

Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

—Results of the JBIC FY2019 Survey:
Outlook for Japanese Foreign Direct Investment
(31st Annual Survey) —

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1. Introduction

Japan Bank for International Cooperation (JBIC) has released a “Survey Report on Overseas Business Operations by Japanese Manufacturing Companies”. In this survey, questionnaires were sent out at the end of June 2019, and response forms were collected from July to September (1004 target companies, 588 valid respondents, 58.6% response rate). We would like to express our gratitude to the companies that cooperated.

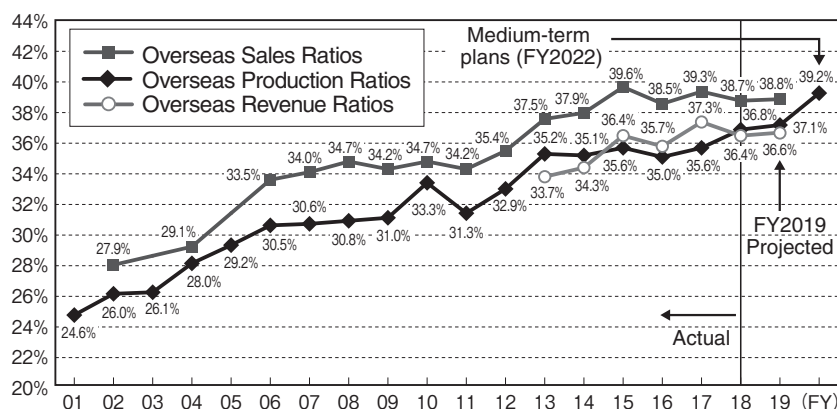
In this survey, in addition to the questions asked each year, such as “Overseas Business Performance”, “Business Prospects”, and “Mid-term Promising Countries/Regions”, unique themes such as “Influence of Friction Between the US and China” and “Overseas Expansion of Open Innovation” were also asked.

2. Overseas Production/Sales/Revenue Ratios

The overseas production ratio¹ for FY2018 was 36.8%, the highest value since the start of the survey. In the medium-term plan (FY2022), it is expected to increase to 39.2%, suggesting a continued stance on overseas production.

On the other hand, the overseas sales ratio² in FY2018 was 38.7%, down slightly from the previous year, and the overseas revenue ratio³ was 36.4%, down from the previous year’s record high (37.3%). The decline in the

Figure 1. Overseas Production/Sales/Revenue Ratios



overseas sales ratio and overseas revenue ratio seems to have been affected by the prolonged friction between the US and China and the economic slowdown in China. Against this background, the forecast for FY2019 is expected to be almost the same as the result for FY2018, indicating the cautious attitude of companies (Figure 1).

Note 1: (Overseas Production)/(Domestic Production + Overseas Production)
Note 2: (Overseas Sales)/(Domestic Sales + Overseas Sales)
Note 3: (Overseas Operating Revenue)/(Domestic Operating Revenue + Overseas Operating Revenue)

3. Mid-Term Prospects for Overseas & Domestic Operation

In the mid-term, 401 companies (71.4%) answered that they would “Strengthen/expand” their overseas business. According to a recent survey, the attitude of strengthening/expanding overseas business has continued to be a bit lean toward the status quo, and the attitude of strengthening/expanding this year has remained relatively low (Figure 2). In the medium-term outlook for domestic

