

Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

—Results of the JBIC FY2020 Survey:

Outlook for Japanese Foreign Direct Investment
(32nd Annual Survey) —

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1. Introduction

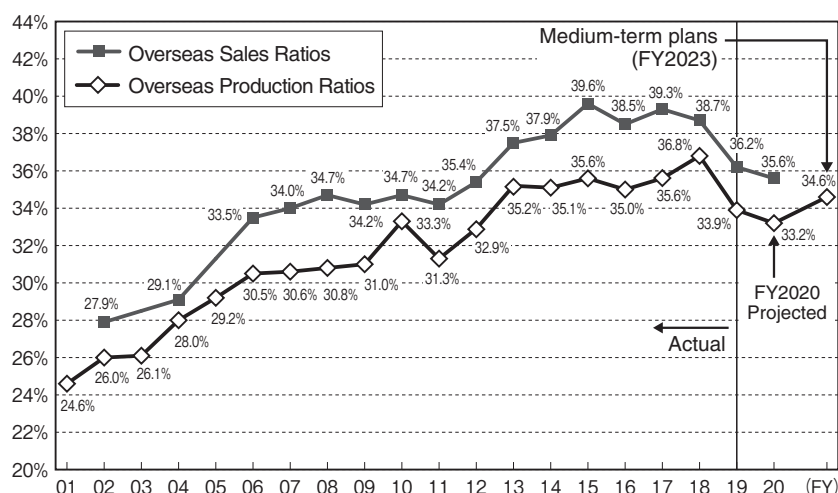
Japan Bank for International Cooperation (JBIC) has released “Survey Report on Overseas Business Operations by Japanese Manufacturing Companies”. In this survey, questionnaires were sent out in August 2020 and collected by November (954 target companies, 530 valid respondents, 55.6% response rate). We would like to express our gratitude to the companies who cooperated under the situation of COVID-19.

In this survey, we asked “Impact of COVID-19 on Supply chain” and “Prospects for SDGs” as special themes, in addition to “Overseas Business Performance”, “Business Prospects”, and “Promising Countries/Regions”.

2. Overseas Production/Sales Ratios

Overseas production ratio for FY2019 was 33.9% and the overseas sales was 36.2%, recording the largest drop ever. Although the level of overseas sales ratio until the previous year was close to 40%, sales and production were significantly affected by the spread of COVID-19 toward the end of the fiscal year. Therefore, the overseas sales and production ratios, which had been on an upward trend until the previous year, have returned to the level of 10 years ago. In the future, the overseas production ratio is expected to reach 34.6% in 2023. Although this does not reach the pre-COVID-19 level, a gradual recovery is expected. (Figure 1)

Figure 1. Overseas Production/Sales Ratios



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

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

3. Mid-Term (Next 3 Years) Prospects for Business Expansion (Domestic/International)

37.9% of companies answered that they would “maintain present level” in their overseas business. It is a significant increase of 11.2 points from the previous year. Along with this, the ratio of “strengthen/expand” dropped sharply to 59.3%, which was lower than after the 2008 financial crisis (65.8%) and set a new record since the survey started. In the interview, one automobile parts company said “We will minimize overseas investment because of COVID-19”. (Figure 2)

Regarding the mid-term prospects for domestic business expansion, the number of companies that answered “strengthen/expand” decreased to 38.9%, and “undecided” increased to 7.2%. “Maintain present level

