Section 3 Competitiveness of Japanese multinationals

1. Changes in and the current status of competitiveness in cross-border activities

(1) Business activity bases of Japanese companies

(A) Domestic companies and overseas affiliates

Where do Japanese companies sell products and services and earn profits as they expand internationally? We will look at changes in the weighting of business activities between domestic and overseas bases.

If we look at trends in sales, which are the basic element of business activity, of Japanese companies classified into domestic companies and overseas affiliates, we can see that both groups expanded their sales in the 2000s, at least until the collapse of Lehman Brothers. However, the ratio of overseas affiliates to domestic companies in terms of sales (hereinafter referred to as the “overseas ratio”) rose moderately (Figure II-1-3-1-1)\(^{103}\). Although the overseas ratio temporarily declined in the wake of the collapse of Lehman Brothers, it is showing signs of rising again.

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\(^{103}\) Domestic companies include both those that own overseas affiliates and those that do not. With respect to domestic companies, data from the Basic Survey of Japanese Business Structure and Activities was used, and with respect to overseas affiliates, data from the Basic Survey on Overseas Business Activities was used. In both of these surveys, financial results were compiled on a non-consolidated basis, rather than on a consolidated basis, so it is possible to analyze trends concerning parent companies’ non-consolidated business performance, excluding the results of subsidiaries. Although there are variances among the survey subject companies in sector type, scale, the ratio of capital contribution, etc., it is possible to look at time-sequential changes through comparisons of these surveys.

\(^{104}\) The Basic Survey of Japanese Business Structure and Activities covers companies located in Japan with a workforce of 50 employees or more and with capital of 30 million yen or higher in the manufacturing, wholesale trade, retail trade and some services industries. The Basic Survey on Overseas Business Activities covers Japanese companies in sectors other than the financial, insurance and real estate industries which own overseas Japanese subsidiaries. In this case, overseas affiliates refer to overseas corporations (subsidiaries) for which the ratio of Japanese capital contribution is 10% or higher. Survey forms are sent to parent companies in Japan and data concerning both the parent companies and overseas affiliates are collected. In FY2012, survey forms were sent to 8,662 companies, of which 6,615 gave responses, translating into a response ratio of 76.4%.

\(^{105}\) During the same period, as international expansion by Japanese companies proceeded, the number of overseas affiliates increased, resulting in a rise in the overseas ratio from 12.4% to 18.6%.

\(^{106}\) In this section, we use the results of the Basic Survey of Japanese Business Structure and Activities and the Basic Survey on Overseas Business Activities up to the FY2012 version—the latest version available. This is because although some data for FY2013 were published on a preliminary basis, most data, including raw data, are only available for the years up to FY2012.
As for changes in ordinary profits, both domestic companies and overseas affiliates recorded profit growth, as in the case of sales. However, as profits of overseas affiliates grew more rapidly in the 2000s, the overseas ratio rose (Figure II-1-3-1-2). Although this trend continued after the collapse of Lehman Brothers, the overseas ratio fell after the Great East Japan Earthquake.
The retained earnings balance, which represents the accumulation of profits, also increased for both domestic companies and overseas affiliates in the 2000s until the collapse of Lehman Brothers, but the overseas ratio rose steeply as the pace of increase was faster for overseas affiliates (Figure II-1-3-1-3).
Between FY1995 and 2012, the overseas ratio doubled in terms of sales, tripled in terms of ordinary profits and jumped eight-fold in terms of retained earnings balance. In particular, the trend of earning profits and accumulating retained earnings abroad is growing (Figure II-1-3-1-4).

(B) Differences within domestic companies

Next, we will examine whether there are differences in business performance between domestic companies owning overseas affiliates (internationally active domestic companies) and other domestic companies\textsuperscript{107,108}. First, regarding sales, there is apparently no clear difference, with both groups

\begin{center}
\begin{tabular}{|l|c|c|c|}
\hline
 & 1995 & 2012 & Changes \\
\hline
Sales & 15.6 & 29.5 & Double \\
Ordinary profits & 10.1 & 31.7 & Triple \\
Retained earnings balance & 2.4 & 19.2 & Eight times \\
\hline
\end{tabular}
\end{center}

\textsuperscript{107} Internationally active domestic companies are domestic companies that owned overseas affiliates in a relevant year. Specifically, the Basic Survey of Japanese Business Structure and Activities covers companies that own overseas subsidiaries (with ratio of capital contribution at 50% or higher) or affiliates (with ratio of capital contribution at 20% to 50%). As the Basic Survey on Overseas Business Activities covers overseas affiliates with a ratio of Japanese capital contribution of 10% or higher,
registering moderate sales growth (Figure II-1-3-1-5).

**Figure II-1-3-1-5  Internationally active domestic companies and other domestic companies (sales)**

In terms of ordinary profits, while internationally active domestic companies posted significant profit growth, other domestic companies recorded moderate profit growth (Figure II-1-3-1-6). However, the profit amount of internationally active domestic companies temporarily dropped steeply after the collapse of Lehman Brothers, before starting to recover in FY2012.

Notes:
1. Internationally active domestic companies mean those having overseas affiliates in the target fiscal years.
2. Because of the limitation of statistics, domestic companies refer to companies in the sectors of manufacturing, wholesaling/retailing, and some other services. Overseas affiliates include companies in all sectors excluding finance, insurance and real estate.

Source: Recalculated data based on the answers collected at the Basic Survey of Japanese Enterprise Activities and the Survey of Overseas Business Activities (METI).

In terms of ordinary profits, while internationally active domestic companies posted significant profit growth, other domestic companies recorded moderate profit growth (Figure II-1-3-1-6). However, the profit amount of internationally active domestic companies temporarily dropped steeply after the collapse of Lehman Brothers, before starting to recover in FY2012.

Notes:
1. Internationally active domestic companies mean those having overseas affiliates in the target fiscal years.
2. Because of the limitation of statistics, domestic companies refer to companies in the sectors of manufacturing, wholesaling/retailing, and some other services. Overseas affiliates include companies in all sectors excluding finance, insurance and real estate.

Source: Recalculated data based on the answers collected at the Basic Survey of Japanese Enterprise Activities and the Survey of Overseas Business Activities (METI).

108 Some companies that do not own overseas affiliates are involved in international business by directly or indirectly engaging in export. However, here, for convenience’s sake, companies are defined as internationally active or otherwise on the basis of whether or not they own overseas affiliates. Internationally active companies are examples of multinationals.
Internationally active domestic companies and other domestic companies
(ordinary profits)

Notes:
1. Internationally active domestic companies mean those having overseas affiliates in the target fiscal years.
2. Because of the limitation of statistics, domestic companies refer to companies in the sectors of manufacturing, wholesaling/retailing and some other services. Overseas affiliates include companies in all sectors excluding finance, insurance and real estate. Source: Recalculated data based on the answers collected at the Basic Survey of Japanese Enterprise Activities and the Survey of Overseas Business Activities (METI).

One presumed factor behind the widening gap in terms of ordinary profits is a difference in the mix of major industries. While the manufacturing industry—including transportation equipment, chemicals and general-purpose machinery—is leading the steep growth in ordinary profits among internationally active domestic companies, the non-manufacturing industry—including wholesale and retail trade, services and computer software/information processing—is supporting profit growth among other domestic companies (Figure II-1-3-1-7).
Amid the growth in ordinary profits, the retained earnings balance, which represents the accumulation of profits, has stayed at a higher level for internationally actively domestic companies.

Notes:
1. Internationally active domestic companies mean those having overseas subsidies or affiliates (with a ratio of capital contribution at 20% or higher) in the target fiscal years.
2. Figures show the major sectors in FY2012.
than for other domestic companies (Figure II-1-3-1-8).

Figure II-1-3-1-8  Internationally active domestic companies and other domestic companies
(retained earnings balance)

(Trillion yen)

Notes:
1. Internationally active domestic companies mean those having overseas affiliates in the target fiscal years.
2. Because of the limitation of statistics, domestic companies refer to companies in the sectors of manufacturing, wholesaling/retailing, and some other services. Overseas affiliates include companies in all sectors excluding finance, insurance and real estate.
Source: Recalculated data based on the answers collected at the Basic Survey of Japanese Enterprise Activities and the Survey of Overseas Business Activities (METI).

(C) International expansion

Here, we will identify the overseas countries in which Japanese affiliates are operating and the sectors in which they are expanding business operations. At the beginning of the 2000s, the United States was the country with the largest presence as a location for overseas affiliates in terms of all sales, ordinary profits and retained earnings balance; but, the presence of China and other emerging countries/regions is growing (Figures II-1-3-1-9, II-1-3-1-10 and II-1-3-1-11). Although the business performance of overseas affiliates in the United States deteriorated and those affiliates experienced a drop in sales following the collapse of Lehman Brothers, ordinary profits dropped more steeply—with the result that overseas affiliates in China outperformed their equivalents in the United States in terms of ordinary profits. However, the retained earnings balance, which represents the accumulation of past profits, is largest for overseas affiliates in the United States, and the balances for overseas affiliates in China, Thailand, Australia and Brazil have stayed mostly flat. Although China is catching up with the United States in terms of sales for overseas affiliates, the gap between them in terms of the retained earnings balance is still wide.

In FY2012, major locations of sales, ordinary profits and retained earnings for overseas Japanese affiliates included: the United States; Asia-Pacific countries, such as China; ASEAN members, including Thailand, Singapore and Indonesia, the Republic of Korea, Taiwan and Hong Kong and
Australia; European countries, including the Netherlands and the United Kingdom; and Latin American countries, including Brazil.

Figure II-1-3-1-9  Sales of Japanese overseas affiliates by country/region of location

<table>
<thead>
<tr>
<th>Year</th>
<th>United States</th>
<th>China</th>
<th>Thailand</th>
<th>Singapore</th>
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<td>2012</td>
<td>20</td>
<td></td>
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</tr>
</tbody>
</table>

Notes:
1. Data in the survey answers was recalculated for overseas affiliates in operation.
2. Figures show the major sectors in FY2012.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes: Data in the survey answers was recalculated for overseas affiliates in operation.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Figure II-1-3-1-10  Ordinary profits of Japanese overseas affiliates by country/region of location (Changes)

Notes:
1. Data in the survey answers was recalculated for overseas affiliates in operation.
2. Figures show the top five countries in FY2012.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes: Data in the survey answers was recalculated for overseas affiliates in operation.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Next, we will take a look at trends concerning overseas affiliates by sector. First, regarding the manufacturing industry, the electrical machinery and transportation equipment sectors have generated...
by far the largest amount of sales. In the 2000s until the collapse of Lehman Brothers, the electrical machinery sector registered moderate sales growth while the transportation equipment sector posted a steep increase\(^\text{109}\) (Figure II-1-3-1-12). The chemicals and general-purpose machinery sectors also registered moderate growth. Although all these sectors suffered sales declines as a result of the collapse of Lehman Brothers in 2008, they have been on a path of moderate recovery since then. Basically, a similar trend is also observed with respect to ordinary profits. While the transportation equipment sector generates the largest amount of ordinary profits, the chemicals sector also has a significant presence as its amount of ordinary profits have stayed higher than those of the electrical machinery sector (Figure II-1-3-1-13). The trend concerning the retained earnings balance is similar (Figure II-1-3-1-14). As for the non-manufacturing industry, the wholesale trade sector has by far the largest presence in terms of all sales, ordinary profits and retained earnings. In terms of sales, the retail trade, transport, services, information and communications sectors are growing moderately, albeit from a low base. The mining sector’s performance is somewhat unusual: although its sales are lower than those of the wholesale trade sector, its ordinary profits grew rapidly, reaching almost the same level as the wholesale trade sector’s profits before the collapse of Lehman Brothers. After the collapse of Lehman Brothers, the mining sector’s ordinary profits fell steeply. In FY2012, the retained earnings balance was higher for the non-manufacturing industry, whose share of the overall balance came to 60%, than for the manufacturing industry, with a share of 40%. In the manufacturing industry, the transportation equipment sector had the largest share, followed by the general-purpose machinery, chemicals and electrical machinery sectors. In the non-manufacturing industry, the wholesale trade sector had the largest share, followed by the mining and services sectors (Figure II-1-3-1-15).

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\(^{109}\) The sector classification in the Basic Survey on Overseas Business Activities may be revised in some years. Here, in order to enable consistent examination of statistics over time, a relatively broad sector classification was made through re-tabulation of raw data. The manufacturing industry was classified into 13 sectors (food; textiles; lumber, wood, paper and pulp; chemicals; petroleum and coal; ceramic, stone and clay products; iron and steel; nonferrous metals; metal products; general-purpose machinery; electrical machinery; transportation equipment; and miscellaneous manufacturing sectors), while the non-manufacturing industry was classified into nine sectors (agriculture, forestry and fisheries; mining; construction; information and communications; transport; wholesale trade; retail trade; services; and miscellaneous non-manufacturing sectors). Consequently, data concerning the general-purpose machinery, production machinery and business machinery sectors in the latest survey were tabulated as data concerning the “general-purpose machinery” sector, and data concerning the electrical machinery and the information and communication electronics equipment sectors was tabulated as data concerning the “electrical machinery” sector.
Figure II-1-3-1-12  Changes in sales of Japanese overseas affiliates by major industry

(Manufacturing industry)

<table>
<thead>
<tr>
<th>Event</th>
<th>Year</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian currency crisis</td>
<td>1997</td>
<td>Data collected from the survey answers was recalculated for overseas affiliates in operation.</td>
</tr>
<tr>
<td>Burst of IT bubble</td>
<td>2001</td>
<td>Data categorized by the sector classification was recategorized by the larger classification so as to continue comparing them in a chronological order.</td>
</tr>
<tr>
<td>Lehman Brothers</td>
<td>2008</td>
<td>Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).</td>
</tr>
<tr>
<td>Great East Japan</td>
<td>2011</td>
<td>Earthquake</td>
</tr>
</tbody>
</table>

(Non-manufacturing industry)

<table>
<thead>
<tr>
<th>Event</th>
<th>Year</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian currency crisis</td>
<td>1997</td>
<td>Data collected from the survey answers was recalculated for overseas affiliates in operation.</td>
</tr>
<tr>
<td>Burst of IT bubble</td>
<td>2001</td>
<td>Data categorized by the sector classification was recategorized by the larger classification so as to continue comparing them in a chronological order.</td>
</tr>
<tr>
<td>Lehman Brothers</td>
<td>2008</td>
<td>Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).</td>
</tr>
<tr>
<td>Great East Japan</td>
<td>2011</td>
<td>Earthquake</td>
</tr>
</tbody>
</table>
Figure II-1-3-1-13  Changes in ordinary profits of Japanese overseas affiliates by major industry

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>(Manufacturing industry)</th>
<th>(Non-manufacturing industry)</th>
</tr>
</thead>
<tbody>
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<td>1995</td>
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<td>1999</td>
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<tr>
<td>2000</td>
<td>Burst of IT bubble in the United States (2001)</td>
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<tr>
<td>2001</td>
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<td>2006</td>
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<tr>
<td>2007</td>
<td>Collapse of Lehman Brothers (2008)</td>
<td>Transportation equipment</td>
<td>Wholesale trade</td>
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<tr>
<td>2008</td>
<td></td>
<td>Electric machinery</td>
<td>Mining</td>
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<td>2009</td>
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<td>Chemicals</td>
<td>Services</td>
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<td>2010</td>
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<td>General machinery</td>
<td>Retail trade</td>
</tr>
<tr>
<td>2011</td>
<td>Great East Japan Earthquake (2011)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
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<td></td>
</tr>
</tbody>
</table>

Notes:
1. Data in the survey answers was recalculated for overseas affiliates in operation.
2. Data categorized by the sector classification was recategorized by the larger classification so as to continue comparing them in a chronological order.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Figure II-1-3-1-14  Changes in retained earnings balance of Japanese overseas affiliates by major industry

(Manufacturing industry)

<table>
<thead>
<tr>
<th>Event</th>
<th>Graph</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian currency crisis (1997)</td>
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<td></td>
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<tr>
<td>Burst of IT bubble in the United States (2001)</td>
<td></td>
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<tr>
<td>Collapse of Lehman Brothers (2008)</td>
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<td></td>
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<tr>
<td>Great East Japan Earthquake (2011)</td>
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</table>

(Non-manufacturing industry)

<table>
<thead>
<tr>
<th>Event</th>
<th>Graph</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian currency crisis (1997)</td>
<td></td>
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</tr>
<tr>
<td>Burst of IT bubble in the United States (2001)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collapse of Lehman Brothers (2008)</td>
<td></td>
<td></td>
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<tr>
<td>Great East Japan Earthquake (2011)</td>
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</tbody>
</table>

Notes:
1. Data in the survey answers was recalculated for overseas affiliates in operation.
2. Data categorized by the sector classification was recategorized by the larger classification so as to continue comparing them in a chronological order.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
It should be borne in mind that the sector type of an overseas affiliate may be different from that of its headquarters in Japan. For example, a company engaging in manufacturing may set up not only overseas affiliates engaging in manufacturing but also those engaging in other activities, such as importing finished products from Japan for local sales and conducting maintenance and inspection and research and development intended to create products suited to local markets. The divergence in sector type between the headquarters in Japan and overseas affiliates, which could also happen within Japan, may be regarded as an example of manufacturers advancing into services. In cases like this, the relationship between the headquarters and affiliates becomes unclear. In particular, differences may arise between trends that appear in the financial results of affiliates and the consolidated results of the headquarters, as will be analyzed in this section concerning payments of dividends and royalties from overseas affiliates to their headquarters in Japan. Therefore, we will also present the results classified by the sector type of the headquarters as reference information.

