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Newsletter

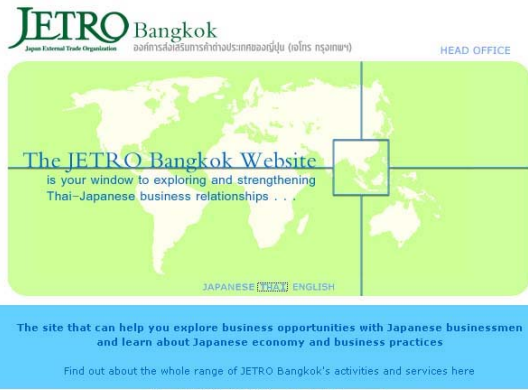
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J E T R O B a n g k o k U p d a t e

1. Four new Japanese staff joined JETRO Bangkok

JETRO Bangkok welcomed 4 new Japanese staff to its office in March.

Mr. Tatsuhito UETAKE, replacing Mr. Satoshi KUBOTA, serves as a researcher at the Institute of Developing Economies (IDE), JETRO Bangkok. His main task is to conduct cluster researches.

After graduating from Faculty of Law, University of Dokkyo in 1987, he entered IDE in Japan in 1989. Then, he moved to Planning and Coordination Division, JETRO Head Office from 2000 to 2003. Prior to joining JETRO Bangkok, he worked at Planning and Coordination Division, IDE-JETRO.

Mr. Makoto OYABU, replacing Mr. Taisuke MASUDA, joins JETRO Bangkok as a researcher of the Economic Analysis Department. Mr. Oyabu's duties include the collection and analysis of data and information on the Thai economy and politics as well as the provision of related data, information and analysis to the public. His department regularly compiles reports on the Thai economy and politics in Japanese and conducts several surveys notably the twice-yearly "Business Survey on Japanese Companies in Thailand" as a member of the Economic Research Committee of the Japanese Chamber of Commerce, Bangkok (JCCB).

Mr. Oyabu started working at Chubu Electric Power Co., Inc. after graduating from Nagoya University. He was assigned to work at the International Economic Research Division, Economic Research Department, JETRO Head Office before coming to Bangkok.

Mr. Hiroyasu NAKAHARA, replacing Mr. Kenji FUJII, joins JETRO Bangkok to work at Trade Cooperation Department. Mr. Nakahara main responsibility is to support One Tambon One Product (OTOP) Project in Thailand.

Mr. Nakahara entered the Chugoku Electric Power Company after graduating from Aoyama University. Before coming to Bangkok, he worked at Asia and Oceania Division, Overseas Research Department, JETRO Head Office.

Mr. Shuichiro AKIYAMA, joins JETRO Bangkok to work at the SME Promotion Department in charge of SMEs and automotive industry.

Mr. Akiyama entered the Japan Finance Corporation for SMEs in 1996 after graduating from Kobe University. His most recent work before coming to Bangkok was at Asian Cooperation Division, JETRO Head Office.



2. Seminar on "Strategic Logistics Management" at Pattaya

JETRO Bangkok in cooperation with TNSC has organized a one-day awareness seminar for the eastern region of Thailand entitled "Strategic Logistics Management" on 1 February 2005 at Pattaya. The seminar features briefings and real-world practice on logistics management as well as examples of successful logistics applications, such as evaluating logistical operation to create cutting-edge logistical systems or improving logistics in Distribution Centers.

JETRO Bangkok and TNSC have invited leading logistics speakers from Thailand and Japan including



- **Keynote Speech on “Strategy of Logistics Development in Eastern Region” by Mr. Wanchai Saratoontat, Permanent Secretary, Ministry of Transport**



- **Strategic Logistics Management by Mr. Teruo Kawamura, Managing Director of Japan Shippers' Council**



- **How to Improve Logistics in Distribution Centers by Mr. Jun Suzuki, President & Consultant of Sun Logistics Development**
- **How to Evaluate Logistics Operations by Asst. Prof. Ruth Banomyong (PhD), Thammasat Business School**

*For more information of JETRO's logistics activities, visit
<http://www.jetro.go.jp/thailand/e/data/logistics.htm>*



Recent Publications



Magazines:

1. Japan Spotlight, January/February 2005

Publisher's Note	~ The Challenges Facing an East Asia Community http://www.jef.or.jp/journal/jef_contents_free.asp?c=1045
Topics	~ New Japanese Banknotes Go Into Circulation http://www.jef.or.jp/journal/jef_contents_free.asp?c=1042 ~ Golden Opportunities for Acquiring Japanese Businesses? http://www.jef.or.jp/journal/jef_contents_free.asp?c=1043 ~ Telecom Industry Enters New Age of Competition http://www.jef.or.jp/journal/jef_contents_free.asp?c=1044
Cover Story	~ Living Well in Japan's Aging Society http://www.jef.or.jp/journal/jef_contents_free.asp?c=1019 ~ Keeping on the Bright Side of Japan's Happy Aging Society http://www.jef.or.jp/journal/jef_contents_free.asp?c=1020 ~ The Dream of Beautiful Aging:(by Watanabe Yaeji) http://www.jef.or.jp/journal/jef_contents_free.asp?c=1021 ~ Aiming for Life with Dignity for All Seniors http://www.jef.or.jp/journal/jef_contents_free.asp?c=1022 ~ How IT Can Meet the Needs of an Aging Society http://www.jef.or.jp/journal/jef_contents_free.asp?c=1023 ~ A New Strategy Offered by Mitaka, Tokyo http://www.jef.or.jp/journal/jef_contents_free.asp?c=1024 ~ The Depiction of the Elderly in Contemporary Japanese Literature http://www.jef.or.jp/journal/jef_contents_free.asp?c=1025 ~ Initiatives for an Aging Society at EXPO 2005 AICHI, JAPAN http://www.jef.or.jp/journal/jef_contents_free.asp?c=1026 ~ New Markets for an Aging Society:(by JEF Editorial Section) http://www.jef.or.jp/journal/jef_contents_free.asp?c=1027
Japanese Identity	~ Examining Japan's Identity Now http://www.jef.or.jp/journal/jef_contents_free.asp?c=1028
Business Profiles	~ Streamlining Efforts Bear Fruit http://www.jef.or.jp/journal/jef_contents_free.asp?c=1029
Viewpoints	~ The Central Government vs Local Governments http://www.jef.or.jp/journal/jef_contents_free.asp?c=1030
Feature	~ An Emerging Security Triangle? A Japanese View (Part 2) http://www.jef.or.jp/journal/jef_contents_free.asp?c=1031

