
Mizuho Economic Outlook & Analysis

July 24, 2014

Japanese companies see ASEAN with a mixture of anticipation and concern

Results of the Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia as of February 2014

< Summary >

- ◆ Following the previous survey, Japanese companies continue to see ASEAN as the top key target area to develop their global business. Interest in China has declined, clearly continuing to shift away to ASEAN.
- ◆ The FY2013 sales outlooks for Asia are lower than the previous survey figures, including those for Thailand as it continues to experience political turmoil. Many companies generally predict growth in FY2014 throughout the Asia region, but there are concerns of a slowdown in Indonesia and China.
- ◆ The FY2013 satisfaction of profitability DI figures (subtracting “unsatisfied” from “satisfied”) for business bases in Asia are negative throughout the region. Figures deteriorated for business bases in ASEAN due to the economic slowdown throughout the region, and improved for business bases in China as the movement to boycott Japanese products shows signs of weakening.
- ◆ The top policies Japanese companies anticipate from the Abe administration to help business in Asia are reduction of (domestic) corporate income tax, improvement in Japan-China relations, promotion of TPP, and improvement in Japan-South Korea relations. Companies hope the government will be able to make progress with its growth strategy and eliminate political risks.

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1. Introduction: ASEAN remains the top key target area, but satisfaction of profitability declines

The Mizuho Research Institute has conducted annual surveys on business in Asia (*Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*¹) since FY1999, with the cooperation of Japanese companies who are members of its research and consulting services. The institute's survey questionnaire for FY2013 was sent out in February 2014 to 4,581 Japanese manufacturers with a capital of JPY10 million or more, and 1,081 valid responses were received. This paper is a summary of the results compared with the previous FY2012 survey results.²

Looking back at the general economic trends in Asia for 2013 (**Chart 1**), China saw its exports slow down, but the real GDP growth rate remained practically the same as the previous year's, supported by public investment and other aspects. The NIEs showed economic growth led by exports, coinciding with the economic recovery in the United States. Meanwhile, India and Indonesia, each with a serious current account deficit, saw their economies slow down due to various factors, including austerity measures taken in response to the sharp currency depreciation caused by the outflow of capital due to speculation on a "tapering" of quantitative easing (QE3) in the United States from the mid-year onward. Thailand has experienced political turmoil since November 2013, with Bangkok severely disrupted by anti-government demonstrations, and this has had a negative impact on the country's real economy. As a result, the economic growth rates for India and the ASEAN countries have slowed down.

Chart 1: Real GDP growth of the countries and regions of Asia (y-o-y ch)

Region, country/year				Previous survey	This survey	2014 (forecast)
	2009	2010	2011	2012	2013	
Asia	6.0	9.4	7.6	6.0	6.0	6.0
China	9.2	10.4	9.3	7.7	7.7	7.5
India	6.5	9.3	7.7	4.8	4.6	4.5
ASEAN-5	1.6	7.0	4.5	6.2	5.1	5.1
Philippines	1.1	7.6	3.6	6.8	7.2	6.4
Indonesia	4.6	6.2	6.5	6.3	5.8	5.4
Vietnam	5.3	6.4	6.2	5.3	5.4	6.0
Malaysia	-1.5	7.4	5.1	5.6	4.7	5.4
Thailand	-2.3	7.8	0.1	6.5	2.9	2.7
NIEs	-0.7	8.4	4.2	1.8	2.7	3.3
South Korea	0.3	6.3	3.7	2.0	2.8	3.4
Hong Kong	-2.5	6.8	4.8	1.5	2.9	3.1
Taiwan	-1.8	10.8	4.2	1.5	2.1	3.0
Singapore	-0.8	15.1	6.0	1.9	4.1	4.3

Notes: 1. The shaded areas indicate a growth rate decline compared with the previous year. The figures for 2014 are MHRI forecasts as of March 2014.

2. The average is based on the IMF GDP share (purchase parity basis) in 2012.

Source: Prepared by MHRI based on the statistics of each country and area.

In this economic environment, the level of satisfaction of Japanese companies in 2013

¹The main questions pertain to the 11 countries and regions of China, NIEs (South Korea, Taiwan, Hong Kong, and Singapore), ASEAN-5 (Thailand, Malaysia, Indonesia, Philippines, and Vietnam), and India. Some questions also pertain to Cambodia, Laos, Myanmar, and Bangladesh.

²For details of the previous survey, see the end of this paper.

with respect to the profitability of their business bases in Asia improved in China and the NIEs, but deteriorated in India and the ASEAN countries. Even so, the top key target area for Japanese companies in their global strategy continues to be ASEAN, after replacing China in the previous survey conducted shortly after the Senkaku Islands dispute erupted in autumn 2012. In addition to ongoing Japan-China tensions, rising labor costs in China and concerns that its growth rate will slow down are also among the factors contributing to the survey results showing that Japanese companies continue to focus primarily on ASEAN (no. 1 ASEAN, no. 2 China, no. 3 NIEs, no. 4 United States, no. 5 Europe, no. 6 India). Thus said, it is also apparent that ASEAN faces issues that include an economic slowdown, rising labor costs, and further political turmoil, hence the decline in satisfaction with respect to profitability.

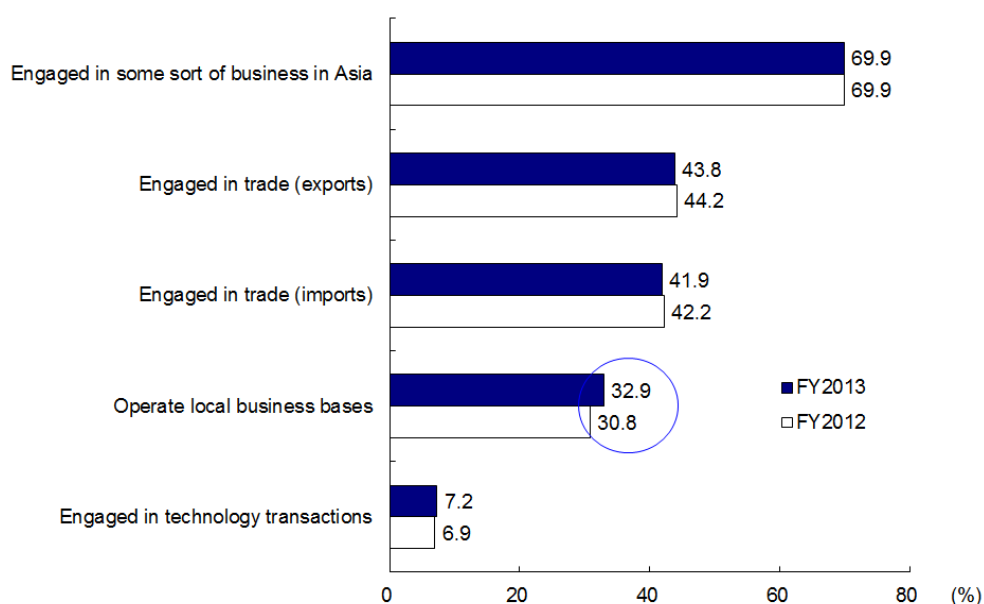
2. Current state of business in Asia (responses of all 1,081 companies)

(1) Approximately 70% conduct business in Asia

To gain a general overview of Japanese business in Asia, we asked all 1,081 respondents what kind of business they conduct in the countries or regions of Asia.

