April 27, 2006

The 39th Survey of Trends in Business Activities of Foreign Affiliates (Summary)

Trends in foreign affiliates in Japan in FY 2004

○The number of newly established foreign affiliates increased for the first time in two years.

○Sales remained at a high level.

○Capital investment in the manufacturing sector increased for the second consecutive year.

○The ratio of R&D expenses to sales was the highest in recent years.

○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.

Key points of the current survey:

○The number of newly established foreign affiliates increased for the first time in two years, while that of enterprises withdrawing decreased for the second consecutive year.

・There were 139 newly established/funded foreign affiliates, an increase of 11 compared to the previous fiscal year. Three-fourths of these firms were in the non-manufacturing sector, and were especially prominent in the wholesale trade industry, which had 41 foreign affiliates. In the manufacturing sector, companies in the information and communication equipment industry increased significantly. Increases were observed in both Asian and European affiliates.

・The number of enterprises withdrawing stood at 106, a decrease of 32. Compared to the previous fiscal year, a notable decrease in withdrawals was seen for the wholesale trade industry.

○Sales remained at a high level. A significant increase was seen in the wholesale trade industry, in particular.

・Although sales decreased by 1.5% compared to the previous fiscal year, sales at enterprises that responded in both the previous fiscal year and the current year showed an increase of 9.3%, maintaining a high level. Sales for the manufacturing sector decreased by 2.8%, affected by the fact that certain enterprises did not fall within the scope of the survey. Sales for the non-manufacturing sector showed a slight increase of 0.3% due to a similar influence. A notable increase was seen in the wholesale trade industry (12.4%).

・The direct balance of trade saw an excess of imports for the first time in five years. An excess of exports continued to be observed in the manufacturing sector.

○Capital investment increased in the manufacturing sector for the second consecutive year.

・Capital investment decreased by 3.5% compared to the previous fiscal year (limited to enterprises that responded in both the previous fiscal year and the current year: up by 12.6%). Capital investment increased by 8.5% in the manufacturing sector, up for the second consecutive year, due to increases in the chemical industry and transportation equipment industry, etc. Capital investment in the non-manufacturing sector decreased by 22.3% due to the influence of certain enterprises not falling within the scope of the survey.

○The ratio of R&D expenses to sales marked the highest record in recent years.

・R&D expenses increased by 0.7% compared to the previous fiscal year. The ratio of R&D expenses to sales for the manufacturing sector increased by 5.2%, up for the second consecutive year and the highest level in the past few years.

○Employment increased in the non-manufacturing sector. There was also a substantial increase in the manufacturing sector.

・Employment decreased by 0.9% compared to the previous fiscal year (limited to enterprises that responded in both the previous fiscal year and the current year: up by 5.0%). Employment in the manufacturing sector showed a decrease of 3.0%, but a substantial increase when excluding the influence of certain enterprises not falling within the scope of the survey. In the non-manufacturing sector (up by 1.5%), a notable increase was seen in the wholesale trade industry (up by 9.8%).

○Compared to all incorporated enterprises, foreign affiliates continued to maintain their superiority in indices such as the ratio of ordinary profit to sales and return on equity, etc.

・Ordinary profit showed a decrease of 2.3% compared to the previous fiscal year, but increased substantially when excluding the influence of certain enterprises not falling within the scope of the survey (limited to enterprises that responded in both the previous fiscal year and the current year: up by 17.4%).

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

Enterprise Statistics Office
Research and Statistics Department
Economic and Industrial Policy Bureau

Trade and Investment Facilitation Division
Trade and Economic Cooperation Bureau

Ministry of Economy, Trade and Industry

Outline of the Survey

1. Survey target

The survey covers those enterprises (excluding the financial/insurance and real estate industries) which met the following conditions as of the end of March 2005.

(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 the combined direct and indirect investment ratios held by foreign investors exceeds one third

2. Date

The survey was conducted on July 1, 2005, in connection with the business results for FY2004 and the end of FY 2004.

3. Number of respondents

Respondents: 2,656 (2,452 in the previous survey)

Response ratio: 59.5% (56.2% in the previous survey)

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 the current survey with previous surveys, it is necessary to note the differences in the response ratio and the number of foreign affiliates covered, as some enterprises that fell out of the scope of previous surveys were included in the scope of the current survey and vice versa.

2. Classification of industries

The classification of industries and classification of each enterprise by industry is in compliance with the Japan Standard Industrial Classification.

A “research institute” is given the same classification as its parent company. In the current survey, the “information and communications/transport” industry is divided into the “information and communications” industry and the “transport” industry.

3. Definition of regions

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

Main Points

(1) Distribution

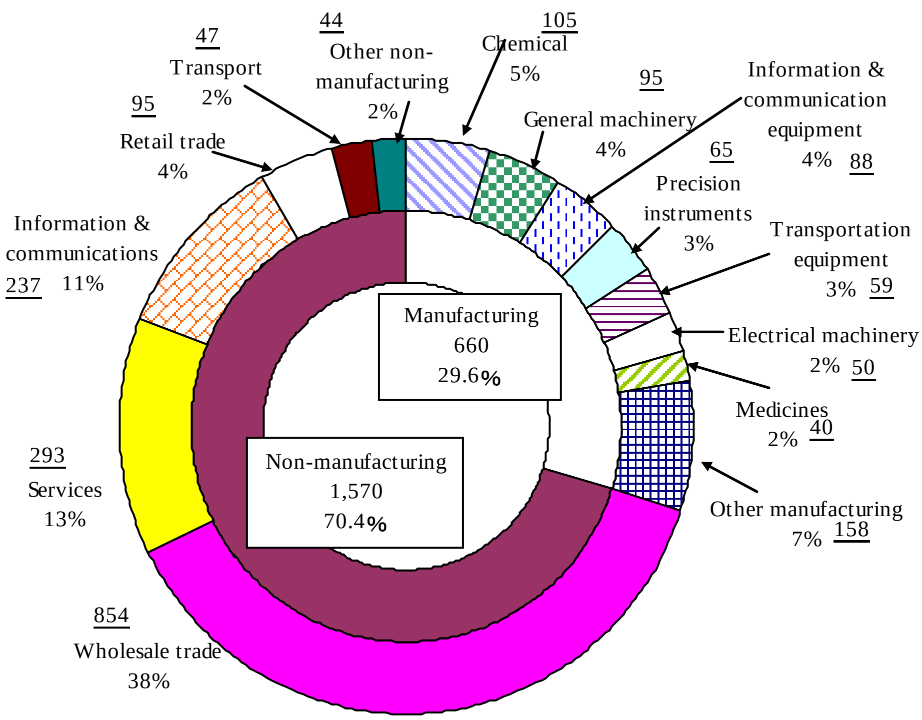
・The number of foreign affiliates at the end of March, 2005 was 2,230, of which 660 companies were in the manufacturing sector and 1,570 companies were in the non-manufacturing sector. The percentages in the manufacturing sector and the non-manufacturing sector out of all industries were 29.6% (down by 0.7 points compared to the previous fiscal year) and 70.4% (up by 0.7 points) respectively (Fig. 1-1).

