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*Japanese companies shift away
from China to the ASEAN*

*– Questionnaire Survey of
Japanese Corporate Enterprises
Regarding Business in Asia
(February 2013) –*

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Summary

1. For the first time since Mizuho Research Institute Ltd. (MHRI) started to conduct annual surveys on the Asian business strategy of Japanese companies in 1999, the ASEAN overtook China as the key area of global business expansion. The survey results reveal that Japanese companies are shifting their focus of business from China to the ASEAN.
2. In terms of outlooks on sales in Asia, the survey revealed that Japanese companies expect lower sales in China and the NIEs from a year ago for FY2012. As for FY2013, many companies said that they expect an upturn of sales across a broad spectrum of Asia.
3. The index gauging the satisfaction of Asia business affiliates in terms of profit performance fell across Asia. However, the diffusion index (DI of responses that profits are “satisfactory” minus responses that profits are “unsatisfactory”) remained positive in business affiliates across the ASEAN. The results for affiliates in China fell sharply, revealing a significant polarization.
4. In terms of concerns regarding Asian business, the rise of labor costs was cited as the top concern among both Chinese and ASEAN business affiliates. Meanwhile, Sino–Japanese relations were cited as the top concern among overseas affiliates in China.
5. Turning to expectations toward the Abe administration in its support toward Asian business, the correction of the strong yen, the improvement of Sino–Japanese relations, and the promotion of wide–area FTAs (free trade agreements) such as the Trans–Pacific Partnership (TPP) were among the top issues cited in the survey.

1. Introduction – the rise of business expectations toward the ASEAN as overseas business affiliates in China face an increasingly harsh environment

Since 1999, Mizuho Research Institute Ltd. (MHRI) has conducted annual surveys (*Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia* (note 1), hereafter, the “Survey”) of Japanese corporate enterprises which are members of its research and consulting services. In the FY2012 Survey, MHRI sent out questionnaires to 4,699 Japanese manufacturing enterprises (capital of JPY10 million and over), to which it received effective responses from 1,303 companies. In this paper, we have compared the results of the FY2012 Survey with the results of the FY2011 Survey (the survey conducted in February 2012 received 1,243 effective responses from 4,767 companies).

Looking back upon the Asian economy in 2012, the pace of economic growth slowed down in China (2011 +9.3% → 2012 +7.8%), India (2011 +7.5% → 2012 +5.1%), and the NIEs (2011 +4.0% → 2012 +1.7%), reflecting the global economic downturn stemming from fiscal tightening in the US and Europe possessing government debt problems. In contrast, the economies of Indonesia and the Philippines possessing relatively large populations were supported by solid consumer spending. Economic growth in Thailand was pushed up by demand in connection with reconstruction after the floods in 2011. In Malaysia, large investment projects in the areas of natural resources and logistics served to mitigate the slowdown of exports. Note the upturn of growth among the ASEAN-5 (2011 +4.5% → 2012 +6.1%) given these positive factors.

Under such an economic environment, the degree of satisfaction of Japanese companies with the profit performance of their Asian business affiliates deteriorated in China, the NIEs and India, but improved in the ASEAN. In addition to the rise of production costs and decline of economic growth in China, the persistence of Sino-Japanese political tensions stemming from the Senkaku Islands may be a factor. Furthermore, India's economic slowdown has led to its fall in ranking below the US as a promising market and business site. The results in terms of ranking underscored the rising focus of attention of Japanese companies upon the ASEAN: 1) ASEAN, 2) China, 3) NIEs, 4) US, 5) India.

Chart 1: Real GDP growth of the countries and areas of Asia (y-o-y ch)

(%)

Area, country/year	Deepening financial crisis	Economic recovery	Previous survey	Latest survey	Outlook
	2009	2010	2011	2012	2013 (forecast)
Asia	6.0	9.5	7.5	6.2	6.1
China	9.2	10.4	9.3	7.8	7.8
India	6.5	9.7	7.5	5.1	5.0
ASEAN-5	1.6	7.0	4.5	6.1	5.1
Indonesia	4.6	6.2	6.5	6.2	5.8
Philippines	1.1	7.6	3.6	6.8	6.3
Vietnam	5.3	6.8	6.0	5.0	5.6
Malaysia	-1.5	7.4	5.1	5.6	4.7
Thailand	-2.3	7.8	0.1	6.4	3.0
NIEs	-0.7	8.4	4.1	1.7	2.1
South Korea	0.3	6.3	3.7	2.0	1.9
Hong Kong	-2.5	6.8	4.9	1.5	2.6
Taiwan	-1.8	10.8	4.1	1.3	2.5
Singapore	-0.8	14.8	5.2	1.3	1.5

- Note: 1. The shaded areas indicate that the pace of growth was negative. Forecasts on 2013 are MHRI forecasts as of October 2013.
2. The average is calculated by the GDP share (purchase parity basis) of 2011 by the IMF.

Source: Made by MHRI based upon statistical sources of each of the relevant countries and areas.

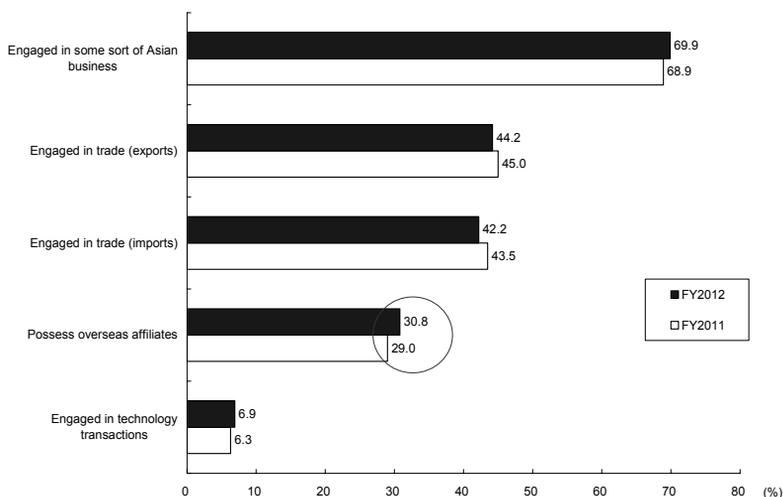
2. The current state of Asian business (responses of all companies (1,303 companies))

(1) 70% of respondents are engaged in Asian business

To provide an overview on the state of Asian business endeavors of Japanese companies, we asked all 1,303 companies providing responses “what type of business is your company currently engaged in the countries/areas of Asia”.

Approximately 70% of the companies said that they are “engaged in some sort of Asian business” (note 2). A further breakdown of the responses revealed that 44.2% are “engaged in exports”, 42.2% are “engaged in imports”, 30.8% “possess overseas affiliates”, and 6.9% are “engaged in technology transactions (Chart 2).

Chart 2: Current state of Asian business (multiply responses allowed)



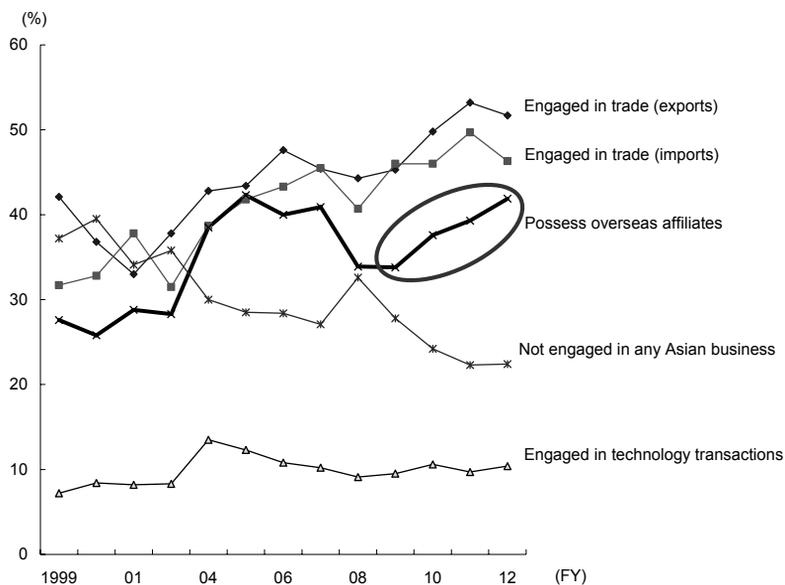
Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

A comparison of the breakdown with the previous Survey in FY2011 (1,243 responses) showed that the percentage of responses regarding exports and imports remained more or less unchanged: “engaged in exports” (FY2011: 45.0%, FY2012: 44.2%). The percentage of responses on the possession of overseas affiliates rose 1.8% pt (FY2011: 29.0%, FY2012: 30.8%).

On a time series basis (note 3), the survey results indicate a more or less uninterrupted development of Asian business from FY1999 onward (**Chart 3**). Despite a dip in responses on both trade transactions (exports and imports) and business affiliates during the period from FY2008 to FY2009 reflecting the global financial crisis, the percentage of responses have taken an upturn from FY2010.

In particular, note that the survey results reveal an almost uninterrupted rise of responses on whether or not companies

Chart 3: Time series trend of Asian business (multiply responses)



Note: Refer to Note 3 at the end of the paper with respect to time series data.
 Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

possess overseas affiliates. From FY2010 to the first half of FY2012, the strength of the yen around 80 yen to the US dollar most likely served to propel the shift of production sites to Asia.

Given the depreciation of the yen to around 100 yen to the US dollar since the second half of FY2012, the shift to Asia may moderate among companies which are actively engaged in trade in a bid to cut costs. Even so, Asian business development in a bid to capture local markets should continue as far as Japan's domestic market levels off.

(2) Companies in a wide range of industrial sectors are establishing business entities in Asia

A closer look at the responses in terms of industrial sector (categorized in 10 industrial sectors) (note 4) revealed the following results: the percentage of responses to the question on whether respondents are “engaged in Asian business of some sort” reached the 80%-level among manufacturers of “chemicals”, “precision instruments”, and “general machinery”, the 70%-level among manufacturers of “transport equipment”, “electrical machinery”, “non-ferrous metals”, and textiles, and the 60%-level among manufacturers of “iron & steel”, “food” and “fabricated metals” (Chart 4).

Compared with the previous Survey in FY2011, the percentage of responses on “engaged in exports” turned out to rise in four industrial sectors: “general machinery” (FY2011: 65.9%, FY2012: 67.9%), “iron & steel” (FY2011: 45.2%, FY2012: 48.8%), “transport equipment” (FY2011: 39.1%, FY2012: 42.2%), and “non-ferrous metals” (FY2011: 35.9%, FY2012: 40.7%). Responses to the query on whether or not respondents are “engaged in imports” showed a higher percentage in the following three sectors: “general machinery” (FY2011: 46.1%, FY2012: 48.2%), “non-ferrous metals” (FY2011: 33.3%, FY2012: 37.0%), and “iron & steel” (FY2011: 19.0%, FY2012: 39.5%).

The coincidence of three out of the four sectors which responded that they are engaged in “exports” and “imports” indicates a

progress of the horizontal division of labor between Japan and the countries of Asia (exports of intermediate goods from Japan to Asia and imports of finished goods by Japan from Asia) in equipment, parts and materials etc.

