

Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

Result of JBIC FY2010 Survey:

-Outlook for Japanese Foreign Direct Investment (22nd Annual Survey)-

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International Research Office, Corporate Planning Department
Japan Bank for International Cooperation

 JAPAN FINANCE CORPORATION



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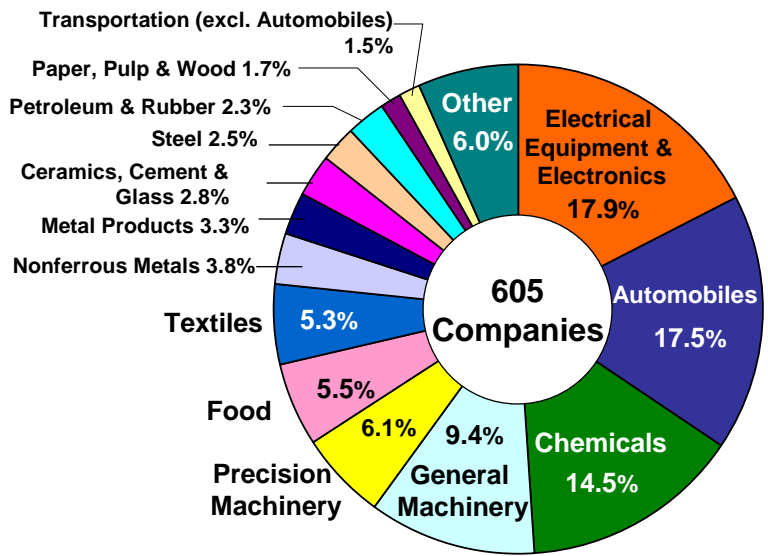
Survey Overview and Companies Surveyed

1. Survey Overview

Survey Overview

- **Survey targets:** Manufacturing companies that have three or more overseas affiliates (including at least one production base)
- **No. of companies questionnaires were mailed to:** 961
- **Responses returned:** 605 (response rate: 63.0%)
- **No. of foreign affiliates of respondent companies:** 11,685
- **Period of survey:** Sent in July, 2010
Responses returned from July to August
Face-to-face interviews (20) and phone interviews (179) conducted from August to November
- **Main survey topics:**
 - Medium-term business prospects
 - Evaluations of overseas business performance
 - Promising countries or regions for overseas business operations
 - Trends in profitability since the “Lehman shock”
 - Business operations and competition in emerging markets
 - Human resources for overseas expansion
 - Approaches to research and development
- **Note:** “Overseas business operations” is defined as production, sales, and R&D activities at overseas affiliates, as well as outsourcing of manufacturing and procurement.
- * Additional survey on business prospects in China in November 2010

No. of Respondent Companies by Industrial Classification



No. of Respondent Companies by Net Sales

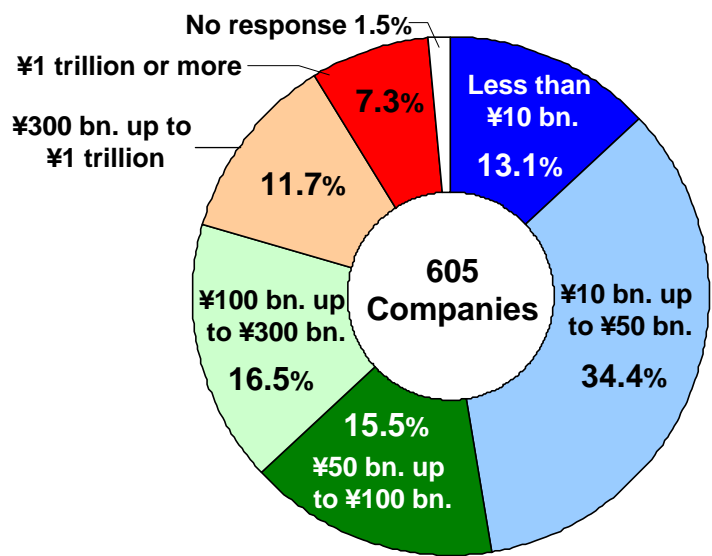


Figure 1: No. of Overseas Affiliates

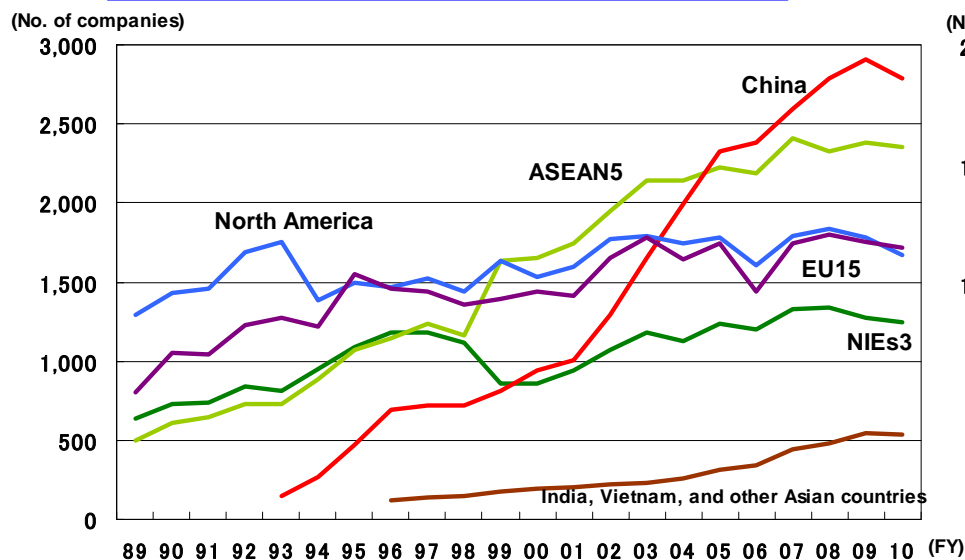
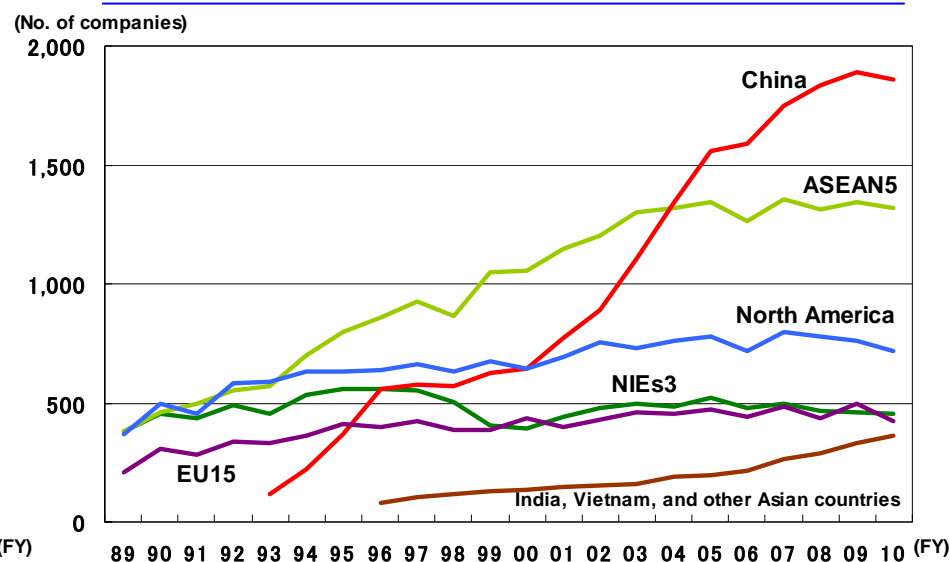


Figure 2: No. of Overseas Production Bases



Note 1: Data for China starts from FY1993. Data for other Asian countries starts from FY1996.

Note 2: Singapore was included in NIEs until FY1998 and in ASEAN from our 1999 survey. EU15 is defined as the EU line from 2004 survey.

Figure 3: By Function and Region

	NIEs3	ASEAN5	China	India, Vietnam, & other Asian countries	North America	Latin America	EU15	Central & Eastern Europe	Other European Countries & CIS Nations	Russia	Oceania	Middle East	Africa	Total
Production	456	1,322	1,860	361	717	237	426	130	28	16	56	14	36	5,659
Sales	704	792	732	126	599	214	1,007	100	68	47	132	62	44	4,627
R&D	6	42	61	8	87	5	59	2	1	1	4	1	1	278
Other	76	198	138	42	271	76	228	14	7	9	42	10	10	1,121
Total	1,242	2,354	2,791	537	1,674	532	1,720	246	104	73	234	87	91	11,685

(n=599) (Unit: Companies)

<The Classification of Major Regions>

NIEs3 (Korea, Taiwan, Hong Kong)
ASEAN5 (Singapore, Thailand, Indonesia, Malaysia, Philippines)
North America (United States, Canada)
EU15 (United Kingdom, Germany, France, Italy, Netherlands, Belgium, Greece, Luxembourg, Denmark, Spain, Portugal, Austria, Finland, Sweden, Ireland)
Central & Eastern Europe (Poland, Hungary, Czech Republic, Slovak Republic, Bulgaria, Romania, Slovenia, Albania, Croatia, Serbia, Montenegro, Bosnia-Herzegovina, Former Yugoslav Republic of Macedonia)

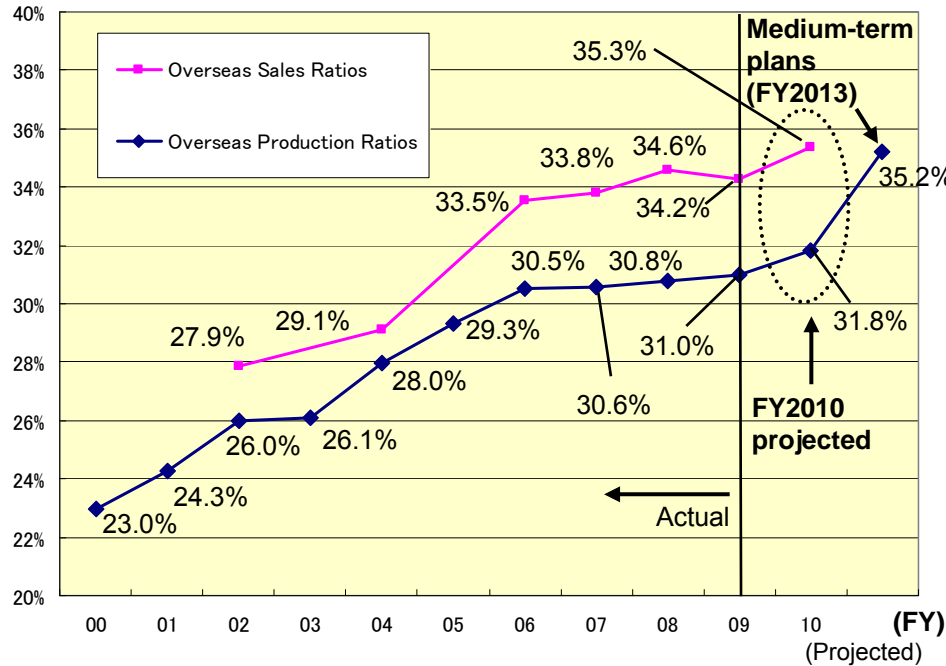
<The Classification of Areas in China>

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

3. Overseas Production and Sales Ratios

Note: See Appendix 6 for values by industry

Figure 4: Ratios of Overseas Production and Overseas Sales



- Overseas production & sales ratios both rose throughout the 2000's
- The ratio of overseas production*1 for FY2009 was 31.0%, rising 0.2 points from FY2008. Overseas production is expected to continue to rise, with the medium-term plans (FY2013) aiming even higher at 35.2%.
- While the ratio of overseas sales*2 was 34.2%, down from FY2008 by 0.4 points, according the projections for FY2010 they are expected to rise to an all-time high of 35.3%.

Figure 5: Ratio of Overseas Production by Major Industry

	FY2007 (actual)	FY2008 (actual)	FY2009 (actual)	FY2010 (projected)	Medium-term plans (FY2013)
All Industries	30.6%	30.8%	31.0%	31.8%	35.2%
Chemicals	22.3%	22.0%	20.1%	20.1%	23.5%
General Machinery	18.7%	19.7%	22.5%	22.8%	25.7%
Electrical Equipment & Electronics	43.6%	43.4%	44.3%	44.7%	47.6%
Automobiles	35.0%	36.1%	32.6%	34.0%	37.6%

Figure 6: Ratio of Overseas Sales by Major Industry

	FY2007 (actual)	FY2008 (actual)	FY2009 (actual)	FY2010 (projected)
All Industries	33.8%	34.6%	34.2%	35.3%
Chemicals	29.5%	28.3%	28.4%	28.5%
General Machinery	38.9%	38.7%	37.0%	38.8%
Electrical Equipment & Electronics	46.9%	45.8%	46.2%	47.6%
Automobiles	35.6%	38.6%	36.3%	37.9%

- *1 (Overseas Production) / (Domestic Production + Overseas Production)
- *2 (Overseas Sales) / (Domestic Sales + Overseas Sales)
- *3 Ratios were calculated by simply averaging the values the respondent companies provided.



I. Summary

Summary:

- **The profits of Japanese manufacturing companies are showing signs of recovery, aided by cost cuts across the board and increases in sales both domestically and overseas. Due to steady sales in emerging Asian countries in particular, more companies are willing to strengthen or expand their businesses targeting these emerging countries.**
- **As a promising country for investment in the medium term, China remains top. However, Indonesia also received a high ranking this year, and India has become the most promising country for investment in the long term. These findings indicate changing views among the companies surveyed toward emerging market countries.**
- **Of particular note is manufacturers' intention to strengthen businesses targeting the middle class in emerging Asian markets, but with the increased competitiveness of Chinese and Korean companies in both production and sales capacities, these markets are becoming even more competitive. Japanese companies are trying to balance their strengths in quality with costs while exploring ways to develop products that meet the needs of local customers and to improve their cost competitiveness.**
- **In the wake of the Senkaku Islands incident, Japanese companies are becoming increasingly wary of the risks associated with doing business in China. There is a growing awareness of the importance of risk diversification, and thus it will be interesting to monitor future trends as Japanese companies expand into emerging Asian markets.**

I. 2. Key Findings

■ Companies' profits are recovering from the Lehman shock, mainly due to progress in cutting costs across the board.

- When companies were asked about their most recent (known as of July 2010) levels of profitability compared to those in the financial crisis immediately following the collapse of Lehman Brothers, 126 (21.1%) responded that their profits had “substantially recovered” and 309 (51.8%) said they had “somewhat recovered”, bringing the “recovery” ratio to 73.0%. Among the reasons given for recovery of profits (multiple answers allowed), the top three in order were: 1) they had cut costs across the board (77.9%), 2) sales had increased at their overseas centers (61.4%), and 3) domestic sales had increased (53.7%) (→p.7).

■ Companies wishing to strengthen or expand overseas business operations exceeded 80%.

- Over the medium term, about 83% of companies expressed a desire to strengthen or expand their overseas operations (a 17 point year-on-year increase), indicating a greater desire to develop overseas businesses, particularly those targeting Asian countries. The proportion of companies expressing a desire to strengthen or expand domestic businesses also rose from last year (→p.14).

■ China, India, and Vietnam ranked 1st, 2nd and 3rd as promising countries. Brazil and Indonesia rose in rank.

- In the section of the survey ranking promising countries (including expectations), China retained the top spot, followed in order by India, Vietnam, and Thailand. The relative rank of these countries remained the same as last year. Increasing expectations for the market growth potential of Brazil and Indonesia pulled these countries into the 5th and 6th slots (→p.16).

■ The “middle class” is the priority focus in emerging markets. There is more competition with companies from emerging countries.

- When asked about the target demographics that companies are pursuing in emerging countries, responses were, in descending order: 1) the middle class (68.1%), 2) the affluent (16.4%), and 3) low-income customers (15.4%). The number of companies that cited Chinese, Korean, and Taiwanese companies as competitors in emerging markets rose from the previous FY2008 survey. When asked to compare Chinese, Korean, and Taiwanese companies to their own, respondents gave higher marks to the former than in the FY2008 survey. Thus, competition between Japanese companies and companies from emerging countries is becoming increasingly fierce (pp.28–30).

■ There are also concerns over risks in China.

- Some 22.6% of companies have been affected by the Senkaku Islands incident in one way or another. The effects most often cited are related to delays in customs clearance and the procurement of rare earth elements. Furthermore, 24.8% of companies responded that they had “lowered their estimation” of China as a “promising country”.
- Regarding willingness to do business in China, 35.1% of companies responded that they would proceed cautiously (including the possibility of rethinking their operations in China). As for their business prospects in China, 46.9% of companies acknowledged the importance of risk diversification in response to dependence on China (pp.33–34).



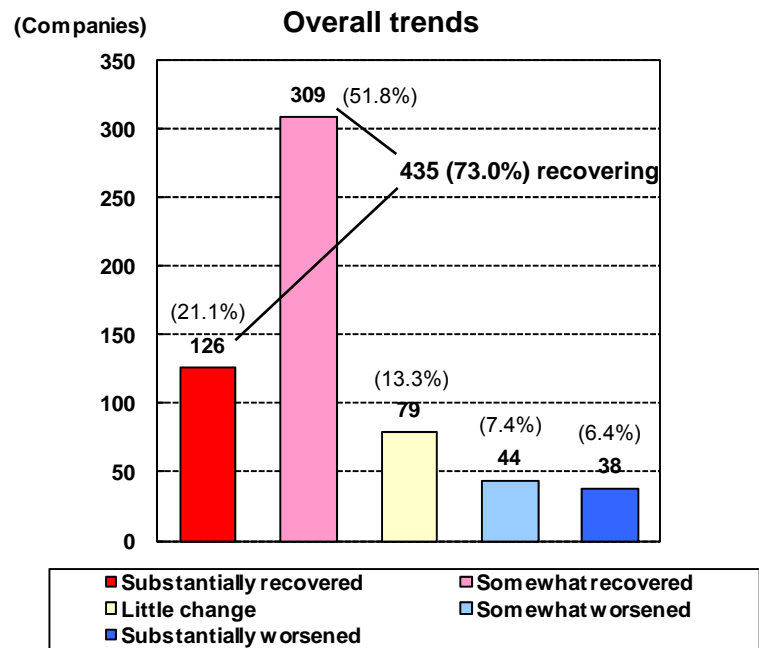
II. Profit Trends after the Collapse of Lehman Brothers (i.e. the “Lehman Shock”)

II. 1. Recovery of Profit Levels (by industry)

Q.

Question of how recent profitability has changed vs. right after Lehman shock.*

Figure 7: Recent Profitability (vs. right after Lehman shock)



73.0% of companies said their profit levels had recovered from post-Lehman shock levels.

- Of 596 respondent companies, 126 (21.1%) answered “substantially recovered” and 309 (51.8%) said “somewhat recovered”.
- By industry, responses of “recovery” were particularly high for Nonferrous Metals and Automobiles (100% and 90% respectively).
- As for corporate position, “Materials manufacturers” and “Parts & intermediate goods suppliers” outweigh “Finished product manufacturers & sellers” in terms of recovery (over 80%).

* “Recent” here means what companies were aware of at the time of the survey (as of July 2010).

Figure 8: Response by Industry

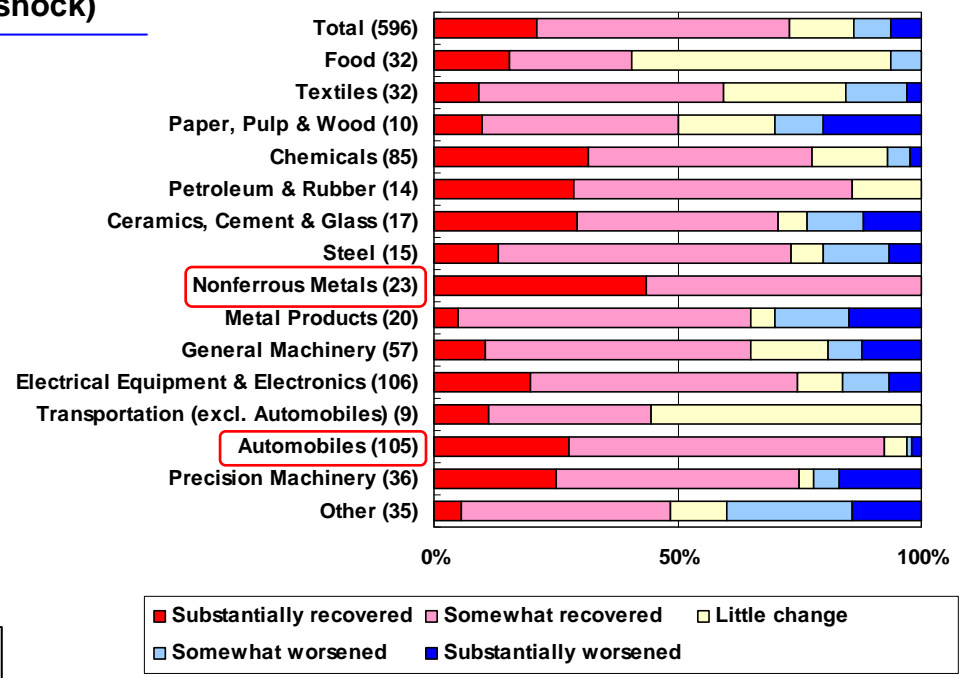
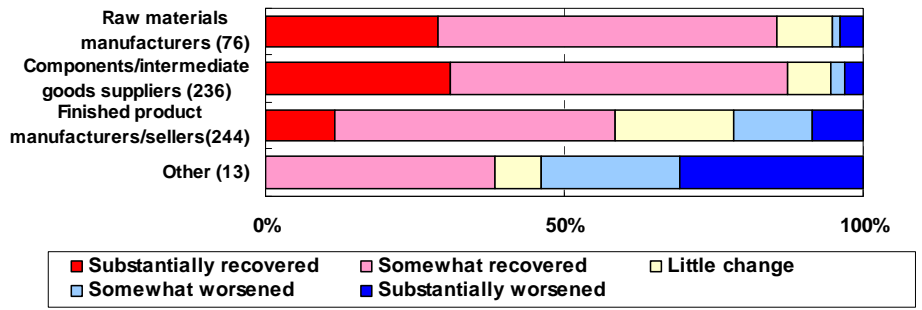


Figure 9: Response by Corporate Position



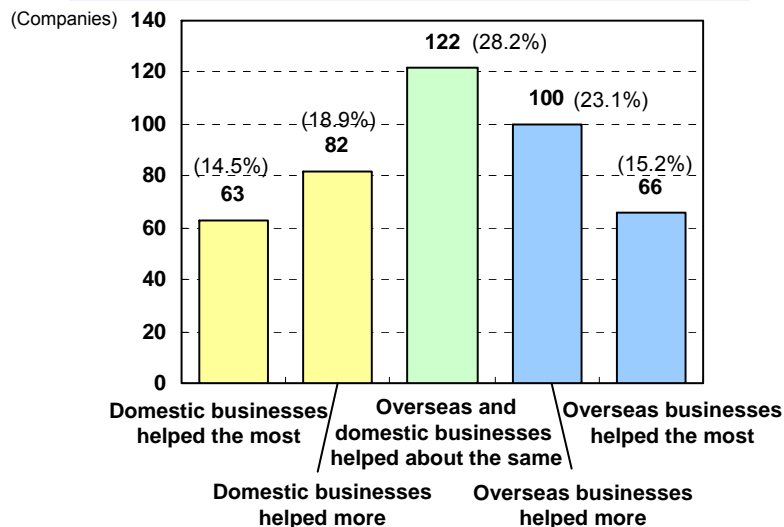
Note: Compiled from the 569 responses received out of the 596 surveyed companies in Figures 7 & 8

II. 2. Reasons Behind Recovery of Profit Levels

Q.

Question to companies that responded “substantially recovered” and “somewhat recovered” in Figure 7 regarding businesses contributing to recovery of profit levels

Figure 10: Businesses contributing to recovery of profit levels



Note: Of the 435 companies that answered “substantially recovered” and “somewhat recovered” in Figure 7, 433 companies responded.