Figure 2. Mid-Term (Next 3 Years) Prospects for Overseas Business Expansion

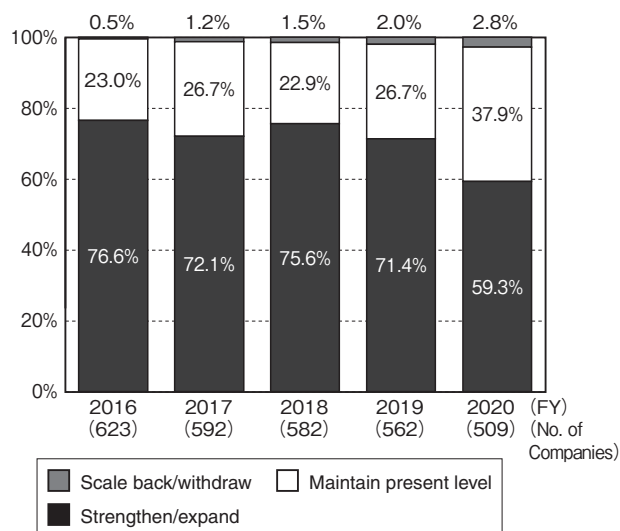


Figure 3. Mid-Term (Next 3 Years) Prospects for Domestic Business Expansion

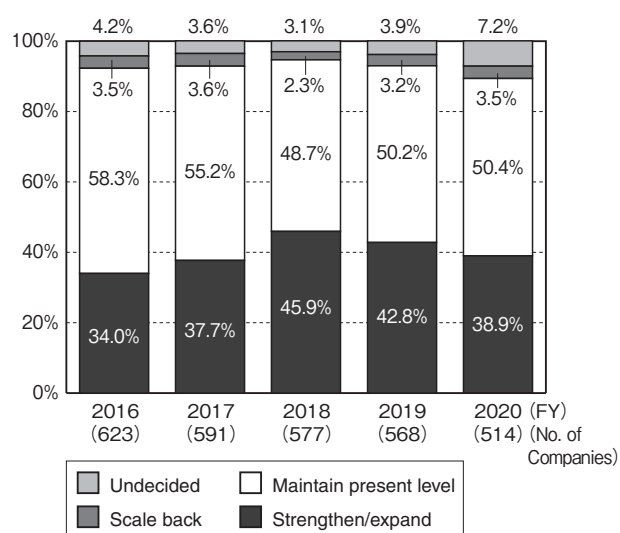
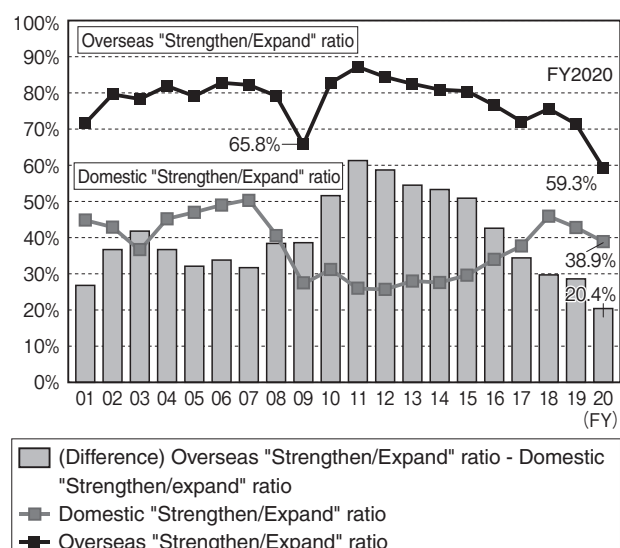


Figure 4. Shift in Intentions to Strengthen/Expand Business (FY2000 - FY2020)



(50.4%)” and “scale back (3.5%)” were at the same level as last year. (Figure 3)

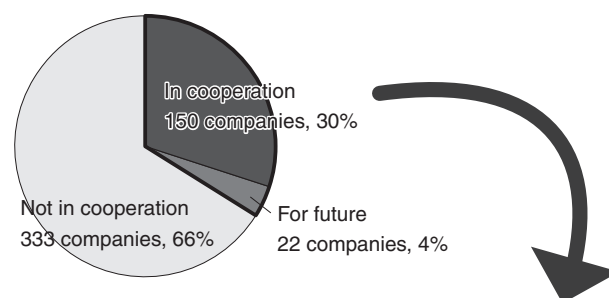
The gap between “strengthen/expand” ratio of overseas business and domestic business has narrowed to 20.4 points, which is the lowest ever since last year. It indicates that the proactive attitude toward overseas business is extremely weak. However, depending on the measures against COVID-19 or the economic recovery of each country, the attitude of strengthening and expanding may recover. (Figure 4)

4. Third Party Alliance

When we asked companies about the overseas business under the third party alliance (Figure 5), 30% of the respondents answered “in cooperation”. Since the answer “for future” was only 4%, it seems that there is a clear distinction between companies that choose the third party alliance and those do not.

