

October 25, 2002

Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

-Results of JBIC FY2002 Survey:
Outlook for Japanese Foreign Direct Investment (14th Annual Survey) -

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< . Overview of the Survey Method >

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

The survey covered 812 manufacturing companies that have three or more foreign affiliates, including at least one manufacturing base, as of November 2001. The questionnaire was mailed on July 1, 2002. 508 valid responses were returned over the period from July to August. The effective response rate was 62.6%. (In the FY2001 survey, valid returns were 501 out of 792 companies surveyed, with the response rate of 63.3%)

This year's survey additionally looked into the "Attitude toward Expanding Business Operations in China and ASEAN," "Effect of China's WTO Entry" and "Expectations and issues for AFTA"

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

Companies Surveyed, Response Rate and Overseas Affiliates

(Unit: Companies, %)

	FY2002	FY2001	FY2000	FY1999	FY1998
Number of companies surveyed	812	792	791	786	749
Number of respondent	508	501	469	472	455
Response rate	62.6	63.3	59.3	60.1	60.7
Number of overseas affiliates	8,924	7,710	7,285	7,225	6,654

Profile of Companies Surveyed

(1) Number of respondent companies, by paid-in capital (Individual company base)

	Number of companies	%
less than ¥100 million	31	6.1%
¥100 million ~ less than ¥500 million	47	9.3%
¥500 million ~ less than ¥1.0 billion	21	4.1%
¥1.0 billion ~ less than ¥5.0 billion	109	21.5%
¥5.0 billion ~ less than ¥10.0 billion	70	13.8%
less than ¥10.0 billion or more	230	45.3%
Total	508	100.0%

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

	Number of companies	%
less than ¥50.0 billion	194	38.6%
¥50.0 billion ~ less than ¥100.0 billion	86	17.1%
¥100.0 billion ~ less than ¥200.0 billion	79	15.7%
¥200.0 billion ~ less than ¥300.0 billion	33	6.6%
¥300.0 billion ~ less than ¥500.0 billion	35	7.0%
¥500.0 billion ~ less than ¥1.0 trillion	31	6.2%
¥1.0 trillion or more	44	8.8%
Total	502	100.0%

Six companies did not provide this information

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

	Number of companies	%
300 employees or less	71	14.0%
301 to 500 employees	58	11.4%
501 to 1,000 employees	91	17.9%
1,001 to 2,000 employees	124	24.4%
2,001 to 5,000 employees	96	18.9%
5,001 to 10,000 employees	37	7.3%
10,001 to 30,000 employees	21	4.1%
30,001 or more employees	10	2.0%
Total	508	100.0%

(4) Number of respondent companies, by industrial classification

Industrial classification	Number of companies	%
Foodstuffs	24	4.7%
Textiles	21	4.1%
Wood and wood products	2	0.4%
Paper and pulp	4	0.8%
Chemicals	82	16.1%
[Chemicals (excluding pharmaceuticals)]	(70)	(13.8%)
[Pharmaceuticals]	(12)	(2.4%)
Petroleum and rubber	12	2.4%
Ceramics, cement and glass	12	2.4%
Steel	16	3.1%
Nonferrous metals	19	3.7%
Metal products	16	3.1%
General machinery	52	10.2%
[Assembled products]	(43)	(8.5%)
[Components]	(9)	(1.8%)
Electrical equipment and electronics	100	19.7%
[Assembled products]	(34)	(6.7%)
[Components]	(66)	(13.0%)
Transportation (excluding Automobiles)	11	2.2%
Automobiles	82	16.1%
[Assembled vehicles]	(10)	(2.0%)
[Components]	(72)	(14.2%)
Precision machinery	25	4.9%
[Assembled machinery]	(20)	(3.9%)
[Components]	(5)	(1.0%)
Other	30	5.9%
Total	508	100.0%

Profile of Companies Surveyed (Continued)

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

(Unit: Companies)

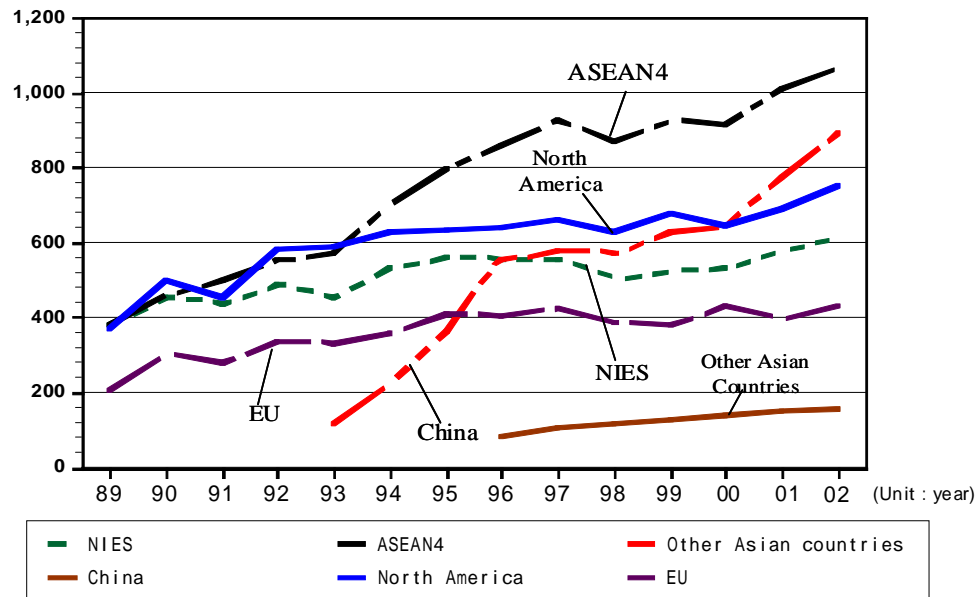
	NIES	ASEAN4	China	Other Asian countries	North America	Latin America	EU	Central and Eastern Europe	Other European countries	Former Soviet Union	Southeast Asia Pacific	Middle East & Africa	Total
Production bases	616	1,067	890	155	752	197	429	66	15	6	53	23	4,269
Sales bases	766	320	309	46	593	124	949	60	66	15	135	61	3,444
R&D bases	30	21	28	2	92	1	70	3	1	-	6	2	256
Other	112	90	65	16	337	56	202	7	9	2	46	13	955
Total	1,524	1,498	1,292	219	1,774	378	1,650	136	91	23	240	99	8,924

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

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

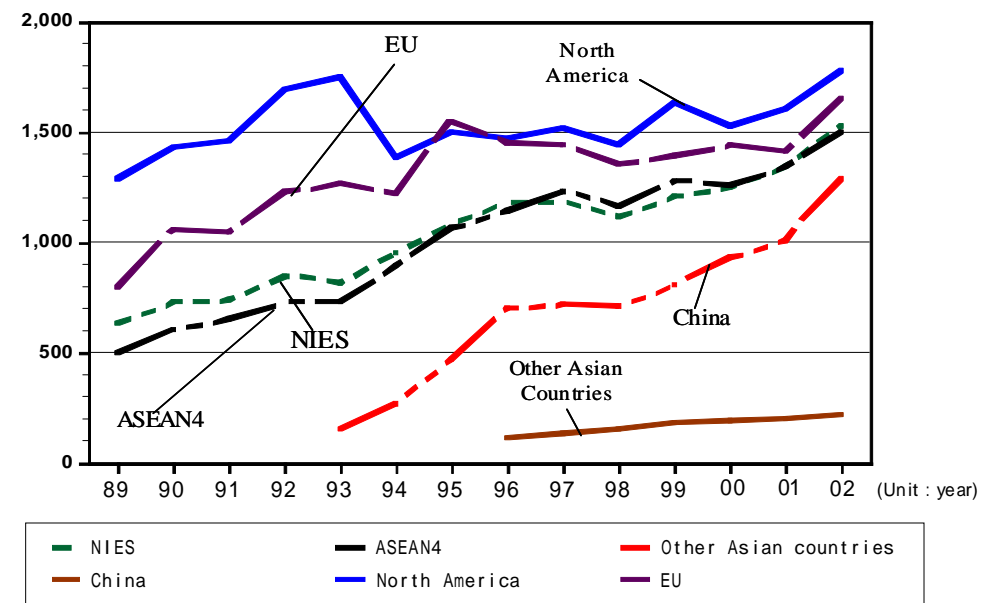
Changing of Overseas Manufacturing Bases in Major Regions

(Unit : companies)



Changing of Overseas Affiliates in Major Regions

(Unit : companies)



