



Summary

Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

– Results of JBIC FY2004 Survey: Outlook for Japanese Foreign Direct Investment (16th Annual Survey) –

November 2004

JBIC Institute
Japan Bank for International Cooperation



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The purpose of this survey is to identify the current and future trends of overseas business operations* and foreign direct investment (FDI) activities of Japanese manufacturing companies. This year's survey was the 16th of an annual series that began in 1989.

The survey covered 939 manufacturing companies that have three or more foreign affiliates, including at least one manufacturing base, as of November 2003. The questionnaire was mailed and 595 valid responses were returned over the period from July to September. The effective response rate was 63.4%. (In the FY2003 survey, valid returns were 571 out of 932 companies surveyed, with the response rate of 61.3%)

This year's survey covered issues such as "Top priorities for domestic and overseas business operations", "Chinese operations and risks", "Free Trade Agreements" and "International allocation of production".

※ 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

	FY2004	FY2003	FY2002	FY2001	FY2000
Number of companies surveyed	939	932	812	792	791
Number of respondent	595	571	508	501	469
Response rate	63.4	61.3	62.6	63.3	59.3
Number of overseas affiliates	10,079	9,838	8,924	7,710	7,285

(Unit: Companies, %)

Profile of Companies Surveyed

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

	Number of companies	(%)
less than ¥50.0 billion	250	42.2%
¥50.0 billion ~ less than ¥100.0 billion	100	16.9%
¥100.0 billion ~ less than ¥200.0 billion	79	13.3%
¥200.0 billion ~ less than ¥300.0 billion	41	6.9%
¥300.0 billion ~ less than ¥500.0 billion	43	7.3%
¥500.0 billion ~ less than ¥1.0 trillion	36	6.1%
¥1.0 trillion or more	44	7.4%
Total	593	100.0%

※2 companies did not provide this information.

Number of Respondent Companies, by number of employees (Individual company base)

	Number of companies	(%)
~ 300 employees	103	17.3%
301 employees ~ 500 employees	82	13.8%
501 employees ~ 1,000 employees	119	20.0%
1,001 employees ~ 5,000 employees	220	37.0%
5,001 employees ~ 10,000 employees	40	6.7%
10,001 employees ~	31	5.2%
Total	595	100.0%

Number of Respondent Companies, by paid-in capital (Individual company base)

	Number of companies	(%)
less than ¥100.0 million	42	7.1%
¥100.0 million ~ less than ¥500.0 million	63	10.6%
¥500.0 million ~ less than ¥1.0 billion	30	5.0%
¥1.0 billion ~ less than ¥5.0 billion	122	20.5%
¥5.0 billion ~ less than ¥10.0 billion	86	14.5%
¥10.0 billion or more	252	42.4%
Total	595	100.0%

Number of Respondent Companies, by industrial classification

Industrial classification	Number of companies	(%)
Foodstuffs	31	5.2%
Textiles	30	5.0%
Wood and wood products	5	0.8%
Paper and pulp	5	0.8%
Chemicals	88	14.8%
[Chemicals (excluding pharmaceuticals)]	(77)	[12.9%]
[Pharmaceuticals]	(11)	[1.8%]
Petroleum and rubber	12	2.0%
Ceramics, cement and glass	18	3.0%
Steel	14	2.4%
Nonferrous metals	19	3.2%
Metal products	22	3.7%
General Machinery	64	10.8%
[Assembled products]	(49)	[8.2%]
[Components]	(15)	[2.5%]
Electrical equipment and electronics	111	18.7%
[Assembled products]	(40)	[6.7%]
[Components]	(71)	[11.9%]
Transportation (excluding Automobiles)	11	1.8%
Automobiles	94	15.8%
[Assembled products]	(9)	[1.5%]
[Components]	(85)	[14.3%]
Precision machinery	33	5.5%
[Assembled products]	(21)	[3.5%]
[Components]	(12)	[2.0%]
Other	38	6.4%
Total	595	100.0%

Number of Overseas Affiliates, by type of base and region

(n = 595) (Unit: Companies)

FY 2004 Survey

	NIES	ASEAN4	China	Other Asian Countries	North America	Latin America	EU15	Central-Eastern Europe	Other European Countries	Russia, other CIS	Southeast Asia Pacific	Middle East	Africa	Total
Production Bases	612	1,190	1,346	188	759	216	454	84	16	11	68	16	24	4,984
Sales Bases	830	383	463	52	637	177	969	101	70	32	141	53	38	3,946
R&D Bases	25	29	67	6	108	4	60	3	—	—	8	—	—	310
Others	107	89	122	15	244	53	161	5	8	3	26	3	3	839
Total	1,574	1,691	1,998	261	1,748	450	1,644	193	94	46	243	72	65	10,079

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

<The Classification of Major Regions in This Survey>

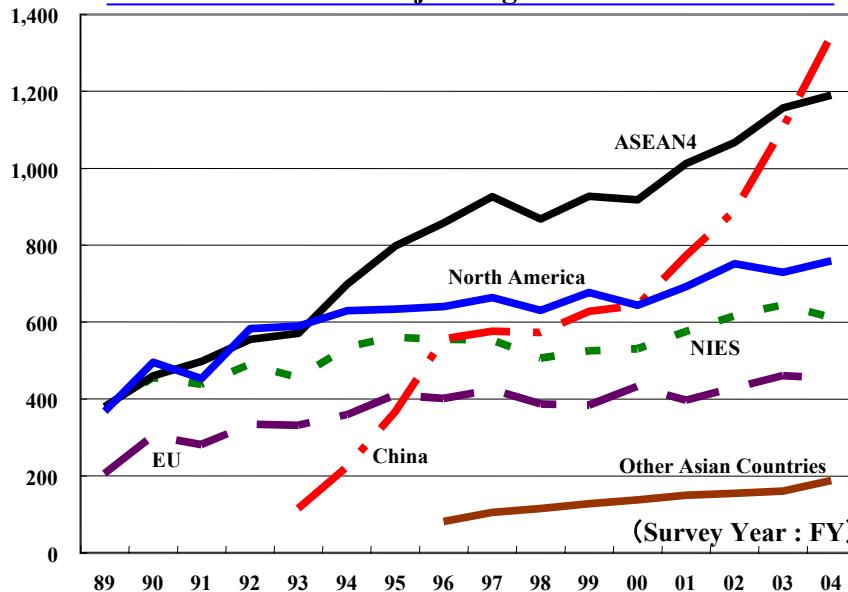
- NIES** (Korea, Taiwan, Singapore, Hong Kong)
- ASEAN4** (Thailand, Indonesia, Malaysia, Philippines)
- North America** (U.S, Canada)
- EU15** (U.K, Germany, France, Italy, Netherlands, Belgium, Greece, Luxembourg, Denmark, Spain, Portugal, Austria, Finland, Sweden, Ireland)
- Central and Eastern Europe**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

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

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

Changing of Overseas Manufacturing Bases in Major Regions

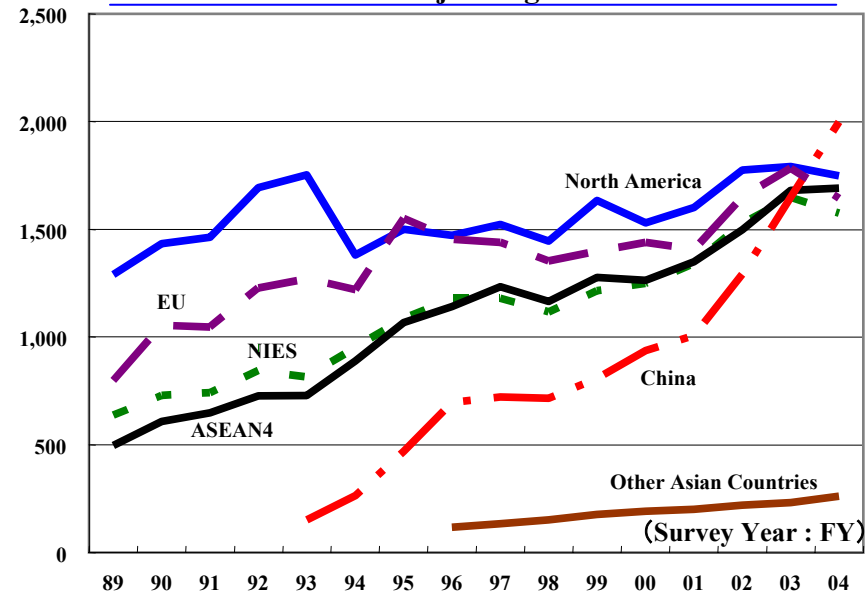
(Unit: Companies)



※ Data for China starts from FY1993. Data for Other Asian Countries starts from FY1996.
 ※ In the graph above, the EU15 for this year's survey have been consolidated into the EU line.

Changing of Overseas Affiliates in Major Regions

(Unit: Companies)



■ Aggressive attitude toward business in Japan and as abroad

The current top priority issues for domestic and overseas business operations are “Strengthen or expand overseas production”, followed by “Strengthen or expand R&D functions”, “Strengthen or expand customer base by company’s own efforts” and “active expansion into new business areas”. Compared to the results of FY2002 survey, “Strengthen or expand domestic production” rose substantially in the ranking, as companies take a more positive stance toward not only overseas but also domestic operations. Efforts to enhance their own business systems, such as “Review domestic production systems from the viewpoint of total cost” declined relatively.

It appears that Japanese manufacturers are not aiming for a one-way shift toward overseas production, but rather they intend to strengthen R&D functions and domestic production at the same time in order to achieve high-added value production in Japan and establish an optimized global production system.

■ Continuing trend to positive stance for overseas business

Examining the medium-term outlook for overseas operations, 81.9% of companies in all industries responded that they expect to “Strengthen or expand”, demonstrating that last year’s enthusiasm for overseas operations has not abated.

■ A trend toward strengthening or expansion in domestic operations as well

When questioned on their stance on domestic business operation over the medium term, 47.2% of the companies in all industries said “Maintain the present level”, and 45.2% said “Strengthen or expand”. These two responses each account for nearly half of all respondents, with a mere 4.6% expecting to “Reduce” in scale.

■ Exports from the parent company in Japan grow with the strengthening or expansion of overseas business operations

Investigation into the relationship between strengthening or expansion in overseas business operations and parent company exports from Japan over the past three years revealed that 49.7% of companies in all industries said their “Exports have increased”, while only 13.3% said “Exports have decreased”. By major industrial classifications, a majority of companies in the areas of general machinery, electrical equipment & electronics, and automobiles stated that “Exports have increased”, indicating a deep-rooted relationship between strengthening or expansion in overseas business operations and growth in the parent company’s exports from Japan.

■ Strongly positive stance on China, Central and Eastern Europe and Russia

The regions for which a high portion of the respondent companies named as prospects for “strengthening or expansion of the scale of overseas business operations” are China (76.5%), Central and Eastern Europe (64.1%), Russia & other CIS (63.0%) and North America (53.9%). Compared to FY2003 survey, this year’s survey found that intentions to expand overseas business operations have grown stronger for almost all countries and regions.

■ Very active toward China, Thailand and the North America in all industries

Many companies in all categories intending to strengthen or expand their operations have cited Eastern and Southern China, Thailand and the North America as business destinations. However, the number of such companies citing Latin America, the Middle East and Africa are relatively small.

■ Evaluation of overseas business performance have improved in all regions, but profitability levels are still unsatisfactory

The evaluation of sales and profitability satisfaction in their overseas business operations shows a trend towards improvement in each region and country. Business evaluations for the NIES, ASEAN4 and China show relatively high levels of satisfaction, and there has been some improvement in Central and Eastern Europe, Latin America and elsewhere, so the business evaluations for Europe and North America have also seen relative increases. However, this year’s survey found some issues that still need to be addressed for the improvement of profitability.

Evaluation of business in China rose in this year’s survey, as it did in last year’s, but the level of profitability is still unsatisfactory. Many companies are trying to strengthen or expand the production and marketing sides of their business in China. However, if they want to raise the profitability of that business, it is becoming increasingly important for them to make more efficient investments, well tailored to the market, as they open up and secure market positions.

■ Economic growth in China to continue until 2010

When companies are asked how long they anticipated economic (high) growth in China to continue, as they draw up their business plans, the most common answer is “Until 2010 (the Shanghai Expo)” (174 companies), followed by “Until 2008 (the Beijing Olympics)” (150 companies). Among the major industries, “Until 2008” is the most common response in Electrical equipment and electronics, while “Until 2010” is the most common response in the automobile industry. Thus, views of economic growth vary between industries.

■ “Economic recession and market contraction” is viewed as most serious risk

The risks that could have a grave impact on operations in China are investigated separately as “Risks faced now” and “Future risks”. The results show that the main risks seen as “Risks faced now” are “Insufficient electrical power supply” (56.5%), “Rising prices for energy and raw materials” (36.5%) and “Infringement of intellectual property rights” (29.3%). As for “Future risks”, the most common response is “Revaluation of the Yuan” (67.7%). The company interviewed said that, in addition to decreased export competitiveness due to a revalued Yuan, other concerns included economic slowdown due to a rising Yuan and increased economic uncertainty caused by exchange rate fluctuations.

Among the current and future risks faced in China, the ones viewed as the most serious are “Economic recession and market contraction” (20.2%), “Insufficient electrical power supply” (18.8%) and “Revaluation of the Yuan” (17.0%). While the most common view is that China’s economic growth will continue until 2010, company interviews pointed to concerns such as an earlier-than-expected economic recession or slow growth beyond 2010.

■ India and Russia rise in ranking, but anticipations are ahead of business plans

In the countries and regions that companies view as promising for business development in the medium term, the top ten countries/regions remained unchanged in this year’s survey. However, India, which was ranked the fifth last year, rose to the third place, while the tenth-place Russia rose to the sixth. Vietnam gathered more votes than during the last survey. These results imply that Japanese companies’ interests in these countries are growing. However, the number of companies with no specific business plans for these countries exceeds the number of companies that actually have such plans. This is not the case for China, Thailand and the U.S.. Therefore, the ranking is considered to be a reflection of anticipations for future potentials, rather than realistic investment possibilities. Among the countries and regions that fell in the ranking as compared to the last survey, Indonesia saw the largest drop in votes.

Figure 1

FY 2004 Survey (n = 584)				FY 2002 Survey (n = 489)			
Rank	Top-priority issues to be tackled in domestic and overseas business	No. of companies	Ratio	Rank	Top-priority issues to be tackled in domestic and overseas business	No. of companies	Ratio
1	Strengthen or expand the overseas production	338	57.9%	1	Strengthen or expand the overseas production	267	54.6%
○ 2	Strengthen or expand the R&D functions	235	40.2%	2	Strengthen or expand the customer base by the company's own efforts	185	37.8%
3	Strengthen or expand the customer base by the company's own efforts	155	26.5%	3	Review and improve efficiency of group companies' management	159	32.5%
4	Active expansion into new business areas	131	22.4%	4	Review domestic production systems from the viewpoint of total cost	124	25.4%
5	Reduce interest-bearing debt	126	21.6%	5	Strengthen or expand service operations related to the company's products	120	24.5%
6	Review and improve efficiency of group companies' management	122	20.9%	6	Acquire business resources to strengthen principle business	117	23.9%
7	Acquire business resources to strengthen principle business	115	19.7%	7	Reduce interest-bearing debt	115	23.5%
8	Strengthen or expand the domestic production	104	17.8%	8	Active expansion into new business areas	87	17.8%
9	Strengthen or expand service operations related to the company's product	96	16.4%	9	Introduce or establish a global supply chain management	81	16.6%
10	Introduce or establish a global supply chain management	92	15.8%	10	Concentrate on environmental issues and environment-related business	46	9.4%
11	Review domestic production systems from the viewpoint of total cost	60	10.3%	10	Review overseas production systems from the viewpoint of total cost	46	9.4%
12	Concentrate on environmental issues and environment-related business	49	8.4%	12	Strengthen or expand the domestic production	42	8.6%
13	Review overseas production systems from the viewpoint of total cost	41	7.0%	13	Outsource the activities of production	22	4.5%
14	Outsource the activities of production	20	3.4%	14	Develop technology by utilizing venture companies	9	1.8%
○ 15	Renewal of overage domestic plant	17	2.9%	15	Expand transactions over the Internet	8	1.6%
○ 16	Securing energy, resources and materials for the company's own operations	13	2.2%				

Note) 17 companies answered "Other" as a priority issue.

Note)

- (1) An empty circle "○" indicates options newly added for the first time into this year's survey.
- (2) 18 companies answered "Other" as a priority issue.

Strengthening or expansion of overseas production is a top-priority issue, R&D functions and domestic function are also focused. Aggressive attitude toward business in Japan and as abroad.

The current top-priority issues for domestic and overseas business operations are "Strengthen or expand the overseas production" (338 companies), followed by "Strengthen or expand R&D functions" (235), "Strengthen or expand the customer base by the company's own efforts" (155) and "Active expansion into new business areas" (131). Compared to the results of the FY2002 survey, "Strengthen or expand the domestic production" (104) rose substantially in the ranking, as companies take a more positive stance toward not only overseas but also domestic operations, while efforts to enhance their own business systems, such as "Review domestic production systems from the viewpoint of total cost" (60) declined relatively.

It appears that Japanese manufacturers are not aiming for a one-way shift of production function toward overseas, but rather they intend to strengthen R&D functions and domestic production at the same time, in order to achieve high-added value production in Japan and establish an optimized global production system.

