



Japan External Trade Organization

# **Survey on International Operations of Japanese Firms (FY 2008)**

**March 23, 2009**

**Japan External Trade Organization (JETRO)**

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# I. Survey Outline and Profile of Respondent Firms

Figure I-1 Profile of respondent firms by industry

## 1. Survey topics and targets

### (1) Survey topics

- Domestic and overseas business operations
- Effects of the US financial crisis on Japanese firms' overseas business activities
- Business development in China
- Free Trade Agreement (FTA)-related activities
- The Asian business environment

### (2) Survey targets

A total of 3,283 JETRO member firms

Note: Starting this year, the survey includes non-manufacturing firms in addition to firms engaged in manufacturing, trading (import/export), and wholesale/retailing.

## 2. Period

Distribution of questionnaires: November 20, 2008

Deadline: December 22, 2008

## 3. Response

Number of firms sent questionnaires: 3,283

Number of responses: 928

Response ratio: 28.3%

	No. of firms	%
All respondents	928	100.0
Manufacturing/trade & wholesale/retail total	756	81.5
Firms with overseas production bases	513	55.3
Firms with domestic production bases	243	26.2
Manufacturing total	546	58.8
Food & beverages	56	6.0
Textiles/clothing	33	3.6
Wood & wood products/furniture & building materials/paper & pulp	19	2.0
Chemicals	46	5.0
Medical products & cosmetics	13	1.4
Coal & petroleum products/plastics/rubber products	39	4.2
Ceramics/earth & stones	18	1.9
Iron & steel/non-ferrous metals/metal products	50	5.4
General machinery	70	7.5
Electrical equipment	53	5.7
IT equipment/electronic parts & devices	36	3.9
Cars/car parts/other transportation machinery	55	5.9
Precision equipment	21	2.3
Other manufacturing	37	4.0
Trade & wholesale/retail total	210	22.6
Trade & wholesale	193	20.8
Retail	17	1.8
Non-manufacturing (exclusive of trade & wholesale/retail total) total	172	18.5
Construction	24	2.6
Transport	22	2.4
Finance & insurance	41	4.4
Professional services	21	2.3
Electricity, gas and water	5	0.5
Telecommunications services	11	1.2
Other nonmanufacturing	48	5.2
(For reference) Non-manufacturing (inclusive of trade & wholesale/retail total) totals	382	41.2
Large-scale companies	371	40.0
Small and medium-sized enterprises (SMEs)	557	60.0

[Notes] SMEs are classified as such based on the definition given in the Small and Medium-Sized Enterprise Basic Act

# Approximately half of the firms surveyed have bases in China

## Profile of respondent firms (status of overseas bases)

Of the 928 firms that responded, 64.7% (600 firms) have overseas bases. China led as the location for bases, with 74.2% (445 firms) of those firms having bases there. Approximately half of the firms surveyed have bases in China. The United States (44.7%, 268 firms) and Thailand (37.5%, 225 firms) ranked second and third. In terms of the type of bases, China led in sales and production bases, with 46.5% and 46.8%, respectively. China also ranked first place in the number of R&D bases in the previous survey and continued to lead the United States and Western Europe in the current survey.

Figure I-2 Firms with overseas operations

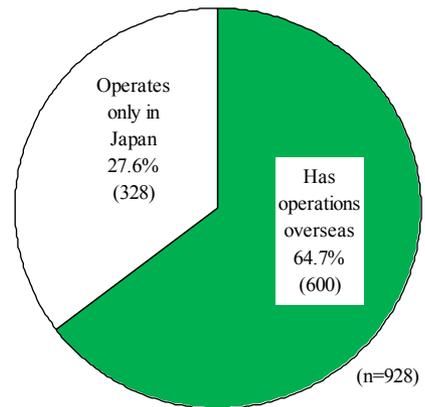
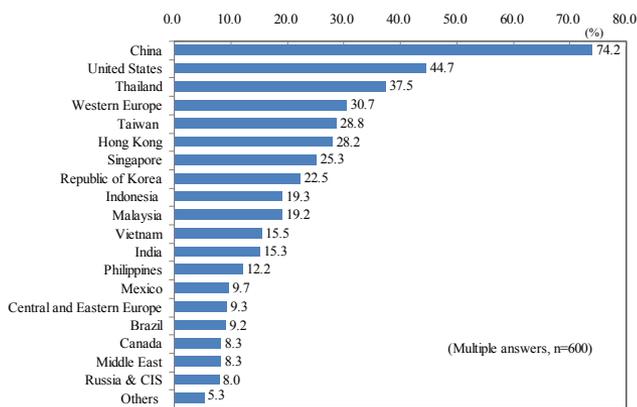
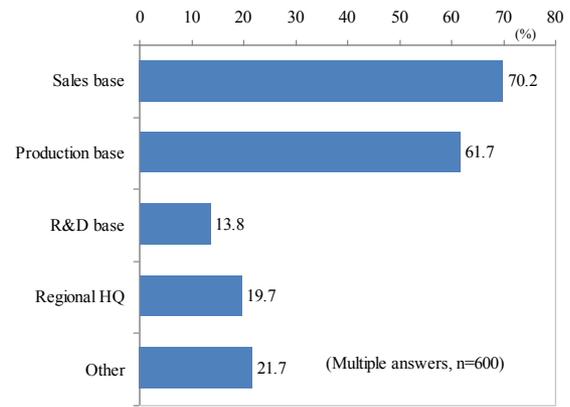


Figure I-3 Overseas bases by location



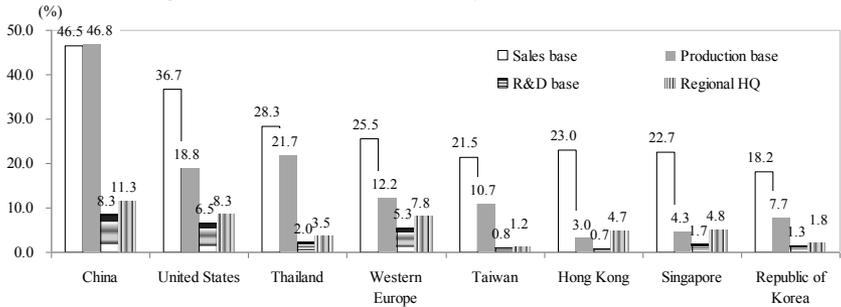
Note: Percentage of firms with overseas bases

Figure I-4 Overseas bases by function



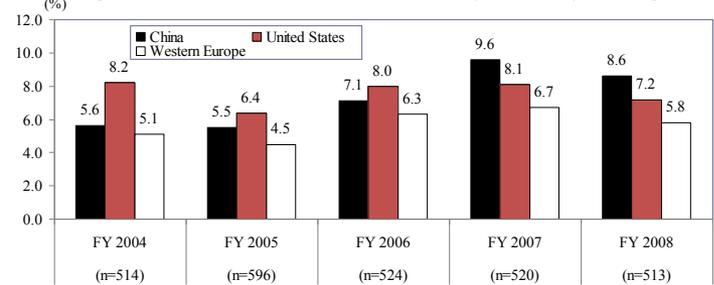
Note: Percentage of firms with overseas bases

Figure I-5 Overseas bases by location and function



Note: Percentage of firms with overseas bases

Figure I-6 Overseas R&D bases by country or region



Note 1: The manufacturing, trade & wholesale, and retail industries have been surveyed as they allow comparison with past data.  
 Note 2: Percentage of firms with overseas bases

II. Domestic and Overseas Business Operations

(1) Slowdown in plans to expand domestic and overseas operations

Domestic and overseas business plans for the next 3 years or so

● **Nearly 50% aim to expand overseas operations**

In the next 3 years or so, 50.3% plan to expand their business overseas, with either new investments or expansion of existing bases. This figure outstripped those planning to expand domestic operations (35.5%).

In terms of trends of industries for which chronological comparisons are possible, i.e. manufacturing, trade & wholesale, and retail, those planning to expand operations dropped significantly both domestically and overseas, while those planning to maintain the current scale increased significantly. However, while those planning to scale down or close business increased from 1.6% to 4.1% domestically, in terms of business overseas there was little change from the previous survey at 2.1%.

Figure II-1 Overseas business plans (all industries)

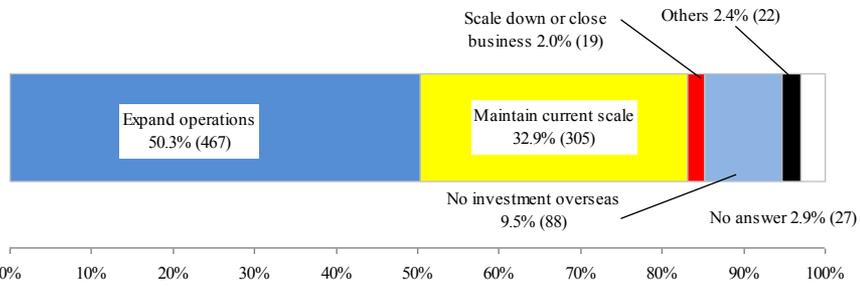


Figure II-2 Domestic business plans (all industries)

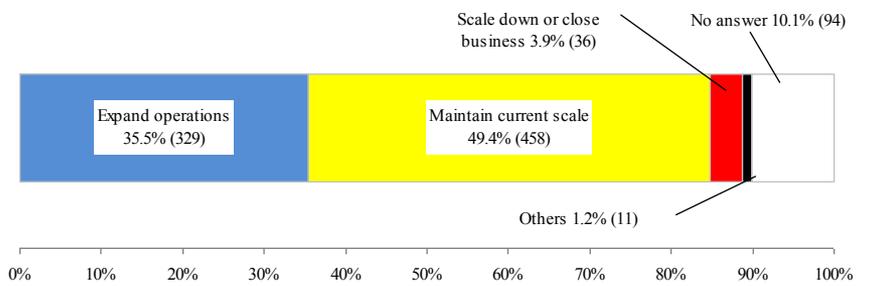


Figure II-3 Overseas business plans (manufacturing, trade & wholesale, retail)

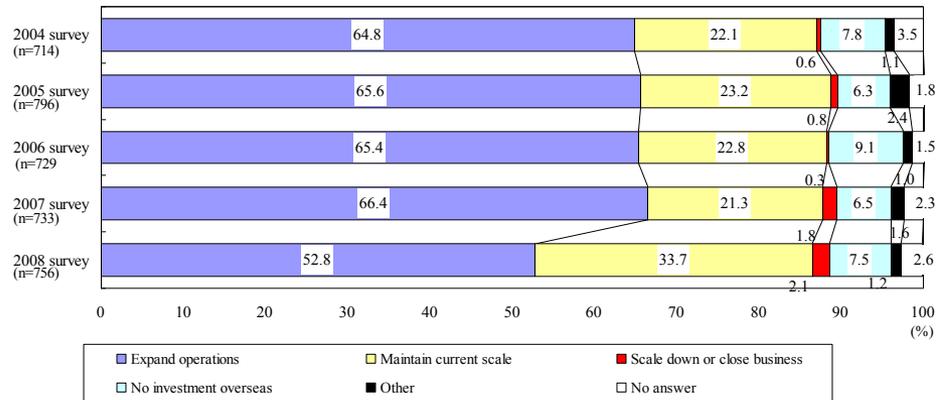
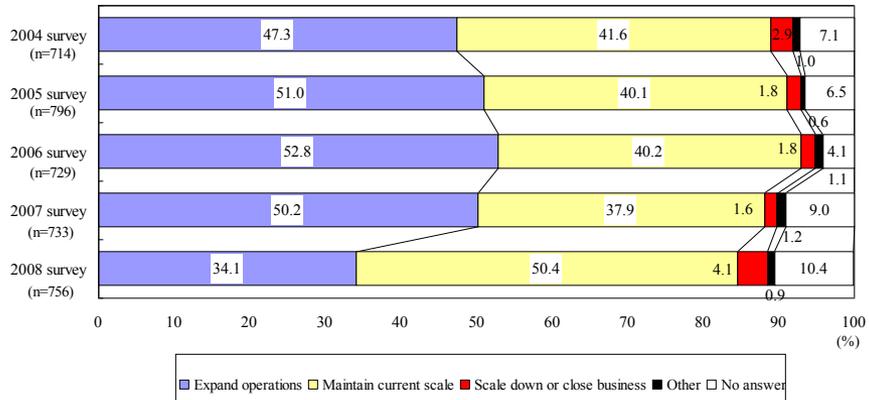


Figure II-4 Domestic business plans (manufacturing, trade & wholesale, retail)



# II. Domestic and Overseas Business Operations

## (2) Expanding sales and production (mid to low-end products) overseas

### Business plans by function for the next 3 years or so

● **Strong interest in expanding overseas business by the materials industries**

Focusing on domestic and overseas business plans by function for the next 3 years or so, while firms were strongly inclined to expand their production (high-end products) and R&D (primary research, new product development) functions domestically, they intended to expand their sales, production (mid to low-end products), and R&D (localization) functions overseas. In terms of industries, there was a strong tendency among the non-manufacturing industries to expand their domestic functions, while the majority of firms in the medical products & cosmetics and chemicals industries responded that they intended to expand their overseas functions.

