

Mizuho Economic Outlook & Analysis

The 16th Questionnaire Survey of Japanese Corporate Enterprises

Regarding Business in Asia (February 2016)

May 2016

Mizuho Research Institute

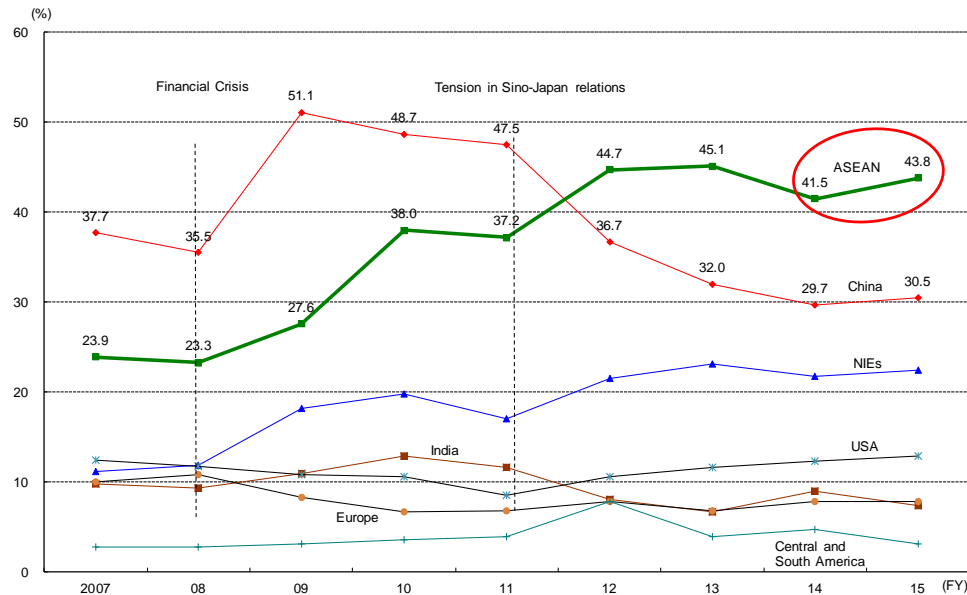
Overview

- A highlight of this survey is the pronounced increase in interest shown by Japanese companies in relation to Vietnam, which is a signatory to the Trans-Pacific Partnership (TPP).
- ASEAN remains the number one focus for international business by Japanese companies in this survey, and the response rate has risen. Amongst ASEAN countries, the response rate has risen the most for Vietnam.
- The increased interest in Vietnam is attributed to expectations for it to become an export base to the rest of the TPP region and for it to open up of its domestic market under TPP rules.

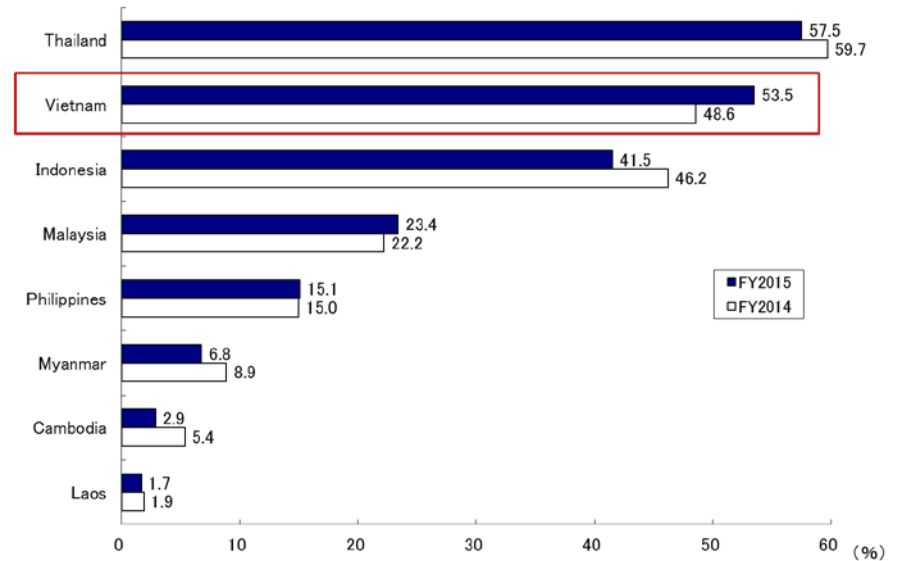
1. ASEAN remains the number one priority. Vietnam leads the increased focus on ASEAN