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

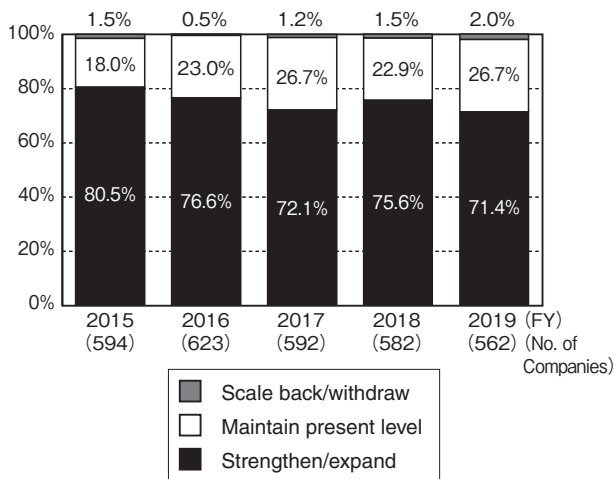


Figure 3. Mid-Term (Next 3 Years) Prospects for Domestic Business Expansion

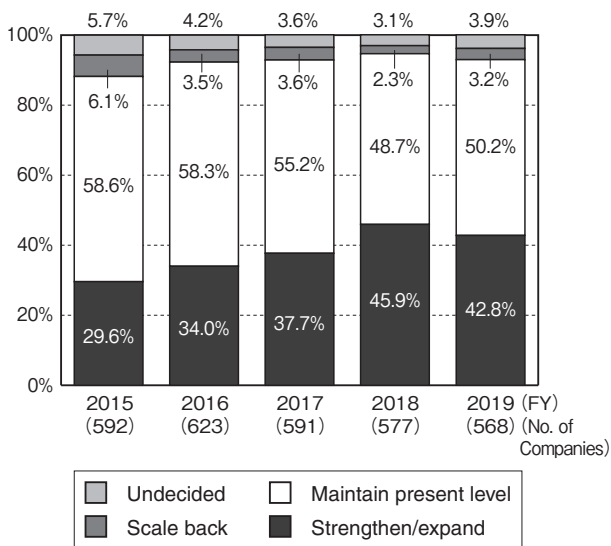
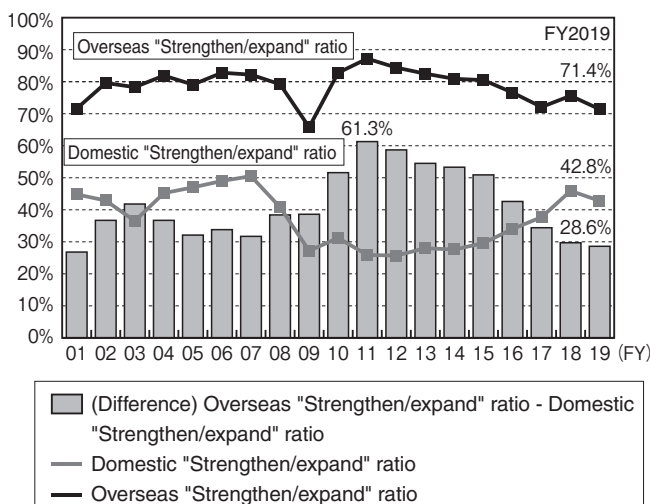


Figure 4. Trends in Stances towards Strengthening/Expansion (FY2000 - FY2019)



business, “Strengthen/expand” slightly declined to 42.8% from the previous year but remained at a high level (Figure 3). As for the areas to be strengthened, “Increasing added value of products (72.9%)” continues to be prominent as in the previous fiscal year, and nearly half of them are “Acquiring new customers (45.8%)” and “Enhancing production facilities in Japan (45.0%)”. This indicates that some companies are trying to raise its domestic business. In the interviews, “Our technology is first-rate. Right now, we are focusing on gathering issues that require our technology from home and abroad (rather than going outside)” (Precision machinery).

The percentage of companies which would strengthen overseas business was 71.4%, while the percentage of companies which would strengthen domestic business was 42.8%. Both overseas and domestic decreased from last year. In addition, the difference between the points gained in strengthening overseas business and domestic business was reduced to 28.6 points, which is even smaller than last year (29.7 points). From these facts, you can see that overseas business attitudes remain relatively weak (Figure 4).

4. Effects of Brexit

Questions were asked about the business development attitude in the UK and EU14, and the responses were summarized in a distribution table (Figure 5). As a result, in the UK, “Maintain the present level” was the highest with 104 companies, and in the EU14, “Strengthen/expand” was the highest with 118 companies. As for “Scale back/withdrawal”, the UK (13 companies) was twice as large as the EU14 (6 companies), confirming the difference in business development attitudes between Europe and the UK. Looking at the breakdown of the UK’s contraction and withdrawal by industry, auto parts makers are dominant.

