

ICRIER - SPF

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Overseas Business Operations by Japanese Manufacturing Companies



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PROFILE OF JBIC

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- JBIC is “a policy-based financing institution, which has a mandate to **implement Japan’s external economic policy and economic cooperation.**”
 - Established in October 1999
 - As a result of the merger of the Export-Import Bank of Japan (EXIM) and Overseas Economic Cooperation Fund (OECF)
 - 100% owned by the Government of Japan
 - Total assets of JPY 21 trillion (US\$ 200 billion)

JBIC's operations consist of:

- **“International Financial Operations”**, ranging from export loans, import loans, overseas investment loans, untied loans, guarantees and equity participation
and
- **“Overseas Economic Cooperation Operations”**, providing Official Development Assistance loans

Organizational Realignment

- As a result of the government decision on the reform of policy-based financing institutions, the two types of operations conducted by the current JBIC will be realigned on October 1, 2008 as follows:
 - ✓ International Financial Operations will be taken over by Japan Finance Corporation (“**JFC**”) as its international finance sector (“**New JBIC**”);
 - ✓ Overseas Economic Cooperation Operations will be succeeded by new Japan International Cooperation Agency (“**New JICA**”).

JBIC ANNUAL SURVEY ON OVERSEAS BUSINESS OPERATIONS BY JAPANESE MANUFACTURING COMPANIES

Survey Overview (p.2)

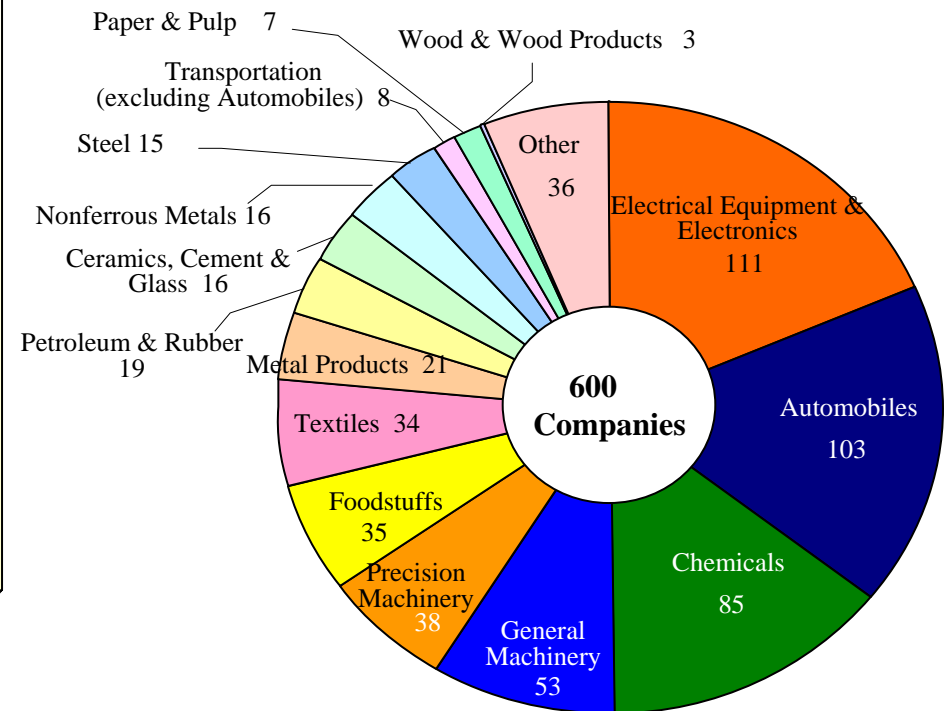
- **Survey targets: Manufacturing companies that have three or more overseas affiliates (including at least one production base)**
- **No. of companies questionnaires were mailed to: 970**
- **Responses returned: 600 (response rate: 61.9%)**
- **Period of survey: Sent in July 2007**
Responses returned from July to August
- **Main survey topics:**
 - Medium-term business prospects
 - Evaluations for overseas business performance
 - Promising countries or regions for overseas business operations
 - Competition in the global sales market
 - Important efforts domestically and abroad to maintain/improve international competitiveness

Companies Surveyed, Response Rates, and Overseas Affiliates

(Units: No. of companies, %)

Survey year	FY2007	FY2006	FY2005	FY2004	FY2003
Surveyed companies	970	967	945	939	932
Responses	600	594	590	595	571
Response rate	61.9	61.4	62.4	63.4	61.3
Overseas Affiliates	11,516	10,152	10,847	10,079	9,838

No. of Respondent Companies by Industrial Classification

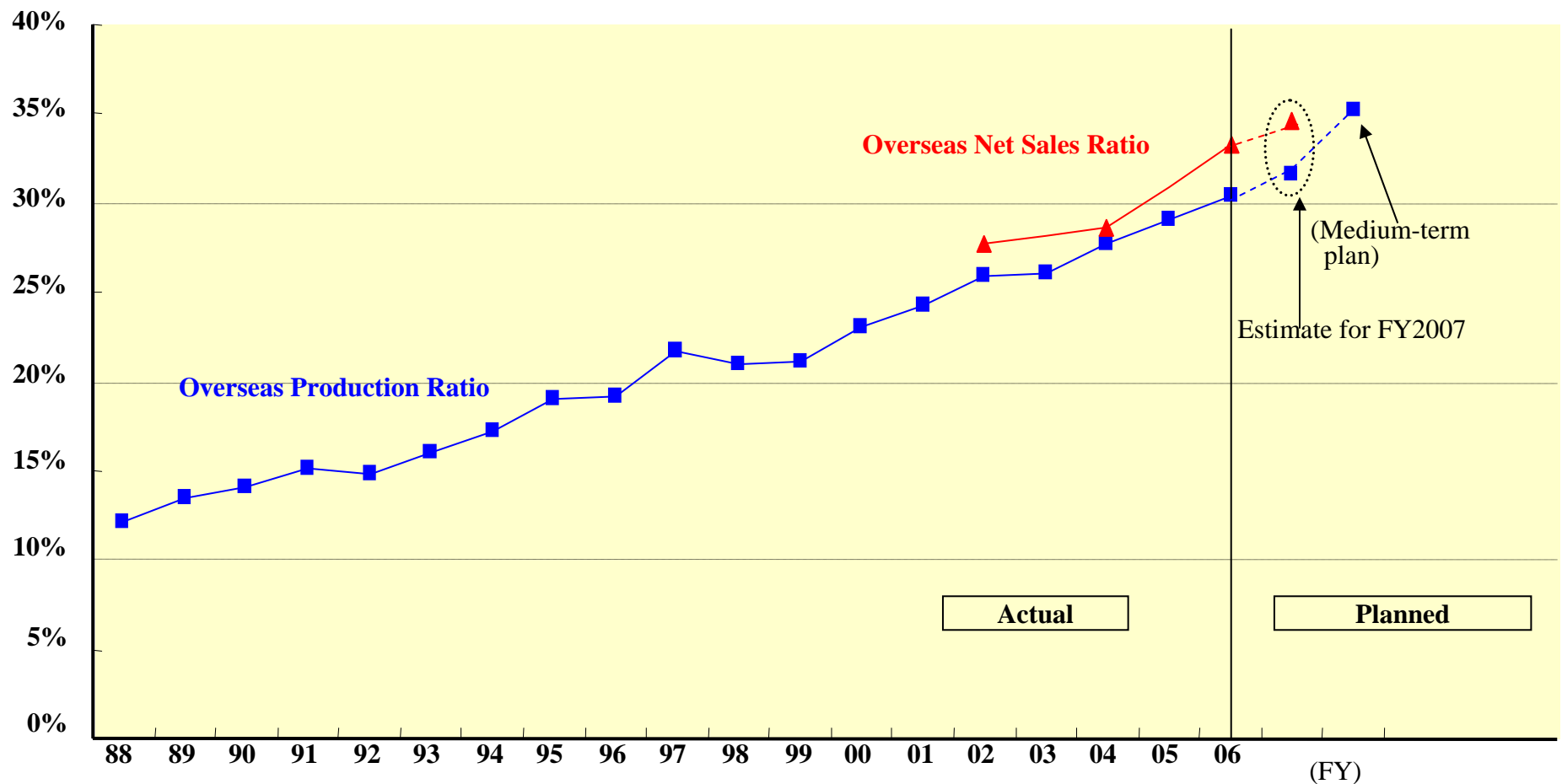


► See Appendix 1 for more detailed characteristics of the companies surveyed.