Figures II-1-3-1-16 to II-1-3-1-19 show sales, ordinary profits and the retained earnings balance of overseas affiliates reclassified by the sector type of the headquarters in Japan. When classified by the

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Notes: Data in the survey answers was recalculated in terms of those concerning overseas affiliates in operation.
Source: Survey of Overseas Business Activities (METI)
sector type of the headquarters, sales of affiliates in the transportation equipment, electrical machinery and general-purpose machinery sectors increase while sales of affiliates in the wholesale and retail trade, and those of services sectors, decrease (Figure II-1-3-1-16). This indicates that manufacturers advance into distribution and services when expanding internationally.

Likewise, when classified by the sector type of the headquarters, ordinary profits of overseas affiliates in the transportation equipment, electrical machinery and general-purpose machinery sectors increase while those of overseas affiliates in the retail trade and services sectors decrease (Figure II-1-3-1-17). However, ordinary profits of overseas affiliates in the wholesale trade sector have been growing since the mid-2000s.

A similar trend is observed with respect to retained earnings (Figure II-1-3-1-18). At the end of FY2012, as classified by the sector type of overseas affiliates, the manufacturing industry had a share of 40% in the overall retained earnings balance of the affiliates, while non-manufacturing had a share of more than 60%. However, as classified by the sector type of the headquarters in Japan, the share came to more than 60% for the manufacturing industry and less than 40% for the non-manufacturing industry (Figure II-1-3-1-19).

**Figure II-1-3-1-16  Changes in sales of Japanese overseas affiliates by sector of the headquarters (Manufacturing industry)**

Notes:
1. Data collected from the survey answers was recalculated for affiliates in operation.
2. Data categorized by the sector classification was recategorized by the larger classification so as to continue comparing them in a chronological order.
Source: Recalculated data based on the answers collected in the *Survey of Overseas Business Activities* (METI).
Figure II-1-3-1-17 Changes in ordinary profits of Japanese overseas affiliates by sector of the headquarters

Notes:
1. Data collected from the survey answers was recalculated for overseas affiliates in operation.
2. Data categorized by the sector classification was recategorized by the larger classification so as to continue comparing them in a chronological order.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Figure II-1-3-1-18 Changes in retained earnings balance of Japanese overseas affiliates by sector of the headquarters (Non-manufacturing industry)

Notes:
1. Data collected from the survey answers was recalculated for overseas affiliates in operation.
2. Data categorized by the sector classification was recategorized by the larger classification so as to continue comparing them in a chronological order.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Figure II-1-3-1-18 Changes in retained earnings balance of Japanese overseas affiliates by sector of the headquarters (Manufacturing industry)

Notes:
1. Data collected from the survey answers was recalculated for overseas affiliates in operation.
2. Data categorized by the sector classification was recategorized by the larger classification so as to continue comparing them in a chronological order.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Figure II-1-3-1-19  Retained earnings balance of Japanese overseas affiliates by sectors of the headquarters in FY2012

Notes:
1. Data collected from the survey answers was recalculated for overseas affiliates in operation.
2. Data categorized by the sector classification was recategorized by the larger classification so as to continue comparing them in a chronological order.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Figure II-1-3-1-20 shows the relationship between the sector types of the headquarters and overseas affiliates. As the main matter of interest in this section is profits earned abroad, this figure shows ordinary profits in FY2012, in particular. The vertical axis represents the ordinary profits of overseas affiliates classified by the sector type of the affiliate and the horizontal axis represents ordinary profits classified by the sector type of the headquarters. While the profits of overseas affiliates operating in the same sector as their headquarters account for a large portion of overall profits, profits of affiliates operating in different sectors are not negligible. In particular, in the case of overseas subsidiaries operating in the wholesale trade sector, sales of affiliates of parent companies operating in this sector are equivalent to less than half of their overall sales, with sales of affiliates of parents operating in the transportation equipment, general-purpose machinery and electrical machinery sectors together accounting for a larger proportion of sales. Meanwhile, companies operating in the wholesale trade sector in Japan set up overseas affiliates in various sectors, with affiliates in the mining sector earning particularly large profits.

Table II-1-3-1-20 Ordinary profits of Japanese overseas affiliates by sectors of the headquarters and the affiliates in FY2012

<table>
<thead>
<tr>
<th>Sectors of Japanese overseas affiliates</th>
<th>Chemicals</th>
<th>General machinery</th>
<th>Electric machinery</th>
<th>Transportation equipment</th>
<th>Mining</th>
<th>Wholesale trade</th>
<th>Retail trade</th>
<th>Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>344.7</td>
<td>0.4</td>
<td>33.4</td>
<td>3.8</td>
<td>0.0</td>
<td>50.0</td>
<td>1.6</td>
<td>184.3</td>
<td>647.3</td>
</tr>
<tr>
<td>General machinery</td>
<td>9.7</td>
<td>254.0</td>
<td>6.3</td>
<td>4.2</td>
<td>x</td>
<td>277.4</td>
<td>25.6</td>
<td>33.7</td>
<td>631.9</td>
</tr>
<tr>
<td>Electric machinery</td>
<td>9.9</td>
<td>40.1</td>
<td>344.6</td>
<td>3.8</td>
<td>0.0</td>
<td>179.5</td>
<td>3.3</td>
<td>49.2</td>
<td>511.9</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>x</td>
<td>11.3</td>
<td>2.9</td>
<td>1,957.1</td>
<td>0.0</td>
<td>287.1</td>
<td>1.2</td>
<td>58.3</td>
<td>2,582.5</td>
</tr>
<tr>
<td>Mining</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>42.0</td>
<td>x</td>
<td>0.0</td>
<td>x</td>
<td>42.2</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>182.7</td>
<td>17.3</td>
<td>7.0</td>
<td>12.0</td>
<td>523.2</td>
<td>419.4</td>
<td>68.2</td>
<td>34.0</td>
<td>1,862.3</td>
</tr>
<tr>
<td>Retail trade</td>
<td>0.0</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>0.0</td>
<td>0.8</td>
<td>32.7</td>
<td>x</td>
<td>37.4</td>
</tr>
<tr>
<td>Services</td>
<td>0.7</td>
<td>2.4</td>
<td>0.1</td>
<td>55.8</td>
<td>6.0</td>
<td>0.0</td>
<td>72.2</td>
<td>x</td>
<td>171.7</td>
</tr>
<tr>
<td>Total</td>
<td>611.3</td>
<td>341.3</td>
<td>449.8</td>
<td>2,046.9</td>
<td>735.7</td>
<td>1,315.3</td>
<td>134.2</td>
<td>582.6</td>
<td>7,643.6</td>
</tr>
</tbody>
</table>

Notes: 1. As the figures above only show data of the major sectors, thus, the sum of the figures is not equal to the total values.
2. The sign “X” means that the number of companies is kept secret since the sector includes only a few companies.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

(D) Others

In addition to sales, ordinary profits and retained earnings, mentioned above, we will examine other items below. First, regarding employment-related items, the number of employees is increasing both in Japan and abroad. As the number of overseas affiliates is rising at a higher pace than domestic companies, the overseas ratio is climbing (Figure II-1-3-1-21). Among domestic companies, those that
do not own overseas affiliates are increasing employees. Internationally active domestic companies are also increasing employees at a moderate pace, despite having had to cut back on workforces after the collapse of Lehman Brothers.

**Figure II-1-3-1-21  Changes in the number of employees of domestic companies and their overseas affiliates**

(Million people)

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic companies (A)</th>
<th>Overseas affiliates (B)</th>
<th>(B)/(A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>5</td>
<td>2</td>
<td>0.4</td>
</tr>
<tr>
<td>1996</td>
<td>6</td>
<td>3</td>
<td>0.5</td>
</tr>
<tr>
<td>1997</td>
<td>7</td>
<td>4</td>
<td>0.6</td>
</tr>
<tr>
<td>1998</td>
<td>8</td>
<td>5</td>
<td>0.7</td>
</tr>
<tr>
<td>1999</td>
<td>9</td>
<td>6</td>
<td>0.7</td>
</tr>
<tr>
<td>2000</td>
<td>10</td>
<td>7</td>
<td>0.7</td>
</tr>
<tr>
<td>2001</td>
<td>11</td>
<td>8</td>
<td>0.7</td>
</tr>
<tr>
<td>2002</td>
<td>12</td>
<td>9</td>
<td>0.8</td>
</tr>
<tr>
<td>2003</td>
<td>13</td>
<td>10</td>
<td>0.8</td>
</tr>
<tr>
<td>2004</td>
<td>14</td>
<td>11</td>
<td>0.8</td>
</tr>
<tr>
<td>2005</td>
<td>15</td>
<td>12</td>
<td>0.8</td>
</tr>
<tr>
<td>2006</td>
<td>16</td>
<td>13</td>
<td>0.8</td>
</tr>
<tr>
<td>2007</td>
<td>17</td>
<td>14</td>
<td>0.8</td>
</tr>
<tr>
<td>2008</td>
<td>18</td>
<td>15</td>
<td>0.9</td>
</tr>
<tr>
<td>2009</td>
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<td>16</td>
<td>0.9</td>
</tr>
<tr>
<td>2010</td>
<td>20</td>
<td>17</td>
<td>0.9</td>
</tr>
<tr>
<td>2011</td>
<td>21</td>
<td>18</td>
<td>0.9</td>
</tr>
<tr>
<td>2012</td>
<td>22</td>
<td>19</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Notes: Domestic companies are those determined based on the aggregated results of the Basic Survey of Japanese Enterprise Activities.

As for total employee compensation paid by companies, the total compensation amount remained almost flat in the 2000s at domestic companies, while it increased at overseas affiliates because of an increase in the number of employees (Figure II-1-3-1-22). At domestic companies that do not own overseas affiliates, the total compensation amount stayed almost flat over the long term. At internationally active domestic companies, the total compensation amount somewhat declined after peaking in 2004 but has rebounded since the collapse of Lehman Brothers. At overseas affiliates, although the total compensation amount is low in absolute terms due to differences in the wage level compared with Japanese wages, it is growing at a moderate pace due to an increase in the number of employees.

Notes:
1. Internationally active domestic companies mean those having overseas affiliates in the target fiscal years.
2. Because of the limitation of statistics, domestic companies refer to companies in the sectors of manufacturing, wholesaling/retailing, and some other services. Overseas affiliates include companies in all sectors excluding finance, insurance and real estate.

Figure II-1-3-1-22  Changes in the total compensation amounts of domestic companies and their overseas affiliates

(Trillion yen)

(Domestic companies and overseas affiliates)

<table>
<thead>
<tr>
<th>Year</th>
<th>collapsed compensation amounts (Domestic companies)</th>
<th>collapsed compensation amounts (Overseas affiliates)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>1996</td>
<td>20</td>
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<td>1997</td>
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<td>1998</td>
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<td>2001</td>
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<td>2002</td>
<td>80</td>
<td>40</td>
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<td>2003</td>
<td>90</td>
<td>45</td>
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<tr>
<td>2004</td>
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<td>50</td>
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<tr>
<td>2005</td>
<td>110</td>
<td>55</td>
</tr>
<tr>
<td>2006</td>
<td>120</td>
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<tr>
<td>2007</td>
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<td>2008</td>
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<td>2009</td>
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<td>2010</td>
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<tr>
<td>2011</td>
<td>170</td>
<td>85</td>
</tr>
<tr>
<td>2012</td>
<td>180</td>
<td>90</td>
</tr>
</tbody>
</table>

Notes: Domestic companies are those determined based on the aggregated results of the Basic Survey of Japanese Enterprise Activities.

(Internationally active domestic companies and other companies)

(Trillion yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>collapsed compensation amounts (Internationally active domestic companies)</th>
<th>collapsed compensation amounts (Other domestic companies)</th>
<th>collapsed compensation amounts (Overseas affiliates)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
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<td>5</td>
<td>2</td>
</tr>
<tr>
<td>1996</td>
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<td>45</td>
<td>18</td>
</tr>
<tr>
<td>2004</td>
<td>100</td>
<td>50</td>
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<td>2005</td>
<td>110</td>
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<tr>
<td>2006</td>
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<td>60</td>
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<td>2007</td>
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<td>2011</td>
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<td>34</td>
</tr>
<tr>
<td>2012</td>
<td>180</td>
<td>90</td>
<td>36</td>
</tr>
</tbody>
</table>

Notes:
1. Internationally active domestic companies mean those having overseas affiliates in the target fiscal years.
2. Because of the limitation of statistics, domestic companies refer to companies in the sectors of manufacturing, wholesaling/retailing, and some other services. Overseas affiliates include companies in all sectors excluding finance, insurance and real estate.
In regard to the location of overseas affiliates where employees are increasing, the number of employees is growing rapidly in China (Figure II-1-3-1-23). Meanwhile, the total compensation amount is by far largest in the United States because of the wage level there. However, it is also increasing in China due to an increase in the number of employees and the rising wage level.

**Figure II-1-3-1-23  Changes in the total compensation amounts of domestic companies and their overseas affiliates by country of location**

![Graph depicting changes in compensation amounts](image)

Notes:
1. Data collected from the survey answers was recalculated for overseas affiliates in operation.
2. Figures show the top five countries in FY2012.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
As for research and development, domestic companies still have a large share in overall research and development expenses. In particular, the share of internationally active domestic companies, especially manufacturers, is overwhelmingly large (Figure II-1-3-1-24). However, research and development expenditure by overseas affiliates is also steadily growing. By country, while the research and development expenditure is largest in the United States, expenditure in China and the Republic of Korea is also increasing (Figure II-1-3-1-25).

Notes:
1. Data collected from the survey answers was recalculated for overseas affiliates in operation.
2. Figures show the top five countries in FY2012.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Figure II-1-3-1-24  Changes in R&D of domestic companies and their overseas affiliates

Notes: Domestic companies are those determined based on the aggregated results of the Basic Survey of Japanese Enterprise Activities.

Notes:
1. Internationally active domestic companies mean those having overseas affiliates in the target years.
2. Because of the limitation of statistics, domestic companies refer to companies in the sectors of manufacturing, wholesaling/retailing and some other services. Overseas affiliates include companies in all sectors excluding finance, insurance and real estate.
(2) Changes in the profit structure of Japanese companies

(A) Changes in exports, dividends and royalties

Below, we will examine the way in which domestic companies earn profits amid a growth in the ratio of overseas derived profits. In particular, we will focus on how internationally active domestic companies use the relationship between the headquarters in Japan and overseas affiliates.

Income of the headquarters of domestic companies as viewed from overseas affiliates can be divided into (i) payments for equipment and materials procurement from Japan (exports from Japan), (ii) dividend payments to Japan (an income balance item in the international balance of payments and (iii) royalty payments to Japan (a services account balance item)\(^{111}\). The amounts of all these payments from overseas affiliates to the headquarters have been increasing in terms of value although they declined temporarily at the time of economic shocks, including the collapse of Lehman Brothers\(^ {112}\) (Figure II-1-3-1-26). Meanwhile, as for the proportions of these three payments in overall payments, payments for equipment and materials procurement from Japan account for the largest share, suggesting that in the business conducted by overseas affiliates, the supply of core parts, etc. from

\(^{111}\) From the viewpoint of companies in Japan, there are also transactions with counterparts other than their overseas affiliates. However, here, our analysis will focus on the effects of international expansion through the establishment of overseas affiliates. We will also analyze the effects of corporate factors, including differences by country or sector, company size, sales and profit.

\(^{112}\) As for the amount of payments for procurement of equipment and materials, the total amount of procurement from Japan, including from parent companies, is indicated for statistical reasons. Of the total amount, procurement from parent companies accounted for around 90% (FY2012).
Japan plays a significant role. However, the shares of dividend and royalty payments are also growing—highlighting a trend of Japanese companies earning profits abroad\textsuperscript{113}.

