

# Push and Pull Factors for Japanese Manufacturing Companies Moving Production Overseas

February 20, 2013

Tsunehiko Yanagihara

Mitsubishi International Corporation/Washington Office

# OUTLINE

---

## 1. Hollowing-Out Trend in Japan's Manufacturing Industry

## 2. Important Push Factors

- Overview
- Yen Appreciation
- Labor Rigidity and High Wages
- Energy Uncertainty
- High Corporate Taxes
- Shrinking Domestic Market
- Logistics Costs

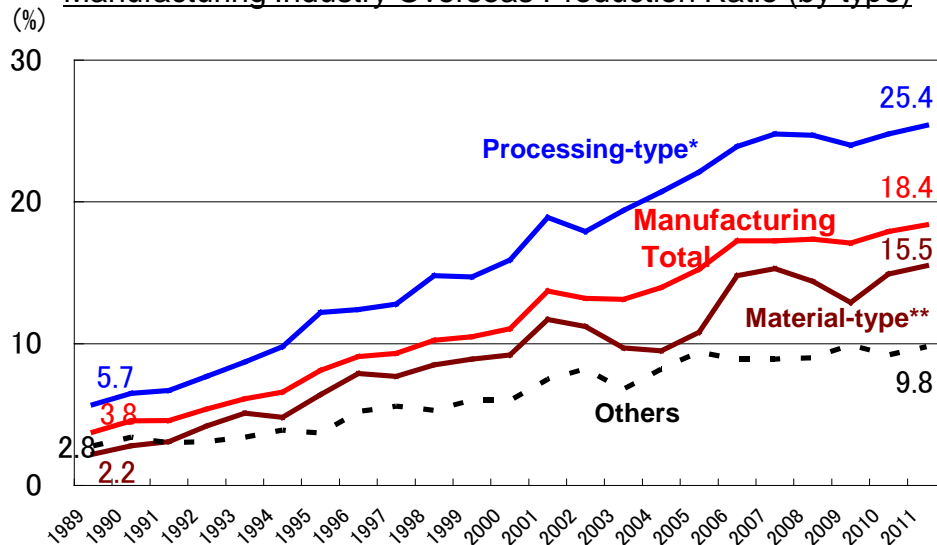
## 3. Pull Factors

- Growing Markets are All Overseas
- Differences between Large Companies and Small and Medium-sized Enterprises (SMEs)

# 1. Hollowing-Out Trend in Japan's Manufacturing Industry (1/2)

- Overseas production ratio of Japanese manufacturing companies is rising.
- Overseas investment is growing due to emerging countries' high GDP growth and Japan's low GDP growth.

Manufacturing Industry Overseas Production Ratio (by type)

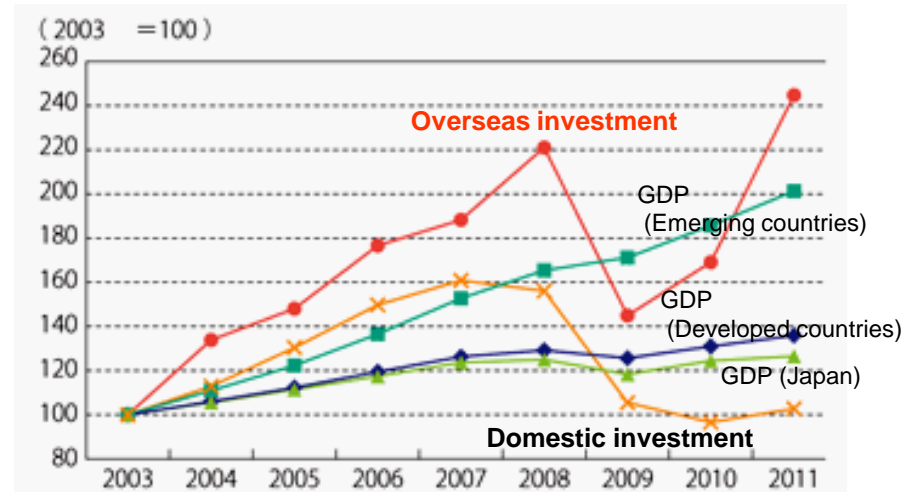


Source: Economic and Social Research Institute, Japan Cabinet Office

\*Processing-type manufacturing industry: Machinery, Electric Appliances, Transportation Equipment, Precision Instruments

\*\*Material-type manufacturing industry: Textiles and Apparels, Pulp and Paper, Chemicals, Iron and Steel, Nonferrous Metals

