November 13 , 2001

JBIC FY2001 SURVEY
THE OUTLOOK OF JAPANESE FOREIGN DIRECT INVESTEMENT (13th Annual Survey)

【Contents】

<Ⅰ. Overview of the Survey Method>

The purpose of this survey is to identify the current and future trends of overseas business operations[1/] and foreign direct investment (FDI) activities of Japanese manufacturing companies. This year's survey was the thirteenth of an annual series that began in 1989.

The survey covered 792 manufacturing companies that have three or more foreign affiliates, including at least one manufacturing base, as of October 2000. The questionnaire was mailed on July 1, 2001. 501 valid responses were returned over the period from July to August. The effective response rate was 63.3%. (In the FY2000 survey, valid returns were 469 out of 791 companies surveyed, with the response rate of 59.3%)

This year's survey additionally looked into the "Evaluation of Investment Climate in Major Asian Countries" and "Attractiveness of China and ASEAN4 as Manufacturing Base over the medium term (next 3 years)"

Note 1：Overseas business operations are defined as production, sales, research and development activities in overseas bases, as well as outsourcing of manufacturing and purchasing activities overseas.

Companies Surveyed, Response Rate and Overseas Affiliates

(Unit: Companies, %)

	FY01	FY00	FY99	FY98	FY97
Number of companies surveyed	792	791	786	749	743
Number of respondent companies	501	469	472	455	445
Response rate	63.3	59.3	60.1	60.7	59.9
Number of overseas affiliates	7,710	7,285	7,225	6,654	6,978

Profile of Companies Surveyed

(1) Respondents by paid-in capital (Individual company base)

	Number of companies	%
Less than \100 million	33	6.6%
\100 million less than \500 million	40	8.0%
\500 million – less than \1.0 billion	22	4.4%
\1.0 billion – less than \5.0 billion	98	19.6%
\5.0 billion ・ less than \10.0 billion	78	15.6%
\10.0 billion or more	230	45.9%
Total	501	100.0%

(2) Number of respondent companies, by annual sales (Consolidated base)

	Number of companies	%
Less than \50.0 billion	183	36.6%
\50.0 billion less than \100.0billion	100	20.0%
\100.0 billion less than\200.0billion	74	14.8%
\200.0 billion less than\300.0billion	36	7.2%
\300.0 billion less than\500.0billion	37	7.4%
\500.0 billion less than \1.0 trillion	30	6.0%
\1.0 trillion or more	40	8.0%
Total	500	100.0%

※ One company did not provide this information

(3) Number of respondent companies, by number of employees (Individual company base)

	Number of companies	%
300 employees or less	66	13.2%
301 to 500 employees	48	9.6%
501 to 1,000 employees	101	20.2%
1,001 to 2,000 employees	112	22.4%
2,001 to 5,000 employees	110	22.0%
5,001 to 10,000 employees	31	6.2%
10,001 to 30,000 employees	23	4.6%
30,001 or more employees	10	2.0%
Total	501	100.0%

(4) Number of respondent companies, by industrial classification

Industrial classification	Number of companies	Ratio (%)
Foodstuffs	23	4.6%
Textiles	25	5.0%
Wood and wood products	3	0.6%
Paper and pulp	7	1.4%
Chemicals	77	15.4%
[Chemicals (excluding pharmaceuticals)]	67	13.4%
[Pharmaceuticals]	10	2.0%
Petroleum and rubber	15	3.0%
Ceramics, cement and glass	12	2.4%
Steel	14	2.8%
Nonferrous metals	17	3.4%
Metal products	21	4.2%
General machinery	55	11.0%
[Assembled products]	42	8.4%
[Components]	13	2.6%
Electrical equipment and electronics	97	19.4%
[Assembled products]	30	6.0%
[Components]	67	13.4%
Transportation (excluding Automobiles)	10	2.0%
Automobiles	71	14.2%
[Assembled vehicles]	10	2.0%
[Components]	61	12.2%
Precision machinery	20	4.0%
[Assembled machinery]	17	3.4%
[Components]	3	0.6%
Other	34	6.8%
Total	501	100.0%

Profile of Companies Surveyed（Continued）

(5) Number of overseas affiliates, by type of base and by region

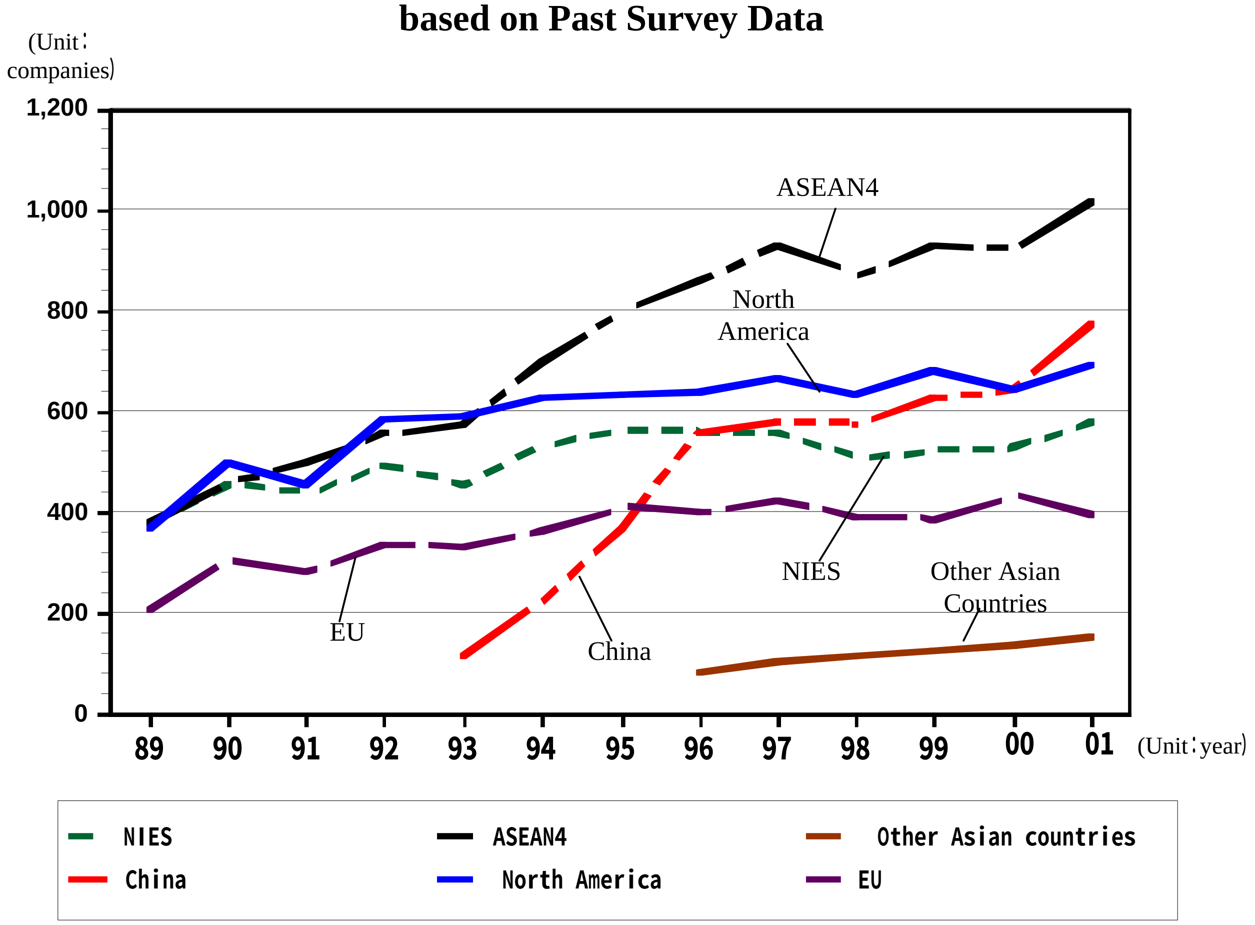
(Unit：companies)

	NIES	ASEAN4	China	Other Asian countries	North America	Latin America	EU	Central-Eastern Europe	Other European countries	Former Soviet Union	Southeast Asia Pacific	Middle East & Africa	Total
Manufacturing bases	575	1,012	772	150	692	176	396	38	8	3	59	21	3,902
Sales bases	626	234	159	38	530	116	782	52	28	7	112	43	2,727
R&D bases	15	18	19	2	84	1	47	1	-	-	4	2	193
Other	125	85	56	10	295	65	183	8	7	3	39	12	888
Total	1,341	1,349	1,006	200	1,601	358	1,408	99	43	13	214	78	7,710

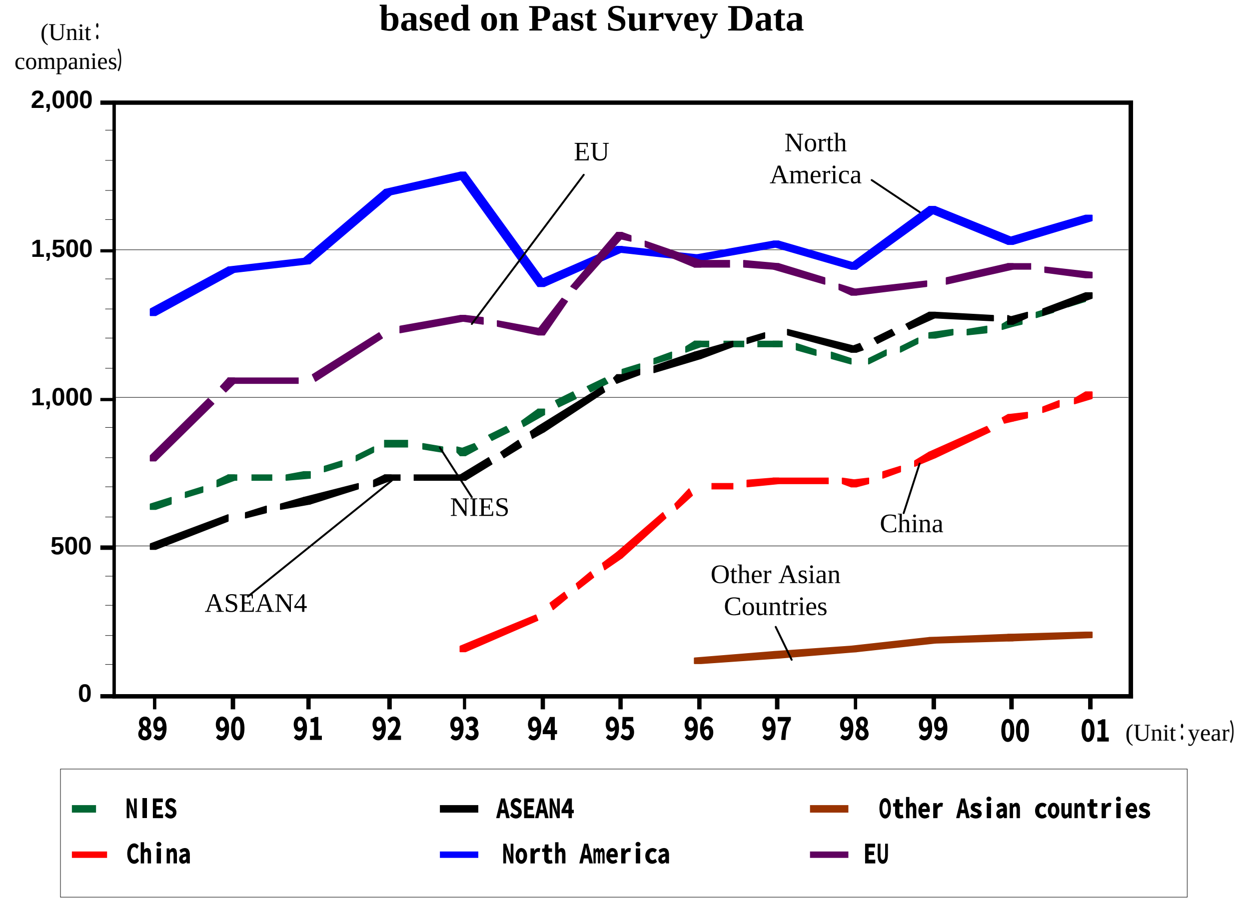
※The following is the classification of major regions in this survey:

