

Summary of the 32nd Survey of Overseas Business Activities

June 16, 2003

Fiscal 2001- Trends of overseas affiliates

Overseas affiliates are experiencing an increase in sales, as well as a rise in overseas production ratios. However, they are experiencing a decrease in profits. The decrease in the number of newly established overseas affiliates and overseas affiliates withdrawing due to restructuring and the intensifying of overseas offices, shows the continuing concentration of business resources in respect to the activities of Japanese firms abroad.

Main findings

1. Overseas production ratio at a record level. Still maintaining upward trend.

The overseas production ratio for the manufacturing industry reached a record level of 16.7%. The upward trend, which has been ongoing since the 1990's, is continuing.

2. There has been a significant decrease in profits.

The sales of overseas affiliates were 135 trillion yen, which was an increase of 4.6% over the previous year. The increase is seen in both the manufacturing and non-manufacturing industries. The figures significantly increased for transport machinery. The figures increased in North America.

Current profit was 2.3 trillion yen, which was a decrease of 27.7% compared to the previous year. The decrease is seen in both the manufacturing and non-manufacturing industries. The figures decreased for electric machinery, including information and telecommunication machinery. On the other hand, figures increased for transport machinery. The figures decreased in the North America, European, and Asian regions.

The ratio of sales to current profit decreased for both in manufacturing and non-manufacturing industries.

3. The number of overseas affiliates withdrawing exceeded the number of newly established affiliates for the second consecutive year.

There were 340 newly established and capital participated overseas affiliates. This figure has been declining since 1995 and was less than that of the previous year by 88. On the other hand, overseas affiliates withdrawing from overseas numbered 431, which was 265 fewer than that of the previous year. A decrease is seen in both the manufacturing and non-manufacturing industries. Figures decreased in the North

America, Asian and European regions.

Although the number of overseas affiliates withdrawing decreased, it exceeded the number of newly established and capital participated overseas affiliates for the second consecutive year. The movement of restructuring and intensifying overseas offices as overseas base firms is continuing.

4. Employment decreased after three years.

The number of employees in overseas affiliates is 3.14 million (ASEAN4 0.92 mil., North America 0.68 mil., China 0.65 mil., Europe 0.35 mil.) and decreased for the first time in three years, decreasing by 9.1% compared to the previous year. The figures decreased in North America, Asian, and European regions.

5. Investment in manufacturing industry decreased.

The total amount of research and development was 340.6 billion yen, which was a 10.7% decrease compared to the previous year. The average amount each company spent also decreased.

The amount of capital investment was 2.3 trillion yen, which was a decrease of 4.4% compared to the previous year. The figure significantly decreased in electric machinery including information and telecommunication machinery. The figure for transport machinery increased for the second consecutive years.

6. Export to overseas affiliates at record levels.

Exports to overseas affiliates in manufacturing industries totaled 17.2 trillion yen. The ratio to the total amount of exports of Japan was 37.3%, which was a record level.

**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 (excluding financials, insurance and real estate businesses. Hereafter referred to as “head firms”) that have affiliates abroad as of the end of March 2002, are subject to this survey.

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. Time of the survey

The survey was executed on July 1, 2002, based on the actual results for the fiscal year ending March 2002 (or the nearest closing date prior to March 2002), or the year end of fiscal 2001.

5. Collection

Response rate: 62.1%

Number of firms giving effective replies:

Head firms	1,886 firms
Overseas affiliates	12,476 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 due to cheaper yen for local currencies of the overseas affiliates subjected to this survey. (e.g., for the U.S., ¥121.53/US\$, previous year ¥107.77/US\$, a 12.8% decrease compared to the previous year).

2. Definition of regions

When there are no specifications, NIEs³ indicates the region consisting of Singapore, Taiwan, and Korea and ASEAN⁴ consists of Malaysia, Thailand, Indonesia, and the Philippines.

Nations may include regions.

The aggregation for China will include Hong Kong.

See Table 3 in the outline “Classification of regions and nations” for the definitions of North America, Asia and Europe.

3. Considerations about the results of the survey

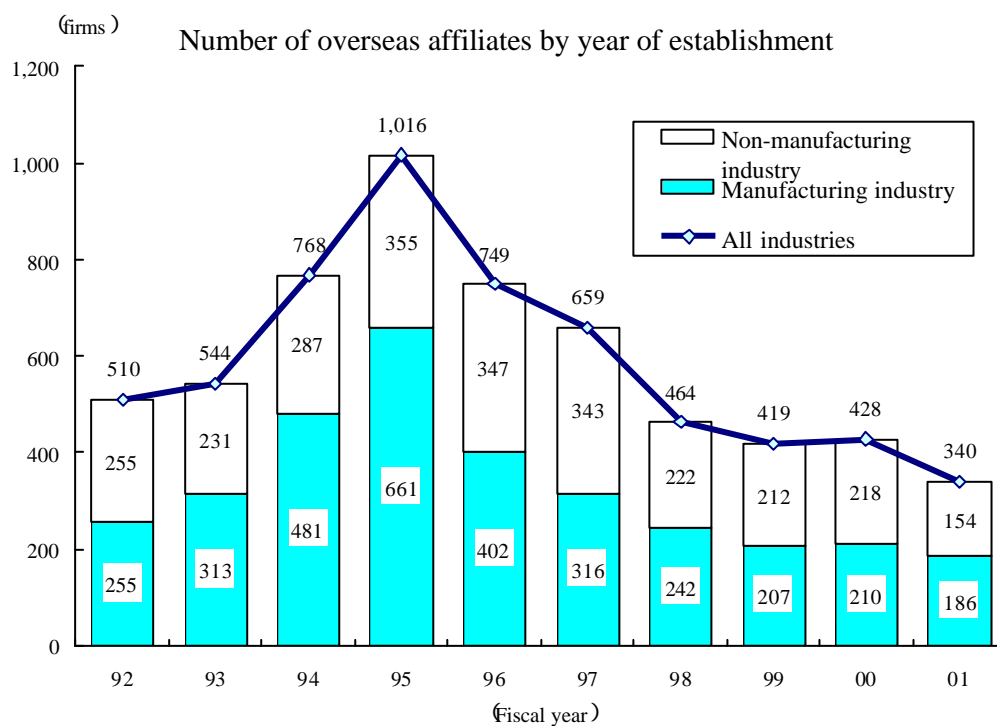
- (1) For each entry, only the effective replies will only be subject to aggregation. Therefore, the number of firms may vary according to each entry.
- (2) When comparing the results of this survey to the previous survey, consideration should be given to the response rate and the number of firms subject to the aggregation.
- (3) Due to the revision of the Japan Standard Industrial Classification, the figures of fiscal year 2000 were reanalyzed according to the new classification. Therefore the figures are different from those published for the previous survey.

1. Overseas extension such as establishment of overseas affiliates

• There were 340 newly established and capital participated overseas affiliates. This figure has been declining since 1995 and was 88 fewer than that of the previous year. The decrease is seen in both the manufacturing (186 firms, 24 fewer than the previous year) and non-manufacturing industries (154 firms, 64 fewer than the previous year).

• The figures decreased for information and telecommunication machinery and electric machinery. On the other hand, it increased in transport machinery and general machinery. The share of transport machinery in manufacturing industries was at a record level.