Approximately 70% of the companies replied they engage in some sort of business in Asia,³ and a further breakdown revealed that 43.8% engage in exports and 41.9% in imports, while 32.9% operate local business bases and 7.2% engage in technology transactions (Chart 2).

Chart 2: Current state of business in Asia (multiple responses allowed)



Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

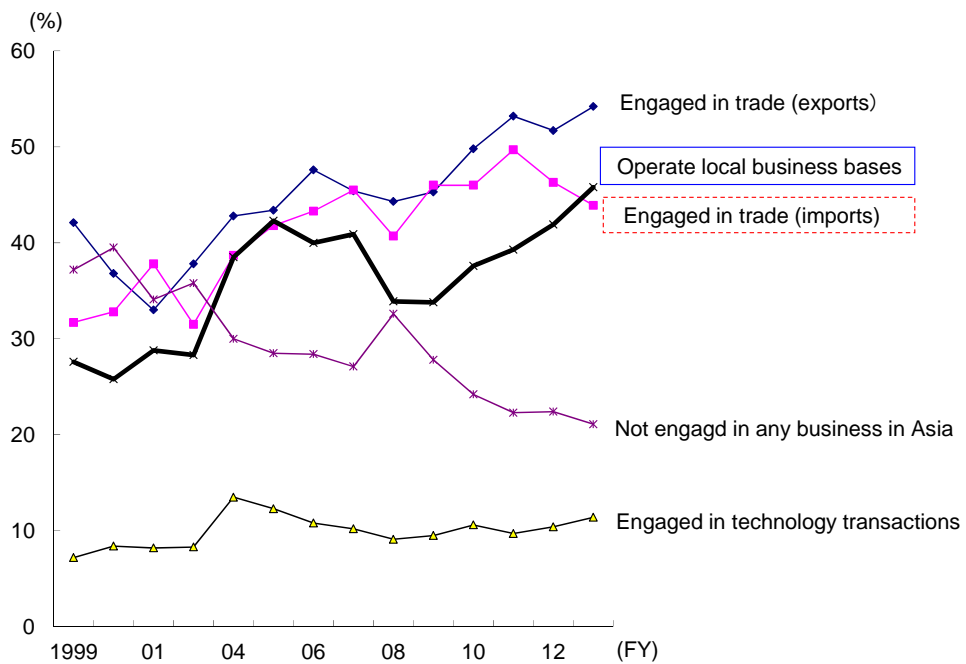
³The survey also provides the answer “not engaged in any business in Asia,” so that “100 – ‘not engaged in any business in Asia’ = ‘engaged in some sort of business in Asia.’”

Compared with previous survey results, the percentage of companies engaged in exports (44.2% in FY2012 and 43.8% in FY2013) and imports (42.2% in FY2012 and 41.9% in FY2013) remained more or less the same, while the percentage of companies with local business bases rose by 2.1 points (30.8% in FY2012 and 32.9% in FY2013).

(2) Time series data show that more companies operate local business bases

On a time series⁴ basis, the survey results indicate that business in Asia has developed more or less uninterruptedly, except for the period between FY2008 and FY2009 when the region’s economy was hit by the global financial crisis (**Chart 3**).

Chart 3: Time series trends of business in Asia (multiple responses allowed)



Note: See footnote 4 with respect to time series data.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

One particularly interesting point is the constant rise in the percentage of companies establishing local business bases. From FY2010 to the first half of FY2012, the strong yen at around 80 yen to the US dollar most likely served to propel the shift of production bases to Asia in order to cut costs; but the continual rise since the second half of FY2012, despite the yen’s depreciation to around 100 yen to the US dollar, probably reflects the desire of companies to tap into the growing markets of Asia.

⁴ The time series analysis for this paper was conducted by limiting the respondents to manufacturers with a capital of JPY50 million or more. Therefore, the data for FY2007 to FY2013 differ from the survey results of “manufacturers with a capital of JPY10 million or more” used for the analysis of Japanese companies. Furthermore, the sampling method was changed in FY2002. The FY1999-2002 surveys were based on a random sampling of manufacturers, while the FY2004-2006 surveys were based on a random sampling of “manufacturers with a capital of JPY50 million or more.” No survey was conducted in FY2003, thus no data are available for that year.

Meanwhile, in a weaker yen environment, the percentage of companies engaged in exports has remained at a high level, while the rate of companies engaged in imports has seen a decline. This suggests that Japanese companies are reviewing their procurement policies (switching to domestic products, etc.) as the weaker yen drives up the prices of imports from Asia, their main supply source.

3. Outlook for product sales, procurement, and exchange rates (responses of 756 companies engaged in business in Asia)

(1) Sales to recover throughout Asia in FY2014

Let us examine the FY2013 and FY2014 outlooks for product sales in countries and regions in Asia for the 756 companies engaged in exports or imports, local base operations, technology transactions, or some sort of business in Asia.

Responses were provided based on a five-grade scale ranging from “expect a sales increase of 10% or more,” “expect a sales increase of 5% to less than 10%,” “expect a sales increase of 0% to less than 5%,” “expect a sales decrease of 0% to less than 5%,” and “expect a sales decrease of 5% or more.”

The results revealed positive sales DI figures (calculated by subtracting the percentage of “expect a sales decrease of 0% to less than 5% and 5% or more” responses from the percentage of “expect a sales increase of 10% or more, 5% to less than 10%, and 0% to less than 5%”) for FY2013 and FY2014 for all countries and regions, and all DI figures for FY2014 were higher than those in FY2013 (**Chart 4**).

