



**JAPAN
BANK FOR
INTERNATIONAL
COOPERATION**

Summary

Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

— Results of JBIC FY 2005 Survey: Outlook for Japanese Foreign Direct Investment (17th Annual Survey) —

November 2005

JBIC Institute

Japan Bank for International Cooperation

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I. Survey Overview (1)

The purpose of this survey is to identify the current and future trends of overseas business operations* and foreign direct investment (FDI) activities of Japanese manufacturing companies. This year's survey was the 17th of an annual series that began in 1989. The survey covered 945 manufacturing companies that have three or more foreign affiliates, including at least one manufacturing base, as of November 2004. The questionnaire was mailed to 945 companies and 590 valid responses were returned over the period from July to September. The effective response rate was 62.4%. (In the FY 2004 survey, valid returns were 595 out of 939 companies, with the response rate of 63.4%.) This year's survey covered issues such as "China and ASEAN," "Economic Partnership Agreement (EPA) and Free Trade Agreement (FTA) in East Asia," and "EU enlargement."

* "Overseas business operations" is defined as production, sales, research and development activities in overseas bases, as well as outsourcing of manufacturing and procurement overseas.

Companies Surveyed, Response Rate, and Overseas Affiliates

	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Number of companies surveyed	945	939	932	812	792
Number of respondent	590	595	571	508	501
Response rate	62.4	63.4	61.3	62.6	63.3
Number of overseas affiliates	10,847	10,079	9,838	8,924	7,710

(Unit: Companies, %)

Profile of Respondent Companies

Number of Respondent Companies, by annual sales (Consolidated basis)

	Number of companies	(%)
less than ¥50.0 billion	251	42.7%
¥50.0 billion ~ less than ¥100.0 billion	94	16.0%
¥100.0 billion ~ less than ¥200.0 billion	85	14.5%
¥200.0 billion ~ less than ¥300.0 billion	35	6.0%
¥300.0 billion ~ less than ¥500.0 billion	36	6.1%
¥500.0 billion ~ less than ¥1.0 trillion	41	7.0%
¥1.0 trillion or more	46	7.8%
Total*	588	100.0%

* 2 companies did not provide this information.

Number of Respondent Companies, by number of employees (Non-consolidated basis)

	Number of companies	(%)
~ 300 employees	116	19.7%
301 employees ~ 500 employees	81	13.7%
501 employees ~ 1,000 employees	119	20.2%
1,001 employees ~ 5,000 employees	206	34.9%
5,001 employees ~ 10,000 employees	36	6.1%
10,001 employees ~	32	5.4%
Total	590	100.0%

Number of Respondent Companies, by paid-in capital (Non-consolidated basis)

	Number of companies	(%)
less than ¥100.0 million	48	8.1%
¥100.0 million ~ less than ¥500.0 million	66	11.2%
¥500.0 million ~ less than ¥1.0 billion	27	4.6%
¥1.0 billion ~ less than ¥5.0 billion	128	21.7%
¥5.0 billion ~ less than ¥10.0 billion	83	14.1%
¥10.0 billion or more	238	40.3%
Total	590	100.0%

Number of Respondent Companies, by industrial classification

Industrial classification	Number of companies	(%)
Foodstuffs	33	5.6%
Textiles	39	6.6%
Wood and wood products	4	0.7%
Paper and pulp	5	0.8%
Chemicals	77	13.1%
[Chemicals (excluding pharmaceuticals)]	(69)	[11.7%]
[Pharmaceuticals]	(8)	[1.4%]
Petroleum and rubber	17	2.9%
Ceramics, cement and glass	17	2.9%
Steel	12	2.0%
Nonferrous metals	18	3.1%
Metal products	32	5.4%
General Machinery	52	8.8%
[Assembled products]	(40)	[6.8%]
[Components]	(12)	[2.0%]
Electrical equipment and electronics	116	19.7%
[Assembled products]	(40)	[6.8%]
[Components]	(76)	[12.9%]
Transportation (excluding Automobiles)	9	1.5%
Automobiles	93	15.8%
[Assembled products]	(10)	[1.7%]
[Components]	(83)	[14.1%]
Precision machinery	31	5.3%
[Assembled products]	(21)	[3.6%]
[Components]	(10)	[1.7%]
Other	35	5.9%
Total	590	100.0%

I. Survey Overview (2) -Profile of Respondent Companies (continued) -

Number of Overseas Affiliates by type of base and region

(n = 590) (Unit: Companies)

FY 2005 Survey	NIEs	ASEAN4	China	Other Asian Countries	North America	Latin America	EU15	Central & Eastern Europe	Other European Countries	Russia, other CIS	Oceania	Middle East	Africa	Total
Production Bases	641	1,222	1,561	197	780	218	474	109	18	12	68	12	24	5,336
Sales Bases	862	421	553	87	655	171	1,026	102	67	30	133	43	34	4,184
R&D Bases	24	27	56	8	107	4	63	7	1	-	7	1	-	305
Others	158	103	153	18	242	94	181	12	12	5	36	3	5	1,022
Total	1,685	1,773	2,323	310	1,784	487	1,744	230	98	47	244	59	63	10,847

* "Others" includes service companies, financial subsidiaries etc.

< The Classification of Major Regions in This Survey >

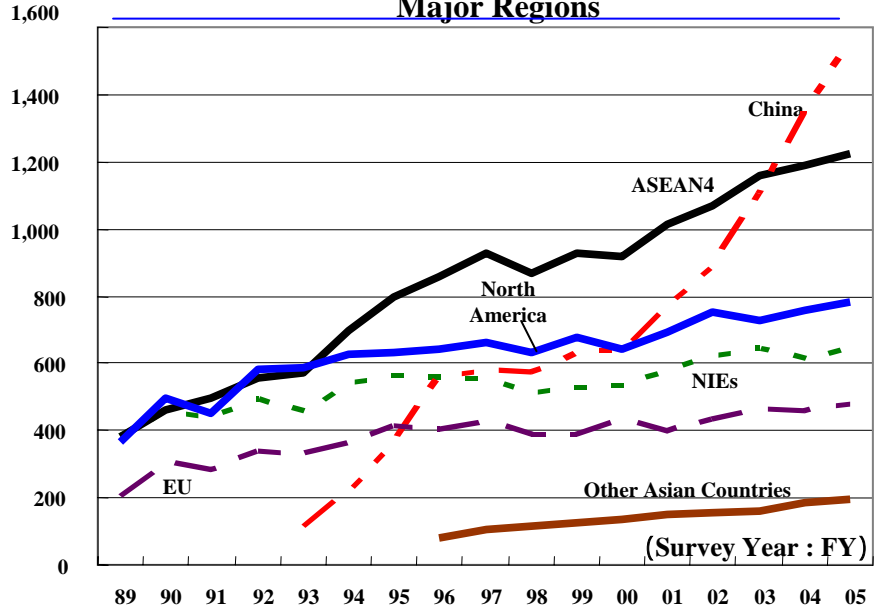
- NIEs** (Korea, Taiwan, Singapore, Hong Kong)
- ASEAN4** (Thailand, Indonesia, Malaysia, Philippines)
- North America** (U.S., Canada)
- EU15** (U.K., Germany, France, Italy, Netherlands, Belgium, Greece, Luxembourg, Denmark, Spain, Portugal, Austria, Finland, Sweden, Ireland)
- Central and Eastern Europe** (Poland, Hungary, Czech Republic, Slovak Republic, Bulgaria, Romania, Slovenia, Albania, Croatia, Serbia and Montenegro, Bosnia and Herzegovina, Macedonia,)

< The Classification of Provinces and Administrative Districts of China in This Survey >

- Northeastern China** (Heilongjiang Province, Jilin Province, and Liaoning Province)
- Northern China** (Beijing, Tientsin, Hebei Province, and Shandong Province)
- Eastern China** (Shanghai, Jiangsu Province, Anhui Province, and Zhejiang Province)
- Southern China** (Fujian Province, Guangdong Province, and Hainan Province)
- Inland China** (Provinces other than those mentioned above and Autonomous regions)

Changing of Overseas Manufacturing Bases in Major Regions

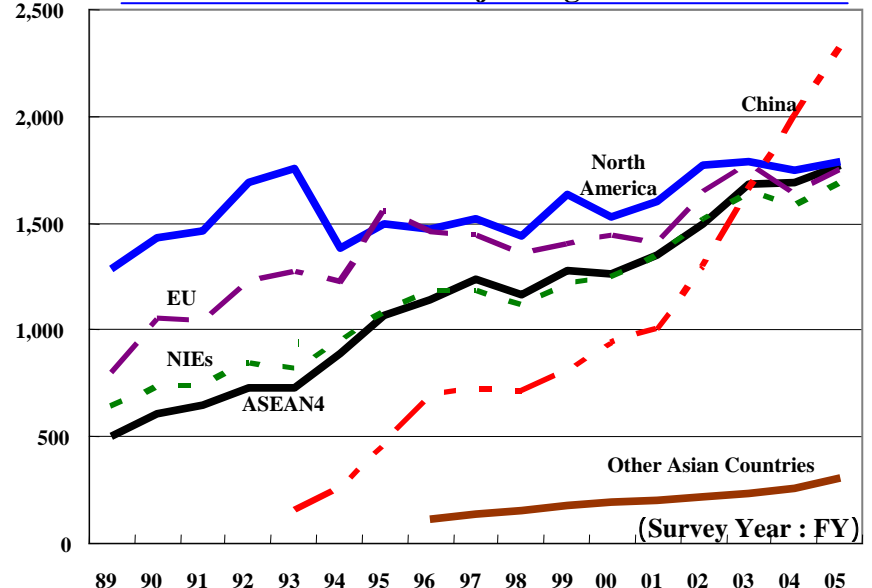
(Unit: Companies)



Data for China starts from FY1993. Data for Other Asian Countries starts from FY1996. In the graph above, "EU15" have been consolidated into the "EU" since the FY 2004 survey.

Changing of Overseas Affiliates in Major Regions

(Unit: Companies)



Overseas business operations will continue to be strengthened or expanded

Medium-term (next 3 years or so) prospects on overseas business operations have indicated that the proportion of companies that responded to strengthen or expand overseas operations was 79.1% (all industries). Although it is lower by 2.8 points than the previous year's figure, it can be considered that the positive stance toward overseas operations continues to be strong.

The overseas production ratio and the overseas sales ratio in FY 2004 are respectively 27.8% and 28.6%, and expected to show further increase to 29.2% and 30.1% in FY 2005 (estimates).

Positive stance is also continuously observed in domestic operations

As to the medium-term prospects for the domestic business operations, the share of the companies that have responded they would strengthen or expand the operation has reached 47.0%, exceeding the share (46.3%) of the respondents of "will maintain the present level of operations." Thus, the stance to strengthen or expand the domestic operations is becoming even firmer.

Expansion of overseas business operations have less effects on domestic operations

When asked about the effects of overseas business operations on domestic operations, the largest proportion (40.3%) of the respondents, in FY 2003 survey, answered they would "offset the portion of production shifted to the overseas base by launching production of other goods or in other areas in Japan." In contrast, this year, the largest group (38.3%) answered that "the foreign investment was intended for maintaining or expanding the sales market in the host country and thus had no impacts on domestic business operations." This indicates that the impacts of strengthening or expanding overseas business operations on domestic operations over the past three years were smaller than forecasted 3 years before.

Strongly positive stance in China, Central and Eastern Europe, and Russia, while the same stance surged in India and Vietnam

As in the previous year, China obtained the highest proportion (71.2%) of the companies among the surveyed regions/countries that responded to "strengthen or expand the overseas business operations" over the medium term. This was followed by Russia and other CIS (66.3%), Central & Eastern Europe (65.9%). Comparison with the previous year indicates that the shares of Other Europe and China declined, while significant growth was registered by Other Asia/Oceania, Latin America, Russia and other CIS countries. In particular, the increase of Other Asia/Oceania was largely driven by a growing number of companies that would "strengthen or expand" in India and Vietnam.

Evaluations of Business Performance improved in many regions, but a significant decline in China

The evaluation on the level of satisfaction for sales and profitability in their overseas business operations showed more improvement as in the previous year. In particular, NIEs recorded the high levels of satisfaction, and EU15, Latin America, and North America largely improved. In contrast, China took a sharp downward turn from the previous year.

As to the reasons for profitability satisfaction, the proportion of "Difficult to obtain customers (intense competition)" has decreased as the reason for "unsatisfactory/somewhat unsatisfactory," while the share of "Cost reductions are difficult" has much increased.



Good balance between China and ASEAN in the business strategies, and effects of the Anti-Japan Demonstrations in China was limited

As to the stance toward China and ASEAN, the largest proportion chose "well-balanced approach for risk diversification" (58%), followed by "approach weighted for China" (23%), and "Incomparable for business objectives that are different for each country" (12%).

Companies that reported there were some negative effects of the Anti-Japan Demonstrations on production and sales operations in China accounted for 10%, but almost all companies responded they would not amend their medium-term business plans in China.

Production in both China and ASEAN is likely to head for high-value-added products, and both bases are to reduce the share of sales to Japan and shift to China

Production functions currently undertaken by affiliates in China and ASEAN has been surveyed along with the reinforcing functions for the medium term. The survey results common to both bases are that most of the companies are currently producing general-purpose products, but in the medium term high-value-added products will be more focused on.

As for the main sales markets of Chinese and ASEAN bases, respective local markets were the largest with over 80%, followed by Japanese market. In the medium term, more Chinese bases will strive to increase sales within Chinese market, while less ASEAN bases are to increase sales within ASEAN. Sales to Japan is likely to decrease from both bases, and ASEAN bases are more focusing on Chinese market in the medium term.

Utilisation of EPA/FTA varies according to the partner country and the industry

When asked about the intention to utilise the six EPAs that are either under negotiation or in substantial agreement by Japanese government and the status of the utilisation of three already signed EPA/FTAs, the highest share of "will use it" or "already using it" was yet 30% for Japan-Thailand EPA (all industries). Extent of utilisation differs depending on the signatory country to EPA and type of industry.

54.8% have given any positions to New EU Member States

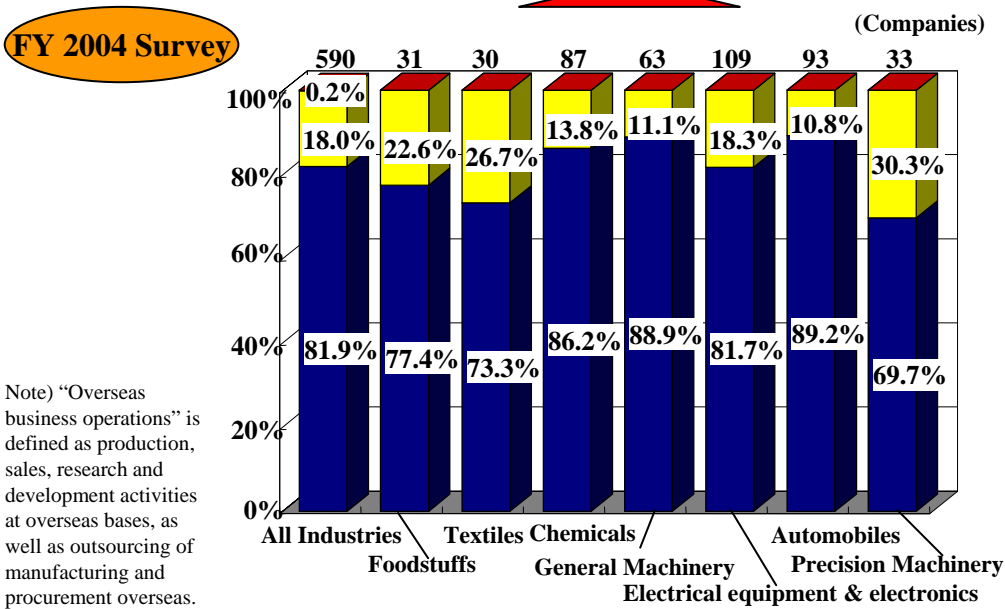
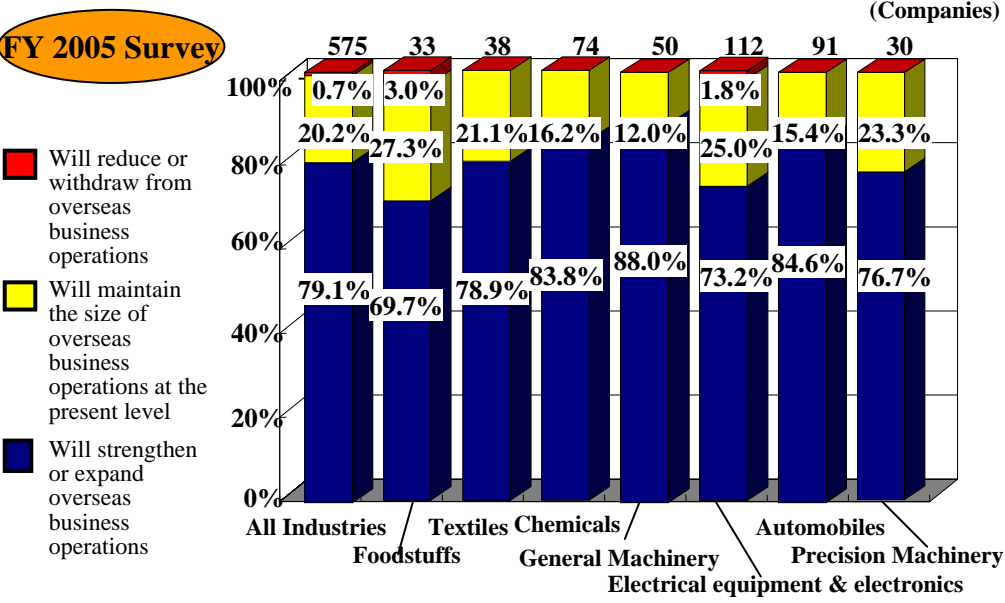
More than half of the respondents gave any position to the EU new member states in their overseas business strategies. On the other hand, share of companies that replied "not relevant to the company's overseas business strategy" has reached to 42.7% (all industries). As emerging market countries with high potential are located geographically nearer, such as China and India, Japanese companies do not necessarily have a strong interest in the new EU member states. However, it is noteworthy that there were a few companies that consider these countries as a production base for Russia and other CIS countries.

BRICs, India, and Russia among others rose in the rankings of promising countries

In the countries/regions that companies viewed as promising for business development in the medium term, the top four—China, India, Thailand, and Vietnam—remained unchanged from the previous year. However, India, which ranked third last year, outpaced Thailand and rose to second; and Brazil, which was 13th last year, went up to ninth. Russia remained sixth as in the previous year. These indicate that Japanese companies have a growing interest in the BRICs. However, in three countries, excluding China, the number of companies that have no specific plans far exceeded that have concrete business plans. We should closely watch the development of specific planning by the companies over the coming years.