I. Status of Overseas Business Operations and Strategic Directions

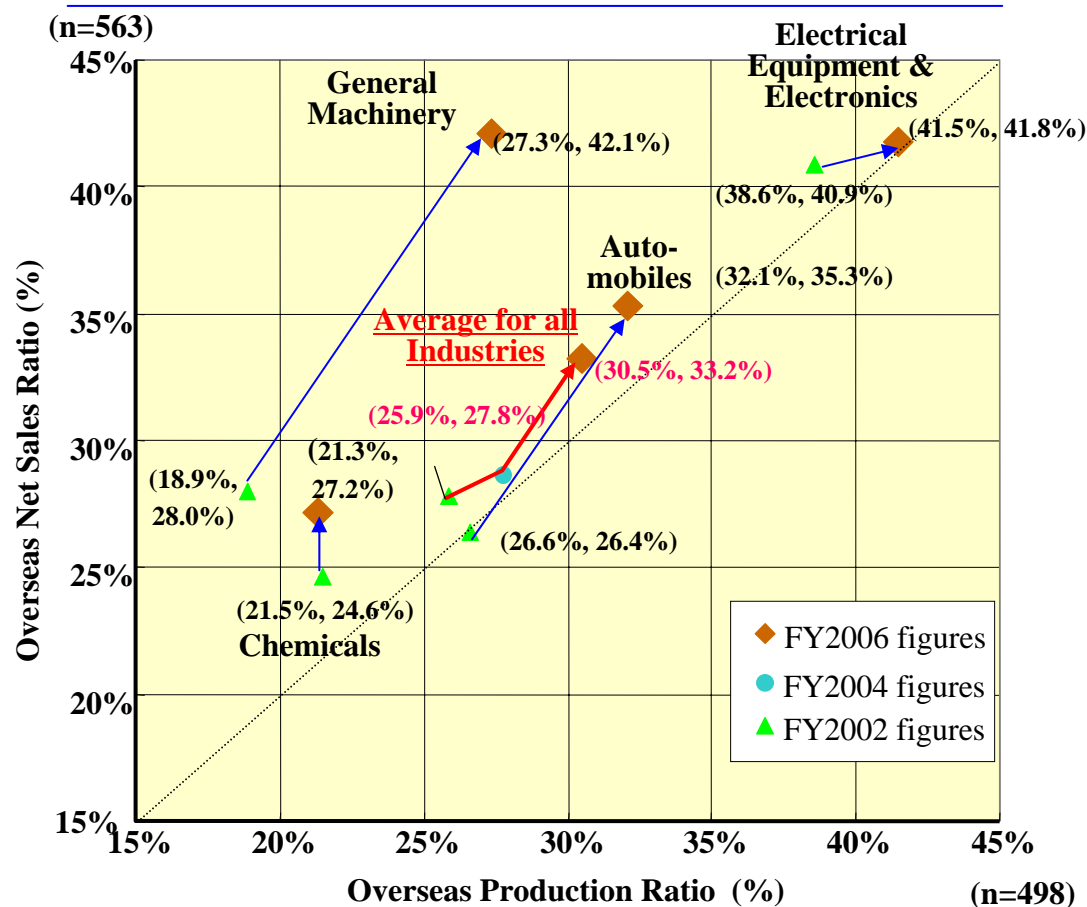
■ Overseas production and sales both on the rise, approaching 1/3 of the total production and sales (p.5)

Ratio of Overseas Production (average for all industries)

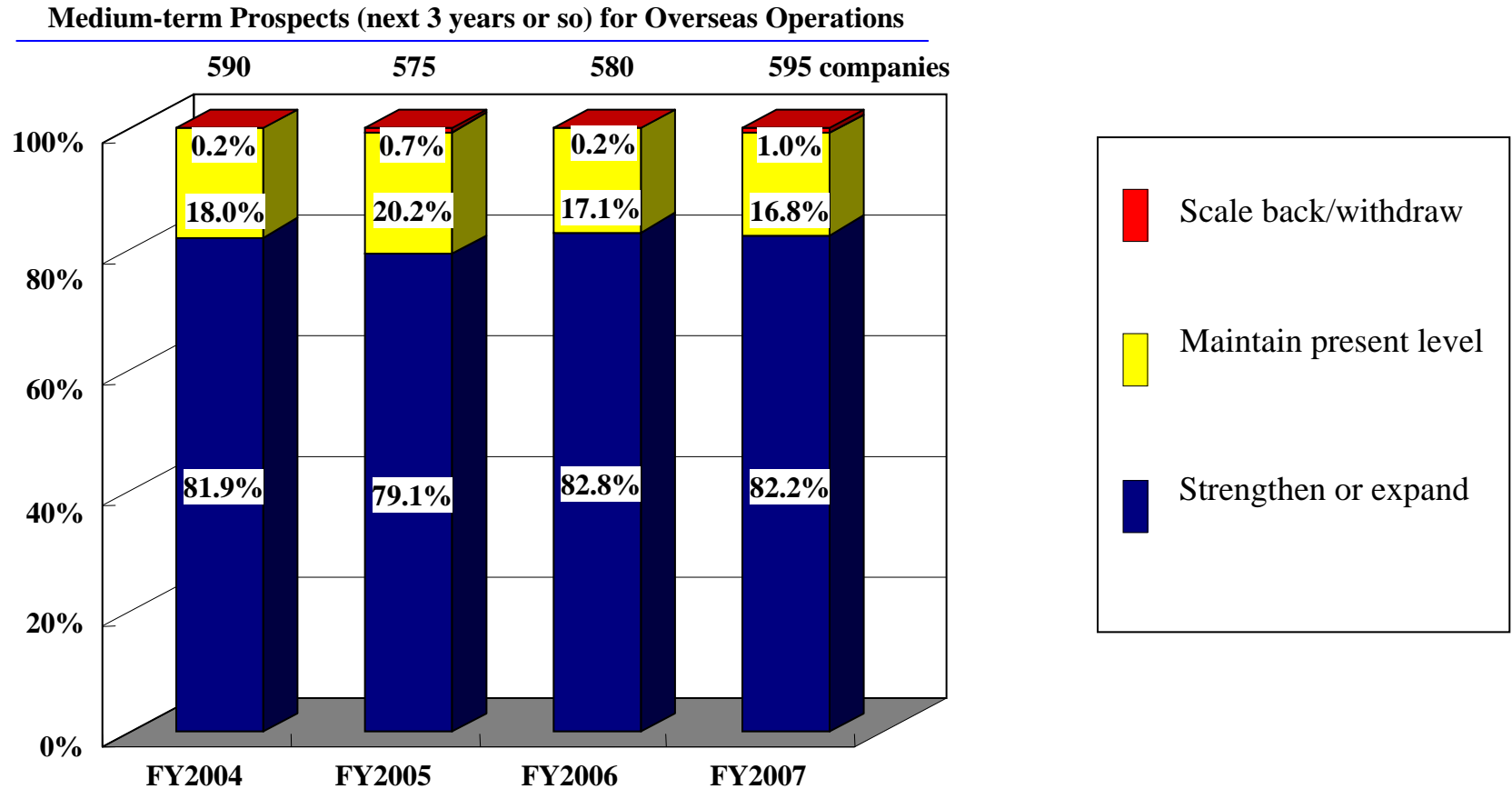


- Overseas operations in general machinery and automobile industries particularly showing strong growth (p.5)

