

The 38th
Survey of Trends in Business Activities of Foreign Affiliates
(Main Points)

Trends in foreign affiliates in Japan in FY2003

Sales were brisk both in the manufacturing and the non-manufacturing sectors.
Capital investment increased for the first time in two years.
R & D expenses of the manufacturing sector increased for the second consecutive year.
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 increases in sales, etc.

Key points of the current survey:

The number of newly established foreign affiliates and that of enterprises withdrawing both decreased, especially in the information and communications industry.

- The number of newly established/funded foreign affiliates was 127, a decrease of 30 enterprises compared to the previous fiscal year. Three fourths of decreases were observed in the non-manufacturing sector, especially in the wholesale trade industry, the service industry and the information and communications industry. In the manufacturing sector, the information and communication equipment industry was high. Newly established/funded European affiliates decreased to less than half compared to the previous fiscal year, and the overall number of newly established/funded foreign affiliates decreased, most significantly in the information and communications industry.
- The number of enterprises withdrawing was 138, a decrease of 23 enterprises (id.). A decrease from the previous fiscal year was significant in the information and communications industry.

Sales were brisk both in the manufacturing and non-manufacturing sectors, showing significant increases especially in the information and communication equipment industry and the wholesale trade industry.

- Sales increased by 20.1% compared to the previous fiscal year (sales data limited to enterprises that responded both in the previous fiscal year and the current year: up 6.4%). Increases were observed both in the manufacturing and non-manufacturing sectors. The information and communication equipment industry increased sharply by 180.8% (id.), due to influences of enterprises newly added to the survey target. The general machinery and the wholesale trade industry also increased by 29.9% (id.) and by 26.5% (id.), respectively.
- The direct balance of trade saw an excess of exports for the fourth consecutive year, due partly to the contribution of the transport machinery industry.

Capital investment increased for the first time in two years, showing increases in many industries.

- In spite of a decrease in the non-manufacturing sector, capital investment increased for the first time in two years, as the manufacturing sector shifted to increase. The transport machinery industry contributed significantly to increase in the manufacturing sector, while in

the non-manufacturing sector, the information and communications and transportation industry decreased although there were increases in the retail trade industry, etc.

Research & development expenses of the manufacturing sector increased for the second consecutive year.

- R & D expenses increased by 15.9% compared to the previous fiscal year. In particular, the manufacturing sector increased significantly by 14.6% (id.), up for the second consecutive year.

Employment increased both in the manufacturing and the non-manufacturing sectors.

- Employment increased by 48.1% compared to the previous year, up for the first time in three years (employment limited to enterprises that responded both in the previous fiscal year and the current year: up by 18.6%). The non-manufacturing sector showed a significant increase, but this was partly because subsidiaries of holding companies were newly added to the survey targets. After eliminating these influences, the degree of increase diminishes significantly.

Ordinary profit increased for the second consecutive year. 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, etc.

- Ordinary profit increased by 8.6% compared to the previous fiscal year (Ordinary profit limited to enterprises that responded both in the previous fiscal year and the current year decreased by 11.3%, but it increased substantively when excluding enterprises that showed sharp declines in business). The manufacturing sector showed increases due to an increase in sales. In particular, the information and communication equipment industry, etc. showed a sharp increase.
- 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.

**The Enterprises Statistics Office of the Research and Statistics Department
of the Economic and Industrial Policy Bureau**

**Trade and Investment Facilitation Division
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Ministry of Economy, Trade and Industry

【 Outline of the survey 】

1. Target

The survey covers those enterprises (financial/insurance and real estate industry excluded) which meet the following conditions as of the end of March 2004.

- (1) Enterprises in which foreign investors hold more than one third of the stocks or shares
- (2) Enterprises invested in by holding companies in which foreign investors hold more than one third of the stocks or shares, and in which total of direct and indirect investment ratio by foreign investors exceeds one third (newly added from the 2004 survey)

2. Date

The survey was conducted on November 1, 2004, regarding the business results for FY2003 and the end of FY2003.

3. Number of respondents

Respondents:	2,452
Response ratio:	56.2%

【 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 out of the scope of previous surveys were included in the scope of this survey.

Particularly for the 2004 survey, you should note the variance caused by the changes in the survey targets (see "1. Target (2)" above) and the survey items related to employment (part-timers who should be included in employed persons had not necessarily been included in the survey results until the previous year).

2. Classification of industries

Classification of industries and ratings of each enterprise to classification of industries is compliant with Japan Standard Industrial Classification.

"Research" is rated to the same classification as the parent company.

3. 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.

《 Main Points 》

(1) Distribution

- The number of foreign affiliates at the end of FY2003 was 2,040 enterprises, of which 618 enterprises were in the manufacturing sector and 1,422 enterprises were in the non-manufacturing sector. The manufacturing sector accounted for 30.3% (down by 0.5 points compared to the previous fiscal year), while the non-manufacturing sector accounted for 69.7% (up by 0.5 points (id.)) in all industries (Fig. 1-1).
- By industry, foreign affiliates in the wholesale trade industry came to 788 enterprises, the most numerous with 38.6%, followed by those in the service industry, the information and communications and transportation industry, the chemical industry, and the general machinery industry (Fig. 1-1).
- By nationality, European enterprises totaled 861 (accounting for 42.2% of regional share, up by 0.4 points compared to the previous fiscal year), US enterprises totaled 774 (37.9%, down by 0.7 points (id.)), and Asian enterprises totaled 298 (14.6%, down by 0.3 points (id.)) (Table 1-1).
- Looking at points of presence by function^(Note 1), half of the enterprises in the manufacturing sector have R&D facilities, and enterprises in the non-manufacturing sector have seven business and sales offices on average (Fig. 1-2).

