

July 27, 2004

The 37th

Survey of Trends in Business Activities of Foreign Affiliates

(Main Points)

Trends in foreign affiliates in Japan in FY 2002

The number of newly established foreign affiliates and that of enterprises withdrawing were both at high levels. Seventy percent of those were in the non-manufacturing sector.

Sales were brisk in the non-manufacturing sector. Conditions were particularly favorable in the information and communications industry and retail trade.

Compared to all incorporated enterprises, foreign affiliates maintained their superiority in indices such as the ratio of ordinary profit to sales and return on equity, due to cost cutting and increases in sales.

Key points of the current survey:

The number of newly established foreign affiliates and that of enterprises withdrawing were both at high levels. Seventy percent of those were in the non-manufacturing sector. Numbers were particularly high in the wholesale trade, the service industry, and the information and communications industry.

• The number of newly established/funded foreign affiliates was 157 enterprises, an increase of 22 enterprises compared to the previous fiscal year. This high level was due to an improvement in the investment environment and other factors. The non-manufacturing sector accounted for 70%, with a high number in wholesale trade, service industry and the information and communications industry. In the manufacturing sector, information and communication machinery was high. Enterprises with capital of 50 million yen or less had the largest share of 72.0%, while European enterprises accounted for more than 40%.

• The number of enterprises withdrawing was also at a high level of 161 enterprises, an increase of 61 enterprises compared to the previous fiscal year.

Sales were active in the non-manufacturing sector. Increases in the information and communications industry and retail trade were particularly significant.

• Sales increased by 5.1% compared to the previous fiscal year (sales data limited to enterprises that responded both in the previous fiscal year and the current year: up by 1.2%) The non-manufacturing sector increased significantly; in particular, the thriving information and communications industry increased by 120.7%, and retail trade increased sharply by 110.2% due to the influence of newly established/funded enterprises. The wholesale trade was also brisk.

• The direct balance of trade saw an excess of exports for the third consecutive year, due partly to the contribution of transport machinery.

Capital investment decreased for the first time in four years. The increase was significant in the information and communications industry.

• Capital investment decreased for the first time in four years. Transport machinery decreased significantly, while the non-manufacturing sector, including the information and communications industry, increased sharply.

Employment decreased. Decreases were observed in sectors such as transport machinery, while those such as the service industry showed increases.

• Employment decreased by 10.4% compared to the previous fiscal year (employment limited to

enterprises that responded both in the previous fiscal year and the current year: down by 4.0%). Employment was down in the information and communications industry, transport machinery, etc., and up in the service industry, wholesale trade, etc.

Profits improved greatly due to cost cutting and increases in sales. Compared to all incorporated enterprises, foreign affiliates maintained their superiority in indices such as the ratio of ordinary profit to sales and return on equity.

· Profits increased sharply by 27.4% compared to the previous fiscal year due to increases in sales, etc. along with cost cutting. In particular, significant increases were observed in the information and communications industry and transport machinery.

· Compared to all incorporated enterprises, foreign affiliates maintained their superiority in indices such as the ratio of ordinary profit to sales, return on equity (ROE), and the ratio of operating cost to sales.

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Cooperation Bureau**

Ministry of Economy, Trade and Industry

【 Outline of the survey 】

1. Target

The survey covers those enterprises (financial/insurance and real estate industry excluded) in which foreign investors hold more than one third of the stocks or shares as of the end of March 2003.

2. Date

The survey was conducted on October 1, 2003, regarding the business results for the end of FY 2002.

3. Number of respondents

Respondents:	2,341
Response ratio:	53.8%

【 Instructions for use 】

1. Note on survey results

- (1) Only valid answers are compiled. Therefore, the number of respondents varies per item.
- (2) When comparing the results of this survey with previous surveys, it is necessary to note differences in the response ratio and the number of foreign affiliates covered, considering that some enterprises that fell within the scope of previous surveys were not included in the scope of this survey.

2. Definitions of regions

Unless otherwise specified, for the purposes of this survey nationality refers to the country or region where the foreign investor is located.

1. Distribution

- The number of foreign affiliates at the end of fiscal 2002 was 1,861 enterprises, of which 574 enterprises were in the manufacturing sector and 1,287 enterprises were in the non-manufacturing sector. The percentage within the manufacturing sector was 30.8% (down by 2.3 points compared to the previous fiscal year), while that in the non-manufacturing sector was 69.2% (up by 2.3 points).
- By industry, foreign affiliates in the wholesale trade came to 745 enterprises, the most numerous with 40.0%, followed by those in the transportation and telecommunication, the service industry, the chemical industry and retail trade (Fig. 1-1).
- By nationality, European enterprises totaled 777 (accounting for 41.8% of regional share, up by 1.2 points), US enterprises totaled 719 (38.6%, down by 1.1 points), and Asian enterprises totaled 277 (14.9%, up by 0.8 points) (Table 1-1).