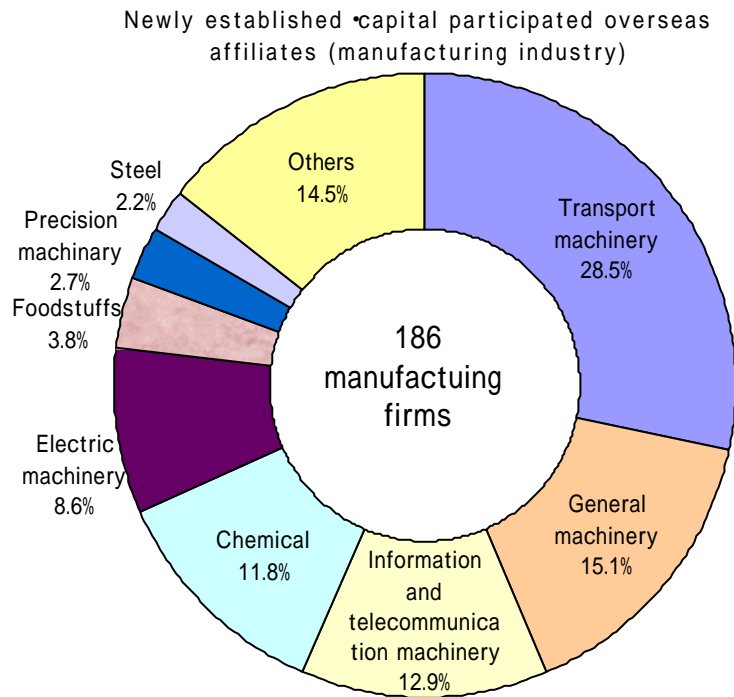
• Regionally, all three regions showed a decrease. The figure was 58 in North America, which was 31 fewer than that of the previous year. It was 185 in Asia, which was 22 fewer than that of the previous year. It was 59 in Europe, which was 18 fewer than that of the previous year. The figure was 88 in China, 3 more than the previous year.



Number of overseas affiliates by year of establishment (by region)

(unit firms)

Region \ FY	92	93	94	95	96	97	98	99	2000	2001
North America	89	74	87	110	119	114	85	101	89	58
Asia	284	334	551	719	474	378	227	196	207	185
Europe	93	83	71	110	84	88	84	67	77	59



2. Withdrawal of overseas affiliates

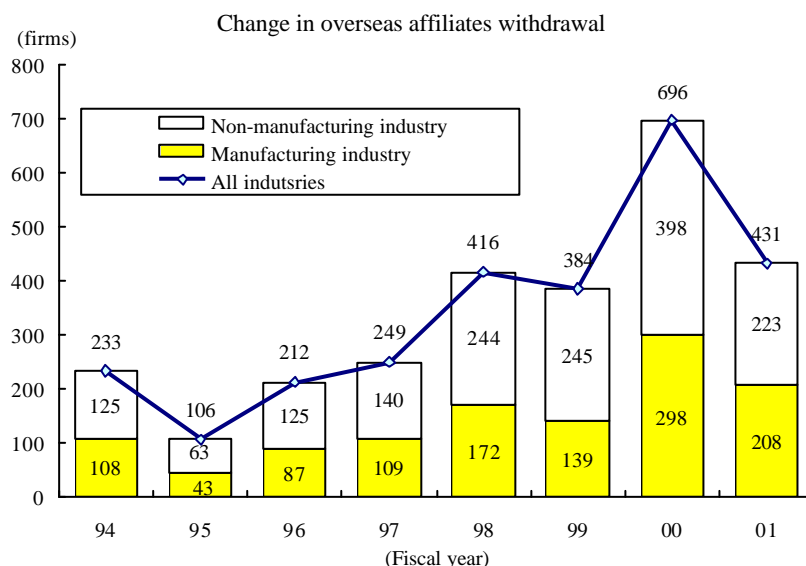
•The number of affiliates that withdrew¹ from overseas was 431, which was 265 fewer than the previous year, 208 firms were from the manufacturing industries (90 fewer than that of the previous year) and 223 firms were from the non-manufacturing industries (175 fewer than that of the previous year).

•The information and telecommunication machinery in the manufacturing industry (43 firms) and wholesale trading and retail (70 firms) in the non-manufacturing industries showed the highest figures, respectively.

•Regionally, all three regions showed a decrease. North America 142 firms (52 firms fewer than that of the previous year), Asia 134 firms (151 firms fewer than that of the previous year), and Europe 80 firms (46 firms fewer than the previous year).

•The ratio of withdrawal² showed higher figures in North America compared to other regions, while on the other hand the ratio is below average in Asia.

•The major reasons given for withdrawal or relocation are the “integration and abolition as a result of restructuring or reconsideration of business resources,” which shows the continuing movement of reorganization and restructuring of overseas affiliates.



(Note) The figure of withdrawal previous to fiscal year 95 includes firms that withdrew prior to fiscal 95.

¹ Withdrew = Includes “liquidation (includes dissolution and insolvency)” and “decline in equity (the equity of Japanese company fell in the range of over 0% to below 10%).”

² Ratio of withdrawal = (Number of overseas affiliates that withdrew in fiscal 2001) / (Total number of overseas affiliates subject to survey in fiscal 2001 + number of overseas affiliates that withdrew in fiscal 2001) x 100

Number of overseas affiliates that withdrew and the ratio of withdrawal (by region)

(unit : firms, %)

	All industries			Manufacturing industry			Non-manufacturing industry		
	Number that withdrew	Difference from the previous FY	Ratio of withdrawal	Number that withdrew	Difference from the previous FY	Ratio of withdrawal	Number that withdrew	Difference from the previous FY	Ratio of withdrawal
All regions	431	265	3.3	208	71	3.1	223	194	3.6
North America	142	52	5.2	69	12	5.1	73	40	5.2
Asia	134	151	2.1	76	62	1.9	58	89	2.4
China	45	65	2.0	30	19	2.1	15	46	1.8
ASEAN4	44	25	1.9	26	2	1.7	18	23	2.5
NIEs3	42	45	2.6	17	23	1.9	25	22	3.4
Europe	80	46	3.6	41	2	4.7	39	48	2.9

(Note) Ratio of withdrawal = (Number of overseas affiliates that withdrew in fiscal 2001) / (Total number of overseas affiliates subject to survey in fiscal 2001 + number of overseas affiliates that withdrew in fiscal 2001) x 100

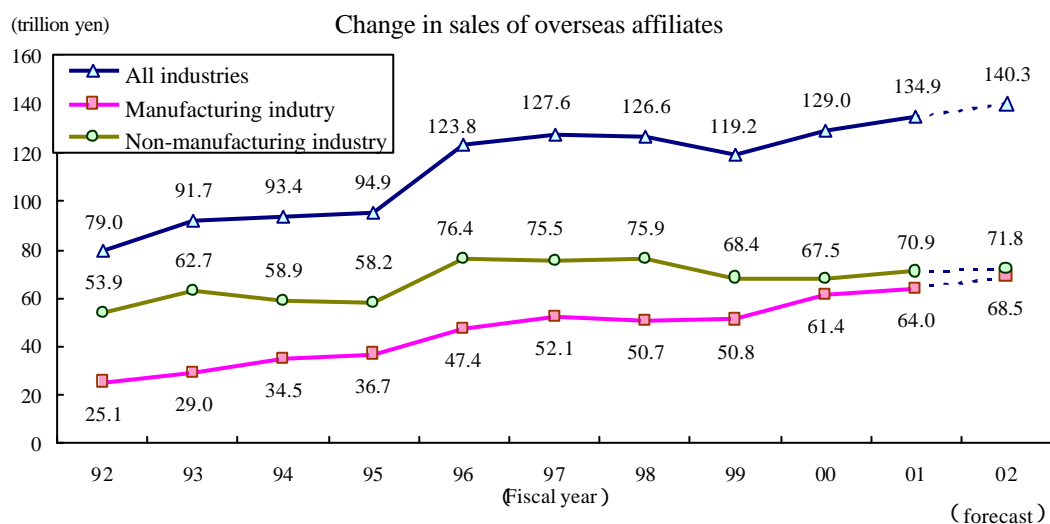
3. Sales

• Sales of overseas affiliates in fiscal year 2001 totaled ¥134.9 trillion, which was a 4.6% increase over the previous year, and a new record level. Sales increased in both the manufacturing industries (¥64.0 trillion, 4.1% increase over the previous year) and non-manufacturing industries (¥70.9 trillion, 5.0% increase over the previous year).

