

〈研究論文〉

Empirical Analysis of the Business Dynamics of Japanese Firms Operating in China

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1. Introduction

In recent years, the number of foreign-invested firms withdrawing from China has increased. This trend reflects a combination of external pressures, including heightened U.S.–China tensions, and domestic factors such as weakening consumption amid slower economic growth and rising production costs, particularly labor costs. It also coincides with the growing competitive strength of Chinese firms as they rapidly narrow technological gaps.

The withdrawal of foreign-invested firms from China is no longer limited to export-oriented sectors such as electronics, including smartphones and personal computers, and textiles. It has also extended to industries primarily serving domestic demand, including automobiles, iron and steel, non-ferrous and other metals, and transportation. For foreign-invested firms, this suggests that China is losing appeal not only as a manufacturing base often described as the world's factory, but also as a large and increasingly important consumer market.

Within this broader environment, Japanese firms operating in China have also undertaken global business restructuring. In recent years, major automakers such as Mitsubishi Motors and Suzuki have exited the Chinese market. Firms in related industries, including Japanese steel producers and auto-parts manufacturers, have similarly withdrawn or reduced the scale of their operations in China.

Against this background, this study draws on the Japan External Trade Organization survey, Survey of Japanese-Affiliated Companies in China, to trace the behavior of Japanese firms using both time-series and cross-sectional evidence. The objective is to present an accurate account of on-the-ground business dynamics in China and to identify the factors that shape them.

The remainder of this paper is organized as follows. Section 2 reviews the related literature. Section 3 draws on JETRO's Survey of Japanese-Affiliated Companies Overseas (China) to document the current conditions faced by Japanese firms operating in China. Section 4 concludes.

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2. Prior Research

Kwan (2024) argues that the withdrawal of foreign firms from China reflects a decline in China's attractiveness for foreign investors not only as a production base but also as a market. In this context, emerging economies such as ASEAN member states and India have attracted attention as alternative investment destinations¹.

As underlying drivers, Kwan (2024) points to heightened U.S.–China tensions, weaker consumption amid a slowdown in economic growth, rising production costs including wages, stricter regulations related to national security, intensifying competition with local firms, the reorganization of global supply chains, and rising anti-foreign sentiment².

Kwan (2024) also argues that, among the factors behind the withdrawal of foreign firms from China, U.S.–China tensions are the most consequential. He observes that many Western firms, not only from the United States but also from Japan and European countries, have sought to reduce their dependence on China, which is increasingly regarded in geopolitical terms as an unfriendly country, while advancing friend-shoring strategies alongside on-shoring³. He further maintains that Japanese firms' orientation toward friend-shoring is already evident. Based on the Ministry of Economy, Trade and Industry's Quarterly Survey of Overseas Subsidiaries, China's share in key indicators capturing the scale of Japanese firms' overseas operations, including tangible fixed assets, sales, and employment, has shown a declining trend in recent years (Figure5). In addition, an enterprise survey of Japanese firms engaged in overseas expansion reported in the 2023 White Paper on International Economy and Trade suggests

that China's importance is diminishing as a sales destination, a location for foreign direct investment, and a procurement source, while ASEAN economies and India are expected to grow in importance going forward (Figure6)⁴.

In contrast, Park (2024) examines how changes in the global locational environment shape the location decisions of multinational enterprises, with particular emphasis on Japanese firms. Focusing on Japanese-affiliated firms operating in China, he provides a detailed analysis of patterns of new establishment and relocation and discusses the underlying location-specific factors driving these shifts.

Park (2024) further derives the following conclusions:

First, the location-related behavior of Japanese firms in China has evolved as an adaptation to the locational environment, changing in response to shifts in the broader global locational environment across Asia, including China and Japan. Responses to U.S.–China tensions can be understood as an extension of this process, and some adjustment in location behavior is therefore unavoidable.

Second, given the nature of U.S.–China tensions, namely their inescapability, long-term character, and gradual intensification, Japanese firms are unlikely to avoid reorganizing their supply chains. However, in light of the current configuration of global supply chains that remains centered on China, there is a strong possibility that production at relocated sites will still have to rely on inputs imported from China.

Third, while disruptive factors such as U.S.–China tensions exist, the location behavior of Japanese firms operating in China has largely been characterized by maintaining the status quo or only

modest contraction. At present, there is little evidence of large-scale relocation abroad. This may reflect the persistence of China's distinctive locational advantages as the world's factory, as well as its rising attractiveness as a global market⁵.

In sum, Park (2024) compiles and analyzes evidence on the overseas expansion of Japanese firms and concludes that Japanese-affiliated firms operating in China have largely maintained their presence, despite modest adjustments in location behavior. This conclusion stands in contrast to Seki (2024).