(1) Medium-term Prospects for Overseas Business Operations

Figure 1 Prospects for Overseas Business Operations over the Medium Term (by major industry)



Note) "Overseas business operations" is defined as production, sales, research and development activities at overseas bases, as well as outsourcing of manufacturing and procurement overseas.

Figure 2 Changes of Overseas Production Ratio (all industries)

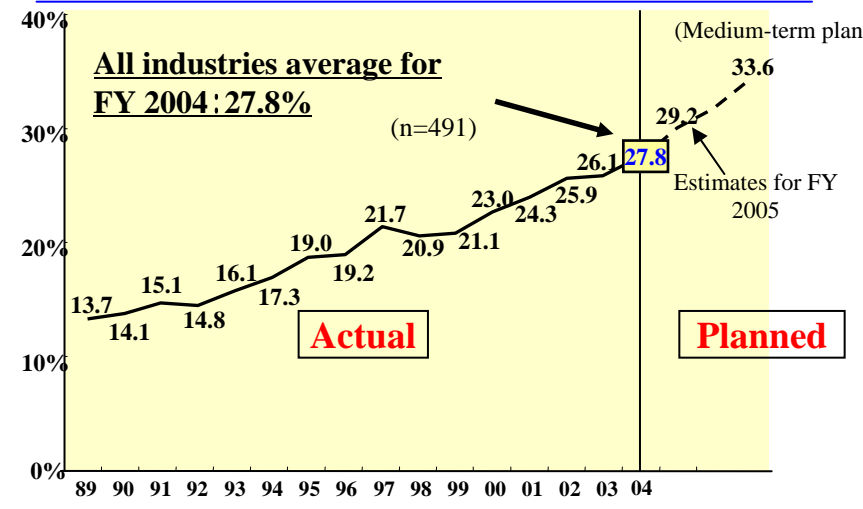


Figure 3 Overseas Production Ratio (major industries)

	Number of companies	FY 2004 actual	FY 2005 estimates	Medium-term plan
All Industries	491	27.8%	29.2%	33.6%
Chemicals	60	17.0%	18.5%	23.7%
General Machinery	42	21.7%	23.3%	29.7%
E & E	98	39.7%	41.0%	44.2%
Automobiles	77	26.2%	28.3%	34.0%

Proportion of the companies taking the stance to "strengthen or expand overseas operation" is down by 2.8 points below the previous year's, but the positive stance remains strong

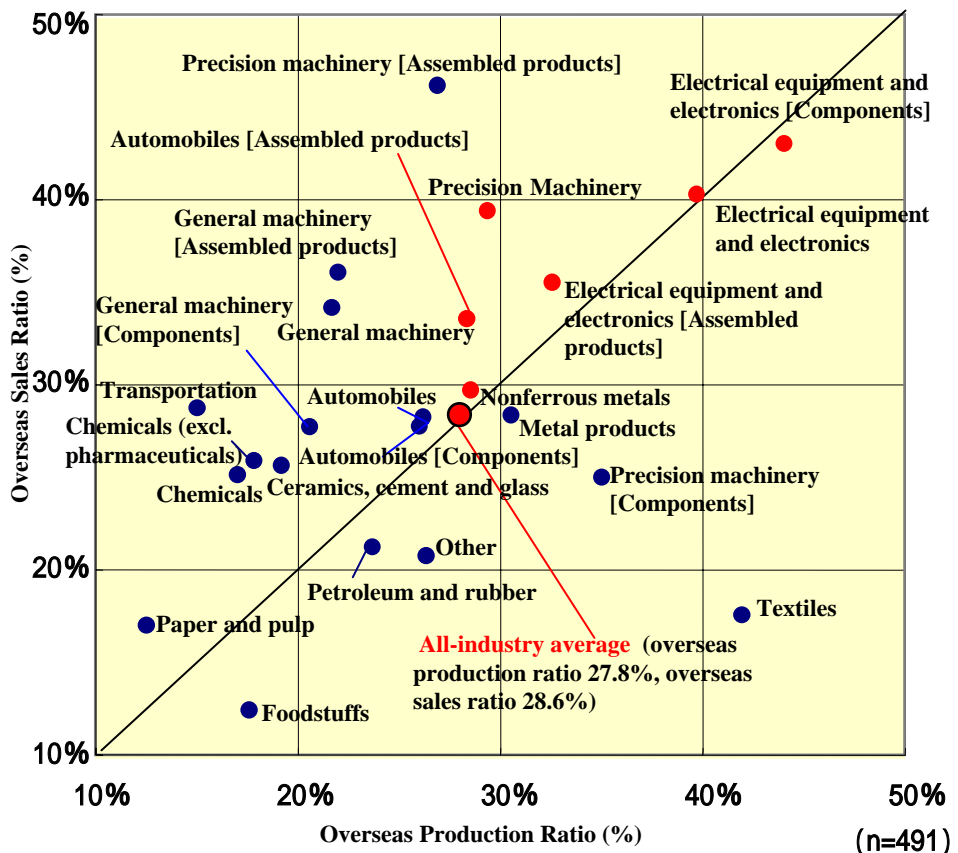
Medium-term (next 3 years or so) prospects on overseas business operations have indicated that the proportion of companies whose response is to strengthen or expand overseas operations is 79.1% on an all-industry average. Though it is lower by 2.8 points than the previous year's figure, it can be considered that the positive stance toward overseas operations continues to be strong.

Overseas production ratio continues to rise

The actual ratio of overseas production in FY 2004 rose to 27.8% on an all-industry average, showing an increase over the previous year for six consecutive years since 1999. The estimates for FY 2005 and the medium-term plan until FY 2008 are 29.2% and 33.6% respectively, indicating the continued trend that many companies plan to expand their overseas production.

(2) Overseas Sales Ratio and Overseas Production Ratio

Figure 4 Overseas Production Ratio and Overseas Sales Ratio (FY 2004 actual value: by industry)



Note) Marked in red if the both of Overseas Production Ratio and Overseas Sales Ratio are above the all- industry average (overseas production ratio: 27.8%; overseas sales ratio: 28.6%) and marked in blue if otherwise.

*Overseas Production Ratio = (Overseas production) / (Domestic production + Overseas production) Not including outsourcing production.
 **Overseas Sales Ratio = (Overseas sales) / (Domestic Sales + Overseas Sales)
 ***Dots in the graph are based on each industry's average per company.

Figure 5 Overseas Production Ratio and Overseas Sales Ratio (major industries)

[Overseas Production Ratio]

	Number of respondent	Fiscal 2004 actual	Fiscal 2005 estimates	Medium-term plan
All industries	491	27.8%	29.2%	33.6%
Chemicals	60	17.0%	18.5%	23.7%
General machinery	42	21.7%	23.3%	27.9%
E & E	98	39.7%	41.0%	44.2%
Automobiles	77	26.2%	28.3%	34.0%

[Overseas Sales Ratio]

	Number of respondent	Fiscal 2004 actual	Fiscal 2005 estimates
All industries	535	28.6%	30.1%
Chemicals	72	25.1%	26.8%
General machinery	48	34.2%	36.9%
E & E	104	40.3%	41.2%
Automobiles	83	28.3%	30.7%

Overseas sales ratio is also on the increase
 The actual value of the overseas sales ratio in FY 2004 was 28.6% on an all-industry average. The estimates for FY 2005 is 30.1% on an all-industry average, showing that many companies continue to expect expansion of sales at overseas.

Trend by industry
 When examining overseas production ratio and overseas sales ratio by industry, industries such as Electrical equipment and electronics (E&E) and Precision Machinery showed higher ratios in both production and sales, reflecting the significant weight of overseas business operations in these industries.

(3) Medium-term Prospects for Domestic Business Operations - Relations with Overseas Business Operations -

Figure 6 Prospects for Domestic Business Operations over the Medium Term

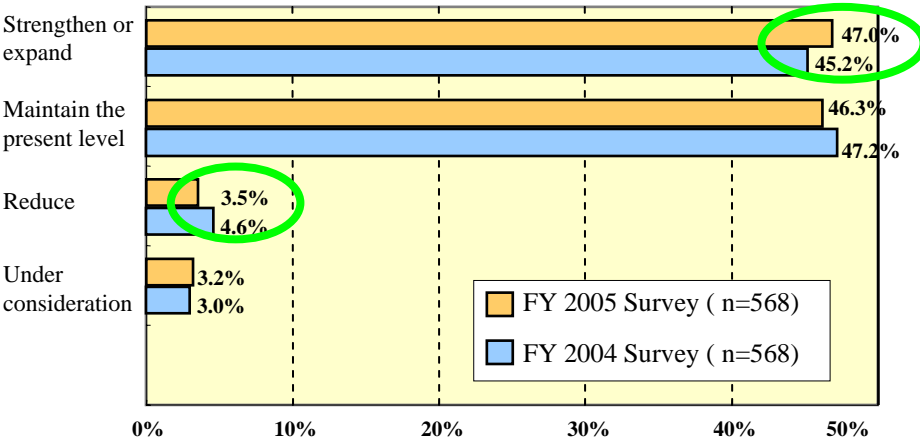


Figure 8 Fields to Focus on in Japan in Future (multiple responses)

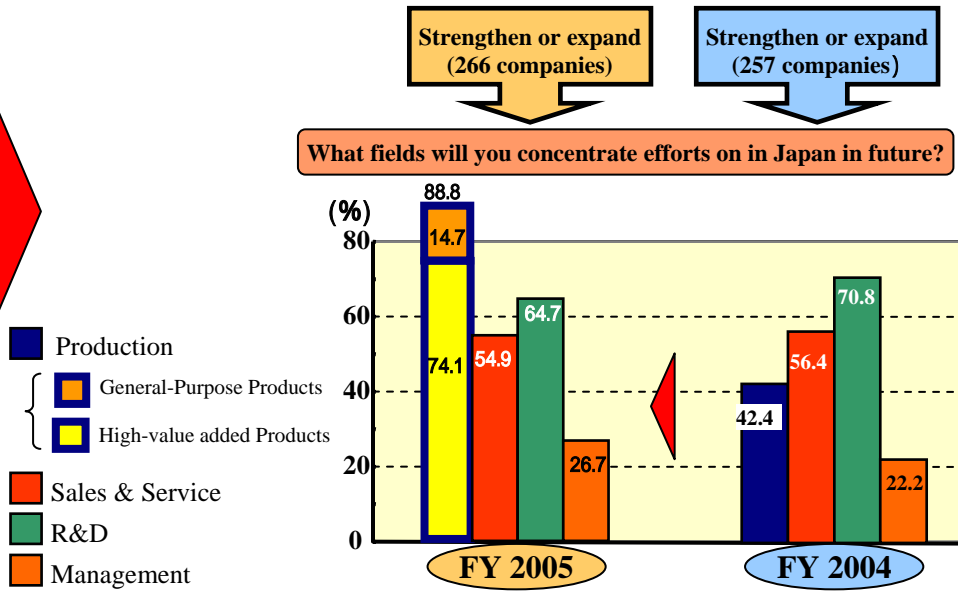
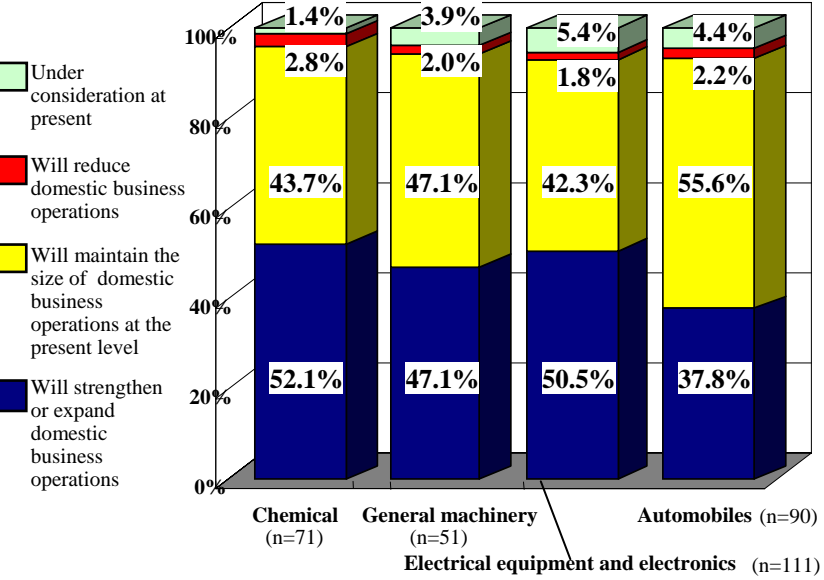


Figure 7 Prospects for Domestic Business Operations over the Medium Term (by major industry)



Positive stance is continuously observed for strengthening or expansion in domestic operations as well

When questioned about their stance on domestic business operations over medium term (next 3 years or so), 47.0% of the companies in all industries responded "Strengthen or expand," and 46.3% answered "Maintain the present level." These two responses each account for nearly half of respondents, with a mere 4.6% respondent to "Reduce" in scale. Comparison with FY 2004 survey results for reference shows that the proportion of companies stating "Strengthen or expand" rose 1.8 points to occupy the largest share, while those responding "Reduce" fell by 1.1 points.

By major industry, the proportion choosing "Maintain the present level" in the Automobiles exceeded the proportion for "Strengthen or expand," but in Chemicals and Electrical equipment and electronics, a majority chose "Strengthen or expand." In these industries, the results showed a clearer tendency towards medium-term expansion of the scale of domestic business operations.

Production of high-added value product and R&D is the area to be reinforced in domestic business operations

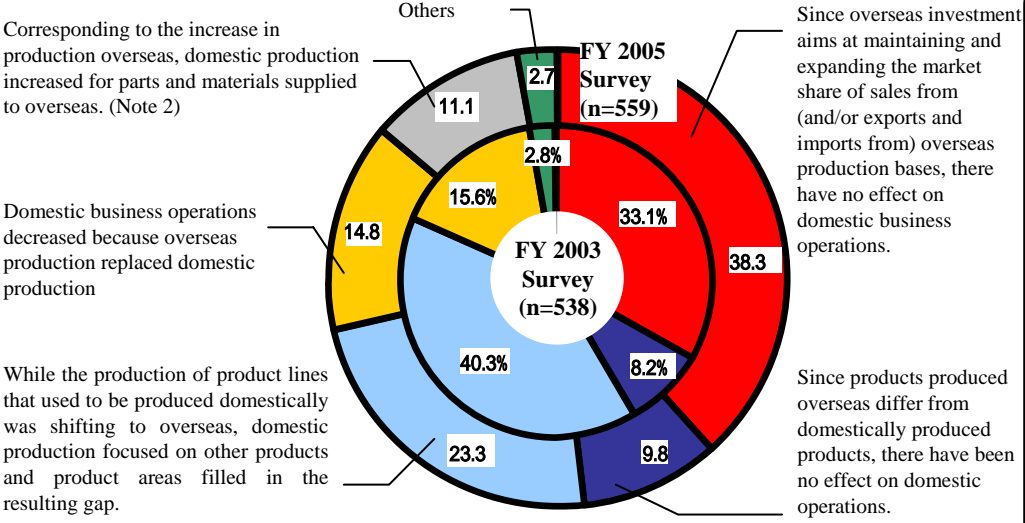
Companies which responded "Strengthen or expand" for the scale of their domestic business operations were asked which fields they would concentrate their efforts on in Japan. A high proportion in those groups chose "high-added value" and "R&D," suggesting that a large number of companies aspire to raise added value in their domestic business operations.

Strict comparison with FY 2004 survey result is difficult because the option of "production" in this survey differs from the FY 2004 survey, but the stance to place emphasis on "R&D" is expressed as strongly as the previous year.

(3) Medium-term Prospects for Domestic Business Operations (continued)

- Effects of Overseas Business Operations -

Figure 9 Effects on Domestic Business Operations (All Industries) (Note 1)



Expansion of overseas business operations have less effects on domestic business operations

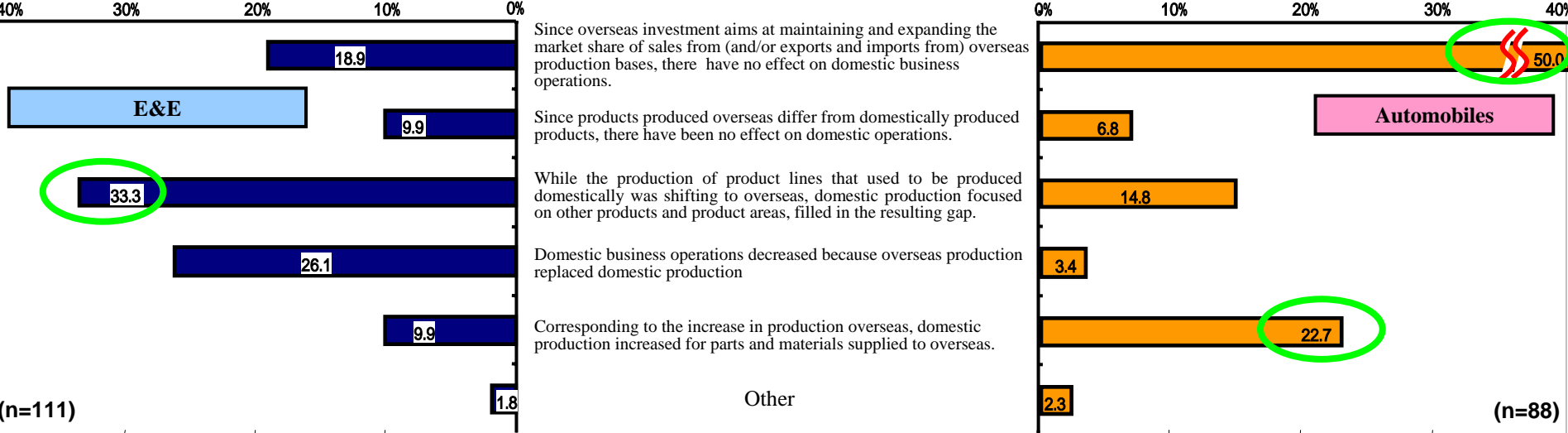
Influence of the expansion of overseas operations over the domestic operations has been examined in comparison with FY 2003 survey results. "Since overseas investment aims at maintaining and expanding the market share of sales from (and/or exports and imports from) overseas production bases, there have no effect on domestic business operations" (33.1% 38.3%): the proportion of the companies that gave this response has risen to become the highest of all, followed by "While the production of product lines that used to be produced domestically was shifting to overseas, domestic production focused on other products and product areas filled in the resulting gap" (40.3% 23.3%), which was the highest in proportion in the previous survey. On the other hand, the response of "Domestic business operations decreased because overseas production replaced domestic production" has decreased in number of respondent companies though it still retains a proportion of 15%, especially Textiles (26.7% 45.9%) and Electrical equipment and electronics (24.0% 26.1%) showed high-proportion.

