Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

—Results of the JBIC JFY2024 Survey: Outlook for Japanese Foreign Direct Investment (36th Annual Survey)—

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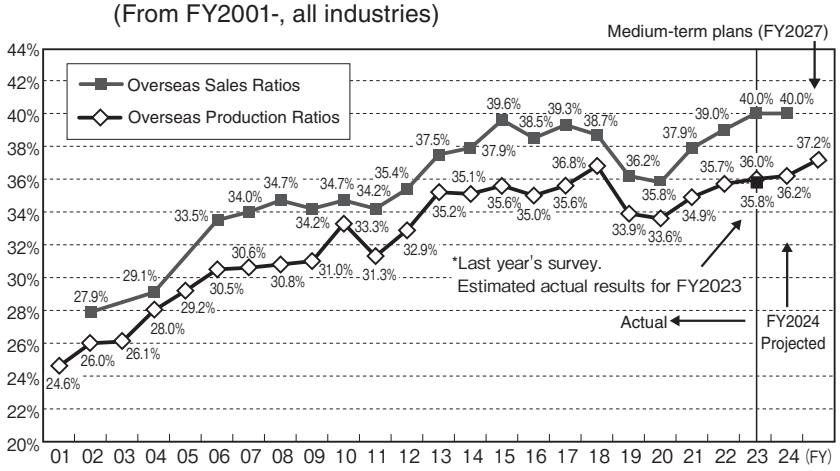
1. Introduction

Japan Bank for International Cooperation (JBIC) has released "Survey Report on Overseas Business Operations by Japanese Manufacturing Companies" for JFY 2024. The survey was sent out in July 2024 and collected through September (936 companies, 495 valid responses, 52.9% valid response rate). We would like to thank all the companies that responded to the survey.

Figure1. Trends in Overseas Production/Sales Ratio
(From FY2001-, all industries)



This year, we surveyed following topics: "Overseas Business Performance," "Medium-Term Business Prospects," and "Promising Countries/Regions" as regular items, and in addition, "Responding to Changing Supply Chain," "Initiatives for Business Transformation and Expansion of New Business," and "Initiatives for the Realization of a Sustainable Society" as special themes. Furthermore, in this year's survey we sent same set of questions to the non-manufacturing sector as well. The following is an overview of some of the most significant findings in this year's survey.

2. Overseas Production/Sales Ratio

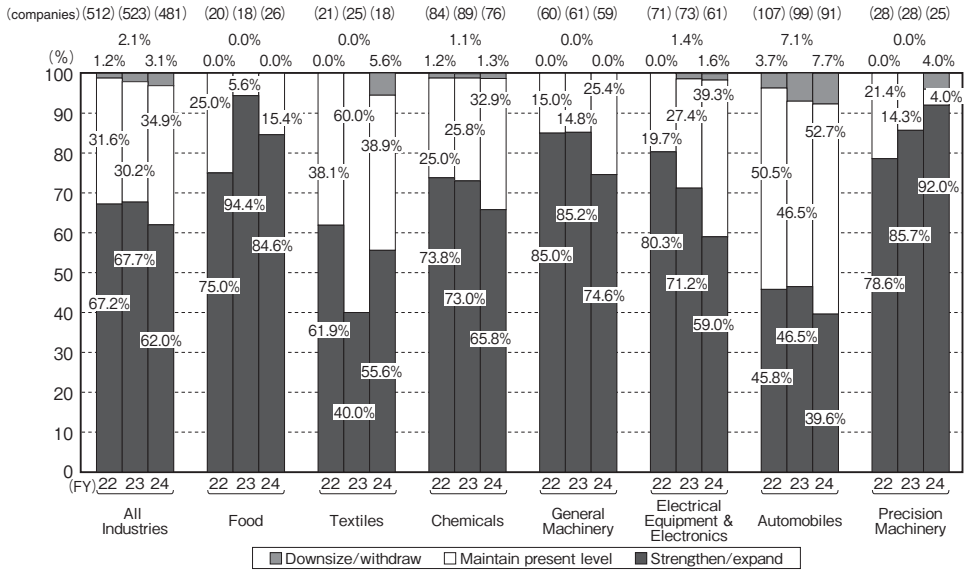
The actual overseas production ratio[1] in FY2023 (36.0%) exceeded the FY2023 estimate (35.8%) at the time of last year's survey; the FY2024 estimate is 36.2%, and the mid-term plan (FY2027) is expected to rise to 37.2%, with the possibility of a record high level, although growth will be gradual. In addition, the ratio of overseas sales[2] in FY2023 was 40.0%, a record high level against the backdrop of the yen's historic depreciation. (Figure 1)

Note 1: Overseas production ratio = Overseas production / (Domestic production + Overseas production)
Note 2: Overseas sales ratio = Overseas sales / (Domestic sales + Overseas sales)

3. Medium-Term Prospects for Businesses Expansions (Overseas/Domestic)

Regarding the prospects for overseas operations over the medium-term (approximately the next three years, the same applies below), 62.0% of all the responding companies said they will "strengthen/expand" their overseas operations this year, down 5.7 points from the previous year's survey and the first negative figure since the COVID 19 pandemic in 2020. The slowdown in global demand growth in China, ASEAN, and elsewhere, overproduction of EVs and other products in China, and intensifying competition due to the growth of local companies, in addition to the impact of exchange rate levels, are believed to have made many companies cautious about their overseas expansion.

