

Summary of the 2000 Survey of Overseas Business Activities

Key Findings

- In FY1999, newly established overseas affiliates decreased in number for the fourth consecutive year, which was especially seen in the manufacturing industries. Reviewing by scale of parent company, although the ratio of those established by small and medium enterprises started to increase slightly from the previous year, its tendency is, in general, taking a downward trend after its peak at FY1993. On the other hand, withdrawn overseas affiliates, since those in the manufacturing industries declined drastically, decreased in number for the first time in four years. The ratio of small and medium enterprises tend to decline, which accordingly indicates that large enterprises are playing the center role in consolidation of overseas production centers.
- Overseas affiliates' sales decreased by 5.8% from the previous year, mainly in the non-manufacturing industries, caused by a sharp drop in Europe and the North America. On the contrary, in FY2000, the sales are expected to grow in all regions. Reflecting the recovery of economic conditions in FY1998, sales in Asia grew by 9.6% from the previous year.
- Overseas production ratio slightly decreased from 13.1% in the previous year to 12.9%, but is expected to increase up to 14.5% in FY2000.
- The amount of ordinary profits grew both in the manufacturing and non-manufacturing industries, resulting in an increase in overall industries for the first time in 3 years. This is greatly affected by Asia's economic recovery from its condition in FY1998, and by North America, whose economic conditions were good in shape.
- Investment in plant and equipment decreased for the second consecutive year. It has had a diminishing trend after the peak of an expanding trend in FY1997, which has started since 1994. It dropped in overall regions: in North America and Asia, for the second consecutive year, and in Europe, for the first time in five years. However, it is expected to grow by about 10.2% mainly in Asia and Europe in FY 2000.
- The amount of export of intermediate goods to overseas affiliates (¥ 13.4 trillion) still exceeded that of re-import (¥ 4.9 trillion). Although the ratio of the amount of export and re-import of intermediate goods in that of total export and total import decreased in the previous year, it tends to rise in general, which indicates a shift of producing functions to overseas bases.
- Therefore, business activities of overseas affiliates, whose tendency had taken a downtrend in the previous year, partly went on the recovery in FY1999 with increased corporate revenue. Although large enterprises will still continue to reorganize and integrate their overseas business offices, in FY2000, sales and investment in plant and equipment are expected to increase.

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Economic and Industrial Policy Bureau,
Trade and Investment Facilitation Division, Trade and Economic Cooperation Bureau,
Ministry of Economy, Trade and Industry**

[Survey Overview]

1. Survey objective

The objective of this survey is to grasp the actual conditions concerning overseas business activities of Japanese corporations in order to obtain data that will serve as the basis for the planning, drafting and implementation of various measures.

2. Survey targets

This survey's target is Japanese corporations which, as of the end of March 2000, own overseas affiliates (excluded the finance and insurance and the real estate, hereinafter referred to as "Parent Companies").

An "overseas affiliate" in this survey means either a foreign affiliate (subsidiary) in which a Japanese corporation(s) has invested capital of 10% or more or a foreign affiliate (sub-subsidiary) in which a "subsidiary", funded more than 50% by a Japanese corporation(s), has invested capital of more than 50%.

"Subsidiaries" and "Sub-subsidiaries" are collectively referred to as "overseas affiliate".

3. Survey method

This is a written survey. Questionnaires (concerning parent companies and their overseas affiliates) are distributed to the parent companies, each of which is to complete the survey on the basis of information obtainable to it.

4. Date of survey

On June 1, 2000, we surveyed the results for FY1999, as of the end of March 2000 or as of a date of the settlement for FY1999 before and nearest the end of March 2000.

[Instructions for Use]

1. Conversion into yen

In principle, the currency unit is shown in ¥1,000,000.

In converting the currency unit for the aggregation items on overseas affiliates, the average exchange rate for FY1999 (¥113.91 per US dollar) is used. It is necessary to pay attention to the fact that the appraisal price of yen conversion for FY1999 resulted in showing apparent decline because of the stronger yen than the previous year (¥130.91), or 13.0% ($113.91/130.91 \times 100 - 100$) higher in conversion of yen into dollars due to the effect of exchange fluctuation. As for other currencies, refer to "regional and national classification including currency conversion table."

2. Definition of Regions

Unless otherwise specified, NIEs³ means Singapore, Taiwan and South Korea, and ASEAN⁴ means Malaysia, Thailand, Indonesia and the Philippines.

In counting, "Hong Kong" is included in "China" from the previous survey.

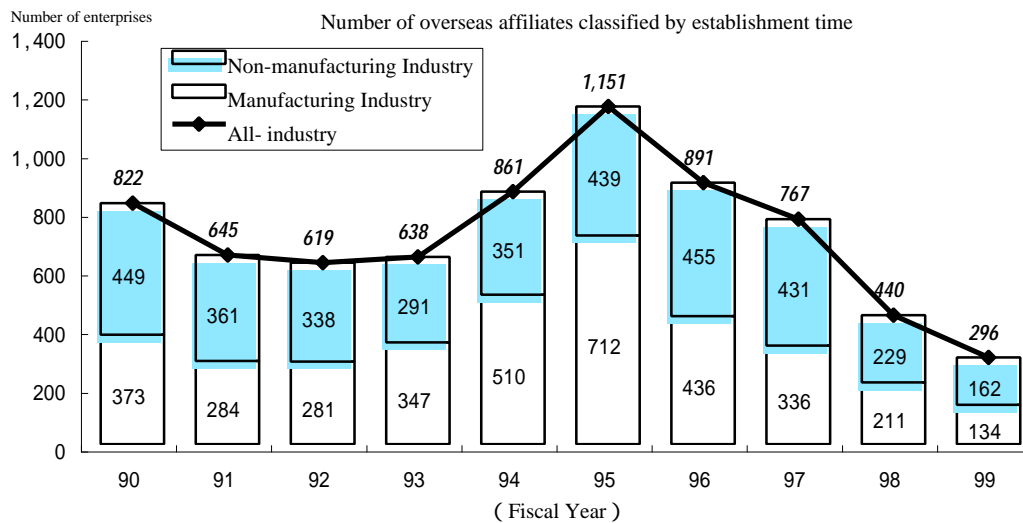
"Countries" sometimes include regions.

