

Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

—Results of the JBIC FY2023 Survey:
Outlook for Japanese Foreign Direct Investment
(35th Annual Survey) —

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1. Introduction

Japan Bank for International Cooperation (JBIC) has released the “Survey Report on Overseas Business Operations by Japanese Manufacturing Companies.” In this survey, questionnaires were sent out in July 2023 and collected by September (987 target companies, 534 valid respondents, 54.1% response rate.) We would like to express our gratitude to the companies who participated in the survey.

In this survey, we set out not only the regular questions, such as “Overseas Business Performance,” “Business Prospects for Medium-term,” and “Promising Countries/Regions,” but also “Shape of Supply Chains under Fragmented Global Economy,” “Impact of Global Price Hikes on Business Development,” and “Issues in Sustainability in Business Development” as the special themes. This article attempts to overview the outlook of the survey result.

2. Overseas Production/Sales Ratios

The ratio of overseas production¹ rose to 35.7% in FY2022, while the FY2023 forecast was at 35.8% and remains almost unchanged. It is currently slightly below the level seen before the Covid-19 pandemic, but is expected to rise to 37.0% in the mid-term plan (FY2026).

The ratio of overseas sales² has also continued to increase since the previous fiscal year, reaching 39.0%, above the level seen before the Covid-19 pandemic. Although the forecast for FY2023 remains almost unchanged at 39.1%,

Figure 1. Trends in Overseas Production/Sales Ratios (FY2001 onwards, all industries)

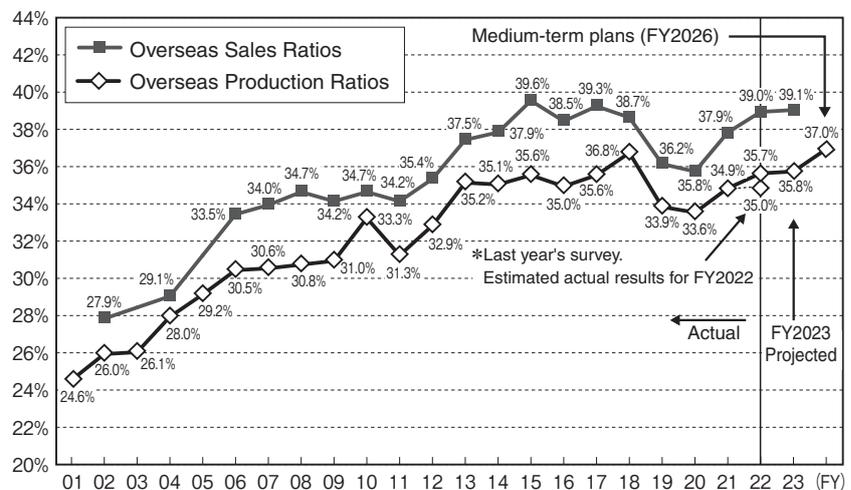


Figure 2. Medium-term (Next 3 Years) Prospects for Overseas Business Expansion

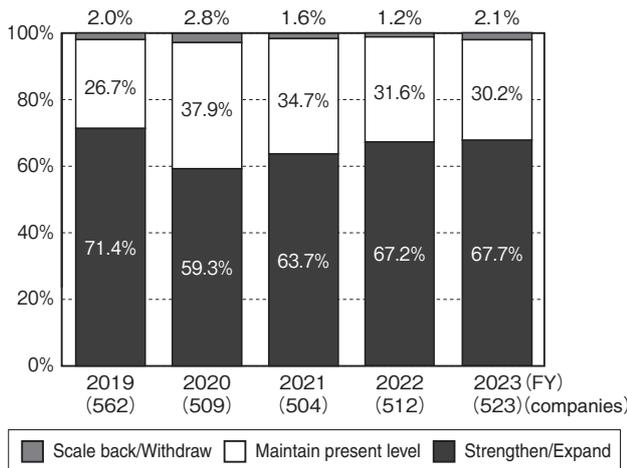
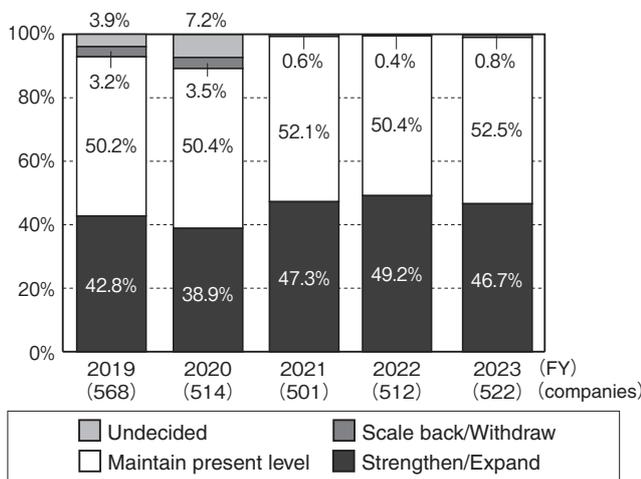