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

< Summary >

3

- 1 . The most numerous response with respect to the current top priority issues for domestic and overseas business operations was “strengthen and expand overseas production” (54.6%), followed by “strengthen and expand customer base by the company’s own efforts” (37.8%). Popular answers and the numbers of companies that responded stayed basically the same in the FY2001 and FY2002 surveys. However, “Review domestic production systems from the viewpoint of total cost” (25.4%) climbed from sixth place to fourth. The rising need to strengthen price competitiveness due to declining demand worldwide appears to be forcing these companies to urgently review domestic production.
- 2 . Of the companies that indicated their attitude toward overseas business operations over the medium term, 79.6% responded they “will strengthen and expand” these operations, whereas 20.0% indicated they “will maintain the current level.” Those replying they “will reduce or withdraw from them” accounted for a minuscule 0.4%. The share of the companies that “will strengthen or expand” overseas business operations climbed to 79.6% from 71.6% in the FY2001 survey.^{3/} The respondents generally showed an increasingly positive attitude toward expanding their overseas business operations. The overseas production ratio has been on the increase. Its actual figure rose to 24.3% in FY2001 (from 23.0% in FY2000), whereas the projection for FY2005 rose to 31.7%.
- 3 . Asked about their medium-term intentions to domestic business operations, 30.2% responded they would “maintain the current scale of operation but realign/restructure them”, followed by “strengthen and expand them by actively making capital investment as necessary” (27.1%). Those who replied they would “maintain the current status” decreased slightly from 13.9% in the FY 2001 survey to 10.7%. Meanwhile, the ratio of respondents stating they would “reduce domestic business operations” increased from 3.9% in the FY2001 survey to 6.8%. Asked about the effects overseas business operations may have on medium-term domestic production, 39.9% of survey respondents specified that “While the production which was being performed conventionally at home is shifted to overseas, domestic business operations will focus on other products and product areas.” Asked about their approach to domestic business operations, 80.8% of the respondents said they would “specialize in higher value-added products.” This answer suggests a focus on achieving higher levels of domestic business operations.
- 4 . By region, China was most often cited by the companies responding as the place where they would be “strengthening and expanding overseas business operations” (70.1%), followed by North America (50.3%). In other regions, “maintain overseas business operations” is the most common response. When asked about fields to be expanded, Companies exhibited a particularly strong willingness to expand business operations in Eastern China and Southern China, and Thailand in ASEAN4. The preference for these regions reflects priorities there. Survey respondents appear to realize that there are intra-regional differences and that they expand operations in the areas selectively.
- 5 . Asked about the priority on expanding operations in China or ASEAN in the future, the majority of respondents would “expand business operations in a balanced manner by distributing risks (to both regions)” (53.8%). 26.0% of the respondents would “give priority to expanding operations in China.”
- 6 . When asked about AFTA, 53.6% of the survey respondents said they “expect” AFTA to help liberalize trade within the region covered. The most popular reason cited for their view was “expanding trade within the region due to reduced tariffs,” followed by “simplifying the customs clearance procedure,” “market expansion” and so on. A lot of respondents belonging to the materials industry like steel and chemicals expressed expectations for AFTA. A high ratio of automakers among respondents expressed the same view.
- 7 . Asked about issues following China’s WTO entry, many respondents mentioned, “Intensified competition in the Chinese market” (56.1%). Respondents expressed concerns about China “observing WTO regulations” (48.0%), and “existing non-tariff barriers” (24.6%). Survey respondents expressed strong hopes that Chinese authorities will ensure the effectiveness of institutional reforms after China’s WTO entry. While recognizing certain progress made in “tariff reduction,” they hoped more improvement in “protection of intellectual property rights” and “abolishment of local content and other business requirements.”
- 8 . The FY2002 survey found the evaluation of satisfaction with sales and profitability declined among respondents operating in many regions except ASEAN4. The causes of this decline in evaluation of satisfaction with profitability are polarized, i.e. “difficulty to obtain customers (intense competition with other companies)” increased among those operating in such regions as China and Latin America, and “shrinking market due to economic downturn” as the cause of the increase in lost satisfaction among those operating in North America, EU, and Central and Eastern Europe.
- 9 . The necessity to restructuring business operations increased for respondents operating in China to 67.8% from 57.3% in the FY2001 survey. This for respondents operating in ASEAN4 decreased from 58.1% in the FY2001 survey to 43.4%. This change suggests that operations are being restructured in ASEAN4.
- 10 . When improvement in investment climate was examined among major Asian countries in comparison with the situation last year, 58.0% of the companies in the FY2002 survey recognized improvements in China’s infrastructure during the last year. However, companies maintaining bases in China had divided opinions about “Securing management-class human resources in the local market”. Some 10.0% of those respondents recognized “improvement” in this situation, but 11.0% of the same group reported encountering difficulties.
- 11 . Respondents in the FY2001 and FY2002 surveys chose the same four countries as the most promising for medium-term business. China was the most popular country in the FY2002 survey, followed by Thailand, the United States, and Indonesia in that order. Thailand and the United States switched positions from the FY2001 survey. Many companies in the FY2002 survey expressed the view that China appears “promising.” Many of these respondents pointed out issues related to the development and application of the legal system in China. They cited such issues as “local legal system (lack of transparency),” “local legal system (undeveloped legal system),” and “local legal system (frequent and abrupt changes).” More than half of the survey respondents who described China as “promising” identified institutional issues, particularly legal ones.

< . Overview of the Survey Results >

[Current Top Priority Issues for Domestic and Overseas Business Operations]

Figure 1 Current Top Priority Issues for Domestic and Overseas Business Operations ^{2/}

Rank		Number of companies	
		(among 489 companies)	Response rate
1	Strengthen and expand the overseas production	267	54.6%
2	Strengthen and expand the customer base by the company's own efforts	185	37.8%
3	Review and improve efficiency of the management of group companies (sell or spin-off of a unit of existing businesses, etc.)	159	32.5%
4	Review domestic production systems from the viewpoint of total cost	124	25.4%
5	Strengthen services related to the company's products	120	24.5%
6	Acquire business resources to strengthen principal business (acquisitions, alliances, mergers, etc.)	117	23.9%
7	Reduce interest-bearing debt	115	23.5%
8	Active expansion into new business areas	87	17.8%
9	Introduce or establish a global supply chain management	81	16.6%
10	Focus on environment-related business	46	9.4%
11	Review overseas production systems from the viewpoint of total cost (reduction in and withdrawal from overseas bases)	46	9.4%
12	Strengthen and expand the domestic production	42	8.6%
13	Outsource the activities of production	22	4.5%
14	Strengthen technology development by utilizing venture companies (alliances, acquisitions, etc.)	9	1.8%
15	Expand transactions over the Internet	8	1.6%

17 companies answered "Other" as a priority issue

Cf. Results of the FY2001 Survey

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

25 companies answered "Other" as a priority issue

Note 2: We asked respondents to pick three items irrespective of their ranking and made a simple summation of the responses for each item on the list of alternatives. We newly added, "Focus on environment-related business" to the list of priority items in the FY2002 survey.

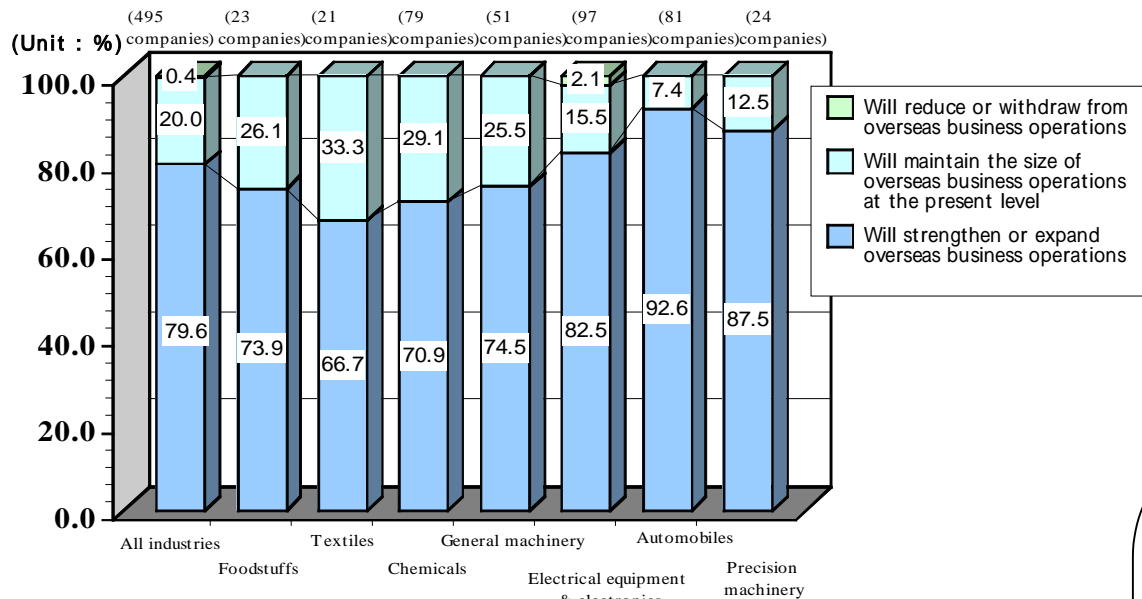
Strengthening and expanding overseas production to increase market share and strengthen price competitiveness

The most numerous response with respect to the current top priority issues for domestic and overseas business operations was "strengthen and expand overseas production" (267 respondents), followed by "strengthen and expand customer base by the company's own efforts" (185 respondents). Popular answers and the number of companies that responded stayed basically the same in the FY2001 and FY2002 surveys. However, "Review domestic production systems from the viewpoint of total cost" (124 respondents) climbed from sixth place to fourth. The rising need to strengthen price competitiveness due to declining demand worldwide appears to be forcing these companies to urgently review domestic production.

Some companies interviewed told us "Our basic policy is to expand local production and sales in foreign countries with high demand," and others told us "Producing goods domestically for mass consumption under increasing price competition is difficult. We must review the domestic production structure and relocate the production facilities of certain products abroad in order to increase cost competitiveness." Relocating production facilities abroad means acquiring an overseas market share and strengthen price competitiveness.

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

Figure 2 Overseas Business Operations over the Medium Term (next three years or so), by Major Industries



Cf. Results of the FY2001 Survey

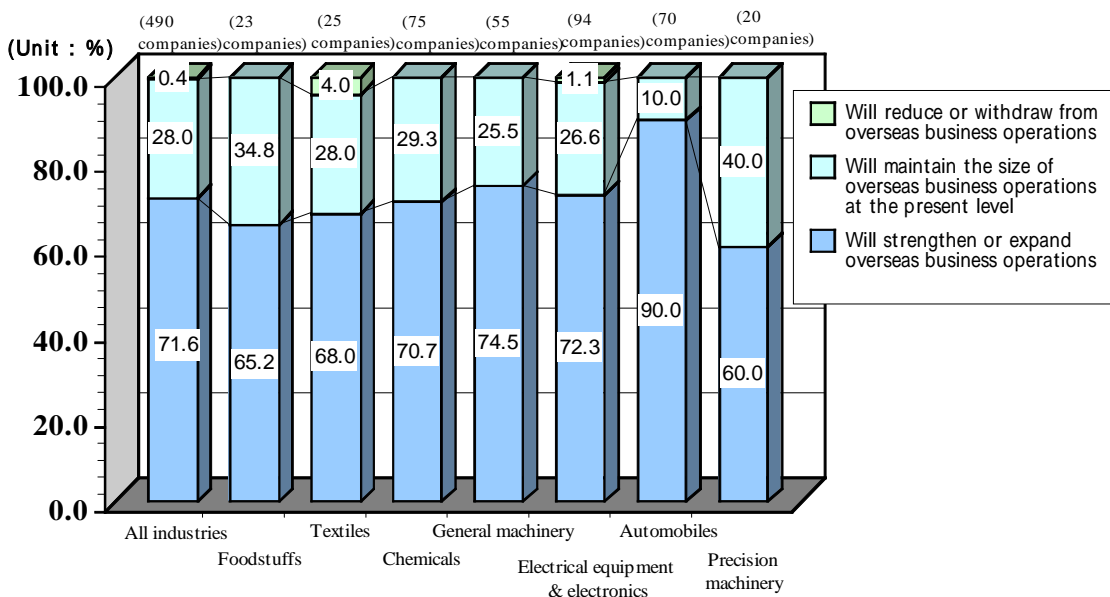
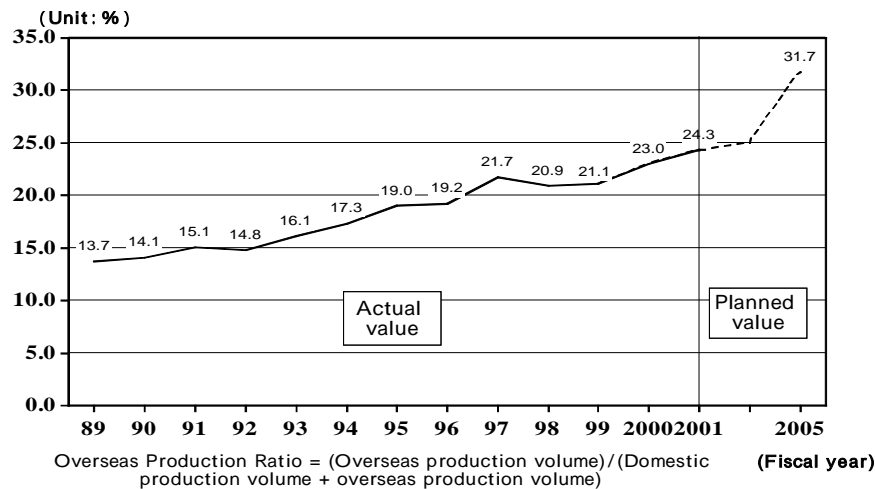


Figure 3 Changing Patterns of Overseas Production Ratio



Companies Poised to Strengthen and Expand Overseas Business Operations

Of the companies that indicated their attitude toward overseas business operations over the medium term, 79.6% responded they “will strengthen and expand” these operations, whereas 20.0% indicated they “will maintain the current level.” Those replying they “will reduce or withdraw from them” accounted for a minuscule 0.4%. The share of the companies that “will strengthen or expand” overseas business operations climbed to 79.6% from 71.6% in the FY2001 survey.³⁾ The respondents generally showed an increasingly positive attitude toward expanding their overseas business operations.

