

October 27, 2000

Japanese Manufacturing Companies Show Intention to Expand Overseas Business Operations as They Continue Domestic and International Management Reformation at Brisk Pace

JBIC FY 2000 SURVEY

THE OUTLOOK OF JAPANESE FOREIGN DIRECT INVESTMENT

(12th Annual Survey)

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< I. Overview of the Survey Method >

The purpose of this survey is to identify the current and future trends of foreign direct investment (FDI) activities including overseas business operations by Japanese manufacturing companies. This year's survey, taken over from the former EXIM Japan, was the twelfth of an annual series that began in 1989.

The survey covered 791 manufacturing companies that have three or more foreign affiliates, including at least one manufacturing base, as of October 1999. The questionnaire was mailed on July 1, 2000. 469 valid responses were returned over the period from July to August in 2000. The effective response rate was 59.3%. (In the previous year's survey, valid returns were 472 out of 786 companies surveyed, with the response rate of 60.1%.)

This year's survey examines the medium-term prospect of Japanese manufacturing companies' overseas business operations through FDI. As a special topic, this survey also focuses on "efforts to restructure overseas business operations" and the "introduction of IT for overseas business operations".

The following is the main regions covered by this survey:

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

< I. Profiles of companies surveyed >

(Unit: Companies, %)

	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00
Number of companies surveyed	551	614	652	700	718	722	743	749	786	791
Number of respondent companies	298	314	338	382	422	432	445	455	472	469
Response rate	54.1	51.1	51.8	54.6	58.8	59.8	59.9	60.7	60.1	59.3
Number of overseas affiliates	4,617	5,269	5,428	5,385	6,496	6,730	6,978	6,654	7,225	7,285

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

	Number of companies	%
Less than ¥100 million	29	6.2%
¥100 million – less than ¥500 million	44	9.4%
¥500 million – less than ¥1.0 billion	20	4.3%
¥1.0 billion – less than ¥5.0 billion	105	22.4%
¥5.0 billion – less than ¥10.0 billion	62	13.2%
¥10.0 billion or more	209	44.6%
Total	469	100.0%

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

	Number of companies	%
300 employees or less	48	10.2%
301 to 500 employees	47	10.0%
501 to 1,000 employees	95	20.3%
1,001 to 2,000 employees	103	22.0%
2,001 to 5,000 employees	103	22.0%
5,001 to 10,000 employees	37	7.9%
10,001 to 30,000 employees	27	5.8%
30,001 or more employees	9	1.9%
Total	469	100.0%

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

	Number of companies	%
Less than ¥50.0 billion	179	38.2%
¥50.0 billion – less than ¥100.0 billion	80	17.1%
¥100.0 billion – less than ¥200.0 billion	72	15.4%
¥200.0 billion – less than ¥300.0 billion	37	7.9%
¥300.0 billion – less than ¥500.0 billion	36	7.7%
¥500.0 billion – less than ¥1.0 trillion	28	6.0%
¥1.0 trillion or more	36	7.7%
Total	468	100.0%

One company did not provide this information

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

	NIES	ASEAN4	China	Other Asian countries	U.S. & Canada	Latin America	EU	Former Soviet Union & Eastern Europe	Central Europe	Other	Total
Manufacturing bases	530	918	643	137	643	196	433	14	19	59	3,592
(Joint ventures)	316	570	485	103	189	77	95	9	6	25	1,875
Sales bases	608	275	238	42	519	111	787	30	26	127	2,763
R&D bases	16	10	13	2	88	2	44	1	0	1	177
Other	95	60	43	10	279	54	175	6	5	26	753
Total	1,249	1,263	937	191	1,529	363	1,439	51	50	213	7,285

(Note) NIES: Singapore, Korea, Taiwan, Hong Kong

ASEAN4: Thailand, Malaysia, Indonesia, the Philippines

Central Europe: Poland, Hungary, Czech Republic, Slovakia

(4) Number of respondent companies, by industrial classification

Industrial classification	Number of companies	Ratio (%)
Foodstuffs	25	5
Textiles	22	5
Wood and wood products	3	1
Paper and pulp	8	2
Chemicals	72	15
[Chemicals (excluding pharmaceuticals)]	62	13
[Pharmaceuticals]	10	2
Petroleum and rubber	12	3
Ceramics, cement and glass	13	3
Steel	16	3
Nonferrous metals	17	4
Metal products	20	4
General machinery	41	9
[Assembled products]	32	7
[Components]	9	2
Electrical equipment and electronics	86	18
[Assembled products]	37	8
[Components]	49	10
Transportation (excluding Automobiles)	9	2
Automobiles	77	16
[Assembled vehicles]	9	2
[Components]	68	14
Precision machinery	22	5
[Assembled machinery]	16	3
[Components]	6	1
Other	26	6
Total	469	100

. As Japanese manufacturing companies devote themselves to restructuring their existing businesses, the Number One priority issue for their domestic and foreign business operations is to “review and strengthen management methods (establishing procedures such as new financial indicators or operating performance evaluation standards)”. This is followed in importance by “review and improvement of the efficiency of group management (sell or spin-off a unit of existing businesses, etc.)” and “acquire business resources to strengthen principal business (acquisitions, alliances, mergers, etc.)”.

. On the whole, evaluations of Japanese manufacturing companies’ satisfaction with the profitability of overseas business operations through FDI are at a comparatively low level. Although depressed operating performance was seen in the results of the prior fiscal year survey, operating performance has improved moderately in the current fiscal year survey results.

. As for their medium-term (next three years) outlook regarding future overseas business operations, 54.5% of the companies that responded to the survey answered that they “will strengthen or expand overseas business operations”. Japanese manufacturing companies are expected to expand overseas business operations, especially in sectors such as automobiles, electrical equipment and electronics.

As international competition grows increasingly intense, Japanese manufacturing companies must further improve the efficiency of overseas business operations. The tendency for overseas business operations and orientations to differ greatly depending upon each region will continue to grow stronger in the future.

In the EU, where relatively slack conditions with respect to the evaluation of satisfaction with profitability will continue, the most pressing issue has become “recovery from depressed operating conditions as quickly as possible by restructuring existing businesses in the region”.

“Qualitative enhancement based on restructuring of existing businesses in the same manner as in North America, and a preparatory stance aimed at expanding business size” can be seen for the ASEAN4, which are recovering from the Asian economic crisis.

Despite the fact that local business operations is not so easy, Japanese manufacturing companies foresee the potential of a future market in China. The orientation of these companies is to “move quickly to restructure existing businesses in the region, and expand the size of FDI by strengthening and expanding business operations, including new businesses”.

5. The introduction of IT for overseas business operations will continue to proceed gradually. Companies with a high level of satisfaction in their evaluation of profitability are addressing this trend relatively early, compared to companies with a low level of satisfaction. Looked at by main regions, the introduction of IT for business in North America is proceeded at the fastest pace, followed in turn by Europe and Asia. The largest number of respondent companies said “management and control (accounting, etc.)” is the area where they are putting IT to practical use. Other areas for IT investment include “sales” and “information gathering”.

6. The largest number of respondent companies (242 companies) said they consider China to be the most promising destination for overseas business operations through FDI over the medium-term (next three years). This was followed by the U.S. (154 companies) and Thailand (88 companies). Numerous problems and issues confront business operations in China, but the number of respondent companies that see potential there rose substantially (Fiscal 1999 survey: 153 companies current fiscal year survey: 242 companies), with 126 companies answering they will “actively advance into the market in the future while utilizing existing bases”, and 57 companies saying they will “actively advance into the market with new investment”.

【 Priority issues for domestic and overseas business operations through FDI 】

Figure 1 Top Priority issue for undertaking domestic and overseas business operations

Rank		Number of companies	
		(among 435 companies)	Response rate
1	Review and strengthen management methods (establishing procedures such as new financial indicators or operating performance evaluation standards)	104	23.9%
2	Review and improve efficiency of group management (sell or spin-off a unit of existing businesses, etc.)	93	21.4%
3	Acquire business resources to strengthen principal business (acquisitions, alliances, mergers, etc.)	66	15.2%
4	Expand and strengthen the company's own customers	60	13.8%
5	Review overseas production systems from the viewpoint of total cost	42	9.7%
6	Strengthen service activities related to company's own manufactured products	20	4.6%
7	Introduce or establish a global supply chain management	18	4.1%
8	Expand percentage of overseas production	17	3.9%
9	Attach importance to overseas research and development systems	2	0.5%
9	Expand transactions over the Internet	2	0.5%
9	Outsource the activities of production to companies such as EMS/OEM manufacturers	2	0.5%
12	Strengthen technology development by utilizing venture companies	1	0.2%

8 companies answered "Other" as a priority issue

The Number One priority issue is to "Review and strengthen management methods (establishing procedures such as new financial indicators or operating performance evaluation standards)"

When asked which subjects they regard as the top priority issue for domestic and overseas business operations (number of companies providing valid responses: 435 companies), the considerations given the most responses included "review and strengthen management methods (establishing procedures such as new financial indicators or operating performance evaluation standards)" (104 companies), "review and improve efficiency of group management (sell or spin-off a unit of existing business operations, etc.)" (93 companies) and "acquire business resources to strengthen principal business (acquisitions, alliances, mergers, etc.)" (66 companies).

Because of the fact that the qualitative conversion of business activities and procedures has become a pressing issue for every company, the intention to strengthen core competencies while promoting "selection and focus in terms of business operations" after review of traditional management methods is evident.

When examined by dividing the respondent companies into "companies with a relatively high level of satisfaction with profitability" (operating performance evaluation value ^(Note 1) of 4 or greater: 'satisfied' or 'somewhat satisfied') and "companies with a low level of satisfaction with profitability (operating performance evaluation value of less than 3 : 'dissatisfied', or 'somewhat dissatisfied')", the survey shows the following subjects to be priority issues ^(Note 2) concerning domestic and overseas business activities for both types of companies, with "selection and focus in terms of business operations" being even more urgent for companies with a low level of satisfaction with profitability.

Note 1; Please refer to Page 8

Note 2; The table at left summarizes the issues that were given as the concerns with the highest ranking as a "top priority issue". "Priority issues" include concerns that were cited as the second and third most important, in addition to the concern cited as Number 1.

< Companies with a high level of satisfaction with profitability >

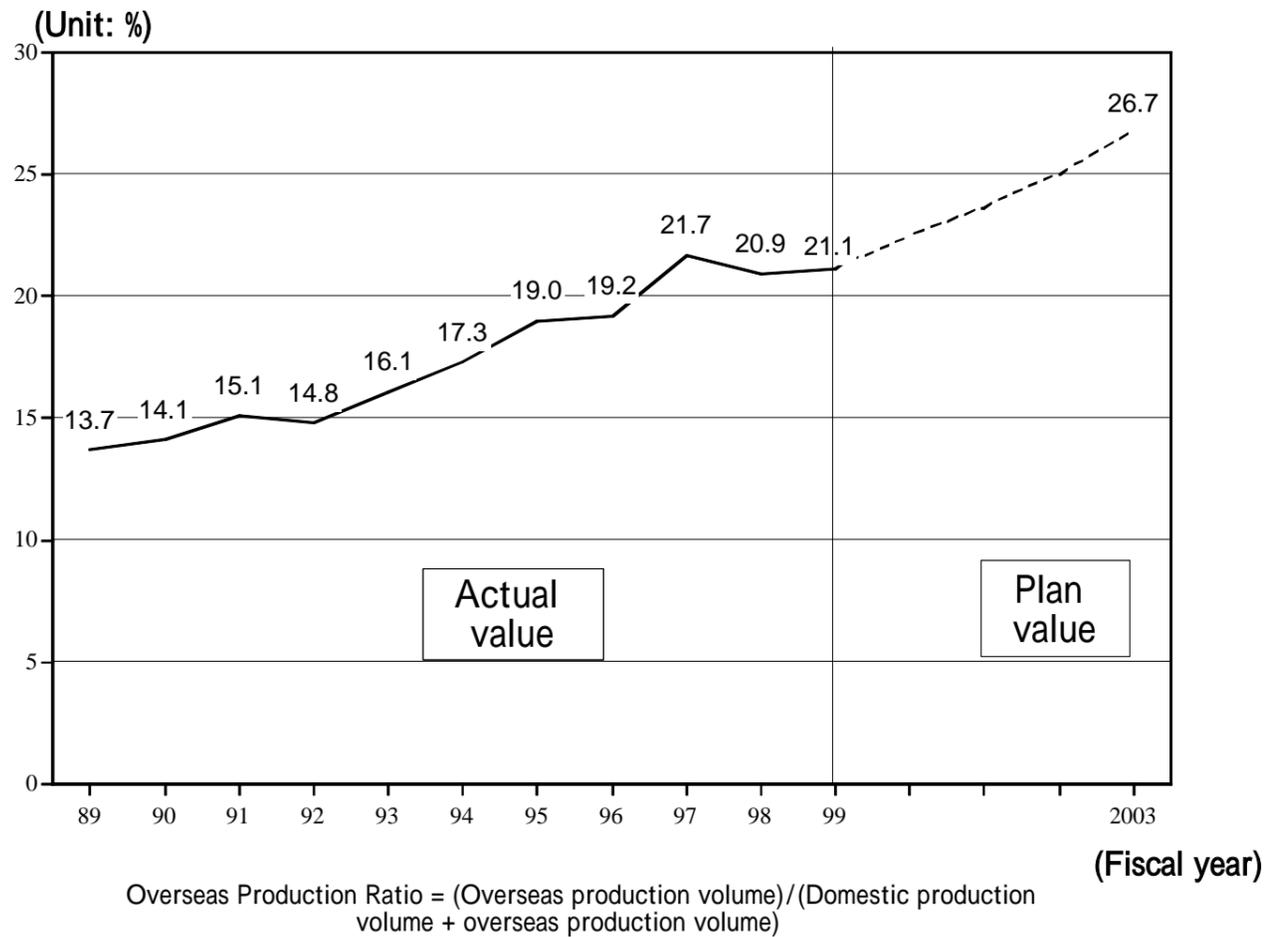
Review and strengthen management methods (establishing procedures such as new financial indicators or operating performance evaluation standards)

< Companies with a low level of satisfaction with profitability >

"Review and improve efficiency of group management (sell or spin-off a unit of existing businesses, etc.)"

