



Japan External Trade Organization

Survey on International Operations of Japanese Firms (FY2007)

March 26 2008

Japan External Trade Organization (JETRO)

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I. Survey outline; profile of respondent firms

Survey outline; profile of respondent firms by industry

Figure I-1 Profile of respondent firms by industry

1. Survey topics and targets

(1) Survey topics

- a) Domestic and overseas business operations
- b) Business development in China
- c) The Asian business environment

(2) Survey targets

A total of 2,626 JETRO member firms engaged in manufacturing, trading (import/export) and wholesale/retailing.

2. Period

Distribution of questionnaire:

27 November 2007

Deadline: 4 January 2008

3. Response

Number of firms sent questionnaires: 2,626

Number of respondents: 733

Response rate: 27.9%

	No. of firms	%
All respondents	733	100.0
Manufacturing industries	546	74.5
Firms with overseas production bases	340	46.4
Firms with domestic production bases only	203	27.7
Food and beverages	62	8.5
Textiles/clothing	24	3.3
Wood & wood products/furniture & building materials/paper & p	19	2.6
Chemicals	46	6.3
Medical products & cosmetics	20	2.7
Coal & petroleum products/plastics/rubber products	24	3.3
Ceramics/earth & stones	14	1.9
Iron & steel/non-ferrous metals/metal products	47	6.4
General machinery	81	11.1
Electric equipment	46	6.3
IT equipment/electronic parts & devices	43	5.9
Cars/car parts/other transportation machinery	55	7.5
Precision equipment	30	4.1
Other	35	4.8
Non-manufacturing	187	25.5
Trade & wholesale	167	22.8
Retail	17	2.3
Other	3	0.4
Large-scale companies	296	40.4
Small and medium-sized enterprises (SMEs)	437	59.6

Notes 1. SMEs were classified as such based on the definition given in the Small and Medium-sized Enterprise Basic Act.

2. Among respondents in manufacturing industries, the classification of three as firms with overseas production bases or firms with domestic production bases only was unclear.

Note: Due to rounding, the percentages stated in the figures in this document do not necessarily add up to 100%.

I. Survey outline; profile of respondent firms

China now the top site for overseas R&D bases

Overseas bases: Of the 733 firms that responded, 70.9% (520 firms) have overseas bases. China led as the location for bases, with 77.9% (405) of those companies having bases there. The United States (52.9%) and Thailand ranked second and third.

In terms of type of base, China led in sales and production bases, with 51.5% and 55.8% respectively. The proportion of R&D bases in China rose from 7.1% last year to 9.6%; China thus surpassed the United States (8.1%; 8.0% in 2006) to rank first in the number of R&D bases as well.

Figure I-2 Firms with overseas operations

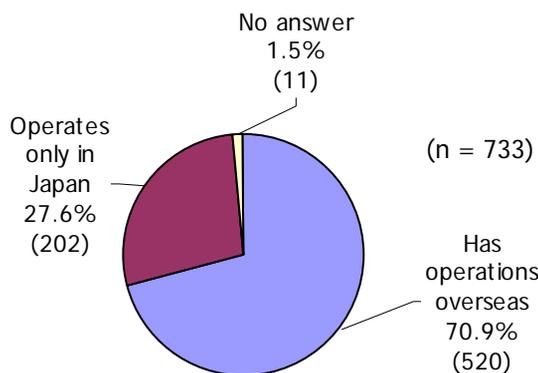


Figure I-3 Overseas bases by location

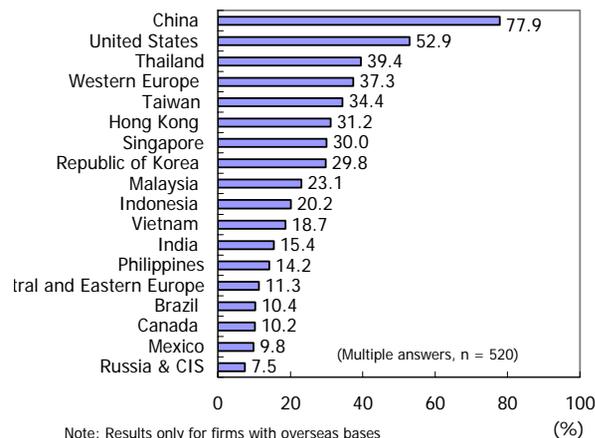


Figure I-4 Overseas bases by function

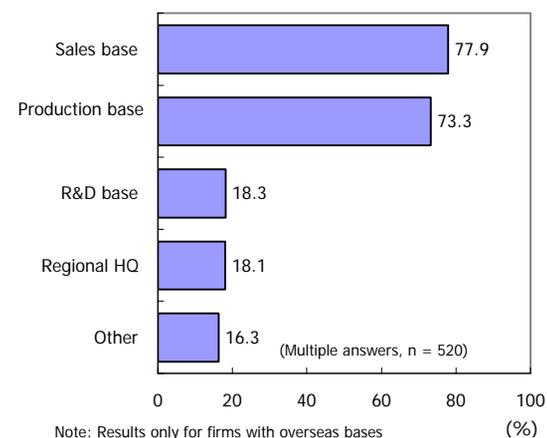


Figure I-5 Overseas bases by location and function

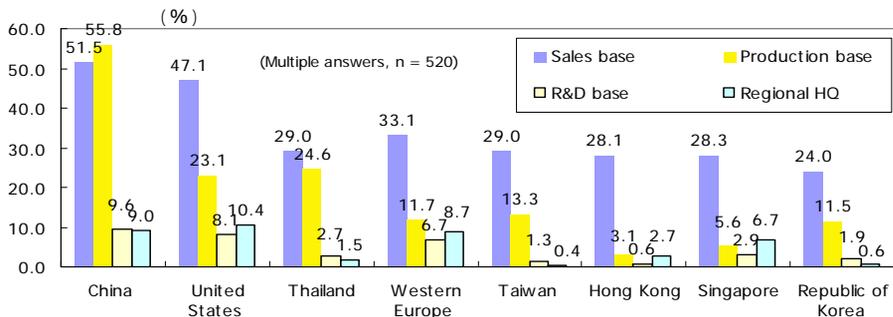
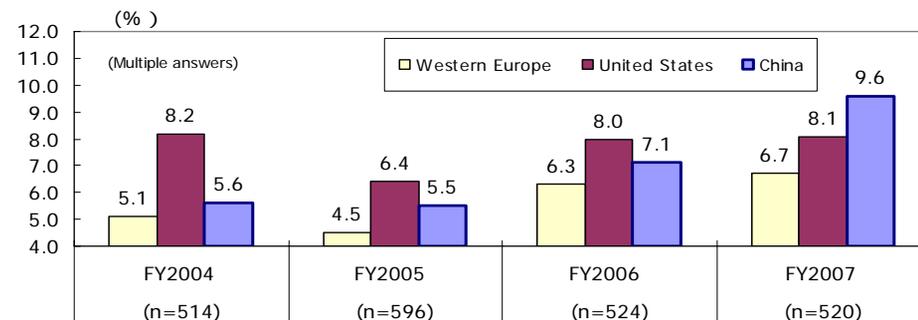


Figure I-6 Overseas R&D bases by country or region



II. Domestic and Overseas Business Operations

(1) More plan overseas than domestic expansion (66% vs. 50%)

Business plans for the next 3 years

• **Nearly 70% aim to expand overseas operations:** In the next 3 years or so, 66.4% plan to expand their business overseas, with either new investments or expanding existing bases. That figure outstripped those planning expanded domestic operations (50.2%). The chemical and machinery industries showed a notably strong drive to expand overseas.

• **Focus on expanding sales functions overseas:** When categorized by functions being expanded, many more respondents were found to be pushing for much more expansion of sales functions overseas (81.7%) than domestically, up from 77.4% in the FY2006 survey. However, planned expansion of all other functions (including production of high-end products and particularly new product R&D) also again was reported at significantly higher levels for Japan than for overseas operations.