Views from Asia	~ The First Directly-Elected Indonesian President http://www.jef.or.jp/journal/jef_contents_free.asp?c=1032
Special Article	~ Japanese Civilization (Part 18) http://www.jef.or.jp/journal/jef_contents_free.asp?c=1033
Business Profile	~ The Combination of Craftsman's Skills and Leading Edge-technology http://www.jef.or.jp/journal/jef_contents_free.asp?c=1034
Observer	~ Cycling through Tokyo: Contemporary Arts and New Trends in Fashion http://www.jef.or.jp/journal/jef_contents_free.asp?c=1036
Finance	~ The Fate of the Japanese Government's Debt Management Policy http://www.jef.or.jp/journal/jef_contents_free.asp?c=1037
Culture	~ Long Love Affair with Hello Kitty http://www.jef.or.jp/journal/jef_contents_free.asp?c=1038
Keeping Up with the Times	~ Finding Ways to Mediate the Predicament of Japan's Bears http://www.jef.or.jp/journal/jef_contents_free.asp?c=1039
Japan in Person	~ Fujita Toshio: Master of Traditionally Crafted Modern Art http://www.jef.or.jp/journal/jef_contents_free.asp?c=1040
Expo 2005, Aichi Japan	~ The Earth, Humankind, and the Future - EXPO 2005 http://www.jef.or.jp/journal/jef_contents_free.asp?c=1041



2. Japan Spotlight, March/April 2005

Publisher's Note	~ About Exemption from Prohibition of Weapons Exports http://www.jef.or.jp/journal/jef_contents_free.asp?c=1072
Topics	~ Conclusion Expected in Fall on Female Successor to Imperial Throne http://www.jef.or.jp/journal/jef_contents_free.asp?c=1069 ~ Internationally Competitive Financial Conglomerates Eyed http://www.jef.or.jp/journal/jef_contents_free.asp?c=1070 ~ Tax Hike Initiative Launched to Remedy Debt-Ridden Finances http://www.jef.or.jp/journal/jef_contents_free.asp?c=1071
Cover Story	~ Japan's Capacity for Industrial Revival and R&D http://www.jef.or.jp/journal/jef_contents_free.asp?c=1047 ~ Launching a Dream to Attract Young People! http://www.jef.or.jp/journal/jef_contents_free.asp?c=1048 ~ The Revival of Japanese Manufacturing Industry http://www.jef.or.jp/journal/jef_contents_free.asp?c=1049 ~ "Selection & Concentration" http://www.jef.or.jp/journal/jef_contents_free.asp?c=1050 ~ Developing New Applications for Acrylic Glass http://www.jef.or.jp/journal/jef_contents_free.asp?c=1051
Japanese Identity	~ The Best Goals for Japan in the 21st Century http://www.jef.or.jp/journal/jef_contents_free.asp?c=1057
Japanese Mind	~ Japanese Traditional Clothing & Culture http://www.jef.or.jp/journal/jef_contents_free.asp?c=1061
Viewpoints	~ The Koizumi Cabinet and Japanese Politics in 2005 http://www.jef.or.jp/journal/jef_contents_free.asp?c=1058
Feature	~ The Prospects for a Common Currency in Asia http://www.jef.or.jp/journal/jef_contents_free.asp?c=1059



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Special Article	~ Japanese Civilization (Part 19): The Spread of Cotton Westward http://www.jef.or.jp/journal/jef_contents_free.asp?c=1063
Gallery	~ A Time for Reform http://www.jef.or.jp/journal/jef_contents_free.asp?c=1067
Spotlight	~ Robots Welcome the Expo Visitors http://www.jef.or.jp/journal/jef_contents_free.asp?c=1074
Finance	~ FY 2005 Budget Mired in Crisis http://www.jef.or.jp/journal/jef_contents_free.asp?c=1064
Culture	~ Japanese Women Becoming Obsessed with South Korean TV Dramas http://www.jef.or.jp/journal/jef_contents_free.asp?c=1065
Keeping Up with the Times	~ The Struggle to Prevent Another 34,000 Deaths http://www.jef.or.jp/journal/jef_contents_free.asp?c=1066
Japan in Person	~ Fated to Dance :Yokota Kenji & Kojidani Miki http://www.jef.or.jp/journal/jef_contents_free.asp?c=1068
Expo 2005, Aichi Japan	~ An Example of a Next Generation Exposition http://www.jef.or.jp/journal/jef_contents_free.asp?c=1052 ~ The Japan Pavilions http://www.jef.or.jp/journal/jef_contents_free.asp?c=1053 ~ JR Central Pavilion: Invitation to the Ultimate Surface Transit System http://www.jef.or.jp/journal/jef_contents_free.asp?c=1054 ~ my-earth.org.uk http://www.jef.or.jp/journal/jef_contents_free.asp?c=1055 ~ Nature's Wisdom, the World's Wisdom http://www.jef.or.jp/journal/jef_contents_free.asp?c=1056



Publications:

Book:

Marketing Guide Book for Major Imported Products 2004



The latest version of JETRO's popular marketing guidebook series is now available through the JETRO Online Bookshop in complete 3-volume set or by individual industry category. This practical guide covers 107 items in seven broad industry categories: "food", "apparel and fashion", "sports and hobbies", "housing and related", "furniture and household goods", "health care products", and "others (tobacco products, seeds, fertilizers, feed and gold)". Reports for each item include a broad market overview, numerous facts & figures, relevant laws & regulations and key considerations for importing products into Japan.