【Overseas Production Ratio】

Figure 2 Change in Overseas Production Ratio



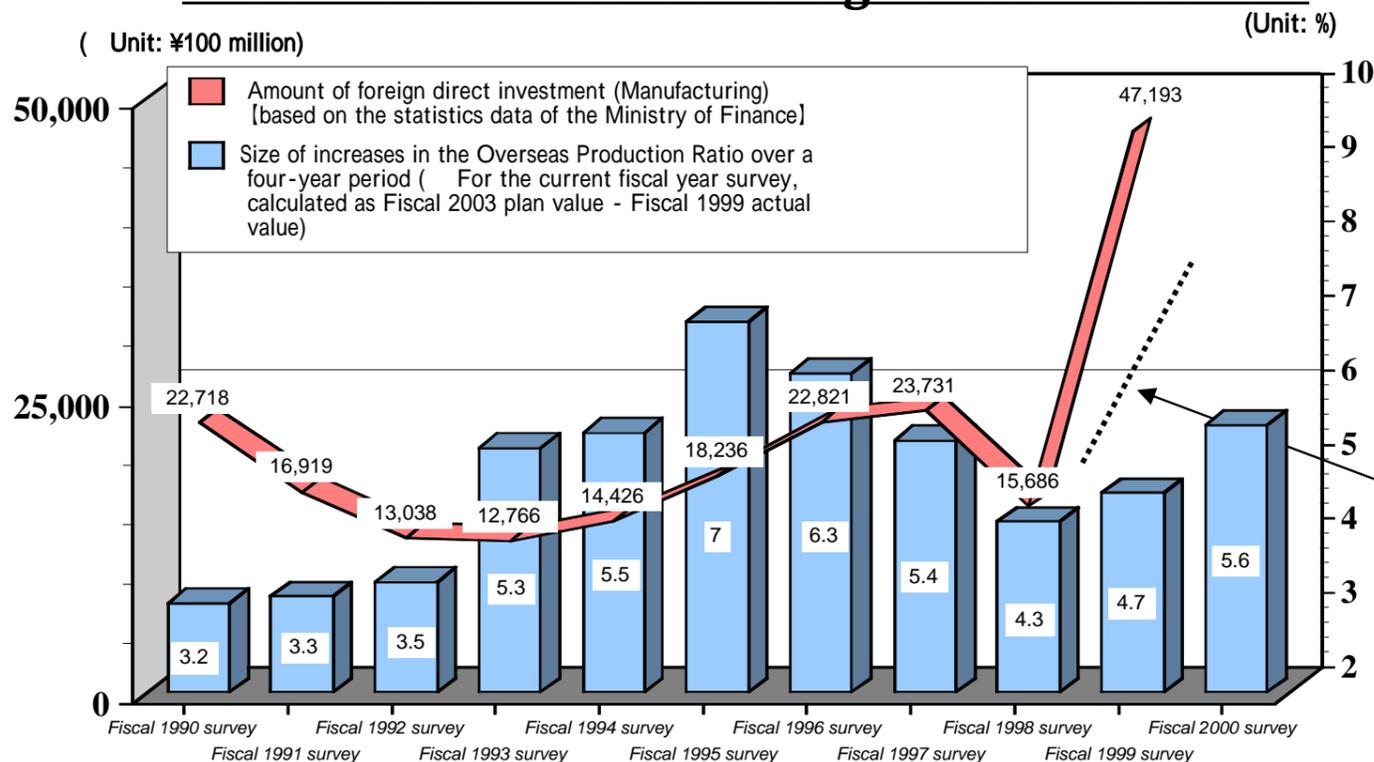
Increase in the Overseas Production Ratio gains momentum

As the trend in the Overseas Production Ratio for Japanese manufacturing companies rises, companies are adding momentum to the size of the increase in the ratio in their future plans (Fiscal 1999 actual increase: 21.1% Fiscal 2003 projection: 26.7%).

The changes in the Overseas Production Ratio when examined by major industries are as follows. The plan value for the electrical equipment and electronics, which already has the highest Overseas Production Ratio, is expected to rise sharply by Fiscal 2003.

	Fiscal 1999 actual	Fiscal 2000 estimated actual	Fiscal 2002 plan value
Electric equipment and electronics	29.1%	31.8%	36.9%
Precision machinery	24.5%	25.5%	31.8%
Automobiles	21.5%	23.9%	27.7%
General machinery	18.9%	20.0%	23.6%
Chemical	16.5%	17.4%	21.3%

Figure 3 Size of the increase in Overseas Production Ratio and the amount of foreign direct investment



The changes in the size of the increase in the Overseas Production Ratio is related to the changes in the amount of FDI by Japanese manufacturing companies (based on notifications to the Ministry of Finance). Considering the size of the future increase in the Overseas Production Ratio, manufacturers are expected to increase the amount of their FDI over the medium term.

Investment excluding special cases such as the FDI accompanying the purchase of RJR Nabisco by JT (Japan Tobacco Co., Ltd.): approximately ¥3,550 billion

【Overseas business operations through FDI over the medium-term (next three years)】

Figure 4 Size of overseas business operations through FDI over the medium-term (next three years) (by major industry)

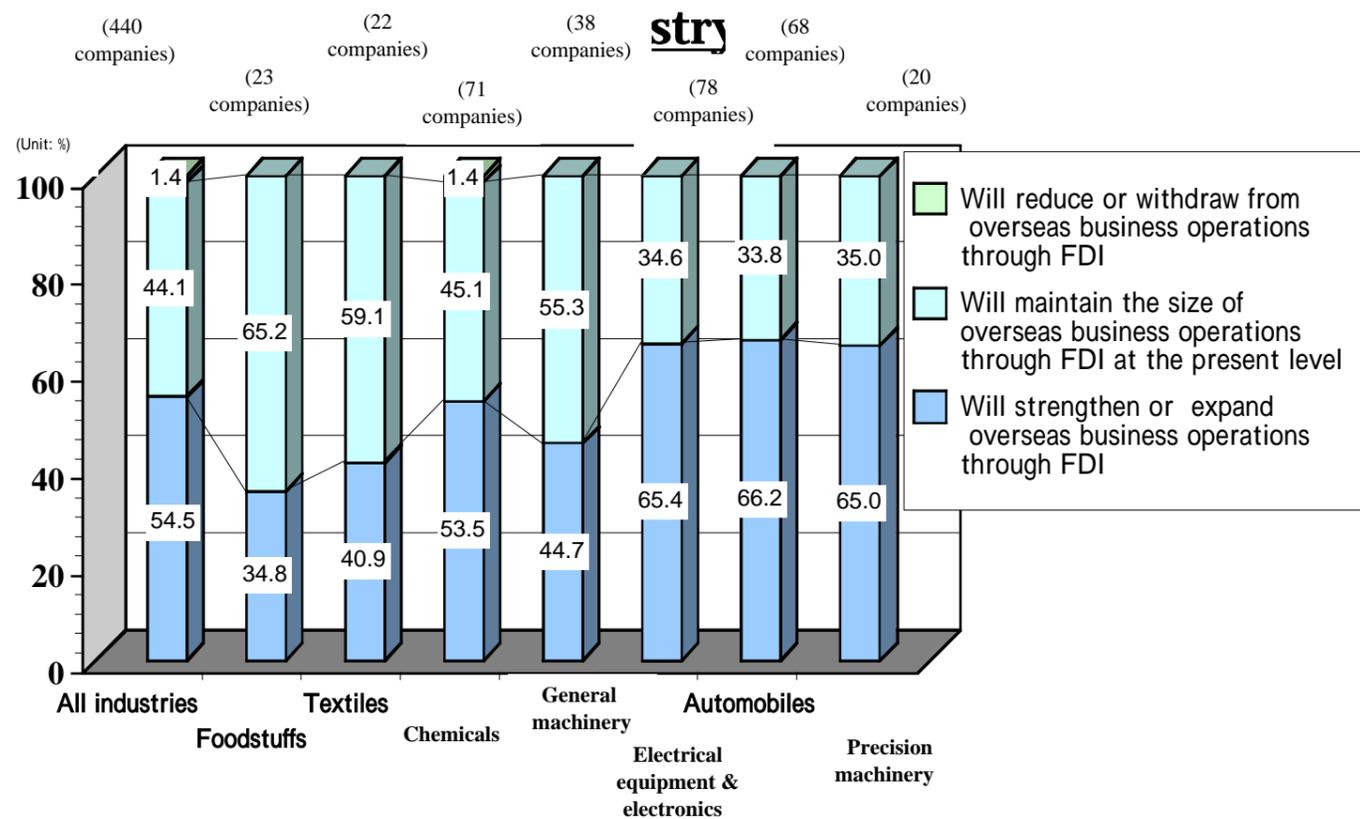
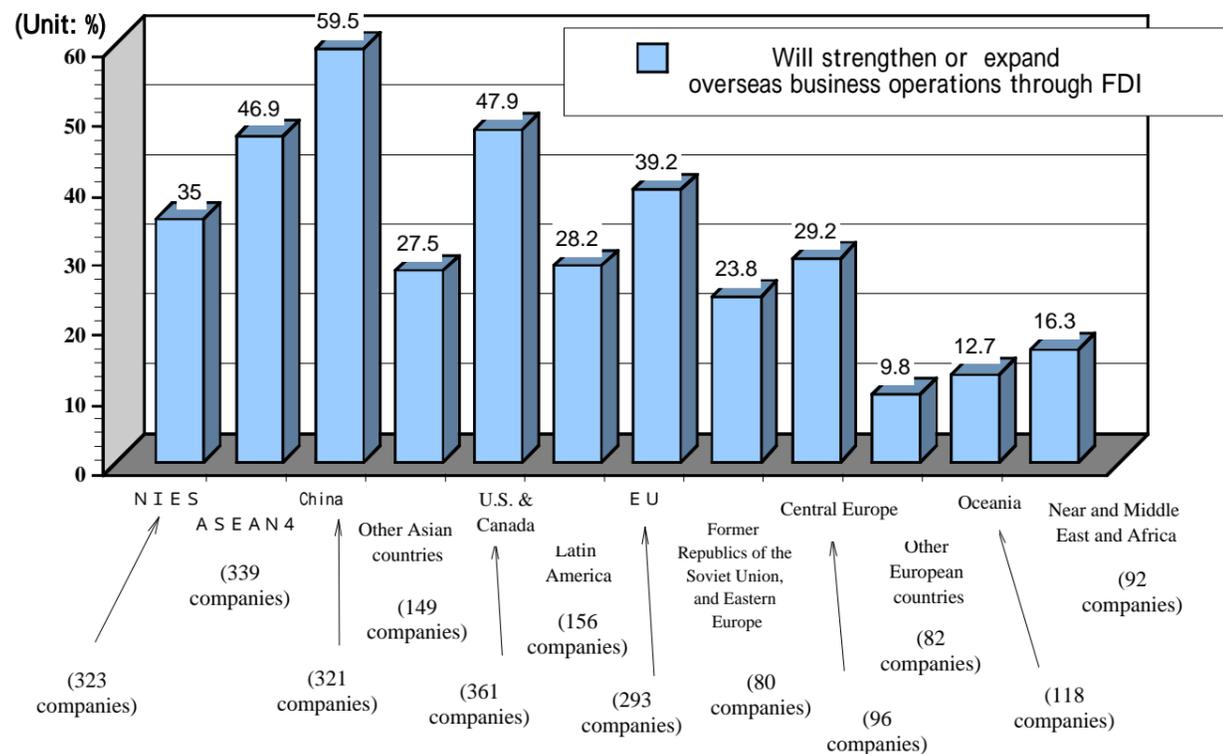


