

Summary of the 37th Survey on Overseas Business Activities (conducted in July 2007)

May 30, 2008

Trends of overseas affiliates in the fiscal year (FY) 2006 survey

- The overseas production ratio, sales, recurring profits, capital investment and employment all reached record highs.
- Business was brisk in Asia, exceeding North America in the areas of sales and recurring profits.
- Nearly 30% of all overseas affiliates were operating in China.
- The number of overseas affiliates withdrawing from overseas markets decreased, while the number of overseas affiliates newly established in China increased.
- The amount of exports to overseas affiliates topped 20 trillion yen for the third consecutive year.

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 18.1%, breaking the record high set the previous year.

2. Sales and recurring profits reached a record high. Asian businesses performed well, overtaking North America.

Sales at overseas affiliates hit a record high of 214 trillion yen, up by 15.8% from the previous year and breaking the record set the year before. (A 16.2% rise if only comparing companies that gave valid responses for both this year and the previous year.) Increases were observed both for manufacturing industries and non-manufacturing industries.

Recurring profits amounted to the highest ever at 9.6 trillion yen, rising significantly by 26.2% from the previous year. (A 23.9% rise if only comparing companies that gave valid responses for both this year and the previous year.) The amounts for manufacturing industries and non-manufacturing industries rose significantly, both reaching record highs.

The wholesale and retail trade sector, transport equipment sector and chemical sector contributed to the increase of sales and recurring profits. Both sales and recurring profits for Asia topped the levels for North America.

3. The number of overseas affiliates in China accounted for nearly 30% of all regions.

There were 16,370 overseas affiliates at the end of FY2006. In terms of overseas affiliates that were newly established or where capital participation was implemented, the number of new overseas affiliates in FY2006 decreased, but the percentage of overseas affiliates newly established in Vietnam and India increased.

Regarding the expansion of overseas affiliates by region, Asia accounted for 60% of the total, and

China reached nearly 30%.

The number of overseas affiliates withdrawing from overseas markets decreased by 91 (compared to the number in the previous year) to 470. While Asia (down by 10 (id.)), North America (down by 10 (id.)) and Europe (down by 65 (id.)) all saw decreases, China saw an increase by 14 (id.).

4. Employment reached a record high. Vietnam saw strong growth.

The number of employees at overseas affiliates increased by 4.5% from the previous year to 4.56 million, up for the fifth consecutive year, reaching a record high. (A 5.6% increase if only comparing companies that gave valid responses for both this year and the previous year.)

The number for Asia increased for the fifth consecutive year, and Europe and North America also increased. In Asia, the numbers grew for China (up by 4.9% (id.)) and NIEs3 (up by 3.2% (id.)). In addition, following increases in Vietnam, etc., other Asian countries increased by 22.6% (id.).

5. The amount of capital investment in manufacturing industries reached a record high.

The amount of capital investment in manufacturing industries rose by 13.1% from the previous year to 3.9 trillion yen, increasing for the third consecutive year and reaching a record high. (A 7.1% rise if only comparing companies that gave valid responses for both this year and the previous year.)

The amount increased by 16.5% (id.) for the transport equipment sector, and by 37.1% (id.) for the information and communication equipment sector. It increased by 22.1% (id.) for North America and by 9.1% (id.) for Asia, but decreased by 5.0% (id.) for Europe.

6. Exports to overseas affiliates topped 20 trillion yen for the third consecutive year.

The value of exports to overseas affiliates in the manufacturing sector was 23.9 trillion yen. Exports to Asia accounted for 40% of this total, increasing for the fourth consecutive year. The ratio of the value of exports to overseas affiliates was 32.4% of the total value of Japan's exports.

Sales value from overseas affiliates in the manufacturing industries to Japan was 11.4 trillion yen. Sales value from Asia accounted for 80% of this total.

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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, 2007, 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, 2007, on the actual results of FY2006 and those of the end of FY2006, as of the end of July or the nearest closing date before that.

5. Collection

Response rate: 73.5%

Number of companies that gave a valid response: Parent companies 3,268

Overseas affiliates 16370

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 ¥110.22/\$ to ¥116.30/\$, down by 5.5%), and also weakened against the Euro (from ¥137.07/Euro to ¥145.9/Euro, down by 6.4%).

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 South Korea

ASEAN4: Malaysia, Thailand, Indonesia and the Philippines

See Table14, “Classification of country and region, (Currency conversion table by country” 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.
4. Y/Y changes were calculated based on units of 1 million yen.

1. Overseas expansion, etc. of overseas affiliates

(1) Overseas expansion

- There were 16,370 overseas affiliates at the end of FY2006 (8,287 in manufacturing industries and 8,083 in non-manufacturing industries).
- By region, the number of overseas affiliates in Asia expanded to 9,671, accounting for 60% of the total. Within this, the number for China was 4,418, accounting for 27.0% of all regions (up by 1.4 points from the previous year). The number for Europe fell by 14.7% to 2,405 (down by 0.3 points (id)), showing a decreasing trend (see Figure 1).
- Broken down by year of establishment and capital participation, there were 427 overseas affiliates established in FY2006 (down by 349 (id)). Of these, 151 were manufacturing industries and 276 were non-manufacturing industries (see Figure 2).

By region, the percentage of overseas affiliates newly established in other Asian countries, including Vietnam and India, increased (see Figure 3).

(2) Withdrawal

- The number of affiliates withdrawing from overseas markets ^(Note1) decreased by 91 compared to the previous year, to 470. Manufacturing industries saw a decrease of 31 (id.), to 224, and non-manufacturing industries fell by 60 (id.), to 246 (see Figure 4).
- The ratio of withdrawals ^(Note2) from North America was 4.3%, hitting a peak in FY2002 and subsequently dropping. Nevertheless, the rate for North America remains at a high level compared to Europe and Asia (both 2.3%) (see Figure 5).

