

## Summary of the 31<sup>st</sup> Survey of Overseas Business Activities

May 17, 2002

### **Fiscal 2000 – Trends of overseas affiliates**

Overseas affiliates are experiencing an increase in revenue and profits, as well as in overseas production ratios. The decrease in the number of newly established overseas affiliates and the increase in the number of overseas affiliates withdrawing due to restructuring and intensifying of overseas offices, shows the concentration of business resources and the evolution of the survival of the fittest structure now facing Japanese firms in respect to their activities abroad.

#### **Main findings**

##### **1. Overseas production ratio at record level. Still maintaining an upward trend.**

The overseas production ratio for the manufacturing industry reached a record level of 13.4%. The overseas production ratio based on firms with overseas affiliates is 32.0%, and the upward trend since the 1990's is still continuing.

##### **2. The number of overseas affiliates withdrawing significantly exceeded the number of newly established.**

There were 367 newly established and new entrant overseas affiliates. This figure has declined for 5 consecutive years and was 42 fewer than that of the previous year. On the other hand, overseas affiliates withdrawing from overseas numbered 696, which was an increase of 312. The increase is seen in both the manufacturing and non-manufacturing industries. The figure increased in the Northern America, Asian and European regions.

The number of overseas affiliates withdrawing from overseas activities exceeded the number of new establishments and new entrants, which shows the advance in restructuring and intensification of overseas affiliates as overseas business hubs.

##### **3. Sales and profits at record levels. Current profits at ¥3 trillion for the first time.**

The sales of overseas affiliates increased for both the manufacturing and non-manufacturing industries. The increase was 8.2% above the previous year. The major classifications such as the electric machinery and transportation machinery contributed to the increase. The figures increased in North America and Asia, while they declined in Europe.

Current profits were recorded at ¥3.1 trillion. The manufacturing industry, represented by electric machinery and transportation machinery, and the non-manufacturing industry both recorded over ¥1 trillion. They increased in North America and Asia. The increase in China was significant.

Net income after tax and distributed income has increased for 3 consecutive years.

##### **4. Employment achieves double-digit growth for the second consecutive year in Asia.**

The number of employees in overseas affiliates is 3.45 million (ASEAN4 1 mil., North America 0.78 mil., China 0.66 mil., Europe 0.4 mil.) and has increased for two consecutive years, an increase of 9.2% compared to the previous year.

Asia has shown a double digit growth for the second consecutive year.

##### **5. Ratio of sales and procurement for manufacturing industries within the Asian region.**

The ratio of sales and procurement within the Asian region has increased 5.5 points and 8.8 points respectively compared to the ratios ten years ago. This shows that the division of labor and technology is improving.

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 Survey]**

### **1. Purpose of the survey**

The purpose of the basic survey on overseas business activities is to gain basic materials to plan, draft and execute various measures by clarifying the actual conditions of overseas activities conducted by Japanese firms.

### **2. Subject of the survey**

All Japanese firms which have affiliates abroad as of the end of March 2001, are subject to this survey. (Hereinafter referred to as "head firms." Excludes financial, insurance and real estate businesses.)

In this survey, foreign subsidiaries are defined as those foreign firms in which the Japanese company's portion of ownership is 10% or more. Foreign sub-subsidiaries are firms in which the foreign subsidiary, of which the Japanese company owns the majority (over 50%), owns the majority. Foreign subsidiaries and foreign sub-subsidiaries will be referred to as "overseas affiliates."

### **3. Method of the survey**

Mail survey based on self-declarations on the survey form distributed to the head firms (survey forms concerning the head firm and the overseas affiliates).

### **4. Timing of the survey**

The survey was executed on June 1, 2001, based on the actual results for the fiscal year ending March 31, 2001 or the nearest closing date for fiscal 2000 or the year end of fiscal 2000.

### **5. Collection**

Response rate	62.9%		
Number of firms giving effective replies		Head firms	2,039 firms
		Overseas affiliates	14,991 firms

## **[Notes:]**

### **1. Conversion**

The currency unit is ¥1 million in principle.

Compared to the conversion rate of the previous fiscal year, most of the conversion rates have moved in favor of the yen for local currencies of the overseas affiliates subjected to this survey. (e.g., for the U.S. ¥107.77/US\$, previous year ¥113.91/US\$, a 5.4% increase compared to the previous year).

### **2. Definition of regions**

When there are no specifications, NIE<sub>3</sub> indicates the region consisting of Singapore, Taiwan and Korea. ASEAN<sub>4</sub> consists of Malaysia, Thailand, Indonesia and the Philippines. The aggregation for China will include Hong Kong. Nations may include regions.