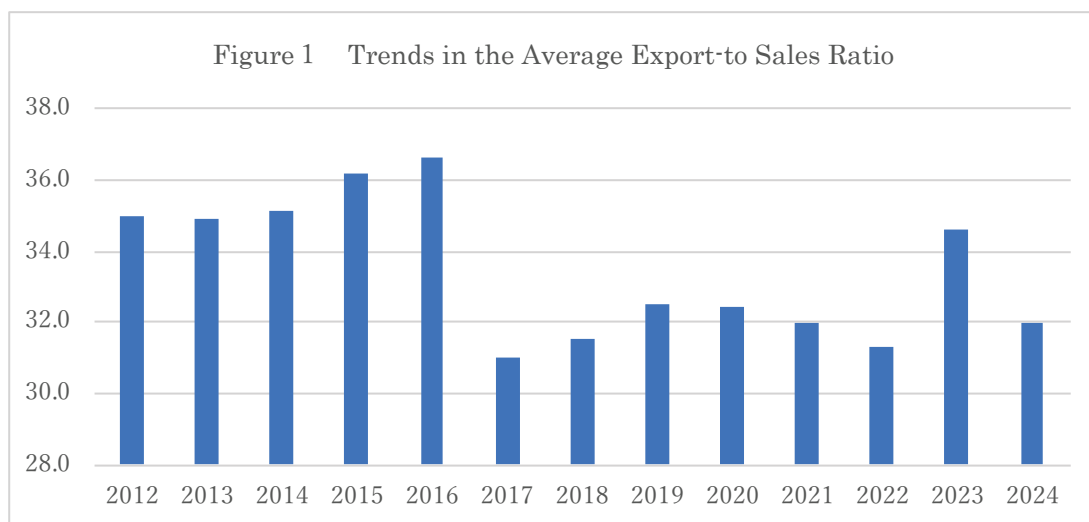
This raises the question of what the current situation of Japanese firms operating in China actually looks like. The next section uses JETRO's Survey of Japanese-Affiliated Companies Overseas (China) to empirically identify its key features.

3. Evidence from the Survey of Japanese-Affiliated Companies Overseas (China)

This section examines the business conditions of Japanese-affiliated firms operating in China by focusing on a set of indicators, including the average export share in sales and the composition of export destinations, the proportion of firms expecting positive operating profits, year-on-year wage growth, main competitors, and firms' intentions regarding future business expansion.

1. Average export share in sales and composition of export destinations

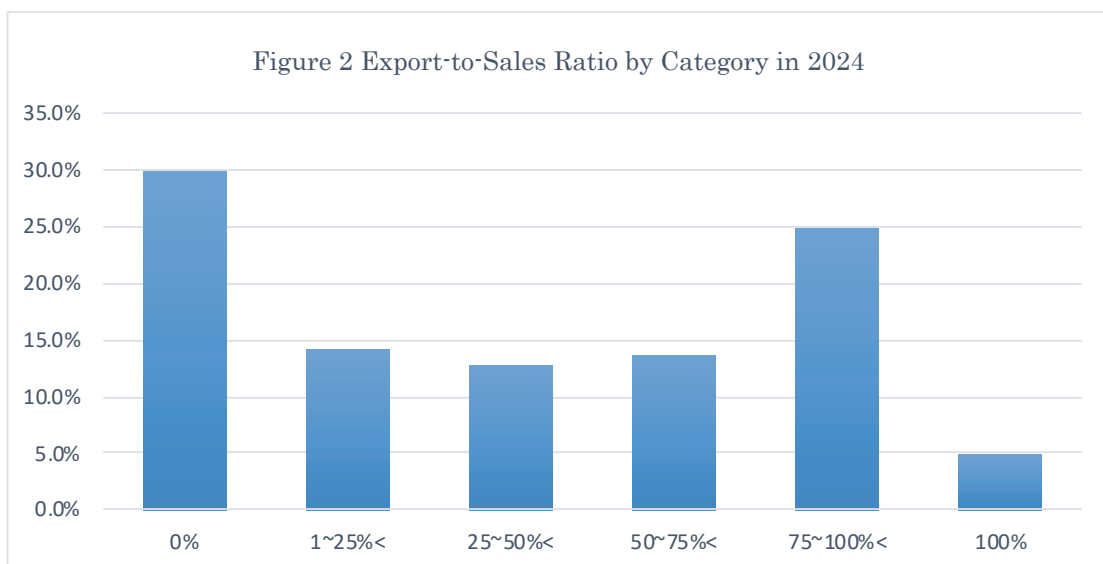
Figure 1 reports trends in the average export-to-sales ratio. From 2012 to 2016, the average export share among Japanese-affiliated firms in China exceeded 34 %. Although it has declined since 2017, it has remained above 30 %.



