

## FOREIGN SUBSIDIARIES, A KEY DRIVER OF THE JAPANESE INDUSTRY

Guillaume Derrien

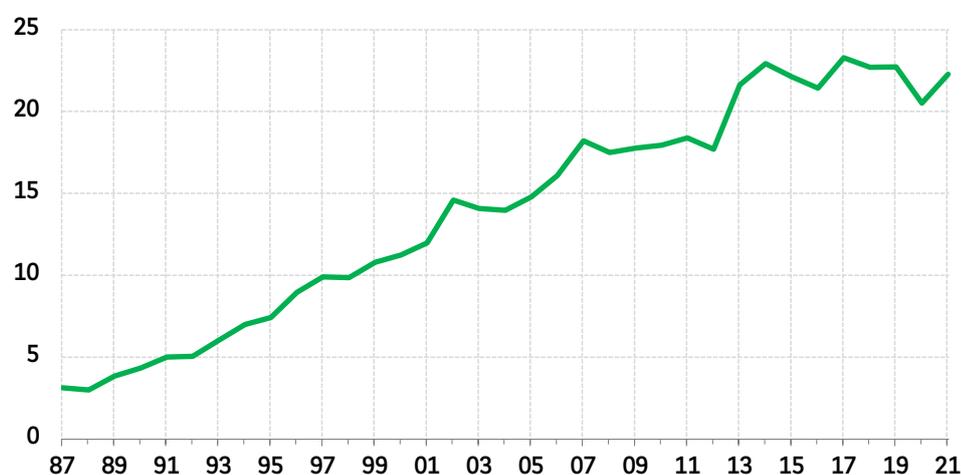
In 2021, sales by foreign subsidiaries of Japanese industrial companies accounted for nearly a quarter of total sales. China is the main anchor country, particularly for the automotive industry.

Despite this, Japan has retained a larger industrial base than most other OECD countries. The sector accounted for more than 20% of total national value added in 2021. The share of goods exports in GDP has also increased, reaching 16.4% in Q1 2022.

This production structure for Japanese companies, based on the complementarity between domestic facilities and foreign subsidiaries, has helped support profits, which climbed to a record as a share of GDP in Q1 2022.

Industrial production in Japan is continuing to shift towards capital goods and away from final consumption goods, largely in response to the increasing competition from other Asian countries in the latter segment.

JAPAN'S MANUFACTURING OVERSEAS SUBSIDIARY SALES RATIO (AS % OF TOTAL SALES)\*



\* Total sales by Japanese foreign subsidiaries and Japanese companies based in the domestic market (METI methodology)

Note: overseas production ratio based on all domestic companies = Sales of overseas affiliates (manufacturing industries) / (Sales of overseas affiliates (manufacturing industries) + Sales of domestic companies (manufacturing industries)) × 100.0

CHART 1

SOURCE: METI, BNP PARIBAS

At a time when the debate around the concept of de-globalization is gaining traction, it is interesting to focus on Japan, where many industrial companies have chosen to set up subsidiaries abroad. The subject is even more relevant today, given the significant depreciation in the yen and the growing geopolitical tensions in Asia. One would expect that this would influence the organisation of Japanese production in the medium and long term.

In recent decades, Japanese manufacturing companies have expanded their share of international activity. Initial estimates from the Ministry of the Economy, Trade and Industry (METI), indicate that sales by foreign subsidiaries in 2021 reached JPY 132 trillion (USD 1 trillion). This was nearly a quarter (22.3%) of total sales by Japanese companies, if we add these foreign sales to those made by Japanese companies located in Japan (Chart 1)<sup>1</sup>. Progress has been impressive over the past thirty years, as this figure was only 10% in the early 2000s and just 5% in 1990. However, it has stabilised since 2014.

<sup>1</sup> This calculation follows the methodology employed by METI. See Summary of the 2020 (50th) Basic Survey on Overseas Business Activities (page 6).



Several factors have encouraged Japanese companies to strengthen their presence abroad. The gradual strengthening of the yen between 1980 and 2012 (the date of the introduction of 'Abenomics' and the beginning of a new phase of depreciation in the currency)<sup>2</sup>, was the first key factor, but is not the only explanation. According to a METI survey conducted in July 2018<sup>3</sup>, companies wanted to get closer to local markets where "demand is strong or expected to be so in future" (68.6% of companies agreed with this statement) in order to compensate for structurally low growth in demand in Japan<sup>4</sup>. The same survey indicated that the cost and quality of foreign labour had a less important role (16.0% agreeing). The extension of global production chains and Japan's integration into them have also driven the expansion of businesses beyond the country's borders.

