

Summary of the 1999 Survey of Overseas Business Activities

Key Findings

- In FY1998, the number of overseas affiliated companies newly established fell for the third year in a row. The number decreased especially in the non-manufacturing sector. The ratio of those established newly by small and midsize parent companies also fell from the preceding year. The number of withdrawn overseas affiliates increased for the third consecutive year. The number rose especially in the non-manufacturing sector. Japanese companies are reorganizing and integrating their bases in North America and Asia. The number of overseas affiliates withdrawn exceeded the number of those newly established. However, the average capital of overseas affiliated companies rose from the preceding year, showing Japanese companies' positive investment in existing overseas affiliates.
- Overseas affiliated companies' sales fell by a slight 0.8% from the preceding year. Sales in Asia especially reduced because of the economic conditions in FY1998. Sales are expected to increase in all areas in FY1999.
- The overseas production ratio rose from the preceding year. The ratio grew by nearly 340% from FY1885, the year of the Plaza Accord. The ratio is expected to rise also in FY1999.
- Pretax profit fell for the second consecutive year because of a large decline in the manufacturing sector. It declined in North America and Europe for the first time in seven and six years respectively, while it barely increased in Asia. The same applies to the pretax profit ratio.
- Plant and equipment investment greatly fell in FY1998 after an upward trend from FY1994. Affiliates in North America surpassed those in Asia, which invested more than those in any other areas from FY1991. Investment in plant and equipment is expected to shrink in all areas also in FY1999.
- Reimports took a downturn after a sharp rise from FY1993. Imports from Asia, however, became about four times as large as nine years ago, showing that Asia is playing a greater part in export to Japan.
- As described above, overseas affiliated companies' business activities were sluggish throughout FY1998. However, overseas affiliates expect that sales will rise in all areas in FY1999. They also expect to reach or exceed the production level of parent companies by gradually expanding the function of research and development, including planning, designing, and development research. In addition, about 60% of them plan to expand or diversify their business. Thus overseas affiliates remain active in their business.

June 2000

The Ministry of International Trade and Industry

Enterprise Statistics Division, Research and Statistics Department, Minister's Secretariat
International Business Affairs Division, Industrial Policy Bureau

[Outline of the Survey]

1. Purpose

The Basic (Trend) Survey of Overseas Business Activities is conducted to obtain basic data for planning, designing, and implementing various measures by shedding light on overseas business activities of Japanese enterprises.

2. Object

The survey covered Japanese companies that have overseas affiliates as of the end of March 1999. We call them "parent companies" in this survey. We excluded those engaged in finance, insurance, or real estate.

For the purpose of the survey, "overseas subsidiary" means a foreign company in which a Japanese company owns not less than 10% of the stocks. If an overseas subsidiary in which a Japanese company owns more than 50% of the stocks has more than 50% of a foreign company's stocks, we call the foreign company "overseas grandchild company." Overseas affiliated companies are overseas subsidiaries and overseas grandchild companies.

3. Method

We mailed questionnaires (concerning parent companies and their overseas affiliates) to parent companies, which then answered them and returned them by mail.

4. Date

On June 1, 1999, we surveyed the results for FY1998 as of the end of March 1999 or as of a date of the settlement for FY1998 before and nearest to the end of March 1999.

[Instructions for Use]

1. Conversion to Yen

Amounts are shown in million yen. When converting the US dollar into yen, we used the average exchange rate in FY1998 (130.91 yen per US dollar). As for other currencies, see "Regional Classification, Country Classification, and Currency Conversion Table."

2. Areas

Unless otherwise specified, NIEs³ are Singapore, Taiwan, and South Korea, and ASEAN⁴ are Malaysia, Thailand, Indonesia, and Philippines. We included Hong Kong in China. We regarded some regions as countries.

3. Difference from the Preceding Survey

When comparing the results of a survey with those of the preceding survey, it is necessary to pay attention to difference in the ratio of respondents and the number of companies surveyed.

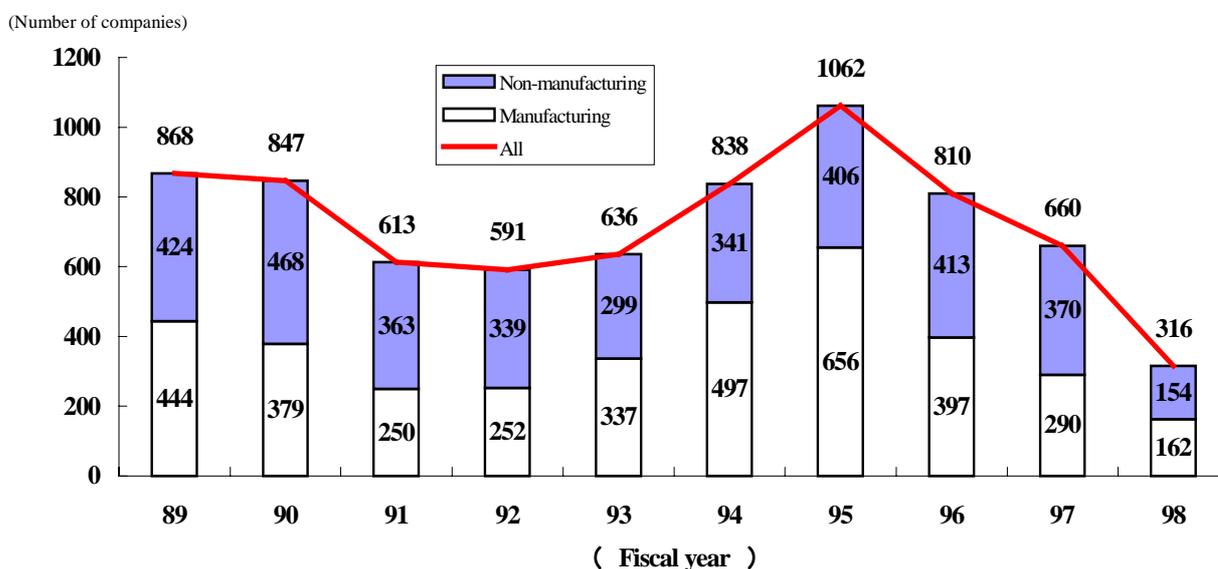
1. Establishment of Overseas Affiliated Companies

- (1) The number of overseas affiliated companies established in FY1998 was 316, down by 344 from the preceding year. The number fell by 128 in the manufacturing sector and by 216 in the non-manufacturing sector. However, the average capital of overseas affiliated companies increased from the preceding year, indicating that parent companies actively invest in existing overseas affiliates.