3. Differences from the Previous Survey Results

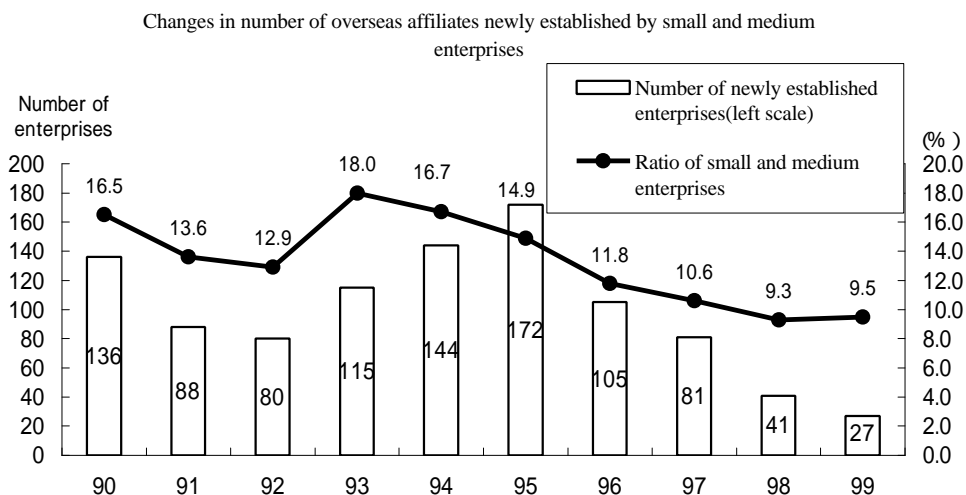
When comparing respective findings with previous ones, attention should be paid on the differences in each response rate and in the number of companies surveyed.

1. Establishment of overseas affiliates

(1) As for the number of overseas affiliates, 296 were established newly in FY1999. From the previous year, 77 manufacturing industries and 67 non-manufacturing industries decreased, which resulted in 144 decrease in overall industries, a decrease for the fourth consecutive year. The tendency of major industries is taking a downward trend, 33 decreased in electrical machinery, 12 in transportation equipment and 34 in commerce.



(2) Reviewing by scale of parent company, the ratio of small and medium enterprises' overseas affiliates is 9.5%, despite 0.2 points up from the previous year, which started to decline from 1993.



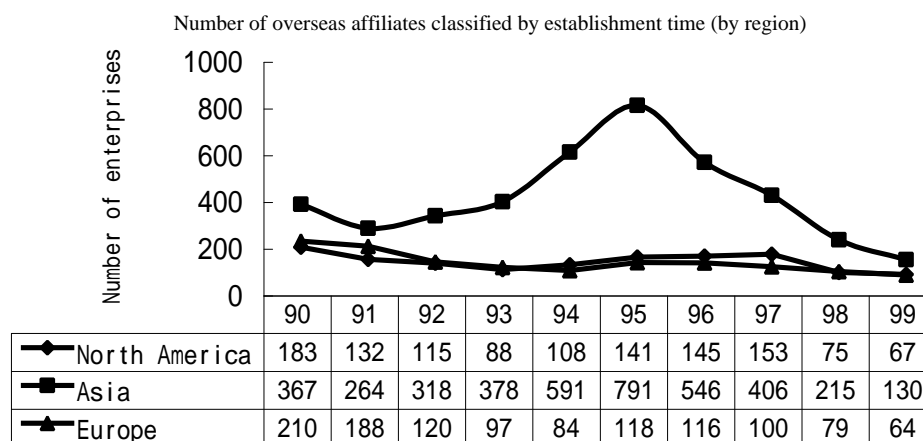
Note: Ratio of small and medium enterprises

= number of overseas affiliates newly established by small and medium enterprises

/ total number of newly established overseas affiliates × 100

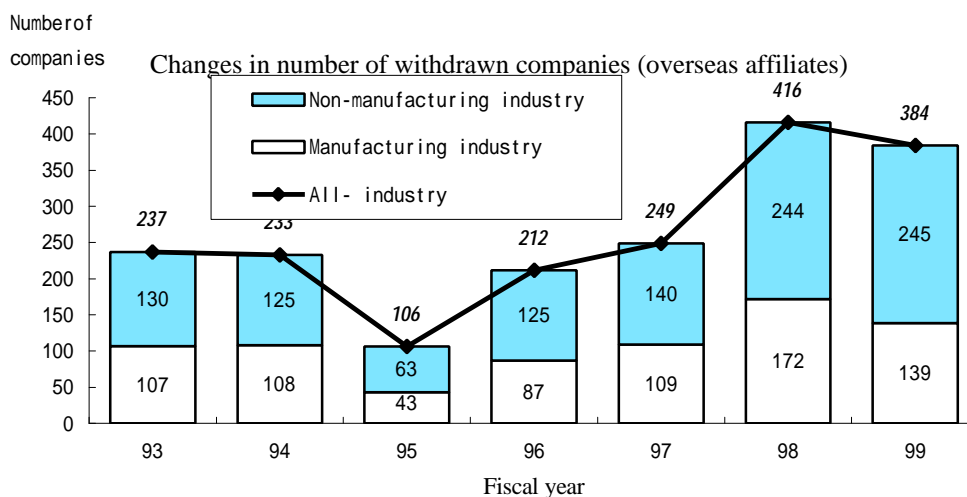
The above percentage was calculated by excluding enterprises reporting an invalid answer about c

- (3) A downward trend was shown in North America (drop by 8 to 67 compared to the previous year), in Asia (drop by 85 to 130 id.) and in Europe (drop by 15 to 64 id). Especially in Asia, a sharp decline started from 1995 for four consecutive years.