Figure II-1 Overseas business plans

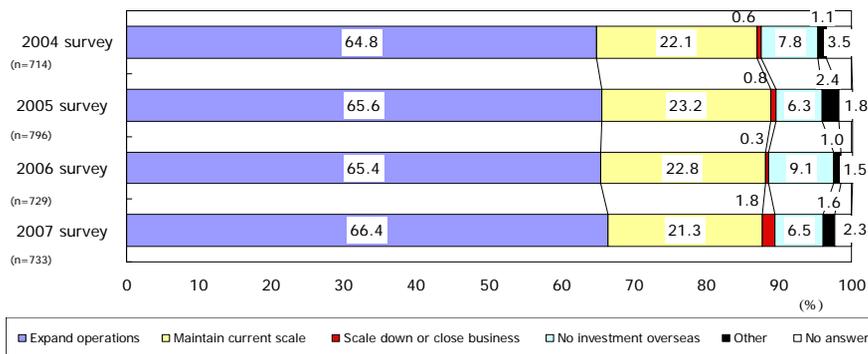


Figure II-2 Business plans in Japan

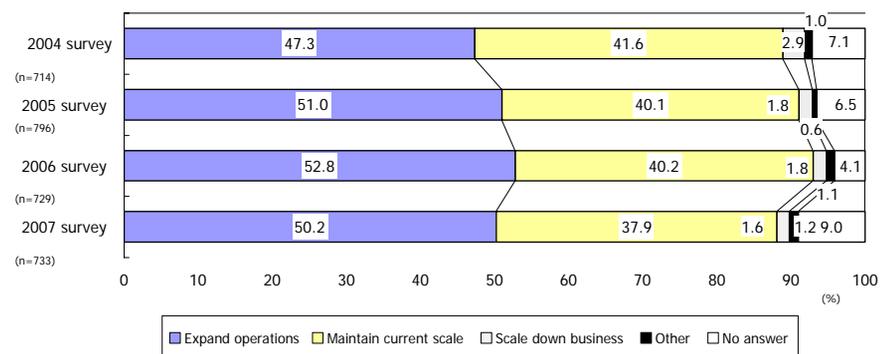
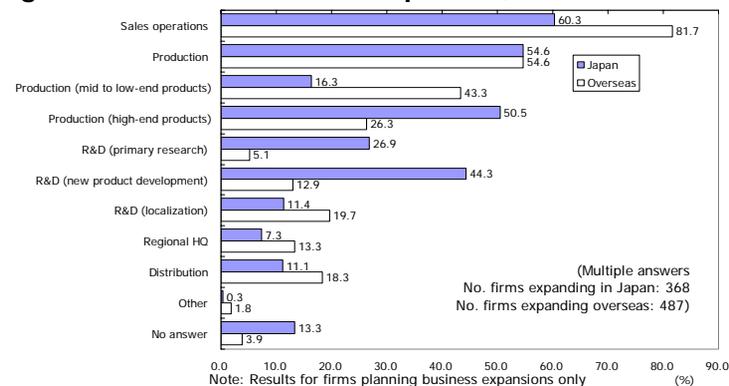


Figure II-3 Plans to expand business overseas and in Japan (%)

	No. of firms (n)	Expand overseas	Expand in Japan
All respondents	733	66.4	50.2
Chemicals	46	84.8	65.2
Electric equipment	46	80.4	65.2
General machinery	81	72.8	39.5
Cars/car parts/other transportation machinery	55	72.7	50.9
Iron & steel/non-ferrous metals/metal products	47	68.1	44.7
Coal & petroleum products/plastics/rubber products	24	66.7	45.8
Other	35	65.7	45.7
IT equipment/electronic parts & devices	43	65.1	58.1
Precision equipment	30	63.3	53.3

Figure II-4 Functions to be expanded, overseas and in Japan



II. Domestic and Overseas Business Operations

(2) Vigorous interest in expanding sales in emerging markets

Countries or regions and functions in which firms plan to expand

- **China leads across all functions; production and sales functions are expanding in Vietnam and India as well:** Focusing on functions (sales, production, R&D, etc.) and countries or regions where firms are planning to expand through new investment or building up existing bases reveal that, as in 2006, expansion in China was highest across all functions, with aggressive expansion of operations there. Expansion in multiple functions was also high in the United States, Western Europe, and Thailand, with expansion in Vietnam (sales and mid to low-end production) and India (sales) also strong.
- **A clear tendency to expand sales functions in some emerging countries/regions:** While the proportion of respondents planning to expand sales functions in the United States and Western Europe was 2 percentage points down from the 2006 survey, that figure rose in Vietnam, India, Brazil and Russia & CIS, as well as China.

Figure II-5 Overseas business expansion plans by function and by country or region (next 3 years or so)

(multiple answers, %)

	FY2007 survey									Change from FY2006 survey								
	Sales operations	Production (mid to low-end products)	Production (high-end products)	R&D (primary research)	R&D (New product development, localization)	R&D (New product development)	R&D (Localization)	Regional HQ	Distribution	Sales operations	Production (mid to low-end products)	Production (high-end products)	R&D (primary research)	R&D (New product development, localization)	R&D (New product development)	R&D (Localization)	Regional HQ	Distribution
China	58.3	30.4	17.5	3.3	15.4	7.4	11.9	6.4	8.4	1.9	-3.1	-3.0	0.2	0.7	0.1	0.2	-1.1	-2.9
Hong Kong	9.0	1.0	1.4	0.4	1.2	0.6	1.0	1.2	2.3	1.0	0.2	0.6	0.4	-0.3	0.2	0.0	0.6	0.4
Taiwan	13.6	1.8	1.6	0.2	1.8	0.8	1.6	0.4	0.6	2.5	-1.1	-0.1	-0.2	-0.3	0.0	-0.3	-0.2	-0.4
Republic of Korea	15.6	1.8	1.8	0.6	2.9	1.4	2.1	0.6	0.6	1.6	-1.8	-1.1	-0.2	0.6	-0.1	0.2	-0.2	-0.9
Singapore	8.2	1.0	0.6	0.4	1.4	0.6	1.2	3.1	2.3	1.5	0.4	0.0	0.4	0.1	0.0	0.4	0.6	0.4
Thailand	18.1	11.3	7.4	0.6	5.1	2.1	4.5	2.3	2.3	0.1	-0.2	0.9	-0.7	-0.6	-0.6	1.1	0.8	-0.4
Malaysia	5.3	2.7	1.2	0.6	0.4	0.4	0.2	0.4	0.8	-1.8	-0.7	-0.5	0.4	-1.7	-0.6	-1.1	0.2	-0.2
Indonesia	5.1	3.5	1.0	0.2	1.2	0.6	1.2	0.2	0.6	-0.8	-0.3	-0.7	0.2	0.2	0.2	0.4	0.2	0.2
Philippines	1.2	1.2	0.2	0.0	0.0	0.0	0.0	0.0	0.2	-1.3	-0.9	0.0	0.0	-1.0	0.0	-1.0	-0.2	-0.8
Vietnam	13.1	8.4	2.7	0.6	1.6	0.4	1.4	0.6	1.2	2.4	0.0	0.0	0.2	-0.1	-0.4	0.6	0.4	-0.5
India	18.9	4.7	1.8	0.8	2.5	0.8	1.8	1.0	2.3	3.4	-1.0	0.1	0.4	0.2	0.0	0.1	0.4	1.7
United States	25.3	4.5	5.5	1.8	6.6	3.5	5.3	4.1	3.9	-2.4	-3.3	-0.8	0.5	-0.5	-1.3	1.3	0.3	0.5
Canada	2.7	0.6	0.4	0.2	0.4	0.2	0.4	0.0	0.2	1.4	0.2	-0.4	0.0	-0.4	-0.2	0.0	-0.2	0.0
Mexico	1.4	1.0	0.6	0.0	0.2	0.2	0.0	0.2	0.4	-0.7	0.0	0.4	0.0	-0.2	0.0	-0.4	0.2	0.2
Brazil	6.2	1.6	1.0	0.0	0.8	0.4	0.6	0.4	0.2	0.1	0.3	0.2	0.0	-0.2	0.2	-0.2	0.2	0.2
Western Europe	17.7	2.7	3.9	1.6	6.4	4.1	4.1	6.0	4.5	-2.2	-1.3	-1.8	0.1	2.0	1.0	1.4	1.4	0.9
Central & Eastern Europe	9.0	2.3	2.9	0.0	0.4	0.2	0.2	0.4	0.4	1.0	-0.6	1.2	0.0	-0.2	0.2	-0.4	0.4	0.0
Russia & CIS	11.3	1.0	1.0	0.2	0.8	0.4	0.8	0.6	0.6	0.6	0.2	0.6	0.0	0.2	0.2	0.4	0.4	0.6
Other	5.3	0.8	1.0	0.2	1.0	0.8	0.6	0.6	0.2	0.5	-0.5	0.4	0.2	-0.3	-0.2	-0.2	0.4	0.2

Notes: 1. The shaded figures in the FY2007 survey columns indicate countries/regions ranked in the top three; shade figures in the Change from FY2006 survey columns indicate changes of 2% or more.

