

Mizuho Economic Outlook & Analysis

The 17th Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia (February 2017)

- Japanese Manufacturers Reviving Interest in Asian Investment, But Wary of Trade with the U.S.-

May 2, 2017

(We sent questionnaires to 4,403 member companies of Mizuho Research Institute that are manufacturers with capital of at least JPY10 million, and collected 1,121 valid responses.)

Mizuho Research Institute

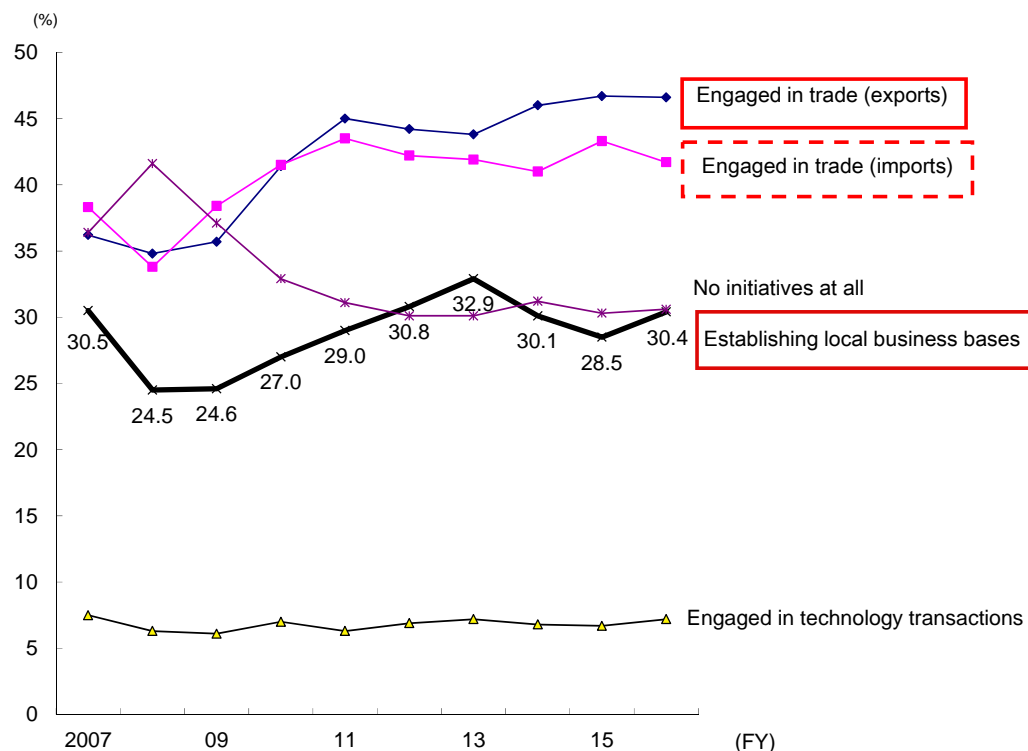
Overview

- ❑ Interest in investment in Asia is showing signs of recovery for the first time in three years, following the bottoming out of the Asian economies and a rebound in corporate earnings.
- ❑ A noticeable recovery of earnings satisfaction is seen at business bases located in China following the bottoming out of the Chinese economy. The recovery is particularly pronounced for transportation equipment and iron and steel thanks to automobile sales incentives and increased investment in infrastructure.
- ❑ ASEAN was the geographic area with the greatest future focus for the fifth consecutive year, but the response rate declined, partly because of the drop in the response rate for Vietnam in the wake of the U.S. exit from the Trans-Pacific Partnership (TPP) after a surge in interest in Vietnam in the previous survey following the TPP agreement.
- ❑ Currency rate fluctuations against the U.S. dollar, trade frictions with the United States and declining exports to the U.S. market were cited as the possible impacts of the Trump administration on business in Asia, in that order, with nervousness about U.S. trends seen likely to linger on.

1. Sentiment for new investment in Asia showing signs of recovery

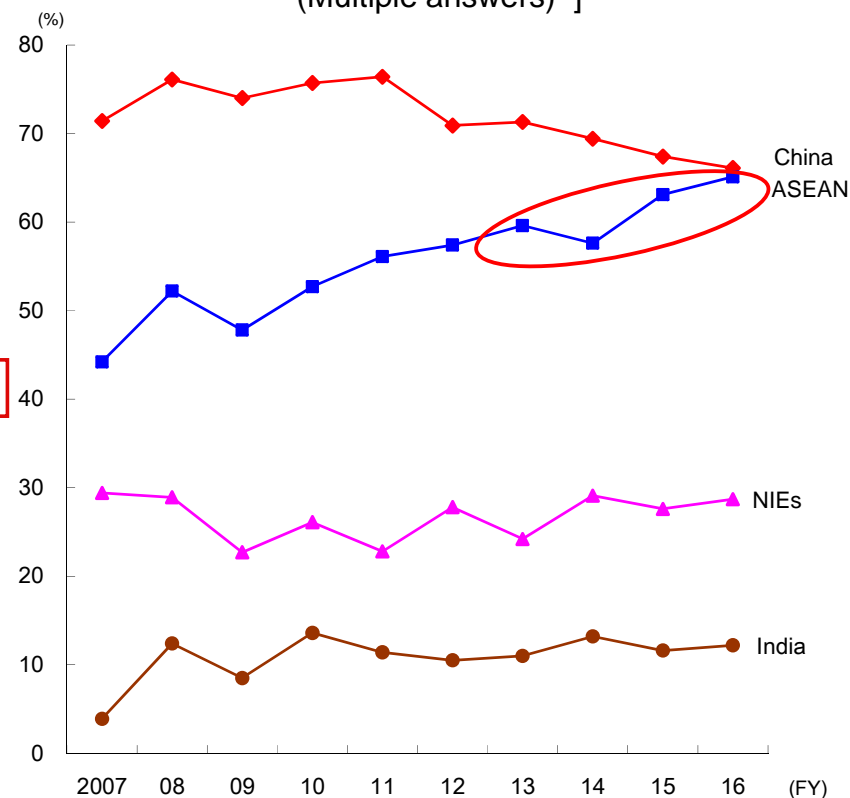
- ❑ The status of business initiatives in Asia by Japanese companies show that the response of “Engaged in trade (exports)” marked time at the high level, while the response of “Establishing local business bases” recovered for the first time in three years.
- ❑ The status of the establishment of Asian business bases indicates that the steady rise in bases in ASEAN has primarily led to a recovery in the total number of business bases in Asia.