For more information about the bookshop, visit <http://books.jetro.go.jp/en/>

The above-mentioned publication is also available at JETRO Business Library



Reports:

1. January's Japanese Business Sentiment in East Asia Declined for Sixth Straight Month

JETRO's January survey of Japanese companies and affiliates operating in 12 countries/regions of East Asia revealed that overall business sentiment in the region fell for the sixth straight month, after nine of the surveyed locations reported declines.

Sentiment concerning the next two to three months was also down in every location, excluding East and Northeast China.

For further information, visit <http://www.jetro.go.jp/en/news/releases/20050125987-news>



2. February's Japanese Business Sentiment in East Asia Remained Subdued

February survey showed that overall business sentiment fell for the seventh straight month in February, with current diffusion indices

entering negative territory in four of the surveyed locations.

Sentiment concerning the next two to three month was also lower in most locations in February, with forward indices creeping into negative territory in six of the surveyed locations.

For further information, visit <http://www.jetro.go.jp/en/news/releases/20050222903-news>



3. March's Japanese Business Sentiment in East Asia Continued to Decline

March survey showed that overall current business sentiment declined for the eighth straight month in March, against a backdrop of sharp price increases in raw materials such as oil and steel; current diffusion indices dipped into negative territory in six of the surveyed locations.

Sentiment concerning the next two to three months, however, improved in most locations in March.

For further information, visit <http://www.jetro.go.jp/en/news/releases/20050329662-news>



4. Japan's Trade with China Set Sixth Straight Record in 2004

Japan's trade with China in 2004 surged by 26.9% year-on-year to US\$168 billion, setting a new record for the sixth year in a row, according to a JETRO report.

Japanese exports to China rose for the sixth straight year in 2004, surging 29.0% year on year to US\$73.83 billion. This rise was fueled by exports of parts and materials that Japanese manufacturers operating in China have difficulty sourcing locally, including: semiconductors & other electronic parts (up 12.2%), semi-finished components for audio-visuals (up 15.4%), LCD & other scientific/optical devices (up 44.6%), auto parts (up 33.1%), steel materials for auto & home electric appliances (up 31.7%) and chemical products (up 38.5%).

Japanese imports from China in 2004 increased 25.3% year-on-year to US\$94.21 billion (the sixth straight rise in as many years), as Japanese companies continued to shift production operations to China. Sharp increases were noted in finished products, such as personal computers, printers & other office equipment (up 31.2%), DVD players & other audio-visual equipment (up 32.8%), and mobile

phones & other telecommunication equipment (up 58.2%). Imports of components, mainly for general purpose equipment, also surged, most notably in semiconductors & other electronic parts (up 82.1%) and LCD & other scientific/optical devices (up 26.3%).

Although Japan's trade deficit with China rose US\$2.48 billion in 2004 to reach US\$20.38 billion, Japan's trade balance with China (in real terms) has been shrinking since China's ascension to WTO at the end of 2001, if trade via Hong Kong is taken into account. In 2004, this real term trade balance was close to even.

Japan's overall trade with China (including imports and exports) is likely to exceed the US\$190 billion mark in 2005, setting a record for the seventh straight year. Japanese exports to China of finished products for China's domestic market and semi-finished components for Japanese manufacturers operating in China are expected to show steady growth in 2005. Japanese imports of finished products from China are also expected to grow considerably in 2005, as Japanese companies continue to shift production operations to China.

For more information, visit
<http://www.jetro.go.jp/en/news/releases/20050221305-news>



Events in Japan

1. JETRO Outsourcing Fair for IT Software 2005

The JETRO Outsourcing Fair for IT Software 2005 (J-OFIS 2005), which aimed to expand offshore software development orders from Japanese firms, will be held from January 25th to 27th at the JETRO exhibition hall (Ark Mori Bldg. 5F, 12-32 Akasaka 1-chome, Minato-ku, Tokyo).

J-OFIS 2005, an exhibition as well as a business matching event, brought together Japanese software developers with foreign software companies seeking to expand their business in Japan—in particular with smaller-sized Japanese firms.

A total of 53 companies from 12 countries (Bangladesh, Brazil, China, India, Pakistan, the Philippines, Russia, Singapore, Sri Lanka, Thailand, Turkey, and Vietnam) attended as exhibitors in J-OFIS 2005. The event provided a prime opportunity for participating companies to introduce their cutting-edge technologies in various software development services, such as customized/embedded softwares, utilities software, business solutions, package implementation, engineering service, ASP, EAI, BPO as well as network and integration.

In conjunction with the fair, JETRO offered a special seminar in Japanese on the successful tactics of offshore software development, such as risk management and strategic planning on January 25th at the Ark Academy Hills 36 (Ark Mori Bldg. 36F, Akasaka Ark Hills). Keynote speakers were invited from leading Japanese IT companies, including NEC Corporation and EPSON Software Development Laboratory, Inc.



