

Trends in Overseas Subsidiaries (Summary)

Quarterly Survey of Overseas Subsidiaries (Survey from October to December 2006)

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<Important points in the survey>

Prospects DI for the April – June quarter of 2007

- Sales Prospects DI improved, with maintaining of high business confidence.

The Sales Current Assessment DI has deteriorated, but the Sales Prospects DI has improved due to improvement in all industries except the transport equipment sector and in all regions except Europe. All regions saw positive Sales Prospects DI at double digits, with maintaining of high business confidence.

- Capital Investment Prospects DI improved.

The Capital Investment Current Assessment DI has deteriorated, but the Capital Investment Prospects DI has improved due to improvement in all regions except NIEs3. It remained positive for all industries and all regions.

- Employment Prospects DI improved.

The Employment Current Assessment DI has improved slightly, and the Employment Prospects DI has also improved. China maintained a double-digit level.

Actual Results for the October – December quarter of 2006

- Sales increased by 7.2% compared to the same quarter of the previous year, and the growth rate recovered moderately for the third consecutive year.

- By industry, the transport equipment sector showed improvement in its growth rate due to declining crude oil prices. Other industries also continued to see an increase, although their growth rates declined.
- By region, Europe continued to see an increase with a higher growth rate. Asia and North America also continued to see an increase, although their growth slowed. China continued to see a double-digit increase, but its growth rate declined slightly. The transport equipment sector remained active in China. Europe saw a double-digit increase for the first time in six quarters. The transport equipment sector saw an upturn, and the industrial machinery sector showed a significant increase. ASEAN4 saw a single-digit increase for the fourth consecutive quarter. The transport equipment sector expanded its increase due to favorable sales of automobiles in Thailand, while the electrical machinery sector saw a downturn. North America saw a poor increase for the second consecutive quarter due to a decrease in the electrical machinery sector, although the transport equipment sector showed an increase. NIEs3 saw a decrease for the fourth consecutive quarter due to sluggish sales of transport equipment in Taiwan, but the rate of decrease diminished.

- Capital Investments increased by 15.3% compared to the same quarter of the previous year, showing a significant increase for the third consecutive quarter.

- By industry, the increase in the transport equipment sector was at a single digit for the first time in three quarters, but other industries showed significant increases.
- By region, there were significant increases in Asia and in Europe, for the third and second consecutive quarter, respectively. North America saw a decrease for the first time in three quarters, due to decreases in the transport equipment sector, etc.

- The number of employees continued to increase, up by 3.0% compared to the same quarter of the previous year.

The number of employees continued to increase in Asia, mainly in China, but the rate of increase slightly diminished. Europe saw an increase for the third consecutive year, although the increase was small. North America continued to see a decrease.

Note: This survey was conducted as of the middle of February, 2007.

1. Sales

The Sales Prospects DI*¹ improved, standing at 22.2 percentage points. Actual sales increased by 7.2% compared to the same quarter of the previous year, with their growth rate moderately recovering for the third consecutive quarter.

○ The Sales Current Assessment DI (January – March, 2007) deteriorated compared to that for the October-December quarter of 2006, standing at 11.3 percentage points. It deteriorated in all regions in Asia, due to influence of the Lunar New Year holidays. The Sales Current Assessment DI for the electrical machinery sector and for NIEs3 marked negative levels. That for North America and Europe improved, showing double-digit levels. The Prospects DI (April – June, 2007) improved, recovering to a level above 20%. Sales are expected to improve in all industries except the transport equipment sector. The Prospects DI for Asia improved significantly due to improvement in all industries except the transport equipment sector, and in all regions. That for North America improved due to improvement in the electrical machinery sector. Europe is expected to see a deterioration due to a sharp decline in the electrical machinery sector, but is expected to maintain a double-digit level. The overall Prospects DI remained at a double-digit positive level, with maintaining of high business confidence.

○ Actual sales (October – December, 2006) increased by 7.2% compared to the same quarter of the previous year, with their growth rate moderately recovering for the third consecutive quarter.

By industry, the transport equipment sector expanded its increase. Although the growth rate deteriorated for other industries, the industrial machinery sector remained strong, showing a double-digit increase for the fourth consecutive quarter. The electrical machinery sector showed a single-digit increase for the ninth consecutive quarter.