The overseas production ratio has been on the increase. Its actual figure rose to 24.3% in FY2001 (from 23.0% in FY2000), whereas the projection for FY2005 rose to 31.7%. The changing pattern of this ratio by major industries is shown below.

	Fiscal 2001 actual value	Fiscal 2002 estimated	Fiscal 2005 plan value
Electrical equipment and electronics	38.0%	40.6%	45.7%
Automobiles	25.3%	27.6%	34.6%
Chemicals	19.5%	20.4%	25.2%
General machinery	16.7%	20.0%	26.9%

Note3: Although it should be noted that the questionnaire before the FY1999 survey asked for “investment relative to actual figures in the past three years or so over the medium term”, the share of the companies indicating a positive stance for overseas business operations since the FY1997 survey evolved over time as follows.

64.6% (FY1997) 38.1% (FY1998) 21.1% (FY1999) 54.5% (FY2000) 71.6% (FY2001) 79.6% (FY2002)

[Prospect for Domestic Operations over the Medium Term (next three years or so)]

Figure 4 Prospect for Domestic Operations over the Medium Term (next three years or so): Attitude toward Domestic Business Operations

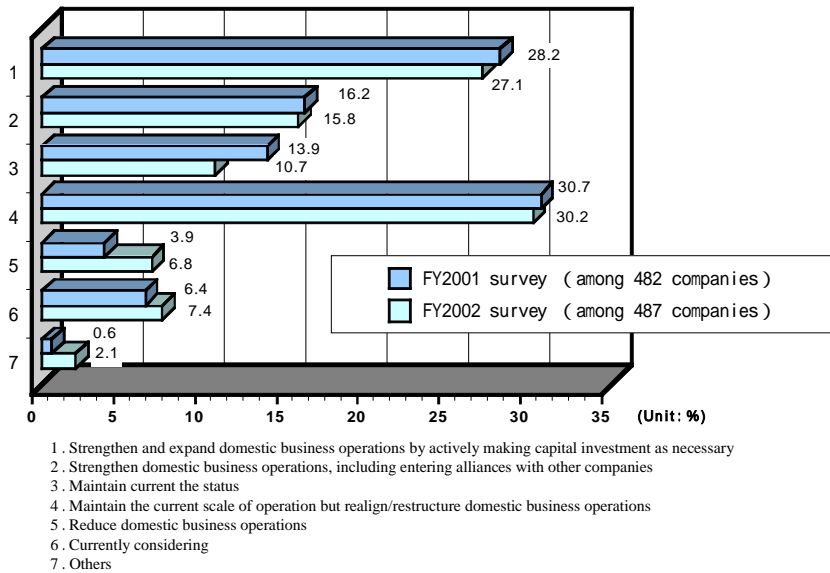
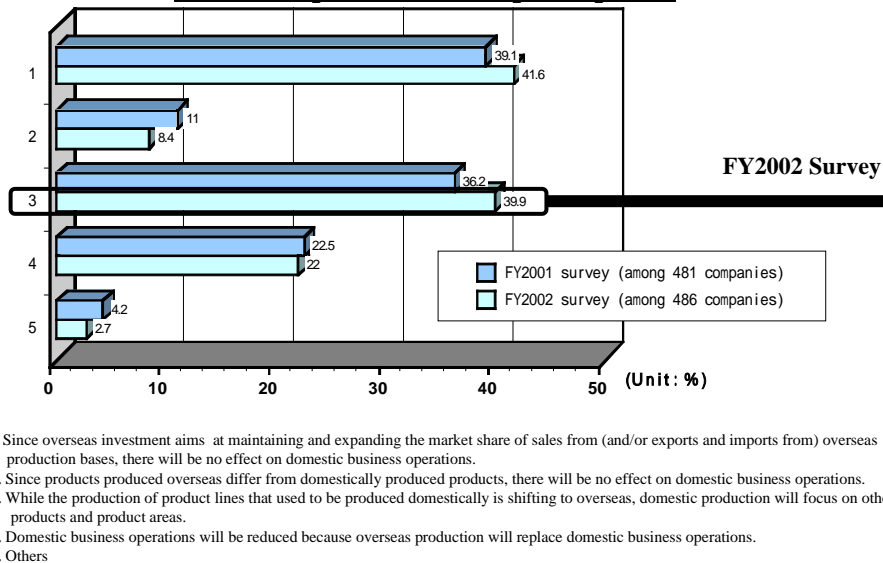


Figure 5 Effect of Overseas Business Operations on Domestic Business Operations (multiple response)



Domestic production is expected to shift to High Value-Added Products

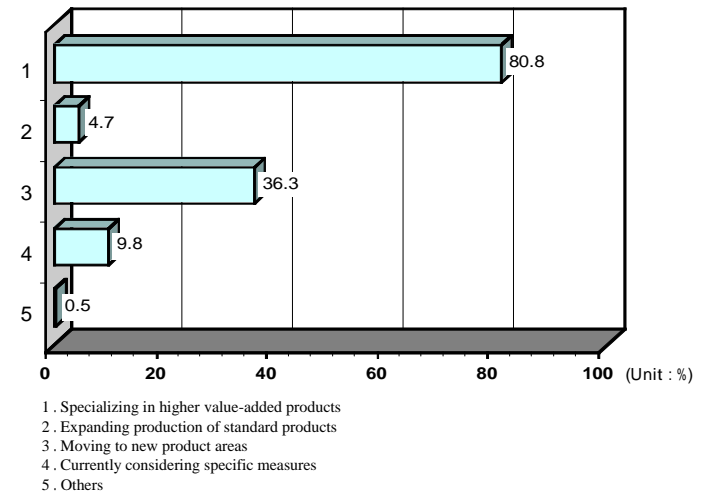
Asked about domestic medium-term business plans, 30.2% of the survey respondents said they would “Maintain the current scale of operation but realign/restructure domestic operations”, followed by “Strengthen and expand domestic operations by actively making capital investment as necessary” (27.1%). Those who stated they would “Maintain the current status” fell in ratio from 13.9% in the FY 2001 survey to 10.7%. Respondents who expressed intent to “Reduce domestic operation” grew in ratio from 3.9% in the FY 2001 survey to 6.8%.

Asked about overseas business operations and possible medium-term repercussions in Japan, 41.6% of the survey respondents selected “Since overseas investment aims at maintaining and expanding the market share of sales from (and/or exports and imports from) overseas production bases, there will be no effect on domestic business operations.” The ratio of respondents who picked this answer rose slightly from 39.1% in the FY2001 survey. The second largest group of survey respondents replied “While the production of product lines that used to be produced domestically is shifting to overseas, domestic production will focus on other products and product areas” (39.9%). Their ratio increased from 36.2% in the FY 2001 survey. 22.0% of survey respondents selected “Domestic business operations will be reduced because overseas production will replace domestic production.” Their ratio fell slightly from 22.5% in the FY2001 survey. On the whole, survey respondents expressed a strong desire to strengthen and expand overseas business operations and raise levels of domestic production. We found virtually the same trends in the FY2001 survey.

We asked follow-up questions to survey respondents who said “While the production of product lines that used to be produced domestically is shifting to overseas, domestic production will focus on other products and product areas.” 80.8% of them replied, “specializing in higher value-added products”, followed by “Moving to new product areas”(36.3%). Popular answers and their order did show no big changes from the FY 2001 survey.

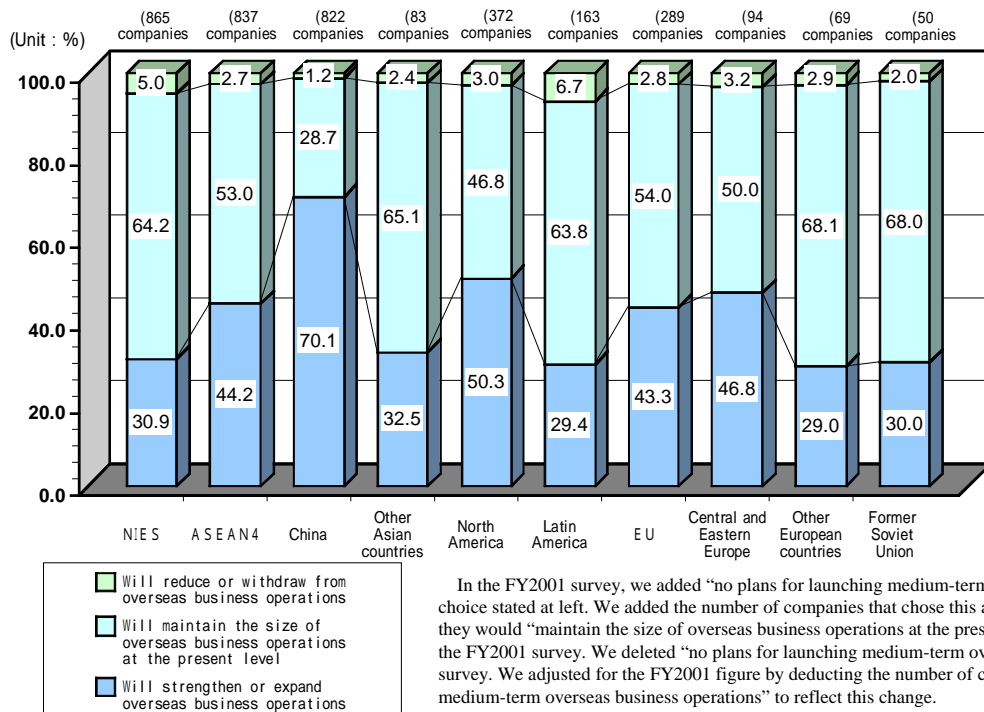
The results of our survey and interviews reveal that many Japanese manufacturers are revising and strengthening domestic and overseas production in line with a policy of manufacturing and selling products in optimum locations. These manufacturers appear to be dividing production operations into two types: operations that should be maintained in Japan, and operations that should be relocated overseas. Moreover, they are focusing on the domestic production of products offering high added value in a bid to make their products more competitive.