E&E and Automobiles pursue different courses in deploying business operations

In the Electrical equipment and electronics (E&E) industry, a high proportion of companies have rendered the following responses: "While the production of product lines that used to be produced domestically was shifting to overseas, domestic production focused on other products and product areas, filled in the resulting gap" and "Domestic business operations decreased because overseas production replaced domestic production." In the Automobile industry, on the other hand, the proportion of the companies that have chosen the following responses is high: "Since overseas investment aims at maintaining and expanding the market share of sales from (and/or exports and imports from) overseas production bases, there have no effect on domestic business operations" and "Corresponding to the increase in production overseas, domestic production increased for parts and materials supplied to overseas." This difference appears to derive from the fact that Automobiles companies have a strong tendency to produce near the market, while the Electrical equipment and electronics is likely to move its production to low-cost overseas sites along with the implementation of mass production to meet the needs of short product cycle and consequent strong pressure on cost reductions. The option for the response that was added in this year's survey, namely, "Corresponding to the increase in production overseas, domestic production increased for parts and materials supplied to overseas" indicates that, though overseas production progressed, production of key components are still carried out domestically in Japan. The present survey has clarified that this tendency is more evident for Automobiles than for Electrical equipment and electronics.

Note 1) The FY 2003 Survey was made with different option categories from those developed for the FY 2005 Survey. Therefore, FY 2003 data have been reclassified so as to simulate the option categories in the FY 2005 Survey. Questions in the FY 2003 Survey were designed to check the effects on domestic business operations over the medium term (next 3 years or so), while the questions in the FY 2005 Survey are designed to check the effect on domestic business operations over the last 3 years.
 Note 2) This item is an option newly added to the FY 2005 Survey.

Figure 10 Effects on Domestic Business Operations (by major industry)

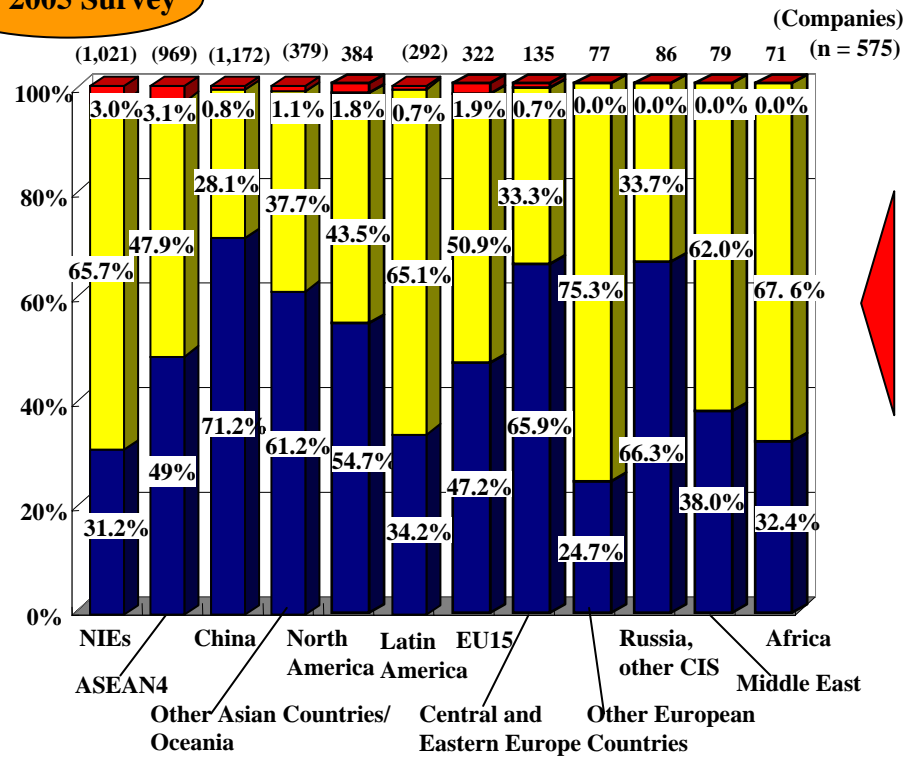


2. Prospects for Overseas Business Operations by Region

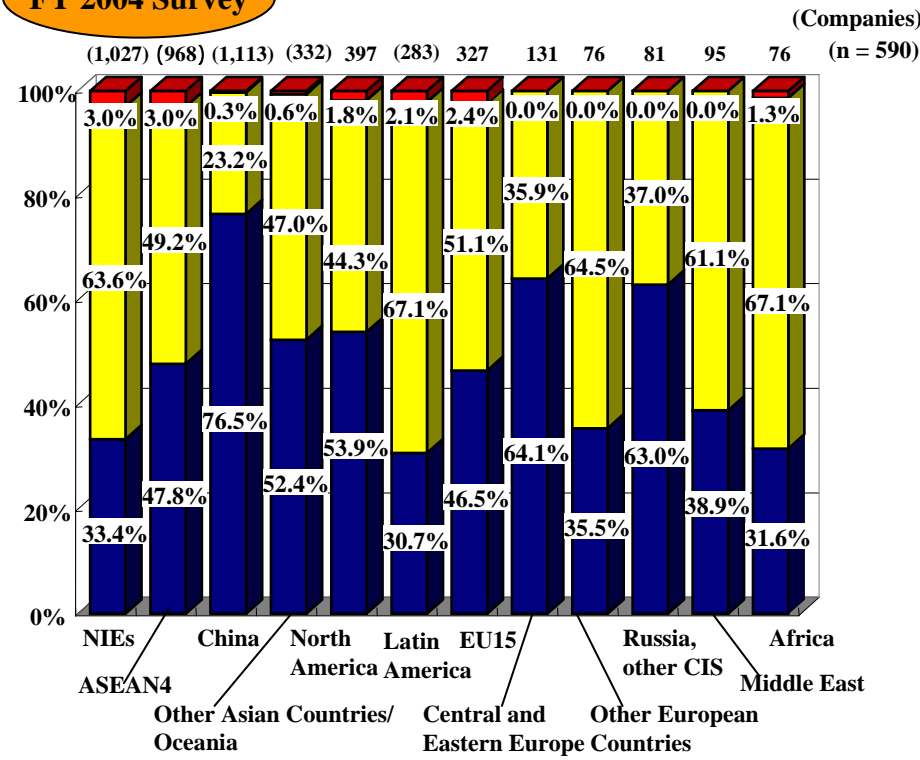
(1) Prospects for Overseas business Operations

Figure 11

FY 2005 Survey



FY 2004 Survey



- Will reduce or withdraw from overseas business operations
- Will maintain the size of overseas business operations at the present level
- Will strengthen or expand overseas business operations

Note) "Overseas business operations" is defined as production, sales, research and development activities in overseas bases, as well as outsourcing of manufacturing and procurement overseas.

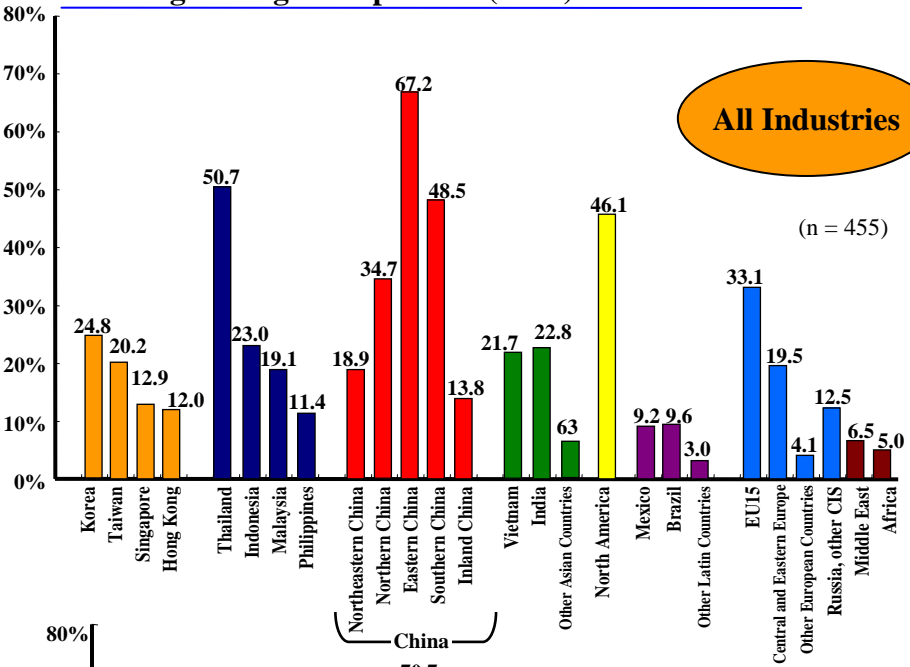
Questions on individual countries in "Latin America" were added for the first time in the FY 2004 Survey. Shares of "NIEs," "ASEAN4," "China," "Other Asian countries/Oceania," and "Latin America" have been calculated by summing up the data of each country/region that constitutes respective countries/regions. Since the FY 2004 survey, the category of "Middle East & Africa" has been divided into "Middle East" and "Africa." "EU" has also renamed to "EU15" since the FY 2004 survey. Figures in parentheses are total numbers of responses for each region.

Strongly positive stance on China, Central and Eastern Europe, and Russia, with the same stance also gaining force for Other Asian Countries/Oceania

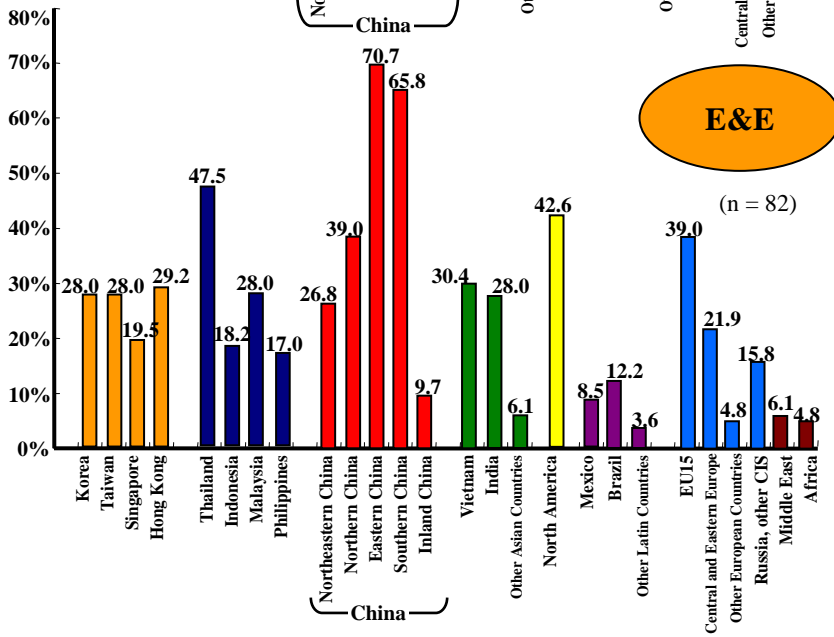
When asked about their prospects for overseas business operations in the medium-term (next 3 years or so), country/region that obtained the highest proportion of "will strengthen or expand the scale of overseas operations" was China (71.2%), followed by Russia/Other CIS (66.3%), Central and Eastern Europe (65.9%), Other Asian Countries/Oceania (61.2%), North America (54.7%), and so on. Comparison of this year's survey with the previous year exhibits the feature that for the two regions of Other Asian Countries/Oceania and Latin America, the proportion of the "strengthening or expanding" stance has shown a growth of 8.8 points and 3.5 points, respectively (See Figure 13). On the other hand, as for China, the proportion of the "strengthening or expanding" stance is the highest but it has decreased by 5.3 points below the previous year's figure.

Figure 12 Number of Companies for Strengthening or Expansion (ratio)

All Industries



E&E



Very Active toward China, Thailand, and North America in all-industries.

On examining the number of companies responded that they “will strengthen or expand” overseas business operations in the medium term (next 3 years or so), it has become clear that, as in the previous year, large numbers of companies in all-industries intend to strengthen and expand their operations in Eastern and Southern Regions of China, Thailand, and North America. For Latin America, Middle East, and Africa, however, the number of companies that intend to strengthen or expand their operations is comparatively small.

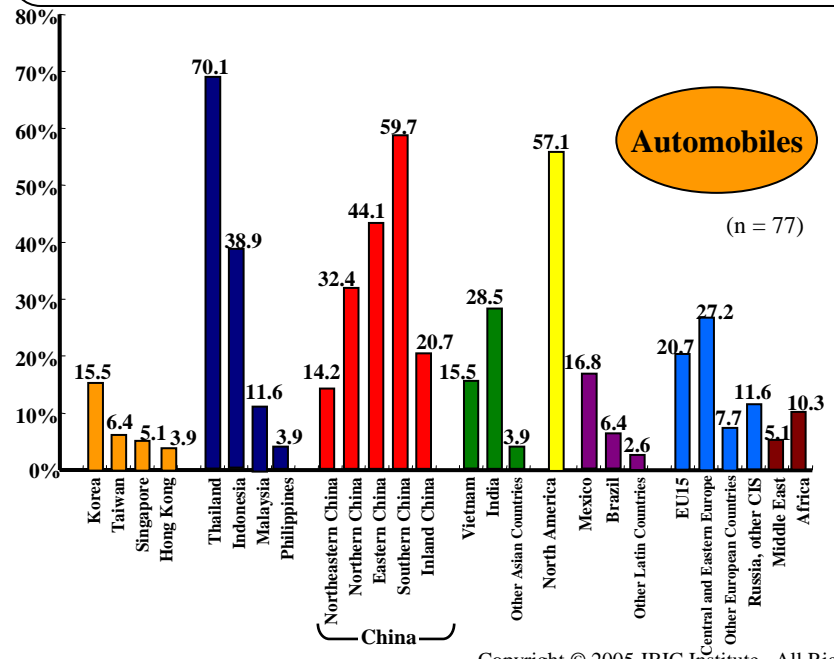
E&E companies are active in Eastern and Southern Regions of China and Thailand among ASEAN4

As in the previous year, E&E manufacturers take a very positive stance for Eastern and Southern Regions of China, with a preference for Eastern China. Among ASEAN4, their attitudes toward “strengthening or expanding” stance are the strongest for Thailand (47.5%), and the weakest for the Philippines (17.0%). The “strengthening or expanding” stance on Vietnam (30.4%) and India (28.0%) is growing to draw attention.

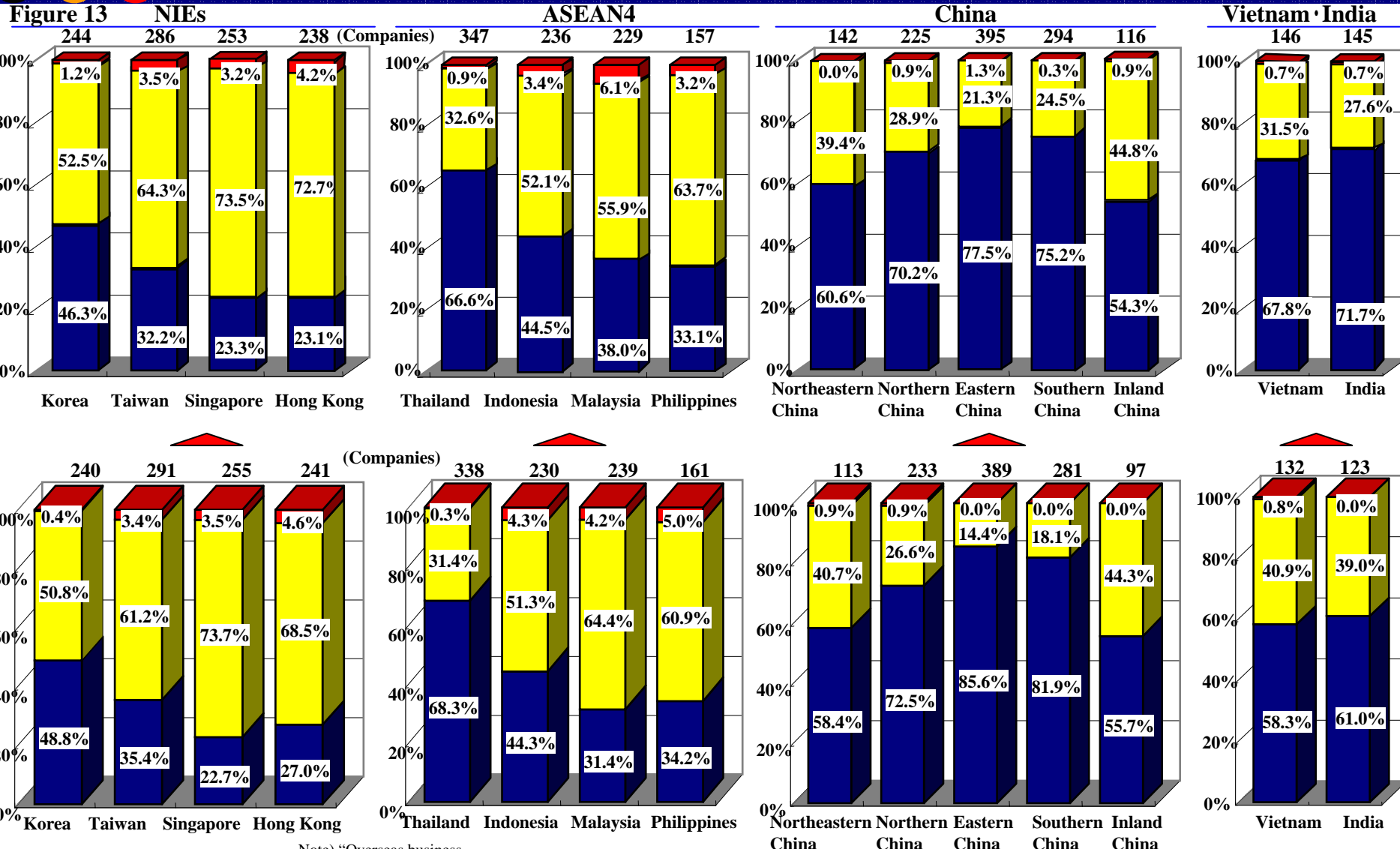
Automobiles prefer Thailand, Southern and Eastern Regions of China, and North America

Also as in the previous year, automobile manufacturers take a quite positive stance for Thailand, Southern and Eastern Regions of China, and North America. Thailand (70.1%), in particular, showed highest proportion among all areas, ahead of the Southern China (59.7%) and North America (57.1%). In China, industrial accumulation is being formed corresponding to expansion of operations by Japanese automobile manufacturers, and under such circumstances, number of companies that intend to strengthen or expand their operations in the Southern China (59.7%) is larger than in any other region of China. Among ASEAN4, Indonesia (38.9%) attracts many manufacturers next to Thailand, while manufacturers intending to strengthen and expand their operations in India (28.5%) are also beginning to be noteworthy.