- ❑ Despite the economic downturn, the response rate for ASEAN increased for the first time in two years, highlighting the ongoing focus that Japanese companies have on ASEAN
- ❑ The increased focus on ASEAN is led by the rise in the response rate for Vietnam

[Geographic areas prioritized by Japanese companies for future focus]



[Geographic areas within ASEAN prioritized for the greatest future focus]



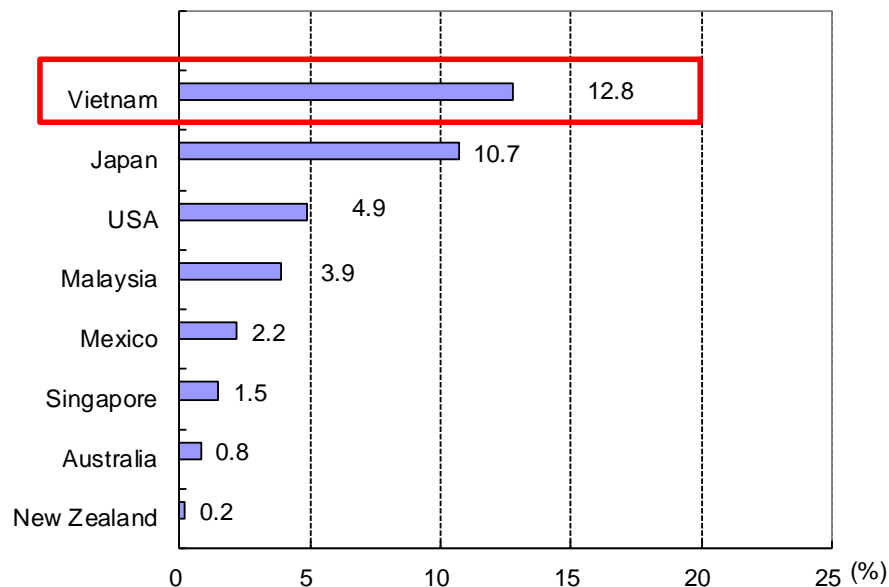
Source: Mizuho Research Institute (MHR), *Survey Regarding Business in Asia*

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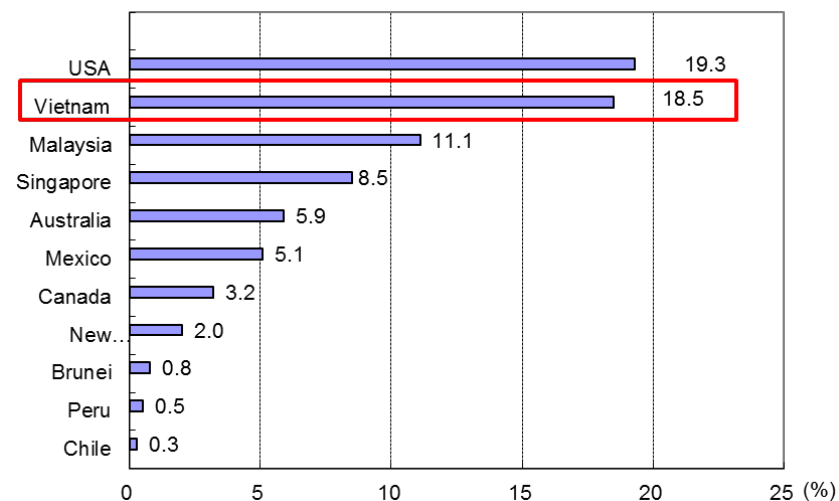
2. Vietnam is seen as the lead destination for investment, exports and origin of imports amongst 12 signatories to the TPP

- Vietnam is the number one destination for increased investment
- Vietnam is the number two destination for increased exports after the US
- Vietnam is the number one origin of increased imports