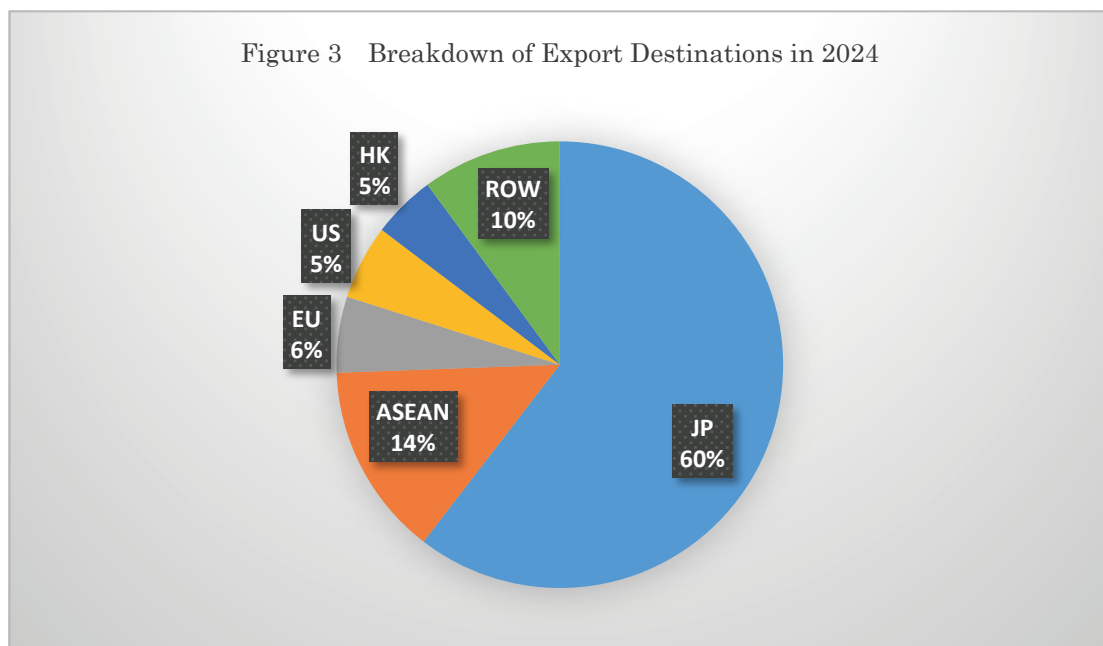
Source: Authors' compilation based on annual editions of JETRO's Survey of Japanese-Affiliated Companies Overseas (China).

In 2024, the average export share in sales was 32 % across China. Within this, firms with an export share of 0 %, that is, fully domestic-market oriented, accounted for 29.8 %, whereas firms with an export share of 100 % accounted for only 4.9 %. These

figures indicate that a substantial number of Japanese-affiliated firms are developing their business with a focus on China's domestic market. Figure 2 highlights this pattern.



Source: Same as Figure 1.

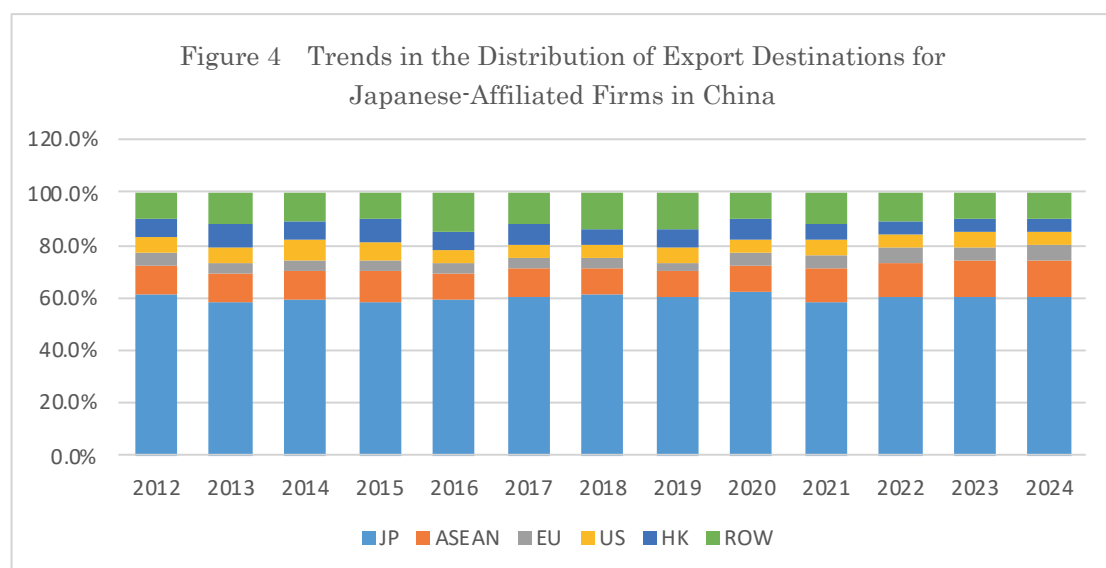


Source: Same as Figure 1.

