

Chapter 2 Japan growing with Asia's development – Asia –Pacific framework toward sustainable growth

Section 2 East Asia: Development from production networks into production/sales network

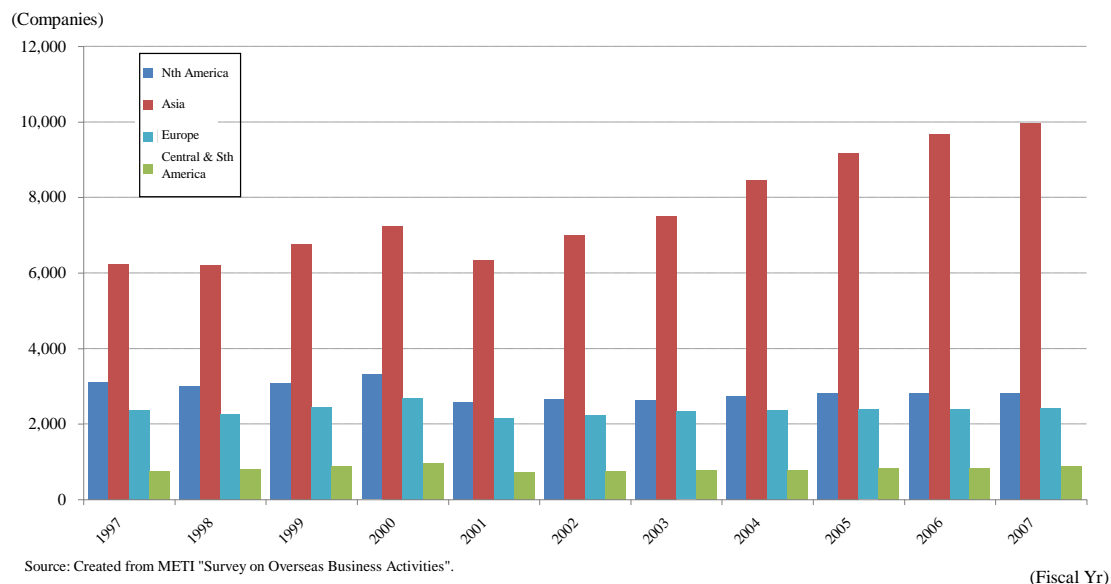
3. Formation of the East Asia network with Japanese companies' expansion in Asia

(1) Expansion of Japanese companies in Asia

The issue of Japan's weakening presence in the East Asia network mentioned above is considered to be deeply related to Japanese companies' expansion in Asia.

The number of Japanese local subsidiaries indicates that Asia has the largest number of Japanese subsidiaries and it is increasing every year (see Figure 2-2-3-1). In 2007, the number of Japanese local subsidiaries in Asia totalled about 10,000 companies. The breakdown is that 38% is in China and 28% is in ASEAN4 (see Figure 2-2-3-2).

Figure 2-2-3-1: Changes of Japanese local subsidiaries in North America, Asia, Europe and Central and South America



Due to Japanese companies' overseas expansion mainly in Asia, Japanese companies' overseas production of final goods of electric devices exceeds its domestic production. Japanese companies' electronic device production in 2008 was 8.9 trillion yen. In the world production, Japanese companies' overseas production amounted 16.1 trillion yen, which is 15% of the world total production. Moreover, as for electric parts and devices which are intermediate goods, Japanese companies' production consists of 30%. Japanese companies' domestic production of electric parts and devices in 2008 was 9.7 trillion yen. Among the world total production of 57 trillion yen, Japanese companies' overseas production generated 7.2 trillion, which is 13% of the world total (see Figure 2-2-3-3).