2. The number of respondents planning to expand their overseas business (n) was 477 in the FY2006 survey and 487 in the FY2007 survey.

II. Domestic and Overseas Business Operations

(3) Expansion plans: countries or regions and functions

Planned expansions rankings on each function by country or region (next 3 years or so)

Figure II-6 Country or region rankings by function on expansion planned in next 3 years or so

(Multiple answers, %)

Rank	Sales operations				Production (mid to low-end products)				Production (high-end products)				R&D (primary)				R&D (New product development, localization)			
	FY2006 Rank	FY2007 Survey	Change from FY2006		FY2006 Rank	FY2007 Survey	Change from FY2006		FY2006 Rank	FY2007 Survey	Change from FY2006		FY2006 Rank	FY2007 Survey	Change from FY2006		FY2006 Rank	FY2007 Survey	Change from FY2006	
1	China	(1)	58.3	1.9	China	(1)	30.4	-3.1	China	(1)	17.5	-3.0	China	(1)	3.3	0.2	China	(1)	15.4	0.7
2	United States	(2)	25.3	-2.4	Thailand	(2)	11.3	-0.2	Thailand	(2)	7.4	0.9	United States	(3)	1.8	0.5	United States	(2)	6.6	-0.5
3	India	(5)	18.9	3.4	Vietnam	(3)	8.4	0.0	Vietnam	(6)	2.7	0.0	Western Europe	(2)	1.6	0.1	Western Europe	(4)	6.4	2.0
4	Thailand	(4)	18.1	0.1	India	(5)	4.7	-1.0	India	(7)	1.8	0.1	India	(6)	0.8	0.4	Thailand	(3)	5.1	-0.6
5	Western Europe	(3)	17.7	-2.2	United States	(4)	4.5	-3.3	United States	(3)	5.5	-0.8	Republic of Korea	(5)	0.6	-0.2	Republic of Korea	(5)	2.9	0.6
6	Republic of Korea	(6)	15.6	1.6	Indonesia	(7)	3.5	-0.3	Indonesia	(7)	1.0	-0.7	Thailand	(3)	0.6	-0.7	India	(5)	2.5	0.2
7	Taiwan	(7)	13.6	2.5	Malaysia	(9)	2.7	-0.7	Malaysia	(7)	1.2	-0.5	Malaysia	(9)	0.6	0.4	Taiwan	(7)	1.8	-0.3
8	Vietnam	(8)	13.1	2.4	Western Europe	(6)	2.7	-1.3	Western Europe	(4)	3.9	-1.8	Vietnam	(6)	0.6	0.2	Vietnam	(9)	1.6	-0.1
9	Russia & CIS	(8)	11.3	0.6	Central & Eastern Europe	(10)	2.3	-0.6	Central & Eastern Europe	(7)	2.9	1.2	Hong Kong	(12)	0.4	0.4	Singapore	(11)	1.4	0.1
10	Hong Kong	(10)	9.0	1.0	Taiwan	(10)	1.8	-1.1	Taiwan	(7)	1.6	-0.1	Singapore	(12)	0.4	0.4	Hong Kong	(10)	1.2	-0.3
11	Central & Eastern Europe	(10)	9.0	1.0	Republic of Korea	(8)	1.8	-1.8	Republic of Korea	(5)	1.8	-1.1	Taiwan	(6)	0.2	-0.2	Indonesia	(12)	1.2	0.2
12	Singapore	(13)	8.2	1.5	Brazil	(13)	1.6	0.3	Brazil	(12)	1.0	0.2	Indonesia	(12)	0.2	0.2	Brazil	(12)	0.8	-0.2
13	Brazil	(14)	6.2	0.1	Philippines	(12)	1.2	-0.9	Philippines	(17)	0.2	0.0	Canada	(9)	0.2	0.0	Russia & CIS	(16)	0.8	0.2
14	Malaysia	(12)	5.3	-1.8	Hong Kong	(15)	1.0	0.2	Hong Kong	(12)	1.4	0.6	Russia & CIS	(9)	0.2	0.0	Malaysia	(7)	0.4	-1.7
15	Indonesia	(15)	5.1	-0.8	Singapore	(17)	1.0	0.4	Singapore	(15)	0.6	0.0	Philippines	(12)	0.0	0.0	Canada	(15)	0.4	-0.4
16	Canada	(18)	2.7	1.4	Mexico	(14)	1.0	0.0	Mexico	(17)	0.6	0.4	Mexico	(12)	0.0	0.0	Central & Eastern Europe	(16)	0.4	-0.2
17	Mexico	(17)	1.4	-0.7	Russia & CIS	(15)	1.0	0.2	Russia & CIS	(16)	1.0	0.6	Brazil	(12)	0.0	0.0	Mexico	(18)	0.2	-0.2
18	Philippines	(16)	1.2	-1.3	Canada	(18)	0.6	0.2	Canada	(12)	0.4	-0.4	Central & Eastern Europe	(12)	0.0	0.0	Philippines	(12)	0.0	-1.0

Rank	R&D (New product development)				R&D (Localization)				Regional HQ				Distribution			
	FY2006 Rank	FY2007 Survey	Change from FY2006		FY2006 Rank	FY2007 Survey	Change from FY2006		FY2006 Rank	FY2007 Survey	Change from FY2006		FY2006 Rank	FY2007 Survey	Change from FY2006	
1	China	(1)	7.4	0.1	China	(1)	11.9	0.2	China	(1)	6.4	-1.1	China	(1)	8.4	-2.9
2	Western Europe	(3)	4.1	1.0	United States	(2)	5.3	1.3	Western Europe	(2)	6.0	1.4	Western Europe	(2)	4.5	0.9
3	United States	(2)	3.5	-1.3	Thailand	(3)	4.5	1.1	United States	(3)	4.1	0.3	United States	(3)	3.9	0.5
4	Thailand	(4)	2.1	-0.6	Western Europe	(4)	4.1	1.4	Singapore	(4)	3.1	0.6	Hong Kong	(5)	2.3	0.4
5	Republic of Korea	(5)	1.4	-0.1	Republic of Korea	(5)	2.1	0.2	Thailand	(5)	2.3	0.8	Singapore	(5)	2.3	0.4
6	Taiwan	(7)	0.8	0.0	India	(7)	1.8	0.1	Hong Kong	(7)	1.2	0.6	Thailand	(4)	2.3	-0.4
7	India	(7)	0.8	0.0	Taiwan	(5)	1.6	-0.3	India	(7)	1.0	0.4	India	(12)	2.3	1.7
8	Hong Kong	(11)	0.6	0.2	Vietnam	(11)	1.4	0.6	Republic of Korea	(6)	0.6	-0.2	Vietnam	(7)	1.2	-0.5
9	Singapore	(10)	0.6	0.0	Singapore	(11)	1.2	0.4	Vietnam	(10)	0.6	0.4	Malaysia	(9)	0.8	-0.2
10	Indonesia	(11)	0.6	0.2	Indonesia	(11)	1.2	0.4	Russia & CIS	(10)	0.6	0.4	Taiwan	(9)	0.6	-0.4
11	Malaysia	(6)	0.4	-0.6	Hong Kong	(9)	1.0	0.0	Taiwan	(7)	0.4	-0.2	Republic of Korea	(8)	0.6	-0.9
12	Vietnam	(7)	0.4	-0.4	Russia & CIS	(16)	0.8	0.4	Malaysia	(10)	0.4	0.2	Indonesia	(13)	0.6	0.2
13	Brazil	(14)	0.4	0.2	Brazil	(11)	0.6	-0.2	Brazil	(10)	0.4	0.2	Russia & CIS	(17)	0.6	0.6
14	Russia & CIS	(14)	0.4	0.2	Canada	(16)	0.4	0.0	Central & Eastern Europe	(16)	0.4	0.4	Mexico	(15)	0.4	0.2
15	Canada	(11)	0.2	-0.2	Malaysia	(8)	0.2	-1.1	Indonesia	(16)	0.2	0.2	Central & Eastern Europe	(13)	0.4	0.0
16	Mexico	(14)	0.2	0.0	Central & Eastern Europe	(15)	0.2	-0.4	Mexico	(16)	0.2	0.2	Philippines	(9)	0.2	-0.8
17	Central & Eastern Europe	(17)	0.2	0.2	Philippines	(9)	0.0	-1.0	Philippines	(10)	0.0	-0.2	Canada	(15)	0.2	0.0
18	Philippines	(17)	0.0	0.0	Mexico	(16)	0.0	-0.4	Canada	(10)	0.0	-0.2	Brazil	(17)	0.2	0.2

