

Mizuho Economic Outlook & Analysis

The 15th Questionnaire Survey of Japanese Corporate Enterprises

Regarding Business in Asia (February 2015)

May 2015

Mizuho Research Institute

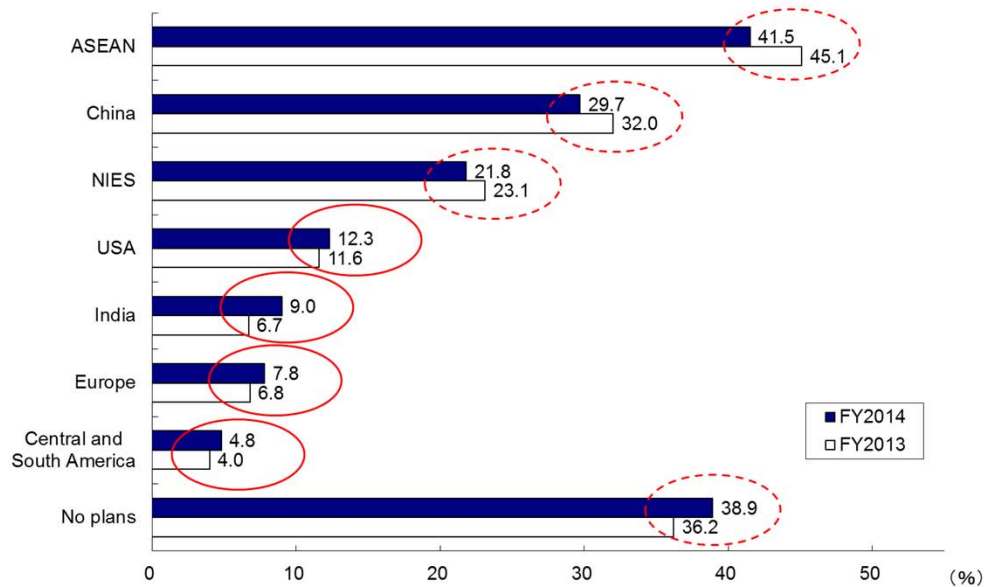
Overview

- 1. Although 'ASEAN' remains the number one priority for international business by Japanese companies, the response rate has fallen for the first time in 3 years due to factors such as the economic downturn in Thailand, where many Japanese companies are clustered.**
- 2. The earnings satisfaction level of Asian affiliates has fallen for 'ASEAN' due to factors such as the economic slowdown, while the level recovered for 'China' as the restraint on buying Japanese brands fades.**
- 3. 'Rising labor costs' are a future concern in both 'ASEAN' and 'China', and there are also growing concerns about the risk of 'economic downturn'.**
- 4. Japanese companies are also focusing on Myanmar and Cambodia as low cost production centers within ASEAN.**

1. 'ASEAN' remains the priority for international business, but the response rate is down for the first time in 3 years

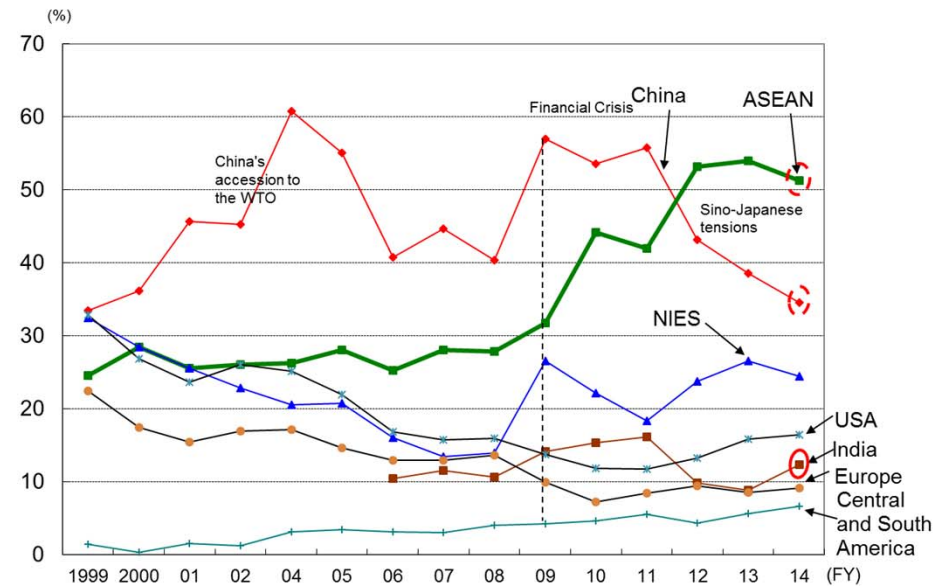
- ❑ Although ASEAN remains firmly ranked as the top priority for international business, the response rate has fallen for the first time in 3 years. This is attributed to factors such as the economic downturn in Thailand.
- ❑ Overall interest in East Asia (ASEAN, China, etc.) has declined, and interest in countries outside of East Asia (India, the US, etc.) has grown.

