

## **Summary of the 28th Survey of Overseas Business Activities (Gist) (1998 Survey - Fiscal '97 results)**

### **《Key Findings of the Survey》**

- Newly established Overseas Affiliated Companies fell in number for the second consecutive year in fiscal 1997, mainly in Asia, and those withdrawn increased in all areas.
- Sales decreased at non-manufacturing Overseas Affiliated Companies, but increased at manufacturers, resulting in a 3.1% growth in all industries. However, the growth rate was much lower compared to the preceding year, weighed down by a sharp sales fall in Asia. Overseas production ratio rose to 12.4% due to the sluggish sales growth at domestic enterprises. The ratio is expected to rise to 13.8% in fiscal 1998.
- Ordinary profit fell both at manufacturing and non-manufacturing Overseas Affiliated Companies, dragged down by a sharp fall in Asia, thus ending the growth trend since fiscal 1994. Sales and profit both trended down.
- On the other hand, plant and equipment investment increased by 17.1% from the preceding year, mainly in the facilities for transport machinery in the U.S. and Europe, but the growth rate was much lower compared to the preceding year. Capital spending is expected to decline year-on-year in fiscal 1998, mainly in Asia.
- As noted above, overseas business of Japanese companies deteriorated significantly in Asia in fiscal 1997. It can be attributed to the economic crisis in Asia which began with the drop in the value of the currency in the 1997 summer. The sharp deterioration in Thailand and Indonesia led to current account deficit in ASEAN4. It was “Local-sales type” industries that suffered serious setback. However, the impact of the Asian economic crisis was still limited as of fiscal 1997.
- Under such circumstances, Overseas Affiliated Companies were taking countermeasures, such as increasing local procurement and lifting the ratio of Japan-bound exports (= reimport) to offset the fall in local sales. As Japanese companies have positive stance towards business in Asia, Japanese-affiliated companies will play an important role in the recovery of the Asian economies with their weighty presence in these countries.

**May 1999**

**The Ministry of International Trade and Industry**

**Enterprise Statistics Division, Research and Statistics Department, Minister's Secretariat  
International Business Affairs Division, Industrial Policy Bureau**

## **[Outline of survey]**

### **1. Purposes of survey**

The Basic (Trend) Survey of Overseas Business Activities is conducted to obtain basic data for planning, designing and implementing various measures by shedding light on overseas business activities of Japanese enterprises.

### **2. Legal basis of the survey**

This is an Approved Survey conducted by the Ministry of International Trade and Industry pursuant to Article 4 of the Statistical Reports Coordination Law.

### **3. Enterprises surveyed**

Those surveyed are Japanese enterprises (except those in the financial, insurance or realty business) which had Overseas Affiliated Companies at the end of March 1998 (hereinafter referred to as “Head-Office Enterprises,” or “Surveyed Enterprises” as the case may be).

In this Survey, “overseas subsidiaries” are foreign companies in which not less than 10% of shares are owned by Japanese enterprises, and “overseas grand-subsidaries” are those in which not less than 50% of shares are owned by overseas subsidiaries in which not less than 50% of shares are owned by Japanese enterprises. Both overseas subsidiaries and grand-subsidaries are referred to as “Overseas Affiliated Companies.”

### **4. Survey method**

The survey was made by mail, with questionnaires (concerning both Head-Office Enterprises and Overseas Affiliated Companies) sent to Surveyed Enterprises, filled and returned by them to the Ministry by mail.

### **5. Respondents**

Head-Office Enterprises: Questionnaires were sent to 3,862 enterprises, of which 2,448 responded  
(Ratio of respondents: 63.4%)

Overseas Affiliated Companies: Questionnaires were collected from 13,166 companies

### **6. Survey time and period**

The survey was made on July 1, 1998 on the performance in the business term ended March 31, 1998, or earlier, and stocktaking at the end of the term.

## **[Notes for using this report]**

### **1. Conversion to Yen**

An average exchange rate during the fiscal 1997 (¥120.99/US\$1.00) was used to convert the aggregated amounts of Overseas Affiliated Companies into the yen.

Refer to “Regional Classification, Country Classification and Currency Exchange Table for Each Country” for other currencies.

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

Unless otherwise specified, NIEs4 means the region composed of Singapore, Hong Kong, Taiwan and South Korea, and ASEAN4 means the region composed of Malaysia, Thailand, Indonesia and Philippines.

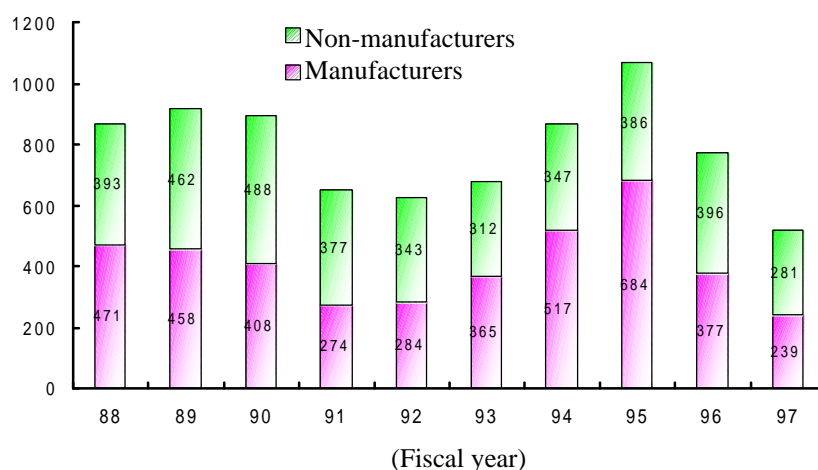
### **3. Matters worth consideration related to survey results**

The difference in the respondent ratio and the number of surveyed companies must be noted in comparing the results of this survey to those of the previous survey.

## 1. Overseas advance seen in number of Overseas Affiliated Companies established, etc.

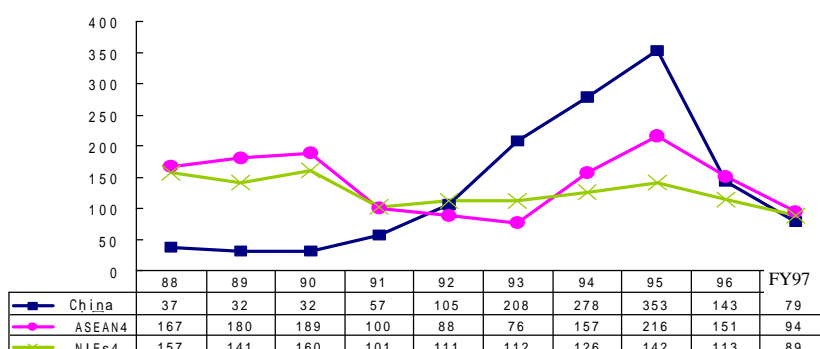
- (1) In fiscal 1997, Japan's direct overseas investment rose by 12.4% (US\$53.97 billion) from the preceding year in all industries, but that in the manufacturing industries fell for the first time in five years by 4.5% from the record high of the preceding year. The number of direct overseas investment in manufacturing industries also fell 23% year-on-year. The growth trend since fiscal 1993 ended due to the prolonged domestic recession and the turmoil of the Asian economies.