・By industry, foreign affiliates in the wholesale trade numbered the highest, at 854 companies (38.3%), followed by those in the service industry, the information and communications industry, and the chemical industry (Fig. 1-1).

・By nationality, European enterprises came to 960 companies (accounting for 43.0%; up by 0.8 points), US enterprises came to 820 companies (36.8%; down by 1.1 points), and Asian enterprises came to 324 companies (14.5%, down by 0.1 points) (Table 1-1).

・By function (Note 1), 40% of the enterprises in the manufacturing sector have R&D facilities, and enterprises in the non-manufacturing sector have an average of seven business and sales offices (Fig. 1-2 and Fig. 1-3).

Figure 1-1 Distribution of Foreign Affiliates by Industry



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

Table 1-1 No. of Foreign Affiliates by Nationality

(Enterprises, %)

	Number of foreign affiliates	Distribution ratio (%)	Difference from the previous year
Total	2,230	100.0	—
American	820	36.8	-1.1
Asian	324	14.5	-0.1
Chinese	124	5.6	0.0
European	960	43.0	0.8
Others	126	5.7	0.4

Figure 1-2 No. of Offices of Foreign Affiliates in Japan by Function (Average per Enterprise)

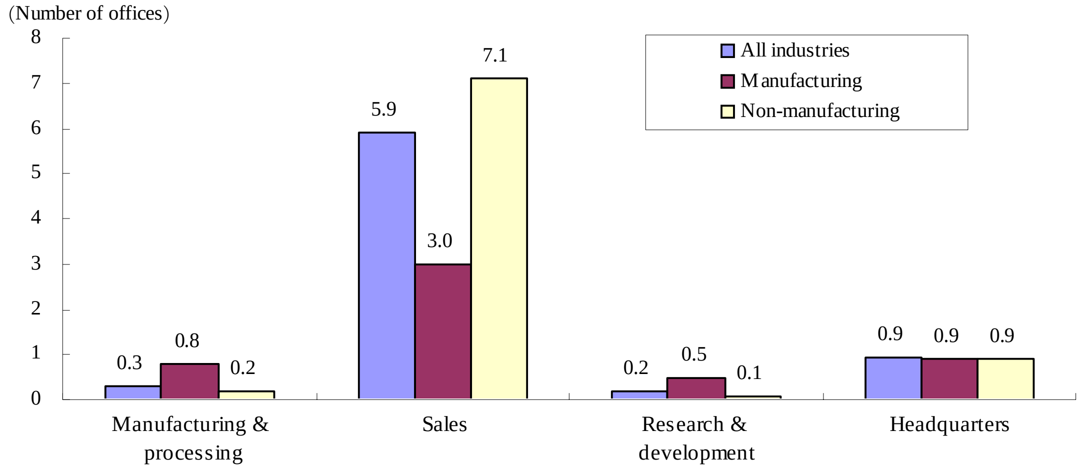
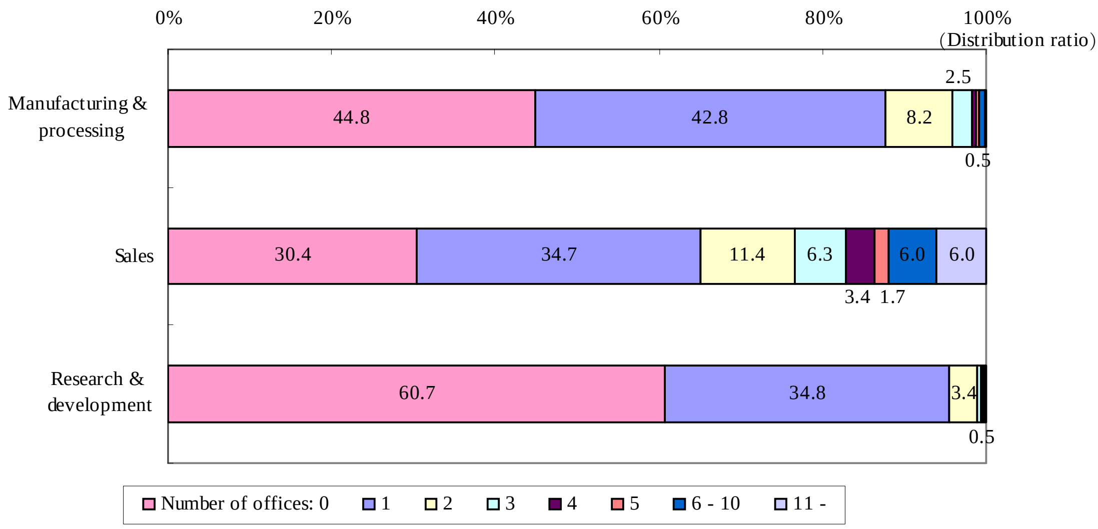


Figure 1-3 Distribution of Foreign Affiliates by No. of Owned Offices (Manufacturing)



(2) Newly established and newly funded foreign affiliates

・The number of newly established/funded foreign affiliates was 139, an increase of 11 companies compared to the previous fiscal year and up for the first time in two years. Of these companies, 35 (an increase of 3) were in the manufacturing sector and 104 (an increase of 8, and accounting for 74.8% of the total) were in the non-manufacturing sector, with both showing increases. The entry ratio (Note 2) remained almost the same compared to the previous fiscal year, at 6.2% (Fig. 2-1).