[Geographic areas prioritized for future focus]



Source: Mizuho Research Institute 'Survey Regarding Business in Asia'

[Time series for geographic areas prioritized for focus]



Notes 1. The time series data uses the responses from manufacturers with capital of at least JPY50 million, which differs from the chart on the left that uses the responses from manufacturers with capital of at least JPY10 million.

2. No survey was conducted in FY2003, and 'India' was added as a response option commencing with the FY2006 survey.

Source: Mizuho Research Institute 'Survey Regarding Business in Asia'

2. Earnings satisfaction level of ASEAN affiliates of Japanese companies are falling in ‘ASEAN’ and recovering in ‘China’

- ❑ The earnings satisfaction levels of ASEAN and Indian affiliates are falling due to factors such as the ‘economic slowdown’ and ‘currency depreciation’
- ❑ The earnings satisfaction levels of Chinese affiliates are recovering due to convergence of the impact of ‘Sino-Japanese relations’, while there is an export led recovery in NIES

[The earnings satisfaction level of Japanese companies by geographic location of overseas affiliates]

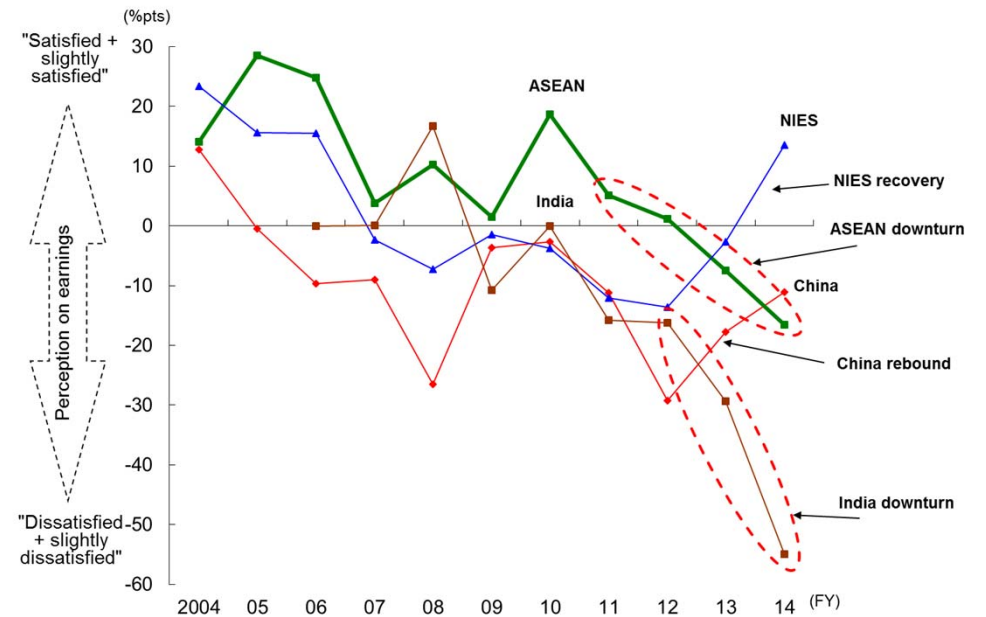
(Units: %, %pts, Number of companies)

		Satisfied	Slightly Satisfied	Neither	Slightly Dissatisfied	Dissatisfied	DI	No. of responses
NIES	FY2014	7.1	29.3	28.3	16.2	11.1	9.1	99
	FY2013	8.1	18.6	37.2	24.4	7.0	-10.6	96
China	FY2014	8.5	25.4	16.1	28.8	19.1	-14.0	236
	FY2013	9.4	20.9	19.7	23.6	22.8	-27.2	254
ASEAN	FY2014	6.1	19.4	28.1	26.0	15.8	-16.3	196
	FY2012	4.2	23.1	29.7	19.3	17.0	3.9	212
India	FY2014	0.0	6.7	26.7	28.9	28.9	-51.1	45
	FY2013	3.7	7.4	40.7	40.7	7.4	-19.5	39

- Notes 1. The earnings satisfaction DI = (“Satisfied” + “Slightly Satisfied”) – (“Dissatisfied” + “Slightly Dissatisfied”)
2. The shaded areas highlight the levels of satisfaction with the highest level of response.

