

## **Summary of the 35th Survey on Overseas Business Activities (conducted in July 2005)**

March 27, 2006

### **Trend of overseas affiliates in the fiscal year 2004 survey**

- The overseas production ratio, sales and recurring profits all reached a record high. In Asia, business was brisk in China, ASEAN 4, and NIEs<sup>3</sup>.
- The number of new overseas affiliates decreased for the second consecutive year. The number of overseas affiliates whose operations were shut decreased for the second consecutive year, but remained at a high level.

### **Summary of findings**

#### **1. The highest overseas production ratio ever.**

The overseas production ratio for manufacturing industries (on the basis of all domestic companies) was the highest ever at 16.2%, breaking through the previous record high set the year before.

#### **2. Sales and recurring profits reached a record high. Asian business showed strong growth.**

Sales hit a record high of 163 trillion yen, up by 12.0% from the previous year, and broke the previous highest record set the year before. (It rose by 10.2% when comparing companies that gave a valid response for both the previous year and this year.)

There were significant increases for the electrical machinery sector (up by 22.7% compared to the previous year), the transport equipment sector (up by 14.8% (id.)), and the wholesale trade sector (up by 13.6% (id.)). The amount for Asian business increased significantly by 20.4% (id.), and Chinese business maintained a high growth (up by 26.4% (id.)).

Recurring profits amounted to the highest ever at 6.1 trillion yen, rising significantly by 30.2% from the previous year. (They rose by 28.2% when comparing companies that gave a valid response for both the previous year and this year). The amount for manufacturing industries rose by 27.1% (id.) and that for non-manufacturing industries rose by 34.7% (id.), both reaching a record high.

#### **3. The number of new overseas affiliates decreased for the second consecutive year. The number of overseas affiliates whose operations were shut decreased for the second consecutive year, but remained at a high level.**

The number of overseas affiliates newly established or where capital participation was implemented decreased, marking 466 this year. This was a fall of 167 from the previous year and a decline for the second consecutive year. The number for Asia

decreased sharply by 126 to 317, and those for North America (down by 20) and Europe (down by 11) also decreased.

The number of overseas affiliates whose operations were shut decreased by 64 to 538, a decline for the second consecutive year, but remained at a high level. The decrease was seen in both manufacturing industries, and non-manufacturing industries, with falls of 43 and 21, respectively. The number for Asia decreased by 25, and for Europe by 7, while that for North America increased slightly.

#### **4. Employment increased in Asia, in particular in China and ASEAN4**

The number of employees increased by 7.7% from the previous year to 4.06 million, up for the third consecutive year. (It increased by 6.0% when comparing companies that gave a valid response for both the previous year and this year.) The number for Asia increased by 11.4% (id.) and for Europe by 6.7%. In Asia, that for China increased by 13.4% (id.) and for ASEAN4 by 10.1%, both up for the third consecutive year. The number for North America fell by 4.4% (id.).

#### **5. The amount of capital investment in manufacturing industries was 2.5 trillion yen. There were increases in this amount for Asia and for Europe.**

The amount of capital investment in manufacturing industries rose by 19.8% from the previous year to 2.5 trillion yen, rebounding following a decrease in the previous year. (It increased by 12.3% when comparing companies that gave a valid response for both the previous year and this year.) The amount for the steel sector increased significantly by 141.5% (id.), and that for the transport equipment sector sustained a high level of 6.0% (id.). The amount for Asia rose by 45.8% (id.), with significant increases in China (up by 53.4% (id.)), ASEAN4 (up by 34.8% (id.)), and NIEs3 (up by 53.3% (id.)). The amount for Europe also increased by 16.2%, while that for North America decreased by 16.7% (id.).

#### **6. Exports to overseas affiliates reached a record high.**

The value of exports to overseas affiliates in manufacturing industries was 20.6 trillion yen, exceeding 20 trillion yen for the first time. This accounted for 35% of overall exports from Japan.

**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 the Survey**

### **1. Purpose**

The purpose of this survey is to obtain basic data for planning and implementation of a wide variety of measures, by clarifying the current trend in overseas activities of Japanese companies.

### **2. Subject**

The survey covered Japanese companies that had overseas affiliates (hereinafter referred to as “parent companies”) as of March 31, 2005, excluding those in the financial and insurance industry and real estate industry.

In this survey, “overseas subsidiaries” refers to overseas companies in which a Japanese company(s) makes a 10% or greater investment. “Overseas sub-subsidiaries” refers to those in which an overseas subsidiary, in which a Japanese company(s) has invested more than 50%, makes a more than 50% investment. Hereinafter they are included in “overseas affiliates.”

### **3. Method**

Mail survey based on self-declaration survey forms (one for parent company and one for each overseas affiliate) given to parent company.

### **4. Time**

The survey was conducted on July 1, 2005, on the actual results of FY2004 and those of the end of FY2004, as of March 31, 2005 or the closest closing date before that.

### **5. Collection**

Response rate: 65.9%

Number of companies that gave a valid response: Parent companies 2,595

Overseas affiliates 14,955

**Note:**

**1. Conversion**

The currency unit is ¥, in principle.

It should be taken into consideration that compared to the previous year, the yen strengthened against the US\$ (from ¥115.93/\$ to ¥108.19/\$, up by 6.7%), and weakened against the Euro (from ¥130.85/Euro to ¥134.34/Euro, down by 2.7%).

**2. Definition of regions**

In this survey, the definitions below are applied unless otherwise stated. “China” includes Hong Kong. Some regions may be counted as a country.

NIEs<sup>3</sup>: Singapore, Taiwan and South Korea

ASEAN<sup>4</sup>: Malaysia, Thailand, Indonesia and the Philippines

See Table 3, “Classification of region and country, Currency conversion table” for attached summary sheets for the definition of “North America,” “Asia” and “Europe.”

**3. Industry classification**

Industry classification for this survey is based on the Japanese Standard Industry Classification.

This survey results are counted, dividing the “information and communication and transportation” sector into the “information and communication” sector and the “transportation” sector, and the “wholesaling and retailing” sector into the “wholesaling” sector and the “retailing” sector.

**4. Issues to be taken into consideration for the results.**

1. The statistics are based only on valid responses and there are, therefore, differences in the number of companies counted in each entry.
2. When comparing results to those from the previous year, differences in the response rate and the number of companies surveyed should be taken into consideration.
3. A break is seen between the results in FY2000 and those in FY2001, as the figures were counted in accordance with the new classification, in effect since FY2001, along with the revision of the Japanese Standard Industry Classification.