Figure2 Prospects for Overseas Business Operations over the Medium Term (by major industry)

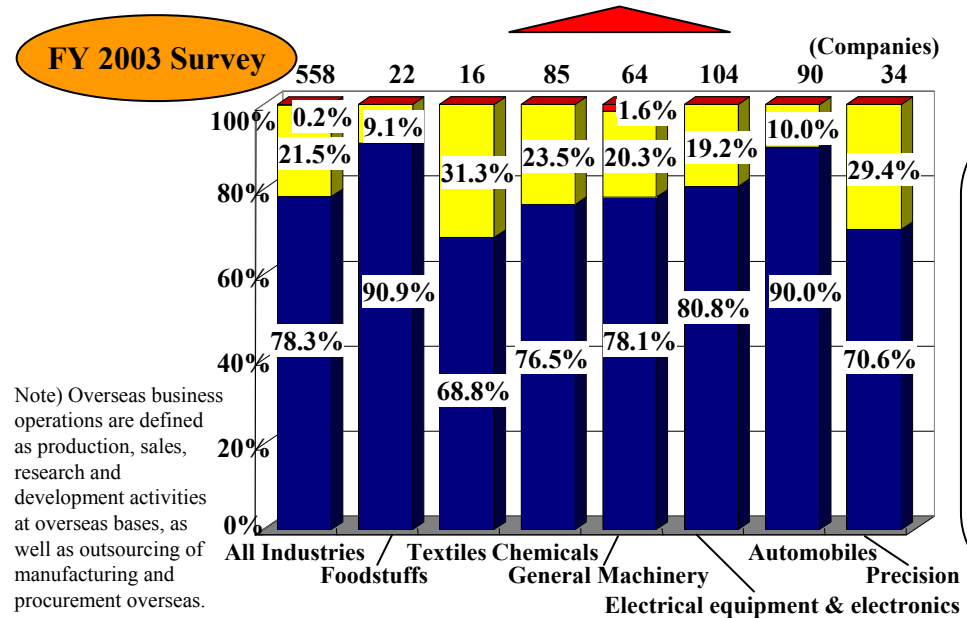
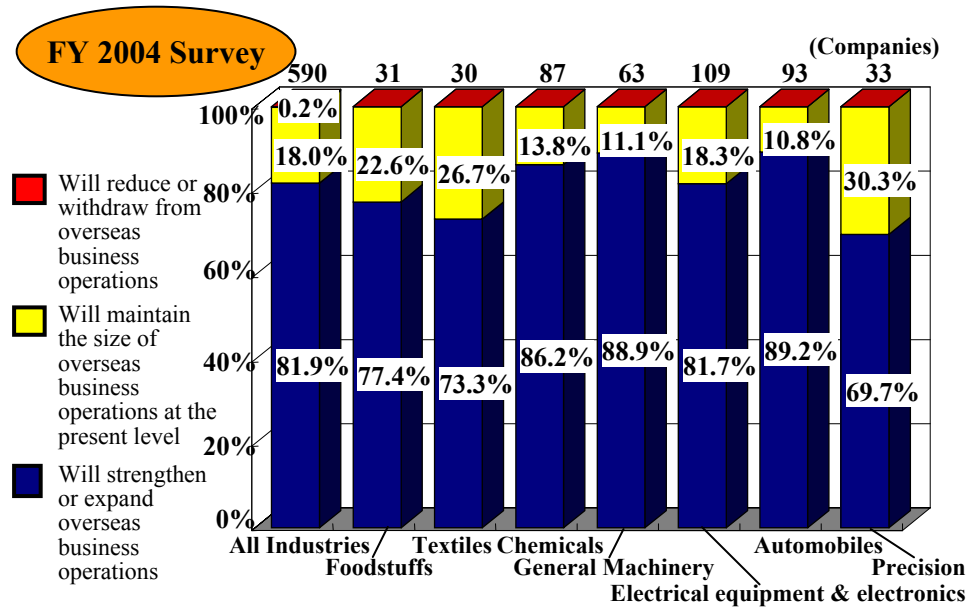


Figure 3 Changing Patterns of Overseas Production Ratio (overall industrial average)

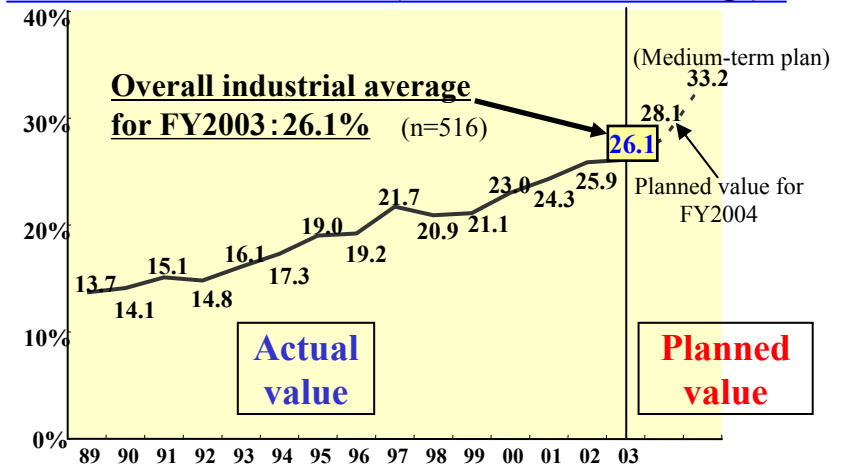


Figure 4 Overseas Production Ratio (for major industries)

	Number of companies	FY2003 actual value	FY2004 estimated	Medium-term plan
All Industries	516	26.1%	28.1%	33.2%
Chemicals	75	16.9%	18.3%	24.1%
General Machinery	53	18.4%	19.9%	25.8%
E & E	99	38.8%	41.1%	45.5%
Automobiles	76	26.8%	28.7%	35.5%

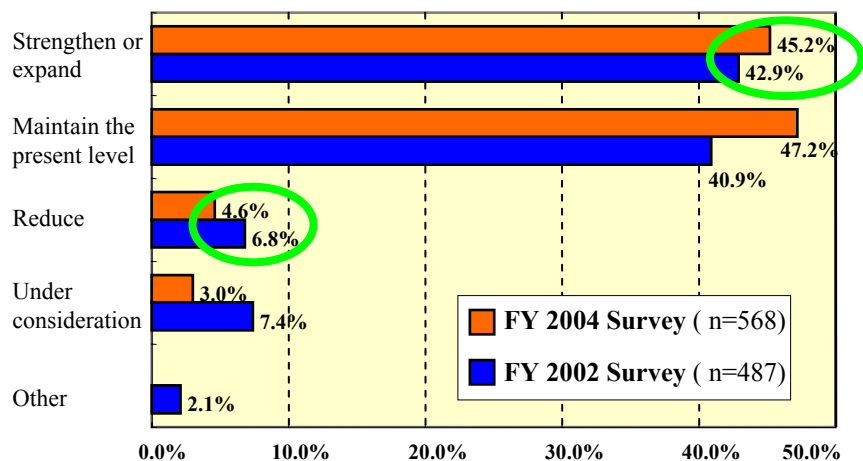
■ Continuing trend to positive stance for overseas business

Questioned on their stance toward overseas business in the medium term (next 3 years or so), 81.9% of respondents in all industries said “Strengthen or expand the overseas business operations”. The proportions of companies in the chemicals and general machinery categories which responded “Strengthen or expand the overseas business operations” were each up by ten points on the preceding year, and increasing numbers of companies have strongly more positive attitudes toward overseas business operations.

■ Overseas production ratios are expected to rise

When examining the actual values of overseas production ratios in FY2003, it is seen that the average responses of all industries was 26.1%, the fifth consecutive year of increase. When asked for their planned values for FY2004, and for the medium term plans to FY2007, the average responses were 28.1% and 33.2% respectively, indicating that many companies plan to expand their overseas production in future.

Figure 5 Prospects for Domestic Business Operations over the Medium Term



Note) The available options in this survey differ from those in the FY 2002 survey, so those which match this year's options were collated and recalculated.

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

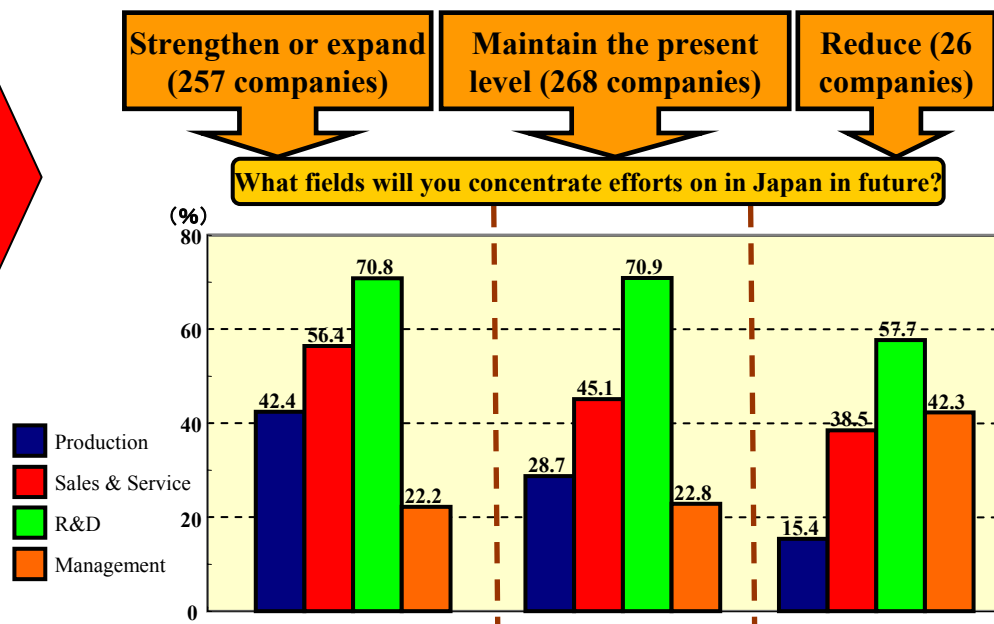
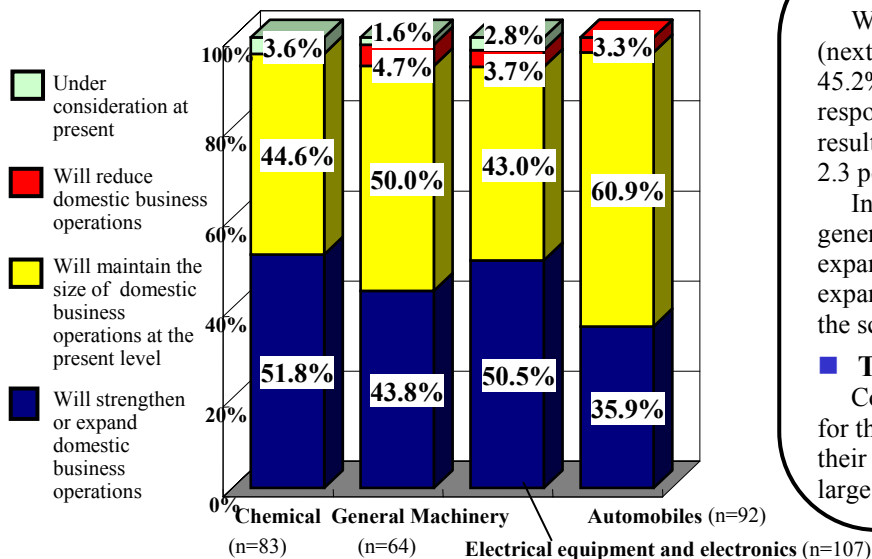


Figure 6 Prospects for Domestic Business Operations over the Medium Term (by major industry)



■ A trend towards strengthening or expansion in domestic operations as well

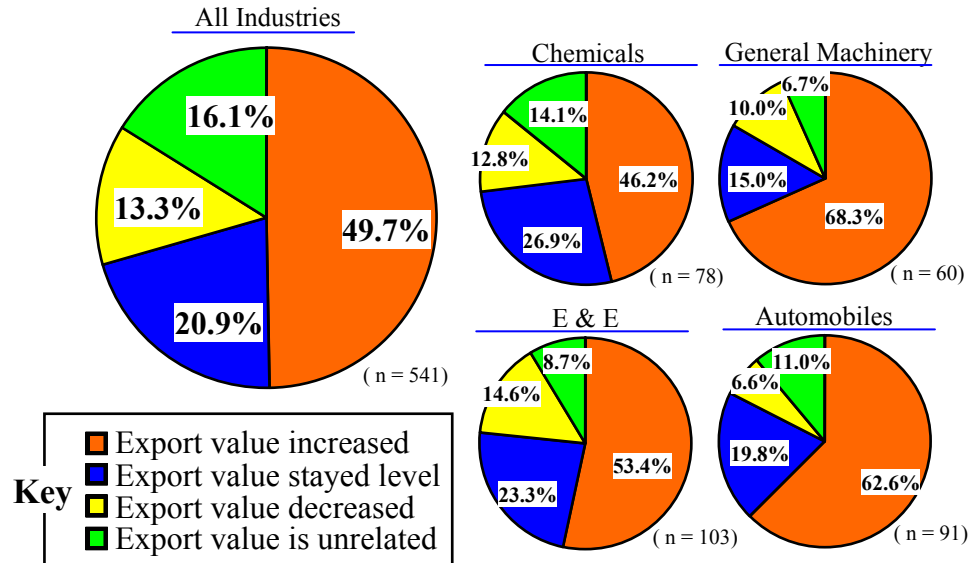
When questioned about their stance on domestic business operations over the medium term (next 3 years or so), 47.2% of the companies in all industries said “Maintain the present level”, and 45.2% said “Strengthen or expand”. These two responses each account for nearly half of respondents, with a mere 4.6% expecting to “Reduce” in scale. (Comparison with FY 2002 survey results for reference shows that the proportion of companies stating “Strengthen or expand” rose 2.3 points, while those responding “Reduce” fell by 2.2 points).

In major industrial classifications, the proportion choosing “Maintain the present level” in the general machinery and automobiles classifications exceeded the proportion for “Strengthen or expand”, but in chemicals and electrical equipment and electronics a majority chose “Strengthen or expand”. In those classifications, the results showed a tendency towards medium-term expansion of the scale of domestic business operations.

■ The area getting the most attention in domestic business operations is “R&D”

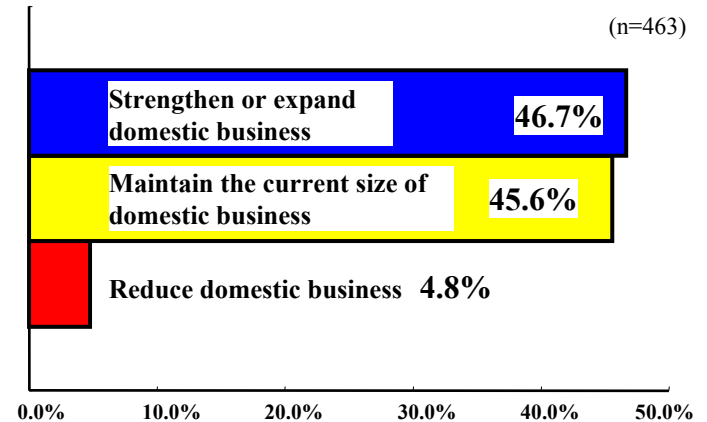
Companies which responded “Strengthen or expand”, “Maintain the present level” or “Reduce” for the scale of their domestic business operations were asked which fields they would concentrate their efforts on in Japan. A high proportion in all those groups chose “R&D”, suggesting that a large number of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

Figure 8 Relationship between Strengthening or Expansion of Overseas Business Operations and Exports from Japan



Note) Companies which responded “We did not expand overseas business operations in the last three years” were excluded.

Figure 9 Stance on Domestic Business Operations among companies that chose “Strengthen or expand” Overseas Business Operations (medium-term outlook)



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

Exports from the parent company in Japan grow with strengthening or expansion of overseas business operations

Investigation of the relationship between strengthening or expansion in overseas business operations and parent company exports from Japan over the past 3 years revealed that 49.7% of respondent companies in all industries said their “Exports have increased”, while only 13.3% said “Exports have decreased”. By major industrial classifications, a majority of companies in the areas of general machinery, electrical equipment and electronics, and automobiles stated that “Exports have increased”, indicating a deep-rooted relationship between strengthening or expansion in overseas business operations and growth in the parent company’s exports from Japan. There are some cases here in which reinforcement of marketing overseas has contributed to increased exports from Japan, but there are also many cases of production expansion overseas leading to export growth. In interviews with companies, there were responses such as “We export thread as a raw material to China, so our exports were increased by expanding our Chinese operations” (Textiles), “The strengthening or expansion of our overseas business operations increased exports of high-added value devices” (Electrical equipment and electronics; E&E), and “Stronger overseas production increased the supply of materials from the parent company” (E&E). Another response, “We shifted most of our production functions to China and Southeast Asia, but we left R&D and die manufacturing in Japan, so we have a growing need for the kind of high-added value products which cannot easily be produced overseas” (E&E), indicating a shift to division of production functions between Japan and overseas.

Companies positive about their overseas business operations are also eager to expand operations in Japan

Examining the outlook for domestic business operations (Figure 5 above) among the companies that chose “Strengthen or expand” their overseas business operations (Figure 2 above) in this survey, the largest share (46.7%) also chose “Strengthen or expand”, while 45.6% chose “Maintain the present level” and only 4.8% chose “Reduce”. This result indicates that the largest group among those aiming to expand their overseas business operations aimed to do the same in their domestic business operations.