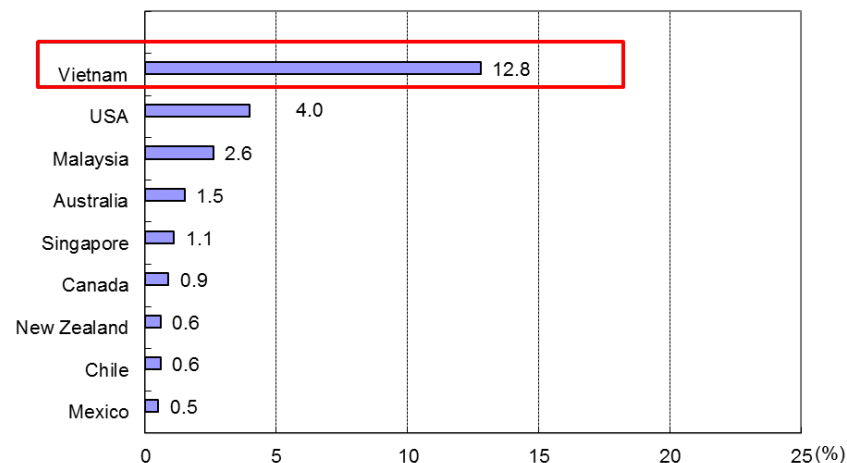
[Destinations for increased investment]



[Destinations for increased exports]



[Origins of increased imports]



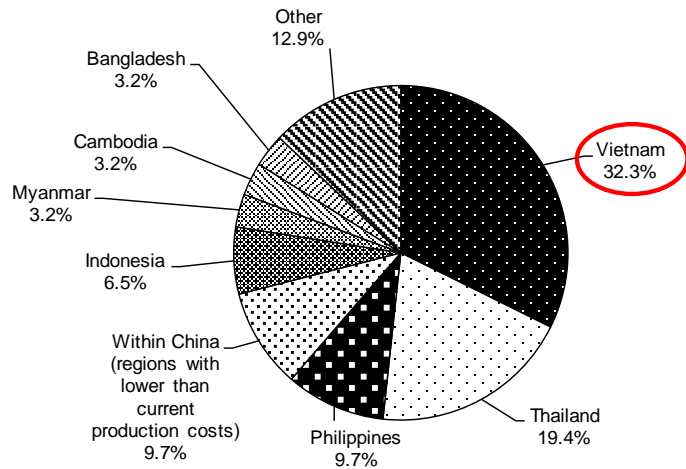
Note: 1. There were no responses for Canada, Brunei, Peru and Chile in relation to destinations for increased investment
 2. There were no responses for Brunei and Peru in relation to origins of increased imports

Source: MHRI, Survey Regarding Business in Asia

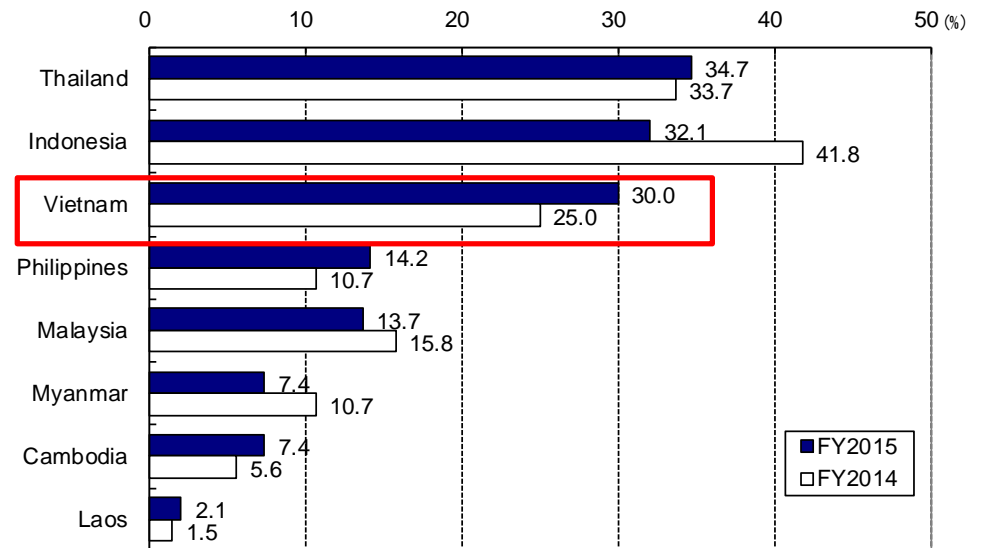
3. Vietnam seen as a promising investment destination since the TPP. Expectations as an export base and growth market