Figure 3 shows the export destinations of Japanese-affiliated firms operating in China in 2024. Japan accounts for the largest share, followed by ASEAN and Europe.

Figure 4 presents time-series trends in the export destinations of Japanese-affiliated firms operating in China. In most years, roughly 60 % of exports

have been shipped to Japan, and exports to Europe and the United States have remained broadly stable. Although the changes are modest, exports to Hong Kong have declined somewhat in recent years, while exports to ASEAN have shown an upward trend. This pattern may indicate a gradual shift toward ASEAN under a “China plus one” strategy.



Source: Same as Figure 1. Note that the 2023 value is estimated by the authors.

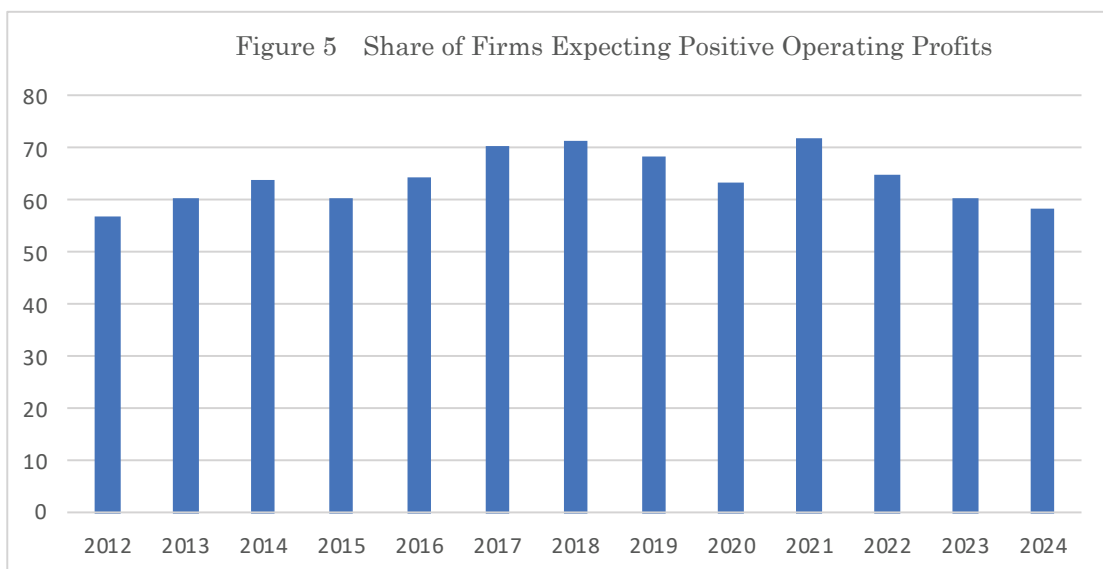
Consistent with this interpretation, China’s trade-partner composition in 2023 shows that ASEAN surpassed the combined total of Japan, Hong Kong, and Korea for the first time to become China’s largest trading partner. Specifically, ASEAN accounted for

15.6 %, Japan–Hong Kong–Korea for 15.2 %, the EU for 13.3 %, the United States for 11.3 %, Brazil–Russia–India combined for 9.4 %, and other countries and regions for 35.2 %.

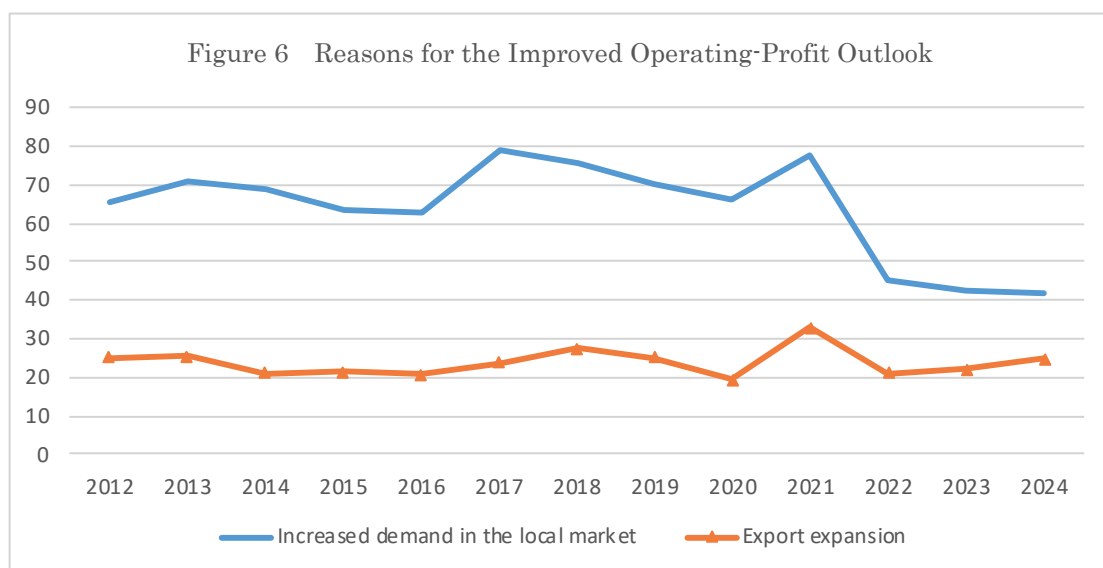
2. Share of Firms Expecting Positive Operating Profits