By region, Europe expanded its growth, while Asia and North America saw a slight decrease in the growth rate. In Asia, the growth from the same quarter of the previous year remained at a single-digit level, at 9.2%, due to a slowdown in ASEAN4*² and China*³. China continued to see a double-digit increase at 13.0% compared to the same quarter of the previous year. Although the transport equipment sector continued to see a significant increase, the electrical machinery sector only showed a single-digit increase for the fourth consecutive quarter, due to falling prices mainly for digital home appliances. ASEAN4 saw a single-digit increase for the fourth consecutive quarter, up by 7.9% (id.). NIEs3*⁴ saw a decrease for the fourth consecutive quarter, down by 0.1% (id.), but the rate of decrease slightly diminished. Sales of automobiles in Taiwan continued to decline sharply due to sluggish demand in the domestic market. In other Asian countries, actual sales increased by 23.5% (id.), due to significant increases in India and Vietnam. North America continued to see a poor increase in the range of 1% (up by 1.5% (id.)) for the second consecutive quarter, due to decreases in the electrical machinery sector for the first time in five quarters, although the transport equipment sector, which saw a decrease in the previous quarter, showed an upturn due to declining crude oil prices and an increase in local production of fuel-efficient cars. Europe saw a double-digit increase for the first time in six quarters, up by 10.3% (id.). All industries showed increases, including the industrial machinery sector, which showed a significant increase, and the transport equipment sector, which showed an upturn and a double-digit increase.

Notes:

*1: Prospects compared to the previous quarter with regard to the quarter including the survey period (Current Assessment) and the following quarter (Prospects)

• DI = (Proportion of companies that responded that they expected an increase) – (Proportion of companies that responded that they expected a decrease)

• Quarterly Changes in Current Assessment DI = Current Assessment DI for January to March 2007 – Current Assessment DI for October to December 2006

• Quarterly Changes in Prospects DI = Prospects DI for April to June 2007 – Current Assessment DI for January to March 2007

*2 – *4: ASEAN4: Indonesia, Thailand, the Philippines, and Malaysia; China: including Hong Kong; NIEs3: Singapore, Taiwan, and the Republic of Korea

Table 1 Sales DI and Actual Results (by Region and Main Industries)

Unit (comparison to same quarter of previous year:%, comparison to the previous year:percentage points)

	DI					Actual (comparison to corresponding period of previous year)
	Survey of previous term		Survey of present term		comparison to the previous quarter	
	① Current Assessment (Oct.-Dec. 2006)	② Current Assessment (Jan.-Mar. 2007)	③ Prospect (Apr.-Jun. 2007)	Current Assessment (②-①)		
Total	15.2	→ 11.3	→ 22.2	(-3.9)	10.9	7.2
North America	7.9	→ 19.1	→ 21.2	(11.2)	2.1	1.5
Asia	17.7	→ 8.1	→ 24.1	(-9.6)	16.0	9.2
ASEAN4	11.0	→ 7.6	→ 19.6	(-3.4)	12.0	7.9
NIEs3	15.3	→ -3.3	→ 21.3	(-18.6)	24.6	-0.1
China (including Hong Kong)	23.2	→ 9.3	→ 28.1	(-13.9)	18.8	13.0
Europe	18.6	→ 18.9	→ 10.8	(0.3)	-8.1	10.3
	DI					Actual (comparison to corresponding period of previous year)
	Survey of previous term		Survey of present term		comparison to the previous quarter	
	① Current Assessment (Oct.-Dec. 2006)	② Current Assessment (Jan.-Mar. 2007)	③ Prospect (Apr.-Jun. 2007)	Current Assessment (②-①)		
Transportation equipment	20.1	→ 29.1	→ 24.4	(9.0)	-4.7	9.8
Electrical machinery	7.0	→ -3.1	→ 11.0	(-10.1)	14.1	2.8
Industrial machinery	25.4	→ 14.3	→ 20.1	(-11.1)	5.8	12.0
Chemicals	16.4	→ 17.5	→ 30.5	(1.1)	13.0	7.1
Iron and Steel	8.4	→ 12.9	→ 20.3	(4.5)	7.4	3.4