Figure 3. Medium-term (Next 3 Years) Prospects for Domestic Business Expansion



Note : The answer choice "undecided" was eliminated from 2021.

Figure 4. Promising Countries for Overseas Business over the Medium-term (Next 3 Years)

Ranking	2023 ← 2022	Ranking	Countries (Total)	No. of Companies		Percentage Share (%)	
				2023	2022	2023	2022
1	—	1	India	192	148	48.6	40.3
2	▲	4	Vietnam	119	106	30.1	28.9
3	▼	2	China	112	136	28.4	37.1
4	▼	3	US	107	118	27.1	32.2
5	▲	6	Indonesia	97	77	24.6	21.0
6	▼	5	Thailand	85	85	21.5	23.2
7	▲	9	Mexico	42	27	10.6	7.4
8	—	8	Philippines	35	28	8.9	7.6
9	▼	7	Malaysia	26	31	6.6	8.4
10	▲	11	Germany	21	21	5.3	5.7
11	▼	10	Taiwan	17	23	4.3	6.3
11	▲	12	Korea	17	17	4.3	4.6
11	▲	13	Brazil	17	15	4.3	4.1
14	—	14	Australia	13	13	3.3	3.5
15	▲	16	Bangladesh	11	10	2.8	2.7
16	—	16	UK	7	10	1.8	2.7
16	▲	19	France	7	8	1.8	2.2
16	▲	27	Spain	7	3	1.8	0.8
19	▼	18	Turkey	6	9	1.5	2.5
19	▲	20	Cambodia	6	7	1.5	1.9
19	▲	21	Canada	6	5	1.5	1.4
19	▲	21	UAE	6	5	1.5	1.4
19	▲	25	Myanmar	6	4	1.5	1.1
19	▲	25	Netherlands	6	4	1.5	1.1

weakened compared to the previous year. From the perspective of economic security, this is thought to be influenced by the strengthening of domestic investment by semiconductor-related companies. For automobiles, the strengthen attitude has not returned to the level seen before the Covid-19 pandemic (64.4% in FY18), despite a slight increase compared to the previous year. The “scale back/withdraw” attitude also increased, reaching 7.1%. One of the reasons for this may be the uncertainty about the degree of progress in Japan’s response to the shift to EVs.

In domestic business, the previous fiscal year, “Strengthen/expand” increased due to the resumption of domestic investments following the convergence of the Covid-19 pandemic, but this year the percentage decreased. (Figure 3) In the interviews, one company said that “we do not intend to expand our domestic business as the Japanese market will not grow significantly in the future due to the declining birth rate” (Construction Machinery, Other).