The percentage of responses on the “possession of overseas affiliates” turned out to rise in five industrial sectors: “electrical machinery” (FY2011: 33.8%, FY2012: 40.3%), “precision instruments” (FY2011: 20.0%, FY2012: 36.1%), “textiles” (FY2011: 28.3%, FY2012: 34.0%), “chemicals” (FY2011: 30.9%, FY2012: 31.3%), and “food” (FY2011: 15.2%, FY2012: 17.1%). The results indicate the spread of

Chart 4: Survey on engagement in Asian business in terms of size of enterprise and industrial sector and (multiply responses)

(%, corporate enterprises)

		Engaged in Asian business	Engaged in trade (exports)	Engaged in trade (imports)	Engaged in technology transactions	Possess overseas affiliates	No. of responses
Chemicals	FY2012	89.6	70.8	50.0	15.6	31.3	96
	FY2011	88.9	76.5	63.0	9.9	30.9	81
Precision instruments	FY2012	86.1	63.9	47.2	0.0	36.1	36
	FY2011	85.7	65.7	51.4	8.6	20.0	35
General machinery	FY2012	81.3	67.9	48.2	6.7	37.3	193
	FY2011	77.8	65.9	46.1	6.0	38.9	167
Transport equipment	FY2012	75.6	42.2	37.8	20.0	51.1	45
	FY2011	73.9	39.1	41.3	10.9	54.3	46
Electrical machinery	FY2012	75.4	56.0	50.0	10.4	40.3	134
	FY2011	76.8	56.3	50.3	7.3	33.8	151
Non-ferrous metals	FY2012	70.4	40.7	37.0	7.4	18.5	27
	FY2011	59.0	35.9	33.3	7.7	25.6	39
Textiles	FY2012	70.0	32.0	50.0	4.0	34.0	50
	FY2011	80.4	32.6	69.6	2.2	28.3	46
Iron & steel	FY2012	67.4	48.8	39.5	2.3	37.2	43
	FY2011	66.7	45.2	19.0	4.8	38.1	42
Fabricated metals	FY2012	61.7	33.3	31.5	6.2	30.2	162
	FY2011	61.9	40.8	34.0	6.8	31.3	147
Food	FY2012	61.6	29.9	39.0	2.4	17.1	164
	FY2011	63.4	31.0	41.4	3.4	15.2	145
Large corporations	FY2012	92.0	68.8	68.8	23.2	72.8	125
	FY2011	91.5	71.8	66.7	20.5	67.5	117
Small & medium corporations	FY2012	67.6	41.6	39.4	5.2	26.3	1,178
	FY2011	66.6	43.3	42.5	5.6	27.3	1,126

Note: The shaded areas received the highest rate of responses in the respective industrial sectors and size of corporations.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

local production and sales in a wide range of industrial sectors, following the “transport equipment” sector which revealed a response rate of over 50% (FY2011: 54.3%, FY2012: 51.1%).

In terms of the size of the corporate enterprises, the percentage of responses on the “possession of overseas affiliates” turned out to rise 5.3% pt from the previous survey among large corporate enterprises (note 5) (FY2011: 67.5%, FY2012: 72.8%). In contrast, the percentage of responses among small & medium-sized enterprises remained flat (FY2011: 27.3% → FY2012: 26.3%), revealing a considerable gap between the pace of entry into Asia between large and small & medium-sized corporations.

3. Outlook on sales, procurement and the foreign exchange rate (responses of corporate enterprises engaging in Asian business (911 companies))

(1) Sales will recover throughout Asia in FY2013

Let us turn to the outlook on sales in FY2012 and FY2013 among the 911 corporate enterprises engaged in Asian business through exports & imports and the establishment of overseas affiliates.

Respondents were asked to provide responses on a five-grade scale ranging from “expect an increase of sales by 10% or more”, “expect an increase of sales by 5% or more to less than 10%”, “expect an increase of sales by 0% or more to less than 5%”, “expect a decrease of sales by 0% or more to less than 5%”, “expect a decrease of sales by 5% or more”.

A look at the sales DI (*) for FY2012 and FY2013 reveals that the DI was positive in all countries and areas and that the DI in FY2013 was higher than the DI in FY2012 in all countries and areas (**Chart 5**).

* The “sales DI” is derived by subtracting the responses on “decrease of sales (0% or more to less than 5%)” from “increase of sales (10% or more,

5% or more to less than 10%, 0% or more to less than 5%)”.

Although the percentage of companies saying that they expect a “decrease of sales of 0% to less than 5%” and a “decrease of sales of 5% or more” in China and the NIEs (Singapore, Taiwan, South Korea and Hong Kong) reached 30~40% in FY2012, the percentage fell to around 10% to 20% in FY2013, revealing that many Japanese companies are expecting an upturn of sales in Asia due to the economic recovery in China and the NIEs.

Chart 5: Outlook on sales of products made by the responding companies in Asia (FY2012 and FY2013)

(% , % pt. no. of companies)

		Increase of sales of 10% y-o-y or more	Increase of sales of 5% y-o-y to less than 10% y-o-y	Increase of sales of 0% y-o-y to less than 5% y-o-y	Decrease of sales of 0% y-o-y to less than 5% y-o-y	Decrease of sales of 5% y-o-y or more	DI	No of responses
China	FY2013 (A)	28.1	20.5	31.2	8.4	11.9	59.5	430
	FY2012 (B)	24.1	13.3	27.6	13.3	21.5	30.2	427
	(A) - (B)	4.0	7.2	3.6	-4.9	-9.6	29.3	
India	FY2013 (A)	27.4	21.1	43.2	3.2	5.3	83.2	95
	FY2012 (B)	24.7	18.0	36.0	10.1	11.2	57.4	89
	(A) - (B)	2.7	3.1	7.2	-6.9	-5.9	25.8	
Vietnam	FY2013 (A)	27.0	25.2	38.3	6.1	3.5	80.9	115
	FY2012 (B)	27.3	19.1	37.3	6.4	10.0	67.3	110
	(A) - (B)	-0.3	6.1	1.0	-0.3	-6.5	13.6	
Indonesia	FY2013 (A)	28.8	25.0	41.0	4.5	0.6	89.7	156
	FY2012 (B)	27.2	23.1	35.4	8.2	6.1	71.4	147
	(A) - (B)	1.6	1.9	5.6	-3.7	-5.5	18.3	
Thailand	FY2013 (A)	32.3	22.9	37.2	5.3	2.3	84.8	266
	FY2012 (B)	28.5	22.7	30.8	10.4	7.7	63.9	260
	(A) - (B)	3.8	0.2	6.4	-5.1	-5.4	20.9	
Malaysia	FY2013 (A)	26.0	21.9	43.8	5.5	2.7	83.5	120
	FY2012 (B)	27.2	23.1	35.4	8.2	6.1	71.4	147
	(A) - (B)	-1.2	-1.2	8.4	-2.7	-3.4	12.1	
Philippines	FY2013 (A)	26.0	21.9	43.6	5.5	2.7	83.3	73
	FY2012 (B)	22.5	18.3	31.0	21.1	7.0	43.7	71
	(A) - (B)	3.5	3.6	12.6	-15.6	-4.3	39.6	
Singapore	FY2013 (A)	16.2	17.1	52.3	11.7	2.7	71.2	111
	FY2012 (B)	10.5	15.2	45.7	20.0	8.6	42.8	105
	(A) - (B)	5.7	1.9	6.6	-8.3	-5.9	28.4	
Taiwan	FY2013 (A)	18.6	17.3	49.6	8.4	6.2	70.9	226
	FY2012 (B)	13.3	11.5	42.9	16.8	15.5	35.4	226
	(A) - (B)	5.3	5.8	6.7	-8.4	-9.3	35.5	
South Korea	FY2013 (A)	14.7	18.2	48.1	14.3	4.8	61.9	231
	FY2012 (B)	10.3	11.2	41.6	19.3	17.6	26.2	233
	(A) - (B)	4.4	7.0	6.5	-5.0	-12.8	35.7	233
Hong Kong	FY2013 (A)	14.2	14.2	47.2	18.1	6.3	51.2	127
	FY2012 (B)	14.0	9.3	41.9	17.8	17.1	30.3	129
	(A) - (B)	0.2	4.9	5.3	0.3	-10.8	20.9	

Note: The shaded areas received the highest rate of responses.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

(2) Outlooks on sales in China and the NIEs in FY2012 turned out to fall in comparison with the previous survey

We identified how the outlooks changed in a time span of one year by comparing the “outlook on sales in FY2012” (1-year forward outlook) in the previous survey (responses by 856 companies) and the “outlook on sales in FY2012” (current outlook).

A comparison of the percentage of responses expecting the “increase of sales of 10% or more” in the “current survey (current outlook)” and the “previous survey (1-year forward outlook)” revealed a 5.3% pt decline with respect to China (FY2011: 29.4%, FY2012: 24.1%) and a broad decline among the NIEs (South Korea: 7.3% pt decline, Hong Kong: 1.4% pt decline, Taiwan: 0.2% pt decline) (**Chart 6**).

In addition to the slowdown of growth in both areas (China 2011: +9.3% → 2012: +7.8%, NIEs 2011: +4.0% → 2012: +1.7%), the Senkaku Islands issue also appears to have had an impact.

(3) The pace of procurement from Asia slowed down

With respect to the question on “whether or not imports or procurement of finished goods, semi-finished goods and raw materials were increased”, the procurement DI (*) for FY2012 revealed a positive DI across the board for FY2012 (Chart 7).

* The “procurement DI” is derived by subtracting the responses on

Chart 6: Change from the FY2011 survey (1-yr forward outlook) and FY2012 (current outlook)

		(%)		
		Outlook on increase of sales of 10% y-o-y or more	Outlook on increase of sales of 0% y-o-y to less than 10% y-o-y	Outlook on decrease of sales of 0% y-o-y or more
China	FY2012 Survey (A Outlook on sales in FY2012)	24.1	40.9	34.8
	FY2011 Survey (B Outlook on sales in FY2012)	29.4	53.4	17.2
	(A) - (B)	-5.3	-12.5	17.6
India	FY2012 Survey (A Outlook on sales in FY2012)	24.7	54.0	21.3
	FY2011 Survey (B Outlook on sales in FY2012)	24.2	59.6	16.2
	(A) - (B)	0.5	-5.6	5.1
Vietnam	FY2012 Survey (A Outlook on sales in FY2012)	27.3	56.4	16.4
	FY2011 Survey (B Outlook on sales in FY2012)	29.0	61.7	9.3
	(A) - (B)	-1.7	-5.3	7.1
Indonesia	FY2012 Survey (A Outlook on sales in FY2012)	27.2	58.5	14.3
	FY2011 Survey (B Outlook on sales in FY2012)	25.2	63.0	11.9
	(A) - (B)	2.0	-4.5	2.4
Thailand	FY2012 Survey (A Outlook on sales in FY2012)	28.5	53.5	18.1
	FY2011 Survey (B Outlook on sales in FY2012)	29.4	56.2	14.5
	(A) - (B)	-0.9	-2.7	3.6
Malaysia	FY2012 Survey (A Outlook on sales in FY2012)	27.2	58.5	14.3
	FY2011 Survey (B Outlook on sales in FY2012)	19.8	61.5	18.8
	(A) - (B)	7.4	-3.0	-4.5
Philippines	FY2012 Survey (A Outlook on sales in FY2012)	22.5	49.3	28.1
	FY2011 Survey (B Outlook on sales in FY2012)	16.4	67.2	16.4
	(A) - (B)	6.1	-17.9	11.7
Singapore	FY2012 Survey (A Outlook on sales in FY2012)	10.5	60.9	28.6
	FY2011 Survey (B Outlook on sales in FY2012)	13.0	67.0	20.0
	(A) - (B)	-2.5	-6.1	8.6
Taiwan	FY2012 Survey (A Outlook on sales in FY2012)	13.3	54.4	32.3
	FY2011 Survey (B Outlook on sales in FY2012)	13.5	60.0	26.5
	(A) - (B)	-0.2	-5.6	5.8
South Korea	FY2012 Survey (A Outlook on sales in FY2012)	10.3	52.8	36.9
	FY2011 Survey (B Outlook on sales in FY2012)	17.6	54.8	27.6
	(A) - (B)	-7.3	-2.0	9.3
Hong Kong	FY2012 Survey (A Outlook on sales in FY2012)	14.0	51.2	34.9
	FY2011 Survey (B Outlook on sales in FY2012)	15.4	59.5	25.2
	(A) - (B)	-1.4	-8.3	9.7

Note: The shaded areas received the highest rate of responses.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

“decrease of procurement (0% or more to less than 5%)” from “increase of procurement (10% y-o-y or more , 5% or more to less than 10%, 0% or more to less than 5%)”.