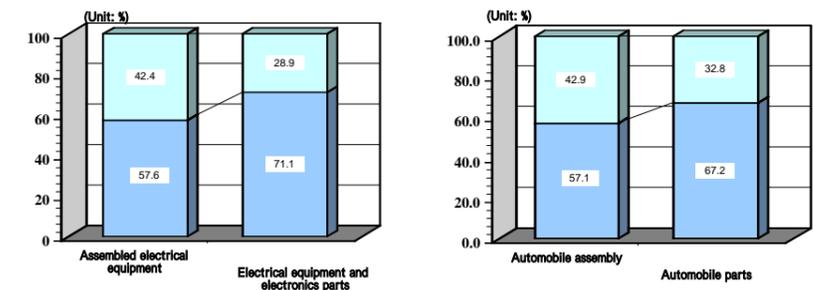
Figure 5 Intentions to strengthen or expand overseas operations through FDI, by region



Overseas business operations through FDI projected to be strengthened or expanded over the medium-term (next three years)

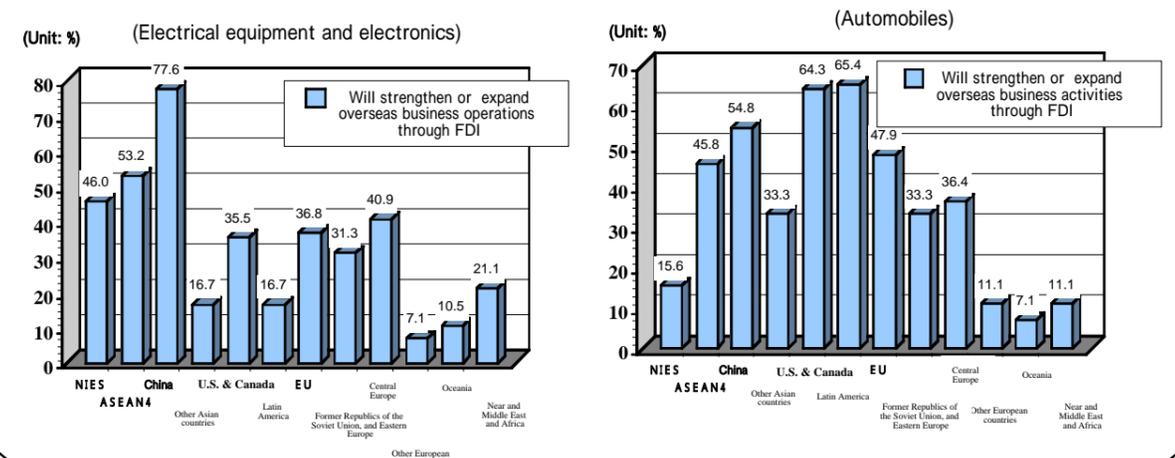
Many Japanese manufacturing companies are indicating their intention to strengthen or expand their overseas business operations through FDI over the medium-term (next three years). In addition to companies that responded to the survey by answering they “will strengthen or expand” overseas business operations in the future, which accounted for 54.5% of all companies providing valid responses, 44.1% of the respondent companies indicated they “will maintain the size of overseas business operations at the present level”. Only 1.4% of all companies that responded indicated they “will reduce or withdraw from overseas business operations”.

Among the major industrial classifications, the sector with the most active stance was automobiles, followed by industries such as electrical equipment and electronics and precision machinery. In all three of these industries, parts manufacturers in particular are showing a more active stance.



In addition, when examined by region the country where the most active business operations through FDI is expected is China. Other regions where strong operations is projected include the U.S. and Canada, and the ASEAN4.

The intention to strengthen or expand overseas business operations when looked at by major industries is shown below. An active stance in China in electrical equipment and electronics in particular can be noted.



【 Evaluation of overseas business performance ~ Satisfaction with sales and profitability ~ 】

Figure 6 Evaluation of overseas business performance (FDI) – Fiscal 1999 survey

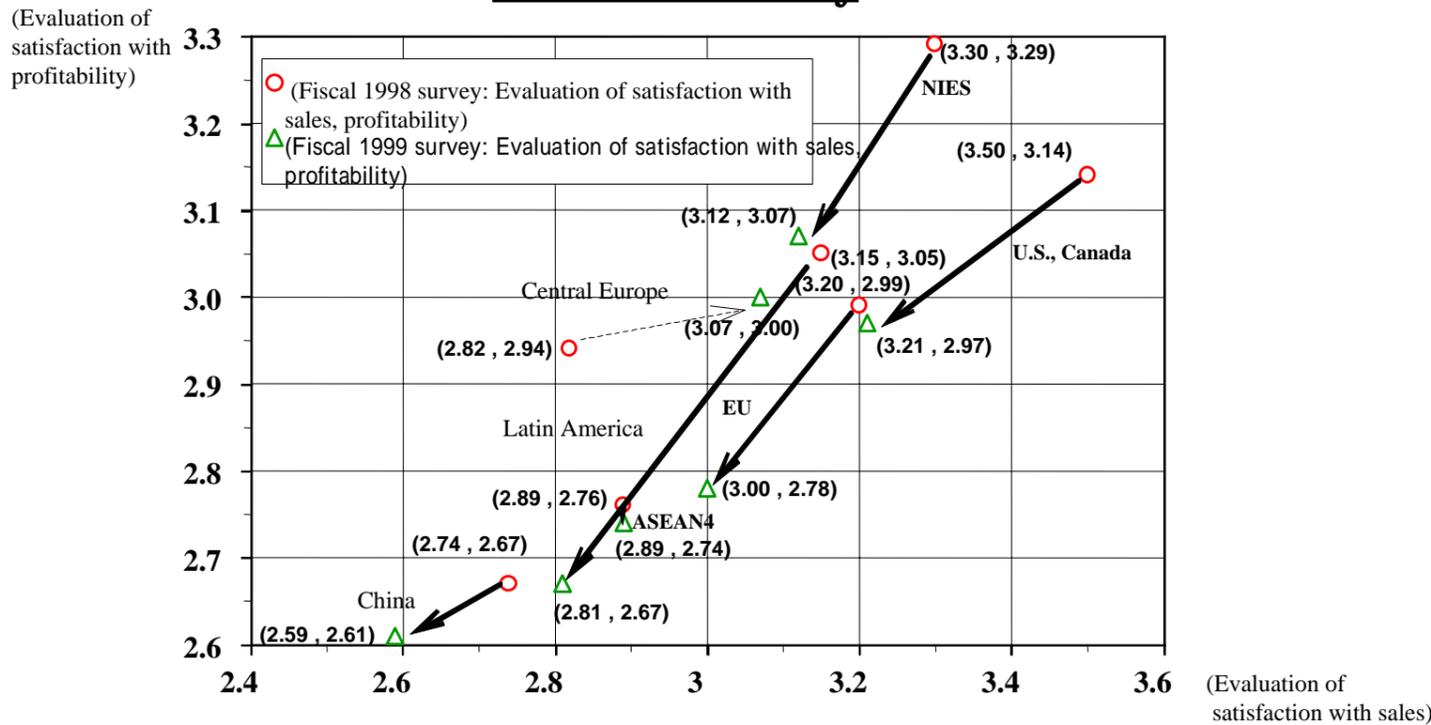
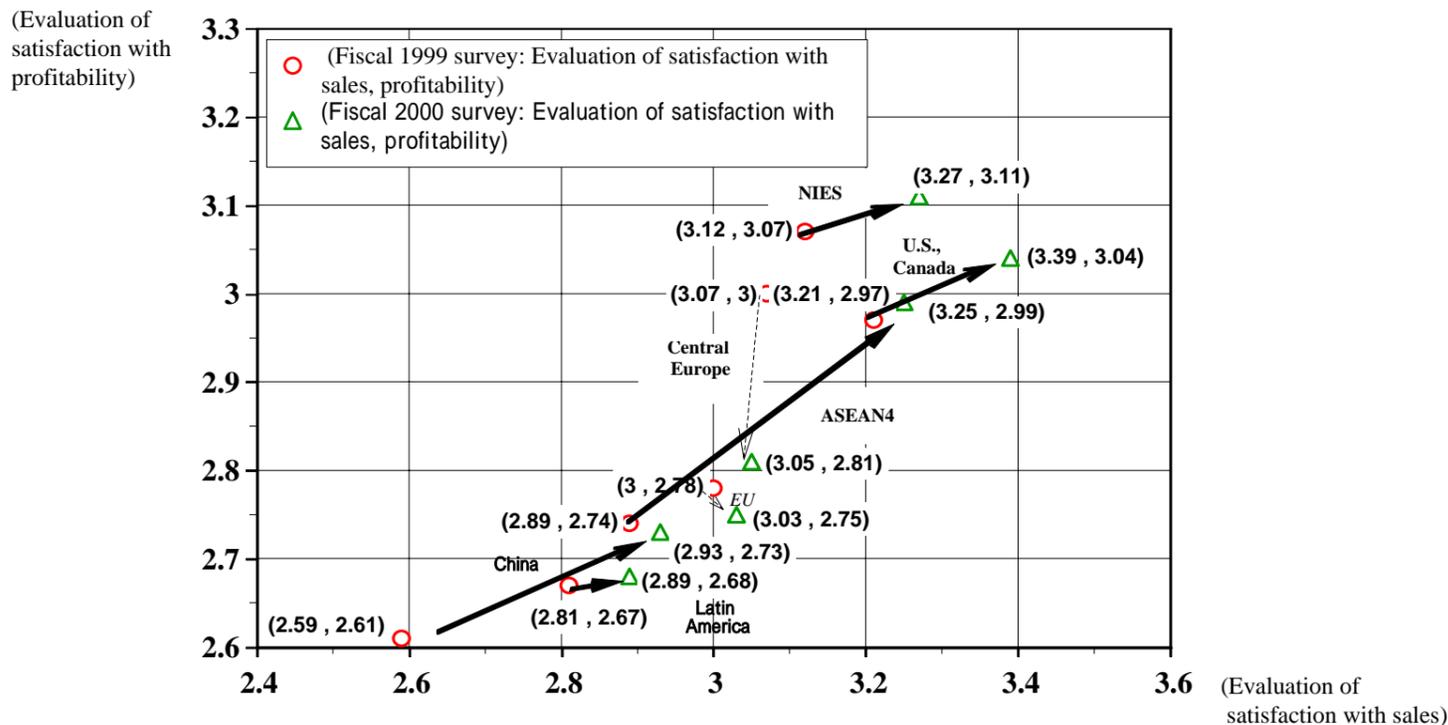


Figure 7 Evaluation of overseas business development performance – current fiscal year survey