Average Capital of Overseas Affiliated Companies (in million yen)

	FY97	FY98
North America	2,963	3,333
Asia	822	853
Europe	1,449	1,732
All areas	1,532	1,647

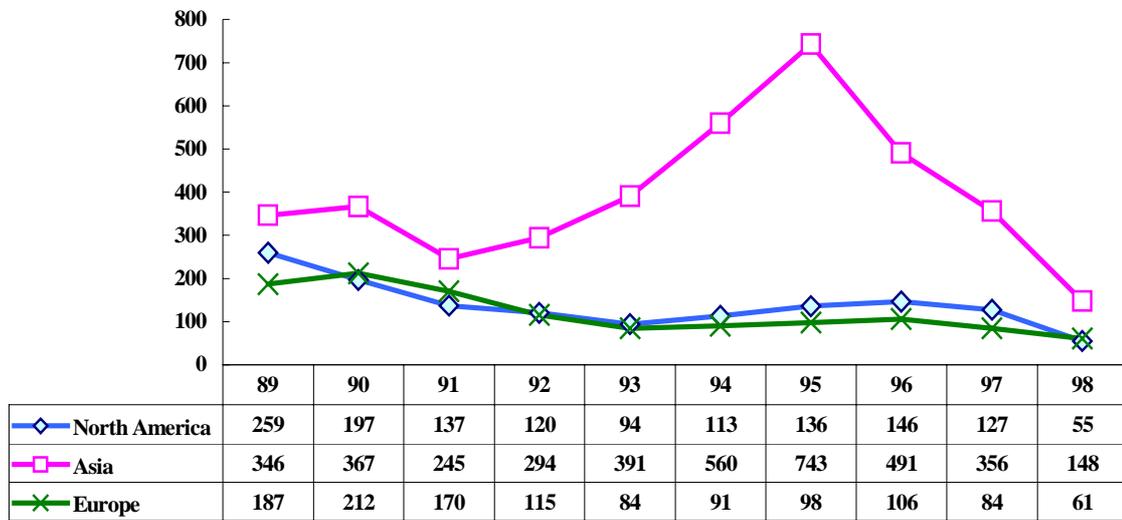
Number of Overseas Affiliated Companies Established in Each Year



- (2) The number of overseas affiliated companies newly established decreased in all industries except the agriculture, forestry, and fisheries industry. The number fell by 96 in the commercial industry, by 30 in the service industry, by 30 in the transportation equipment industry, and by 23 in the electric machinery industry.
- (3) The number of overseas affiliated companies newly established fell by 72 to 55 in North America, by 208 to 148 in Asia, and by 23 to 61 in Europe. The number in Asia has been greatly decreasing from the peak in FY1995.

Number of Overseas Affiliated Companies Established in Each Year (by Area)

(Number of companies)



(Fiscal Year)

- (4) The ratio of small and midsize companies' overseas affiliated companies was 9.6%, down by 1.5 point from the preceding year.

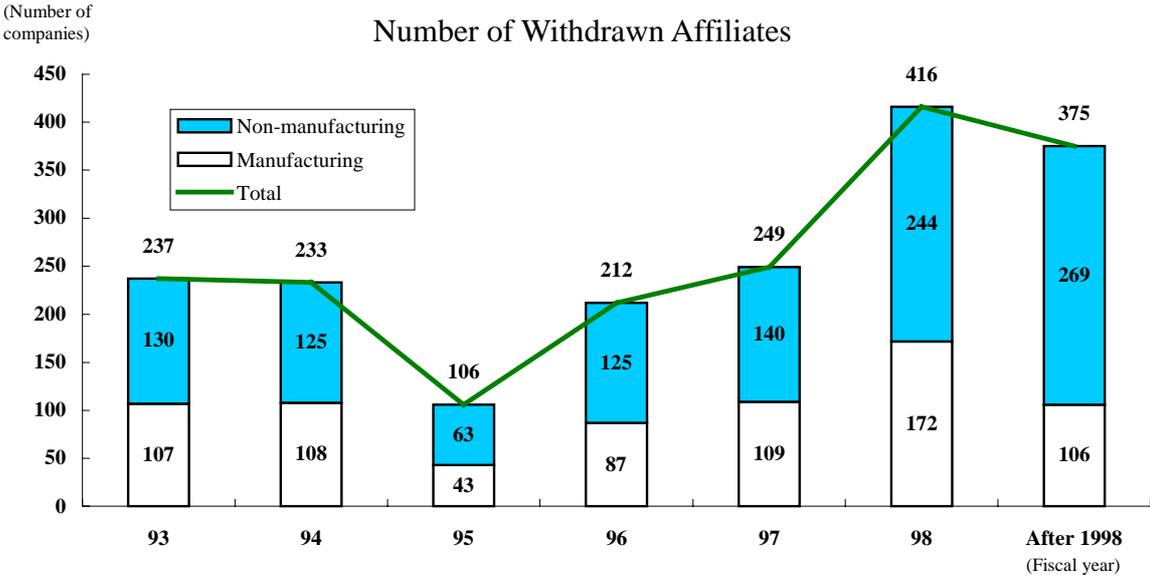
Number of small and midsize companies' overseas affiliates newly established

	FY1997	FY1998
Number of affiliates newly established	73	29
Ratio of small and midsize companies' affiliates	11.1%	9.6%

(Note) Ratio of small and midsize companies' affiliates = number of small and midsize companies' overseas affiliates newly established / total of overseas affiliates newly established × 100
We disregarded the companies reporting an invalid answer about capital.

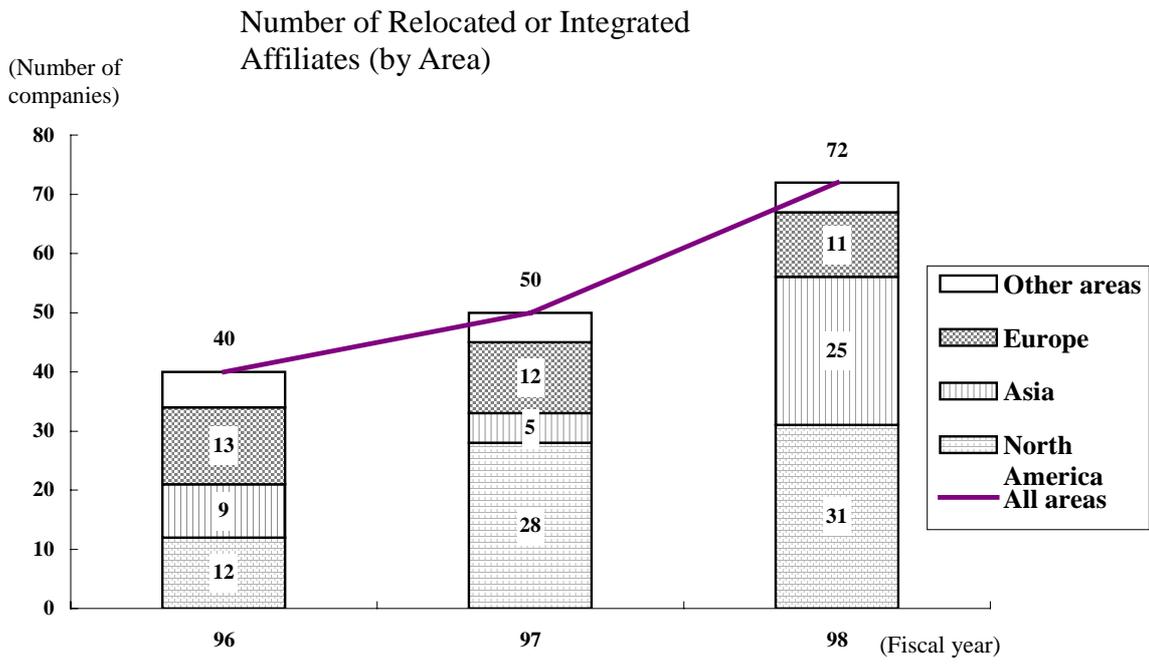
2. Withdrawal of Overseas Affiliated Companies