Figure 6 Move for Other Products and/or Product Areas in Domestic Production (194 companies) (multiple response)

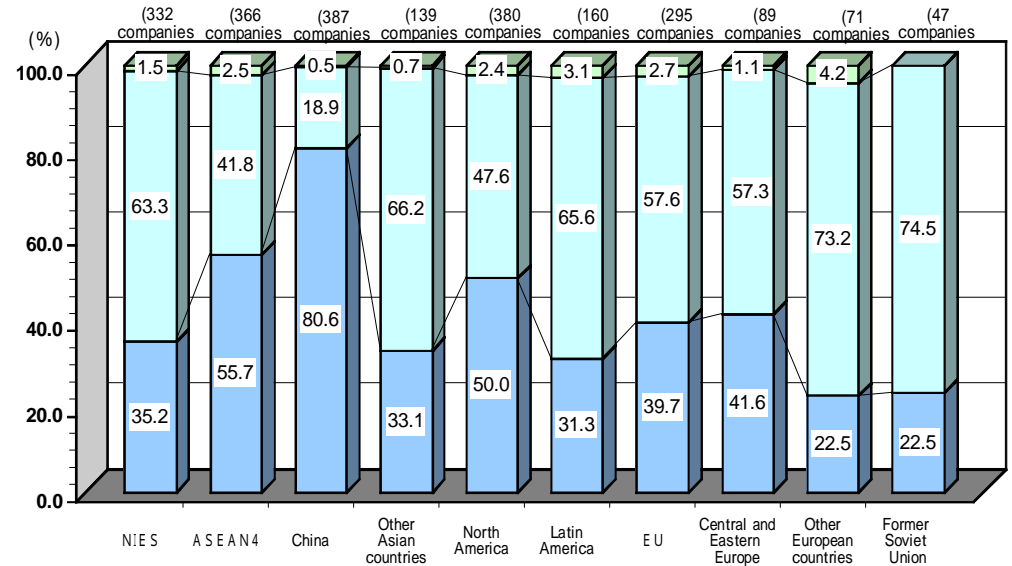


[Attitudes toward Strengthening and Expanding Overseas Business Operations over the Medium Term (next three years or so) : By Region]

Figure 7 Attitude toward Strengthening and Expanding Overseas Business Operations: By Region



Cf. Results of the FY2001 Survey



In the FY2001 survey, we added “no plans for launching medium-term overseas business operations” as the fourth choice stated at left. We added the number of companies that chose this answer to the number of respondents who replied they would “maintain the size of overseas business operations at the present level” to enable a time-series comparison in the FY2001 survey. We deleted “no plans for launching medium-term overseas business operations” from the FY2002 survey. We adjusted for the FY2001 figure by deducting the number of companies that chose “no plans for launching medium-term overseas business operations” to reflect this change.

In the FY2002 survey, we clearly defined NIES, ASEAN4 and China into smaller regional units. We defined NIES as Korea, Taiwan, Singapore, and Hong Kong. We defined ASEAN4 as Thailand, Indonesia, Malaysia and the Philippines. We divided China into Northeastern China, Northern China, Eastern China, Southern China and inland China. Figure 7 shows the totale figures for respective regions of operation.

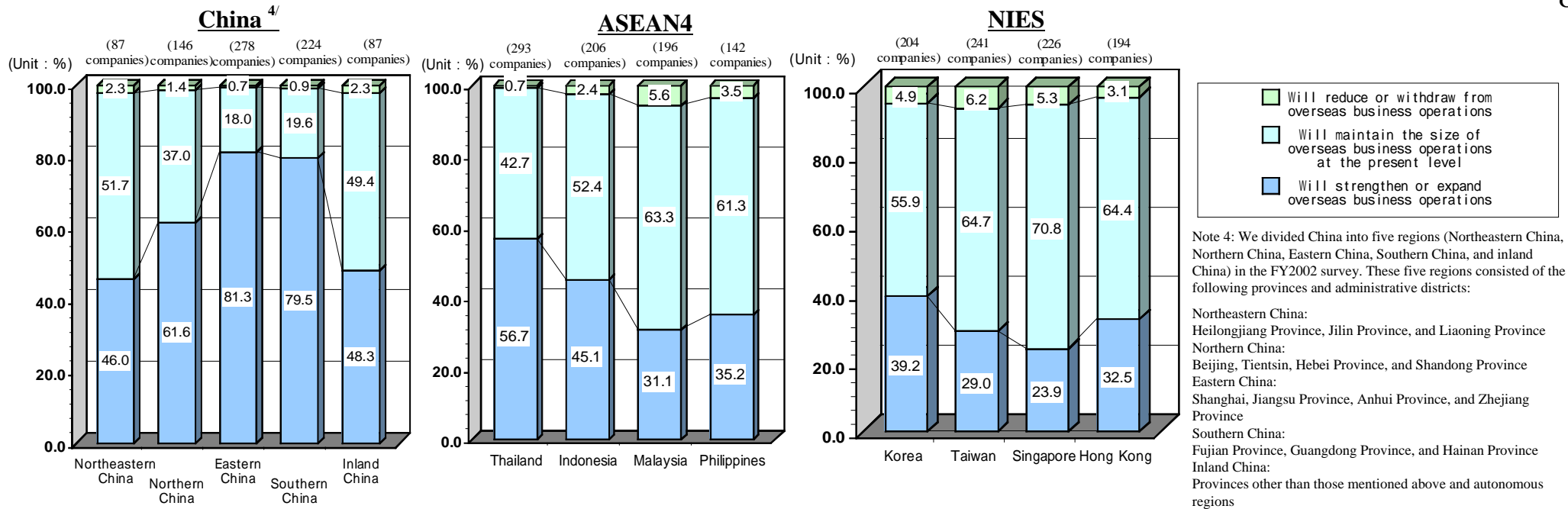
Respondents appear to maintain a positive approach to overseas business operations

By region, China was most often cited by the companies responding as the place where they would be “strengthening and expanding overseas business operations” (70.1%), followed by North America (50.3%). In the FY2002 survey, respondents indicated a greater willingness to strengthen and expand operations in EU, and Central and Eastern Europe. This development is one of the features resulting from the FY 2002 survey. Many of the companies interviewed told us “We plan to launch business operations in Central and Eastern Europe because our customers have moved operations there. We would eventually establish local supply bases and look for new customers.” Many of the firms interviewed said, “Competition is tough, but we have an intention to boost sales in EU by investing resources in marketing activities.”

The ratios of respondents intending to strengthen and expand business operations in China and ASEAN4 dropped from the FY2001 survey. Those who favored expanding operations in China decreased in ratio from 80.6% in the FY 2001 survey to 70.1%. Those supporting a buildup of operations in ASEAN4 fell in ratio from 55.7% in the FY2001 to 44.2%.

Differences within respective regions (described on the next page) apparently contributed to these survey results. Several interviewed companies consider “The potential of the Chinese market and low cost of labor there attractive, but legal and taxation systems in China have many ambiguous areas and there are many local competitors. When we consider these conditions, it is difficult for us to judge that strengthening business operations in China will lead to greater profits or not. So we will maintain business operations at the present level.” Such remarks suggest that some Japanese manufacturers maintain business operations in China where many Japanese manufacturers expand their operation. Many companies operating in ASEAN4 told us “We already have bases and may change the content of their operations. However, we have no plans to expand operations in the near future.” Such remarks suggest that major Japanese manufacturers who have established operations in ASEAN4 are opting to maintain operations at the present level.

Figure 8 Intentions for strengthening and expanding business operations in respective countries and regions



Domestic and intra-regional differences exist in overseas business operations

Survey respondents continued to show a strong willingness to strengthen and expand operations in major Asian countries like China and ASEAN4. They exhibited a particularly strong willingness to expand business operations in Eastern China and Southern China, and Thailand in ASEAN4. The preference for these regions reflects priorities there. Survey respondents realize that there are intra-regional differences and that they expand operations selectively by area. Japanese manufacturers operating in China exhibited a tendency to strengthen and expand business operations mainly in coastal areas. Furthermore, the largest group of respondents operating in Eastern China cited the “establishment of new bases of production.” Among respondents operating in other parts of China, the “expansion of existing production lines” was the most common response. This difference suggests that Japanese companies operating in different parts of China are adopting different stances. “Expansion of existing production lines” was the most common response among respondents operating in ASEAN4. Generally speaking, survey respondents operating in ASEAN4 showed a willingness to strengthen and expand the “production function”. Japanese manufacturers operating in ASEAN4 appear less willing to establish new production facilities.

Survey respondents operating in China and ASEAN4 shared a strong willingness to strengthen and expand the “production function.” Many of the companies interviewed said, “We hesitate to launch sales activities in the Chinese market due to such issues as collecting of receivables and establishing marketing outlets.” Many companies already marketing products in China explained, “We are dealing mainly with Japanese companies they had done business with before and are planning to expand production according to customer demands. We have a desire to increase transactions with local customers, however, we are not doing much business with Chinese companies at the moment in view of the risk of engaging in competitive pricing.”

The FY2002 survey results indicate that respondents operating in NIES are adopting different approaches to expanding operations in different countries and regions. Survey respondents expressed a relatively strong willingness to strengthen and expand business operations in Korea and Hong Kong. Survey respondents operating in NIES shared a strong willingness to expand “sales function.” Many of the companies interviewed told us “Korea and other NIES offer little advantages to manufacturers except for the capital-intensive industry due to high local labor costs. Some respondents intend to refrain from new equipment investments in NIES. However, NIES have good administrative reforms, infrastructural development, and increasing demand for consumer goods popular.”