[Japanese firms' business initiatives in Asia (Multiple answers)]



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

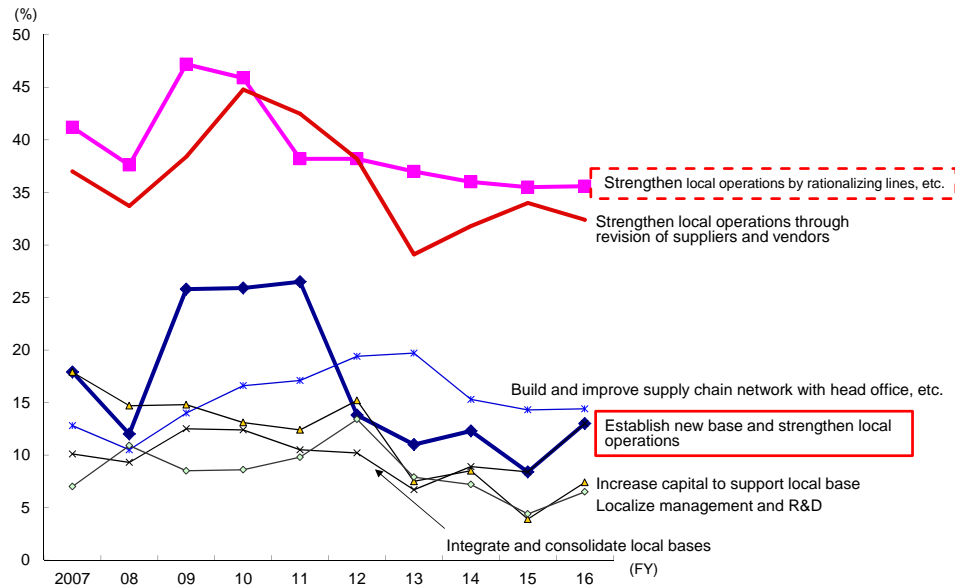
[Establishment of Asian business bases by country/area (Multiple answers)]



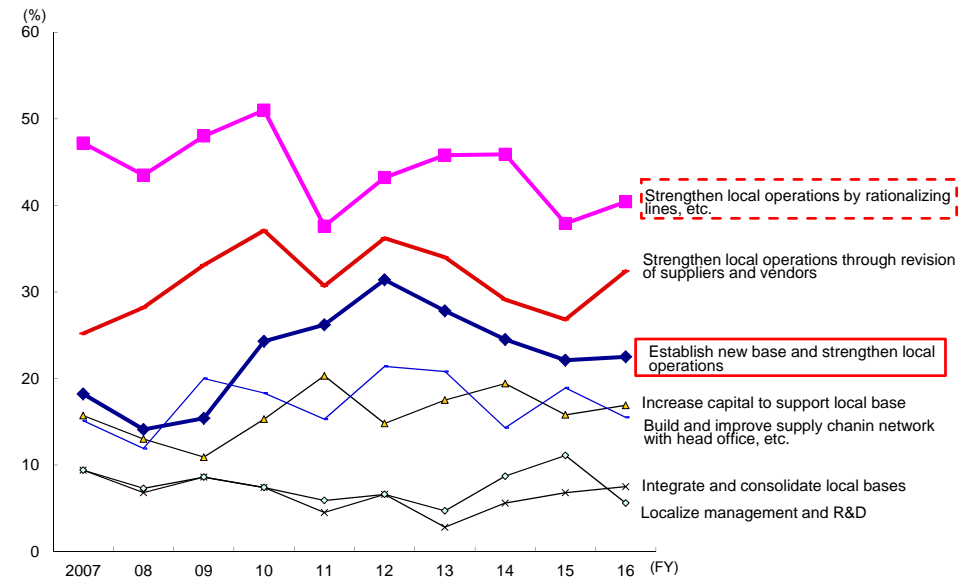
Source: MHRI, Survey Regarding Business in Asia

Reference. “Future initiatives” by Asian bases indicate a recovery of “Establish new base and strengthen local operations” across Asia

[China]



[ASEAN]