Figure 1-1 Distribution of Foreign Capital Enterprises by Industry

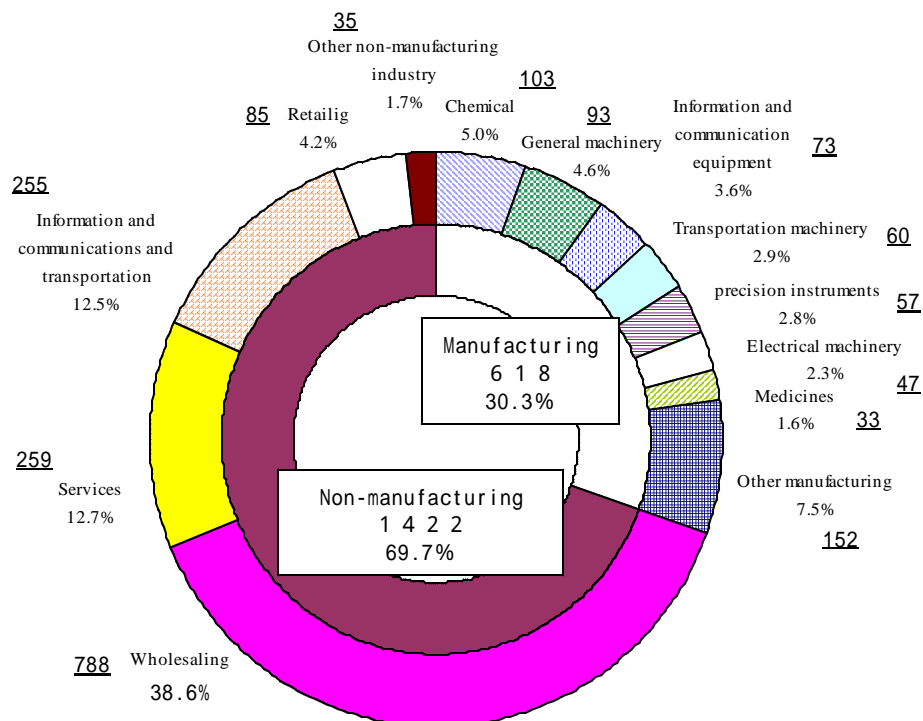
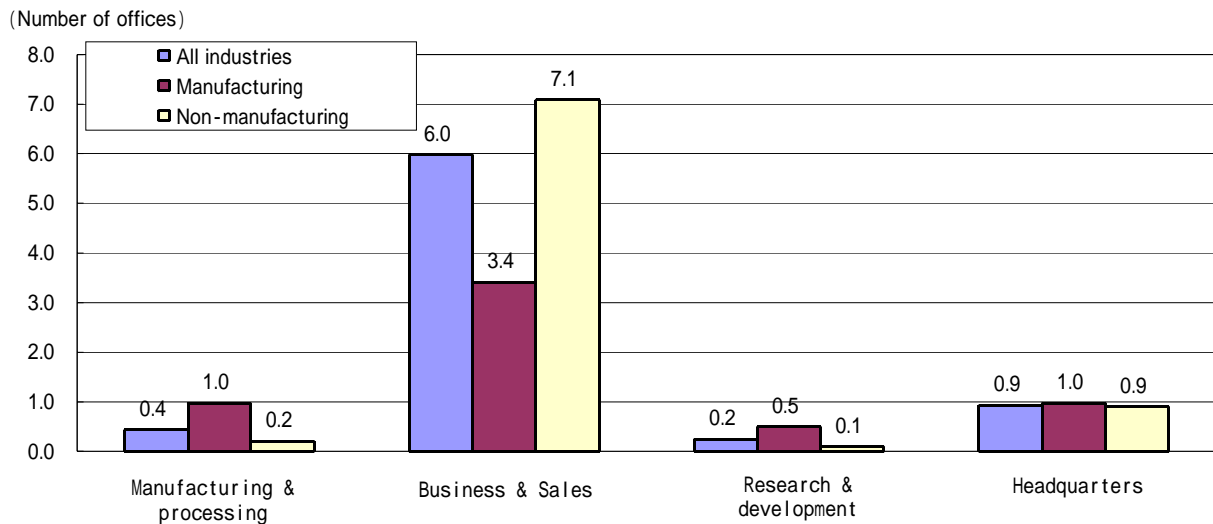


Table 1-1 Number of Foreign Affiliates by Nationality

(Enterprises, %)

	Number of foreign affiliates	Distribution ratio (%)	Difference from previous year
Total	2,040	100.0	-
American	774	37.9	0.7
Asian	298	14.6	0.3
Chinese	114	5.6	0.1
European	861	42.2	0.4
Others	107	5.2	0.5

**Figure 1 - 2 Number of Offices in Japan of Foreign Affiliates by Function
(Average per Enterprise)**



Note 1: When one office has multiple functions, each function is counted.

(2) Foreign affiliates newly established/funded

- The number of newly established/funded foreign affiliates was 127, a decrease of 30 enterprises compared to the previous fiscal year. Among them, 32 enterprises (a decrease of 14 enterprises) were in the manufacturing sector and 95 (a decrease of 16 enterprises) , or 74.8% of the total, were in the non-manufacturing sector. The entry ratio^(Note 2) decreased to 6.2% (Fig. 2-1).
- By industry, 36 new entries were in the wholesale trade industry (same level compared to the previous fiscal year), 24 were in the service industry (a decrease of 6 (id.)), 23 were in the information and communications and transportation industry (a decrease of 6 (id.)) in the non-manufacturing sector. In the manufacturing sector, 10 new establishments in the information and communication equipment industry (same level (id.)) 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 66.9%. In contrast, large enterprises with capital of over 1 billion yen came to 7 enterprises, or 5.5% (id.) (Table 2-1).
- By nationality, European enterprises decreased by half to 32 (a decrease of 38 (id.)) (Table 2-2).
- Among reasons that foreign investor's stocks, etc. surpassed one-third of total capital, 69.2% were new establishment, while 26.0% were acquisition (including merger and capital increase), which accounted for more than one-quarter (Table 2-3).