(1) The number of affiliates withdrawn from foreign countries increased from the preceding year by 63 to 172 in the manufacturing sector and by 104 to 244 in the non-manufacturing sector. The number rose by 167 to 416 in all industries, up for the third consecutive year. The number of those withdrawn exceeded the number of those newly established. The number increased by 58 to 148 in North America, by 78 to 147 in Asia, and by 13 to 65 in Europe.



(Note) Numbers for FY1993 to FY1995 partly include the number of affiliates withdrawn before the fiscal year.

- (2) Comparatively, affiliated companies withdraw from North America because of the completion of short-term business objectives; they withdrew from Asia and Europe because of low sales and profits. In Asia, money was difficult to raise and exchange rates considerably fluctuated due to the economic conditions in 1998.
- (3) The number of affiliates relocated to other areas or integrated into other companies increased by 22 to 72. The number was 31 in North America, 25 in Asia, and 11 in Europe. Parent companies are reorganizing and integrating their overseas bases especially in North America and Asia.

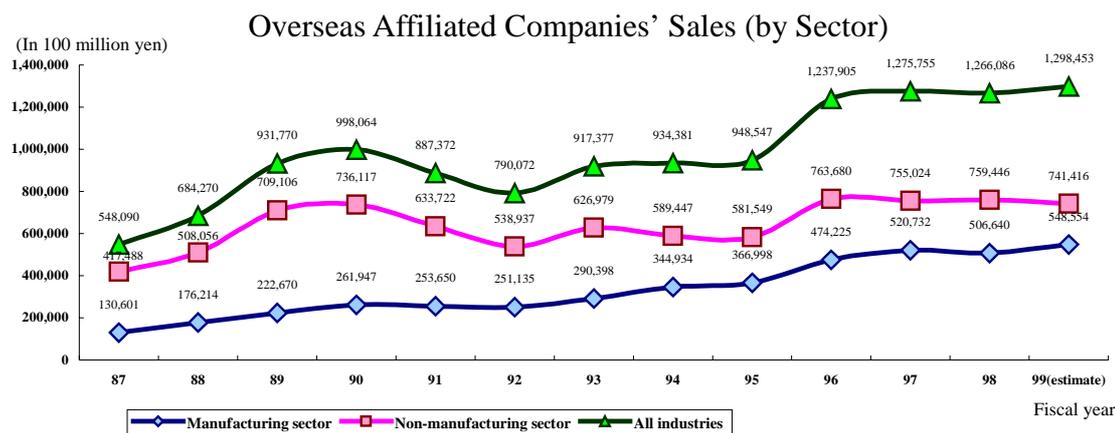


- (4) The number of overseas affiliated companies planning to withdraw after FY1998 was 375, lower than the number of those withdrawn in FY1998. The number is still high, however, compared with numbers in the past.

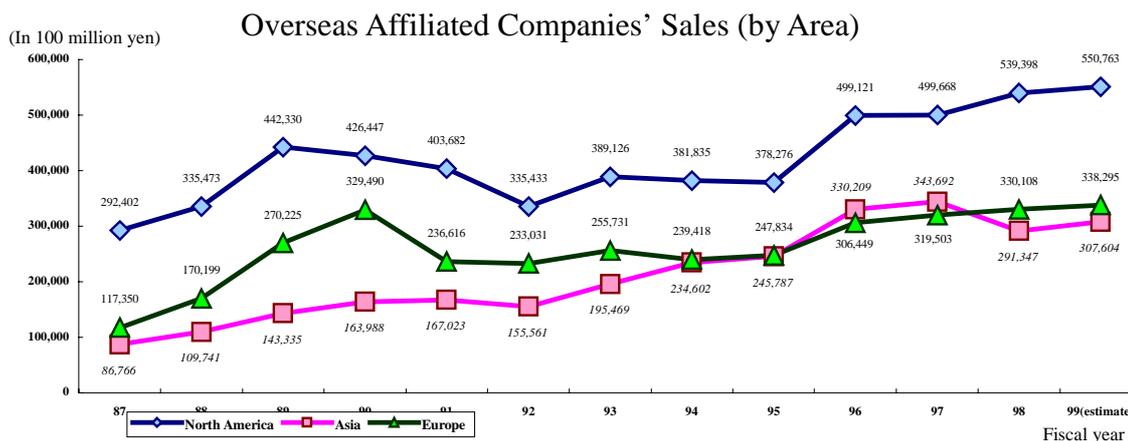
3. Business Activities of Overseas Affiliated Companies

(1) Sales

Overseas affiliated companies' sales increased 0.8% from the preceding year to 126,608.6 billion yen. The non-manufacturing sector's sales rose 0.6% to 75,944.6 billion yen, while the manufacturing sector's sales fell 2.7% to 50,664 billion yen. The manufacturing sector's sales declined for six consecutive years.

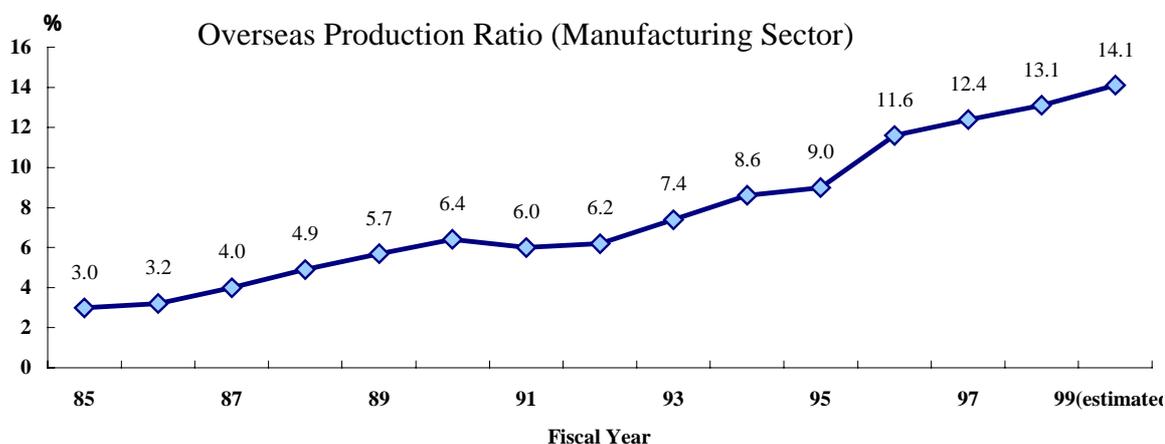


Overseas affiliated companies' sales increased in North America (by 0.8% to 53,939.8 billion yen) and Europe (by 3.3% to 33,010.8 billion yen), while they considerably decreased in Asia (by 15.2% to 29,134.7 billion yen), reflecting the economic conditions in 1998.



