

Mizuho Economic Outlook & Analysis

The 19th Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia (February 2019)

- Japanese Firms Concerned over China's Economic Slowdown and U.S.-China Trade Tensions -

May 17, 2019

(Questionnaires were sent to 4,297 member companies of Mizuho Research Institute that are manufacturers with capital of at least JPY10 million, and 1,072 valid responses were collected.)

Mizuho Research Institute

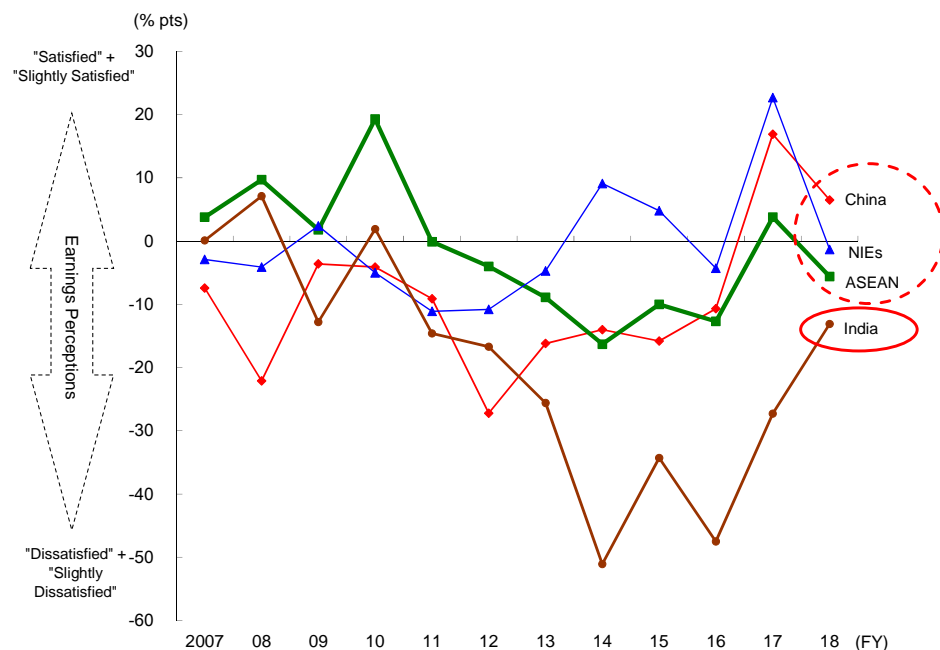
Contents

1. Earnings satisfaction declined across Asia with the exception of India, and was also lower in multiple industries in China.
2. Even though U.S.-China trade tensions have limited direct impact, there is a certain degree of indirect impact
3. Japanese firms prioritize the ASEAN and subsequently China as regions for future business expansion. Expectations for market expansion are flat, but high for Vietnam and South China.
4. Despite the increase of ASEAN and India bases, investment sentiment is softening with firms inclined toward strengthening foundations
5. The direction of future Asia business based on the survey results.

1. Earnings satisfaction declined across Asia with the exception of India and was also lower in multiple industries in China.

- Earnings satisfaction DI was affected by the slowdown in China and around the world; bases in China (16.9% pts \Rightarrow 6.5% pts), NIEs (22.7% pts \Rightarrow -1.3% pts), ASEAN (3.8% pts \Rightarrow -5.6% pts) fell, while India, where 2018 real GDP growth increased by 7.4% y-o-y, rose (-27.3% pts \Rightarrow -13.1% pts).
- China's real GDP rose +6.6% in 2018 from the previous year (+6.8% in 2017). DI declined for most industries in China where it is experiencing low growth for the first time in 28 years.

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



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

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

(Unit: % pts)

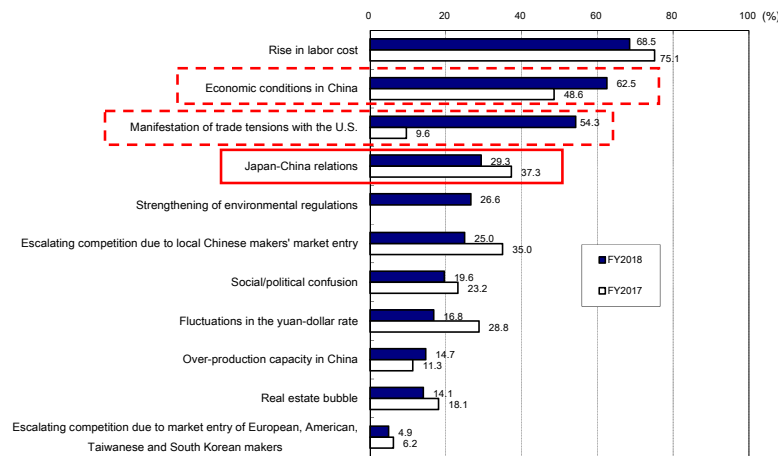
	2011	2012	2013	2014	2015	2016	2017	2018
Precision machinery	57.2	-11.1	-14.3	42.8	0.0	20.0	16.7	33.3
General machinery	1.9	-19.1	-6.9	5.6	16.4	6.4	31.6	30.5
Textiles	23.1	-28.6	-25.0	-57.1	-53.3	0.0	63.6	18.2
Electrical machinery	-42.9	-40.7	-36.1	-26.4	-41.6	-31.8	9.1	16.6
Transportation equipment	13.4	-23.1	0.0	30.7	-44.4	21.4	40.0	13.3
Chemicals	-17.4	-4.4	8.7	5.5	20.1	19.1	23.0	11.1
Nonferrous metals	-83.3	-66.7	100.0	-66.7	-100.0	-100.0	33.4	0.0
Foods and beverages	-43.8	-47.0	-43.0	-70.6	-14.3	-30.7	18.2	-11.2
Processed metals	10.0	-30.8	-12.0	-23.5	-7.4	-17.4	-16.7	-17.7
Iron and steel	33.3	-50.0	40.0	0.0	-42.8	0.0	0.0	-33.3