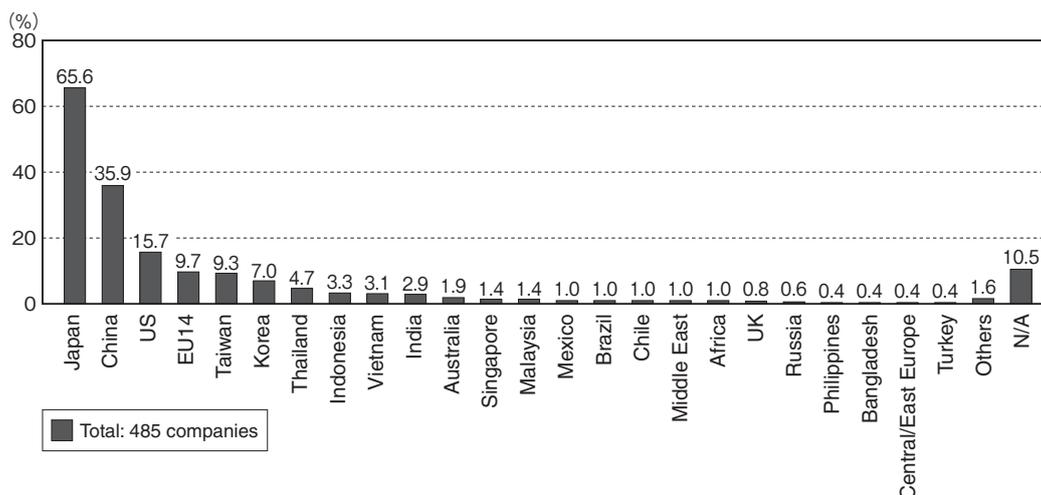
4. Promising Countries/Regions

In this section, we asked the respondents to name up to five countries/regions where they see promising business opportunities in the medium term (next three years), and the results were ranked as shown in the Figure 4.

In this year’s result, India maintained the top, far ahead of the other countries. With regard to the existence of business plans, 45.8% of the 192 companies that chose India as promising countries indicated that they have new or additional business plans, an increase of 8.3 points from the previous year. India appears to be moving away from its “image-driven” evaluation as a promising country. China dropped to third place, losing votes for the second consecutive year, due to variety of growing concerns, such as the prolonged conflict between the U.S. and the slowdown of the Chinese economy. The U.S. is believed to have lost its vote share due to the current inflation and rising labor costs, despite the high appreciation for the size of the market. The decrease in the U.S.-China vote share was distributed among the top ASEAN countries, Mexico, and other countries. Mexico in particular, is expected to be a temporary near-shoring destination of the U.S. for Japanese companies.

Vietnam, which is expected to be the recipient of the

Figure 5. Supply Sources of Raw Materials, Parts, and Manufacturing Equipment Difficult to Substitute



de-China, was ranked second for the first time, but its business planning ratio (31.8%) was the lowest among the top 10 countries, suggesting that it may be “image-driven.”

5. Shape of Supply Chains under Fragmented Global Economy

Although there is a move to review raw material procurement in the supply chain in response to rising geopolitical risks, such as the U.S.-China confrontation and the invasion of Ukraine, China continues to be a significant source of raw materials and parts that are difficult to replace. Companies that cited China as a procurement of raw materials, parts, and manufacturing equipment that are difficult to substitute, were second most after Japan, with a response rate of over 35%. (Figure 5) Some respondents said, “We are looking into sources other than China, but it is difficult from a cost standpoint, including changing suppliers to Japan, and it is impossible to replace them” (Automobile parts). This was a glimpse into the dilemma of Japanese companies that find it difficult to separate China from their supply chains even amid concerns about China risk.

On the other hand, when asked about the extent to which various regulations by the Chinese government and legal measures/restrictions by the U.S./EU against China would have an impact, regarding the impact of each legal measures/regulations on business operations related to China, the largest percentage of companies based in China responded that “there has been no impact on business operations so far, but we are concerned” for

almost all legal measures/regulations. Although the number of companies that have been affected in their business operations is not large as a whole at this time, there is a growing sense of concern, especially among companies with offices in China. Among the legal measures and regulations discussed in this report, “forced technology transfer” and “new anti-espionage law” were the most influential and causes for concern. One company commented, “We have been receiving technical cooperation from local companies in our sales activities for advanced technologies handled in China, but we are concerned that we may be in violation of the anti-espionage law” (Ceramics, Cement & Glass). More than

Figure 6. Impact of Legal Measures and Regulations inside/outside China (only for companies with office in China)