Figure 2. Prospects for Medium-Term Overseas Business Expansions (by Industry)

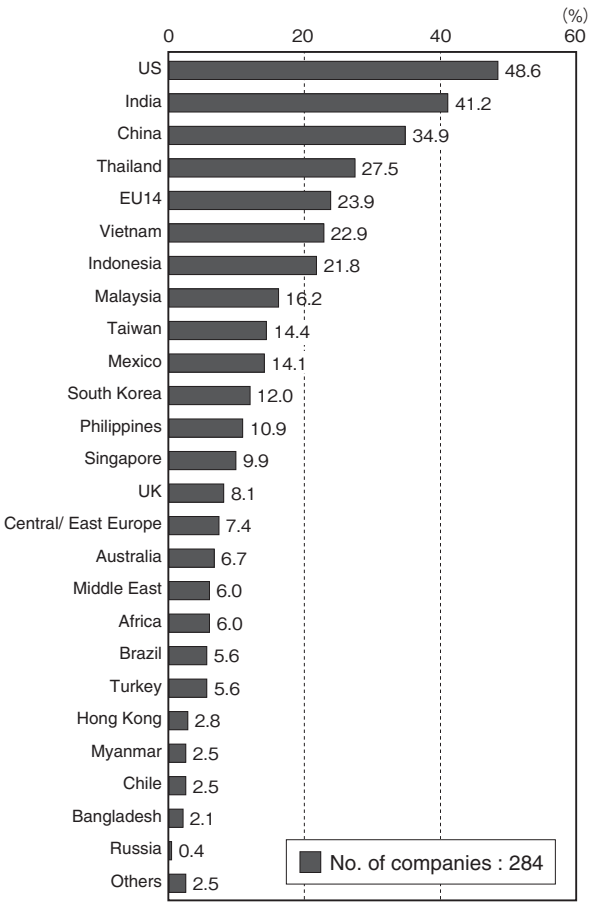


By industry, the "strengthen/expand" stance in the four major industries[3] declined across the board, particularly in electrical equipment & electronics, down by 12.2 points from the previous year. For automobiles, "downsize/withdraw" was also high at 7.7%. (Figure 2) It is believed that the intensifying competition in China and other countries, partly due to the rising technological capabilities of local companies, as well as the weak yen and the sluggish Chinese economy, are affecting the attitude of manufacturing companies toward their overseas business development.

Note 3: In this survey, automobiles, chemicals, electrical equipment & electronics, and general machinery are collectively referred to as the "four major industries."

When asked which country/region they would "strengthen/expand" their business in (Figure 3), the U.S. ranked first, receiving the largest number of votes from industries including general machinery and chemicals, backed by the resilience of the domestic economy. Some said, "Compared to Asia, the economy is stable and the market base is broad. We will expand our business from the perspective of local production for local consumption" (general machinery assembly). In India, while all four major industries, especially large companies, responded that they would "strengthen/expand" their businesses, the number of responses from small and midsize enterprises was sluggish, indicating that India continues to be a country with a high degree of difficulty. China was selected by the third highest percentage of respondents, and despite the slowdown in the Chinese economy,

Figure 3. Countries/Regions to Strengthen



companies that expect to demonstrate superiority in the Chinese market due to the size of the market responded that they will "strengthen business operations in China."

4. Ranking of Promising Countries

Responding companies were asked to name up to five promising countries/regions for business development in the medium-term, and the ranking is shown in Figure 4.

This year, India ranked first for three consecutive years. The percentage of companies that voted for India was 58.7%, up 10.1 points from the previous year, and the amount of direct investment also rose for three consecutive years, in line with the percentage of the companies that voted for India, suggesting that actual investments have been seen in recent years, despite its long-standing image as a country with a promising future. On the other hand, the "planned investment rate," which indicates whether the companies that responded that India is a promising country have an actual business plan, decreased 7.4 points (38.4%) from the previous year, indicating that while some companies have decided to expand into India, there are still those which consider the hurdles to make investment still too high.

China's vote share fell 11.0 points from the previous year to a record low of 17.4%, against a backdrop of a slowing domestic economy, price competition with local firms, and step-backs from China in the wake of the protracted U.S.-China conflict. The drop in the percentage of votes cast was also characterized this year by a shift of votes to India, widening the gap between the top and second-place finishers in the vote share.

Vietnam gained 1.2 points in the vote share to take second place, following last year's ranking, due to its relative cost advantage as an alternative to the Chinese base. While the U.S. was highly rated for its market size and growth potential, it lost votes due to concerns about rising labor costs, etc. As a result of China's 6th place ranking, the U.S. moved up to 3rd place in the ranking.

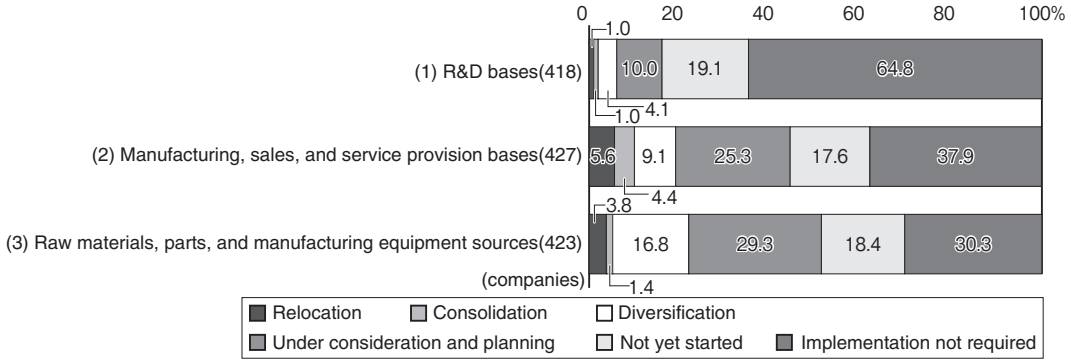
Figure 4. Promising Countries Overseas Business over the Medium-Term (next 3 years)