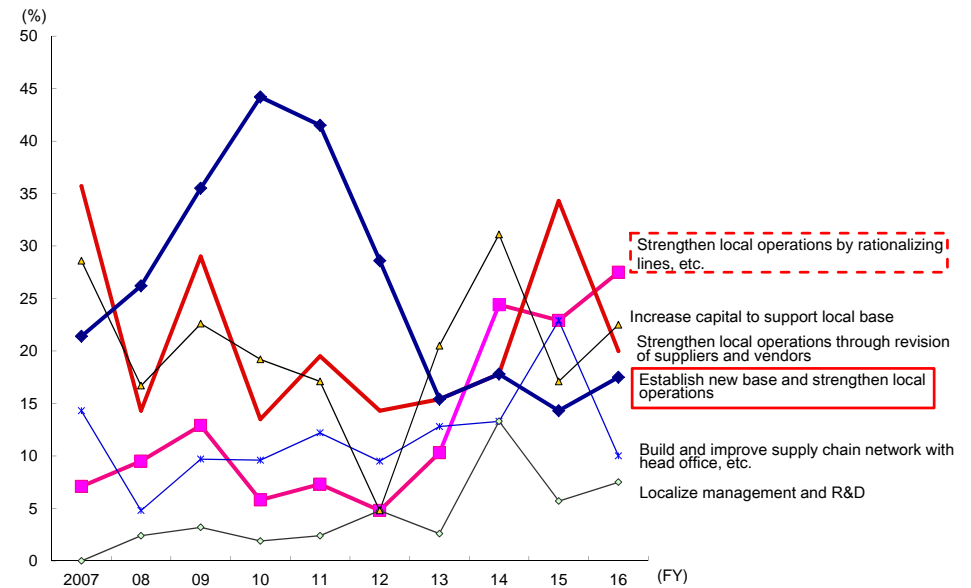
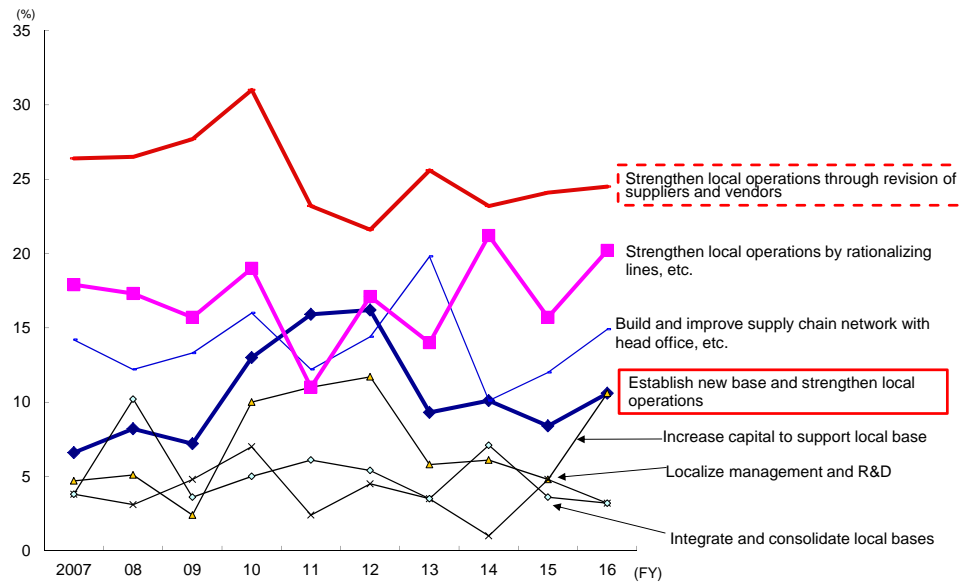


Source: MHRI, Survey Regarding Business in Asia

Reference. “Future initiatives” by Asian bases indicate a recovery of “Establish new base and strengthen local operations” across Asia

[NIEs]

[India]

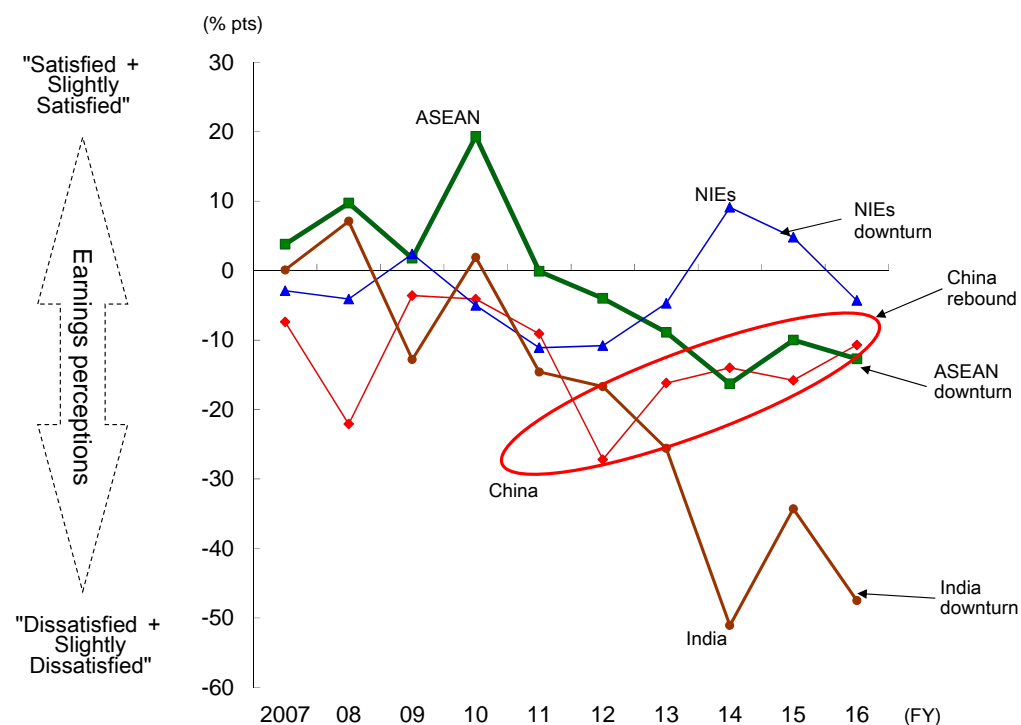


Source: MHRl, Survey Regarding Business in Asia

2. Rebound of earnings satisfaction noticeable for Chinese bases, DIs for transportation equipment, iron and steel, textiles turning positive

- While the earnings satisfaction DIs remain negative across Asia, the recovery is noticeable for business bases in China following the bottoming out of the Chinese economy.
- The DI for “transportation equipment” turned positive thanks to sales incentives, while the DI for “iron & steel” also got out of negative territory on infrastructure investment.

