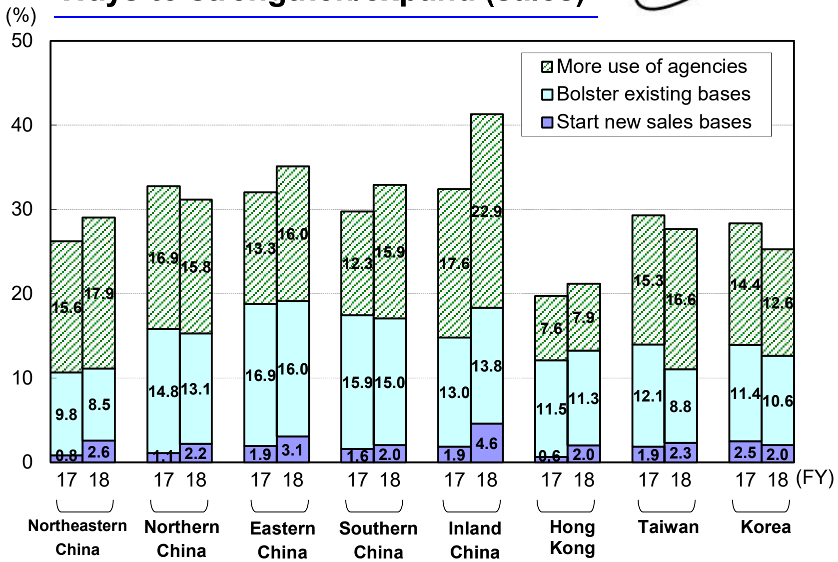
Source: This regional map was prepared by JBIC based on "An Overview of Spatial Policy in Asian and European Countries"(National Spatial Planning and Regional policy Bureau, Ministry of Land, Infrastructure, Transport and Tourism (MLIT)).

Note: Of the Guangdong provinces, Hong Kong is counted as NIEs3 and is not included in the Southern China region.

Ways to strengthen/expand (production)



Ways to strengthen/expand (sales)



Appendix III. Promising Countries/Regions over the Medium-term: Existence of Real Business Plans

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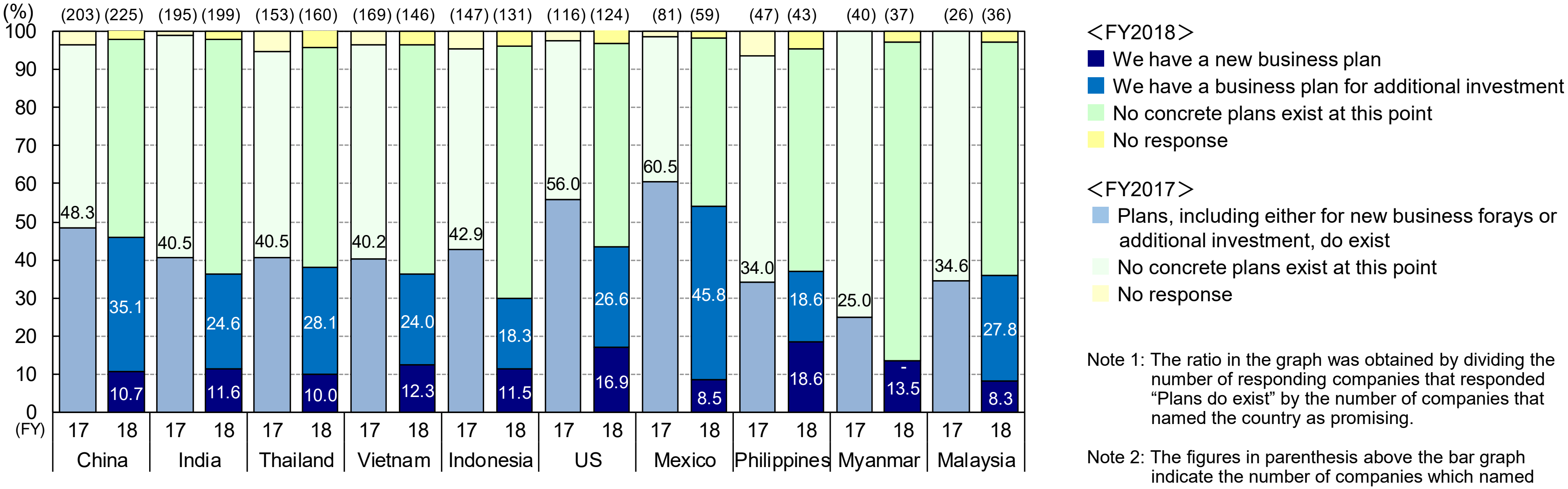
Companies that named promising countries over the medium-term in Figure 27 were asked whether they had a business plan for each of the countries they chose.