According to the distribution table, 7 companies reported that they “Strengthen/expand” EU14 and “Scale back/withdraw” the UK at the same time. Although the number is small, there are also moves to shift the center of gravity of European business to the EU side. On the other hand, 41 companies “Strengthen/expand” the UK, mainly in machinery, electrical equipment & electronics and food companies. It is presumed that the companies have penetrated the UK market.

We asked about the factors that had a significant effect on the business development outlook (Figure 6). As a re-

Figure 5. Business Prospects for EU14 / UK

No. of respondent companies = EU14: 223, UK: 158		UK				Subtotal
		Strengthen/expand	Maintain present level	Scale back/withdraw	No response	
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

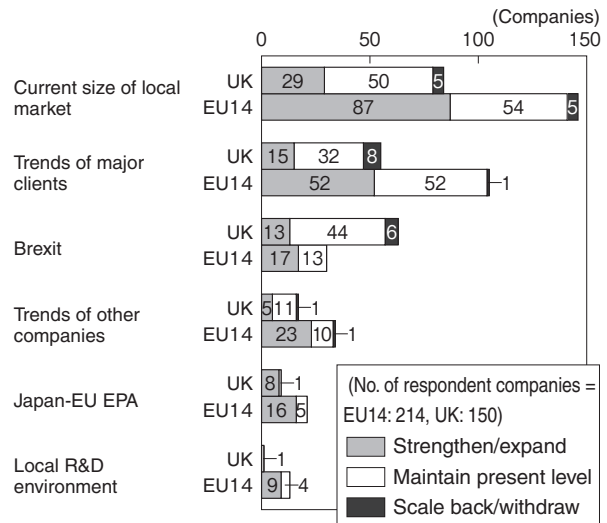
sult, the largest numbers of both the UK and EU14 companies listed the “Current market size” as a factor, which shows the local market had a big effect on investment decisions in both countries.

“Brexit” is the second most important factor in the UK’s business decisions (63 companies), and in fact, six of them chose “Scale back/withdraw”. On the other hand, in the EU, the UK’s decision to leave the EU is the fourth issue (30 companies), which shows Brexit had a relatively limited impact on EU business. According to a hearing, “we were originally considering a move to Central and Eastern Europe, and the uncertainty of the Brexit problem was prolonged, so Brexit boost us and decided to withdraw from the UK” (Non-ferrous metals) .

5. Ranking of Promising Countries

The respondents were asked to choose five countries and regions in the Mid-term promising business, and the results are shown in Figure 7. In this fiscal year’s survey, the number of respondents decreased from 431 to 404, indicating that overall their activeness in overseas business development was

Figure 6. Factors Influencing Business Prospects for EU14/UK



somewhat bearish. Under such circumstances, India has returned to the top position in 193 companies (up 1.6 points in vote rate) for the first time in three years since 2016. On the other hand, China has fallen significantly from 225 last year to 180 companies. This may be due to the rebound from a surge in expectations for China in last year’s survey, as well as increased caution over US-China friction and the economic slowdown. Behind China’s retreat, Vietnam (147), the Philippines (48), and Malaysia (41) rose. Although the number of votes obtained was almost the same as last year, it has relatively emerged as uncertainty has increased worldwide. On the other hand,

Figure 7. Potential Countries/Regions in the Mid-Term (Next 3 Years) - Trends in Votes

