

Mizuho Economic Outlook & Analysis

The 18th Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia (February 2018)

- Japanese Firms Reevaluate China as a Destination for Business Expansion -

May 2, 2018

(Questionnaires were sent to 4,411 member companies of Mizuho Research Institute that are manufacturers with capital of at least JPY10 million, and 1,052 valid responses were collected.)

Mizuho Research Institute

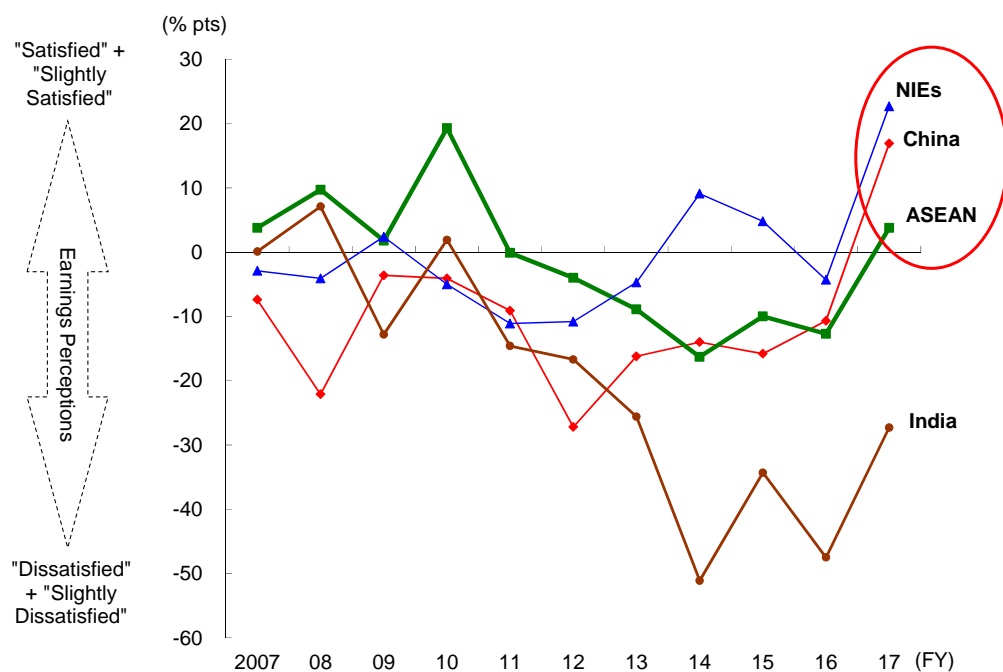
Overview

- ❑ Earnings satisfaction rates improved significantly across Asia on the back of the recovery of the global and Chinese economies. The index also improved for most industries in China.
- ❑ Many firms are looking toward ASEAN as a foremost region for future business expansion; but the response rate for ASEAN declined while rising for China. Companies are reevaluating market growth in China. Among ASEAN countries, Vietnam enjoys growing expectations, owing to its favorable investment environment and participation in the TPP talks.
- ❑ Investment appetite in Asia remains flat. Amid rising manufacturing costs, manufacturers feel the need to streamline their production lines and enhance their supply chains, though they prioritize ramping up production and increasing staff rather than maintaining the status quo.
- ❑ Major business concerns in Asia include the risks of trade conflicts, exchange fluctuations, and supply chain disruptions caused by pressure from the U.S. Trump administration to correct the trade imbalance and the North Korean situation.
- ❑ Proposals based on the survey results include (1) providing Asian countries with greater assistance to stimulate internal demand, such as urban infrastructure; (2) promoting the TPP and RCEP; and (3) taking advantage of improving Japan-China relations to promote business opportunities.

1. Earnings satisfaction markedly improved across Asia amid the global economic recovery; the DI rose for most industries in China

- ❑ The earnings satisfaction DI improved significantly across Asia, and the global economic recovery pushed up the rate particularly in China, NIEs and ASEAN.
- ❑ China's real GDP rose 6.9% in 2017 from the previous year (government target around +6.5%). The rate increased for most industries in China.

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



Note: The earnings satisfaction DI = ("Satisfied" + "Slightly Satisfied") - ("Dissatisfied" + "Slightly Dissatisfied")
 Source: Mizuho Research Institute (MHIRI), *Survey Regarding Business in Asia*

[The earnings satisfaction DI by industry for business bases in China of Japanese companies]

(Unit: % pts)

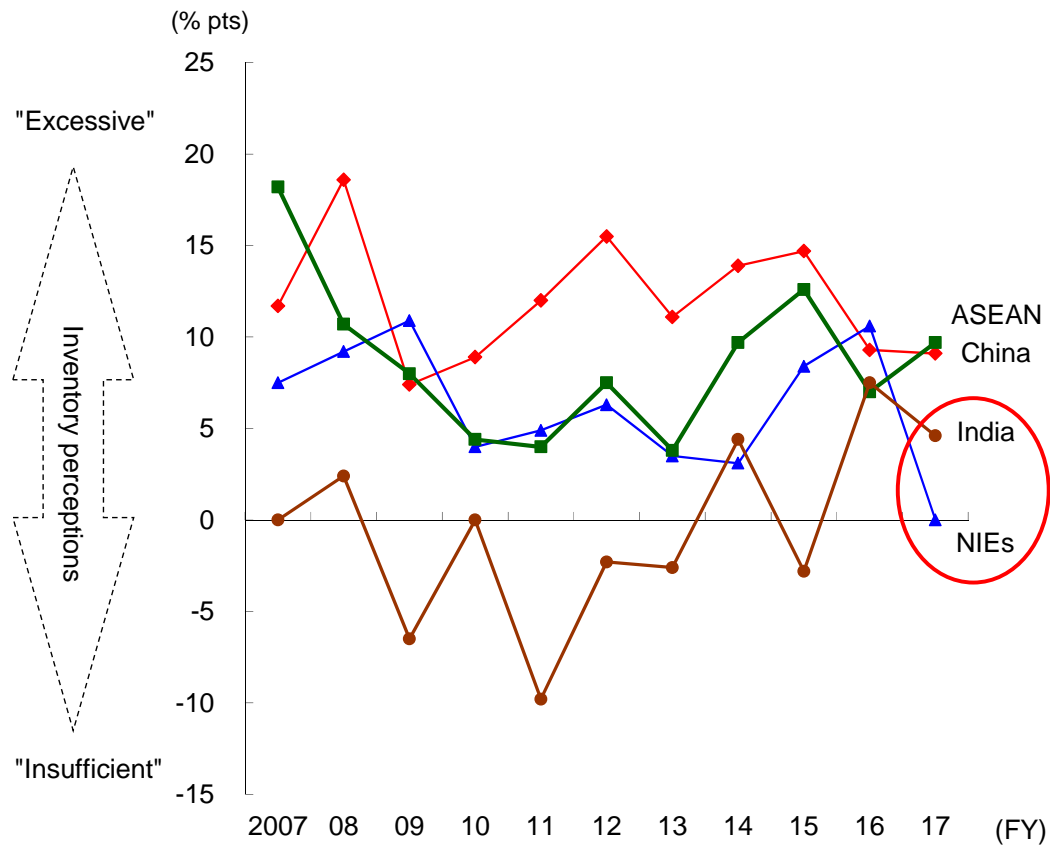
	2011	2012	2013	2014	2015	2016	2017
Textiles	23.1	-28.6	-25.0	-57.1	-53.3	0.0	63.6
Transportation equipment	13.4	-23.1	0.0	30.7	-44.4	21.4	40.0
Nonferrous metals	-83.3	-66.7	100.0	-66.7	-100.0	-100.0	33.4
General machinery	1.9	-19.1	-6.9	5.6	16.4	6.4	31.6
Chemicals	-17.4	-4.4	8.7	5.5	20.1	19.1	23.0
Foods and beverages	-43.8	-47.0	-43.0	-70.6	-14.3	-30.7	18.2
Precision machinery	57.2	-11.1	-14.3	42.8	0.0	20.0	16.7
Electrical machinery	-42.9	-40.7	-36.1	-26.4	-41.6	-31.8	9.1
Iron and steel	33.3	-50.0	40.0	0.0	-42.8	0.0	0.0
Processed metals	10.0	-30.8	-12.0	-23.5	-7.4	-17.4	-16.7