Number of Overseas Affiliated Companies by year of establishment



- (2) The number of Overseas Affiliated Companies established in fiscal 1997 fell both in manufacturing and non-manufacturing industries by 253 from the preceding year to 520. The decline for two years in a row in overseas advance by manufacturers led to the decline for the second consecutive year in all industries.
- (3) Overseas advance declined everywhere, but most remarkably in Asia (the number of Overseas Affiliated Companies newly established fell by 176 year-on-year) led by China where the number continued to fall by half for two consecutive years (353 in FY1995 143 in FY1996 79 in FY1997). The growth trend since FY1991 thus ended.

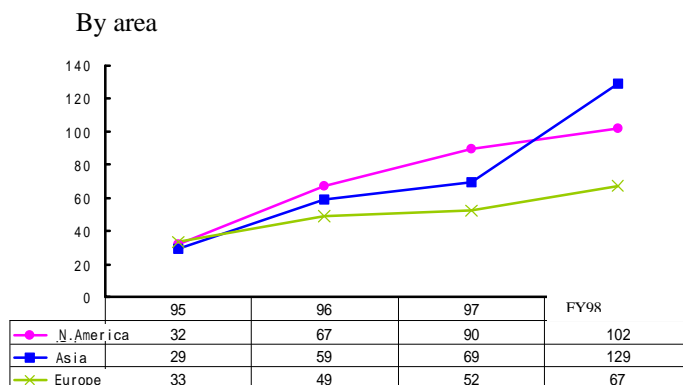
Number of Overseas Affiliated Companies by year of establishment (in Asia's 3 hubs)



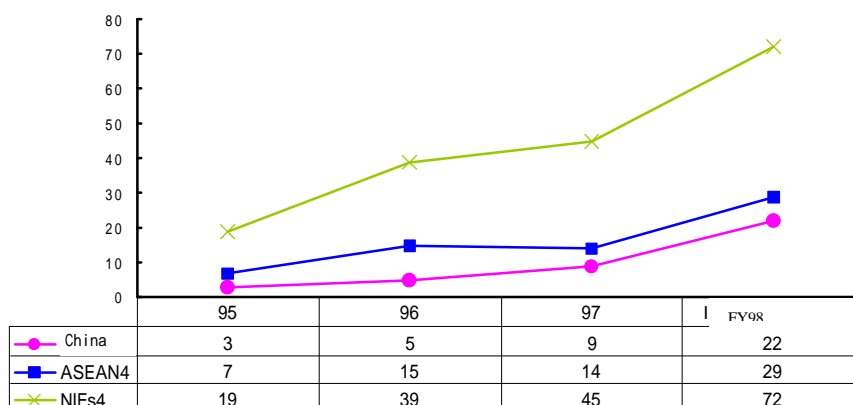
## 2. Withdrawal of Overseas Affiliated Companies

- (1) The number of Overseas Affiliated Companies withdrawn increased for the second consecutive year in FY1997 by 37 from the preceding year to 249, of which manufacturers were 109, up 22, and non-manufacturers were 140, up 15). The withdrawal increased in all areas, led by North America with 90 (+23) withdrawals. Further, as 352 Affiliated Companies, mostly in Asia, were planning withdrawal in and after FY1998, the withdrawal is likely to increase by about 1.4 times.

Number of Overseas Affiliated Companies withdrawn

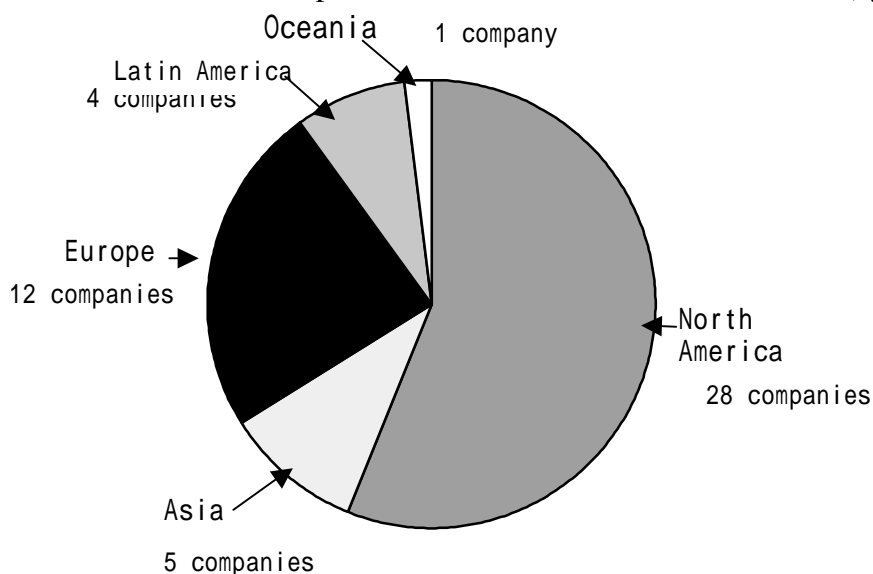


By Asia's 3 hubs



- (2) Fifty (50) of the Overseas Affiliated Companies withdrawn, or 20.1% of total withdrawals, were then relocated to other areas or combined with others, of which 47, or 94%, were relocated within the same area. The relocation was the highest in North America, at 28.

Overseas Affiliated Companies relocated or combined with others (by area)



- (3) Although the difficulty in maintaining sales due to “overestimated demand” or “intensified competition” was cited as the main reason for withdrawal, an increasing ratio of respondents in Asia cited the “currency fluctuations,” mainly ASEAN4 and NIEs4.

### 3. Business activities of Overseas Affiliated Companies

#### (1) Sales

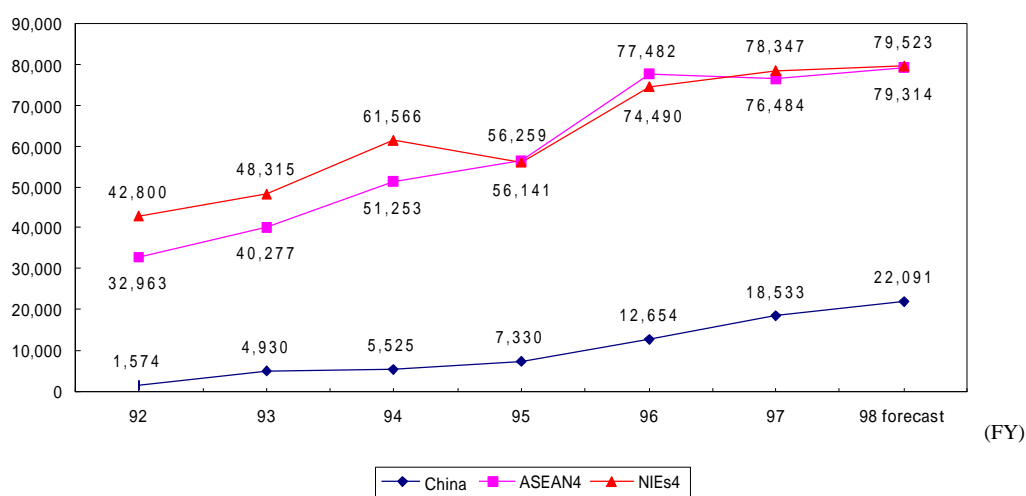
In FY1997, sales at Overseas Affiliated Companies increased by 3.1% from the previous year (to ¥127,575.5 billion), with 1.1% drop in sales by non-manufacturers (to ¥75,502.4 billion) and 9.8% rise in sales by manufacturers (to ¥52,073.2 billion). The growth, however, fell sharply from the preceding year’s 30.5%.