Overseas Production & Net Sales Ratios

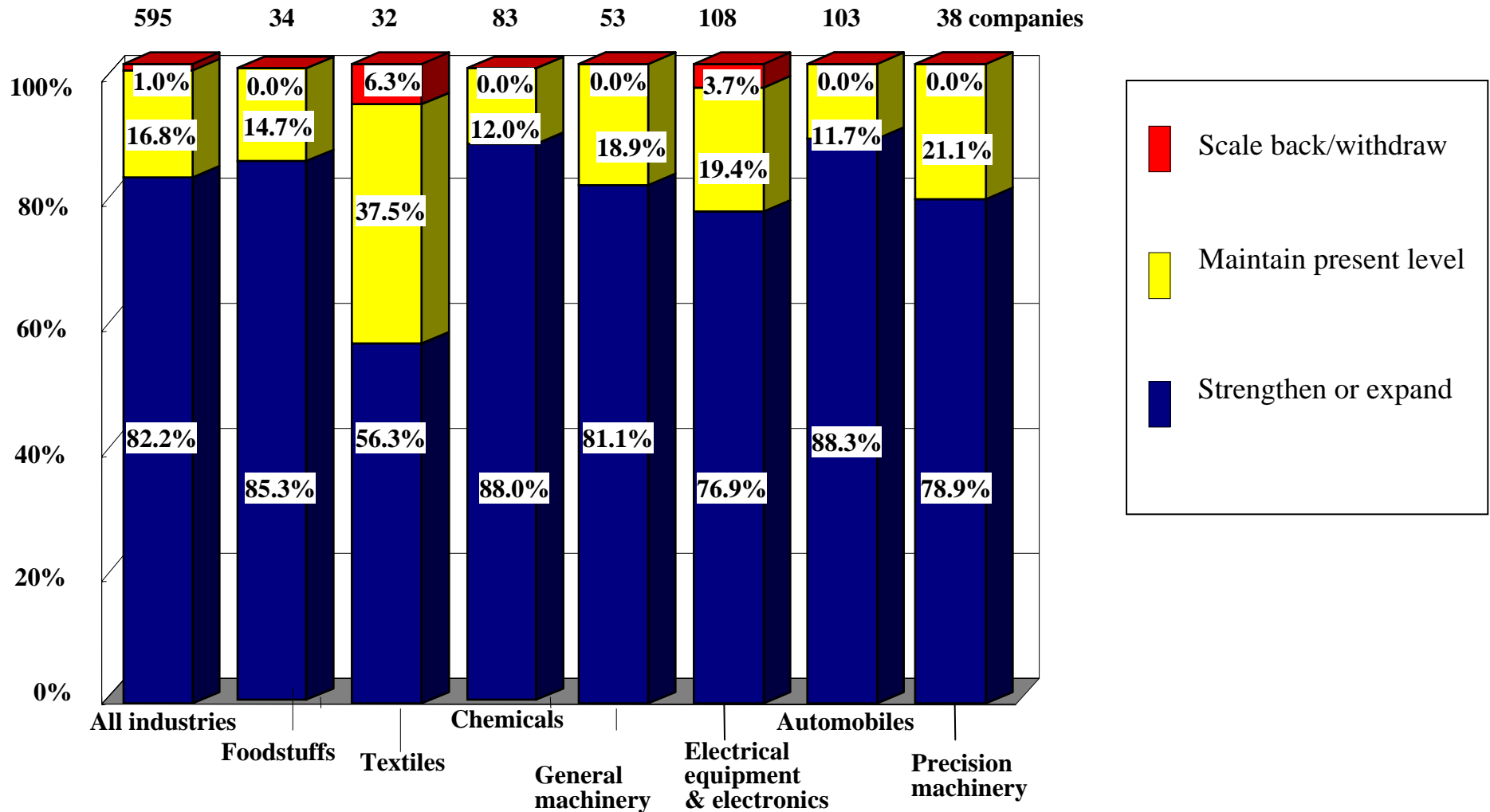


Strategies of strengthening or expanding overseas business operations continue (p.6)



■ Focus on automobiles stands out (p.6)

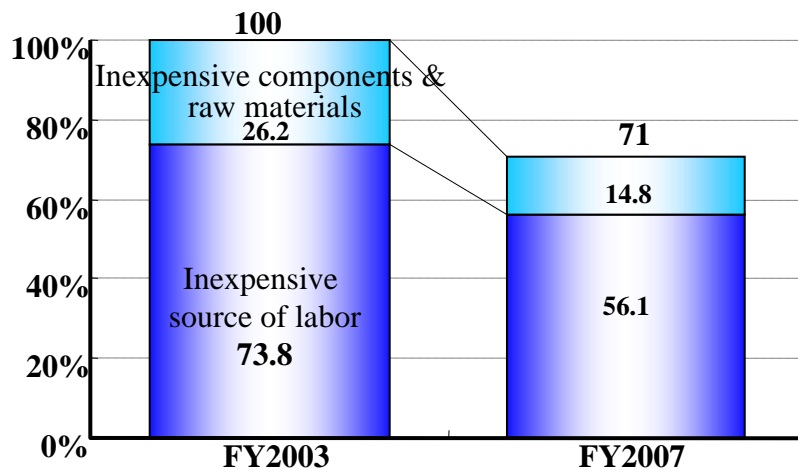
Medium-term Prospects (next 3 years or so) for Overseas Operations by industry



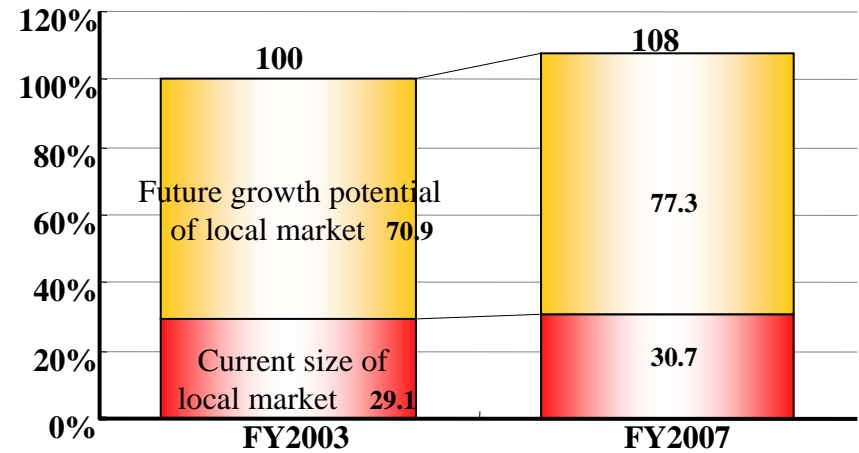
- Motivations for overseas investment are shifting from the search for low-cost to local markets (p.15)

Ratio of Reasons Cited for Being Promising (average for all reasons, percentages relative to FY2003 levels of same)

Low-cost Operations



Local Market



II. Promising Countries Ranking

- China maintains the top position, but India, Vietnam, and Russia increase their shares (p.13)