Figure 1-1 Distribution of foreign capital enterprises by industry

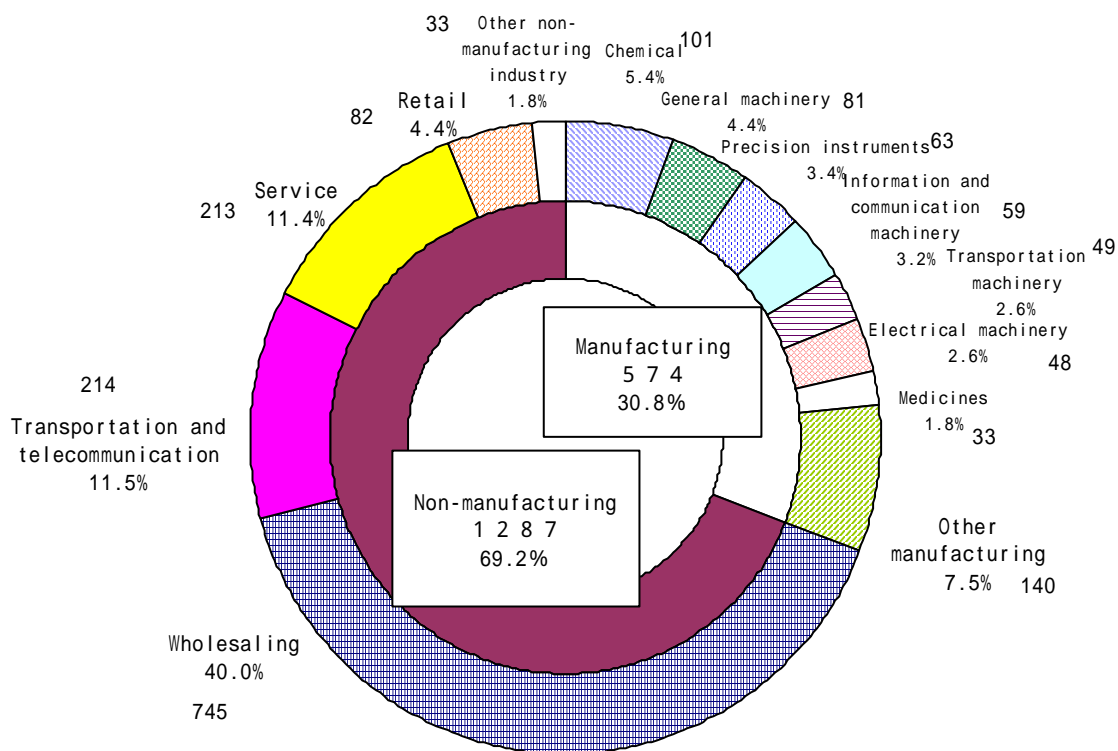


Table 1-1 Number of foreign affiliates by nationality

	Number of foreign affiliates	Distribution ratio (%)	Difference from previous year
Total	1,861	100.0	-
American	719	38.6	1.1
Asian	277	14.9	0.8
European	777	41.8	1.2
Others	88	4.7	0.9

2. Foreign affiliates newly established/funded

- The number of newly established/funded foreign affiliates was 157 enterprises, an increase of 22 enterprises compared to the previous fiscal year and the highest ever figure. Among them, 46 enterprises (an increase of 6 enterprises) were in the manufacturing sector and 111 (an increase of 16 enterprises) were in the non-manufacturing sector. The entry ratio¹ also continued to increase, rising to 8.4% (Fig. 2-1).
- Improvement in the investment environment and other factors led to new establishments in many fields. By industry, 36 new entries were in wholesale trade (a decrease of 2 compared to the previous fiscal year), 30 were in the service industry (an increase of 8), and 29 were in the transportation and telecommunication (same level) in the non-manufacturing sector. In the manufacturing sector, 10 new establishments in the information and communication machinery (an increase of 1) were notable (Fig. 2-2).
- By capital, the share of new entries was biggest for enterprises with capital of 50 million yen or less, at 72.0%. In contrast, large enterprises with capital of over 1 billion yen came to 9 enterprises, or 5.7% (Table 2-1).
- By nationality, European enterprises totaled 70 (an increase of 26 over the previous fiscal year), which was a significant increase (Table 2-2).
- Due to foreign investors' stocks, etc. surpassing one-third of total capital, the increase in the acquisition rate was significant, with new establishments representing 79.8% and acquisitions 10.5%.