Figure II-5 Functions to be expanded in Japan and overseas (all industries)

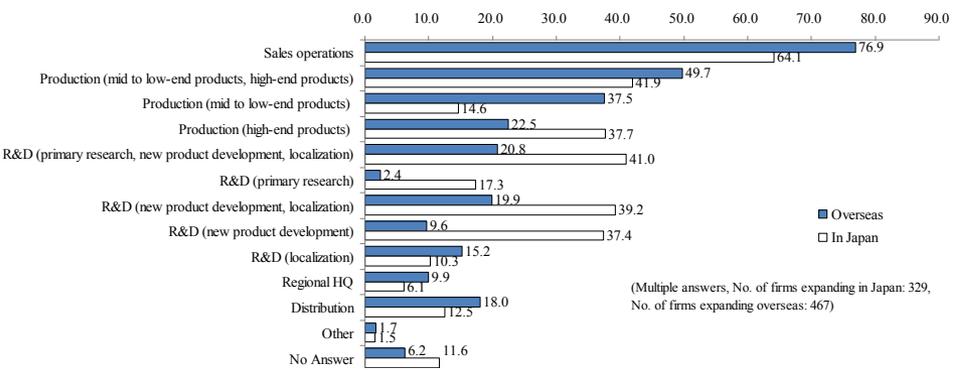


Figure II-6 Functions to be expanded in Japan (manufacturing, trade & wholesale, retail)

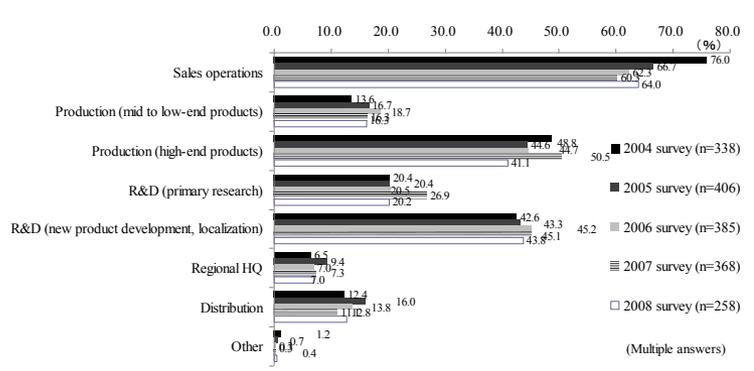


Figure II-7 Functions to be expanded overseas (manufacturing, trade & wholesale, retail)

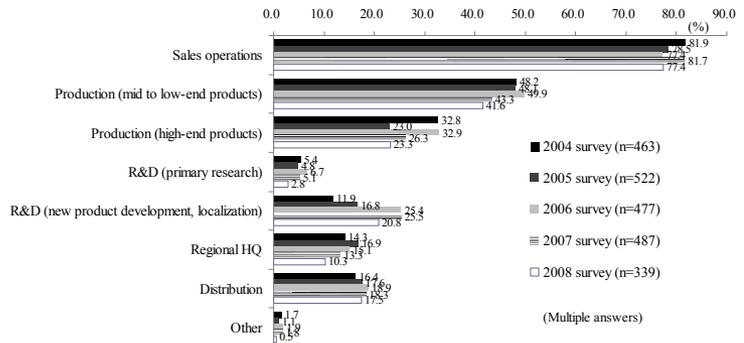


Figure II-8 Major industries expanding business in Japan and overseas

	Industry	No. of responding firms (n)	Firms expanding overseas	Percentage (%)
Expand in Japan	All respondents	928	329	35.5
	1 Retail	17	10	58.8
	2 Professional services	21	12	57.1
	3 Telecommunications services	11	6	54.5
	4 Medical products & cosmetics	13	6	46.2
	5 Chemicals	46	21	45.7
Expand overseas	All respondents	928	467	50.3
	1 Medical products & cosmetics	13	11	84.6
	2 Chemicals	46	34	73.9
	3 Telecommunications services	11	8	72.7
	4 Cars/car parts/other transportation machinery	55	36	65.5
	5 Wood & wood products/furniture & building materials/paper & pulp	19	12	63.2

## II. Domestic and Overseas Business Operations

### (3) Overall declining interest in expanding business in China

#### Countries or regions and functions in which firms plan to expand

##### ● Steady interest in expanding business in Malaysia, Mexico and Brazil

Focusing on functions (sales, production, R&D, etc.) and countries or regions where firms are planning to expand through new investment or expansion of existing bases reveal that, as in FY 2006 and FY 2007, expansion in China was highest in almost all functions. However, compared to the previous survey, the percentage of firms planning to expand decreased in almost all functions. While the percentage of firms planning to expand in the United States was down from the previous year, the percentage of firms planning to expand sales functions rose in certain ASEAN countries, including Thailand, Malaysia, Indonesia, Brazil, and Russia & the CIS. While interest in expansion waned in most countries or regions, percentage points rose in the majority of functions for Malaysia, Mexico and Brazil, compared to the previous survey.

Figure II-9 Overseas business expansion plans by function and by country or region (next 3 years or so)

(Multiple answers, %)

	FY 2008 survey (All industries)											FY 2008 survey (Manufacturing, trade & wholesale, retail)											Change from FY 2007 (Manufacturing, trade & wholesale, retail)										
	Sales operations	Production		R&D					Regional HQ	Distribution	Sales operations	Production		R&D					Regional HQ	Distribution	Sales operations	Production		R&D					Regional HQ	Distribution			
		(Mid to low-end products)	(High-end products)	(Primary research)	(New product development, localization)	(New product development)	(Localization)	(Mid to low-end products)				(High-end products)	(Primary research)	(New product development, localization)	(New product development)	(Localization)	(Mid to low-end products)	(High-end products)				(Primary research)	(New product development, localization)	(New product development)	(Localization)								
China	49.7	31.5	24.8	12.6	11.3	1.3	10.9	4.5	8.8	3.9	8.6	50.6	34.8	27.8	13.8	11.8	1.5	11.3	5.0	9.0	3.8	8.3	-7.7	-4.6	-2.6	-3.7	-4.0	-1.8	-4.1	-2.4	-2.9	-2.6	-0.1
Hong Kong	6.2	1.7	0.9	1.3	0.9	0.0	0.9	0.6	0.6	1.1	2.8	6.0	1.8	1.0	1.3	0.8	0.0	0.8	0.8	0.5	1.3	3.0	-3.0	-0.5	0.0	-0.1	-0.6	-0.4	-0.4	0.2	-0.5	0.1	0.7
Taiwan	10.3	2.8	1.9	0.9	1.1	0.0	1.1	0.4	0.9	0.6	1.1	10.8	3.3	2.3	1.0	1.3	0.0	1.3	0.5	1.0	0.8	1.0	-2.8	0.0	0.5	-0.6	-0.8	-0.2	-0.5	-0.3	-0.6	0.4	0.4
Republic of Korea	10.9	3.4	2.1	1.9	1.9	0.0	1.9	1.5	0.9	0.4	0.9	11.5	4.0	2.5	2.3	2.0	0.0	2.0	1.5	1.0	0.3	0.8	-4.1	0.7	0.7	0.5	-1.1	-0.6	-0.9	0.1	-1.1	-0.3	0.2
Singapore	8.1	1.3	0.6	0.9	0.6	0.0	0.6	0.2	0.4	1.9	1.5	8.0	1.0	0.8	0.5	0.8	0.0	0.8	0.3	0.5	2.0	1.5	-0.2	-0.4	-0.2	-0.1	-0.8	-0.4	-0.6	-0.3	-0.7	-1.1	-0.8
Thailand	18.8	12.4	9.2	5.6	4.7	0.0	4.7	1.7	3.9	1.5	2.1	19.0	13.5	10.5	5.8	5.0	0.0	5.0	2.0	4.0	1.8	2.0	0.9	-1.5	-0.8	-1.6	-0.3	-0.6	-0.1	-0.1	-0.5	-0.5	-0.3
Malaysia	7.1	4.3	2.8	2.1	1.3	0.0	1.3	0.9	0.6	0.2	1.5	7.0	4.8	3.0	2.5	1.5	0.0	1.5	1.0	0.8	0.3	1.5	1.7	1.7	0.3	1.3	0.7	-0.6	1.1	0.6	0.6	-0.1	0.7
Indonesia	6.0	3.4	3.0	1.1	0.2	0.0	0.2	0.2	0.2	0.0	0.6	5.8	3.5	3.0	1.3	0.3	0.0	0.3	0.3	0.3	0.0	0.8	0.7	-0.6	-0.5	0.3	-1.1	-0.2	-0.9	-0.3	-0.9	-0.2	0.2
Philippines	0.6	0.6	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.5	0.5	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.7	-0.9	-0.9	0.1	0.0	0.0	0.0	0.0	0.0	-0.2	
Vietnam	12.0	9.6	7.1	3.2	1.5	0.0	1.5	0.6	1.1	0.2	1.3	11.5	9.8	7.5	2.8	1.8	0.0	1.8	0.8	1.3	0.3	0.8	-1.6	-0.1	-0.9	0.1	-0.3	-0.6	0.2	0.4	-0.1	-0.3	-0.4
India	19.3	5.6	3.9	2.4	1.9	0.0	1.9	0.9	1.3	1.1	1.5	19.0	5.5	3.8	2.5	2.3	0.0	2.3	1.0	1.5	1.3	0.8	0.1	-0.7	-0.9	0.7	-0.4	-0.8	-0.2	0.2	-0.3	0.3	-1.5
United States	20.3	6.9	3.9	4.3	5.1	0.6	5.1	2.8	3.4	3.2	3.0	21.1	7.0	4.3	4.3	5.3	0.8	5.3	3.0	3.5	3.8	3.0	-4.2	-2.2	-0.2	-1.2	-1.5	-1.0	-1.3	-0.5	-1.8	-0.3	-0.9
Canada	1.9	0.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	1.8	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	-0.9	-0.5	-0.3	-0.4	-0.4	-0.2	-0.4	-0.2	-0.4	0.3	-0.2
Mexico	2.1	1.7	0.6	1.3	0.4	0.0	0.4	0.0	0.4	0.0	0.4	2.5	2.0	0.8	1.5	0.5	0.0	0.5	0.0	0.5	0.0	0.5	1.1	0.6	-0.2	0.9	0.3	0.0	0.3	-0.2	0.5	-0.2	0.1
Brazil	7.5	1.7	1.1	0.9	0.9	0.0	0.9	0.6	0.6	0.6	0.2	8.5	2.0	1.3	1.0	1.0	0.0	1.0	0.8	0.8	0.8	0.3	2.3	-0.3	-0.3	0.0	0.2	0.0	0.2	0.4	0.2	0.4	0.1
Western Europe	17.8	4.7	1.7	4.1	4.3	0.9	4.1	2.1	2.6	3.4	3.6	19.5	4.8	2.0	4.0	4.3	1.0	4.0	2.3	2.5	4.0	4.0	1.8	-0.7	-0.7	0.1	-2.5	-0.6	-2.4	-1.8	-1.6	-2.0	-0.5
Central & Eastern Europe	7.9	2.8	2.1	1.3	0.6	0.2	0.6	0.4	0.4	0.4	1.9	8.5	3.3	2.5	1.5	0.8	0.3	0.8	0.5	0.5	0.5	1.5	-0.5	-0.4	0.2	-1.4	0.4	0.3	0.4	0.3	0.3	0.1	1.1
Russia & CIS	12.8	1.5	0.9	0.9	0.4	0.0	0.4	0.4	0.4	0.2	1.3	13.3	1.3	0.8	0.8	0.5	0.0	0.5	0.5	0.5	0.3	0.5	2.0	-0.3	-0.2	-0.2	-0.3	-0.2	-0.3	0.1	-0.3	-0.3	-0.1
Middle East	8.4	1.5	0.9	0.6	0.6	0.2	0.6	0.2	0.4	0.2	0.2	8.5	1.5	1.0	0.5	0.5	0.3	0.5	0.3	0.3	0.3	0.0	-	-	-	-	-	-	-	-	-	-	
Other	3.6	0.9	0.9	0.0	0.4	0.0	0.4	0.2	0.0	0.0	0.4	3.3	1.0	1.0	0.0	0.5	0.0	0.5	0.3	0.0	0.0	0.3	-2.0	-0.8	0.2	-1.0	-0.7	-0.2	-0.5	-0.5	-0.6	-0.6	0.1

Note 1: The shaded figures in the FY 2008 columns indicate countries/regions ranked in the top three, shaded figures in the change from FY 2007 indicate changes of 2 percentage points or more.

Note 2: The number of respondents (n) planning to expand their overseas businesses in the future in the FY 2008 survey was 467 for all industries. For manufacturing, trade & wholesale and retailing, n is 399 in the FY 2007 survey and 487 in the FY 2008 survey.

Note 3: The Middle East was added beginning from the FY 2008 survey. Therefore there are no figures indicating change from the previous survey.

## II. Domestic and Overseas Business Operations

### (4) Expansion plans (for the next 3 years or so): Countries or regions and functions (1)

#### Planned expansion rankings on each function by country or region (all industries)

Figure II-10 Country or region rankings by function on expansion planned in the next 3 years or so (all industries)

(Multiple answers, %)

Rank	Sales operations		Production (mid to low-end products, high-end products)						R&D (primary research, new product development, localization)			
			Production (mid to low-end products)			Production (high-end products)					R&D (primary research)	
	FY 2008 survey		FY 2008 survey		FY 2008 survey		FY 2008 survey		FY 2008 survey		FY 2008 survey	
1	China	49.7	China	31.5	China	24.8	China	12.6	China	11.3	China	1.3
2	United States	20.3	Thailand	12.4	Thailand	9.2	Thailand	5.6	United States	5.1	Western Europe	0.9
3	India	19.3	Vietnam	9.6	Vietnam	7.1	United States	4.3	Thailand	4.7	United States	0.6
4	Thailand	18.8	United States	6.9	India	3.9	Western Europe	4.1	Western Europe	4.3	Central & Eastern Europe	0.2
5	Western Europe	17.8	India	5.6	United States	3.9	Vietnam	3.2	Republic of Korea	1.9	Middle East	0.2
6	Russia & CIS	12.8	Western Europe	4.7	Indonesia	3.0	India	2.4	India	1.9	Hong Kong	0.0
7	Vietnam	12.0	Malaysia	4.3	Malaysia	2.8	Malaysia	2.1	Vietnam	1.5	Taiwan	0.0
8	Republic of Korea	10.9	Republic of Korea	3.4	Republic of Korea	2.1	Republic of Korea	1.9	Malaysia	1.3	Republic of Korea	0.0
9	Taiwan	10.3	Indonesia	3.4	Central & Eastern Europe	2.1	Hong Kong	1.3	Taiwan	1.1	Singapore	0.0
10	Middle East	8.4	Taiwan	2.8	Taiwan	1.9	Mexico	1.3	Hong Kong	0.9	Thailand	0.0
11	Singapore	8.1	Central & Eastern Europe	2.8	Western Europe	1.7	Central & Eastern Europe	1.3	Brazil	0.9	Malaysia	0.0
12	Central & Eastern Europe	7.9	Hong Kong	1.7	Brazil	1.1	Indonesia	1.1	Singapore	0.6	Indonesia	0.0
13	Brazil	7.5	Mexico	1.7	Hong Kong	0.9	Thailand	0.9	Central & Eastern Europe	0.6	Philippines	0.0
14	Malaysia	7.1	Brazil	1.7	Russia & CIS	0.9	Singapore	0.9	Middle East	0.6	Vietnam	0.0
15	Hong Kong	6.2	Russia & CIS	1.5	Middle East	0.9	Brazil	0.9	Mexico	0.4	India	0.0
16	Indonesia	6.0	Middle East	1.5	Singapore	0.6	Russia	0.9	Russia & CIS	0.4	Canada	0.0
17	Mexico	2.1	Singapore	1.3	Mexico	0.6	Middle East	0.6	Indonesia	0.2	Mexico	0.0
18	Canada	1.9	Philippines	0.6	Philippines	0.4	Philippines	0.4	Philippines	0.0	Brazil	0.0
19	Philippines	0.6	Canada	0.6	Canada	0.4	Canada	0.0	Canada	0.0	Russia & CIS	0.0

Rank	R&D (new product development, localization)						Regional HQ		Distribution	
	R&D (new product development)		R&D (localization)							
	FY 2008 survey		FY 2008 survey		FY 2008 survey		FY 2008 survey		FY 2008 survey	
1	China	10.9	China	4.5	China	8.8	China	3.9	China	8.6
2	United States	5.1	United States	2.8	Thailand	3.9	Western Europe	3.4	Western Europe	3.6
3	Thailand	4.7	Western Europe	2.1	United States	3.4	United States	3.2	United States	3.0
4	Western Europe	4.1	Thailand	1.7	Western Europe	2.6	Singapore	1.9	Hong Kong	2.8
5	Republic of Korea	1.9	Republic of Korea	1.5	India	1.3	Thailand	1.5	Thailand	2.1
6	India	1.9	Malaysia	0.9	Vietnam	1.1	Hong Kong	1.1	Central & Eastern Europe	1.9
7	Vietnam	1.5	India	0.9	Taiwan	0.9	India	1.1	Singapore	1.5
8	Malaysia	1.3	Hong Kong	0.6	Republic of Korea	0.9	Taiwan	0.6	Malaysia	1.5
9	Taiwan	1.1	Vietnam	0.6	Hong Kong	0.6	Brazil	0.6	India	1.5
10	Hong Kong	0.9	Brazil	0.6	Malaysia	0.6	Republic of Korea	0.4	Vietnam	1.3
11	Brazil	0.9	Taiwan	0.4	Brazil	0.6	Central & Eastern Europe	0.4	Russia & CIS	1.3
12	Singapore	0.6	Central & Eastern Europe	0.4	Singapore	0.4	Malaysia	0.2	Taiwan	1.1
13	Central & Eastern Europe	0.6	Russia & CIS	0.4	Mexico	0.4	Philippines	0.2	Republic of Korea	0.9
14	Middle East	0.6	Singapore	0.2	Central & Eastern Europe	0.4	Vietnam	0.2	Indonesia	0.6
15	Mexico	0.4	Indonesia	0.2	Russia & CIS	0.4	Canada	0.2	Mexico	0.4
16	Russia & CIS	0.4	Middle East	0.2	Middle East	0.4	Russia & CIS	0.2	Philippines	0.2
17	Indonesia	0.2	Philippines	0.0	Indonesia	0.2	Middle East	0.2	Brazil	0.2
18	Philippines	0.0	Canada	0.0	Philippines	0.0	Indonesia	0.0	Middle East	0.2
19	Canada	0.0	Mexico	0.0	Canada	0.0	Mexico	0.0	Canada	0.0

Note: The number of respondents (n) planning to expand their overseas businesses in the future in the survey was 467.