■ **The degree to which domestic (33.5%) and overseas (38.3%) operations contributed to the recovery of profit levels was about the same (Figure 10)**

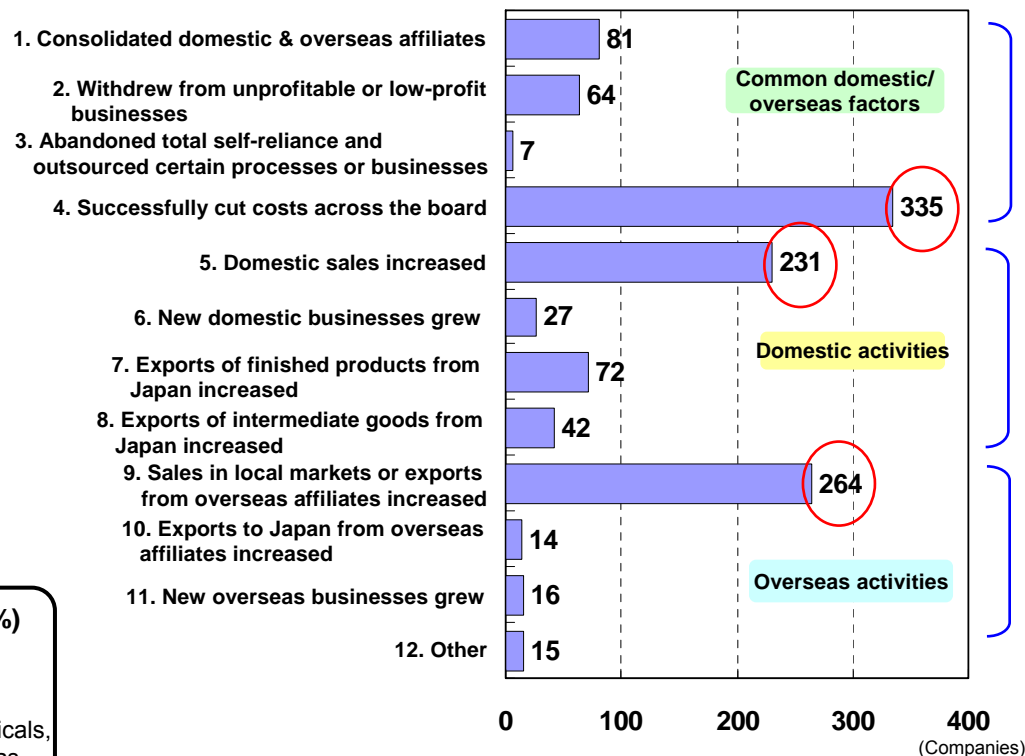
• In terms of industries, a high proportion of companies in textiles, chemicals, and steel, said domestic businesses contributed greatly, while overseas businesses helped more in metal products, general machinery assembly, electrical equipment/electronics parts and assembly, automobile parts and assembly, and precision machinery assembly.

■ **The top three reasons given for recovering profit levels were: 1) across-the-board cost cuts, 2) Increase of sales at overseas bases, and 3) Increase of domestic sales (Figure 11)**

• 77.9% of the respondent companies cited “4. Across-the-board cost cuts”, 61.4% cited “9. Sales in local markets/export increased”, and 53.7% cited “5. Domestic sales increased”.

• Among companies that cited “5. Domestic sales increases”, there were some instances where a company’s domestic sales increased in response to the recovery of the exports of their customers.

Figure 11: Reasons for recovery of profits (multiple response)



Note: Of the 435 companies that answered “substantially recovered” and “somewhat recovered” in Figure 7, 430 companies responded. Multiple responses were possible. There were 1,168 responses.



III. Performance Evaluations

Q. Which of the following applies concerning your previous fiscal year's net sales and profits compared with initial targets?
 ⇒ 1: Unsatisfactory 2: Somewhat unsatisfactory 3: Can't say either way 4: Somewhat satisfactory 5: Satisfactory

■ Asia showed better performance despite overall low satisfaction levels

- Although the all-industry averages were below “3” for both net sales and profits, performance improved from the previous fiscal year.
 Net sales: FY2008 2.34 → FY2009 2.55 (+0.21)
 Profits: FY2008 2.28 → FY2009 2.54 (+0.26)
- Higher satisfaction levels for net sales and profits were seen in **China**, ASEAN and other Asian countries, particularly in **Indonesia** and **Thailand**.
- **India**, which has been the focus of attention, placed relatively low among Asian countries in both net sales and profits, primarily because of increased competition.
- Among Western nations, North America is recovering slightly, though dissatisfaction in Europe continues.

Figure 13: Satisfaction with Net Sales (all-industry averages)

FY2007 Performance			FY2008 Performance			FY2009 Performance		
1	EU15	3.06	1	Latin America	2.51	1	China	2.73
2	Russia	3.05	2	China	2.46	2	ASEAN5	2.70
3	ASEAN5	3.00	3	ASEAN5	2.43	3	Vietnam	2.65
3	Latin America	3.00	3	India	2.43	4	Latin America	2.55
5	NIEs3	2.98	5	Vietnam	2.35	5	NIEs3	2.54
5	Central & Eastern Europe	2.98	6	NIEs3	2.30	6	India	2.53
7	Vietnam	2.94	7	Russia	2.23	7	Central & Eastern Europe	2.37
8	China	2.87	8	EU15	2.22	8	North America	2.24
9	India	2.74	9	Central & Eastern Europe	2.10	9	EU15	2.19
10	North America	2.68	10	North America	2.03	10	Russia	2.12
ASEAN5 breakdown			ASEAN5 breakdown			ASEAN5 breakdown		
1	Thailand	3.19	1	Indonesia	2.55	1	Indonesia	2.90
2	Indonesia	3.11	2	Thailand	2.48	2	Thailand	2.73
3	Malaysia	2.92	3	Singapore	2.39	3	Malaysia	2.67
4	Singapore	2.91	4	Malaysia	2.34	4	Philippines	2.62
5	Philippines	2.65	5	Philippines	2.33	5	Singapore	2.55

Figure 12: Satisfaction with Profits (graphed)

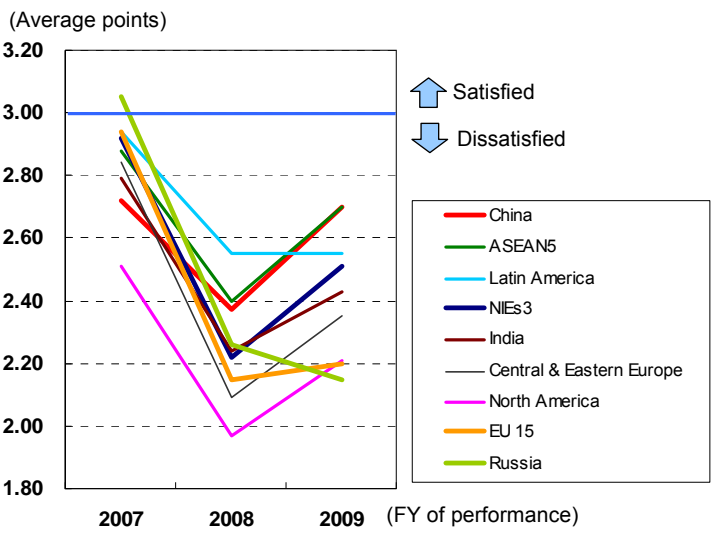


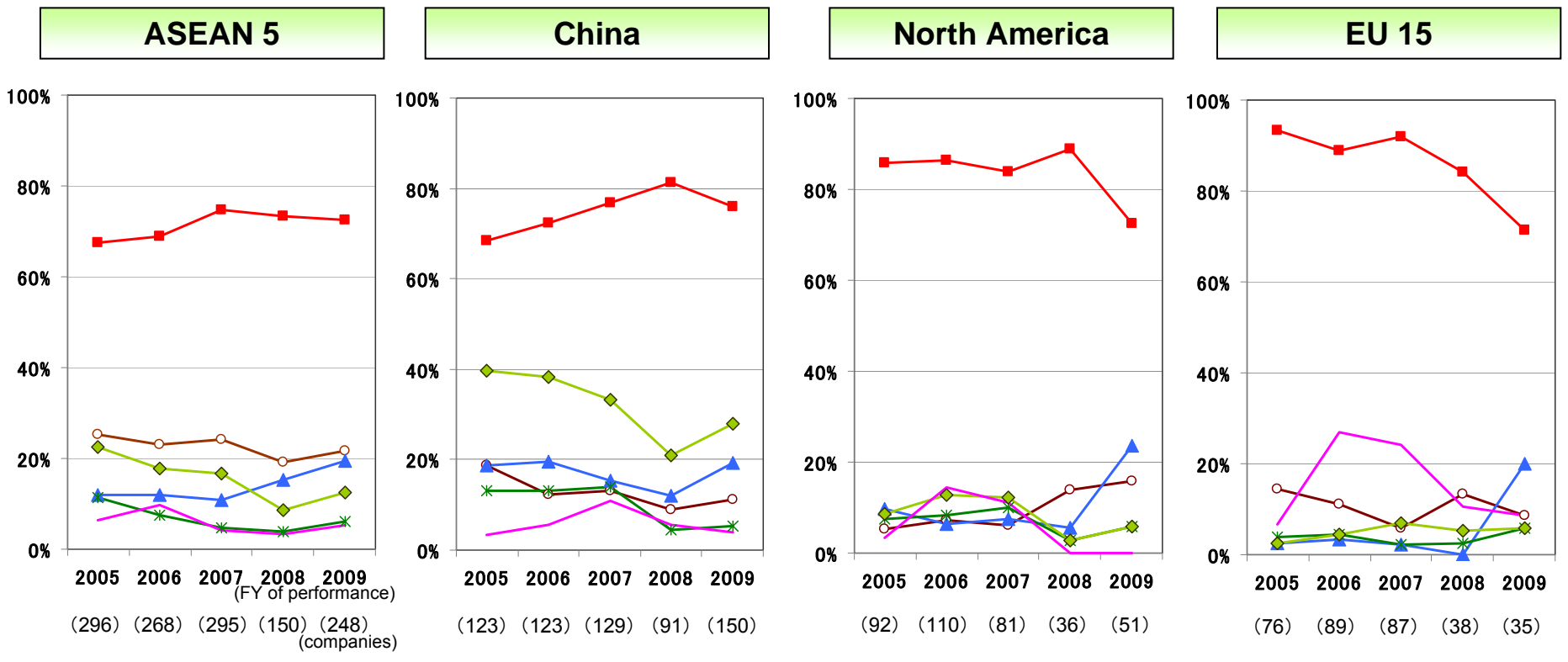
Figure 14: Satisfaction with Profits (all-industry averages)

FY2007 Performance			FY2008 Performance			FY2009 Performance		
1	Russia	3.05	1	Latin America	2.55	1	Vietnam	2.76
2	Latin America	2.94	2	ASEAN5	2.40	2	ASEAN5	2.70
2	EU15	2.94	3	China	2.37	2	China	2.70
4	NIEs3	2.92	4	Vietnam	2.36	4	Latin America	2.55
5	ASEAN5	2.88	5	Russia	2.26	5	NIEs3	2.51
6	Central & Eastern Europe	2.84	6	India	2.24	6	India	2.43
7	Vietnam	2.82	7	NIEs3	2.22	7	Central & Eastern Europe	2.35
8	India	2.79	8	EU15	2.15	8	North America	2.21
9	China	2.72	9	Central & Eastern Europe	2.09	9	EU15	2.20
10	North America	2.51	10	North America	1.97	10	Russia	2.15
ASEAN5 breakdown			ASEAN5 breakdown			ASEAN5 breakdown		
1	Thailand	3.09	1	Thailand	2.48	1	Indonesia	2.85
2	Indonesia	2.87	2	Indonesia	2.41	2	Thailand	2.71
3	Singapore	2.85	3	Philippines	2.37	3	Malaysia	2.69
4	Malaysia	2.72	4	Malaysia	2.35	4	Philippines	2.65
5	Philippines	2.64	5	Singapore	2.33	5	Singapore	2.60

Note: Evaluations of net sales showed the same trend with that of profits.

III. 2. Reasons for Satisfaction with Profitability (by major country and region)

Figure 15: Reasons for Satisfaction with Profitability over Time (Multiple response)

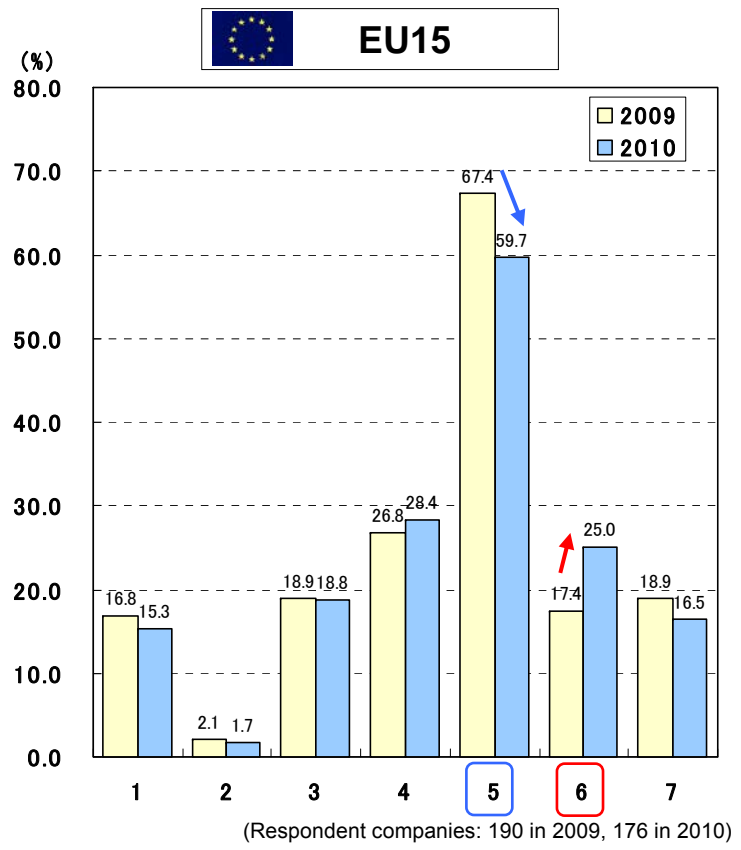
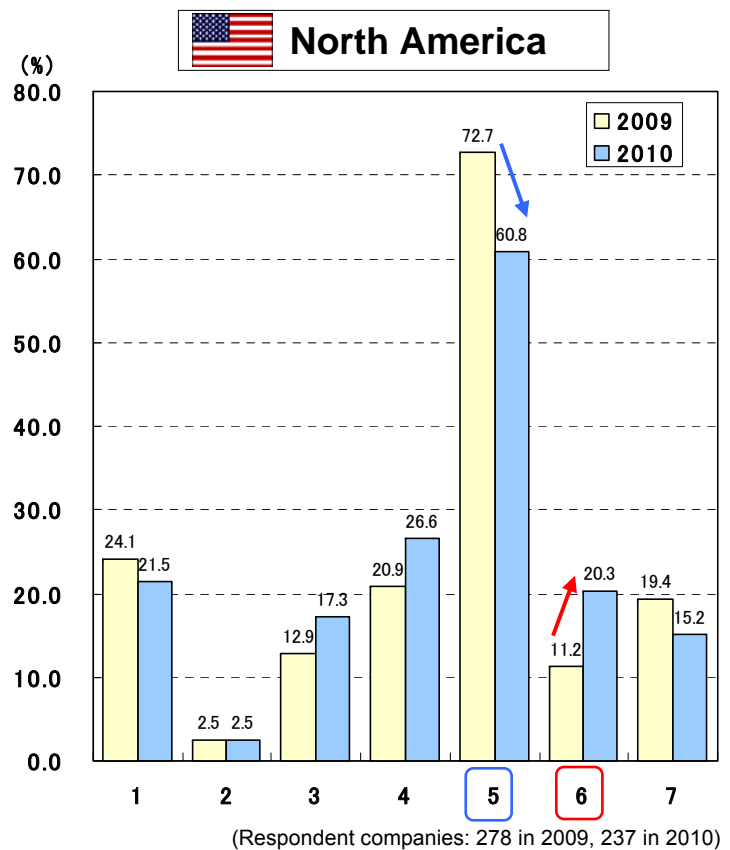


- 1. Good performance of sales in the country/region
- 2. Good performance of exports in country/region
- ▲ 3. Successful cost cuts (personnel, materials, etc.)
- * 4. Cost cuts via consolidation of manufacturing
- ◆ 5. Manufacturing facilities brought fully on line
- ◆ 6. Foreign exchange gains

■ **The top and most common reason for being satisfied with profitability is “1. Good performance of sales in the relevant country/region”. However, the second reason is varied by country/region.**

- In ASEAN5, “1” is followed by “2. Solid exports” and “3. Successful cost cuts” as factors of satisfaction with profitability. In responses regarding China, “5. Brought manufacturing facilities fully on line” made a major jump from the previous year’s 20.9% to 28.0%. The same trend applied to “4. Success in cost cutting”.
- In North America and EU15, companies responding “1. Good performance of sales in the relevant country/region” dropped about 10 points from the previous year, while those answering “3. Successful cost cuts” rose.

Figure 16: Reasons for Dissatisfaction with Profitability (Comparisons of 2009 & 2010 surveys)



1. Difficulty in cutting costs (personnel, materials, etc.)
2. Not brought fully on line right after establishment
3. Demand for discounts from customers
4. Difficulty in getting customers (intense competition)
5. Shrinking market due to economic fluctuations
6. Decreased competitiveness of products due to a strong Yen
7. Foreign exchange losses (including effects of Yen rates in consolidated accounting)

■ **The largest factor for this year as well was "5. Shrinking market due to economic fluctuations"**

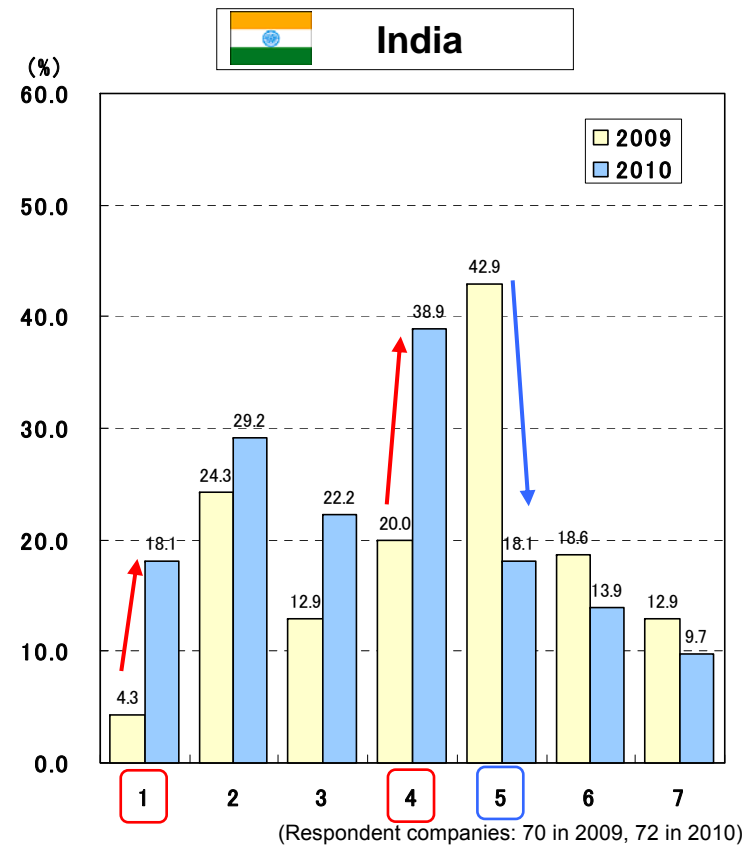
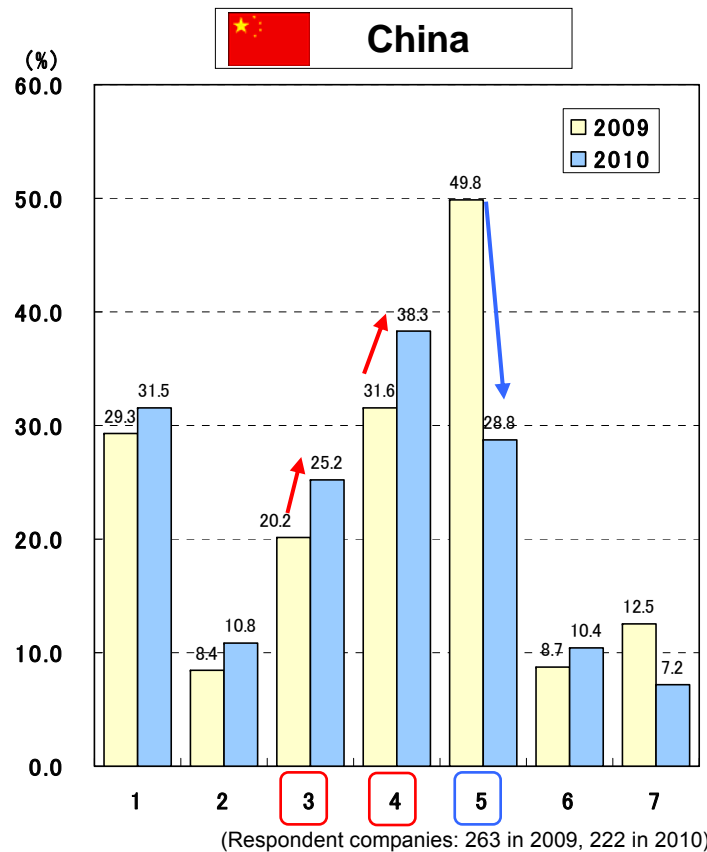
- In the previous year's survey we saw a sudden increase in answers of "5. Shrinkage of market due to economic fluctuations", and while there was a slight decrease in such answers in this year's survey, it nevertheless dominated the reasons for dissatisfactory profits in North America and EU15 countries.

■ **Rise in companies seeing the effects of a strong Yen**

- For North America and the EU15, answers of "6. Decreased competitiveness of products due to a strong Yen" jumped up (North America: 11.2%→20.3%, a 9.1 point increase; EU15: 17.4%→25.0%, a 7.6 point increase).

III. 3. Reasons for Dissatisfaction with Profitability (main reasons) : 2) China & India

Figure 17: Reasons for Dissatisfaction with Profitability (Comparisons of 2009 & 2010 surveys)



1. Difficulty in cutting costs (personnel, materials, etc.)

2. Not brought fully on line right after establishment

3. Demand for discounts from customers

4. Difficulty in getting customers (intense competition)

5. Shrinking market due to economic fluctuations

6. Decreased competitiveness of products due to a strong Yen

7. Foreign exchange losses (including effects of Yen rates in consolidated accounting)

■ The largest factors were "4. Difficulties in getting customers", "3. Demands for discounts", and other competitive factors

• For China and India, the response of "5. Shrinking market", which was the most frequent response last year, sharply dropped this year. Meanwhile, there was a substantial increase in responses to "4" and "3", signifying competition for sales in the relevant local areas.

■ These are followed by China with "1. Difficulty in cutting costs" and India with "2. Not bringing facilities fully on line"

• China is burdened with the No. 2 reason of "1. Difficulty in cutting costs", which is indicative of the skyrocketing costs of labor. India's second reason is a result of facilities "2. Not brought fully on line right after establishment". Aside from India, another country with a relatively high rate of response to "2" is Vietnam (22.2%).

III. 4. Evaluations of Degrees of Satisfaction with Net Sales and Profits (by industry)

Figure 18: Evaluating Satisfaction of Net Sales & Profits (FY2009)

	Average by industry		Comparison with last FY		No. of responses	No. of companies responding
	Net sales	Profits	Net sales	Profits		
1. Food	2.50	2.50	▲0.23	+0.01	171	31
2. Textiles	2.45	2.52	+0.16	+0.27	126	32
3. Paper, Pulp & Wood	2.32	2.10	+0.11	+0.13	31	8
4. Chemicals	2.63	2.67	+0.25	+0.40	504	82
5. Petroleum & Rubber	3.18	3.16	+0.53	+0.83	90	13
6. Ceramics, Cement & Glass	2.63	2.65	▲0.18	+0.02	115	16
7. Steel	2.85	2.63	+0.35	+0.18	60	13
8. Nonferrous metals	2.49	2.57	+0.24	+0.47	134	23
9. Metal Products	2.22	2.32	▲0.11	▲0.04	93	17
10. General Machinery	2.22	2.25	+0.07	+0.11	418	56
11. Electrical Equipment & Electronics	2.40	2.40	+0.48	+0.45	663	102
12. Transportation (excl. Automobiles)	2.98	2.68	+0.21	+0.03	59	9
13. Automobiles	2.78	2.71	+0.29	+0.32	553	95
14. Precision Machinery	2.16	2.15	+0.00	+0.01	233	35
15. Other	2.53	2.59	+0.21	+0.23	229	34

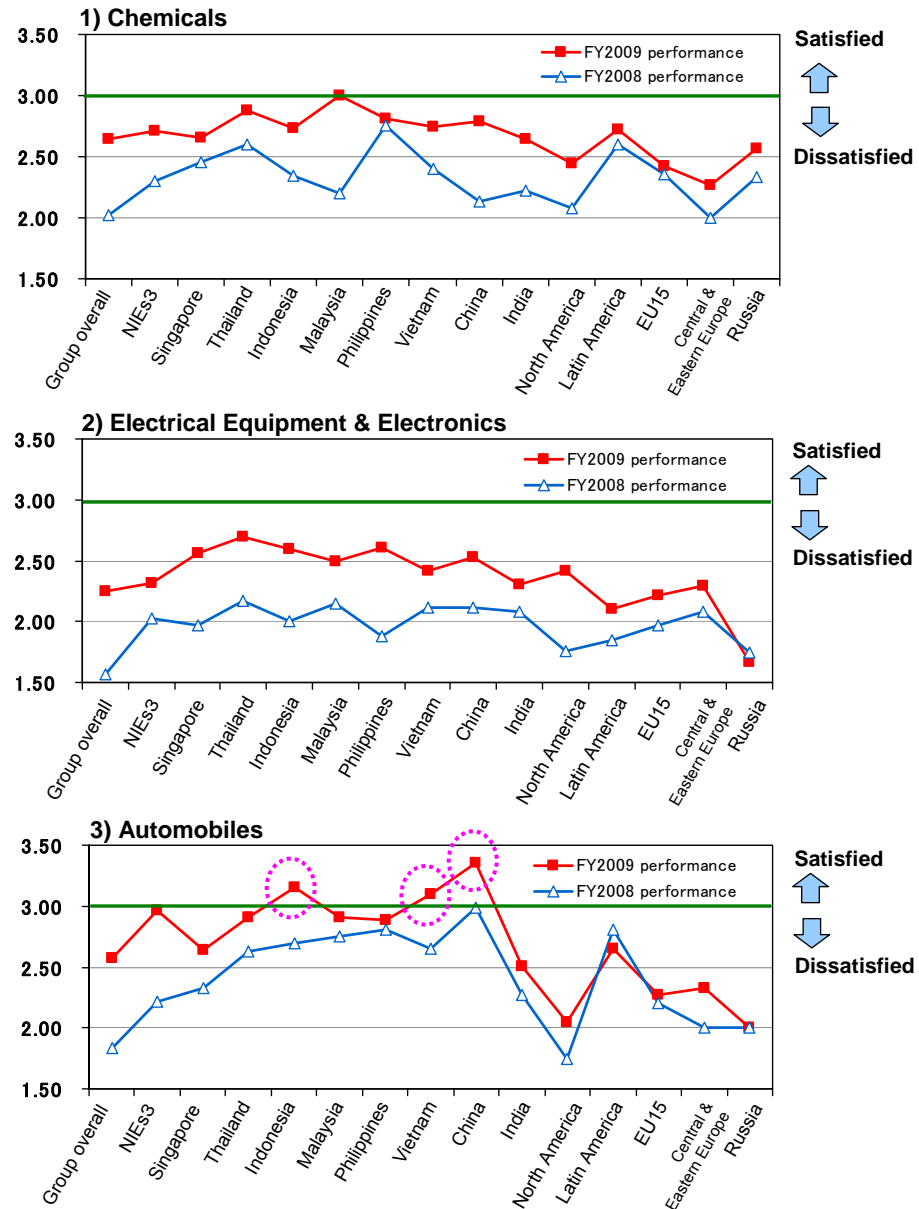
■ The numbers of responses indicating satisfaction with sales and profits were low, with both averages falling below "3", but improvements were shown from last year

• The industry with the highest level of satisfaction was "5. Petroleum & Rubber", which scored above the median of "3". Other industries were far from sufficient level to satisfy, but nevertheless showed improvement from the previous year's evaluations.