However, a comparison with the previous survey showed a decline of the DI in seven out of the 11 countries and areas. One of the reasons may be that Japanese companies hit by the Great East

Chart 7: Imports/procurement of finished goods, semi-finished goods and raw materials in FY2012

(% , % pt. no. of companies)

		Increase of procurement of 10% y-o-y or more	Increase of procurement of 5% y-o-y to less than 10%	Increase of procurement of 0% y-o-y to less than 5%	Decrease of procurement of 0% y-o-y to less than 5%	Decrease of procurement of 5% y-o-y or more	DI	No of responses
China	FY2012 (A)	25.5	15.0	32.6	15.8	11.1	46.2	341
	FY2011 (B)	28.3	17.2	37.8	9.0	7.7	66.6	378
	(A) - (B)	-2.8	-2.2	-5.2	6.8	3.4	-20.4	
South Korea	FY2012 (A)	21.4	20.4	36.7	15.3	6.1	57.1	98
	FY2011 (B)	19.0	19.8	41.3	13.2	6.6	60.3	121
	(A) - (B)	2.4	0.6	-4.6	2.1	-0.5	-3.2	
Taiwan	FY2012 (A)	25.6	15.1	41.9	12.8	4.7	65.1	96
	FY2011 (B)	19.4	16.1	45.2	14.0	5.4	61.3	93
	(A) - (B)	6.2	-1.0	-3.3	-1.2	-0.7	3.8	
Thailand	FY2012 (A)	18.6	16.3	46.5	10.5	8.1	62.8	86
	FY2011 (B)	21.9	19.2	38.4	15.1	5.5	58.9	73
	(A) - (B)	-3.3	-2.9	8.1	-4.6	2.6	3.9	
Vietnam	FY2012 (A)	30.4	16.1	33.9	7.1	12.5	60.8	56
	FY2011 (B)	47.6	16.7	28.6	4.8	2.4	85.7	42
	(A) - (B)	-17.2	-0.6	5.3	2.3	10.1	-24.9	
Indonesia	FY2012 (A)	20.6	14.7	50.0	5.9	8.8	70.6	34
	FY2011 (B)	31.3	21.9	21.9	12.5	12.5	50.1	32
	(A) - (B)	-10.7	-7.2	28.1	-6.6	-3.7	20.5	
Malaysia	FY2012 (A)	18.2	18.2	31.8	13.6	18.2	36.4	22
	FY2011 (B)	35.7	25.0	32.1	0.0	7.1	85.7	28
	(A) - (B)	-17.5	-6.8	-0.3	13.6	11.1	-49.3	
Hong Kong	FY2012 (A)	16.7	16.7	38.9	27.8	0.0	44.5	18
	FY2011 (B)	27.3	18.2	36.4	6.1	12.1	63.7	33
	(A) - (B)	-10.6	-1.5	2.5	21.7	-12.1	-19.2	
Philippines	FY2012 (A)	5.6	22.2	38.9	16.7	16.7	33.3	18
	FY2011 (B)	6.3	12.5	56.3	12.5	12.5	50.1	16
	(A) - (B)	-0.7	9.7	-17.4	4.2	4.2	-16.8	
India	FY2012 (A)	31.3	18.8	37.5	12.5	0.0	75.1	16
	FY2011 (B)	37.5	6.3	43.8	12.5	0.0	75.1	16
	(A) - (B)	-6.2	12.5	-6.3	0.0	0.0	0.0	
Singapore	FY2012 (A)	18.2	0.0	36.4	27.3	18.2	9.1	11
	FY2011 (B)	0.0	47.1	41.2	5.9	5.9	76.5	17
	(A) - (B)	18.2	-47.1	-4.8	21.4	12.3	-67.4	

Note: The shaded areas received the highest rate of responses.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

Japan Earthquake in the first half of 2011 and the Thai floods in the second half of the 2011 increased their procurement from countries and areas other than Thailand such as China and Hong Kong, and that procurement subsequently normalized in FY2012.

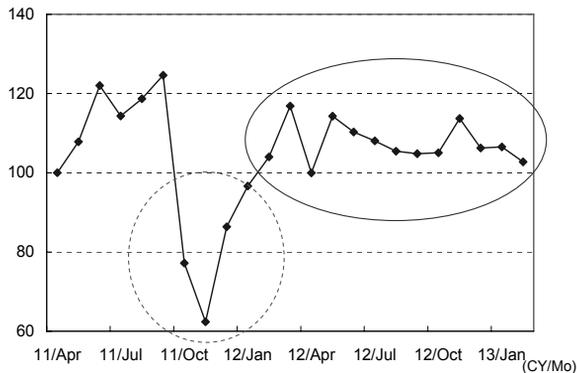
Furthermore, the fall of procurement of liquid crystal panels and semiconductors from Asia due to the realignment of Japan’s electrical machinery industry and the weakening of the Japanese yen in the second half of FY2012 which made Asian goods relatively expensive may be one of the background factors.

Furthermore, as for the Thai floods which cause serious damage in the second half of FY2011, industrial production has recovered and the supply chains of Japanese companies doing business in Thailand have generally been restored in FY2012 due to the efforts of the corporate sector (**Chart 8**).

(4) The renminbi is expected to strengthen gradually while other currencies will remain stable

In this section, we shall look at the value of the yen and the currencies of Asia against the US dollar. A look at the foreign exchange rate trends with the beginning of 2011 as the base year, all

Chart 8: Industrial production index of Thailand

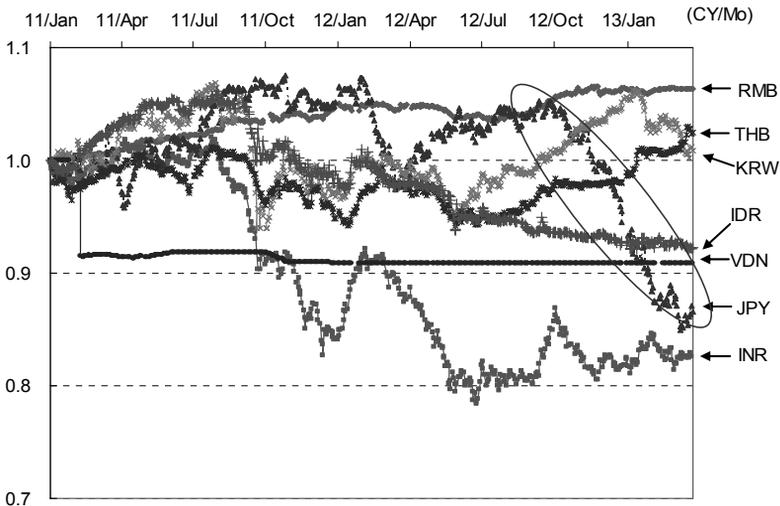


Note: April 2011 = 100
 Source: CEIC.

the Asian currencies (with the exception of the renminbi) weakened in the second half of 2011 amid the deterioration of the eurozone debt crisis, while the Japanese yen strengthened due to its perception as a safe-haven currency.

In 2012, the adoption of a more accommodative monetary policy stance by the US led to the flow of funds from the developed countries to the countries of Asia with current account surpluses which were perceived as possessing high growth potential in addition to relative stability. As a result, currencies such as the South Korean won and the Thai baht strengthened against the US dollar while currencies of countries with current account deficits such as the Indian rupee and the Indonesian rupiah lost ground to the US dollar. Furthermore, from the second half of 2012, the Japanese yen has been the sole loser due to Japan’s aggressive monetary easing (Chart 9).

Chart 9: The exchange rates of the Japanese yen and major Asian currencies against the US dollar



Note: The inverse of the exchange rate to the US dollar is indexed (beginning of Jan 2011 =1.0)

Source: CEIC.

In this survey, we asked respondents to provide their outlooks on the exchange rates of the Japanese and Asian currencies (the Japanese yen (JPY), Chinese renminbi (RMB), Indian rupee (INR), Thai baht (THB), Vietnamese dong (VDN)) at the end of FY2013 (March 31, 2014) on a four-grade scale as follows: (1) “an appreciation of 10% or more”, (2) an appreciation of less than 10%”, (3) “maintenance of status quo”, (4) “a depreciation”. The results revealed that the largest number of responses on the “maintenance of status quo” for currencies other than the renminbi and yen, showing that a large number of Japanese companies expect the Asian currencies to be stable (**Chart 10**).

However, the largest number of responses for the renminbi turned out to be “an appreciation of less than 10%”. Even though the Chinese government lifted the *de facto* dollar peg (fixed) in June 2010, the breadth of appreciation has been narrow. It appears that many Japanese companies expect this trend to continue in 2013.

As for the Japanese yen, the majority of corporate enterprises responded that the yen would depreciate, indicating that they expect the yen to remain weak.

Chart 10: Outlooks on the exchange rate against the USD at the end of FY2013

(%, companies)

	Appreciate by 10% or more	Appreciate by less than 10%	Status quo	Depreciate	No. of responses
Japanese Yen (JPY)	4.9	10.6	19.9	53.7	815
Renminbi (RMB)	6.6	28.6	27.1	11.9	815
Thai Baht (THB)	3.4	17.1	34.7	9.1	815
Vietnamese Dong (VDN)	3.2	13.9	33.0	10.3	815
Indian Rupee (INR)	2.6	13.5	31.9	9.6	815

Note: The shaded areas received the highest rate of responses.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

4. The current state and future business endeavors of Asian affiliates (responses of companies with overseas affiliates in Asia (399 companies))

(1) Overseas affiliates in Asia: a peak-out in China and a shift of focus to the ASEAN

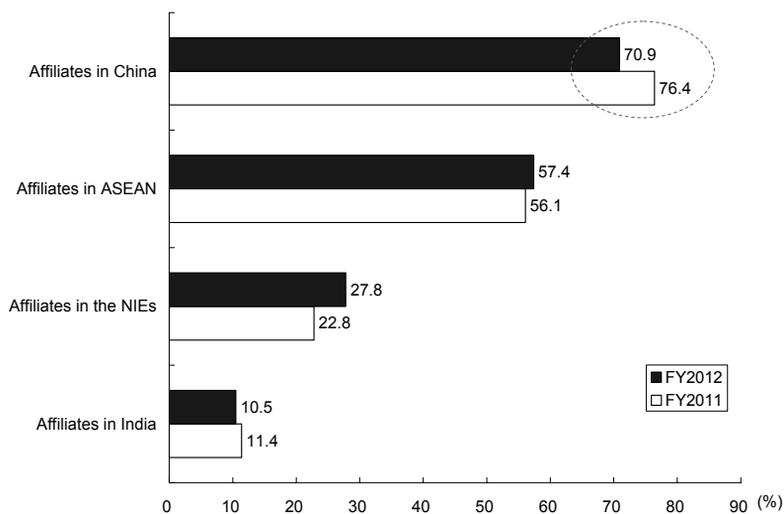
Of the companies providing which said that they “possess overseas affiliates” (399 companies) in response to our question “what type of business is your company currently engaged in the countries/areas of Asia” (**Chart 2**), we asked the location of their overseas affiliate (China, ASEAN, NIEs, or India).

