United States Department of Agriculture
Foreign Agricultural Service

GAIN
Global Agricultural Information Network

Voluntary Report – Voluntary - Public Distribution **Date:** June 16,2020

Report Number: JA2020-0129

Report Name: Japanese Food Manufacturers Expand Overseas Amid Labor Crunch

Country: Japan

Post: Tokyo

Report Category: Agricultural Situation, Agriculture in the Economy

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Report Highlights:

Japan's food manufacturing output has remained strong despite a long-term decline in domestic agricultural production. However, demographic challenges have made it difficult to secure sufficient labor in recent years, leading many companies to expand business operations overseas, including in the United States. These investments are targeted both at expanding sales in local markets and exporting finished products back to Japan. Reduced tariffs on agricultural imports under recent trade agreements is likely to spur Japanese food companies to continue investing overseas.

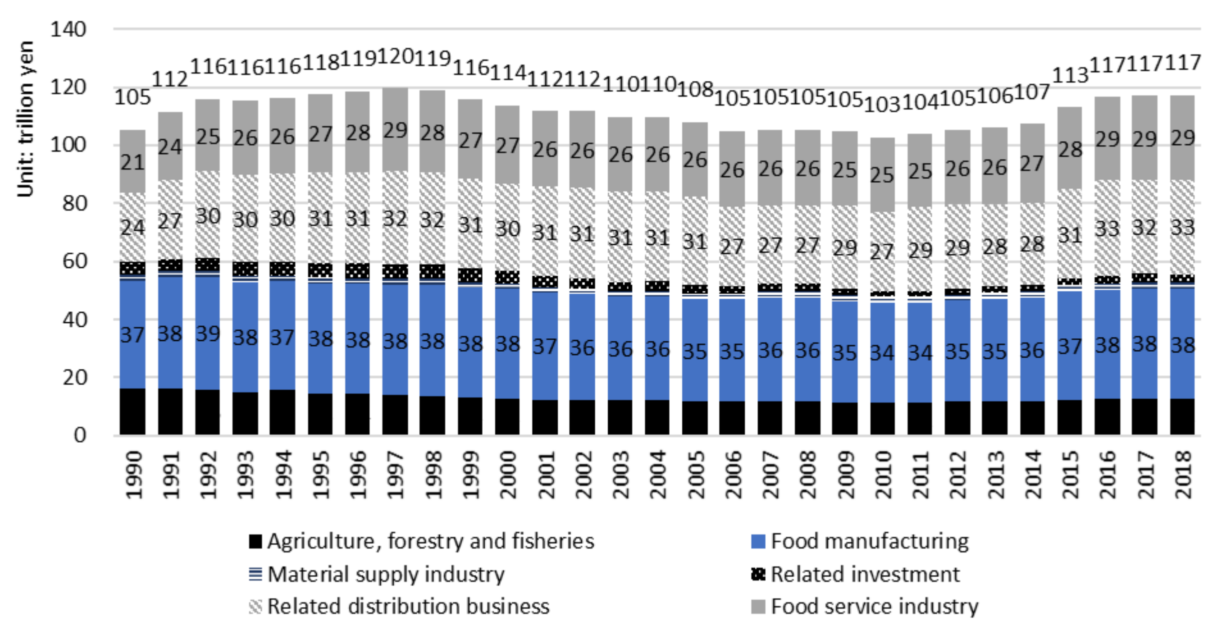
General Information:

This report is the third in a series examining how demographic shifts are affecting the agricultural landscape of Japan. Previous reports explored the increased use of foreign workers (JA2020-0081) and the role of women in Japanese agriculture (JA2020-0104).

Japanese Food Manufacturing Robust Despite Demographic Challenges

Japanese food manufacturing output has remained relatively strong despite demographic challenges to domestic agricultural production. Since 1970, Japan's farming population has fallen by 80 percent to just 1.7 million today as the proportion of farmers aged 65 or older has risen to 70 percent. As a result, agricultural production value has fallen by approximately 20 percent since 1990. However, during the same period, food manufacturing value increased slightly to 38 trillion yen ($349 billion). There are several reasons why domestic food manufacturing has remained stable despite the decline in agricultural production. Tariff reductions initiated under the Uruguay Round in 1995 and expanded by Japan's recent trade agreements has increased the availability and affordability of imported inputs. For example, Japan is now the largest overseas market for U.S. pork, much of which is used for domestic sausage manufacture. Increasing automation has also enabled food manufacturers to sustain operations with fewer workers. Finally, increasing use of foreign workers has helped offset decreasing domestic labor availability (see JA2020-0081).