Note: Sectors with positive DIs are shaded.
 Source: MHIRI, *Survey Regarding Business in Asia*

Reference. Inventories declined in general

- ❑ Inventories notably declined in NIEs and also in India.
- ❑ Inventories increased in ASEAN and remained flat at a relatively low level in China.

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



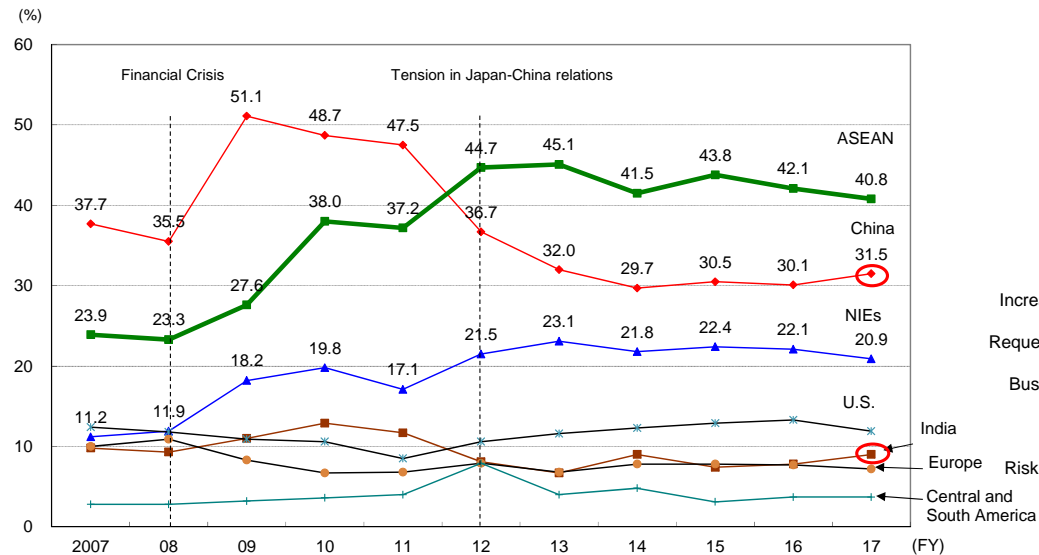
Note: Inventory DI = "Excessive" - "Insufficient"

Source: MHRI, *Survey Regarding Business in Asia*

2. Eyes are on ASEAN for future business expansion; but the response rate for ASEAN declined while rising for China against the backdrop of economic recovery

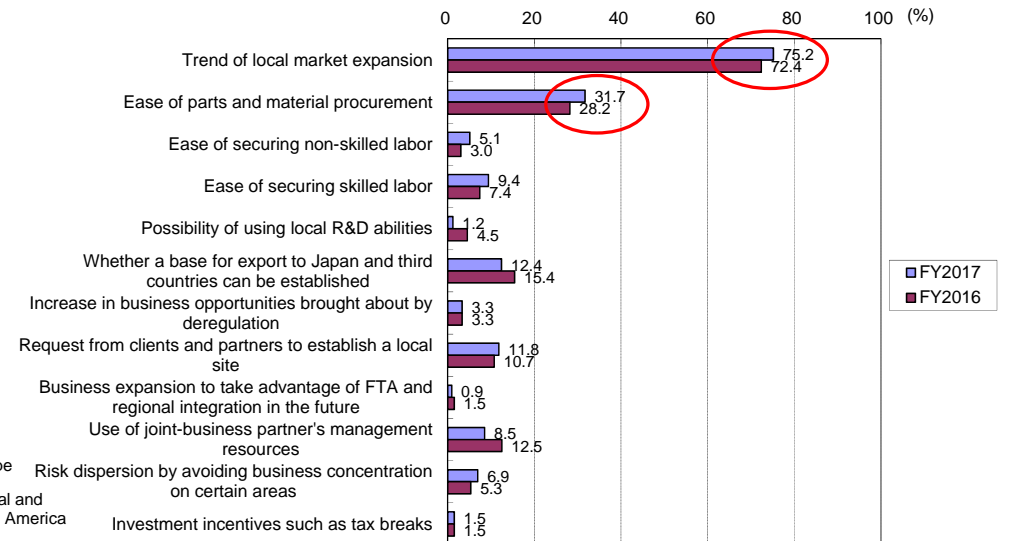
- ❑ There was no change in order with ASEAN on top, followed by China and NIEs; but the response rate for ASEAN dropped while rising for China.
- ❑ The “trend of local market expansion” and “ease of parts and material procurement” constitute the greater part of China’s appeal.