• By industry, sales increased in transport machinery, wholesale trading and retail, and information and telecommunication machinery.

• Regionally, the amount increased in North America to ¥59.5 trillion which was a 5.4% increase over the previous year. On the other hand it decreased in Asia to ¥35.9 trillion which was 1.4% decrease compared to the previous year. In Europe it decreased to ¥26.8 trillion which was a 1.0% decrease over the previous year.

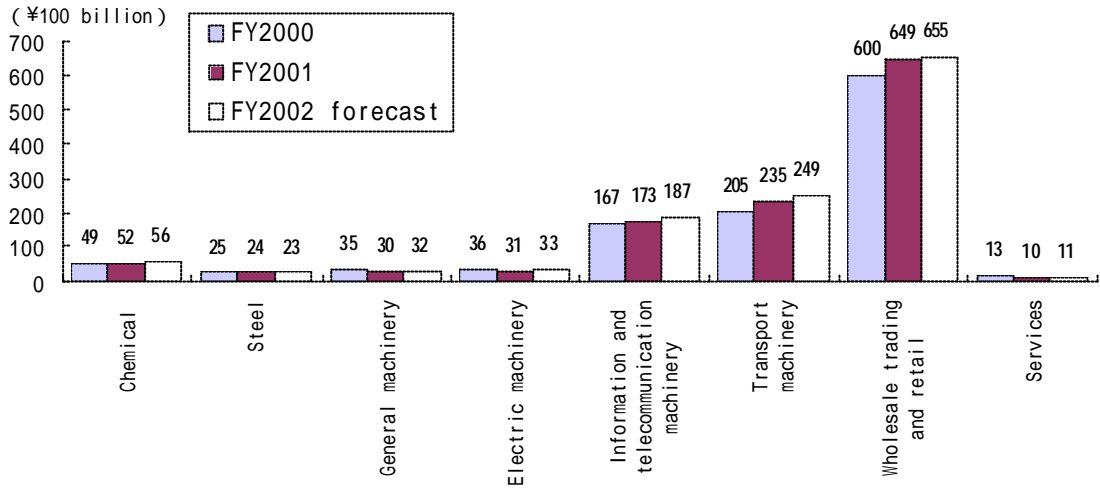
• The overseas production ratio³ for the manufacturing industry showed a record level of 16.7% (2.1 point increase over the previous year).



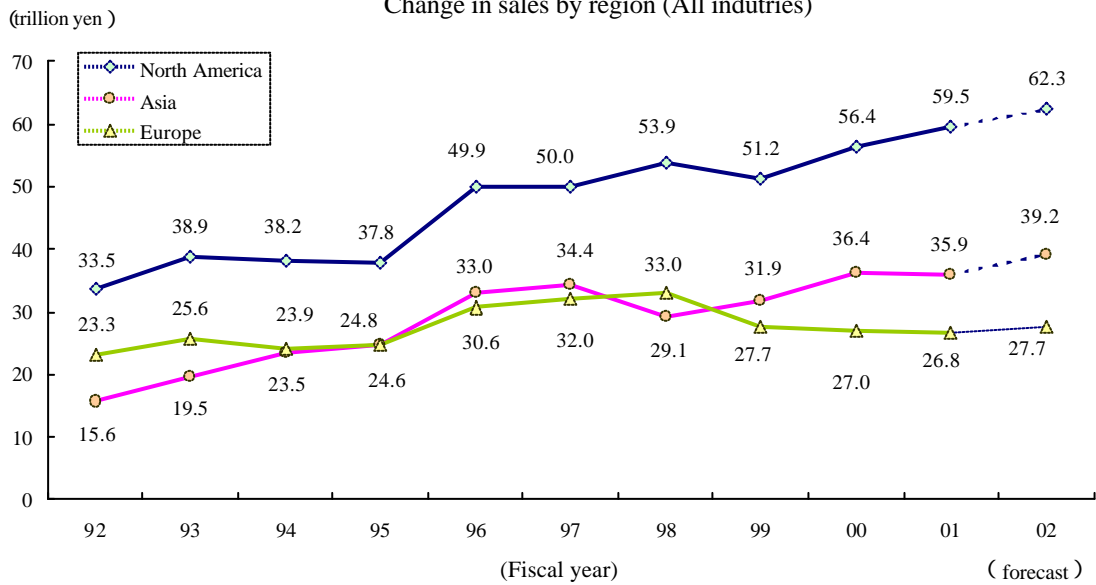
Note: Due to the revision of the Japan Standard Industrial Classification, the figures of fiscal year 2000 were reanalyzed according to the new classification. Therefore the figures are different from those published for the previous survey.

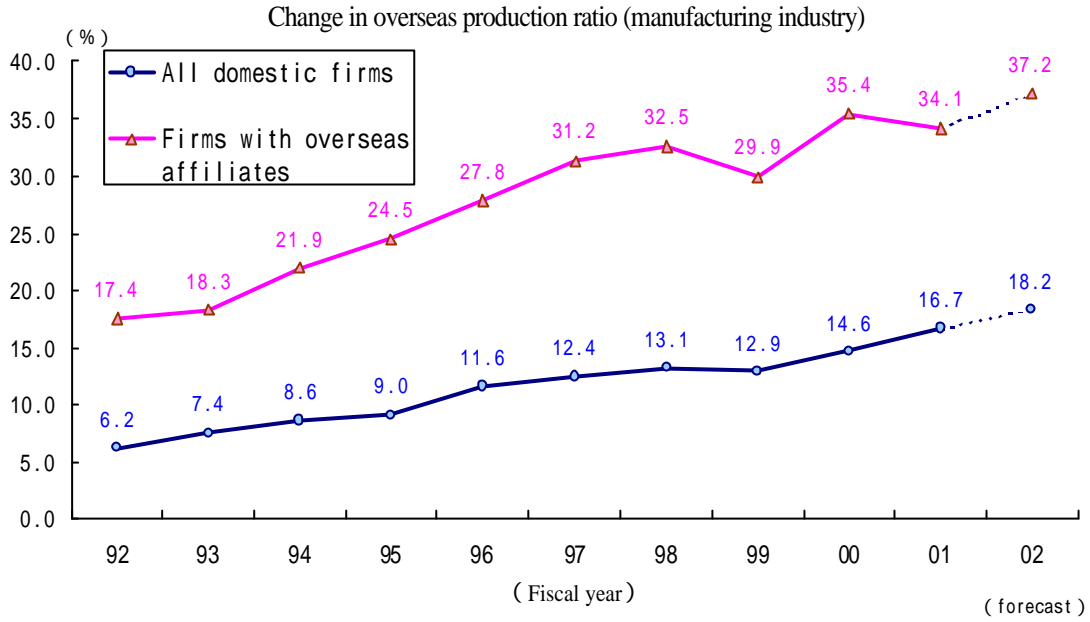
³ Overseas production ratio = overseas affiliates (manufacturing industry) sales / sales of total domestic firms (manufacturing industry) x 100
 Overseas affiliates: Sales of overseas affiliates subject to this survey
 Domestic firms: Corporate statistics (MOF)

Sales by industries



Change in sales by region (All industries)





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

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

4. Profit

•Current profit of overseas affiliates decreased to ¥2.3 trillion which was a 27.7% decrease compared to the previous year. The figures decreased both in manufacturing (¥1.2 trillion, 33.6% decrease from the previous year) and non-manufacturing industries (¥1.1 trillion, 20.5% decrease from the previous year).

