Kyocera Corp

China no longer viable as world’s factory, says Kyocera

Japanese component maker is investing at home with first new plant in nearly two decades

Kyocera makes a wide range of products from printers to solar panels and has been relocating its manufacturing facilities out of China © Tomohiro Ohsumi/Bloomberg

Eri Sugiura in Kyoto YESTERDAY

US curbs on China's access to advanced technology are killing its viability as a manufacturing base for exports, according to the head of Japan's Kyocera, as one of the world's largest makers of chip components shifts its production elsewhere and invests heavily in facilities at home.

Hideo Tanimoto, president of a company that is an important part of the chip supply chain, makes his stark assessment as he leads an aggressive investment strategy for Kyocera that includes construction of its first factory in Japan in nearly two decades.

"It works as long as [products are] made in China and sold in China, but the business model of producing in China and exporting abroad is no longer viable," Tanimoto told the Financial Times. "Not only have wages gone up, but obviously with all that's happening between the US and China, it's difficult to export from China to some regions."

In October, the US announced export controls that would severely hamper efforts by Chinese companies to develop cutting-edge technologies. Last month, Japan and the Netherlands also agreed with the US to restrict exports of chip manufacturing tools to China.

Kyocera's products include phones, printers and solar panels. The company holds a 70 per cent global market share in ceramic components for chip manufacturing equipment. Tanimoto said US export controls were part of the reason Kyocera cut its full-year operating profit forecast this month by 31 per cent.

"If chip equipment makers stop shipments to China, our orders will be somewhat affected . . . They are now even [being] asked not to ship their non-cutting-edge tools," Tanimoto said.

Kyocera has increasingly found itself caught up in the trade dispute between the world's two largest economies.

In 2019, it relocated the manufacturing of its copiers for the US market from China to Vietnam to avoid tariffs on China imposed by the Trump administration. It also transferred the production of in-vehicle cameras for the US from China to Thailand.

Tanimoto said it would now be nearly impossible to produce hardware in China without access to the chips technology affected by the tightened regulations, although the country may still have a competitive edge in software and artificial intelligence.

For decades, the Kyoto-based manufacturer has taken a conservative stance towards investment to focus on generating profits. But under Tanimoto, who took over as president in 2017, the company has shifted gears to explore new growth opportunities, spending ¥62.5bn ($464mn) to build a facility for semiconductor packaging at its plant in Kagoshima in southern Japan.

In November, it pledged to nearly double capital spending over the next three years to ¥900bn in order to expand production of chip-related components and capacitors used in smartphones and other products. Its first domestic plant built in nearly 20 years will be an electronics components factory in Nagasaki, planned to begin operations in 2026.

Investors have welcomed Kyocera's bolder spending plans but have also called on the company to improve its corporate governance and return on equity by selling its 15 per cent stake in telecoms business KDDI, which was started by the group's founder Kazuo Inamori. He died in August.

Tanimoto said the company would not reduce its ¥1.4tn stake in KDDI and would instead use it as collateral to borrow ¥500bn for its acquisition plans in electronic components.

"If you sell it, you will be taxed quite significantly as it is a capital gain. If you borrow money, using it as collateral, you can borrow at a lower interest rate and still receive dividends," said Kyocera's president. "Dividends are much higher than interest rates . . . [Keeping the stake] can accelerate the growth of our company."

In response to shareholder calls to offload Kyocera's underperforming businesses such as smartphones, Tanimoto said the company would first focus on generating profits by shifting to selling its devices to businesses rather than consumers.

"I believe we can get back to double-digit profits after pivoting to business use," Tanimoto said. "I told our team to achieve it in the next three years for the survival of our communications business."