

JAPAN'S GROWING INVESTMENT ABROAD

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EAI Background Brief No. 865

Date of Publication: 7 November 2013

Executive Summary

1. After over two decades of slow growth, Japan's outward direct investment (ODI) has begun to show an obvious expansion since 2005. Its rise was accompanied by a greater importance in Asia and in the manufacturing sector.
2. In 2005-2006, 35% of Japan's ODI was in Asia, an increase from 26% in 2003-2004. Sixty-three percent of its ODI was in manufacturing, a clear growth from 42% in 2003-2004.
3. Japan's ODI hit a historical high of US\$130 billion in 2008. The global financial crisis gave Japanese companies a chance to take advantage of price cuts from the West. This can be seen from the greater share of Japan's ODI in North America (29%) and Europe (23%) than in Asia (22%) in 2007-2008, unlike that during 2005-2006.
4. After a slowdown in 2009-2010, Japan's ODI rebounded in 2011 and 2012. Apart from yen's appreciation, Japan's earthquake and tsunami in March 2011 highlighted the need to relocate some factories overseas to minimize the risk of natural disasters. In 2011-2012, Asia (32% of Japan's total ODI) and the manufacturing sector (47% of Japan's total ODI) regain importance for Japan.
5. While China and nine developing countries in the Association of Southeast Asian Nations (ASEAN-9) have been competing for Japan's ODI in labor-intensive manufacturing, the Newly Industrialized Economies (NIEs) are still attractive for Japanese investment in higher value-added manufacturing and service-oriented sectors.
6. Japanese companies' "return to Asia" took place at the same time when Japanese firms in the region expanded their business in the host countries. In 2002, 43% of Asia-based Japanese manufacturing firms' sales came from the host country to hit 61% in 2012.

7. Japanese investments in the US and Europe are to meet local market demand. As the US' and Europe's consumption of foreign goods has peaked, Japan is looking at Asia, in particular China and Southeast Asia, for its new source of business growth.
8. Rising labor cost and uncertain political relations will put China in a less advantageous position vis-à-vis ASEAN-9. Nonetheless, the high cost of starting business, lack of stable power supply and insufficient protection for foreign investors are major obstacles for foreign investors doing business in ASEAN-9, especially in Indonesia, Cambodia, Philippines and Laos.
9. With more than half of total ASEAN-9's population, China is still an important market. As Abe's top priority is to revive Japan's economy, which has been much supported by foreign demand, Japan will have to restore good political relations with not only ASEAN-9 but also China.