In terms of the response rates, the results were unchanged from the previous survey (360 responding companies) with the top being “Chinese overseas affiliates”, followed by “overseas affiliates in the ASEAN”, “overseas affiliates in the NIEs” and “Indian overseas affiliates”. However, a closer look revealed a 5.5% pt decline from the previous survey with respect to Chinese overseas affiliates (FY2011: 76.4%, FY2012: 70.9%) (**Chart 11**).

While the current survey does not indicate whether there were actual closures of Chinese business affiliates (the respondents of the previous and current survey are not the same), time series data reveals that responses citing China are leveling off (**Chart 12**).

In contrast, there is a gradual rise of responses citing business affiliates in the ASEAN, hence suggesting a shift of Japanese companies' Asian business toward the ASEAN.

Chart 11: Geographic location of overseas affiliates in Asia (multiple responses allowed)



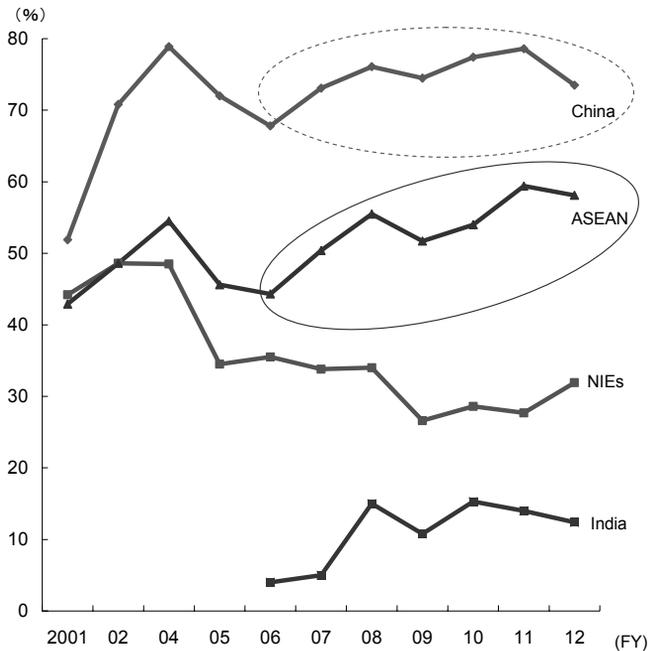
Note: Japanese companies which "possess overseas affiliates" (FY2011: 360 companies, FY2012: 399 companies)

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

In terms of business sector, the percentage of responses citing the possession of overseas affiliates in China turned out to be highest in six (“textiles”, “precision instruments”, “chemicals”, “electrical machinery”, “general machinery”, and “food”) of the 10 sectors. While the results indicate that the agglomeration of Japanese corporate enterprises in Asia is the most advanced in China, the percentage of responses declined from the previous survey in eight sectors excluding “transport equipment” and “non-ferrous metals”

On the other hand, the percentage of responses citing the

Chart 12: Trends in overseas affiliates in Asia (multiple responses allowed)



Notes: 1. “India” was only included in the questionnaire from the FY2006 Survey. Therefore, no data exists for previous years.

2. Refer to Note 3 at the end of the paper with respect to time series data.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

possession of overseas affiliates in the ASEAN turned out to be the highest in four sectors (“fabricated metals, “iron & steel”, “transport equipment”, and “non-ferrous metals”). Although this falls short of the six sectors with respect to China, the percentage of responses rose in the six sectors from the previous survey, suggesting that the agglomeration of Japanese corporate enterprises is also progressing in the ASEAN (**Chart 13**).

A comparison with the previous survey in terms of the size of corporate enterprises, the percentage of responses among large enterprises remained unchanged at the 80%-level for China (FY2011:

Chart 13: Overseas affiliates in Asia (by industrial sector and corporate size)

		(% , companies)				
		Affiliates in China	Affiliates in ASEAN	Affiliates in the NIEs	Affiliates in India	No. of responses
Textiles	FY2012	94.1	41.2	11.8	5.9	17
	FY2011	100.0	38.5	7.7	15.4	13
Precision instruments	FY2012	92.3	38.5	38.5	38.5	13
	FY2011	100.0	28.6	14.3	0.0	7
Chemicals	FY2012	83.3	63.3	40.0	20.0	30
	FY2011	92.0	56.0	32.0	16.0	25
Electrical machinery	FY2012	72.2	70.4	40.7	13.0	54
	FY2011	82.4	64.7	33.3	9.8	51
General machinery	FY2012	72.2	44.4	36.1	12.5	72
	FY2011	78.5	44.6	30.8	10.8	65
Food	FY2012	63.0	48.1	22.2	3.7	27
	FY2011	72.7	45.5	9.1	4.5	22
Fabricated metals	FY2012	63.3	65.3	20.4	16.3	49
	FY2011	65.2	67.4	21.7	15.2	46
Iron & steel	FY2012	62.5	75.0	6.3	6.3	16
	FY2011	75.0	50.0	12.5	12.5	16
Transport equipment	FY2012	60.9	65.2	13.0	17.4	23
	FY2011	60.0	72.0	20.0	32.0	25
Non-ferrous metals	FY2012	60.0	60.0	20.0	0.0	5
	FY2011	60.0	80.0	20.0	0.0	10
Large corporations	FY2012	84.6	71.4	36.3	25.3	91
	FY2011	88.6	75.9	38.0	29.1	79
Small & medium corporations	FY2012	66.9	53.2	25.3	6.2	308
	FY2011	73.0	50.5	18.5	6.4	281

Note: The shaded areas received the highest rate of responses and the areas shaded in diagonal lines received the second highest rate of responses.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

88.6%, FY2012: 84.6%) and the 70%–level for the ASEAN (FY2011: 75.9%, FY2012: 71.4%).

In contrast, the percentage of responses among small and medium–sized enterprises fell to the 60%–level for China (FY2011: 73.0%, FY2012: 66.9%) and rose to the 50%–level for the ASEAN (FY2011: 50.5%, FY2012: 53.2%), indicating a shift from China to the ASEAN in particular among small and medium–sized corporate enterprises.

(2) Earnings satisfaction improved with respect to the ASEAN and deteriorated sharply with respect to China

In our survey, we asked respondents to rank their satisfaction on earnings on a five–grade scale ranging from “satisfied”, “slightly satisfied”, “neither”, “slightly dissatisfied”, and “dissatisfied”. The earnings DI (*) turned out to be positive for the ASEAN and negative for the NIEs, India and China (**Chart 14**).

* The “earnings DI” is derived by subtracting the total of “dissatisfied” and “slightly dissatisfied” from the total of “satisfied” and “slightly satisfied”

A comparison with the previous survey revealed a 4.0% pt rise for the ASEAN (FY2011: –0.1% pt, FY2012: 3.9% pt). In contrast, the results of comparison turned out to be flat for the NIEs (FY2011:

Chart 14: Perception on earnings (by overseas affiliate)

(%, % pt, no. of companies)

		Satisfied	Slightly satisfied	Neither	Slightly dissatisfied	Satisfied	DI	No. of responses
ASEAN	FY2012	6.1	25.3	28.4	22.7	4.8	3.9	229
	FY2011	8.9	28.2	21.3	22.8	14.4	-0.1	202
NIEs	FY2012	3.6	21.8	30.6	22.5	13.5	-10.6	111
	FY2011	8.5	18.3	29.3	22.0	15.9	-11.1	82
India	FY2012	2.8	11.1	52.8	30.6	2.8	-19.5	36
	FY2011	11.1	0.0	55.6	22.2	11.1	-22.2	27
China	FY2012	6.4	18.7	21.2	28.3	24.0	-27.2	283
	FY2011	9.1	24.7	22.2	24.7	18.2	-9.1	275

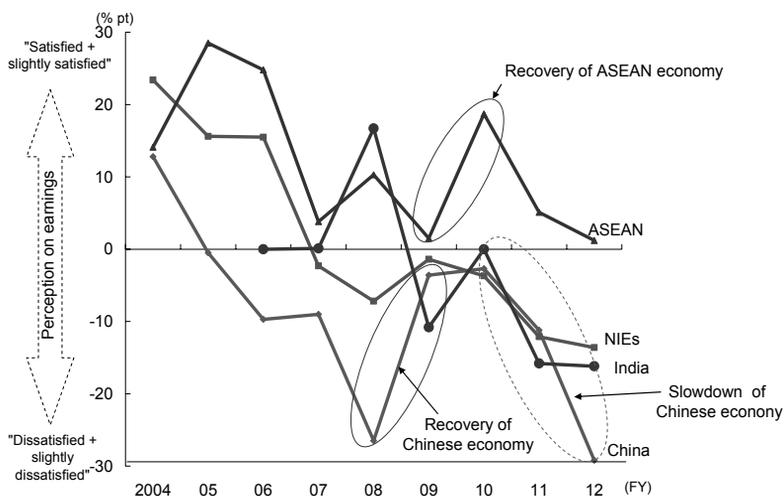
Note: The “earnings DI” = “satisfied” + “slightly satisfied” – “dissatisfied” + “slightly dissatisfied” The shaded areas received the highest response rates.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

-11.1% pt, FY2012: -10.6% pt) and India (FY2011: -22.2% pt, FY2012: -19.5% pt), and a sharp decline with respect to China (FY2011: -9.1% pt, FY2012: -27.2% pt).

Time series data shows that the earnings DI dropped in FY2008-09 due to the financial crisis and rose in all areas of Asia in FY2010 along with the economic recovery across Asia (Chart 15). However, in FY2011, the earnings DI fell in all areas of Asia amid the slowdown of growth in Asia and supply chain disruptions due to the Great East Japan Earthquake and Thai floods. Even though the earnings DI rose in the ASEAN given the recovery of supply chains in FY2012, the DI fell in areas other than the ASEAN as the economy continued to slow down. In particular, the sales slump in China accompanying the rise of Sino-Japanese tensions appears to have caused a significant deterioration of the DI.

Chart 15: The earnings DI of Japanese corporations (by geographic location of overseas affiliates)



Note: 1. The "earnings DI" = "satisfied" + "slightly satisfied" - "dissatisfied" + "slightly dissatisfied"

2. Refer to Note 3 at the end of the paper with respect to time series data.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

(3) Overseas affiliates feel burdened by “excessive” inventories

We asked respondents to rate the state of their inventories of Asian business affiliates according to the three following assessments: “excessive”, “appropriate”, and “insufficient”. Regardless of geographic location, the largest number of responses cited the “appropriate” level of inventories (**Chart 16**). The inventory DI derived by subtracting the responses for “insufficient” from the responses for “excessive” turned out to be highest for China, followed by the ASEAN, NIEs and India.

Compared with the previous survey, the responses revealed an overall rise of inventories as follows: a 13.8% pt rise in India (FY2011: -14.8% pt → FY2012: -1.0% pt), a 3.5% pt rise in China (FY2011: 12.0% pt → FY2012: 15.5% pt), a 3.5% pt rise in the ASEAN (FY2011: 4.0% pt → FY2012: 7.5% pt), and a 1.4% rise in the NIEs (FY2011: 4.9% pt → FY2012: 6.3% pt).