Existence of Real Business Plans in Promising Countries



Note 1: The ratio in the graph was obtained by dividing the number of responding companies that responded "Plans do exist" by the number of companies that named the country as promising.

Note 2: The figures in parenthesis above the bar graph indicate the number of companies which named the countries as promising in Figure 27.

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

(Number of companies which responded that "Plans exist")

Rank	Country	No. of respondent companies		Change from last survey ('18-'17)
		FY2018	FY2017	
1	China	103	98	5
2	India	72	79	▲ 7
3	Thailand	61	62	▲ 1
4	US	54	65	▲ 11
5	Vietnam	53	68	▲ 15
6	Indonesia	39	63	▲ 24
7	Mexico	32	49	▲ 17
8	Philippines	16	16	0
9	Malaysia	13	9	4
10	Brazil	10	12	▲ 2

Appendix III. Promising Countries/Regions Existence of Real Business Plans (details)

	No. 1		No. 2		No. 3		No. 4		No. 5		No. 6		No. 7		No. 8		No. 9		No. 10	
	China		India		Thailand		Vietnam		Indonesia		US		Mexico		Philippines		Myanmar		Malaysia	
	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio
Total	225	100%	199	100%	160	100%	146	100%	131	100%	124	100%	59	100%	43	100%	37	100%	36	100%
A new business plan exist	24	10.7%	23	11.6%	16	10.0%	18	12.3%	15	11.5%	21	16.9%	5	8.5%	8	18.6%	5	13.5%	3	8.3%
A business plan for additional investment exist	79	35.1%	49	24.6%	45	28.1%	35	24.0%	24	18.3%	33	26.6%	27	45.8%	8	18.6%	0	0.0%	10	27.8%
No plans	117	52.0%	123	61.8%	92	57.5%	88	60.3%	87	66.4%	66	53.2%	26	44.1%	25	58.1%	31	83.8%	22	61.1%
No response	6	2.7%	4	2.0%	8	5.0%	5	3.4%	5	3.8%	5	4.0%	1	1.7%	2	4.7%	1	2.7%	1	2.8%

	No. 11		No. 12		No. 13		No. 14		No. 15		No. 16		No. 17		No. 18		No. 19		No. 20		No. 20	
	Germany		Brazil		Korea		Taiwan		Russia		Singapore		Cambodia		Australia		Turkey		Laos		France	
	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio
Total	25	100%	24	100%	22	100%	19	100%	16	100%	15	100%	13	100%	12	100%	9	100%	7	100%	7	100%
A new business plan exist	4	16.0%	4	16.7%	2	9.1%	5	26.3%	1	6.3%	1	6.7%	3	23.1%	1	8.3%	1	11.1%	0	0.0%	0	0.0%
A business plan for additional investment exist	4	16.0%	6	25.0%	6	27.3%	4	21.1%	3	18.8%	2	13.3%	1	7.7%	2	16.7%	0	0.0%	0	0.0%	1	14.3%
No plans	17	68.0%	12	50.0%	13	59.1%	9	47.4%	11	68.8%	12	80.0%	9	69.2%	9	75.0%	7	77.8%	7	100.0%	6	85.7%
No response	0	0.0%	2	8.3%	1	4.5%	1	5.3%	1	6.3%	0	0.0%	0	0.0%	0	0.0%	1	11.1%	0	0.0%	0	0.0%

Note: Each “Ratio” refers to the number of companies answering “A new business plan exist”, “A business plan for additional investment exist”, “No plans” or “No response”, divided by the total number of respondent companies for the respective countries.