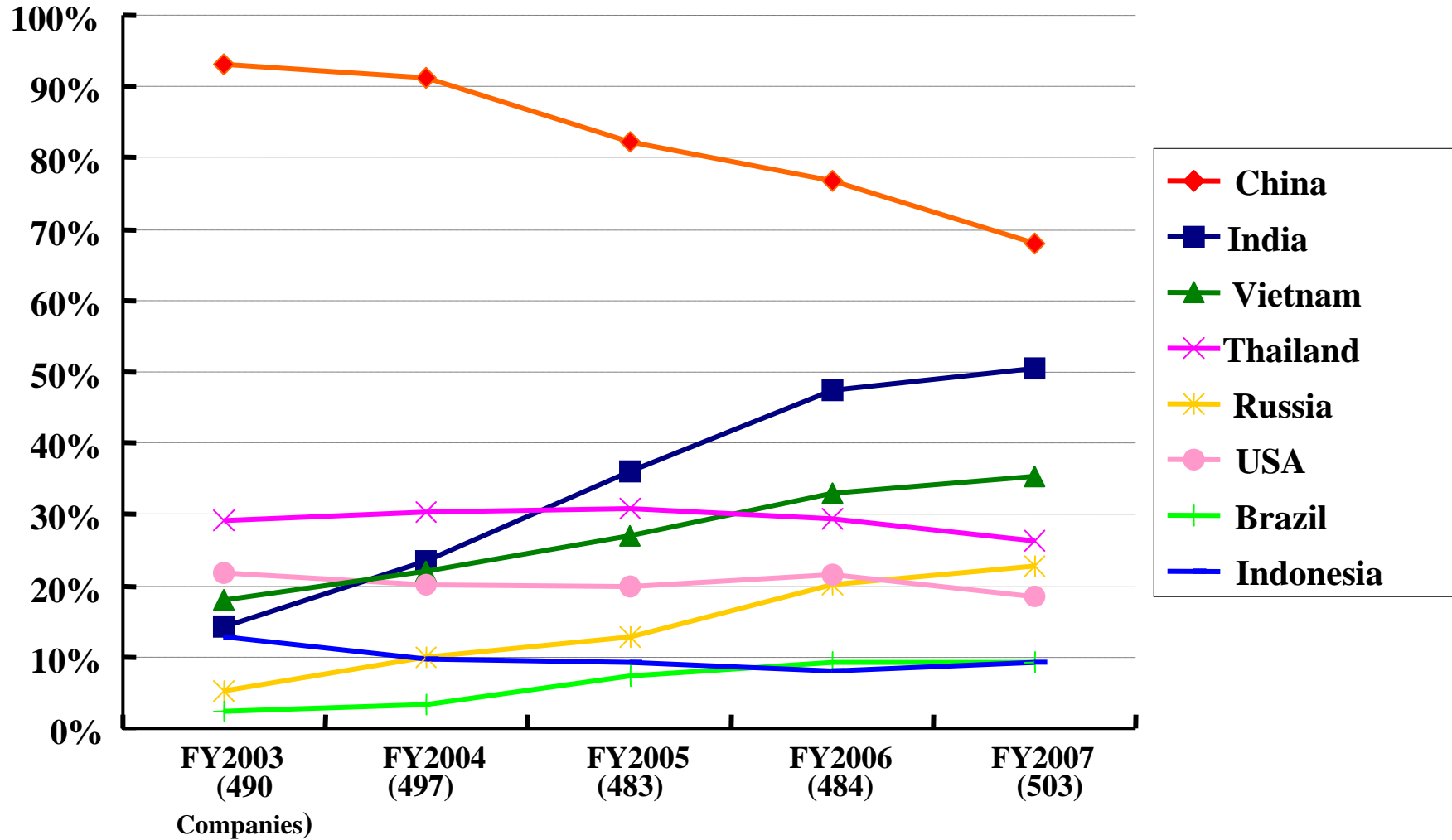
Promising Countries/Regions for Overseas Business Operations over the Medium-term (next 3 years or so) (multiple response)

Note: left column = respondent companies; right column = percentage share

Ranking	This year's survey	(Companies) 503	percentage share (%)	FY2006 Survey	(Companies) 484	percentage share (%)
1 st	China	342	68	China	372	77
2 nd	India	254	50	India	229	47
3 rd	Vietnam	178	35	Vietnam	159	33
4 th	Thailand	132	26	Thailand	142	29
5 th	Russia	114	23	United States	104	21
6 th	United States	93	18	Russia	98	20
7 th	Brazil	47	9	Brazil	45	9
8 th	Indonesia	46	9	Korea	44	9
9 th	Korea	32	6	Indonesia	39	8
10 th	Taiwan	24	5	Taiwan	27	6
11 th	Malaysia	21	4	Malaysia	22	5
12 th	Mexico	21	4	Germany	15	3
13 th	Philippines	15	3	Poland	15	3
14 th	Germany	15	3	Czech Republic	15	3
15 th	Czech Republic	13	3	Mexico	14	3
16 th	England	10	2	Philippines	12	2
17 th	Turkey	10	2	England	12	2
18 th	Hong Kong	8	2	Hungary	8	2
19 th	Australia	8	2	Canada	6	1
20 th	Poland	8	2	Australia	6	1
21 st	Saudi Arabia	8	2			

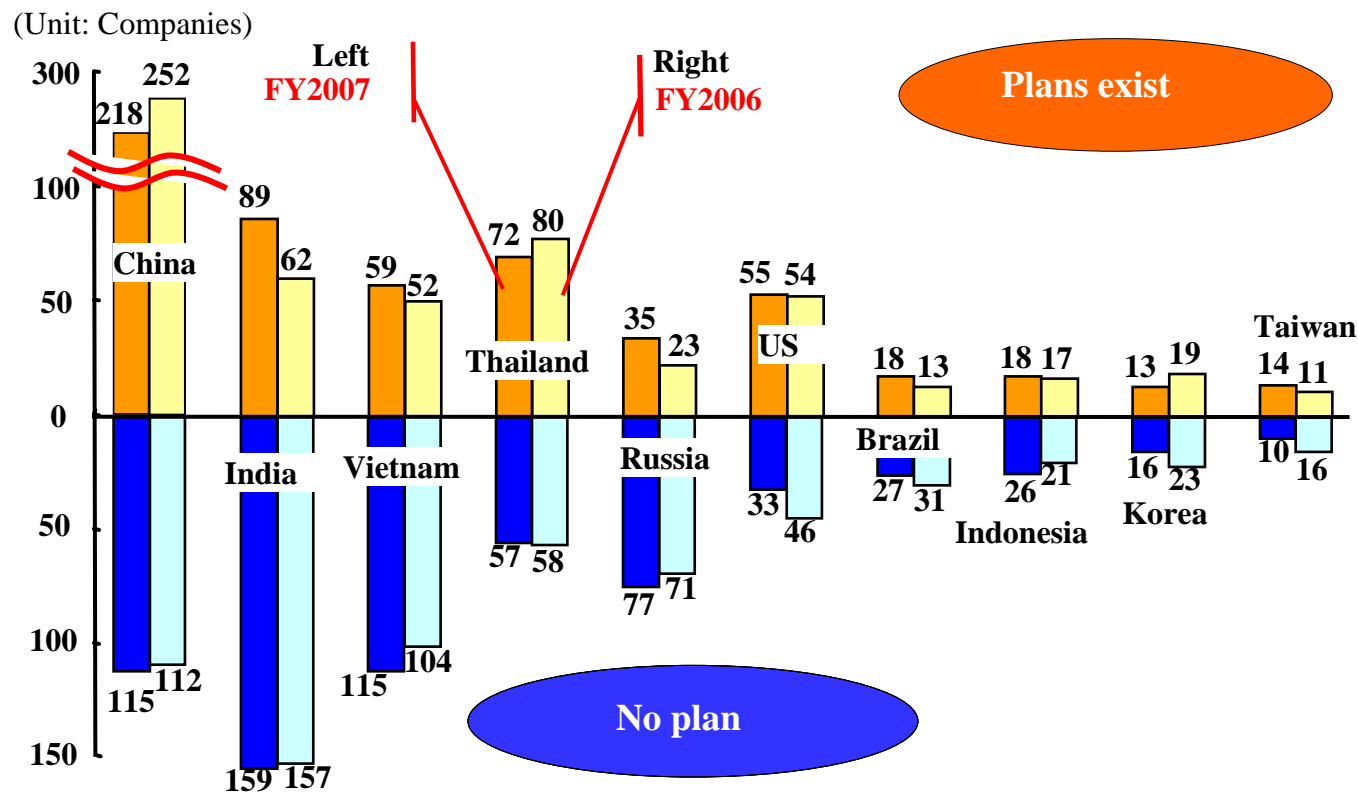
■ Interest shifts from China to India, Vietnam, and other countries (p.7)