Looking at the details of the alliance, Western company (104 companies) was the most popular partner, followed

Figure 5. Overseas Business Under Third Party Alliance



	Company			Subtotal
	Chinese company	Indian Company	Western company	
China		3	21	24
Singapore	5	2	9	16
Thailand	12	5	10	27
Indonesia	6	5	9	20
Malasia	2	1	4	7
Philippines	7	1	3	11
Vietnam	6	0	3	9
Cambodia	1	0	0	1
Laos	1	0	0	1
Myanmar	0	0	0	0
India	7		10	17
Africa	0	1	1	2
Others	11	2	34	47
Subtotal	58	20	104	

by Chinese company (58 companies) and Indian company (20 companies). As for the countries that carry out projects in cooperation, Thailand (27 companies) was most popular, followed by China (24 companies) and Indonesia (20 companies). As for “others (47 companies)”, Taiwan was mentioned through the interview.

In the matrix analysis between the partner company and the project implementing country, the Chinese company cooperates in a wide range of Asian countries, e.g. Thailand (12 companies), Philippines (7 companies), India (7 companies), Indonesia (6 companies), and the Mekong region. On the other hand, in cooperation with Western companies, China (21 companies) stands out, far exceeding Thailand and India (10 companies). In Africa, there was one company in collaboration with Indian company (petroleum and rubber) and one with Western company (chemicals).

There were various ways of cooperation e.g. “Receiving licenses from the western company and developing the Chinese market together” (Cooperation with Western company in China, Nonferrous metals) and “Producing parts in India and selling them to Chinese automobile companies” (cooperation with Chinese company in India, Automobile parts). As an overall trend, cooperation with Chinese companies is cost-oriented, and many companies cooperate to procure/purchase some parts. Cooperation with Western companies is market-oriented, producing products with licenses from Western companies and develop the market together.

5. Promising Countries: Potential Countries / Regions in the Mid-Term

We asked the companies to nominate up to five medium-term Promising Countries. The ranking is as shown in Figure 6.

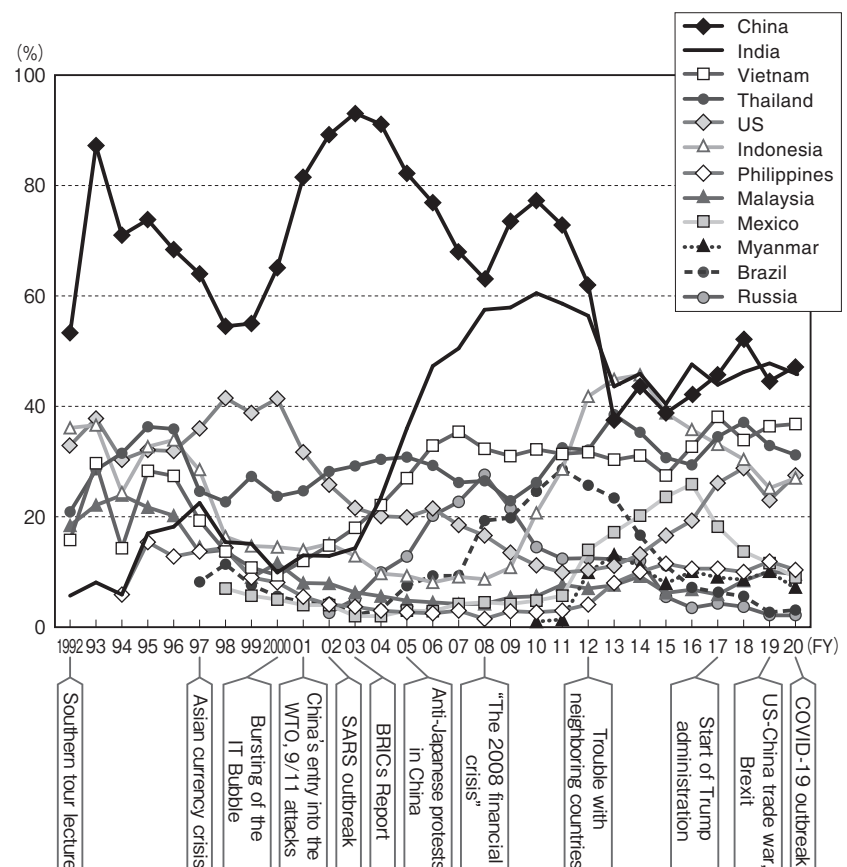
India returned to the top for the first time in three years last year, but this year China has regained the lead by a narrow margin (5 votes). According to the interviews, comparison of China and India's correspondence to COVID-19 was pointed out; China resumed economic activities early in

the pandemic, however India's recession is worsening due to prolonged lockdown.