\textbf{Figure II-1-3-1-26 } Business conducted by overseas affiliates (manufacturing industry) with Japan

\textsuperscript{113} In this section, in order to look at changes in companies’ sales, profits, dividends, royalties, etc., we will conduct analyses based on data obtained through the Basic Survey on Overseas Business Activities commissioned by the Ministry of Economy, Trade and Industry. As the definitions of statistical items and the scope of survey subjects are different under the Basic Survey on Overseas Business Activities and the Activities and the Balance of Payments statistics, discrepancies may arise in some cases. For example, in the case of dividends, while the Balance of Payments covers all sectors, the Basic Survey on Overseas Business Activities excludes some sectors (financial services, insurance and real estate). In addition, response is not obligatory in the Basic Survey on Overseas Business Activities, so not all dividends are necessarily captured by this survey. On the other hand, although the Balance of Payments does not publish a breakdown by country or sector (data on direct investment income, including reinvested earnings by country, is published), the Basic Survey on Overseas Business Activities enables analysis in this respect. As for royalties, the Basic Survey on Overseas Business Activities excludes income from foreign companies but publishes a breakdown by sector. It should also be kept in mind that as figures in the Basic Survey on Overseas Business Activities are tabulated on the basis of the accounting year of individual companies, there is a time lag before those figures appearing in the Balance of Payments statistics after the actual remittance of dividends and royalties.

Notes:
1. Payments to Japanese investors are the sum of dividends, royalties, and other payments.
2. Line graphs representing the figures between FY1998 and FY2007 are dotted for convenience purpose since the surveys for dividends and royalties were conducted once every three years during the period.

Source: Survey of Overseas Business Activities (METI).

\textsuperscript{113} In this section, in order to look at changes in companies’ sales, profits, dividends, royalties, etc., we will conduct analyses based on data obtained through the Basic Survey on Overseas Business Activities commissioned by the Ministry of Economy, Trade and Industry. As the definitions of statistical items and the scope of survey subjects are different under the Basic Survey on Overseas Business Activities and the Activities and the Balance of Payments statistics, discrepancies may arise in some cases. For example, in the case of dividends, while the Balance of Payments covers all sectors, the Basic Survey on Overseas Business Activities excludes some sectors (financial services, insurance and real estate). In addition, response is not obligatory in the Basic Survey on Overseas Business Activities, so not all dividends are necessarily captured by this survey. On the other hand, although the Balance of Payments does not publish a breakdown by country or sector (data on direct investment income, including reinvested earnings by country, is published), the Basic Survey on Overseas Business Activities enables analysis in this respect. As for royalties, the Basic Survey on Overseas Business Activities excludes income from foreign companies but publishes a breakdown by sector. It should also be kept in mind that as figures in the Basic Survey on Overseas Business Activities are tabulated on the basis of the accounting year of individual companies, there is a time lag before those figures appearing in the Balance of Payments statistics after the actual remittance of dividends and royalties.
Above, we observed that overseas affiliates are increasing their profits and that the weighting of dividends and royalties in transactions between domestic companies and overseas affiliates is gradually growing compared with that of procurement of equipment and materials. Here, our analysis will focus on trends in dividends and royalties. As part of the analysis, we will also look at the amount of profits earned by overseas affiliates being repatriated to Japan.

First, we will give an overview of total payments to Japanese investors and then we will look at trends in dividends and royalties individually. Next, after checking whether overseas affiliates are earning profits, we will examine the ratio of dividends paid to Japan (dividend payment ratio). We will also examine the characteristics of companies paying dividends.

(A) Changes in payments to Japanese investors

First, payments from overseas affiliates to Japanese investors (total sum of dividends, royalties, etc.) are steadily increasing. Until the mid-2000s, royalty payments were larger, since then however the amount of dividend payments has been higher (Figure II-1-3-1-27). By country/region, the total amount of payments from the United States used to be by far the largest, but the total amount of payments from China grew rapidly in the 2000s, approaching the amount of payments from the United States, which fell steeply after the collapse of Lehman Brothers. The total amount of payments from Thailand is also steadily expanding (Figure II-1-3-1-28). In FY2012, the United States, China and Thailand were the three largest sources of payments to Japanese investors. While the Netherlands came in fourth, the positions from fifth down were occupied by Asian countries, including Singapore, Indonesia, Taiwan and Hong Kong (Figure II-1-3-1-29). Payments from Europe mostly come from the
Netherlands (fourth), whereas those from Germany (16th) and the United Kingdom (18th) are smaller than might be expected.

Figure II-1-3-1-27  Changes in payments from Japanese overseas affiliates to Japanese investors

Notes:
1. Payments to Japanese investors include those of dividends, royalties, and others.
2. Line graphs representing the figures between FY1998 and FY2007 are dotted for convenience purpose since the surveys for dividends and royalties were conducted once every three years during the period.

Source: Survey of Overseas Business Activities (METI).
Figure II-1-3-1-28  Changes in payments from Japanese overseas affiliates to Japanese investors by country of location

Figure II-1-3-1-29  Payments from Japanese overseas affiliates to Japanese investors by country/region of location in FY2012

Notes:
1. Data collected from the survey answers was recalculated for overseas affiliates in operation.
2. Payments to Japanese investors include those of dividends, royalties and others.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes:
1. Data collected from the survey answers was recalculated for overseas affiliates in operation.
2. Payments to Japanese investors include those of dividends, royalties, and others.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
In the manufacturing industry, the amount of payments in the transportation equipment sector has been on an uptrend despite falling temporarily after the collapse of Lehman Brothers and the Great East Japan Earthquake\textsuperscript{114} (Figure II-1-3-1-30). Although the amount of payments in the electrical machinery sector previously increased moderately, it has been declining since the collapse of Lehman Brothers. The amount of payments in the chemicals sector has recently been growing. In the non-manufacturing industry, payments in the wholesale trade sector have increased significantly, and those in the transport, construction and retail trade sectors have grown despite temporarily falling after the collapse of Lehman Brothers. Payments in the services sector have also been growing steadily. In FY2012, the transportation equipment sector represented the largest source of payments from within the manufacturing industry, followed by the chemicals and electrical machinery sectors. In the non-manufacturing industry, the wholesale trade sector was the largest source of payments (Figure II-1-3-1-31).

\textbf{Figure II-1-3-1-30} \textit{Changes in payments from Japanese overseas affiliates to Japanese investors by sector of the headquarters (Manufacturing industry)}

<table>
<thead>
<tr>
<th></th>
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<td>Asian currency crisis (1997)</td>
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<td>Collapse of Lehman Brothers (2008)</td>
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<td>Great East Japan Earthquake (2011)</td>
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</tr>
</tbody>
</table>

Notes: Data in the survey answers was recalculated for affiliates in operation.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

\textsuperscript{114} Focusing on the relationship with parent companies receiving dividends and royalties, we tabulated data by the sector of the parent company. Data indicated hereinafter was tabulated by the sector of the parent company unless otherwise specified. That is because, as was already mentioned, the relationship with the parent company becomes unclear when data is tabulated by the sector of the overseas subsidiary and also because, concerning royalties in particular, payment of fees for patents used in the manufacturing division of overseas affiliates conducting business in multiple sectors may appear to be paid from the non-manufacturing industry.
Figure II-1-3-1-31  Payments from Japanese overseas affiliates to Japanese investors by sector in FY2012

Notes: Data in the survey answers was recalculated for overseas affiliates in operation.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes: Data in the survey answers was recalculated for affiliates in operation.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
(B) Dividends and royalties

We will look at payments to Japanese investors as divided into dividend payments and royalty payments\textsuperscript{115}. Although both dividend and royalty payments are made to Japanese investors, they are different in nature. Dividends are paid to investors out of profits earned by companies, so the decision to pay dividends, and the amount, is determined in relation to their financial results. When companies are not earning profits, it is difficult to pay dividends. On the other hand, the larger the profit, the larger the expected dividend amount.

Meanwhile, royalties are paid for the use of technologies and brands and the payment amount and other terms are contractually determined in advance. If the royalty amount is set as a percentage of production volume, the payment amount is fixed regardless of whether or not profits are earned. Therefore, from the viewpoint of accounting, royalty payments, like payment for procurement of equipment and materials, are included among expenditure, so it is different in nature from dividend payment, which is affected by profit trends.

(Dividends)

By country, the United States was previously the largest source of dividends paid by overseas affiliates to Japan, but the amount of dividend payments from China has grown since the mid-2000s against the backdrop of growth in sales and ordinary profits there, reaching a similar level to that of payments from the United States (Figure II-1-3-1-32). However, attention should be paid to yearly fluctuations. The amount of dividend payments from Thailand has also been growing. In FY2012, China, the United States and Thailand were the three largest sources of dividend payments, followed by the Netherlands (Figure II-1-3-1-33). By sector, the manufacturing industry accounted for around 80% of overall dividend payments, with the transportation equipment sector holding by far the largest share, followed by the chemicals and electrical machinery sectors (Figure II-1-3-1-34). In the non-manufacturing industry, the retail trade sector pays a relatively large amount of dividends.

\textsuperscript{115} Strictly speaking, payments to Japanese investors include not only dividends and royalties but also interest payments on loans from parent companies, among other items. However, our analysis here will focus on dividends and royalties because the Basic Survey on Overseas Business Activities does not look into specific amounts with respect to interest, etc. and also because other payments are presumed to be small compared with dividend and royalty payments.
Figure II-1-3-1-32  Changes in dividends from Japanese overseas affiliates to Japanese investors by country of location

(Trillion yen)

Collapse of Lehman Brothers (2008)
Great East Japan Earthquake and Thailand floods (2011)

Notes:
1. Data in the survey answers was recalculated for overseas affiliates in operation.
2. Figures show the changes in dividends between 1995 and 2012 for the top five countries as of 2012.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Figure II-1-3-1-33  Dividends from Japanese overseas affiliates to Japanese investors by country of location in FY2012

(Trillion yen)

Notes: Data in the survey answers was recalculated for overseas affiliates in operation.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Figure II-1-3-1-34  Dividends from Japanese overseas affiliates to Japanese investors by sector of the headquarters in FY2012

(Trillion yen)

Transportation equipment

(Manufacturing industry)

(Non-manufacturing industry)

Chemicals

Electric machinery

Nonferrous metal

General machinery

Wholesale trade

Services

Other non-manufacturing industries

Notes: Data in the survey answers was recalculated for parent companies of overseas affiliates in operation by sector of the parent companies.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI)

(Royalties)

As for royalties, by country, the United States has been by far the largest source of royalties paid by overseas affiliates to Japan except when payments from the country fell steeply after the collapse of Lehman Brothers (Figure II-1-3-1-35). In FY2012, the United States was followed by China, Thailand and Canada (Figure II-1-3-1-36). By sector, the manufacturing industry accounted for more than 90% of overall royalty payments in FY2012, with the transportation equipment sector paying by far the largest amount, followed by the chemicals, electrical machinery, ceramic/stone/clay products and general-purpose machinery sectors (Figure II-1-3-1-37). In the non-manufacturing industry, the wholesale trade sector pays a relatively large amount of royalties.
Figure II-1-3-1-35  Changes in royalties from Japanese overseas affiliates to Japanese investors by country of location

(Trillion yen)

- United States
- China
- Thailand
- Canada
- Taiwan

Collapse of Lehman Brothers (2008)
Great East Japan Earthquake and Thailand floods (2011)

United States
China
Thailand
Canada
Taiwan

Notes:
1. Data in the survey answers was recalculated for overseas affiliates in operation.
2. Figures show the changes in dividends between 1995 and 2012 for the top five countries as of 2012.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Figure II-1-3-1-36  Royalties from Japanese overseas affiliates to Japanese investors by country/region of location in FY2012

(Trillion yen)

United States
China
Thailand
Canada
Taiwan

Notes: Data in the survey answers was recalculated for overseas affiliates in operation.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Either dividend or royalty payments are larger depending on the country of location of overseas affiliates. In the United States, Canada and India, the royalty payment amount is larger, whereas in China, Thailand and other countries, the dividend payment is larger (Figure II-1-3-1-38). In the case of the United States, China and Thailand, this trend has continued over the years (Figure II-1-3-1-39). By country and sector, in the case of overseas affiliates in the United States, the amount of royalty payments in the transportation equipment sector is extremely large, followed by those from the chemicals, electrical machinery and general-purpose machinery sectors (Figure II-1-3-1-40). On the other hand, in the case of overseas affiliates in China, the amounts of dividend and royalty payments are similar to each other in the electrical machinery sector, while payments made in the transportation equipment sector are mainly in dividends. In the case of overseas affiliates in Thailand, payments made in the transportation equipment sector, which has a large weighting in the overall Thai industry, are mainly in dividends. Among presumed factors behind the different country-by-country trends in

116 Up to this point, data tabulation was made with respect to companies that gave replies regarding individual items such as sales, profits and dividends. While this method makes it possible to tabulate data close to the reality by using as many replies as possible, discrepancies may arise when looking at relationship between different items because the scope of respondent companies varies from item to item. Hereinafter, in order to analyze relationship between these items and companies’ business results, data tabulation is made with respect to companies that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance.
the ratio of dividend and royalty payments are differences in product specifications and tax rates\textsuperscript{117}.

The recent sluggishness of growth in royalty payments is attributable to reasons such as existing technologies becoming obsolete due to technological advances and the fact that dependence on headquarters for the provision of technologies is declining as a result of expansion of local procurement.

\textbf{Figure II-1-3-1-38}  Dividends and royalties from Japanese overseas affiliates to Japanese investors in FY2012

\begin{itemize}
\item \textsuperscript{*45 degree line}
\item Above: Dividends < Royalties
\item On: Dividends = Royalties
\item Below: Dividends > Royalties
\end{itemize}

Notes:
1. The size of a circle represents the scale of total payments to Japanese investors. Figures show the top-ranked countries and regions in terms of the payments.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

\textsuperscript{117} Remittance of dividends and royalties is taxable and subject to the application of a tax treaty. In the case of the United States, dividends are tax-exempt or taxed at a rate of up to 10\% (depending on the equity share) while royalties are tax-exempt. In China's case, both dividends and royalties are taxed at 10\%.
Figure II-1-3-1-39 Changes in dividends and royalties from Japanese overseas affiliates to Japanese investors

Notes:
1. The size of a circle represents the scale of total payments to Japanese investors.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes:
1. The size of a circle represents the payment amounts to Japanese investors.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Figure II-1-3-1-40 Difference in dividends and royalties in the United States, China and Thailand by sector

Notes:
1. The size of a circle represents the payment amounts to Japanese investors.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
3. Data in 1995, 1998, 2001, 2004, and 2007-2012 is plotted since the surveys for dividends were originally conducted once every three years.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Notes:
1. The size of a circle represents the payments amount to Japanese investors.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes:
1. The size of a circle represents the payment amounts to Japanese investors.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
The ratio of profit to sales at overseas affiliates

(Overall trends)

Repatriation of profits by companies is preconditioned on their earning profits. Therefore, we will first look at changes in the profit amount and the profit-to-sales ratio and then examine the repatriation of profits. In the 2000s, the ratio of profit to sales was on an uptrend (Figure II-1-3-1-41). Although it fell at the time of the collapse of Lehman Brothers, the profit ratio later rebounded, before falling again in FY2011 following the Great East Japan Earthquake. This basic trend is observed with respect to both the ratio of ordinary profit to sales and the ratio of net income to sales.\(^{118}\)

Notes:
1. The size of a circle represents the payment amounts to Japanese investors.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

(C) The ratio of profit to sales at overseas affiliates

Operating income is profit earned from business calculated by deducting various costs, including cost of sales, and sales and general administration cost from sales. Ordinary profit is profit calculated by deducting or adding interest receipts and payments, etc. from or to operating income. Net income is profit calculated by deducting or adding special profits and losses and tax payments from or to ordinary profit. So far, we have examined ordinary profit as a profit indicator for the whole of a company’s businesses. However, net profit is the source of dividends to which we pay attention in the analysis of the repatriation of profits; hereinafter in this section, we will focus mainly on net income. If we are to examine Japanese parent companies’ profit before dividend receipt from overseas subsidiaries, operating income is the most appropriate indicator.