## II. Domestic and Overseas Business Operations

### (4) Expansion plans (for the next 3 years or so): Countries or regions and functions (2)

#### Planned expansion rankings on each function by country or region (manufacturing, trade & wholesale, retail)

Figure II-11 Country or region rankings by function on expansion planned in the next 3 years or so (manufacturing, trade & wholesale, retail)

(Multiple answers, %)

Rank	Sales operations			Production (mid to low-end products, high-end products)			Production (mid to low-end products)			Production (high-end products)			R&D (primary research, new product development, localization)			R&D (primary research)								
	FY 2007 rank	FY 2008 survey	Change from FY 2007	FY 2007 rank	FY 2008 survey	Change from FY 2007	FY 2007 rank	FY 2008 survey	Change from FY 2007	FY 2007 rank	FY 2008 survey	Change from FY 2007	FY 2007 rank	FY 2008 survey	Change from FY 2007	FY 2007 rank	FY 2008 survey	Change from FY 2007						
1	China	(1)	50.6	-7.7	China	(1)	34.8	-4.6	China	(1)	27.8	-2.6	China	(1)	13.8	-3.7	China	(1)	11.8	-4.0	China	(1)	1.5	△ 1.8
2	United States	(2)	21.1	-4.2	Thailand	(2)	13.5	-1.5	Thailand	(2)	10.5	-0.8	Thailand	(2)	5.8	-1.6	United States	(2)	5.3	-1.5	Western Europe	(3)	1.0	-0.6
3	Western Europe	(5)	19.5	1.8	Vietnam	(3)	9.8	-0.1	Vietnam	(3)	7.5	-0.9	United States	(3)	4.3	-1.2	Thailand	(4)	5.0	-0.3	United States	(2)	0.8	-1.0
4	Thailand	(4)	19.0	0.9	United States	(4)	7.0	-2.2	United States	(5)	4.3	-0.2	Western Europe	(4)	4.0	0.1	Western Europe	(2)	4.3	-2.5	Central & Eastern Europe	(15)	0.3	0.3
5	India	(3)	19.0	0.1	India	(5)	5.5	-0.7	India	(4)	3.8	-0.9	Vietnam	(6)	2.8	0.1	India	(6)	2.3	-0.4	Middle East	-	0.3	-
6	Russia & CIS	(9)	13.3	2.0	Western Europe	(6)	4.8	-0.7	Malaysia	(7)	3.0	0.3	Malaysia	(11)	2.5	1.3	Republic of Korea	(5)	2.0	-1.1	Hong Kong	(9)	0.0	-0.4
7	Republic of Korea	(6)	11.5	-4.1	Malaysia	(11)	4.8	1.7	Indonesia	(6)	3.0	-0.5	India	(7)	2.5	0.7	Vietnam	(7)	1.8	-0.3	Taiwan	(11)	0.0	-0.2
8	Vietnam	(8)	11.5	-1.6	Republic of Korea	(9)	4.0	0.7	Republic of Korea	(10)	2.5	0.7	Republic of Korea	(7)	2.3	0.5	Malaysia	(12)	1.5	0.7	Republic of Korea	(5)	0.0	-0.6
9	Taiwan	(7)	10.8	-2.8	Indonesia	(7)	3.5	-0.6	Central & Eastern Europe	(9)	2.5	0.2	Mexico	(15)	1.5	0.9	Taiwan	(7)	1.3	-0.8	Singapore	(9)	0.0	-0.4
10	Brazil	(13)	8.5	2.3	Taiwan	(9)	3.3	0.0	Taiwan	(10)	2.3	0.5	Central & Eastern Europe	(5)	1.5	-1.4	Brazil	(12)	1.0	0.2	Thailand	(5)	0.0	-0.6
11	Central & Eastern Europe	(10)	8.5	-0.5	Central & Eastern Europe	(8)	3.3	-0.4	Western Europe	(7)	2.0	-0.7	Hong Kong	(10)	1.3	-0.1	Hong Kong	(10)	0.8	-0.6	Malaysia	(5)	0.0	-0.6
12	Middle East	-	8.5	-	Mexico	(15)	2.0	0.6	Brazil	(12)	1.3	-0.3	Indonesia	(12)	1.3	0.3	Singapore	(9)	0.8	-0.8	Indonesia	(11)	0.0	-0.2
13	Singapore	(12)	8.0	-0.2	Brazil	(12)	2.0	-0.3	Hong Kong	(14)	1.0	0.0	Taiwan	(9)	1.0	-0.6	Central & Eastern Europe	(15)	0.8	0.4	Philippines	(15)	0.0	0.0
14	Malaysia	(14)	7.0	1.7	Hong Kong	(12)	1.8	-0.5	Middle East	-	1.0	-	Brazil	(12)	1.0	0.0	Mexico	(17)	0.5	0.3	Vietnam	(5)	0.0	-0.6
15	Hong Kong	(10)	6.0	-3.0	Middle East	-	1.5	-	Singapore	(14)	0.8	-0.2	Russia & CIS	(12)	0.8	-0.2	Russia & CIS	(12)	0.5	-0.3	India	(4)	0.0	-0.8
16	Indonesia	(15)	5.8	0.7	Russia & CIS	(14)	1.3	-0.3	Mexico	(14)	0.8	-0.2	Singapore	(15)	0.5	-0.1	Middle East	-	0.5	-	Canada	(11)	0.0	-0.2
17	Mexico	(17)	2.5	1.1	Singapore	(15)	1.0	-0.4	Russia & CIS	(14)	0.8	-0.2	Middle East	-	0.5	-	Indonesia	(10)	0.3	-1.1	Mexico	(15)	0.0	0.0
18	Canada	(16)	1.8	-0.9	Philippines	(15)	0.5	-0.9	Philippines	(13)	0.3	-0.9	Philippines	(18)	0.3	0.1	Philippines	(18)	0.0	0.0	Brazil	(15)	0.0	0.0
19	Philippines	(18)	0.5	-0.7	Canada	(18)	0.5	-0.5	Canada	(18)	0.3	-0.3	Canada	(17)	0.0	-0.4	Canada	(15)	0.0	-0.4	Russia & CIS	(11)	0.0	-0.2

Rank	R&D (new product development, localization)			R&D (new product development)			Regional HQ			Distribution										
	FY 2007 rank	FY 2008 survey	Change from FY 2007	FY 2007 rank	FY 2008 survey	Change from FY 2007	FY 2007 rank	FY 2008 survey	Change from FY 2007	FY 2007 rank	FY 2008 survey	Change from FY 2007								
1	China	(1)	11.3	-4.1	China	(1)	5.0	-2.4	China	(1)	9.0	-2.9	Western Europe	(2)	4.0	-2.0	China	(1)	8.3	-0.1
2	United States	(2)	5.3	-1.3	United States	(3)	3.0	-0.5	Thailand	(3)	4.0	-0.5	China	(1)	3.8	-2.6	Western Europe	(2)	4.0	-0.5
3	Thailand	(4)	5.0	-0.1	Western Europe	(2)	2.3	-1.8	United States	(2)	3.5	-1.8	United States	(3)	3.8	-0.3	Hong Kong	(4)	3.0	0.7
4	Western Europe	(3)	4.0	-2.4	Thailand	(4)	2.0	-0.1	Western Europe	(4)	2.5	-1.6	Singapore	(4)	2.0	-1.1	United States	(3)	3.0	-0.9
5	India	(6)	2.3	-0.2	Republic of Korea	(5)	1.5	0.1	India	(6)	1.5	-0.3	Thailand	(5)	1.8	-0.5	Thailand	(4)	2.0	-0.3
6	Republic of Korea	(5)	2.0	-0.9	Malaysia	(11)	1.0	0.6	Vietnam	(8)	1.3	-0.1	Hong Kong	(6)	1.3	0.1	Singapore	(4)	1.5	-0.8
7	Vietnam	(8)	1.8	0.2	India	(6)	1.0	0.2	Taiwan	(7)	1.0	-0.6	India	(7)	1.3	0.3	Malaysia	(9)	1.5	0.7
8	Malaysia	(14)	1.5	1.1	Hong Kong	(8)	0.8	0.2	Republic of Korea	(5)	1.0	-1.1	Taiwan	(11)	0.8	0.4	Central & Eastern Europe	(14)	1.5	1.1
9	Taiwan	(7)	1.3	-0.5	Vietnam	(11)	0.8	0.4	Malaysia	(15)	0.8	0.6	Brazil	(11)	0.8	0.4	Taiwan	(10)	1.0	0.4
10	Brazil	(12)	1.0	0.2	Brazil	(11)	0.8	0.4	Brazil	(13)	0.8	0.2	Central & Eastern Europe	(11)	0.5	0.1	Republic of Korea	(10)	0.8	0.2
11	Hong Kong	(10)	0.8	-0.4	Taiwan	(6)	0.5	-0.3	Hong Kong	(11)	0.5	-0.5	Republic of Korea	(8)	0.3	-0.3	Indonesia	(10)	0.8	0.2
12	Singapore	(9)	0.8	-0.6	Central & Eastern Europe	(15)	0.5	0.3	Singapore	(9)	0.5	-0.7	Malaysia	(11)	0.3	-0.1	Vietnam	(8)	0.8	-0.4
13	Central & Eastern Europe	(14)	0.8	0.4	Russia & CIS	(11)	0.5	0.1	Mexico	(17)	0.5	0.5	Vietnam	(8)	0.3	-0.3	India	(4)	0.8	-1.5
14	Mexico	(17)	0.5	0.3	Singapore	(8)	0.3	-0.3	Central & Eastern Europe	(15)	0.5	0.3	Canada	(17)	0.3	0.3	Mexico	(14)	0.5	0.1
15	Russia & CIS	(12)	0.5	-0.3	Indonesia	(8)	0.3	-0.3	Russia & CIS	(12)	0.5	-0.3	Russia & CIS	(8)	0.3	-0.3	Russia & CIS	(10)	0.5	-0.1
16	Middle East	-	0.5	-	Middle East	-	0.3	-	Indonesia	(9)	0.3	-0.9	Middle East	-	0.3	-	Brazil	(16)	0.3	0.1
17	Indonesia	(10)	0.3	-0.9	Philippines	(18)	0.0	0.0	Middle East	-	0.3	-	Indonesia	(15)	0.0	-0.2	Philippines	(16)	0.0	-0.2
18	Philippines	(18)	0.0	0.0	Canada	(15)	0.0	-0.2	Philippines	(17)	0.0	0.0	Philippines	(17)	0.0	0.0	Canada	(16)	0.0	-0.2
19	Canada	(14)	0.0	-0.4	Mexico	(15)	0.0	-0.2	Canada	(14)	0.0	-0.4	Mexico	(15)	0.0	-0.2	Middle East	-	0.0	-

Note 1: The number of respondents (n) planning to expand their overseas businesses in the future was 399 in the FY 2008 survey and 487 in the FY 2007 survey.

Note 2: The Middle East was added beginning from the FY 2008 survey. Therefore there are no figures indicating change from the previous survey or rank.

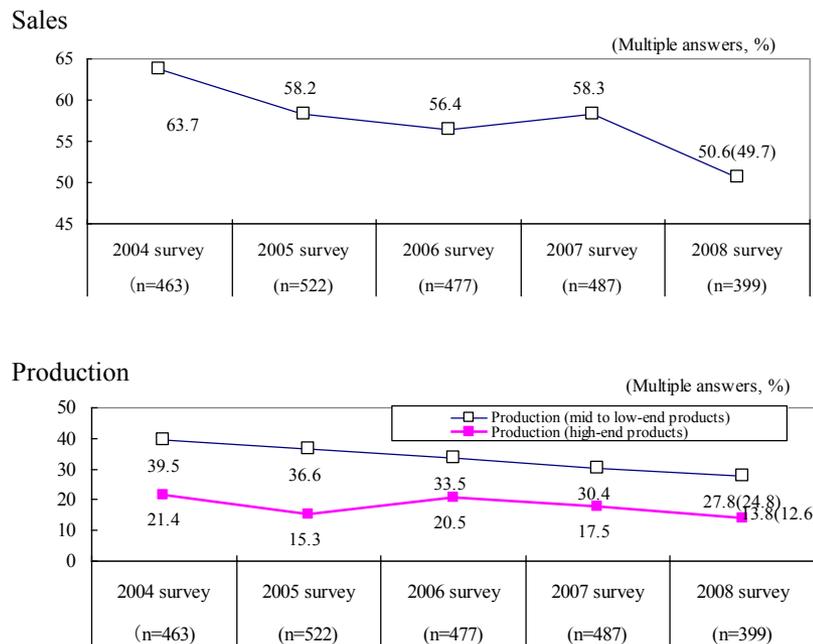
### (5) Overall declining interest in expanding sales and production functions in China

#### Functions for which firms plan expansion in China

● **Although overall expansion interest is declining, materials-related industries are showing strong interest in expanding production**

In China, interest in expanding has been on a downward trend not only in terms of sales functions but also in production, for both mid to low-end products and high-end products. There was, however, a high percentage of firms planning on expanding sales functions in China among the materials industries including wood and textiles, in addition to the food & beverages and precision equipment industries; and there was a high percentage of firms planning on expanding production in China among the materials-related industries including coal & petroleum products, plastics, and rubber products.

