Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

Results of the JBIC FY2016 Survey:

- Outlook for Japanese Foreign Direct Investment (28th Annual Survey)-

December 2016

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

JAPAN BANK FOR INTERNATIONAL COOPERATION

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Supporting Your Global Challenges

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I. Survey Overview

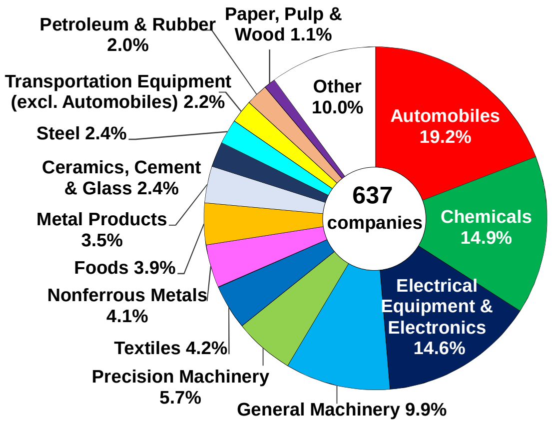
I.1. Survey Overview

Survey Overview

- **Survey targets: Manufacturing companies that have three or more overseas affiliates (including at least one production base)**
- **No. of companies questionnaires were mailed to: 1,012**
- **Responses returned: 637 (response rate: 62.9%)**
  (*) 388 companies responded by post, 249 companies responded over the web
- **Period of survey: Sent in July 2016**
  Responses returned from July to September 2016
  Face-to-face interviews and phone interviews conducted from August to September 2016
- **Main survey topics:**
  - **Evaluations of overseas business performance**
  - **Business prospects**
  - **Promising countries/regions over the medium-term**
  - **The main subjects to overseas business operations:**
    - **Status of cross-border M&A and issues**
    - **Current state of supply chain and roles of production / R&D bases**
    - **Competition in the global market**
- **Note: "Overseas business operations" is defined as production, sales, and R&D activities at overseas affiliates, as well as outsourcing of manufacturing and procurement.**

Note: The chemical industry shall cover chemicals (including plastic products) and pharmaceuticals while the general machinery industry, the electrical equipment & electronics industry, the 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	FY2015	FY2016	Proportion
Automobiles	108	**122**	19.2%
Chemicals	91	**95**	14.9%
Electrical Equipment & Electronics	96	**93**	14.6%
General Machinery	57	**63**	9.9%
Precision Machinery	32	**36**	5.7%
Textiles	28	**27**	4.2%
Nonferrous Metals	19	**26**	4.1%
Foods	30	**25**	3.9%
Metal Products	18	**22**	3.5%
Ceramics, Cement & Glass	18	**15**	2.4%
Steel	15	**15**	2.4%
Transportation Equipment (excl. Automobiles)	16	**14**	2.2%
Petroleum & Rubber	11	**13**	2.0%
Paper, Pulp & Wood	10	**7**	1.1%
Other	58	**64**	10.0%
Total	607	**637**	100.0%

Figure 2: No. of Respondent Companies by Capital

(companies)

Paid-in Capital	FY2015	FY2016	Proportion
Less than ¥300 mn.	87	**111**	17.4%
¥300 mn. up to ¥1 bn.	74	**80**	12.6%
¥1 bn. up to ¥5 bn.	149	**151**	23.7%
¥5 bn. up to ¥10 bn.	82	**84**	13.2%
¥10 bn. or more	199	**191**	30.0%
Holding company	16	**20**	3.1%
No response	0	**0**	0.0%
Total	607	**637**	100.0%

Figure 3: No. of Respondent Companies by Net Sales

(companies)

Net Sales	FY2015	FY2016	Proportion
Less than ¥10 bn.	69	**83**	13.0%
¥10 bn. up to ¥50 bn.	183	**217**	34.1%
¥50 bn. up to ¥100 bn.	106	**107**	16.8%
¥100 bn. up to ¥300 bn.	136	**119**	18.7%
¥300 bn. up to ¥1 trillion	67	**63**	9.9%
¥1 trillion or more	43	**46**	7.2%
No response	3	**2**	0.3%
Total	607	**637**	100.0%

1. Ratio of overseas production and business prospects (II. and III.)

Overseas production and sales ratios continued to be in an upward trend, and were 35.6% and 39.6%, respectively. As for business prospects, 76.6% of companies responded "Strengthen/expand" regarding overseas operations, and while this had declined slightly, it continued to be at a high level. As for domestic operations, "Strengthen/expand" recovered to over 30% for the first time in six years.

2. Promising countries over the medium-term (IV.)

India was in first place for the third straight year, and its percentage share rose again to just below 50%. As for reasons for India being promising, "Future growth potential of local market" was the top response. China stayed in second place, and its percentage share rose to just over 40%. Indonesia, which was tied for second place in the previous year, moved to third place. Vietnam was in fourth place, and Thailand was in fifth place, so the order of these countries reversed from the previous year. Sixth-place Mexico and seventh-place USA stayed the same in the ranking, but their percentage shares rose.

3. Status of cross-border M&A implementation and issues (V.)

Over 80% of all of the companies recognized that in developing overseas operations, M&A concerning overseas companies is an important means for expanding business, and 60% of the companies responded that they are handling cross-border M&A. As for issues related to M&A, over 40% of companies gave the responses "Analyze synergetic effect well" and "Prepare/carry out post-merger integration well (PMI)."

4. Status of supply chain (VI.)

(1) As for supply chain issues, "Easily affected by foreign exchange risk" was the most frequent response at close to 60%. Over 20% of companies gave the responses "The supply chain is not being managed sufficiently by headquarters because of an increase in suppliers and in cross-border transactions," and "Unable to sufficiently understand the risk of supply disruptions."

4. Status of supply chain (VI.) (continued)

(2) Over half of the companies that named “Shipping cost (including customs duty)” and “Shipping time (including time required for customs clearance)” as judgment criteria related to increasing procurement rate, responded that they took into consideration the existence of FTAs and EPAs, including the TPP. As for managing supply disruption risks, companies answered that they “diversify materials suppliers,” “try to identify upstream suppliers,” “hold sufficient inventories,” etc.

5. Roles of production bases and R&D bases (VI.)

(1) While over 60% of the companies responded that Japan’s production bases have the roles of “train human resources/transfer skills” and “improve/propagate production processes,” there were high expectations regarding production bases in other regions to have the role of “produce products that meet local needs.”

(2) As for the medium-term budgets of R&D, “this will be increased in Japan” was the most frequent response, but in regard to automobiles, an increasing trend in Europe and the United Sates was stronger than “Japan.” As for ways that companies want to strengthen R&D, over 70% of the companies gave the response “Focusing on innovative products” in Japan, while in other regions, many companies responded “Focusing on development products that meet local market needs.”

6. Status of competition in the global market (VII.)

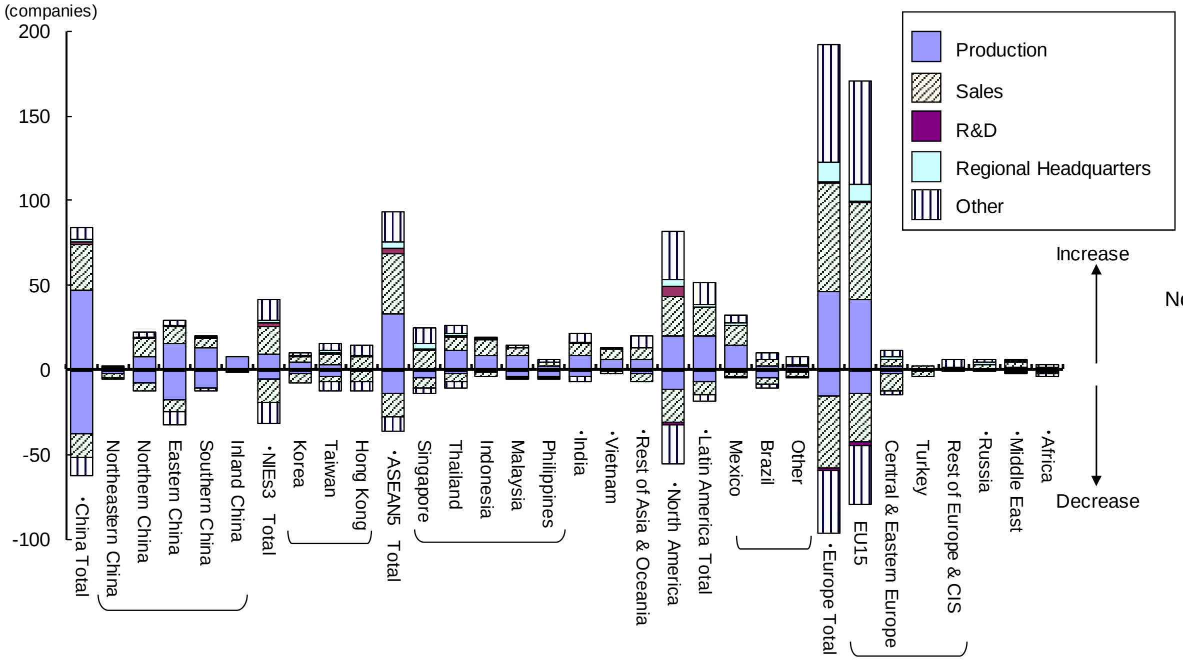
As for competitors in sales markets, Japanese companies are top competitors in the markets of ASEAN5, European/American companies are the top in the markets of India, North America, EU15, and Brazil and Chinese companies are the top in the Chinese market.

As for points that companies focused on in the medium-term in order to beat competitors, 50% to 70% of the companies gave the responses “strengthen price competitiveness,” “develop/produce products that meet local customer needs,” “enhance quality of local human resources,” and “strengthen brand,” and this shows the future direction of companies’ efforts for expanding market share.

II. Basic Data on Overseas Business Operations & Performance Evaluations

II.1. Increase/decrease in the Number of Overseas Affiliates * Aggregate calculation regarding respondent companies

Figure 4: Increase/decrease in the Number of Overseas Affiliates (During FY2015)



The Classification of Major Regions

NIEs3 (Korea, Taiwan, Hong Kong)
ASEAN 5 (Singapore, Thailand, Indonesia, Malaysia, Philippines)
North America (USA, Canada)
EU15 (United Kingdom, 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)

Figure 5: State of Holding of Overseas Affiliates

(1) One or more overseas affiliates for production

	Country/Area	No. of respondents (company)	Proportion
1	China	515	81.2%
2	Thailand	312	49.2%
3	North America	262	41.3%
4	Indonesia	202	31.9%
5	EU 15	156	24.6%
6	India	153	24.1%
7	Vietnam	140	22.1%
8	Taiwan	138	21.8%
9	Malaysia	130	20.5%
10	Korea	118	18.6%
11	Mexico	116	18.3%
12	Philippines	83	13.1%
13	Brazil	77	12.1%
14	Central & Eastern Europe	59	9.3%
15	Singapore	54	8.5%

Note: The Percentage written in Figure5 shows the proportion of respondent companies (634)

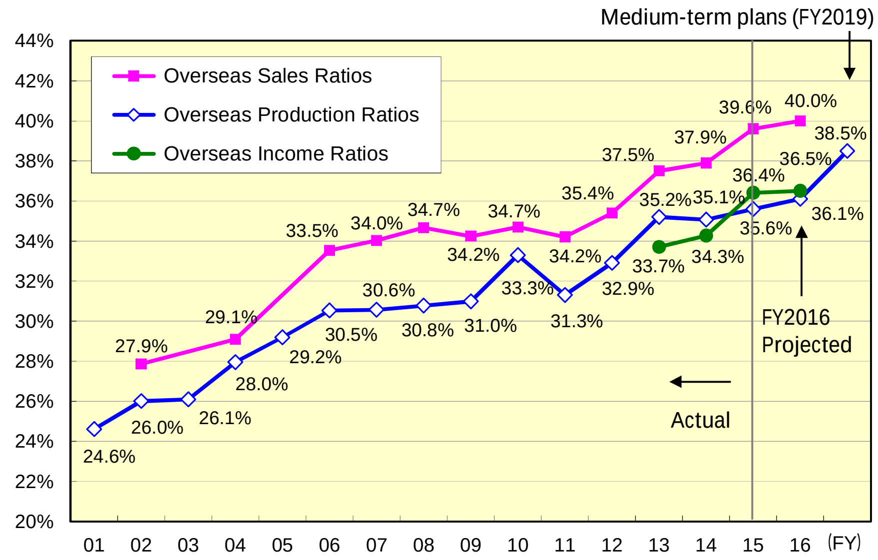
(2) One or more overseas affiliates for sales

	Country/Area	No. of respondents (company)	Proportion
1	China	351	55.4%
2	North America	306	48.3%
3	EU 15	247	39.0%
4	Thailand	212	33.4%
5	Singapore	203	32.0%
6	Taiwan	182	28.7%
7	Hong Kong	179	28.2%
8	Korea	158	24.9%
9	India	121	19.1%
10	Indonesia	117	18.5%
11	Malaysia	104	16.4%
12	Mexico	83	13.1%
	Brazil	83	13.1%
14	Vietnam	72	11.4%
15	Russia	56	8.8%

■ Overseas affiliates increased the most in Europe, partly due to M&A

- The total increase in the number of overseas affiliates in FY2015 was 623 (production:208, sales:208, R&D:15, Regional Headquarters:15, others:166), and this was up 119 companies from the increase in FY2014 (504). The total decrease in overseas affiliates was 317, doubled the previous year's level of 159. (Figure 4)
- The region with the largest increase was Europe (193), and this was followed by ASEAN5 (94), China (85), and North America (82). The number grew 2.6 times from the previous year in Europe (74), and this was partly due to the fact that some respondent companies implemented M&A that caused their number of overseas affiliates to significantly increase.
- Looking at mid-tier firms/SMEs, the increase was 49 companies, and the regions with the greatest increases were ASEAN5 (13) and China (11).

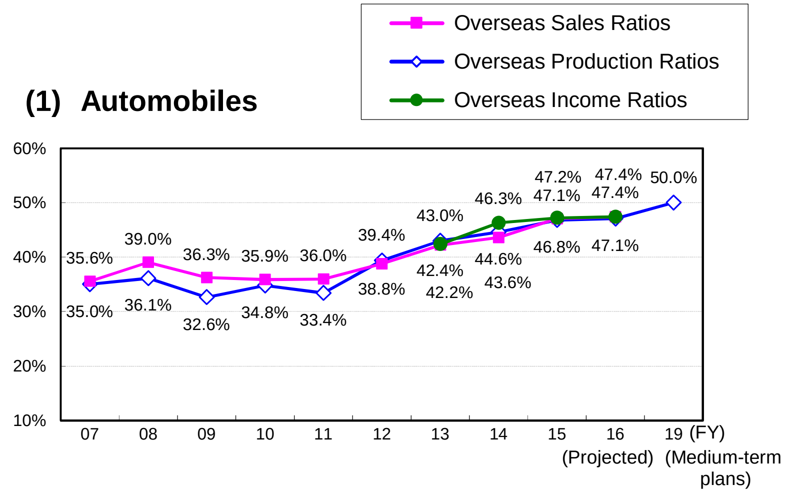
Figure 6: Ratios of Overseas Production* 1, Overseas Sales* 2, and Overseas Income* 3



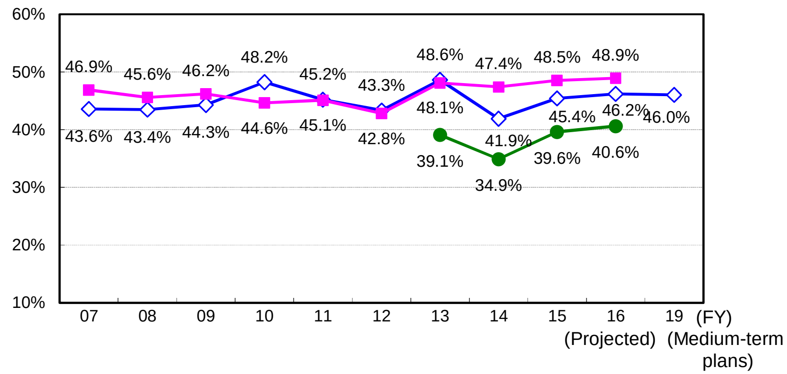
* Refer to Appendix 6 regarding values of Figures 7.

Figure 7: Ratios of Overseas Production* 1, Overseas Sales* 2, and Overseas Income* 3 by Industry

(1) Automobiles



(2) Electrical Equipment & Electronics



■ In the FY2015 results, the ratio of overseas production was 35.6% and the ratio of overseas sales was 39.6%. In the medium-term, the policy of expanding overseas production and sales did not change

- In the FY2015 results, the ratio of overseas production was 35.6%, up slightly from the FY2014 results (35.1%), and the respondent companies intend to continue to expand overseas production (Figure 6).
- In the FY2015 results, the ratio of overseas sales was 39.6% and overseas income was 36.4%, and these increased from the previous year by 1.7 points and 2.1 points, respectively. These are expected to increase in FY2016 as well. (Figure 6)
- In the FY2015 results, the ratios of overseas sales and overseas income were higher than the previous year's forecasts for these.

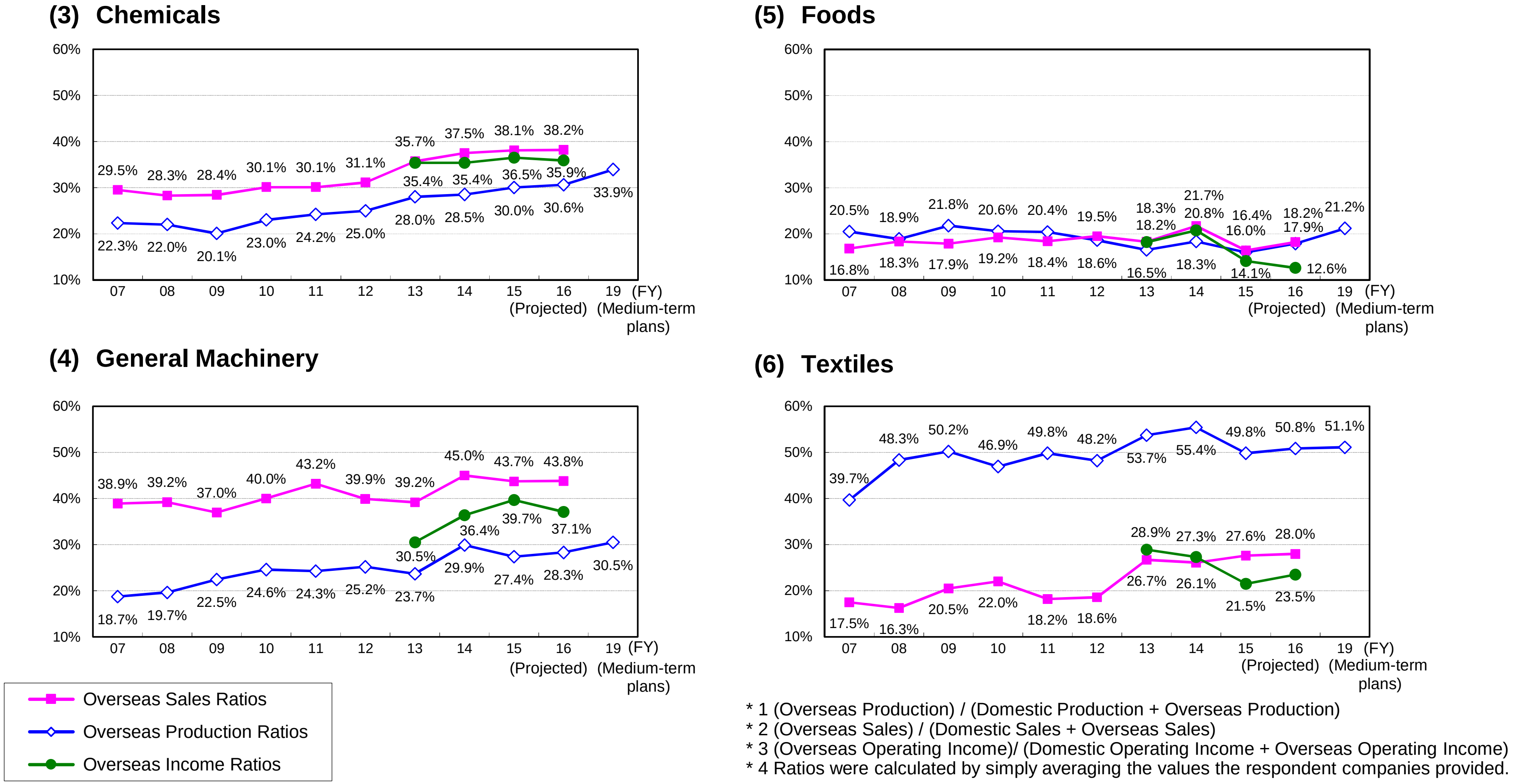
■ Highest ratio of overseas production for "automobiles" to date

- In the FY2015 results, out of the four major industry types (automobiles, electrical equipment & electronics, chemicals, and general machinery), the ratio of overseas production was the highest for "automobiles" with 46.8%. In the result forecast for FY2016, the ratio was 47.1%, and it was 50.0% in the medium-term plan (FY2019), so it appears that the automobile industry is taking an approach of increasingly strengthening overseas production (Figure 7).
- As for "electrical equipment & electronics," ratios of overseas production and overseas sales have both been above 40% since eight years ago, and there have not been any significant changes compared to "automobiles." In the FY2015 results, the ratio of overseas production was slightly below that for "automobiles." (Figure 7)

* 1 (Overseas Production) / (Domestic Production + Overseas Production)
* 2 (Overseas Sales) / (Domestic Sales + Overseas Sales)
* 3 (Overseas Operating Income)/ (Domestic Operating Income + Overseas Operating Income)
* 4 Ratios were calculated by simply averaging the values the respondent companies provided.

* Refer to Appendix 6 regarding values of Figures 7.

Figure 7(cont.): Ratios of Overseas Production* 1, Overseas Sales* 2,and Overseas Income* 3 by Industry



* 1 (Overseas Production) / (Domestic Production + Overseas Production)
* 2 (Overseas Sales) / (Domestic Sales + Overseas Sales)
* 3 (Overseas Operating Income)/ (Domestic Operating Income + Overseas Operating Income)
* 4 Ratios were calculated by simply averaging the values the respondent companies provided.

■ In chemicals, general machinery, and textiles, both ratios of overseas production and sales are in an upward trend

- In chemicals and general machinery, both ratios of overseas production and sales are in a gradual upward trend. In general machinery, the ratio of overseas production has increased almost 10 points since FY2007.
- In foods, which is a domestic demand-based industry, the ratio of overseas production and ratio of overseas sales have both been at around 20%, and have not changed significantly.
- In textiles, the ratio of overseas production is above 50%, while the ratio of overseas sales is only just below 30%. It appears that for the most part, finished products are being imported and sold domestically.

II.3. Performance Evaluations (FY2015 performance) :

1) Evaluations of Degrees of Satisfaction with Net Sales and Profits (by major country and region)

Q

Which of the following applies concerning your company's FY2015 net sales and profits compared with initial targets in the countries/regions overseas you invested in?

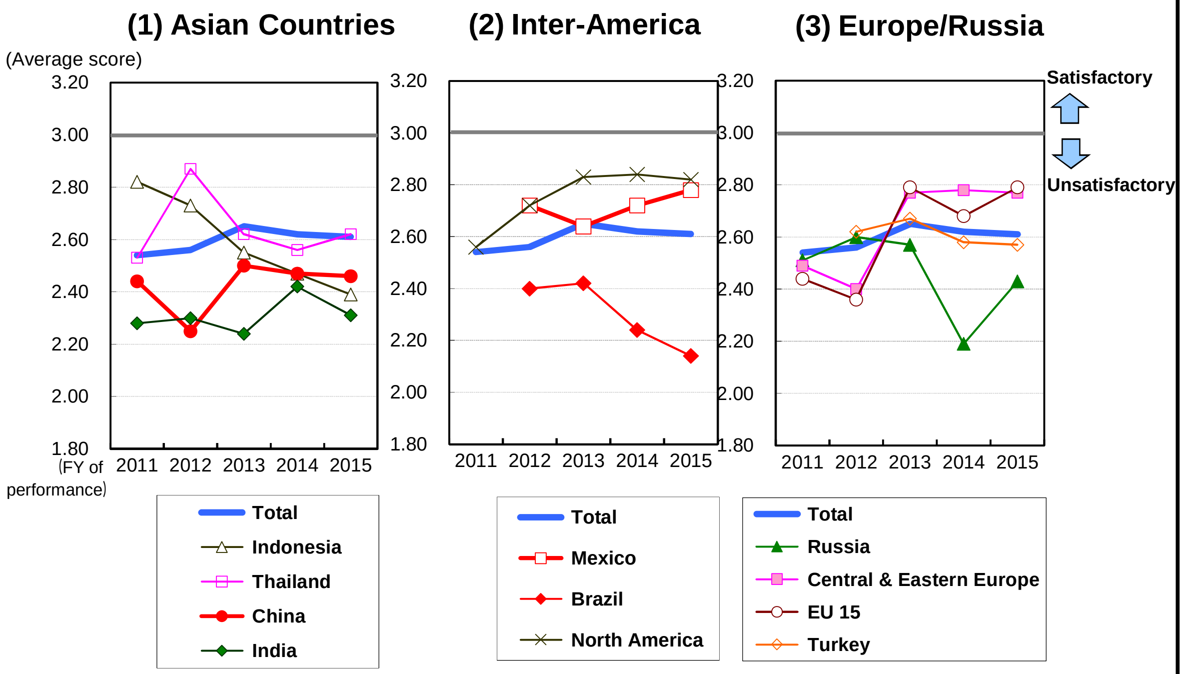
⇒ 1: Unsatisfactory 2: Somewhat unsatisfactory
3: Can't say either way 4: Somewhat satisfactory 5: Satisfactory

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

(FY of performance)	FY2011	FY2012	FY2013	FY2014	FY2015
Net Sales	2.64 (▲0.21)	2.63 (▲0.01)	2.71 (+0.08)	2.66 (▲0.05)	2.56 (▲0.10)
Profits	2.54 (▲0.21)	2.56 (+0.02)	2.65 (+0.09)	2.62 (▲0.03)	2.61 (▲0.01)

(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 9: Satisfaction with Profits (by region)



(Note 1) The figures for Mexico and Brazil in (2) Inter-America, and for Turkey in (3) Europe/Russia, were aggregated from the FY2012 results.
(Note 2) See Appendix 7 for more detailed data collated by country/region.

Figure 10: Countries/Regions Responding Companies Answered as More Profitable than Japan (descending order by ratio)

(Companies)

Country/Region	"More Profitable than Japan" responses (1)	Responses per region/countries (2)	Ratio: [(1)/(2)]
1 Thailand	117	370	31.6%
2 North America	109	405	26.9%
3 Vietnam	48	184	26.1%
4 China	138	535	25.8%
5 Indonesia	56	266	21.1%

(Note) When companies were asked about their profitability in FY2015 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 profits and those that responded to the comparison of profitability with Japan.

■ Degree of satisfaction dropped slightly regarding net sales and profits

- As for degree of satisfaction regarding FY2015 results, for net sales, this dropped by 0.10 points from the previous year to 2.56, and for profits, this dropped by 0.01 points from the previous year to 2.61. (Figure 8)

■ Degree of satisfaction in Asia was lower than the overall average across the board

- Comparing degree of satisfaction with profits with the previous year, there was a slight increase for Thailand, and there was not much of a change for China. (Figure9 [1]) Degree of satisfaction fell for Indonesia and India, and these countries were ranked the lowest among the countries and regions where degree of satisfaction was tallied.
- This is not shown in Figure 9, but in Asian countries, the degree of satisfaction with profits was highest in Vietnam (2.86). In ASEAN5, this was highest in the Philippines (2.76).

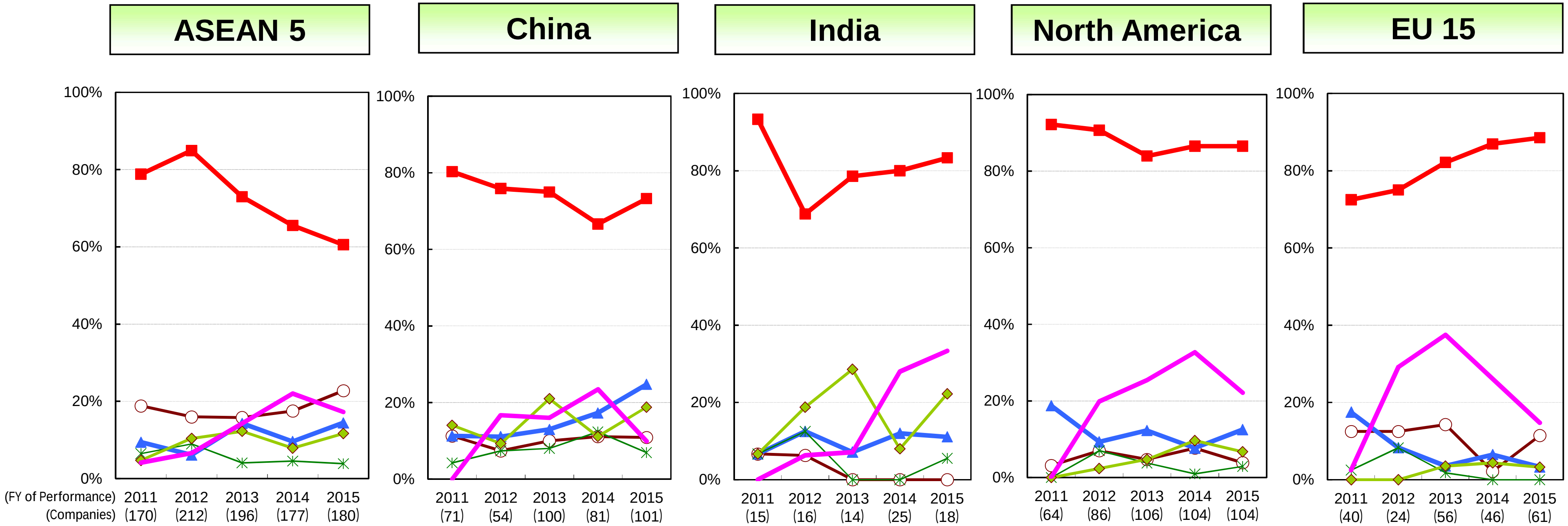
■ In North America, the degree of satisfaction is high compared to other countries and regions, and EU15 and Central & Eastern Europe were also above the overall average

- From FY2012 onward, the degree of satisfaction in North America has been at a level above the overall average. In FY2015 results, North America was in top place among the target locations regarding net sales, and it was in second place regarding profits. In Mexico, the degree of satisfaction has been in an annual increasing trend. Conversely, satisfaction has been in a declining trend in Brazil since FY2013. (Figure9[2])
- As for Europe, degree of satisfaction in EU15 and Central & Eastern Europe was above the overall average. (Figure9[3])

■ In Thailand, 30% of companies responded that rate of profitability was higher than in Japan

- The ratio of companies that responded that their rate of profitability was higher in Thailand than in Japan was the highest (31.6%). (Figure 10) In Thailand, since FY2011, when this ratio was first obtained, it has been maintained around 30% to 39%.