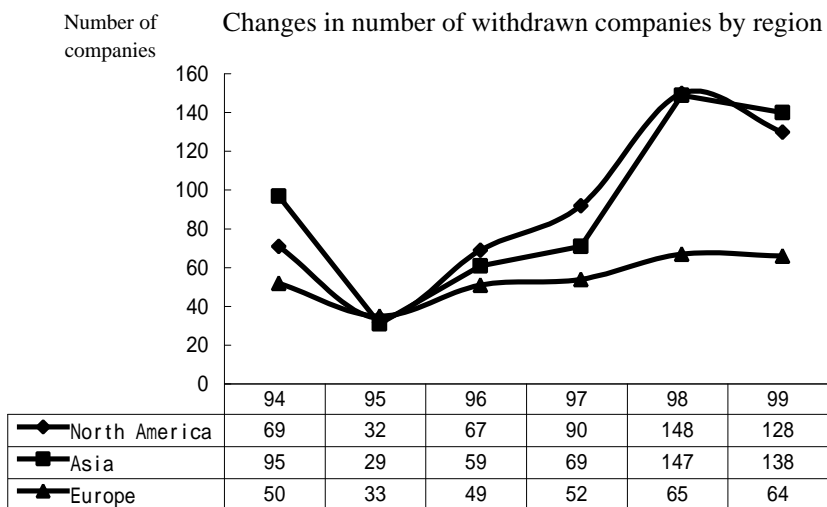


2. Withdrawal of overseas affiliates

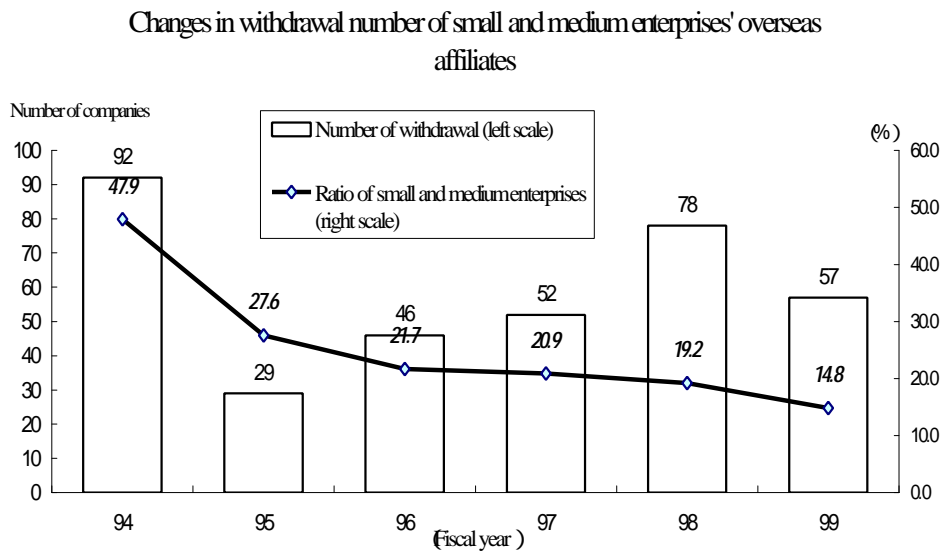
- (1) Although the number of overseas affiliates withdrawn from abroad in 1999 increased by 1 to 245, rather flattened, from the previous year in the non-manufacturing industries, 33 decreased to 139 in the manufacturing industries, which resulted in an overall decrease for the first time in four years. Withdrawal number decreased in each region, North America (drop 20 companies to 128), Asia (drop 9 to 138) and Europe (drop 1 to 64). Withdrawal ratio is 4.2% in North America, higher than other regions, and in Asia, 2.0%, lower than the average (2.8%) of overall regions.



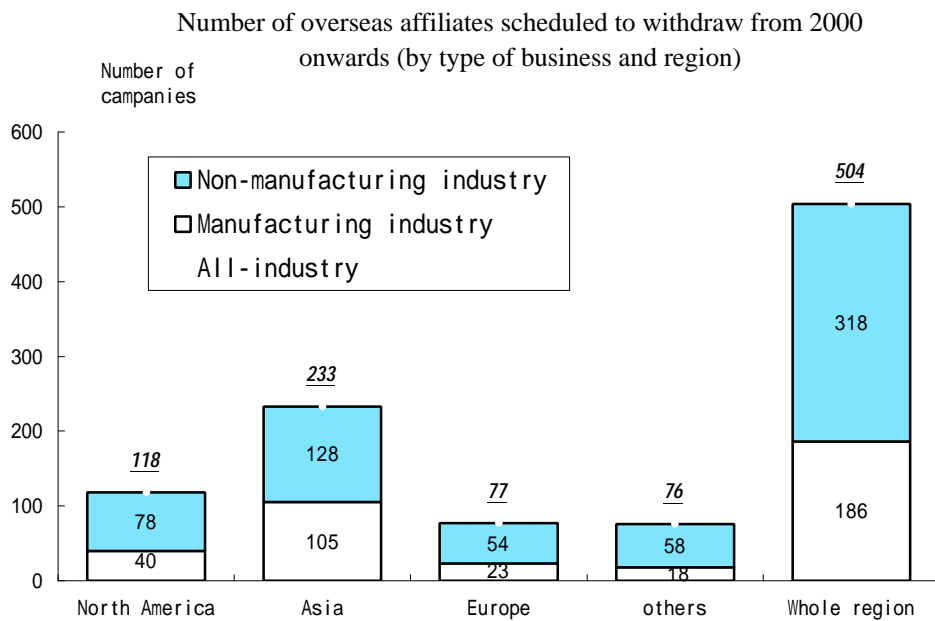
Notes: The number of withdrawn companies prior to 1995 partly includes



- (2) Reviewing by scale of parent company, the number of withdrawn small and medium enterprises' overseas affiliates is 57 (21 decrease compared to the previous year), and its ratio to whole withdrawn overseas affiliates is 14.8% (4.4 points decrease id.), which results in a decrease for the fifth consecutive year. That indicates that large enterprises are accelerating the movement of consolidation of overseas affiliates.