Promising Countries/Regions for Overseas Business over the Medium-term (next 3 years or so): Percentage Shares

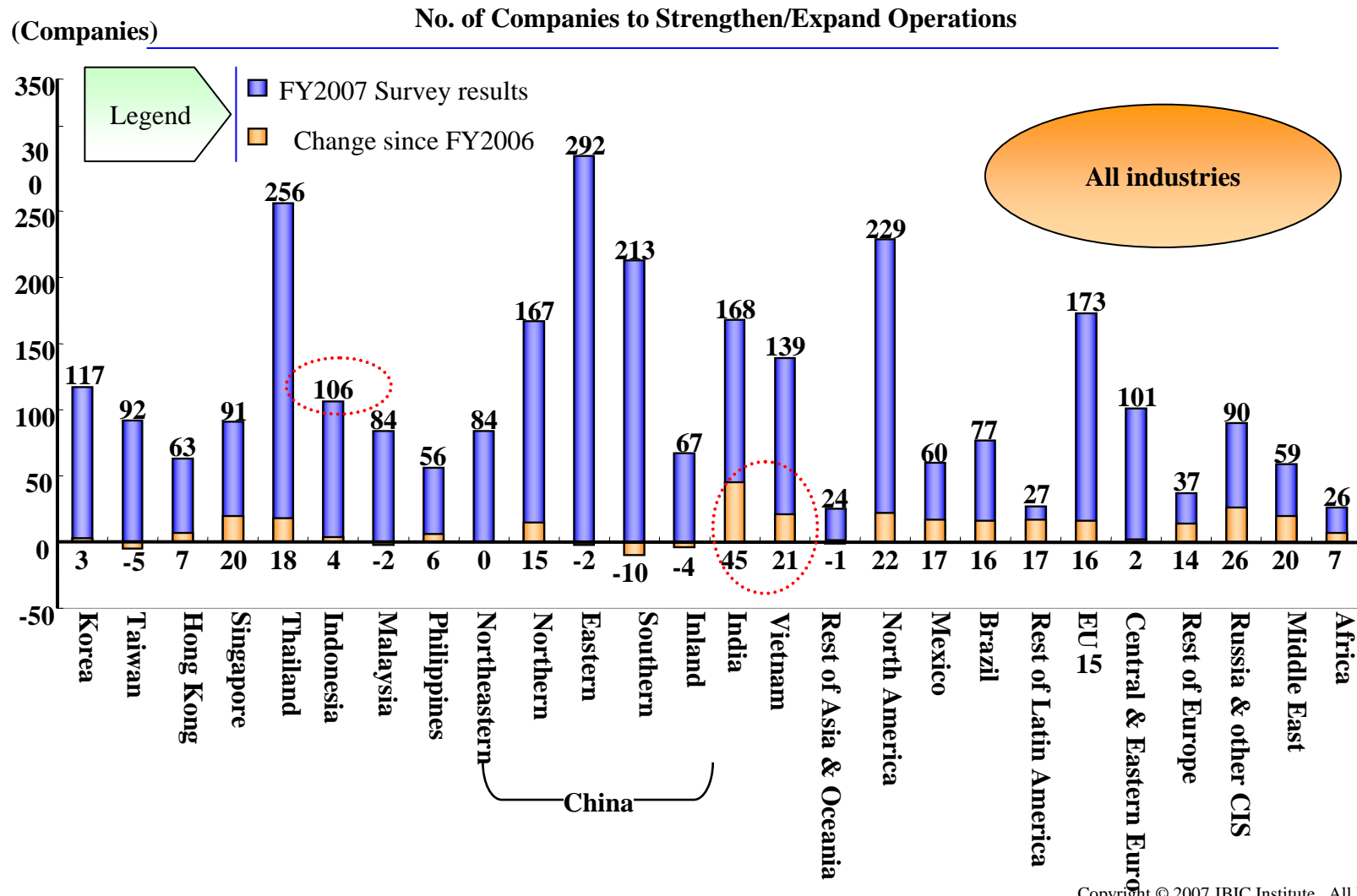


- India, Vietnam, and Russia are attracting more companies' attention, but the majority yet to have concrete business plans (p.13)

Existence of Concrete Business Plans for Promising Countries/Regions



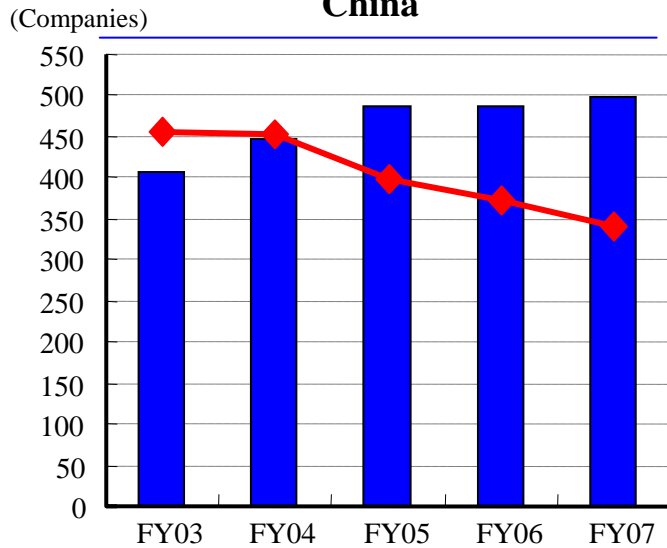
- The number of companies to strengthen operations in China leveling off, spreading out into other countries (p.8)



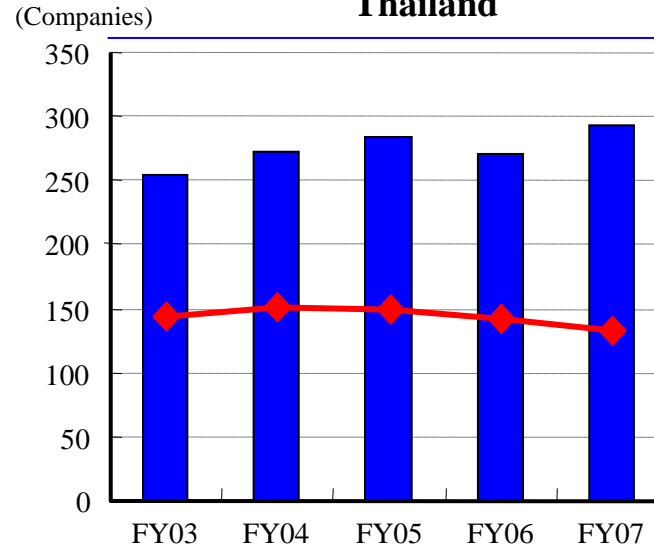
III. India and Other Promising Destinations—Comparison

■ Number of Companies with Production Bases and Indicating the Country as Promising (p.14)