Figure 11: Reasons for Satisfaction with Profitability over Time (Multiple responses)



(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)

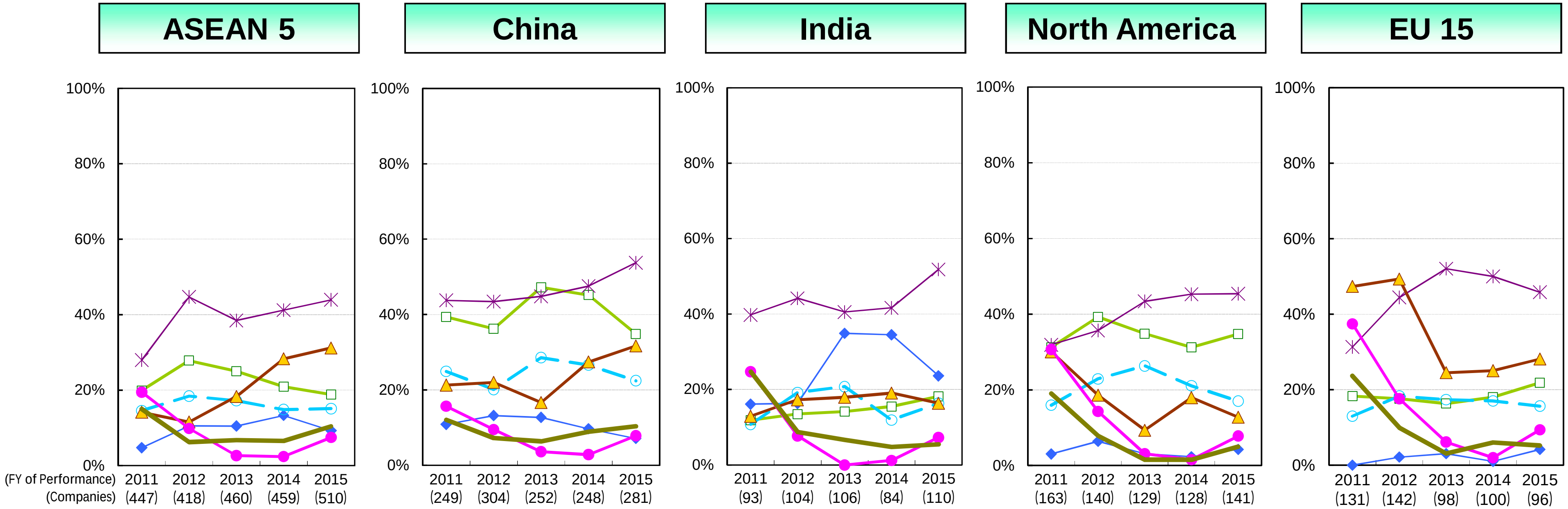
■ In ASEAN5, there has been an ongoing decline in the response ratio of "Good performance of sales in the country/region"

- Among the reasons for satisfaction, in all of the regions, the most common response was "Good performance of sales in the country/region." In India, North America, and EU15 this was at above 80%, and in China it rebounded from 66.7% in the previous year to 73.3%. Meanwhile, in ASEAN5, the percentage further declined from 65.5% in the previous year to 60.6%.

■ The second place reason for satisfaction was "6. Foreign exchange gains" in India, North America and EU15, like the previous year

- The second-place reason for satisfaction, like the previous year, was "6. Foreign exchange gains" in India, North America, and EU15. The dollar to yen rate in FY2015 was on average around 120 yen during this period, and it is estimated that this caused positive company results (on a consolidated basis).
- In ASEAN5, the second-place reason for satisfaction was "2. Good performance of exports in the country/region," and it appears that ASEAN5 is utilized as an export base as well as a sales base to the local market.

Figure 12: Reasons for Dissatisfaction with Profitability over Time (Multiple responses)



(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)

■ **In all of the regions, the top reason for dissatisfaction with profitability was “Difficulty in getting customers (intense competition)”**

- Like the previous year, in all of the regions, the top reason for dissatisfaction with profitability was “Difficulty in getting customers (intense competition),” and thus it appears that Japanese companies are facing tough competition in overseas markets. The response ratio for this rose from the previous year in China and India to 53.7% and 51.8%, respectively.

■ **In Thailand and Indonesia, more attention is being given to the economic slowdown**

- Looking at “5. Shrinking market due to economic fluctuations,” the response ratio went from 28.3% to 31.2% in ASEAN5, and from 27.4% to 31.7% in China, and thus rose slightly from the previous year. It seems that the economic slowdown had an effect in this regard. In ASEAN5, the response ratio was high especially in Thailand (37.8%) and Indonesia (38.3%).

II.3. Performance Evaluations (FY2015 performance) :

4) Evaluations of Degrees of Satisfaction with Net Sales and Profits (by industry)

Figure 13: Evaluating Satisfaction of Net Sales & Profits (FY2015 performance)

	Average by industry		Comparison with last FY		No. of respondent companies	Countries/regions with highest average in satisfaction with profits
	Net sales	Profits	Net sales	Profits		
All Industries	2.66	2.62	▲0.05	▲0.03	565	Vietnam (2.86)
1. Metal Products	2.88	2.92	+0.24	+0.41	21	Philippines (4.00)
2. Chemicals	2.67	2.76	▲0.14	+0.06	91	Central & Eastern Europe (3.40)
3. Automobiles	2.74	2.73	▲0.04	+0.05	114	Singapore (3.17)
4. Transportation Equipment (excl. Automobiles)	2.62	2.64	▲0.06	+0.19	13	Philippines (4.00)
5. General Machinery	2.43	2.59	▲0.22	▲0.12	57	North America (3.10)
6. Electrical Equipment & Electronics	2.49	2.56	▲0.10	▲0.06	86	Philippines (3.04)
7. Other	2.49	2.51	▲0.03	▲0.10	56	Philippines (3.00)
8. Textiles	2.31	2.51	▲0.20	+0.19	26	Singapore (3.67)
9. Precision Machinery	2.48	2.50	▲0.22	▲0.13	34	Turkey (3.25)
10. Nonferrous Metals	2.55	2.49	▲0.01	▲0.04	25	Russia (3.50)
11. Ceramics, Cement & Glass	2.47	2.47	▲0.02	+0.12	14	Mexico (4.00)
12. Foods	2.46	2.37	▲0.07	▲0.18	22	Vietnam (3.29)
13. Petroleum & Rubber	2.39	2.34	▲0.26	▲0.37	13	China (2.92)
14. Steel	2.49	2.33	+0.17	+0.07	15	NIEs3 (2.80)
15. Paper, Pulp & Wood	2.21	2.33	▲0.37	▲0.22	7	NIEs3 (4.00)

(Note) The industries in the table above are ordered according to average values for profits from highest to lowest.

■Among 15 industries, degree of satisfaction with profits fell for 8, and rose for 7

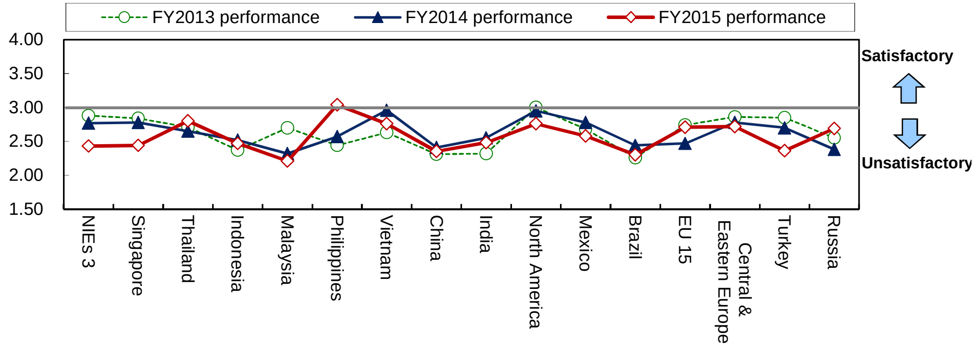
- The degree of satisfaction with net sales fell in most industries, but degree of satisfaction with profits fell for half of the industries and rose for half. (Figure 13)
- Degree of satisfaction with profits was the highest for metal products (2.92), and in multiple countries and regions, satisfaction was 3.00 or above. The second highest was chemicals (2.76), and was particularly high in Central and Eastern Europe and Turkey. Third was automobiles (2.73), and while satisfaction remained low in Brazil, Indonesia and India, it was high in China and Mexico and so on. (Figure 14)

■Degree of satisfaction with profits was lowest for steel for the second year in a row

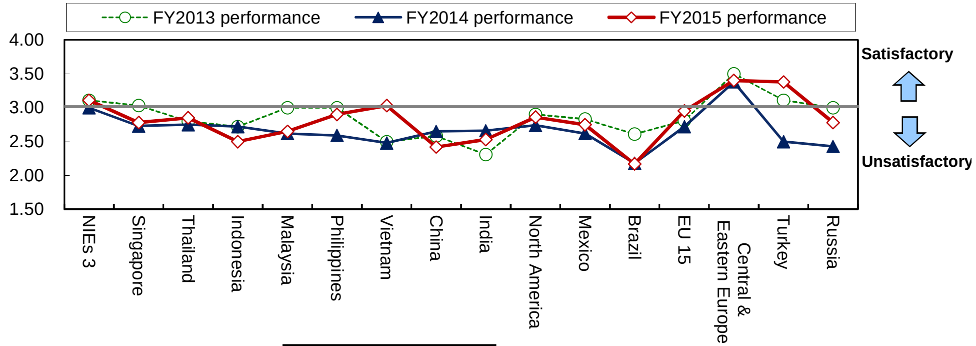
- Degree of satisfaction with profits was lowest for paper, pulp & wood and steel (both 2.33). (Figure 13) Steel had the lowest degree of satisfaction with profits among the 15 industries for the second consecutive year, from the results in FY2014. The main reasons that earnings were insufficient included “Difficulty in getting customers” and “Shrinking market due to economic fluctuations.”

Figure 14: Satisfaction with Profits by Country/Region (three key industries)

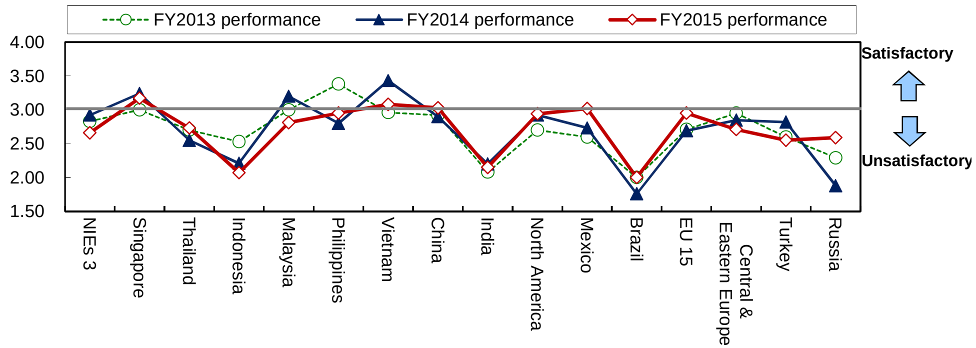
(1) Electrical Equipment & Electronics



(2) Chemicals



(3) Automobiles

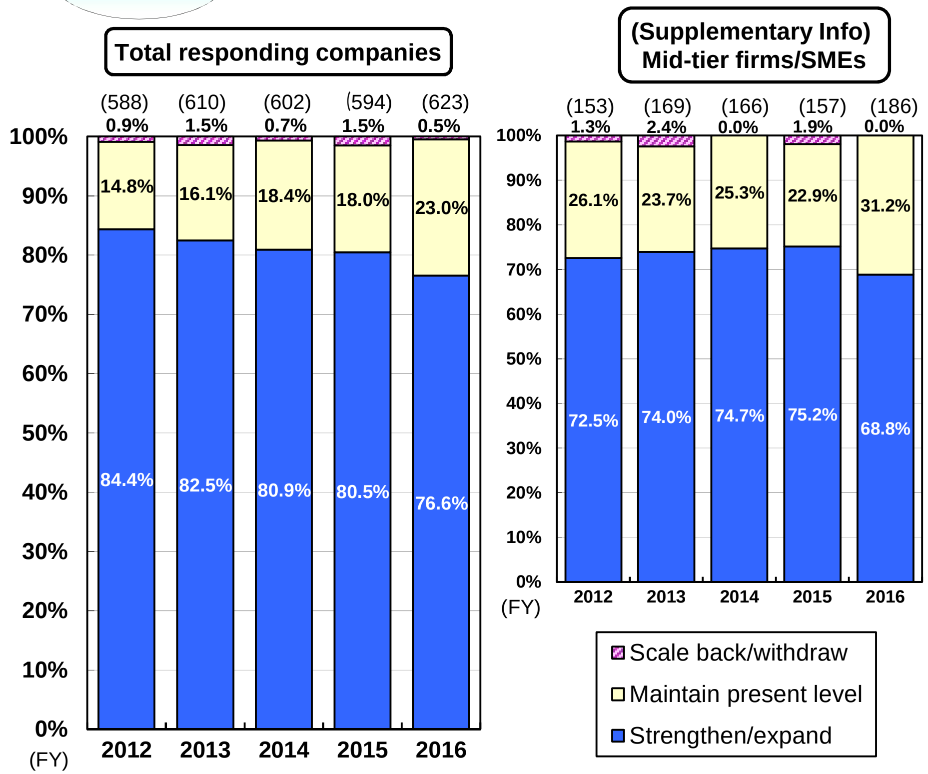


III. Business Prospects

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

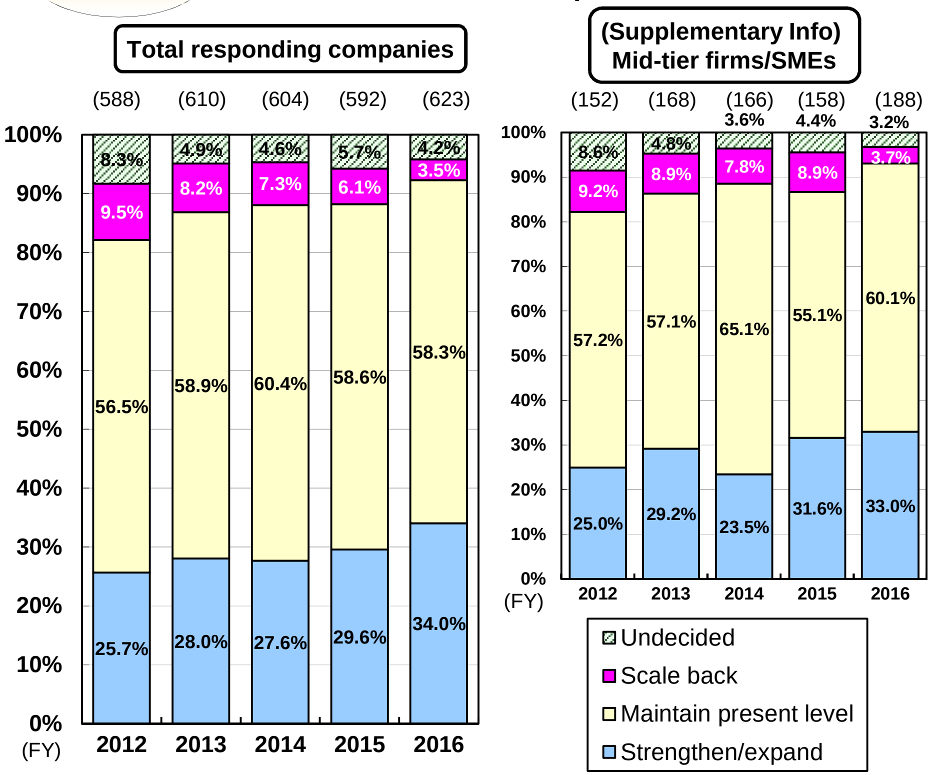
Overseas

Figure 15: Medium-term Prospects (next 3 yrs. or so) for Overseas Operations



Domestic

Figure 16: Medium-term Prospects (next 3 yrs. or so) for Domestic Operations



Note 1: "Overseas operations" is defined as production, sales and R&D activities at overseas bases, as well as the outsourcing of manufacturing and procurement overseas.

Note 2: The numbers in the parentheses above the bar graphs indicate the numbers of responding companies to the question.

Note 3: Mid-tier firms/SMEs are companies whose paid-in capital is less than 1 billion Japanese Yen.

■ **The ratio of companies intending to strengthen/expand overseas operations was 76.6%, and this continued to be at a high level in spite of a slight decline**

- The number of companies that responded "Strengthen/expand" of overseas operations in the medium-term was 477, and the response ratio was 76.6%. (Figure 15) While this remains at a high level, this was the first time in seven years that could not reach 80%. It was 65.8% in the FY2009 survey following the collapse of Lehman Brothers. Meanwhile, the response ratio of "Maintain present level" rose to 23.0%. Among mid-tier firms/SMEs, there were 128 companies(68.8%) that responded "Strengthen/expand" of overseas operations.

■ **With regard to domestic operations, the percentage of "Strengthen/expand" responses was back up, topping 30% for the first time in six years**

- In the medium-term prospects for domestic operations, like the previous year, the response ratio was highest for "Maintain present level" (58.3%). Looking at "Strengthen/expand," continuing the increasing trend from FY2011, this year the ratio was 34.0%, and it thus recovered to 30% above for the first time in six years. Among mid-tier firms/SMEs, 60.1% of respondent companies answered "Maintain present level," and "Strengthen/expand" somewhat increased from the previous year to 33.0%. (Figure 16)

※See Appendix 4 regarding data by industry of Figure 19 and 20.

Figure 17:
Medium-term Prospects for Overseas Operations

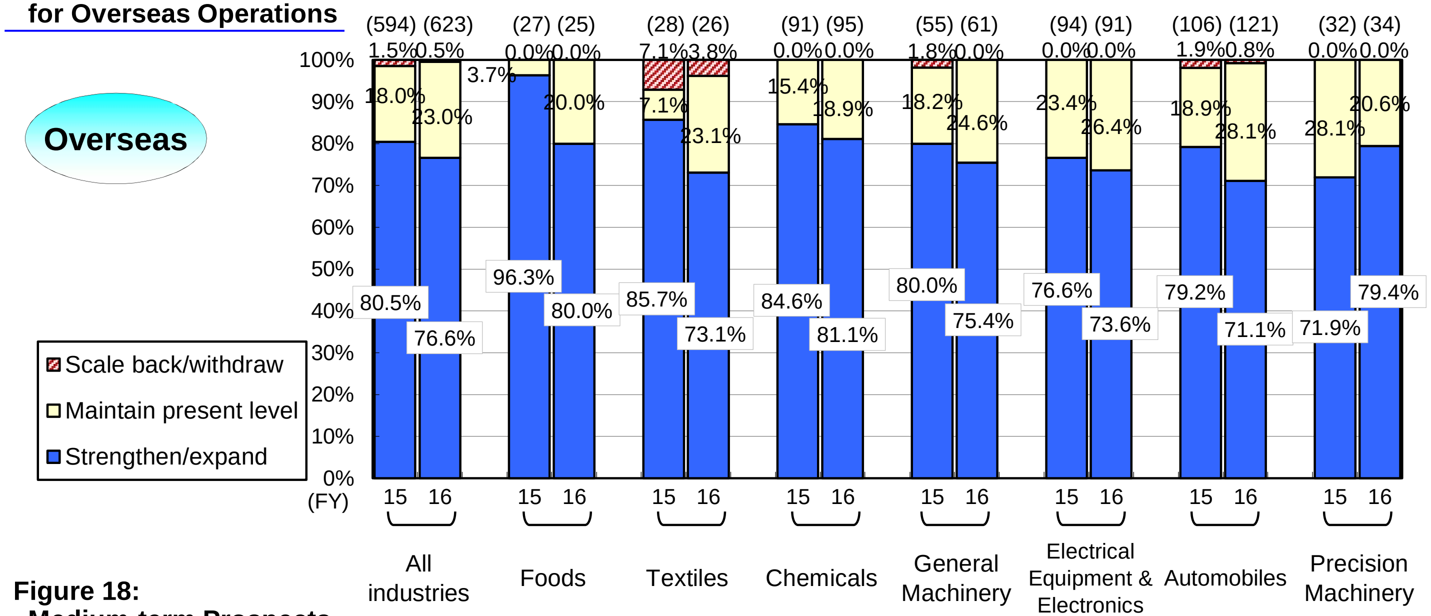
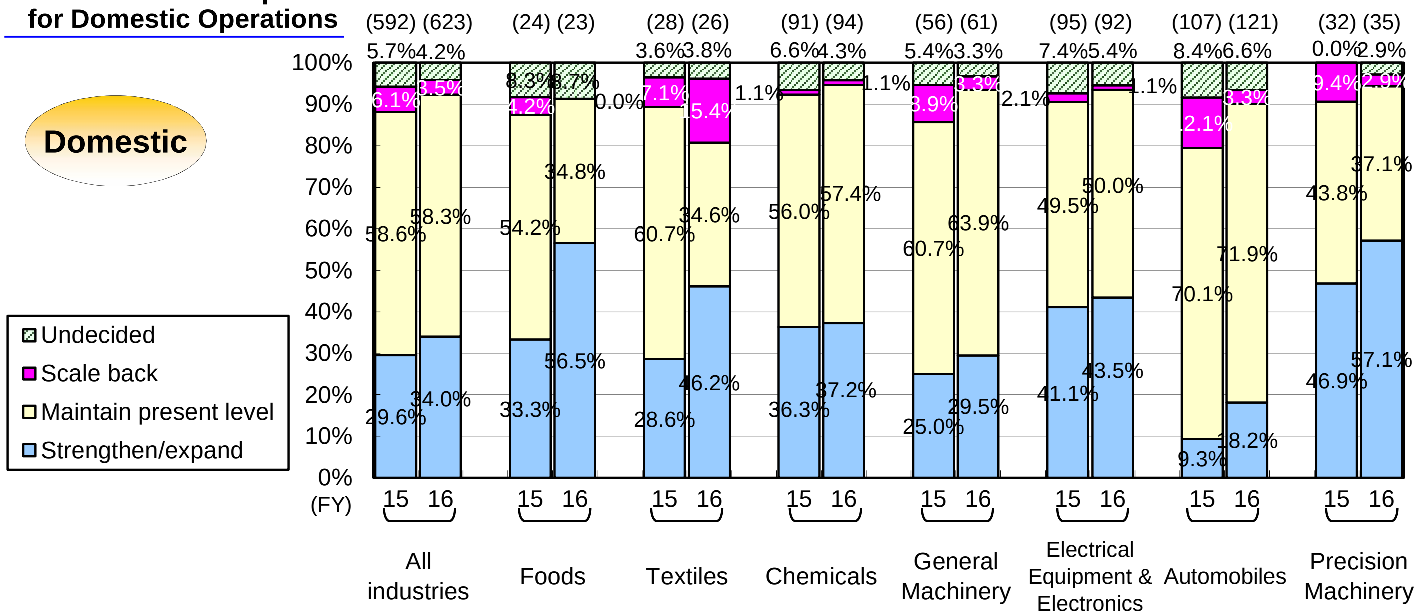


Figure 18:
Medium-term Prospects for Domestic Operations



■"Strengthen/expand" of overseas operations was stronger for precision machinery and material industries

- Among the 7 main industries, "Strengthen/expand" of overseas operations was stronger than the previous year for precision machinery only. (Figure 17) Looking at all 15 industries, this was only true of 5. Thus for two-thirds of the industries, the response ratio of "Maintain present level" rose.
- "Strengthen/expand" was over 80% for the steel, paper, pulp & wood, nonferrous metals, chemicals, ceramics, and cement & glass, and foods. For foods and paper, pulp & wood, the ratio of overseas sales was less than 20%, so there seems to be a strong intention to develop overseas markets.

Note1: "Overseas operations" is defined as production, sales and R&D activities at overseas bases, as well as the outsourcing of manufacturing and procurement overseas.

Note 2: Numbers in parentheses above the bar graph indicate the number of companies that answered the question.

■ In the outlook regarding domestic operations, "Strengthen/expand" was stronger for 9 out of 15 industries

- As for domestic operations, in about two-thirds of the industries, the ratio of "Strengthen/expand" increased. This seems to be due to the fact that the domestic economy continues to be in a gradual recovery trend.
- The ratio of "Strengthen/expand" was particularly high for precision machinery (57.1%) and foods (56.5%), and this was followed by textiles (46.2%) and electrical equipment & electronics (43.5%). (Figure 18) In "automobiles," this was around 10% to 19% (18.2%) for the first time since FY2012, and "Maintain present level" remained around 70%.

Figure 19: Cross Analysis of Prospects for Overseas and Domestic Businesses

(1) Total

Medium-term Prospects (next 3 yrs. or so)			
Overseas business	Domestic business	No. of respondent companies	Proportion
Strengthen/expand (472 companies)	Strengthen/expand	187	39.6%
	Maintain present level	251	53.2%
	Scale back	17	3.6%
	Undecided	17	3.6%
Maintain present level (143 companies)	Strengthen/expand	21	14.7%
	Maintain present level	110	76.9%
	Scale back	4	2.8%
	Undecided	8	5.6%
Scale back/withdraw (3 companies)	Strengthen/expand	1	33.3%
	Maintain present level	1	33.3%
	Scale back	1	33.3%
	Undecided	0	0.0%

(n= 618 companies)

438 Companies 92.8%

(2) Mid-tier firms /SMEs

Medium-term Prospects (next 3 yrs. or so)			
Overseas business	Domestic business	No. of respondent companies	Proportion
Strengthen/expand (128 companies)	Strengthen/expand	49	38.3%
	Maintain present level	70	54.7%
	Scale back	6	4.7%
	Undecided	3	2.3%
Maintain present level (58 companies)	Strengthen/expand	12	20.7%
	Maintain present level	42	72.4%
	Scale back	1	1.7%
	Undecided	3	5.2%
Scale back/withdraw (0 companies)	Strengthen/expand	0	0.0%
	Maintain present level	0	0.0%
	Scale back	0	0.0%
	Undecided	0	0.0%

(n= 186 companies)

119 companies 93.0%

Figure 20: Profile of Companies (438 companies) Which Selected to Expand Overseas Businesses and Expand / Maintain Domestic Business

(1) Volume of net sales

	No. of companies responding “scale back” for domestic business prospect (A)	No. of respondent companies (B)	(A)/ (B)
¥1 trillion or more	32	46	69.6%
¥300 bn. up to ¥1 trillion.	47	63	74.6%
¥100 bn. up to ¥300 bn.	89	119	74.8%
¥50 bn. up to ¥100 bn.	74	107	69.2%
¥10 bn. up to ¥50 bn.	149	217	68.7%
Less than ¥10 bn.	46	83	55.4%
No Answer	1	2	−
Total	438	637	68.8%

(2) Industry

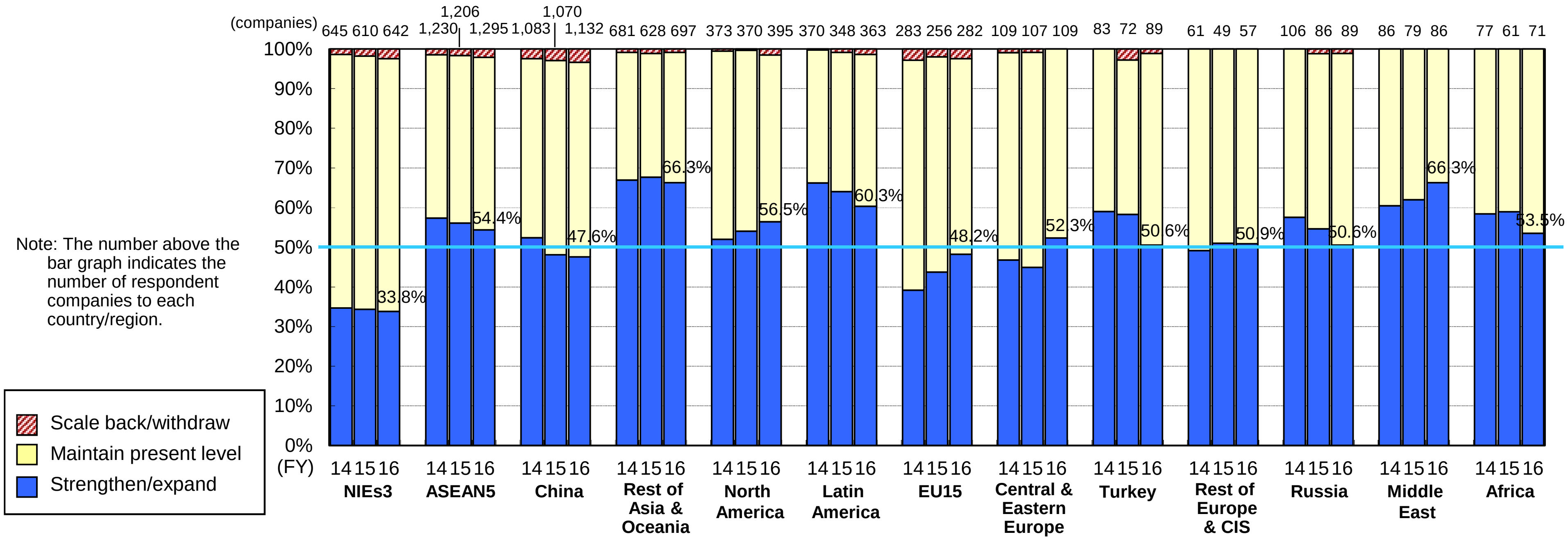
	No. of companies responding “scale back” for domestic business prospect (A)	No. of respondent companies (B)	(A)/ (B)
Nonferrous Metals	21	26	80.8%
Chemicals	73	95	76.8%
Ceramics, Cement & Glass	11	15	73.3%
Steel	11	15	73.3%
Precision Machinery	26	36	72.2%
Petroleum & Rubber	9	13	69.2%
General Machinery	43	63	68.3%
Electrical Equipment & Electronics	63	93	67.7%
Foods	16	25	64.0%
Automobiles	77	122	63.1%
Metal Products	13	22	59.1%
Transportation (excl. Automobiles)	8	14	57.1%
Paper, Pulp & Wood	4	7	57.1%
Textiles	15	27	55.6%
Other	48	64	75.0%
Total	438	637	68.8%

■ **Regardless of company size, over 90% of the companies that will “Strengthen/expand” overseas operations in the medium-term, expect to “Strengthen/expand” or “Maintain present level” of domestic operations**

- Of the 472 companies that responded “Strengthen/expand” overseas operations in the medium-term, 438 responded that they will “Strengthen/expand” or “Maintain present level” of domestic operations. The ratio of companies was thus 92.8%, up 3.0 points from the previous year (89.8%). (Figure 19(1))
- Among mid-tier firms/SMEs, 119 companies(93.0%) out of the 128 that responded “Strengthen/expand” overseas operations in the medium-term, answered they will “Strengthen/expand” or “Maintain present level” of domestic operations. (Figure 19(2))

Figure 21: 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.



■ **"Strengthen/expand" got stronger in the four regions of North America, EU15, Central & Eastern Europe, and Middle East**

- A strong economy has been continuing in North America, and here the response ratio of "Strengthen/expand" has increased for three consecutive years to reach 56.5% in FY2016. In EU15, where there appears to be a slight economic recovery, and Central & Eastern Europe, the response ratio of "Strengthen/expand" has been increasing annually, and has risen to be on par with "Maintain present level."
- In the Middle East, the number of companies currently operating or planning to operate was lower than other regions, but "Strengthen/expand" has been increasing each year.

■ **In Rest of Asia & Oceania, "Strengthen/expand" stayed at a high level, around 65% to 69%, and this was driven by India and Vietnam**

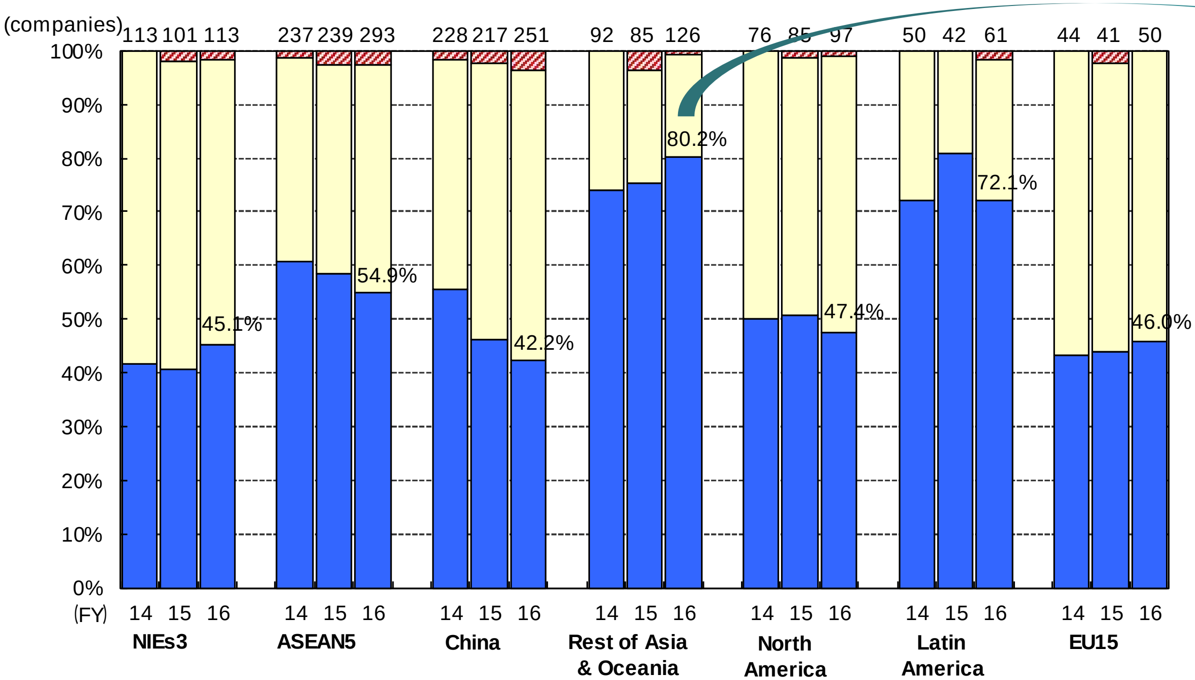
- In Rest of Asia & Oceania, the response ratio of "Strengthen/expand" was 66.3%, and while this was somewhat lower than the previous year (67.7%), it continued to be at a high level. The drivers of this were India (74.6%) and Vietnam (71.7%), and on an individual country basis, "Strengthen/expand" was above 70% in these two countries only.