Figure 6. Promising Countries for Overseas Business over the Mid-term (Next 3 Years)

Ranking			Countries (Total)	No. of Companies		Percentage Share(%)	
2020 ← 2019				2020	2019	2020	2019
				356	404		
1	▲	2	China	168	180	47.2	44.6
2	▼	1	India	163	193	45.8	47.8
3	—	3	Vietnam	131	147	36.8	36.4
4	—	4	Thailand	111	133	31.2	32.9
5	▲	6	US	98	93	27.5	23.0
6	▼	5	Indonesia	96	102	27.0	25.2
7	—	7	Philippines	37	48	10.4	11.9
8	▲	9	Malaysia	34	41	9.6	10.1
9	▼	8	Mexico	32	47	9.0	11.6
10	▼	9	Myanmar	25	41	7.0	10.1
11	▲	14	Germany	20	14	5.6	3.5
12	▼	11	Taiwan	18	18	5.1	4.5
13	▲	21	Bangladesh	16	7	4.5	1.7
14	▲	15	Australia	14	13	3.9	3.2
15	▼	12	Korea	12	15	3.4	3.7
16	▼	12	Singapore	11	15	3.1	3.7
16	▲	17	Brazil	11	11	3.1	2.7
18	▲	26	UK	9	4	2.5	1.0
19	▼	18	Russia	8	9	2.2	2.2
20	—	20	Turkey	7	8	2.0	2.0

Figure 7. Promising Countries: Potential Countries/Regions in the Mid-Term - Trends in Votes



Moreover, there was a difference of 17 points in the vote rate between Indonesia (6th) and the Philippines (7th), and it became clear that bipolarization is progressing even in the top 10.

Among the high-ranking teams, China and India with huge market, Thailand with a well-established production base, Vietnam, etc. are firmly popular. One company is “considering transferring from Thailand to Vietnam as customers expansion” (electrical equipment & electronics). On the other hand, the lower-ranking team is divided into countries that have boomed in the past, such as Russia, Mexico, and Brazil, and inconspicuous but persistently popular countries such as Philippines, Myanmar, and Malaysia.

The future focus will be on whether the US and Indonesia will remain in the high-ranking teams, and whether any country will break out of the 7th or lower group.

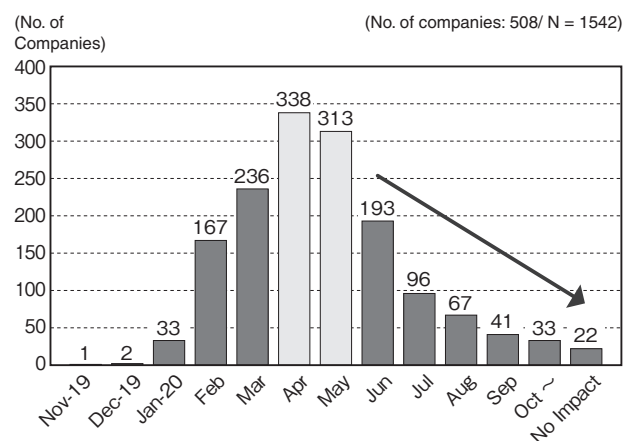
6. Impact of COVID-19 on Supply Chain

(1) Overview (impact on production side)

In order to measure how COVID-19 affected Japan's production activities (supply chain), we asked questions ① the most impacted month (Figure 8) and ② the most impacted country/region (Figure 9).

As a result, the supply chain of Japanese companies was most impacted from April to May, and it can be seen that the impact has almost disappeared recently. Regarding the impacted country/region, China (283 companies) was most impacted, followed by ASEAN (264 companies). It shows that COVID-19 has almost the same impact on the production networks of China and ASEAN. Comparing the number of responding companies, the number of respondents far exceeds that of Japan (178 companies) and North America (146 companies), which suggests the importance of the production network of China and ASEAN. According to the interviews, as for China, “the spread of infection and lockdown had a greater impact earlier than in other countries” (chemicals), and as for ASEAN, “in Thailand, inventory adjustments are required due to the suspension of operations at delivery destinations. For stopping the plant in operation, it gave a blow to business performance” (general machinery).