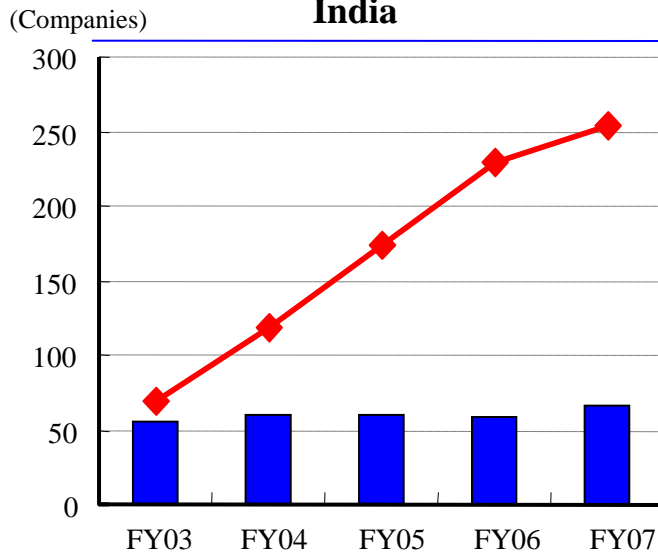
China



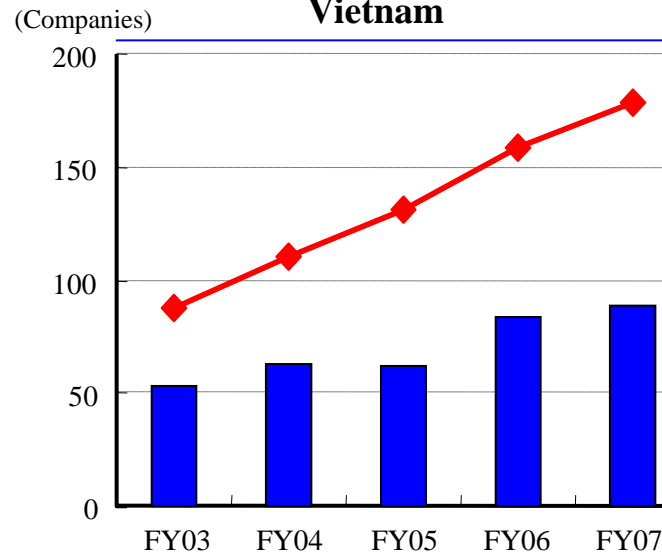
Thailand



India



Vietnam



■ Number of companies with one or more production bases

◆ Number of companies indicating the relevant country being "promising for overseas operations over the medium-term"

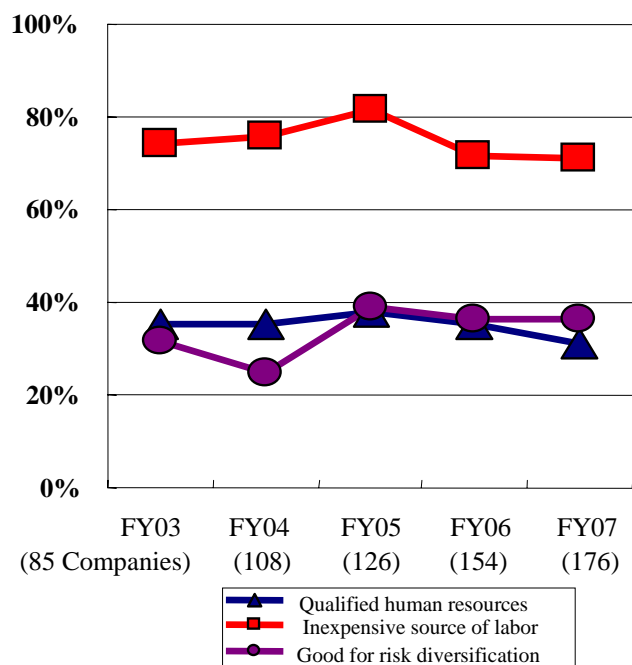
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- Businesses in **China** and **Thailand** being cultivated more deeply, while **India** and **Vietnam** gain attention as new destinations.
 - Although responses citing **China** as a promising country for overseas operations have decreased, the number of companies with production bases there is steadily increasing. **About 80% of the 600 respondent companies have production bases there**, and it is an extremely important destination for overseas expansion for Japanese companies.
 - Although companies citing **Thailand** as a promising overseas destination have reached a plateau in terms of numbers, **about 50% of respondent companies already have production bases there**, making it a core of operations in Southeast Asia.
 - The ratios of companies owning production bases in **India** and **Vietnam** remain at a mere 10% and 15% respectively, **actual moves into these countries are expected to pick up in the near future.**

IV. Why Promising?

Vietnam

	No. of companies	Ratio
(Total number of respondent companies: 176)		
1. Inexpensive source of labor	125	71.0
2. Future growth potential of local market	94	53.4
3. Good for risk diversification	64	36.4
4. Qualified human resources	55	31.3
5. Base of export to third countries	35	19.9
5. Social/political situation stable	35	19.9

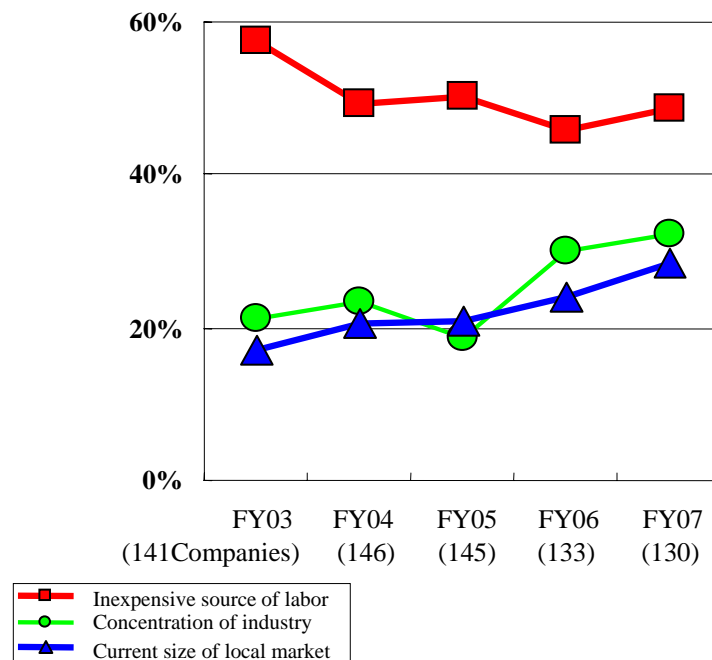
Reasons for Vietnam being promising



Thailand

	No. of companies	Ratio
(Total number of respondent companies: 130)		
1. Inexpensive source of labor	63	48.5
2. Future growth potential of local market	62	47.7
3. Supply base for assemblers	43	33.1
4. Concentration of industry	42	32.3
5. Current size of local market	37	28.5

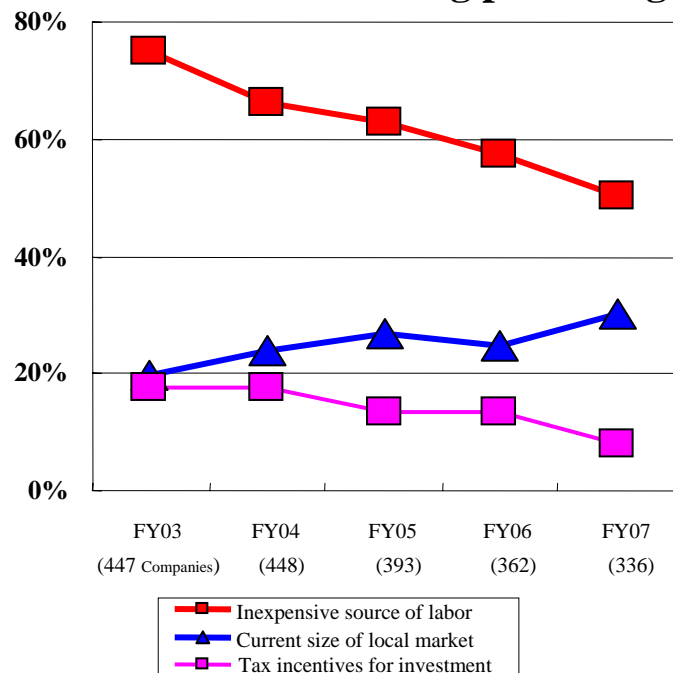
Reasons for Thailand being promising



China

	No. of companies	Ratio
(Total number of respondent companies: 336)		
1. Future growth potential of local market	268	79.8
2. Inexpensive source of labor	169	50.3
3. Current size of local market	101	30.1
4. Supply base for assemblers	95	28.3
5. Inexpensive components & raw materials	83	24.7