Figure 2-1 Number of Newly Established/Funded Foreign Affiliates

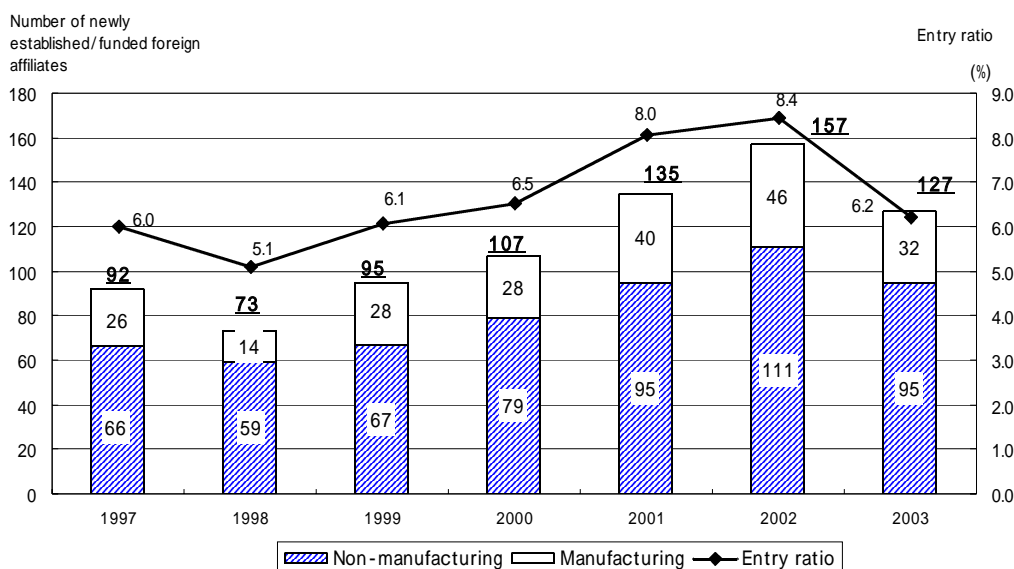


Figure 2-2 Newly Established/Funded Foreign Affiliates by Industry

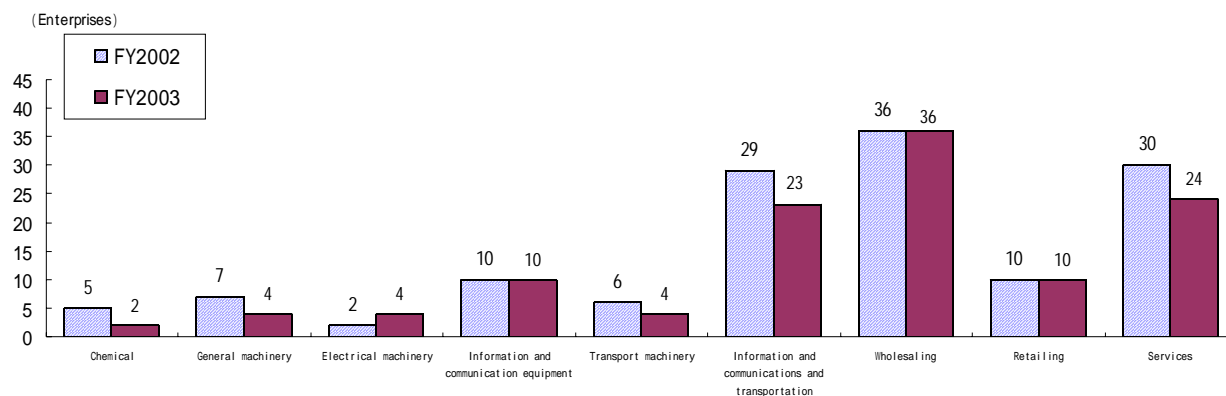


Table 2-1 Number of Newly Established/Funded Foreign Affiliates by Capital

(Enterprises, %)

	Total	50 million yen or less	50 million - 100 million yen	100 million - 300 million yen	300 million - 1 billion yen	1 billion - 10 billion yen	Over 10 billion yen	Unknown
All industries	127	85	5	6	7	4	3	17
Distribution ratio (%)	100.0	66.9	3.9	4.7	5.5	3.1	2.4	13.4

Table 2-2 Number of Newly Established/Funded Foreign Affiliates by Nationality

(Enterprises)

	FY1999	FY2000	FY2001	FY2002	FY2003
Total	95	107	135	157	127
American	34	46	45	54	47
European	40	37	44	70	32
Asian	17	16	30	28	33
Others	4	8	16	5	15

Table 2-3 Reasons Foreign Capital Surpassed One-Third of Total Capital

(%)

	Distribution ratio (%)		
	FY2002	FY2003	Difference from the previous year
Total	100.0	100.0	0.0
Newly established	79.8	69.2	10.6
By joint venture	-	12.1	-
Acquisition (including merger/capital increase)	12.9	26.0	13.1
Others	7.3	4.8	2.5

Note 2: Entry ratio = Number of newly established and new funded foreign affiliates/Number of foreign affiliates

(3) Withdrawal

- The number of enterprises withdrawing^(Note 3) was 138, a decrease of 23 enterprises compared to the previous fiscal year. Of those 138 enterprises, 42 (a decrease of 4 over the previous fiscal year) were from the manufacturing sector, and 96 (a decrease of 19 (id.)), or 69.6% of the total, were from the non-manufacturing sector. The ratio of enterprises withdrawing^(Note 4) also decreased to 6.3% (Fig. 3-1).
- By industry, in the non-manufacturing sector, the figures were notable in the wholesale trade industry (46 enterprises, a decrease of 3 (id.)), the information and communications and transportation industry (22 enterprises, a decrease of 16 (id.)), and the service industry (22 enterprises, an increase of 1 (id.)). In the manufacturing sector, there were increases in the information and communication equipment industry (9 enterprises, an increase of 1 (id.)) and the chemical industry (8 enterprises, an increase of 4 (id.)) (Fig. 3-2).
- By capital, the percentage of withdrawals was largest for enterprises with capital of 50 million yen or less, at 41.3%. In contrast, large enterprises with capital of over 1 billion yen represented 17 withdrawals, or 12.3% (Table 3-1).