Appendix III. Promising Countries/Regions over the Medium-term: Time Series Data

Promising Countries/Regions for Overseas Business Operations over the Medium-term

Rank	FY2018 Survey	No.of Companies 431	Percentage share (%)	FY2017 Survey	No.of Companies 444	Percentage share (%)	FY2016 Survey	No.of Companies 483	Percentage share (%)	FY2015 Survey	No.of Companies 433	Percentage share (%)	FY2014 Survey	No.of Companies 499	Percentage share (%)
1	China	225	52.2	China	203	45.7	India	230	47.6	India	175	40.4	India	229	45.9
2	India	199	46.2	India	195	43.9	China	203	42.0	Indonesia	168	38.8	Indonesia	228	45.7
3	Thailand	160	37.1	Vietnam	169	38.1	Indonesia	173	35.8	China			China	218	43.7
4	Vietnam	146	33.9	Thailand	153	34.5	Vietnam	158	32.7	Thailand	133	30.7	Thailand	176	35.3
5	Indonesia	131	30.4	Indonesia	147	33.1	Thailand	142	29.4	Vietnam	119	27.5	Vietnam	155	31.1
6	US	124	28.8	US	116	26.1	Mexico	125	25.9	Mexico	102	23.6	Mexico	101	20.2
7	Mexico	59	13.7	Mexico	81	18.2	US	93	19.3	US	72	16.6	Brazil	83	16.6
8	Philippines	43	10.0	Philippines	47	10.6	Philippines	51	10.6	Philippines	50	11.5	US	66	13.2
9	Myanmar	37	8.6	Myanmar	40	9.0	Myanmar	49	10.1	Brazil	48	11.1	Russia	60	12.0
10	Malaysia	36	8.4	Brazil	28	6.3	Brazil	35	7.2	Myanmar	34	7.9	Myanmar	55	11.0
11	Germany	25	5.8	Korea			Malaysia	33	6.8	Malaysia	27	6.2	Philippines	50	10.0
12	Brazil	24	5.6	Malaysia	26	5.9	Singapore	23	4.8	Russia	24	5.5	Malaysia	46	9.2
13	Korea	22	5.1	Russia	19	4.3	Taiwan	22	4.6	Singapore	20	4.6	Turkey	26	5.2
14	Taiwan	19	4.4	Singapore	17	3.8	Germany	20	4.1	Turkey	17	3.9	Singapore	25	5.0
15	Russia	16	3.7	Taiwan			Russia	17	3.5	Korea			Cambodia	20	4.0
16	Singapore	15	3.5	Germany	13	2.9	Korea	15	3.1	Taiwan	16	3.7	Korea		
17	Cambodia	13	3.0	Turkey	12	2.7	Turkey	12	2.5	Cambodia	14	3.2	Taiwan	19	3.8
18	Australia	12	2.8	Australia	10	2.3	Cambodia			Germany			Germany	9	1.8
19	Turkey	9	2.1	Canada			Australia	11	2.3	Saudi Arabia	7	1.6	France	7	1.4
20	Laos	7	1.6	Cambodia	9	2.0	Iran	8	1.7	Bangladesh	6	1.4	Saudi Arabia		
	France									Laos			South Africa		
										UK					

Promising Countries/Regions over the Long-term

Note: "Long-term" here means the next ten years or so.

Rank	FY2018 Survey	No.of Companies 350	Percentage share (%)	FY2017 Survey	No.of Companies 337	Percentage share (%)
1	India	205	63.5	India	214	63.5
2	China	164	43.3	China	146	43.3
3	Vietnam	115	34.1	Vietnam	115	34.1
4	Indonesia		32.3	Indonesia	109	32.3
5	Thailand	105	23.7	Thailand	80	23.7
6	US	76	23.1	US	78	23.1
7	Myanmar	41	14.2	Myanmar	48	14.2
8	Mexico		13.4	Mexico	45	13.4
9	Brazil		12.8	Brazil	43	12.8
10	Philippines	30	9.8	Philippines	33	9.8

Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs. or so) (Multiple responses) <Mid-tier firms/SMEs>

Note: “Mid-tier firm/SMEs” here means companies with paid-in capital of less than ¥1 billion.

Q The respondents were each asked to name the top 5 countries that they consider to have promising prospects for business operations over the medium-term (next 3 yrs. or so).