[The earnings satisfaction DI of Japanese companies by local business base]



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 business bases in China of Japanese companies]

(Unit: % pts)

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------------|-------|-------|-------|-------|--------|--------|
| Transportation equipment | 13.4 | -23.1 | 0.0 | 30.7 | -44.4 | 21.4 |
| Precision machinery | 57.2 | -11.1 | -14.3 | 42.8 | 0.0 | 20.0 |
| Chemicals | -17.4 | -4.4 | 8.7 | 5.5 | 20.1 | 19.1 |
| General machinery | 1.9 | -19.1 | -6.9 | 5.6 | 16.4 | 6.4 |
| Iron and steel | 33.3 | -50.0 | 40.0 | 0.0 | -42.8 | 0.0 |
| Textiles | 23.1 | -28.6 | -25.0 | -57.1 | -53.3 | 0.0 |
| Processed metals | 10.0 | -30.8 | -12.0 | -23.5 | -7.4 | -17.4 |
| Food and beverages | -43.8 | -47.0 | -43.0 | -70.6 | -14.3 | -30.7 |
| Electrical machinery | -42.9 | -40.7 | -36.1 | -26.4 | -41.6 | -31.8 |
| Nonferrous metals | -83.3 | -66.7 | 100.0 | -66.7 | -100.0 | -100.0 |

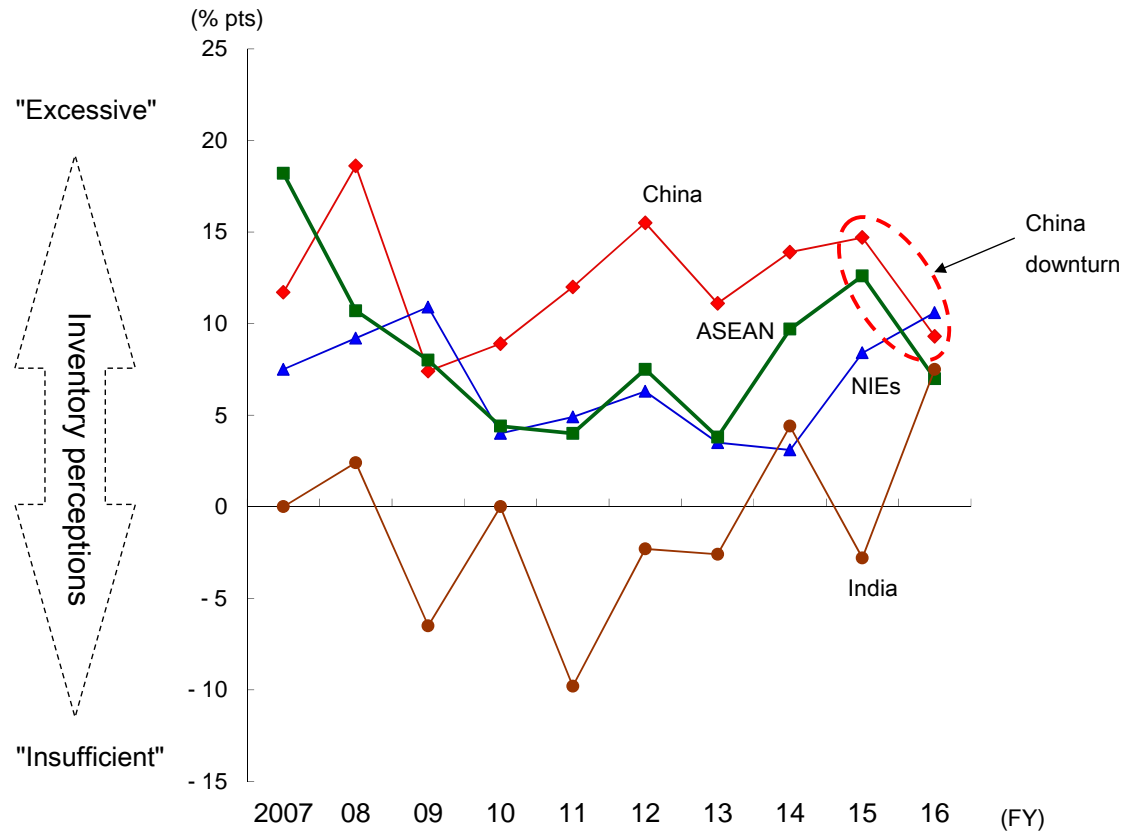
Note: Sectors with positive DIs are shaded.

Source: MHRI, Survey Regarding Business in Asia

Reference. Inventories decline in China and ASEAN

- ❑ Inventory falls are particularly noticeable at business bases in China, but inventories also declined at bases in ASEAN.
- ❑ The inventory decline in ASEAN reflected a recovery of automobile sales in Thailand, where sales incentives were removed about five years ago.