Chart 1 Capital Investment DI by Region

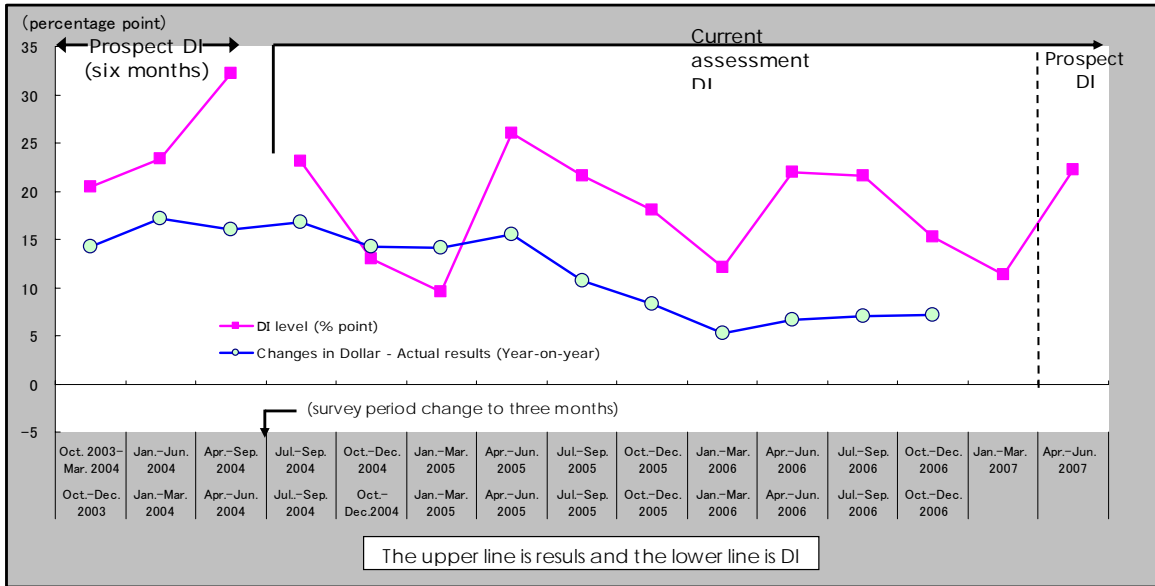


Chart 2 Capital Investment DI by Region

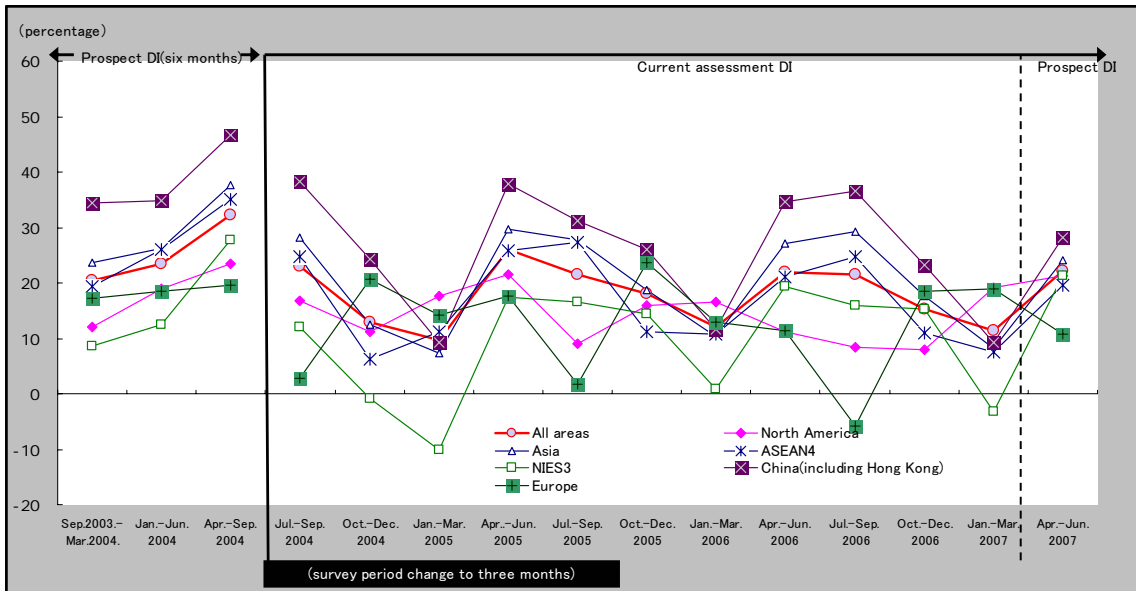
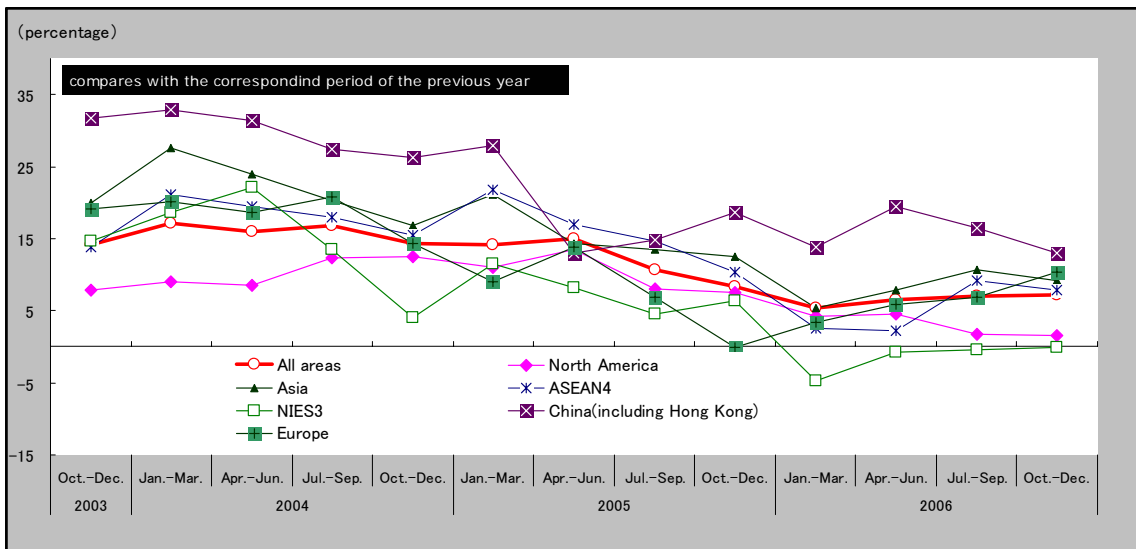