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

Ranking 2018	←	Ranking 2017	Country/Region	No. of Companies 2018	No. of Companies 2017	Percentage Share(%) 2018	Percentage Share(%) 2017
			(Total)	137	132		
1	—	1	China	66	55	48.2	41.7
2	↑	3	India	56	52	40.9	39.4
2	↑	4	Thailand	56	46	40.9	34.8
4	↓	2	Vietnam	39	53	28.5	40.2
5	—	5	Indonesia	37	37	27.0	28.0
6	—	6	US	32	27	23.4	20.5
7	—	7	Mexico	15	23	10.9	17.4
7	↑	8	Philippines	15	12	10.9	9.1
9	↓	8	Myanmar	12	12	8.8	9.1
10	—	10	Korea	8	10	5.8	7.6
10	↑	11	Cambodia	8	6	5.8	4.5
10	↑	13	Malaysia	8	5	5.8	3.8
10	↑	13	Germany	8	5	5.8	3.8
14	↓	11	Brazil	7	6	5.1	4.5
14	↓	13	Russia	7	5	5.1	3.8
16	↓	16	Laos	5	4	3.6	3.0
16	↑	19	Turkey	5	3	3.6	2.3
18	↓	16	Taiwan	4	4	2.9	3.0
18	↑	-	Australia	4	-	2.9	-
20	↓	16	Bangladesh	3	4	2.2	3.0
20	—	20	Canada	3	2	2.2	1.5
20	↑	24	France	3	1	2.2	0.8

Note: In case of the same ranking, listed by the order of the previous year’s ranking.

Appendix III. Promising Countries/Regions over the Medium-term: Details of reasons for countries being viewed as promising

Note 1: The number of respondent companies refers to the number of companies that cited reasons for a country being promising.
Note 2: The colored cells indicate the top three reasons most often cited for each country.

FY2018 Survey	1 China		2 India		3 Thailand		4 Vietnam		5 Indonesia		6 US		7 Mexico		8 Philippines		9 Myanmar		10 Malaysia	
	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio
No. of respondent companies	221	100%	197	100%	155	100%	144	100%	127	100%	119	100%	58	100%	42	100%	36	100%	34	100%
1. Qualified human resources	25	11.3%	33	16.8%	22	14.2%	36	25.0%	5	3.9%	22	18.5%	2	3.4%	5	11.9%	4	11.1%	1	2.9%
2. Inexpensive source of labor	29	13.1%	56	28.4%	36	23.2%	75	52.1%	32	25.2%	-	0.0%	18	31.0%	23	54.8%	24	66.7%	5	14.7%