NIES： Korea, Taiwan, Singapore, Hong Kong
ASEAN4： Thailand, Indonesia, Malaysia, the Philippines
North America： U.S., Canada
EU： U.K., Germany, France, Italy, Netherlands, Belgium, Greece, Luxembourg, Denmark, Spain, Portugal, Austria, Finland, Sweden, Ireland
Central-Eastern Europe： Poland, Hungary, Czech Republic, Slovakia, Bulgaria, Romania, Slovenia, Albania, Croatia, Macedonia, Yugoslavia (Serbia, Montenegro), Bosnia and Herzegovir

Overseas Manufacturing Bases in Major Regions over Time: based on Past Survey Data



Overseas Affiliates in Major Regions over Time: based on Past Survey Data



※Data for China starts from FY1993. Data for Other Asian countries starts from FY1996.

<Ⅱ. Summary>

1. The top priority issue for Japanese manufacturing companies in their domestic and overseas business operations was “strengthening and expanding overseas production” (54.4%), followed by “strengthening and expanding the customer base by the company’s own effort” (37.7%), “reviewing and improving efficiency in the management of group companies” (33.4%) and “acquiring business resources to strengthen principal business” (28.7%). The emerging stance of business strategy seems to be strengthening overseas production, while restructuring the existing lines of business.

2. Of the companies that indicated their attitude toward overseas business operations over the medium term (next 3 years), 71.6% responded, they “will strengthen and expand” these operations, whereas 28.0% indicated, they “will maintain the current level,” with a minuscule 0.4% replying, they “will reduce or withdraw” from them. The 71.6% share for the companies that “will strengthen or expand” was a jump from 54.5% in the FY2000 survey. The companies showed an increasingly positive attitude toward expanding their overseas business operations. The overseas production ratio rose to 23.0% for actual figures in FY2000 (from 21.1% in FY1999), whereas the projection of the planned value for FY2004 rose to 29.9%.

3. Whereas the companies that responded, “since overseas investment aims at maintaining and expanding the market share of sales from (and/or exports and imports from) overseas production bases, there will be no effect on domestic production facilities from overseas business operations,” decreased to 39.1% from 52.2% in FY2000 survey, those considering, “domestic production will decrease because overseas production will replace domestic production,” rose to 22.5% from 13.6% in FY2000. The latter response indicates a move to transfer production and sales bases to overseas locations. At the same time, however, 36.2% of the companies replied, “domestic production will focus on other products and product areas, filling in the resulting gap,” and many of them said they would be “specializing in higher value-added products.”

4. When the attitude toward overseas and domestic business operations over the medium term was compared with the findings in the FY2000 survey, the general trend was a growing stance for expanding and strengthening overseas businesses and a weakening stance for strengthening and expanding domestic operations. By industry this trend was prominent in automobiles and electrical equipment and electronics. On the other hand, chemicals and general machinery had a tendency to strengthen and expand both overseas and domestic business operations.

5. In contrast to general improvement in almost all the regions in the FY2000 survey, the evaluation of satisfaction with respect to sales and profitability declined in most regions in this year’s survey. In the case of China, the evaluation of satisfaction with profitability itself was not very high despite improvements in sales and profitability. The reason most frequently cited for the higher evaluation of satisfaction with respect to profitability in China was “good sales of the existing products,” followed by “satisfactory cost reduction ” and “production facilities are moving toward full-scale operation.”

6. By region, China was most often cited by the companies responding as the place where they would be “strengthening and expanding overseas business operations,” followed by ASEAN4 and North America.

7. When improvements in investment climate were examined among major Asian countries in comparison with the situation in 1996 before the Asian crisis, China and Thailand were most often cited by the companies responding for improvements in all the areas of “domestic infrastructure”, “legal framework” “domestic political and social situation”.

8. The top four rankings of the countries with promising prospects for overseas business operations over the medium term (next 3 years) were unchanged from the FY2000 survey: China ranked first, followed by the U.S., Thailand and Indonesia. While many companies citing China said they had high expectations for growth potential of its market, some companies pointed out that a number of problems (“lack of transparency in the application of laws”, “frequent and abrupt changes in laws and regulations” etc.) remain for business development in China.

9. Comparison of China and ASEAN4 in terms of their attractiveness as a production base over the medium term found that 56.7% of the companies responding felt “China is more attractive than ASEAN4,” citing the “potentiality of future market growth” as the reason. The companies that believed “ASEAN4 is more attractive than China” accounted for 10.2% of the total respondents, and those responding that they were “unable to make any judgment for now” accounted for 33.0%. This implies that the companies seem to be taking a balanced attitude based on risk diversification without having excessive expectations for China.

   In interviews with the respondents that considered China promising, some companies also pointed out that they were “considering the next phase of business development as the movement to create business bases which has run its course in ASEAN4, and not that they had shifted weight away from these countries.”

＜Ⅲ. Overview of the Survey Results＞

【Current Top Priority Issues for Domestic and Overseas Business Operations】

Figure 1 Current Top Priority Issues for Domestic and Overseas Business Operations [2/]

Rank		Number of companies (among 485 companies)	Response rate
1	Expand and strengthen the overseas production	264	54.4%
2	Expand and strengthen the company's own customers	183	37.7%
3	Review and improve efficiency of group management (sell or spin-off a unit of existing businesses, etc.)	162	33.4%
4	Acquire business resources to strengthen principal business (acquisitions, alliances, mergers, etc.)	139	28.7%
5	Strengthen service activities related to company's own manufactured products	127	26.2%
6	Review domestic production systems from the viewpoint of total cost (reduction in and withdrawal from domestic	114	23.5%
7	Reduce interest-bearing debt	112	23.1%
8	Active expansion into new business areas	102	21.0%
9	Introduce or establish a global supply chain management	57	11.8%
10	Expand and strengthen the domestic production	53	10.9%
11	Review overseas production systems from the viewpoint of total cost(reduction in and withdrawal from overseas bases)	41	8.5%
12	Outsource the activities of production	23	4.7%
13	Strengthen technology development by utilizing venture companies (alliances, acquisitions, etc.)	12	2.5%
14	Expand transactions over the Internet	8	1.6%

※ 25 companies answered "Other" as a priority issue

Cf. Results of FY2000 Survey

Rank		Number of companies (among 435 companies)	Response rate
1	Review and improve efficiency of group management (sell or spin-off a unit of existing businesses, etc.)	221	50.8%
2	Review and strengthen management methods (establishing procedures such as new financial indicators or operating performance evaluation standards)	213	49.0%
3	Review overseas production systems from the viewpoint of total cost	159	36.6%
4	Acquire business resources to strengthen principal business (acquisitions, alliances, mergers, etc.)	158	36.3%
5	Expand and strengthen the company's own customers	137	31.5%
6	Expand percentage of overseas production	91	20.9%
7	Strengthen service activities related to company's own manufactured products	82	18.9%
8	Introduce or establish a global supply chain management	80	18.4%
9	Expand transactions over the Internet	39	9.0%
10	Attach importance to overseas research and development systems	28	6.4%
11	Outsource the activities of production to companies such as EMS/OEM manufacturers	27	6.2%
12	Strengthen technology development by utilizing venture companies	9	2.1%

※ 13 companies answered "Other" as a priority issue

Note 2:The questionnaire asked the companies surveyed to select three priority issues irrespective of their rankings and make a simple summation of the responses for each item on the list of alternatives. The results for the FY2000 survey are shown on the right panel for comparison. However, it should be kept in mind that the FY2000 survey gave slightly different alternatives for priority issues. In addition, the FY2000 survey also asked the respondents to assign rankings in selecting three priority issues, though, similar to this survey, the responses were tabulated by a simple summation for each item on the list of alternatives.

Continuing to Realign Business Operations, while "Strengthening and Expanding Overseas Production"

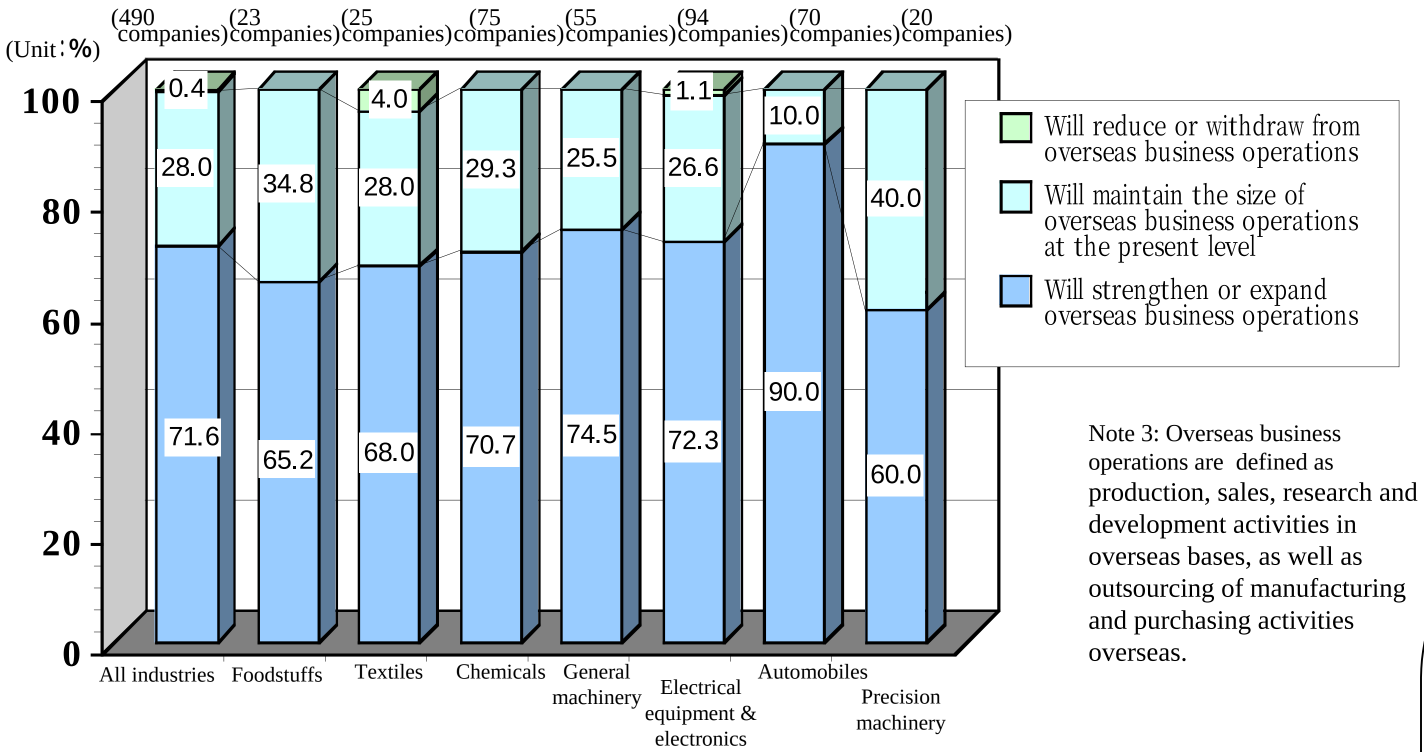
The most numerous response with respect to the current top priority issue for domestic and overseas business operations was "strengthening and expanding overseas production" (264 respondents), followed by "strengthening and expanding the company's own customers" (183). Those who responded "reviewing and improving efficiency of group management" (162) accounted for 33.4%, compared with 50% plus in the FY2000 survey.