Sales grew in all areas, i.e. North America, Asia and Europe, but less impressively than in the preceding year, with growth rate plummeting in Asia where steady growth continued since FY1992. In Asia, ASEAN4 fell behind NIEs4 in FY1997 after leading NIEs4 in sales since FY1995. The deteriorating Asian economies hit ASEAN4 particularly strong, with FY1997 sales falling short of the target (¥8,883.6 billion) set in FY1996 by more than ¥1 trillion. On the other hand, sales continued to grow strong in China in FY1997 to ¥1,853.3 billion (up 46.5% year-on-year).

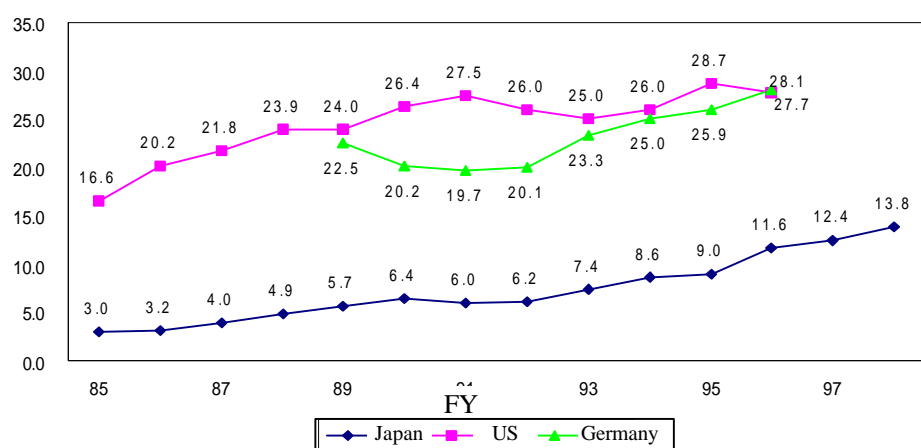
Despite the sharp fall in the sales growth at Overseas Affiliated Companies, overseas production ratio rose by 0.8 point to 12.4% as sales growth was lower at 2.6% at domestic companies. This is more than 400% of the level in 1985 when the Plaza Accord was signed.

## Sales trends at Overseas Affiliated Companies, by area (Asia's 3 hubs)

(Unit: ¥100 mil)



## Overseas production ratio, by country

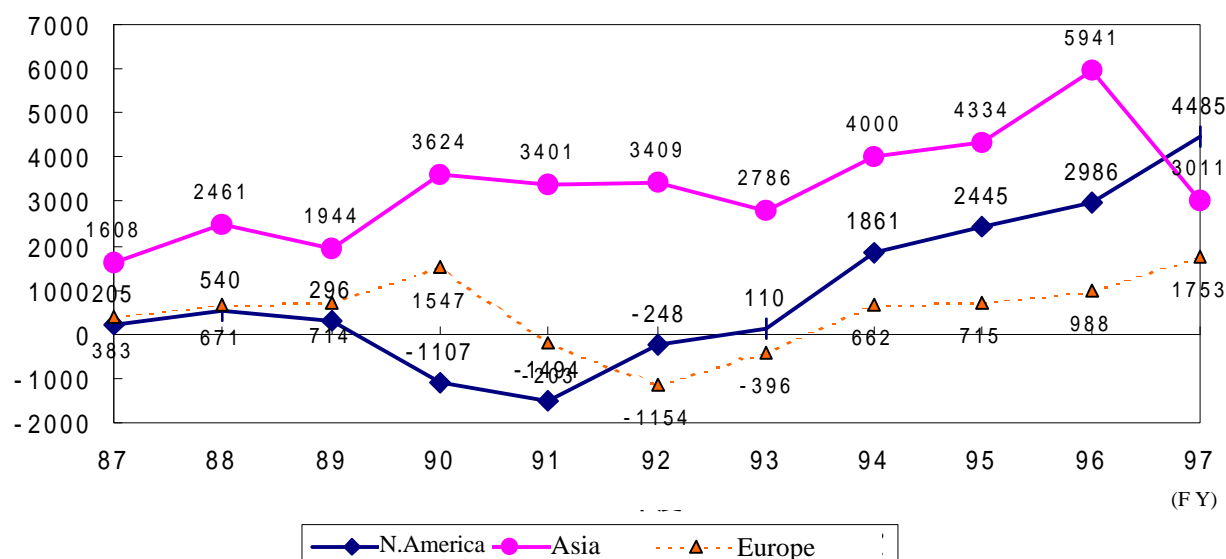


## (2) Profit

In FY1997, combined ordinary profit of all Overseas Affiliated Companies stood at ¥2,009.7 billion (down 3.7% from the preceding year), of whom manufacturers - accounting for about 60% of all - posted a sharp fall of 5.2%, thus ending the growth trend since FY1994.

## Trends in ordinary profit by Overseas Affiliated Companies (manufacturers)

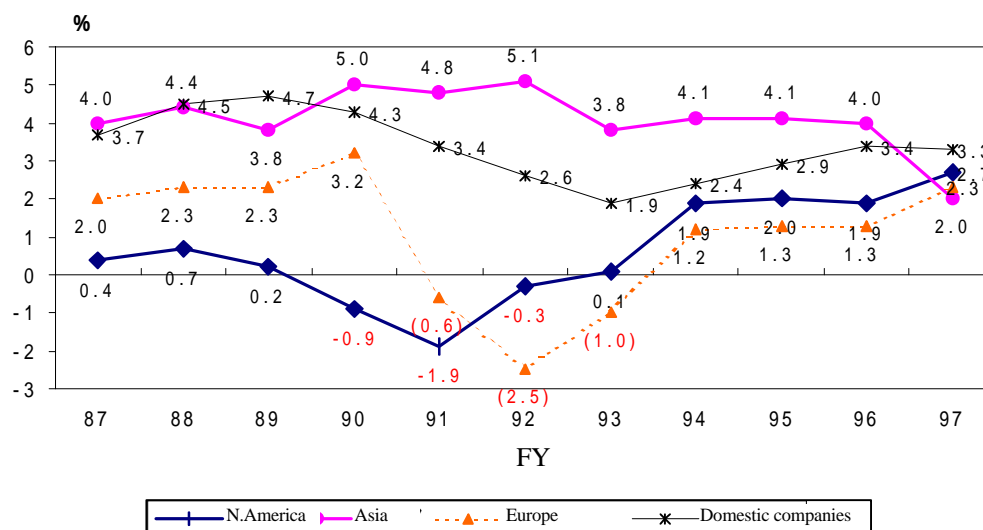
(Unit: ¥100 million)



Area-wise, manufacturing businesses in North America posted a sharp profit growth (up 50.2% from the preceding year to ¥448.5 billion) supported by the brisk U.S. economy, followed by those in Europe (up 77.4% to ¥175.3 billion). However, those in Asia saw a sharp profit fall (down 49.3% to ¥301.1 billion). Among Asia's three hubs, ASEAN4 suffered the most serious setback (from ¥276.6 billion profit to a deficit of ¥68.3 billion), but the other two hubs fared well.