3. Inexpensive components/raw materials	16	7.2%	14	7.1%	8	5.2%	13	9.0%	3	2.4%	2	1.7%	2	3.4%	2	4.8%	2	5.6%	3	8.8%
4. Supply base for assemblers	53	24.0%	43	21.8%	28	18.1%	17	11.8%	25	19.7%	27	22.7%	33	56.9%	4	9.5%	2	5.6%	5	14.7%
5. Concentration of industry	49	22.2%	24	12.2%	25	16.1%	7	4.9%	18	14.2%	21	17.6%	15	25.9%	1	2.4%	1	2.8%	4	11.8%
6. Good for risk diversification to other countries	5	2.3%	6	3.0%	18	11.6%	22	15.3%	5	3.9%	2	1.7%	4	6.9%	5	11.9%	5	13.9%	3	8.8%
7. Base of export to Japan	10	4.5%	2	1.0%	12	7.7%	17	11.8%	9	7.1%	2	1.7%	1	1.7%	6	14.3%	-	0.0%	5	14.7%
8. Base of export to third countries	23	10.4%	21	10.7%	40	25.8%	24	16.7%	11	8.7%	9	7.6%	14	24.1%	8	19.0%	4	11.1%	6	17.6%
9. Advantages in terms of raw material procurement	9	4.1%	4	2.0%	5	3.2%	2	1.4%	4	3.1%	6	5.0%	-	0.0%	2	4.8%	-	0.0%	2	5.9%
10. Current size of local market	141	63.8%	70	35.5%	46	29.7%	33	22.9%	57	44.9%	80	67.2%	17	29.3%	7	16.7%	3	8.3%	7	20.6%
11. Future growth potential of local market	161	72.9%	162	82.2%	86	55.5%	101	70.1%	96	75.6%	58	48.7%	39	67.2%	24	57.1%	25	69.4%	20	58.8%
12. Profitability of local market	18	8.1%	15	7.6%	14	9.0%	11	7.6%	9	7.1%	27	22.7%	6	10.3%	3	7.1%	2	5.6%	-	0.0%
13. Base for product development	16	7.2%	11	5.6%	7	4.5%	-	0.0%	-	0.0%	15	12.6%	-	0.0%	1	2.4%	-	0.0%	-	0.0%
14. Developed local infrastructure	30	13.6%	3	1.5%	34	21.9%	12	8.3%	3	2.4%	30	25.2%	3	5.2%	2	4.8%	-	0.0%	6	17.6%
15. Developed local logistics services	18	8.1%	2	1.0%	13	8.4%	4	2.8%	1	0.8%	22	18.5%	3	5.2%	1	2.4%	-	0.0%	4	11.8%
16. Tax incentives for investment	9	4.1%	8	4.1%	25	16.1%	12	8.3%	6	4.7%	7	5.9%	3	5.2%	4	9.5%	4	11.1%	7	20.6%
17. Stable policies to attract foreign investment	1	0.5%	4	2.0%	9	5.8%	8	5.6%	3	2.4%	4	3.4%	-	0.0%	1	2.4%	1	2.8%	2	5.9%
18. Social/political situation stable	6	2.7%	6	3.0%	15	9.7%	23	16.0%	5	3.9%	28	23.5%	-	0.0%	2	4.8%	2	5.6%	8	23.5%