In 2024, 58.4 % of firms expected operating profits to be in the black. Figure 5 shows the year-to-year

trend in this measure. The share exceeded 70 % in 2018 and 2021, but has recently fallen to below 60 %, indicating a modest decline.



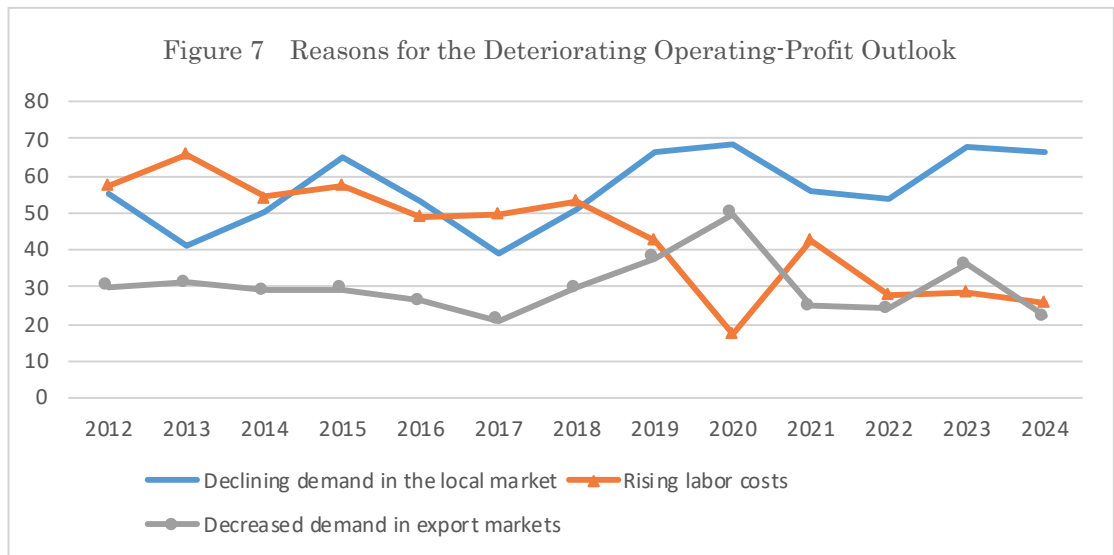
Source: Same as Figure 1.



Source: Same as Figure 1.

As for the reasons cited for improved operating-profit outlooks in China in 2024, “increased demand in the local market” accounted for 41.8 %, remaining the most frequently reported factor as in

the previous survey. Looking at the time-series pattern, export expansion is also shown to be another important driver of improvement.



Source: Same as Figure 1.

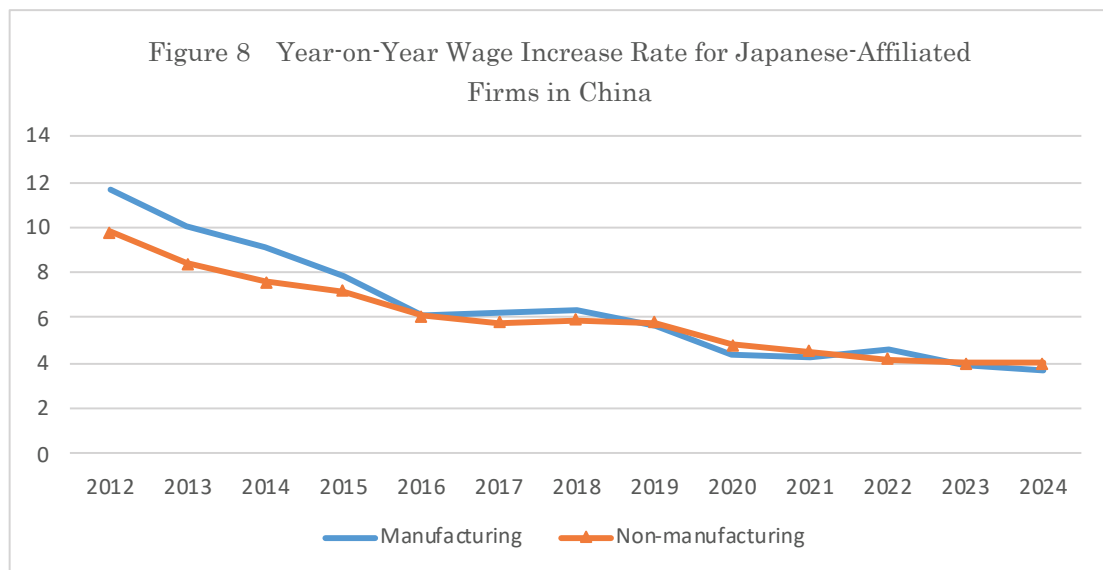
Regarding the reasons cited for a worsening operating-profit outlook in 2024, “declining demand in the local market” accounted for 66.7 % and remained the most frequently reported factor, as in the