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



Source: MHRI, Survey Regarding Business in Asia

[Most important factors for future decisions (China)]

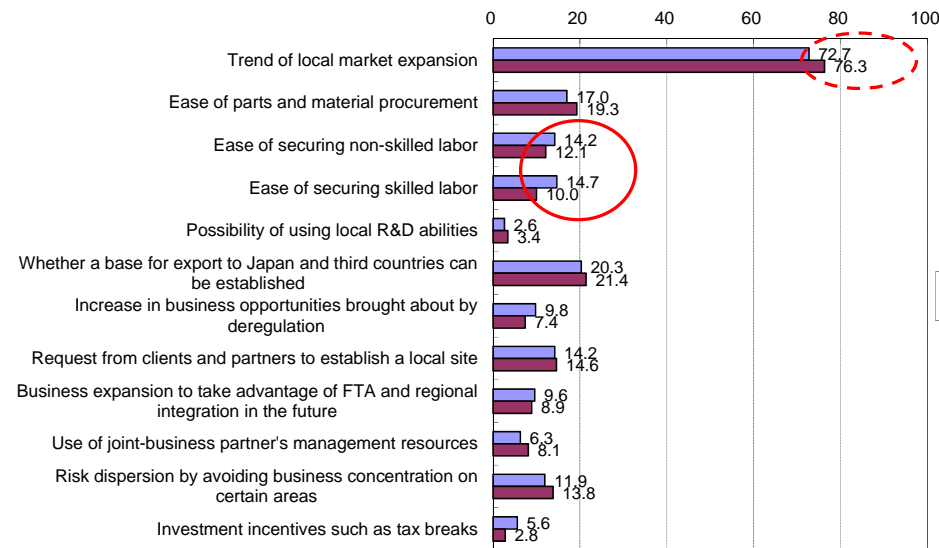


Source: MHRI, Survey Regarding Business in Asia

Reference. Among ASEAN countries, expectations heighten for Vietnam

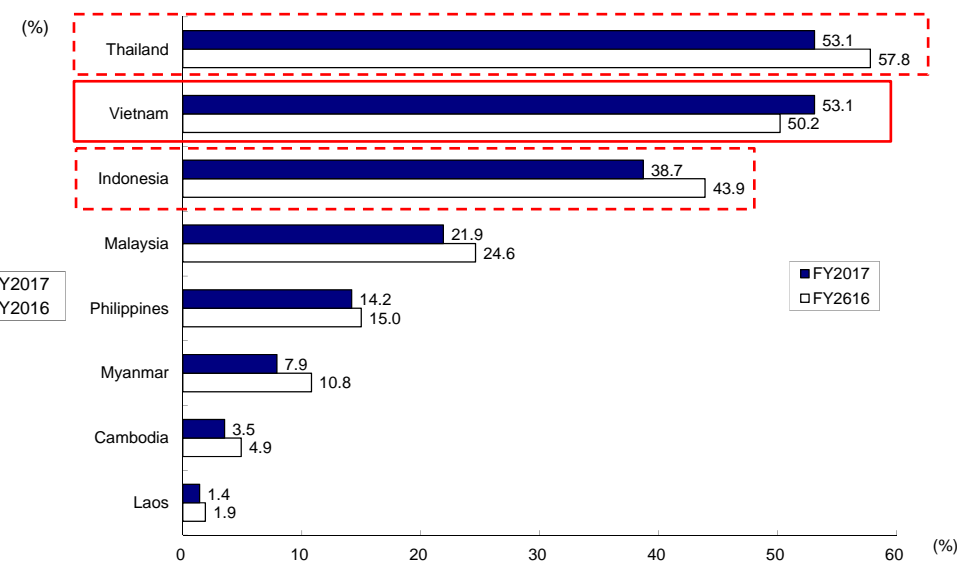
- ❑ Among the business expansion factors in ASEAN, the “trend of local market expansion” declined while “ease of securing non-skilled labor” and “ease of securing skilled labor” increased.
- ❑ The response rate for Vietnam rose with its relatively favorable investment environment, including investment incentives, low labor costs, and political stability.

[Most important factors for future decisions (ASEAN)]