[Attitude toward Expanding Business Operations in China and ASEAN]

Figure 9 Attitude toward expanding operations in China and ASEAN (Survey respondents providing valid responses: 461)

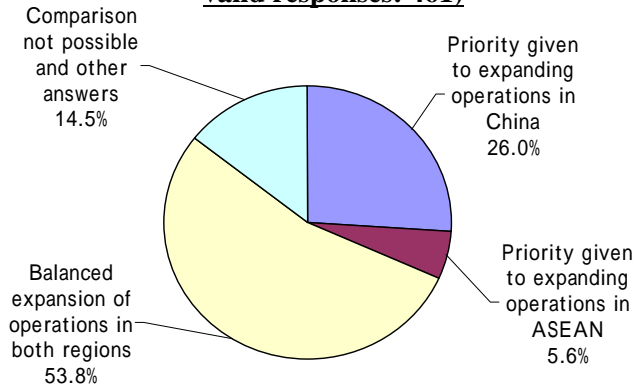
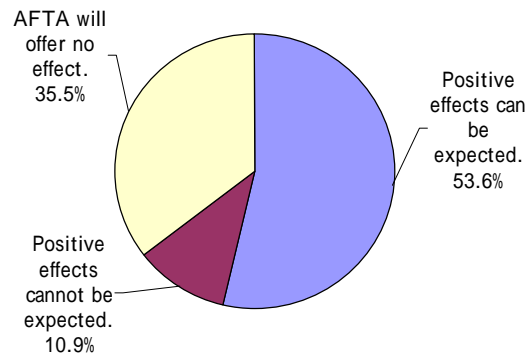


Figure 10 Expectations for AFTA (Survey respondents providing valid responses: 459)



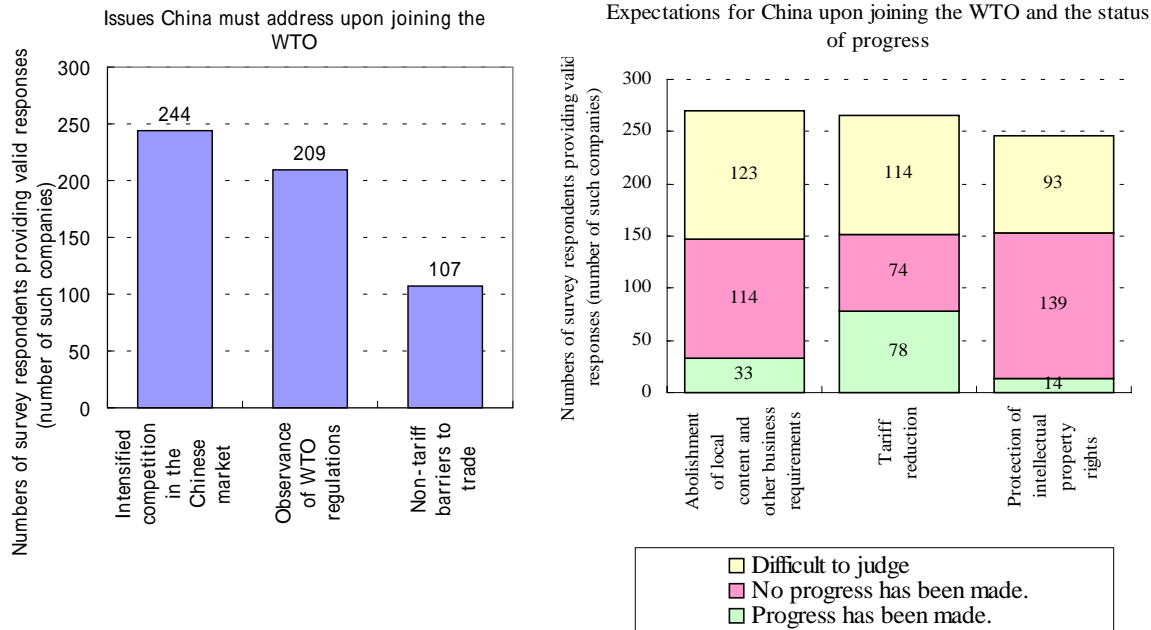
A majority of respondents favor a “balanced expansion of operations in China and ASEAN”

We asked survey respondents whether they place priority on expanding operations in China or ASEAN in the future. A majority of respondents said they would “expand business operations in a balanced manner by distributing risks (to both regions)”(53.8%). 26.0% of the respondents said they would “give priority to expanding operations in China.” This ratio sharply contrasted with that of respondents who called China “promising” in response to another question (on page 14). Some 373 of the total 418 companies answered the question that way, and accounted for 89.2% of respondents who provided valid responses.

53.6% of respondent have expectations for AFTA

When asked about AFTA (ASEAN Free Trade Area), 53.6% of survey respondents said they “expect” AFTA to help liberalize trade within the region covered. The most popular reason cited for their view was “expanding trade within the region due to reduced tariffs,” followed by “simplifying the customs clearance procedure,” “market expansion,” and “greater division of labor within the region” in that order. A lot of respondents belonging to the materials industry like steel and chemicals replied they have “expectation” for AFTA. A high ratio of automakers among respondents expressed the same view.

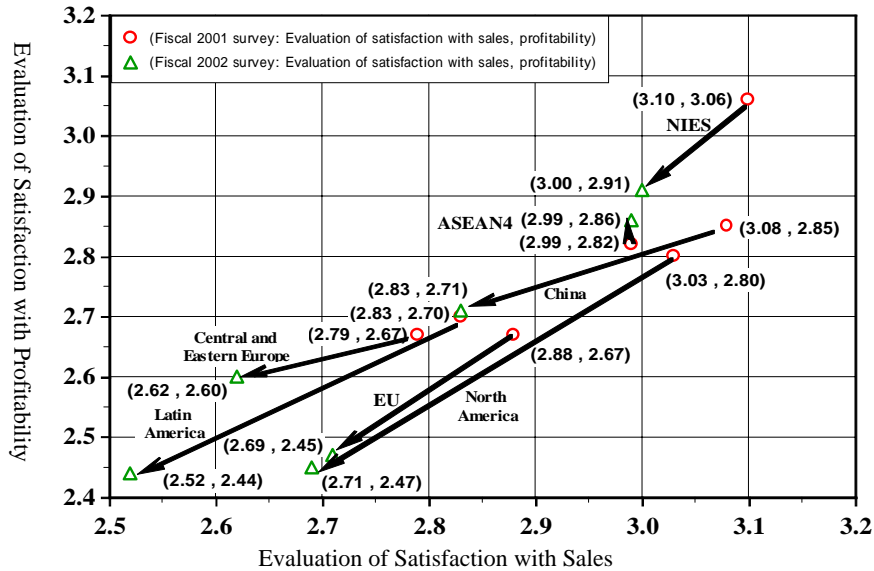
Figure 11: Issues and expectations of post China’s WTO entry (Survey respondents providing valid responses: 435)



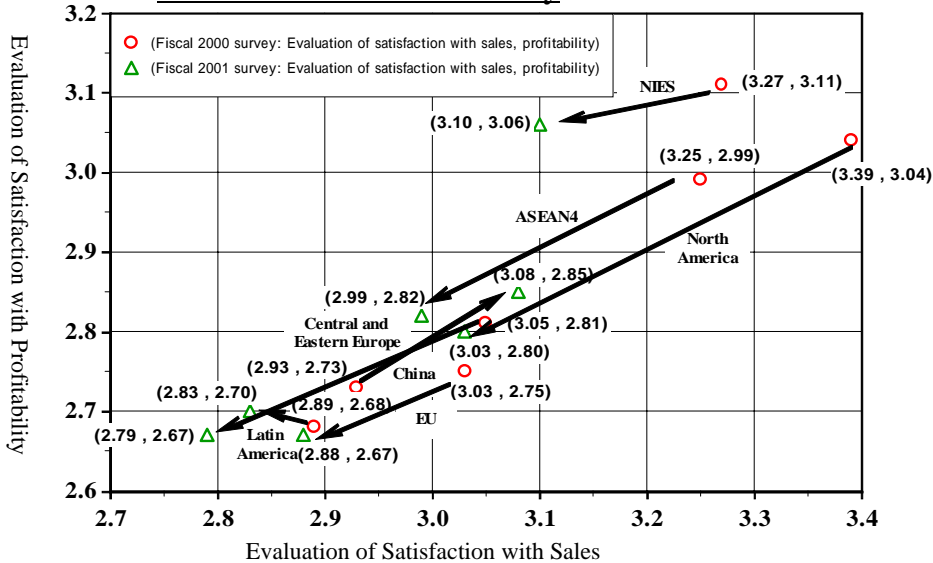
Issues of post China’s WTO entry

When asked about issues of following China’s WTO entry, 244 companies (or 56.1% of survey respondents) mentioned, “Intensified competition in the Chinese market.” The preference for this answer suggests that markets are being liberalized in China. Some 209 companies (or 48.0% of respondents) expressed concerns about China “observing WTO regulations.” Some 107 companies (or 24.6% of respondents) cited “existing non-tariff barriers” as issues following China’s WTO entry. Survey respondents expressed strong hopes that Chinese authorities will ensure the effectiveness of institutional reforms after China’s WTO entry. Respondents recognized certain progress made in “tariff reduction,” but hoped more improvement in “protection of intellectual property rights” and “abolishment of local content and other business requirements.”

Figure 12 Evaluation of Overseas Business Performance



Cf. Results of FY2001 Survey



Respondents are not making satisfactory profits in China

The FY2001 survey found evaluation of satisfaction with sales and profitability declined among respondents operating in many regions. As in the FY2001 survey, evaluation dropped among respondents in all regions except ASEAN4 in the FY2002 survey. The causes of such a decline in evaluation of satisfaction with profitability are polarized. Survey respondents who cited “difficult to obtain customers (intense competition with other companies)” increased among those operating in such regions as China and Latin America. Meanwhile, respondents who cited “shrinking market due to economic downturn” as the cause of lost satisfaction increased among those operating in North America, EU, and Central and Eastern Europe. We interviewed respondents operating in China to find factors that caused their evaluation of satisfaction with profitability to decline. Many interviewees told us “We cannot compete with Chinese companies that sell goods for mass consumption at unprofitable low prices, and intense competition among Japanese companies is narrowing profit margins on some value added items.” Such remarks suggest that Japanese companies operating in China are not achieving profits considered satisfactory by their headquarters home offices. We also found through interviews that, in North America, the sluggish performance of electrical equipment and electronics manufacturers has contributed significantly to declining evaluation of satisfaction with profitability among respondents operating there. Many interviewees told us “Last year’s terrorist attacks on the United States did not have a lasting impact on business, but demand is unlikely to recover due to the ongoing IT recession. Layoffs and consolidating operations are not effective in recovering profits quickly.”

The FY2002 survey found that evaluation of satisfaction with profitability rose among respondents operating in ASEAN4. Specifically, evaluation of satisfaction with profitability rose among survey respondents operating in Thailand. The favorable performance of the auto-industry contributed to this result. The evaluation of satisfaction with profitability among respondents operating in other ASEAN4 nations, however, leveled off or declined. This finding reflects that ASEAN4 is also affected by declining demand in the United States and Japan. Companies that selected “cost reductions are difficult (personnel expense, raw materials costs, etc.)” increased among survey respondents operating in ASEAN4. Several companies interviewed said, “It is difficult to sell products a lot in the ASEAN region because business conditions have not returned to levels before the currency crisis. We are securing profits by cutting such expenses as for inviting workers from Japan, however it is difficult to reduce further cost.” These issues will be very important in the near future because Japanese manufacturers operating in ASEAN4 are facing intensifying price competition with their Chinese counterparts.

