

Summary of the 36th Survey on Overseas Business Activities (conducted in July 2006)

March 30, 2007

Trend of overseas affiliates in the fiscal year 2005 survey

- The overseas production ratio, sales and recurring profits, capital investment, and employment all reached a record high. In Asia, business was brisk in China, ASEAN 4, and NIEs3.
- The number of new overseas affiliates decreased for the third consecutive year. The number of overseas affiliates withdrawn from overseas increased for the first time in three years. Manufacturing industries saw increases, while non-manufacturing industries saw decreases.

Summary of findings

1. The highest overseas production ratio ever.

The overseas production ratio for manufacturing industries (based on all domestic companies) was the highest ever at 16.7%, breaking through the previous record high set the year before.

2. Sales and recurring profits reached a record high. Asian business maintained strong growth.

Sales at overseas affiliates hit a record high of 185 trillion yen, up by 13.5% from the previous year, and broke the previous record set the year before. (It rose by 14.8% when comparing companies that gave a valid response for both the previous year and this year.)

There were significant increases for the general machinery sector (up by 22.6% compared to the previous year), the transport equipment sector (up by 10.0% (id.)), and the wholesaling trade trade sector (up by 13.3% (id.)). The amount for Asian business increased significantly by 23.8% (id.), and Chinese business maintained high growth (up by 25.3% (id.)).

Recurring profits amounted to the highest ever at 7.6 trillion yen, rising significantly by 24.4% from the previous year. (They rose by 22.0% when comparing companies that gave a valid response for both the previous year and this year). The amount for manufacturing industries rose by 11.1% (id.) and that for non-manufacturing industries rose by 42.9% (id.), both reaching a record high.

3. The number of new overseas affiliates decreased for the third consecutive year. The number of overseas affiliates withdrawn from overseas increased for the first time in three years.

The number of overseas affiliates newly established or where capital participation was implemented decreased, marking 494 this year. This was a fall of 259 from the previous year and a decline for the third consecutive year. The number for Asia decreased sharply by 198 to 303, and those for Europe (down by 21 (id.)) and North America (down by 7 (id.)) also decreased.

The number of overseas affiliates withdrawn from overseas increased by 22 to 560, an increase for the first time in three years. Manufacturing industries saw increases (up by 40 (id.)), while non-manufacturing industries saw decreases (down by 18 (id.)). The number for Europe and Asia increased by 24 and 4, respectively, from the previous year, while that for North America decreased

by one (id.).

4. Employment increased for the fourth consecutive year, reaching a record high. Increases were observed in Asia.

The number of employees at overseas affiliates increased by 5.2% from the previous year to 4.36 million, up for the fourth consecutive year. (It increased by 7.1% when comparing companies that gave a valid response for both the previous year and this year.) The number for Asia increased by 10.1% (id.), increasing by 18.3% (id.) for China, 3.5% (id.) for ASEAN4, and 0.1% (id.) for NIEs3. The numbers for North America and Europe fell by 4.1% (id.) and 1.3% (id.), respectively.

5. The amount of capital investment in manufacturing industries was 3.5 trillion yen. Increases were observed in all regions.

The amount of capital investment in manufacturing industries rose by 38.2% from the previous year to 3.5 trillion yen, maintaining a significant increase from the previous year to mark a record high. (It increased by 30.0% when comparing companies that gave a valid response for both the previous year and this year.) The amount increased by 96.2% (id.) for the chemical sector, and by 60.2% (id.) for the transport equipment sector, both registering significant increases. The amount increased in all regions, up by 47.7% for Europe, by 46.0% (id.) for North America, and by 32.0% for Asia. In Asia, the amount rose by 78.8% (id.) for NIEs3, by 31.3% (id.) for China, and by 14.6% (id.) for ASEAN4.

6. Exports to overseas affiliates reached a record high.

The value of exports to overseas affiliates was 22.0 trillion yen, exceeding 20 trillion yen for the second consecutive year. Exports to Asia increased for the third consecutive year.

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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, 2006, 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, 2006, on the actual results of FY2005 and those of the end of FY2005, as of March 31, 2006 or the nearest closing date before that.

5. Collection

Response rate: 69.6%

Number of companies that gave a valid response: Parent companies 3,176

Overseas affiliates 15,812

Note:

1. Conversion

The currency unit is ¥, in principle.

It should be taken into consideration that compared to the previous year, the yen weakened against the US\$ (from ¥108.19/\$ to ¥110.22/\$, down by 1.9%), and also weakened against the Euro (from ¥134.34/Euro to ¥137.07/Euro, down by 2.0%).

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.

NIEs3: Singapore, Taiwan and Republic Korea

ASEAN4: 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.

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 has decreased after hitting a peak in 2002 and was 494 (down by 259 compared to the previous year), a fall for the third consecutive year.

The number for manufacturing industries fell by 136 (id.) to 182, and that for non-manufacturing industries fell by 123 (id.) to 312. The number for non-manufacturing industries exceeded that for manufacturing industries for the third consecutive year (see Figure 1).

- By sector, there were significant decreases in the number for the wholesaling trade sector (down by 46 (id.) to 116), the transport equipment sector (down by 32 (id.) to 30), the services sector (down by 27 (id.) to 54), and the general machinery sector (down by 25 (id.) to 21) (see Figure 2).
- In terms of regions, the number fell in North America for the second consecutive year by 7 (id.) to 76. There was a sharp drop in Asia (down by 198 (id.) to 303), where the number for China decreased by 143 (id.) to 185, down for the third consecutive year. There was a decrease also in Europe by 21 (id.) to 76 (see Table 3).

(2) Withdrawal

- The number of affiliates withdrawn from overseas^(Note1) increased by 22 compared to the previous year to 560. Manufacturing industries saw an increase of 40 (id.) to 255, while non-manufacturing industries saw a decrease of 18 (id.) to 305. The number of withdrawals increased for manufacturing industries (see Figure 1).

- By sector, in manufacturing industries, there were increases for the transport equipment sector (up by 18 (id.) to 35) and for the chemical sector (up by 10 (id.) to 40). In non-manufacturing industries, an increase was observed for the services sector (up by 7 (id.) to 52), although there were decreases for the wholesaling trade sector (down by 15 (id.) to 111) and other sectors (see Figure 4).

- In terms of regions, the number for Asia increased by 4 (id.) to 242, and that for Europe also increased by 24 to 122, while that for North America decreased slightly by one (id.) to 135 (see Table 5).