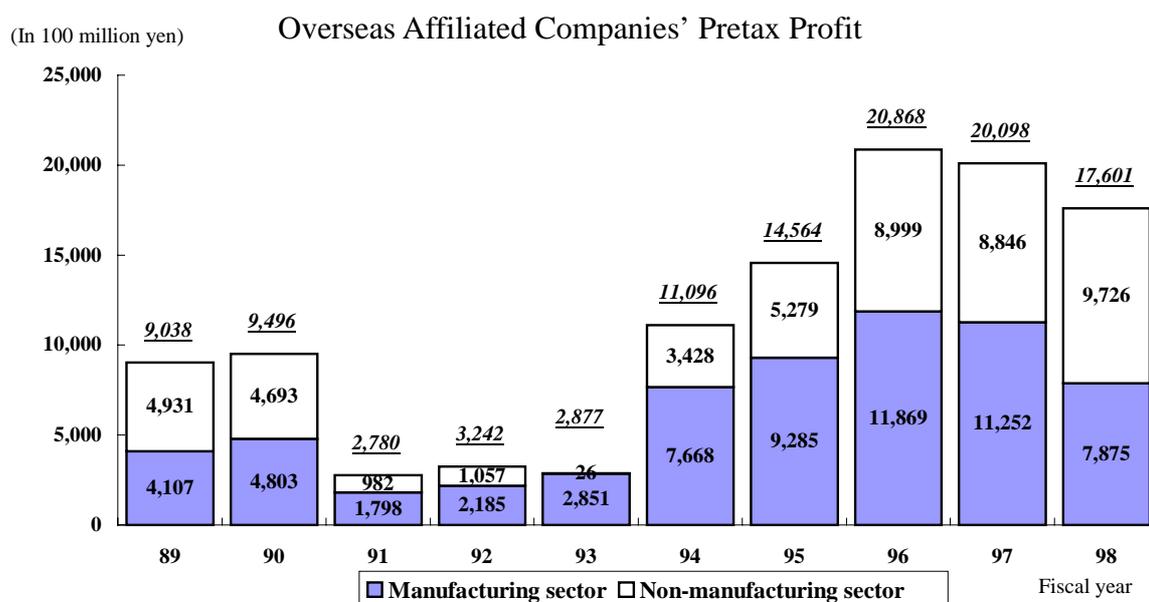
With regard to the forecast for FY1999, overseas affiliated companies' sales are expected to increase 8.3% in the manufacturing sector, resulting in a 2.6% rise in all industries. It is estimated that the sales will increase by 2.1% in North America, by 5.6% in Asia, and by 2.5% in Europe.

The manufacturing sector's overseas production ratio increased from the preceding year by 0.7 point to 13.1%, about 4.4 times as high as the ratio in FY1985, the year of the Plaza Accord. This is because the degree of decrease in overseas affiliated companies' sales was lower than that in domestic companies' sales. The ratio is expected to rise in FY1999.

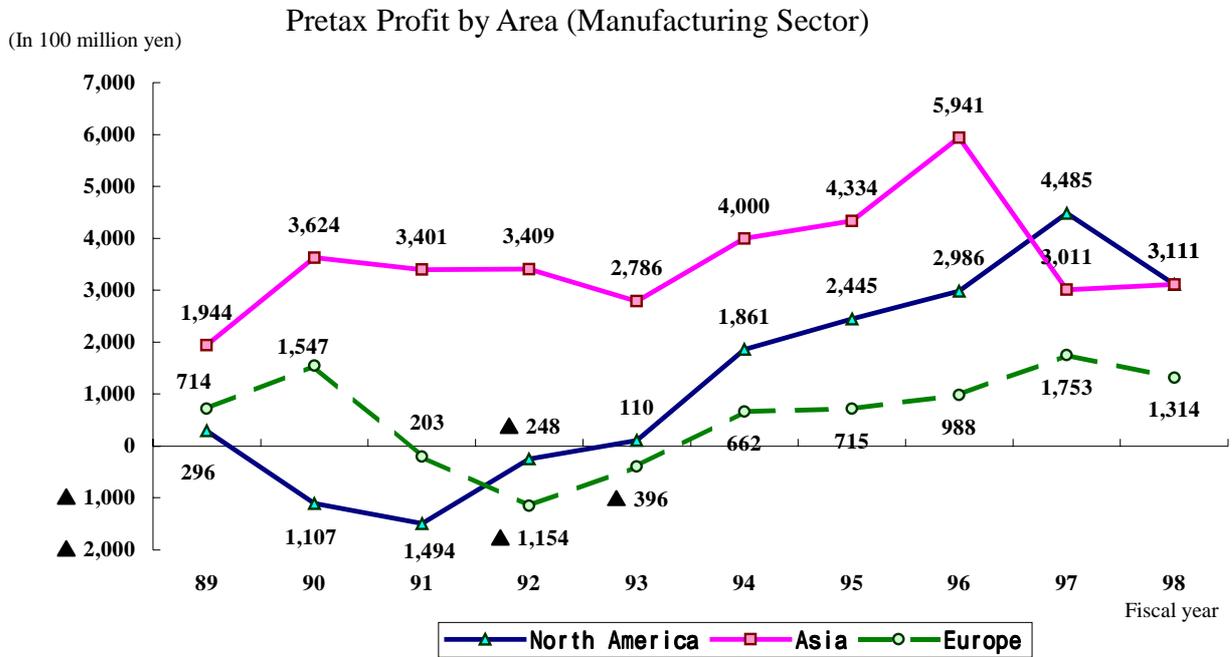


(2) Profit

Overseas affiliated companies' pretax profit fell 12.4% to 1,760.1 billion yen. While the non-manufacturing sector's pretax profit rose 9.9% to 972.6 billion yen, the manufacturing sector's pretax profit fell by a high 30.0% to 787.5 billion yen. All industries' pretax profit declined for two consecutive years.



