Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

Results of the JBIC FY2019 Survey

December 2019
Strategic Research Department
Corporate Planning Group

JAPAN BANK FOR INTERNATIONAL COOPERATION

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Supporting Your Global Challenges

We would like to express our deepest thanks to all of the companies who participated in this year's survey. Our hope is that these results will be of reference in your future business activities.

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1. Survey Overview

1. Survey Overview

1. Objective and Targets

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

2. Number of Companies Surveyed and Methods Used

(1) Number of companies surveyed: 1,004

(2) Methods used: Questionnaires were sent via post while e-mails were sent to request the respondents to complete the questionnaires online. During the survey period, telephone interviews and direct visits to individual companies were also performed.

3. Responses

(1) Number of respondents: 588 companies (262 by post, 326 online)

(2) Response rate: 58.6%

4. Survey Period

June 28, 2019 (surveys sent) to August 1, 2019 (deadline)

(*Surveys returned by September 27 were treated as valid)

5. Survey Items

(1) Survey Overview

(2) Overseas Business Performance

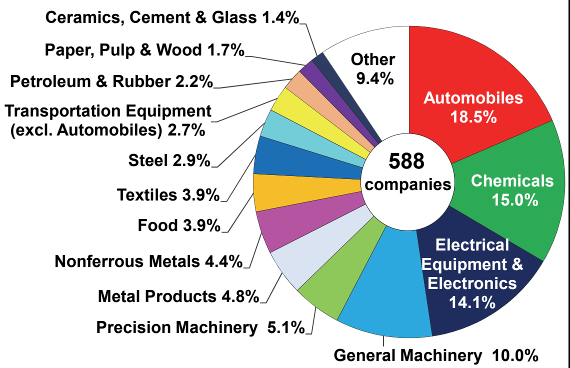
(3) Business Prospects and Promising Countries/Regions

(4) Influence of Friction Between the US and China*

(5) Overseas Expansion of Open Innovation*

(Items with asterisks (*) indicate unique item for this year)

Chart 1-1. Number of Responding Companies by Industry Type



(companies)

Industry Type	FY2018	FY2019	Proportion
Automobiles	123	**109**	18.5%
Chemicals	77	**88**	15.0%
Electrical Equipment & Electronics	88	**83**	14.1%
General Machinery	57	**59**	10.0%
Precision Machinery	30	**30**	5.1%
Metal Products	27	**28**	4.8%
Nonferrous Metals	26	**26**	4.4%
Food	24	**23**	3.9%
Textiles	22	**23**	3.9%
Steel	19	**17**	2.9%
Transportation Equipment (excl. Automobiles)	20	**16**	2.7%
Petroleum & Rubber	11	**13**	2.2%
Paper, Pulp & Wood	11	**10**	1.7%
Ceramics, Cement & Glass	11	**8**	1.4%
Other	59	**55**	9.4%
Total	605	**588**	100.0%

Note: In this survey “4 major industry types” is used as an umbrella term for the automobiles, chemicals, electrical equipment & electronics, and general machinery industries. The total for chemicals combines “chemicals (including plastics)” and “pharmaceuticals.” The respective totals for “automobiles,” “electrical equipment & electronics,” “general machinery,” and “precision machinery” combine “assembled” and “parts.”

Chart 1-2. Number of Responding Companies by Paid-in Capital, Non-Consolidated

(companies)

Paid-in Capital	FY2018	FY2019	Proportion
Less than ¥300 mn.	118	**127**	21.6%
¥300 mn. up to ¥1 bn.	83	**79**	13.4%
¥1 bn. up to ¥5 bn.	137	**127**	21.6%
¥5 bn. up to ¥10 bn.	74	**66**	11.2%
¥10 bn. or more	174	**168**	28.6%
Holding company	19	**21**	3.6%
No response	0	**0**	0.0%
Total	605	**588**	100.0%

Note: In this survey, Mid-tier Enterprises (MTEs) and Small and Medium-sized Enterprises (SMEs) are defined as a company with a capital of less than 1 billion yen.

1. Summary

1. Overseas business continues to struggle with lack of clarity.

During FY2019's survey, trade friction between the US and China, economic slowdown in China, trouble due to Brexit, and a strained situation in the Middle East, all contributed to the uncertainty in the global situation. Overseas production ratios reached 36.8%, the highest level since the survey began. However, the proactive stance toward overseas business is not necessarily uniform, adding cautiousness to prospects for the future. By region, the friction between the US and China caused a striking decrease in revenue satisfaction level in China, while, by contrast, trends in other countries and regions were generally steady.

2. India takes the lead for prospective countries. China's drop to second place and creates an opportunity for re-evaluation of Asian countries.

For the first time in 3 years, India was back to be ranked as the top country for potential business expansions. It cannot be denied that the impact of a large drop in voting rates in China caused the situation where India emerged in relative terms. However, there are clear signs that, overall business in India is about to shift into full swing, so this may not be a temporary change in rank. At the same time, there were also signs of the next prospective countries in Asian countries, particularly in Vietnam and Thailand but could also be seen in the Philippines and Myanmar. China's drop is, therefore, creating the opportunity for other Asian countries to be re-evaluated.

3. As the impact of friction between the US and China increases, Japanese businesses attempt to find a path towards co-existence between both.

Approximately half of businesses responded that friction between the US and China was causing a decline in profits, an increase over the previous year. This confirms the impacts that this issue is creating across a broad range of industries, including automotive, chemicals, and electrical equipment & electronics. Effects on direct investment included a drastic decrease in investment in China, and a predicted increase in investment in the third countries. On the other hand, this survey also revealed that Japanese businesses are trying to co-exist with China and the US. Efforts include flexible changes to supply chains to mitigate effects of the US-China conflict, as well as measures such as introducing factory automation (FA) and strengthening company data management.

4. Strong expectations for innovation through overseas expansion, with particular focus on Shanghai.

When asked about open innovation, results showed an expected expansion in cooperation with overseas universities, businesses, and startups. Tokyo received overwhelming support and was ranked highest amongst cities where this cooperation could take place. More interest was seen in Shanghai compared to Silicon Valley, suggesting a qualitative change in Japanese companies' expectations towards China. It became also clear that expectations for each city are not uniform across industries and partners, reconfirming the necessity of choosing the most appropriate cities depending on different attributes of each company.

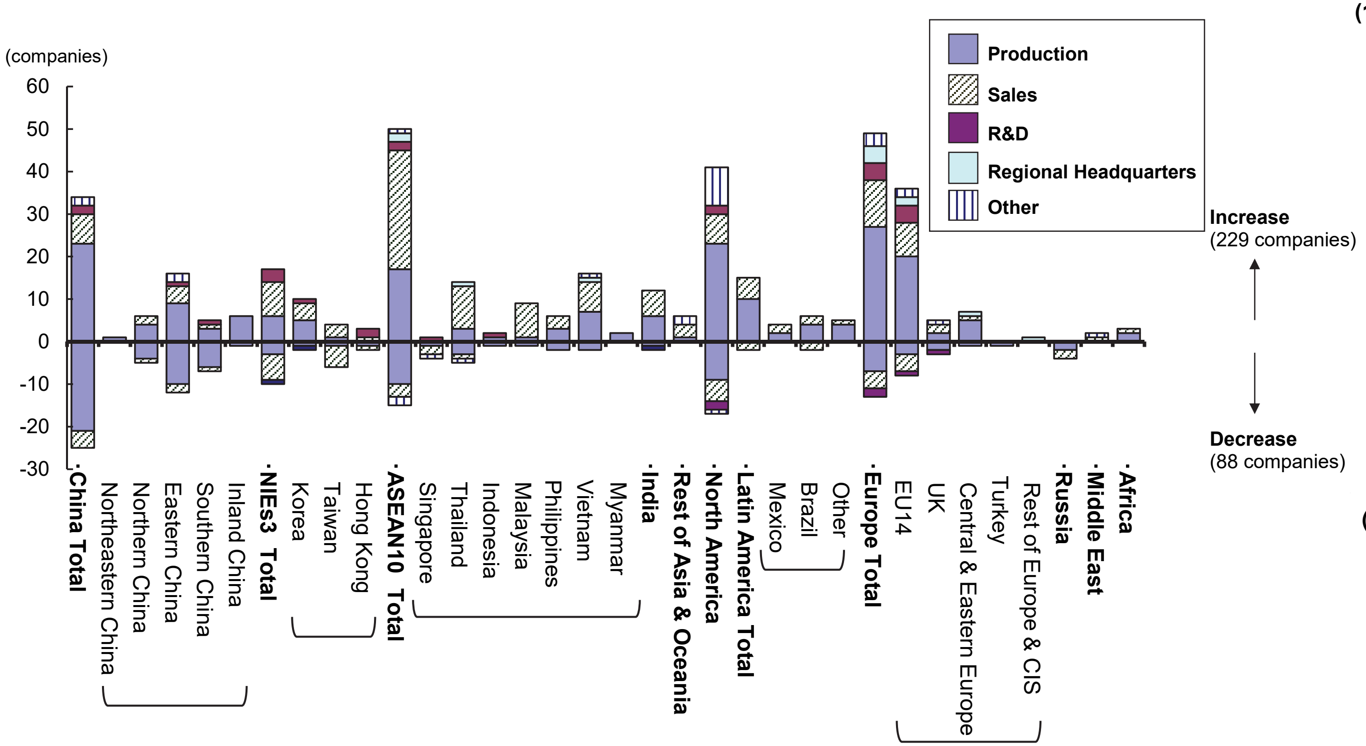
5. In the future, the ability to search for new technologies with an appeal to propose solutions to issues, and organization power to support them will be tested overseas.

This year's survey clearly showed the stance of companies that diligently sought out solutions to disruptions, despite the effects caused by the political and economic situation. It was also confirmed that the respondent companies also had a deep interest in future-focused open innovation and a latent desire to expand overseas, while demonstrating more traditional forms of flexibility. Going forward, companies are expected to gain more business opportunities by appealing widely to the world not only the development of next-generation technologies, but also the problem solving abilities based on technological capabilities.

2. Overseas Business Performance

2. (1) Basic Data: Numbers of Overseas Affiliates

Chart 2-1. Numbers of Overseas Affiliates (Increases and Decreases in FY2018)



<Regional Definitions in this Survey>

NIEs 3 (Korea, Taiwan, Hong Kong)
ASEAN 5 (Singapore, Thailand, Indonesia, Malaysia, Philippines)
ASEAN 10 (ASEAN 5 + Vietnam, Myanmar, Cambodia, Laos, and Brunei)
North America (US, Canada)
EU 14 (Germany, France, Italy, Netherlands, Belgium, Greece, Luxembourg, Denmark, Spain, Portugal, Austria, Finland, Sweden, Ireland)
Central and Eastern Europe (Poland, Hungary, Czech Republic, Slovakia, Bulgaria, Romania, Slovenia, Albania, Croatia, Serbia, Montenegro, Bosnia-Herzegovina, Former Yugoslav Republic of Macedonia)

<Classifications of Chinese Regions in this Survey>

North-East (Heilongjiang, Jilin, Liaoning)
North (Beijing, Tianjin, Hebei, Shandong)
Eastern (Shanghai, Jiangsu, Anhui, Zhejiang)
Southern (Fujian, Guangdong, Hainan)
Interior (Provinces other than the above, autonomous regions)

Chart 2-2. Distribution of Overseas Affiliates

(1) One or more overseas affiliates for production

	Country/Area	No. of respondents (company)	Proportion
1	China	436	75.2%
2	Thailand	286	49.3%
3	North America	234	40.3%
4	Indonesia	190	32.8%
5	Vietnam	134	23.1%
6	India	126	21.7%
7	Mexico	124	21.4%
8	Taiwan	123	21.2%
9	Korea	112	19.3%
10	Malaysia	110	19.0%
	EU 14	110	19.0%
12	Philippines	88	15.2%
13	Brazil	58	10.0%
14	Singapore	56	9.7%
15	Central & Eastern Europe	55	9.5%

(2) One or more overseas affiliates for sales

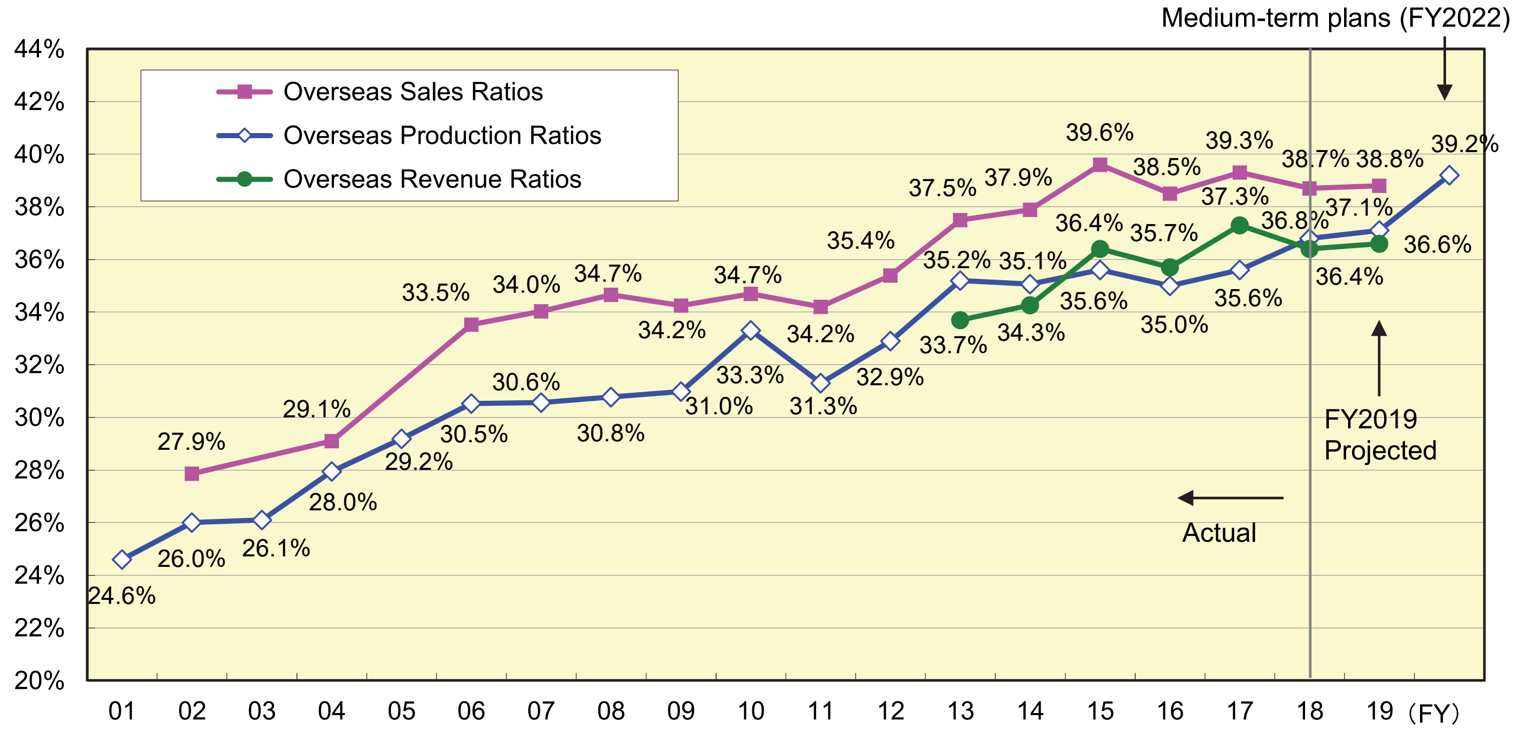
	Country/Area	No. of respondents (company)	Proportion
1	China	307	52.9%
2	North America	269	46.4%
3	Thailand	197	34.0%
4	EU 14	186	32.1%
5	Singapore	164	28.3%
6	Taiwan	151	26.0%
	Hong Kong	151	26.0%
8	Korea	131	22.6%
9	Indonesia	106	18.3%
10	India	104	17.9%
11	Malaysia	92	15.9%
12	Vietnam	88	15.2%
13	UK	83	14.3%
14	Mexico	78	13.4%
15	Brazil	66	11.4%

■ **Changes in the number of overseas affiliates in FY2018 – reduction in both the increase and decrease in the numbers of these locations compared to the previous year. Overall there is a trend of restraint.**

・ The total increase in the number of overseas affiliates in FY2018 was 229 (production: 115, sales: 77, R&D: 13, regional headquarters: 6, other: 18). This was fewer than the increase in FY 2017 (380 companies). By comparison, the total decrease in the number of overseas affiliates in FY2018 was 88 (production: 53, sales: 26, R&D: 4, regional headquarters: 2, other: 3), much fewer than the decrease in FY 2017 (208 companies). Overall in FY2018, there was restraint shown towards both increasing and decreasing overseas affiliates. Looking at the results by region, the number of increased overseas affiliates in the ASEAN10 (50 companies) indicates a reduction from 104 last year, while the increase or decrease in Europe (49 companies) and North America (41 companies) were almost the same as the previous year. In China, although there was no entry or exit of specific industries as in the last year, activity seemed to continue being brisk.

2. (1) Basic Data: Overseas Production/Sales/Revenue Ratios

Chart 2-3. Trends in Overseas Production/Sales/Revenue Ratios (FY2001 onwards, all industries)



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

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

Note 2: Each of the ratios in the graph is a simple average based upon the values reported by responding companies.
Note 3: Surveys were not performed of overseas sales ratios in 2003 and 2005.

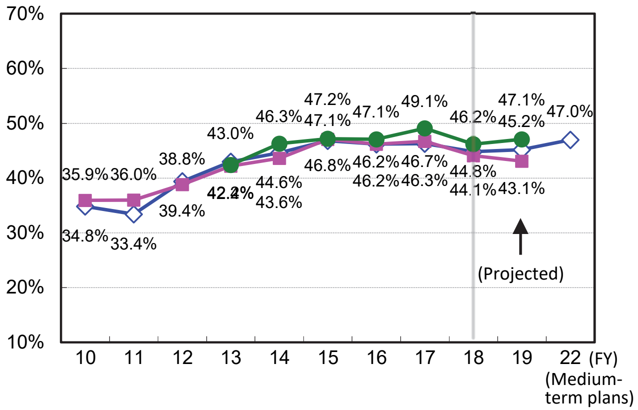
■ **Overseas production ratios for FY2018 were highest since the survey began. However, prospects for future overseas business are cautious**

- Overseas production ratios for FY2018 were 36.8%, the highest since the survey began. This is expected to rise to 39.2% in mid-term plans (for FY2022), suggesting that companies continue to take a proactive stance towards expanding overseas production. However, overseas revenue ratios show a slight reduction, falling to 38.7%. Overseas revenue ratios also fell to 36.4% in 2018 after their record high in the previous fiscal year (37.3%). The fall in overseas sales and revenue ratios can be attributed to the prolongation of friction between the US and China, as well as China's economic slowdown. This means that forecasts for performance in FY2019 are almost the same as the results seen in FY2018, revealing the cautious stance being taken by the companies.

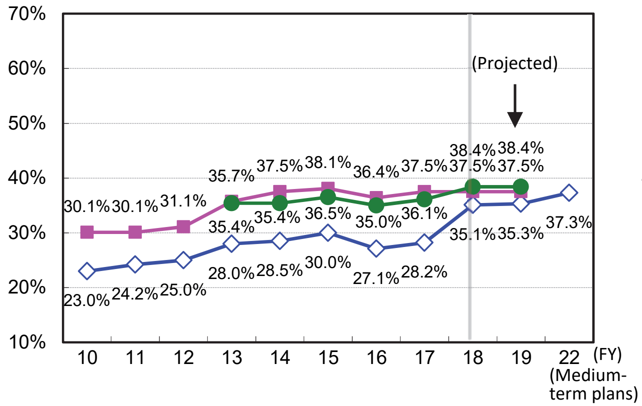
2. (1) Basic Data: Overseas Production/Sales/Revenue Ratios by Industry

Chart 2-4. Trends in Each Index by Industry (FY2010 onwards)

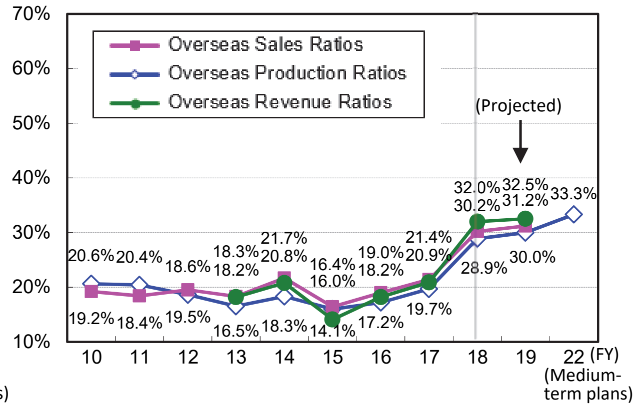
1. Automobiles



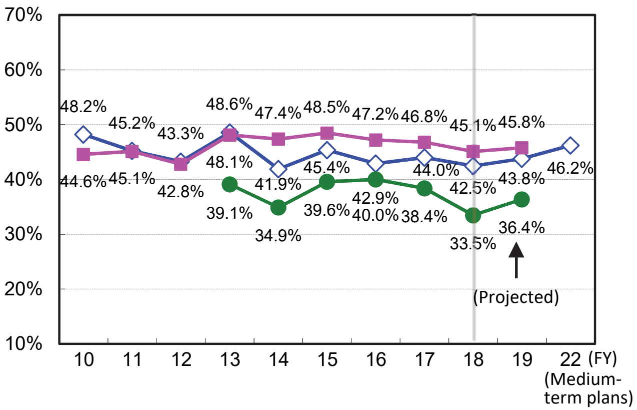
3. Chemicals



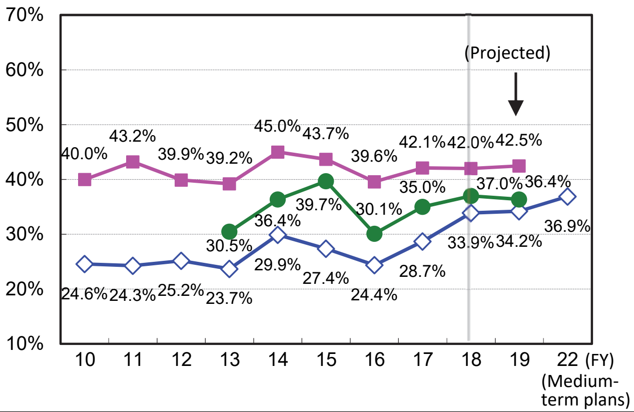
5. Food



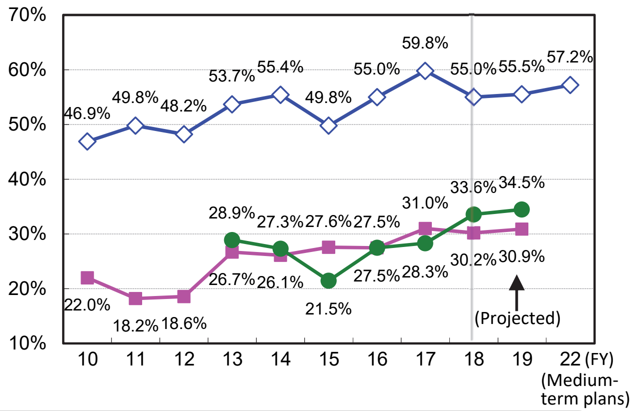
2. Electrical Equipment & Electronics



4. General Machinery



6. Textiles



■ Different moves by industry seen in FY2018 - automotive and electrical equipment & electronics industries were the same as last year, with overseas ratios increasing for chemicals, food, and general machinery

- Overseas production ratios were comparatively high for textiles at 55.0%, followed by automobiles (44.8%) and electrical equipment & electronics (42.5%), indicating that these industries continued to maintain high levels overall. Both chemicals (28.2% → 35.1%) and food (19.7% → 28.9%) industries resulted in a large increase in overseas production ratios – the former was led by acquisitions of overseas businesses by a certain company and the latter was partly due to a relatively small number of responding companies in the industry.
- Both automobiles and electrical equipment & electronics industries both showed decreases for overseas revenue ratio (49.1% → 46.2% and 38.4% → 33.5% respectively). As we will examine later, this can be attributed to the prolongation of trade friction between the US and China, as well as China's economic slowdown. Concerning the other industries, whereas it was not as notable as the increase in overseas production ratios, overseas revenue ratios were maintained at around the same level as the previous year. These results again reveal the differences between industries.

2. (2) Performance Evaluations: Net Sales/Profits Satisfaction by Major Country/Region

Question

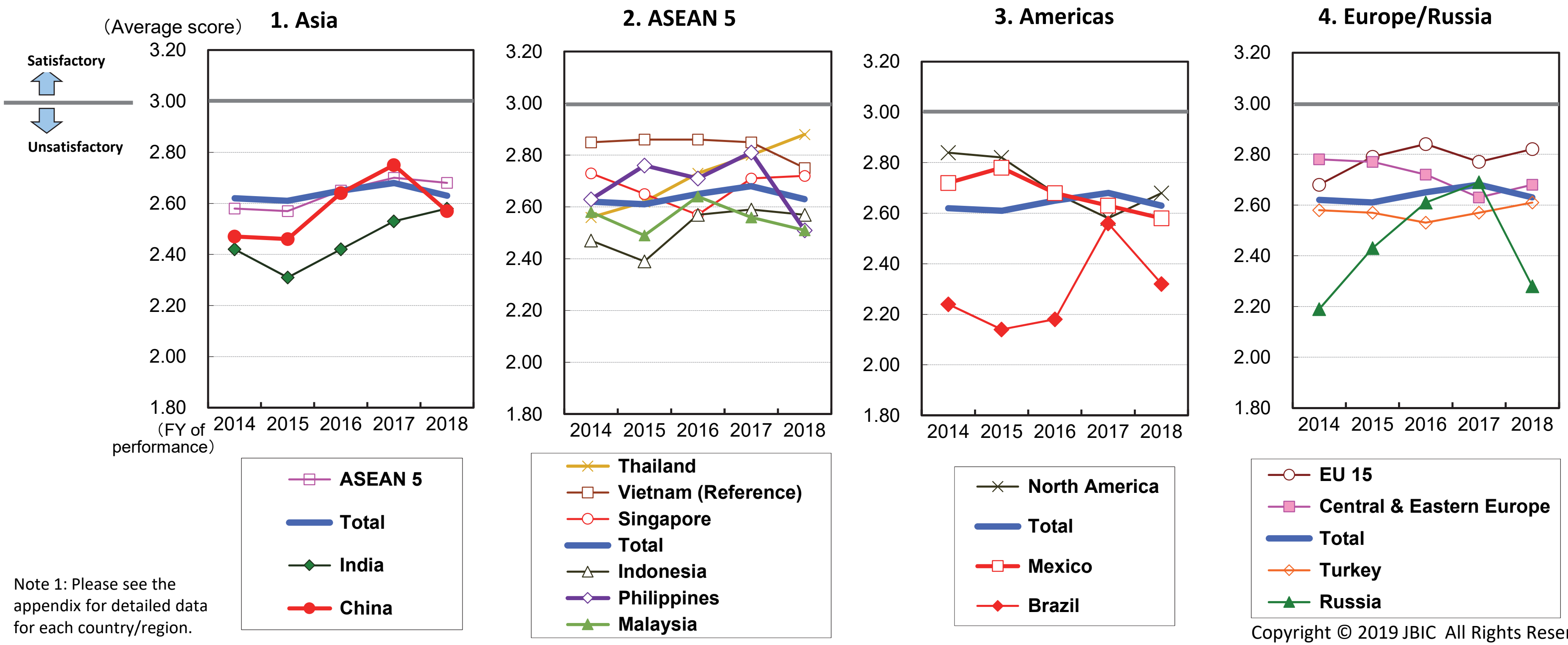
Which of the following applies to your company's FY2018 net sales and profits when compared with initial targets? (by countries/regions) 1. Unsatisfactory, 2. Somewhat unsatisfactory, 3. Can't say either way (almost the same as initially planned), 4. Somewhat satisfactory, 5. Satisfactory

Chart 2-5. Satisfaction With Net Sales/Profits (Total Average)

(FY of performance)	FY2014	FY2015	FY2016	FY2017	FY2018
Net Sales	2.66 (▲0.05)	2.56 (▲0.10)	2.67 (+0.11)	2.75 (+0.08)	2.70 (▲0.05)
Profits	2.62 (▲0.03)	2.61 (▲0.01)	2.65 (+0.04)	2.68 (+0.03)	2.63 (▲0.05)

Note 1: Simple average value of evaluation points for each region/country.
Note 2: Value within brackets is the amount of the increase/decrease over the previous year.

Chart 2-6. Satisfaction With Profits by Region



Note 1: Please see the appendix for detailed data for each country/region.

■ **Decreases in satisfaction for sales/profits**

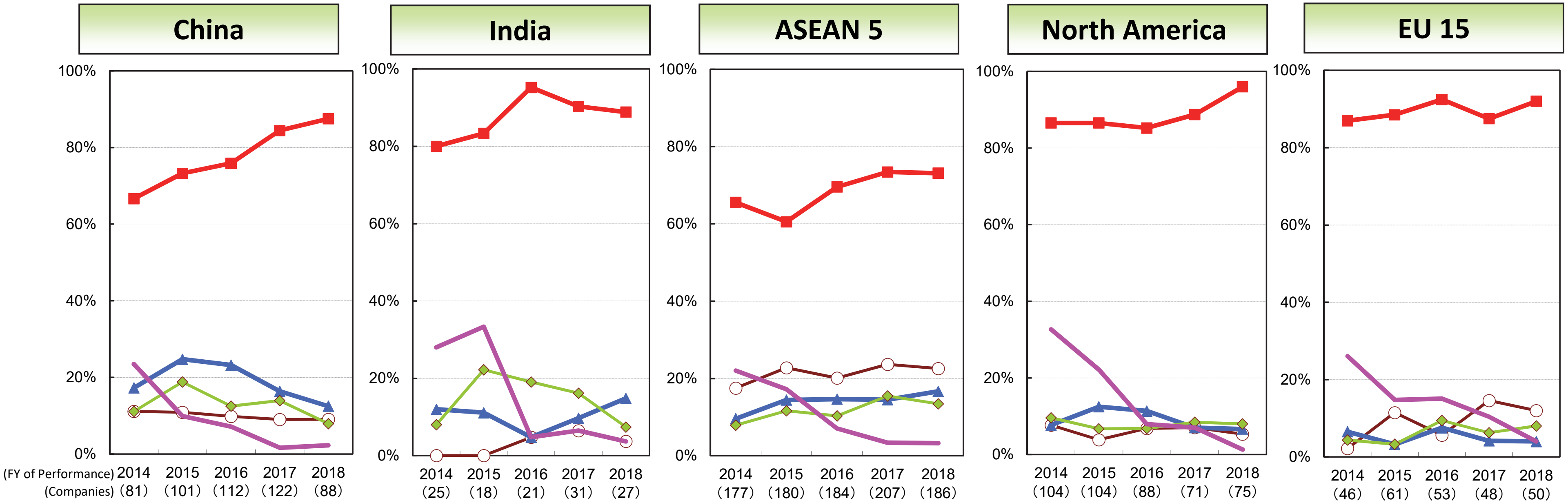
- Satisfaction with results of sales and profits fell by 0.05 points in FY2018, despite the record highs in the previous year. Note that overall levels were around the same as two years ago, so this should not be described as a dramatic deterioration.

■ **Levels of satisfaction for profits fell significantly in China and stay firm in India and Thailand**

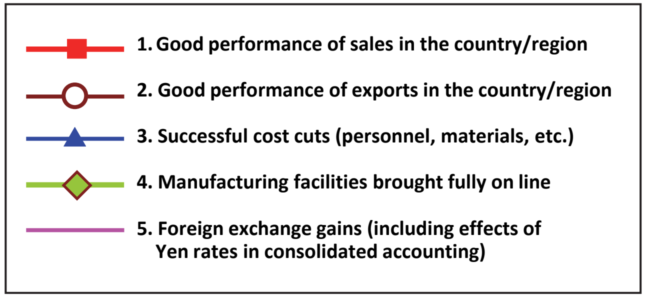
- The results of satisfaction with profits by region revealed that there were some countries with decreased levels compared to the previous fiscal year. Large decreases in China (2.75 → 2.57) and the Philippines (2.81 → 2.51) stood out in particular. This is probably due to issues such as trade friction and the economic slowdown in China, a sudden increase in minimum wages and other cost-related issues in the Philippines. Meanwhile, India and ASEAN countries maintained the level close to the previous fiscal year.
- The results also showed a marked decrease in Brazil (2.56 → 2.32) caused by a stall in upward momentum due to large-scale strikes. This could also be seen in Russia (2.69→2.28) where economic restrictions have continued, leading to rapid economic slowdown.

2. (2) Performance Evaluations: Reasons for Satisfactory Profitability by Major Country/Region

Chart 2-7. Trends in Reasons for Satisfactory Profitability



Note: Companies that answered “4. Somewhat satisfactory” or “5. Satisfactory” were asked to give reasons for their response by region/country where they have expanded their business.
Percentages are the ratios of each selection in the number of companies (number in brackets on the charts below the results for each year) that answered in each fiscal year by the said region/country. Multiple answers allowed.