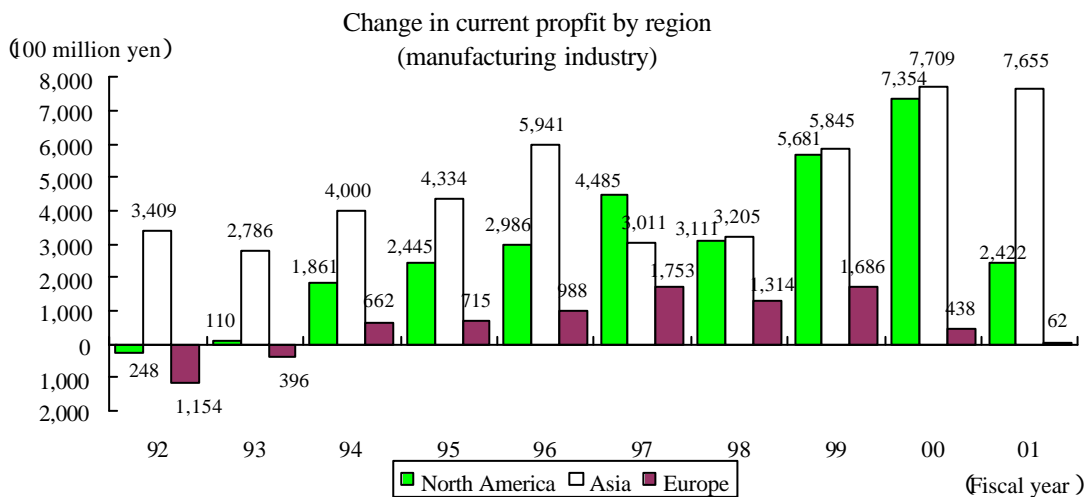
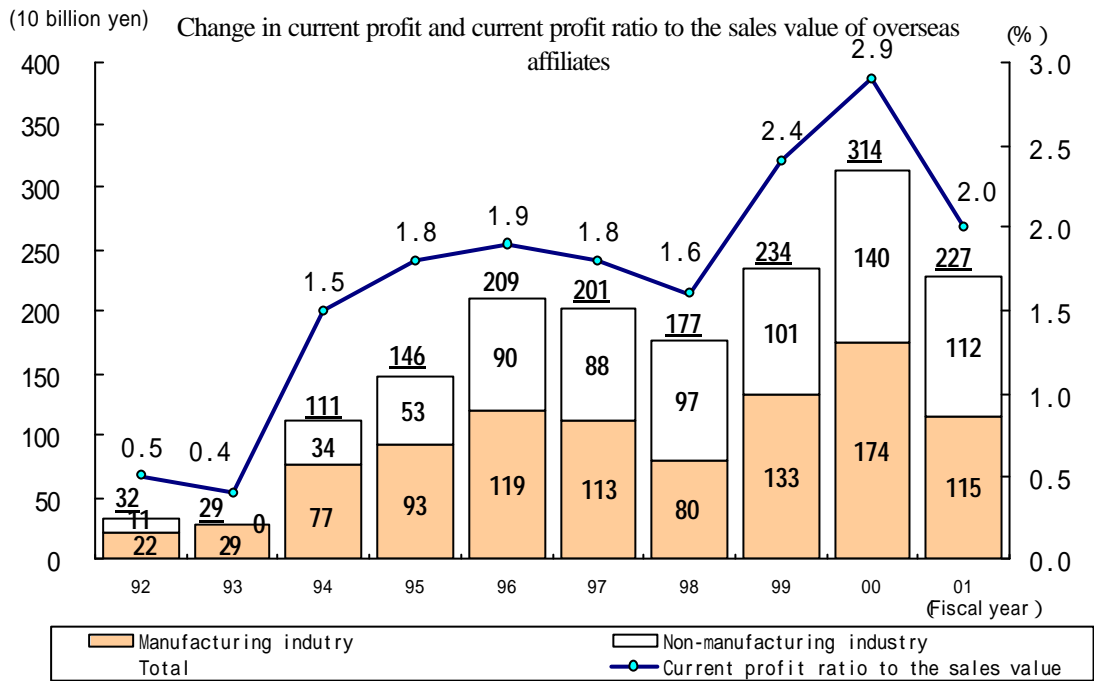
•As for each industry, the figure decreased for electric machinery⁴, while on the other hand it increased in transport machinery. Regionally the figures decreased in North American, European, and Asian regions. In Asia, the figure decreased in China and NIEs³ and it increased in ASEAN⁴.

•The current profit ratio to the sales value⁵ decreased 2.0% which was a 0.9 point decrease from the previous year. The figures decreased both in manufacturing (2.2%, 1.2 point decrease from the previous year) and non-manufacturing (1.8%, 0.6 point decrease from the previous year) industries. Regionally, the figures in the manufacturing industry decreased in Asia, North America, and Europe. The figure in Asia exceeded that of domestic firms for the fourth consecutive year.

•The current income after deduction of tax significantly decreased to 838.1 billion, which was a 57.5% decrease from the previous year. The figures decreased both in manufacturing and non-manufacturing industries. Regionally the profit figures decreased in North America and Asia, and Europe has been experiencing a deficit for the past two consecutive years.

⁴ Electric machinery includes information and telecommunication machinery

⁵ Current profit ratio to the sales value = current profit / sales x 100 (current profit ratio to the sales value was calculated from the overseas affiliates with replies to both current profit and sales.)



Change in current profit ratio to the sales value by region (manufacturing industry)

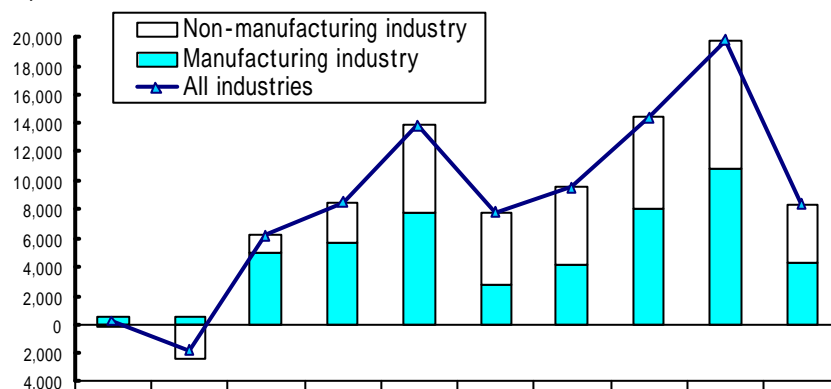
(unit : %)

Region \ FY	92	93	94	95	96	97	98	99	2000	2001
North America	0.3	0.1	1.9	2.0	1.9	2.7	1.7	3.3	3.4	1.0
Asia	5.1	3.8	4.1	4.1	4.0	2.0	2.5	4.0	4.4	4.3
Europe	2.5	1.0	1.2	1.3	1.3	2.3	1.3	2.2	0.4	0.1
Domestic firms	2.6	1.9	2.4	2.9	3.4	3.3	2.3	2.9	3.9	2.8

(Note) Domestic firms Source: Corporate statistics (MOF)

(100 million yen)