As described above, the manufacturing sector's pretax profit greatly decreased. It fell for the first time in seven years in North America (by 30.6% to 311.1 billion yen), and for the first time in six years in Europe (by 25.0% to 131.4 billion yen). In Asia, however, it increased by a slight 2.5% to 308.7 billion yen after a decrease in the preceding year.

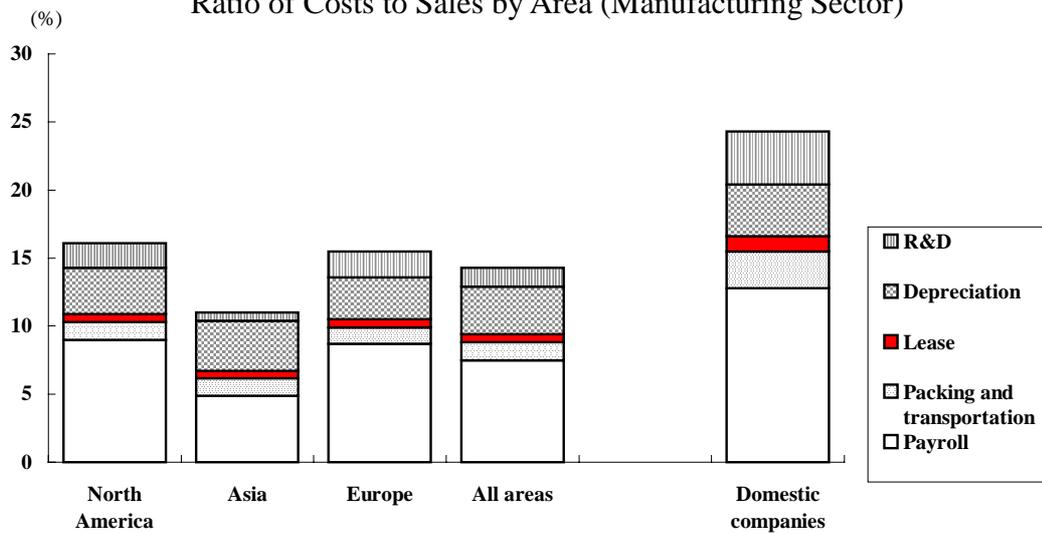


The ratio of pretax profit to sales fell by 0.1 point from the preceding year both in North America (to 1.7%) and in Europe (to 1.3%), while it rose by a slight 0.4 point in Asia (to 2.4%). The ratio of overseas pretax profit increased by 1.1 point to 8.3%.

(3) Costs and Profit Appropriation

In the manufacturing sector, domestic companies' ratio of labor costs to sales was higher than overseas affiliates' ratio by 5.3 points. The ratio of labor costs to sales in Europe was about 70% of that in Japan; the ratio in Asia was less than 40% of that in Japan. The ratio of research and development costs to sales in Japan was higher than that in overseas by 2.5 points; the ratio of packing and transportation costs to sales in Japan was higher than that in overseas by 1.4 point. In all areas, these ratios were about a half of those in Japan. Domestic companies remain more active in research and development than overseas affiliated companies.

Ratio of Costs to Sales by Area (Manufacturing Sector)



[Unit : %]

	North America	Asia	Europe	All areas		Domestic companies (B)	(A)-(B)
Payroll	9.0	4.9	8.7	7.5		12.8	-5.3
Packing and transportation	1.3	1.3	1.2	1.3		2.7	-1.4
Lease	0.6	0.5	0.6	0.6		1.1	-0.5
Depreciation	3.4	3.7	3.1	3.5		3.8	-0.3
R&D	1.8	0.6	1.9	1.4		3.9	-2.5

(Source) For domestic companies, Preliminary Report of the 1998 Basic Survey of Business Activities (Ministry of International Trade and Industry)

Overseas affiliated companies' retained earnings fell 23.2% from the preceding year to 256.2 billion yen. Retained earnings of affiliates in ASEAN4 continued to shrink.

Retained Earnings of Overseas Affiliated Companies in FY1998

(In billion yen)

	After-tax profit		Retained earnings		Ratio of retained earnings	
	All industries	Manufacturing sector	All industries	Manufacturing sector	All industries	Manufacturing sector
All areas (A)	9,389	3,976	2,562	76	71.8%	65.1%
North America	5,329	1,298	2,659	143	76.9%	66.7%
Asia	2,522	1,877	284	-6	68.0%	62.9%
ASEAN4	696	428	-370	-398	60.5%	61.0%
NIEs3	1,644	1,442	1,092	586	80.4%	59.7%
Europe	1,189	642	110	76	70.9%	71.1%
Domestic Companies (B)	-5,333	11,542	-56,836	-13,807	...	-119.6%
A/B	...	34.4%

(Source) For domestic companies, Business and Investment Survey of Incorporated Enterprises (Ministry of Finance)

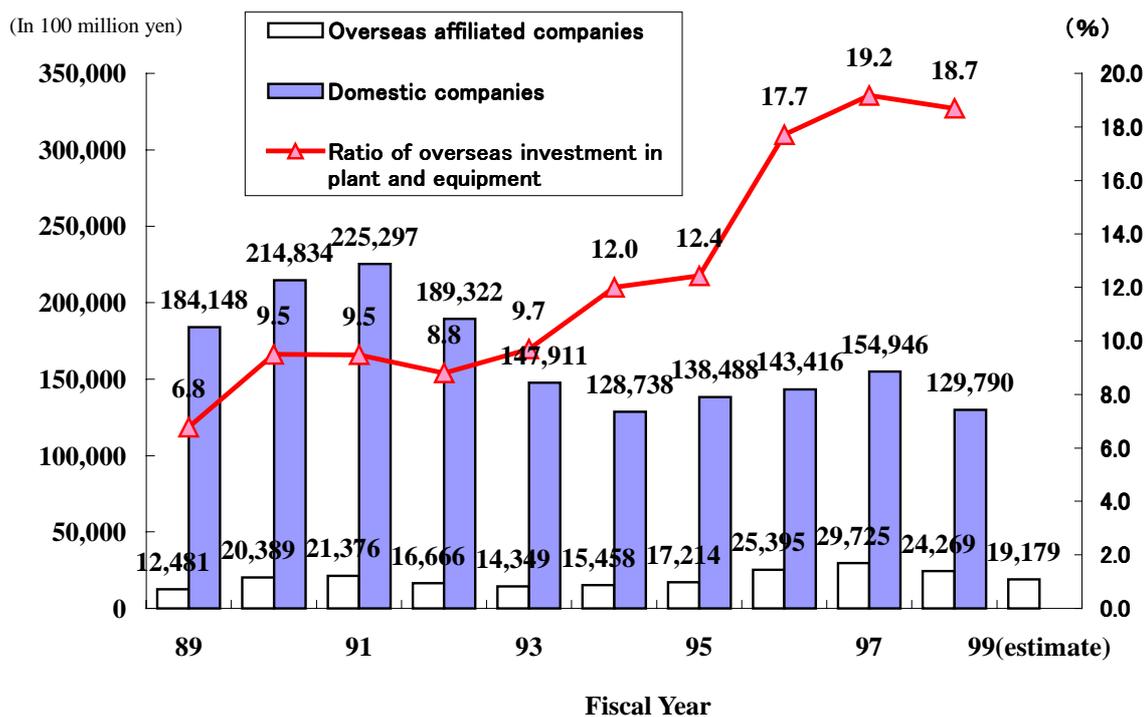
(4) Plant and Equipment Investment

In the manufacturing sector, overseas affiliated companies invested 2,426.9 billion yen in plant and equipment. The investment fell by a high 18.4% from the preceding year after an expansion from FY1994.