Ranking 2024 ← 2023			Countries (Total)	No. of Companies 2024 351	No. of Companies 2023 395	Percentage Share (%) 2024	Percentage Share (%) 2023
1	—	1	India	206	192	58.7	48.6
2	—	2	Vietnam	110	119	31.3	30.1
3	▲	4	US	92	107	26.2	27.1
4	▲	5	Indonesia	89	97	25.4	24.6
5	▲	6	Thailand	66	85	18.8	21.5
6	▼	3	China	61	112	17.4	28.4
7	—	7	Mexico	37	42	10.5	10.6
8	▲	9	Malaysia	26	26	7.4	6.6
9	▼	8	Philippines	25	35	7.1	8.9
10	—	10	Germany	20	21	5.7	5.3
11	—	11	Brazil	17	17	4.8	4.3
12	▼	11	South Korea	14	17	4.0	4.3
13	▲	16	UK	12	7	3.4	1.8
14	▼	11	Taiwan	9	17	2.6	4.3
14	▲	15	Bangladesh	9	11	2.6	2.8
16	▼	14	Australia	6	13	1.7	3.3
16	▲	19	Canada	6	6	1.7	1.5
16	▲	19	Turkey	6	6	1.7	1.5
16	▲	25	Singapore	6	5	1.7	1.3
20	▼	16	France	5	7	1.4	1.8
20	▼	19	Cambodia	5	6	1.4	1.5
20	▲	28	Poland	5	4	1.4	1.0

5. Responding to Changing Supply Chain

There is a trend among manufacturing companies to review their supply chains for reasons of pursuing economic rationality and reducing geopolitical risks. Looking at the status of supply chain restructuring by type of base, a large percentage of companies are implementing or considering some kind of restructuring (changing, relocating, consolidating, or diversifying) in the order of (3) sources of raw materials etc., (2) manufacturing, sales, and service provision bases, and (1) R&D bases. (Figure 5)

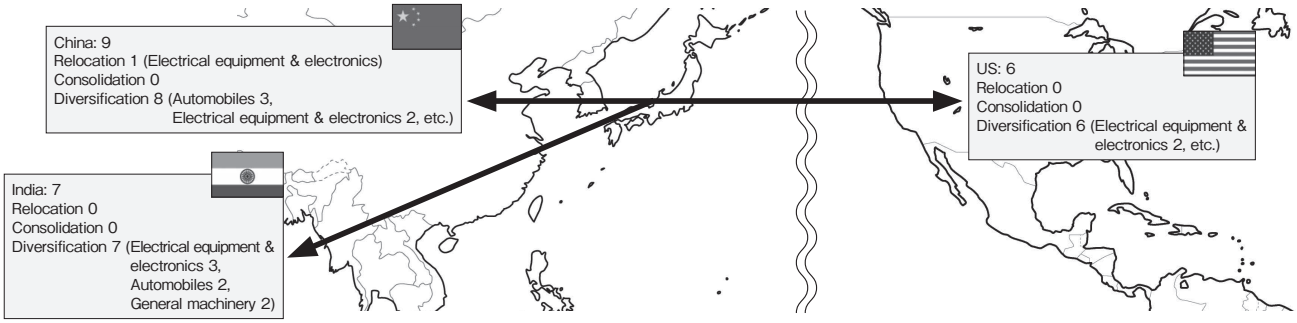
Figure 5. Supply Chain Restructuring Status



Regarding R&D bases, only 25 companies (6.0% of the responding companies) have restructured their R&D bases, and most of them are promoting the establishment of a global R&D structure by diversifying their Japanese bases to multiple countries such as China, India, and the U.S.. In the interviews, some respondents said that they were "diversifying R&D bases to promote localization of products." (Figure 6)