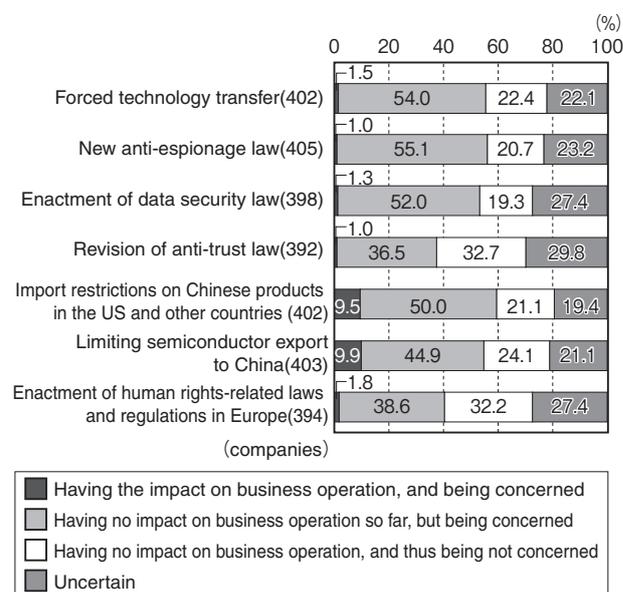
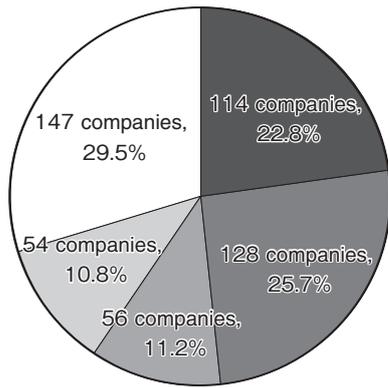


Figure 7. Strengthening of Domestic Investment



Total: 499 companies

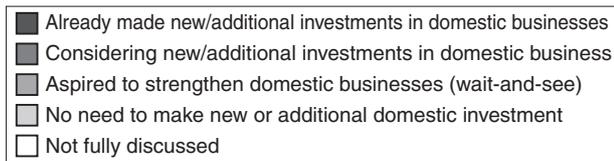
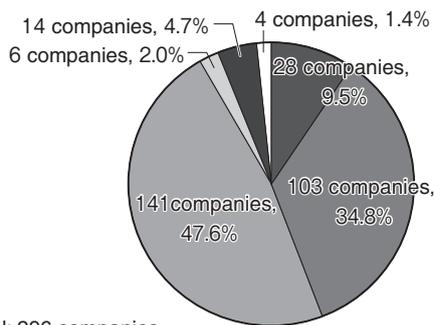
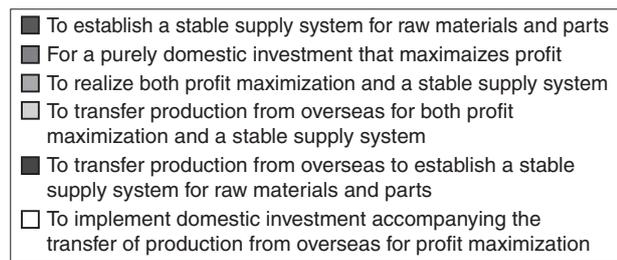


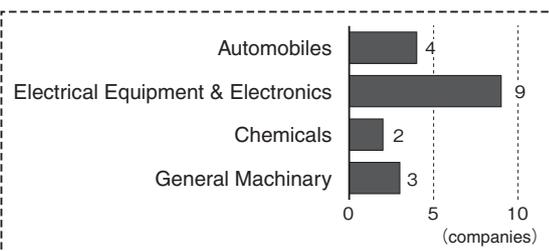
Figure 8. Reasons for Strengthening Domestic Investment



Total: 296 companies



Stable supply system	63.8%
Profit maximization	85.8%
Production transfer from abroad	8.1%
N/A	91.9%



half of the companies with offices in China expressed concern about the regulations in the U.S., and about 10% of the companies said that the regulations had affected their business operations. (Figure 6)

Next, we asked to what extent and for what purposes companies are implementing or considering responses to new and additional investments in Japan, about 50% of the responding companies have either “already done” or are “considering” strengthening their domestic investments. (Figure 7) Of those companies willing to strengthen their domestic investments, approximately 50% answered that they would “maximize profits and improve supply systems.” Although only 8.1% of all respondents selected “production transfer from abroad” in light of geopolitical risks and other factors, many of the respondents in the electrical equipment & electronics industry tended to select this option. It could be interpreted as a return to domestic semiconductor-related manufacturing, which is considered important from an economic security standpoint. (Figure 8)

6. Impact of Global Price Hikes on Business Development

In response to a question about which aspects of global price hikes have affected global business operations, approximately 85% of the companies indicated that they are affected by the global price hikes of materials, components, and energy, etc. (Figure 9) By major region of production, such as the U.S., EU, and China, there were no major differences by overseas operation site, and all factors were found to be affected by price hikes regardless of region. (Figure 10)