Figure 10 Current Production for General-purpose Products (multiple responses)

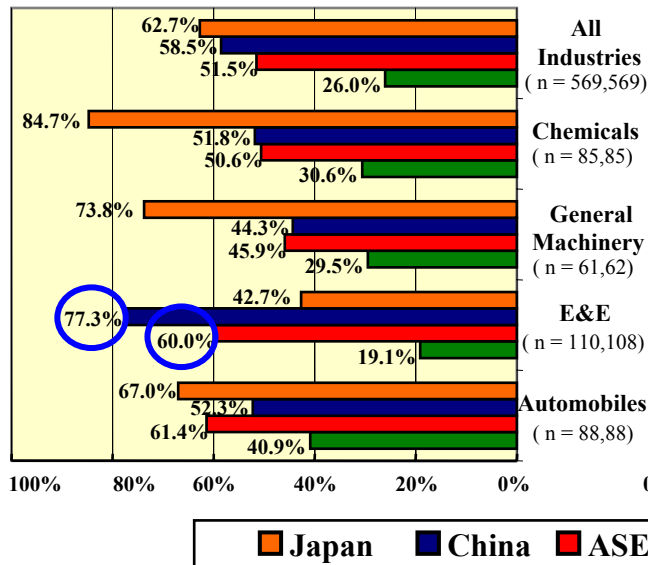
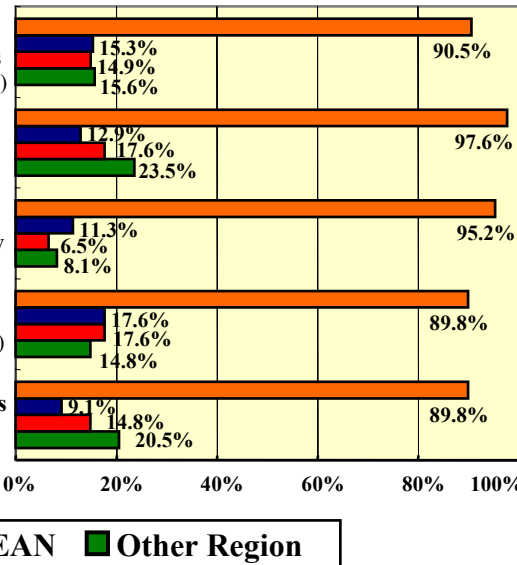


Figure 11 Current Production for High-added Value Products (multiple responses)



Note) "ASEAN" in this question refers to the six countries of Thailand, Malaysia, the Philippines, Indonesia, Singapore and Vietnam.

Figure 12 Current Production for Products Embodying the Newest Technologies (multiple responses)

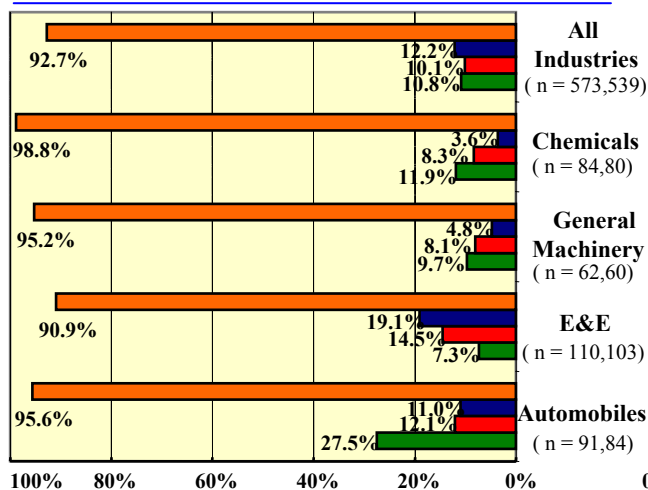
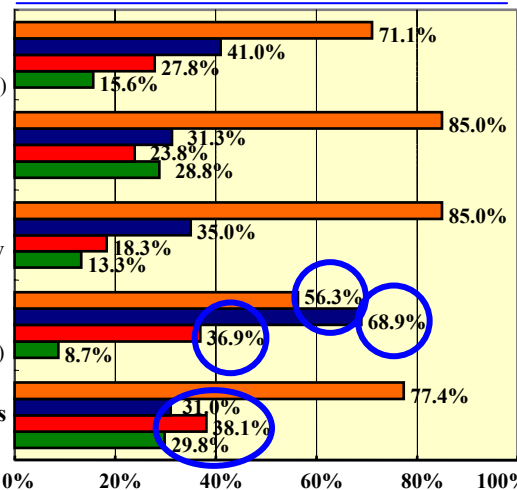


Figure 13 Destinations for the Future Mass Production of Products Embodying the Newest Technologies (multiple responses)



Note) Local production to shift to mass production in the next 3 years or so.

■ Production of high-added value products is mainly in Japan

Investigation of the allocation of production functions between domestic and overseas production reveals that production of general-purpose products is spread evenly between Japan, China and ASEAN. Japan is the production center for products of high-added value in any industry, accounting for a 90% share of such production.

■ Domestic production leads in shifting high-technology products to mass production

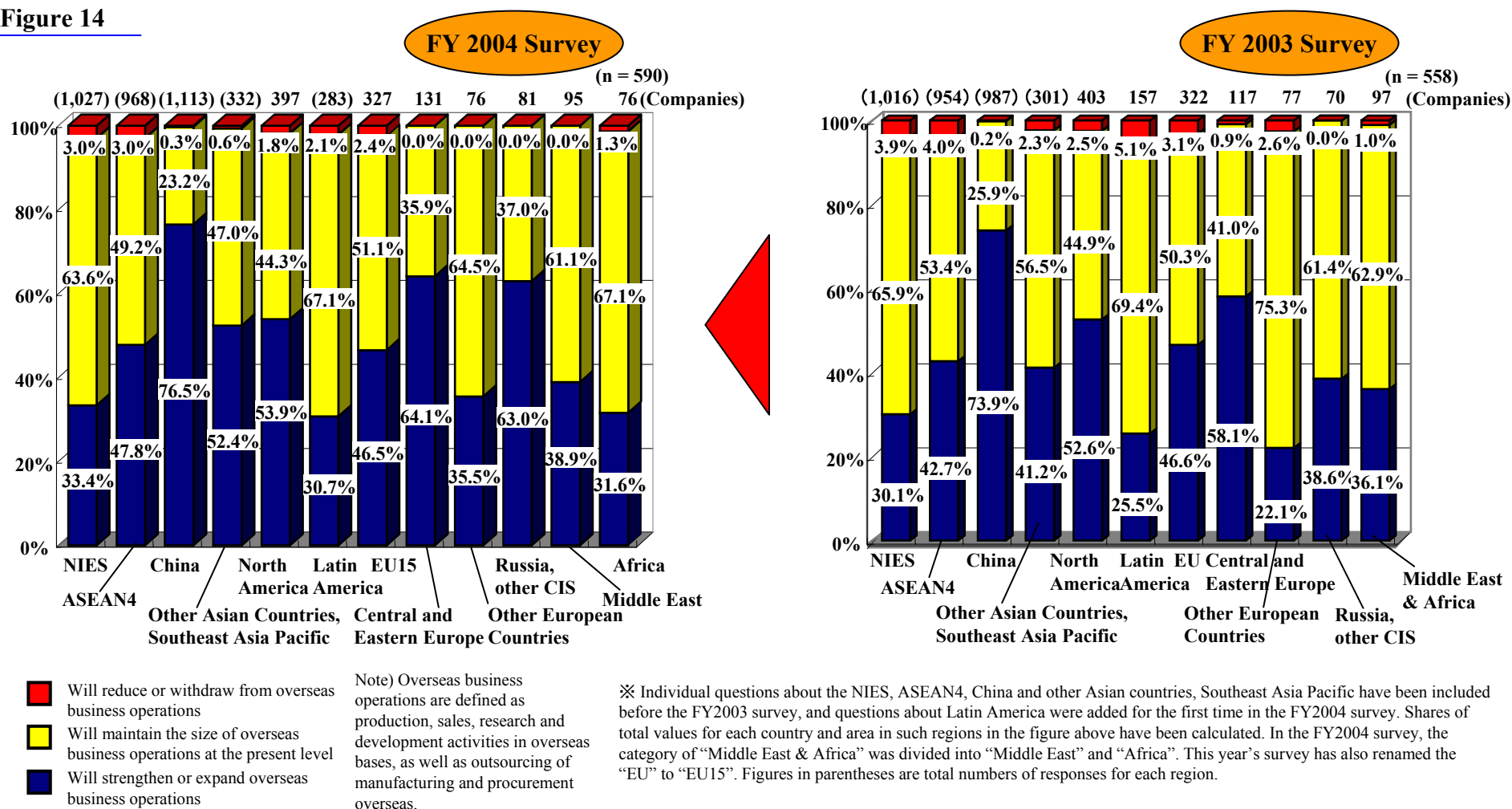
Japan is the manufacturer of most products using the newest technologies, and is also the destination for their future mass production. Interviews with companies heard responses such as "We will shift to mass production in Japan as well for products which require advanced expertise, to avoid leakage of technology and expertise" (Textiles) and "We can't and don't manufacture devices of high-added value anywhere outside Japan" (Electrical equipment and electronics), indicating that some companies aim to move to mass production in Japan, regardless of the technological levels of other countries, to avoid leakage of technology and expertise.

■ International allocation of production is advancing in the E&E field

The production destinations for general-purpose electrical equipment and electronics (E&E) are China (77.3%), ASEAN (60.0%) and Japan (42.7%). The allocation of production, by which general-purpose products are produced in China and ASEAN, where production costs are low, and high-added value products, which require technology, are produced in Japan, is more advanced in the E&E than in other industries. The most common destination for future mass production of products using the newest technologies is China (68.9%), followed by Japan (56.3%) and ASEAN (36.9%). Companies in the E&E are more oriented toward China than ASEAN.

In the Automobile industry, ASEAN is slightly ahead of China as a destination for future mass production. Compared to other industries, many automobile manufacturers put ASEAN ahead of China at this stage as a production center for high-added value products.

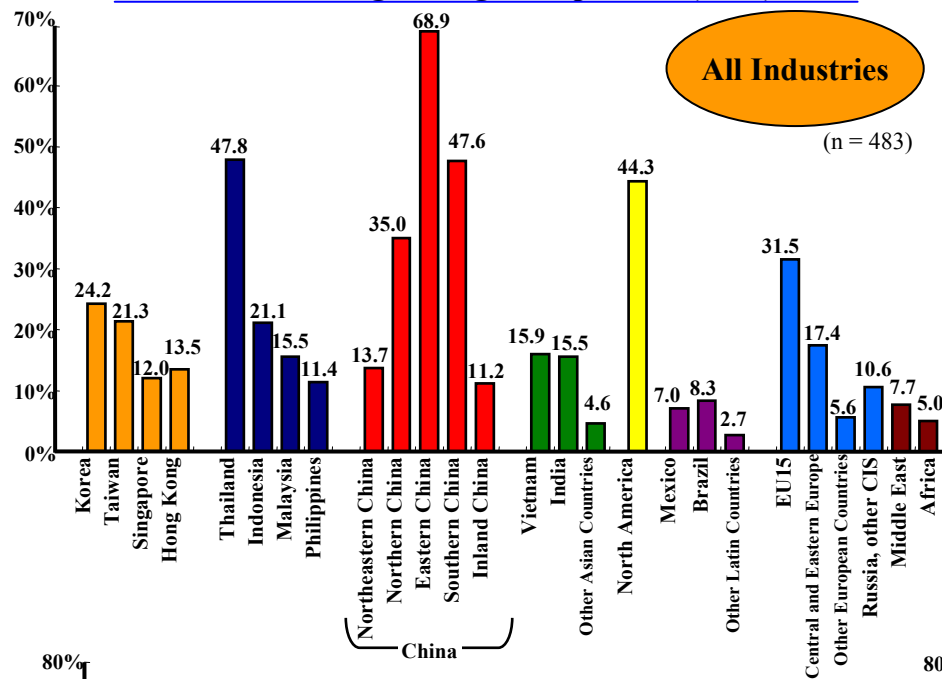
Figure 14



Strongly positive stance on China, Central and Eastern Europe and Russia

Asked for their prospects for overseas business operations in the medium term (next 3 years or so), the region for which the highest proportion of companies said they would "strengthen or expand the size of overseas business operations" are China (76.5%), followed by Central and Eastern Europe Countries (64.1%), Russia, other CIS (63.0%) and North America (53.9%). Compared to FY2003 survey, this year's survey shows that companies' stance on overseas business becomes more positive in almost all countries and regions. The number of companies citing Russia and other CIS is relatively small, but the proportion of those choosing "Strengthening or expansion" shows the highest growth rate, up 24 points from FY2003 survey, indicating that companies' attitudes toward business in the region are becoming more bullish.

Figure 15 Number of Companies for Strengthening or Expansion (ratio)



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

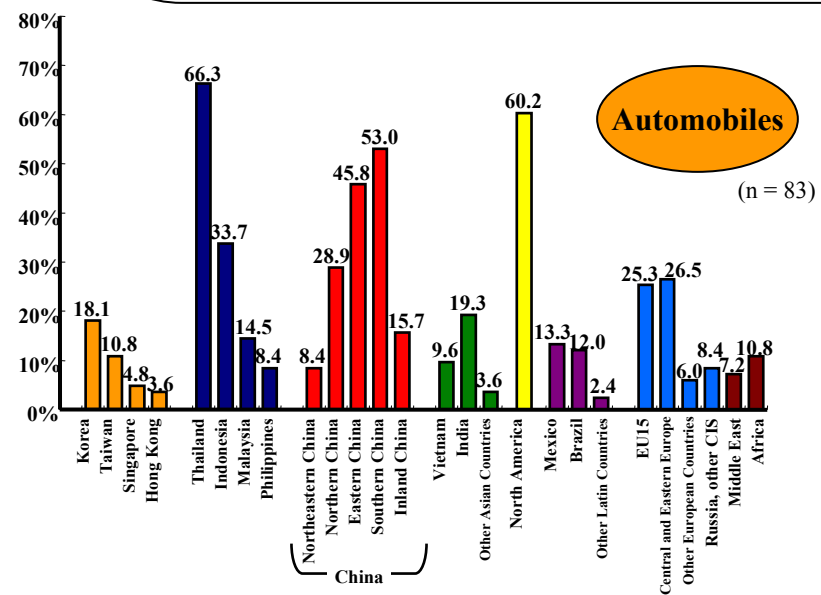
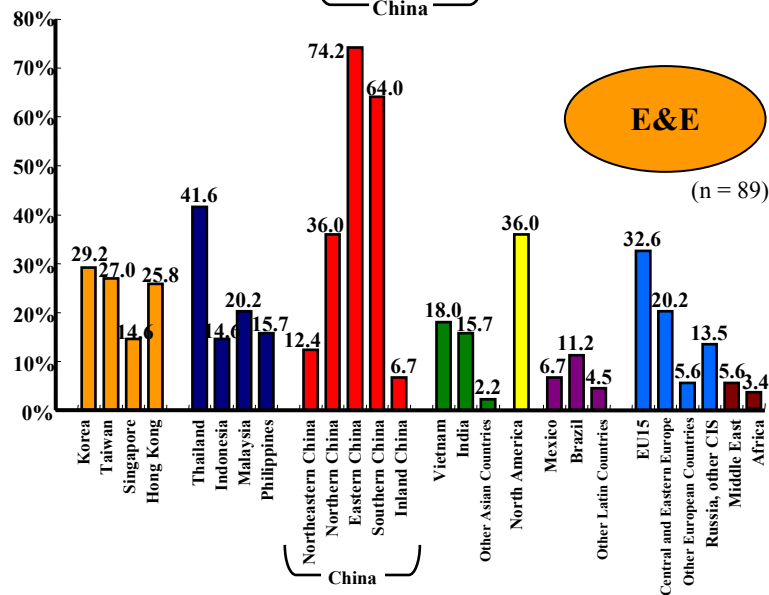
When examining the number of companies intending to strengthen or expand overseas business operations in the medium term, it became clear that large numbers of these companies in all categories cite as business destinations Eastern and Southern China, Thailand and North America. The number of such companies citing Latin America, the Middle East and Africa are relatively small.

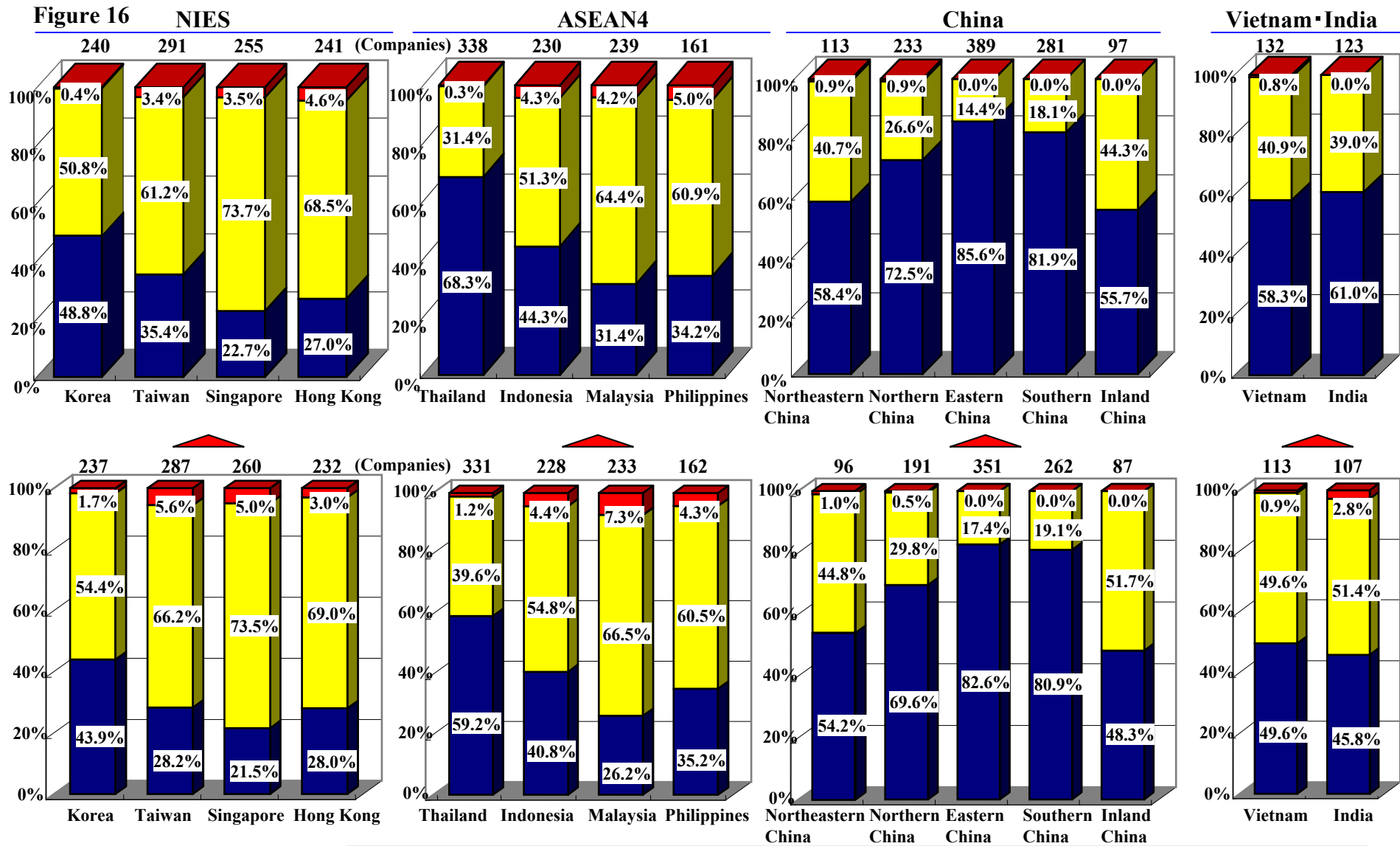
E&E companies choose Eastern China and Thailand in ASEAN

Electrical equipment and electronics (E&E) manufacturers have a very positive attitude toward Eastern and Southern China, with a preference for Eastern China. Among the ASEAN4, their attitudes toward strengthening or expansion are the strongest for Thailand (41.6%) and the weakest for Indonesia (14.6%).