However, the scale of this phenomenon varies from one sector to the next. The automotive industry and companies in information and communication electronic equipment have expanded their production facilities abroad to a much greater extent than those in the food, metals, oil or coal sectors, where businesses remain more heavily focused on Japan (Chart 2). Most production of Japanese foreign subsidiaries are sold into their host region: this accounted for three quarters of the sales in 2021; the remaining quarter are sales outside the area of operation, and mainly directed back to Japan.

### CHINA, THE MAIN FOREIGN BASE

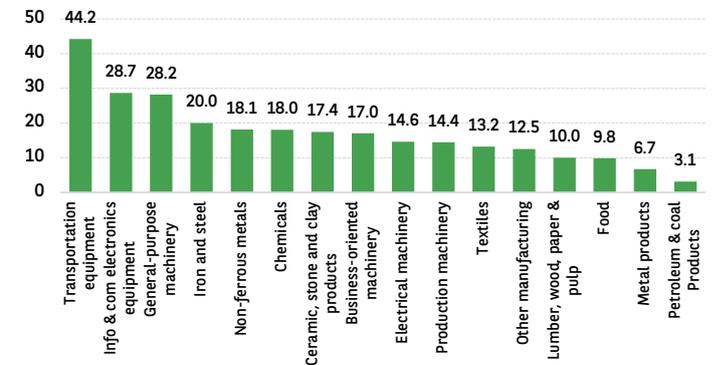
Japanese companies have mainly strengthened their presence in Asia (Chart 3), and particularly in China. At the end of the 1990s, sales by Japanese subsidiaries in China accounted for just 5% to 6% of total sales of Japanese subsidiaries around the world<sup>5</sup>. This figure has increased fivefold over twenty years, with a peak of 24.6% reached in 2021.

The move into China came alongside growth in bilateral trade between the two countries. Over 20 years, trade (exports and imports combined) has doubled, whilst exchanges between Japan and the US have contracted by 20 percentage points (Chart 4). 2001 represented a turning point, as this is the year when China joined the World Trade Organisation.

In China, the automotive industry is by far the sector where Japanese companies have the greatest presence: in 2021, this industry represented more than half of sales by Japanese subsidiaries in the country (Chart 5). As the METI survey suggests, the presence of Japanese companies in China is an efficient way to get closer to the Chinese market, which is growing faster than its Japanese counterpart, and thus bolster their market shares in the country. This presence reduces the exposure to the risk of a raising of trade barriers targeting Chinese imports.

The other major bases for Japanese companies are North America and ASEAN countries. These accounted for 26.6% and 22.5% respectively of total sales by subsidiaries in 2021, whilst Europe accounted for a smaller share (11.8%).

### JAPAN OVERSEAS SUBSIDIARY SALES (AS % OF TOTAL SALES, 2019)\*

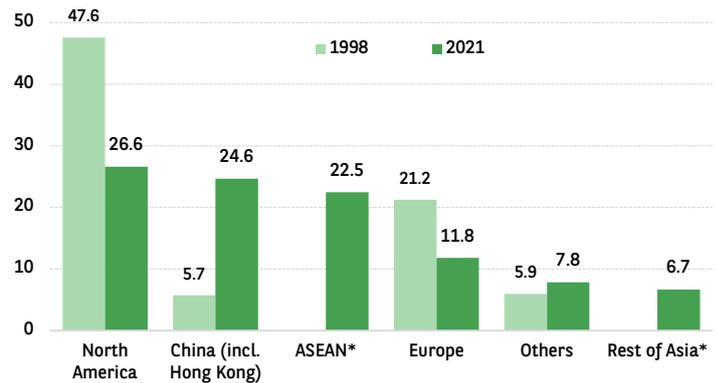


\*Total sales by Japanese foreign subsidiaries and companies based in Japan (METI methodology)