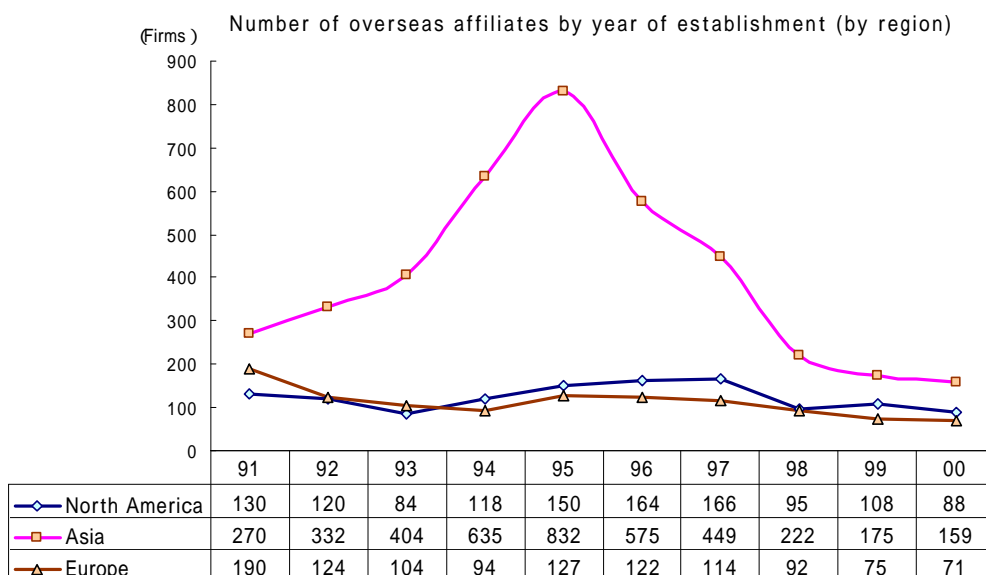
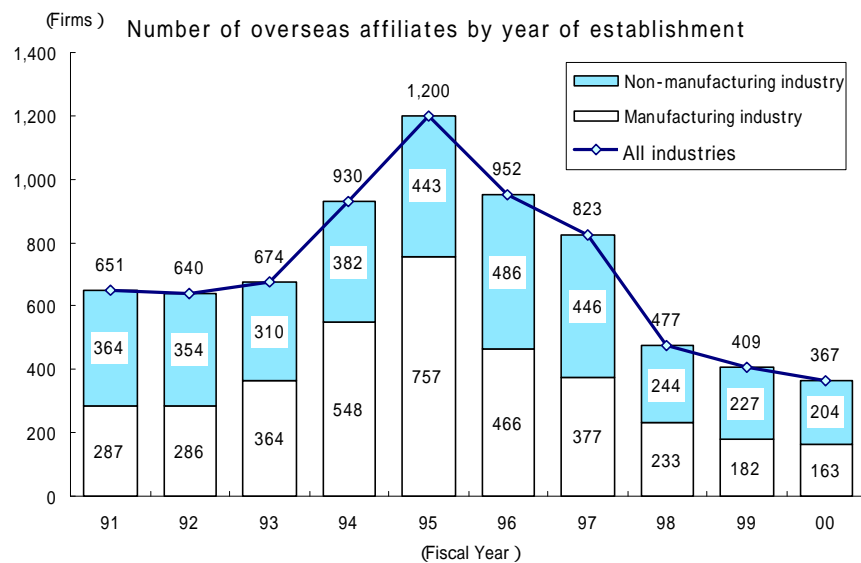
### **3. Considerations about the results of the survey**

(1) For each entry, only the effective replies will only be subject to aggregation. Therefore, the number of firms may vary according to each entry.

(2) When comparing the results of this survey to the previous survey, consideration should be given to the response rate and the number of firms subject to the survey.

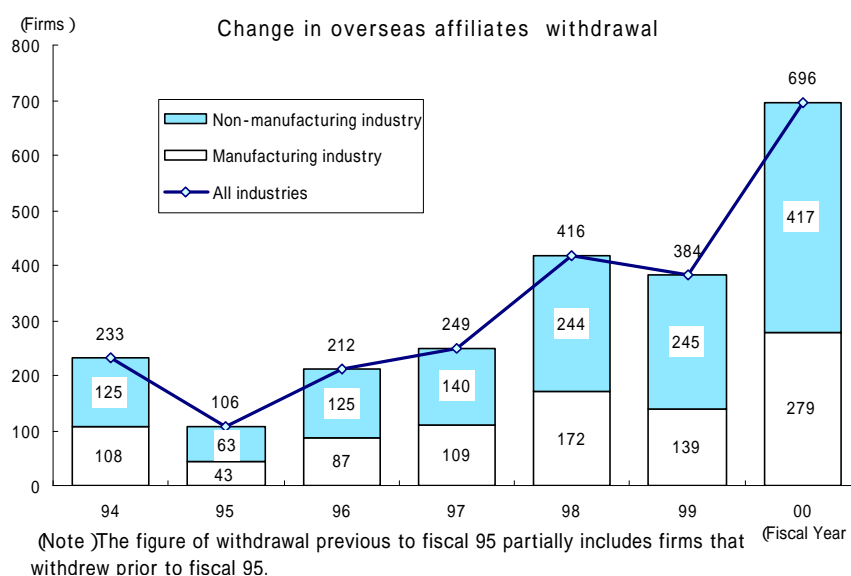
## 1. Overseas extension such as the establishment of overseas affiliates

- There were 367 newly established and new entrant overseas affiliates. This is a decrease of 42 firms compared to the previous year, and a decline for five consecutive years. It consists of 163 firms (minus 19 firms) in the manufacturing industry and 204 firms (minus 23 firms) in the non-manufacturing industry, with both showing a decline.
- The trend tends to vary by business type. While chemical and commerce have showed a downward trend, service, electric machinery, and transportation machinery have showed an upward trend.
- Region wise, while North America 88 firms (minus 20 firms compared to the previous period), Asia 159 firms (minus 16 firms) and Europe 71 firms (minus 4 firms) showed a decline, China 67 firms (plus 3 firms) showed a slight increase.