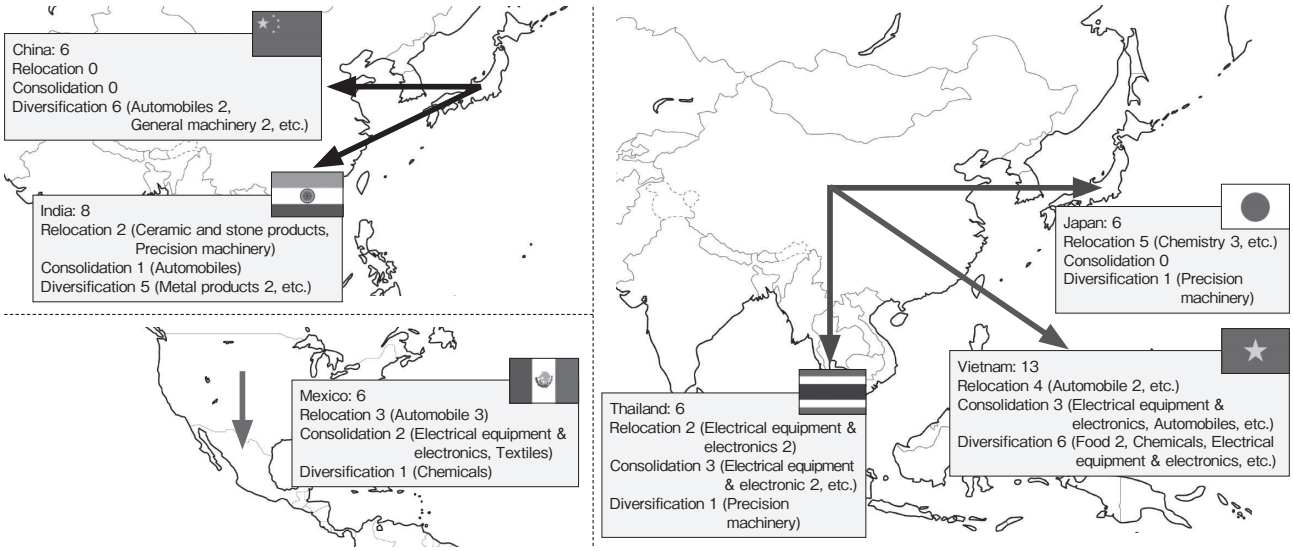
Regarding manufacturing and sales bases, 82 companies, or 19.2% of all responding companies, reported that they have restructured their manufacturing and sales bases. The majority of the companies have shifted their manufacturing and sales bases from Japan, China, and the U.S.. Of these, Vietnam was the most popular destination for those companies which were originally based in China, followed by Japan, Thailand, India, and other countries where companies are relocating or consolidating operations. Against the backdrop of tighter U.S. tariffs and the rise of local Chinese firms, such moves away from China were seen especially in the electrical equipment & electronics industries. India was the most common destination from Japan, and there was a marked trend toward diversification into China, Vietnam, the U.S., and other countries. Some of the reasons behind this were market development in India (e.g., automobiles) and response to growing demand in China (medical equipment). In addition, there were moves to relocate and consolidate operations in Mexico, Japan, and other countries, particularly in the automotive industry, by means to shift the focus from the U.S.. (Figure 7)

Figure 6. Restructuring R&D Bases



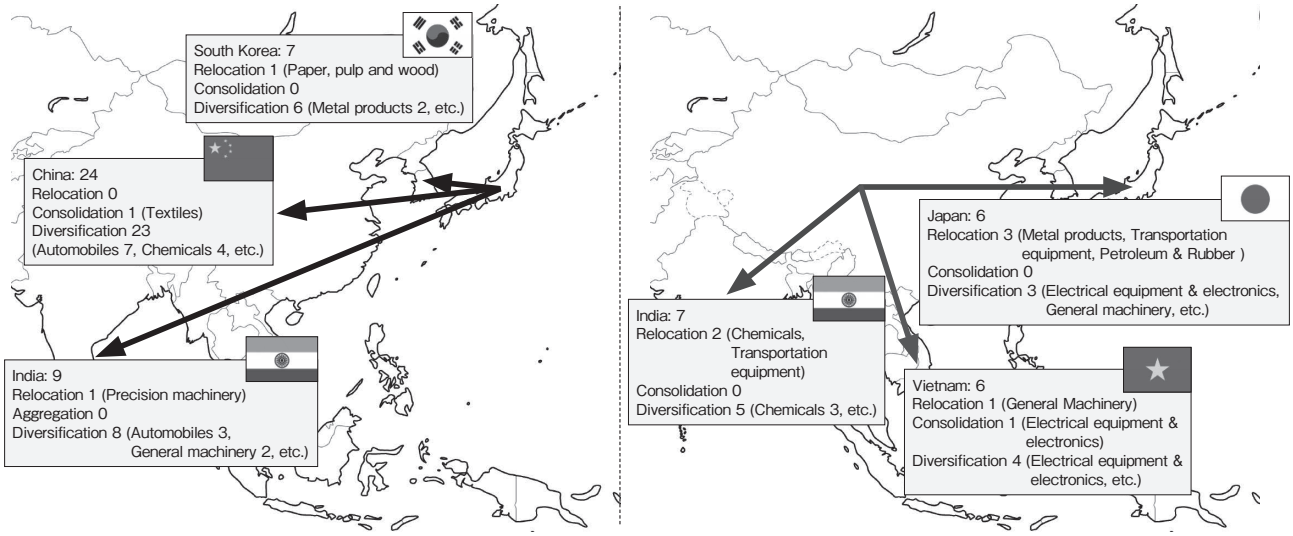
Note: For reconfigurations originating from Japan, the destinations with six or more companies responding are listed.

Figure 7. Restructuring Manufacturing and Sales Bases



Note: For reconfigurations originating from Japan, the U.S., and China, the destinations with six or more companies responding are listed.

Figure 8. Restructuring Sources of Raw Materials, Parts, etc.



Note: For reconfigurations originating from Japan and China, the destinations with six or more companies responding are listed.