SOURCE: METI, JAPAN'S MINISTRY OF FINANCE

CHART 2

### JAPAN OVERSEAS SUBSIDIARY SALES, BY REGION (AS % OF TOTAL SALES)



\* Data not available for 1998

SOURCE: METI, BNP PARIBAS

CHART 3

### JAPAN TRADING PARTNERS (% OF TOTAL EXPORTS & IMPORTS)

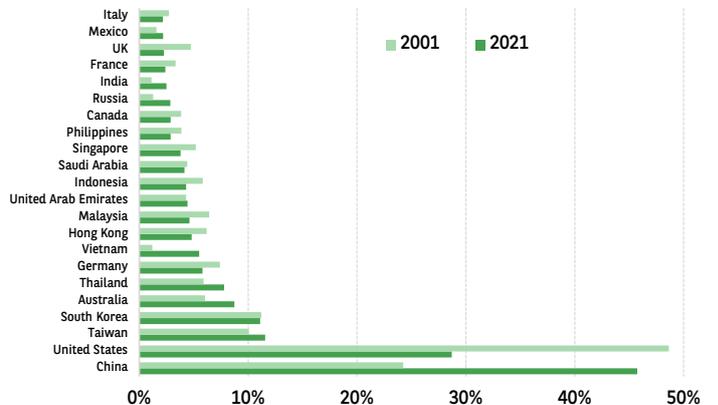


CHART 4

SOURCE: INTERNATIONAL TRADE CENTRE, BNP PARIBAS

<sup>2</sup> Between 1980 and 2012, the yen strengthened against the dollar, rising from JPY226/\$ to JPY79.8/\$.

<sup>3</sup> See Summary of the 48th Basic Survey on Overseas Business Activities, METI.

<sup>4</sup> This trend is confirmed by the substantial share of sales made by subsidiaries in the country or region where they are based.

<sup>5</sup> These figures include Hong Kong.



## INDUSTRY CONTINUES ITS TRANSFORMATION

Despite this underlying trend in the expansion of Japanese companies abroad, the process of de-industrialisation in Japan has been more limited than in most Western economies. In 2019, manufacturing industry still accounted for more than 20% of the country's total value added (20.9%), whilst the comparable figures for France, Spain, the UK and the US<sup>6</sup> are all below the 12% mark (Chart 6). Meanwhile, the share of goods exports in real GDP has continued to grow for more than twenty years now, reaching 16.4% in the first quarter of 2022 (Chart 7). Therefore, Japan remains a major exporting power. The yen's depreciation – which continued in June – is thus likely to provide substantial support to industrial activity in Japan again.

Nevertheless, the expansion of foreign subsidiaries has contributed to holding back industrial production in Japan, which is close to 20% below its October 2007 peak. Activity in the transport sector, the biggest in terms of industrial production (a weight of 18%), has fallen by nearly one-third relative to its level at the end of 2007 (Table 1). Nor is this the only sector to have seen a substantial contraction. The fall in output has continued relentlessly in information and communication electronics equipment (-61% between 2008 and 2021) and in 'other manufacturing sectors' (-25%), two categories consisting primarily of final consumption goods (computers, TVs, telephones, apparel, supplies, musical instruments, toys, etc.). Of the 15 major sectors making up the industrial production index, only two now have production levels greater than 15 years ago: production machinery and electronic components. Both of these cover mainly intermediate goods used in the production of other final consumption goods. The latter includes, for example, integrated circuits, LCD screens and other micro-electronic components. Industrial activity in Japan has therefore pursued its transformation, focusing increasingly on products upstream in production chains, rather than on final goods.

This is a response to changes in international competition: there is much greater competition from emerging Asian economies in final goods than in advanced industrial products, that are greater value-added goods, and Japan's specialism. This specialisation has allowed the country to retain significant non-price competitiveness (which is manifested, most notably, in the preservation of high profit margins for companies; Chart 8) and strong exports. This has avoided an excessive deterioration of the country's trade balance, even though its surplus is not as large as it was in the early 2000s<sup>7</sup>.

Profit levels at Japan's industrial companies show the sector's resilience. According to the latest Ministry of Finance report (published on 1 June 2022<sup>8</sup>), manufacturing profits hit JPY9.39 trillion in the first quarter of 2022 (Chart 8), slightly below the record of JPY9.44 trillion set in Q2 2018, but the highest as a share of GDP, at 6.9%. Profit margins have also remained strong. However, profits for Q2 2022 will suffer from the closure of factories in China, due to lockdown measures; these had a severe effect on production chains for Japanese automakers, which, as we showed above, are highly active in the country<sup>9</sup>.