- ❑ China has been interested in Vietnam as a target transfer country for sometime, and Vietnam's appeal as an export base has increased with its participation in the TPP
- ❑ Expectations that the 90 million strong domestic market will open up under TPP rules has heightened Vietnam's appeal as a growth market

[Actual and potential transfers to countries from China]



[ASEAN countries targeted for market development during the next 2 to 3 years]



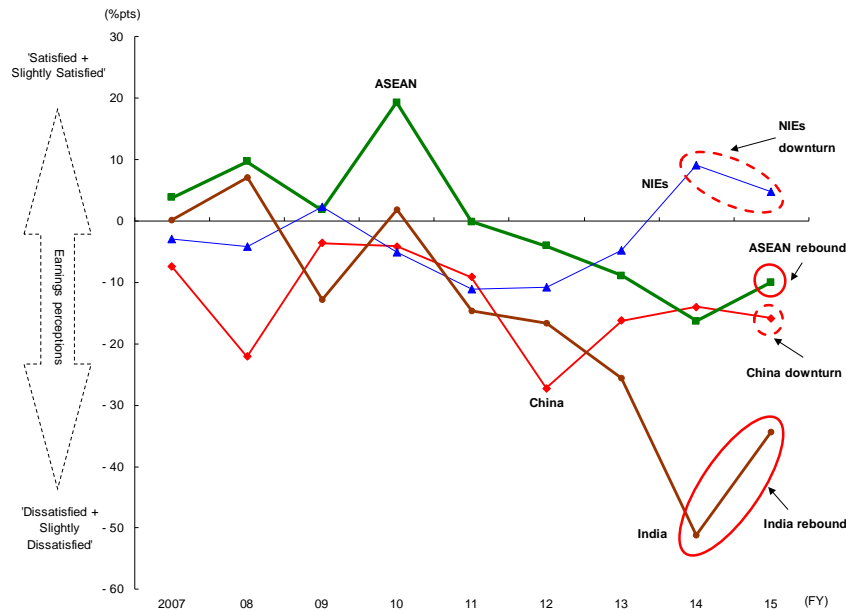
Source: MHRI, Survey Regarding Business in Asia

Source: MHRI, Survey Regarding Business in Asia

Reference. Earnings satisfaction levels rebound for ASEAN and India, but decline for China due to excess capacity

- ❑ Although the earnings satisfaction DIs remain negative for ASEAN (with much advance by Thailand) and India, there has been a rebound with the economic recovery
- ❑ The DIs for China and NIEs have fallen. For China, the DIs for 'iron & steel' and 'transportation equipment' are negative due to excess capacity issues

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



Note: The earnings satisfaction DI = ('Satisfied' + 'Slightly Satisfied') – ('Dissatisfied' + 'Slightly Dissatisfied')

Source: MHRI, Survey Regarding Business in Asia

[The earnings satisfaction DI by industry for affiliates of Japanese companies located in China]

	(%pts)				
	2011	2012	2013	2014	2015
Chemicals	▲ 17.4	▲ 4.4	8.7	5.5	20.1
General machinery	1.9	▲ 19.1	▲ 6.9	5.6	16.4
Precision machinery	57.2	▲ 11.1	▲ 14.3	42.8	0.0
Processed metals	10.0	▲ 30.8	▲ 12.0	▲ 23.5	▲ 7.4
Food & beverages	▲ 43.8	▲ 47.0	▲ 43.0	▲ 70.6	▲ 14.3
Electrical machinery	▲ 42.9	▲ 40.7	▲ 36.1	▲ 26.4	▲ 41.6
Iron & steel	33.3	▲ 50.0	40.0	0.0	▲ 42.8
Transportation equipment	13.4	▲ 23.1	0.0	30.7	▲ 44.4
Textiles	23.1	▲ 28.6	▲ 25.0	▲ 57.1	▲ 53.3
Nonferrous metals	▲ 83.3	▲ 66.7	100.0	▲ 66.7	▲ 100.0

