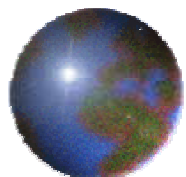




JAPAN  
BANK FOR  
INTERNATIONAL  
COOPERATION

Summary



## **Survey Report On Overseas Business Operations by Japanese Manufacturing Companies**

-Results of JBIC FY 2006 Survey: Outlook for Japanese Foreign Direct Investment (18<sup>th</sup> Annual Survey)-

November 2006

**JBIC Institute**

**Japan Bank for International Cooperation**

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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 18th of an annual series that began in 1989.

The survey covered 967 manufacturing companies that have three or more foreign affiliates, including at least one manufacturing base, as of November 2005. Questionnaire was mailed to 967 companies and 594 valid responses were returned over the period from July to September. The effective response rate was 61.4%. (In the FY2005 survey, valid returns were 590 out of 945 companies, with the response rate of 62.4 %.)

This year's survey covered issues such as "Top-priorities for domestic and overseas business operations," "Competitors in the market," and "Localization of management, procurement, and R&D in order to maintain and secure the international competitiveness."

\* "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

|                               | FY2006 | FY2005 | FY2004 | FY2003 | FY2002 |
|-------------------------------|--------|--------|--------|--------|--------|
| Number of companies surveyed  | 967    | 945    | 939    | 932    | 812    |
| Number of respondent          | 594    | 590    | 595    | 571    | 508    |
| Response rate                 | 61.4   | 62.4   | 63.4   | 61.3   | 62.6   |
| Number of overseas affiliates | 10,152 | 10,847 | 10,079 | 9,838  | 8,924  |

## Profile of Respondent Companies

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

|   | Number of companies | (%)    |
|---|---------------------|--------|
| less than ¥50.0 billion                   | 258                 | 44.3%  |
| ¥50.0 billion ~ less than ¥100.0 billion  | 89                  | 15.3%  |
| ¥100.0 million ~ less than ¥200.0 billion | 85                  | 14.6%  |
| ¥200.0 billion ~ less than ¥300.0 billion | 38                  | 6.5%   |
| ¥300.0 billion ~ less than ¥500.0 billion | 30                  | 5.2%   |
| ¥500.0 billion less than ¥1.0 trillion    | 41                  | 7.0%   |
| ¥1.0 trillion or more                     | 41                  | 7.0%   |
| Total                                     | 582                 | 100.0% |

\*12 companies did not provide this information.

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

|                                    | Number of companies | (%)    |
|------------------------------------|---------------------|--------|
| ~ 300 employees                    | 115                 | 19.4%  |
| 301 employees ~ 500 employees      | 83                  | 14.0%  |
| 501 employees ~ 1,000 employees    | 129                 | 21.7%  |
| 1,001 employees ~ 5,000 employees  | 209                 | 35.2%  |
| 5,001 employees ~ 10,000 employees | 30                  | 5.1%   |
| 10,001 employees ~                 | 28                  | 4.7%   |
| Total                              | 594                 | 100.0% |

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

|   | Number of companies | (%)    |
|---|---------------------|--------|
| less than ¥100.0 million                  | 53                  | 8.9%   |
| ¥100.0 million ~ less than ¥500.0 million | 71                  | 12.0%  |
| ¥500.0 million ~ less than ¥1.0 billion   | 30                  | 5.1%   |
| ¥1.0 billion ~ less than ¥5.0 billion     | 119                 | 20.1%  |
| ¥5.0 billion ~ less than ¥10.0 billion    | 87                  | 14.7%  |
| ¥10.0 billion or more                     | 233                 | 39.3%  |
| Total                                     | 593                 | 100.0% |

\* 1 company did not provided this information.

### Number of Respondent Companies by Industrial Classification

| Industrial classification                  | Number of companies | %      |
|--|---------------------|--------|
| Foodstuffs                                 | 29                  | 4.9%   |
| Textiles                                   | 33                  | 5.6%   |
| Wood and Wood Products                     | 4                   | 0.7%   |
| Paper and Pulp                             | 5                   | 0.8%   |
| Chemicals                                  | 86                  | 14.5%  |
| [Chemicals (excluding pharmaceuticals)]    | 76                  | 12.8%  |
| [Pharmaceuticals]                          | 10                  | 1.7%   |
| Petroleum and Rubber                       | 14                  | 2.4%   |
| Ceramics, Cement and Glass                 | 20                  | 3.4%   |
| Steel                                      | 14                  | 2.4%   |
| Nonferrous Metals                          | 19                  | 3.2%   |
| Metal Products                             | 25                  | 4.2%   |
| General Machinery                          | 56                  | 9.4%   |
| [Assembled products]                       | 47                  | 7.9%   |
| [Components]                               | 9                   | 1.5%   |
| Electrical Equipment and Electronics (E&E) | 121                 | 20.4%  |
| [Assembled products]                       | 35                  | 5.9%   |
| [Components]                               | 86                  | 14.5%  |
| Transportation (excluding Automobiles)     | 6                   | 1.0%   |
| Automobiles                                | 91                  | 15.3%  |
| [Assembled products]                       | 7                   | 1.2%   |
| [Components]                               | 84                  | 14.1%  |
| Precision Machinery                        | 28                  | 4.7%   |
| [Assembled products]                       | 18                  | 3.0%   |
| [Components]                               | 10                  | 1.7%   |
| Other                                      | 43                  | 7.2%   |
| Total                                      | 594                 | 100.0% |

# I .Survey Overview (2)

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## Number of Overseas Affiliates, by type of base and region

( n =594 ) (Unit: Companies)

| <b>FY2006 Survey</b> | NIEs         | ASEAN4       | China        | Other Asian Countries | North America | Latin America | EU15         | Central & Eastern Europe | Other European Countries | Russia & Other | Oceania    | Midele East | Africa    | Total         |
|----------------------|--------------|--------------|--------------|-----------------------|---------------|---------------|--------------|--------------------------|--------------------------|----------------|------------|-------------|-----------|---------------|
| Production Bases     | 593          | 1,146        | 1,592        | 215                   | 719           | 187           | 444          | 101                      | 15                       | 13             | 50         | 15          | 25        | 5,115         |
| Sales Bases          | 927          | 493          | 599          | 108                   | 614           | 140           | 831          | 69                       | 32                       | 21             | 104        | 50          | 29        | 4,017         |
| R&D Bases            | 17           | 23           | 63           | 4                     | 76            | 2             | 52           | 7                        | 0                        | 0              | 3          | 2           | 0         | 249           |
| Others               | 101          | 93           | 130          | 17                    | 195           | 74            | 113          | 3                        | 2                        | 5              | 29         | 4           | 5         | 771           |
| <b>Total</b>         | <b>1,638</b> | <b>1,755</b> | <b>2,384</b> | <b>344</b>            | <b>1,604</b>  | <b>403</b>    | <b>1,440</b> | <b>180</b>               | <b>49</b>                | <b>39</b>      | <b>186</b> | <b>71</b>   | <b>59</b> | <b>10,152</b> |

\* “Others” includes regional headquarters, service companies, financial subsidiaries etc.

### < The Classification of Major Regions in This Survey >

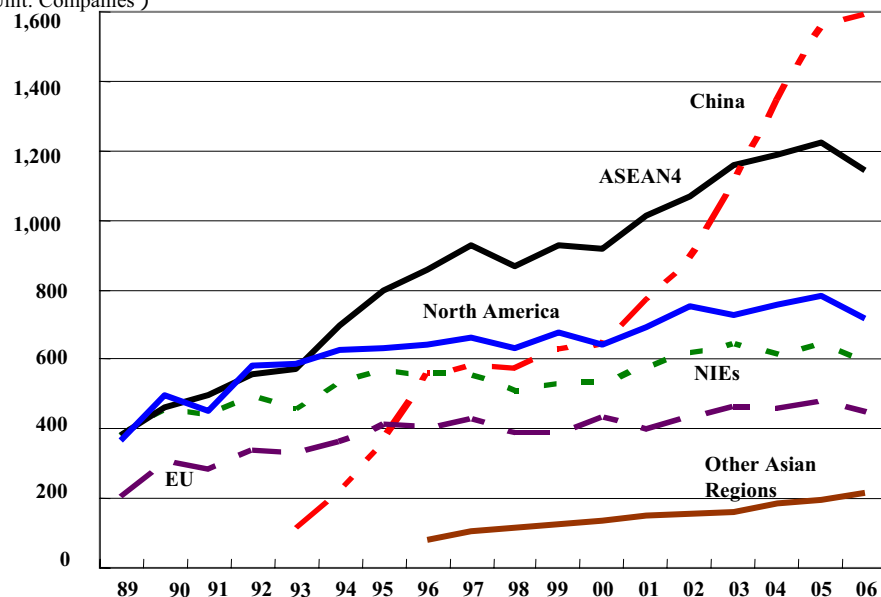
**NIEs** (Korea, Taiwan, Singapore, Hong Kong )  
**ASEAN4** (Thailand, Indonesia, Malaysia, Philippines )  
**North America** (U.S., Canada )  
**EU15** (U.K., Germany, France, Italy, Netherlands, Belgium, Greece, Luxembourg, Denmark, Spain, Portugal, Austria, Finland, Sweden, Ireland )  
**Central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

## Number of Overseas Production Bases in Major Regions

(Unit: Companies)

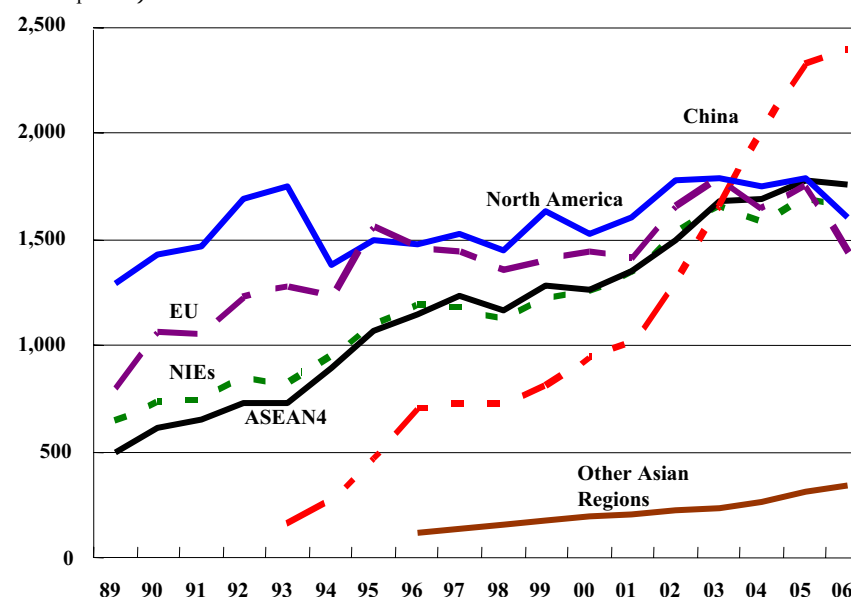


Data for China starts from FY 1993. Data for Other Asian Countries starts from FY 1996.

In the graph above, “EU15” have been consolidated into the “EU” since FY 2004 survey.

## Number of Overseas Affiliates in Major Regions

(Unit: Companies)



## ■ “Strengthening or expanding overseas production” remains a top priority, while aiming to improve profitability through streamlining business operations

As a top-priority issue for both domestic and overseas business operations, “strengthening or expanding overseas production” (243 companies) collected the largest number of votes, followed by “strengthening or expanding the R&D function” (198 companies), and “development of new business fields” (141 companies). Following the foregoing issues aimed at enlarging or strengthening sources of profits, issues aimed at improving profitability through further streamlining business operations like “reviewing and streamlining group companies’ management,” or “introduction and optimization of global supply chains” have come up in rank. These results imply that Japanese manufacturers are trying to strengthen or expand their business operations through not only driving quantitative strengthening or expansion but also streamlining business operations and strengthening corporate quality. The issue of “reducing interest-bearing debt” has considerably declined this year.

## ■ Record high percentage (82.8%) of companies plan to strengthen or expand overseas business operations

When asked about medium-term (the next three years or so) prospects for overseas business operations, a record percentage (82.8%) of companies in the all-industry category responded that they plan to “strengthen or expand” compared to less than 80% in the previous year. By industry, the share of companies to “strengthen or expand” is high across the board. This clearly shows a very positive stance on the part of manufacturers for overseas business operations.

## ■ Continued enthusiasm for strengthening or expanding domestic business operations

Concerning the medium-term prospects for domestic business operations, 49.0% of companies in all industries (0.7 percentage point year-on-year increase) responded that they plan to “strengthen or expand,” while a mere 2.8% of respondents answered that they plan to “reduce” in scale. By major industries, the share of companies to “strengthen or expand” has increased from the last year in all industries but E&E. Particularly, the chemicals industry recorded an increase of 11 percentage points to a level of over 60%.

## ■ Focus of domestic business operations placed on manufacturing of high-value added products, as well as R&D

The 283 companies that indicated a plan to strengthen or expand domestic business operations were further asked in which areas they would focus their attention in Japan. 80.2% of respondents cited the “production of high-value added items,” followed by “R&D” (55.8%), “sales and service” (42.8%), and “management” (14.8%). The order of responses was consistent with results from the previous year. In interviewing the respondents, many companies suggested that they would consider the production of high-value added items and R&D activities underpinning such production as inseparable facets of their business development.

## ■ Strong positive stance in Russia, China, and Central & Eastern Europe. Large growth in Russia, Middle East, and Latin America

Concerning the medium-term prospects for overseas business operations, companies that are either conducting or considering business operations in individual countries or regions were asked to cite whether they would strengthen or expand the size of their business operations in such countries or regions. The region with the highest percentage response for “strengthen or expanding” is Russia, other CIS (75.3%), followed by China (71.2%), Central and Eastern Europe (70.7%), other Asian countries/Oceania (67.0%), and North America (56.3%). Comparing this result with last year’s survey indicates that the share of “strengthening or expanding” showed strong growth in Russia, other CIS (9.0 percentage points), Middle East (8.4 percentage points), Latin America (6.7 percentage points), and other Asian countries/Oceania (5.8 percentage points). Growth in Latin America is accounted for by an increase in Brazil, and growth of other Asian countries/Oceania is due to continued increase in India and Vietnam. In China, on the other hand, the proportion of “strengthening or expanding” peaked in FY2004, and for this year, Russia, other CIS, which showed a high growth in proportion, overtook China.

However, if countries or regions are compared on the basis of the actual number of companies indicating that they “will strengthen or expand” in each country or region, it was found that many companies plan to “strengthen or expand” their operations in the eastern and southern regions of China, Thailand, and North America as before, but still a smaller number of companies plan to do so in Russia, other CIS, Latin America, Middle East, and Africa.

## ■ Relatively high evaluations of business performance for NIEs and ASEAN. Profitability in Thailand is higher than on a group consolidated basis for many companies

Respondent companies’ evaluations of sales and profit satisfaction with their overseas business performance showed no significant change for any country or region, excluding sales for Latin America. NIEs and ASEAN were evaluated relatively highly compared to other regions. China, although declining sharply last fiscal year, improved slightly this year for both sales and profit.

When asked whether profitability for each region including Japan was higher or lower than that of the entire group (consolidated basis), the percentage of companies answering “higher” was greatest for Thailand (40.7%). For Japan, the share of companies answering “lower” was the smallest, indicating that the domestic market is a stable profit source for many companies. In contrast, fewer companies said profitability was high in North America, Europe, and China.

## ■ Reasons for evaluation of satisfaction with profits

“Successful sales activities in the country or regions concerned” is the most cited reason for “satisfactory” and “somewhat satisfactory” evaluations across all countries and regions. For “unsatisfactory” or “somewhat unsatisfactory” evaluations, the response “cost reductions are difficult” has been increasing since the previous survey, indicating that cost reduction is becoming a more important factor to improve profitability than before.

Investigation of competitors in each sales market, continuously carried out since last year, found that, like the last fiscal year, the number of companies indicating the existence of competitors in China was the greatest. In addition, companies competing with Chinese companies in ASEAN and North America is spreading.

## ■ Progress underway for localization of management and procurement, but noticeable companies responded that R&D is being centralized in Japan

When asked about policies to address localization in Asia, primarily in China and ASEAN, for management, procurement, and R&D, around 80% companies responded “localization is necessary and the head office is encouraging localization through setting goals and other promotion measures” or “localization is necessary and local bases are promoting localization in accordance with local conditions,” thereby indicating that the companies intend to move ahead with localization for management and procurement. In contrast, over 30% of companies responded that they would “centralize authority in Japan rather than localize” for R&D. Results for R&D were thus polarized between companies that would and would not promote localization.

When asked to self-evaluate the progress of localization, based on localization policies, over 60% of the companies responded that they had made sufficient or somewhat sufficient progress for management and procurement, while only a little over 20% had done so for R&D.

Among the issues in promoting localization, many companies cited a lack of human resources for localization of management, insufficient technological capacities of local enterprises for procurement, and a lack of local technical staff for R&D. More companies also pointed out communication difficulties in China and Vietnam, as well as concern for confidential information leakage in China. A comparison between China and ASEAN indicates that more companies noted a wider range of problems in China.

## ■ China continued to top the list of promising countries, but its favorability decreased for the third consecutive year. In contrast, India, Vietnam, Russia, and Brazil acquired greater recognition

The top ten business destinations that companies viewed as promising in the medium term remained unchanged from the previous fiscal year. India received the largest increase in recognition (+11 percentage points), while Vietnam, U.S., Russia, and Brazil also acquired more recognition. On the other hand, China’s recognition, which continued to decline after hitting a peak in FY2003 of 93%, fell beneath the 80% level this year. The share of recognition also declined for Thailand, Korea, and Indonesia, with their rankings falling by one place, respectively.

In the countries that received greater recognition, the number of companies that have specific business plans also increased steadily.

## ■ Power supply was a major issue for all countries. Underdevelopment of other infrastructures were also cited frequently in India and Vietnam

Companies that cited “underdevelopment of infrastructure” were further asked to indicate which infrastructures were actually underdeveloped. For every country, more than 60% of respondents cited power supply as the issue. Many companies regarded roads and water supply in India and roads in Vietnam as being underdeveloped.



### III. Survey Results 1. Prospects for Domestic and Overseas Business Operations

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#### (1) Top Priorities for Domestic and Overseas Business Operations

Figure 1

| FY 2006 Survey |  |                                    | FY 2004 Survey |  |                                    |
|----------------|--|------------------------------------|----------------|--|------------------------------------|
| Rank           | Priority Issues for Domestic and Overseas Business Operations                          | No. of companies<br>(n = 548)<br>% | Rank           | Priority Issues for Domestic and Overseas Business Operations                  | No. of companies<br>(n = 584)<br>% |
| 1              | Strengthening or expanding overseas production   | 243 44.3%                          | 1              | Strengthening or expanding overseas production                                 | 338 57.9%                          |
| 2              | Strengthening or expanding the R&D functions   | 198 36.1%                          | 2              | Strengthening or expanding the R&D functions                                   | 235 40.2%                          |
| 3              | Development of new business fields   | 141 25.7%                          | 3              | Strengthening or expanding the customer base by the company's own              | 155 26.5%                          |
| 4              | Reviewing and streamlining of group companies' management                              | 122 22.3%                          | 4              | Active expansion into new business areas                                       | 131 22.4%                          |
| 5              | Procurement of business resources to strengthen core business                          | 105 19.2%                          | 5              | Reducing interest-bearing debt   | 126 21.6%                          |
| 6              | Introduction and optimization of global supply chain                                   | 98 17.9%                           | 6              | Reviewing and streamlining of group companies' management                      | 122 20.9%                          |
| ○ 7            | Securing and utilization of talented overseas human resources                          | 90 16.4%                           | 7              | Procurement of business resources to strengthen core business                  | 115 19.7%                          |
| ○ 8            | Maintaining highly skilled domestic human resources and succession of such skills      | 88 16.1%                           | 8              | Strengthening or expanding the domestic production                             | 104 17.8%                          |
| 9              | Strengthening or expanding the customer base by the company's own efforts              | 86 15.7%                           | 9              | Strengthening or expanding service operations related to the company's product | 96 16.4%                           |
| ○ 10           | Cost reduction in response to surge in price of enregy and raw materials               | 76 13.9%                           | 10             | Introducing or establishing a global supply chain management                   | 92 15.8%                           |
| 11             | Strengthening or expanding the domestic production                                     | 70 12.8%                           | 11             | Reviewing domestic production systems from the viewpoint of total cost         | 60 10.3%                           |
| 12             | Strengthening or expanding service operations related to the company's                 | 62 11.3%                           | 12             | Concentrating on environmental issues and environment-related business         | 49 8.4%                            |
| 13             | Reducing interest-bearing debt   | 59 10.8%                           | 13             | Reviewing overseas production systems from the viewpoint of total cost         | 41 7.0%                            |
| 14             | Reviewing overseas production systems from the viewpoint of total cost                 | 52 9.5%                            | 14             | Outsourcing the activities of production                                       | 20 3.4%                            |
| 15             | Reviewing domestic production systems from the viewpoint of total cost                 | 31 5.7%                            | 15             | Renewal of overage domestic plant  | 17 2.9%                            |
| ○ 16           | Passing through the price increase in energy and raw materials to sales price          | 27 4.9%                            | 16             | Securing energy, resources and raw materials for the company's own operations  | 13 2.2%                            |
| 17             | Concentrating on environmental issues and environment-related business                 | 22 4.0%                            |                |  |                                    |
| 18             | Renewal of overage domestic plant (excluding facilities for expansion or new products) | 21 3.8%                            |                |  |                                    |
| 19             | Outsourcing the activities of production   | 14 2.6%                            |                |  |                                    |
|                | * 7 companies (1.3%) responded "Other."  |                                    |                | * 18 companies (3.1%) responded "Other."                                       |                                    |

Notes: (1) The items marked ○ are the alternatives newly added from this year.

