



Japan External Trade Organization

**FY2012 Survey on the International
Operations of Japanese Firms
– JETRO Overseas Business Survey –**

March 28, 2013

Japan External Trade Organization (JETRO)

Survey outline and profile of the respondent firms

1. Survey targets

A total of **6,531** firms engaged in overseas business

2. Survey topics

- (1) Overseas expansion and related issues
- (2) Export and related issues
- (3) Business environment of emerging countries
- (4) Business in China
- (5) Utilization of free trade agreements (FTAs)

3. Period

Distribution of questionnaires: January 7, 2013

Deadline: January 31, 2013

4. Response

Distribution of questionnaires: 6,531 (of which 3,481 are JETRO member firms)

Number of valid replies: **1,957** (of which 1,139 are JETRO member firms)

Response rate: **30.0%**

- This survey was the eleventh of its kind, with the first implemented in FY2002 covering only JETRO member firms. The FY2012 survey covered 3,481 JETRO member firms plus 3,050 firms using JETRO services (with regard to the expansion to the firms using JETRO services, there is no continuity between the FY2012 survey and past surveys).

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

Figure 1-1: Profile of respondent firms by industry

(Unit: %)

	No. of firms	%	SMEs
All respondents	1,957	100.0	(1,441)
Manufacturing total	1,081	55.2	(820)
Food & beverages	179	9.1	(148)
Textiles/clothing	54	2.8	(48)
Wood & wood products/furniture & building materials/paper & pulp	35	1.8	(28)
Chemicals	66	3.4	(41)
Medical products & cosmetics	49	2.5	(40)
Coal & petroleum products/plastics/rubber products	75	3.8	(59)
Ceramics/earth & stone	23	1.2	(18)
Iron & steel/non-ferrous metals/metal products	128	6.5	(107)
General machinery	121	6.2	(96)
Electrical equipment	69	3.5	(45)
IT equipment/electronic parts & devices	40	2.0	(21)
Cars/car parts/other transportation machinery	84	4.3	(43)
Precision equipment	51	2.6	(36)
Other manufacturing	107	5.5	(90)
Non-manufacturing total	876	44.8	(621)
Trade & wholesale	478	24.4	(394)
Retail	44	2.2	(30)
Construction	45	2.3	(29)
Electricity, gas and water	3	0.2	-
Transport	44	2.2	(22)
Finance & insurance	75	3.8	(2)
Information & software	39	2.0	(33)
Professional services	50	2.6	(46)
Other non-manufacturing	98	5.0	(65)
Large-scale firms	516	26.4	-
Small and medium-sized enterprises (SMEs)	1,441	73.6	-

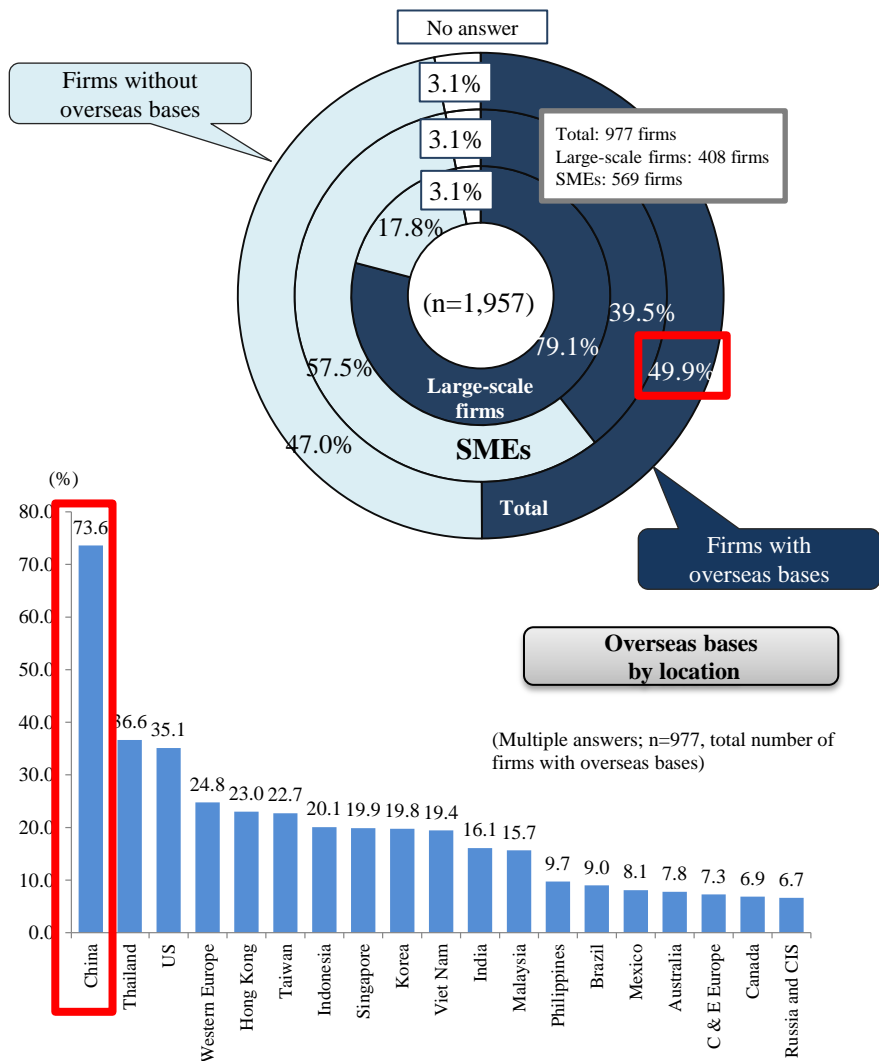
Note: SMEs are classified as such based on the definition given in the Small and Medium-Sized Enterprise Basic Act of Japan. In concrete terms, a firm which meets either of the following employee or capital criteria by industry is regarded an SME.

Manufacturing and other industries: 300 employees or fewer, or 300 million yen or less
 Wholesale: 100 employees or fewer, or 100 million yen or less
 Retail: 50 employees or fewer, or 50 million yen or less
 Services: 100 employees or fewer, or 50 million yen or less

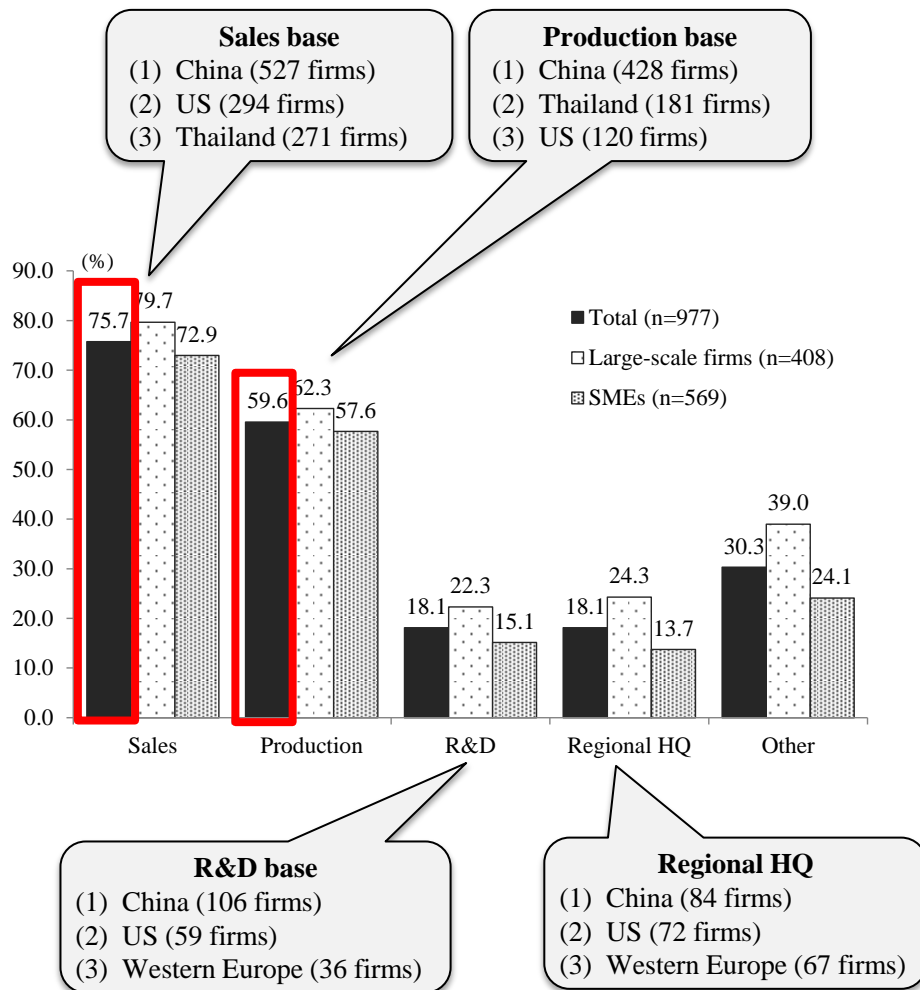
1. Overseas expansion and related issues

- Nearly half (49.9%) of firms have overseas bases. China accounted for the largest number of these locations (73.6%).
- 75.7% of firms with overseas bases have sales bases, while 59.6% of them have production bases.

Firms with overseas bases and their location



Overseas bases by function



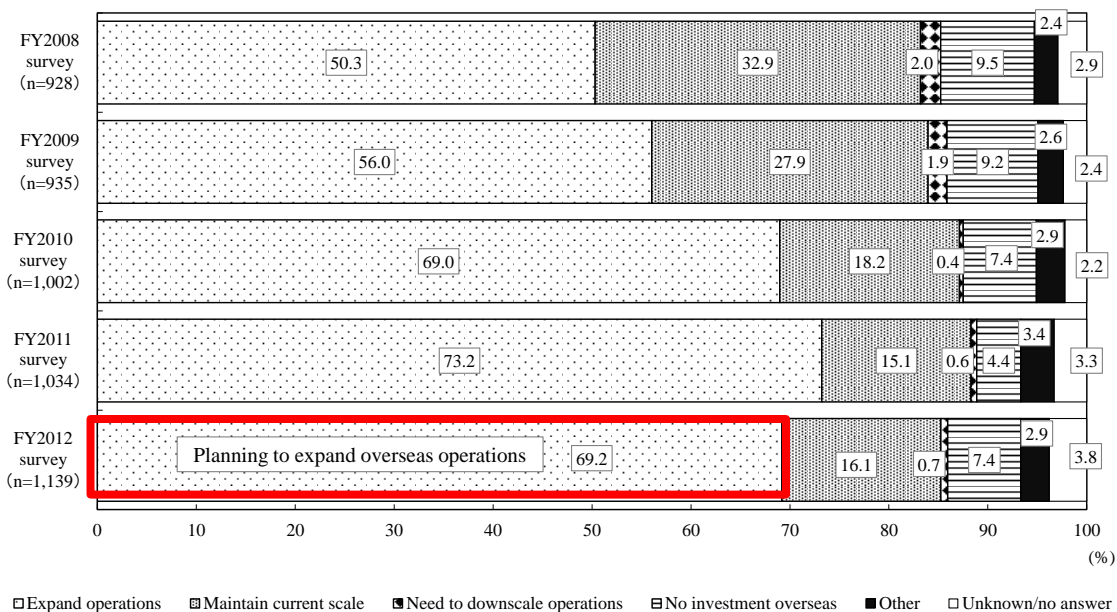
Note: Only countries and regions where 50 or more respondent firms have their bases are displayed.

Note: The boxes display the top 3 countries/regions where overseas bases by function are located.