## **1. Overseas expansion (ex. the establishment, etc.) and withdrawal of overseas affiliates**

### **(1) Overseas expansion**

- The number of overseas affiliates newly established or where capital participation was implemented, which decreased after hitting a peak in 2002, was 466 (down by 167 compared to the previous year), a fall for the second consecutive year. The number for manufacturing industries fell by 111 (id.) to 201, and that for non-manufacturing industries fell by 56 (id.) to 265. The number for non-manufacturing industries exceeded that for manufacturing industries for the second consecutive year (see Figure 1).
- By sector, there were significant decreases in the number for the transport equipment sector (down by 42 (id.) to 36), the wholesaling and retailing sector (down by 30 (id.) to 102), the chemical sector (down by 26 (id.) to 16), and the information and communication equipment sector (down by 22 (id.) to 24). (see Figure 2).
- In terms of regions, the number fell in North America for the fourth consecutive year by 20 (id.) to 51. There was a sharp drop in Asia (down by 126 (id.) to 317), where it decreased in China for the second consecutive year by 94 (id.) to 210. There was a decrease also in Europe by 11 (id.) to 60 (see Table 3).

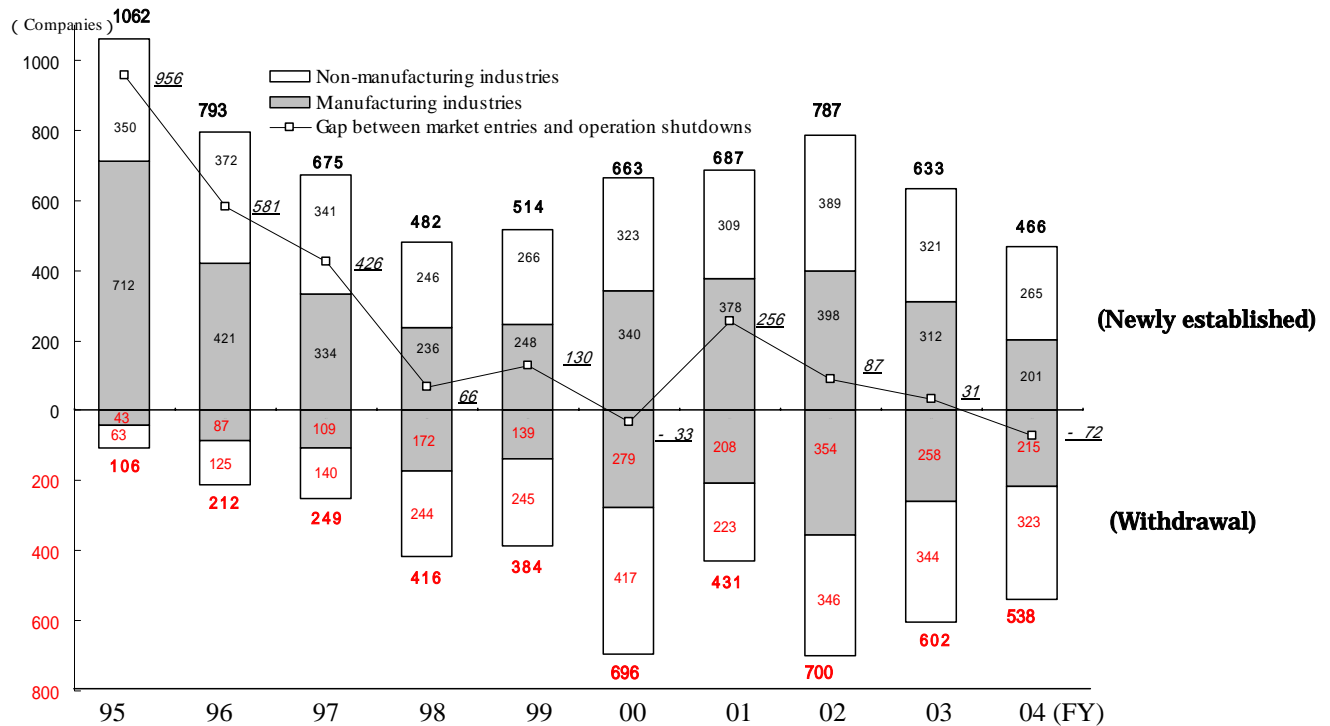
### **(2) Withdrawal**

- The number of affiliates whose operations were shut <sup>(Note1)</sup> decreased by 64 compared to the previous year to 538, a decline for the second consecutive year, but still sustained a high level. Both manufacturing and non-manufacturing industries saw the number decrease for the second consecutive year, by 43 (id.) to 215 and by 21 (id.) to 323 respectively (see Figure 1).
- By sector, in the information and communication equipment sector a decrease was observed of 10 (id.) to 24, in the electrical machinery sector of 10 (id.) to 20 (manufacturing industries), in the construction sector of 8 to 13 and in the wholesaling and retailing sector of 2 (id.) to 126 (non-manufacturing industries) (see Figure 4).
- In terms of regions, the number for Asia decreased by 25 (id.) to 238, and that for Europe also decreased by 7 to 98, while that for North America increased slightly by 1 (id.) to 136 (see Table 5).
- The ratio of withdrawals<sup>(Note2)</sup> was notably lower in Asia (2.7%) compared to those in North America (4.7%) and Europe (4.0%) (see Table 5).

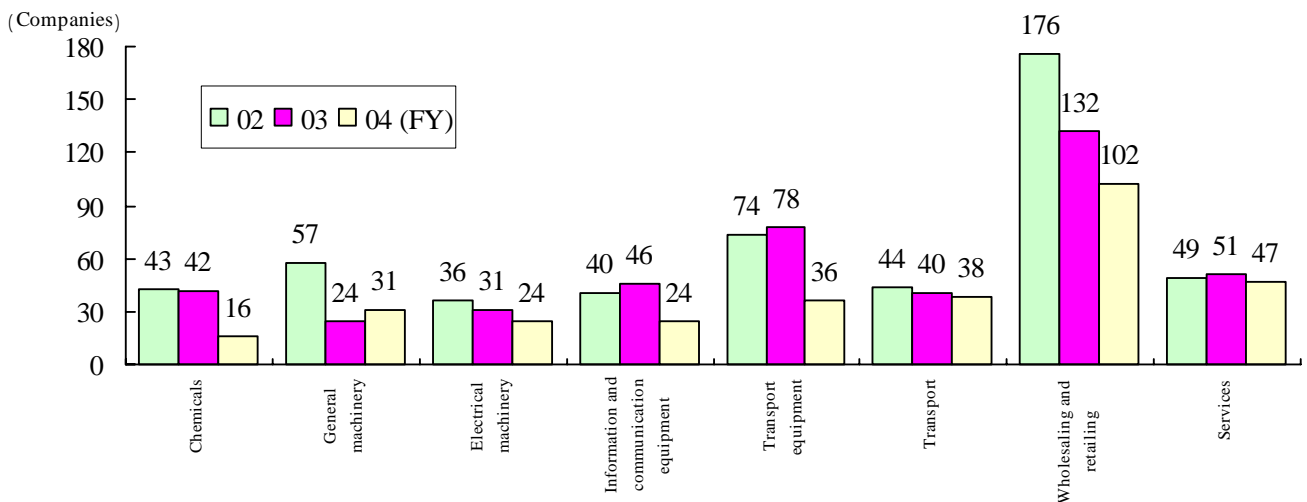
Note 1: "Withdrawal" includes "dissolution, withdrawal/transfer" and "drop in the investment ratio" (where this ratio declines to a range of over 0% to less than 10%).

