

# Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

—Results of the JBIC FY2015 Survey: Outlook for Japanese Foreign Direct Investment (27th Annual Survey)—

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## 1. Introduction

The Japan Bank for International Cooperation (JBIC) conducted a survey on trends in overseas business operations by Japanese manufacturing companies. As in previous years, this year's survey was sent out at the beginning of July and responses were collected by September (no. of target companies: 1,016, no. of valid responding companies: 607, valid response rate: 59.7%). The response rate of close to 60% was on a par with the 60.4% recorded last year. As well as continuing to make efforts to make the survey easier to answer in the future, we would once more like to express our gratitude to the companies who cooperated in the survey.

This year's survey included topics that are covered every year ("Evaluations of Overseas Business Performance," "Prospects for Overseas and Domestic Business Operations," "Promising Countries or Regions for Overseas Business Operations") as well as questions on specific topics such as "Management Challenges to be Addressed," "Status of Overseas M&A and Policy of Engagement," "Trends of Production Repatriated from Overseas," and "Situations in China and Stance towards Future Business Operation."

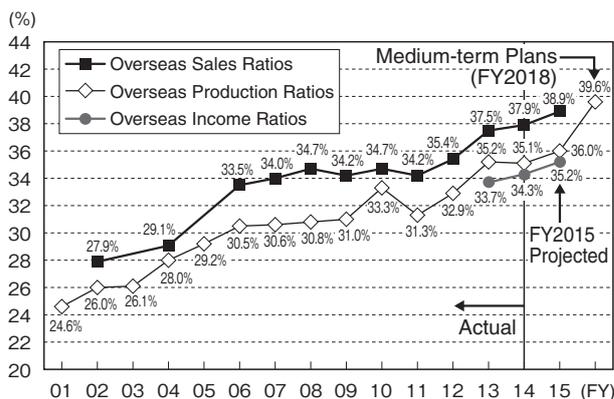
## 2. Prospects for Overseas and Domestic Business Operations

### (1) Performance Evaluations Regarding Overseas Production, Sales, and Income

The FY2014 overseas production ratio<sup>1</sup> was 35.1%, which dipped slightly below the actual FY2013 performance (35.2%). However, the projected figure in medium-term plans (FY2018) was close to the 40% level (39.6%), indicating that the responding companies continue to have a plan of expanding overseas production. The overseas sales ratio<sup>2</sup> based on the FY2014 performance was 37.9%, while the overseas income ratio<sup>3</sup> was 34.3%, which are increases in performance over the previous year by 0.4 percentage points and 0.6 percentage points, respectively. As for the overseas sales ratio, an increase of about 1 percentage point more is anticipated in FY2015 (Figure 1).

By major industries, the overseas production ratio based on FY2014 performance was highest for the automobile industry at 44.6%. The projected FY2015 performance is 45.4%

Figure 1. Ratios of Overseas Production, Overseas Sales, and Overseas Income



and in medium-term plans (FY2018) is 48.9%, which indicate that the automobile industry is prepared to continue to strengthen overseas production.

\* 1 : (Overseas Production) / (Domestic Production + Overseas Production)  
 \* 2 : (Overseas Sales) / (Domestic Sales + Overseas Sales)  
 \* 3 : (Overseas Operating Income) / (Domestic Operating Income + Overseas Operating Income)

### (2) Stance toward Overseas Business Operations

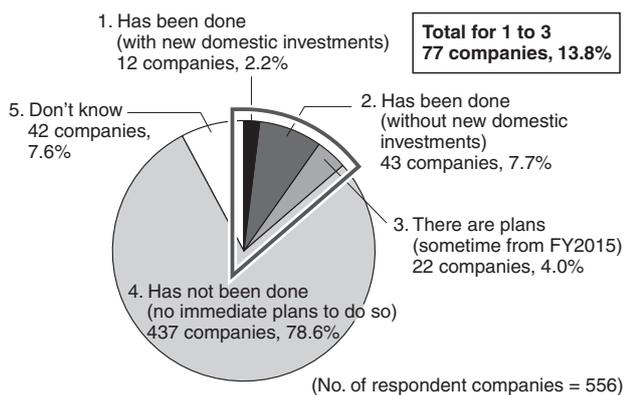
Companies answering intention to "strengthen/expand" overseas business over the medium term accounted for 80.5%, which was more or less the same with the previous survey (down 0.4 percentage points), showing a continuous downward trend since the FY 2011 survey. Though companies that intended on strengthening/expanding have surpassed the 80% mark, this represents a standstill in comparison to the past results, in reflection of the recent world economy.