Note: The number of respondents planning to expand their overseas business (n) was 477 in the FY2006 survey and 487 in the FY2007 survey.

II. Domestic and Overseas Business Operations

(4) China: Great interest in expansion, but not expanding production

Functions for which firms plan expansion in China

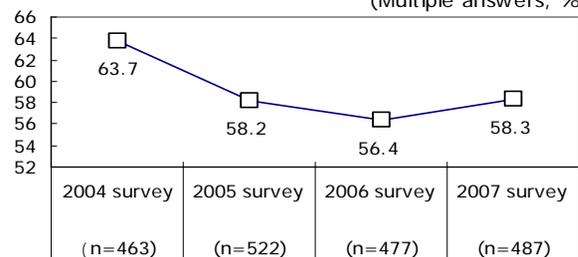
- R&D in China to expand, but declining interest in expanding production of mid to low-end products

Particularly among trade and wholesale firms and manufacturers of machinery and foods and beverages, over 60% plan to expand sales functions in China. That level remains far higher than in other countries or regions. While interest in expanding production functions there remains strong, it declined slightly over all. In particular, in production of mid to low-end products, the decline was clear, a 9.1 percentage point drop since FY2004 (30.4% vs. 39.5%). There was, however, an upwards trend towards expansion of new product development and localization R&D centers in China, with trade and wholesale firms, chemicals, cars/car parts/other transportation equipment, and other industries driving that increase.

Figure II-7 Expanding functions in China

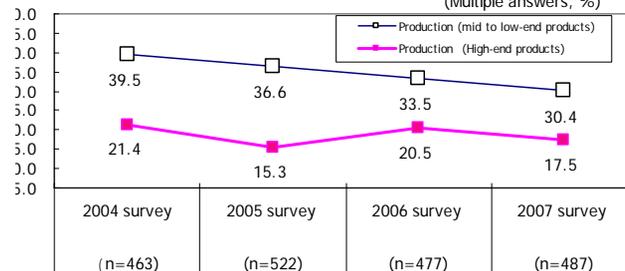
Sales

(Multiple answers, %)



Production

(Multiple answers, %)



R&D (new product development, localization)

(Multiple answers, %)

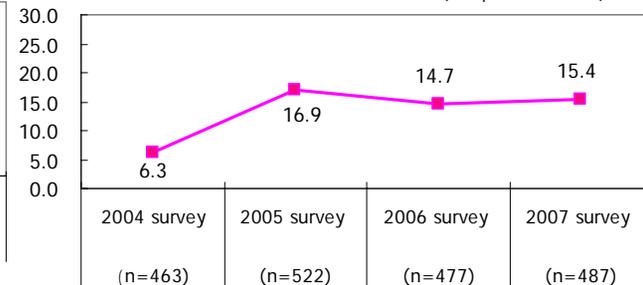


Figure II-8 Industries planning to expand functions in China (top 5)

Sales

Sales operations (n=284)	(%)
1 Trade & wholesale	19.4
2 General machinery	12.0
3 Chemicals	10.2
4 Food and beverages	9.5
5 Electric equipment	7.0

Production

Production	(%)
Mid to low-end products (n=148)	
1 General machinery	12.8
2 Chemicals	11.5
2 Trade & wholesale	11.5
4 Electric equipment	9.5
4 Cars/car parts/other transportation machine	9.5

Production	(%)
High-end products (n=85)	
1 Trade & wholesale	20.0
2 Chemicals	12.9
3 Cars/car parts/other transportation machine	10.6
4 Electric equipment	8.2
5 Food and beverages	7.1

R&D

R&D functions	(%)
New product development/localization (n=75)	
1 Trade & wholesale	14.7
2 Chemicals	13.3
2 Cars/car parts/other transportation machine	13.3
4 General machinery	9.3
5 Food and beverages	8.0

Note: % of all companies planning to expand each function in China.

II. Domestic and Overseas Business Operations

(5) Vietnam & India: Growing interest in expanding sales

Functions for which firms plan expansion in Vietnam & India (1)

• **Increasingly evident moves to open up the local markets:** Interest in expanding sales functions in Vietnam & India is strengthening significantly. Nearly 20% of firms reported plans for expanding sales in India, making it ranking third after China (58.3%) and the United States (25.3%), up from fifth place last year. Interest in expanding sales in Vietnam is also growing steadily, having doubled from the level reported three years ago. By industry, firms aiming to expand sales in Vietnam were concentrated in the trade & wholesale, machinery, and food & beverage industries. For India, the leaders in planning to expand sales, by industry, were machinery, trade & wholesale, and chemicals. Interest in expanding distribution (particularly in the trade & wholesale industry) in India also increased, as did the trend to expanding R&D for localization functions there. Growing activity to develop local markets is becoming increasingly evident.