(2) For the above survey, respondents were requested to choose three top issues they consider as current top-priority issues, out of the alternatives presented.

#### ■ A top priority continued on "strengthening or expanding overseas production," with their sight set on improving corporate profit, while seeking greater management efficiency

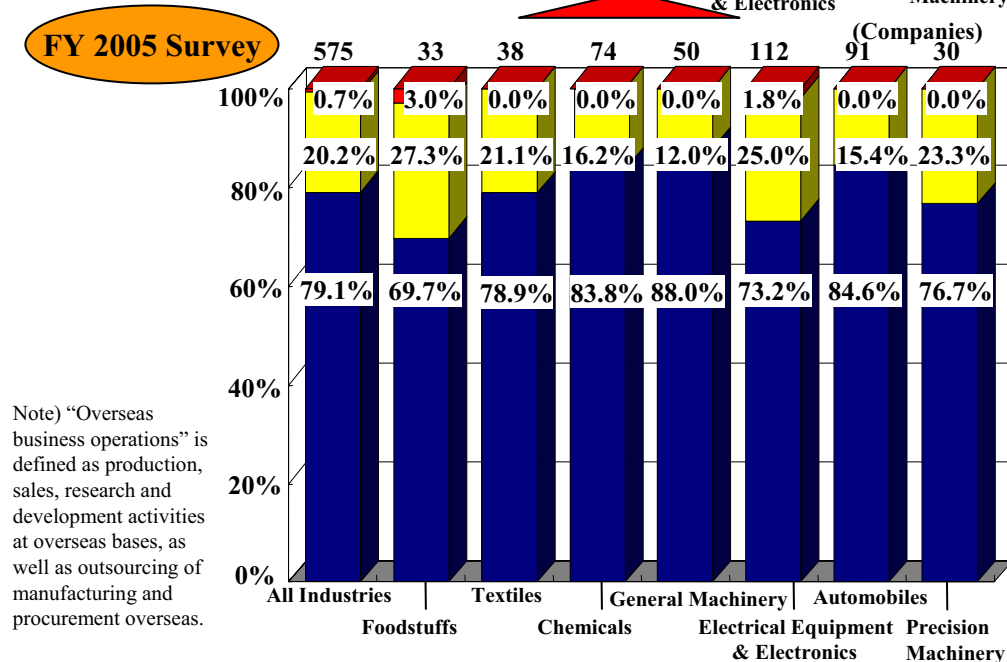
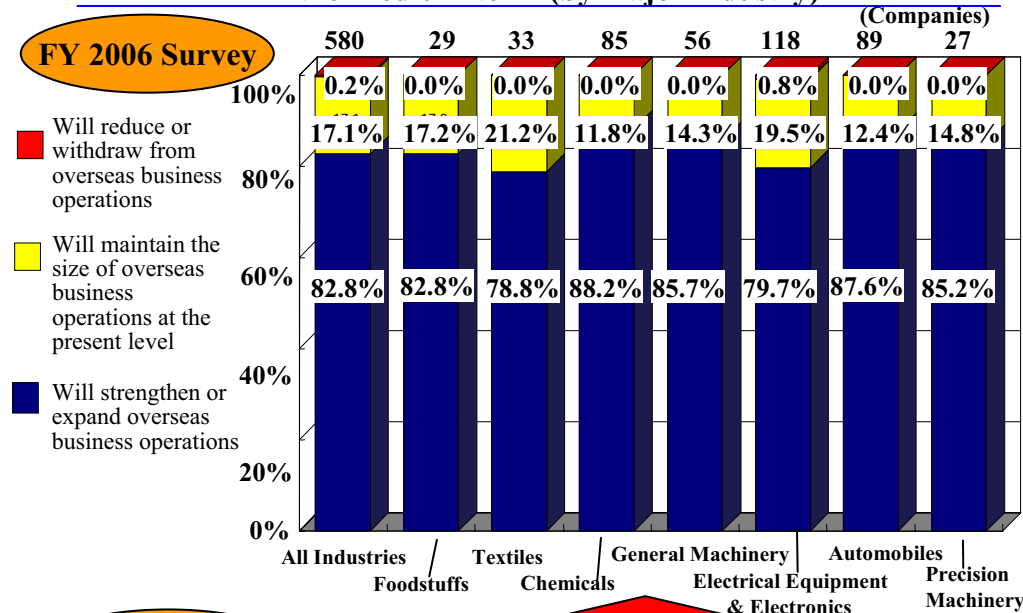
As a top-priority issue for both domestic and overseas business operations, "strengthening or expanding overseas production" (243 companies) collected the largest number of votes, followed by "strengthening or expanding the R&D function" (198 companies), and "development of new business fields" (141 companies). Following the foregoing issues aimed at enlarging and strengthening sources of profits, issues aimed at improving profitability through further streamlining business operations like "reviewing and streamlining group companies' management," or "introduction and optimization of global supply chains" have come up in rank. These results imply that Japanese manufacturers are trying to strengthen or expand their business operations through not only driving quantitative strengthening or expansion but also through streamlining business operations and strengthening corporate quality. The issue of "reducing interest-bearing debt" has considerably declined this year.

The percentage for "strengthening or expanding overseas production" declined from the previous survey largely due to the decrease in Automobiles and Precision Machinery. In Automobiles, the portion corresponding to the decrease seems to have flowed out to the newly added items relating to human resources and cost reduction. The matter of human resources may become a restraining factor in future strengthening or expanding of overseas business operations. In Precision Machinery, increase of percentage is observed in such items as "introduction and optimization of supply chains," and "reviewing overseas production systems from the viewpoint of total cost," which implies increasing number of companies are putting emphasis on promoting efficiency rather than quantitative expansion of overseas operations in this sector.

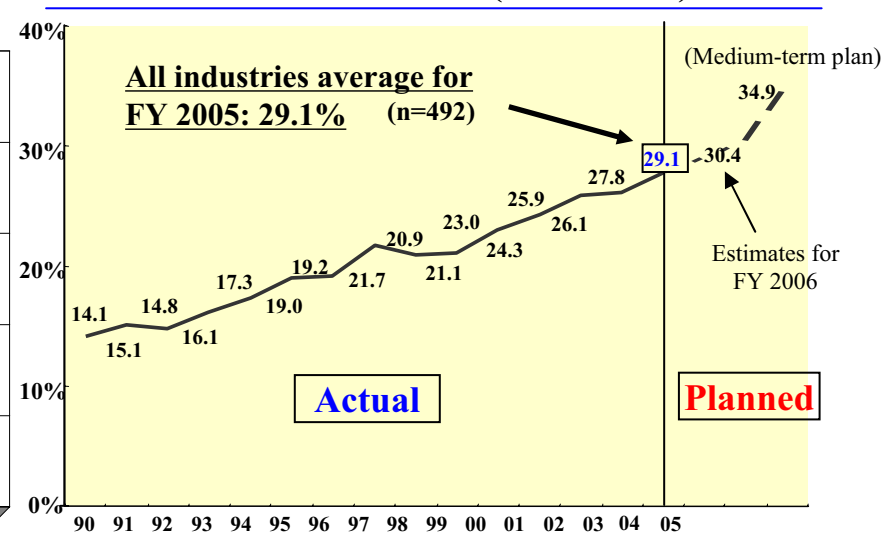
## (2) Medium-term Prospects for Overseas Business Operations

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**Figure 2 Prospects for Overseas Business Operations over the Medium-term (by major industry)**



**Figure 3 Changes of Overseas Production Ratio (all industries)**



**Figure 4 Overseas Production Ratio (major industries)**

|                   | Number of companies | FY2005 actual | FY2006 estimates | Medium-term plan |
|-------------------|---------------------|---------------|------------------|------------------|
| All Industries    | 492                 | 29.1%         | 30.4%            | 34.9%            |
| Chemicals         | 66                  | 21.2%         | 22.4%            | 28.0%            |
| General Machinery | 49                  | 19.9%         | 21.1%            | 25.4%            |
| E & E             | 96                  | 43.3%         | 44.3%            | 48.0%            |
| Automobiles       | 76                  | 29.6%         | 31.6%            | 37.0%            |

**Record high percentage (82.8%) of companies plan to strengthen or expand overseas business operations**

When asked about medium-term (the next three years or so) prospects for overseas business operations, a record percentage (82.8%) of companies in the all-industry category responded that they plan to "strengthen or expand" them compared to less than 80% in the previous year. By industry, the share of companies to "strengthen or expand" is high across the board. This clearly shows a very positive stance on the part of manufacturers for overseas business operations.

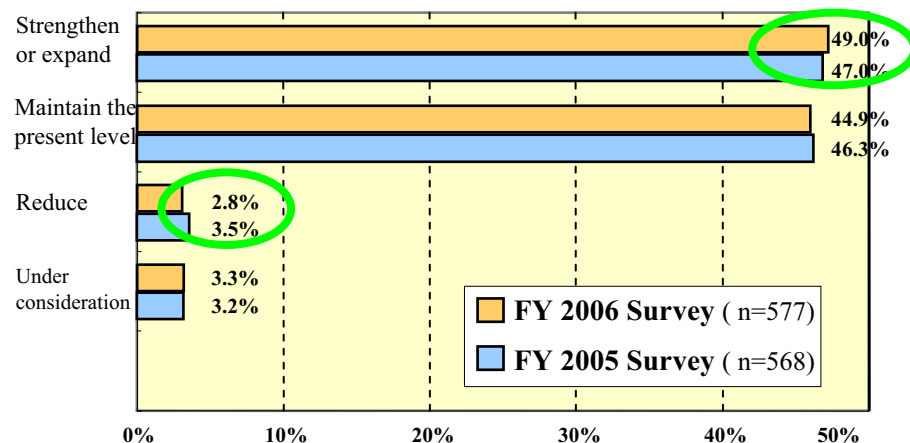
**Overseas production ratio continues to rise**

The overseas production ratio in FY 2005 (actual) rose to 29.1% in all-industry, showing an increase over the previous year for seven consecutive years since 1999. The estimates for FY 2006 and the medium-term plan until FY 2009 are 30.4% and 34.9% respectively, indicating the continued trend that many companies plan to enhance their overseas production.

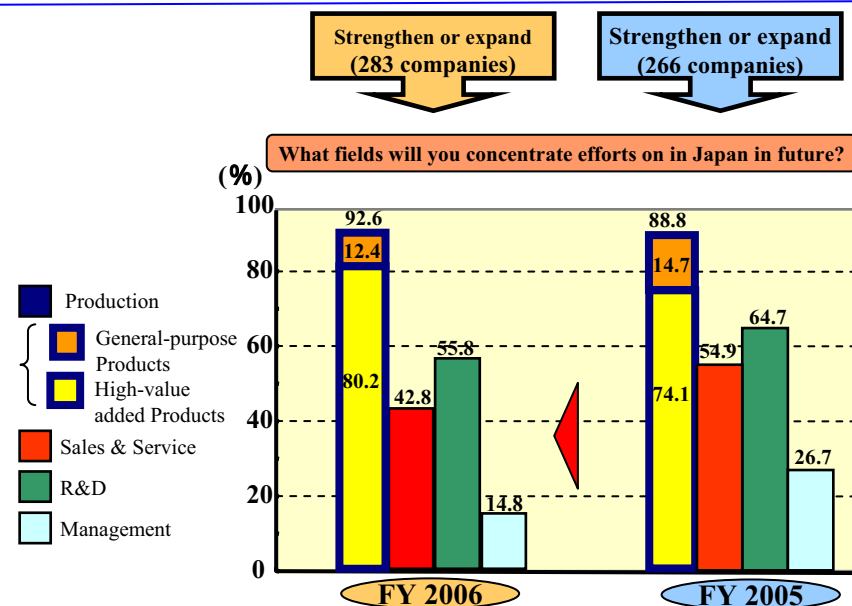
### (3) Medium-term Prospects for Domestic Business Operations

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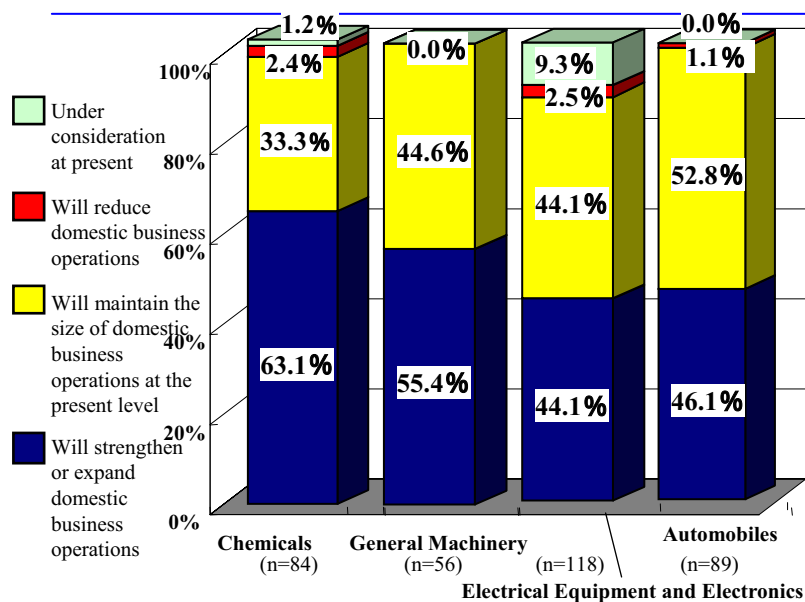
**Figure 5 Prospects for Domestic Business Operations over the Medium-term**



**Figure 7 Fields to Focus on in Japan in Future (multiple responses)**



**Figure 7 Prospects for Domestic Business Operations over the Medium-term (by major industry)**



#### ■ Continued enthusiasm for strengthening or expanding domestic business operations

Continuing the medium-term prospects for domestic business operations, 49.0% of companies in all industries responded that they plan to “strengthen or expand,” and 44.9% answered to “maintain the present level.” These two responses each account for nearly half of respondents, with a mere 2.8% of respondents to “reduce” in scale. Comparison with FY 2005 survey results shows that the share of companies stating “strengthen or expand” rose 2.0% points to occupy the largest share, while those responded “reduce” fell by 0.7% points.

By major industries, the share of companies to “strengthen or expand” has increased from the last year’s survey in all industries but E&E. This trend was especially conspicuous among chemical companies, of which over 60% responded that they plan to “strengthen or expand,” an 11percentage points increase from the previous survey. E&E decreased by 6.4 points, making the companies stating “strengthen or expand” less than half of the total companies in that industry.

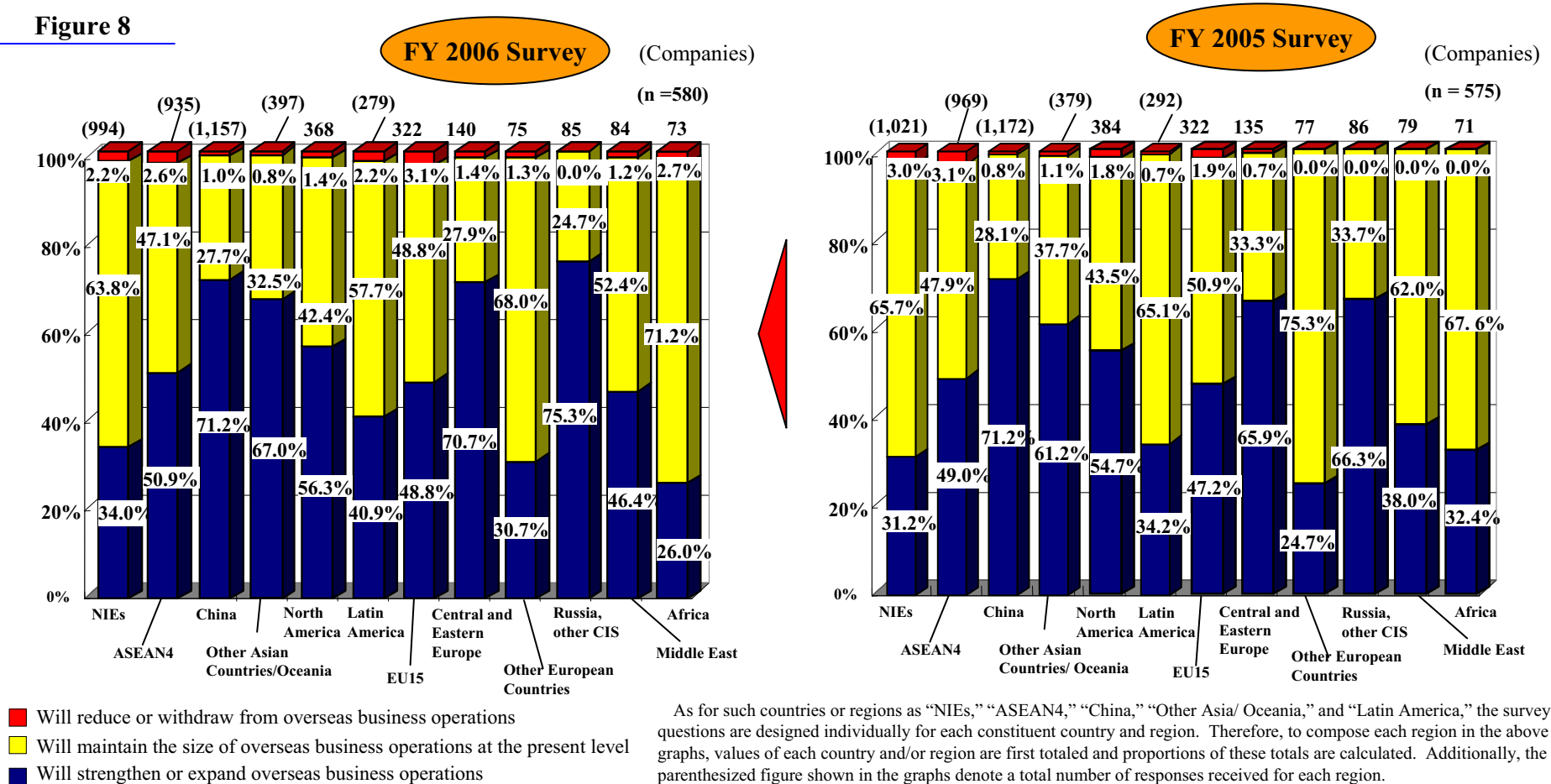
#### ■ Focus of domestic business operations placed on manufacturing of high-value added products, as well as R&D

The 283 companies that indicated a plan to “strengthen or expand” the scale of the domestic business operations were further asked in which areas they would focus their attention in Japan. 80.2% of respondents cited the “production of high-value added items,” followed by “R&D” (55.8%), “sales and service” (42.8%), and “management” (14.8%). The order of responses was consistent with results from the previous fiscal year. In interviewing the respondents, many companies suggested that they would consider the production of high-value added items and R&D activities underpinning such production as inseparable facets of their business development.