Figure 3-1 Number of Enterprises Withdrawing

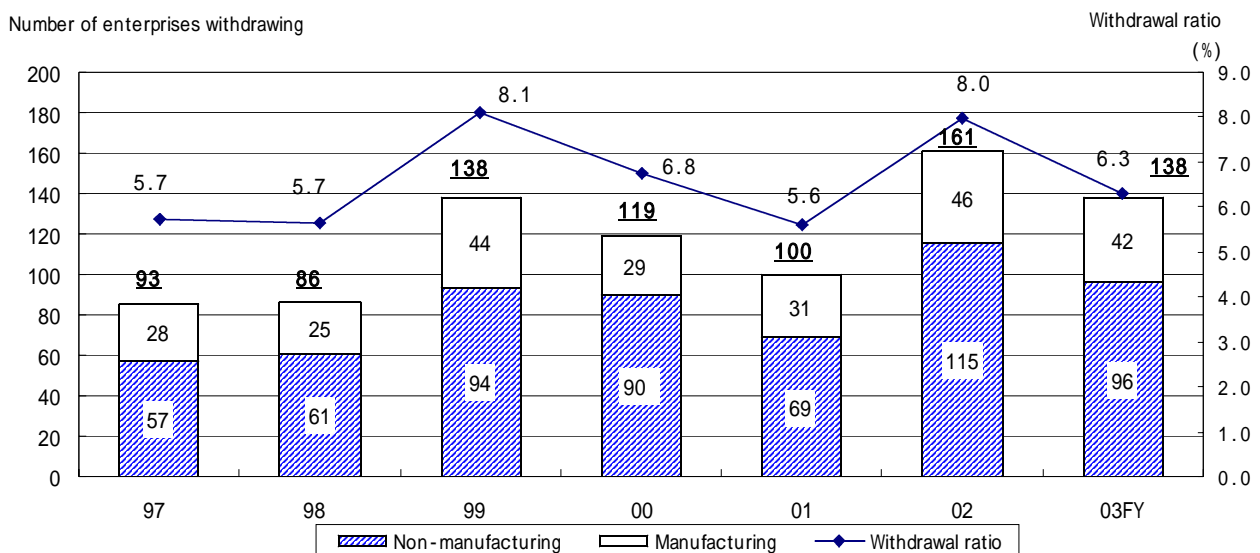


Figure 3-2 Number of Enterprises Withdrawing by Industry

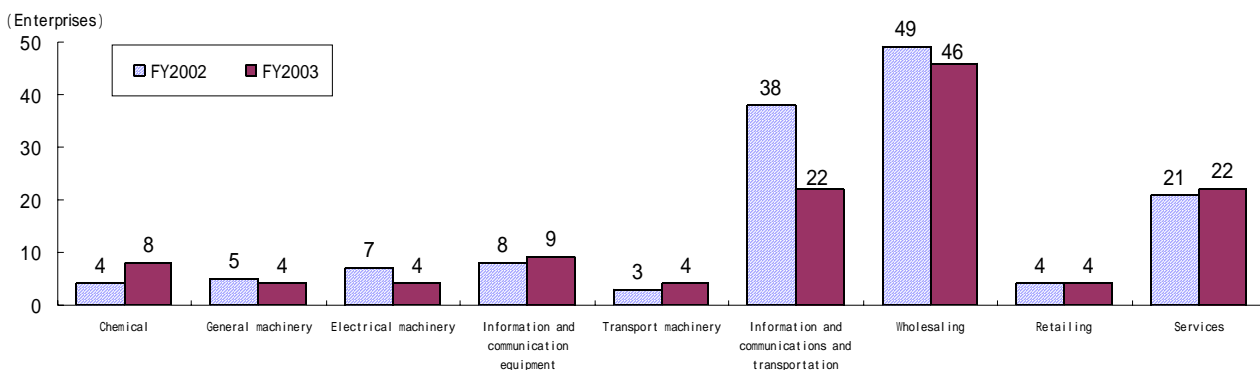


Table 3-1 Number of Enterprises Withdrawing by Capital

(Enterprise, %)

	Total	50 million yen or less	50 million - 100 million yen	100 million - 300 million yen	300 million - 1 billion yen	1 billion - 10 billion yen	Over 10 billion yen	Unknown
All industries	138	57	19	12	20	12	5	13
Distribution ratio (%)	100.0	41.3	13.8	8.7	14.5	8.7	3.6	9.4

Note 3: Withdrawal includes "liquidation" and "reduction in controlling share (controlling share possessed by foreign enterprise drops to one-third or less of the total)."

Note 4: Withdrawal ratio = Number of enterprises withdrawing / (Number of foreign affiliates + Number of enterprises withdrawing) × 100

(4) Sales/Imports and Exports

- Sales increased to 32.5 trillion yen, up by 20.1% compared to the previous fiscal year (sales limited to enterprises that responded in both the previous fiscal year and the current year: up by 6.4%). The manufacturing sector posted a figure of 19.3 trillion yen, up by 17.9%, and the non-manufacturing sector posted a figure of 13.2 trillion yen, up by 23.5% (Fig. 4-1).
- By industry, in the manufacturing sector, sales in the information and communication equipment industry increased significantly to 2.6 trillion yen (up by 180.8% (id.)) due to an influence of enterprises newly added to the survey target. Sales in the non-manufacturing sector also increased significantly, as the wholesale trade industry increased to 7.8 trillion yen (up by 26.5% (id.)), and the information and communications and transportation industry increased to 2.6 trillion yen (up by 19.9% (id.)) due to the influence mentioned above (Fig. 4-2).
- The ratio^(Note 5) of foreign affiliates sales among those of all incorporated enterprises increased in the non-manufacturing sector for the third consecutive year, while it shifted to increase from a decline in the previous year in the manufacturing sector, rising to 5.0% (Fig. 4-3).
- The direct balance of trade showed an excess of exports for the fourth consecutive year due to contribution of the transport machinery industry, etc. (Fig. 4-4).