### (3) Domestic Business Operations and the Repatriation of Production

Since the FY 2012 survey, the response ratios of "strengthening/expanding" domestic business operations have been in an upward trend. Out of the responding companies in this survey, 29.6% (2.0 percentage points more than the previous survey) chose "strengthen/expand," a stance that can be partially attributed to the recent domestic economy and the currency exchange market situations.

In relation to this, we asked whether companies had repa-

Figure 2. Status of Production Repatriated from Overseas



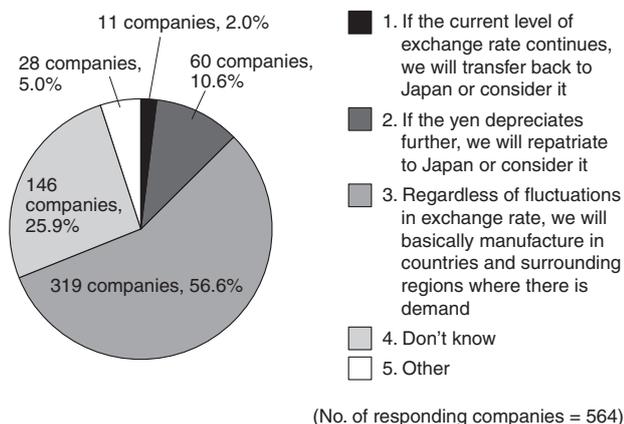
triated production, to which a total of 13.8% responded either “Has been done” or “There are plans” (Figure 2). Given the most as the reason for the response “Has been done” was “Due to improvement of export competitiveness via yen depreciation.” The overseas production bases transferred back to Japan had mainly been in China.

Still, the repatriation of production does not necessarily lead to downsizing or closing of overseas bases. In China, for instance, while companies transferred some production, such as that of for the Japanese market back to Japan due to the impact of soaring labor costs and the depreciation of yen, they indicated that they would continue to keep manufacturing in China for products intended for the Chinese market.

In terms of the future possibility of repatriation to Japan, a majority of companies (319 companies, 56.6%) chose “3. Produce in countries or surrounding regions where there is demand regardless of exchange rate fluctuations.” However, there were 146 companies (25.9%) that chose “4. Don't know.” It means that, among companies that have not repatriated production to Japan currently, there is still the possibility of repatriating, depending on future foreign exchange trends (Figure 3).

A look at the mutual relationship between prospects for overseas and domestic operations shows that of the companies that answered that would “strengthen/expand” overseas business (471 companies), the ratio of those indicating a

Figure 3. Possibility of Repatriating Production in the Future



stance of maintaining or expanding domestic operations increased for the third consecutive year and was about 90%.

Very few companies showed the intention to downsize domestic operations, an indication of the willingness of more and more companies to accommodate both overseas and domestic operations.

### 3. Ranking of Promising Countries

The responding companies were each asked to name the top five countries/regions that they consider to have promising prospects for business operations over the medium-term (the next 3 years or so) and the results are shown in Figure 4. In this year's survey, India continued to hold the top spot as was the case in the previous survey, with Indonesia and China finishing in 2nd place. The percentage shares of these three countries vied closely for around 40%, outscoring the countries that were ranked below them. While Brazil (9th place) and Russia (12th place) saw significant decreases in their percentage shares, Mexico (6th place), the USA (7th place), and the Philippines (8th place) each received higher percentages, an indication of the recent economic situation in each country/region.