Chart 3 Capital Investment DI by Region



2. Capital Investment (acquisition costs of fixed assets except land)

The Capital Investment Prospects DI improved, standing at 12.7 percentage points. Actual capital investment increased significantly by 15.3% from the same quarter of the previous year.

○ The Capital Investment Current Assessment DI (January – March, 2007) deteriorated compared to that for the October-December quarter of 2006, standing at 9.9 percentage points. Although there were decreases in the electrical machinery sector and in all regions except ASEAN4, the Capital Investment Current Assessment DI maintained positive levels in all industries and all regions.

The Prospects DI (April – June, 2007) recovered to a double-digit level at 12.7 percentage points, and improvement is expected in all industries except the industrial machinery sector and the iron and steel sector and in all regions except NIEs3.

○ Actual capital investment (October – December, 2006) increased by 15.3% compared to the same quarter of the previous year, showing a significant increase for the third consecutive year, although the growth rate declined. By industry, the electrical machinery sector and the chemicals industry increased significantly for the second consecutive year, the general machinery expanded its growth, and the iron and steel sector saw an upturn. However, the growth in the transport equipment sector was only at a single-digit level for the first time in three quarters.

By region, Asia and Europe continued to see significant increases, while North America saw a downturn. in Asia, actual capital investment increased sharply for the third consecutive quarter, up by 41.2% compared to the same quarter of the previous year. The growth rate further expanded. ASEAN4 saw an increase of 39.8% (id.), with the growth rate expanding sharply, because there was a significant increase in the electrical machinery industry for the fourth consecutive quarter, and the transport equipment sector and the general machinery industry also saw a significant upturn. NIEs3 saw a significant increase for the second consecutive quarter, up by 26.5% (id.), although the growth rate deteriorated. Increases in IT-related capital investment raised the figures for the chemicals industry and the electrical machinery sector for the second consecutive quarter, while the transport equipment sector and the industrial machinery sector continued to decline sharply. China saw a double digit increase for the second consecutive quarter, up by 13.0% (id.), because the electrical machinery saw an increase for the first time in six quarters, and the transport equipment sector continued to see a significant increase although the growth rate declined. There was an increase of 227.2% (id.) in other Asian countries, due to a significant increase in India mainly for the transport equipment sector. North America saw a decrease for the first time in three quarters, down by 12.5% (id.), for reasons such as a double-digit decrease in the transport equipment sector, which increased significantly in the previous quarter. The chemical sector increased significantly for the third consecutive quarter. Europe saw a significant increase for the second consecutive quarter, up by 16.0% (id.). Although the chemicals industry showed a sharp decline, the industrial machinery sector increased significantly for the second consecutive quarter, mainly in the construction-related sectors. The transport equipment sector also saw an increase, with the growth rate expanding sharply

Table 2 Capital Investment DI and Actual Result (by Region and Main Industries)

Unit (comparison to same quarter of previos year:%, comparison to the previous year:percentage points)