Figure 2-1 Number of newly established/funded foreign affiliates

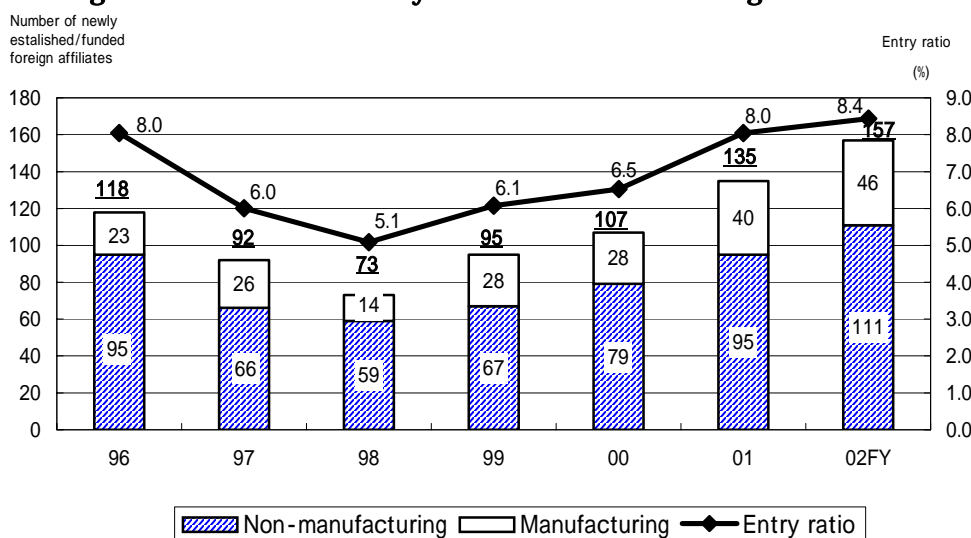


Figure 2-2 Newly established/funded foreign affiliates by industry

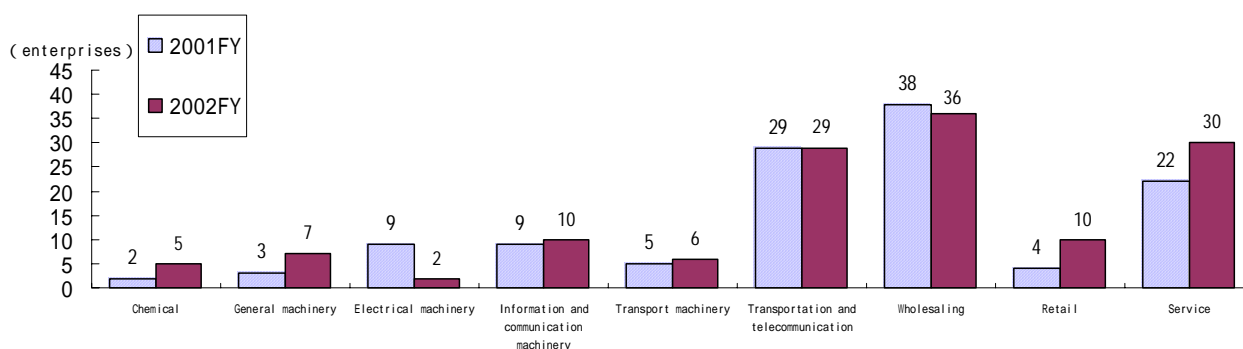


Table 2-1 Number of newly established/funded foreign affiliates by capital

	Total	~ 50 million yen	50 million ~ 100 million yen	100 million ~ 300 million yen	300 million ~ 1 billion yen	1 billion ~ 10 billion yen	10 billion yen ~
All industries	157	113	17	9	9	3	6
Distribution ratio(%)	100.0	72.0	10.8	5.7	5.7	1.9	3.8

Table 2-2 Number of newly established/funded foreign affiliates by nationality

	98	99	00	01	02FY
Total	73	95	107	135	157
American	30	34	46	45	54
European	27	40	37	44	70
Asian	12	17	16	30	28
Others	4	4	8	16	5

Table 2-3 Reason foreign capital surpassed one-third of total capital

	Distribution ratio (%)		
	FY2001	FY2002	Difference from previous year
Total	100.0	100.0	0.0
Newly established	82.4	79.8	2.6
Acquisition (including capital increase)	8.4	10.5	2.1
Joint venture	2.5	2.4	0.1
Others	6.7	7.3	0.6

1 Entry ratio = Number of newly established and newly funded foreign affiliates/Number of foreign affiliates

3. Withdrawal

• The number of enterprises withdrawing² was 161, a high level and an increase of 61 enterprises compared to the previous fiscal year. Of those 161 enterprises, 46 (an increase of 15 over the previous fiscal year) were from the manufacturing sector and 115 (an increase of 46), or 71.4% of the total, were from the non-manufacturing sector. The ratio of enterprises withdrawing³ also increased to 8.0% (Fig. 3-1).

• By industry, in the non-manufacturing sector, the figures were notable in the wholesaling trade (49 enterprises, an increase of 27), the transportation and telecommunication (38 enterprises, an increase of 11), and the service industry (21 enterprises, an increase of 8). In the manufacturing sector, there was an increase in the information and communication machinery (8 enterprises, an increase of 2) (Fig. 3-2).

• By capital, the percentage of withdrawals was biggest for enterprises with capital of 50 million yen or less, at 41.6%. In contrast, large enterprises with capital of over 1 billion yen represented 30 withdrawals, or 18.6% (Table 3-1).

Figure 3-1 Number of enterprises withdrawing

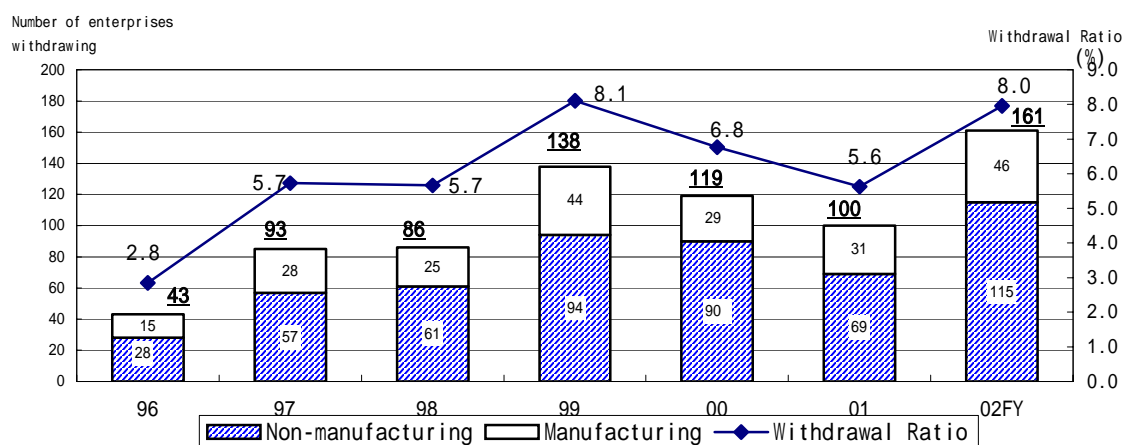


Figure 3-2 Number of enterprises withdrawing by industry

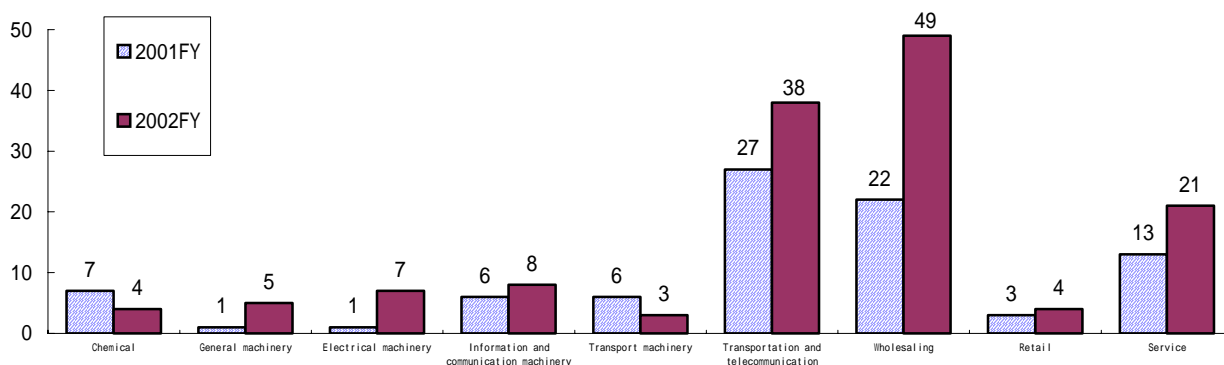


Table 3-1 Number of enterprises withdrawing by capital

	Total	~ 50 million yen	50 million ~ 100 million yen	100 million ~ 300 million yen	300 million ~ 1 billion yen	1 billion ~ 10 billion yen	~ 10 billion yen	capital scale unknown
All industries	161	67	15	18	29	20	10	2
Distribution ratio (%)	100.0	41.6	9.3	11.2	18.0	12.4	6.2	1.2