The responses reveal that the companies were positioning themselves toward overseas business expansion to obtain earnings, assigning the top priority on "strengthening and expanding overseas production," while being pressed to reform business operations pertaining to the restructuring of their businesses.

In individual interviews, the majority of companies responded "In the past 2-3 years, we had to ensure a solid earnings base, centered on selection and concentration, to deal with the introduction of consolidated financial reporting. In these days, however, in addition to proceeding with these steps, we are focusing our efforts on attractive overseas markets as the next step." Many companies also pointed out that "given increasingly tough price competition, it is imperative to further increase production in developing countries to reduce costs."

【Prospect for Overseas Business Operations over the Medium Term and Changing Patterns of the Overseas Production Ratio】

Figure 2 Overseas Business Operations [3/] over the Medium Term (Next 3 Years), by Major Industry



Note 3: Overseas business operations are defined as production, sales, research and development activities in overseas bases, as well as outsourcing of manufacturing and purchasing activities overseas.

Cf. Results of FY2000 Survey

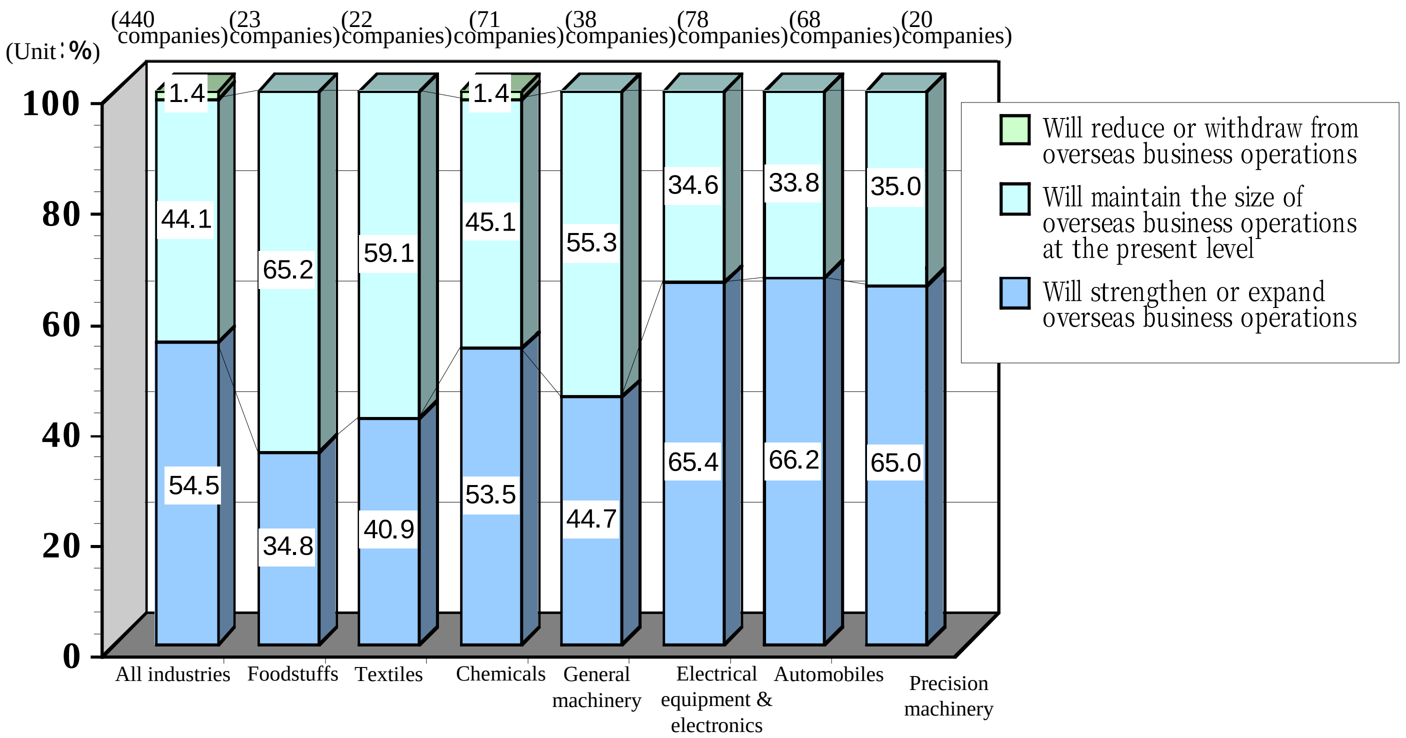
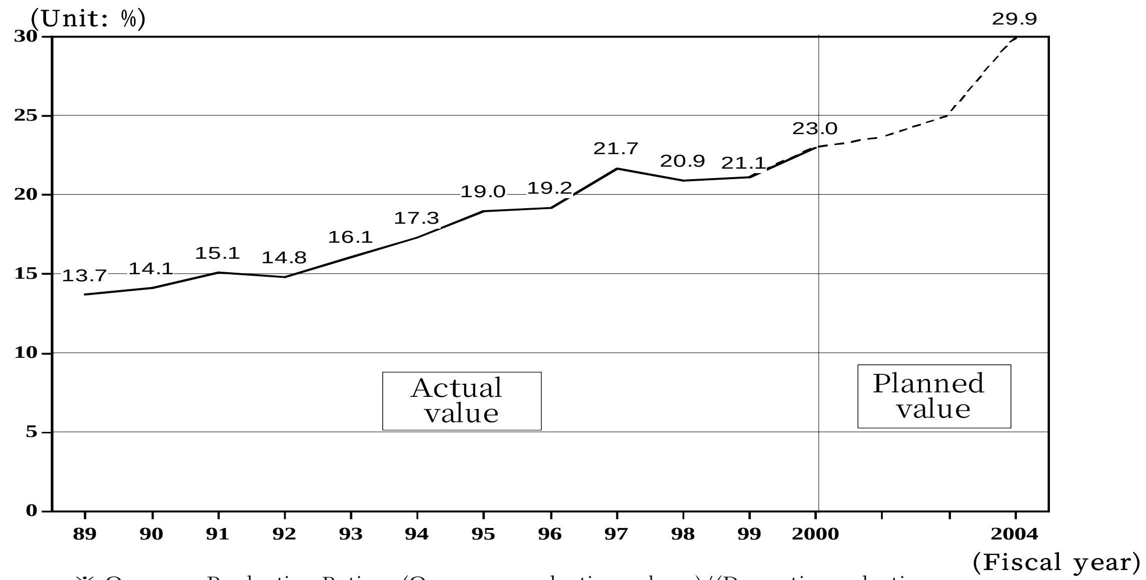


Figure 3 Changing Patterns of Overseas Production Ratio



※ Overseas Production Ratio = (Overseas production volume)/(Domestic production volume + overseas production volume)

Companies Poised to Strengthen and Expand Overseas Business Operations

Of the companies that indicated their attitude toward overseas business operations over the medium term, 71.6% responded they "will strengthen and expand" these operations, whereas 28.0% indicated they "will maintain the current level." Those replying they "will reduce or withdraw from them" accounted for a minuscule 0.4%. The share of the companies that "will strengthen or expand" overseas business operations jumped to 71.6% from 54.5% in the FY2000 survey.[4/] The respondents generally showed an increasingly positive attitude toward expanding their overseas business operations.

The overseas production ratio has been on the increase. Its actual figure rose to 23.0% in FY2000 (from 21.1% in FY1999), whereas the projection for FY2004 rose to 29.9%. The changing pattern of this ratio by major industry is shown below.

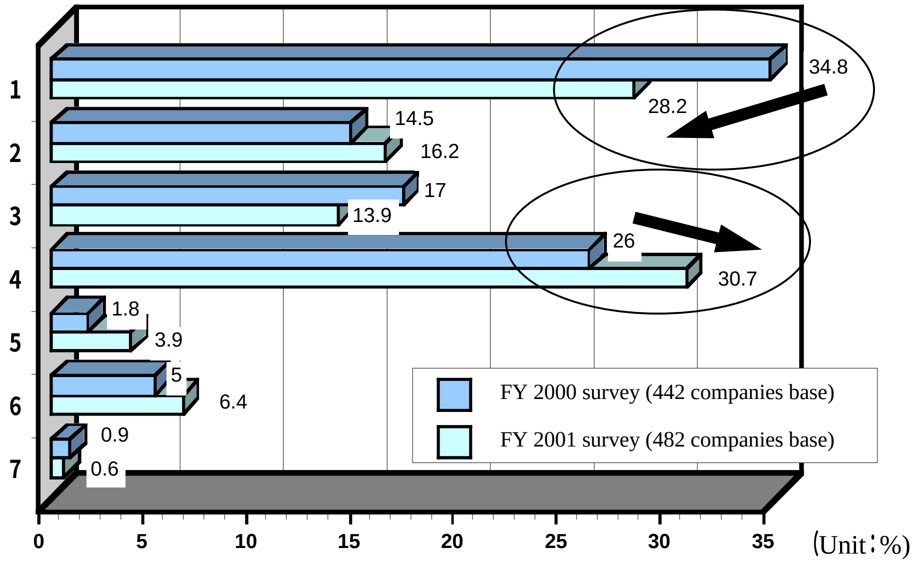
	FY 2000 actual	FY 2001 estimated actual	FY 2004 plan value
Electrical equipment & electronics	33.1%	34.8%	41.2%
Automobiles	25.3%	27.5%	34.7%
Precision machinery	17.7%	19.1%	26.8%
Chemicals	17.7%	18.9%	22.9%

Note 4: Although it should be noted that the questionnaire before the FY1999 survey asked "investment relative to actual figures in the past 3 years" over the medium term, the share of the companies indicating positive stance for overseas business operations since the FY1996 survey evolved over time as follows.