■ **"Strengthen/expand" weakened in ASEAN5, China, Latin America, Turkey, Russia, and Africa, and "Maintain present level" has been in an increasing trend**

- The response ratio of "Strengthen/expand" has been in a downward trend in six regions including ASEAN5 and China. This seems to be due to factors such as local economic slowdowns, increased geopolitical risks, and domestic political instability. Nevertheless, there were differences within regions. In Latin America for example, there was a downward trend for "Strengthen/expand" in Brazil, but this was strong in Mexico.

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

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 1: The number above the bar graph indicates the number of respondent companies to each country/region.
Note 2: Countries/regions in which there were 10 or fewer companies answering were excluded.

The ratio of "Strengthen/Expand" in Rest of Asia & Oceania

	Mid-tier firms/ SMEs	Large Corporations	Difference (points)
Myanmar (10)	90.0%	63.5%	26.5
Laos (7)	85.7%	36.8%	48.9
Cambodia (12)	83.3%	49.0%	34.3
Vietnam (50)	80.0%	69.3%	10.7
India (41)	75.6%	74.3%	1.3

Note: The ratio of 2016 fiscal year. The Numbers in parentheses on the right side of countries are the numbers of respondent companies of mid-tier firms/SMEs.

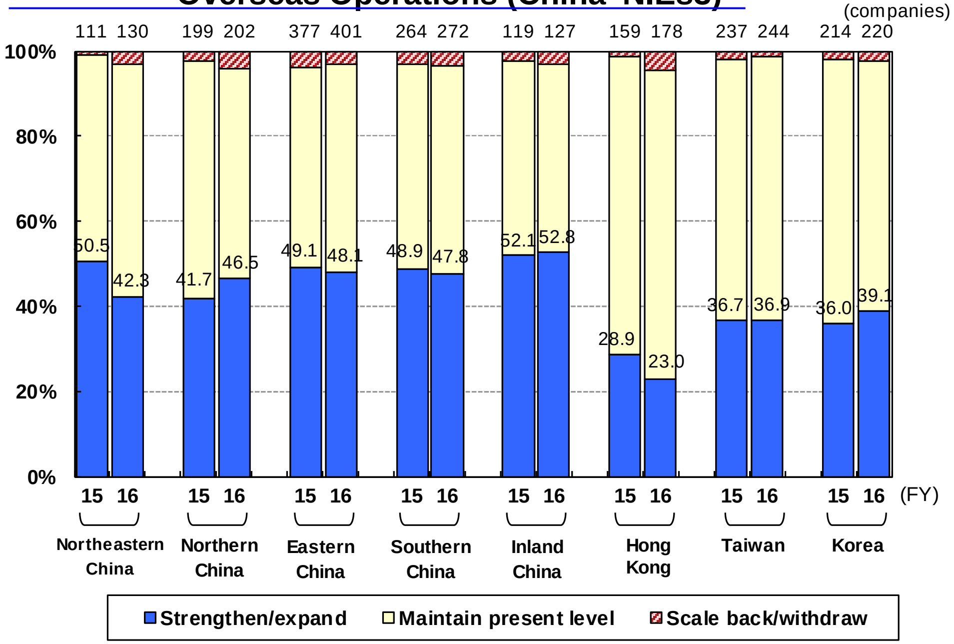
■ In the prospects for operations by region for mid-tier firms/SMEs, "Strengthen/expand" was notably strong in Rest of Asia & Oceania

- Among mid-tier firms/SMEs, "Strengthen/expand" was strong in Rest of Asia & Oceania, at 80.2%. Within this region, "Strengthen/expand" was strong in countries surrounding Thailand such as Myanmar, Laos, Cambodia and Vietnam exceeded 80% in each of these countries. "Strengthen/expand" was also high in India, at 75.6%. In countries surrounding Thailand, the ratio of "Strengthen/expand" was characterized by higher levels among mid-tier firms/SMEs than among large corporations.
- The second highest response ratio of "Strengthen/expand" was in Latin America (72.1%), and this strength was driven by "Strengthen/expand" in Mexico (76.2%). The ratio of this in Brazil was only 50.0%.

■ In China "Maintain present level" strengthened, and in ASEAN5, prospects differed from one country to another

- In China, "Strengthen/expand" further weakened to 42.2%. This was 6.9 points below the ratio of large corporations (49.1%).
- In ASEAN5, "Strengthen/expand" weakened as well, and fell to 54.9%. Looking at the ratios of "Strengthen/expand" in the individual countries of ASEAN5, this was 78.1% in the Philippines and higher than for large corporations (54.5%). In Thailand and Indonesia, this was at about the same level for large corporations (around 60% in both countries), and in Malaysia and Singapore, this was lower for mid-tier firms/SMEs.

Figure 22: Medium-term Prospects for Overseas Operations (China･NIEs3)



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 22 are proportions of the companies responding "strengthen/expand" (unit: percentage).

■ "Strengthen/expand" and "Maintain present level" were at about the same level in all five regions of China

- In China, compared to the previous year, the medium-term prospects for operations did not change very much, and "Strengthen/expand" and "Maintain present level" have continued to be at about the same level. The response ratio of "Strengthen/expand" was only above 50% in Inland China (52.8%), and the ratio of "Maintain present level" was somewhat high in the other four regions. (Figure 22)
- Looking at the fields of "Strengthen/expand," in production, there are many companies strengthening existing bases centering on Eastern China and Southern China, and there are few companies that intend to establish new production bases. (Figure 23) In sales, there appears to be strengthening trend based on expanding existing bases and bolstering the activities of agents. (Figure 24)

■ In the NIEs3 of Korea, Taiwan, and Hong Kong, the trend of strong "Maintain present level" is continuing

- In Korea and Taiwan, 60% of respondent companies answered "Maintain present level" in the medium-term, and there was hardly any change from the trend of the past several years. (Figure 22)
- In Hong Kong, the response ratio of "Maintain present level" expanded to 72.5%, and "Strengthen/expand" was at 23.0%, 5.9 points lower than the previous year.

* Figures 23 and 24 summarize the specific efforts by the companies responding "strengthen/expand" in Figure 22 by production and sales. Multiple responses were possible.

Figure 23: Ways to strengthen/expand (production)

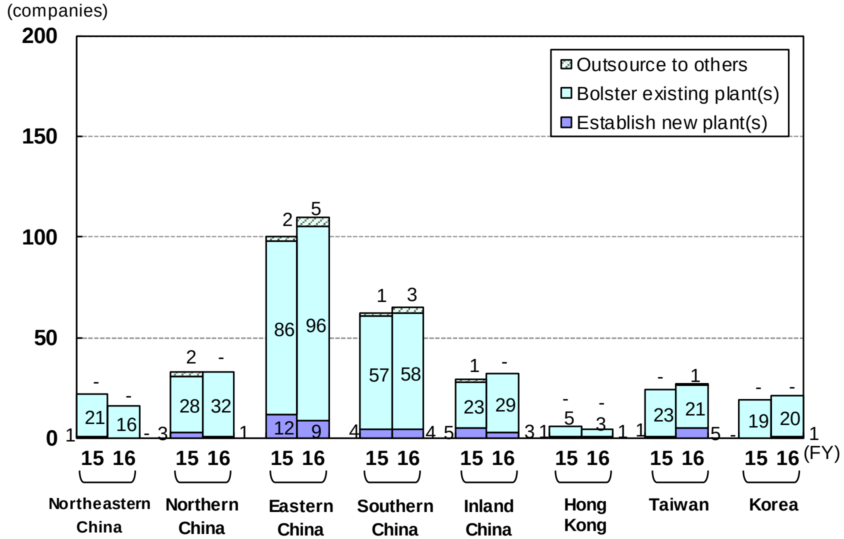


Figure 24: Ways to strengthen/expand (sales)

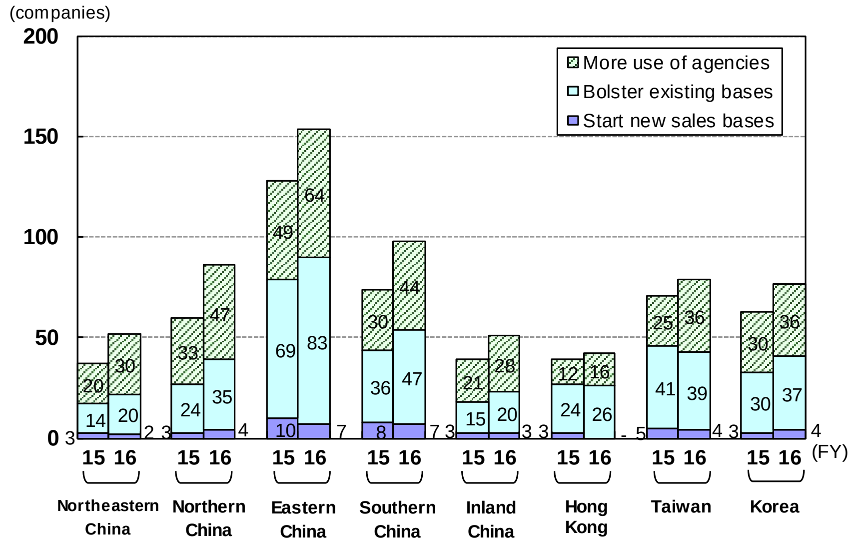
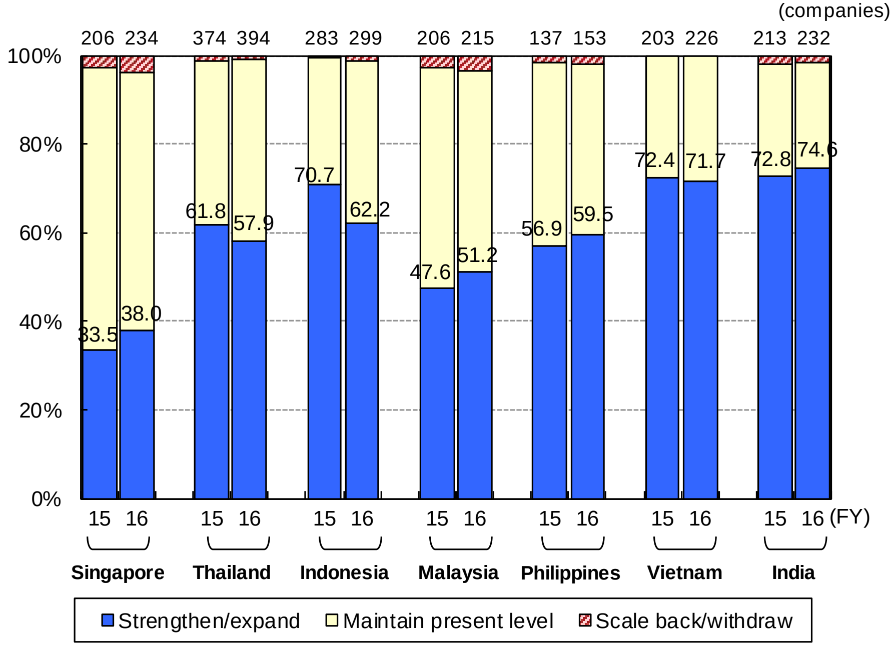


Figure 25: Medium-term Prospects for Overseas Operations (ASEAN5, Vietnam & India)



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 25 are proportions of the companies responding "strengthen/expand" (unit: percentage).

■ The Philippines has been garnering attention

- Among ASEAN5, the response ratio of "Strengthen/expand" was the highest in Indonesia (62.2%), and next was the Philippines (59.5%). (Figure 25) In Indonesia, like in Thailand, the response ratio of "Strengthen/expand" peaked in FY2012 to FY2013, and has been a downward trend, but in the Philippines, this has been in an upward trend and thus the Philippines has been garnering attention.
- In Thailand, the response ratio of "Strengthen/expand" was 57.9%, and fell below that of the Philippines, but its number of companies aiming to strengthen existing bases was at the highest level among ASEAN5, India, and Vietnam. (Figure 26)

■ "Strengthen/expand" continues to be at a high level in India and Vietnam

- The response ratio of "Strengthen/expand" was the highest in India, and it rose from 72.8% in the previous year to 74.6%. A high level also continued in Vietnam (71.7%). (Figure 25) Among the major countries, the response ratio of "Strengthen/expand" exceeded 70% in these two countries only.
- In India, looking at the numbers of companies that responded with "Strengthen/expand" in ways, this was 105 in production and 120 in sales in FY2016, and these numbers of companies were greater than those in Indonesia (production: 102, sales: 118). (Figure 26 and 27)

* Figures 26 and 27 summarize the specific efforts by the companies responding "strengthen/expand" in Figure 25 by production and sales. Multiple responses were possible.

Figure 26: Ways to strengthen/expand (production)

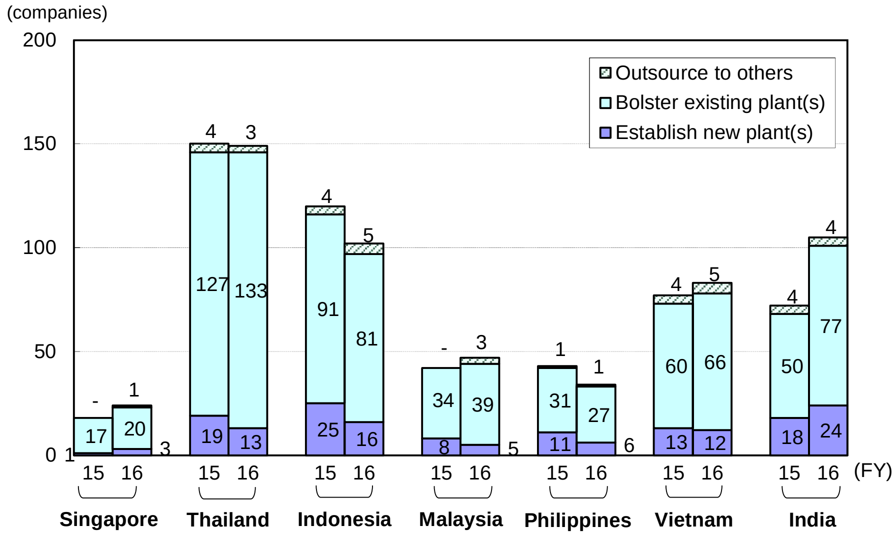


Figure 27: Ways to strengthen/expand (sales)

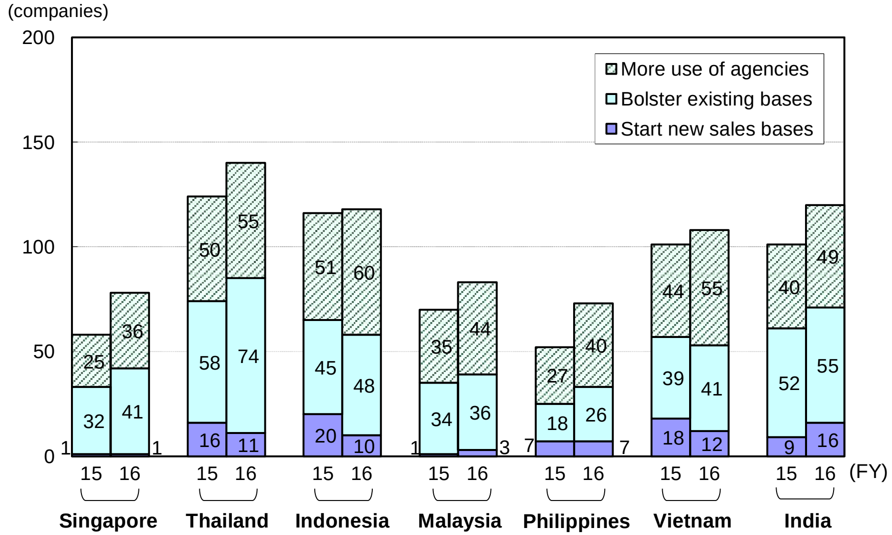
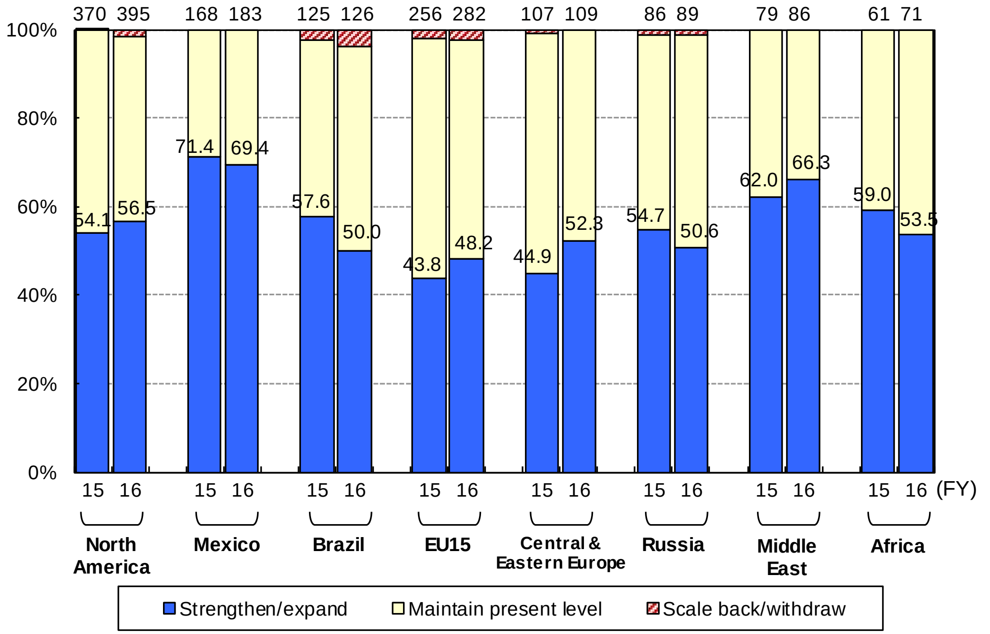


Figure 28: Medium-term Prospects for Overseas Operations (Americas, Europe, Middle East & Africa)



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 28 are proportions of the companies responding "strengthen/expand" (unit: percentage).

■ "Strengthen/expand" continues in production in Mexico

- The response ratio of "Strengthen/expand" in Mexico amounted to 69.4%. This was slightly below the previous year's level (71.4%), but at a very high level compared to other countries. (Figure 28)A characteristic of Mexico is that the number of "Strengthen/expand" companies in production is higher than that in sales. (Figure 29 and 30)
- In North America, where strong economy has been continuing, EU15, where there has been a gradual economic recovery, and Central & Eastern Europe, the response ratio of "Strengthen/expand" was slightly higher than the previous year.
- In Brazil and Russia, the response ratio of "Strengthen/expand" has been decreasing each year since FY2011. It reached about 50% in FY2016, and is now about the same as "Maintain present level."

■ In the Middle East and Africa, "Strengthen/expand" continues to be centered on sales

- In the Middle East, the response ratio of "Strengthen/expand" rose for three consecutive years to reach 66.3%. (Figure 28)This region is facing factors such as decreasing crude oil prices and higher geopolitical risks, but some respondent companies intend to "Strengthen/expand" operations in this region focusing on sales. (Figure 30)
- In Africa, the response ratio of "Strengthen/expand" stood at 53.5%, down 5.5 points from the previous year (59.0%). As in the Middle East, "Strengthen/expand" ways focused on sales more than production.

* Figures 29 and 30 summarize the specific efforts by the companies responding "strengthen/expand" in Figure 28 by production and sales. Multiple responses were possible.

Figure 29: Ways to strengthen/expand (production)

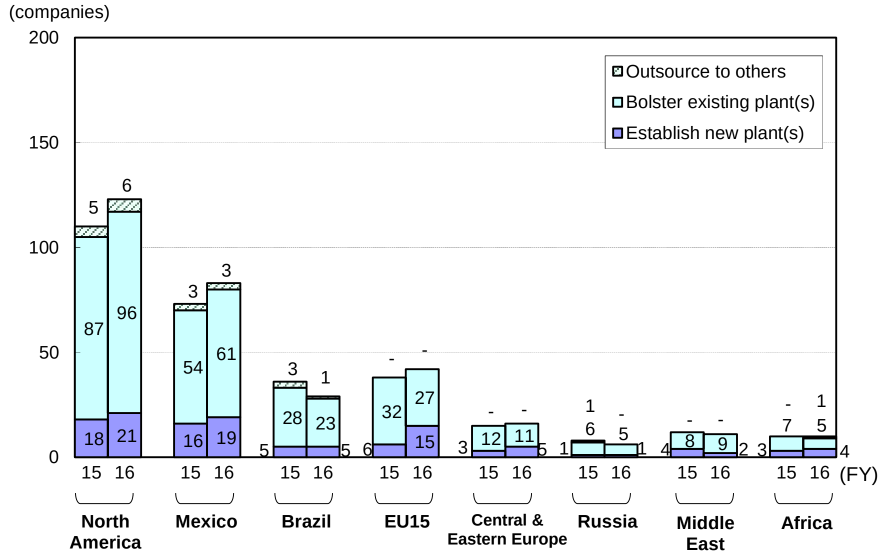
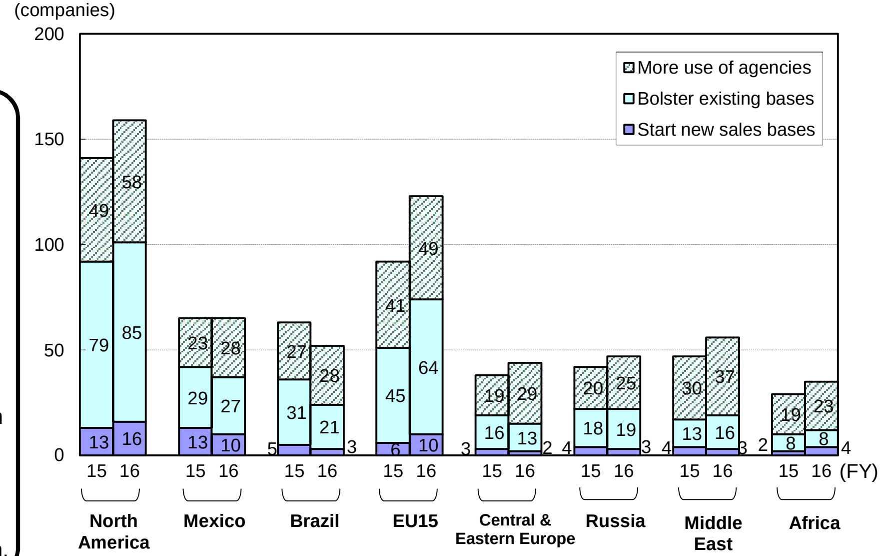


Figure 30: Ways to strengthen/expand (sales)



IV. Promising Countries/Regions over the Medium-Term

IV.1. Rankings of Promising Countries/Regions (Medium-term prospects)

* See Appendix 1 for pre-FY2014 results of Figure 31.

Figure 31: Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs. or so) (Multiple responses)

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).

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

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

Note 1: The countries and regions other than those listed above included North America (37 companies, 7.7% of the total), EU/Europe (18 companies, 3.7% of the total), and Southeast Asia/ASEAN (3 companies, 0.6% of the total).
Note 2: In case of the same ranking, listed by the order of the previous year's ranking and then by alphabetical order.

■India takes first place for third straight year, China holds second place alone

- India was in first place in ranking of promising countries over the medium-term, and the percentage share increased by 7.2 points from 40.4% in the previous year to 47.6%. As such, about half of the companies that gave a response regarding promising country over the medium-term named India. Out of the 230 companies citing the country, 60% (142 companies) do not have a local production base.
- Like the previous year, second place was China, and the percentage share increased by 3.2 points from 38.8% in the previous year to 42.0%. Harsh aspects of the business environment in China were mentioned, such as the economic slowdown and rise in personnel expenses, but it appears that 4 out of 10 companies have high expectations regarding China.

■Indonesia drops to third place, Vietnam rises to fourth place

- Indonesia, which was in second place the previous year, moved to third place. The number of responding companies increased by 5 from the previous year to 173, but the percentage share decreased for two consecutive years to 35.8%.
- The fourth-place country Vietnam had a percentage share of 32.7%, up 5.2 points from the previous year. This was the second highest increase after India's increase of 7.2 points.
- Thailand moved from fourth place the previous year to fifth place. The Philippines kept its previous year's ranking of eighth place, and Myanmar moved up one spot from the previous year, from tenth place to ninth place.

■Continued high expectations regarding Mexico and USA

- Among the top 10 promising countries over the medium-term, seven were Asian countries, and Mexico took sixth place and USA took seventh place. Mexico kept its same ranking, but both the number of responding companies and its percentage share increased from the previous year.
- The number of responding companies for the seventh-place country USA was 93, and as stated in Figure 31 Note 1, the number of companies that answered "North America" was 37.

■Attention on Brazil further drops, Russia once again fails to enter top 10

- Uncertainty has been increasing regarding Brazil due to a domestic economic downturn and internal affairs, and thus both the number of responding companies and its percentage share decreased from the previous year, and it moved from ninth place the previous year to tenth place. Meanwhile, Russia, which was in the top 10 until FY2014, dropped in the ranking from 12th place the previous year to 15th place this year. There are companies that have high expectations regarding the market growth potential of both countries, but some concerns were expressed regarding the recent political and economic situation.

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

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).

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

Ranking 2016	←	Ranking 2015	Country/Region	No. of Companies 2016	No. of Companies 2015	Percentage Share(%) 2016	Percentage Share(%) 2015
			(Total)	143	111		
1	⇧	2	India	66	39	46.2	35.1
2	⇩	1	Indonesia	53	41	37.1	36.9
2	⇧	4	Vietnam	53	36	37.1	32.4
4	⇩	3	China	48	38	33.6	34.2
5	⇧	6	Thailand	42	25	29.4	22.5
6	⇩	5	Mexico	40	27	28.0	24.3
7	⇧	8	USA	22	13	15.4	11.7
8	⇩	7	Philippines	16	16	11.2	14.4
9	⇧	10	Myanmar	10	9	7.0	8.1
10	⇧	11	Malaysia	9	8	6.3	7.2
11	⇩	8	Brazil	6	13	4.2	11.7
11	⇧	12	Taiwan	6	6	4.2	5.4
13	⇧	14	Cambodia	5	5	3.5	4.5
14	⇩	12	Turkey	4	6	2.8	5.4
14	⇧	15	Germany	4	4	2.8	3.6
14	⇧	15	Laos	4	4	2.8	3.6
14	⇧	17	Singapore	4	3	2.8	2.7
18	⇧	19	Korea	3	2	2.1	1.8
18	⇧	19	Russia	3	2	2.1	1.8
18	⇧	-	Iran	3	-	2.1	-

Note: In case of the same ranking, listed by the order of the previous year's ranking and then by alphabetical order.

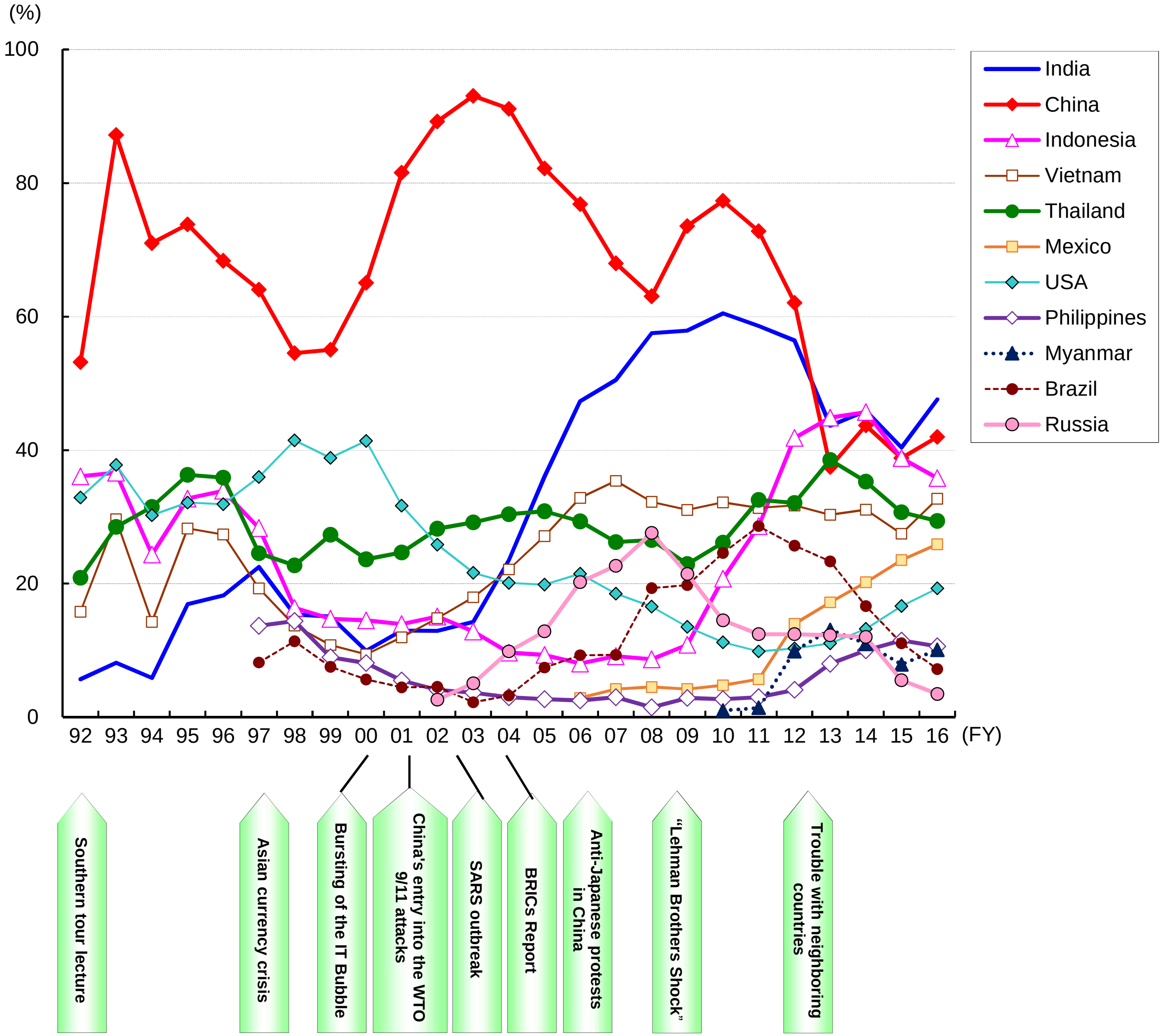
■In ranking of promising countries over the medium-term for mid-tier firms/SMEs, India takes first place for first time in three years

- Indonesia, which was in first place in FY2014 and FY2015, moved to second place, and India surpassed it to take first place for the first time since FY2013, three years ago. The number of companies citing India rose by 27 from the previous year to 66, and its percentage share rose by 11.1 points from the previous year to 46.2%, thus marking a significant increase.