- The ratio of withdrawals^(Note2) was notably lower in Asia (2.6%) compared to that in North America (4.6%) and Europe (4.9%) (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 2005 / (Total number of affiliates with valid response in 2005 + Number of affiliates withdrawn in 2005)×100

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

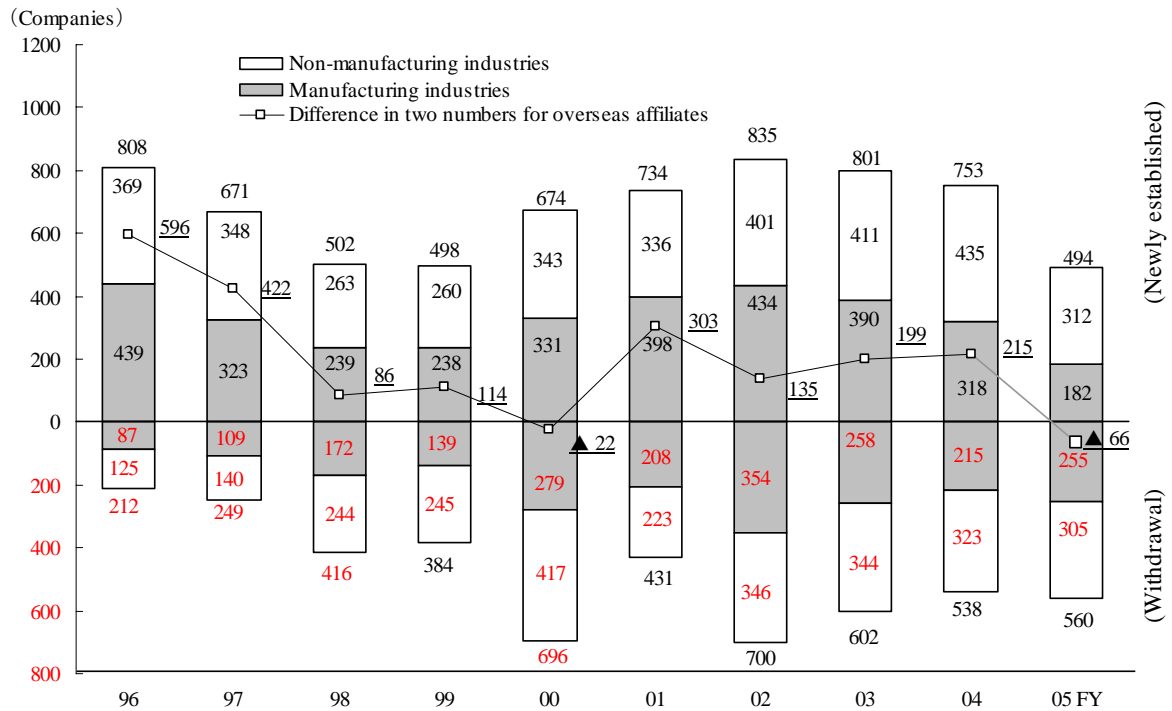


Figure 2. Number of overseas affiliates newly established or where capital participation implemented (by sector)

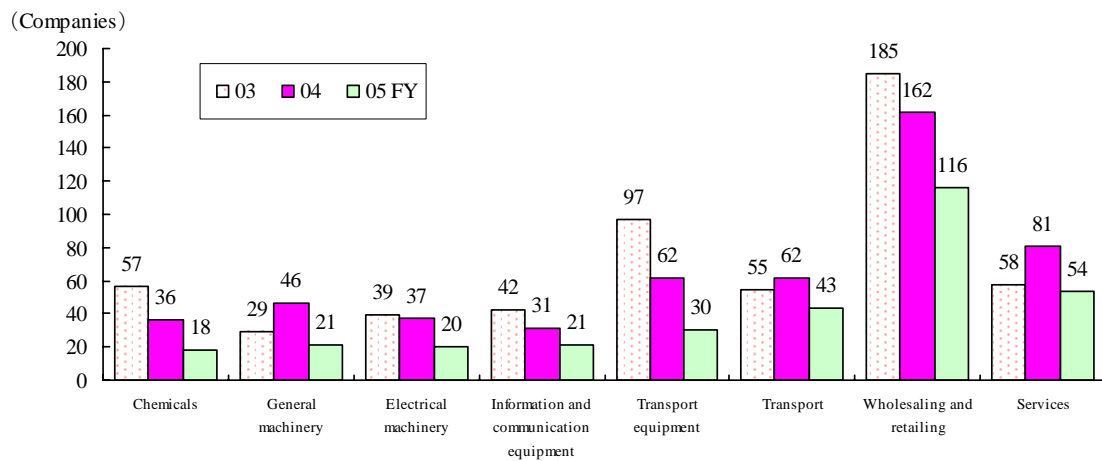


Table 3. Number of overseas affiliates newly established or where capital participation implemented (by region)

(Companies)

	96	97	98	99	00	01	02	03	04	05 FY
All regions	808	671	502	498	674	734	835	801	753	494
North America	102	106	82	105	120	115	74	90	83	76
Asia	564	439	268	254	387	469	615	564	501	303
China	185	165	113	100	176	273	434	409	328	185
Europe	92	69	90	93	99	87	102	89	97	76

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

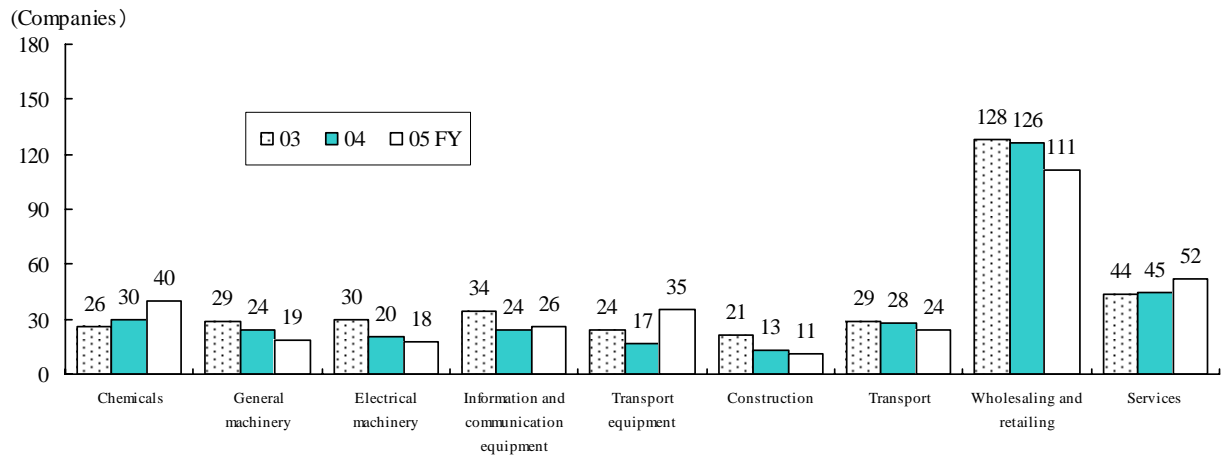


Table 5. Number and ratio of overseas affiliates whose operations were shut (by region)

(Companies, %)

	96	97	98	99	00	01	02	03	04	05 FY	Ratio of affiliates withdrawn in FY2005
All regions	212	249	416	384	696	431	700	602	538	560	3.4
North America	67	90	148	128	194	142	173	135	136	135	4.6
Asia	59	69	147	138	285	134	323	263	238	242	2.6
China	16	19	50	58	110	45	108	94	92	109	2.6
Europe	49	52	65	64	126	80	124	105	98	122	4.9