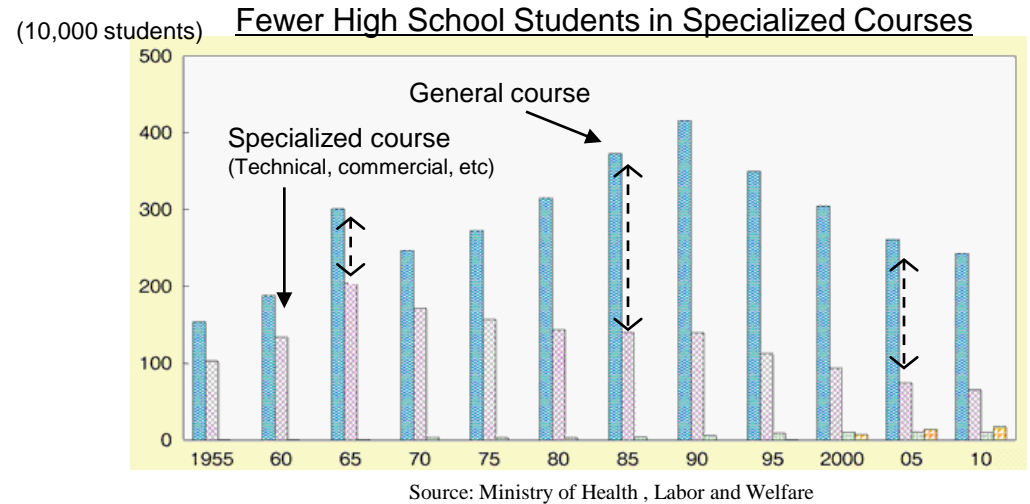
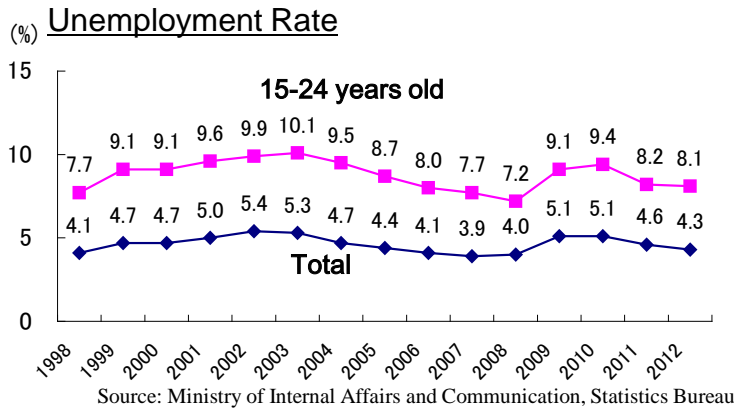
Trend of Manufacturing Investment and Nominal GDP



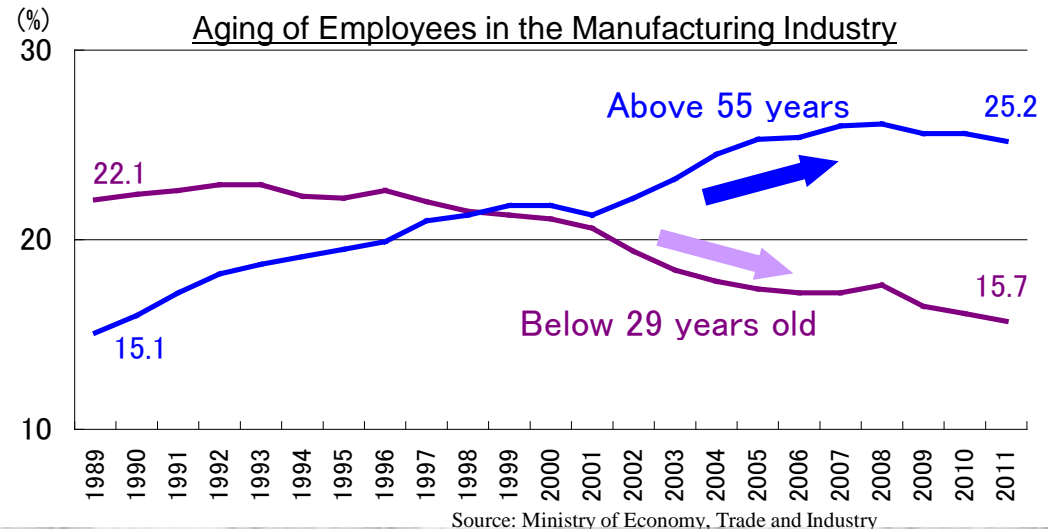
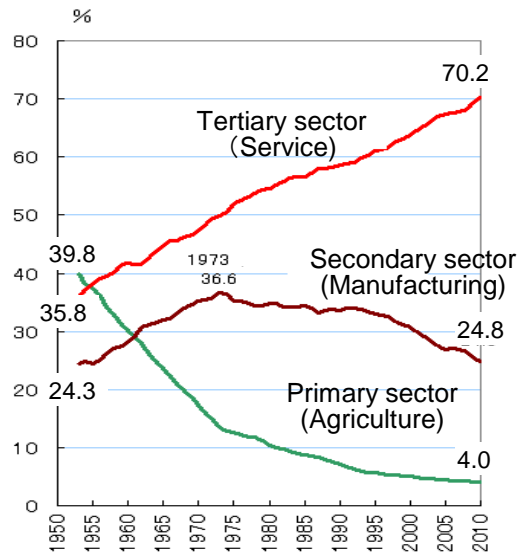
Source: Ministry of Economy, Trade and Industry

# 1. Hollowing-Out Trend in Japan's Manufacturing Industry (2/2)

- Despite relatively steady unemployment rate, manufacturing employment is down.
- Technical skills among new graduates are declining, while employee age is rising.