- (3) As a whole, “demand misreading” is the commonest reason for withdrawal. The characteristics of the reasons by regions were that in North America, “completion of short-term business target”, in China, “opposition to local partners”, in ASEAN4, “exchange fluctuations” and in NIEs3, “intensified competition” with local enterprises or companies of third powers are peculiar to each region. There are differences of the reasons for withdrawal or dormancy among each region.
- (4) The fact that 504 companies are scheduled to withdraw on and after the year 2000 accordingly indicates that consolidation of overseas production centers will continue especially in the non-manufacturing industries in future.

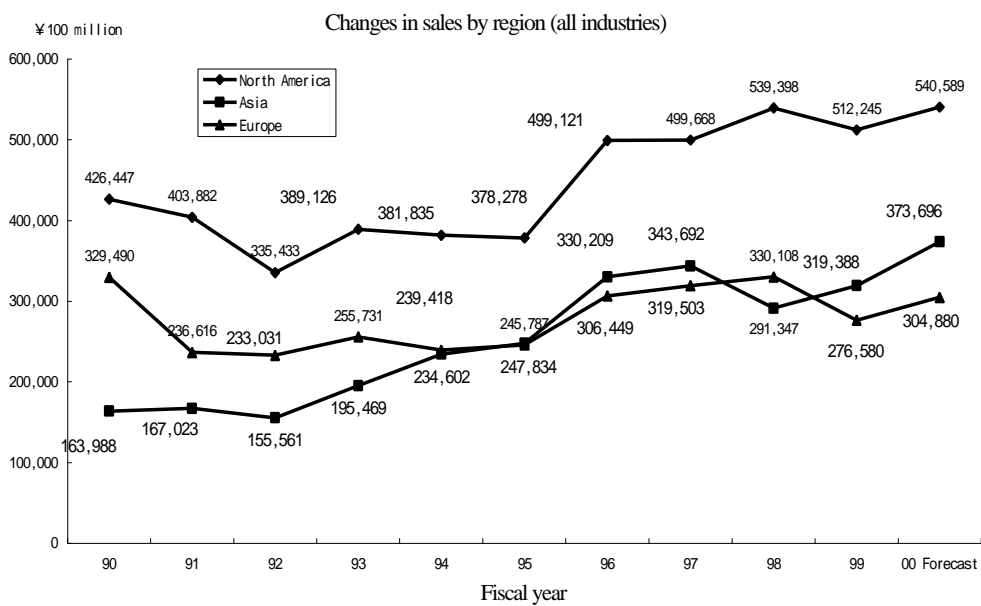
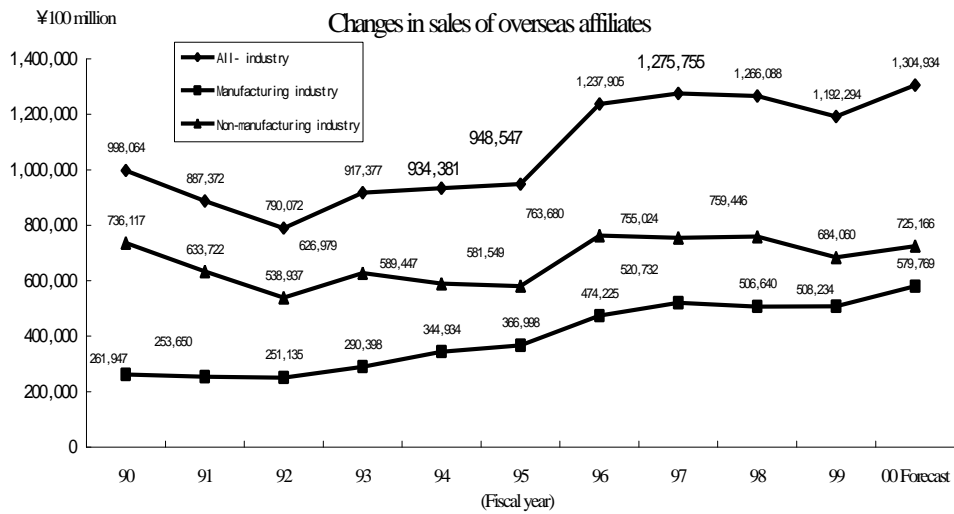


3. Business activities of overseas affiliates

(1) Sales amount

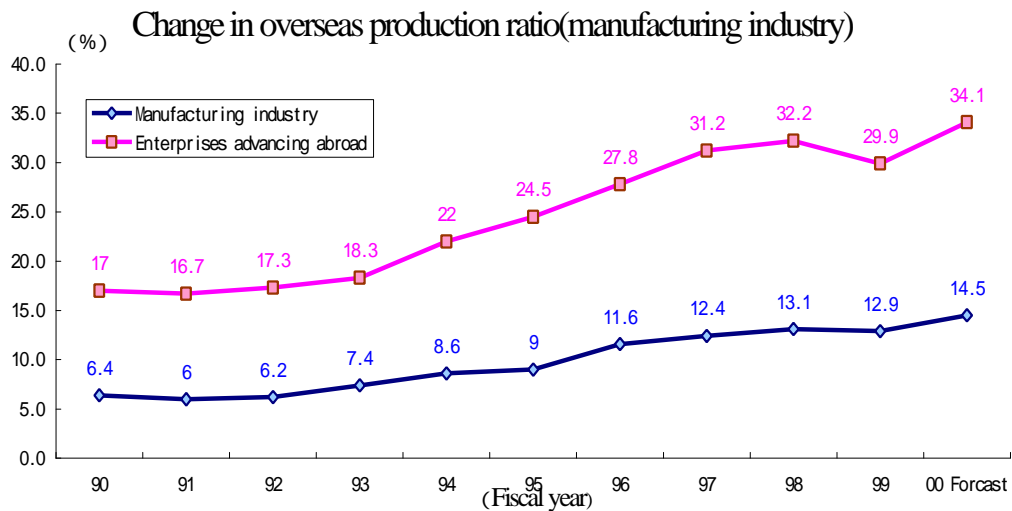
As for the sales amount of overseas affiliates in 1999, though the manufacturing industries increased by 0.3% to ¥ 50,823.4 billion from the previous year, the non-manufacturing industries decreased by 9.9% to ¥ 68,406 billion, which resulted in a 5.8% decrease to ¥ 119,229.4 billion in overall industries.