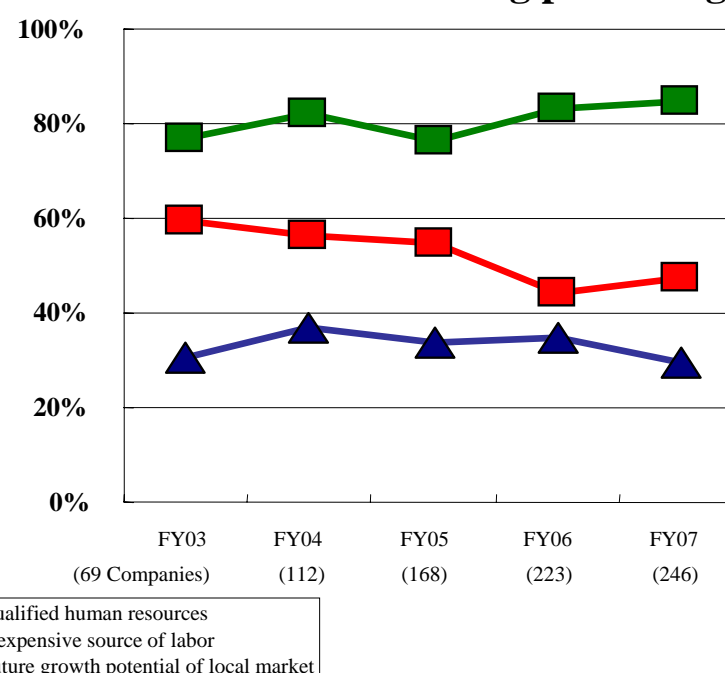
Reasons for China being promising



India

	No. of companies	Ratio
(Total number of respondent companies: 246)		
1. Future growth potential of local market	208	84.6
2. Inexpensive source of labor	117	47.6
3. Qualified human resources	73	29.7
4. Supply base for assemblers	57	23.2
5. Current size of local market	37	15.0

Reasons for India being promising

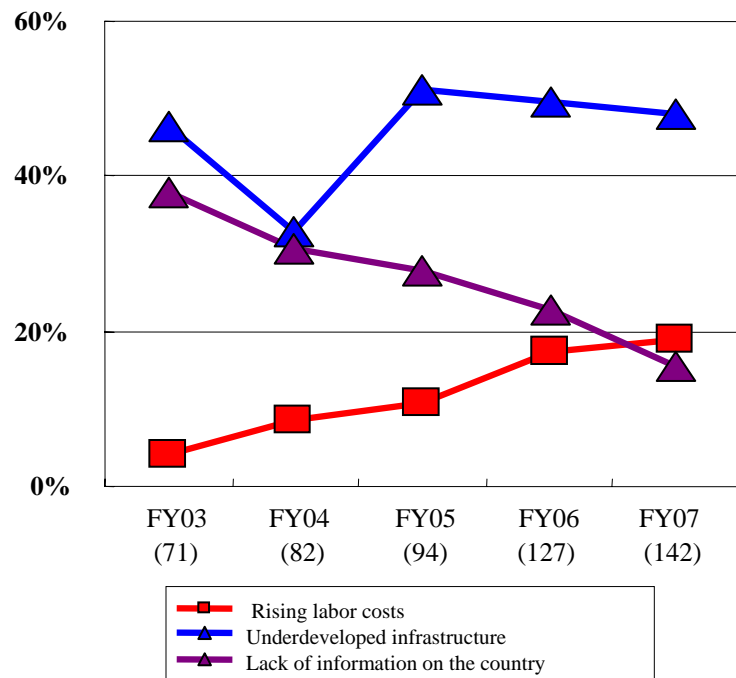


V. What are the Remaining Challenges?

Vietnam

	No. of companies	Ratio
(Total number of respondent companies: 142)		
1. Underdeveloped infrastructure	68	47.9
2. Difficult to secure management-level staff	56	39.4
3. Underdeveloped local supporting industries	50	35.2
4. Underdeveloped legal system	49	34.5
5. Execution of legal system unclear	49	34.5

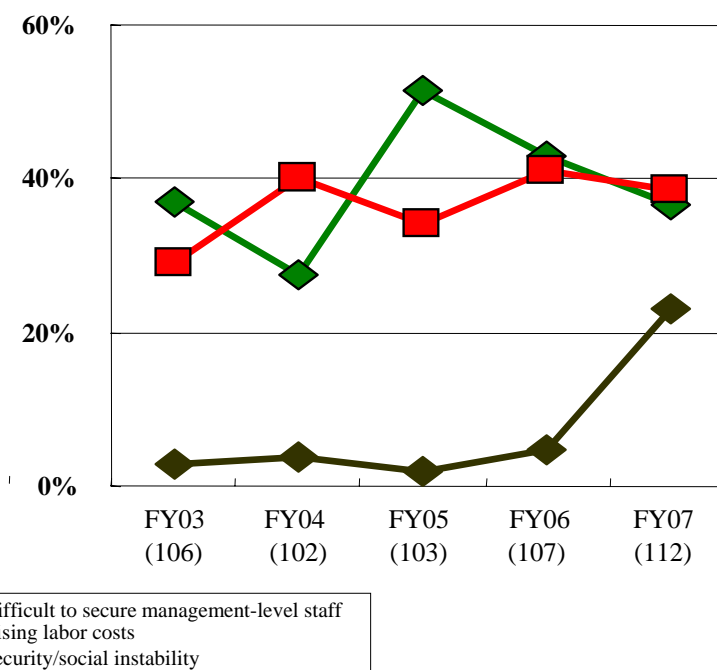
Challenges faced in Vietnam



Thailand

	No. of companies	Ratio
(Total number of respondent companies: 112)		
1. Intense competition with other companies	48	42.9
2. Rising labor costs	43	38.4
3. Difficult to secure management-level staff	41	36.6
4. Difficult to secure technical/engineering staff	27	24.1
5. Security/social instability	26	23.2

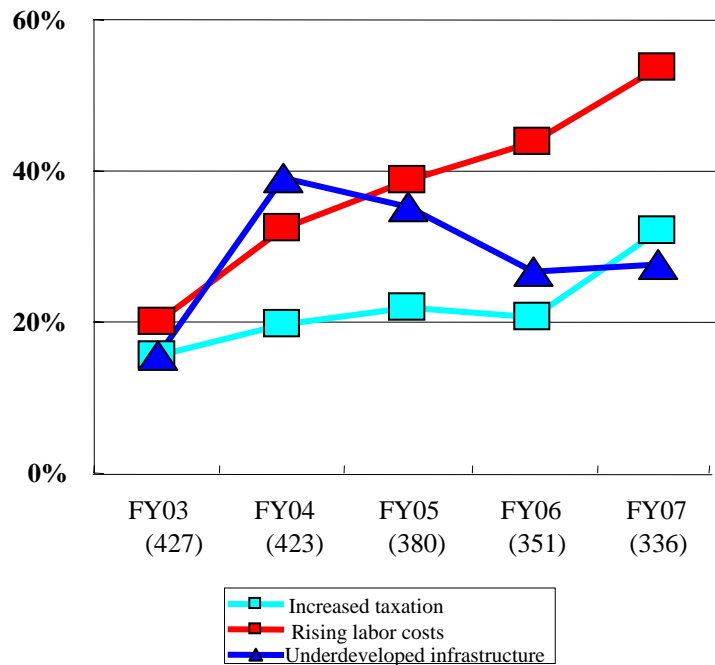
Challenges faced in Thailand



China

	No. of companies	Ratio
(Total number of respondent companies: 325)		
1. Execution of legal system unclear	211	64.9
2. Insufficient protection for intellectual property rights	177	54.5
3. Rising labor costs	174	53.5
4. Intense competition with other companies	146	44.9
5. Execution of tax system unclear	127	39.1