## (1) Prospects for Overseas Business Operations

Figure 8



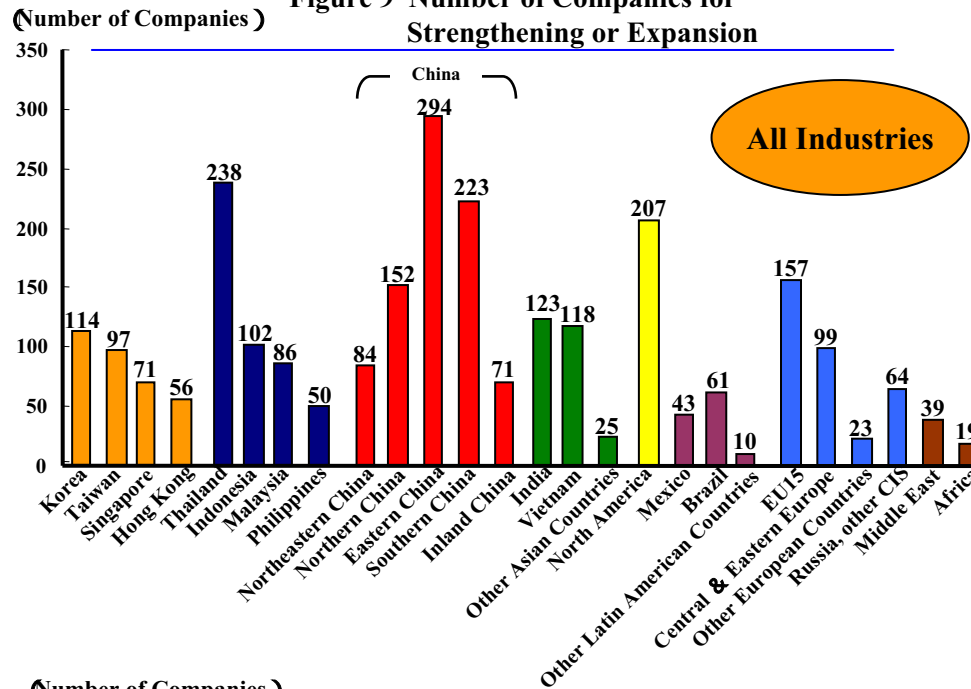
### ■ Strong positive stance for “strengthening or expanding” in Russia, China, and Central & Eastern Europe. Large growth in Russia, Middle East, and Latin America

Concerning the medium-term (next 3 years or so) prospects for overseas business operations, companies that are either conducting or considering business operations in individual countries or regions were asked to cite whether they would strengthen or expand the size of their business operations in such countries/regions. The region with the highest percentage response for “strengthen or expanding” is Russia, other CIS (75.3%), followed by China (71.2%), Central and Eastern Europe (70.7%), other Asian countries/Oceania (67.0%), and North America (56.3%). Comparing this result with last year’s survey indicates that the share of “strengthening or expanding” showed strong growth in Russia, other CIS (9.0 percentage points), Middle East (8.4 percentage points), Latin America (6.7 percentage points), and other Asian countries/Oceania (5.8 percentage points). Growth in Latin America is accounted for by an increase in share for “strengthening or expanding” in Brazil, and growth of other Asian countries/Oceania is due to continued increase in India and Vietnam (See Figures 14 and 10). In China, on the other hand, the proportion of “strengthening or expanding” peaked in FY 2004, and for this year, Russia, other CIS, which showed a high growth in proportion, overtook China.

## (2) Countries and Regions for Strengthening or Expansion

p.9

**Figure 9 Number of Companies for Strengthening or Expansion**



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

On examining the actual number of companies indicating 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 or expand their business operations in Eastern and Southern regions of China, Thailand, and North America. In Russia and other CIS, Latin America, Middle East and Africa, however, the number of companies that intend to strengthen or expand their operations is comparatively small.

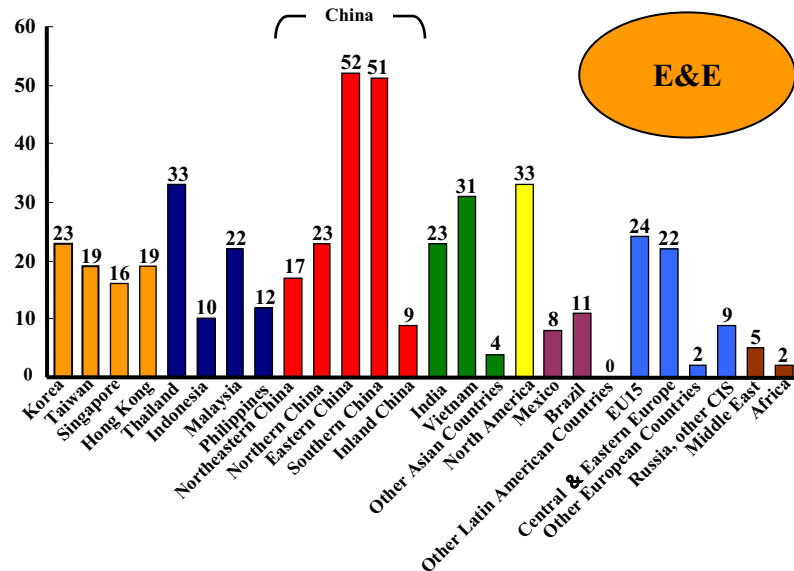
### E&E companies are active in Eastern and Southern Regions of China, and Thailand and Vietnam among ASEAN.

In Electrical procurement and Electronics (E&E), positive stance in both Eastern and Southern China regions is very strong, with almost same number of companies. In ASEAN4, “strengthen or expand” is largest in Thailand (33 companies) and weakest in Indonesia (10 companies). In E&E, there were increases in Vietnam (31 companies) and Central and Eastern Europe, but in most other countries there has been a decrease from the previous survey.

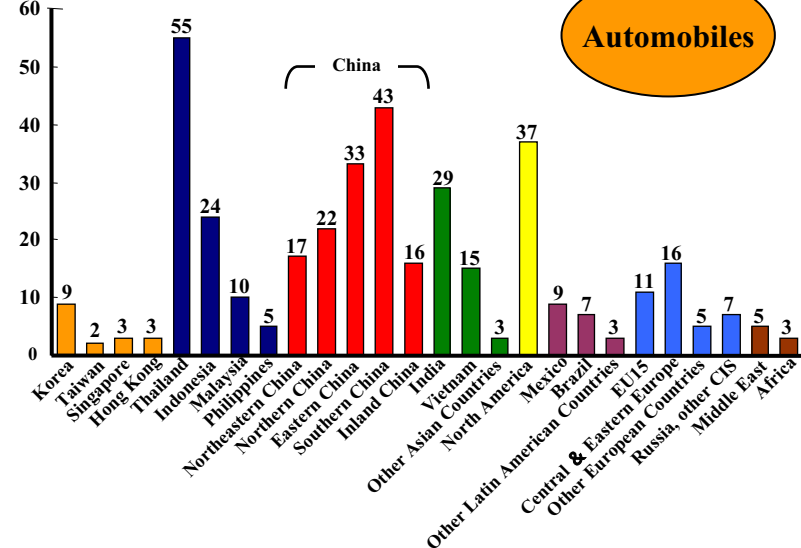
### Automobiles are active in Thailand, Southern and Eastern Regions of China, and North America.

Automobile manufacturers take a quite positive stance for Thailand, Southern and Eastern regions of China, and North America. In particular, Thailand had larger number of companies to “strengthen or expand” (55 companies) than any other regions including Southern China (43 companies) and North America (37 companies). In contrast to notable increases in India and Northeastern China (7 and 6 companies, respectively), North America, Indonesia, the EU15, Central and Eastern Europe and Africa each had a decrease of 5 or more companies.

(Number of Companies)



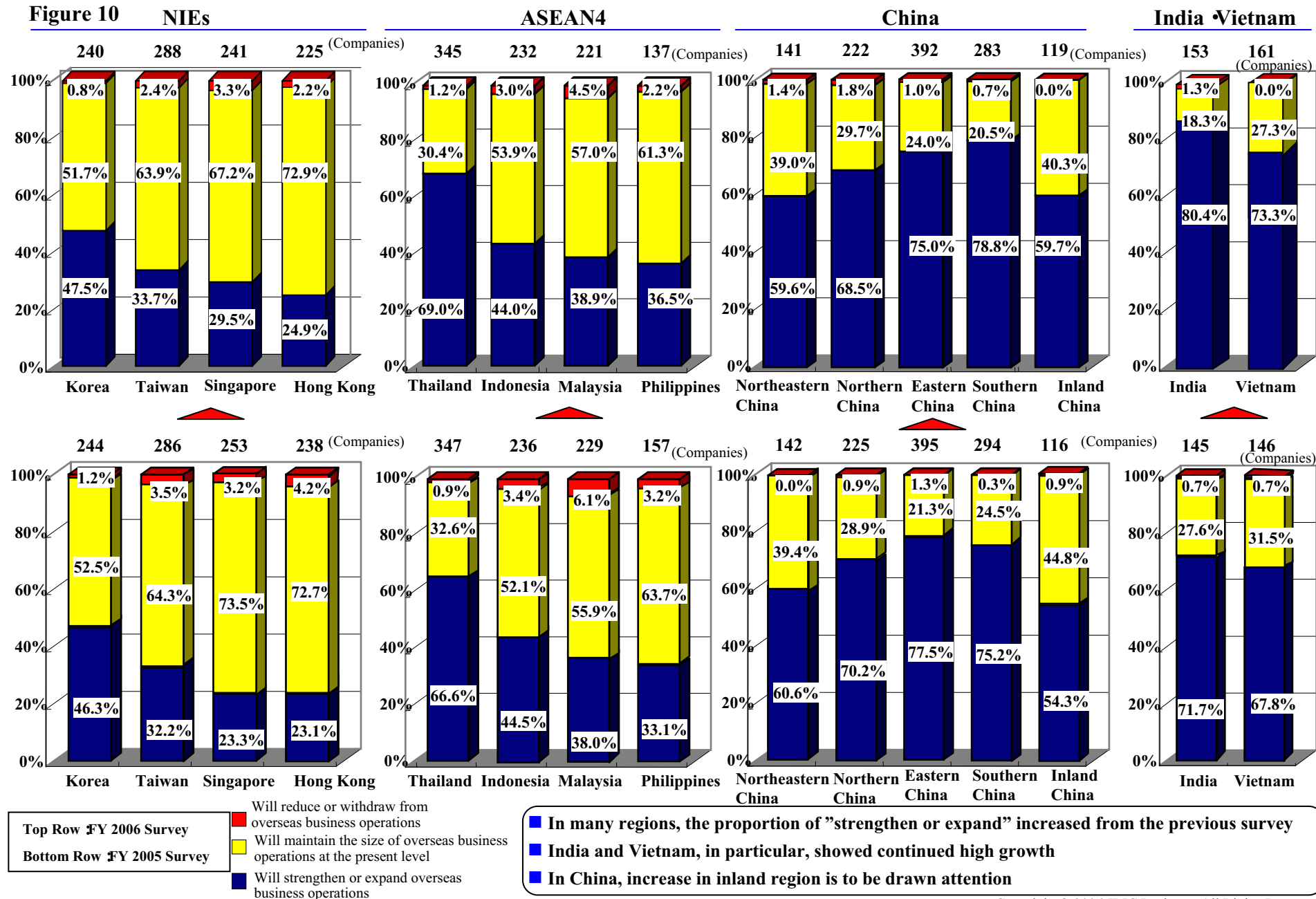
(Number of Companies)



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

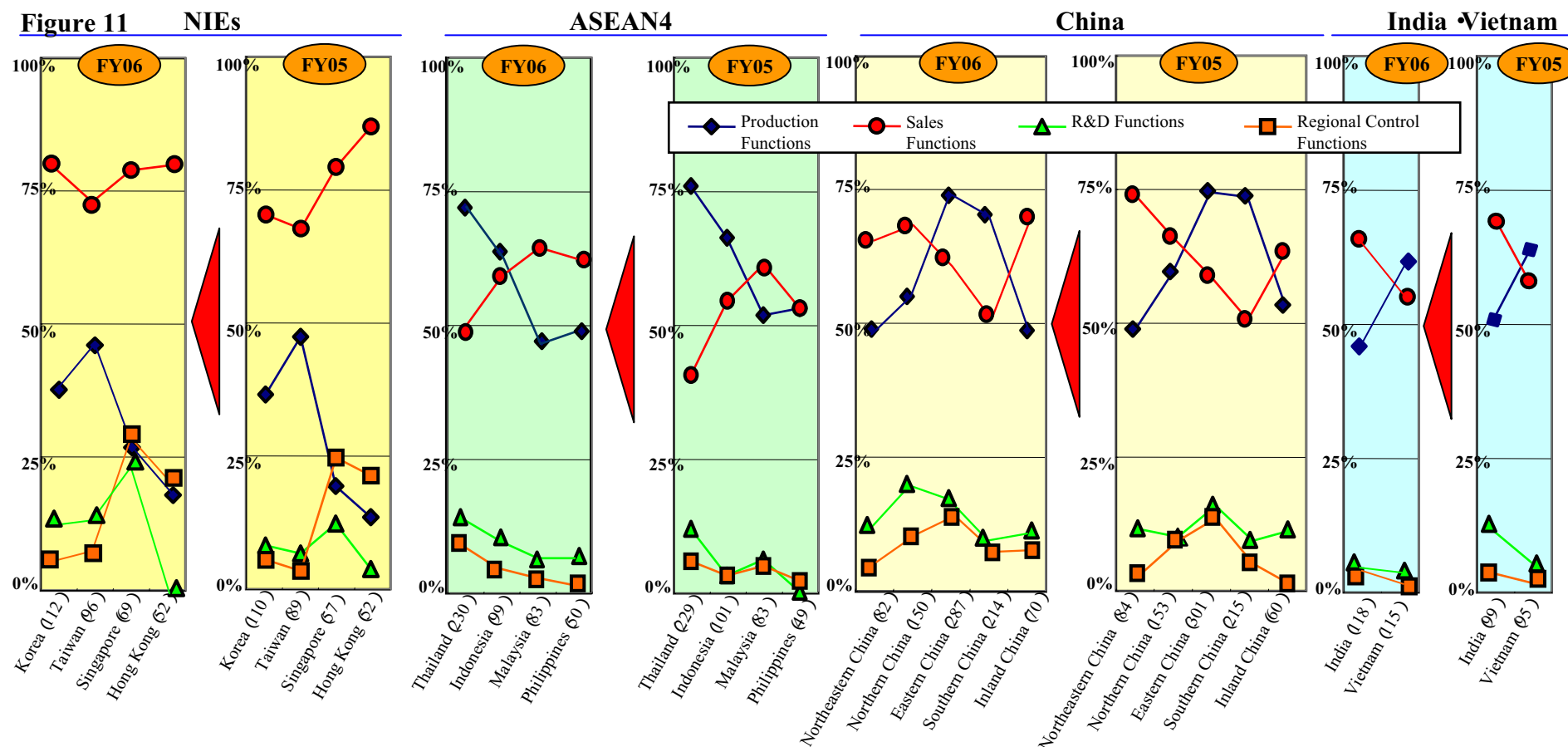
p.10

Figure 10



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

p.11



\* 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.

### ■ Production and sales reversed in the Philippines; production and sales got close together in Indonesia

Specific functions that are to be strengthened or expanded (in the overseas business operations) were surveyed and compared to the FY 2005 results. The observed features of each region are as follows. **NIEs:** Strengthening or expanding of sales functions is clearly higher than production or other functions in each country. Production functions have a relatively larger weight in Korea and Taiwan, while regional control functions in Singapore and Hong Kong. In Singapore, R&D function is more focused. **ASEAN4:** In Thailand and Indonesia, production function is more focused than sales function, but in the Philippines the ratio of production to sales has reversed due to increase of sales function and decrease of production function. Sales function now, like in Malaysia, surpassed production function. Also in Indonesia, the percentage of production function and sales function, are drawing close together. **China:** In both Eastern and Southern China, production function surpasses sales function, but the reverse is true for other regions. The proportion of R&D function increased in Northern China. **India and Vietnam:** In India, the proportion of production, sales, and R&D has decreased compared with the previous fiscal year, but actual numbers are increasing in all areas except R&D. In Vietnam, too, the gap between production function and sales function has slightly widened due to decreasing of sales function, but actual numbers increased in both functions over the previous fiscal year.

Figure 12 Number of Overseas Affiliates

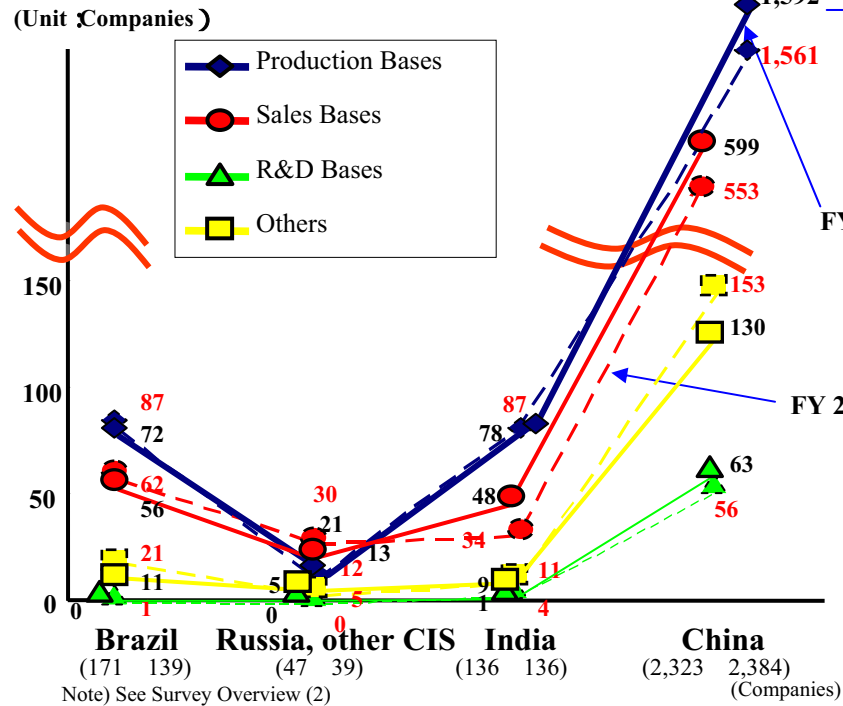


Figure 13 Functions for Strengthening or Expansion

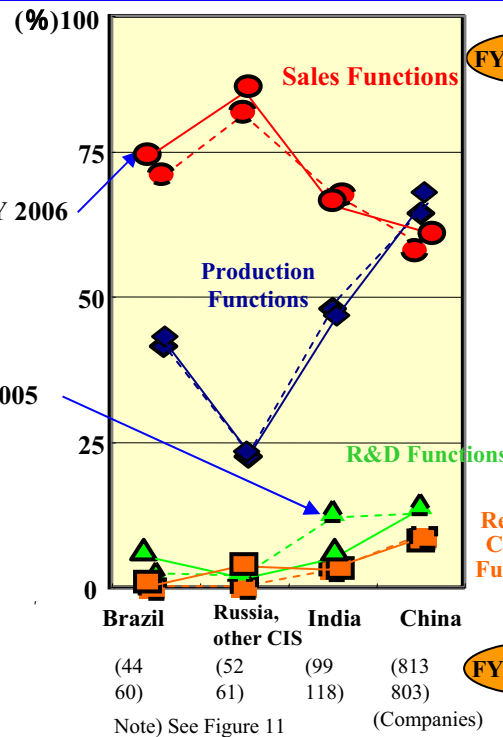
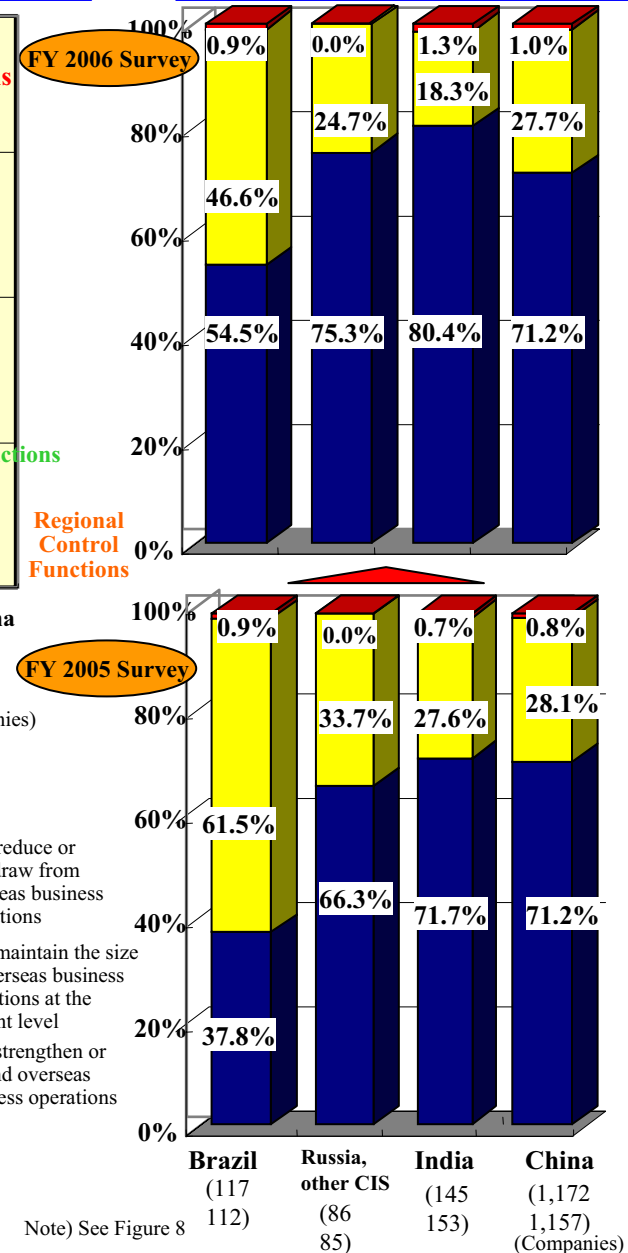


Figure 14 Prospects for Strengthening or Expansion



### ■ Growing interest in Brazil, Russia, and India

Comparing BRICs trends, the Number of Overseas Affiliates (Figure 12), which indicates the current status of business operations, shows a large gap between China and the other three countries both in production bases and sales bases. However, Prospects for Strengthening or Expansion (Figure 14), which indicates medium-term prospects, shows no increase of “strengthening or expansion” in China, but a remarkable increase for India, Russia, and Brazil. In particular, Brazil attained a large increase of 16.7% points this fiscal year.