Automobile manufacturers favor Thailand, North America and Southern China

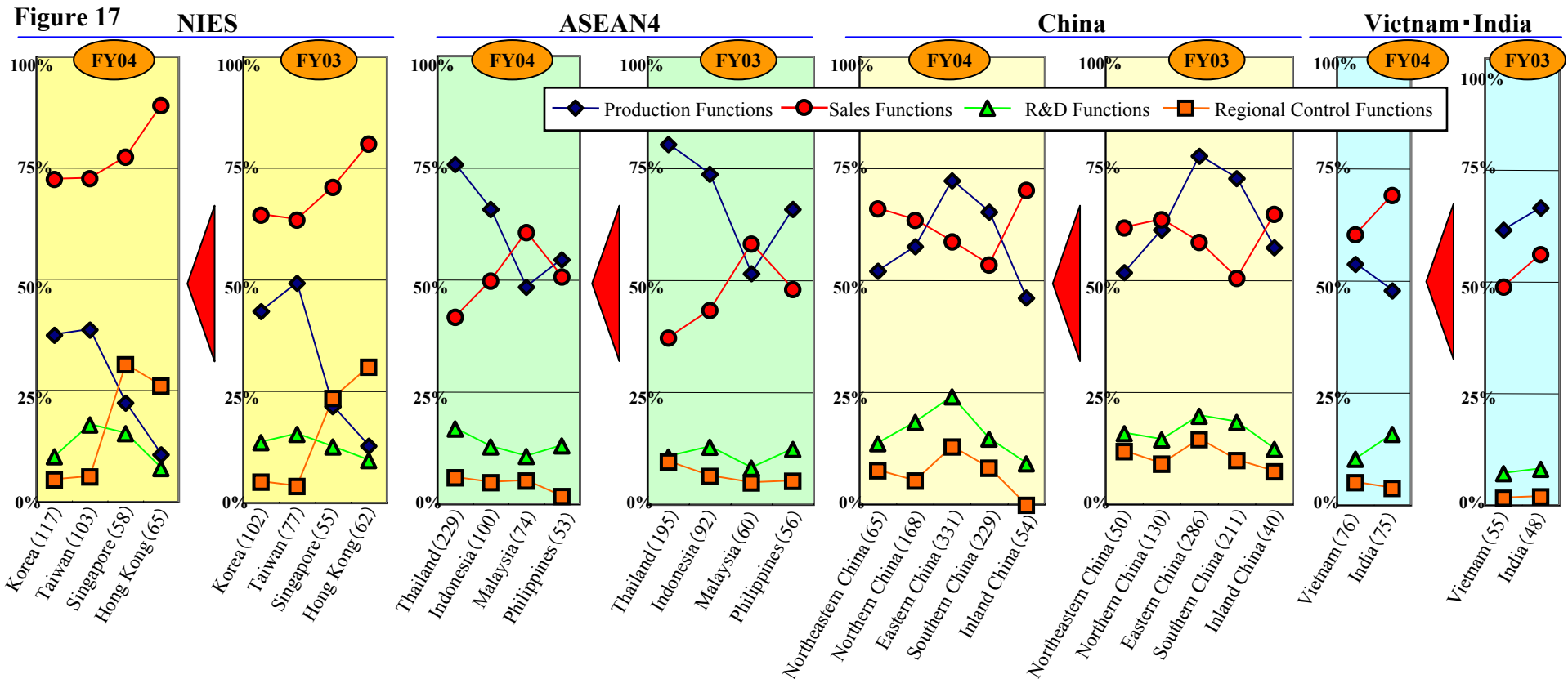
Automobile manufacturers have very positive stance on Thailand, North America and the Southern and Eastern regions of China. In particular, Thailand had the highest support of all the regions (66.3%), surpassing support for North America (60.2%). Within China, there is a notable formation of industrial clusters by Japanese automobile manufacturers as they expand their operations, and this survey found that 53% of companies chose strengthening or expansion in Southern China, exceeding the 45.8% for Eastern China. Among the ASEAN4, Indonesia is the second strongest, following Thailand, with 33.7% support.





Top Row: FY 2004 Survey
Bottom Row: FY 2003 Survey

- There are clear differences among the various regions in terms of prospects for overseas business operations.
- Attitudes toward strengthening or expansion are strongest for Korea and Taiwan in NIES, for Thailand in the ASEAN4, and are particularly bullish in the Eastern and Southern regions of China.
- Stances on business in Vietnam and India are becoming more positive.

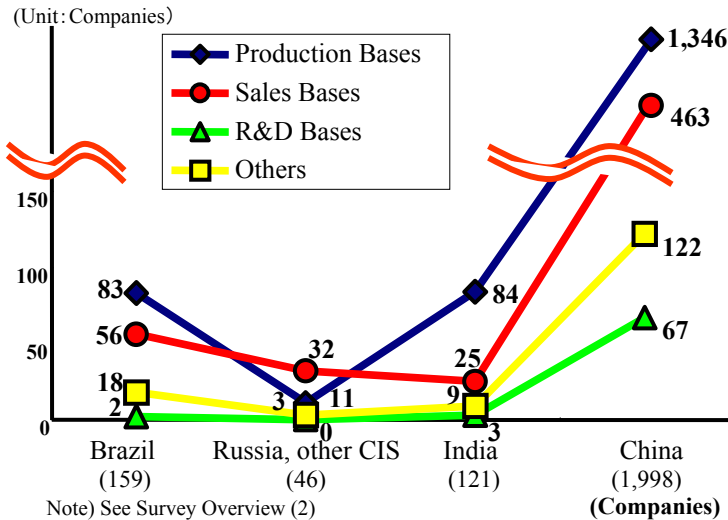


* Figures in parenthesis for countries and regions in the above figure are numbers of respondent companies. Companies which responded that they would “strengthen or expand” were asked in which functions they intended to do so, from production, sales, R&D and regional control functions. Multiple options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

■ **The share for sales functions is growing in each country and region**

The specific functions that are to be expanded in overseas business operations were surveyed and compared to the FY 2003 results. The observed features of each region are described as follows. **【NIES】** There is a high share for strengthening or expansion of sales functions, characteristically surpassing the strengthening or expansion of production functions. That tendency has become more pronounced this year. Production functions have a large role in Korea and Taiwan, while regional control functions have a large role in Singapore and Hong Kong. **【ASEAN4】** Production functions surpass sales functions in Thailand, Indonesia and the Philippines, but the share gap between the two functions has become narrower in this year’s survey. In Malaysia, on the other hand, sales functions surpassed production functions, and the tendency is more pronounced in this year. The role of Malaysian affiliates for Japanese companies is assumed to be shifting. **【China】** Production functions surpass sales functions in Eastern and Southern China, the reverse of the situation in other regions. The share for production functions in the regions fell slightly in this year’s survey. The number of companies stepping up their sales functions in the Chinese market is growing. The share having R&D functions in Eastern China is high. **【Vietnam and India】** The relative positions of sales and production functions have reversed from those in last year’s survey. The number aiming to expand their production functions is largely the same as in the last survey, but the number intending to expand their sales functions has increased substantially.

Figure 18 Number of Overseas Affiliates



Large gap between the business development level in China and levels in Brazil, Russia, India

By gathering data from this survey on the BRICs (Brazil, Russia, India and China), which have been the recent focus of interest from the world's investors, we examined the characteristics of business development in the BRICs for Japanese manufacturers.

The current numbers of overseas affiliates in each country (Figure 18) show that there are 1,998 in China, an overwhelming share. For production bases in particular, China has the largest share, at 1,346 companies, while Russia's share is very low, at 11 companies. As for the companies' medium-term outlooks for business operations, stances on China are remarkably positive, and are relatively positive for Russia and India. For Brazil there is a strong disposition towards maintaining the current level. Of the fields for strengthening or expansion, sales functions hold a high shares in each country, but the production functions is slightly higher in China. In Brazil and India, approximately half of companies intend to expand production functions, but the proportion for Russia is very low.

The BRICs are countries seen as having large growth potential, and they are the subject of growing expectations from Japanese manufacturers, as future destinations for business development. However, investment to exploit the large population and abundant resources etc, for both production and sales in these four countries would have to be enormous. If Japanese manufacturers, which already have many production bases in regions such as China and ASEAN, aim to expand their production functions in the BRICs in future, they would have to assign priorities or limit the scale of their investments. Investments in distribution can be relatively small in scale, but distribution is an area where competing Western companies are also strong. The current efforts of Japanese manufacturers differ greatly between the four countries, but the investment strategies they adopt in future, faced by the enormous potential of the BRICs, will be closely watched.

Figure 19 Prospects for Strengthening or Expansion

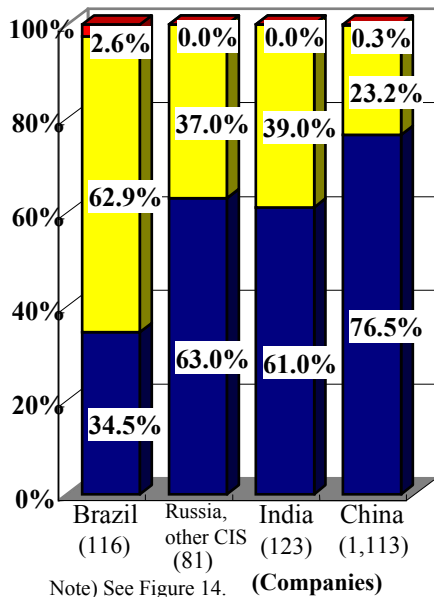


Figure 20 Functions for Strengthening or Expansion

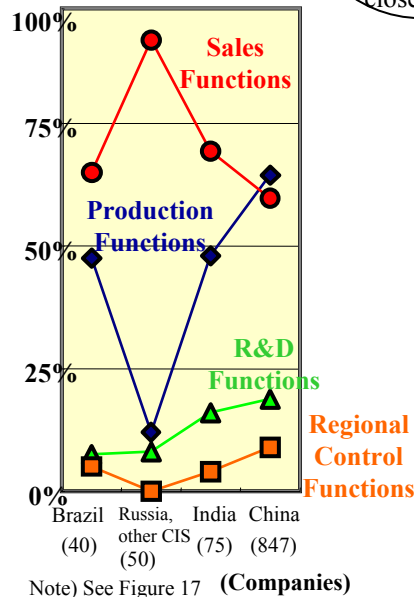
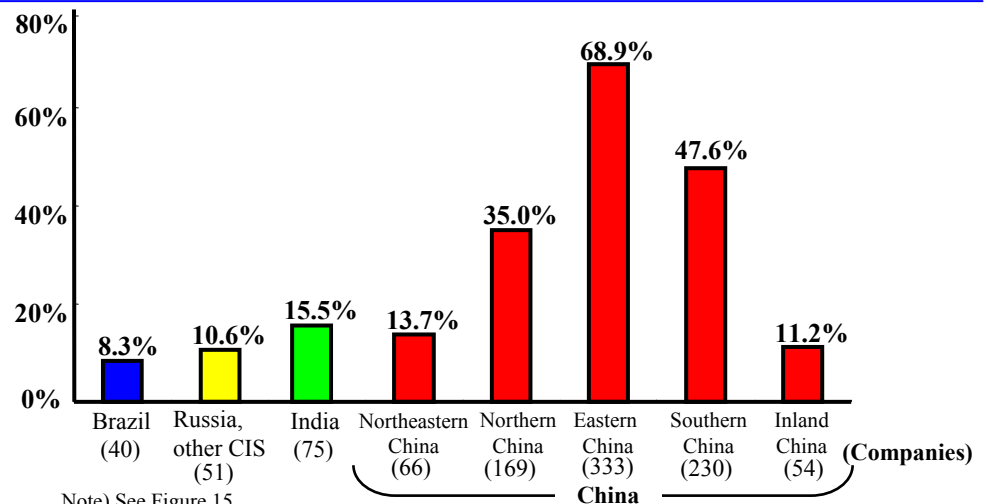


Figure 21 Number of Companies for Strengthening or Expansion (ratio)



Among the medium term outlooks for overseas business operations in each region (Figure 14), 87 companies answered that they intended “Reduction or withdrawal”.

Figure 22 Reasons for Reduction or Withdrawal

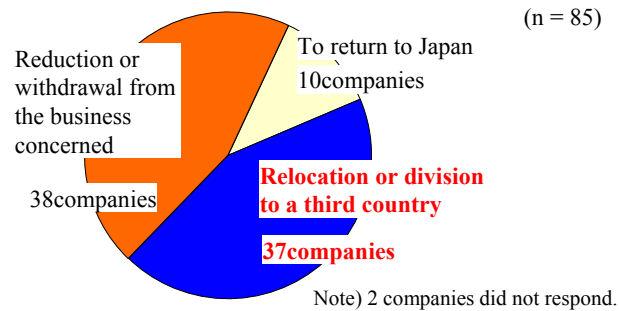
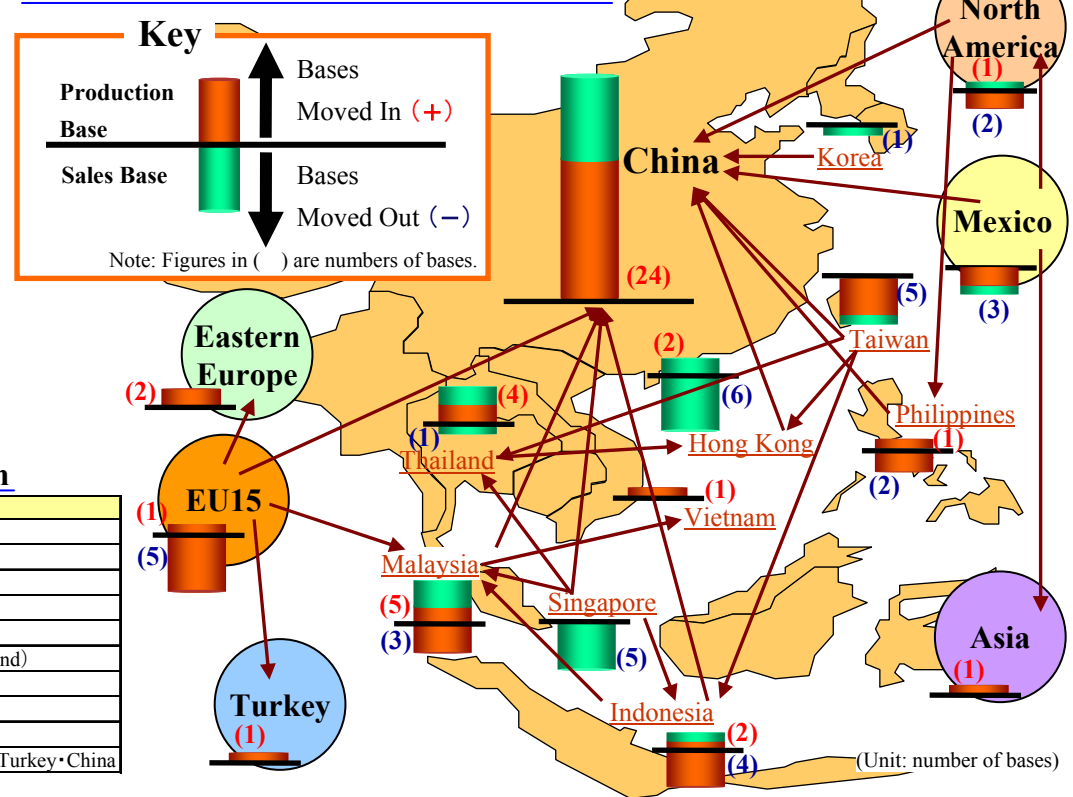