■ **Companies with good results maintained firm sales activities in primary regions such as China, India, and North America**

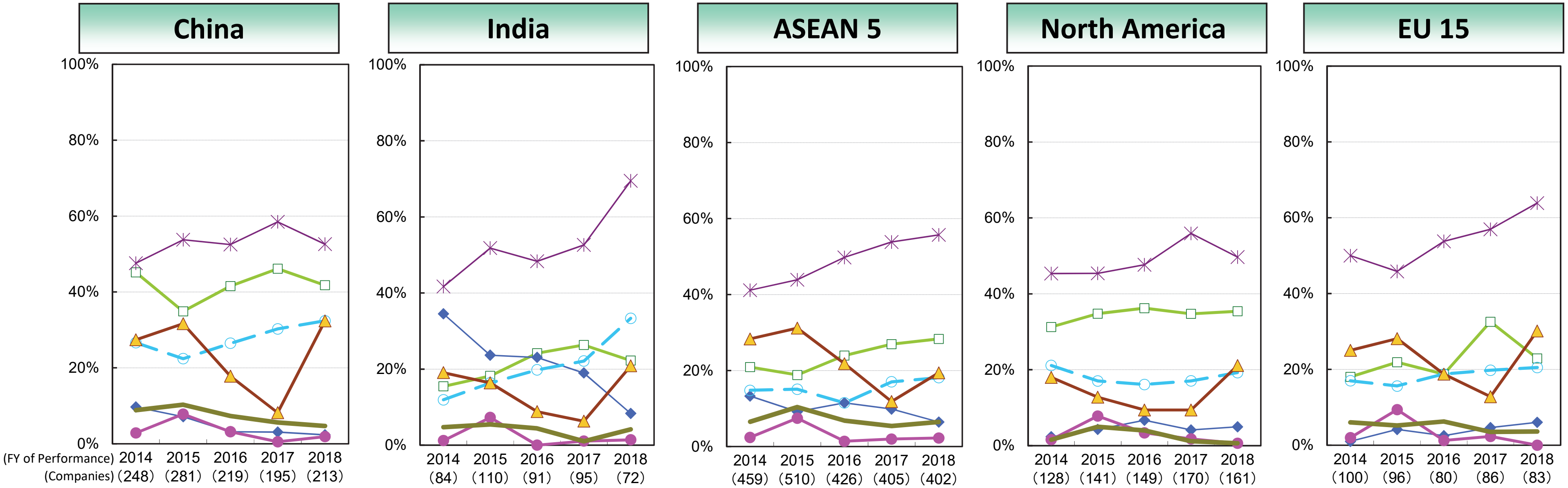
・ This year’s results revealed that even in countries such as China, where there are concerns over economic slowdown, and India, where companies can find it difficult to do business, a certain number of firms were able to maintain their sales.

■ **Exports remained strong in ASEAN 5 and companies moving their businesses into full-gear in India**

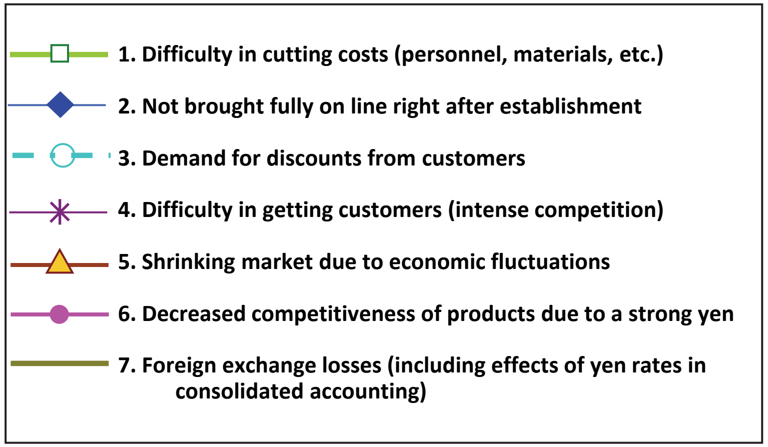
・ There was a stable, but high percentage of responses for “Good performance of exports in the country/region” in ASEAN 5 countries. Although many of these countries trade with China - which is in the midst of an economic slowdown – the fact that exports to the US and trade within the ASEAN region remained strong was the factor underlying this result.

・ In addition, decreasing trends in China for “Successful cost cuts” implies that these measures are nearing their limits. In India, the decrease in “Manufacturing facilities brought fully on line” and increase in “Successful cost cuts” have continued from the previous year. This suggests the situation where companies operating in India are moving their businesses into full gear.

Chart 2-8. Trends in Reasons for Unsatisfactory profitability



Note: Companies that answered “1. Unsatisfactory” or “2. Somewhat unsatisfactory” were asked to give reasons for their response by region/country where they have expanded their business. Percentages are the ratios of each selection in the number of companies (number in brackets on the charts below the results for each year) that answered in each fiscal year by the said region/country. Multiple answers allowed.



■ Sharp increases for “Shrinking market due to economic fluctuations” in all regions, including China

- There was a sharp increase in all regions for the percentage of companies answering “Shrinking market due to economic fluctuations” in this year’s survey. This rise was particularly striking in China (8.2% → 32.4%), India (6.3% → 20.8%), and the EU15 (12.8% → 30.1%). Future uncertainty regarding the outcome of political and economic issues, such as trade friction and Brexit, and concerns about economic slowdown seem to be creating concerns that are impacting the profitability of businesses in these countries.

■ Increases in “Difficulty in getting customers” in India and the EU15

- In India responses to “Difficulty getting customers (intense competition)” have been declining annually, indicating local operations moving into full-swing. There were concurrent increases in “Difficulty in getting customers (intense competition)” and “Demand for discounts from customers” showing that businesses are facing the difficulties of India as a marketplace head on. “Difficulty getting customers” also increased in the EU15, but when probed for more information, one firm (from an unlisted industry) responded that “Intensifying competition with Chinese products due to improved connectivity with China”.

3. Business Prospects and Promising Countries/Regions

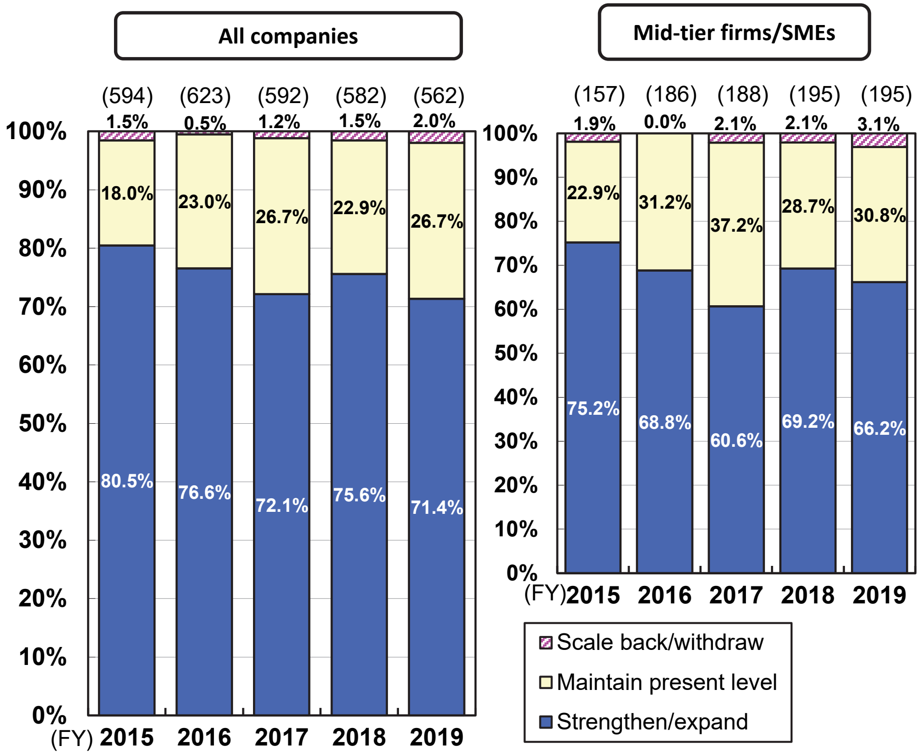
3. (1) Future Business Expansions: Stance Regarding Strengthening/Expanding Business (Domestic/International)

Question

Responding companies were asked about their mid-term (next 3 years) prospects relating to their overall domestic and overseas businesses.

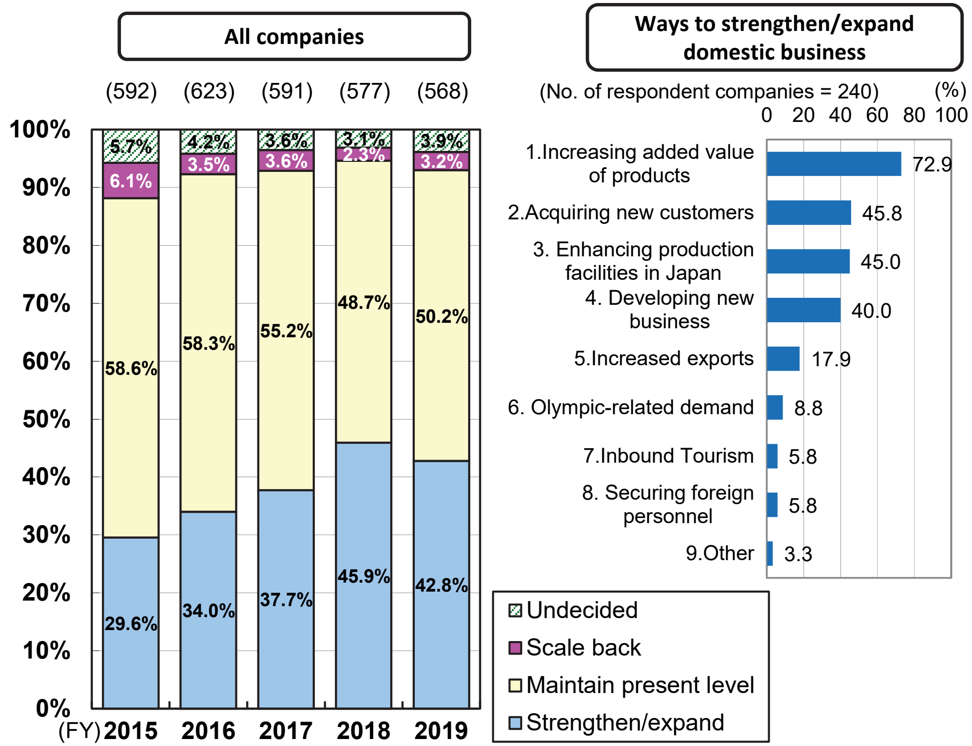
International

Chart 3-1. Mid-Term (Next 3 Years) Prospects for Overseas Business Expansion



Domestic

Chart 3-2. Mid-Term (Next 3 Years) Prospects for Domestic Business Expansion



■ **While maintaining the stances towards the strengthening/expansion of overseas business, staying with the status-quo increased this year.**

・ 401 companies (71.4%) responded that they were planning to strengthen or expand their overseas business in the mid-term. Trends in recent surveys indicating that businesses ?are tending to maintaining present levels for their overseas business have continued. Overall, there was a relatively weak level of response towards strengthening/expansion this year.

■ **Maintaining high levels - 42.8% of companies answered "strengthen/expand" their domestic business**

・ Despite a slight decrease over the previous year, 42.8% of companies responded that they would "strengthen/expand" their domestic operations in the mid-term prospects, and the levels remained high overall. Areas to be strengthened included "Increase added value of products" (72.9%), which continues its prominence from the previous year. Around half of the companies responded "Acquiring new customers" (45.8%) and "Enhancing production facilities in Japan" (45.0%), indicating that they are attempting to raise the level of their domestic operations. During the interviews, a precision machinery manufacturer responded, "We have top class technologies. Currently, we are therefore focusing on gathering issues around the world that require our technology, instead of expanding overseas".

Definition of "Overseas business": Overseas business includes outsourcing of production and procurement, etc., that each company works on, in addition to the business activities such as manufacturing, sales, and research and development at their overseas bases.

Chart 3-3. Trends in stances towards strengthening/expansion (FY2000 - FY2019)

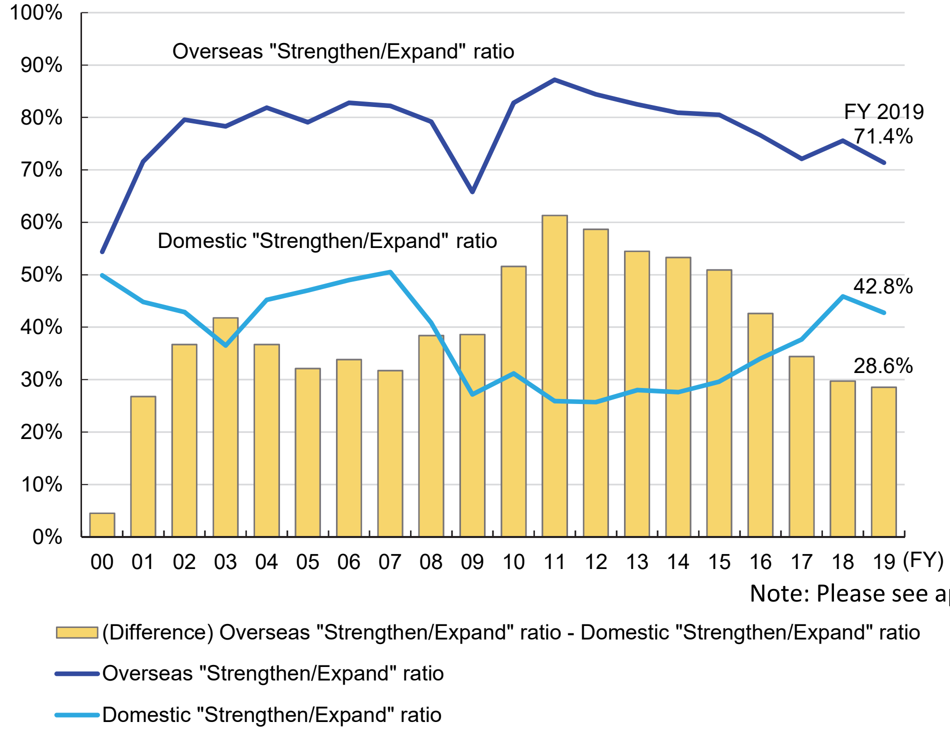


Chart 3-4. Cross analyses of prospects for international and domestic business

Medium-term Prospects (next 3 yrs. or so)

Overseas business	Domestic business	No. of respondent companies	Proportion
Strengthen/expand	Strengthen/expand	198	49.7%
	Maintain present level	173	43.5%
	Scale back	17	4.3%
(398 companies)	Undecided	10	2.5%
Maintain present level	Strengthen/expand	39	26.0%
	Maintain present level	101	67.3%
	Scale back	1	0.7%
(150 companies)	Undecided	9	6.0%
Scale back/withdraw	Strengthen/expand	4	36.4%
	Maintain present level	5	45.5%
	Scale back	0	0.0%
(11 companies)	Undecided	2	18.2%

(n= 559 companies)

Note: Please see appendix for detailed data per-industry.

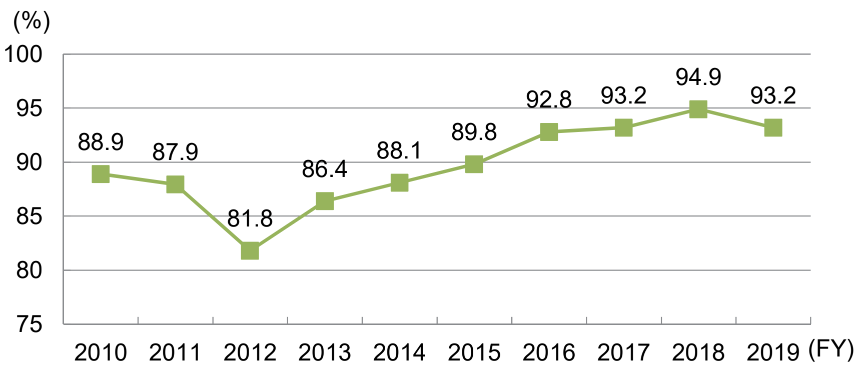
■ Stances towards overseas business remain relatively weak

- While 71.4% of companies answered that they would strengthen their overseas business, 42.8% responded that they would strengthen their international business over the previous year. A comparison between the points for strengthening overseas business and domestic business, a decrease for both domestic and strengthening domestic business revealed a difference of 28.6 points, showing a decrease in the difference over the previous year (29.7 points). This suggests that companies' stances towards overseas business remain relatively weak.

■ Balancing overseas and domestic businesses

- Out of the 398 companies who answered that they would "strengthen/expand" their overseas business in the mid-term, 371 (93.2%) said that they would either "maintain" or "strengthen/expand" their domestic business. Although this was a slight decrease over the previous year, levels remain high overall, revealing that many companies hope to maintain a balance between their overseas and domestic businesses.

Chart 3-5. Of the companies with the answer that they would "Strengthen/expand" their overseas business, proportion of companies that answered that they would also "Strengthen/expand" or "Maintain present level" of domestic business



3. (1) Future Business Expansions: Stances Toward Strengthening/Expanding Business By Industry

Chart 3-6. Prospects for Mid-Term Overseas Business Expansions

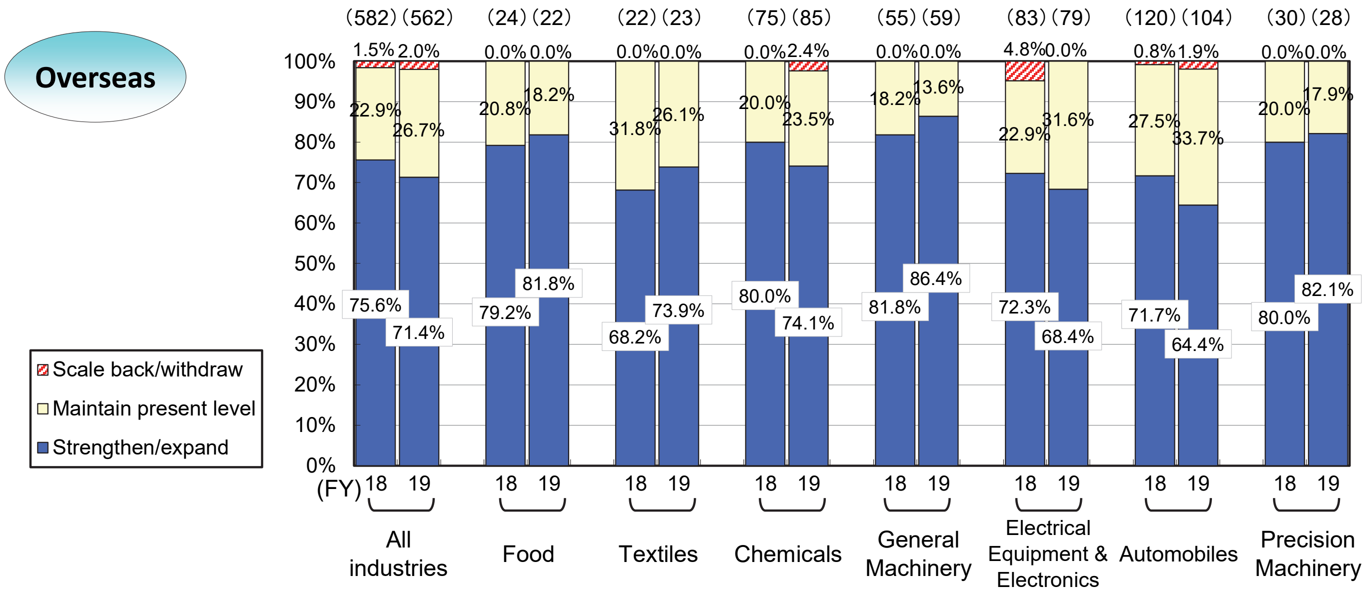
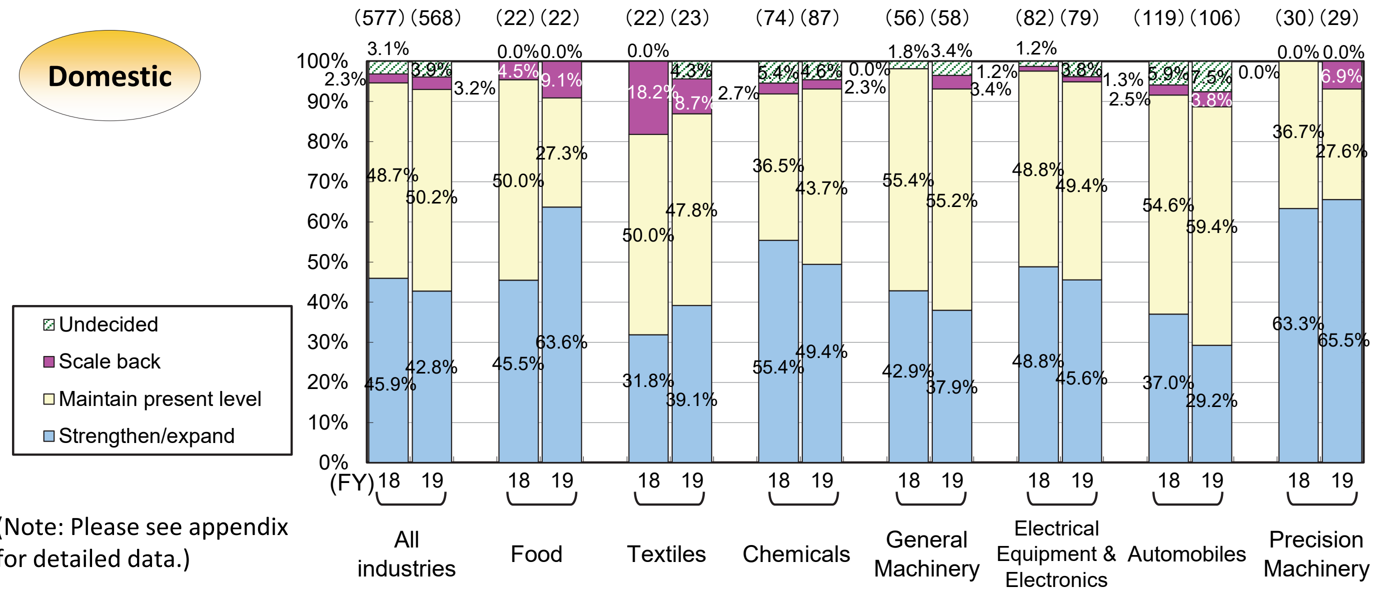


Chart 3-7. Prospects for Mid-Term Domestic Business Expansion



(Note: Please see appendix for detailed data.)

■ Declines in the automotive industry, but high levels maintained in precision machinery and general machinery

- Despite the overall low proportions of companies planning to "strengthen/expand" their overseas business in this year's survey, responses by industry show increases in fields such as precision machinery, general machinery, food, and textiles. This trend has continued from the previous year.
- Although the chemicals, electrical equipment & electronics, and automotive industries were weaker, responses for "strengthen/expand" were around 60% to 80%, maintaining levels seen in previous years.

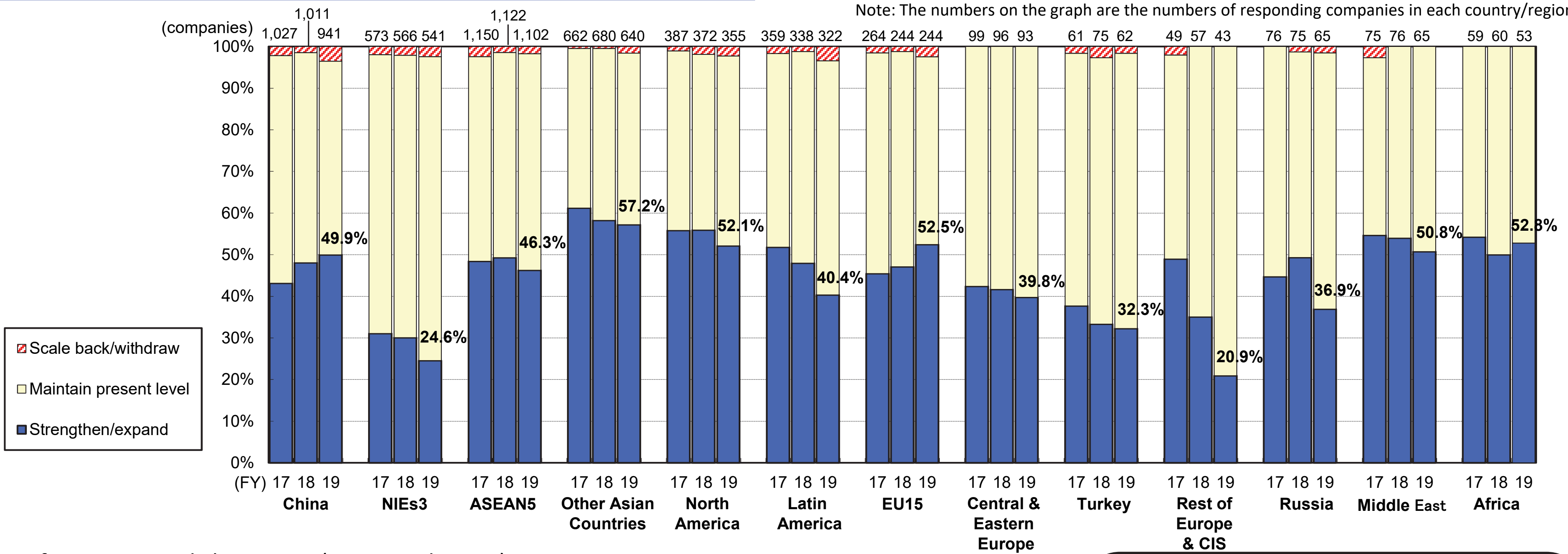
■ Increase in primary industries maintaining present levels, food and textiles show stronger stances

- Levels for "strengthen/expand" were high in the precision machinery (65.5%), chemicals (49.4%), and food (63.6%) industries. Food in particular showed an 8.1% increase over the previous survey. When asked, a respondent from the food industry stated, "Alongside our products, we hope to offer more peripheral services in the domestic market".
- On the other hand, economic uncertainty caused by trade friction led to an increase in maintaining present levels in the major industries compared to the previous fiscal year, which in the end settled down to the same level as previous years.

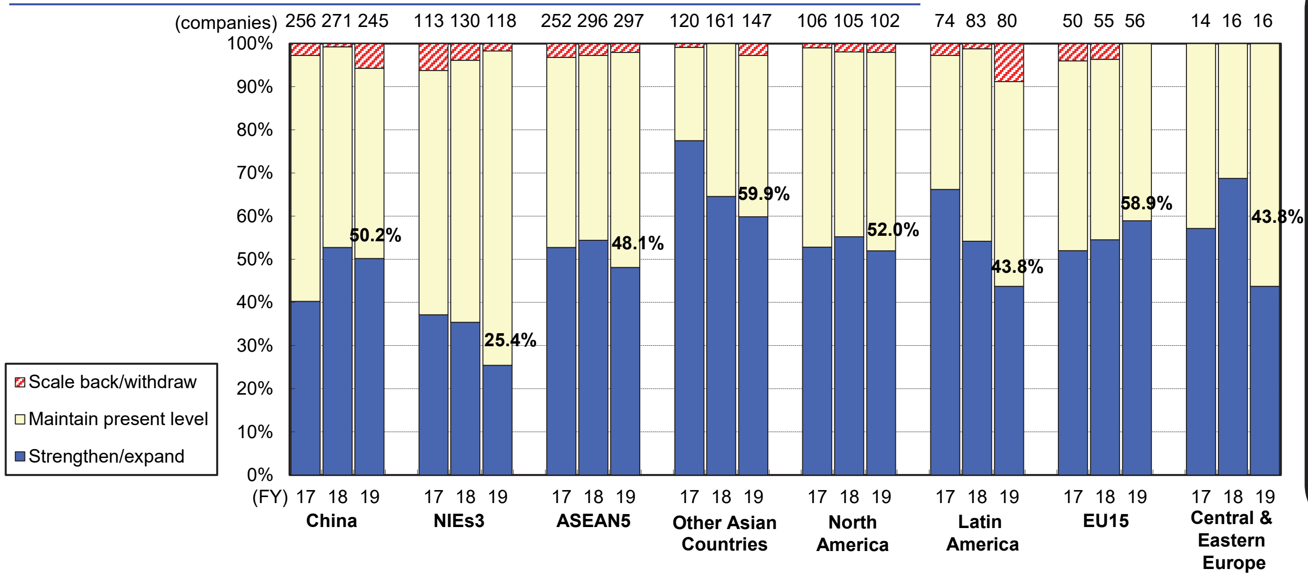
3. (1) Future Business Expansions: Stance Regarding Strengthening/Expanding Business, By Country/Region (1)

Chart 3-8. Prospects for Mid-Term Overseas Business Expansion (Trends by Country)

Note: The numbers on the graph are the numbers of responding companies in each country/region.



Reference: Trends by region (MTEs and SMEs)



Increased regional preference

- Overall, there was a continued proactive stance towards overseas expansion, with some variability among regions.
- This proactive stance was particularly strong in regions such as China (49.9%), North America (52.1%), the EU 15 (52.5%), the Middle East (50.8%), and Africa (52.8%)
- On the other hand there was a decrease in NIES (24.6%), Central and South America (40.4%) and Europe/CIS (20.9%) leading to low levels overall.

More selectiveness amongst MTEs and SMEs

- Amidst the degree of regional preference growing stronger overall, MTEs and SMEs maintained their proactive stance towards China and the EU15 while their stances towards NIES and Central and South America grew weaker. These results show stronger tendencies towards regional selectiveness.

Chart 3-9. Prospects for Mid-Term Overseas Business Expansion (ASEAN 5/Vietnam/India)

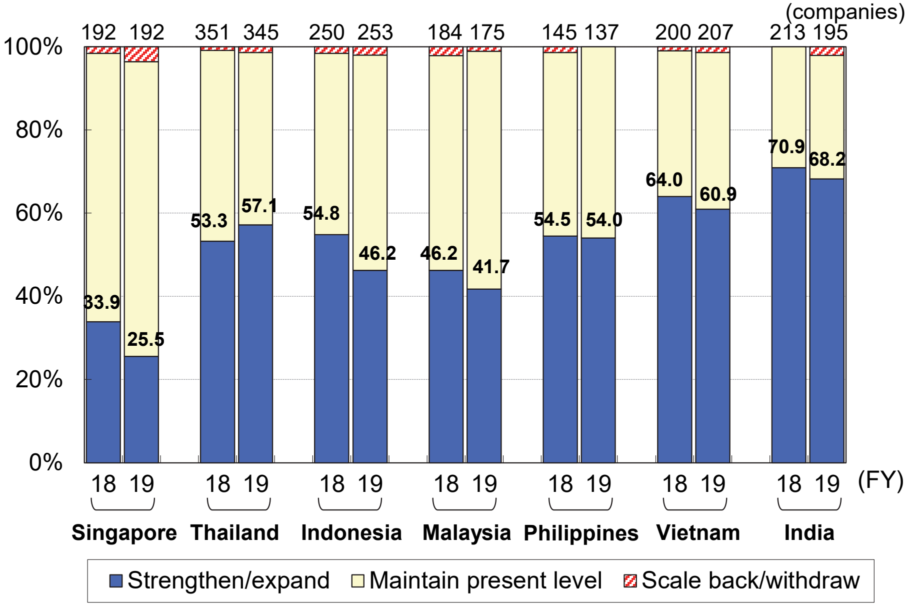


Chart 3-10. (Production) Strengthening/expanding Fields

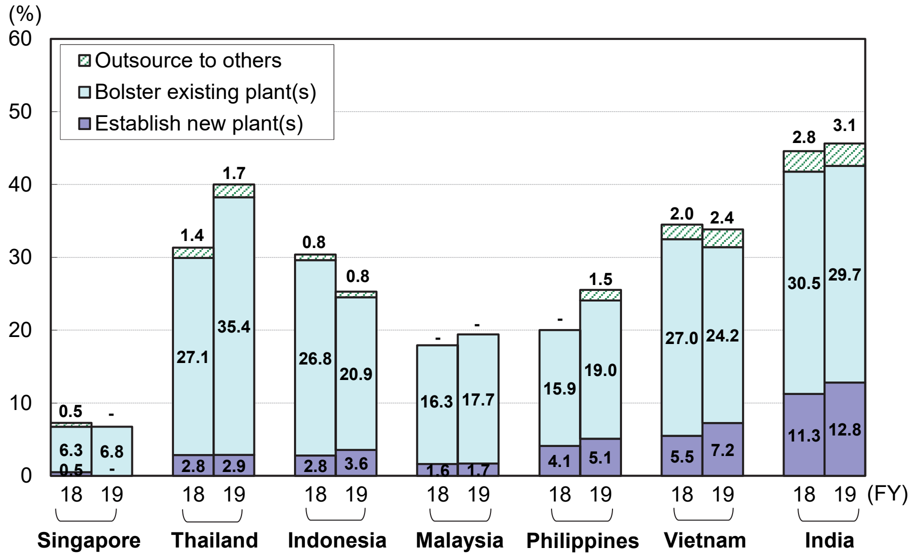
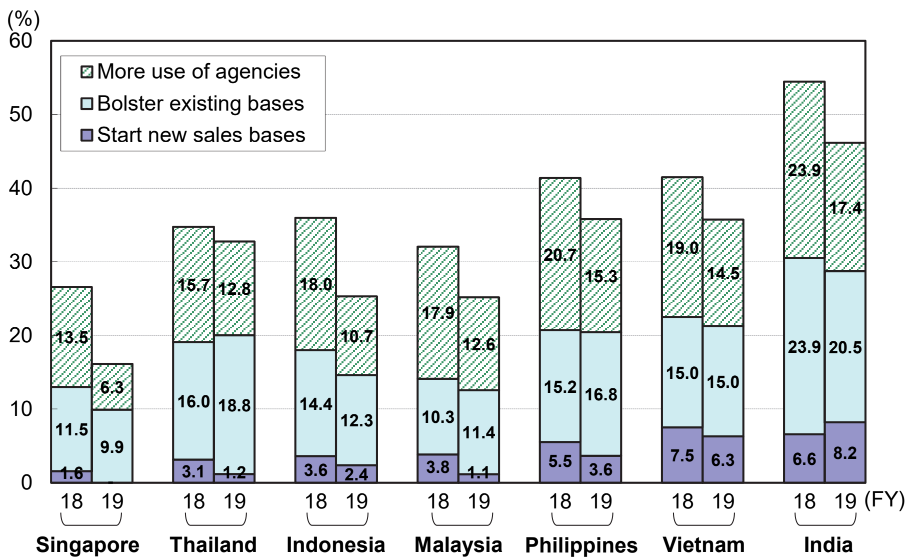


Chart 3-11. (Sales) Strengthening/expanding Fields



■ **Strengthening existing bases in Thailand and new bases in Vietnam and India**

- Looking at the stances towards strengthening/expansion by country, in Thailand, which has maintained the same high levels seen last year, many firms had an intention to strengthen their existing production and sales locations. In the Philippines, Vietnam, and India, companies were focused more on establishing new bases. The strengthening of efforts in these countries is assumed to be a response to the effects of trade friction, with the aim of allowing production to be transferred.
- Many companies indicated that they planned to establish new locations in India in particular, with production locations increasing by 1.5 points over the previous year to 12.8%. Likewise, sales locations increased by 1.6 points to 8.2%, creating relatively high results.