	DI					Actual (comparison to corresponding period of previous year)	
	Survey of previos term		Survey of present term		comparison to the previous quaeter		
	① Current Assessment (Oct.-Dec. 2006)	② Current Assessment (Jan.-Mar. 2007)	③ Prospect (Apr.-Jun. 2007)	Current Assessment (②-①)	Prospect (③-②)		
Total	13.0	→ 9.9	→ 12.7	(-3.1)	2.8	15.3	
North America	14.3	→ 6.3	→ 7.3	(-8.0)	1.0	-12.5	
Asia	12.1	→ 11.3	→ 14.6	(-0.8)	3.3	41.2	
ASEAN4	9.2	→ 12.6	→ 14.4	(3.4)	1.8	39.8	
NIEs3	12.9	→ 10.2	→ 8.9	(-2.7)	-1.3	26.5	
China(including Hong Kong)	14.3	→ 9.6	→ 15.8	(-4.7)	6.2	13.0	
Europe	17.3	→ 5.5	→ 11.2	(-11.8)	5.7	16.0	
Transportation equipment	12.4	→ 12.8	→ 15.0	(0.4)	2.2	9.4	
Electrical machinery	11.5	→ 5.8	→ 9.4	(-5.7)	3.6	41.2	
Industrial machinery	9.8	→ 16.7	→ 10.1	(6.9)	-6.6	26.3	
Chemicals	8.9	→ 9.0	→ 11.3	(0.1)	2.3	16.5	
Iron and Steel	19.2	→ 20.0	→ 11.6	(0.8)	-8.4	27.2	

Chart4 Capital Investment DI by Region

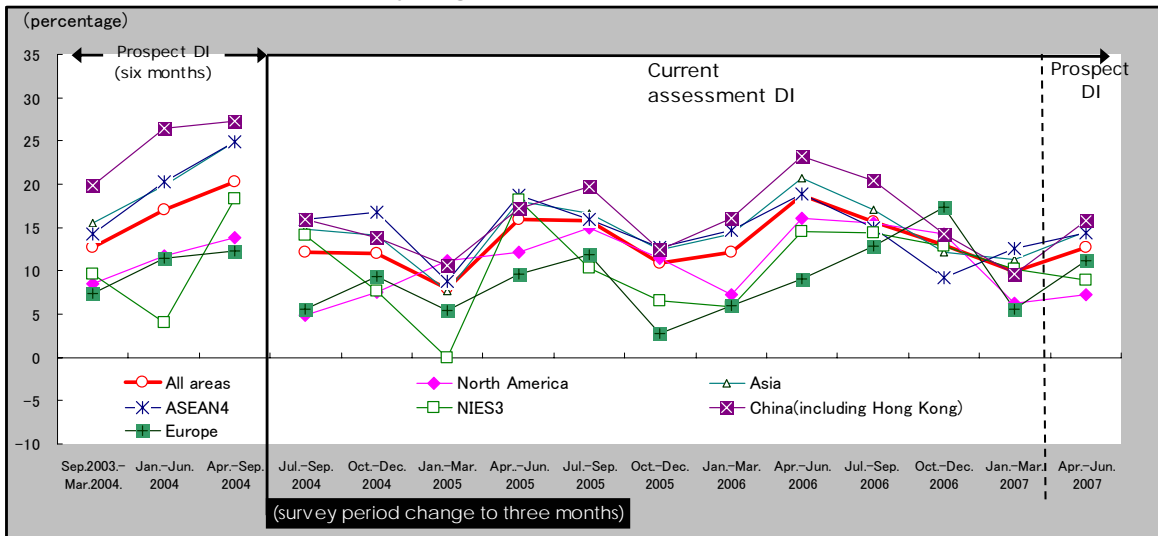
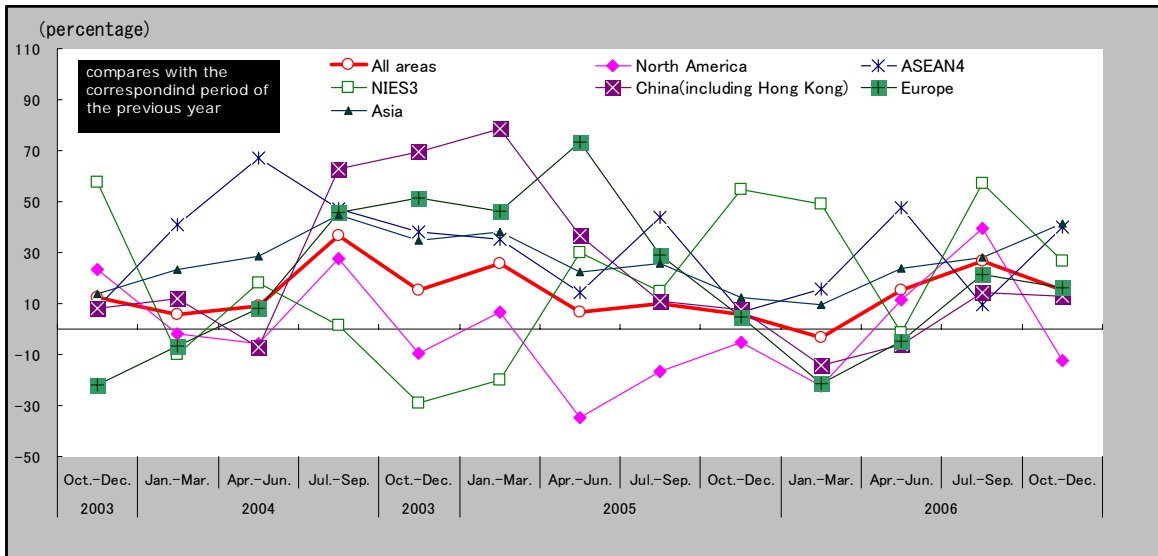
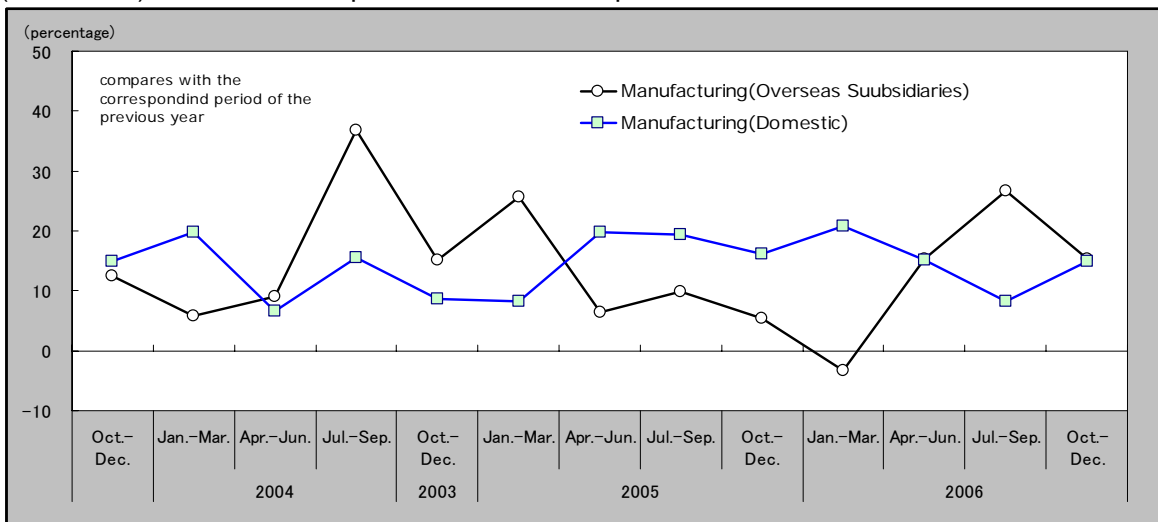