In Asia, the ratio of ordinary profit to sales fell sharply from the past high level of around 4% to the lowest ever since the oil crisis, in sharp contrast to the U.S. and Europe where the ratio was maintained at higher levels.

## Trends in ratio of ordinary profit to sales (manufacturers)





### (3) Expenses and distribution of profit

Overseas Affiliated Companies have an advantage over domestic companies of lower ratios to sales in all cost categories, such as personnel, research and development, packing and shipping. However, the gap is yearly narrowing. Especially, the ratio of personnel cost to sales is rising in North America and Asia. In North America, in particular, the ratio has risen to a level almost comparable to that at domestic companies.

In FY1997, combined retained earnings of all Overseas Affiliated Companies stood at ¥333.4 billion, which is about one half of the amount in the preceding year. In the manufacturing sector, in particular, a combined deficit of ¥32.9 billion was posted due to the huge appropriation of ¥194.7 billion in Asia. ASEAN4, which suffered a sharp profit fall on foreign exchange losses, is mainly responsible for this large deficit.

#### Retained earnings of Overseas Affiliated Companies in FY1997

(Unit: ¥100 million, %)

	After-tax profit for current term		Retained earnings		Ratio of retained earnings	
	All industries	Mfg. industries	All industries	Mfg. industries	All industries	Mfg. industries
Worldwide (A)	7,798	2,797	3,334	-329	71.6%	70.4%
North America	3,897	1,644	1,822	532	78.0%	77.6%
Asia	-780	-1,276	-1,451	-1,947	-	-
of which ASEAN4	-4,242	-3,939	-3,455	-3,651	-	-
Europe	1,833	588	489	96	67.8%	72.7%
Domestic companies (B)	82,758	56,208	32,965	32,998	39.8%	58.7%
A/B	9.4%	5.0%	10.1%	-		

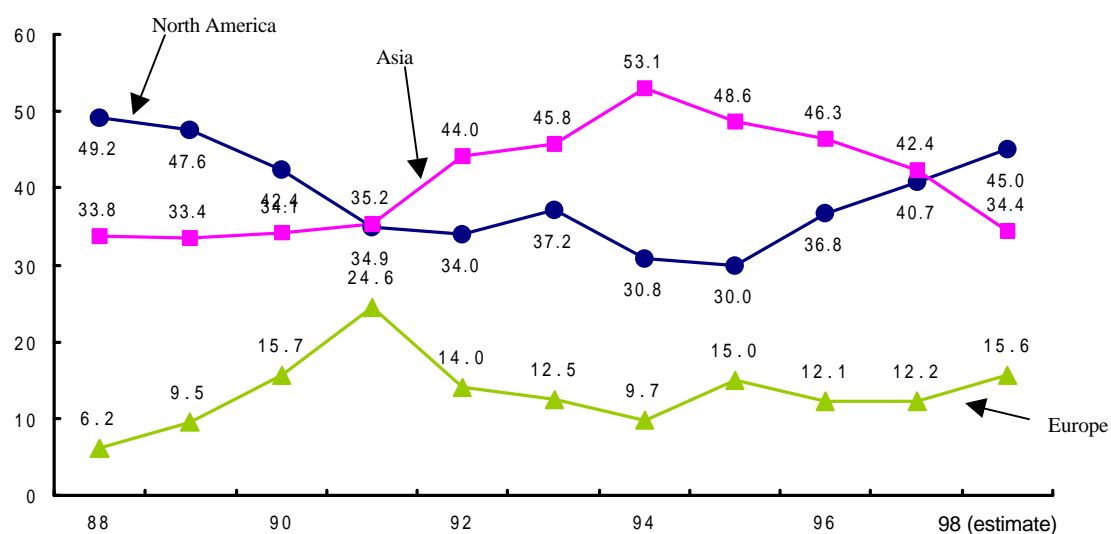
Source: For domestic companies: Statistical Survey of Incorporated Enterprises, MOF.

### (4) Plant and equipment investment, reinvestment

In FY1997, plant and equipment investment by Overseas Affiliated Companies in manufacturing businesses increased by 17.1% from the preceding year to ¥2,972.5 billion, due to the increase in the transport machinery sector (up 51.3% to ¥1,010.7 billion), etc. However, the growth rate was much lower compared to the preceding year due to the cutback in the sectors of electrical machinery (down 4.8% to ¥658 billion), chemicals (down 16.3% to ¥301.9 billion), etc., which follow transport machinery in shares.

In the breakdown by area, Asia still holds the largest share of 42.4%, but North America expanded its share to 40.7% and is likely to get the largest share in FY1998.

# Plant and equipment investment by Overseas Affiliated Companies, shares by area (manufacturers)

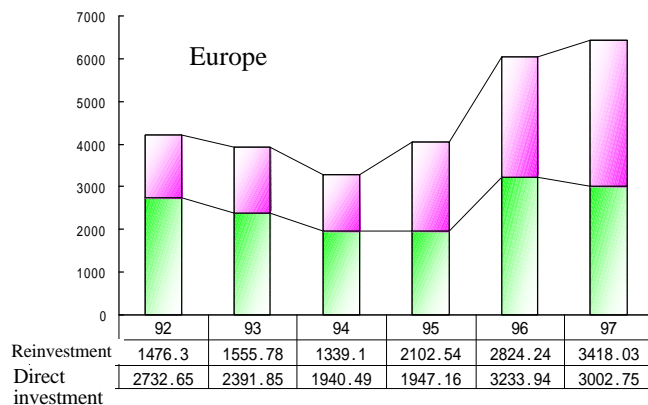
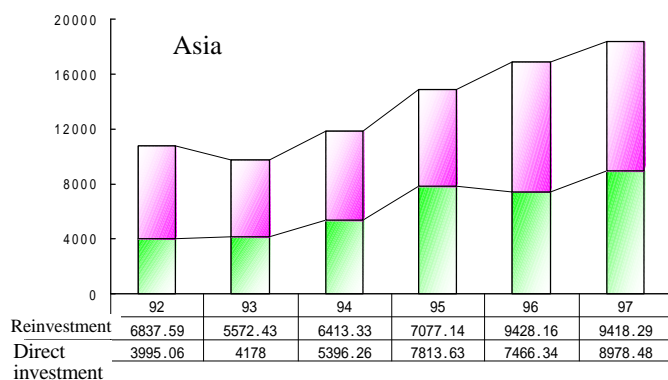
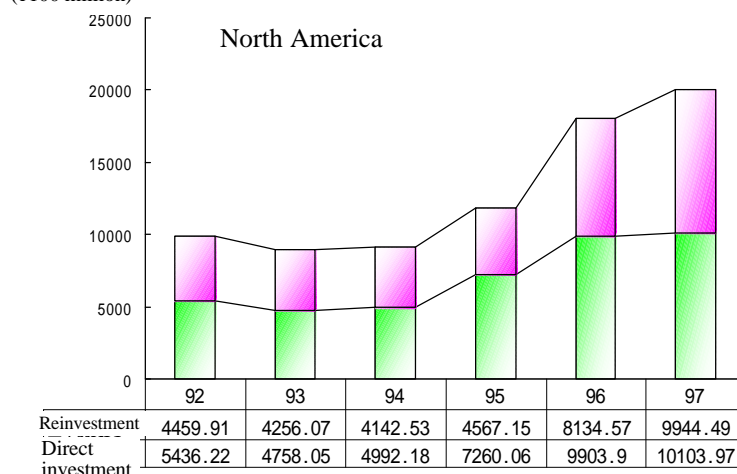