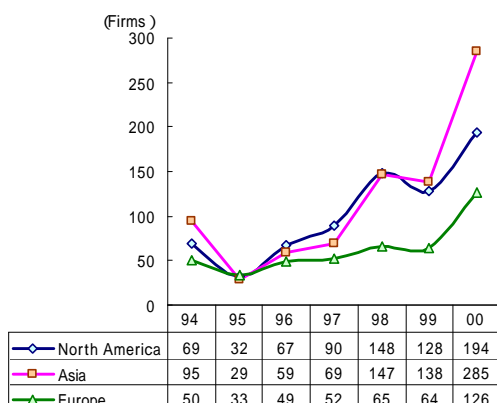


## 2. Withdrawal of overseas affiliates

- The number of firms that withdrew<sup>1</sup> from overseas was 696, which is 312 more firms than that of the previous year, when 279 firms were from the manufacturing industry (plus 140 firms) and 417 firms were from the non-manufacturing industry (plus 172 firms), and both industries showed an increase.
- The electric machinery of the manufacturing industry (64 firms), and commerce, (157 firms) including trading companies, in the non-manufacturing industry, showed the highest figures.
- Regionally, all three regions showed an increase. North America 194 firms (66 firms more than the previous year), Asia 285 firms (plus 147 firms), and Europe 126 firms (plus 162 firms). The ratio of withdrawal<sup>2</sup> showed higher figures in North America compared to other regions and the ratio is below average in Asia.
- The major reasons given for withdrawal or being dormant are the “termination of short-term business objectives” in North America, “conflict between local partners” in China, and “severe competition with local firms” in Europe.



Change in overseas affiliates withdrawal by region



Number of overseas affiliates that withdrew, fiscal 2000 (by region)

(Unit : Firm, %)

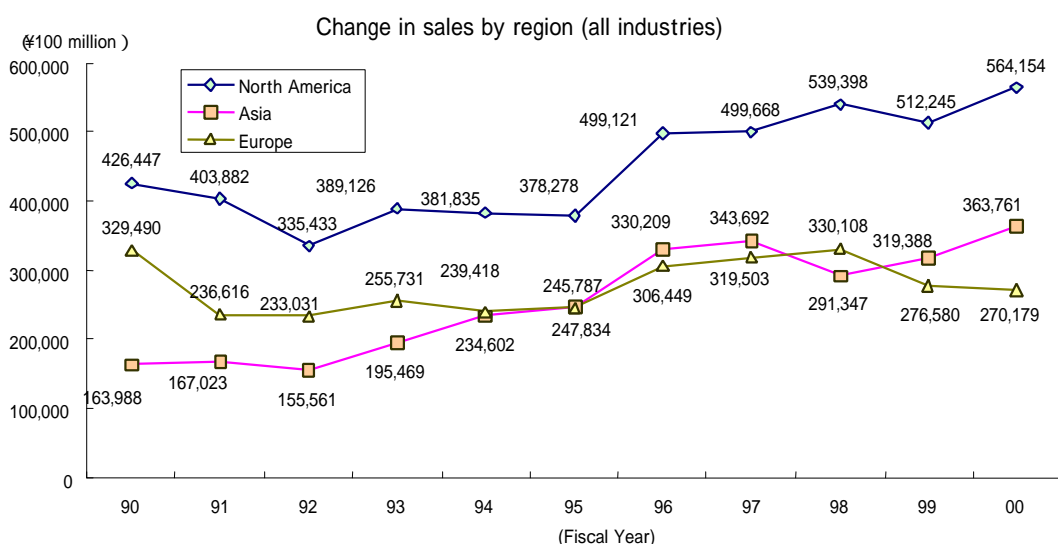
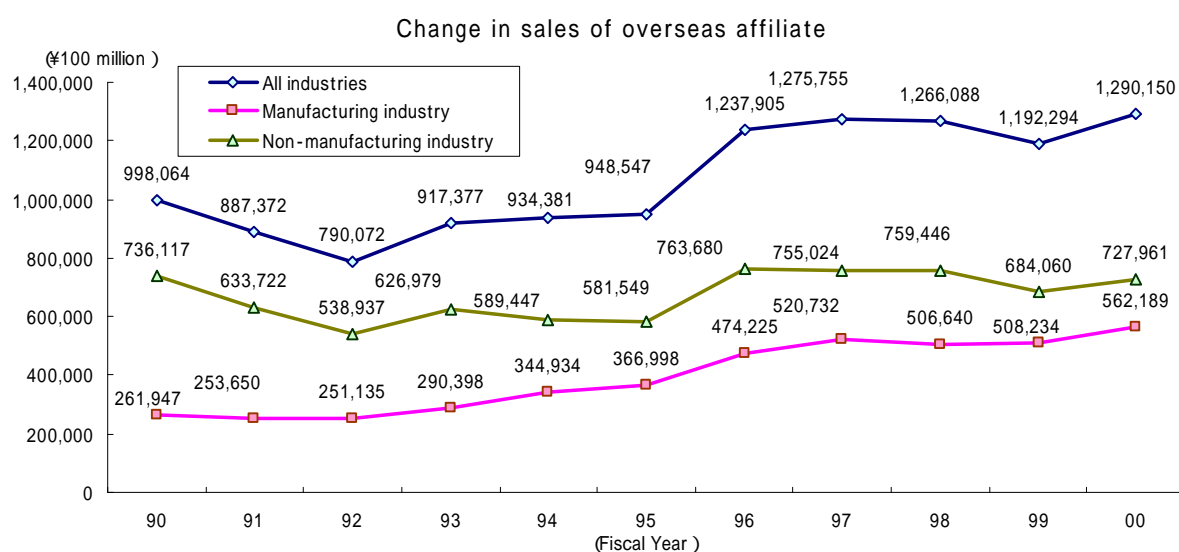
	Manufacturing industry		Non-manufacturing industry		All industries	
	Number withdrawn	Ratio of withdrawal	Number withdrawn	Ratio of withdrawal	Number withdrawn	Ratio of withdrawal
North America	81	5.5	113	6.2	194	5.9
Asia	138	3.1	147	5.3	285	3.9
China	49	3.2	61	6.2	110	4.3
ASEAN4	28	1.7	41	5.2	69	2.8
NIEs3	40	3.8	47	5.4	87	4.6
Europe	39	3.9	87	5.2	126	4.7
All regions	279	3.7	417	5.5	696	4.6