Chart5 Capital Investment DI by Region



(Reference) Transition of Capital Investment of Japan and Overseas Subsidiaries



Note: Capital investment of Japan is increase in fixed assets (including construction in progress) of the Financial Statements Statistics of Corporations by Industry (yen base).

3. Employment (Number of employees)

The Employment Prospects DI stood at 8.0 percentage points, with expectation of an improvement of 2.0 percentage points from the previous quarter. The number of employees continued its growth, up by 3.0% on a year-on-year basis.

○ The Employment Current Assessment DI (January – March, 2007) improved slightly compared to that for the October-December quarter of 2006, standing at 6.0 percentage points. It deteriorated slightly in North America and NIEs3, while it improved slightly in other regions.

The Prospects DI (April – June, 2007) improved, with improvement expected in all industries except the industrial machinery sector, and in all regions except NIEs3 and Europe. China maintained a double-digit level, while Europe was at a negative level.

○ The actual number of employees (October – December, 2006) continued to rise. It increased in all industries and all regions except North America and NIEs3. Asia continued to see an increase, up by 4.4% compared to the same quarter of the previous year, but the growth slowed slightly. In spite of a significant increase in the transport equipment sector, China saw only a single-digit increase for the second consecutive quarter, up by 7.1%, due to sluggish growth in the industrial machinery sector. ASEAN4 saw an increase of 0.3% (id.) with the growth slowing, while NIEs3 showed a decrease for the first time in six quarters, down by 0.3% (id.). Europe saw an increase for the third consecutive year, although the growth was small at 0.1% (id.). North America continued to see a decrease, down by 3.3% (id.).