Source: MHRI, Survey Regarding Business in Asia

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

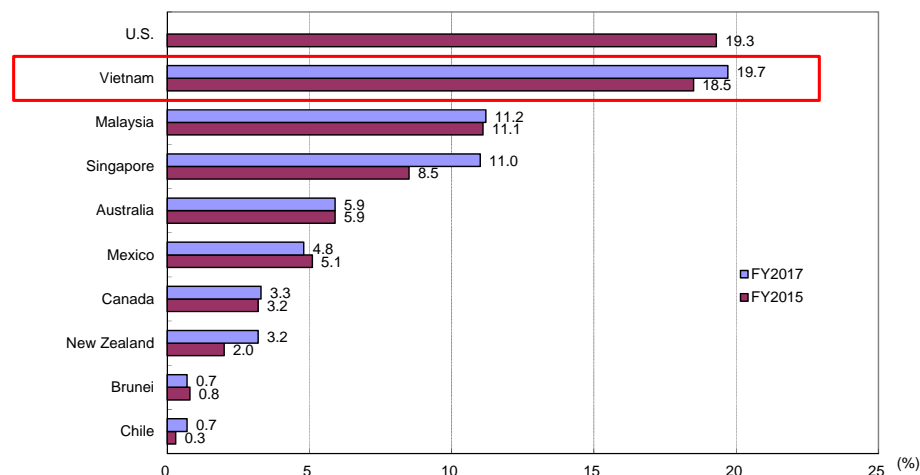


Source: MHRI, Survey Regarding Business in Asia

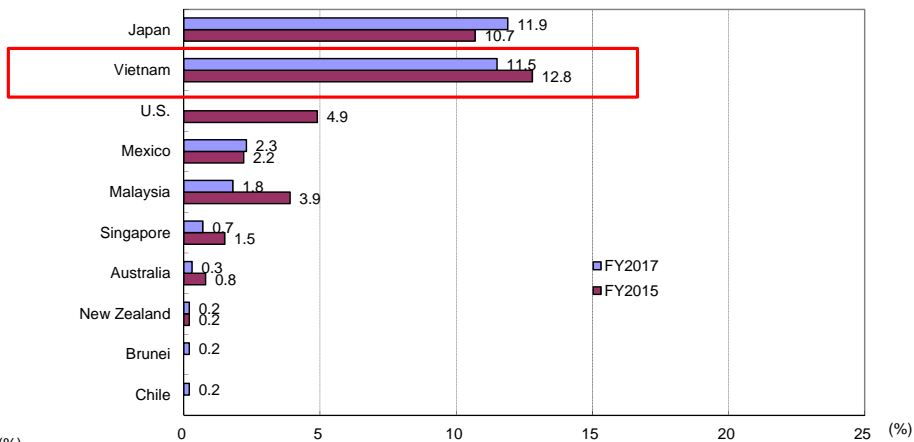
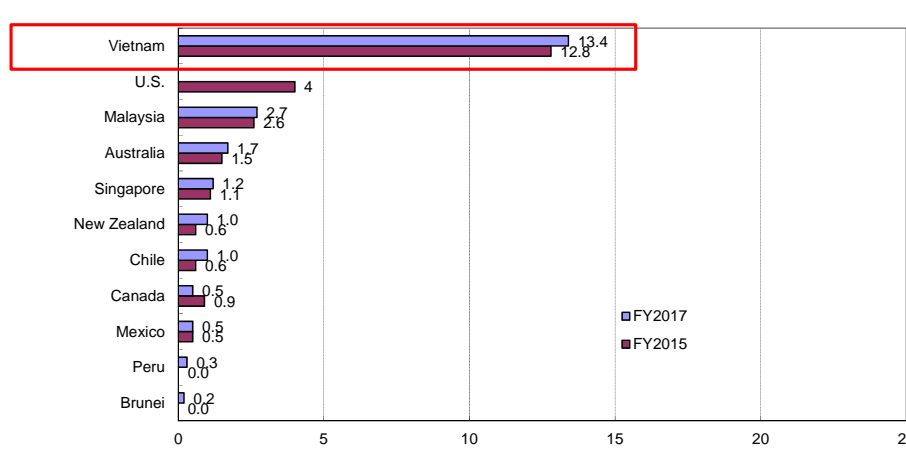
Reference. With the TPP avoiding collapse after the U.S. withdrawal, expectations for Vietnam grow among the 11 signatories (without the U.S.)

- Among the TPP signatories, Vietnam ranked 1st as an import and export partner and was the 2nd largest investment destination after Japan.

[TPP countries to which exports are increasing (multiple answers)]



[TPP countries from which imports are increasing (multiple answers)] [TPP countries in which investment is increasing (multiple answers)]



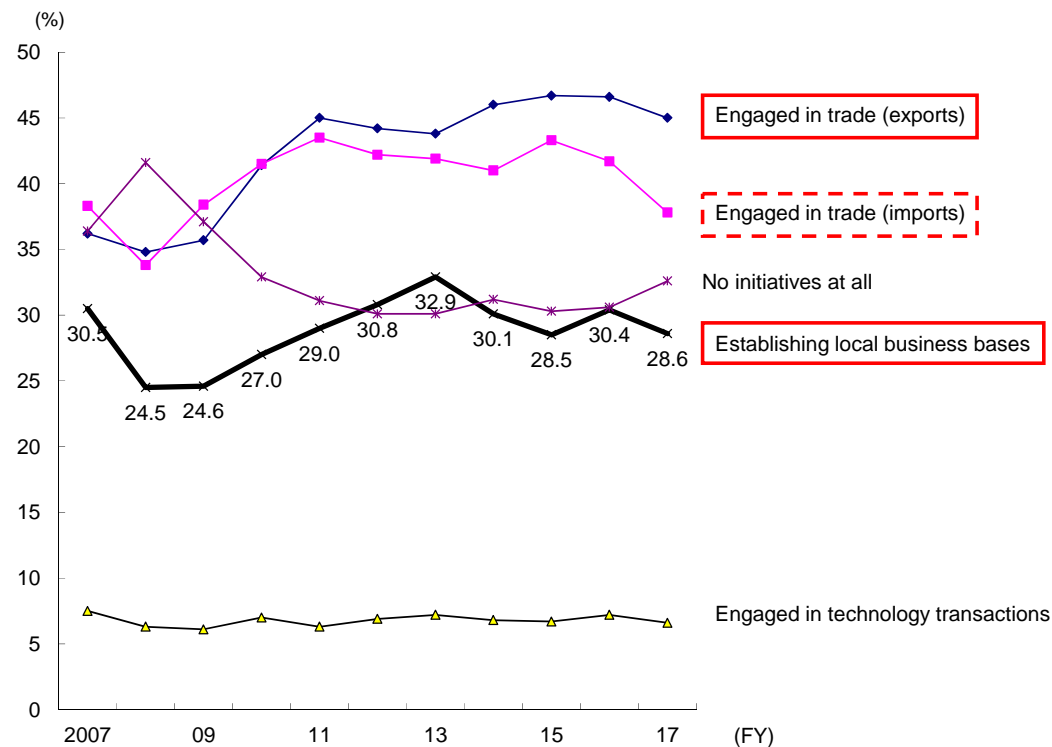
Note: The U.S. was included as an option in the 2015 survey, but was dropped in the 2017 survey.

Source: MHRI, *Survey Regarding Business in Asia*

3. Appetite for new investment in Asia remains flat. Despite of concerns about rising manufacturing costs, manufacturers are being aggressive rather than maintaining the status quo