■ Automobiles got "Satisfied" scores in Indonesia, Vietnam and China

• "4. Chemicals", "11. Electrical Equipment & Electronics", and "13. Automobiles", which received the most responses, improved in terms of satisfaction in nearly all major countries/regions. Most noteworthy is "13. Automobiles", which scored over "3" in Indonesia, Vietnam and China.

Figure 19: Evaluating Satisfaction of Profits by Country/Region in selected industries





IV. Business Prospects

Q.

Question concerning medium-term (next 3 yrs. or so) overall prospects for overseas and domestic operations.

Figure 20: Medium-term Prospects (next 3 yrs. or so) for Overseas Operations

Overseas

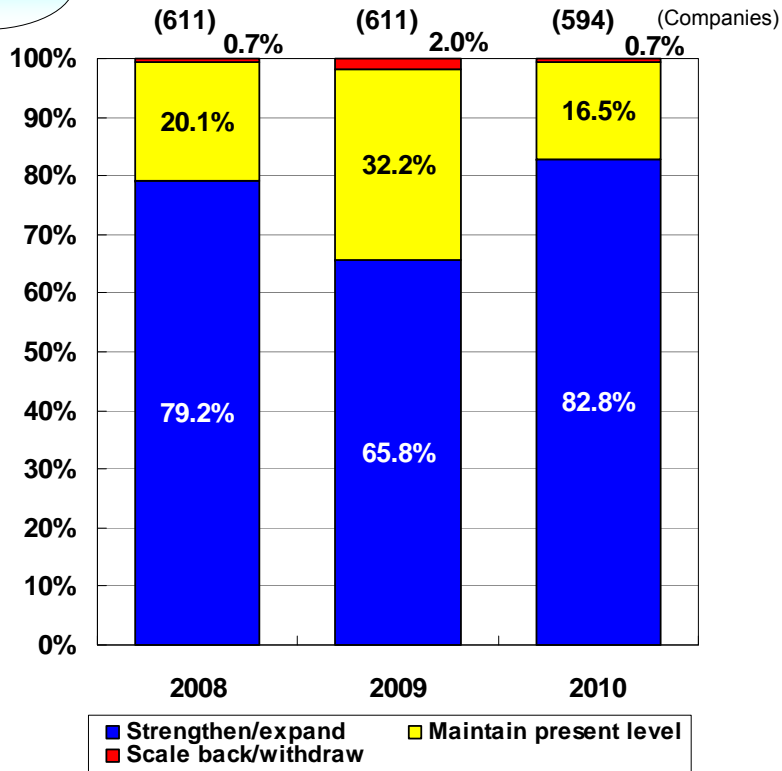
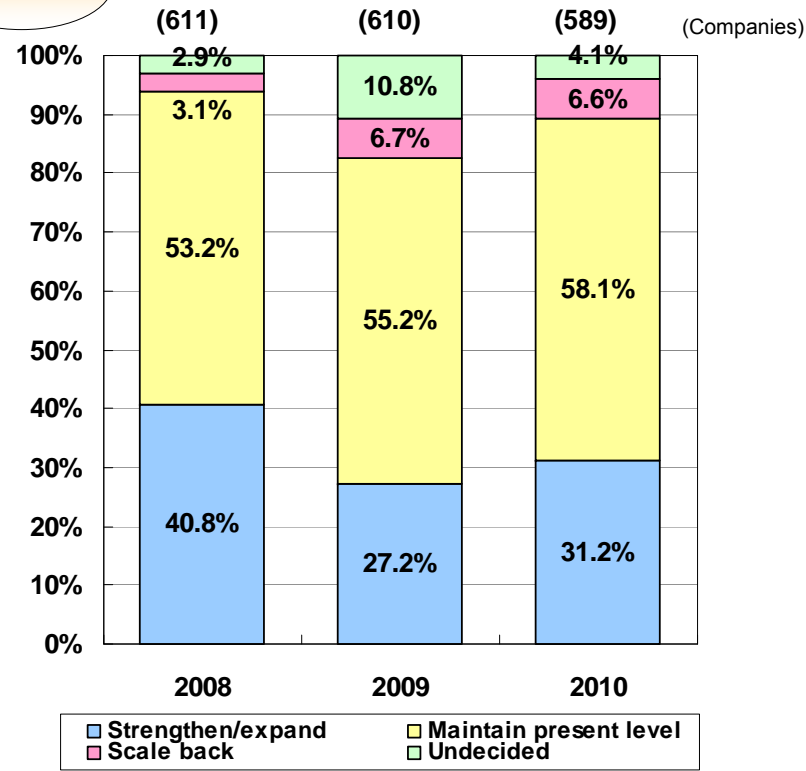


Figure 21: Medium-term Prospects (next 3 yrs. or so) for Domestic Operations

Domestic



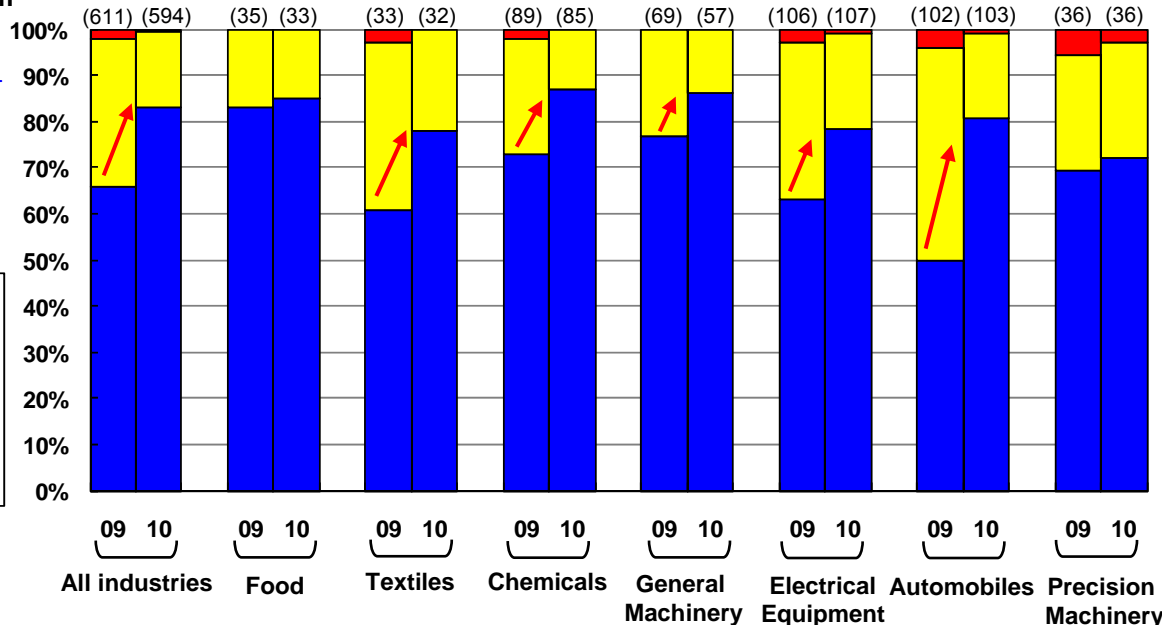
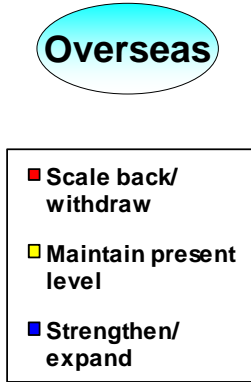
Note:
"Overseas operations" is defined as production, sales, and R&D activities at overseas bases, as well as outsourcing of manufacturing and procurement overseas.

Companies wishing to "strengthen/expand" overseas operations reached 82.8%, exceeding pre-Lehman shock levels

- Companies wishing to "strengthen or expand" overseas operations rose from last year's 65.8% to 82.8% (+17.0 points), exceeding the 79.2% of the FY2008 survey conducted before the "Lehman shock".
- Companies that answered "strengthen or expand" domestic operations also rose, from 27.2% of last year's survey to 31.2% (+4.0 points). Nevertheless, about 60% of companies chose "Maintain present level".
- Of the 492 companies that answered "strengthen or expand" overseas operations, 34.1%, or 171 companies, also said they would "strengthen or expand" domestic operations. This accounts for more than 90% of all companies (184) that said they would "strengthen or expand" domestic operations.

IV. 2. Attitudes toward Strengthening Businesses (domestic & overseas, by industry)

Figure 22: Medium-term Prospects for Overseas Operations



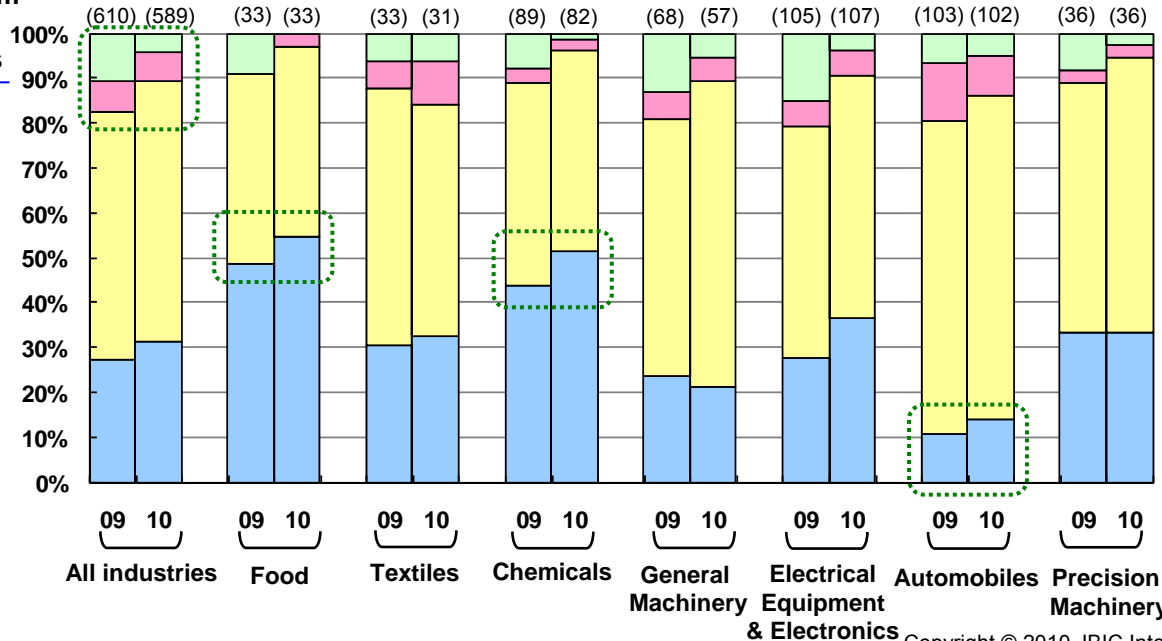
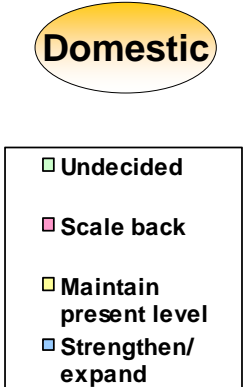
Overseas: in automobiles, "strengthen/expand" responses increased again

- Industries with the most companies responding "strengthen or expand" were chemicals, general machinery, and food, all exceeding 80%.
- The automobile industry is particularly noteworthy in that in the FY2009 survey "strengthen or expand" responses had fallen by about half, but in FY2010, they accounted for 80.6%, i.e. they recovered to pre-"Lehman shock" levels.

Note 1: "Overseas operations" is defined as production, sales, and R&D activities at overseas bases, as well as outsourcing of manufacturing and procurement overseas.

Note 2: Numbers in parentheses above the bar graph indicate the number of companies that answered the question.

Figure 23: Medium-term Prospects for Domestic Operations



Domestic: last year's "undecided" companies differed in decisions by industry

- The industries where more than half of respondent companies said "strengthen or expand" were food and chemicals.
- Although the ratio of "strengthen or expand" responses grew slightly for automobiles, it was still relatively low (13.7%).
- There were 66 "undecided" companies in the FY2009 survey (10.8% of the total). In FY2010 this dropped to 24 companies (4.1%).



V. Promising Countries/Regions over the medium-term

V. 1. Promising Countries/Regions: Rankings

Figure 24: Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs. or so)
(multiple response) (⇒ See Appendix 1 for pre-FY2009 results)

Q.

The respondents were each asked to name the top 5 countries that they consider to have promising prospects for business operations over the medium-term (the next three years or so).

No. of responses citing country/region
Percentage share = $\frac{\text{No. of responses citing country/region}}{\text{Total No. of respondent companies}}$

Ranking			Country/Region (Total)	No. of Companies		Percentage Share	
2010	← 2009	2010		2009	2010	2009	
				516	480		
1	—	1	China	399	353	77.3	73.5
2	—	2	India	312	278	60.5	57.9
3	—	3	Vietnam	166	149	32.2	31.0
4	—	4	Thailand	135	110	26.2	22.9
5	↑	6	Brazil	127	95	24.6	19.8
6	↑	8	Indonesia	107	52	20.7	10.8
7	↓	5	Russia	75	103	14.5	21.5
8	↓	7	USA	58	65	11.2	13.5
9	—	9	Korea	30	31	5.8	6.5
10	—	10	Malaysia	29	26	5.6	5.4
10	↑	11	Taiwan	29	21	5.6	4.4
12	—	12	Mexico	25	20	4.8	4.2
13	↑	18	Singapore	21	7	4.1	1.5
14	↓	13	Philippines	14	14	2.7	2.9
15	↓	14	Australia	8	9	1.6	1.9
15	↑	28	Bangladesh	8	2	1.6	0.4
15	↑	17	Turkey	8	8	1.6	1.7
18	↓	14	Germany	7	9	1.4	1.9
19	↑	20	Great Britain	6	5	1.2	1.0
20	↑	35	Myanmar	5	1	1.0	0.2
20	↑	23	Poland	5	4	1.0	0.8
20	↓	14	Saudi Arabia	5	9	1.0	1.9
20	↑	23	South Africa	5	4	1.0	0.8
20	—	20	UAE	5	5	1.0	1.0

Note 1: In addition to the countries listed above, the following regions also gained responses:

EU/Europe (22 companies, 4.3% of the total); North America (17 companies, 3.3%);

Eastern Europe/Central and Eastern Europe (7 companies, 1.4%); Middle East (13 companies, 2.5%).

Note 2: Countries/regions are listed in alphabetical order in cases where they ranked the same.

■ There were no changes in the top 4 countries

- China was first, followed by India, Vietnam, and Thailand, meaning that there was no change to the rank of the top 4 countries. The number of companies responding and percentage shares both rose from last year.
- Some companies voiced concerns over social/political instability in Thailand, but it still remains attractive for investment.

■ Brazil and Indonesia rose in rank

- Brazil ranked 5th and Indonesia 6th, which are higher than last year. Indonesia got double the responses as last year (+55 companies).

■ Future growth potential of local markets was a key factor

- One feature of the top countries was that companies saw potential for future growth of their local markets. With the exception of Brazil, the countries seeing the largest jump in attention were in Asia.

■ Bangladesh and Myanmar entered the top 20

- One new change is that Bangladesh and Myanmar entered the top 20. Companies in the textiles, parts assembly and consumer goods industries are taking notice of them as inexpensive sources of labor, good for risk diversification, and as bases of export.

V. 2. Promising Countries/Regions: Changes in Percentage Shares (8 main countries)

Figure 25: Promising Countries/Regions for Overseas Business over the Medium-term (next 3 yrs. or so): Percentage Shares

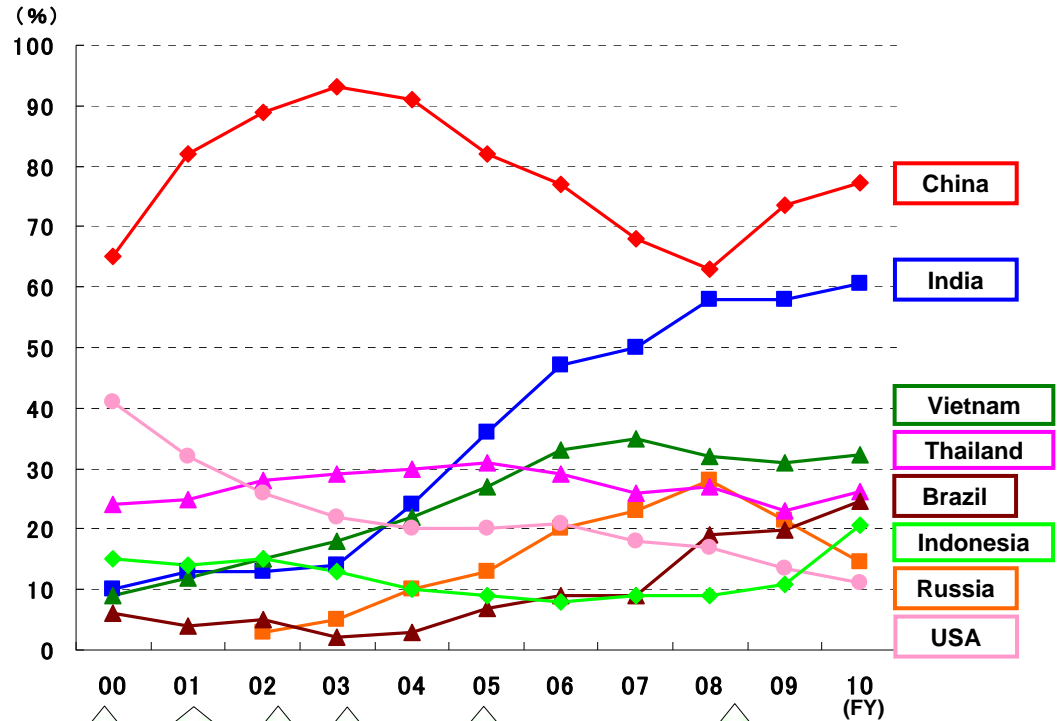


Figure 26: Promising Countries/Regions for Overseas Business over the Medium-term (by major industry)

Chemicals (No. of responses: 256)			Automobiles (No. of responses: 305)		
Rank	Country	Share	Rank	Country	Share
1	China	23.4%	1	India	23.9%
2	India	18.0%	2	China	21.6%
3	Vietnam	8.2%	3	Thailand	11.1%
4	Brazil	7.8%	3	Brazil	11.1%
5	Indonesia	6.6%	5	Indonesia	9.8%
6	Thailand	6.3%	6	Vietnam	6.9%
7	USA	5.1%	7	Russia	3.3%
8	Russia	4.3%	8	Mexico	3.0%
9	Singapore	3.1%	9	USA	1.3%
10	Korea	2.3%	10	Malaysia	1.0%
10	Malaysia	2.3%			

Electrical Equipment & Electronics (No. of responses: 265)			General Machinery (No. of responses: 190)		
Rank	Country	Share	Rank	Country	Share
1	China	26.0%	1	China	21.1%
2	India	19.6%	2	India	19.5%
3	Vietnam	9.4%	3	Brazil	10.0%
4	Thailand	6.8%	4	Vietnam	9.5%
5	Brazil	5.3%	5	Russia	7.4%
6	Russia	4.2%	6	Indonesia	6.8%
7	Indonesia	3.0%	7	Thailand	5.3%
8	USA	2.6%	8	Korea	2.6%
9	Korea	2.3%	9	Malaysia	2.1%
9	North America	2.3%	10	Taiwan	1.6%
			10	USA	1.6%
			10	Middle East	1.6%

Figure 27: Promising Countries/Regions over the Long-term (next 10 or so years)

Rank	Country/Region	No. of companies: (Total) 438	Percentage share
1	India	328	74.9%
2	China	314	71.7%
3	Brazil	151	34.5%
4	Vietnam	134	30.6%
5	Russia	108	24.7%
6	Indonesia	93	21.2%
7	Thailand	84	19.2%
8	USA	38	8.7%
9	Malaysia	20	4.6%
10	Taiwan	18	4.1%

- China has consistently gotten the highest share in terms of promising countries over the medium-term, and this year (FY2010) is no different.
- In most industries, China has an extremely high percentage share, but just as last year, India was top in automobiles.
- India ranks first among long-term promising countries.

No. 1: China



Reasons

(Total No. of respondent companies: 394)

	No. of companies	Ratio
1 Future growth potential of local market	346	87.8%
2 Current size of local market	150	38.1%
3 Inexpensive source of labor	139	35.3%
4 Supply base for assemblers	102	25.9%
5 Inexpensive components & raw materials	73	18.5%

Issues

(Total No. of respondent companies: 377)

	No. of companies	Ratio
1 Rising labor costs	240	63.7%
2 Execution of legal system unclear	218	57.8%
3 Intense competition with other companies	213	56.5%
4 Insufficient protection for intellectual property rights	191	50.7%
5 Labor problems	136	36.1%

- The first and second reasons both have to do with the local market. Notably, nearly 90% of companies cited "future growth potential of local market". In addition, while 139 (35.3%) companies cited "inexpensive source of labor", the number of companies and share of total citing this are down from last year (FY2009: 153 companies, 44.0%).
- The biggest issues cited was "rising labor costs". This was noted for other countries as well, but the number is particularly high for China (under 30% for other countries). The same applies to "intense competition with other companies".

No. 2: India



Reasons

(Total No. of respondent companies: 310)

	No. of companies	Ratio
1 Future growth potential of local market	276	89.0%
2 Inexpensive source of labor	136	43.9%
3 Supply base for assemblers	68	21.9%
4 Current size of local market	62	20.0%
5 Qualified human resources	60	19.4%

Issues

(Total No. of respondent companies: 294)

	No. of companies	Ratio
1 Underdeveloped infrastructure	140	47.6%
2 Intense competition with other companies	93	31.6%
3 Execution of legal system unclear	79	26.9%
4 Complicated tax system	72	24.5%
5 Lack of information on the country	60	20.4%

- The top reason for being promising, "future growth potential of local market" was cited by 89.0% of companies. Just as last year, "inexpensive source of labor" was the second biggest reason, but the number of companies citing it (+30) and ratio to the whole (+5.4 points) jumped.
- "Underdeveloped infrastructure" was cited among top 5 issues only for India and Vietnam. In the case of India, about half noted this. "Intense competition" also ranks high.
- "Security/social instability", which was 2nd biggest issue last year, fell to 6th.

Note: The "No. of companies" here refers to the number of companies that responded to questions concerning "reasons for being a promising country" and "issues" out of the number of companies that listed that country/region in Figure 24. For this reason, the numbers of companies here may not be the same as in Figure 24. "Ratio" refers to the number of companies that cited "reasons for being a promising country" or "issues" divided by the total number of respondent companies. Multiple responses were possible to this question.