71.2% (FY1996)→64.6% (FY1997) → 38.1% (FY1998)→ 21.1% (FY1999) →54.5% (FY2000)→71.6% (FY2001)

【Prospect for Domestic Operations over the Medium Term (Next 3 Years)】

Figure 4 Prospect for Domestic Operations over the Medium Term (Next 3 Years): Attitude toward Domestic Business Operations



1. Strengthen and expand domestic operations by actively making capital investment as necessary
2. Strengthen domestic operations, including entering alliance with other companies
3. Maintain current status
4. Maintain current scale of operation but realign/restructure domestic operations
5. Reduce domestic operation
6. Currently considering
7. Others

Domestic Production is Shifting to High Value-Added Products

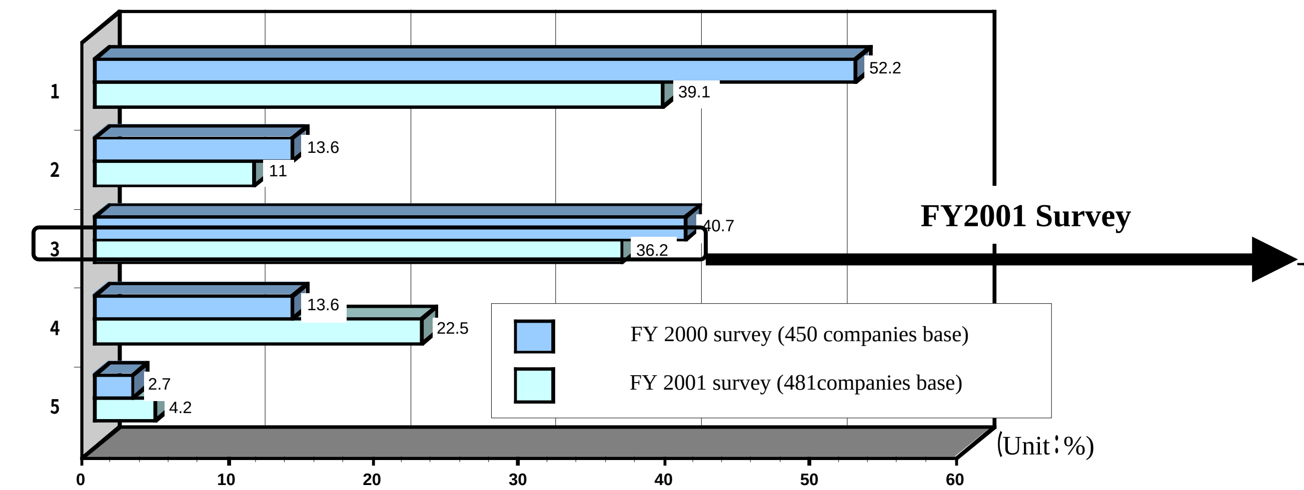
When the medium term attitude toward domestic business operations was compared with the findings in the FY2000 survey, there was a weakening stance for strengthening and expanding domestic operations (from 34.8% in FY2000 survey to 28.2%), inclining more toward realignment and restructuring of domestic operations (from 26.0% in FY2000 survey to 30.7%).

As for the medium-term effect of overseas business operations on domestic production facilities, the companies that responded "Since overseas investment aims at maintaining and expanding the market share of sales from (and/or exports and imports from) overseas production bases, there will be no effect on domestic production facilities from overseas business operations" decreased to 39.1% from 52.2% in FY2000, while the share of those observing "while the production of product lines that used to be produced domestically is shifting to overseas, domestic production will focus on other products and product areas, filling in the resulting gap"5/ fell slightly from 40.7% to 36.2%. On the other hand, those considering "domestic production will decrease because overseas production will replace domestic production" rose to 22.5% from 13.6% in FY2000. These findings imply increasing attitude toward strengthening and expanding overseas business operations.

When the companies that replied "while the production of product lines that used to be produced domestically is shifting to overseas, domestic production will focus on other products and product areas, filling in the resulting gap" about how they would convert domestic production, the most numerous response was "specializing in higher value-added products" (79.9%), followed by "moving to new product areas" (42.5%). Many companies are shifting production and sales bases to overseas locations to maintain and strengthen competitiveness, while moving domestic production to higher value-added products, accelerating efforts to engage in production and sales activities in an optimum location.

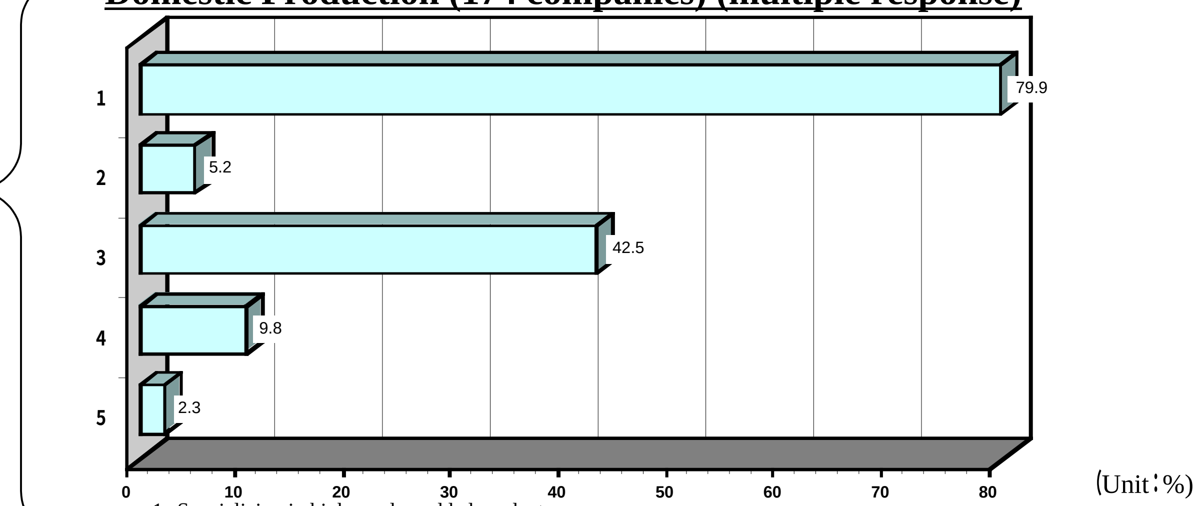
Note 5: In FY2000 survey, a slightly different alternative, "while the production of product lines that used to be produced domestically is shifting overseas, domestic production will shift to high value-added products," was used in the questionnaire. Its findings were used for the purpose of chronological comparison with the response to this alternative.

Figure 5 Effect of Overseas Business Operations on Domestic Production Facilities (multiple response)



1. Since overseas investment aims at maintaining and expanding the market share of sales from (and/or exports and imports from) overseas production bases, there will be no effect on domestic production facilities.
2. Since products produced overseas differ from domestically produced products, there will be no effect on domestic production facilities.
3. While the production of product lines that used to be produced domestically is shifting to overseas, domestic production will focus on other products and product areas, filling in the resulting gap.
4. Domestic production will decrease because overseas production will replace domestic production.
5. Others

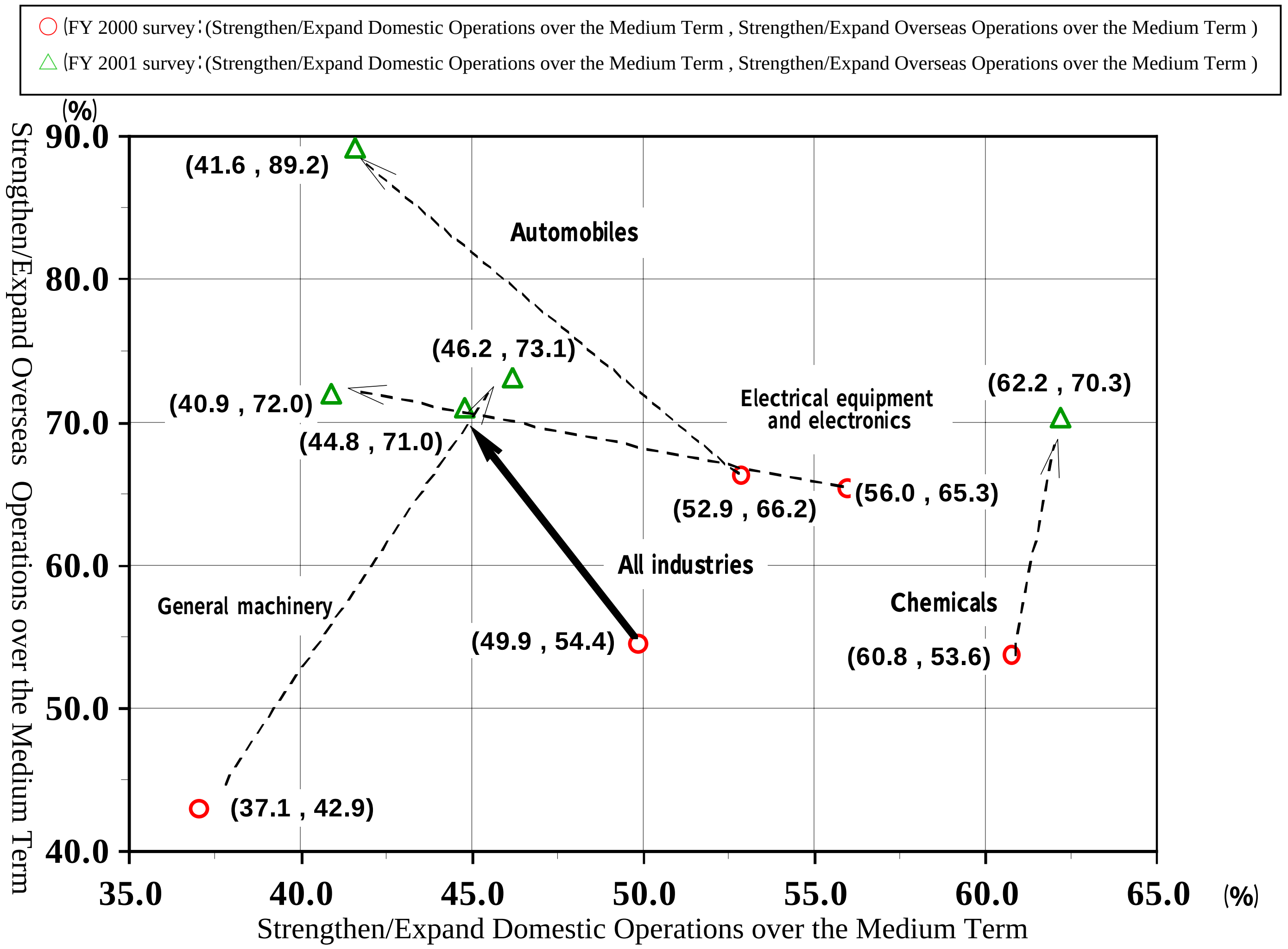
Figure 6 Move for Other Products and/or Product Areas in Domestic Production (174 companies) (multiple response)



1. Specializing in higher value-added products
2. Expanding production of standard products
3. Moving to new product areas
4. Currently considering specific measures
5. Others

【Attitude toward Strengthening and Expanding Overseas and Domestic Business Operations over the Medium Term (Next 3 years)】

Figure 7 Attitude toward Strengthening and Expanding Overseas and Domestic Business Operations over the Medium Term (Next 3 years)



【Fiscal 2001 survey】

	All industries	Chemicals	General machinery	Electrical equipment and electronics	Automobiles
Number of companies	476	74	52	93	65

【Fiscal 2000 survey】

	All industries	Chemicals	General machinery	Electrical equipment and electronics	Automobiles
Number of companies	425	69	35	75	68

※Figure 7 to 9 were based on the responses of the companies replying to both questions regarding "Prospect for Overseas Business Operations over the Medium Term" and "Attitude toward Domestic Business Operations over the Medium Term." Thus percentage figures for "Strengthen/Expand Overseas Operations over the Medium Term" in Figure 7 are not compatible with those of "will strengthen and expand overseas business operations" in page 5.