Chart 4: Product sales outlooks for Asia (FY2013 and FY2014)

		(Unit: %, %pt)					
		10% or more increase (y-o-y)	5% to less than 10% increase (y-o-y)	0% to less than 5% increase (y-o-y)	0% to less than 5% decrease (y-o-y)	5% or more decrease (y-o-y)	DI
China	FY2014(A)	26.6	26.9	32.9	6.6	6.9	72.9
	FY2013(B)	28.7	19.8	28.7	9.2	13.8	54.2
	(A) - (B)	-2.1	7.1	4.2	-2.6	-6.9	18.7
India	FY2014(A)	25.3	32.0	36.0	4.0	2.7	86.6
	FY2013(B)	24.7	23.3	37.0	6.8	8.2	70.0
	(A) - (B)	0.6	8.7	-1.0	-2.8	-5.5	16.6
Vietnam	FY2014(A)	24.3	25.2	43.0	4.7	2.8	85.0
	FY2013(B)	25.0	21.2	38.5	9.6	5.8	69.3
	(A) - (B)	-0.7	4.0	4.5	-4.9	-3.0	15.7
Indonesia	FY2014(A)	24.8	29.2	40.9	3.6	1.5	89.8
	FY2013(B)	29.3	21.1	37.6	6.0	6.0	76.0
	(A) - (B)	-4.5	8.1	3.3	-2.4	-4.5	13.8
Thailand	FY2014(A)	22.7	26.9	42.1	4.6	3.7	83.4
	FY2013(B)	22.0	25.4	32.5	8.1	12.0	59.8
	(A) - (B)	0.7	1.5	9.6	-3.5	-8.3	23.6
Malaysia	FY2014(A)	14.9	26.7	50.5	6.9	1.0	84.2
	FY2013(B)	15.8	22.1	42.1	11.6	8.4	60.0
	(A) - (B)	-0.9	4.6	8.4	-4.7	-7.4	24.2
Philippines	FY2014(A)	12.0	29.3	48.0	9.3	1.3	78.7
	FY2013(B)	12.7	28.2	39.4	11.3	8.5	60.5
	(A) - (B)	-0.7	1.1	8.6	-2.0	-7.2	18.2
Singapore	FY2014(A)	18.4	18.4	52.0	7.1	4.1	77.6
	FY2013(B)	17.0	12.8	52.1	10.6	7.4	63.9
	(A) - (B)	1.4	5.6	-0.1	-3.5	-3.3	13.7
Taiwan	FY2014(A)	15.2	23.2	47.5	10.1	4.0	71.8
	FY2013(B)	9.8	18.7	47.7	14.0	9.8	52.4
	(A) - (B)	5.4	4.5	-0.2	-3.9	-5.8	19.4
South Korea	FY2014(A)	15.3	20.5	43.7	15.3	5.3	58.9
	FY2013(B)	20.0	10.0	39.5	17.4	13.2	38.9
	(A) - (B)	-4.7	10.5	4.2	-2.1	-7.9	20.0
Hong Kong	FY2014(A)	13.6	17.3	52.7	12.7	3.6	67.3
	FY2013(B)	17.9	11.6	48.2	13.4	8.9	55.4
	(A) - (B)	-4.3	5.7	4.5	-0.7	-5.3	11.9

Note: The shaded areas received the highest rate of responses.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

However, the percentage of “expect a sales increase of 10% or more” for FY2014 declined compared with that in FY2013 in the seven countries and regions of China, Vietnam, Indonesia, Malaysia, Philippines, South Korea, and Hong Kong. This suggests that companies have become more cautious about their sales projections as they move to revise over-optimistic expectations in light of last year’s economic slowdown in the new emerging countries, including those in Asia.

(2) FY2013 sales outlooks for Thailand and the Philippines decline compared with the previous survey

We also examined changes in the FY2013 outlooks over a time span of one year by comparing the FY2013 sales outlooks (12-month forward outlooks) in the previous survey with the FY2013 sales outlooks (current estimates) in this survey.

The response rates expecting a sales increase of 10% or more in this survey revealed a 13.3 % point decline in the Philippines and 10.3 % point decline in Thailand (Chart 5) compared with the previous survey.

Chart 5: Sales outlook changes from FY2012 (12-month forward outlook) to FY2013 (current outlook)

		(Unit: %)		
		10% or more increase (y-o-y)	0% to less than 10% increase (y-o-y)	0% or more decrease (y-o-y)
China	FY2013 survey (A: Sales outlook for FY2013)	28.7	48.5	23.0
	FY2012 survey (B: Sales outlook for FY2013)	28.1	51.7	20.5
	(A) - (B)	0.6	-3.2	2.5
India	FY2013 survey (A: Sales outlook for FY2013)	24.7	60.3	15.0
	FY2012 survey (B: Sales outlook for FY2013)	27.4	64.3	8.5
	(A) - (B)	-2.7	-4.0	6.5
Vietnam	FY2013 survey (A: Sales outlook for FY2013)	25.0	59.7	15.4
	FY2012 survey (B: Sales outlook for FY2013)	27.0	63.5	9.6
	(A) - (B)	-2.0	-3.8	5.8
Indonesia	FY2013 survey (A: Sales outlook for FY2013)	29.3	58.7	12.0
	FY2012 survey (B: Sales outlook for FY2013)	28.8	66.0	5.1
	(A) - (B)	0.5	-7.3	6.9
Thailand	FY2013 survey (A: Sales outlook for FY2013)	22.0	57.9	20.1
	FY2012 survey (B: Sales outlook for FY2013)	32.3	60.1	7.6
	(A) - (B)	-10.3	-2.2	12.5
Malaysia	FY2013 survey (A: Sales outlook for FY2013)	15.8	64.2	20.0
	FY2012 survey (B: Sales outlook for FY2013)	16.7	70.0	13.3
	(A) - (B)	-0.9	-5.8	6.7
Philippines	FY2013 survey (A: Sales outlook for FY2013)	12.7	67.6	19.8
	FY2012 survey (B: Sales outlook for FY2013)	26.0	65.7	8.2
	(A) - (B)	-13.3	1.9	11.6
Singapore	FY2013 survey (A: Sales outlook for FY2013)	17.0	64.9	18.0
	FY2012 survey (B: Sales outlook for FY2013)	16.2	69.4	14.4
	(A) - (B)	0.8	-4.5	3.6
Taiwan	FY2013 survey (A: Sales outlook for FY2013)	9.8	66.4	23.8
	FY2012 survey (B: Sales outlook for FY2013)	18.6	66.9	14.6
	(A) - (B)	-8.8	-0.5	9.2
South Korea	FY2013 survey (A: Sales outlook for FY2013)	20.0	49.5	30.6
	FY2012 survey (B: Sales outlook for FY2013)	14.7	66.3	19.1
	(A) - (B)	5.3	-16.8	11.5
Hong Kong	FY2013 survey (A: Sales outlook for FY2013)	17.9	59.8	22.3
	FY2012 survey (B: Sales outlook for FY2013)	14.2	61.4	24.4
	(A) - (B)	3.7	-1.6	-2.1

Note: The shaded areas received the highest rate of responses.

Sources: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

This decline probably reflects the presence of many Japanese electronics companies investing in the Philippines and the weak international market for their main exports of semi-conductors or electronic parts until the first half of FY2013 (gradually recovering in the second half of FY2013). Meanwhile, the many Japanese automotive companies in Thailand were impacted by the economic slowdown caused by the decline in car sales as the Thai government terminated the sales incentive for first-time car buyers (September 2011 to December 2012), political turmoil since the second half of FY2013, and other factors.

(3) Procurement slows down in South Korea and Taiwan but grows in ASEAN

We asked companies whether or not they had increased their imports or procurement of finished goods, semi-finished goods, parts, or raw materials compared with the previous year, and the procurement DI figures (calculated by subtracting the percentage of “procurement decrease of 0% to less than 5% and 5% or more” from the percentage of “procurement increase of 10% or more, 5% to less than 10%, and 0% to less than 5%”) for FY2013 were positive across the board (**Chart 6**).