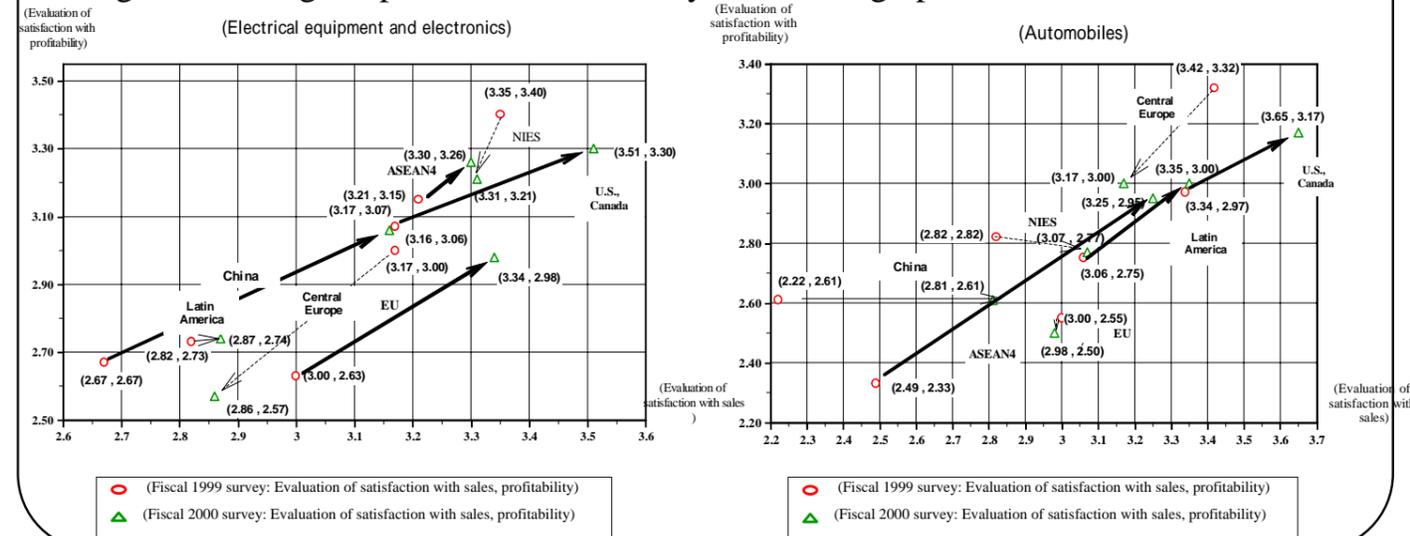
Despite low profitability, an improvement can be seen through evaluation of satisfaction with profitability in North America, China, the ASEAN4 and NIES

The level of satisfaction with the profitability performance of overseas business operations through FDI by Japanese manufacturing companies remains relatively low. Although sales and profitability overall were seen as depressed in the prior fiscal year survey, an improvement in North America, China, the ASEAN4 and NIES is evident in the current fiscal year survey.

As the primary causes of profitability improvement, the largest number of companies cited “good sales of existing products”, regardless of the region. In the U.S. and Canada, the causes cited as the second most important factors were “good sales of new products” and “satisfactory cost reductions (personnel expenses, raw material costs, etc.)”. In NIES, the ASEAN4 and China, the most frequently cited causes for improved evaluations of performance were “satisfactory cost reductions (personnel expenses, raw materials costs, etc.)” and “good sales of new products”.

For business in the EU the tendency for the level of satisfaction with profitability was even lower than in the past. As the reasons cited in the latest survey for the deepening dissatisfaction with profitability, the percentage of companies that replied “difficult to obtain customers” was the highest among the companies answering the survey, followed by “currency exchange rate losses” and “maturation of products”.

In central Europe, the level of satisfaction slumped in the current fiscal year survey despite the fact that a certain amount of improvement was evident in the prior fiscal year survey. The main causes cited included “currency exchange rate losses (including the yen conversion effect when preparing consolidated accounting)” and “have not begun full-fledged operations immediately after setting up business”.



Evaluation standards:
 (Compared to initial objective) 1. Unsatisfactory 2. Somewhat unsatisfactory 3. Can't say either way
 4 Somewhat satisfactory 5. Satisfactory

Evaluation of satisfaction with sales refers to the assessment of sales “excluding sales to the parent company”.
 Evaluation of satisfaction with profitability refers to the assessment of “return on investment”

【 Business restructuring and overseas business operations through FDI over the medium-term (next three years) 】

Figure 8 Overseas business operations through FDI by region (No.)



“Need to restructure” and “Position of business restructuring efforts” for overseas business operations

For businesses in the EU, the “need to restructure” is the strongest but the “position of business restructuring efforts” is the most delayed. Accordingly, the situation for the EU can be regarded as the same as in China.

In North America, the “position of business restructuring efforts” is at a high level, while the “need to restructure” is low. In the ASEAN4, on the other hand, “position of business restructuring efforts” is the most advanced of any of the regions.

Considering the relationship to both axes with regard to restructuring, because of the fact that businesses in the EU face “sluggish performance”, the level of awareness of the “need to restructure” is the highest. In North America and the ASEAN4, on the other hand, a shift towards “qualitative enhancement” is proceeding.

“Position of business restructuring efforts” and “evaluation of satisfaction with profitability” for overseas business operations

The “position of business restructuring efforts” is at the lowest level in the EU, where “evaluation of satisfaction with profitability” is also the lowest.

In North America, on the other hand, the “position of business restructuring efforts” is the highest after the ASEAN4, and “evaluation of satisfaction with profitability” is also the highest. In the ASEAN4, the “position of business restructuring efforts” is the highest, while the “evaluation of satisfaction with profitability” is second only to North America.

Considering the relationship to both axes, because businesses in the EU face “sluggish performance”, the “status of business restructuring efforts” is also low. In both North America and the ASEAN4, on the other hand, “qualitative enhancement” continues to grow stronger and compared with other regions is connected to good evaluation of satisfaction with profitability.

“Need to restructure” and “intention to strengthen or expand business” for overseas business operations

The “need to restructure” is at the greatest in the EU, where the “intention to strengthen or expand business” is the weakest.

In China the “need to restructure” is at the highest level after the EU, while the “intention to strengthen or expand business” is the highest. In North America the “need to restructure” is the lowest, while the “intention to strengthen or expand business” is comparatively strong.

Considering the relationship to both axes, this means that businesses in the EU face “sluggish performance”. On the other hand the feeling that businesses should be restructured in North America has declined compared to other regions, and the change towards expansion of business is continuing. In China, companies are maintaining their intention towards “expansion of size” just as in North America, in addition to carrying out efforts to restructure their existing business.

“Evaluation of satisfaction with profitability” and “intention to strengthen or expand the business” for overseas business operations

The EU has the lowest level for “evaluation of satisfaction with profitability” as well as the weakest “intention to strengthen or expand business”.

On the other hand, compared to other regions, “evaluation of satisfaction with profitability” is the highest and the “intention to strengthen or expand the business” is also comparatively strong in North America. For the ASEAN4, the “evaluation of satisfaction with profitability” is the highest after North America, while on the other hand the “intention to strengthen or expand the business” is nearly at the same level as in North America. In the case of China, while the level of the “evaluation of satisfaction with profitability” is not high, the “intention to strengthen or expand the business” is the highest.

Considering the relationship to both axes, unlike the EU which has been hit by “sluggish performance”, in North America the orientation is towards “expansion of size” based on the comparatively good evaluation of profitability. In the case of China, despite the fact that the level of the “evaluation of satisfaction with profitability” is not high, the “intention to strengthen or expand the business” is the highest.

Figure 9 Overseas business operations through FDI, by region (No. 2)

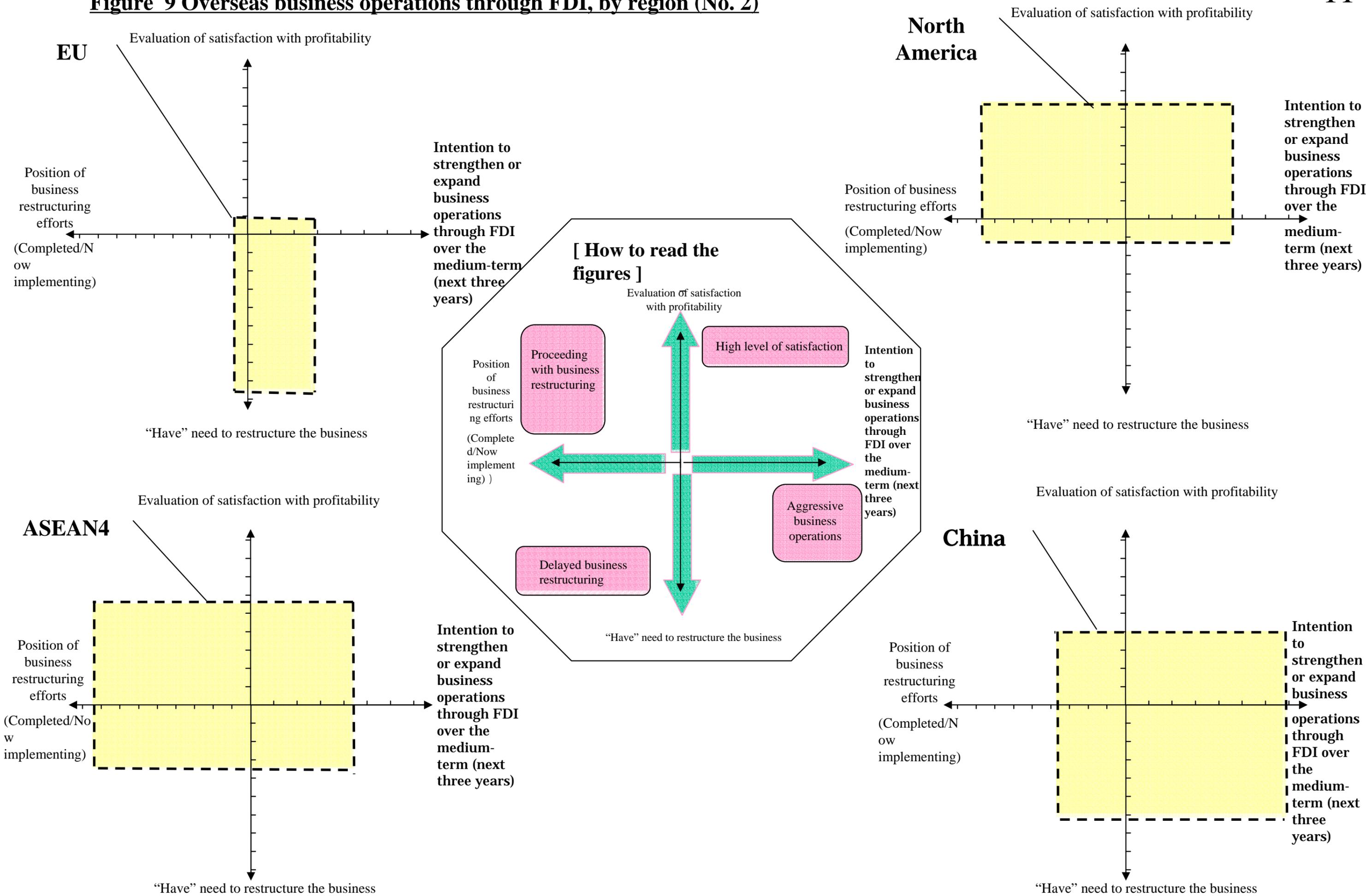
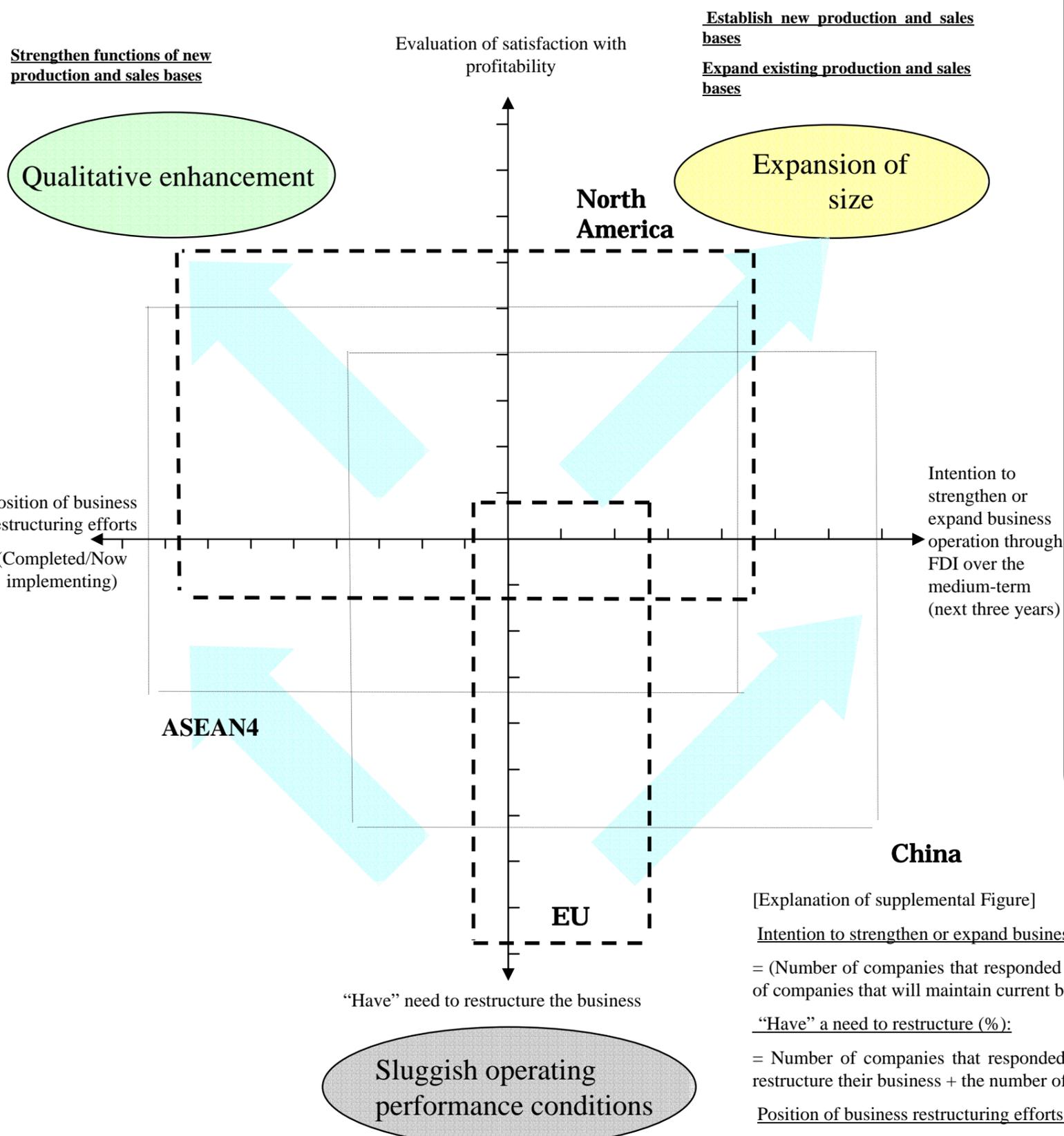