■China drops to fourth place, with slight decline in percentage share

- Second place was held by Indonesia and Vietnam. Vietnam's percentage share hit its highest level in five years (37.1%, up 4.7 points from the previous year).
- China took fourth place, and thus fell one spot from the previous year. Its percentage share fell 0.6 points to 33.6%, having peaked in FY 2011 at 69.9% and then decreasing drastically. China has been at around 30% these 4 years.
- Thailand took fifth place, and thus rose one spot from sixth place the previous year. Its percentage share was 29.4%, up 6.9 points from the previous year, and this marked the largest margin of increase after India's. As such, it appears that Thailand has once again been garnering the attention of mid-tier firms/SMEs.
- Mexico fell one spot from the previous year to take sixth place. Its percentage share has been increasing annually. This year it was 28.0%, up 3.7 points from the previous year.

Figure 32: **Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs. or so): Percentage Shares**



■Percentage share somewhat dispersed among top three countries, India and China once again rise

- In FY2014 and FY2015, the percentage shares of the top three countries India, China, and Indonesia were very close. In FY2016, the percentage shares of India and China started to rise, while contrastingly Indonesia's further declined.
- India and China were both highly rated in terms of the future growth potential and current size of their markets.

■Vietnam rises again, while Thailand continues to drop

- Vietnam had been the third-place medium-term promising country from FY2006 through FY2010, and during this time, its percentage share hovered around 30%. Its percentage share did not increase very much after this, but then it rose in FY2016, and the country took fourth place.
- Thailand's percentage share has been decreasing since FY2013, but it continues to have significant attractive aspects as an industrial cluster and base for exports to surrounding regions.

■Mexico and USA continue increasing trend for percentage share since FY2012

- The percentage shares of Mexico and the USA appear to have had forward momentum since FY2012. It seems that this is because demand related to automobiles and related industries has been expanding in Mexico, and the economy has been relatively steady in USA.

■Notable decreases for Brazil and Russia

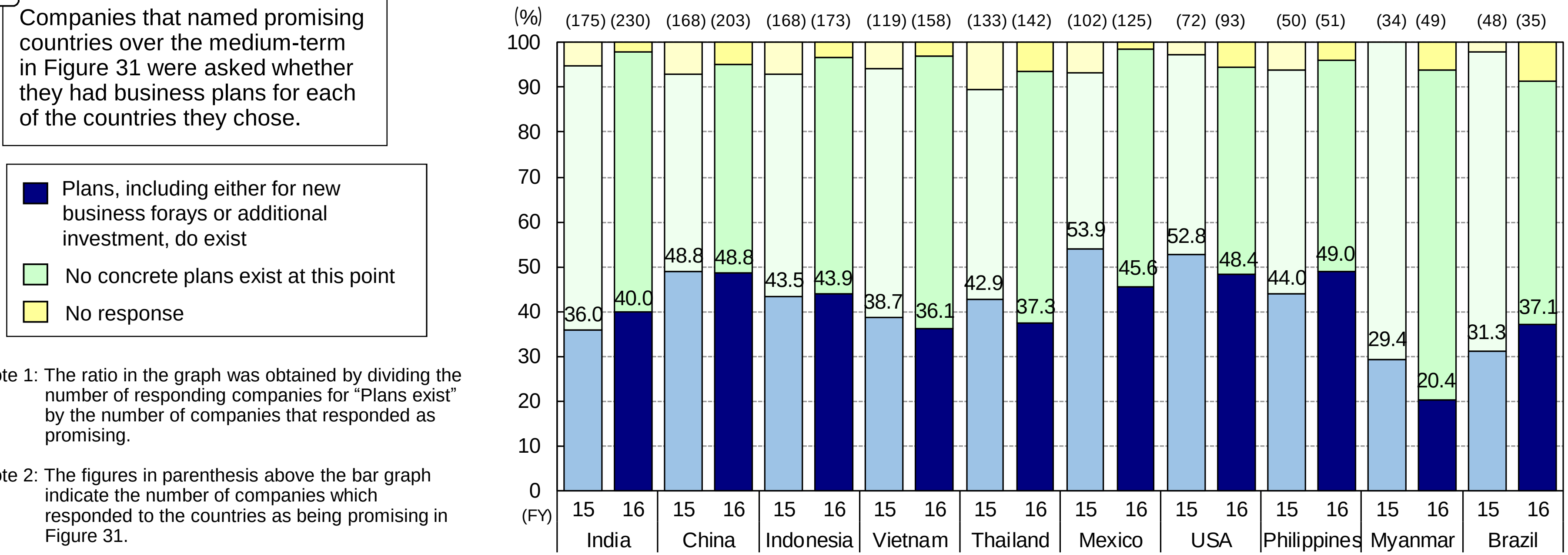
- Brazil and Russia have had annual decreases in percentage share, in FY2016 fell below the Philippines and Myanmar. It seems that political and economic instability in these countries has had an effect.

IV.3. Existence of Real Business Plans (Top 10 countries/regions)

Q

Companies that named promising countries over the medium-term in Figure 31 were asked whether they had business plans for each of the countries they chose.

Figure 33: Existence of Real Business Plans in Promising Countries



Note 1: The ratio in the graph was obtained by dividing the number of responding companies for “Plans exist” by the number of companies that responded as promising.

Note 2: The figures in parenthesis above the bar graph indicate the number of companies which responded to the countries as being promising in Figure 31.

Note 3: Refer to Appendix 8 regarding the number of responding companies for each choice.

Figure 34: Promising Countries/Regions for Overseas Operations over the Medium-term (next 3 yrs. or so) Prospects

(Aggregated the number of companies which responded that “Plans exist”)

Rank	Country	No. of respondent companies		Change from last survey ('16-'15)
		FY2016	FY2015	
1	China	99	82	17
2	India	92	63	29
3	Indonesia	76	73	3
4	Mexico	57	55	2
4	Vietnam	57	46	11
6	Thailand	53	57	▲ 4
7	USA	45	38	7
8	Philippines	25	22	3
9	Brazil	13	15	▲ 2
10	Malaysia	12	10	2
10	Singapore	12	7	5

■Philippines has highest ratio of “Plans do exist” companies

- The five countries with the highest response ratio of “Plans do exist” were the Philippines (49.0%), China (48.8%), USA (48.4%), Mexico (45.6%), and Indonesia (43.9%). (Figure 33)
- China’s response ratio was high among the 10 countries but was low compared to its past level of around 60% to 70%. Thailand also fell significantly below its past level of around 50% to 60%.
- Compared to the previous year, the response ratio increased for India (up 4.0 points), Indonesia (up 0.4 points), the Philippines (up 5.0 points), and Brazil (up 5.8 points).

■China continues to have most “Plans do exist” companies

- Figure 34 shows the countries in order of number of companies that responded “Plans do exist.” First-place China has held onto the top spot for the past five years. India (previously in third place) came in second place, and Indonesia (previously in second place) came in third place. Thailand had the most “Plans do exist” companies after China in FY2014, but it has been steadily falling in the ranking, moving to fourth place in FY2015 and sixth place in FY2016.

Figure 35: Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs. or so) (Four Major Industry Types)

Automobiles

Rank	Country	FY2016 (Total 85)	FY2015 (Total 71)
1	Mexico	48	37
2	India	42	31
3	China	35	23
4	Indonesia	31	29
5	Thailand	21	18
6	USA	14	8
7	Vietnam	12	10
8	Philippines	7	6
9	Brazil	6	10
10	Russia	4	6

Electrical Equipment & Electronics

Rank	Country	FY2016 (Total 74)	FY2015 (Total 63)
1	India	30	30
2	China	29	24
3	Vietnam	25	20
4	Thailand	15	19
4	Indonesia	15	18
6	Myanmar	13	4
7	Philippines	12	13
7	USA	12	8
9	Mexico	11	11
10	Brazil	6	8

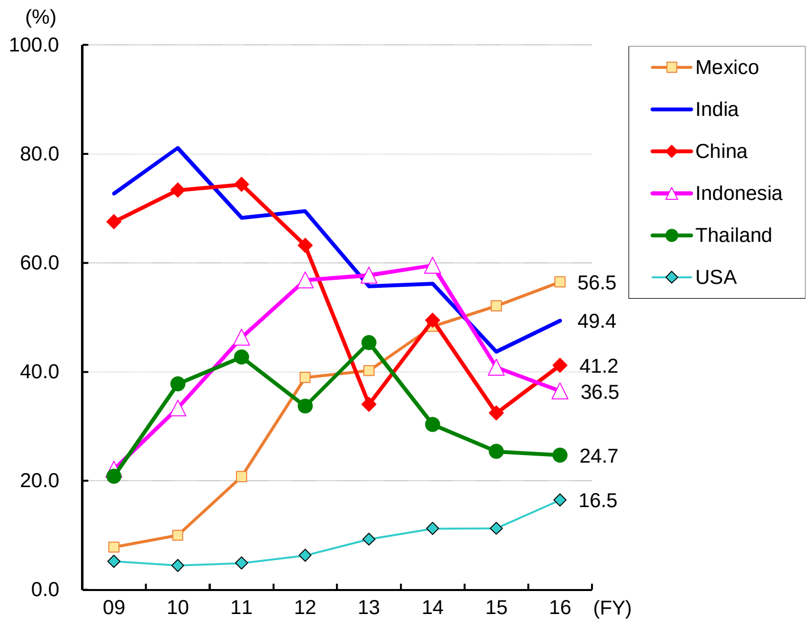
Chemicals

Rank	Country	FY2016 (Total 73)	FY2015 (Total 69)
1	India	43	34
2	China	39	32
3	Thailand	27	25
3	Indonesia	27	23
5	Vietnam	26	19
6	Mexico	17	13
7	USA	15	12
8	Brazil	6	8
8	Singapore	6	4
10	Germany	5	1

General Machinery

Rank	Country	FY2016 (Total 49)	FY2015 (Total 46)
1	India	29	22
2	Indonesia	26	21
3	Vietnam	18	14
4	China	17	20
5	Thailand	15	11
6	USA	12	8
7	Mexico	11	7
8	Myanmar	9	3
9	Philippines	8	6
10	Malaysia	4	5
10	Taiwan	4	2

Figure 36: Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs. or so) (trend of percentage shares of automobiles)



■India takes first place in three major industry types

- Like the previous year, in the three industry types “electrical equipment & electronics,” “chemicals,” and “general machinery,” India was in first place, and in “automobiles,” Mexico was in first place. (Figure 35) Looking at second place and beyond, China and Indonesia were among the top four countries in each of the four major industry types. Nevertheless, China has not taken the top spot in any of the industry types since FY2014.

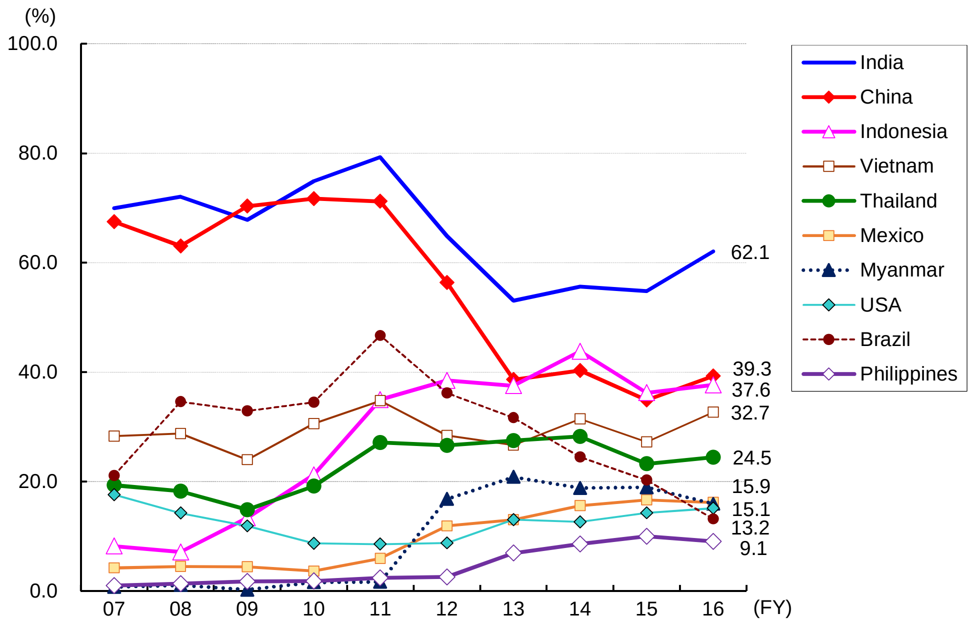
■In “automobiles,” Mexico’s percentage share in rising trend

- Figure 36 shows the trend in percentage share of the top six countries regarding “automobiles.” Immediately following the collapse of Lehman Brothers, focus was placed on India and China, but since then, companies’ interest in countries has gradually dispersed. Mexico’s percentage share started to rise, and it has been in first place since FY2015.
- Looking at annual new vehicle unit sales, while Mexico’s approximately 1.35 million units was small relative to China’s approximately 24.6 million units, there are high expectations regarding Mexico as a supply base for the USA (approximately 17.5 million units). India had sales of 3.4 million units, which was one-seventh of China’s scale, but there are high expectations regarding its future potential.

Figure 37: Promising Countries/Regions for Business Development over the Long-term (next 10 yrs. or so) (FY2016 results)

Ranking 2016	←	Ranking 2015	Country/Region	No. of Companies 2016	No. of Companies 2015	Percentage Share(%) 2016	Percentage Share(%) 2015
			(Total)	364	301		
1	–	1	India	226	165	62.1	54.8
2	↑	3	China	143	105	39.3	34.9
3	↓	2	Indonesia	137	109	37.6	36.2
4	–	4	Vietnam	119	82	32.7	27.2
5	–	5	Thailand	89	70	24.5	23.3
6	↑	8	Mexico	59	50	16.2	16.6
7	–	7	Myanmar	58	57	15.9	18.9
8	↑	9	USA	55	43	15.1	14.3
9	↓	6	Brazil	48	61	13.2	20.3
10	↑	11	Philippines	33	30	9.1	10.0

Figure 38: Promising Countries/Regions for Business Development over the Long-term (next 10 yrs. or so) (trend in percentage share)



■India holds first place as long-term promising country each year since FY2010

- India was the first-place long-term promising country, and it has held the top spot for seven straight years, since FY2010. (Figure 37and 38) China moved up from third place last year to second place, and the previous second place holder Indonesia fell to third place. Mexico (eighth place → sixth place) and the USA (ninth place → eighth place) also rose in the ranking. Russia moved from 10th place last year to 11th place this year (16 companies), and the Philippines took its spot in the top 10. The order of first place through sixth place was the same as that for Figure 31 medium-term promising country.
- Figure 38 shows the trend in percentage share over the past 10 years regarding the top 10 long-term promising countries. India and China fought for the top spot in 2007 through 2010, but since FY2011, the percentage share of both countries has been steadily increasing, and India is now over 20 points above China.
- Attention has been increasing regarding Myanmar as a long-term promising country, and its percentage share has been rapidly increasing since FY2012 to put it in the top 10. Mexico's percentage share has been increasing since FY2012, and the Philippines' percentage share has been increasing since FY2013. Brazil's percentage share peaked in FY2011 (46.7%) and has decreased each year since then.

No. 1: India

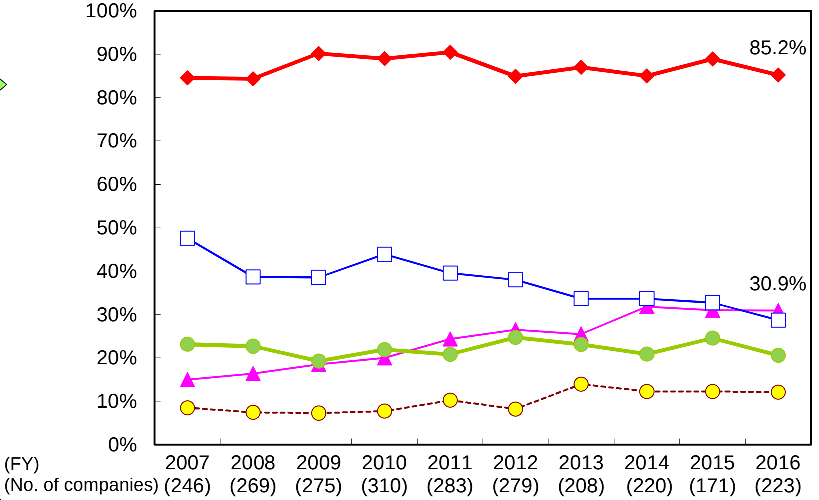
* Refer to Appendix 2, 3 for details of reasons for being promising for the top ten promising countries over the medium-term and issues.

Reasons

(Total No. of respondent companies: 223) (Note 1)

		No. of companie	Ratio (Note 2)
1	Future growth potential of local market	190	85.2%
2	Current size of local market	69	30.9%
3	Inexpensive source of labor	64	28.7%
4	Supply base for assemblers	46	20.6%
5	Base of export to third countries	27	12.1%

Past Trend

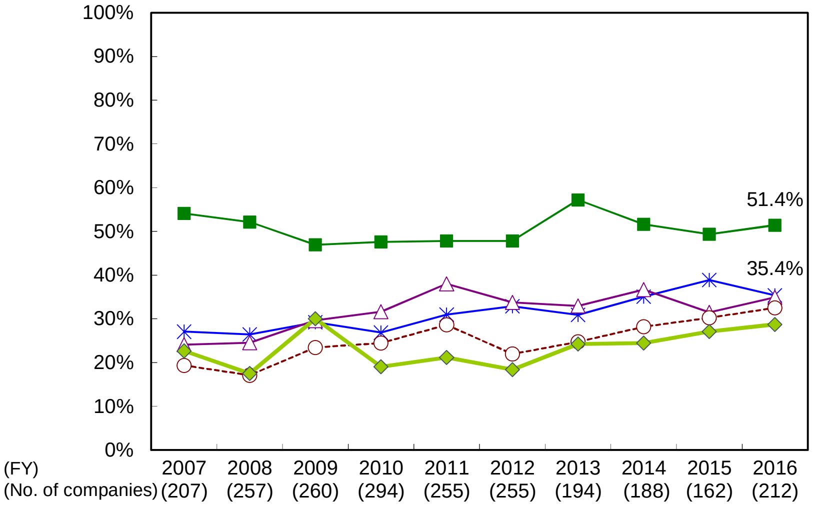


Issues

(Total No. of respondent companies: 212)

		No. of companie	Ratio
1	Underdeveloped infrastructure	109	51.4%
2	Execution of legal system unclear	75	35.4%
3	Intense competition with other companies	74	34.9%
4	Complicated tax system	69	32.5%
5	Security/social instability	61	28.8%

Past Trend



- The top reason for being promising remained “Future growth potential of local market” (85.2%), but “Inexpensive source of labor” (28.7%), which had been second place until the previous year (28.7%), moved to third place, and “Current size of local market” (30.9%) moved up to second place. The attractiveness of inexpensive sources of labor has been decreasing year after year, but “Future growth potential of local market” was still the highest among the major countries.
- The top issue remained “Underdeveloped infrastructure” (51.4%). The ranking after first place also remained the same as the previous year. As for response ratios, “Execution of legal system unclear” (35.4%) declined slightly, and thus its appears that there have been some institutional improvements. Meanwhile, “Intense competition with other companies” (34.9%) increased, so it seems that the competitive environment has been steadily increasing in severity accompanying market growth.

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 31. For this reason, the number of companies here may not be the same as in Figure 31.
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.

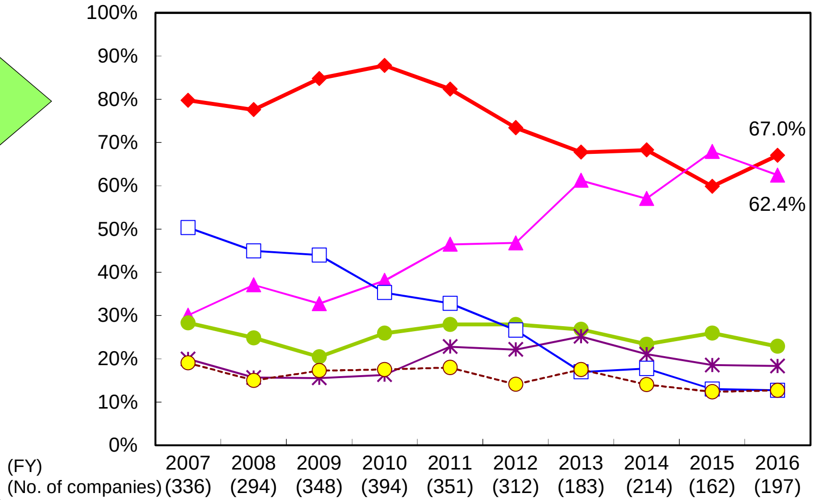
No. 2: China

Reasons

Past Trend

(Total No. of respondent companies: 197)

		No. of companie	Ratio (Legend)
1	Future growth potential of local market	132	67.0%
2	Current size of local market	123	62.4%
3	Supply base for assemblers	45	22.8%
4	Concentration of industry	36	18.3%
5	Inexpensive source of labor	25	12.7%
5	Base of export to third countries	25	12.7%

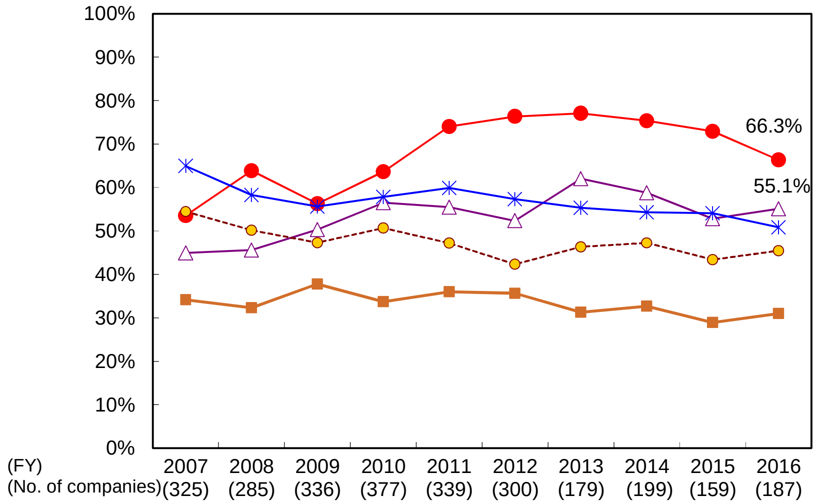


Issues

Past Trend

(Total No. of respondent companies: 187)

		No. of companie	Ratio (Legend)
1	Rising labor costs	124	66.3%
2	Intense competition with other companies	103	55.1%
3	Execution of legal system unclear	95	50.8%
4	Insufficient protection for intellectual property rights	85	45.5%
5	Restrictions on foreign currency/ transfers of money overseas	58	31.0%



- The top reason for being promising was “Future growth potential of local market” (67.0%), and “Current size of local market” (62.4%), which was in first place the previous year, moved to second place. As for long-term trends, expectations regarding the future of the Chinese market have been steadily declining due to China’s economic slowdown. “Supply base for assemblers” (22.8%) was in third place, and “Concentration of industry” (18.3%) was in fourth place.
- China’s top issue was “Rising labor costs” (66.3%), and “Intense competition with other companies” (55.1%) ,which was in third place the previous year, returned to second place. Third-place “Execution of legal system unclear” (50.8%), fourth-place “Insufficient protection for intellectual property rights” (45.5%), and fifth-place “Restrictions on foreign currency/ transfers of money overseas” (31.0%) have been at a high level relative to other countries, and have hardly changed over the past 10 years. “Security/social instability” (20.9%), which was in fifth place the previous year and the year before that, dropped to 10th place.

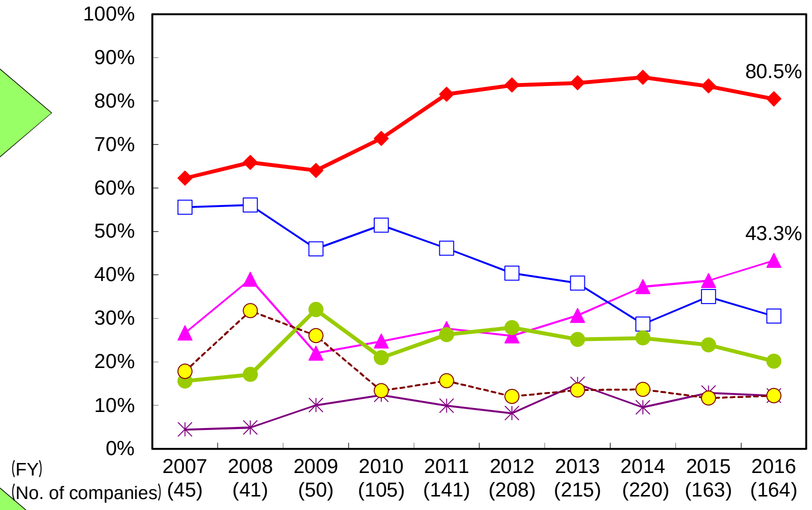
No. 3: Indonesia

Reasons

Past Trend

(Total No. of respondent companies: 164)

		No. of companie	Ratio	(Legend)
1	Future growth potential of local market	132	80.5%	
2	Current size of local market	71	43.3%	
3	Inexpensive source of labor	50	30.5%	
4	Supply base for assemblers	33	20.1%	
5	Concentration of industry	20	12.2%	
5	Base of export to third countries	20	12.2%	

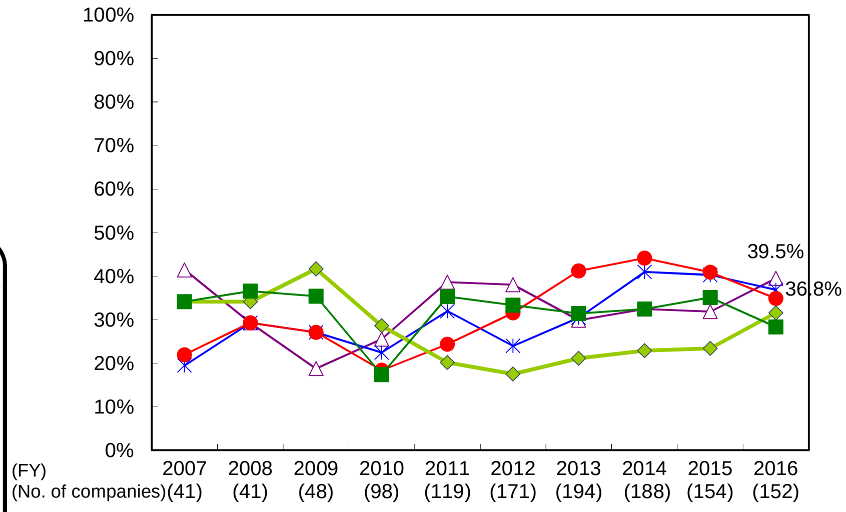


Issues

Past Trend

(Total No. of respondent companies: 152)

		No. of companie	Ratio	(Legend)
1	Intense competition with other companies	60	39.5%	
2	Execution of legal system unclear	56	36.8%	
3	Rising labor costs	53	34.9%	
4	Security/social instability	48	31.6%	
5	Underdeveloped infrastructure	43	28.3%	



- The top reason for being promising continued to be “Future growth potential of local market” (80.5%). Like the previous year, the second-place reason was “Current size of local market” (43.3%), but the response ratio increased by 4.6 points. Third-place “Inexpensive source of labor” (30.5%) has been in a gradual downward trend over the past 10 years. “Supply base for assemblers” (20.1%) was in fourth place, and its response ratio has not changed significantly over the past several years.
- As for issues, “Intense competition with other companies” (39.5%), which was in fourth place the previous year, rose to first place. This was the third-place response ratio after China and Thailand, so it appears that competition has been intensifying in Indonesia. Like the previous year, “Execution of legal system unclear” (36.8%) was in second place, and “Rising labor costs” (34.9%), which was in first place the previous year and the year before that, fell to third place. “Underdeveloped infrastructure” (28.3%), which was in third place the previous year, dropped to fifth place. “Security/social instability” (31.6%), which was in seventh place the previous year, rose to fourth place, and this appears to reflect concerns regarding destabilization of the situation in the country, resulting from the terrorist attack that occurred in Jakarta in January, etc.

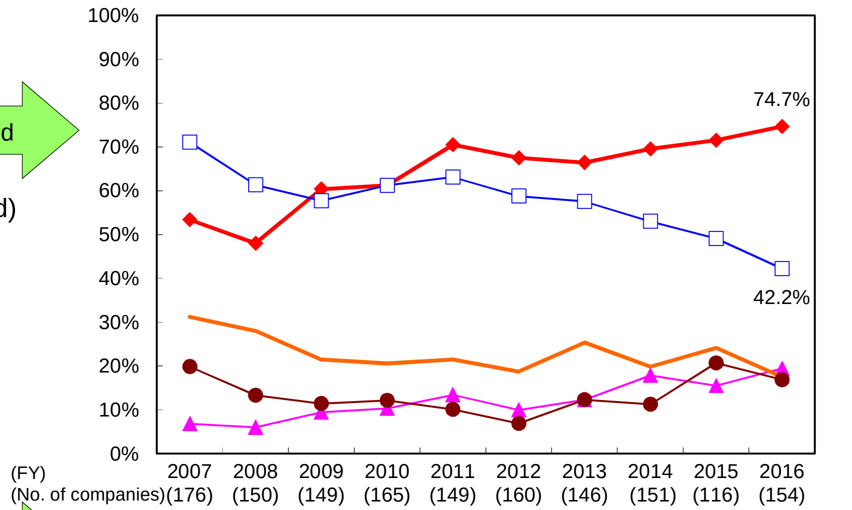
No. 4: Vietnam

Reasons

Past Trend

(Total No. of respondent companies: 154)

		No. of companie	Ratio	(Legend)
1	Future growth potential of local market	115	74.7%	
2	Inexpensive source of labor	65	42.2%	
3	Current size of local market	30	19.5%	
4	Qualified human resources	27	17.5%	
5	Social/political situation stable	26	16.9%	

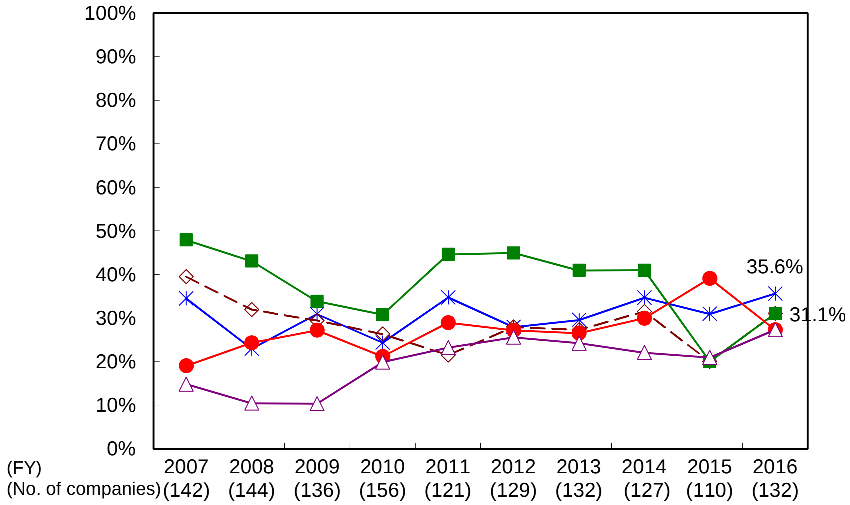


Issues

Past Trend

(Total No. of respondent companies: 132)

		No. of companie	Ratio	(Legend)
1	Execution of legal system unclear	47	35.6%	
2	Difficult to secure management-level staff	41	31.1%	
2	Underdeveloped infrastructure	41	31.1%	
4	Rising labor costs	36	27.3%	
4	Intense competition with other companies	36	27.3%	



- Over the past 10 years, the top reason for being promising has been shifting from "Inexpensive source of labor" to "Future growth potential of local market." "Qualified human resources" (17.5%), which had been in third place until the previous year, moved to fourth place, and "Current size of local market" (19.5%) moved to third place. As such, it appears that an increasingly strong focus is being placed on Vietnam's market. A high assessment of "Social/political situation stable" (16.9%) is a characteristic of Vietnam, and among the top 10 countries, this ratio is double digits only for the USA (31.9%) and Vietnam.
- The top issue was "Execution of legal system unclear" (35.6%), and second place was held by "Difficult to secure management-level staff" and "Underdeveloped infrastructure" (both 31.1%). Looking at the trend regarding issues over the past 10 years, there have been some shifts, and "Rising labor costs" and "Intense competition with other companies," which were tied for fourth place, have been in a steady increasing trend.