Chart 6: Imports/procurement of finished goods, semi-finished goods, parts, and raw materials in FY2013

(Unit: %, % pt)

		10% or more increase (y-o-y)	5% or less than 10% increase (y-o-y)	0% to less than 5% increase (y-o-y)	0% to less than 5% decrease (y-o-y)	5% or more decrease (y-o-y)	DI
China	FY2013(A)	20.8	20.1	34.2	15.5	9.5	50.1
	FY2012(B)	25.5	15.0	32.6	15.8	11.1	46.2
	(A) - (B)	-4.7	5.1	1.6	-0.3	-1.6	3.9
South Korea	FY2013(A)	14.1	20.7	40.2	17.4	7.6	50.0
	FY2012(B)	21.4	20.4	36.7	15.3	6.1	57.1
	(A) - (B)	-7.3	0.3	3.5	2.1	1.5	-7.1
Taiwan	FY2013(A)	19.1	16.9	38.2	14.6	11.2	48.4
	FY2012(B)	25.6	15.1	41.9	12.8	4.7	65.1
	(A) - (B)	-6.5	1.8	-3.7	1.8	6.5	-16.7
Thailand	FY2013(A)	21.3	21.3	39.3	9.0	9.0	63.9
	FY2012(B)	18.6	16.3	46.5	10.5	8.1	62.8
	(A) - (B)	2.7	5.0	-7.2	-1.5	0.9	1.1
Vietnam	FY2013(A)	31.5	14.8	44.4	3.7	5.6	81.4
	FY2012(B)	30.4	16.1	33.9	7.1	12.5	60.8
	(A) - (B)	1.1	-1.3	10.5	-3.4	-6.9	20.6
Indonesia	FY2013(A)	17.9	23.1	43.6	7.7	7.7	69.2
	FY2012(B)	20.6	14.7	50.0	5.9	8.8	70.6
	(A) - (B)	-2.7	8.4	-6.4	1.8	-1.1	-1.4
Malaysia	FY2013(A)	26.1	8.7	56.5	8.7	0.0	82.6
	FY2012(B)	18.2	18.2	31.8	13.6	18.2	36.4
	(A) - (B)	7.9	-9.5	24.7	-4.9	-18.2	46.2
Hong Kong	FY2013(A)	18.2	27.3	45.5	4.5	4.5	82.0
	FY2012(B)	16.7	16.7	38.9	27.8	0.0	44.5
	(A) - (B)	1.5	10.6	6.6	-23.3	4.5	37.5
Philippines	FY2013(A)	20.0	15.0	50.0	10.0	5.0	70.0
	FY2012(B)	5.6	22.2	38.9	16.7	16.7	33.3
	(A) - (B)	14.4	-7.2	11.1	-6.7	-11.7	36.7
India	FY2013(A)	16.7	25.0	58.3	0.0	0.0	100.0
	FY2012(B)	31.3	18.8	37.5	12.5	0.0	75.1
	(A) - (B)	-14.6	6.2	20.8	-12.5	0.0	24.9
Singapore	FY2013(A)	0.0	30.8	46.2	7.7	15.4	53.9
	FY2012(B)	18.2	0.0	36.4	27.3	18.2	9.1
	(A) - (B)	-18.2	30.8	9.8	-19.6	-2.8	44.8

Note: The shaded areas received the highest rate of responses.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

However, the DI figures for South Korea and Taiwan declined from the previous survey figures, probably due to Japanese companies revising their suppliers in South Korea and Taiwan as the yen depreciation in the second half of FY2012 made their products and parts relatively more expensive than those made in Japan.

Meanwhile, the DI figures rose in Vietnam, Malaysia, and the Philippines in particular, indicating new interest by Japanese companies in the relatively cheaper ASEAN products and parts.

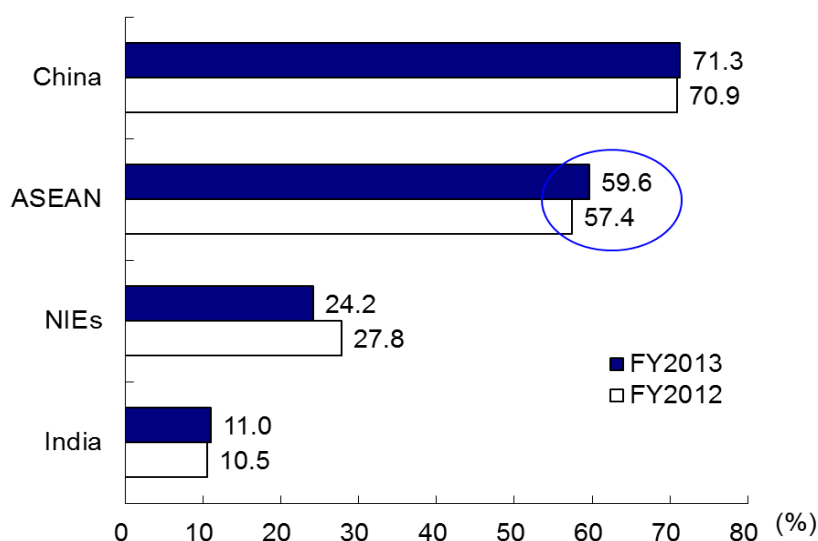
4 Current state and future endeavors of business bases in Asia (responses of 356 companies with business bases in Asia)

(1) Expansion peaks out in China and shifts to ASEAN

Of the companies stating they operate local business bases in response to the earlier question asking what type of business they currently conduct in the countries or regions in Asia (**Chart 2**), we also asked if their bases are located in China, ASEAN, NIEs, or India.

The ranking of results was the same as in the previous survey with China coming out on top, followed by ASEAN, NIEs, and India, and although the percentage for China remained at practically the same level, there was a 2.2 % point increase for ASEAN (**Chart 7**).

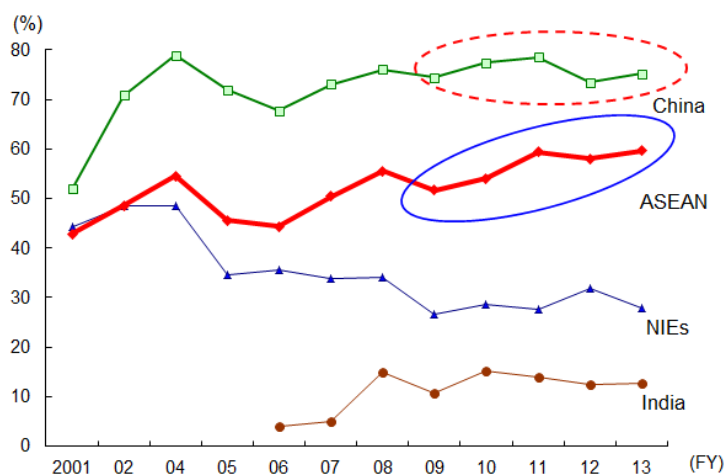
Chart 7: Location of business bases in Asia (multiple responses allowed)



Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

The time series data also revealed that while the percentage for China has leveled off (**Chart 8**), there continues to be a gradual rise for ASEAN, suggesting that Japanese companies are shifting their Asian business development to the ASEAN countries.