Chart 3-12:
Prospects for Mid-Term Overseas Business Expansion (China, By Region)

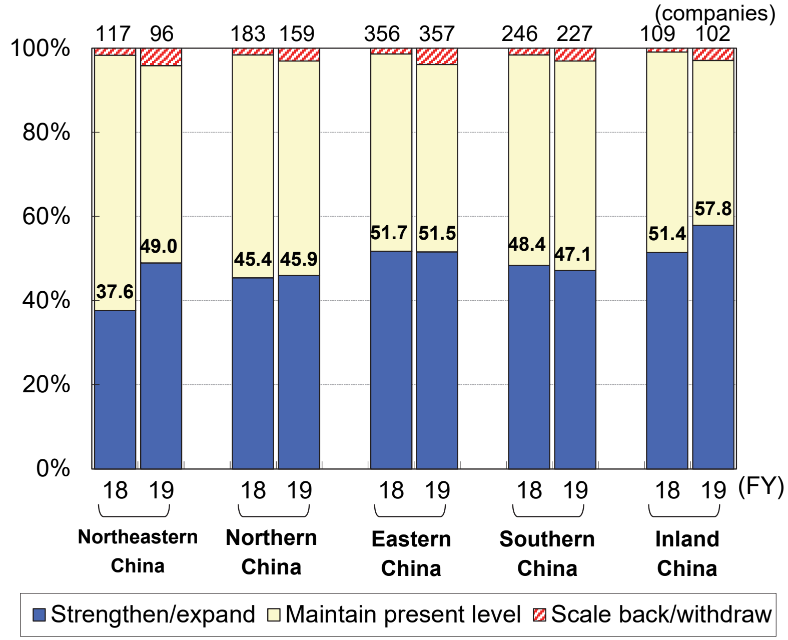


Chart 3-13: (Production) Strengthening/expanding Fields

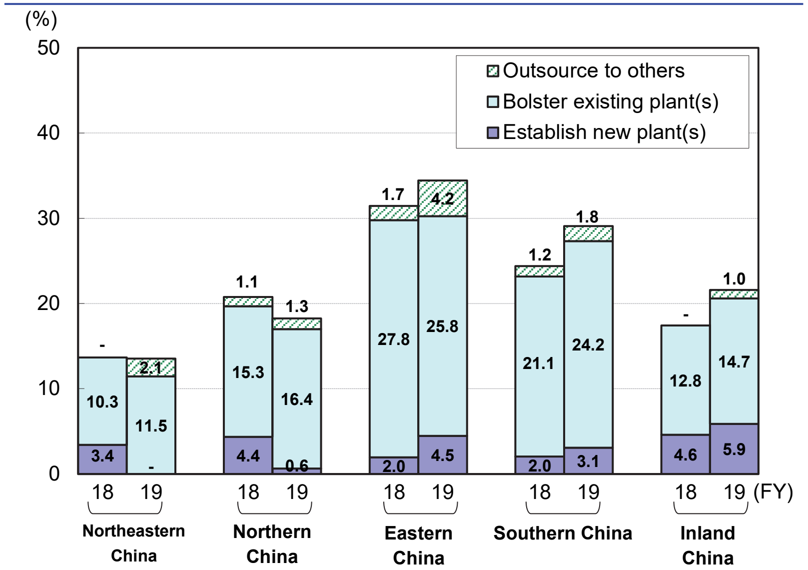
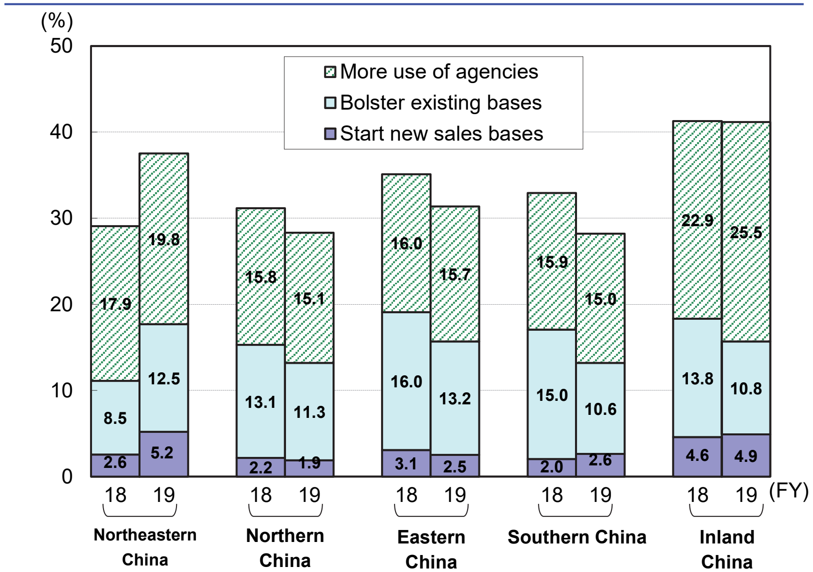


Chart 3-14. (Sales) Strengthening/expanding Fields



■ Stronger interest in the northeastern and inland than northern, eastern and southern regions

- Looking at the results by region in China, there was little regional difference in relation to the stance to strengthening/expanding itself. However, an examination of voting numbers reveals almost the same outcome as last year in the eastern region (356 → 357) but a large decrease in the northern (183 → 159) and southern (246 → 227) regions.
- On the other hand, the inland region saw an increase by 6.4 points to 57.8%, with voting numbers remaining the same as the previous year at 102 companies. There was also a large proportion of votes for new bases, indicating Japanese companies' interest in the region. These trends are considered to be boosted by the Chinese government's effort in improving the investing environment of the inland region including the promotion of infrastructure development in the region.
- In regard to strengthening/expanding sales bases, there was a high proportion of companies looking to strengthen their usage of agencies in all regions. Except for the eastern region, there was a reduction in the proportion of companies working to expand their existing bases compared to the previous fiscal year. This data suggests that expansion of sales networks through collaboration with local partners has been advancing.

Chart 3-15. Prospects for Mid-Term Overseas Business Expansion (Americas, Europe, Middle East, Africa)

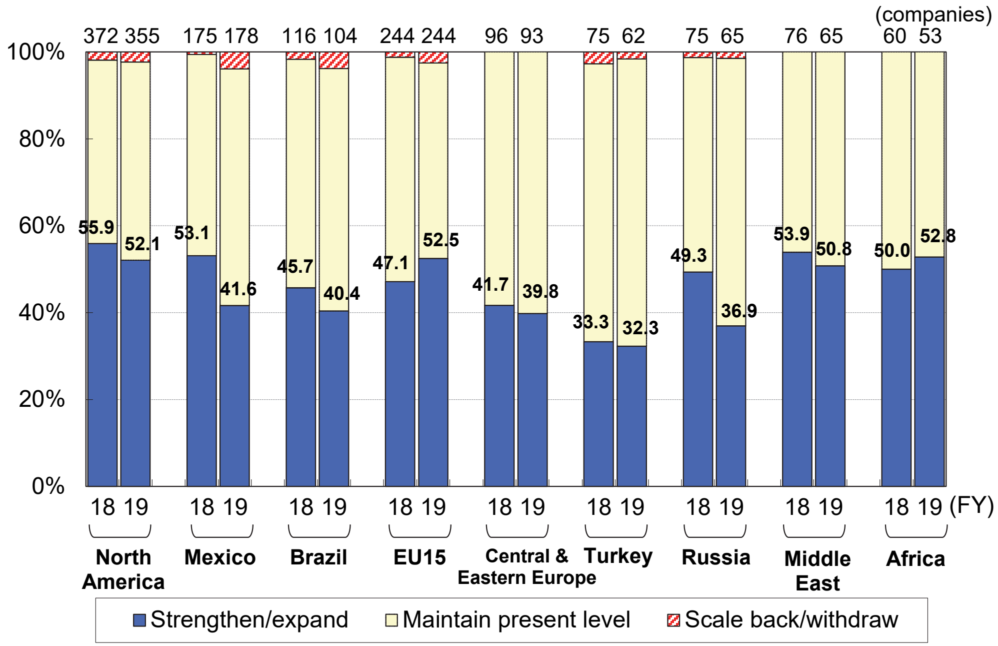


Chart 3-16. (Production) Strengthening/expanding Fields

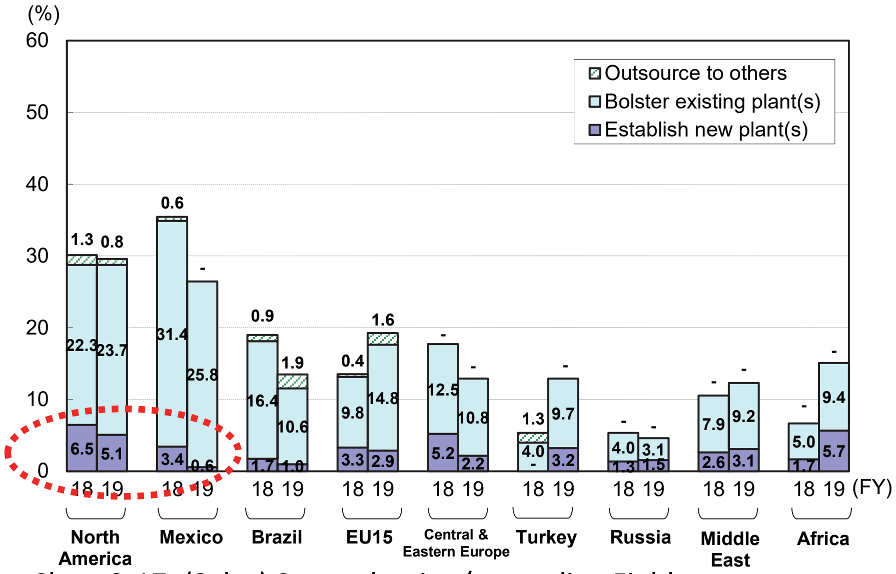
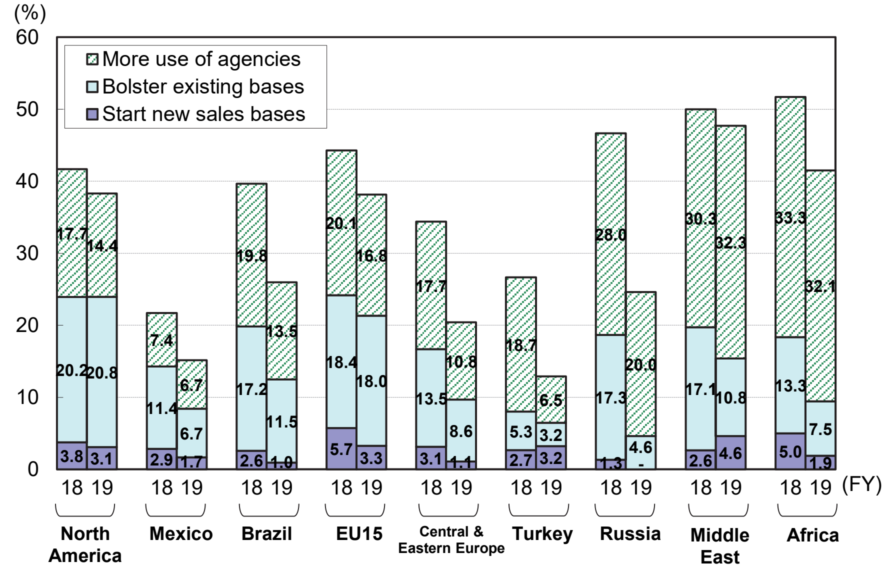


Chart 3-17. (Sales) Strengthening/expanding Fields



■ **Strengthening and expansion in the EU 15; Contrasting outcomes within the Americas**

- In general, there were fewer companies planning to strengthen/expand, but the EU 15 maintained a high overall level of 52.5%. On the other hand, the numbers of companies maintaining the present level increased in both Mexico (53.1% → 41.6%) and Russia (49.3% → 36.9%). It is considered that a lack of clarity surrounding NAFTA and politico-economic trends such as sanctions put the brakes on plans for expansion. In particular, there were decreases across the board in Mexico relating to establishing new production bases. By contrast, the creation of new production sites in North America remained steady.
- In other regions, there was a 3.2% increase for establishing new production sites in Turkey, 0% increase from the previous fiscal year. The industry breakdown shows that this consisted of one company in general machinery and another in chemicals. Meanwhile, there was an increase of 4.0 points (5.7%) for companies answering that they planned to establish new production sites in Africa. The industry breakdown revealed one company involved in nonferrous metals and two involved in automotive parts.

Question

Please circle your company's business prospects in the EU14 and the UK separately. Also, please select the major factors that influenced each of your choices (multiple choice).

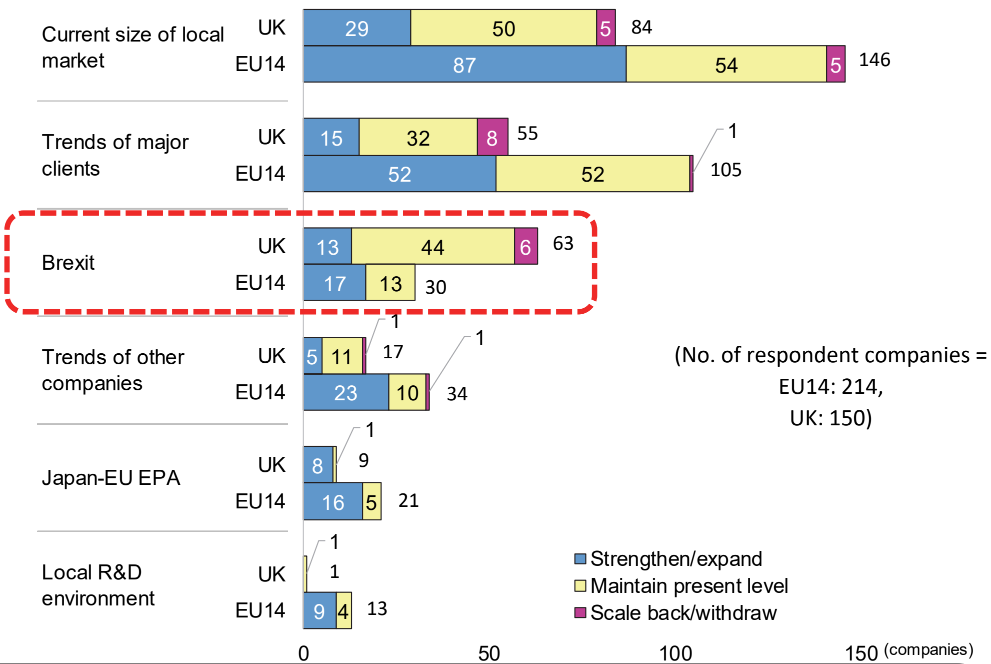
Chart 3-18. Business Prospects for EU14 / UK

(companies)

(No. of respondent companies = EU14: 223, UK: 158)

		UK				
		Strengthen/ expand	Maintain present level	Scale back /withdraw	No response	Subtotal
EU 14	Strengthen/ expand	36	47	7	28	118
	Maintain present level	0	51	4	44	99
	Scale back /withdraw	0	3	2	1	6
	No response	5	3	0	13	21
	Subtotal	41	104	13	86	244

Chart 3-19. Factors Influencing business prospects for EU14/UK



■ **Majority chose "maintain present level" for the UK business and "strengthen/expand" for the EU14. "Scale back/withdraw" in the UK doubled that of EU14**

- Differences in the business sentiment between the UK and EU14 can be seen. For the UK business, majority of companies (104) responded that they would "maintain present level", while for the EU14 the largest share of companies chose "strengthen/expand." Also, total of 13 companies, mostly auto parts makers, answered "scale back/withdraw" for UK, and this number was more than double the amount of companies that answered with the same choice for EU14 (6 companies).
- Chart3-18 shows 7 companies planning to "strengthen/expand" their operations in the EU14 while scaling back/withdrawing from the UK. Although this is a small number, it shows that certain companies have decided to shift their European business to the EU side. Meanwhile, 41 companies chose "strengthen/expand" for the UK; mostly machinery, electrical equipment & electronics, and food companies. It is likely that these companies already have a strong foothold in the UK market.

■ **Perceptions of Brexit differ**

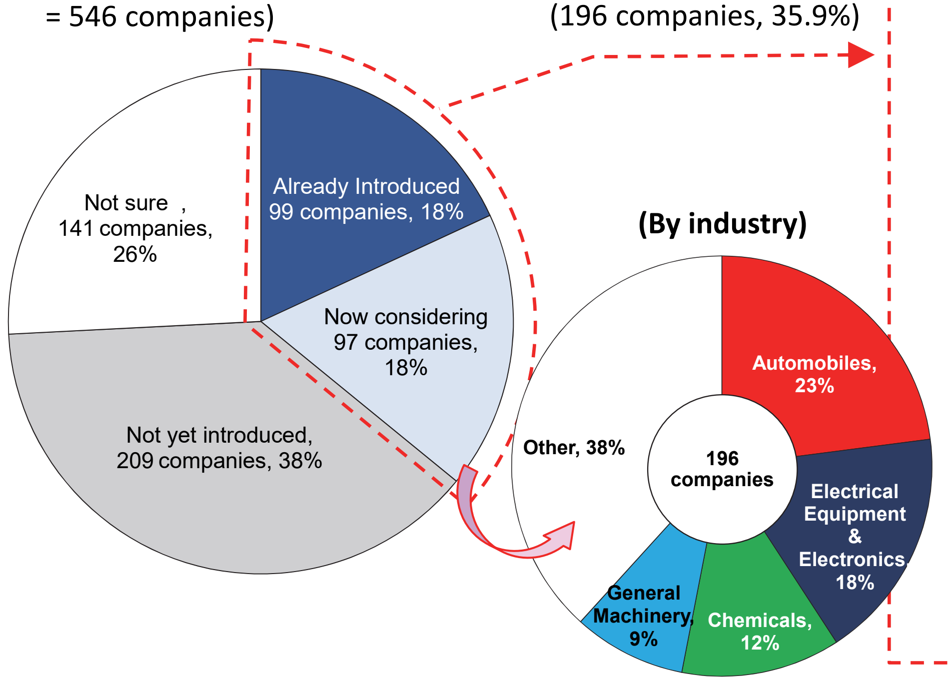
- Companies were also asked about the major factors that affected the choices made for each UK/ EU14. For both the UK and EU14, the majority of companies responded with "current size of local market," which shows the importance of the market size on making investment decisions.
- On the hand, "Brexit" was the second most important factor impacting the business prospects for UK (63 companies). Out of these, 6 companies selected "scale back/withdraw" as a result. As for EU14, "Brexit" was the fourth factor (30 companies). These data reveals that the impact of Brexit on EU operations is relatively limited. In the interviews, a nonferrous metals company responded, "We were already considering moving our UK business to Central & Eastern Europe, but the prolonged uncertainty surrounding Brexit pushed us to withdraw from the UK earlier than planned."

3. (2) Future Business Expansions: Plans for Factory Automation (FA)

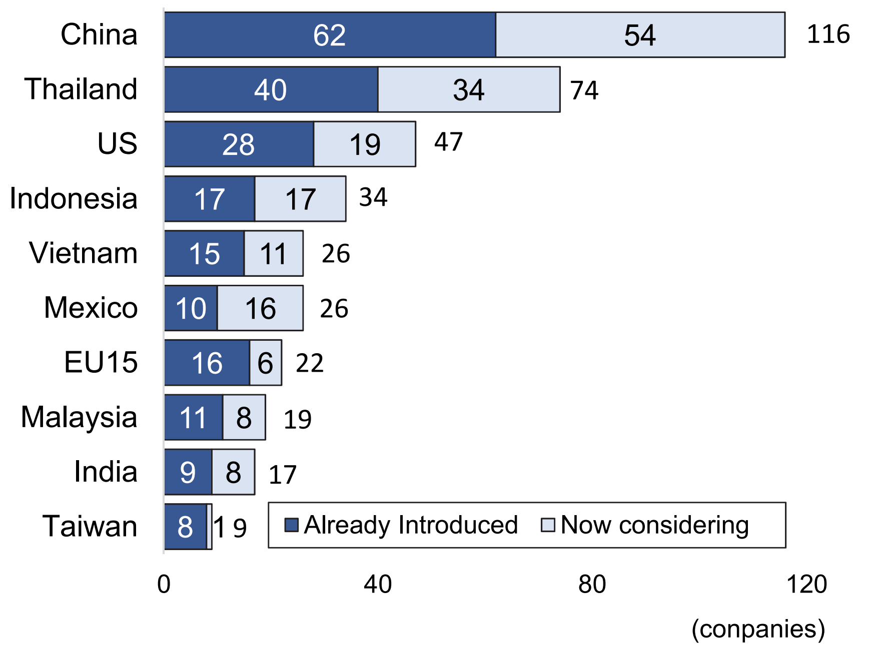
Q Has your company introduced, or are thinking of introducing, Factory Automation (FA) related technologies/facilities to overseas affiliates? (Here, the word "FA" covers a broad range of activities, including automation/mechanization of certain processes, upgrade of existing production facilities, optimization within and between factories.)

Chart 3-20. Status of Introduction of FA Equipment/Technologies to Overseas Production Sites

1. Overall (total answers = 546 companies)



2. Countries to introduce FA technology/facilities



■ **Nearly 40% of companies are acting toward Factory Automation (FA) in their overseas factories**

- Companies were asked about their current status of introduction of FA tech/facilities to their overseas factories. 35.9% (196 companies) responded that they have "already introduced" or are "now considering" to introduce FA overseas. By industry, a wide range of industries, including automotive and electrical equipment & electronics, have answered so. (Although not shown on the chart) Automotive part and electrical/electronic part manufacturers in particular showed a very proactive stance.
- Companies that answered that they are acting toward implementing FA overseas were also asked about target countries. China gained the most vote (116 companies), followed by Thailand (74), US (47), Indonesia (34), and Vietnam (26). In particular, there were a large number of companies "now considering" to introduce FA in China and Thailand, showing the high potential of these countries in the area of FA.
- When asked about the reason why they started thinking of introducing FA to overseas factories, many companies commented that "Particularly in Asian nations such as China, Thailand, and Indonesia, the sharp increase in local labor costs are making it difficult to maintain labor-intensive business model. Thus we have decided to upgrade our equipment; we hope to achieve cost cut in the long run also" (Electrical equipment & electronics/other). Some also expressed that "We first invested in new FA equipment in our mother factory in Japan to reduce personnel and to achieve optimization before bringing them to our overseas factories(electrical equipment & electronics)."

Question

Please provide us with the names of up to 5 countries that you may potentially expand your operations to in the mid-term (next 3 years). (Multiple answers allowed)

Chart 3-21. Countries for Potential Expansions in the Mid-Term (Next 3 Years)

*Percentage of votes (%) = Number of votes for country or region / Number of companies responded to this question

Ranking 2019	←	Ranking 2018	Country/Region	No. of Companies 2019	No. of Companies 2018	Percentage Share(%) 2019	Percentage Share(%) 2018
			(Total)	404	431		
1	↑	2	India	193	199	47.8	46.2
2	↓	1	China	180	225	44.6	52.2
3	↑	4	Vietnam	147	146	36.4	33.9
4	↓	3	Thailand	133	160	32.9	37.1
5	—	5	Indonesia	102	131	25.2	30.4
6	—	6	US	93	124	23.0	28.8
7	↑	8	Philippines	48	43	11.9	10.0
8	↓	7	Mexico	47	59	11.6	13.7
9	—	9	Myanmar	41	37	10.1	8.6
9	↑	10	Malaysia	41	36	10.1	8.4
11	↑	14	Taiwan	18	19	4.5	4.4
12	↑	13	Korea	15	22	3.7	5.1
12	↑	16	Singapore	15	15	3.7	3.5
14	↓	11	Germany	14	25	3.5	5.8
15	↑	18	Australia	13	12	3.2	2.8
16	↑	17	Cambodia	12	13	3.0	3.0
17	↓	12	Brazil	11	24	2.7	5.6
18	↓	15	Russia	9	16	2.2	3.7
18	↑	20	France	9	7	2.2	1.6
20	↓	19	Turkey	8	9	2.0	2.1

Note 1: Countries with the same rank were ordered based upon their rank in the previous survey.

Note 2: See appendix for results prior to FY2018.

■ **India ranked highest for first time in 3 years, China dropped drastically**

- The number of respondents to this year's survey declined from 431 companies to 404 companies. Generally there was a slightly less reactiveness towards expanding business overseas. In the midst of this, 193 companies selected India (an increase of 1.6 points), putting it back in the lead for the first time in 3 years. Meanwhile, China saw a sharp decline from 225 companies in the previous year to 180 companies this year. This could be against a backdrop of the high expectations seen in last year's survey, as well as increased caution caused by friction between the US and China and the economic slowdown.

■ **Vietnam, the Philippines, and Malaysia emerging in relative terms**

- The decline seen with China caused Vietnam (147 companies), the Philippines (48), and Malaysia (41) to increase in rank. Although the number of votes were around the same as the previous fiscal year, they emerged in relative terms in the context of increasing global uncertainty. On the other hand, both Thailand (133 companies) and Mexico (47) saw fewer votes.

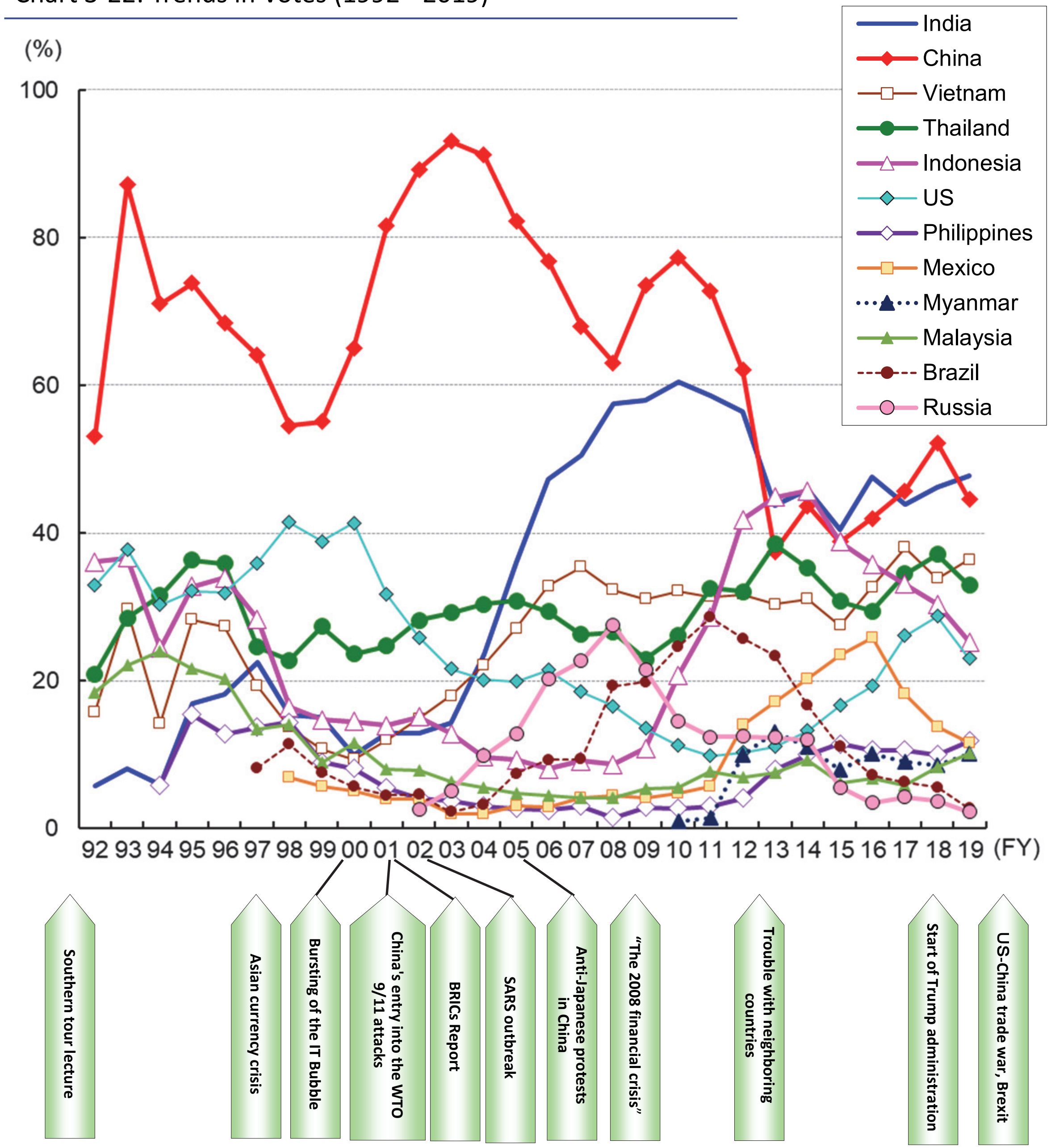
■ **The US also turning downward in votes for the first time in 8 years.**

- The US did not see a change to its rank, but the upward trend seen in the previous few years has changed to a decline with a large decrease in votes over the previous year (124 companies → 93 companies) in a similar manner to China. However, (not shown in the chart) the US had the highest number of companies choosing it as their top prospect after China and India, and there was a relatively small number of firms who ranked the US as their top choice and then select other countries as potential countries. This reveals that many companies still see the US as a firm prospect.

<Countries ranked 21 or below (free entry)>

Ranking	No. of Companies	Country/Region
21	7	Bangladesh, EU, North America
24	6	Italy
25	5	Netherlands
26	4	Laos, Czech, UK
29	3	Japan, Nigeria, Morocco, Europe, Canada,
35	2	New Zealand, Romania, Serbia, South Africa
39	1	Hong Kong, Southeast Asia, Sri Lanka, Other countries around Thailand, Pakistan, UAE, Israel, Ethiopia, Tanzania, Egypt, Angola, Ghana, Africa, Poland, Hungary, Austria, Columbia

Chart 3-22: Trends in Votes (1992 - 2019)



■ Polarization of prospective countries continues

- Since 2014, China and India have been competing for first place; in the meantime, there has been no change in the structure of further widening the gap between the lowest and top ranked countries.
- However, both the US - which has seen a drop in votes this year - and Indonesia - which has been unable to stop its ongoing decline - are closing in on 20%. If these declines continue, they may have to face long-term slumps.

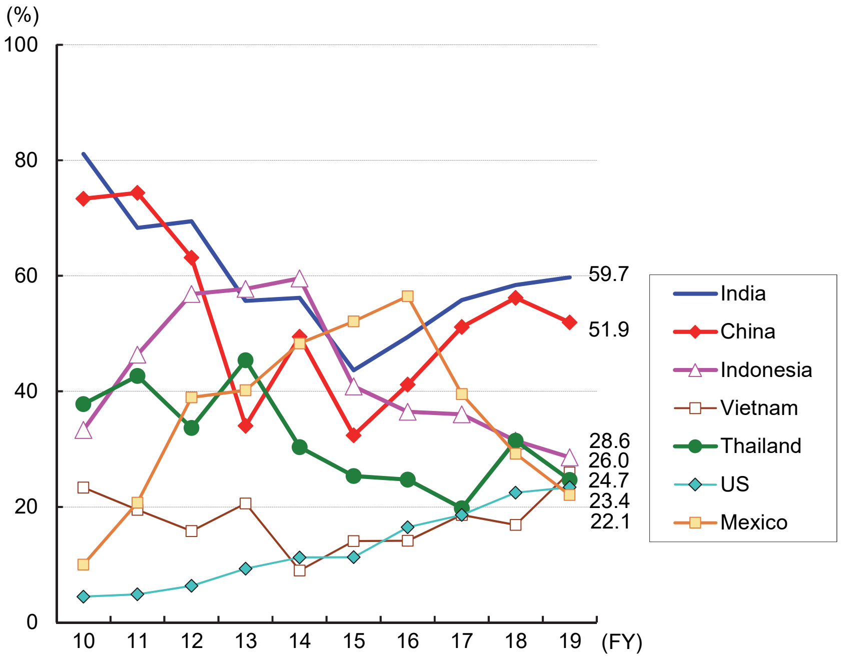
■ New potential countries emerging in Asia

- There have been two distinct sets of ranks established in Southeast Asian countries since 2017. The upper rank includes Vietnam and Thailand, with the other countries in the lower rank. This pattern has also continued this year.
- However, in this year's survey the steady trends were seen in the Philippines, Myanmar, and Malaysia as the next-generation candidates for potential countries, despite their low votes. This suggests that they are seeking the opportunity to increase in rank. This year the Philippines already slightly rose above Mexico. It is expected if these countries can move up in the ranks going forward.