Note 2: Ratio of withdrawals = Number of affiliates withdrawn in 2004 / (Total number of affiliates with valid response in 2004 + Number of affiliates withdrawn in 2004) × 100

**Figure 1. Number of overseas affiliates newly established or where capital participation implemented and those whose operations were shut**



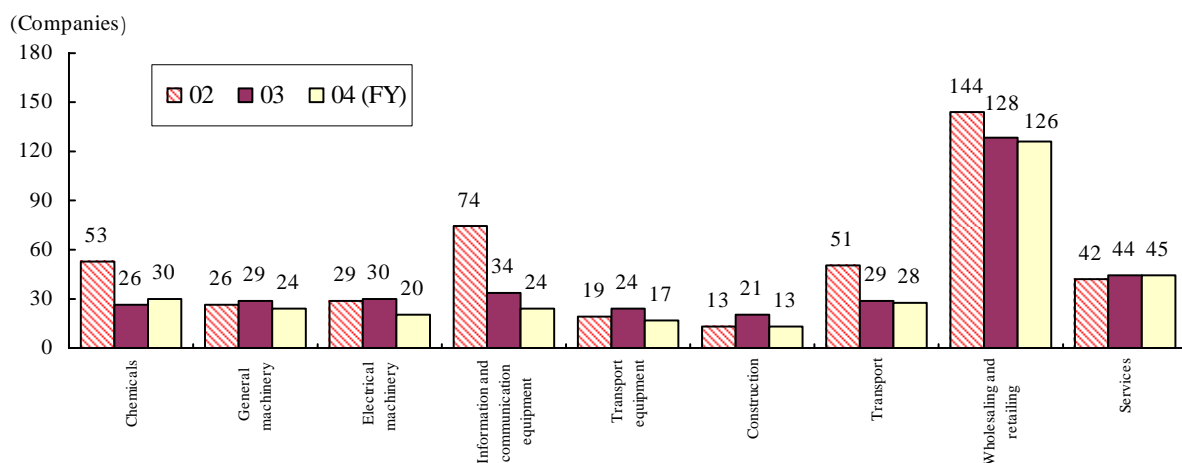
**Figure 2. Number of overseas affiliates newly established or where capital participation implemented (by sector)**



**Table 3. Number of overseas affiliates newly established or where capital participation implemented (by region)**

	95	96	97	98	99	00	01	02	03	04 (FY)
All regions	1,062	793	675	482	514	663	687	787	633	466
North America	95	111	105	81	106	118	106	80	71	51
Asia	785	544	436	256	268	368	440	553	443	317
China	413	185	161	99	103	165	253	381	304	210
Europe	112	84	76	85	94	107	90	110	71	60

**Figure 4. Number of overseas affiliates where operations were shut (by sector)**



**Table 5. Number and ratio of overseas affiliates where operations were shut (by region)**

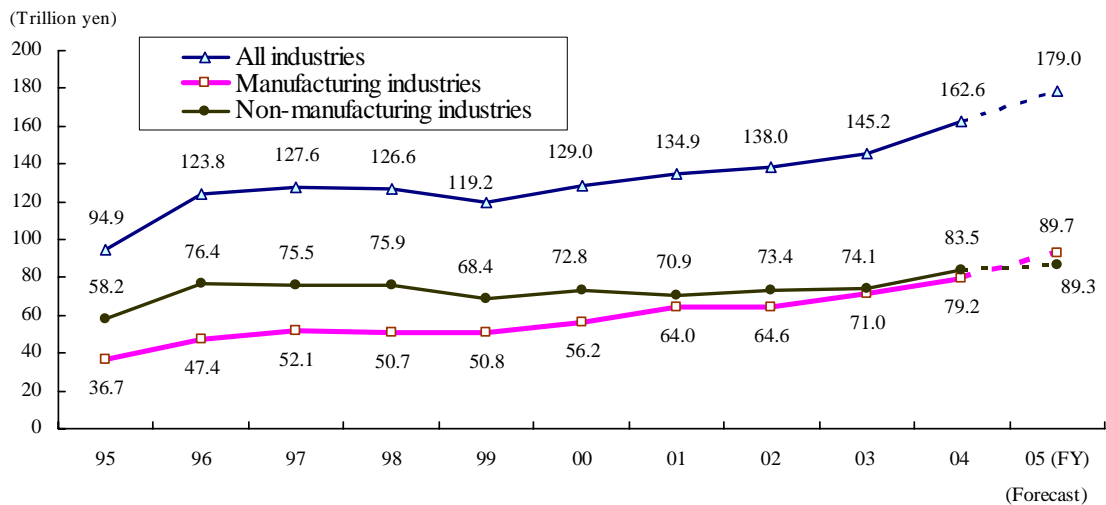
(Companies)

	95	96	97	98	99	00	01	02	03	04 (FY)	Ratio of affiliates withdrawn in FY2004
All regions	106	212	249	416	384	696	431	700	602	538	3.5
North America	32	67	90	148	128	194	142	173	135	136	4.7
Asia	29	59	69	147	138	285	134	323	263	238	2.7
China	10	16	19	50	58	110	45	108	94	92	2.5
Europe	33	49	52	65	64	126	80	124	105	98	4.0