2. FOOD EX JAPAN 2005

JETRO provided a special exhibition zone for 125 companies from 37 countries at the 30th International Food and Beverage Exhibition (FOODEX JAPAN 2005), which were held from March 8th to the 11th at the Nippon Convention Center, or Makuhari Messe (2-1 Nakase, Mihama-ku, Chiba-city). FOOD EX JAPAN is the country's largest annual exhibition for food and beverage industries, covering every relevant area of the industry, such as: agricultural products and processed foodstuff as well as soft drinks and alcoholic beverages (including many items never before seen on the Japanese market). Every year, JETRO provides booths for companies from Japan's ODA-recipient

countries to help them enter the Japanese market. Within the JETRO exhibition zone, visitors were able to taste products and speak with exhibitors about potential business partnerships; free English-Japanese interpretation service was also available in this special zone.



3. 2005 World Expo, Aichi, Japan Opened March 25th

The 2005 World Exposition, Aichi, Japan (EXPO 2005 AICHI) opened on March 25th and run until September 25th, 2005 in Aichi Prefecture's Nagoya Eastern Hills.

Some 122 countries and six international organizations from around the world will take part in the 185-day event, held under the main theme "Nature's Wisdom". The EXPO is intended to serve as a platform for showcasing and exchanging 21st century technology and innovation that moves the global society closer toward a harmonious coexistence with our fragile planet.



Some EXPO 2005 AICHI notables:

- 1) **IT:** All participants—visitors, EXPO organizers and exhibitors, will be networked under a ubiquitous computing system; visitors, for example, can be identified at locations throughout the EXPO through tiny IC chips embedded in their tickets.
- 2) **Cutting-edge robotics:** The Japanese government will showcase some 100 practical-use robots, including a service robot that speaks four languages and a special "rescue" robot that aids in evacuations during emergencies.
- 3) **Recycling:** Natural or recyclable resources will be used as much as possible throughout the event. For example, the EXPO will introduce a new energy system that generates power from several natural or recyclable resources. Japan's national pavilion will get 100% of its electricity supply from this system,

which uses solar power and natural gas produced from garbage collected during the EXPO.

- 4) **Next-generation traffic system:** The linear motor car, a low-emission vehicle that floats above rails using magnets, will see its first commercial use in Japan at EXPO 2005 AICHI transporting guests to and from the EXPO site. Fuel-cell hybrid buses and driverless cars operated by computer system will also be used for visitor transportation.

*For more information, please visit the official EXPO 2005 AICHI website:
<http://www.expo2005.or.jp/>*

JETRO, with its worldwide network and long years of experience in coordinating global trade fairs, is assisting with preparations for EXPO 2005 AICHI by, for example, providing financial

support to participating developing countries and helping to organize business networking and matching opportunities for official EXPO 2005 AICHI participants. JETRO is also acting in an advisory capacity to Japan's national pavilion within the EXPO.

The Aichi-Nagoya International Business Access Center (I-BAC) is also working to promote access to Japanese markets for foreign businesses, as well as for those participating in the EXPO 2005 AICHI.

- *To learn more, please visit the I-BAC website at: <http://www.i-bac.jp/>*
- *For information about JETRO support of the EXPO 2005 AICHI, please contact:
EXPO 2005 AICHI Team, Trade Fair Department
Phone: (03)3582-5315 Fax: (03)3505-0450
E-mail: FAJ@jetro.go.jp*



Exploring Japan

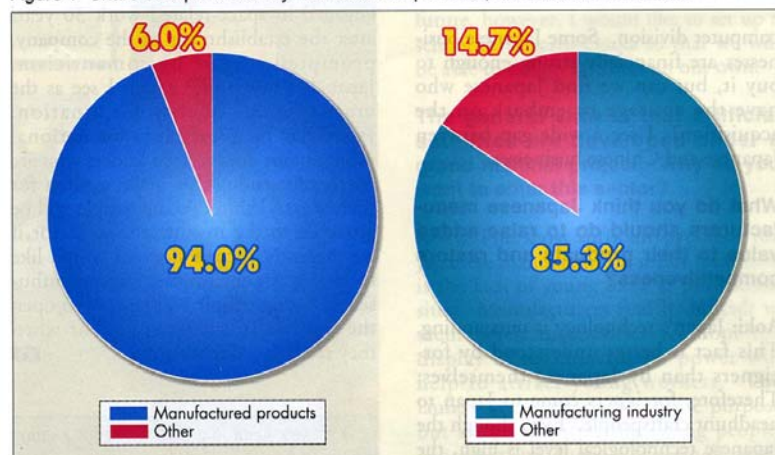
1. Article of “Revival of Japanese Manufacturing Industry” by Mr. ISHIGE Hiroyuki, Director-General, Manufacturing Industries Bureau, Ministry of Economy, Trade and Industry of Japan, in the Japan Spotlight of March/April 2005 magazine
2. Summary of “Survey of Business Circumstances on Japanese Corporation in Thailand (Autumn 2004) conducted by Japanese Chamber of Commerce, Bangkok

1. The following is the article of “Revival of Japanese Manufacturing Industry” by Mr. ISHIGE Hiroyuki, Director-General, Manufacturing Industries Bureau, Ministry of Economy, Trade and Industry of Japan, in the Japan Spotlight of March/April 2005 magazine

1. Economic recovery driven by manufacturing industry

While manufacturing industry makes up about 20% of Japan’s GDP, it accounts for 90% of the country’s exports and R&D investment (Fig.1). Accordingly, this industry has a ripple effect on other industries and greatly influences the Japanese economy. To describe the current conditions of Japanese manufacturing industry, the number of employees in FY2003 has continuously declined compared to the previous year, and the SME sector has been slow to recover. Nevertheless, production has been on a growth trend since the first quarter of 2002, and earnings have been on the rise since the third quarter of the same year. Reorganization in some sectors has led to the reduction of inherited surplus debt and excessive installation to a suitable level, and the platform has been laid for new development.