\(^{118}\) Profit indicators include operating income, ordinary profit and net income. Operating income is profit earned from business calculated by deducting various costs, including cost of sales, and sales and general administration cost from sales. Ordinary profit is profit calculated by deducting or adding interest receipts and payments, etc. from or to operating income. Net income is profit calculated by deducting or adding special profits and losses and tax payments from or to ordinary profit. So far, we have examined ordinary profit as a profit indicator for the whole of a company’s businesses. However, net profit is the source of dividends to which we pay attention in the analysis of the repatriation of profits; hereinafter in this section, we will focus mainly on net income. If we are to examine Japanese parent companies’ profit before dividend receipt from overseas subsidiaries, operating income is the most appropriate indicator.
Figure II-1-3-1-41  Changes in sales and profits of Japanese overseas affiliates

(Sales and ordinary profits)

(Trillion yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Ordinary profits</th>
<th>Ratio (right axis)</th>
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</tr>
<tr>
<td>2001</td>
<td>50</td>
<td>30</td>
<td>1.5</td>
</tr>
<tr>
<td>2004</td>
<td>55</td>
<td>35</td>
<td>1.3</td>
</tr>
<tr>
<td>2007</td>
<td>60</td>
<td>40</td>
<td>1.2</td>
</tr>
<tr>
<td>2008</td>
<td>65</td>
<td>45</td>
<td>1.2</td>
</tr>
<tr>
<td>2009</td>
<td>70</td>
<td>50</td>
<td>1.5</td>
</tr>
<tr>
<td>2010</td>
<td>75</td>
<td>55</td>
<td>1.5</td>
</tr>
<tr>
<td>2011</td>
<td>80</td>
<td>60</td>
<td>1.5</td>
</tr>
<tr>
<td>2012</td>
<td>85</td>
<td>65</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Notes:
1. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
2. Data in 1995, 1998, 2001, 2004, and 2007-2012 is plotted since the surveys for dividends were originally conducted once every three years.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

(Sales and net income)

(Trillion yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Net income</th>
<th>Ratio (right axis)</th>
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<tr>
<td>1995</td>
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<td>1</td>
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<tr>
<td>1998</td>
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<td>2004</td>
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<td>2007</td>
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<td>85</td>
<td>65</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Notes:
1. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
2. Data in 1995, 1998, 2001, 2004, and 2007-2012 is plotted since the surveys for dividends were originally conducted once every three years.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Figure II-1-3-1-42 shows changes in sales and profit in major countries. The horizontal axis represents sales, the vertical axis represents profit and the plot line represents the trend in the ratio of profit to sales. If both sales and profit are growing steadily, the plot moves toward the upper right. If the plot moves in a straight line, it means that the profit ratio stays stable. This figure shows that the profit ratio continued to rise steadily at overseas affiliates in China and Thailand until the collapse of Lehman Brothers, and although net income declined at the time of the shock, it recovered later. However, in FY2011, after the Great East Japan Earthquake, net income slumped due to the impact of supply chain disruptions in Japan and abroad. Meanwhile, in the United States, both sales and profit declined in FY2007 due to the emergence of the subprime mortgage problem, and net income fell steeply at the time of the collapse of Lehman Brothers in FY2008. Afterwards, while profit recovered, sales continued to shrink. Worldwide, profit and sales continued to grow in the 2000s but fell around the time of the collapse of Lehman Brothers.

Notes: Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Notes: Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, retained earnings and retained earnings balance as of the end of the fiscal year.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Above, we looked at the profit ratio at a country level. When calculating the profit amount concerning a country, we added up profits of all overseas Japanese affiliates located in the country. However, whereas some overseas affiliates are reporting profits, others are recording losses. We will look at the proportion of overseas affiliates reporting profits. The proportion of companies reporting profits rose at a moderate pace in the 2000s, although it declined as a result of the collapse of Lehman Brothers and other factors. In FY2012, around 70% of all overseas affiliates reported profits (Figure II-1-3-1-43).

While some losses have been recorded each year, net income, calculated by offsetting losses against profits, has continued to grow. Even so, net income temporarily declined after the collapse of Lehman Brothers, as did the number of companies reporting profits.

By country/region, the proportion of overseas affiliates reporting profits was around 80% in Thailand and Taiwan in FY2012 (Figure II-1-3-1-44). In China, where many overseas affiliates are located, both the number of companies reporting profits and those reporting losses is large. Although large losses were recorded in the United States and China, net income was reported as a result of the losses being offset by profits.

Notes: Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the *Survey of Overseas Business Activities* (METI).

### (Profits and losses at companies)

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<th>Year</th>
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<td>2001</td>
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<tr>
<td>2007</td>
<td>Emergence of the subprime mortgage problem</td>
</tr>
<tr>
<td>2008</td>
<td>Collapse of Lehman Brothers</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Emergence of the subprime mortgage problem</td>
</tr>
<tr>
<td>2008</td>
<td>Collapse of Lehman Brothers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>Collapse of Lehman Brothers</td>
</tr>
</tbody>
</table>

![Net Income and Sales Graph](image-url)

Notes: Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the *Survey of Overseas Business Activities* (METI).
Figure II-1-3-1-43  Changes in net income of Japanese overseas affiliates by company reporting profits or losses

(Companies)

<table>
<thead>
<tr>
<th>(Number of companies)</th>
<th>Collapse of Lehman Brothers (2008)</th>
<th>Great East Japan Earthquake (2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies reporting losses</td>
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<td></td>
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<tr>
<td>Companies in balance of payments equilibrium</td>
<td></td>
<td></td>
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<tr>
<td>Companies reporting profits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
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<td></td>
</tr>
</tbody>
</table>

Notes: Data is tabulated with respect to companies in operation that gave replies regarding net income.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes: Data is tabulated with respect to companies in operation that gave replies regarding net income.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Figure II-1-3-1-44  Status of Japanese overseas affiliates' net income in FY2012

Notes: Data is tabulated with respect to companies in operation that gave replies regarding net income. Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes:
1. Figures show the top 20 countries and regions with respect to the number of companies reporting profits in FY2012.
2. Figures show the proportion of companies reporting profits in all of the companies classified into the three categories: companies reporting profits, those reporting losses and those in balance of payments equilibrium.
3. Data is tabulated with respect to companies in operation that gave replies regarding net income. Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Here, we will look at the ratios of payments to Japanese investors to sales and profit. Figure II-1-3-1-45 shows the ratio of payments to Japanese investors to sales. The ratio of overall payments to sales recovered at a moderate pace after falling after the collapse of Lehman Brothers. While the ratio of royalty payments remained mostly flat, the dividend payments rose moderately. The changes in these payments have been relatively moderate compared with the steep fall in the ratio of net income to sales after the collapse of Lehman Brothers. In that sense, these payments may be regarded as a safety cushion for the Japanese economy. The fact that the ratio of royalty payments to sales remained flat probably means that such payments are linked to sales, rather than profit.

Notes:
1. Figures show the top 20 countries and regions with respect to the FY2012 net income amount of companies.
2. Data is tabulated with respect to companies in operation that gave replies regarding net income.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

(D) Dividend payment ratio

Here, we will look at the ratios of payments to Japanese investors to sales and profit. Figure II-1-3-1-45 shows the ratio of payments to Japanese investors to sales. The ratio of overall payments to sales recovered at a moderate pace after falling after the collapse of Lehman Brothers. While the ratio of royalty payments remained mostly flat, the dividend payments rose moderately. The changes in these payments have been relatively moderate compared with the steep fall in the ratio of net income to sales after the collapse of Lehman Brothers. In that sense, these payments may be regarded as a safety cushion for the Japanese economy. The fact that the ratio of royalty payments to sales remained flat probably means that such payments are linked to sales, rather than profit.

Here, we calculated the ratio by simply dividing the amount of dividend payments to Japanese investors with the sales amount. The ratio of dividend payments to net income, which will be mentioned below, was also calculated by simply dividing the amount of payments with the net income amount. Meanwhile, the method of calculating the ratio adjusted for the ratio of Japanese capital contribution to overseas affiliates will be described later.
Figure II-1-3-1-45  Changes in payments to Japanese investors to sales of Japanese overseas affiliates

(Sales and payments to Japanese investors)

Notes:
1. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
2. Data in 1995, 1998, 2001, 2004, 2007-2012 is plotted since the surveys for dividends were originally conducted once every three years.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

(Sales and dividends to Japanese investors)

Notes:
1. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
2. Data in 1995, 1998, 2001, 2004, 2007-2012 is plotted since the surveys for dividends were originally conducted once every three years.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Next, we will look at the ratio of payments to Japanese investors to net income. After the collapse of Lehman Brothers, net income fell steeply, but payments to Japanese investors did not decline much, resulting in a rise in the ratio of payments to Japanese investors to net income (Figure II-1-3-1-46). The ratio of dividend payments to net income has stayed at around just over 40% over the long term, and this appears to moderate the impact of the steep fall in net income for investors. The ratio of royalty payments declined, implying that they are linked to sales.

Notes:
1. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Figure II-1-3-1-46  Changes in payments to Japanese investors to net income of Japanese overseas affiliates

(Net income and payments to Japanese investors)


Notes: 1. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes: 1. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Below, we will focus on dividends from the perspective of repatriation of profits to Japan. The dividend payment ratio is calculated with regard to overseas affiliates reporting profits, with consideration given to equity shares held by Japanese investors based on the ratio of capital contribution. Figure II-1-3-1-47 shows the profit ratio and the dividend payment ratio for overseas Japanese affiliates located in major countries. The horizontal axis of the graph represents the profit ratio, the vertical axis represents the dividend payment ratio and the circle size represents the amount of dividend payments to Japanese investors.

This graph shows that China, the United States and Thailand are by far the largest sources of dividends paid to Japanese investors. The profit ratio is generally higher in emerging countries. For example, the profit ratio is much higher in Thailand than in the United States. However, while the profit ratio in China is somewhat higher than the ratio in the United States, it is lower than the rates in Thailand and other emerging countries in Asia.

So far, we have calculated the ratio by simply dividing the total dividend amount with the total profit amount. However, overseas affiliates are not necessarily owned 100% by Japanese investors. As all profits are not necessarily allocated to Japanese investors, we have to take it into consideration that the ratio of Japanese capital contribution varies from affiliate to affiliate. But since the Basic Survey on Overseas Business Activities covers only dividend payments to Japanese investors, we estimated the total amount of dividend payments to all investors based on the ratio of Japanese capital contribution. The dividend payment ratio by country/region was calculated by dividing the total amount of dividend payments for each country/region thus estimated with the total net income for each country/region. Although some companies reporting net losses pay dividends, only profit-reporting affiliates were included in the calculation of the dividend payment ratio from the perspective of identifying how much of overseas profits are repatriated to Japan. As was already mentioned, the tabulation covered only companies that gave replies to all of relevant questions, including sales, net income and dividends.

Notes:
1. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
The dividend payment ratio varies significantly from country to country. The dividend payment ratio in China has risen to a similar level of that in the United States.

**Figure II-1-3-1-47  Profit ratio and dividend payment ratio of Japanese overseas affiliates by country (FY2012)**

As net income fluctuates wildly from year to year, the dividend payment ratio may also change significantly. In the United States, China and Thailand, where the dividend payment amount is large, the dividend payment ratio fluctuates significantly from year to year (Figure II-1-3-1-48). In all of these countries, the dividend payment ratio peaked in FY2009. In FY2012, the dividend payment ratio was highest in China, followed by the ratios in Thailand and the United States, in that order. In FY2011, the ratio in Thailand was highest, followed by the rates in China and the United States, in that order.
Next, we will look at the distribution of overseas affiliates in FY2012 classified by corporate attributes, such as country of location, sector type, profit ratio and the ratio of capital contribution\(^{121}\). In FY2012, around 30% of all overseas affiliates paid dividends. By country/region of location, while the number of Japanese affiliates is large in China, the United States and Thailand, the ratio of Japanese affiliates that paid dividends (dividend-paying affiliate ratio) was highest in Taiwan, followed by the Republic Korea, Singapore, Thailand and Hong Kong (Figure II-1-3-1-49). By sector type, the dividend payment ratio in the electrical machinery sector was around the average ratio for the manufacturing industry. While the number of overseas affiliates is small in the petroleum and coal sectors, the dividend payment ratio in the sector is high at around 60%. The dividend payment ratios in the chemicals and transportation equipment sectors are also higher than the average ratio for the manufacturing industry. In the non-manufacturing industry, the dividend payment ratios in the

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\(^{121}\) The analysis is made on the basis of the number of companies. The tabulation covered around 6,500 overseas Japanese affiliates which were in operation in FY2012 and which gave replies to all relevant questions, including sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, current retained earnings, the balance of retained earnings at the end of the fiscal year, the ratio of capital contribution, year of establishment, capital investment, research and development.
wholesale trade and transport sectors are higher than the average ratio for the industry, but the ratios in the retail trade and services sectors are lower than the average ratio (Figure II-1-3-1-50).

Figure II-1-3-1-49  Japanese overseas affiliates having paid dividends (FY2012/counties and regions of location)

Notes:
1. Figures show the major countries and regions in dividends of Japanese overseas affiliates.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal years, excluding those of countries and regions in which the number of target companies is small.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
As for the relationship with the profit ratio, the dividend payment ratio generally rises in positive correlation to net income. However, when the ratio of net income to sales rises above 10–15%, the dividend payment ratio stops rising (Figure II-1-3-1-51). This suggests that Japanese affiliates do not necessarily pay dividends when the profit ratio is high, as they take other factors into consideration.
Figure II-1-3-1-51  Japanese overseas affiliates having paid dividends (FY2012/net income ratios)

(Companies)

Total
Companies having paid dividends
Ratios (right axis)

Notes:
1. Net income ratios = (net income)/(sales)
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Viewed from the ratio of investments from the Japanese side, the dividend payment ratio is low at affiliates with a high ratio of Japanese capital contribution, over which Japanese parent companies can exercise control (Figure II-1-3-1-52). In particular, the dividend payment ratio is lowest at affiliates with a ratio of Japanese capital contribution at 100%, as such affiliates tend to retain funds. Presumably, when the ratio of Japanese capital contribution is low, local joint venture partners ask for dividends payments as their share of profits.
Regarding the relationship with the number of years of operation, the dividend payment ratio rises in positive correlation to the number of years up to 10 years, after which the ratio remains constant at around 40% (Figure II-1-3-1-53). This is presumably because it takes time for overseas affiliates to consolidate their organizational and financial bases through the accumulation of managerial knowhow and development of relationship of trust with employees and other relevant local people if they are to achieve sufficient growth to pay dividends in a stable manner. The finding also suggests that after a certain period of time, overseas affiliates choose to retain funds locally.

Notes:
1. The unit of investment ratios is 10% within a range of 10% to 20%. Data exclude the investment ratios of less than 10% since the surveys targeted those of 10% or more.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Figure II-1-3-1-53  Japanese overseas affiliates having paid dividends (FY2012/number of years of operation)

The dividend payment ratio generally rises in positive correlation to the retained earnings balance (Figure II-1-3-1-54). This indicates that overseas affiliates distribute profits to their headquarters when they hold a sufficient amount of reserves.

Notes:
1. The number of years of operation covers years between the year of establishment (or the year of capital participation) and the target year of the surveys for convenience. When companies are started in the year of the survey, they are considered zero “0” year of operation.
   In addition, in the surveys, there may be a one-year difference in the calculations of the year of establishment and the year of the survey since the former adopts the calendar year while the latter adopts the fiscal year.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year, and timing of establishment.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

The dividend payment ratio generally rises in positive correlation to the retained earnings balance (Figure II-1-3-1-54). This indicates that overseas affiliates distribute profits to their headquarters when they hold a sufficient amount of reserves.
As for capital investment (in plant and equipment) and research and development, while the dividend payment ratio is higher for overseas affiliates that allocate some funds to capital investments and research and development expenses than those that do not, the dividend payment ratio falls when the investment amount surpasses a certain level (Figures II-1-3-1-55 and II-1-3-1-56). This is presumably because as a business strategy, overseas affiliates make investments according to local fund needs, for example in order to take advantage of local business opportunities, rather than using funds for dividend payments.

Notes: Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Notes:
1. Capital investment ratios = capital investment in plant and equipment / sales. Data includes only those of companies in the manufacturing sector.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year, and capital investment.

Source: Recalculated data based on the answers collected in *the Survey of Overseas Business Activities* (METI).

Notes:
1. Ratios of research and development expenses = research and development expenses / sales. Data only includes those of companies in the manufacturing sector.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year, and research and development expenses.

Source: Recalculated data based on the answers collected in *the Survey of Overseas Business Activities* (METI).
Next, we will look at dividend payments by country of location, and determine whether there is a significant difference between the profile of dividend-paying Japanese affiliates located in China, whose dividend payment amount has been recently growing, and that of those located in other countries, such as the United States, for example. Figures II-1-3-1-57 and II-1-3-1-58 show data on overseas affiliates located in China and the United States, respectively, with respect to major items. First, the above-mentioned trend concerning the dividend-paying affiliate ratio is observed with respect to affiliates located in China (Figure II-1-3-1-57).

**Figure II-1-3-1-57  Japanese overseas affiliates having paid dividends (FY2012/China)**

Notes:
1. Net income ratios = (net income)/(sales)
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.

Source: Recalculated data based on the answers collected in the *Survey of Overseas Business Activities* (METI).
Notes:
1. Starting from the range of 10% to 20%, the unit of investment ratios is 10%. Data exclude the investment ratios of less than 10% since the surveys targeted those of 10% or more.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes:
1. The number of years of operation covers years between the year of establishment (or the year of capital participation) and the target year of the surveys for convenience. When companies are started in the year of the survey, they are considered zero “0” year of operation. In addition, in the surveys, there may be a one-year difference in the calculations of the year of establishment and the year of the survey since the former adopts the calendar year while the latter adopts the fiscal year.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year, and timing of establishment.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Notes: Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes:
1. Capital investment ratios = capital investment in plant and equipment/sales. Data includes those of companies in the manufacturing sector alone.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Overseas affiliates in the United States do not deviate from the trend that is observed with respect to overseas Japanese affiliates worldwide and in China, either (Figure II -1-3-1-58). In both China and the United States, the dividend payment ratio is higher for overseas affiliates that make capital investments than for those that do not make investments at all, but the ratio falls steeply when the investment amount surpasses a certain level.