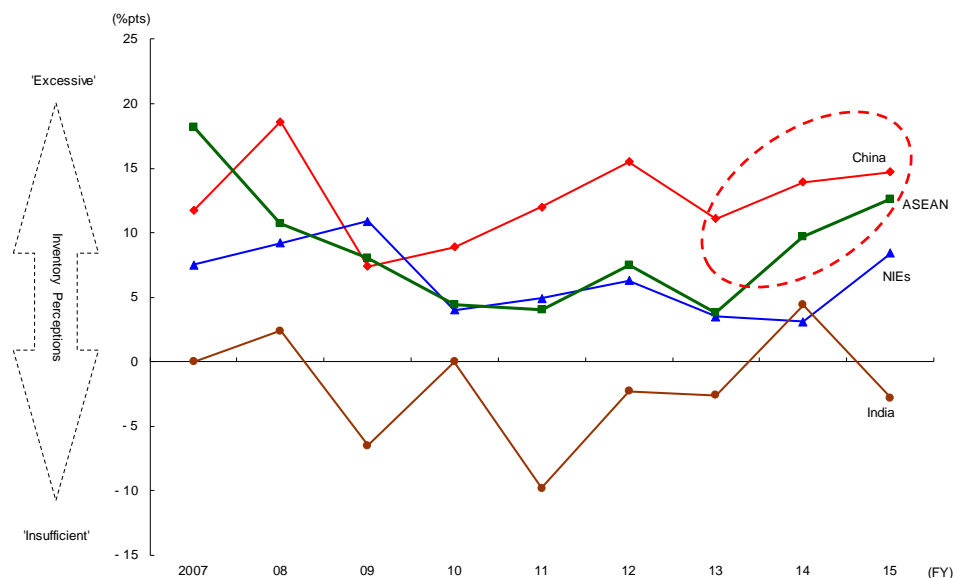
Note: Sectors with positive DIs are shaded

Source: MHRI, Survey Regarding Business in Asia

Reference. Inventory DIs rise for China and ASEAN with cautious forecasts for sales growth in FY2016

- While the inventory DI is highest and continues to rise for China, the inventory DI has also risen for ASEAN. This reflects the slump in domestic automobile sales, etc. (Thailand: 882,000 in 2014 → 800,000 in 2015; Indonesia: 120,800 in 2014 → 101,300 in 2015)
- Projections for FY2016 sales growth are cautious for many countries in Asia

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



Note: Inventory DI = 'Excessive' - 'Insufficient'
Source: MHRI, Survey Regarding Business in Asia

[FY2015 and FY2016 sales projections for the company's own products in Asia]