2. Sales

- Sales hit a record high of 185 trillion yen, up by 13.5% compared to the previous year. They rose by 14.8% when comparing companies that gave a valid response for both the previous year and this year. The amount for manufacturing industries increased by 10.1% from the previous year to 87.3 trillion yen, and that for non-manufacturing industries also increased by 16.7% (id.) to 97.5 trillion yen, both showing significant increases (see Figure 6).
- By sector, increases were observed in the general machinery sector (up by 22.6% compared to the previous year) and in the transport equipment sector (up by 10.0% (id.)) (manufacturing industries), as well as in the wholesaling trade sector (up by 13.3% (id.)) (non-manufacturing sector) (see Figure 7).
- In terms of regions, increases were seen in the amount for North America (up by 10.7% compared to the previous year to 66.2 trillion yen), that for Asia (up by 23.8% (id.) to 65.3 trillion yen) and that for Europe (up by 2.7% (id.) to 38.2 trillion yen) (see Figure 8). In Asia, China, ASEAN4, and NIEs3 saw increases of 25.3% (id.), 16.6% (id.), and 28.7% (id.) respectively (see Figure 9).
- The overseas production ratio (calculated based on the total number of domestic companies)^(Note 1) for manufacturing industries increased by 0.5 points compared to the previous year to mark a record high of 16.7% (see Figure 10).