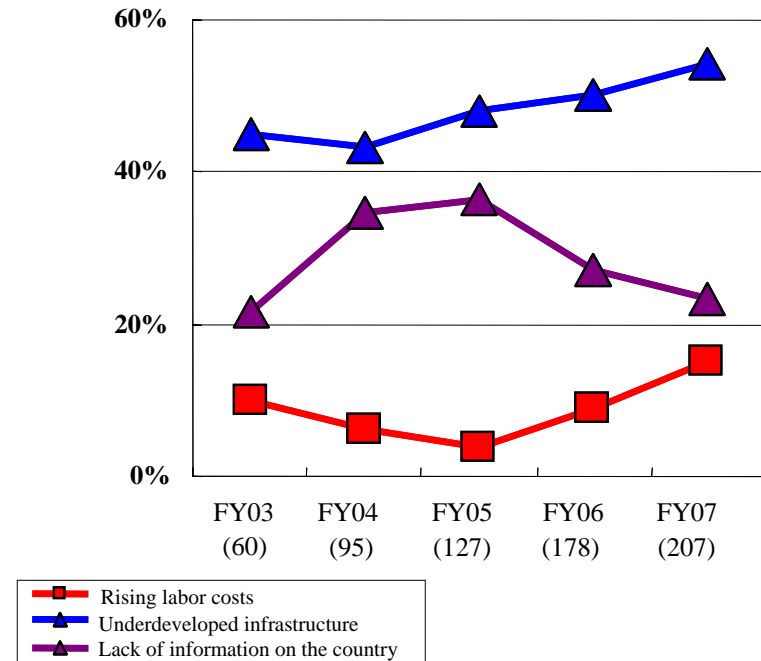
Challenges faced in China



India

	No. of companies	Ratio
(Total number of respondent companies: 207)		
1. Underdeveloped infrastructure	112	54.1
2. Execution of legal system unclear	56	27.1
3. Intense competition with other companies	50	23.7
4. Labor problems	49	44.9
5. Lack of information on the country	48	23.2

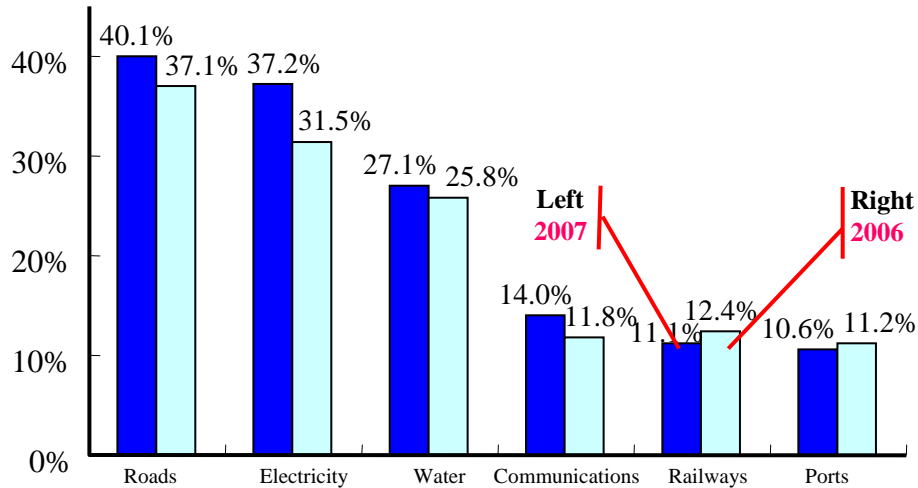
Challenges faced in India



For India, Infrastructure is viewed as a very real problem (p.19)

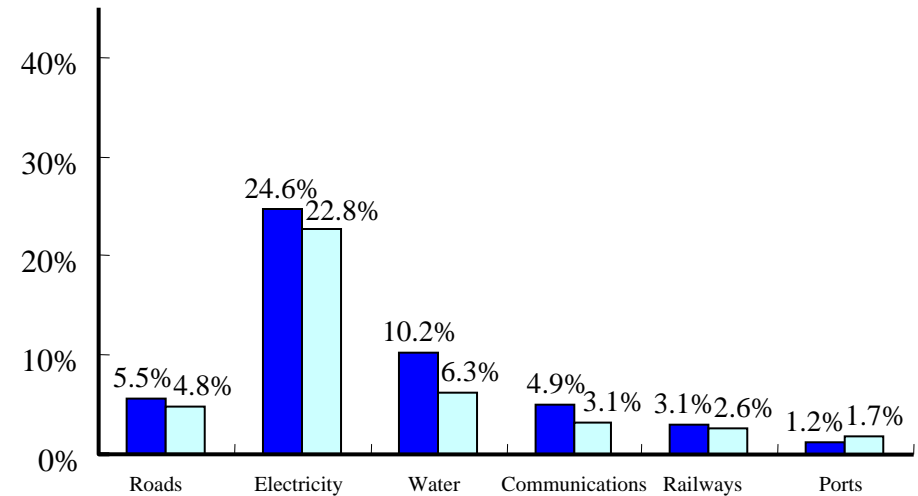
India

(n=207)



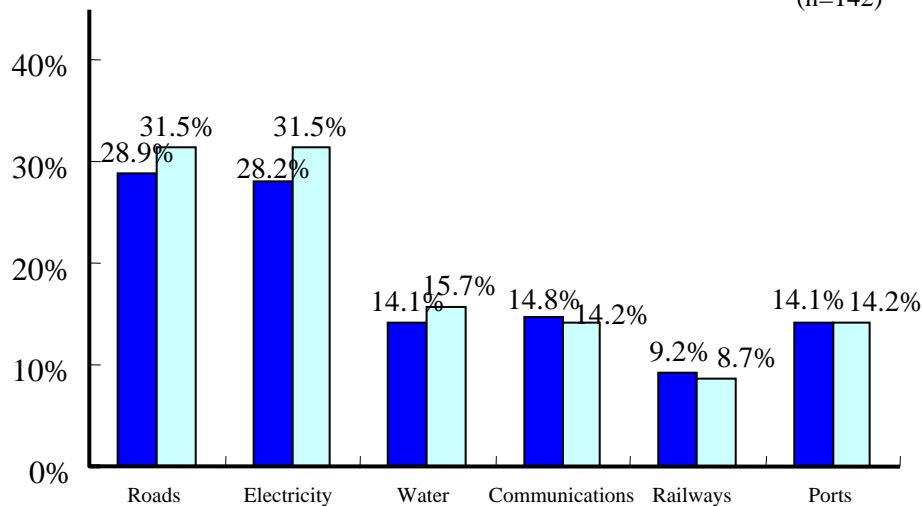
China

(n=325)



Vietnam

(n=142)



Note: These graphs represent which elements of infrastructure were thought to be underdeveloped by companies that chose “underdeveloped infrastructure” as a response to questions about “issues in promising countries”. The percentages in the graphs were calculated by dividing the number for each by the total number of companies giving answers to the “issues in promising countries” question.

- Many infrastructure-related issues cited for India. Roads, electricity and water in particular were listed as issues that need to be addressed.
- As the problem of insufficient information is solved and companies are beginning to study actually investing in India, the infrastructure issue is coming to be viewed as a very real problem.



Thank you!

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