Chart 8: Trend of business bases in Asia (multiple responses allowed)



Notes: 1. "India" was included in the questionnaire from the FY2006 survey. Therefore, no data are available for previous years.

2. See footnote 4 on p. 3 with respect to time series data.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

(2) Satisfaction of profitability improves in NIEs and China but deteriorates in ASEAN and India

Our survey asked the respondents to rank their satisfaction with respect to the profitability of their local business bases in Asia on a five-grade scale ranging from "satisfied," "fairly satisfied," "neither," "fairly dissatisfied," and "dissatisfied." The satisfaction of profitability DI figures were calculated by subtracting the total of "dissatisfied" and "fairly dissatisfied" from the total of "satisfied" and "fairly satisfied," and the figures were negative for all four regions (**Chart 9**).

Chart 9: Satisfaction of profitability by location

(Unit: %, % pt, no. of companies)

		Satisfied	Fairly satisfied	Neither	Fairly dissatisfied	Dissatisfied	DI	No. of respondents
NIEs	FY2013	8.1	18.6	37.2	24.4	7.0	-4.7	96
	FY2012	3.6	21.8	30.6	22.5	13.5	-10.6	111
ASEAN	FY2013	4.2	23.1	29.7	19.3	17.0	-9.0	212
	FY2012	6.1	25.3	28.4	22.7	4.8	3.9	229
China	FY2013	9.4	20.9	19.7	23.6	22.8	-16.1	254
	FY2012	6.4	18.7	21.2	28.3	24.0	-27.2	283
India	FY2013	3.7	7.4	40.7	40.7	7.4	-37.0	39
	FY2012	2.8	11.1	52.8	30.6	2.8	-19.5	36

Note: Satisfaction of profitability DI = ("satisfied" + "fairly satisfied") – ("dissatisfied" + "fairly dissatisfied"). The shaded areas received the highest rate of responses.

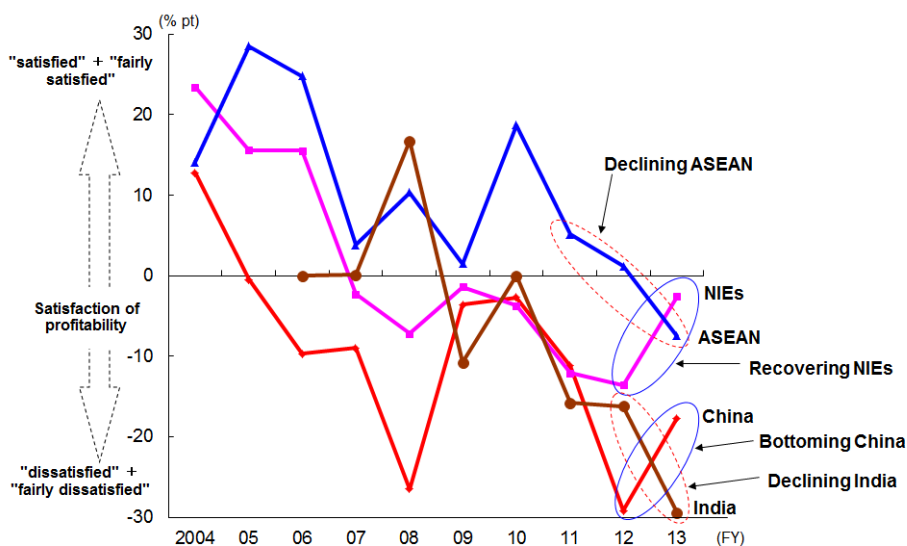
Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

An interesting point in comparison with the previous survey is that the DI figure for China rose significantly by 11.1 % point, probably because of the weaker movement to boycott Japanese products, which became prominent in the autumn of 2012, hence the decrease in the number of “fairly dissatisfied” and “dissatisfied” responses. The DI figures for NIEs also rose by 5.9 % point, reflecting their economic recovery and other aspects.

Meanwhile, the DI figures for ASEAN dipped by 12.9 % point. ASEAN’s economic slowdown and the impact of political turmoil in Thailand, where many Japanese companies operate businesses, are some of the aspects that seem to have contributed to the increased number of “dissatisfied” responses. India also saw a significant drop of 17.5 % point, largely reflecting the nation’s economic slump.

The time series data show that the satisfaction of profitability DI figures have gradually declined throughout Asia since FY2011 when the region’s economy recovered after the FY2008-2009 downturn caused by the global financial crisis (**Chart 10**). In China, the DI figure dropped considerably in FY2012, with consumers boycotting Japanese products as political tensions rose between the two countries. However, this survey indicates that the boycott movement has eased to a certain extent and the DI figure has bottomed out. While concerns remain that growth rates in China may decline in the future,⁵ it will be interesting to see how far the satisfaction level of Japanese companies is able to recover.

Chart 10: Trend of satisfaction of profitability DI figures by location



Notes: 1. Satisfaction of profitability DI = (“satisfied” + “fairly satisfied”) – (“dissatisfied” + “fairly dissatisfied”).
2. See footnote 4 on p. 3 with respect to time series data.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

⁵ The real GDP growth rate for China has continued to decline: +7.8% for July to September 2013, +7.7% for October to December 2013, and +7.4% for January to March 2014. With the government cautious of taking major economic stimulus measures, speculations are that China will be unable to achieve the government’s full-year target growth rate of +7.5% for 2014.

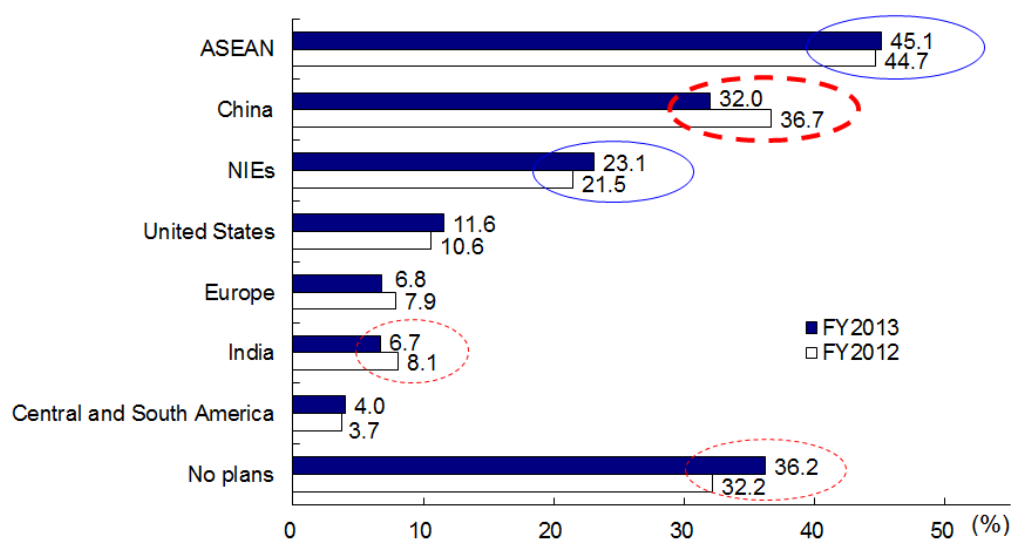
Meanwhile, the negative DI figures for ASEAN for FY2013 are a point of concern, despite high expectations for the region as a growing market. It seems that the economic and political trends⁶ in Indonesia (ASEAN’s largest economy) and Thailand (ASEAN’s industry hub) will continue to affect the satisfaction levels of Japanese companies in the future.