Figure II-12 Percentage of firms expanding sales and production functions in China (manufacturing, trade & wholesale, retail)



Note 1: Percentage of all firms planning to expand functions overseas  
 Note 2: Figures in parentheses in the FY 2008 survey indicate figures for all industries including non-manufacturing (n= 467).

Figure II-13 Industries planning to expand sales and production functions in China

Rank	Industry	No. of responding firms	Percentage (%)
1	Food & beverages	30	80.0
2	Precision equipment	9	77.8
3	Construction	7	71.4
4	Wood & wood products/furniture & building materials/paper & pulp	10	70.0
5	Textiles/clothing	9	66.7
Total		359	64.6
Manufacturing total		239	66.5
Trade & wholesale/retail		70	61.4
Non-manufacturing (excluding trade& wholesale, retail) total		50	60.0

Production (mid to low-end products)

Rank	Industry	No. of responding firms	Percentage (%)
1	Coal & petroleum products/plastics/rubber products	9	100.0
2	Chemicals	19	84.2
3	Textiles/clothing	6	83.3
4	Ceramics/earth & stone	5	80.0
5	General machinery	17	70.6
Total		175	66.3
Manufacturing total		150	66.7
Trade & wholesale/retail		16	68.8
Non-manufacturing (excluding trade& wholesale, retail) total		9	55.6

Production (high-end products)

Rank	Industry	No. of responding firms	Percentage (%)
1	Coal & petroleum products/plastics/rubber products	6	100.0
2	IT equipment/electronic parts & devices	5	80.0
3	Chemicals	18	77.8
4	Food & beverages	7	71.4
5	Textiles/clothing	6	66.7
Total		105	56.2
Manufacturing total		81	59.3
Trade & wholesale/retail		12	58.3
Non-manufacturing (excluding trade& wholesale, retail) total		12	33.3

Note 1: Percentage of all firms that responded they would expand sales and production functions overseas  
 Note 2: The top five industries with five or more responding firms

# (6) Diversified sales targets

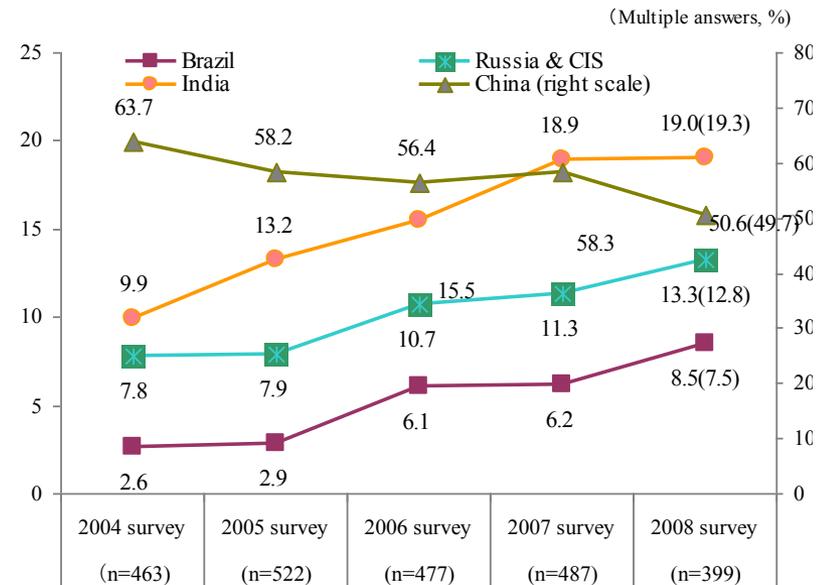
Countries or regions in which sales functions will be expanded

● **Although interest in expanding sales in China is declining, stronger interest for expanding sales may be seen in India, Brazil and Russia**

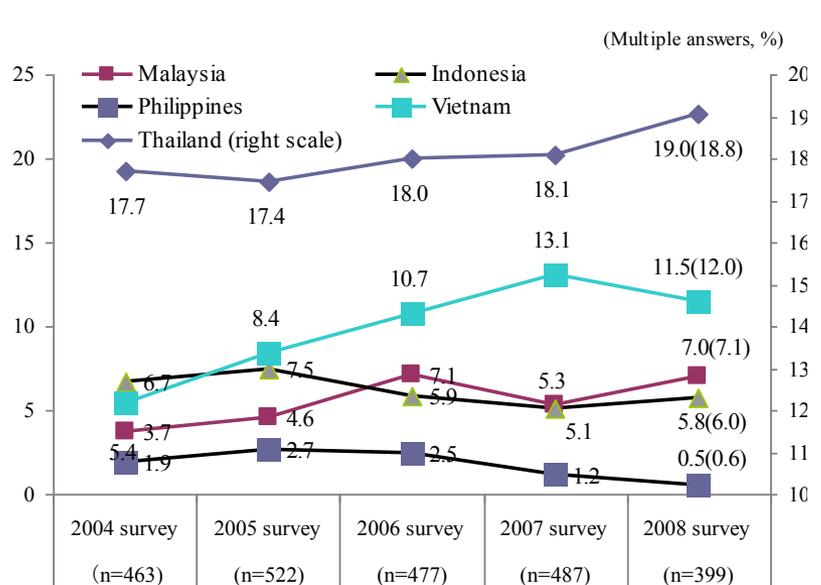
Focusing on countries or regions in which the sales functions will be expanded, while interest remained high in China, it was on a downward trend. Other BRICs, including India, Brazil and Russia, on the other hand, showed growing interest in expansion. In the ASEAN nations of Thailand and Malaysia a moderate upward trend was discerned, indicating that sales targets were no longer aimed exclusively at China but were diversifying to include other countries or regions.

Figure II-14 Countries or regions in which sales functions will be expanded (manufacturing, trade & wholesale, retail)

BRICs



ASEAN



Note 1: Percentage of all firms planning to expand functions overseas  
 Note 2: Figures in parentheses in the FY 2008 survey indicate figures for all industries including non-manufacturing (n= 467).

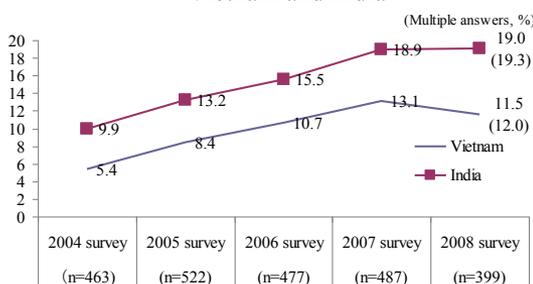
# (7) Shift to high-end products seen in production in Vietnam and India

## Functions for which firms plan expansion in Vietnam and India

### ● Continuing interest in Vietnam in “China + 1” expansion plans

While interest in expanding sales functions in China has gradually declined, changes are seen in the nature of the business expansion intended for Vietnam and India. Although sales functions seem to have peaked, more than 10% of firms seeking overseas business expansion are planning to expand sales in Vietnam and India. Although production of mid to low-end products seems to have peaked and is now on a downward trend, production of high-end products is slowly increasing. Increasing numbers of firms in materials industries such as textiles/clothing, in addition to machinery, are shifting to high-end products.

Figure II-15 Firms expanding sales functions in Vietnam and India



Note: Same as Figure II-14

Figure II-17 Major industries expanding sales functions in Vietnam and India

Vietnam			
Rank	Industry	No. of responding firms	Percentage (%)
1	Ceramics/earth & stone	5	40.0
2	Transport	8	25.0
3	Precision equipment	9	22.2
4	Electrical equipment	28	21.4
5	Food & beverages	30	20.0
Total		359	15.6
Manufacturing total		239	13.0
Trade & wholesale/retail		70	21.4
Non-manufacturing (excluding trade & wholesale, retail) total		50	20.0

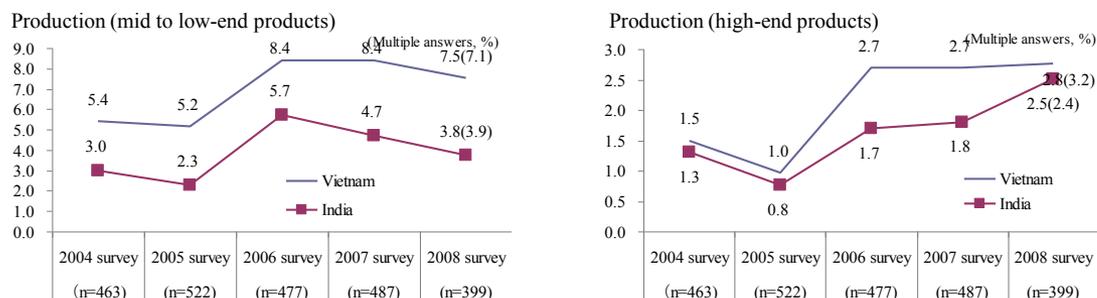
  

India			
Rank	Industry	No. of responding firms	Percentage (%)
1	Transport	8	50.0
2	Precision equipment	9	44.4
3	Cars/car parts/other transportation machinery	19	42.1
4	Chemicals	24	41.7
5	Electrical equipment	28	35.7
Total		359	25.1
Manufacturing total		239	27.2
Trade & wholesale/retail		70	15.7
Non-manufacturing (excluding trade & wholesale, retail) total		50	28.0

Note 1: Percentage of all firms that responded they would expand sales and production functions overseas

Note 2: The top five industries with five or more responding firms

Figure II-16 Firms expanding production functions in Vietnam and India



Note: Same as Figure II-14

Figure II-18 Major industries expanding production functions (mid to low-end products, high-end products) in Vietnam and India

Production (mid to low-end products)			
Vietnam			
Rank	Industry	No. of responding firms	Percentage (%)
1	Textiles/clothing	6	66.7
2	Food & beverages	10	30.0
3	IT equipment/electronic parts & devices	10	30.0
4	Wood & wood products/furniture & building materials/paper & pulp	7	28.6
5	Ceramics/earth & stone	5	20.0
Total		175	18.9
Manufacturing total		150	19.3
Trade & wholesale/retail		16	6.3
Non-manufacturing (excluding trade & wholesale, retail) total		9	33.3

India			
Rank	Industry	No. of responding firms	Percentage (%)
1	Cars/car parts/other transportation machinery	17	17.6
2	Textiles/clothing	6	16.7
3	Chemicals	19	15.8
4	Iron & steel/non-ferrous metals/metal products	13	15.4
5	Wood & wood products/furniture & building materials/paper & pulp	7	14.3
Total		175	10.3
Manufacturing total		150	10.0
Trade & wholesale/retail		16	0.0
Non-manufacturing (excluding trade & wholesale, retail) total		9	33.3

Note: Same as Figure II-17

Production (high-end products)			
Vietnam			
Rank	Industry	No. of responding firms	Percentage (%)
1	IT equipment/electronic parts & devices	5	20.0
2	Textiles/clothing	6	16.7
3	Electrical equipment	6	16.7
4	General machinery	7	14.3
5	Chemicals	18	11.1
Total		105	14.3
Manufacturing total		81	11.1
Trade & wholesale/retail		12	16.7
Non-manufacturing (excluding trade & wholesale, retail) total		12	33.3

India			
Rank	Industry	No. of responding firms	Percentage (%)
1	General machinery	7	28.6
2	Textiles/clothing	6	16.7
3	Coal & petroleum products/plastics/rubber products	6	16.7
4	Electrical equipment	6	16.7
5	Cars/car parts/other transportation machinery	9	11.1
Total		105	10.5
Manufacturing total		81	9.9
Trade & wholesale/retail		12	16.7
Non-manufacturing (excluding trade & wholesale, retail) total		12	8.3

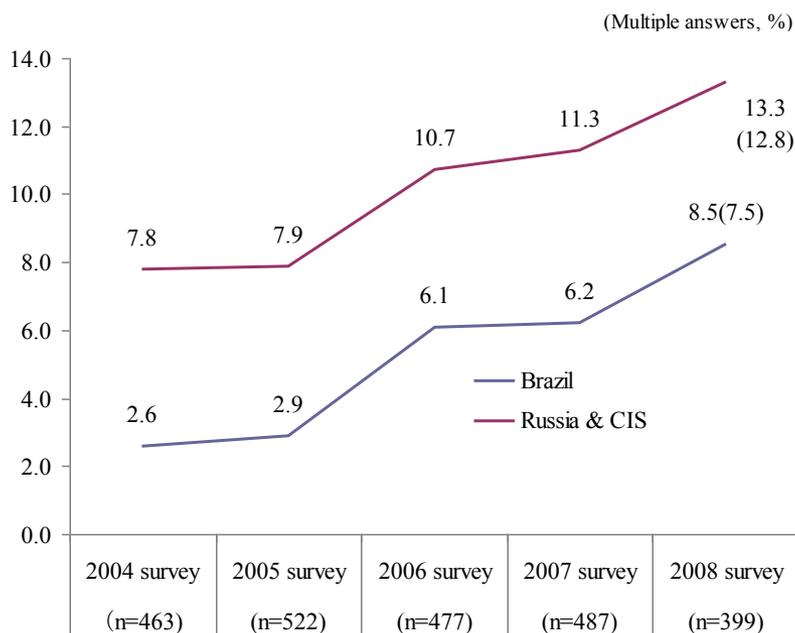
# (8) Growing interest in expanding sales in Brazil and Russia & the CIS

## Functions for which firms plan expansion in Brazil and Russia & the CIS

### ● Growing interest in expanding machinery-related sales in Brazil, growing interest in expanding sales in a wide range of industries in Russia & the CIS

While interest in expanding sales functions in the major countries or region has been declining, such interest has been growing in Brazil and Russia/CIS, which form a portion of the BRICs. Although few firms have shown interest in expanding their production, R&D or distribution functions in these two countries, the percentage of firms interested in expanding their sales functions has risen for the fourth consecutive year. By industry, growing interest was seen in the electrical machinery and automotive related industries for expansion in Brazil, while a wide range of industries, which included manufacturing, as well as non-manufacturing industries such as transport and retail showed interest in expanding in Russia & the CIS.