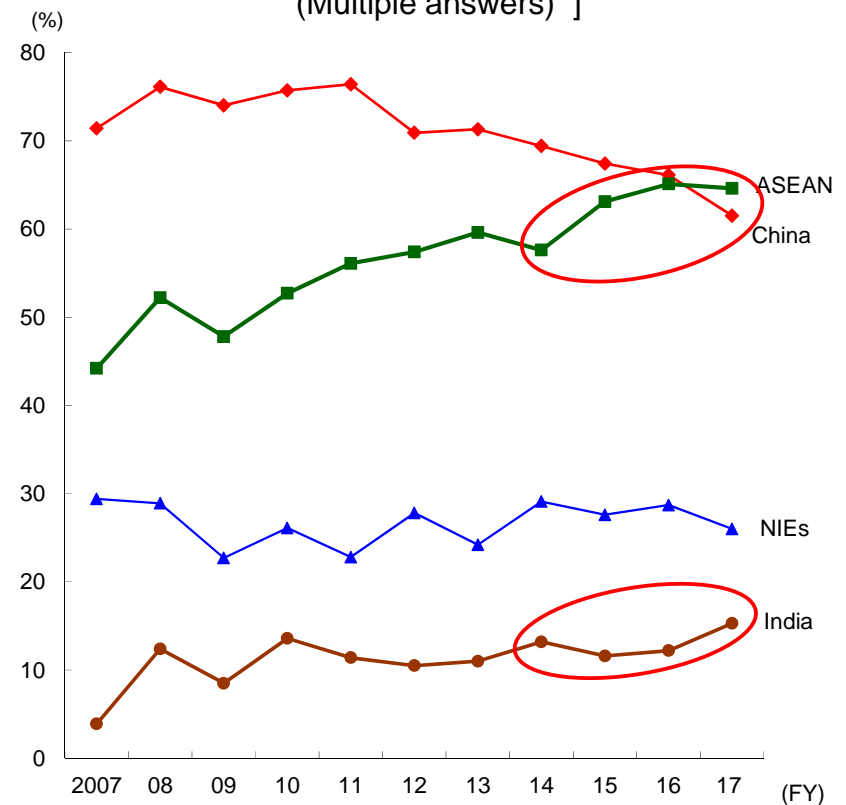
- ❑ In terms of business operation trends in Asia, the rate for “engaged in trade (exports)” remained high. The rate of firms with “local business bases” was almost unchanged, while “engaged in trade (imports)” declined with Japanese firms increasing local procurement.
- ❑ The Asian bases of manufacturers used to concentrate on China, but now both China and ASEAN share the popularity. The number of Indian sites is also rising moderately.

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



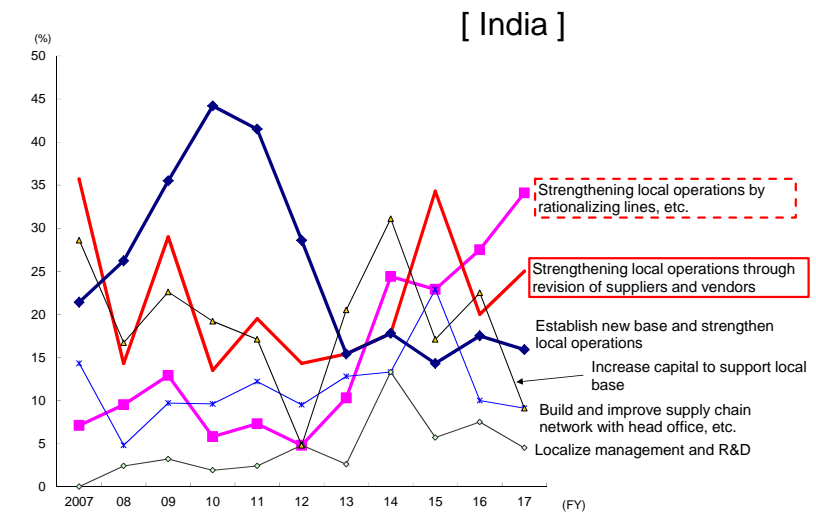
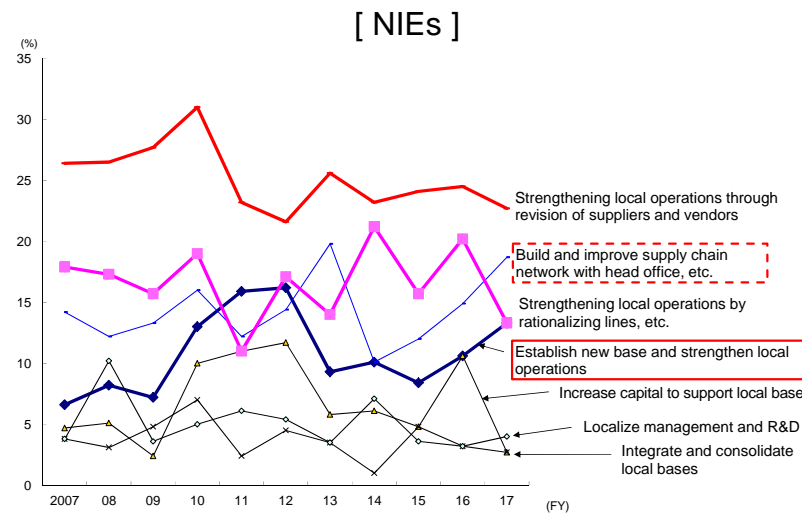
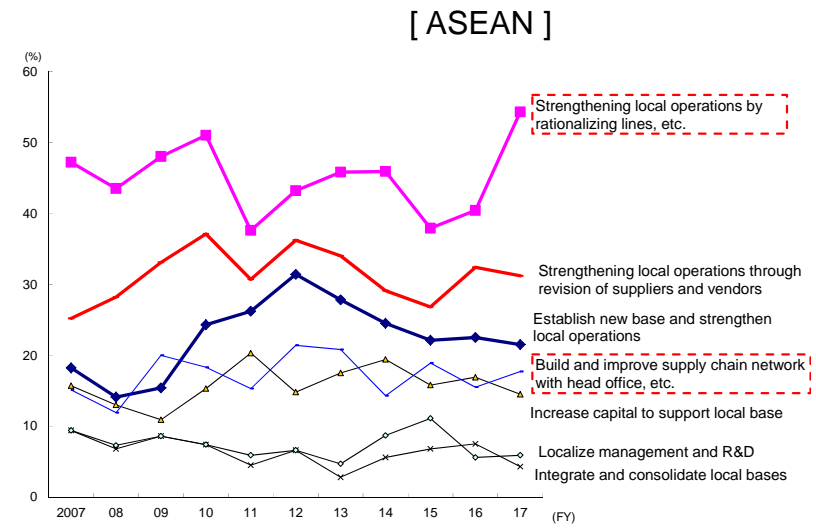
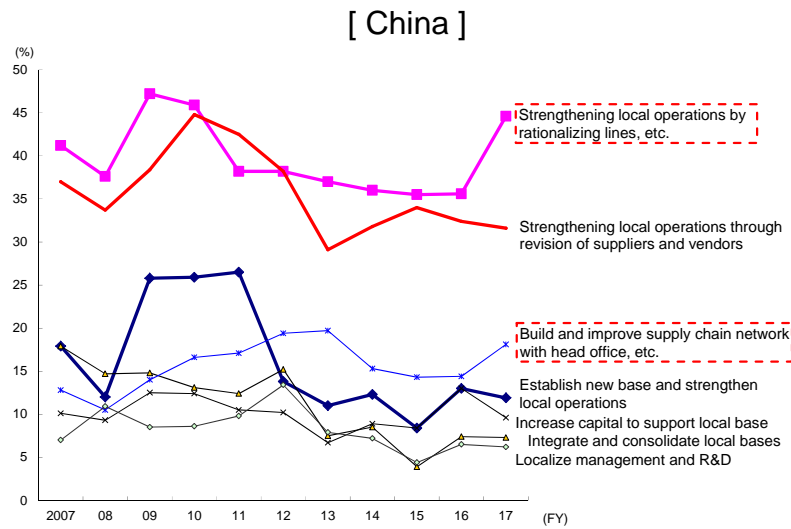
Source: MHRI, Survey Regarding Business in Asia