■ Continued Decline in Mexico

- In 2016, Mexico's share of the vote turned from increase to decrease, and this trend has continued through to this year. The country has been struggling to gain opportunities to reverse the vote.
- Despite this continuing downward trend with Mexico in the potential countries survey, companies with their business bases already operating in Mexico indicate their stance to "strengthen/expand" or "maintain present level" of operations. Considering some results that for these companies political situations such as the USMCA are not necessarily impacting their business decisions, caution must be given when evaluating Mexico's downward trend (see appendix).

Chart 3-23. Trends in Votes By Industry (Automotive)



■ **Increases in India, Vietnam, and the US for automotive industries,**

- Examining the numbers of votes by industry reveals differing aspects. The extent of decline in the automotive industry in China was less than in the overall results. Similarly, although the US dropped in the overall results, a continued upward trend was seen amongst automotive companies. However, Mexico is seeing a decline in both the overall and by industry results. This indicates that the automotive industry's views of the country are impacting its results as a whole.
- Automotive sales in Thailand have been edging downward recently and the number of votes declined, but it has retained the overall level as seen in previous years.

■ **India takes the highest place for the 4 major industries, the Philippines expands its support base**

- The number of votes for the 4 major industries reveals that India is in top place in all of them (China had the equal ratio for electrical equipment & electronics). In particular, this year India gained +10 votes and +5 votes in Chemicals and general machinery respectively (ranked 3rd and 2nd respectively in the previous fiscal year). This result confirmed that there were increased prospects for the country across a wide range of industries.
- Despite the Philippines not standing out, it still saw an increase by 4 votes in electrical equipment & electronics, taking it to the 4th place. An additional 2 votes for chemicals took it to the 9th, and 4 votes for general machinery took it to the 7th place. These changes show that the country is increasing its support base.
- Vietnam, which has been gaining expectations as an alternative business destination due to the friction between the US and China, saw increases of 5 votes for automotive, 5 for electrical equipment & electronics, and 1 for chemicals. It saw a decrease only for general machinery by 5 votes over last year.

Chart 3-24. Countries for Potential Expansions in the Mid-Term (Next 3 Years) (4 Major Industries)

Automobiles

Rank	Country	FY2019 (Total 77)	FY2018 (Total 89)
1	India	46	52
2	China	40	50
3	Indonesia	22	28
4	Vietnam	20	15
5	Thailand	19	28
6	US	18	20
7	Mexico	17	26
8	Philippines	9	9
9	Myanmar	5	6
10	Malaysia	4	4

Electrical Equipment & Electronics

Rank	Country	FY2019 (Total 55)	FY2018 (Total 59)
1	India	26	36
1	China	26	26
3	Vietnam	25	20
4	Philippines	15	11
5	Indonesia	14	10
6	Thailand	13	19
7	US	8	11
7	Myanmar	8	8
9	Malaysia	7	7
10	Mexico	6	6

Chemicals

Rank	Country	FY2019 (Total 64)	FY2018 (Total 55)
1	India	35	25
2	China	34	37
3	Vietnam	28	27
4	Thailand	23	23
5	US	19	22
6	Indonesia	12	17
7	Malaysia	8	5
8	Korea	6	6
9	Mexico	5	6
9	Philippines	5	3
9	Myanmar	5	2

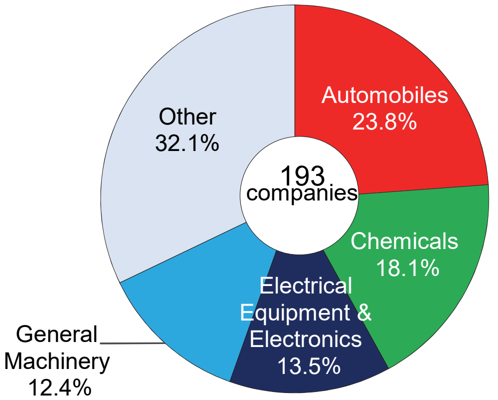
General Machinery

Rank	Country	FY2019 (Total 46)	FY2018 (Total 47)
1	India	24	19
2	Thailand	21	19
3	China	18	24
4	Indonesia	15	17
5	Vietnam	14	19
6	US	11	16
7	Philippines	8	4
8	Germany	5	6
8	Myanmar	5	5
8	Malaysia	5	4

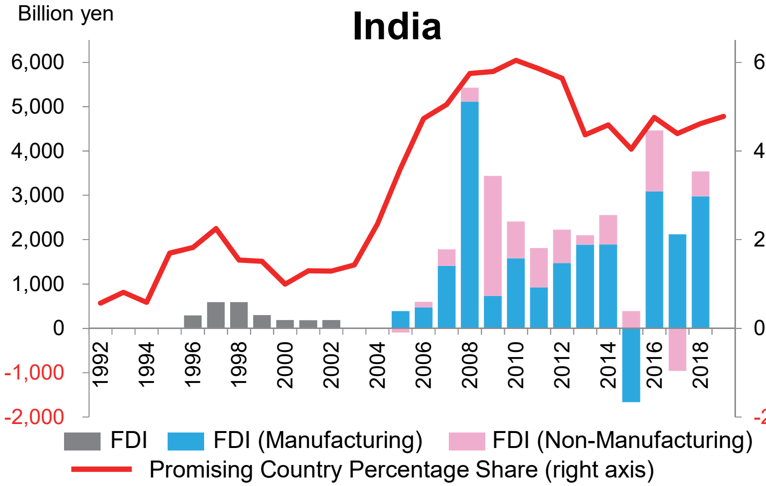
No.1 India (↑)

Percentage Share : 47.8% (last year +1.6pt)
Highest record : 60.5% (2010)
Lowest record : 5.7% (1992)

Company breakdown (by sector)



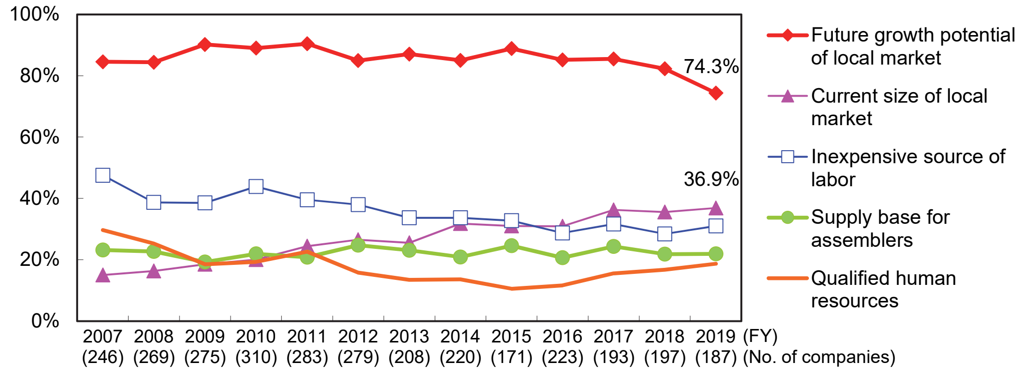
Percentage Share and Outward FDI of Japan



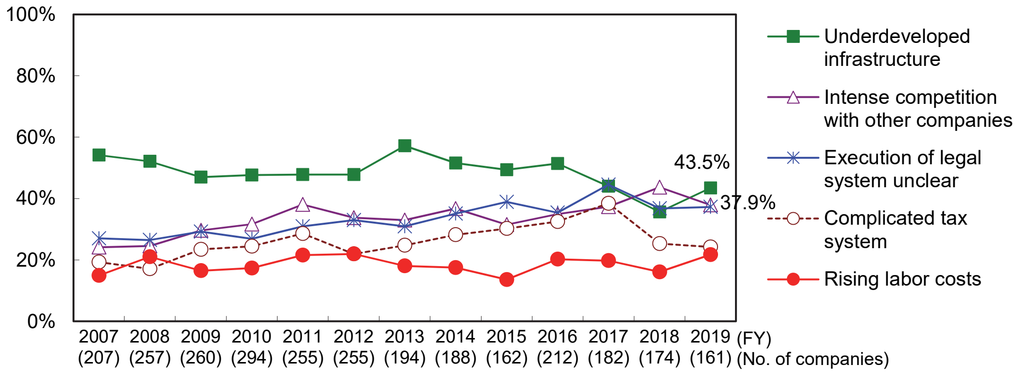
■ **First place in three years**

"Future growth potential of local market" is the highest among the top 10 countries. Local Japanese companies seem to have entered full-scale operation, and plowing the local market would be their next theme. Despite the conflict with the US in terms of tariffs, India's relation with US is not as conspicuous as China, so in the backdrop of China's fall in the rankings, India regained the top spot for the first time in three years. Since policy related issues, such as infrastructure development and uncertainty of legal operation, are strongly felt, the government is expected to improve the business environment and to address the recent economic slowdown to attract further investment from Japan.

Promising reasons



Issues

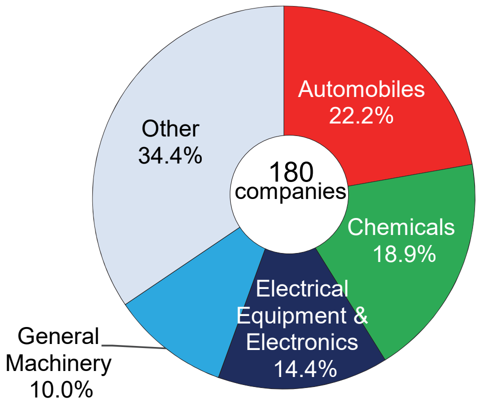


(Note 1) "Number of responding companies" here indicates the number of companies that answered the "reasons" and "issues" among the companies that answered for the question for Figure 3-21.
(Note 2) "Ratio" is the number of companies that chose each choice divided by the number of companies that responded to the question itself.

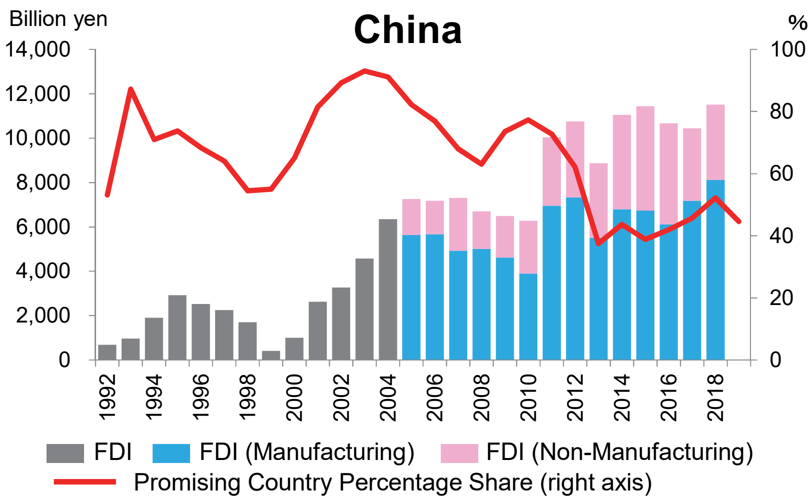
No.2 China (↓)

Percentage Share : 44.6% (last year-7.6pt)
Highest record : 93.1% (2003)
Lowest record : 37.5% (2013)

Company breakdown (by sector)



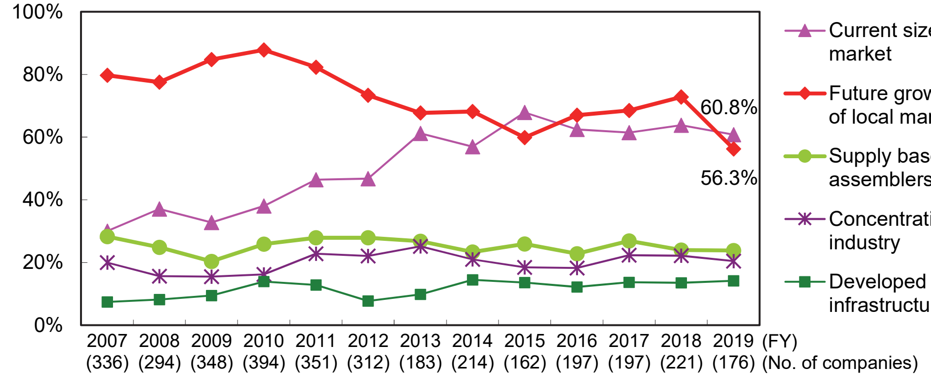
Percentage Share and Outward FDI of Japan



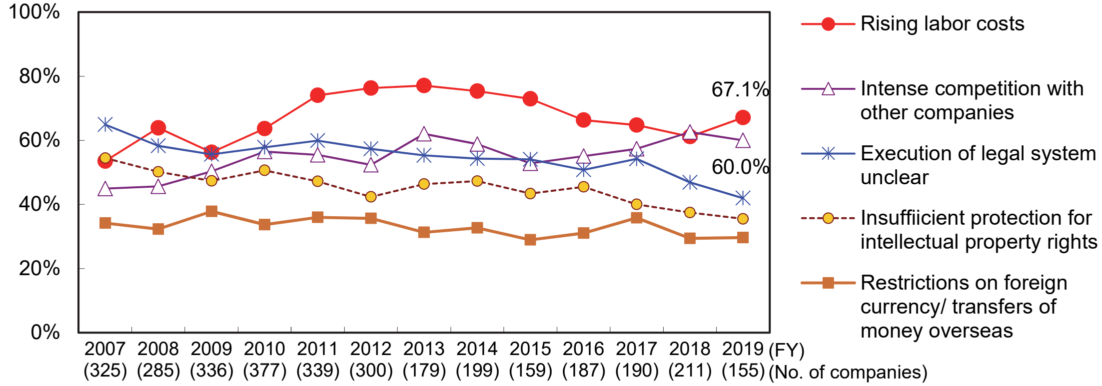
Retreat to 2nd place with internal and external issues at hand

The friction between the US and the slowdown of the domestic economy has lowered market growth expectations, bringing down China to the 2nd place in the rankings. The percentage share dropped 7.6 points from the previous year, the biggest drop among the top 10 countries, showing the growing cautiousness among the respondents. On the other hand, China's huge market cannot be ignored, and companies are trying to maintain their local businesses by taking measures such as supply-chain reorganization to avoid the negative effects of the US-China trade friction (see next page).

Promising reasons



Issues

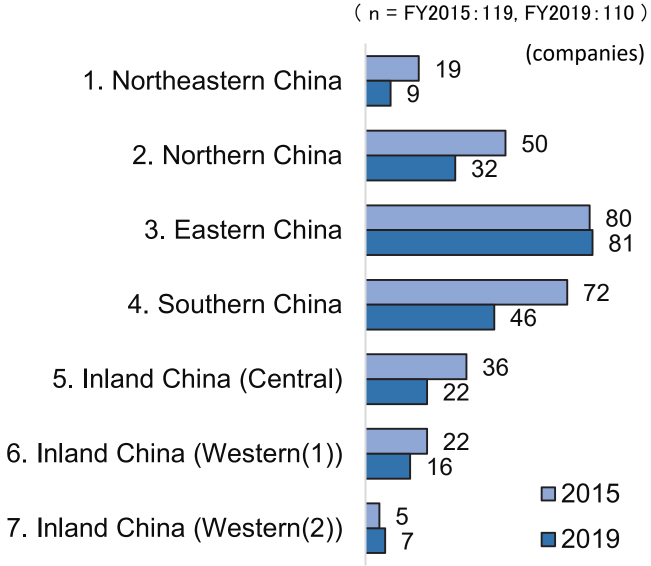


(Reference: Changes in China)

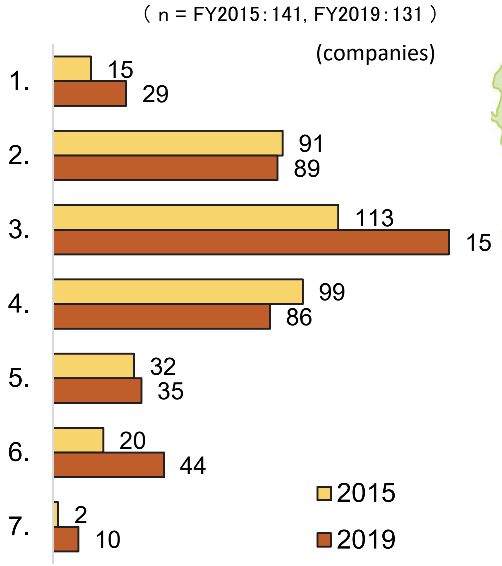
Question: Which Chinese province/city your is particularly promising for your company, in terms of production and sales? (Multiple choice)

Promising regions in China (Comparison between FY2015 and FY2019)

Production



Sales



Geographical division
1. Northeast China: Longjiang, Jilin, Liaoning
2. North China: Beijing, Tianjin, Hebei, Shandong
3. East China region: Shanghai, Jiangsu, Anhui, Zhejiang
4. South China Region: Fujian Province, Dandong Province, Hainan Province
5. Inland-central regions: Shanxi, Henan, Hubei, Jiangxi, Hunan
6. Inland-western regions ①: Sichuan Province, Chongqing City
7. Inland-western region ②: Sichuan Province, Chongqing City

(Note) The survey in FY2015 was answered by the top three most promising regions in each region. .
The survey in FY2019 is a detailed survey of the promising provinces, cities, and autonomous regions, and aggregated by region (multiple answers allowed). For details, refer to the document.

(Source) National Land Policy Bureau, Ministry of Land, Infrastructure and Transport
Created by the Bank. In Guangdong Province, the Hong Kong Special Administrative Region is not included in South China and is counted as NIEs3.

■ By region, expectations for Eastern China are maintained in terms of production, while in terms of sales the whole country, including Inland areas, have increased its popularity

We asked companies that chose China as a promising country the specific areas they think are promising in terms of production and sales. As a result, on the production side, strong expectations were shown in Eastern China and Inland areas. In terms of sales, the Eastern region was especially well chosen, but it can be seen that expectations for the Northern and Inland areas have increased compared to the previous survey (2015).

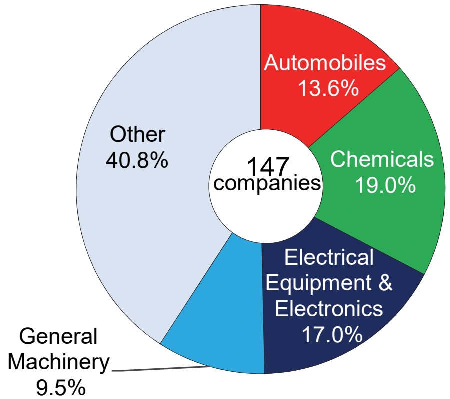
■ By province, Guangdong and Jiangsu are promising in terms od production, and Shanghai and Guangdong in terms of sales

In the 2019 survey, we collected the responses by province also. As a result, Guangdong (42 companies) and Jiangsu (35 companies) in the coastal area continued to attract high attention, while at the same time, inland provinces that are far from coastal areas, such as Hubei (15 companies), Sichuan (10 companies), and Guangxi Zhuang autonomous region (4 companies) were chosen by some. In terms of sales, in addition to Shanghai City (84 companies) and Guangdong Province (70 companies), provinces that gained no voted in terms of production such as Heilongjiang (5 companies) and Shaanxi (4 companies) gained votes too, showing that the expectation for the local market are spreading throughout the country.

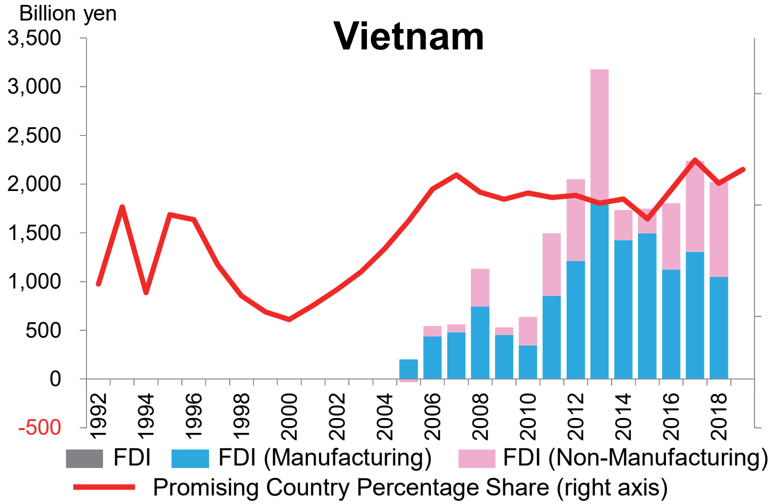
No.3 Vietnam (↑)

Percentage Share : 36.4% (last year +2.5pt)
Highest Record : 38.1% (2017)
Lowest Record : 9.4% (2000)

Company Breakdown (by sector)



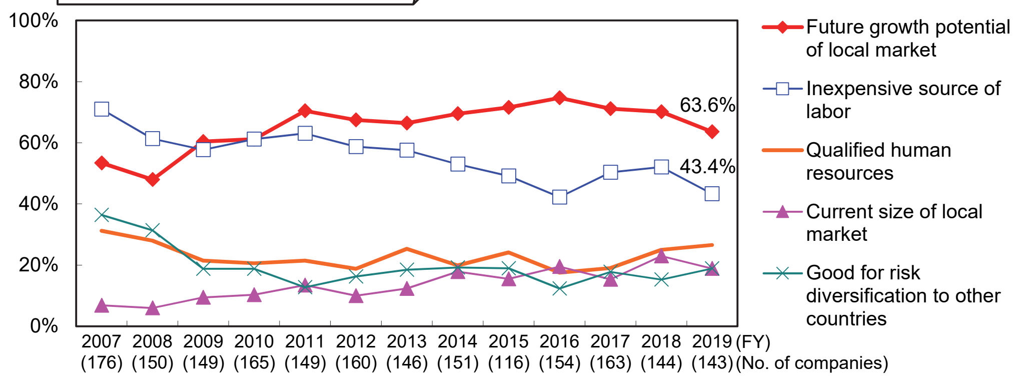
Percentage Share and Outward FDI of Japan



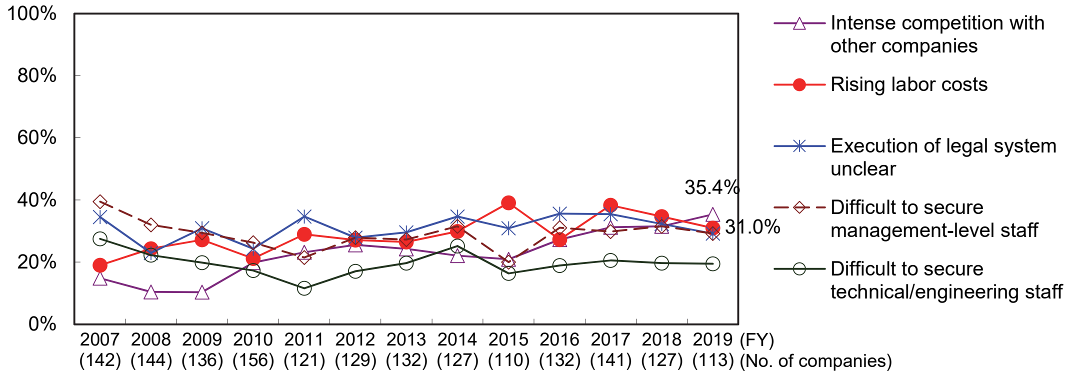
■ **Profiting from the US-China trade friction, for long?**

Obtained votes from various industries including BtoC companies. The percentage share increased by 2.5 points from the previous year, the largest increase among the top 10 countries. Expectations from the production side such as "Inexpensive labor force" and "Excellent human resources" are high. While some evaluate that Vietnam is attracting investment as companies divert production from China against the backdrop of the US-China trade dispute, some also point out that the current increase in FDI is just a pre-consumption of existing investment plans.

Promising reasons



Issues



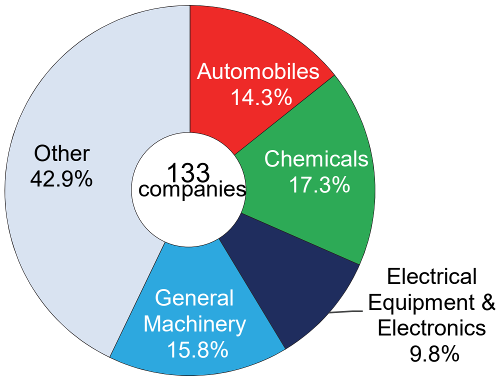
No.4 Thailand (↓)

Percentage Share : 32.9% (last year-4.2pt)
Highest record : 38.5% (2013)
Lowest record : 20.9%(1992)

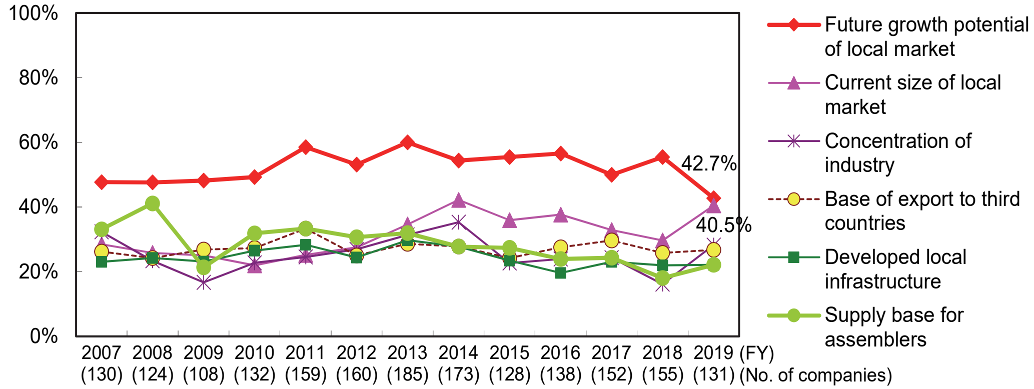
■ **Business environment is highly evaluated and is expected to be utilized in various ways**

Thailand's status of policy-oriented business environments, such as infrastructure and legal operations, are highly praised compared to the other ASEAN countries, and has gained votes from various industries. Although competition in local market is intensifying, the existing industrial base can hold multifaceted roles, including the role as a destination of factory transfer from China against the backdrop of the US – China friction.

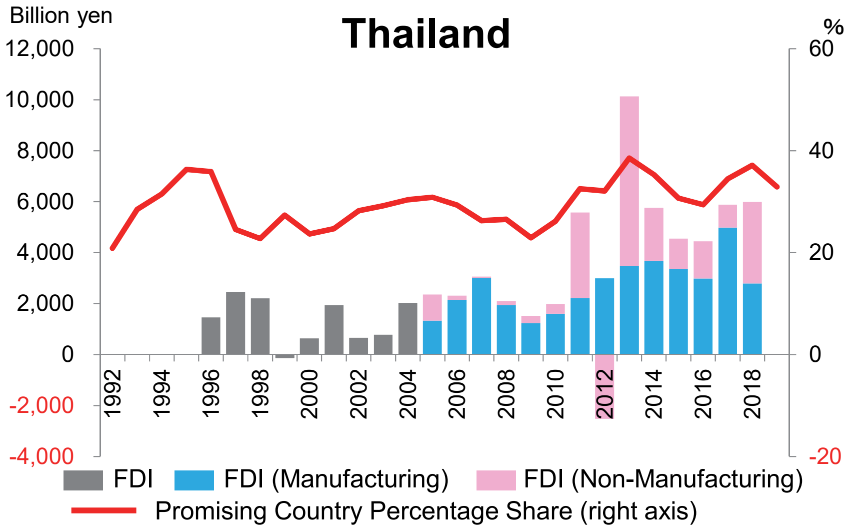
Company Breakdown (by sector)



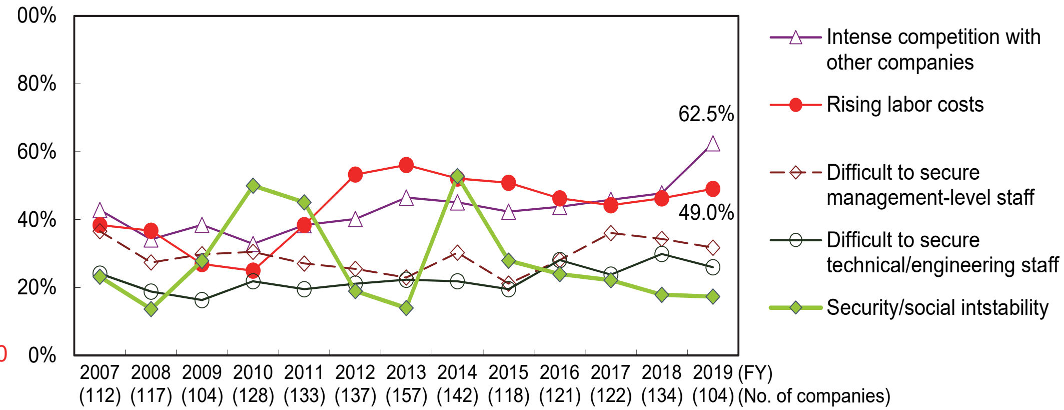
Promising reasons



Percentage Share and Outward FDI of Japan



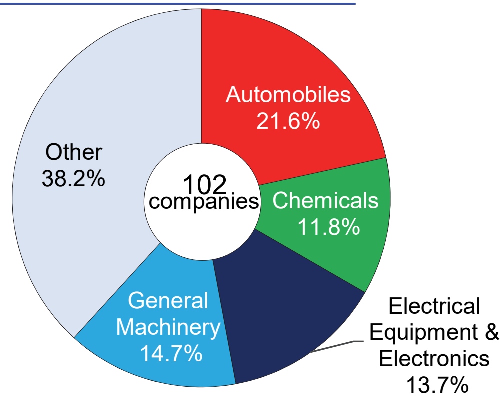
Issues



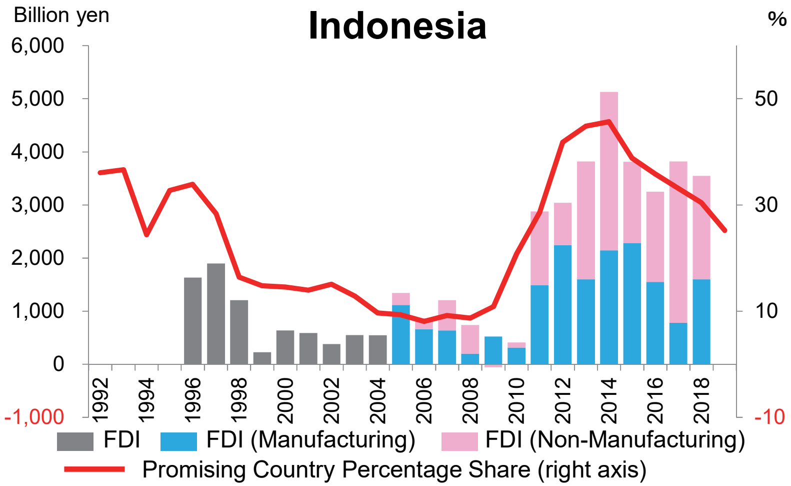
No.5 Indonesia（→）

Percentage Share：25.2% (last year-5.2pt)
Highest record：45.7% (2014)
Lowest record：8.1% (2006)

Company breakdown (by sector)



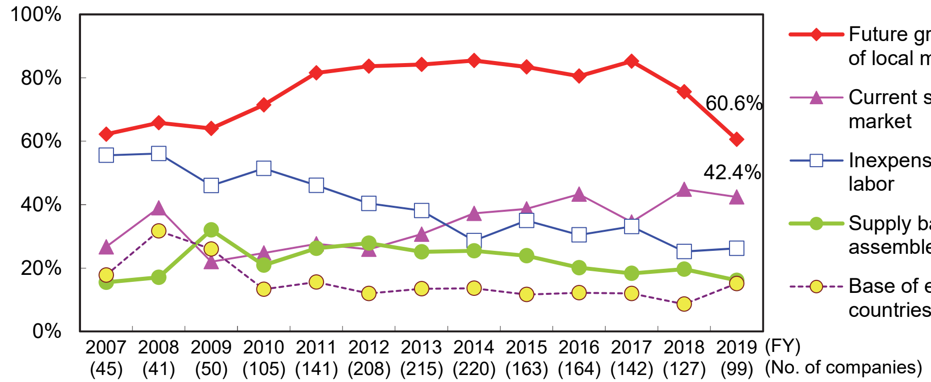
Percentage Share and Outward FDI of Japan



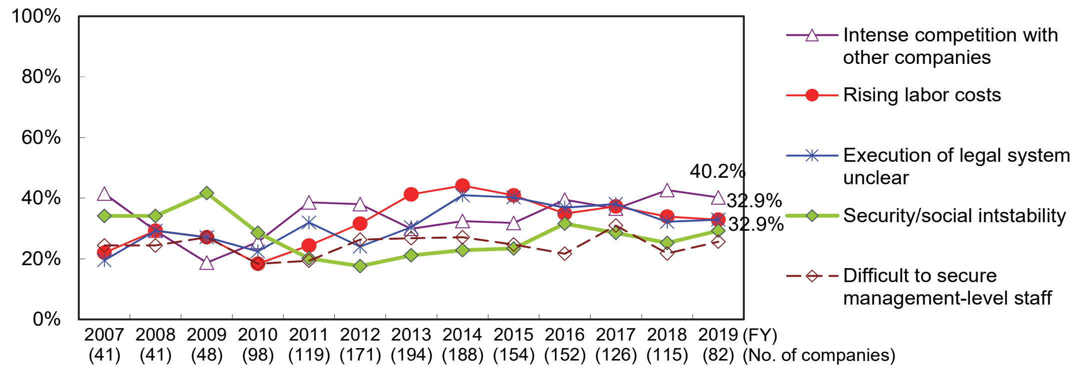
■ **Remained 5th place but on thin ice**

Although it maintained 5th place, votes seemed to have fled to other Asian countries such as Vietnam. Issues such as “Rising labor costs” and “Execution of legal system unclear” are widely felt. Inflow of FDI from various industries has been stable over the past few years and expectations for the market size continue to be high, but expectations for “Future growth potential of local market” have dropped significantly over the past two years which casts a shadow to future outlooks.