Figure II-19 Firms expanding sales functions in Brazil and Russia & the CIS



Note 1: Percentage of all firms that responded they would expand sales and production functions overseas

Note 2: The top five industries with five or more responding firms

Figure II-20 Industries expanding sales functions in Brazil and Russia & the CIS

Brazil			
Rank	Industry	No. of responding firms	Percentage (%)
1	Electrical equipment	28	32.1
2	Cars/car parts/other transportation machinery	19	21.1
3	General machinery	29	17.2
4	Construction	7	14.3
5	Textiles/clothing	9	11.1
Total		359	9.7
Manufacturing total		239	11.7
Trade & wholesale/retail		70	8.6
Non-manufacturing (excluding trade & wholesale, retail) total		50	2.0

Russia & CIS			
Rank	Industry	No. of responding firms	Percentage (%)
1	Transport	8	37.5
2	Retail	6	33.3
3	Electrical equipment	28	28.6
4	General machinery	29	27.6
5	Textiles/clothing	9	22.2
Total		359	16.7
Manufacturing total		239	17.6
Trade & wholesale/retail		70	15.7
Non-manufacturing (excluding trade & wholesale, retail) total		50	14.0

Note 1: Percentage of all firms that responded they would expand sales and production functions overseas

Note 2: The top five industries with five or more responding firms

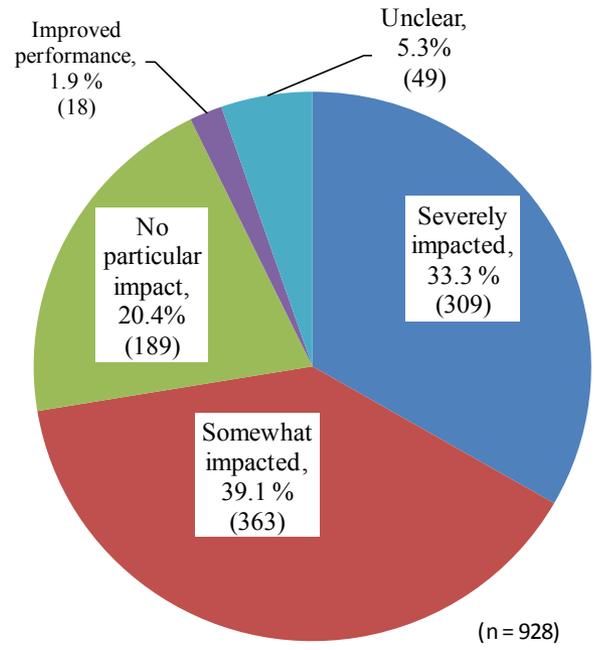
### III. Effects of the US Financial Crisis and Countermeasures

## (1) Effects of the US financial crisis on overseas business operations (1)

Adverse effects on overseas operations vary by industry

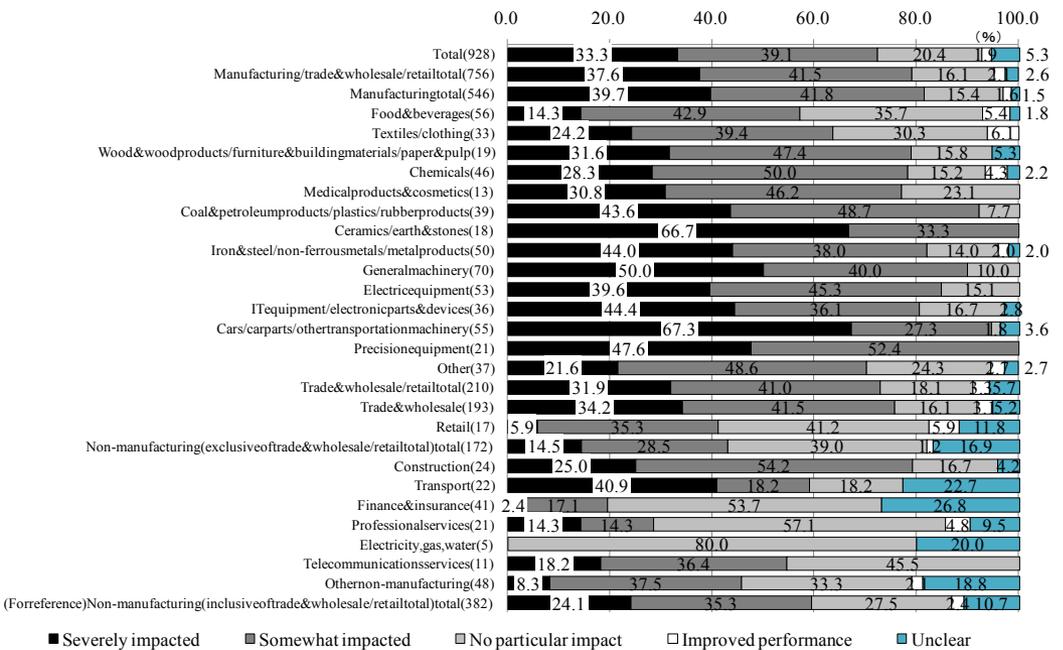
- **More than 70% of overseas operations are suffering adverse effects**  
 Of the 928 firms that responded, 33.3% (309 firms) reported negative impact, with severe worsening in the performance of overseas operations (sales and operating profit) due to the US financial crisis; 39.1% (363 firms) reported some adverse effects. Overall, 72.4% (672 firms) anticipated worsening results.
- **The greatest concern is in the machinery sector, with a more limited effect on the financial and retail sectors**  
 A breakdown by industry reveals that the most visible worries about worsening performance are in the ceramics, automotive, and precision machinery sectors. Concern is more limited in the non-manufacturing (excluding trade, wholesale, retail) sector, where we see mixed results, particularly in the financial services and insurance, professional (consulting and legal) services and the retail sector, where nearly half of firms anticipate no particular adverse effects.

Figure III-1 Effect of the US financial crisis on overseas operations



Note: Numbers in parentheses next to the names of countries or regions are the number of firms that responded.

Figure III-2 Effect by industry



Note: Figures in parentheses to the right of the industry categories are the numbers of firms that responded.

III. Effects of the US Financial Crisis and Countermeasures

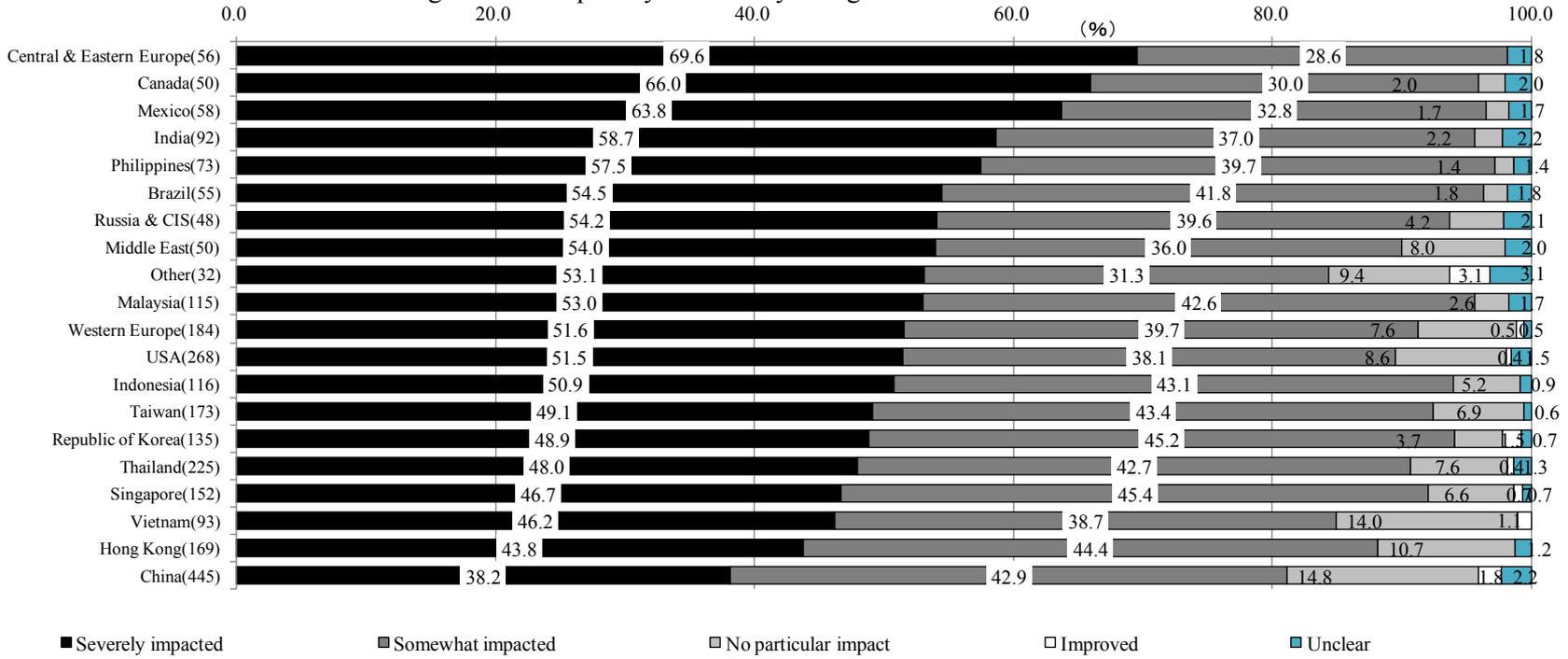
(1) Effects of the US financial crisis on overseas business operations (2)

Effects by country or region

● **Concern about adverse effects is strongest in Central and Eastern Europe and the Americas; the impact on Asia is relatively limited**

If we look at the effects of the US financial crisis on overseas business operations by country or region, we find the strongest concern about adverse effects in countries with operations in Central and Eastern Europe. Nearly 70% of firms with operations in these regions express strong concern. If we add those that express some concern, the total rises to almost 100%, reflecting the sudden and severe worsening of these region’s economies. Next in line are Canada and Mexico, where concern on the part of firms linked with the automotive industry is also becoming stronger. In contrast, firms are less concerned about operations in China, Hong Kong, and Vietnam. For China and Vietnam in particular, nearly 15% of firms report no impact.

Figure III-3 Impact by the country or region in which firms have bases



Note 1: Numbers in parentheses next to the names of countries or regions are the number of firms responding.  
 Note 2: Percentage of total firms with operations in the country or region responding to multiple answer questions

### III. Effects of the US Financial Crisis and Countermeasures

## (2) Specific effects and causes

Worsening performance due to lower demand and rising costs as overseas economies slump

- **Slumping overseas economies and stronger yen affecting performance**
  - Among the specific answers to multiple answer questions provided by the 690 firms whose performance has been adversely affected by the US financial crisis, an overwhelming majority (80.7%, 557 firms) cite falling demand for products or services. The next most common answer is rising costs (25.7%, 177 firms). In both the manufacturing and non-manufacturing sectors, numerous firms also mention forex losses due to the strengthening of the yen.
  - The most frequently cited cause of adverse effects mentioned in response to multiple answer questions was lower sales due to worsening economic conditions in the countries or regions to which the firm exports or in which it does business (77.2%, 533 firms). Next came lower price competitiveness for products or services due to the strengthening of the yen (51.2%, 353 firms) and falling unit prices due to the worsening economy in the country or region in which it is operating (18.7%, 129 firms). Over 10% reported being impacted by the credit crunch because the firms with which they do business are having difficulty securing credit. Most firms cited either worsening economic conditions or the negative effects of exchange rates. Some importers did, however, benefit from the stronger yen.

Figure III-4 Specific effects

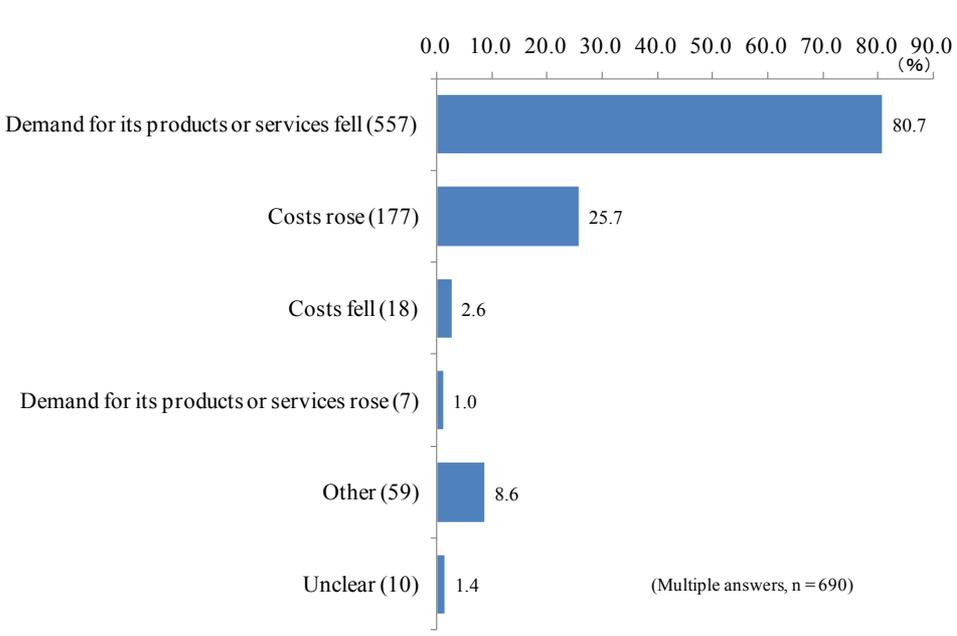
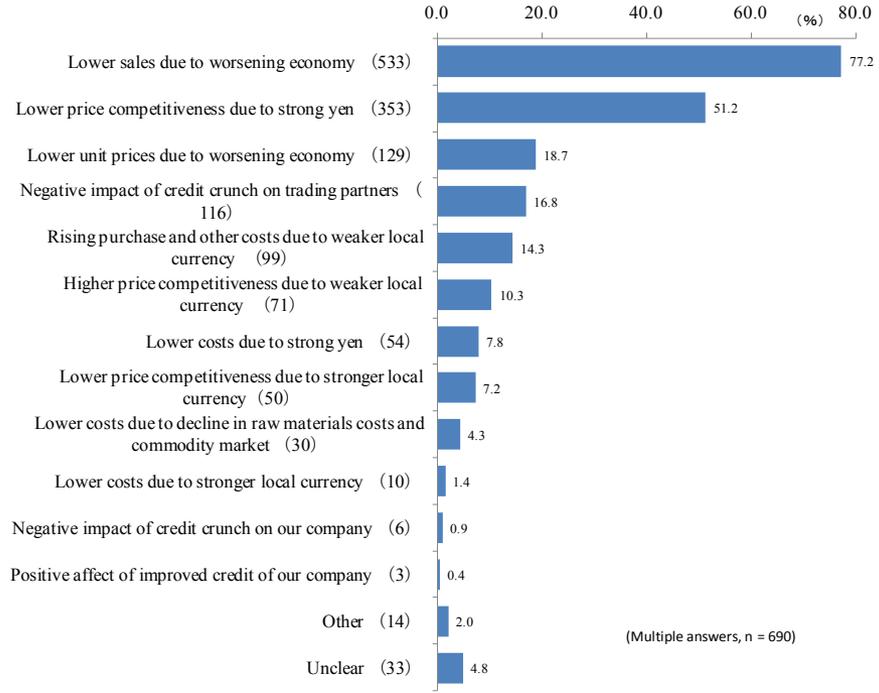


Figure III-5 Specific causes



Note: Figures in parentheses are the numbers of firms that responded.

Note: Figures in parentheses are the numbers of firms that responded.