Automobiles



(3) Prospects for Overseas Business Operations (major Asian regions)



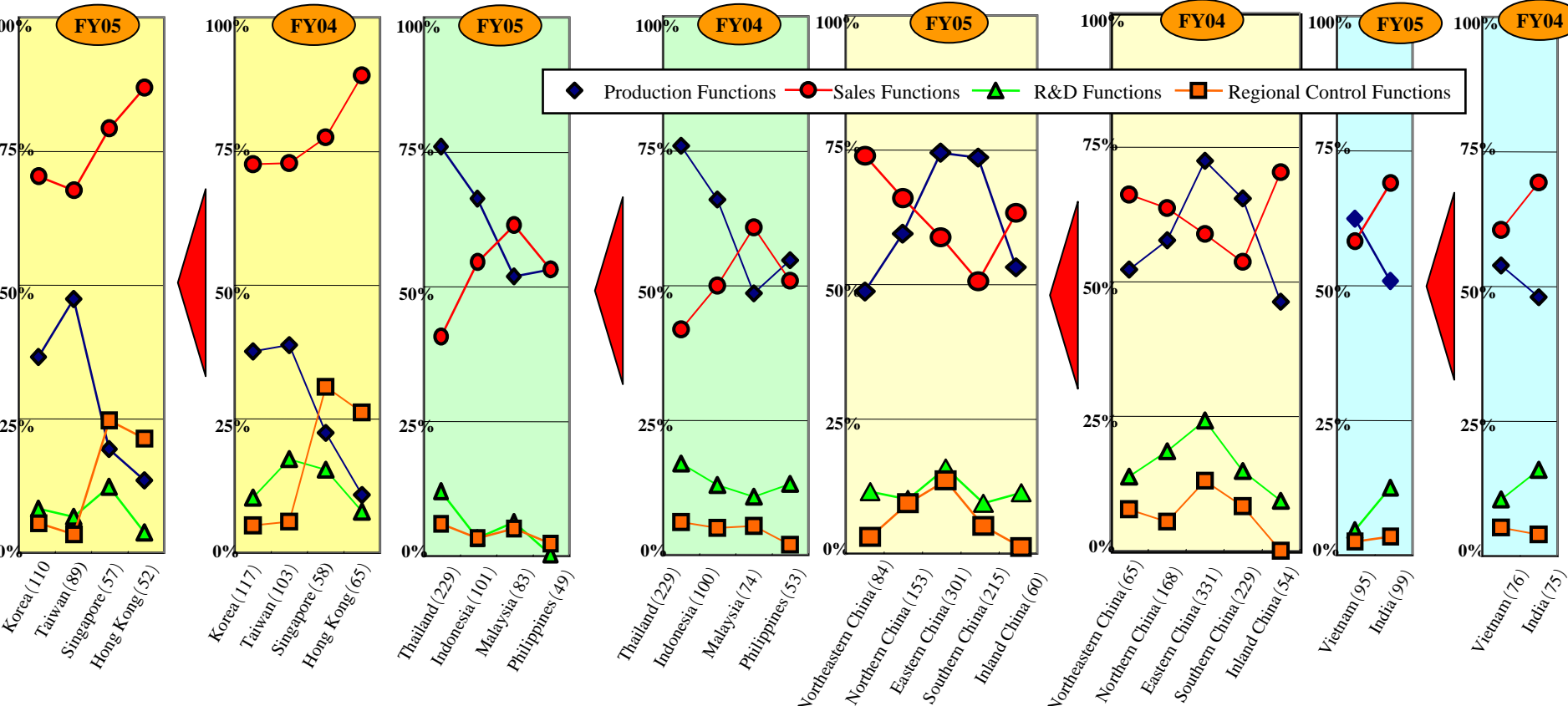
Note) "Overseas business operations" is defined as production, sales, research and development activities in overseas bases, as well as outsourcing of manufacturing and procurement overseas.

Top Row : FY 2005 Survey
Bottom Row : FY 2004 Survey

Prospects for overseas business operations vary among each country or region. The attitude toward "strengthening or expanding" is the strongest for Korea among NIEs, and for Thailand among ASEAN4. For China, the "strengthening or expanding" stance has shown some decline for all regions except for Northeastern Region. In contrast, the "strengthening or expanding" stance is steadily growing for Vietnam and India.

(4) Functions for Strengthening or Expansion (major Asian regions)

Figure 14 NIEs ASEAN4 China Vietnam·India



* Figures in parenthesis for countries and regions in the above figure are numbers of respondent companies. Companies which responded that they would “strengthen or expand” were asked in which functions they intended to do so, from production, sales, R&D and regional control functions. Multiple options were presented within each function, and a company which selected any one of them was counted as one company in the corresponding function.

The share of R&D has declined in most countries and regions.
 Specific functions that are to be expanded in the overseas business operations were surveyed and compared to the FY 2004 results. The observed features of each region are as follows. **[NIEs]** Strengthening or expansion of sales functions is clearly higher than production or other functions in each country. Production functions have a larger weight in Korea and Taiwan, while regional control functions in Singapore and Hong Kong. **[ASEAN4]** Production functions surpass sales functions in Thailand and Indonesia, but in the Philippines, share of sales functions has gone up and that of production functions has gone down, which narrowed the difference between the two functions to almost zero. In Malaysia, sales functions surpass production functions, but the gap between the two functions has narrowed slightly as a result of production functions having gone up from the previous year’s survey. **[China]** In Eastern and Southern regions, production functions surpass sales functions, but the reverse of the situation in other regions. What is drawing attention in this year in comparison with the previous year is that the “strengthening or expanding” stance is strong toward production functions in Southern region, sales functions in Northeastern region, and regional control functions in Northern and Southern regions. **[Vietnam/India]** For both countries, the proportion of production functions has moved up, and in Vietnam, that of production functions has surpassed sales functions for the first time in two years.

(5) BRICs

Figure 15 Number of Overseas Affiliates

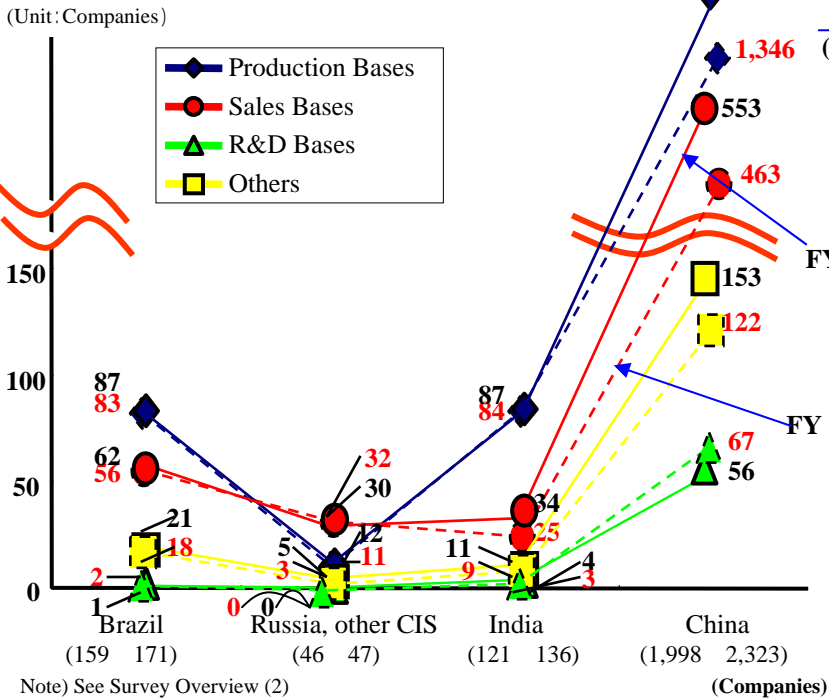


Figure 16 Functions for Strengthening or Expansion

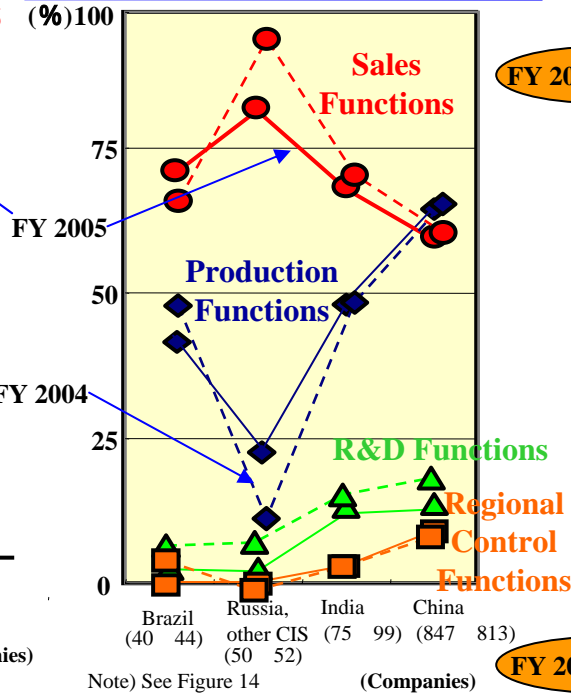
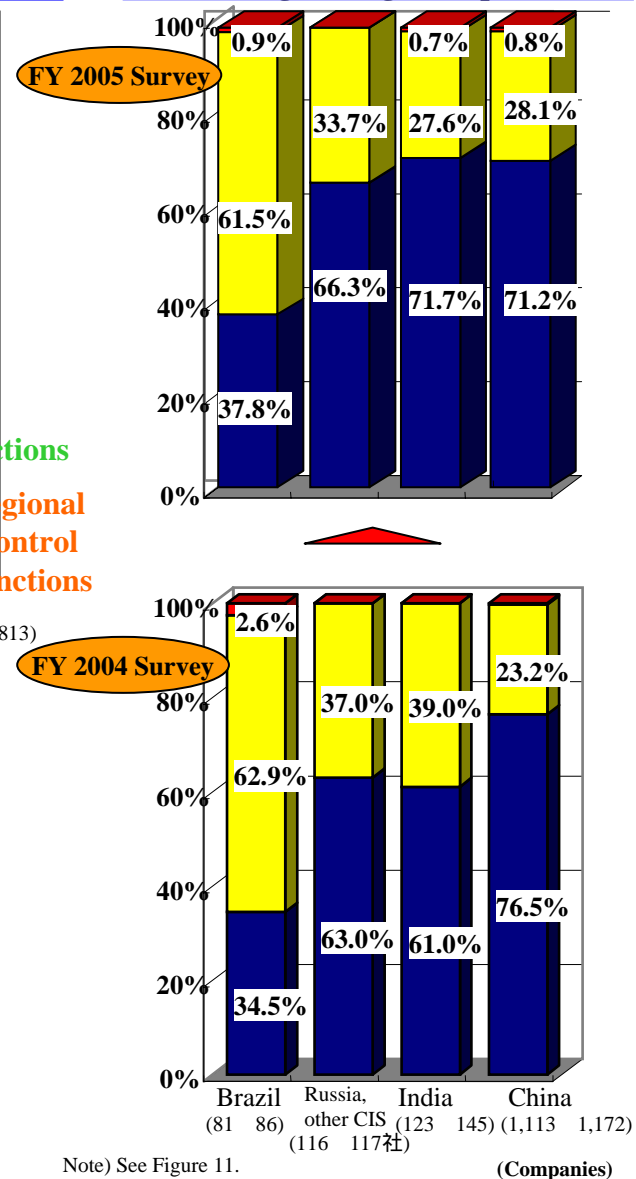


Figure 17 Prospects for Strengthening or Expansion



India coming up to China

In examining the movements of the BRICs, China still draws ahead of the other three countries in the number of overseas affiliates. Actual number of overseas affiliates existing in China has increased from the previous year while the other three countries don't show much of an increase. With respect to the "strengthening or expansion" prospects (Figure 17), however, China has decreased the proportion of respondent companies from the previous year's results while India has increased it by more than 10 points, and Russia and Brazil have also increased it. All such outcomes suggest that Japanese manufacturers intend to increase revenues and earnings through reinforcing business operations in these emerging markets. As to the functions to be strengthened or expanded (Figure 16), it was overwhelmingly sales function in Russia that the companies chose to strengthen or expand in the previous year's survey. However, it is noteworthy that the share of sales function has decreased and at the same time the share of production function has gradually gone up.

(6) Relocation of Overseas Bases

Among the medium term outlooks for overseas business operations in each region (See Figure 11), 90 companies answered that they intended "Reduction or withdrawal".

Figure 18 Reasons for Reduction or Withdrawal

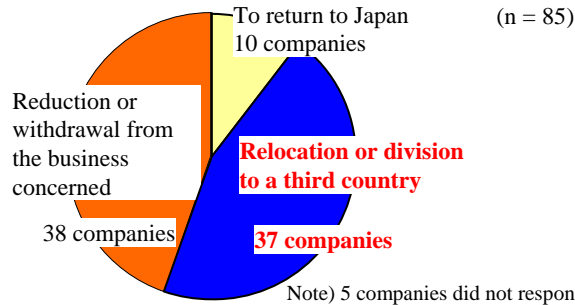


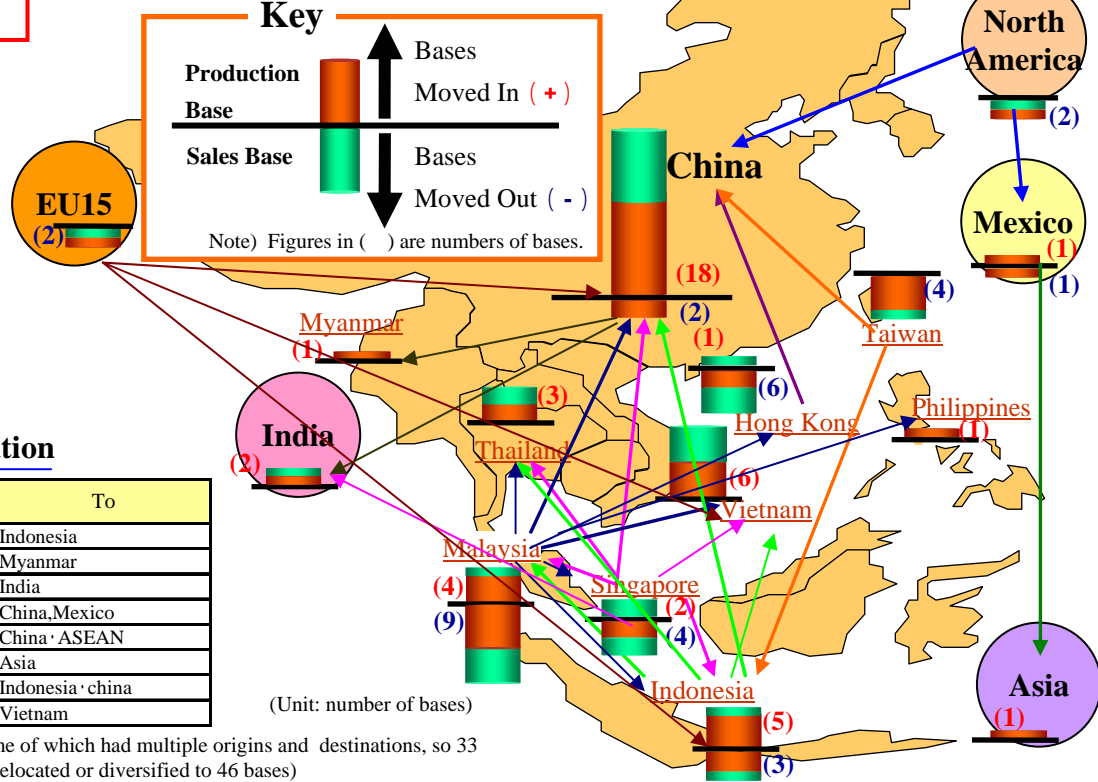
Figure 19 Table of Origins and Destinations for Relocation

From	Function	To
Taiwan	Production	China
Taiwan	Production	China
Taiwan	Production	Indonesia
Taiwan	Sales	China
Singapore	Production	Malaysia
Singapore	Production	Malaysia
Singapore	Sales	Malaysia
Singapore	Sales	Thailand · Vietnam · India · Indonesia · China
Hong Kong	Production	China
Hong Kong	Production	China
Hong Kong	Regional Control	China
Hong Kong	Sales	China
Hong Kong	Sales · Regional Control	China
Hong Kong	Sales	China
Indonesia	Production · Sales	Thailand · Vietnam
Indonesia	Production	Vietnam · China
Indonesia	Production	Malaysia · China
Malaysia	Production	Indonesia · China
Malaysia	Production	Philippines
Malaysia	Production	China · Vietnam
Malaysia	Production	Thailand
Malaysia	Sales	Singapore
Malaysia	Sales	Singapore
Malaysia	Sales	Hong Kong
Malaysia	Sales	China · Vietnam

From	Function	To
Malaysia	Production	Indonesia
China	Production	Myanmar
China	Production	India
North America	Production	China, Mexico
North America	Sales	China · ASEAN
Mexico	Production	Asia
E U	Production	Indonesia · China
E U	Production · Sales	Vietnam

(31 respondent companies. Some of which had multiple origins and destinations, so 33 bases are listed as origins and relocated or diversified to 46 bases)

Figure 20 Relocated Countries/Regions and Functions



Movements of bases across countries and regions

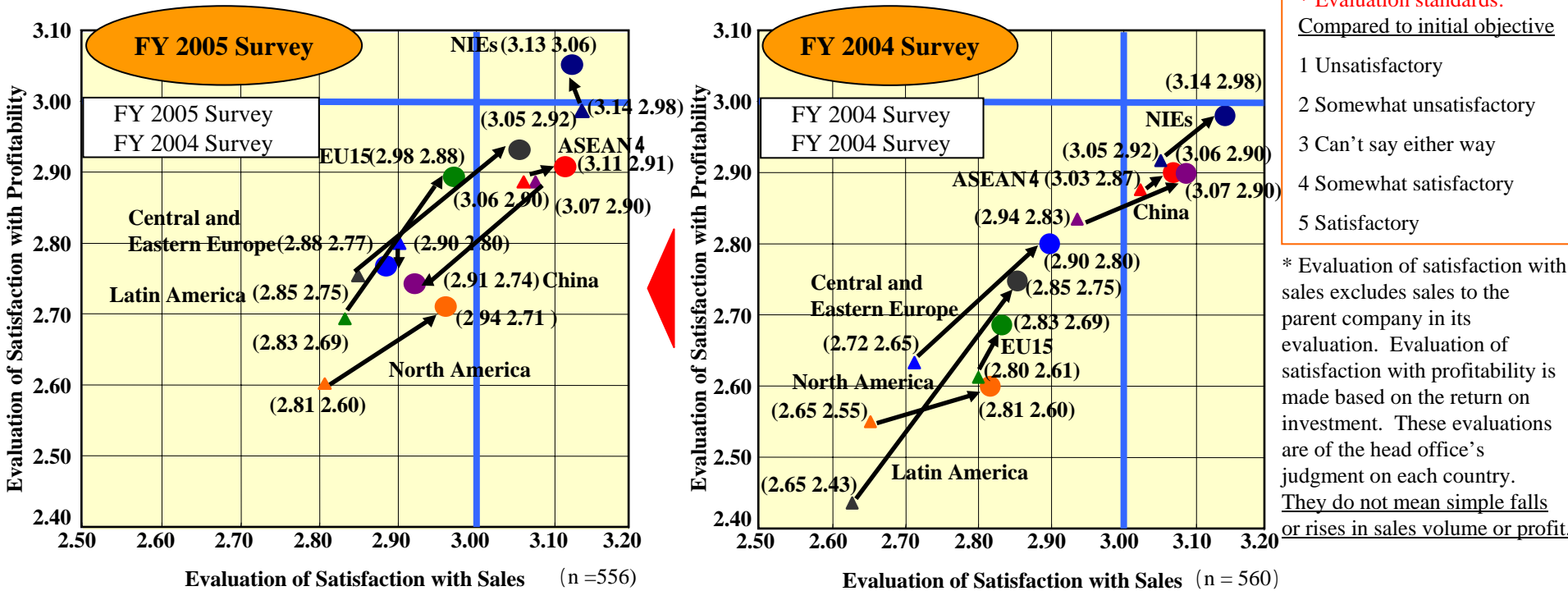
A total of 85 companies responded "reduce or withdraw" in their medium-term (next 3 years or so) prospects for overseas business operations in each region or country (See Figure 11). Of these, 38 companies gave their reason as "reduction or withdrawal from the business concerned," 37 said "relocation or division to a third country" and 10 said "To return to Japan".