<sup>6</sup> Source: France, Spain, United Kingdom: Eurostat; United States: BEA  
<sup>7</sup> The trade balance worsened significantly between 2008 and 2014 (the deficit has since been reduced), but this was mainly due to two exogenous factors: the collapse in global demand after 2008 and the sharp rise in the yen, which is viewed as a safe-haven currency in times of crisis.  
<sup>8</sup> <https://www.mof.go.jp/english/pri/reference/ssc/r4.1-3e.pdf>  
<sup>9</sup> See Shanghai Lockdowns Slam Japanese Automakers' Production in China, Bloomberg, 30 May 2022.

### JAPAN SALES OF OVERSEAS SUBSIDIARIES BASED IN CHINA, SHARE BY SECTOR

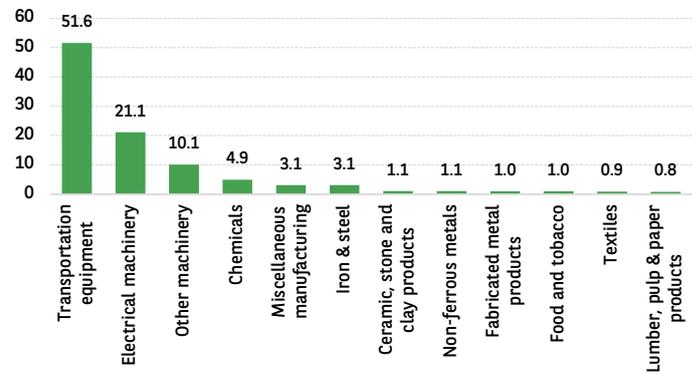


CHART 5

SOURCE: METI, BNP PARIBAS

### SHARE OF MANUFACTURING IN NATIONAL VALUE ADDED

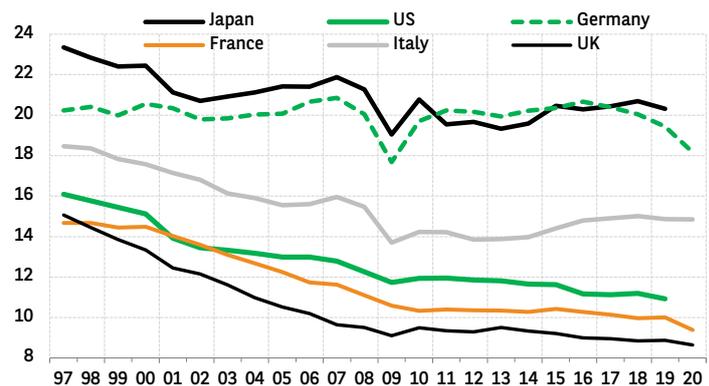


CHART 6

SOURCE: WORLD BANK, BNP PARIBAS

### GOODS EXPORTS (AS % OF REAL GDP)

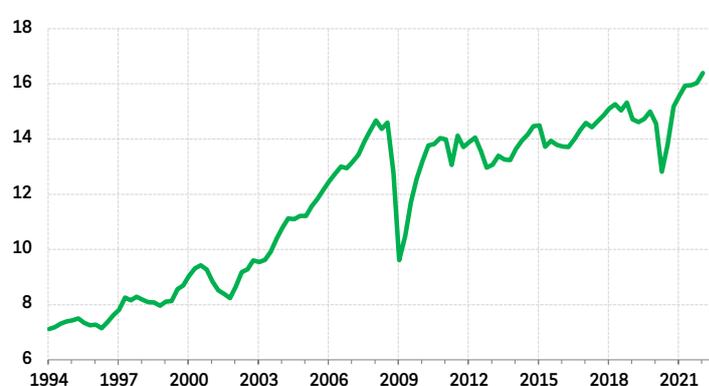


CHART 7

SOURCE: CABINET OFFICE, BNP PARIBAS



Shortages of electronic components will be a further brake on activity over the short and medium term. That said, the production structure for Japanese companies, based on the complementarity between domestic facilities and foreign subsidiaries, has been effective so far, as shown by the strong profit numbers.