<sup>1</sup> Withdrew = Includes “liquidation (includes dissolution and insolvency)” and “decline in equity position (the equity position of Japan became within 0% to below 10%)”.

<sup>2</sup> Ratio of withdrawal = (Number of overseas affiliates that withdrew in fiscal 2000) / (Total number of overseas affiliates subject to survey in fiscal 2000) x 100

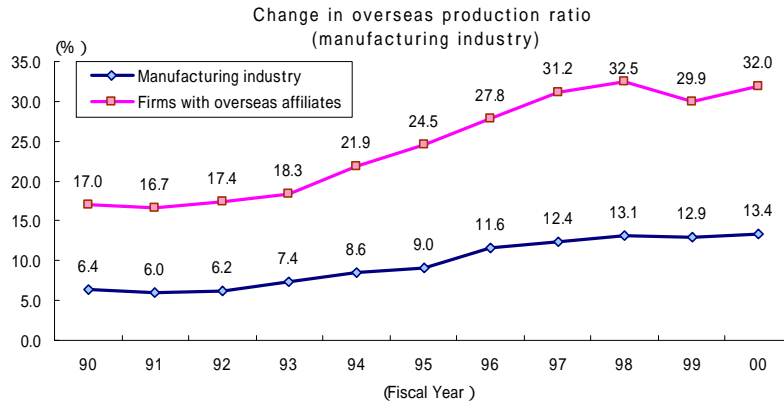
### 3. Sales

- The sales of overseas affiliates reported a 8.2% increase over the previous year which was ¥129.0 trillion for all industries. The sales increased in both the manufacturing industries, ¥56.2 trillion (plus 10.6% over the previous year) and the non-manufacturing industries, ¥72.8 trillion (plus 6.4%).
- The value increased in North America to ¥56.4 trillion (plus 10.1% over the previous year) and, Asia to ¥36.4 trillion (plus 13.9%), while there was a slight decrease in Europe to ¥27.0 trillion (minus 2.3%).
- As for the manufacturing industry, sales increased in all three regions, especially in Asia.
- The overseas production ratio<sup>3</sup> for the manufacturing industry showed a record level of 13.4% (a 0.5 point increase over the previous year).



<sup>3</sup> Overseas production ratio = overseas affiliates (manufacturing industry) sales/sales of total domestic firms (manufacturing industry) x 100

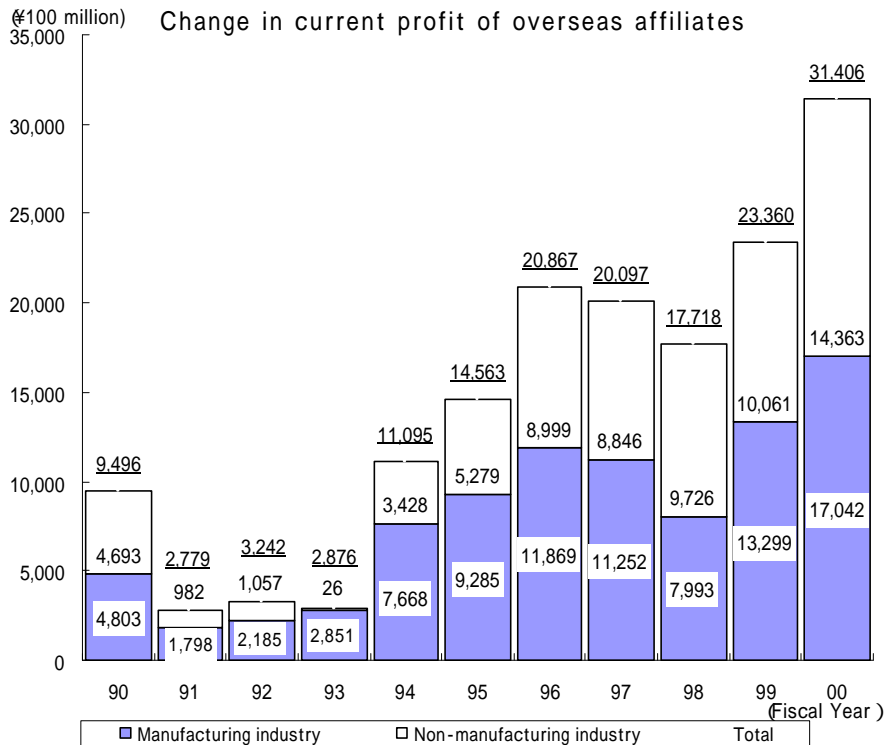
Overseas affiliates: Sales of overseas affiliates subject to this survey  
 Domestic firms : Corporate statistics (MOF)