Companies relocating their operations to China are a prominent trend

When the 37 companies that chose "relocation or division to a third country" are investigated further to find which functions they are moving, and to where. The most common relocation origin is Malaysia (9 bases), followed by Hong Kong (6), Taiwan (4), Singapore (4) and Indonesia (5). Of those, the movement of both production and sales functions is more common from Malaysia, production functions is from Indonesia and Taiwan, and sales functions is from Hong Kong. The most common destination is China (18 bases), followed by Vietnam (6), Indonesia (5), and Malaysia (4). The common areas relocated to China are production, sales and regional control functions from Hong Kong (6), and production and sales functions from Taiwan (3). By industry, the E&E showed most relocations including from Malaysia and Hong Kong, which implies that a reviewing production and sales function is carrying out in China and ASEAN region.

3. Evaluation of Overseas Business Performance (1) Evaluation of Sales and Profitability

Figure 21 Evaluation of Overseas Business Performance (All Industries)



Evaluations have improved, but a significant decline was seen for China

Respondent companies' evaluations of sales and profitability satisfaction with their overseas business performance showed a more improving trend in each region and country from the FY 2004 survey. Business performance evaluations for the NIEs showed the highest levels of satisfaction, and there has been remarkable improvement in EU15, Latin America, and North America. In contrast, China showed measurable decline from relatively satisfied level to unsatisfied. As to the evident declining of business performance evaluation for China in this year's survey, comparison with FY 2004 survey results by industry tells that satisfaction with sales declined considerably in the Others, Textiles, and Ceramics, cement and glass. Also satisfaction with profitability declined in the Others, Steel, and Textiles. However, satisfaction with both sales and profitability improved in the Foodstuffs. In NIEs where satisfaction with both sales and profitability were evaluated at high level (satisfaction being over medium level "3"), Steel, Non-ferrous metals, and Automobiles, in particular, showed year-to-year increase in both of sales and profitability at the level above "3." Whether or not any particular industry is in a good condition in the local market is an influential factor in the evaluation of the profitability of each country/region.

(2) Reasons for Evaluation of the Profitability

Figure 22 Reasons for Evaluations of Satisfaction (satisfactory or somewhat satisfactory), as a time series comparison of major regions (multiple responses)

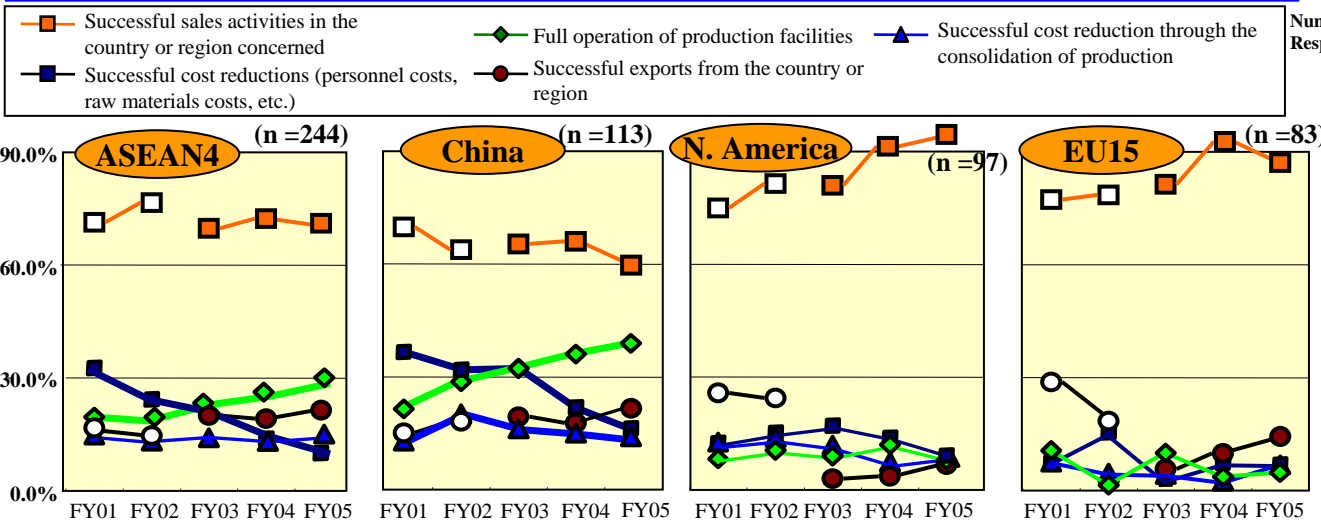
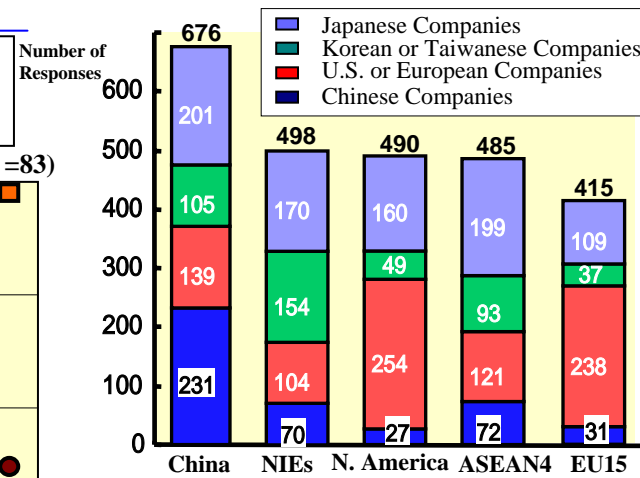
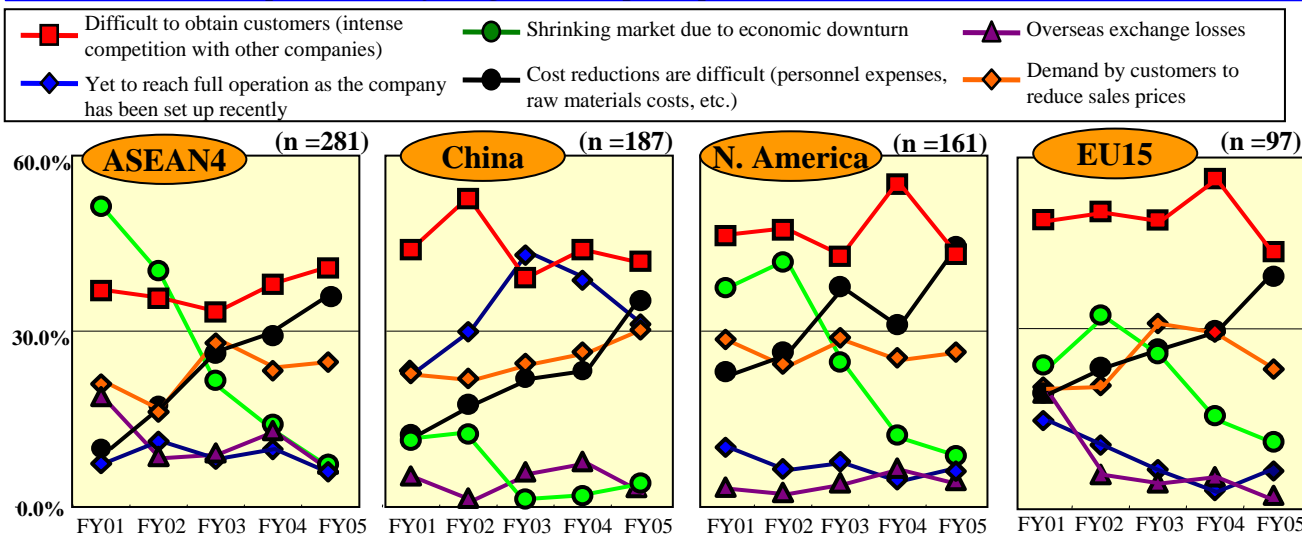


Figure 24 Competitors in the Market (multiple responses)



Note) "Successful sales activities in the country or region concerned" and "Successful exports from the country or region" were added in the FY 2003 survey, thus they have no chronological continuity with previous items. The " " (empty square) in the figure for 2001~2002 indicates "successful sales of existing products" and " " (empty circle) indicates "successful sales of new products".

Figure 23 Reasons for Evaluations of Satisfaction (unsatisfactory or somewhat unsatisfactory), as a time series comparison of major regions (multiple responses)



Features of reasons for evaluation of satisfaction with profitability

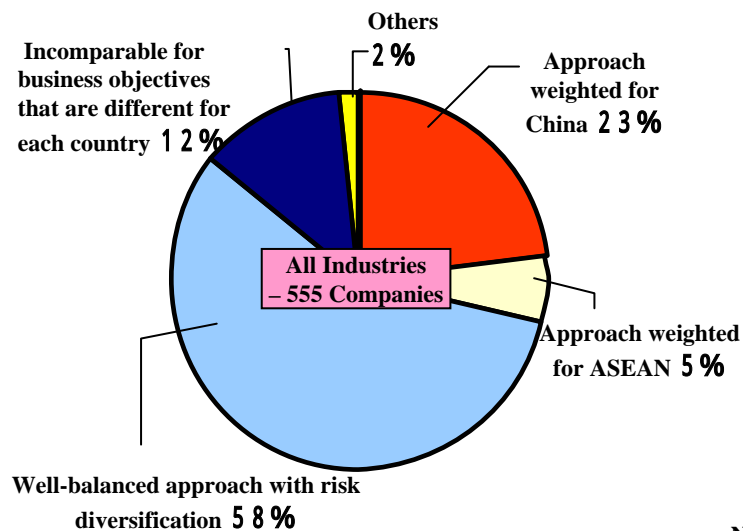
The most common reason in all four regions is "Successful sales activities in the country or region concerned," especially in North America and EU15 stayed high level. As reason for the evaluation of unsatisfactory, "Cost reductions are difficult" has surged this year, and "Difficult to obtain customers" is also high in all four regions. For ASEAN4 and China, the proportion of "Full operation of production facilities" is on the increase and the declining tendency is obvious in "Successful cost reductions."

Competitors in the local market

A survey on competitors in each market disclosed that in China, which collected the largest number of responses, competitors of local company accounted for the largest share. For all five countries/regions, competition with Japanese companies occupies a comparatively high share, probably because the overseas markets reflect the competitive relations they have in Japan. By industry, severe competition is reported by Electrical equipment and electronics and Automobiles in every region.

4. Topics (1) China and ASEAN - Balancing between China and ASEAN, etc. -

Figure 25 Business Strategy Approaches to China and ASEAN



Priority was given to good balance between China and ASEAN in the business strategies
 A survey was made as to what approaches toward China and ASEAN the companies consider in their business strategies. Of the 555 companies in all industries, the largest proportion responded “well-balanced approach for risk diversification” (58%), followed by “approach weighted for China” (23%), and “Incomparable for business objectives that are different for each country” (12%).

There were some negative effects on production and sales operations caused by the Anti-Japan Demonstrations in China (April 2005), but almost companies responded they would not amend their medium-term (next 3 years or so) business plans in China
 Results of this survey on the negative effects that the Anti-Japan Demonstrations in China may have caused on the production and sales operations in China were as follows. Of the 557 companies in all industries, a number of the companies that reported any negative effects like “severely affected” (1%) and “affected” (9%) totaled 10%, but most of the rest were “not affected” (77%). Furthermore, the 552 companies in all industries were asked whether or not any amendment to the medium-term (next 3 years or so) business plans for China was necessitated due to the Anti-Japan Demonstrations in China. In contrast to the companies that suggested amendment, “amendment has been made” (1%) and “amendment to be made” (3%), an overwhelming majority responded “no amendment” (96%). However, considering the decrease of China (on a year-to-year comparison) in the “medium-term prospects for overseas business operations” and the “promising countries and regions for overseas business operations over the medium-term”, it would be necessary to watch carefully how Japanese manufacturers will proceed with their business operations in China hereafter.

Note) “The Anti-Japan Demonstrations in China” means a series of acts or activities in various cities in China in April 2005, such as a street demonstration and march protesting Japan, destructive activities wrecking Japan-related facilities, and a boycott movement against Japanese goods.

Figure 26 Negative Effects on Production and Sales Operations in China Caused by the Anti-Japan Demonstrations in China (April 2005)

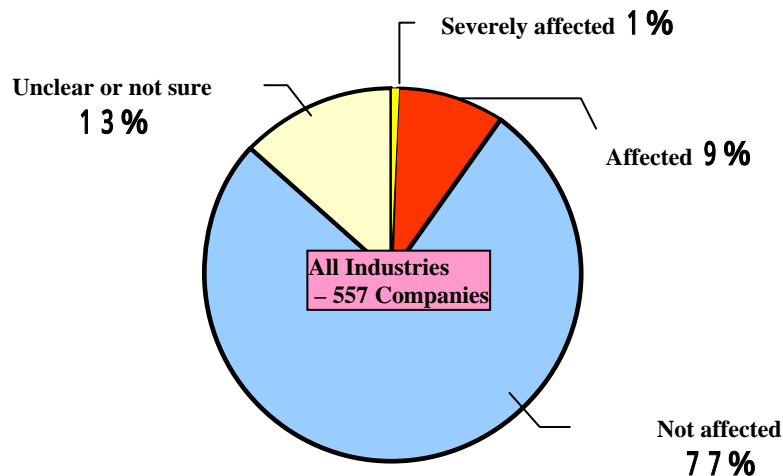
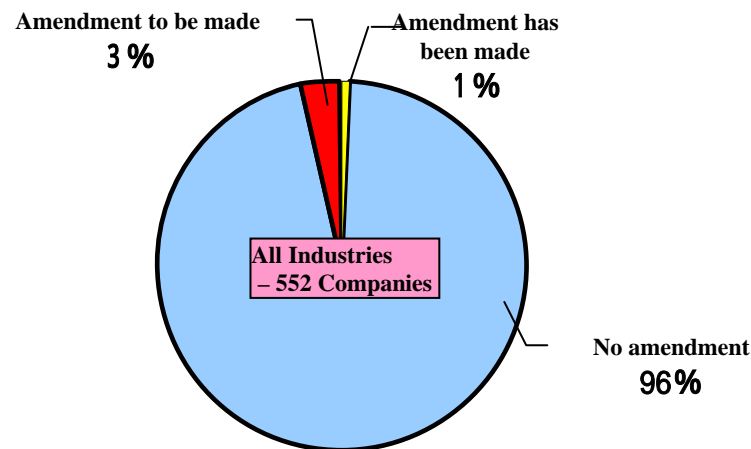


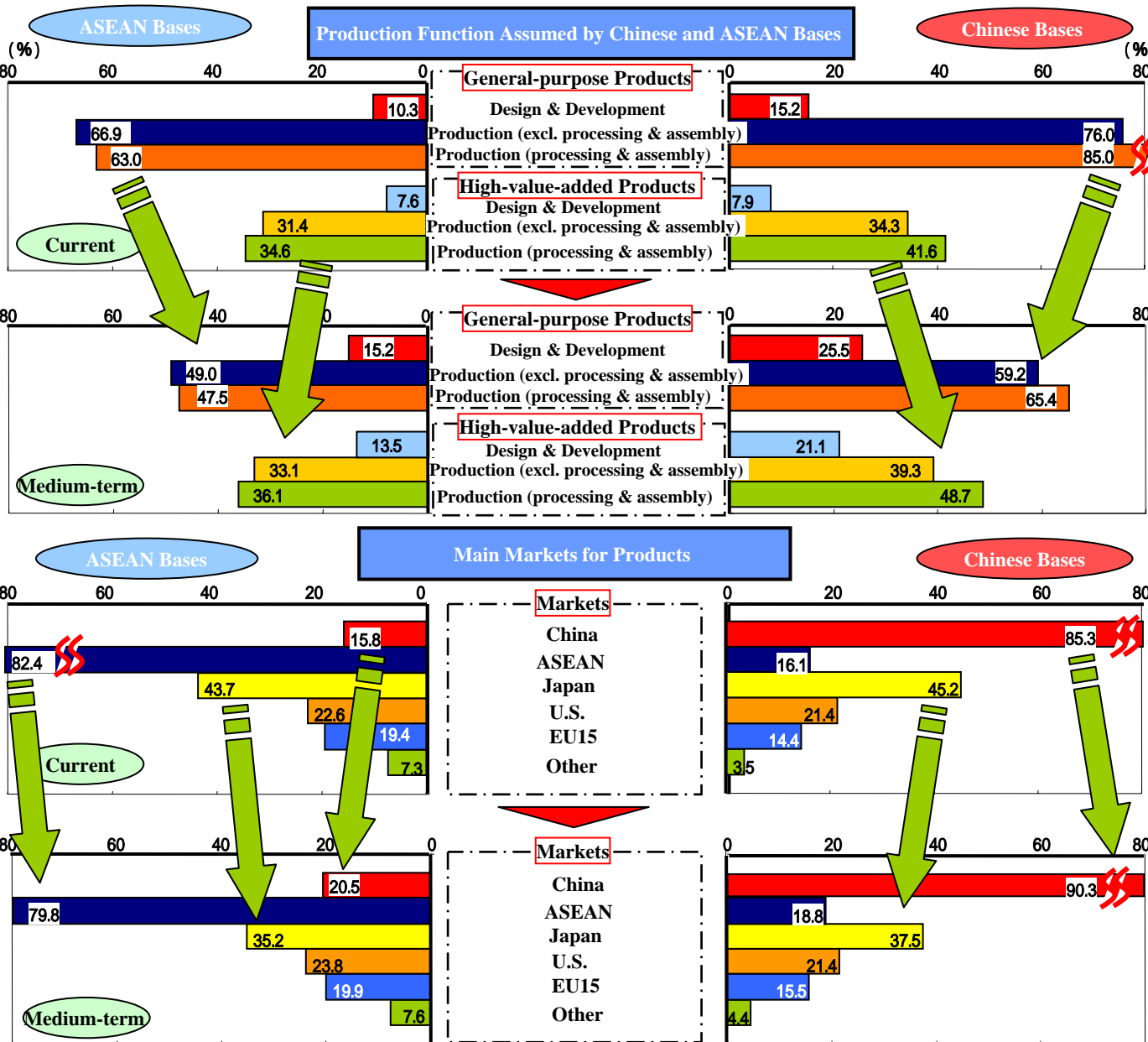
Figure 27 Amendment to the Medium-term (next 3 years or so) Business Plans for China in the wake of the Anti-Japan Demonstrations in China (April 2005)



(1) China and ASEAN (continued)

- Production and Sales of Chinese and ASEAN Bases-

Figure 28 The Status of Production and Sales at Chinese and ASEAN Bases (multiple responses)



As for production functions, both Chinese and ASEAN bases are to increase high-value-added products in the medium term

The production functions currently undertaken by affiliates in China and ASEAN countries has been surveyed along with the reinforcing functions for the medium term (next 3 years or so).