Figure II-9 Firms expanding sales and distribution functions in Vietnam & India

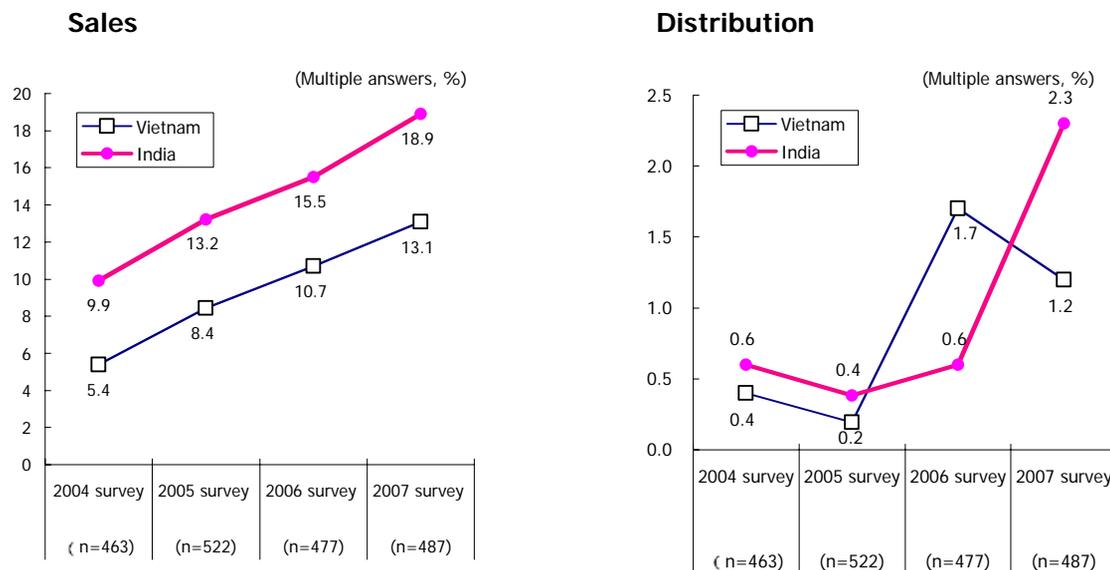


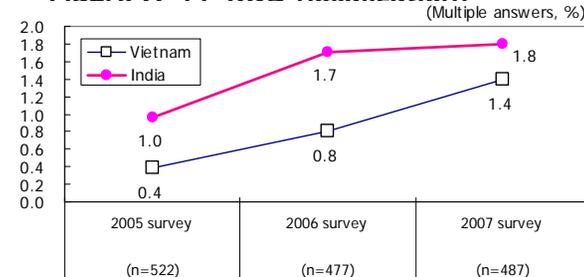
Figure II-10 Industries expanding sales functions in Vietnam & India (top 5)

Vietnam (n=64)		(%)
Rank 1	Trade & wholesale	29.7
Rank 2	General machinery	14.1
Rank 3	Electric equipment	12.5
Rank 4	Food and beverages	7.8
Rank 4	Cars/car parts/other transportation machinery	7.8

India (n=92)		(%)
Rank 1	General machinery	15.2
Rank 1	Electric equipment	15.2
Rank 1	Trade & wholesale	15.2
Rank 4	Cars/car parts/other transportation machinery	10.9
Rank 5	Chemicals	9.8

Note: Percentage of firms planning to expand sales operations in each country

Figure II-11 R&D (localization)



II. Domestic and Overseas Business Operations

(6) Vietnam & India: Continuing interest in expanding production

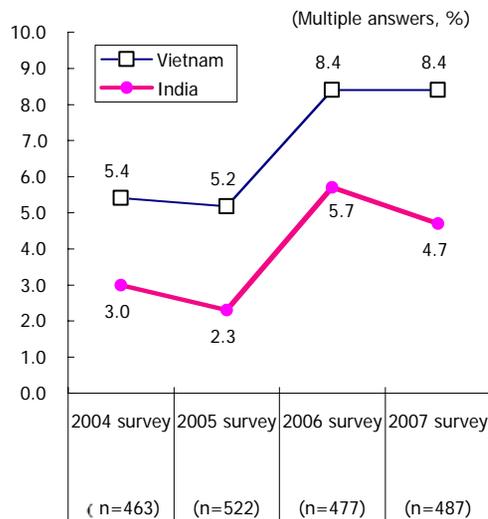
Functions for which firms plan expansion in Vietnam & India (2)

• Continuing interest in Vietnam in “China + 1” expansion plans

Interest in expanding production functions in Vietnam and India, which had been growing for several years, held steady in the 2007 survey. Interest in production in Vietnam was shown across a variety of industries, with electrical and other machinery and raw materials related industries strong. By contrast, for India, the automotive and chemical industries dominated. For both, production of mid to low-end products is the main focus at this point, with Vietnam coming in third at 8.4% of firms, after China (30.4%) and Thailand (11.3%). Firms' interest in expanding production in China is slackening off with labor costs rising, and they will keep their production base presence in Vietnam and India.

Figure II-12 Firms expanding production functions in Vietnam & India

Mid to low-end products



High-end products

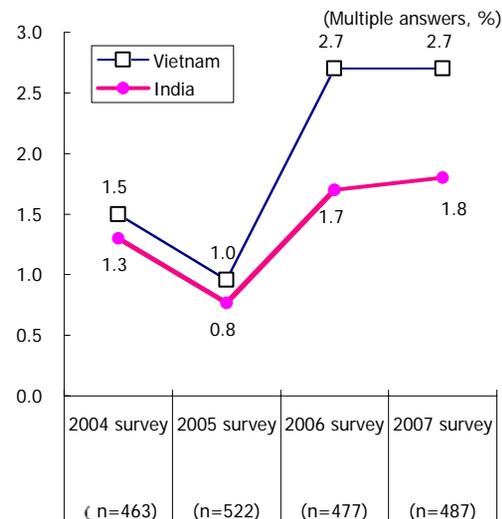


Figure II-13 Industries expanding production functions in Vietnam & India (both high-end and mid to low-end products; top five industries)

Vietnam (n=47)		
Rank	Industry	(%)
1	Electric equipment	14.9
1	IT equipment/electronic parts & devices	14.9
3	Trade & wholesale	12.8
4	Coal & petroleum products/plastics/rubber products	10.6
4	Iron & steel/non-ferrous metals/metal products	10.6
4	Cars/car parts/other transportation machinery	10.6

India (n=30)		
Rank	Industry	(%)
1	Cars/car parts/other transportation machinery	30.0
2	Chemicals	23.3
3	General machinery	13.3
4	Trade & wholesale	10.0
5	Iron & steel/non-ferrous metals/metal products	6.7

Note: Percentage of firms planning to expand production operations in each country.

II. Domestic and Overseas Business Operations

(7) Central & Eastern Europe, Russia & CIS: Growing interest in expanding there

Functions for which firms plan expansion in Central & Eastern Europe and Russia & CIS

• **Growing interest in expanding sales functions:** Japanese firms' interest in expanding operations in the Central and Eastern European countries and Russia and the other CIS countries is growing, particularly, since 2006, in sales functions. By industry, percentages were high in trade & wholesale and in machinery. A trend to expanding production functions was also visible, with a notable increase in interest in more production of high-end products in the auto and chemicals industries.

Figure II-14 Firms expanding sales functions in Central & Eastern Europe and Russia & CIS

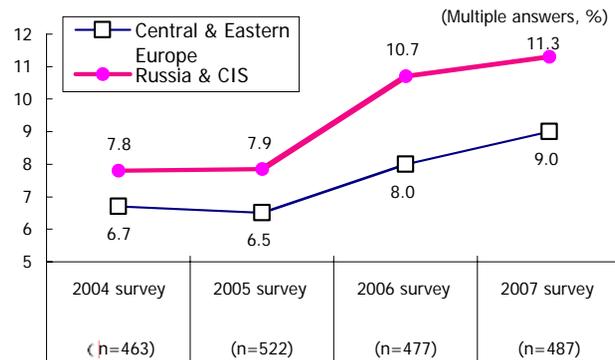


Figure II-15 Industries expanding sales functions in Central & Eastern Europe and Russia & CIS (top five)

Central & Eastern Europe (n=44) (%)		
Rank	Industry	Percentage (%)
1	Trade & wholesale	25.0
1	General machinery	15.9
3	Chemicals	13.6
4	Iron & steel/non-ferrous metals/metal prod	6.8
5	IT equipment/electronic parts & devices	6.8
5	Cars/car parts/other transportation machine	6.8

Russia & CIS (n=55)		
Rank	Industry	Percentage (%)
1	Electric equipment	18.2
2	General machinery	16.4
3	Trade & wholesale	10.9
4	Food and beverages	9.1
4	Cars/car parts/other transportation machine	9.1

Note: Percentage of firms planning to expand sales operations in each country

Figure II-16 Firms expanding production (mid to low-end products) in Central & Eastern Europe and Russia & CIS