While both North America (¥ 51,224.5 billion, 5.0% decrease compared to the previous year), and Europe (¥ 27,658 billion, 16.2% decrease id.) decreased, Asia (¥ 31,938.8 billion, 9.6% increase id.) increased in both manufacturing and non-manufacturing industries.



As for the forecast of sales amount in 2000, both manufacturing industry (14.1%, id.) and the non-manufacturing industry (6.0%, id.) are expected to increase, which will result in a 9.4% increase in overall industries. Prospects for each region are North America (5.5%), Asia (17.0%) and Europe (10.2%).

Overseas production ratio (manufacturing industry) was 12.9% (0.2 points decrease from the previous year). Reviewing by industrial sectors, 30.6% for transportation equipment and 21.4% for electrical machinery. According to the prospect of FY2000, it is expected to rise up to 14.5%.



Notes: Overseas production ratio = sales amount of overseas affiliates / sales amount of domestic corporations ×100

Overseas production ratio concerning parent companies = sales amount of overseas

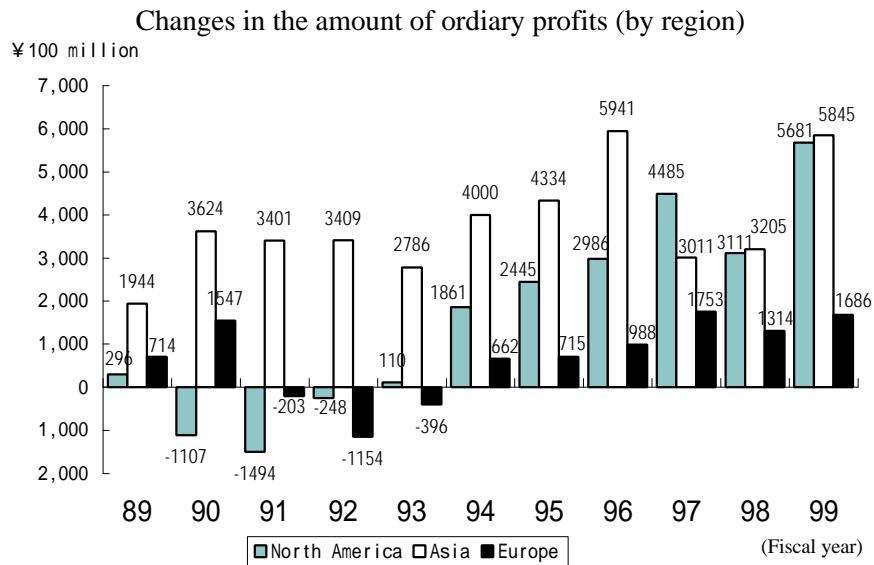
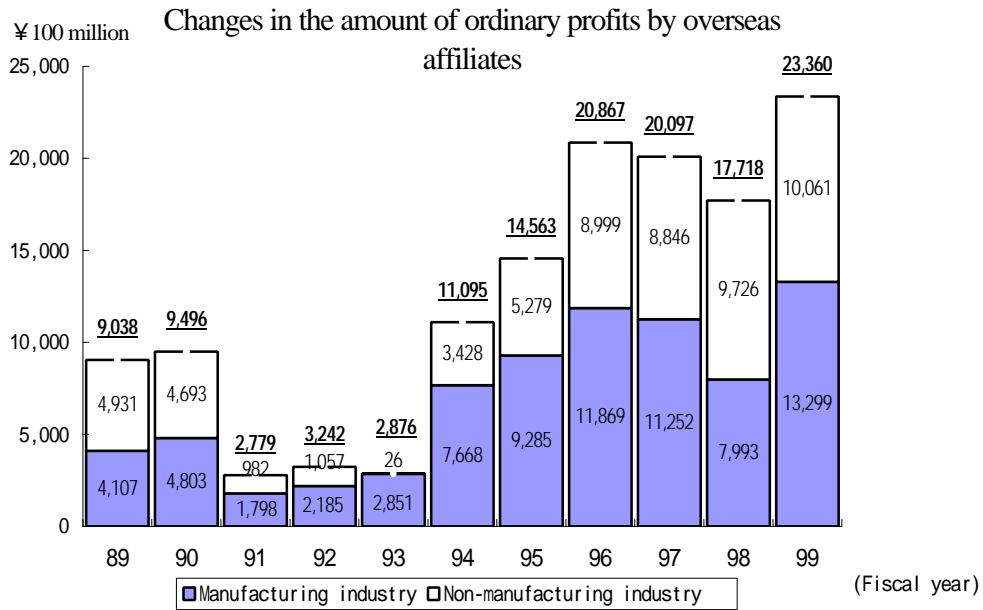
Source: Domestic corporation : Financial Statements Statistics of Corporations by Industry (The Ministry of Finance)

(2) Revenue

As for the amount of the ordinary profits of overseas affiliates in FY1999, the manufacturing industries (¥1,329.9 billion) increased by 66.4%, and the non-manufacturing industries (¥1,006.1 billion) by 3.4% from the previous year, which led to 31.8% growth to ¥2,336 billion in the overall industries.