# (3) Countermeasures

## Japanese firms are strengthening and expanding overseas operations

- **Steps are clearly being taken to strengthen and expand overseas operations despite severe economic conditions**
- When asked how they are responding to the effects of the crisis (multiple answers, including steps being considered), many firms replied that they are reinforcing their overseas operations, either expanding existing overseas operations (23.0%, 159 firms) or initiating new ones (22.8%, 157 firms). Fewer are halting or delaying development of overseas business (14.9%, 103 firms) or shrinking the scale of their overseas operations (9.1%, 63 firms). Just over 10% reported that they are cutting the workforce in their overseas divisions. Of the 467 firms planning to expand their overseas operations in the next 3 years or so, 76.9% (359 firms) are expanding sales operations, taking vigorous steps to develop overseas markets despite the economic crisis.
- If we look at overseas business development plans broken down by industry, we find that firms planning to strengthen overseas operations span a wide range that includes telecommunications services, trade and wholesale, logistics, professional services, finance and insurance, as well as electric equipment, food and beverage, and pharmaceuticals and cosmetics. Sectors in which moves to shrink overseas operations are growing stronger include construction, cars/car parts/other transportation, and retail.

Figure III-6 Steps taken after financial crisis

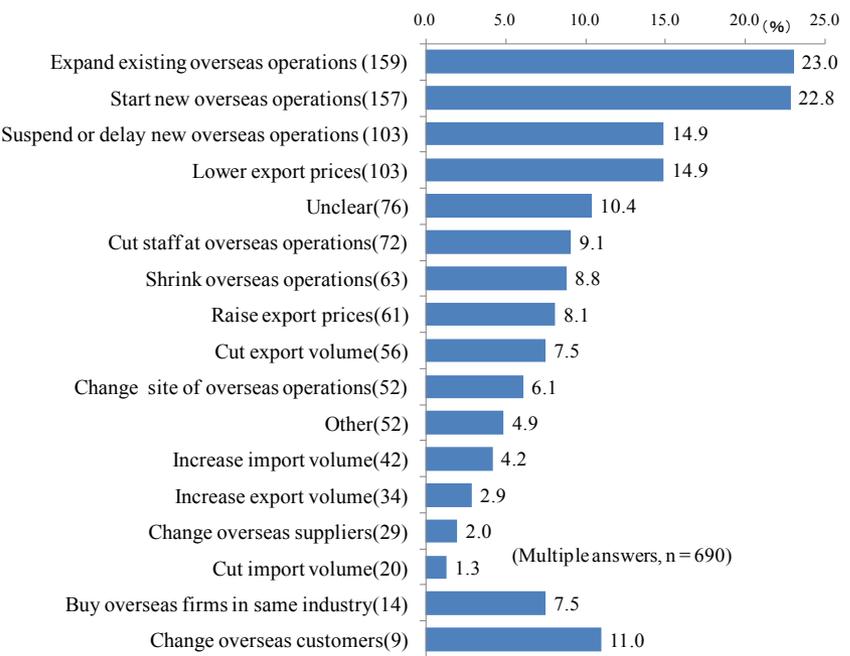
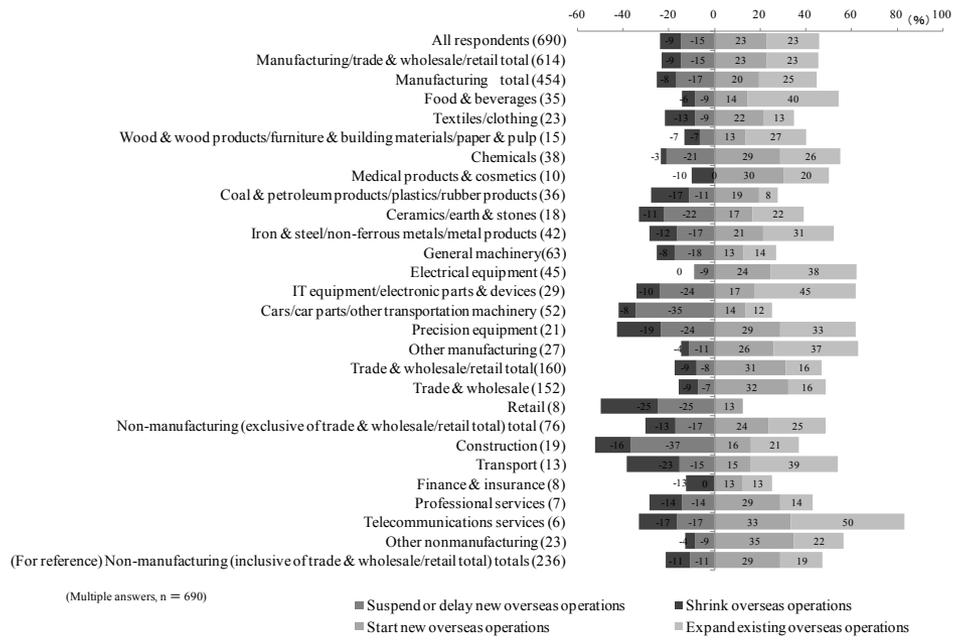


Figure III-7 Future directions for overseas business development (by industry)



Note 1: Figures in parentheses are the numbers of firms that responded.  
 Note 2: Percentages of firms that responded they would “suspend or delay new overseas operations” and “shrink overseas operations” are shown as negative figures.

# (4) Duration of the crisis

Some see the crisis lasting between one and two years

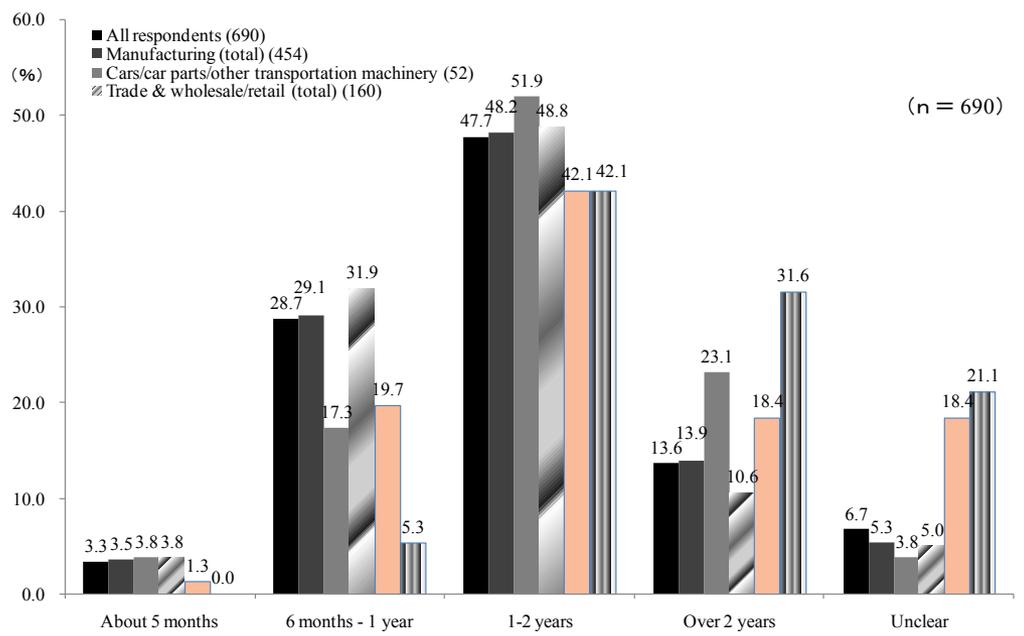
● **Review costs, production and employment systems**  
 Many of the free answers concerning future steps mention increasing overseas procurement to lower costs. Other common answers include rethinking or reducing production or reducing working hours or workforce both inside and outside Japan. In contrast, in addition to several replies that mention expanding export markets (developing new business) or developing new products, there are also a scattering of firms that plan to focus on domestic business.

● **Most firms expect the effects of the crisis to last between one and two years; but in some industries there are those who expect the effects to last longer**  
 Among the 690 firms affected by the financial crisis, the largest proportion (47.7%, 329 firms) expect its effects to last between one and two years. Next are those that expect the effects to last between six months and a year (28.7%, 198 firms) or more than two years (13.6%, 94 firms). Only 3.3% (23 firms) expect the crisis to last less than six months. In the construction and automotive sectors, however, 31.6% (6 of 19 firms) , 23.1% (12 of 52 firms) anticipate effects lasting more than two years respectively.

Figure III-8 Steps in response to the crisis (free answers)

- Cut costs, expand overseas sourcing
  - Cut costs, delay or change price reduction plans (Food & Beverages, Plastics, Iron & Steel, Transport, etc.)
  - Begin procurement overseas or raise local purchasing ratio (or consider doing so) (Electrical equipment, precision equipment, trading, wholesaling, etc.)
- Review production system and employment
  - Review and revise production system (Textiles, general machinery, etc.)
  - Alter schedule for planned overseas expansion (rubber products, etc.)
  - Review and revise employment system
- Develop new markets and products
  - Develop new customers (Medical products & cosmetics, plastics, general machinery, trading, wholesaling, etc.)
  - Develop new products (plastics)
- Other
  - Stay as is (plastics, car parts, professional services, etc.)
  - Upgrade information gathering (or consider doing so)
  - No clear countermeasures
  - Reinforce domestic operations (general machinery, trading, wholesaling, etc.)
  - Overhaul risk management (construction)
  - Reinforce support for financing, reinforcing capacity to provide information and make proposals (finance)
  - Upgrade training at agencies (trading and wholesaling)

Figure III-9 Expected duration of the crisis



Note: Figures in parentheses are the numbers of firms that responded.

# IV. Business Development in China

## (1) Slowdown in the expansion trend and more firms maintaining the status quo

### Plans for future business development in China and plan details

- Drastic drop in firms planning to expand existing operations or start new businesses**  
 When asked about business development in China over the next 3 years or so, including trade, direct investment, outsourcing and technical tie-ups, firms in the manufacturing, trade & wholesale, and retail industries, planning to expand existing operations or start new businesses declined by 12.9 percentage points (to 50.1%), marking the lowest percentage in the 5 years that this survey has been conducted. By contrast, those planning to maintain their current scale of operations rose 10.7 percentage points, while the percentage of those planning to scale down their existing operations or close business, rose, although marginally, by 1.5 percentage points.
- Further decreasing trend seen in firms planning to expand or establish production bases in China**  
 Among the 379 firms planning to expand existing operations or start new businesses in China, those planning to increase imports dropped 11.3 percentage points to 41.7% and those planning to establish or expand production bases dropped 8.6 percentage points to 24.5%, which are indications of a general decreasing trend and provide further proof that interest in expanding business in China is waning overall.

Figure IV-1 Business plans for China (all industries)

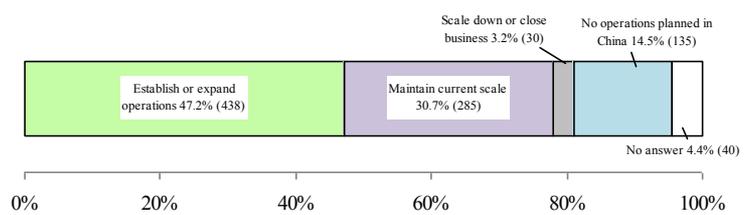


Figure IV-2 Details of business expansion plans for China (all industries)

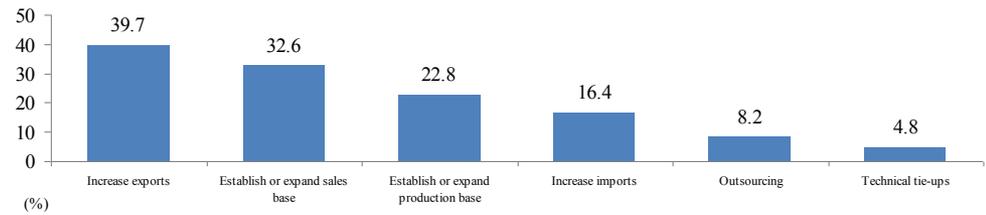


Figure IV-1 Business plans for China (manufacturing, trade & wholesale, retail)

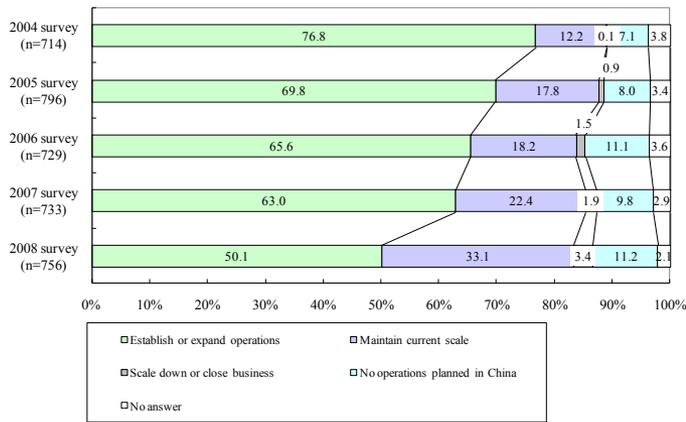
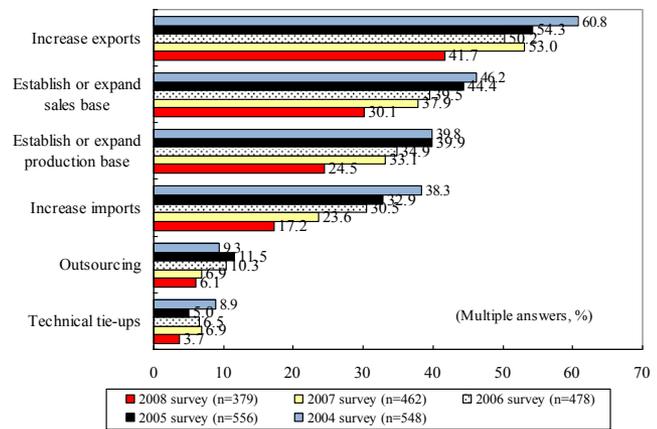


Figure IV-2 Details of business expansion plans for China (manufacturing, trade & wholesale, retail)



## (2) Marked slowdown in demand in the domestic market after the Olympics

### Changes in demand for products and services since the end of the Beijing Olympics

● **22.4% replied with “depressed demand” after the Olympics**

Compared with the demand outlook anticipated for their firms’ products and services after the Beijing Olympics, which was expressed in the survey held before the Olympics (November–December, 2007), a market slowdown in demand is becoming evident. Firms in the manufacturing, trade & wholesale, and retail industries replying with “demand will continue to grow at a high level” and “demand will continue to grow, but at a slower pace” only added up to 26.2%, which is roughly half of those voicing similar outlooks prior to the Olympics (55.5%). By contrast, those replying “temporary adjustments are in the offing” and “depressed demand” totaled 57.6%, representing a two-fold increase compared to the pre-Olympics outlook (28.2%). In particular, replies pointing out depressed demand rose dramatically to 22.4%.