The percentage figures on the vertical and horizontal axis indicate the following.

＜Strengthen/Expand Overseas Operations over the Medium Term＞

The sum of shares of those that responded "Strengthen and expand overseas business operations"

＜Strengthen/Expand Domestic Operations over the Medium Term＞

The sum of shares of those that responded "Strengthen and expand domestic operations by actively making capital investment as necessary" and "Strengthen domestic operations, including entering alliance with other companies"

(1). Varying Attitudes toward Overseas and Domestic Operations among Major Industries

When the attitude toward overseas and domestic business operations over the medium term was compared with the findings in the FY2000 survey, all the industries showed a growing stance for expanding and strengthening overseas business operations (from 54.4% in FY2000 to 71.0% in FY2001) and a somewhat weakening stance for strengthening and expanding domestic operations (from 49.9% to 44.8%).

Major industries where this trend was apparent were automobiles and electrical equipment and electronics. On the other hand, chemicals and general machinery revealed a dual intention of strengthening and expanding overseas as well as domestic operations.

Cf. How to Interpret Figure 7 to 9

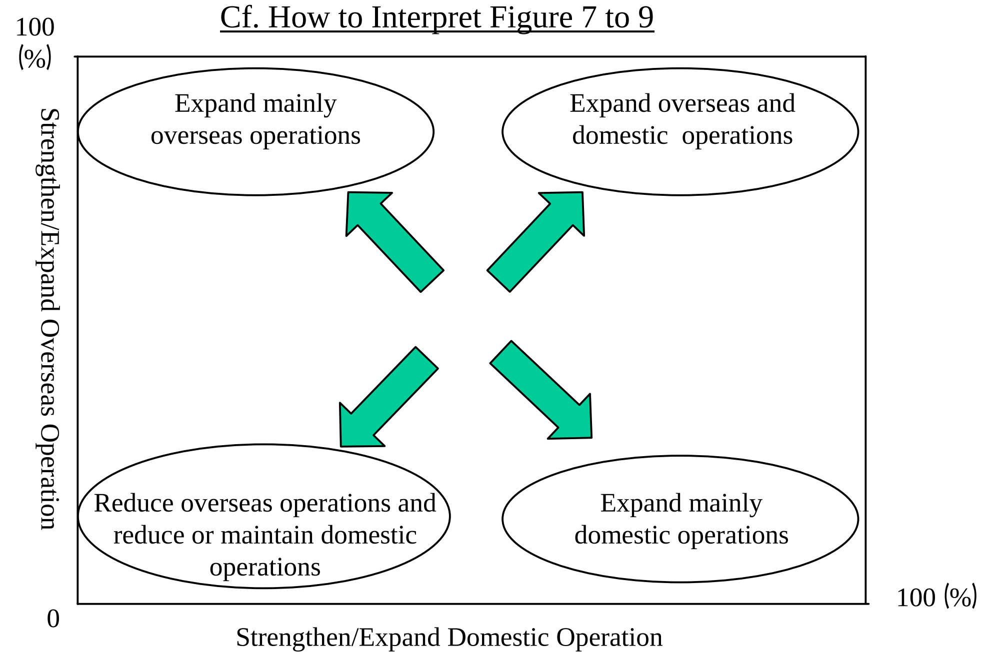


Figure 8 Attitude for Strengthening and Expanding Overseas and Domestic Operations over the Medium Term for Companies with High Overseas Production Ratio[6/]

○（FY 2000 survey：(Strengthen/Expand Domestic Operations over the Medium Term , Strengthen/Expand Overseas Operations over the Medium Term)
△（FY 2001 survey：(Strengthen/Expand Domestic Operations over the Medium Term , Strengthen/Expand Overseas Operations over the Medium Term)

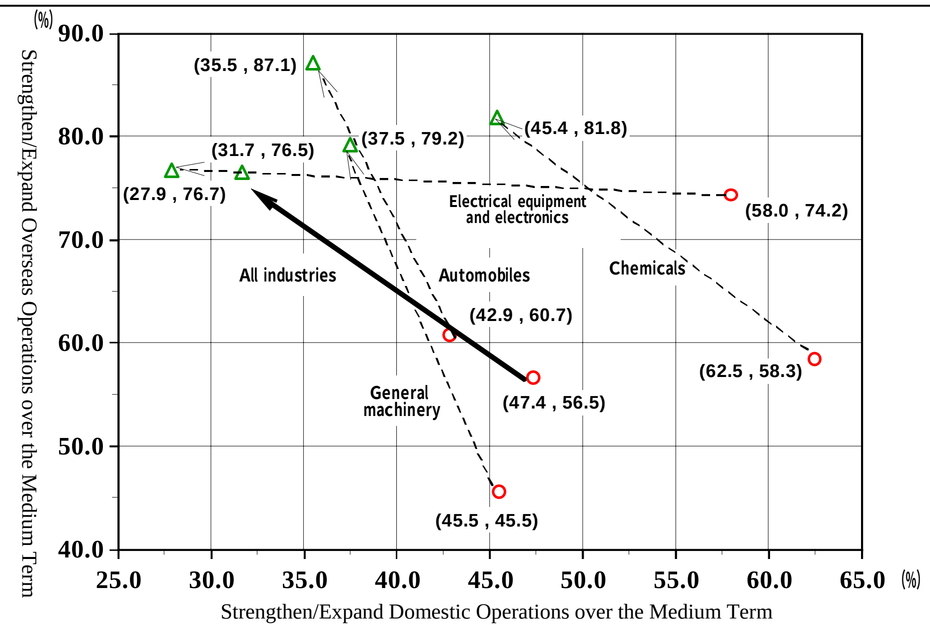
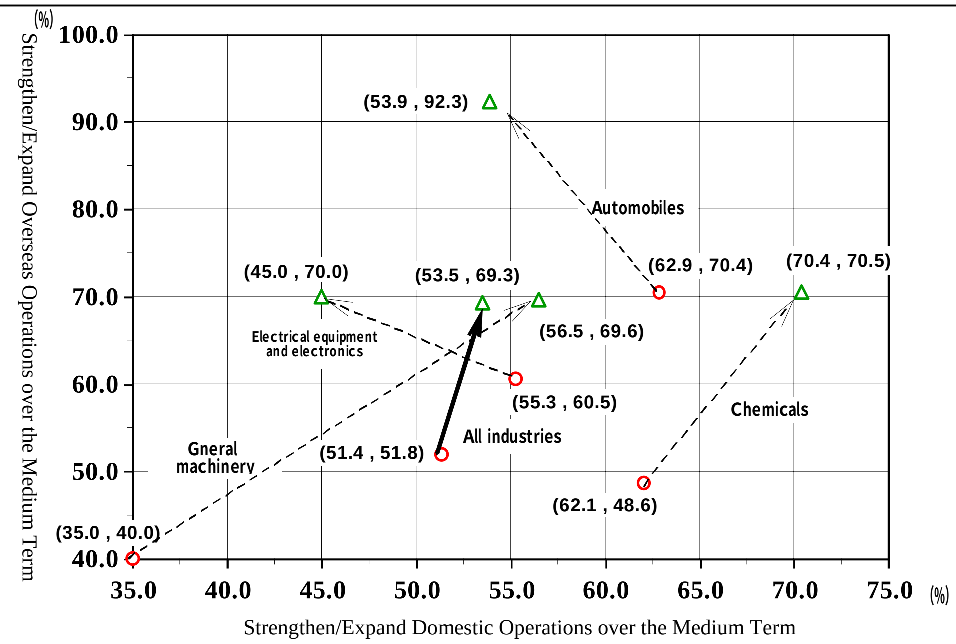


Figure 9 Attitude for Strengthening and Expanding Overseas and Domestic Operations over the Medium Term for Companies with Low Overseas Production Ratio[6/]

○（FY 2000 survey：(Strengthen/Expand Domestic Operations over the Medium Term , Strengthen/Expand Overseas Operations over the Medium Term)
△（FY 2001 survey：(Strengthen/Expand Domestic Operations over the Medium Term , Strengthen/Expand Overseas Operations over the Medium Term)



⑵ . Polarized Attitude toward Domestic Operations in Chemical and General Machinery Industries Depending on High or Low Overseas Production Ratio

To look further into the findings of ⑴ in the previous page, major industries were broken down into two groups, those with a high overseas production ratio and those with a low overseas production ratio. Then it was found that in chemicals and general machinery, companies with a high overseas production ratio showed a strong inclination to strengthen and expand overseas business operations, whereas those with a low overseas production ratio showed a strong inclination to strengthen and expand both overseas and domestic operations.

【Chemicals】

＜Companies with a high overseas production ratio＞

Many companies belong to the downstream segment of the business process (e.g.: plastics, synthetic fabric, synthetic rubber, etc.). They have been vigorously conducting overseas as well as domestic operations, given the particular characteristics of their products. They have to strengthen and expand overseas operations as they follow their customers, such as electrical and automobile manufacturers (parts and assembled product), who have been vigorously developing overseas business.

＜Companies with a low overseas production ratio＞

Many companies belong to the upper and middle stream of the business process (e.g.: polyethylene, phenol, etc.). They used to focus on domestic business development, influenced by Japanese industrial policy. However, increasing competition with U.S. and European chemical manufacturers is foreseen as a result of staged reduction in import tariffs on general-use chemical products by 2004, which will take place as part of deregulation policy. They have to strengthen and expand overseas operations to increase production and sales at locations in and near the market and in response to the move of downstream companies, which constitute their primary customers. There are not a few cases where it makes sense to keep using the existing domestic facilities, as theirs is a capital facility-dependent industry. In addition, there is enduring domestic demand (including for export purposes). Thus these companies showed an inclination to strengthen and expand domestic operations as well.

【General Machinery】

＜ Companies with a high overseas production ratio＞

Many companies belong to construction machinery and heavy industrial machinery. They have been vigorously conducting overseas as well as domestic operations, given the particular characteristics of their products, and in response to growing demand overseas . They have to strengthen and expand overseas operations in pursuit of additional sales markets amid lagging domestic public works and large-scale infrastructure projects.