Figure 1 Share of exports held by manufactured products, and share of R&D costs



Source: White Paper on Manufacturing

Figure 2 Positive cycle



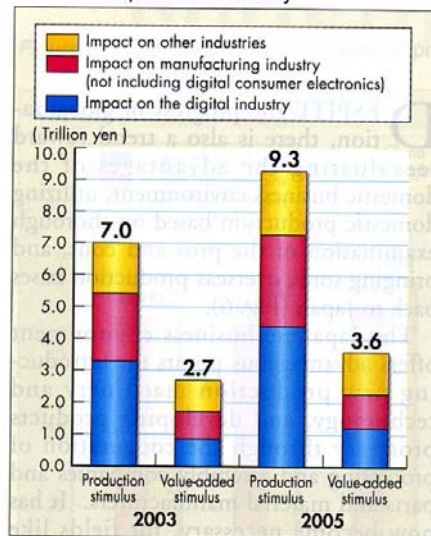
Source: White Paper on Manufacturing

Increased exports and capital investment appear to be the factors behind the recovery of manufacturing industry. Looking at the recent economic recovery from a micro perspective, however, in sectors like digital consumer electronics, new products that were impossible with previous technology and the materials are being created by the Japanese manufacturing industry’s efforts for R&D and innovation. This has resulted in the creation of new demand, and helped boost corporate earnings, while also contributing to a positive cycle of further R&D and capital investment (Fig. 2). For example, the demand for digital consumer electronics has increased greatly, and in the previous three years, the size of the domestic markets for flat-panel TVs, DVD recorders and digital cameras have grown by about 4.5, 3.5, and 2.5 times respectively. This positive cycle resulting from R&D was possible in Japan, as there are both completed product manufacturers and a wide range of parts manufacturers in this country. By working together and making mutual adjustments, there were able to produce new technologies and products. This extensive industrial integration has created an

advantageous domestic business environment, and has given rise to many links between industries. For example, added-value creation is being realized across the entire economy including the formed and fabricated materials industry which scales triple of added value creation by digital consumer electronics alone, according to analysis using an industry relation chart (Fig. 3). This widely surpasses the achievement of manufacturing industry, which realizes double added on average.

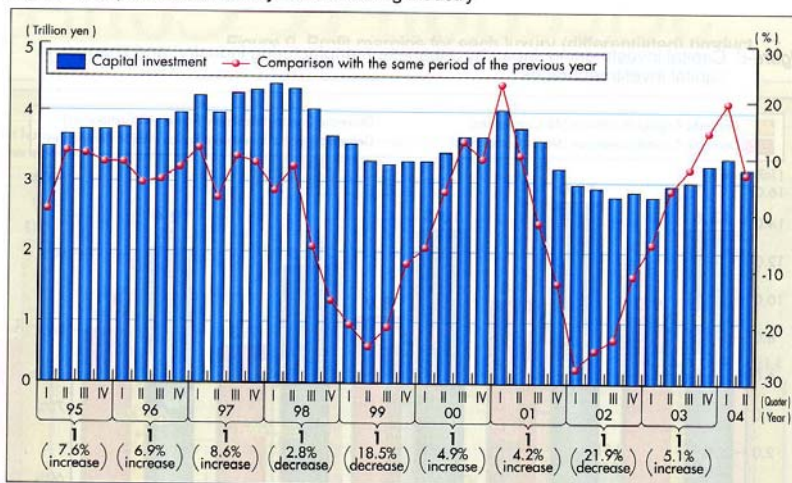
The major driving force behind the recent economic recovery has been the active capital investment of manufacturing industry, which continues to expand these new industries. The capital investment of manufacturing industry in 2003 exceeded 12 trillion yen (Fig. 4), and the increase rate at the beginning of 2004 was higher than the rate in the same quarter of the previous year. There has also been an increase in the value of machinery orders, a leading indicator of capital investment. Capital investment by manufacturing industry is likely to continue rising for the immediate future.

Figure 3 Impact of digital consumer electronics production on the Japanese economy



Source: Industrial Linkage Table in 2000
 Note: Digital consumer electronics calculated using mobile phones, digital cameras, LCD panel TVs, and DVD recorders

Figure 4 Capital investment by manufacturing industry



Source: Ministry of Finance "Survey of Corporate Statistics (Quarterly)"
 Notes: The figures at the bottom are based on the calendar year, and have been derived from quarterly data. The figures in brackets indicate comparisons with the previous year

Japan is increasing direct investment in China and pursuing cost benefits by expanding production such as simple processing and assembly, and exporting capital goods and key materials. This allows Japanese manufacturing industry to divide up manufacturing processes, and allocate roles based upon the strengths of its manufacturing foundation.