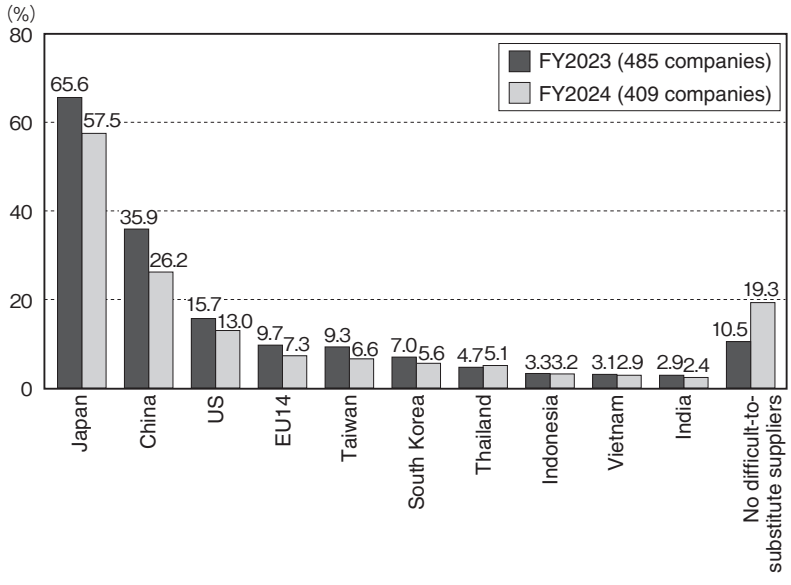
93 companies, or 22.0% of the responding companies, reported that they have reorganized their procurement of raw materials, parts, and other items. The majority of the companies were diversifying their procurement from Japan and China to India, South Korea, Vietnam, Thailand, and other countries. Many firms were moving from Japan to China for the purpose of cost reduction through local procurement, and from China to India, Japan, and Vietnam in consideration of geopolitical risks. (Figure 8)

Of these, some of the movements originating from China were confirmed in the electrical equipment & electronics, and chemical industries for the sake of risk reduction, as well as those associated with the restructuring of manufacturing bases. One interview respondent stated, "We used to procure intermediate materials for minerals from China, but we have switched to procurement in Vietnam, from mining to consistent procurement" (Chemicals). As for movements originating from Japan, the result was that the largest number of companies switched to China. Many companies cited economic rationality, with one company in the interview stating, "From the viewpoint of cost reduction, we promoted localization of parts procurement" (Automobile).

On the other hand, when asked about "sources of raw materials, etc. that are difficult to substitute," there was no change in the order of countries compared to the previous year, but the response for "China" decreased significantly by 9.7 points, indicating corporate efforts to diversify risks. The percentage of companies that responded "No difficult-to-substitute suppliers" doubled from the previous year, indicating that the diversification of suppliers is progressing. (Figure 9)

However, for companies that chose only "China" as a difficult-to-replace procurement source, the most

Figure 9. Sources of Raw Materials, Parts, and Manufacturing Equipment that are Difficult to Substitute



common reason given was "cost," with one company responding, "Prices in China have been rising in recent years, but they are still about 20% cheaper than in Japan" (automotive parts). It should be noted that many companies continue to believe that China cannot be ignored from a cost perspective.

6. Initiatives for Business Transformation and Expansion of New Businesses

As for initiatives for business transformation and new business expansion, "strengthen in-house R&D" was the highest at 64.7%, followed by domestic collaboration and overseas collaboration. (Figure 10)

Those working on overseas tie-ups (items marked with a "○" in the percentage figures in Figure 10) were: electrical equipment & electronics (43 responses), general machinery and chemicals (35 responses), followed by food (26 responses) and automobiles (22 responses). (Figure 11) While many of the electrical equipment & electronics and chemical companies are collaborating in Europe and the U.S. to acquire technology, many of the general machinery and food industries are collaborating in China and ASEAN from the viewpoint of expanding sales channels. A comment which stated "In addition to increased demand for sensing technology, semiconductors, and data centers, etc., there is growing momentum for technological development, and we will collaborate more and more, both domestically and internationally," (electrical equipment & electronics), indicates a positive attitude toward external collaboration.

When asked about the countries they would collaborate with overseas, the U.S. and China (both 43.3%) gained the most votes as collaborators for overseas research institutions. In terms of collaboration with overseas companies, China and the U.S. were followed by India and South Korea, while India also followed the U.S. and China in M&A. Put aside startups, the Indian companies have a large presence as business partners for Japanese firms. Finally, in terms of collaboration with overseas start-ups, the U.S. stands out, followed by China and Singapore. With regards to the U.S., one respondent (electrical equipment & electronics) said, "In order to realize smart grids, we are collaborating with a U.S. startup and promoting the use of AI technology

Figure 10. Initiatives for Change (Overall and by size)

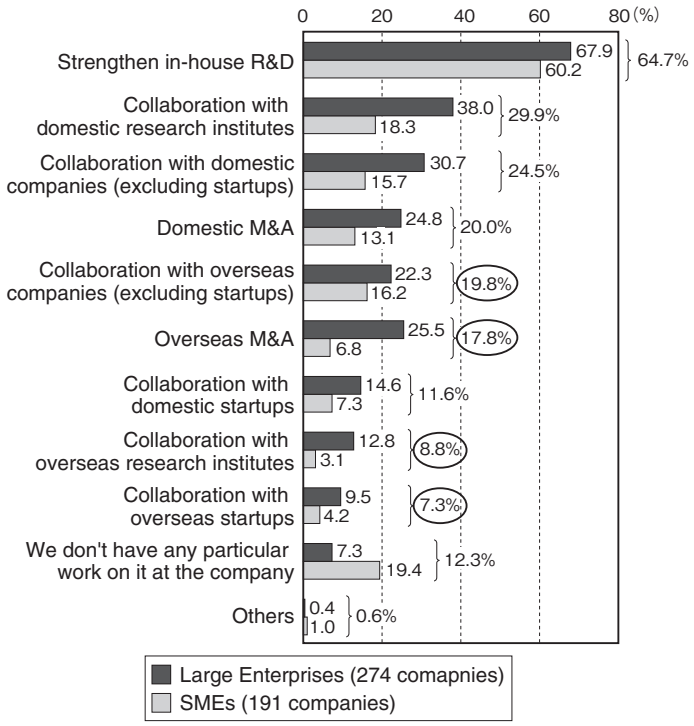


Figure 11. Companies Engaged in Overseas Cooperation (by industry, total number of responses)