5. Key locations for future global businesses of Japanese companies (responses of all 1,081 companies)

(1) No. 1 ASEAN at the same level while no. 2 China falls back

To gain an overview of how Japanese companies perceive Asia in their global strategy, we asked the respondents which country or region they plan to focus on the most in the future. The results were, from the top, ASEAN (45.1%), China (32.0%), NIEs (23.1%), United States (11.6%), Europe (6.8%), India (6.7%), and Central and South America (4.0%), as shown in **Chart 11**.

Chart 11: Trend of key countries and regions for future business plans of Japanese companies (multiple responses allowed)



Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

Compared with the previous study, the percentage for ASEAN remained practically the same, while the responses for China declined by 4.7 % point. The responses for NIEs

⁶ In Indonesia, a new president will be assuming office in October 2014. The new president will very likely be Joko Widodo, the current governor of Jakarta. In Thailand, the anti-government demonstrations and other factors drove Prime Minister Yingluck Shinawatra out of office on May 7, 2014. The military gained full control on May 22, 2014, and the political outlook remains uncertain.

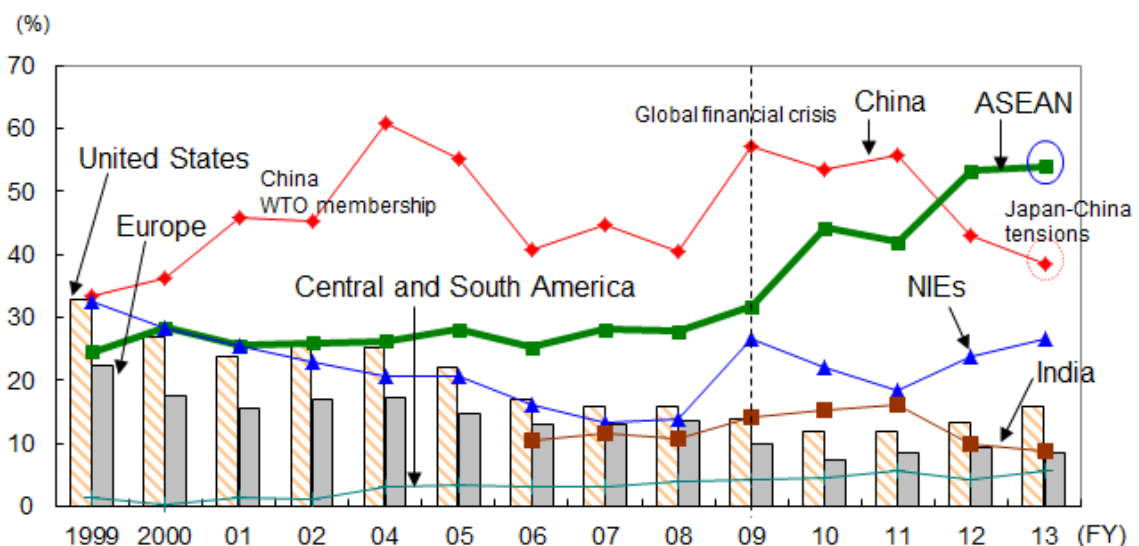
rose by 1.6 % point as their growth rates increased in 2013, but in India, which remains in an economic slump, the percentage decreased by 1.4 % point, dropping it below the United States and Europe. The results suggest that Japanese companies are shifting their focus of global business away from China to ASEAN and placing more emphasis on the NIEs with their higher income levels, while showing a decline in expectations towards India where the economy continues to sag.

Meanwhile, the percentage of “no plans” rose by 4.0 % point, suggesting that more companies are taking greater interest in the domestic market rather than foreign markets with the sudden rise in economic and political risks in Asia in FY2013 and signs of recovery of the Japanese economy since the start of the Shinzo Abe administration.

(2) Time series data show the shift from China to ASEAN continues, though leveling off

Let us examine on a time series basis the responses regarding where Japanese companies plan to focus on in the future. Top ranked since the survey first began in FY1999, China finally gave way to second place in the previous survey and fell further behind ASEAN in the latest survey (**Chart 12**). Despite the satisfaction of profitability regarding local business bases bottoming out in FY2013, increasing labor costs, continuing Japan-China tensions, and concerns that China’s growth rate may fall below expectations most likely contributed to this result.

Chart 12: Trend of key countries and regions for future business plans of Japanese companies (multiple responses allowed)



Notes: 1. “India” was included in the questionnaire from the FY2006 survey. Therefore, no data are available for previous years.

2. See footnote 4 on p. 3 with respect to time series data.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

Ranked number one for the first time in the previous survey, ASEAN seems to have become a more attractive investment option since the region covers many countries with growing populations, which translates into expanding markets, and these markets are also expected to see further integration with, for example, the elimination of tariffs within the ASEAN region as a general rule by the ASEAN Economic Community to be established in 2015. However, in countries like Indonesia, speculation on a “tapering” of quantitative easing (QE3) in the United States in mid FY2013 onward caused an outflow of short-term capital, pushing down the value of its currency. Austerity measures were implemented in an effort to curb the trend, but this led to an economic slowdown. In Thailand, where many Japanese companies conduct business, political turmoil saw the capital of Bangkok virtually paralyzed by anti-government demonstrations. In the ASEAN countries, although the risk of bilateral relations with Japan may be low, economic slowdowns, rising labor costs, domestic political turmoil, and natural disasters, including floods and typhoons caused by the subtropical climate, have emerged as prominent risks. These factors probably led to ASEAN clinging to the top spot, but with the percentage at the same level as before.