Figure 6. Sales trend

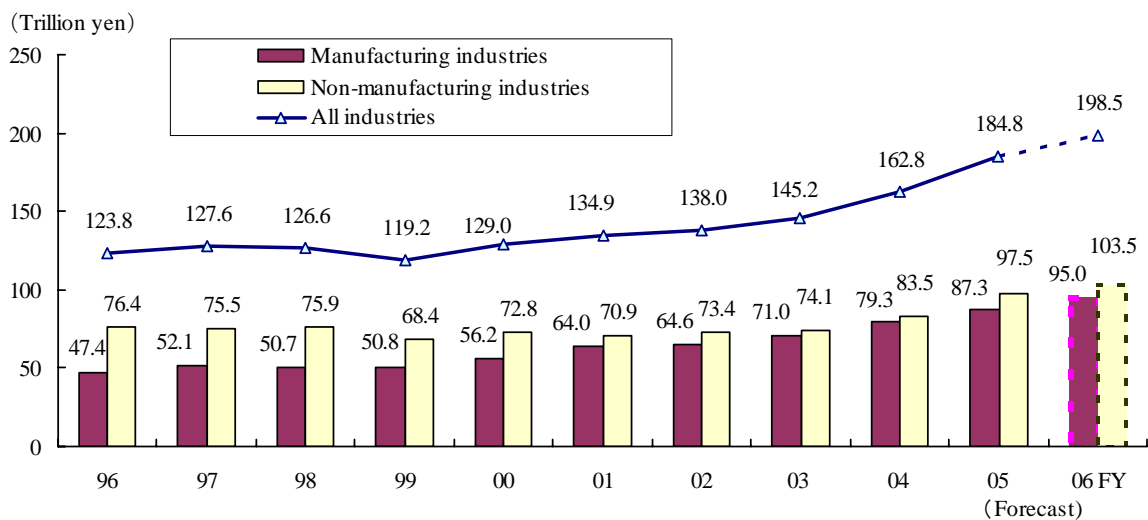


Figure 7. Sales by sector

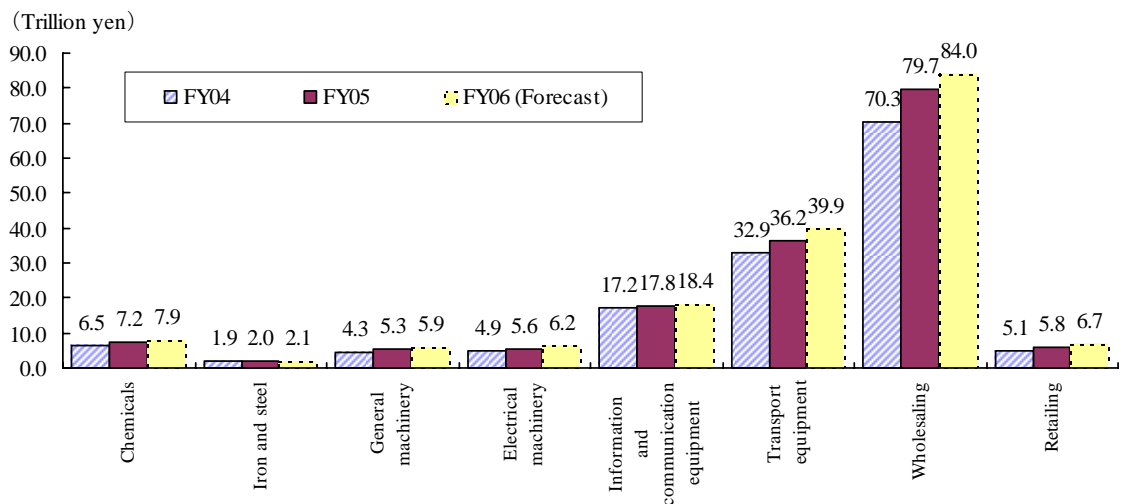


Figure 8. Trend in sales by region

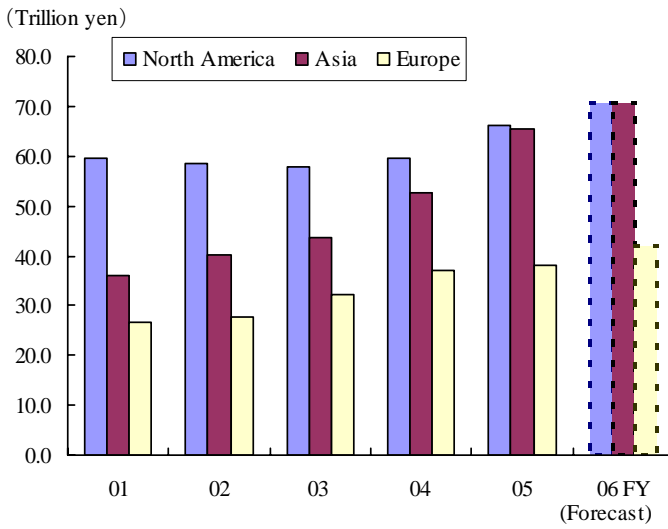


Figure 9. Trend in sales in Asia

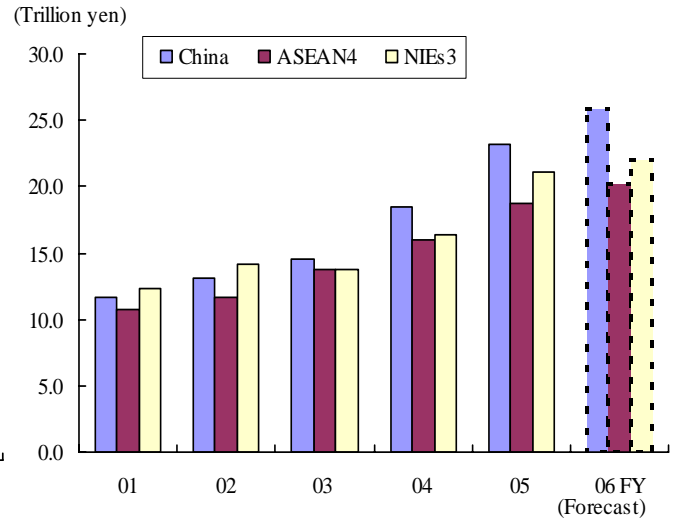
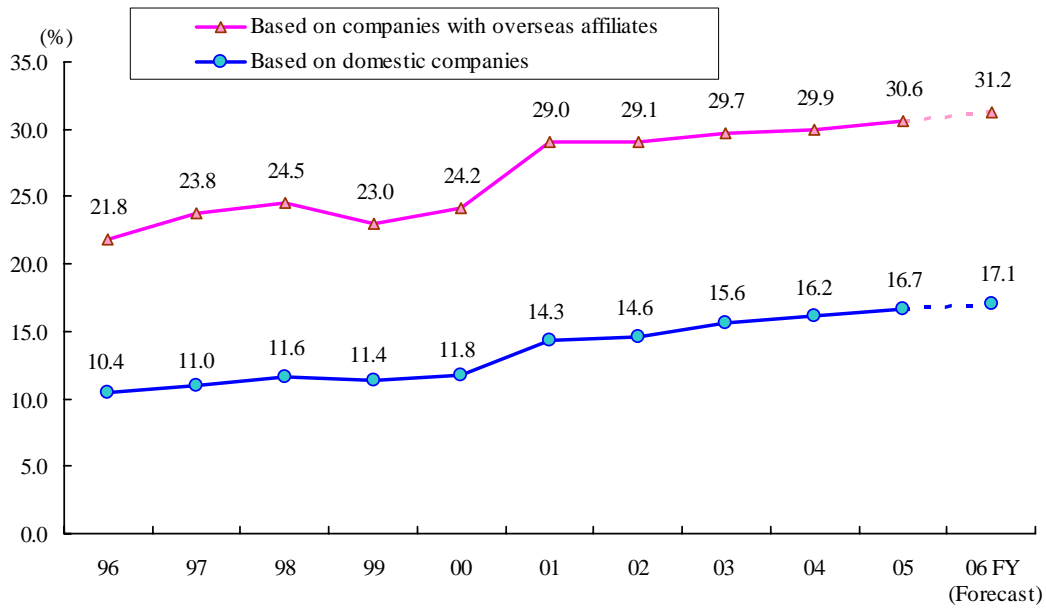


Figure 10. Trend in overseas production ratio of manufacturing industries



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 FY2006 was surveyed as a forecast. The FY2006 forecast value based on all domestic companies was calculated by METI.

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

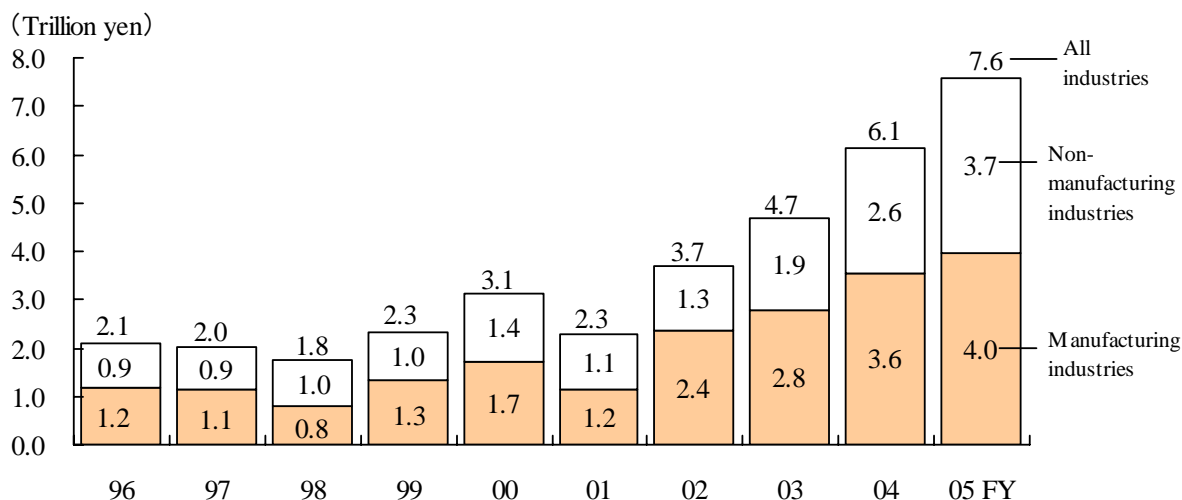
$$= \text{Sales of overseas affiliates (manufacturing)} / (\text{Sales of overseas affiliates (manufacturing)} + \text{Sales of parent companies (manufacturing)}) \times 100$$

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

3. Profit

- Recurring profits amounted to the highest ever at 7.6 trillion yen, up by 24.4% from the previous year. (They rose by 22.0% when comparing companies that gave a valid response for both the previous year and this year.) The amount for manufacturing industries increased by 11.1% (id.) to 4.0 trillion yen, and that for non-manufacturing industries also increased by 42.9% (id.) to 3.7 trillion yen, both reaching a record high (see Figure 11).