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”.

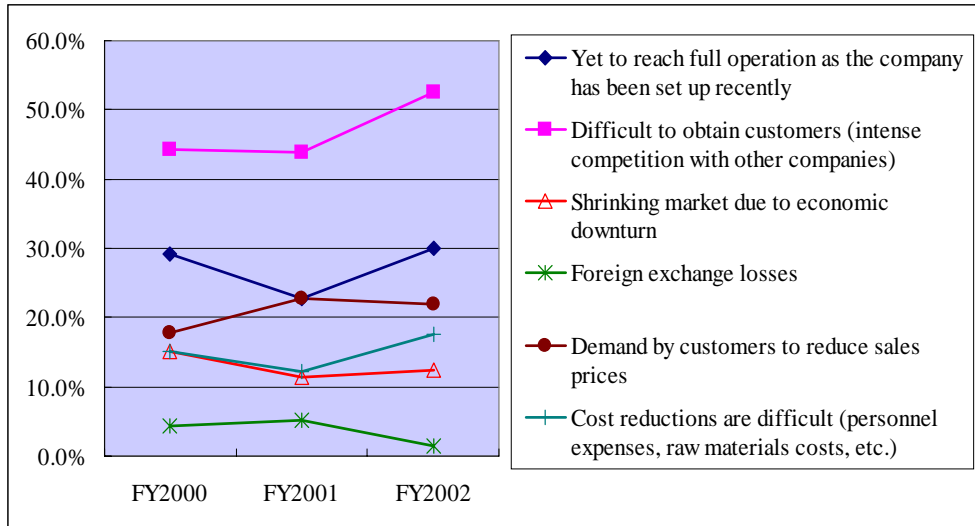
Evaluation of satisfaction with sales and profits is based on business performance in respective overseas regions as evaluated by the parent companies in Japan. These evaluations do not reflect increases or decreases in sales or profits.

Evaluation standards: (Compared to initial objective)

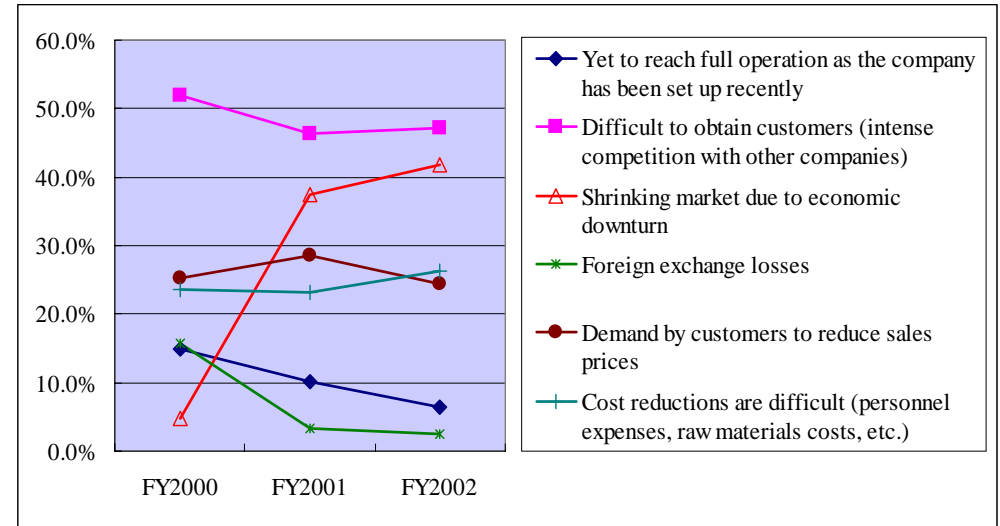
- 1. Unsatisfactory
- 2. Somewhat unsatisfactory
- 3. Can't say either way
- 4. Somewhat satisfactory
- 5. Satisfactory

Figure 13 Reasons for low (“Somewhat unsatisfactory”, “Unsatisfactory”) evaluation of satisfaction with profitability (multiple responses)

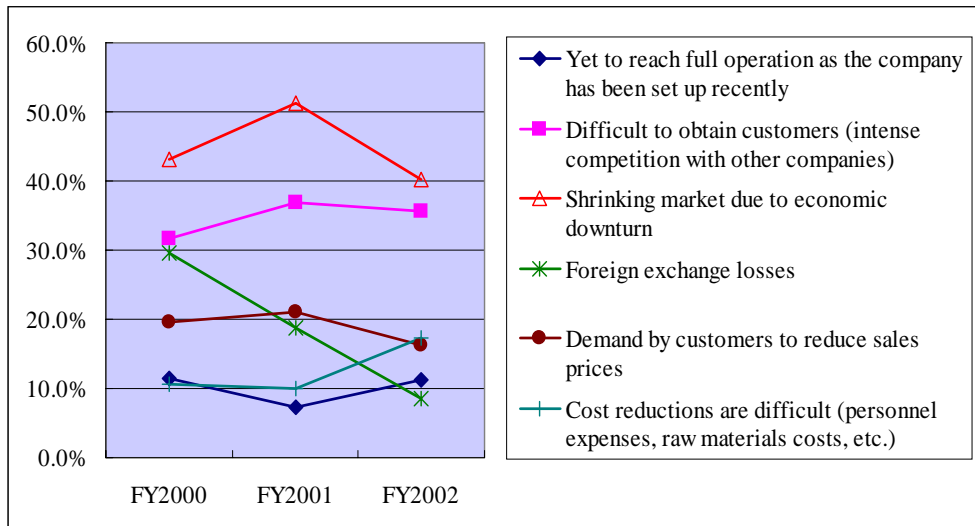
China



North America



ASEAN4



EU

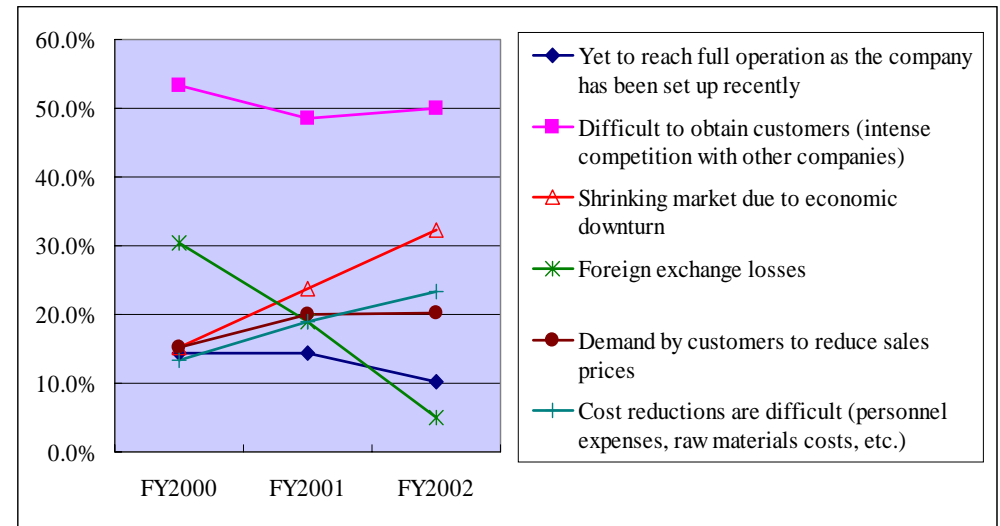


Figure 14 Changes in ratios of respondents who consider restructuring overseas business operations necessary

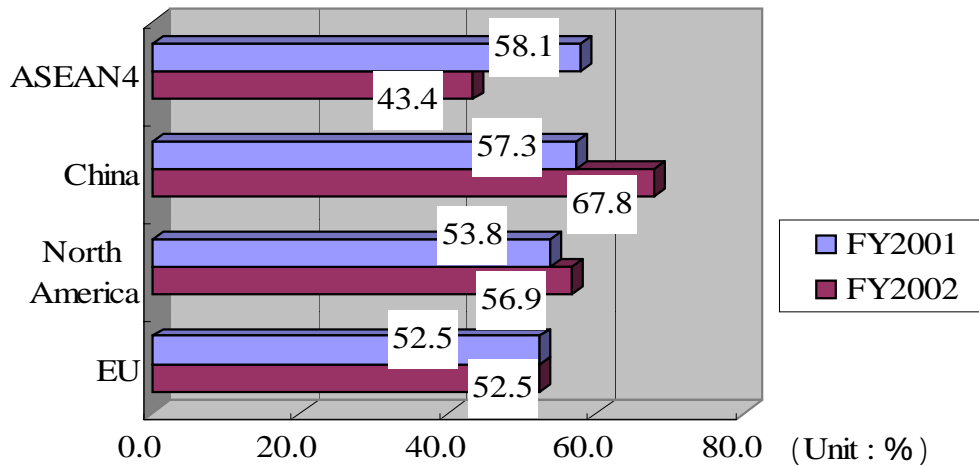
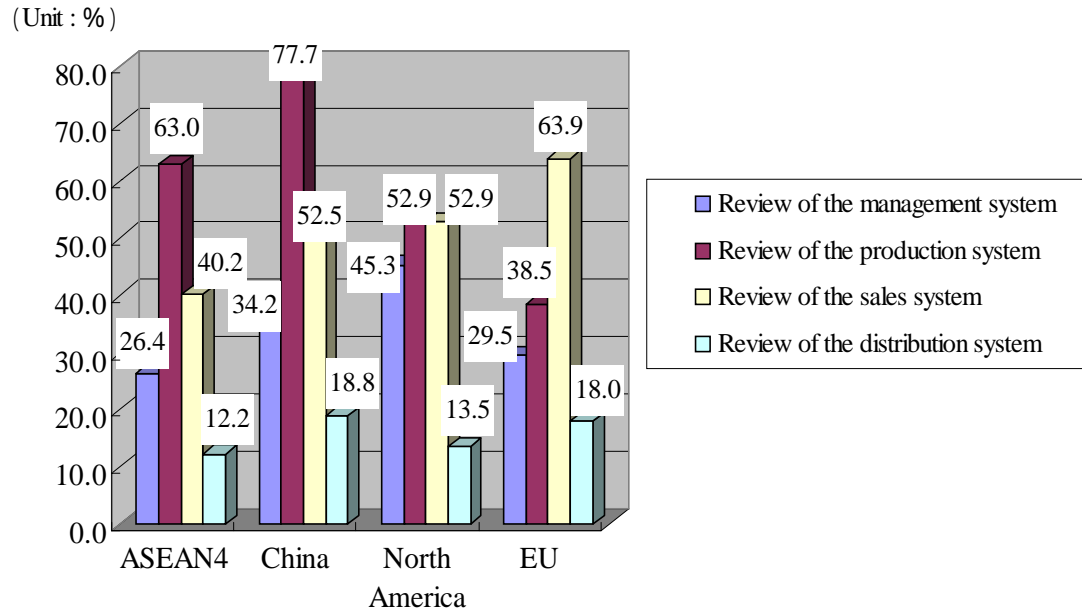


Figure 15 Concrete plans for restructuring overseas business operations



Respondents in China who consider the restructuring of business operations urgent

The ratio of companies that selected the answer “restructuring of business operations is necessary” was highest among survey respondents operating in China. Those selecting this answer accounted for 67.8% of all respondents operating in that country. Their ratio increased from 57.3% in the FY2001 survey. This increase suggests a growing need for restructuring operations among Japanese manufacturers operating in China. When asked about concrete methods of restructuring business, 77.7% of survey respondents selected “review of the production system.” Several companies interviewed stated an intention to reconstruct operations to strengthen business, and said “We will expand production lines and change products to cope with the need for increasing output and establish new bases of operation according to demand.” Other companies revealed plans to salvage unprofitable departments and told us “We will stop making products that are losing price competitiveness with Chinese companies and switch to manufacturing new products.”