A chronological look at the inventory DI shows a significant uptrend in China from FY2009 while such a prominent uptrend may not be discerned with respect to the ASEAN, NIEs and India (**Chart 17**). In contrast to an intentional build-up of inventories among Japanese corporations in FY2010 reflecting China’s economic

Chart 16: Perception on inventories among overseas affiliates of Japanese corporations (by geographic location)

		(% , % pt, no. of companies)				
		Excessive	Appropriate	Insufficient	DI	No. of responses
China	FY2012	18.7	71.0	3.2	15.5	283
	FY2011	17.8	70.2	5.8	12.0	275
ASEAN	FY2012	12.7	72.9	5.2	7.5	229
	FY2011	11.4	69.3	7.4	4.0	202
NIEs	FY2012	9.9	70.3	3.6	6.3	111
	FY2011	7.3	78.0	2.4	4.9	82
India	FY2012	2.0	26.0	3.0	-1.0	31
	FY2011	0.0	66.7	14.8	-14.8	22

Note: The inventory DI” = “excessive” – “insufficient” The shaded areas received the highest response rates.

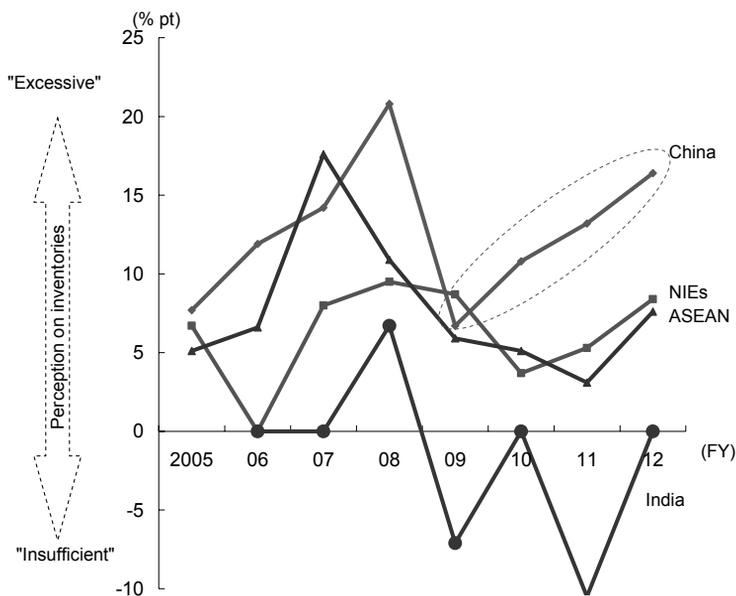
Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

recovery, it appears that there has been an unintentional accumulation of inventories from FY2011 due to China’s economic slowdown, and anemic sales due to the rise of Sino–Japanese tensions from the second half of FY2012.

(4) Efforts among overseas affiliates, reinforcement of operations at existing business affiliates in China, creation of new business affiliates in the ASEAN

We asked our respondents on their future business endeavors during the coming two to three year period by providing 12 alternative responses including the “reinforcement of overseas base by setting up new affiliates”, the “reinforcement of overseas base by

Chart 17: The inventory DI of Japanese corporations (by geographic location of overseas affiliates)

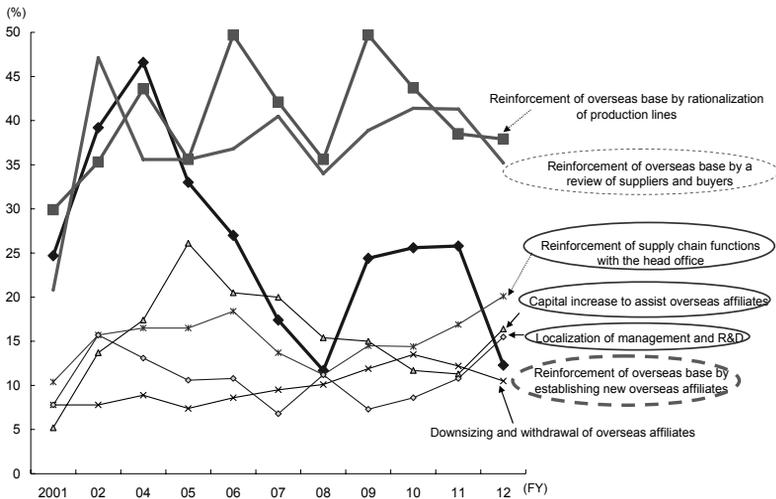


Note: 1. The inventory DI = “excessive” – “insufficient”
 2. Refer to Note 3 at the end of the paper with respect to time series data.
 Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

rationalization of production lines”, and the “reinforcement of overseas base by a review of suppliers and buyers” (multiple responses allowed). Charts 18 to 21 set forth the alternatives to which we received the highest response rates in each of the Asian affiliates on a time series basis.

Among Chinese business affiliates, the response rate fell sharply for the “reinforcement of overseas base by establishing new overseas affiliates”. The response rate for “the reinforcement of overseas base by a review of suppliers and buyers” also fell. In contrast, the response rates rose for the “reinforcement of supply chain functions with the head office”, “capital increase to assist overseas affiliates”, and “localization of management and R&D”, indicating a greater focus upon strengthening existing affiliates through efforts such as the reinforcement of supply chains and the localization of management and R&D rather than the establishment of new affiliates (**Chart 18**).

Chart 18: Future business plans of Japanese corporations in China



Note: Refer to Note 3 at the end of the paper with respect to time series data.

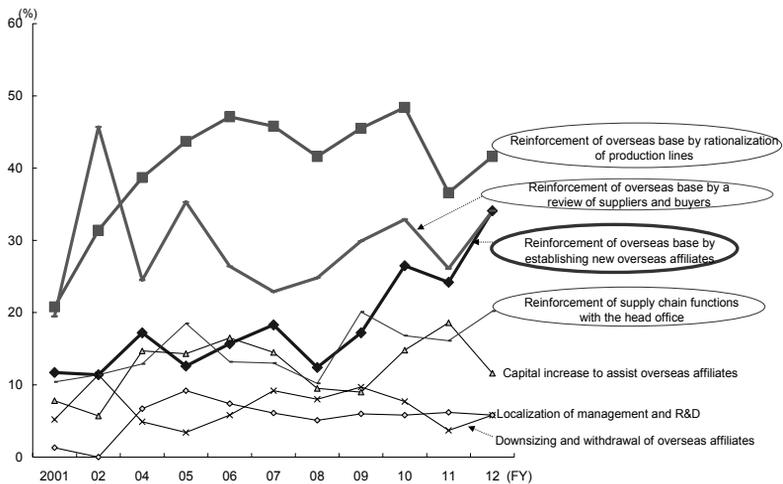
Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

In contrast to the responses with respect to overseas affiliates in China, the response rates rose for the “reinforcement of overseas base by rationalization of production lines”, and the “reinforcement of overseas base by a review of suppliers and buyers” with respect to overseas affiliates in the ASEAN. The results indicate a clearer stance among Japanese corporations to expand and reinforce their overseas affiliates in the ASEAN (**Chart 19**).

Furthermore, note also the rise of responses for “reinforcement of supply chain functions with the head office” in order to avoid a recurrence of supply chain disruptions which occurred at the time of the floods in FY2011.

With respect to overseas affiliates in the NIEs, the response rates rose for both “reinforcement of overseas base by a review of suppliers and buyers” and the “reinforcement of overseas base by

Chart 19: Future business plans of Japanese corporations in the ASEAN

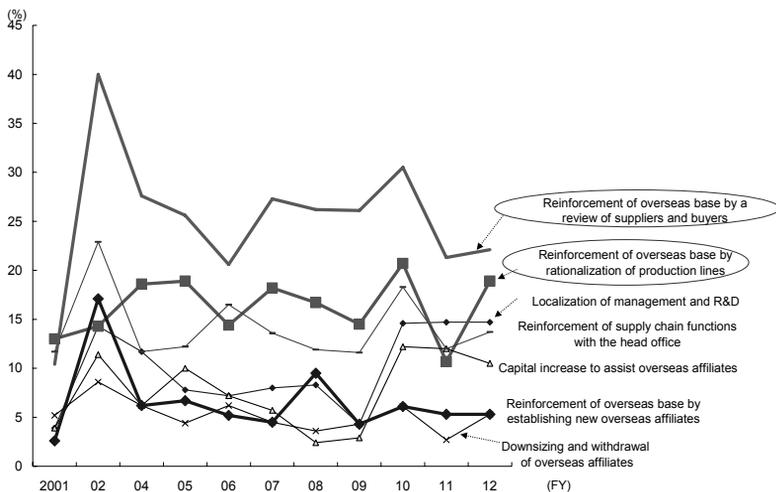


Note: Refer to Note 3 at the end of the paper with respect to time series data.
 Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

rationalization of production lines” (**Chart 20**). The results indicate that overseas affiliates in the NIEs are placing stress upon the reinforcement of existing affiliates.

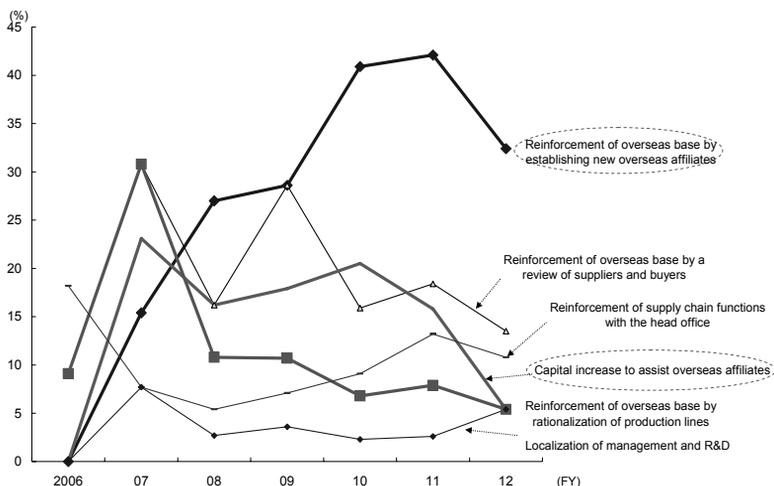
As for the overseas affiliates in India, the response rate for “reinforcement of overseas base by establishing new overseas affiliates” has continued to rise thus far. However, the response rate fell for the first time in FY2012, as did the response rate for “capital increase to assist overseas affiliates” (**Chart 21**). As shown by expectations that India’s population will surpass China’s in the mid-2020s, India is perceived to have potential for further growth over the medium to long term. However, given India’s economic slump shown by its slowdown and mounting current account deficit, Japanese corporations are starting to take a cautious stance toward investment in India.

Chart 20: Future business plans of Japanese corporations in the NIEs



Note: Refer to Note 3 at the end of the paper with respect to time series data.
 Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

Chart 21: Future business plans of Japanese corporations in India



Notes: 1. "India" was only included in the questionnaire from the FY2006 Survey. Therefore, no data exists for previous years.