Figure 8. The Most Impacted Month



Note: For the convenience of the answer period, this question is collectively referred to as “October~” after October

Figure 9. The Most Impacted Country/Region

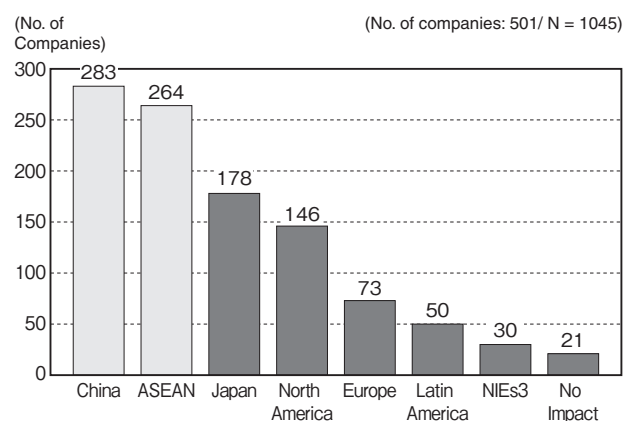
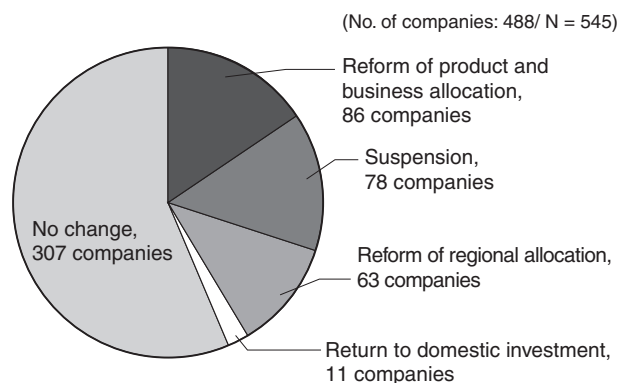


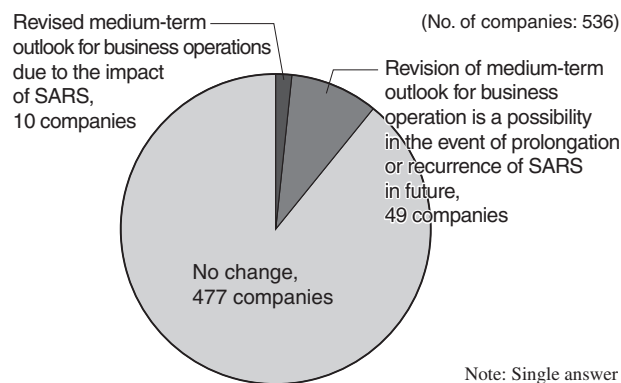
Figure 10. Impact on Foreign Investment Plan



(2) Implications of COVID-19 for Investment Plan

When we asked if they would change their foreign investment plans in response to the COVID-19 (Figure 10), approximately 60% of respondents answered “no change”. However, according to the interview, many companies said, “Immediate response to COVID-19 is prioritized, so we cannot reconsider the investment plan right now”. Therefore, it seems that investment decisions have not been made because the situation is not calm. On the other hand, the other 40% said they were considering some kind of response. Specifically, “reform of product and business allocation (86 companies)” was the most common, followed by “suspension (78 companies)” and “reform of regional allocation of FDI (63 companies)”. When we asked the same question in 2003, when SARS were sweeping the world, approximately 90% answered “no change” (Figure 11). Compared to this result, it seems that impact of COVID-19 have had a huge impact rather than SARS.

Figure 11. Impact on Foreign Investment Plan by SARS



(3) Correspondence to COVID-19

We asked ①How to reinforce Supply Chain (Figure12) and ②How to cope with COVID-19 other than Supply Chain Reforms (Figure13).

As for the majors to reinforce Supply Chain, it was found that many companies are considering supply chain reinforcement; “expand working capital (133 companies)” was the most common, followed by “multiply factories by product (123 companies)”, “expand investment for automation and labor saving (122 companies)”, “enhance local procurement and local sales (118 companies)” etc. In the interview, it was pointed out that “strengthening inventory control and addition of inventory”, “securing multiple bases in China”, and “shortening the supply chain by local production for local consumption” are important to reinforce the supply chain.

On the other hand, the reorganization of bases such as “return to Japan (43 companies)” and “move to third country (28 companies)” seems to be cautious at this point.