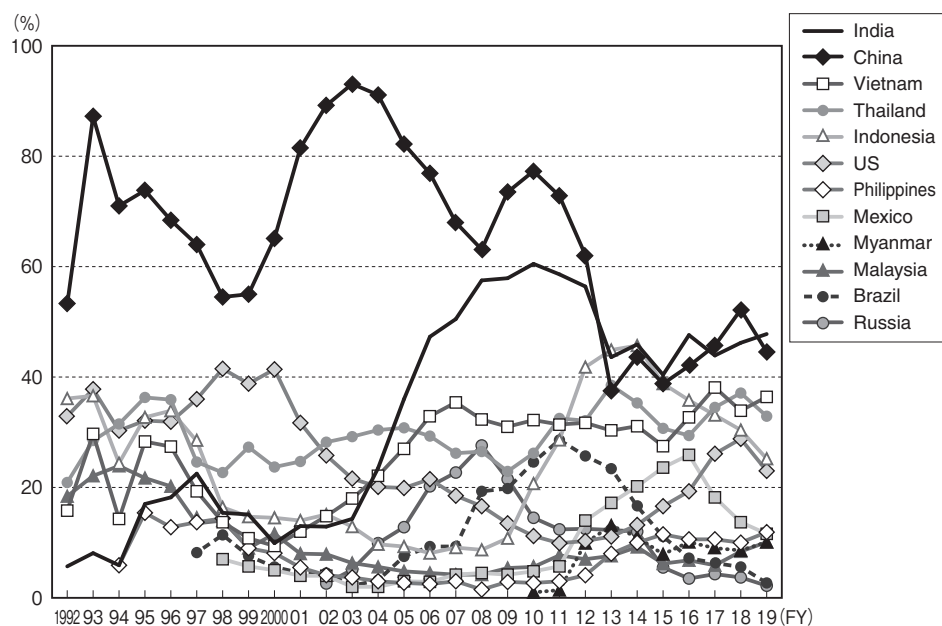


Figure 8. Impact of Friction Between US and China on Profits

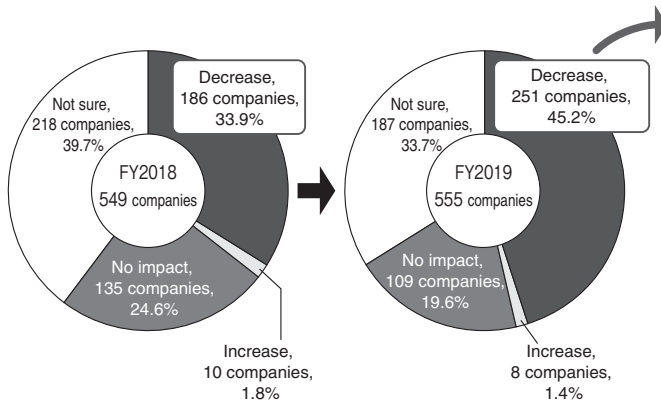
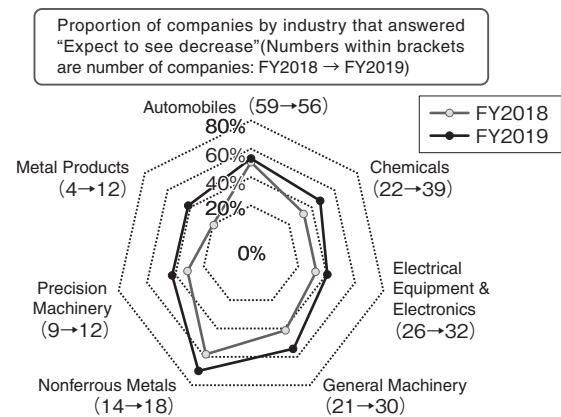


Figure 9. Proportion of Companies Answered "Decrease"(By Industry)



Thailand (133 companies) and Mexico (47 companies) dropped the number of votes. The US did not change position in this ranking. However, this year, it didn't follow the upward trend in recent years and the number of votes dropped greatly from last year (124→93), as in China. However, although not shown in the figure, 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.

6. Influence of Friction Between the US and China

The number of firms reporting that the rise in tensions over international trade, including the US-China trade dispute, had a negative effect on their profits, up nearly half to 45.2% this year, compared to 33.9% last year (Fig-

ure 8). On the other hand, "No impact" and "Not sure" are decreasing, indicating that more companies are beginning to recognize the impact on revenue.

For companies that reported a decline in profits, the breakdown by industry was compared to last year (Figure 9). The following points were revealed: (1) automobiles (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 (22 companies→39 companies), electrical equipment & electronics (26 companies→32 companies), general machinery (21 companies→30 companies), and metal products (4 companies→12 companies).