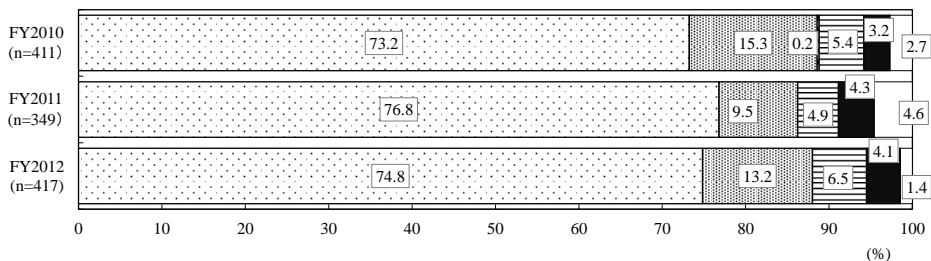
1. Overseas expansion and related issues

- Firms planning to expand overseas operations in the next three years or so accounted for 69.2% of total respondent firms, returning to almost the same level as the FY2010 survey (69.0%).
- The proportion of SMEs willing to expand overseas operations declined to 65.9%, which is the same level as the FY2010 survey (66.0%).

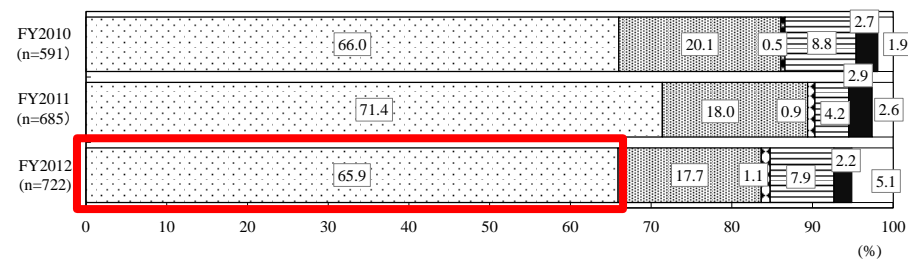
Future business plans on foreign operations



Large-scale firms



SMEs

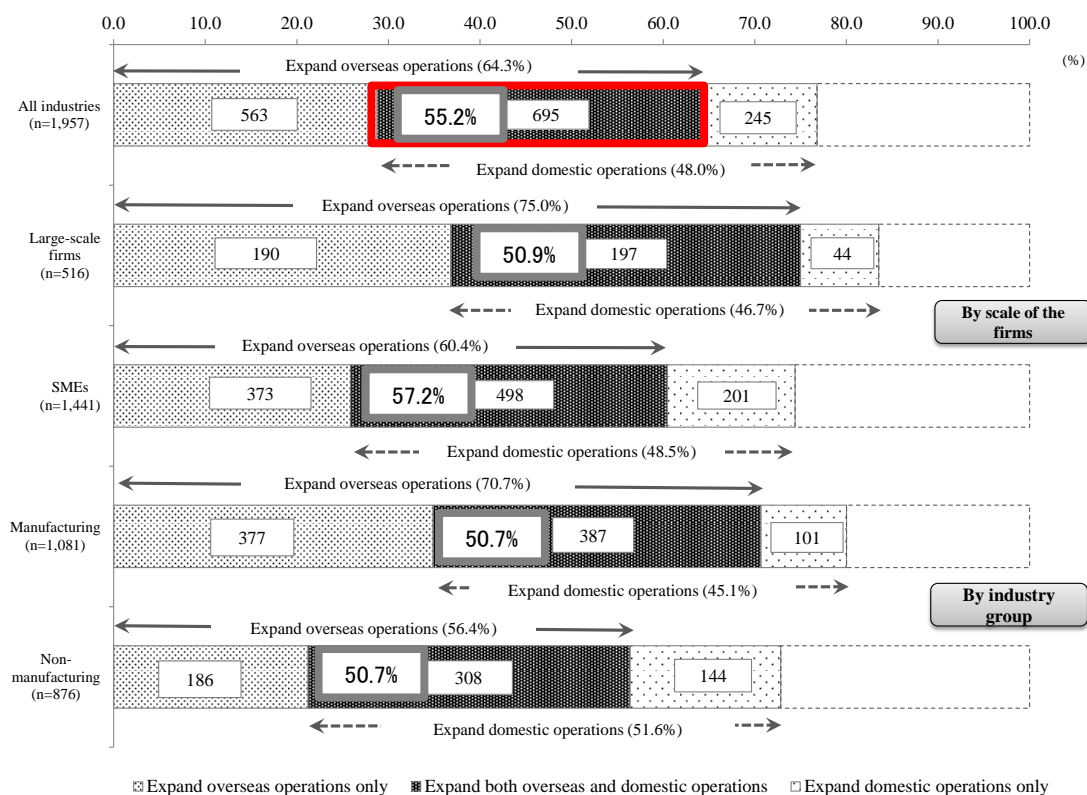


Note: For comparison with the results of the past surveys, only responses from JETRO member firms are taken into account.

1. Overseas expansion and related issues

- More than half (55.2%, 695 firms) of the firms planning to expand their overseas business intend to boost domestic operations.
- Firms in the sectors of chemicals, ceramics/earth & stone, cars/car parts/other transportation machinery, precision equipment, are relatively aggressive in overseas business expansion.

Firms planning to expand overseas/domestic operations (by industry group/scale)



Top 10 industries planning to expand overseas/domestic operations

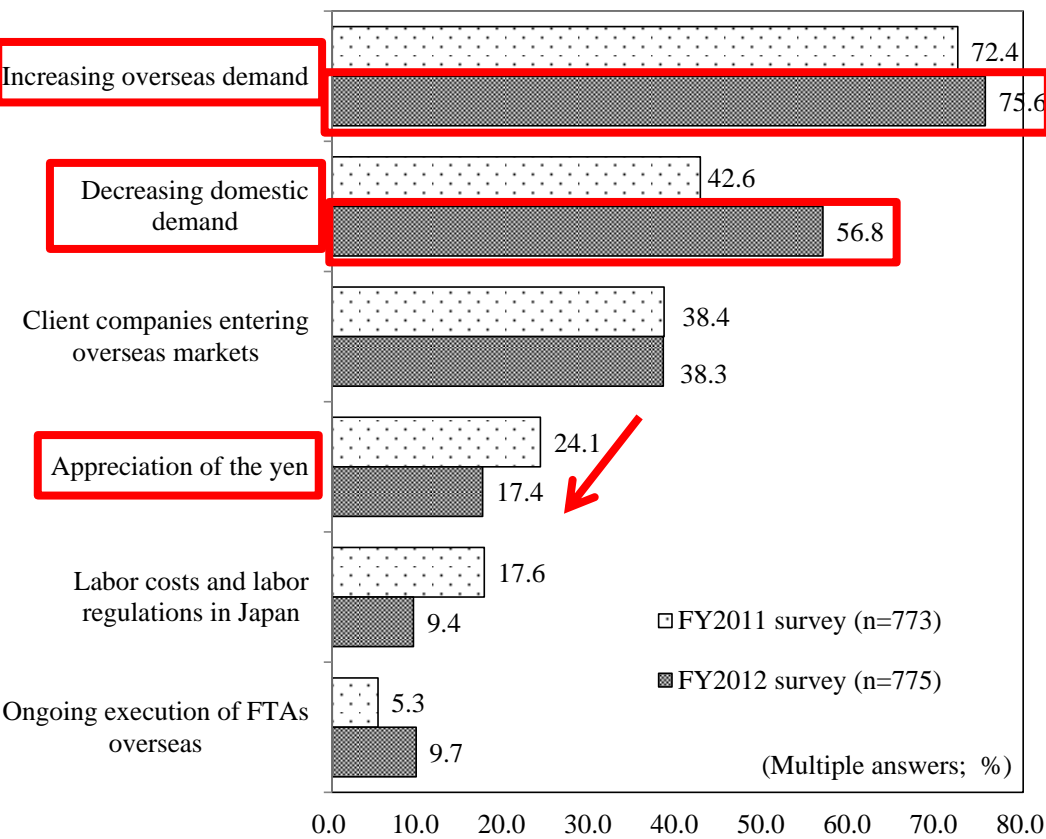
Industry		No. of respondents	Expanding firms	%
Total		1,957	1,258	64.3
1	Chemicals	66	57	86.4
2	Ceramics/earth & stone	23	19	82.6
3	Cars/car parts/other transportation machinery	84	68	81.0
4	Precision equipment	51	39	76.5
5	Transport	44	33	75.0
6	Electrical equipment	69	50	72.5
7	IT equipment/electronic parts & devices	40	29	72.5
8	General machinery	121	87	71.9
9	Coal & petroleum products/plastics/rubber products	75	52	69.3
10	Information & software	39	27	69.2
Total		1,957	940	48.0
1	Information & software	39	29	74.4
2	Medical products & cosmetics	49	32	65.3
3	Food & beverages	179	116	64.8
4	Retail	44	28	63.6
5	Other non-manufacturing	98	59	60.2
6	Transport	44	26	59.1
7	Wood & wood products/furniture & building materials/paper & pulp	35	20	57.1
8	Trade & wholesale	478	241	50.4
9	Precision equipment	51	24	47.1
10	Other manufacturing	107	50	46.7

Note: Only industries to which five or more respondent firms belong are accounted for.

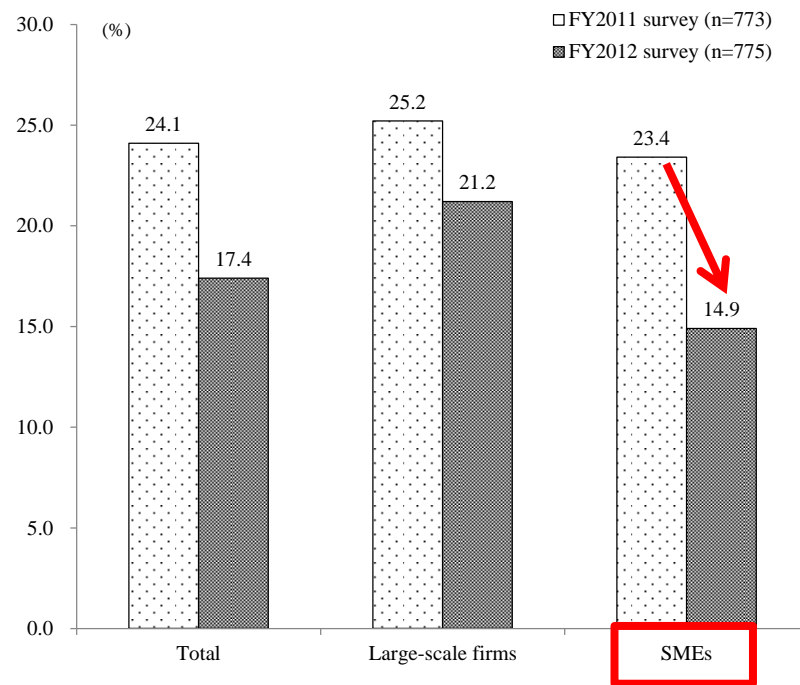
1. Overseas expansion and related issues

- The largest proportion (75.6%) of companies cite “increasing overseas demand” as the reason for overseas business expansion. “Decreasing domestic demand” was also a major reason (56.8%). Both responses increased from the previous year.
- The impact of the strong yen decreased from the previous year. In particular, the ratio of SMEs citing “appreciation of the yen” as the reason for overseas business expansion tumbled from the previous year to 14.9%.