Having won the 1st-place spot for the first time ever in the previous survey, India again won high marks as a promising nation. Though the number of companies selecting India dropped to 175 from 229 in the previous survey, it was the only country to receive a percentage share in excess of 40%. Of the companies answering that India was promising, 88.9% gave “Future growth potential of local market” as a reason. Along with its potential appeal as a market indicated once again, the response ratio of “Current size of local market” (31.0%) has been increasing each year, an indication that

Figure 4. Promising Countries/Regions for Overseas Business over the Medium-term

Ranking	Country/Region (Total)	No. of Companies		Percentage Share (%)	
		2015	2014	2015	2014
2015←2014		433	499		
1	India	175	229	40.4	45.9
2	Indonesia	168	228	38.8	45.7
2	China	168	218	38.8	43.7
4	Thailand	133	176	30.7	35.3
5	Vietnam	119	155	27.5	31.1
6	Mexico	102	101	23.6	20.2
7	USA	72	66	16.6	13.2
8	Philippines	50	50	11.5	10.0
9	Brazil	48	83	11.1	16.6
10	Myanmar	34	55	7.9	11.0
11	Malaysia	27	46	6.2	9.2
12	Russia	24	60	5.5	12.0
13	Singapore	20	25	4.6	5.0
14	Turkey	17	26	3.9	5.2
14	Korea	17	20	3.9	4.0
16	Taiwan	16	19	3.7	3.8
17	Cambodia	14	20	3.2	4.0
17	Germany	14	9	3.2	1.8
19	Saudi Arabia	7	7	1.6	1.4
20	Bangladesh	6	6	1.4	1.2
20	Laos	6	3	1.4	0.6
20	UK	6	3	1.4	0.6

India is gradually developing into a market where Japanese companies are able to conduct business operations. At the same time, 49.4% of responding companies gave “Underdeveloped infrastructure” as the paramount issue, a trend unchanged since the previous survey (51.6%).

Second-place Indonesia was chosen by 168 companies, a decrease from the 228 companies in the previous survey, while the percentage share also dropped from 45.7% in the previous survey to 38.8% in this year. Still, there is a deep-rooted belief in the promise of Indonesia. Similar to India, “Future growth potential of local market” (83.4%) was given as a reason for the perceived promise, an indication of the continuing high assessment Indonesia is receiving. “Rising labor costs” (40.9%) and “Execution of legal system unclear” (40.3%) were each cited as issues by over 40%, the same as in the previous survey.

For China, which also ranked in 2nd place, the main reason given for perceived promise was “Current size of local market” (67.9%). The response ratio of “Future growth potential of local market” (59.9%) has been on the decrease each year, and in this year’s survey it fell to 2nd place. Though the percentage is by no means low, expectations in the growth of the Chinese market in the future have been fading, and it is shown in numbers. Among the issues given, “Rising labor costs” (73.0%) was by far the top response and followed in 2nd place by “Execution of legal system unclear” (54.1%), which was given most among the top-ten countries. Out of the top-ten countries, only China was given “Insufficient protection for intellectual property rights” (43.4%) – the fourth highest issue – in double digits.

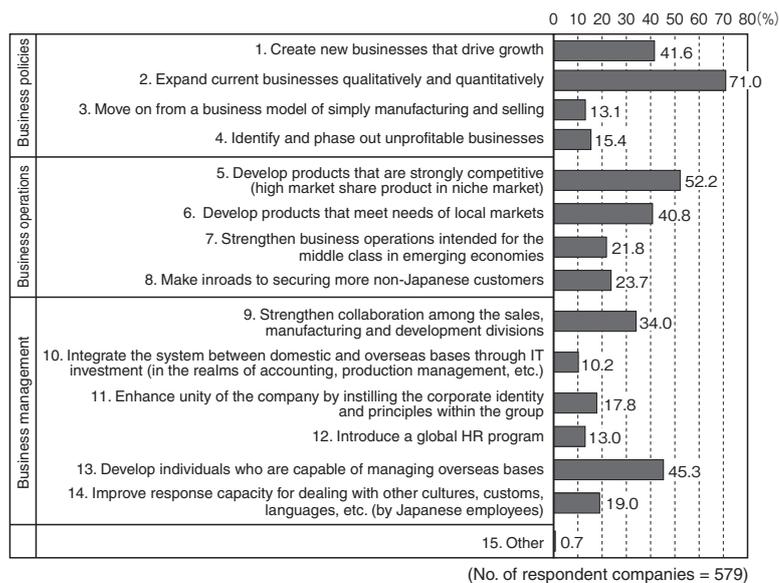
The top-five countries, from 1st-place India through 5th-place Vietnam, all saw decreases in the number of responding companies, while 6th-place Mexico received responses from about the same number of companies in this year (102) as the previous survey (101), but saw an increase in the percentage share: 23.6% (up from 20.2% in the previous survey). Mexico received particular strong evaluations in the automobile industry; a look at the promising countries by industry shows that Mexico ranked 1st place in the automobile industry in this year’s survey for the first time.