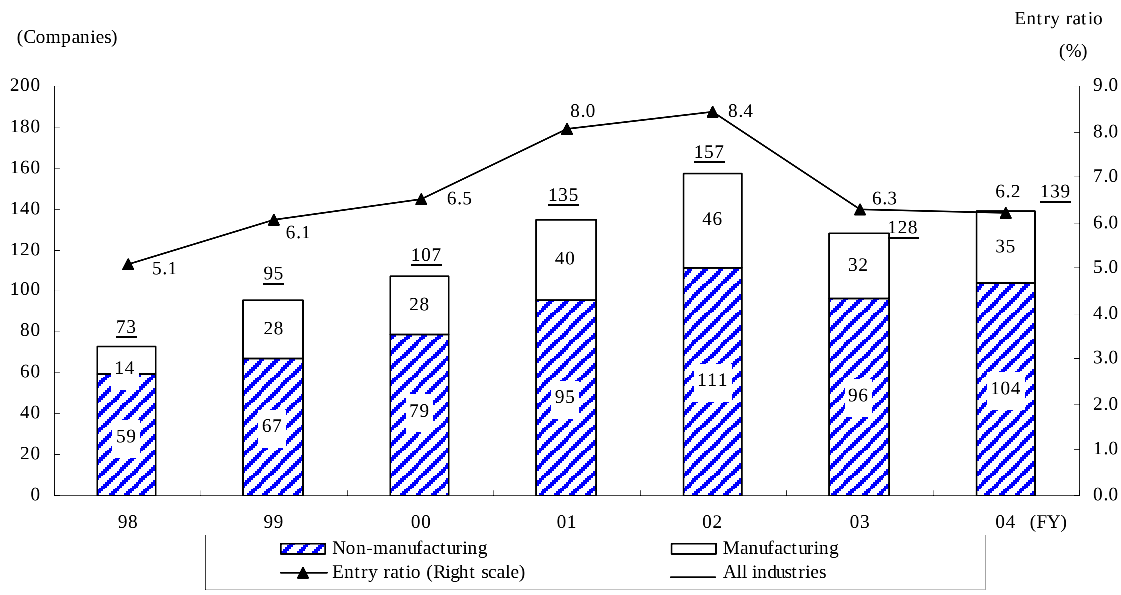
・By industry, in the non-manufacturing sector, 41 new entries were in the wholesale trade industry (an increase of 5 compared to the previous fiscal year), 24 were in the information and communications industry (an increase of 1). In the manufacturing sector, 9 new establishments in the information and communication equipment industry (a decrease of 1) and 4 new establishments in the food industry (an increase of 3) were notable (Fig 2-2).

・By capital, the share of new entries was biggest for enterprises with capital of 50 million yen or less (94 companies), at 67.6%. In contrast, large enterprises with capital of over 1 billion yen were limited to 5 companies, or 3.6% (Table 2-1).

・By nationality, there were increases in both Asian enterprises (39 companies, up by 6 compared to the previous fiscal year) and European enterprises (36 companies, up by 4) (Table 2-2).

・Of the reasons that foreign investors' stocks surpassed one-third of the total capital, 78.4% related to the establishment of new companies. In particular, the ratio of establishment of new companies by a single enterprise has increased (Table 2-3).

Figure 2-1 No. of Newly Established and Newly Funded Foreign Affiliates



(Note 2): Entry ratio = No. of newly established and newly funded foreign affiliates/No. of foreign affiliates

Figure 2-2 No. of Newly Established and Newly Funded Foreign Affiliates by Industry

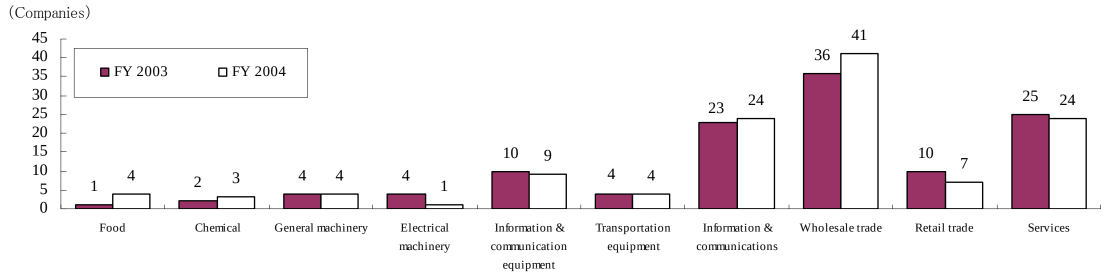


Table 2-1 No. of Newly Established and Newly Funded Foreign Affiliates by Capital

(Companies, %)

	Total	50 million yen or less	Over 50 million - 100 million yen or less	Over 100 million - 300 million yen or less	Over 300 million - 1 billion yen or less	Over 1 billion - 10 billion yen or less	Over 10 billion yen
All industries	139	94	17	7	16	4	1
Distribution ratio (%)	100.0	67.6	12.2	5.0	11.5	2.9	0.7

Table 2-2 No. of Newly Established and Newly Funded Foreign Affiliates by Nationality

(Companies)

	00	01	02	03	04 (FY)
Total	107	135	157	128	139
American	46	45	54	48	47
European	37	44	70	32	36
Asian	16	30	28	33	39
Others	8	16	5	15	17

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

(%)

	Distribution ratio		
	FY 2003	FY 2004	Difference from the previous year
Total	100.0	100.0	-
Newly established	69.6	78.4	8.8
By a single enterprise	(51.2)	(66.9)	15.7
Acquisition (including merger/capital increase)	22.4	17.3	-5.1
Other	8.0	4.3	-3.7

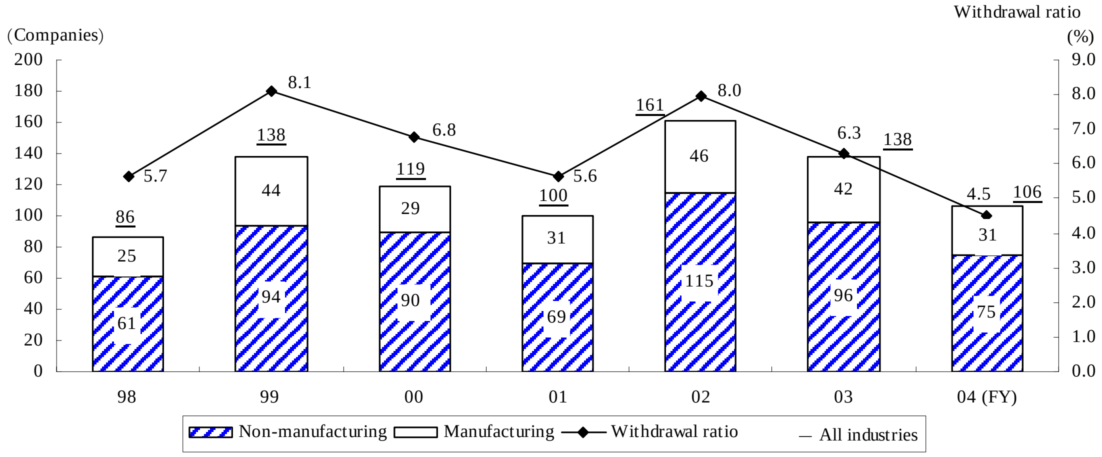
(3) Withdrawal

・The number of enterprises withdrawing (Note 3) was 106, a decrease of 32 companies compared to the previous fiscal year, and a decline for the second consecutive year. Of those companies, 31 (a decrease of 11) were from the manufacturing sector and 75 (a decrease of 21, or 70.8% of the total) were from the non-manufacturing sector. Both sectors showed decreases. The ratio of enterprises withdrawing (Note 4) decreased to 4.5% (Fig. 3-1).