Promising reasons



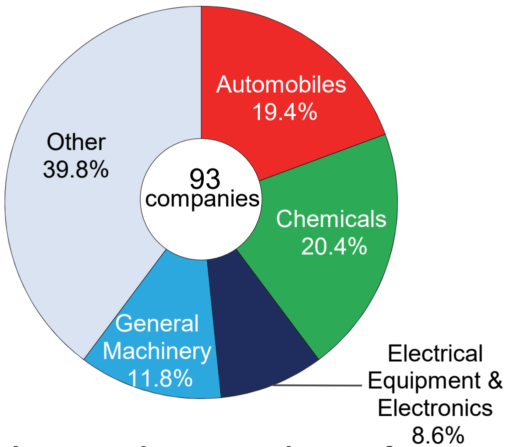
Issues



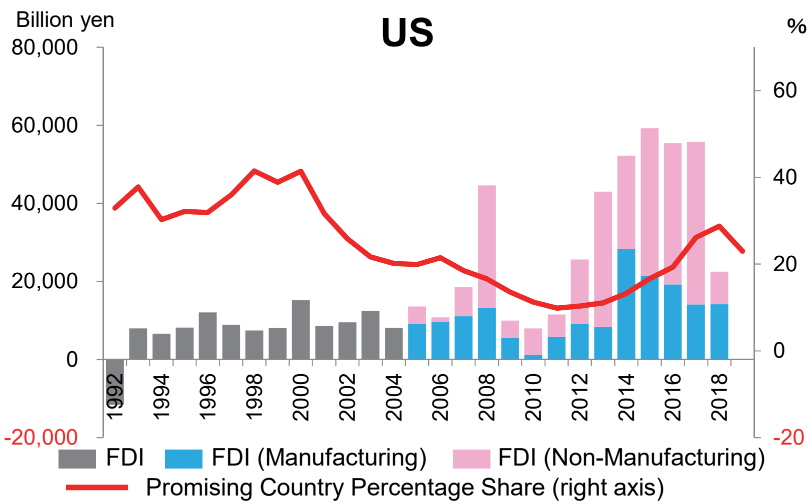
No.6 United States (→)

Percentage Share : 23.0% (last year-5.8pt)
Highest record : 41.5% (1998)
Lowest record : 9.9% (2011)

Company breakdown (by sector)



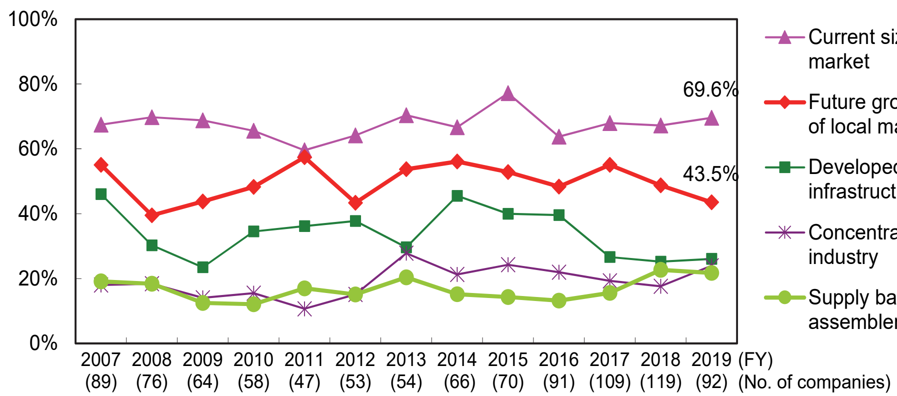
Percentage Share and Outward FDI of Japan



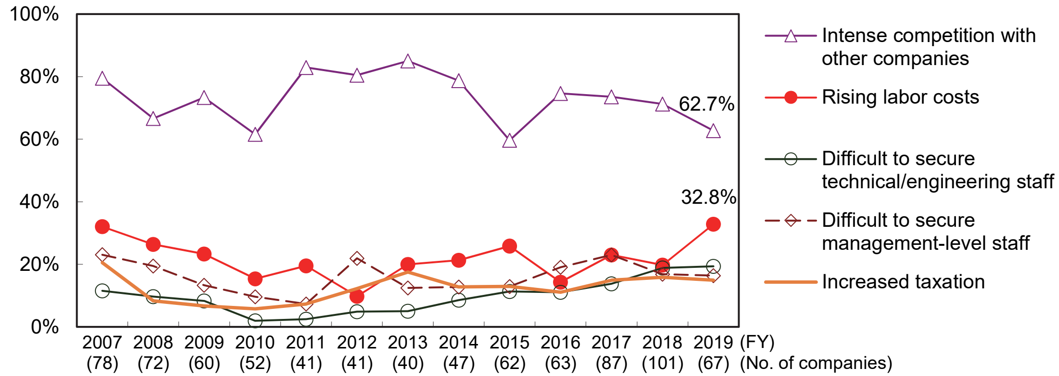
■ Percentage share falls but still popular

The negative impact of US-China trade friction on corporate profits was widely felt; as a result, US's percentage share declined significantly by 5.8 points from the previous year. However, the huge and mature local market cannot be replaced by other countries and continues to be attractive, making many companies choose the US to be their most promising country.

Promising reasons



Issues

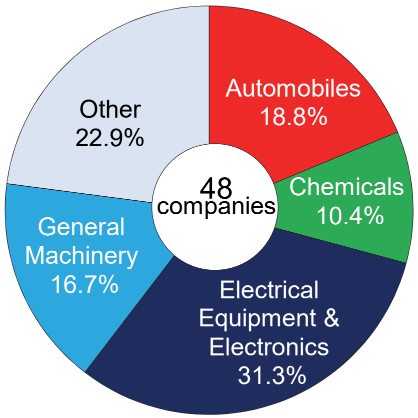


3.(4) Promising Countries/Regions over the Medium-Terms: Reasons and Issues (Top 10 countries)

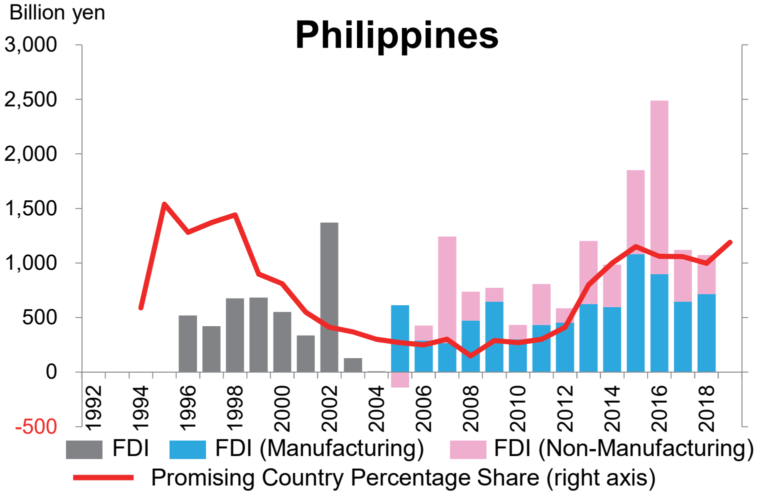
No.7 Philippines (↑)

Percentage Share : 11.9% (last year +1.9pt)
Highest record : 15.4% (1995)
Lowest record : 1.5% (2008)

Company breakdown (by sector)



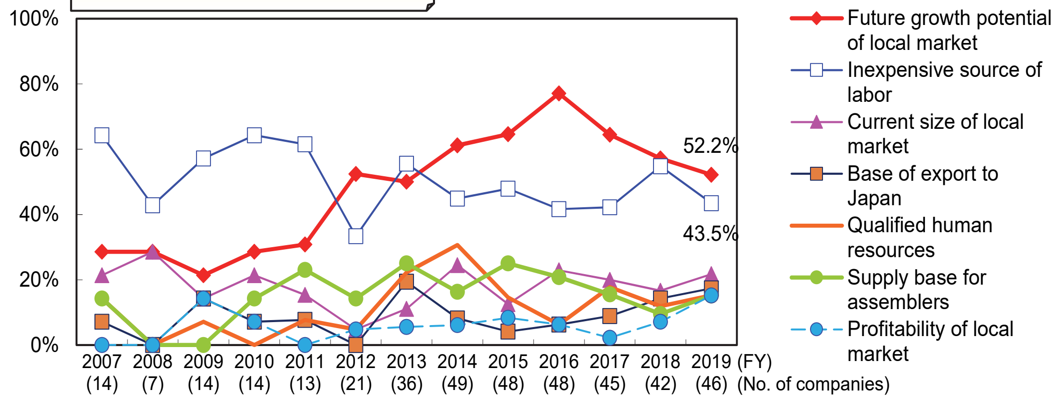
Percentage Share and Outward FDI of Japan



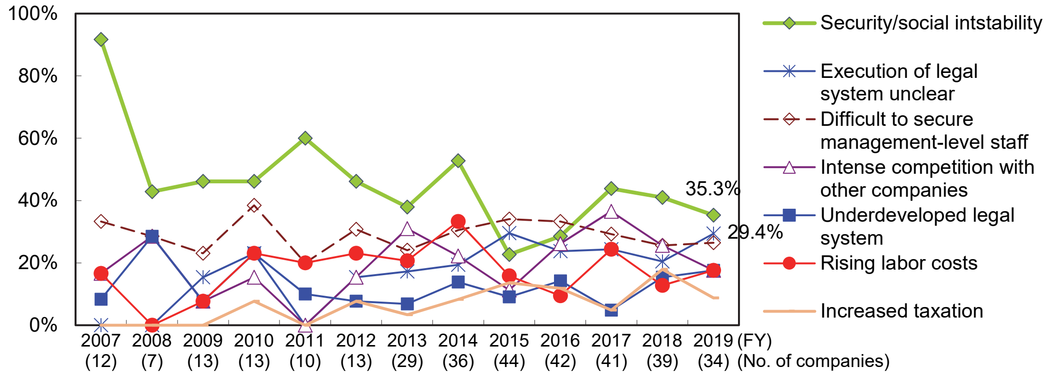
■ Candidate for the next top 5 promising countries

Popular among the four major industries as a production/export base (30% of the votes come from Electrical equipment &Electronic) on the back of cheap labor. Also, the response rate of "Profitability of local market" is the highest among the top 10 countries, which shows the high expectation towards the country's domestic demand. Of the issues, response rate of "Increased taxation" fell from last year's 17.9% to 8.8%, which could be showing the companies' interest toward the recent development of the government's Comprehensive Tax Reform plan.

Promising reasons



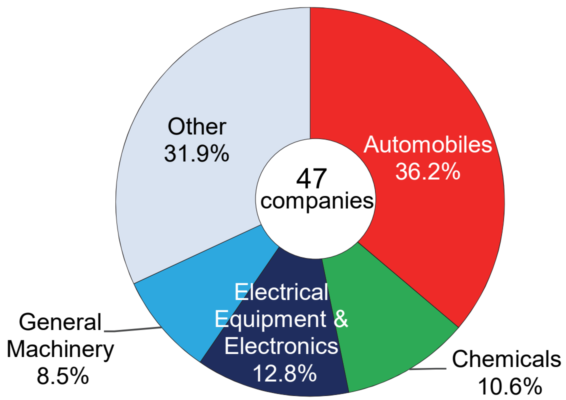
Issues



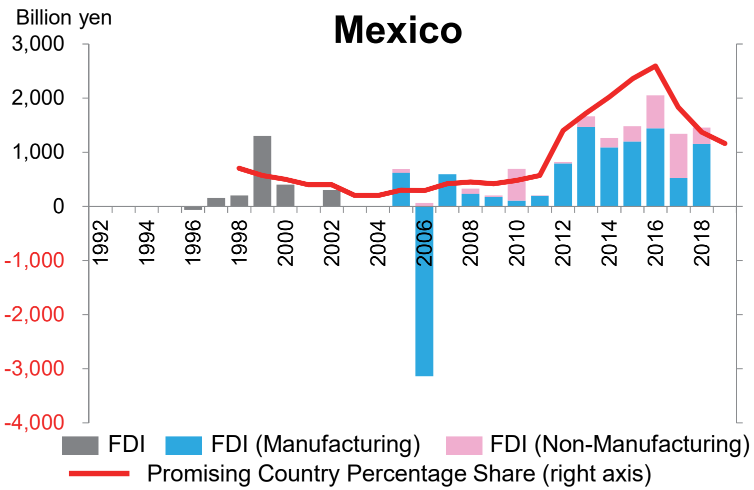
No.8 Mexico（↓）

Percentage Share : 11.6% (last year-2.1pt)
Highest record : 25.9% (2016)
Lowest record : 2.0% (2003.2004)

Company profiles (by sector)



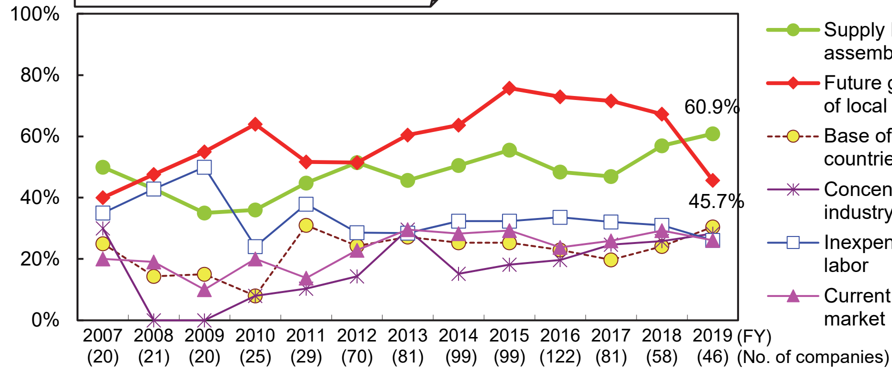
Percentage Share and Outward FDI of Japan



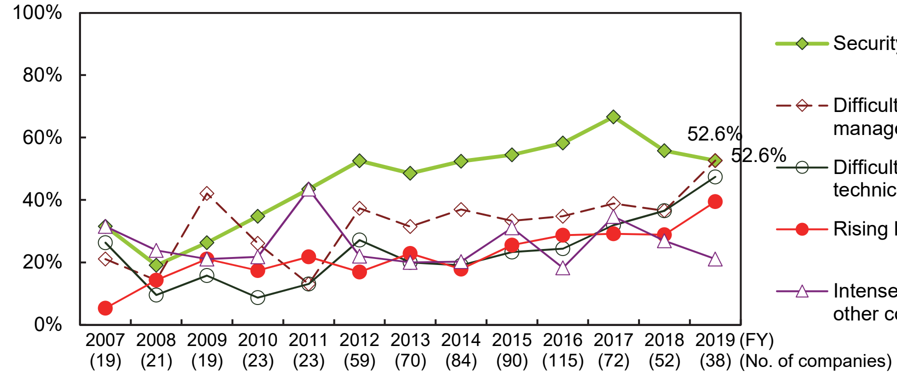
■ Rank continues to fall but is held up by local Japanese companies

The image toward Mexico's business environment has deteriorated over the past few years against the backdrop of increasing uncertainty in trade policies such as USMCA, and has resulted in a continuous decline in the rankings. The vote rate has almost halved in the past three years (FY2016: 25.9% → FY2019: 11.6%). However, Automobile companies already operating in Mexico in particular are still viewing the country promising as a "Supply base for assemblers," and are expected to maintain their local business as shown in the Business Prospects section in this Survey.

Promising reasons



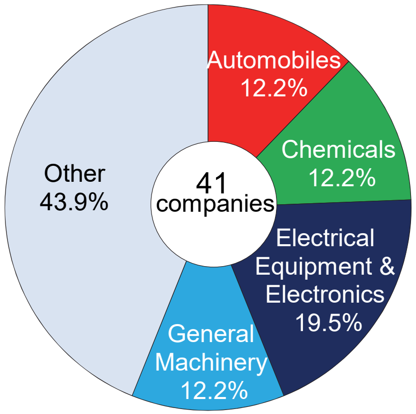
Issues



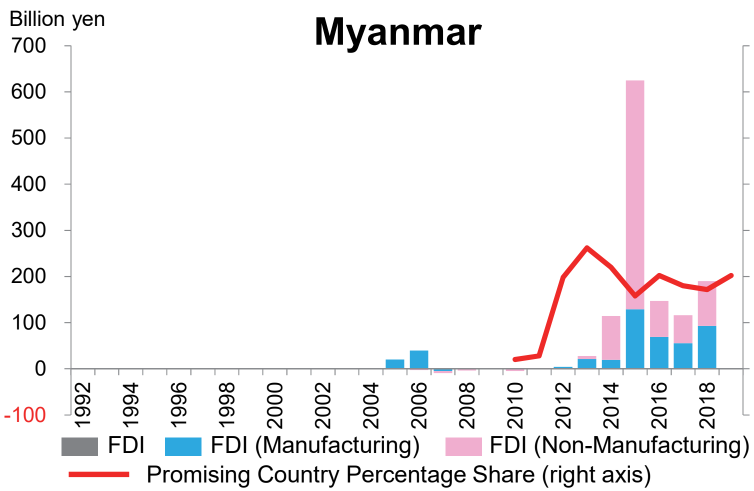
No.9 Myanmar（→）

Percentage Share : 10.1% (Compared to last year＋1.5pt)
Highest record : 13.1% (2013)
Lowest record : 1.0% (2010)

Company breakdown (by sector)



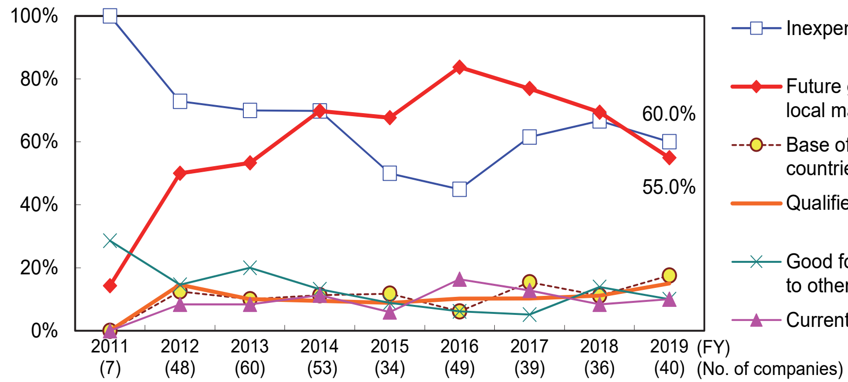
Percentage Share and Outward FDI of Japan



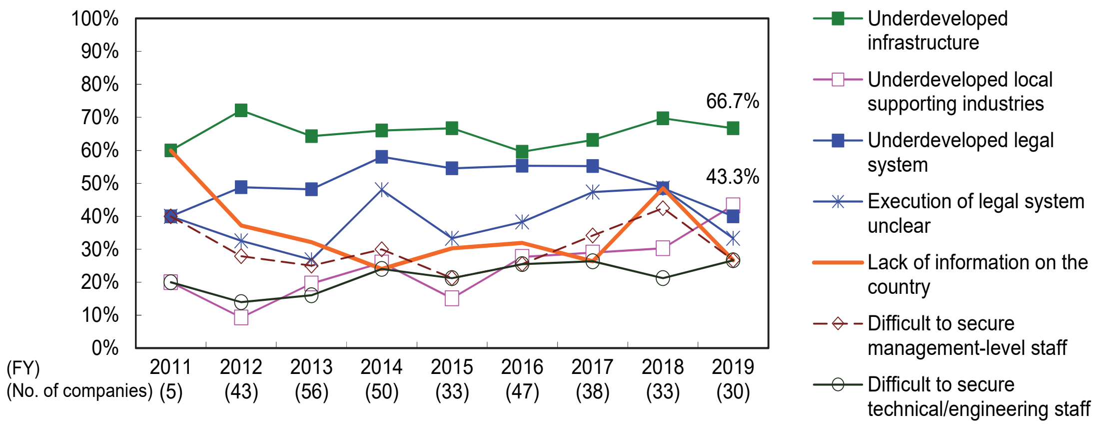
■ Cost of labor remains a strong appeal

It seems that the boom regarding Myanmar as “the last frontier in Asia” has settled down a bit in Japan, and companies are beginning to face the local market more practically. From the production side, expectation for “Inexpensive source of labor” is the highest among the top 10 countries, supporting Myanmar’s attractiveness as “the next production-base candidate in Asia”. Improvement of issues such as infrastructure and supporting industry development are in urgent need.

Promising reasons



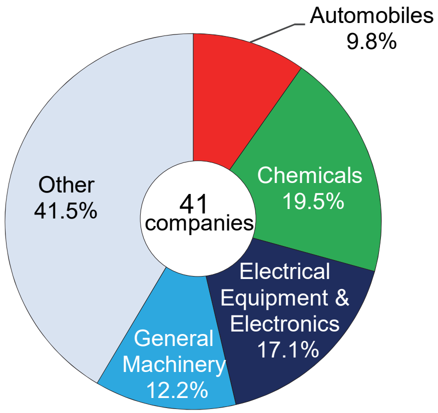
Issues



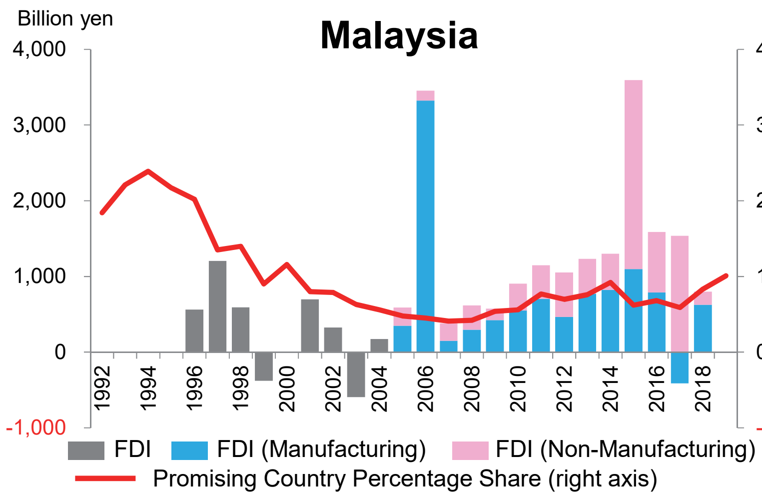
No.10 Malaysia (↑)

Percentage Share : 10.1% (last year ＋1.7pt)
Highest record : 23.9% (1994)
Lowest record : 4.1% (2007)

Company Breakdown (by sector)



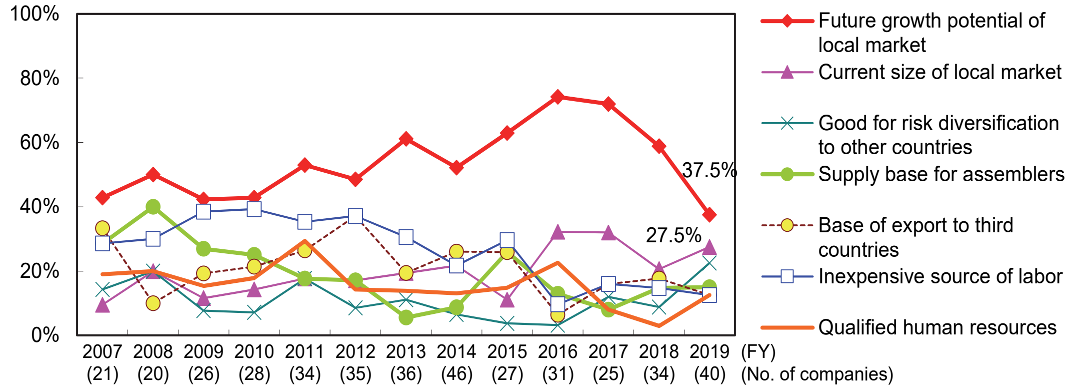
Percentage Share and Outward FDI of Japan



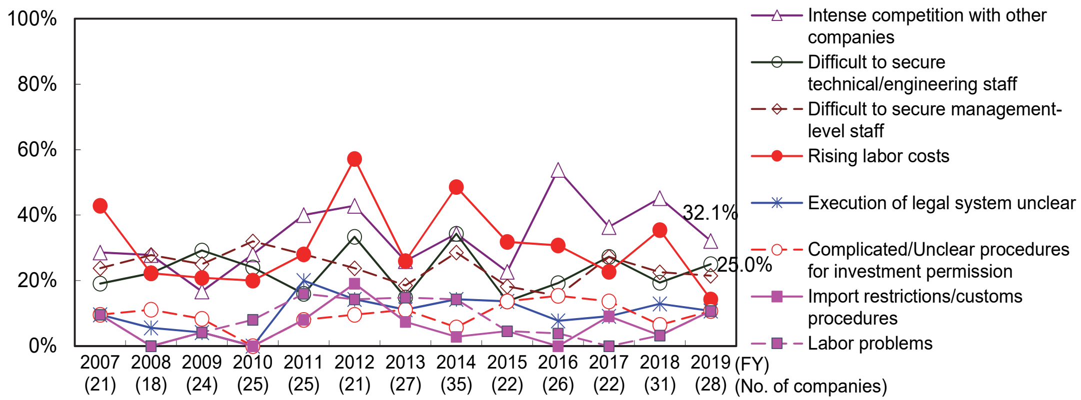
■On track to regain popularity? US-China trade dispute working as a tailwind

Response rate of "Future growth potential of local market" is on a downward trend, but with the prolonged friction between the US and China in the background, the number of companies that cited "Good for risk diversion to other countries" increased. Through interviews, many companies stated that they plan to transfer some part of their Chinese factory's function to Malaysia. T Whether it is on the path to regain the popularity it once experienced in the 1990s remains to be analyzed.

Promising reasons



Issues



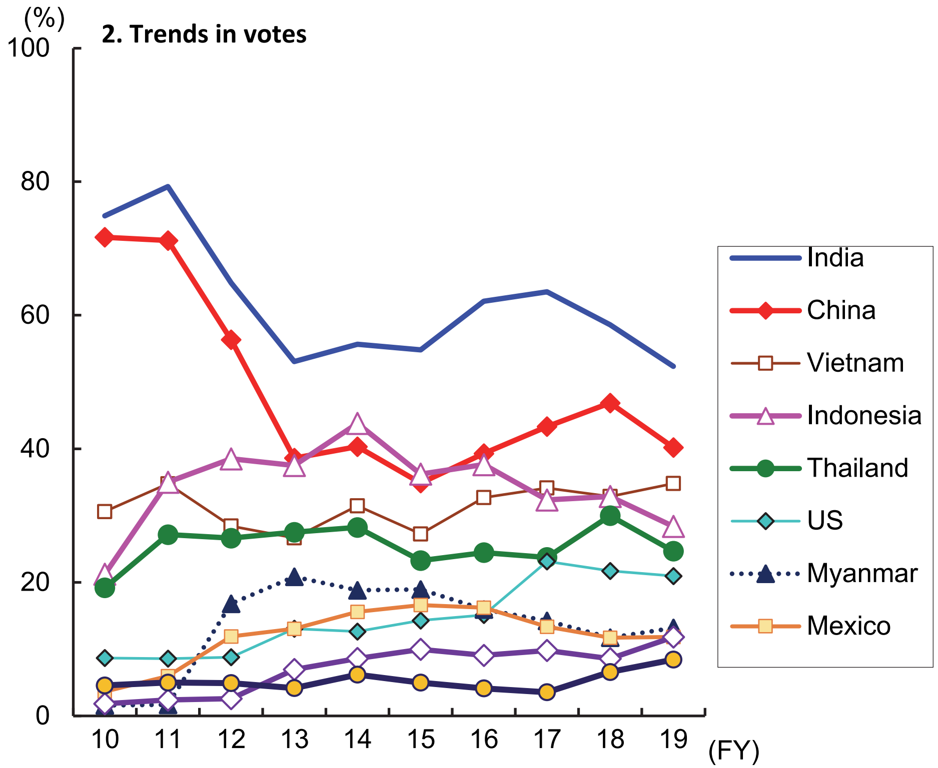
3. (5) Long-Term Potential Countries (Next Decade)

Chart 3-25. Countries/Regions for Potential Expansions in the Long-Term (Next 10 Years)

1. Results for FY2019

Ranking 2019	←	Ranking 2018	Country/Region	No. of Companies 2019	No. of Companies 2018	Percentage Share(%) 2019	Percentage Share(%) 2018
			(Total)	296	350		
1	―	1	India	155	205	52.4	58.6
2	―	2	China	119	164	40.2	46.9
3	―	3	Vietnam	103	115	34.8	32.9
4	⬇	3	Indonesia	84	115	28.4	32.9
5	―	5	Thailand	73	105	24.7	30.0
6	―	6	US	62	76	20.9	21.7
7	―	7	Myanmar	39	41	13.2	11.7
8	⬇	7	Mexico	35	41	11.8	11.7
8	⬆	10	Philippines	35	30	11.8	8.6
10	⬆	11	Malaysia	25	23	8.4	6.6

2. Trends in votes



■ **India retains top place amongst long-term potential countries**

• The effects of trade friction between the US and China have led to decreases in voting rates for all countries. India has also seen a decrease of 6.2 points since the previous fiscal year but has maintained its top position for the 10th consecutive year. China saw a decrease in votes of 6.9 points but maintained its 2nd place position.

■ **Slight increase in votes for Vietnam, the Philippines, Myanmar, and Malaysia**

• Although there were decreases in votes across the board, Vietnam saw an increase over the previous fiscal year by 1.9 points to 40.2 points. Similarly, the Philippines saw an increase by 3.2 points to 11.8 points, Myanmar by 1.5 points to 13.2 points, and Malaysia by 1.8 points to 8.4 points, compared to the previous fiscal year.

■ **Slight decrease in points for Mexico as a long-term potential expansion destination**

• Although Mexico saw a sharp decrease as a mid-term potential expansion destination, there was only a minor change as a long-term potential expansion destination, with an increase over the previous fiscal year by 0.1 points to 11.8%.

4. Special Theme 1 – Influence of Friction Between the US and China

4. Impact of Friction Between US and China on Profits

Question

Since 2018, there have been rising tensions surrounding international trade such as an increase in customs duties and trading restrictions with particular companies, all largely centered around the US and China. Please tell us how such a situation has impacted your company (or answer as much as possible with any potential future impacts if you have not been affected yet).