No. 3: Vietnam



Reasons

(Total No. of respondent companies: 165)

	No. of companies	Ratio
1 Inexpensive source of labor	101	61.2%
1 Future growth potential of local market	101	61.2%
3 Qualified human resources	34	20.6%
4 Good for risk diversification to other countries	31	18.8%
5 Base of export to third countries	27	16.4%

Issues

(Total No. of respondent companies: 156)

	No. of companies	Ratio
1 Underdeveloped infrastructure	48	30.8%
2 Difficult to secure management-level staff	41	26.3%
3 Execution of legal system unclear	38	24.4%
4 Rising labor costs	33	21.2%
5 Intense competition with other companies	31	19.9%

■ Just as with most years, "inexpensive source of labor and "future growth potential of local market" top the reasons for Vietnam being promising. Availability of "qualified human resources" at the 3rd slot also makes Vietnam unique. "Good for risk diversification to other countries", at reason 4, has been dropping year by year in terms of the number of companies and ratio to the total, but among the main promising countries Vietnam remains the only country where it falls among the top 5 reasons.

■ The 4th issue, "rising labor costs", is not cited by as many companies or as frequently as China, but the relatively high inflation rate may push up the labor costs.

No. 4: Thailand



Reasons

(Total No. of respondent companies: 132)

	No. of companies	Ratio
1 Future growth potential of local market	65	49.2%
2 Inexpensive source of labor	59	44.7%
3 Supply base for assemblers	42	31.8%
4 Base of export to third countries	36	27.3%
5 Developed local infrastructure	35	26.5%

Issues

(Total No. of respondent companies: 128)

	No. of companies	Ratio
1 Security/social instability	64	50.0%
2 Intense competition with other companies	42	32.8%
3 Difficult to secure management-level staff	39	30.5%
4 Rising labor costs	32	25.0%
5 Difficult to secure technical/engineering staff	28	21.9%

■ Appeal as a "supply base for assemblers", which had fallen out of the top 5 last year, was cited more frequently this year, placing it as the 3rd reason. Furthermore, although "base of export to third countries" fell one slot from last year, the number and ratio of companies citing it both rose. Thailand's infrastructure also got high marks.

■ Although the top issue was "security/social instability", with half of all companies citing it, there was no substantial mention of actual interference with operations. From this we can infer that reliability of Thailand as a manufacturing base has not suffered very much.

No. 5: Brazil



Reasons

(Total No. of respondent companies: 126)

	No. of companies	Ratio
1 Future growth potential of local market	109	86.5%
2 Current size of local market	32	25.4%
3 Inexpensive source of labor	25	19.8%
4 Supply base for assemblers	22	17.5%
5 Base of export to third countries	13	10.3%

Issues

(Total No. of respondent companies: 120)

	No. of companies	Ratio
1 Security/social instability	39	32.5%
2 Intense competition with other companies	36	30.0%
3 Lack of information on the country	32	26.7%
4 Execution of legal system unclear	27	22.5%
5 Complicated tax system	26	21.7%

- Of the 126 companies that gave reasons for Brazil being promising nearly 90% (109) cited "future growth potential of local market" as the primary reason. Companies also frequently cited "inexpensive source of labor" (3rd) and "supply base for assemblers" (4th), which means companies also view it as promising from a manufacturing perspective.
- As for issues, system-related factors, namely "lack of information on the country", "execution of legal system unclear", and "complicated tax system" figure prominently, and in this respect it is not unlike India. The 2nd biggest issue is "intense competition with other companies", a likely cause for which is the fact that European and North American companies entered these markets at an early phase.

No. 6: Indonesia



Reasons

(Total No. of respondent companies: 105)

	No. of companies	Ratio
1 Future growth potential of local market	75	71.4%
2 Inexpensive source of labor	54	51.4%
3 Current size of local market	26	24.8%
4 Supply base for assemblers	22	21.0%
5 Base of export to third countries	14	13.3%
5 Profitability of local market	14	13.3%

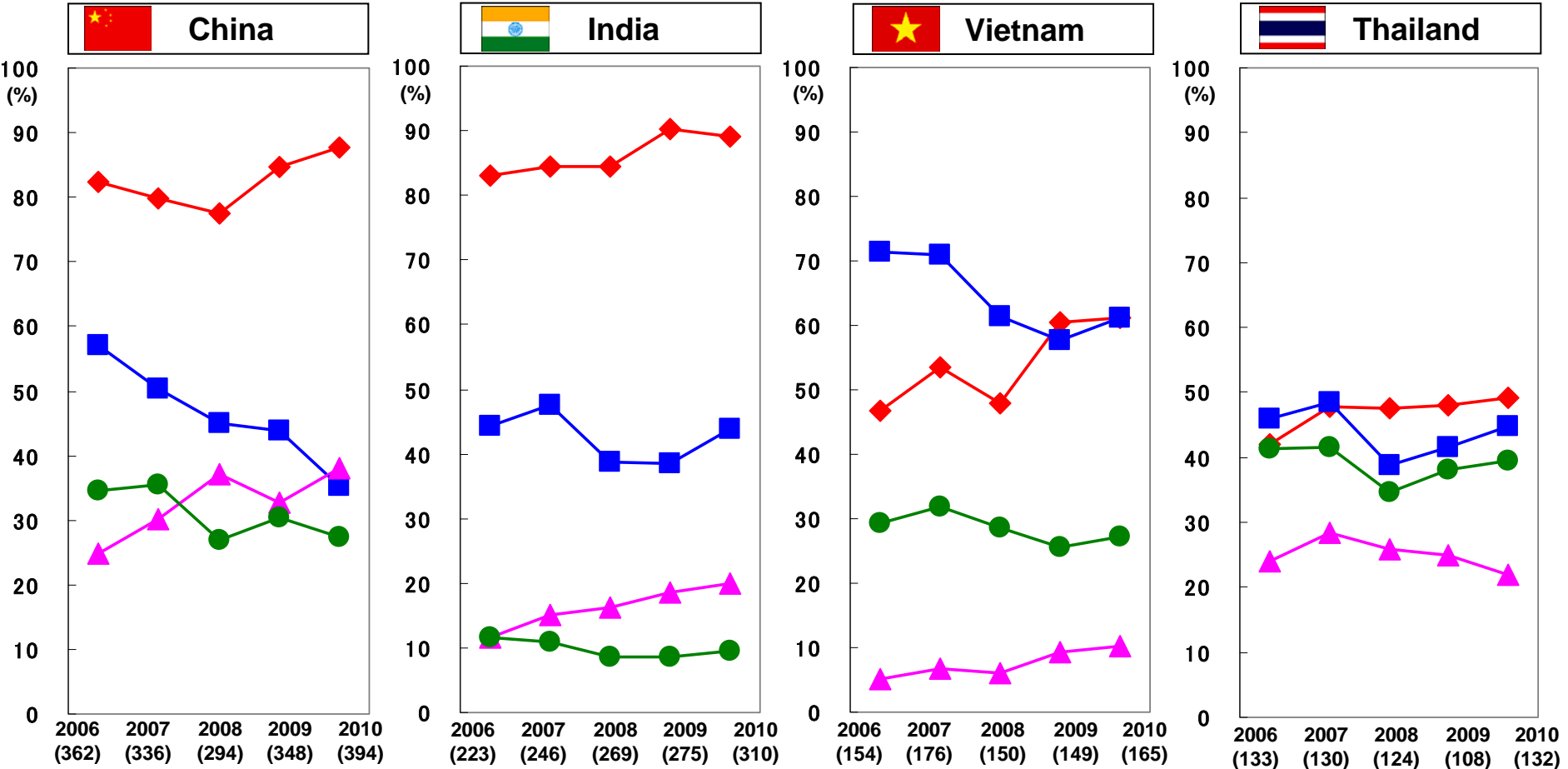
Issues

(Total No. of respondent companies: 98)

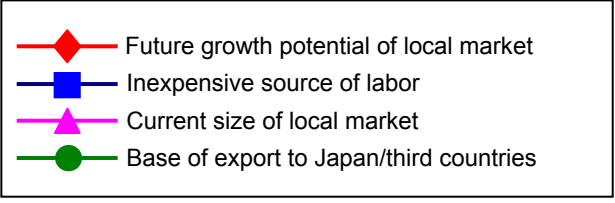
	No. of companies	Ratio
1 Security/social instability	28	28.6%
2 Intense competition with other companies	25	25.5%
3 Execution of legal system unclear	22	22.4%
4 Difficult to secure management-level staff	18	18.4%
4 Rising labor costs	18	18.4%

- There is much interest in Indonesia both as a market and as a manufacturing base. The top two reasons for being promising were the same as last year, although the number and ratio of companies citing them rose significantly ("Future growth potential of local market": from 32 to 75 companies, and 64.0% to 71.4%; "Inexpensive source of labor": from 23 to 54 companies, and 46.0% to 51.4%).
- While the top issue cited was "security/social instability", under the presidency of Yudhoyono, who is in his second term in office, some are of the opinion that political stability will be maintained. (Also noteworthy is "underdeveloped infrastructure" which was 2nd last year, has dropped to 6th on the list of issues.)

Figure 28: Changes in Reasons for a Country as Promising for Overseas Operations (Multiple response)



(Companies)



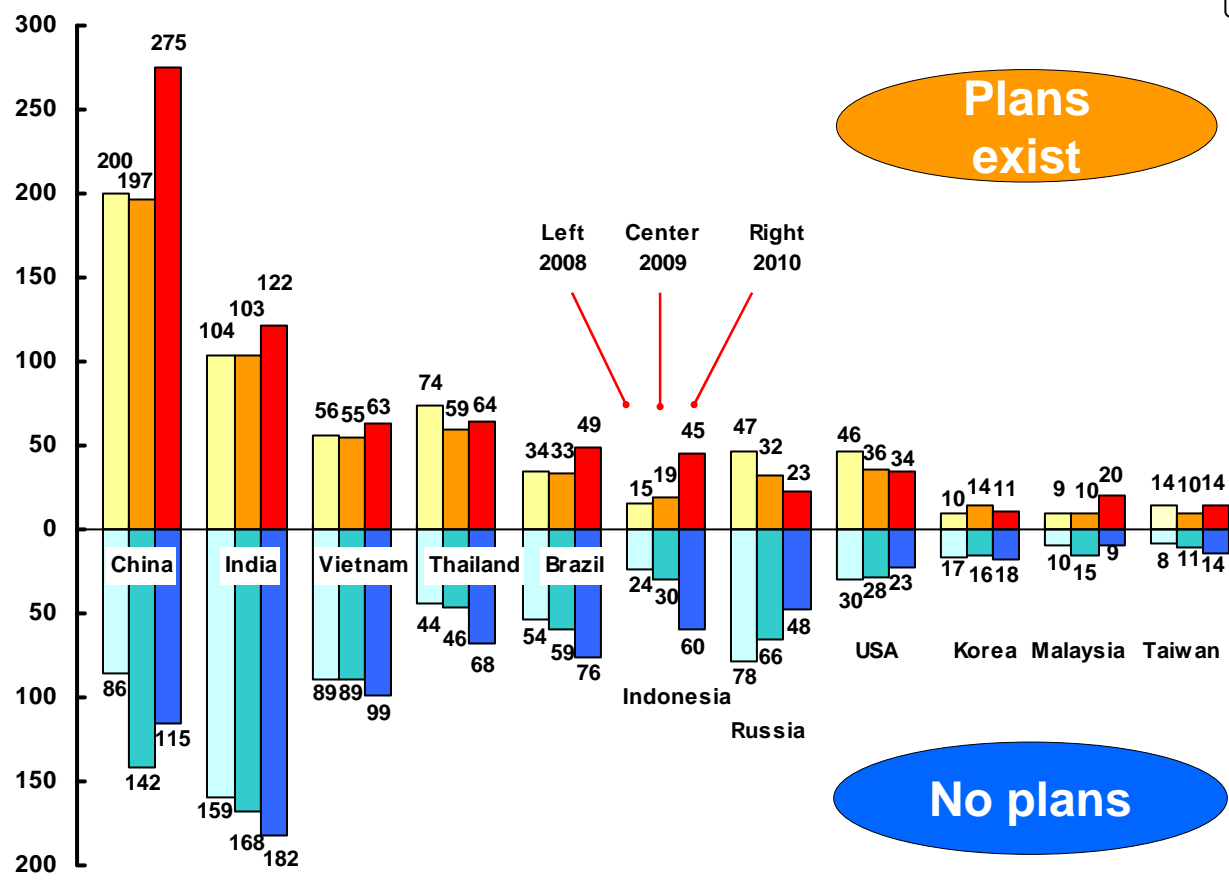
■ China and India receive more attention as markets year by year

- “Future growth potential of local market” is cited by nearly 90% of respondent companies as the reason for China and India being promising. In the case of China, the ratio of companies citing it as an “inexpensive source of labor” is dropping year by year.

■ Companies are taking a second look at Thailand as a base of manufacturing & export

- In contrast to China, the ratio of companies listing Thailand as an “inexpensive source of labor” and a “base of export” has risen since last year.

Figure 29: Existence of Concrete Business Plans for Promising Countries/Regions



Q. Companies that named promising countries over the medium-term in Figure 24 (p.16) were asked whether they had plans for each of the countries they chose. The top of the bar graph represent the existence of plans, and the bottom the lack of plans.

Because some companies did not respond, the numbers of companies responding to this question (the total of the figures above and below the center of the bar graph) do not match the numbers of responses shown in Figure 24.

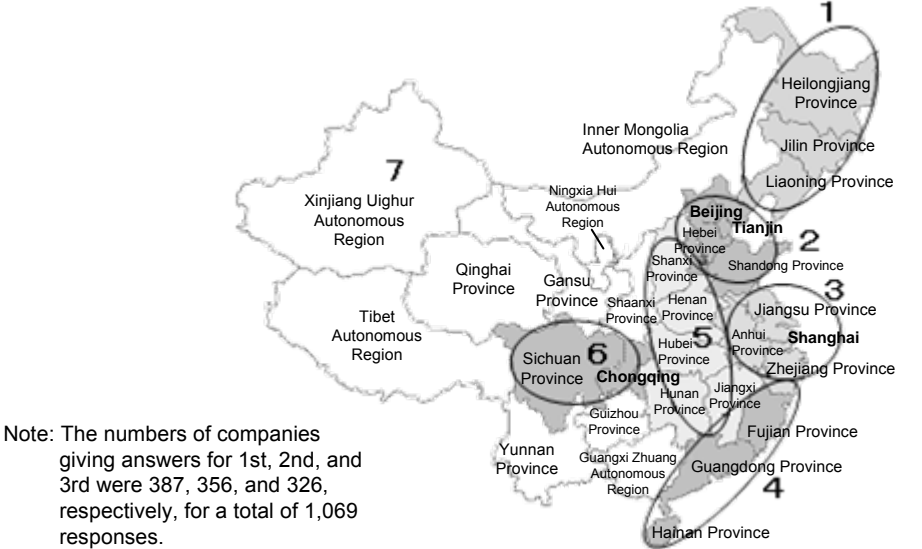
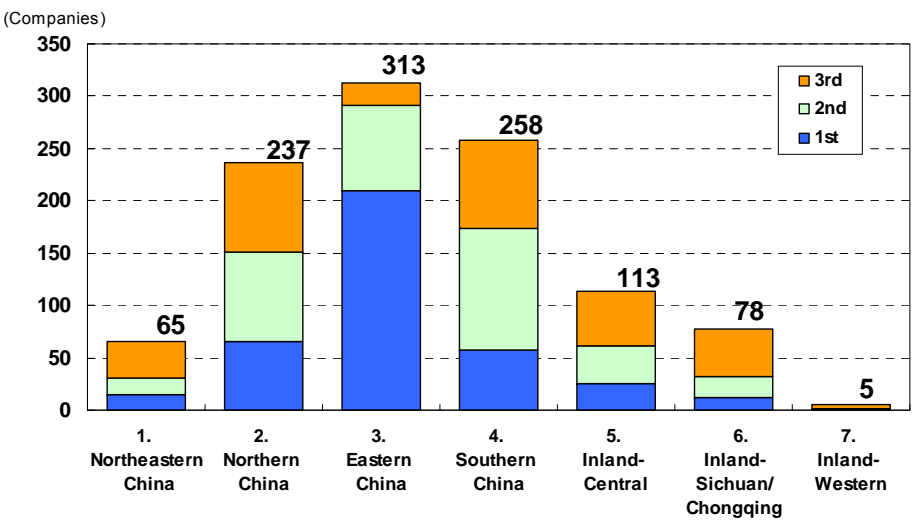
■ About 70% of companies naming China as a promising country have some kind of plans

- Among the promising countries in the FY2010 survey, the country for which there were the most companies with plans was China (275 companies out of 390, or 71%). This is a major increase from the FY2009 survey (197 companies out of 339, or 58.1%). China is followed, by Malaysia (69%), the US (60%), and then Thailand (48%). Russia yielded the lowest figure (32%).
- In the case of India, which is the 2nd most promising country, and Vietnam, which is 3rd, about 60% of the companies that listed them as promising have no plans. Furthermore, just under 90% of the companies that said they have no plans do not have bases of business in these countries. Accordingly, companies' levels of hope placed in these two countries reflect future expectations more so than they do immediate assessments.

V. 6. Supplementary Information: Promising Regions within China & India

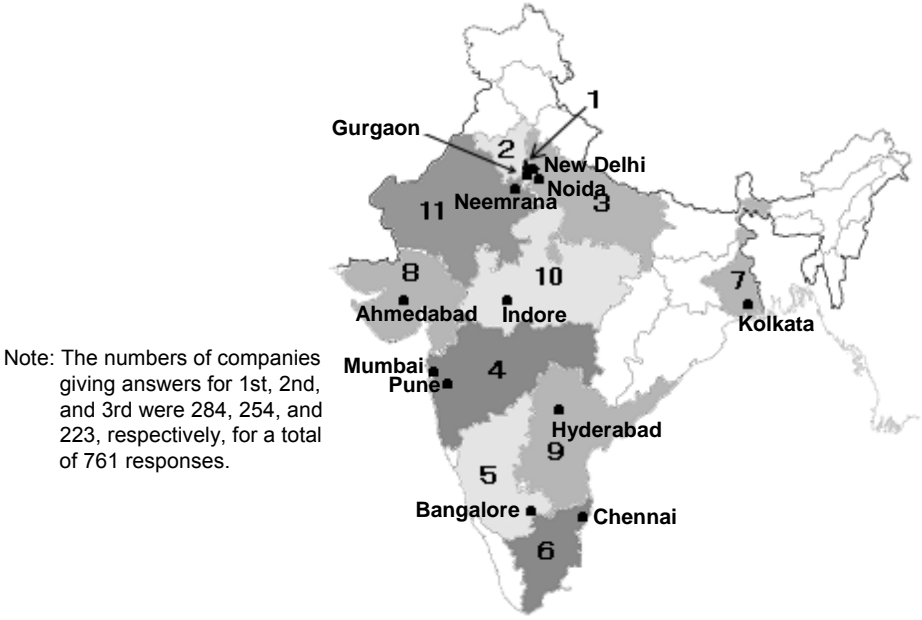
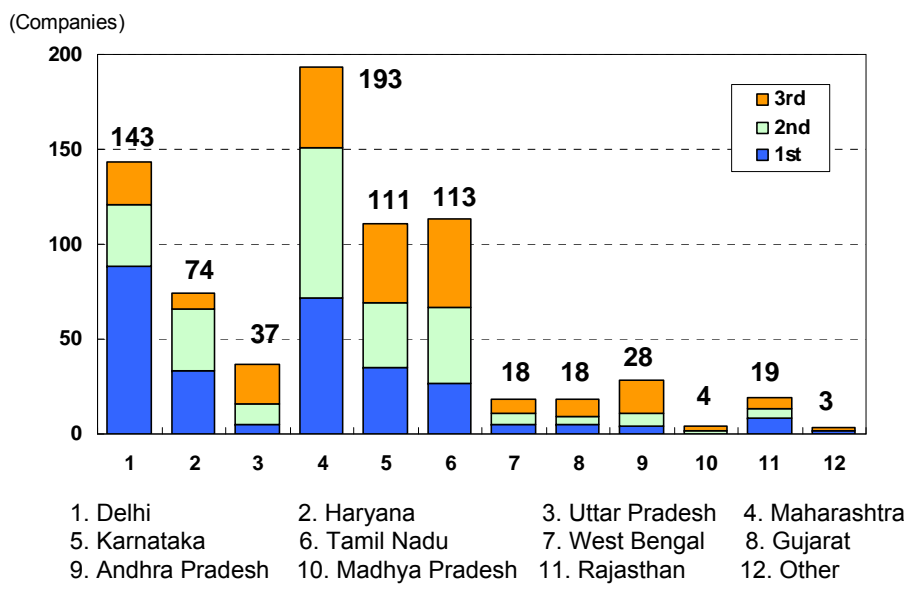
Q. Companies that listed China or India among promising countries/regions over the medium-term (next 3 yrs. or so) were then asked to identify up to 3 promising regions within each of these countries (multiple response).

Figure 30: Promising Regions within China



Note: The numbers of companies giving answers for 1st, 2nd, and 3rd were 387, 356, and 326, respectively, for a total of 1,069 responses.

Figure 31: Promising Regions within India

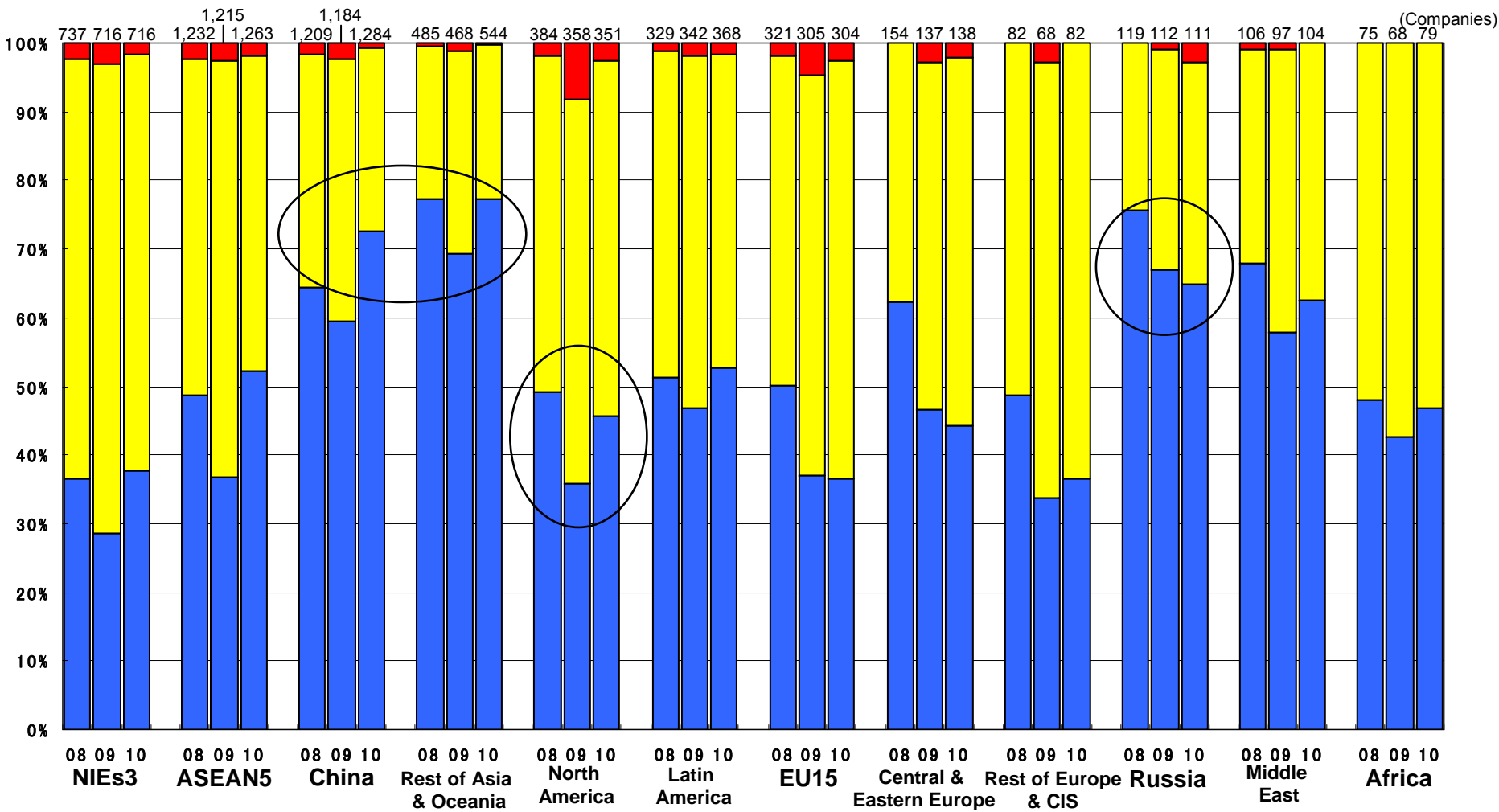


Note: The numbers of companies giving answers for 1st, 2nd, and 3rd were 284, 254, and 223, respectively, for a total of 761 responses.