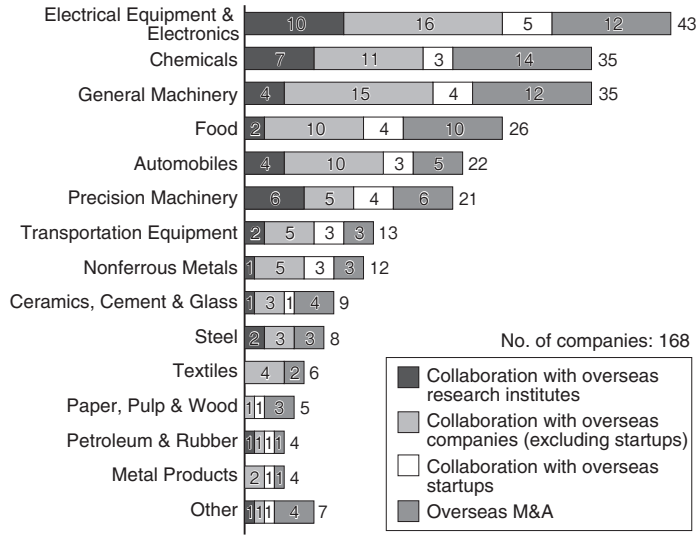
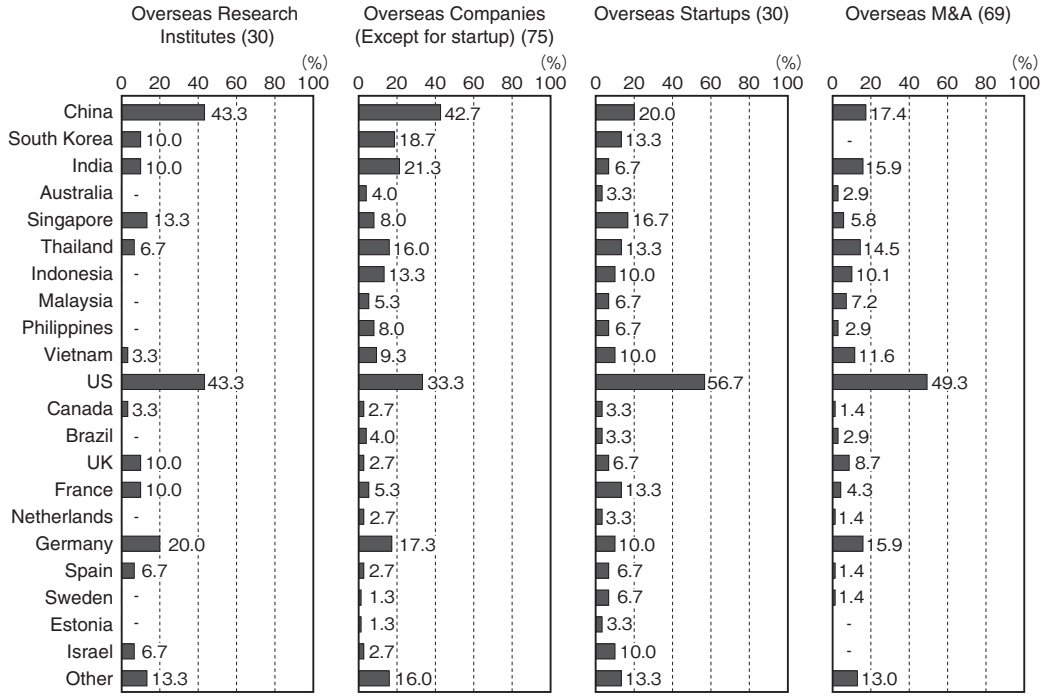


Figure 12. Countries of Overseas Collaboration (All)