- By sector, in manufacturing industries, significant increases were observed in the transport equipment sector (up by 33.8% compared to the previous year), and the general machinery sector (up by 30.4% (id.)). In non-manufacturing industries, increases were notable in the mining sector (up by 143.4% (id.)) and the wholesaling trade sector (up by 13.6% (id.)) (see Figure 12).
- In terms of regions, there were significant increases in North America (up by 15.9% compared to the previous year), Asia (up by 13.2% (id.)), and Europe (up by 21.4% (id.)). The level for Asia has been above that for North America since FY2001 (see Figure 13). In Asia, growth was seen in China, ASEAN4, and NIEs3 (see Figure 14).
- The ratio of recurring profits to sales^(Note) improved by 0.3 points from the previous year to 4.2%, up for the fourth consecutive year. It exceeded that of domestic companies by 0.8 points. The ratio for manufacturing industries decreased by 0.1 points (id.) to 4.8%, and that for non-manufacturing industries increased by 0.8 points (id.) to 3.7% (see Table 15).
- In terms of regions, the ratio for Asia remained at a high level, decreasing by 0.3 points (id.) to 4.0%. The ratio for North America remained flat at 3.6% and that for Europe increased by 0.3 points (id.) to 2.4% (see Figure 16). In Asia, there were decreases in China, ASEAN4, and NIEs3 (see Figure 17).