V. 7. Prospects for Overseas Operations by Region

Figure 32: Medium-term prospects for overseas operations (by region)

Q. Companies were asked about the medium-term (next 3 yrs. or so) prospects for businesses in countries/regions they are currently operating in or planning to operate in.



■ Scale back/withdraw
■ Maintain present level
■ Strengthen/expand

See Appendix 4 for individual values.

■ There was a major increase in companies that wished to strengthen or expand in Asia and the Americas. Other areas either grew only slightly or fell.

- The ratios of companies wishing to "strengthen or expand" operations in NIEs3, ASEAN5, China, the rest of Asia and Oceania (which includes Vietnam and India), North America, and Latin America grew by a considerable amount. In fact, they have recovered to pre-"Lehman shock" FY2008 survey levels, and in some cases surpassed them. On the other hand, the ratios of "strengthen/expand" responses for other regions either stayed roughly the same as last year or decreased.

Figure 33: Medium-term prospects for overseas operations (China/India/Vietnam)

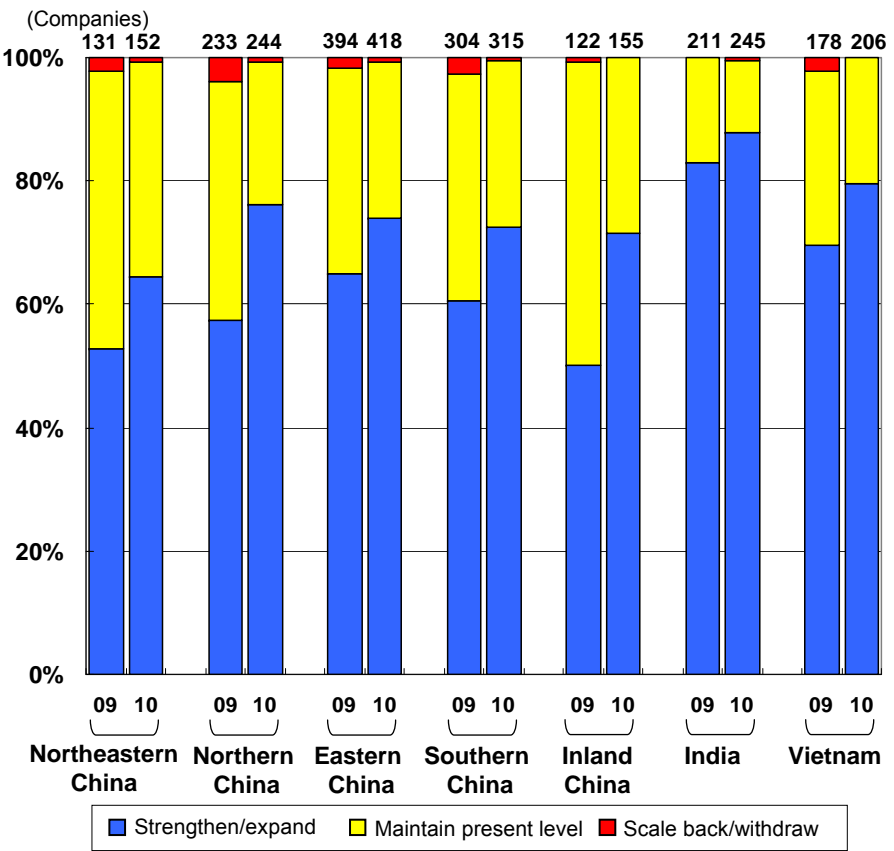
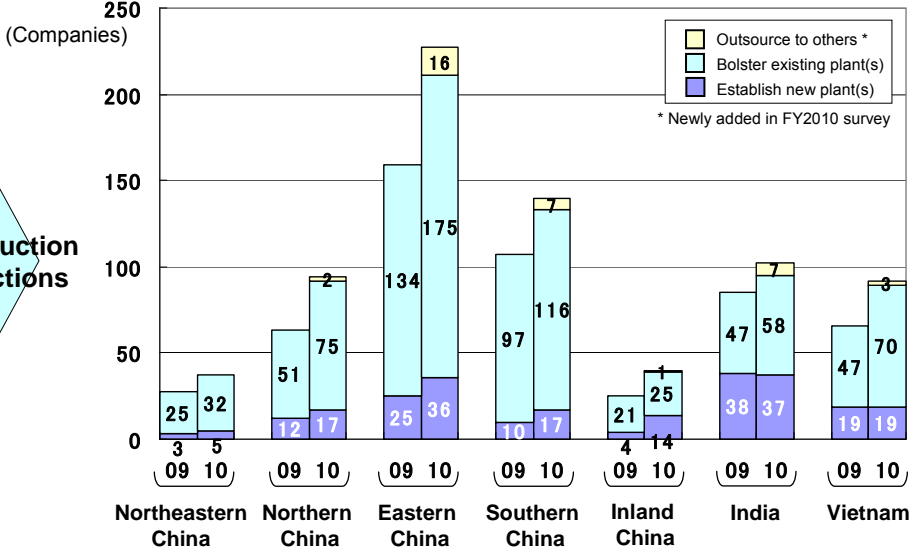
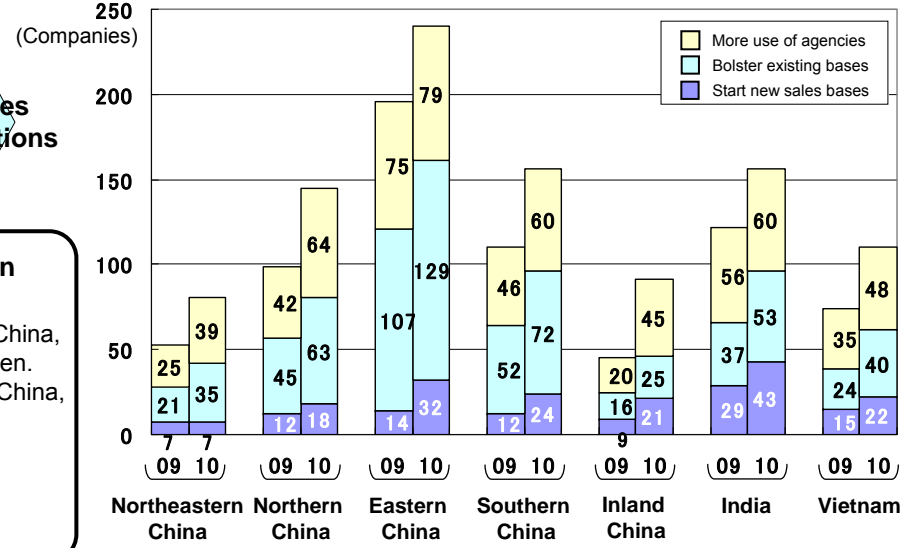


Figure 34: Areas in which to strengthen/expand (production)



Production functions

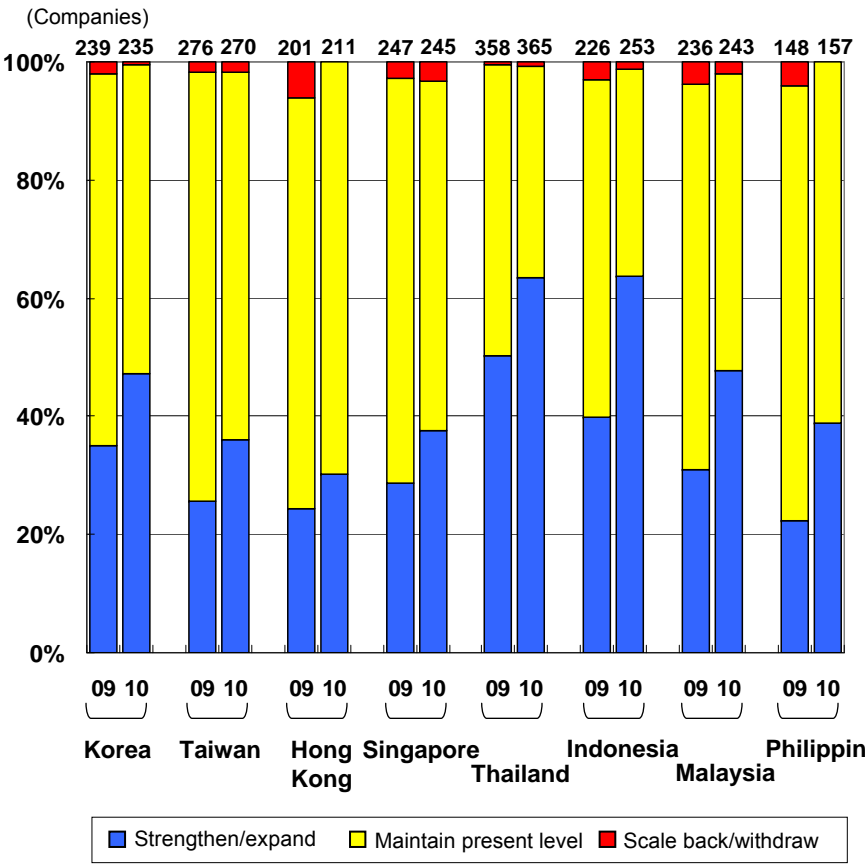
Figure 35: Areas in which to strengthen/expand (sales)



Sales functions

- A larger portion of companies wishes to expand/strengthen businesses in India. The attention on inland China increased sharply.
- A larger portion of companies wishes to expand/strengthen businesses in India. As for China, Inland China saw a rapid increase in the ratio of companies wishing to expand/strengthen. However, the region where the most companies want to expand/strengthen is Eastern China, just as last year (Figure 34 & 35).
- Companies in all regions moving toward stronger production again
- Last year, the number of companies expressing a desire to bolster production functions decreased slightly, but in this year's survey it has increased again.

Figure 36: Medium-term prospects for overseas operations (NIEs3/ASEAN5)



Companies in these regions seek to strengthen both production & sales

- The proportion of companies that responded "expand/strengthen" grew throughout these regions. Indonesia saw a marked increase (from 39.8% to 63.6%).
- Last year, the number of companies expressing a desire to strengthen/expand production functions in Thailand decreased significantly, but in this year's survey it is on the rise again, further solidifying its position as a manufacturing base.

Production functions

Sales functions

Figure 37: Areas in which to strengthen/expand (production)

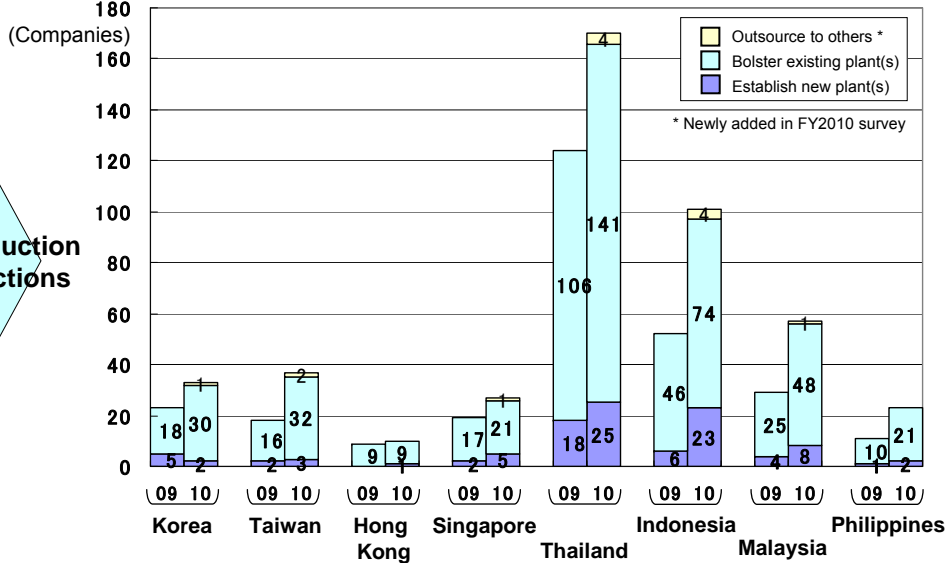


Figure 38: Areas in which to strengthen/expand (sales)

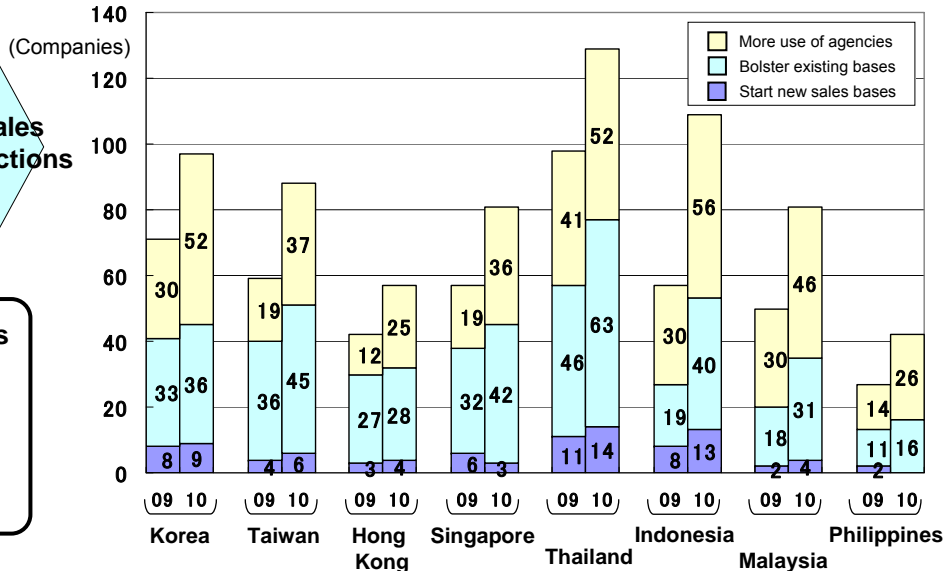
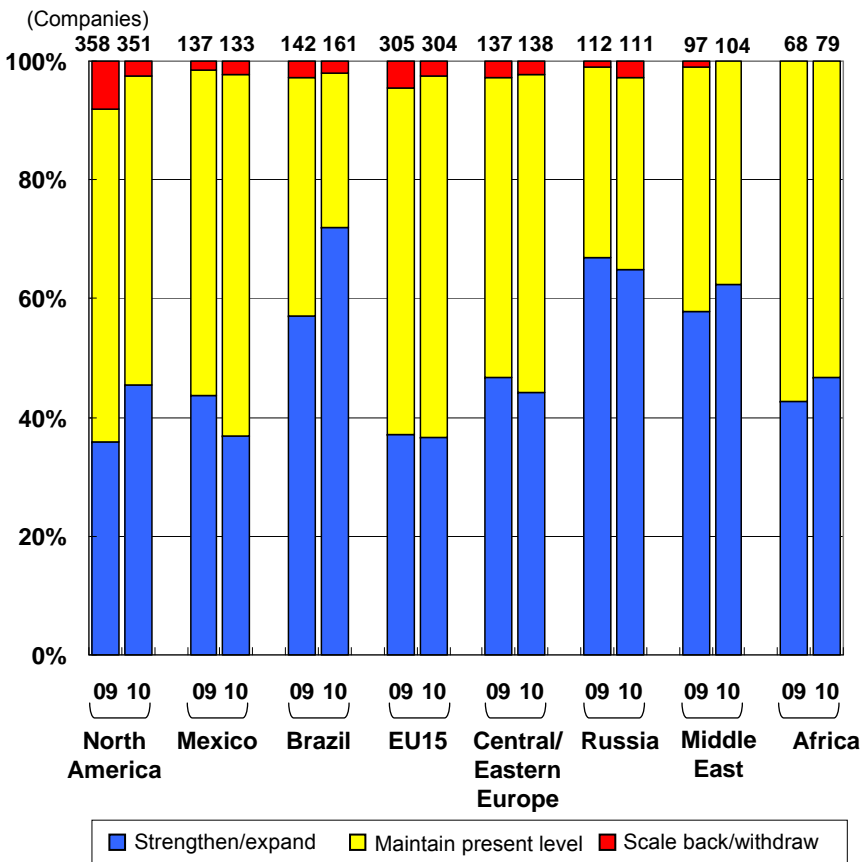


Figure 39: Medium-term prospects for overseas operations (other regions)



Production functions

Sales functions

■ The No. of companies wanting to "strengthen/expand" in North America and Brazil rose. Figures for EU15, Central/Eastern Europe, and Russia either stayed the same or fell

- The proportion of companies that responded "expand/strengthen" in North America grew by 9.8 points from last year (from 35.8% to 45.6%). Brazil likewise saw a 15.0 point jump (from 57.0% to 72.0%).
- Meanwhile, the figures for EU15 (37.0% to 36.5%), Central/Eastern Europe (46.7% to 44.2%), and Russia (67.0% to 64.9%) either stayed the same or fell.

■ More companies want to bolster production in North America and Brazil

- In addition to bolstering existing production facilities, more companies than last year want to establish new plants in North America and Brazil.

Figure 40: Areas in which to strengthen/expand (production)

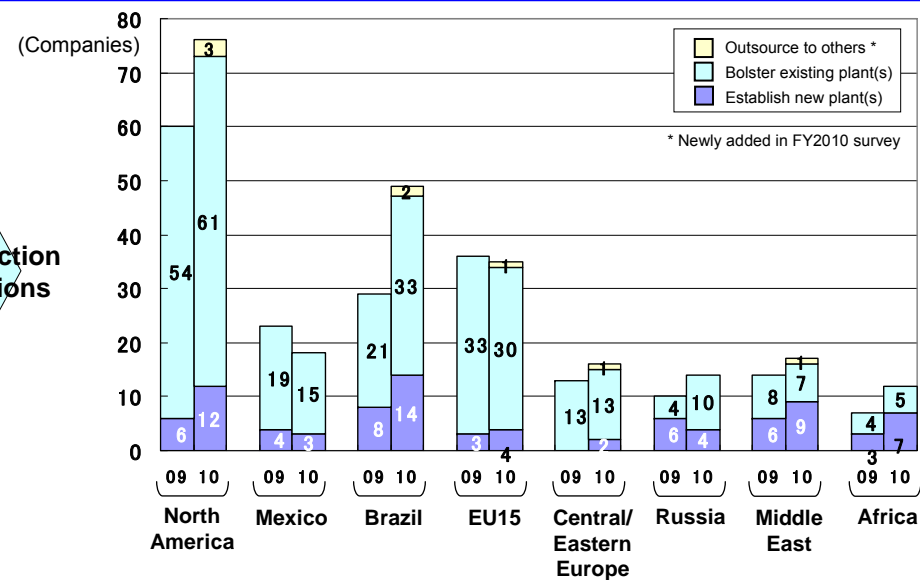
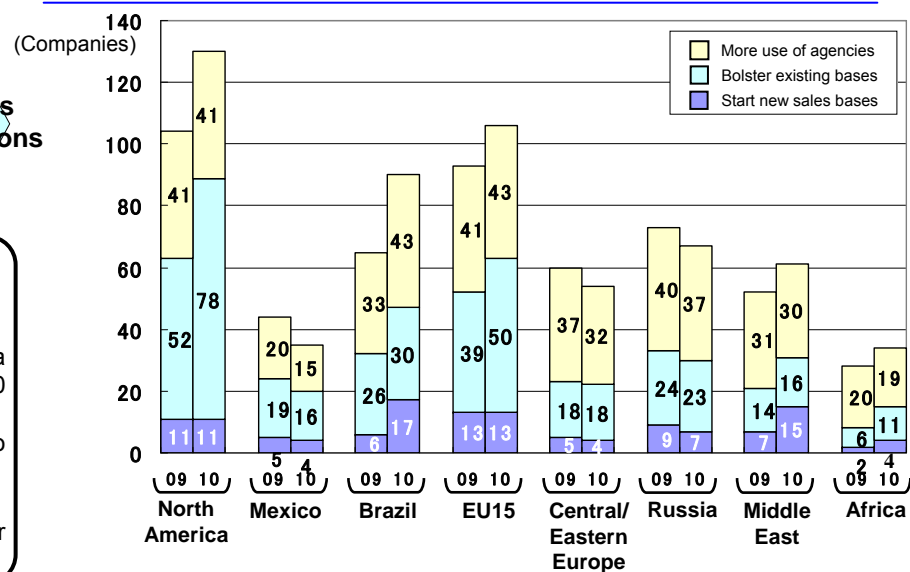


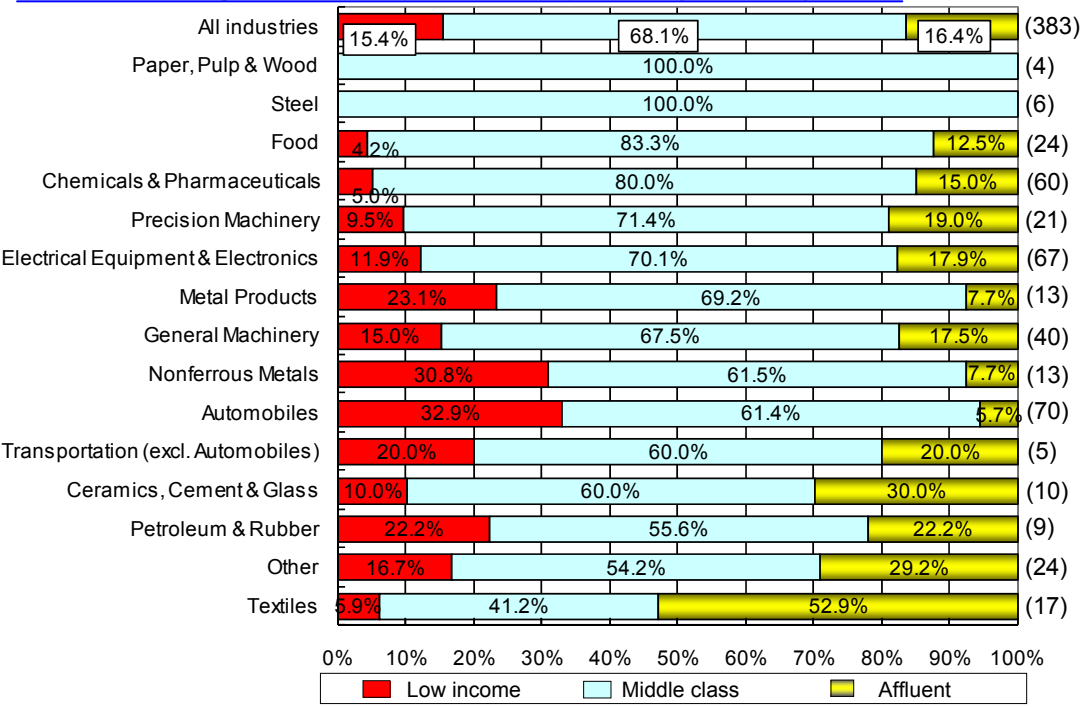
Figure 41: Areas in which to strengthen/expand (sales)





VI. Business Development & Competition in Emerging Markets

Figure 42: Top priority customer income levels targeted for Product Development by industry



(Respondent companies)

Figure 43: Product development policies by target customer income levels

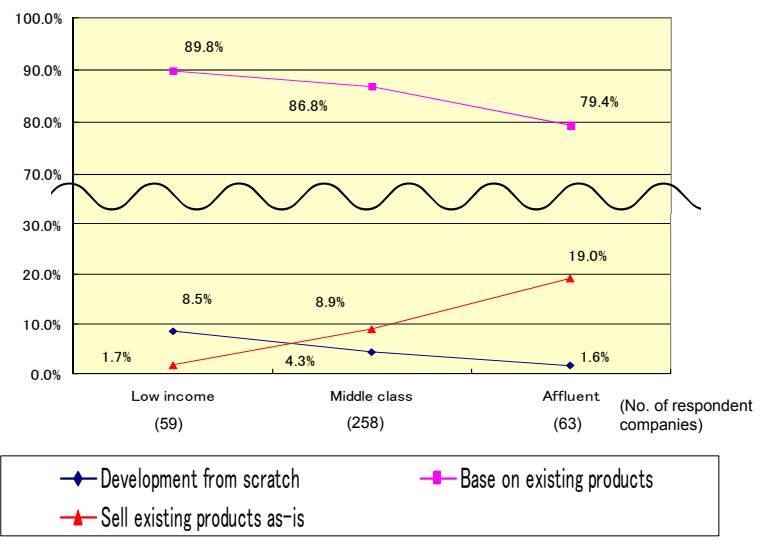
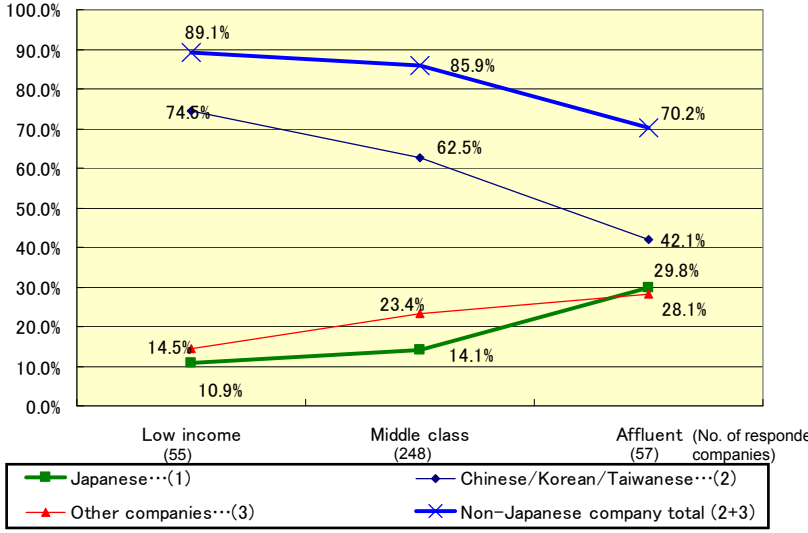


Figure 45: B to C company sales strategies by target customer income levels

(No. of respondent companies)	Low income (19)	Middle class (115)	Affluent (33)	Total (167)
Bolster in-house sales	31.6%	53.9%	45.5%	49.7%
Partner with others	68.4%	44.3%	54.5%	49.1%
Acquire other companies	0.0%	1.7%	0.0%	1.2%
Total	100.0%	100.0%	100.0%	100.0%

- With the exception of textiles, it is clear that in terms of industry the middle class is the top priority target income level.
- In terms of development and procurement, the higher-end a product is, the higher the ratios of existing products and those made by Japanese companies are.
- As for sales strategies for B to C companies, nearly 70% of companies said their low-income strategies involve pursuing partnerships with other companies.