(Note) Shares in FY1998 are estimate.

## Trends in total investment (manufacturers, by area)

Of the total investment, the reinvestment by the manufacturing Overseas Affiliated Companies recorded a new high of ¥2,390.3 billion, backed by the high level of retained earnings mainly in the U.S. and Europe. In Europe, the reinvestment exceeded direct overseas investment in FY1997, as preceded in Asia in the previous year.

(¥100 million)



## (5) Employment

The combined number of employees of Overseas Affiliated Companies edged up by 3.3% from the preceding year to 2.83 million in FY1997. Those employed by the manufacturers of electric machinery (790,000) and transport machinery (520,000) account for more than half of the total employees of manufacturers, which account for about 80% of all employees.

The number of employees was reduced in Asia, especially in ASEAN4 and NIEs4. On the other hand, the number continued to increase in China at a double digit rate and exceeded the employment level in NIEs4 in all industries, as did in the manufacturing sector in the preceding year.

Number of employees of Overseas Affiliated Companies (including officers) (all industries)

[Unit: person, %]

	FY'96			FY'97		
	Number of employees	Share	Change from preceding year	Number of employees	Share	Change from preceding year
North America	625,543	22.8%	12.2	662,538	23.4%	5.9
Asia	1,568,899	57.2%	22.6	1,613,290	56.9%	2.8
of which China	334,247	12.2%	44.3	402,279	14.2%	20.4
ASEAN4	830,565	30.3%	21.2	811,259	28.6%	-2.3
NIEs4	335,819	12.2%	5.8	318,666	11.2%	-5.1
Europe	321,100	11.7%	12.0	323,763	11.4%	0.8
Worldwide	2,744,937	100.0%	17.9	2,834,910	100.0%	3.3

## (6) Corporate strategies and management of overseas businesses (from results of researches via questionnaire)

In terms of production functions, 44.9% of Overseas Affiliated Companies were running integrated production and 31.4% sharing processes with plants in Japan. Asked about future plans, many Affiliated Companies, mostly in Asia, answered that they were aiming at improving the technology level.

About 15% of Overseas Affiliated Companies had introduced the function of holding company. The ratio of holding companies was higher in the manufacturing sector.

Overseas Affiliated Companies which were included in the consolidated financial statements of Head Office Enterprises accounted for 60.1% of the total. The percentage was lower in Asia (51.0%) compared to Europe (72.2%) and North America (69.2%). By sector, the percentage was highest in commerce (66.3%), followed by manufacturing (59.9%) and services (58.7%).

#### 4. Sales/purchases and trading with Japan of Overseas Affiliated Companies

##### (1) Sales/purchases by Overseas Affiliated Companies

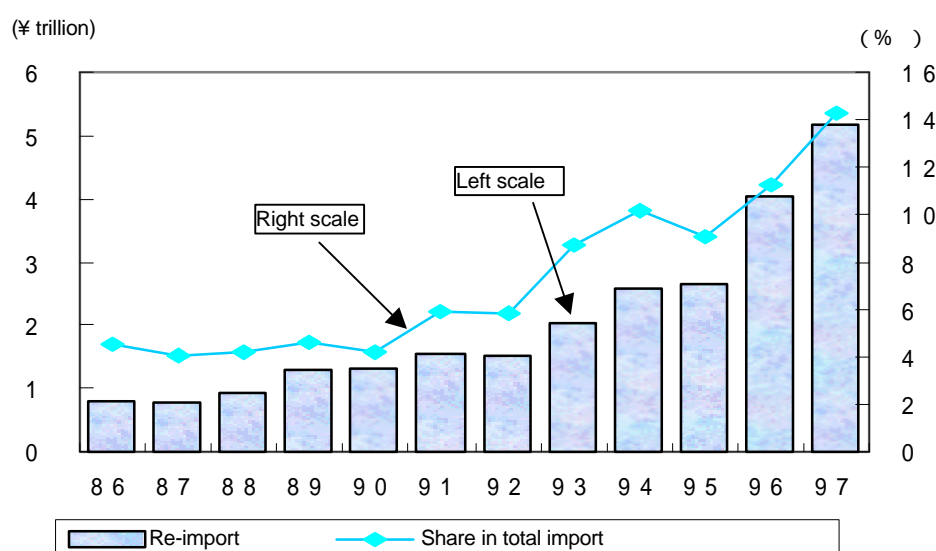
In contrast to their counterparts in the U.S. and Europe whose main purpose is to manufacture products for local consumption, the Overseas Affiliated Companies in Asia have the functions as production bases for export to Japan. With such functions expanded in each year, their export amount to Japan had increased to about seven-fold of ten years ago. In Europe, too, Japan-bound exports are assuming greater proportion of sales at Overseas Affiliated Companies, and Japan ranked as No. 1 export market, replacing the U.S.

On the purchase side, Overseas Affiliated Companies in the whole world had been increasing sharply the ratio of local procurements, by developing cross-border procurement network involving neighbor countries. At the same time, cross-area procurement ratio from Asia by Overseas Affiliated Companies in Europe and the U.S. had been rising. These facts show that they had been shifting from the procurement from Japan to local procurement and cross-boarder procurement, mainly from Asia.