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

Note 2: Ratio of withdrawals = Number of withdrawals in FY2006 / (Total number of affiliates with valid responses in FY2006 + Number of withdrawals in FY2006) × 100

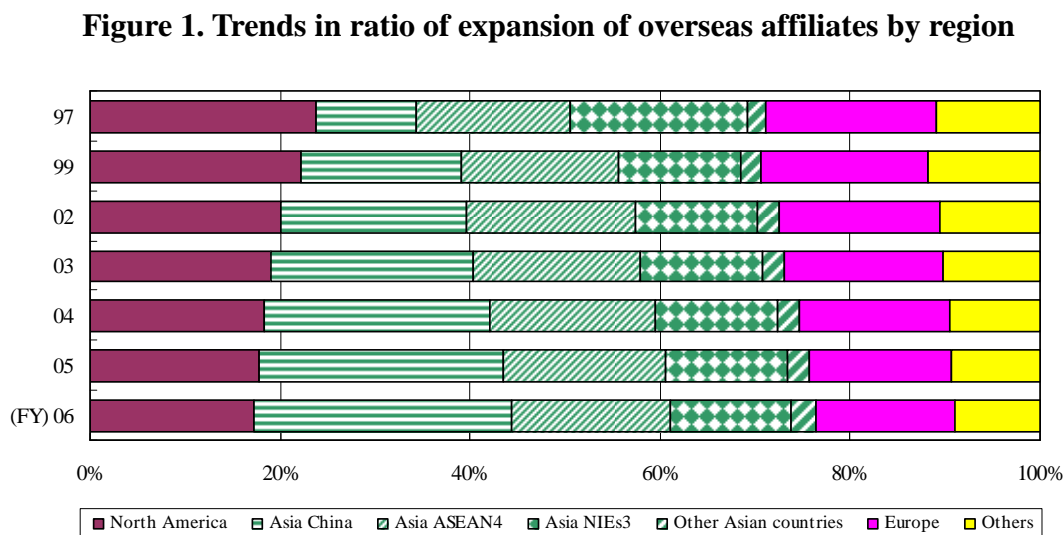
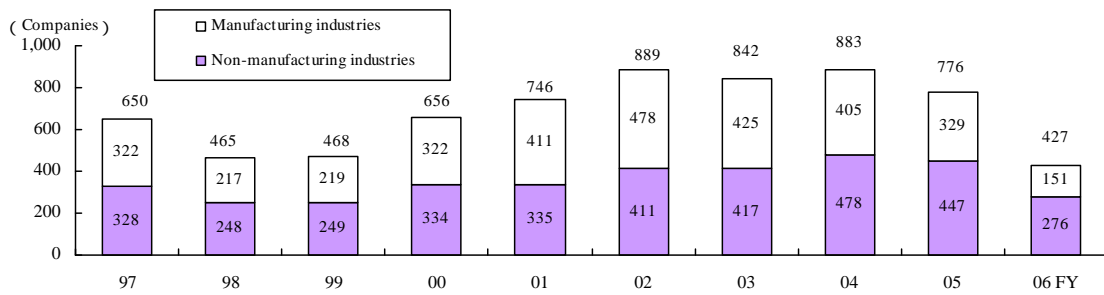
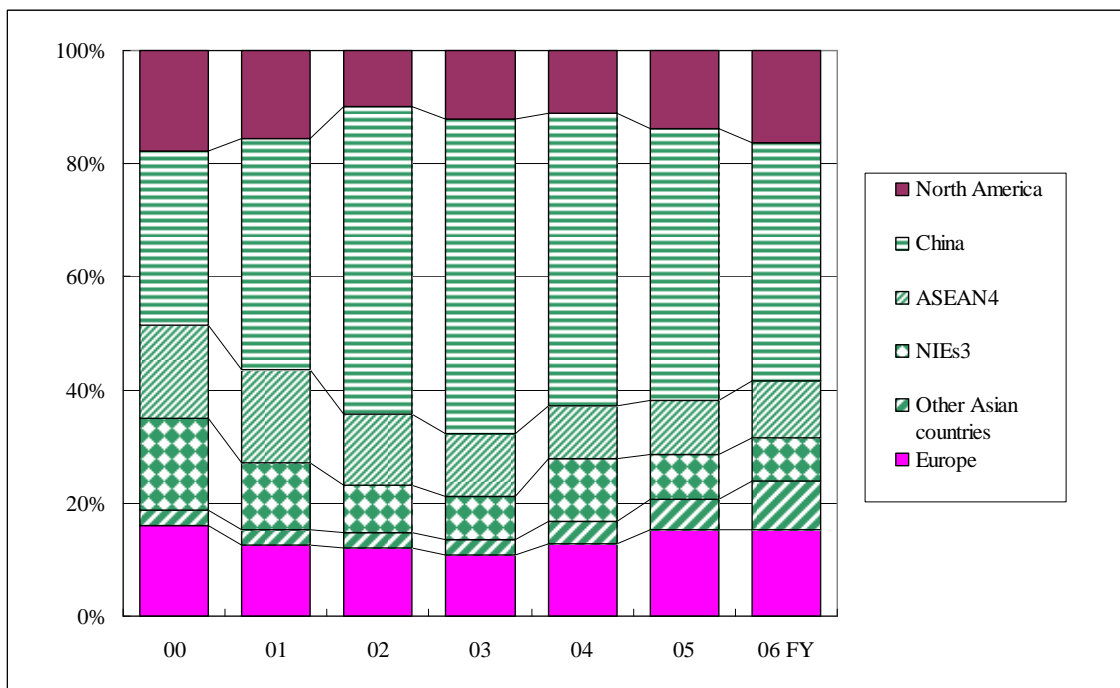


Figure 2. Number of overseas affiliates by year of establishment or capital participation



Note: This figure shows the data for the number of overseas affiliates surveyed in FY2007 by year of establishment or capital participation. Data for FY2006 includes the number of overseas affiliates prior to their first account settlement after establishment.

Figure 3. Ratio of overseas affiliates by year of establishment or capital participation (by region)



Note: This figure shows the data for the number of overseas affiliates surveyed in FY2007 by year of establishment or capital participation.