Reasons for overseas business expansion



Ratio of firms citing the strong yen as the reason for overseas business expansion (by scale of the firms)

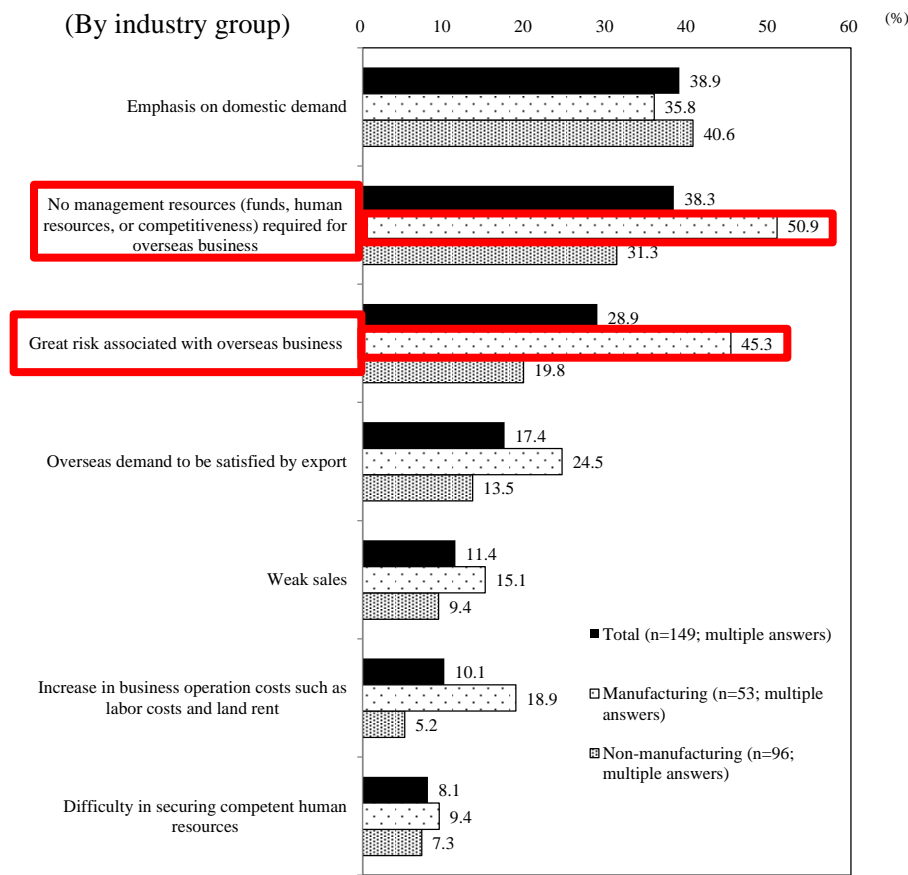
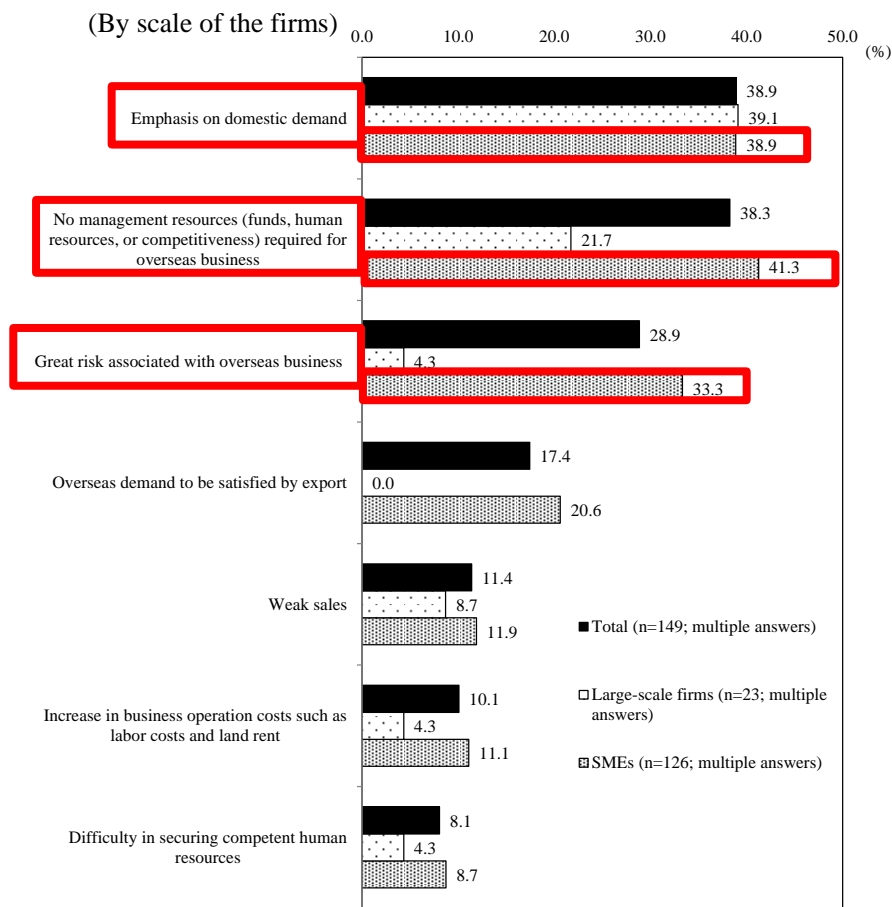


Notes: 1) "n" indicates the number of companies that plan to expand their overseas businesses after excluding those which have not specified the reasons for the expansion.
 2) For comparison with the results of the past surveys, responses from JETRO member companies alone are taken into account.

1. Overseas expansion and related issues

- The largest ratio (41.3%) of SMEs cite “no management resources (funds, human resources, or competitiveness)” as the reason, while those citing “emphasis on domestic demand” and “great risk” account for 38.9% and 33.3%, respectively.
- “No management resources” and “great risk” are major reasons for manufacturers.

Reasons for “downscaling or closure of overseas business” or “no investment overseas”

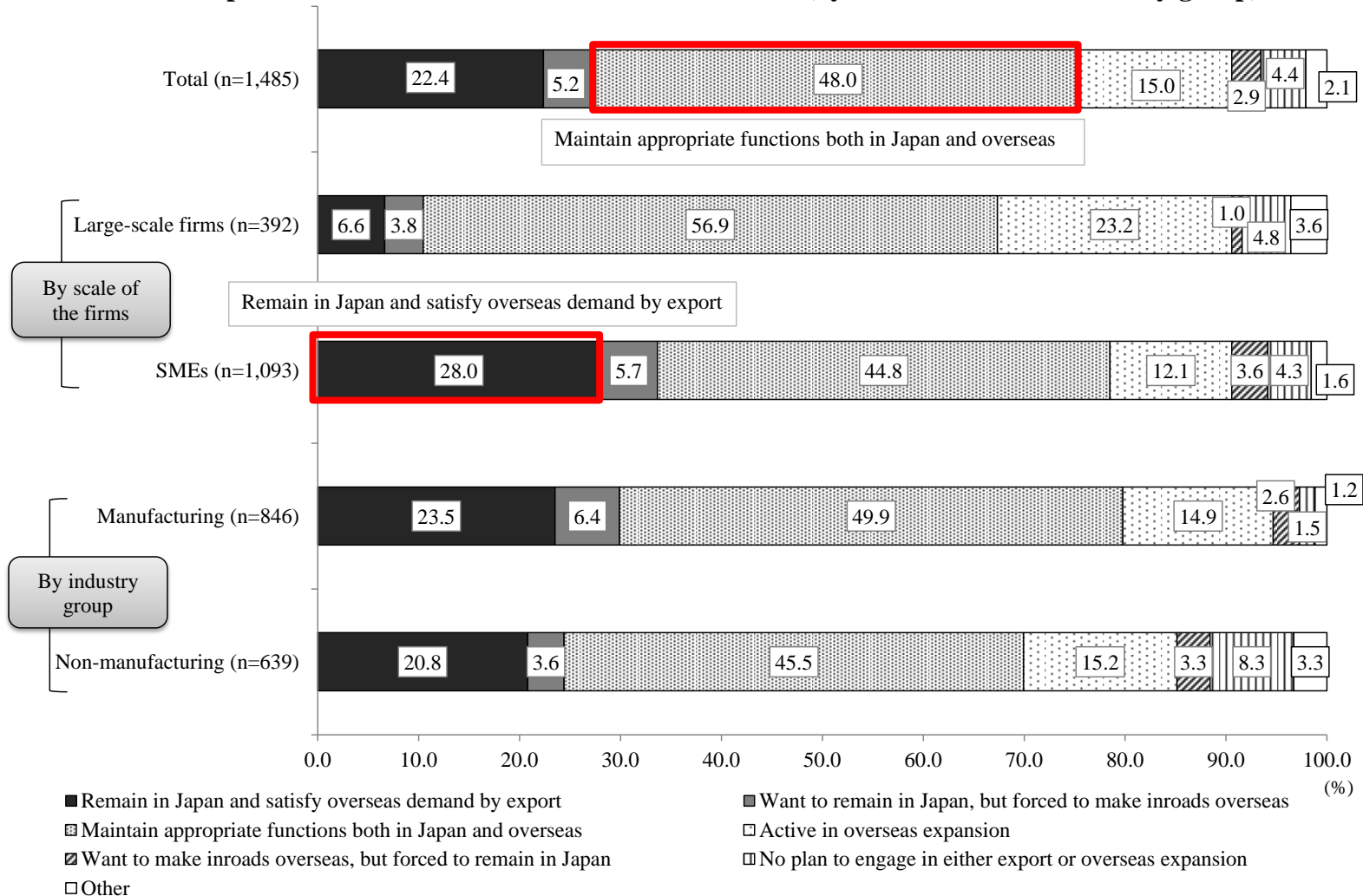


Note: “n” indicates the number of respondent firms, total, by scale or by industry group (excluding those which have not given any specific answer).

1. Overseas expansion and related issues

- Nearly half (48.0%) of respondent firms report that they will “maintain appropriate functions both in Japan and overseas” in their approach to overseas business.
- 28.0% of SMEs state that they will “remain in Japan and satisfy overseas demand by export,” which is higher than the comparative ratio (6.6%) of large-scale firms.

Japanese firms' stance towards overseas business (by scale of the firms/industry group)

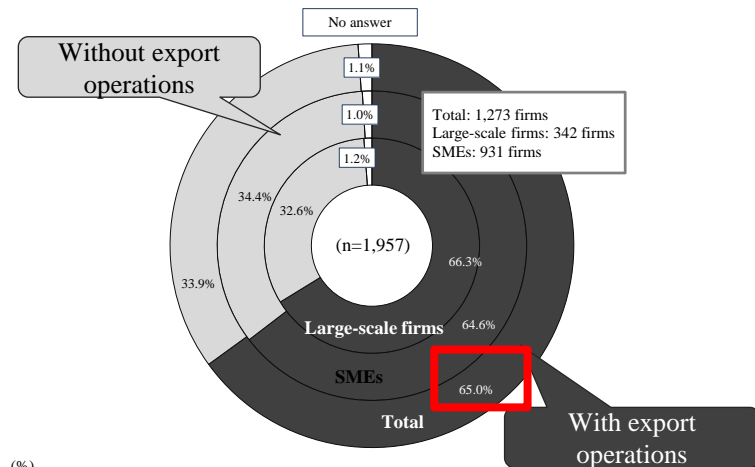


Note: “n” indicates the number of respondent firms, total, by scale or by industry group (excluding those which have not given any specific answer).