The rest of the countries that made the top 20 includes Malaysia (11th place), Singapore (13th place), Cambodia (17th place), and Laos (20th place), indicating the increasing presence of ASEAN countries as promising countries/regions.

#### 4. Management Challenges to Be Addressed

Responding companies were asked to give up to five answers as matters they considered to be management challenges to be addressed in an aim for long-term growth. “2. Expand current businesses qualitatively and quantitatively” (71.0%) was by far cited as the top management challenge. This was fol-

Figure 5. Management Challenges to be Addressed



lowed by “5. Develop products that are strongly competitive (high market share product in niche market)” (52.2%). Both of these are matters that have been regarded as major management issues by the manufacturing sector for a long time (Figure 5).

Relatively large differences in the response ratio were observed between large corporations and mid-tier firms/SMEs for “1. Create new businesses that drive growth” (large corporations: 45.8%, mid-tier firms/SMEs: 30.1%) and for “6. Develop products that meet needs of local markets” (large corporations: 43.0%, mid-tier firms/SMEs: 34.6%). These suggest that large corporations have a stronger recognition of the importance of creating new businesses and product development in line with local needs. On the other hand, among mid-tier firms/SMEs, the second most common response was “13. Develop individuals who are capable of managing overseas bases” (52.9%), as over half of them selected this as an issue.

#### 5. Status of Overseas M&A and Policy of Engagement

As there has been a recent increase in the expansion of operations through the use of M&A, responding companies were asked about how they position M&A within the scheme of overseas business operations. 76.7% of responding companies regarded M&A as an important means of expanding business, indicating that M&A are widely recognized as a means of management for business expansion. In addition, when combining the responses for “handle it by setting up a dedicated section” (6.1%) and “have staff such as a business planning department handle it” (50.8%), the majority of responding companies are handling M&A (Figure 6).

When asked about their purposes of overseas M&A, 77.7% of responding companies chose “Exploration of new markets, expansion of sales network,” indication of a stance of acquiring overseas market being the main purpose. The 2nd-place

Figure 6. Positioning of Overseas M&A

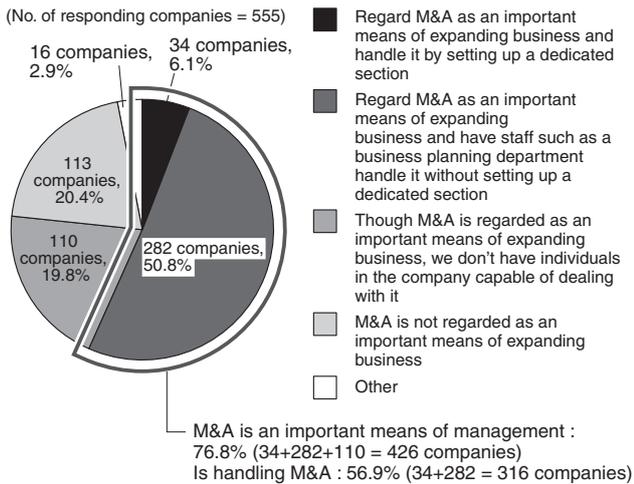
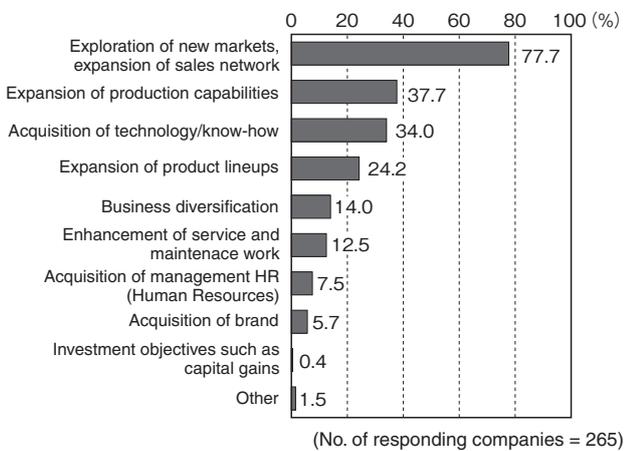