Figure 1: Domestic Food Industry Output



Source: MAFF "Economic Accounts for Agriculture and Food Related Industries"

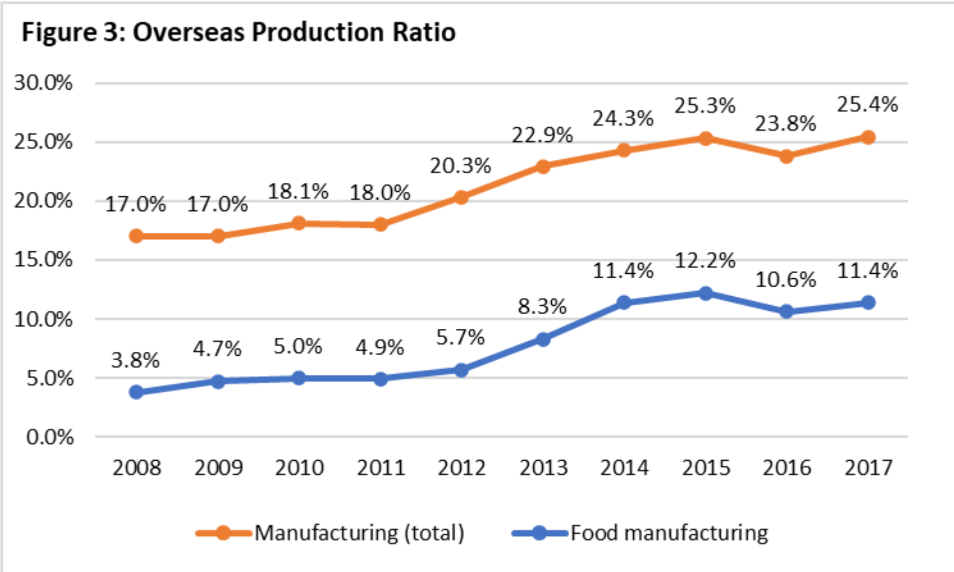
In the near term, domestic food manufacturing output is expected to remain stable. According to a 2019 survey by the Japan External Trade Organization (JETRO), 61 percent of food manufacturing-related companies intended to expand their domestic business in the next three years while 27 percent planned on maintaining their current scale of business. Only two percent indicated plans to downsize with one percent citing “other” plans.

Meanwhile, the Japanese government has sought to incentivize Japanese companies to increase domestic processing. In March 2020, the government approved a new Basic Plan on Food, Agriculture and Rural Areas, which aims to increase Japan’s food self-sufficiency rate (on a caloric basis) from the current 37 percent to 45 percent by 2030 (JA2020-0104). In the same plan, the Ministry of Agriculture, Forestry, and Fisheries (MAFF) set a 5 trillion yen target for exports of agricultural, forestry, and fishery products, reflecting a fivefold increase of actual exports in 2019 which stood at 912 billion yen. Much of the $5 billion that MAFF received in Japan’s COVID-19 relief budget was aimed at strengthening domestic supply chains and incentivizing manufacturers to use domestic inputs (see JA2020-0085).

However, Japanese food manufacturers are not immune from Japan’s larger demographic challenges as labor shortages in the food and beverage manufacturing sector remain particularly acute. In JFY 2017, the active job openings-to-applicants ratio in the food and beverage manufacturing sector was 2.78, almost double the industry average of 1.54 (Source: MAFF). As a result, nearly two-thirds of food manufacturing jobs remained unfilled. The government has sought to help these companies by expanding opportunities for foreign workers to enter Japan. Many foreign workers gain employment through technical intern programs which are term-limited and have high barriers to entry. Despite the introduction of a new visa program in 2019, the number of successful applicants has fallen far short of government expectations (see JA2020-0081).

