JETRO
Public Relations Division, Administrative Affairs Department
JAPAN EXTERNAL TRADE ORGANIZATION
Ark Mori bldg 6th floor, 1-12-32, Akasaka Minato-ku, Tokyo 107-6006
Tel:03-3582-5579 Fax:03-3505-5747 E-mail: pressdesk@jetro.go.jp

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For Immediate Release,

## JETRO Releases the Results of its Survey on International Operations of Japanese Firms

The Japan External Trade Organization (JETRO) today released the results of its latest annual survey on the international operations of Japanese firms. The survey, conducted between November 2007 and January 2008, received replies from 733 firms in manufacturing, trading (imports/exports) and wholesale/retail, or 27.9% of the 2,626 companies sent questionnaires. Firms were polled on their international and domestic operations, plans to expand business in China and views on business environments in Asia.

The majority of respondents (70.9%) have overseas bases, of which 77.9% have bases in China, 52.9% in the US and 39.4% in Thailand. By location and function, China ranked highest in the sales base and production base categories, at 51.5% and 55.8% respectively. And after a 2.5-point rise over last year's survey to 9.6%, China ranked highest in the R&D base category, edging out the US, at 8.1%.

The percentage of respondents planning to expand their business overseas (make new/additional investments) in the coming three years or so was 66.4%, compared to 50.2% who plan to expand operations domestically. For overseas expansion plans by country/region and function, China again ranked at the top in all categories, although the figure for firms planning to expand production functions in the country continued on a downward trend.

Elsewhere, Vietnam, India, Central & Eastern European countries and Russia & other Commonwealth of Independent States (CIS) ranked higher in sales and production functions, reflecting firms' increased interest in investing in emerging countries/regions.

Asked to indicate their current and planned sales targets in developing countries, firms showed increasing interest in expanding sales to local firms, while on the consumer side the newly rich & middle class and also affluent segments continue to be target markets.

Firms were asked about their business plans in/with China in the coming three years or so. The percentage of respondents planning to expand/start new business fell for the third straight year, to 63.0%, with notable falls in "establish/expand a production base" and "outsourcing" categories. The most dramatic fall, however, was in the percentage of respondents planning to increase imports from China, which slipped nearly seven points from last year's figure to 23.6%. This contrasts with the figure for firms planning to increase exports to China, which rose almost three points in this latest survey to 53.0%.

Asked about their outlook for demand after the 2008 Summer Olympic Games in Beijing, more than half of respondents (55.5%) expect demand to continue growing (this figure represents 38.3% who think demand will "grow, but at a slower pace" plus 17.2% who expect demand to "grow at high level"). A quarter of respondents

(25.2%) estimate that demand will experience a temporary adjustment period, while just 3.0% expect extended stagnation.

The survey also revealed that industrial materials firms, such as makers of coal and petroleum products, plastics, rubber products and chemicals are eyeing expansion, whereas firms in ceramics/earth & stones are less optimistic for the future.

Asked about risk factors for doing business in/with major Asian countries (China, India, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam), China ranked highest in the “labor costs are high or rising” category, at 41.3%, a nearly 13-point jump over last year’s survey. Other risks with China at the top included: “underdeveloped legal systems and problems with their operation” (54.0%) and “problems with protection of intellectual property rights”(53.9%).

India and Vietnam ranked highest in the “inadequate infrastructure” category, at 53.5% and 50.3% respectively, as well as the “lack of clustering or development of related industries” category (32.5% for Vietnam and 18.3% for India).

China was also at the top of the list for “tax-related risks or issues”, at 28.9% of respondents, followed by India (12.5%). The high figure for China reflects the country’s reduced rates for value-added tax refunds for labor-intensive products and moves by the Chinese government to revise preferential tax rates on corporate incomes of foreign-affiliated firms. India’s high figure suggests that respondents find the country’s tax system complicated.

Polled about the positive features of Asia’s business environments, China and India ranked highest in the “size of the consumer market” and “potential for growth of the consumer market” categories. Vietnam was atop the “low business costs” category, at 40.8%, followed by China (25.6%) and Indonesia (23.9%). Singapore came first in the “high education level” category, at 42.3%, followed by India at 17.6%. The strong placing for India reveals firms’ regard for the country’s higher education system, on which India’s world-class software and related industries have been built.

For more information, please contact:
Mr. Dai Higashino or Mr. Kohei Shiino
International Economic Research Division
Phone: (03) 3582-5177

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