[The inventory DIs of Japanese companies by local business base]



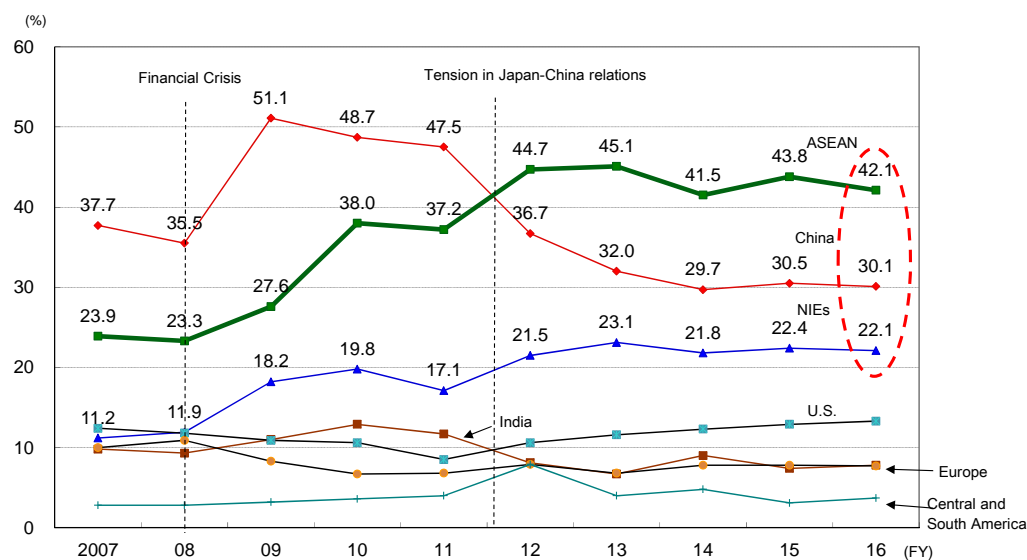
Note: Inventory DI = "Excessive" - "Insufficient"

Source: MHRI, *Survey Regarding Business in Asia*

3. The area with the greatest future focus remains ASEAN, but the response rate fell slightly partly due to the drop for Vietnam following the U.S. exit from the TPP

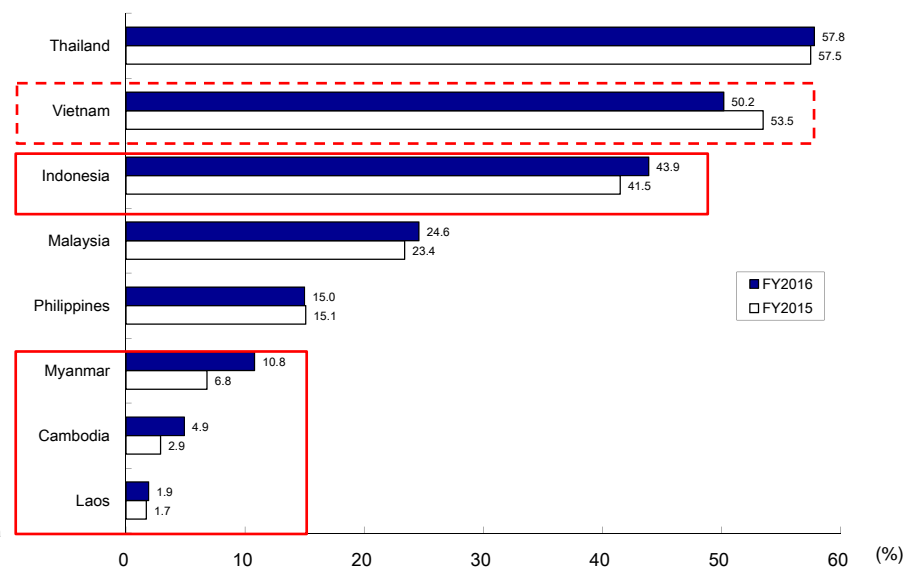
- ❑ The order of ASEAN, China and NIEs remains unchanged, but the response rate slightly declined for all of them.
- ❑ The breakdown of ASEAN shows a slight drop in the response rate for Vietnam, possibly under the impact of the U.S. exit from the TPP. On the other hand, Japanese companies indicate the growing interest in Indonesia with the market depth and in frontier CLM countries (particularly Myanmar).

[Geographic areas prioritized by Japanese companies for the greatest future focus]



Source: MHRI, Survey Regarding Business in Asia

[Countries in ASEAN prioritized by Japanese companies for the greatest future focus]