Figure 23 Table of Origins and Destinations for Relocation

From	Function	To	From	Function	To
Korea	Sales	China	North America	Production	Philippines
Taiwan	Production	China	North America	Production	China
Taiwan	Production	China·Indonesia	Mexico	Production	Asia
Taiwan	Production	China·Thailand	Mexico	Production	China
Taiwan	Production	China·Thailand	Mexico	Sales	U.S.
Taiwan	Sales	China·Hong Kong	EU15 (Italy)	Production	EU15 (Netherland)
Singapore	Sales	Thailand	EU15	Production	Malaysia
Singapore	Sales	Malaysia	EU15	Production	China
Singapore	Sales	Malaysia·Thailand	EU15	Production	Eastern Europe
Singapore	Sales	Malaysia·Indonesia	EU15	Production	Eastern Europe·Turkey·China
Singapore	Sales	China			
Hong Kong	Sales	China			
Hong Kong	Sales	China			
Hong Kong	Sales	China			
Hong Kong	Sales	China			
Hong Kong	Sales	China			
Hong Kong	Sales	China			
Thailand	Sales	Hong Kong			
Indonesia	Production	Malaysia			
Indonesia	Production	China			
Indonesia	Production	China			
Indonesia	Production	China			
Malaysia	Production	Vietnam			
Malaysia	Production	China			
Malaysia	Production	China			
Philippines	Production	China			
Philippines	Production	China			

(37 respondent companies, some of which had multiple relocation destinations, so 45 bases are relocated)

Figure 24 Relocated Countries/Regions and Functions



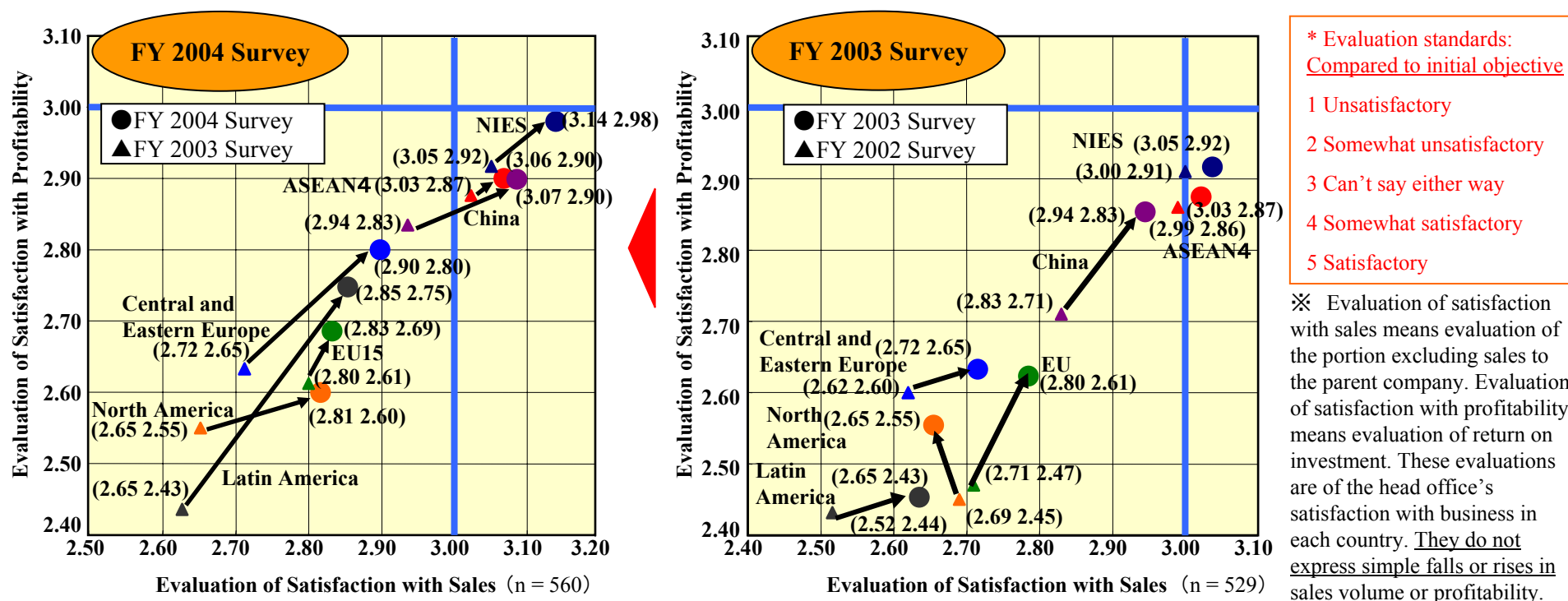
Movements of bases between countries and regions

A total of 87 companies responded “Reduce or withdraw” in their medium-term (next 3 years or so) outlooks for overseas business operations in each region or country (See Figure 14). Of these, 38 companies gave their reason as “Reduction or withdrawal from the business concerned”, 37 said “Relocation or division to a third country” and 10 said “To return to Japan”.

Companies relocating their operations to China are a prominent trend

When the 37 companies that chose “Relocation or division to a third country” are investigated further to find which functions they are moving, and to where. The most common relocation origins are Hong Kong (6 bases), Taiwan (5), Singapore (5) and the EU15 (5). Of those, the movement of production functions is more common from Taiwan and the EU15, while relocation of sales functions is the most common from Singapore and Hong Kong. The most common destinations are China (24 bases), followed by Malaysia (5) and Thailand (4). The most common areas relocating to China are sales functions from Hong Kong (6) and production functions from Taiwan (4). The results of this survey show there is a trend for bases to relocate to China from Asia and from Europe and North America, but there are also examples of relocation (reorganization) within ASEAN.

Figure 25 Evaluation of Overseas Business Performance (All Industries)



* Evaluation standards:
Compared to initial objective

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

※ Evaluation of satisfaction with sales means evaluation of the portion excluding sales to the parent company. Evaluation of satisfaction with profitability means evaluation of return on investment. These evaluations are of the head office's satisfaction with business in each country. They do not express simple falls or rises in sales volume or profitability.

■ Evaluations have improved in all regions, but profitability levels are still unsatisfactory

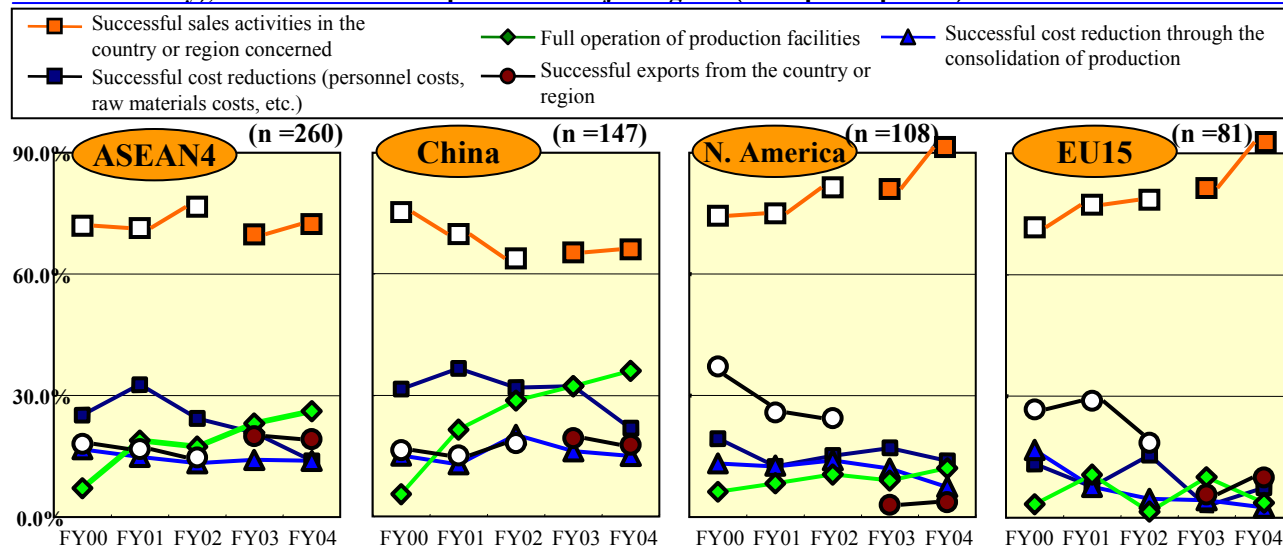
Respondent companies' evaluations of sales and profitability satisfaction in their overseas business operations show an improving trend in each region and country, building on the rising trend in the FY 2003 survey. Business performance evaluations for the NIES, ASEAN4 and China show relatively high levels of satisfaction, and there has been some improvement in Central and Eastern Europe, Latin America and elsewhere, so business evaluations for Europe and North America have also risen relatively.

However, this year's survey found issues remaining for the improvement of profitability:

- [1] The levels of profitability in all countries and regions are still unsatisfactory (satisfaction below medium level (3)).
- [2] Business performance evaluations for North America are the lowest.
- [3] The satisfaction with profitability is smaller compared to the margin of growth in satisfaction with sales in China and North America.

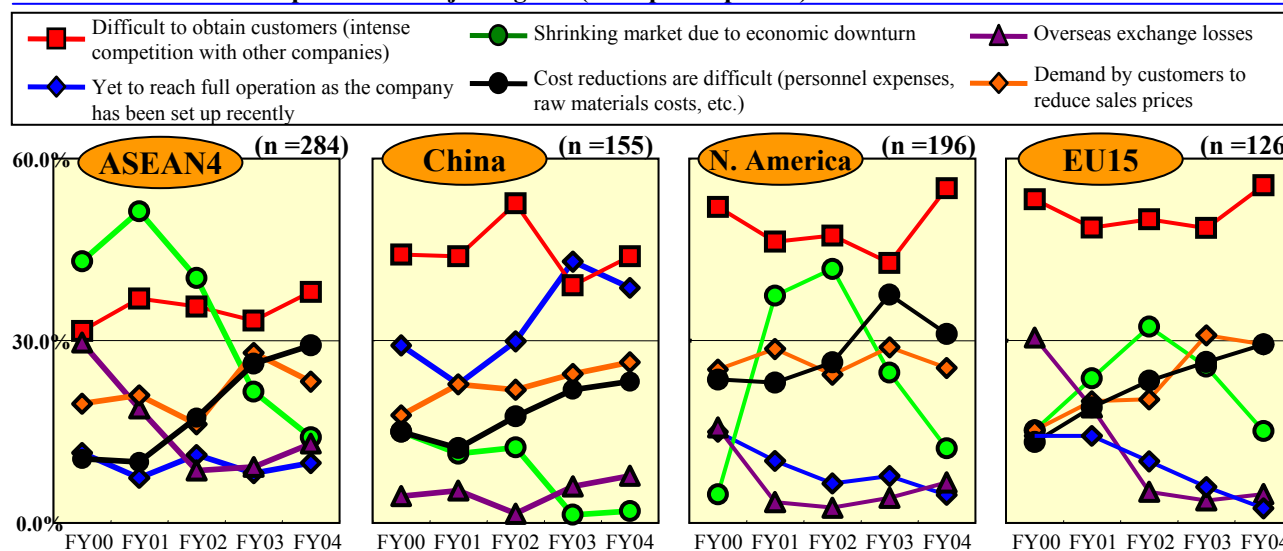
Evaluation of business performance in China rose in this year's survey, as it did in last year's, but the level of profitability is still unsatisfactory. Many companies aim for strengthening or expansion of the production and marketing sides of their business in China, but if they are to raise the profitability of that business, it is increasingly important for them to make efficient investments, well tailored to the market, as they open up and secure market positions.

Figure 26 Reasons for Evaluations of Satisfaction (satisfactory or somewhat satisfactory), as a time series comparison of major regions (multiple responses)



Note) “Successful sales activities in the country or region concerned” and “Successful exports from the country or region” were added in the 2003 survey, thus they have no chronological continuity with previous items. The □ (empty square) in the figure for 2000~2002 indicates “successful sales of existing products” and O (empty circle) indicates “successful sales of new products”.

Figure 27 Reasons for Evaluations of Satisfaction (unsatisfactory or somewhat unsatisfactory), as a time series comparison of major regions (multiple responses)



Features for profitability evaluations

Looking at the main reasons companies gave for their assessments of profitability in each region and their relative satisfaction with profitability as a time series over the last five years (Figure 26), the most common reasons in all four regions is “Successful sales activities in the country or region concerned”, but “Difficult to obtain customers (intense competition with other companies)” is the most common reason given by companies that see their profitability as relatively unsatisfactory there (Figure 27). In this year’s survey, the proportion of companies answering “Successful sales activities in the country or region concerned” or “Difficult to obtain customers” in all four regions is up compared to last year, indicating that the performance of sales activities in local markets is a key factor in assessing the profitability of business.

The proportion of companies choosing “Shrinking market due to economic downturn” as a reason for a low-level of profit satisfaction declined recently in all countries and regions. That trend is particularly pronounced in the ASEAN4 and North America, and the proportion choosing that reason in China is extremely low. The percentage of companies saying “Cost reductions are difficult” is growing, notably in the ASEAN4 and China.

Full operation of equipment and profitability in Chinese operations

In this year’s survey, “Yet to reach full operation”, which occupied a high share of responses in the last survey, declined, while “Full operation of production facilities” rose. Full equipment operation is one factor raising profitability, but on the other hand, “Difficult to obtain customers” and “Cost reductions are difficult” are taking an increased share of responses.

To secure satisfactory profitability in China in future, it appears that market strategies and cost measures aimed at maintaining the competitiveness of the company or its products will be increasingly important for companies, beyond just expanding the scale of sales and production.

Figure 28 How long will China's economic growth continue (all industries)

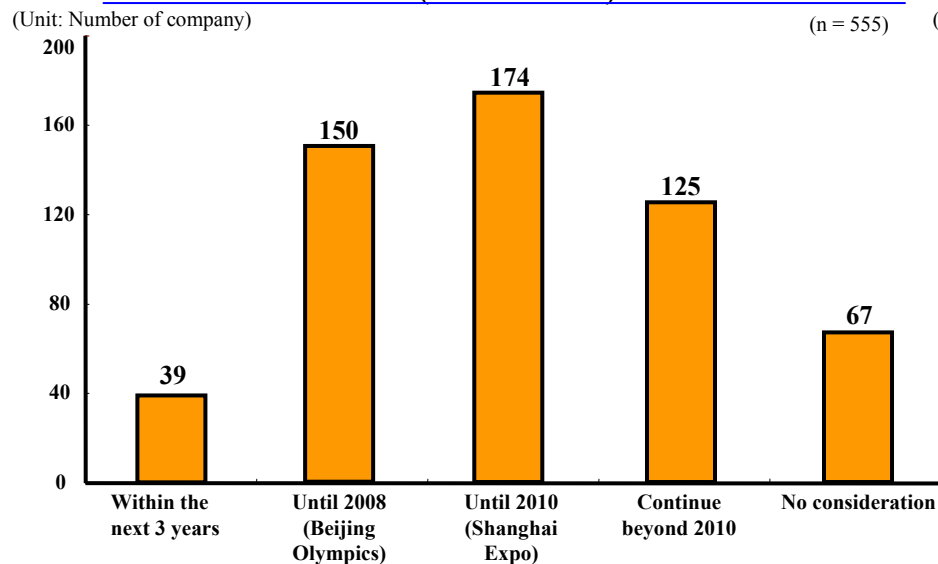
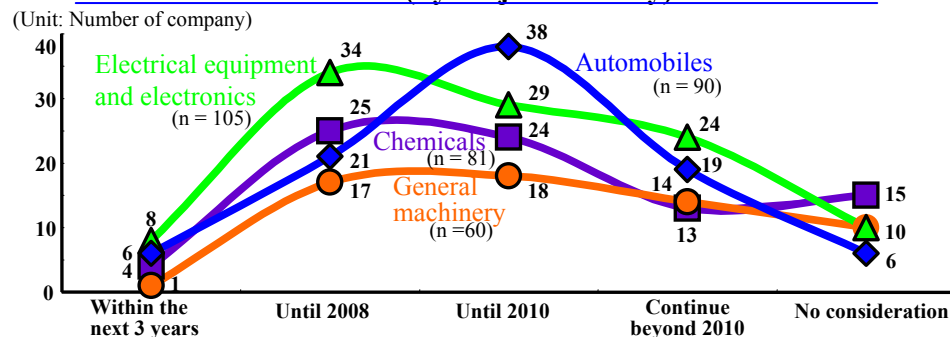


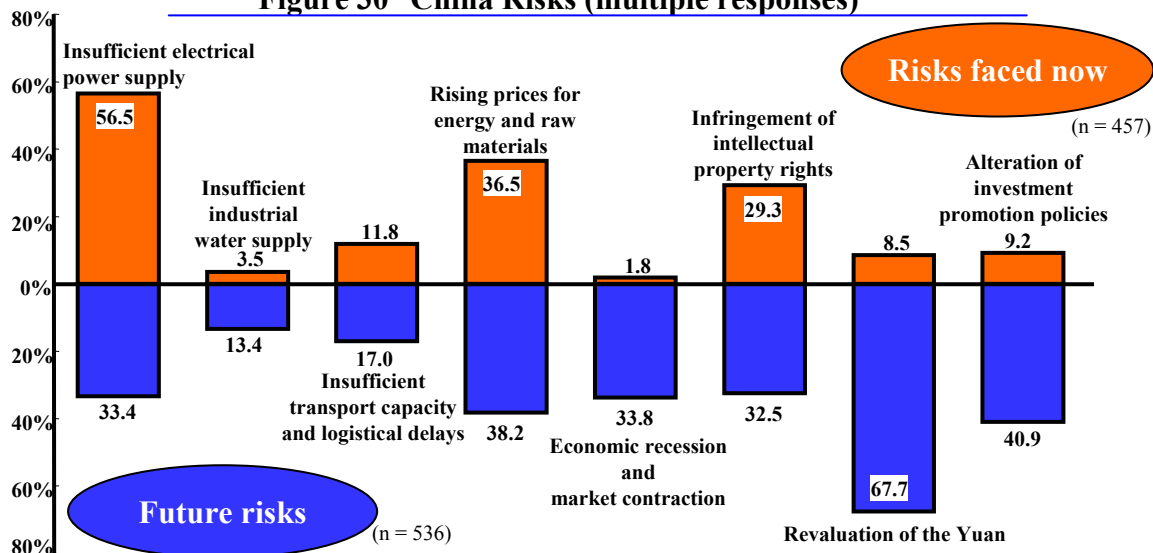
Figure 29 How long will China's economic growth continue (by major industry)



Economic growth in China to continue until 2010

When companies are asked how long they anticipate economic (high) growth in China to continue, as they draw up their business plans, the most common answer is “Until 2010 (the Shanghai Expo)” (174 companies), followed by “Until 2008 (the Beijing Olympics)” (150). Among the major industries, “Until 2008” is the most common response for Electrical equipment and electronics (34 companies), while “Until 2010” is the most common response in the automobile industry (38). Thus, views of economic growth vary between industries.