Source: Mizuho Research Institute ‘Survey Regarding Business in Asia’

[The earnings satisfaction DI of Japanese companies by geographic location of overseas affiliates]



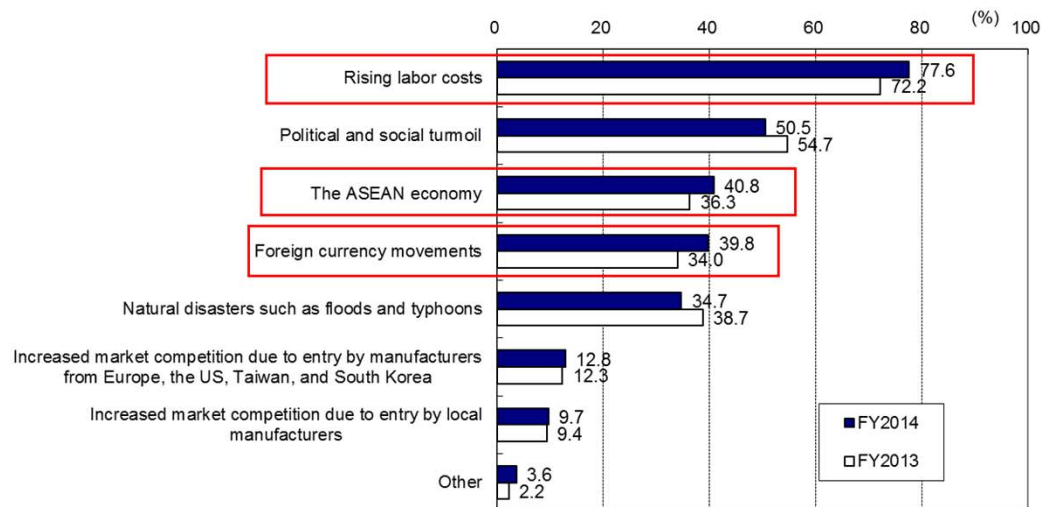
- Notes 1. The time series data uses the responses from manufacturers with capital of at least JPY50 million, which differs from the chart on the left that uses the responses from manufacturers with capital of at least JPY10 million.
2. No survey was conducted in FY2003, and ‘India’ was added as a response option commencing with the FY2006 survey.

Source: Mizuho Research Institute ‘Survey Regarding Business in Asia’

3. 'Rising labor costs' are a future concern for both China and ASEAN, as well as increased risk of 'economic downturn'

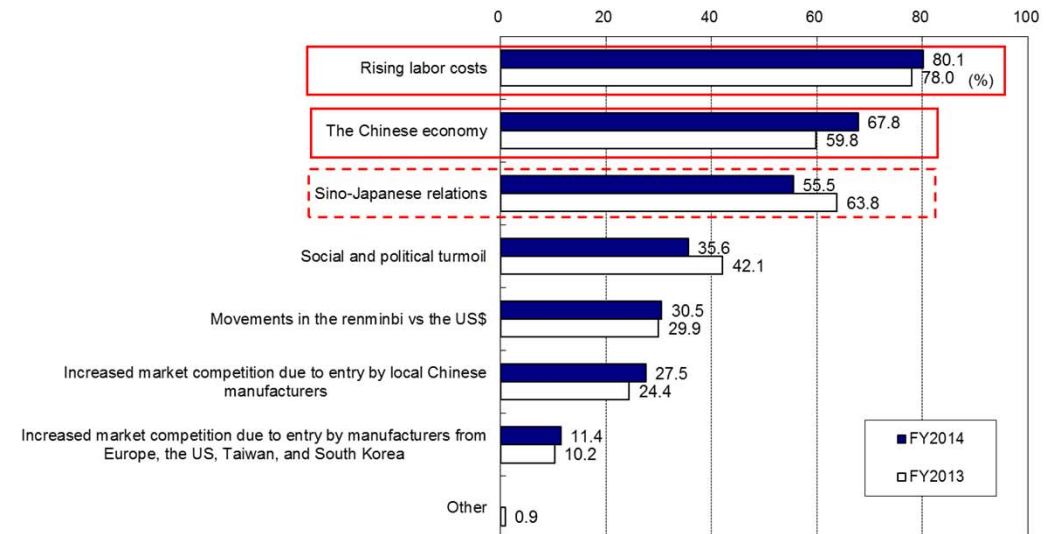
- ❑ 'Rising labor costs' received the highest level of response for the future concerns facing ASEAN affiliates. There are also increased concerns about an 'economic downturn' and 'currency movements'.
- ❑ 'Rising labor costs' also received the highest level of response for the future concerns facing Chinese affiliates. Concerns about an 'economic downturn' exceeded the concerns about 'Sino-Japanese relations'.