Notes:
1. Ratios of research and development expenses = research and development expenses / sales. Data includes those of companies in the manufacturing sector alone.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year, and research and development expenses.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Overseas affiliates in the United States do not deviate from the trend that is observed with respect to overseas Japanese affiliates worldwide and in China, either (Figure II -1-3-1-58). In both China and the United States, the dividend payment ratio is higher for overseas affiliates that make capital investments than for those that do not make investments at all, but the ratio falls steeply when the investment amount surpasses a certain level.
Figure II-1-3-1-58  Japanese overseas affiliates having paid dividends (FY2012/United States)

Notes:
1. Net income ratios = (net income)/(sales).
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes:
1. In principle, a unit of investment ratios is 10%. However, as for units in which a small number of target companies are covered, the unit of the ratios is 20%. Data exclude the investment ratios of less than 10% since the surveys targeted those of 10% or more.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Notes:
1. The number of years of operation covers years between the year of establishment (or the year of capital participation) and the target year of the surveys for convenience. When companies are started in the year of the survey, they are considered zero “0” year of operation. In addition, in the surveys, there may be a one-year difference in the calculations of the year of establishment and the year of the survey since the former adopts the calendar year while the latter adopts the fiscal year.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year, and timing of establishment.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
As was mentioned earlier, the dividend payment ratio rises in positive correlation to the profit ratio up to a certain ratio, after which the dividend payment ratio stops rising. What are the characteristics

Notes:
1. Capital investment ratios = capital investment in plant and equipment/sales. Data includes those of companies in the manufacturing sector alone.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes:
1. Ratios of research and development expenses = research and development expenses / sales. Data includes those of companies in the manufacturing sector alone.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year, and research and development expenses.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

(Differences between dividend-paying affiliates and non-paying affiliates)
As was mentioned earlier, the dividend payment ratio rises in positive correlation to the profit ratio up to a certain ratio, after which the dividend payment ratio stops rising. What are the characteristics
of overseas Japanese affiliates that do not pay dividends despite having a high profit ratio? What are the differences between affiliates at the same level of profit ratio that pay dividends and those that do not? While we have looked at corporate attributes individually above, below we will examine whether there are differences in attributes between dividend-paying affiliates and non-paying affiliates in each profit ratio range. When we compare dividend-paying affiliates and those not paying in the same profit ratio range on an average basis, one observes trends concerning several attributes. For example, the average ratio of Japanese capital contribution is lower for dividend-paying affiliates than for non-paying affiliates in all profit ratio ranges (Figure II-1-3-1-59). At dividend-paying affiliates, the number of years of operation and the retained earnings balance are higher and the capital investment ratio is lower than at non-paying affiliates in the same profit ratio range. In particular, the capital investment ratio stops rising at the net income ratio range of 10% to 15% at dividend-paying affiliates presumably because of reasons such as affiliates’ retained earnings balance being small relative to active capital investment, in the case of upper profit-ratio ranges.

**Figure II-1-3-1-59** Difference between companies paying dividends and those not paying by net income (FY2012)

![Graph showing differences between companies paying dividends and those not paying by net income](image)

Notes: Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year, and capital.

Source: Recalculated data based on the answers collected in *the Survey of Overseas Business Activities* (METI).
Notes: Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year, and ratios of capital contribution.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes: The number of years of operation covers years between the year of establishment (or the year of capital participation) and the target year of the surveys for convenience. When companies are started in the year of the survey, they are considered zero “0” year of operation. In addition, in the surveys, there may be a one-year difference in the calculations of the year of establishment and the year of the survey since the former adopts the calendar year while the latter adopts the fiscal year.

Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year, and timing of establishment.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Notes: Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, and retained earnings balance as of the end of the fiscal year.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes
1. Capital investment ratios = capital investment in plant and equipment / sales. Data includes those of companies in the manufacturing sector alone.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year and capital investment. Figures exclude companies whose net income variance exceeds +/- 30% due to their extreme values of capital investment ratios.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
We conducted a regression analysis on factors influencing dividend payment by overseas affiliates. The results of the analysis, coupled with the findings mentioned:

The estimate was made through two methods. The trend shown in Figure II-1-3-59 may be confined to some specific countries or sectors. Therefore, the first method examined whether there were statistically significant differences regarding attributes between dividend-paying and non-paying overseas affiliates even after being controlled for country and sector. Specifically, it examined whether the payment or nonpayment of dividends has statistically significant effects even when country and sector dummies were added under a linear model (estimated through the least-square method) in which corporate attributes (e.g. the ratio of capital contribution) are used as dependent variables and a dummy variable as to whether the affiliate is a dividend-paying one is used as an independent variable. The estimation result was that after being controlled for country and sector, the coefficients of the number of years of operation and the balance of retained earnings were positive and significant (at a 1% level), while the coefficient of the ratio of capital contribution was negative and significant (at a 1% level). This result was consistent with the trend shown in the graph. The coefficient of the capital amount was positive and the coefficients of the capital investment ratio and the research and development ratio were negative in line with the trend in the graph, but these figures were not statistically significant. Surprisingly, although the coefficient of net income was positive, it was not statistically significant.

The second method examined which factors have statistically significant effects on the assumption that the payment or nonpayment of dividends depends not on a single factor but on various factors. The estimation was made through a probit model in which the qualitative variable of whether or not the overseas affiliate is a dividend-paying or non-paying one is used as an independent variable. The estimation results are as shown in Figure II-1-3-60.

The subject samples of the analysis are companies that gave replies to questions concerning all relevant items indicated in Figure II-1-3-59 in FY2012. As for data on attributes of parent companies, data obtained through the Basic Survey on Overseas Business Activities and the Basic Survey of Overseas Business Activities (METI).
above, indicate that reporting of net income by affiliates does not automatically lead to their dividend payment but that the decision is made in consideration of the situation in which they are placed. For example, affiliates with a high net income ratio and a large retained earnings balance are highly likely to pay dividends. There is a tendency that when the ratio of Japanese capital contribution is low, the probability of dividend payment grows. Affiliates with a small number of years of operation are highly likely to refrain from paying dividends, as are affiliates with a high capital investment ratio. The circumstances of parent companies are also presumed to affect decisions on dividend payment. Overseas affiliates are highly likely to send funds back to their parent company in dividends when the parents are small in size or when the parents’ operating income ratio is low.

<table>
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<th>Table II-1-3-1-60 Estimates by regression analysis</th>
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<td>Probit model</td>
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<td>Dependent variables</td>
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<td>Payment or nonpayment of dividends</td>
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<tr>
<td>Independent variables</td>
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<tr>
<td>Factors of overseas affiliates</td>
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<tr>
<td>Net income ratios</td>
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<tr>
<td>Ratios of Japanese capital contribution</td>
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<tr>
<td>Number of years of operation</td>
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<td>Retained earnings balance ratios</td>
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<td>Capital investment ratios</td>
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<tr>
<td>Research and development expense ratio</td>
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<td>Factors of countries of location</td>
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<tr>
<td>Factors of parental companies</td>
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<tr>
<td>Operating income ratios of parental companies</td>
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<tr>
<td>Retained earnings balance ratios of parent companies</td>
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<td>Capital investment ratios of parent companies</td>
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</table>

Japanese Business Structure and Activities were used after being linked with each other at a raw-data level through a converter provided by the Research Institute of Economy, Trade and Industry. As a result, the analysis was limited to samples which could be linked at a raw-data level, including with respect to attributes of parent companies.
Research and development expense ratios of parent companies

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Z value</th>
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<tbody>
<tr>
<td>-0.0089</td>
<td>-1.45</td>
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</table>

Country dummies | No | Yes | No | Yes  
Sector dummies of overseas affiliates | No | Yes | Yes | Yes  
Sector dummies of the affiliates’ headquarters | No | No | No | Yes  
Number of subjects | 6552 | 6505 | 6520 | 3890  
Determination coefficients with corrected degrees of freedom | 0.0548 | 0.0926 | 0.0686 | 0.1249  

Notes: Asterisked (***, **, *) coefficients represent the significant levels of 1%, 5% and 10% respectively.

(F) Analysis of the dividend payment ratio

Below, we will examine the dividend payment ratio of overseas affiliates and the influencing factors of the ratio. We will examine three presumed influential factors (in this order): (a) overseas affiliate factor; (b) country/region of location factor; and (c) parent company factor.

First, the average dividend payment ratio of overseas Japanese affiliates has been rising at a moderate pace as a trend, although it declined temporarily at the time of the economic shocks (Figure II-1-3-1-61).

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123 In reality, some affiliates pay dividends even though they are reporting losses, while others pay dividends in excess of net income. While profits carried over from the previous year are presumed to be used in such cases, our analysis focused on standard cases, namely, affiliates with a dividend payment ratio of 0% to 100%, with those with a negative dividend ratio or a ratio of higher than 100% excluded.
Figure II-1-3-1-61  Changes in average dividend payment ratios

Notes:
1. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year, capital, capital contribution, capital investment, research and development, and timing of establishment.
2. Figures exclude companies whose dividends ratios are numerically not covered by the range between 0% and 100%. As a result, the number of subject samples is about 1,600 companies in 2012.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

(a) Overseas affiliate factor

Figures II-1-3-1-62 and II-1-3-1-67 show the distribution of the average dividend ratio (simple average of dividend payment ratios of individual affiliates) and shares (in terms of the number of affiliates and the dividend payment amount) classified by attribute (e.g., capital amount) ranges.

First, by capital amount, the average dividend payment ratio\(^{124}\) is lowest in the range of 1 billion to 3 billion yen, while the ratio is high in the low-end and high end ranges (Figure II-1-3-1-62). Affiliates with a relatively small size account for a large share in the overall number of affiliates, while affiliates with a capital amount of 10 billion yen or higher have a large share in the overall dividend payment amount.

\(^{124}\) Here, with a view to analyzing the behavior of individual companies, we calculated the simple average of dividend payment ratios for individual companies.
Regarding the retained earnings balance ratio (the ratio of retained earnings balance to sales), the dividend payment ratio rises in positive correlation to the retained earnings balance ratio up to a certain ratio, after which the dividend payment ratio remains almost flat (Figure II-1-3-1-63). This may reflect difficulty in retaining earnings due to a high dividend payment ratio.
Figure II-1-3-1-63  Distribution of dividend-paying companies and average dividend payment ratios (FY2012)

(Overseas affiliates/retained earnings balance ratios)

Notes:
1. The overall number of affiliates means all dividend-paying companies, and dividend payment amount means the shares of the amount in all dividend payment amount to Japanese investors. Average dividend payment ratios are simple average values of target companies.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

(b) Country/region of location factor

In FY2012, the average dividend payment ratio for overseas affiliates was high in Panama, Taiwan and the Philippines (Figure II-1-3-1-64). Meanwhile, the average dividend payment ratio in China was higher than the ratios in the United States and Thailand.
There is a tendency for the dividend payment ratio to be lower when the real GDP growth rate in the country of location is high (Figure II-1-3-1-65). Generally speaking, high economic growth in the country of location raises expectations for good business opportunities. If so, this tendency may reflect affiliates’ attempt to retain profits locally to take advantage of such opportunities. However, the dividend payment ratio is high in the 7% to 8% range in terms of real GDP growth, which presumably reflects the influence of the results in China.

Notes:
1. The overall number of affiliates means all dividend-paying companies, and dividend payment amount means the shares of the amount in all dividend payment amounts to Japanese investors. Average dividend payment ratios are simple average values of target companies.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year, and countries and regions of location.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
(c) Parent company factor

The stability of the financial base of parent companies, among other factors, is presumed to affect the dividend payment ratio of overseas affiliates. It may appear that the larger the capital amount of the parent company, the higher the dividend payment ratio will be. However, the trend is not necessarily clear given that the dividend payment ratio is at a non-negligible at affiliates in the 0 to 50 millions yen range in terms of parents’ capital amount (Figure II-1-3-1-66).
There is a tendency for the dividend payment ratio to be low when parent companies’ operating income ratio (ratio of operating income to sales)\textsuperscript{125} is high (Figure II-1-3-1-67).

\textsuperscript{125} The operating income ratio is a profit ratio before the inclusion of interest payments and receipts and dividend receipts from overseas subsidiaries.
The dividend payment ratio falls in correlation to the retained earnings balance ratio up to a certain ratio (Figure II-1-3-1-68). However, at a retained earnings balance ratio of 30% or higher, the dividend payment ratio remains almost flat.

Notes:
1. The overall number of affiliates means all dividend-paying companies, and dividend payment amount means the shares of the amount in all dividend payment amounts to Japanese investors. Average dividend payment ratios are simple average values of target companies.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year, and operating income of parent companies.

Source: Recalculated data based on the answers collected in *the Survey of Overseas Business Activities* (METI).
(G) The ratios of dividends and royalties to Japanese investment amount

Above, we reviewed the dividend payment ratio. Below, we will look at the ratio of dividends to Japanese investment amount. By country of location, although the ratio of dividends to the Japanese investment amount at overseas Japanese affiliates in China declined somewhat in FY2011 and 2012, it has mostly stayed above the global average (Figure II-1-3-1-69). Compared with the ratio of dividends to the Japanese investment amount in the United States, the ratio in China has always been higher.

By sector type, in FY2012, the Japanese investment amount was large in the transportation equipment, electrical machinery, general-purpose machinery, chemicals and wholesale trade sectors. In the transportation equipment, chemicals and wholesale trade sectors, the ratio of dividends to Japanese investment amount was also relatively high (Figure II-1-3-1-70). A similar trend is observed in China as well. The ratio of dividends to investment amount is high in Thailand because both the investment amount and the dividend payment amount in the transportation equipment sector are large in Thailand, raising the level in the whole country.

Among the top countries of location in terms of the Japanese investment amount for overseas Japanese affiliates are two European countries, the Netherlands and the United Kingdom (Figure II-1-3-1-71). However, while the ratio of dividends to investment amount is high in the Netherlands, it is low in the United Kingdom.

Notes:
1. The overall number of affiliates means all dividend-paying companies, and dividend payment amount means the shares of the amount in all dividend payment amounts to Japanese investors. Average dividend payment ratios are simple average values of target companies.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings, retained earnings balance as of the end of the fiscal year and accumulated earnings (retained earnings).

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Figure II-1-3-1-69  Changes in dividend ratios to Japanese capital contribution amount (major countries)

Notes:
1. Japanese capital contribution is the result of the multiplication of the capital amount of overseas affiliates by the ratios of Japanese capital contribution.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: capital amount, ratios of Japanese capital contribution, dividends, royalties, and total payments to Japanese investors.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Notes:
1. Japanese capital contribution is the result of the multiplication of the capital amount of overseas affiliates by the ratios of Japanese capital contribution.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: capital amount, ratios of Japanese capital contribution, dividends, royalties, and total payments to Japanese investors.
3. Sectors having a small number of target companies are omitted to avoid making the statistics unstable.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Notes:
1. Japanese capital contribution is the result of the multiplication of the capital amount of overseas affiliates by the ratios of Japanese capital contribution.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: capital amount, ratios of Japanese capital contribution, dividends, royalties, and total payments to Japanese investors.
3. Sectors having a small number of target companies are omitted to avoid making the statistics unstable.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Next, we will look at the ratio of total payments, including dividends and royalties, to Japanese investors to Japanese investment amount. While the ratio has been generally rising in China, the United States and Thailand, the degree of rise is significantly affected by the amount of royalty and other income. Since the mid-2000s, the ratio in China has mostly stayed above the global average except in FY2011 and 2012, when it was somewhat lower than the average (Figure II-1-3-1-72). The ratio in the United States, royalty income from which is large, was higher than the global average ratio and the ratio in China in FY2011 and 2012.

By country and sector type, in China, Japanese investment amount, amount of payments to Japanese investors and ratio of payments to Japanese investors are large in the transportation equipment sector (Figure II-1-3-1-73). Although the investment amount is large in the electrical machinery sector, the ratio of payments to Japanese investors is at around the average. In the United States and Thailand, as well, investment amount, amount of payment to Japanese investors and ratio of payments to Japanese investors are large in the transportation equipment sector.

As for other countries of location where the Japanese investment amount is large, the investment amount in the Netherlands is only slightly above the global average, suggesting that royalty income

Notes:
1. Japanese capital contribution is the result of the multiplication of the capital amount of overseas affiliates by the ratios of Japanese capital contribution.
2. Figures show the top 20 countries and regions in terms of Japanese capital contribution.
3. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: capital amount, ratios of Japanese capital contribution, dividends, royalties, and total payments to Japanese investors.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

#Figure II-1-3-1-71 Dividend ratios to Japanese capital contribution amount (FY2012)

Payments to Japanese investors include payment of interest on loans from parent companies in addition to dividend and royalty payments.
from the country is small (Figure II-1-3-1-74). In contrast, investment amount is above the global average in Canada and India, where the royalty payment amount is large relative to the dividend payment amount.