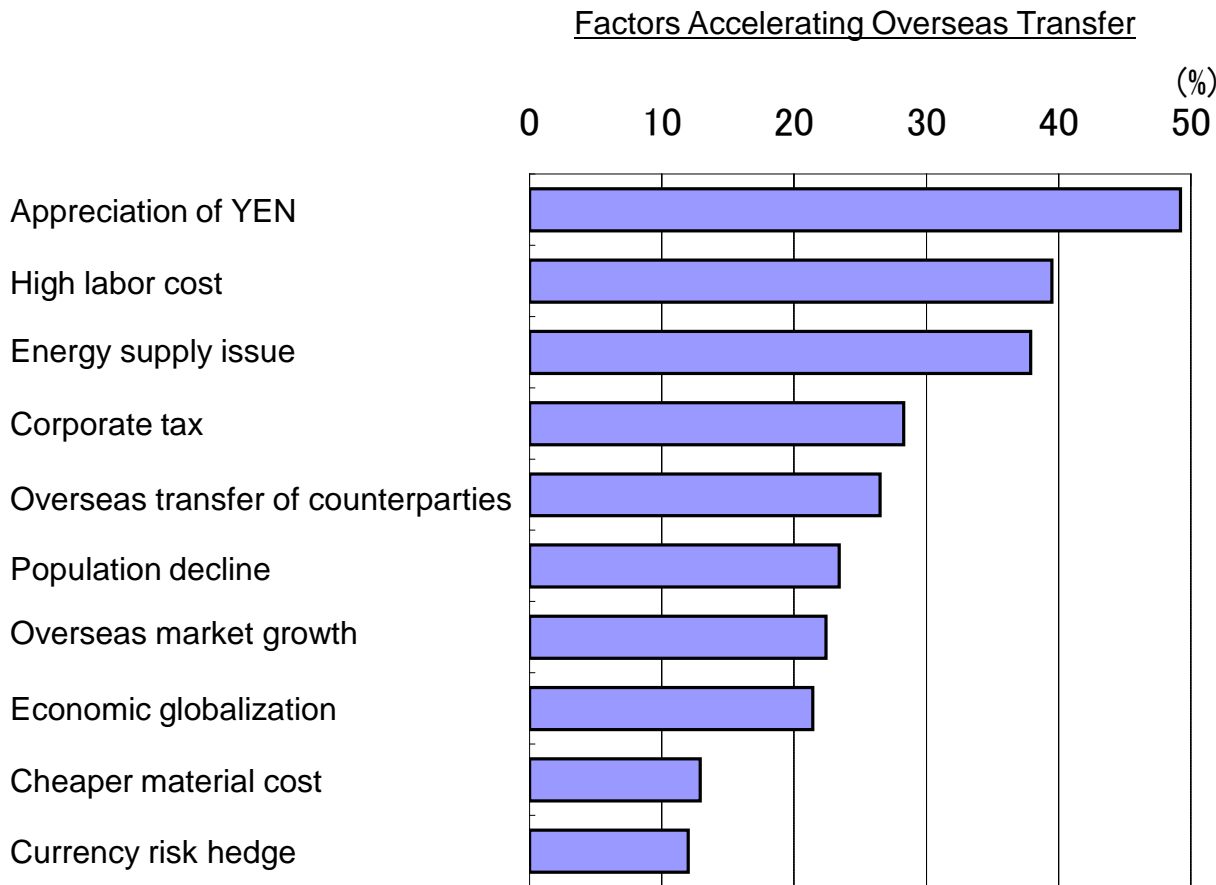


## Labor Force Employed by Sectors



## 2. Important Push Factors: Overview (1/7)

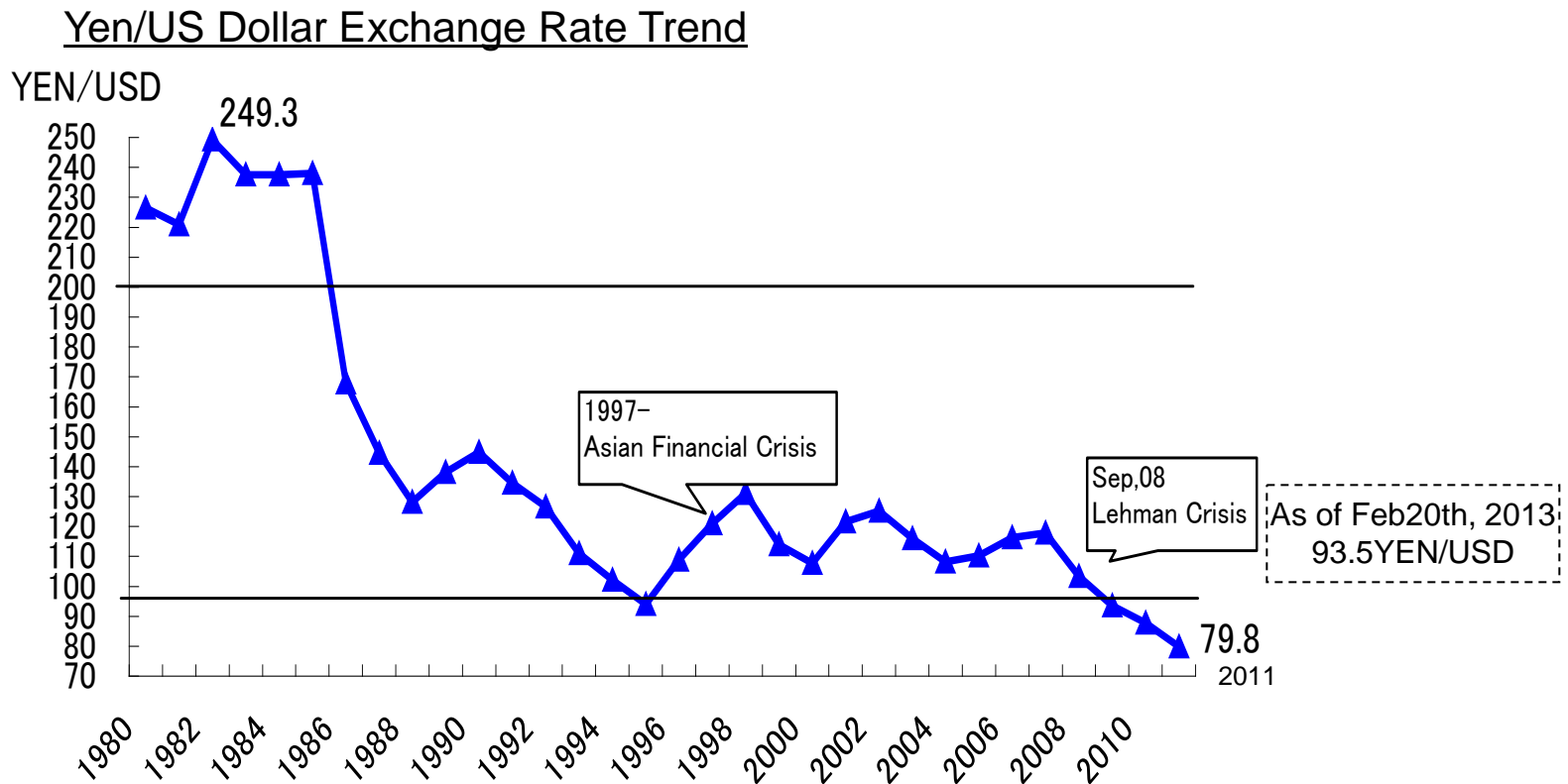
- Results of recent survey of Japanese companies show the main factors pushing production overseas include yen appreciation, high labor costs, energy uncertainty, and corporate taxes.