Change in net current income after deduction of tax

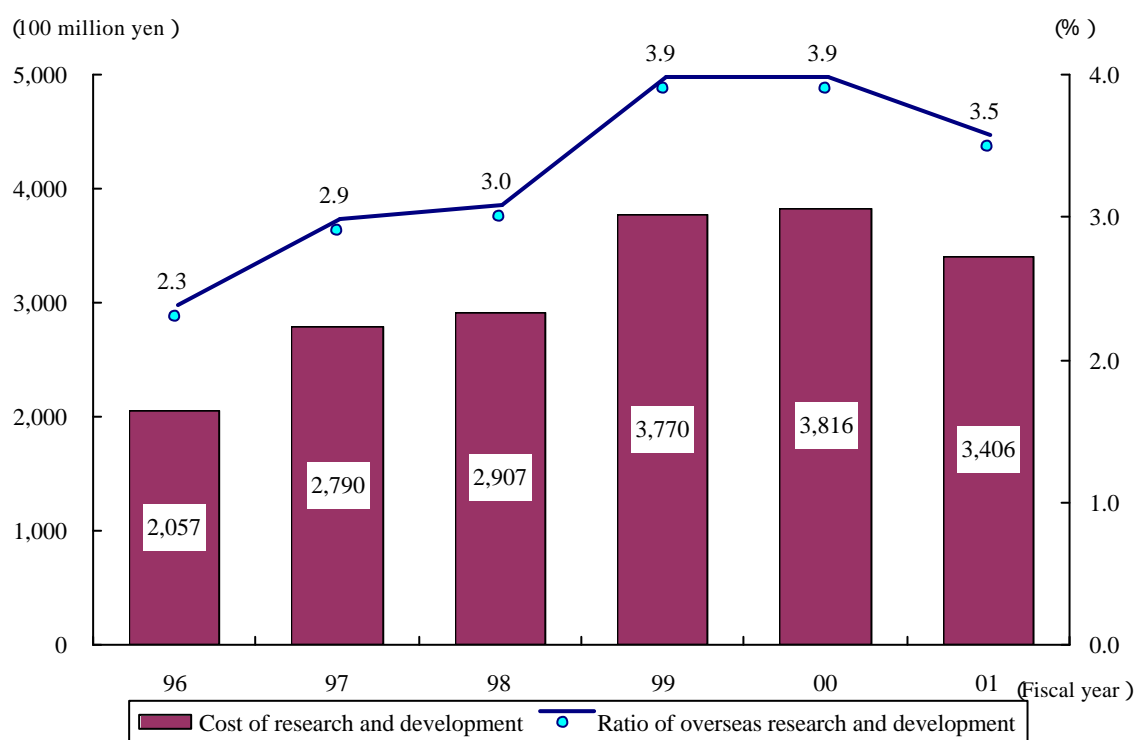


	FY 92	93	94	95	96	97	98	99	00	01
Non-manufacturing industry	177	2,410	1,260	2,970	6,007	5,001	5,413	6,413	8,984	4,120
Manufacturing industry	448	578	4,963	5,544	7,828	2,797	4,094	8,000	10,743	4,261
All industries	271	1,832	6,223	8,514	13,835	7,798	9,507	14,413	19,727	8,381

5. Research and development

•The amount of research and development of overseas affiliates in the manufacturing industry was ¥340.6 billion which was 10.7% decrease from the previous year. The amount per firm was ¥0.39 million, which was 7.0% decrease from the previous year.

•The overseas research and development ratio⁶ was 3.5%, which was 0.4 point decrease from the previous year.



⁶ The overseas research and development ratio = the amount of research and development for overseas affiliates / the amount of research and development of domestic firms x 100
The amount of research and development of domestic firms source: Survey of research of science and technology (Ministry of Public Management, Home Affairs, Post and Telecommunications)

6. Capital investment

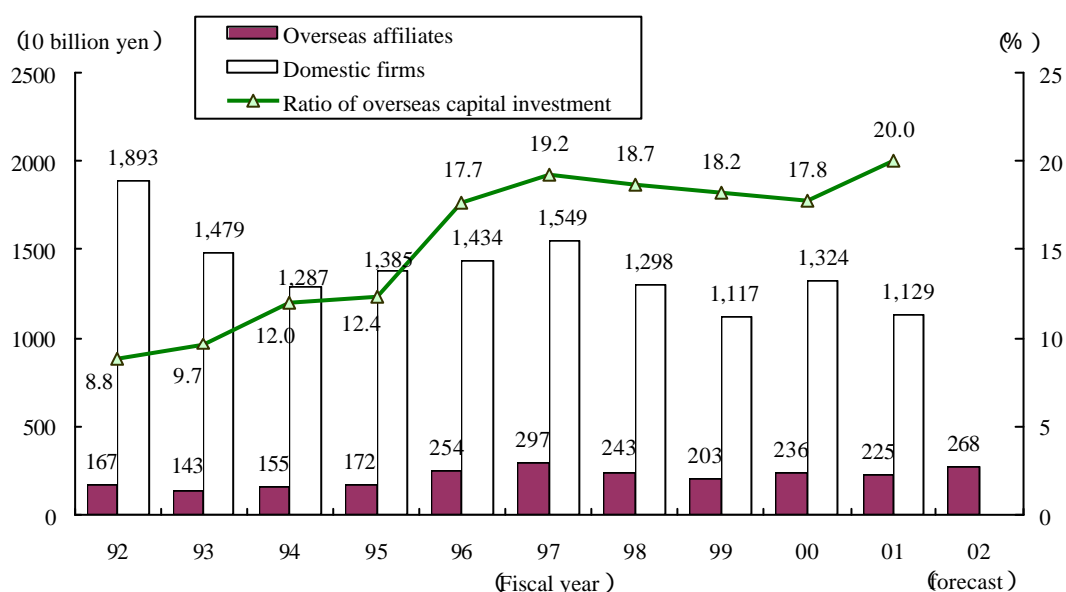
•The capital investment amount for overseas affiliates in the manufacturing industry was ¥2.3 trillion, a 4.4% decrease from the previous year. The overseas capital investment ratio⁷ was 20.0%, a 2.2 point increase compared to the previous year and a new record level.

•Regionally, capital investment showed an increase in North America and a decrease in Asia and Europe.

•The amount of capital investment in electric machinery significantly decreased. On the other hand, the amount of capital investment in transport machinery increased for the second consecutive year and reached a new record level.

•In the 2002 forecast, it is expected to increase in North America and Asia and decrease in Europe. The total should be ¥2.7 trillion, a 18.8% increase over the previous year. The amount in transport machinery, electric machinery⁸, and chemical industries are expected to increase.

Change in capital investment of overseas affiliates (manufacturing industry)



(Note) Overseas capital investment ratio = Capital investment amount of overseas affiliates / Capital investment amount of domestic firms x 100

The figure for 2002 is forecast.

Domestic firms Source : Corporate statistics (MOF)

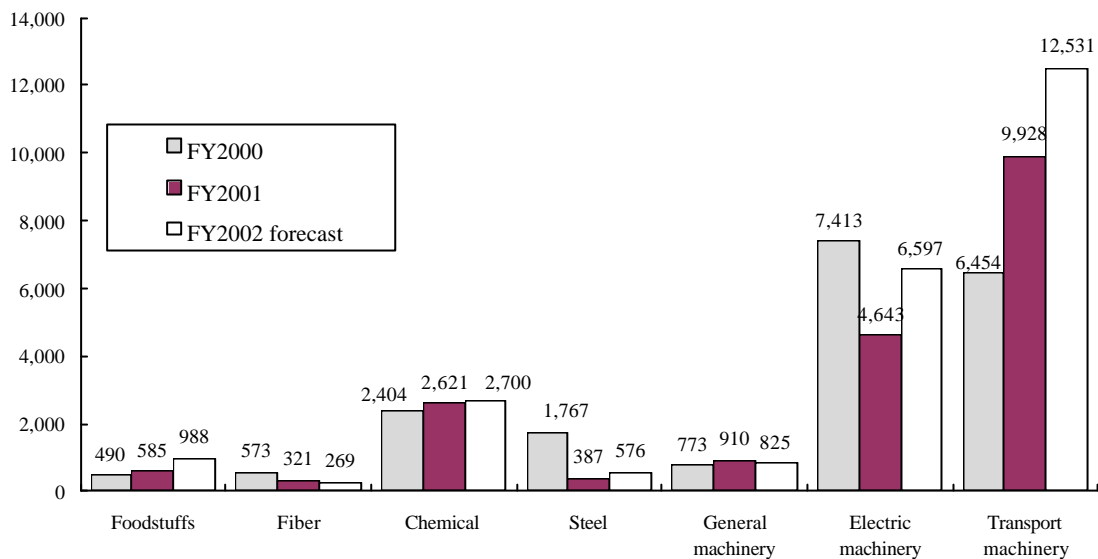
⁷ Overseas capital investment ratio = Capital investment amount of overseas affiliates / Capital investment amount of domestic firms x 100