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



Source: MHRI, Survey Regarding Business in Asia

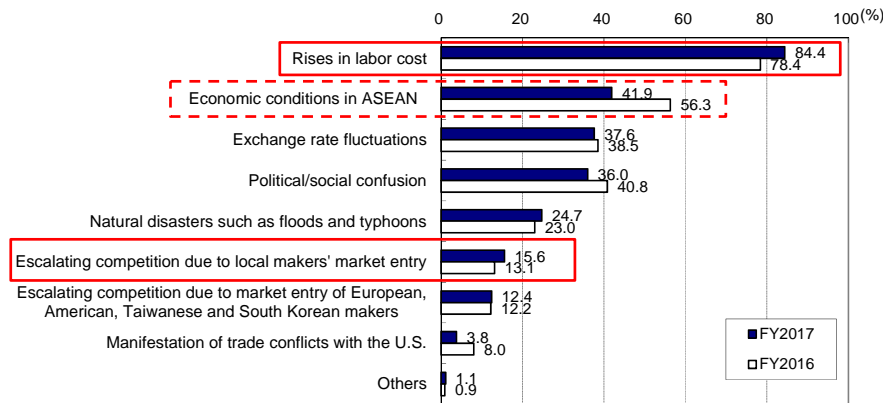
Reference. For future business initiatives in Asia, firms are stepping up their efforts to “rationalize lines” and “improve supply chains”



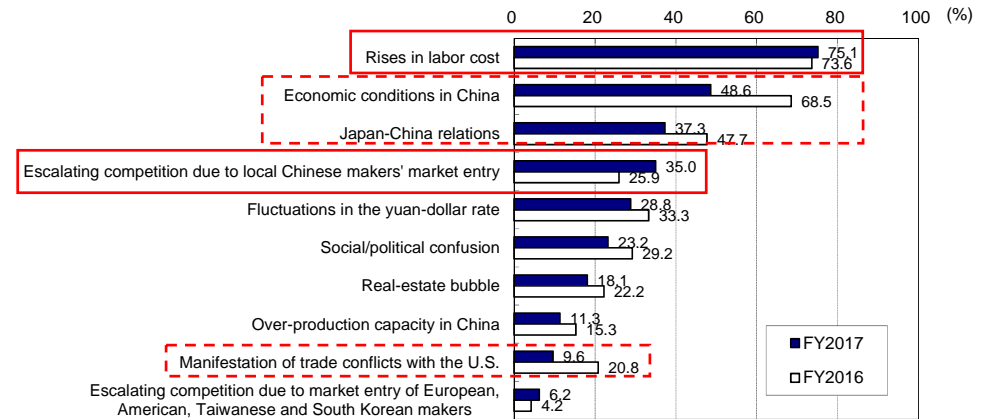
Source: MHRI, Survey Regarding Business in Asia

Reference. While economic risks decline, rising costs pose concerns; but manufacturers are making positive moves rather than staying cautious

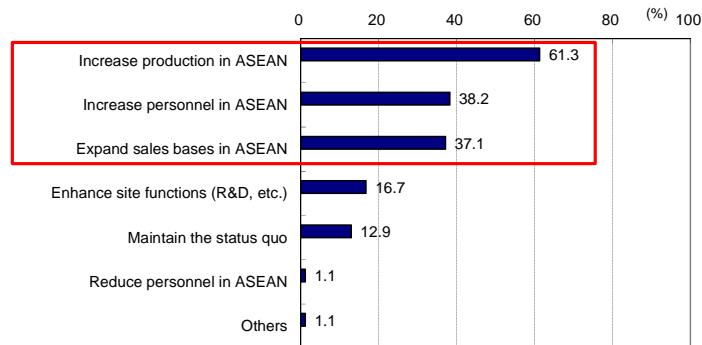
[Events likely to pose concerns in the coming 2-3 years for ASEAN business]



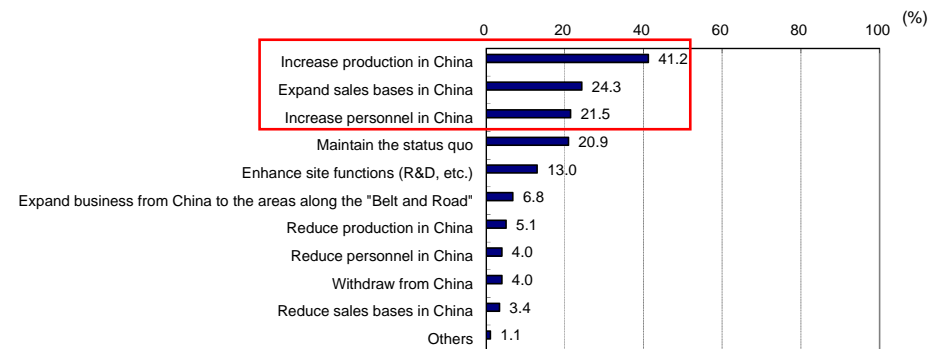
[Events likely to pose concerns in the coming 2-3 years for China business]



[ASEAN business in the coming 2-3 years]



[China business in the coming 2-3 years]



Note: No company chose "reduce production in ASEAN," "reduce sales bases in ASEAN," or "withdraw from ASEAN."