2. Refer to Note 3 at the end of the paper with respect to time series data.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

5. Key geographic areas in the overseas business of Japanese corporations (all corporations (1,303 companies))

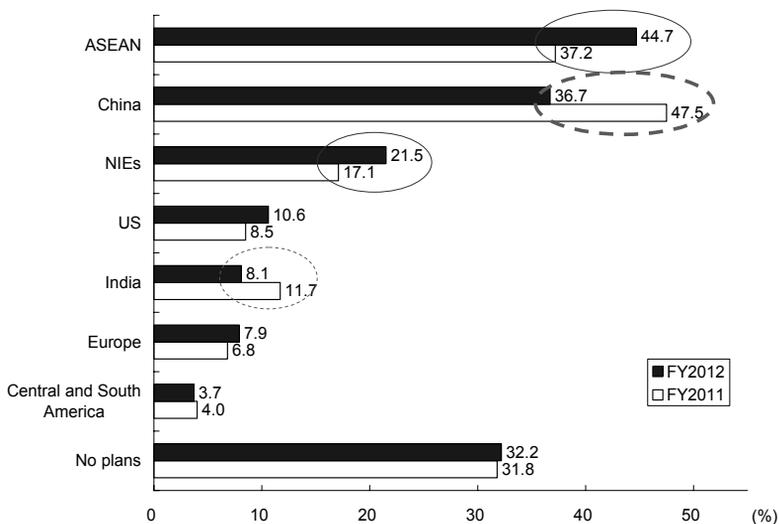
(1) The ASEAN overtakes China as the key area

To provide an overview of Asia's position in the overseas business of Japanese corporations, we asked the respondents to cite "the geographic area of focus in the future". **Chart 22** sets forth the results: ASEAN (44.7%), China (36.7%), NIEs (21.5%), US (10.6%), India (8.1%), Europe (7.9%), and "Central and South America" (3.7%).

Compared with the previous survey (1,243 companies responded), the response rate for China fell 10.8% pt (FY2011: 47.5%, FY2012: 36.7%), in contrast to a 7.5% rise for the ASEAN (FY2011: 37.2%, FY2012: 44.7%), leading to a reversal of the ranking. Furthermore, while the response rate for the NIEs rose 4.4% pt (FY2011: 17.1%, FY2012: 21.5%), the response rate for India fell 3.6% pt (FY2011: 11.7%, FY2012: 8.1%), resulting in a reversal of the ranking with the US (note 6) (FY2011: 8.5%, FY2012: 10.6%).

The results suggest that Japanese companies are shifting their focus of global business from China to the ASEAN, placing more emphasis upon the NIEs possessing higher income levels, in contrast to a slight decline of expectations toward India which is continuing to face an economic slowdown.

Chart 22: Geographic area of focus in the future (multiple responses allowed)



Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

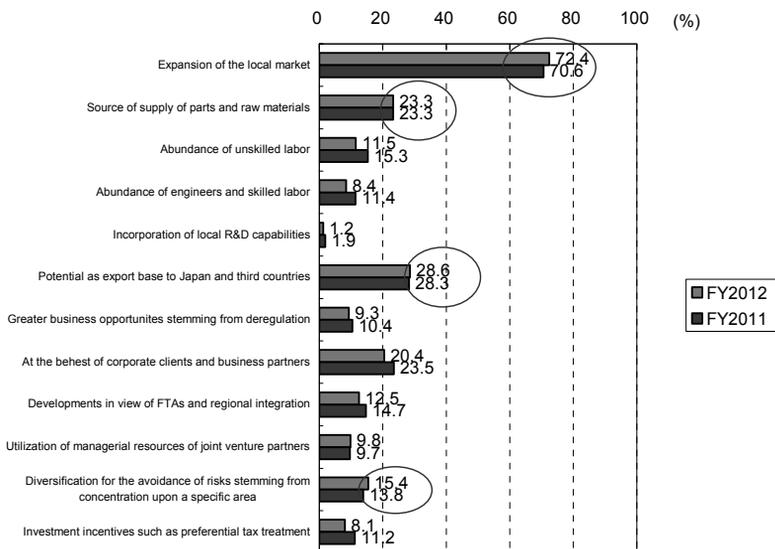
(2) Japanese companies focus upon Asia for “local market expansion”, the ASEAN for the “diversification of investment” and China as the “source of supply of parts and raw materials” for China

We asked the respondents’ reasons for citing the geographic areas in their responses by providing 12 alternatives including “expansion of the local market”, the “source of supply of parts and raw materials”, and “potential as export base to Japan and third countries”. With respect to the geographic areas ranking high in **Chart 22** (China, ASEAN, NIEs and India), the top reason turned out to be the “expansion of the local market” in all areas.

Firstly, as for the ASEAN, the highest response rate was the “expansion of the local market” (72.4%), followed by “potential as export base to Japan and third countries” (28.6%), and the “source of supply of parts and raw materials” (23.3%) (**Chart 23**). Compared with the previous survey, the response rate for the “expansion of the local market” rose 1.8% pt (FY2011: 70.6%. FY2012: 72.4%) and the response rate for “diversification for the avoidance of risks stemming from concentration upon a specific area” also rose 1.6% pt (FY2011: 13.8% pt, FY2012: 15.4% pt), revealing a slight rise of both reasons. The results indicate the rise of expectations toward the ASEAN as a consumption market as well as an option for the diversification of investment concentrated upon China.

With respect to China, the response rate was 73.0% for the “expansion of the local market”, followed by the “source of supply of parts and raw materials” (35.6%), and “potential as export base to Japan and third countries” (20.9%) (**Chart 24**). Compared with the previous survey, the response rate for the “expansion of the local market” fell 4.3% pt (FY2011: 77.3%, FY2012: 73.0%) in contrast to a 2.6% pt rise of the response rate for both the “source of supply of parts and raw materials” (FY2011: 33.0%, FY2012: 35.6%), and “potential as export base to Japan and third countries” (3.9% pt) (FY2011: 17.9%, FY2012: 20.9%). The results suggest that Japanese companies still possess high expectations toward China for its supporting industries and importance as an export base despite a peak–out of their expectations toward China as a market.

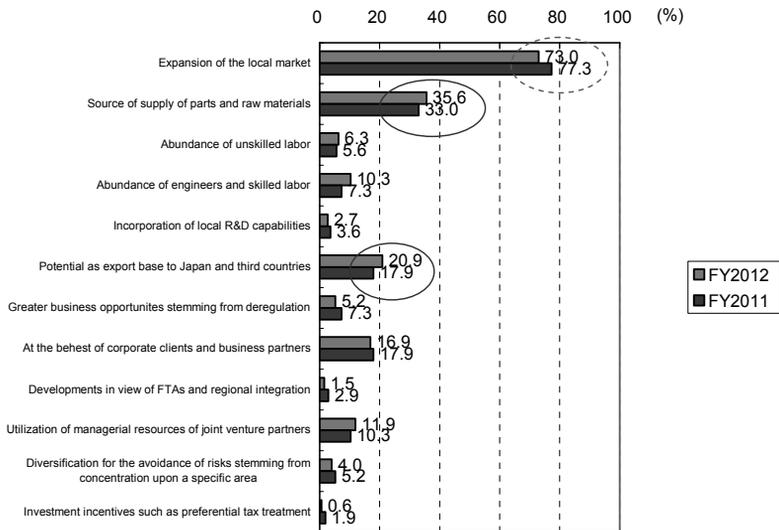
Chart 23: The most important reasons for doing business in the future (ASEAN, multiple responses allowed)



Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*
 (No. of responses: FY2011 591 companies, FY2012 583 companies)

Turning to the NIEs, the response rate for was 60.4% for the “expansion of the local market”, followed by the “source of supply of parts and raw materials” (26.8%) (**Chart 25**). Compared with the previous survey, the response rate for the “source of supply of parts and materials” fell 6.1% pt (FY2011: 32.9%, FY2012: 26.8%), indicating a possible rise of procurement costs on a yen–basis due to the appreciation of the Korean Won against the Japanese Yen from the second half of FY2012 (**Chart 9**). On the other hand, the response rate for “potential as export base to Japan and third countries” rose 2.2% pt (FY2011: 19.2%, FY2012: 21.4%), suggesting the rise of expectations as an export base due in part to the effectuation of free trade agreements (FTAs) (EU and South Korea in July 2011 and the US and South Korea in March 2012).

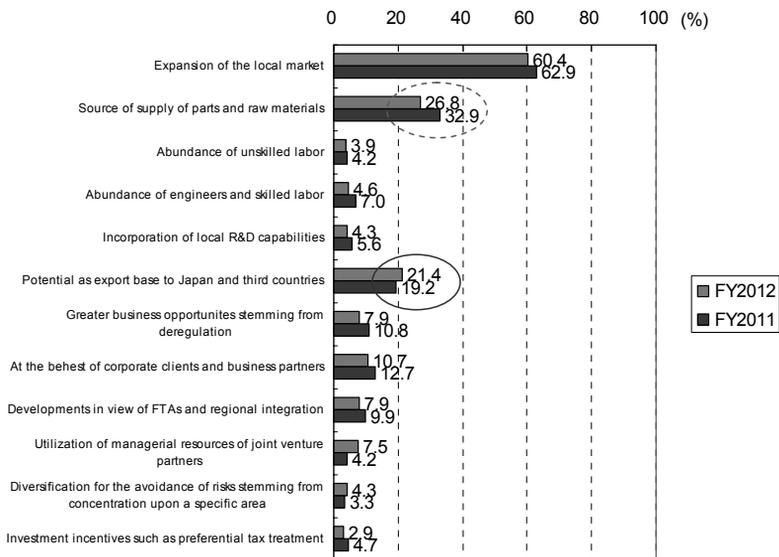
Chart 24: The most important reasons for doing business in the future (China, multiple responses allowed)



Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*
(No. of responses: FY2011 591 companies, FY2012 478 companies)

As for India, the response rate for the “expansion of the local market” turned out to be 82.1% (**Chart 26**). Compared with the previous survey, the response rate for “the “expansion of the local market” fell 5.5% pt (FY2011: 87.6%, FY2012: 82.1%). The results appear to indicate that despite high expectations as a growth market on a medium to long-term perspective, the economic slump persisting for the past few years has led to a reluctance toward India in investment and business. Moreover, note that the response rate for “potential as export base to Japan and third countries” rose 9.4% pt (FY2011: 7.6%, FY2012: 17.0%). The results suggest the rise of expectations toward India as a new export base, given the gradual increase of exports from India to Europe and Asia in areas such as small passenger cars due to the progress of industrial agglomeration.

Chart 25: The most important reasons for doing business in the future (NIEs, multiple responses allowed)

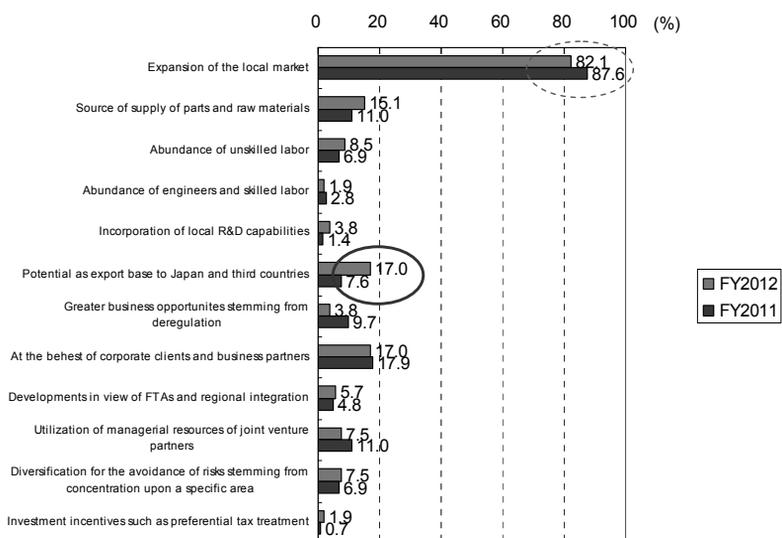


Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*
 (No. of responses: FY2011 213 companies, FY2012 280 companies)

(3) The number of industrial sectors focusing upon the ASEAN surpass the number of industrial sectors focusing upon China

A look at the “the geographic area of focus in the future” in terms of industrial sector revealed that only three out of 10 sectors (“precision instruments”, “textiles”, “electrical machinery”) intend to focus upon China. In contrast, the results showed that seven sectors (“chemicals”, “general machinery”, “non-ferrous metals”, “iron & steel”, transport equipment”, “food”, “fabricated metals”) intend to focus upon the ASEAN. Furthermore, it should be noted that the response rates rose in nine sectors (Chart 27).