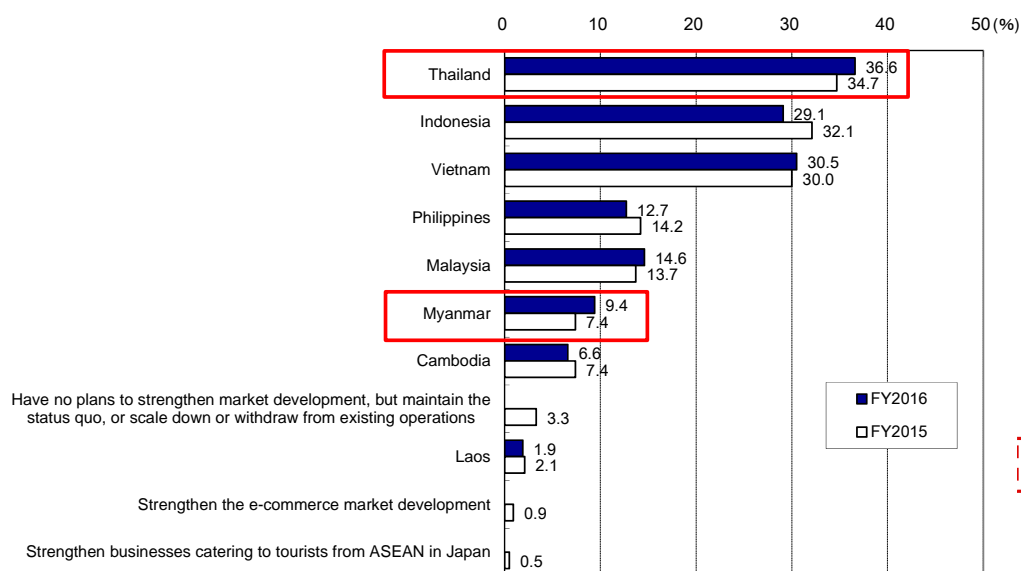


Source: MHRI, Survey Regarding Business in Asia

Reference. Stronger market development eyed for Thailand and Myanmar in ASEAN, South China and North China in China

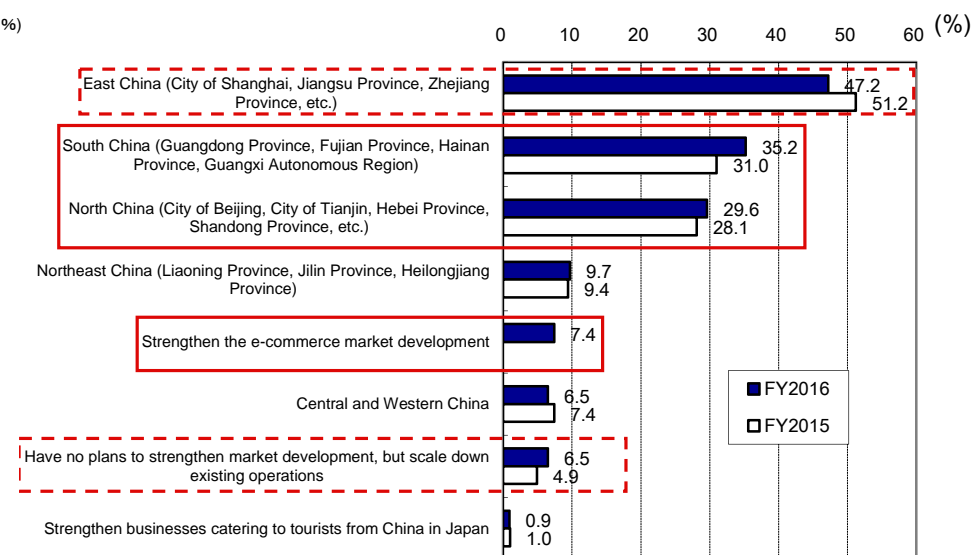
- ❑ In ASEAN, in addition to Thailand on the path of economic recovery, Japanese companies are showing keen interest in Myanmar where democratization is progressing.
- ❑ In China, Japanese companies place slightly less emphasis on East China and instead are showing strong interest in South China and North China. They are also focusing on e-commerce while cutting back on existing operations.

[ASEAN countries targeted for stronger market development in the coming 2-3 years]



Note: "Strengthen the e-commerce market development" was added from FY2016.
Source: MHRI, *Survey Regarding Business in Asia*

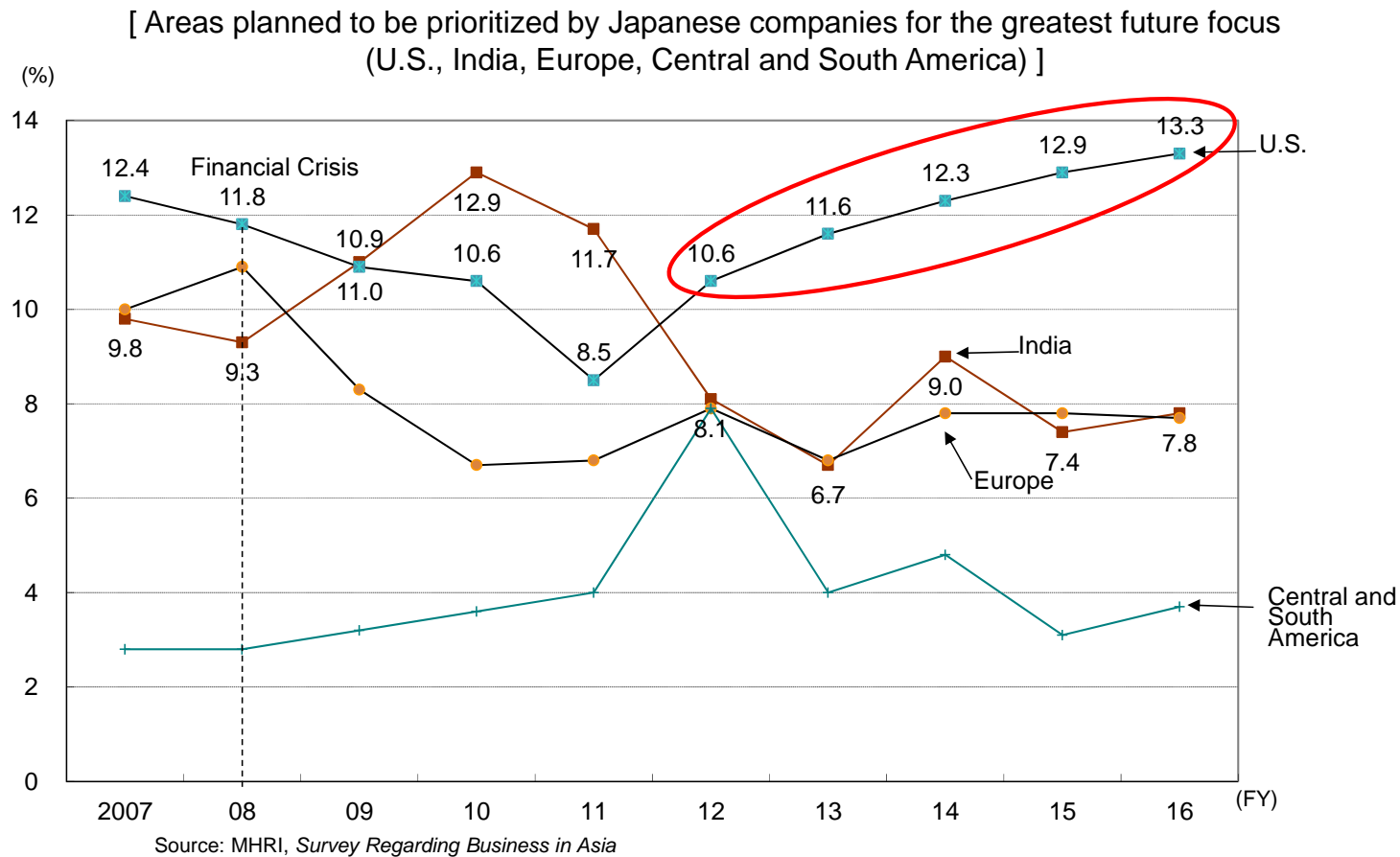
[Chinese regions targeted for stronger market development in the coming 2-3 years]