Figure 10 Overseas business operations through FDI, by region (No. 3)



[Explanation of supplemental Figure]

Intention to strengthen or expand business over the medium-term (Next three years) (%):

= (Number of companies that responded they will strengthen or expand business) / (Number of companies that will strengthen or expand business + Number of companies that will maintain current business size + number of companies that will reduce the size of business or withdraw)

“Have” a need to restructure (%):

= Number of companies that responded they “have” a need to restructure their business / (Number of companies that responded they “have” a need to restructure their business + the number of companies that responded they do “not have” a need to restructure their business)

Position of business restructuring efforts (Completed/Now implementing) (%):

= (Number of companies that responded “Completed or now implementing”) / (Number of companies that responded “Completed or now implementing” + Number of companies that responded “Not yet implementing” + Number of companies that responded “studying when to implement”)

Evaluation of satisfaction with profitability:

Evaluation of the return on investment

Overseas business operations through FDI aimed at improving evaluations of satisfaction with profitability

Past overseas business operations conducted by Japanese manufacturing companies were focused on “quantitative expansion” and “follow-the-leader development” aimed at securing market share. In the future, however, the tendency will be to place greater emphasis on profitability. Future issues and orientations of business as seen for each of the major regions of the world are shown below.

< Business operations for Japanese affiliated companies in the EU >

Because the low level of evaluations of satisfaction with profitability continues, the most pressing concern will be “recovery from sluggish operating conditions as quickly as possible by restructuring existing businesses”

Restructuring procedures: Review sales systems, review management systems, review distribution systems, etc.

< Business operations for Japanese affiliated companies in North America >

Because of renewed strong expectations toward North America as a promising market, the orientation of most companies will be to “continue restructuring of existing business, while planning qualitative enhancement and expansion of the business”.

Restructuring procedures: Review sales systems, review management systems, etc.

< Business operations for Japanese affiliated companies in the ASEAN4 >

Amid a mood of recovery from the Asian economic crisis, the “preliminary stance aimed at expanding business size through aggressive, qualitative strengthening, by restructuring existing businesses in the same manner as in North America” can be detected.

Restructuring procedures: Review management systems, review sales systems, consolidation and closing of multiple production bases

< Business operations for Japanese affiliated companies in China >

Because manufacturers anticipate future markets despite the fact that local business activity is never easy, the orientation of companies is to “move quickly to restructure existing business and expand the size of FDI by reinforcement and expansion of business activity, including new business”.

Restructuring procedures: Review management systems, review sales systems, etc.

Evaluation standards: (Compared to the initial objective)

- 1. Unsatisfactory
- 2. Somewhat unsatisfactory
- 3. Cannot say either way
- 4. Somewhat satisfactory
- 5. Satisfactory

Figure 11 Main types of overseas business restructuring, by region (multiple responses)

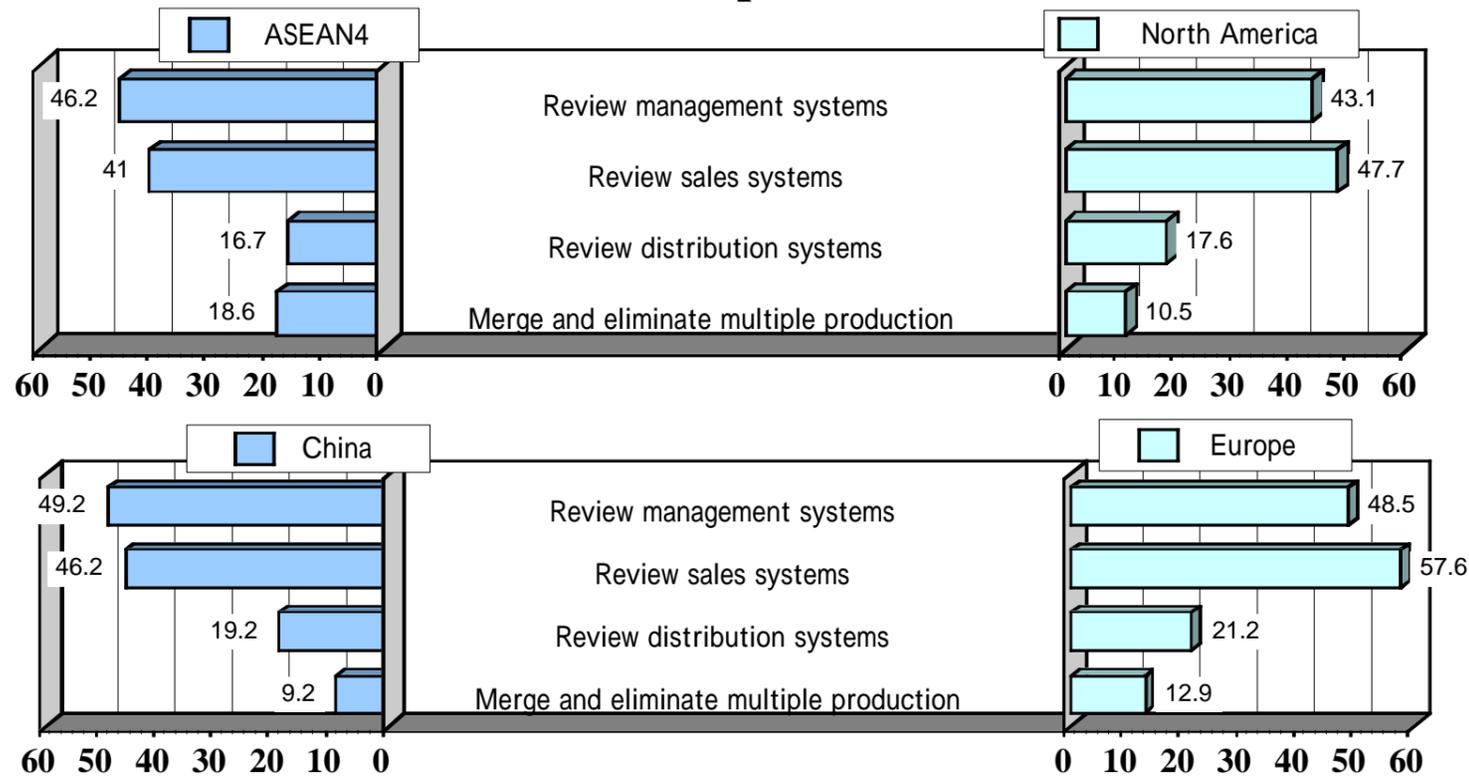
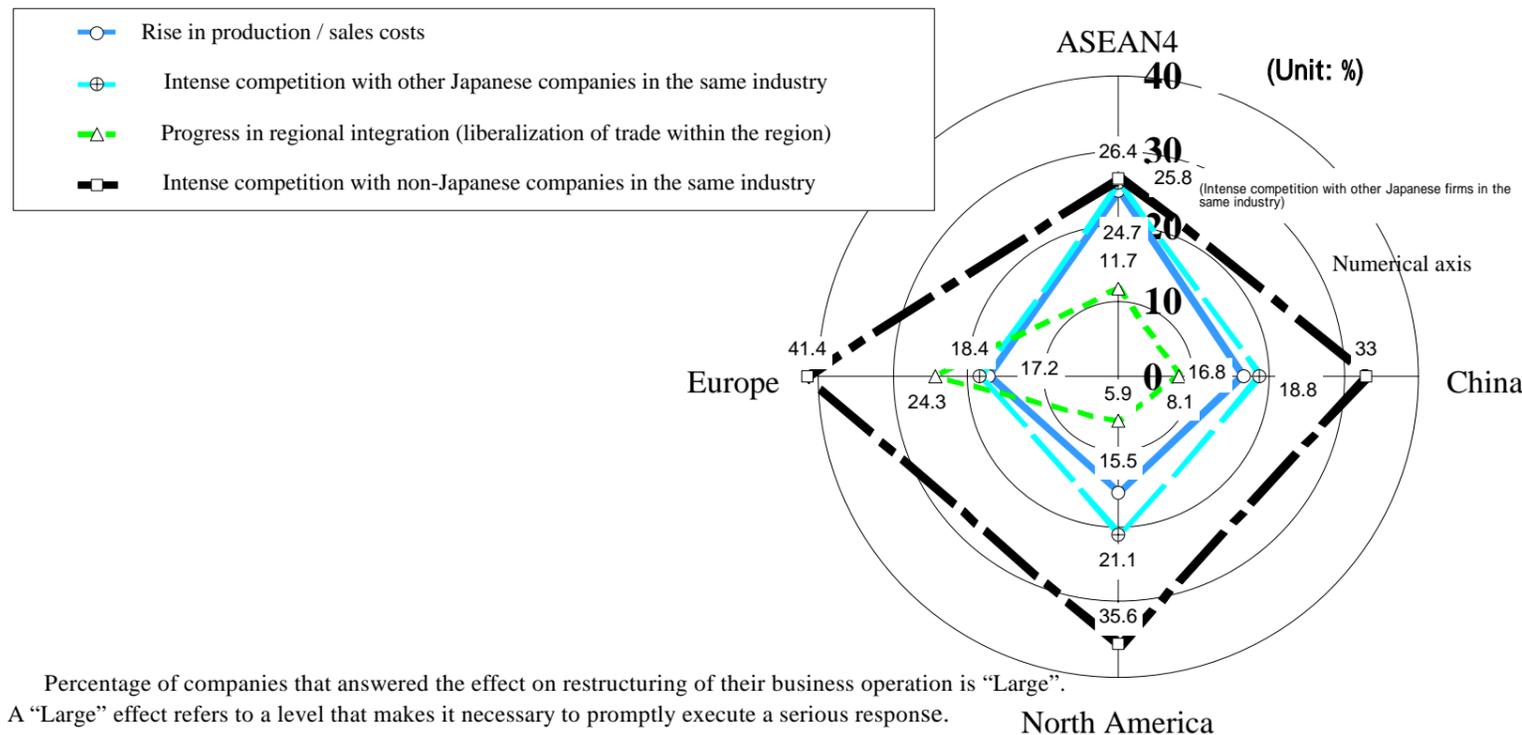


Figure 12 Principal reasons for restructuring overseas business operations, by region



Undertaking the need to restructure overseas business operations urgently

When it comes to undertaking efforts to restructure overseas business operations, in both China and the ASEAN4 the response given most often by companies providing valid responses to the survey was "review management systems", followed by "review sales systems". For both North America and Europe, on the other hand, the most frequent response was "review sales systems", followed by "review management systems".