FY2017 Survey	1 China		2 India		3 Vietnam		4 Thailand		5 Indonesia		6 US		7 Mexico		8 Philippines		9 Myanmar		10 Brazil		10 Korea	
	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio
No. of respondent companies	197	100%	193	100%	163	100%	152	100%	142	100%	109	100%	81	100%	45	100%	39	100%	27	100%	27	100%
1. Qualified human resources	22	11.2%	30	15.5%	31	19.0%	21	13.8%	8	5.6%	17	15.6%	5	6.2%	8	17.8%	4	10.3%	-	0.0%	4	14.8%
2. Inexpensive source of labor	28	14.2%	61	31.6%	82	50.3%	36	23.7%	47	33.1%	-	0.0%	26	32.1%	19	42.2%	24	61.5%	3	11.1%	-	0.0%
3. Inexpensive components/raw materials	22	11.2%	17	8.8%	14	8.6%	8	5.3%	8	5.6%	1	0.9%	3	3.7%	-	0.0%	2	5.1%	3	11.1%	1	3.7%
4. Supply base for assemblers	53	26.9%	47	24.4%	21	12.9%	37	24.3%	26	18.3%	17	15.6%	38	46.9%	7	15.6%	3	7.7%	7	25.9%	4	14.8%
5. Concentration of industry	44	22.3%	18	9.3%	12	7.4%	37	24.3%	20	14.1%	21	19.3%	20	24.7%	4	8.9%	-	0.0%	3	11.1%	4	14.8%
6. Good for risk diversification to other countries	3	1.5%	10	5.2%	29	17.8%	14	9.2%	4	2.8%	2	1.8%	6	7.4%	3	6.7%	2	5.1%	-	0.0%	1	3.7%
7. Base of export to Japan	11	5.6%	1	0.5%	21	12.9%	11	7.2%	5	3.5%	1	0.9%	-	0.0%	4	8.9%	1	2.6%	-	0.0%	-	0.0%
8. Base of export to third countries	21	10.7%	23	11.9%	30	18.4%	45	29.6%	17	12.0%	4	3.7%	16	19.8%	6	13.3%	6	15.4%	2	7.4%	2	7.4%
9. Advantages in terms of raw material procurement	10	5.1%	3	1.6%	3	1.8%	4	2.6%	3	2.1%	7	6.4%	1	1.2%	3	6.7%	-	0.0%	-	0.0%	2	7.4%
10. Current size of local market	121	61.4%	70	36.3%	25	15.3%	50	32.9%	49	34.5%	74	67.9%	21	25.9%	9	20.0%	5	12.8%	10	37.0%	14	51.9%
11. Future growth potential of local market	135	68.5%	165	85.5%	116	71.2%	76	50.0%	121	85.2%	60	55.0%	58	71.6%	29	64.4%	30	76.9%	21	77.8%	7	25.9%
12. Profitability of local market	17	8.6%	15	7.8%	14	8.6%	10	6.6%	7	4.9%	31	28.4%	2	2.5%	1	2.2%	-	0.0%	1	3.7%	5	18.5%
13. Base for product development	15	7.6%	8	4.1%	2	1.2%	5	3.3%	1	0.7%	22	20.2%	-	0.0%	-	0.0%	1	2.6%	2	7.4%	2	7.4%
14. Developed local infrastructure	27	13.7%	1	0.5%	10	6.1%	35	23.0%	6	4.2%	29	26.6%	5	6.2%	2	4.4%	1	2.6%	1	3.7%	6	22.2%
15. Developed local logistics services	8	4.1%	1	0.5%	5	3.1%	10	6.6%	3	2.1%	21	19.3%	2	2.5%	1	2.2%	-	0.0%	-	0.0%	2	7.4%
16. Tax incentives for investment	5	2.5%	6	3.1%	9	5.5%	19	12.5%	5	3.5%	5	4.6%	3	3.7%	2	4.4%	3	7.7%	-	0.0%	2	7.4%
17. Stable policies to attract foreign investment	1	0.5%	5	2.6%	6	3.7%	19	12.5%	5	3.5%	1	0.9%	4	4.9%	2	4.4%	-	0.0%	-	0.0%	-	0.0%
18. Social/political situation stable	5	2.5%	9	4.7%	30	18.4%	12	7.9%	6	4.2%	22	20.2%	1	1.2%	2	4.4%	1	2.6%	1	3.7%	-	0.0%