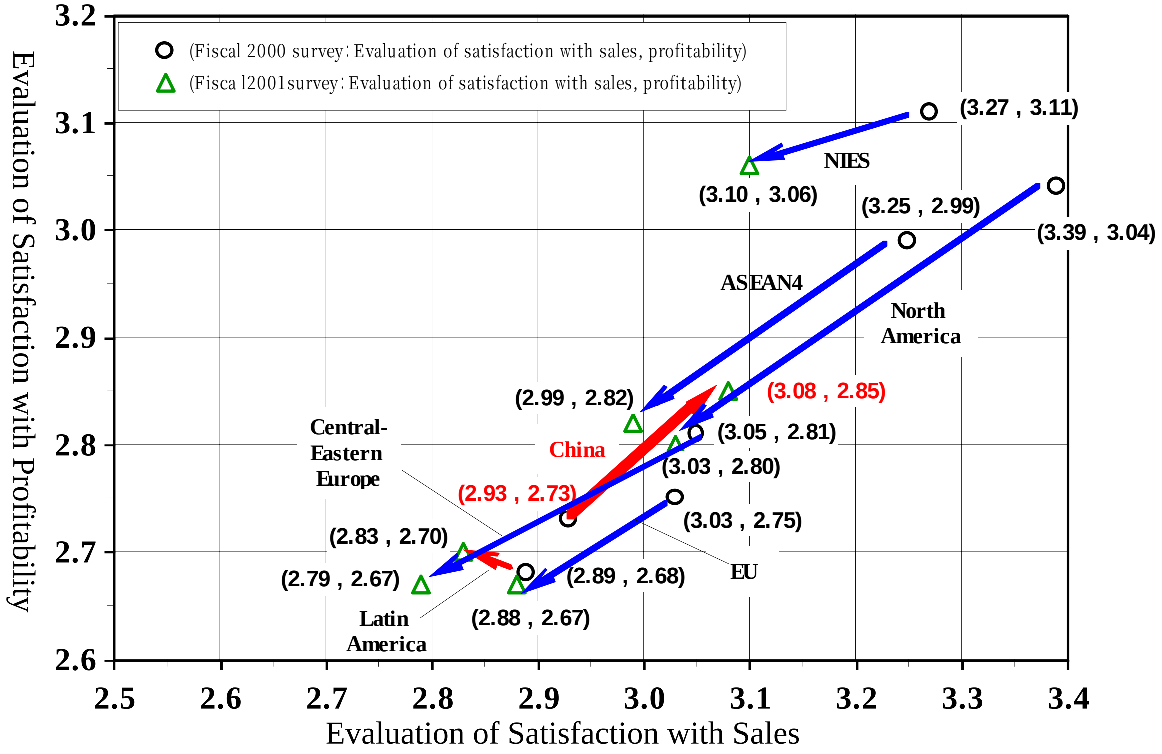
＜ Companies with a low overseas production ratio＞

Many companies belong to the machine tool and bearing industries. As their main customers such as electrical and automobile manufacturers expanded their overseas operations, they have to produce and sell their products in or near the overseas market. While domestic investment centers around rationalization, it is also indispensable to move to high value-added products embodying advanced functions and high tech, creating the need to strengthen and expand domestic operations.

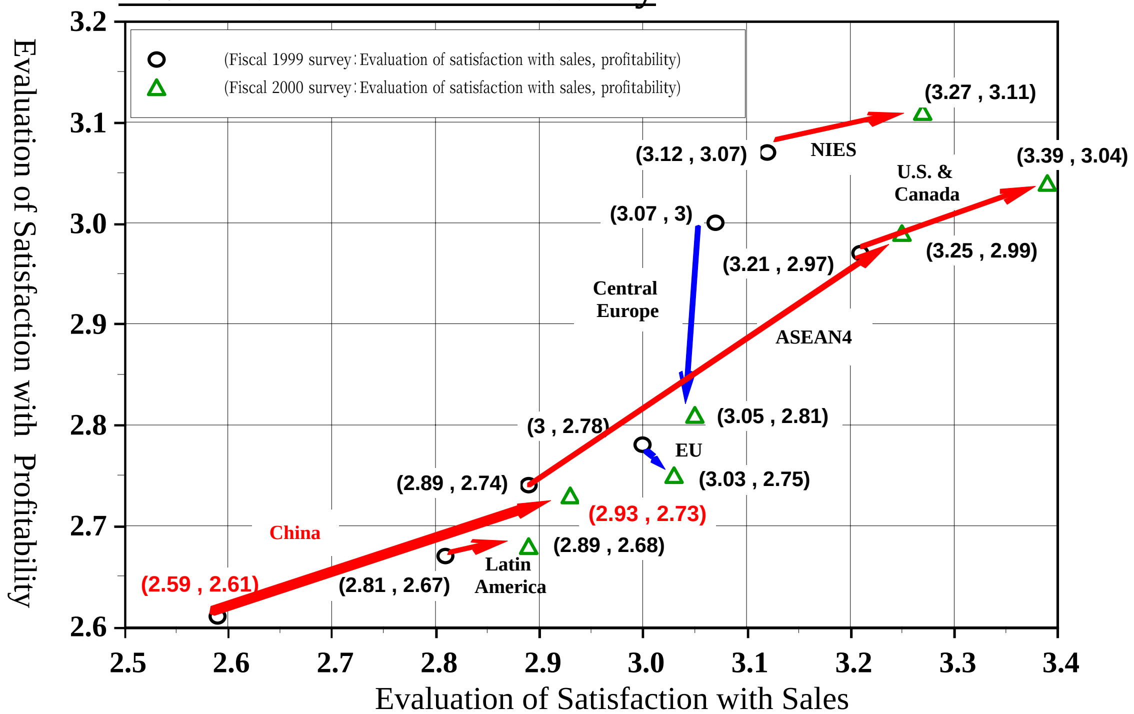
Note 6: Companies with a high/low overseas production ratio are defined as those whose actual overseas production ratio is higher/lower than the average of the actual overseas production ratios in the industry where they belong in FY2000 (see the table below). Similarly, figures in FY2000 survey are based on comparable actual ratios in FY1999.

【Evaluation of Overseas Business Performance ～Evaluation of Satisfaction with Sales and Profitability～】

Figure 10 Evaluation of Overseas Business Performance



Cf. Results of FY2000 Survey



※ Evaluation standards: (Compared to initial objective)

1. Unsatisfactory 2. Somewhat unsatisfactory 3. Can't say either way 4. Somewhat satisfactory 5. Satisfactory

Companies are Less Satisfied with Business Performance in Most Regions

In contrast to general improvement in almost all the regions in the FY2000 survey, the evaluation of satisfaction with respect to sales and profitability declined in most regions (North America, NIES, ASEAN4, EU, and Central and Eastern Europe) in this year's survey. The common reasons often cited for this phenomenon are, in descending order of responses, "difficult to obtain customers" (due to intense competition), "shrinking market amid economic downturn" and "pressure to reduce prices from the customers". When interviews were conducted with the respondents regarding a decreased evaluation of satisfaction with profitability in North American operations, many of them observed that "behind this result was the steadily exacerbating economic slowdown in the United States since the second half of 2000." The decline in the evaluation of satisfaction with operations in NIES and ASEAN4 was attributable to "the slowdown in the United States whose final demand is of central importance to their products affected exports to the U.S.," according to a number of respondents.

In the case of China, however, there was an improvement in the evaluation of satisfaction on both accounts, following the similar results in the FY2000 survey. The reason most frequently cited for improvement in the evaluation of satisfaction with profitability were "good sales of the existing products," followed by "satisfactory cost reduction" and "production facilities are moving toward full-scale operation."

The common problem across all the regions in this survey was that the satisfaction with profitability remained low (Evaluation standards 3:Can't say either way, 2:Somewhat unsatisfactory).

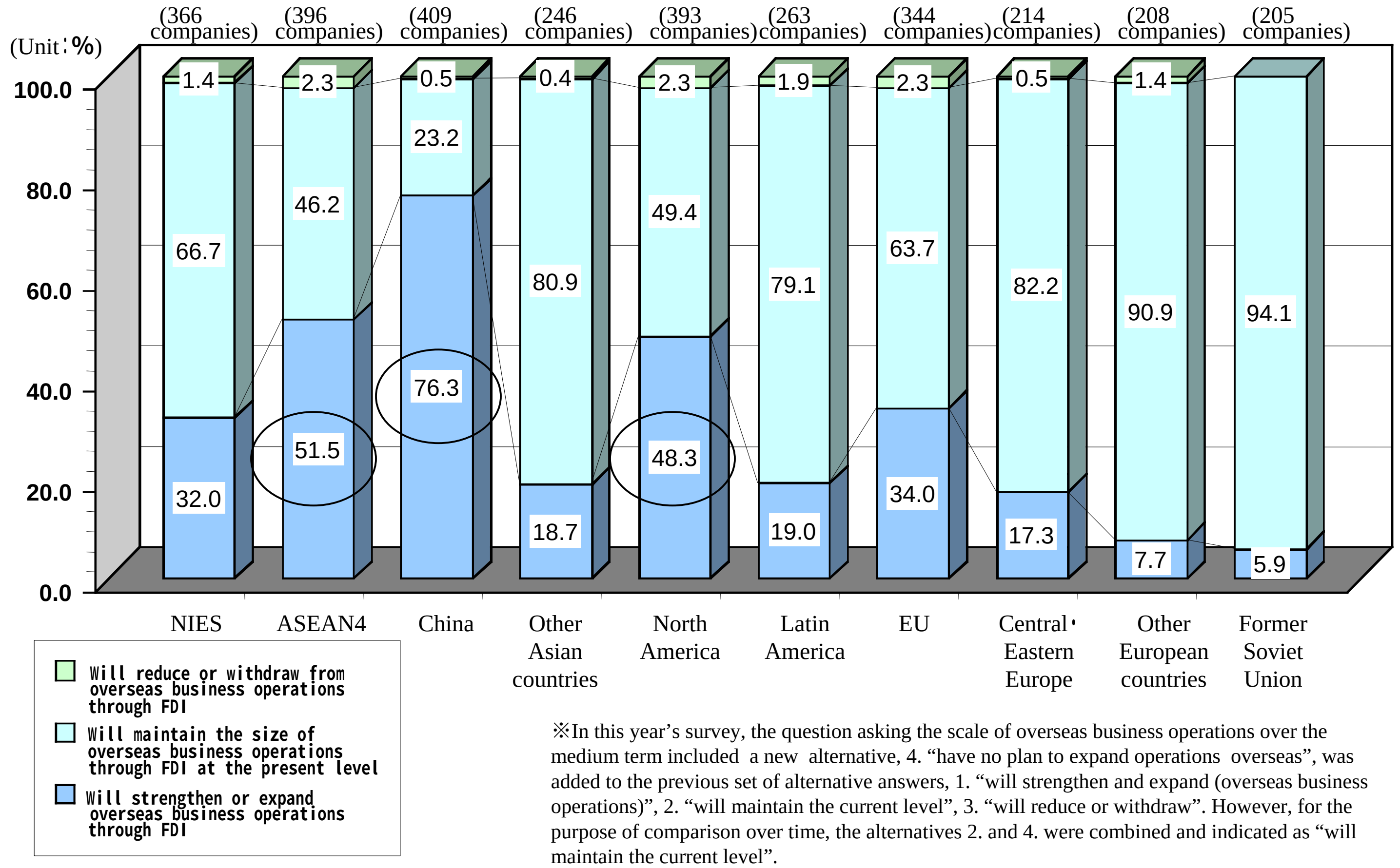
※Central Europe in the FY2000 survey corresponds to Central - Eastern Europe and US-Canada to North America in the FY2001 survey.