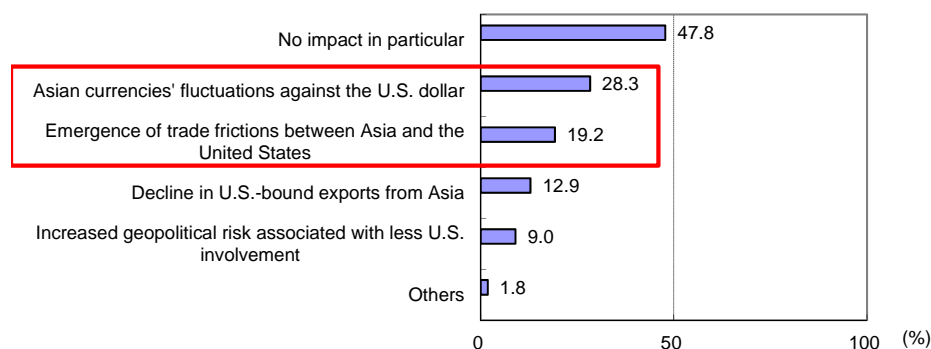
Source: MHRI, *Survey Regarding Business in Asia*

Source: MHRI, *Survey Regarding Business in Asia*

4. Manufacturers are alarmed by possible impacts of U.S. pressure to correct the trade imbalance and the North Korean situation on exchange rates and trade

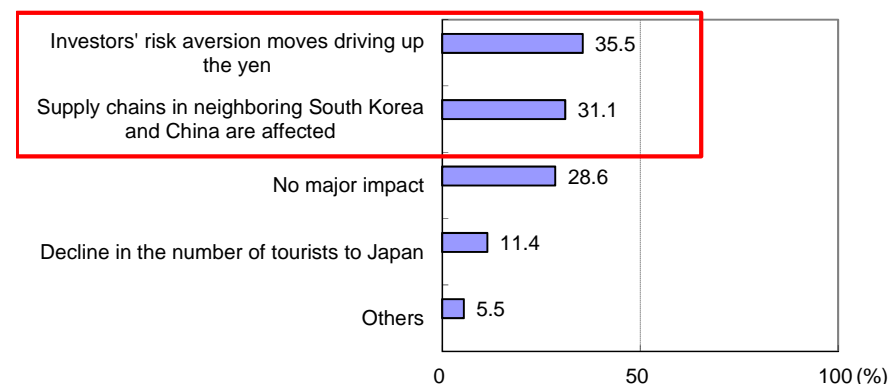
- ❑ While President Trump's call to fix the trade imbalance was not a major concern at the time of the survey, companies were wary of its impact on currency exchange rates and exports to the United States. Concerns deepened after the survey when the White House imposed high tariffs on steel and aluminum products.
- ❑ The North Korean situation is another risk factor in terms of currency fluctuations and supply chain disruptions. The U.S.-North Korea summit expected to take place by June 2018 will likely determine future developments.

[Possible impact of the Trump administration's demand to correct the trade imbalance on business in Asia]



Source: MHRI, Survey Regarding Business in Asia

[Possible impact of the North Korean situation on business in Asia in the future]



Source: MHRI, Survey Regarding Business in Asia

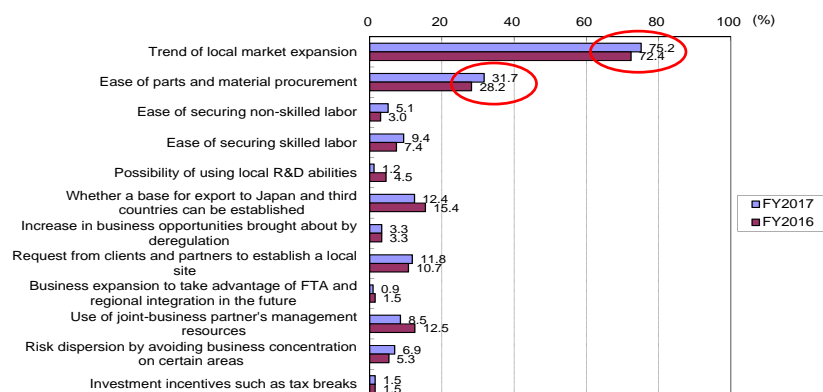
5. Proposals based on the survey results

(1) Increase assistance to stimulate internal demand in Asia (urban infrastructure, etc.)

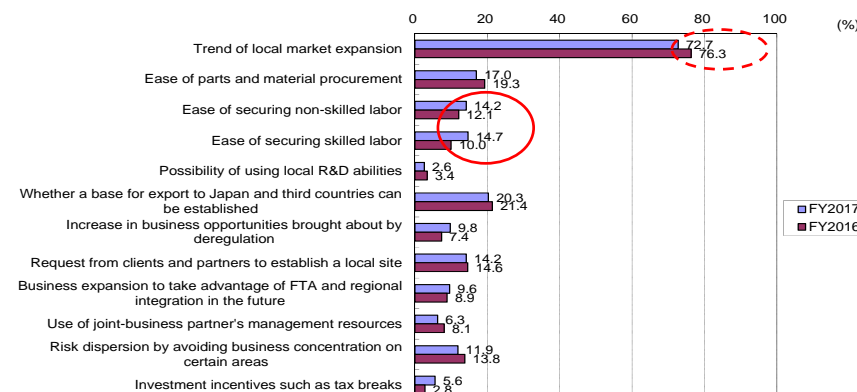
- Japanese firms are increasingly aiming to take advantage of internal demand. Japanese government assistance for urban infrastructure as well as industrial infrastructure such as electrical grids, ports and roads will bring greater benefits to Japanese companies.

[Most important factors for future decisions]

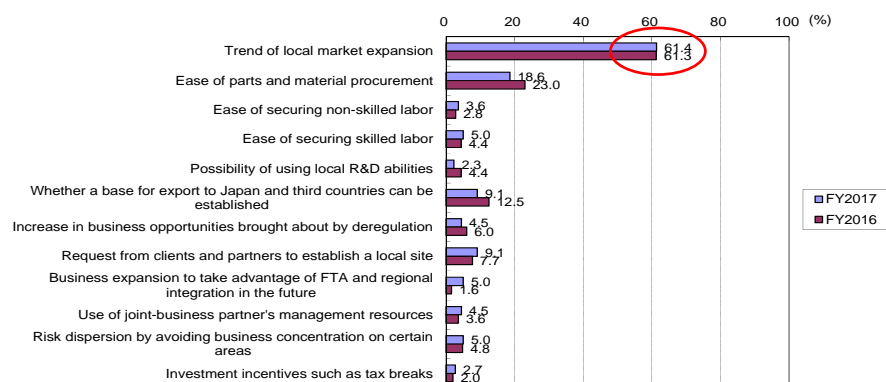
[China]