● **By industry, the ceramics/earth & stone and the telecommunication services industries expressed harsh outlooks**

Firms in the ceramics/earth & stone industry voicing a pessimistic outlook of either “depressed demand” or “temporary adjustments” totaled 83.3%, indicating that the downturn in business confidence, which had been anticipated to follow after the construction demand from the Olympics had come full circle was becoming a reality. Replies expressing “depressed demand” were the most numerous in the telecommunications services industry with 54.5%, followed by the retail industry (29.4%), general machinery (28.6%) and trade & wholesale (27.5%). In terms of industries expressing both “depressed demand” and “temporary adjustments,” the IT equipment/electronic parts & devices industry was also noteworthy with a total of 75.0% of such replies, followed by the coal & petroleum products/plastics/rubber products industry with 74.3%, all of which were indications that the lackluster domestic demand in China was impacting a wide range of industries.

Figure IV-3 Change in demand after the Beijing Olympics (all industries)

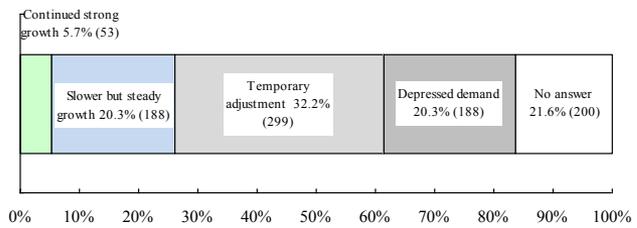


Figure IV-4 Change in demand after the Beijing Olympics (by industry) (number of firms in parentheses)

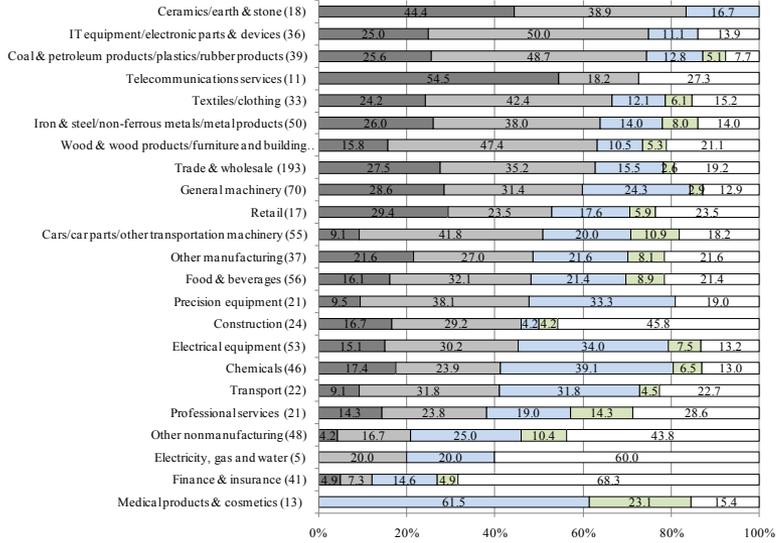
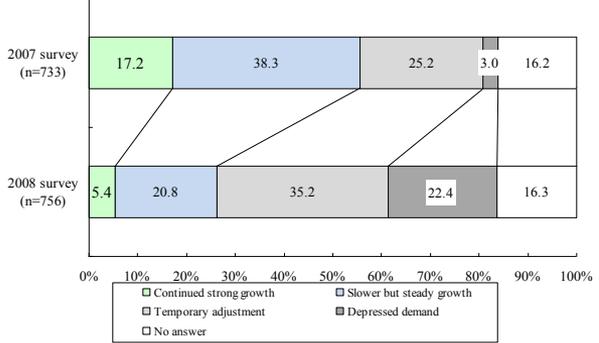


Figure IV-3 Change in demand after the Beijing Olympics (manufacturing, trade & wholesale, retail)



Legend: Depressed demand (dark grey), Temporary adjustment (medium grey), Slower but steady growth (light blue), Continued strong growth (green), No answer (white)

Note: In descending order of the total percentage of the firms expressing “depressed demand” and “temporary adjustments” Japan External Trade Organization (JETRO)

# (1) Japanese FTAs utilized in a wide range of industries

## Utilization of preferential tariff rates under Japan's FTAs

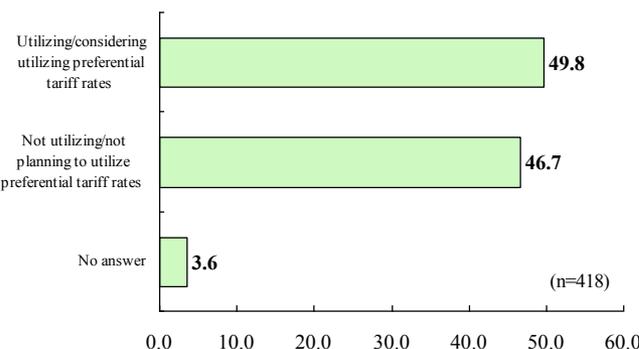
● **49.8% of firms involved in trade are utilizing/considering the utilization of preferential tariff rates**

Of the 418 firms of the manufacturing, trade & wholesale, and retail industries, that trade with the Mexico, Malaysia, Chile, Thailand and Indonesia, 49.8% (208 firms) are either utilizing or considering utilizing the preferential tariff rates under the major FTAs in effect as of November 2008 with these five countries. Even among the 756 firms including those that were not engaged in trade, 27.5% were utilizing or considering utilizing the preferential tariff rates (excluding duplicate replies) (those utilizing the preferential tariff rates: 18.9%, those considering utilization: 13.4%). In the FY 2007 survey (covering the 18 FTAs in effect in Japan and the Asia and Pacific area at the time of the survey), the percentage of firms that replied that they were utilizing /considering utilizing the preferential tariff rates was 22.8% (those utilizing the preferential tariff rates: 11.9%, those considering utilization: 15.6%), indicating an upward trend in the utilization of the FTAs by Japanese firms.

● **Preferential tariff rates used by diverse industries**

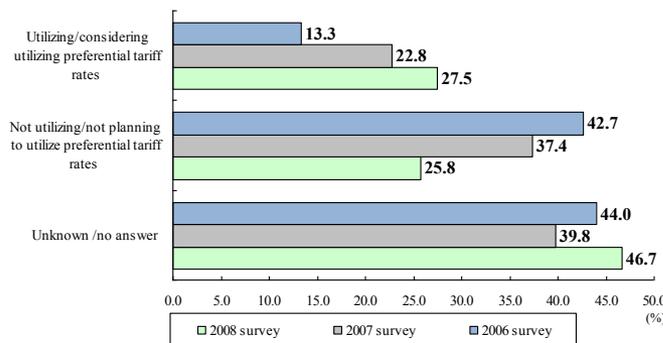
Of the 143 firms that replied that they were utilizing the preferential tariff rates, a large proportion were in the ceramics/earth & stone industry (44.4%), followed by the textiles/clothing (27.3%), the wood & wood products/furniture & building materials/paper & pulp (26.3%), the retail (23.5%) and the medical products & cosmetics (23.1%) industries. Although the cars/car parts/other transportation machinery and the electrical equipment industries extensively utilize the FTAs in effect in the East Asian region including the ASEAN Free Trade Area (AFTA), the rate of utilization of preferential tariff rates has changed significantly in this survey from the last survey, primarily due to the fact that the current survey only covered the FTAs relating to Japan. Only a small percentage of firms (5.6%) in the IT equipment/electronic parts & devices industry utilize the preferential tariff rates; this, however, is attributed to the elimination of tariffs under WTO's Information Technology Agreement (ITA), which became effective even prior to the FTAs coming into effect.

Figure V-1 Utilization rate of Japan's effective FTAs



Note 1: Of the Japanese FTAs in effect as of November 2008, the current survey covered the FTAs with the five countries of Mexico, Malaysia, Chile, Thailand, and Indonesia. The FTAs with Singapore and Brunei were omitted since the industries utilizing these FTAs were limited.

Figure V-2 FTA utilization rate (in chronological order)



Note 1: FY 2006: n=729, FY 2007: n=733, FY 2008: n=756

Note 2: The FTAs covered by each survey are as follows:

FY 2006 survey: FTAs (covering exports only) in effect in the Asia and Pacific region excluding the Japan-Mexico FTA, the Japan-Chile FTA and the Japan-Thailand FTA.

FY 2007 survey: FTAs in effect in Japan and the Asia and Pacific region

FY 2008 survey: Japanese FTAs in effect with the five countries of Mexico, Malaysia, Chile, Thailand and Indonesia.

Note 3: n includes firms not engaged in trade.

Note 4: "Unknown/no answer" includes firms not engaged in trade with the countries concerned, as well as unknown/no answers.

Figure V-3 Utilization rate by industry

	n	No of firms	Percentage (%)	(Reference) FY 2007 percentage
Ceramics/earth & stone	18	8	44.4	14.3
Textiles/clothing	33	9	27.3	12.5
Wood & wood products/furniture & building materials/paper & pulp	19	5	26.3	0.0
Retail	17	4	23.5	0.0
Medical products & cosmetics	13	3	23.1	10.0
Cars/car parts/other transportation machinery	55	12	21.8	29.1
Other manufacturing	37	8	21.6	17.1
Food & beverages	56	12	21.4	14.5
Coal & petroleum products/plastics/rubber products	39	8	20.5	20.8
Chemicals	46	9	19.6	17.4
General machinery	70	12	17.1	12.3
Electrical equipment	53	9	17.0	19.6
Trade & wholesale	193	32	16.6	7.2
Precision equipment	21	3	14.3	3.3
Iron & steel/non-ferrous metals/metal products	50	7	14.0	4.3
IT equipment/electronic parts & devices	36	2	5.6	4.7

Note: The FY 2007 survey covered the 18 FTAs in effect in Asia and the Pacific region. The FY 2008 survey covered the Japanese FTAs in effect with the five countries, including Mexico, Malaysia, Chile, Thailand and Indonesia.

# (2) Increasing FTA utilization in both imports and exports

## Status of utilization/consideration of utilization of each FTA

- The Japan-Thailand FTA is used by the greatest number of firms; the Japan-Chile FTA has the highest utilization rate**  
 Focusing on the utilization status of each FTA by export and import, the utilization rate of FTAs by exporting firms was highest for the Japan-Mexico FTA (37 out of 101 firms or 36.6%), followed by the Japan-Chile FTA (20 out of 57 firms or 35.1%). If firms considering the utilization of FTAs were included, approximately 50% of exporting firms were utilizing or considering utilizing the Japan-Chile, Japan-Mexico and Japan-Thailand FTAs. In terms of the FTA utilization rate of importing firms, the Japan-Chile FTA was the highest with 47.1% (8 out of 17 firms). The utilization rate of the Japan-Thailand FTA was also high at 38.7% (41 out of 106 firms) and if firms considering the utilization of FTAs were included, the percentage of firms utilizing or considering utilizing the Japan-Thailand FTA rose to 59.4%. In terms of the totals for the five FTAs covered by the current survey, 45.2% of exporters and 49.4% of importers replied that they were utilizing/considering utilizing the FTAs (excluding duplicate replies). The utilization rates of each FTA by import/export and by industry show that in terms of exports, FTAs are being extensively used primarily by manufacturers such as machinery manufacturers, while in terms of imports, FTA utilization seems to be concentrated in the specific industries of trade & wholesale, retail, chemicals, textiles/clothing and food & beverages, among others.
- Two-thirds of firms engaged in trade say that they would consider using FTAs if the difference in tariff rates were less than 7%**  
 For most firms (26.0%) a difference in the tariff rate of 3–5% would convince them in favor of utilizing FTAs, followed by those considering a 5–7% difference to be the deciding factor (19.2%). Overall, 66.3% of the firms replied that they would utilize the FTAs for a difference of less than 7%. The margin of preference for deciding in favor of utilizing the FTA, which was derived using the weighted average of each reply, was 4.8%.

Figure V-4 FTAs (preferential tariff rates) used by exporters

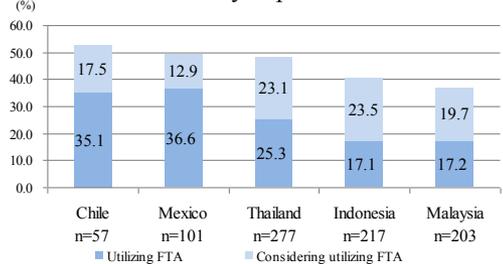


Figure V-5 FTAs (preferential tariff rates) used by importers

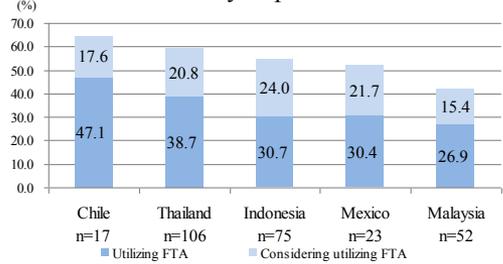


Figure V-7 Margin of preference that would be decisive in utilizing preferential tariff rates (n=208)

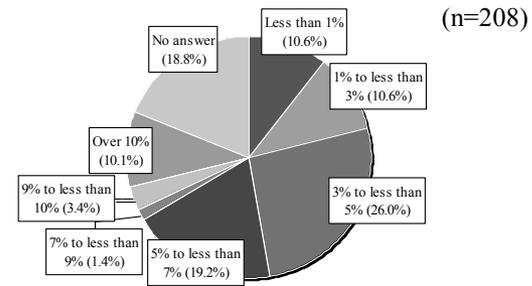


Figure V-6 Industries with high utilization rates of FTAs in imports/exports

Export	Japan-Chile (n=57)	Japan-Mexico (n=101)	Japan-Thailand (n=277)	Japan-Indonesia (n=217)	Japan-Malaysia (n=203)
1	Precision equipment (2) 100.0	1 Textiles/clothing (4) 100.0	1 Textiles/clothing (4) 100.0	1 Textiles/clothing (5) 40.0	1 Ceramics/earth & stone (8) 50.0
2	General machinery (10) 50.0	2 Coal & petroleum products/plastics/rubber products (5) 80.0	2 Food & beverages (15) 40.0	2 Coal & petroleum products/plastics/rubber products (16) 30.0	2 Cars/car parts/other transportation machinery (20) 30.0
3	Electrical equipment (11) 36.4	3 Trade & wholesale (14) 42.9	3 Trade & wholesale (57) 35.1	3 Chemicals (14) 28.6	3 Coal & petroleum products/plastics/rubber products (9) 22.2
4	Cars/car parts/other transportation machinery (6) 33.3	4 Cars/car parts/other transportation machinery (15) 40.0	4 Coal & petroleum products/plastics/rubber products (15) 33.3	4 Trade & wholesale (42) 23.8	4 Precision equipment (10) 20.0
5	Trade & wholesale (6) 30.0	5 General machinery (14), Electrical equipment (14) 28.6	4 Wood & wood products/furniture & building materials/paper & pulp (6) 33.3	5 Ceramics/earth & stone (12) 16.7	5 Trade & wholesale (41) 19.5

Import	Japan-Chile (n=17)	Japan-Mexico (n=23)	Japan-Thailand (n=106)	Japan-Indonesia (n=75)	Japan-Malaysia (n=52)
1	Trade & wholesale (9) 55.6	1 Electrical equipment (2) 100.0	1 Textiles/clothing (3) 100.0	1 Textiles/clothing (4) 100.0	1 Chemicals (3) 66.7
2	-	2 -	2 Chemicals (3) 66.7	2 Chemicals (4) 75.0	2 Retail (3) 66.7
3	-	3 -	3 Retail (5) 60.0	3 Retail (5) 60.0	3 Trade & wholesale (17) 42.9
4	-	4 -	4 Food & beverages (12) 50.0	4 Trade & wholesale (21) 33.3	4 -
5	-	5 -	5 Trade & wholesale (26) 42.3	5 -	5 -

Note: n indicates the number of exporting companies or importing companies. Numbers in parentheses indicate the number of companies within each industry. Cases have been omitted where only one company within the industry concerned is utilizing the FTA, since the company may be identified.