The survey results, which are common to both bases, are that most of the respondent companies are currently using these bases for producing general-purpose products, but in the medium term (next 3 years or so) high-value-added products will be more focused on in stead of general-purpose products. Such tendencies are rather strong with Chinese bases where the design and development of high-value-added products are expected to increase from the current level of 7.9% to 21.1% (around three times) in the medium-term.

In the medium term (next 3 years or so), both Chinese and ASEAN bases are to reduce the proportion of sales to Japan and shift to China

A survey was made on the current main sales markets for products produced by Chinese or ASEAN bases, as well the target sales markets they are going to develop or expand in the medium term (next 3 years or so).

The results of the survey, which are commonly applicable to China and ASEAN bases, revealed that sales within the region in which the bases are located has the largest share, amounting over 80%, followed by Japan as the second largest market. In the medium term, so far as Chinese bases are concerned, more companies are striving to increase sales within China. But the situation is contrary in ASEAN countries where less companies are attempting to increase sales within ASEAN countries. The proportion of sales to Japan is likely to decrease from both bases. Now, China is the market targeted by more ASEAN bases. It is noteworthy that in both Chinese and ASEAN bases, number of companies that are focusing on China as a prospective market in increasing on a medium-term basis.

Note) n = 341 (Companies that responded on both Chinese and ASEAN bases)

Figure 29 Intention to Use EPA

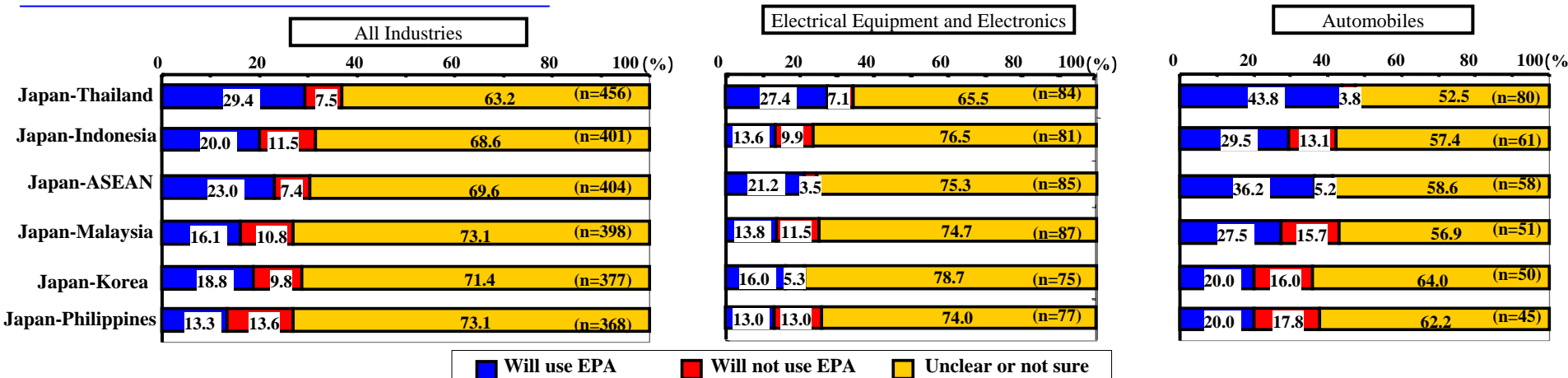
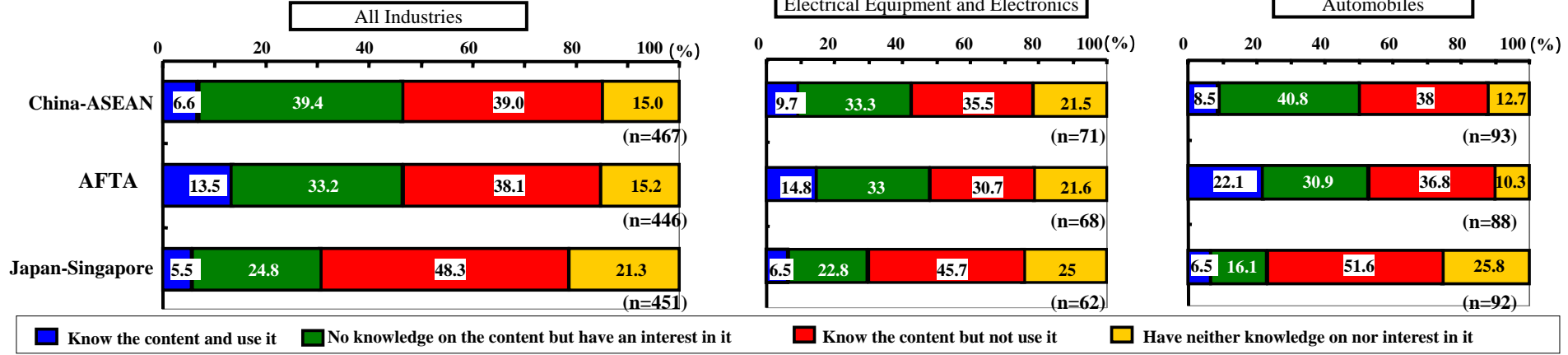


Figure 30 EPA/FTA in East Asia

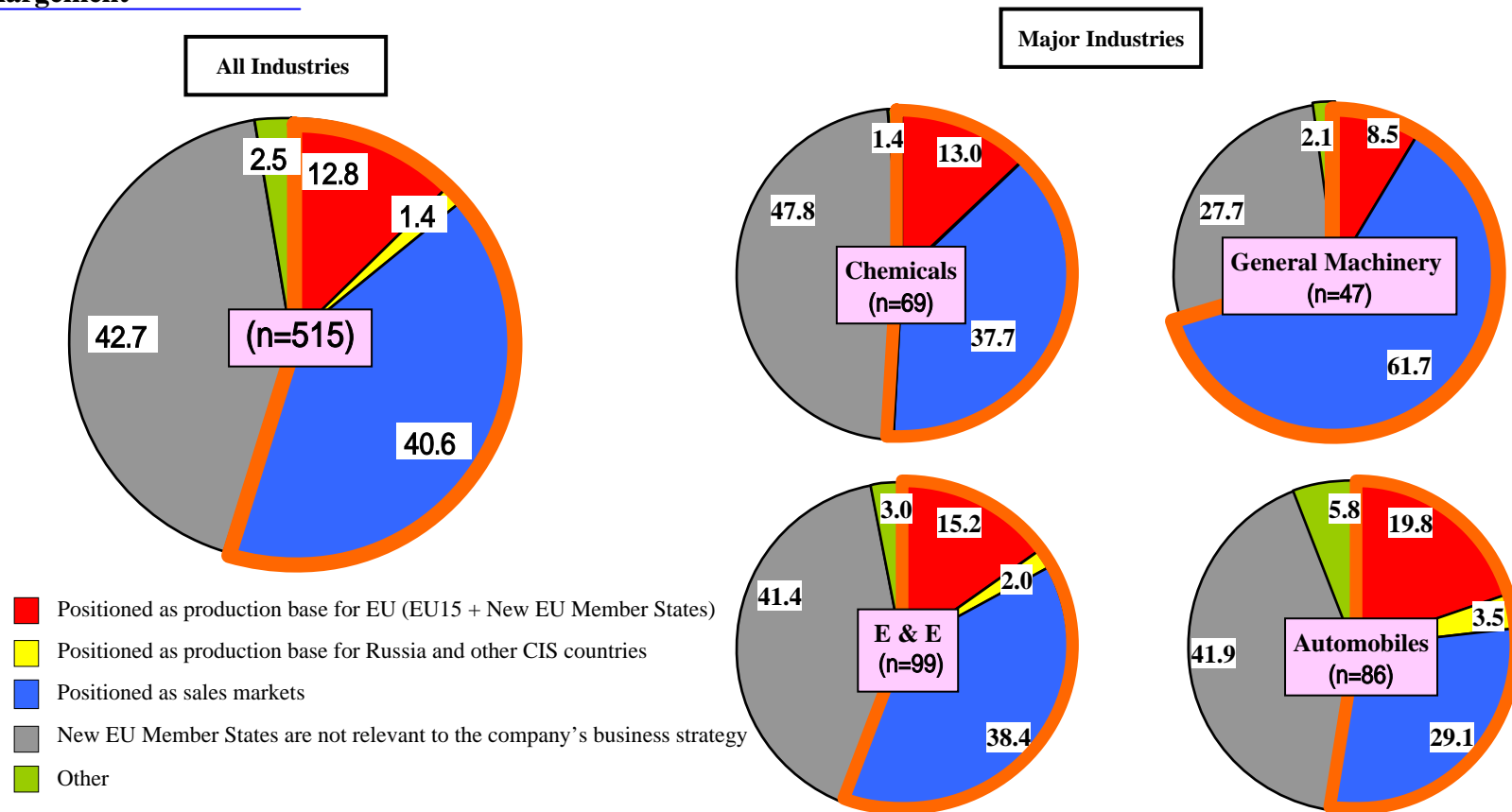


Extent of Utilisation of Economic Partnership Agreements (EPA) and Free Trade Agreements (FTA) varies according to the partner country and the industry

A survey was made about the intention to utilise the six EPAs, which are either under negotiation or in substantial agreement by the Japanese government (Figure 29), and the status of utilisation of the three already signed EPA/FTAs (Figure 30). The shares of responses of “use EPA/FTA” or “will use EPA” are not necessarily high. Among the EPAs/FTAs that have already signed, when looking into the Japan-Singapore EPA that came into force in November 2002 as the first EPA with Japan, the proportion of companies that are using it is not any higher than 5.5%. The proportion stands at only 13.5% even for AFTA, which is being utilised most (percentages shown are on an all-industry basis). Among the six agreements expected to be concluded hereafter, the share of companies that intend to use the EPA with Thailand is high; particularly, 43.8% of Automobiles responded they would utilise the agreement. In contrast to the foregoing, the share of companies that will use the EPA with the Philippines is 13.3% for all industries and 20% for Automobiles, being less than half the proportion for Thailand. The degree of utilisation seems to be different by the partner country. To compare Automobiles with Electrical equipment and electronics, both of which are very active in overseas business, the former is likely to have more interest than the latter when compared the proportion of companies responded that they would utilise the agreements.

(3) EU Enlargement - Positioning in the Business Strategy of New EU Member States -

Figure 31 EU Enlargement



New EU Member States are given positions in the business strategy by 54.8% of all respondent companies

Ten countries consisting of five Eastern European countries, including Czech Republic, Hungary, and Poland, three Baltic States, and Cyprus, and Malta, formally acceded to the EU in May 2004. Further with the background that Romania and Bulgaria are also expected to accede in 2007, positioning of these New EU Member States in the overseas business strategies was asked. The result revealed that companies that gave any position such as "production base for EU," "production base for Russia and other CIS countries," and "sales markets" accounted for more than half, 54.8%. However, companies that chose "are not relevant to the company's business strategy" accounted for 42.7% (all industries), which implies that these New EU Member States may not necessarily be a great concern to Japanese manufacturers under the circumstances where huge promising emerging markets like China and India exist geographically nearby.

Some companies, though not many, have given a position to these countries as their production base for Russia and other CIS countries

The most often appearing positioning is selling market, and not many manufacturers regard these countries as production base. However, it should be noted that in Electrical equipment and electronics and Automobiles that are very positive industries on overseas operations, a few companies, though not many, responded they consider these countries as their production base for Russia and other CIS countries.

(1) Ranking and existence of business plans

Figure 32 Promising Countries/Regions for Overseas Business Operations over the Medium Term (multiple responses) (See Appendix 1 for results of the FY 2003 and previous surveys)

Rank	FY 2005 Survey	No. of Companies 483	(%)	FY 2004 Survey	No. of Companies 497	(%)
1	China	397	82	China	453	91
2	India	174	36	Thailand	151	30
3	Thailand	149	31	India	117	24
4	Vietnam	131	27	Vietnam	110	22
5	U.S.	96	20	U.S.	100	20
6	Russia	62	13	Russia	49	10
7	Korea	52	11	Indonesia	48	10
8	Indonesia	45	9	Korea	44	9
9	Brazil	36	7	Taiwan	41	8
10	Taiwan	32	7	Malaysia	28	6
11	Malaysia	23	5	Singapore	17	3
12	Mexico	16	3	Germany	17	3
13	Germany	14	3	Brazil	16	3
14	Philippines	13	3	Philippines	15	3
15	Singapore	12	2	France	15	3
15	Czech Republic	12	2	Czech Republic	12	2
17	U.K.	9	2	Australia	11	2
17	Poland	9	2	Poland	10	2
19	France	8	2	Mexico	9	2
19	Australia	8	2	U.K.	9	2

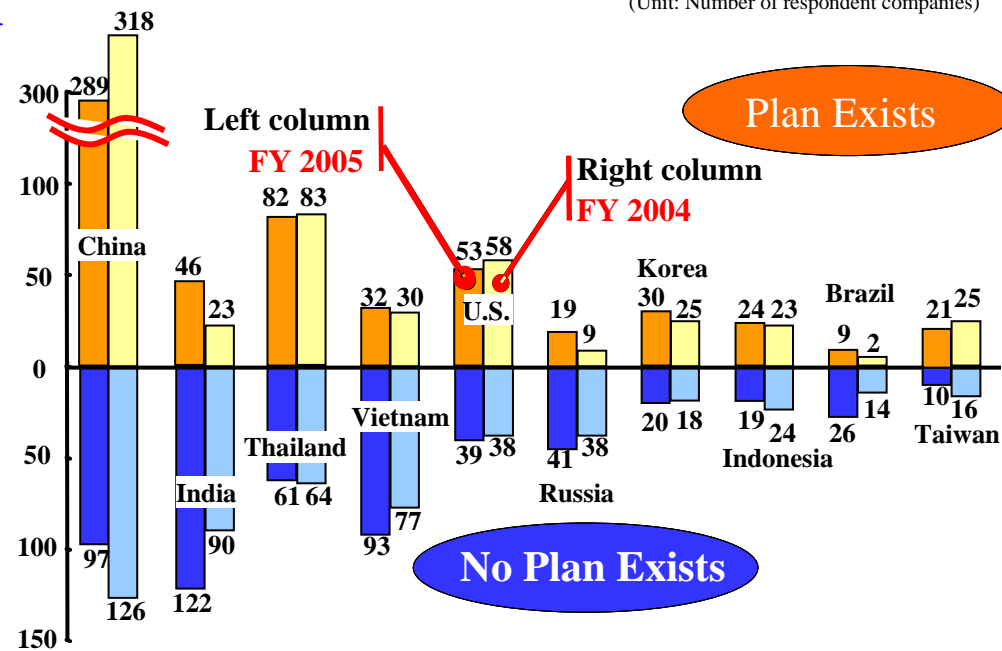
Notes)

(1) In this survey, respondent companies cited the top five countries that they saw as having promising prospects for business operations in the medium term (next 3 years or so). Tallies were made based on the number of companies each countries/regions was cited and the countries were listed according to that number.

(2) Other than the countries/regions listed above, North America (cited by 34 companies, 7% share) and the EU (cited by 43 companies, 9% share) gathered some votes.

Figure 33 Existence of Concrete Business Plans for Promising Countries/Regions

(Unit: Number of respondent companies)



The same members as the previous year are in the top four, but BRICs are drawing more attention of Japanese manufacturers

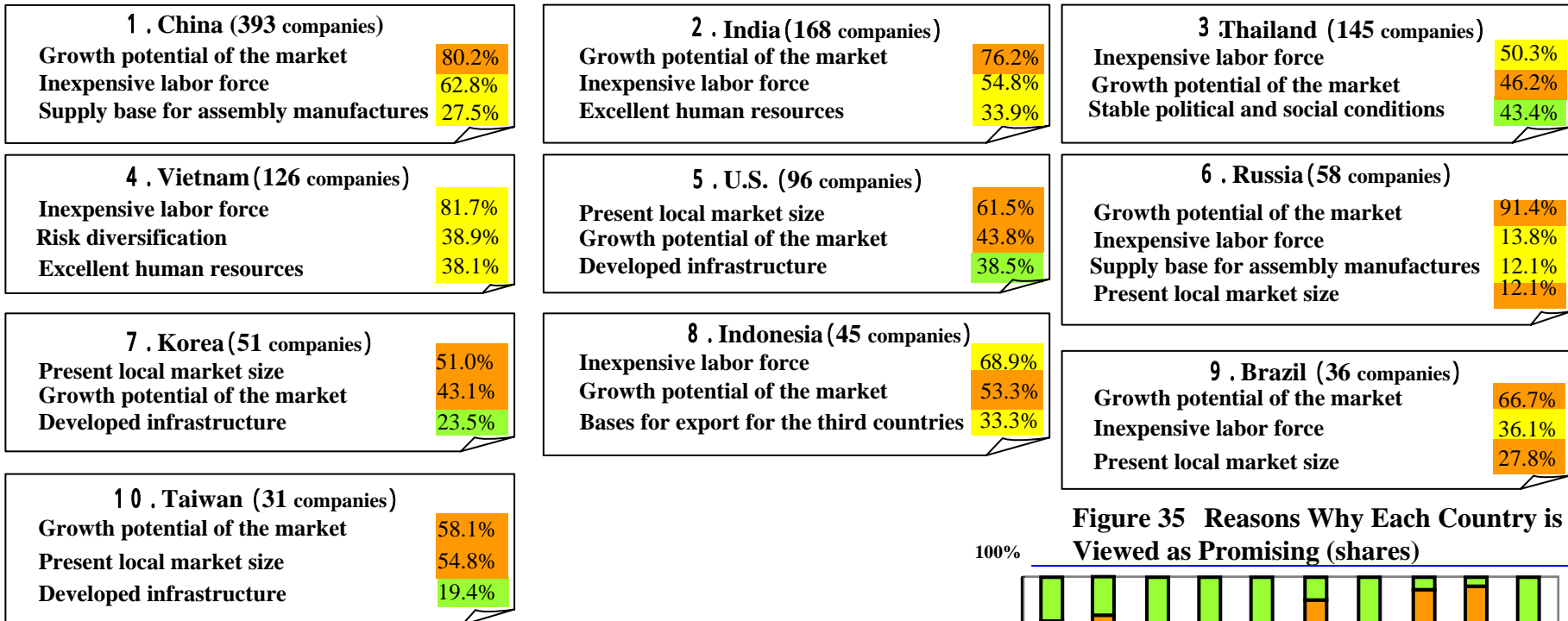
Looking at the countries or regions that companies view as promising for business operations in the medium term (next 3 years or so), in this year's survey, the members in the top four are the same as the previous year, but India, in third place last year, has overtaken Thailand for second place, and Brazil, in thirteenth place last year, has moved up to ninth this year. Russia has maintained the same sixth place as last year, and such result indicates the fact that Japanese companies' concern about the BRICs is becoming even greater. The actual number of respondent companies that cited the above-mentioned three countries, except China, has also shown a steady increase. However, in these three countries, excluding China, the number of companies that do not have a specific business plan is still even greater than the number of the companies that have a business plan ready. Future materialization of business plans shall be carefully watched.