Source: MHRI, Survey Regarding Business in Asia

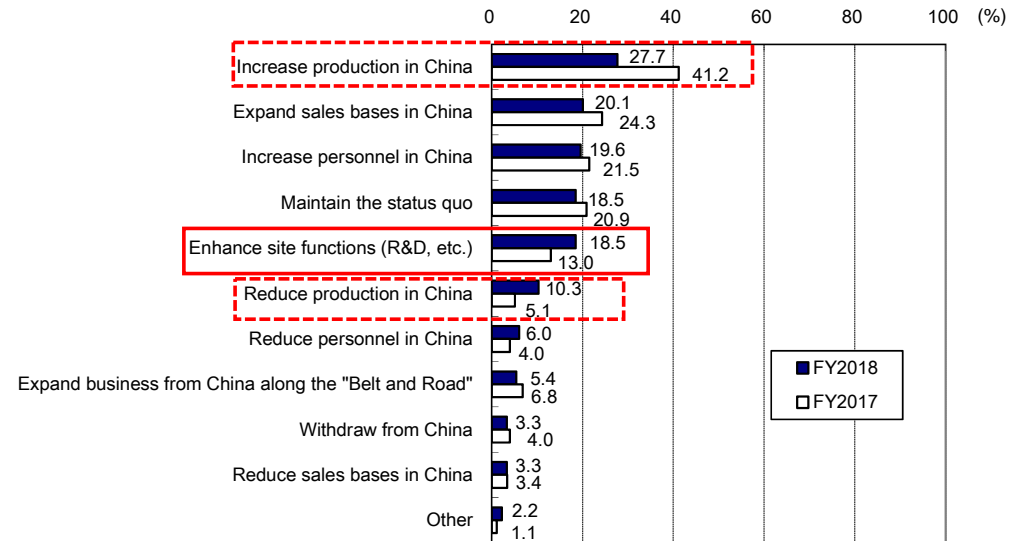
Business bases in China are increasingly concerned about economic slowdown and U.S.-China trade tensions, making them hesitant to increase production

- Higher response rate for “Economic conditions in China” (48.6% ⇒ 62.5%) and “Manifestation of trade conflicts with the U.S.” (9.6% ⇒ 54.3%) shows growing concern in China.
- The response rate for “Increase production in China” declined (41.2% ⇒ 27.7%).

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



[China business in the coming 2-3 years]



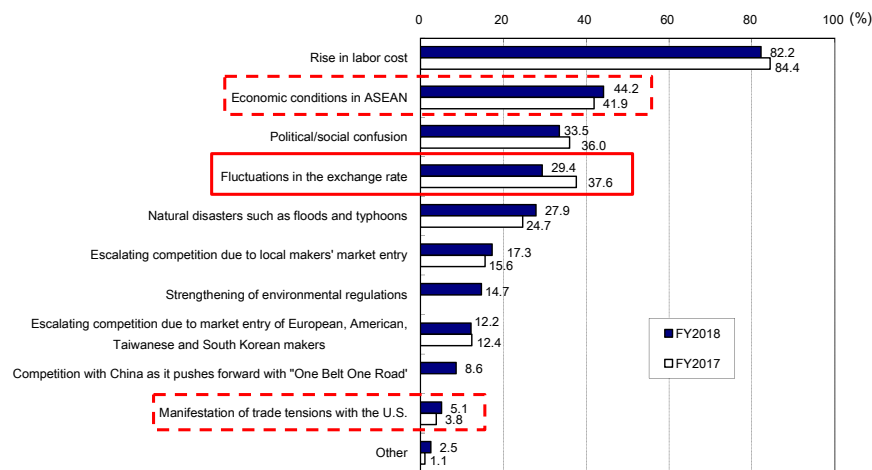
Note: “Strengthening of environmental regulations” was added in FY2018
 Source: MHRI, Survey Regarding Business in Asia

Source: MHRI, Survey Regarding Business in Asia

Despite growing concerns over economic slowdown among ASEAN business bases, responses indicated the rise of desires to increase production

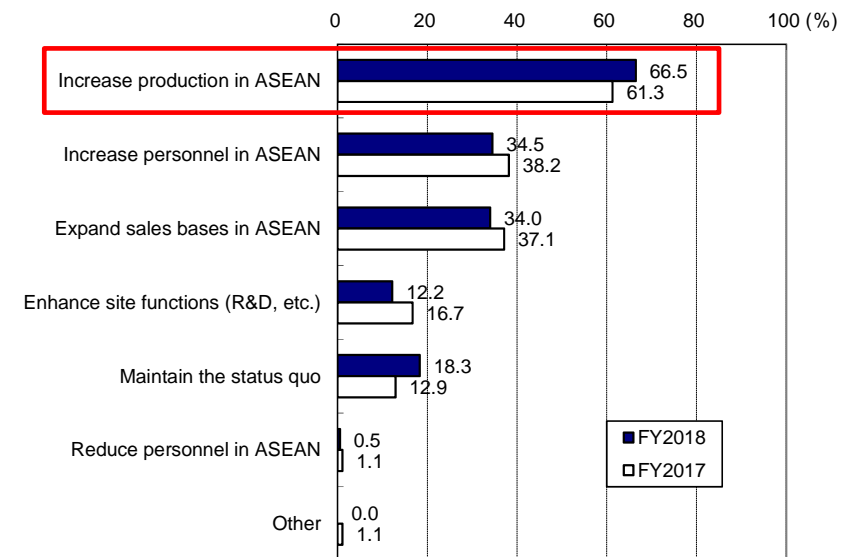
- ❑ In the ASEAN, despite concerns regarding “Economic conditions in ASEAN” (41.9% ⇒ 44.2%), concerns regarding “Manifestation of trade tensions with the U.S.” are limited (3.8% ⇒ 5.1%).
- ❑ The response rate for “Increase production in China” (61.3% ⇒ 66.5%) rose.