・By industry, in the non-manufacturing sector, withdrawals were notable in the wholesale trade sector (26 companies, a decrease of 20 compared to the previous fiscal year), the service industry (18 companies, a decrease of 4), and the information and communications industry (17 companies, a decrease of 3). In the manufacturing sector, there were notable decreases in the chemical industry (7 companies, a decrease of 1) and the information and communication equipment industry (5 companies, a decrease of 4) (Fig. 3-2).

・By capital, the percentage of enterprises withdrawing was biggest for enterprises with capital of 50 million yen or less at 41.5% (44 companies). In contrast, large enterprises with capital of over 1 billion yen came to 13 companies, or 12.3% (Table 3-1).

Figure 3-1 No. of Companies Withdrawing



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

(Note 4): Ratio of enterprises withdrawing = No. of enterprises withdrawing/(No. of foreign affiliates+ No. of enterprises withdrawing) ×100

Figure 3-2 No. of Enterprises Withdrawing by Industry

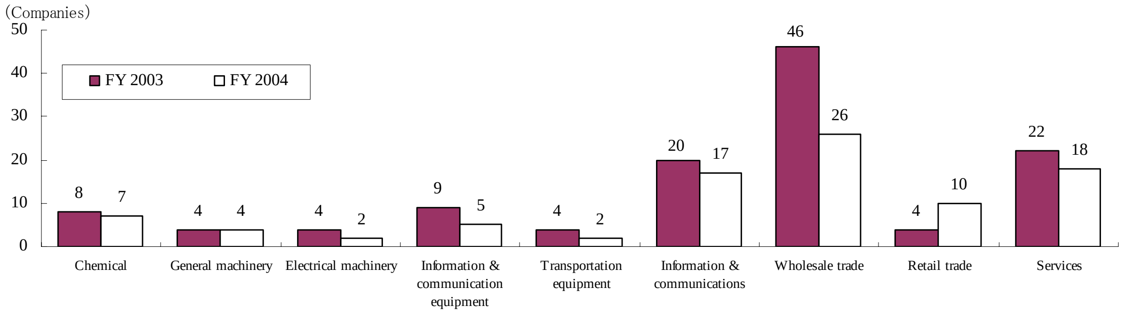


Table 3-1 No. of Enterprises Withdrawing by Capital

(Companies, %)

	Total	50 million yen or less	Over 50 million - 100 million yen or less	Over 100 million - 300 million yen or less	Over 300 million - 1 billion yen or less	Over 1 billion - 10 billion yen or less	Over 10 billion yen	Unknown
All industries	106	44	19	9	17	9	4	4
Distribution ratio (%)	100.0	41.5	17.9	8.5	16.0	8.5	3.8	3.8

(4) Sales/Imports and exports

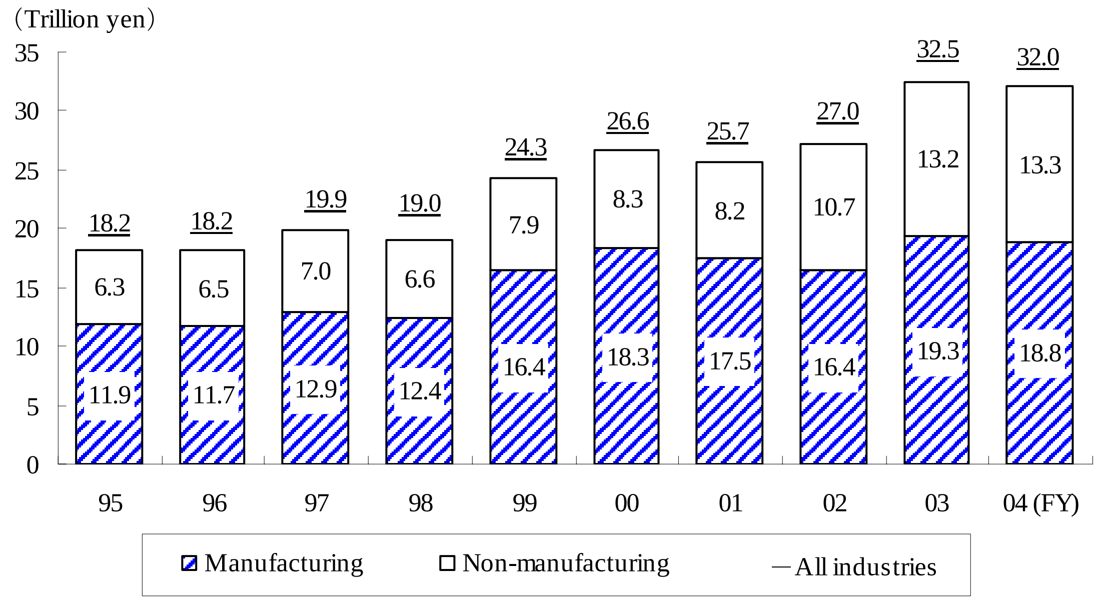
・Sales decreased by 1.5% compared to the previous fiscal year, to 32.0 trillion yen, but still remained at a high level (limited to enterprises that responded in both the previous fiscal year and the current year: up by 9.3%). The manufacturing sector posted a figure of 18.8 trillion yen, down by 2.8%, and the non-manufacturing sector posted a figure of 13.3 trillion yen, up by 0.3% (Fig. 4-1).

・By industry, in the manufacturing sector, the transportation equipment industry saw a decrease of 11.7% to 7.9 trillion yen, due to the influence of enterprises not falling within the scope of the survey. In the non-manufacturing sector, the information and communications industry also saw a decrease due to similar reasons, with a decline of 41.3% to 1.5 trillion yen, but the wholesale trade industry saw an increase of 12.4% to 8.8 trillion yen (Fig. 4-2).

・The ratio of foreign affiliates to all incorporated enterprises [Note 5] decreased following an increase in the previous year in both the manufacturing sector (4.6%) and the non-manufacturing sector (1.3%) (Fig. 4-3).

・The direct balance of trade showed an excess of imports for the first time in five years, due to an increase in the amount of direct imports for the wholesale trade industry, etc. In the manufacturing sector, the direct balance of trade continued to show an excess of exports (Fig. 4-4).