Compared to the previous year, Korea moved up by one place, while Indonesia and Malaysia moved down one place, respectively. The fact that Mexico, in 19th place last year, has emerged in 12th place this year should be also noted. Companies' expectation for the Japan-Mexico EPA that came into effect in April 2005 has assumably pushed Mexico into the upper ranking.

China continued to keep its ranking of first place from last year. However, compared to the last year, there was a considerable reduction of 9 points in the response ratio or 56 in the number of respondent companies, in addition to the reduction of proportion of "strengthening or expansion" for the medium-term (next 3 years or so) prospects of overseas business operations. We will need to keep an eye carefully on China's positioning for Japanese companies.

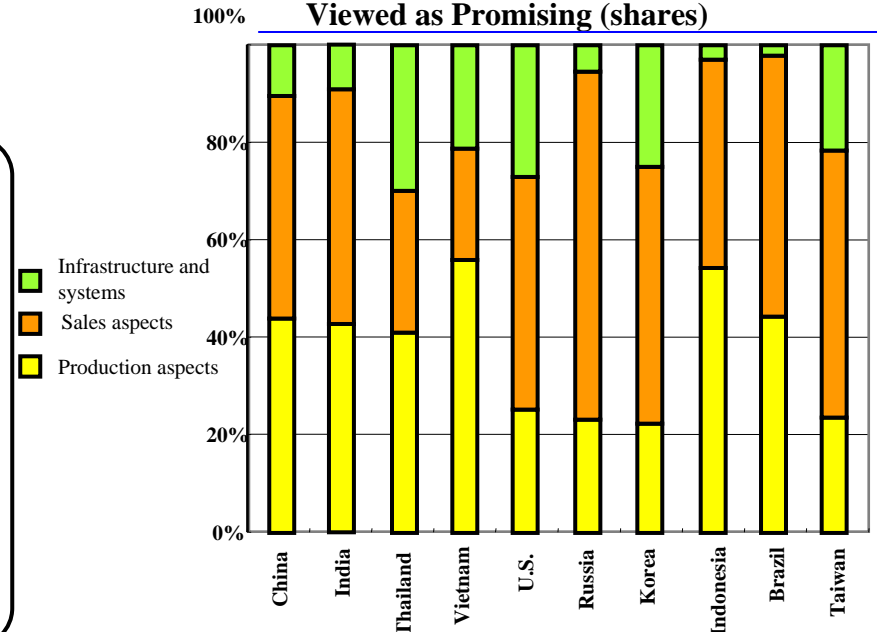
(2) Reasons for Promising Prospect

Figure 34 Main Reasons of the Top Ten Countries/Regions for the Promising



* Figures in parentheses are numbers of respondent companies.

Figure 35 Reasons Why Each Country is Viewed as Promising (shares)



“Growth potential of the market” is a common reason to all countries and regions for being promising

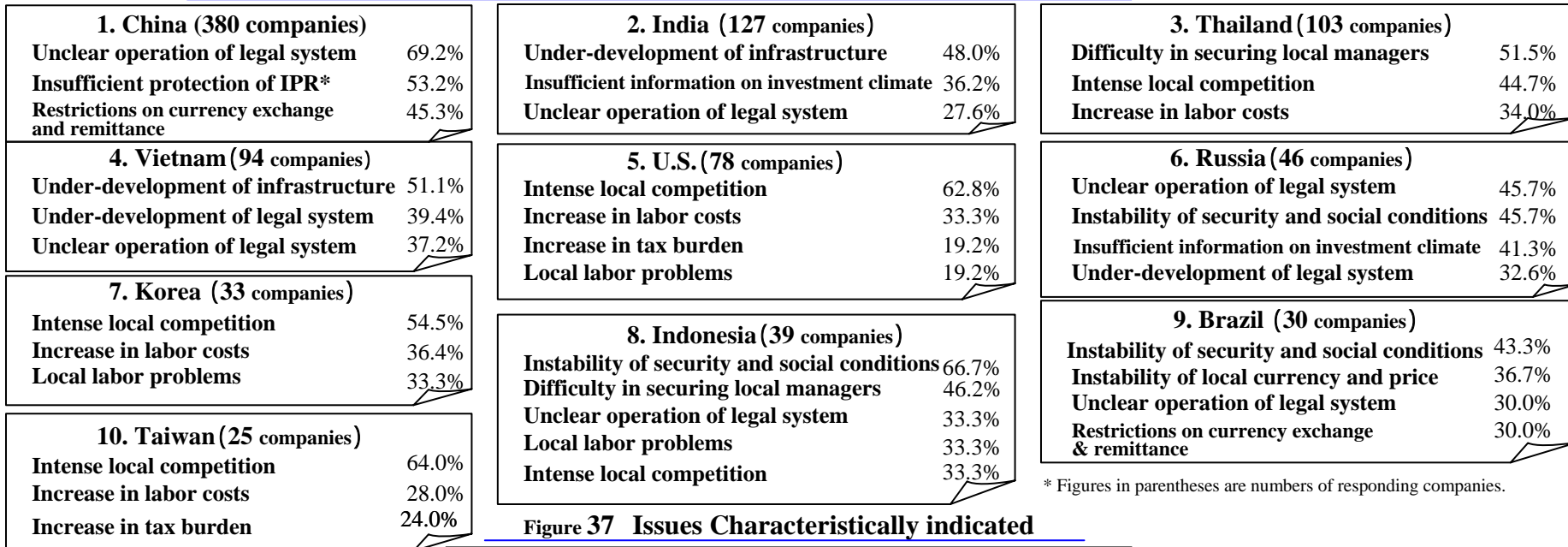
The reasons for promise in Figure 34 show that “Growth potential of the market” is the most common reason for all countries and regions (Vietnam also has that reason at fourth). Although the main objective of overseas business operations may be different for each company, e.g. cost reductions, entry into the local market, etc., the potential of the market growth is an important factor in attracting the interest of many companies.

Some changes in the reasons for being promising for Vietnam and Russia

For Vietnam, ranked fourth this year, “Risk diversification,” that was fourth reason for the promising (27 companies, 25%) has moved up to second place (49 companies, 38.9%). This is probably because more companies have an interest in Vietnam as a result of seeking diversification of risks of overconcentration in China. Also, for Russia, ranked sixth this year, the reason “Excellent human resources,” which ranked second last year dropped and, instead, “Supply base for assembly manufacturers” and “Present local market size” (7 companies, 12.1% each) moved up to third. Although number of companies is not yet large, the companies’ expectations for specific business plans in Russia seem to be appearing gradually in this way.

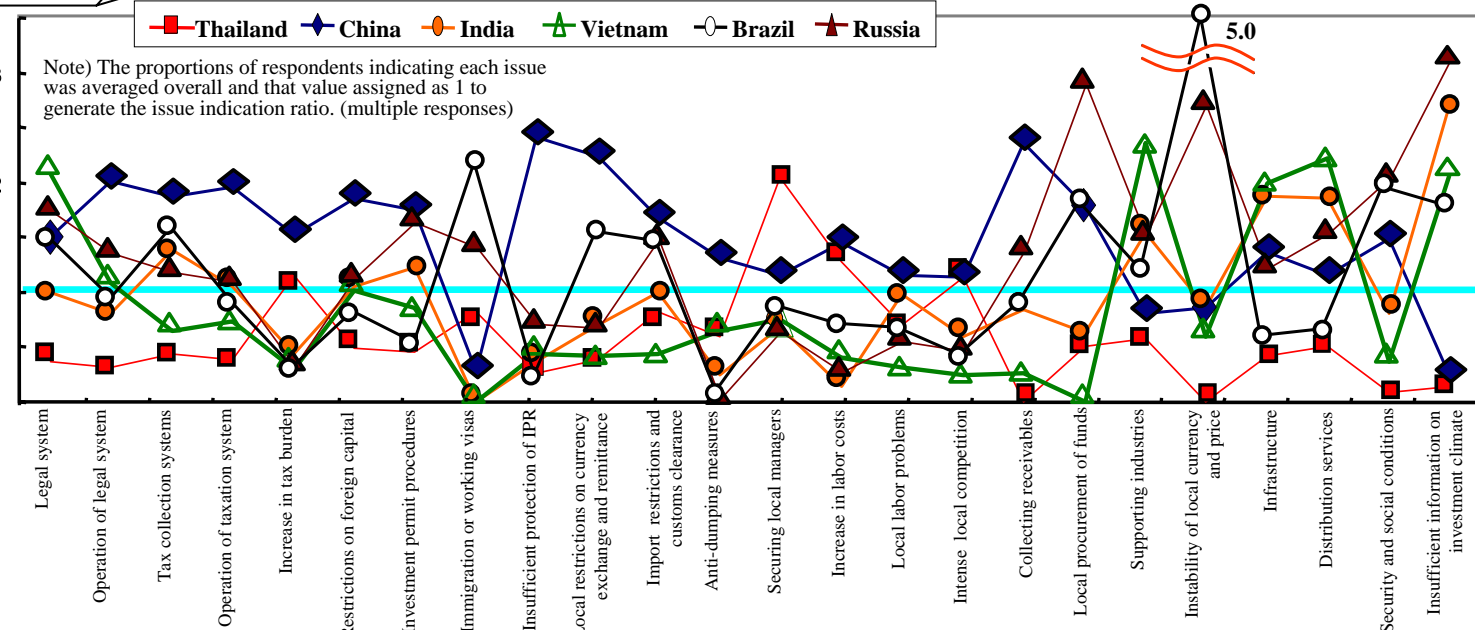
(3) Issues in Promising Countries and Regions

Figure 36 Main Issues of the Top Ten Most Promising Countries/Regions



* Figures in parentheses are numbers of responding companies.

Figure 37 Issues Characteristically Indicated

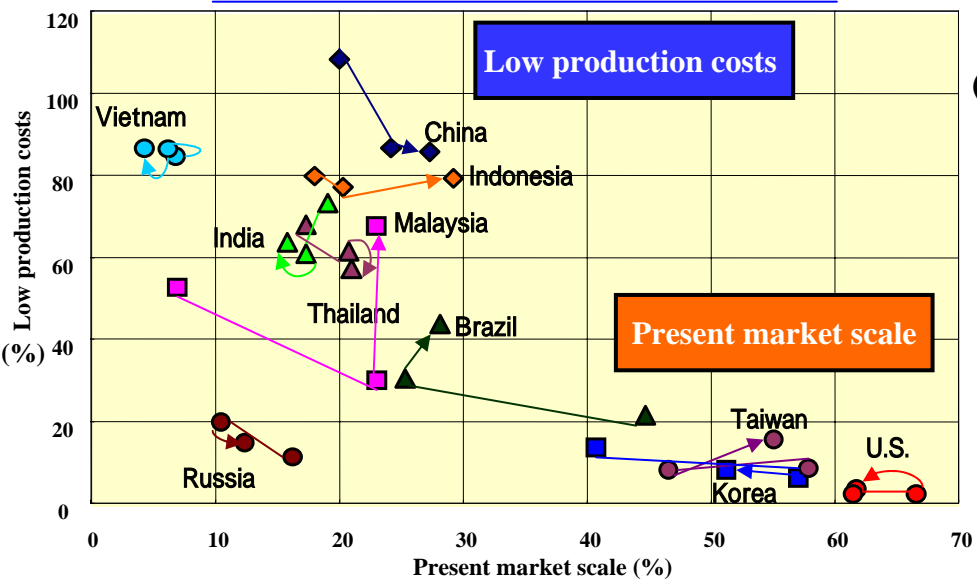


Changes are observed in the issues of the top four countries

“Intense local competition” is the top issue in the U.S., Korea, and Taiwan. However, there were some changes in the main issues in the top four countries/regions. China still has so many issues, and “Local restrictions on currency exchange and remittance,” which ranked fifth last year moved up to third this year. As for India, “Under-development of infrastructure” remained first, but “Unclear operation of local legal system” rose to third from fifth last year. For Thailand, “Difficulty in securing local personnel (management level)” climbed up to first from third last year. For Vietnam, “Under-development of infrastructure” moved up to first from third last year. According to the changes in investment environment and the stage of business deployment, fluctuations can be seen in reasons and orders which the companies recognize as problems.

(4) From Reasons for Promising Prospects and Issues

Figure 38 Incentives for Corporate Investment

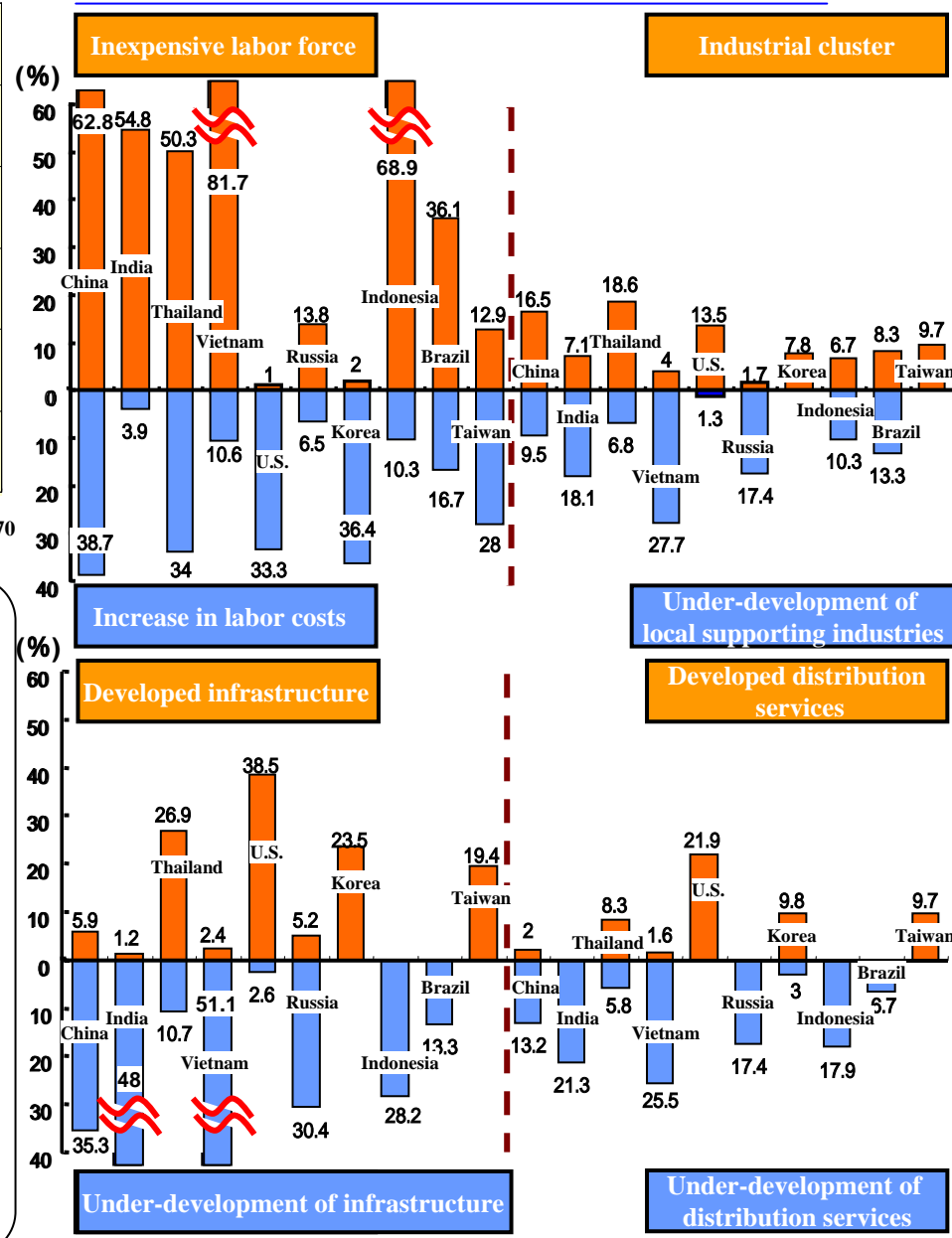


Infrastructure development is required not only for hardware but also for software

As the major reasons for being promising (incentives for investment), as well as growth potential of the market, either low production cost (production orientation) or present market size (market orientation) are cited; highly ranked promising countries/regions can be classified by the ratios of the reasons for promising; furthermore, the trends from 2003 to 2005 are plotted (Figure 38). In the case of a developing country, a shift from production orientation (upper left corner in the figure) to market orientation (lower right corner in the figure) is generally expected in accordance with changes in foray motivation and investment environments. In this connection, China and Thailand is showing a gradual transition from a production orientation to a market orientation. On the other hand, as for Vietnam, the tendency for the production orientation is still strong. As for Malaysia and Brazil, evaluation of companies to value low cost or market size looks very fluid.

In relation to the labor cost, industrial accumulation, infrastructure, and distribution services in every upper-ranked promising countries/regions, the ratio of both the reasons for promising and issues were summarized in a bar graph (Figure 34). China and Thailand are expected to provide low-cost labor, while not a few companies worry about the upswing in labor costs. In regard to industrial accumulation, the results are not decisive in many developing countries. Countries or regions that were cited underdevelopment of infrastructure and distribution services are consistent, and it is essential that, in order to attract foreign investment, infrastructure development should be carried out not only on hardware basis but also on software basis.

Figure 39 Incentives for Investment and Issues



Changes for promising countries/regions over the medium term

Note) "Medium term" means the next 3 years or so.