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



Note: “Strengthening of environmental regulations” was added in FY2018
Source: MHRI, *Survey Regarding Business in Asia*

[ASEAN business in the coming 2-3 years]

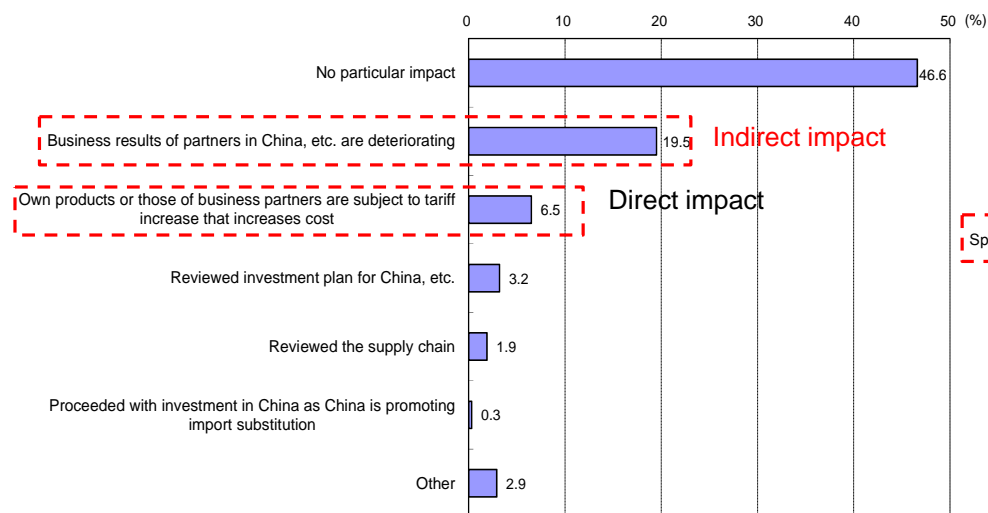


Note: No company chose “Reduce production in ASEAN,” “Reduce sales bases in ASEAN,” or “Withdraw from ASEAN.”
Source: MHRI, *Survey Regarding Business in Asia*

2. Even though U.S.-China trade tensions have limited direct impact, there is a certain degree of indirect impact

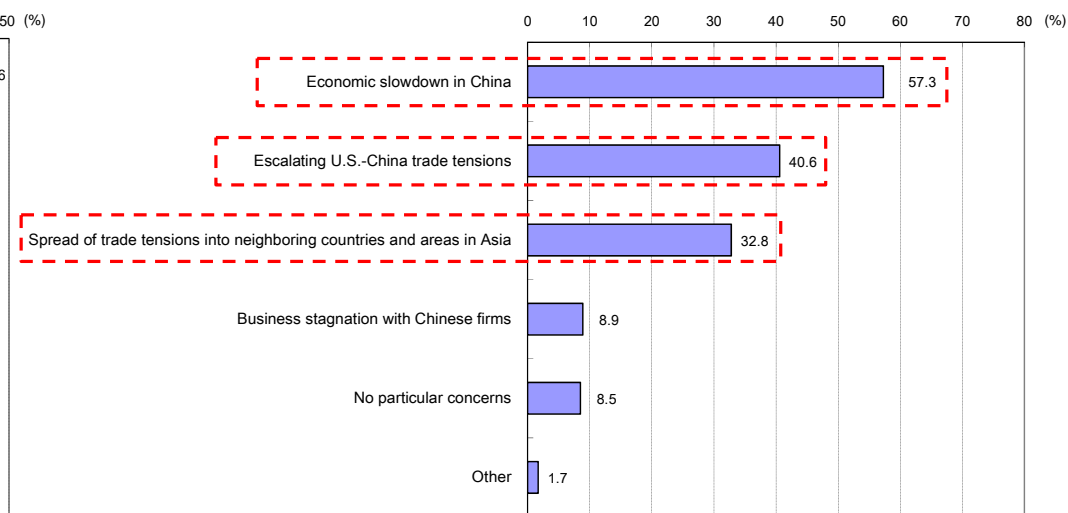
- While U.S.-China trade tensions has a limited direct impact (6.5%) on products due to higher tariffs, there is a certain amount of impact on the bottom lines of Chinese business partners (19.5%).
- Japanese firms are concerned that the persistence of trade tensions may aggravate China's economic slowdown and spread the tensions to neighboring countries.

[Impact of U.S.-China trade tensions on business in Asia]



Source: MHRI, *Survey Regarding Business in Asia*

[Possible impact of U.S.-China trade tensions]

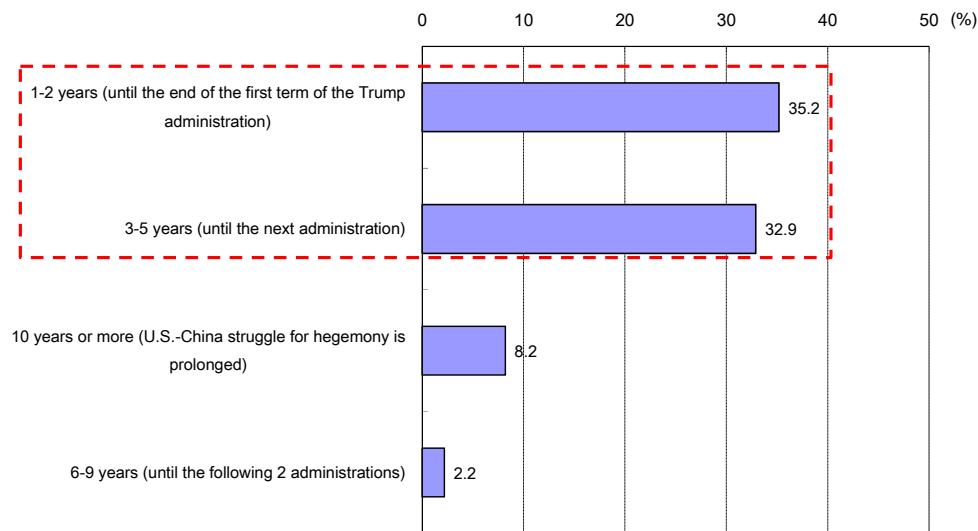


Source: MHRI, *Survey Regarding Business in Asia*

U.S.-China trade tensions are expected to continue, but few companies are considering alternative destinations for exports