Chart 4-1. Impact on Profits (Note)

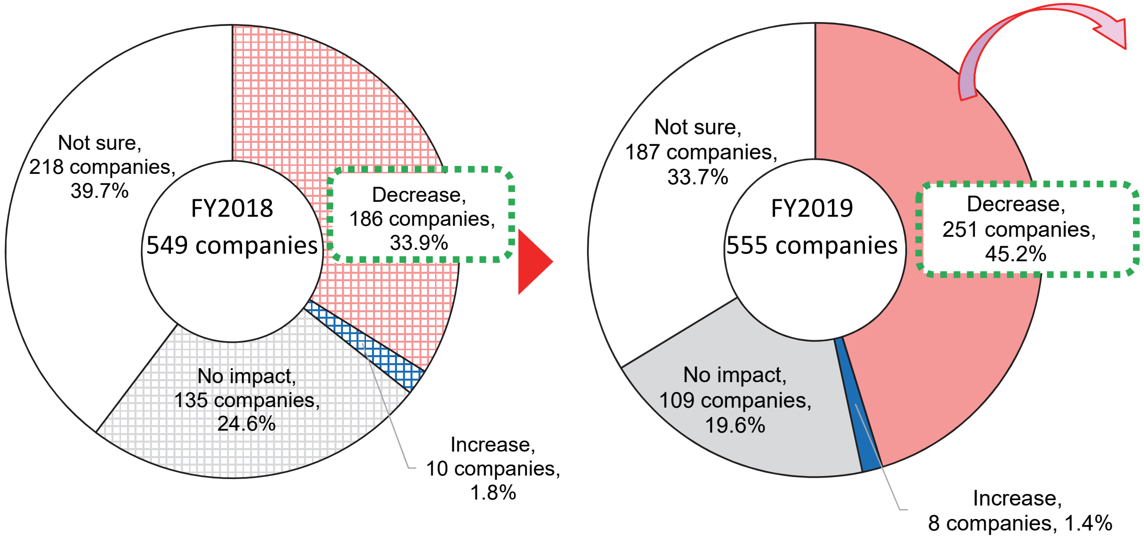
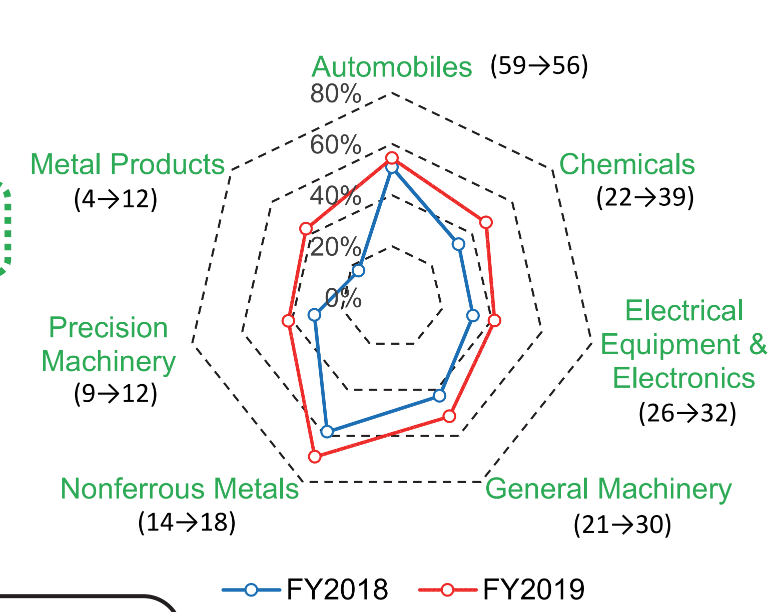


Chart 4-2. Proportion of Companies Answered "Decrease" (By Industry)

Proportion of companies by industry that answered "Expect to see decrease"
(Numbers within brackets are number of companies: FY2018 → FY2019)



■ **Half of companies considered this was a factor in decreased profit**

- The proportion of companies that responded with the view that protectionist policies would serve as a factor in decreasing their profits rose from 33.9% in the previous fiscal year to nearly half of the respondents at 45.2% this fiscal year. However, there was a decrease in companies responding with "No impact" or "Not sure," indicating an increase in the number of companies beginning to recognize potential impacts on profits.

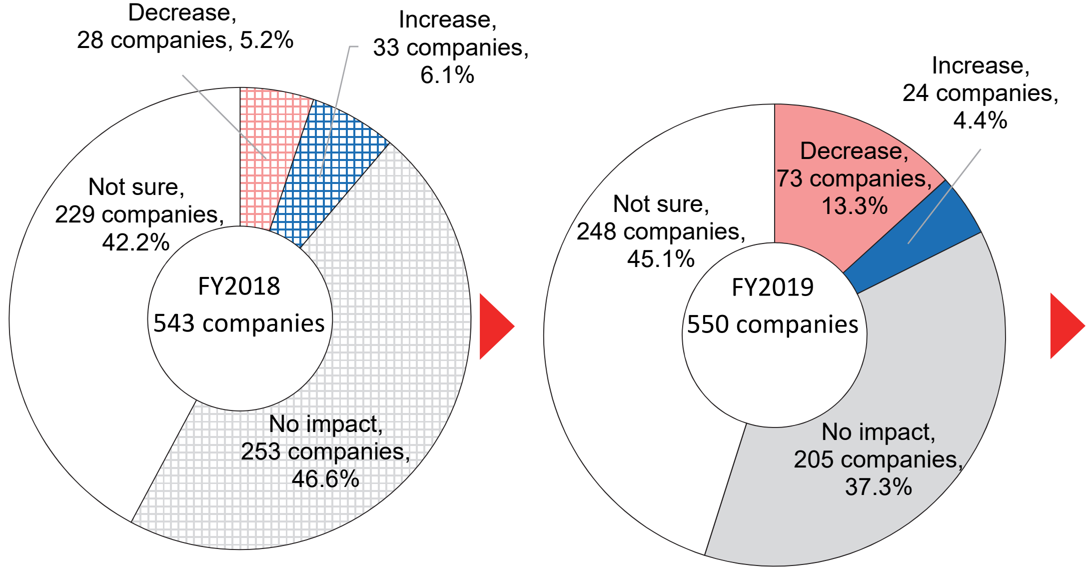
■ **Impacts on decrease in profit beginning to spread across industries**

- According to the comparison between this and previous fiscal years of the companies that answered "Decrease" based on the breakdown by industry type, the following points were revealed: (1) automotive industry (59 companies last year → 56 companies) was the swiftest at responding, and; the results of this year's survey show that (2) increased number of companies were expecting decreased profit in a wider range of industry types, including chemicals (20 companies → 39 companies), electrical equipment & electronics (26 companies → 32 companies), general machinery (21 companies → 30 companies), and metal products (4 companies → 12 companies).

(Note) FY2018's survey inquired whether or not there were any impacts by protectionist movements in general without limiting to friction between the US and China. This means that it is not possible to make a simple comparison between this year's and last year's survey results. However, the comparison between these years are shown here because the survey was held at the peak of this friction last year.

4. Impacts of Friction Between US and China on Direct Investment

Chart 4-3. Effects on Direct Investment Overseas



(By industry, FY2019)

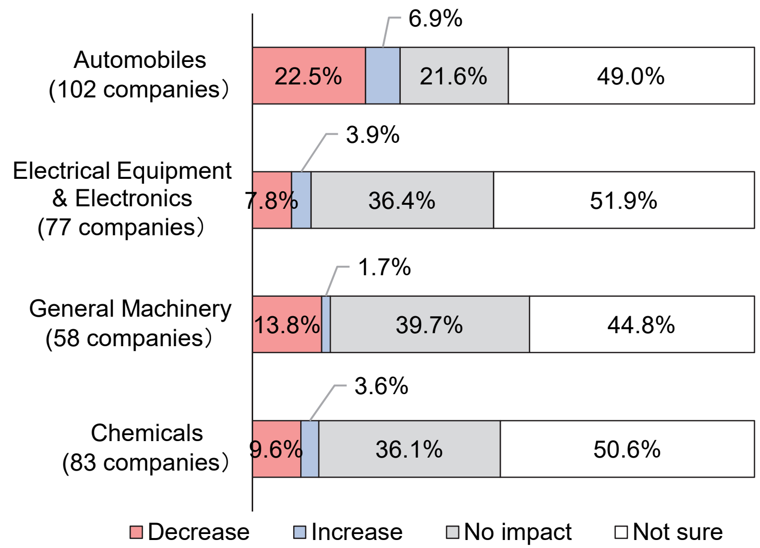


Chart 4-4. Comparison with US, China, and Other than US/China

Question

Companies that answered that they would increase or decrease their direct investment overseas were asked which countries they were considering.

(Number of respondents: 2018: 80 companies, FY2019: 116 companies)

	US		China		Other than the US/China	
	FY2018	FY2019	FY2018	FY2019	FY2018	FY2019
Increase	20	6	11	7	12	18
Decrease	13	10	11	67	3	8
Difference	7	-4	0	-60	9	10

■ Specific countries for investment "Other than the US/China" in the FY2019 survey (free entry)

Increase: Thailand (6), Vietnam (4), Mexico (3), India (2), Myanmar, Czech Republic, Malaysia, Italy, Spain, France, ASEAN countries (1 each)

Decrease: Europe, Southeast Asia, the Philippines, Japan, Mexico, Indonesia, EU (1 each)

■ Impacts on investment behavior in automotive and general machinery industries

- The number of companies responding that they were expecting a "decrease" accounted for 13%, doubled from the previous fiscal year. Looking at the results by industry, both automotive (23%) and general machinery (14%) responded that this was a factor in decreasing direct investment.

■ Decreases in China stand out compared to the US

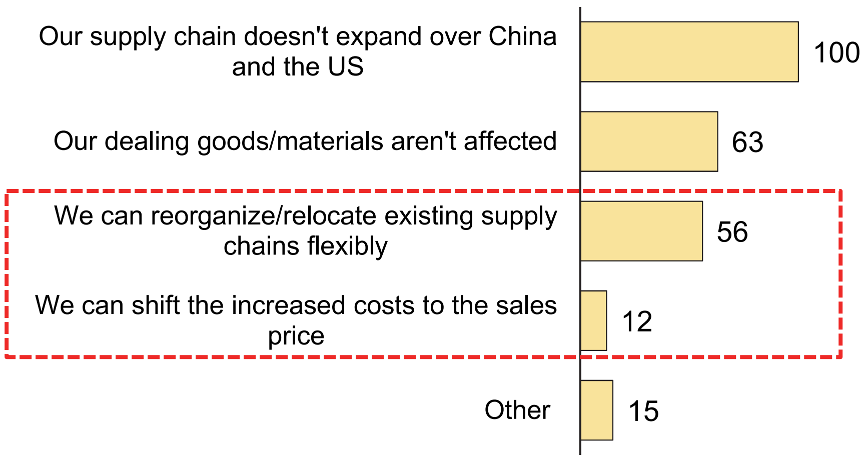
- With regard to the increase/decrease of direct investment, companies were also asked about relevant investment destinations. For investment in the US, 4 more companies responded "Decrease" over "Increase," while for investment in China 60 more companies responded "Decrease" over "Increase." This indicates that the trade friction between these countries is leading to a large decrease in investment in China.
- As mentioned above, although a decrease in direct investment is expected in both the US and China, there is a steady tendency towards increasing direct investment in countries other than the US and China. This worked as an opportunity for countries such as Thailand and Vietnam in particular to welcome more investments.

4. Friction Between US and China: Future Responses

Question

Since 2018, tensions surrounding international trade are growing such as increased customs duties and increased trading restrictions with specific companies, all largely centered around the US and China. Please circle the reason(s) why this has not impacted your company's overseas direct investment (multiple answers allowed).

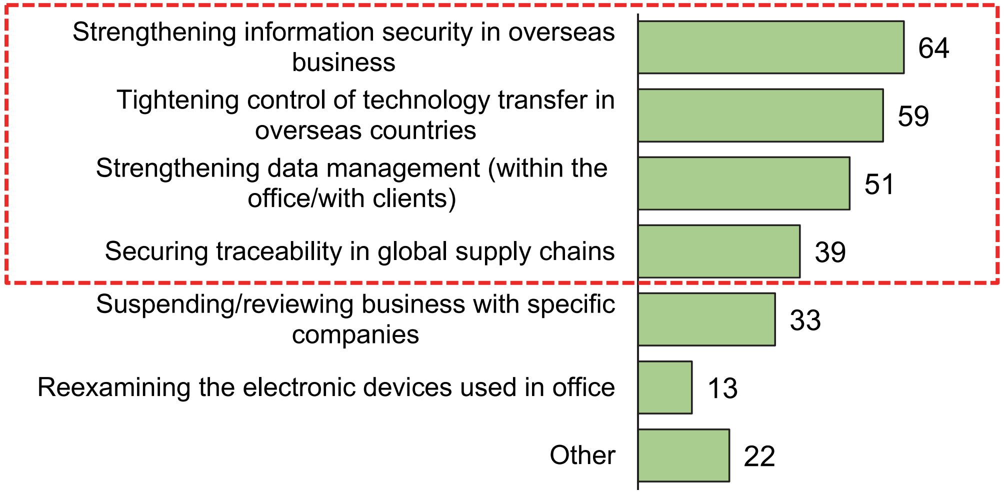
Chart 4-5. Reasons for Not Affecting Overseas Direct Investment



Question

The conflict surrounding trade imbalances between the US and China started to be perceived also in the security context, and policies that place restrictions on trading with particular companies (Huawei, etc.) are also being put in place. In response to these restrictions, please circle any countermeasures that your company has already implemented or is considering (this includes internal investigations, etc., to prepare for these countermeasures) (multiple answers allowed).

Chart 4-6. Countermeasures Introduced/Under Consideration



■ Dealing with friction between the US and China through flexible changes to supply chains, not by price pass-through

- Companies who responded that the trade friction had "No impact" on their overseas direct investment were asked to give reasons. Excluding companies that were not impacted in the first place, the majority (56 companies) responded with "We can reorganize/relocate existing supply chains flexibly." Only 12 companies responded that they would try to deal with the situation by price pass-through ("We can shift the increased costs to the sales price"). It seems that companies are trying to respond to this friction flexibly.
- In the interviews with respondents, the following opinions were expressed: "We can respond to the trade friction between the US and China by flexibly adjusting production volume between our bases, such as decreasing the production volume in China while increasing the production in Malaysia" (BY? nonferrous metals company), and "We have been making frequent changes to our local subcontracting companies in China. Taking advantage of that experience, recombining supply chains is relatively easy for us" (precision machinery company).

■ More emphasis on cautious stance towards treatment of information and data while aiming to balance business in the US and China

- When asked about trade restrictions with particular companies, 53 companies responded that there would be "Impacts on overseas business," 124 companies responded with "No effect for now but will affect future business plans," together accounting for 30% of the total (see data at the end of this report). In regard to future responses, only 33 companies responded that they would be "Suspending/reviewing business with specific companies". By comparison, many companies selected to implement or consider strengthening information management, including "strengthen internal information management" (64 companies), 59 responded with "Tightening control of technology transfer" (59 companies), and "strengthen management of data distribution within the company and with trading partners" (51 companies). While most responding companies had their bases in China, it was suggested that strengthening of risk management/information management were being advanced based on the presumption that they would continue business in both the US and China, responding to heightened political risks.

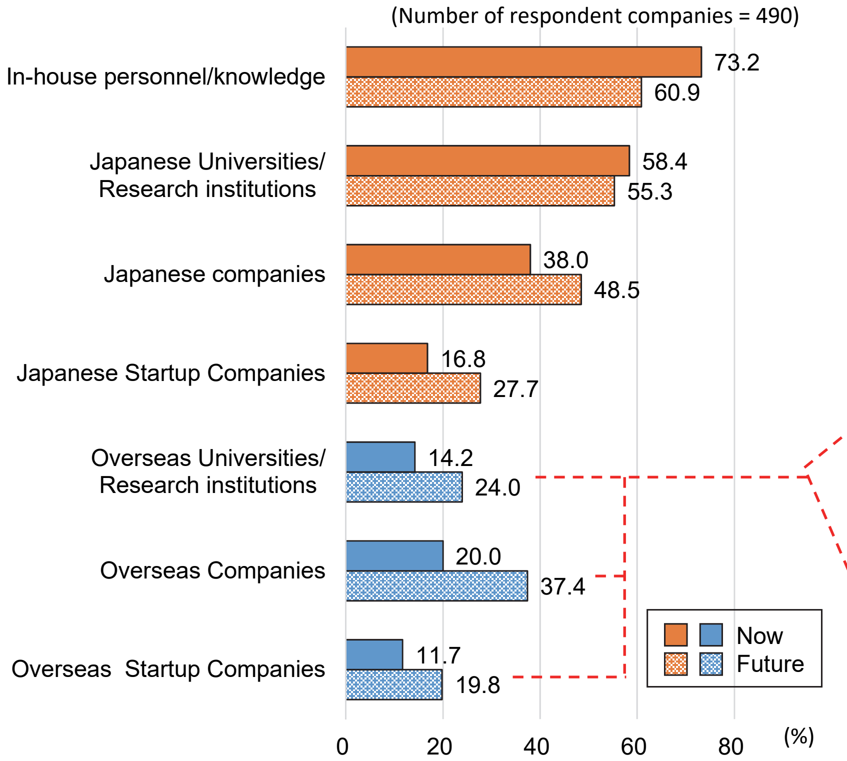
5. Special Theme 2 - Overseas Expansion of Open Innovation

5. Overseas Expansion of Open Innovation : Potential Partners

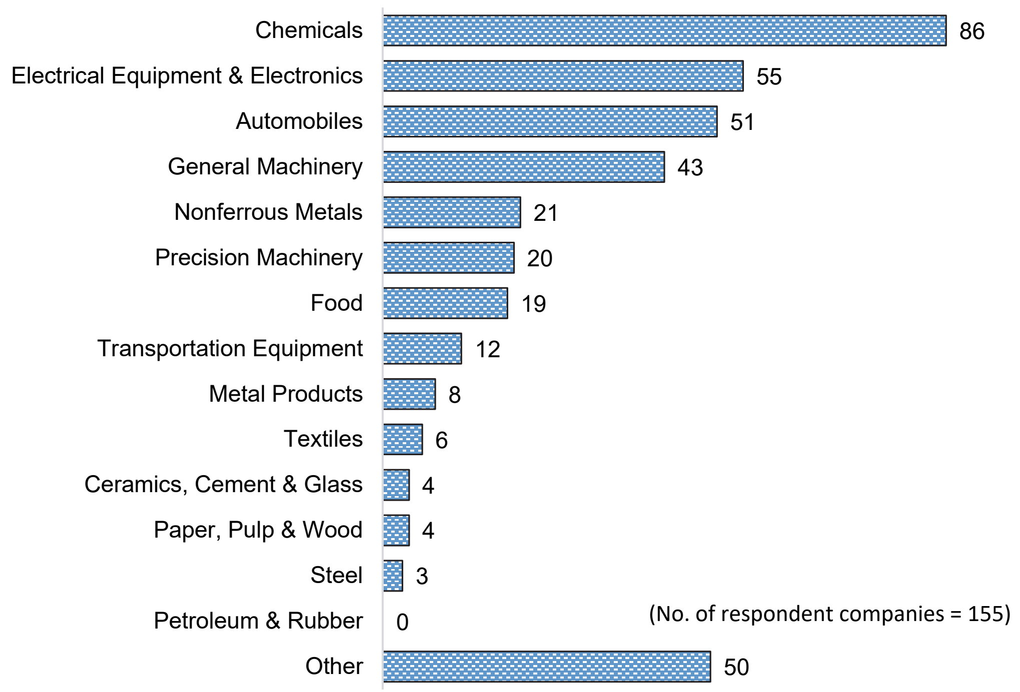
Question

What kind of partners are your company working on innovation with? Please circle the relevant answers for both "Now" and the "Future" (multiple choice question). You can include various types of partnership (Subcontracting, joint research, corporate acquisitions, capital injection, etc.)

Chart 5-1. Partners for Innovation (Multiple Answers Allowed)



Companies wishing to work with overseas partners in the future (by industry, total number of responses)



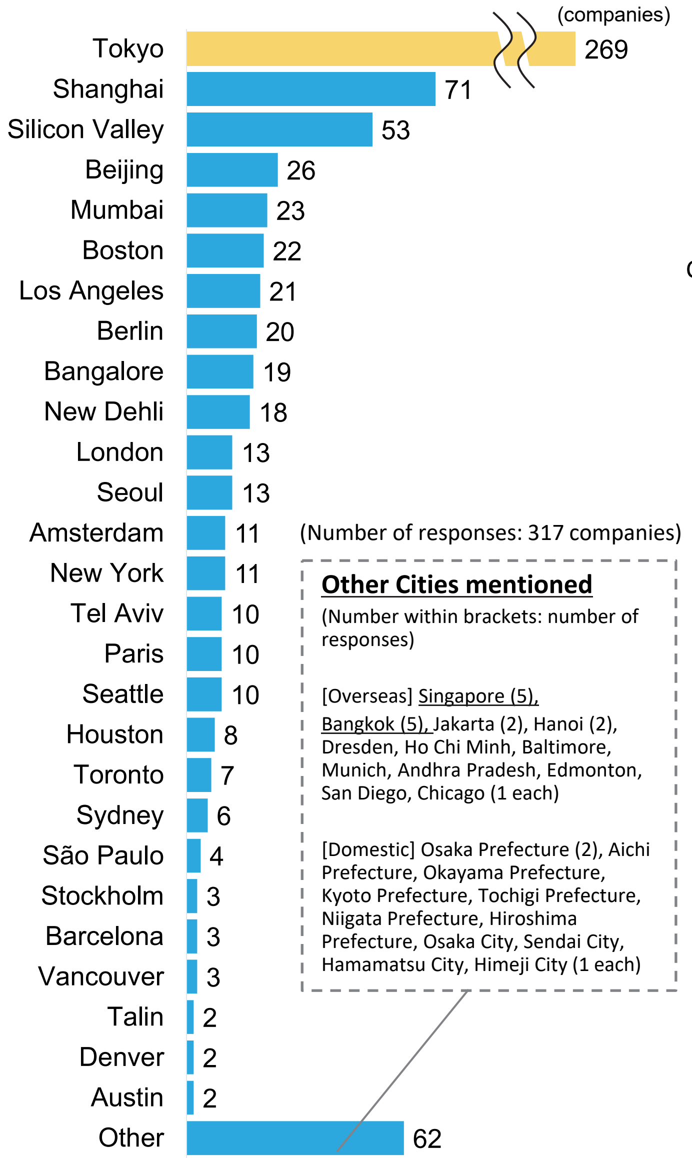
Open Innovation with overseas partners is expected to expand in the future, especially in the Chemical industry

- Companies were asked about their present and future partners for achieving innovation. "In-house personnel/knowledge" (73.2%) and "Japanese universities/research institutions" (58.4%) gained high response rates for current partners, indicating that current efforts are centered around collaboration within Japan, being implemented mainly through internal R&D functions and joint research in conventional fields. Collaboration with overseas partners seems to be in a low tone at the moment.
- When comparing "Now" and "Future," the response rate decreased for both "In-house" and "Universities/research institutions" in Japan, while for the "Future," partnerships with "Other Japanese companies" and Japanese "Startups" increased. In-house research and joint research with Japanese educational institutions seems to be over-saturated, and it is likely that cooperation with more diverse players such as other industries will expand in the future. In addition, a remarkable increase in collaboration with overseas partners can be seen, suggesting high expectations towards international open innovation. In interviews, one chemical company said "Since it is unlikely that domestic business will grow in mass, we are looking for cooperation with overseas partners in anticipation of developing new markets." Looking at the responses by industry, Chemicals industry had a particularly high response rate (total response number: 86); not only the large general chemical manufacturers and pharmaceutical companies, but also those from various fields are included (resins, agrochemicals, and cosmetics).

5. Overseas Expansion of Open Innovation: City Ranking

Question Which cities are promising as a place to deliver open innovation? Please select the applicable cities and circle the numbers (multiple answers allowed).

Chart 5-2. Cities with Potential as a Place for Cooperation



(Number of responses: 317 companies)

Other Cities mentioned

(Number within brackets: number of responses)

[Overseas] Singapore (5), Bangkok (5), Jakarta (2), Hanoi (2), Dresden, Ho Chi Minh, Baltimore, Munich, Andhra Pradesh, Edmonton, San Diego, Chicago (1 each)

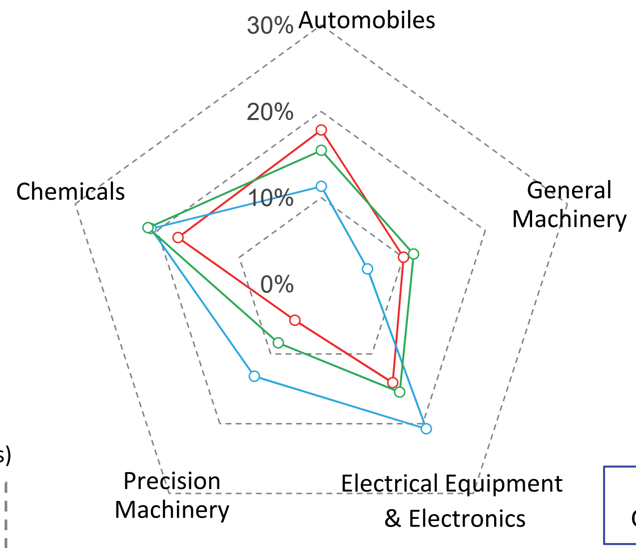
[Domestic] Osaka Prefecture (2), Aichi Prefecture, Okayama Prefecture, Kyoto Prefecture, Tochigi Prefecture, Niigata Prefecture, Hiroshima Prefecture, Osaka City, Sendai City, Hamamatsu City, Himeji City (1 each)

Note: List of city names was created based upon the Global Tech Hub Report produced by CBInsights.
Shenzhen and Singapore were not included in the choice.

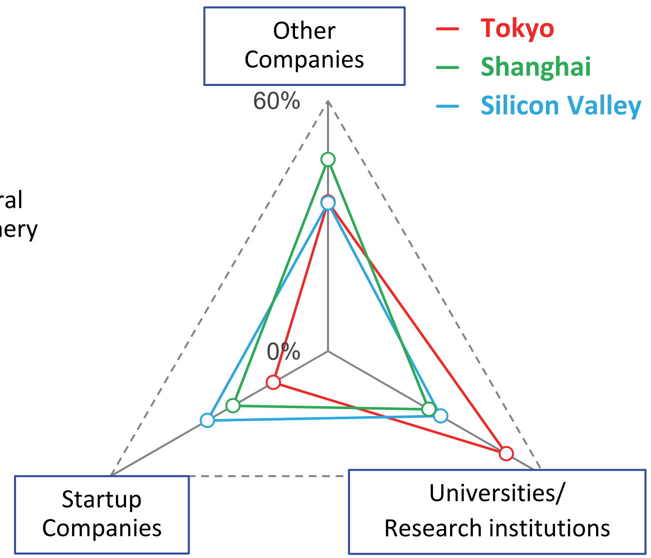
Chart 5-3. Breakdown of Companies that Selected Tokyo, Shanghai, or Silicon Valley

(See p. 63 for detailed data)

1. Industry



2. Partners



■ Top promising cities for open innovation are Tokyo, Shanghai, and Silicon Valley

- Companies were asked about cities that are promising as a place for delivering open innovation, and Shanghai, chosen by 71 countries, ranked first among the overseas cities, establishing a lead to Silicon Valley (53 companies). This reveals the strong expectations toward China as a place to accelerate open innovation.

■ Different traits in partners and industries by city

- We researched if there are any particular characteristics of companies choosing Tokyo, Silicon Valley, and Shanghai. Results show that by industry, Shanghai had higher response rates from the general machinery and automotive industries than the other two cities, whereas Silicon Valley had higher response rates for electrical equipment & electronics and precision machinery.
- Companies choosing Silicon Valley showed good balance among the type of partners they want to collaborate with. On the other hand, those that selected "Shanghai" tend to select "Other companies" more to achieve innovation. Amongst companies that selected Tokyo as a source of domestic partners, the response rate of "Universities/research institutions" is outstandingly high.

Question: What kind of challenges does your company face when working with startups? Please select the applicable answers and circle the numbers (multiple answers allowed).

Chart 5-4. Partnership status with Domestic/Overseas Startups (By Industry)

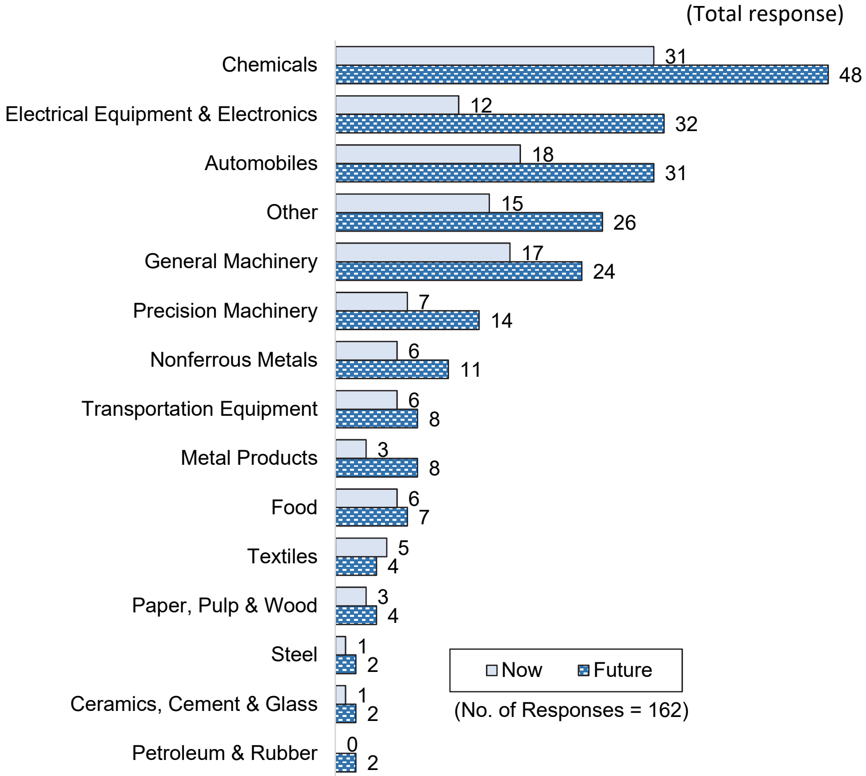
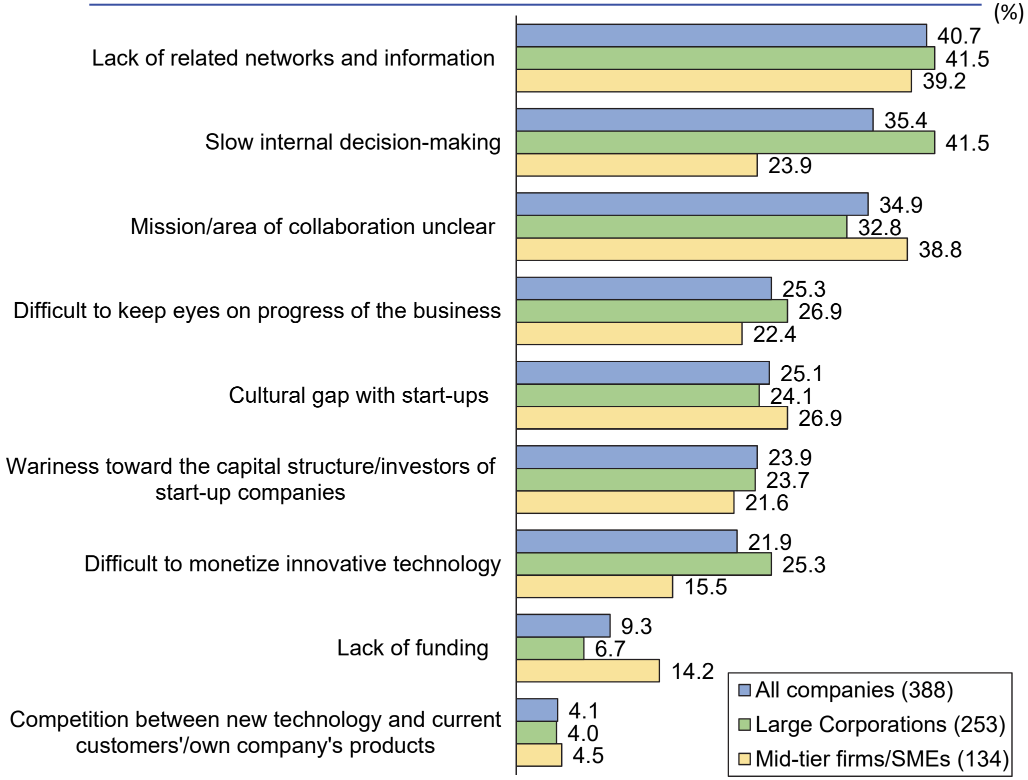


Chart 5-5. Challenges in Collaborating with Domestic/Overseas Startups (By Size)



■ Chemicals industry most proactive at partnering with startup, with electronics industry catching up

- Among the companies who are working on partnering with startups (domestic and overseas), the chemicals industry showed the most proactive present and future stances (present: 31 companies, future: 48 companies). There was also a very strong increase in the electrical equipment & electronics industry from the present to the future, indicating a possible increase in collaboration with startups. Examples of partnerships with startups were diverse, including conducting venture capital investment by CEO-led new groups, dispatching research staff to Silicon Valley, acquiring overseas startups, and providing support for startups located close to their hometown. Although many companies seek to gain technologies and services which they lack from startups, one electronics company stated, "Startups are a treasure box when it comes to preempting our company's needs. Supporting them creates new business for us, and allows our products and services to be used in a more broader world."
- When asked about the challenges they face when trying to work with startups, the top answer was "Lack of related networks and information" showing that the companies, regardless of size, are facing difficulties even at the stage of searching for potential partners. However, while MTEs/SMEs have the benefit of quicker decision-making processes, they face challenges relating to narrowing down the fields with which they want startups to collaborate, as well as with financial arrangements. By comparison, although large firms have abundance of capital, they face issues due to slow decision making.