Looking at the main causes for restructuring by region, the influence of "intense competition with non-Japanese companies in the same industry" was the greatest in Europe (41.4%), followed by North America (35.6%) and China (33.0%). In the ASEAN4, the "rise in production / sales costs" was cited as having the greatest influence.

Furthermore, when companies are broadly classified by their evaluation of satisfaction with the profitability of their overseas business operations into "companies with a high level of satisfaction" and "companies with a low level of satisfaction", there are differences in their intent to restructure their overseas business operations (all regions consolidated) as shown below. The need to restructure is greater to the extent the evaluation of satisfaction with profitability indicates "companies with a low level of satisfaction".

< Need to restructure >

In the case of "companies with a high level of satisfaction", 44.7% of the applicable respondent companies indicated they "have" a need to restructure.

In the case of "companies with a low level of satisfaction", 60.8% of the applicable respondent companies indicated they "have" a need to restructure.

< Contents of restructuring > (efforts made by each company)

In the case of "companies with a high level of satisfaction", "review sales systems" was the most frequent response, followed by "review management systems" and "review multiple production bases".

In the case of "companies with a low level of satisfaction", the most frequent response was "review management systems", followed by "review sales systems" and "review distribution systems".

【Introduction of IT for overseas business operations through FDI】

Figure 13 Intention to introduce IT for overseas business operations through FDI

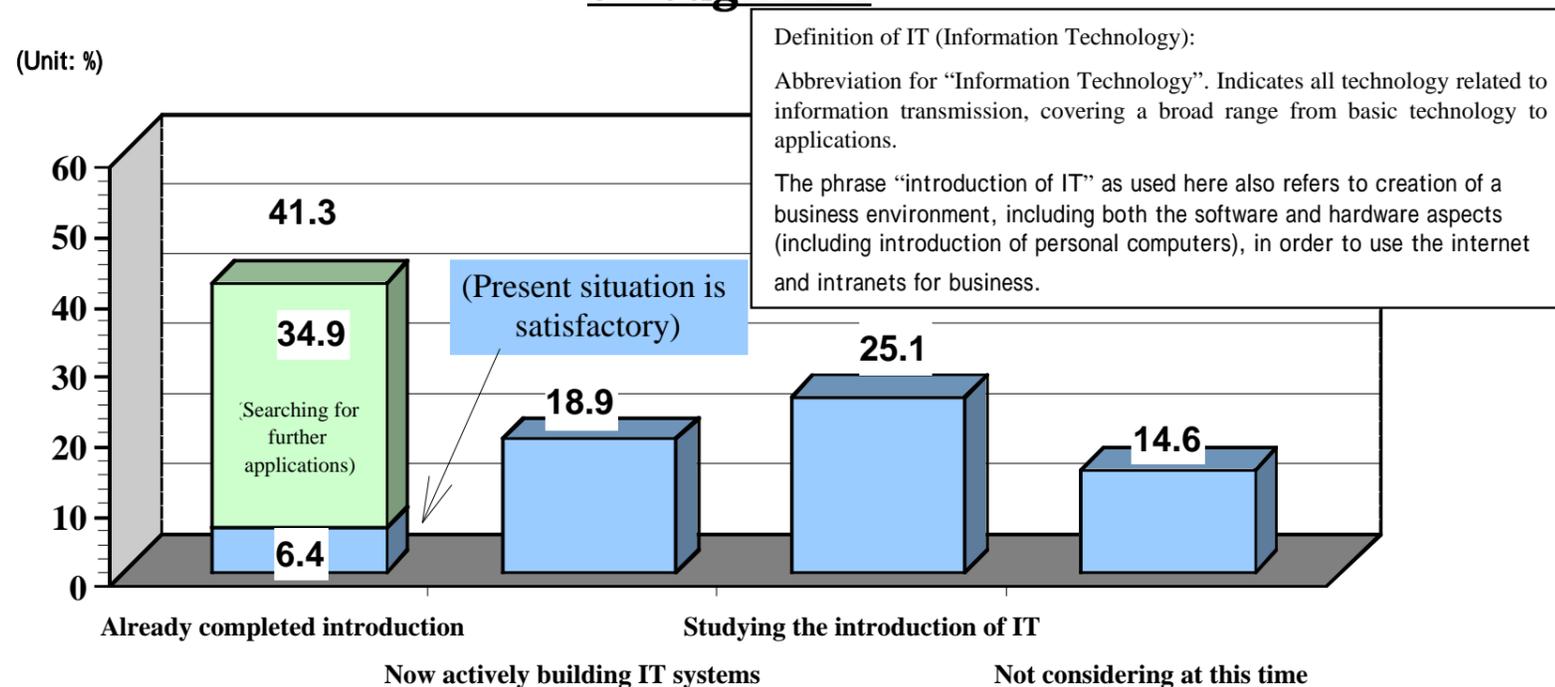
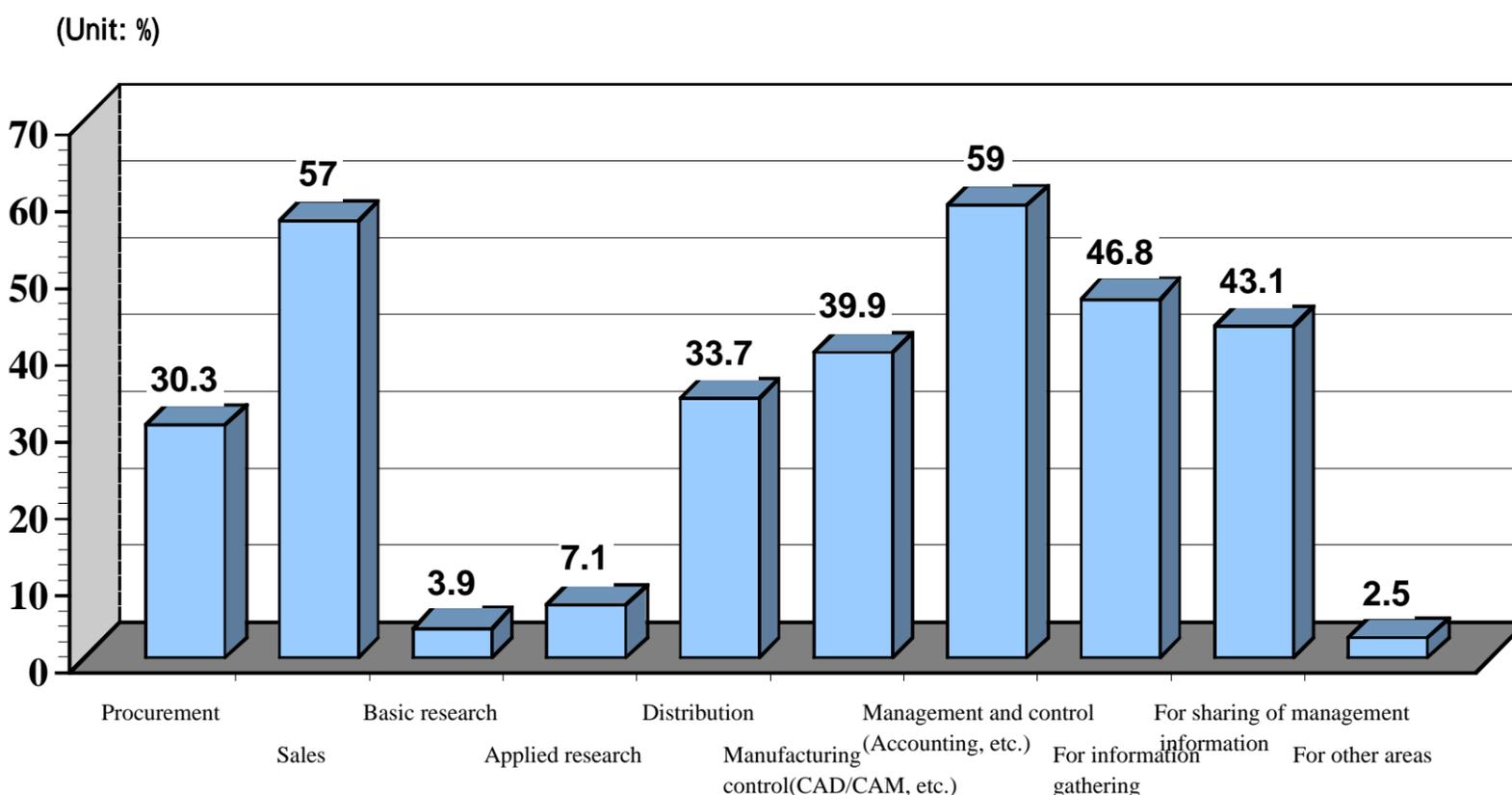


Figure 14-1 Areas for IT introduction (multiple responses) (All industrial classifications)



For overseas business operations through FDI, IT introduction is gradually proceeding

The intention of Japanese manufacturing companies to introduce IT for their overseas business operations through FDI was evident in the fact that 89.2% of the companies that responded to the survey answered they "are interested", while 10.8% replied that they "are not interested". The status of efforts by companies that replied "interested" are as follows.

1) Attitude towards the introduction of IT

Among companies that responded they "are interested", the most frequent response was "already completed introduction" (41.3%), followed by "studying the introduction of IT" (25.1%) and "now actively building IT systems" (18.9%).

Compared to "companies with a low level of satisfaction" in their evaluation of satisfaction with profitability, "companies with a high level of satisfaction" are ahead in their efforts to address the introduction of IT.

	Companies with a high level of satisfaction	Companies with a low level of satisfaction
Already completed introduction	43.7%	36.3%

(Reference) Intention to introduce IT in the main regions

	North America	EU	Asia
Already completed introduction	50.6%	47.5%	39.0%
Now actively building IT systems	19.9%	19.1%	19.8%
Studying the introduction of IT	22.5%	23.3%	30.1%
Not considering at this time	7.0%	10.1%	11.1%

2) Areas where IT efforts are concentrated

Among the companies that responded "already completed introduction", "now actively building IT systems" or "studying the introduction of IT", the responses given most frequently (multiple responses) regarding the areas where efforts are concentrated were "management and control" (59.0%), followed by "sales" (57.0%), "information gathering" (46.8%) and "sharing of management information" (43.1%).

Compared to "companies with a low level of satisfaction" in their evaluation of satisfaction with profitability, the intention of "companies with a high level of satisfaction" to lead the way in introducing IT in the management and control area and for manufacturing control aspects can be detected as shown below.

	Companies with a high level of satisfaction	Companies with a low level of satisfaction
Management and control	72.4%	52.4%
Sales	57.1%	56.7%
Information gathering	53.3%	49.4%

(Reference) When we conducted supplemental questioning it became apparent that a reserved approach was commonly shared in which companies "will introduce IT gradually as we study its cost effectiveness". Moreover, when introducing and applying IT companies are proceeding in separate areas such as management and control (accounting, etc.) and manufacturing control. When organizations and structures within a company introduce IT along so-called vertical lines, however, achieving connections between the systems in each organization and structure is difficult, leading to fears of cases where the benefits of introducing IT will not be fully realized

Figure 14-2 Areas of IT introduction (multiple responses)
(Electrical equipment and electronics)