Figure 4. Trends in number of overseas withdrawals

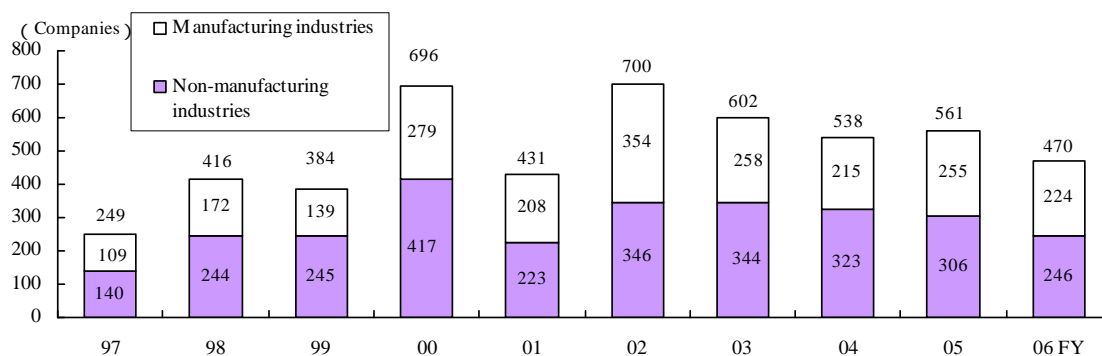


Table 5. Trends in number and ratio of overseas withdrawals by region

	(Companies)						(%)					
	Number of overseas withdrawals						Ratio of overseas withdrawals					
	01	02	03	04	05	06 FY	01	02	03	04	05	06 FY
All regions	431	700	602	538	561	470	3.3	5.0	4.2	3.5	3.4	2.8
North America	142	173	135	136	137	127	5.2	6.1	4.9	4.7	4.6	4.3
Asia	134	323	263	238	241	231	2.1	4.4	3.4	2.7	2.6	2.3
China	45	108	94	92	109	123	2.0	4.0	3.1	2.5	2.6	2.7
ASEAN4	44	93	87	77	71	52	1.9	3.8	3.4	2.9	2.5	1.9
NIEs3	42	104	77	60	50	45	2.6	5.7	4.2	3.0	2.4	2.1
Europe	80	124	105	98	122	57	3.6	5.2	4.3	4.0	4.9	2.3

Note: Ratio of overseas withdrawals = FY2006 number of overseas withdrawals / (Total number of overseas affiliates covered by the FY2006 survey + Number of overseas withdrawals for FY2006) × 100

2. Sales

- Sales hit a record high of 214 trillion yen, up by 15.8% compared to the previous year. (A 16.2% rise if only comparing companies that gave valid responses for both this year and the previous year.)
Sales for manufacturing industries increased by 14.0% from the previous year to 99.7 trillion yen, while those for non-manufacturing industries increased by 17.4% (id.) to 114.5 trillion yen (see Figure 6).
- By sector, increases were observed among manufacturing industries in the transport equipment sector (up by 17.2% (id.)) and chemical sector (up by 21.8% (id.)) and, among non-manufacturing industries, in the wholesale and retail sector (up by 16.1% (id.)) (see Figure 7).
- By region, increases were seen in North America (up by 12.1% (id.), to 74.2 trillion yen), Asia (up by 16.0% (id.) to 75.8 trillion yen) and Europe (up by 21.1% (id.) to 46.3 trillion yen). Moreover, the level for Asia surpassed that of North America (see Figure 8).
- In Asia, China, ASEAN4 and NIEs3 saw increases of 16.5% (id.), 13.7% (id.) and 15.5% (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 1.4 points (id.), hitting a record high of 18.1% (see Figure 10).