Figure 12. How to Reinforce Supply Chain

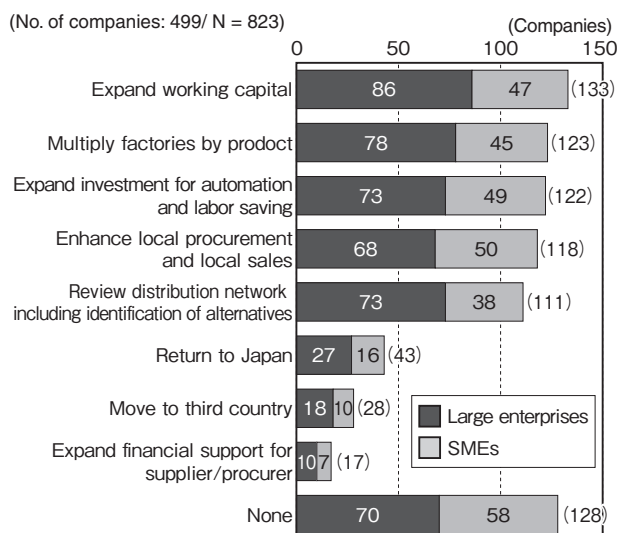
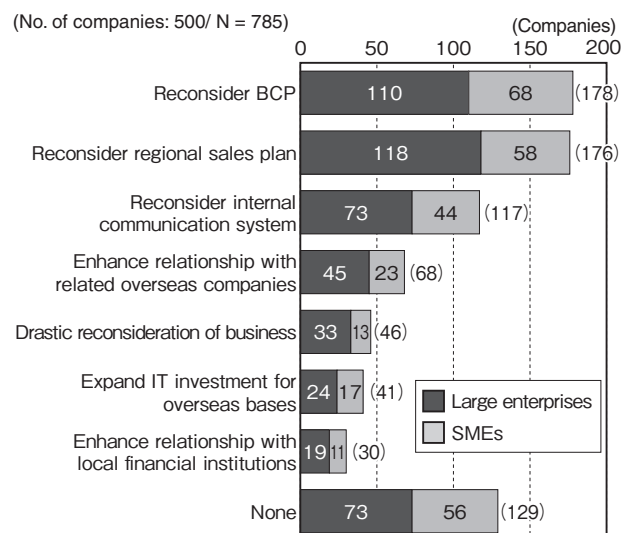


Figure 13. How to Cope with COVID-19 other than Supply Chain Reforms



By industry, electronic equipment and electronics (17 companies) are at the top, followed by chemicals (11 companies) and automobiles (11 companies). One chemicals company said, “We are not sure what to do in the company. The future is uncertain with COVID-19 and cannot make a drastic decision.” It is expected that it will take time to review the bases.

As for “How to Cope with COVID-19 other than Supply Chain Reforms”, many companies answered “reconsider BCP (178 companies)” and “reconsider regional sales plan (176 companies)” as measures. Specifically, many respondents said that they would review their BCP in order to respond to the second and third waves of COVID-19 and next pandemic.

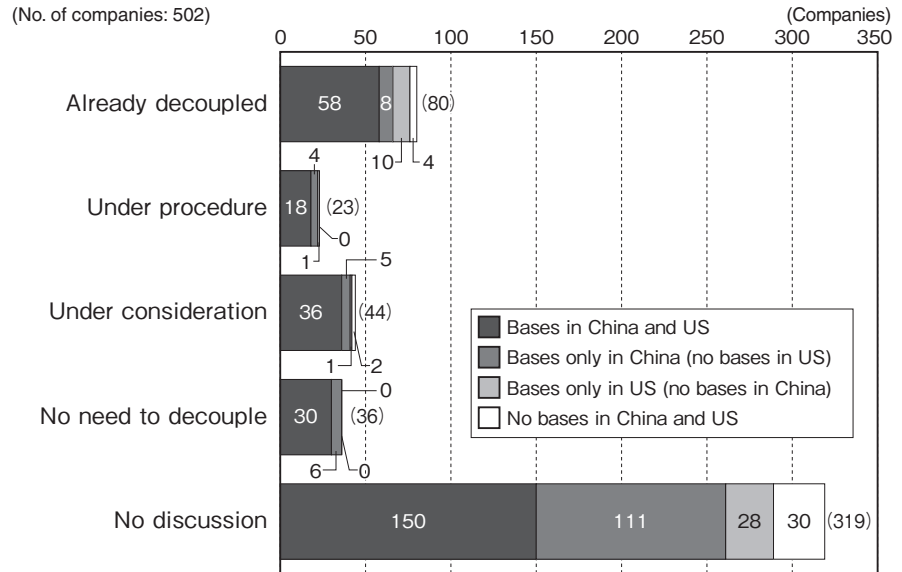
In addition, a certain number of respondents answered, “reconsider internal communication system (117 companies)” and “expand IT investment for overseas bases (41 companies)”. With COVID-19, it seems that companies are reaffirming the importance of IT and digitization, and investment priorities are rising.