Figure 2-2-3-2: Japanese local subsidiaries by countries and region in Asia

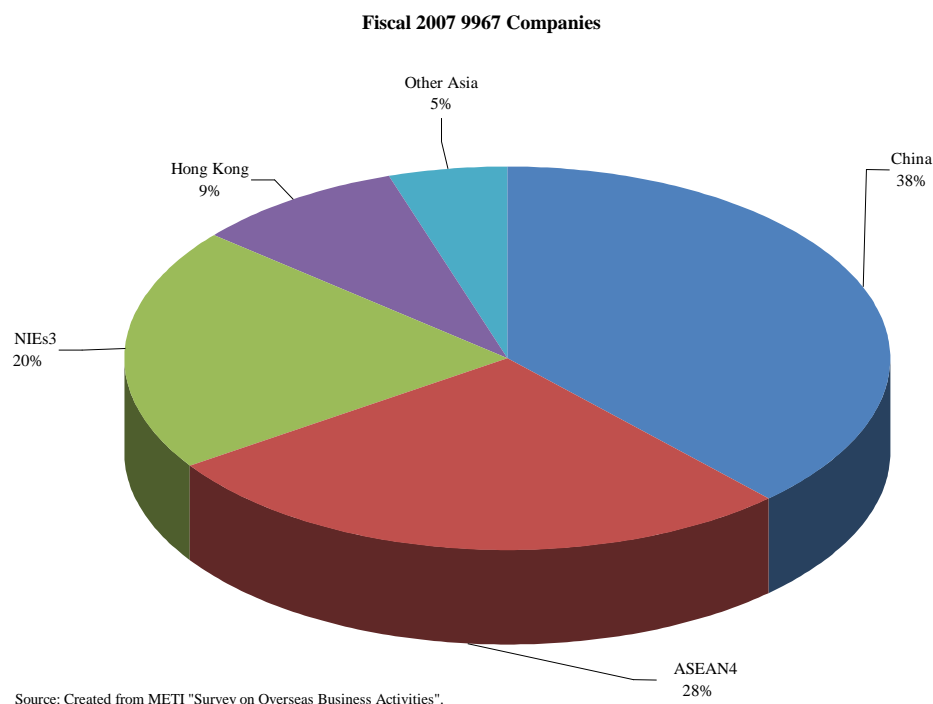
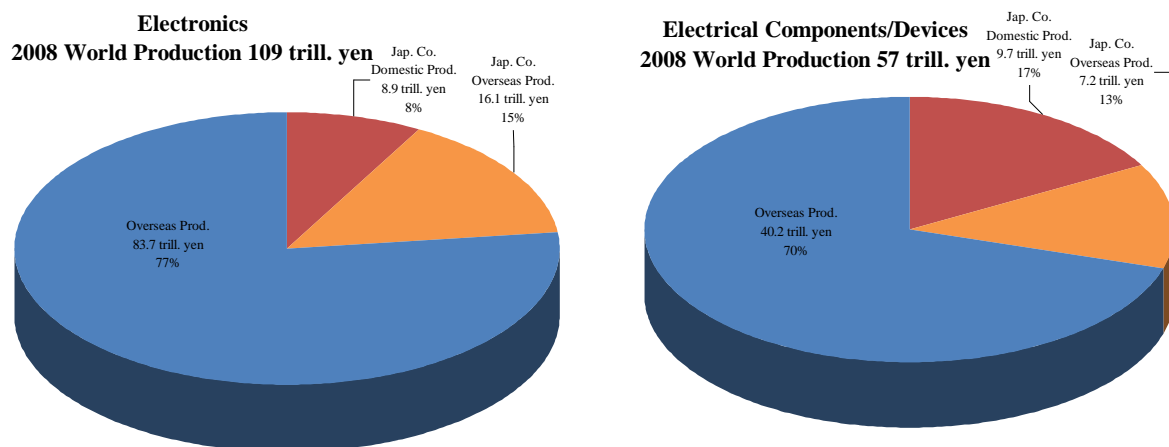


Figure 2-2-3-3: Production share of Japanese companies in total value of electronics and electrical components/devices



Source: Created from Electronics and IT Industries Association, "World Production Outlook for Electronic Information Industry"