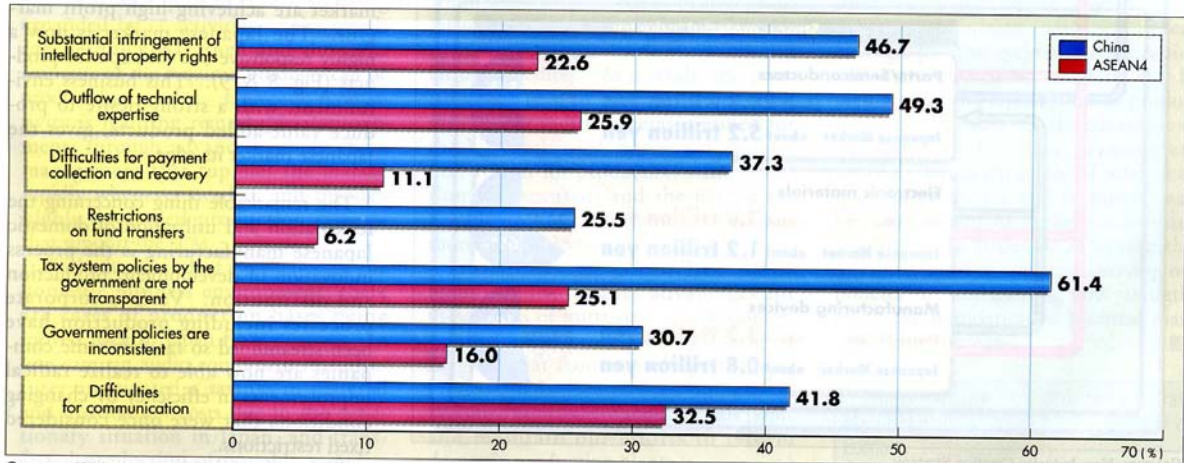
Investment by Japanese manufacturing industry in four ASEAN countries (Indonesia, Thailand, Philippines, and Malaysia) is actually surpassing investment in China and Hong Kong. Compared to China, ASEAN remains an important overseas manufacturing base for Japanese manufacturers, as it poses fewer problems for business development (Fig. 5).

2. Superior business environment for domestic manufacturing industry

On the world stage, there has been remarkable growth in trade and investment, and international competition between companies has greatly intensified. Given these circumstances, in order to secure optimally efficient production and development, more and more manufacturing companies are building global supply systems.

In particular, Japanese manufacturing industry is actively promoting business in China, a country that continues to experience high growth.

Figure 5 Issues for business development in China and ASEAN4



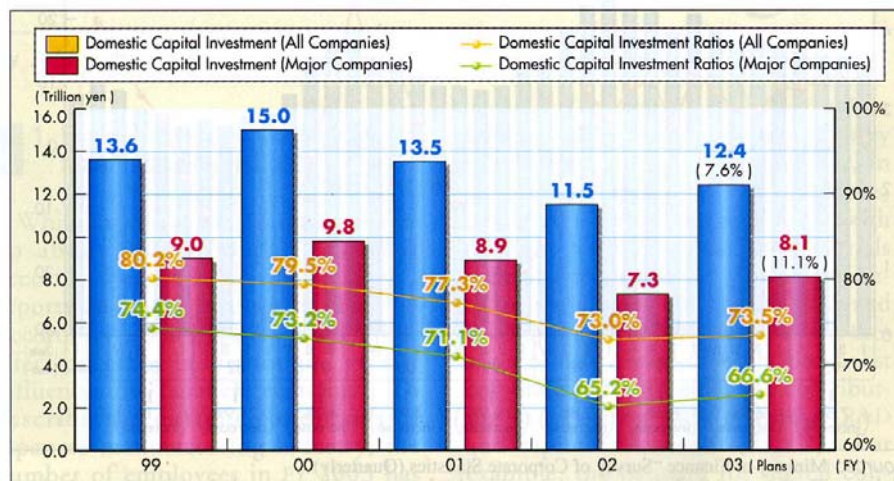
Source: White Paper on Manufacturing

Notes: Results of a questionnaire survey of manufacturers located in Japan.

There were 306 valid responses regarding China, and 243 regarding ASEAN

Despite the progress of globalization, there is also a trend toward reevaluating the advantages of the domestic business environment, utilizing domestic production based upon thorough examination of the pros and cons, and bringing some overseas production bases back to Japan (Fig. 6).

Figure 6 Capital investment in Japan by Japanese manufacturing industry, and changes in capital investment ratios



Source: Adjusted by METI (original source: TANKAN, Bank of Japan)

The Japanese business environment offers advantageous points for introducing new production machinery and technology, and developing products promptly through the cooperation of processing and assembly companies and parts and material manufacturers. It has now become necessary, for fields like digital consumer electronics, to produce new products and functions by optimizing the combination of different types of materials and parts that have a mutual effect on each other, through the cooperation of a wide range of industries. Viewed from the perspective of cost, speed and long-term relationships, the concentration of advanced parts industries in Japan provides advantages for the domestic business environment (Fig. 7). Furthermore, the domestic market is experiencing more intense low-price competition and it is becoming hard to increase the profit margins on general products. However, in the case of luxury and differentiated products, about 40% of the companies in the domestic market are achieving high profit margins. The Japanese market is now a highly responsive one for superior products (Fig. 8&9). This business environment, with a strong desire to produce value-added products, gives the Japanese market its edge.

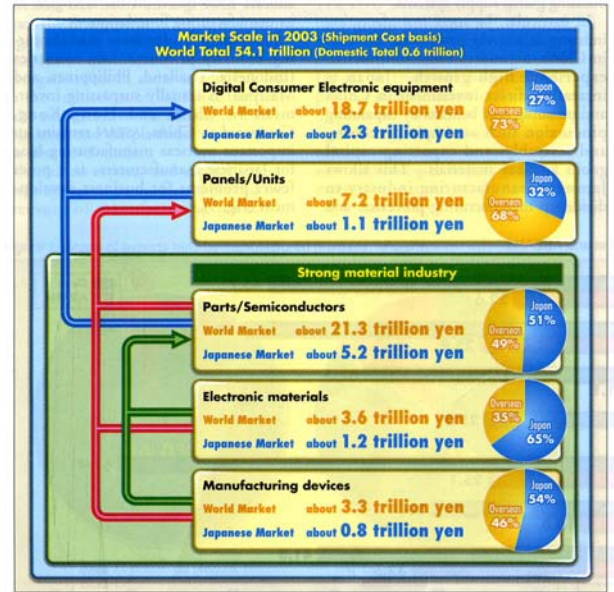
The remarkable thing concerning the repatriation and utilization of domestic Japanese manufacturing is the process of innovation of development, production and distribution. Various corporate processes including production have been streamlined so far, but some companies are now able to realize radical improvement in efficiency by changing conditions that were once considered fixed restrictions.