[Concerns for doing business in ASEAN]



Note. Responses from companies with affiliates in ASEAN: 196 (FY2014), 212 (FY2013).
Source: Mizuho Research Institute 'Survey Regarding Business in Asia'

[Concerns for doing business in China]

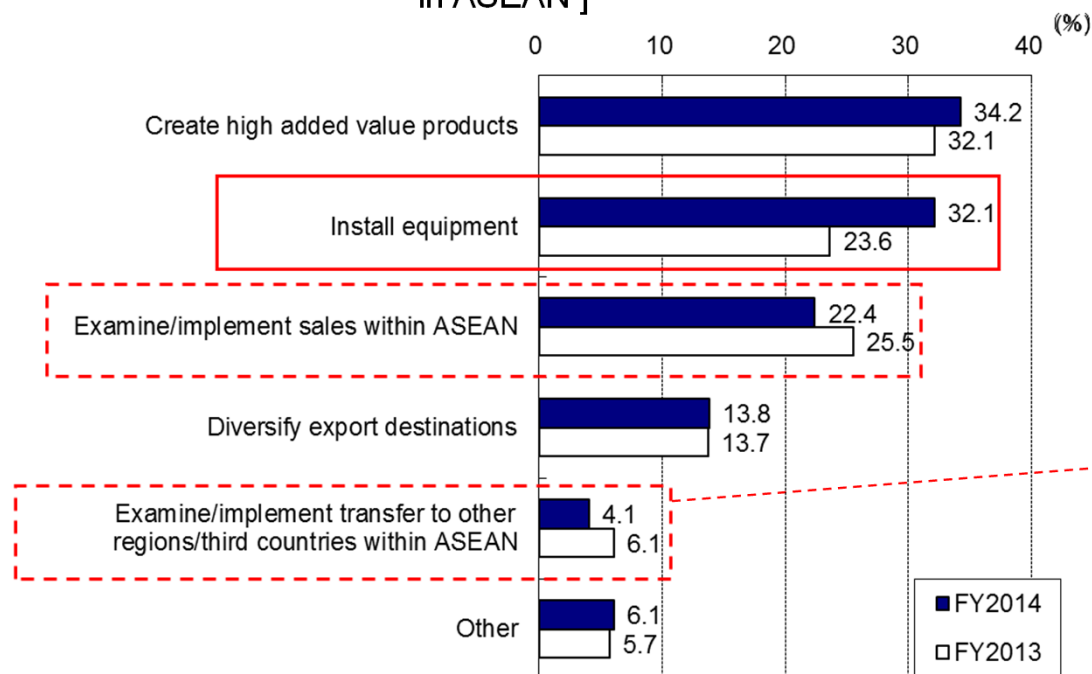


Note. Responses from companies with affiliates in China: 236 (FY2014), 254 (FY2013).
Source: Mizuho Research Institute 'Survey Regarding Business in Asia'

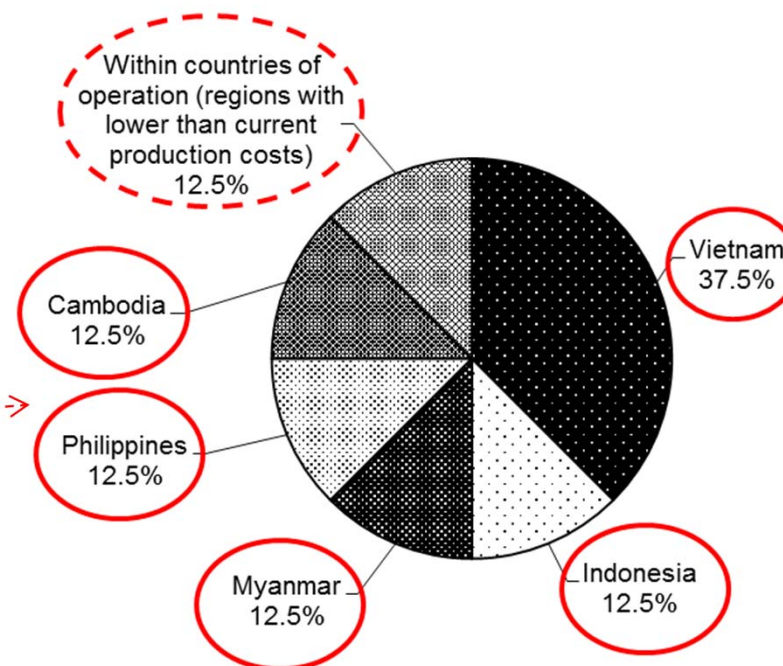
4. Japanese companies are also focused on Myanmar and Cambodia as low cost production centers within ASEAN