Figure 4-1 Sales

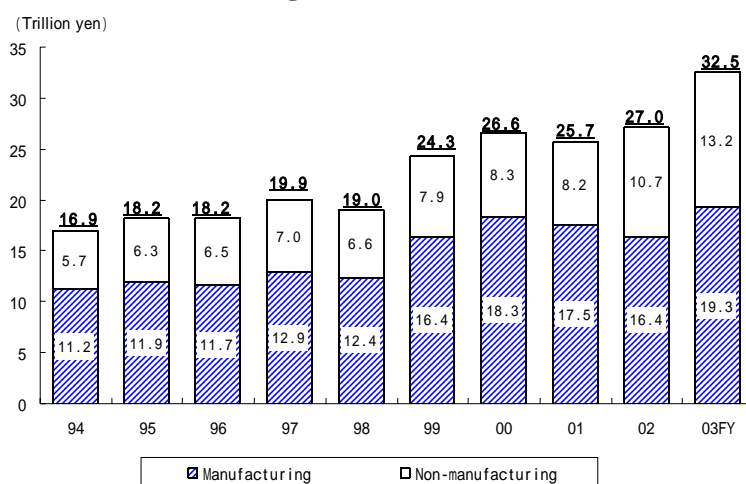


Figure 4-2 Sales by Industry

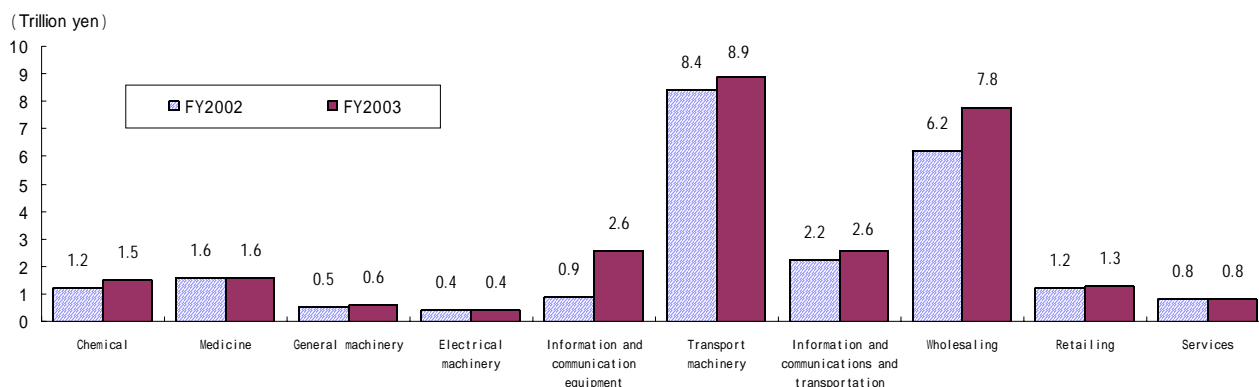
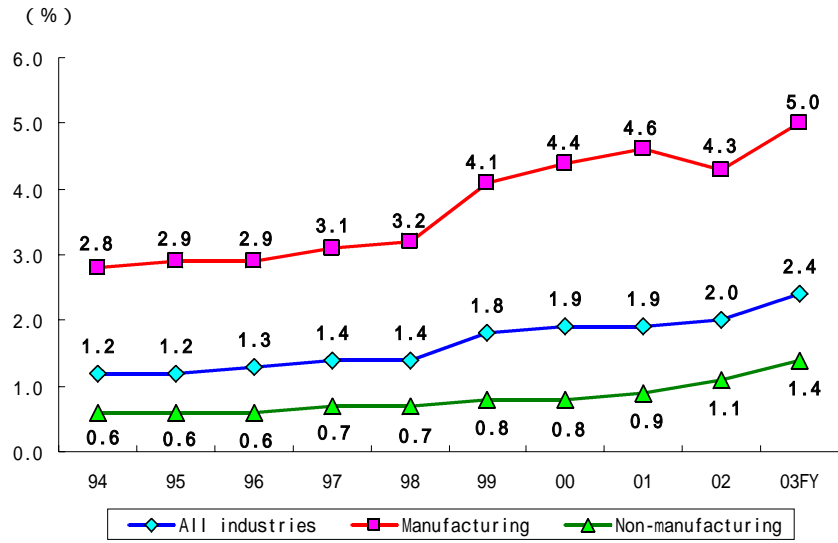
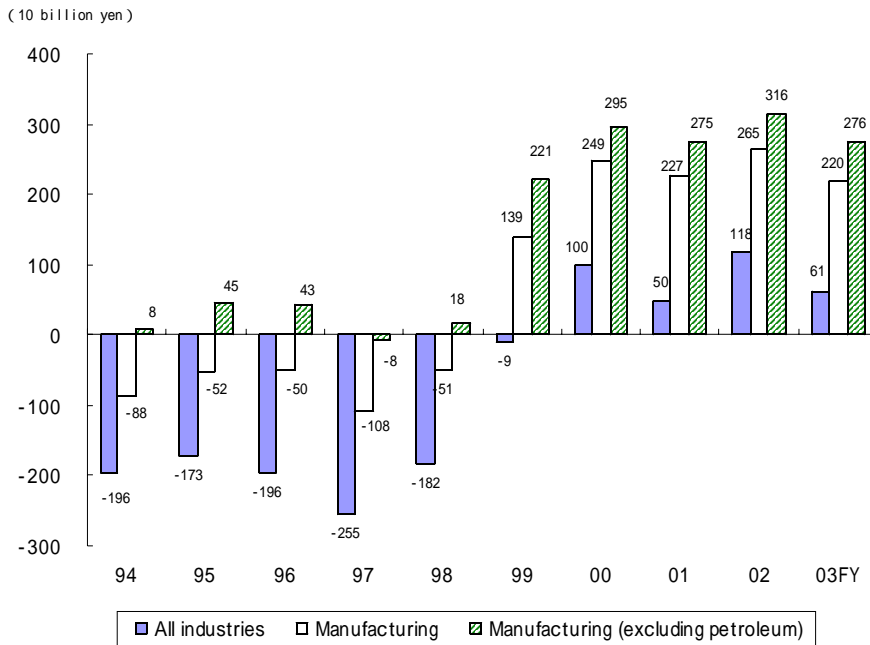


Figure 4-3 Ratio to All Incorporated Enterprises



Source: All incorporated enterprises: "Financial Statements Statistics of Corporations by Industry" (Ministry of Finance)

Figure 4-4 Direct Balance of Trade



Note 5: Ratio of foreign affiliates among all incorporated enterprises

$$= \text{Sales of foreign affiliates} / \text{Sales of all incorporated enterprises} \times 100$$

(5) Profit

- Ordinary profit increased to 1.6885 trillion yen, up by 8.6% compared to the previous fiscal year (Ordinary profit limited to enterprises that responded both in the previous fiscal year and the current year decreased by 11.3%, but it increased substantively when excluding enterprises that showed sharp declines in business). Ordinary profit increased by 15.0% to 1.1423 trillion yen in the manufacturing sector, while it decreased by 2.7% to 546.2 billion yen in the non-manufacturing sector (Fig. 5-1).
- By industry, ordinary profit in the manufacturing sector increased sharply nearly by 31-fold due to favorable conditions in the information and communication equipment industry thanks to active sales accompanied with an influence of enterprises newly added to the survey target. In the non-manufacturing sector, ordinary profit in the wholesale trade industry decreased by 22.5% (id.), while that in the retail trade industry increased significantly nearly by four-fold (Fig. 5-2).
- The ratio of ordinary profit to sales^(Note 6) decreased by 0.7 points compared to the previous fiscal year, to 5.2%, however, this is a higher level than that of all incorporated enterprises (2.7%) (Fig. 5-3).