Figure 7. Objectives of Overseas M&A

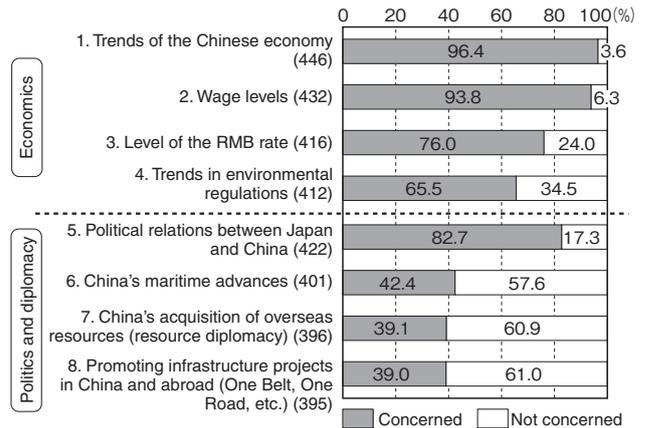


response was “Expansion of production capabilities” (37.7%) and 3rd-place response was “Acquisition of technology/know-how” (34.0%) (Figure 7). In terms of the target regions for “Exploration of new markets, expansion of sales network,” the ratio of ASEAN5 was highest (54.1%) and followed by North America (34.6%), Europe (30.8%), and China (26.4%). Though the number of responses was small, the response ratio exceeded 5% for Russia, the Middle East, and Africa, showing regional expansion.

## 6. Situations in China and Stance towards Future Business Operation

Many Japanese manufacturing companies conduct business operations in China. In this survey, we posed questions about eight issues on recent situations in China to the responding companies that operate in China. Over 90% of them were concerned about “Trends of the Chinese economy” and “Wage levels.” And not only did over 80% express concerns about “Political relations between Japan and China,” but also around 40% had concerns about “China’s maritime advances,” “Resource diplomacy,” and “One Belt, One Road” (Figure 8).

Figure 8. Outlook on Situations in China



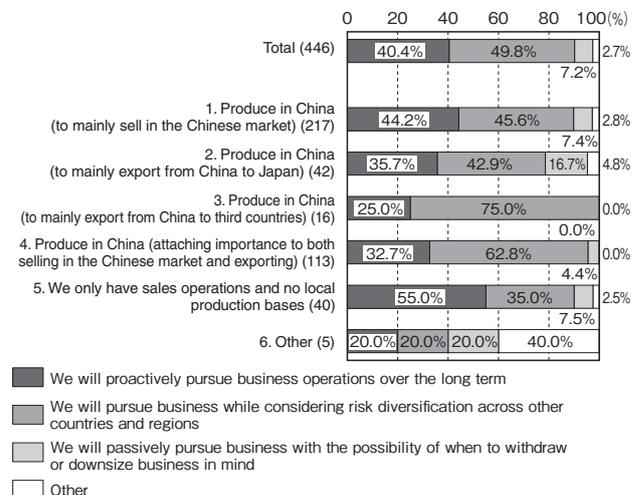
(Note) The figures within the parentheses to the right of the options are the numbers of responding companies.

These results demonstrate that Japanese companies with business operations in China are keeping a close eye on trends in not only the economy but also politics and diplomacy.

When asked about their basic stance toward business operations in China in the future, 49.8% of 446 companies with business operations in China answered that they would pursue business while considering risk diversification across other countries and regions, while 40.4% responded that they would proactively pursue business operations over the long term, and 7.2% would passively pursue business with the possibility of when to withdraw or downsize business in mind.

A look at the results of companies with business operations in China engaged in local production for the purpose of selling to the Chinese market (217 companies) shows that 44.2% will proactively pursue business operations over the long term, while an almost equal 45.6% responded that they would pursue business while considering risk diversification. Those responding that they would passively pursue business with the possibility of when to withdraw or downsize in mind accounted for 7.4% (Figure 9).

Figure 9. Basic Stance toward China Business by Business Operations



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