- ❑ In terms of measures to deal with rising production costs at ASEAN affiliates caused by factors such as labor costs, there was a pronounced increase in the response rate for 'install equipment'.
- ❑ While only some companies said they are examining/implementing transfers to other countries/ third countries within ASEAN, they are also focusing on Myanmar (with the Thilawa Industrial Park scheduled to open during 2015) and Cambodia in addition to Vietnam, Indonesia, and the Philippines

[Measures to deal with rising production costs at affiliates in ASEAN]



[Actual and potential transfers to other countries/third countries within ASEAN]



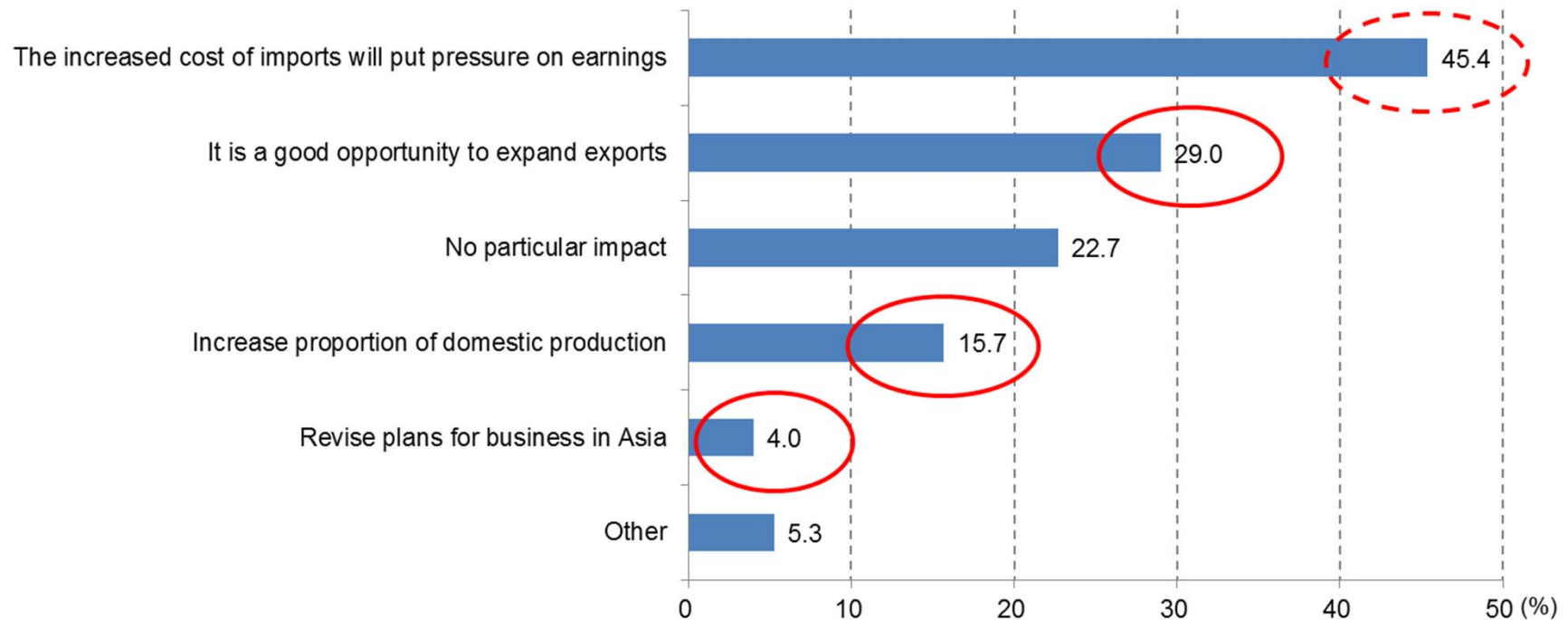
Note. Responses from companies with affiliates in ASEAN: 196 (FY2014), 212 (FY2013).
Source: Mizuho Research Institute 'Survey Regarding Business in Asia'