Figure 5-1 Ordinary Profit

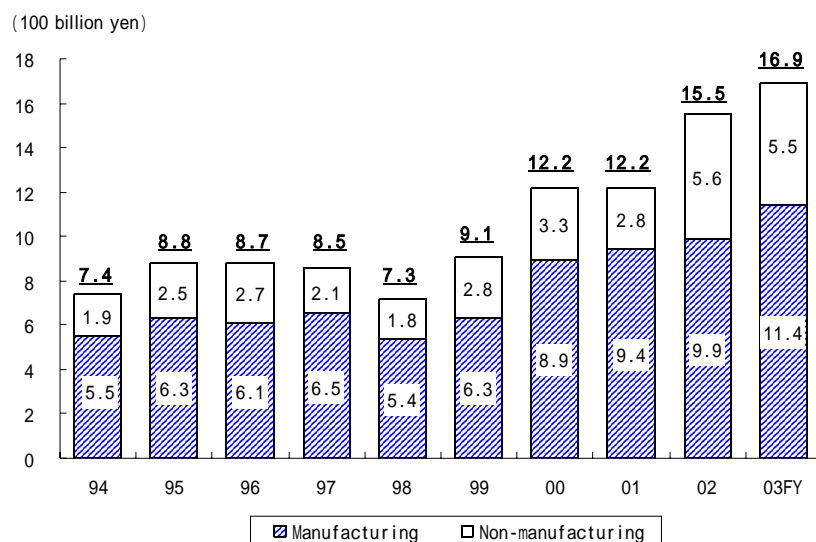


Figure 5-2 Ordinary Profit by Industry

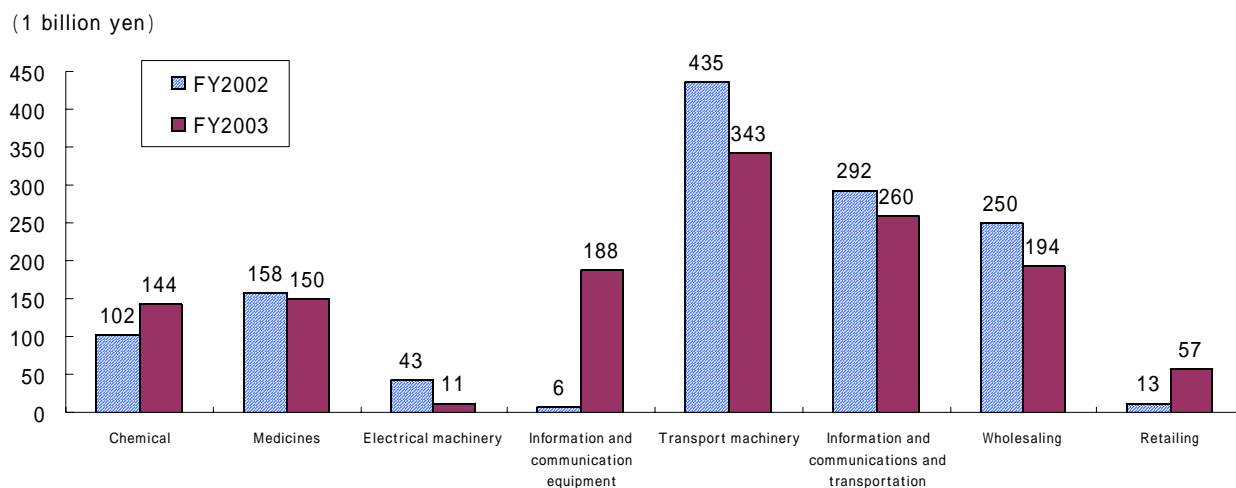
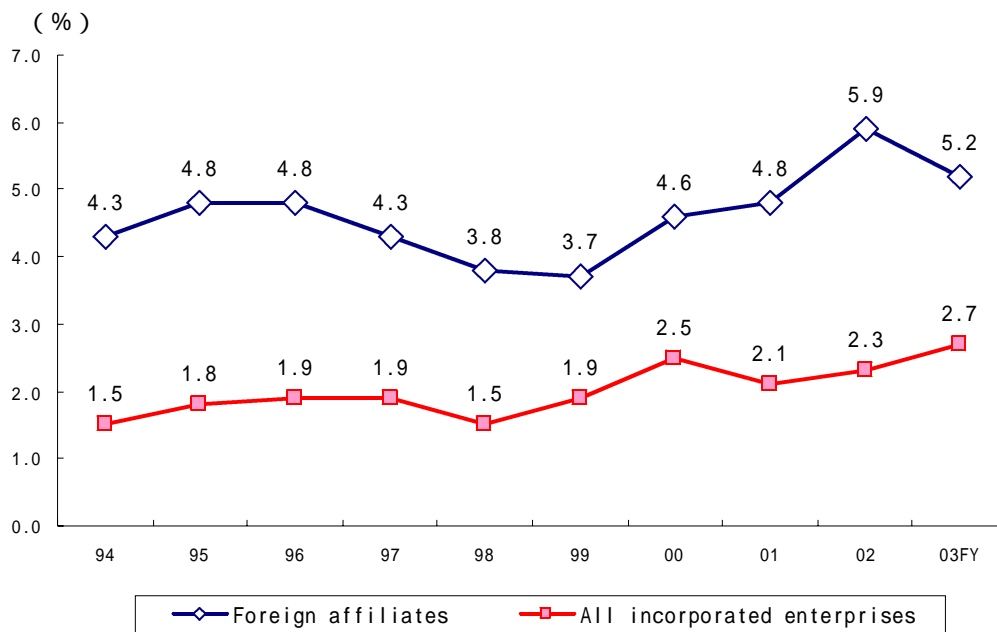


Figure 5-3 Trend of the Ratio of Ordinary Profit to Sales



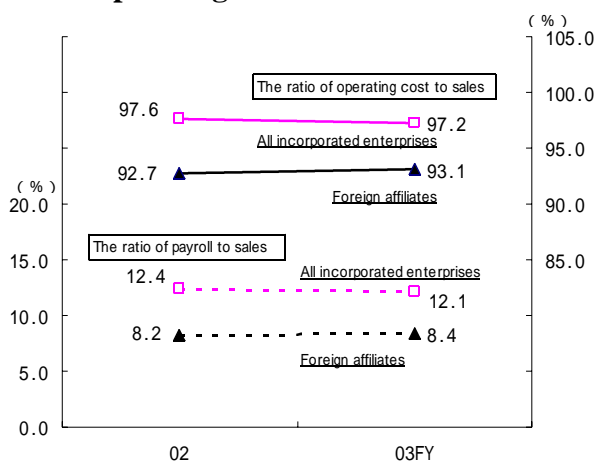
Source: All incorporated enterprises: "Financial Statements Statistics of Corporations by Industry" (Ministry of Finance)

Note 6: Ratio of ordinary profit to sales = Ordinary profit / Sales × 100

(6) Cost

- The cost structure in terms of the ratio of operating cost to sales^(Note 7) showed an increase of 0.4 points compared to the previous fiscal year, to 93.1%. In comparison with all incorporated enterprises, foreign affiliates accounted for a figure 4.1 points lower. The ratio of payroll to sales also increased by 0.2 points (id.) to 8.4%, because the growth rate of payroll was higher than that of sales. In comparison with all incorporated enterprises, foreign affiliates accounted for a figure 3.7 points lower (Fig. 6-1).