Figure 11. Trend in recurring profits



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

Figure 12. Amount of recurring profits by sector

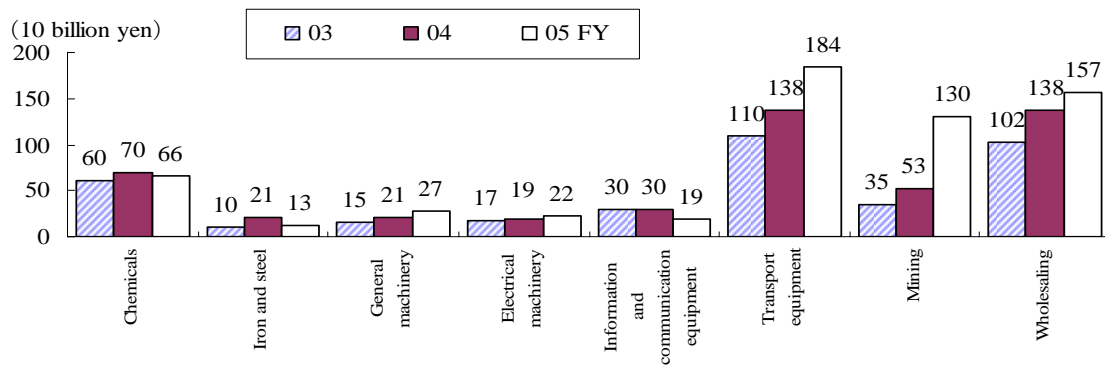


Figure 13. Trend in recurring profits by region

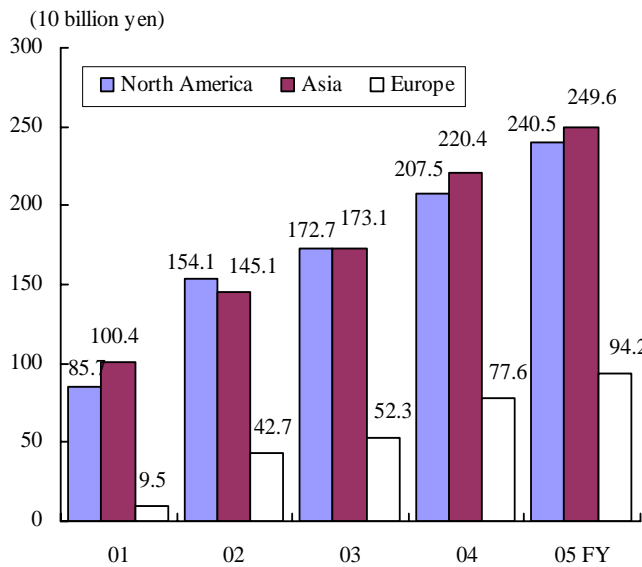


Figure 14. Trend in recurring profits in Asia

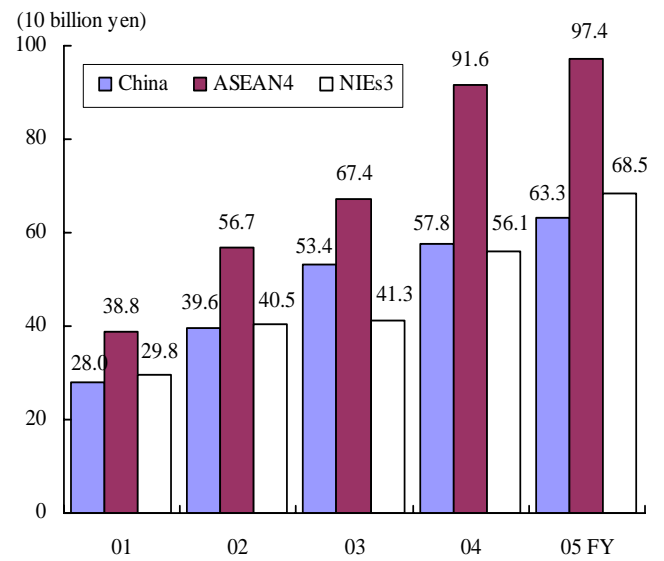


Table 15. Trend in ratio of recurring profits to sales

	96	97	98	99	00	01	02	03	04	05 FY
All industries	1.9	1.8	1.6	2.4	2.9	2.0	2.8	3.4	3.9	4.2
Manufacturing industries	2.9	2.7	1.9	3.2	3.7	2.2	4.1	4.5	4.9	4.8
Non-manufacturing industries	-	-	-	-	-	1.8	1.7	2.4	2.9	3.7
Domestic companies	1.9	1.9	1.5	1.9	2.5	2.1	2.3	2.7	3.1	3.4

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

Figure 16. Trend in ratio of recurring profits to sales by region

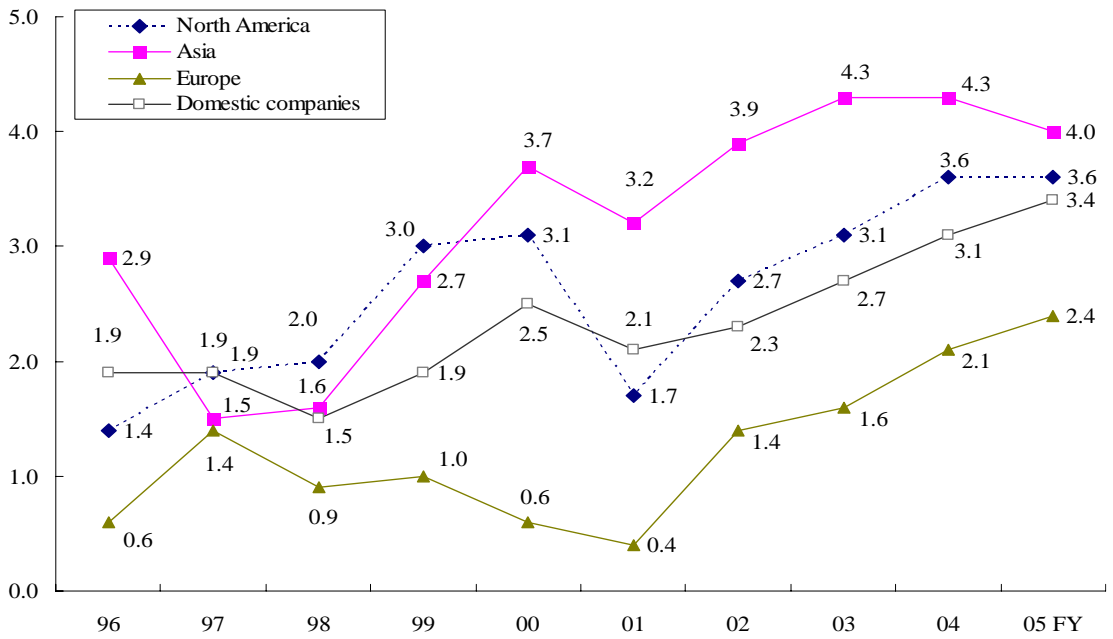
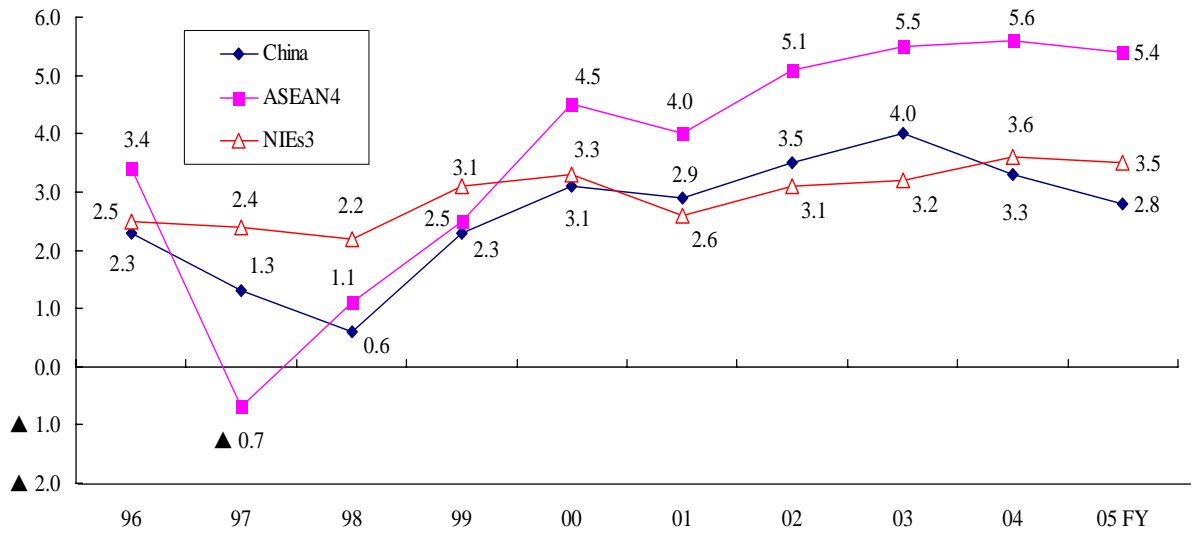