Note: "Strengthen the e-commerce market development" was added from FY2016.
Source: MHRI, *Survey Regarding Business in Asia*

Reference. Other than ASEAN, China and India, Japanese companies show growing expectations for the U.S. market. Interest in India also bottomed out.

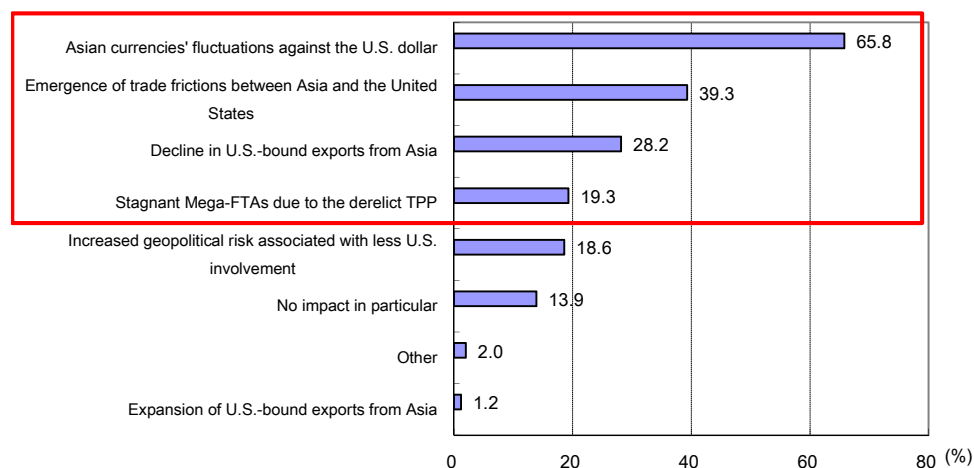
- ❑ The response rate for the United States continued to increase, albeit at a lower level. Japanese companies place high expectations on sustained economic growth as well as on the Trump administration's plans for corporate tax cuts and an expansion of infrastructure investment.
- ❑ The response rate for India bottomed out, with Japanese companies highly rating India for maintaining the domestic demand-led economic growth rate of 7%.



4. Japanese companies express concern about potential exchange rate fluctuations, trade frictions and export declines as the impacts of the inauguration of the Trump administration in the U.S.

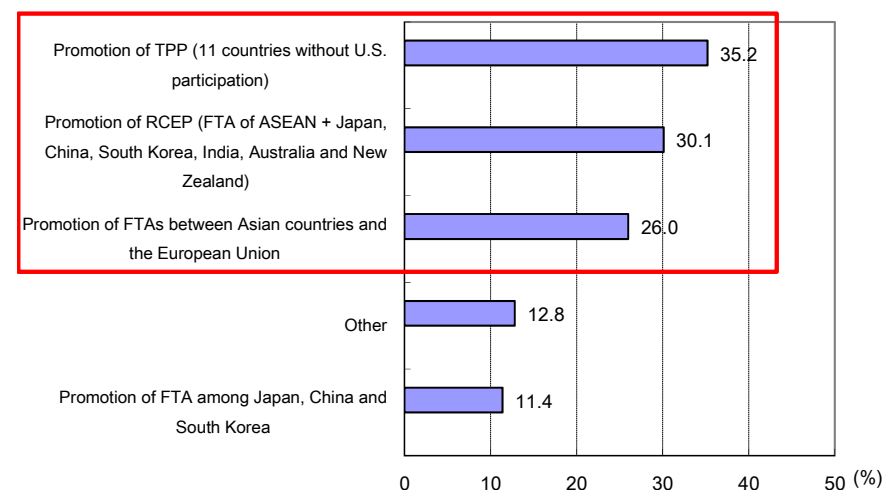
- About 70% of Japanese companies voiced concern over Asian currencies' fluctuations against the U.S. dollar, while about 40% are worried over possible trade frictions between Asian countries and the United States, and about 30% fear drops in U.S.-bound exports.
- Regarding Mega-FTAs, Japanese companies place expectations on the TPP seeking high levels of trade liberalization even after the U.S. exit (TPP 11 without the U.S. participation), followed by the Regional Comprehensive Economic Partnership (RCEP).