However, when looking into the functions for strengthening or expansion (Figure 13), no significant change over the previous fiscal year was observed. Production function surpasses sales function only in China. In Brazil, Russia, and India, the proportion of companies that would strengthen sales function continued to surpass the proportion of those to strengthen production function. Particularly in Russia, the proportion of companies to strengthen production function remain at very low level.

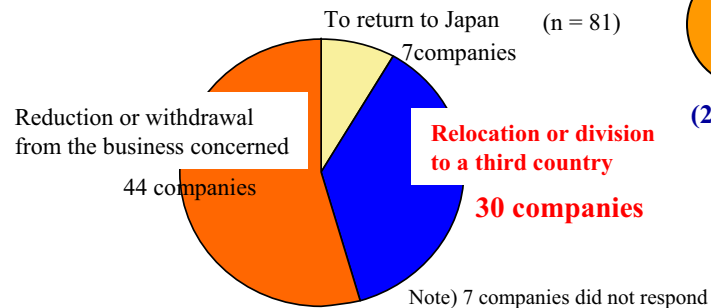


## (6) Relocation of Overseas Bases

p.13

Among the medium term prospects for overseas business operations in each region (See Figure 8), 88 companies answered that they would “reduce or withdraw.”

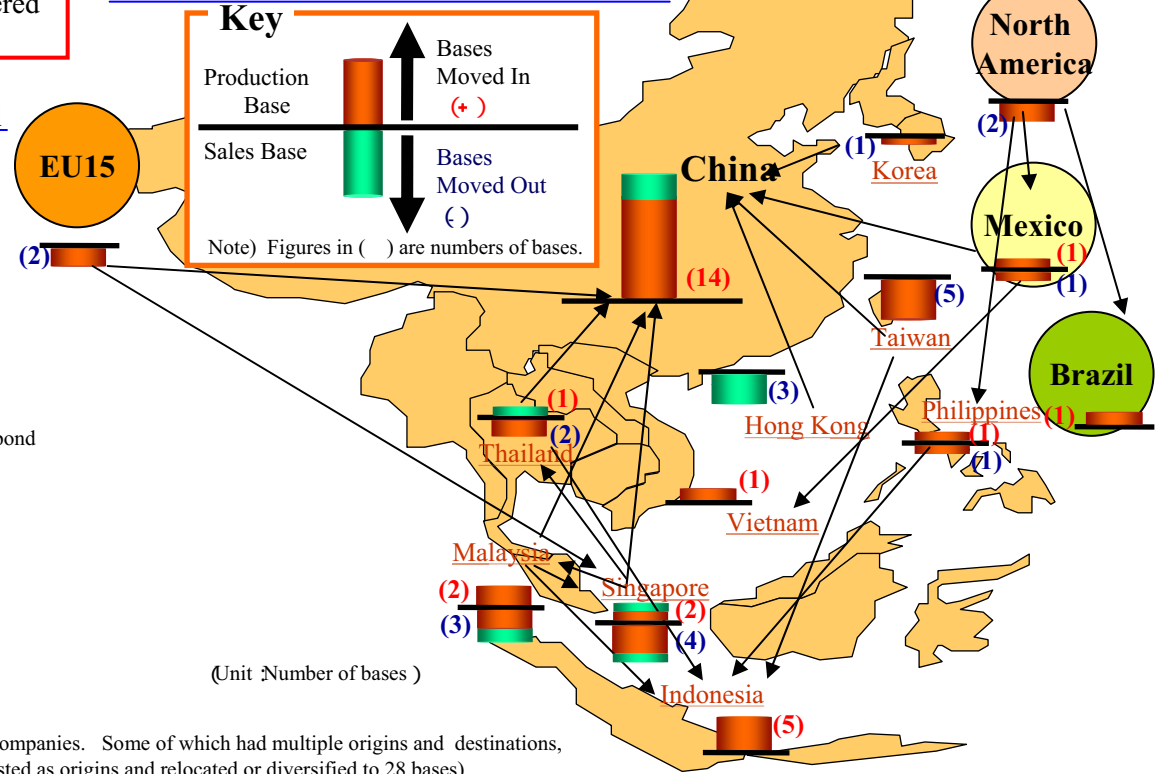
**Figure 15 Reasons for Reduction or Withdrawal**



**Figure 16 Table of Origins and Destinations for Relocation**

| From          | Function   | To                |
|---------------|------------|-------------------|
| Korea         | Production | China             |
| Taiwan        | Production | China             |
| Taiwan        | Production | China             |
| Taiwan        | Production | China             |
| Taiwan        | Production | China + Indonesia |
| Taiwan        | Production | Indonesia         |
| Singapore     | Production | China             |
| Singapore     | Production | Malaysia          |
| Singapore     | Production | Malaysia          |
| Singapore     | Sales      | Thailand          |
| Hong Kong     | Sales      | China             |
| Hong Kong     | Sales      | China             |
| Hong Kong     | Sales      | China             |
| Thailand      | Production | China             |
| Thailand      | Production | Indonesia         |
| Malaysia      | Production | China             |
| Malaysia      | Production | China + Indonesia |
| Malaysia      | Sales      | Singapore         |
| Philippines   | Production | Indonesia         |
| North America | Production | Philippines       |
| North America | Production | Mexico + Brazil   |
| Mexico        | Production | China + Vietnam   |
| EU15          | Production | Singapore         |
| EU15          | Production | China             |

**Figure 17 Relocated Countries/Regions and Functions**



### ■ Relocation of bases across countries and regions

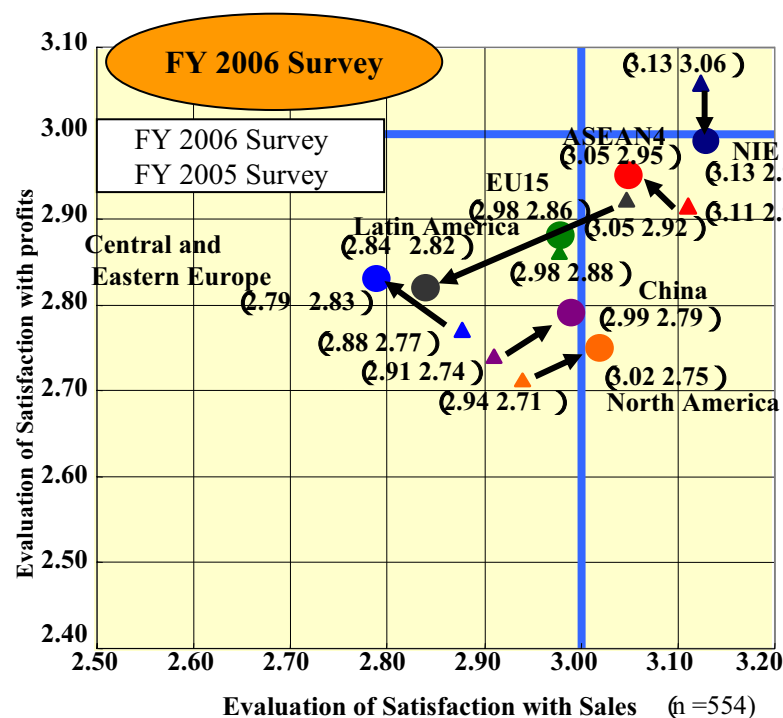
A total of 88 companies (2 companies less than last year) responded “reduce or withdraw” in their medium-term (next 3 years or so) prospects for overseas business operations in each region or country (See Figure 8). Of these, 44 companies (6 more companies than last year) gave their reason as “reduction or withdrawal from the business concerned,” 30 (7 less companies than last year) said “relocation or division to a third country” and 7 (3 companies less than last year) said “to return to Japan”.

### ■ Companies relocating their operations to China are a prominent trend

Figures 16 and 17 show respective cases where destination of the relocation was referred to and further relocated function was either of production or sales, for 30 companies responded “relocation or division to a third country.” Accordingly, it must be noted that these figures represent only a portion of relocations. Nevertheless, looking at the cases for this fiscal year, relocation within the Asian region continues to be common, with many companies choosing relocation to China. Relocation of production functions to China from countries with rising labor costs, such as Taiwan, Singapore, and Malaysia is common. There were also cases of production functions being relocated from EU, North America and Mexico to Asia.

## (1) Evaluation of Sales and Profits

Figure 18 Evaluation of Overseas Business Performance (All Industries)



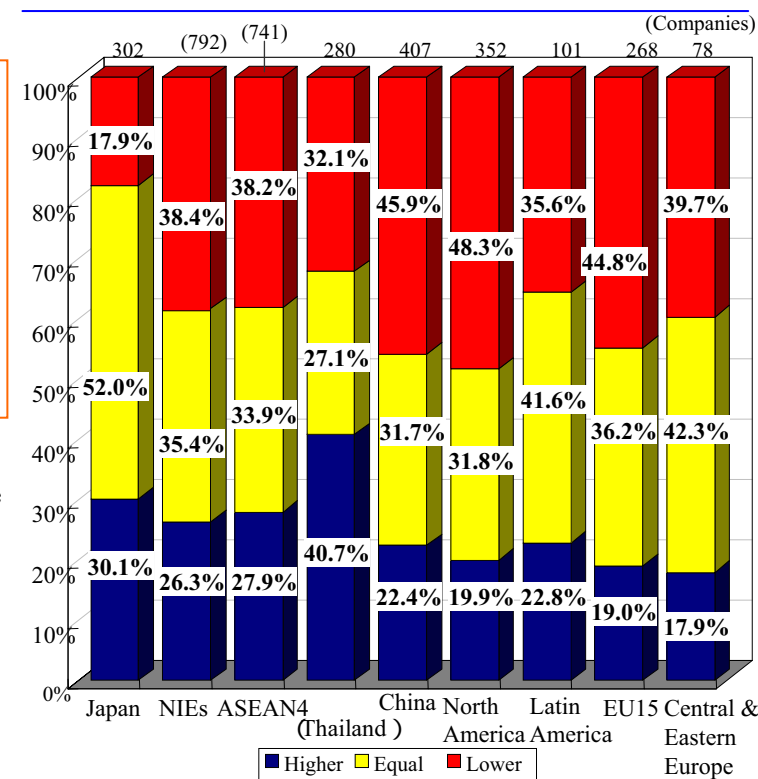
**\* Evaluation standards:**

Compared to initial objective

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

\* Evaluation of satisfaction with sales excludes sales to the parent company in its evaluation. These evaluations are of the head office's judgment on each country. They do not mean simple falls or rises in sales volume or profit.

Figure 19 Business Profitability for Each Region/Country Compared with Overall Group Profitability (All Industries)



### ■ Relatively high evaluations of business performance for NIEs. China improved slightly

Respondent companies' evaluations of sales and profit satisfaction with their overseas business performance showed no significant change for any country or region, excluding sales for Latin America. Compared with other regions, NIEs and ASEAN were evaluated relatively high. As to the decline in evaluations for Latin America, a comparison of the evaluations of companies that responded both this fiscal year and last fiscal year showed only a slight decrease for sales (3.03 2.96) and no changes for profit (2.91), which indicates no significant changes of business environment that may affect Japanese companies' business performance. China, although declined sharply last fiscal year, improved slightly this year for both sales and profit.

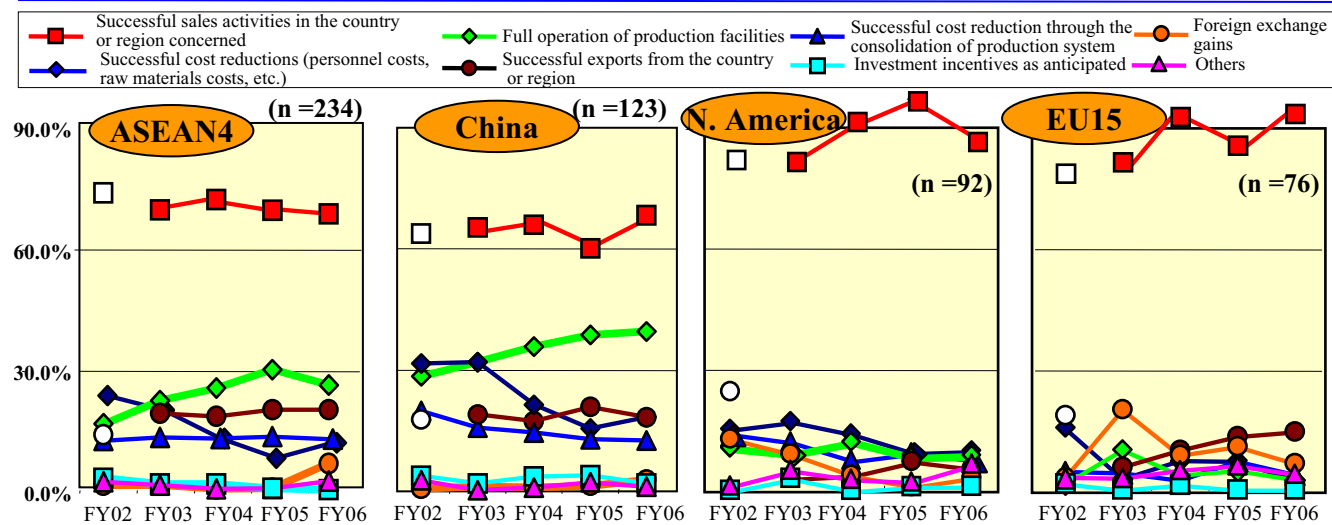
### ■ Thailand was found to have extremely high profitability in a comparison of profitability with the entire group

When asked whether profitability for each region including Japan was higher or lower than that of the entire group (consolidated basis), the percentage of those answering "higher" was greatest for Thailand (40.7%). For Japan, the share of companies answering "lower" was the smallest, indicating that the domestic market is a stable profit source for many companies. In contrast, fewer companies said profitability was high in North America, Europe, and China.

## (2) Reasons for Evaluation of the Profits

p.15

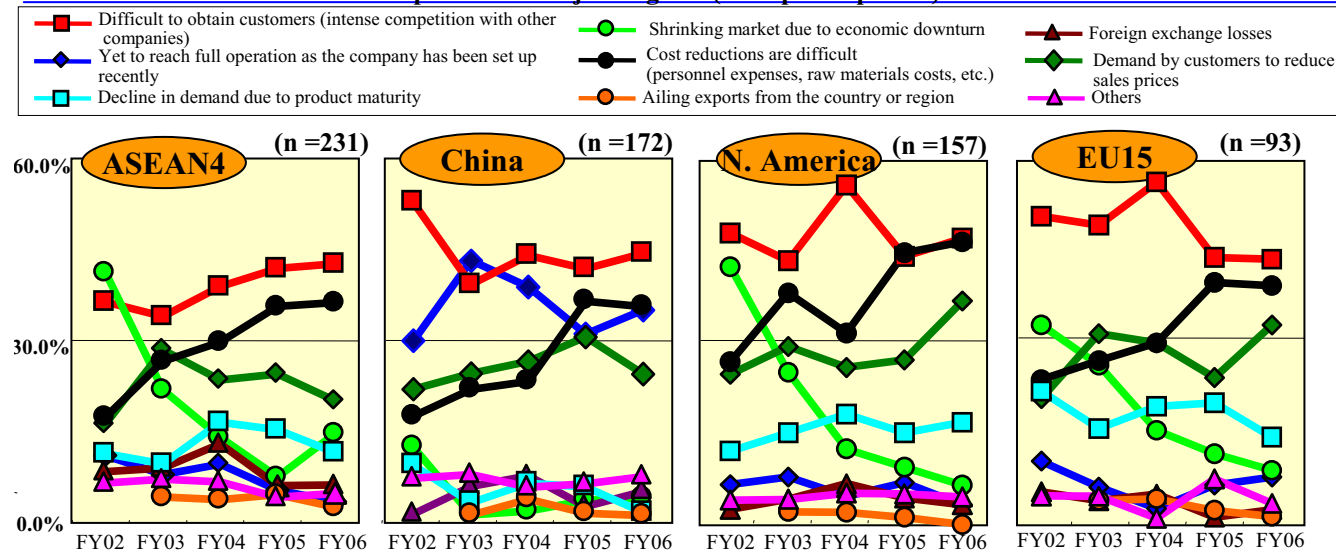
**Figure 20 Reasons for Evaluations of Profits Satisfaction (satisfactory or somewhat satisfactory), as a Time Series Comparison of Major Regions (multiple responses)**



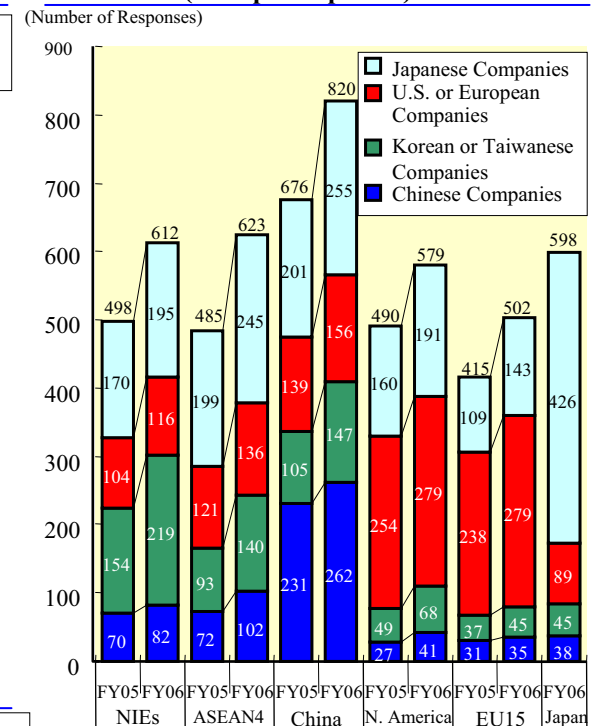
Note) "Successful sales activities in the country or region concerned" and "successful exports from the country or region" were added in the FY 2003 survey, thus they have no chronological continuity with previous items. The " " (empty square) in the figure for FY 2002 indicates "successful sales of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

The numbers in parenthesis (Figures 20 and 21) are numbers of respondent companies for this fiscal year

**Figure 21 Reasons for Evaluations of Profits Satisfaction (unsatisfactory or somewhat unsatisfactory), as a Time Series Comparison of Major Regions (multiple responses)**



**Figure 22 Competitors in the Market (multiple responses)**



### Reasons for evaluation of satisfaction with profits

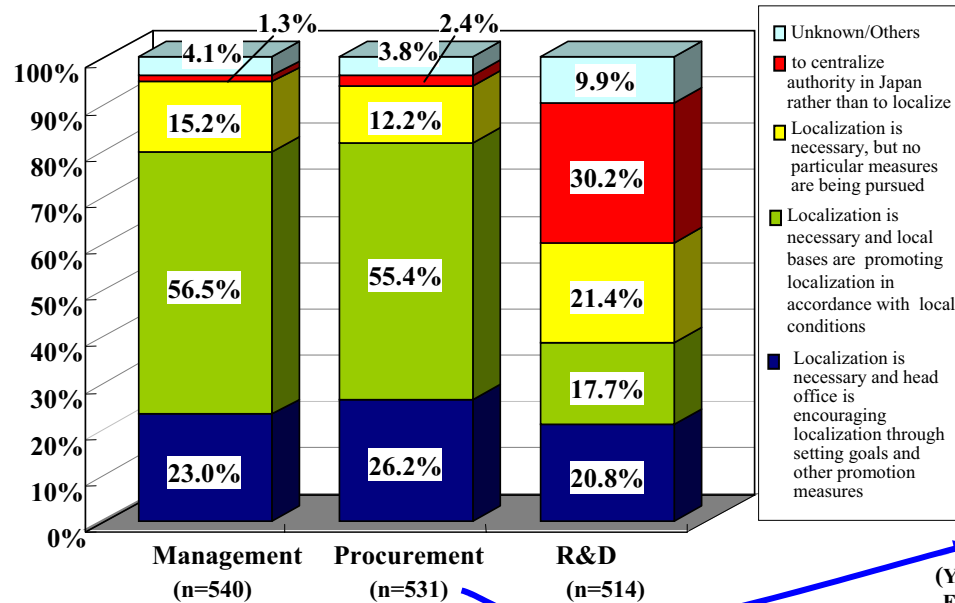
"Successful sales activities in the country or regions concerned" is the most cited reason for "satisfactory" and "somewhat satisfactory" evaluations across all countries and regions. For "unsatisfactory" or "somewhat unsatisfactory" evaluations, the response "cost reductions are difficult" has been increasing since the previous survey, indicating that successful cost reduction is becoming a more important factor to improve profitability than before.