Figure 17. Trend in ratio of recurring profits to sales by region in Asia



4. Capital investment

- The amount of capital investment in the manufacturing industries increased for the second consecutive year, up by 38.2% to 3.5 trillion yen, marking a record high. (It rose by 30.0% in comparison among companies that gave a valid response for both the previous year and this year.) The ratio of overseas investment^(Note) increased by 3.3 points from the previous year to 19.6%, up for the first time in three years (see Figure 18).
- By sector, there was a significant increase in the amount for the chemicals sector (up by 96.2% compared to the previous year). The amount for the transport equipment sector also increased by 60.2% (id.), accounting for nearly 50% (see Figure 19).
- In terms of regions, there were increases in the amount for Europe (up by 47.7% (id.)), North America (up by 46.0% (id.)), and Asia (up by 32.0% (id.)) (see Figure 20). In Asia, there were increases in the amount for NIEs3 (up by 78.8% (id.)), China (up by 31.3% (id.)), and ASAEAN4 (up by 14.6% (id.)) (see Figure 21).

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 18. Trend in capital investment of manufacturing industries

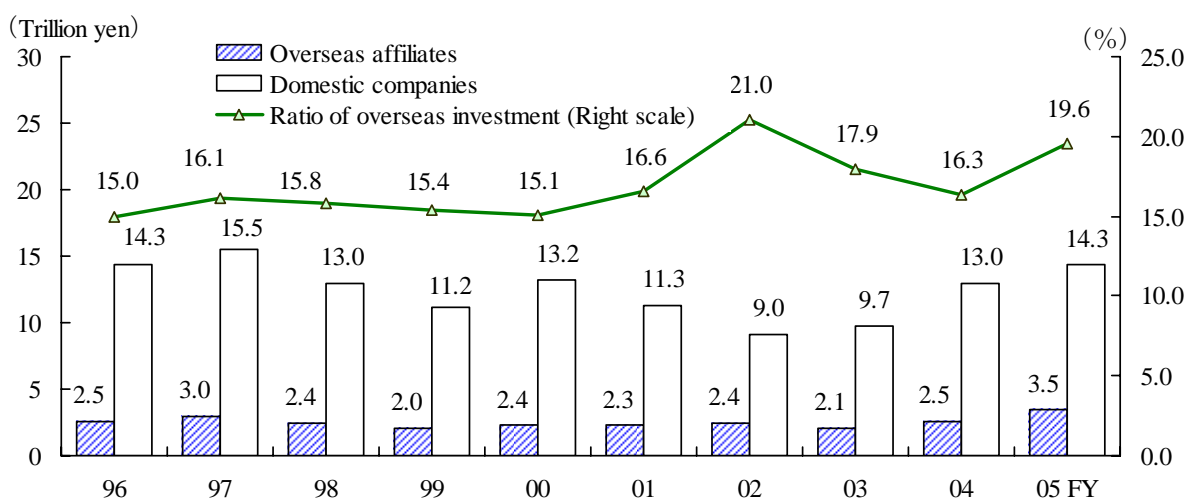


Figure 19. Capital investment by sector

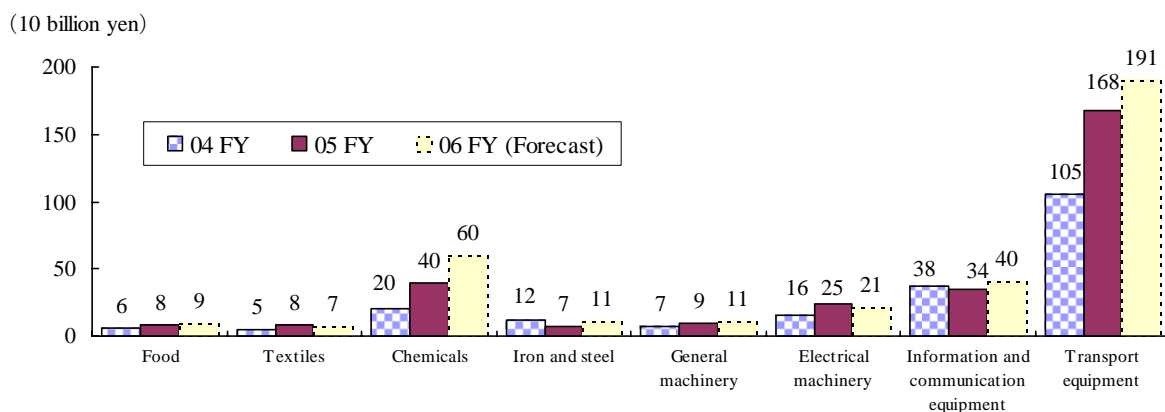


Figure 20. Capital investment of manufacturing industries by region

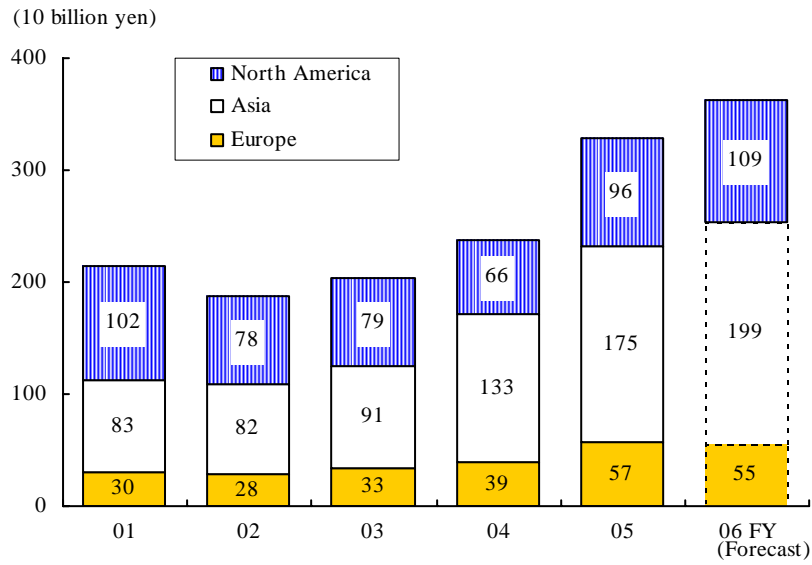
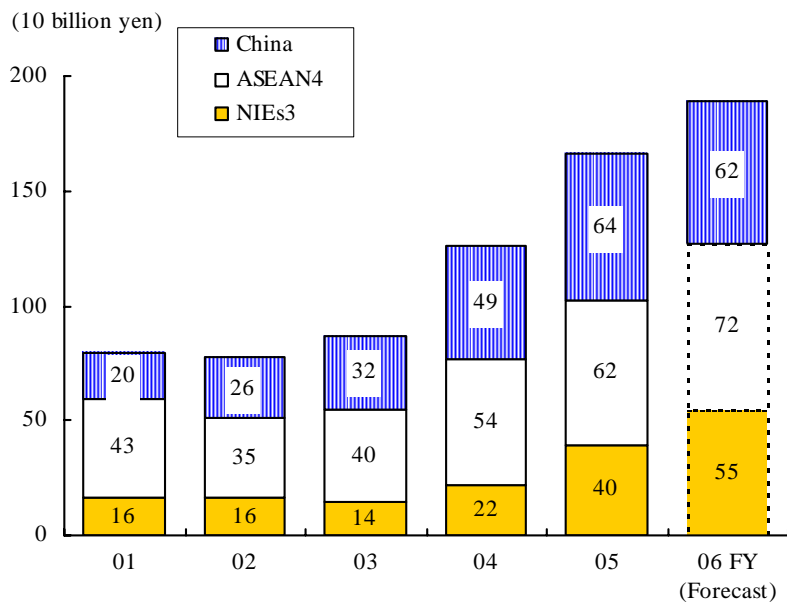


Figure 21. Capital investment of manufacturing industries in Asia



Source: Capital investment of domestic companies: Financial Statements of Corporations by Industry (Ministry of Finance)

5. Employment

- The number of employees increased by 5.2% compared to the previous year to 4.36 million, up for the fourth consecutive year, hitting a record high. (It rose by 7.1% in comparison among 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 6.2% (id.) to 3.62 million and by 0.9% (id.) to 0.74 million, respectively (see Table 22).
- By sector, there were increases in the figure for the general machinery sector (up by 17.8% (id.)), the transport equipment sector (up by 9.1% (id.)), and the information and communication equipment sector (up by 1.9% (id.)) (see Figure 23).
- In terms of regions, the figure for Asia, which accounted for approximately 70% of the total, increased by 10.1% (id.), up for the fourth consecutive year, to a record high exceeding three million. In contrast, the figures for North America and for Europe decreased by 4.1% (id.) and 1.3% (id.), respectively (see Figure 24). In Asia, there were increases in the number for China (up by 18.3% (id.)), for ASEAN4 (up by 3.5% (id.)), for NIEs3 (up by 0.1% (id.)), and for other Asian countries (up by 12.6% (id.)) (see Figure 25).

Table 22. Trend in number of employees

	02		03		04		05 FY	
		Y/Y		Y/Y		Y/Y		Y/Y
All industries	341	7.3	377	10.5	414	9.9	436	5.2
Manufacturing industries	280	6.5	311	11.0	340	9.3	362	6.2
Non-manufacturing industries	60	11.3	65	8.2	73	12.6	74	0.9

(10,000 persons, %)