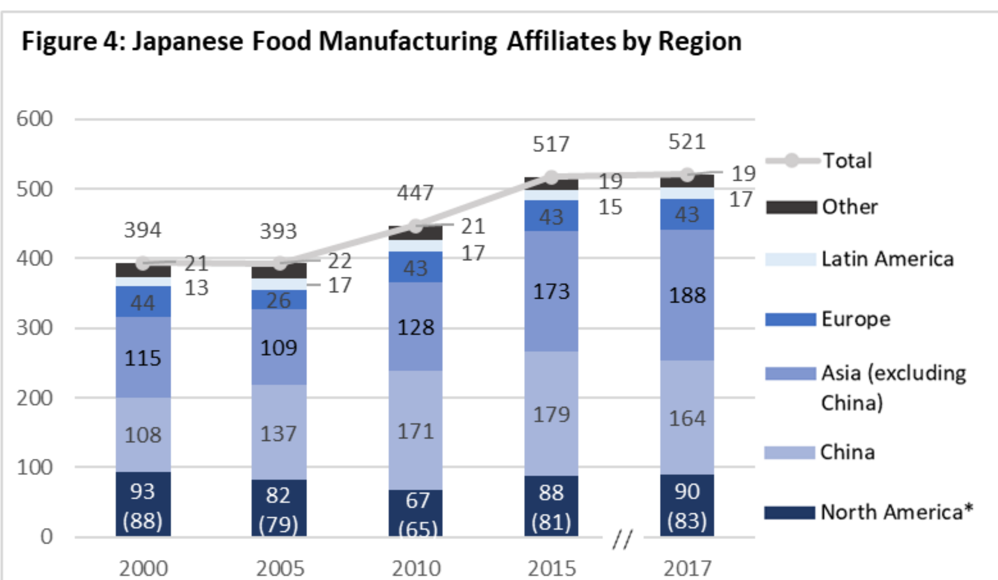
Japanese Food Manufacturers Expand Overseas Presence

In recent years, Japanese food manufacturers have expanded overseas to capitalize on labor availability, lower production costs, and market growth opportunities. According to the Ministry of Economy, Trade and Industry (METI), the overseas production ratio for Japanese food manufacturers increased threefold over the past decade, growing from 3.8 percent in 2008 to 11.4 percent in 2017. In 2017, there were 521 Japanese overseas affiliates engaged in food manufacturing with aggregate sales of 5,773 billion yen ($53 billion). Meanwhile, foreign direct investment by food manufacturing companies doubled between 2010 and 2019, growing from 4,058 billion yen ($37 billion) to 8,905 billion yen ($82 billion) (Source: Ministry of Finance “International Investment Position of Japan”).



Note: The overseas production ratio is calculated by dividing the sales of overseas affiliates (including exports to Japan) by the total sales of domestic corporations
Source: METI "Survey on Overseas Business Activities (JFY 2017)"

Asia accounts for most of Japan's overseas food manufacturing business. In 2005, 63 percent of Japanese food manufacturing affiliates were located in Asia, including China. By 2017, this figure climbed to 68 percent with the fastest growth occurring outside of China. In JETRO's 2019 Survey on the International Operations of Japanese Firms, Vietnam, the Philippines, Indonesia, and India were frequently cited as attractive destinations for establishing overseas operations due to lower labor costs and the ease of securing labor. In a similar survey focused on the Asia region, most businesses (73 percent) cited sales growth in their respective local markets as the main reason for business expansion. 32 percent also highlighted increased exports as a key driver. Cost reduction (8 percent) and the ease of securing labor (3 percent) were also mentioned (Source: JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania (JFY 2019).