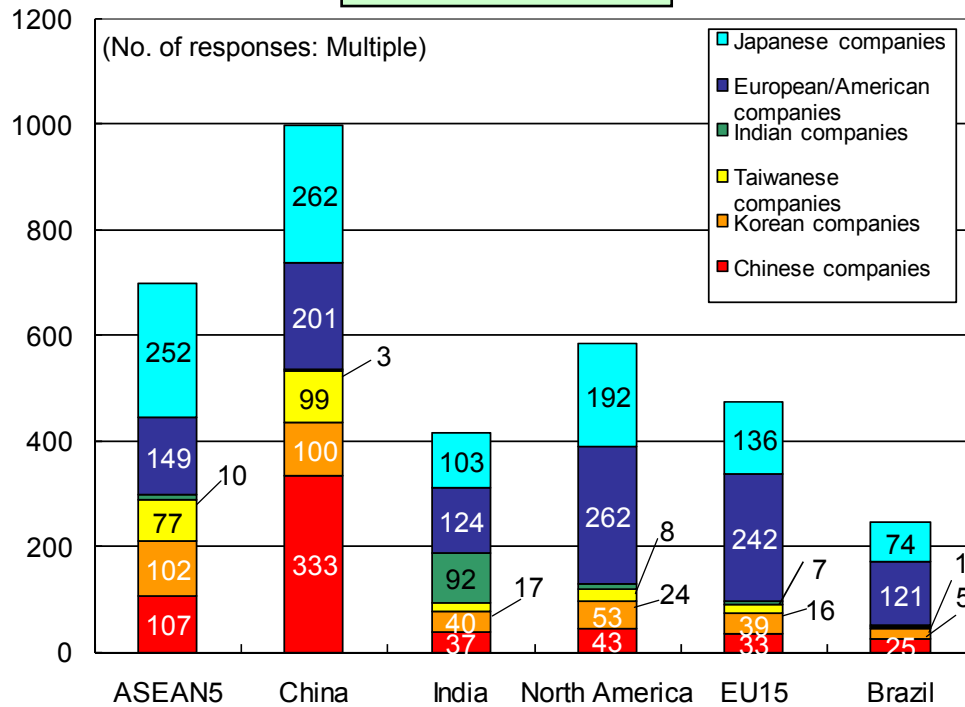
Figure 44: Parts/Materials suppliers by target customer income levels



VI. 2. Competition in the major markets (all industries)

Figure 46: Competition in overseas markets

All Industries



Competition with Chinese companies is increasing in the Chinese market

Among the respondent companies, 71.8% listed Chinese companies as competitors. This is a 9.5 point increase from the FY2008 survey, indicating that competition with Chinese companies is growing fiercer than with other Japanese companies or European/American companies. Korean, Taiwanese, and European/American companies saw increases of 6.4 points, 1.5 points, and 1.6 points, respectively, which attests to an increased presence of non-Japanese companies.

In the ASEAN5 markets, competition with Japanese, Korean, and Taiwanese companies is brewing

Among the respondent companies, 67.4% listed other Japanese companies as competitors, which is up 4.2 points from the FY2008 survey. Those that cited Korean companies in the FY2010 survey accounted for 27.3%, which is up 5.3 points from the FY2008 survey. This demonstrates a growing presence of Korean companies in ASEAN5 markets.

Calculation method: Responses (multiple)/No. of respondent companies

Figure 47: Competitors in China's market

(FY2008 respondents: 448)
(FY2010 respondents: 464)

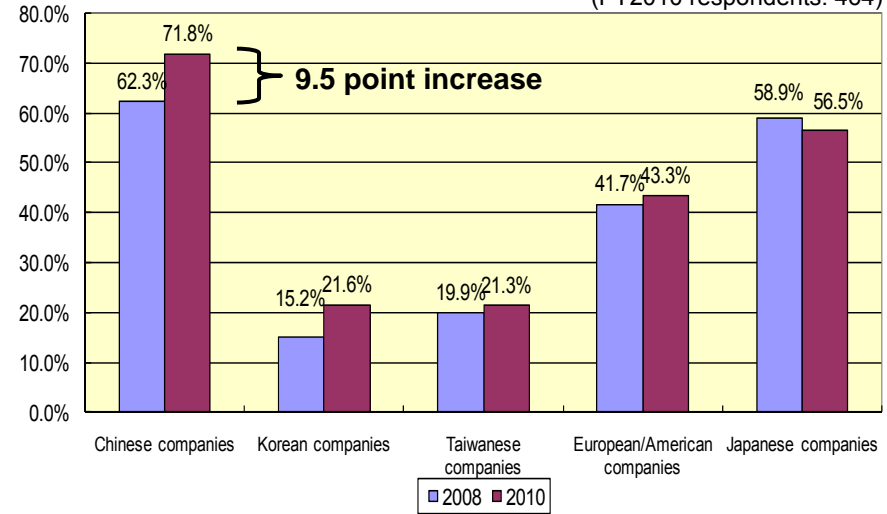
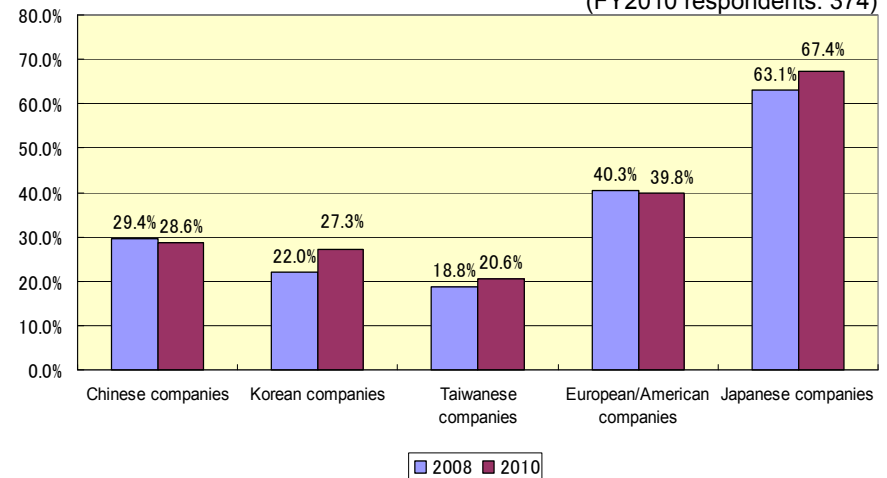


Figure 48: Competitors in ASEAN5 Markets*

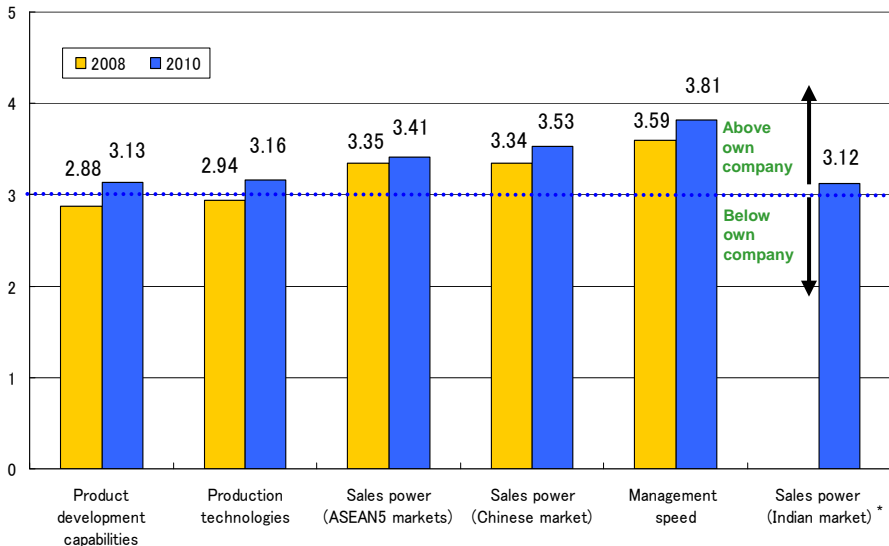
(FY2008 respondents: 377)
(FY2010 respondents: 374)



* Because the comparison is with FY2008, the two companies that selected only "Indian companies" were not counted.

Figure 49: Assessments of Korean & Taiwanese companies

(FY2008 respondents: 371)
(FY2010 respondents: 312)



*"Sales power (Indian market)" appears only in the FY10 survey.

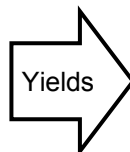
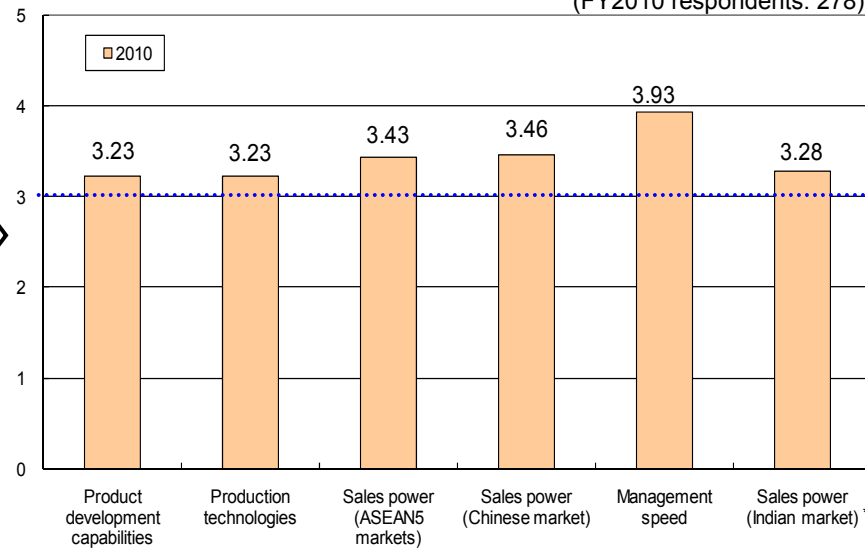


Figure 50: Assessments of Korean companies

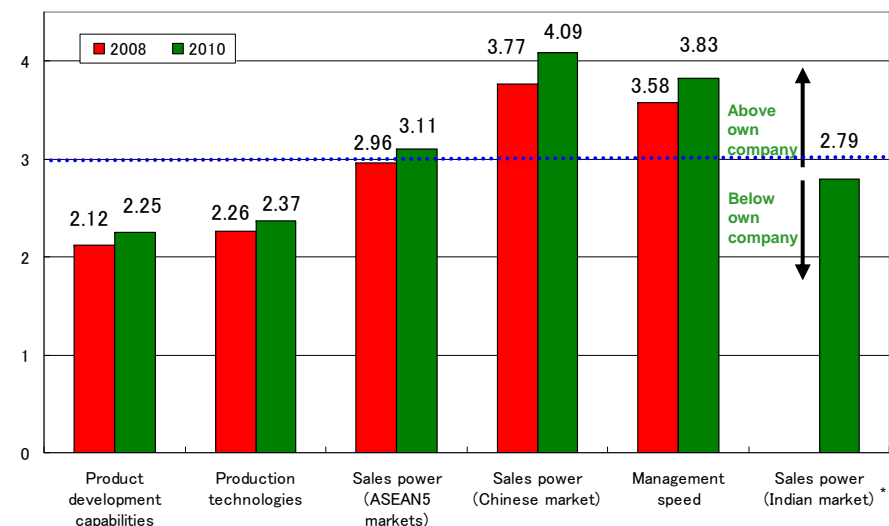
(FY2010 respondents: 278)



Companies were asked to evaluate Korean, Taiwanese, and Chinese companies assuming their own level on the scale is "3". "3" is the median, with "1" meaning "extremely low" and "5" meaning extremely high.

Figure 51: Assessments of Chinese companies

(FY2008 respondents: 409)
(FY2010 respondents: 402)



■ The competitiveness of Korean and Taiwanese companies is the same or better
Assessments of Korean and Taiwanese companies exceeded levels at the time of the FY2008 survey in all categories, and also scored higher than Japanese companies in all categories this time. In the "Product development capabilities (2.88)" and "Production technologies (2.94)" from the FY2008 survey, Korean and Taiwanese companies fell below the median "3" line meaning "equal to Japanese companies", hence there was the perception that Japanese companies were slightly better. In contrast, in the FY10 survey they received the "equal to or better" scores of 3.13 and 3.16 in these two categories respectively. The result shows that Korean and Taiwanese companies are now perceived to be more adept in terms of "Product development capabilities" and "Production technologies", fields in which Japanese companies have always had the upper hand.

■ Chinese companies are increasingly competitive
Assessments of Chinese companies were on the whole higher than FY2008 levels. While Japanese companies are still viewed as having the advantage in terms of development and production, the sales power of Chinese companies in the Chinese market continues to grow. Their sales power in ASEAN5 markets, which in FY2008 Japanese companies were thought to exceed Chinese companies in, is also gaining higher marks.

Note: See Appendix 7 for values by industry

VI. 4. Competition in the major markets (by industry)

Figure 52: Competition in overseas markets (Electrical Equipment & Electronics)

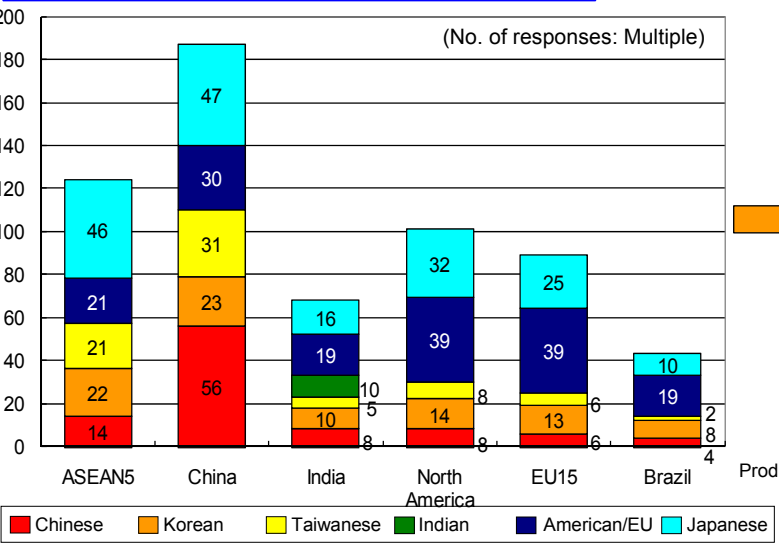
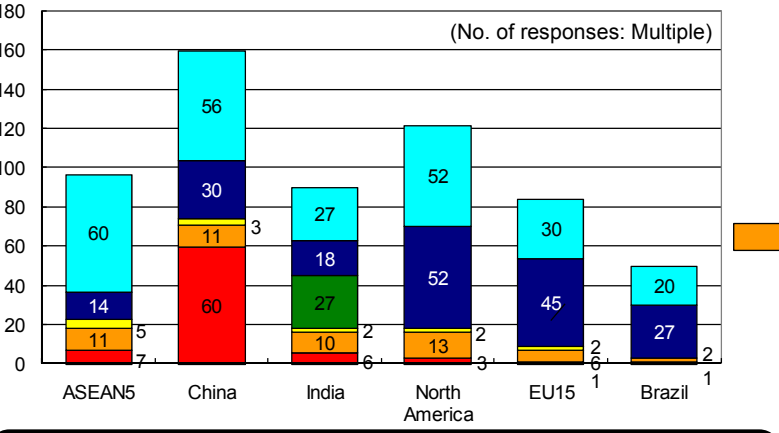


Figure 54: Competition in overseas markets (Automobiles)



■ In the field of electrical equipment and electronics, Korean and Taiwanese companies are rated highly, just as they were two years ago. Though their development and production capabilities have risen, sales power has fallen slightly. Chinese companies received high marks across the board. Many rated their sales power as having largely exceeded that of the respondent's own company (Japanese company).

■ In the field of Automobiles, two years ago it was felt that Japanese companies were more or less superior in terms of development, production and sales, but in the FY2010 survey, ratings for Korean and Taiwanese companies have risen.

Figure 53: View of competition with Korean/Taiwanese/Chinese companies (Electrical Equipment & Electronics)

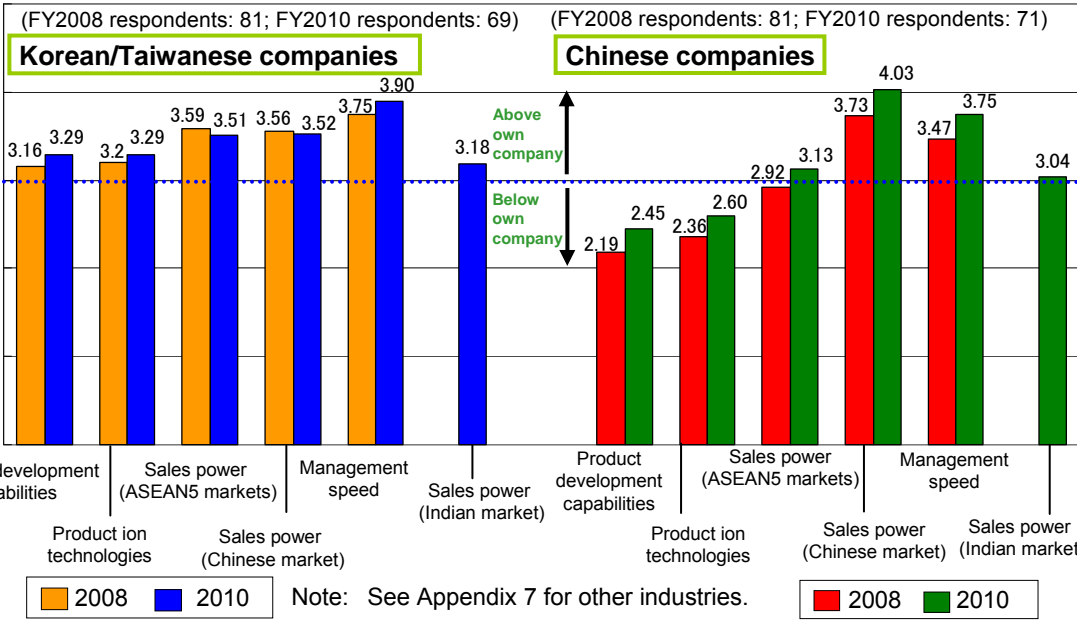
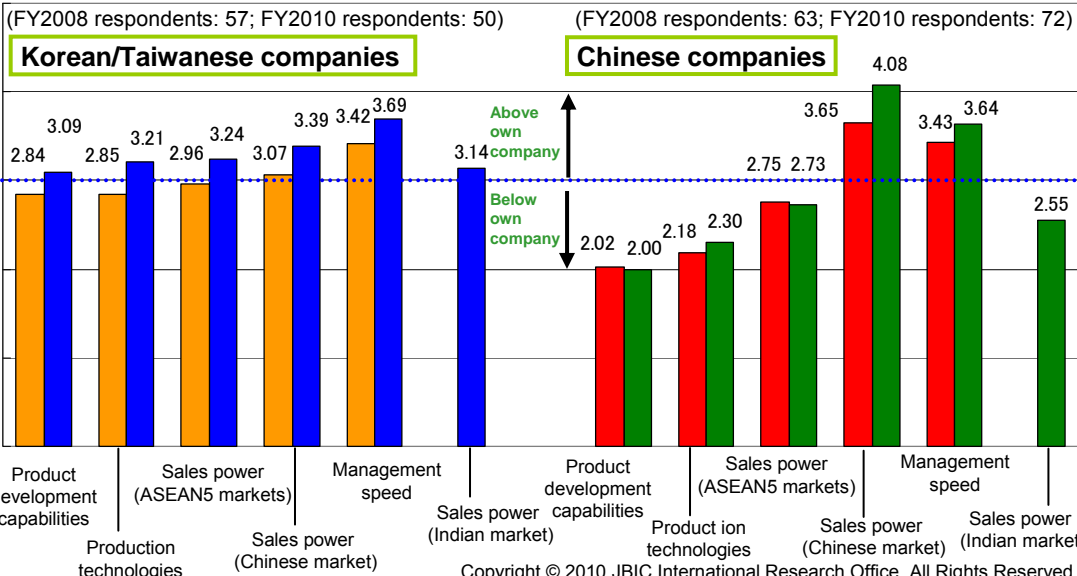


Figure 55: View of competition with Korean/Taiwanese/Chinese companies (Automobiles)



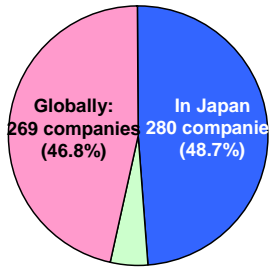


VII. Human Resources for Overseas Expansion & Approaches to R&D

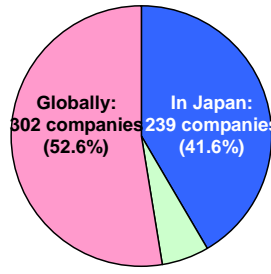
VII. Human Resources for Overseas Expansion & Approaches to R&D

Figure 56: Chief places to hire & train highly qualified personnel (all industries)

1. Hiring



2. Training



Note 1: 575 companies responded to "1. Hiring"; 574 to "2. Training"
 Note 2: "Highly qualified personnel" refers to white-collar workers, engineers, and R&D specialists. "Globally" here refers to making no domestic/overseas distinction. It can include "on a per center basis".

3. Cross tabulation of hiring and training

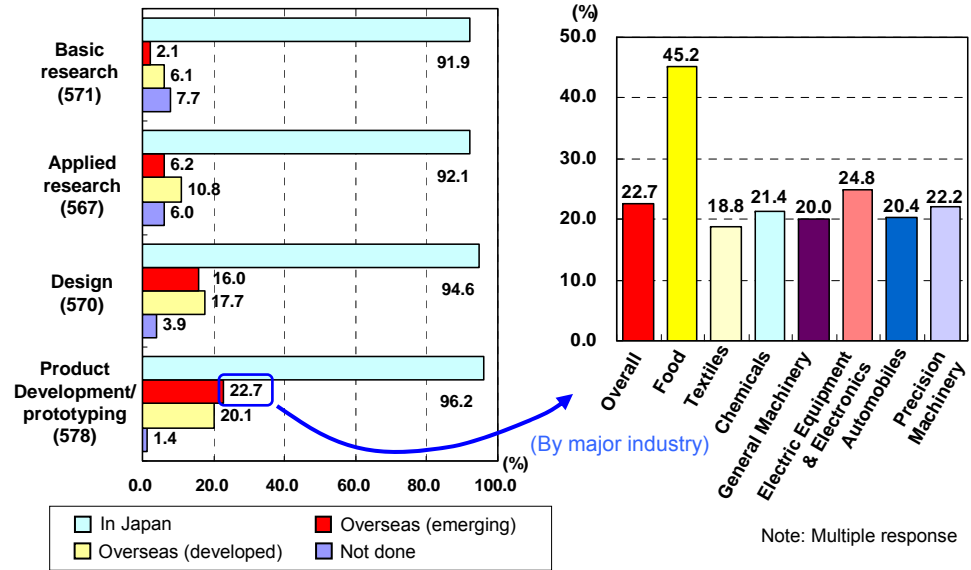
		Training		
		In Japan	Overseas	Globally
Hiring	In Japan	212	9	59
	Overseas	2	20	4
	Globally	25	4	239

Note: Tabulation of the 574 companies responded to both "1. Hiring" and "2. Training".

■ **For both hiring and training of skilled personnel, the figures for "In Japan" and "Globally" were comparable (Figure 56)**
 • For "1. Hiring" and "2. Training", no major differences in the tabulation results were seen in industry type.
 • In 3. "Cross tabulation", there were two trends: either training and hiring were both done domestically, or they were done globally. About 40% of companies expressed a desire to hire and train globally in the future.