The ratio of respondents operating in ASEAN4 who selected “restructuring of business operations is necessary” decreased from 58.1% in the FY2001 survey to 43.4%. This decrease suggests that operations are being restructured in this region. Survey respondents operating in ASEAN4 told us through interviews “We have maintained bases of operation in the ASEAN region for many years and intend to review bases of operation to cope with a changing business environment. We will review bases of operation as required, and we are taking a wait and see stance at the moment.”

The ratio of respondents operating in North America who selected “restructuring of business operations is necessary” grew slightly from 53.8% in the FY2001 survey to 56.9%. The ratio of respondents operating in North America who advocated “review the management system” as a concrete method of restructuring surpassed that of counterparts operating in other regions. Many of the companies interviewed stated, “We must initiate drastic management reforms for restructuring because local subsidiaries have matured.”

The ratio of respondents operating in EU who selected “restructuring of business operations is necessary” amounted to 52.5% in both surveys conducted in the FY2001 and 2002. The largest group of survey respondents operating in EU cited “review of the sales system” as a concrete method of restructuring. Many companies interviewed specified “We intend to strengthen marketing networks in this region, though we have been unable to increase EU market share until now because local manufacturers have strong marketing our capabilities.”

Figure 16 Domestic Infrastructure (including Power, Telecommunications and Transport) < All Industries >

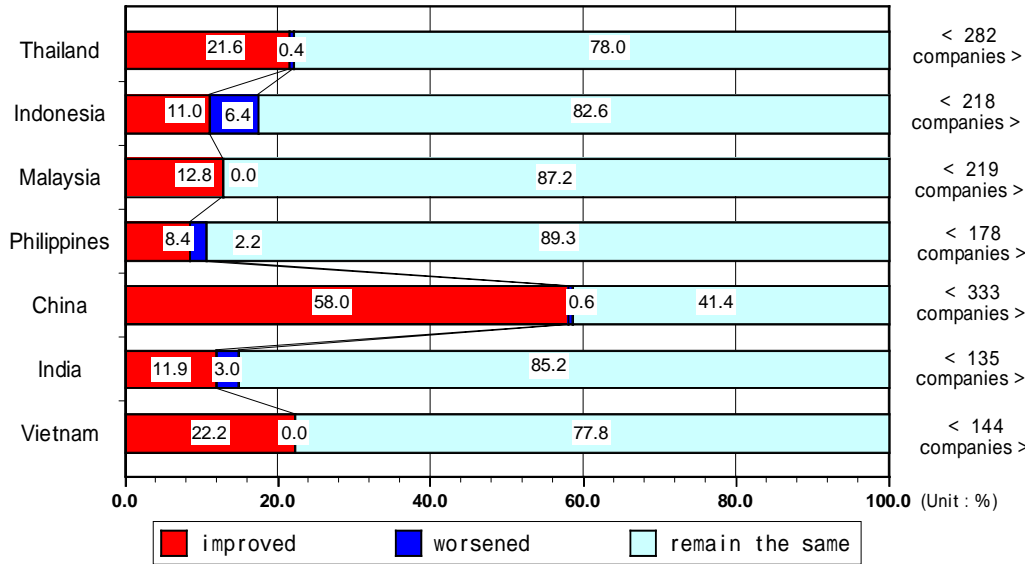


Figure 18 Domestic Political and Social Situation < All Industries >

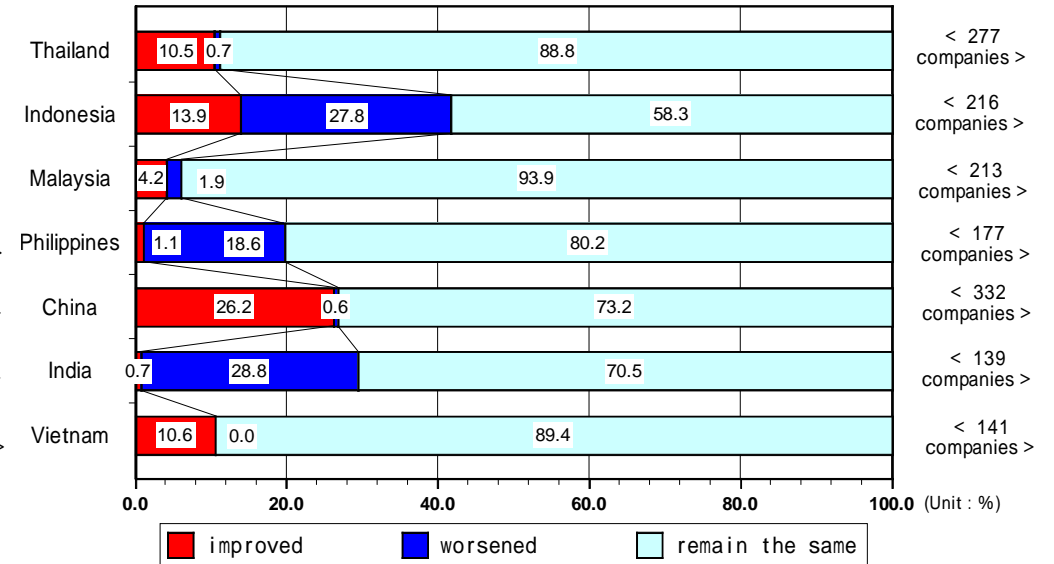
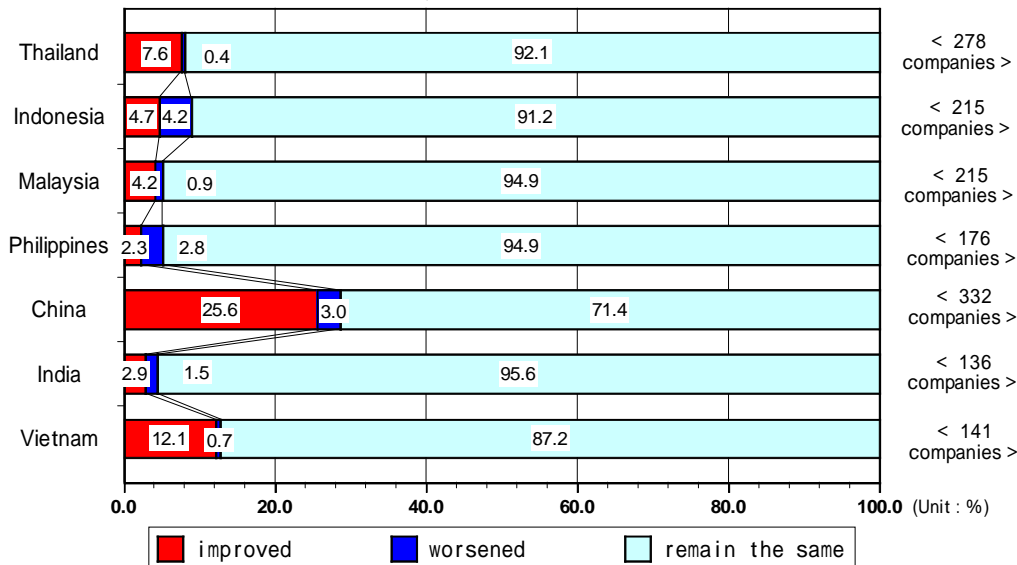


Figure 17 Legal Framework (including Transparency and Fairness) < All Industries >



Respondents who recognize improvement in investment conditions in China, Vietnam and Thailand

When improvement in the investment climate was examined among major Asian countries in comparison with the situation last year, 58.0% of the companies in the FY2002 survey recognized improvements in China's infrastructure during last year. However, companies maintaining bases in China had divided opinions about "Securing management-class human resources in the local market". Some 10.0% of survey respondents maintaining bases of operation in China recognized "improvement" in this situation. Meanwhile, 11.0% of the same group reported encountering difficulties.

Survey respondents recognized improvement in investment conditions in Vietnam and Thailand as well.

Many surveyed companies expressed a view that the "Domestic Political and Social Situation" were subject to aggravation in Indonesia, India, and the Philippines. Many others recognized improvement regarding the same conditions in Indonesia, however. Business conditions were subject to constant change in all regions. Such divided opinions apparently reflect different points of evaluation by survey respondents.

Figure 19 Promising Countries for Overseas Business Operations over the Medium Term ^{5/} (multiple response)

Rnk	Countries with promising midium-term (next three years) overseas development prospects									Promising destinations for investment over the midium-term (next three years)					
	Current fiscal year survey	Number of companies (firms)	Ratio (%)	fiscal 2001 survey	Number of companies (firms)	Ratio (%)	fiscal 2000 survey	Number of companies (firms)	Ratio(%)	fiscal 1999 survey	Number of companies (firms)	Ratio (%)	fiscal 1998 survey	Number of companies (firms)	Ratio (%)
		418	100		401	100		372	100		278	100		299	100
1	China	373	89	China	327	82	China	242	65	China	153	55	China	163	55
2	Thailand	118	28	U.S.	127	32	U.S.	154	41	U.S.	108	39	U.S.	124	41
3	U.S.	108	26	Thailand	99	25	Thailand	88	24	Thailand	76	27	Thailand	68	23
4	Indonesia	63	15	Indonesia	56	14	Indonesia	54	15	India	42	15	Indonesia	49	16
5	Vietnam	62	15	India	52	13	Malaysia	43	12	Indonesia	41	15	India	46	15
6	India	54	13	Vietnam	48	12	Taiwan	41	11	Vietnam	30	11	Philippines	43	14
7	Korea	34	8	Taiwan	44	11	India	37	10	Malaysia	25	9	Malaysia	42	14
8	Taiwan	34	8	Korea	33	8	Vietnam	35	9	Philippines	25	9	Vietnam	41	14
9	Malaysia	33	8	Malaysia	32	8	Korea	32	9	U.K.	25	9	Brazil	34	11
10	Brazil	19	5	Singapore	24	6	Philippines	30	8	Brazil	21	8	U.K.	31	10