Figure 6. Sales trends

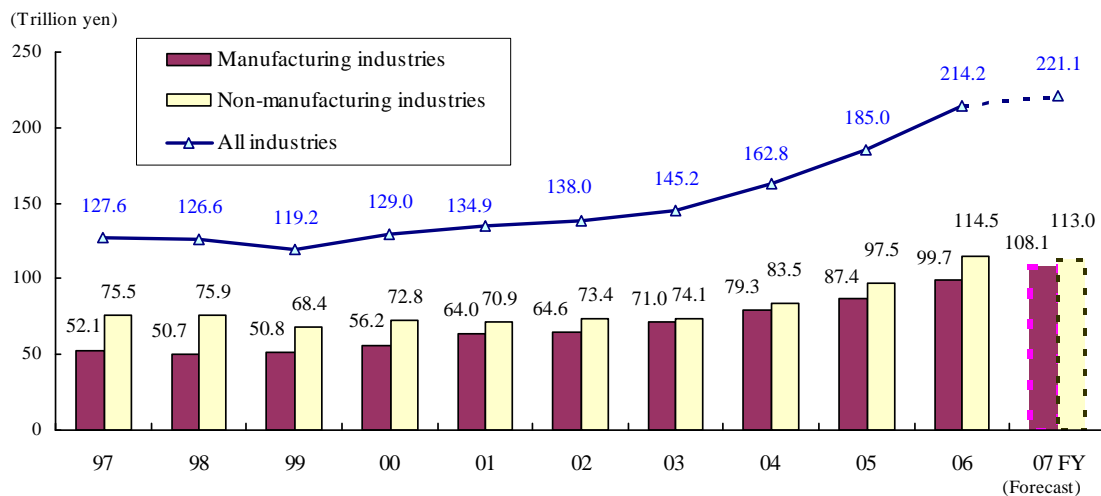


Figure 7. Sales by sector

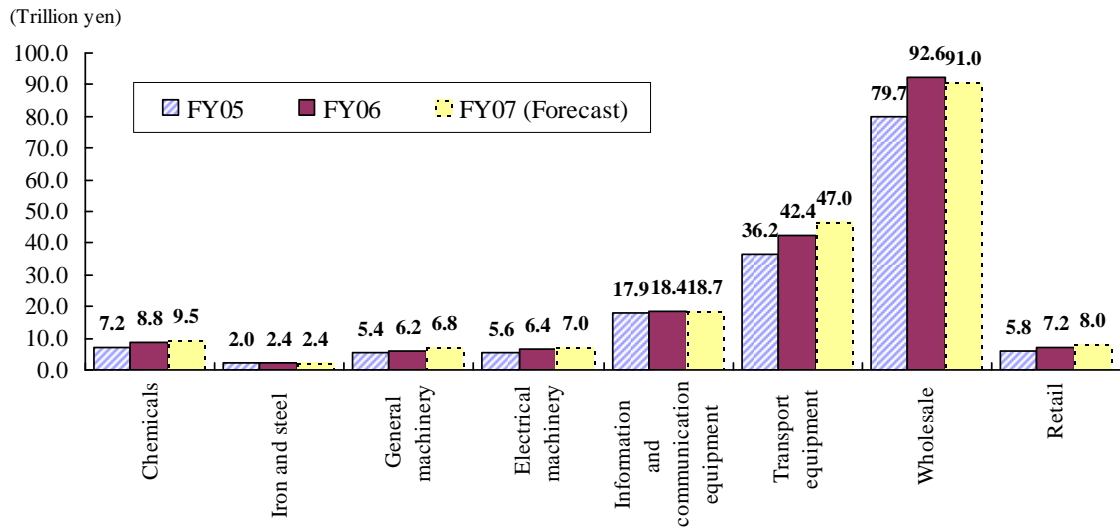


Figure 8. Trends in sales by region

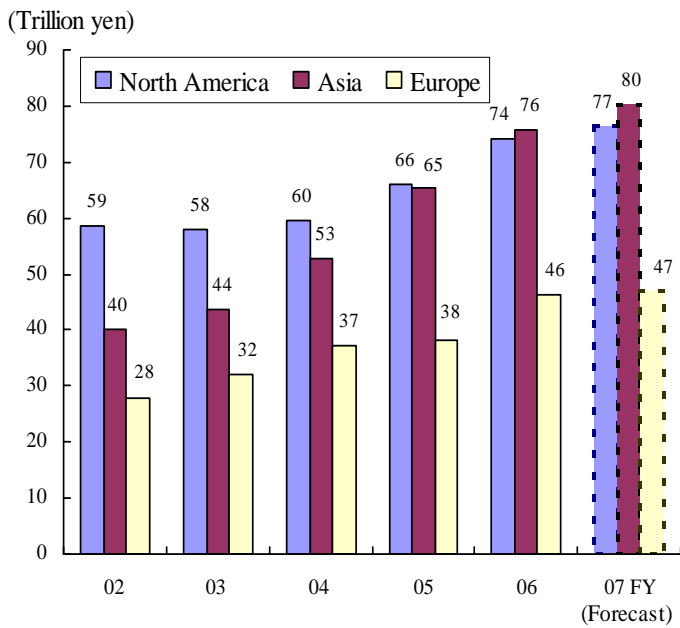


Figure 9. Trends in sales in Asia

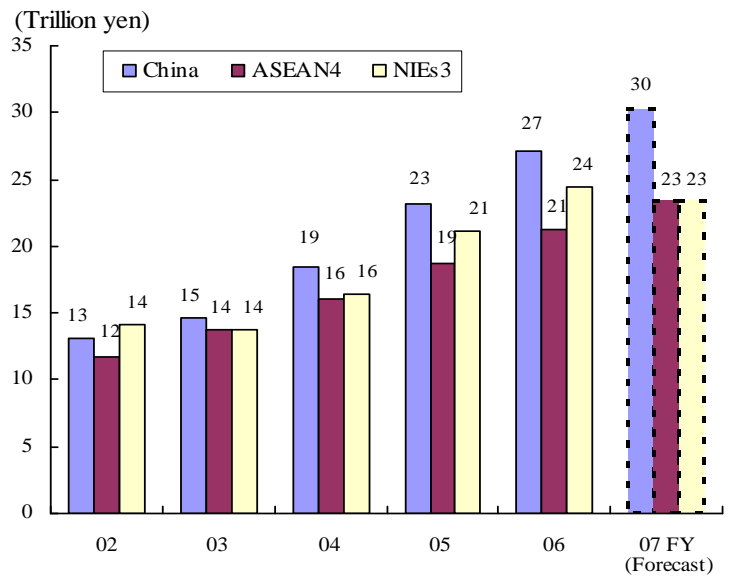
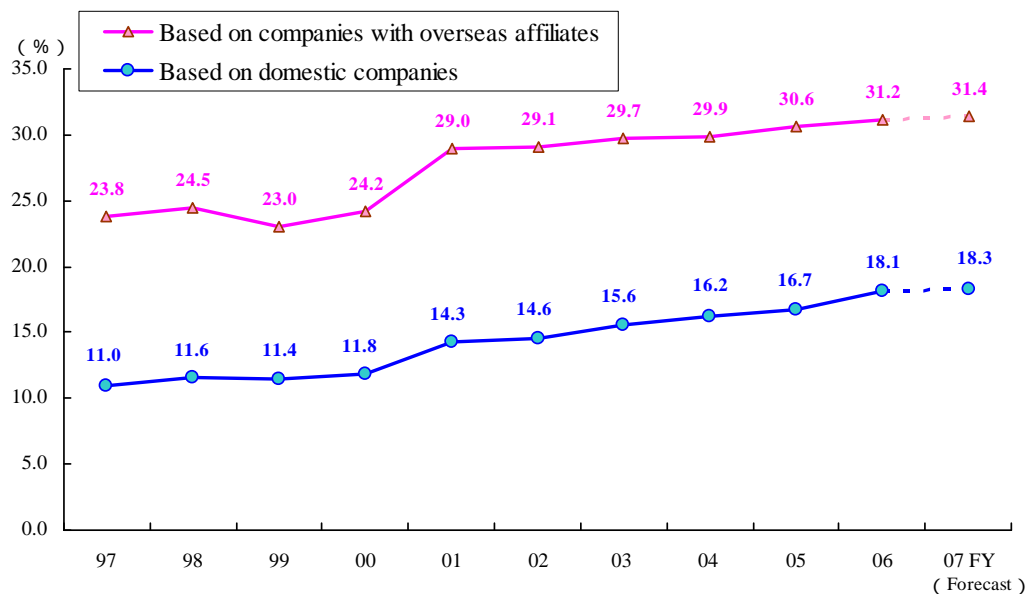


Figure 10. Trends in overseas production ratio of manufacturing industries



Note 1: 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 FY2007 was surveyed based on forecasts. The FY2007 forecast value based on all domestic companies was calculated by the METI.

Note 3: 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 were the highest ever at 9.6 trillion yen, up by 26.2% (compared to the previous year). (A 23.9% rise if only comparing companies that gave valid responses for both this year and the previous year.)
- The amount for manufacturing industries increased by 19.2% (id.) to 4.7 trillion yen, and that for non-manufacturing industries increased by 33.7% (id.) to 4.9 trillion yen, both reaching record highs (see Figure 11).
- By sector, increases were observed among the manufacturing industries in the transport equipment sector (up by 13.4% (id.)) and the chemical sector (up by 36.7% (id.)). In non-manufacturing industries, increases were notable in the mining sector (up by 44.1% (id.)) and the wholesale and retail sector (up by 25.9% (id.)) (see Figure 12).
- By region, there were significant increases in North America (up by 14.9% (id.)), Asia (up by 24.9% (id.)) and Europe (up by 26.2% (id.)). The level for Asia has been higher than for North America since FY2003 (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 0.5 points from the previous year to 4.7%, up for the fifth consecutive year and exceeding the ratio for domestic companies by 1.2 points. The ratio for manufacturing industries increased by 0.2 points (id.) to 5.0%, and that for non-manufacturing industries increased by 0.8 points (id.) to 4.5% (see Table 15).
- By region, the ratio for Asia remained at a high level, increasing by 0.4 points (id.) to 4.4%. The ratio for North America grew by 0.2 points (id.) to 3.8 % and that for Europe increased by 0.1 points (id.) to 2.5 % (see Figure 16). In Asia, there were increases in China and NIEs3. By contrast, ASEAN4 saw a decrease (see Figure 17).