When asked to what extent companies are able to pass on prices, we found that about 70% of the companies have done so. By industry, the percentage of firms that have been able to pass on prices to their customers is relatively high for steel (100%), petroleum & rubber (about 90%), and chemicals (over 85%), which are located relatively close to the upstream of the supply chain, while the percentage for automobiles is below 60%, indicating that price pass-through is not progressing. (Figure 11)

In the next question, we asked companies that answered “not done very much” or “not done at all” for price pass-through, the reasons for this, some respondents stated that

they could not proceed with price pass-through due to “lack of understanding from business partners” and “existence of competition.” (Figure 12) Some companies mentioned, “Struggling with both pressures from

upstream and lack of understanding of passing on prices downstream” (paper, pulp, and wood) and “Not able to pass on prices due to technological competition and cost competition with other countries.” (transportation equipment (excl. automobiles)). By industry, “lack of understanding from business partners” and “insufficient negotiating ability of the company” accounted for a large percentage in the automobile sector. (Figure 13) Some companies said, “In the Japanese market, it is difficult to pass on 100% of the price. We have not been able to gain the understanding of dealers and users, and we have no choice but to do so gradually while observing how other companies are doing” (Automobile).

Figure 9. Factors Influencing

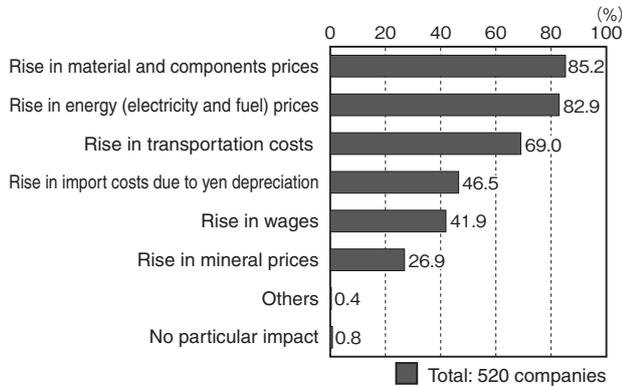


Figure 10. Factors Influencing (by regions)