(4) US-China Decoupling

We asked companies about the correspondence to US-China decoupling (Figure 14). While many companies said “no discussion (319 companies)”, 80 companies (58 companies have bases in China and US) answered “already decoupled”, followed by “under procedure (23 companies)” and “under consideration (44 companies)”. Therefore, about 30% of the respondents, which is 40% of companies that have bases in both US and China, are corresponding to the US-China decoupling.

In response to rising labor costs in China, there have been some moves to relocate or change the suppliers to Southeast Asia or Mexico, which have attractive inexpensive source. Some company pointed out that his move have been accelerated by US-China conflict. One company which has already decoupled said, “In the past, we manufactured in China and supplied products to the US, but after Trump was inaugurated, we changed the business like ‘In China for China’ and ‘In Mexico/US for US’”(automobile parts). In addition, some companies said “While aiming to reinforce

Figure 14. Correspondence to US-China Decoupling Theory



the supply chain triggered by the impact of COVID-19, in order to reduce distribution costs and avoid risks, we are going to change the business strategy like ‘In China for China’ and ‘In Mexico/US for US’.”

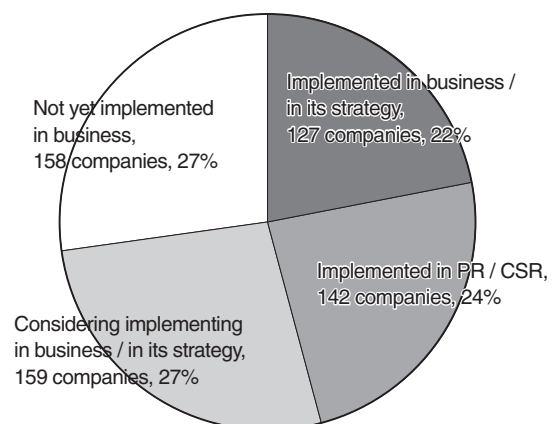
7. Prospects for SDGs

(1) Degree of Efforts towards SDGs

When asked about the status of SDGs implementation (Figure 15), 22% (127 companies) answered that they “implemented in business/in its strategy” and 24% (142 companies) answered that they “implemented in PR/CSR etc”. A little less than 1/2 companies are working on SDGs. In addition, about 1/4 are “considering implementing in business or in its strategy”, indicating well-spread of awareness, even if they didn’t step into concrete action yet.

Figure 15. Degree of Efforts towards SDGs

(No. of companies: 504/ No. of answers: 586 (denominator))



Note: Denominator = No. of companies of each category

(2) Motivations behind Efforts towards SDGs

We asked questions from various angles about the motives for working on the SDGs (Figure 16). As for the social awareness, consumer awareness are the main reported motives followed by self-motivation in all companies. As for the financing, pressures from investors much rather than financial institutions in large companies. One chemicals company said, “We frequently receive inquiries about SDGs from overseas investors, and we exposed to a strict looks”. As for the supply chain transmission, SDGs becoming a keyword among companies within the same supply chain in SMEs. “European customers are strongly expected to work on the SDGs” (nonferrous metals).

Regarding the fact that many respondents answered “self motivated” in this survey, there was an opinion that “It is inevitable because of our products deeply related to the environment” (electrical equipment & electronics). In addition, there was an opinion that “We were surprised by high number of ‘self motivated’” (US pension fund), which is perceived as an unexpected result for overseas investors.

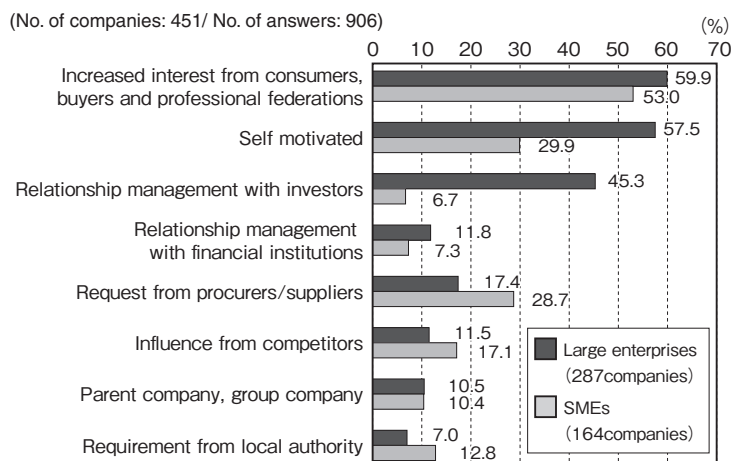
(3) Implementation Hurdles regarding SDGs