## TOWARDS A TURNING POINT?

The prospects of a slowing in trade globalisation (without going as far as using the concept of de-globalisation) raise questions on the process of Japanese companies creating foreign subsidiaries, which has already somewhat stalled since 2014 (Chart 1). Several factors suggest that this slowdown will continue: (i) logistics problems during the Covid-19 pandemic and the Japanese authorities' desire to shorten production chains; (ii) the increase in geopolitical tension in Asia and the desire for greater autonomy, particularly in strategically important sectors; and (iii) rising labour costs in China which reduce the country's price competitiveness. Countries' labour costs are also becoming a less significant factor, given the increasingly automated nature of production. Companies rely increasingly more on highly-qualified employees than low-wage workers, which is likely to help a development of activity in Japan.

Even before the global pandemic, the Japanese government had introduced fiscal incentives, admittedly still on a modest scale, to encourage Japanese companies to invest in their home country. In April 2020, the authorities launched a JPY 248.6 billion (USD 1.9 billion) scheme of this kind. In November 2021, the Government also released funding of JPY 774 billion (USD 6 billion) to help develop new semiconductor production facilities within the country, of which more than half (JPY 400 billion) will be dedicated to the construction of a new foundry in the Kumamoto Prefecture.

However, shifting the balance by developing activity in Japan rather than abroad will not be easy, nor is it the government's sole priority. It is also pursuing greater diversification of production chains in Asia, in order to reduce dependence on China. It will be particularly difficult to relocate highly capital-intensive or knowledge-intensive production chains, given the vast sums invested in them and/or the knowledge ecosystems that have been created around them. Moreover, relocation of industrial activity to Japan would imply higher production costs, which would affect company margins. Although more onshoring is expected, this phenomenon could be slow to materialise.

Guillaume Derrien

[guillaume.a.derrien@bnpparibas.com](mailto:guillaume.a.derrien@bnpparibas.com)

### PROFIT MARGINS & CURRENT PROFITS OF JAPAN'S MANUFACTURING SECTOR

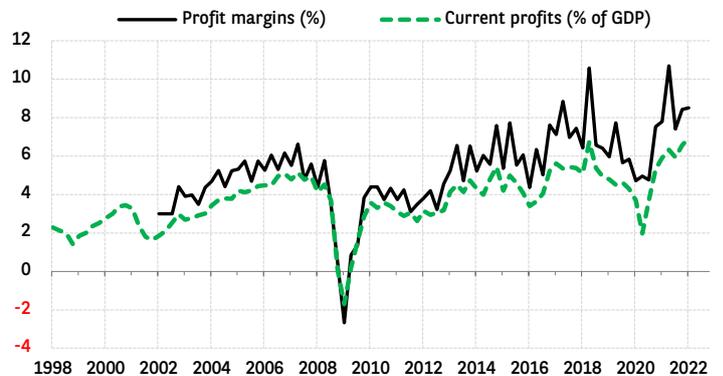


CHART 8

SOURCE: JAPAN'S MINISTRY OF FINANCE, BNP PARIBAS

### INDUSTRIAL PRODUCTION BETWEEN AUGUST 2007 (PEAK) AND APRIL 2022

| Sectors                          | Gap (%) between April 2022 & October 2007 (peak) | Weight in industrial production |
|----------------------------------|--|---------------------------------|
| <b>Manufacturing</b>             | <b>-19.0</b>                                     | <b>99.83</b>                    |
| Electronic parts & devices       | 8.7  | 5.81                            |
| Production machinery             | 2.3  | 7.08                            |
| Chemicals                        | -5.9   | 10.93                           |
| Electrical machinery             | -6.2   | 5.97                            |
| Plastic products                 | -12.1  | 4.42                            |
| Business-oriented machinery      | -12.6  | 1.52                            |
| Food and tobacco                 | -14.0  | 13.14                           |
| Pulp & paper                     | -17.2  | 2.27                            |
| General-purpose machinery        | -17.4  | 5.77                            |
| Ceramic, clay, stone products    | -23.8  | 3.22                            |
| Fabricated metal products        | -26.4  | 4.38                            |
| Other manufacturing              | -27.4  | 7.52                            |
| Iron & steel                     | -28.8  | 6.25                            |
| Petroleum & coal products        | -30.3  | 1.18                            |
| Transport equipments             | -32.4  | 17.97                           |
| Info & com electronics equipment | -70.1  | 2.42                            |
| Mining                           | -35.3  | 0.17                            |