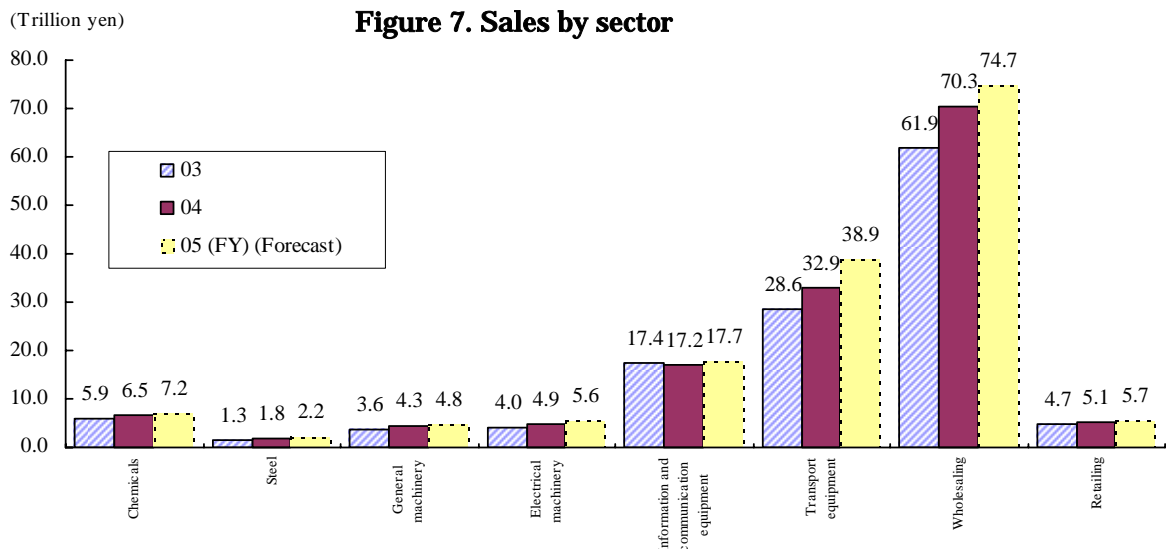
## 2. Sales

- Sales hit a record high of 163 trillion yen, up by 12.0% compared to the previous year. They rose by 10.2% when comparing companies that gave a valid response for both the previous year and this year. The amount for manufacturing industries increased by 11.4% from the previous year to 79.2 trillion yen, and that for non-manufacturing industries also increased by 12.6% (id.) to 83.5 trillion yen (see Figure 6).
- By sector, increases were observed in the electrical machinery sector (up by 22.7% compared to the previous year) and in the transport equipment sector (up by 14.8% (id.)) (manufacturing industries), as well as in the wholesaling and retailing sector (up by 13.6% (id.)) (non-manufacturing sector) (see Figure 7).
- In terms of regions, increases were seen in the amount for North America (up by 3.0% compared to the previous year to 59.8 trillion yen), that for Asia (up by 20.4% (id.) to 52.6 trillion yen) and that for Europe (up by 15.5% (id.) to 37.2 trillion yen) (see Figure 8). In Asia, China, ASEAN4, and NIEs3 increases were seen of 26.4% (id.), 16.5% (id.), and 18.4% (id.), respectively (see Figure 9).
- The overseas production ratio (calculated based on the total number of domestic companies)<sup>(Note)</sup> for manufacturing industries increased by 0.6 points compared to the previous year to mark a record high of 16.2% (see Figure 10).

**Figure 6. Sales trend**

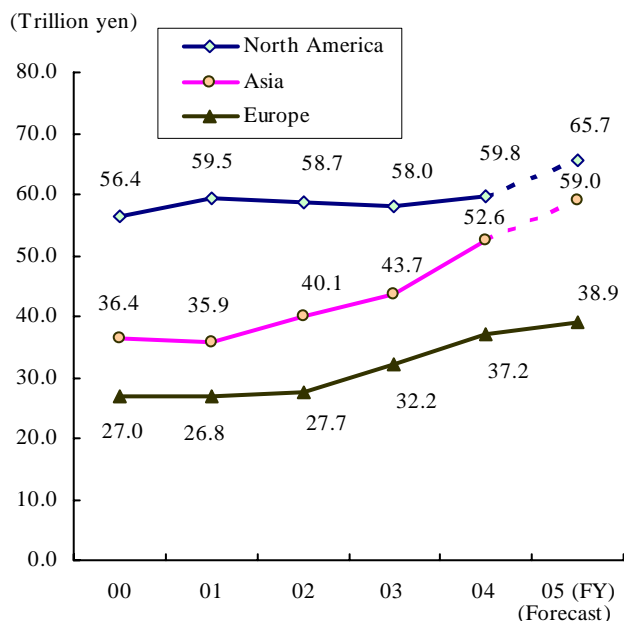


**Figure 7. Sales by sector**

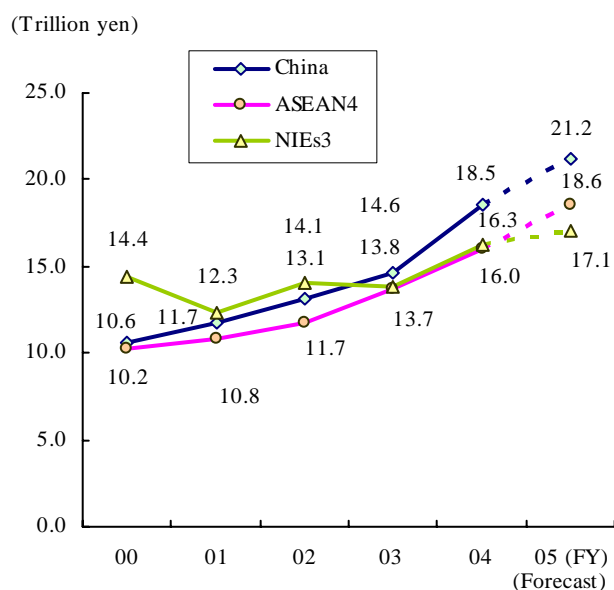




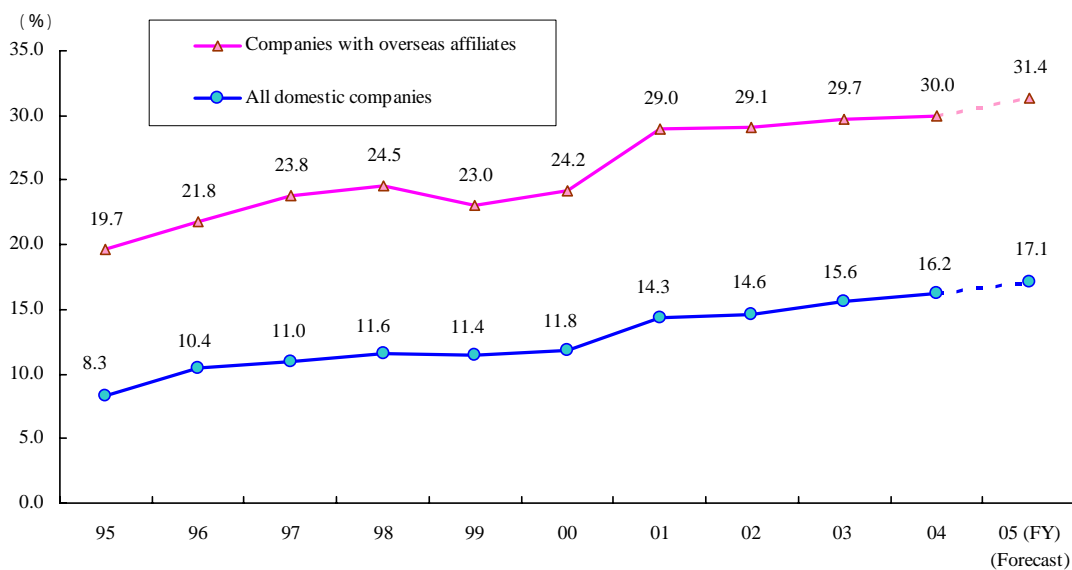
**Figure 8. Trend in the sales by region**



**Figure 9. Trend in the sales in Asia**



**Figure 10. Trend in the overseas production ratio of manufacturing industries**



**Note1: The overseas production ratio based on all domestic companies**

$$= \text{Sales of overseas affiliates (manufacturing)} / (\text{Sales of overseas affiliates (manufacturing)} + \text{Total sales of domestic companies (manufacturing)}) \times 100$$