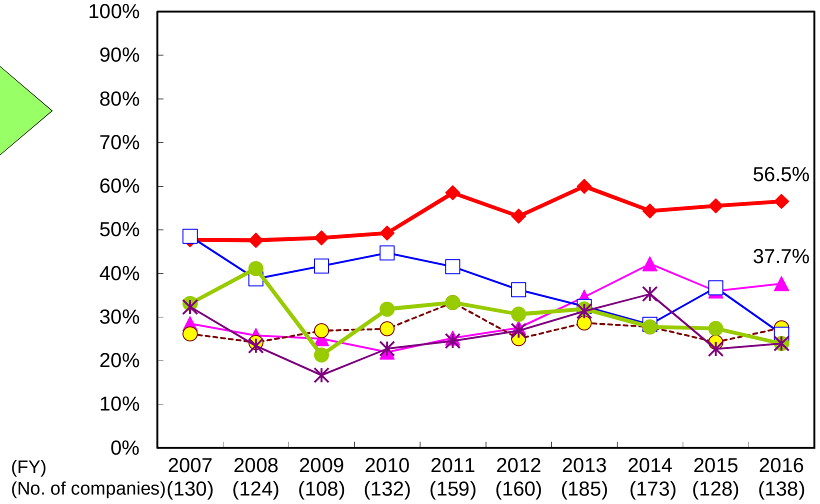
No. 5: Thailand

Reasons

(Total No. of respondent companies: 138)

		No. of companie	Ratio	(Legend)
1	Future growth potential of local market	78	56.5%	
2	Current size of local market	52	37.7%	
3	Base of export to third countries	38	27.5%	
4	Inexpensive source of labor	36	26.1%	
5	Supply base for assemblers	33	23.9%	
5	Concentration of industry	33	23.9%	

Past Trend

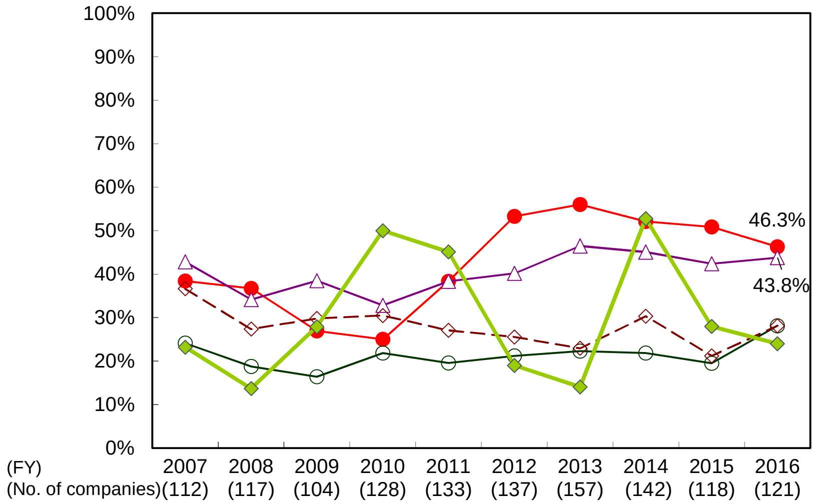


Issues

(Total No. of respondent companies: 121)

		No. of companie	Ratio	(Legend)
1	Rising labor costs	56	46.3%	
2	Intense competition with other companies	53	43.8%	
3	Difficult to secure technical/engineering staff	34	28.1%	
3	Difficult to secure management-level staff	34	28.1%	
5	Security/social instability	29	24.0%	

Past Trend



- The top reason for being promising was “Future growth potential of local market” (56.5%), and “Current size of local market” (37.7%) was in second place. As such, items related to the market took the top spots. “Inexpensive source of labor” (26.1%), which was the top reason for being promising in 2007, moved to fourth place. Third-place “Base of export to third countries” (27.5%) has been steadily praised as being one of the attractive features of Thailand.
- The top issue “Rising labor costs” had a response ratio of 46.3%, and even though it dropped slightly from the previous year, it continued to be at a high level. Second-place “Intense competition with other companies” (43.8%) has been around 40% to 49% since FY2012. In the case of Thailand, “Security/social instability” sometimes becomes the first-place issue, but there have not been any significant changes in Thailand’s medium-term promising country ranking or percentage share, suggesting the possibility that this item does not have a very significant effect in terms of the selection of Thailand as a promising country.

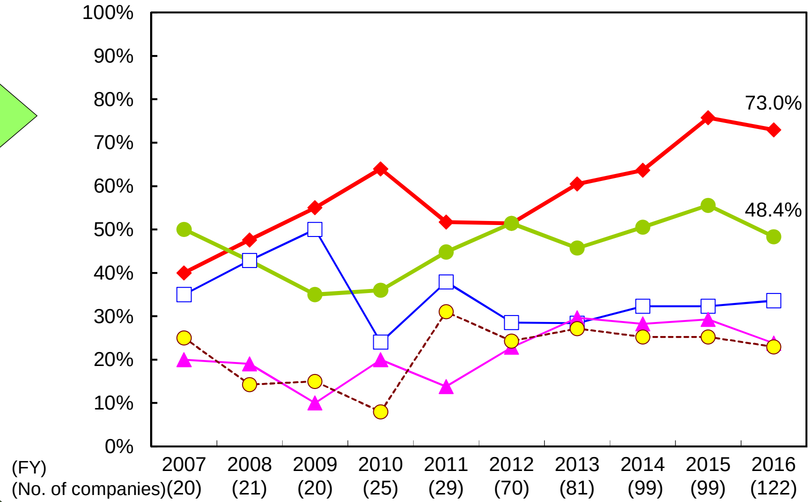
No. 6: Mexico

Reasons

(Total No. of respondent companies: 122)

		No. of companie	Ratio
1	Future growth potential of local market	89	73.0%
2	Supply base for assemblers	59	48.4%
3	Inexpensive source of labor	41	33.6%
4	Current size of local market	29	23.8%
5	Base of export to third countries	28	23.0%

Past Trend

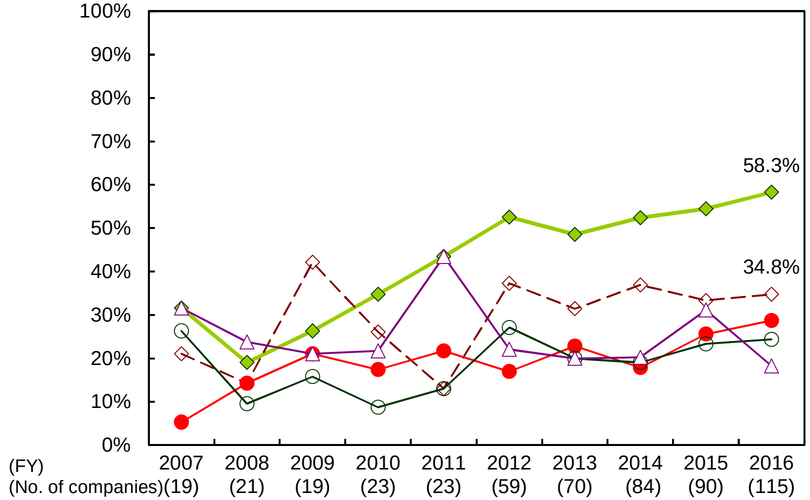


Issues

(Total No. of respondent companies: 115)

		No. of companie	Ratio
1	Security/social instability	67	58.3%
2	Difficult to secure management-level staff	40	34.8%
3	Rising labor costs	33	28.7%
4	Difficult to secure technical/engineering staff	28	24.3%
5	Intense competition with other companies	21	18.3%

Past Trend



- Like the previous year, the top reason for being promising was "Future growth potential of local market" (73.0%). Second-place "Supply base for assemblers" (48.4%) was at the highest level among the top 10 countries, and is thus a special feature of Mexico. Looking at "Current size of local market" (23.8%) together with "Base of export to third countries" (23.0%), it appears that due to Mexico being an inexpensive source of labor, it is continuing to receive high praise as a supply base for North America and as country with a domestic market that has future potential.
- The top issue was "Security/social instability" (58.3%). There also appeared to be many issues related to labor, and "Difficult to secure management-level staff" (34.8%), "Rising labor costs" (28.7%), and "Difficult to secure technical/engineering staff" (24.3%) held the second through fourth spots. With the rapid entry and business expansion of foreign companies including Japan and so on, it is expected that securing human resources will become increasingly difficult.

IV.12. Reasons for Countries as Promising and Issues: USA

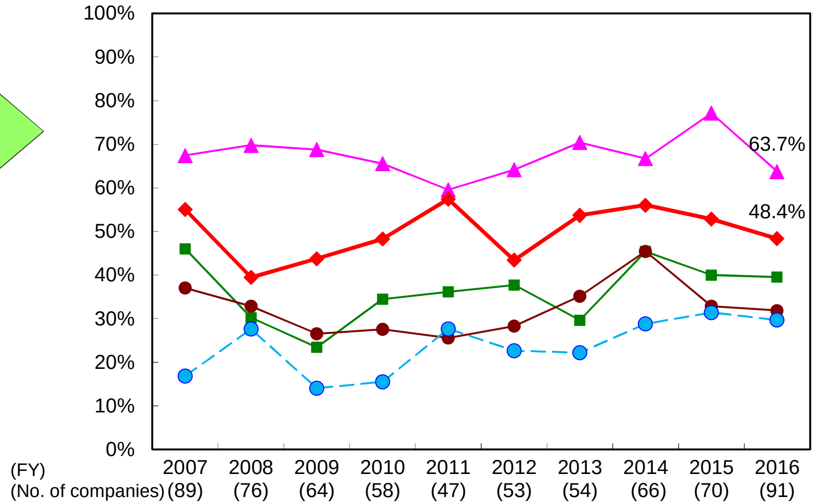
No. 7: USA

Reasons

Past Trend

(Total No. of respondent companies: 91)

		No. of companie	Ratio	(Legend)
1	Current size of local market	58	63.7%	
2	Future growth potential of local market	44	48.4%	
3	Developed local infrastructure	36	39.6%	
4	Social/political situation stable	29	31.9%	
5	Profitability of local market	27	29.7%	

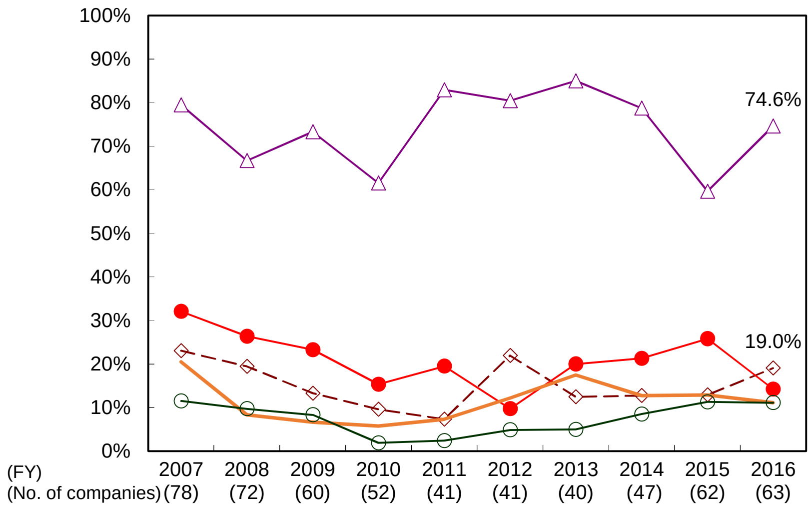


Issues

Past Trend

(Total No. of respondent companies: 63)

		No. of companie	Ratio	(Legend)
1	Intense competition with other companies	47	74.6%	
2	Difficult to secure management-level staff	12	19.0%	
3	Rising labor costs	9	14.3%	
4	Increased taxation	7	11.1%	
4	Difficult to secure technical/engineering staff	7	11.1%	



- The top reason for being promising was “Current size of local market” (63.7%), and “Future growth potential of local market” (48.4%) was in second place. These have stayed the same in the ranking for the past 10 years. “Developed local infrastructure” (39.6%) took third place and “Profitability of local market” (29.7%) took fifth place, and these are special features of the USA. There continues to be high expectations regarding the current status and future of the market.
- As for issues, “Intense competition with other companies” (74.6%) remained in first place, and thus many companies pointed out the harsh competitive environment as an issue. The response ratios for second place and below were all low, and labor-related issues (“Difficult to secure management-level staff” (19.0%), “Rising labor costs” (14.3%), and “Difficult to secure technical/engineering staff” (11.1%)) and “Increased taxation” (11.1%) were mentioned.

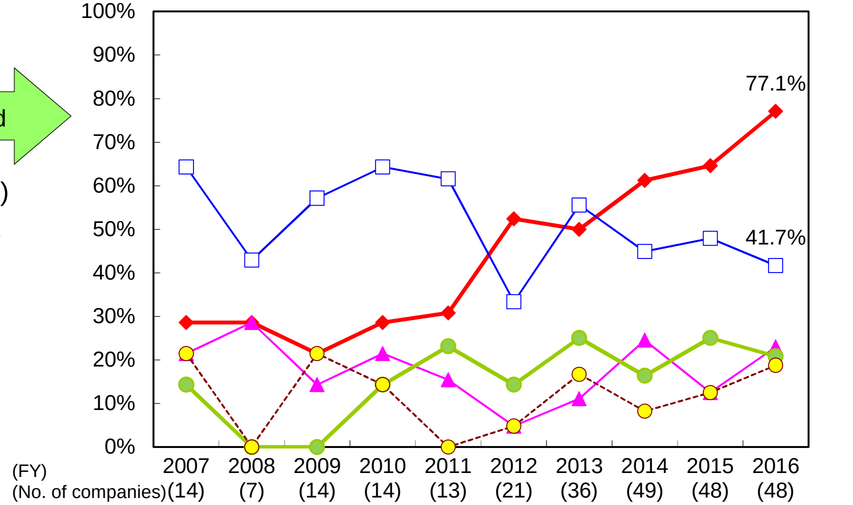
No. 8: Philippines

Reasons

Past Trend

(Total No. of respondent companies: 48)

		No. of companie	Ratio	(Legend)
1	Future growth potential of local market	37	77.1%	
2	Inexpensive source of labor	20	41.7%	
3	Current size of local market	11	22.9%	
4	Supply base for assemblers	10	20.8%	
5	Base of export to third countries	9	18.8%	

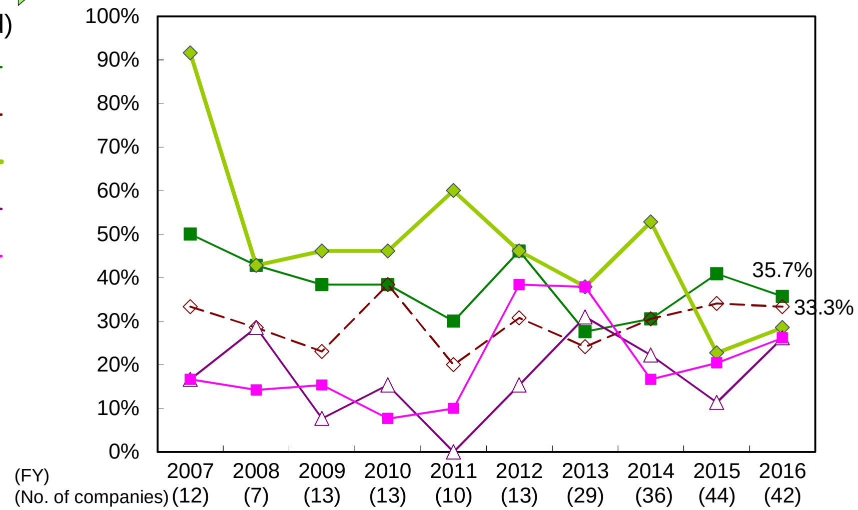


Issues

Past Trend

(Total No. of respondent companies: 42)

		No. of companie	Ratio	(Legend)
1	Underdeveloped infrastructure	15	35.7%	
2	Difficult to secure management-level staff	14	33.3%	
3	Security/social instability	12	28.6%	
4	Intense competition with other companies	11	26.2%	
4	Underdeveloped local supporting industries	11	26.2%	



- The top reason for being promising was "Future growth potential of local market" (77.1%). "Inexpensive source of labor" (41.7%) was in second place, and although the ratio dropped slightly from the previous year, it is the highest among the top 10 countries after Myanmar and Vietnam. "Good for risk diversification to other countries," which was in fourth place the previous year, and "Tax incentives for investment," which was in fifth place the previous year, moved to sixth place and below, and "Current size of local market" (22.9%) and "Base of export to third countries" (18.8%) took spots in the top five.
- The top issue was "Underdeveloped infrastructure" (35.7%), and "Difficult to secure management-level staff" (33.3%) was in second place, with the ranking of these stayed the same as the previous year. Third-place "Security/social instability" (28.6%) increased by 5.9 points from 22.7% the previous year, but this is at a low level compared to the past.

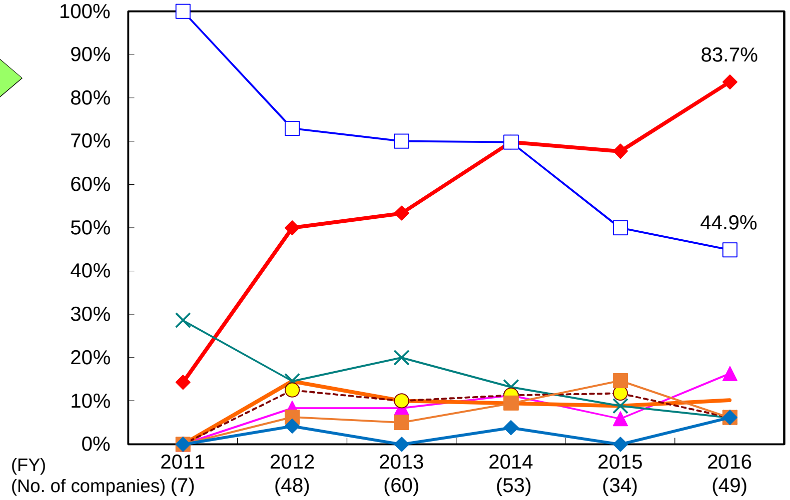
No. 9: Myanmar

Reasons

Past Trend

(Total No. of respondent companies: 49)

		No. of companie	Ratio	(Legend)
1	Future growth potential of local market	41	83.7%	
2	Inexpensive source of labor	22	44.9%	
3	Current size of local market	8	16.3%	
4	Qualified human resources	5	10.2%	
5	Good for risk diversification to other countries	3	6.1%	
5	Base of export to third countries	3	6.1%	
5	Tax incentives for investment	3	6.1%	
5	Stable policies to attract foreign investment	3	6.1%	

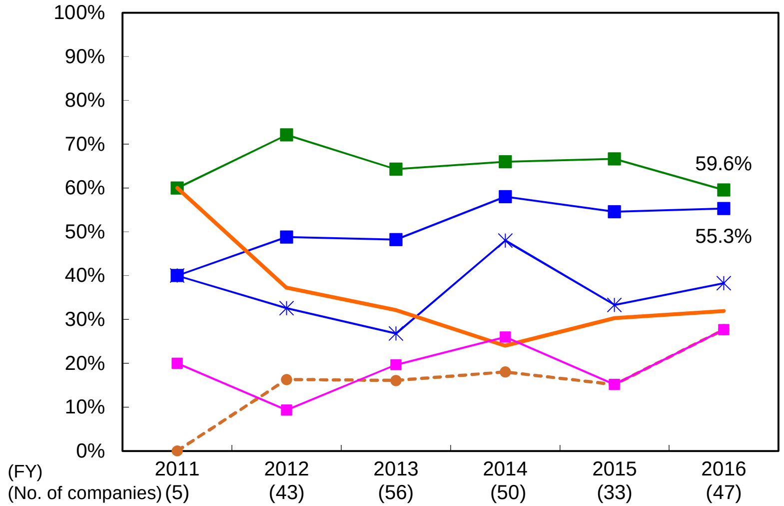


Issues

Past Trend

(Total No. of respondent companies: 47)

		No. of companie	Ratio	(Legend)
1	Underdeveloped infrastructure	28	59.6%	
2	Underdeveloped legal system	26	55.3%	
3	Execution of legal system unclear	18	38.3%	
4	Lack of information on the country	15	31.9%	
5	**Restrictions on foreign investment**	13	27.7%	
5	Underdeveloped local supporting industries	13	27.7%	



- The top reason for being promising was “Future growth potential of local market” (83.7%). This rose 16.1 points from the previous year (67.6%), and thus there are high expectations regarding the local market’s potential for growth. Second-place “Inexpensive source of labor” (44.9%) has had its response ratio decrease each year, but is at the highest level among the top 10 countries, and continues to be an attractive feature of Myanmar.
- Like the previous year, the top issue was “Underdeveloped infrastructure” (59.6%) and “Underdeveloped legal system” (55.3%) was in second place. Thus, the majority of companies that cited Myanmar as a promising country named these items. “Security/social instability,” which was in third place the previous year, fell 13.9 points to 25.5%, and moved to seventh place. The number of companies developing operations locally has been increasing, and it seems that partly because of this, issues related to actual operations are being pointed out. As such, “Restrictions on foreign investment” and “Underdeveloped local supporting industries” (both 27.7%) took fifth place.

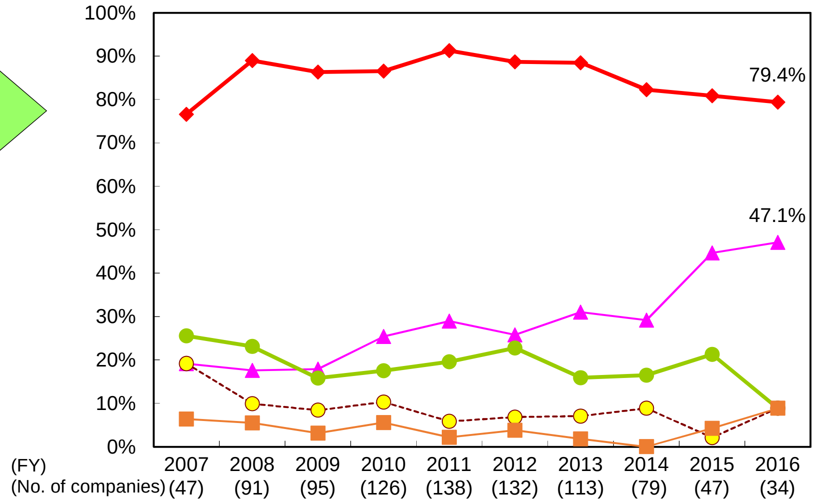
No. 10: Brazil

Reasons

Past Trend

(Total No. of respondent companies: 34)

		No. of companie	Ratio	(Legend)
1	Future growth potential of local market	27	79.4%	
2	Current size of local market	16	47.1%	
3	Supply base for assemblers	3	8.8%	
3	Base of export to third countries	3	8.8%	
3	Tax incentives for investment	3	8.8%	

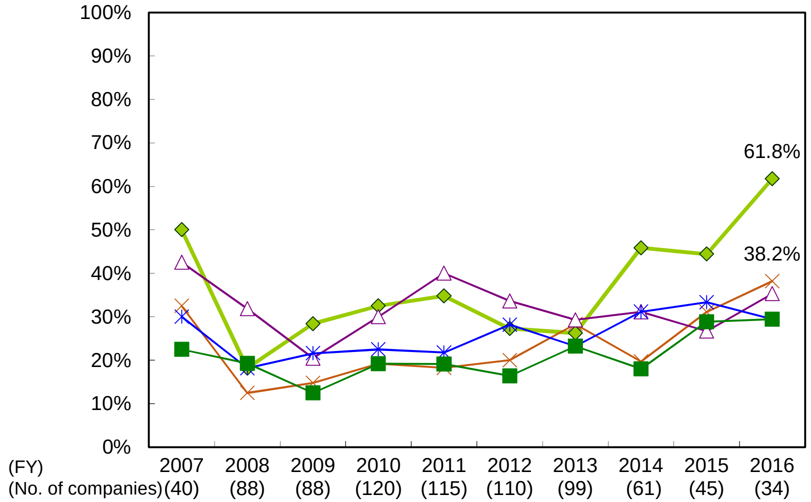


Issues

Past Trend

(Total No. of respondent companies: 34)

		No. of companie	Ratio	(Legend)
1	Security/social instability	21	61.8%	
2	Sense of instability regarding currency and/or costs	13	38.2%	
3	Intense competition with other companies	12	35.3%	
4	Execution of legal system unclear	10	29.4%	
4	Underdeveloped infrastructure	10	29.4%	



- The top reason for being promising was “Future growth potential of local market” (79.4%), and “Current size of local market” (47.1%) was in second place. Thus, there continued to be high expectations regarding the local market. Nevertheless, the response ratio for third-place “Supply base for assemblers” (8.8%) fell significantly from the previous year, and was at its lowest level in 10 years.
- Like the previous year and the year before that, the top issue was “Security/social instability” (61.8%). The response ratio significantly increased from the previous year, and this reflects the political crises. “Sense of instability regarding currency and/or costs” (38.2%), which was in third place the previous year, moved to second place, and “Intense competition with other companies” (35.3%), which was in fifth place the previous year, moved to third place. The total number of companies citing the country has been decreasing in recent years, and thus it appears that the attractiveness of the country as a location for overseas operations has been gradually declining.

Q

This question is put to those respondents who did not list India, Indonesia, China, Thailand or Vietnam in their top 5 most promising countries over the medium-term in Figure 31 above. Please select the reasons that apply from options 1-7 below for each individual country. (Multiple responses possible)

Figure 39: Reasons for Not Listing the Following Countries As Promising Countries over the Medium-term

<table>
<tr><th></th><th colspan="2">India
(No. of respondent companies= 182)</th><th colspan="2">China
(No. of respondent companies= 244)</th><th colspan="2">Indonesia
(No. of respondent companies= 223)</th><th colspan="2">Vietnam
(No. of respondent companies= 224)</th><th colspan="2">Thailand
(No. of respondent companies= 246)</th></tr>
<tr><td>1</td><td>4. There is a lack of infrastructure in the area</td><td>37.9%</td><td>1. We are already conducting business of a certain scale and do not intend to expand our business beyond that</td><td>55.3%</td><td>1. We are already conducting business of a certain scale and do not intend to expand our business beyond that</td><td>34.1%</td><td>1. We are already conducting business of a certain scale and do not intend to expand our business beyond that</td><td>24.6%</td><td>1. We are already conducting business of a certain scale and do not intend to expand our business beyond that</td><td>48.0%</td></tr>
<tr><td>2</td><td>1. We are already conducting business of a certain scale and do not intend to expand our business beyond that</td><td rowspan="3">17.0%</td><td>2. Local labor costs are rising</td><td>49.6%</td><td>3. Increasingly intense competition with other companies</td><td>19.3%</td><td>4. There is a lack of infrastructure in the area</td><td>21.0%</td><td>3. Increasingly intense competition with other companies</td><td>21.5%</td></tr>
<tr><td>3</td><td>3. Increasingly intense competition with other companies</td><td>3. Increasingly intense competition with other companies</td><td>24.2%</td><td>4. There is a lack of infrastructure in the area</td><td>14.3%</td><td>2. Local labor costs are rising</td><td>12.5%</td><td>2. Local labor costs are rising</td><td>19.9%</td></tr>
<tr><td>4</td><td>7. The local legal system is inadequate</td><td>5. The local economy is stagnating</td><td>21.3%</td><td>2. Local labor costs are rising</td><td>13.9%</td><td>3. Increasingly intense competition with other companies</td><td>10.7%</td><td>5. The local economy is stagnating</td><td>11.8%</td></tr>
<tr><td>5</td><td>6. The local social/political situation is unstable</td><td>10.4%</td><td>6. The local social/political situation is unstable</td><td>15.6%</td><td>5. The local economy is stagnating</td><td rowspan="2">11.7%</td><td>7. The local legal system is inadequate</td><td>9.8%</td><td>6. The local social/political situation is unstable</td><td>10.2%</td></tr>
<tr><td>6</td><td>2. Local labor costs are rising</td><td rowspan="2">3.3%</td><td>7. The local legal system is inadequate</td><td>8.6%</td><td>6. The local social/political situation is unstable</td><td>5. The local economy is stagnating</td><td>4.5%</td><td>4. There is a lack of infrastructure in the area</td><td rowspan="2">2.8%</td></tr>
<tr><td>7</td><td>5. The local economy is stagnating</td><td>4. There is a lack of infrastructure in the area</td><td>0.4%</td><td>7. The local legal system is inadequate</td><td>8.5%</td><td>6. The local social/political situation is unstable</td><td>4.0%</td><td>7. The local legal system is inadequate</td></tr>
</table>

■About half of companies not listing China and Thailand as medium-term promising countries say this is due to "already conducting business of a certain scale"

- Looking at the response results, the main reason for China, Indonesia, Vietnam, and Thailand was "already conducting business of a certain scale." The ratios were particularly high for China (55.3%, 135 companies) and Thailand (48.0%, 118 companies). As for other reasons, many companies mentioned rising labor costs and increasingly intense competition with other companies.
- In China, 49.6% of the respondent companies named "rising labor costs." There was also a high ratio of companies naming this item in Thailand (19.9%). Furthermore, in China, the ratio of companies naming "local economy is stagnating" was 21.3%, and this ratio is high compared to other countries and it is a characteristic of China.

■Just under 40% of companies say India lacks infrastructure

- The main reason for not listing India as a medium-term promising country was "lack of infrastructure in the area" (37.9%, 69 companies). Among the 69 companies, 63 still do not have a local production base, and there is a possibility that the assessment of India will change as infrastructure development progresses in the future.

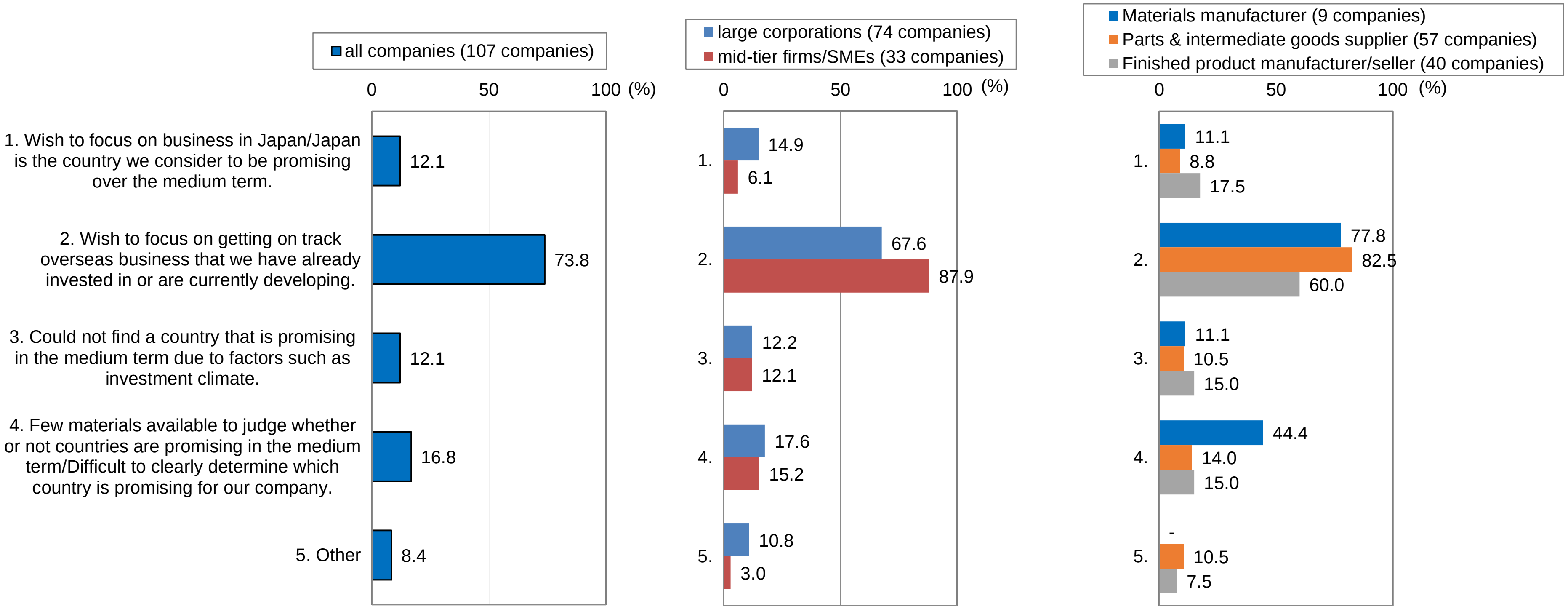
Q This question is for those respondents who did not list any countries as promising countries over the medium-term in Figure 31 above. Please select the reasons that apply. (Multiple responses possible)

Figure 40: Reasons for Not Listing Any Countries (other than Japan) as Promising Countries over the Medium-term

(1) All Companies

(2) Large Corporations/ Mid-tier firms/SMEs

(3) Supply Chain Position



Over 70% of respondent companies name "Wish to focus on getting on track overseas business that has been already invested"

- When companies that did not list any medium-term promising country were asked the reason for this, 73.8% (79 companies) selected "2. Wish to focus on getting on track overseas business that has been already invested." This accounts for 12.4% of the 637 respondent companies in this survey. Looking at the results by industry type, the ratio of companies that named '2' was the highest in most of industries.
- Looking at the ratios of "2." by company size, while the result was 67.6% for large corporation, it was 87.9%, more than 20 points higher for mid-tier firms/SMEs. It could be surmised that this is because mid-tier firms/SMEs have more significant limitations on management resources.