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Reference. Impact of a Weak Yen on Business in Asia

- ❑ The recent rise in import prices caused by the depreciation of the yen has put pressure on earnings.
- ❑ Few companies say they will 'revise plans for business in Asia', but there was a 29.0% response rate for 'it is a good opportunity to expand exports' and a 15.7% response rate for 'increase the proportion of domestic production'. In addition to the depreciation of the yen, the rising labor costs in Asia are conducive to Japanese companies repatriating their production to Japan.

[Impact of a Weak Yen on Business in Asia]



Source: Mizuho Research Institute 'Survey Regarding Business in Asia'

5. Important Points concerning Future Business in Asia

(1) There are growing concerns about rising labor costs in ASEAN as well as China

- Double digit wage hikes continue in countries such as Indonesia and Vietnam, where industrial clusters are being promoted following similar developments in Thailand -

(2) There are growing concerns about an economic downturn in ASEAN as well as China

- China has lowered its growth targets. In addition to the concerns about economic downturns in ASEAN countries such as Thailand, there are concerns about the impact of an outflow of funds due to a US rate hike -

(3) Although the focus remains on the growth markets of East Asia, there is growing interest in regions outside of East Asia

- While focusing on the promising markets of East Asia, there is growing interest in regions such as South Asia and the US -

(4) The depreciation of the yen is increasingly prompting reviews of Japan as a production center

- In addition to the depreciation of the yen, the rising labor costs in Asia are prompting revisions of the domestic –overseas production structure, with some companies looking to return to Japan -

(5) There are expectations for the Abe Administration in relation to corporate tax cuts, improvements in Sino-Japanese and Japanese-South Korean relations, and implementation of the TPP

- There are ongoing expectations for the pro-business stance, diplomatic strength, and commerce and trade policies -

Outline of the 15th Survey Regarding Business in Asia

Survey period: February 1 to 28, 2015

Coverage: Member companies of Mizuho Research Institute that are manufacturers with capital of at least JPY10 million

Questionnaires sent to: 4,481 companies

Valid responses: 1,158 companies (25.8%)

Survey method: Questionnaires sent and collected by post

[Summary of Past Surveys Regarding Business in Asia]

1 st Survey	2 nd Survey	3 rd Survey	4 th Survey	5 th Survey
November 1999	August 2000	August 2001	June 2002	March 2004
Sent to 1,200 randomly selected companies (ex. Financial institutions). 859 valid responses.	Sent to 1,200 randomly selected companies (ex. Financial institutions). 872 valid responses.	Sent to 1,200 randomly selected companies (ex. Financial institutions). 822 valid responses.	Sent to 1,200 randomly selected companies (ex. Financial institutions). 782 valid responses.	Sent to 2,399 manufacturers with capital of at least JPY50 million. 776 valid responses.
6 th Survey	7 th Survey	8 th Survey	9 th Survey	10 th Survey
May 2005	April 2006	July 2007	Oct/Nov 2008	February 2010
Sent to 5,157 manufacturers with capital of at least JPY10 million. 1,351 valid responses.	Sent to 2,483 manufacturers with capital of at least JPY50 million. 683 valid responses.	Sent to 5,078 manufacturers with capital of at least JPY10 million. 1,180 valid responses.	Sent to 4,949 manufacturers with capital of at least JPY10 million. 1,383 valid responses.	Sent to 5,341 manufacturers with capital of at least JPY10 million. 1,486 valid responses.
11 th Survey	12 th Survey	13 th Survey	14 th Survey	15 th Survey
February 2011	February 2012	February 2013	February 2014	February 2015
Sent to 5,137 manufacturers with capital of at least JPY10 million. 1,416 valid responses.	Sent to 4,767 manufacturers with capital of at least JPY10 million. 1,243 valid responses.	Sent to 4,699 manufacturers with capital of at least JPY10 million. 1,303 valid responses.	Sent to 4,581 manufacturers with capital of at least JPY10 million. 1,081 valid responses.	Sent to 4,481 manufacturers with capital of at least JPY10 million. 1,158 valid responses.

Source: Mizuho Research Institute 'Survey Regarding Business in Asia'

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