Chart 26: The most important reasons for doing business in the future (India, multiple responses allowed)



Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*
 (No. of responses: FY2011 145 companies, FY2012 106 companies)

Considering that China ranked in first place in eight out of 10 sectors and that the ASEAN ranked in first place in only two sectors (“transport equipment” and “fabricated metals”) in the previous survey, the results show that Japanese corporate enterprises are starting to shift their focus toward the ASEAN.

Furthermore, the response rates for the NIEs also rose in seven sectors, indicating the focus of attention of Japanese corporate enterprises upon the ASEAN which possess high income levels and

Chart 27: Geographic area of focus in the future (by industrial sector and size of corporate enterprise) (multiple responses allowed)

		China	ASEAN	NIEs	India	US	Europoe	Central and South America	No. of responses
Chemicals	FY2012 (A)	49.0	51.0	33.3	17.7	8.3	11.5	5.2	96
	FY2011 (B)	70.4	43.2	23.5	18.5	7.4	9.9	7.4	81
	(A) - (B)	-21.4	7.8	9.8	-0.8	0.9	1.6	-2.2	
Precision instruments	FY2012 (A)	58.3	58.3	36.1	16.7	22.2	11.1	0.0	36
	FY2011 (B)	74.3	37.1	20.0	28.6	14.3	11.4	8.6	35
	(A) - (B)	-16.0	21.2	16.1	-11.9	7.9	-0.3	-8.6	
Textiles	FY2012 (A)	46.0	40.6	12.0	2.0	6.0	4.0	2.0	50
	FY2011 (B)	58.7	34.8	15.2	2.2	4.3	4.3	2.2	46
	(A) - (B)	-12.7	5.2	-3.2	-0.2	1.7	-0.3	-0.2	
General machinery	FY2012 (A)	47.2	59.1	30.8	13.5	13.0	11.4	6.7	193
	FY2011 (B)	55.7	48.5	30.5	19.8	10.2	9.0	6.6	167
	(A) - (B)	-8.5	10.6	0.4	-6.3	2.8	2.4	0.1	
Electrical machinery	FY2012 (A)	41.0	47.8	28.4	10.4	12.7	11.9	5.2	134
	FY2011 (B)	57.0	39.7	20.5	10.6	13.9	9.9	4.0	151
	(A) - (B)	-16.0	8.1	7.9	-0.2	-1.2	2.0	1.2	
Non-ferrous metals	FY2012 (A)	25.9	40.7	14.8	3.7	14.8	7.4	3.7	27
	FY2011 (B)	36.9	38.5	15.4	15.4	10.3	10.3	5.1	39
	(A) - (B)	-10.0	2.2	-0.6	-11.7	4.5	-2.9	-1.4	
Iron & steel	FY2012 (A)	25.8	46.5	16.3	14.0	14.0	4.7	7.0	43
	FY2011 (B)	35.7	38.1	7.1	21.4	14.3	2.4	11.9	42
	(A) - (B)	-10.1	8.4	9.2	-7.4	-0.3	2.3	-4.9	
Transport equipment	FY2012 (A)	37.8	51.1	15.6	11.1	8.9	2.2	6.7	45
	FY2011 (B)	45.7	63.0	8.7	28.3	10.9	8.7	6.5	46
	(A) - (B)	-7.9	-11.9	6.9	-17.2	-2.0	-6.5	0.2	
Food	FY2012 (A)	31.7	35.4	18.9	3.7	14.0	7.9	1.8	164
	FY2011 (B)	43.4	21.4	10.3	2.8	9.0	3.4	0.0	145
	(A) - (B)	-11.7	14.0	8.6	0.9	5.0	4.5	1.8	
Fabricated metals	FY2012 (A)	30.9	42.6	13.0	7.4	8.0	5.6	3.1	162
	FY2011 (B)	39.5	41.5	15.6	14.3	7.5	6.1	3.4	147
	(A) - (B)	-8.6	1.1	-2.6	-6.9	0.5	-0.5	-0.3	
Large corporations	FY2012 (A)	56.8	71.2	21.6	21.6	18.4	11.2	10.4	125
	FY2011 (B)	75.2	59.8	23.9	29.1	17.1	17.9	17.9	117
	(A) - (B)	-18.4	11.4	-2.3	-7.5	1.3	-6.7	-7.5	
Small and medium corporations	FY2012 (A)	34.6	41.9	21.5	6.7	9.8	7.6	3.0	1,178
	FY2011 (B)	44.7	34.9	16.4	9.9	7.6	5.6	2.6	1,126
	(A) - (B)	-10.1	7.0	5.1	-3.2	2.2	2.0	0.4	

Note: The shaded area received the highest rate of responses and the areas shaded in diagonal lines received the second highest rate of responses.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

infrastructure, and are home to global enterprises such as Samsung Electronics, LG, Hyundai Motor Company and BoHai Precision Machinery.

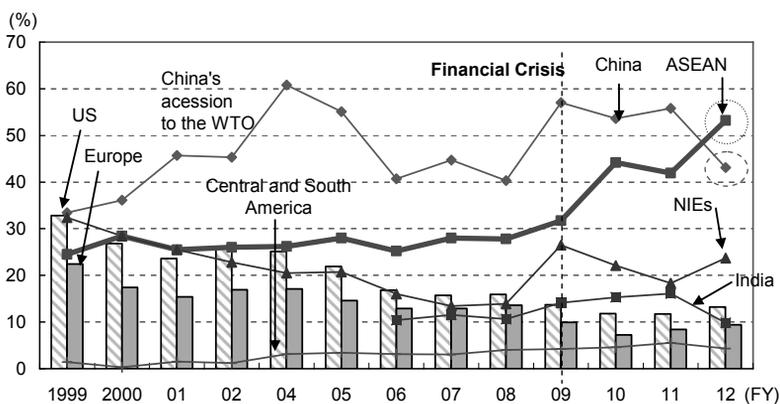
In contrast, the response rates for India fell in nine sectors, indicating that Japanese corporate enterprises are taking a cautious stance toward tapping the Indian market.

(4) Time series data shows a shift in business expansion from a prolonged focus upon China to the ASEAN benefitting from relative advantages

A look at the responses to the query on “the geographic area of focus in the future” in chronological order, we note that for the first time, the “ASEAN” replaced “China” which has continuously ranked at the top place from the first survey (FY1999) (Chart 28).

As a result of China’s accession to the WTO in December 2001 and opening of its domestic market, the response rate citing China

Chart 28: Trends in geographic area of focus among Japanese corporate enterprises (multiple responses allowed)



Notes: 1. “India” was only included in the questionnaire from the FY2006 Survey. Therefore, no data exists for previous years.

2. Refer to Note 3 at the end of the paper with respect to time series data.

Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

as “the geographic area of focus in the future” soared to the 60%–level in FY2004. Even though the response rate citing China as the geographic area of focus gradually declined since then due to the rise of attention toward other emerging countries, the response rate citing China surged in FY2009, reflecting its economic recovery ahead of other countries in the aftermath of the global financial crisis. While the response rate was pinned at a high level since then, the rate dropped sharply reflecting the rise of tensions between Japan and China due to the issue involving the Senkaku Islands in FY2012.

While the response rate citing the ASEAN continued to hold the second place following the NIEs from the FY2002 survey as the area emerged out of the economic stagnation after the Asian financial crisis, the response rate has leveled out since then. In FY2010, the response rate rose significantly as the ASEAN economy recovered following China’s economic recovery. The response rate remained high in FY2011 even as Japanese enterprises in the area were hit by the flooding in Thailand, and surpassed the response rate for China in FY2012. In contrast to China which will reach a demographic peak in the next decade or so, the population will continue to grow in many of the countries of the ASEAN, leading to expectations toward market expansion. Furthermore, the ASEAN’s attractiveness for investors should grow, given the progress of market unification such as the abolishment of all customs and tariffs as a general rule in the ASEAN region along with the establishment of the ASEAN Economic Community in 2015.

Although the market size of the NIEs is smaller than China and the ASEAN, its importance is recovering given its re–evaluation for its high income level comparable to the developed economies, its sophisticated infrastructure, and the expansion of commercial opportunities in the BtoB market of local enterprises which have grown into global players. In contrast, the importance of India appears to be declining at the moment.

Thus far, the business strategy of Japanese corporate enterprises in Asia may be described as “Sino–centric”, in the light of the pre–

eminent size and growth of the Chinese economy. In FY2012, the concurrence of adverse conditions such as the rise of production costs and economic slowdown in China and the rise of Sino-Japanese Japanese corporate enterprises appear to have started to shift their focus toward the ASEAN possessing relative advantages. For the time being, their business strategies should be directed toward the ASEAN.

6. Expectations toward the Abe administration regarding Asian business (all corporations (1,303 companies))

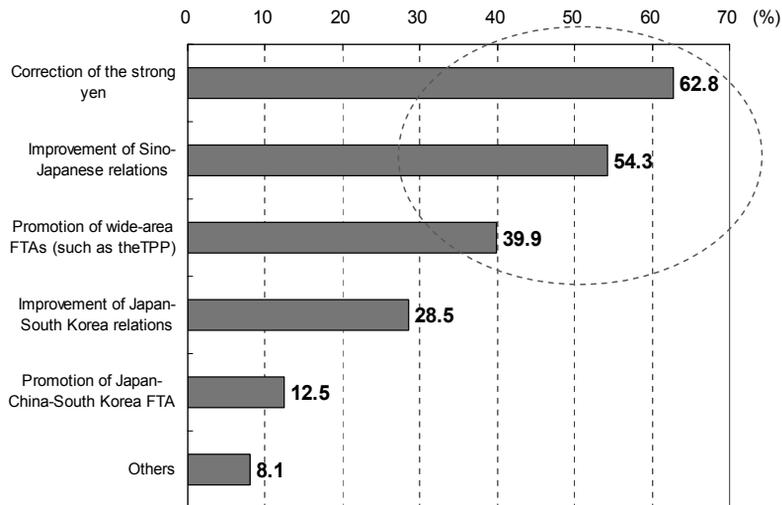
As the last question, we asked respondents on the sort of policy measures they wish to see implemented under the administration of Shinzo Abe from the perspective of support toward Asian business. We provided seven alternative responses including: “improvement of Sin-Japanese relations”, “correction of the strong yen”, “promotion of wide-area FTAs (such as the Trans-Pacific Partnership (TPP))”, “promotion of Japan-China-South Korea FTA”. As a result, the “correction of the strong yen” turned out to be the most desirable policy (62.8%), followed by the “improvement of Sino-Japanese relations” in second place (54.3%), and the “promotion of wide-area FTAs (such as the TPP) in third place (39.9%) (**Chart 29**).

With respect to the “correction of the strong yen”, the fact that the yen has lost further ground since February 2013, when this survey was conducted, enables us to conclude that the Abe administration has been able to comply with the wishes of corporate enterprises (note 7). Furthermore, as for the “promotion of wide-area FTAs (such as the TPP)”, Japan has joined the TPP negotiations after the Japan-US summit meeting in February this year. In view of requests among respondents calling for “policy measures toward the future, based upon a comprehensive consideration of both the

expansion of Asian business and expansion of domestic employment”, and “the strengthening of relations with countries other than those of East Asia”, the progress of wide-area FTA negotiations contributing to the construction of a win-win relationship among Japan and the countries of Asia (and the Pacific) would be desirable.