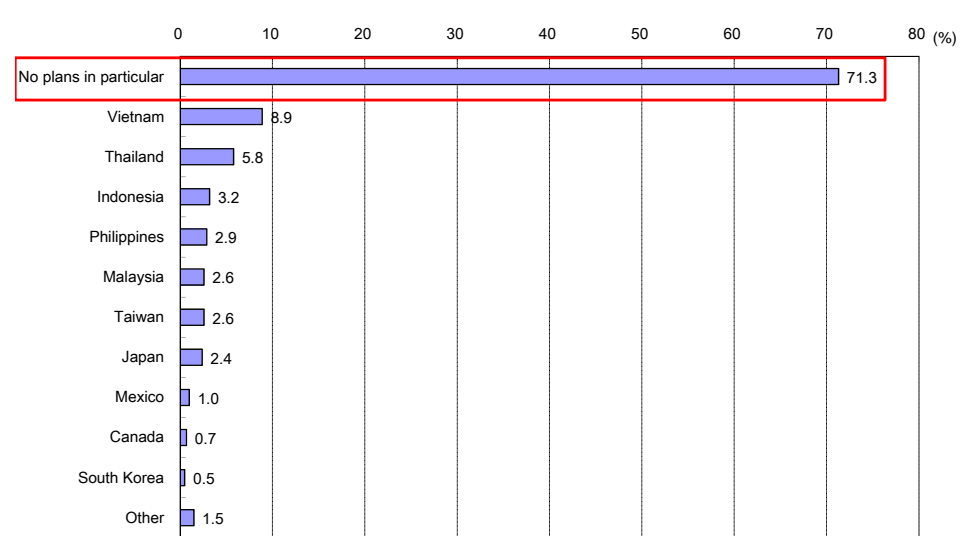
- ❑ Although fewer-than-expected firms are considering the relocation of export bases for the U.S. (71.3% have no plans), Vietnam (8.9%) and Thailand (5.8%) are locations under consideration.
- ❑ Japanese companies focusing on establishing a two-base system in China and ASEAN are increasing, and appear to be weathering U.S.-China trade tensions by suppressing production in China while increasing production in ASEAN.

[How long are U.S.-China trade tensions expected to continue?]



Source: MHRI, Survey Regarding Business in Asia

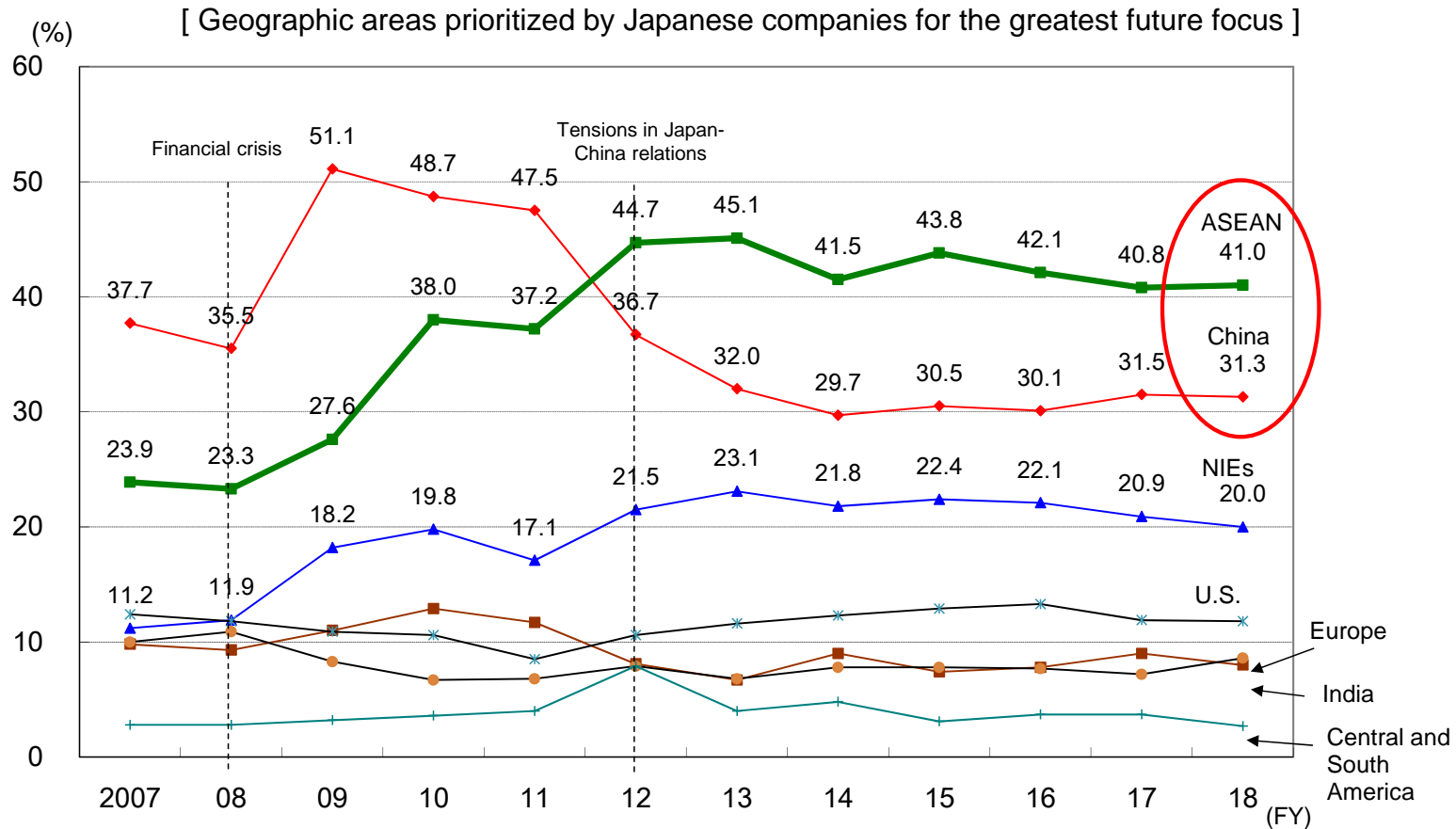
[Alternative U.S. export countries and regions to China]



Source: MHRI, Survey Regarding Business in Asia

3. Japanese firms prioritize the ASEAN and subsequently China as regions for future business expansion. Expectations for market expansion are flat, but high for Vietnam and South China.

- Looking forward, the geographic areas prioritized by Japanese companies remain unchanged with the ASEAN ranking topmost and subsequently China, followed by the NIEs. The response rates with respect to the ASEAN and China remain flat.