Figure 30 China Risks (multiple responses)



*“Risks faced now” are those which have already occurred or are thought very likely to occur within the next 1 year.
 “Future risks” are those which have not yet emerged, but could occur within the coming 1~5 years.

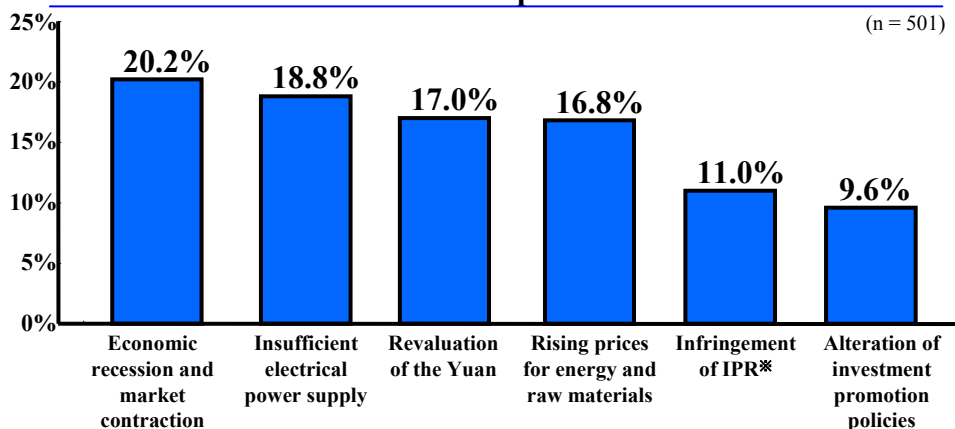
Insufficient electrical power supply and revaluation of the Yuan are grave risks

The risks that could have a grave impact on operations in China were investigated separately as “Risks faced now” and “Future risks”.

The results show that the risks named as “Risks faced now” are “Insufficient electrical power supply” (56.5%), “Rising prices for energy and raw materials” (36.5%) and “Infringement of intellectual property rights” (29.3%).

As “Future risks”, the most common response was “Revaluation of the Yuan” (67.7%). Company interviews heard that, in addition to decreased export competitiveness due to a revalued Yuan, concerns included economic slowdown due to a rising Yuan and increased economic uncertainty caused by exchange rate fluctuations.

Figure 31 Risks Viewed as Most Serious in Chinese Operations



Key

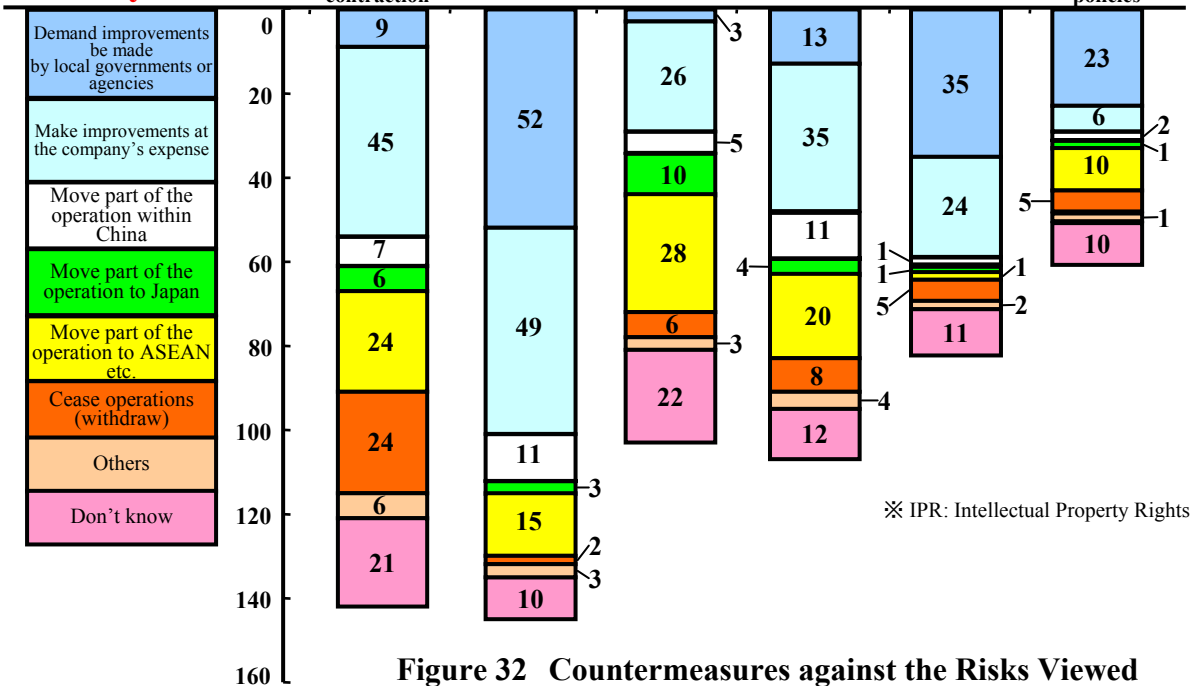


Figure 32 Countermeasures against the Risks Viewed as Most Serious (multiple responses)

(Unit: Number of companies)

* IPR: Intellectual Property Rights

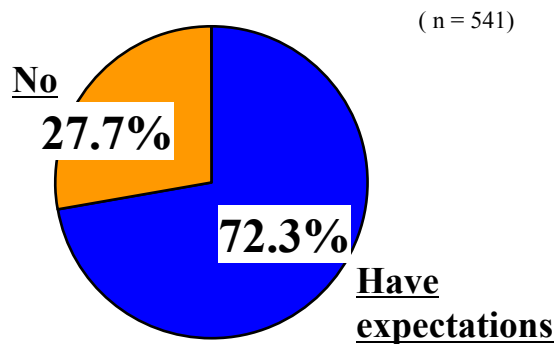
“Economic recession and market contraction” is viewed most seriously

Among the current and future risks in China (Figure 30 above), the ones viewed as most serious are “Economic recession and market contraction” (20.2%), “Insufficient electrical power supply” (18.8%) and “Revaluation of the Yuan” (17.0%). While the most common view is that China’s economic growth will continue until 2010, company interviews also heard of concerns such as an earlier economic recession and slow growth beyond 2010.

Countermeasures against risks

The survey investigated the countermeasures companies plan to take if the performance of their Chinese operations falls far short of initial plans due to the impact of the most serious risks. The most common result is [1] “Make improvements at the company’s expense” (45 companies) as a measure against “Economic recession and market contraction”, and so the companies’ main response is to adjust the scale of their operation. by their own efforts. [2] Against “Insufficient electrical power supply”, “Demand improvements be made by local governments or agencies” (52) and “Make improvement at the company’s expense” (49) are common. In company interviews, many companies in Eastern and Southern China, which suffered severe power shortages in the summer 2004, took steps such as switching factory working days to holidays, in line with planned power cuts, and installing their own generators, as well as calling for improvements in electrical power infrastructure and systems. Against cases of “Economic recession and market contraction” and “Revaluation of the Yuan”, common countermeasures are to relocate part of the business to Japan, ASEAN or elsewhere outside China, and a number responded “Cease operations (withdraw)” if the former occurred. These countermeasures were selected as one of the possibilities, and are not certainties. But in any case, it is important for the companies to go beyond discussing the existence of risks, and prepare countermeasures in anticipation of each of them.

Figure 33 Expectations Held for the Formation of FTA



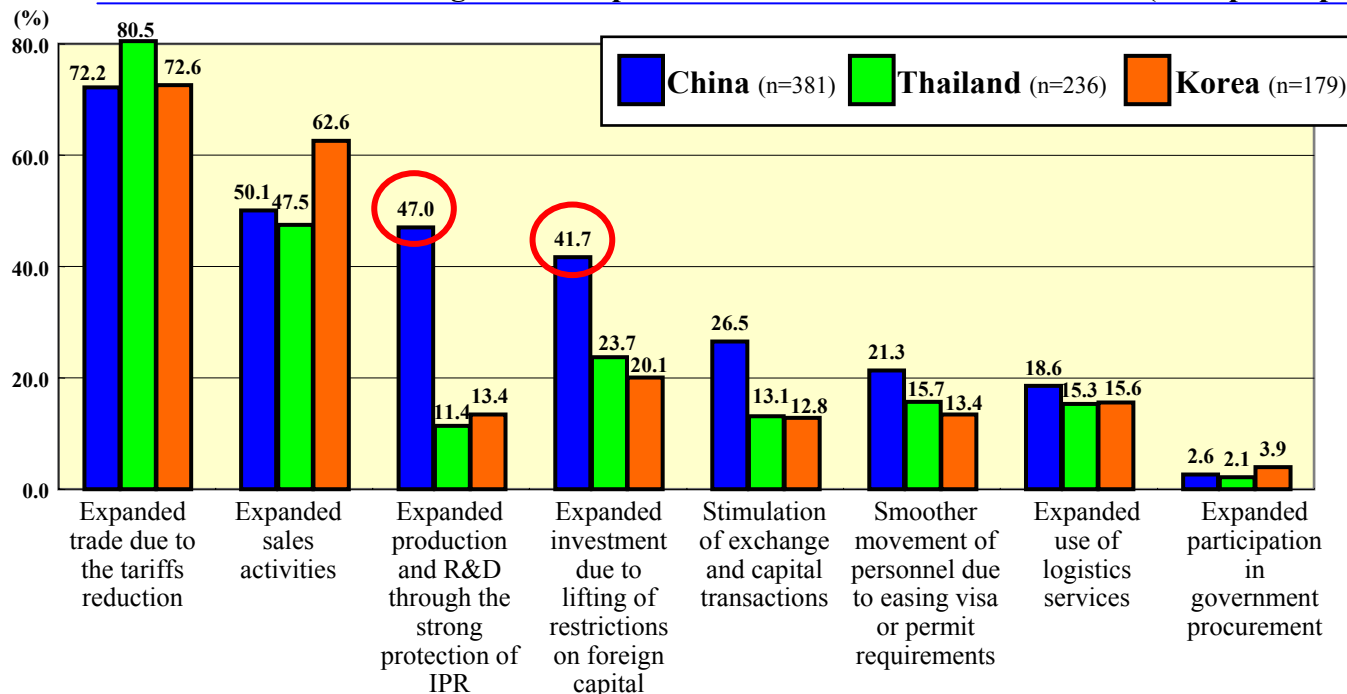
Diversifying content expected from FTAs

In recent years, FTAs (Free Trade Agreements) and EPAs (Economic Partnership Agreements) have come to include high-level content and not only trade liberalization, such as rules for investment, movement of personnel, intellectual property rights (IPR) and competition policies, and liberalizing a wide range of economic activities. This survey, showed functions of FTAs and asked companies to detail their expectations from them.

First, 72.3% of all respondents have expectations from the formation of FTAs with Japan.

Options were prepared for China, Korea and Thailand, and China received the largest number of responses (381 companies), followed by Thailand (236) and Korea (179). Among the specific content, the most common selection for each country was “Expanded trade due to the tariffs reductions”, but “Expanded sales activities” and “Expanded investment due to lifting of restrictions on foreign capital” are also common choices. A characteristic for China is that a relatively high proportion of companies chose “Expanded production and R&D through the strong protection of intellectual property rights (IPR)” (47.0%) and “Lifting of restrictions on foreign capital” (41.7%). These results indicate that many companies expect FTAs to include diverse content, besides tariff measures.

Figure 34 Expectations from the Formation of FTA (multiple responses)



(Other than the three countries above) Countries/regions where FTA is desired	No. of responding companies
India	6
Indonesia	4
Vietnam	2
Mexico	2
EU	2
ASEAN	1
Malaysia	1
Brazil	1
Russia	1
Middle East	1

Note: Companies wrote in countries or regions other than China, Korea and Thailand, where they would like to see FTAs.

Figure 35 Promising Countries/Regions for Overseas Business Operations over the Medium Term (multiple responses) (⇒See Appendix 1 for results of the FY 2002 and previous surveys)

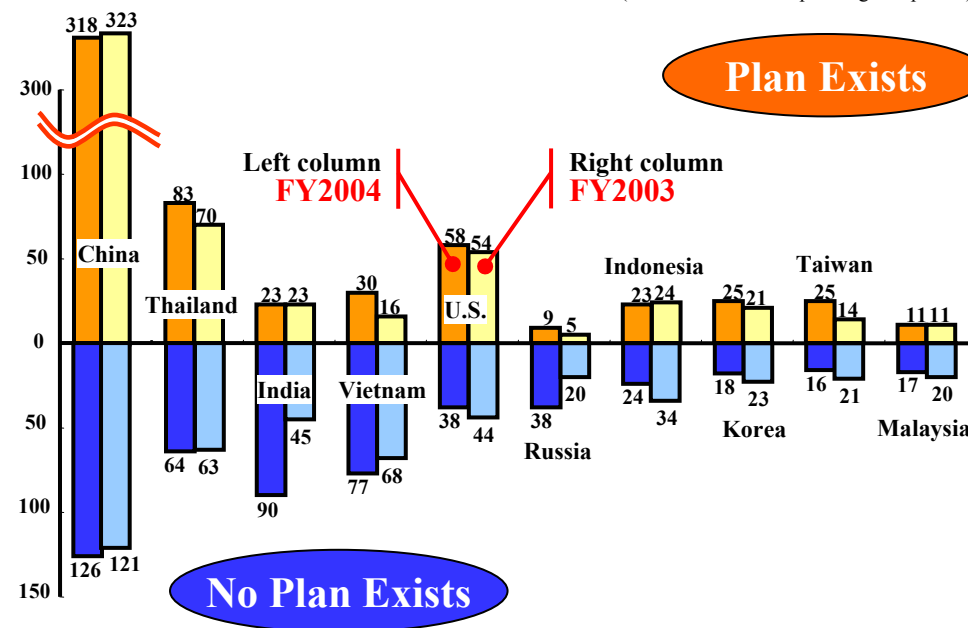
Rank	FY 2004 Survey	No.of Companies	(%)	FY 2003 Survey	No.of Companies	(%)
		497			490	
1	China	453	91	China	456	93
2	Thailand	151	30	Thailand	143	29
3	India	117	24	U.S.	106	22
4	Vietnam	110	22	Vietnam	88	18
5	U.S.	100	20	India	70	14
6	Russia	49	10	Indonesia	63	13
7	Indonesia	48	10	Korea	44	9
8	Korea	44	9	Taiwan	35	7
9	Taiwan	41	8	Malaysia	31	6
10	Malaysia	28	6	Russia	25	5
11	Singapore	17	3	Singapore	23	5
11	Germany	17	3	Philippines	18	4
13	Brazil	16	3	Czech	17	3
14	Philippines	15	3	Hong Kong	15	3
14	France	15	3	Mexico	12	2
16	Czech	12	2	Brazil	11	2
17	Australia	11	2	Germany	11	2
18	Poland	10	2	France	10	2
19	Mexico	9	2	Australia	9	2
19	U.K.	9	2	Poland	9	2

Notes)

- (1) In this survey, respondent companies cited the top 5 countries that they saw as having promising prospects for business operations in the medium term (next 3 years or so). Tallies were made based on the number of times each countries/regions was cited and the countries were listed according to that number.
- (2) Other than the countries/regions listed above, North America (listed by 44 companies, 8.9% share) and the EU (listed by 29 companies, 5.8% share) gathered some votes.