In contrast, judging from the fact that the leaders of the two countries still have not held high-level talks, the Abe administration appears to be facing difficulties in the “improvement of Sino-Japan relations”. Even though satisfaction on earnings among Japanese firms’ Chinese affiliates has declined sharply (Chart 14) and that the ASEAN has replaced China as the top “geographic area of focus in the future” (Chart 28), we look toward the Abe administration’s brinksmanship to break the deadlock in view of the numerous Japanese corporate enterprises which have entered and expanded their businesses in China.

Chart 29: “Desirable policy measures under Abe administration”



Source: MHRI, *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia*

7. Concluding remarks: Japanese corporate enterprises shift their focus of Asian business from China to the ASEAN

In FY2012, the Chinese, NIEs and Indian economies lost momentum reflecting the global economic slowdown despite the restoration of supply chains disrupted in FY2011 due to the Great East Japan Earthquake and Thai floods. Furthermore, Sino-Japanese tensions rose due to issues such as the Senkaku Islands. On the other hand, the ASEAN economy generally enjoyed solid growth due in part to the domestic demand-led growth of Indonesia. The key points of the recent survey conducted under the foregoing conditions may be summarized as follows.

1. In the Asian business of Japanese corporate enterprises, the strategy of establishing local affiliates is spreading to a wider range of industrial sectors.

This phenomenon may stem from the shift in motive of Japanese corporate enterprises' forays into Asia from the "reduction of production costs" to "tapping the local markets". As a result, the trend to establish business affiliates in Asia is spreading to a wide range of sectors, driven by the "transport equipment" sector which has led the way into local markets, followed by the "electrical machinery", "precision instruments", and "chemicals" sectors.

2. Even though sales turned out to be weaker than expected in FY2012, many corporate enterprises expect an upturn in FY2013.

A comparison of the forecasts on sales in FY2012 in the previous and latest surveys reveals a downward shift from the previous survey particularly with respect to China and the NIEs. In addition to China's economic slowdown from 2011 (+9.3%) to 2012 (+7.8%) and the slowdown of the NIEs from 2011 (+4.0%) to 2012

(+1.7%), the issue revolving around the Senkaku Islands appears to have dampened sales forecasts regarding China. However, note that there are many Japanese corporations expect sales to pick up across Asia reflecting the gradual economic recovery of China and the NIEs.

3. Satisfaction on Asian affiliates' earnings fell from the previous survey, in particular with respect to affiliates in China.

The DI fell across all areas along with Asia's economic slowdown. Even though the earnings DI managed to remain in positive territory with respect to the affiliates in the ASEAN, the depth of the fall was most prominent with respect to the affiliates in China. The Senkaku Islands issue in addition to the rise of production costs and growth rate in China provides a dire picture of the earnings environment of the overseas affiliates in Asia.

4. Japanese corporate enterprises are shifting their focus of business from China to the ASEAN reflecting the deterioration of the investment environment in China.

The rise of production costs and slowdown of growth in China and the Senkaku Islands issue have led to a shift in focus of Japanese corporate enterprises overseas business expansion, with the ASEAN overtaking China in terms of ranking. Furthermore, while the previous survey indicated a sole focus upon Indonesia with respect to market expansion, the latest survey revealed the expansion of focus to other countries such as Thailand, Vietnam, Malaysia and the Philippines while still placing emphasis upon Indonesia. The latest results also portrayed the difficulties of Japanese corporate enterprises in coping with rising production costs such as labor costs in the ASEAN, and hence a shift to countries such as Cambodia, Laos and Myanmar (CLM) where labor costs are lower.

Lastly, in response to the survey's query on requests toward the Abe administration in relation to Asian business, responses ranking high on the list of desirable measures were the correction of the yen appreciation,

improvement of Sino–Japan relations, and the promotion of wide–are FTAs (such as the TPP).

Since its inauguration at the end of 2012, the Abe administration may be commended for responding to the Japan’s corporate sector, given the correction of the strong yen to a large extent which has been the greatest concern for Japanese companies and the pavement of a path toward a wide–area FTA. However, there has not been much improvement in the area of Sino–Japanese relations. While Japanese companies are diversifying their risks by strengthening their businesses in the ASEAN, the improvement of Sino–Japanese relations is an earnest desire for the recovery of their business in China.

**Supplement: Overview of the 13th
Questionnaire Survey of Japanese
Corporate Enterprises Regarding
Business in Asia**

Survey conducted by Mizuho Research Institute Ltd.

Period of survey: February 1st to 28th of 2013

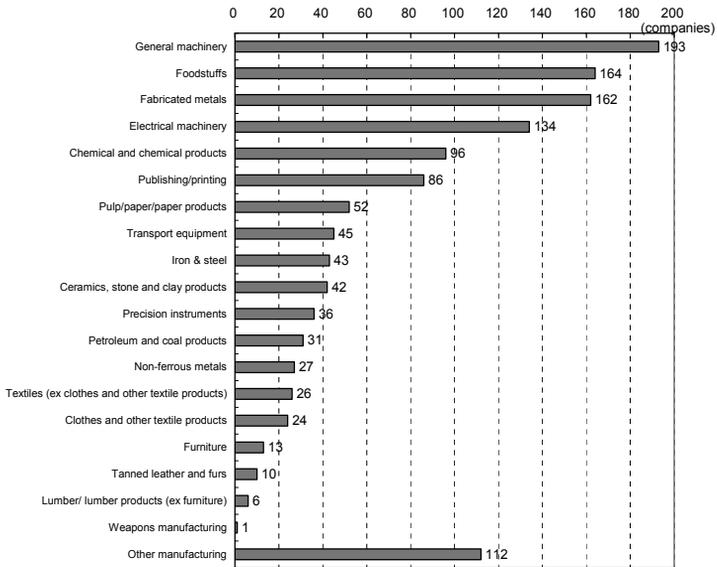
Coverage of survey: Manufacturers with capital over JPY10 million among member corporations of Mizuho Research Institute, Ltd.

Questionnaire surveys sent to: 4,699 companies

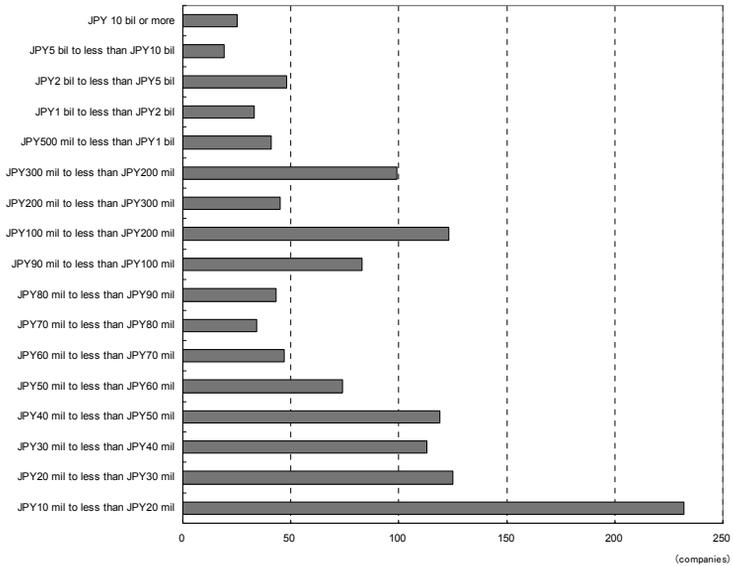
Effective responses: 1,303 companies (percentage of responses 27.7%)

Survey method: Dispatch and collection of questionnaires by postal mail

Component Ratio by Industry



Component Ratio by Capital



- In this report, “Asia” refers to the 11 countries/areas including the NIEs (South Korea, Taiwan, Hong Kong, Singapore), the ASEAN-5 (Indonesia, Thailand, Malaysia, Philippines, Vietnam), China and India. Note that India and Vietnam have been added from the survey in FY2006.
- In this report, Japanese corporate enterprises are categorized as follows: “large corporations” with capital of JPY1 billion or over, and “small and medium sized corporations” with capital less than JPY1 billion.
- The overviews of the *Questionnaire Survey of Japanese Corporate Enterprises Regarding Business in Asia* conducted in the past are as follows. Due to differences in the number and industrial sectors of the respondents, adjustments have been made so as to compare similar parent populations when using time series data. Note that a survey was not conducted in FY2003.

1 st Survey	2 nd Survey	3 rd Survey	4 th Survey	5 th Survey	6 th Survey	7 th Survey	8 th Survey
Conducted in Nov 1999 Sent to 1,200 randomly selected companies (ex financial institutions). 859 valid responses	Conducted in Aug 2000 Sent to 1,200 randomly selected companies (ex financial institutions). 872 valid responses	Conducted in Aug 2001 Sent to 1,200 randomly selected companies (ex financial institutions). 822 valid responses	Conducted in Jun 2002 Sent to 1,200 randomly selected companies (ex financial institutions). 782 valid responses	Conducted in Mar 2004 Sent to 2,339 manufacturing companies with capital over JPY50 million. 776 valid responses	Conducted in May 2005 Sent to 5,157 manufacturing companies with capital over JPY10 million. 1,351 valid responses	Conducted in Apr 2006 Sent to 2,483 manufacturing companies with capital over JPY50 million. 683 valid responses	Conducted in Jul 2007 Sent to 5,078 manufacturing companies with capital over JPY10 million. 1,180 valid responses
9 th Survey	10 th Survey	11 th Survey	12 th Survey	13 th Survey			
Conducted in Oct-Nov 2008 Sent to 4,949 manufacturing companies with capital over JPY10 million. 1,383 valid responses	Conducted in Feb 2010 Sent to 5,341 manufacturing companies with capital over JPY10 million. 1,486 valid responses	Conducted in Feb 2011 Sent to 5,137 manufacturing companies with capital over JPY10 million. 1,416 valid responses	Conducted in Feb 2012 Sent to 4,767 manufacturing companies with capital over JPY10 million. 1,243 valid responses	Conducted in Feb 2013 Sent to 4,699 manufacturing companies with capital over JPY10 million. 1,303 valid responses			

(Endnotes)

- 1 The major questions pertain to the 11 countries and regions including China, the NIEs (South Korea, Taiwan, Hong Kong, Singapore), ASEAN-5 (Thailand, Malaysia, Indonesia, Philippines, Vietnam), India. Some of the questions pertain to Cambodia, Laos, Myanmar (CLM) and Bangladesh.
- 2 The survey also provides an option to respond that the respondent is “not engaged in any Asian business”, so that 100 – “not engaged in any Asian business” = “engaged in some kind of Asian business”.
- 3 Time series analysis has been conducted upon limiting the respondents to “manufacturers with capital of JPY50 million or over. Therefore, for the data for FY2008 to FY2011, the results differ from the results of survey of “manufacturers with capital of JPY10 million or over” with respect to Japanese corporate enterprises. Note also that the sampling method was changed in FY2002. The FY1999–2002 survey is based upon a random sampling of manufacturers while the FY2004–2006 survey is based upon “manufacturers with capital of JPY50 million or over”. There is no data on FY2003 because a survey was not conducted.
- 4 Refer to the supplement at the end of this paper for a more details on the component ratio of the respondents according to capital and industry.
- 5 In this paper, “large corporations” refer to corporations with capital of JPY1 billion or over and “small and medium corporations” refer to corporations with capital of less than JPY1 billion.
- 6 The economy is expected to recover given the bottoming of the housing market and decline of energy costs accompanying the shale gas revolution.
- 7 Some of the respondents expressed concerns regarding the “rise of costs to import raw materials from Asia due to a sharp depreciation of the yen”. Looking forward, more companies could pass on the costs of imports to prices.

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