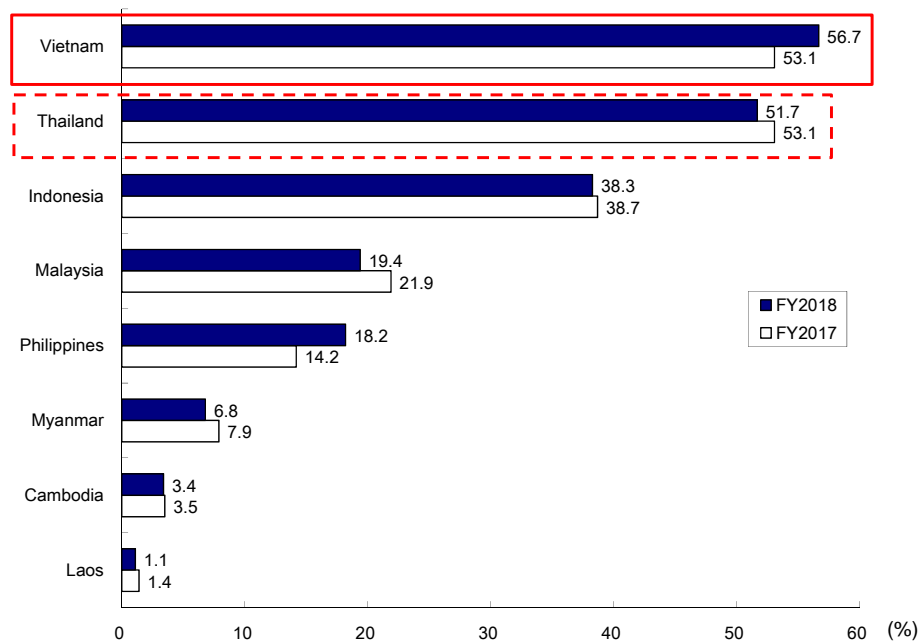


Source: MHRI, Survey Regarding Business in Asia

Within the ASEAN, many firms stress the importance of Vietnam

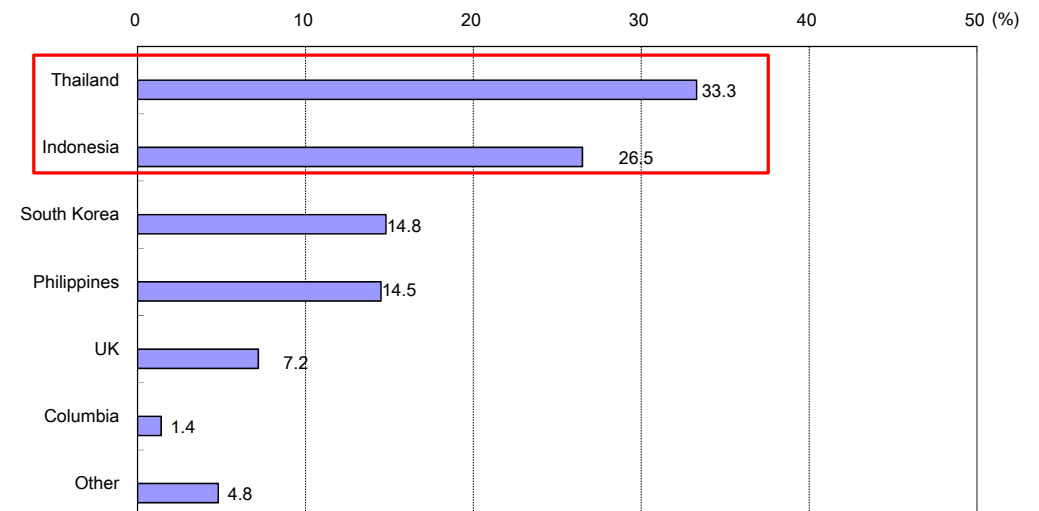
- Within the ASEAN, responses for Vietnam increased (53.1% ⇒ 56.7%), indicating high expectations for it as a growth market and export base.
- Vietnam is a member of the CPTPP (aka, TPP11) launched in December 2018. but there are expectations for Thailand and Indonesia to join as new members.

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



Source: MHRI, *Survey Regarding Business in Asia*

[Countries wanting to join the TPP11 (multiple answers)]



Note: Responses sought from Thailand, Indonesia, the Philippines, South Korea, the U.K., Columbia, and other countries