Figure 36 Existence of Concrete Business Plans for Promising Countries/Regions

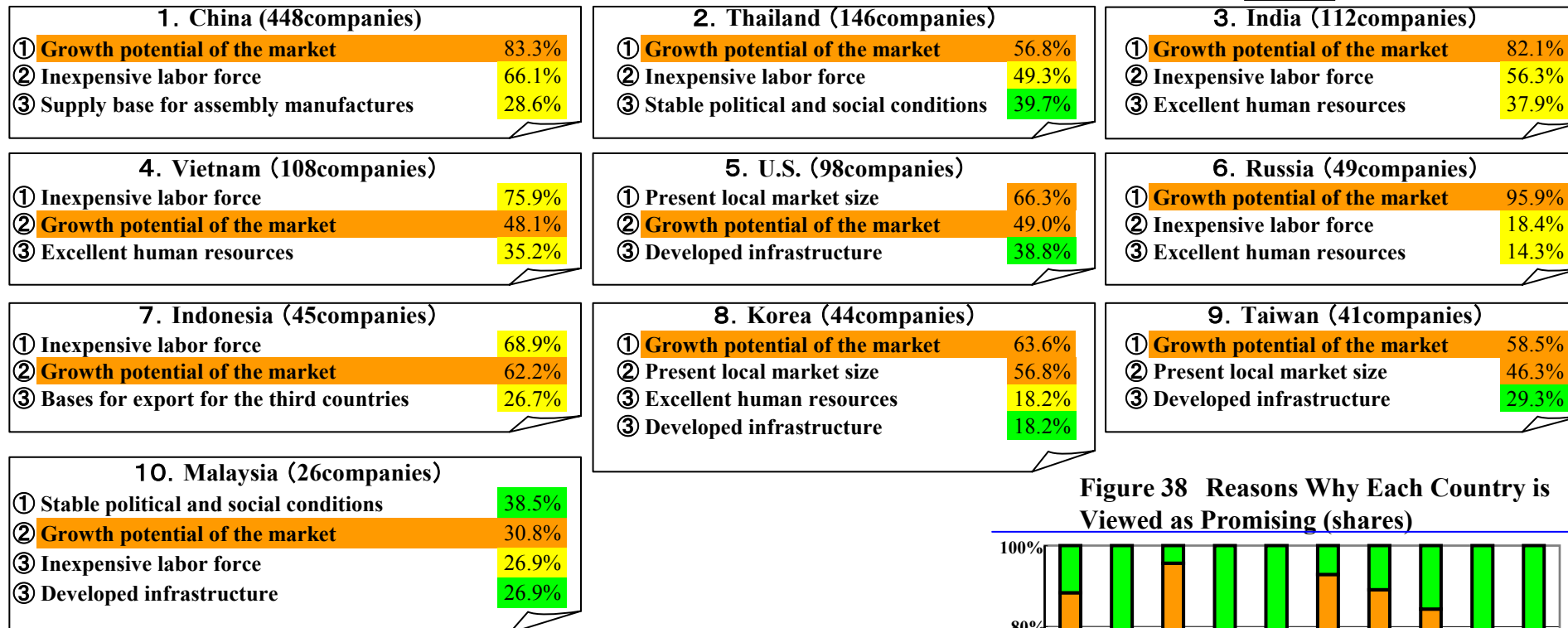
(Unit: Number of responding companies)



India and Russia rise in ranking, but expectations surpass business plans

In the countries and regions that companies view as promising for business development in the medium term (next 3 years or so), the top ten countries/regions are unchanged in this year's survey, but India, ranked the fifth last year, rose to the third place, while the tenth-place Russia rose to the sixth. Vietnam gathered more votes than in the last survey. These results imply that Japanese companies' interest in these countries is growing. However, the number of companies with no specific business plans for these countries exceeds the number of companies that actually have such plans. This is not the case for China, Thailand and the U.S.. Therefore, the ranking is considered to be a reflection of expectations for future potential, rather than realistic investment possibilities. Among the countries and regions that fell in the ranking from the last survey, Indonesia had the largest drop in votes.

Figure 37 Main Reasons for Selection of the Top Ten Most Promising Countries/Regions (⇒See Appendix 2 for details)



* Figures in parentheses are numbers of responding companies.

■ Vietnam is viewed as promising for production and Russia for sales

The reasons for promise in Figure 37 show that “Growth potential of the market” is the most common reason for all countries and regions. Although the main objective of overseas business operations differs for each company, the possibility of market growth is an important factor in attracting the interest of many companies.

Vietnam and Russia increased their votes sharply in this year’s survey. Vietnam rose due to production-related reasons such as “Inexpensive labor force” or “Excellent human resources”, while expectations for Russia, which are dominated by “Growth potential of the market”, are overwhelmingly on the sales side. China and India are valued for both production and sales reasons.

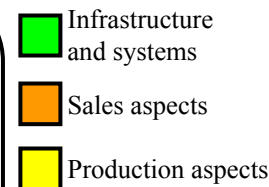


Figure 38 Reasons Why Each Country is Viewed as Promising (shares)

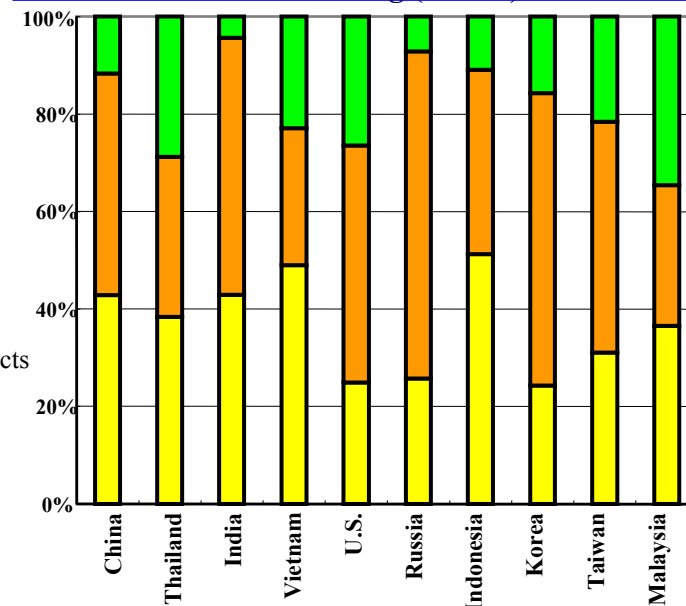
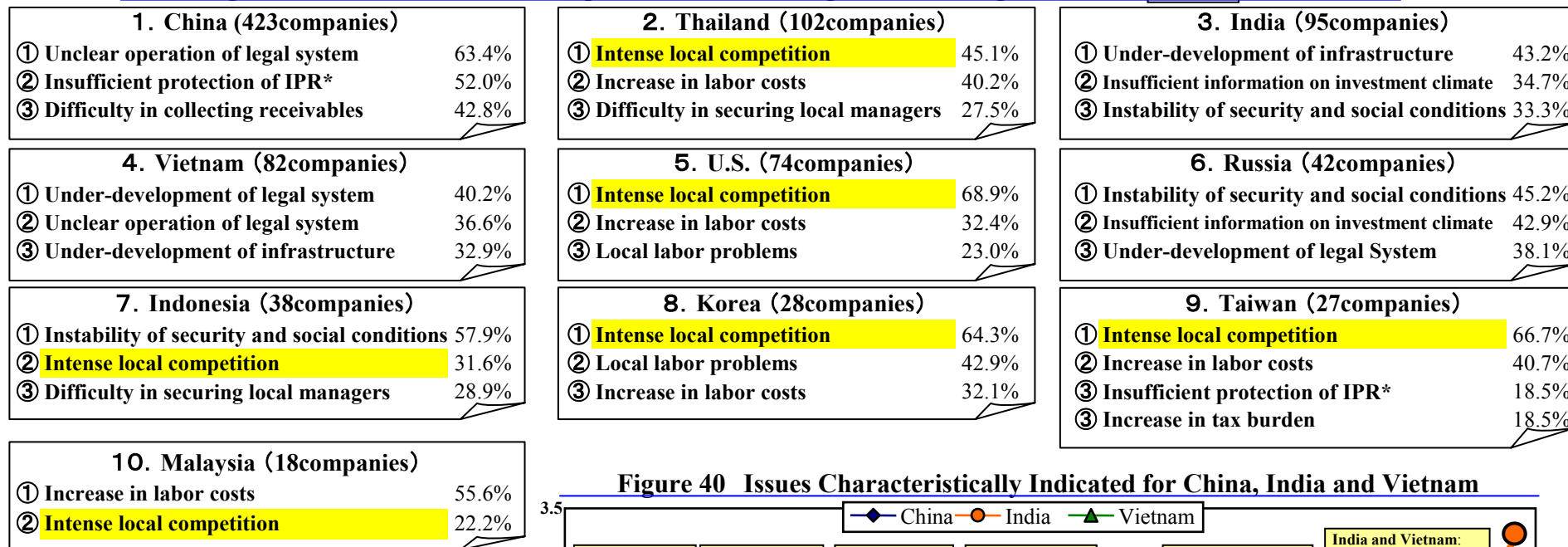


Figure 39 Main Issues for the Top Ten Most Promising Countries/Regions (⇒See Appendix 3 for details)



※ Figures in parentheses are numbers of responding companies.

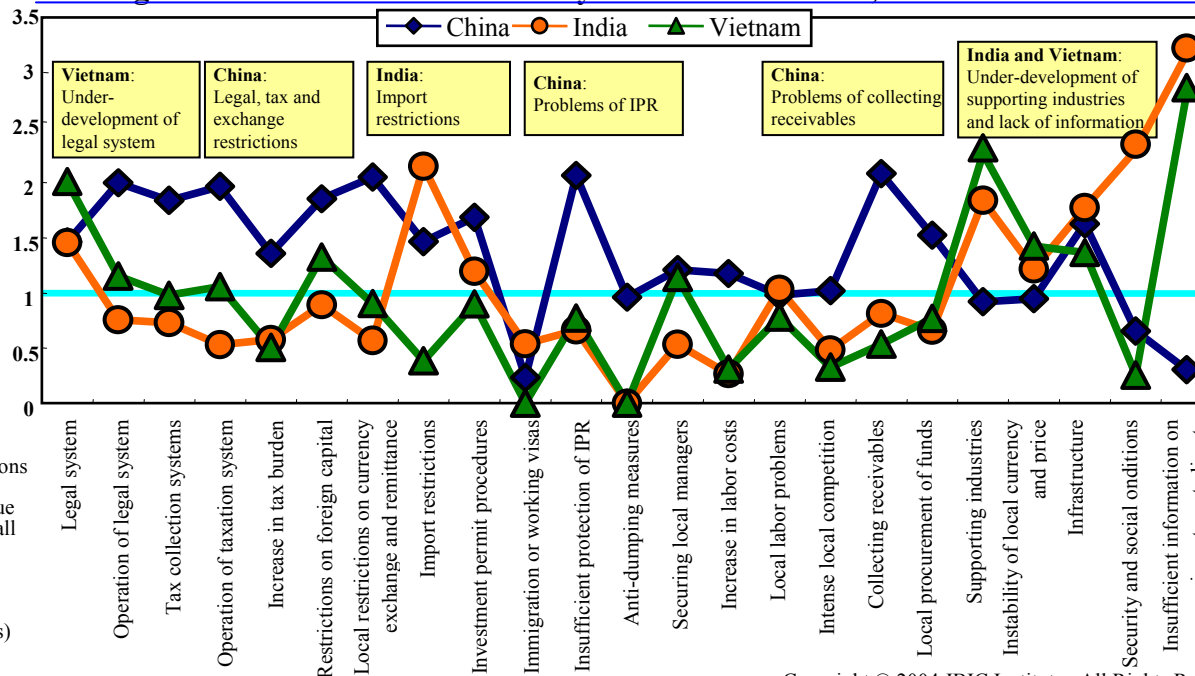
※ IPR: Intellectual Property Rights

China, India and Vietnam have unresolved issues for their investment environments

In countries such as Thailand, the U.S. and Korea, the highest ranked issue in terms of investment environment is “Intense local competition”, but in China, India and Vietnam, the issues most commonly cited by companies are legal systems, infrastructure, security and social conditions, and other basic aspects of the investment environment. Particularly in China, companies indicate such issues more than average.

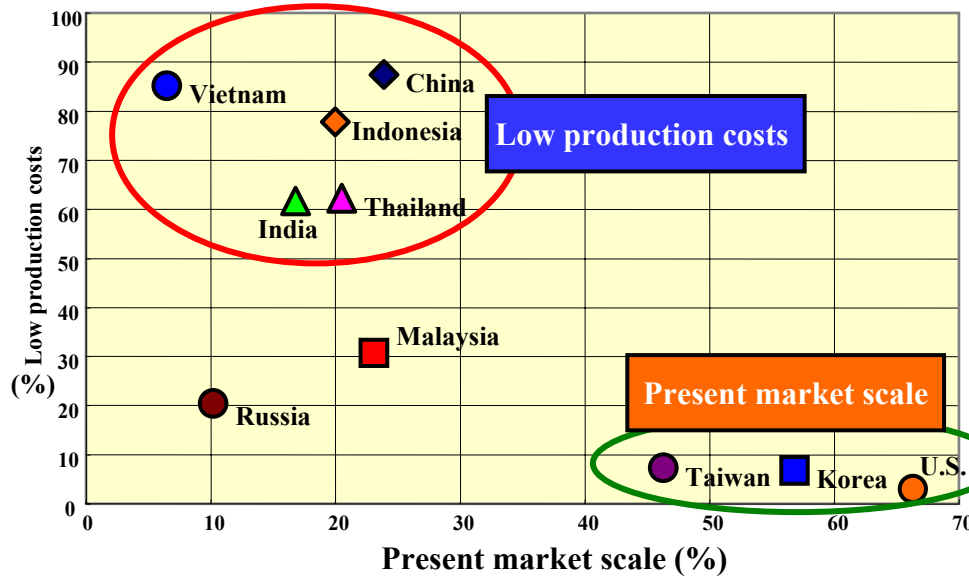
Note) The proportions of respondents indicating each issue was averaged overall and that value assigned as 1 to generate the issue indication ratio. (multiple responses)

Figure 40 Issues Characteristically Indicated for China, India and Vietnam



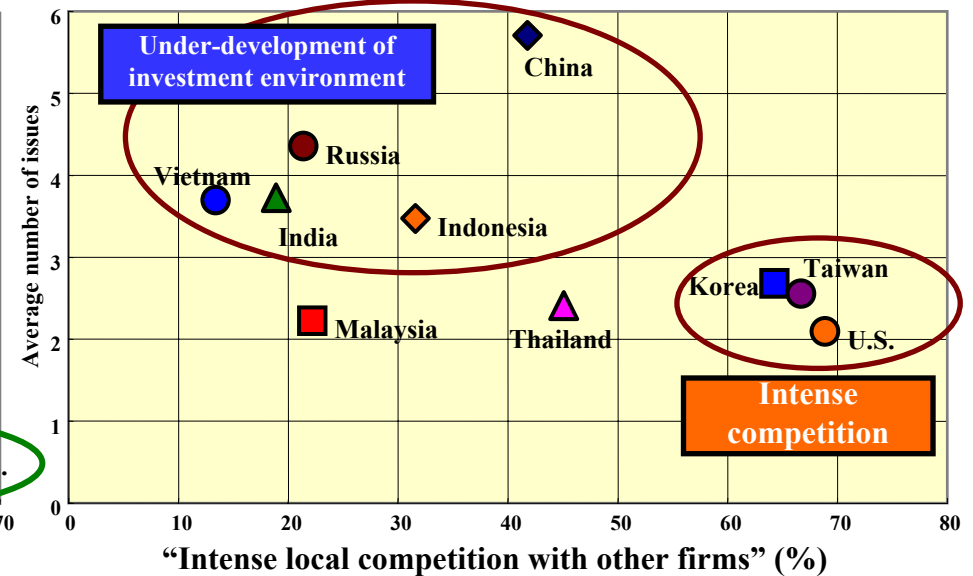
(See Appendix 3 for details)

Figure 41 Incentives for Corporate Investment



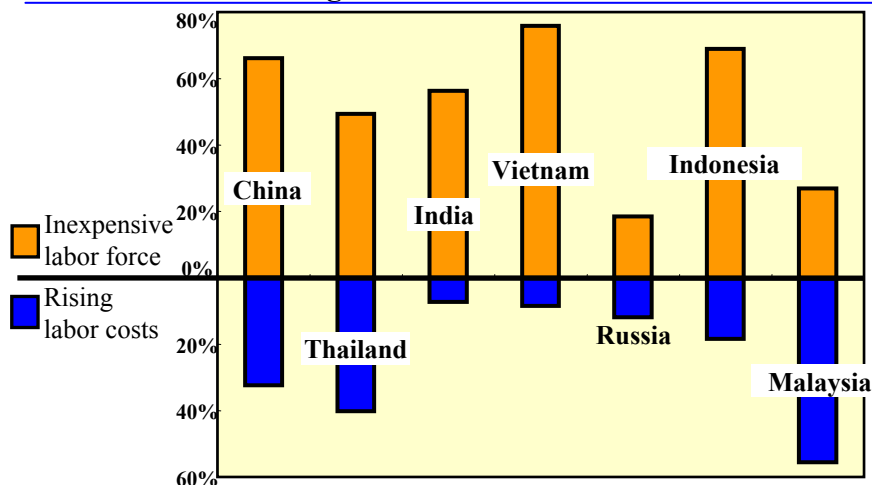
Note) The proportions naming “Inexpensive labor force” and “Inexpensive components and raw materials” as reasons for promise have been combined as “Low production costs”.

Figure 42 Issues for Corporate Investment



Note) Average number of issues: Average number of issues indicated per country.

Figure 43 The Appeal of the Inexpensive Labor Force and Concern over Rising Labor Costs



Note) The proportion indicating “Inexpensive labor force” as a reason for promise is on the upper level and the proportion indicating “Rising labor costs” is on the lower level.

China, Thailand are attractive with their low production costs, but there are concerns over rising labor costs

Besides the growth potential of their local markets, the main reason for the promise of these countries is usually low production costs (production-oriented) or the present size of the local market (market-oriented). Figure 41 classifies the top ten countries/regions according to shares of those two reasons. Issues can be broadly divided between those that can be diminished by the efforts and management of governments, and those that increase in accordance with the expansion of corporate activity (normally, a shift from the former to the latter is expected in the course of economic progress). Figure 42 plots the top ten countries/regions according to “Average number of issues” and share of “Intense local competition”.

In countries/regions where the market is already attractive, companies may face intense competition, while most of the investment environments of countries/regions where low production cost is expected are under-developed. In China, even though the investment environment is under-developed, companies face intense competition in its market. In Thailand, low production costs are expected, while there are few problems in the investment environment.

In China and Thailand, although production costs are expected to be low, there is a concern over increases in labor costs. This evaluation is diverging from the evaluation for Vietnam and India (Figure 43).