[Impacts of the inauguration of the Trump administration on business in Asia]



Source: MHRI, *Survey Regarding Business in Asia*

[Mega-FTAs Japanese companies want to see in place of TPP]

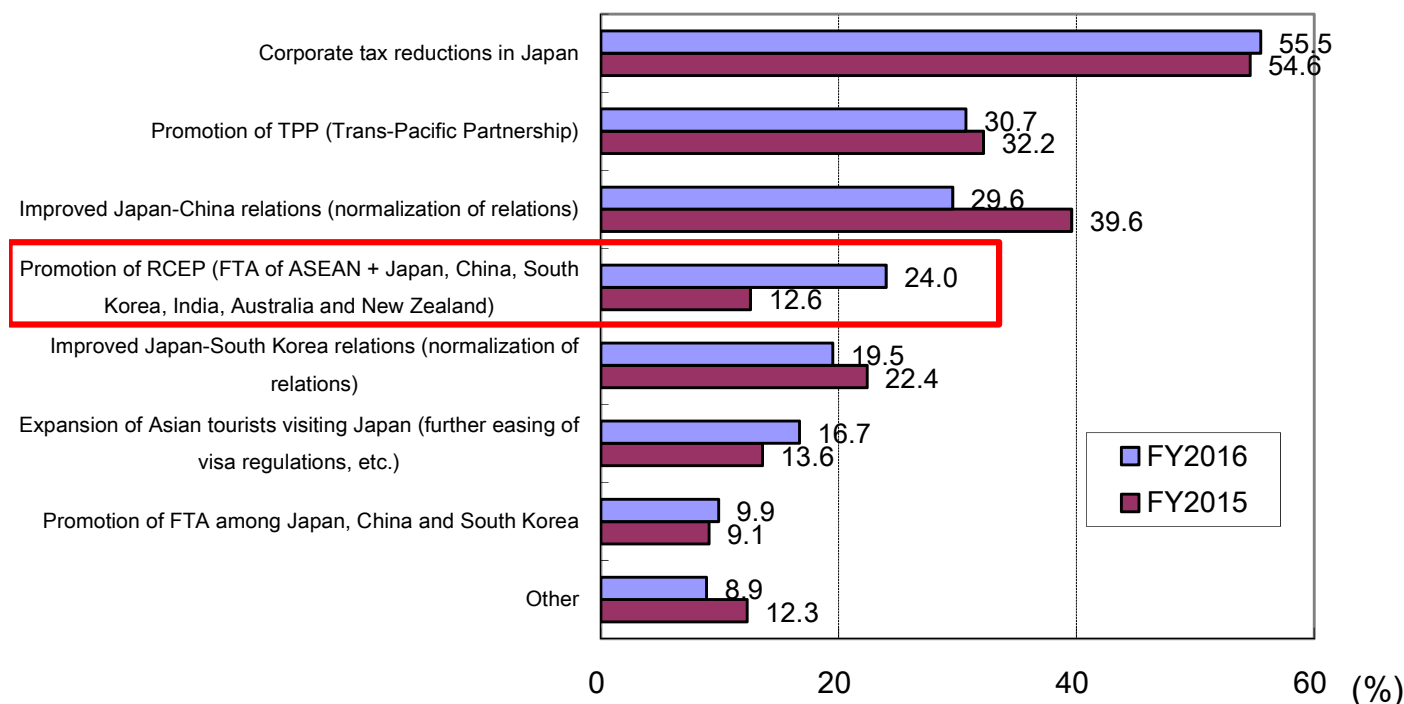


Source: MHRI, *Survey Regarding Business in Asia*

5. Promotion of RCEP newly added to Japanese companies' expectations for the Abe government concerning business in Asia

- ❑ There was a sudden rise in Japanese companies' expectations for the Abe government to promote the RCEP following the TPP. They hope to see Japan's leadership in forging Mega-FTAs amid the spread of protectionism in Europe and the United States.
- ❑ Calls for improved Japan-China relations or Japan-South Korea relations somewhat subsided.

[Policies Japanese companies expect from the Abe government]



Source: MHRI, Survey Regarding Business in Asia

Outline of the 17th Survey Regarding Business in Asia

Survey period: February 1 to 28, 2017

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

Questionnaires sent to: 4,403 companies

Valid responses: 1,121 companies (25.5%)

Survey method: Questionnaires sent and collected by post

[Summary of Past Surveys Regarding Business in Asia]

| | | | | |
|--|--|--|--|---|
| 1st Survey | 2nd Survey | 3rd Survey | 4th Survey | 5th 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. |
| 6th Survey | 7th Survey | 8th Survey | 9th Survey | 10th 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. |
| 11th Survey | 12th Survey | 13th Survey | 14th Survey | 15th 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. |
| 16th Survey | 17th Survey | | | |
| February 2016 | February 2017 | | | |
| Sent to 4,454 manufacturers with capital of at least JPY10 million. 1,100 valid responses. | Sent to 4,403 manufacturers with capital of at least JPY10 million. 1,121 valid responses. | | | |

Source: MHRI, *Survey Regarding Business in Asia*

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