Source: Ministry of Economy, Trade and Industry

## 2. Important Push Factors: Yen Appreciation (2/7)

- Steadily increasing yen value negatively impacts price competitiveness of Japanese exports in foreign markets.
- A rise in the exchange rate from ¥ 100/USD to ¥ 80/USD (20% change) raises the price of a car manufactured in Japan and exported to the US from \$20K to \$24K.

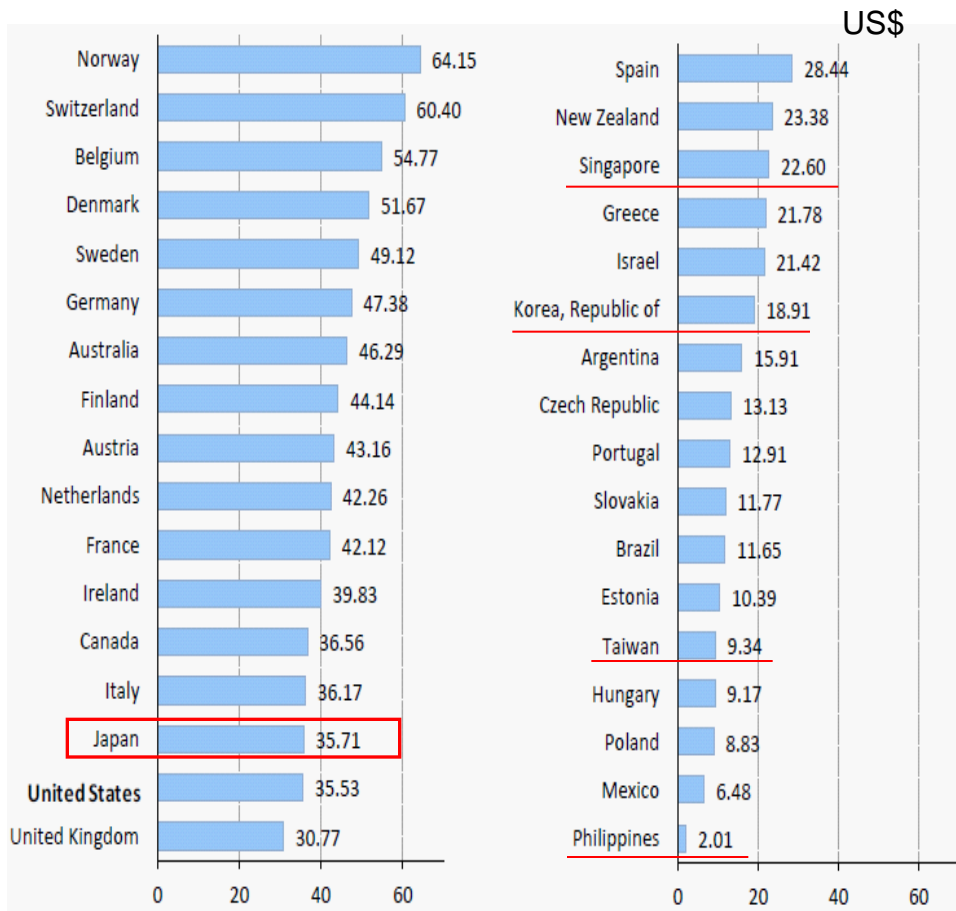


Source: Cabinet Office, Japan

## 2. Important Push Factors: Labor Rigidity and High Wages (3/7)

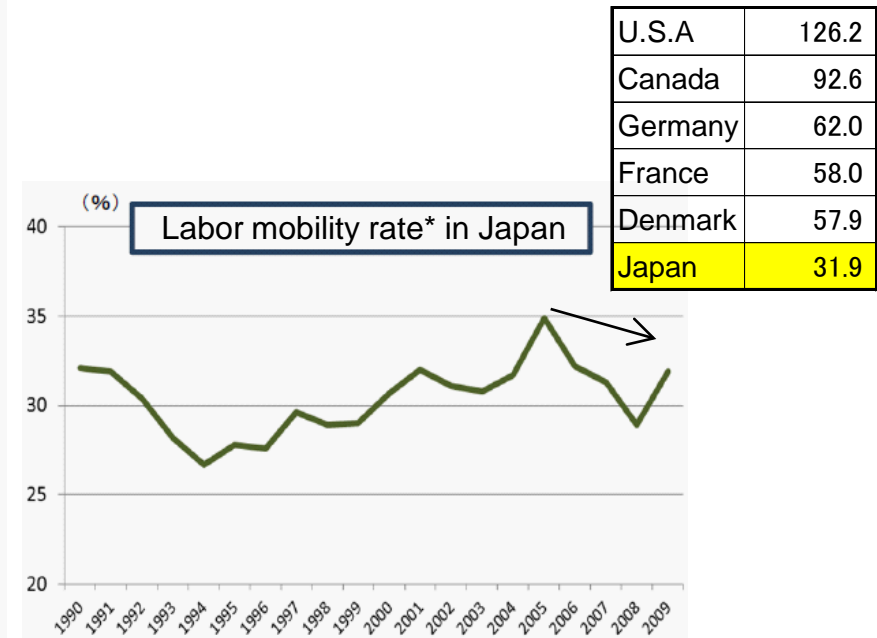
- Average wages in Japan are higher than those in other Asian countries and developing economies around the world. Labor mobility is also low.

Hourly Compensation Costs in Manufacturing Sector, 2011