Note : Ratio of recurring profit to sales = Recurring profit / Sales × 100

(Based on affiliates that responded to questionnaires for both recurring profits and sales)

Figure 11. Trends in recurring profits

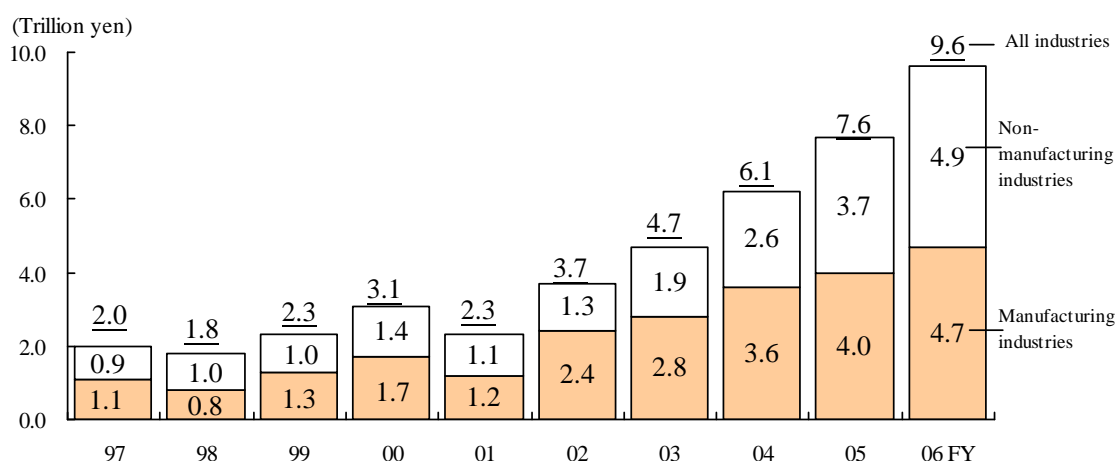


Figure 12. Amount of recurring profits by sector

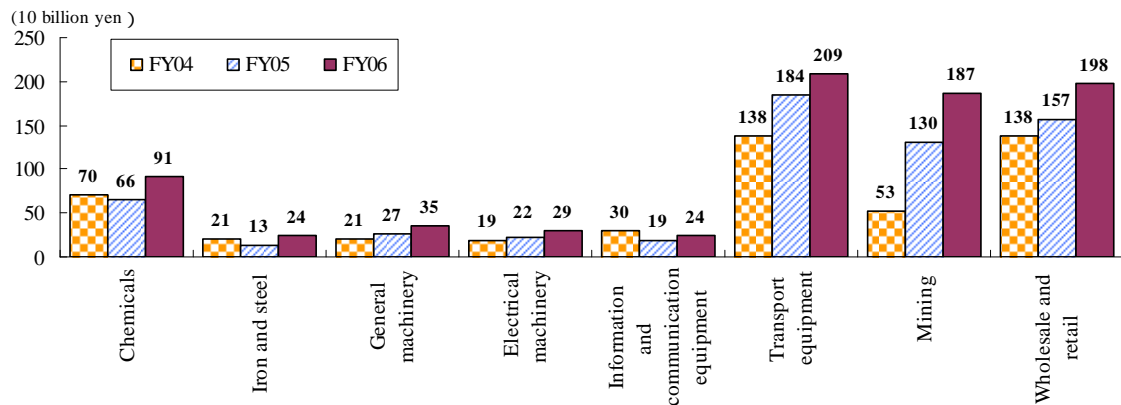


Figure 13. Trends in recurring profits by region

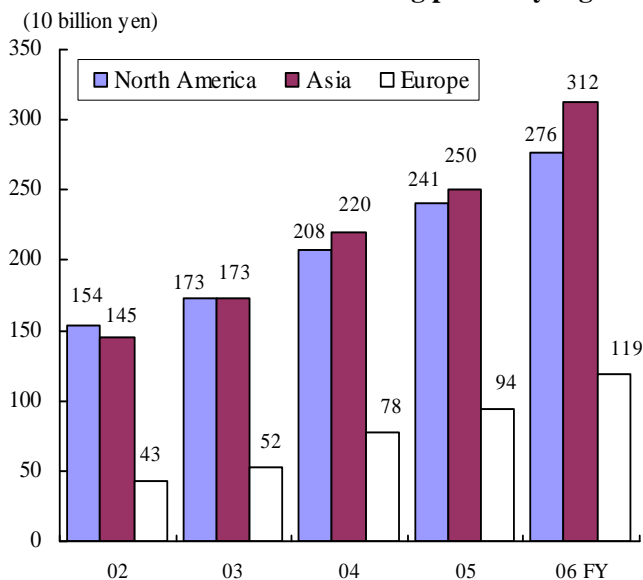


Figure 14. Trends in recurring profits in Asia

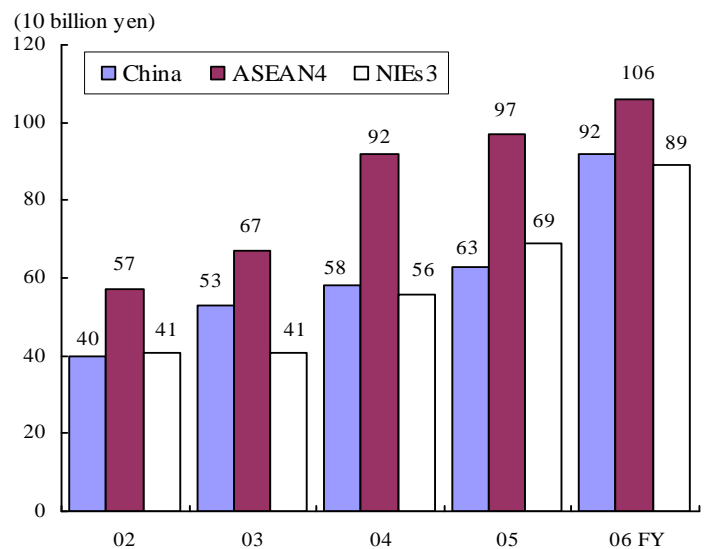


Table 15. Trends in ratio of recurring profits to sales

(unit: %)