Figure 6-1 Ratio of Operating Cost to Sales and Ratio of Payroll to Sales

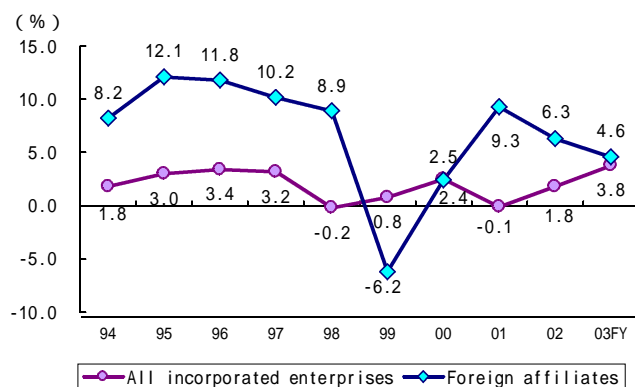


Source: All incorporated enterprises: "Financial Statements Statistics of Corporations by Industry" (Ministry of Finance)

(7) Return on equity (ROE)

- Return on equity (ROE)^(Note 8) decreased for the second consecutive year to 4.6%, down by 1.7 points compared to the previous fiscal year, due to a decrease in the current income after tax. In comparison with all incorporated enterprises, foreign affiliates accounted for a figure 0.8 points higher, with a diminishing difference (When eliminating influences of extraordinary expenses of certain enterprises, the difference still seems to exist) (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)

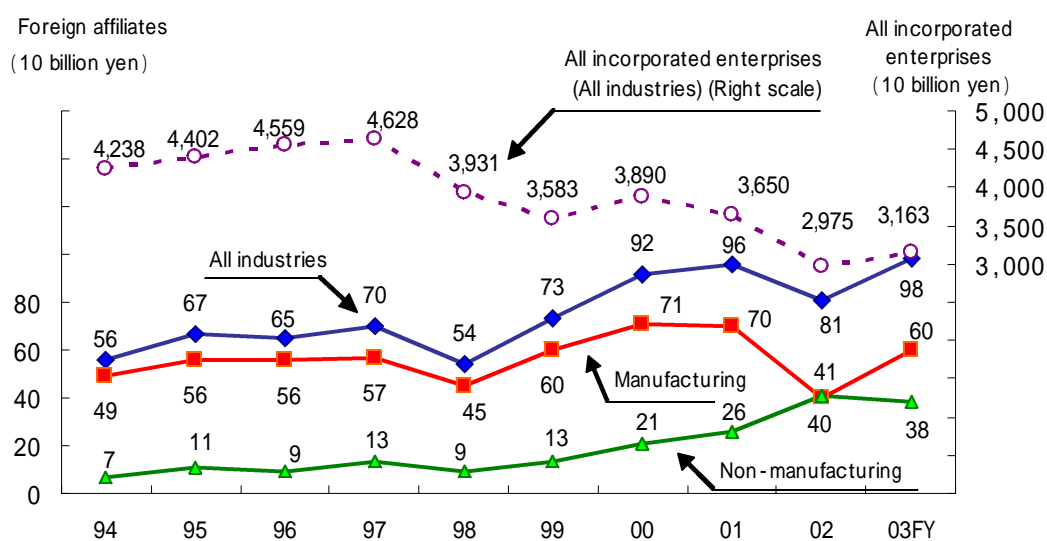
Note 7: Ratio of operating cost to sales = (Cost of sales + Sales and administrative costs) / Sales × 100

Note 8: Return on equity (ROE) = Current income after tax / Shareholder's equity × 100

(8) Capital investment, research and development

- Capital investment increased by 20.1% compared to the previous fiscal year to 978.2 billion yen, an increase for the first time in two years (capital investment limited to enterprises that responded in both the previous fiscal year and the current year: up by 1.5% (id.)). Capital investment in the manufacturing sector increased by 47.7% (id.) to 597.4 billion yen. In contrast, it decreased by 7.1% (id.) to 380.7 billion yen in the non-manufacturing sector. Foreign affiliates' capital investment accounted for 3.1% of capital investment by all incorporated enterprises, which was an increase of 0.4 points (id.) (Fig. 8-1).
- By industry, in the manufacturing sector, the transport machinery industry increased significantly by 91.9% (id.) to 263.8 billion yen, shifting from a decrease in the previous year. The information and communication equipment industry also increased by 21.1% to 198.8 billion yen. In contrast in the non-manufacturing sector, the information and communications and transportation industry decreased by 34.8% (id.) to 219.2 billion yen, shifting from a significant increase in the previous year (Fig. 8-2).
- Research and development expenses increased to 772.9 billion yen, up by 15.9% compared to the previous fiscal year. In particular R&D expenses of the manufacturing sector increased for the second consecutive year. The manufacturing sector accounted for 97.4% of the total, and its ratio of R&D expenses to sales^(Note 9) was 5.0%, up by 0.3 points (id.) (Fig. 8-3 and Fig. 8-4)

Figure 8-1 Trend of Capital Investment



Source: All incorporated enterprises: "Financial Statements Statistics of Corporations by Industry" (Ministry of Finance)