（Appendices）

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

Industry	Overseas Production Ratio ※1										Overseas Sales Ratio ※2								Overseas Income Ratio ※3					
	FY2016 (actual)		FY2017 (actual)		FY2018 (actual)		FY2019 (projected)		Medium-term plans(FY2022)		FY2016 (actual)		FY2017 (actual)		FY2018 (actual)		FY2019 (projected)		FY2017 (actual)		FY2018 (actual)		FY2019 (projected)	
		No. of Com-panies		No. of Com-panies		No. of Com-panies		No. of Com-panies		No. of Com-panies		No. of Com-panies		No. of Com-panies		No. of Com-panies		No. of Com-panies		No. of Com-panies		No. of Com-panies		No. of Com-panies
Food	17.2%	23	19.7%	19	28.9%	18	30.0%	18	33.3%	18	19.0%	25	21.4%	22	30.2%	21	31.2%	21	20.9%	22	32.0%	20	32.5%	20
Textiles	55.0%	23	59.8%	21	55.0%	21	55.5%	21	57.2%	18	27.5%	24	31.0%	20	30.2%	23	30.9%	22	28.3%	21	33.6%	22	34.5%	22
Paper, Pulp & Wood	21.0%	5	15.0%	7	19.4%	9	20.7%	7	22.1%	7	17.9%	7	17.0%	10	19.4%	9	19.3%	7	26.1%	9	36.3%	8	33.3%	6
Chemicals (total)	27.1%	68	28.2%	60	35.1%	69	35.3%	69	37.3%	62	36.4%	83	37.5%	75	37.5%	85	37.5%	84	36.1%	63	38.4%	71	38.4%	70
Chemicals (incl. plastic products)	28.7%	62	29.4%	55	35.5%	66	35.6%	66	37.7%	59	36.7%	77	38.8%	69	38.1%	80	38.3%	79	36.9%	58	39.2%	67	39.2%	66
Pharmaceuticals	10.0%	6	15.0%	5	28.3%	3	28.3%	3	28.3%	3	33.3%	6	23.3%	6	27.0%	5	25.0%	5	27.0%	5	25.0%	4	25.0%	4
Petroleum & Rubber	56.8%	11	50.0%	8	32.3%	11	32.3%	11	35.0%	11	44.2%	12	46.0%	10	32.3%	11	32.3%	11	58.3%	9	33.2%	11	33.2%	11
Ceramics, Cement & Glass	33.9%	9	32.8%	9	35.0%	7	36.7%	6	37.0%	5	37.7%	11	41.4%	11	42.5%	8	43.6%	7	42.5%	8	52.1%	7	50.7%	7
Steel	20.6%	9	20.7%	14	31.2%	13	26.7%	12	27.7%	11	22.7%	13	23.0%	15	28.6%	14	25.0%	13	22.9%	14	25.0%	13	19.6%	13
Nonferrous Metals	30.3%	19	34.5%	22	31.3%	24	30.2%	23	34.6%	23	30.5%	20	34.2%	24	35.8%	26	35.4%	25	34.5%	22	30.6%	25	26.3%	24
Metal Products	33.9%	27	28.5%	23	40.6%	25	40.2%	25	42.9%	24	37.2%	27	32.5%	24	39.4%	27	39.1%	27	25.5%	21	38.7%	27	38.3%	27
General Machinery (total)	24.4%	48	28.7%	46	33.9%	54	34.2%	51	36.9%	48	39.6%	52	42.1%	52	42.0%	57	42.5%	55	35.0%	46	37.0%	54	36.4%	51
Assembly	23.2%	38	28.4%	38	34.5%	44	35.2%	42	37.6%	39	40.6%	41	42.9%	42	42.0%	47	42.6%	45	35.8%	37	35.9%	44	35.7%	42
Parts	29.0%	10	30.0%	8	31.0%	10	29.4%	9	33.9%	9	35.9%	11	39.0%	10	42.0%	10	42.0%	10	31.7%	9	42.0%	10	39.4%	9
Electrical Equipment & Electronics (total)	42.9%	77	44.0%	72	42.5%	68	43.8%	68	46.2%	68	47.2%	87	46.8%	84	45.1%	76	45.8%	72	38.4%	67	33.5%	67	36.4%	66
Assembly	31.3%	30	36.1%	28	35.0%	32	35.6%	31	37.6%	31	39.5%	38	38.0%	37	35.9%	34	36.6%	32	32.9%	28	26.9%	31	28.0%	30
Parts	50.3%	47	49.1%	44	49.2%	36	50.7%	37	53.4%	37	53.2%	49	53.7%	47	52.6%	42	53.3%	40	42.4%	39	39.2%	36	43.3%	36
Transportation Equipment (excl. Automobiles)	22.1%	17	27.9%	17	21.7%	15	22.3%	15	26.5%	13	27.5%	16	36.1%	19	30.6%	16	29.7%	15	28.5%	17	26.3%	15	25.7%	15
Automobiles (total)	46.2%	108	46.3%	113	44.8%	100	45.2%	98	47.0%	90	46.2%	113	46.7%	116	44.1%	104	43.1%	100	49.1%	111	46.2%	97	47.1%	94
Assembly	56.7%	6	57.0%	5	47.5%	4	48.3%	3	5.0%	1	67.5%	8	71.7%	6	65.0%	5	48.3%	3	77.5%	4	50.0%	4	50.0%	2
Parts	45.6%	102	45.8%	108	44.7%	96	45.1%	95	47.5%	89	44.6%	105	45.4%	110	43.1%	99	42.9%	97	48.1%	107	46.1%	93	47.1%	92
Precision Machinery (total)	28.2%	22	27.5%	28	28.2%	28	28.2%	28	26.1%	27	50.2%	21	47.1%	29	43.6%	29	45.7%	28	41.4%	28	36.3%	24	37.1%	24
Assembly	22.1%	17	22.0%	20	23.8%	16	23.8%	16	23.8%	16	52.6%	17	45.0%	21	43.8%	17	45.0%	17	40.5%	22	38.8%	16	39.4%	16
Parts	49.0%	5	41.3%	8	34.2%	12	34.2%	12	29.5%	11	40.0%	4	52.5%	8	43.3%	12	46.8%	11	45.0%	6	31.3%	8	32.5%	8
Other	27.7%	48	26.6%	50	28.0%	43	28.0%	43	31.3%	41	32.1%	56	30.8%	53	32.0%	54	32.7%	53	32.3%	49	26.1%	44	27.0%	44
Overall	35.0%	514	35.6%	509	36.8%	505	37.1%	495	39.2%	466	38.5%	567	39.3%	564	38.7%	560	38.8%	540	37.3%	507	36.4%	505	36.6%	494

※1Overseas production ratio: (Overseas production) / (Domestic production + Overseas production)

＊2 Overseas sales ratio: (Overseas sales) / (Domestic sales + Overseas sales)

＊3 Overseas revenue ratio: (Operating profit of overseas business) / (Operating profit of domestic business + Operating profit of overseas business)

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

(1) Net Sales

FY2015 Performance

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

FY2016 Performance

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

FY2017 Performance

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

FY2018 Performance

	Average	2.70
1	EU 15	2.82
1	North America	2.82
3	Vietnam	2.77
4	ASEAN 5	2.75
5	Central & Eastern Europe	2.71
6	China	2.65
6	NIEs 3	2.65
8	Mexico	2.63
8	India	2.63
10	Turkey	2.53
11	Brazil	2.42
12	Russia	2.33
ASEAN 5 breakdown		
1	Thailand	2.91
2	Indonesia	2.72
3	Singapore	2.71
4	Philippines	2.64
5	Malaysia	2.59

(2) Profits

FY2015 Performance

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

FY2016 Performance

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

FY2017 Performance

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

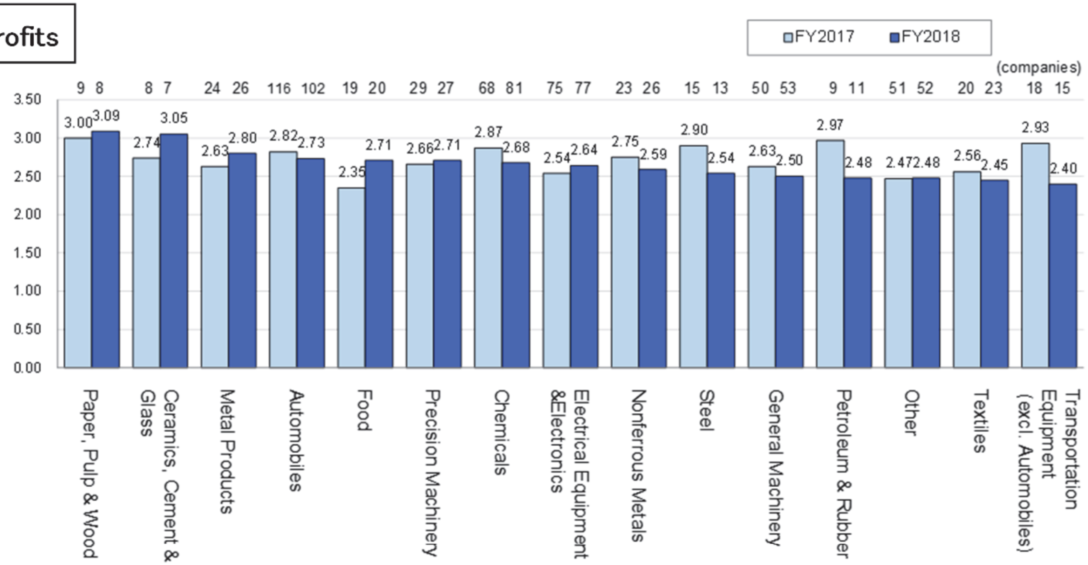
FY2018 Performance

	Average	2.63
1	EU 15	2.82
2	Vietnam	2.75
3	ASEAN 5	2.68
3	Central & Eastern Europe	2.68
3	North America	2.68
6	NIEs 3	2.63
7	Turkey	2.61
8	Mexico	2.58
8	India	2.58
10	China	2.57
11	Brazil	2.32
12	Russia	2.28
ASEAN 5 breakdown		
1	Thailand	2.88
2	Singapore	2.72
3	Indonesia	2.57
4	Philippines	2.51
4	Malaysia	2.51

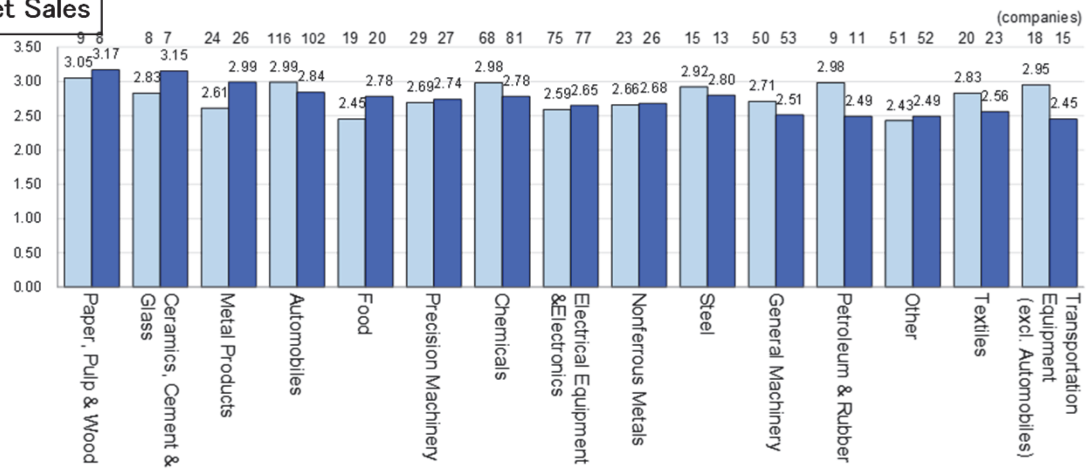
Note: Data of companies which answered both net sales and profits were summed up.

Satisfaction of Net Sales & Profits (FY2018) performance

Profits



Net Sales



Note 1: The industries are lined up in order of the size of the numerical value of the average satisfaction with profit. When the figures are the same, they are then lined up in order of the size of the average satisfaction with net sales.
Note 2: The numbers above the graph bars indicate the numbers of respondent companies.

Countries/regions with highest average in satisfaction with profits

Industry	Countries/regions with highest average in satisfaction with profits
1. Paper, Pulp & Wood	North America (4.00)
2. Ceramics, Cement & Glass	EU15 (4.25)
3. Metal Products	Thailand (3.58)
4. Automobiles	Cambodia (3.33)
5. Food	Central & Eastern Europe (4.00)
6. Precision Machinery	China (3.24)
7. Chemicals	Thailand (2.91)
8. Electrical Equipment & Electronics	Mexico (3.06)
9. Nonferrous Metals	Central & Eastern Europe (3.17)
10. Steel	India, Philippines (3.00)
11. General Machinery	EU15 (2.83)
12. Petroleum & Rubber	EU15 (3.17)
13. Other	NIEs3 (2.88)
14. Textiles	Vietnam (3.33)
15. Transportation Equipment (excl. Automobiles)	North America (2.92)

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

Overseas	Strengthen /expand		Maintain present level		Scale back /withdraw	
	2018	2019	2018	2019	2018	2019
All Industries	75.6%	71.4%	22.9%	26.7%	1.5%	2.0%
Food	79.2%	81.8%	20.8%	18.2%	-	-
Textiles	68.2%	73.9%	31.8%	26.1%	-	-
Paper, Pulp & Wood	66.7%	85.7%	22.2%	14.3%	11.1%	-
Chemicals (total)	80.0%	74.1%	20.0%	23.5%	-	2.4%
Chemicals (incl. plastic products)	81.2%	73.8%	18.8%	23.8%	-	2.5%
Pharmaceuticals	66.7%	80.0%	33.3%	20.0%	-	-
Petroleum & Rubber	72.7%	66.7%	27.3%	33.3%	-	-
Ceramics, Cement & Glass	80.0%	85.7%	20.0%	14.3%	-	-
Steel	52.9%	46.7%	47.1%	46.7%	-	6.7%
Nonferrous Metals	84.6%	50.0%	15.4%	42.3%	-	7.7%
Metal Products	76.0%	67.9%	20.0%	28.6%	4.0%	3.6%
General Machinery (total)	81.8%	86.4%	18.2%	13.6%	-	-
Assembly	84.4%	85.7%	15.6%	14.3%	-	-
Parts	70.0%	90.0%	30.0%	10.0%	-	-
Electrical Equipment & Electronics (total)	72.3%	68.4%	22.9%	31.6%	4.8%	-
Assembly	80.0%	74.3%	20.0%	25.7%	-	-
Parts	66.7%	63.6%	25.0%	36.4%	8.3%	-
Transportation Equipment (excl. Automobiles)	57.9%	66.7%	36.8%	26.7%	5.3%	6.7%
Automobiles (total)	71.7%	64.4%	27.5%	33.7%	0.8%	1.9%
Assembly	85.7%	80.0%	14.3%	20.0%	-	-
Parts	70.8%	63.6%	28.3%	34.3%	0.9%	2.0%
Precision Machinery (total)	80.0%	82.1%	20.0%	17.9%	-	-
Assembly	86.4%	87.5%	13.6%	12.5%	-	-
Parts	62.5%	75.0%	37.5%	25.0%	-	-
Other	85.7%	75.0%	12.5%	21.2%	1.8%	3.8%

Domestic	Strengthen /expand		Maintain present level		Scale back		Undecided	
	2018	2019	2018	2019	2018	2019	2018	2019
All Industries	45.9%	42.8%	48.7%	50.2%	2.3%	3.2%	3.1%	3.9%
Food	45.5%	63.6%	50.0%	27.3%	4.5%	9.1%	-	-
Textiles	31.8%	39.1%	50.0%	47.8%	18.2%	8.7%	-	4.3%
Paper, Pulp & Wood	70.0%	62.5%	20.0%	25.0%	10.0%	-	-	12.5%
Chemicals (total)	55.4%	49.4%	36.5%	43.7%	2.7%	2.3%	5.4%	4.6%
Chemicals (incl. plastic products)	55.9%	50.0%	36.8%	42.7%	1.5%	2.4%	5.9%	4.9%
Pharmaceuticals	50.0%	40.0%	33.3%	60.0%	16.7%	-	-	-
Petroleum & Rubber	20.0%	25.0%	70.0%	75.0%	-	-	10.0%	-
Ceramics, Cement & Glass	40.0%	28.6%	50.0%	71.4%	10.0%	-	-	-
Steel	29.4%	26.7%	64.7%	73.3%	-	-	5.9%	-
Nonferrous Metals	50.0%	46.2%	46.2%	50.0%	-	3.8%	3.8%	-
Metal Products	60.0%	53.6%	36.0%	39.3%	-	3.6%	4.0%	3.6%
General Machinery (total)	42.9%	37.9%	55.4%	55.2%	-	3.4%	1.8%	3.4%
Assembly	39.1%	35.4%	58.7%	56.3%	-	4.2%	2.2%	4.2%
Parts	60.0%	50.0%	40.0%	50.0%	-	-	-	-
Electrical Equipment & Electronics (total)	48.8%	45.6%	48.8%	49.4%	1.2%	1.3%	1.2%	3.8%
Assembly	51.5%	62.9%	45.5%	34.3%	3.0%	-	-	2.9%
Parts	46.9%	31.8%	51.0%	61.4%	-	2.3%	2.0%	4.5%
Transportation Equipment (excl. Automobiles)	5.3%	26.7%	94.7%	66.7%	-	6.7%	-	-
Automobiles (total)	37.0%	29.2%	54.6%	59.4%	2.5%	3.8%	5.9%	7.5%
Assembly	33.3%	-	16.7%	50.0%	16.7%	25.0%	33.3%	25.0%
Parts	37.2%	30.4%	56.6%	59.8%	1.8%	2.9%	4.4%	6.9%
Precision Machinery (total)	63.3%	65.5%	36.7%	27.6%	-	6.9%	-	-
Assembly	68.2%	70.6%	31.8%	17.6%	-	11.8%	-	-
Parts	50.0%	58.3%	50.0%	41.7%	-	-	-	-
Other	60.0%	45.3%	38.2%	50.9%	-	-	1.8%	3.8%

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

Major countries /Regions	NIEs3		ASEAN5		China		Other Asian Countries		North America		Latin America	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Strengthen/expand	30.0%	24.6%	49.3%	46.3%	48.1%	49.9%	58.2%	57.2%	55.9%	52.1%	47.9%	40.4%
Maintain present level	67.8%	73.0%	49.3%	52.0%	50.4%	46.5%	41.3%	41.3%	42.2%	45.6%	50.9%	56.2%
Scale back/withdraw	2.1%	2.4%	1.4%	1.7%	1.5%	3.5%	0.4%	1.6%	1.9%	2.3%	1.2%	3.4%

	EU15		Central & Eastern Europe		Turkey		Rest of Europe & CIS		Russia		Middle East		Africa	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Strengthen/expand	47.1%	52.5%	41.7%	39.8%	33.3%	32.3%	35.1%	20.9%	49.3%	36.9%	53.9%	50.8%	50.0%	52.8%
Maintain present level	51.6%	45.1%	58.3%	60.2%	64.0%	66.1%	64.9%	79.1%	49.3%	61.5%	46.1%	49.2%	50.0%	47.2%
Scale back/withdraw	1.2%	2.5%	-	-	2.7%	1.6%	-	-	1.3%	1.5%	-	-	-	-

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

Regions in detail	NIEs3			China					Latin America		
	Korea	Taiwan	Hong Kong	North-eastern China	Northern China	Eastern China	Southern China	Inland China	Mexico	Brazil	Others
Strengthen/expand	24.4%	31.0%	16.2%	49.0%	45.9%	51.5%	47.1%	57.8%	41.6%	40.4%	35.0%
Maintain present level	73.6%	69.0%	77.7%	46.9%	50.9%	44.5%	49.8%	39.2%	54.5%	55.8%	65.0%
Scale back/withdraw	2.1%	-	6.1%	4.2%	3.1%	3.9%	3.1%	2.9%	3.9%	3.8%	-

	ASEAN											
	ASEAN5					Other Asian Countries						
	Singapore	Thailand	Indonesia	Malaysia	Philippines	Vietnam	Cambodia	Laos	Myanmar	Brunei	India	Others
Strengthen/expand	25.5%	57.1%	46.2%	41.7%	54.0%	60.9%	43.2%	45.7%	59.6%	21.4%	68.2%	43.2%
Maintain present level	70.8%	41.4%	51.8%	57.1%	46.0%	37.7%	54.5%	54.3%	40.4%	78.6%	29.7%	54.1%
Scale back/withdraw	3.6%	1.4%	2.0%	1.1%	-	1.4%	2.3%	-	-	-	2.1%	2.7%

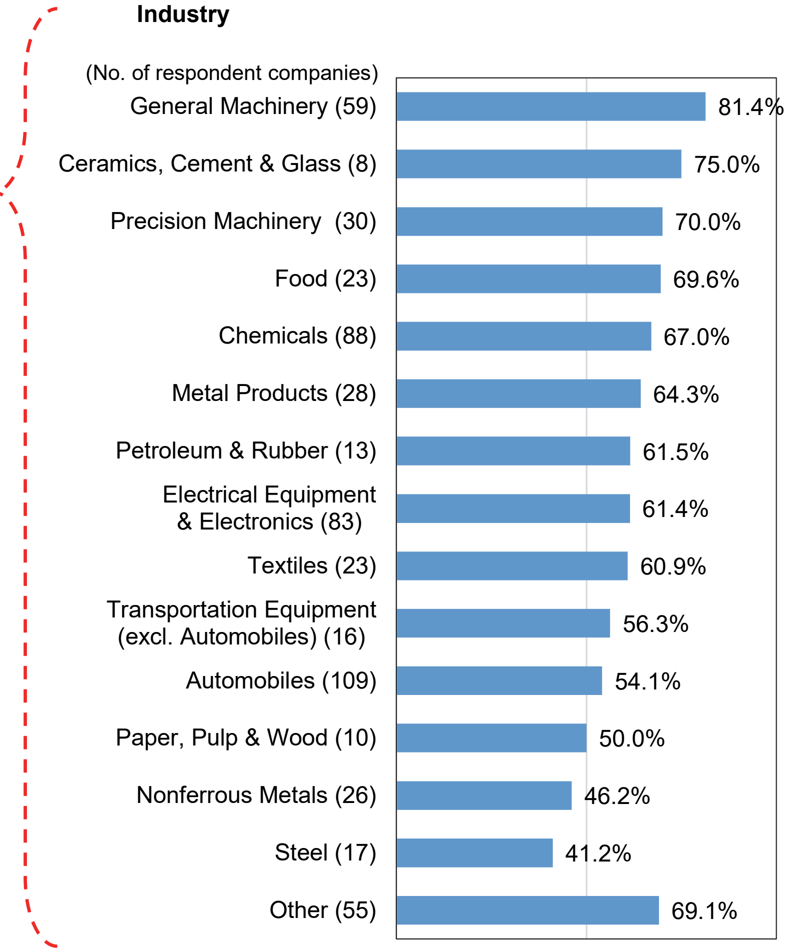
Cross Analysis of Prospects for Overseas and Domestic Businesses

Medium-term Prospects (next 3 yrs. or so)			
Overseas business	Domestic business	No. of respondent companies	Proportion
Strengthen/expand	Strengthen/expand	198	49.7%
	Maintain present level	173	43.5%
	Scale back	17	4.3%
(398 companies)	Undecided	10	2.5%
Maintain present level	Strengthen/expand	39	26.0%
	Maintain present level	101	67.3%
	Scale back	1	0.7%
(150 companies)	Undecided	9	6.0%
Scale back/withdraw	Strengthen/expand	4	36.4%
	Maintain present level	5	45.5%
	Scale back	0	0.0%
(11 companies)	Undecided	2	18.2%

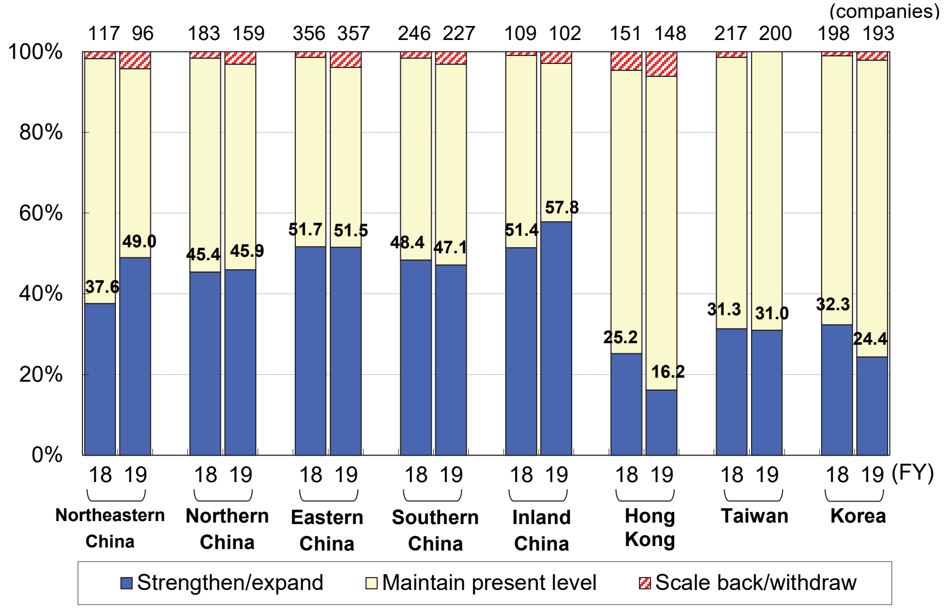
(n= 559 companies)

371 Companies 93.2%

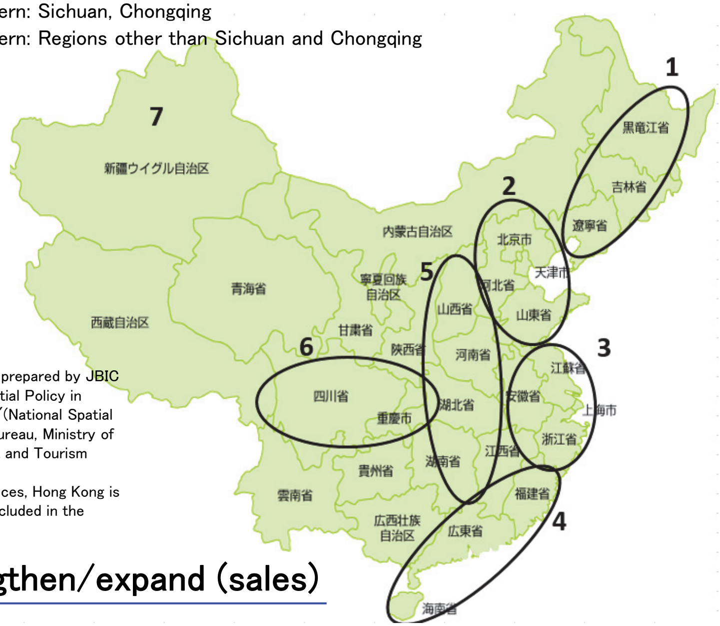
Profile of Companies (371 companies) which selected "Strengthen/Expand" or "Maintain present level" for both Overseas Domestic Business



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

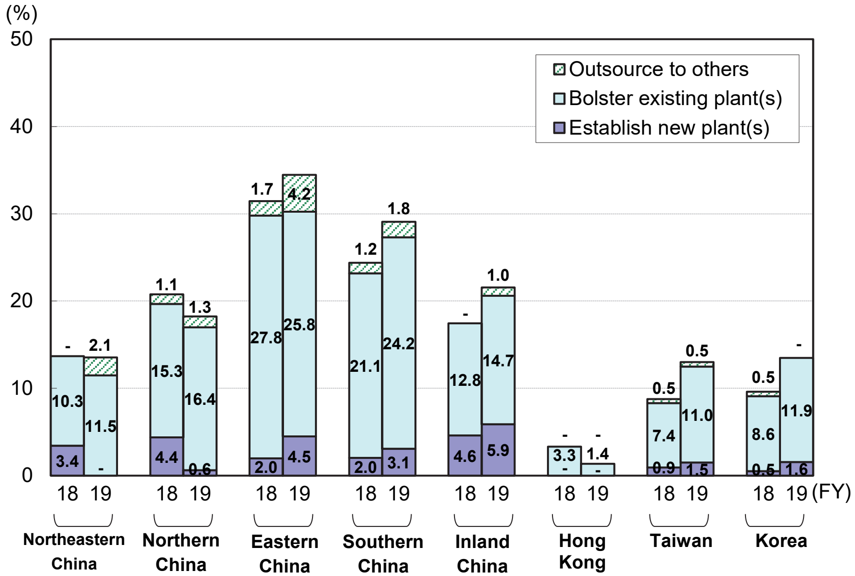


1. Northeastern China: Heilongjiang, Jilin, Liaoning
2. Northern China: Beijing, Tientsin, Hebei, Shandong
3. Eastern China: Shanghai, Jiangsu, Anhui, Zhejiang
4. Southern China: Fujian, Guangdong, Hainan
5. Inland China – Central: Shanxi, Henan, Hubei, Jiangxi, Funan
6. Inland China – Western: Sichuan,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

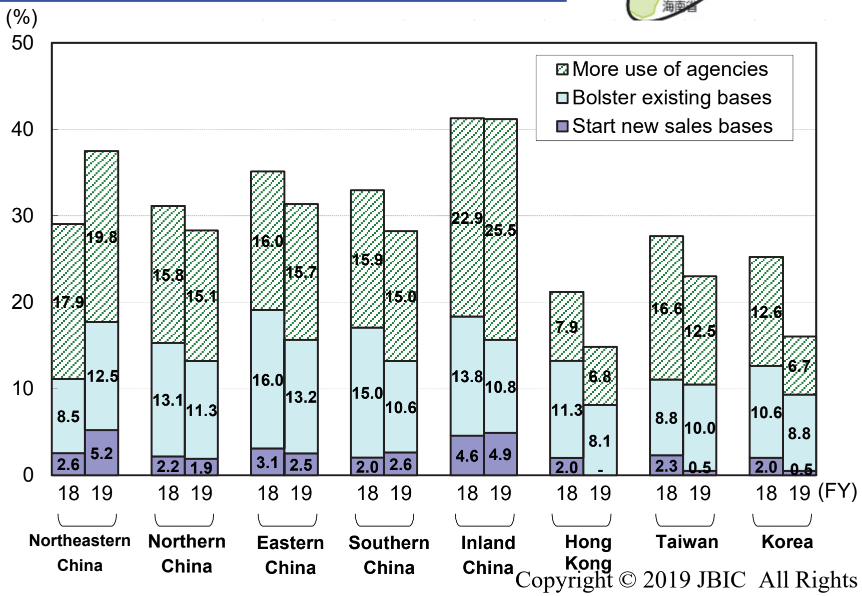


Source: This regional map was prepared by JBIC based on "An Overview of Spatial Policy in Asian and European Countries"(National Spatial Planning and Regional policy Bureau, Ministry of Land, Infrastructure, Transport and Tourism (MLIT)).
Note: Of the Guangdong provinces, Hong Kong is counted as NIEs3 and is not included in the Southern China region.

Ways to strengthen/expand (production)



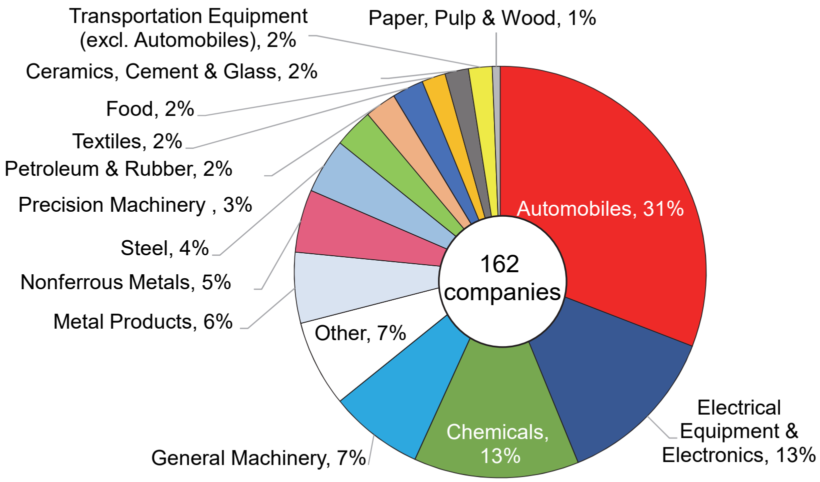
Ways to strengthen/expand (sales)



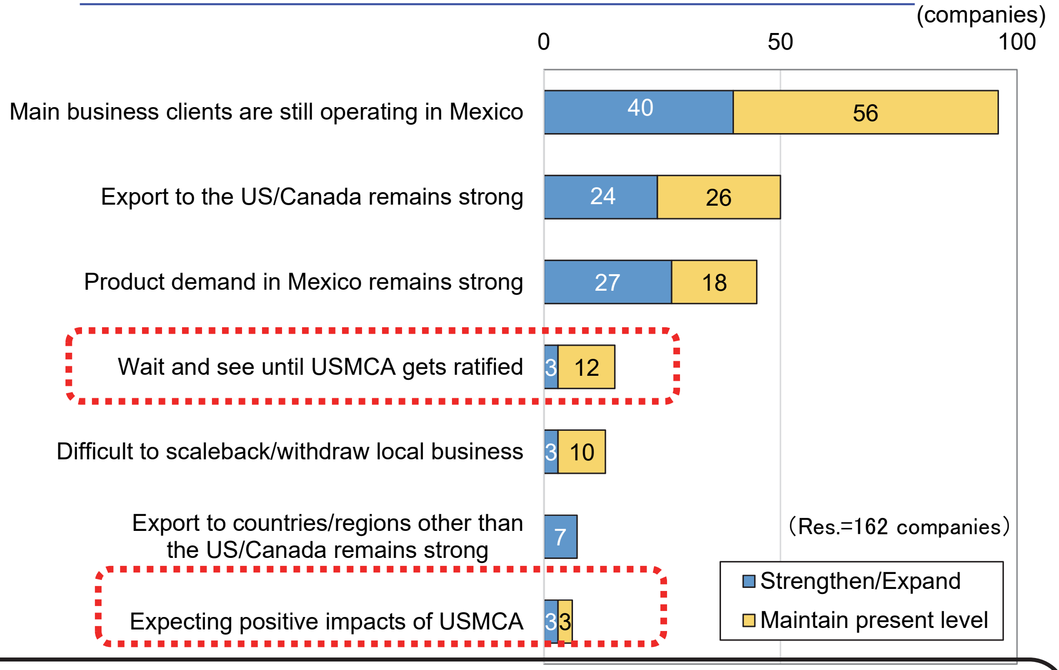
Appendix III. Reasons for strengthening and maintaining the Mexican business

Q Since the start of the Trump administration (2017-), Mexico's business environment has faced many challenges, such as the US-Mexico border crisis, USMCA deal, and the US government pronouncing tax increase on Mexican imports, etc. Please select the reasons why your company choose to maintain/strengthen business in Mexico at this point.