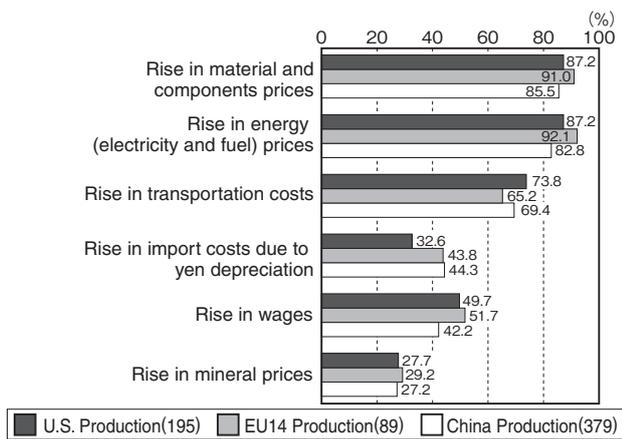


Figure 11. Degree of Price Pass-through

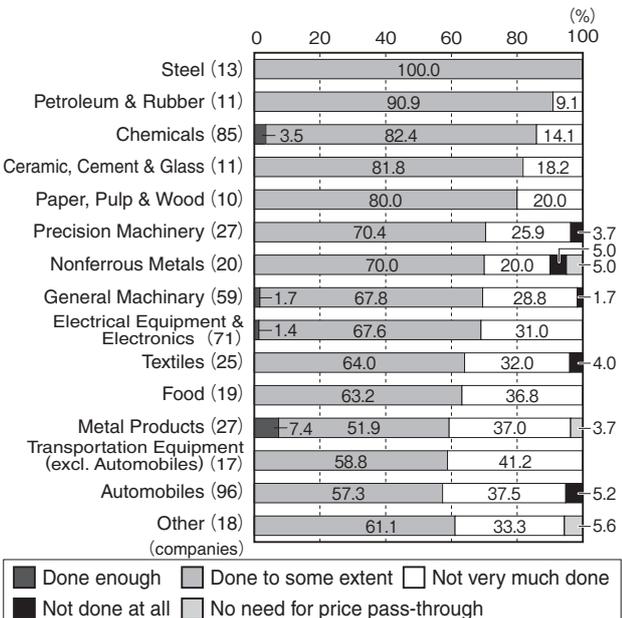


Figure 12. Reasons for not being able to Pass on Prices

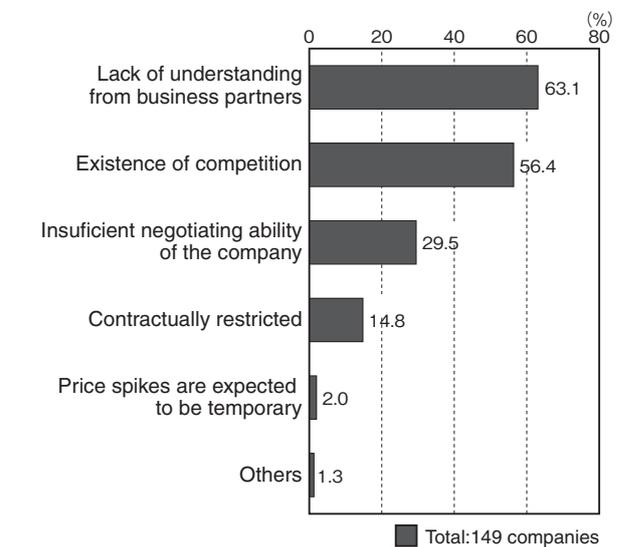
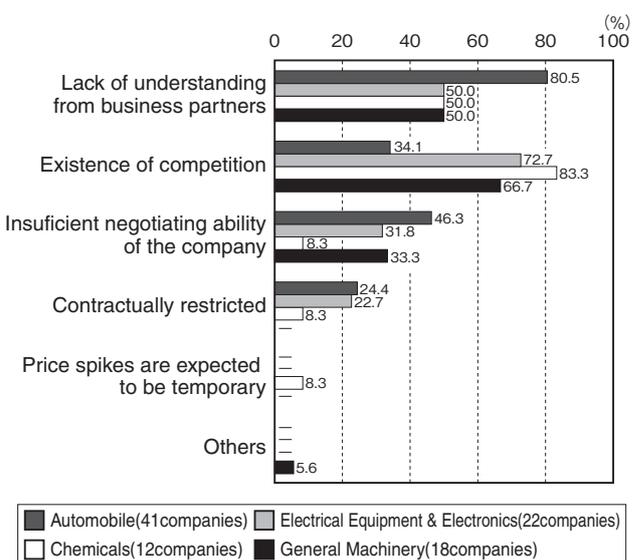


Figure 13. Reasons for not being able to Pass on Prices (by industry)



7. Issues in Sustainability in Business Development

When asked about companies' progress over the past year on decarbonization, about 65% of them have made good progress in their efforts. By industry, industries that are generally considered to have high CO₂ emissions, such as "paper, pulp, and wood," "automobiles," and "steel," are showing a proactive attitude toward setting targets and making efforts. (Figure 14)

When asked about the main factors that will influence (accelerate or decelerate) companies' decarbonization efforts over the next three years or so, companies indicated that they are concerned about "requests from customers," "status of competitors' efforts," and "changes in related technologies," but the factors varied by company size and industry. By size, large companies significantly outperformed small and medium enterprises in the response rate for "changes in requests from investors, financial institutions, etc." and "changes in decarbonization-related technology trends." Among SMEs, 60% responded "changes in requests from customers," which was much higher than that of large companies. By sector, in the automobile category, the percentage of responses for "change in requests from customers" was particularly large, at 65.6%. (Figure 15) Some respondents said, "When we make deliveries overseas, we are sometimes asked about our decarbonization initiatives by shareholders of the recipient companies" (nonferrous metals), and "I think we will see an increase in situations where we come in contact with changes in requests for initiatives from overseas recipients" (electronics and electrical machinery).

Most of the companies said in the interview that they have established a department dedicated to sustainability, and it is possible that their efforts will be further accelerated in the future. In recent years, investors, asset managers, banks, and other financial institutions have been encouraging their lenders to take decarbonization initiatives, and it is possible that such trends could affect small and medium suppliers via large corporations.