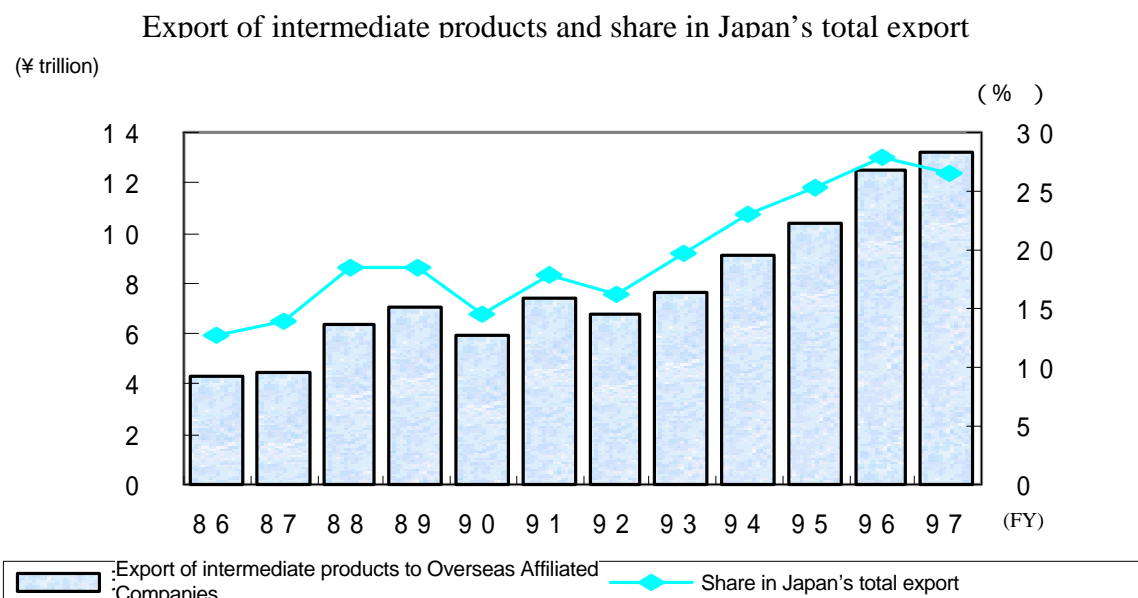
##### (2) Trading with Japan by Overseas Affiliated Companies

Japan-bound exports (= re-imports) by manufacturing Overseas Affiliated Companies increased sharply, as in the preceding year, with the amount accounting for 14.3% of Japan's total import. Also, the rapid increase in last three years of Asia's share in total re-imports to 84.2% shows Asia's mounting dependence on the Japanese market.

Re-import to Japan and share in Japan's total import



Japan's export of intermediate products to manufacturing Overseas Affiliated Companies steadily increased by 6.1% from the preceding year. However, the share of such products in Japan's total export fell by 1.3 points year-on-year to 26.6% due to the sharper growth in the latter fueled by the weaker yen.



## 5. Impact of Asia's economic turmoil on Overseas Affiliated Companies

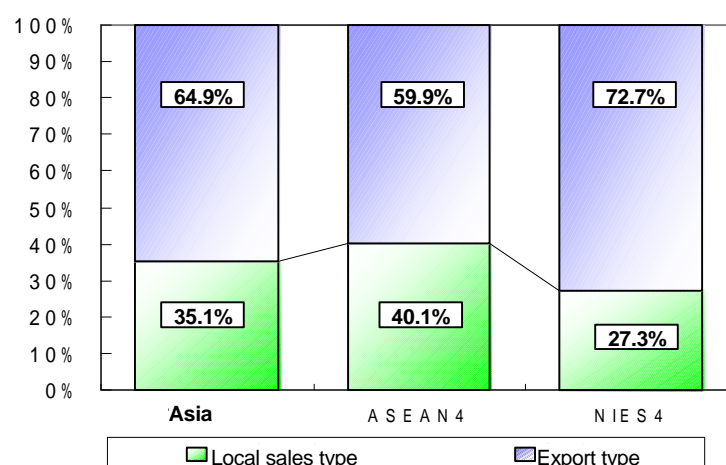
For the purpose of the analysis hereunder, the industries in Asian countries are classified into the following two types:

Local-sales type industries (those oriented towards local market: food; wood, paper/pulp; chemicals; iron and steel; transport machinery)

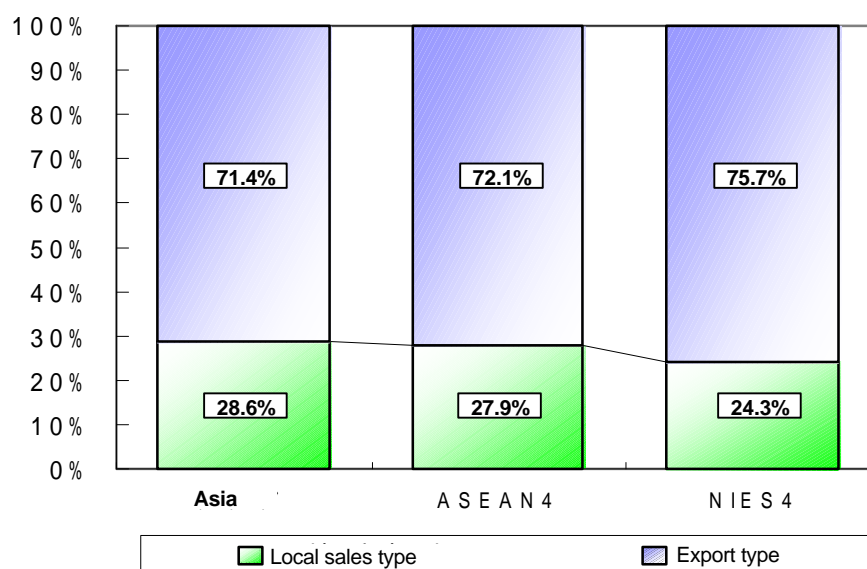
Export type industries (those oriented towards cross-border or overseas export market: textiles; nonferrous metals; general machinery; electrical machinery; precision machinery; others).

Each type accounts for the percentage shown in the following figures for sales amount and the number of employees.

Shares of Local-sales type / Export type (sales amount)



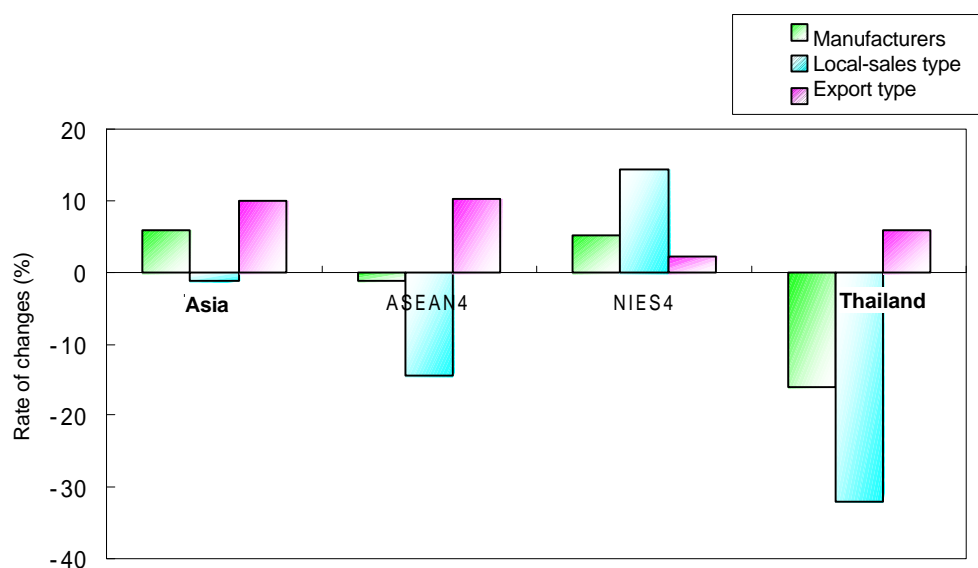
Shares of Local-sales type / Export type (number of employees)