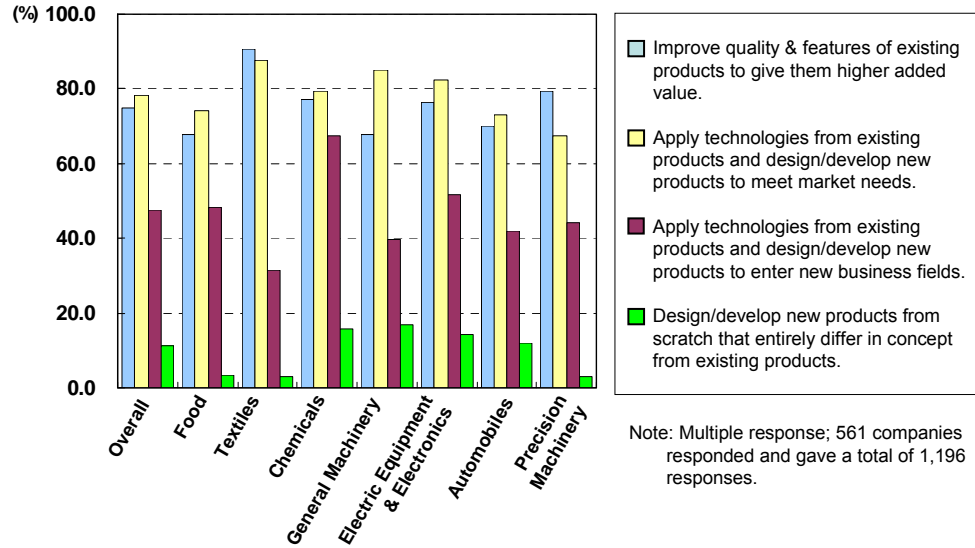
■ **R&D (Figures 57 & 58)**
 • Basic and applied research, which are high up on the value chain, are done in Japan or in another developed country, but as one goes lower down the chain to design, product development and prototyping, more companies wish to take approaches that incorporate emerging countries in the interests of customization.
 • Many companies develop new products by adding higher value to their existing products and apply existing product technologies, although some are attempting to enter new business fields. This trend was particularly evident in the field of chemicals.

Figure 57: Where R&D is conducted



Note: Multiple response

Figure 58: Present approaches to R&D (major industries)



Note: Multiple response; 561 companies responded and gave a total of 1,196 responses.

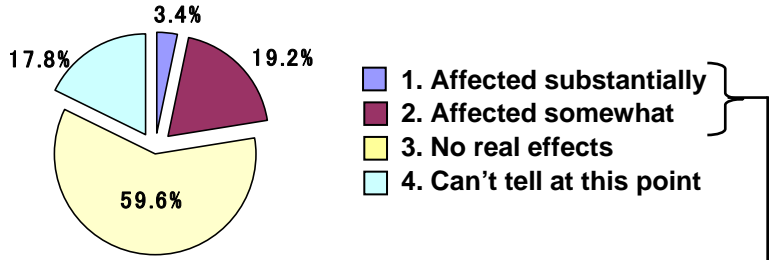


VIII. Urgent Additional Questionnaire Survey Results

Q.

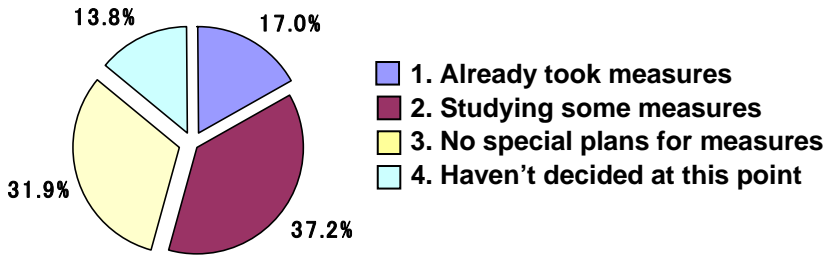
In September of 2010, a Chinese fishing trawler collided with Japan Coast Guard patrol vessels in the waters off the Senkaku Islands. Since then, Sino-Japanese relations have been strained in different ways, and there have been anti-Japanese demonstrations in some parts of China. We conducted an additional survey to find out if views have changed since the July questionnaire survey was conducted.
 (Companies surveyed: 605; companies responding: 416; response rate: 68.8%)

Q1. Do you feel that your company's business(es) in China have been adversely affected by the surfacing of political risks in China?



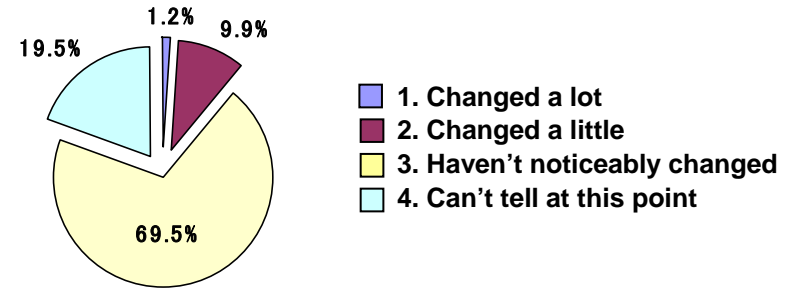
(Q2 asked for free-form responses describing the effects.)

Q3. (Asked to those who answered "1. Affected substantially" and "2. Affected somewhat" to Q1 above)
 Circle the answer that is closest to your company's response regarding measures to address effects.

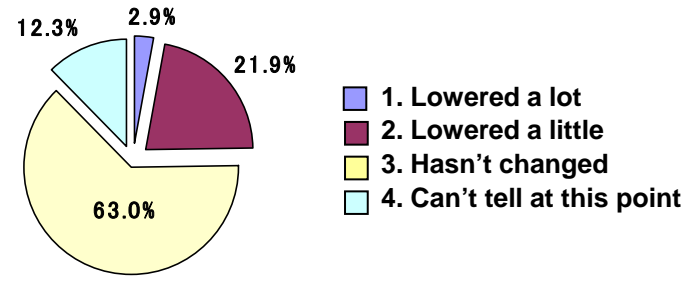


(Q4 asked for free-form responses describing the measures.)

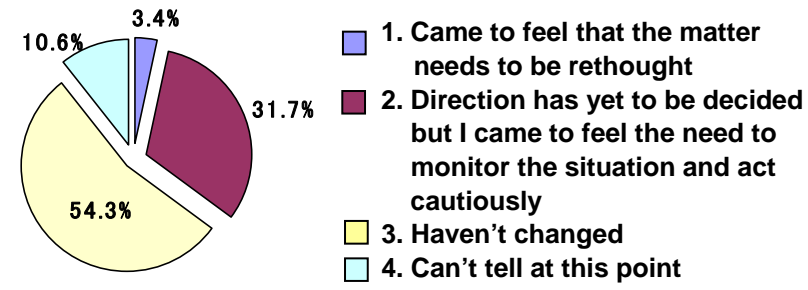
Q5. Have you felt that the views/attitudes of your Chinese business counterparts (e.g. govt. officials, trading partners, local employees, customers, etc.) changed after the incident?



Q6. Has your assessment of China as promising changed since?

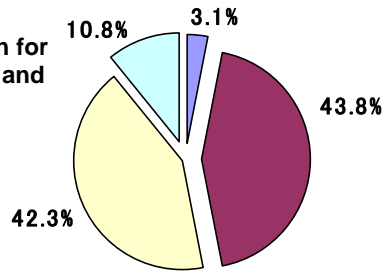


Q7. Have your views on future approaches to business in China changed?



VIII. Urgent Additional Questionnaire Survey (cont.)

Q8. Please tell us your vision for future business in China and the Chinese market.



- 1. I am aware that there are risks inherent in doing business in China, so I plan to change things, for example by reducing dependence on Chinese business/market, and to bolster efforts in other countries/regions
- 2. We will continue to do business in China, but at the same time I feel that diversifying risk to other countries/regions is important.
- 3. China is important as a market and business client, so we will continue to pursue business there as usual.
- 4. Don't know at this point.

★ Key findings

- 22.6% of companies have been affected in some way or another. The effects most often cited related to delays in customs clearance and the procurement of rare earth elements.
- 24.8% of companies responded that they "lowered their estimation" of China as a "promising country".
- Regarding willingness to pursue operations in China, 35.1% of companies responded that they would proceed cautiously (including the possibility of rethinking their operations in China).
- As for their business prospects in China, 46.9% of companies acknowledged the importance of risk diversification in response to dependence on China. Although specific destinations for diversification were not given, some indicated they would consider another low-income country (from the free-form responses to Q4).

【Reference】 Related result from FY2005 survey

- Results of this survey on the negative effects that the Anti-Japan Demonstrations in China* may have caused on the production and sales operations in China were as follows. Of the 557 companies in all industries, a number of the companies that reported any negative effects like "severely affected" (1%) and "affected" (9%) totaled 10%, but most of the rest were "not affected" (77%).
- Furthermore, the 552 companies in all industries were asked whether or not any amendment to the medium-term (next 3 years or so) business plans for China was necessitated due to the Anti-Japan Demonstrations in China. In contrast to the companies that suggested amendment, "amendment has been made" (1%) and "amendment to be made" (3%), an overwhelming majority responded "no amendment" (96%).

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

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

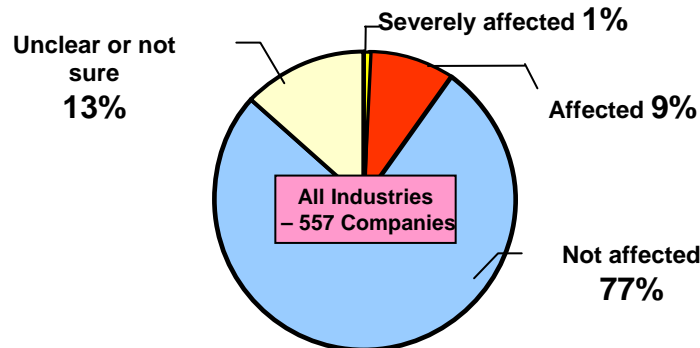
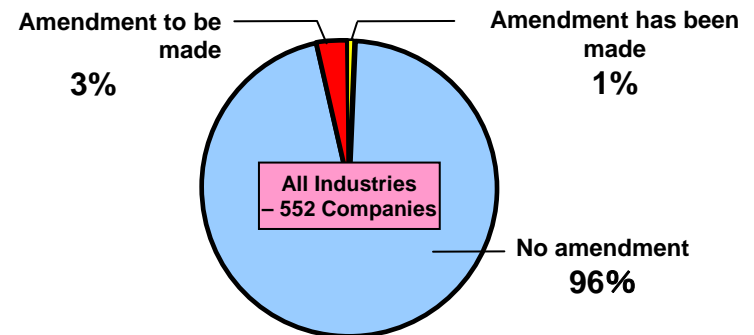


Figure 27 Amendment to the Medium-term (next 3 years or so) Business Plans for China in the wake of the Anti-Japan Demonstrations in China (April 2005)





Appendices

Promising Countries/Regions for Overseas Business Operations over the Medium-term

Note: "Medium-term" here means about the next three or so years.

Rank	FY 2010 Survey	No. of Companies 516	Percentage share (%)	FY 2009 Survey	No. of Companies 480	Percentage share (%)	FY 2008 Survey	No. of Companies 471	Percentage share (%)	FY 2007 Survey	No. of Companies 503	Percentage share (%)	FY 2006 Survey	No. of Companies 484	Percentage share (%)															
1	China	399	77.3	China	353	73.5	China	297	63.1	China	342	68.0	China	372	76.9															
2	India	312	60.5	India	278	57.9	India	271	57.5	India	254	50.5	India	229	47.3															
3	Vietnam	166	32.2	Vietnam	149	31.0	Vietnam	152	32.3	Vietnam	178	35.4	Vietnam	159	32.9															
4	Thailand	135	26.2	Thailand	110	22.9	Russia	130	27.6	Thailand	132	26.2	Thailand	142	29.3															
5	Brazil	127	24.6	Russia	103	21.5	Thailand	125	26.5	Russia	114	22.7	USA	104	21.5															
6	Indonesia	107	20.7	Brazil	95	19.8	Brazil	91	19.3	USA	93	18.5	Russia	98	20.2															
7	Russia	75	14.5	USA	65	13.5	USA	78	16.6	Brazil	47	9.3	Brazil	45	9.3															
8	USA	58	11.2	Indonesia	52	10.8	Indonesia	41	8.7	Indonesia	46	9.1	Korea	44	9.1															
9	Korea	30	5.8	Korea	31	6.5	Korea	27	5.7	Korea	32	6.4	Indonesia	39	8.1															
10	Taiwan	29	5.6	Malaysia	26	5.4	Taiwan	22	4.7	Taiwan	24	4.8	Taiwan	27	5.6															
11	Malaysia	25	4.8	Taiwan	21	4.4	Mexico	21	4.5	Malaysia	21	4.2	Malaysia	22	4.5															
12	Mexico			Mexico	20	4.2	Malaysia	20	4.2	Mexico			15	3.0	Germany	15	3.1													
13	Singapore	21	4.1	Philippines	14	2.9	Singapore	15	3.2	Philippines	15	3.0	Poland	14	2.9															
14	Philippines	14	2.7	Germany	9	1.9	UAE	14	3.0	Germany			13			2.6	Czech Republic	12	2.5											
15	Australia	8	1.6	Australia	8	1.7	Germany	13	2.8	Czech Republic	10	2.0		Mexico	8		1.7													
16	Bangladesh			Saudi Arabia			7	1.4	Singapore	7			1.5	Czech Republic		8		1.7	Turkey	8	1.7									
17	Turkey	Turkey	6	1.2	Czech Republic	6			1.3	Turkey	8	1.6	Hong Kong	6	1.2															
18	Germany	7	1.4	UK	5	1.0	UK	8	1.7	Hong Kong			8			1.7														
19	UK	6	1.2	Canada	5	1.3	Australia			8	1.7	Australia		6	1.2															
20	Myanmar	5	1.0	UAE	5	1.3	South Africa	8	1.7			Poland	8			1.7														
	South Africa			UK			6			1.3	UK	8		1.7	Australia		8	1.7												
	Saudi Arabia			UAE							6				1.3				UK	8	1.7	Poland	8	1.7						
	Poland			UAE															6			1.3			UK	8	1.7	Saudi Arabia	8	1.7
	UAE			UAE																					6			1.3		
		UAE	6	1.3	UK	8		1.7	Saudi Arabia				8			1.7														

Promising Countries/Regions over the Long-term

Note: "Long-term" here refers to the next 10 or so years.

Rank	FY 2010 Survey	No. of Companies 438	Percentage share (%)	FY 2009 Survey	No. of Companies 404	Percentage share (%)
1	India	328	74.9	China	284	70.3
2	China	314	71.7	India	274	67.8
3	Brazil	151	34.5	Russia	135	33.4
4	Vietnam	134	30.6	Brazil	133	32.9
5	Russia	108	24.7	Vietnam	97	24.0
6	Indonesia	93	21.2	Thailand	60	14.9
7	Thailand	84	19.2	Indonesia	54	13.4
8	USA	38	8.7	USA	48	11.9
9	Malaysia	20	4.6	South Africa	19	4.7
10	Taiwan	18	4.1	Malaysia	18	4.5
				Mexico	18	4.5

Promising Countries/Regions for SMEs over the Medium-term

Note: "SMEs" are companies with paid-in capital of less than ¥1 billion.

Rank	FY 2010 Survey	No. of Companies 131	Percentage share (%)	FY 2009 Survey	No. of Companies 123	Percentage share (%)
1	China	91	69.5	China	80	65.0
2	India	77	58.8	India	67	54.5
3	Vietnam	59	40.5	Vietnam	45	36.6
4	Thailand	42	32.1	Thailand	38	30.9
5	Brazil	30	22.9	Brazil	22	17.9
6	Indonesia	27	20.6	Indonesia	18	14.6
7	Russia	15	11.5	Russia		
8	Taiwan	9	6.9	USA	14	11.4
9	Mexico	8	6.1	Malaysia		
10	USA			Mexico	9	7.3

Appendix 2. Promising Countries/Regions for Overseas Business Operations (details of reasons for countries being viewed as promising)

Note 1: The number of respondent companies refers to the number of companies that cited reasons for a country being promising.
Note 2: The colored cells indicate the top three reasons most often cited for each country

FY2010 Survey	1 China		2 India		3 Vietnam		4 Thailand		5 Brazil		6 Indonesia		7 Russia		8 USA		9 Korea		10 Taiwan		10 Malaysia	
	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio
	Respondent companies	394	100%	310	100%	165	100%	132	100%	126	100%	105	100%	75	100%	58	100%	30	100%	29	100%	28
Qualified human resources	50	12.7%	60	19.4%	34	20.6%	21	15.9%	3	2.4%	6	5.7%	2	2.7%	7	12.1%	6	20.0%	6	20.7%	5	17.9%
Inexpensive source of labor	139	35.3%	136	43.9%	101	61.2%	59	44.7%	25	19.8%	54	51.4%	6	8.0%	-	-	2	6.7%	1	3.4%	11	39.3%
Inexpensive components/raw materials	73	18.5%	33	10.6%	12	7.3%	14	10.6%	7	5.6%	10	9.5%	4	5.3%	1	1.7%	1	3.3%	2	6.9%	1	3.6%
Supply base for assemblers	102	25.9%	68	21.9%	22	13.3%	42	31.8%	22	17.5%	22	21.0%	4	5.3%	7	12.1%	5	16.7%	5	17.2%	7	25.0%
Concentration of industry	64	16.2%	13	4.2%	7	4.2%	30	22.7%	8	6.3%	13	12.4%	-	-	9	15.5%	7	23.3%	5	17.2%	2	7.1%
Good for risk diversification to other countries	2	0.5%	15	4.8%	31	18.8%	10	7.6%	4	3.2%	6	5.7%	1	1.3%	-	-	-	-	-	-	2	7.1%
Base of export to Japan	39	9.9%	5	1.6%	18	10.9%	16	12.1%	-	-	7	6.7%	-	-	-	-	-	-	1	3.4%	2	7.1%
Base of export to third countries	69	17.5%	24	7.7%	27	16.4%	36	27.3%	13	10.3%	14	13.3%	2	2.7%	1	1.7%	4	13.3%	5	17.2%	6	21.4%
Advantages in terms of raw material procurement	37	9.4%	13	4.2%	7	4.2%	4	3.0%	5	4.0%	4	3.8%	2	2.7%	1	1.7%	-	-	-	-	3	10.7%
Current size of local market	150	38.1%	62	20.0%	17	10.3%	29	22.0%	32	25.4%	26	24.8%	18	24.0%	38	65.5%	11	36.7%	14	48.3%	4	14.3%
Future growth potential of local market	346	87.8%	276	89.0%	101	61.2%	65	49.2%	109	86.5%	75	71.4%	66	88.0%	28	48.3%	17	56.7%	13	44.8%	12	42.9%
Profitability of local market	44	11.2%	23	7.4%	7	4.2%	20	15.2%	12	9.5%	14	13.3%	4	5.3%	9	15.5%	2	6.7%	5	17.2%	3	10.7%
Base for product development	23	5.8%	6	1.9%	4	2.4%	5	3.8%	-	-	-	-	-	-	5	8.6%	2	6.7%	1	3.4%	1	3.6%
Developed local infrastructure	55	14.0%	9	2.9%	8	4.8%	35	26.5%	2	1.6%	3	2.9%	2	2.7%	20	34.5%	6	20.0%	9	31.0%	7	25.0%
Developed local logistics services	20	5.1%	-	-	4	2.4%	13	9.8%	1	0.8%	2	1.9%	-	-	10	17.2%	2	6.7%	2	6.9%	3	10.7%
Tax incentives for investment	25	6.3%	8	2.6%	14	8.5%	21	15.9%	7	5.6%	2	1.9%	5	6.7%	1	1.7%	1	3.3%	-	-	7	25.0%
Stable policies to attract foreign investment	6	1.5%	5	1.6%	11	6.7%	12	9.1%	1	0.8%	3	2.9%	-	-	-	-	-	-	1	3.4%	4	14.3%
Social/political situation stable	15	3.8%	17	5.5%	20	12.1%	4	3.0%	8	6.3%	6	5.7%	4	5.3%	16	27.6%	2	6.7%	5	17.2%	9	32.1%

FY2009 Survey	1 China		2 India		3 Vietnam		4 Thailand		5 Russia		6 Brazil		7 USA		8 Indonesia		9 Korea		10 Malaysia	
	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio
	Respondent companies	348	100%	275	100%	149	100%	108	100%	103	100%	95	100%	64	100%	50	100%	31	100%	26
Qualified human resources	33	9.5%	51	18.5%	32	21.5%	11	10.2%	1	1.0%	2	2.1%	7	10.9%	3	6.0%	4	12.9%	4	15.4%
Inexpensive source of labor	153	44.0%	106	38.5%	86	57.7%	45	41.7%	8	7.8%	14	14.7%	-	-	23	46.0%	-	-	10	38.5%
Inexpensive components/raw materials	68	19.5%	27	9.8%	10	6.7%	12	11.1%	3	2.9%	5	5.3%	1	1.6%	4	8.0%	2	6.5%	2	7.7%
Supply base for assemblers	71	20.4%	53	19.3%	22	14.8%	23	21.3%	9	8.7%	15	15.8%	8	12.5%	16	32.0%	5	16.1%	7	26.9%
Concentration of industry	54	15.5%	9	3.3%	3	2.0%	18	16.7%	3	2.9%	3	3.2%	9	14.1%	5	10.0%	8	25.8%	2	7.7%
Good for risk diversification to other countries	2	0.6%	14	5.1%	28	18.8%	11	10.2%	1	1.0%	1	1.1%	-	-	3	6.0%	-	-	2	7.7%
Base of export to Japan	46	13.2%	4	1.5%	16	10.7%	12	11.1%	-	-	-	-	-	-	5	10.0%	-	-	4	15.4%
Base of export to third countries	60	17.2%	20	7.3%	22	14.8%	29	26.9%	2	1.9%	8	8.4%	-	-	13	26.0%	-	-	5	19.2%
Advantages in terms of raw material procurement	28	8.0%	9	3.3%	4	2.7%	7	6.5%	6	5.8%	4	4.2%	3	4.7%	3	6.0%	2	6.5%	3	11.5%
Current size of local market	114	32.8%	51	18.5%	14	9.4%	27	25.0%	18	17.5%	17	17.9%	44	68.8%	11	22.0%	18	58.1%	3	11.5%
Future growth potential of local market	295	84.8%	248	90.2%	90	60.4%	52	48.1%	87	84.5%	82	86.3%	28	43.8%	32	64.0%	17	54.8%	11	42.3%
Profitability of local market	30	8.6%	10	3.6%	5	3.4%	8	7.4%	6	5.8%	3	3.2%	9	14.1%	7	14.0%	4	12.9%	1	3.8%
Base for product development	10	2.9%	3	1.1%	3	2.0%	4	3.7%	-	-	-	-	7	10.9%	1	2.0%	2	6.5%	-	-
Developed local infrastructure	33	9.5%	1	0.4%	4	2.7%	25	23.1%	6	5.8%	3	3.2%	15	23.4%	1	2.0%	8	25.8%	5	19.2%
Developed local logistics services	8	2.3%	1	0.4%	1	0.7%	11	10.2%	-	-	1	1.1%	9	14.1%	1	2.0%	2	6.5%	1	3.8%
Tax incentives for investment	26	7.5%	3	1.1%	21	14.1%	25	23.1%	2	1.9%	3	3.2%	1	1.6%	2	4.0%	1	3.2%	5	19.2%
Stable policies to attract foreign investment	9	2.6%	7	2.5%	8	5.4%	14	13.0%	-	-	-	-	1	1.6%	1	2.0%	-	-	3	11.5%
Social/political situation stable	13	3.7%	12	4.4%	17	11.4%	10	9.3%	5	4.9%	5	5.3%	17	26.6%	2	4.0%	7	22.6%	7	26.9%

Note 1: The number of respondent companies refers to the number of companies that cited issues.