Figure 4-1 Sales



(Note 5): Ratio of foreign affiliates to all incorporated enterprises = Sales of foreign affiliates/Sales of all incorporated enterprises×100

Figure 4-2 Sales by Industry

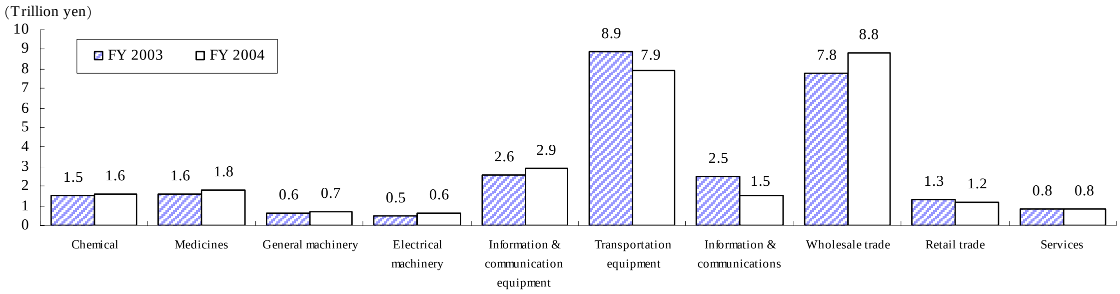


Figure 4-3 Ratio of Foreign Affiliates to All Incorporated Enterprises

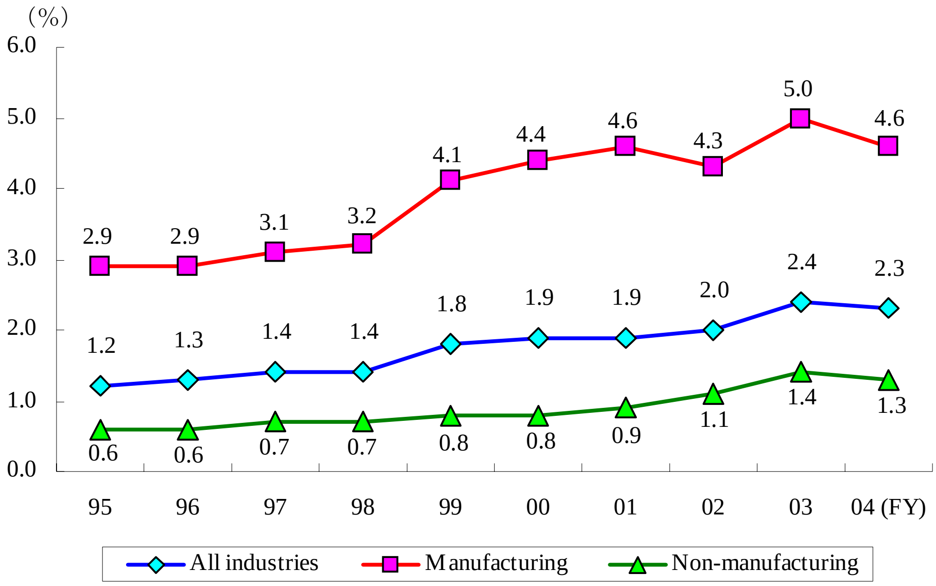
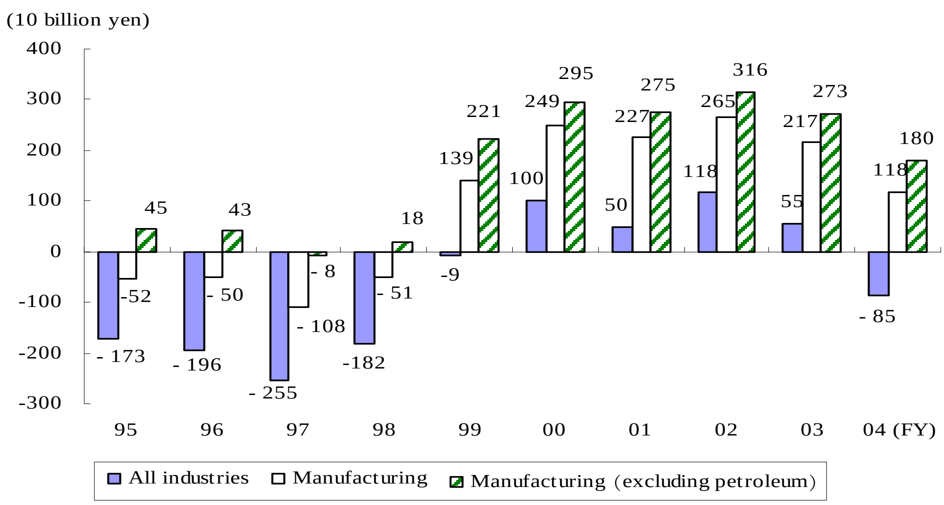


Figure 4-4 Direct Balance of Trade



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

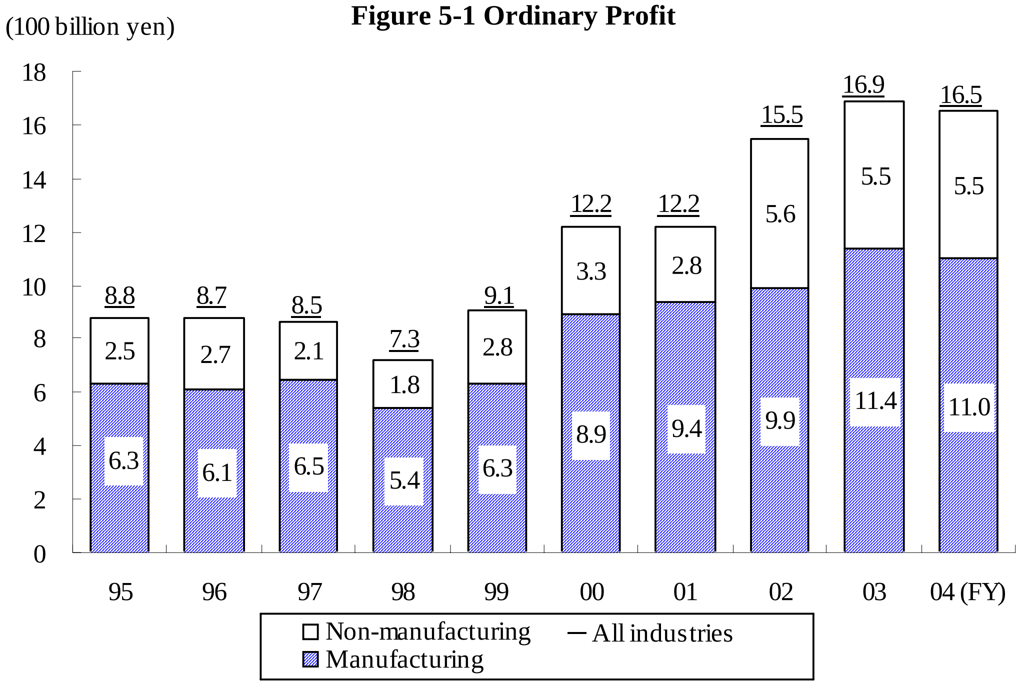
(5) Profit

・Ordinary profit was 1.6534 trillion yen, a decrease of 2.3% from the previous fiscal year. However, it increased substantially when excluding those enterprises not falling within the scope of the survey (limited to enterprises that responded in both the previous fiscal year and the current year: up by 17.4%). Ordinary profit decreased by 3.6%, to 1.1007 trillion yen in the manufacturing sector, and increased slightly by 0.4%, to 552.7 billion yen in the non-manufacturing sector (Fig. 5-1).