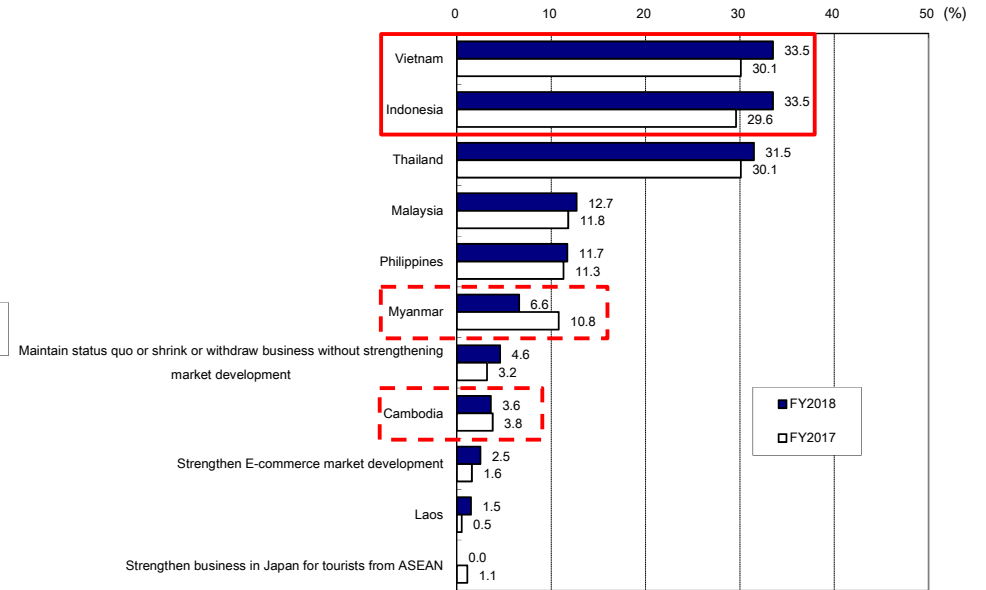
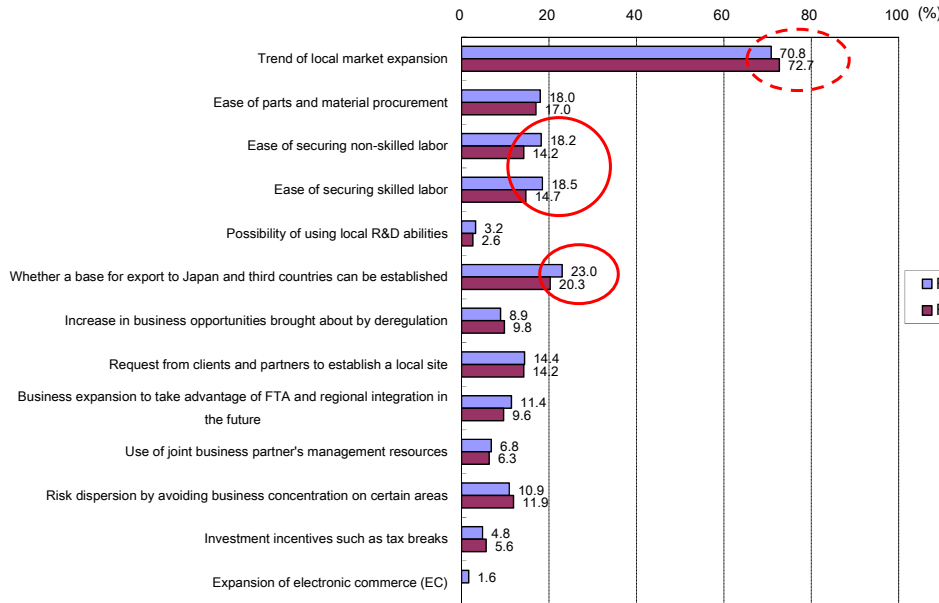
Source: MHRI, *Survey Regarding Business in Asia*

Expectations for market expansion across ASEAN are flat but high for Vietnam and Indonesia

□ The intent to develop the ASEAN market is strong for Vietnam and Indonesia, but soft and patchy for Myanmar and Cambodia.

[Most important factors for future decisions (ASEAN)]

[Regions that will strengthen market development in the coming 2-3 years]



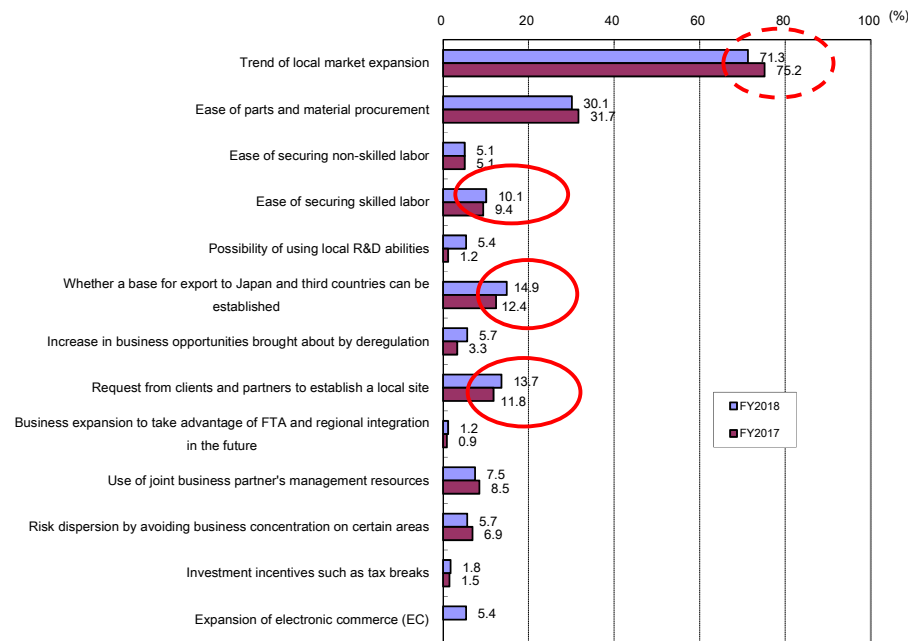
Note: "Expansion of electronic commerce (EC)" was added for FY2018
 Source: MHRI, Survey Regarding Business in Asia

Source: MHRI, Survey Regarding Business in Asia

Expectations for market expansion across China are flat but high for South China

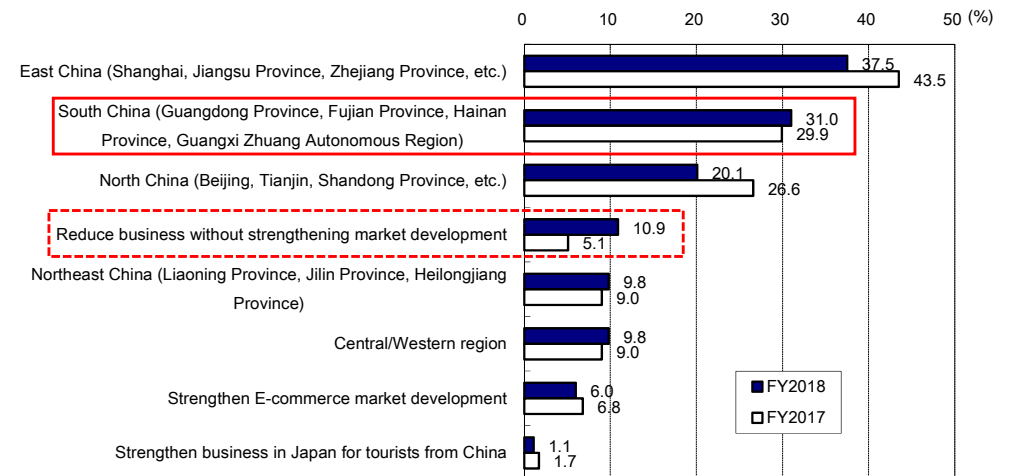
- The response rate is rising for strengthening market development in South China (28.9% ⇒ 31.0%), where high-tech manufacturing industries are concentrated.
- Note that the response rate for reducing businesses (5.1% ⇒ 10.9%) has risen sharply.