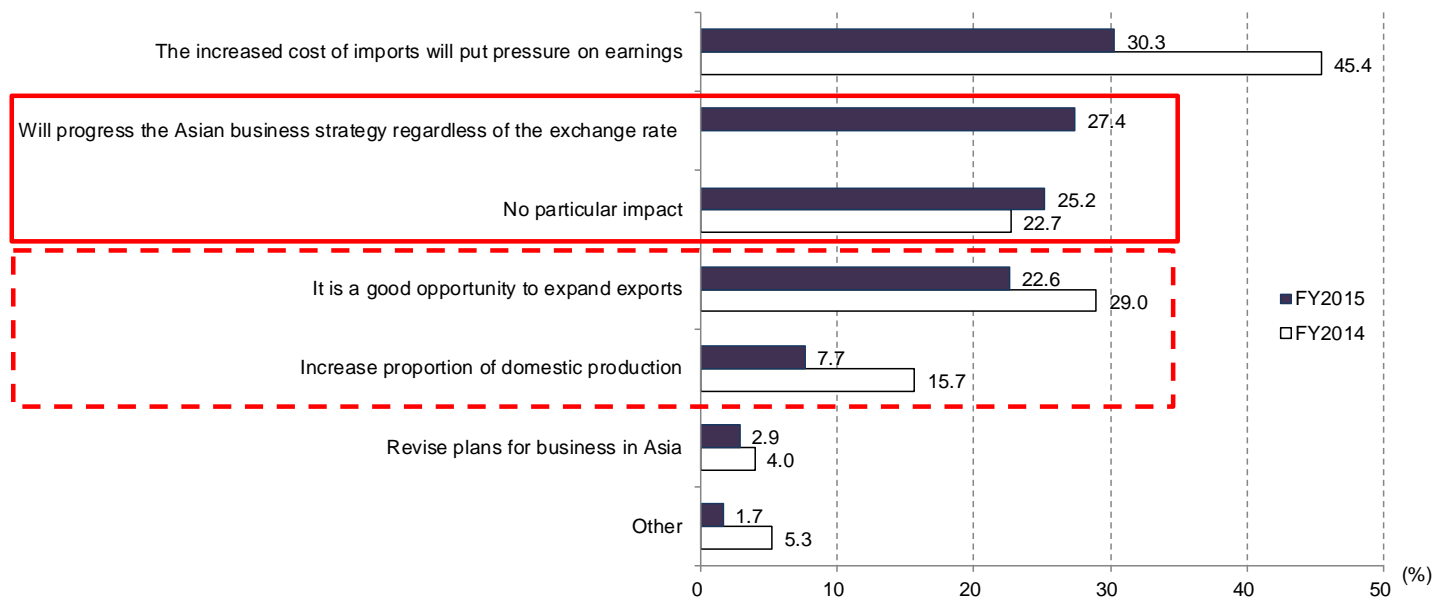
		(%pts)					DI
		More than 10% y-o-y increase in sales	More than 5 and less than 10% y-o-y increase in sales	Up to 5% y-o-y increase in sales	Up to 5% y-o-y decrease in sales	More than 5% y-o-y decrease in sales	
China	FY2016 (A)	21.7	17.3	35.8	13.8	11.4	49.6
	FY2015 (B)	26.2	12.9	30.0	14.1	16.8	38.2
	(A)-(B)	▲ 4.5	4.4	5.8	▲ 0.3	▲ 5.4	11.4
India	FY2016 (A)	18.3	30.1	40.9	6.5	4.3	78.5
	FY2015 (B)	19.1	19.1	41.5	14.9	5.3	59.5
	(A)-(B)	▲ 0.8	11.0	▲ 0.6	▲ 8.4	▲ 1.0	19.0
Vietnam	FY2016 (A)	26.9	23.4	40.0	5.5	4.1	80.7
	FY2015 (B)	27.9	16.2	40.4	8.1	7.4	69.0
	(A)-(B)	▲ 1.0	7.2	▲ 0.4	▲ 2.6	▲ 3.3	11.7
Indonesia	FY2016 (A)	15.6	22.5	44.4	10.6	6.9	65.0
	FY2015 (B)	21.3	16.8	35.5	14.8	11.6	47.2
	(A)-(B)	▲ 5.7	5.7	8.9	▲ 4.2	▲ 4.7	17.8
Thailand	FY2016 (A)	20.7	18.9	45.8	10.1	4.4	70.9
	FY2015 (B)	20.4	15.5	38.1	15.0	11.1	47.9
	(A)-(B)	0.3	3.4	7.7	▲ 4.9	▲ 6.7	23.0
Malaysia	FY2016 (A)	17.9	15.4	53.0	11.1	2.6	72.6
	FY2015 (B)	18.4	12.3	47.4	14.9	7.0	56.2
	(A)-(B)	▲ 0.5	3.1	5.6	▲ 3.8	▲ 4.4	16.4
Philippines	FY2016 (A)	12.8	17.9	55.1	10.3	3.8	71.7
	FY2015 (B)	18.2	14.3	48.1	16.9	2.6	61.1
	(A)-(B)	▲ 5.4	3.6	7.0	▲ 6.6	1.2	10.6
Singapore	FY2016 (A)	15.7	18.6	46.1	12.7	6.9	60.8
	FY2015 (B)	14.7	19.6	43.1	15.7	6.9	54.8
	(A)-(B)	1.0	▲ 1.0	3.0	▲ 3.0	0.0	6.0
Taiwan	FY2016 (A)	19.1	20.0	42.8	11.2	7.0	63.7
	FY2015 (B)	20.9	17.5	34.1	16.1	11.4	45.0
	(A)-(B)	▲ 1.8	2.5	8.7	▲ 4.9	▲ 4.4	18.7
South Korea	FY2016 (A)	14.9	16.1	46.6	16.1	6.3	55.2
	FY2015 (B)	19.9	14.2	37.5	18.2	10.2	43.2
	(A)-(B)	▲ 5.0	1.9	9.1	▲ 2.1	▲ 3.9	12.0
Hong Kong	FY2016 (A)	14.9	15.8	50.9	10.5	7.9	63.2
	FY2015 (B)	18.8	15.2	40.2	11.6	14.3	48.3
	(A)-(B)	▲ 3.9	0.6	10.7	▲ 1.1	▲ 6.4	14.9