previous year. Time-series evidence also indicates that rising labor costs are another important driver of deterioration.

3. Management Pressure from Rising Wages

In recent years, a common management challenge facing Japanese-affiliated firms operating in China, across both manufacturing and non-manufacturing sectors, has been rising employee wages. In the early 2010s, annual wage growth often exceeded 10%, but it has recently settled to around the 4% range.

In recent years, enforcement of minimum-wage compliance in China has become more stringent. Looking at wage levels, as of April 1, 2024, minimum hourly wages had increased by roughly 20% to 80 % compared with a decade earlier. Substantial increases are evident not only in densely populated coastal cities but also in inland regions.



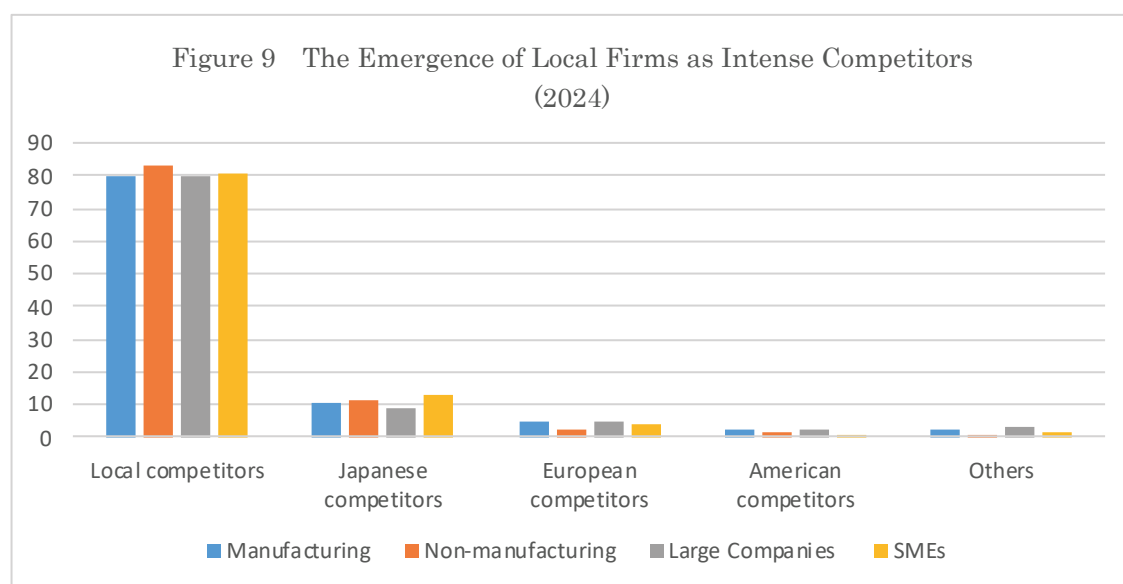
Source: Same as Figure 1.

4. Competitors of Japanese-Affiliated Firms in China

In China, many emerging firms, particularly privately owned enterprises, have grown rapidly and have become formidable competitors for foreign-invested firms, especially in high-tech sectors. In recent years, local manufacturers have expanded markedly in China's automobile market, particularly in the electric-vehicle segment. Chinese EV makers such as BYD have introduced vehicles that combine high performance with relatively low prices and have rapidly increased their market shares. Supported by government policies, these firms have

pursued technological upgrading and cost reductions, and have increasingly emerged as powerful competitors to Japanese-affiliated firms operating in China.

Figure 9 reports the distribution of competitors identified by Japanese-affiliated firms in China, disaggregated by manufacturing versus non-manufacturing and by firm size. More than 80 % of these firms identify local firms as their largest competitors, and the share exceeds 90 % in transportation equipment and parts, trading and wholesale, and textiles and apparel.



Source: Same as Figure 1.