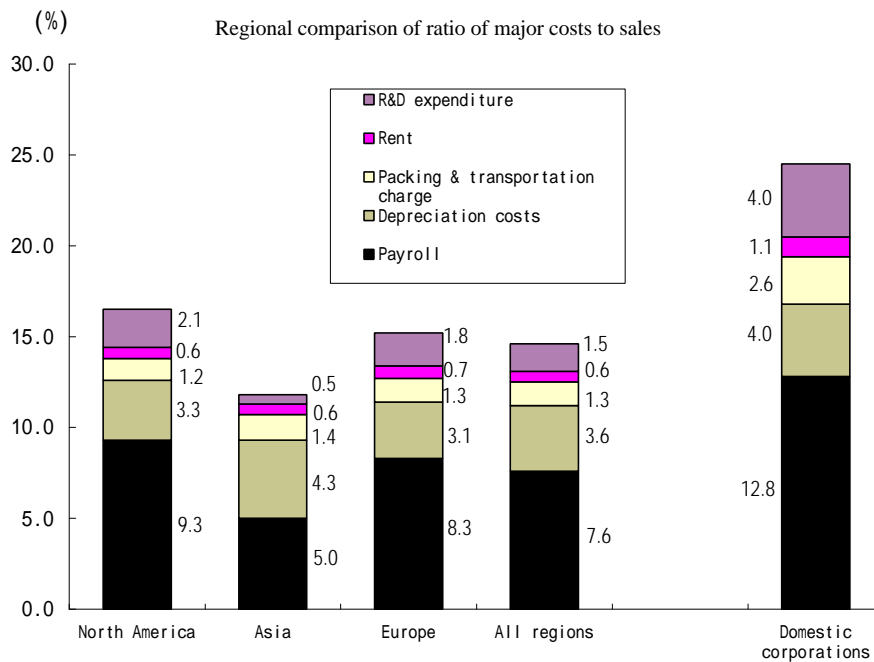
With regard to the manufacturing industries by regional classification, whole Europe, the U.S. and Asia increased. Rapid recovery of North America (¥568.1 billion, 82.6% up) and Asia (¥584.5 billion, 82.4% up), which has seen stagnant from 1997 through 1998, contributed to the increase. China (776.4% up), South Korea (144.4% up) and Malaysia (165.9% up) all showed an increase, which contributed to Asia's increase.

Likewise, with regard to the ordinary profit ratio of sales, Asia (4.0%), North America (3.3%) and Europe (2.2%) all increased compared to the previous year. All regions' 3.2%, which recovered from 1.9% in the previous year, exceeds the level of domestic corporations (2.9%, manufacturing industry).



(3) Cost and profit -appropriation

With regard to the sales cost ratio of overseas affiliates in manufacturing industry, there is the most significant difference in the ratio of payroll from domestic corporations. (5.2 points below domestic corporations). Especially in Asia, about 40% of domestic corporations. Second significant difference is in the R&D expenses (2.5 points below domestic corporations). Even North America, the highest of all the regions, is about the half of domestic corporations, which indicates that domestic corporations are still the center of R&D activities.



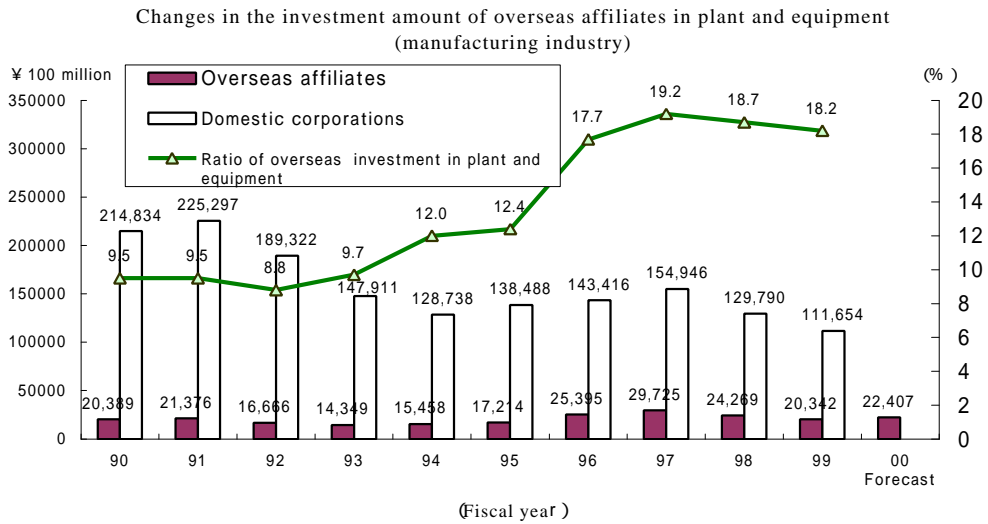
Note: The ratio of R&D expenses to sales in domestic corporations is calculated based on the sales of corporations that reported R&D corporations that reported R&D expenses.

Source: Domestic corporation : Prompt Report of Basic Survey of Business Activities in 2000 (Results of FY1999)
(The Ministry of Economic, Trade and Industry)

The amount of internal reserve of this term sharply increased to ¥721.8 billion from the previous year. Besides growth in North America (25.3% up from the previous year) and Europe (109.6% up, id.), Asia drastically increased, which drew on the internal reserve in the previous year.