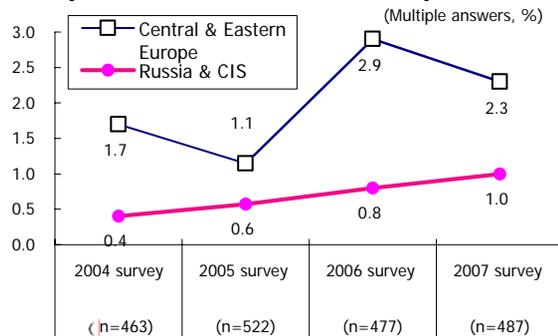
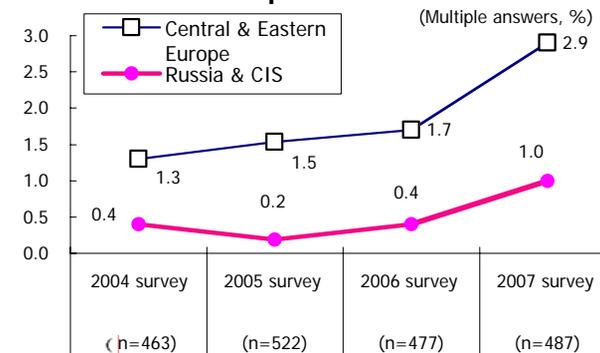


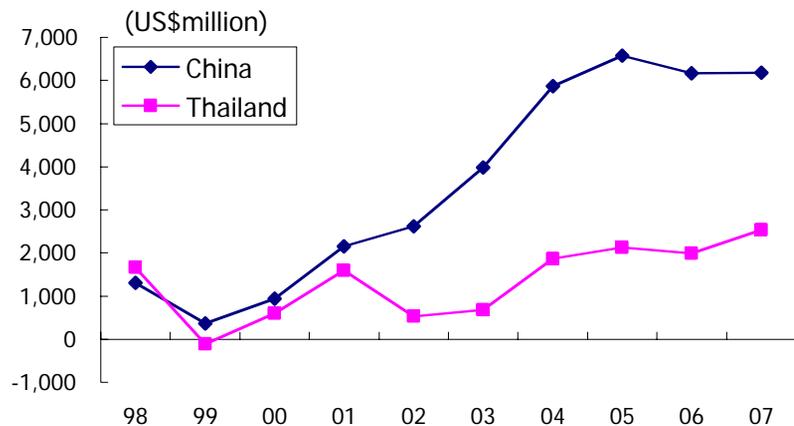
Figure II-17 Firms expanding production (high-end products) in Central & Eastern Europe and Russia & CIS



II. Domestic and Overseas Business Operations

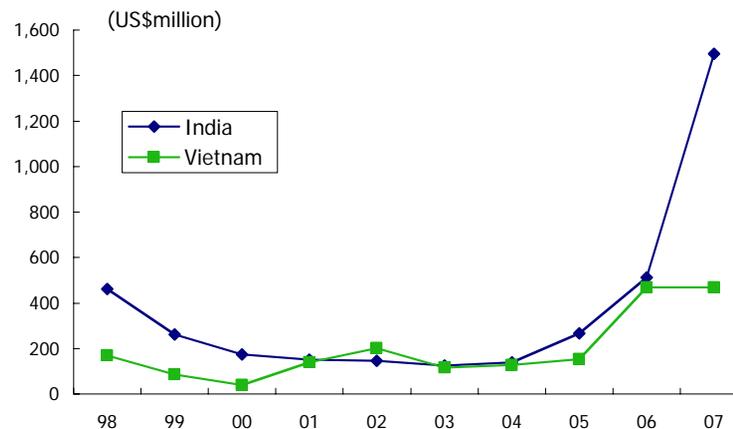
(Supplementary Figure) Japan's FDI in China, Thailand, India, Vietnam, Eastern Europe and Russia

Supplementary Figure 1 Japan's FDI in China and Thailand
(balance of payments basis, net; statistics from Japan)



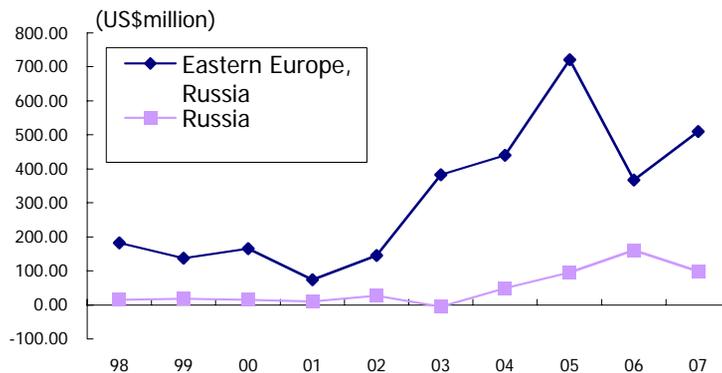
Note: Amounts converted to US dollars from original yen figures. 2007 figures are preliminary.
Source: Prepared by JETRO from Ministry of Finance & Bank of Japan FDI statistics.

Supplementary Figure 2 Japan's FDI in India and Vietnam
(balance of payments basis, net; statistics from Japan)



Note: Amounts converted to US dollars from original yen figures. 2007 figures are preliminary.
Source: Prepared by JETRO from Ministry of Finance & Bank of Japan FDI statistics.

Supplementary Figure 3 Japan's FDI in Eastern Europe and Russia (balance of payments basis, net; statistics from Japan)



Note: Amounts converted to US dollars from original yen figures. 2007 figures are preliminary.
Source: Prepared by JETRO from Ministry of Finance & Bank of Japan FDI statistics.

II. Domestic and Overseas Business Operations

(8) Expanding sales to local firms

Sales targets in developing countries

- **Notable drive to boost sales to local firms:** Japanese firms planning to expand overseas sales functions revealed a drive to expand sales to local firms in their current and planned sales targets in developing countries. That tendency was particularly strong among the ceramics and earth & stones (57.1%) and chemicals (50.9%) industries. For consumer sales, the current tendency to stress the new rich, middle class, or other affluent segments remains largely unchanged.
- **Target price range: high-priced items are in the majority:** Now and in the future high-priced items outstripped mid to low-priced items. By industry, many firms in the the general machinery, precision equipment, and IT equipment/electronic parts & devices industries stated they would be targeting mid to low-priced items in the future.

Figure II-18 Sales targets in developing countries, corporate and consumer segments (multiple answers)

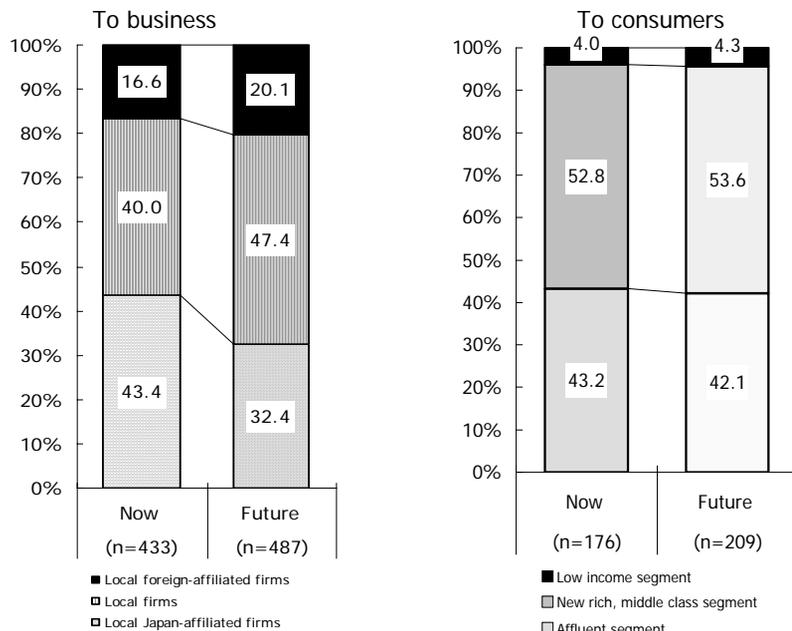
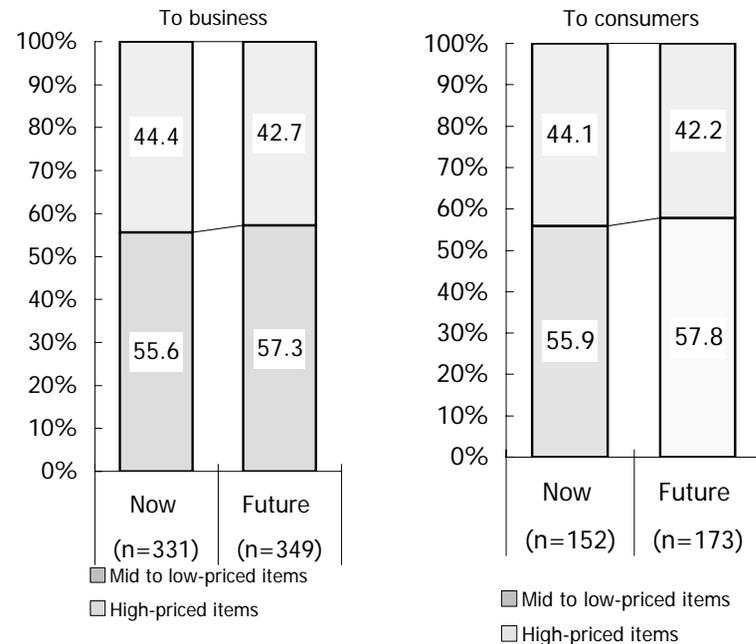