**Note 2: The value for FY2005 was surveyed as a forecast. The FY2005 forecast value based on all domestic companies was calculated by METI.**

**Note 3: The overseas production ratio based on companies with overseas affiliates**

$$= \text{Sales of overseas affiliates (manufacturing)} / (\text{Sales of overseas affiliates (manufacturing)} + \text{Sales of parent companies (manufacturing)}) \times 100$$

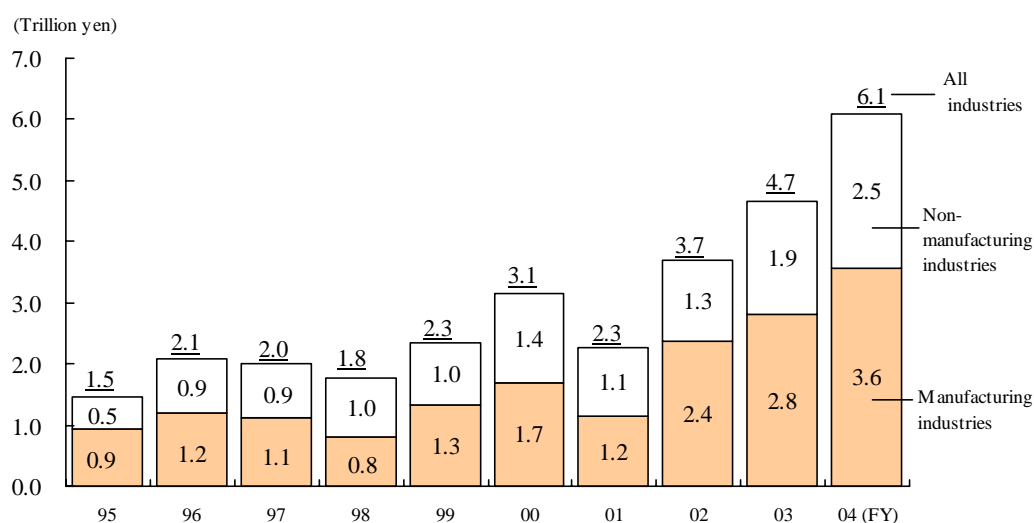
**Note 4: The values for "electrical machinery" include those for "information and communication equipment".**

**Source: Sales of domestic companies: "Financial Statements of Corporations by Industry" (Ministry of Finance)**

### 3. Profit

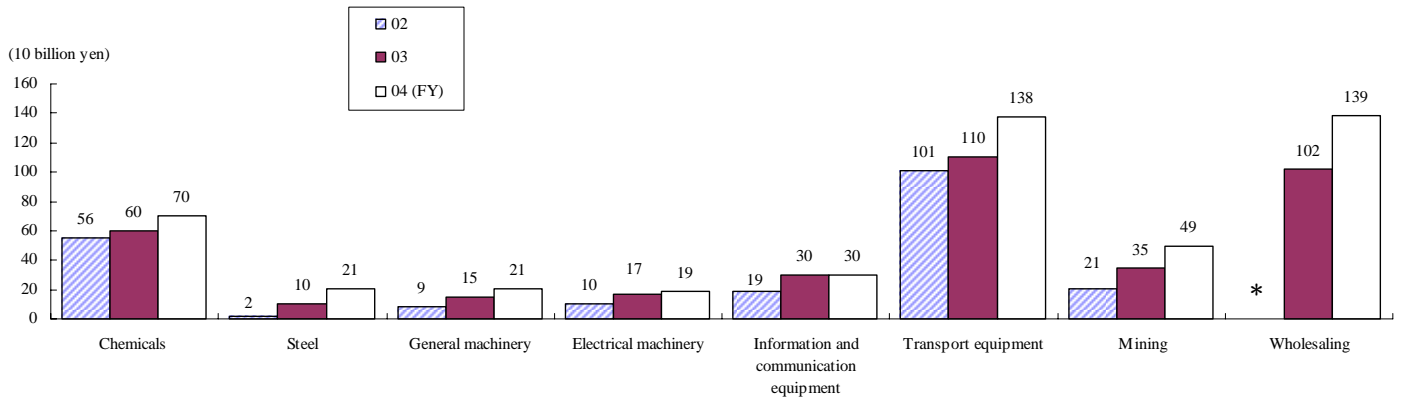
- The recurring profits amounted to the highest ever at 6.1 trillion yen, up by 30.2% from the previous year. (They rose by 28.2% when comparing companies that gave a valid response for both the previous year and this year.) The amount for manufacturing industries increased by 27.1% (id.) to 3.6 trillion yen, and that for non-manufacturing industries also increased by 34.7% (id.) to 2.5 trillion yen, both reaching a record high (see Figure 11).
- By sector, in manufacturing industries, significant increases were observed in the steel sector (up by 104.2% compared to the previous year), the general machinery sector (up by 40.2% (id.)), and the transport machinery sector (up by 24.8% (id.)). In non-manufacturing industries, increases were notable in the mining sector (up by 42.4% (id.)) and the wholesaling and retailing sector (up by 35.6% (id.)) (see Figure 12).
- In terms of regions, there were significant increases in each of North America (up by 20.4% compared to the previous year), Asia (up by 24.9% (id.)), and Europe (up by 48.4% (id.)) (see Figure 13). In Asia, high growth was seen in ASEAN4 (up by 29.8% (id.)) and NIEs3 (up by 35.6% (id.)) (see Figure 14).
- The ratio of recurring profits to sales<sup>(Note)</sup> improved by 0.5 points from the previous year to 3.9%, up for the third consecutive year. It exceeded that of domestic companies by 0.8 points, expanding the difference. The ratio for manufacturing industries increased by 0.4 points (id.) to 4.9%, breaking the record set the previous year, and that for non-manufacturing industries also increased for the second consecutive year, up by 0.5 points (id.) to 2.9%.
- In terms of regions, the ratio for Asia remained at a high level, remaining flat at 4.3%, and that for North America and for Europe also increased by 0.5 points (id.) to 3.6% and by 0.5 points (id.) to 2.1%, respectively (see Table 15).