Figure 8-2 Capital Investment by Industry

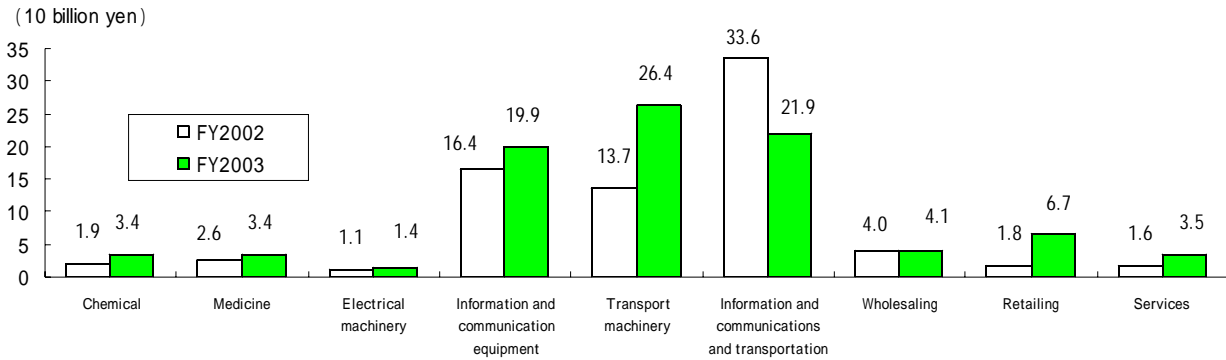


Figure 8-3 Trend of R&D Expenses

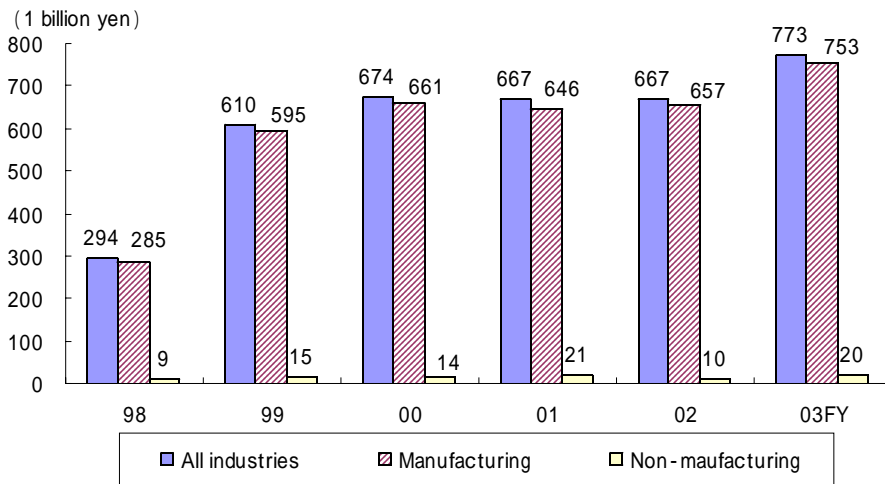
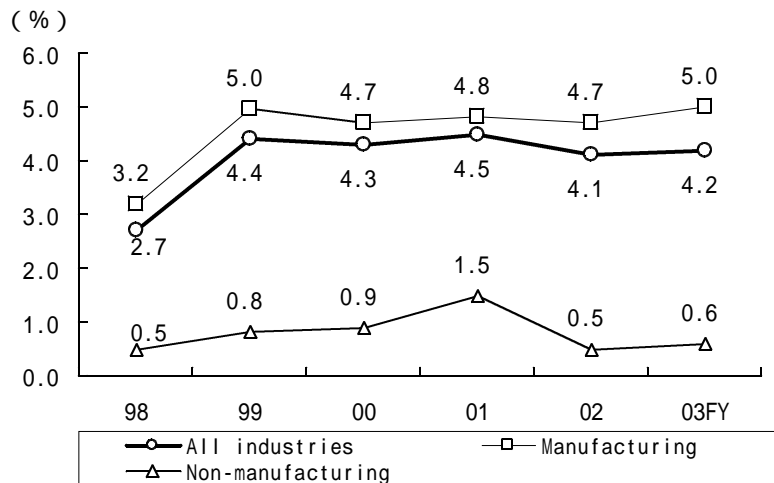


Figure 8-4 Trend of Ratio of R&D Expenses to Sales



Note 9: Ratio of R&D expenses to sales = R&D expenses / Sales × 100

(9) Employment

- The number of employees increased to 435,000, a 48.1% increase compared to the previous fiscal year, up for the first time in three years (the number of employees limited to enterprises that responded both in the previous fiscal year and the current year: up by 18.6% (id.)). The manufacturing sector showed a 17.2% increase to 236,000, and the non-manufacturing sector showed a 115.8% increase to 199,000 (Fig. 9-1). (This significant increase was mainly due to the influence of enterprises newly added to the survey targets, and due to the influence of the changes in the survey items that enabled a better grasp of the number of part-timers. Eliminating these influences, the increase would become much smaller.)
- By industry, in the non-manufacturing sector, the number of employees in the retail trade industry increased significantly to 41,000, a 180.5% increase (id.) due to the above mentioned influence. In the manufacturing sector, the number of employees in the information and communication equipment industry increased significantly to 37,000, a 111.5% increase (id.) due to newly adding subsidiaries of holding companies into the survey targets (Fig. 9-2).

Figure 9-1 Number of Employees

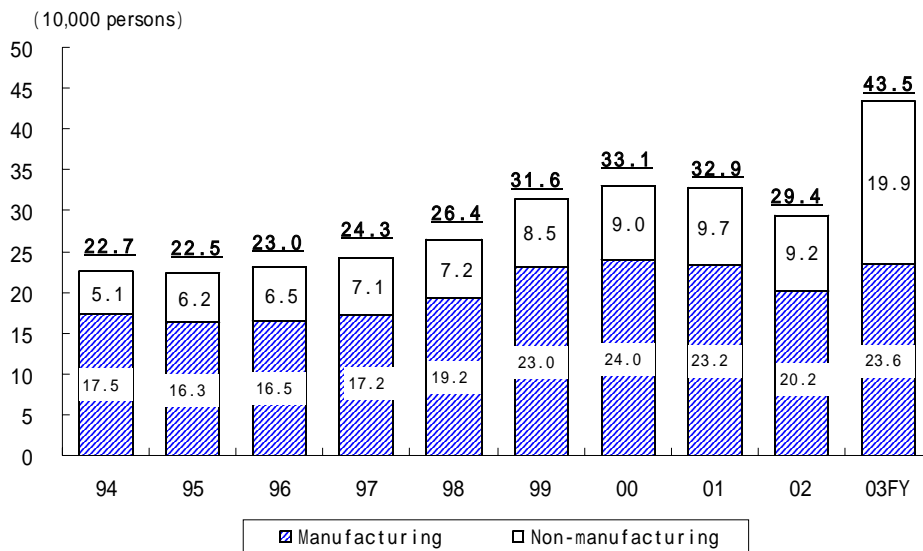


Figure 9-2 Number of Employees by Industry