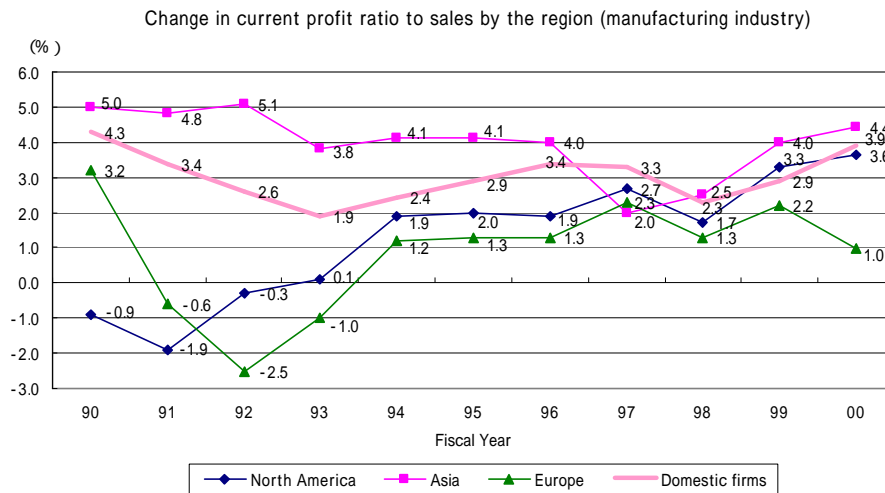
Note: Overseas production ratio based on firms with overseas affiliates  
= Sales of overseas affiliates / Sales of head firms x 100  
Overseas affiliates: Sales of overseas affiliates based on this survey  
Head firms: Sales of head firms based on this survey  
Overseas production ratio = Sales of overseas affiliates / Sales of all domestic firms x 100  
Overseas affiliates: Sales of overseas affiliates based on this survey  
All domestic firms: Corporate statistics (MOF)

#### 4. Profit

- Current profit of overseas affiliates reached a record level of ¥3.1 trillion (a 34.4% increase compared to the previous year). As for the manufacturing and non-manufacturing industries, the current profit increased to ¥1.7 trillion (plus 28.2%) and to ¥1.4 trillion (plus 42.8%) respectively.
- Regionally, the current profit for the manufacturing industry increased in North America and Asia, while it decreased in Europe. Among Asian nations, the growth in China was significant.
- The current profit ratio to the sales value<sup>4</sup> shows an increasing trend in North America and Asia, while a downward trend may be seen in Europe. The growth in Asia exceeded that of domestic firms.



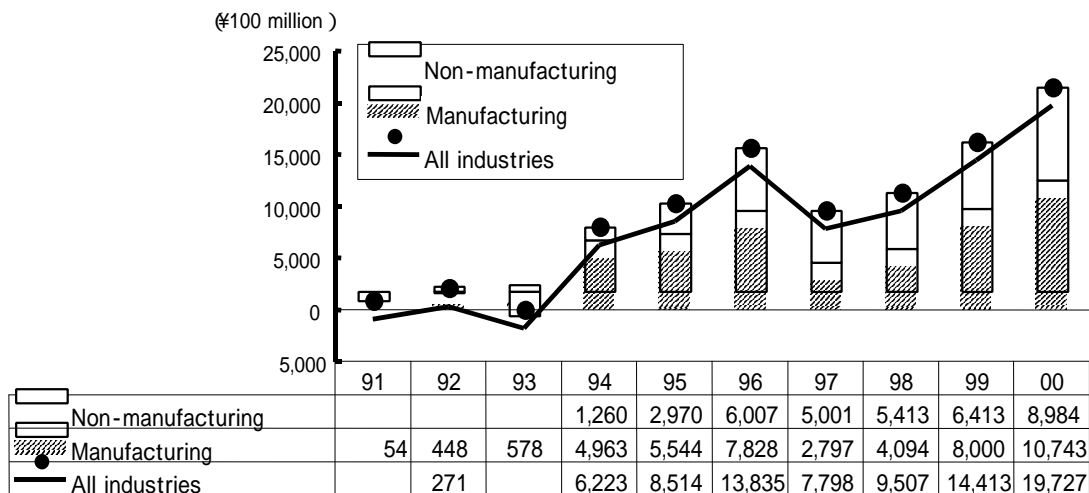
<sup>4</sup> Current profit/sales value x 100 (current profit and sales value were estimated from the overseas affiliates with replies to both items.)



## 5. Profit appropriation

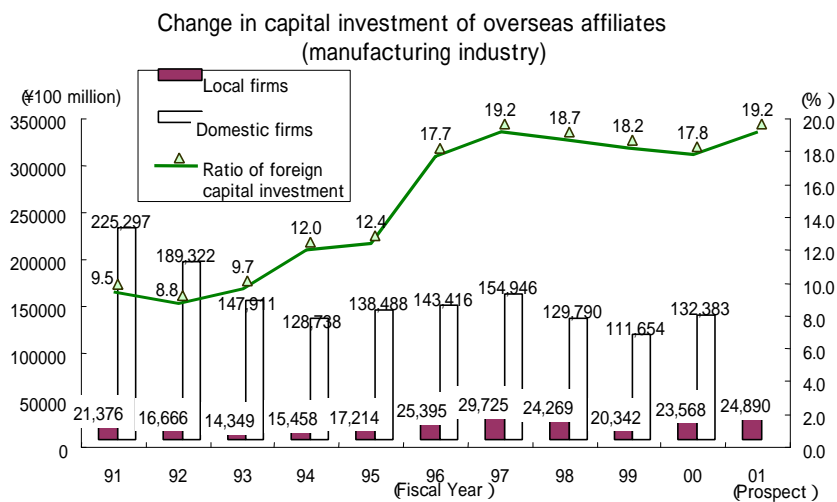
- The net income after tax for overseas affiliates was ¥1.9727 trillion, a 36.9% increase over the previous year, showing an increase for three consecutive years.
- Regionally, there was an increase in North America and in Asia, while figures were in the red in Europe for the first time in six years.
- Distributed income was ¥1.1 trillion, a 52.0% increase over the previous year, and this has increased for three consecutive years. The breakdown for the manufacturing and non-manufacturing industries was ¥0.5 trillion and ¥0.6 trillion respectively. The increase in commerce and services, etc. of the non-manufacturing industry was significant.