Domestic firms Source : Corporate statistics (MOF)

⁸ Electric machinery includes information and telecommunication machinery

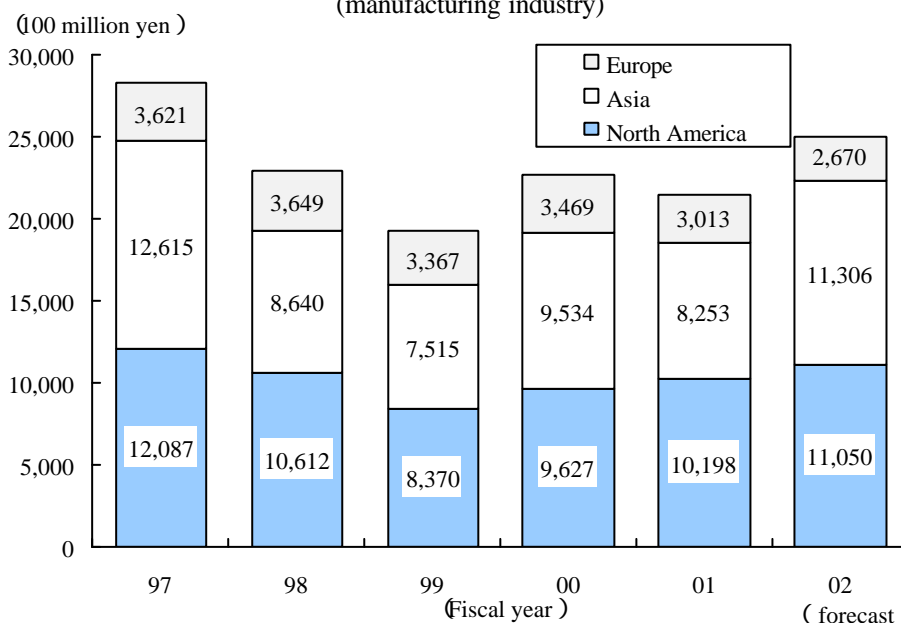
(100 million yen)

Capital investment by industry



(Note) Electric machinery includes information and communication machinery.

Change in capital investment of overseas affiliates by region (manufacturing industry)



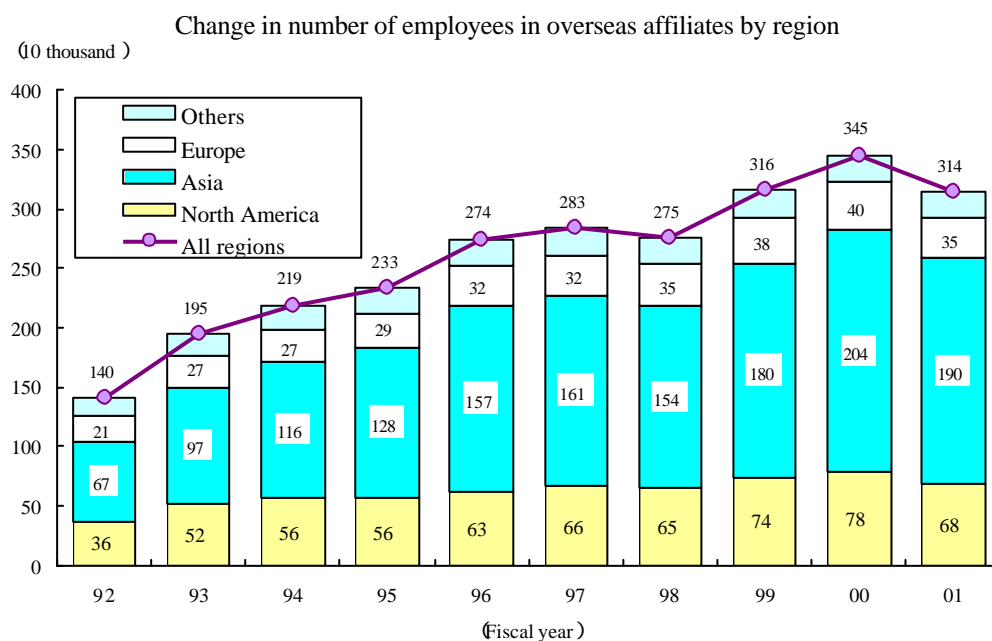
7. Employment

•The number of employees in overseas affiliates was 3.14 million, which was a 9.1% decrease from the previous year marking the first time it has decreased in the past three years. The number in both manufacturing (2.61 million, 7.0% decrease from the previous year) and non-manufacturing (0.53 million, 18.1% decrease from the previous year) industries decreased.

•Regionally, the number of employees decreased in all three regions: North America, Asia, and Europe. The number significantly decreased in the Nies3 and ASEAN4, and it also decreased in China.

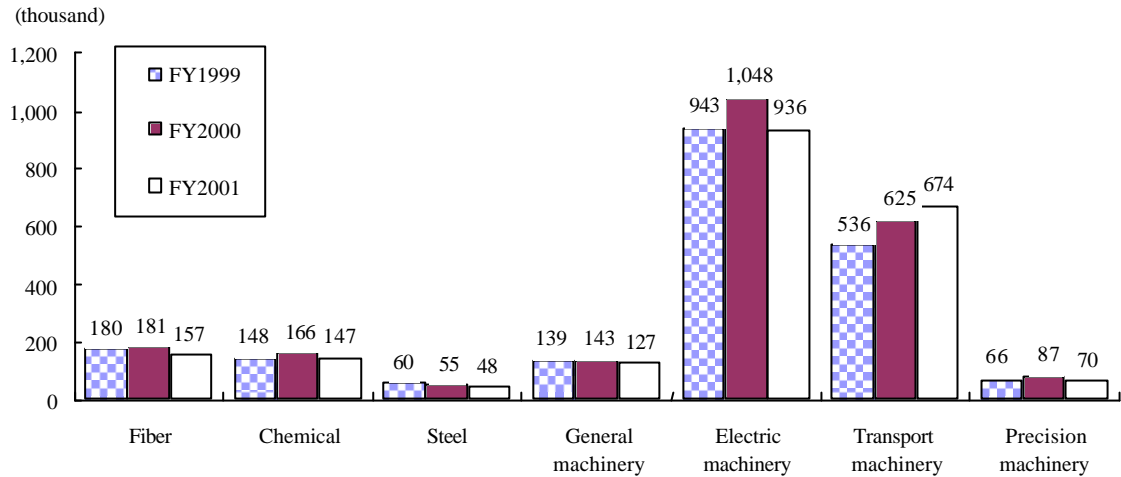
•The number of employees decreased in the electric machinery⁹ and chemical industries, while it increased in transport machinery industry.

•The number of employees per firm in the manufacturing industry was 424, which was a 6.8% increase and it increased in Asia, Europe and North America.



⁹ Electric machinery includes information and telecommunication machinery

Number of employees by industries (manufacturing industry)



(Note) Electric machinery includes information and communication machinery.

Change in number of employees in overseas affiliates by region (all industries)

(unit : thousand persons)

		FY1998		FY1999		FY2000		FY2001	
			Ratio to the previous year		Ratio to the previous year		Ratio to the previous year		Ratio to the previous year
All industries	All regions	2,749	3.0	3,161	15.0	3,453	9.2	3,140	9.1
	North America	646	2.5	741	14.8	783	5.7	676	13.7
	Asia	1,542	4.4	1,800	16.7	2,038	13.2	1,901	6.7
	Europe	353	9.0	383	8.6	402	4.9	354	11.9
Manufacturing industries	All regions	2,223	4.0	2,580	16.1	2,806	8.8	2,610	7.0
	North America	473	0.4	536	13.3	533	0.5	486	8.8
	Asia	1,359	5.1	1,608	18.4	1,825	13.5	1,702	6.8
	Europe	241	2.7	269	11.3	283	5.3	263	6.8
Non-manufacturing industries	All regions	527	1.5	581	10.2	647	11.4	530	18.1
	North America	173	9.8	205	18.9	251	22.1	190	24.1
	Asia	184	1.4	192	4.4	213	11.2	200	6.4
	Europe	112	25.8	115	2.6	119	4.0	91	23.9

8. Corporate strategy and business management for overseas activities

As for production functions, 72.1% of the overseas affiliates execute “integrated process production”, while 24.9% execute “process division production with Japan”. As for the level of technology, “the same as that of Japan” accounted for 65.5% and “over that of Japan” for 2.3%. The future prospects within five years are that “integrated process production” increased 1.2 points and “the process division production with Japan” decreased by 1.6 points. The increase of “the level of technology will be maintained at the current level” is 19.2 points. The increase of “the level of technology will exceed Japan’s” is 5.0 points.