	97	98	99	00	01	02	03	04	05	06 FY
All industries	1.8	1.6	2.4	2.9	2.0	2.8	3.4	3.9	4.2	4.7
Manufacturing industries	2.7	1.9	3.2	3.7	2.2	4.1	4.5	4.9	4.8	5.0
Non-manufacturing industries	-	-	-	-	1.8	1.7	2.4	2.9	3.7	4.5
Domestic companies	1.9	1.5	1.9	2.5	2.1	2.3	2.7	3.1	3.4	3.5

Source: Ratio of recurring profits to sales in domestic companies: "Financial Statements of Corporations by Industry" (Ministry of Finance)

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

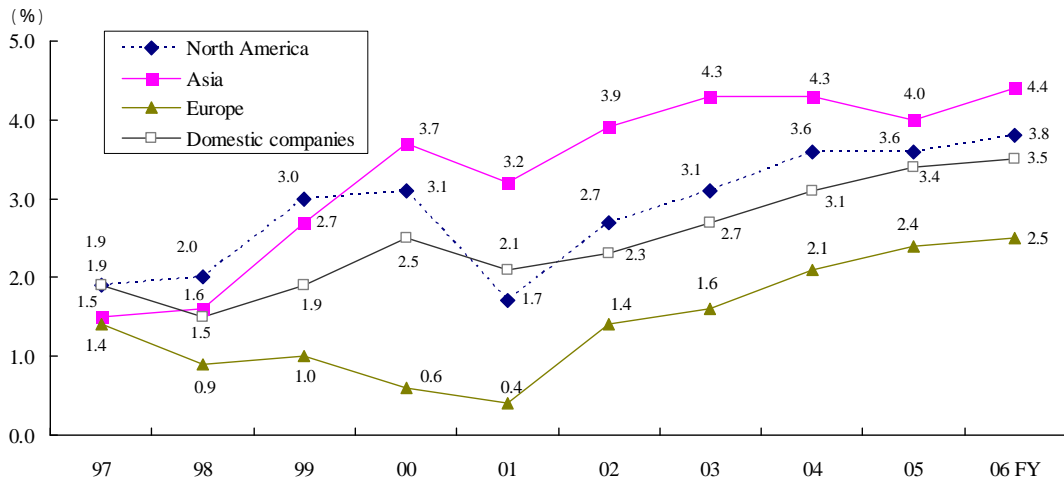
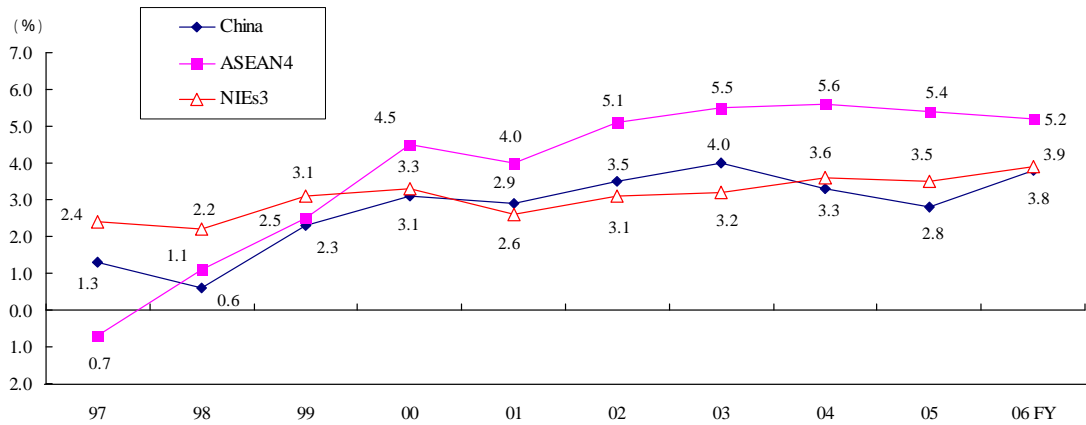


Figure 17. Trends in ratio of recurring profits to sales in Asia



4. Capital investment

- The amount of capital investment in the manufacturing industries increased for the third consecutive year, up by 13.1% from the previous year to 3.9 trillion yen, marking a record high. (A 7.1% rise if only comparing companies that gave valid responses for both this year and the previous year.)
The ratio of overseas investment^(Note) increased by 0.4 points (id.) to 20.0%, up for the second consecutive year (see Figure 18).
- By sector, there were increases in the transport equipment sector (up by 16.5% (id.)) and the information and communication equipment sector (up by 37.1% (id.)) (see Figure 19).
- By region, there were increases in North America (up by 22.1% (id.)) and Asia (up by 9.1% (id.)). On the other hand, Europe decreased by 5.0% (see Figure 20). In Asia, there were increases in China (up by 19.0% (id.)) and ASEAN4 (up by 7.8% (id.)), while NIEs3 decreased by 17.4% (id.) (see Figure 21).

Note: Ratio of overseas investment = Amount of capital investment in overseas affiliates / (Amount of capital investment in overseas affiliates + Amount of capital investment in domestic companies) × 100