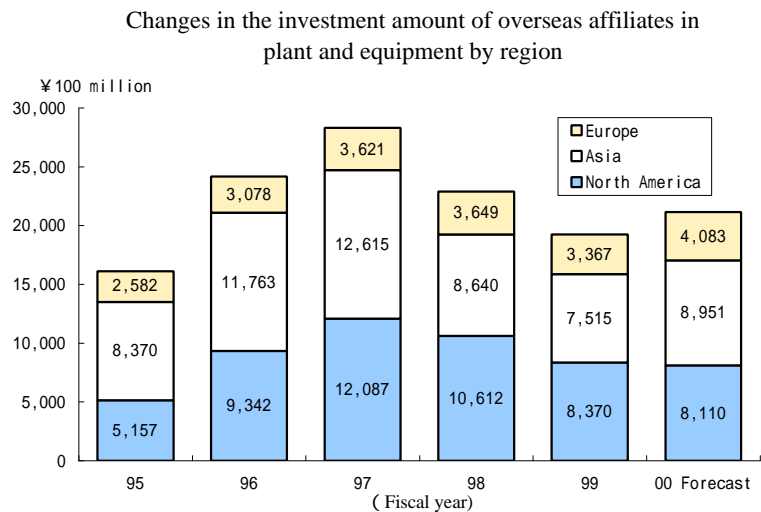
(4) Investment in plant and equipment

The amount of investment in plant and equipment of overseas affiliates in the manufacturing industry in 1999 (¥2,034.2 billion) fell by 16.2% from the previous year, a decrease for the second consecutive year. The ratio of overseas investment in plant and equipment was 18.2%, a decrease by 0.5 points.



Notes: Ratio of overseas investment in plant and equipment
 = Investment amount of overseas affiliates in plant and equipment
 / Investment amount of domestic corporations in plant and equipment × 100

The characteristics of the trends by regions were that North America (¥837 billion, 21.1% decrease compared to the previous year) and Asia (¥751.5 billion, 13.0% decrease id.) decreased for the second consecutive year, Europe (¥336.7 billion, 7.7% decrease id.) also decreased for the first time in five years.

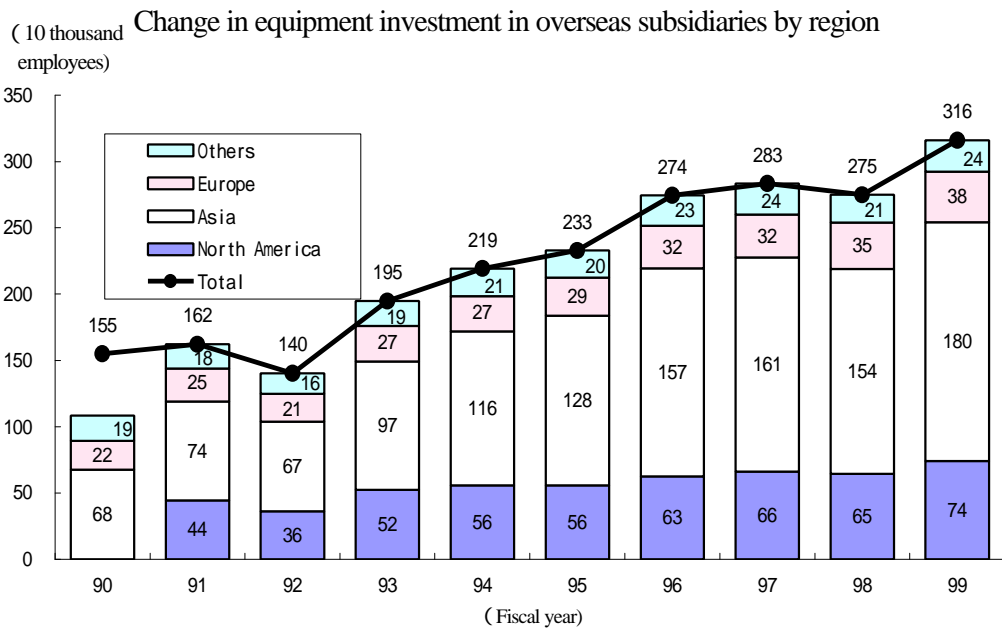


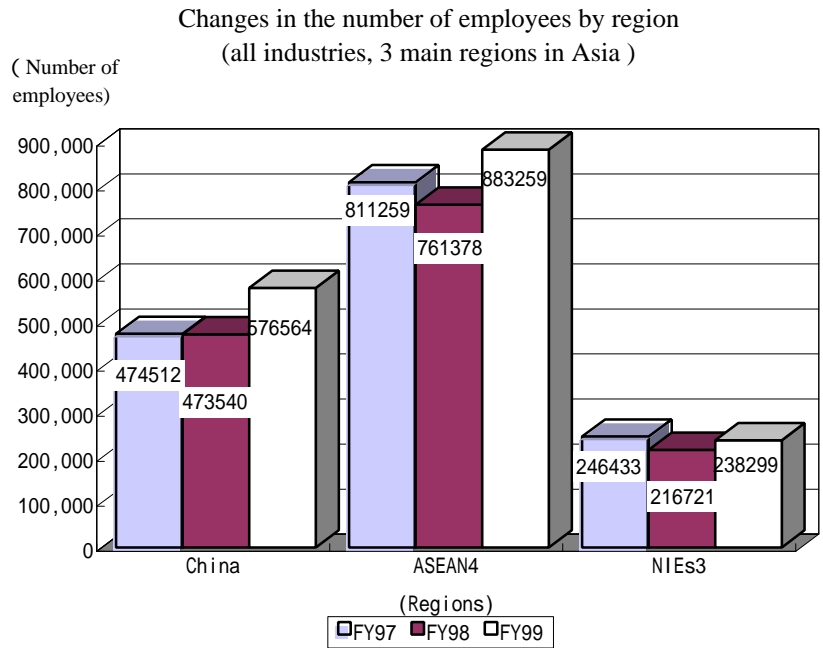
According to the forecast of investment, in 2000, despite North America's decrease, Asia and Europe are expected to increase, which will result in ¥ 2,240.7 billion in overall regions, 10.2% increase compared to the previous year.

(5) Employment

As for the number of employees in overseas affiliates in FY1999, both manufacturing industry (2.58 million, 16.1% increase compared to the previous year) and non-manufacturing industry (580,000, 10.2% increase id.) increased by two digits, which resulted in the overall industries' increase (3.16 million, 15.0% up). That is a turnover from the previous year's decline.