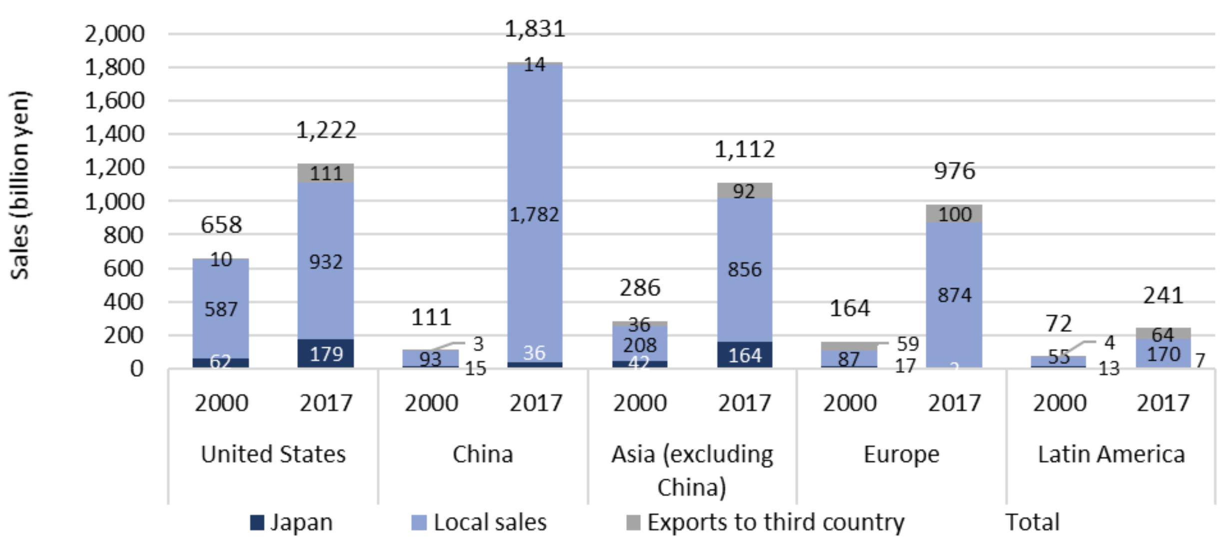


Source: METI "[Survey on Overseas Business Activities (JFY 2017)]"
*Note: Figures in parentheses indicate U.S.-based affiliates

Local Sales Driving Business, But Exports Back to Japan Increasing

Local sales account for the majority of overseas revenue for Japanese food manufacturers. However, exports back to Japan have increased in tandem with overall sales growth. Between 2000 and 2017, growth in export sales back to Japan increased in the United States (188 percent), China (141 percent) and Asia excluding China (290 percent). In all three regions, exports back to Japan outpaced growth in exports to third countries. In the United States and Asia excluding China, approximately 15 percent of sales were derived solely from exports back to Japan. This suggests that although local sales may be the driving force behind investment decisions, the ability to serve the Japanese market is also an important consideration.

Figure 5: Sales Destinations of Japanese Overseas Affiliates (Food Manufacturers)



Source: METI "[Survey on Overseas Business Activities (JFY 2017)]"

Japan's participation in international trade agreements has made it easier for companies to export products manufactured abroad back to Japan. Following implementation of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Japanese companies increasingly looked for investment opportunities in member countries such as Vietnam, Malaysia, and Canada. The U.S.-Japan Trade Agreement (USJTA) has also spurred increased investments in the United States. Examples include:

- In 2018, Peacock Co. Ltd, a manufacturer of frozen octopus dumplings (takoyaki) invested in a factory in Vietnam in order to meet increasing demand for frozen foods in Japan. The company cited Japan's high labor and ingredient costs as driving the business decision to invest overseas.

- In 2019, Japanese confectionery company Tirol Choco Co., Ltd established its first overseas subsidiary in Vietnam to manufacture semi-finished confectionery products for the Japanese market. According to a media interview with the company president, the primary focus of the investment is to serve the Japanese market, though the company may expand to serve other Asian markets in the future.

- In 2019, Itochu Corporation increased its ownership stake in HyLife Group Holdings, one of Canada's largest pork producers, from 33.4 to 49.9 percent (with the remaining 51.1 percent owned by Thailand's CP Foods). Approximately 40 percent of HyLife's pork production is exported to Japan. Following implementation of USJTA in 2020, Itochu acquired a 75 percent stake in U.S. producer Prime Pork, based in Minnesota. These investments are likely aimed at capitalizing on lower pork import tariffs in CPTPP and USJTA.

As Japan continues gradual liberalization of its agricultural market through international trade agreements, Japanese food manufacturers are likely to continue to seek increased opportunities for investment overseas, not only in Asia, but globally, including in the United States.

Attachments:

No Attachments.