・Within the manufacturing sector, the food industry saw a decrease of 77.4%. Within the non-manufacturing sector, a notable 26.3% increase was seen in the wholesale trade industry (Fig. 5-2).

・The ratio of ordinary profit to sales (Note 6) was 5.2%, maintaining the same level as in the previous fiscal year. This was higher (2.1 points) than that for incorporated enterprises overall (Fig. 5-3).

Figure 5-1 Ordinary Profit



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

Figure 5-2 Ordinary Profit by Industry

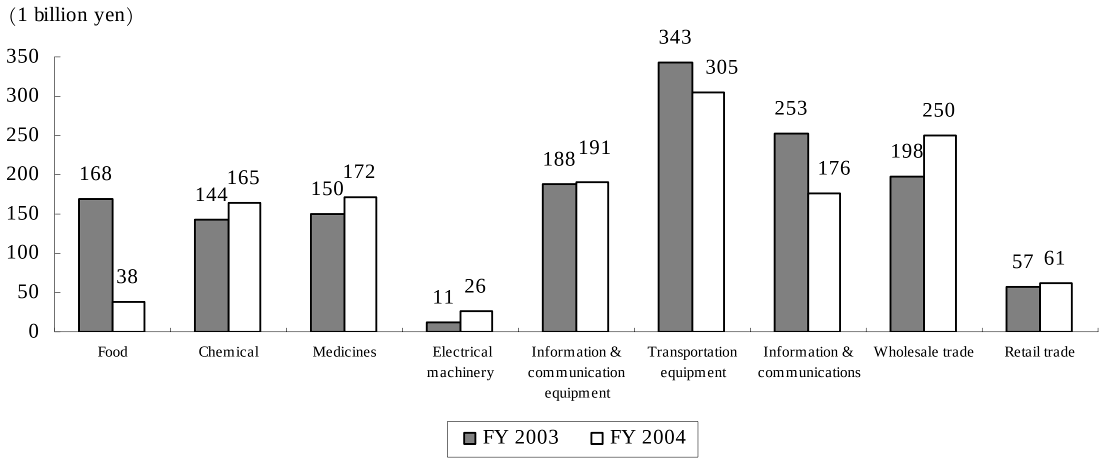
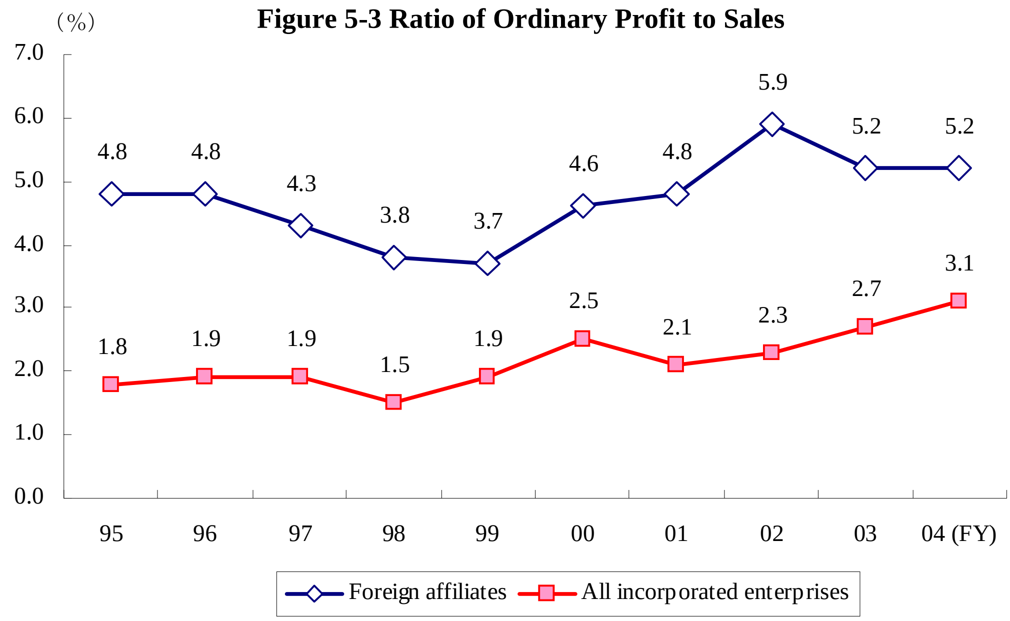


Figure 5-3 Ratio of Ordinary Profit to Sales



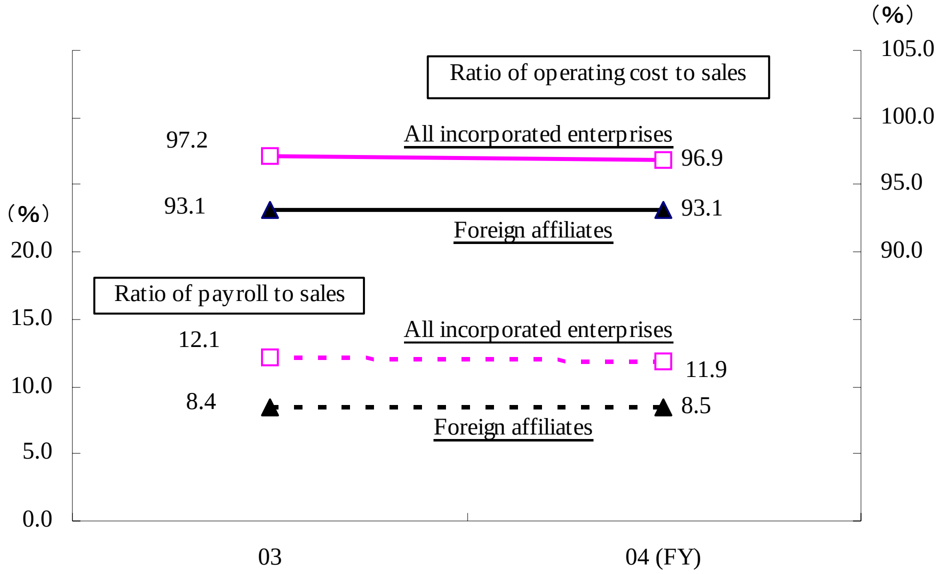
Source: All incorporated enterprises: "Financial Statement Statistics of Corporations by Industry" (Ministry of Finance)

(6) Cost

・The ratio of operating cost to sales [(Note 7)] was 93.1%, remaining flat compared to the previous fiscal year. In comparison with all incorporated enterprises, foreign affiliates showed a figure 3.8 points lower.