### Competitors in the local market

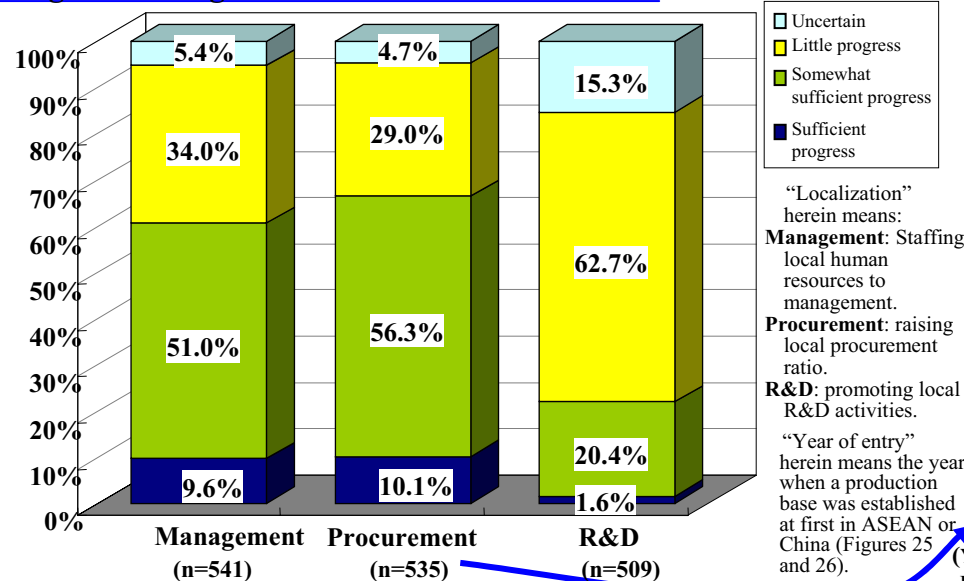
Investigation of competitors in each sales market, continuously carried out since last year, found that, like the last fiscal year, the number of companies indicating the existence of competitors in China was the greatest. Number of companies competing with Chinese companies is increasing not only in China but also in ASEAN and North America.

### III . 4 .Maintaining/Securing International Competitiveness, and Localization of Management, Procurement, and R&D (1) p.16

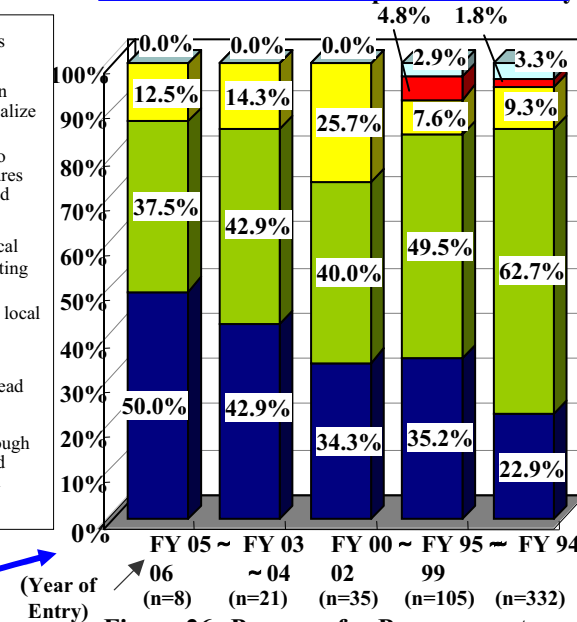
**Figure 23 Policies on Localization**



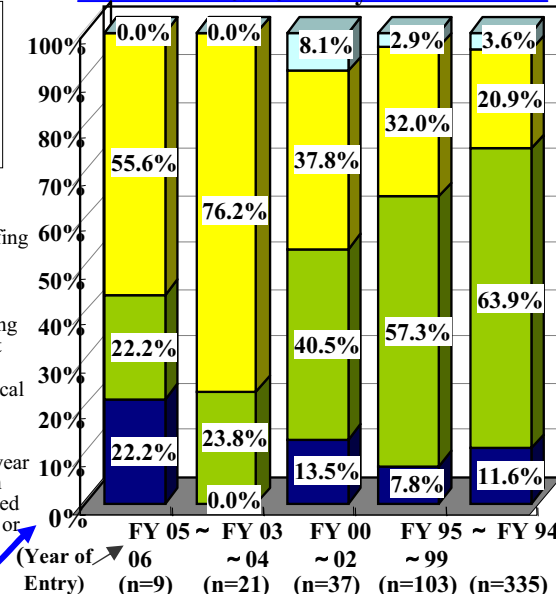
**Figure 24 Progress for Localization**



**Figure 25 Localization Policies for Procurement per Year of Entry**



**Figure 26 Progress for Procurement per Year of Entry**



#### ■ Policies on localization

When asked about the policies to address localization in Asia, primarily in China and ASEAN, for management, procurement, and R&D, around 80% companies responded “localization is necessary and head office is encouraging localization through setting goals and other promotion measures” or “localization is necessary and local bases are promoting localization in accordance with local conditions,” thereby indicating that the companies intend to move ahead with localization for management and procurement. In contrast, over 30% of companies responded that they would “centralize authority in Japan rather than localize” for R&D. Results for R&D were thus polarized between companies that would and would not promote localization.

#### ■ Progress for localization

When asked to self-evaluate the progress of localization, based on localization policies, over 60% of the companies responded that they had made sufficient or somewhat sufficient progress for management and procurement, while companies that felt the same way about R&D accounted for only a little over 20%.

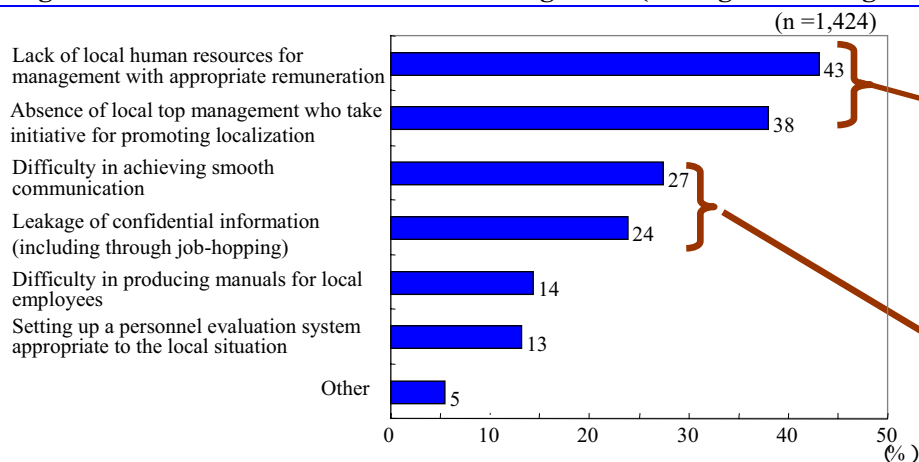
#### ■ Year of entry and localization of procurement

Examination on relationship between policy and progress of localization and the year of entry into China and/or ASEAN found that the earlier the year of entry into the area, the more localization was promoted under the initiative of local bases, and the more progress was observed for procurement.



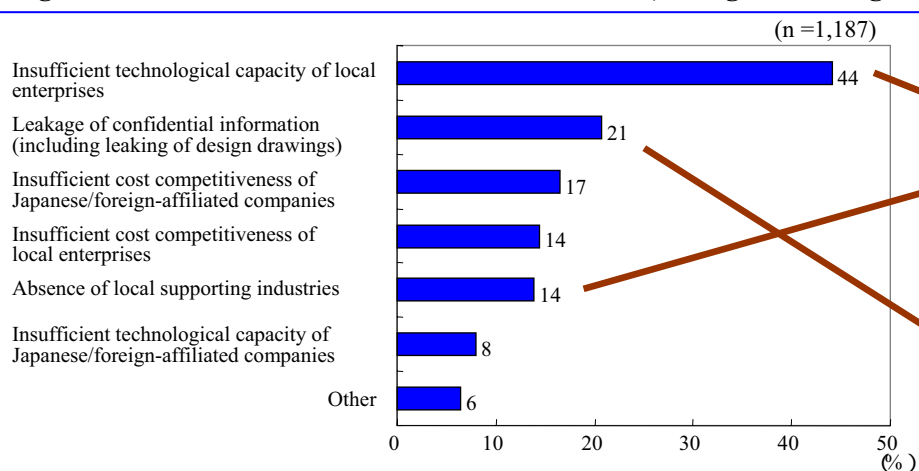
## 4 . Maintaining/Securing the International Competitiveness and Localization of Management, Procurement and R&D (2) - Issues for Localization - p.17

**Figure 27 Issues for Localization of Management (average for all regions)**



- Common issues for localization of management are related to human resources
- More companies feel smooth communication is difficult in China and Vietnam

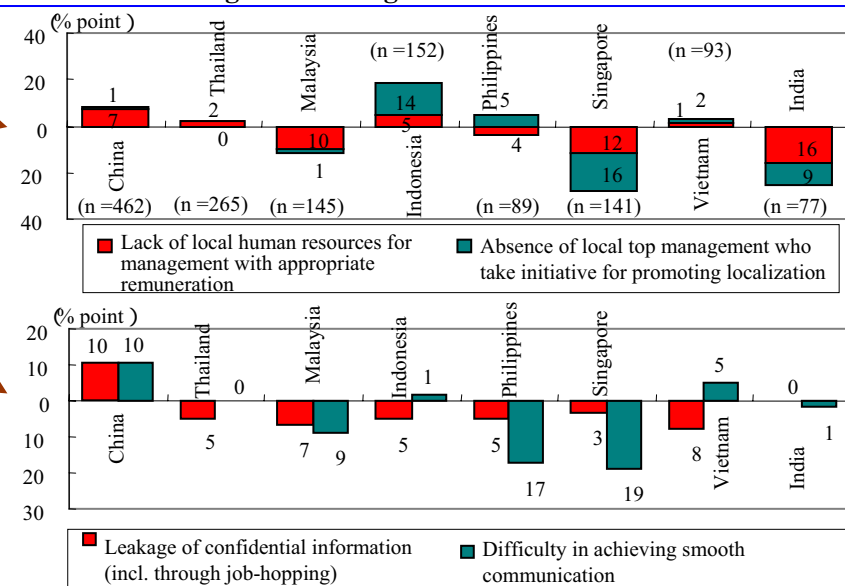
**Figure 29 Issues for Localization of Procurement (average for all regions)**



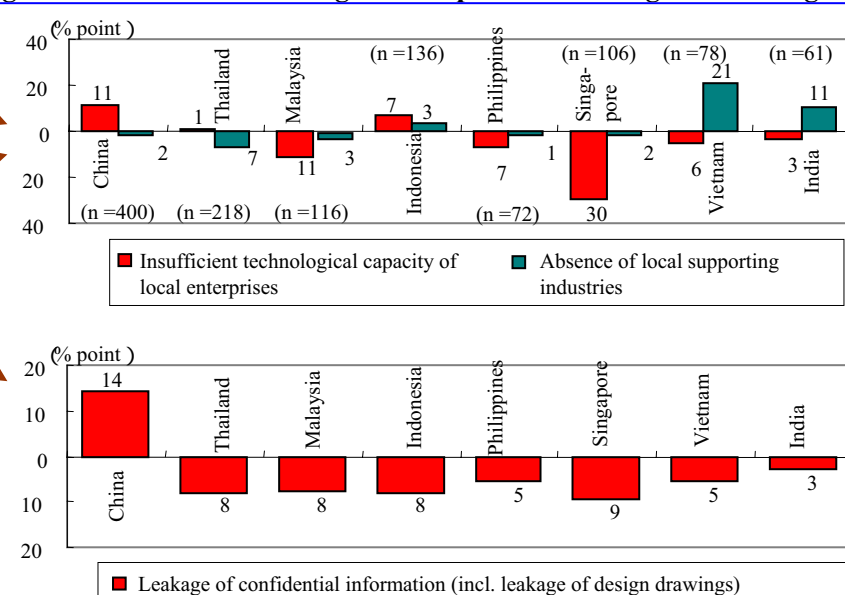
- Insufficient technological capacity of local enterprises is most common issue for localization of procurement
- Localization issues are cited more frequently in China than in other countries

**Figure 28 Issues for Each Region Compared to Average for All Regions**

Average for all regions = 0



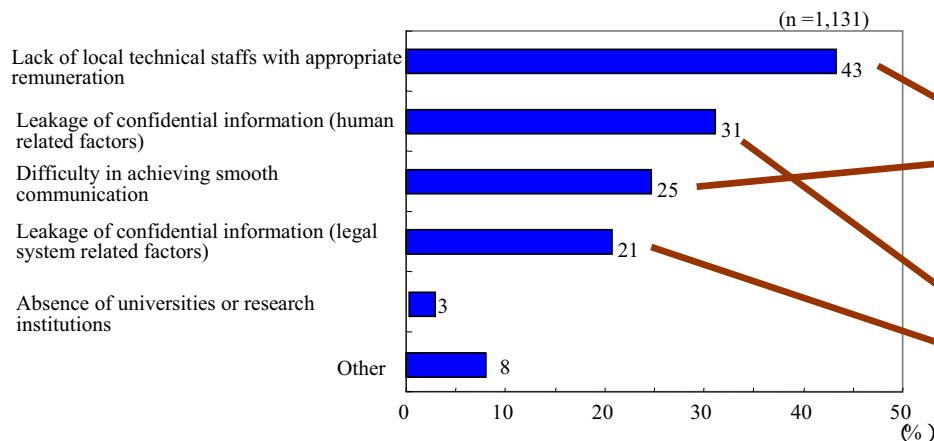
**Figure 30 Issues for Each Region Compared to Average for All Regions**





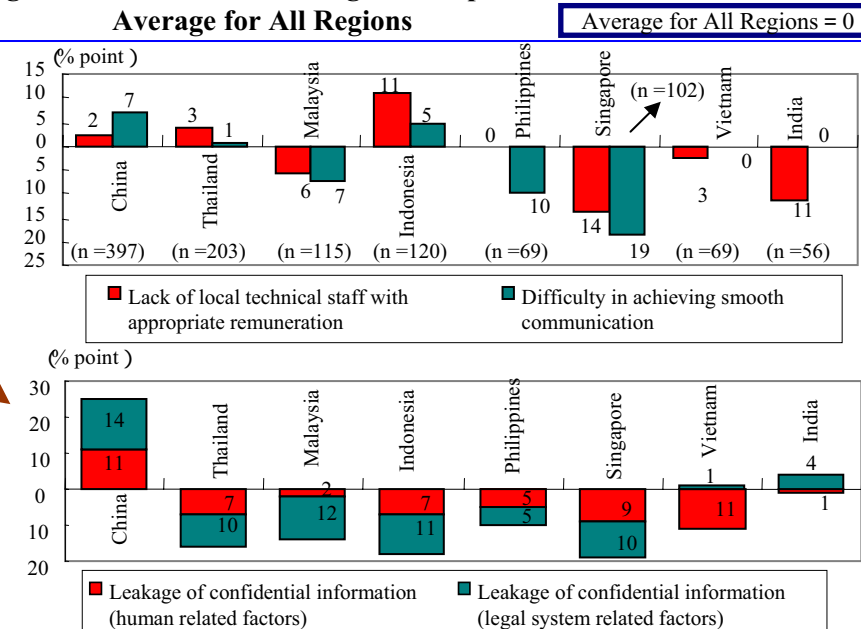
## 4 . Maintaining/Securing the International Competitiveness and Localization of Management, Procurement and R&D (3) - Issues for Localization - p.18

**Figure 31 Issues for Localization of R&D (average for all regions)**

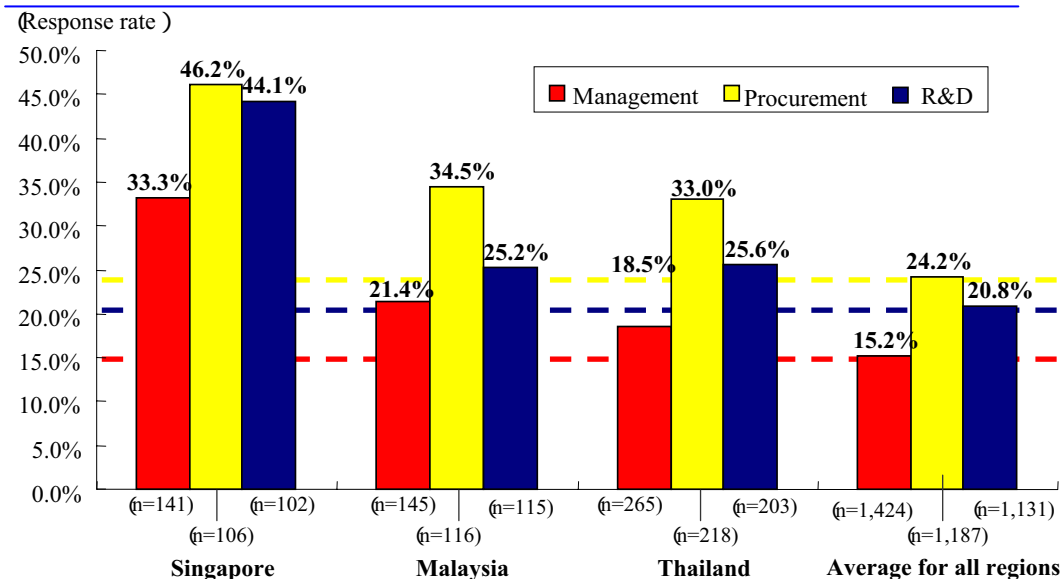


- Most common issue for localization of R&D is lack of local technical staffs
- Great concern about leakage of confidential information is expressed in China

**Figure 32 Issues for Each Region Compared to Average for All Regions**



**Figure 33 Countries where “no issues for localization” was a frequent response**



### ■ “No issues” expressed by many companies in Singapore

In reply to questions on issues faced during the process of localization, Singapore was the country where companies replied “no issues” most frequently for all items of management, procurement, and R&D, followed by Malaysia and Thailand.

### ■ China vs. ASEAN

From the previous page we have looked at issues faced in the process of localization, and companies identified a much broader range of issues for China than for ASEAN countries. As in issues for promising countries, while many companies identified China as promising, they also identified many issues. A similar trend could be seen in their identification of localization issues.

## (1) Ranking and Existence of Business Plans

Figure 34 Promising Countries/Regions for Overseas Business

Operations over the Medium-term (multiple response)

( See Appendix 1 for results of the FY 2004 and previous surveys )

Note: Left column (No. of companies); right column (percentage share)

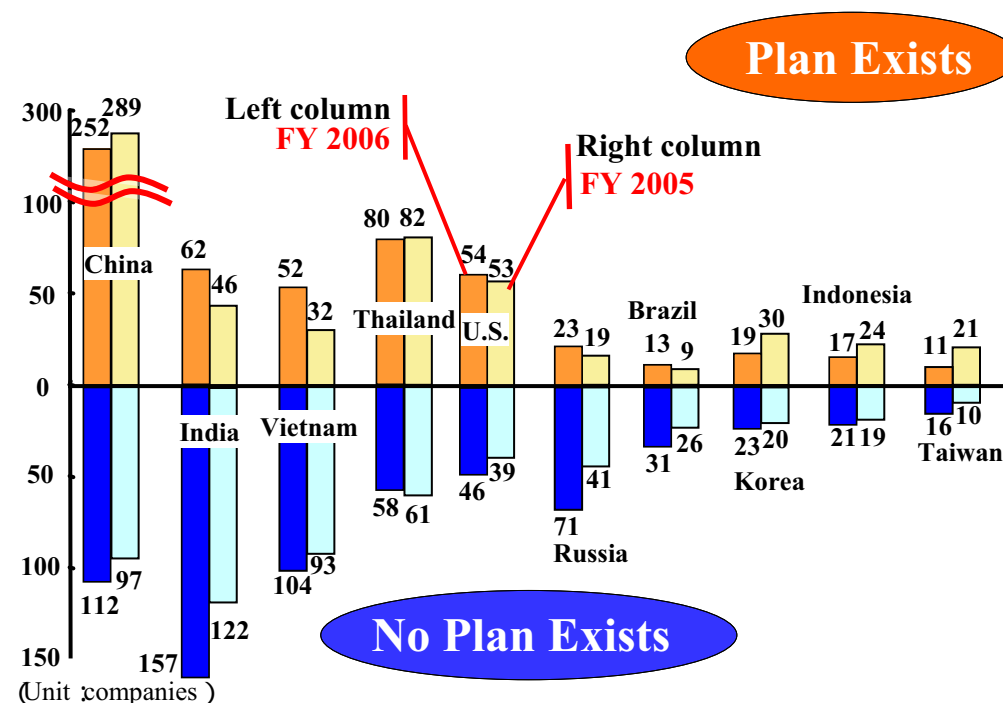
| Rank | FY2006 Survey  | No. of Companies<br>484 | ( % ) | FY2005 Survey  | No. of Companies<br>483 | ( % ) |
|------|----------------|-------------------------|-------|----------------|-------------------------|-------|
| 1    | China          | 372                     | 77    | China          | 397                     | 82    |
| 2    | India          | 229                     | 47    | India          | 174                     | 36    |
| 3    | Vietnam        | 159                     | 33    | Thailand       | 149                     | 31    |
| 4    | Thailand       | 142                     | 29    | Vietnam        | 131                     | 27    |
| 5    | U.S.           | 104                     | 21    | U.S.           | 96                      | 20    |
| 6    | Russia         | 98                      | 20    | Russia         | 62                      | 13    |
| 7    | Brazil         | 45                      | 9     | Korea          | 52                      | 11    |
| 8    | Korea          | 44                      | 9     | Indonesia      | 45                      | 9     |
| 9    | Indonesia      | 39                      | 8     | Brazil         | 36                      | 7     |
| 10   | Taiwan         | 27                      | 6     | Taiwan         | 32                      | 7     |
| 11   | Malaysia       | 22                      | 5     | Malaysia       | 23                      | 5     |
| 12   | Germany        | 15                      | 3     | Mexico         | 16                      | 3     |
| 13   | Poland         | 15                      | 3     | Germany        | 14                      | 3     |
| 14   | Czech Republic | 15                      | 3     | Philippines    | 13                      | 3     |
| 15   | Mexico         | 14                      | 3     | Singapore      | 12                      | 2     |
| 16   | Philippines    | 12                      | 2     | Czech Republic | 12                      | 2     |
| 17   | U.K.           | 12                      | 2     | U.K.           | 9                       | 2     |
| 18   | Hungary        | 8                       | 2     | Poland         | 9                       | 2     |
| 19   | Canada         | 6                       | 1     | France         | 8                       | 2     |
| 20   | Australia      | 6                       | 1     | Australia      | 8                       | 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 country/region was cited and the countries were listed according to that number.