[Most important factors for future decisions (China)]



Note: "Expansion of electronic commerce (EC)" was added for FY2018
Source: MHRI, *Survey Regarding Business in Asia*

[Regions that will strengthen market development in the coming 2-3 years]

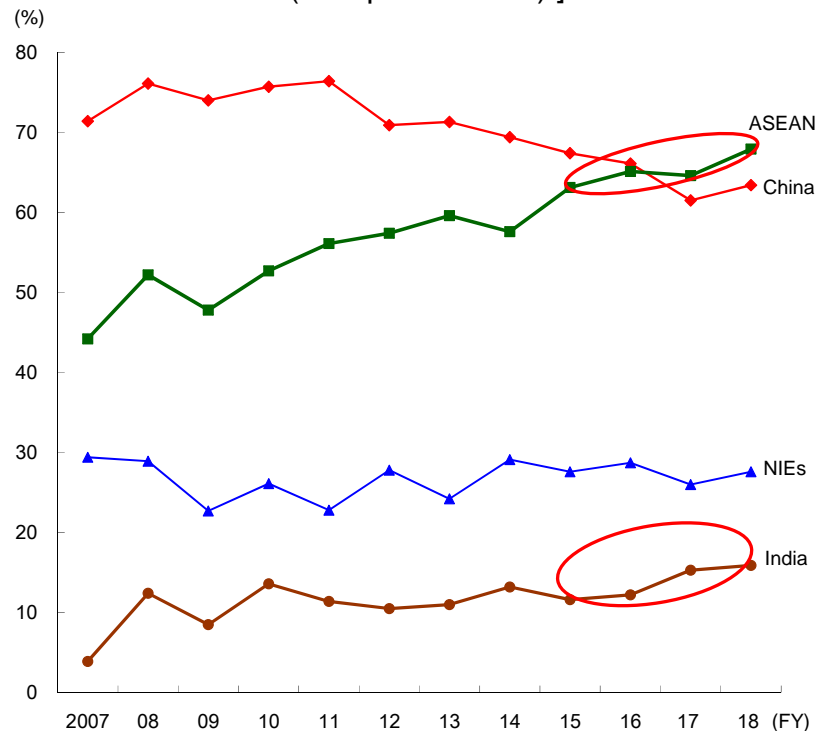


Source: MHRI, *Survey Regarding Business in Asia*

4. Despite the increase of ASEAN and India bases, investment sentiment is softening with firms inclined toward strengthening foundations

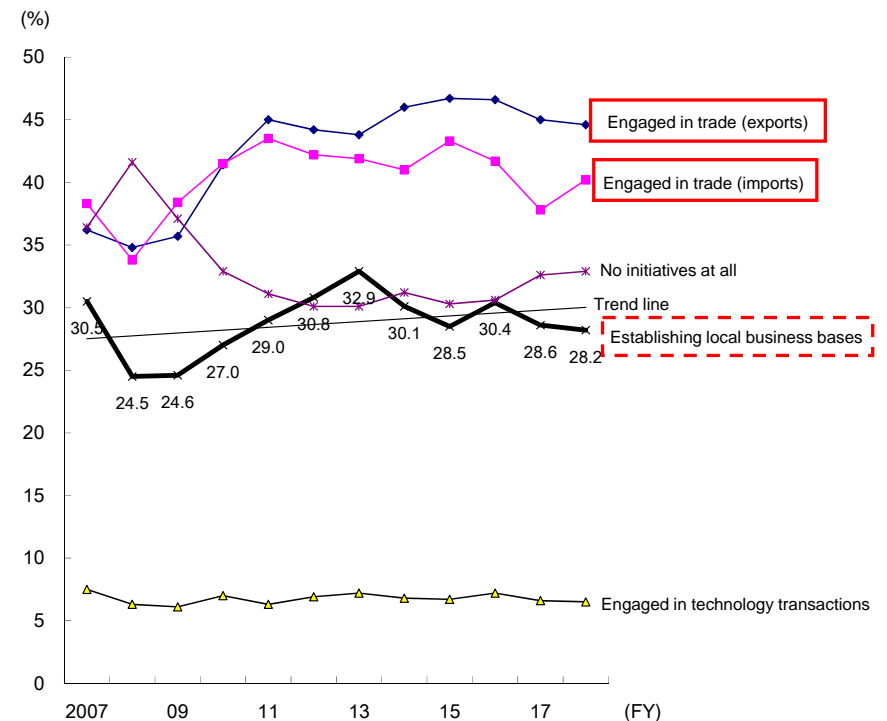
- ❑ In terms of establishing bases, the number of ASEAN and Indian sites is also rising moderately.
- ❑ In terms of business operation trends in Asia, the rate for “engaged in trade (exports)” remained high while the rate of firms with “local business bases” was below the trend line.