※ Evaluation of satisfaction with sales refers to the assessment of sales "excluding sales to the parent company".

Evaluation of satisfaction with profitability refers to the assessment of "return on investment"

【Attitudes toward Strengthening and Expanding Overseas Business Operations over the Medium Term (Next 3 Years) : By Region】

Figure 11 Attitude toward Strengthening and Expanding Overseas Business Operations: By Region

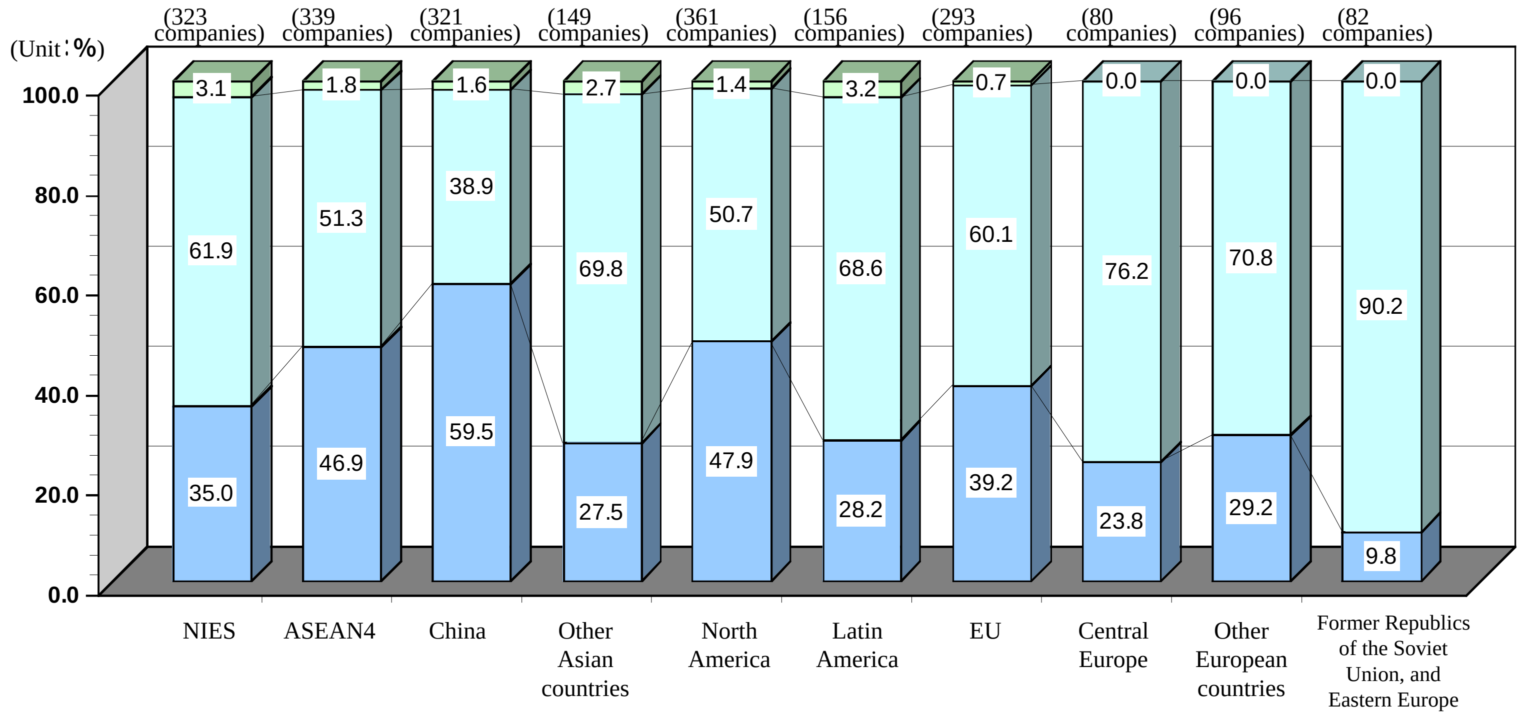


※In this year's survey, the question asking the scale of overseas business operations over the medium term included a new alternative, 4. "have no plan to expand operations overseas", was added to the previous set of alternative answers, 1. "will strengthen and expand (overseas business operations)", 2. "will maintain the current level", 3. "will reduce or withdraw". However, for the purpose of comparison over time, the alternatives 2. and 4. were combined and indicated as "will maintain the current level".

Positive Attitude for Overseas Business Operations in China, ASEAN4 and North America

By region, China was most often cited by the companies responding as the place where they would be "strengthening and expanding overseas business operations" (76.3%) followed by ASEAN4 (51.5%) and North America (48.3%). Compared with the results of the FY2000 survey, which revealed business development in multiple regions, the move to strengthen and expand operations was concentrated in these regions this year.

Cf. Results of FY2000 Survey



【Evaluation of Investment Climate in Major Asian Countries】

(Comparison with the Situation in 1996, Shortly before the Asian Crisis)

Figure 12 Domestic Infrastructure (including Power, Telecommunications and Transport) ＜All Industries＞