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

Q

There has been a recent increase in the business expansion using M&A. Please select the response that is most applicable for the position of M&A at your company.

Figure 41: Positioning of Cross-border M&A (all companies)

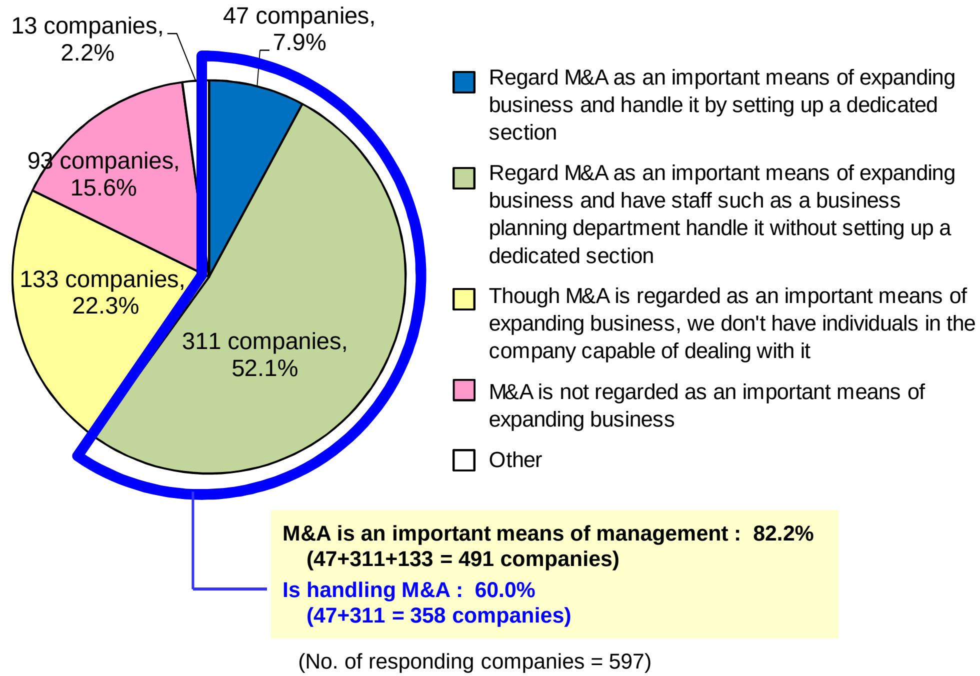


Figure 42: Positioning of Cross-border M&A (large corporations)

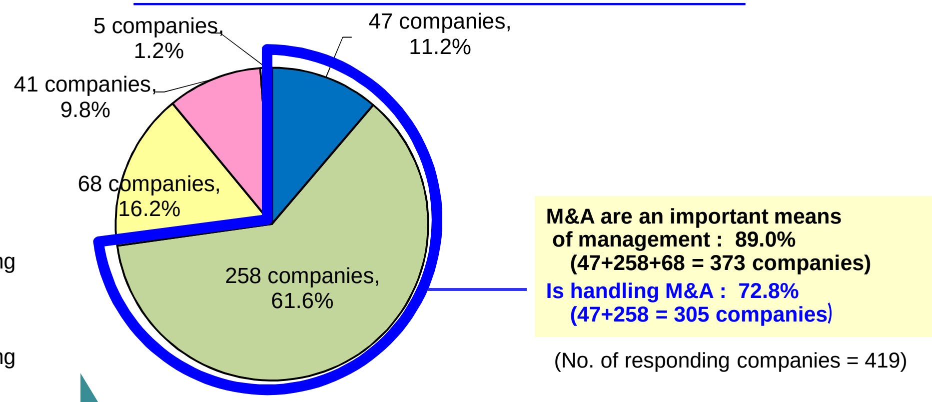
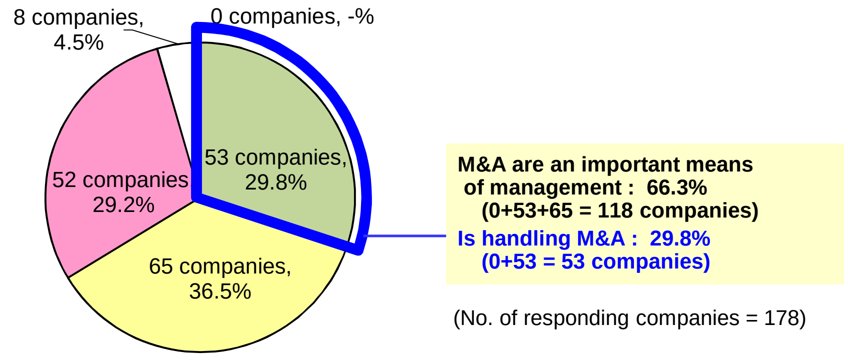


Figure 43: Positioning of Cross-border M&A (mid-tier firms/SMEs)



■82.2% of all companies recognize M&A as "important means for expanding business," up 5.4 points from previous year. M&A thus widely recognized as means for business expansion

- In regard to the position of "M&A" in business management, 82.8% of respondent companies responded "important means for expanding our business," and thus it appears M&A are widely recognized as a means of management for expanding business. Furthermore, combining the companies that responded "have a dedicated M&A section" (7.9%) or "corporate staff is in charge of M&As" (52.1%), 60% of respondent companies stated that they are handling M&A, and this result was up slightly compared to the FY2015 survey. Meanwhile, the response ratio of "Although M&As are important means for expanding our business, we have no staff capable of handling M&A" was 22.3%. (Figure 41)

■Among mid-tier firms/SMEs, over 60% of companies recognize M&A as an important means for expanding business, but only just under 30% are handling M&A

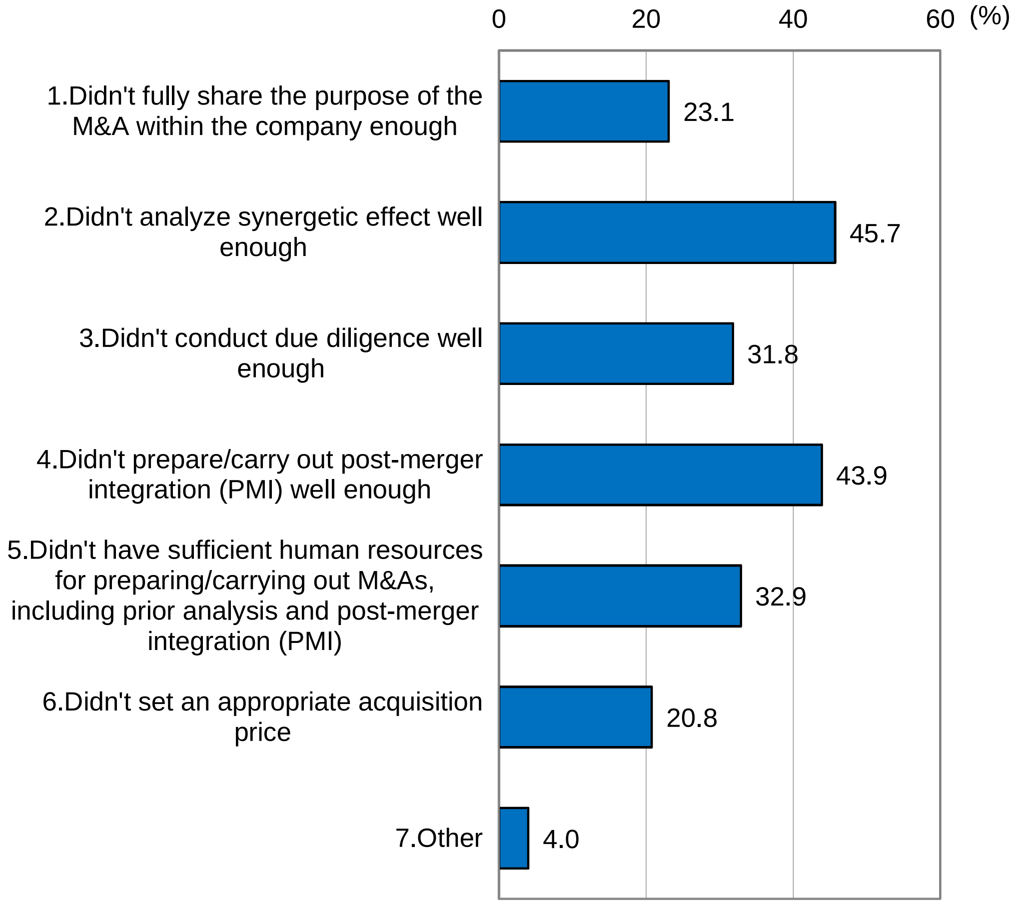
- Looking at the results by company size, among large corporations, 89.0% of companies view M&A as an important means for expanding their business, and among mid-tier firms/SMEs, this ratio was 66.3%. Compared to the FY2015 results, these ratios increased by 7.1 points and 4.0 points, respectively. The ratio of companies handling M&A was over 70% among large corporations, and just under 30% among mid-tier firms/SMEs. (Figures 42 and 43)

Q

We will now ask you about companies that have been directly involved in an cross-border M&A within the last five years (between January 2011 and the end of December 2015). Please describe the efforts necessary for making cross-border M&As successful that you believe were inadequately handled. (Multiple responses possible)

Figure 44: Issues of Cross-border M&A

(No. of responding companies＝173)



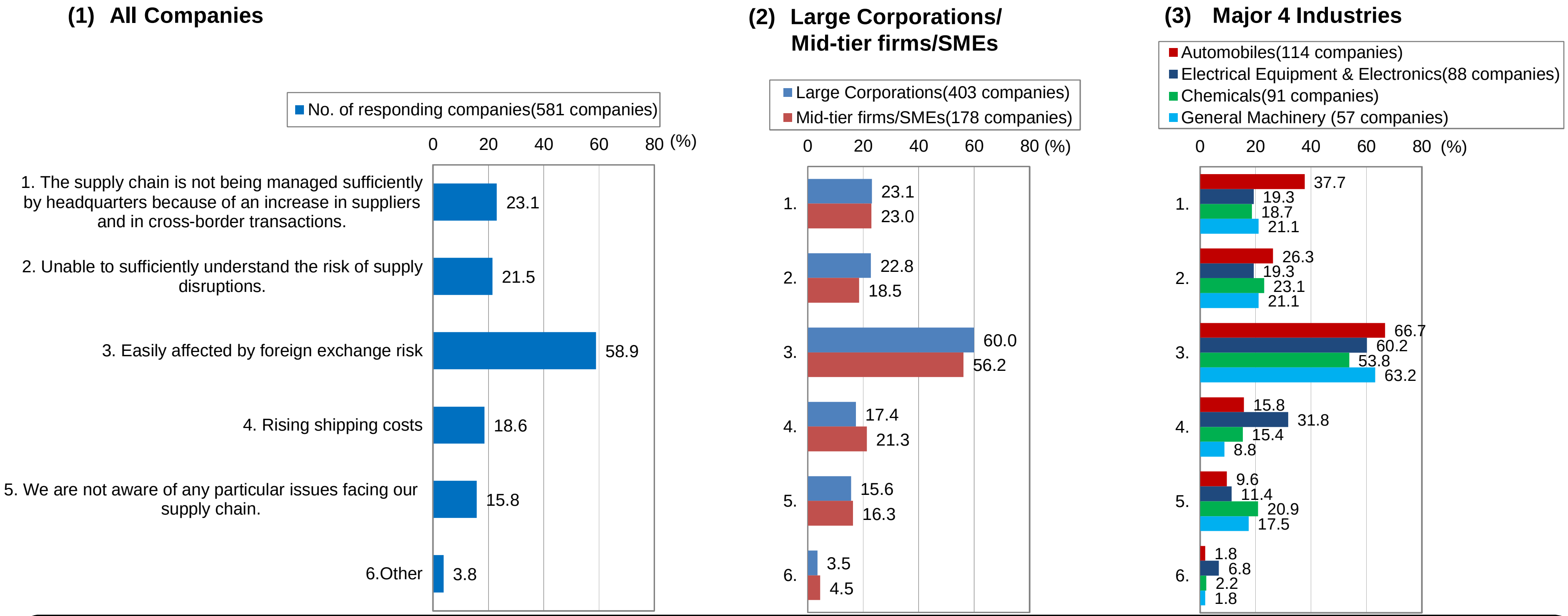
■For cross-border M&A, "Analyze synergetic effect well" and "Prepare/carry out post-merger integration (PMI) well" named as issues

- In regard to issues related to making cross-border M&A successful, the most common responses regarding insufficient efforts were "Analyze synergetic effect well enough" (45.7%) and "Prepare/carry out post-merger integration (PMI) well enough" (43.9%).
- In company interviews, companies stated that if they had the chance, they would carry out M&A that are in line with their growth strategies and objectives related to the development of new markets and expansion of sales networks, expansion of production capacity, acquisition of technologies and know-how, and expansion of product lineups, etc. Nevertheless, multiple companies stated that when they actually carried out M&A, it took longer than expected for the outcomes to become apparent in business results. Furthermore, some companies expressed opinions stating that they did not have enough experience with cross-border M&A,, did not conduct due diligence well enough because of lack of sufficient time for the purchase after the M&A was decided, or did not adequately prepare or carry out the setting of key performance indicators (KPI) and post-merger integration (PMI).

VI. Current State of Supply Chain and Roles of Production / R&D (Research & Development) Bases

Q
Currently, what types of issues are there with regard to your company's global supply chain?
Please select the choices that apply. (multiple responses possible)

Figure 45: Supply Chain Issues



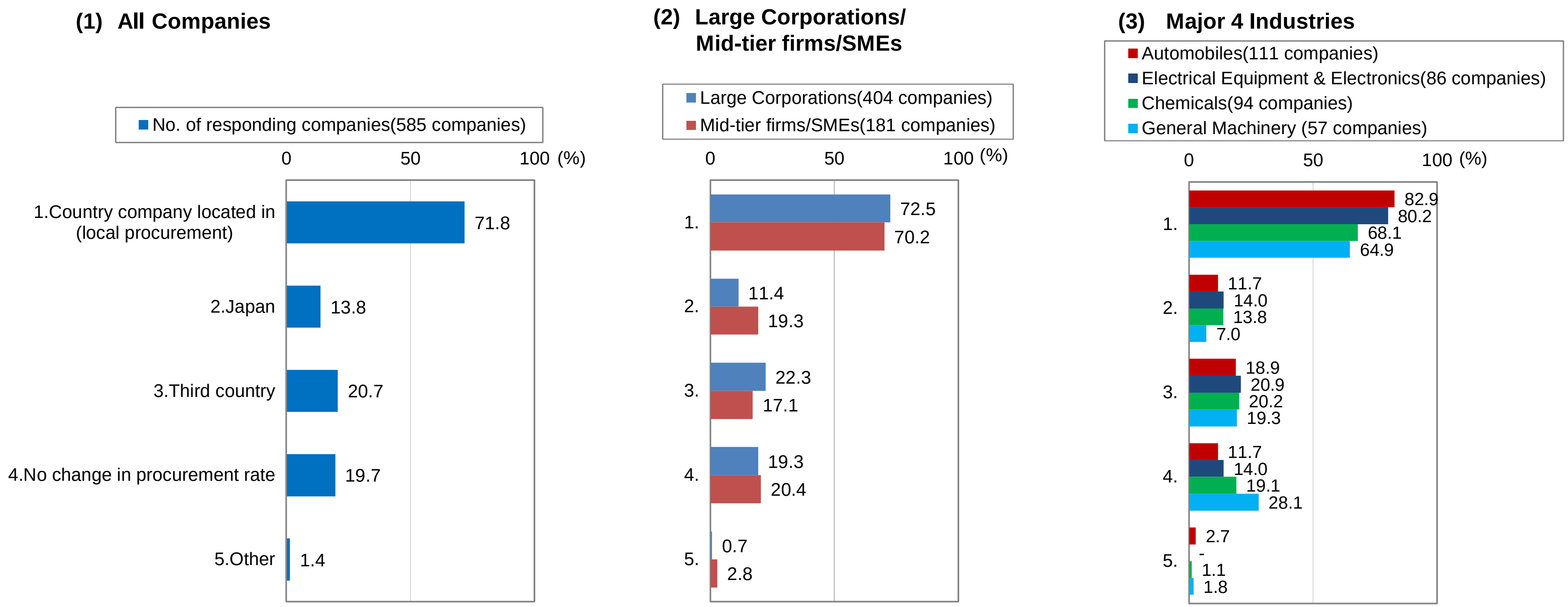
■ As for supply chain issues, "Easily affected by foreign exchange risk" was the most frequent response at 58.9%

- In interviews with responding companies regarding the effects of exchange risk, and in addition to exchange risks between transaction currencies (the dollar and euro) or the yen, which has been an issue since the past, concerns mentioned included the fact that in the case of purchasing parts from overseas in transaction currencies and selling finished products in local currencies (emerging market currencies) due to the increased complexity of the supply chain, the depreciation of local currencies against transaction currencies can lead to decreased revenues and higher costs.
- In regard to the hedging of foreign exchange risks through swaps, etc., there is a tradeoff with costs, so there appeared to be an approach of hedging if there are advantages to this, taking into consideration whether there is a level enabling absorption when comparing foreign exchange losses that could occur. There were some companies that responded, "We are not aware of any particular issues facing our supply chain," when they had in-house policies determined regarding various supply chain issues.
- As for issues other than the effects of foreign exchange risk, "The supply chain is not being managed sufficiently by headquarters because of an increase in suppliers and in cross-border transactions," stood at 23.1%, and "Unable to sufficiently understand the risk of supply disruptions," stood at 21.5% in the results.
- Looking at the results by large corporations/mid-tier firms/SMEs, there did not appear to be any significant gaps in the numbers of responses. But looking at the results by industry type, there appeared to be a difference regarding the second most frequently mentioned issue after the effects of foreign exchange risks. "Rising shipping costs" was mentioned by "electrical equipment & electronics" while "The supply chain is not being managed sufficiently by headquarters because of an increase in suppliers and in cross-border transactions" by "automobiles". As for "electrical equipment & electronics," it seems that the background of this result is the growth of transport volumes accompanying an increase in the complexity of the supply chain.

Q

We will now ask you about the procurement of raw materials, parts, etc. by your company's overseas affiliates. From which country will your company increase its procurement rate in the medium term (over the next three years)? Please select the choices that apply. (Multiple responses possible)

Figure 46: Regions that Increase in the Procurement Rate in the Medium-term

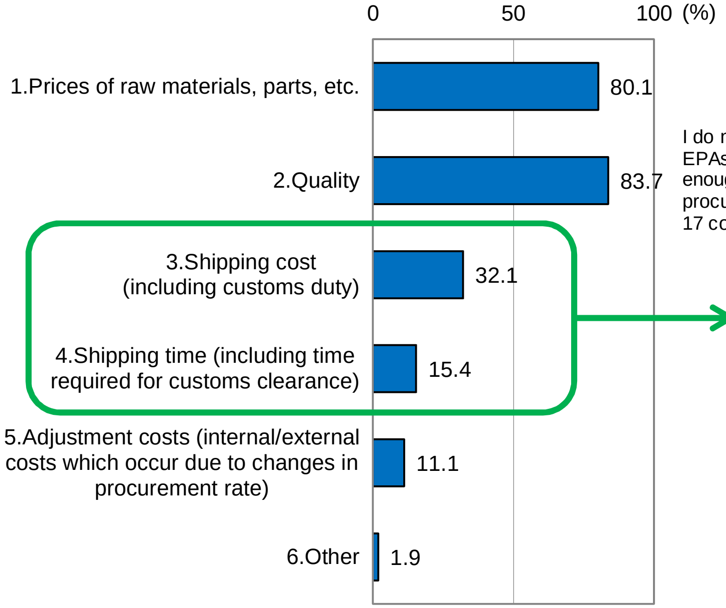


■ **Responses that the rate of procurement from the local companies (local procurement), in the medium-term will increase amounted to 71.8%, and thus local procurement will further progress in the future**

- Responses that the rate of local procurement in the medium-term will increase amounted to 71.8%, and in company interviews, there were many opinions stating that local procurement will be done as much as possible as long as there are cost advantages overall. (This is excluding cases in which the procurement of natural resources, etc. is only possible from particular countries.)
- Nevertheless, 19.7% of companies responded that there will be no change in their procurement rate. It seems that this is due to the fact that local suppliers of raw materials and parts, etc. have not sufficiently been developed (even if suppliers exist, they have insufficient quality), and the fact that there are specifications from delivery destinations regarding key parts, etc.
- Looking at the results by industry type, among “automobiles,” the response that the ratio of local procurement will increase was high at 82.9%, and there was a strong local procurement intention. In interviews with companies manufacturing food products and flavor, there were comments that products are being made taking into consideration local price levels, and the preferences of the local market where the company is located, using items that can be locally procured, such as food products and flavor materials.
- Among large corporations and mid-tier/SMEs, there were no significant differences in the response results, but it appeared that the ratio of companies intending to procure from Japan was somewhat high among mid-tier firms/SMEs (19.3%) compared to large corporations (11.4%).

Q In making a judgment regarding whether the procurement rate will increase in the region in the medium-term, what points did you especially consider? Please select the choices that apply. (multiple responses possible)
This question is for companies that responded with "3. shipping cost" or "4. shipping time" (or both). When you gave your response, did you take into consideration whether FTAs (free trade agreements) and EPAs (economic partnership agreements), including the TPP (Trans-Pacific Partnership) agreement exist? Please select the one choice that best applies.

Figure 47: Judgment Criteria Regarding Increase of Procurement Rate, and Consideration of Existence of FTAs and EPAs, including the TPP



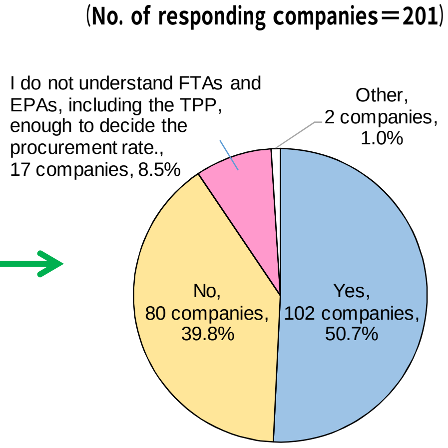
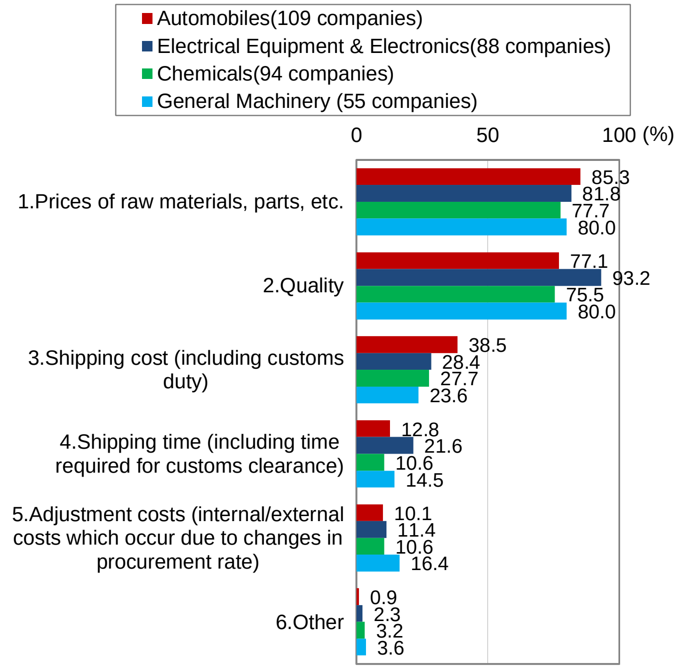


Figure 48: Judgment Criteria Regarding Increase of Procurement Rate (4 major industries)

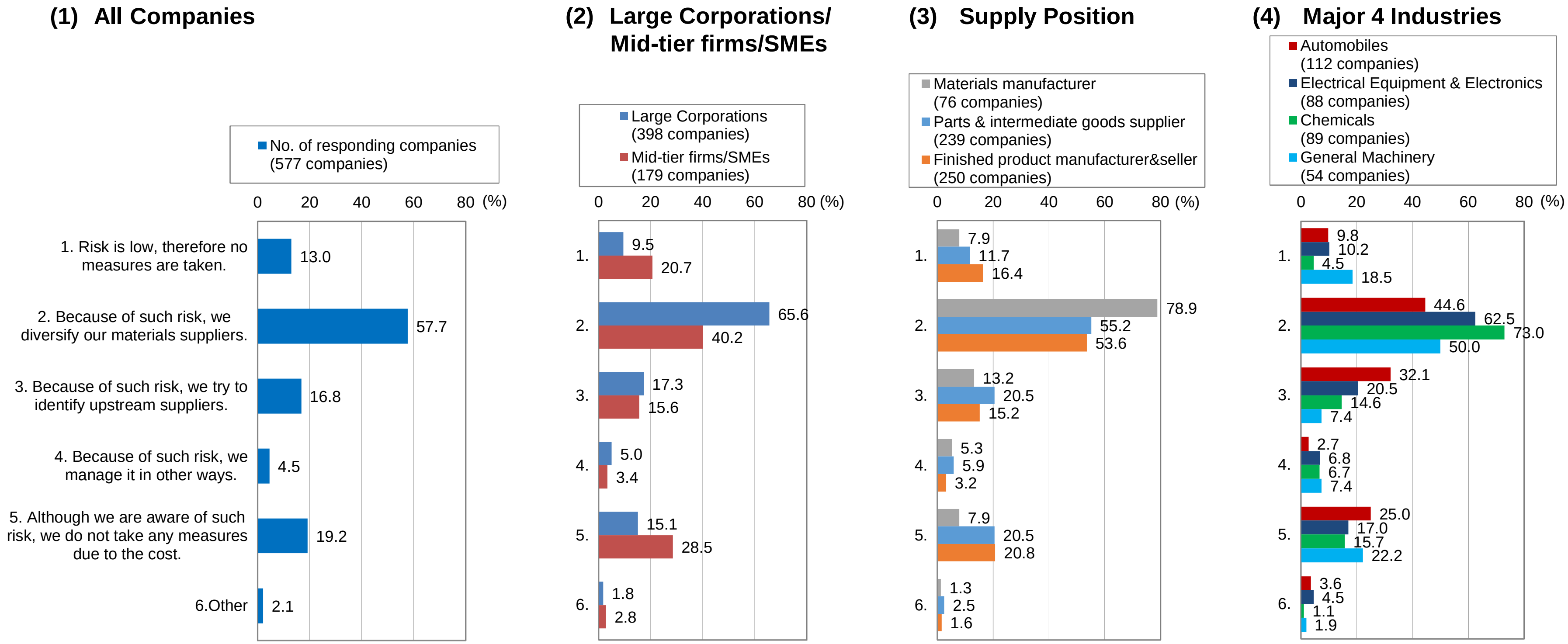


- **Among the criteria related to increasing procurement rate, a focus was placed on the price (80.1%) and quality (83.7%) of the relevant raw materials and parts, etc.**
  - In the results by industry type, among "automobiles," the ratio of companies focusing on the prices as a judgment criterion was high at 85.3%, and among "electrical equipment & electronics," the ratio of companies focusing on quality was high at 93.2%. Also, among "automobiles," a high ratio (38.5%) of companies focused on shipping costs, including customs duty, and a high ratio (21.6%) of "electrical equipment & electronics" companies focused on shipping time including time required for customs clearance.
- **The majority (50.7%) of the companies that named shipping cost and shipping time as judgment criteria took into consideration the existence of FTAs and EPAs, including the TPP**
  - The ratio of companies that did not take into consideration the existence of FTA and EPA, including the TPP was close to 40% (39.4%). In company interviews, there were companies that expressed that they are moving forward with overseas development by selecting the optimal global supply chain based on the existence of FTA and EPA, including the TPP, and there were also companies that stated that their supply chain is almost fixed and not flexible.
  - Looking at the results by company size, the ratio of companies that took into consideration the existence of FTA and EPA, including the TPP was 52.9% among large corporations, and 43.8% among mid-tier firms/SMEs.

Q

We will now ask you about the risk resilience of your company's global supply chain.
How much do you think about/to what extent do you manage the risk of supply disruption caused by earthquakes, floods, fires, or other force majeures?
Please select the choices that apply. (Multiple responses possible)

Figure 49: Supply Chain Risk Resilience



■ As for supply chain risk, awareness is spreading among companies, and in terms of measures, 57.7% of companies responded that they diversify suppliers

- The ratio of companies that diversify suppliers was 65.6% among large corporations but only 40.2% among mid-tier firms/SMEs. Meanwhile, the ratio of companies that responded that they do not take risk measures due to the cost, was 15.1% among large corporations and 28.5% among mid-tier firms/SMEs, and thus it appears that cost burdens are perceived to be more of an issue among mid-tier firms/SMEs.
- Looking at the results by supply position, for materials manufacturers, the impact of supply disruptions on the supply chain is extensive, so compared to other positions, the ratio of companies that diversify suppliers was higher.
- In company interviews, there were companies expressing that they took measures because clients inquired about specific countermeasures on supply chain risk following floods in Thailand and the Great East Japan Earthquake, etc. Also, among companies that stated that because of such risk, they manage it in other ways, there were companies expressing that they are handling such risk by holding sufficient inventories at production bases. Nevertheless, there were also companies stating that they striving to optimize inventories taking into consideration tradeoffs with cost.