# (1) Overall growing concern over foreign exchange risks

## Business environment of major Asian countries (by risk)

### ● High forex risk responses rising in almost all countries

Considerable changes have taken place from the previous survey in the rankings of major Asian countries (China, Thailand, Indonesia, Malaysia, Philippines, Singapore, Vietnam and India) cited for high forex risk. The percentage of firms reporting high forex risk as a risk factor for doing business in Indonesia nearly doubled from the previous year by rising 16.5 percentage points to 32.0%. Similar dramatic rises were also seen in Thailand (23.7%), Vietnam (20.4%) and India (19.2%). This is mainly attributable to the concerns over the credibility of the currencies of the emerging countries since the financial crisis. China, on the other hand, was the only country among the eight nations whose response rate to this item declined from the previous year.

### ● Signs of improvements in India and Vietnam in terms of “lack of clustering or development of related industries,” recognition of improvements in China’s infrastructure

Under the item “lack of clustering or development of related industries,” Vietnam showed improvement by going down 6.3 percentage points to 26.2% and India by 1.9 percentage points to 16.4, compared to the previous year. Although their relative rankings remain high, Vietnam and India are being recognized as somewhat improving the development of their supporting industries. Responses citing China’s “inadequate infrastructure” have also been decreasing (FY 2006: 21.6% → FY 2007: 19.1% → FY 2008: 16.6%), which may be attributable to the accelerated construction of infrastructure precipitated by the Olympics and the World Expos.

Figure VI-1 Risks or issues in doing business in major Asian countries (manufacturing, trade & wholesale, retail)

(Multiple answers, %)

Rank	High forex risk	FY 2008			FY 2007			FY 2006			Inadequate infrastructure	FY 2008			FY 2007			FY 2006			Underdeveloped legal system, problems with legal operation	FY 2008			FY 2007			FY 2006			Lack of clustering or development of related industries	FY 2008			FY 2007			FY 2006		
		FY 2008	FY 2007	FY 2006	(1) India	FY 2008	FY 2007	FY 2006	(1) China	FY 2008		FY 2007	FY 2006	(1) Vietnam	FY 2008	FY 2007	FY 2006	(3) Philippines	FY 2008	FY 2007		FY 2006																		
1	(3) Indonesia	32.0	15.5	23.5	(1) India	56.4	53.5	57.2	(1) China	55.3	54.0	59.9	(1) Vietnam	26.2	32.5	31.4																								
2	(2) Thailand	23.7	19.5	9.1	(2) Vietnam	55.8	50.3	47.9	(2) Vietnam	31.9	27.4	32.2	(3) Philippines	18.1	17.5	20.9																								
3	(6) Vietnam	20.4	6.8	8.5	(4) Indonesia	28.4	23.9	29.8	(4) India	28.4	19.0	35.3	(2) India	16.4	18.3	18.4																								
4	(4) India	19.2	8.4	6.5	(3) Philippines	26.9	25.3	32.2	(3) Indonesia	20.9	22.7	28.2	(4) Indonesia	11.5	13.3	15.1																								
5	(1) China	17.1	22.8	20.5	(5) China	16.6	19.1	21.6	(5) Philippines	14.5	9.8	13.0	(5) Malaysia	8.3	9.5	12.7																								
6	(7) Malaysia	13.3	4.5	5.3	(6) Thailand	9.0	8.4	7.4	(6) Thailand	9.0	9.6	5.9	(6) Thailand	8.2	7.4	6.2																								
7	(5) Philippines	12.4	7.2	7.9	(7) Malaysia	5.7	7.6	7.8	(7) Malaysia	7.2	3.4	6.5	(7) China	4.2	4.3	4.7																								
8	(8) Singapore	8.5	4.5	3.3	(8) Singapore	2.2	1.4	0.0	(8) Singapore	1.5	1.4	0.0	(8) Singapore	3.3	3.5	3.7																								
Rank	Problems with protection of intellectual property rights	FY 2008			FY 2007			FY 2006			Labor costs are high or rising	FY 2008			FY 2007			FY 2006			Tax-related risks or issues	FY 2008			FY 2007			FY 2006			Labor issues	FY 2008			FY 2007			FY 2006		
		FY 2008	FY 2007	FY 2006	(1) China	FY 2008	FY 2007	FY 2006	(1) China	FY 2008		FY 2007	FY 2006	(1) China	FY 2008	FY 2007	FY 2006	(1) China	FY 2008	FY 2007		FY 2006																		
1	(1) China	56.8	53.9	59.2	(1) China	43.4	41.3	28.4	(1) China	29.4	28.9	33.2	(1) China	32.3	29.9	-																								
2	(3) India	14.4	10.3	13.9	(2) Singapore	32.8	33.9	39.3	(2) India	19.6	12.5	17.9	(2) India	18.8	15.8	-																								
3	(2) Vietnam	10.0	12.0	11.9	(3) Thailand	18.4	15.7	20.4	(4) Indonesia	10.4	8.0	15.5	(4) Vietnam	15.8	8.9	-																								
4	(4) Philippines	7.8	9.8	9.0	(5) Vietnam	16.2	8.6	5.1	(3) Vietnam	10.0	8.2	10.2	(3) Indonesia	11.9	9.1	-																								
5	(5) Indonesia	6.5	8.0	9.2	(4) Malaysia	13.6	14.0	13.9	(8) Philippines	7.8	1.0	7.3	(7) Malaysia	7.6	4.5	-																								
6	(6) Thailand	6.4	6.1	6.2	(6) India	10.4	7.3	3.5	(5) Thailand	6.4	6.6	7.6	(5) Philippines	6.7	5.7	-																								
7	(7) Malaysia	5.7	4.5	4.1	(7) Indonesia	8.3	6.1	5.5	(6) Malaysia	5.3	3.4	6.5	(6) Thailand	6.6	5.3	-																								
8	(8) Singapore	1.1	1.0	1.6	(8) Philippines	4.7	3.6	4.0	(7) Singapore	1.8	1.0	2.0	(8) Singapore	3.0	1.4	-																								

n in FY 2006: China 596, Thailand 353, Indonesia 238, Malaysia 245, Philippines 117, Singapore 244, Vietnam 236, India 201.

n in FY 2007: China 622, Thailand 394, Indonesia 264, Malaysia 264, Philippines 194, Singapore 286, Vietnam 292, India 273.

n in FY 2008: China 595, Thailand 376, Indonesia 278, Malaysia 264, Philippines 193, Singapore 271, Vietnam 260, India 250.

Note 1: n indicates firms with business relationships or those considering new businesses.

Note 2: "Labor issues" was added as new category in FY 2007.

Note 3: Numbers in parentheses indicate rank in FY 2007.

## (2) Risks in doing business in major Asian countries (country ranking)

Figure VI-2 Business risk ranking by country (all industries)

(Multiple answers, %)

Rank	China		Thailand		Indonesia		Malaysia	
		FY 2008		FY 2008		FY 2008		FY 2008
1	Underdeveloped legal system, problems with legal operation	55.7	High forex risk	23.1	High forex risk	32.6	Labor costs are high or rising	14.1
2	Problems with protection of intellectual property rights	55.7	Labor costs are high or rising	18.8	Inadequate infrastructure	29.9	High forex risk	13.4
3	Labor costs are high or rising	42.4	Inadequate infrastructure	10.3	Underdeveloped legal system, problems with legal operation	22.6	Underdeveloped legal system, problems with legal operation	8.5
4	Labor issues	32.6	Underdeveloped legal system, problems with legal operation	10.1	Labor issues	12.0	Lack of clustering or development of related industries	8.1
5	Tax-related risks or issues	30.6	Labor issues	7.9	Tax-related risks or issues	11.3	Labor issues	8.1
6	Inadequate infrastructure	16.8	Lack of clustering or development of related industries	7.7	Lack of clustering or development of related industries	10.6	Problems with protection of intellectual property rights	6.0
7	High forex risk	16.6	Tax-related risks or issues	7.5	Labor costs are high or rising	8.6	Inadequate infrastructure	5.6
8	Lack of clustering or development of related industries	4.0	Problems with protection of intellectual property rights	6.5	Problems with protection of intellectual property rights	6.6	Tax-related risks or issues	5.6
Rank	Philippines		Singapore		Vietnam		India	
		FY 2008		FY 2008		FY 2008		FY 2008
1	Inadequate infrastructure	28.0	Labor costs are high or rising	35.0	Inadequate infrastructure	55.7	Inadequate infrastructure	58.7
2	Lack of clustering or development of related industries	17.1	High forex risk	9.2	Underdeveloped legal system, problems with legal operation	33.8	Underdeveloped legal system, problems with legal operation	30.6
3	Underdeveloped legal system, problems with legal operation	15.2	Labor issues	3.3	Lack of clustering or development of related industries	24.3	Tax-related risks or issues	21.0
4	High forex risk	12.3	Lack of clustering or development of related industries	3.0	High forex risk	21.3	Labor issues	19.2
5	Tax-related risks or issues	8.5	Inadequate infrastructure	2.3	Labor costs are high or rising	17.2	High forex risk	18.5
6	Problems with protection of intellectual property rights	7.6	Tax-related risks or issues	1.7	Labor issues	15.9	Lack of clustering or development of related industries	15.7
7	Labor issues	7.6	Underdeveloped legal system, problems with legal operation	1.3	Tax-related risks or issues	11.5	Problems with protection of intellectual property rights	14.9
8	Labor costs are high or rising	4.3	Problems with protection of intellectual property rights	1.3	Problems with protection of intellectual property rights	10.8	Labor costs are high or rising	10.7

n in FY 2008: China 680, Thailand 416, Indonesia 301, Malaysia 284, Philippines 211, Singapore 303, Vietnam 296, India 281.

Note: n indicates firms with business relationships or those considering new businesses.

Figure VI-3 Chronological comparison of business risk ranking by country (manufacturing, trade &amp; wholesale, retail)

(Multiple answers, %)

Rank	China				Thailand				Indonesia				Malaysia			
		FY 2008	FY 2007	FY 2006		FY 2008	FY 2007	FY 2006		FY 2008	FY 2007	FY 2006		FY 2008	FY 2007	FY 2006
1	Problems with protection of intellectual property rights	56.8	53.9	59.2	High forex risk	23.7	19.5	9.1	High forex risk	32.0	15.5	23.5	Labor costs are high or rising	13.6	14.0	13.9
2	Underdeveloped legal system, problems with legal operation	55.3	54.0	59.9	Labor costs are high or rising	18.4	15.7	20.4	Inadequate infrastructure	28.4	23.9	29.8	High forex risk	13.3	4.5	5.3
3	Labor costs are high or rising	43.4	41.3	28.4	Underdeveloped legal system, problems with legal operation	9.0	9.6	5.9	Underdeveloped legal system, problems with legal operation	20.9	22.7	28.2	Lack of clustering or development of related industries	8.3	9.5	12.7
4	Labor issues	32.3	29.9	-	Inadequate infrastructure	9.0	8.4	7.4	Labor issues	11.9	9.1	-	Labor issues	7.6	4.5	-
5	Tax-related risks or issues	29.4	28.9	33.2	Lack of clustering or development of related industries	8.2	7.4	6.2	Lack of clustering or development of related industries	11.5	13.3	15.1	Underdeveloped legal system, problems with legal operation	7.2	3.4	6.5
6	High forex risk	17.1	22.8	20.5	Labor issues	6.6	5.3	-	Tax-related risks or issues	10.4	8.0	15.5	Inadequate infrastructure	5.7	7.6	7.8
7	Inadequate infrastructure	16.6	19.1	21.6	Tax-related risks or issues	6.4	6.6	7.6	Labor costs are high or rising	8.3	6.1	5.5	Problems with protection of intellectual property rights	5.7	4.5	4.1
8	Lack of clustering or development of related industries	4.2	4.3	4.7	Problems with protection of intellectual property rights	6.4	6.1	6.2	Problems with protection of intellectual property rights	6.5	8.0	9.2	Tax-related risks or issues	5.3	3.4	6.5
Rank	Philippines				Singapore				Vietnam				India			
		FY 2008	FY 2007	FY 2006		FY 2008	FY 2007	FY 2006		FY 2008	FY 2007	FY 2006		FY 2008	FY 2007	FY 2006
1	Inadequate infrastructure	26.9	25.3	32.2	Labor costs are high or rising	32.8	33.9	39.3	Inadequate infrastructure	55.8	50.3	47.9	Inadequate infrastructure	56.4	53.5	57.2
2	Lack of clustering or development of related industries	18.1	17.5	20.9	High forex risk	8.5	4.5	3.3	Underdeveloped legal system, problems with legal operation	31.9	27.4	32.2	Underdeveloped legal system, problems with legal operation	28.4	19.0	35.3
3	Underdeveloped legal system, problems with legal operation	14.5	9.8	13.0	Lack of clustering or development of related industries	3.3	3.5	3.7	Lack of clustering or development of related industries	26.2	32.5	31.4	Tax-related risks or issues	19.6	12.5	17.9
4	High forex risk	12.4	7.2	7.9	Labor issues	3.0	1.4	-	High forex risk	20.4	6.8	8.5	High forex risk	19.2	8.4	6.5
5	Problems with protection of intellectual property rights	7.8	9.8	9.0	Inadequate infrastructure	2.2	1.4	0.0	Labor costs are high or rising	16.2	8.6	5.1	Labor issues	18.8	15.8	-
6	Tax-related risks or issues	7.8	1.0	7.3	Tax-related risks or issues	1.8	1.0	2.0	Labor issues	15.8	8.9	-	Lack of clustering or development of related industries	16.4	18.3	18.4
7	Labor issues	6.7	5.7	-	Underdeveloped legal system, problems with legal operation	1.5	1.4	0.0	Problems with protection of intellectual property rights	10.0	12.0	11.9	Problems with protection of intellectual property rights	14.4	10.3	13.9
8	Labor costs are high or rising	4.7	3.6	4.0	Problems with protection of intellectual property rights	1.1	1.0	1.6	Tax-related risks or issues	10.0	8.2	10.2	Labor costs are high or rising	10.4	7.3	3.5

n in FY 2006: China 596, Thailand 353, Indonesia 238, Malaysia 245, Philippines 117, Singapore 244, Vietnam 236, India 201.

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