Change in net income after tax

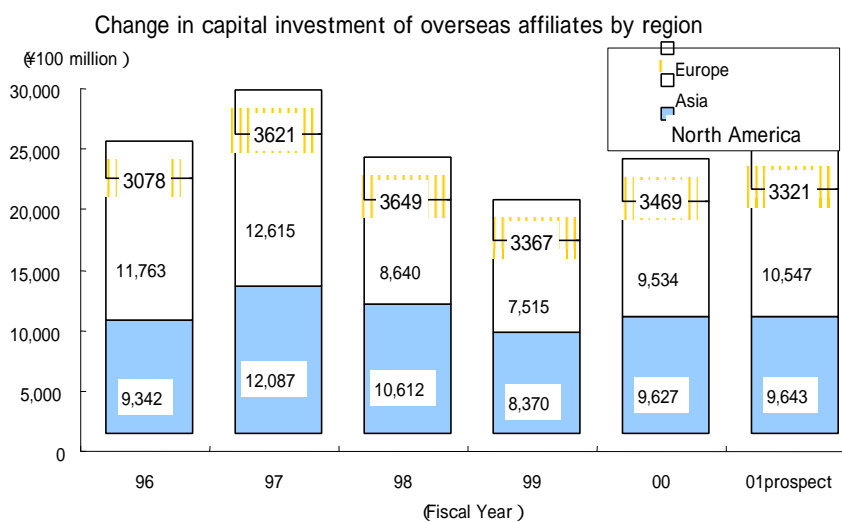


## 6. Capital investment

- The capital investment amount for overseas affiliates in the manufacturing industry was ¥2.4 trillion, a 15.9% increase over the previous year, and an increase for the first time in three years. The overseas capital investment ratio<sup>5</sup> was 17.8%, a 0.4 point decline compared with the previous year.
- Capital investment showed an increase in North America, Asia as well as in Europe. China made a significant contribution to the increase in Asia.
- In the 2001 forecast, although capital investment will decrease in Europe, it will increase in Asia and maintain its current level in North America. The total should be around ¥2.5 trillion, a 5.6% increase compared with the previous year. Furthermore, the overseas capital investment ratio is assumed to have increased to around 19.2%, a 1.4 point increase over the previous year.



(Note) Overseas capital investment ratio = Capital investment of overseas affiliates / Capital investment of domestic firm x 100  
 For the capital investment of domestic firms concerning the fiscal 2001 ratio of overseas affiliates capital investment, an extended estimation was made by multiplying the actual capital investment in the manufacturing industry for fiscal 2000 given in the "Annual report on corporate statistics" with the percentage change of the total sum of capital investment in the manufacturing industry from the previous year calculated for the periods of April - June and Oct. - Dec. 2001 given in the "Quarterly report on corporate statistics."

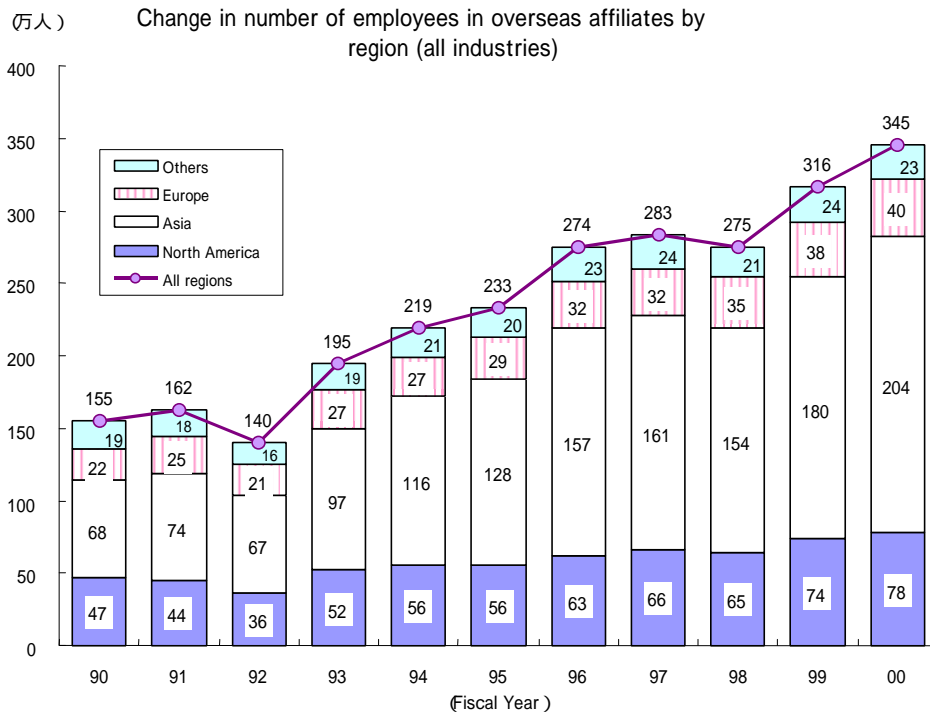


<sup>5</sup> Overseas capital investment ratio  
 = Capital investment amount of overseas affiliates / Capital investment amount of domestic firms x 100  
 Domestic firms Source : Corporate statistics (MOF)