Q Compared to overseas bases, what role did you expect of your Japan production bases? Please select the choices that apply.(multiple responses possible)
Do you expect any kind of role over the medium-term for production bases in China, ASEAN5, India, Europe or the United States?
Please select the choices that apply for each country and region. (multiple responses possible)

Figure 50: Medium-term Roles of Production Bases

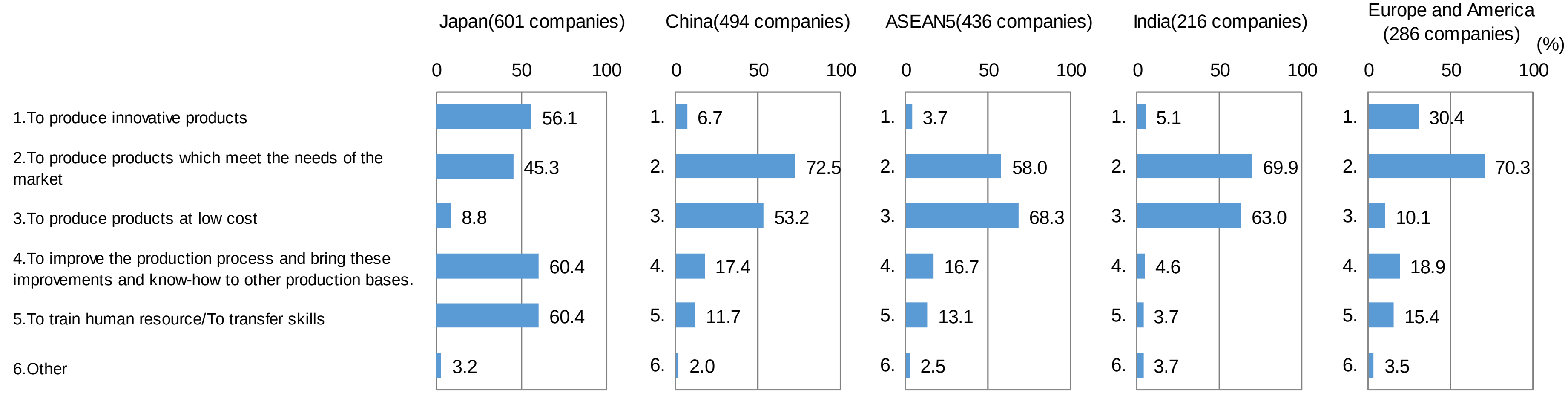
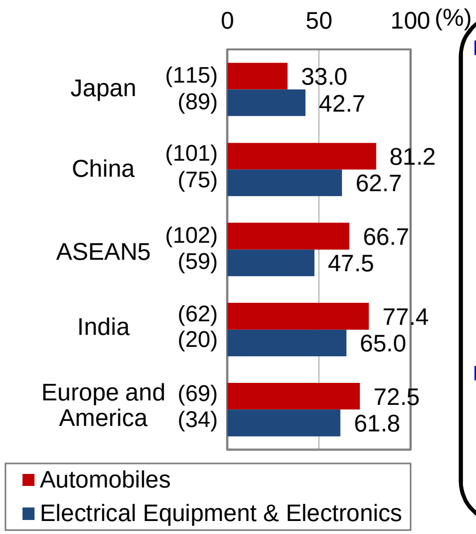


Figure 51: Needs and Roles of Production Bases in the Countries where they are located (automobiles/electrical equipment & electronics)



(Note) The figures within the parentheses are the numbers of responding companies.

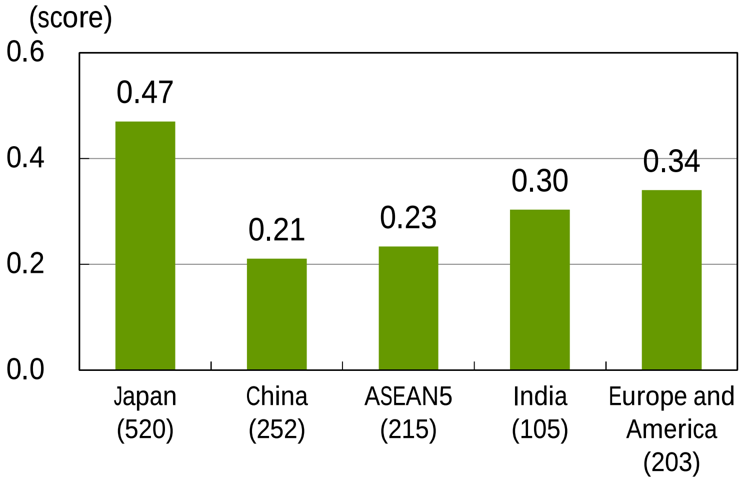
- **As for the roles of production bases in Japan, 60.4% of companies gave the response "To improve the production process and bring these improvements and know-how to other production bases," and 60.4% gave the response "To train human resources/To transfer skills"**
  - As for the roles of production bases in various countries, in China and India, the most common response was "meet the needs of the market." In Europe and America, at 70.3%, the most common response was "meet the needs of the European and US markets," and "innovative products" stood at 30.4%, the highest level for this response after Japan. (Figure 50)
  - In ASEAN5, the role of "produce products at low cost" was slightly higher than "meet the needs of the market" in the results.
  - The response "train human resources/transfer skills," was highest in Japan at 60.4%, and this was 13.1% in ASEAN5. In an FY2014 survey (note), the ratio of companies that responded that ASEAN5 was a base to train human resources was only 5.6%, and considering this, it seems that among ASEAN5 bases, the function of training human resources has gradually been strengthening. (Note) Simple comparison is not possible because the choices were not the same.
- **Among "automobiles," there is a tendency to carry out the production of products in accordance with the needs of the market**
  - In regard to the ratio of production bases with products that meet the market, comparing "automobiles" and "electrical equipment & electronics," it appears that "automobiles" companies more frequently carry out the production of products in accordance with the needs of the market. (Figure51)

Q

We will now ask you about your company's R&D bases in Japan, China, ASEAN5 countries (Indonesia, Malaysia, Philippines, Singapore and Thailand), India, Europe, or America. Will your company increase the budget for R&D in the medium-term (over the next three years)? Please select the one choice that applies for each country and region.

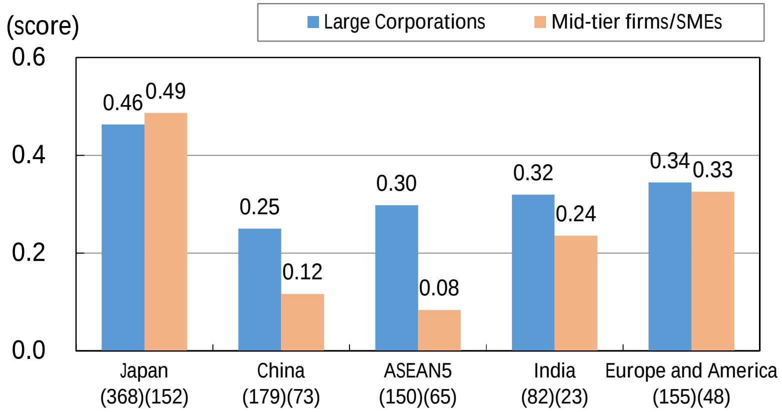
Figure 52: Medium-term Budget of Research and Development Bases

(1) All companies

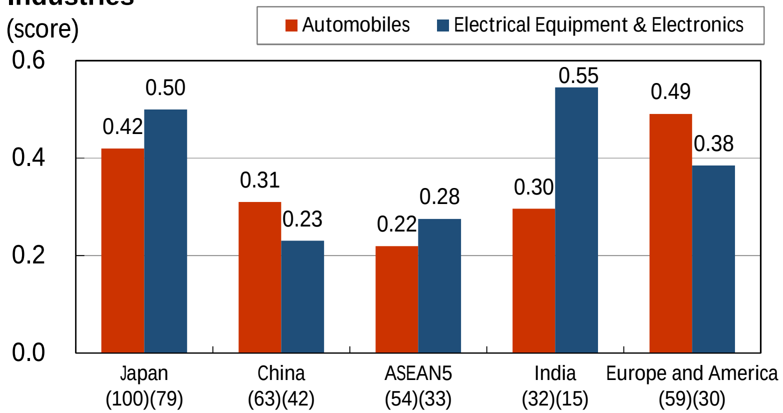


(Note 1) The point average is calculated with "increase" as +1, "maintenance of the status quo" as 0, and decrease" as -1.
(Note 2) The figures within the parentheses are the numbers of responding companies.

(2) Large Corporations/Mid-tier firms/SMEs



(3) Industries



■ **Looking at the medium-term budgets of R&D bases by region, the most common response was "this will be increased in Japan," and thus Japan will continue to play a central role in R&D**

- Relative to mid-tier firms/SMEs, among large corporations, there appeared to be a trend of increasing the budgets of research and development bases overseas outside of Japan. In ASEAN5 in particular, the result was 0.08 points for mid-tier firms/SMEs and 0.30 points for large corporations, and thus a significant gap was apparent.
- The results vary depending on the type of industry, and among "automobiles," there appeared to be a trend of increasing the R&D budget in Europe and America (0.49 points).

Q In regard to any of your company's R&D bases in Japan, China, ASEAN5 countries (Indonesia, Malaysia, Philippines, Singapore and Thailand), India, Europe, or America, what R&D functions would you like to strengthen in the medium-term (over the next three years)?
Please select the choices that apply for each country and region. (multiple responses possible)

Figure 53: Fields where Companies want to Strengthen R&D

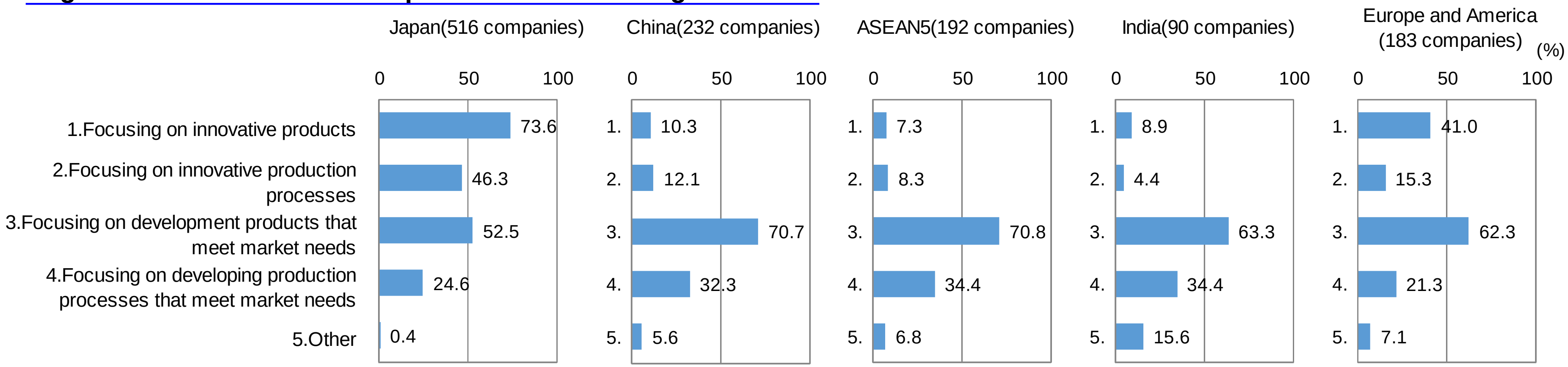
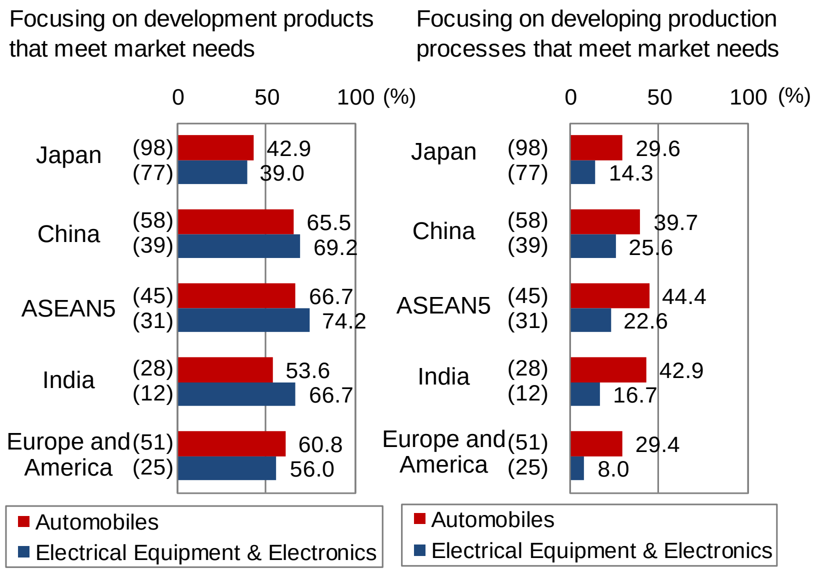


Figure 54: Needs and Production and R&D Roles in the Local Market (automobiles / electrical equipment & electronics)



(Note) The figures within the parentheses are the numbers of responding companies.

■ R&D bases in Japan are mostly focusing on development of innovative products

- In Japan, the response “Focusing on innovative products” was the most common at 73.6%, and in China, ASEAN5, India, and Europe and America, the most common response was “Focusing on development products that meet market needs.” (Figure 53)
- Nevertheless, in Europe and America, the response “Focusing on innovative production processes” was also common at 41.0%.

■ Expected Role of R&D bases differs by industry type

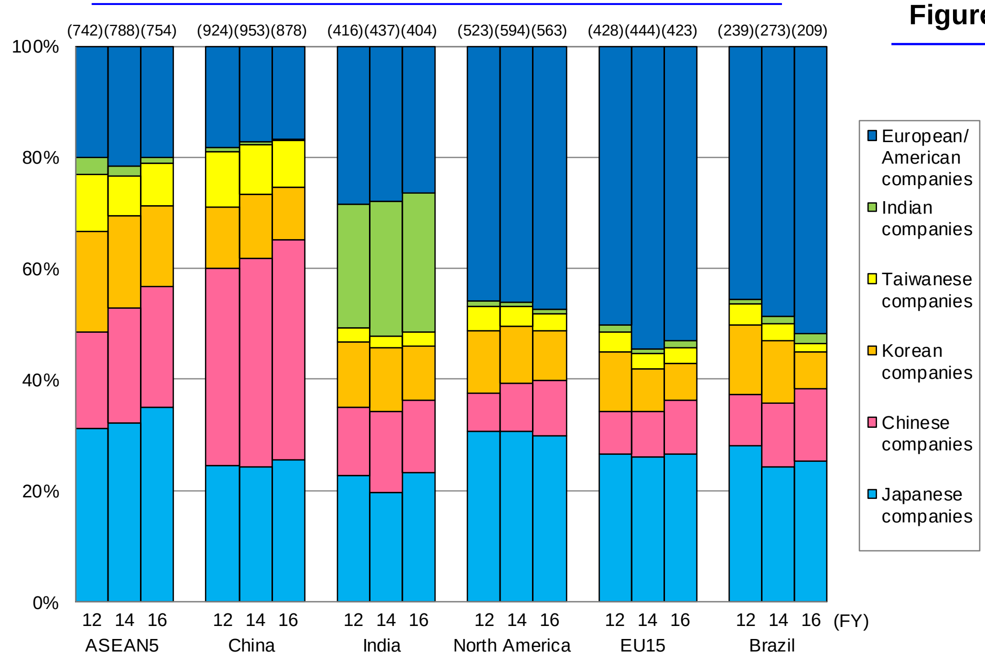
- As for the roles of R&D, comparing “automobiles” and “electrical equipment & electronics,” it appeared that the ratio of companies responding “Focusing on development products that meet market needs” was high among “electrical equipment & electronics,” and the ratio of companies responding “Focusing on developing production processes that meet market needs” was high among “automobiles” in all five countries/regions. (Figure 54)

VII. Competition in the Global Market

Q
This question relates to your competitors in sales markets in ASEAN5 countries, China, India, North America, EU15 countries and Brazil. Please select companies that are currently in fierce competition with your company in each market.

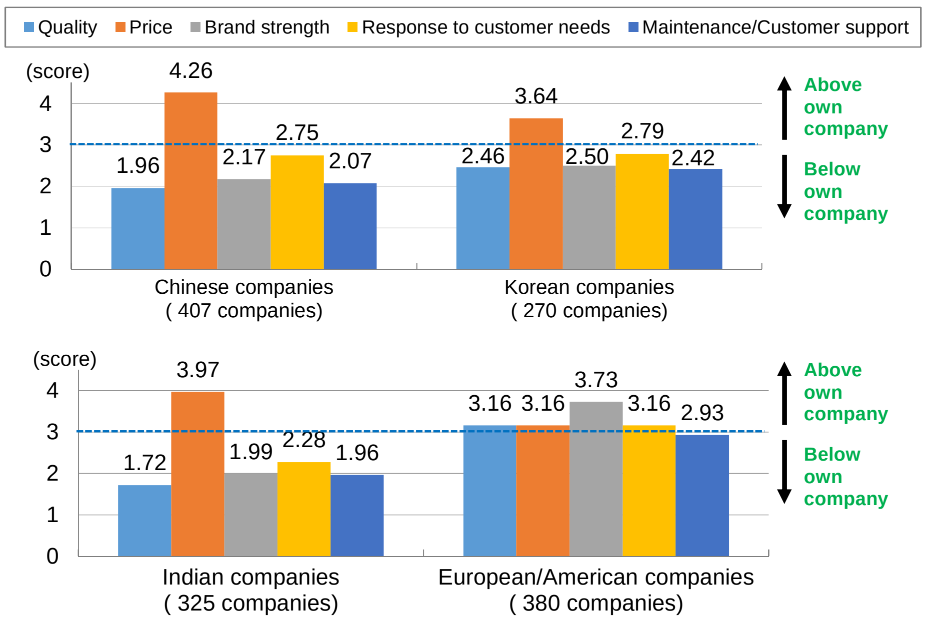
Q
We will now ask you about your company's competitiveness in the ASEAN5, Chinese, and Indian markets. Assuming that your company is graded 3, use a five grade evaluation system to rate Chinese, Korean, Indian, and European/American companies on the following five criteria: quality, price, brand strength, responsiveness to customer needs, and maintenance/customer support.

Figure 55: Competition in Overseas Markets



(Note) The figure in parentheses ( ) indicates the total number of responses.

Figure 56: Assessment of the Competitiveness in Asian Emerging Markets



■The competitors in sales markets are mainly companies with geographically and economically deep ties with the local market

- In regard to competitors in sales markets, the results showed that the largest competitors in the markets of India, North America EU15, and Brazil are European/American companies. The ratios were high in the results, in the order of EU15 (53.0%), Brazil (51.7%), North America (47.2%), and India (26.5%), and there was almost no difference from FY2014. Meanwhile, in the results, the largest competitors in the ASEAN5 market were Japanese companies (35.0%), and the largest competitors in the Chinese market were Chinese companies (39.6%), and both ratios were higher compared with FY2014. (Figure 55)

■As for competitors in Asian emerging markets, assessments of European/American companies were on par with those of respondent companies overall. In regard to Chinese companies and Indian companies, price competitiveness was rated as high

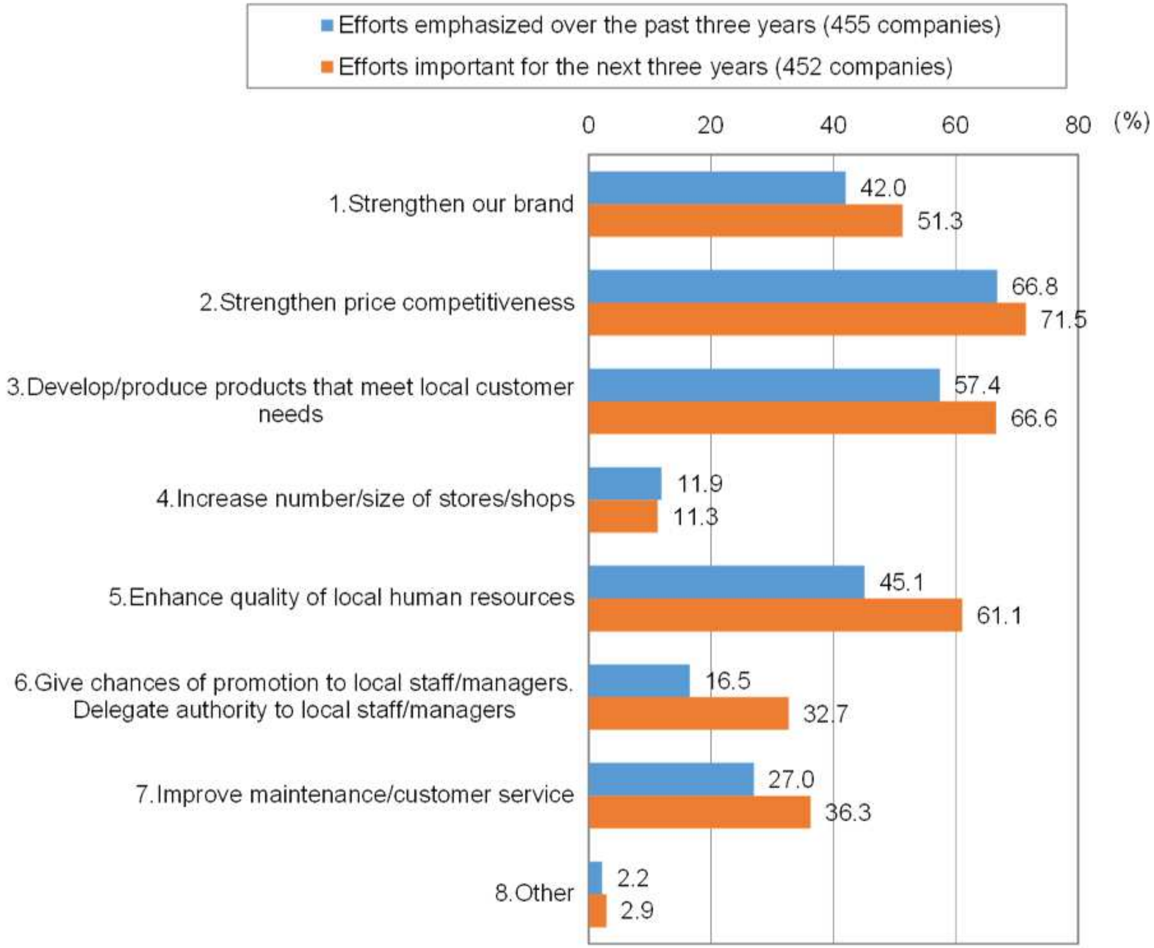
- As for the competitiveness of European/American companies, in Asian emerging markets, this was generally rated as on par with the respondent companies, but in regard to brand strength, in the results, there were many companies that responded that this was above their own level (3.73 points).
- Furthermore, in regard to Chinese companies and Indian companies, the assessments of price competitiveness were considerably higher than those of the respondent companies. Looking at the results by industry type and by company, there were no significant differences regarding this point. (Figure 56)

VII.2. Important Efforts in the Medium-term

Q

In regard to your company's business development in the past three years in the ASEAN5, Chinese, and Indian markets, what efforts were important/emphasized for increasing market share by beating your competitors? Also, from a similar perspective, what efforts will be important for your company's business development in the ASEAN5, Chinese, and Indian markets in the next three years? For each question, please select the choices that apply. (multiple responses possible)

Figure 57: Efforts having Impact on a High Sales Share of Major Products



■ **Efforts emphasized over the past three years and also important in future will be "Develop/produce products that meet local customer needs" and "Strengthen price competitiveness"**

- In company interviews, "1." to "3." were mutually related, and there were multiple statements that carrying out the production and development of products with price and quality competitiveness in line with local needs will result in the enhancement of brand strength.
- Among "brands," there are "company brands" and "product brands," and there were also companies that strategically use the optimal brand for each region in order to pursue marketing advantages.

■ **Efforts that will be more important over the next three years compared with the past three years consisted of "Enhance quality of local human resources," and "Give chances of promotion to local staff/managers. Delegate authority to local staff/managers"**

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

Appendices

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

Rank	FY2016 Survey	No.of Companies 483	Percentage share (%)	FY2015 Survey	No.of Companies 433	Percentage share (%)	FY2014 Survey	No.of Companies 499	Percentage share (%)	FY2013 Survey	No.of Companies 488	Percentage share (%)	FY2012 Survey	No.of Companies 514	Percentage share (%)
1	India	230	47.6	India	175	40.4	India	229	45.9	Indonesia	219	43.9	China	319	62.1
2	China	203	42.0	Indonesia	168	38.8	Indonesia	228	45.7	India	213	42.7	India	290	56.4
3	Indonesia	173	35.8	China			China	218	43.7	Thailand	188	37.7	Indonesia	215	41.8
4	Vietnam	158	32.7	Thailand	133	30.7	Thailand	176	35.3	China	183	36.7	Thailand	165	32.1
5	Thailand	142	29.4	Vietnam	119	27.5	Vietnam	155	31.1	Vietnam	148	29.7	Vietnam	163	31.7
6	Mexico	125	25.9	Mexico	102	23.6	Mexico	101	20.2	Brazil	114	22.8	Brazil	132	25.7
7	USA	93	19.3	USA	72	16.6	Brazil	83	16.6	Mexico	84	16.8	Mexico	72	14.0
8	Philippines	51	10.6	Philippines	50	11.5	USA	66	13.2	Myanmar	64	12.8	Russia	64	12.5
9	Myanmar	49	10.1	Brazil	48	11.1	Russia	60	12.0	Russia	60	12.0	USA	53	10.3
10	Brazil	35	7.2	Myanmar	34	7.9	Myanmar	55	11.0	USA	54	10.8	Myanmar	51	9.9
11	Malaysia	33	6.8	Malaysia	27	6.2	Philippines	50	10.0	Philippines	39	7.8	Malaysia	36	7.0
12	Singapore	23	4.8	Russia	24	5.5	Malaysia	46	9.2	Malaysia	37	7.4	Korea	23	4.5
13	Taiwan	22	4.6	Singapore	20	4.6	Turkey	26	5.2	Korea	28	5.6	Turkey		
14	Germany	20	4.1	Turkey	17	3.9	Singapore	25	5.0	Taiwan	23	4.6	Taiwan	22	4.3
15	Russia	17	3.5	Korea			Cambodia	20	4.0	Turkey			Philippines	21	4.1
16	Korea	15	3.1	Taiwan	16	3.7	Korea			Singapore	19	3.8	Singapore	16	3.1
17	Turkey	12	2.5	Cambodia	14	3.2	Taiwan	19	3.8	Cambodia	12	2.4	Cambodia	13	2.5
18	Cambodia			Germany			Germany	9	1.8	Germany	10	2.0	Australia	11	2.1
19	Australia	11	2.3	Saudi Arabia	7	1.6	France	7	1.4	South Africa			Bangladesh	10	1.9
20	Iran	8	1.7	Bangladesh	6	1.4	Saudi Arabia			Laos	9	1.8	Germany	6	1.2
				Laos			South Africa								
				UK											

Promising Countries/Regions over the Long-term

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

Rank	FY2016 Survey	No.of Companies 364	Percentage share (%)	FY2015 Survey	No.of Companies 301	Percentage share (%)
1	India	226	62.1	India	165	54.8
2	China	143	39.3	Indonesia	109	36.2
3	Indonesia	137	37.6	China	105	34.9
4	Vietnam	119	32.7	Vietnam	82	27.2
5	Thailand	89	24.5	Thailand	70	23.3
6	Mexico	59	16.2	Brazil	61	20.3
7	Myanmar	58	15.9	Myanmar	57	18.9
8	USA	55	15.1	Mexico	50	16.6
9	Brazil	48	13.2	USA	43	14.3
10	Philippines	33	9.1	Russia	31	10.3

Promising Countries/Regions for Mid-tier/SMEs over the Medium-term

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

Rank	FY2016 Survey	No.of Companies 143	Percentage share (%)	FY2015 Survey	No.of Companies 111	Percentage share (%)
1	India	66	46.2	Indonesia	41	36.9
2	Indonesia	53	37.1	India	39	35.1
3	Vietnam			China	38	34.2
4	China	48	33.6	Vietnam	36	32.4
5	Thailand	42	29.4	Mexico	27	24.3
6	Mexico	40	28.0	Thailand	25	22.5
7	USA	22	15.4	Philippines	16	14.4
8	Philippines	16	11.2	Brazil	13	11.7
9	Myanmar	10	7.0	USA		
10	Malaysia	9	6.3	Myanmar	9	8.1

Appendix 2. Promising Countries/Regions for Overseas Business Operations (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.

FY2016 Survey	1 India		2 China		3 Indonesia		4 Vietnam		5 Thailand		6 Mexico		7 USA		8 Philippines		9 Myanmar		10 Brazil	
	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	223	100%	197	100%	164	100%	154	100%	138	100%	122	100%	91	100%	48	100%	49	100%	34	100%
1. Qualified human resources	26	11.7%	19	9.6%	8	4.9%	27	17.5%	19	13.8%	3	2.5%	16	17.6%	3	6.3%	5	10.2%	-	0.0%
2. Inexpensive source of labor	64	28.7%	25	12.7%	50	30.5%	65	42.2%	36	26.1%	41	33.6%	-	0.0%	20	41.7%	22	44.9%	2	5.9%
3. Inexpensive components/raw materials	25	11.2%	18	9.1%	6	3.7%	7	4.5%	7	5.1%	4	3.3%	-	0.0%	-	0.0%	-	0.0%	2	5.9%
4. Supply base for assemblers	46	20.6%	45	22.8%	33	20.1%	21	13.6%	33	23.9%	59	48.4%	12	13.2%	10	20.8%	2	4.1%	3	8.8%
5. Concentration of industry	25	11.2%	36	18.3%	20	12.2%	18	11.7%	33	23.9%	24	19.7%	20	22.0%	3	6.3%	-	0.0%	1	2.9%
6. Good for risk diversification to other countries	5	2.2%	2	1.0%	9	5.5%	19	12.3%	9	6.5%	7	5.7%	1	1.1%	6	12.5%	3	6.1%	-	0.0%
7. Base of export to Japan	3	1.3%	12	6.1%	4	2.4%	18	11.7%	14	10.1%	-	0.0%	2	2.2%	3	6.3%	2	4.1%	-	0.0%
8. Base of export to third countries	27	12.1%	25	12.7%	20	12.2%	25	16.2%	38	27.5%	28	23.0%	4	4.4%	9	18.8%	3	6.1%	3	8.8%
9. Advantages in terms of raw material procurement	4	1.8%	12	6.1%	4	2.4%	3	1.9%	8	5.8%	-	0.0%	3	3.3%	2	4.2%	1	2.0%	1	2.9%
10. Current size of local market	69	30.9%	123	62.4%	71	43.3%	30	19.5%	52	37.7%	29	23.8%	58	63.7%	11	22.9%	8	16.3%	16	47.1%
11. Future growth potential of local market	190	85.2%	132	67.0%	132	80.5%	115	74.7%	78	56.5%	89	73.0%	44	48.4%	37	77.1%	41	83.7%	27	79.4%
12. Profitability of local market	11	4.9%	18	9.1%	7	4.3%	9	5.8%	9	6.5%	5	4.1%	27	29.7%	3	6.3%	2	4.1%	1	2.9%
13. Base for product development	4	1.8%	14	7.1%	-	0.0%	1	0.6%	4	2.9%	-	0.0%	18	19.8%	1	2.1%	-	0.0%	1	2.9%
14. Developed local infrastructure	4	1.8%	24	12.2%	4	2.4%	4	2.6%	27	19.6%	8	6.6%	36	39.6%	2	4.2%	2	4.1%	2	5.9%
15. Developed local logistics services	1	0.4%	6	3.0%	1	0.6%	4	2.6%	6	4.3%	1	0.8%	22	24.2%	-	0.0%	-	0.0%	1	2.9%
16. Tax incentives for investment	7	3.1%	4	2.0%	6	3.7%	5	3.2%	19	13.8%	6	4.9%	3	3.3%	5	10.4%	3	6.1%	3	8.8%
17. Stable policies to attract foreign investment	4	1.8%	1	0.5%	4	2.4%	4	2.6%	13	9.4%	2	1.6%	2	2.2%	4	8.3%	3	6.1%	1	2.9%
18. Social/political situation stable	9	4.0%	5	2.5%	5	3.0%	26	16.9%	4	2.9%	4	3.3%	29	31.9%	4	8.3%	-	0.0%	-	0.0%

FY2015 Survey	1 India		2 Indonesia		3 China		4 Thailand		5 Vietnam		6 Mexico		7 USA		8 Philippines		9 Brazil		10 Myanmar	
	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	171	100%	163	100%	162	100%	128	100%	116	100%	99	100%	70	100%	48	100%	47	100%	34	100%
1. Qualified human resources	18	10.5%	8	4.9%	14	8.6%	11	8.6%	28	24.1%	2	2.0%	9	12.9%	7	14.6%	-	0.0%	3	8.8%
2. Inexpensive source of labor	56	32.7%	57	35.0%	21	13.0%	47	36.7%	57	49.1%	32	32.3%	-	0.0%	23	47.9%	8	17.0%	17	50.0%
3. Inexpensive components/raw materials	13	7.6%	13	8.0%	20	12.3%	16	12.5%	9	7.8%	5	5.1%	1	1.4%	1	2.1%	3	6.4%	1	2.9%
4. Supply base for assemblers	42	24.6%	39	23.9%	42	25.9%	35	27.3%	17	14.7%	55	55.6%	10	14.3%	12	25.0%	10	21.3%	2	5.9%
5. Concentration of industry	16	9.4%	21	12.9%	30	18.5%	29	22.7%	11	9.5%	18	18.2%	17	24.3%	4	8.3%	4	8.5%	-	0.0%
6. Good for risk diversification to other countries	6	3.5%	8	4.9%	1	0.6%	5	3.9%	22	19.0%	7	7.1%	1	1.4%	10	20.8%	1	2.1%	3	8.8%
7. Base of export to Japan	7	4.1%	7	4.3%	5	3.1%	15	11.7%	13	11.2%	-	0.0%	1	1.4%	2	4.2%	-	0.0%	2	5.9%
8. Base of export to third countries	21	12.3%	19	11.7%	20	12.3%	31	24.2%	22	19.0%	25	25.3%	2	2.9%	6	12.5%	1	2.1%	4	11.8%
9. Advantages in terms of raw material procurement	4	2.3%	7	4.3%	19	11.7%	8	6.3%	3	2.6%	1	1.0%	4	5.7%	1	2.1%	3	6.4%	-	0.0%
10. Current size of local market	53	31.0%	63	38.7%	110	67.9%	46	35.9%	18	15.5%	29	29.3%	54	77.1%	6	12.5%	21	44.7%	2	5.9%
11. Future growth potential of local market	152	88.9%	136	83.4%	97	59.9%	71	55.5%	83	71.6%	75	75.8%	37	52.9%	31	64.6%	38	80.9%	23	67.6%
12. Profitability of local market	10	5.8%	16	9.8%	16	9.9%	14	10.9%	12	10.3%	9	9.1%	22	31.4%	4	8.3%	2	4.3%	3	8.8%
13. Base for product development	1	0.6%	-	0.0%	14	8.6%	3	2.3%	-	0.0%	1	1.0%	10	14.3%	-	0.0%	2	4.3%	-	0.0%
14. Developed local infrastructure	2	1.2%	6	3.7%	22	13.6%	30	23.4%	8	6.9%	6	6.1%	28	40.0%	3	6.3%	3	6.4%	1	2.9%
15. Developed local logistics services	2	1.2%	1	0.6%	8	4.9%	6	4.7%	5	4.3%	5	5.1%	14	20.0%	-	0.0%	3	6.4%	-	0.0%
16. Tax incentives for investment	7	4.1%	5	3.1%	2	1.2%	19	14.8%	2	1.7%	4	4.0%	2	2.9%	9	18.8%	2	4.3%	5	14.7%
17. Stable policies to attract foreign investment	4	2.3%	3	1.8%	2	1.2%	11	8.6%	6	5.2%	6	6.1%	4	5.7%	3	6.3%	2	4.3%	-	0.0%
18. Social/political situation stable	5	2.9%	16	9.8%	3	1.9%	9	7.0%	24	20.7%	4	4.0%	23	32.9%	8	16.7%	1	2.1%	1	2.9%

Appendix 3. Promising Countries/Regions for Overseas Business Operations (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.