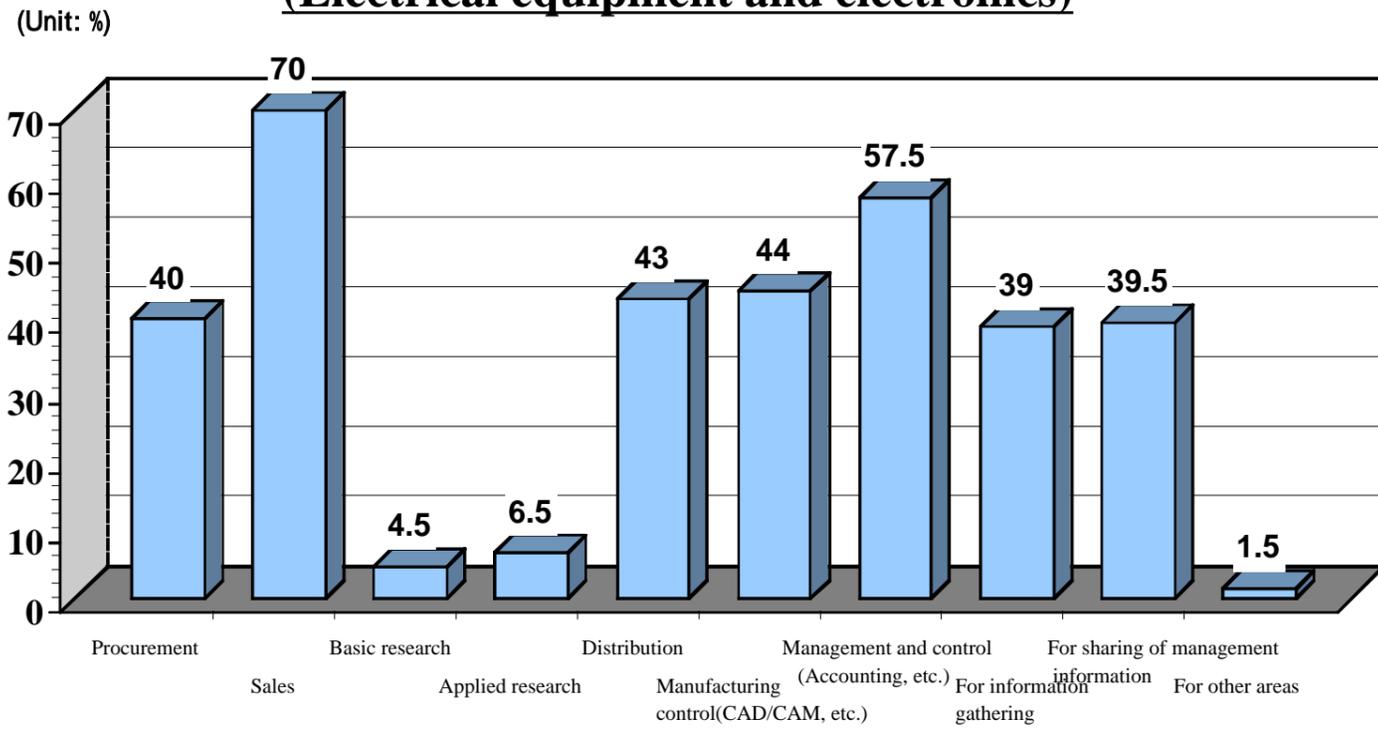


Figure 14-4 Areas of IT introduction (multiple responses)
(Chemicals)

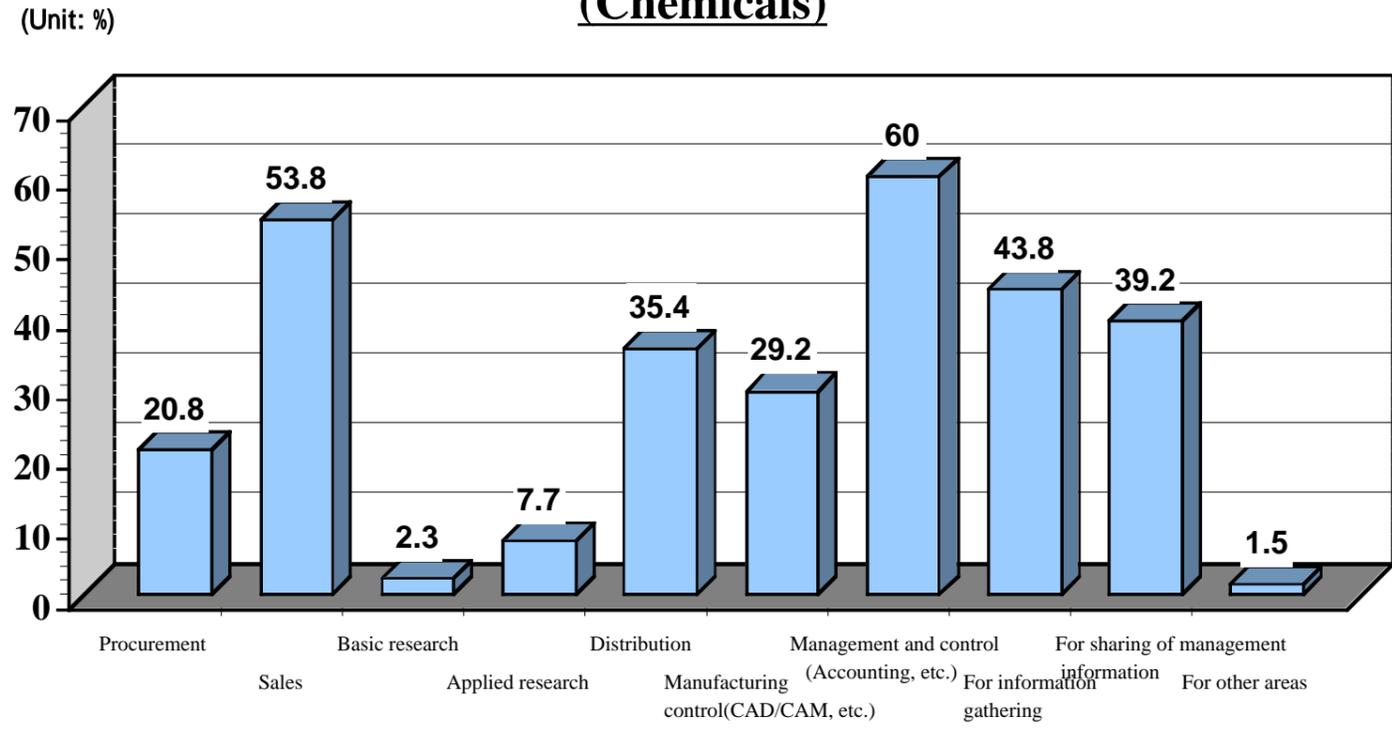


Figure 14-3 Areas of IT introduction (multiple responses)
(Automobiles)

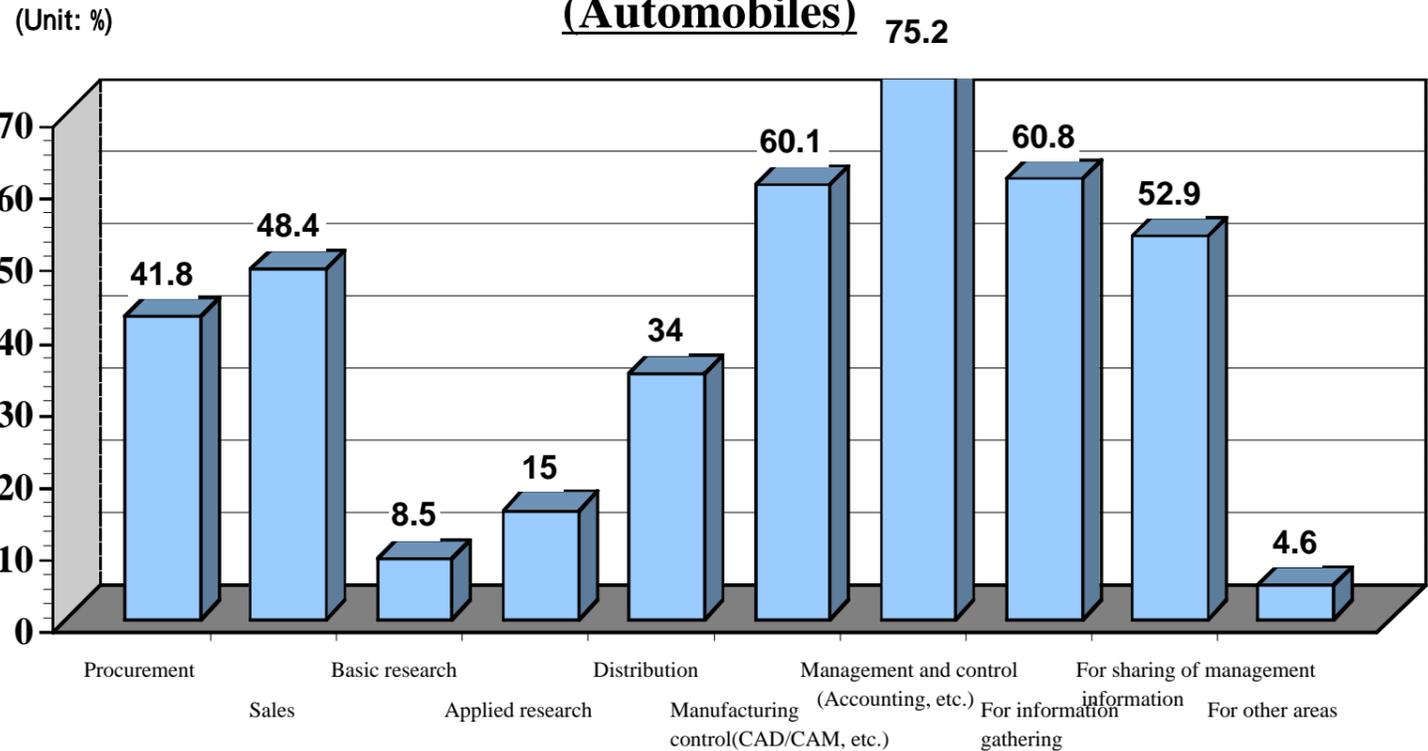


Figure 14-5 Areas of IT introduction (multiple responses)