Figure 23. Number of employees by sector

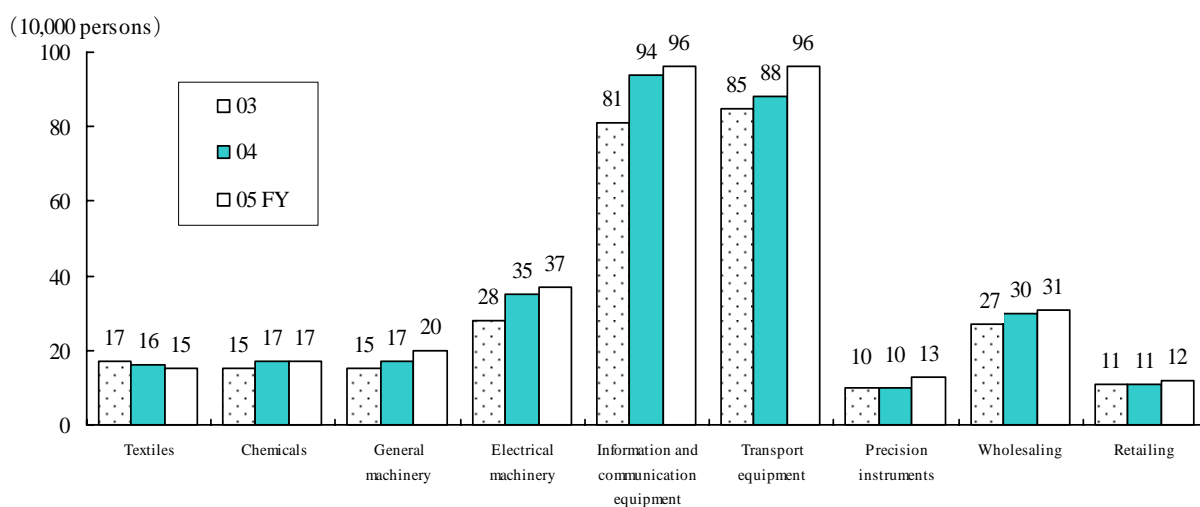


Figure 24. Number of employees by region

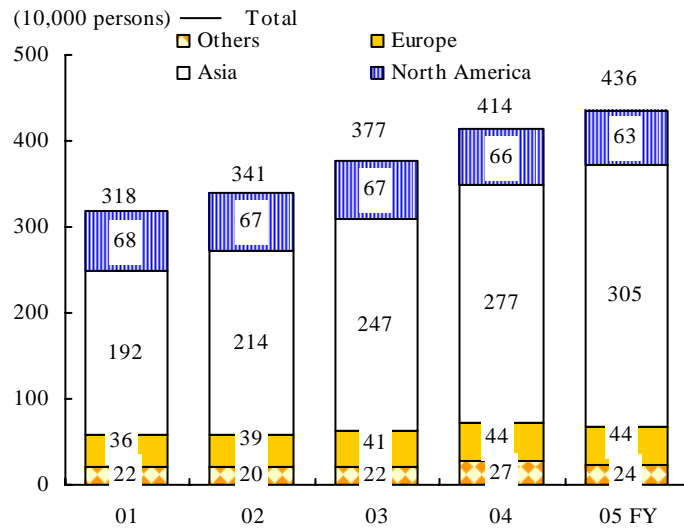
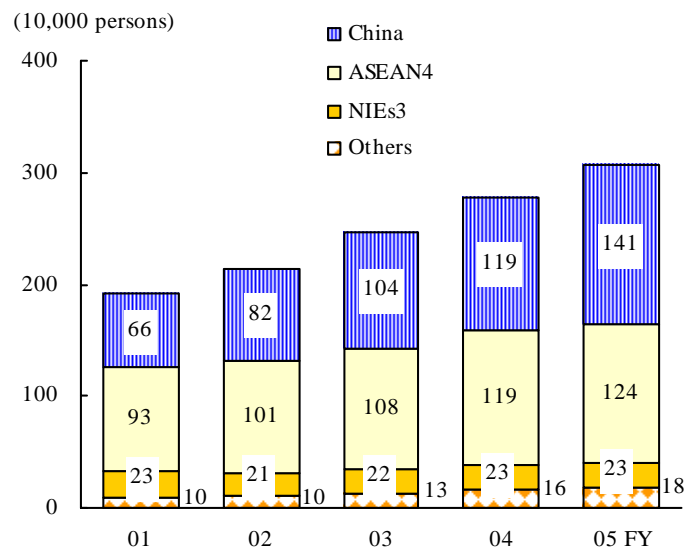


Figure 25. Number of employees in Asia



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 22.0 trillion yen, up by 7.1% compared to the previous year, and exceeding 20 trillion yen for the second consecutive year. Exports to Asia accounted for 39.7% of the total, up by 11.5% (id.) and rising for the third consecutive year. This amount accounted for 33.7% of the total exports from Japan^(Note1) (see Figure 26).
- Exports from overseas affiliates to Japan (the amount of reverse imports)^(Note2) were 9.3 trillion yen, up by 10.0% (id.). Of these, the amount of reverse imports from Asia accounted for 83.6% of the total (see Figure 27).

Figure 26.
Trend in exports to overseas affiliates and its ratio out of total exports from Japan

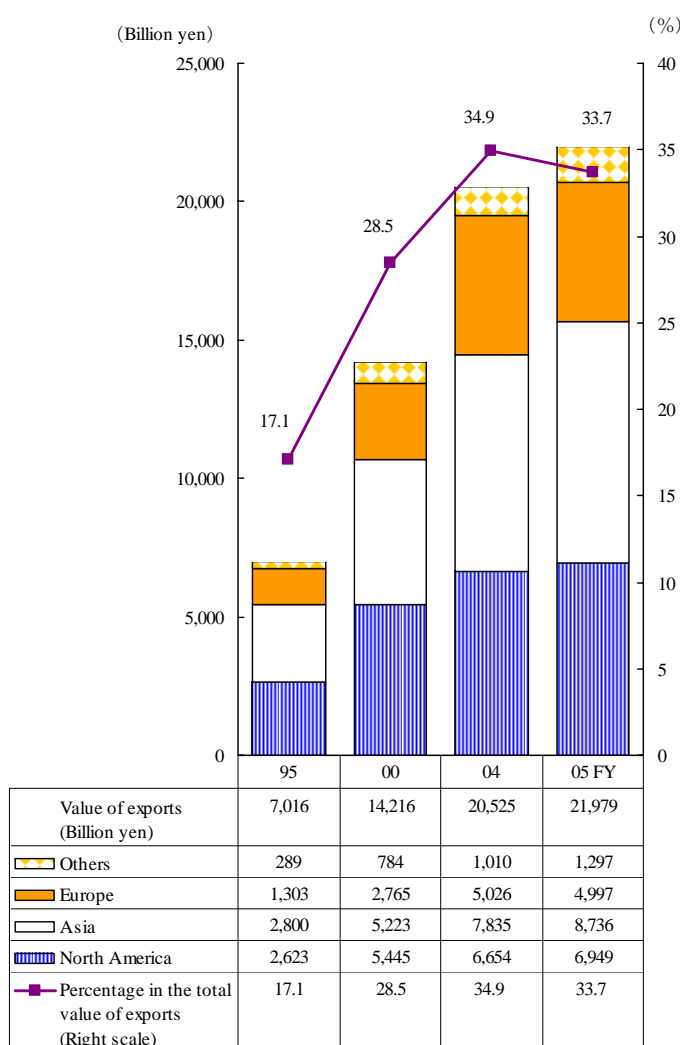
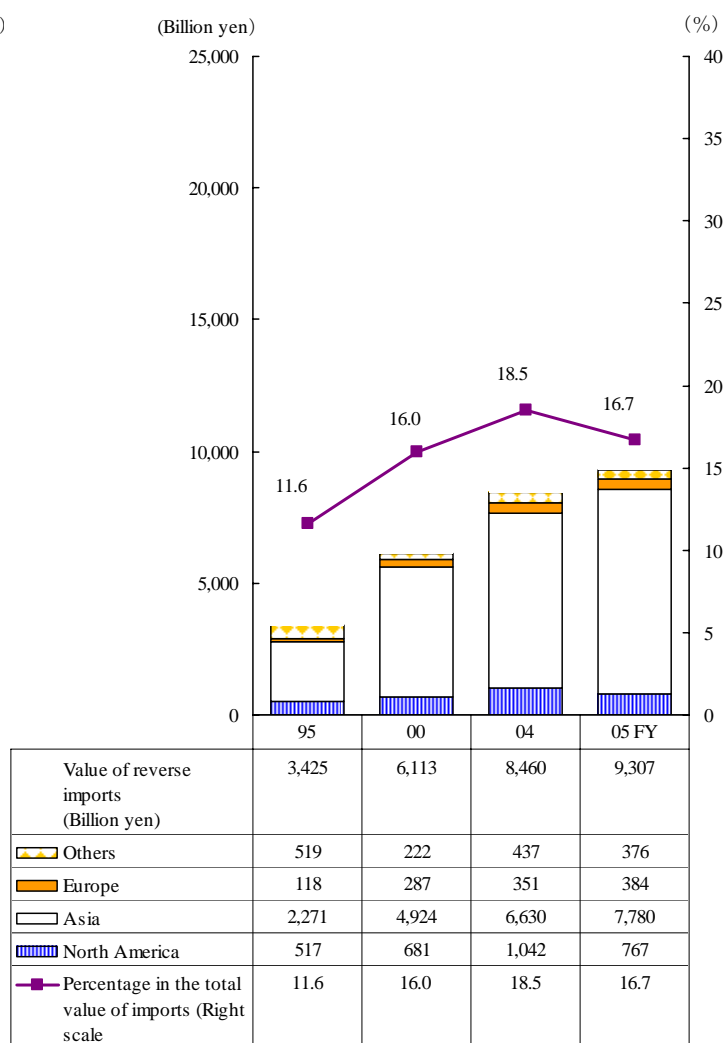


Figure 27.
Trend in reverse imports from overseas affiliates and its ratio out of total imports into Japan



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