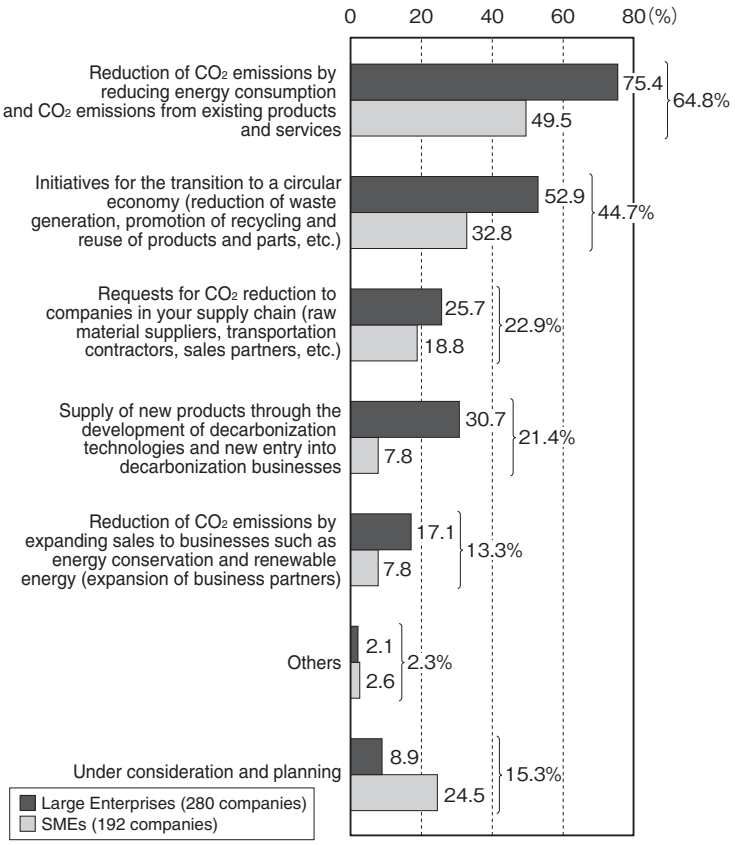


to analyze data," confirming the growing recognition of the U.S. as a frontier of innovation. (Figure 12)

7. Initiatives for the Realization of a Sustainable Society

When asked about their efforts to reduce CO_2 emissions in their business operations, 64.8% of companies are working on "reduction of CO_2 emissions by reducing energy consumption and CO_2 emission from existing products and services." In addition, 44.7% of companies are engaged in "initiatives for the transition to a circular economy" such as recycling, indicating a high level of interest in the circular economy. It is also worth mentioning that about 30% of large companies are working on "supply of new products through the development of decarbonization technologies and new entry into decarbonization businesses." (Figure 13)

Figure 13. Efforts to Reduce CO_2 Emissions (overall and by size)



Many companies cited "strengthen your brand image" and "requests from business partners" as the reasons for their interest in the transition to a circular economy and biodiversity. Many companies, especially large ones, also responded "requests from investors and shareholders," indicating that the majority of their initiatives are image strategies or passive responses. On the other hand, "enhanced competitiveness" was also relatively high at 34.2%. (Figure 14) In the interviews, some respondents said that "advanced

recycling technology" (chemicals) and "water quality management systems" (electrical equipment & electronics) would lead to a competitive advantage.

Finally, with regard to human rights issues, many companies have made concrete efforts to "foster awareness and understanding" (52.8%) and "formulate human rights policies" (45.2%). However, given that 47% of the companies in the previous 34th Survey have formulated human rights policies, no progress has been seen in this area, and there are differences in efforts among companies depending on the sizes of the company. (Figure 15)

8. Survey of Non-Manufacturing Companies ~Promising Countries Ranking~

This year, in addition to the manufacturing industry survey conducted in the previous years, we conducted a new survey of non-manufacturing companies also. The target companies were set as "companies with three or more overseas subsidiaries, arranged by industry, with at least 50% of the top capitalization size are eligible." The same set of questions was sent to 320 companies as was used for the manufacturing industry, and 105 companies (32.8% response rate) responded.

In the ranking of promising countries in the non-manufacturing sector, India came out on top with 40.6% of the votes cast. With per capita GDP exceeding $2,000 and disposable income beginning to increase, there appears to be high expectation for the non-manufacturing sector. Indonesia came in second, backed by strong domestic demand backed by the largest population in ASEAN. Some respondents expressed their expectations, saying, "Among ASEAN countries, Indonesia is supported by strong domestic demand, and we have many inquiries from customers" (Transportation). The U.S. ranked fourth, backed by a stable economic environment. In the interview, one

Figure 14. Background to Interest (overall and by size)