Appendix III. Promising Countries/Regions over the Medium-term: Details of issues

Note 1: The number of respondent companies refers to the number of companies that cited issues.
Note 2: The colored cells indicate the top three issues most often cited for each country.

FY2018 Survey	1 China		2 India		3 Thailand		4 Vietnam		5 Indonesia		6 US		7 Mexico		8 Philippines		9 Myanmar		10 Malaysia	
	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio
Respondent companies	211	100%	174	100%	134	100%	127	100%	115	100%	101	100%	52	100%	39	100%	33	100%	31	100%
1. Underdeveloped legal system	18	8.5%	38	21.8%	3	2.2%	30	23.6%	13	11.3%	-	0.0%	3	5.8%	6	15.4%	16	48.5%	2	6.5%
2. Execution of legal system unclear	99	46.9%	64	36.8%	14	10.4%	41	32.3%	37	32.2%	3	3.0%	6	11.5%	8	20.5%	16	48.5%	4	12.9%
3. Complicated tax system	18	8.5%	44	25.3%	8	6.0%	9	7.1%	8	7.0%	1	1.0%	6	11.5%	2	5.1%	5	15.2%	-	0.0%
4. Execution of tax system unclear	39	18.5%	51	29.3%	9	6.7%	21	16.5%	25	21.7%	2	2.0%	4	7.7%	4	10.3%	6	18.2%	3	9.7%
5. Increased taxation	53	25.1%	21	12.1%	11	8.2%	12	9.4%	18	15.7%	16	15.8%	7	13.5%	7	17.9%	3	9.1%	2	6.5%
6. Restrictions on foreign investment	45	21.3%	23	13.2%	15	11.2%	20	15.7%	19	16.5%	5	5.0%	2	3.8%	5	12.8%	6	18.2%	2	6.5%
7. Complicated/unclear procedures for investment permission	33	15.6%	31	17.8%	10	7.5%	18	14.2%	16	13.9%	-	0.0%	4	7.7%	4	10.3%	8	24.2%	2	6.5%
8. Insufficient protection for intellectual property rights	79	37.4%	12	6.9%	9	6.7%	8	6.3%	10	8.7%	-	0.0%	1	1.9%	4	10.3%	6	18.2%	-	0.0%
9. Restrictions on foreign currency/ transfers of money overseas	62	29.4%	23	13.2%	5	3.7%	12	9.4%	14	12.2%	1	1.0%	2	3.8%	3	7.7%	6	18.2%	4	12.9%
10. Import restrictions/customs procedures	53	25.1%	25	14.4%	9	6.7%	13	10.2%	19	16.5%	9	8.9%	5	9.6%	4	10.3%	1	3.0%	1	3.2%
11. Difficult to secure technical/engineering staff	39	18.5%	28	16.1%	40	29.9%	25	19.7%	20	17.4%	19	18.8%	19	36.5%	6	15.4%	7	21.2%	6	19.4%
12. Difficult to secure management-level staff	43	20.4%	35	20.1%	46	34.3%	40	31.5%	25	21.7%	17	16.8%	19	36.5%	10	25.6%	14	42.4%	7	22.6%
13. Rising labor costs	129	61.1%	28	16.1%	62	46.3%	44	34.6%	39	33.9%	20	19.8%	15	28.8%	5	12.8%	3	9.1%	11	35.5%
14. Labor problems	41	19.4%	39	22.4%	6	4.5%	11	8.7%	23	20.0%	8	7.9%	6	11.5%	4	10.3%	3	9.1%	1	3.2%
15. Intense competition with other companies	132	62.6%	76	43.7%	64	47.8%	40	31.5%	49	42.6%	72	71.3%	14	26.9%	10	25.6%	8	24.2%	14	45.2%
16. Difficulties in recovering money owed	52	24.6%	27	15.5%	3	2.2%	10	7.9%	9	7.8%	2	2.0%	2	3.8%	-	0.0%	5	15.2%	1	3.2%
17. Difficulty in raising funds	11	5.2%	13	7.5%	2	1.5%	5	3.9%	3	2.6%	1	1.0%	3	5.8%	3	7.7%	2	6.1%	-	0.0%
18. Underdeveloped local supporting industries	9	4.3%	19	10.9%	6	4.5%	19	15.0%	12	10.4%	1	1.0%	7	13.5%	9	23.1%	10	30.3%	1	3.2%
19. Sense of instability regarding currency and/or costs	14	6.6%	15	8.6%	3	2.2%	15	11.8%	16	13.9%	-	0.0%	9	17.3%	6	15.4%	7	21.2%	2	6.5%
20. Underdeveloped infrastructure	11	5.2%	62	35.6%	4	3.0%	32	25.2%	30	26.1%	-	0.0%	5	9.6%	11	28.2%	23	69.7%	2	6.5%
21. Security/social instability	33	15.6%	35	20.1%	24	17.9%	7	5.5%	29	25.2%	2	2.0%	29	55.8%	16	41.0%	10	30.3%	4	12.9%
22. Lack of information on the country	6	2.8%	24	13.8%	5	3.7%	13	10.2%	10	8.7%	-	0.0%	3	5.8%	2	5.1%	16	48.5%	5	16.1%