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



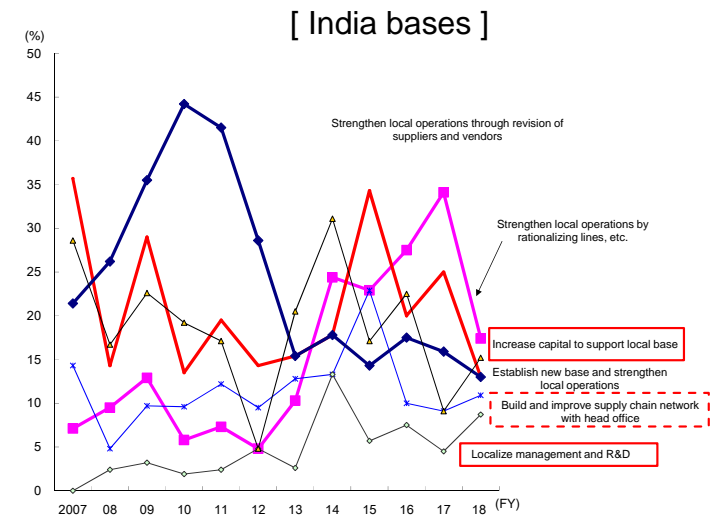
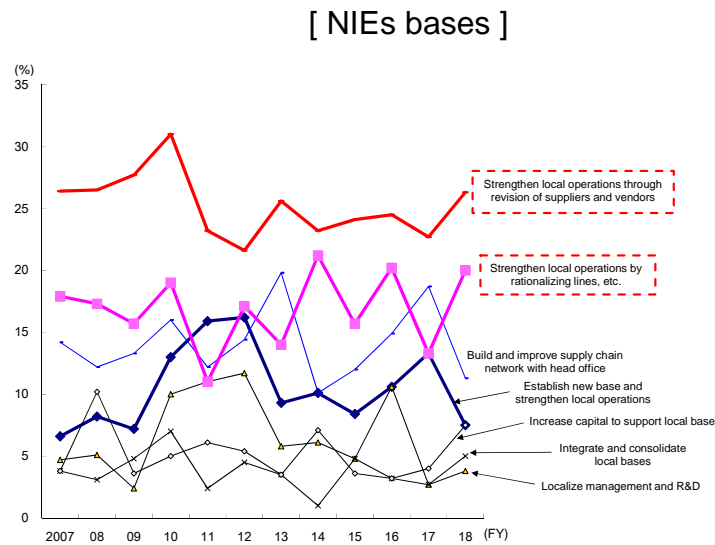
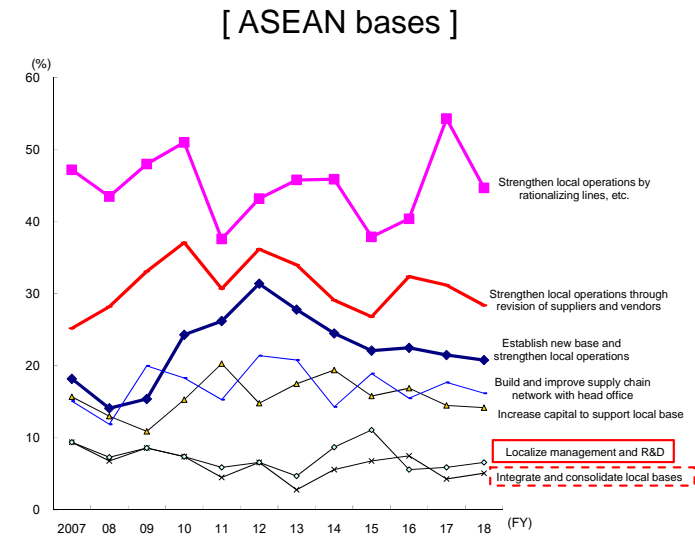
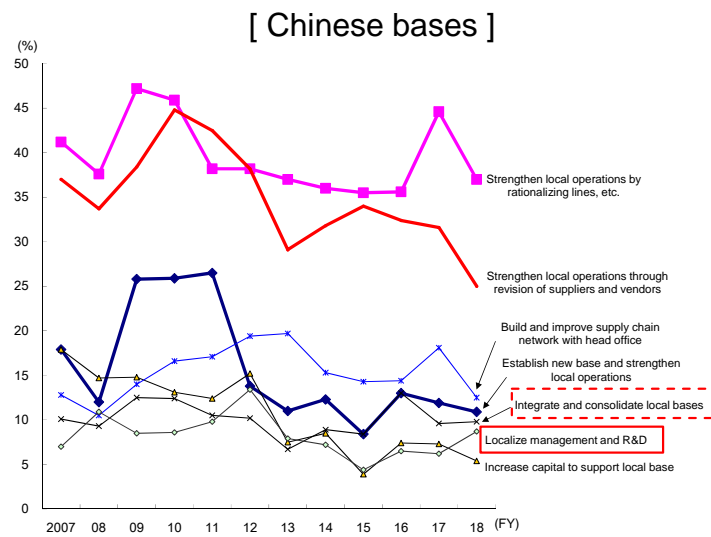
Source: MHRI, Survey Regarding Business in Asia

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



Source: MHRI, Survey Regarding Business in Asia

Future business initiatives of “Localize management and R&D” and “Integrate and consolidate local bases” increased



Source: MHRI, Survey Regarding Business in Asia

5. Direction of future Asia business based on the survey results

- ❑ Interest in China as a future focus of business is flat but intent to strengthen foundations is growing.

Even though the survey revealed that Japanese companies were indirectly affected by China's economic slowdown and U.S.-China trade tensions, the response rate for China as a future focus of business remained unchanged. China's importance as a huge market has not been dented. On the other hand, amid persisting concerns regarding the downturn in base earnings, attitudes toward management, solidifying the management base, and localizing management and R&D are also strengthening.

- ❑ Japanese firms expect to overcome U.S.-China trade tensions by a dual production system in China and ASEAN.

The movement of Japanese companies from China to ASEAN due to the manifestation of trade tensions with the U.S. has been limited. Since Japan-China relations worsened in FY2012, more Japanese companies have been working to establish dual bases in China and ASEAN. For the time being, Japanese firms are expected to overcome trade tensions by curbing production in China and increasing it in ASEAN.

- ❑ Japanese firms are screening where to make direct investments, with Vietnam and Indonesia preferred choices in the ASEAN, and South China preferred in China.

Amid lingering uncertainties regarding the outlook for the global and Asian economies, the appetite for direct investment is softening. Japanese firms are expected to go forward with its selective screening of sites for direct investment and market development, such as Vietnam with its sustained high growth, and Indonesia with its massive internal demand, and South China given its innovation hub for direct investment and market development in China.

Reference. Summary of Past Surveys on 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	18th Survey	19th Survey	
February 2016	February 2017	February 2018	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.	Sent to 4,297 manufacturers with capital of at least JPY10 million. 1,072 valid responses.	

Source: MHRI, *Survey Regarding Business in Asia*

Mizuho Research Institute Ltd.

This publication is compiled solely for the purpose of providing readers with information on a free-of-charge basis and is in no way meant to solicit transactions. Although this publication is compiled on the basis of sources which we believe to be reliable and correct, Mizuho Research Institute does not warrant its accuracy and certainty. Readers are requested to exercise their own judgment in the use of this publication. Please also note that the contents of this publication may be subject to change without prior notice. In the event readers do not wish to receive information free of charge from Mizuho Research Institute, readers are requested to notify their wish to suspend subscription.