TABLE 1

SOURCE: METI, BNP PARIBAS



# GROUP ECONOMIC RESEARCH

William De Vijlder  
Chief Economist

+33 1 55 77 47 31

william.devijlder@bnpparibas.com

## OECD ECONOMIES AND STATISTICS

Hélène Baudchon

Head - Eurozone - Climate

+33 1 58 16 03 63

helene.baudchon@bnpparibas.com

Felix Berte

United States, United Kingdom

+33 1 40 14 01 42

felix.berte@bnpparibas.com

Stéphane Colliac

France

+33 1 42 98 43 86

stephane.colliac@bnpparibas.com

Guillaume Derrien

Southern Europe, Japan - International trade

+33 1 55 77 71 89

guillaume.a.derrien@bnpparibas.com

Anthony Morlet-Lavidalie

Germany, Northern Europe

+33 1 53 31 59 14

anthony.morletlavidalie@bnpparibas.com

Veary Bou, Patrick Capeillère, Tarik Rharrab  
Statistics

## ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK

Jean-Luc Proutat

Head

+33 1 58 16 73 32

jean-luc.proutat@bnpparibas.com

## BANKING ECONOMICS

Laurent Quignon

Head

+33 1 42 98 56 54

laurent.quignon@bnpparibas.com

Céline Choulet

+33 1 43 16 95 54

celine.choulet@bnpparibas.com

Thomas Humblot

+33 1 40 14 30 77

thomas.humblot@bnpparibas.com

## EMERGING ECONOMIES AND COUNTRY RISK

François Faure

Head - Argentina, Turkey - Methodology, Modelling

+33 1 42 98 79 82

francois.faure@bnpparibas.com

Christine Peltier

Deputy Head - Greater China, Vietnam - Methodology

+33 1 42 98 56 27

christine.peltier@bnpparibas.com

Stéphane Alby

Africa (French-speaking countries)

+33 1 42 98 02 04

stephane.alby@bnpparibas.com

Pascal Devaux

Middle East, Balkan countries

+33 1 43 16 95 51

pascal.devaux@bnpparibas.com

Hélène Drouot

South Korea, Philippines, Thailand, Andean countries

+33 1 42 98 33 00

helene.drouot@bnpparibas.com

Perrine Guérin

South Africa & English/Portuguese-speaking African countries

+33 1 42 98 43 86

perrine.guerin@bnpparibas.com

Salim Hammad

Latin America

+33 1 42 98 74 26

salim.hammad@bnpparibas.com

Cynthia Kalasopatan Antoine

Ukraine, Central European countries

+33 1 53 31 59 32

cynthia.kalasopatan@bnpparibas.com

Johanna Melka

India, South Asia, Russia, Kazakhstan

+33 1 58 16 05 84

johanna.melka@bnpparibas.com

## CONTACT MEDIA

Mickaëlle Fils Marie-Luce

+33 1 42 98 48 59

mickaëlle.filsmarie-luce@bnpparibas.com



**BNP PARIBAS**

The bank  
for a changing  
world



## CONJONCTURE

Structural or thematic topics.



## EMERGING

Analyses and forecasts for a selection of emerging economies.



## PERSPECTIVES

Analyses and forecasts with a focus on developed countries.



## ECOFASH

Data releases, major economic events.



## ECOWEEK

Recent economic and policy developments, data comments, economic calendar, forecasts.



## ECOTV

A monthly video with interviews of our economists.



## ECOTV WEEK

A weekly video discussing the main event of the week.



## MACROWAVES

Our economic podcast.