With cell production, for example, in addition to being able to produce various products in small quantities in a short period of time, there are positive effects that go beyond the production site to the entire business, including rapid measures for defective parts interfusion and improvement of cash flow

through the reduction of work-in-progress and completed-product inventories. The possibilities for such process reform are being expanded by IT activities. Sales trends can be quickly learned and the right amounts of the required products can be produced as needed. Domestic productivity is realizing remarkable improvements through advanced supply chain management that supplied the market rapidly whenever needed, and through highly developed production systems that support the SCM.

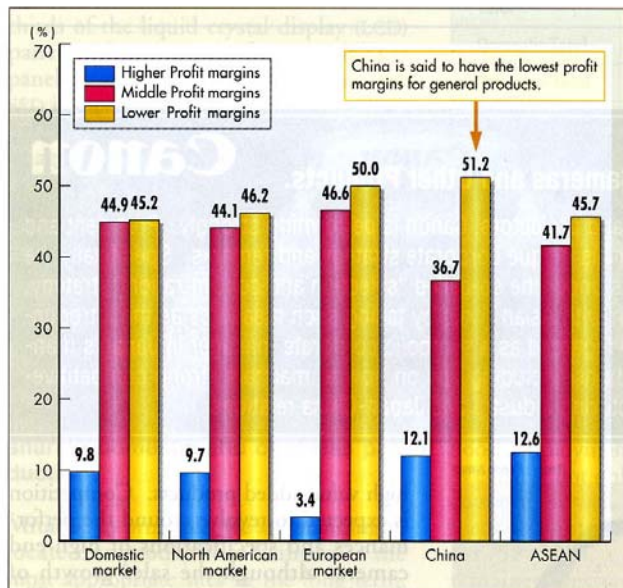
With the revival of excellence in the domestic business environment, there are cases of production based being moved back to Japan from overseas. In one case, an audio equipment manufacturer anticipated a savings in material and distribution costs due to the deflationary situation in Japan, and transferred production of portable minidisk players from Malaysia to Yamagata. As a result of domestic production innovation, a manufacturing line that required 20 workers in Malaysia could now be managed with just a few people in Japan. In another case, a large home electronics manufacturer was performing part of its production of video

Figure 7 Digital Consumer Electronics-Market and the share of Japanese companies



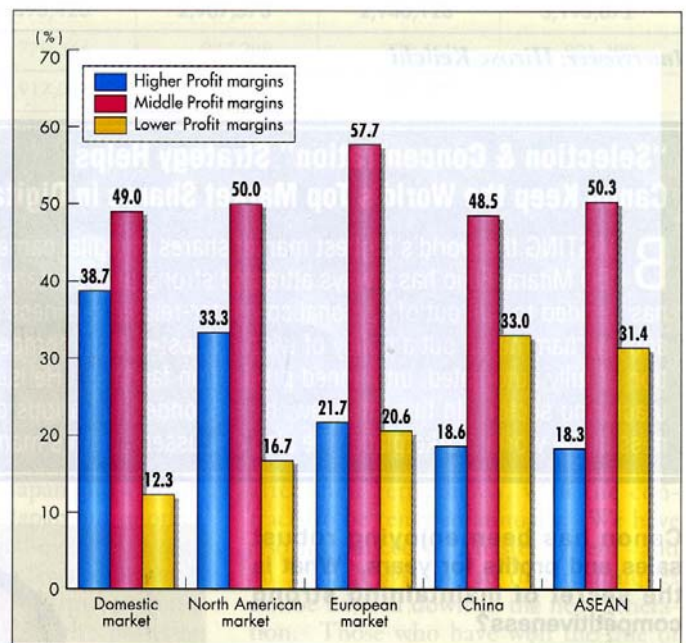
Source: New Industry Creation Strategy
Note: All figures are estimates

Figure 8 Profit margins for each general product



Source: METI, 2004
Notes: Random Survey of manufacturing companies in Japan. 413 valid responses.

Figure 9 Profit margins for each luxury (differentiated) product



cameras for the US market in China. However, when the ratio of parts procured in Japan rose to 40%, the company decided to move the production to Aichi and Gifu prefectures. As a result, the company was able to unify its production systems for video cameras destined for the US market. A horizontal production system for production standardization was secured, and the period for delivery to the US volume retailers was shortened by 25%.

Japan's manufacturing base offers technical and quality advantages for these kinds of initiatives. If the domestic production processes are efficient, it suggests that continuously performing production in Japan is cutting corners. We must continue to focus on this point and maintain our efforts to reform domestic production plants.

3. Further development of manufacturing industry

Manufacturing industry plays an important role in the Japanese economy, in fields such as R&D, and it accounts for over 90% of exports. By creating new products from R&D, developing new demand, restoring production and raising profits, the Japanese production industry is experiencing a positive cycle of further capital and R&D investment. A trend can be seen toward the repatriation of production bases in order to take advantage of the domestic business environment with its concentration of

advanced material producers, and its potent market that strives to make value-added products. In order to reinforce this trend, we need to continue carrying out policies for maintaining and strengthening the foundation of Japanese manufacturing industry.