(2) Japanese local subsidiaries in Asia increasing local procurement

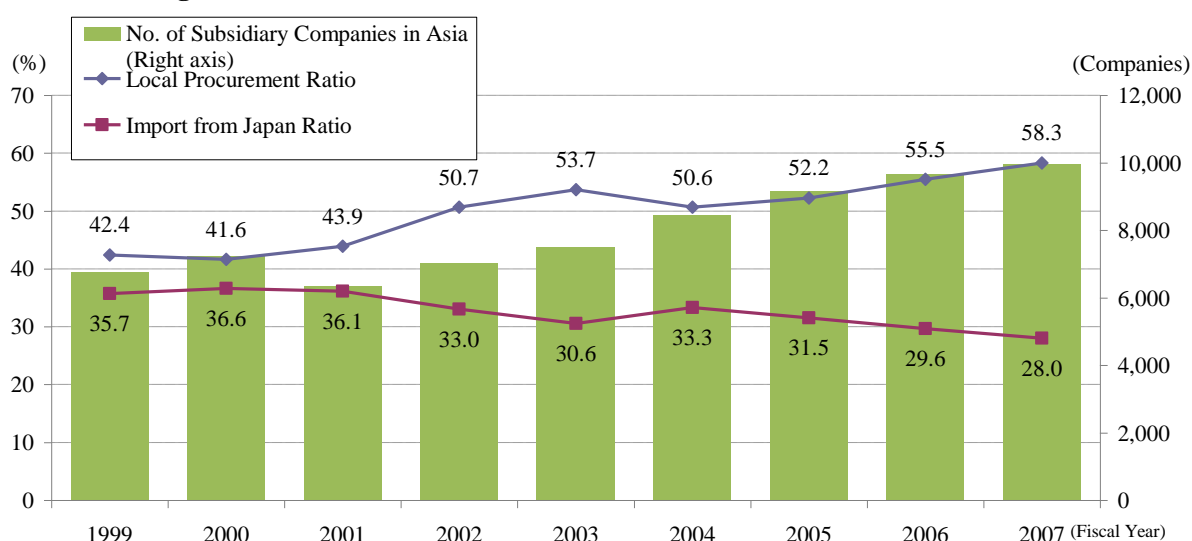
Local procurement ratio of Japanese local subsidiaries in Asia is showing an upward trend (see Figure 2-2-3-4). Along with the overseas expansion of Japanese companies, the procurement through the imports from the headquarters and Japanese parts companies grew. However, Asian local companies are recently demonstrating the improvement in their technology standards. It is expected the procurement from local companies will increase. Moreover, due to the progress of the expansion of Japanese companies in Asia, it is also assumed that the procurement from other Japanese local

subsidiaries will rise.

The breakdown of supply for Japanese local subsidiaries of manufacturing companies in Asia shows that in 1996, the imports from Japan and the local procurement were at the same level, 40%. In 2006, the imports from Japan were 30% and the local procurement was 56% showing the shift of procurement from imports from Japan to local procurement (see Figure 2-2-3-5).

By sector, due to the progress of Japanese companies' expansion to Asia and the improvement of technology of the local companies, the local procurement ratio of transport machinery increased to 73.8% in 2007. On the other hand, the ratio for telecommunication devices is moving sideways recording 33.1% in 2007 since the imports of high-value added intermediate goods from Japan is high (see Figure 2-2-3-6).

Figure 2-2-3-4: Changes of local procurement ratio of Japanese local subsidiaries (manufacturing sector) in Asia

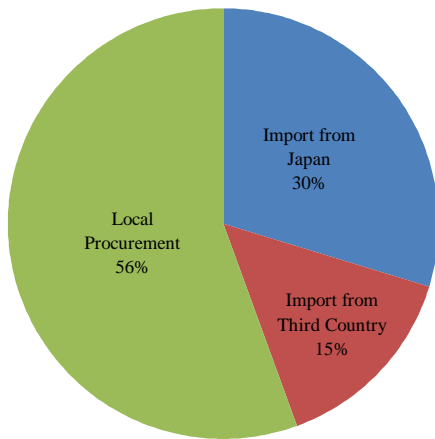


Note: Local Procurement Ratio = Amount of Local Procurement/Total Purchases, Import from Japan Ratio = Amount of Imports from Japan/Total Purchases

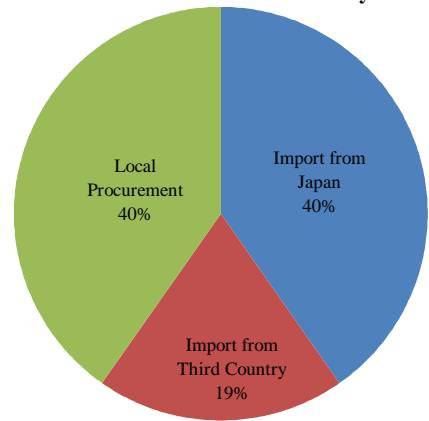
Source: Created from Annual Editions Surveys of Overseas Business Activities.