2 Withdrawal includes "liquidation" and "reduction in the controlling share (controlling share possessed by foreign enterprise drops to one-third or less of the total)."

3 Ratio of enterprises withdrawing = Number of enterprises withdrawing / (Number of foreign affiliates + Number of enterprises withdrawing) × 100

4. Sales/Imports and Exports

- Sales increased to 27.0 trillion yen, up 5.1% compared to the previous fiscal year, starting to increase again after the decline in the previous fiscal year (sales limited to enterprises that responded in both the previous fiscal year and the current year: up by 1.2%). The non-manufacturing sector posted a figure of 10.7 trillion yen, up by 30.0%, and the manufacturing sector posted a figure of 16.4 trillion yen, down by 6.6% (Fig. 4-1).

- By industry, sales in the non-manufacturing sector doubled due to the influence of newly entering enterprises with sales of 2.2 trillion yen in the transportation and telecommunication (up by 120.7%) and sales of 1.2 trillion yen in the retail trade (up by 110.2%) (Fig. 4-2). The manufacturing sector declined sharply due to the impact of enterprises not falling within the scope of the survey in the information and communication machinery. In contrast, medicines and transport machinery increased.

- The ratio⁴ of foreign affiliates' sales among those of all incorporated enterprises increased in the non-manufacturing sector for the second consecutive year, whereas it decreased by 0.3 points in the manufacturing sector (Fig. 4-3).

- The direct balance of trade showed an excess of exports for the third consecutive year due to favorable conditions in transport machinery (Fig. 4-4).