**Figure II-1-3-1-72 Changes in ratios of total payments (dividends, royalties, etc.) to Japanese capital contribution amount (major countries)**

Notes:
1. Japanese capital contribution is the result of the multiplication of the capital amount of overseas affiliates by the ratios of Japanese capital contribution.
2. Payments to Japanese investors include those of dividends, royalties, and others.
3. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: capital amount, ratios of Japanese capital contribution, dividends, royalties, and total payments to Japanese investors.

Source: Recalculated data based on the answers collected in *the Survey of Overseas Business Activities* (METI).
Figure II-1-3-1-73  Ratios of total payments (dividends, royalties, etc.) to Japanese capital contribution amount (major countries and sectors/FY2012)

Notes:
1. Japanese capital contribution is the result of the multiplication of the capital amount of overseas affiliates by the ratios of Japanese capital contribution.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: capital amount, ratios of Japanese capital contribution, dividends, royalties, and total payments to Japanese investors.
3. Sectors having a small number of target companies are omitted to avoid making the statistics unstable.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes:
1. Japanese capital contribution is the result of the multiplication of the capital amount of overseas affiliates by the ratios of Japanese capital contribution.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: capital amount, ratios of Japanese capital contribution, dividends, royalties, and total payments to Japanese investors.
3. Sectors having a small number of target companies are omitted to avoid making the statistics unstable.
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
Notes:
1. Japanese capital contribution is the result of the multiplication of the capital amount of overseas affiliates by the ratios of Japanese capital contribution.
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: capital amount, ratios of Japanese capital contribution, dividends, royalties, and total payments to Japanese investors.
3. Sectors having a small number of target companies are omitted to avoid making the statistics unstable.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
In this section, we first identified where Japanese companies are earning profits. As a result, we found that the trend in earning and accumulating profits abroad is growing. Although the United States’ presence as a destination for international business expansion was previously dominant, Asian countries such as China and Thailand have been increasing in presence. By sector type, international expansion is observed mainly in the transportation equipment, electrical machinery, chemicals and wholesale trade sectors, with expansion in the transportation sector particularly active.

Next, we looked at the competitiveness of domestic companies when overseas affiliates are operating internationally. As well as the supply of equipment and materials to overseas affiliates, dividend income (primary income balance item) and royalty income (service trade balance item) from them are growing in terms of value. Still, the supply of equipment and materials accounts for the largest share in business transactions between domestic companies and overseas affiliates, suggesting that in the business conducted by overseas affiliates, the supply of core parts, etc. from Japan plays a significant role. However, the weighting of dividends and royalties is also growing, highlighting a trend of Japanese companies earning increased profits abroad.

Furthermore, we examined the repatriation to Japan of profits earned abroad. The amount of payments from overseas affiliates to Japanese investors is increasing in terms of both dividend and
royalty payments, mainly in the United States, China and Thailand. In China, where Japanese companies are expanding business activities, the dividend payment ratio is higher than in the United States and the ratio of dividends to Japanese investment amount is similar to the global average.

The examination of overseas affiliates’ dividend behavior indicates that, although it is true that it is easier to pay dividends when the profit ratio is high, decisions on dividend payments are made in consideration of other various factors. In particular, when the ratio of Japanese capital contribution is high, which means control by the Japanese side is strong, some overseas affiliates retain earnings locally, rather than paying dividends.

Dividends and royalties are different in nature, and while payments to Japan from affiliates in the United States, Canada and India are made mainly in royalties, payments from affiliates in China and Thailand are made mainly in dividends.

These analysis results suggest that in some cases, companies may repatriate overseas profits to Japan in the form of dividends, while in other cases, they may retain profits locally to use them to take advantage of local business opportunities. Thus, it is important to secure an environment that allows such business judgments without unreasonable intervention. Furthermore, if capital is to be reinvested in Japan amid the globalization of corporate activities, it is essential to further enhance Japan’s locational competitiveness.
(Column 7) Records of business activities in China

As shown above, many overseas affiliates have been established in China, and their sales and profits are growing. At the same time, there is growing interest in their profit status and repatriation of profits to Japan. Therefore, we will review the situation in China, including the circumstances at which we have already looked.

First, we will look at changes in the values of sales, ordinary profits and retained earnings of Japanese affiliates in China; and, at the same time, we will examine Chinese shares in comparison with those of the U.S. As sales in China are growing, the Chinese share in the global sales of overseas Japanese affiliates is rising steadily while the U.S. share is declining (Column Figure 7-1). The ordinary profit amount in China was on an uptrend until the collapse of Lehman Brothers, and although the profit amount decreased sharply after the shock, the Chinese share in the global profit amount has now reached a level similar to that of the U.S. As a result, the retained earnings balance in China is growing despite still being lower than that in the United States, reflecting China’s growing presence.

Column figure 7-1  Financial results of Japanese overseas affiliates in China

(Sales)  Share in the world (China/right axis)  Share in the world (United States/right axis)

Source: Survey of Overseas Business Activities (METI).
Next, we will examine whether overseas Japanese affiliates in China are earning profits. As the number of companies expanding into China grows, both profit-reporting and loss-recording affiliates are increasing. The proportion of profit-reporting affiliates in all Japanese affiliates in China mostly
stayed at slightly below 70% in the 2000s after rising in the 1990s (Column Figure 7-2). Although it declined in 2008 following the collapse of Lehman Brothers, the proportion started to rebound in 2009, before falling again after the Great East Japan Earthquake in 2011 due to the effect of worldwide supply chain disruptions. By sector type, in FY2012, the proportion of profit-reporting affiliates was large in the transportation equipment, electrical machinery, general-purpose machinery and retail trade sectors, in which the number of companies is high. In the manufacturing industry, the proportion of profit-reporting affiliates continued to rise until 2011 in the transportation equipment sector and remained almost flat except for some fluctuations following the collapse of Lehman Brothers—while the proportion fell in the textiles sector (Column Figure 7-3). In the non-manufacturing industry, while the proportion of profit-reporting affiliates fluctuated wildly in the retail trade sector, it stayed at a relatively high level in the wholesale trade sector.

**Column figure 7-2  Status of profits of Japanese overseas affiliates in China (reporting profits or losses)**

<table>
<thead>
<tr>
<th>(Companies)</th>
<th>(Changes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies reporting profits</td>
<td>Collapse of Lehman Brothers (2008)</td>
</tr>
<tr>
<td>Companies reporting losses</td>
<td>Great East Japan Earthquake (2011)</td>
</tr>
<tr>
<td>Proportion of companies reporting profits (right axis)</td>
<td>Burst of IT bubble in the United States (2001)</td>
</tr>
<tr>
<td>Asian currency crisis (1997)</td>
<td></td>
</tr>
</tbody>
</table>

Notes
1. Data is tabulated with respect to companies in operation that gave replies regarding net income.
2. Proportion of profit-reporting companies means those of profit-reporting companies in all companies (reporting profits, losses or balance of payments equilibrium) (proportion in the number of companies).
Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

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127 We looked at ordinary profit trends in the previous part as ordinary profit is frequently used as a reference indicator. However, hereinafter, we will look at net income in order to examine the relationship with dividends.
128 Although various factors are presumed to affect the profit status of individual countries, we made explanations here in relation to global economic shocks.
Notes:
1. Data is tabulated with respect to companies in operation that gave replies regarding net income.
2. Proportion of profit-reporting companies means those of profit-reporting companies in all companies (reporting profits, losses or balance of payments equilibrium) (proportion in the number of companies).
3. Sectors having a small number of target companies are omitted to avoid making the statistics unstable.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

**Column figure 7-3  Changes in proportion of profit-reporting Japanese overseas affiliates in China**

Notes:
1. Data is tabulated with respect to companies in operation that gave replies regarding net income.
2. Proportion of profit-reporting companies means those of profit-reporting companies in all companies (reporting profits, losses or balance of payments equilibrium) (proportion in the number of companies).

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
In terms of value, the profit amount is fairly large on a net income basis, although there are some losses. By sector type, the profit amount in the transportation equipment sector is extremely large. In the electrical machinery sector, the profit amount is larger than the loss, and yet the loss amount is also fairly large (Column Figure 7-4).

Notes:
1. Data is tabulated with respect to companies in operation that gave replies regarding net income.
2. Proportion of profit-reporting companies means those of profit-reporting companies in all companies (reporting profits, losses or balance of payments equilibrium) (proportion in the number of companies).
3. As for the non-manufacturing industry, data in and after 2000 is tabulated due to the limitation of the number of internationally active domestic companies in the 1990s.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

In terms of value, the profit amount is fairly large on a net income basis, although there are some losses. By sector type, the profit amount in the transportation equipment sector is extremely large. In the electrical machinery sector, the profit amount is larger than the loss, and yet the loss amount is also fairly large (Column Figure 7-4).
As a result, the profit ratio in the whole of China mostly stayed at around 4% in the 2000s until the collapse of Lehman Brothers (Column Figure 7-5). Although the profit ratio temporarily rose after the Collapse of Lehman Brothers (2008) and the Burst of IT bubble in the United States (2001), it declined due to the Asian currency crisis (1997).
collapse of Lehman Brothers, it has recently been declining. As was already shown in Figure II-1-3-1-47, the profit ratio in China was lower than that in Thailand and in other emerging countries in Asia in FY2012. Among factors behind this is the problem of excess capacity, which raises concerns over an increasingly severe business environment in China\textsuperscript{129}.

By sector type, in the manufacturing industry, both the sales amount and the profit ratio were large in the transportation equipment sector in FY2012. In the electrical machinery sector, the sales amount was large but the profit ratio was somewhat lower than in the transportation equipment sector. In the non-manufacturing industry, both the sales amount and the profit ratio was large in the wholesale trade sector.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Profit ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>2013</td>
<td>32</td>
<td>12</td>
</tr>
<tr>
<td>2014</td>
<td>34</td>
<td>14</td>
</tr>
</tbody>
</table>

\textbf{Notes:}
1. Profit ratios = (net income)/(sales).
2. Data is tabulated with respect to companies in operation that gave replies regarding net income and sales.

\textbf{Source:} Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

\textsuperscript{129} According to a media report, in 2015, the problem of excess production capacity has deepened in the automobile market, for example, and this, combined with the economic slowdown, is accelerating a decline in the capacity utilization rate and price drops (Nikkei articles dated May 6 and 13, 2015).
Next, we will look at the amount of profits overseas affiliates allocate to dividend payment. As the ratio of Japanese capital contribution varies from affiliate to affiliate, we calculated dividends and profits of profit-reporting affiliates in consideration of the equity shares. As a result, it was found that such affiliates allocated around 70% of their net income to dividend payment in 2012 (Column Figure 7-6), although the proportion varied significantly from year to year. By sector type, the proportion of profits allocated to dividend payment has stayed at a high level in the transportation equipment sector.\footnote{In cases where the dividend payment ratio is higher than 100%, it is presumed that funds withdrawn from the balance of retained earnings, which represents the accumulation of past profits, are used for dividend payment.}

Notes:
1. Profit ratios = (net income)/(sales).
2. Data is tabulated with respect to companies in operation that gave replies regarding net income and sales.
3. Sectors having a small number of target companies are omitted to avoid making the statistics unstable.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

\footnote{In cases where the dividend payment ratio is higher than 100%, it is presumed that funds withdrawn from the balance of retained earnings, which represents the accumulation of past profits, are used for dividend payment.}
Column figure 7-6  Dividend payment ratios of Japanese overseas affiliates in China

Notes:
1. Dividends payment ratios = (expected dividend amount based on the investment ratios) / (net income).
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: investment ratios, sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
3. Data in 1995, 1998, 2001, 2004, and 2007-2012 is plotted since the surveys for dividends were originally conducted once every three years.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).

Notes:
1. Dividends payment ratios = (expected dividend amount based on the investment ratios) / (net income).
2. Data is tabulated with respect to companies in operation that gave replies regarding all of the following items: investment ratios, sales, ordinary profit, net income, payments to Japanese investors, dividends, royalties, retained earnings and retained earnings balance as of the end of the fiscal year.
3. Industries in which the number of target companies is small are excluded.

Source: Recalculated data based on the answers collected in the Survey of Overseas Business Activities (METI).
As shown above, although Japanese companies are expanding business activities in China, the various conditions that have until now supported China’s growth are changing dramatically. The working-age population in China has already started to shrink and personnel costs are rising. Because of these factors, combined with the rise in the exchange rate of the Chinese yuan, China’s advantage as an export base is weakening. As a result, the annual rate of growth in exports, which was previously higher than 20–30%, fell below 10% in 2014. In March to May 2014, exports declined year on year for three straight months. In addition, amid the recent economic slowdown, the problem of excess capacity has deepened and the capacity utilization rate and prices have fallen markedly. Due attention should be paid to the increasingly severe business environment in China.
2. Analysis of multinationals based on financial data

In this section, we will compare and analyze the characteristics of competitiveness of major Japanese and foreign multinationals based on financial data.

(1) Criteria of analysis subjects, specifics of analysis and matters of note

(A) Criteria of analysis subjects and specifics of analysis

For this analysis, 357 companies were selected according to such criteria as being among the top 500 in terms of consolidated sales (hereinafter in this section referred to as “sales”\textsuperscript{157} and having an overseas sales ratio of 20% or higher in the most recent 12 months based on financial data for the eight years from FY2006 to 2013\textsuperscript{158} (Figure II-1-3-2-1). These were characterized as major multinationals, whose competitiveness will be analyzed from the following viewpoints.

First, we will analyze the overall sales and profit trends using overall financial data concerning the analysis subjects.

Next, after classifying major multinationals by the country of headquarters location into Japanese multinationals (headquartered in Japan), American multinationals (headquartered in North and South American continents), European multinationals (headquartered in Europe, the Middle East or Africa) and Asian multinationals (headquartered in the Asia-Pacific region excluding Japan), we will analyze the characteristics of the growth and profitability of each of the regional groups of multinationals. Adopting sales, operating profit and the operating profit ratio as analysis items, we will examine their relationship with business indicators\textsuperscript{159} that may affect growth rate and profitability, such as the degree of business diversification, and the regions in which the multinationals operate.

(B) Matters of note

Regarding regions and sector types, we adopted the classification defined by Bloomberg, which is also the source of the financial data used here\textsuperscript{160}. The region-by-region analysis does not cover all of the business divisions of the multinationals that are indicated in Figure II-1-3-2-1 due to information disclosure constraints. In principle, we used only region-by-region data that includes sales data that are available for eight straight years from

\textsuperscript{157}Sales analyzed here are consolidated sales, including sales of overseas affiliates, in all cases.

\textsuperscript{158}In the case of companies whose fiscal year ends in any month from January to June, the year prior to the year of the month is defined as the fiscal year (for example, a fiscal year ended in March 2014 is defined as fiscal year (FY) 2013), while in the case of companies whose fiscal year ends in any month from July to December, the year containing that month is defined as the fiscal year (for example, a fiscal year ended in December 2013 is defined as FY2013).

\textsuperscript{159}We will analyze correlation with the number of years passed since establishment, sales amount, the degree of diversification and R&D investment amount.

\textsuperscript{160}Regarding regions, we classified groupings as follows: the Asia-Pacific region, the Americas, and the Europe, Middle East and Africa region. Regarding business divisions, we used the BICS Level 1 (Sectors) 10-sector classification and Level 2 (Industry Group) 49-group classification. For the specifics, see the attached sheet.
Multinationals in sectors that may distort the analysis for reasons such as the predominance of state-owned enterprises (“financial services,” “energy” and “utilities”) were excluded, while the number of analysis subjects is very small in some cases due to information disclosure constraints. In addition, multinationals earning high profits in niche fields, or which are mainly earning high profits in their home countries, were excluded from the analysis, which focuses on large scale multinationals.

When figures for individual multinationals are aggregated in this analysis, the following procedures are followed.

- Compound annual growth rate (CAGR) of sales: sales of multinationals in individual countries are added up through simple aggregation and the CAGR in the analysis period (FY2006-2013) is calculated.

- The ratio of operating income to sales (operating income margin): the simple average of the ratios of operating income to sales of multinationals in individual countries is calculated.