When asking about the obstacles to implement/ have implemented SDGs (Figure 17), 50.5% (230 companies) answered “compatibility between business and SDGs”, followed by “lack of understanding of field side (39.3%)”, “lack of HR (38.9%)”, and “lack of information (28.1%)”.

In order to find out the difference in how to perceive obstacles, we compared the distribution of obstacles by dividing them into companies that are advancing the SDGs and those that are not (Figure 18). We found that there were perception of incompatibility between business and SDGs (even for companies already advancing towards SDGs).

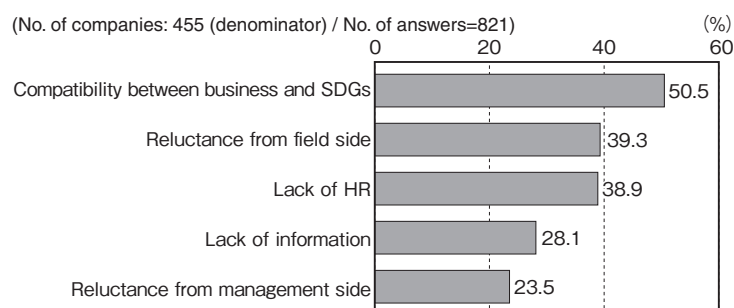
Moreover, “Reluctance from field side” (53.8%) is the biggest issue for companies that are making efforts, while “lack of information” and “reluctance from management side” are

Figure 16. Motivations behind Efforts towards SDGs



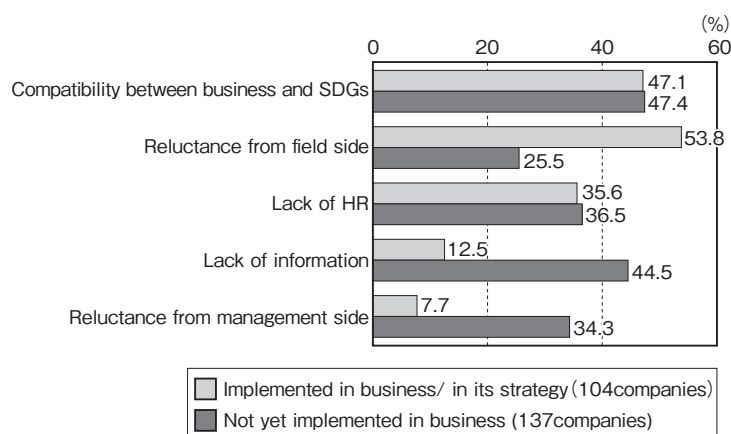
Note: Denominator = No. of companies of each category

Figure 17. Implementation Hurdles



Note: Denominator = No. of companies of each category

Figure 18. Implementation Hurdles (by Implementation Degree)



conspicuous for companies that are not working on it. Since these two issues are generally being resolved from the perspective of the companies that are working on them, it was suggested that top-down efforts for the SDGs are effective.

(4) Goals Popular for Japanese Companies

We asked what SDGs goals are you currently working on and would like to work on in the future (Figure 19) (*This time, we distributed a reference including examples assumed for each goals based on the United Nations Global compact.) As the result, focus on goals compatible with Japanese manufacturers business model: sustainable consumption and production, clean energy and innovation (3,7,8,9,12 and13) and some intention to take on challenging social issues, such as poverty, hunger, and inequality, in the future are observed.

8. Conclusion

In our process of conducting this survey, there were quite a few voices recognizing that the Covid-19 and the US presidential election as a game changer. Although the situation is very volatile and it is difficult to draw a picture of the mid-term business, some are looking for a shift and optimization to a “local production for local consumption” production network to adapt this new business environment and some are putting more resources on their network digitalization. Other than these, we found that the efforts to rediscover corporate value using a new framework of SDGs have begun.



Figure 19. Goals Popular for Japanese Companies (Present/Future)