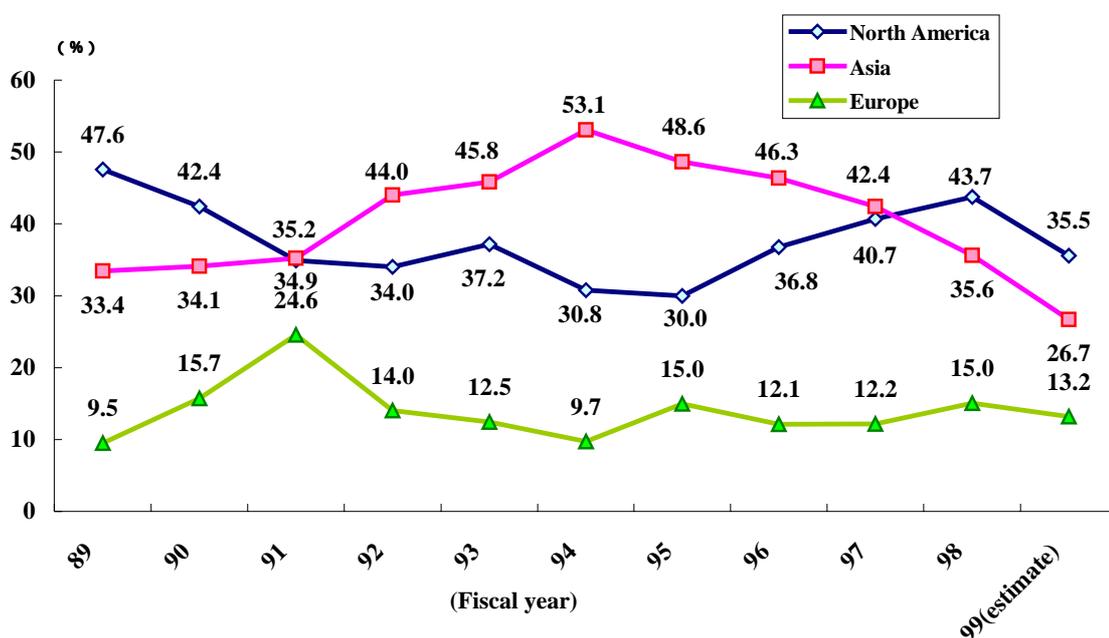
Affiliated companies in North America invested 1,061.2 billion yen in plant and equipment, which accounted for the highest 43.7% of the total investment by affiliated companies in all areas. Although from FY1991 affiliated companies in Asia had invested in plant and equipment more than those in all other areas, in FY1998 they invested 864 billion yen, which accounted for the second highest 35.6%.

With regard to the forecast for FY1999, plant and equipment investment is expected to decrease in all areas and is estimated to be 1,917.9 billion yen, down by a high 21.0% from the preceding year.

Plant and Equipment Investment by Overseas Affiliated Companies
(Manufacturing Sector)



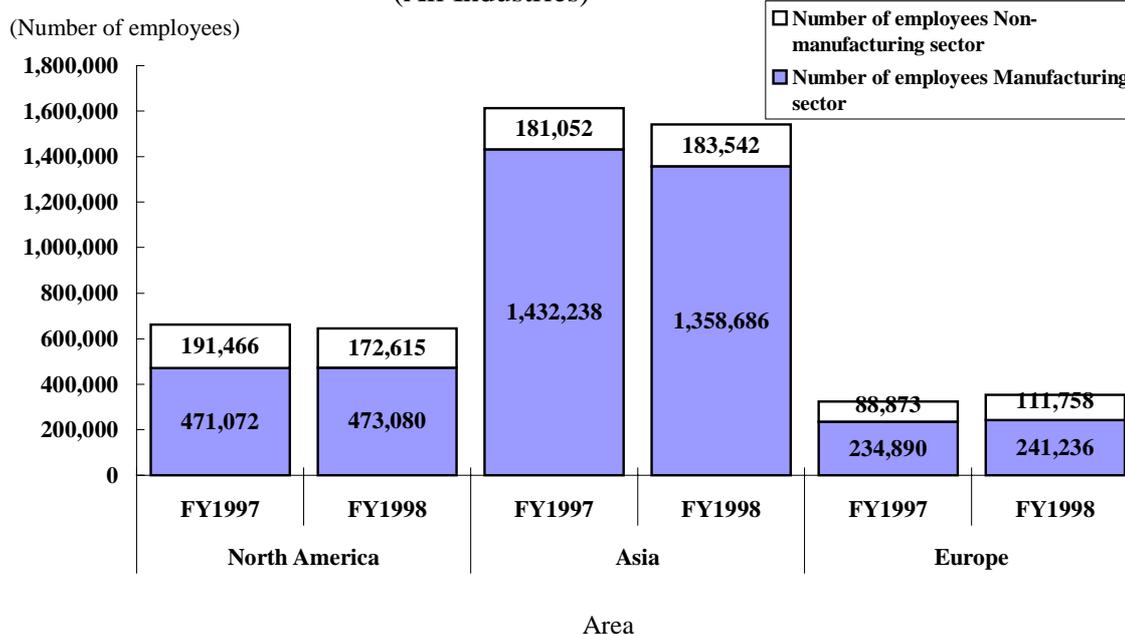
Percentage of Plant and Equipment Investment by Affiliated Companies in Each Area
(Manufacturing Sector)



(5) Employment

The number of employees of overseas affiliated companies fell 3.0% from the preceding year to 2.75 million, the first decrease in six years. Although the number of employees in the non-manufacturing sector increased 1.5% to 530,000, the number in the manufacturing sector decreased 4.0% to 2.22 million.

Number of Employees by Area
(All Industries)



In Asia the number of employees of overseas affiliated companies fell 4.4% to 1.54 million, which accounted for more than a half of the total number of overseas affiliate employees.

(6) Corporate Strategy and Overseas Business Management (based on the results of questionnaires)

With regard to the production system, 50.3% of overseas affiliated companies adopt a start-to-finish system, and 29.8% of them share the production process with domestic companies. In all areas, affiliated companies' technical level is expected to reach or exceed domestic companies' level.