Source: U.S. Bureau of Labor Statistics

Low Mobility of Labor Market in Japan



U.S.A	126.2
Canada	92.6
Germany	62.0
France	58.0
Denmark	57.9
<b>Japan</b>	<b>31.9</b>

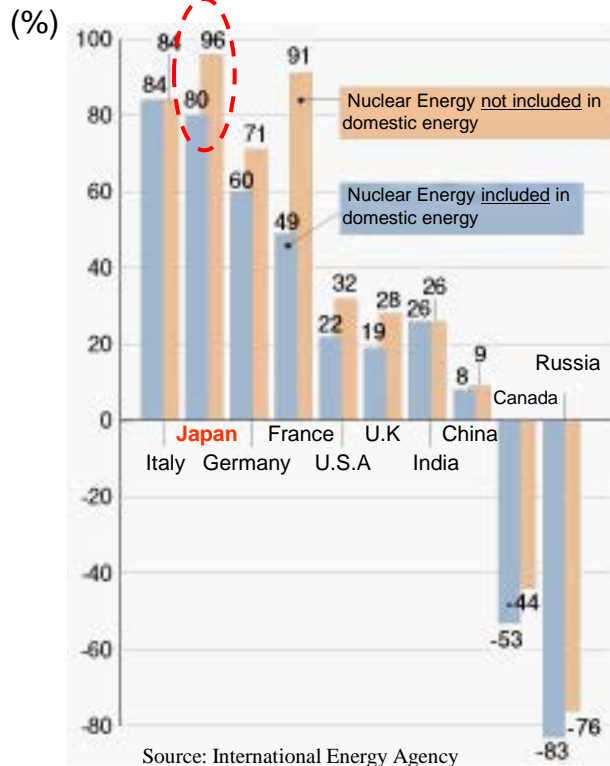
Source: National Policy Unit, Cabinet Secretariat

\*Labor mobility rate=Hiring rate + Turnover rate

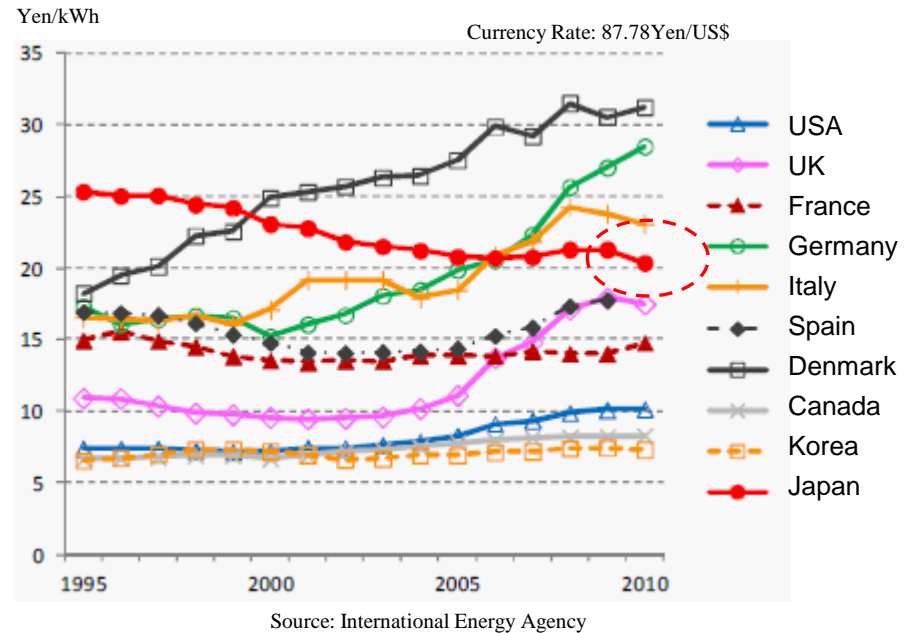
## 2. Important Push Factors: Energy Uncertainty (4/7)

- While Japan has long been highly-dependent on energy imports, energy supplies have been further constrained by the shutdown of nuclear power plants.
- Increased energy import dependency makes Japan's energy supply more vulnerable to external shocks (economic & geopolitical) and price increases.