# (1) Impact of Asia's economic turmoil

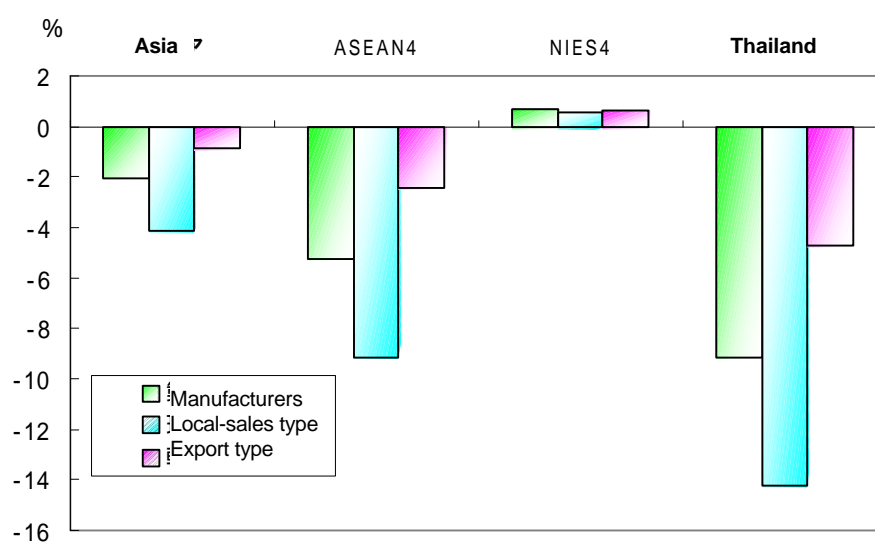
In ASEAN4, sales at Overseas Affiliated Companies in the local-sales type industries in all countries except Malaysia fell in FY1997 from the preceding year. Sales rose, on the other hand, at those in the export-type industries in all ASEAN4 countries, thanks to the higher price competitiveness on the currency depreciation. Because such influence was not found in NIEs4, it appears that, as of FY1997, the domestic markets of NIEs4 countries were not much affected by the currency crisis.

### Rates of changes in sales amount (Asia/manufacturers)



In ASEAN4, the rate of ordinary profit to sales fell in all countries due to sales decline in the local-sales sector. In particular, the sharp fall in profitability led to current account losses in Thailand and Indonesia. In NIES4, on the other hand, the rate of ordinary profit to sales rose on the whole, but things differed greatly from country to country, with the rate falling significantly in South Korea where GDP decreased sharply due to the currency crisis.

### Changes in rate of ordinary profit to sales (Asia/manufacturers)

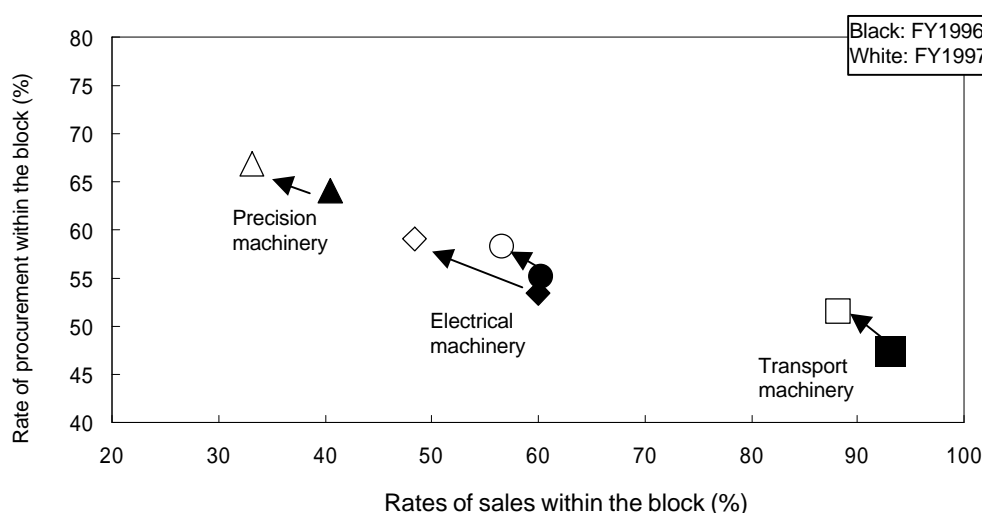


Although the currency crisis did not have much effect on plant and equipment investment in ASEAN4 or NIEs4 as of FY1997, the FY1998 forecast assumes the negative effect to be as large as 40% and 15% respectively.

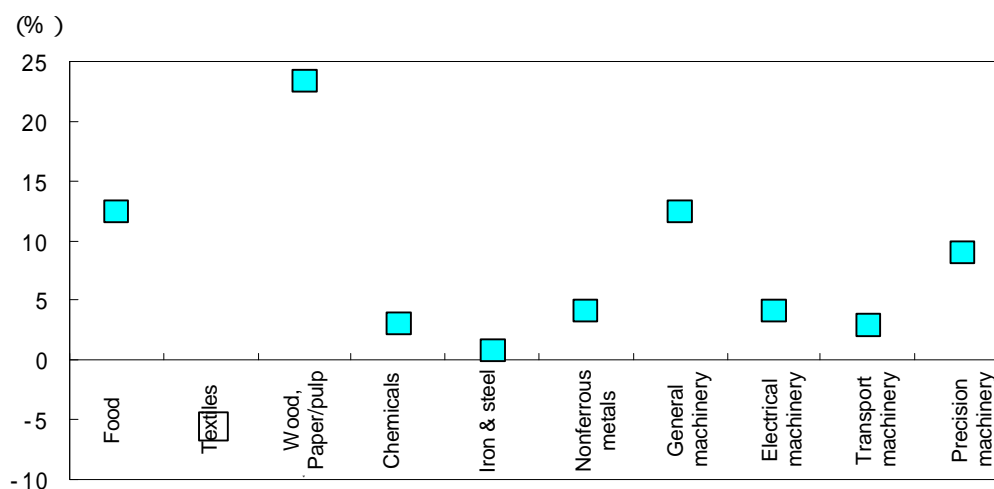
## (2) Countermeasures by Japanese-affiliated companies

The countermeasures taken by Overseas Affiliated Companies in the wake of the currency crisis were reviewed with focus on machinery industries. Each sub-sector was seen to have taken steps to strategically increase the rate of procurement within the Asian block to address the higher cost on the currency depreciation for imports from outside the block. Furthermore, in most industrial sectors, Overseas Affiliated Companies of large enterprises increased the ratio of Japan-bound exports. From this it appears that the parent companies might have absorbed the extra inventories created due to the flagging local sales.