Reviewing by regions, North America (14.8% up id.), Asia (16.7% id.) and Europe (8.6% id.) all increased. Especially in Asia, accounting for about 60% of the total number, China, ASEAN4 and NIEs3, which showed decline in FY1998, all turned to increase.





(6) Business strategies and administration for overseas business activities (according to the results from this survey)

As for the production functions in overseas affiliates, 45.8% carry out an integrated production, while 31.8% division of Japanese manufacturing process. According to the future prospect, the level of technology in all regions is expected to improve to or above the same as domestic companies'.

The tendency of the average R&D expenses per overseas affiliate is ¥ 123 million, taking an upward trend. Europe (¥ 241 million) and North America (¥ 371 million yen), in particular, exceed Asia (¥ 21 million).

Reviewing the managerial planning in the future, about 60% of overseas affiliates replied that they would expand business in the existing business area, while a little more than 5% would diversify the business.

4. Sales/procurement activities of overseas affiliates and trade with Japan

(1) Sales/procurement activities in the manufacturing industry

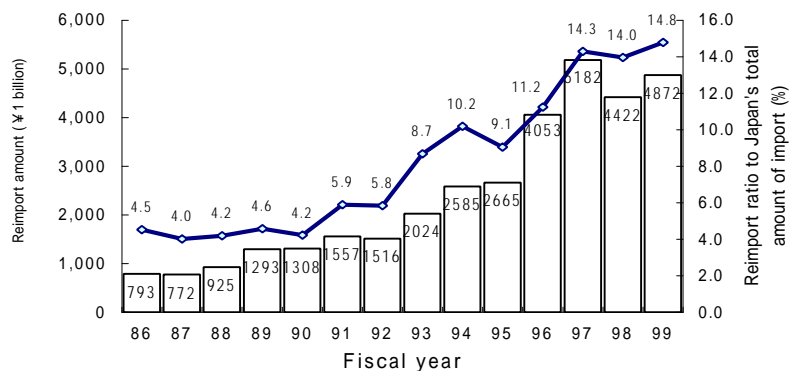
Reviewing the sales activities in 1999 by regions, Europe and the North America have still taken the trend of only for local consumption. On the other hand, Asia's export to Japan increased up to about five times of that in ten years before, whose share of the overall sales also increased by nearly 8 points, that indicates the ratio of sales to Japan increased.

As for the procurement of intermediate goods, the ratio of procurement in the local areas or in the same regions is more than 50% in each region. It increased in North America and in Asia, while it was rather flattened in Europe, each compared to that in ten years before. The ratio of procurement from Japan decreased in each region, compared to that in 10 years before.

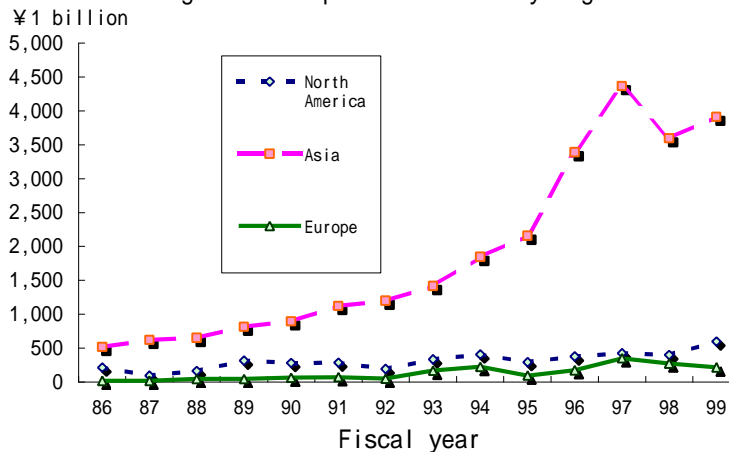
(2) Trade with Japan

Although the export from overseas affiliates in the manufacturing industry to Japan (reimport), whose tendency has been taking an upward trend since 1993, dropped in 1998, it began to increase again in FY1999. Its ratio to Japan's total amount of import (14.8%) has also increased, three times higher than that in 10 years before, which indicates a shift of producing functions to overseas bases. More than 80% of reimport was from Asia.

Changes in reimport ratio to Japan's total amount of import

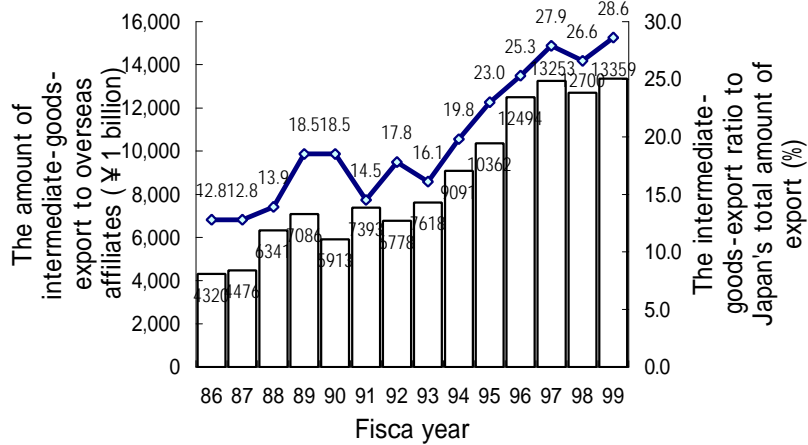


Changes in reimport amount of by region



The amount of intermediate-goods-export to overseas affiliates in the manufacturing industry in 1999 (¥ 13,359.4 billion) increased by 5.4% from the previous year, and the ratio accounting for the total amount of export (28.6%) was the highest after 1986. The exporting amount to North America, Asia and Europe all increased from the previous year.

The amount of intermediate-goods-export and changes in export ratio to Japan's total amount of export



Changes in the amount of intermediate-goods-export (by region)