Figure II-19 Sales targets in developing countries and price ranges (multiple answers)



III. The Business Environment in China

(1) Slowdown in imports from China and in starting local bases

Plans for business development in China over the next 3 years

- More firms planning to maintain their current business scale:** Asked about business development in China over the next three years or so, including trade, outsourcing, technical tie-ups, and direct investment, firms planning to expand operations or start new businesses declined by 2.6 percentage points (to 63.0%), the third consecutive annual decline. By contrast, those planning to maintain their current scale of operations rose 4.2 percentage points, to 22.4%.
- Major drop in firms planning to increase imports:** Among firms planning to expand operations, the proportion planning to establish or expand sales bases or manufacturing bases, increase imports, or outsource operations all declined. Notably, those planning to increase imports dropped 6.9 percentage points, to 23.6%. By contrast, those planning to increase exports rose 2.8 percentage points.

Figure III-1 Business plans for China

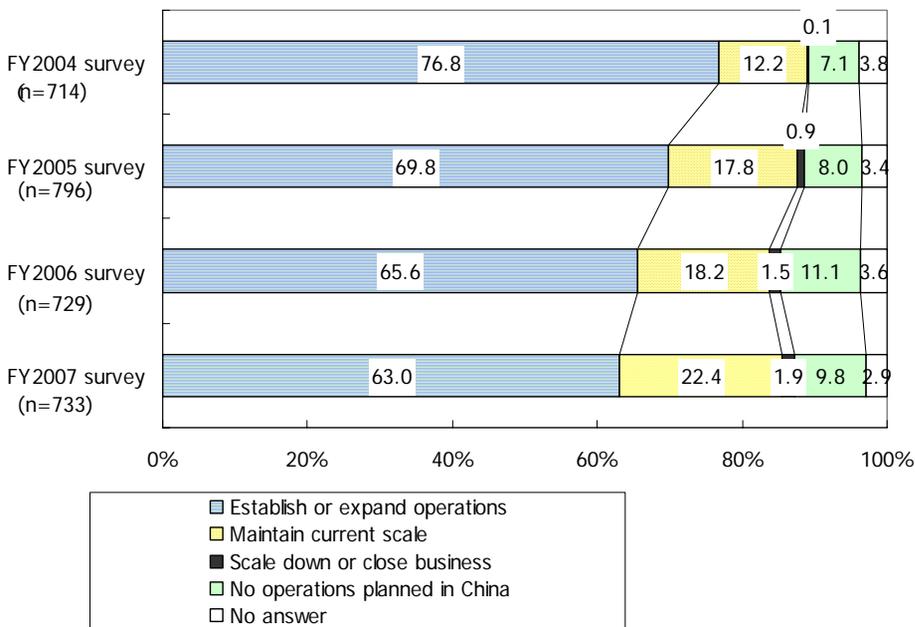
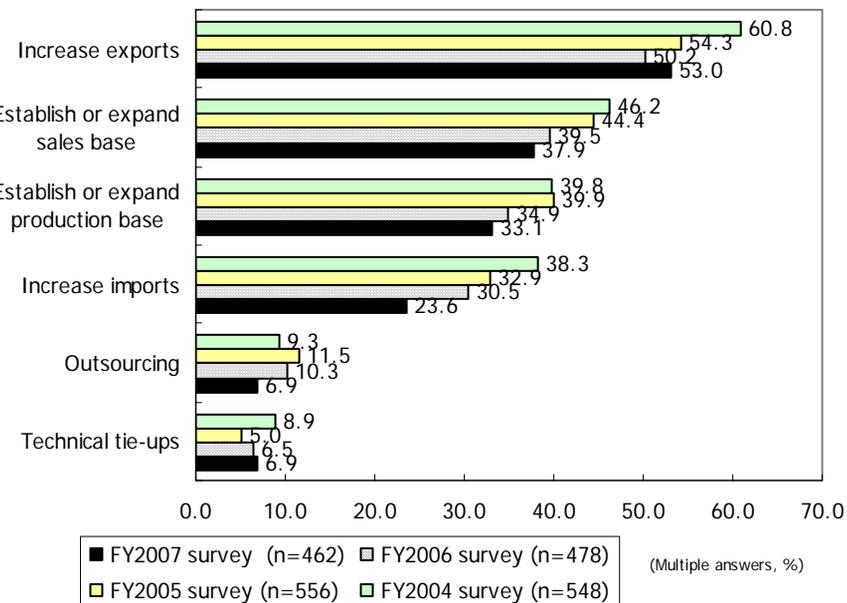


Figure III-2 Details of business expansion plans for China



III. The business environment in China

(2) Expansion of demand continues, but adjustments expected in some industries

Demand after the Beijing Olympics

• While many firms replied that demand for their products will grow steadily, in the ceramics and earth & stones industry, nearly 60% were being cautious about the outlook.

When asked about demand after the Beijing Olympics this August, the largest group (38.3%) replied that growth in demand would slow but would tend to grow steadily. With 17.2% replying that demand will continue to grow strongly, a majority (55.5%) are expecting demand growth. Among manufacturing firms with overseas production bases (of which 77.6% are in China), 65.9% are expecting growth in demand. By industry, a high proportion of firms in the coal & petroleum products/plastics/rubber products (70.8%) and chemical (67.4%) industries expected strong or steady growth in demand.

While 25.2% of firms said "Temporary adjustments are in the offing," few are expecting extended stagnation. Overall, positive outlooks dominated. By industry, a large proportion, 57.1%, of firms in the ceramics and earth & stones industry reported expecting realignments or stagnation, as a round of construction demand is completed.

Figure III-3 Demand outlook after the Beijing Olympics

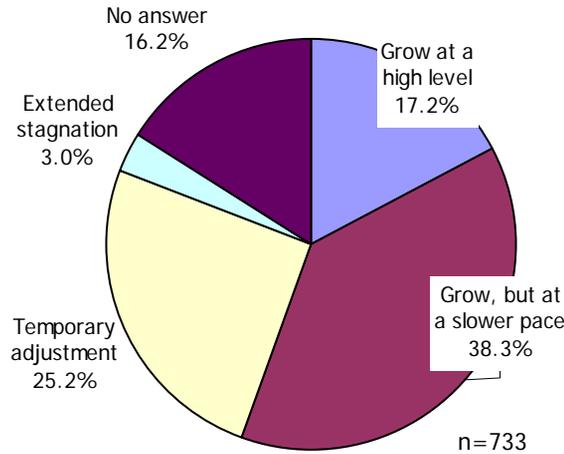


Figure III-4 Demand outlook after the Beijing Olympics (manufacturing and non-manufacturing firms)