Changes in rates of sales/procurement within the Asian block (machinery industries)

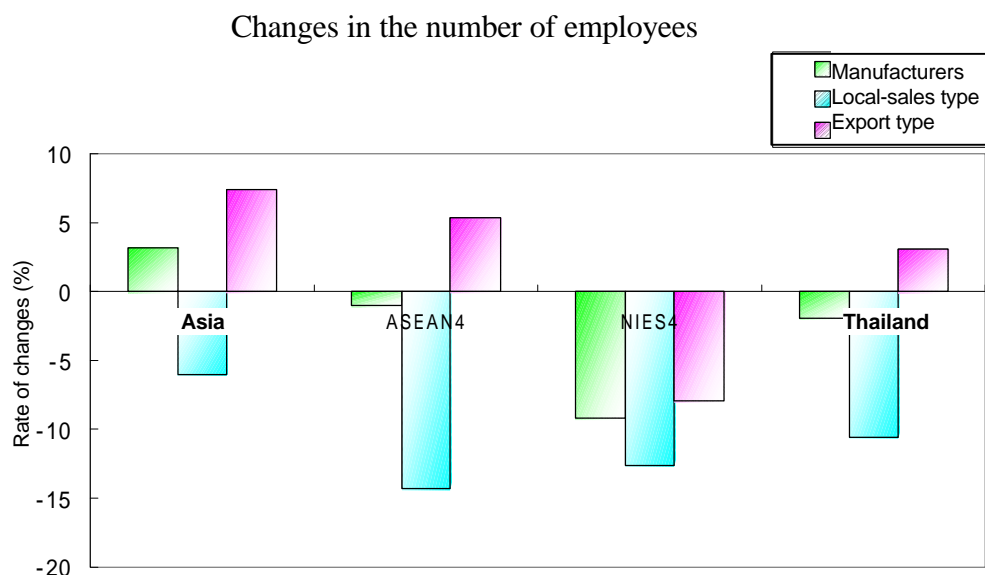


Changes in ratio of Japan-bound exports (large enterprises)





In both ASEAN4 and NIEs4, employment decreased sharply in the local-sales sector, but increased in the export sector of ASEAN4. The breakdown by country shows increased employment in the export sector in each ASEAN4 country and trimmed employment in the local-sales sector in all countries except the Philippines. As in the case of sales, these can be seen as the results of measures taken to take advantages of improved price competitiveness on the currency depreciation and to address the contraction of local markets.

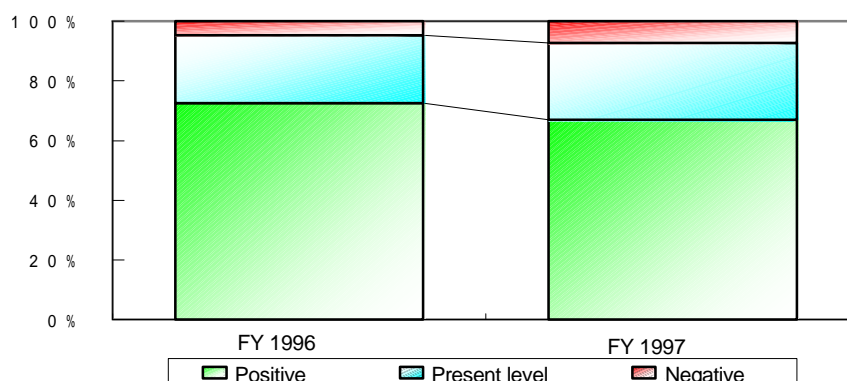


### (3) Plans for future business operation in Asia

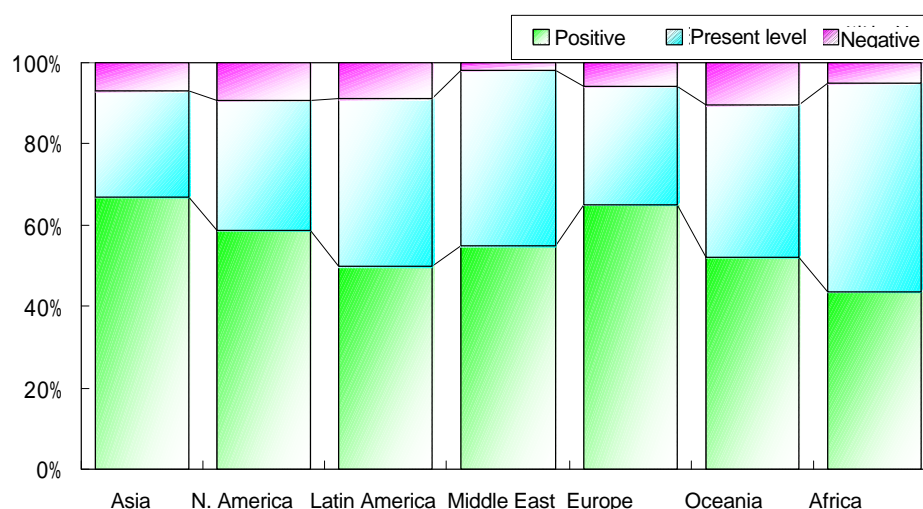
The surveyed companies were asked to express their views on their plan for business activities in Asia in the future (with focus on the fifth year from now). Most of them stated that they would continue the business operation in Asia, with about 60% having “positive stance” and about 30% intending to maintain the “present level.” However, the ratio of those having “negative stance” was higher compared to FY1996.

It appears that Asia is still a promising market, as potential as Europe, for Japanese companies in comparison to other areas in the world.

#### Plans for future business operation in Asia (comparison between fiscal years)



### Plans for future business operation



#### (4) Presence of Japanese-affiliated companies in the Asian economic turmoil

The below table shows the significant shares held by Japanese-affiliated manufacturing companies in the total employment and total export of the stated Asian country in FY1997 in which the economic turmoil emerged in Asia, as summarized below:

in employment: Singapore (13.5%), Hong Kong (11.7%), Malaysia (8.8%), in export: Philippines (18.1%), Malaysia (17.7%), Thailand (17.3%), Singapore 10.3%).

#### Shares of Japanese-affiliated companies

	Thailand	Malaysia	Indonesia	Philippines	Singapore	South Korea	Taiwan	Hong Kong
Employment	5.3	8.8	1.8	3.6	13.5	1.2	3.6	11.7
Plant and equipment investment	4.3	2.8	2.8	3.1	1.8	0.2	1.4	0.3
Export	17.3	17.7	8.1	18.1	10.3	2.0	4.8	4.3
Import	12.4	11.8	10.4	10.4	8.5	1.9	6.0	3.9

Source: Key Indicators of Developing Asian and Pacific Countries (Asia Development Bank) for domestic figures of each country

As seen in the foregoing, Japanese-affiliated manufacturing companies have important roles to play in the economic recoveries of the Asian countries because their activities have significant weight in the Asian economies.