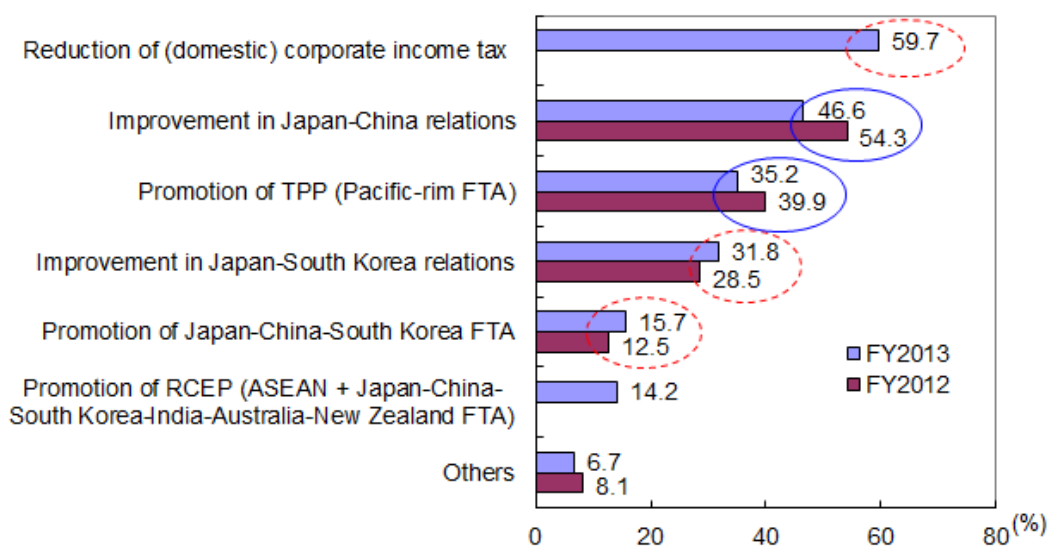
Although the market size of the NIE countries and regions is smaller than China or the ASEAN countries, the importance of the NIEs has grown because of their higher income levels comparable to developed countries, better infrastructure, and other aspects. Meanwhile, expectations for India as a potential market are high in the mid- and long-term, but the decline in its growth rate at the +9% range before the global financial crisis to the current +4% range seems to have diminished its allure as a destination for foreign investment, except for certain industries such as the automotive industry.

6. What Japanese companies anticipate from the Abe administration for business in Asia (responses of all 1,081 companies)

We asked the respondents what sort of policy measures they wish to see implemented under the Shinzo Abe administration in support of business in Asia. We provided seven options including “improvement in Japan-China relations,” “reduction of (domestic) corporate income tax,” “promotion of Trans-Pacific Partnership (TPP) (Pacific-rim FTA),” and “promotion of Japan-China-South Korea FTA.” The top response at 59.7% was “reduction of corporate income tax,” an option newly added in this survey. The Japanese corporate income tax (effective tax rate of approximately 35%) is higher than the effective tax rates of other Asian countries (e.g., approximately 25% for China, 24% for South Korea, 20% for Thailand⁷). It is clear that many Japanese companies want to see the corporate income tax lowered (**Chart 13**).

⁷ The current tax rate in Thailand is based on temporary legislation. Tax rates for FY2015 onwards are yet to be determined.

Chart 13: What Japanese companies anticipate from the Abe administration



Note: Answer options of “reduction of (domestic) corporate income tax” and “promotion of Regional Comprehensive Economic Partnership (RCEP) (ASEAN + Japan-China-South Korea-India-Australia-New Zealand FTA)” were new additions in FY2013.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

The responses followed with “improvement in Japan-China relations” at 46.6%, “promotion of TPP” at 35.2%, “improvement in Japan-South Korea relations” at 31.8%, and “promotion of Japan-China-South Korea FTA” at 15.7%. Compared with the previous survey, “improvement in Japan-China relations” dropped by 7.7 % point and “promotion of TPP” decreased by 4.7 % point, while “improvement in Japan-South Korea relations” rose by 3.3 % point and “promotion of Japan-China-South Korea FTA” increased by 3.2 % point.

It may be said that Japanese companies have high expectations for the Abe administration to reduce the corporate income tax, promote TPP, and engage in other measures that would constitute the “third arrow,” or growth strategy, of Abenomics, while also hoping the government will improve Japan-China and Japan-South Korea relations and make progress with the FTAs with both countries.

7. Concluding remarks: Points to consider for business in Asia in FY2014

In conclusion, the following can be viewed as points to consider for business in Asia in FY2014 based on the results of this Asia business survey (as of February 2014).

1. Companies will continue to be wary of socio-political risks in ASEAN and India.

Ever since Japan-China tensions increased in FY2012, Japanese companies have looked to ASEAN as an alternative to China. However, Thailand (the ASEAN country with the most Japanese companies) is undergoing protracted political turmoil. Although the impact on the supply chain has been limited thus far, the real economy is worsening and delays in investment approval or construction works to prevent the reoccurrence of flooding are gradually taking a toll. Hence, there is a great need for the situation to settle down.

In 2014, India and Indonesia expect a change of government in May and October respectively. Myanmar is also expected to see activities anticipating the general election in autumn 2015. Japanese companies will need to stay alert watching whether pre-election conflicts between ruling and opposition parties will escalate and impact their daily operations, and whether the new administrations will implement policies that are disadvantageous to foreign companies.

2. Companies will also continue to be wary of sudden currency depreciations in ASEAN and India.

In 2013, speculation on a “tapering of quantitative easing (QE3) in the United States in the mid-year onward triggered an outflow of short-term capital from India and Indonesia (countries with serious current account deficits), causing their currencies to depreciate. The governments subsequently implemented austerity measures in the second half of the year and their currencies regained stability in 2014, though accompanied by an economic slowdown.

Rapid currency depreciation leads to a rise in local import prices. However, in addition to the process of increasing local procurement by establishing industry clusters requiring a substantial amount of time, the United States is expected to continue with QE3 tapering for the time being and may shift to an interest rate hike, Japanese companies will need to continue monitoring the stability of local currencies.

3. The shift away from China will continue in general, but some companies may revise their strategy.

Although Japan-China relations have improved slightly, they are far from satisfactory. Rising labor costs and slowing growth rates are also matters of concern for business in China. Thus, the overall trend seems to be that Japanese companies will continue to lose interest in investment in China.

However, it is also true that the satisfaction of profitability with regard to business in China for FY2013 has bottomed out with the consumer boycott of Japanese products not as strong as in FY2012. For Japanese companies, China is an excellent location to build a division of labor production system, and it also has a relatively rich resource of engineers. Thus, although new investment will be restrained on the whole, some industries may move to reevaluate the importance of the Chinese market or strategically use bases in China despite perceived risks.

Lastly, competition among Japanese companies for market share may intensify amidst the

risk of economic slowdown in Asia.

The economies of the newly developing countries have been slowing down since the second half of FY2013, and the Asian countries are no exception overall. Meanwhile, economic slowdown means that Japanese companies will be forced to compete for larger market shares for their products. The results of this survey have also shown a surge in responses stating that market share expansion is the most important business challenge, indicating the companies' increased need for their brands to penetrate markets.

To expand their market share, Japanese companies will need to introduce strategic products that match the purchasing power and tastes of local consumers, build sales networks, train human resources, reduce costs, and enhance local procurement rates, among other measures. This will be a test of their real strength.