Table 3 Employment Numbers DI and Actual Result (by Region and Main Industries)

Unit (comparison to same quarter of previous year:%, comparison to the previous year:percentage points)

	DI						Actual (comparison to corresponding period of previous year)
	Survey of present term			comparison to the previous quarter			
	Survey of previous term	Survey of present term		Current Assessment	Prospect		
① Assessment (Oct.-Dec. 2006)	② Current Assessment (Jan.-Mar. 2007)	③ Prospect (Apr.-Jun. 2007)	(②-①)	(③-②)			
Total	5.4	→ 6.0	→ 8.0	(0.6)	2.0	3.0	
North America	5.6	→ 4.2	→ 6.9	(-1.4)	2.7	-3.3	
Asia	6.7	→ 7.5	→ 10.2	(0.8)	2.7	4.4	
ASEAN4	3.1	→ 3.4	→ 5.7	(0.3)	2.3	0.3	
NIEs3	1.2	→ 0.8	→ 0.4	(-0.4)	-0.4	-0.3	
China(including Hong Kong)	12.5	→ 13.4	→ 15.8	(0.9)	2.4	7.1	
Europe	1.1	→ 1.9	→ -1.9	(0.8)	-3.8	0.1	
	DI			comparison to the previous quarter		Actual (comparison to corresponding period of previous year)	
	Survey of previous term	Survey of present term		Current Assessment	Prospect		
	① Assessment (Oct.-Dec. 2006)	② Current Assessment (Jan.-Mar. 2007)	③ Prospect (Apr.-Jun. 2007)	(②-①)	(③-②)		
Transportation equipment	10.1	→ 8.5	→ 11.2	(-1.6)	2.7	7.9	
Electrical machinery	3.3	→ 4.2	→ 4.2	(0.9)	0.0	2.1	
Industrial machinery	9.6	→ 12.4	→ 8.7	(2.8)	-3.7	1.5	
Chemicals	3.1	→ 6.1	→ 10.2	(3.0)	4.1	1.2	
Iron and Steel	3.4	→ 10.6	→ 14.8	(7.2)	4.2	14.0	

<Reference> Overseas economies

The global economy is recovering. The North American economy is moderately expanding. The Chinese economy is continuing to expand. Fixed assets investment has continued to increase sharply, although the growth has slightly slowed since the latter half of 2006. The economies in Singapore and Malaysia are also expanding. The economies in the Republic of Korea, Taiwan, and Thailand are moderately expanding. The economies in the eurozone and the UK are recovering. (Excerpt from the March 2007 issue of *The Monthly Economic Report*)

[Topics] Japanese Manufacturing Companies in China Dominating Those in ASEAN4 in Terms of the Value of Exports to Japan

According to trade statistics, Japan's total trade value* with China (including Hong Kong) exceeded that with North America (the United States and Canada) in 2005, and China has become the largest trade partner for Japan. (Chart 1)

*The total of export value and import value.

We will examine the trends in the value of exports to Japan by Japanese manufacturing companies based on this survey.

First of all, the value of exports to Japan by Japanese manufacturing companies has continued increasing even after 2002, but the growth has been slowing. The rate of the value of exports to Japan by Japanese manufacturing companies out of the total import value in trade statistics has maintained the level of a little over 10%. (Chart 2)

With regard to the value of exports to Japan, the share was 8.1% for Japanese manufacturing companies in North America, 41.0% for those in ASEAN4, 12.9% for those in NIEs3, and 31.7% for those in China in 2002. Japanese manufacturing companies in ASEAN4 held the largest share.

However in 2005, the share of those in China (40.0%) exceeded the share of those in ASEAN4 (35.2%). Also in 2006, Japanese manufacturing companies in China held the largest share at 40.9%. (Chart 3)

Furthermore the share of Japanese companies in other Asian countries (Vietnam, India, etc.) has increased, while the shares of those in ASEAN4, NIEs3, and North America declined.

Looking at the shares by industry among the total export value to Japan by Japanese manufacturing companies in China, it is notable that the share of the electrical machinery sector exceeded 50% in 2004 and has increased to as much as 54.1% in 2006. After China joined the WTO and restrictions on foreign investment were eased, Japanese manufacturing companies expanded their businesses in China. They mass-produce electrical appliances, taking advantage of the cheap labor in China, and export such products back to Japan. (Chart 4)

Among the total numbers of Japanese overseas subsidiaries newly established in China or those withdrawn from China in the last two years, the electrical machinery sector held the largest share in the number of withdrawn companies, although the number of newly established ones was also large. This indicates that companies' restructuring has become active in China. (Chart 5)