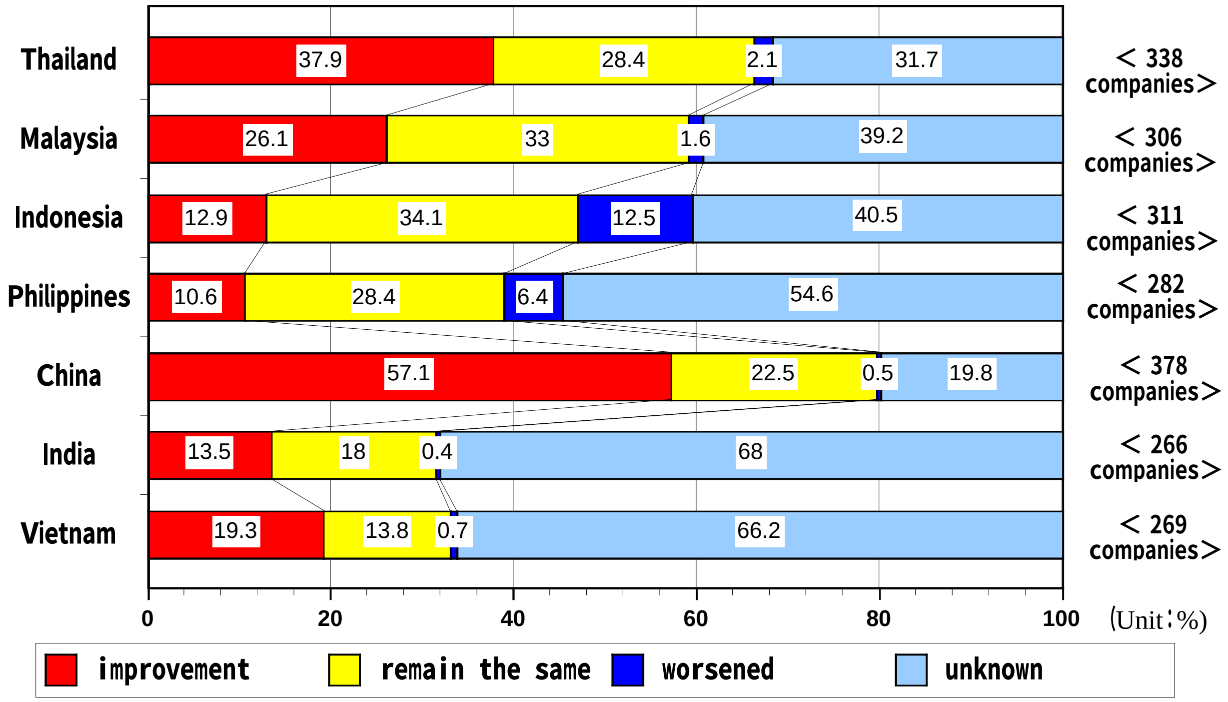


Figure 14 Domestic Political and Social Situation ＜All Industries＞

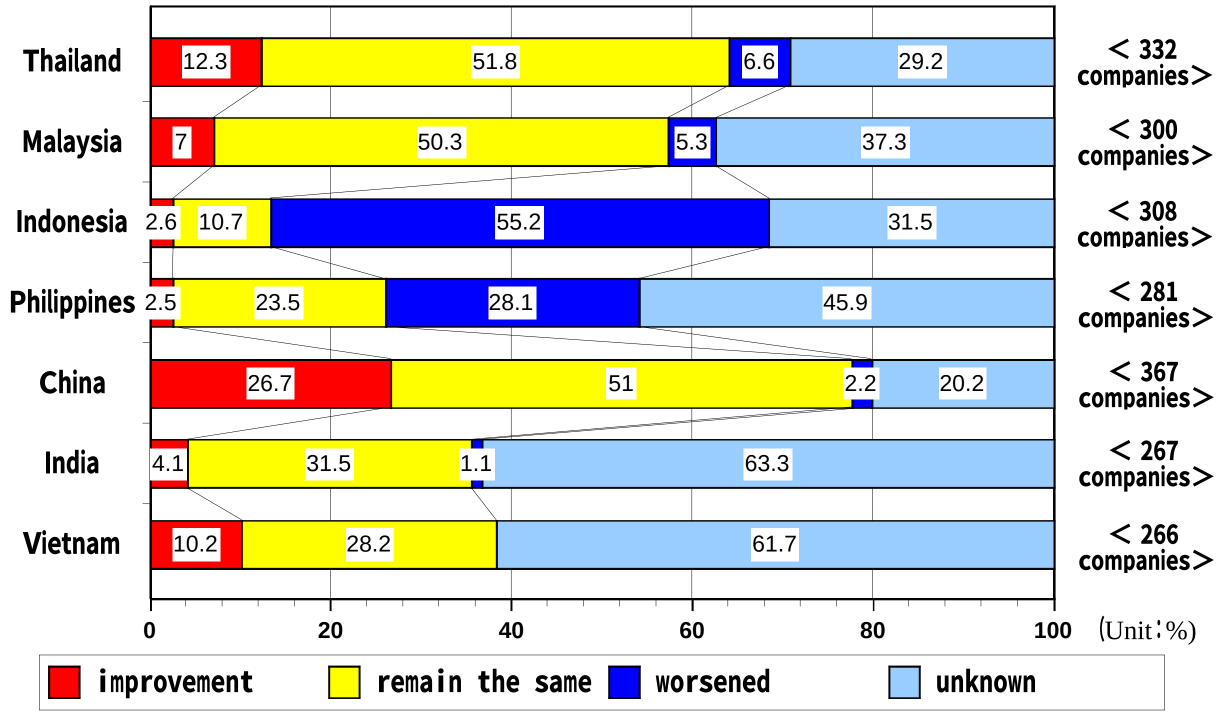
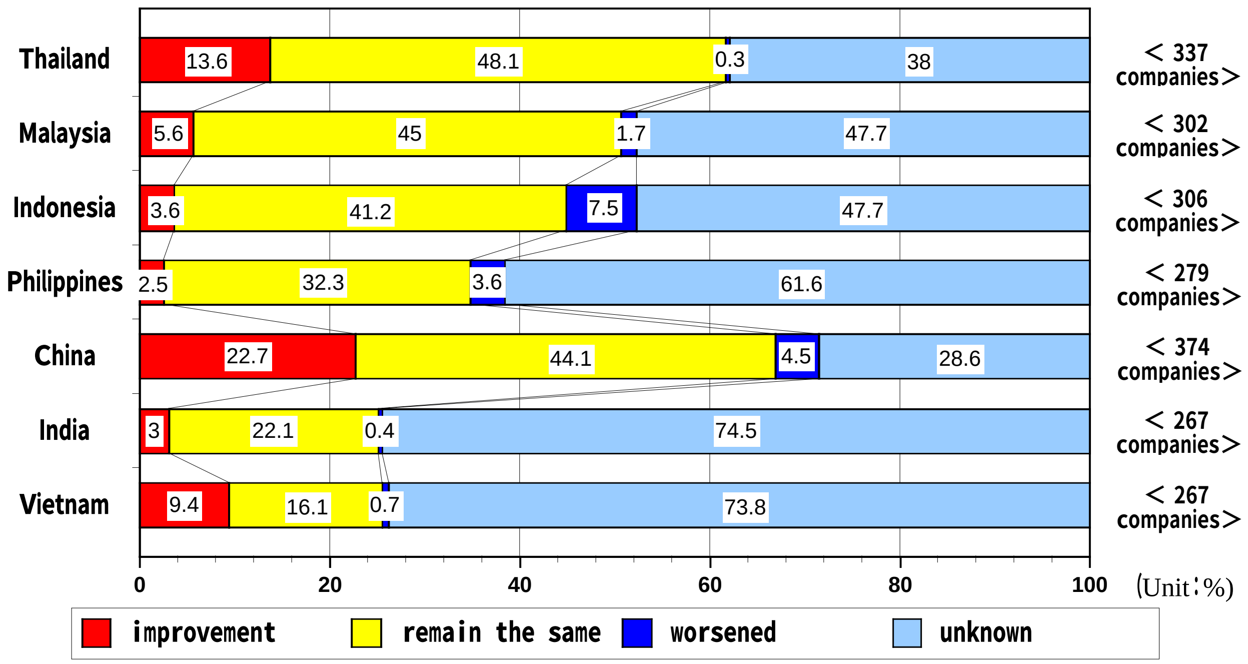


Figure 13 Legal Framework (including Transparency and Fairness) ＜All Industries＞



Improving Investment Climate in China and Thailand

When improvements in investment climate were examined among major Asian countries in comparison with the situation in 1996, an year before the Asian crisis, there were improvements in China and Thailand in the area of "domestic infrastructure" "legal framework" and "domestic political and social situation".

It should be kept in mind, however, that this sanguine evaluation was based on the comparison with the investment climate in 1996, which was not particularly favorable, particularly in China. There were also improvements in Thailand and Malaysia in the area of infrastructure.

There were concerns over investment climate in Indonesia and the Philippines in the area of the "domestic political and social situation." Since both countries are making efforts to stabilize the internal political and social situation, there is hope for some improvement in this area.

【Countries with Promising Prospects for Business Operations over the Medium Term (Next 3 years)】

Figure 15 Promising Countries for Overseas Business Operations over the Medium Term 7/ (multiple response)

Rank	Countries with promising medium-term overseas business development prospects						Promising destinations for investment over the medium term (next three years)								
	Current fiscal year survey	Number of companies (firms)	Ratio (%)	fiscal 2000 survey	Number of companies (firms)	Ratio (%)	Fiscal 1999 survey	Number of companies (firms)	Ratio (%)	Fiscal 1998 survey	Number of companies (firms)	Ratio (%)	Fiscal 1997 survey	Number of companies (firms)	Ratio (%)
		401	100		372	100		278	100		299	100		342	100
1	China	327	82	China	242	65	China	153	55	China	163	55	China	219	64
2	U.S.	127	32	U.S.	154	41	U.S.	108	39	U.S.	124	41	U.S.	123	36
3	Thailand	99	25	Thailand	88	24	Thailand	76	27	Thailand	68	23	Indonesia	97	28
4	Indonesia	56	14	Indonesia	54	15	India	42	15	Indonesia	49	16	Thailand	84	25
5	India	52	13	Malaysia	43	12	Indonesia	41	15	India	46	15	India	77	23
6	Vietnam	48	12	Taiwan	41	11	Vietnam	30	11	Philippines	43	14	Vietnam	66	19
7	Taiwan	44	11	India	37	10	Malaysia	25	9	Malaysia	42	14	Philippines	47	14
8	Korea	33	8	Vietnam	35	9	Philippines	25	9	Vietnam	41	14	Malaysia	46	13
9	Malaysia	32	8	Korea	32	9	U.K.	25	9	Brazil	34	11	Brazil	28	8
10	Singapore	24	6	Philippines	30	8	Brazil	21	8	U.K.	31	10	Taiwan	28	8

Figure 16 Reasons for Considering Top 5 Countries Promising (multiple response)

	China		U.S.		Thailand		Indonesia		India	
	Number of firms (324)	Percent	Number of firms (125)	Percent	Number of firms (96)	Percent	Number of firms (56)	Percent	Number of firms (50)	Percent
Potentiality of future market growth	263	81.2%	55	44.0%	47	49.0%	28	50.0%	38	76.0%
Inexpensive labor force	231	71.3%	0	0.0%	53	55.2%	41	73.2%	23	46.0%
Present market size	54	16.7%	81	64.8%	12	12.5%	3	5.4%	10	20.0%
Third-country export base	74	22.8%	4	3.2%	33	34.4%	26	46.4%	6	12.0%
Supply base for final assembly manufacturers	67	20.7%	32	25.6%	26	27.1%	6	10.7%	8	16.0%
Low-cost parts and raw materials	95	29.3%	3	2.4%	14	14.6%	16	28.6%	8	16.0%
Excellent human resources	39	12.0%	19	15.2%	16	16.7%	1	1.8%	11	22.0%
Export base to Japan	73	22.5%	4	3.2%	23	24.0%	9	16.1%	0	0.0%
Product development suits the local market	30	9.3%	40	32.0%	9	9.4%	4	7.1%	3	6.0%
Favorable investment policies and deregulation policies in the target country	24	7.4%	1	0.8%	5	5.2%	2	3.6%	0	0.0%
Because other companies in the same industry are advancing there	21	6.5%	7	5.6%	3	3.1%	1	1.8%	4	8.0%
Progress towards regional integration	2	0.6%	4	3.2%	4	4.2%	0	0.0%	1	2.0%
Acquisition of local technology, know-how, etc.	1	0.3%	11	8.8%	0	0.0%	0	0.0%	0	0.0%
Other	2	0.6%	0	0.0%	0	0.0%	0	0.0%	1	2.0%

Note 7：As a calculation method, the companies surveyed were asked to vote for the top 5 promising countries for business operations over the medium term (next 3 years). The responses were tabulated for each country and ranked according to the number of the votes received

From the FY2000 survey, the focus was shifted from foreign direct investment (the flow concept) to overseas business operations (the stock concept). Therefore, the title of Figure 1 changed from "promising destinations for foreign investment over the medium term" to "the promising countries for overseas business operations over the medium term."

Top four Promising Countries for Business Operations over the Medium Term (next 3 years) are Unchanged from Last Year's Results

The top four rankings of promising countries for overseas business operations over the medium term were unchanged from the FY2000 survey: China came first, followed by the U.S., Thailand and Indonesia.

This year's survey found ever increasing expectations for China. In FY2000 survey, 242 out of 372 companies responded (65%) they looked on China as promising. In this year, comparable figures were 327 out of 401 (82%).

The most often cited reason for considering China promising (with multiple response) was the "potentiality of future market growth" (81.2%). This may be attributable to such factors as "business climate is expected to improve with China's membership in WTO," "deregulation will allow setting up of foreign-owned sales affiliates," thereby raising the expectations of the prospect for the Chinese market. Other reasons cited include "inexpensive labor force" (71.3%), "Low-cost parts and raw materials" (29.3%). As companies are pressed to produce good quality and affordable products in the environment of increasingly intensive price competition, they may well regard China as a promising country whose cost is less relatively to other areas. On the other hand, there were companies expressing that a significant number of problems remain for business development in China, including "lack of transparency in the application of laws" and "frequent and abrupt changes in laws and regulations".

【Attractiveness of China and ASEAN4 as a Production Base over the Medium Term (Next 3 Years)】

Figure 17 Attractiveness as a Production Base over the Medium Term (Next 3 years): Comparison of China and ASEAN4

	Number of companies (among 469 companies)	Response Rate
China is more attractive than ASEAN4	266	56.7%
ASEAN4 is more attractive than China	48	10.2%
Unable to make any judgment for now	155	33.0%

(multiple response)

The reasons for China being more attractive than ASEAN4	Number of companies (among 266 companies)	Response Rate
Potentiality of future market growth	230	86.5%
Inexpensive labor force	189	71.1%
Low-cost parts and raw materials	84	31.6%
Availability of superior plant workers	45	16.9%
Availability of superior managerial	24	9.0%
Others	5	1.9%

(multiple response)

The reasons for ASEAN4 being more attractive than China	Number of companies (among 48 companies)	Response Rate
Potentiality of future market growth	22	45.8%
Inexpensive labor force	19	39.6%
Low-cost parts and raw materials	13	27.1%
Availability of superior plant workers	12	25.0%
Availability of superior managerial	10	20.8%
Others	9	18.8%

Attractiveness of China and ASEAN4 as a Production Base

When asked to compare China with ASEAN4 in terms of attractiveness as a production base over the medium term (next 3 years), 56.7% of the companies replied, “China is more attractive than ASEAN4.”

The reason most often cited by these companies was “potentiality of future market growth.” This reflects rising expectations for China in view of its WTO membership and huge potential demand from the Chinese market. The second numerous response for the reason was “inexpensive labor force,” followed by “low-cost parts and raw materials.” These findings revealed that the companies found China promising in considering the production activities in the optimum location given its low production cost. However, in the interviews, some companies indicated that they were “considering the next phase of business development, as a movement to create business bases has run its course in ASEAN4, not that they shifted weight away from these countries.”

The companies that replied “ASEAN4 is more attractive than China” accounted for 10.2% of the total respondents, and those replied “unable to make any judgment for now” accounted for 33.0%. This implies that the companies seem to be taking a balanced attitude based on risk diversification without having excessive expectations for China.

In interviews with the respondents, some companies observed, “Having excessive expectations for China is dangerous. We are taking a well-balanced approach to diversify risks.”