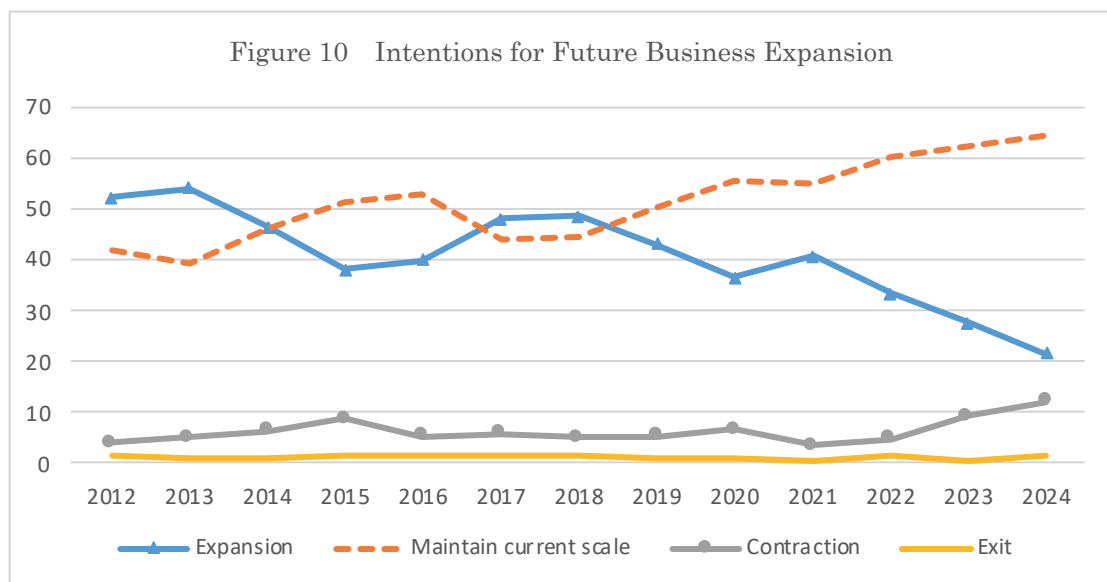
In the 2023 survey, local firms were most frequently cited as the primary competitors by Japanese-affiliated firms in China, at close to 90 %, followed by Japanese firms at 55.8 %. In manufacturing, responses indicating competition among Japanese firms were

relatively common in sectors such as transportation machinery, plastics products, and general machinery. In non-manufacturing, such responses were relatively frequent in industries including transportation and finance and insurance.

5. Intentions for Future Business Expansion

According to JETRO's 2018 Survey of Japanese-Affiliated Companies in Asia and Oceania, 48.7 % of firms reported that they intended to “expand” their business operations in China over the next one to two years. This share fell to 38.1 % in 2015, dropping below 40 % for the first time since the survey began in 1998. It then recovered to 40.1 % in 2016 and rose sharply to 48.3 % in 2017. The 2018 survey was conducted after the United States and China imposed a third round of additional tariffs in September of the same year, yet Japanese firms' expansion intentions edged up to 48.7 %, slightly above the previous year.

The impact of COVID-19 reduced the share of firms reporting expansion intentions to 36.6 % in 2020, again falling below 40 %. In 2021, it returned marginally to the 40 % range at 40.9 %. However, amid the increasingly pronounced effects of U.S.–China trade frictions, the share answering “expand” declined to 33.4 % in 2022 and, for the first time, fell below 30 % in 2023. In the latest 2024 survey, it dropped to 21.7 %, the lowest level since 1998, indicating a marked weakening in expansion intentions among Japanese-affiliated firms in China. In response to external changes such as elevated geopolitical risk, these firms have shifted toward a more cautious stance, and in recent years more than 60 % have chosen to maintain the status quo.



Source: Same as Figure 1.

In the 2024 survey, within manufacturing, the share of firms expecting to be in the black was relatively high in electrical and electronic equipment and related components, food products, rubber, ceramics and stone products, precision and medical equipment, and chemicals and pharmaceuticals. Expansion intentions were relatively strong in food products, precision and medical equipment, chemicals and pharmaceuticals, and electrical and electronic equipment.

Within non-manufacturing, the share of firms expecting to be in the black was relatively high in finance and insurance, sales and trading companies, transportation, and information and communications. Expansion intentions were particularly strong in retail and information and communications.

Among firms that answered “expand,” the functions they planned to expand were, as in the previous survey, most commonly “sales functions” (67.7%), followed by “production of higher value-added products” (38.4%) and “new business development” (27.4%).

By province, the share of firms reporting that they would expand “sales functions” was highest in Shanghai, at nearly 90 %, followed by Hubei and Sichuan, each close to 80%. Even under challenging external and internal conditions, many Japanese-affiliated firms that express an intention to expand appear to be developing their business primarily with China’s large domestic market in view.