Figure 4-1 Sales

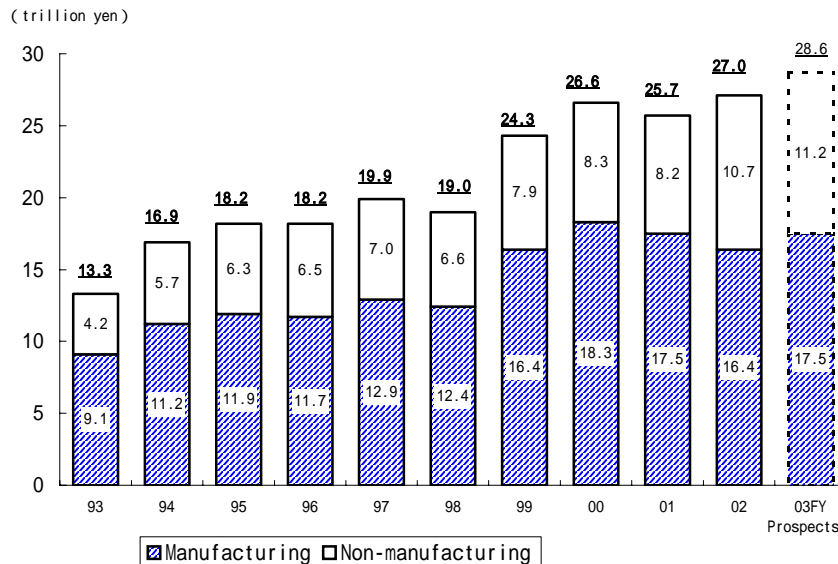


Figure 4-2 Sales by industry

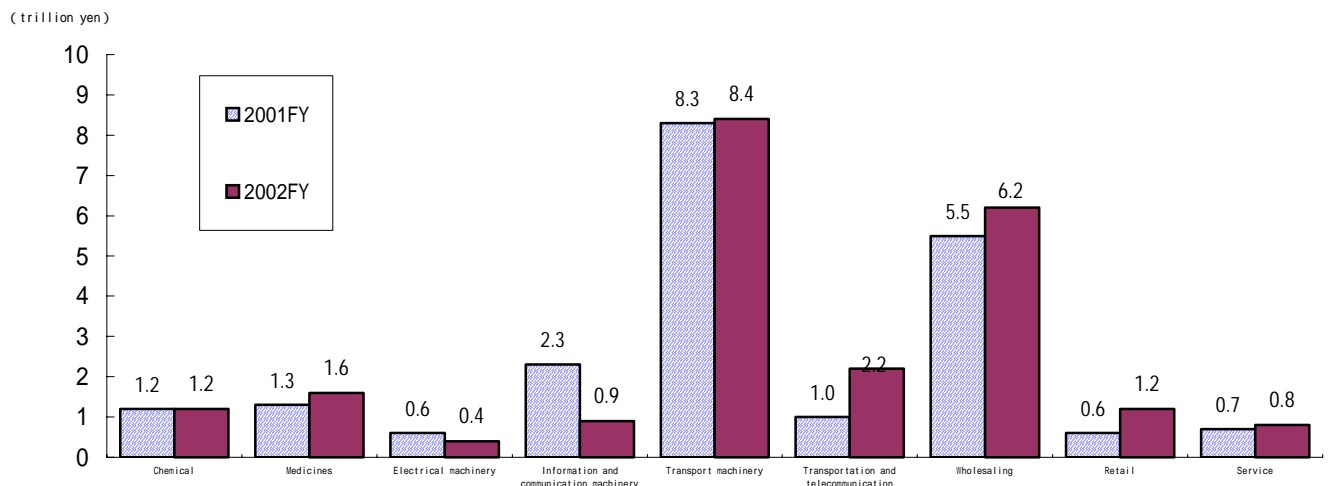


Figure 4-3 Ratio to all incorporated enterprises

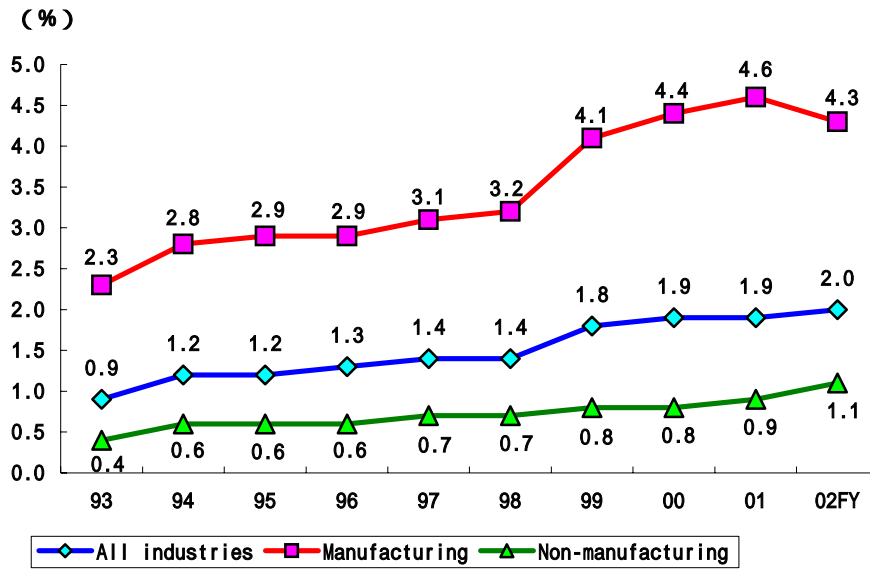
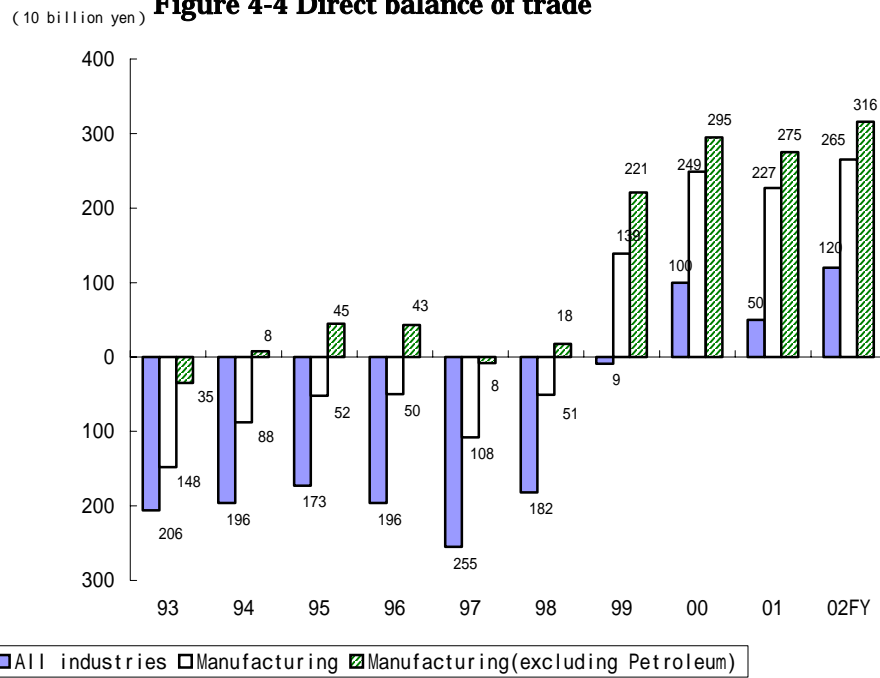


Figure 4-4 Direct balance of trade



4 Ratio of foreign affiliates among all incorporated enterprises

= Sales of foreign affiliates/Sales of all incorporated enterprises × 100

Source: All incorporated enterprises: Financial Statements Statistics of Corporations by Industry, Ministry of Finance

5. Profit

• Ordinary profit increased sharply to 1.5547 trillion yen, up by 27.4% compared to the previous fiscal year, due to the influence of increased sales together with cost cutting (ordinary profit limited to enterprises that responded in both the previous fiscal year and the current year: up by 28.6%). Ordinary profit increased by 5.9% to 993.1 billion yen in the manufacturing sector, and increased significantly, by 98.6% to 561.6 billion yen in the non-manufacturing sector (Fig. 5-1).

• By industry, ordinary profit in the non-manufacturing sector increased sharply by 50-fold due to active sales in the transportation and telecommunication. Manufacturing sector profit decreased largely due to the impact of enterprises not falling within the scope of the survey in the information and communication machinery. In contrast, transport machinery increased sharply by 41.9% (Fig. 5-2).

• The ratio of ordinary profit to sales⁵ increased by 1.1 points compared to the previous fiscal year, to 5.9%. This is a higher level (by 3.6 points) than that of all incorporated enterprises, and the difference has been increasing (Fig. 5-3).