2. Export and related issues

- 65.0% of respondent firms engage in export. The top export destination is China (70.8%).
- Regarding future target countries for expansion or new exports, China was placed the highest for overall exports with 49.1%. However, the target country varies depending on industry: the US ranked highest for food and beverages, Thailand for general machines, and Indonesia for transportation equipment such as automobiles.

Firms with export operations and their export destinations



Target countries/regions to which firms plan to increase their exports or to begin exporting (by industry)

(Multiple answers; %)

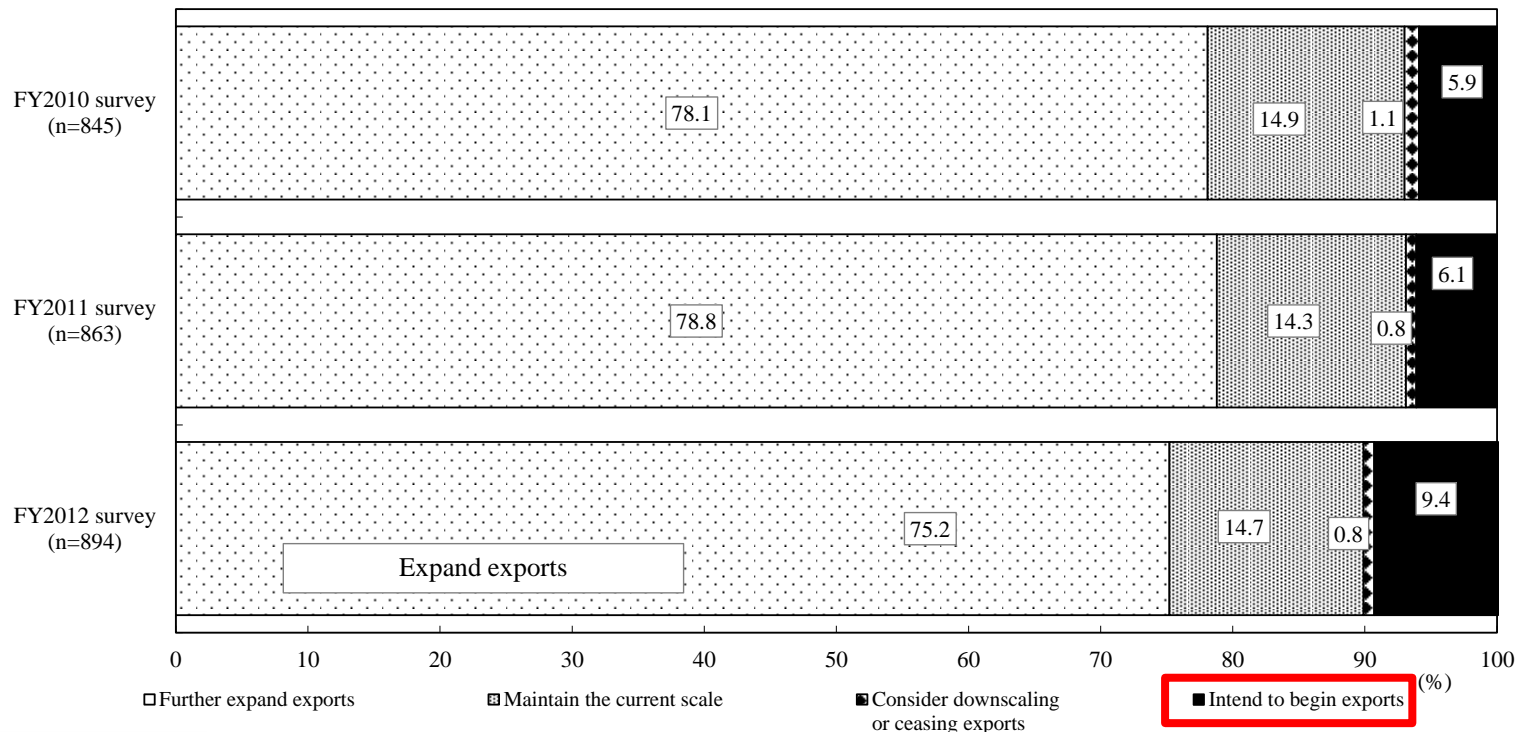
Total (n=1,286)			Food & beverages (n=146)			Iron & steel/non-ferrous metals/metal products (n=91)		
Ranking	Country/region	Share	Ranking	Country/region	Share	Ranking	Country/region	Share
1	China	49.1	1	US	47.9	1	China	48.4
2	Thailand	40.6	2	Hong Kong	42.5	2	Indonesia	44.0
3	Indonesia	38.2	3	Taiwan	41.1	3	Viet Nam	44.0
4	Viet Nam	34.1	4	Singapore	41.1	4	Thailand	38.5
5	US	34.1	5	China	40.4	5	US	34.1
6	India	29.7	6	Thailand	37.7	6	India	30.8
7	Taiwan	24.8	7	Western Europe	33.6	7	Taiwan	22.0
8	Western Europe	23.2	8	Viet Nam	30.1	8	Russia and CIS	22.0
9	Korea	22.2	9	Korea	27.4	9	Malaysia	20.9
10	Malaysia	21.7	10	Indonesia	26.7	10	Brazil	20.9

General machinery (n=107)			Electrical equipment (n=55)			Cars/car parts/other transportation machinery (n=46)		
Ranking	Country/region	Share	Ranking	Country/region	Share	Ranking	Country/region	Share
1	Thailand	55.1	1	China	54.5	1	Indonesia	56.5
2	Indonesia	51.4	2	Thailand	50.9	2	China	50.0
3	China	50.5	3	Viet Nam	47.3	3	Thailand	43.5
4	Viet Nam	43.9	4	India	41.8	4	India	41.3
5	India	43.0	5	Indonesia	40.0	5	Viet Nam	30.4
6	US	37.4	6	US	40.0	6	US	30.4
7	Korea	24.3	7	Korea	29.1	7	Mexico	23.9
8	Malaysia	23.4	8	Malaysia	29.1	8	Russia and CIS	23.9
9	Western Europe	23.4	9	Brazil	27.3	9	Malaysia	21.7
10	Brazil	21.5	10	Western Europe	27.3	10	Brazil	21.7

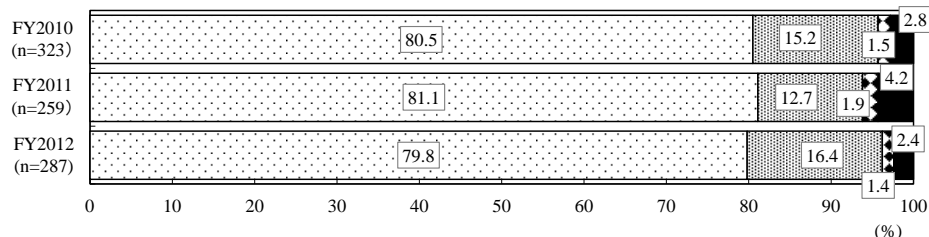
2. Export and related issues

- As for export plans in the next three years, the proportion of respondents who intend to expand dropped slightly with 75.2%.
- SMEs that have not yet begun exporting also showed strong intention to begin with 12.7%.

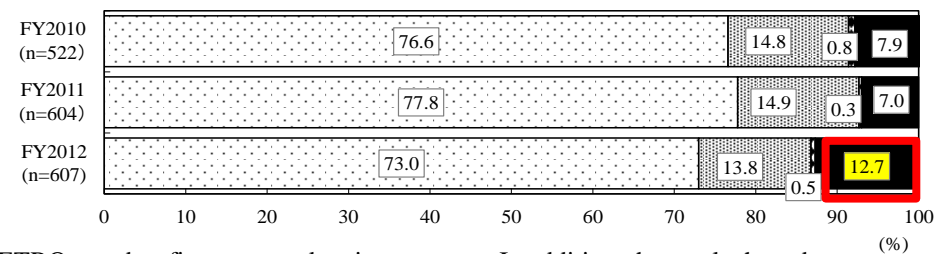
Export business plan for the next 3 years or so



Large-scale firms



SMEs

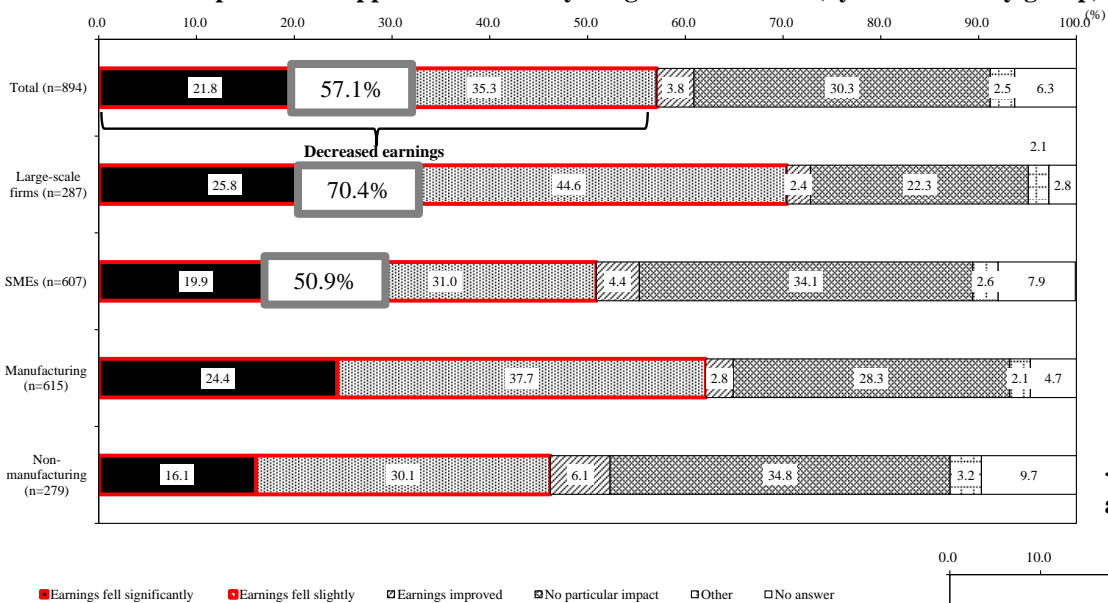


Note: For comparison with the results of the past surveys, only responses from JETRO member firms were taken into account. In addition, the results have been aggregated, while partly adjusting question items which differ from year to year.