With regard to the impact on FDI, the number of companies responding that they were expecting a "Decrease" accounted for 13%, doubled from the previous fiscal year. By industry, both automobiles (23%) and general machinery (14%) responded that this was a factor in

Figure 10. Effects on Direct Investment Overseas

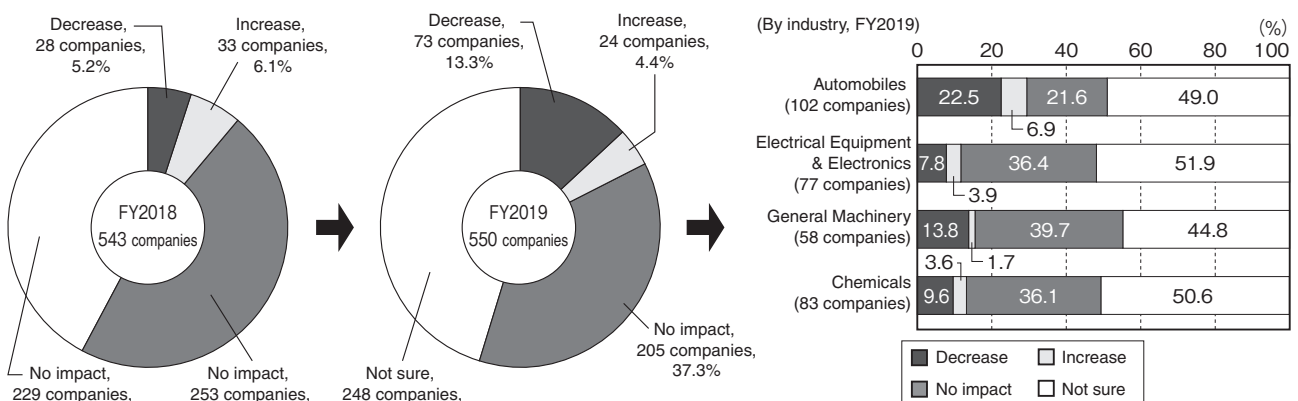




Figure 11. Comparison with US, China, and Other than US/China

	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)

decreasing direct investment (Figure 10).

Regarding the increase/decrease in direct investment, companies were also asked about investment destination. 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 (Figure 11).

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.

Companies who responded that the trade friction had "No impact" on their overseas direct investment were asked to give reasons (Figure 12). As a result, the majority of respondents (56 companies) answered "We can reorganize/relocate existing supply chains flexibly", excluding the group of respondents who had no impact. On the other

hand, only 12 companies tried to get through the situation by "price pass-through" ("We can shift the increased costs to the sales price"). A comparison of the results suggests that companies are trying to respond flexibly to this trade friction.

In the interviews, "We can flexibly cope with the US-China trade friction by flexibly adjusting the production volume between bases, such as reducing production in China and increasing production in Malaysia" (non-ferrous metals). "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).

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. Regarding future measures, while "Suspending/reviewing business with specific companies" was small at 33 companies, many companies chose to implement and consider strengthening information management such as "Strengthen internal information management" (64 companies), "Tightening control of technology transfer" (59 companies), and "Strengthening management of data distribution within the company and with trading partners" (51 companies) (Figure 13). With most of the respondents having offices in China, it can be seen that risk management and information management are being strengthened in response to rising political risks, assuming business continuity in both the US and China.