### Japan's Energy Import Dependency (2009)



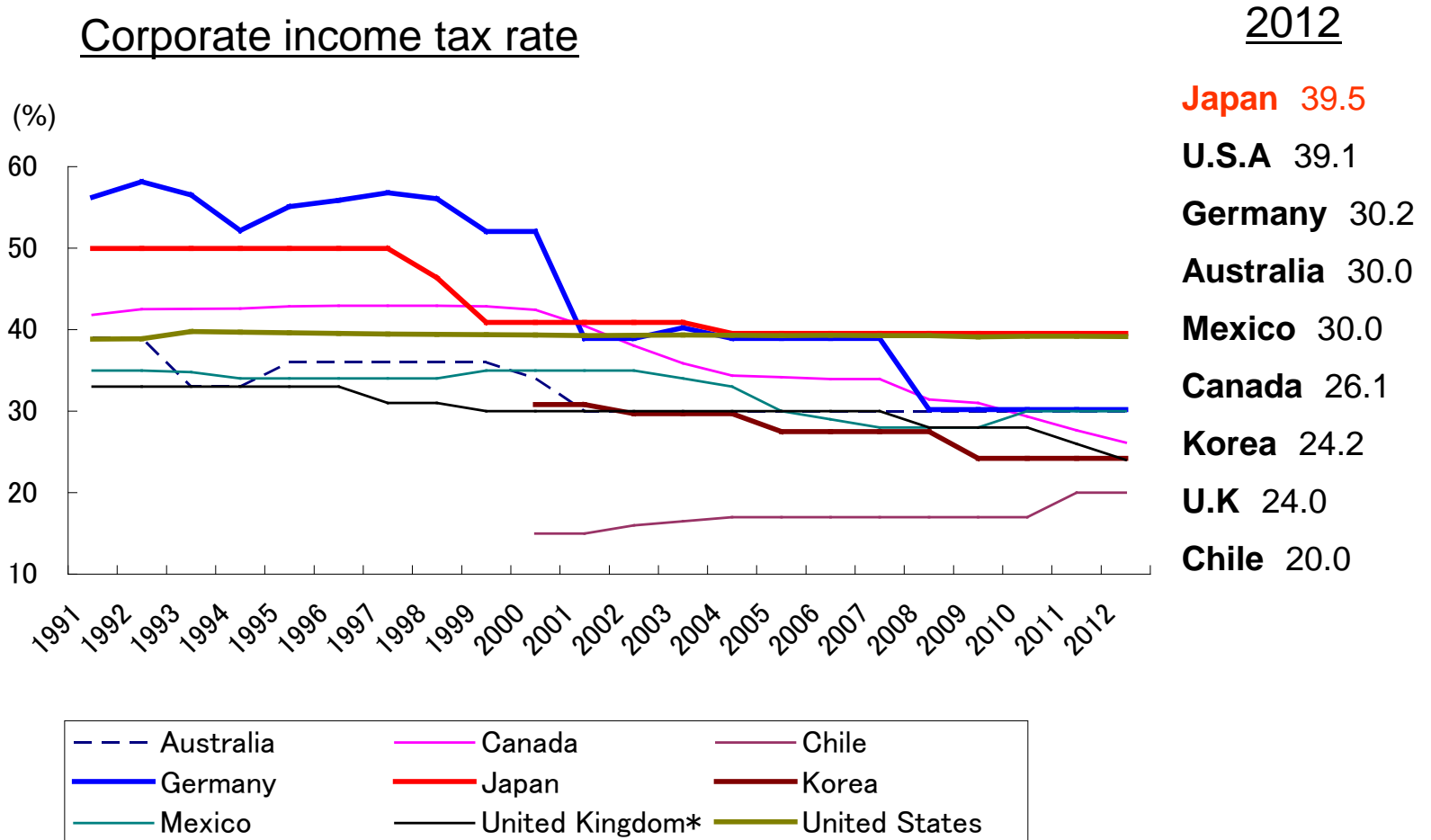
### Japan's High Energy Prices





## 2. Important Push Factors: High Corporate Taxes (5/7)

- High corporate taxes increase domestic production costs, especially compared to developing countries.

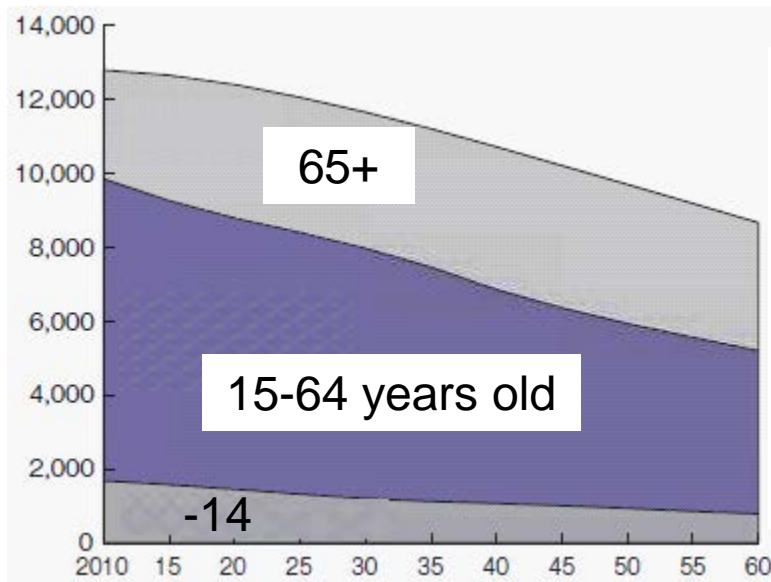


Source: Organization for Economic Co-operation and Development

## 2. Important Push Factors: Shrinking Domestic Market (6/7)

- Domestic markets are shrinking as demographic trends progress.
- For example, there are signs of a downward trend in Japan's auto market.