Note: Sections with the highest response rates are shaded
Source: MHRI, Survey Regarding Business in Asia

Reference. Many companies plan to progress Asian business regardless of exchange rates, but further correction of the weak yen needs to be monitored

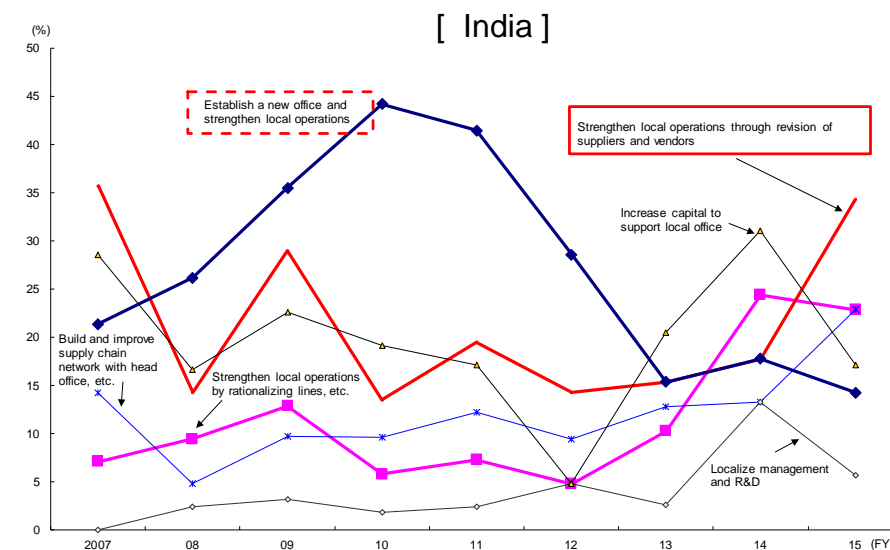
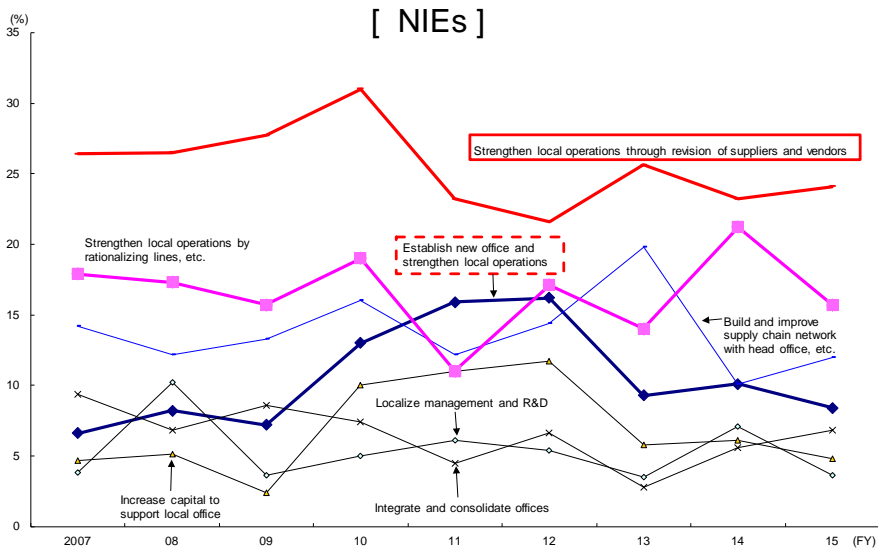
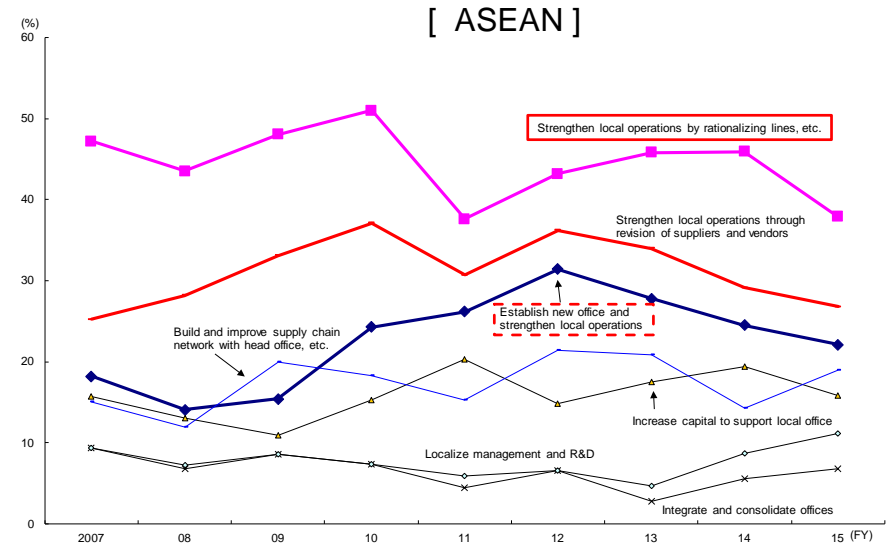
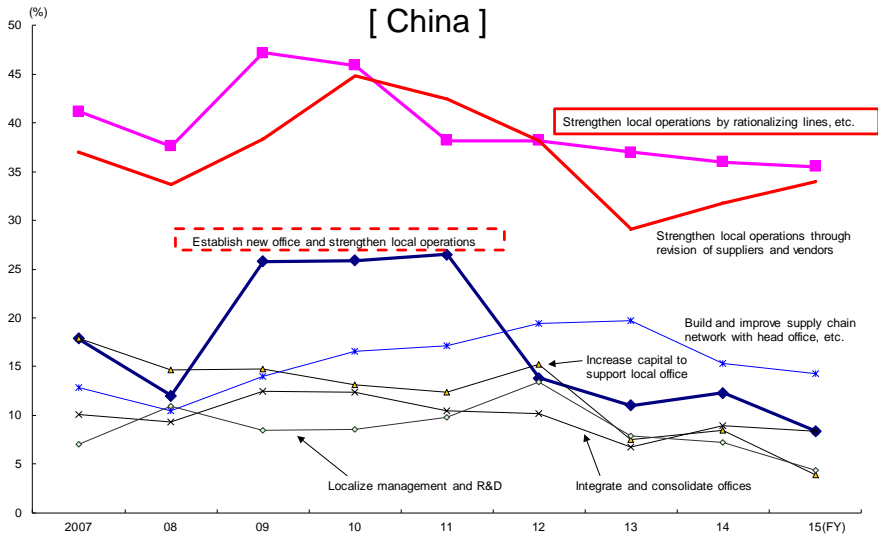
- ❑ Despite an easing of the pressure on earnings caused by higher costs of imports with the correction of the weak yen a comparatively large number of companies say they ‘will progress the Asian business strategy regardless of the exchange rate’ and that the weak yen has ‘no particular impact’.
- ❑ The moves towards ‘exports to Asia’ and ‘return to domestic production’ are weak, and ongoing correction of the weak yen when Asian currencies are weak could also foster a review of the role of Asian offices (with the prospect of turning them into global export bases, or R&D bases for Asia).

[Impact of a (relative) weak yen on business in Asia (multiple responses)]



Note: The response ‘Will progress the Asian business strategy regardless of the exchange rate’ was incorporated from 2015
 Source: MHRI, *Survey Regarding Business in Asia*

Reference. Priority to strengthening existing offices in 'future initiatives' for Asian offices



Source: MHRI, Survey Regarding Business in Asia

Outline of the 16th Survey Regarding Business in Asia

Survey period: February 1 to 29, 2016

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

Questionnaires sent to: 4,454 companies

Valid responses: 1,100 companies (24.7%)

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.
16 th Survey				
February 2016				
Sent to 4,454 manufacturers with capital of at least JPY10 million. 1,100 valid responses.				

Source: MHRI, *Survey Regarding Business in Asia*

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