Note 2: The colored cells indicate the top three issues most often cited for each country

FY2010 Survey	1 China		2 India		3 Vietnam		4 Thailand		5 Brazil		6 Indonesia		7 Russia		8 USA		9 Korea		10 Taiwan		10 Malaysia	
	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio
	Respondent companies	377	100%	294	100%	156	100%	128	100%	120	100%	98	100%	71	100%	52	100%	30	100%	28	100%	25
Underdeveloped legal system	57	15.1%	55	18.7%	30	19.2%	7	5.5%	9	7.5%	11	11.2%	16	22.5%	-	-	-	-	-	-	-	-
Execution of legal system unclear	218	57.8%	79	26.9%	38	24.4%	11	8.6%	27	22.5%	22	22.4%	28	39.4%	-	-	1	3.3%	1	3.6%	-	-
Complicated tax system	48	12.7%	72	24.5%	7	4.5%	7	5.5%	26	21.7%	4	4.1%	5	7.0%	2	3.8%	-	-	-	-	-	-
Execution of tax system unclear	120	31.8%	48	16.3%	18	11.5%	8	6.3%	18	15.0%	10	10.2%	13	18.3%	-	-	1	3.3%	2	7.1%	-	-
Increased taxation	83	22.0%	16	5.4%	4	2.6%	6	4.7%	8	6.7%	5	5.1%	2	2.8%	3	5.8%	3	10.0%	-	-	3	12.0%
Restrictions on foreign investment	103	27.3%	35	11.9%	20	12.8%	9	7.0%	12	10.0%	7	7.1%	12	16.9%	-	-	-	-	-	-	3	12.0%
Complicated/unclear procedures for investment permission	95	25.2%	46	15.6%	14	9.0%	4	3.1%	13	10.8%	6	6.1%	10	14.1%	-	-	-	-	1	3.6%	-	-
Insufficient protection for intellectual property rights	191	50.7%	24	8.2%	10	6.4%	6	4.7%	6	5.0%	8	8.2%	2	2.8%	1	1.9%	1	3.3%	-	-	2	8.0%
Restrictions on foreign currency/ transfers of money overseas	127	33.7%	27	9.2%	12	7.7%	4	3.1%	9	7.5%	3	3.1%	8	11.3%	-	-	2	6.7%	1	3.6%	-	-
Import restrictions/customs procedures	71	18.8%	34	11.6%	14	9.0%	7	5.5%	23	19.2%	8	8.2%	16	22.5%	-	-	2	6.7%	2	7.1%	-	-
Difficult to secure technical/engineering staff	66	17.5%	28	9.5%	27	17.3%	28	21.9%	10	8.3%	16	16.3%	5	7.0%	1	1.9%	1	3.3%	2	7.1%	6	24.0%
Difficult to secure management-level staff	96	25.5%	52	17.7%	41	26.3%	39	30.5%	21	17.5%	18	18.4%	8	11.3%	5	9.6%	3	10.0%	4	14.3%	8	32.0%
Rising labor costs	240	63.7%	51	17.3%	33	21.2%	32	25.0%	17	14.2%	18	18.4%	10	14.1%	8	15.4%	6	20.0%	5	17.9%	5	20.0%
Labor problems	136	36.1%	47	16.0%	14	9.0%	15	11.7%	15	12.5%	11	11.2%	7	9.9%	5	9.6%	3	10.0%	-	-	2	8.0%
Intense competition with other companies	213	56.5%	93	31.6%	31	19.9%	42	32.8%	36	30.0%	25	25.5%	21	29.6%	32	61.5%	20	66.7%	16	57.1%	7	28.0%
Difficulties in recovering money owed	118	31.3%	25	8.5%	5	3.2%	2	1.6%	10	8.3%	4	4.1%	8	11.3%	-	-	-	-	1	3.6%	-	-
Difficulty in raising funds	22	5.8%	18	6.1%	6	3.8%	1	0.8%	7	5.8%	2	2.0%	3	4.2%	-	-	-	-	-	-	1	4.0%
Underdeveloped local supporting industries	22	5.8%	36	12.2%	25	16.0%	4	3.1%	10	8.3%	7	7.1%	6	8.5%	-	-	-	-	-	-	-	-
Sense of instability regarding currency and/or costs	17	4.5%	12	4.1%	14	9.0%	2	1.6%	23	19.2%	10	10.2%	11	15.5%	-	-	2	6.7%	-	-	-	-
Underdeveloped infrastructure	45	11.9%	140	47.6%	48	30.8%	9	7.0%	23	19.2%	17	17.3%	9	12.7%	-	-	-	-	-	-	1	4.0%
Security/social instability	38	10.1%	56	19.0%	5	3.2%	64	50.0%	39	32.5%	28	28.6%	14	19.7%	-	-	2	6.7%	1	3.6%	1	4.0%
Lack of information on the country	6	1.6%	60	20.4%	22	14.1%	5	3.9%	32	26.7%	8	8.2%	15	21.1%	-	-	2	6.7%	-	-	1	4.0%

FY2009 Survey	1 China		2 India		3 Vietnam		4 Thailand		5 Russia		6 Brazil		7 USA		8 Indonesia		9 Korea		10 Malaysia	
	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio	No. of Comp anies	Ratio
	Respondent companies	336	100%	260	100%	136	100%	104	100%	99	100%	88	100%	60	100%	48	100%	31	100%	24
Underdeveloped legal system	53	15.8%	44	16.9%	33	24.3%	6	5.8%	15	15.2%	9	10.2%	-	-	6	12.5%	-	-	1	4.2%
Execution of legal system unclear	187	55.7%	76	29.2%	42	30.9%	6	5.8%	33	33.3%	19	21.6%	-	-	13	27.1%	-	-	1	4.2%
Complicated tax system	44	13.1%	61	23.5%	8	5.9%	7	6.7%	5	5.1%	19	21.6%	-	-	4	8.3%	-	-	1	4.2%
Execution of tax system unclear	109	32.4%	57	21.9%	22	16.2%	8	7.7%	16	16.2%	12	13.6%	-	-	10	20.8%	1	3.2%	3	12.5%
Increased taxation	71	21.1%	20	7.7%	8	5.9%	11	10.6%	3	3.0%	2	2.3%	4	6.7%	5	10.4%	2	6.5%	2	8.3%
Restrictions on foreign investment	83	24.7%	30	11.5%	21	15.4%	16	15.4%	11	11.1%	11	12.5%	-	-	3	6.3%	2	6.5%	1	4.2%
Complicated/unclear procedures for investment permission	68	20.2%	36	13.8%	15	11.0%	7	6.7%	22	22.2%	14	15.9%	-	-	4	8.3%	-	-	2	8.3%
Insufficient protection for intellectual property rights	159	47.3%	20	7.7%	11	8.1%	7	6.7%	4	4.0%	4	4.5%	1	1.7%	6	12.5%	2	6.5%	1	4.2%
Restrictions on foreign currency/ transfers of money overseas	127	37.8%	33	12.7%	17	12.5%	9	8.7%	11	11.1%	7	8.0%	-	-	3	6.3%	3	9.7%	1	4.2%
Import restrictions/customs procedures	62	18.5%	28	10.8%	12	8.8%	3	2.9%	19	19.2%	13	14.8%	1	1.7%	4	8.3%	2	6.5%	1	4.2%
Difficult to secure technical/engineering staff	24	7.1%	25	9.6%	27	19.9%	17	16.3%	11	11.1%	9	10.2%	5	8.3%	12	25.0%	2	6.5%	7	29.2%
Difficult to secure management-level staff	70	20.8%	41	15.8%	40	29.4%	31	29.8%	13	13.1%	13	14.8%	8	13.3%	13	27.1%	1	3.2%	6	25.0%
Rising labor costs	189	56.3%	43	16.5%	37	27.2%	28	26.9%	12	12.1%	10	11.4%	14	23.3%	13	27.1%	7	22.6%	5	20.8%
Labor problems	61	18.2%	52	20.0%	19	14.0%	8	7.7%	5	5.1%	11	12.5%	3	5.0%	7	14.6%	1	3.2%	1	4.2%
Intense competition with other companies	169	50.3%	77	29.6%	14	10.3%	40	38.5%	21	21.2%	18	20.5%	44	73.3%	9	18.8%	17	54.8%	4	16.7%
Difficulties in recovering money owed	95	28.3%	19	7.3%	6	4.4%	4	3.8%	12	12.1%	3	3.4%	-	-	-	-	-	-	2	8.3%
Difficulty in raising funds	29	8.6%	15	5.8%	4	2.9%	-	-	5	5.1%	5	5.7%	-	-	2	4.2%	-	-	-	0.0%
Underdeveloped local supporting industries	12	3.6%	31	11.9%	24	17.6%	2	1.9%	6	6.1%	4	4.5%	-	-	5	10.4%	-	-	1	4.2%
Sense of instability regarding currency and/or costs	11	3.3%	14	5.4%	17	12.5%	6	5.8%	12	12.1%	13	14.8%	-	-	9	18.8%	7	22.6%	-	-
Underdeveloped infrastructure	49	14.6%	122	46.9%	46	33.8%	4	3.8%	17	17.2%	11	12.5%	-	-	17	35.4%	-	-	1	4.2%
Security/social instability	44	13.1%	78	30.0%	9	6.6%	29	27.9%	26	26.3%	25	28.4%	-	-	20	41.7%	-	-	1	4.2%

Medium-term Prospects for Overseas Operations (by industry)

Overseas	All industries		Food		Textiles		Chemicals		General Machinery		Electrical Equipment & Electronics		Automobiles		Precision Machinery	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Strengthen/expand	65.8%	82.8%	82.9%	84.8%	60.6%	78.1%	73.0%	87.1%	76.8%	86.0%	63.2%	78.5%	50.0%	80.6%	69.4%	72.2%
Maintain present level	32.2%	16.5%	17.1%	15.2%	36.4%	21.9%	24.7%	12.9%	23.2%	14.0%	34.0%	20.6%	46.1%	18.4%	25.0%	25.0%
Scale back/withdraw	2.0%	0.7%	-	-	3.0%	-	2.2%	-	-	-	2.8%	0.9%	3.9%	1.0%	5.6%	2.8%

Medium-term Prospects for Domestic Operations (by industry)

Domestic	All industries		Food		Textiles		Chemicals		General Machinery		Electrical Equipment & Electronics		Automobiles		Precision Machinery	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Strengthen/expand	27.2%	31.2%	48.5%	54.5%	30.3%	32.3%	43.8%	51.2%	23.5%	21.1%	27.6%	36.4%	10.7%	13.7%	33.3%	33.3%
Maintain present level	55.2%	58.1%	42.4%	42.4%	57.6%	51.6%	44.9%	45.1%	57.4%	68.4%	51.4%	54.2%	69.9%	72.5%	55.6%	61.1%
Scale back	6.7%	6.6%	-	3.0%	6.1%	9.7%	3.4%	2.4%	5.9%	5.3%	5.7%	5.6%	12.6%	8.8%	2.8%	2.8%
Undecided	10.8%	4.1%	9.1%	-	6.1%	6.5%	7.9%	1.2%	13.2%	5.3%	15.2%	3.7%	6.8%	4.9%	8.3%	2.8%

Medium-term Prospects for Overseas Operations (by region)

Region	NIEs3		ASEAN5		China		Rest of Asia & Oceania		North America	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Strengthen/expand	28.5%	37.8%	36.8%	52.3%	59.5%	72.7%	69.4%	77.4%	35.8%	45.6%
Maintain present level	68.4%	60.6%	60.7%	46.0%	38.2%	26.8%	29.5%	22.4%	56.1%	51.9%
Scale back/withdraw	3.1%	1.7%	2.6%	1.8%	2.4%	0.6%	1.1%	0.2%	8.1%	2.6%

Central & South America		EU15		Central/Eastern Europe		Rest of Europe, CIS & Russia		Middle East		Africa	
2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
46.8%	52.7%	37.0%	36.5%	46.7%	44.2%	54.4%	52.8%	57.7%	62.5%	42.6%	46.8%
51.5%	45.7%	58.4%	60.9%	50.4%	53.6%	43.9%	45.6%	41.2%	37.5%	57.4%	53.2%
1.8%	1.6%	4.6%	2.6%	2.9%	2.2%	1.7%	1.6%	1.0%	-	-	-

Prospects for Medium-term Business Operation (major countries/regions in Asia)

	Korea	Taiwan	Hong Kong	Singapore	Thailand	Indonesia	Malaysia	Philippines
Strengthen/expand	47.2%	36.3%	29.4%	37.6%	63.6%	63.6%	47.7%	38.2%
Maintain present level	52.3%	62.2%	67.8%	59.2%	35.9%	35.2%	50.2%	59.9%
Scale back/withdraw	0.4%	1.9%	2.8%	3.3%	0.8%	1.2%	2.1%	2.5%

	Northeastern China	Northern China	Eastern China	Southern China	Inland China	India	Vietnam
Strengthen/expand	64.5%	76.2%	74.2%	72.7%	71.6%	87.8%	79.6%
Maintain present level	34.9%	23.0%	25.4%	27.0%	28.4%	11.8%	20.4%
Scale back/withdraw	0.7%	0.8%	0.7%	0.6%	-	0.4%	-

Prospects for Medium-term Business Operation (USA, Europe, and other countries)

	North America	Mexico	Brazil	Rest of Latin America	EU15	Central/ Eastern Europe	Rest of Europe & CIS
Strengthen/expand	45.6%	36.8%	72.0%	39.2%	36.5%	44.2%	36.6%
Maintain present level	51.9%	60.9%	26.1%	60.8%	60.9%	53.6%	63.4%
Scale back/withdraw	2.6%	2.3%	1.9%	-	2.6%	2.2%	-

	Russia	Middle East	Africa	Oceania & Rest of Asia (excl. the above mentioned "major countries/regions in Asia")
Strengthen/expand	64.9%	62.5%	46.8%	45.2%
Maintain present level	32.4%	37.5%	53.2%	54.8%
Scale back/withdraw	2.7%	-	-	-

Industry	2007 (actual)		2008 (actual)		2009 (actual)		2010 (projected)		Medium-term plans (FY2013)
	Overseas production ratio	Overseas sales ratio	Overseas production ratio	Overseas sales ratio	Overseas production ratio	Overseas sales ratio	Overseas production ratio	Overseas sales ratio	Overseas production ratio
Food	20.5%	16.8%	18.9%	18.3%	21.8%	17.9%	22.8%	18.7%	23.1%
Textiles	39.7%	17.5%	48.3%	16.6%	50.2%	20.5%	51.5%	20.6%	56.6%
Paper, Pulp & Wood	19.4%	17.2%	13.8%	12.5%	22.8%	10.0%	23.9%	14.0%	29.4%
Chemicals (total)	22.3%	29.5%	22.0%	28.3%	20.1%	28.4%	20.1%	28.5%	23.5%
-Chemicals (including plastic products)	22.9%	29.2%	22.4%	28.5%	20.5%	28.2%	20.7%	28.2%	24.2%
-Pharmaceuticals	12.5%	35.0%	15.0%	25.0%	12.5%	30.7%	10.0%	32.1%	8.3%
Petroleum & Rubber	27.7%	27.0%	24.4%	22.5%	25.0%	27.3%	26.0%	28.8%	30.0%
Ceramics, Cement & Glass	23.3%	26.3%	25.7%	32.1%	27.1%	30.9%	27.1%	30.6%	30.0%
Steel	21.4%	28.8%	19.6%	25.0%	20.8%	25.8%	21.7%	28.3%	20.0%
Nonferrous metal	33.3%	31.5%	33.9%	30.5%	27.6%	22.7%	30.3%	24.1%	35.0%
Metal products	32.6%	34.1%	40.0%	35.6%	31.1%	38.7%	32.1%	41.7%	38.1%
General Machinery (total)	18.7%	38.9%	19.7%	38.7%	22.5%	37.0%	22.8%	38.8%	25.7%
-Assembly	19.2%	40.6%	19.6%	39.8%	21.4%	36.8%	21.9%	38.9%	25.5%
-Parts	16.3%	30.6%	20.0%	34.2%	30.0%	37.9%	30.0%	37.9%	27.5%
Electrical Equipment & Electronics (total)	43.6%	46.9%	43.4%	45.8%	44.3%	46.2%	44.7%	47.6%	47.6%
-Assembly	33.1%	41.3%	40.6%	43.1%	35.0%	37.2%	35.9%	38.6%	39.2%
-Parts	50.7%	50.4%	45.2%	47.5%	49.5%	51.3%	49.8%	52.7%	52.8%
Transportation (excl. Automobiles)	15.0%	32.1%	13.8%	37.5%	20.6%	42.8%	21.7%	41.7%	26.3%
Automobiles (total)	35.0%	35.6%	36.1%	38.6%	32.6%	36.3%	34.0%	37.9%	37.6%
-Assembly	36.1%	56.0%	37.0%	55.0%	45.0%	56.4%	38.3%	49.0%	35.0%
-Parts	34.9%	33.4%	36.0%	36.4%	31.5%	34.7%	33.7%	37.2%	37.7%
Precision Machinery (total)	24.6%	45.0%	26.3%	49.9%	25.6%	49.7%	26.8%	50.7%	31.5%
-Assembly	22.0%	45.9%	22.0%	52.5%	19.3%	52.1%	20.7%	53.3%	26.0%
-Parts	37.5%	40.0%	34.1%	45.0%	40.0%	45.0%	41.0%	45.8%	43.0%
Other	29.3%	29.2%	25.6%	29.8%	36.3%	30.3%	37.8%	30.5%	41.1%
Overall	30.6%	33.8%	30.8%	34.6%	31.0%	34.2%	31.8%	35.3%	35.2%

Companies were asked to evaluate Korean, Taiwanese, and Chinese companies assuming their own level on the scale is “3”. “3” is the median, with “1” meaning “extremely low” and “5” meaning extremely high.

*Assessments in ASEAN5, Indian and Chinese markets.

Industry	Product development capabilities						Production technologies						Sales power (ASEAN5 markets)						Sales power (Chinese market)						Sales power (Indian market)						Management speed						No. of respondent companies		
	Chinese		Korean		Taiwanese		Chinese		Korean		Taiwanese		Chinese		Korean		Taiwanese		Chinese		Korean		Taiwanese		Chinese		Korean		Taiwanese		Chinese	Korean	Taiwanese						
	Responses	Average	Responses	Average	Responses	Average	Responses	Average	Responses	Average	Responses	Average	Responses	Average	Responses	Average	Responses	Average	Responses	Average	Responses	Average	Responses	Average	Responses	Average	Responses	Average	Responses	Average	Responses	Average							
Food	17	2.06	8	3.25	7	3.00	17	2.29	7	3.00	7	3.14	11	3.18	6	3.67	4	4.00	18	4.17	5	3.60	6	4.00	6	3.00	0	0	1	4.00	16	3.88	5	4.40	6	4.33	19	8	7
Textiles	16	2.19	8	3.38	9	3.22	16	2.31	7	3.00	9	3.22	10	3.40	6	3.17	10	3.60	19	3.79	10	3.40	11	3.82	7	2.71	6	3.17	5	3.00	14	3.93	9	3.67	8	4.13	21	10	11
Paper, Pulp & Wood	4	2.25	2	3.00	2	3.50	4	2.50	2	3.00	2	3.50	3	4.00	2	3.50	2	4.00	5	4.60	2	3.50	3	4.00	2	3.50	2	3.00	2	3.00	5	4.40	2	3.50	3	3.33	5	2	3
Chemicals (total)	55	2.31	32	3.16	31	3.10	55	2.38	32	3.16	31	3.16	41	3.10	29	3.41	29	3.69	56	4.09	28	3.61	30	4.03	27	2.70	21	3.19	23	3.04	54	4.00	30	4.07	30	4.07	60	33	32
-Chemicals (including plastic products)	51	2.25	29	3.17	28	3.14	51	2.37	29	3.17	28	3.21	37	3.08	26	3.46	26	3.73	51	4.04	25	3.64	27	4.07	23	2.65	18	3.17	20	3.00	50	3.98	27	4.07	27	4.04	55	30	29
-Pharmaceuticals	4	3.00	3	3.00	3	2.67	4	2.50	3	3.00	3	2.67	4	3.25	3	3.00	3	3.33	5	4.60	3	3.33	3	3.67	4	3.00	3	3.33	3	3.33	4	4.25	3	4.00	3	4.33	5	3	3
Petroleum & Rubber	11	2.09	7	3.57	5	3.40	11	2.18	7	3.43	5	3.20	10	3.20	7	3.29	5	3.40	11	3.55	7	3.86	5	3.60	8	2.25	6	3.17	5	3.00	10	3.90	6	4.50	5	3.40	11	7	5
Ceramics, Cement & Glass	11	2.27	6	3.50	4	2.50	11	2.45	6	3.50	4	2.75	11	3.55	5	3.20	4	3.75	13	3.85	5	2.80	4	3.75	7	3.00	5	2.60	2	3.00	9	3.67	5	3.40	4	3.50	13	6	4
Steel	5	1.80	5	3.00	5	2.40	5	2.20	4	3.00	5	2.80	5	2.00	5	3.40	4	2.75	6	4.17	5	4.00	5	3.60	5	2.20	4	3.25	4	2.50	6	4.00	4	3.50	6	3.67	7	5	6
Nonferrous metal	11	2.55	7	3.29	7	3.00	11	2.45	7	3.57	7	3.29	8	3.38	6	3.17	6	3.17	12	4.00	7	3.57	7	4.14	7	3.00	3	3.00	3	3.00	10	4.30	6	4.00	7	3.71	12	8	7
Metal products	13	1.92	10	3.20	11	3.45	13	2.15	10	3.30	11	3.27	11	3.09	10	3.70	10	3.50	14	4.07	11	3.36	12	3.58	9	2.67	9	3.44	8	3.13	14	3.64	11	3.64	12	3.75	14	11	12
General Machinery (total)	42	2.21	34	3.00	29	2.86	42	2.30	35	3.03	29	2.90	36	3.31	30	3.47	30	3.03	41	4.37	34	3.44	28	3.14	35	2.80	29	3.24	28	2.68	40	3.98	34	3.91	29	3.45	43	35	30
-Assembly	36	2.08	30	2.90	25	2.76	36	2.19	31	3.03	25	2.80	31	3.23	26	3.50	26	3.04	35	4.40	30	3.40	24	3.08	30	2.80	25	3.24	24	2.67	34	3.91	30	3.87	25	3.36	37	31	26
-Parts	6	3.00	4	3.75	4	3.50	6	3.00	4	3.00	4	3.50	5	3.80	4	3.25	4	3.00	6	4.17	4	3.75	4	3.50	5	2.80	4	3.25	4	2.75	6	4.33	4	4.25	4	4.00	6	4	4
Electrical Equipment & Electronics (total)	66	2.45	55	3.35	57	3.23	66	2.60	56	3.32	58	3.26	54	3.13	53	3.49	53	3.53	67	4.03	56	3.36	55	3.69	46	3.04	48	3.27	46	3.09	68	3.75	59	3.95	59	3.85	71	61	60
-Assembly	29	2.62	22	3.23	22	3.18	29	2.62	22	3.27	22	3.23	25	3.20	22	3.59	21	3.33	30	4.17	23	3.26	22	3.55	19	3.16	21	3.24	20	3.10	30	3.80	24	3.92	23	3.74	30	25	23
-Parts	37	2.32	33	3.42	35	3.26	37	2.58	34	3.35	36	3.28	29	3.07	31	3.42	32	3.66	37	3.92	33	3.42	33	3.79	27	2.96	27	3.30	26	3.08	38	3.71	35	3.97	36	3.92	41	36	37
Transportation (excl. Automobiles)	6	1.83	5	3.00	2	3.50	6	2.33	5	3.20	2	3.50	4	3.50	4	3.50	2	4.00	5	4.20	4	3.25	2	4.00	4	2.25	4	2.50	2	3.00	6	3.83	4	4.00	2	4.50	6	5	2
Automobiles (total)	70	2.00	49	3.29	43	2.86	70	2.30	49	3.33	43	3.07	63	2.73	49	3.31	42	3.17	72	4.08	49	3.43	43	3.35	56	2.55	44	3.41	41	2.85	69	3.64	49	3.92	42	3.43	72	49	43
-Assembly	4	2.00	4	3.75	3	3.00	4	2.00	4	3.50	3	3.00	4	2.00	4	3.00	3	2.33	4	4.25	4	3.25	3	2.33	3	2.00	3	2.00	3	2.33	4	3.25	4	3.75	3	3.00	4	4	3
-Parts	66	2.00	45	3.24	40	2.85	66	2.32	45	3.31	40	3.08	59	2.78	45	3.33	39	3.23	68	4.07	45	3.44	40	3.43	53	2.58	41	3.51	38	2.89	65	3.66	45	3.93	39	3.46	68	45	40
Precision Machinery (total)	23	2.57	21	3.05	19	2.74	23	2.43	21	3.10	19	2.89	22	3.14	19	3.47	17	3.41	23	3.83	18	3.61	17	3.59	20	3.00	14	3.43	14	3.29	22	3.45	20	3.95	19	3.37	23	21	19
-Assembly	18	2.61	15	3.20	12	2.75	18	2.44	15	3.13	12	2.75	18	3.22	15	3.47	12	3.25	18	4.00	14	3.57	11	3.27	17	3.06	12	3.50	11	3.18	17	3.47	15	3.87	12	3.08	18	15	12
-Parts	5	2.40	6	2.67	7	2.71	5	2.40	6	3.00	7	3.14	4	2.75	4	3.50	5	3.80	5	3.20	4	3.75	6	4.17	3	2.67	2	3.00	3	3.67	5	3.40	5	4.20	7	3.86	5	6	7
Other	23	2.61	16	3.38	18	2.94	23	2.26	16	3.25	18	2.78	17	3.41	15	3.60	16	3.25	25	4.48	13	3.54	13	3.15	13	3.15	12	3.58	13	2.85	20	4.05	15	3.87	17	3.59	25	17	18
Overall	373	2.25	265	3.23	249	3.02	375	2.37	264	3.23	250	3.09	306	3.11	246	3.43	234	3.39	387	4.09	254	3.46	241	3.60	252	2.79	207	3.28	197	2.96	363	3.83	259	3.93	249	3.69	402	278	259

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