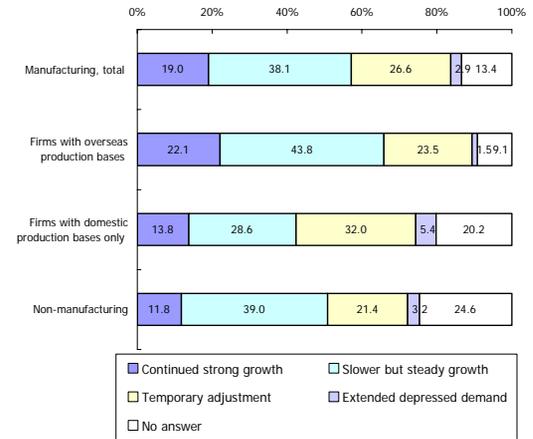
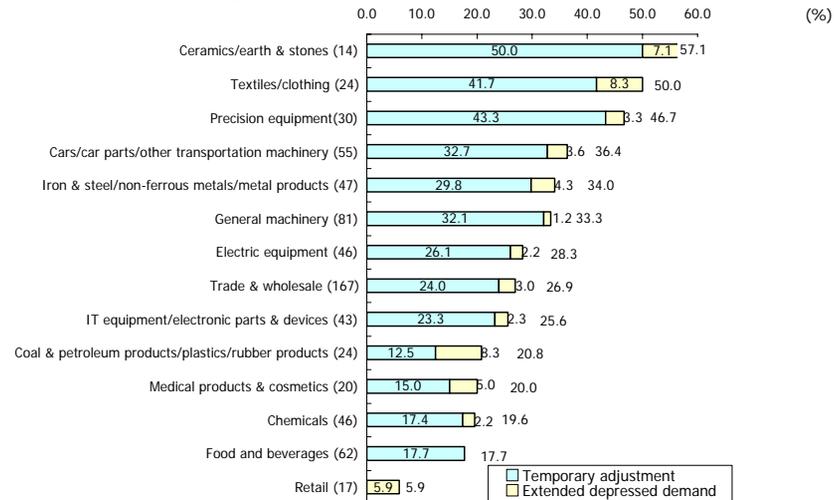


Figure III-5 Demand outlook after the Beijing Olympics by industry (n in parentheses)



IV. Asian business environment

(1) "Chinese labor costs are rising"

Risks

- **"Chinese labor costs are rising" responses leaped to 41.3%, up 12.9% from 2006:** "Labor costs are high or rising" was reported as a risk factor for doing business in China by 41.3% of the respondents, up 12.9% from the 2006 survey (28.4%). Concern is growing over rising costs due to higher labor costs in China. Other risks reported for China are its underdeveloped legal system and problems with legal operation (54.0%) and problems with protection of intellectual property rights (53.9%). With over half indicating that the operation of the legal system and infringement on intellectual property rights are concerns, those areas are clearly seen as risks.
- **Infrastructure is the issue in India and Vietnam:** "Inadequate infrastructure" was reported as a risk factor for India (53.5%) and Vietnam (50.3%), maintaining the high level found in the 2006 survey. With growing interest in doing business in both countries, firms are keenly aware of the need for better infrastructure there. Vietnam and India were also in the top three on lack of clustering or the underdevelopment of related industries. China (28.9%) and India (12.5%) also scored high on tax-related risks. Those results reflect Japanese firms' awareness of the reduction in the refund on the value added tax on labor-intensive products and moves to revise corporate tax rates in China and of indirect taxes and other aspects of the complex tax system in India. China (29.9%) and India (15.8%) were also the top two in labor issues. That result reflects awareness of the revision of the system of labor laws in China and the strict labor law system in India.

Figure IV-1 Risks or issues in doing business (top 5 countries for each; figures in parentheses are 2006 survey results)

Rank	High forex risk			Inadequate infrastructure			Underdeveloped legal system, problems with legal operation			Lack of clustering or development of related industries		
1	China	22.8	(20.5)	India	53.5	(57.2)	China	54.0	(59.9)	Vietnam	32.5	(31.4)
2	Thailand	19.5	(9.1)	Vietnam	50.3	(47.9)	Vietnam	27.4	(32.2)	India	18.3	(18.4)
3	Indonesia	15.5	(23.5)	Philippines	25.3	(32.2)	Indonesia	22.7	(28.2)	Philippines	17.5	(20.9)
4	India	8.4	(6.5)	Indonesia	23.9	(29.8)	India	19.0	(35.3)	Indonesia	13.3	(15.1)
5	Philippines	7.2	(7.9)	China	19.1	(21.6)	Philippines	9.8	(13.0)	Malaysia	9.5	(12.7)
Rank	Problems with protection of intellectual property rights			Labor costs are high or rising			Tax-related risks or issues			Labor issues		
1	China	53.9	(59.2)	China	41.3	(28.4)	China	28.9	(33.2)	China	29.9	-
2	Vietnam	12.0	(11.9)	Singapore	33.9	(39.3)	India	12.5	(17.9)	India	15.8	-
3	India	10.3	(13.9)	Thailand	15.7	(20.4)	Vietnam	8.2	(10.2)	Indonesia	9.1	-
4	Philippines	9.8	(9.0)	Malaysia	14.0	(13.9)	Indonesia	8.0	(15.5)	Vietnam	8.9	-
5	Indonesia	8.0	(9.2)	Vietnam	8.6	(5.1)	Thailand	6.6	(7.6)	Philippines	5.7	-

- Notes: 1. n in FY2006: China, 596; Thailand, 353; Indonesia, 238; Malaysia, 245; Philippines, 177; Singapore, 244; Vietnam, 236; India, 201
n in FY2007: China, 622; Thailand, 394; Indonesia, 264; Malaysia, 264; Philippines, 194; Singapore, 286; Vietnam, 292; India, 273
2. n = firms that now have business operations or are planning to start operations in that country
3. "Labor issues" is a new category added in FY2007.

IV. Asian business environment

(2) Vietnam favored on business costs, India on high education level

Positive factors

- **China, India, and Vietnam have growing consumer markets:** In the positive factors of doing business in Asian countries, China and India dominated in "size of the consumer market," a clear reflection of their large populations (China 75.4%, India 65.2%). On consumer market growth potential, China (65.3%) and India (64.8%) scored highest, followed by Vietnam (43.2%).
- **On high education level, Singapore ranked first, followed by India; Vietnam and China were first and second on low cost of doing business:** The English-speaking nations dominated in "little language barrier." India was ranked second on "High education level" after Singapore (42.3%), which seems to reflect the respondents' awareness of its higher education system, an essential foundation for India's world-class software and related industries. Vietnam ranked first (40.8%) on low cost of doing business, followed by China (25.6%) and Indonesia (23.9%).

Figure IV-2 Pluses in doing business (top 5 countries for each)

(multiple answers, %)

Rank	Size of the consumer market		Potential for growth of the consumer market		Little language barrier		High education level	
1	China	75.4	China	65.3	Singapore	33.6	Singapore	42.3
2	India	65.2	India	64.8	Philippines	25.3	India	17.6
3	Indonesia	26.9	Vietnam	43.2	India	23.8	Vietnam	13.0
4	Thailand	14.5	Thailand	28.4	Malaysia	18.6	Thailand	8.4
5	Vietnam	14.0	Indonesia	28.4	Vietnam	4.5	Malaysia	7.2
Rank	Full set of preferential measures and incentives		Low business costs		Easy to access local information and services		Market not very closed or idiosyncratic	
1	Singapore	8.4	Vietnam	40.8	Singapore	28.3	Singapore	36.7
2	Thailand	8.1	China	25.6	Thailand	13.5	Thailand	17.8
3	Vietnam	5.1	Indonesia	23.9	Malaysia	10.2	Malaysia	15.5
4	Malaysia	2.7	Thailand	22.3	China	7.2	Indonesia	5.3
5	Philippines	2.1	Philippines	17.5	Philippines	3.6	Vietnam	5.1

Notes: 1. n = China, 622; Thailand, 394; Indonesia, 264; Malaysia, 264; Philippines, 194; Singapore, 286; Vietnam, 292; India, 273

2. n = firms that now have business operations or are planning to start operations in that country