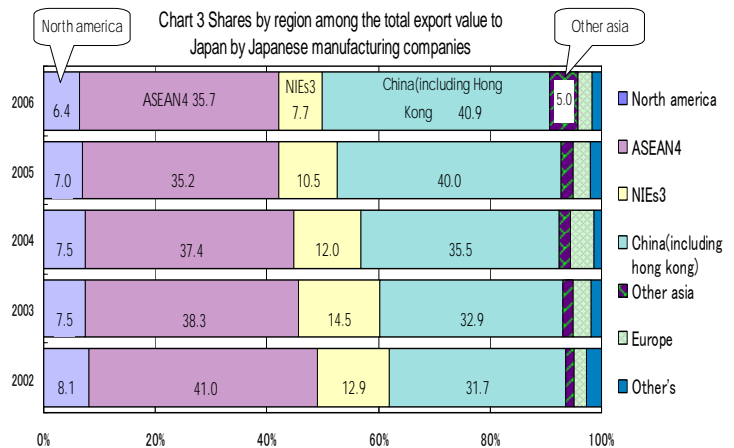
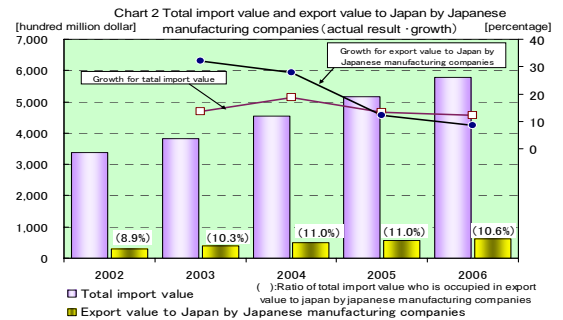
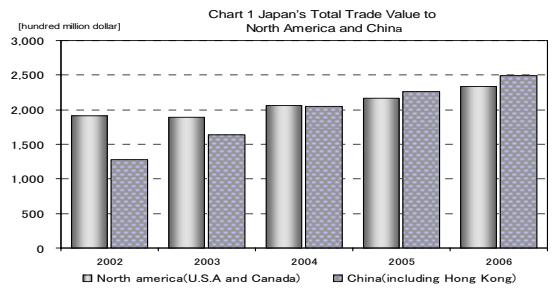


Chart 4 Shares by industry among total export value to Japan by Japanese manufacturing companies in China

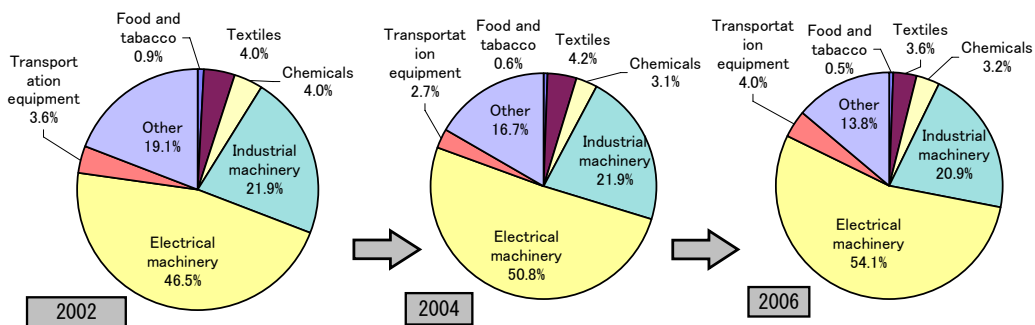
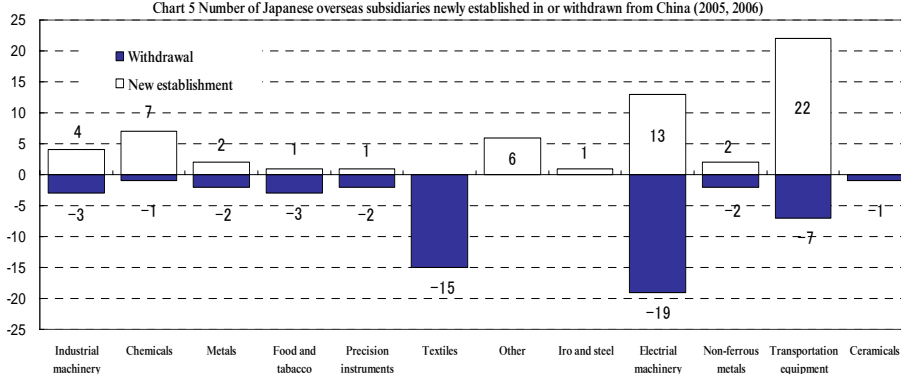


Chart 5 Number of Japanese overseas subsidiaries newly established in or withdrawn from China (2005, 2006)



(Reference)

Trade statistics here are created by converting figures in the Ministry of Finance's Trade Statistics (on a yen basis) into US dollars at the average rate of the IMF. Values of exports to Japan by Japanese manufacturing companies are created based on the results of the Quarterly Survey of Overseas Subsidiaries