FY2017 Survey	1 China		2 India		3 Vietnam		4 Thailand		5 Indonesia		6 US		7 Mexico		8 Philippines		9 Myanmar		10 Brazil		10 Korea	
	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio
Respondent companies	190	100%	182	100%	141	100%	122	100%	126	100%	87	100%	72	100%	41	100%	38	100%	26	100%	22	100%
1. Underdeveloped legal system	20	10.5%	36	19.8%	27	19.1%	5	4.1%	21	16.7%	-	0.0%	3	4.2%	2	4.9%	21	55.3%	4	15.4%	-	0.0%
2. Execution of legal system unclear	103	54.2%	81	44.5%	50	35.5%	20	16.4%	48	38.1%	6	6.9%	10	13.9%	10	24.4%	18	47.4%	6	23.1%	-	0.0%
3. Complicated tax system	28	14.7%	70	38.5%	7	5.0%	10	8.2%	15	11.9%	1	1.1%	6	8.3%	1	2.4%	2	5.3%	6	23.1%	-	0.0%
4. Execution of tax system unclear	56	29.5%	61	33.5%	28	19.9%	10	8.2%	24	19.0%	2	2.3%	11	15.3%	4	9.8%	9	23.7%	6	23.1%	1	4.5%
5. Increased taxation	46	24.2%	23	12.6%	11	7.8%	12	9.8%	20	15.9%	13	14.9%	4	5.6%	2	4.9%	-	0.0%	4	15.4%	2	9.1%
6. Restrictions on foreign investment	54	28.4%	38	20.9%	17	12.1%	16	13.1%	29	23.0%	2	2.3%	1	1.4%	7	17.1%	8	21.1%	3	11.5%	1	4.5%
7. Complicated/unclear procedures for investment permission	40	21.1%	37	20.3%	17	12.1%	9	7.4%	20	15.9%	-	0.0%	2	2.8%	4	9.8%	8	21.1%	2	7.7%	-	0.0%
8. Insufficient protection for intellectual property rights	76	40.0%	18	9.9%	7	5.0%	10	8.2%	13	10.3%	-	0.0%	2	2.8%	4	9.8%	5	13.2%	-	0.0%	1	4.5%
9. Restrictions on foreign currency/ transfers of money overseas	68	35.8%	29	15.9%	15	10.6%	5	4.1%	18	14.3%	1	1.1%	2	2.8%	3	7.3%	5	13.2%	2	7.7%	1	4.5%
10. Import restrictions/customs procedures	50	26.3%	36	19.8%	19	13.5%	13	10.7%	29	23.0%	5	5.7%	8	11.1%	5	12.2%	8	21.1%	4	15.4%	-	0.0%
11. Difficult to secure technical/engineering staff	29	15.3%	37	20.3%	29	20.6%	29	23.8%	31	24.6%	12	13.8%	23	31.9%	9	22.0%	10	26.3%	3	11.5%	3	13.6%
12. Difficult to secure management-level staff	27	14.2%	36	19.8%	42	29.8%	44	36.1%	39	31.0%	20	23.0%	28	38.9%	12	29.3%	13	34.2%	3	11.5%	3	13.6%
13. Rising labor costs	123	64.7%	36	19.8%	54	38.3%	54	44.3%	47	37.3%	20	23.0%	21	29.2%	10	24.4%	6	15.8%	7	26.9%	8	36.4%
14. Labor problems	36	18.9%	45	24.7%	14	9.9%	8	6.6%	26	20.6%	12	13.8%	9	12.5%	3	7.3%	2	5.3%	4	15.4%	5	22.7%
15. Intense competition with other companies	109	57.4%	68	37.4%	44	31.2%	56	45.9%	46	36.5%	64	73.6%	25	34.7%	15	36.6%	7	18.4%	12	46.2%	14	63.6%
16. Difficulties in recovering money owed	37	19.5%	27	14.8%	12	8.5%	3	2.5%	10	7.9%	-	0.0%	1	1.4%	1	2.4%	4	10.5%	3	11.5%	-	0.0%
17. Difficulty in raising funds	13	6.8%	13	7.1%	5	3.5%	-	0.0%	2	1.6%	1	1.1%	1	1.4%	1	2.4%	-	0.0%	1	3.8%	1	4.5%
18. Underdeveloped local supporting industries	3	1.6%	21	11.5%	20	14.2%	5	4.1%	7	5.6%	1	1.1%	9	12.5%	3	7.3%	11	28.9%	1	3.8%	-	0.0%
19. Sense of instability regarding currency and/or costs	9	4.7%	18	9.9%	14	9.9%	6	4.9%	19	15.1%	-	0.0%	8	11.1%	2	4.9%	6	15.8%	11	42.3%	3	13.6%
20. Underdeveloped infrastructure	11	5.8%	80	44.0%	38	27.0%	7	5.7%	33	26.2%	-	0.0%	9	12.5%	11	26.8%	24	63.2%	7	26.9%	1	4.5%
21. Security/social instability	34	17.9%	38	20.9%	12	8.5%	27	22.1%	36	28.6%	4	4.6%	48	66.7%	18	43.9%	12	31.6%	14	53.8%	1	4.5%
22. Lack of information on the country	4	2.1%	23	12.6%	20	14.2%	1	0.8%	10	7.9%	1	1.1%	2	2.8%	4	9.8%	10	26.3%	2	7.7%	-	0.0%

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