Figure 5-1 Ordinary profit

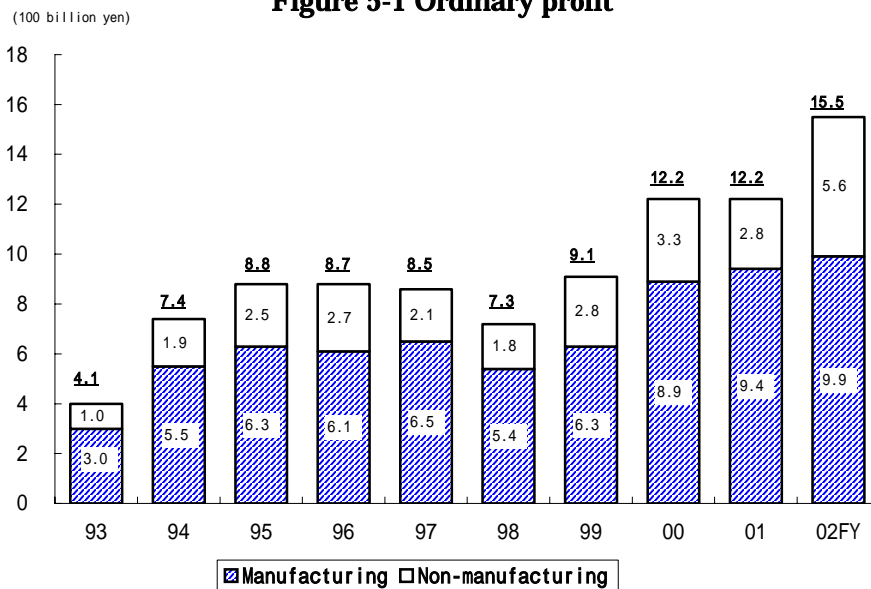
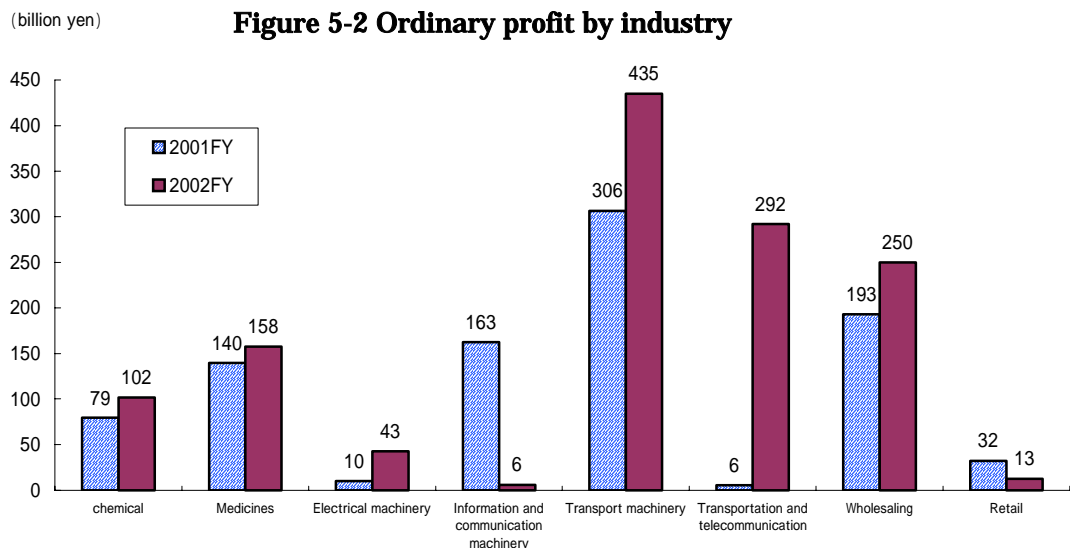
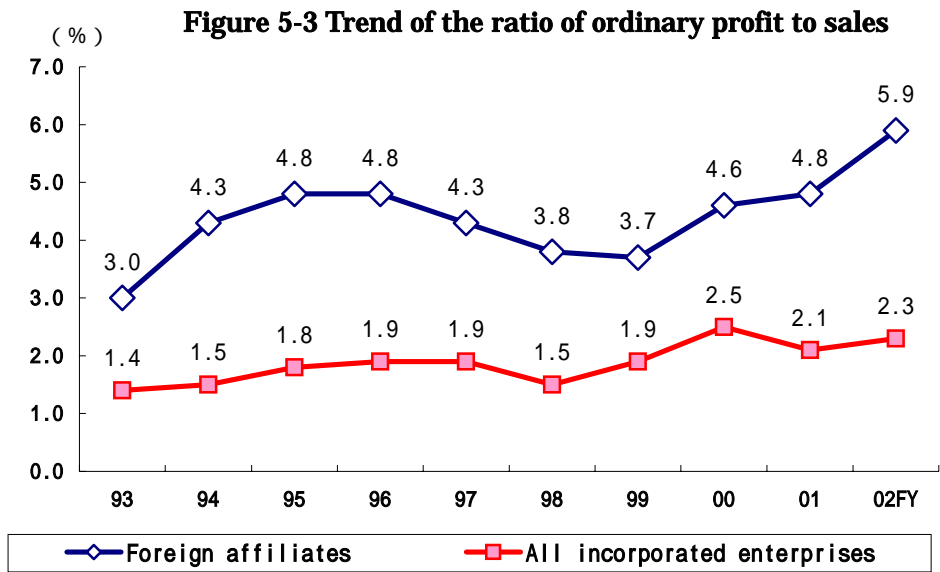


Figure 5-2 Ordinary profit by industry





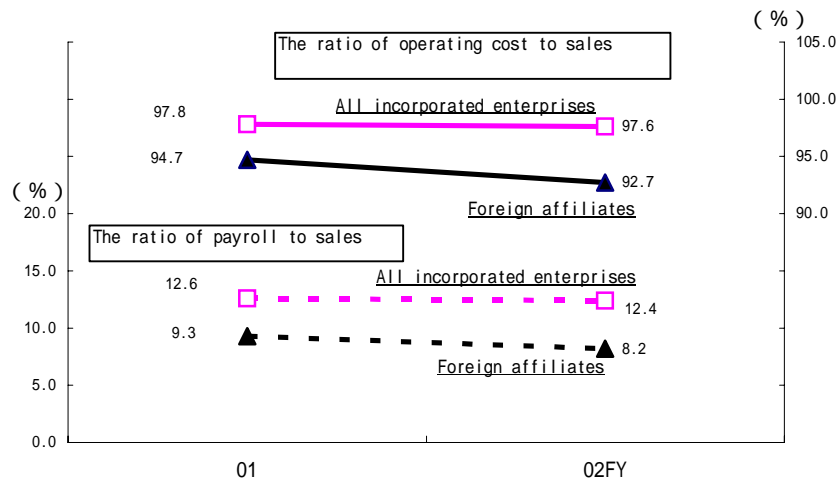
Source: All incorporated enterprises: Financial Statements Statistics of Corporations by Industry, Ministry of Finance