**Figure 11. Trend in recurring profits**



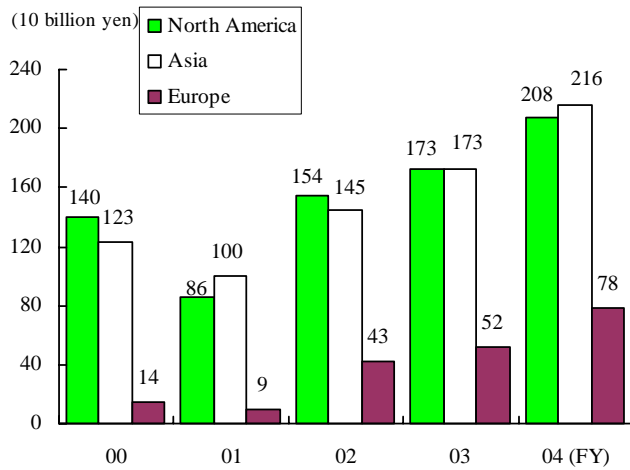
Note : Ratio of recurring profit to sales = Recurring profit / Sales × 100  
 (Calculated on values from affiliates that responded to questionnaires for both recurring profit and sales)

**Figure 12. Amount of recurring profits by sector**

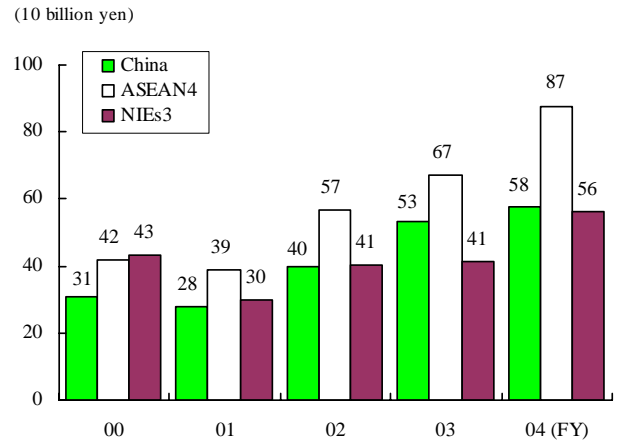


Note: \* part is not displayed due to discontinuity caused by changes in industry sector.

**Figure 13. Trend in recurring profits by region**



**Figure 14. Trend in recurring profits in Asia**



**Table 15. Trend in ratio of recurring profits to sales**

(Unit: %)

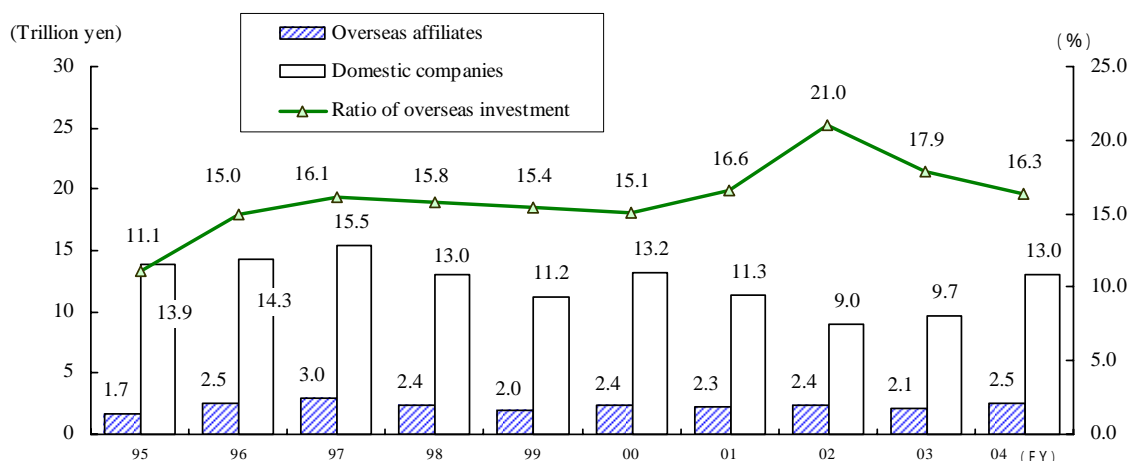
	95	96	97	98	99	00	01	02	03	04 (FY)
All industries	1.9	1.9	1.8	1.6	2.4	2.9	2.0	2.8	3.4	3.9
Manufacturing industries	3.1	2.9	2.7	1.9	3.2	3.9	2.2	4.1	4.5	4.9
Non-manufacturing industries	-	-	-	-	-	-	1.8	1.7	2.4	2.9
North America	1.8	1.4	1.9	2.0	3.0	3.1	1.7	2.7	3.1	3.6
Asia	4.5	2.9	1.5	1.6	2.7	3.7	3.2	3.9	4.3	4.3
China	1.9	2.3	1.3	0.6	2.3	3.1	2.9	3.5	4.0	3.3
Europe	1.3	0.6	1.4	0.9	1.0	0.6	0.4	1.4	1.6	2.1
Domestic companies	1.8	1.9	1.9	1.5	1.9	2.5	2.1	2.3	2.7	3.1

Source: Domestic companies: "Financial Statements of Corporations by Industry" (Ministry of Finance)

#### 4. Capital investment

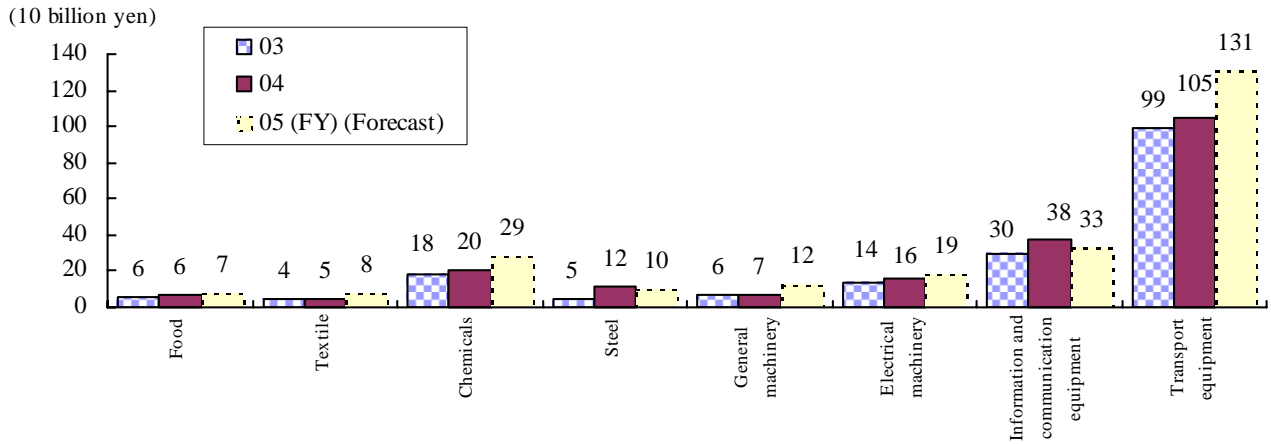
- The amount of capital investment in the manufacturing industries rebounded from a decline in the previous year, rising 19.8% to 2.5 trillion yen. (It rose by 12.3% when comparing companies that gave a valid response for both the previous year and this year.) The ratio of overseas investment<sup>(Note)</sup> decreased by 1.6 points from the previous year to 16.3%, down for the second consecutive year (see Figure 16).
- By sector, there were significant increases in the amount for the steel sector (up by 141.5% compared to the previous year) and the information and communication equipment sector (up by 27.4% (id.)). The amount for the transport equipment sector, which accounted for 40% of the total, increased steadily, up by 6.0% (id.) (see Figure 17).
- In terms of regions, the amount for Asia and for Europe increased by 45.8% and 16.2% respectively compared to the previous year, while that for North America saw a decrease (down by 16.7% (id.)). In Asia, there were increases in the amount for China (up by 53.4% (id.)), ASEAN4 (up by 34.8% (id.)), and NIEs3 (up by 53.3% (id.)) (see Figure 18 and Figure 19).