2. The below is the summary of “Survey of Business Circumstances on Japanese Corporation in Thailand (Autumn 2004) conducted by Japanese Chamber of Commerce, Bangkok

Japan Chamber of Commerce in Bangkok (JCCB) conducted “Survey of Business Sentiment on Japanese firms in Thailand for the autumn of 2004” on 1,208 JCC member firms (excluding 13 governmental organizations) from 1 November to 3 December 2004, and received the response from 347 (28.7 percent of the) firms. The following shows the summary of the survey report.

1. BUSINESS SENTIMENT

- From the first half to the second half of 2004, which is the period to be surveyed this time, business sentiment continues to improve. DIs in the first half of 2004 is better than those in those surveyed in this spring throughout the period.

The trend of Business Circumstances Sentiment Unit: percent

	Past Surveys										Survey this time		
	Result								Forecast		Result	Forecast	
	00F	00S	01F	01F	02F	02S	03F	03S	03F	03S		04F	04S
Improving	71	57	43	45	62	59	59	63	59	51	70	53	49
No change	18	22	29	23	19	26	20	23	26	35	17	29	33
Deteriorating	11	21	28	32	19	15	21	14	15	14	13	18	17
(Ref) DI	60	36	15	13	43	44	38	49	44	37	57	35	32

- (Note)
- DI = “improving” – “deteriorating”
 - If DI is above the neutral level, it signifies that business performance is improving even though the indicator declined from the previous term.
 - Since the fraction of percentage is rounded off, the totaling may not be equal to 100 percent. This also applies to the tables below.

2. SALES AND NET PROFIT/LOSS

- The number of firms reporting an increase in sale of 82% falls to 74% in 2005. The number of firms with increase of sale at 20% or above of 33% in 2004 falls to 20% in 2005.
- The number of firms with before tax profit rises from 89% in 2004 to 90% in 2005. In contrast, the firms with increasing profit fall from 51% in 2004 to 39% in 2005. At the same time, the number of firms with diminishing profit rises from 27% in 2004 to 28% in 2005.

3. CAPITAL INVESTMENT (MANUFACTURING SECTOR)

- The amount of planned capital investment in 2005 plan to increase by 1.7% from those in 2004. Among the number of firms with rising capital investment (105), will be increased above those of diminishing capital investment (58).

(Note) This is just the total amount of capital investment by the respondents, not the total amount of the Japanese firms as a whole.

4. THE EXPORT MARKETS (MANUFACTURING SECTOR)

- Regarding forecast for the major export market, the predominant response was “no change (no drastic change in the market trend)” for Japan, the US, and the EU, and “continual expansion (increase)” for ASEAN and China.
- Regarding export in 2004, the firms reporting an “increase” in their export accounted for 59%.
- Regarding the prospective market in the future, the predominant response was “ASEAN (excluding Vietnam, Cambodia, Laos, and Myanmar)” (22%), followed by “Japan” (19%) and

“China” (12).

5. PROBLEMS OF CORPORATE MANAGEMENT

- The predominant response was “hike in material prices” (19%) followed by “fierce competition with competitors” (16%), and the lack of human resource” (13%).

6. EFFECT OR INFLUENCE OF FTA

- For the most effective or influential FTA (check all that apply), “Thailand-Japan FTA” is the most prominent (59%), next “AFTA” (38%), “ASEAN-Japan FTA” and “ASEAN-China FTA” (both 21%), as well as “Thailand-India FTA” (17%).
- Regarding specific effect or influence of FTA (check all that apply), the predominant response for “Thailand-Japan FTA” was “Import parts and material cost reduction from Japan” (66%), for “ASEAN-Japan FTA” “Import parts and material cost reduction in ASEAN and Japan” (55%), for “ASEAN-China FTA” “Competition with imported commodities from China” (57%), and for “Thailand-India FTA” “Export expansion to India” (73%).

7. EXPECTATIONS ON THE JAPAN-THAILAND ECONOMIC PARTNERSHIP AGREEMENT

- Regarding expectations on the Thailand-Japan economic partnership agreement (check all that apply), the prominent are “cost reduction from import tax deduction for import from Japan” (60%), followed by “reduction in lead time and better estimate from simplified and transparent custom clearance” (41%), “remedial and simplified procedures on Thai visa and work permit” (36%).

8. COMPETITION WITH CHINESE PRODUCTS/CHINESE MANUFACTURES


- Regarding competition with China (check all that apply), the prominent are “competitor in the Thai markets” (35%), followed by “exporter of raw materials etc.” (28%), “competitor on export markets except China” (25%), and “markets of our products” (24%).


9. POTENTIAL FACTORS AFFECTING ON THE THAI ECONOMY

- The critical factors on the Thai economy in coming 1-2 years (check all that apply) includes “hike in oil price (including oil-related materials)” (62%), followed by “hike in the prices of raw materials and semi-finished goods (excluding oil and oil related materials)” (53%), and “end of favorable conditions in personal spending and real-estate investment” (41%).

10. LOCAL CONTENT (MANUFACTURING SECTOR)

- Forty nine percent of the manufacturing firms reported an increase in their local content from the previous year.

For downloading the complete survey WINZIP FILE &  in English, visit
http://www.jetrobkk.or.th/files_download/jccaut04_eng.zip

For downloading the complete survey WINZIP FILE &  in Thai, visit
http://www.jetrobkk.or.th/files_download/jccaut04_tha.zip

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