Figure 12. Reasons for Not Affecting Overseas Direct Investment

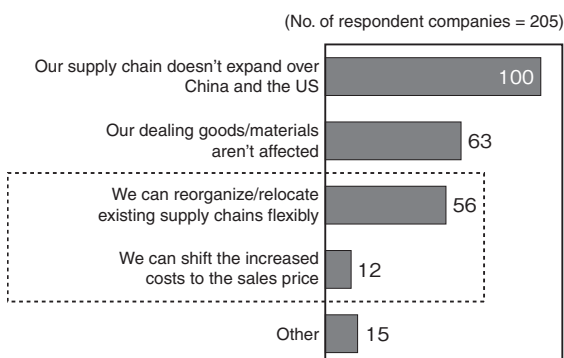


Figure 13. Countermeasures Introduced/Under Consideration

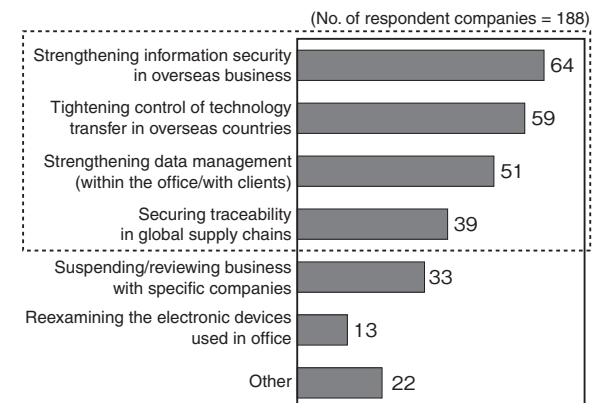
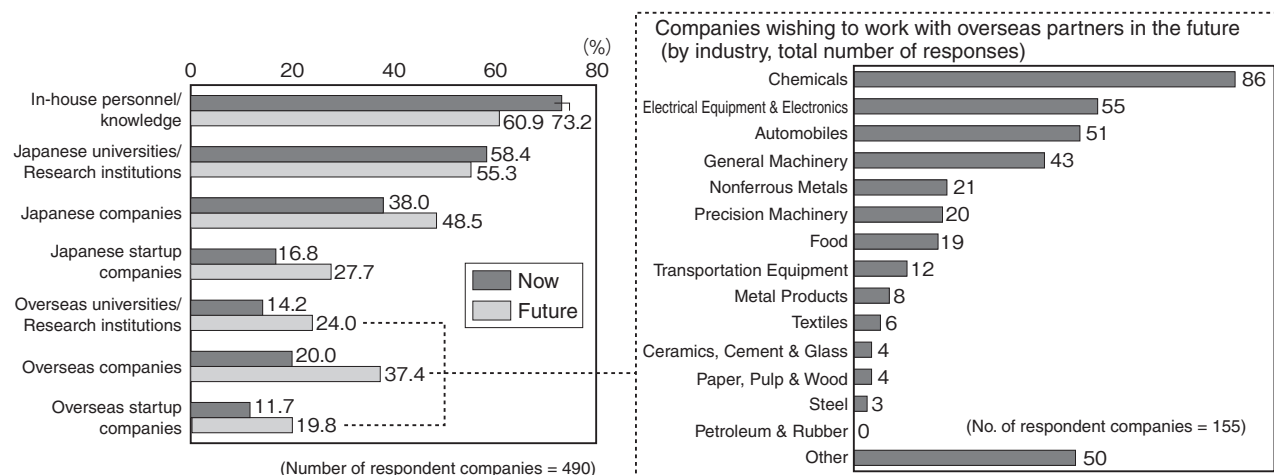


Figure 14. Partners for Innovation (Multiple Answers Allowed)