**Figure 16. Trend in capital investment of manufacturing industries**



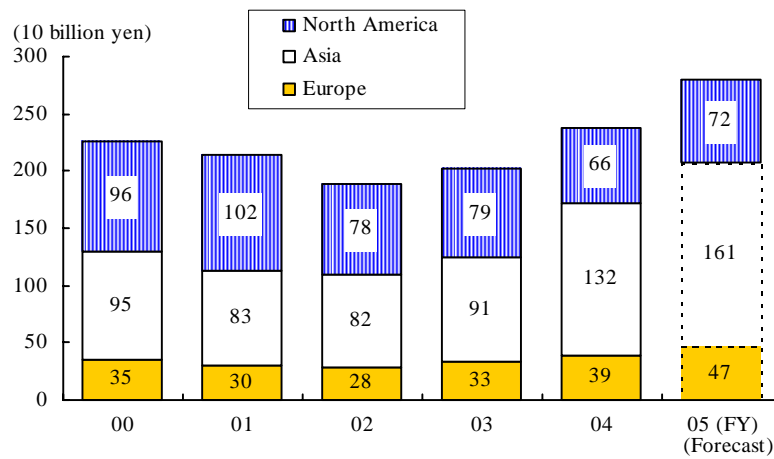
Note: Ratio of overseas investment = Capital investment amount of overseas affiliates / (Capital investment amount of overseas affiliates + Capital investment amount of domestic companies" × 100

**Figure 17. Capital investment by sector**



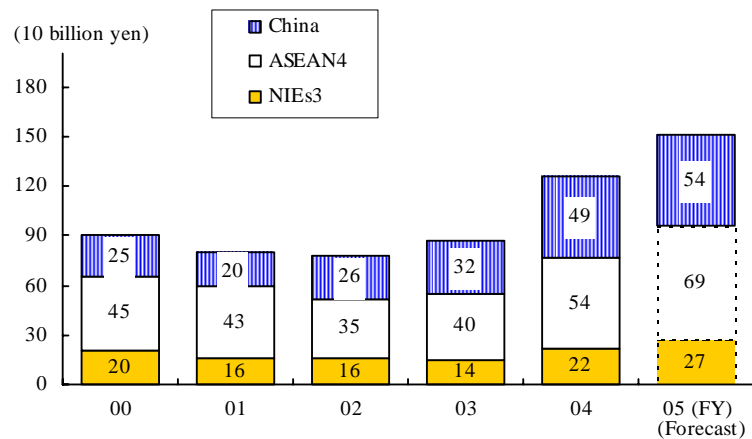
**Figure 18.**

**Capital investment of manufacturing industries by region**



**Figure 19.**

**Capital investment in manufacturing industries in Asia**



Source: Capital investment by domestic companies:

“Financial Statements of Corporations by Industry” (Ministry of Finance)

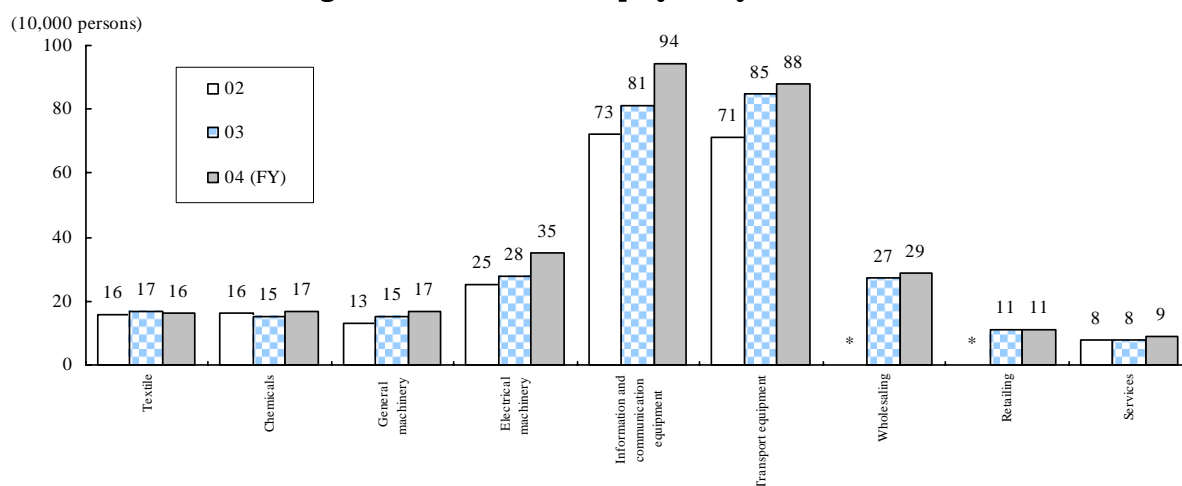
## 5. Employment

- The number of employees increased by 7.7% compared to the previous year to 4.06 million, up for the third consecutive year, hitting a record high. (It rose by 6.0% when comparing companies which gave a valid response for both the previous year and this year.) The number for manufacturing and non-manufacturing industries both increased by 8.5% (id.) to 3.38 million and by 3.8% (id.) to 0.68 million, respectively (see Table 20).
- By sector, increases were notable in the figure for the electrical machinery sector (up by 24.7% from the previous year) and that for the information and communication equipment sector (up by 15.1% (id.)) (see Figure 21).
- In terms of regions, the figure for Asia, which accounted for approximately 70% of the total, increased by 11.4%, up for the third consecutive year, to a record high. The figure for Europe also increased by 6.7%, up for the third consecutive year, while that for North America declined by 4.4% (see Figure 22). In Asia, there were increases in the number for China (up by 13.4% (id.)), for ASEAN4 (up by 10.1% (id.)), and for NIEs3 (up by 0.9% (id.)) (see Figure 23).