HOW TO RECEIVE OUR PUBLICATIONS

**SUBSCRIBE ON OUR WEBSITE**  
[see the Economic Research website](#)

&

**FOLLOW US ON LINKEDIN**  
[see the Economic Research linkedin page](#)

**OR TWITTER**  
[see the Economic Research Twitter page](#)

The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. This report does not constitute an offer or solicitation to buy or sell any securities or other investment. It does not constitute investment advice, nor financial research or analysis. Information and opinions contained in the report are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient; they are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein. Any reference to past performance should not be taken as an indication of future performance. To the fullest extent permitted by law, no BNP Paribas group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report. BNP Paribas SA and its affiliates (collectively "BNP Paribas") may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this report or derivatives thereon. BNP Paribas may have a financial interest in any issuer or person mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon. Prices, yields and other similar information included in this report are included for information purposes. Numerous factors will affect market pricing and there is no certainty that transactions could be executed at these prices. BNP Paribas, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this report. BNP Paribas may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this report. BNP Paribas may be a party to an agreement with any person relating to the production of this report. BNP Paribas, may to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis on which it was based, before its publication. BNP Paribas may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this report. Any person mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

BNP Paribas is incorporated in France with limited liability. Registered Office 16 Boulevard des Italiens, 75009 Paris. This report was produced by a BNP Paribas group company. This report is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNP Paribas. By accepting this document you agree to be bound by the foregoing limitations.

Certain countries within the European Economic Area:

This report has been approved for publication in the United Kingdom by BNP Paribas London Branch. BNP Paribas London Branch is authorised and supervised by the Autorité de Contrôle Prudentiel and authorised and subject to limited regulation by the Financial Services Authority. Details of the extent of our authorisation and regulation by the Financial Services Authority are available from us on request.

This report has been approved for publication in France by BNP Paribas SA. BNP Paribas SA is incorporated in France with limited liability and is authorised by the Autorité de Contrôle Prudentiel (ACP) and regulated by the Autorité des Marchés Financiers (AMF). Its head office is 16, boulevard des Italiens 75009 Paris, France.

This report is being distributed in Germany either by BNP Paribas London Branch or by BNP Paribas Niederlassung Frankfurt am Main, a branch of BNP Paribas S.A. whose head office is in Paris, France. BNP Paribas S.A. - Niederlassung Frankfurt am Main, Europa Allee 12, 60327 Frankfurt is authorised and supervised by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

United States: This report is being distributed to US persons by BNP Paribas Securities Corp., or by a subsidiary or affiliate of BNP Paribas that is not registered as a US broker-dealer. BNP Paribas Securities Corp., a subsidiary of BNP Paribas, is a broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority and other principal exchanges. BNP Paribas Securities Corp. accepts responsibility for the content of a report prepared by another non-U.S. affiliate only when distributed to U.S. persons by BNP Paribas Securities Corp.

Japan: This report is being distributed in Japan by BNP Paribas Securities (Japan) Limited or by a subsidiary or affiliate of BNP Paribas not registered as a financial instruments firm in Japan, to certain financial institutions defined by article 17-3, item 1 of the Financial Instruments and Exchange Law Enforcement Order. BNP Paribas Securities (Japan) Limited is a financial instruments firm registered according to the Financial Instruments and Exchange Law of Japan and a member of the Japan Securities Dealers Association and the Financial Futures Association of Japan. BNP Paribas Securities (Japan) Limited accepts responsibility for the content of a report prepared by another non-Japan affiliate only when distributed to Japanese based firms by BNP Paribas Securities (Japan) Limited. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan.

Hong Kong: This report is being distributed in Hong Kong by BNP Paribas Hong Kong Branch, a branch of BNP Paribas whose head office is in Paris, France. BNP Paribas Hong Kong Branch is registered as a Licensed Bank under the Banking Ordinance and regulated by the Hong Kong Monetary Authority. BNP Paribas Hong Kong Branch is also a Registered Institution regulated by the Securities and Futures Commission for the conduct of Regulated Activity Types 1, 4 and 6 under the Securities and Futures Ordinance.

Some or all the information reported in this document may already have been published on <https://globalmarkets.bnpparibas.com>

© BNP Paribas (2015). All rights reserved.

Published by BNP PARIBAS Economic Research

Head office: 16 boulevard des Italiens - 75009 Paris France / Phone : +33 (0) 1.42.98.12.34  
 Internet: [www.group.bnpparibas.com](http://www.group.bnpparibas.com) - [www.economic-research.bnpparibas.com](http://www.economic-research.bnpparibas.com)

Head of publication : Jean Lemierre / Chief editor: William De Vijlder



**BNP PARIBAS**

The bank  
for a changing  
world