Production System of Overseas Affiliated Companies (Manufacturing) (Unit: %)

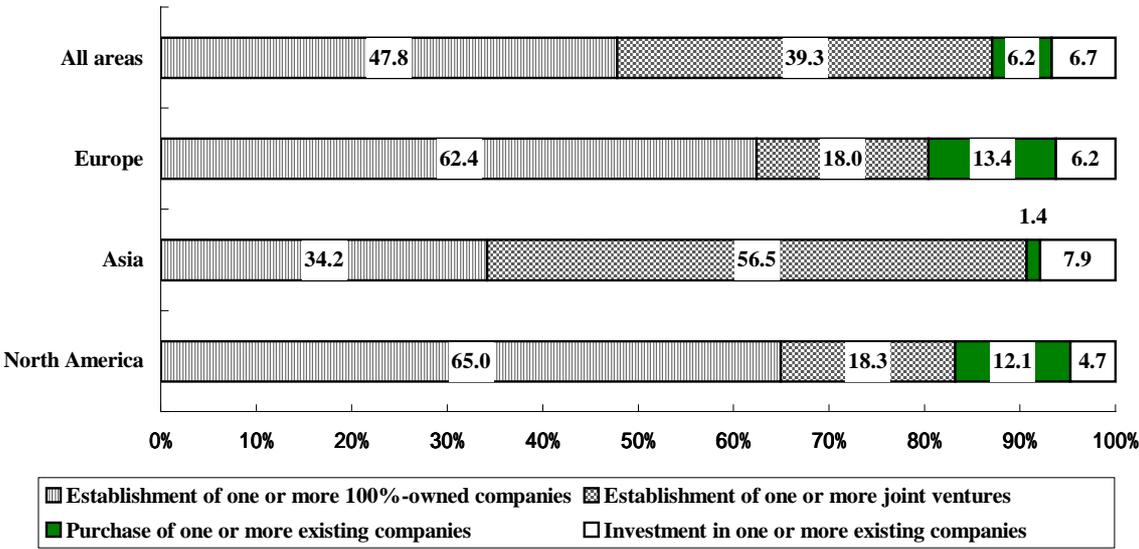
	Technical level (compared to domestic companies)	North America		Asia		Europe		All areas	
		At present	In future	At present	In future	At present	In future	At present	In future
Share with domestic companies	Higher	0.9	2.2	0.2	1.8	0.7	1.3	0.4	1.8
	Same	21.3	23.8	15.1	24.3	18.8	23.8	16.3	23.8
	Lower	6.1	1.7	15.6	4.1	7.7	1.7	13.1	3.5
	Subtotal	28.3	27.7	30.9	30.2	27.2	26.8	29.8	29.2
Share with foreign companies	Higher	0.6	1.6	0.3	1.3	0.9	1.1	0.4	1.3
	Same	14.7	16.7	9.9	15.7	13.2	19.3	11.0	16.3
	Lower	4.1	1.5	9.4	2.7	7.3	0.6	8.5	2.4
	Subtotal	19.4	19.7	19.6	19.7	21.4	21.1	19.9	20.0
Start-to- finish production	Higher	2.2	4.8	0.7	3.5	2.4	3.3	1.1	3.7
	Same	37.6	45.4	25.6	39.9	36.0	46.9	28.8	41.5
	Lower	12.5	2.5	23.2	6.7	13.0	1.9	20.4	5.7
	Subtotal	52.3	52.6	49.5	50.2	51.4	52.1	50.3	50.8
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

With regard to research and development, overseas affiliated companies mainly make plans, designs, and development researches. This tendency has continued since FY1997.

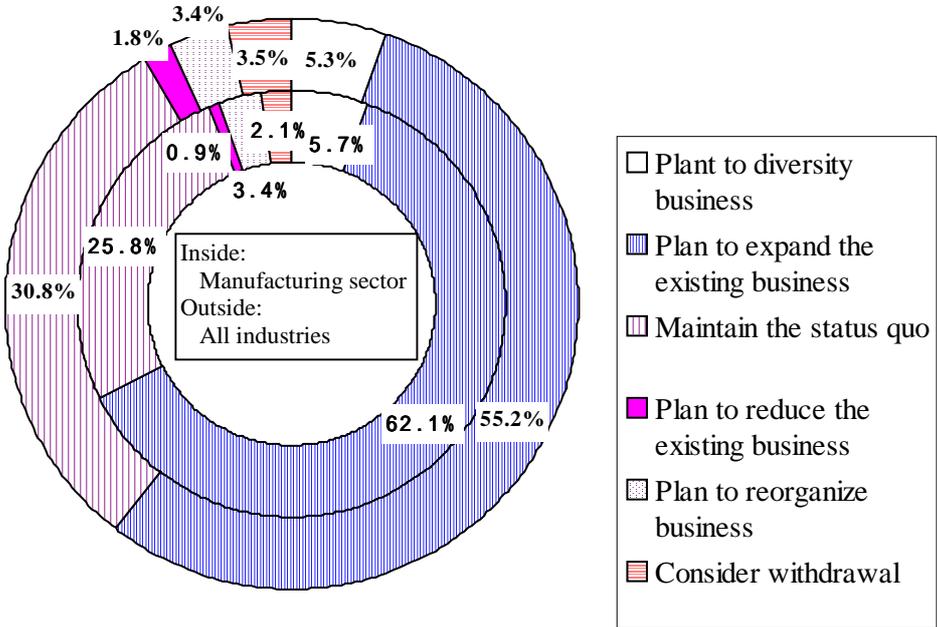
With regard to the form of participation in overseas affiliated companies, 81.7% of the parent companies in all industries answered "Establishment of one or more 100%-owned companies" or "Establishment of one or more joint ventures." The percentage is almost the same in the manufacturing sector. There are very few parent companies that answered "Purchase of one or more existing companies" or "Investment in one or more existing companies."

With regard to the future management plan, about 60% of the respondents answered "Plan to diversify business" or "Plan to expand the existing business." In manufacturing sector, about 70% of the respondents chose the same answers. This shows that overseas affiliated companies will continue to take positive attitude toward their management.