Figure 2-2-3-5: Total value of Japanese local subsidiaries' procurement in manufacturing sector by countries and regions

Fiscal 2006 Total 32.8 trill. yen

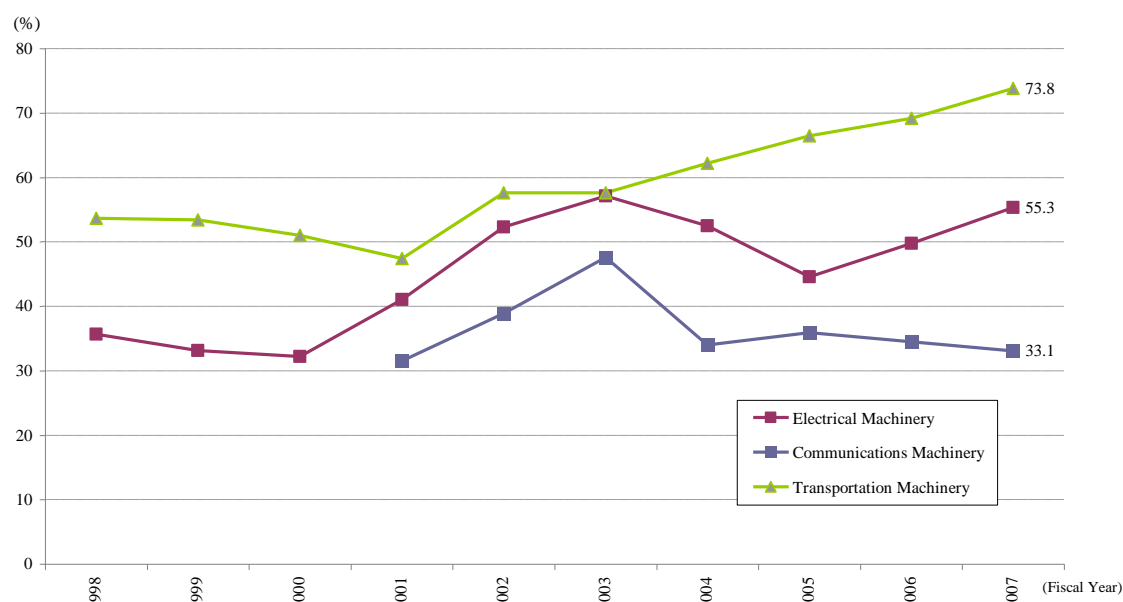


Fiscal 1996 Total 5.5 trill. yen



Source: Created from METI "Survey on Overseas Business Activities."

Figure 2-2-3-6: Changes of local procurement ratio of Japanese local subsidiaries (manufacturing sector) by sectors