**Table 20. Trend in number of employees**

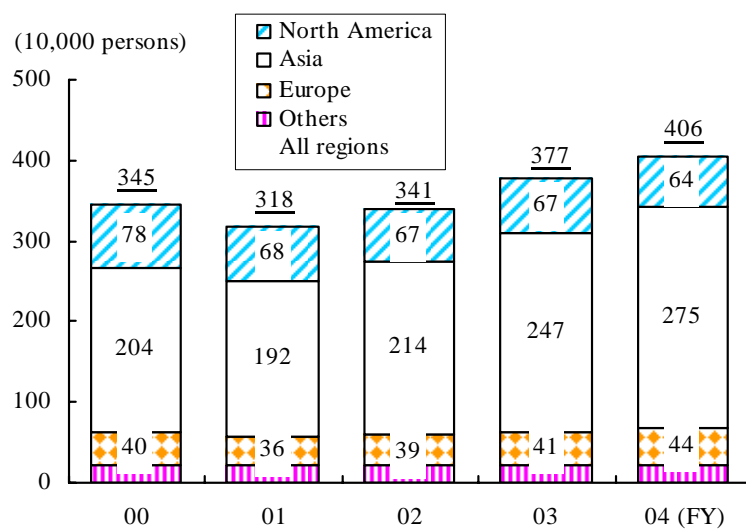
	01		02		03		04 (FY)	
		Year-on-year comparison		Year-on-year comparison		Year-on-year comparison		Year-on-year comparison
All industries	318	-8.0	341	7.3	377	10.5	406	7.7
Manufacturing industries	263	-6.2	280	6.5	311	11.0	338	8.5
Non-manufacturing industries	54	-16.2	60	11.3	65	8.2	68	3.8

**Figure 21. Number of employees by sector**

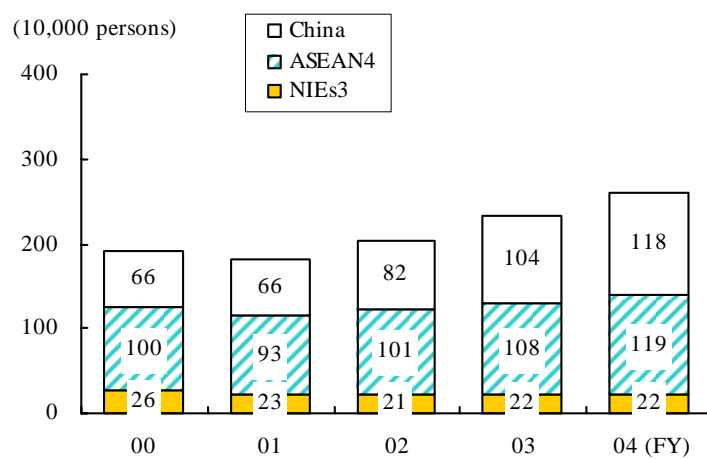


Note: \* part is not displayed due to discontinuity caused by changes in industry sector.

**Figure 22. Number of employees by region**



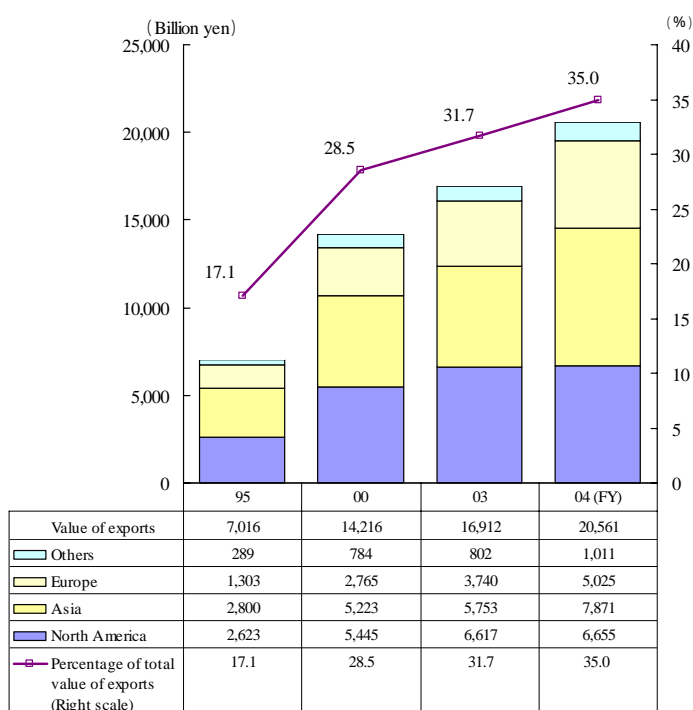
**Figure 23. Number of employees in Asia**



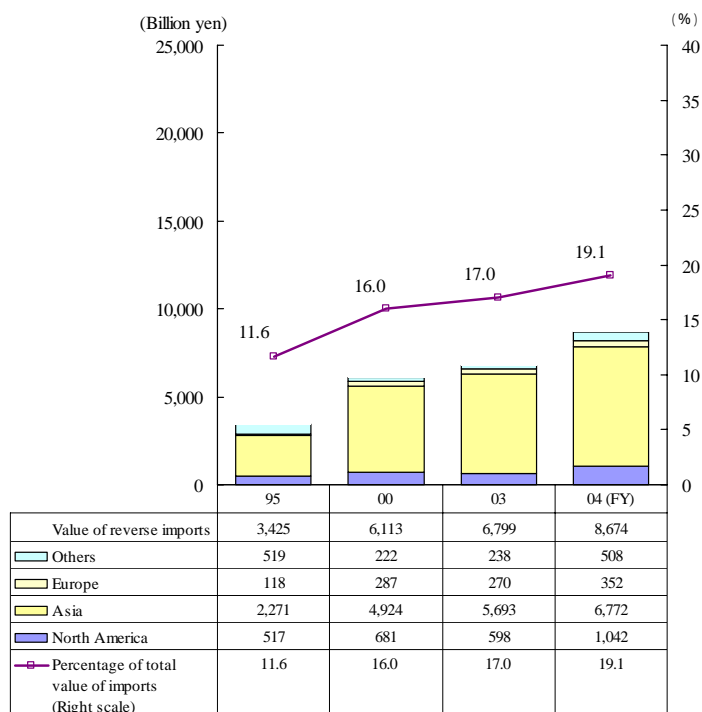
## 6. Sales and local procurement of overseas affiliates in manufacturing industries and import and export with Japan

- Exports from Japan to overseas affiliates in manufacturing industries were 20.6 trillion yen, up by 21.6% compared to the previous year, and exceeding 20 trillion yen for the first time. Exports to Asia accounted for 38% of the total, increasing by 36.8% (id.) and rising for the second consecutive year. This amount accounted for 35% of the total exports from Japan<sup>(Note1)</sup> (see Figure 24).
- Exports from overseas affiliates in manufacturing industries to Japan (the amount of reverse imports)<sup>(Note2)</sup> were 8.7 trillion yen, up by 27.6% (id.). Of these, the amount of reverse imports from Asia accounted for 78% of the total (see Figure 25).

**Figure 24.**  
Trend in exports to overseas affiliates in manufacturing industries and its ratio out of total exports from Japan



**Figure 25.**  
Trend in reverse imports from overseas affiliate in manufacturing industries and its ratio out of total imports into Japan



Note 1: Total amount of exports and imports from and to Japan. Source: "Balance of Payments Statistics" (Bank of Japan)

Note 2: The amount of reverse imports = Sales to Japan by overseas affiliates in manufacturing industries