Figure 20 Reasons for Considering Top 5 Countries Promising (multiple response)

	China		Thailand		U.S.		Indonesia		Vietnam	
	Number of firms	Percent	Number of firms	Percent	Number of firms	Percent	Number of firms	Percent	Number of firms	Percent
Potentiality of future market growth	322	86.3%	61	54.5%	43	39.8%	29	47.5%	30	55.6%
Inexpensive labor force	257	68.9%	54	48.2%	1	0.9%	45	73.8%	38	70.4%
Supply base for final assembly manufacturers	107	28.7%	37	33.0%	29	26.9%	13	21.3%	5	9.3%
Present market size	64	17.2%	11	9.8%	67	62.0%	6	9.8%	1	1.9%
Third-country export base	94	25.2%	36	32.1%	3	2.8%	22	36.1%	13	24.1%
Low-cost parts and raw materials	112	30.0%	11	9.8%	3	2.8%	10	16.4%	6	11.1%
Export base for Japan	100	26.8%	24	21.4%	-	-	15	24.6%	4	7.4%
Excellent human resources	41	11.0%	9	8.0%	18	16.7%	-	-	18	33.3%
Product development suits the local market	37	9.9%	7	6.3%	30	27.8%	3	4.9%	3	5.6%
Good infrastructure	21	5.6%	8	7.1%	10	9.3%	1	1.6%	2	3.7%
Favorable investment policies and deregulation policies in the target country	27	7.2%	13	11.6%	-	-	1	1.6%	2	3.7%
Because other companies in the same industry are advancing there	34	9.1%	8	7.1%	5	4.6%	3	4.9%	2	3.7%
Progress towards regional integration	5	1.3%	6	5.4%	-	-	4	6.6%	-	-
Acquisition of local technology, know-how, etc.	2	0.5%	1	0.9%	16	14.8%	-	-	-	-
Other	1	0.3%	-	-	2	1.9%	1	1.6%	-	-

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

From the FY2000 survey, the focus was shifted from foreign direct investment (the flow concept) to overseas business operations (the stock concept). Therefore, the title of Figure 19 changed from “promising destinations for foreign investment over the medium term” to “the promising countries for overseas business operations over the medium term.”

The four most promising countries remain the same in the FY2001 and FY2002 surveys

Respondents in the FY2001 and FY2002 surveys chose the same four countries as the most promising for medium-term business (next three years or so). China was the most popular country in the FY2002 survey, followed by Thailand, the United States, and Indonesia in that order. Thailand and the United States switched positions from the FY2001 survey.

The increased level of expectation for China is one development that characterizes the results of the FY2002 survey. The ratio of respondents who called China “promising” grew from 82% in the FY2001 survey to 89%.

Respondents adopt different criteria, such as cost and market potential, for judging prospects for business in each region

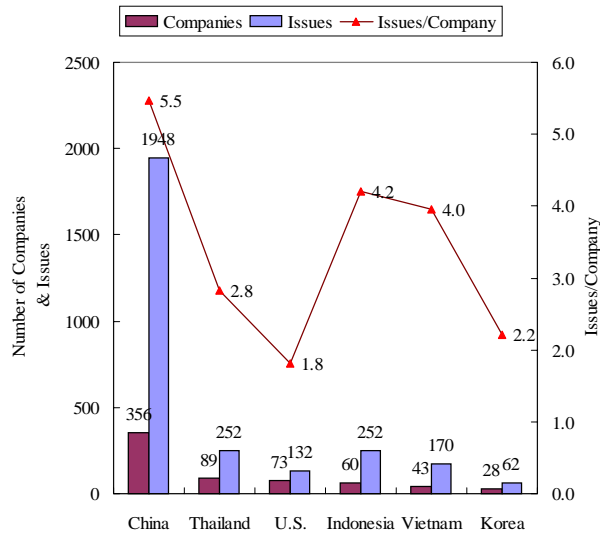
“Potentiality of future market growth” (86.3%) was cited as the overwhelming reason for selecting China as most promising. This overwhelming response suggests that the companies surveyed have high expectations for China’s market potential. Other respondents cited “inexpensive labor force” (68.9%) and “low-cost parts and raw materials” (30.0%) as reasons for favoring China. These answers reflect a view among Japanese manufacturers that production costs are lower in China.

Respondents who called Thailand promising expressed opinions similar to those of companies that selected China. They cited “potentiality of future market growth” (54.5%) and “inexpensive labor force” (48.2%) as reasons for preferring Thailand. Other respondents expected Thailand to become a “supply base for assembly manufacturers” (33.0%) and a “third-country export base” (32.1%). These answers apparently reflect a view among respondents that Thailand has a promising cluster of industry.

Some 62.0% of survey respondents who called the United States promising attributed their choice to “present market size,” followed by “potentiality of future market growth” and “product development suits the local market” in that order. These survey results suggest that Japanese manufacturers have high expectations for the huge U.S. market even in this period of prolonged business stagnation.

[Existing Issues in Promising Countries]

Figure 21: Numbers of issues identified by survey respondents in promising countries



Issues and tendencies in promising countries

The great majority of respondents who named “promising” countries for business pointed out “issues” in the same countries. (We allowed survey respondents to select as many answers as desired from multiple choices.) For example, 356 of 373 companies that called China “promising” cited issues of some kind in that country. The number of issues identified by survey respondents in China they consider “promising” averaged 5.5 per company.

Many companies in the FY2002 survey expressed the view that China appears “promising.” Many of these respondents pointed out negative issues related to the development and application of the legal system in China. They cited such issues as “local legal system (lack of transparency),” “local legal system (undeveloped legal system),” and “local legal system (frequent and abrupt changes).” More than half of the survey respondents who described China as “promising” identified institutional issues, particularly legal ones. Many respondents expressed a view that the investment climate in China was improving, and apparently have growing expectations for business in China. However, these companies must carefully consider the many issues that exist in China. We classified companies that identified issues in China as those with bases of operation in China and those without such facilities, and then we compared the answers provided by both groups. Many companies maintaining bases of operation in China considered that the “local tax system” has troubles. Meanwhile, a relatively small number of respondents with no base of operation in China identified the “local tax system” as a issue.

The largest group of respondents cited “unstable local (intra-regional) currency” as a problem in Thailand. This opinion was shared by 46.1% of all respondents. Other companies pointed out issues in Thailand related to such intensifying competition as “intense local competition with other firms,” “difficulty in securing local personnel,” and “increase in local labor costs.” When asked about issues in the United States, the largest group of respondents cited “intense local competition with other firms” (68.5%). Many other respondents identified the “difficulty in securing local personnel” and “increase in local labor costs” as issues in the United States. These answers suggest intensifying competition in the United States. Japanese manufacturers operating in the United States are apparently encountering increasing pressure to become more competitive in an established business environment. The great majority of respondents (81.7% of all respondents) cited “local political and social conditions” as a problem in Indonesia, followed by “unstable local (intra-regional) currency” named by 58.3% of survey respondents. These common responses suggest that basic conditions for investment remain a big problem in Indonesia.

Figure 22 Contents and tendencies of Issues (with survey respondents selecting many answers as desired from multiple choices)

Issues	China		Thailand		U.S.		Indonesia		Vietnam		Korea	
	Number of companies	Ratio (%)	Number of companies	Ratio (%)	Number of companies	Ratio (%)	Number of companies	Ratio (%)	Number of companies	Ratio (%)	Number of companies	Ratio (%)
System	356		89		73		60		43		28	
Local legal system (lack of transparency in applying)	198	55.6%	9	10.1%	0	0.0%	14	23.3%	12	27.9%	0	0.0%
Local legal system (undeveloped legal system)	165	46.3%	4	4.5%	0	0.0%	5	8.3%	20	46.5%	0	0.0%
Local legal system (frequent and abrupt changes)	184	51.7%	4	4.5%	0	0.0%	6	10.0%	5	11.6%	1	3.6%
Complicated administrative procedure	146	41.0%	7	7.9%	1	1.4%	8	13.3%	7	16.3%	1	3.6%
Local tax system (lack of transparency in application of the tax system)	133	37.4%	9	10.1%	0	0.0%	6	10.0%	4	9.3%	1	3.6%
Local tax system (frequent and abrupt changes)	130	36.5%	3	3.4%	0	0.0%	2	3.3%	5	11.6%	1	3.6%
Local deregulation towards foreign capital (increase in permitted percentage of foreign ownership, relaxation of industry restrictions, etc.)	98	27.5%	10	11.2%	0	0.0%	3	5.0%	9	20.9%	4	14.3%
Local tax system (high customs duties)	71	19.9%	12	13.5%	2	2.7%	5	8.3%	5	11.6%	1	3.6%
Local tax system (complex tax collection system)	63	17.7%	5	5.6%	5	6.8%	6	10.0%	5	11.6%	1	3.6%
Local legal System (Other)	2	0.6%	0	0.0%	0	0.0%	0	0.0%	2	4.7%	0	0.0%
Local tax system (Other)	5	1.4%	0	0.0%	0	0.0%	0	0.0%	1	2.3%	0	0.0%
Competition	57	16.0%	23	25.8%	15	20.5%	12	20.0%	2	4.7%	6	21.4%
Intense local competition with other firms	98	27.5%	23	25.8%	50	68.5%	14	23.3%	4	9.3%	18	64.3%
Difficulty in securing local personnel (management level)	92	25.8%	27	30.3%	18	24.7%	18	30.0%	7	16.3%	5	17.9%
Infrastructure and Finance	99	27.8%	10	11.2%	2	2.7%	49	81.7%	14	32.6%	1	3.6%
Local infrastructure	87	24.4%	11	12.4%	0	0.0%	16	26.7%	18	41.9%	0	0.0%
Local procurement of raw materials, parts, etc.	73	20.5%	18	20.2%	4	5.5%	11	18.3%	11	25.6%	3	10.7%
Local labor difficulties (labor and management relationship, etc.)	42	11.8%	7	7.9%	12	16.4%	15	25.0%	3	7.0%	7	25.0%
Level of local workers (worker class)	46	12.9%	8	9.0%	7	9.6%	7	11.7%	1	2.3%	1	3.6%
Undeveloped supporting industry	36	10.1%	7	7.9%	0	0.0%	9	15.0%	9	20.9%	0	0.0%
Insufficient information concerning the investment destination	34	9.6%	5	5.6%	0	0.0%	3	5.0%	8	18.6%	1	3.6%
Unstable local (intra-regional) currency	31	8.7%	41	46.1%	7	9.6%	35	58.3%	12	27.9%	5	17.9%
Local financing	55	15.4%	9	10.1%	6	8.2%	8	13.3%	5	11.6%	4	14.3%
Other	3	0.8%	0	0.0%	3	4.1%	0	0.0%	1	2.3%	1	3.6%