Population Decline in Japan



Source: Mizuho Research Institute

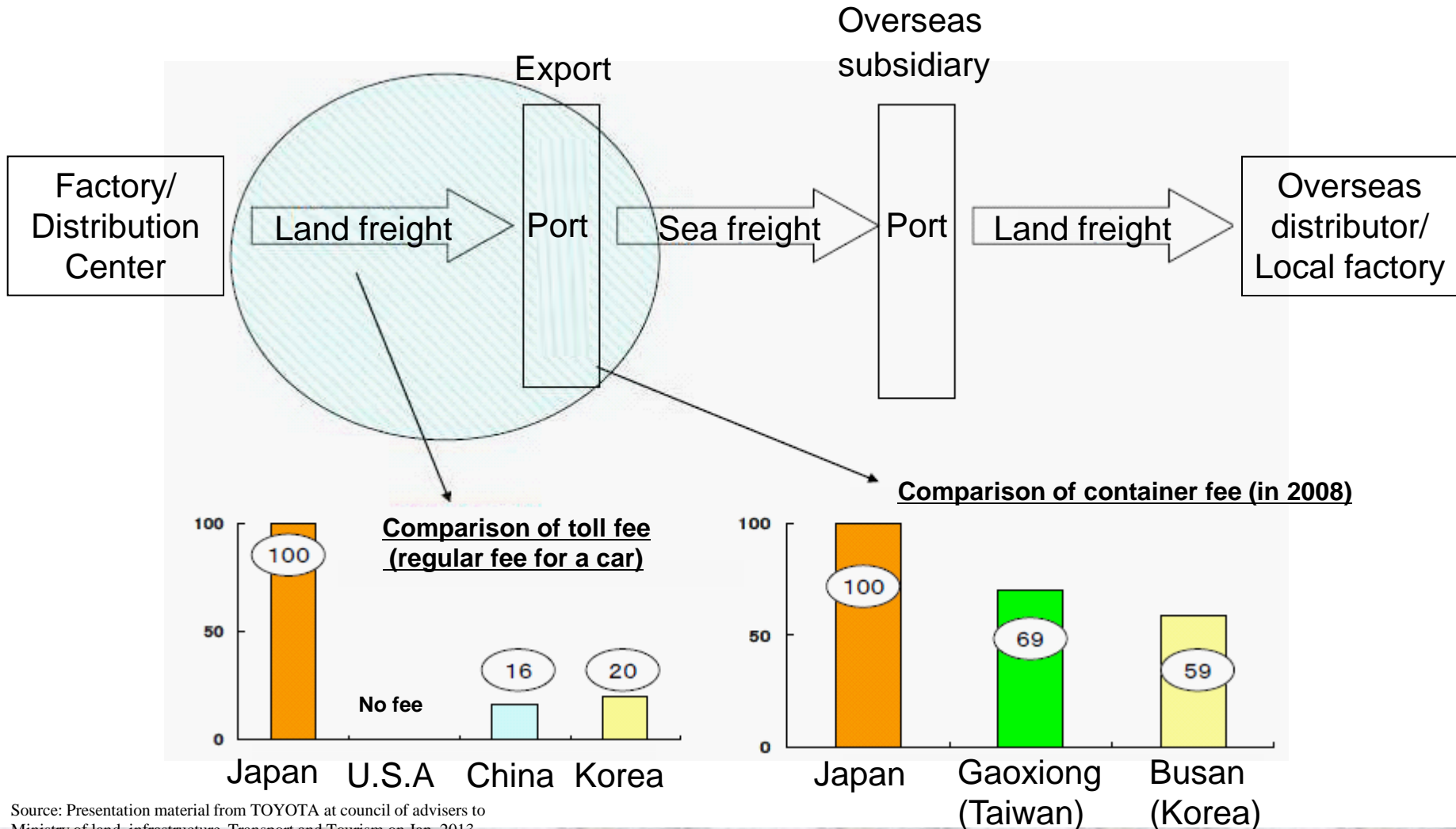
Auto Sales Trend in Japan



Source: Japan Automobile Manufacturing Association

## 2. Important Push Factors: Logistics Costs (7/7)

- Logistics and container shipping costs are high in Japan compared to other countries.



Source: Presentation material from TOYOTA at council of advisers to Ministry of land, infrastructure, Transport and Tourism on Jan, 2013

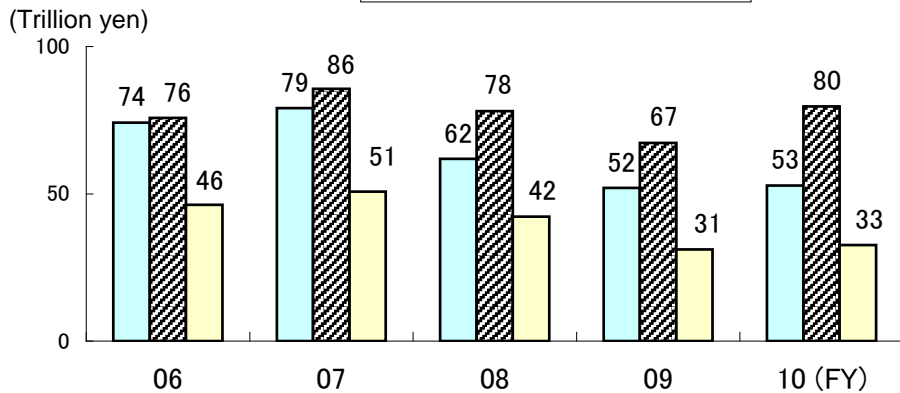
### 3. Pull Factors: Growing Markets are All Overseas (1/2)

- The value of sales in overseas markets is growing, while profits are rising.
- This trend is encouraging Japanese companies to move closer to their markets.