Form of Participation by Area



Future Management Plan



4. Transactions and Trade with Japan

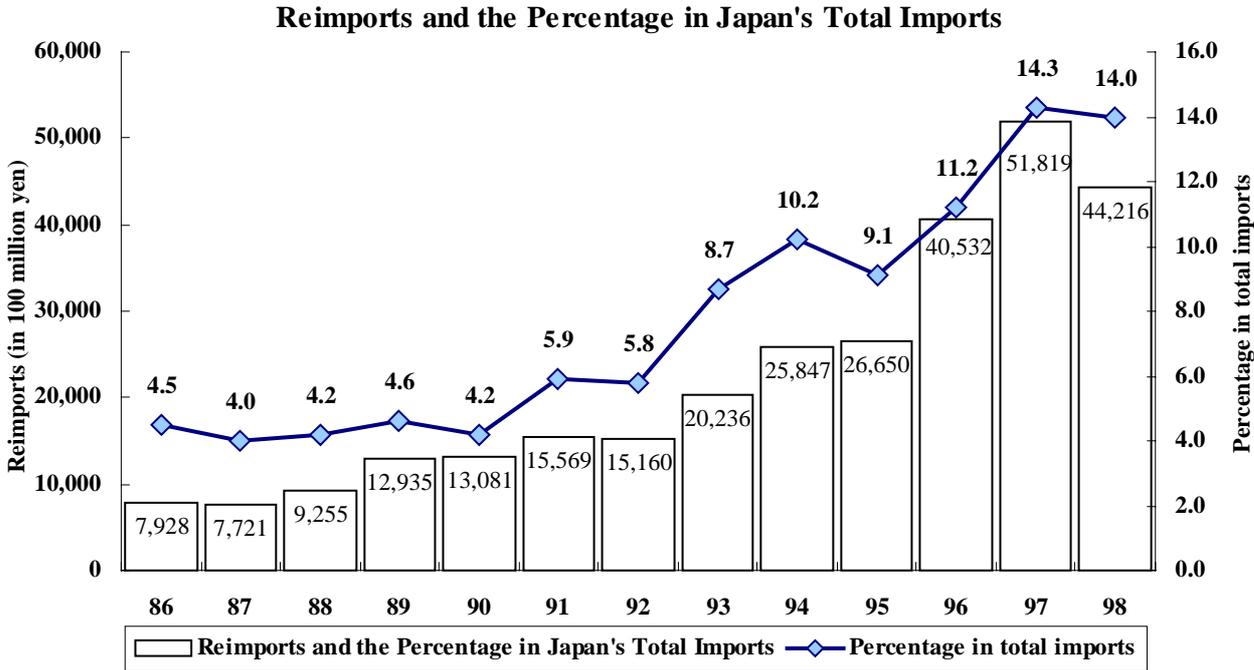
(1) Transactions by Overseas Manufacturing Affiliates

Affiliated companies in Asia are expanding exports to Japan. Their exports to Japan were about four times as much as nine years ago. The percentage of exports to Japan in the sales rose by 10 points during the nine years.

Overseas affiliated companies bought more than a half of materials within the country or area. The ratio of local purchase increased from nine years ago in all areas. The ratio of purchase from Japan fell in all areas by a range of 6 to 10 points. This shows that overseas affiliated companies increasingly buy materials within the country or area, rather than from Japan.

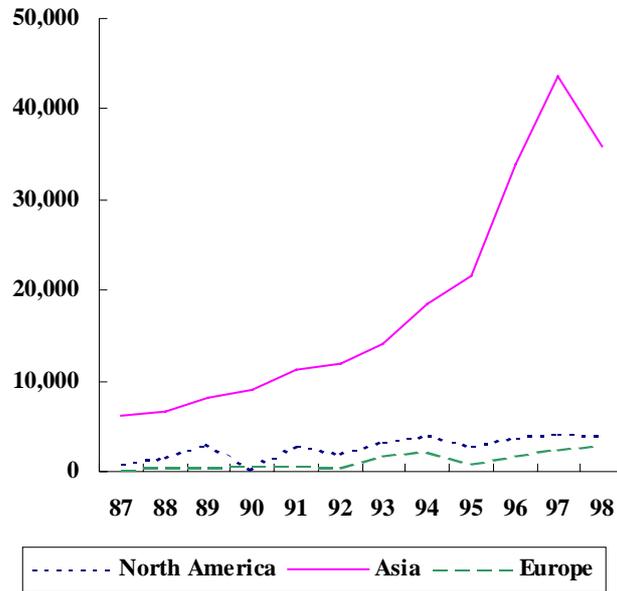
(2) Trade between Manufacturing Affiliates and Japan

Exports to Japan from manufacturing affiliates (reimports), which had sharply increased since FY1993, fell 14.7% from the preceding year, the first decrease in six year. The percentage of the reimports in Japan's total imports fell by 0.3 point from 14.3% to 14.0%. About 80% of the reimports were from Asia.



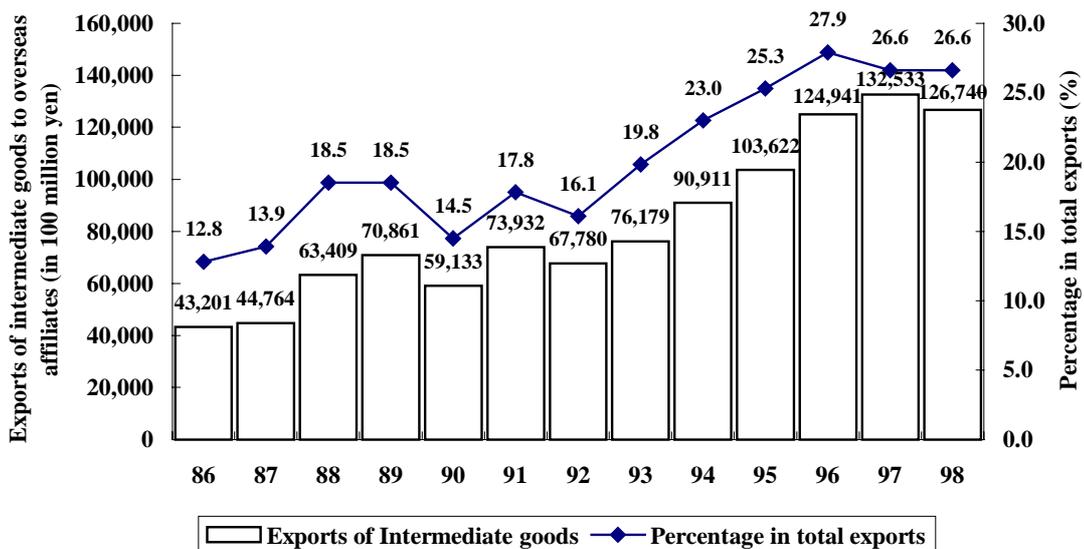
(In 100 million yen)

Reimports (by Area)



Exports of intermediate goods to manufacturing affiliates fell 4.4% from the preceding year to 12,674 billion yen. The exports accounted for 26.6% of the total exports, the same percentage as in the preceding year. Exports to affiliates in North America increased 6.8% to 5,603 billion yen, and exports to those in Europe increased 14.6% to 2,584 billion yen. Exports to those in Asia fell by a high 27.6% to 3,583 billion yen.

Exports of Intermediate Goods to Overseas Affiliates and the Percentage in Japan's Total Exports



(In 100 million yen)

Exports of Intermediate Goods (by Area)