Concerning future management plans, a majority of more than 50% of the firms replied “attempting business expansion within the current business region”, how ever the portion has decreased for two consecutive years.

Future management plans

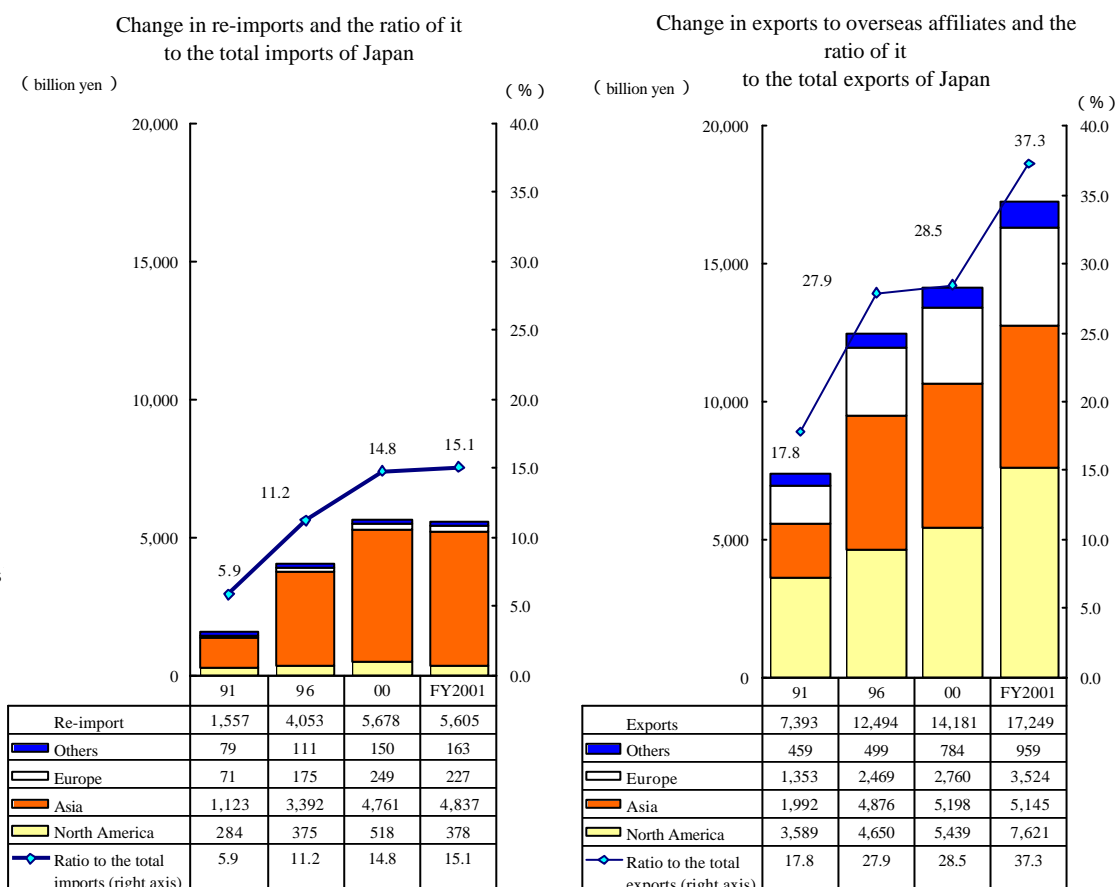
(unit : %)

	Total	Diversification of business		Business expansion within the current business region		Maintaining current business region		Business reduction within the current business region		Restructuring business		Considering withdrawal	
			Difference from the previous FY		Difference from the previous FY		Difference from the previous FY		Difference from the previous FY		Difference from the previous FY		Difference from the previous FY
FY1997	100.0	5.4	0.9	57.6	2.7	29.4	1.7	1.7	0.4	2.8	0.5	3.1	0.9
1998	100.0	5.3	0.1	55.2	2.4	30.8	1.4	1.8	0.1	3.4	0.6	3.5	0.4
1999	100.0	5.4	0.1	58.9	3.6	29.0	1.8	1.3	0.5	2.7	0.7	2.7	0.8
2000	100.0	5.3	0.1	56.7	2.2	30.5	1.5	1.6	0.3	3.2	0.5	2.8	0.1
2001	100.0	5.3	0.1	55.7	1.0	30.5	0.1	1.5	0.1	3.4	0.2	3.4	0.7

9. Trade with Japan.

Exports bound for Japan from overseas affiliates (re-import value)¹⁰ were valued at ¥5.6 trillion, a 1.3% decrease from the previous year. The figure has exceeded ¥5 trillion for two consecutive years. The re-import value from Asia consists of more than 85%, and that was at record level.

Exports¹¹ to overseas affiliates in the manufacturing industry were ¥17.2 trillion, a 21.6% increase over the previous year. The ratio to total exports¹² of Japan was 37.3%, which was a new record level.



¹⁰ Re-imports = exports bound for Japan from overseas affiliates in the manufacturing industry. Aggregate of the manufacturing industry excluding oil, paper and pulp, and foodstuffs, which are all assumed to contain a considerable amount of simple import of raw materials.

¹¹ Exports = aggregate of the manufacturing industry excluding oil, coal, paper and pulp, and foodstuffs.

¹² Total exports and total imports of Japan source: Statistics of international balance of payments (Bank of Japan)

(Reference) Firms that replied to both of the surveys in FY 2001 and 2002

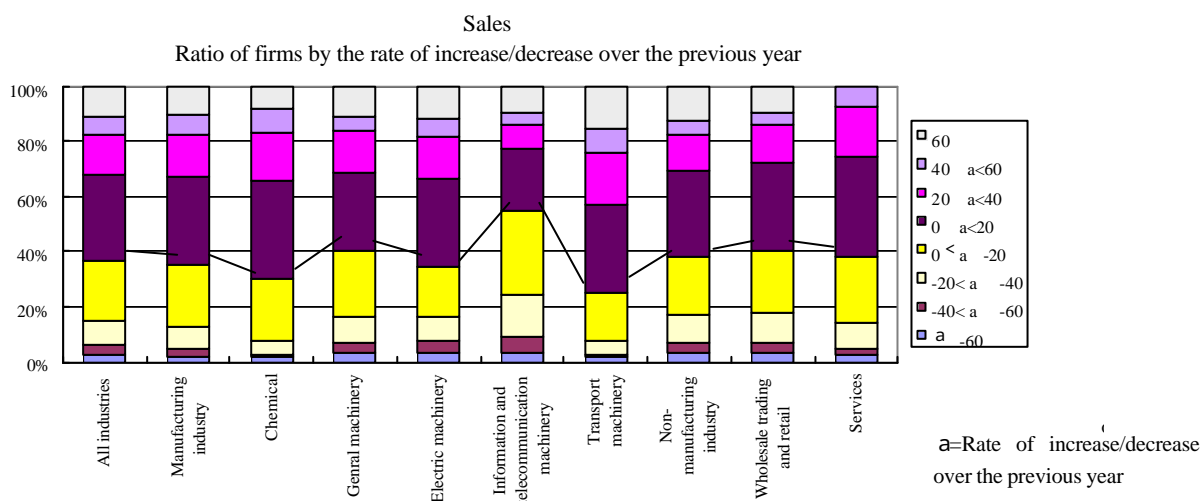
Among 12,476 firms that were subject to the survey in 2002, of the firms that replied to both surveys in 2001 and 2002 (hereafter referred as “continuing firms”) 9,363 of these firms accounted for 75.1% of total sales, and 9,122 firms accounted for 73.1% of operating profits, while 9,941 firms accounted for 79.7% of total employees.