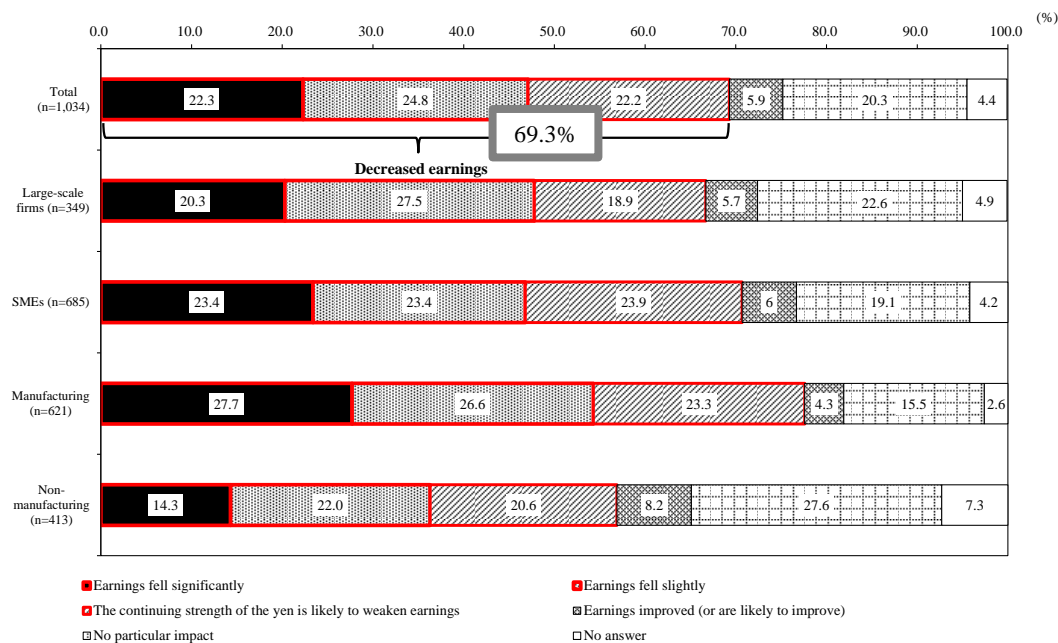
2. Export and related issues

- 57.1% of firms report that earnings fell due to the strong yen over the past one year (50.9% of SMEs and 70.4% of large-scale firms).
- The ratio has improved from 69.3% (including 22.2% of firms which stated that the continuing strength of the yen was likely to weaken earnings) recorded in the FY2011 survey.

FY2012: Impact of the appreciation of the yen against the dollar (by scale/industry group)



<Reference> FY2011: Impact of the appreciation of the yen against the dollar (by scale of the firms/industry group)



Note: For comparison with the results of the past surveys, only responses from JETRO member firms were taken into account. Question items differ from year to year.

3. Business environment of emerging countries

- China is seen as posing significant risk in seven items, including “political risk” and “labor costs,” as does Myanmar in five, including “inadequate infrastructure” and “the legal system,” each of which received a response ratio of 20% and more.
- Aside those above, risk items such as infrastructure (India, Viet Nam, Indonesia), the legal system (Russia), labor costs (Thailand and Indonesia), and natural disasters (Thailand) have racked up high response ratios.

Risks and problems that concern Japanese companies in emerging countries (Multiple answers) (Unit : %)

	High level of foreign exchange risks	Inadequate infrastructure	Undeveloped legal system and problems in application of laws	Related industries neither accumulated nor developed	Problems in protection of intellectual property rights	High or rising labor costs	Tax risks and problems	Labor difficulties	Risks and problems related to collection of receivables	Political risks	Natural disaster risks	Other risks and problems	No particular risk or problem identified
China (n=1,304)	12.3	11.6	45.1	3.3	53.1	49.5	23.2	34.1	45.6	64.6	4.8	8.7	2.8
Thailand (n=750)	10.4	10.5	6.5	5.5	4.8	30.1	5.6	12.7	9.9	15.3	41.6	2.3	23.9
Malaysia (n=472)	9.7	10.0	6.8	10.0	3.4	15.9	4.9	9.3	11.9	2.1	3.8	5.9	45.3
Indonesia (n=615)	12.4	36.4	27.2	11.1	6.5	21.0	13.7	22.1	15.8	14.3	18.5	6.7	21.5
Philippines (n=409)	8.8	28.6	15.6	15.2	6.4	7.3	8.3	8.8	15.4	15.4	14.4	6.6	31.8
Viet Nam (n=612)	14.2	43.6	27.8	23.0	8.7	18.1	9.8	11.9	15.7	7.2	3.4	3.9	21.9
India (n=507)	13.8	56.8	29.6	18.5	6.9	7.9	15.0	23.7	23.1	8.9	5.3	7.5	17.4
Myanmar (n=366)	8.7	60.4	39.3	32.2	8.7	3.3	9.3	9.6	21.0	35.8	5.2	5.2	18.6
Mexico (n=250)	14.4	15.6	11.2	9.6	3.6	6.0	7.6	12.8	14.0	12.4	4.0	12.4	42.0
Brazil (n=297)	21.9	15.5	16.5	7.1	6.1	14.5	19.5	13.5	18.2	6.7	2.4	8.4	36.4
Russia (n=284)	13.7	18.7	32.7	12.0	7.4	10.2	16.9	9.2	25.0	22.2	3.2	6.7	31.0
Turkey (n=225)	9.3	10.7	7.1	10.2	3.1	6.2	5.3	4.9	10.2	9.8	5.3	4.4	56.0
Republic of South Africa (n=209)	13.9	20.1	11.5	14.4	3.8	6.2	4.8	11.5	12.9	18.7	2.9	7.2	46.9

Notes: 1) "n" indicates the total number of firms that are currently doing business or considering starting business in the respective country; 2) Each figure is the response ratio for the corresponding risk item arrived at by dividing the number of responses by "n"; and 3) Highlighted frames represent risk items that recorded a response ratio of 20% or more.

3. Business environment of emerging countries

○ Response ratios to labor costs in Thailand and Indonesia surged from the previous survey (FY2010). Those to labor costs in China, Viet Nam, Malaysia, India and the Philippines also surpassed the results of the previous survey.

Risks and problems that concern Japanese companies in emerging countries in Asia (time-series comparison)

High level of foreign exchange risk				Inadequate infrastructure				Undeveloped legal system and problems in application of laws				Related industries neither accumulated nor developed			
	FY2012	FY2010	FY2008		FY2012	FY2010	FY2008		FY2012	FY2010	FY2008		FY2012	FY2010	FY2008
Viet Nam	14.2	18.3	21.3	India	56.8	64.3	58.7	China	45.1	56.1	55.7	Viet Nam	23.0	28.6	24.3
India	13.8	15.7	18.5	Viet Nam	43.6	54.2	55.7	India	29.6	31.6	30.6	India	18.5	18.0	15.7
Indonesia	12.4	21.0	32.6	Indonesia	36.4	34.0	29.9	Viet Nam	27.8	26.7	33.8	Philippines	15.2	16.7	17.1
China	12.3	24.9	16.6	Philippines	28.6	29.7	28.0	Indonesia	27.2	24.4	22.6	Indonesia	11.1	15.0	10.6
Thailand	10.4	19.1	23.1	China	11.6	13.6	16.8	Philippines	15.6	15.5	15.2	Malaysia	10.0	7.6	8.1
Malaysia	9.7	14.0	13.4	Thailand	10.5	11.6	10.3	Malaysia	6.8	5.8	8.5	Thailand	5.5	7.3	7.7
Philippines	8.8	13.4	12.3	Malaysia	10.0	8.2	5.6	Thailand	6.5	8.5	10.1	China	3.3	5.9	4.0
Problems in protection of intellectual property rights				High or rising labor costs				Tax risks and problems				Labor difficulties			
	FY2012	FY2010	FY2008		FY2012	FY2010	FY2008		FY2012	FY2010	FY2008		FY2012	FY2010	FY2008
China	53.1	60.0	55.7	China	49.5	46.2	42.4	China	23.2	29.3	30.6	China	34.1	41.8	32.6
Viet Nam	8.7	11.3	10.8	Thailand	30.1	19.8	18.8	India	15.0	23.2	21.0	India	23.7	19.7	19.2
India	6.9	9.9	14.9	Indonesia	21.0	4.5	8.6	Indonesia	13.7	10.5	11.3	Indonesia	22.1	14.7	12.0
Indonesia	6.5	5.7	6.6	Viet Nam	18.1	10.5	17.2	Viet Nam	9.8	10.5	11.5	Thailand	12.7	15.2	7.9
Philippines	6.4	5.0	7.6	Malaysia	15.9	11.9	14.1	Philippines	8.3	6.3	8.5	Viet Nam	11.9	12.7	15.9
Thailand	4.8	4.6	6.5	India	7.9	6.7	10.7	Thailand	5.6	6.0	7.5	Malaysia	9.3	5.8	8.1
Malaysia	3.4	2.1	6.0	Philippines	7.3	3.3	4.3	Malaysia	4.9	4.3	5.6	Philippines	8.8	10.5	7.6

[n (FY2012)=China: 1,304; Thailand: 750; Indonesia: 615; Malaysia: 472; Philippines: 409; Viet Nam: 612; and India: 507]

[n (FY2010)=China: 792; Thailand: 481; Indonesia: 353; Malaysia: 329; Philippines: 239; Viet Nam: 371; and India: 345]

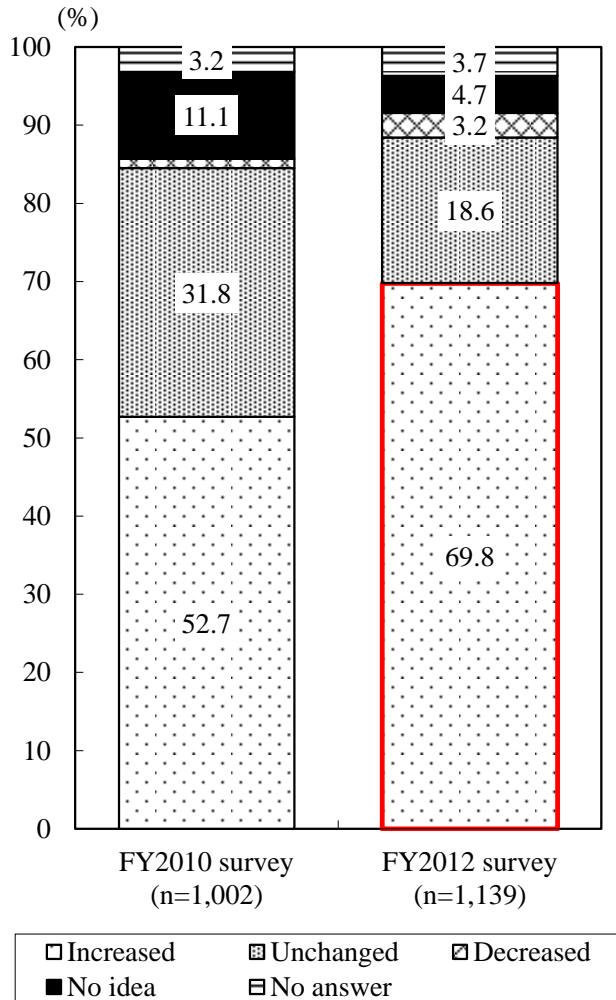
[n (FY2008)=China: 680; Thailand: 416; Indonesia: 301; Malaysia: 284; Philippines: 211; Viet Nam: 296; and India: 281]

Note: "n" indicates the total number of firms that are currently doing business or considering starting business in the respective country.

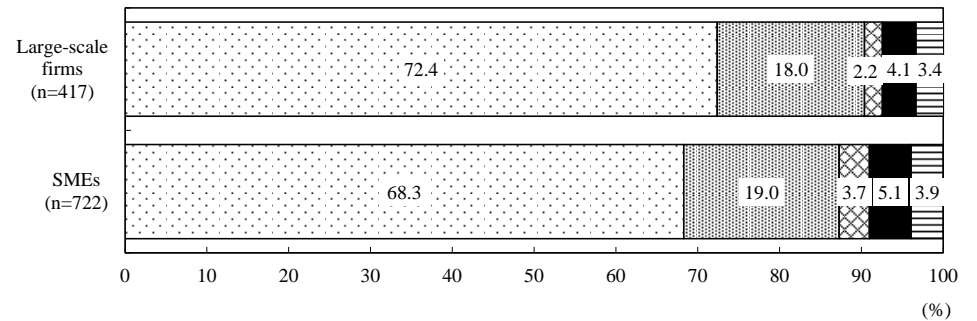
4. Business in China

- The percentage of companies reporting that they are facing growing business risks in China rose to 69.8% from 52.7% recorded in the survey conducted two years ago.
- By scale and industry group, large-scale firms and manufacturers particularly felt increased risks.