5 Ratio of ordinary profit to sales = Ordinary profit/Sales × 100

6. Cost

• The cost structure in terms of the ratio of operating cost to sales⁶ showed a decrease of 2.0 points compared to the previous fiscal year, to 92.7%. In comparison with all incorporated enterprises, foreign affiliates accounted for a figure 4.9 points lower with an increasing difference, which indicates the progress of cost cutting. The ratio of payroll to sales also decreased to 8.2%, down by 1.1 points due to increases in sales and decreases in payroll. In comparison with all incorporated enterprises, foreign affiliates accounted for a figure 4.2 points lower, with the difference increasing (Fig. 6-1).

Figure 6-1 Ratio of operating cost to sales and ratio of payroll to sales

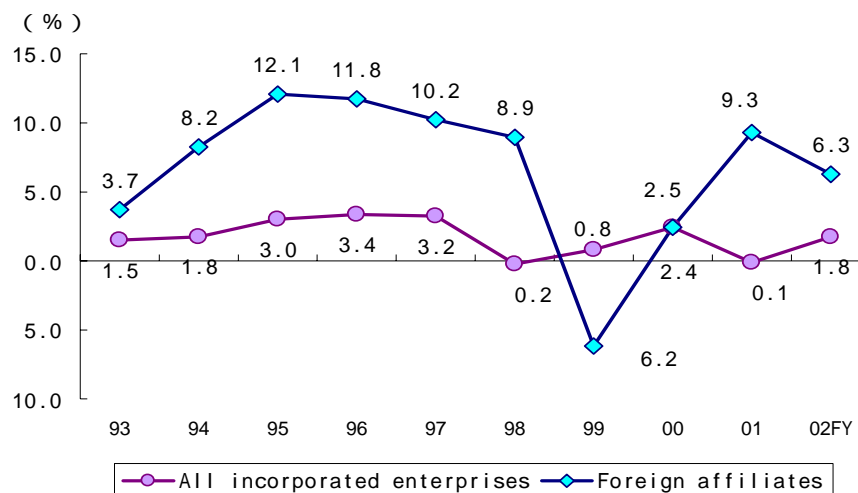


Source: All incorporated enterprises: Financial Statements Statistics of Corporations by Industry, Ministry of Finance

7. Return on equity (ROE)

Return on equity (ROE)⁷, decreased by 3.0 points compared to the previous fiscal year, to 6.3%, continuing at a high level. In comparison with all incorporated enterprises, foreign affiliates accounted for a higher figure by 4.5 points. Due to the influences of newly established enterprises in transport machinery, the figure has been much higher again since FY 2001, although it was lower in FY 1999 and FY 2000 (Fig. 7-1).

Figure 7-1 Trend of return on equity (ROE)



Source: All incorporated enterprises: Financial Statements Statistics of Corporations by Industry, Ministry of Finance

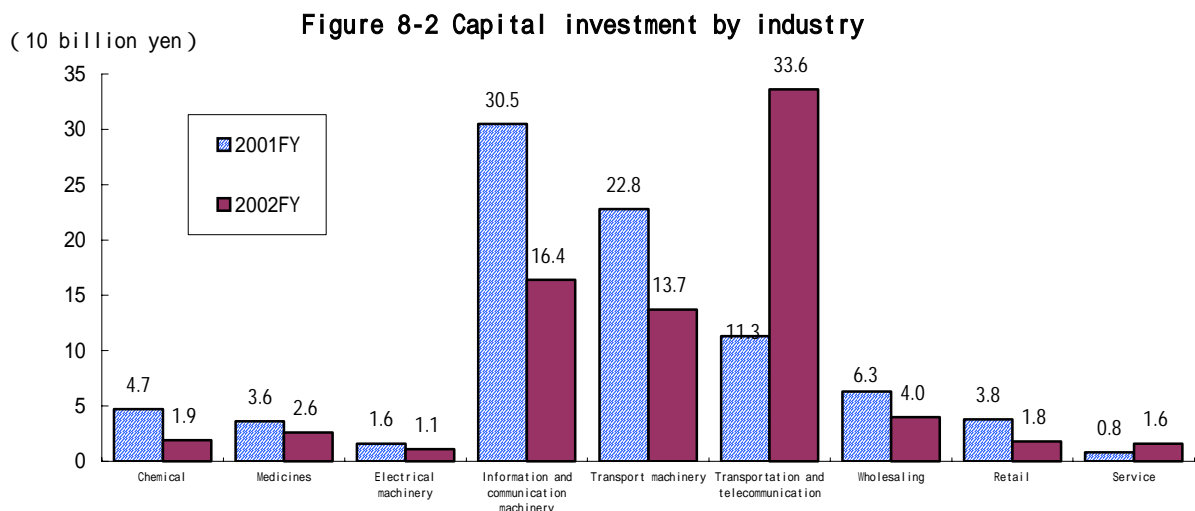
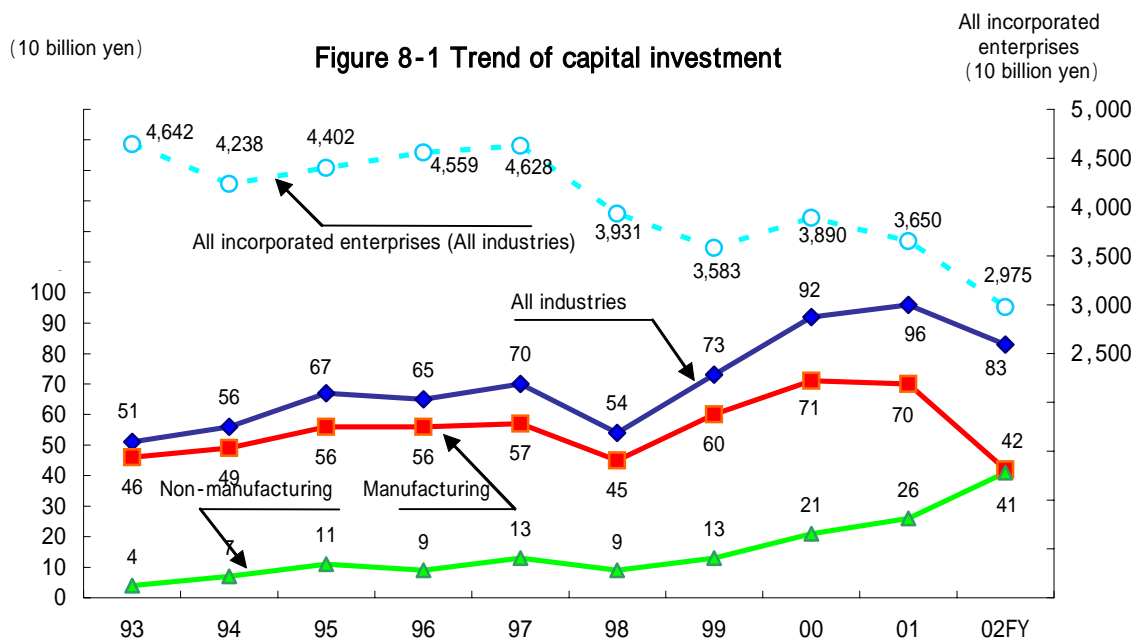
6 Ratio of operating cost to sales = (Cost of sales + Sales and administrative costs)/Sales × 100