Figure 18. Trends in capital investment in manufacturing industries

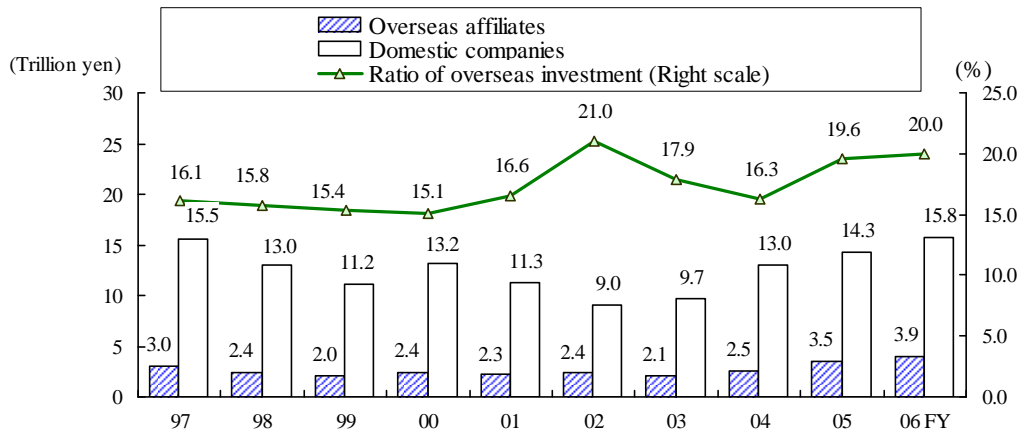


Figure 19. Capital investment by sector

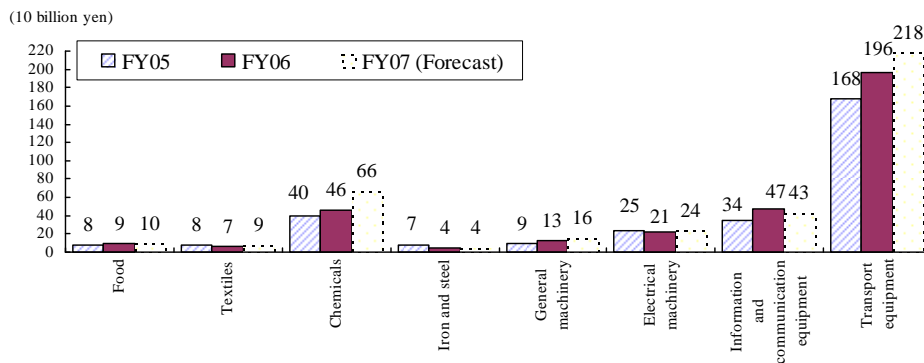


Figure 20. Capital investment in manufacturing industries by region

(10 billion yen)

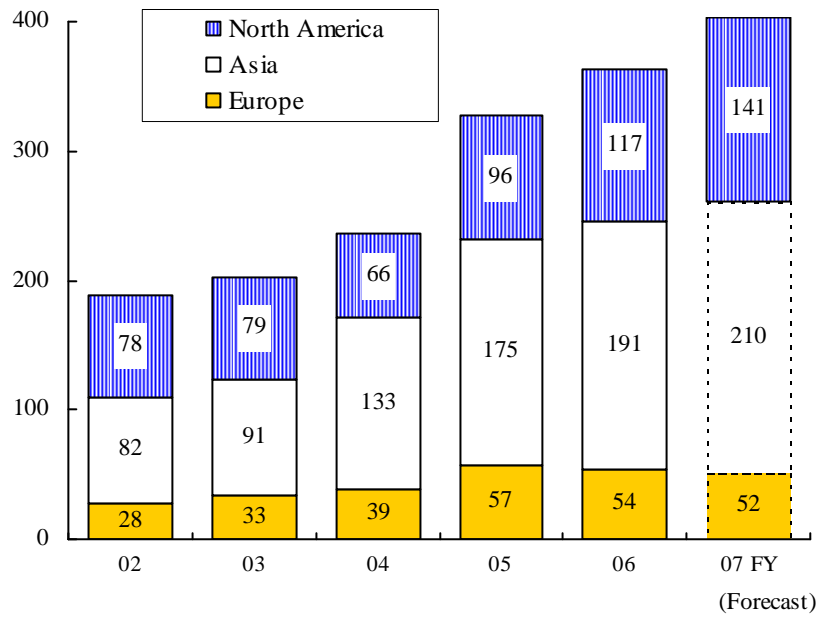
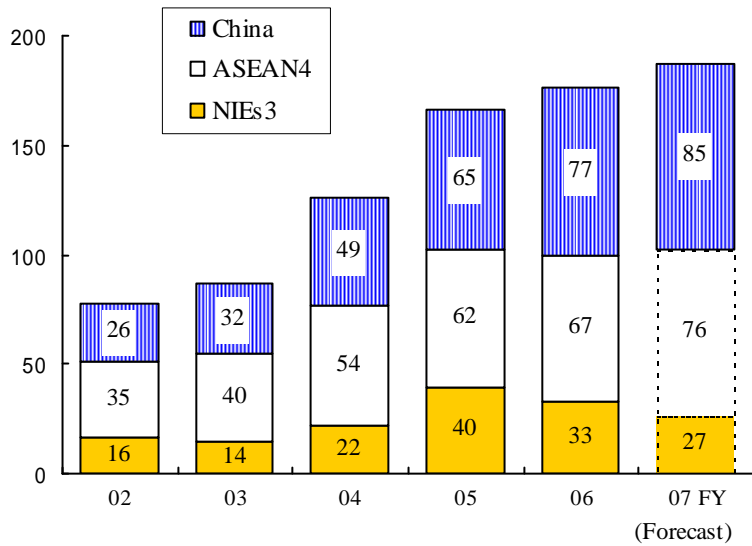


Figure 21. Capital investment in manufacturing industries in Asia

(10 billion yen)



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

5. Employment

- The number of employees increased by 4.5% compared to the previous year to 4.56 million, up for the fifth consecutive year and hitting a record high. (A 5.6% rise if only comparing companies that gave valid responses for this year and the previous year.) The numbers for manufacturing and non-manufacturing industries increased by 4.7% (id.) to 3.79 million and by 3.7% (id.) to 0.77 million, respectively (see Table 22).
 - By sector, there were increases in the transport equipment sector (up by 12.9% (id.)) and the retail sector (up by 11.8% (id.)) (see Figure 23).
 - By region, Asia, which accounted for approximately 70% of the total, increased by 3.9% (id.), up for the fifth consecutive year and reaching a record high. Also, Europe and North America increased by 10.9% (id.) and 2.8% (id.), respectively (see Figure 24).
- In Asia, there were increases in China (up by 4.9% (id.)), NIEs3 (up by 3.2% (id.)) and ASEAN4 (up by 0.2% (id.)). In addition, due to increases in the figures for Vietnam, etc., other Asian countries increased by 22.6% (id.) (see Figure 25).

Table 22. Trends in number of employees

(10,000 persons, %)

	03		04		05		06 FY	
		Y/Y		Y/Y		Y/Y		Y/Y
All industries	377	10.5	414	9.9	436	5.4	456	4.5
Manufacturing industries	311	11.0	340	9.3	362	6.4	379	4.7
Non-manufacturing industries	65	8.2	73	12.6	74	0.6	77	3.7