・The ratio of payroll to sales increased by 0.1 points, to 8.5%, because the payroll growth rate was higher than that of sales. In comparison with all incorporated enterprises, foreign affiliates showed a figure 3.4 points lower (Fig. 6-1).

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



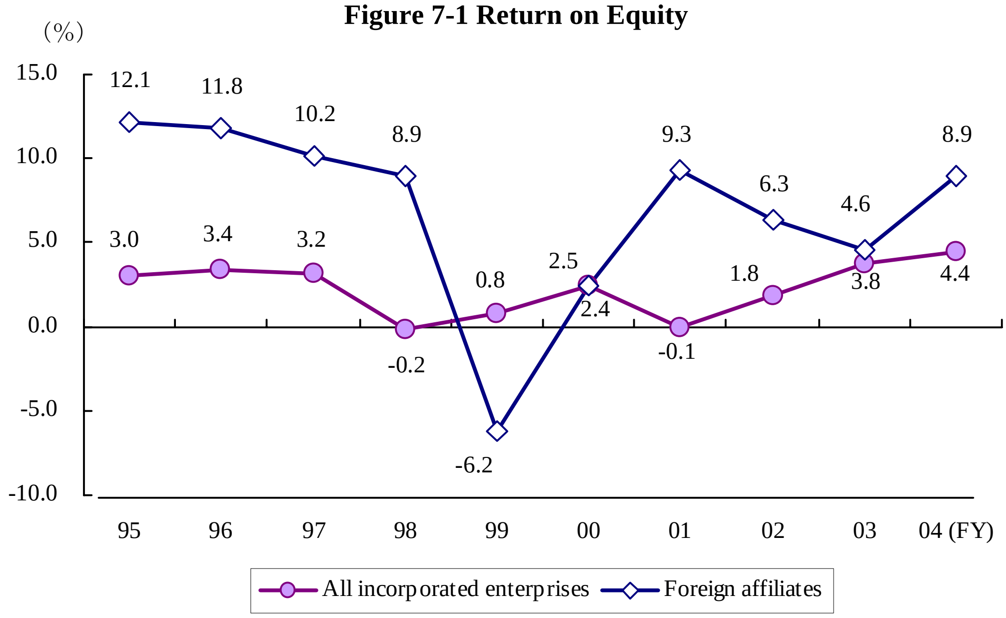
Source: All incorporated enterprises: "Financial Statement Statistics of Corporations by Industry" (Ministry of Finance)

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

(7) Return on equity (ROE)

・Return on equity (ROE) (Note 8) increased by 4.3 points compared to the previous fiscal year, to 8.9%, a rise for the first time in three years, due to the increase of current income after tax. In comparison with all incorporated enterprises, that for foreign affiliates was 4.5 points higher, an increased gap (Fig. 7-1).

Figure 7-1 Return on Equity



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

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

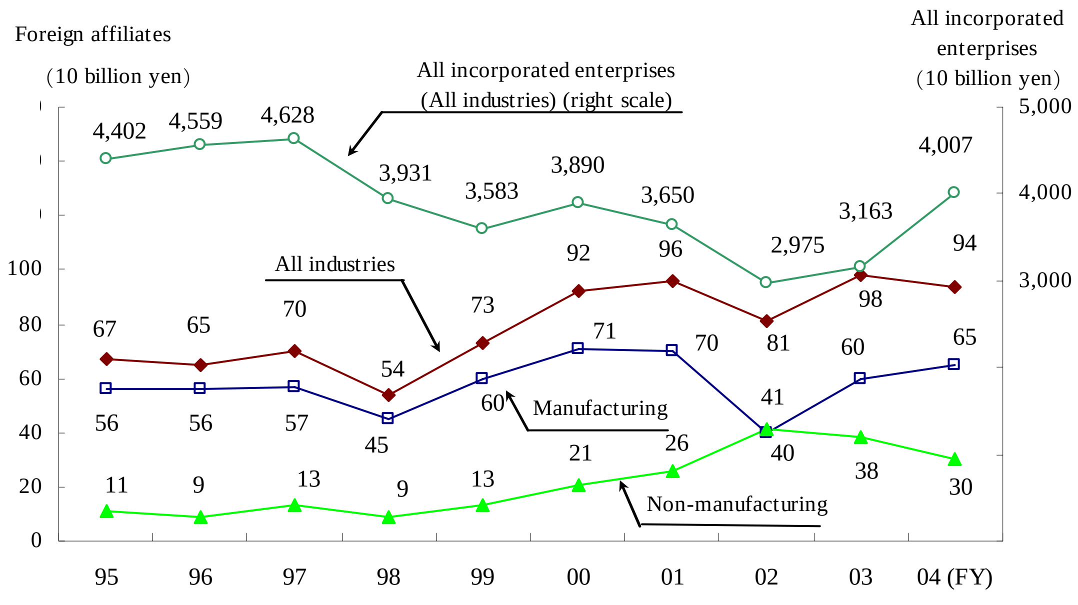
(8) Capital investment/Research and development

・Capital investment decreased by 3.5% compared to the previous fiscal year, to 944.1 billion yen, (limited to enterprises that responded in both the previous fiscal year and the current year: up by 12.6%). Capital investment in the manufacturing sector increased by 8.5% to 648.2 billion yen, up for the second consecutive year. In contrast, it decreased by 22.3%, to 295.9 billion yen in the non-manufacturing sector, a decline for the second consecutive year. Foreign affiliates' capital investment accounted for 2.4% of capital investment by all incorporated enterprises, a decrease of 0.7 points (Fig. 8-1).

・By industry, in the manufacturing sector, the chemical industry saw an increase of 34.6%, to 45.3 billion yen, and the transportation equipment industry, whose weight is high, saw an increase of 7.8%, to 284.4 billion yen. In contrast, in the non-manufacturing sector, the information and communications industry saw a decrease of 41.4%, to 126.8 billion yen, due to the influence of enterprises not falling within the scope of the survey, etc. (Fig. 8-2).