FY2016 Survey	1 India		2 China		3 Indonesia		4 Vietnam		5 Thailand		6 Mexico		7 USA		8 Philippines		9 Myanmar		10 Brazil	
	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	212	100%	187	100%	152	100%	132	100%	121	100%	115	100%	63	100%	42	100%	47	100%	34	100%
1. Underdeveloped legal system	34	16.0%	20	10.7%	27	17.8%	25	18.9%	3	2.5%	7	6.1%	-	0.0%	6	14.3%	26	55.3%	8	23.5%
2. Execution of legal system unclear	75	35.4%	95	50.8%	56	36.8%	47	35.6%	16	13.2%	19	16.5%	1	1.6%	10	23.8%	18	38.3%	10	29.4%
3. Complicated tax system	69	32.5%	24	12.8%	16	10.5%	8	6.1%	7	5.8%	7	6.1%	-	0.0%	4	9.5%	3	6.4%	7	20.6%
4. Execution of tax system unclear	55	25.9%	44	23.5%	28	18.4%	26	19.7%	5	4.1%	12	10.4%	-	0.0%	6	14.3%	4	8.5%	7	20.6%
5. Increased taxation	28	13.2%	46	24.6%	20	13.2%	10	7.6%	10	8.3%	5	4.3%	7	11.1%	5	11.9%	2	4.3%	5	14.7%
6. Restrictions on foreign investment	32	15.1%	49	26.2%	30	19.7%	11	8.3%	19	15.7%	3	2.6%	1	1.6%	9	21.4%	13	27.7%	5	14.7%
7. Complicated/unclear procedures for investment permission	36	17.0%	27	14.4%	27	17.8%	22	16.7%	9	7.4%	8	7.0%	-	0.0%	6	14.3%	11	23.4%	3	8.8%
8. Insufficient protection for intellectual property rights	17	8.0%	85	45.5%	14	9.2%	8	6.1%	8	6.6%	3	2.6%	-	0.0%	4	9.5%	7	14.9%	2	5.9%
9. Restrictions on foreign currency/ transfers of money overseas	31	14.6%	58	31.0%	27	17.8%	10	7.6%	4	3.3%	2	1.7%	-	0.0%	4	9.5%	9	19.1%	5	14.7%
10. Import restrictions/customs procedures	27	12.7%	34	18.2%	23	15.1%	11	8.3%	8	6.6%	7	6.1%	2	3.2%	5	11.9%	10	21.3%	5	14.7%
11. Difficult to secure technical/engineering staff	25	11.8%	32	17.1%	21	13.8%	25	18.9%	34	28.1%	28	24.3%	7	11.1%	9	21.4%	12	25.5%	2	5.9%
12. Difficult to secure management-level staff	33	15.6%	30	16.0%	33	21.7%	41	31.1%	34	28.1%	40	34.8%	12	19.0%	14	33.3%	12	25.5%	5	14.7%
13. Rising labor costs	43	20.3%	124	66.3%	53	34.9%	36	27.3%	56	46.3%	33	28.7%	9	14.3%	4	9.5%	6	12.8%	6	17.6%
14. Labor problems	45	21.2%	43	23.0%	25	16.4%	14	10.6%	8	6.6%	10	8.7%	5	7.9%	1	2.4%	1	2.1%	3	8.8%
15. Intense competition with other companies	74	34.9%	103	55.1%	60	39.5%	36	27.3%	53	43.8%	21	18.3%	47	74.6%	11	26.2%	10	21.3%	12	35.3%
16. Difficulties in recovering money owed	29	13.7%	37	19.8%	8	5.3%	5	3.8%	3	2.5%	4	3.5%	-	0.0%	1	2.4%	6	12.8%	3	8.8%
17. Difficulty in raising funds	13	6.1%	7	3.7%	6	3.9%	5	3.8%	1	0.8%	2	1.7%	1	1.6%	2	4.8%	6	12.8%	2	5.9%
18. Underdeveloped local supporting industries	25	11.8%	3	1.6%	11	7.2%	16	12.1%	5	4.1%	9	7.8%	-	0.0%	11	26.2%	13	27.7%	3	8.8%
19. Sense of instability regarding currency and/or costs	20	9.4%	12	6.4%	25	16.4%	13	9.8%	4	3.3%	16	13.9%	-	0.0%	3	7.1%	9	19.1%	13	38.2%
20. Underdeveloped infrastructure	109	51.4%	12	6.4%	43	28.3%	41	31.1%	11	9.1%	17	14.8%	-	0.0%	15	35.7%	28	59.6%	10	29.4%
21. Security/social instability	61	28.8%	39	20.9%	48	31.6%	10	7.6%	29	24.0%	67	58.3%	1	1.6%	12	28.6%	12	25.5%	21	61.8%
22. Lack of information on the country	27	12.7%	2	1.1%	7	4.6%	12	9.1%	8	6.6%	11	9.6%	2	3.2%	3	7.1%	15	31.9%	5	14.7%

FY2015 Survey	1 India		2 Indonesia		3 China		4 Thailand		5 Vietnam		6 Mexico		7 USA		8 Philippines		9 Brazil		10 Myanmar	
	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	162	100%	154	100%	159	100%	118	100%	110	100%	90	100%	62	100%	44	100%	45	100%	33	100%
1. Underdeveloped legal system	25	15.4%	27	17.5%	16	10.1%	4	3.4%	21	19.1%	9	10.0%	-	0.0%	4	9.1%	8	17.8%	18	54.5%
2. Execution of legal system unclear	63	38.9%	62	40.3%	86	54.1%	15	12.7%	34	30.9%	21	23.3%	1	1.6%	13	29.5%	15	33.3%	11	33.3%
3. Complicated tax system	49	30.2%	23	14.9%	13	8.2%	5	4.2%	8	7.3%	8	8.9%	-	0.0%	1	2.3%	9	20.0%	1	3.0%
4. Execution of tax system unclear	39	24.1%	34	22.1%	36	22.6%	6	5.1%	18	16.4%	10	11.1%	-	0.0%	4	9.1%	10	22.2%	5	15.2%
5. Increased taxation	23	14.2%	27	17.5%	44	27.7%	11	9.3%	7	6.4%	9	10.0%	8	12.9%	6	13.6%	5	11.1%	1	3.0%
6. Restrictions on foreign investment	26	16.0%	36	23.4%	35	22.0%	15	12.7%	14	12.7%	4	4.4%	-	0.0%	5	11.4%	6	13.3%	5	15.2%
7. Complicated/unclear procedures for investment permission	34	21.0%	27	17.5%	41	25.8%	10	8.5%	19	17.3%	8	8.9%	1	1.6%	7	15.9%	4	8.9%	9	27.3%
8. Insufficient protection for intellectual property rights	15	9.3%	14	9.1%	69	43.4%	5	4.2%	9	8.2%	3	3.3%	1	1.6%	1	2.3%	2	4.4%	1	3.0%
9. Restrictions on foreign currency/ transfers of money overseas	29	17.9%	26	16.9%	46	28.9%	4	3.4%	6	5.5%	2	2.2%	-	0.0%	3	6.8%	2	4.4%	7	21.2%
10. Import restrictions/customs procedures	24	14.8%	29	18.8%	36	22.6%	8	6.8%	14	12.7%	6	6.7%	-	0.0%	4	9.1%	7	15.6%	5	15.2%
11. Difficult to secure technical/engineering staff	23	14.2%	27	17.5%	15	9.4%	23	19.5%	18	16.4%	21	23.3%	7	11.3%	7	15.9%	4	8.9%	7	21.2%
12. Difficult to secure management-level staff	32	19.8%	38	24.7%	35	22.0%	25	21.2%	22	20.0%	30	33.3%	8	12.9%	15	34.1%	5	11.1%	7	21.2%
13. Rising labor costs	22	13.6%	63	40.9%	116	73.0%	60	50.8%	43	39.1%	23	25.6%	16	25.8%	7	15.9%	7	15.6%	2	6.1%
14. Labor problems	34	21.0%	26	16.9%	31	19.5%	9	7.6%	14	12.7%	8	8.9%	9	14.5%	-	0.0%	5	11.1%	1	3.0%
15. Intense competition with other companies	51	31.5%	49	31.8%	84	52.8%	50	42.4%	23	20.9%	28	31.1%	37	59.7%	5	11.4%	12	26.7%	2	6.1%
16. Difficulties in recovering money owed	27	16.7%	11	7.1%	41	25.8%	4	3.4%	5	4.5%	4	4.4%	1	1.6%	-	0.0%	3	6.7%	3	9.1%
17. Difficulty in raising funds	18	11.1%	3	1.9%	9	5.7%	3	2.5%	2	1.8%	1	1.1%	-	0.0%	2	4.5%	1	2.2%	2	6.1%
18. Underdeveloped local supporting industries	19	11.7%	15	9.7%	4	2.5%	9	7.6%	18	16.4%	12	13.3%	1	1.6%	9	20.5%	4	8.9%	5	15.2%
19. Sense of instability regarding currency and/or costs	17	10.5%	31	20.1%	7	4.4%	6	5.1%	13	11.8%	8	8.9%	-	0.0%	3	6.8%	14	31.1%	5	15.2%
20. Underdeveloped infrastructure	80	49.4%	54	35.1%	11	6.9%	6	5.1%	22	20.0%	14	15.6%	-	0.0%	18	40.9%	13	28.9%	22	66.7%
21. Security/social instability	44	27.2%	36	23.4%	46	28.9%	33	28.0%	6	5.5%	49	54.4%	-	0.0%	10	22.7%	20	44.4%	13	39.4%
22. Lack of information on the country	25	15.4%	10	6.5%	2	1.3%	6	5.1%	11	10.0%	13	14.4%	-	0.0%	4	9.1%	8	17.8%	10	30.3%

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

Overseas	Strengthen /expand		Maintain present level		Scale back /withdraw	
	2015	2016	2015	2016	2015	2016
All Industries	80.5%	76.6%	18.0%	23.0%	1.5%	0.5%
Foods	96.3%	80.0%	3.7%	20.0%	-	-
Textiles	85.7%	73.1%	7.1%	23.1%	7.1%	3.8%
Paper, Pulp & Wood	70.0%	85.7%	30.0%	14.3%	-	-
Chemicals (total)	84.6%	81.1%	15.4%	18.9%	-	-
Chemicals (incl. plastic products)	87.2%	81.1%	12.8%	18.9%	-	-
Pharmaceuticals	40.0%	80.0%	60.0%	20.0%	-	-
Petroleum & Rubber	63.6%	69.2%	18.2%	30.8%	18.2%	-
Ceramics, Cement & Glass	88.2%	80.0%	11.8%	13.3%	-	6.7%
Steel	73.3%	86.7%	26.7%	13.3%	-	-
Nonferrous Metals	94.7%	84.6%	5.3%	15.4%	-	-
Metal Products	88.2%	63.6%	11.8%	36.4%	-	-
General Machinery (total)	80.0%	75.4%	18.2%	24.6%	1.8%	-
Assembly	84.1%	71.4%	13.6%	28.6%	2.3%	-
Parts	63.6%	91.7%	36.4%	8.3%	-	-
Electrical Equipment & Electronics (total)	76.6%	73.6%	23.4%	26.4%	-	-
Assembly	84.2%	84.6%	15.8%	15.4%	-	-
Parts	71.4%	65.4%	28.6%	34.6%	-	-
Transportation Equipment (excl. Automobiles)	81.3%	61.5%	18.8%	38.5%	-	-
Automobiles (total)	79.2%	71.1%	18.9%	28.1%	1.9%	0.8%
Assembly	80.0%	83.3%	20.0%	16.7%	-	-
Parts	79.2%	70.4%	18.8%	28.7%	2.0%	0.9%
Precision Machinery (total)	71.9%	79.4%	28.1%	20.6%	-	-
Assembly	81.8%	83.3%	18.2%	16.7%	-	-
Parts	50.0%	70.0%	50.0%	30.0%	-	-
Other	75.0%	86.4%	21.4%	13.6%	3.6%	-

Domestic	Strengthen /expand		Maintain present level		Scale back		undecided	
	2015	2016	2015	2016	2015	2016	2015	2016
All Industries	29.6%	34.0%	58.6%	58.3%	6.1%	3.5%	5.7%	4.2%
Foods	33.3%	56.5%	54.2%	34.8%	4.2%	-	8.3%	8.7%
Textiles	28.6%	46.2%	60.7%	34.6%	7.1%	15.4%	3.6%	3.8%
Paper, Pulp & Wood	30.0%	28.6%	70.0%	42.9%	-	28.6%	-	-
Chemicals (total)	36.3%	37.2%	56.0%	57.4%	1.1%	1.1%	6.6%	4.3%
Chemicals (incl. plastic products)	34.9%	33.7%	57.0%	60.7%	1.2%	1.1%	7.0%	4.5%
Pharmaceuticals	60.0%	100.0%	40.0%	-	-	-	-	-
Petroleum & Rubber	-	23.1%	81.8%	76.9%	18.2%	-	-	-
Ceramics, Cement & Glass	29.4%	26.7%	58.8%	53.3%	5.9%	20.0%	5.9%	-
Steel	20.0%	13.3%	66.7%	73.3%	13.3%	13.3%	-	-
Nonferrous Metals	23.5%	20.0%	70.6%	80.0%	5.9%	-	-	-
Metal Products	22.2%	36.4%	66.7%	59.1%	5.6%	4.5%	5.6%	-
General Machinery (total)	25.0%	29.5%	60.7%	63.9%	8.9%	3.3%	5.4%	3.3%
Assembly	26.7%	30.6%	62.2%	63.3%	6.7%	4.1%	4.4%	2.0%
Parts	18.2%	25.0%	54.5%	66.7%	18.2%	-	9.1%	8.3%
Electrical Equipment & Electronics (total)	41.1%	43.5%	49.5%	50.0%	2.1%	1.1%	7.4%	5.4%
Assembly	48.7%	47.5%	41.0%	50.0%	-	2.5%	10.3%	-
Parts	35.7%	40.4%	55.4%	50.0%	3.6%	-	5.4%	9.6%
Transportation Equipment (excl. Automobiles)	25.0%	21.4%	68.8%	71.4%	6.3%	-	-	7.1%
Automobiles (total)	9.3%	18.2%	70.1%	71.9%	12.1%	3.3%	8.4%	6.6%
Assembly	-	16.7%	80.0%	50.0%	-	-	20.0%	33.3%
Parts	9.8%	18.3%	69.6%	73.0%	12.7%	3.5%	7.8%	5.2%
Precision Machinery (total)	46.9%	57.1%	43.8%	37.1%	9.4%	2.9%	-	2.9%
Assembly	50.0%	56.0%	36.4%	36.0%	13.6%	4.0%	-	4.0%
Parts	40.0%	60.0%	60.0%	40.0%	-	-	-	-
Other	45.5%	41.7%	45.5%	53.3%	1.8%	1.7%	7.3%	3.3%

Appendix 5. Medium-term Prospects for Business Operations (by major country/region)

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

Major countries /Regions	NIEs3		ASEAN5		China		Rest of Asia & Oceania		North America		Latin America	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Strengthen/expand	34.4%	33.8%	56.1%	54.4%	48.1%	47.6%	67.7%	66.3%	54.1%	56.5%	64.1%	60.3%
Maintain present level	63.8%	63.7%	42.2%	43.6%	49.0%	49.0%	31.2%	32.9%	45.7%	42.0%	35.1%	38.3%
Scale back/withdraw	1.8%	2.5%	1.7%	2.1%	2.9%	3.4%	1.1%	0.9%	0.3%	1.5%	0.9%	1.4%

	EU15		Central & Eastern Europe		Turkey		Rest of Europe & CIS		Russia		Middle East		Africa	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Strengthen/expand	43.8%	48.2%	44.9%	52.3%	58.3%	50.6%	51.0%	50.9%	54.7%	50.6%	62.0%	66.3%	59.0%	53.5%
Maintain present level	54.3%	49.3%	54.2%	47.7%	38.9%	48.3%	49.0%	49.1%	44.2%	48.3%	38.0%	33.7%	41.0%	46.5%
Scale back/withdraw	2.0%	2.5%	0.9%	-	2.8%	1.1%	-	-	1.2%	1.1%	-	-	-	-

Prospects for Medium-term Overseas Business Operation (Regions in Detail)

Regions in detail	NIEｓ3			ASEAN5					China				
	Korea	Taiwan	Hong Kong	Singapore	Thailand	Indonesia	Malaysia	Philippines	North-eastern China	Northern China	Eastern China	Southern China	Inland China
Strengthen/expand	39.1%	36.9%	23.0%	38.0%	57.9%	62.2%	51.2%	59.5%	42.3%	46.5%	48.1%	47.8%	52.8%
Maintain present level	58.6%	61.9%	72.5%	58.1%	41.1%	36.5%	45.6%	38.6%	54.6%	49.5%	48.6%	48.9%	44.1%
Scale back/withdraw	2.3%	1.2%	4.5%	3.8%	1.0%	1.3%	3.3%	2.0%	3.1%	4.0%	3.2%	3.3%	3.1%

	Rest of Asia & Oceania						Latin America		
	India	Vietnam	Cambodia	Laos	Myanmar	Others	Mexico	Brazil	Others
Strengthen/expand	74.6%	71.7%	55.7%	44.4%	67.1%	40.0%	69.4%	50.0%	53.7%
Maintain present level	23.7%	28.3%	44.3%	55.6%	32.9%	56.7%	30.6%	46.0%	46.3%
Scale back/withdraw	1.7%	-	-	-	-	3.3%	-	4.0%	-

Appendix 6. Overseas Production, Sales & Income Ratios (details by industry)

Industry	Overseas Production Ratio ※1										Overseas Sales Ratio ※2								Overseas Income Ratio ※3					
	FY2013 (actual)		FY2014 (actual)		FY2015 (actual)		FY2016 (projected)		Medium-term plans(FY2019)		FY2013 (actual)		FY2014 (actual)		FY2015 (actual)		FY2016 (projected)		FY2014 (actual)		FY2015 (actual)		FY2016 (projected)	
		No. of Companies		No. of Companies		No. of Companies		No. of Companies		No. of Companies		No. of Companies		No. of Companies		No. of Companies		No. of Companies		No. of Companies		No. of Companies		No. of Companies
Foods	16.5%	27	18.3%	24	16.0%	21	17.9%	21	21.2%	21	18.3%	30	21.7%	27	16.4%	22	18.2%	22	20.8%	26	14.1%	22	12.6%	21
Textiles	53.7%	23	55.4%	24	49.8%	25	50.8%	26	51.1%	23	26.7%	23	26.1%	27	27.6%	27	28.0%	27	27.3%	26	21.5%	26	23.5%	26
Paper, Pulp & Wood	16.0%	10	12.5%	8	13.0%	5	13.0%	5	17.5%	4	13.0%	10	14.0%	10	16.4%	7	17.9%	7	12.8%	9	13.0%	5	11.0%	5
Chemicals (total)	28.0%	80	28.5%	72	30.0%	82	30.6%	82	33.9%	75	35.7%	89	37.5%	91	38.1%	95	38.2%	92	35.4%	69	36.5%	82	35.9%	81
Chemicals (incl. plastic products)	29.2%	74	29.6%	67	31.1%	77	31.8%	77	35.4%	71	35.8%	83	37.8%	86	37.8%	90	37.8%	87	36.1%	64	36.7%	77	35.9%	76
Pharmaceuticals	13.3%	6	13.0%	5	13.0%	5	13.0%	5	7.5%	4	33.3%	6	33.0%	5	43.0%	5	45.0%	5	27.0%	5	33.0%	5	35.0%	5
Petroleum & Rubber	37.1%	14	36.1%	9	45.0%	12	45.8%	12	48.6%	11	35.0%	12	31.4%	11	38.1%	13	40.4%	13	34.0%	10	45.0%	13	45.8%	13
Ceramics, Cement & Glass	33.6%	14	30.6%	16	31.7%	12	32.5%	12	33.2%	11	38.3%	15	39.7%	17	42.3%	15	40.7%	14	35.0%	13	31.7%	12	36.7%	12
Steel	19.0%	15	16.7%	12	17.3%	13	17.3%	13	22.5%	12	22.5%	16	25.0%	14	26.3%	15	24.2%	13	17.7%	11	13.3%	12	14.2%	12
Nonferrous Metals	37.9%	17	28.5%	17	29.8%	21	30.2%	21	34.5%	21	28.3%	21	28.2%	19	31.4%	25	33.8%	25	22.2%	18	28.5%	23	32.0%	23
Metal Products	38.5%	17	38.9%	18	38.8%	21	40.5%	20	43.9%	19	42.8%	18	36.7%	18	40.7%	21	42.1%	21	40.3%	17	43.0%	20	42.0%	20
General Machinery (total)	23.7%	52	29.9%	45	27.4%	51	28.3%	49	30.5%	47	39.2%	57	45.0%	51	43.7%	60	43.8%	56	36.4%	43	39.7%	51	37.1%	47
Assembly	24.8%	41	28.0%	37	26.2%	42	27.2%	41	29.9%	39	41.0%	45	43.8%	40	44.6%	48	45.0%	45	33.3%	35	41.0%	42	38.8%	39
Parts	19.5%	11	38.8%	8	32.8%	9	33.8%	8	33.8%	8	32.5%	12	49.6%	11	40.0%	12	38.6%	11	50.0%	8	33.9%	9	28.8%	8
Electrical Equipment & Electronics (total)	48.6%	84	41.9%	81	45.4%	76	46.2%	75	46.0%	69	48.1%	93	47.4%	90	48.5%	92	48.9%	89	34.9%	72	39.6%	74	40.6%	73
Assembly	43.1%	32	30.5%	31	40.2%	31	41.3%	30	39.6%	28	43.1%	36	41.0%	35	42.0%	40	42.1%	38	28.1%	29	32.1%	31	33.0%	30
Parts	51.9%	52	49.0%	50	49.0%	45	49.4%	45	50.4%	41	51.3%	57	51.6%	55	53.5%	52	54.0%	51	39.4%	43	45.0%	43	45.9%	43
Transportation Equipment (excl. Automobiles)	23.6%	14	23.1%	16	29.6%	13	29.6%	13	33.0%	10	37.1%	14	30.0%	16	37.3%	13	37.3%	13	25.6%	16	31.9%	13	34.2%	13
Automobiles (total)	43.0%	102	44.6%	98	46.8%	114	47.1%	111	50.0%	103	42.2%	107	43.6%	103	47.1%	117	47.4%	114	46.3%	94	47.2%	112	47.4%	109
Assembly	40.0%	6	50.0%	4	50.0%	4	48.3%	3	55.0%	2	55.0%	7	67.0%	5	71.0%	5	72.5%	4	68.3%	3	68.3%	3	80.0%	2
Parts	43.2%	96	44.4%	94	46.7%	110	47.0%	108	50.0%	101	41.3%	100	42.5%	98	46.0%	112	46.5%	110	45.6%	91	46.7%	109	46.8%	107
Precision Machinery (total)	25.7%	28	32.2%	29	25.3%	34	25.9%	34	30.8%	33	49.5%	29	45.3%	31	44.1%	34	45.6%	34	42.8%	23	47.3%	31	43.1%	32
Assembly	23.4%	19	20.3%	19	22.2%	25	23.0%	25	27.9%	24	55.0%	20	45.0%	21	48.2%	25	49.8%	25	45.7%	15	47.6%	23	42.9%	24
Parts	30.6%	9	55.0%	10	33.9%	9	33.9%	9	38.3%	9	37.2%	9	46.0%	10	32.8%	9	33.9%	9	37.5%	8	46.3%	8	43.8%	8
Other	36.8%	50	33.0%	45	29.4%	54	29.0%	53	30.9%	51	31.8%	57	29.2%	53	30.0%	60	29.8%	58	25.7%	45	24.6%	54	26.5%	52
Overall	35.2%	547	35.1%	514	35.6%	554	36.1%	547	38.5%	510	37.5%	591	37.9%	578	39.6%	616	40.0%	598	34.3%	492	36.4%	550	36.5%	539

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

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

(1) Net Sales

FY2012 Performance

	Average	2.63
1	North America	2.94
2	Mexico	2.82
3	ASEAN 5	2.78
4	NIEs 3	2.71
5	Turkey	2.64
6	Vietnam	2.58
7	Russia	2.56
8	Central & Eastern Europe	2.49
9	Brazil	2.46
10	EU 15	2.45
11	India	2.35
12	China	2.26
ASEAN 5 breakdown		
1	Thailand	2.97
2	Indonesia	2.77
3	Singapore	2.70
4	Philippines	2.69
5	Malaysia	2.60

FY2013 Performance

	Average	2.71
1	North America	2.98
2	NIEs 3	2.90
3	Mexico	2.82
4	EU 15	2.81
5	Central & Eastern Europe	2.77
6	ASEAN 5	2.72
7	Turkey	2.70
8	Vietnam	2.66
9	Russia	2.59
10	China	2.58
11	Brazil	2.51
12	India	2.28
ASEAN 5 breakdown		
1	Singapore	2.83
2	Philippines	2.79
3	Malaysia	2.69
4	Indonesia	2.68
5	Thailand	2.67

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

(2) Profits

FY2012 Performance

	Average	2.56
1	ASEAN 5	2.72
1	Mexico	2.72
1	North America	2.72
4	NIEs 3	2.63
4	Vietnam	2.63
6	Turkey	2.62
7	Russia	2.60
8	Brazil	2.40
8	Central & Eastern Europe	2.40
10	EU 15	2.36
11	India	2.30
12	China	2.25
ASEAN 5 breakdown		
1	Thailand	2.87
2	Indonesia	2.73
3	Singapore	2.66
4	Philippines	2.62
5	Malaysia	2.60

FY2013 Performance

	Average	2.65
1	NIEs 3	2.87
2	North America	2.83
3	EU 15	2.79
4	Central & Eastern Europe	2.77
5	Turkey	2.67
5	Vietnam	2.67
7	ASEAN 5	2.65
8	Mexico	2.64
9	Russia	2.57
10	China	2.50
11	Brazil	2.42
12	India	2.24
ASEAN 5 breakdown		
1	Singapore	2.78
2	Philippines	2.75
3	Malaysia	2.64
4	Thailand	2.62
5	Indonesia	2.55

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

Note1: 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	117	370	31.6%
2	North America	109	405	26.9%
3	Vietnam	48	184	26.1%
4	China	138	535	25.8%
5	Indonesia	56	266	21.1%
6	Mexico	32	153	20.9%
7	Malaysia	38	193	19.7%
8	NIEs3	45	240	18.8%
9	Philippines	26	140	18.6%
10	EU 15	52	279	18.6%
11	Central & Eastern Europe	15	96	15.6%
12	Singapore	29	231	12.6%
13	India	19	202	9.4%
14	Russia	6	83	7.2%
15	Brazil	8	122	6.6%
16	Turkey	3	69	4.3%

Note: When companies were asked about their profitability in FY2015 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.

Appendix 8. Existence of Real Business Plans in Promising Countries/Regions

	No. 1 India		No. 2 China		No. 3 Indonesia		No. 4 Vietnam		No. 5 Thailand		No. 6 Mexico		No. 7 USA		No. 8 Philippines		No. 9 Myanmar		No.10 Brazil	
	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	230	100%	203	100%	173	100%	158	100%	142	100%	125	100%	93	100%	51	100%	49	100%	35	100%
Plans exist	92	40.0%	99	48.8%	76	43.9%	57	36.1%	53	37.3%	57	45.6%	45	48.4%	25	49.0%	10	20.4%	13	37.1%
No plans	133	57.8%	94	46.3%	91	52.6%	96	60.8%	80	56.3%	66	52.8%	43	46.2%	24	47.1%	36	73.5%	19	54.3%
No response	5	2.2%	10	4.9%	6	3.5%	5	3.2%	9	6.3%	2	1.6%	5	5.4%	2	3.9%	3	6.1%	3	8.6%

	No.11 Malaysia		No.12 Singapore		No.13 Taiwan		No.14 Germany		No.15 Russia		No.16 Korea		No.17 Turkey		No.17 Cambodia		No.19 Australia		No.20 Iran	
	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	33	100%	23	100%	22	100%	20	100%	17	100%	15	100%	12	100%	12	100%	11	100%	8	100%
Plans exist	12	36.4%	12	52.2%	9	40.9%	11	55.0%	6	35.3%	9	60.0%	6	50.0%	5	41.7%	5	45.5%	3	37.5%
No plans	20	60.6%	11	47.8%	13	59.1%	9	45.0%	10	58.8%	6	40.0%	5	41.7%	7	58.3%	6	54.5%	4	50.0%
No response	1	3.0%	0	0.0%	0	0.0%	0	0.0%	1	5.9%	0	0.0%	1	8.3%	0	0.0%	0	0.0%	1	12.5%

Note: Each “Ratio” refers to the number of companies answering “Plans exist”, “No plans” or “No response” divided by the total number of respondent companies per respective countries (companies answered as promising countries).

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(For further information)
4-1, Ohtemachi 1-chome, Chiyoda-ku, Tokyo 100-8144, Japan
Policy and Strategy Office for Financial Operations, Japan Bank for International Cooperation
Telephone: +81-3-5218-9244 (Group direct line)
Facsimile : +81-3-5218-3962
E-mail : fdi@jbic.go.jp

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