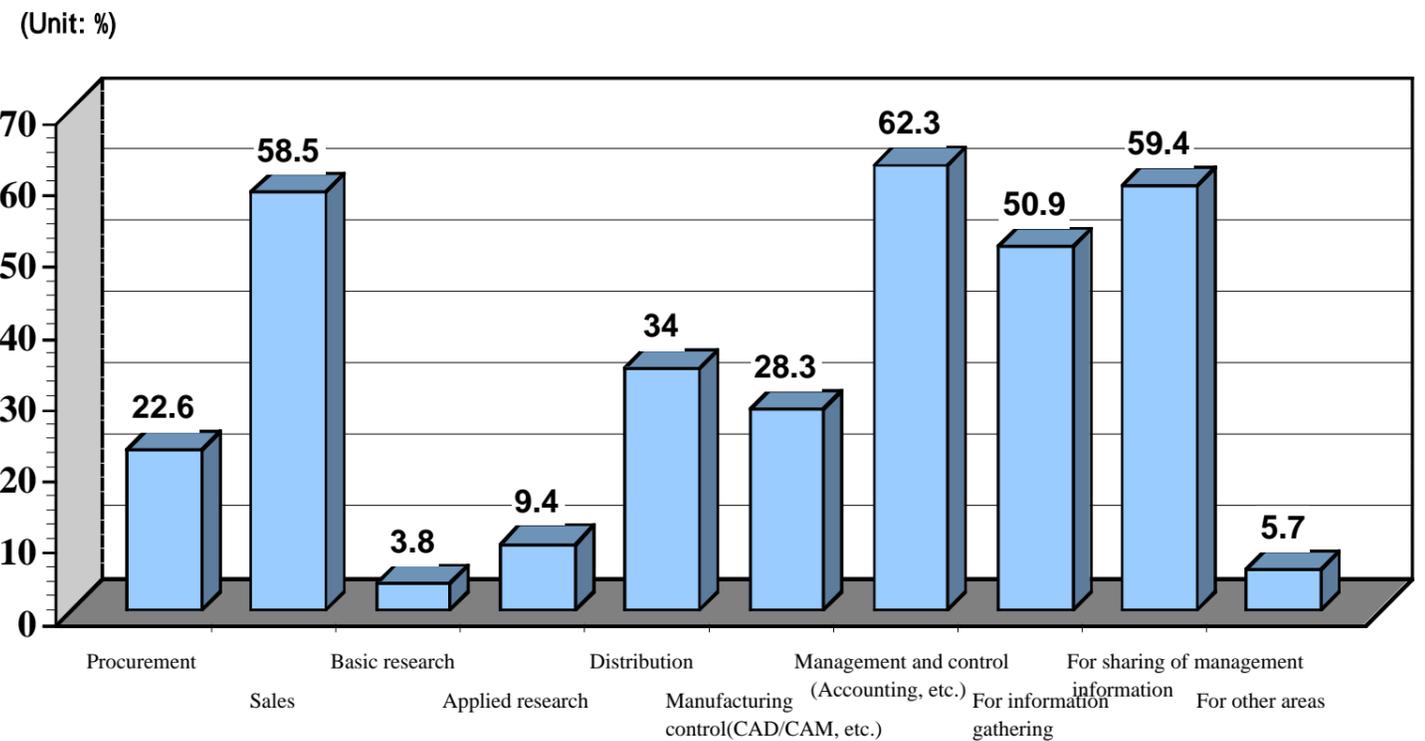
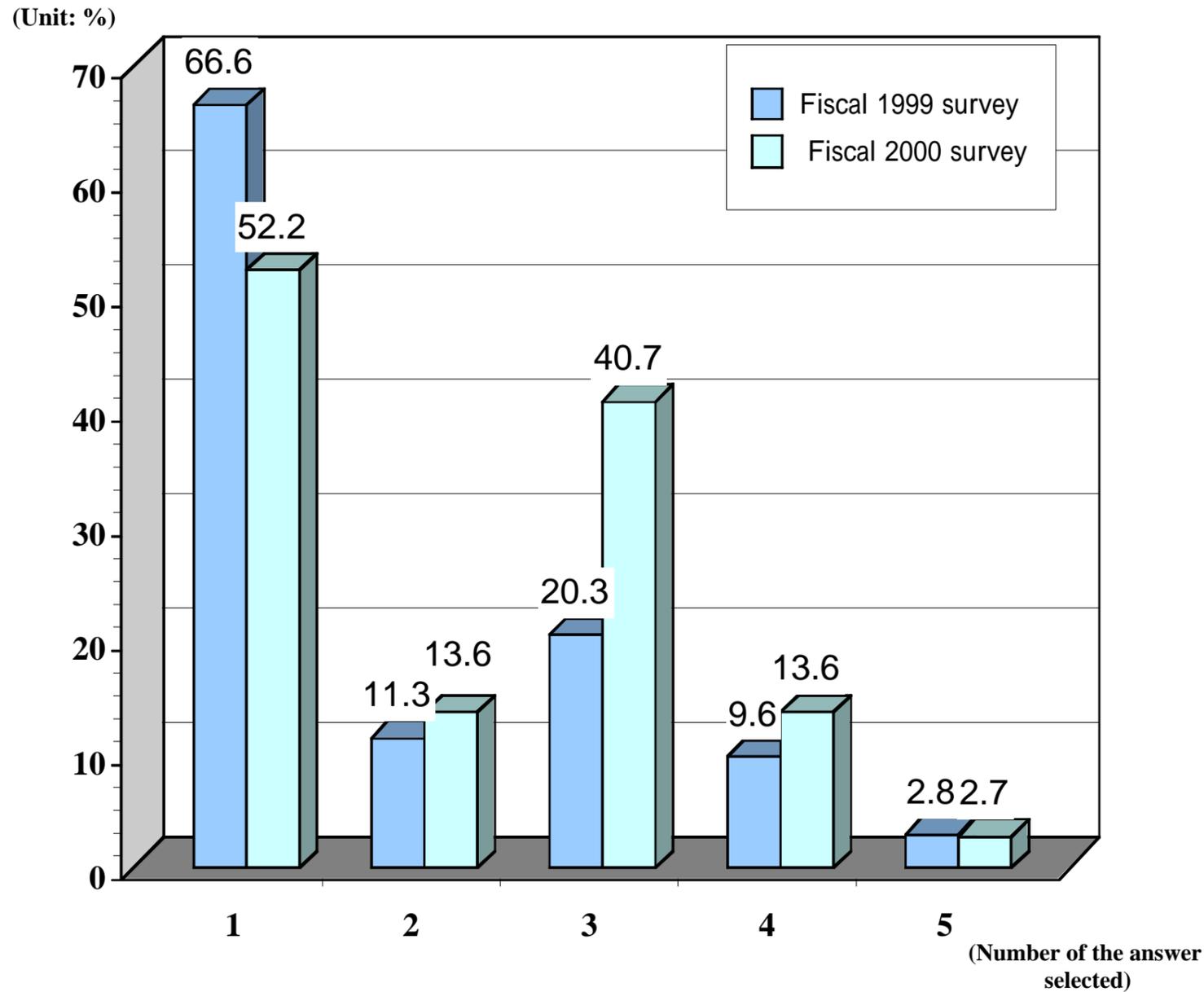


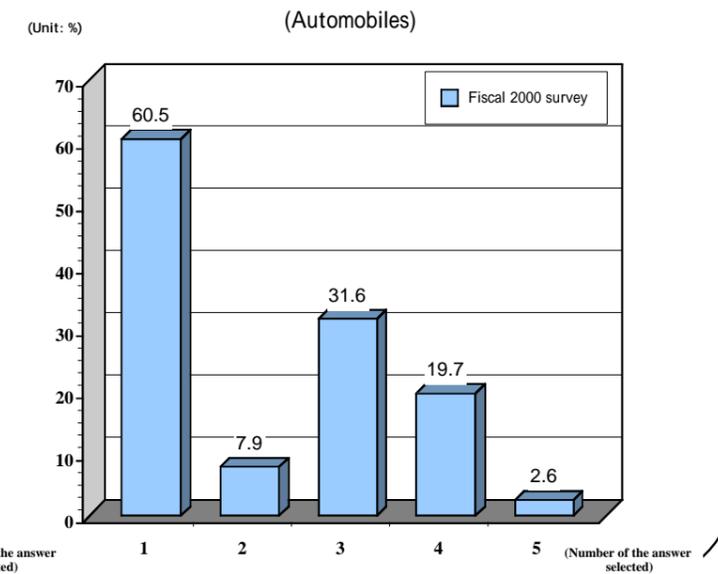
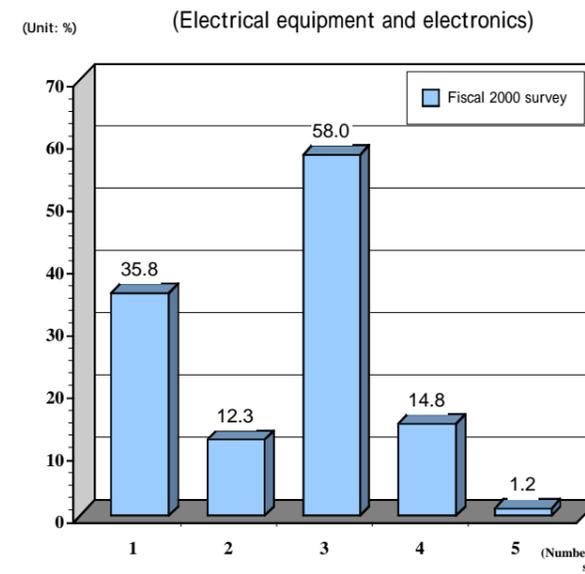
Figure 15 Medium-term (next three years) domestic business outlook – Effect of FDI on domestic production facilities (multiple responses)



Effect of overseas business expansion on domestic business activity: production of higher added-value manufactured products is becoming more important

The percentage of companies that responded (multiple responses) that “investments will be made to maintain and expand market share and will have no effect on domestic production facilities” with regard to the effect of FDI on domestic production facilities was fewer than in the prior fiscal year survey results (Fiscal 1999 survey: 66.6% Fiscal 2000 survey: 52.2%). On the other hand, the percentage of companies responding they “will downsize domestic production facilities because overseas production will replace production within Japan” increased (Fiscal 1999 survey 9.6% Fiscal 2000 survey 13.6%).

Furthermore, the percentage of companies responding that “domestic production will focus on products with higher added-value” increased (20.3% 40.7%). Japanese manufacturing companies are showing their intention to concentrate on the production of manufactured products with greater added value.



1. Investment will be made to maintain and expand market share and will have no effect on domestic production facilities
2. Will have no effect on domestic production facilities because products manufactured overseas are different from domestically manufactured products
3. Although domestically manufactured products will be shifted to production at an overseas location, domestic production facilities will focus on products with higher added-value
4. Will downsize domestic production facilities because overseas production will replace production within Japan
5. Other

【 Promising destinations for overseas business operations through FDI over the medium term (next three years) 】

Figure 16 Countries with promising medium-term (next three years) overseas business operations through FDI (Multiple responses)

Rank	Countries with promising medium-term overseas business development prospects			Promising destinations for investment over the medium term (next three years)											
	Current fiscal year survey	Number of companies (firms)	Ratio (%)	Fiscal 1999 survey	Number of companies (firms)	Ratio (%)	Fiscal 1998 survey	Number of companies (firms)	Ratio (%)	Fiscal 1997 survey	Number of companies (firms)	Ratio (%)	Fiscal 1996 survey	Number of companies (firms)	Ratio (%)
		372	100		278	100		299	100		342	100		351	100
1	China	242	65	China	153	55	China	163	55	China	219	64	China	240	68
2	U.S.	154	41	U.S.	108	39	U.S.	124	41	U.S.	123	36	Thailand	126	36
3	Thailand	88	24	Thailand	76	27	Thailand	68	23	Indonesia	97	28	Indonesia	119	34
4	Indonesia	54	15	India	42	15	Indonesia	49	16	Thailand	84	25	U.S.	112	32
5	Malaysia	43	12	Indonesia	41	15	India	46	15	India	77	23	Vietnam	96	27
6	Taiwan	41	11	Vietnam	30	11	Philippines	43	14	Vietnam	66	19	Malaysia	71	20
7	India	37	10	Malaysia	25	9	Malaysia	42	14	Philippines	47	14	India	64	18
8	Vietnam	35	9	Philippines	25	9	Vietnam	41	14	Malaysia	46	13	Philippines	45	13
9	Korea	32	9	U.K.	25	9	Brazil	34	11	Brazil	28	8	Singapore	34	10
10	Philippines	30	8	Brazil	21	8	U.K.	31	10	Taiwan	28	8	U.K.	23	7
													Taiwan	23	7

FDI in China, which once again is beginning to show activity that is generating strong interest

Despite numerous problems and issues for business operation in China, many of the respondent companies cited China as the most promising country as a target for business operations. The number of companies responding also increased substantially compared to the prior fiscal year survey (Fiscal 1999 survey: 153 companies Fiscal 2000 survey: 242 companies). Of these, 126 companies are planning to “aggressively advance into the market in the future while utilizing existing bases”, and 57 companies indicated they will “aggressively advance into the market with new FDI (establish new bases)”.

Figure 17 Reasons given for why countries look promising (Multiple responses)

	China		U.S.		Thailand		Indonesia		Malaysia	
	Number of firms (240)	Percent	Number of firms (153)	Percent	Number of firms (88)	Percent	Number of firms (54)	Percent	Number of firms (42)	Percent
Present market size	49	20.4%	92	60.1%	14	15.9%	7	13.0%	7	16.7%
Potentiality of future market growth	191	79.6%	80	52.3%	49	55.7%	27	50.0%	19	45.2%
Inexpensive labor force	139	57.9%	0	0.0%	42	47.7%	40	74.1%	20	47.6%
Low-cost parts and raw materials	56	23.3%	6	3.9%	14	15.9%	12	22.2%	7	16.7%
Export base to Japan	47	19.6%	4	2.6%	15	17.0%	10	18.5%	9	21.4%
Third-country export base	53	22.1%	7	4.6%	35	39.8%	16	29.6%	14	33.3%
Supply base for final assembly manufacturers	51	21.3%	46	30.1%	30	34.1%	15	27.8%	10	23.8%
Because other companies in the same industry are advancing there	13	5.4%	6	3.9%	5	5.7%	3	5.6%	0	0.0%
Excellent human resources	20	8.3%	16	10.5%	12	13.6%	1	1.9%	6	14.3%
Favorable investment policies and deregulation policies in the target country	10	4.2%	3	2.0%	6	6.8%	2	3.7%	8	19.0%
Product development suits the local market	26	10.8%	52	34.0%	7	8.0%	6	11.1%	4	9.5%
Acquisition of local technology, know-how, etc.	4	1.7%	16	10.5%	0	0.0%	0	0.0%	1	2.4%
Progress towards regional integration	3	1.3%	2	1.3%	6	6.8%	4	7.4%	2	4.8%
Other	2	0.8%	2	1.3%	1	1.1%	0	0.0%	1	2.4%

As reasons given for seeing China as a promising destination for business operations through FDI (multiple responses), 79.6% of the respondent companies cited “potentiality of future market growth”. This was followed by reasons such as “inexpensive labor force” (57.9%), “low-cost parts and raw materials” (23.3%), and as a “third-country export base” (22.1%). In addition to the future potential of local markets in China itself, expectations that China’s business environment will improve with China’s entry into the WTO are also a factor. When looked at by industry, moreover, the electrical equipment and electronics industry showed the strongest interest (52 companies), followed by chemicals (including plastic formation; 39 companies) and automobiles (32 companies).

The number of companies entered in the above table are the number of companies among those responding to the question regarding “promising destinations for medium-term overseas business operations through FDI” that also responded with a “reason why market looks promising”.