**Figure II-1-3-2-1 Selection of target companies for analysis**

<table>
<thead>
<tr>
<th>Selection criteria</th>
<th>Number of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies listed on the Bloomberg</td>
<td>About 68,000 companies</td>
</tr>
<tr>
<td>Excluding companies categorized in the &quot;Financial services,&quot; &quot;Energy&quot;, or &quot;Utilities&quot; sector under the BICS (Bloomberg Industry Classification System)</td>
<td>About 53,000 companies</td>
</tr>
<tr>
<td>Excluding companies with no corporate sales1), 2) for ten consecutive years (through M&amp;A, etc.)</td>
<td>About 21,000 companies</td>
</tr>
<tr>
<td>Selecting top 500 companies with respect to global consecutive sales in last 12 months (LTM), excluding governmental companies</td>
<td>500 companies</td>
</tr>
<tr>
<td>Excluding companies having an overseas sales ratio of 20% or less</td>
<td>357 companies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regions</th>
<th>Technology</th>
<th>Healthcare</th>
<th>General consumer goods</th>
<th>Materials</th>
<th>Industrials</th>
<th>Commodities</th>
<th>Communication</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia-Oceania</td>
<td>26</td>
<td>1</td>
<td>31</td>
<td>21</td>
<td>18</td>
<td>9</td>
<td>4</td>
<td>110</td>
</tr>
<tr>
<td>Japan</td>
<td>9</td>
<td>1</td>
<td>19</td>
<td>10</td>
<td>12</td>
<td>4</td>
<td>2</td>
<td>57</td>
</tr>
<tr>
<td>Rest of the region</td>
<td>17</td>
<td>0</td>
<td>12</td>
<td>11</td>
<td>6</td>
<td>5</td>
<td>2</td>
<td>53</td>
</tr>
<tr>
<td>Americas</td>
<td>20</td>
<td>13</td>
<td>23</td>
<td>14</td>
<td>21</td>
<td>20</td>
<td>8</td>
<td>119</td>
</tr>
<tr>
<td>Europe, the Middle East and Africa</td>
<td>6</td>
<td>12</td>
<td>25</td>
<td>21</td>
<td>30</td>
<td>25</td>
<td>9</td>
<td>128</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>26</td>
<td>79</td>
<td>56</td>
<td>69</td>
<td>54</td>
<td>21</td>
<td>357</td>
</tr>
</tbody>
</table>

1 Operating income by region is excluded from the analysis because most companies do not disclose relevant data.
Notes:
1. Data plotted by region or business sector may generate missing values.
2. As a premise of selecting major global companies, companies with no corporate sales for ten consecutive years are excluded.
Source: Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies (Deloitte Tohmatsu Consulting; a survey commissioned by METI).

(2) Overall trends in competitiveness of multinationals
We will look first at changes in sales of all major multinationals (357 companies)\textsuperscript{162} covered by the analysis from the perspective of the growth rate and then in regard to changes in operating income and the operating income margin from the perspective of profitability.

(A) Changes in sales
Sales of multinationals covered by the analysis grew from around 8.9 trillion dollars to 12.9 trillion dollars during the analysis period of FY2006 to 2013, translating into a CAGR of 5.5%. By region, the Asia-Pacific region saw the strongest sales growth, from 2.0 trillion dollars to 3.3 trillion dollars (CAGR of 7.3%), leading the growth in overall sales\textsuperscript{163}.

By business sector, the technology sector (CAGR of 6.4%), which includes hardware such as computers and related circuits and devices and software such as programs, and the consumer staples sector (CAGR of 6.2%), which includes production of foods and other items and sales services, outperformed other sectors in sales growth (Figure II-1-3-2-2).

During the same period, the nominal global GDP recorded a CAGR of 5.8%, so it may be said that the multinationals covered by this analysis achieved annual sales growth similar in pace to global GDP growth.

\textsuperscript{162} Here, multinationals for which data for at least one year between FY2006 to 2013 (inclusive) is available are included in the tabulation in order to capture an overall trend concerning the multinationals covered by the analysis. As a result, the figures used here do not necessarily match those used in other analyses.

\textsuperscript{163} The sum of sales in the three regions does not match the overall sales amount for reasons such as some companies not disclosing relevant information in some cases and different regional classifications being used in other cases.
Figure II-1-3-2-2  Changes in sales of all target companies for analysis by region and business sector

Notes: Breakdown of data by region and business sector shows the data aggregated based on the sales by region and business sector available for at least one year between FY2006 and FY2013.
Source: Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies (Deloitte Tohmatsu Consulting; a survey commissioned by METI).

Average annual growth rates

(Trillion dollars)
(B) Changes in operating income and the operating income margin

Operating income of the multinationals covered by the analysis increased from around 0.9 trillion dollars to 1.3 trillion dollars during the analysis period of FY2006 to 2013, translating into a CAGR of 5.6%. Meanwhile, the operating income margin fell from 11.2% to 10.4% (Figure II-1-3-2-3). By business sector, the healthcare sector, which includes production of pharmaceuticals and medical equipment and related services, and the consumer staples sector consistently recorded high profits, while the industrials sector continued to post low profits. The operating income margins for the technology and materials sectors fluctuated wildly, and the communications sector regained profitability quickly after 2006 (Figure II-1-3-2-4).

Figure II-1-3-2-3  Changes in operating income and the operating income margin of all target companies

Average annual growth rates

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Operating profits (left axis; total)</th>
<th>Operating profit ratios (right axis; average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>897</td>
<td>11.2%</td>
</tr>
<tr>
<td>2007</td>
<td>1,095</td>
<td>11.2%</td>
</tr>
<tr>
<td>2008</td>
<td>981</td>
<td>9.3%</td>
</tr>
<tr>
<td>2009</td>
<td>864</td>
<td>8.9%</td>
</tr>
<tr>
<td>2010</td>
<td>1,208</td>
<td>11.2%</td>
</tr>
<tr>
<td>2011</td>
<td>1,283</td>
<td>10.5%</td>
</tr>
<tr>
<td>2012</td>
<td>1,214</td>
<td>9.9%</td>
</tr>
<tr>
<td>2013</td>
<td>1,310</td>
<td>10.4%</td>
</tr>
</tbody>
</table>

(Trillion dollars)
Notes: Breakdown of data by business sector shows the data aggregated based on the operating profit data by business sector available in one or more quarters between FY2006 and FY2013. Source: Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies (Deloitte Tohmatsu Consulting; a survey commissioned by METI).

Figure II-1-3-2-4 Changes in operating income and the operating income margin by business sector
Notes: Data shows those aggregated based on the sales and operating profit by business sector available for eight consecutive quarters between FY2006 and FY2013. 
Source: *Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies* (Deloitte Tohmatsu Consulting; a survey commissioned by METI).

As shown above, by region, the Asia-Pacific region leads other regions in terms of sales growth with respect to the analyzed multinationals as a whole. By business sector, the technology and consumer staples sectors lead others in sales growth. In terms of profitability, the healthcare and consumer staples sector consistently maintained high profit.

**(3) Differences in competitiveness between regional groups of multinationals**

Next, we will analyze the characteristics of multinationals classified by headquarters location from the following viewpoints.

(A) Differences in competitiveness viewed through business indicators: CAGR of sales (growth rate), the operating income margin (profitability), relationship between the distribution of number of years passed since establishment or reorganization and the growth rate and profitability, relationship between the distribution of the degree of diversification and the growth rate and profitability, and the R&D investment amount.

(B) Differences in competitiveness by region: the growth rate and shares by region.

**(A) Differences in competitiveness viewed through business indicators**

**(a) The growth rate and profitability**

In terms of sales and operating income, Asian multinationals (sales CAGR of 11.2% and operating income CAGR of 10.1%) recorded the highest growth against the backdrop of strong economic growth in the Asia-Pacific region. In terms of the operating income margin, American multinationals (operating income margin of 13.2%) registered the highest margin in FY2013, followed by European multinationals (10.9%). Japanese multinationals recorded the lowest figures in terms of all indicators among all regional groups of multinationals, with their operating income margin (6.6%) in particular at only around half the margin for American and European multinationals (Figure II-1-3-2-5).

---

164 As was mentioned in (1) (B), it needs to be kept in mind that the number of analysis subjects is very small in some cases due to information disclosure constraints.

165 The sales CAGR and the average operating income margin by region do not match those at the company level for reasons such as some companies not disclosing relevant information in some cases and different regional classifications being used in others.
Figure II-1-3-2-5  Comparison of sales growth rates, operating income growth rates and operating income margin

Sales growth rates

- **Japanese companies** (n=57) - 3.6%
- **American companies** (n=119) - 5.7%
- **European companies** (n=128) - 4.7%
- **Asian companies** (n=53) - 11.2%

Operating profit growth rates

- **Japanese companies** (n=57) - 2.7%
- **American companies** (n=119) - 7.2%
- **European companies** (n=128) - 3.7%
- **Asian companies** (n=53) - 10.1%
Notes: Data shows those aggregated based on the consolidated sales and operating profit of companies with respect to those available in eight consecutive years between FY2006 and FY2013. Source: Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies (Deloitte Tohmatsu Consulting; a survey commissioned by METI).

(b) Relationship between the distribution of number of years passed since establishment or reorganization and the growth rate and profitability

Regarding the number of years passed since the establishment of venture and other companies or re-registration of establishment following reorganization, including mergers and business transfer, of existing companies (hereinafter in this section referred to as “number of years passed since establishment or reorganization”), the number is less than 50 years for a large proportion of non-Japanese multinationals. In addition, non-Japanese multinationals tend to record high sales CAGR and high operating income margins. On the other hand, among Japanese multinationals, the largest proportion is located in the 50 to 80 year range in the number of years passed since establishment or reorganization, with only a small proportion of Japanese multinationals located in ranges smaller than 50 years. In particular, concerning companies with less than 20 years passed since establishment or reorganization, sales CAGR and the operating income margin are extremely low for Japanese multinationals (Figure II-1-3-2-6).

166 According to Bloomberg L.P., the source of the financial data used here, the year of corporate registration indicated in each company’s annual report is deemed to be its year of establishment, so it may be different from the year of foundation. The year of establishment may mean the year of establishment as a new company or the year of re-registration following reorganization such as a merger of existing companies or business transfer.
Figure II-1-3-2-6  Relationship between the distribution of number of years passed since establishment or reorganization and the growth rate and profitability

Japanese companies (n=57)

American companies (n=119)
Notes: Data shows those aggregated based on the consolidated sales and operating profit of companies with respect to those available in eight consecutive years between FY2006 and FY2013.
Source: Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies (Deloitte Tohmatsu Consulting; a survey commissioned by METI).
(c) Changes in and distribution of the degree of diversification and its relationship with growth rate and profitability

Here, regarding the degree of diversification of multinationals, we will calculate the Herfindahl–Hirschman Index (HHI) and analyze differences in the degree of diversification within each regional group of multinationals and the relationship between the degree of diversification and growth rate and profitability.

First, regarding the degree of diversification, there has recently been a trend of multinationals except for Asian ones becoming somewhat specialized, and yet Japanese multinationals have continued to be highly diversified. Another notable feature of Japanese multinationals is the bipolarization between diversified and specialized multinationals (Figure II-1-3-2-7).

**Figure II-1-3-2-7** Changes in degree of diversification and distribution of the number of companies by degree of diversification

167 In this analysis, businesses for which companies publish data were reclassified into 49 groups based on the BICS (Bloomberg Industry Classification System) Level 2 (Industry Group), and based on this classification, the HHI was calculated using their shares in the sum of sales from individual businesses. As for the details of the HHI, see Column 8.

168 Here, in order to accurately identify the degree of diversification, only multinationals for which data are available concerning businesses accounting for more than 70% of their consolidated sales were included in the analysis. Figure II-1-3-2-9 shows the results of analysis conducted without setting the above condition.
Notes: Data shows those aggregated based on the consolidated sales of companies whose 70% or more of sales by business sector is available in eight consecutive years between FY2006 and FY2013.

Source: Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies (Deloitte Tohmatsu Consulting; a survey commissioned by METI).

Next, when multinationals are classified by the degree of diversification within each regional group and compared with each other, diversified Japanese multinationals have a lower sales growth rate and profitability than specialized ones (sales CAGR of 2.9% and an operating income margin of 5.1%).

Among American multinationals, although there is little difference in the growth rate, operating income of diversified multinationals is growing resulting in higher profitability (operating income margin of 13.3%).

In the European group, specialized multinationals are expanding their sales (sales CAGR of 5.0%) and have high profitability (operating income margin of 12.1%).

Among Asian multinationals, whereas specialized ones are recording a very high sales growth rate (sales CAGR of 14.6%), diversified ones are outperforming them in profitability (operating income margin of 8.9%) (Figure II-1-3-2-8).

---

169 Within each regional group of multinationals, multinationals placed among the top 50% in terms of the degree of diversification as measured by the HHI are classified as “diversified,” and multinationals placed among the bottom 50% are classified as “specialized.” Therefore, it needs to be kept in mind that the degree of diversification of multinationals classified as diversified and those classified as specialized varies across regional groups.
Figure II-1-3-2-8  Analysis of the relationship between business growth rate and profitability
and the degree of diversification

Growth rates (sales CAGR)

Operating income CAGR
Notes:
1. Data shows those aggregated based on the consolidated sales of companies whose 70% or more of sales by business sector is available for eight consecutive years between FY2006 and FY2013.
2. Regarding the degree of diversification of multinationals, we will calculate the Herfindahl–Hirschman Index (HHI) based on the Bloomberg data. Within each regional group of multinationals, multinationals placed among the top 50% in terms of the degree of diversification as measured by the average HHI between FY2006 and FY2013 are classified as “diversified,” and multinationals placed among the bottom 50% are classified as “specialized.”
Source: Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies (Deloitte Tohmatsu Consulting; a survey commissioned by METI).

In the Japanese group, there are more diversified multinationals than specialized ones. Therefore, the low growth rate and profitability of diversified multinationals may be adversely affecting the performance of Japanese multinationals as a whole.

When we look at factors behind the low growth rate and profitability of diversified multinationals through the shares of business divisions classified by profitability, we can see that businesses with an operating income margin of less than 10% (average for FY2006 to 2013) accounted for 91% of overall businesses owned by Japanese multinationals, a much larger share than that of American multinationals (28%), European ones (66%) and Asian ones (59%) (Figure II-1-3-2-9).

This indicates that one factor that is weighing on the growth rate and profitability of Japanese multinationals as a whole is the low profitability of businesses owned by diversified

---

170 In order to accurately identify the degree of diversification, only multinationals for which data are available concerning businesses accounting for more than 70% of their consolidated sales were included in the analysis of the degree of diversification. However, in this analysis, that condition was not set in order to analyze business divisions individually.
multinationals. As for non-Japanese multinationals, business divisions with an operating income margin of 10% or higher accounted for more than 70% of overall businesses of diversified American multinationals in particular, indicating the American group’s high profitability.

In the case of specialized multinationals, as well, business divisions of American and European multinationals have high profitability. However, there was not such a significant difference as was seen in the case of diversified multinationals, as business divisions with an operating income margin of less than 10% (average for FY2006 to 2013) accounted for half to slightly more than half in all non-Japanese groups. This suggests that specialized Japanese multinationals are not much inferior to their equivalents in other regions in terms of profitability.

**Figure II-1-3-2-9  Distribution of profitability in business sectors (average in FY2006-FY2013)**

Notes:
1. Data shows those aggregated based on the sales and operating income by business sector available for eight consecutive years between FY2006 and FY2013.
2. Regarding the degree of diversification of multinationals, we will calculate the Herfindahl–Hirschman Index (HHI) based on the Bloomberg data. Within each regional group of multinationals, multinationals placed among the top 50% in terms of the degree of diversification are classified as “diversified,” and multinationals placed among the bottom 50% are classified as “specialized.”

Source: *Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies* (Deloitte Tohmatsu Consulting; a survey commissioned by METI).
In addition, we classified the multinationals by the degree of diversification and sales size and made a comparison with respect to growth and profitability. As a result, it was found that as a general trend, the more specialized a multinational is, the higher its growth rate is regardless of sales size. It was also found that among multinationals with a large sales size (large multinationals), profitability is higher at diversified ones, while among multinationals with a small sales size (small multinationals), it is higher at specialized ones.

In particular, when regional groups of multinationals are compared in terms of profitability, among large Japanese multinationals, profitability is lower at diversified ones than at specialized ones contrary to the general trend. Meanwhile, among small Japanese multinationals, profitability is higher at specialized ones in line with the general trend. In the case of U.S. and European multinationals, profitability is higher at large, diversified ones and small, specialized ones in line with the general trend (Figure II-1-3-2-10).

If companies expand their sales size and diversify their business portfolio, their overall profitability may be expected to rise further because of the synergy effect between businesses. However, our analysis suggests—although the number of sample companies is small—that large Japanese multinationals have been unable to sufficiently gain the benefit of economy of scale and diversification.