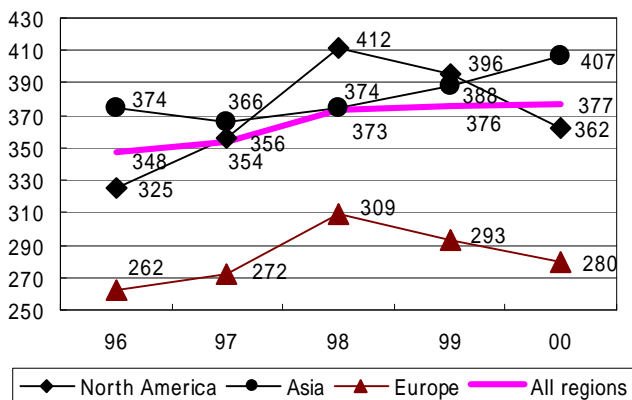


## 7. Employment

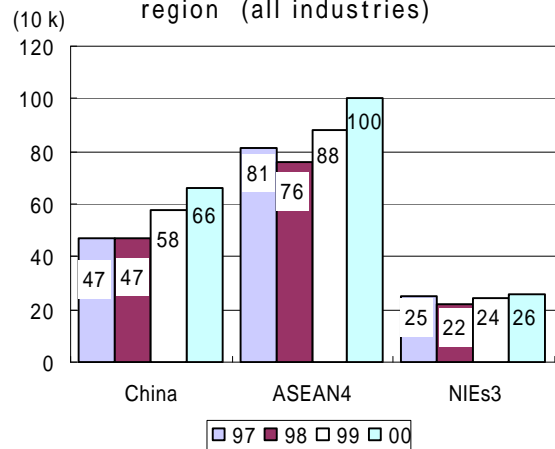
- The number of employees in overseas affiliates has increased for two consecutive years, reaching 3.45 million, a 9.2% increase over the previous year. The number of employees is 2.81 million (plus 8.8%) and 0.65 million (plus 11.4%) for the manufacturing and non-manufacturing industries respectively.
- The number of employees increased in North America, Asia and in Europe. Asia has maintained double digit growth for two consecutive years and increased not only in China but also in ASEAN4 and in NIEs3.
- The number of employees per firm in the manufacturing industry is tending to increase in Asia, although North America and Europe peaked in 1998 and the number of employees is currently declining.



Number of employees per overseas affiliates (persons) by region (manufacturing industry)



Number of employees in Asia by region (all industries)



## 8. Corporate strategy and business management for overseas activities.

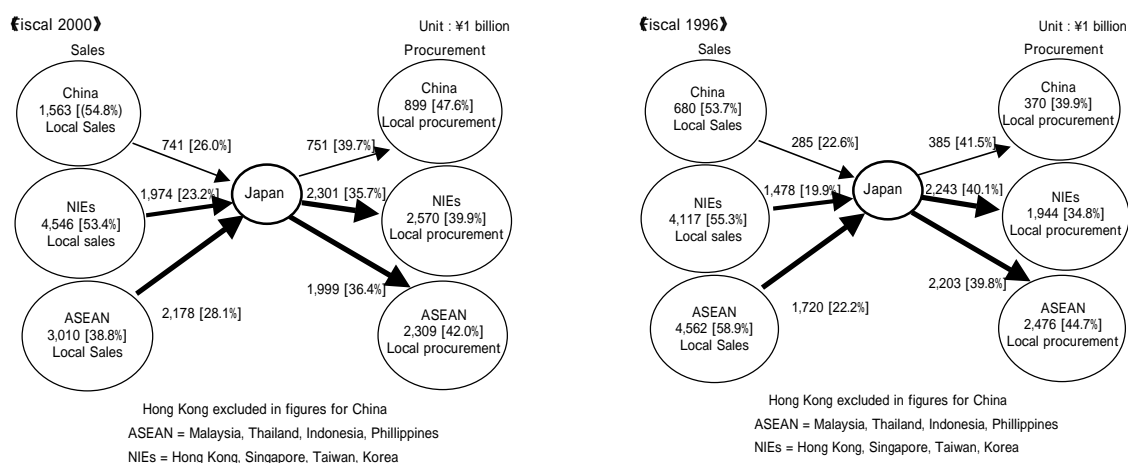
- As for production functions, 45.4% of the overseas affiliates execute integrated process production, while 31.6% execute process division production with Japan.
- Future prospects are that the technology will improve to a level comparable to that of Japan.
- The average research and development costs for overseas affiliates in the manufacturing industry was ¥120 million per firm. Regionally, the costs were Asia ¥20 million, North America ¥390 million, and Europe ¥190 million. The cost was extremely high in North America.
- Concerning future management plans, a majority of 60% of the firms replied “attempting business expansion within the current business region.” Furthermore, 5% of the firms replied “attempting diversification in business.”