Changes for promising countries/regions over the medium term

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

Rank	FY2004 Survey	No. of companies	(%)	FY2003 Survey	No. of companies	(%)	FY2002 Survey	No. of companies	(%)	FY2001 Survey	No. of companies	(%)	FY2000 Survey	No. of companies	(%)
1	China	453	91	China	456	93	China	373	89	China	327	82	China	242	65
2	Thailand	151	30	Thailand	143	29	Thailand	118	28	U.S.	127	32	U.S.	154	41
3	India	117	24	U.S.	106	22	U.S.	108	26	Thailand	99	25	Thailand	88	24
4	Vietnam	110	22	Vietnam	88	18	Indonesia	63	15	Indonesia	56	14	Indonesia	54	15
5	U.S.	100	20	India	70	14	Vietnam	62	15	India	52	13	Malaysia	43	12
6	Russia	49	10	Indonesia	63	13	India	54	13	Vietnam	48	12	Taiwan	41	11
7	Indonesia	48	10	Korea	44	9	Korea	34	8	Taiwan	44	11	India	37	10
8	Korea	44	9	Taiwan	35	7	Taiwan	34	8	Korea	33	8	Vietnam	35	9
9	Taiwan	41	8	Malaysia	31	6	Malaysia	33	8	Malaysia	32	8	Korea	32	9
10	Malaysia	28	6	Russia	25	5	Brazil	19	5	Singapore	24	6	Philippines	30	8
11	Singapore	17	3	Singapore	23	5	Singapore	18	4	Philippines	22	5	U.K.	28	8
12	Germany	17	3	Philippines	18	4	Philippines	17	4	Germany	19	5	Singapore	25	7
13	Brazil	16	3	Czech	17	3	Germany	16	4	Brazil	18	4	Germany	25	7
14	Philippines	15	3	Hong Kong	15	3	Mexico	15	4	Mexico	18	4	Brazil	21	6
15	France	15	3	Mexico	12	2	Czech	13	3	France	17	4	Mexico	18	5
16	Czech	12	2	Brazil	11	2	U.K.	11	3	Czech	15	4	France	17	5
17	Australia	11	2	Germany	11	2	Russia	11	3	U.K.	14	3	Spain	10	3
18	Poland	10	2	France	10	2	Poland	10	2	Hungary	12	3	Canada	8	2
19	Mexico	9	2	Australia	9	2	Hong Kong	9	2	Poland	11	3	Hong Kong	8	2
20	U.K.	9	2	Poland	9	2	Hungary	9	2	Hong Kong	8	2	Australia	8	2

Promising countries/regions for SMEs over the medium term

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

Rank	FY 2004 Survey	No. of companies	(%)	FY 2003 Survey	No. of companies	(%)
1	China	94	90	China	95	90
2	Thailand	35	34	Thailand	36	34
3	Vietnam	35	34	Vietnam	30	29
4	India	25	24	Indonesia	18	17
5	Indonesia	11	11	India	16	15
6	U.S.	11	11	U.S.	11	10
7	Malaysia	9	9	Korea	10	10
8	Korea	7	7	Taiwan	7	7
9	Russia	6	6	Hong Kong	5	5
10	Taiwan	5	5	Singapore	4	4
				Malaysia	4	4

Promising countries/regions over the long term

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

Rank	FY 2004 Survey	No. of companies	(%)	FY 2003 Survey	No. of companies	(%)
1	China	341	85	China	356	87
2	India	164	41	India	123	30
3	Thailand	87	22	U.S.	88	22
4	Vietnam	84	21	Thailand	84	21
5	U.S.	82	20	Vietnam	83	20
6	Russia	82	20	Russia	43	11
7	Indonesia	39	10	Indonesia	39	10
8	Brazil	37	9	Korea	24	6
9	Korea	28	7	Brazil	23	6
10	Taiwan	17	4	Malaysia	17	4

FY 2004 Survey	1 China		2 Thailand		3 India		4 Vietnam		5 U.S.		6 Russia		7 Indonesia		8 Korea		9 Taiwan		10 Malaysia	
	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%
	448	100	146	100	112	100	108	100	98	100	49	100	45	100	44	100	41	100	26	100
1. Excellent human resources	85	19.0	27	18.5	41	36.6	38	35.2	15	15.3	7	14.3	2	4.4	8	18.2	4	9.8	2	7.7
2. Inexpensive labor force	296	66.1	72	49.3	63	56.3	82	75.9	2	2.0	9	18.4	31	68.9	2	4.5	2	4.9	7	26.9
3. Low-cost parts and raw materials	96	21.4	19	13.0	6	5.4	10	9.3	1	1.0	1	2.0	4	8.9	1	2.3	1	2.4	1	3.8
4. Supply base for assembly manufacturers	128	28.6	44	30.1	18	16.1	13	12.0	24	24.5	5	10.2	8	17.8	6	13.6	10	24.4	6	23.1
5. Industrial cluster	72	16.1	34	23.3	2	1.8	5	4.6	18	18.4	-	-	4	8.9	5	11.4	10	24.4	3	11.5
6. Risk diversification	12	2.7	17	11.6	2	1.8	27	25.0	2	2.0	2	4.1	4	8.9	1	2.3	1	2.4	5	19.2
7. Base for exports to Japan	87	19.4	19	13.0	3	2.7	20	18.5	-	-	-	-	7	15.6	1	2.3	2	4.9	4	15.4
8. Base for export to the third countries	93	20.8	40	27.4	12	10.7	22	20.4	2	2.0	1	2.0	12	26.7	4	9.1	6	14.6	7	26.9
9. Present local market size	107	23.9	30	20.5	19	17.0	7	6.5	65	66.3	5	10.2	9	20.0	25	56.8	19	46.3	6	23.1
10. Growth potential of the market	373	83.3	83	56.8	92	82.1	52	48.1	48	49.0	47	95.9	28	62.2	28	63.6	24	58.5	8	30.8
11. Product development for local needs	30	6.7	7	4.8	2	1.8	1	0.9	12	12.2	1	2.0	-	-	3	6.8	5	12.2	1	3.8
12. Developed local infrastructure	15	3.3	37	25.3	-	-	7	6.5	38	38.8	4	8.2	2	4.4	8	18.2	12	29.3	7	26.9
13. Tax incentives for investment	78	17.4	36	24.7	4	3.6	25	23.1	3	3.1	-	-	4	8.9	1	2.3	2	4.9	6	23.1
14. Stable policies to attract foreign capital	19	4.2	30	20.5	1	0.9	5	4.6	5	5.1	-	-	1	2.2	2	4.5	2	4.9	3	11.5
15. Benefits from regional integration	5	1.1	13	8.9	-	-	4	3.7	-	-	-	-	3	6.7	1	2.3	1	2.4	3	11.5
16. Stable political and social conditions	19	4.2	58	39.7	3	2.7	22	20.4	36	36.7	1	2.0	1	2.2	6	13.6	6	14.6	10	38.5

FY 2003 Survey	1 China		2 Thailand		5 India		4 Vietnam		3 U.S.		10 Russia		6 Indonesia		7 Korea		8 Taiwan		9 Malaysia	
	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%
	447	100	141	100	69	100	85	100	103	100	25	100	62	100	42	100	33	100	30	100
1. Excellent human resources	108	24.2	26	18.4	21	30.4	30	35.3	25	24.3	1	4.0	3	4.8	9	21.4	6	18.2	5	16.7
2. Inexpensive labor force	335	74.9	81	57.4	41	59.4	63	74.1	2	1.9	2	8.0	42	67.7	3	7.1	1	3.0	12	40.0
3. Low-cost parts and raw materials	153	34.2	16	11.3	10	14.5	11	12.9	1	1.0	1	4.0	8	12.9	3	7.1	2	6.1	4	13.3
4. Supply base for assembly manufacturers	128	28.6	48	34.0	17	24.6	12	14.1	27	26.2	1	4.0	17	27.4	2	4.8	5	15.2	7	23.3
5. Industrial cluster	64	14.3	30	21.3	2	2.9	2	2.4	20	19.4	1	4.0	7	11.3	8	19.0	8	24.2	1	3.3
6. Risk diversification	20	4.5	18	12.8	3	4.3	27	31.8	5	4.9	1	4.0	5	8.1	3	7.1	2	6.1	7	23.3
7. Base for exports to Japan	100	22.4	28	19.9	7	10.1	21	24.7	-	-	-	-	9	14.5	1	2.4	1	3.0	7	23.3
8. Base for export to the third countries	98	21.9	42	29.8	12	17.4	18	21.2	4	3.9	-	-	17	27.4	4	9.5	6	18.2	4	13.3
9. Present local market size	88	19.7	24	17.0	13	18.8	5	5.9	63	61.2	4	16.0	11	17.7	17	40.5	19	57.6	2	6.7
10. Growth potential of the market	368	82.3	72	51.1	53	76.8	35	41.2	50	48.5	23	92.0	35	56.5	28	66.7	10	30.3	9	30.0
11. Product development for local needs	35	7.8	9	6.4	2	2.9	1	1.2	17	16.5	-	-	2	3.2	4	9.5	2	6.1	2	6.7
12. Developed local infrastructure	42	9.4	33	23.4	2	2.9	4	4.7	37	35.9	1	4.0	4	6.5	15	35.7	6	18.2	8	26.7
13. Tax incentives for investment	78	17.4	35	24.8	3	4.3	12	14.1	3	2.9	-	-	4	6.5	2	4.8	2	6.1	7	23.3
14. Stable policies to attract foreign capital	20	4.5	21	14.9	1	1.4	6	7.1	6	5.8	-	-	2	3.2	3	7.1	1	3.0	7	23.3
15. Benefits from regional integration	6	1.3	13	9.2	1	1.4	2	2.4	-	-	-	-	6	9.7	-	-	-	-	2	6.7
16. Stable political and social conditions	18	4.0	48	34.0	1	1.4	17	20.0	39	37.9	-	-	-	-	5	11.9	6	18.2	10	33.3

FY 2004 Survey	1 China		2 Thailand		3 India		4 Vietnam		5 U.S.		6 Russia		7 Indonesia		8 Korea		9 Taiwan		10 Malaysia	
	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%
	423	100	102	100	95	100	82	100	74	100	42	100	38	100	28	100	27	100	18	100
1. Under-development of local legal system	124	29.3	2	2.0	28	29.5	33	40.2	-	-	16	38.1	4	10.5	1	3.6	2	7.4	1	5.6
2. Unclear operation of local legal system	268	63.4	8	7.8	23	24.2	30	36.6	-	-	15	35.7	8	21.1	-	-	1	3.7	1	5.6
3. Complex local tax collection systems	78	18.4	8	7.8	7	7.4	8	9.8	-	-	4	9.5	7	18.4	-	-	-	-	2	11.1
4. Unclear operation of taxation system	163	38.5	8	7.8	10	10.5	17	20.7	-	-	5	11.9	9	23.7	2	7.1	3	11.1	1	5.6
5. Increase in tax burden	83	19.6	17	16.7	8	8.4	6	7.3	13	17.6	2	4.8	4	10.5	4	14.3	5	18.5	2	11.1
6. Restrictions on foreign capital	137	32.4	11	10.8	15	15.8	19	23.2	-	-	7	16.7	4	10.5	2	7.1	-	-	3	16.7
7. Complex and vague investment permit procedures	87	20.6	9	8.8	14	14.7	9	11.0	1	1.4	8	19.0	4	10.5	-	-	-	-	2	11.1
8. Difficulty in obtaining immigration or working visas	4	0.9	2	2.0	2	2.1	-	-	13	17.6	4	9.5	1	2.6	1	3.6	-	-	-	-
9. Insufficient protection of intellectual property rights	220	52.0	5	4.9	16	16.8	16	19.5	1	1.4	7	16.7	4	10.5	7	25.0	5	18.5	1	5.6
10. Local restrictions on currency exchange and remittance	176	41.6	8	7.8	11	11.6	15	18.3	1	1.4	7	16.7	1	2.6	2	7.1	4	14.8	3	16.7
11. Import restrictions	39	9.2	5	4.9	13	13.7	2	2.4	2	2.7	4	9.5	-	-	1	3.6	3	11.1	-	-
12. Anti-dumping measures	15	3.5	4	3.9	-	-	-	-	16	21.6	-	-	-	-	-	-	-	-	-	-
13. Difficulty in securing local personnel (management level)	120	28.4	28	27.5	12	12.6	22	26.8	12	16.2	6	14.3	11	28.9	3	10.7	4	14.8	3	16.7
14. Increase in labor costs	137	32.4	41	40.2	6	6.3	7	8.5	24	32.4	5	11.9	7	18.4	9	32.1	11	40.7	10	55.6
15. Local labor problems	71	16.8	13	12.7	17	17.9	11	13.4	17	23.0	6	14.3	8	21.1	12	42.9	3	11.1	3	16.7
16. Intense local competition	177	41.8	46	45.1	18	18.9	11	13.4	51	68.9	9	21.4	12	31.6	18	64.3	18	66.7	4	22.2
17. Difficulty in collecting receivables	181	42.8	2	2.0	16	16.8	9	11.0	-	-	10	23.8	1	2.6	2	7.1	2	7.4	-	-
18. Difficulty in local financial access	41	9.7	4	3.9	4	4.2	4	4.9	-	-	6	14.3	1	2.6	3	10.7	1	3.7	1	5.6
19. Under-development of local supporting industries	42	9.9	6	5.9	19	20.0	20	24.4	2	2.7	8	19.0	4	10.5	1	3.6	-	-	1	5.6
20. Instability of local currency and price	31	7.3	4	3.9	9	9.5	9	11.0	-	-	10	23.8	9	23.7	-	-	1	3.7	-	-
21. Under-development of infrastructure	166	39.2	9	8.8	41	43.2	27	32.9	-	-	7	16.7	8	21.1	1	3.6	1	3.7	1	5.6
22. Unstable local security and social conditions	40	9.5	4	3.9	32	33.7	3	3.7	2	2.7	19	45.2	22	57.9	4	14.3	4	14.8	1	5.6
23. Insufficient information on investment climate	14	3.3	2	2.0	33	34.7	25	30.5	-	-	18	42.9	3	7.9	2	7.1	1	3.7	-	-
FY 2003 Survey	1 China		2 Thailand		3 India		4 Vietnam		5 U.S.		6 Russia		7 Indonesia		8 Korea		9 Taiwan		10 Malaysia	
	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%
	427	100	106	100	60	100	71	100	78	100	22	100	52	100	31	100	24	100	21	100
1. Under-development of local legal system	128	30.0	4	3.8	15	25.0	26	36.6	-	-	6	27.3	8	15.4	-	-	2	8.3	-	-
2. Unclear operation of local legal system	280	65.6	10	9.4	17	28.3	28	39.4	-	-	12	54.5	13	25.0	1	3.2	-	-	-	-
3. Complex local tax collection systems	103	24.1	9	8.5	9	15.0	4	5.6	1	1.3	1	4.5	5	9.6	-	-	-	-	-	-
4. Unclear operation of taxation system	175	41.0	10	9.4	12	20.0	12	16.9	-	-	5	22.7	5	9.6	2	6.5	1	4.2	-	-
5. Increase in tax burden	67	15.7	15	14.2	5	8.3	5	7.0	9	11.5	-	-	4	7.7	2	6.5	1	4.2	4	19.0
6. Restrictions on foreign capital	141	33.0	12	11.3	8	13.3	19	26.8	-	-	3	13.6	1	1.9	3	9.7	-	-	5	23.8
7. Complex and vague investment permit procedures	115	26.9	8	7.5	10	16.7	18	25.4	1	1.3	1	4.5	4	7.7	1	3.2	-	-	-	-
8. Difficulty in obtaining working visas	15	3.5	5	4.7	4	6.7	1	1.4	11	14.1	1	4.5	4	7.7	-	-	-	-	1	4.8
9. Insufficient protection of intellectual property rights	197	46.1	11	10.4	10	16.7	14	19.7	-	-	2	9.1	10	19.2	5	16.1	5	20.8	-	-
10. Local restrictions on currency exchange and remittance	175	41.0	4	3.8	9	15.0	10	14.1	1	1.3	1	4.5	1	1.9	4	12.9	3	12.5	4	19.0
11. Import restrictions	70	16.4	5	4.7	7	11.7	11	15.5	-	-	1	4.5	3	5.8	1	3.2	-	-	-	-
12. Anti-dumping measures	19	4.4	1	0.9	1	1.7	1	1.4	10	12.8	-	-	1	1.9	2	6.5	-	-	-	-
13. Difficulty in securing local personnel (management level)	111	26.0	39	36.8	7	11.7	25	35.2	9	11.5	2	9.1	12	23.1	3	9.7	3	12.5	2	9.5
14. Increase in labor costs	85	19.9	31	29.2	6	10.0	3	4.2	25	32.1	-	-	10	19.2	11	35.5	6	25.0	5	23.8
15. Local labor problems	60	14.1	12	11.3	16	26.7	8	11.3	12	15.4	1	4.5	20	38.5	8	25.8	2	8.3	3	14.3
16. Intense local competition	159	37.2	47	44.3	13	21.7	6	8.5	57	73.1	4	18.2	14	26.9	22	71.0	14	58.3	10	47.6
17. Request for technology transfer and performance	34	8.0	6	5.7	5	8.3	4	5.6	2	2.6	-	-	3	5.8	2	6.5	-	-	1	4.8
18. Difficulty in collecting receivables	176	41.2	2	1.9	9	15.0	7	9.9	-	-	4	18.2	1	1.9	2	6.5	-	-	-	-
19. Difficulty in local financial access	38	8.9	3	2.8	2	3.3	8	11.3	-	-	-	-	3	5.8	-	-	-	-	2	9.5
20. Under-development of local supporting industries	54	12.6	5	4.7	13	21.7	20	28.2	1	1.3	1	4.5	11	21.2	-	-	-	-	2	9.5
21. Instability of local currency and price	17	4.0	6	5.7	5	8.3	5	7.0	-	-	5	22.7	17	32.7	2	6.5	-	-	1	4.8
22. Under-development of infrastructure	67	15.7	9	8.5	27	45.0	33	46.5	-	-	4	18.2	13	25.0	-	-	-	-	1	4.8
23. Unstable local political and social conditions	47	11.0	3	2.8	11	18.3	5	7.0	1	1.3	7	31.8	28	53.8	2	6.5	-	-	-	-
24. Insufficient information on investment climate	21	4.9	4	3.8	13	21.7	27	38.0	-	-	7	31.8	3	5.8	2	6.5	1	4.2	-	-