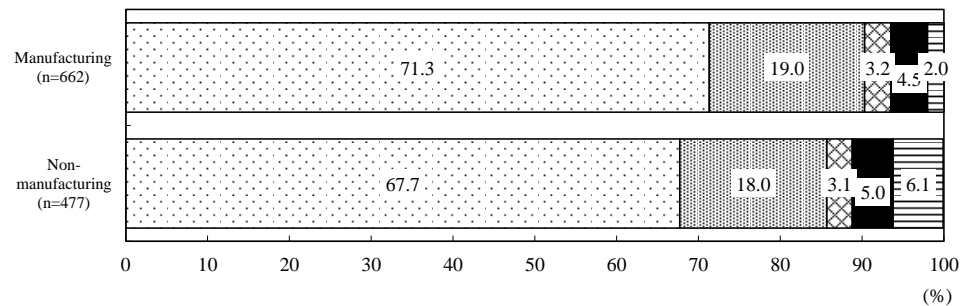
Business risks in China



By scale of the firms



By industry group

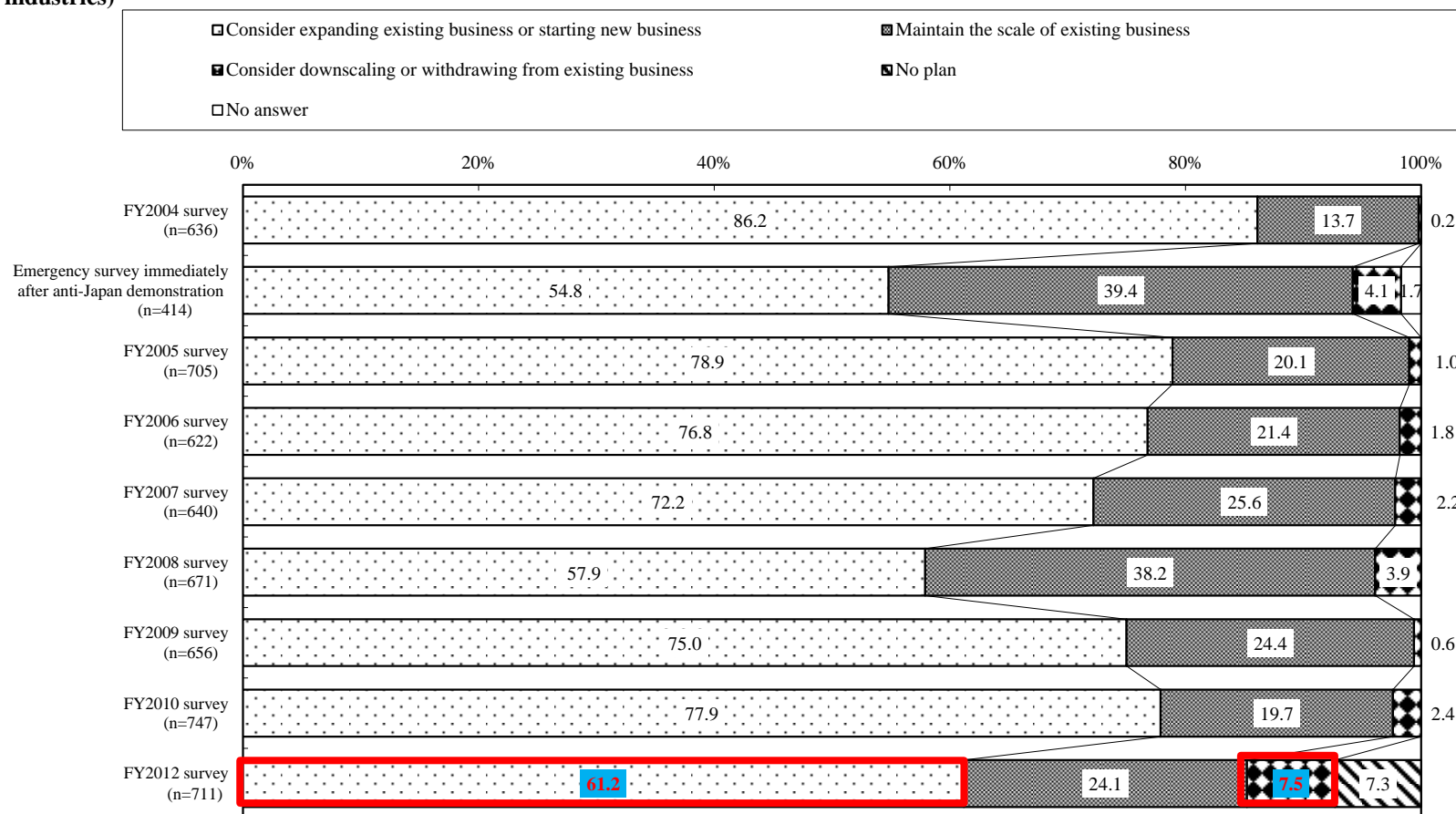


- Notes:
- 1) For comparison with the results of the past surveys, only responses from JETRO member companies were taken into account.
 - 2) The FY2010 survey asked firms about business risks over the past one year.
 - 3) The same legends as those for the left chart apply to the charts above.

4. Business in China

- The percentage of firms reporting that they will consider expanding existing business or starting business decreased to 61.2% from 77.9% recorded in the survey conducted two years ago.
- The percentage of firms reporting that they will consider downscaling or ending existing business jumped to 7.5% from 2.4% recorded in the survey conducted two years ago.

Business plans in China (time-series comparison limited to JETRO member firms engaged in the manufacturing, trade & wholesale and retail industries)

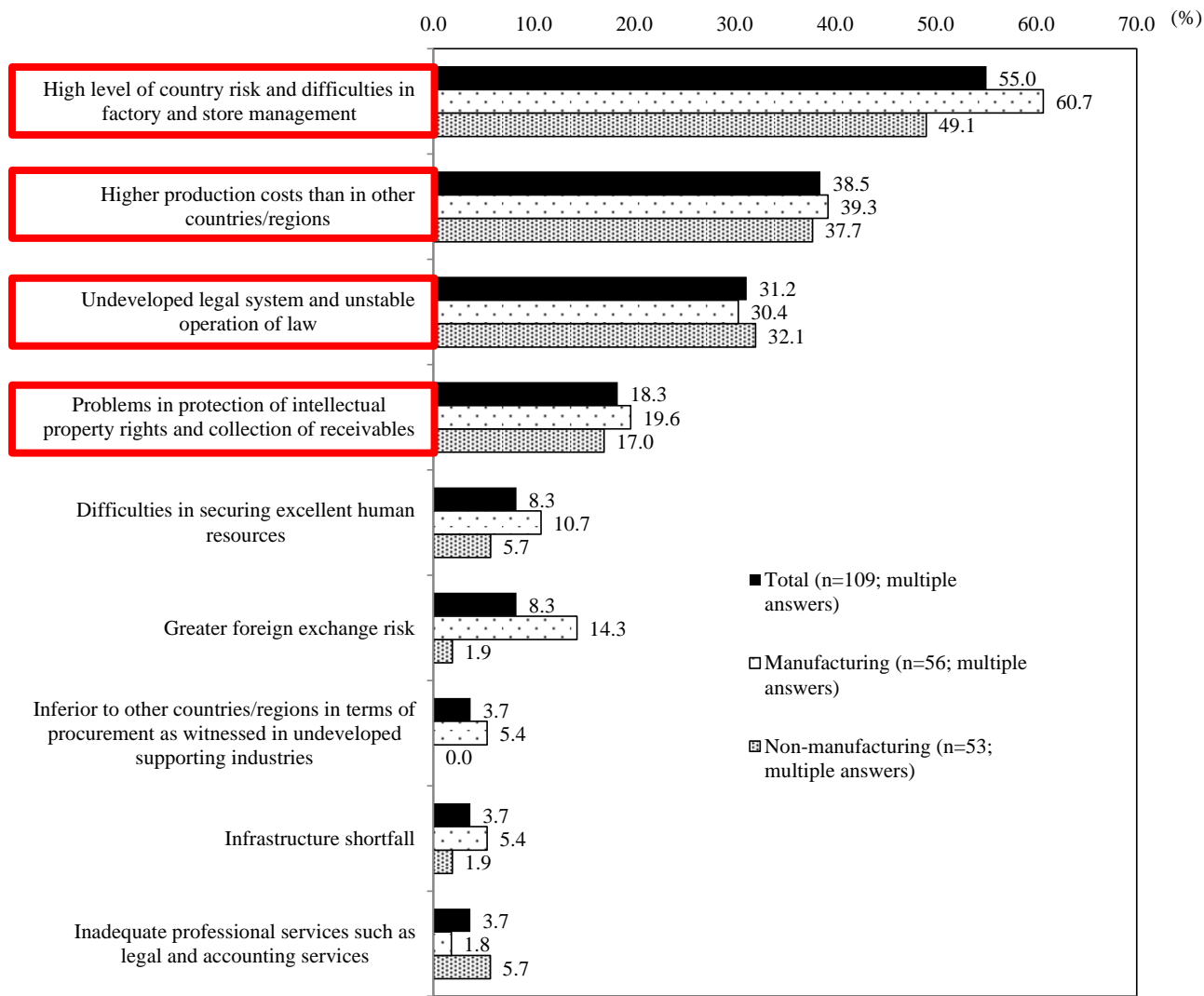


Note: In order to maintain continuity of the results of the FY2004 survey onward in time-series comparison, aggregation from FY2008 onward takes into account only the "manufacturing," "trade & wholesale," and "retail" industries. In addition, to be in line with the emergency survey in 2005 which covered firms having reported in the FY2004 survey that they would consider starting, expanding, downscaling, or closing business or implementing any other measures with respect to China, firms which gave similar answers were accounted for in the other fiscal years' surveys. All surveys limited respondents to JETRO member firms.

4. Business in China

- The largest reason for considering downscaling or ending China-based business is “high level of country risk” (55.0%).
- This was followed by “production costs” (38.5%), “the legal system” (31.2%) and “intellectual property rights and receivables collection” (18.3%).