**Figure II-1-3-2-10  Changes in growth rates and profitability by degree of diversification and company scale**

- Sales growth rates
- Operating income margin
Japanese companies

<table>
<thead>
<tr>
<th></th>
<th>Large scale</th>
<th>Small scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified</td>
<td></td>
<td></td>
</tr>
<tr>
<td>n=12</td>
<td>2.7%</td>
<td>3.6%</td>
</tr>
<tr>
<td></td>
<td>3.7%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Specialized</td>
<td></td>
<td></td>
</tr>
<tr>
<td>n=12</td>
<td>3.2%</td>
<td>6.8%</td>
</tr>
<tr>
<td></td>
<td>4.7%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

American companies

<table>
<thead>
<tr>
<th></th>
<th>Large scale</th>
<th>Small scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified</td>
<td></td>
<td></td>
</tr>
<tr>
<td>n=30</td>
<td>15.1%</td>
<td>11.8%</td>
</tr>
<tr>
<td></td>
<td>5.5%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Specialized</td>
<td></td>
<td></td>
</tr>
<tr>
<td>n=26</td>
<td>10.5%</td>
<td>14.8%</td>
</tr>
<tr>
<td></td>
<td>5.4%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>
### European companies

<table>
<thead>
<tr>
<th></th>
<th>Large Scale</th>
<th>Small Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified</td>
<td>12.0%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Specialized</td>
<td>11.3%</td>
<td>13.2%</td>
</tr>
</tbody>
</table>

### Asian companies

<table>
<thead>
<tr>
<th></th>
<th>Large Scale</th>
<th>Small Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified</td>
<td>9.5%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Specialized</td>
<td>6.6%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

**Notes:**

1. Data shows those aggregated based on the consolidated sales of companies whose 70% or more of sales by business sector is available for eight consecutive years between FY2006 and FY2013.
2. Regarding the degree of diversification of multinationals, we will calculate the Herfindahl–Hirschman Index (HHI) based on the Bloomberg data. Within each regional group of multinationals, multinationals placed among the top 50% in terms of the degree of diversification are classified as “diversified,” and multinationals placed among the bottom 50% are classified as “specialized.”


Source: Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies (Deloitte Tohmatsu Consulting; a survey commissioned by METI).

Column 8: Herfindahl–Hirschman Index

The Herfindahl–Hirschman Index is a value obtained by aggregating the squares of a company’s individual business segments in its total sales. It is presumed that the larger the value of the HHI, the more specialized the company is, and the smaller the value of the HHI, the more diversified it is (Column Figure 8-1).

Column Figure 8-1 Evaluation of company's degree of diversification

<table>
<thead>
<tr>
<th>Evaluation of companies based on the sales ratios in the major business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
</tr>
<tr>
<td>Company B</td>
</tr>
<tr>
<td>Company C</td>
</tr>
</tbody>
</table>

As for Companies A, B and C, the ratio that the major business represents of corporate sales is 50%. However, the degree of diversification varies greatly among the companies.

A sales ratio in the major business is not the sole indicator to correctly determine the degree of diversification of companies.

Evaluation of companies based on the HHI

<table>
<thead>
<tr>
<th>Calculation formula</th>
<th>HHI = ( \sum \left( S_i \right)^2 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Value obtained by aggregating the squares of a company’s individual business segments' shares of total sales)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Calculation results</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>50^2 + 30^2 + 20^2 = 3800</td>
<td>50^2 + 45^2 + 5^2 = 4550</td>
<td>50^2 + 20^2 + 10^2 + 10^2 + 5^2 = 3150</td>
</tr>
<tr>
<td>Company C</td>
<td>10^2 + 5^2 = 125</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The ratio the major business represent of total sales is 50% for all companies, but the degree of diversification including other business sectors is Company C > Company A > Company B.

Source: Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies (Deloitte Tohmatsu Consulting; a survey commissioned by METI).

(d) R&D investment amount

R&D investment is regarded as a typical element of innovation activity that raises companies’ productivity. Among the multinationals that are covered by this analysis and whose R&D investment amount is known, American multinationals maintained the highest
R&D investment amount during the analysis period, followed by European multinationals. The R&D investment amount of Japanese multinationals stayed higher than that of Asian multinationals but remained lower than that of European multinationals (Figure II-1-3-2-11).

**Figure II-1-3-2-11  R&D investment amount (in sales)**

![Graph showing R&D investment amount](image)

Notes: Data shows those aggregated based on the R&D expenses of companies with respect to those available for eight consecutive years between FY2006 and FY2013.

Source: *Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies* (Deloitte Tohmatsu Consulting; a survey commissioned by METI).

While there are various methods of evaluating the effects of R&D investment on income and profits, here we will evaluate R&D investment efficiency during the analysis period (FY2006 to 2013) based on operating income (the average during the same period) per one dollar of R&D investment\(^\text{171}\). Operating income per one dollar of R&D investment for Japanese multinationals (1.07 dollars) was less than half the levels for American multinationals (2.44 dollars) and European multinationals (2.24 dollars). This means that Japanese multinationals are inferior to their equivalents in other regions in terms of the R&D investment efficiency (Figure II-1-3-2-12).

\(^{171}\) Investments made by companies in the services sector are excluded from the R&D investment amount. Companies that do not disclose data are also excluded.
As R&D investment efficiency may vary from industry to industry, it is difficult to compare between multinationals in regions that are different in their industry mix. As in the case of the analysis in (c), we classified multinationals within each region by the degree of diversification and evaluated R&D investment efficiency between diversified and specialized multinationals within the region. As a result, it was found that there was no significant difference in operating income per one dollar of R&D investment between diversified and specialized multinationals within non-Japanese regional groups. However, within the Japanese group, operating income per one dollar of R&D investment for specialized multinationals was around 50% higher than that for diversified ones (Figure II-1-3-2-13). This suggests that R&D investment made by Japanese multinationals is not efficient because their investment is dispersed across multiple businesses.
Figure II-1-3-2-13 Degree of diversification and operating income per one dollar of R&D investment (average between FY2006 and FY2013)

Notes: Data shows those aggregated based on the R&D expenses of companies with respect to those available in eight consecutive years between FY2006 and FY2013.
Source: Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies (Deloitte Tohmatsu Consulting; a survey commissioned by METI).

(B) Differences in competitiveness by region
(a) Growth as seen from the viewpoint of region-by-region sales

As we looked at in (2) (A), sales growth is highest in the Asia-Pacific region with respect to the multinationals covered by this analysis, making this region the growth driver of overall sales.

As for the sales growth rate by region, Japanese multinationals are inferior to their equivalents in all other regions in terms of the sales CAGR. In particular, in the Asia-Pacific region, where their headquarters are located and whose market is expanding, Japanese multinationals’ sales CAGR is very low at 3.6%. On the other hand, American multinationals (sales CAGR of 11.2%), European multinationals (10.1%) and Asian multinationals (8.5%) are capturing the growth of the Asia-Pacific region. Japanese multinationals’ sales CAGR is also low in the Americas (1.3%) and is negative in Europe, the Middle East and Africa (Figure II-1-3-2-14).
Figure II-1-3-2-14  Comparison of sales growth rates by region (annual average growth rates)  
(FY2006-FY2013)

APAC

<table>
<thead>
<tr>
<th>Region</th>
<th>Japanese Companies</th>
<th>American Companies</th>
<th>European Companies</th>
<th>Asian Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(n=55)</td>
<td>(n=59)</td>
<td>(n=82)</td>
<td>(n=47)</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>3.6%</td>
<td>11.2%</td>
<td>10.1%</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

Americas

<table>
<thead>
<tr>
<th>Region</th>
<th>Japanese Companies</th>
<th>American Companies</th>
<th>European Companies</th>
<th>Asian Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(n=55)</td>
<td>(n=77)</td>
<td>(n=122)</td>
<td>(n=22)</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>1.3%</td>
<td>4.6%</td>
<td>6.1%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

EMEA

<table>
<thead>
<tr>
<th>Region</th>
<th>Japanese Companies</th>
<th>American Companies</th>
<th>European Companies</th>
<th>Asian Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(n=39)</td>
<td>(n=113)</td>
<td>(n=108)</td>
<td>(n=22)</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>-0.5%</td>
<td>4.5%</td>
<td>1.0%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Notes: Data shows those aggregated based on the sales by region available in eight consecutive years between FY2006 and FY2013. 
Source: Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies (Deloitte Tohmatsu Consulting; a survey commissioned by METI).
(b) Shares of regional groups of multinationals in sales by region

As for shares of regional groups of multinationals in sales by region, Japanese multinationals are losing their share in all regions. In particular, although Japanese multinationals continue to hold the largest share in the Asia-Pacific region (40%), their sales growth rate is the lowest (3.6%), meaning that their shares are being grabbed by multinationals in other regions. Meanwhile, American and European multinationals are expanding their shares in the Asia-Pacific region while maintaining their shares in the regions where their headquarters are located (Figure II-1-3-2-15).

**Figure II-1-3-2-15  Changes in sales by region**

<table>
<thead>
<tr>
<th>APAC market</th>
<th>Americas market</th>
<th>EMEA market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average annual growth rates</strong></td>
<td><strong>Average annual growth rates</strong></td>
<td><strong>Average annual growth rates</strong></td>
</tr>
<tr>
<td>(Billion dollars)</td>
<td>(Billion dollars)</td>
<td>(Billion dollars)</td>
</tr>
<tr>
<td>Japanese companies</td>
<td>American companies</td>
<td>European companies</td>
</tr>
<tr>
<td>1,865 (21%)</td>
<td>3,091 (4%)</td>
<td>2,352 (4%)</td>
</tr>
<tr>
<td>(n=47)</td>
<td>(n=108)</td>
<td>(n=22)</td>
</tr>
<tr>
<td>643 (22%)</td>
<td>1,237 (29%)</td>
<td>181 (4%)</td>
</tr>
<tr>
<td>(n=82)</td>
<td>(n=113)</td>
<td>(n=22)</td>
</tr>
<tr>
<td>461 (13%)</td>
<td>2,438 (58%)</td>
<td>818 (26%)</td>
</tr>
<tr>
<td>(n=59)</td>
<td>(n=113)</td>
<td>(n=22)</td>
</tr>
<tr>
<td>1,179 (40%)</td>
<td>1,796 (58%)</td>
<td>864 (16%)</td>
</tr>
<tr>
<td>(n=55)</td>
<td>(n=113)</td>
<td>(n=22)</td>
</tr>
<tr>
<td>1,179 (40%)</td>
<td>342 (11%)</td>
<td>376 (9%)</td>
</tr>
<tr>
<td>(n=39)</td>
<td>(n=39)</td>
<td>(n=33)</td>
</tr>
<tr>
<td>395 (21%)</td>
<td>542 (11%)</td>
<td>376 (9%)</td>
</tr>
<tr>
<td>(n=47)</td>
<td>(n=39)</td>
<td>(n=33)</td>
</tr>
<tr>
<td>328 (18%)</td>
<td>1,796 (58%)</td>
<td>864 (16%)</td>
</tr>
<tr>
<td>(n=59)</td>
<td>(n=113)</td>
<td>(n=22)</td>
</tr>
<tr>
<td>932 (40%)</td>
<td>342 (11%)</td>
<td>376 (9%)</td>
</tr>
<tr>
<td>(n=55)</td>
<td>(n=39)</td>
<td>(n=33)</td>
</tr>
<tr>
<td>395 (21%)</td>
<td>542 (11%)</td>
<td>376 (9%)</td>
</tr>
<tr>
<td>(n=47)</td>
<td>(n=39)</td>
<td>(n=33)</td>
</tr>
</tbody>
</table>

Notes:
1. Data shows those aggregated based on the sales by region available in eight consecutive years between FY2006 and FY2013.
2. Percentage (%) in parentheses is ( ) represents a share.
Source: Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies (Deloitte Tohmatsu Consulting; a survey commissioned by METI).

(c) Shares of regions in sales of regional groups of multinationals

Regarding shares of regions in sales of regional groups of multinationals, the region of location of headquarters has the largest share in sales of all regional groups of multinationals. For all regional groups of multinationals, the share of the Asia-Pacific region is growing, an indication of the increasing importance of this region (Figure II-1-3-2-16).
Figure II-1-3-2-16  Changes in sales by region and by group of companies

<table>
<thead>
<tr>
<th>Region</th>
<th>Japanese companies</th>
<th>American companies</th>
<th>European companies</th>
<th>Asian companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal year</td>
<td>Average annual growth rates</td>
<td>Average annual growth rates</td>
<td>Average annual growth rates</td>
<td>Average annual growth rates</td>
</tr>
<tr>
<td>2006</td>
<td>1.459 (24%)</td>
<td>376 (23%)</td>
<td>1.786 (72%)</td>
<td>1,237 (29%)</td>
</tr>
<tr>
<td>2013</td>
<td>1.731 (10%)</td>
<td>2,469 (69%)</td>
<td>3,530 (18%)</td>
<td>4,265 (56%)</td>
</tr>
<tr>
<td>Average</td>
<td>+1.0%</td>
<td>+4.6%</td>
<td>+5.5%</td>
<td>+6.1%</td>
</tr>
</tbody>
</table>

Notes:
1. Data shows those aggregated based on the sales by region available in eight consecutive years between FY2006 and FY2013.
2. Percentage (%) in parentheses ( ) represents share.
Source: Research and Analysis on the Overseas Deployment and Methods for Risk Management of Global Companies (Deloitte Tohmatsu Consulting; a survey commissioned by METI).

(d) Comparison of the performance in Japan and in the rest of the Asia-Pacific region

As was shown in (a), Japanese multinationals’ sales CAGR is the lowest of all regional groups of multinationals in all regions, and in particular, they are significantly inferior to other regional groups in terms of the growth rate in the Asia-Pacific region. Consequently, although Japanese multinationals continue to hold the largest share in the Asia-Pacific region, their share is being grabbed by their equivalents in other regions.

Here, we will examine Japanese multinationals’ low growth in the Asia-Pacific region, which is presumed to be a factor behind the low growth of Japanese multinationals as a whole, by looking at their performance in the Asia-Pacific region as divided into Japan and the rest of the region

As for the ratio of sales in Japan to sales in the rest of the Asia-Pacific region, Japanese multinationals generated 67% of their sales in the Japanese market. This ratio is three to five times as high as the ratios of sales generated in Japan by other regional groups of multinationals.

Next, we will look at the growth rate of Japanese multinationals in Japan and in the rest of the Asia-Pacific region. Japanese multinationals’ sales CAGRs in Japan and in the rest of the Asia-Pacific region (1.8% in Japan and 7.2% in the rest of the Asia-Pacific region) are less

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172 This analysis covers only multinationals that disclose financial data concerning Japan and the rest of the Asia-Pacific region individually, so the sales CAGRs cited here do not match those cited in (a) to (c).
than half the rates of other regional groups (Figure II-1-3-2-17).

From the above, we may presume that Japanese multinationals’ low growth is attributable not only to their high ratio of sales in Japan, a market with low growth, but also to their inferiority to other regional groups of multinationals in terms of the growth rate in both Japan and the rest of the Asia-Pacific region.

Figure II-1-3-2-17  Impact of sales in Japan and in the rest of the Asia-Pacific region

Sales growth rates in the Asia-Pacific region (Average annual growth rates)
(FY2006-FY2013)

<table>
<thead>
<tr>
<th></th>
<th>Japanese companies (n=38)</th>
<th>American companies (n=7)</th>
<th>European companies (n=10)</th>
<th>Asian companies (n=3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales growth rates (%) in Japan</td>
<td>12.8%</td>
<td>77.5%</td>
<td>75.2%</td>
<td>86.7%</td>
</tr>
<tr>
<td>Sales growth rates (%) in the rest of the region</td>
<td>3.3%</td>
<td>22.5%</td>
<td>24.8%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Proportion of sales (pie graph)</td>
<td>Rest of the region 33.4%</td>
<td>Japan 66.6%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

500
Japanese multinationals have a low growth rate and low profitability compared with...
multinationals in other regions. The proportion of companies with less than 50 years passed since establishment or reorganization among major companies is small. In particular, profitability is low at diversified companies.

- The ratio of R&D investment to sales for Japanese multinationals is lower than the ratios for American and European multinationals.
- Japanese multinationals’ growth is low in all regions. In particular, they are losing their share in the Asia-Pacific region.

(B) American multinationals
- American multinationals have the highest profitability of all regional groups. The proportion of companies with less than 50 years passed since establishment or reorganization among major companies is large, and their growth rate is high. In particular, both the growth rate and profitability are high at large diversified companies and small specialized companies.
- American multinationals’ ratio of R&D investment to sales is the highest of all regional groups.
- American multinationals are the fastest growing regional group in the Asia-Pacific region and in the Europe, Middle East and Africa region.

(C) European multinationals
- European multinationals have the second highest profitability, after their American equivalents. The proportion of companies with less than 50 years passed since establishment or reorganization among major companies is large. Both the growth rate and profitability are high at small specialized companies.
- European multinationals have the second highest ratio of investment to sales, after their American equivalents.
- European multinationals are growing in the Asia-Pacific region and the Americas.

(D) Asian multinationals
- Asian multinationals have a very high growth rate. The proportion of companies with less than 50 years passed since establishment or reorganization among major companies is large. The growth rate is very high at specialized companies, while profitability is high at diversified companies.
- Although Asian multinationals have the lowest ratio of R&D investment to sales, their operating income per one dollar of R&D investment is the highest.
- Asian multinationals are growing in the Asia-Pacific region.