Overview of the 14th Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia

Survey conducted by Mizuho Research Institute

Period: February 1 to February 28, 2014

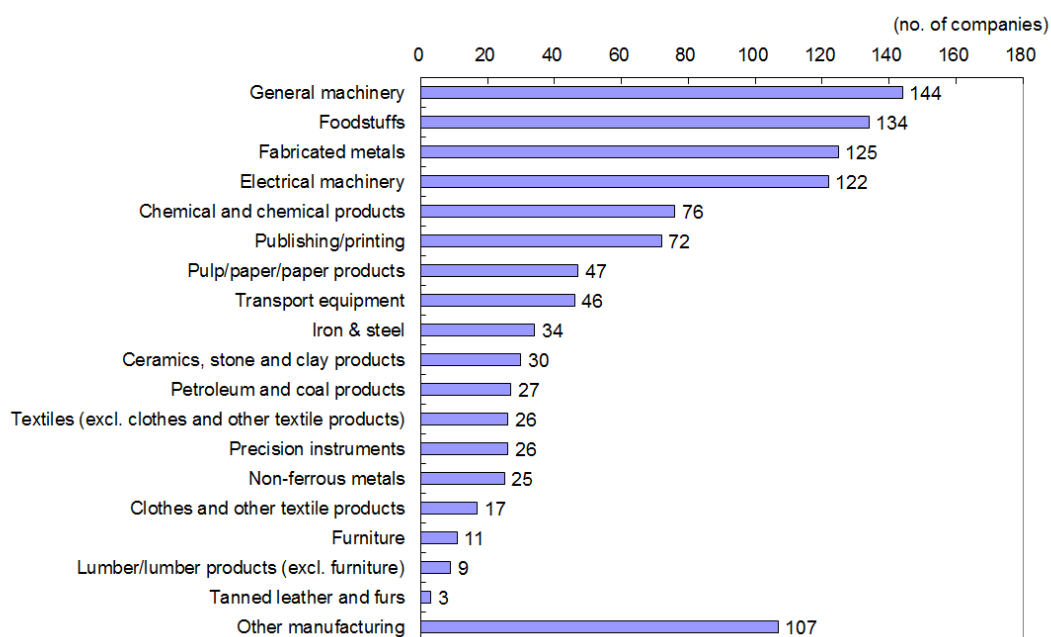
Coverage: Manufacturers with capital of JPY10 million or more among member corporations of Mizuho Research Institute

Questionnaires sent to: 4,581 companies

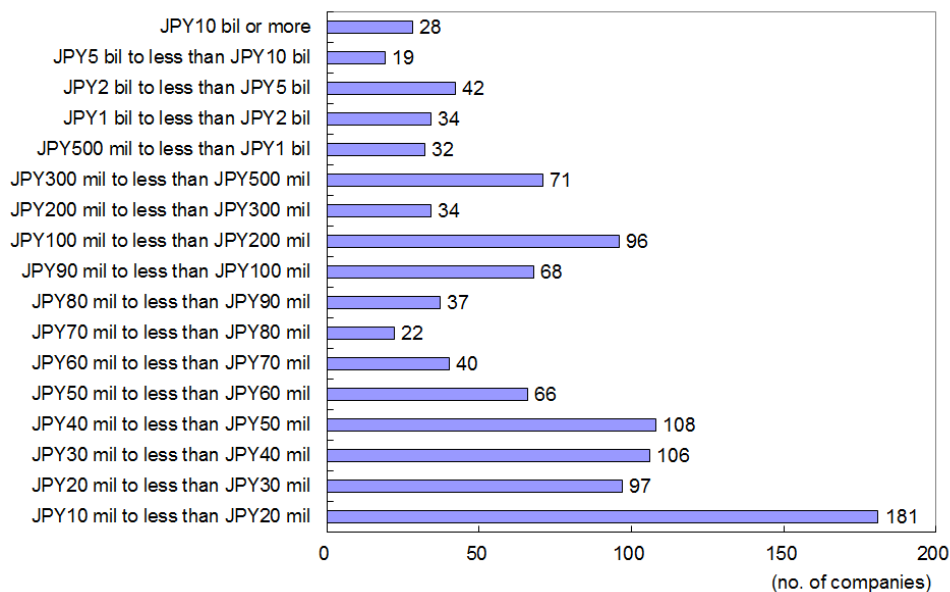
Valid responses: 1,081 companies (23.6%)

Survey method: Dispatch and collection of questionnaires by postal mail

Respondents by industry



Respondents by capital



- ※ In this report, Japanese corporate enterprises are categorized as follows: “large corporations” refer to companies with a capital of JPY1 billion or more, and “small- and medium-sized corporations” as companies with a capital of less than JPY1 billion.
- ※ The past Questionnaire Surveys of Japanese Corporate Enterprises Regarding Business in Asia are as below. Due to differences in the number and industrial sectors of the respondents, adjustments have been made to compare similar parent populations when using time series data. No survey was conducted in FY2003.

1st Survey	Conducted in Nov 1999. Sent to 1,200 randomly selected companies (excl. financial institutions), with 859 valid responses.
2nd Survey	Conducted in Aug 2000. Sent to 1,200 randomly selected companies (excl. financial institutions), with 872 valid responses.
3rd Survey	Conducted in Aug 2001. Sent to 1,200 randomly selected companies (excl. financial institutions), with 822 valid responses.
4th Survey	Conducted in June 2002. Sent to 1,200 randomly selected companies (excl. financial institutions), with 782 valid responses.
5th Survey	Conducted in March 2004. Sent to 2,339 manufacturing companies with a capital of JPY50 mil or more, with 776 valid responses.
6th Survey	Conducted in May 2005. Sent to 5,157 manufacturing companies with a capital of JPY10 mil or more, with 1,351 valid responses.
7th Survey	Conducted in April 2006. Sent to 2,483 manufacturing companies with a capital of JPY50 mil or more, with 683 valid responses.
8th Survey	Conducted in July 2007. Sent to 5,078 manufacturing companies with a capital of JPY10 mil or more, with 1,180 valid responses.
9th Survey	Conducted in Oct-Nov 2008. Sent to 4,949 manufacturing companies with a capital of JPY10 mil or more, with 1,383 valid responses.
10th Survey	Conducted in Feb 2010. Sent to 5,341 manufacturing companies with a capital of JPY10 mil or more, with 1,486 valid responses.
11th Survey	Conducted in Feb 2011. Sent to 5,137 manufacturing companies with a capital of JPY10 mil or more, with 1,416 valid responses.
12th Survey	Conducted in Feb 2012. Sent to 4,767 manufacturing companies with a capital of JPY10 mil or more, with 1,243 valid responses.
13th Survey	Conducted in Feb 2013. Sent to 4,699 manufacturing companies with a capital of JPY10 mil or more, with 1,303 valid responses.
14th Survey	Conducted in Feb 2014. Sent to 4,581 manufacturing companies with a capital of JPY10 mil or more, with 1,081 valid responses.