In the following, sales, operating profits, and the number of employees of the continuing firms are described by industries.

1. Sales

Sales are indicated by the rate of increase or decrease over the previous year. The portion of the firms of which sales were maintained at the current level or increased was 63.6%. Among them, the portion of the manufacturing industry was 64.7% and that of the non-manufacturing industry was 62.1%. Sales of more than 70% of the transport machinery and chemical industry were maintained or increased. Above all, the portion of firms of which sales of transport machinery increased by more than 60% was 15%, that shows strength in this field.

The portion of firms of which sales increased by more than 20% was 32.0%. Among them the portion of the manufacturing industry was 32.9% and that of the non-manufacturing industry was 30.8%. Transportation machinery showed the highest, 42.8%, then followed by the service industry and chemical industry.



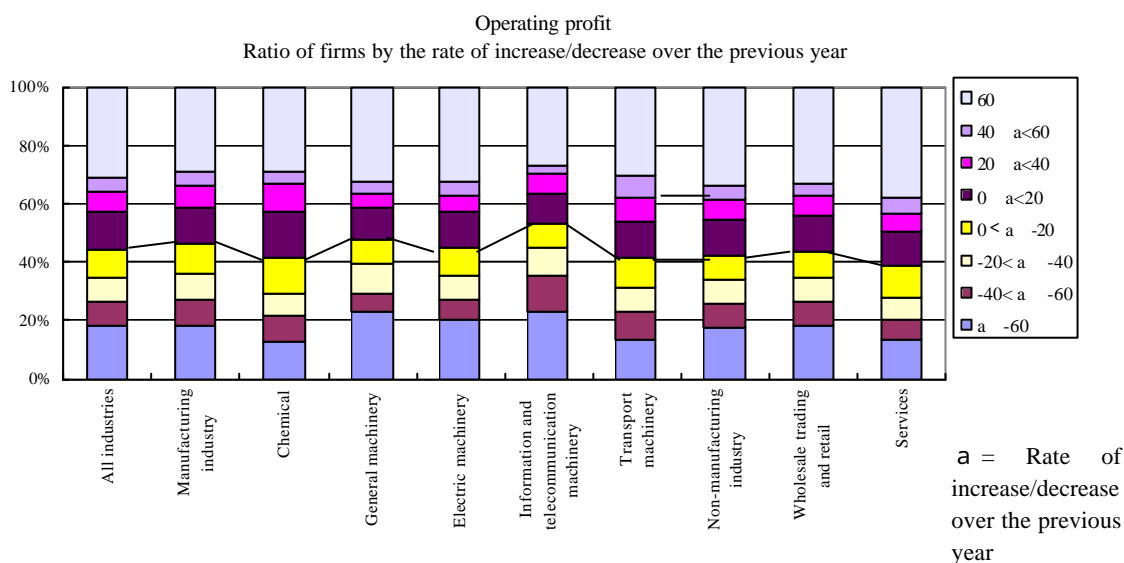
	All industries	Manufacturing industry	Chemical	General machinery	Electric machinery	Information and telecommunication machinery	Transport machinery	Non-manufacturing industry	Wholesale trading and retail	Services
Rate of increase/decrease over	7.0	3.8	10.9	3.7	0.5	8.9	12.3	10.0	10.4	0.8

(Unit: %)

2. Operating profit

Operating profits are indicated by the rate of increase or decrease over the previous year. The portion of the firms of which operating profits were maintained at the current level or increased was 55.6%. Among them, the portion of the manufacturing industry was 53.8% and that of the non-manufacturing industry was 57.9%. The operating profits of more than 50% firms in manufacturing industry excluding information and telecommunication machinery and non-manufacturing industry were maintained or increased.

The portion of firms of which operating profits increased by more than 20% was 43.1%. Among them the portion of the manufacturing industry was 41.1% and that of the non-manufacturing industry was 45.6%. Transportation machinery was the highest (46.2%) in the manufacturing industry and the service industry was the highest (49.6%) in the non-manufacturing industry.



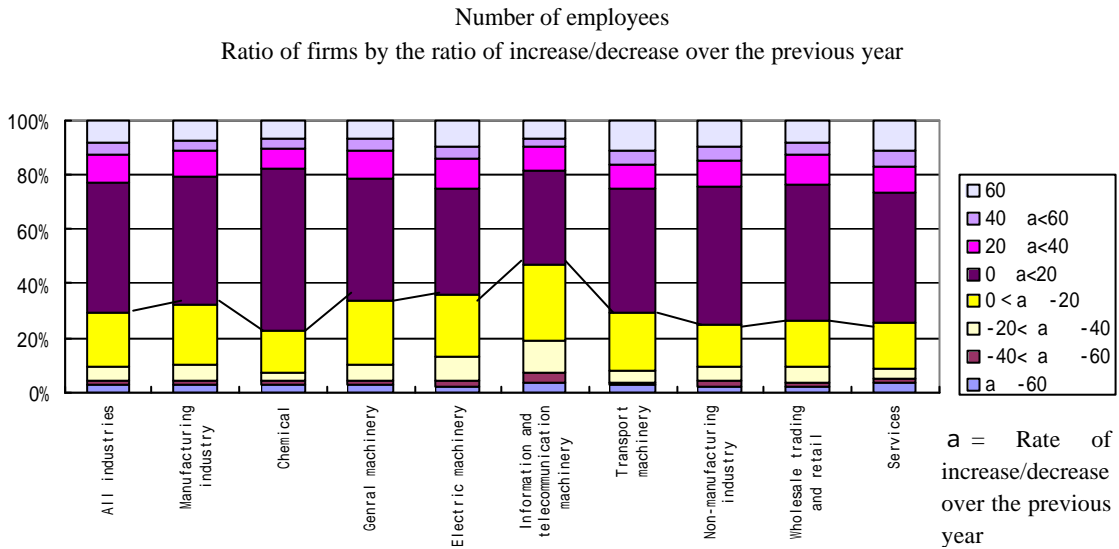
(Unit: %)

	All industries	Manufacturing industry	Chemical	General machinery	Electric machinery	Information and telecommunication machinery	Transport machinery	Non-manufacturing industry	Wholesale trading and retail	Services
Rate of increase/decrease over	1.2	2.5	12.1	6.2	22.0	9.0	9.2	0.1	25.1	8.5

3. The number of employees

The numbers of employees are indicated by the rate of increase or decrease over the previous year. The portion of the firms of which the number of employees was maintained at the current level or increased was 71.2%. Among them, the portion of the manufacturing industry was 67.6%, and that of the non-manufacturing industry was 75.3%. Chemical industry (77.3%) and transport machinery (70.5%) exceeded 70%.

The portion of firms of which number of employees by more than 20% was 22.5%. Among them the portion of the manufacturing industry was 20.5% and that of the non-manufacturing industry was 24.8%. Electric machinery (25.7%), transport machinery (25.4%), and general machinery (21.6%) exceeded the average of manufacturing industry, and service industry (26.9%) exceeded the average of non-manufacturing industry.



(Unit: %)

	All industries	Manufacturing industry	Chemical	General machinery	Electric machinery	Information and telecommunication machinery	Transport machinery	Non-manufacturing industry	Wholesale trading and retail	Services
Rate of increase/decrease over	0.8	0.9	2.3	4.0	0.8	3.4	5.9	0.1	4.8	28.3