Sales Trends for Overseas Affiliates of Japanese Companies

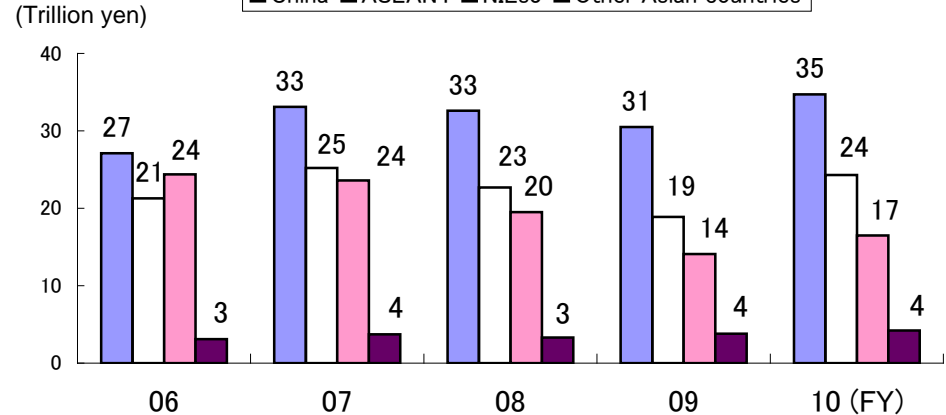
(by region)

North America Asia Europe



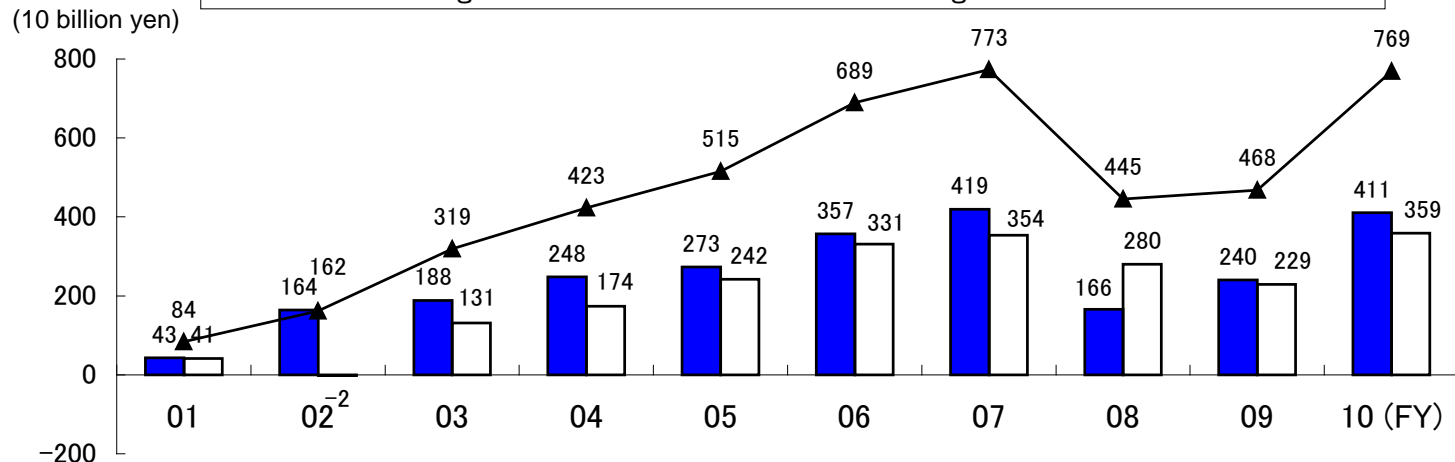
(in Asia)

China ASEAN4 NIEs3 Other Asian countries



Profit Trends for Overseas Affiliates of Japanese Companies

Manufacturing industries Non-manufacturing industries All industries



\*ASEAN(Association of South-East Asian Nations) 4:Indonesia, Thailand, Malaysia, Philippines  
NIEs (Newly Industrializing Economies)3: Korea, Taiwan, Singapore

Source: METI Survey on Overseas Business Activities

### 3. Pull Factors: Differences between Large Companies and SMEs (2/2)

- The overseas production ratio is higher for large companies compared to small and medium-sized enterprises (SMEs).
- The most important reasons for moving production overseas also differ. Overseas market development is the most important factor for larger firms, while low labor costs are most important for SMEs.

Overseas Production Ratio

		Overseas production		No overseas production
		Less than half	More than half	
Large Companies	<b>66%</b>	53%	13%	<b>34%</b>
SMEs	<b>21%</b>	18%	3%	<b>80%</b>

Source: METI Survey (Jan, 2012)

Reasons for Overseas Production by Company Size

Large Company	SMEs
1. Development of overseas market/expanding sales (68.5%)	1. Cost saving (such as cheaper labor cost) (51.6%)
2. Cost saving (such as cheaper labor cost) (44.9%)	2. Products, parts, materials sourcing (47.3%)
3. Products, parts, materials sourcing (33.1%)	3. Development of overseas market/expanding sales (44.2%)
4. Overseas transfer of counterparties (30.9%)	4. Overseas transfer of counterparties (25.2%)
5. Information-gathering (26.4%)	5. Information-gathering (20.7%)
6. Requests from counterparties (16.9%)	6. Requests from counterparties (16.7%)

Source: White paper on small and medium enterprises in Japan 2009, Small and Medium enterprises agency

Note: The definition of "medium/small company" is from the medium/small company basic law.