Finally, with regard to biodiversity and human rights issues, for which not many efforts were made in last year's survey, this year's survey asked why interest in these issues has not increased or why efforts are not being

Figure 14. Decarbonization Initiatives Progress

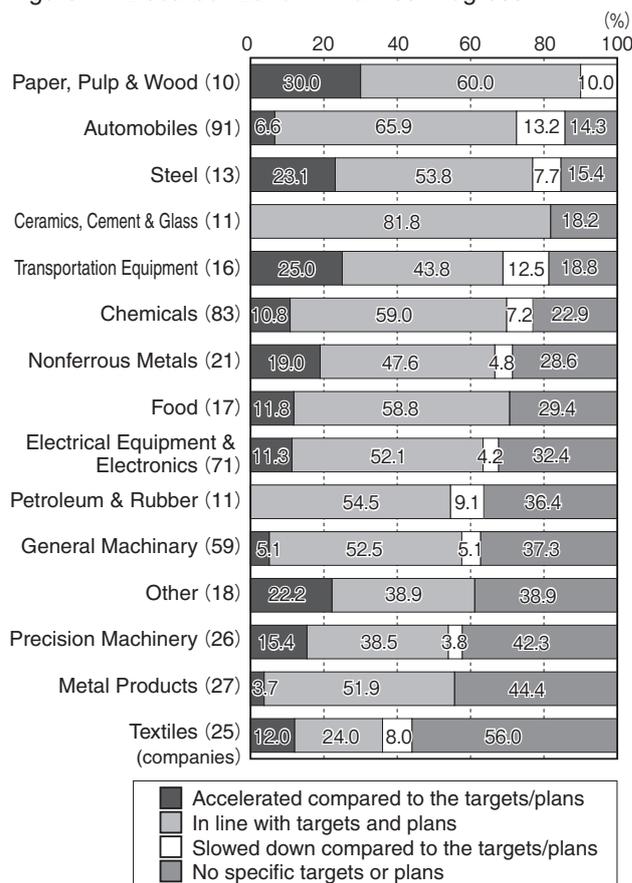
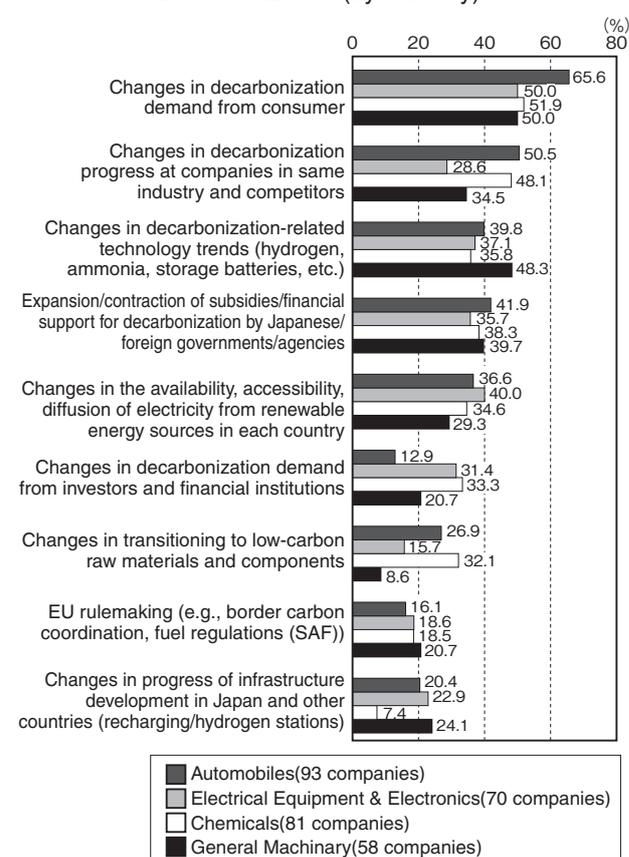


Figure 15. Main Factors that could Influence the Progress of Decarbonization (by industry)



Note : Top 9 items are shown

made. About biodiversity, a large percentage of respondents cited “terminology and difficulty in understanding,” “lack of specialized/external human resources,” and “lack of recognition within the industry.” (Figure 16) No significant differences were observed by size, suggesting that overall understanding and efforts have not progressed much. In the interviews, one respondent commented, “The concept is abstract, and I don’t know what to do in concrete terms.”