Figure 23. Number of employees by sector

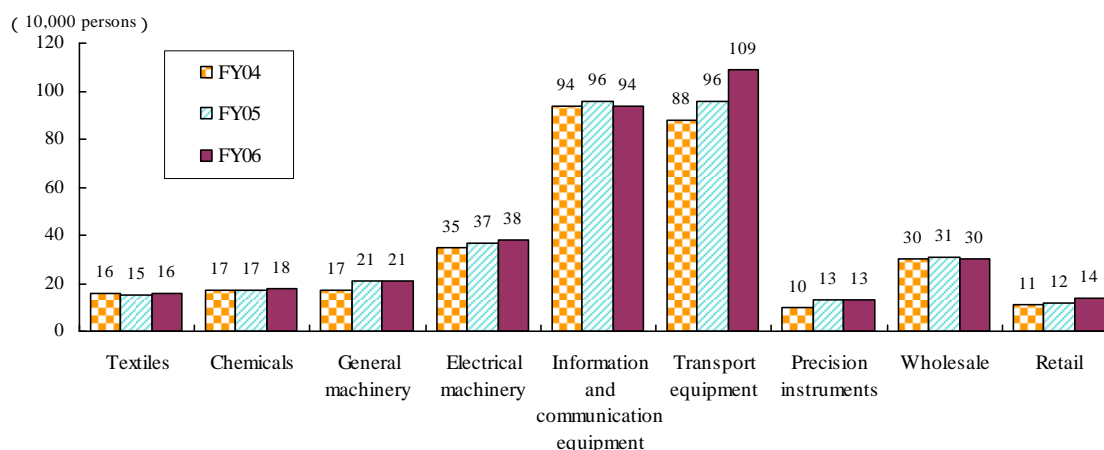


Figure 24. Number of employees by region

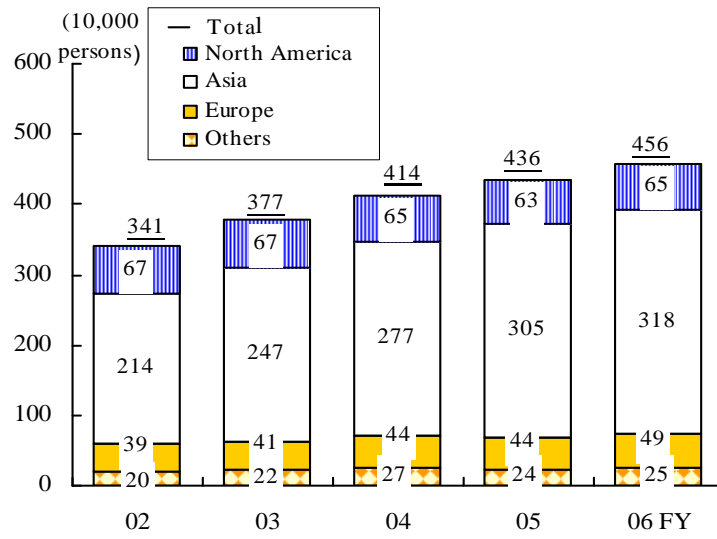
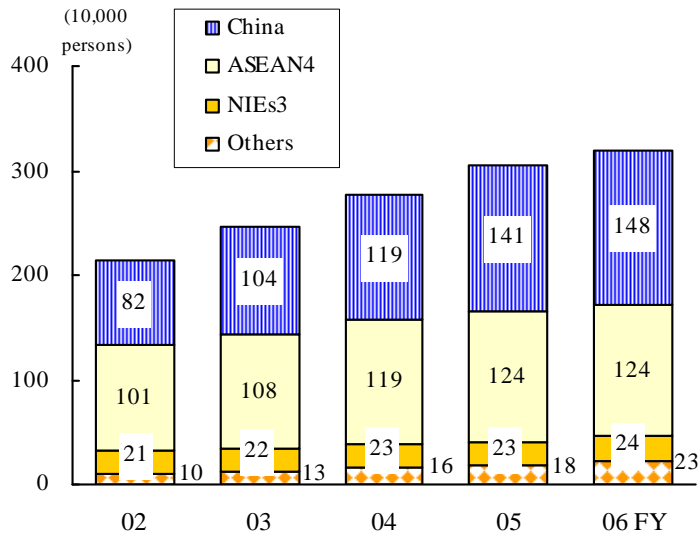


Figure 25. Number of employees in Asia



6. Sales and local procurement of overseas affiliates in manufacturing industries, and import and export to/from Japan

- Exports from Japan to overseas affiliates in the manufacturing industries amounted to 23.9 trillion yen, up by 8.9% compared to the previous year, exceeding 20 trillion yen for the third consecutive year. Exports to Asia accounted for 40.7% of the total, up by 11.1% (id.) and rising for the fourth consecutive year. This amount accounted for 32.4% of the total exports from Japan^(Note1) (see Figure 26).
- Exports from overseas affiliates to Japan (the amount of reverse imports)^(Note2) amounted to 11.4 trillion yen, up by 22.8% (id.). Of these, the amount of reverse imports from Asia accounted for 82.5% of the total (see Figure 27).

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

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

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

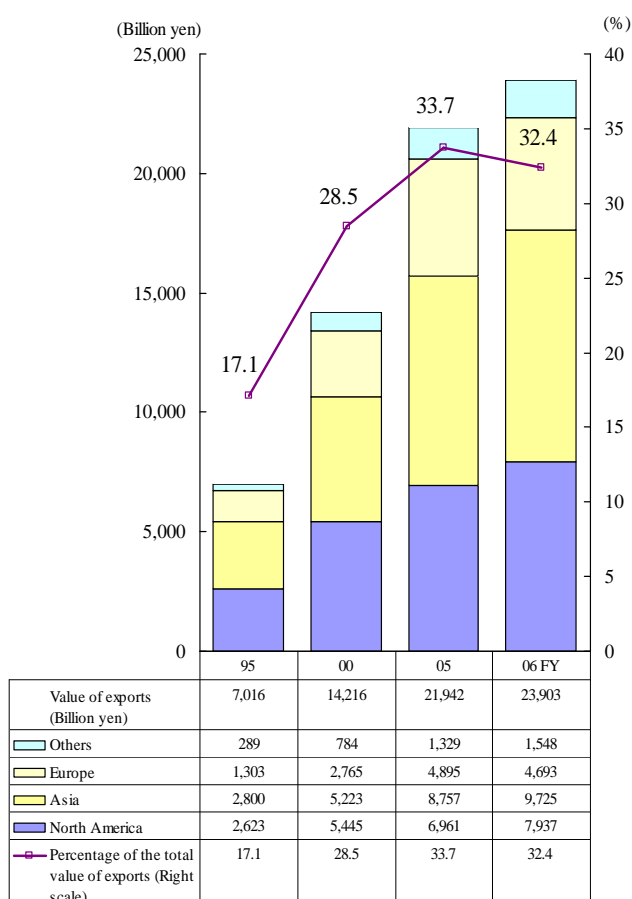


Figure 27.
Trends in reverse imports from overseas affiliates and ratio out of total imports into Japan