・Research and development expenses increased to 778.5 billion yen, up by 0.7% compared to the previous fiscal year (limited to enterprises that responded in both the previous fiscal year and the current year: up by 14.2%). The ratio of R&D expenses to sales (Note 9) in the manufacturing sector increased by 0.2 points, to 5.2%, a rise for the second consecutive year and the highest level in the past few years (Fig. 8-3 and Fig. 8-4)

Figure 8-1 Capital Investment



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

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

Figure 8-2 Capital Investment by Industry

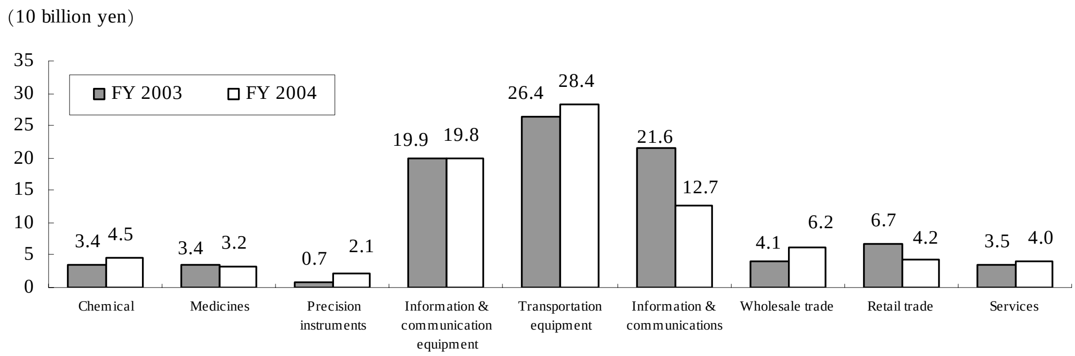


Figure 8-3 R&D Expenses

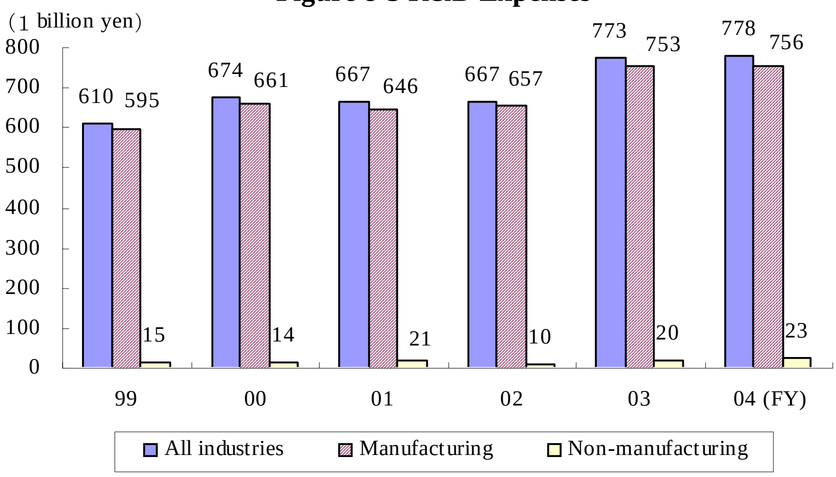
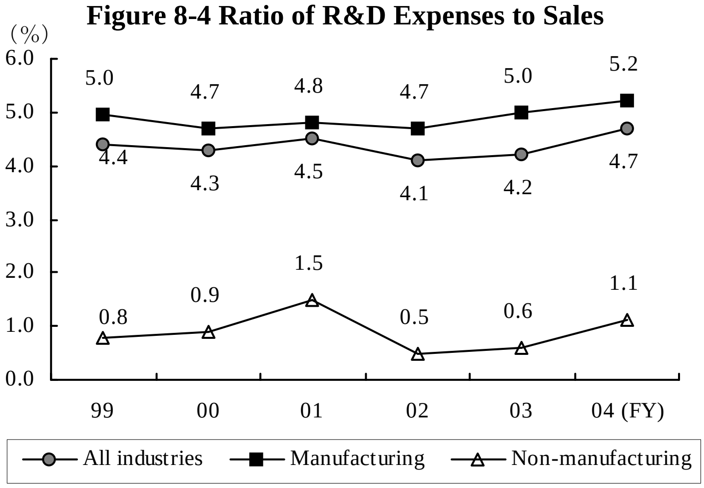


Figure 8-4 Ratio of R&D Expenses to Sales



(9) Employment

- The number of employees decreased to 431,000, a 0.9% decline compared to the previous fiscal year, but in the transportation equipment industry, etc, it increased substantially if the influence of enterprises not falling within the scope of the survey is excluded (limited to enterprises that responded in both the previous fiscal year and the current year: up by 5.0%). The manufacturing sector showed a 3.0% decrease, to 229,000, while the non-manufacturing sector showed a 1.5% increase, to 202,000 (Fig. 9-1).
- By industry, in the manufacturing sector, the number of employees in the transportation equipment industry decreased by 12.9%, to 89,000, due to the influence of enterprises not falling within the scope of the survey, and that in the chemical industry also decreased, declining by 3.6%, to 17,000. Within the non-manufacturing sector, there was an increase of 9.8%, to 49,000, in the wholesale trade industry (Fig. 9-2).

Figure 9-1 No. of Employees

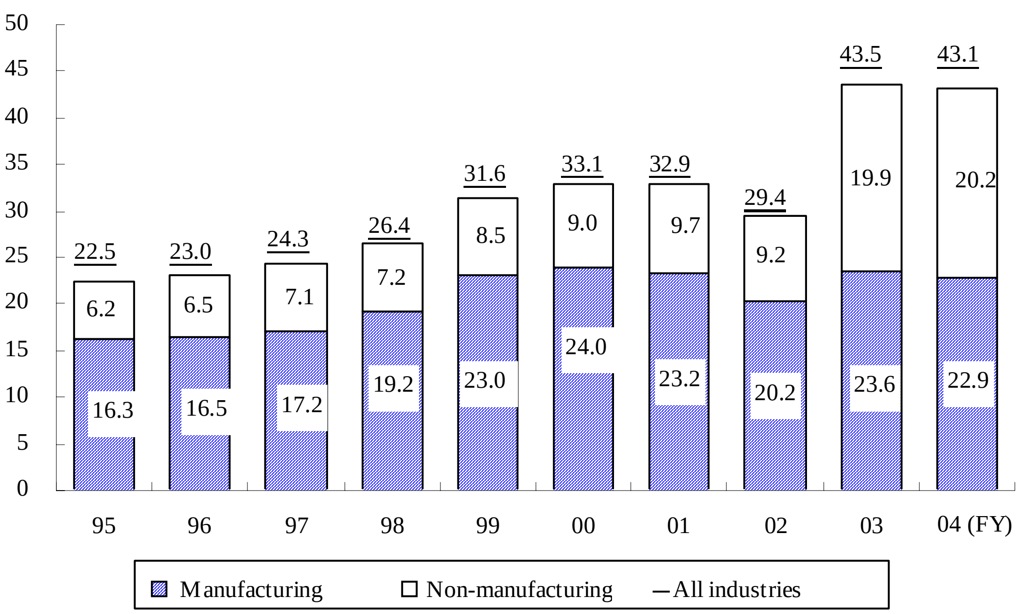


Figure 9-2 No. of Employees by Industry