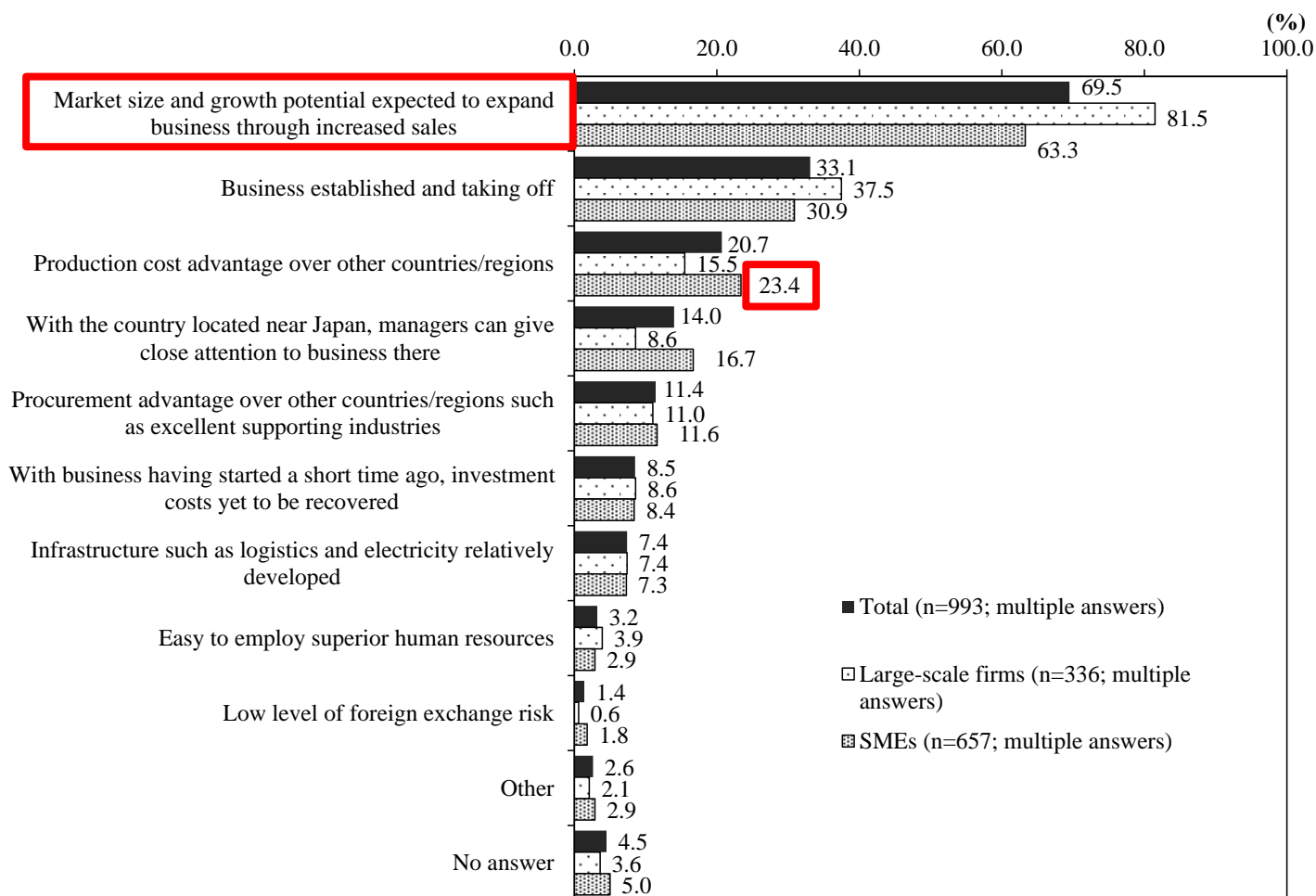
Reasons for considering transferring China-based business to other countries or withdrawal from China



4. Business in China

- The biggest reason for continuing to pursue business in China is the country's market size and growth potential (69.5%).
- The proportion of SMEs (23.4%) citing production cost advantage as the reason is greater than that larger firms (15.5%).

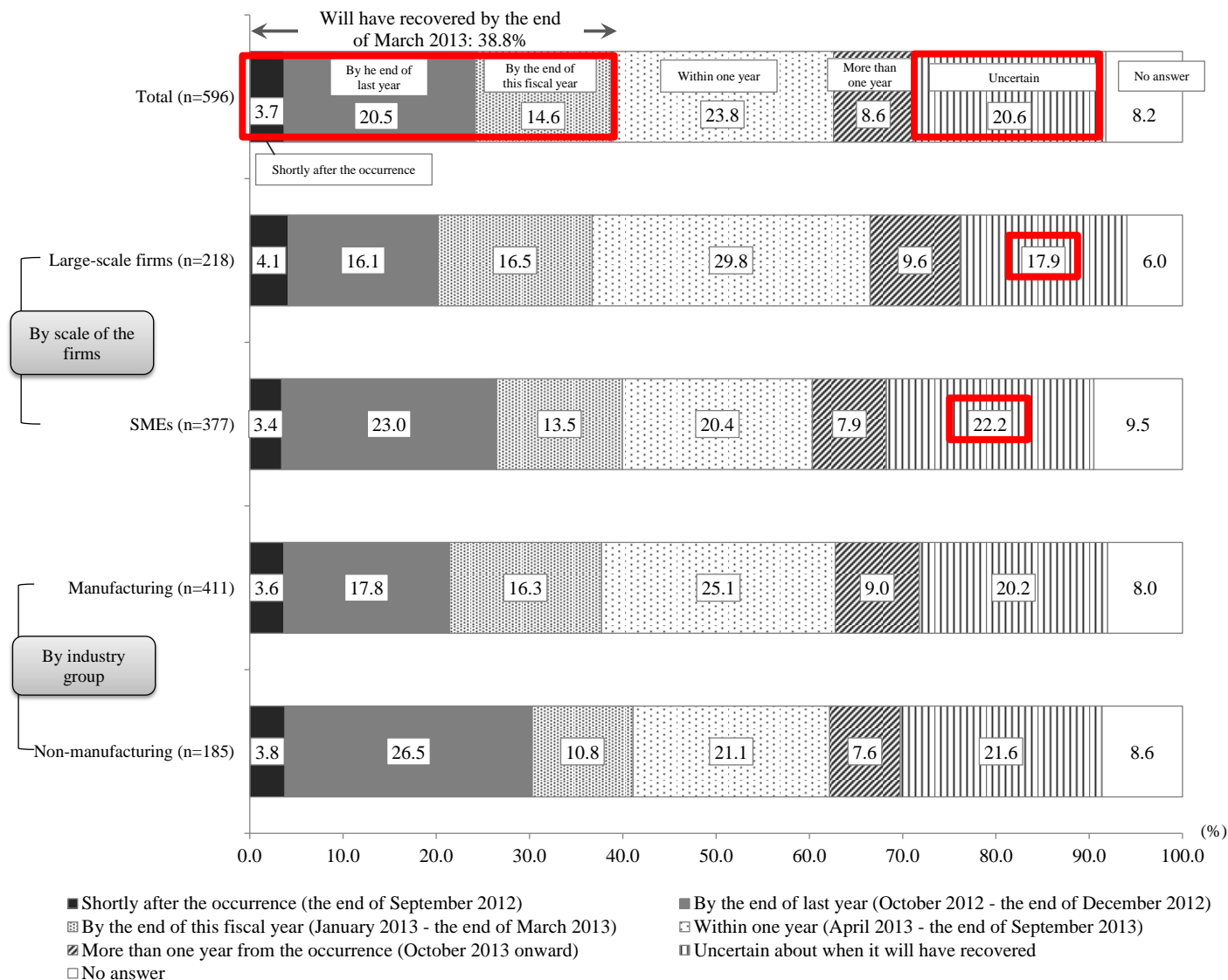
Reasons for continuing to pursue business in China (by scale of the firms)



4. Business in China

- 38.8% of firms report that they will have restored their China-based business to its previous state by the end of March 2013.
- 20.6% of firms are uncertain about when their China-based businesses will recover; the ratio of SMEs is higher than that of larger firms.

Expected timeframe for restoration of China-based business to its previous state

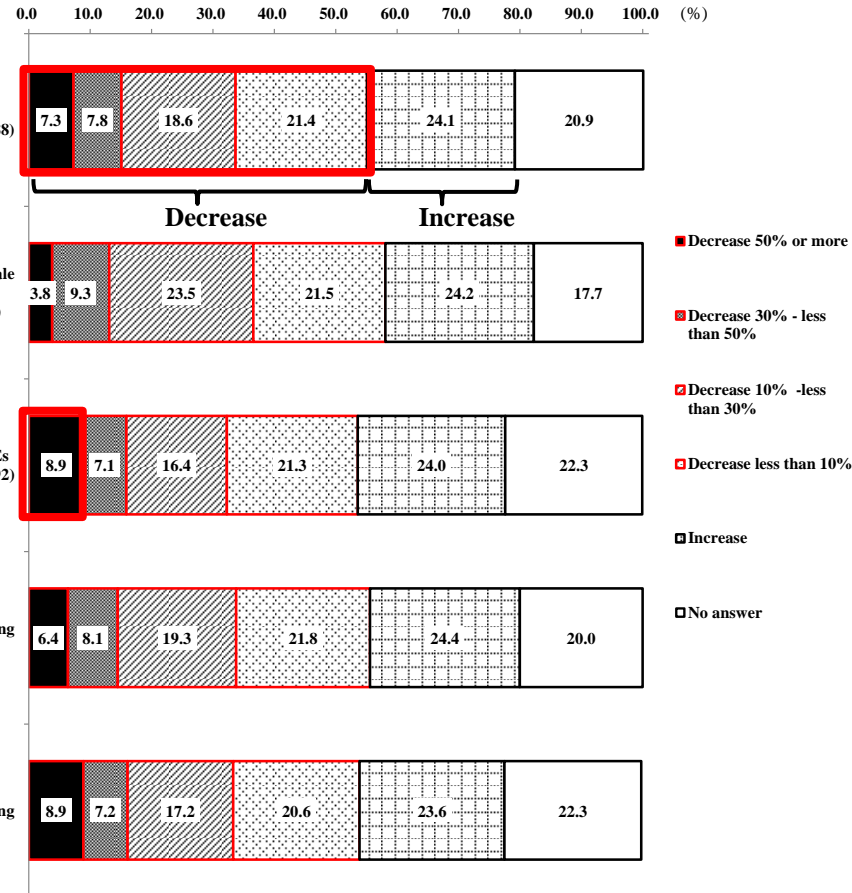


4. Business in China

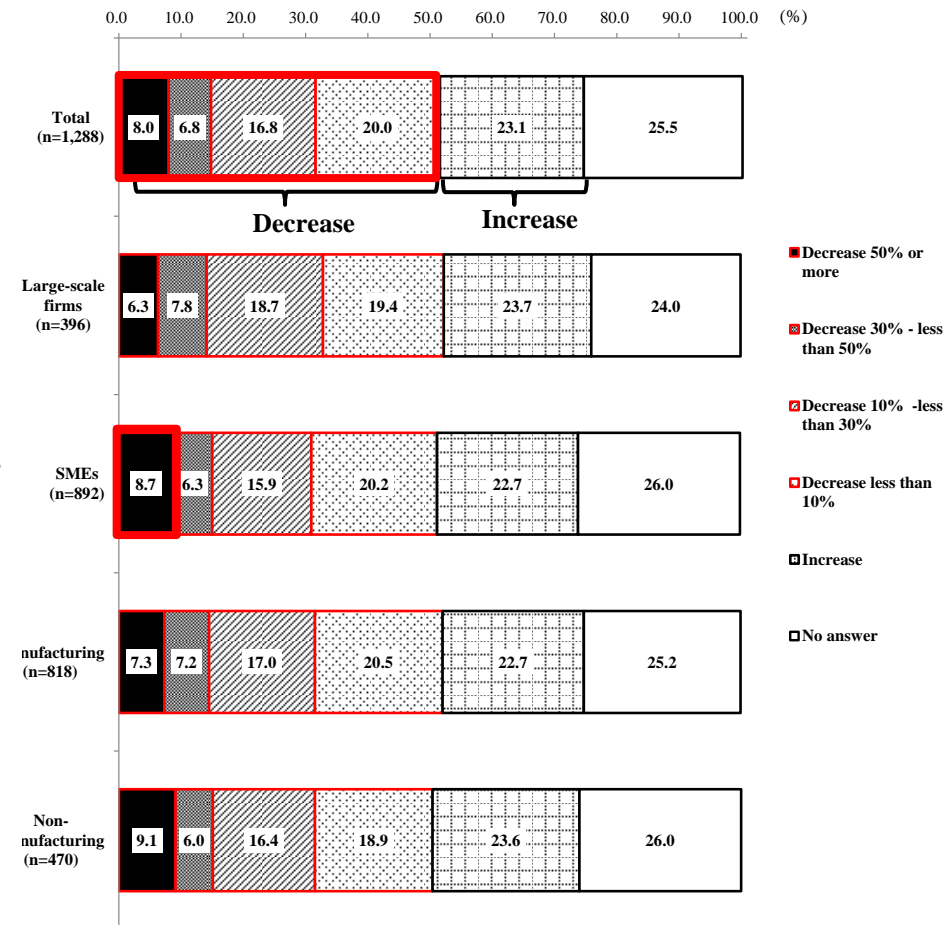
- 55.1% of firms engaged in business in China expect 2012 sales from that business to decline from their initial projections (51.6% of them also expect a drop in operating profit).
- The ratio of SMEs expecting sales to “decrease 50% or more” is higher than that of larger firms.