## 9. Sales and procurement activities of overseas affiliates and trade with Japan

### (1) Sales and procurement for overseas affiliates in the manufacturing industry.

- Looking at the ratio for “local sales + regional sales” within total sales for the year 2000 in each region, the ratio exceeds 90% in Europe and North America. Production tends to occur at the place of consumption. Recently in Asia, two thirds is bound for “local sales + regional sales” and one quarter is bound for Japan. The sales amount to Japan has increased to approximately six times that of ten years ago and the ratio has increased by 13.5 points within total sales.
- Especially for China, the sales amount to Japan has increased by 160% compared to that of four years ago (¥285.3 billion → ¥740.7 billion). The scale of production in China is expanding.
- The procurement ratio of intermediary goods for local procurement or procurement within the region is over 50%. The procurement ratio<sup>6</sup> from Japan has been declining in all the regions since 10 years ago.
- In ASEAN, both the local sales ratio and the local procurement ratio within total sales is declining compared to four years ago.

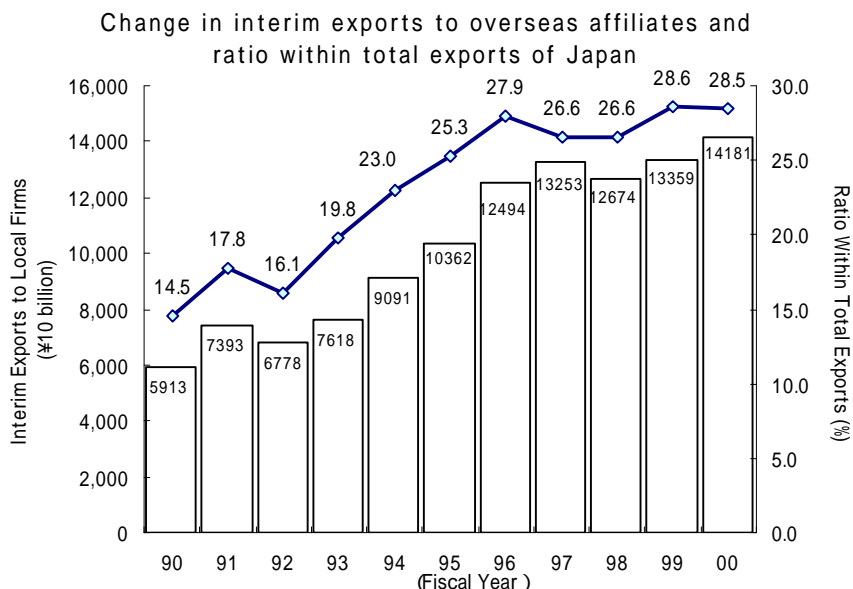
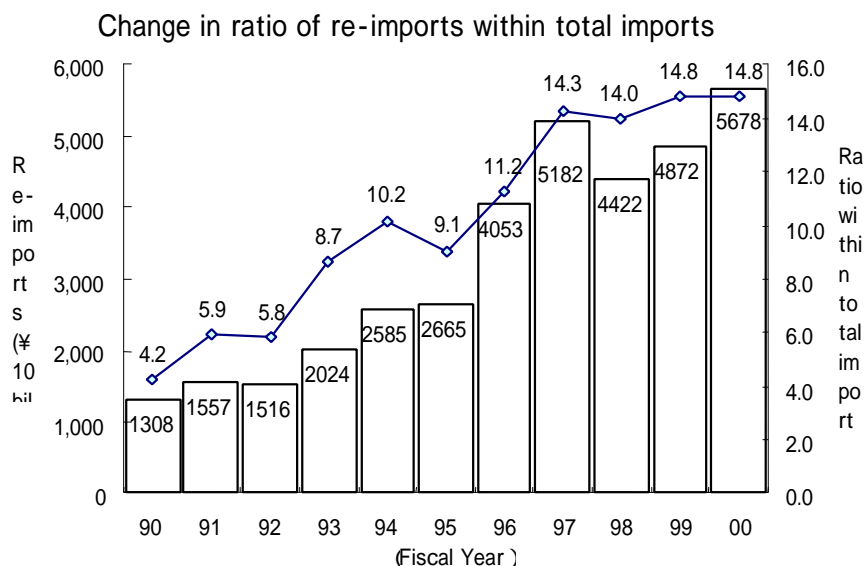
Asia and Japan - Sales and procurement for overseas affiliates in the manufacturing industry



<sup>6</sup> Procurement ratio = Export from Japan / Procurement of overseas affiliates

## (2) Overseas affiliates in the manufacturing industry and trade with Japan

- Exports bound for Japan from overseas affiliates (re-import value)<sup>7</sup> totaled ¥5.7 trillion, a 16.5% increase over the previous year. It has increased for two consecutive years, again setting a new record. The re-import value from Asia consists of 80% and is ¥4.8 trillion (a 21.7% increase over the previous year), also setting a new record.
- Exports of intermediary goods<sup>8</sup> to overseas affiliates in the manufacturing industry were ¥14.2 trillion, a 6.2% increase over the previous year and a record level. The ratio within total exports of Japan is comparable to the previous year. Regionally, exports to Asia have increased significantly, and have increased slightly for Europe and decreased for North America.



<sup>7</sup> Re-imports – exports bound for Japan from overseas affiliates in the manufacturing industry Aggregate of the manufacturing industry excluding oil, coal, paper and pulp, and foodstuffs, which are all assumed to contain a considerable amount of simple import of raw materials.

<sup>8</sup> Aggregate of the manufacturing industry excluding oil, coal, paper and pulp, and foodstuffs.