In 2024, the share of firms reporting that they would “scale down” operations rose to 12.3%, exceeding 10% for the first time. The influence of withdrawals by automakers such as Mitsubishi Motors and Suzuki cannot be overlooked. Nevertheless, only 1.4% of firms reported “withdrawal” (2024). While modest

adjustments are evident, Park’s (2024) conclusion that there has been no large-scale exit appears closer to the reality.

In short, JETRO’s survey results suggest that the behavior of Japanese-affiliated firms in China, including expansion, maintenance, downsizing, and withdrawal, cannot be attributed to a single factor. Rather, it reflects how multiple environmental forces, such as rising production costs, shifts in local market demand, and changes in the competitive landscape, shape firms’ profit expectations. Organizing these mechanisms clarifies how such factors influence managerial decision-making and allows the following analytical framework to be proposed.

Changes in the business environment → rising managerial pressures → changes in management strategy (expansion, maintenance, downsizing, withdrawal)

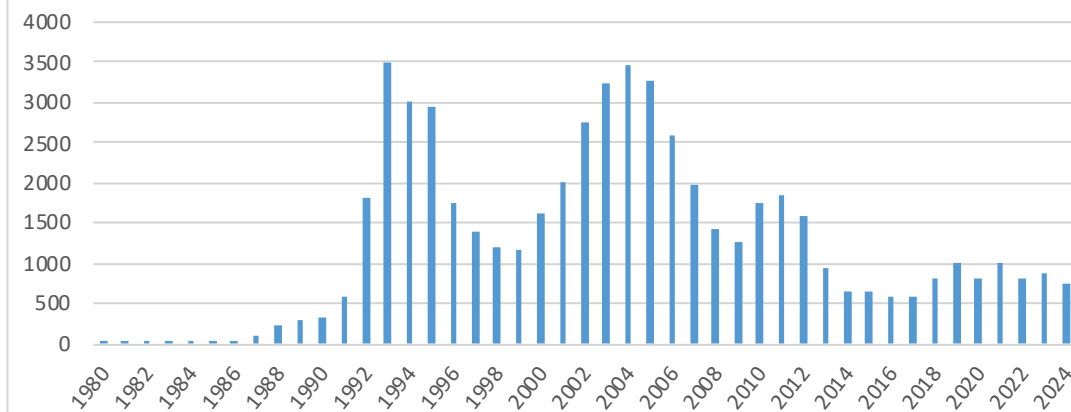
4. Conclusion

Figure 11 shows trends in the number of Japanese-affiliated firms established in China. The number increased gradually from 1980 to 1990, but began to rise sharply from 1992, following Deng Xiaoping’s “Southern Tour” speeches. China’s accession to the WTO in 2001 triggered another investment boom. Even after the Lehman shock, new

establishments continued at more than 1,500 firms per year, and since the onset of the Xi Jinping administration the figure has stabilized at around 500. After reaching 1,000 in 2019, the number of new establishments is currently around 800 per year.

In short, while it is true that some firms have withdrawn, new investment aimed at China’s domestic market has remained ongoing.

Figure 11 Trends in the Number of Japanese-Affiliated Firms Established in China



Source: Authors’ compilation based on annual editions of the Statistical Bulletin of Foreign Investment in China.

The main findings of this paper can be summarized as follows:

1) Expansion intentions among Japanese-affiliated firms in China have declined markedly.

In response to changes in the external environment, including rising wages in China, intensifying competition with local firms, and increasingly salient geopolitical risks, Japanese-affiliated firms in China have shifted toward a more cautious stance.

2) Exports from Japanese-affiliated firms in China to ASEAN have shown a modest but upward trend in recent years.

This pattern suggests that a gradual shift toward ASEAN may be underway as part of a “China plus one” strategy.

3) Withdrawals remain limited, and selective adjustment is the predominant response.

Rather than fully exiting the Chinese market as long as profitability can be maintained, Japanese-affiliated firms tend to undertake selective and partial adjustments that take account of production costs and the competitive environment. This is broadly consistent with Park’s (2024) conclusion that the prevailing pattern is not a wholesale exit but

incremental adjustment.

4) A qualitative shift toward greater reliance on the domestic market is progressing.

It is evident that many Japanese-affiliated firms operating in China are redefining China from the “world’s factory” to a “large domestic market.” The increase in firms with an export-to-sales ratio of 0 %, that is, firms oriented entirely toward domestic sales, suggests that China is being treated not merely as a production base but as a market in which local customers are targeted directly. Expansion intentions were particularly strong in sectors such as food products, electrical and electronic equipment and related components, retail, and information and communications. Taken together, these developments indicate that China’s appeal as a vast domestic market remains substantial and suggest that, overall, Japanese-affiliated firms’ operations in China are not in a phase of exit but rather in a stage of qualitative transformation.

Annotation

- 1 Kwan (2024) pp.1.
- 2 Id. at 1.
- 3 Id. at 7.
- 4 Id. at 7.
- 5 Park (2024) pp.73.

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