Rank	FY2005 Survey	No. of companies	(%)	FY2004 Survey	No. of companies	(%)	FY2003 Survey	No. of companies	(%)	FY2002 Survey	No. of companies	(%)	FY2001 Survey	No. of companies	(%)
		483			497			490			418			401	
1位	China	397	82	China	453	91	China	456	93	China	373	89	China	327	82
2位	India	174	36	Thailand	151	30	Thailand	143	29	Thailand	118	28	U.S.	127	32
3位	Thailand	149	31	India	117	24	U.S.	106	22	U.S.	108	26	Thailand	99	25
4位	Vietnam	131	27	Vietnam	110	22	Vietnam	88	18	Indonesia	63	15	Indonesia	56	14
5位	U.S.	96	20	U.S.	100	20	India	70	14	Vietnam	62	15	India	52	13
6位	Russia	62	13	Russia	49	10	Indonesia	63	13	India	54	13	Vietnam	48	12
7位	Korea	52	11	Indonesia	48	10	Korea	44	9	Korea	34	8	Taiwan	44	11
8位	Indonesia	45	9	Korea	44	9	Taiwan	35	7	Taiwan	34	8	Korea	33	8
9位	Brazil	36	7	Taiwan	41	8	Malaysia	31	6	Malaysia	33	8	Malaysia	32	8
10位	Taiwan	32	7	Malaysia	28	6	Russia	25	5	Brazil	19	5	Singapore	24	6
11位	Malaysia	23	5	Singapore	17	3	Singapore	23	5	Singapore	18	4	Philippines	22	5
12位	Mexico	16	3	Germany	17	3	Philippines	18	4	Philippines	17	4	Germany	19	5
13位	Germany	14	3	Brazil	16	3	Czech Republic	17	3	Germany	16	4	Brazil	18	4
14位	Philippines	13	3	Philippines	15	3	Hong Kong	15	3	Mexico	15	4	Mexico	18	4
15位	Singapore	12	2	France	15	3	Mexico	12	2	Czech Republic	13	3	France	17	4
16位	Czech Republic	12	2	Czech Republic	12	2	Brazil	11	2	U.K.	11	3	Czech Republic	15	4
17位	U.K.	9	2	Australia	11	2	Germany	11	2	Russia	11	3	U.K.	14	3
18位	Poland	9	2	Poland	10	2	France	10	2	Poland	10	2	Hungary	12	3
19位	France	8	2	Mexico	9	2	Australia	9	2	Hong Kong	9	2	Poland	11	3
20位	Australia	8	2	U.K.	9	2	Poland	9	2	Hungary	9	2	Hong Kong	8	2

Promising countries/regions for SMEs over the medium term

Note) "SMEs" are companies with paid-in capital under ¥1 billion.

Rank	FY2005 Survey	No. of companies	(%)	FY2004 Survey	No. of companies	(%)
		118			104	
1	China	94	80	China	94	90
2	Vietnam	46	39	Thailand	35	34
3	India	45	38	Vietnam	35	34
4	Thailand	38	32	India	25	24
5	U.S.	16	14	Indonesia	11	11
6	Indonesia	13	11	U.S.	11	11
7	Korea	12	10	Malaysia	9	9
8	Malaysia	11	9	Korea	7	7
9	Brazil	10	8	Russia	6	6
10	Russia	9	7	Taiwan	5	5

Promising countries/regions over the long term

Note) "Long term" means the next 10 years or so.

Rank	FY2005 Survey	No. of companies	(%)	FY2004 Survey	No. of companies	(%)
		399			403	
1	China	307	77	China	341	85
2	India	220	55	India	164	41
3	Vietnam	110	28	Thailand	87	22
4	Russia	110	28	Vietnam	84	21
5	Thailand	96	24	U.S.	82	20
6	U.S.	69	17	Russia	82	20
7	Brazil	68	17	Indonesia	39	10
8	Indonesia	35	9	Brazil	37	9
9	Korea	25	6	Korea	28	7
10	Malaysia	20	5	Taiwan	17	4

- Details of Reasons for Promising Prospect -

FY 2005 Survey	1 China		2 India		3 Thailand		4 Vietnam		5 U.S.		6 Russia		7 Korea		8 Indonesia		9 Brazil		10 Taiwan	
	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%
	393	100	168	100	145	100	126	100	96	100	58	100	51	100	45	100	36	100	31	100
1.Excellent human resources	69	17.6	57	33.9	22	15.2	48	38.1	16	16.7	4	6.9	9	17.6	7	15.6	1	2.8	4	12.9
2.Inexpensive labor force	247	62.8	92	54.8	73	50.3	103	81.7	1	1.0	8	13.8	1	2.0	31	68.9	13	36.1	4	12.9
3.Low-cost parts and raw materials	93	23.7	16	9.5	11	7.6	7	5.6	3	3.1	1	1.7	3	5.9	5	11.1	3	8.3	1	3.2
4.Supply base for assembly manufacturers	108	27.5	26	15.5	44	30.3	20	15.9	24	25.0	7	12.1	8	15.7	11	24.4	8	22.2	5	16.1
5.Industrial cluster	65	16.5	12	7.1	27	18.6	5	4.0	13	13.5	1	1.7	4	7.8	3	6.7	3	8.3	3	9.7
6.Risk diversification	12	3.1	16	9.5	32	22.1	49	38.9	5	5.2	1	1.7	2	3.9	6	13.3	2	5.6	1	3.2
7.Base for exports to Japan	73	18.6	7	4.2	28	19.3	20	15.9	2	2.1	-	-	1	2.0	7	15.6	2	5.6	-	-
8.Base for export to the third countries	95	24.2	16	9.5	49	33.8	22	17.5	5	5.2	1	1.7	4	7.8	15	33.3	6	16.7	4	12.9
9.Present local market size	106	27.0	26	15.5	30	20.7	5	4.0	59	61.5	7	12.1	26	51.0	13	28.9	10	27.8	17	54.8
10.Growth Potential of the market	315	80.2	128	76.2	67	46.2	45	35.7	42	43.8	53	91.4	22	43.1	24	53.3	24	66.7	18	58.1
11.Product development for local needs	15	3.8	4	2.4	7	4.8	1	0.8	18	18.8	-	-	2	3.9	1	2.2	-	-	-	-
12.Developed local infrastructure	23	5.9	2	1.2	39	26.9	3	2.4	37	38.5	3	5.2	12	23.5	-	-	-	-	6	19.4
13.Developed distribution Services	8	2.0	-	-	12	8.3	2	1.6	21	21.9	-	-	5	9.8	-	-	-	-	3	9.7
14.Tax incentives for investment	52	13.2	9	5.4	31	21.4	23	18.3	4	4.2	1	1.7	5	9.8	1	2.2	-	-	4	12.9
15.Stable policies to attract foreign capital	5	1.3	1	0.6	23	15.9	11	8.7	2	2.1	-	-	-	-	-	-	-	-	-	-
16.Stable political and social conditions	8	2.0	16	9.5	63	43.4	19	15.1	36	37.5	-	-	10	19.6	1	2.2	1	2.8	5	16.1

FY 2004 Survey	1 China		3 India		2 Thailand		4 Vietnam		5 U.S.		6 Russia		8 Korea		7 Indonesia		13 Brazil		9 Taiwan	
	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%
	448	100	112	100	146	100	108	100	98	100	49	100	44	100	45	100	16	100	41	100
1.Excellent human resources	85	19.0	41	36.6	27	18.5	38	35.2	15	15.3	7	14.3	8	18.2	2	4.4	-	-	4	9.8
2.Inexpensive labor force	296	66.1	63	56.3	72	49.3	82	75.9	2	2.0	9	18.4	2	4.5	31	68.9	5	31.3	2	4.9
3.Low-cost parts and raw materials	96	21.4	6	5.4	19	13.0	10	9.3	1	1.0	1	2.0	1	2.3	4	8.9	-	-	1	2.4
4.Supply base for assembly manufacturers	128	28.6	18	16.1	44	30.1	13	12.0	24	24.5	5	10.2	6	13.6	8	17.8	4	25.0	10	24.4
5.Industrial cluster	72	16.1	2	1.8	34	23.3	5	4.6	18	18.4	-	-	5	11.4	4	8.9	-	-	10	24.4
6.Risk diversification	12	2.7	2	1.8	17	11.6	27	25.0	2	2.0	2	4.1	1	2.3	4	8.9	-	-	1	2.4
7.Base for exports to Japan	87	19.4	3	2.7	19	13.0	20	18.5	-	-	-	-	1	2.3	7	15.6	1	6.3	2	4.9
8.Base for export to the third countries	93	20.8	12	10.7	40	27.4	22	20.4	2	2.0	1	2.0	4	9.1	12	26.7	2	12.5	6	14.6
9.Present local market size	107	23.9	19	17.0	30	20.5	7	6.5	65	66.3	5	10.2	25	56.8	9	20.0	4	25.0	19	46.3
10.Growth potential of the market	373	83.3	92	82.1	83	56.8	52	48.1	48	49.0	47	95.9	28	63.6	28	62.2	13	81.3	24	58.5
11.Product development for local needs	30	6.7	2	1.8	7	4.8	1	0.9	12	12.2	1	2.0	3	6.8	-	-	-	-	5	12.2
12.Developed local infrastructure	15	3.3	-	-	37	25.3	7	6.5	38	38.8	4	8.2	8	18.2	2	4.4	-	-	12	29.3
13.Benefits from regional integration	5	1.1	-	-	13	8.9	4	3.7	-	-	-	-	1	2.3	3	6.7	1	6.3	1	2.4
14.Tax incentives for investment	78	17.4	4	3.6	36	24.7	25	23.1	3	3.1	-	-	1	2.3	4	8.9	3	18.8	2	4.9
15.Stable policies to attract foreign capital	19	4.2	1	0.9	30	20.5	5	4.6	5	5.1	-	-	2	4.5	1	2.2	-	-	2	4.9
16.Stable political and social conditions	19	4.2	3	2.7	58	39.7	22	20.4	36	36.7	1	2.0	6	13.6	1	2.2	-	-	6	14.6

FY 2005 Survey	1 China		2 India		3 Thailand		4 Vietnam		5 U.S.		6 Russia		7 Korea		8 Indonesia		9 Brazil		10 Taiwan	
	No.of company	%	No.of company	%	No.of company	%	No.of company	%	No.of company	%	No.of company	%	No.of company	%	No.of company	%	No.of company	%	No.of company	%
	1.Undre-development of local legal system	380	100	127	100	103	100	94	100	78	100	46	100	33	100	39	100	30	100	25
2.Unclear operation of local legal system	108	28.4	24	18.9	7	6.8	37	39.4	-	-	15	32.6	-	-	9	23.1	8	26.7	-	-
3.Complex local tax collection systems	263	69.2	35	27.6	11	10.7	35	37.2	1	1.3	21	45.7	1	3.0	13	33.3	9	30.0	1	4.0
4.Unclear operation of taxation system	93	24.5	23	18.1	6	5.8	8	8.5	-	-	7	15.2	-	-	7	17.9	6	20.0	-	-
5.Increase in tax burden	152	40.0	27	21.3	8	7.8	14	14.9	-	-	10	21.7	3	9.1	9	23.1	5	16.7	2	8.0
6.Restrictions on foreign capital	83	21.8	8	6.3	17	16.5	4	4.3	15	19.2	2	4.3	4	12.1	2	5.1	1	3.3	6	24.0
7.Complex and vague investment permit procedures	126	33.2	24	18.9	9	8.7	17	18.1	1	1.3	9	19.6	1	3.0	6	15.4	4	13.3	1	4.0
8.Difficulty in obtaining immigration or working visas	98	25.8	23	18.1	7	6.8	12	12.8	3	3.8	11	23.9	1	3.0	6	15.4	2	6.7	-	-
9.Insufficient protection of intellectual property rights	5	1.3	-	-	4	3.9	-	-	11	14.1	3	6.5	-	-	3	7.7	3	10.0	1	4.0
10.Local restrictions on currency exchange and remittance	202	53.2	10	7.9	6	5.8	9	9.6	1	1.3	7	15.2	5	15.2	7	17.9	1	3.3	3	12.0
11.Import restrictions and customs clearance	172	45.3	18	14.2	8	7.8	8	8.5	1	1.3	6	13.0	3	9.1	3	7.7	9	30.0	1	4.0
12.Anti-dumping measures	76	20.0	15	11.8	10	9.7	5	5.3	1	1.3	8	17.4	4	12.1	5	12.8	5	16.7	2	8.0
13.Difficulty in securing local personnel(management level)	16	4.2	1	0.8	2	1.9	2	2.1	8	10.3	-	-	1	3.0	-	-	-	-	-	-
14.Increase in labor costs	111	29.2	22	17.3	53	51.5	18	19.1	14	17.9	7	15.2	2	6.1	18	46.2	6	20.0	3	12.0
15.Local labor problems	147	38.7	5	3.9	35	34.0	10	10.6	26	33.3	3	6.5	12	36.4	4	10.3	5	16.7	7	28.0
16.Intense local competition	74	19.5	21	16.5	12	11.7	5	5.3	15	19.2	4	8.7	11	33.3	13	33.3	3	10.0	-	-
17.Difficulty in collecting receivables	169	44.5	30	23.6	46	44.7	9	9.6	49	62.8	8	17.4	18	54.5	13	33.3	4	13.3	16	64.0
18.Difficulty in local financial access	144	37.9	17	13.4	-	-	4	4.3	-	-	10	21.7	1	3.0	-	-	4	13.3	1	4.0
19.Under-development of local supporting industries	26	6.8	3	2.4	2	1.9	-	-	-	-	5	10.9	1	3.0	1	2.6	2	6.7	1	4.0
20.Instability of local currency and price	36	9.5	23	18.1	7	6.8	26	27.7	1	1.3	8	17.4	-	-	4	10.3	4	13.3	-	-
21.Under-development of infrastructure	24	6.3	8	6.3	-	-	4	4.3	-	-	9	19.6	-	-	11	28.2	11	36.7	-	-
22.Under-development of distribution Services	134	35.3	61	48.0	11	10.7	48	51.1	2	2.6	14	30.4	-	-	11	28.2	4	13.3	-	-
23.Unstable local security and social conditions	50	13.2	27	21.3	6	5.8	24	25.5	-	-	8	17.4	1	3.0	7	17.9	2	6.7	-	-
24.Insufficient information on investment climate	128	33.7	23	18.1	2	1.9	8	8.5	2	2.6	21	45.7	5	15.2	26	66.7	13	43.3	-	-
	13	3.4	46	36.2	2	1.9	26	27.7	-	-	19	41.3	-	-	6	15.4	7	23.3	-	-

FY 2004 Survey	1 China		3 India		2 Thailand		4 Vietnam		5 U.S.		6 Russia		8 Korea		7 Indonesia		13 Brazil		9 Taiwan	
	No.of company	%	No.of company	%	No.of company	%	No.of company	%	No.of company	%	No.of company	%	No.of company	%	No.of company	%	No.of company	%	No.of company	%
	1.Undre-development of local legal system	423	100	95	100	102	100	82	100	74	100	42	100	28	100	38	100	14	100	27
2.Unclear operation of local legal system	124	29.3	28	29.5	2	2.0	33	40.2	-	-	16	38.1	1	3.6	4	10.5	3	21.4	2	7.4
3.Complex local tax collection systems	268	63.4	23	24.2	8	7.8	30	36.6	-	-	15	35.7	-	-	8	21.1	9	64.3	1	3.7
4.Unclear operation of taxation system	78	18.4	7	7.4	8	7.8	8	9.8	-	-	4	9.5	-	-	7	18.4	1	7.1	-	-
5.Increase in tax burden	163	38.5	10	10.5	8	7.8	17	20.7	-	-	5	11.9	2	7.1	9	23.7	3	21.4	3	11.1
6.Restrictions on foreign capital	83	19.6	8	8.4	17	16.7	6	7.3	13	17.6	2	4.8	4	14.3	4	10.5	-	-	5	18.5
7.Complex and vague investment permit procedures	137	32.4	15	15.8	11	10.8	19	23.2	-	-	7	16.7	2	7.1	4	10.5	-	-	-	-
8.Difficulty in obtaining immigration or working visas	87	20.6	14	14.7	9	8.8	9	11.0	1	1.4	8	19.0	-	-	4	10.5	1	7.1	-	-
9.Insufficient protection of intellectual property rights	4	0.9	2	2.1	2	2.0	-	-	13	17.6	4	9.5	1	3.6	1	2.6	2	14.3	-	-
10.Local restrictions on currency exchange and remittance	220	52.0	16	16.8	5	4.9	16	19.5	1	1.4	7	16.7	7	25.0	4	10.5	5	35.7	5	18.5
11.Import restrictions	176	41.6	11	11.6	8	7.8	15	18.3	1	1.4	7	16.7	2	7.1	1	2.6	3	21.4	4	14.8
12.Anti-dumping measures	39	9.2	13	13.7	5	4.9	2	2.4	2	2.7	4	9.5	1	3.6	-	-	1	7.1	3	11.1
13..Difficulty in securing local personnel(management level)	15	3.5	-	-	4	3.9	-	-	16	21.6	-	-	-	-	-	-	-	-	-	-
14.Increase in labor costs	120	28.4	12	12.6	28	27.5	22	26.8	12	16.2	6	14.3	3	10.7	11	28.9	4	28.6	4	14.8
15.Local labor problems	137	32.4	6	6.3	41	40.2	7	8.5	24	32.4	5	11.9	9	32.1	7	18.4	2	14.3	11	40.7
16.Intense local competition	71	16.8	17	17.9	13	12.7	11	13.4	17	23.0	6	14.3	12	42.9	8	21.1	2	14.3	3	11.1
17.Difficulty in collecting receivables	177	41.8	18	18.9	46	45.1	11	13.4	51	68.9	9	21.4	18	64.3	12	31.6	2	14.3	18	66.7
18.Difficulty in local financial access	181	42.8	16	16.8	2	2.0	9	11.0	-	-	10	23.8	2	7.1	1	2.6	4	28.6	2	7.4
19.Under-development of local supporting industries	41	9.7	4	4.2	4	3.9	4	4.9	-	-	6	14.3	3	10.7	1	2.6	1	7.1	1	3.7
20.Instability of local currency and price	42	9.9	19	20.0	6	5.9	20	24.4	2	2.7	8	19.0	1	3.6	4	10.5	2	14.3	-	-
21.Under-development of infrastructure	31	7.3	9	9.5	4	3.9	9	11.0	-	-	10	23.8	-	-	9	23.7	5	35.7	1	3.7
22.Unstable local security and social conditions	166	39.2	41	43.2	9	8.8	27	32.9	-	-	7	16.7	1	3.6	8	21.1	5	35.7	1	3.7
23.Insufficient information on investment climate	40	9.5	32	33.7	4	3.9	3	3.7	2	2.7	19	45.2	4	14.3	22	57.9	6	42.9	4	14.8
	14	3.3	33	34.7	2	2.0	25	30.5	-	-	18	42.9	2	7.1	3	7.9	2	14.3	1	3.7