7 Return on Equity (ROE) = Current income after tax/Shareholder's equity × 100

8. Capital investment

• Capital investment decreased by 14.3% compared to the previous fiscal year to 825.9 billion yen, a decrease for the first time in four years (capital investment limited to enterprises that responded in both the previous fiscal year and the current year: down by 6.9%). Capital investment in the manufacturing sector decreased by 40.8% to 416.0 billion yen. In contrast, it increased by 56.9% to 409.9 billion yen in the non-manufacturing sector. Foreign affiliates' capital investment accounted for 2.8% of capital investment by all incorporated enterprises, which was an increase of 0.2 points (Fig. 8-1).

• By industry, in the manufacturing sector, the information and communication machinery decreased significantly to 164.1 billion yen (down by 46.2%) due to the impact of enterprises not falling within the scope of the survey, and transport machinery also decreased sharply to 137.5 billion yen (down by 39.6%) due to the influence of enterprises withdrawing. In contrast, in the non-manufacturing sector, capital investment in the transportation and telecommunication increased significantly to 336.2 billion yen, up by 196.3% (Fig. 8-2).



9. Employment

• The number of employees decreased to 295,000, a 10.4% decrease compared to the previous fiscal year (the number of employees limited to enterprises that responded both in the previous fiscal year and the current year: down by 4.0%, a slight decrease in real terms). The manufacturing sector showed a 12.8% decrease to 202,000, and the non-manufacturing sector showed a 4.7% decrease to 92,000 (Fig. 9-1).

• By industry, in the manufacturing sector, the number of employees in the information and communication machinery decreased sharply to 18,000, down by 54.0%), due to the impact of enterprises not falling within the scope of the survey, and employment in transport machinery also decreased. In the non-manufacturing sector, there was a significant decrease to 17,000 in the transportation and telecommunication, a drop of 31.3% (Fig. 9-2).

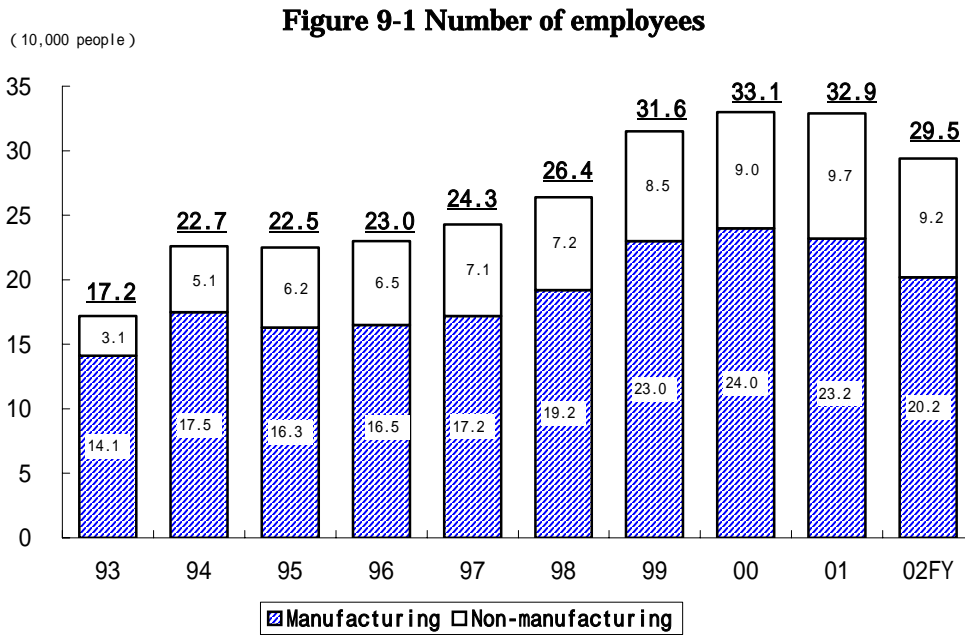


Figure 9-2 Number of employees by industry