(2) In addition to the countries/regions given above, the following regions also gained some votes: EU/Europe/Central Europe (37 respondent companies, 8% of total); North America (29 respondent companies, 6% of total); Eastern Europe/Central and Eastern Europe (23 respondent companies, 5% of total); Middle East (7 respondent companies, 1% of total).

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



**China kept the top but its favorability decreased for the third consecutive years. In contrast, India, Vietnam, Russia, and Brazil acquired greater recognition**

The top ten business destinations that companies viewed as promising in the medium (next three years or so) remained unchanged from the previous fiscal year. The rankings of China at first place and India at second place were the same, and Vietnam rose to third place, overtaking Thailand. U.S. and Russia remained at fifth place and sixth place, respectively, with Brazil rising from ninth place to seventh place.

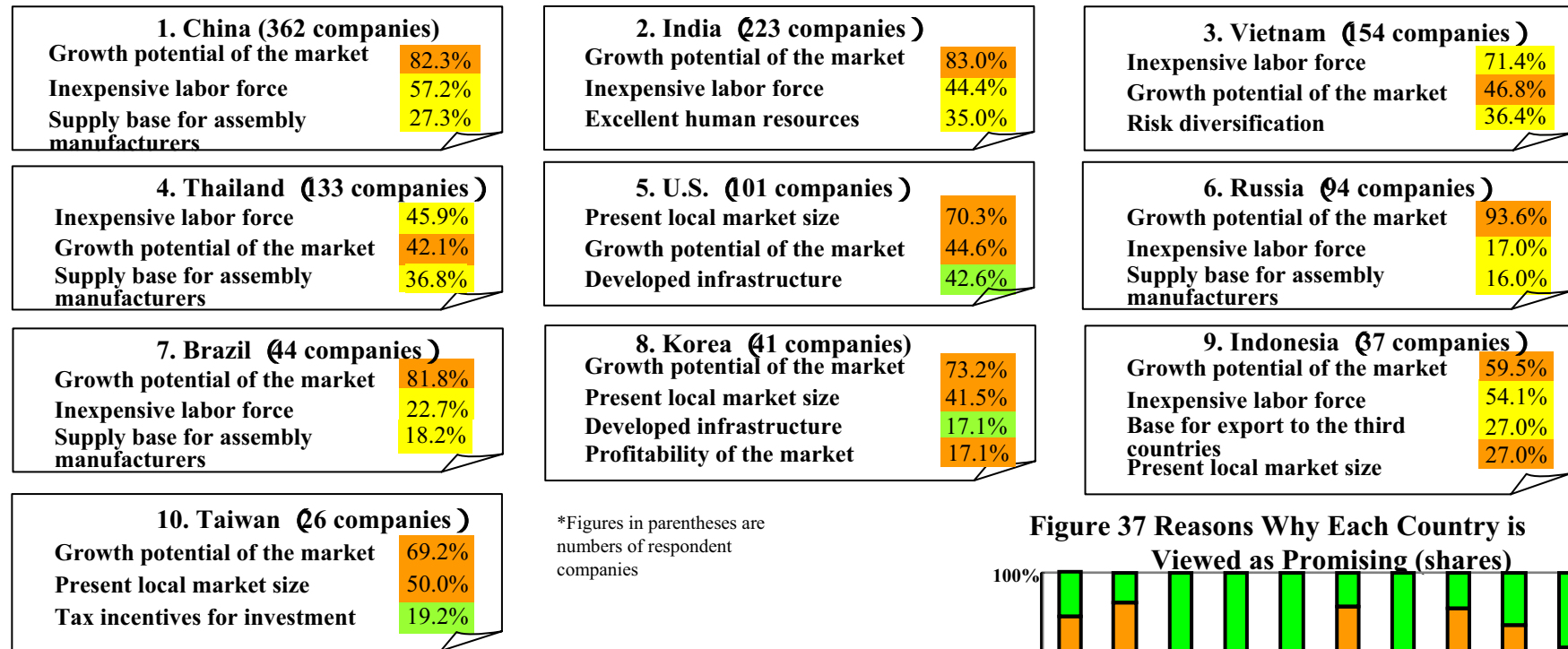
Looking at percentage share, India's share has increased enormously and Vietnam, U.S., Russia, and Brazil also increased their percentage share. In contrast, China's percentage share hit a peak of 93% in 2003 and has since been declining, falling below 80% this fiscal year. Percentage share also fell for Thailand, Korea and Indonesia, with each country dropping one rank down.

From eleventh place downwards, the percentage share of European countries, i.e. Germany, Poland, Czech Republic, U.K., and Hungary is increasing. Many responses named the EU and Europe and many companies in the electric and electronics, automobiles, machinery, and chemical industries regard Europe as promising.

**Companies with "no plans" continue to predominate for India, Vietnam, Russia, and Brazil, but companies "with plans" are steadily increasing**

The number of companies viewing India, Vietnam, Russia, and Brazil as promising has continued to increase over the previous fiscal year and the number of companies with concrete plans is also increasing steadily.

**Figure 36 Main Reasons of the Top Ten Countries/Regions for the Promising**



\*Figures in parentheses are numbers of respondent companies

## ■ “Growth potential of the local market” is the common reason for promising prospects for all countries

Looking at the reasons for promising prospects for the top ten countries or regions, “growth potential of the market” was either the top or second for all countries or regions. Particularly in BRICs countries – Brazil, Russia, India, and China – over 80% of companies gave “growth potential of the market” as their reason for promising prospects.

## ■ Decreasing “inexpensive labor force” in Asia, and “stable political and social conditions” in Thailand also decreased

For Asian countries such as Vietnam and Thailand, “inexpensive labor force” has been ranked high as a reason for promising prospects. However, with rising labor costs, the percentage share dropped in many countries from the previous year. In Vietnam, “risk diversification,” which takes into account “China+1”, remained third place although such response declined over the last fiscal year. In Thailand, although the survey was conducted before the recent coup d'etat, the share of “stable political and social conditions” has largely decreased reflecting the turmoil since spring (43.4% → 24.8%). In company hearings held after the coup d'etat, however, no companies indicated changes in their attitude towards Thailand due to the coup d'etat.

**Figure 37 Reasons Why Each Country is Viewed as Promising (shares)**

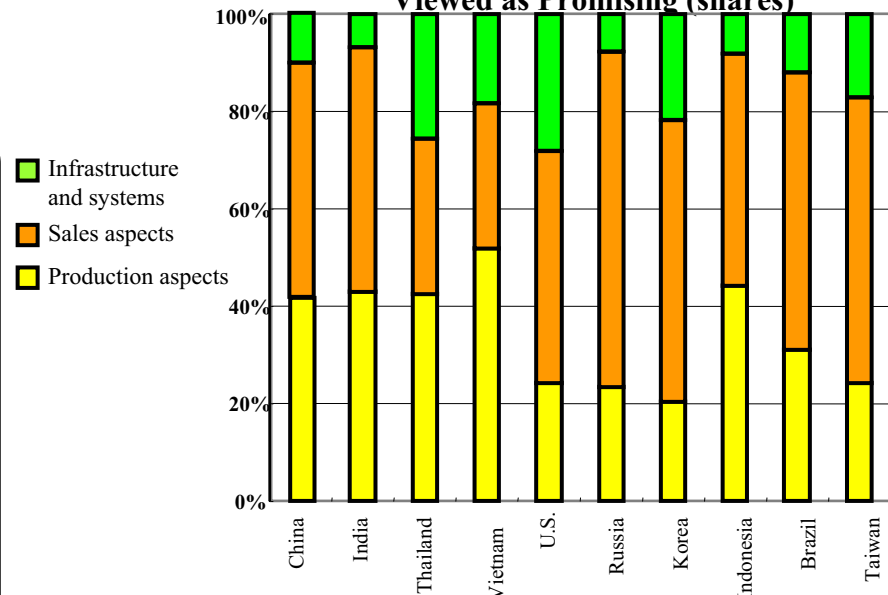


Figure 38 Main Issues of the Top Ten Most Promising Countries/Regions

|   |  |  |
|---|--|--|
| <b>1. China (351 companies)</b><br>Unclear operation of legal system 65.0%<br>Insufficient protection of IPR 47.6%<br>Intense competition in the local market 45.9%   | <b>2. India (178 companies)</b><br>Under-development of infrastructure 50.0%<br>Unclear operation of legal system 30.9%<br>Insufficient information on investment climate 27.0%                | <b>3. Vietnam (127 companies)</b><br>Under-development of infrastructure 49.6%<br>Unclear operation of legal system 33.1%<br>Under-development of legal system 30.7%   |
| <b>4. Thailand (107 companies)</b><br>Intense competition in the local market 46.7%<br>Difficulty in securing local managers 43.0%<br>Increase in labor costs 41.1%   | <b>5. U.S. (88 companies)</b><br>Intense competition in the local market 85.2%<br>Increase in labor costs 37.5%<br>Increase in tax burden 21.6%<br>Difficulty in securing local managers 21.6% | <b>6. Russia (79 companies)</b><br>Unclear operation of legal system 50.6%<br>Insufficient information on investment climate 46.8%<br>Unstable security and social conditions 40.5%  |
| <b>7. Brazil (36 companies)</b><br>Instability of security and social conditions 38.9%<br>Unclear operation of legal system 36.1%<br>Intense competition in the local market 36.1%<br>Instability of local currency and price 36.1% | <b>8. Korea (36 companies)</b><br>Intense competition in the local market 69.4%<br>Increase in labor costs 50.0%<br>Local labor problems 16.7%   | <b>9. Indonesia (31 companies)</b><br>Unstable local security and social conditions 45.2%<br>Under-development of infrastructure 41.9%<br>Intense competition in the local market 38.7%<br>Instability of local currency and price 38.7% |
| <b>10. Taiwan (22 companies)</b><br>Intense competition in the local market 72.7%<br>Increase in labor costs 45.5%<br>Unstable security and social conditions 27.3%   | <p>*Figures in parentheses are numbers of responding companies</p>   |  |

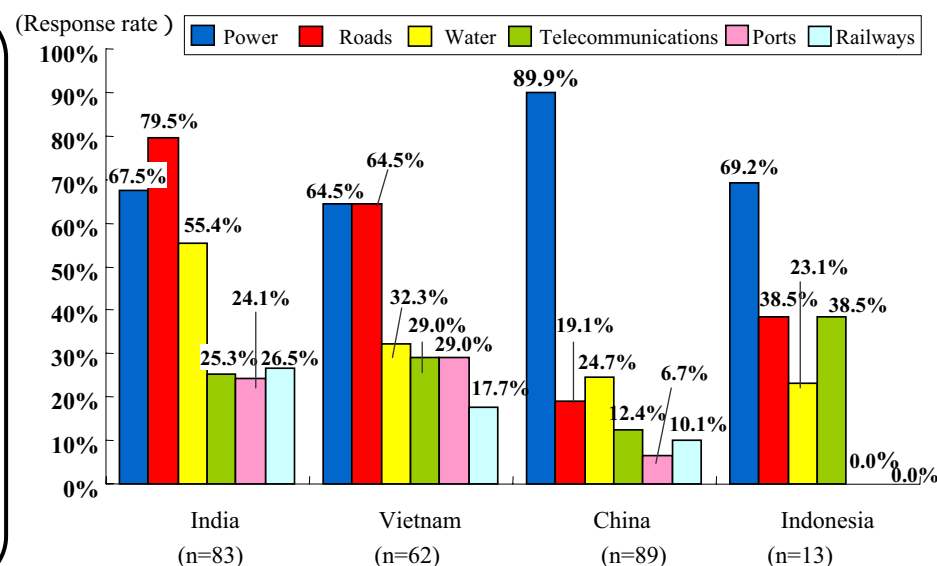
**No significant changes observed in the issues identified, but some issues showed improvement as their percentage share has fallen over the last survey**

No significant changes were observed in issues ranked high, but noticeable improvement was observed in individual issues such as “under-development of infrastructure” in China (35.3% → 21.4%); “insufficient information on investment climate” in India (36.2% → 27.0%), and “under-development of legal system” in Vietnam (39.4% → 30.7%).

**Power supply was a major issue across the countries. In India and Vietnam, other infrastructures were also assessed as under-developed**

Companies that cited “under-development of infrastructure” were further asked to indicate which infrastructures were actually under-developed. For every country, more than 60% of respondents cited power supply as the issue. Many companies regarded roads and water supply in India, and roads in Vietnam as being under-developed. On the other hand, infrastructures other than power seem to be considered fairly developed in China.

Figure 39 Under-development of Infrastructure



## Changes for promising countries/regions over the medium term

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

| Rank | FY2006 Survey  | No. of Companies | (%) | FY2005 Survey  | No. of Companies | (%) | FY2004 Survey  | No. of Companies | (%) | FY2003 Survey  | No. of Companies | (%) | FY2002 Survey  | No. of Companies | (%) |
|------|----------------|------------------|-----|----------------|------------------|-----|----------------|------------------|-----|----------------|------------------|-----|----------------|------------------|-----|
|      |                | 484              |     |                | 483              |     |                | 497              |     |                | 490              |     |                | 418              |     |
| 1    | China          | 372              | 77  | China          | 397              | 82  | China          | 453              | 91  | China          | 456              | 93  | China          | 373              | 89  |
| 2    | India          | 229              | 47  | India          | 174              | 36  | Thailand       | 151              | 30  | Thailand       | 143              | 29  | Thailand       | 118              | 28  |
| 3    | Vietnam        | 159              | 33  | Thailand       | 149              | 31  | India          | 117              | 24  | U.S.           | 106              | 22  | U.S.           | 108              | 26  |
| 4    | Thailand       | 142              | 29  | Vietnam        | 131              | 27  | Vietnam        | 110              | 22  | Vietnam        | 88               | 18  | Indonesia      | 63               | 15  |
| 5    | U.S.           | 104              | 21  | U.S.           | 96               | 20  | U.S.           | 100              | 20  | India          | 70               | 14  | Vietnam        | 62               | 15  |
| 6    | Russia         | 98               | 20  | Russia         | 62               | 13  | Russia         | 49               | 10  | Indonesia      | 63               | 13  | India          | 54               | 13  |
| 7    | Brazil         | 45               | 9   | Korea          | 52               | 11  | Indonesia      | 48               | 10  | Korea          | 44               | 9   | Korea          | 34               | 8   |
| 8    | Korea          | 44               | 9   | Indonesia      | 45               | 9   | Korea          | 44               | 9   | Taiwan         | 35               | 7   | Taiwan         | 34               | 8   |
| 9    | Indonesia      | 39               | 8   | Brazil         | 36               | 7   | Taiwan         | 41               | 8   | Malaysia       | 31               | 6   | Malaysia       | 33               | 8   |
| 10   | Taiwan         | 27               | 6   | Taiwan         | 32               | 7   | Malaysia       | 28               | 6   | Russia         | 25               | 5   | Brazil         | 19               | 5   |
| 11   | Malaysia       | 22               | 5   | Malaysia       | 23               | 5   | Singapore      | 17               | 3   | Singapore      | 23               | 5   | Singapore      | 18               | 4   |
| 12   | Germany        | 15               | 3   | Mexico         | 16               | 3   | Germany        | 17               | 3   | Philippines    | 18               | 4   | Philippines    | 17               | 4   |
| 13   | Poland         | 15               | 3   | Germany        | 14               | 3   | Brazil         | 16               | 3   | Czech Republic | 17               | 3   | Germany        | 16               | 4   |
| 14   | Czech Republic | 15               | 3   | Philippines    | 13               | 3   | Philippines    | 15               | 3   | Hong Kong      | 15               | 3   | Mexico         | 15               | 4   |
| 15   | Mexico         | 14               | 3   | Singapore      | 12               | 2   | France         | 15               | 3   | Mexico         | 12               | 2   | Czech Republic | 13               | 3   |
| 16   | Philippines    | 12               | 2   | Czech Republic | 12               | 2   | Czech Republic | 12               | 2   | Brazil         | 11               | 2   | U.K.           | 11               | 3   |
| 17   | U.K.           | 12               | 2   | U.K.           | 9                | 2   | Australia      | 11               | 2   | Germany        | 11               | 2   | Russia         | 11               | 3   |
| 18   | Hungary        | 8                | 2   | Poland         | 9                | 2   | Poland         | 10               | 2   | France         | 10               | 2   | Poland         | 10               | 2   |
| 19   | Canada         | 6                | 1   | France         | 8                | 2   | Mexico         | 9                | 2   | Australia      | 9                | 2   | Hong Kong      | 9                | 2   |
| 20   | Australia      | 6                | 1   | Australia      | 8                | 2   | U.K.           | 9                | 2   | Poland         | 9                | 2   | Hungary        | 9                | 2   |

## Promising countries/regions for SMEs over the medium term

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

| Rank | FY2006 Survey  | No. of Companies | (%) | FY2005 Survey | No. of Companies | (%) |
|------|----------------|------------------|-----|---------------|------------------|-----|
|      |                | 124              |     |               | 118              |     |
| 1    | China          | 95               | 77  | China         | 94               | 80  |
| 2    | Vietnam        | 57               | 46  | Vietnam       | 46               | 39  |
| 3    | India          | 52               | 42  | India         | 45               | 38  |
| 4    | Thailand       | 46               | 37  | Thailand      | 38               | 32  |
| 5    | U.S.           | 20               | 16  | U.S.          | 16               | 14  |
| 6    | Indonesia      | 15               | 12  | Indonesia     | 13               | 11  |
| 7    | Russia         | 14               | 11  | Korea         | 12               | 10  |
| 8    | Brazil         | 13               | 10  | Malaysia      | 11               | 9   |
| 9    | Malaysia       | 9                | 7   | Brazil        | 10               | 8   |
| 10   | Czech Republic | 7                | 6   | Russia        | 9                | 7   |
| 10   | Philippines    | 7                | 6   |               |                  |     |

## Promising countries/regions over the long term

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

| Rank | FY2006 Survey | No. of Companies | (%) | FY2005 Survey | No. of Companies | (%) |
|------|---------------|------------------|-----|---------------|------------------|-----|
|      |               | 404              |     |               | 399              |     |
| 1    | China         | 300              | 74  | China         | 307              | 77  |
| 2    | India         | 269              | 67  | India         | 220              | 55  |
| 3    | Russia        | 142              | 35  | Vietnam       | 110              | 28  |
| 4    | Vietnam       | 121              | 30  | Russia        | 110              | 28  |
| 5    | U.S.          | 89               | 22  | Thailand      | 96               | 24  |
| 6    | Thailand      | 87               | 22  | U.S.          | 69               | 17  |
| 7    | Brazil        | 79               | 20  | Brazil        | 68               | 17  |
| 8    | Indonesia     | 39               | 10  | Indonesia     | 35               | 9   |
| 9    | Korea         | 27               | 7   | Korea         | 25               | 6   |
| 10   | Malaysia      | 16               | 4   | Malaysia      | 20               | 5   |



