

# WHY COMPANIES ARE STARTING TO REINVEST IN JAPAN

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On March 31, 2015, Toyota was the largest company in Japan—nearly twice the weight of the next largest firm, Mitsubishi UFJ, in the [Tokyo Stock Price Index \(TOPIX\)](#). However, some might be surprised to learn that Toyota has been operating in the U.S. for 58 years, has 10 plants and has produced more than 1.3 million cars.<sup>1</sup>

**Operating Abroad Standard Procedure for Japanese Firms** Toyota is not the only Japan-based company with production facilities all over the world. Many Japanese firms do this. But this is starting to change as it becomes more attractive for Japanese companies to have more facilities in Japan. Consider that when the yen was at ¥75 to the dollar, the profit margin for firms to go abroad and build production facilities in countries outside Japan was about 2.5 times that of building facilities within Japan. With the yen approaching ¥120 to the dollar, Japanese firms can more easily move their production facilities back home.

**Finding Specific Examples** Some concrete examples I found of companies expanding production at home:

- **Canon:** In early 2015, Canon outlined its plans to increase domestic production. “There are two reasons behind our decision to shift a part of our production back to Japan,” said Canon Chief Financial Officer Toshizo Tanaka. First, [Abenomics](#) is working well ... thus leading us to believe the foreign currency rate won’t fluctuate widely from the current levels at least for [the] next several years.” Second, Mr. Tanaka said, the labor cost gap between Japan and other Asian nations where Canon has production bases has narrowed. Rising wages outside Japan, as well as advanced factory automation technology that the company has introduced at home, have contributed to the narrowing of those costs. Canon said it expects to increase domestic output to 50% by 2015, from 43% in the business year that ended December 2014. Approximately 60% of Canon’s production came from domestic factors between 2005 and 2009, a percentage that fell below 50% after 2011.<sup>2</sup>
- **Panasonic:** The company initially plans to bring the manufacture of top-loading washing machines back to Japan, followed by microwave ovens and household air conditioners. This production is returning home from China, where costs and wages have risen.<sup>3</sup>
- **Daikin:** The world’s largest seller of air conditioners has already moved part of its air conditioner production from China back to Japan.<sup>4</sup>
- **TDK:** The company is looking to build large factories in Japan for the first time in eight years, taking advantage of the improved profitability of domestic production brought on by a weaker yen. The plan is to spend about ¥25 billion on facilities that will start producing components for smartphones and automobiles in late 2016.<sup>5</sup>
- **Car Makers Dipping Their Toe into Onshoring in Japan:** When people think of things clearly made in Japan, two broad categories are electronics and cars. We were able to find a few examples of car makers slowing down their practice of investing abroad, but as yet we are unable to cite any major automaker shutting down large overseas production and bringing it back to Japan:
  - **Nissan** now plans to continue making some of its engines at a plant in Fukushima, after previously considering shifting to Tennessee.<sup>6</sup>
  - **Honda** is looking to shift some of its mini-bike production from Vietnam and China back to Japan.<sup>7</sup>

**An Important Trend within Abenomics** While the weakening yen and the advent of the most aggressive central bank easing program in the world have been important features of Abenomics, they are not the end goals. What’s just as relevant is that Abe’s government is extremely pro-business. The key lies in revitalizing the third largest economy in the world. Nearly two years into this new policy regime, we think that seeing concrete evidence of firms bringing some of their production back to Japan is an early sign of success that cannot be ignored. Combined with what we’ll write about in some future blog posts, it’s making us excited about Japan’s prospects. *Read the [Japan Society Series](#)*

*As of March 31, 2015, Toyota was a 5.81% weight, Mitsubishi UFJ was a 4.88% weight, Canon was a 3.94% weight, Panasonic was a 0.76% weight, Daikin was a 0.34% weight, TDK was a 0.30% weight, Nissan was a 3.12% weight, and Honda was a 3.03% weight in the [WisdomTree Japan Hedged Equity Index](#)*

<sup>1</sup>Source: “Toyota Operations 2015”; data as of 12/31/14. <sup>2</sup>Source for quotation and data in bullet point: Hiroyuki Kachi, “Canon to Return Some Production to Japan,” Wall Street Journal, 1/29/14.<sup>3</sup>Panasonic Bringing Most Production Back to Japan,” Nation, 1/6/15.<sup>4</sup>“Weak JPY Bringing Manufacturing Back to Japan,” MarketPulse, 1/8/15. <sup>5</sup>“TDK Bringing Production Back to Japan Thanks to Weak Yen,” Nikkei Asian Review, 2/26/15.<sup>6</sup>Yoko Kubota,

“Nissan to Make More Cars in Japan, Boost Exports Next Year,” Wall Street Journal, 12/19/14. <sup>7</sup>Kubota, 2014.

**Important Risks Related to this Article**

Investments focused in Japan increase the impact of events and developments associated with the region, which can adversely affect performance.

For more investing insights, check out our [Economic & Market Outlook](#)

**Tokyo Stock Price Index (TOPIX)** : A free float-adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the Tokyo Stock Exchange First Section.

**Margins** : Focused on issues impacting the overall economic landscape as opposed to those only impacting individual companies.

**Abenomics** : Series of policies enacted after the election of Japanese Prime Minister Shinzo Abe on December 16, 2012 aimed at stimulating Japan's economic growth.