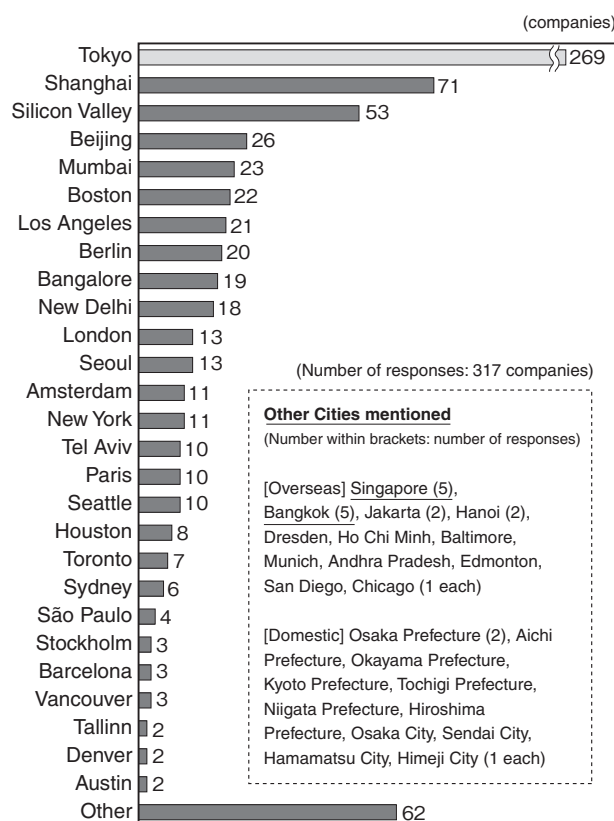


7. Overseas Expansion of Open Innovation

We asked about the present and future efforts to create innovation (Figure 14). “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.

On the other hand, 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. Overall, the growth of overseas partners is more remarkable than that of domestic partners, indicating that expectations for cooperation with overseas companies, ventures, and research institutes are high. 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).

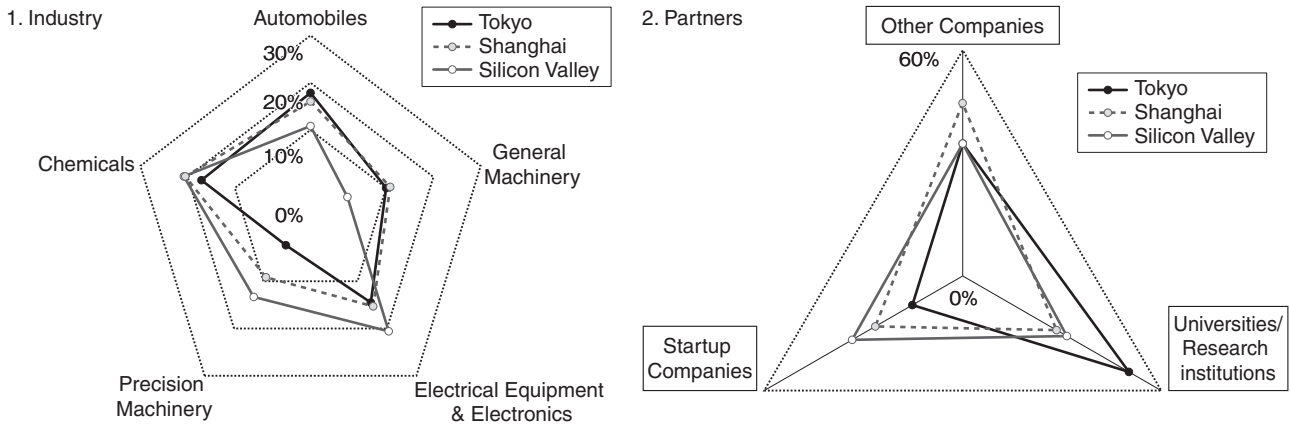
Figure 15. Cities with Potential as a Place for Cooperation



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.

When asked about which are promising as a place for delivering open innovation, and Shanghai won the top spot with 71 companies responding. It established a lead to Silicon Valley (53 companies). This reveals the strong expectations toward China as a place to accelerate open innovation (Figure 15).

Figure 16. Breakdown of Companies that Selected Tokyo, Shanghai, or Silicon Valley



In the three cities of Tokyo, Silicon Valley, and Shanghai, we examined whether the attributes of the responding companies that looked promising each had any characteristics (Figure 16). As a result, by industry, the ratio of general machinery and automobiles was higher in Shanghai than in the other two cities, while the ratio of electrical, electronic and precision machinery was higher in Silicon Valley.

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.

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 broader world”.

8. Conclusion

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

[Outline of the Study]

1. Survey target: In principle, Japanese companies which have three or more overseas affiliates (including at least one production base).
2. Number of companies surveyed: sent to 1004 companies, and 588 responded (response rate 58.6%)
3. Survey methods: 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.
4. Survey period: June 28, 2019 (surveys sent) to August 1, 2019 (*Surveys returned by September 27 were treated as valid)