## Appendix 2 Promising Countries/Regions for Overseas Business Operations

### – Details of Reasons for Promising Prospect –

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| FY 2006 Survey                             | 1<br>China          |      | 2<br>India          |      | 3<br>Vietnam        |      | 4<br>Thailand       |      | 5<br>U.S.           |      | 6<br>Russia         |      | 7<br>Brazil         |      | 8<br>Korea          |      | 9<br>Indonesia      |      | 10<br>Taiwan        |      |
|--|---------------------|------|---------------------|------|---------------------|------|---------------------|------|---------------------|------|---------------------|------|---------------------|------|---------------------|------|---------------------|------|---------------------|------|
|  | No. of<br>Companies | %    | No. of<br>Companies | %    | No. of<br>Companies | %    | No. of<br>Companies | %    | No. of<br>Companies | %    | No. of<br>Companies | %    | No. of<br>Companies | %    | No. of<br>Companies | %    | No. of<br>Companies | %    | No. of<br>Companies | %    |
|  |                     |      |                     |      |                     |      |                     |      |                     |      |                     |      |                     |      |                     |      |                     |      |                     |      |
| Number of respondent companies             | 362                 | 100  | 223                 | 100  | 154                 | 100  | 133                 | 100  | 101                 | 100  | 94                  | 100  | 44                  | 100  | 41                  | 100  | 37                  | 100  | 26                  | 100  |
| Excellent human resources                  | 60                  | 16.6 | 78                  | 35.0 | 54                  | 35.1 | 23                  | 17.3 | 16                  | 15.8 | 5                   | 5.3  | 3                   | 6.8  | 4                   | 9.8  | 3                   | 8.1  | 3                   | 11.5 |
| Inexpensive labor force                    | 207                 | 57.2 | 99                  | 44.4 | 110                 | 71.4 | 61                  | 45.9 | 2                   | 2.0  | 16                  | 17.0 | 10                  | 22.7 | 3                   | 7.3  | 20                  | 54.1 | 4                   | 15.4 |
| Low-cost parts and raw materials           | 85                  | 23.5 | 20                  | 9.0  | 9                   | 5.8  | 12                  | 9.0  | 4                   | 4.0  | 3                   | 3.2  | 3                   | 6.8  | 1                   | 2.4  | 6                   | 16.2 | 3                   | 11.5 |
| Supply base for assembly manufacturers     | 99                  | 27.3 | 47                  | 21.1 | 35                  | 22.7 | 49                  | 36.8 | 19                  | 18.8 | 15                  | 16.0 | 8                   | 18.2 | 5                   | 12.2 | 7                   | 18.9 | 4                   | 15.4 |
| Industrial cluster                         | 60                  | 16.6 | 14                  | 6.3  | 7                   | 4.5  | 40                  | 30.1 | 20                  | 19.8 | 2                   | 2.1  | 2                   | 4.5  | 5                   | 12.2 | 4                   | 10.8 | 3                   | 11.5 |
| Risk diversification                       | 7                   | 1.9  | 24                  | 10.8 | 56                  | 36.4 | 28                  | 21.1 | 1                   | 1.0  | 4                   | 4.3  | 4                   | 9.1  | 1                   | 2.4  | 2                   | 5.4  | -                   | -    |
| Base for exports to Japan                  | 55                  | 15.2 | 5                   | 2.2  | 17                  | 11.0 | 17                  | 12.8 | -                   | -    | 1                   | 1.1  | 2                   | 4.5  | -                   | -    | 7                   | 18.9 | 1                   | 3.8  |
| Base for export to the third countries     | 70                  | 19.3 | 21                  | 9.4  | 28                  | 18.2 | 38                  | 28.6 | 1                   | 1.0  | -                   | -    | 5                   | 11.4 | 3                   | 7.3  | 10                  | 27.0 | 2                   | 7.7  |
| Present local market size                  | 90                  | 24.9 | 26                  | 11.7 | 8                   | 5.2  | 32                  | 24.1 | 71                  | 70.3 | 14                  | 14.9 | 7                   | 15.9 | 17                  | 41.5 | 10                  | 27.0 | 13                  | 50.0 |
| Growth Potential of the market             | 298                 | 82.3 | 185                 | 83.0 | 72                  | 46.8 | 56                  | 42.1 | 45                  | 44.6 | 88                  | 93.6 | 36                  | 81.8 | 30                  | 73.2 | 22                  | 59.5 | 18                  | 69.2 |
| Profitability of local market              | 26                  | 7.2  | 9                   | 4.0  | 6                   | 3.9  | 14                  | 10.5 | 22                  | 21.8 | 8                   | 8.5  | 6                   | 13.6 | 7                   | 17.1 | 5                   | 13.5 | 3                   | 11.5 |
| Product development for local needs        | 16                  | 4.4  | 5                   | 2.2  | 2                   | 1.3  | 7                   | 5.3  | 13                  | 12.9 | -                   | -    | -                   | -    | 1                   | 2.4  | -                   | -    | -                   | -    |
| Developed local infrastructure             | 21                  | 5.8  | 4                   | 1.8  | 6                   | 3.9  | 37                  | 27.8 | 43                  | 42.6 | 4                   | 4.3  | 2                   | 4.5  | 7                   | 17.1 | 3                   | 8.1  | 4                   | 15.4 |
| Developed distribution services            | 11                  | 3.0  | 1                   | 0.4  | 3                   | 1.9  | 9                   | 6.8  | 25                  | 24.8 | -                   | -    | -                   | -    | 4                   | 9.8  | 3                   | 8.1  | 3                   | 11.5 |
| Tax incentives for investment              | 49                  | 13.5 | 12                  | 5.4  | 26                  | 16.9 | 32                  | 24.1 | 2                   | 2.0  | 4                   | 4.3  | 2                   | 4.5  | 5                   | 12.2 | -                   | -    | 5                   | 19.2 |
| Stable policies to attract foreign capital | 5                   | 1.4  | 3                   | 1.3  | 13                  | 8.4  | 22                  | 16.5 | 5                   | 5.0  | 1                   | 1.1  | 1                   | 2.3  | 2                   | 4.9  | 1                   | 2.7  | 1                   | 3.8  |
| Stable political and social conditions     | 5                   | 1.4  | 13                  | 5.8  | 24                  | 15.6 | 33                  | 24.8 | 38                  | 37.6 | 3                   | 3.2  | 3                   | 6.8  | 3                   | 7.3  | 1                   | 2.7  | 1                   | 3.8  |

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

| FY 2006 Survey  | 1<br>China       |      | 2<br>India       |      | 3<br>Vietnam     |      | 4<br>Thailand    |      | 5<br>U.S.        |      | 6<br>Russia      |      | 7<br>Brazil      |      | 8<br>Korea       |      | 9<br>Indonesia   |      | 10<br>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 | %    |
| Number of respondent companies                          | 351              | 100  | 178              | 100  | 127              | 100  | 107              | 100  | 88               | 100  | 79               | 100  | 36               | 100  | 36               | 100  | 31               | 100  | 22               | 100  |
| Under-development of legal system                       | 77               | 21.9 | 27               | 15.2 | 39               | 30.7 | 2                | 1.9  | 2                | 2.3  | 24               | 30.4 | 7                | 19.4 | -                | -    | -                | -    | -                | -    |
| Unclear operation of legal system                       | 228              | 65.0 | 55               | 30.9 | 42               | 33.1 | 10               | 9.3  | -                | -    | 40               | 50.6 | 13               | 36.1 | 2                | 5.6  | 10               | 32.3 | 1                | 4.5  |
| Complex tax collection systems                          | 63               | 17.9 | 26               | 14.6 | 7                | 5.5  | 9                | 8.4  | 2                | 2.3  | 11               | 13.9 | 10               | 27.8 | 1                | 2.8  | 3                | 9.7  | 1                | 4.5  |
| Unclear operation of taxation system                    | 119              | 33.9 | 39               | 21.9 | 22               | 17.3 | 8                | 7.5  | 2                | 2.3  | 20               | 25.3 | 10               | 27.8 | 2                | 5.6  | 6                | 19.4 | 2                | 9.1  |
| Increase in tax burden                                  | 72               | 20.5 | 13               | 7.3  | 7                | 5.5  | 13               | 12.1 | 19               | 21.6 | 5                | 6.3  | 4                | 11.1 | 5                | 13.9 | 1                | 3.2  | 4                | 18.2 |
| Restrictions on foreign capital                         | 103              | 29.3 | 20               | 11.2 | 21               | 16.5 | 8                | 7.5  | 1                | 1.1  | 14               | 17.7 | 3                | 8.3  | 2                | 5.6  | 3                | 9.7  | 1                | 4.5  |
| Complex and vague investment permit procedures          | 79               | 22.5 | 23               | 12.9 | 15               | 11.8 | 10               | 9.3  | 2                | 2.3  | 18               | 22.8 | 6                | 16.7 | 2                | 5.6  | 3                | 9.7  | -                | -    |
| Difficulty in obtaining immigration or working visas    | 8                | 2.3  | 3                | 1.7  | 1                | 0.8  | 4                | 3.7  | 12               | 13.6 | 4                | 5.1  | 7                | 19.4 | -                | -    | 1                | 3.2  | -                | -    |
| Insufficient protection of intellectual property rights | 167              | 47.6 | 16               | 9.0  | 16               | 12.6 | 6                | 5.6  | 1                | 1.1  | 14               | 17.7 | 7                | 19.4 | 4                | 11.1 | 1                | 3.2  | 3                | 13.6 |
| Restrictions on currency exchange and remittance        | 147              | 41.9 | 21               | 11.8 | 15               | 11.8 | 9                | 8.4  | -                | -    | 11               | 13.9 | 7                | 19.4 | 1                | 2.8  | 1                | 3.2  | 2                | 9.1  |
| Import restrictions and customs clearance               | 81               | 23.1 | 23               | 12.9 | 18               | 14.2 | 11               | 10.3 | 3                | 3.4  | 15               | 19.0 | 9                | 25.0 | 4                | 11.1 | 1                | 3.2  | 2                | 9.1  |
| Difficulty in securing personnel (technical staffs)     | 67               | 19.1 | 24               | 13.5 | 23               | 18.1 | 26               | 24.3 | 12               | 13.6 | 11               | 13.9 | 7                | 19.4 | 1                | 2.8  | 5                | 16.1 | -                | -    |
| Difficulty in securing personnel (management level)     | 86               | 24.5 | 26               | 14.6 | 39               | 30.7 | 46               | 43.0 | 19               | 21.6 | 12               | 15.2 | 10               | 27.8 | 1                | 2.8  | 11               | 35.5 | 4                | 18.2 |
| Increase in labor costs                                 | 154              | 43.9 | 16               | 9.0  | 22               | 17.3 | 44               | 41.1 | 33               | 37.5 | 13               | 16.5 | 5                | 13.9 | 18               | 50.0 | 6                | 19.4 | 10               | 45.5 |
| Labor problems  | 63               | 17.9 | 43               | 24.2 | 13               | 10.2 | 20               | 18.7 | 15               | 17.0 | 8                | 10.1 | 8                | 22.2 | 6                | 16.7 | 3                | 9.7  | 2                | 9.1  |
| Intense competition in the local market                 | 161              | 45.9 | 45               | 25.3 | 20               | 15.7 | 50               | 46.7 | 75               | 85.2 | 15               | 19.0 | 13               | 36.1 | 25               | 69.4 | 12               | 38.7 | 16               | 72.7 |
| Difficulty in collecting receivables                    | 116              | 33.0 | 23               | 12.9 | 4                | 3.1  | 1                | 0.9  | 2                | 2.3  | 13               | 16.5 | 7                | 19.4 | 2                | 5.6  | -                | -    | 2                | 9.1  |
| Difficulty in funding                                   | 19               | 5.4  | 11               | 6.2  | 7                | 5.5  | 2                | 1.9  | 1                | 1.1  | 7                | 8.9  | 7                | 19.4 | -                | -    | 1                | 3.2  | -                | -    |
| Under-development of local supporting industries        | 30               | 8.5  | 33               | 18.5 | 26               | 20.5 | 9                | 8.4  | 1                | 1.1  | 12               | 15.2 | 5                | 13.9 | -                | -    | 2                | 6.5  | -                | -    |
| Instability of local currency and price                 | 15               | 4.3  | 13               | 7.3  | 8                | 6.3  | 5                | 4.7  | -                | -    | 13               | 16.5 | 13               | 36.1 | 3                | 8.3  | 12               | 38.7 | 2                | 9.1  |
| Under-development of infrastructure                     | 94               | 26.8 | 89               | 50.0 | 63               | 49.6 | 10               | 9.3  | -                | -    | 17               | 21.5 | 10               | 27.8 | -                | -    | 13               | 41.9 | 1                | 4.5  |
| Unstable security and social conditions                 | 75               | 21.4 | 46               | 25.8 | 13               | 10.2 | 5                | 4.7  | 1                | 1.1  | 32               | 40.5 | 14               | 38.9 | 5                | 13.9 | 14               | 45.2 | 6                | 27.3 |
| Insufficient information on investment climate          | 13               | 3.7  | 48               | 27.0 | 29               | 22.8 | 4                | 3.7  | 1                | 1.1  | 37               | 46.8 | 7                | 19.4 | 1                | 2.8  | 3                | 9.7  | -                | -    |

| FY 2005 Survey  | 1<br>China       |      | 2<br>India       |      | 4<br>Vietnam     |      | 3<br>Thailand    |      | 5<br>U.S.        |      | 6<br>Russia      |      | 9<br>Brazil      |      | 7<br>Korea       |      | 8<br>Indonesia   |      | 10<br>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 | %    |
| Number of respondent companies                          | 380              | 100  | 127              | 100  | 94               | 100  | 103              | 100  | 78               | 100  | 46               | 100  | 30               | 100  | 33               | 100  | 39               | 100  | 25               | 100  |
| Under-development of legal system                       | 108              | 28.4 | 24               | 18.9 | 37               | 39.4 | 7                | 6.8  | -                | -    | 15               | 32.6 | 8                | 26.7 | -                | -    | 9                | 23.1 | -                | -    |
| Unclear operation of legal system                       | 263              | 69.2 | 35               | 27.6 | 35               | 37.2 | 11               | 10.7 | 1                | 1.3  | 21               | 45.7 | 9                | 30.0 | 1                | 3.0  | 13               | 33.3 | 1                | 4.0  |
| Complex tax collection systems                          | 93               | 24.5 | 23               | 18.1 | 8                | 8.5  | 6                | 5.8  | -                | -    | 7                | 15.2 | 6                | 20.0 | -                | -    | 7                | 17.9 | -                | -    |
| Unclear operation of taxation system                    | 152              | 40.0 | 27               | 21.3 | 14               | 14.9 | 8                | 7.8  | -                | -    | 10               | 21.7 | 5                | 16.7 | 3                | 9.1  | 9                | 23.1 | 2                | 8.0  |
| Increase in tax burden                                  | 83               | 21.8 | 8                | 6.3  | 4                | 4.3  | 17               | 16.5 | 15               | 19.2 | 2                | 4.3  | 1                | 3.3  | 4                | 12.1 | 2                | 5.1  | 6                | 24.0 |
| Restrictions on foreign capital                         | 126              | 33.2 | 24               | 18.9 | 17               | 18.1 | 9                | 8.7  | 1                | 1.3  | 9                | 19.6 | 4                | 13.3 | 1                | 3.0  | 6                | 15.4 | 1                | 4.0  |
| Complex and vague investment permit procedures          | 98               | 25.8 | 23               | 18.1 | 12               | 12.8 | 7                | 6.8  | 3                | 3.8  | 11               | 23.9 | 2                | 6.7  | 1                | 3.0  | 6                | 15.4 | -                | -    |
| Difficulty in obtaining immigration or working visas    | 5                | 1.3  | -                | -    | -                | -    | 4                | 3.9  | 11               | 14.1 | 3                | 6.5  | 3                | 10.0 | -                | -    | 3                | 7.7  | 1                | 4.0  |
| Insufficient protection of intellectual property rights | 202              | 53.2 | 10               | 7.9  | 9                | 9.6  | 6                | 5.8  | 1                | 1.3  | 7                | 15.2 | 1                | 3.3  | 5                | 15.2 | 7                | 17.9 | 3                | 12.0 |
| Restrictions on currency exchange and remittance        | 172              | 45.3 | 18               | 14.2 | 8                | 8.5  | 8                | 7.8  | 1                | 1.3  | 6                | 13.0 | 9                | 30.0 | 3                | 9.1  | 3                | 7.7  | 1                | 4.0  |
| Import restrictions and customs clearance               | 76               | 20.0 | 15               | 11.8 | 5                | 5.3  | 10               | 9.7  | 1                | 1.3  | 8                | 17.4 | 5                | 16.7 | 4                | 12.1 | 5                | 12.8 | 2                | 8.0  |
| Anti-dumping measures                                   | 16               | 4.2  | 1                | 0.8  | 2                | 2.1  | 2                | 1.9  | 8                | 10.3 | -                | -    | -                | -    | 1                | 3.0  | -                | -    | -                | -    |
| Difficulty in securing personnel (management level)     | 111              | 29.2 | 22               | 17.3 | 18               | 19.1 | 53               | 51.5 | 14               | 17.9 | 7                | 15.2 | 6                | 20.0 | 2                | 6.1  | 18               | 46.2 | 3                | 12.0 |
| Increase in labor costs                                 | 147              | 38.7 | 5                | 3.9  | 10               | 10.6 | 35               | 34.0 | 26               | 33.3 | 3                | 6.5  | 5                | 16.7 | 12               | 36.4 | 4                | 10.3 | 7                | 28.0 |
| Labor problems  | 74               | 19.5 | 21               | 16.5 | 5                | 5.3  | 12               | 11.7 | 15               | 19.2 | 4                | 8.7  | 3                | 10.0 | 11               | 33.3 | 13               | 33.3 | -                | -    |
| Intense competition in the local market                 | 169              | 44.5 | 30               | 23.6 | 9                | 9.6  | 46               | 44.7 | 49               | 62.8 | 8                | 17.4 | 4                | 13.3 | 18               | 54.5 | 13               | 33.3 | 16               | 64.0 |
| Difficulty in collecting receivables                    | 144              | 37.9 | 17               | 13.4 | 4                | 4.3  | -                | -    | -                | -    | 10               | 21.7 | 4                | 13.3 | 1                | 3.0  | -                | -    | 1                | 4.0  |
| Difficulty in funding                                   | 26               | 6.8  | 3                | 2.4  | -                | -    | 2                | 1.9  | -                | -    | 5                | 10.9 | 2                | 6.7  | 1                | 3.0  | 1                | 2.6  | 1                | 4.0  |
| Under-development of local supporting industries        | 36               | 9.5  | 23               | 18.1 | 26               | 27.7 | 7                | 6.8  | 1                | 1.3  | 8                | 17.4 | 4                | 13.3 | -                | -    | 4                | 10.3 | -                | -    |
| Instability of local currency and price                 | 24               | 6.3  | 8                | 6.3  | 4                | 4.3  | -                | -    | -                | -    | 9                | 19.6 | 11               | 36.7 | -                | -    | 11               | 28.2 | -                | -    |
| Under-development of infrastructure                     | 134              | 35.3 | 61               | 48.0 | 48               | 51.1 | 11               | 10.7 | 2                | 2.6  | 14               | 30.4 | 4                | 13.3 | -                | -    | 11               | 28.2 | -                | -    |
| Under-development of distribution services              | 50               | 13.2 | 27               | 21.3 | 24               | 25.5 | 6                | 5.8  | -                | -    | 8                | 17.4 | 2                | 6.7  | 1                | 3.0  | 7                | 17.9 | -                | -    |
| Unstable security and social conditions                 | 128              | 33.7 | 23               | 18.1 | 8                | 8.5  | 2                | 1.9  | 2                | 2.6  | 21               | 45.7 | 13               | 43.3 | 5                | 15.2 | 26               | 66.7 | -                | -    |
| Insufficient information on investment climate          | 13               | 3.4  | 46               | 36.2 | 26               | 27.7 | 2                | 1.9  | -                | -    | 19               | 41.3 | 7                | 23.3 | -                | -    | 6                | 15.4 | -                | -    |

## Appendix 4 Promising Countries/Regions for Overseas Business Operations

### -Issues for Promising Prospect: Top and Top Three Issues-

Note: The top table shows only those issues regarded as the most serious; the bottom table shows the top three issues in order of severity.