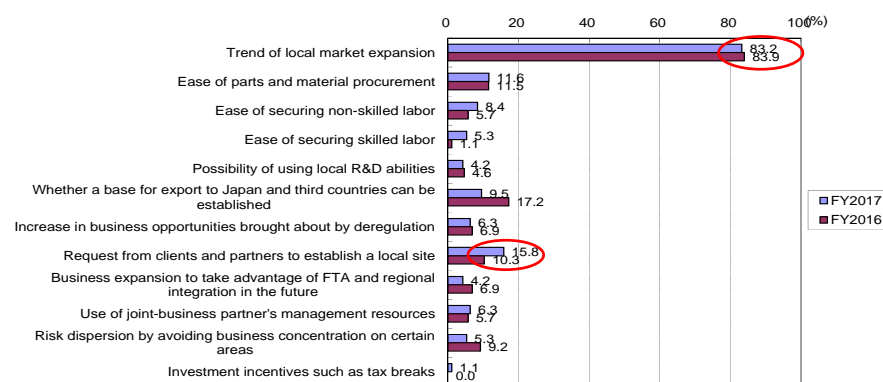
[ASEAN]



[NIEs]



[India]



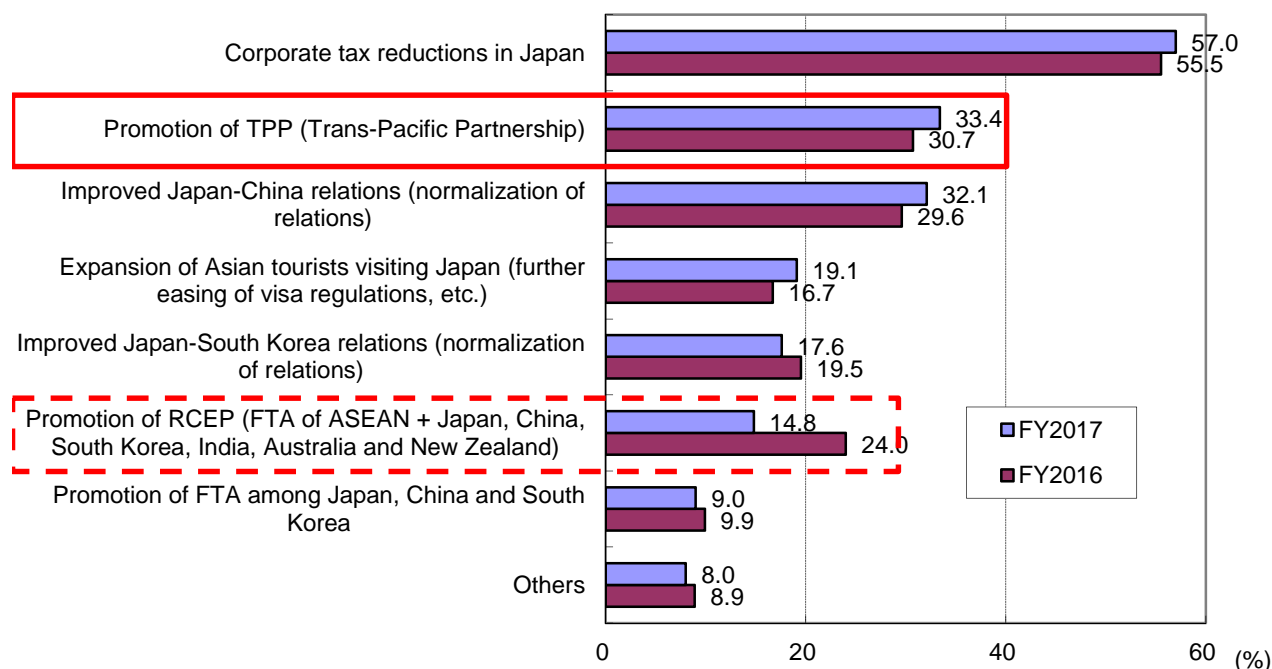
Source: MHRI, Survey Regarding Business in Asia

5. Proposals based on the survey results

(2) Promote RCEP

- ❑ With the TPP avoiding collapse after the U.S. withdrawal in 2017, expectations for the Abe administration to promote the TPP talks suddenly rose. Amid the global surge of protectionism, companies evaluate the broad agreement in 2017 as an achievement and expect to see the government's leadership.
- ❑ Expectations for RCEP waned following the decision to postpone the agreement beyond 2017. Since RCEP negotiations cover 18 fields, including goods trade, services, e-commerce and government procurement, it is vital to promote the initiative as a measure to create rules for the wider Asian region.

[Policies Japanese companies expect from the Abe government]



Source: MHRI, *Survey Regarding Business in Asia*

5. Proposals based on the survey results

(3) Take advantage of improving Japan-China relations to seize business opportunities

- ❑ Japan and China resumed their high-level economic dialogue in April 2018 after an eight-year hiatus and confirmed their willingness to play responsible roles in boosting multinational free trade and investment. The two countries also agreed to cooperate in promoting RCEP and the Japan-China-South Korea FTA as well as enhance the bilateral economic relationship and cooperation in third countries.
- ❑ Advancing Japan-China relations through the resumption of top-level diplomatic talks and China's commitment to multinational free trade and investment will be beneficial, particularly amid growing concerns over the global rise of protectionism. An improved Japan-China relationship will increase business opportunities in bilateral trade as well as business cooperation in third countries.

[Outline of the High-Level Japan-China Economic Dialogue (excerpts)]

	Japan-China agreements
Promotion of multinational trade and investment	Japan and China will promote the liberalization and facilitation of trade and investment, protect the multilateral trade system, promote the globalization process of the economy, and play a responsible role in the development of the regional and global economy and solving global issues. The two countries also agreed to promote RCEP and the Japan-China-South Korea FTA.
Enhancement of the bilateral economic relationship	China proposed cooperation in energy-saving/environment, science and technology/innovation, high-end manufacturing industries, fiscal and monetary policy, the sharing economy, and medical care/long-term care.
Cooperation in third countries	Japan and China agreed that promoting business activities between private-sector companies as well as their development in third countries, is beneficial for expanding bilateral economic cooperation, and would also bring benefits for third countries.

Source: Made by MHRI based on press release by the Ministry of Foreign Affairs (April 17, 2018)

Outline of the 18th Survey Regarding Business in Asia

Survey period: February 1 to 28, 2018

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

Questionnaires sent to: 4,411 companies

Valid responses: 1,052 companies (23.8%)

Survey method: Questionnaires sent and collected by post

[Summary of Past Surveys on 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	17 th Survey	18 th Survey		
February 2016	February 2017	February 2018		
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.	Sent to 4,411 manufacturers with capital of at least JPY10 million. 1,052 valid responses.		

Source: MHRI, *Survey Regarding Business in Asia*

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