Companies strengthening/maintaining the Mexican business (by industry)



Reasons for strengthening/maintaining the Mexican business

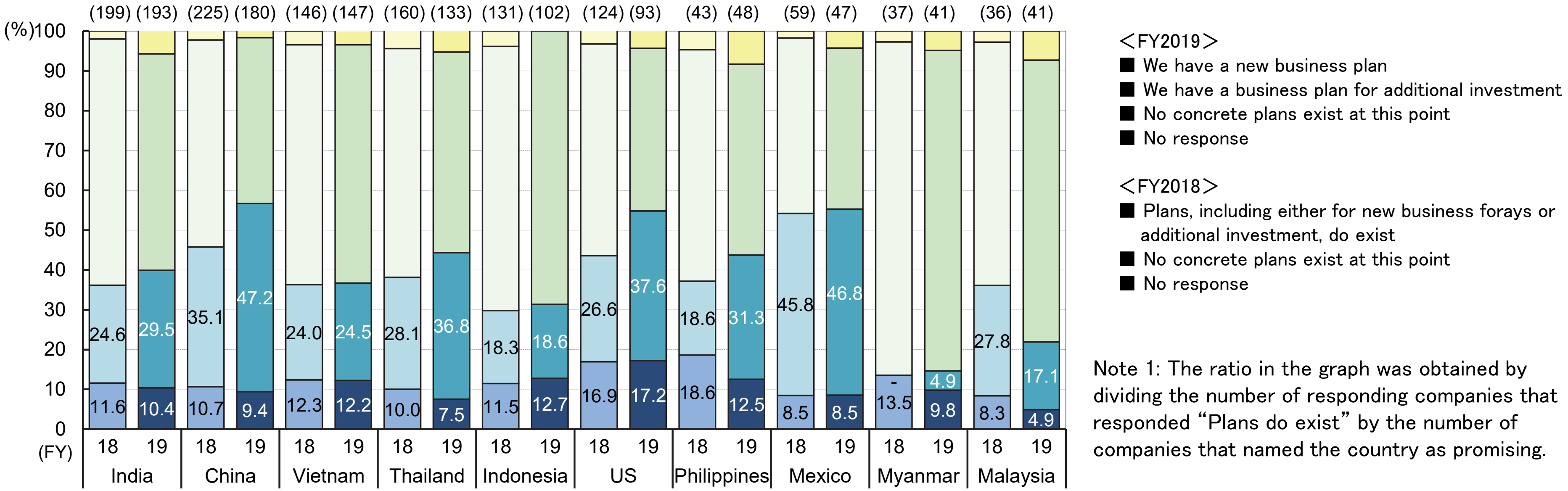


For those remaining, local business seems to be firm

- As for Mexico, its popularity in the Promising Country Survey is in a downward trend for the past 3 years, showing the growing negative images toward Mexico's business climate. However, in the "Business Prospects Survey," response rate of "Scale back / withdraw" among the companies that already have Mexican businesses didn't show any sharp increase, even after US president Trump's inauguration. This year we conducted a supplemental survey to analyze the situation.
- Of the 162 companies that responded that they would "Strengthen / expand" or "Maintain" their Mexican business, approximately 30% were auto-parts makers. Also, some included in "Steel," "Metal Products" are also auto-part makers, so the actual share of auto-related companies are bigger than shown.
- As for the reasons for strengthening /maintaining their business in Mexico, "Main customers continue to operate locally" came first, followed by "Strong exports to the US and Canada", and "Product demand in Mexico remains strong," indicating that local/regional business continues to be firm. The number of respondents saying "Wait and see until USMCA is ratified" and " Expecting positive impacts of USMCA" is relatively small. This result implies that USMCA has relatively limited effect on deciding business prospects in Mexico.
- Although the business environment has increased uncertainty due to the relationship with the Trump administration and the medium-term business image towards Mexico has been declining, current businesss seems to be running at this point and it should be too pessimistic to say that "Japanese companies are forsaking Mexico" just by looking at the outcome of the Promising Countries Survey.

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

Existence of Real Business Plans in Promising Countries



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

Note 2: The figures in parenthesis above the bar graph indicate the number of companies which named the countries as promising in Figure 28.

Promising Countries/Regions for Overseas Operations over the Medium-term (next 3 yrs. or so)
(Number of companies which responded that "Plans exist")

Rank	Country	No. of respondent companies		Change from last survey
		FY2019	FY2018	('19-'18)
1	China	102	103	▲ 1
2	India	77	72	5
3	Thailand	59	61	▲ 2
4	Vietnam	54	53	1
5	US	51	54	▲ 3
6	Indonesia	32	39	▲ 7
7	Mexico	26	32	▲ 6
8	Philippines	21	16	5
9	Malaysia	9	13	▲ 4
10	Korea	8	8	0

	No. 1		No. 2		No. 3		No. 4		No. 5		No. 6		No. 7		No. 8		No. 9		No. 9	
	India		China		Vietnam		Thailand		Indonesia		US		Philippines		Mexico		Myanmar		Malaysia	
	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio	Respondent companies	Ratio
Total	193	100%	180	100%	147	100%	133	100%	102	100%	93	100%	48	100%	47	100%	41	100%	41	100%
A new business plan exist	20	10.4%	17	9.4%	18	12.2%	10	7.5%	13	12.7%	16	17.2%	6	12.5%	4	8.5%	4	9.8%	2	4.9%
A business plan for additional investment exist	57	29.5%	85	47.2%	36	24.5%	49	36.8%	19	18.6%	35	37.6%	15	31.3%	22	46.8%	2	4.9%	7	17.1%
No plans	105	54.4%	75	41.7%	88	59.9%	67	50.4%	70	68.6%	38	40.9%	23	47.9%	19	40.4%	33	80.5%	29	70.7%
No response	12	6.2%	6	3.3%	7	4.8%	9	6.8%	0	0.0%	5	5.4%	4	8.3%	2	4.3%	2	4.9%	3	7.3%

	No. 11		No. 12		No. 12		No. 14		No. 15		No. 16		No. 17		No. 18		No. 18		No. 20	
	Taiwan		Korea		Singapore		Germany		Australia		Cambodia		Brazil		Russia		France		Turkey	
	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	18	100%	15	100%	15	100%	14	100%	13	100%	12	100%	11	100%	9	100%	9	100%	8	100%
A new business plan exist	0	0.0%	1	6.7%	0	0.0%	2	14.3%	0	0.0%	1	8.3%	3	27.3%	0	0.0%	0	0.0%	4	50.0%
A business plan for additional investment exist	7	38.9%	7	46.7%	0	0.0%	2	14.3%	5	38.5%	1	8.3%	0	0.0%	4	44.4%	0	0.0%	0	0.0%
No plans	8	44.4%	7	46.7%	15	#####	9	64.3%	7	53.8%	10	83.3%	8	72.7%	5	55.6%	8	88.9%	3	37.5%
No response	3	16.7%	0	0.0%	0	0.0%	1	7.1%	1	7.7%	0	0.0%	0	0.0%	0	0.0%	1	11.1%	1	12.5%

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

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

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

(Note) "Small and medium-sized companies"
Companies with capital of less than 1 billion yen.

Rank	FY2019 Survey	No.of Companies 404	Percentage share (%)	FY2018 Survey	No.of Companies 431	Percentage share (%)	FY2017 Survey	No.of Companies 444	Percentage share (%)	FY2016 Survey	No.of Companies 483	Percentage share (%)	FY2015 Survey	No.of Companies 433	Percentage share (%)
1	India	193	47.8	China	225	52.2	China	203	45.7	India	230	47.6	India	175	40.4
2	China	180	44.6	India	199	46.2	India	195	43.9	China	203	42.0	Indonesia	168	38.8
3	Vietnam	147	36.4	Thailand	160	37.1	Vietnam	169	38.1	Indonesia	173	35.8	China		
4	Thailand	133	32.9	Vietnam	146	33.9	Thailand	153	34.5	Vietnam	158	32.7	Thailand	133	30.7
5	Indonesia	102	25.2	Indonesia	131	30.4	Indonesia	147	33.1	Thailand	142	29.4	Vietnam	119	27.5
6	US	93	23.0	US	124	28.8	US	116	26.1	Mexico	125	25.9	Mexico	102	23.6
7	Philippines	48	11.9	Mexico	59	13.7	Mexico	81	18.2	US	93	19.3	US	72	16.6
8	Mexico	47	11.6	Philippines	43	10.0	Philippines	47	10.6	Philippines	51	10.6	Philippines	50	11.5
9	Myanmar	41	10.1	Myanmar	37	8.6	Myanmar	40	9.0	Myanmar	49	10.1	Brazil	48	11.1
10	Malaysia			Malaysia	36	8.4	Brazil	28	6.3	Brazil	35	7.2	Myanmar	34	7.9
11	Taiwan	18	4.5	Germany	25	5.8	Korea			Malaysia	33	6.8	Malaysia	27	6.2
12	Korea	15	3.7	Brazil	24	5.6	Malaysia	26	5.9	Singapore	23	4.8	Russia	24	5.5
13	Singapore			Korea	22	5.1	Russia	19	4.3	Taiwan	22	4.6	Singapore	20	4.6
14	Germany	14	3.5	Taiwan	19	4.4	Singapore	17	3.8	Germany	20	4.1	Turkey	17	3.9
15	Australia	13	3.2	Russia	16	3.7	Taiwan			Russia	17	3.5	Korea		
16	Cambodia	12	3.0	Singapore	15	3.5	Germany	13	2.9	Korea	15	3.1	Taiwan	16	3.7
17	Brazil	11	2.7	Cambodia	13	3.0	Turkey	12	2.7	Turkey	12	2.5	Cambodia	14	3.2
18	Russia	9	2.2	Australia	12	2.8	Australia	10	2.3	Cambodia			Germany		
19	France			Turkey	9	2.1	Canada			Australia	11	2.3	Saudi Arabia	7	1.6
20	Turkey	8	2.0	Laos	7	1.6	Cambodia	9	2.0	Iran	8	1.7	Bangladesh	6	1.4
				France									Laos		
													UK		

Promising Countries/Regions over the Long-term

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

Rank	FY2019 Survey	No.of Companies 296	Percentage share (%)	FY2018 Survey	No.of Companies 350	Percentage share (%)
1	India	155	52.4	India	205	63.5
2	China	119	40.2	China	164	43.3
3	Vietnam	103	34.8	Vietnam	115	34.1
4	Indonesia	84	28.4	Indonesia		32.3
5	Thailand	73	24.7	Thailand	105	23.7
6	US	62	20.9	US	76	23.1
7	Myanmar	39	13.2	Myanmar	41	14.2
8	Mexico	35	11.8	Mexico		13.4
9	Philippines			Brazil		12.8
10	Malaysia	25	8.4	Philippines	30	9.8

Which Chinese province/city your is particularly promising for your company, in terms of production and sales? (Multiple choice)

Region	Division	Produce	Sale	Total
1	Heilongjiang Province	0	5	5
	Jilin Province	1	10	11
	Liaoning Province	8	14	22
2	Beijing Munincipality	3	35	38
	Tianjin Munincipality	17	30	47
	Hebei Province	4	11	15
	Shandong Province	8	13	21
3	Shanghai Munincipality	24	84	108
	Jiangsu Province	35	36	71
	Anhui Province	8	10	18
	Zhejiang Province	14	27	41
4	Fujian Province	4	11	15
	Guangdong Province	42	70	112
	Hainan Province	0	5	5
5	Shanxi Province	0	1	1
	Henan Province	2	5	7
	Hubei Province	15	17	32
	Jianxi Province	2	4	6
	Hunan Province	3	8	11
6	Sichuan Province	10	21	31
	Chongqing Munincipality	6	23	29

Region	Division	Produce	Sale	Total
7	Inner Mongolia	1	1	2
	Ningxia Hui	0	0	0
	Gansu Province	1	0	1
	Shaanxi Province	0	4	4
	Guizhou Province	1	1	2
	Yunnan Province	0	3	3
	Guangxi Zhuang Autonomous Region	4	0	4
	Qinghai Province	0	0	0
	Tibet Autonomous Region	0	0	0
	Xinjiang Uygur Autonomous Region	0	1	1

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

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

Question

Please provide us with the names of up to 5 countries that you may potentially expand your operations to in the mid-term (next 3 years). (Multiple answers allowed)

Ranking			Country/Region	No. of Companies		Percentage Share(%)	
2019	←	2018	(Total)	2019 137	2018 137	2019	2018
1	↑	2	India	62	56	45.3	40.9
2	↓	1	China	53	66	38.7	48.2
3	↑	4	Vietnam	46	39	33.6	28.5
4	↑	5	Indonesia	36	37	26.3	27.0
5	↓	2	Thailand	35	56	25.5	40.9
6	—	6	US	27	32	19.7	23.4
7	—	7	Mexico	23	15	16.8	10.9
8	↓	7	Philippines	20	15	14.6	10.9
9	—	9	Myanmar	16	12	11.7	8.8
10	—	10	Malaysia	11	8	8.0	5.8
11	↓	10	Cambodia	7	8	5.1	5.8
12	↓	10	Korea	6	8	4.4	5.8
13	↓	10	Germany	4	8	2.9	5.8
13	↑	19	Australia	4	4	2.9	2.9
15	↑	17	Turkey	3	5	2.2	3.6
15	↑	19	Taiwan	3	4	2.2	2.9
15	↑	21	Bangladesh	3	3	2.2	2.2
15	↑	21	France	3	3	2.2	2.2
15	↑	24	Italy	3	2	2.2	1.5
15	↑	24	Singapore	3	2	2.2	1.5

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

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

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

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

FY2019 Survey	1 India		2 China		3 Vietnam		4 Thailand		5 Indonesia		6 US		7 Philippines		8 Mexico		9 Myanmar		9 Malaysia	
	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio
No. of respondent companies	187	100%	176	100%	143	100%	131	100%	99	100%	92	100%	46	100%	46	100%	40	100%	40	100%
1. Qualified human resources	35	18.7%	17	9.7%	38	26.6%	28	21.4%	6	6.1%	11	12.0%	7	15.2%	2	4.3%	6	15.0%	5	12.5%
2. Inexpensive source of labor	58	31.0%	13	7.4%	62	43.4%	24	18.3%	26	26.3%	1	1.1%	20	43.5%	12	26.1%	24	60.0%	5	12.5%
3. Inexpensive components/raw materials	24	12.8%	15	8.5%	12	8.4%	8	6.1%	5	5.1%	-	0.0%	-	0.0%	2	4.3%	1	2.5%	3	7.5%
4. Supply base for assemblers	41	21.9%	42	23.9%	25	17.5%	29	22.1%	16	16.2%	20	21.7%	7	15.2%	28	60.9%	1	2.5%	6	15.0%
5. Concentration of industry	24	12.8%	36	20.5%	14	9.8%	37	28.2%	10	10.1%	22	23.9%	3	6.5%	13	28.3%	2	5.0%	3	7.5%
6. Good for risk diversification to other countries	12	6.4%	3	1.7%	27	18.9%	15	11.5%	8	8.1%	3	3.3%	2	4.3%	3	6.5%	4	10.0%	9	22.5%
7. Base of export to Japan	5	2.7%	13	7.4%	15	10.5%	10	7.6%	8	8.1%	3	3.3%	8	17.4%	-	0.0%	3	7.5%	1	2.5%
8. Base of export to third countries	27	14.4%	18	10.2%	20	14.0%	35	26.7%	15	15.2%	5	5.4%	5	10.9%	14	30.4%	7	17.5%	5	12.5%
9. Advantages in terms of raw material procurement	6	3.2%	8	4.5%	1	0.7%	6	4.6%	3	3.0%	2	2.2%	2	4.3%	1	2.2%	-	0.0%	2	5.0%
10. Current size of local market	69	36.9%	107	60.8%	27	18.9%	53	40.5%	42	42.4%	64	69.6%	10	21.7%	12	26.1%	4	10.0%	11	27.5%
11. Future growth potential of local market	139	74.3%	99	56.3%	91	63.6%	56	42.7%	60	60.6%	40	43.5%	24	52.2%	21	45.7%	22	55.0%	15	37.5%
12. Profitability of local market	6	3.2%	21	11.9%	13	9.1%	19	14.5%	7	7.1%	17	18.5%	7	15.2%	1	2.2%	1	2.5%	-	0.0%
13. Base for product development	11	5.9%	10	5.7%	1	0.7%	7	5.3%	-	0.0%	6	6.5%	-	0.0%	-	0.0%	-	0.0%	1	2.5%
14. Developed local infrastructure	5	2.7%	25	14.2%	13	9.1%	29	22.1%	2	2.0%	24	26.1%	2	4.3%	3	6.5%	-	0.0%	4	10.0%
15. Developed local logistics services	2	1.1%	13	7.4%	6	4.2%	12	9.2%	-	0.0%	10	10.9%	-	0.0%	1	2.2%	-	0.0%	2	5.0%
16. Tax incentives for investment	1	0.5%	6	3.4%	9	6.3%	15	11.5%	2	2.0%	1	1.1%	2	4.3%	1	2.2%	1	2.5%	2	5.0%
17. Stable policies to attract foreign investment	4	2.1%	3	1.7%	7	4.9%	5	3.8%	5	5.1%	-	0.0%	4	8.7%	-	0.0%	1	2.5%	2	5.0%
18. Social/political situation stable	7	3.7%	5	2.8%	23	16.1%	11	8.4%	5	5.1%	14	15.2%	3	6.5%	-	0.0%	-	0.0%	3	7.5%

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

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

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

FY2019 Survey	1 India		2 China		3 Vietnam		4 Thailand		5 Indonesia		6 US		7 Philippines		8 Mexico		9 Myanmar		9 Malaysia	
	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio	No. of Companies	Ratio
Respondent companies	161	100%	155	100%	113	100%	104	100%	82	100%	67	100%	34	100%	38	100%	30	100%	28	100%
1. Underdeveloped legal system	22	13.7%	9	5.8%	21	18.6%	2	1.9%	13	15.9%	1	1.5%	6	17.6%	1	2.6%	12	40.0%	2	7.1%
2. Execution of legal system unclear	60	37.3%	65	41.9%	33	29.2%	10	9.6%	27	32.9%	4	6.0%	10	29.4%	3	7.9%	10	33.3%	3	10.7%
3. Complicated tax system	39	24.2%	16	10.3%	7	6.2%	5	4.8%	8	9.8%	1	1.5%	-	0.0%	5	13.2%	2	6.7%	-	0.0%
4. Execution of tax system unclear	33	20.5%	28	18.1%	20	17.7%	13	12.5%	9	11.0%	4	6.0%	-	0.0%	4	10.5%	5	16.7%	1	3.6%
5. Increased taxation	16	9.9%	30	19.4%	10	8.8%	11	10.6%	8	9.8%	10	14.9%	3	8.8%	2	5.3%	2	6.7%	-	0.0%
6. Restrictions on foreign investment	21	13.0%	38	24.5%	9	8.0%	13	12.5%	11	13.4%	2	3.0%	5	14.7%	2	5.3%	3	10.0%	1	3.6%
7. Complicated/unclear procedures for investment permission	30	18.6%	25	16.1%	7	6.2%	4	3.8%	12	14.6%	-	0.0%	3	8.8%	1	2.6%	1	3.3%	3	10.7%
8. Insufficient protection for intellectual property rights	12	7.5%	55	35.5%	10	8.8%	3	2.9%	3	3.7%	-	0.0%	1	2.9%	1	2.6%	2	6.7%	2	7.1%
9. Restrictions on foreign currency/ transfers of money overseas	30	18.6%	46	29.7%	16	14.2%	2	1.9%	7	8.5%	1	1.5%	1	2.9%	-	0.0%	1	3.3%	-	0.0%
10. Import restrictions/customs procedures	21	13.0%	33	21.3%	14	12.4%	6	5.8%	10	12.2%	6	9.0%	1	2.9%	3	7.9%	5	16.7%	3	10.7%
11. Difficult to secure technical/engineering staff	31	19.3%	33	21.3%	22	19.5%	27	26.0%	16	19.5%	13	19.4%	5	14.7%	18	47.4%	8	26.7%	7	25.0%
12. Difficult to secure management-level staff	32	19.9%	36	23.2%	33	29.2%	33	31.7%	21	25.6%	11	16.4%	9	26.5%	20	52.6%	8	26.7%	6	21.4%
13. Rising labor costs	35	21.7%	104	67.1%	35	31.0%	51	49.0%	27	32.9%	22	32.8%	6	17.6%	15	39.5%	5	16.7%	4	14.3%
14. Labor problems	32	19.9%	24	15.5%	17	15.0%	4	3.8%	14	17.1%	4	6.0%	1	2.9%	6	15.8%	3	10.0%	3	10.7%
15. Intense competition with other companies	61	37.9%	93	60.0%	40	35.4%	65	62.5%	33	40.2%	42	62.7%	6	17.6%	8	21.1%	6	20.0%	9	32.1%
16. Difficulties in recovering money owed	24	14.9%	36	23.2%	5	4.4%	4	3.8%	2	2.4%	1	1.5%	1	2.9%	3	7.9%	1	3.3%	-	0.0%
17. Difficulty in raising funds	11	6.8%	7	4.5%	4	3.5%	1	1.0%	3	3.7%	-	0.0%	1	2.9%	2	5.3%	4	13.3%	2	7.1%
18. Underdeveloped local supporting industries	25	15.5%	3	1.9%	20	17.7%	7	6.7%	9	11.0%	-	0.0%	4	11.8%	7	18.4%	13	43.3%	2	7.1%
19. Sense of instability regarding currency and/or costs	14	8.7%	7	4.5%	8	7.1%	-	0.0%	11	13.4%	-	0.0%	1	2.9%	6	15.8%	5	16.7%	2	7.1%
20. Underdeveloped infrastructure	70	43.5%	7	4.5%	21	18.6%	2	1.9%	18	22.0%	-	0.0%	4	11.8%	1	2.6%	20	66.7%	-	0.0%
21. Security/social instability	27	16.8%	19	12.3%	5	4.4%	18	17.3%	24	29.3%	3	4.5%	12	35.3%	20	52.6%	4	13.3%	-	0.0%
22. Lack of information on the country	24	14.9%	3	1.9%	11	9.7%	1	1.0%	6	7.3%	2	3.0%	2	5.9%	2	5.3%	8	26.7%	1	3.6%

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

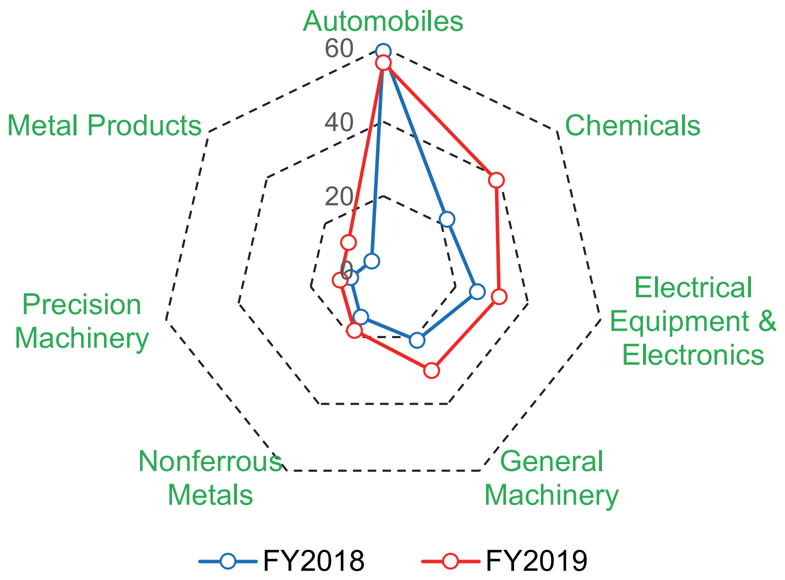
Appendix III. US-China friction Impact on profit

Q Since 2018, there has been increasing tension over international trade, mainly in the US and China, such as raising tariffs and restricting transactions with specific companies. Please answer the following (1) to (3) regarding the impact of this situation on your company (please answer as much as possible if there is no impact yet, but any impact is expected in the future).

(Note) (1) Your earnings, (2) Your overseas direct investment

Companies responding that revenue will decline (by industry)

(No. of responded companies)



(Note) FY2018's survey inquired whether or not there were any impacts by protectionist movements in general without limiting to friction between the US and China. This means that it is not possible to make a simple comparison between this year's and last year's survey results. However, the comparison between these years are shown here because the survey was held at the peak of this friction last year.

Breakdown by industry

(No. of responded companies)

Industry	FY2018	FY2019
Food	5	5
Textiles	4	8
Paper, Pulp & Wood	1	2
Chemicals	22	39
Petroleum & Rubber	1	8
Ceramics, Cement & Glass	1	2
Steel	5	4
Nonferrous Metals	14	18
Metal Products	4	12
General Machinery	21	30
Electrical Equipment & Electronics	26	32
Transportation Equipment (excl. Automobiles)	5	6
Automobiles	59	56
Precision Machinery	9	12
Other	9	17

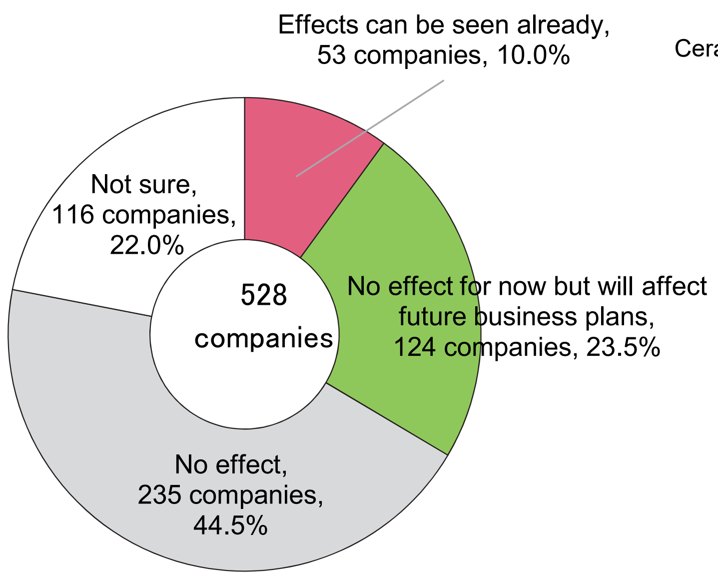
Appendix III. US-China friction

Question

Conflicts over trade imbalances between the United States and China are also captured in the context of security, and policies such as restricting transactions with specific companies (such as Huawei) are beginning to be implemented. Please select one of the applicable impacts of these restrictions on transactions with your specific company and enclose the number in circles.

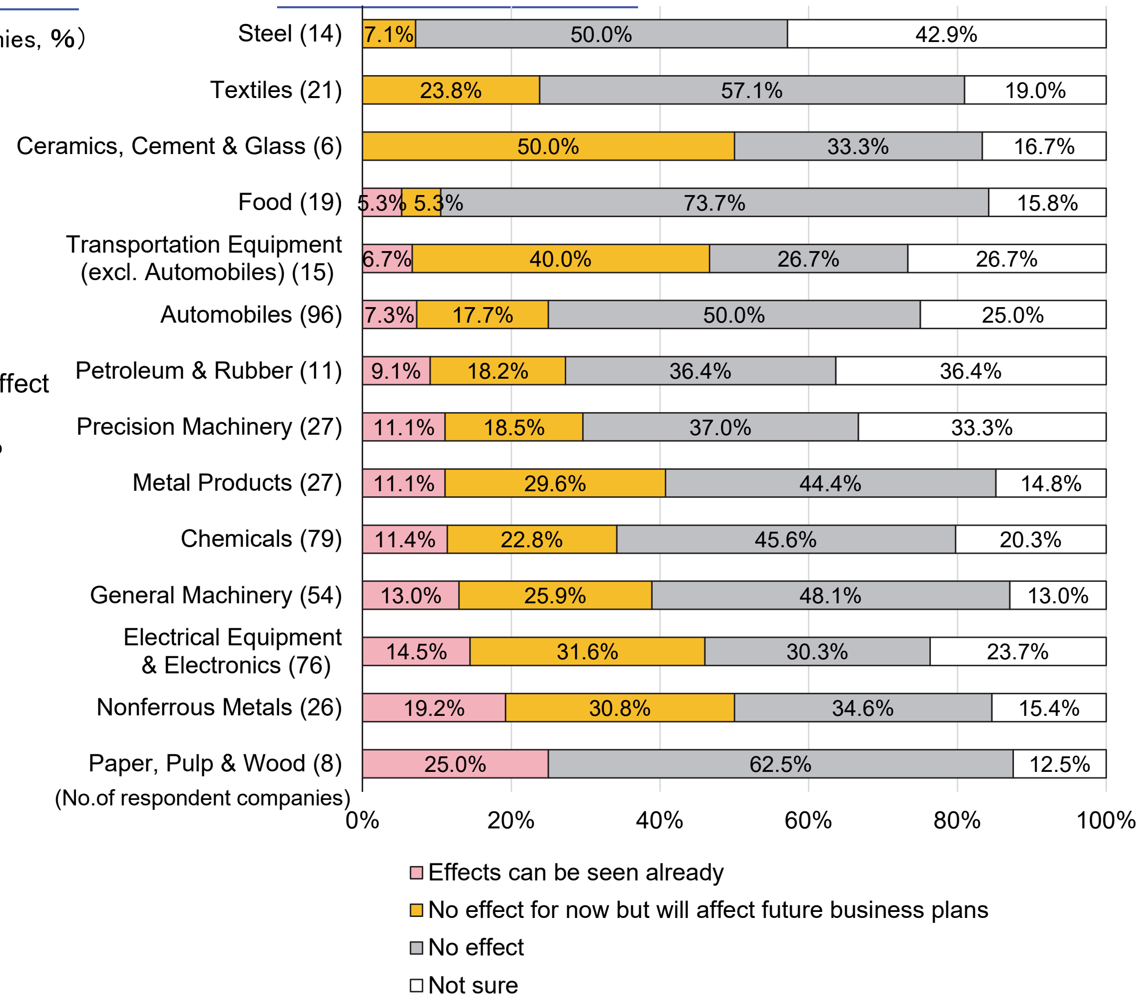
Whether or not there is an impact due to restrictions on transactions with specific companies

(No. of responded companies, %)



Breakdown by industry

(%)



Appendix III. Overseas expansion of open innovation ranking by city (industry breakdown)

	Industry																
	Auto-mobiles	Chemicals	Pharma-ceuticals	Electrical Equipment & Electronics	General Machinery	Precision Machinery	Metal Products	Nonferrous Metals	Food	Textiles	Steel	Trans-portation Equipment (excl. Auto-mobiles)	Petroleum & Rubber	Paper, Pulp & Wood	Ceramics, Cement & Glass	Other	Total
No. of Companies	58	56	4	46	32	18	13	15	15	1	8	1	4	4	2	26	317
Tokyo	48	47	3	38	27	14	12	14	11	1	7	9	4	4	1	23	269
Shanghai	11	15	1	11	8	6	2	3	3	1		1				1	71
Silicon Valley	6	11	1	11	3	7	1	2	2	1		2				7	53
Beijing	3	6	1	5	4	1	2		2	1	1					1	26
Mumbai	2	6		4	3	1	1	3							1	2	23
Boston	3	9	3	3	2	1			1						1	2	22
Los Angeles	2	1		6	1	4	1		3			1			1	1	21
Berlin	4	4		3	3	2		1	1			2					2
Bangalore	3	2		3	2	2		1				1			1	4	19
New Dehli	6	2		3	3	2		1							1		18
London		3	1	2	2	1			2	1		1				1	13
Seoul	3	1		3	2	2										2	13
Amsterdam				2			1		4						1	3	11
New York		2		2	2	2			1	1					1		11
Tel Aviv	1	3	1	5					1								1
Paris		2		2	2	1			1			1				1	1
Seattle	1	3		1	2	1						2					1
Houston	1	1		2		1	2	1									8
Toronto	2	1	1	1	1	1			1								7
Sydney				2	1				1							2	6
São Paulo		1		1			1		1								4
Stockholm	1			1		1											3
Barcelona		2		1													3
Vancouver		1		1					1								3
Talin				2													2
Denver				1											1		2
Austin				1		1											2
Other	1	1		5	11		4	3	2	4	1	1		3	1	7	62
Bangkok	1							1	1	1						1	5
Singapore		1			2				1							1	5

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