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| Top Issue   | 1      |      | 2      |      | 3       |      | 4        |      | 5      |      | 6      |      | 7      |      | 8      |      | 9         |      | 10     |      |
|---|--------|------|--------|------|---------|------|----------|------|--------|------|--------|------|--------|------|--------|------|-----------|------|--------|------|
|   | China  |      | India  |      | Vietnam |      | Thailand |      | U.S.   |      | Russia |      | Brazil |      | Korea  |      | Indonesia |      | Taiwan |      |
|   | No. of | %    | No. of | %    | No. of  | %    | No. of   | %    | No. of | %    | No. of | %    | No. of | %    | No. of | %    | No. of    | %    | No. of | %    |
| Number of respondent companies                          | 261    | 100  | 136    | 100  | 102     | 100  | 91       | 100  | 77     | 100  | 61     | 100  | 25     | 100  | 31     | 100  | 22        | 100  | 21     | 100  |
| Under-development of legal system                       | 16     | 6.1  | 7      | 5.1  | 14      | 13.7 | -        | -    | 1      | 1.3  | 6      | 9.8  | 1      | 4.0  | -      | -    | -         | -    | -      | -    |
| Unclear operation of legal system                       | 63     | 24.1 | 7      | 5.1  | 12      | 11.8 | 2        | 2.2  | -      | -    | 12     | 19.7 | 1      | 4.0  | -      | -    | 2         | 9.1  | -      | -    |
| Complex tax collection systems                          | 4      | 1.5  | 4      | 2.9  | -       | -    | 2        | 2.2  | -      | -    | 1      | 1.6  | 3      | 12.0 | -      | -    | -         | -    | -      | -    |
| Unclear operation of taxation system                    | 7      | 2.7  | 4      | 2.9  | 3       | 2.9  | -        | -    | -      | -    | -      | -    | -      | -    | -      | -    | 3         | 13.6 | -      | -    |
| Increase in tax burden                                  | 9      | 3.4  | 2      | 1.5  | 2       | 2.0  | -        | -    | 6      | 7.8  | 1      | 1.6  | 1      | 4.0  | -      | -    | -         | -    | 1      | 4.8  |
| Restrictions on foreign capital                         | 11     | 4.2  | 2      | 1.5  | 2       | 2.0  | 4        | 4.4  | -      | -    | -      | -    | 1      | 4.0  | -      | -    | 1         | 4.5  | -      | -    |
| Complex and vague investment permit procedures          | 12     | 4.6  | 4      | 2.9  | 1       | 1.0  | -        | -    | -      | -    | 2      | 3.3  | 1      | 4.0  | -      | -    | -         | -    | -      | -    |
| Difficulty in obtaining immigration or working visas    | -      | -    | -      | -    | -       | -    | 1        | 1.1  | 2      | 2.6  | -      | -    | -      | -    | -      | -    | -         | -    | -      | -    |
| Insufficient protection of intellectual property rights | 15     | 5.7  | 1      | 0.7  | 1       | 1.0  | -        | -    | -      | -    | -      | -    | -      | -    | -      | -    | -         | -    | 1      | 4.8  |
| Restrictions on currency exchange and remittance        | 13     | 5.0  | 1      | 0.7  | -       | -    | 2        | 2.2  | -      | -    | -      | -    | 1      | 4.0  | -      | -    | -         | -    | -      | -    |
| Import restrictions and customs clearance               | 6      | 2.3  | 1      | 0.7  | 4       | 3.9  | 1        | 1.1  | -      | -    | 3      | 4.9  | 1      | 4.0  | 1      | 3.2  | 1         | 4.5  | -      | -    |
| Difficulty in securing personnel (technical staffs)     | 8      | 3.1  | 2      | 1.5  | 1       | 1.0  | 8        | 8.8  | 4      | 5.2  | -      | -    | -      | -    | -      | -    | -         | -    | -      | -    |
| Difficulty in securing personnel (management level)     | 11     | 4.2  | 4      | 2.9  | 10      | 9.8  | 15       | 16.5 | 3      | 3.9  | 1      | 1.6  | 1      | 4.0  | -      | -    | 1         | 4.5  | 1      | 4.8  |
| Increase in labor costs                                 | 17     | 6.5  | 2      | 1.5  | 3       | 2.9  | 15       | 16.5 | 6      | 7.8  | 2      | 3.3  | -      | -    | 9      | 29.0 | 1         | 4.5  | 5      | 23.8 |
| Labor problems  | 5      | 1.9  | 6      | 4.4  | -       | -    | 5        | 5.5  | 5      | 6.5  | -      | -    | -      | -    | 2      | 6.5  | -         | -    | -      | -    |
| Intense competition in the local market                 | 38     | 14.6 | 14     | 10.3 | 6       | 5.9  | 26       | 28.6 | 48     | 62.3 | 3      | 4.9  | 5      | 20.0 | 18     | 58.1 | 7         | 31.8 | 11     | 52.4 |
| Difficulty in collecting receivables                    | 12     | 4.6  | 2      | 1.5  | -       | -    | -        | -    | 1      | 1.3  | 1      | 1.6  | 1      | 4.0  | -      | -    | -         | -    | 1      | 4.8  |
| Difficulty in funding                                   | -      | -    | -      | -    | -       | -    | 1        | 1.1  | -      | -    | 1      | 1.6  | -      | -    | -      | -    | -         | -    | -      | -    |
| Under-development of local supporting industries        | 3      | 1.1  | 4      | 2.9  | 6       | 5.9  | 2        | 2.2  | -      | -    | 3      | 4.9  | 1      | 4.0  | -      | -    | -         | -    | -      | -    |
| Instability of local currency and price                 | -      | -    | -      | -    | -       | -    | -        | -    | -      | -    | -      | -    | 3      | 12.0 | -      | -    | 2         | 9.1  | -      | -    |
| Under-development of infrastructure                     | 2      | 0.8  | 45     | 33.1 | 22      | 21.6 | 3        | 3.3  | -      | -    | 5      | 8.2  | -      | -    | -      | -    | 1         | 4.5  | -      | -    |
| Unstable security and social conditions                 | 9      | 3.4  | 8      | 5.9  | 3       | 2.9  | 2        | 2.2  | 1      | 1.3  | 7      | 11.5 | 2      | 8.0  | 1      | 3.2  | 2         | 9.1  | 1      | 4.8  |
| Insufficient information on investment climate          | -      | -    | 16     | 11.8 | 12      | 11.8 | 2        | 2.2  | -      | -    | 13     | 21.3 | 2      | 8.0  | -      | -    | 1         | 4.5  | -      | -    |

| Top Three Issues  | 1      |      | 2      |      | 3       |      | 4        |      | 5      |      | 6      |      | 7      |      | 8      |      | 9         |      | 10     |      |
|---|--------|------|--------|------|---------|------|----------|------|--------|------|--------|------|--------|------|--------|------|-----------|------|--------|------|
|   | China  |      | India  |      | Vietnam |      | Thailand |      | U.S.   |      | Russia |      | Brazil |      | Korea  |      | Indonesia |      | Taiwan |      |
|   | No. of | %    | No. of | %    | No. of  | %    | No. of   | %    | No. of | %    | No. of | %    | No. of | %    | No. of | %    | No. of    | %    | No. of | %    |
| Number of respondent companies                          | 261    | 100  | 136    | 100  | 102     | 100  | 91       | 100  | 77     | 100  | 61     | 100  | 25     | 100  | 31     | 100  | 22        | 100  | 21     | 100  |
| Under-development of legal system                       | 25     | 9.6  | 14     | 10.3 | 25      | 24.5 | -        | -    | 1      | 1.3  | 11     | 18.0 | 1      | 4.0  | -      | -    | -         | -    | -      | -    |
| Unclear operation of legal system                       | 119    | 45.6 | 23     | 16.9 | 28      | 27.5 | 4        | 4.4  | -      | -    | 21     | 34.4 | 4      | 16.0 | 1      | 3.2  | 5         | 22.7 | -      | -    |
| Complex tax collection systems                          | 14     | 5.4  | 8      | 5.9  | -       | -    | 5        | 5.5  | -      | -    | 1      | 1.6  | 4      | 16.0 | -      | -    | -         | -    | -      | -    |
| Unclear operation of taxation system                    | 39     | 14.9 | 15     | 11.0 | 10      | 9.8  | 3        | 3.3  | 1      | 1.3  | 7      | 11.5 | 5      | 20.0 | 1      | 3.2  | 3         | 13.6 | 1      | 4.8  |
| Increase in tax burden                                  | 17     | 6.5  | 5      | 3.7  | 4       | 3.9  | 6        | 6.6  | 13     | 16.9 | 3      | 4.9  | 2      | 8.0  | 2      | 6.5  | 1         | 4.5  | 4      | 19.0 |
| Restrictions on foreign capital                         | 38     | 14.6 | 10     | 7.4  | 7       | 6.9  | 4        | 4.4  | 1      | 1.3  | 5      | 8.2  | 1      | 4.0  | -      | -    | 2         | 9.1  | -      | -    |
| Complex and vague investment permit procedures          | 22     | 8.4  | 6      | 4.4  | 4       | 3.9  | 3        | 3.3  | 1      | 1.3  | 7      | 11.5 | 3      | 12.0 | 1      | 3.2  | 1         | 4.5  | -      | -    |
| Difficulty in obtaining immigration or working visas    | -      | -    | -      | -    | -       | -    | 1        | 1.1  | 6      | 7.8  | -      | -    | -      | -    | -      | -    | -         | -    | -      | -    |
| Insufficient protection of intellectual property rights | 68     | 26.1 | 5      | 3.7  | 4       | 3.9  | 2        | 2.2  | -      | -    | -      | -    | 1      | 4.0  | 3      | 9.7  | -         | -    | 1      | 4.8  |
| Restrictions on currency exchange and remittance        | 54     | 20.7 | 9      | 6.6  | 8       | 7.8  | 5        | 5.5  | -      | -    | 3      | 4.9  | 3      | 12.0 | 1      | 3.2  | -         | -    | -      | -    |
| Import restrictions and customs clearance               | 24     | 9.2  | 7      | 5.1  | 9       | 8.8  | 6        | 6.6  | -      | -    | 5      | 8.2  | 2      | 8.0  | 3      | 9.7  | 1         | 4.5  | -      | -    |
| Difficulty in securing personnel (technical staffs)     | 25     | 9.6  | 11     | 8.1  | 9       | 8.8  | 17       | 18.7 | 9      | 11.7 | 4      | 6.6  | 3      | 12.0 | 1      | 3.2  | 1         | 4.5  | -      | -    |
| Difficulty in securing personnel (management level)     | 33     | 12.6 | 12     | 8.8  | 21      | 20.6 | 37       | 40.7 | 15     | 19.5 | 5      | 8.2  | 3      | 12.0 | -      | -    | 5         | 22.7 | 3      | 14.3 |
| Increase in labor costs                                 | 58     | 22.2 | 8      | 5.9  | 8       | 7.8  | 32       | 35.2 | 28     | 36.4 | 6      | 9.8  | 2      | 8.0  | 14     | 45.2 | 4         | 18.2 | 9      | 42.9 |
| Labor problems  | 17     | 6.5  | 23     | 16.9 | 5       | 4.9  | 13       | 14.3 | 11     | 14.3 | 1      | 1.6  | 1      | 4.0  | 4      | 12.9 | 1         | 4.5  | 1      | 4.8  |
| Intense competition in the local market                 | 69     | 26.4 | 24     | 17.6 | 12      | 11.8 | 36       | 39.6 | 65     | 84.4 | 7      | 11.5 | 8      | 32.0 | 20     | 64.5 | 10        | 45.5 | 14     | 66.7 |
| Difficulty in collecting receivables                    | 47     | 18.0 | 10     | 7.4  | -       | -    | 1        | 1.1  | 1      | 1.3  | 4      | 6.6  | 3      | 12.0 | 2      | 6.5  | -         | -    | 1      | 4.8  |
| Difficulty in funding                                   | 4      | 1.5  | 1      | 0.7  | 3       | 2.9  | 1        | 1.1  | -      | -    | 1      | 1.6  | -      | -    | -      | -    | -         | -    | -      | -    |
| Under-development of local supporting industries        | 10     | 3.8  | 15     | 11.0 | 13      | 12.7 | 6        | 6.6  | -      | -    | 6      | 9.8  | 1      | 4.0  | -      | -    | 1         | 4.5  | -      | -    |
| Instability of local currency and price                 | -      | -    | 4      | 2.9  | 4       | 3.9  | 3        | 3.3  | -      | -    | 3      | 4.9  | 6      | 24.0 | 2      | 6.5  | 7         | 31.8 | 1      | 4.8  |
| Under-development of infrastructure                     | 27     | 10.3 | 64     | 47.1 | 38      | 37.3 | 7        | 7.7  | -      | -    | 9      | 14.8 | 6      | 24.0 | -      | -    | 4         | 18.2 | 1      | 4.8  |
| Unstable security and social conditions                 | 22     | 8.4  | 23     | 16.9 | 7       | 6.9  | 3        | 3.3  | 1      | 1.3  | 17     | 27.9 | 4      | 16.0 | 2      | 6.5  | 7         | 31.8 | 3      | 14.3 |
| Insufficient information on investment climate          | -      | -    | 33     | 24.3 | 18      | 17.6 | 2        | 2.2  | 1      | 1.3  | 24     | 39.3 | 4      | 16.0 | -      | -    | 2         | 9.1  | -      | -    |

| Issues for Localization:<br>Management   | China            |      | Thailand         |      | Malaysia         |      | Indonesia        |      | Philippines      |      | Singapore        |      | Vietnam          |      | India            |      | Total for all countries |      |
|--|------------------|------|------------------|------|------------------|------|------------------|------|------------------|------|------------------|------|------------------|------|------------------|------|-------------------------|------|
|  | 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        | %    |
| Number of respondent companies   | 462              | 100  | 265              | 100  | 145              | 100  | 152              | 100  | 89               | 100  | 141              | 100  | 93               | 100  | 77               | 100  | 1,424                   | 100  |
| Lack of local human resources for management with appropriate remuneration     | 232              | 50.2 | 120              | 45.3 | 48               | 33.1 | 73               | 48.0 | 35               | 39.3 | 44               | 31.2 | 41               | 44.1 | 21               | 27.3 | 614                     | 43.1 |
| Absence of local top management who take initiative for promoting localization | 182              | 39.4 | 100              | 37.7 | 53               | 36.6 | 79               | 52.0 | 38               | 42.7 | 31               | 22.0 | 37               | 39.8 | 22               | 28.6 | 542                     | 38.1 |
| Difficulty in achieving smooth communication                                   | 175              | 37.9 | 74               | 27.9 | 27               | 18.6 | 44               | 28.9 | 9                | 10.1 | 12               | 8.5  | 30               | 32.3 | 20               | 26.0 | 391                     | 27.5 |
| Leakage of confidential information (incl. through job hopping)                | 157              | 34.0 | 50               | 18.9 | 25               | 17.2 | 29               | 19.1 | 17               | 19.1 | 29               | 20.6 | 15               | 16.1 | 18               | 23.4 | 340                     | 23.9 |
| Difficulty in producing manuals for local employees                            | 75               | 16.2 | 37               | 14.0 | 18               | 12.4 | 19               | 12.5 | 14               | 15.7 | 12               | 8.5  | 18               | 19.4 | 11               | 14.3 | 204                     | 14.3 |
| Setting up a personnel evaluation system appropriate to the local situation    | 77               | 16.7 | 26               | 9.8  | 14               | 9.7  | 19               | 12.5 | 13               | 14.6 | 12               | 8.5  | 12               | 12.9 | 14               | 18.2 | 187                     | 13.1 |
| Other  | 16               | 3.5  | 10               | 3.8  | 12               | 8.3  | 6                | 3.9  | 5                | 5.6  | 13               | 9.2  | 5                | 5.4  | 11               | 14.3 | 78                      | 5.5  |
| No specific issues   | 37               | 8.0  | 49               | 18.5 | 31               | 21.4 | 15               | 9.9  | 14               | 15.7 | 47               | 33.3 | 13               | 14.0 | 11               | 14.3 | 217                     | 15.2 |

| Issues for Localization:<br>Procurement                                      | China            |      | Thailand         |      | Malaysia         |      | Indonesia        |      | Philippines      |      | Singapore        |      | Vietnam          |      | Indonesia        |      | Total for all countries |      |
|--|------------------|------|------------------|------|------------------|------|------------------|------|------------------|------|------------------|------|------------------|------|------------------|------|-------------------------|------|
|  | 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        | %    |
| Number of respondent companies   | 400              | 100  | 218              | 100  | 116              | 100  | 136              | 100  | 72               | 100  | 106              | 100  | 78               | 100  | 61               | 100  | 1,187                   | 100  |
| Insufficient technological capacity of local enterprises                     | 221              | 55.3 | 98               | 45.0 | 38               | 32.8 | 70               | 51.5 | 27               | 37.5 | 15               | 14.2 | 30               | 38.5 | 25               | 41.0 | 524                     | 44.1 |
| Leakage of confidential information (including leaking of design drawings)   | 140              | 35.0 | 28               | 12.8 | 15               | 12.9 | 17               | 12.5 | 11               | 15.3 | 12               | 11.3 | 12               | 15.4 | 11               | 18.0 | 246                     | 20.7 |
| Insufficient cost competitiveness of Japanese/foreign-affiliated companies   | 68               | 17.0 | 27               | 12.4 | 24               | 20.7 | 21               | 15.4 | 15               | 20.8 | 18               | 17.0 | 14               | 17.9 | 9                | 14.8 | 196                     | 16.5 |
| Insufficient cost competitiveness of local enterprises                       | 59               | 14.8 | 34               | 15.6 | 13               | 11.2 | 24               | 17.6 | 10               | 13.9 | 11               | 10.4 | 13               | 16.7 | 8                | 13.1 | 172                     | 14.5 |
| Absence of local supporting industries                                       | 49               | 12.3 | 15               | 6.9  | 13               | 11.2 | 23               | 16.9 | 9                | 12.5 | 13               | 12.3 | 27               | 34.6 | 15               | 24.6 | 164                     | 13.8 |
| Insufficient technological capacity of Japanese/foreign-affiliated companies | 38               | 9.5  | 20               | 9.2  | 4                | 3.4  | 15               | 11.0 | 1                | 1.4  | 3                | 2.8  | 10               | 12.8 | 3                | 4.9  | 94                      | 7.9  |
| Other  | 30               | 7.5  | 13               | 6.0  | 6                | 5.2  | 6                | 4.4  | 2                | 2.8  | 8                | 7.5  | 3                | 3.8  | 8                | 13.1 | 76                      | 6.4  |
| No specific issues   | 57               | 14.3 | 72               | 33.0 | 40               | 34.5 | 28               | 20.6 | 20               | 27.8 | 49               | 46.2 | 12               | 15.4 | 9                | 14.8 | 287                     | 24.2 |

| Issues for Localization:<br>R&D                                    | China            |      | Thailand         |      | Malaysia         |      | Indonesia        |      | Philippines      |      | Singapore        |      | Vietnam          |      | India            |      | Total for all countries |      |
|--|------------------|------|------------------|------|------------------|------|------------------|------|------------------|------|------------------|------|------------------|------|------------------|------|-------------------------|------|
|  | 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        | %    |
| Number of respondent companies                                     | 397              | 100  | 203              | 100  | 115              | 100  | 120              | 100  | 69               | 100  | 102              | 100  | 69               | 100  | 56               | 100  | 1,131                   | 100  |
| Lack of local technical staffs with appropriate remuneration       | 181              | 45.6 | 95               | 46.8 | 43               | 37.4 | 65               | 54.2 | 30               | 43.5 | 30               | 29.4 | 28               | 40.6 | 18               | 32.1 | 490                     | 43.3 |
| Leakage of confidential information (human related factors)        | 167              | 42.1 | 50               | 24.6 | 34               | 29.6 | 29               | 24.2 | 18               | 26.1 | 23               | 22.5 | 14               | 20.3 | 17               | 30.4 | 352                     | 31.1 |
| Difficulty in achieving smooth communication                       | 125              | 31.5 | 52               | 25.6 | 20               | 17.4 | 35               | 29.2 | 10               | 14.5 | 6                | 5.9  | 17               | 24.6 | 14               | 25.0 | 279                     | 24.7 |
| Leakage of confidential information (legal system related factors) | 139              | 35.0 | 22               | 10.8 | 10               | 8.7  | 12               | 10.0 | 11               | 15.9 | 11               | 10.8 | 15               | 21.7 | 14               | 25.0 | 234                     | 20.7 |
| Absence of local universities or research institutions             | 5                | 1.3  | 3                | 1.5  | 5                | 4.3  | 5                | 4.2  | 3                | 4.3  | 2                | 2.0  | 5                | 7.2  | 2                | 3.6  | 30                      | 2.7  |
| Other  | 26               | 6.5  | 17               | 8.4  | 9                | 7.8  | 9                | 7.5  | 4                | 5.8  | 11               | 10.8 | 8                | 11.6 | 7                | 12.5 | 91                      | 8.0  |
| No specific issues   | 53               | 13.4 | 52               | 25.6 | 29               | 25.2 | 17               | 14.2 | 16               | 23.2 | 45               | 44.1 | 15               | 21.7 | 8                | 14.3 | 235                     | 20.8 |