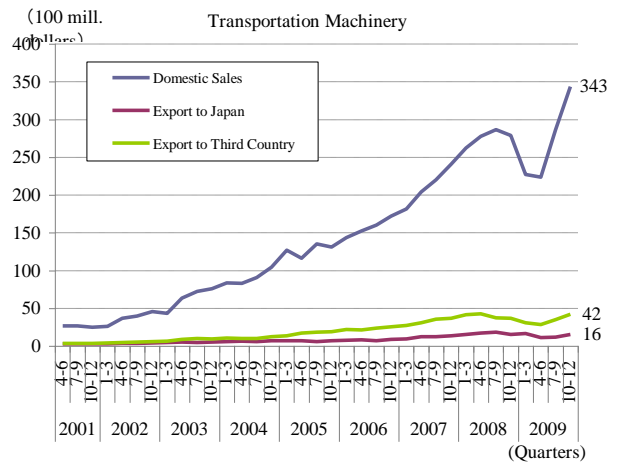
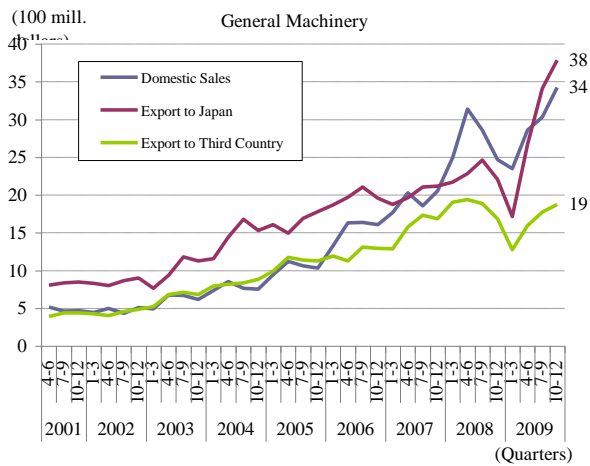
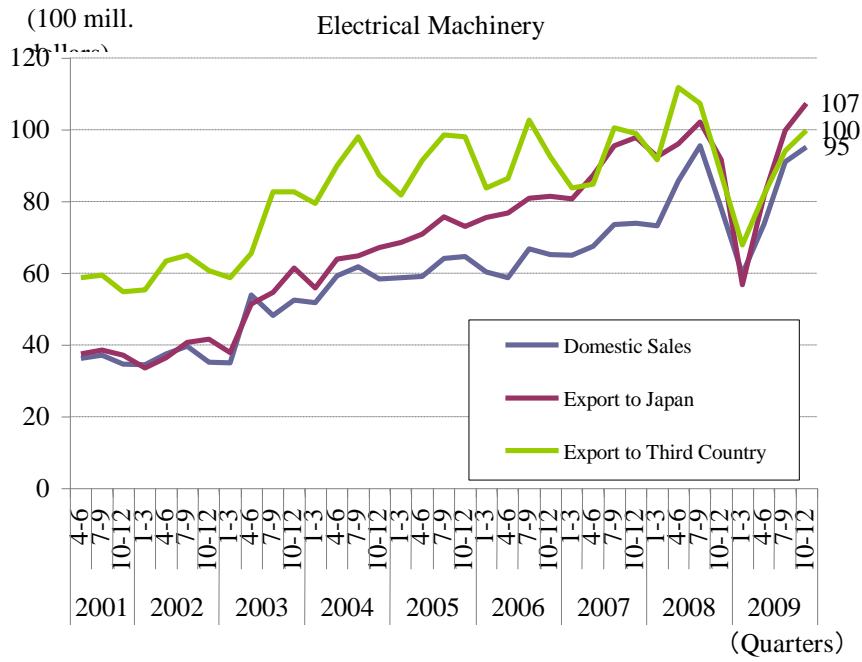
Note: Local Procurement Ratio = Amount of Local Content/Total Purchases
Source: Created from Annual Issues of METI "Survey on Overseas Business Activities".

(3) Difference in sales destination of Japanese local subsidiaries by sector

The sales destination of Japanese local subsidiaries in Asia by sector shows that the sales/exports of electric machinery and general machinery to the final production country, Japan and the third countries are about the same and maintaining this ratio. (The export of general machinery to the third countries became sluggish after the global financial crisis.) On the other hand, as for transportation machinery, the largest sales target is the final production country being far ahead of the exports to Japan and the exports to the third countries. It seems that there is an established model to locally produce and sell products.

Furthermore, as for electric machinery, due to the strengthened price competitions in the local markets in Asia, the main sales target is the final production country. However, in the fourth quarter of 2009, the exports to Japan became the largest recording \$10.7 billion (see Figure 2-2-3-7).

Figure 2-2-3-7: Trend of Japanese local subsidiaries' total sales in Asia by sectors



Source: Created from METI "Quarterly Survey of Overseas Subsidiaries".