Earnings outlook for China-based business in FY2012 (relative to initial projections)

[Sales (from China-based business alone)]



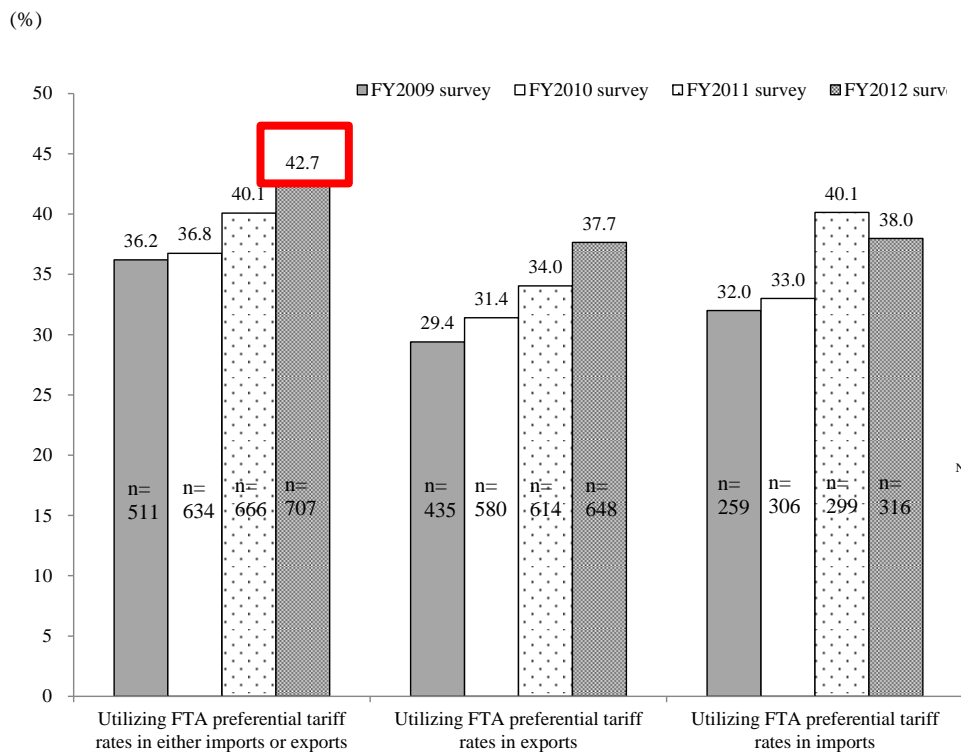
[Operating income (from China-based business alone)]



5. Utilization of free trade agreements (FTAs)

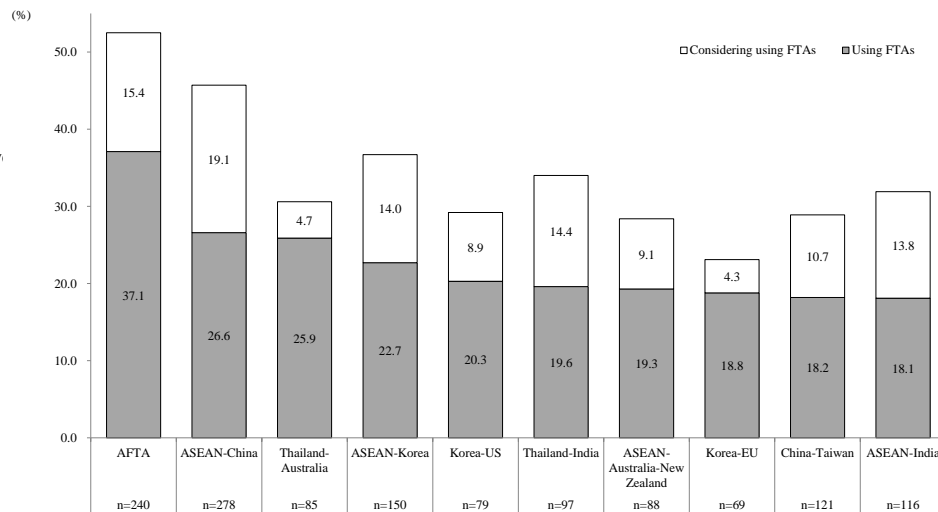
- The utilization rate of Japan's free trade agreements (FTAs) in effect has increased year by year, with 42.7% of firms currently using them in imports or exports with the FTA partner countries.
- Third-party FTAs are also being used widely. The utilization rate of AFTA (ATIGA), ASEAN-China, etc. has risen from the previous fiscal year's survey.

Utilization status of Japan's FTAs



Note: "n" indicates the number of firms that engage in either exports or imports with any one or more of the partner countries/regions (Mexico, Malaysia, Chile, Thailand, Indonesia, the Philippines, ASEAN, Switzerland, Viet Nam, India, and Peru; however, India is covered by only the FY2011 and FY2012 surveys, while Peru is covered by only the FY2012 survey). In order for a comparison with the past surveys to be made, only JETRO member companies operating in the manufacturing, trade and wholesale, and retail industries were the subjects of the survey. Although Japan has concluded bilateral FTAs with Singapore and Brunei, they are included under ASEAN.

Utilization status of third-party FTAs



Note: "n" indicates the number of firms engaged in trade within or between the respective countries/regions including their subsidiaries' transactions.

Utilization status of third-party FTAs (comparison with the previous fiscal year's survey)

FTA	Status	FY2011	FY2012
AFTA	Using FTAs	34.4	37.1
	Considering using FTAs	16.8	15.4
ASEAN-China	Using FTAs	22.1	26.6
	Considering using FTAs	13.9	19.1
Thailand-Australia	Using FTAs	29.8	25.9
	Considering using FTAs	21.3	4.7
ASEAN-Korea	Using FTAs	20.9	22.7
	Considering using FTAs	12.6	14.0
Thailand-India	Using FTAs	19.5	19.6
	Considering using FTAs	26.4	14.4
ASEAN-Australia-New Zealand	Using FTAs	33.8	19.3
	Considering using FTAs	13.8	9.1
ASEAN-India	Using FTAs	21.3	18.1
	Considering using FTAs	20.4	13.8
China-Taiwan	Using FTAs	14.1	18.2
	Considering using FTAs	15.3	10.7

Notes: 1) The number of respondent firms is 2,769 (response ratio of 29.6%) in FY2011 and 1,957 (30.0%) in FY2012.

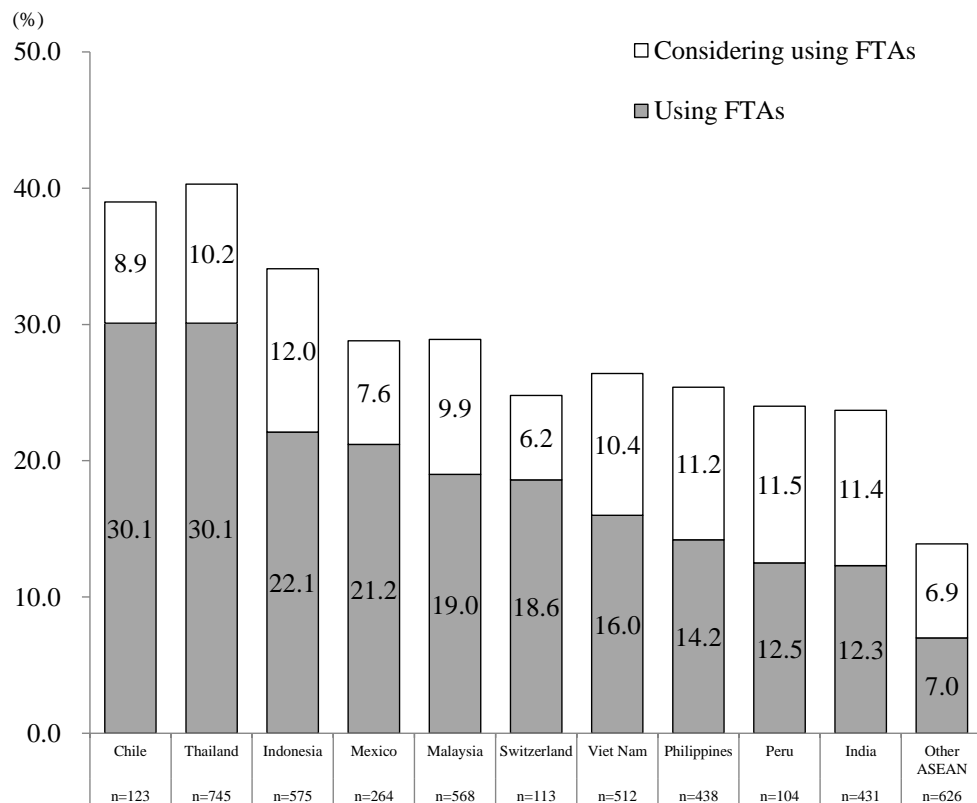
2) Korea-US and Korea-EU, not covered by the FY2011 survey, are excluded.

3) Red frame indicates that the rate increased by one percentage point or more from the FY2011 survey.

5. Utilization of free trade agreements (FTAs)

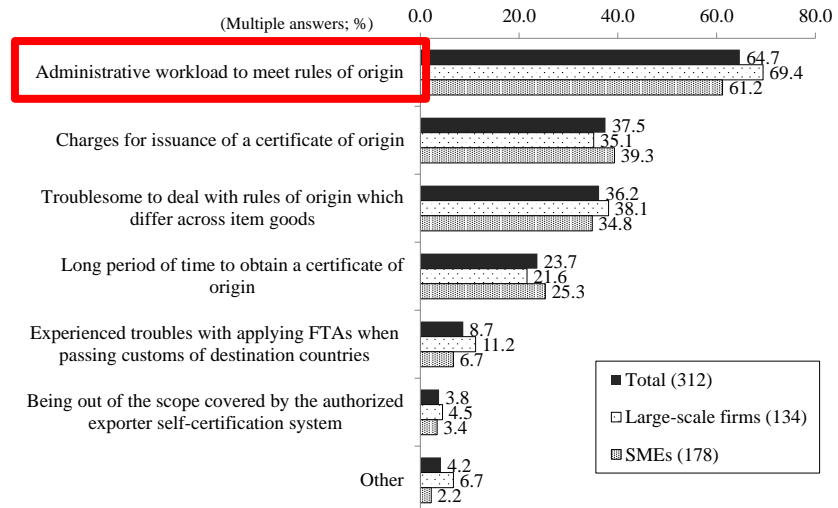
- The utilization rates for the Japan-Chile and Japan-Thailand FTAs are relatively high among exporters.
- The largest number of exporters utilizing FTAs cite “administrative workload to meet the rules of origin” as a problem.

Japan’s FTAs used by exporters



Note: "n" indicates the number of firms engaged in exports with the respective country/region.

Problems faced by exporters using FTAs



Reasons for exporters not using FTAs