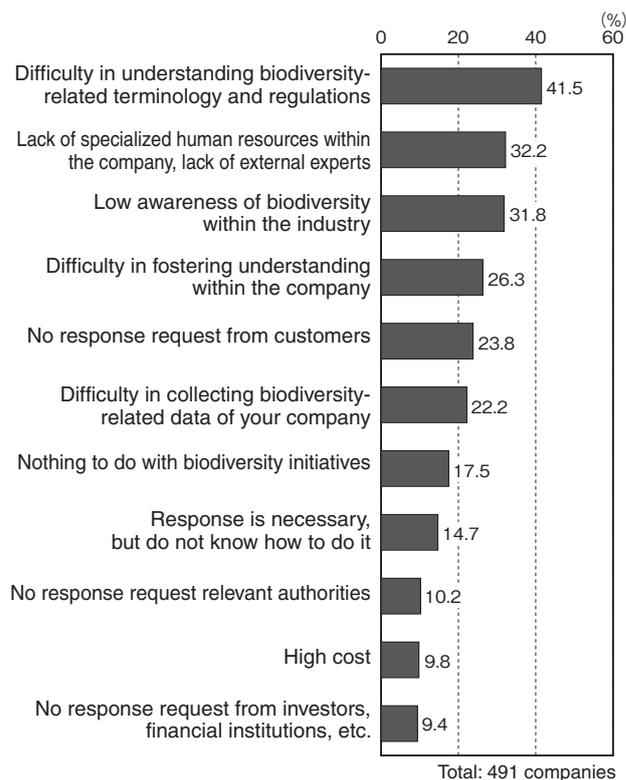
Also on human rights issues, “diversity and complexity (difficulty in understanding),” “difficulty in identifying and understanding the impact on SCs,” and “lack of expert personnel” were the reasons for lack of progress in addressing human rights issues. By size, a relatively large number of large companies cited “difficulty in identifying and understanding the impact on SCs.” Small and medium enterprises were relatively more likely than large companies to cite “Lack of professional human resources. (Figure 17) At the interviews, one respondent said, “Although we surveyed the situation of suppliers, it is difficult to ascertain the exact situation” (Chemicals).

8. Conclusion

In this year’s survey, India maintained its top position in the ranking of promising countries for the second year in a row, while China dropped to third place with the lowest vote share ever. Japanese companies are evaluating the growth potential of the Indian market and are establishing a firm position as a “promising country” against the backdrop of improvements in infrastructure development, which has been a challenge for many years. On the other hand, it is noteworthy that China remains in third place without recent positive news, indicating that China’s huge consumer market and role in the supply chain is significant. We need to focus on business development in India, which is expected to continue to grow economically, and Vietnam, which has ranked second for the first time, is promising from the perspective of diversification of production bases.

In terms of special themes, heightened geopolitical risks, such as the U.S.-China conflict and the invasion of Ukraine, also affected supply chain reviews and business operations in China. The importance of geopolitical risk to companies has been increasing in recent years due to the conflict in Israel and other factors, and there is a need

Figure 16. Reasons for Lack of Interest in Biodiversity



Note : Top 11 items are shown

Figure 17. Reasons for Lack of Progress in Human Rights Initiatives (by size)



Note : Top 11 items are shown

to continue to monitor the impact on Japanese companies and how they respond to it. Although most of the companies were affected by the global price hikes, about 70% of the companies have passed on prices to their suppliers. However, some companies have not been able to pass on prices due to lack of understanding from their suppliers or competition with other companies. If understanding of price pass-through is promoted in each company, I believe that this will bring us one step closer to achieving the government's goal of a virtuous cycle in the economy through structural wage increases. With regard to sustainability, there was a steady progress in efforts among large companies, particularly in the area of decarbonization. Factors influencing the progress of decarbonization efforts include requests from customers and the progress of the industry and competitors. I believe that we can reach a decarbonized society through the efforts of individual companies and their mutual influence.

Through this year's survey, I hope that this journal would lead to deepen our readers' understanding of Japanese manufacturers business developing destinations, the impact on their supply chains and how they are coping, the impact of the global price hikes and how they are tackling them, and the business development issues of sustainability in the face of geopolitical risk and the global economic downturn.

<Biography>

Joined JBIC in 2023, and currently research officer in the Strategic Research Department of the Corporate Planning Group, collecting and analyzing information on overseas business development of Japanese manufacturing companies. Graduated from Keio University, Faculty of Commerce. Favorite quote: "Be Brave, Be Humble"



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