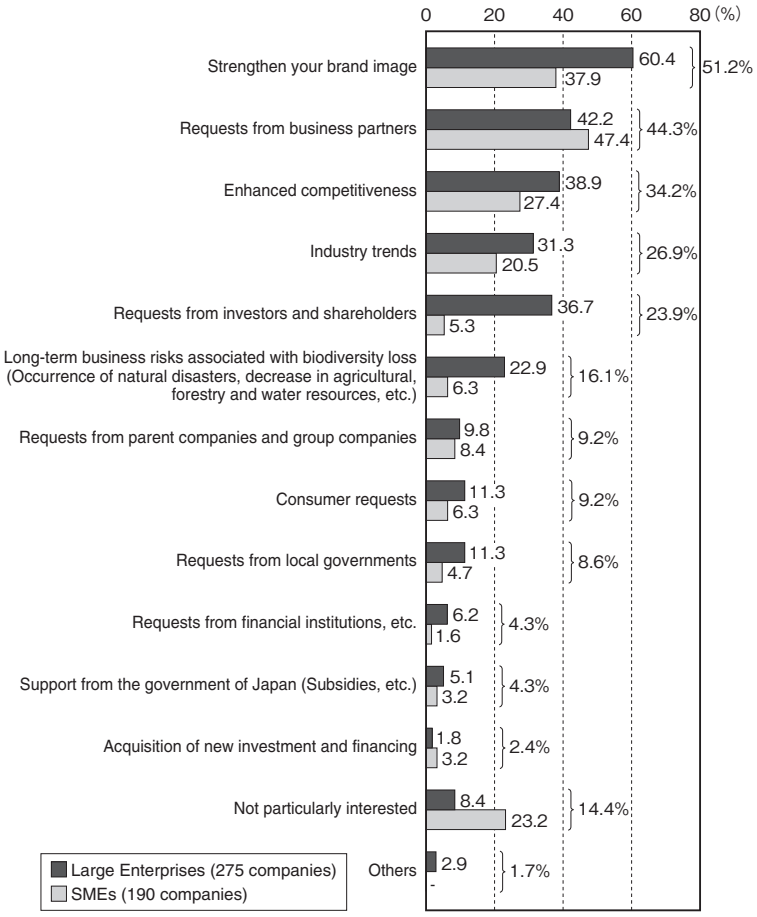
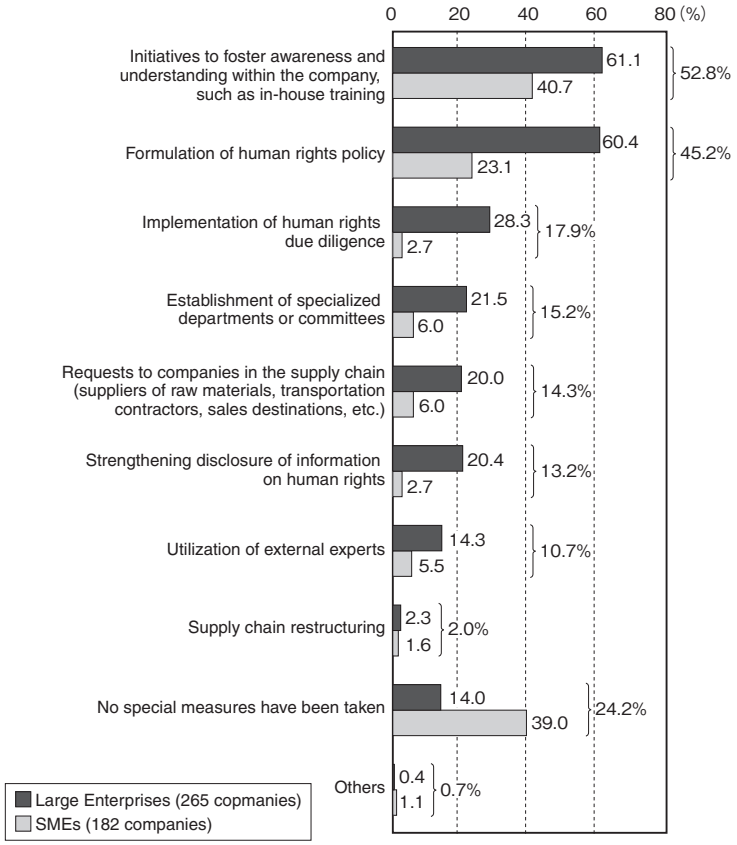


Figure 15. Efforts to Address Human Rights Issues (by size)



respondent said, “I feel the economy is doing well, including in the real estate, semiconductor, and pharmaceutical sectors” (Transportation). China ranked 11th with 7.2% of the vote. The number of votes from the service sector, such as wholesale and transportation, was sluggish, with some respondents saying, “it is not promising, due to growing concerns about the U.S.-China relation” (Transportation). (Figure 16)

9. Conclusion

Figure 16. Promising Countries/Regions for Overseas Business over the Medium-term (Next three years)

Ranking	Countries (Total)	No. of Companies 69	Percentage Share(%)
1	India	28	40.6
2	Indonesia	23	33.3
3	Vietnam	21	30.4
4	US	20	29.0
5	Philippines	14	20.3
6	Australia	8	11.6
6	Malaysia	8	11.6
8	Thailand	7	10.1
9	Bangladesh	6	8.7
9	Singapore	6	8.7
11	China	5	7.2
12	Mexico	4	5.8
12	Taiwan	4	5.8
14	Brazil	3	4.3
14	Nepal	3	4.3
16	Cambodia	2	2.9
16	Canada	2	2.9
16	Germany	2	2.9
16	South Korea	2	2.9
16	Netherlands	2	2.9
16	Turkey	2	2.9
16	UK	2	2.9

The author has been involved in the survey on overseas business operations since FY2022, and it is worth noting that there have been significant changes in the perspectives and movements of companies as evidenced by the survey results in response to the drastic changes in the political and economic climate in recent years.

First, while India has solidified its top position in the ranking of promising countries, China’s position has been declining with each passing year. Nevertheless, this year’s survey revealed that certain number of companies are transferring their bases and suppliers to China in order to reduce costs and respond to the local market, going against the prevailing discourse. It will be interesting to see what these companies do in the future in response to the deteriorating business environment in China from a geopolitical perspective and intensifying competition from local companies.

Secondly, with regard to supply chain reviews in light of this situation, there were not necessarily many cases in FY2022 that led to concrete corporate actions such as changes in investment plans, but as the year progressed, concrete moves such as the reallocation of bases and suppliers became more apparent.

Thirdly, with regard to sustainability, it is worth noting that in addition to the mainstreaming of decarbonization-related initiatives, corporate recognition and initiatives in new areas, such as the circular economy, are expanding.

However, it should be noted that due to the nature of this survey, these trends are focused on the manufacturing industry. This year, we also conducted a new survey for the non-manufacturing industry, and it is our future task to devise and deepen our analysis to obtain more comprehensive results, including the impact of trends in the manufacturing industry on the non-manufacturing industry and the existence of linkages among them.

We hope that this report will help readers deepen their understanding of Japanese companies’ overseas business operations.

(Biography)

Joined JBIC in 2022. In the Research Department of the Planning Division, TSUKAMOTO Ryo was engaged in collecting information and analyzing data on overseas business development of Japanese manufacturing companies, advanced technology, geopolitical trends, etc. Based in the Representative Office in Buenos Aires since January 2025.

Graduated from Nagoya University, Graduate School of International Development (M.A. in International Development), and was dispatched to the New Delhi Representative Office in January - March 2024. His motto is “Cool head, but warm heart.”