Draft

Japanese Foreign Direct Investment in East Asia with Particular Focus on ASEAN4

Shujiro Urata

Waseda University

August 2002

Prepared for the "Conference on Foreign Direct Investment: Opportunities and Challenges for Cambodia, Laos, and Vietnam" to be held in Hanoi, Vietnam, on August 16-17, 2002.

I. Introduction

Foreign direct investment (FDI) has contributed significantly to the rapid economic growth of East Asia from the mid-1980s until the economic crisis in the late 1990s. FDI brought to FDI recipient economies not only financial resources for fixed investment but also technologies and managerial know-how, which play crucial roles in promoting economic growth. Furthermore, FDI enabled the recipient economies to utilize various networks such as sales, procurement, and information networks of foreign firms, through which the recipients can achieve efficient production and marketing. Indeed, many East Asian economies liberalized FDI policies, after a long period of restrictive FDI policies, in order to reap the benefits from FDI.

Among foreign investors in East Asia, Japanese firms have had an important position. Indeed, in many East Asian economies, Japan has been a leading investor in terms of FDI values. Various reasons can be found for active Japanese investment in East Asia. Geographical proximity is one factor, but not all. Optimistic future economic prospects presented ample business opportunities to Japanese firms, and abundant cheap labor with good discipline attracted Japanese firms. Furthermore, a strong interest on the part of Japanese government for promoting economic growth in East Asia by providing economic assistance appears to have an important role in enticing Japanese firms to have an interest in East Asia.

Toward the end of the 1990s Japanese FDI in the world and in East Asia started to decline, mainly because of unfavorable financial situation of Japanese firms. Contrasting to the declining trend of FDI by Japanese firms, US and European firms started to undertake FDI activley in East Asia. They took an advantage of the opportunities given to them by the economic crisis in the late 1990s and by inactive FDI by Japanese firms. The economic crisis resulted in depreciation of East Asian currencies, thereby enabling foreign firms to undertake FDI at lower cost in terms of foreign currency. Although the downward trend of Japanese FDI continues, Japanese firms started to give a greater importance to their overseas operations, largely because of the pessimistic future outlook of the Japanese economy.

The economic crisis in the late 1990s changed the patterns of FDI inflows in East Asia. FDI inflows to China maintained high levels even after the crisis, but FDI inflows to ASEAN4 declined sharply. It should be noted that wide variations were found for the changes in the level of FDI inflows among ASEAN4 countries. Indonesia saw a large decline in FDI inflows, while other countries experienced some ups and downs through 2000. Indonesia lost attractiveness as a host to FDI mainly because of instability in political and social conditions. For other ASEAN4 members both positive and negative factors were at work concerning attracting FDI inflows, leading to mixed developments. The positive factor includes an improvement in price competitiveness of their assets to foreign investors and price competitiveness of their products, while the negative factor was unfavorable economic situations.

FDI is an important business strategy for Japanese firms to maximize their profits, and FDI inflows are important for East Asian economies to achieve economic growth. In light of these observations, this paper attempts to analyze Japanese firms' FDI strategy in East Asia with a particular focus on ASEAN4 countries. Given that China has been successful in attracting FDI and that China is a major competitor to ASEAN4 in attracting FDI, we analyze FDI in ASEAN4 by making comparison with the situation in China. It is hoped that our analysis would be useful for policy makers in ASEAN4 in formulating FDI and other policies. In section II the patterns of Japanese FDI will be analyzed by splitting the period into the pre- and post-crisis periods. In section III the activities of Asian affiliates of Japanese firms are examined to discern the impact of the crisis, which would reflect the business strategies of Japanese firms. Section IV examines the strategies of Japanese firms more directly by focusing on their future FDI plans. Section V presents some concluding remarks.

II. Japanese FDI in Asia

This section reviews Japanese FDI in East Asia in recent years by diving the period of analysis into two periods; the period before the economic crisis and that after the crisis. The examination not only depicts the developments over time but also attempts to identify the factors behind these developments.

II.1 Before the Crisis

Japanese FDI was increasing gradually and steadily since the early part of the 1990s. (Figure 1) After reaching a trough in 1993 at 4.2 trillion yen, Japanese FDI increased steadily to reach 6.6 trillion yen in 1997.[1] The steady increase in Japanese FDI was largely attributable to the yen appreciation and buoyant economic activities in foreign countries including the U.S., Western Europe, and Asia. Faced with gradual appreciation of the yen, which resulted in a decline in price competitiveness of production in Japan, Japanese firms with an export motive shifted their production from Japan to foreign countries. Japanese FDI with a local sales motive was "pulled" by favorable economic performance in various regions of the world. Furthermore, liberalization in FDI policies, which was adopted by a number of economies to attract FDI to promote economic growth, contributed to an expansion of Japanese FDI to

[1] Kawai and Urata (1998) discusses the developments of Japanese FDI from the 1980s through the mid-1990s.

these economies.

Geographical compositions of Japanese FDI changed notably in the 1990s. Japanese FDI to Asia increased sharply, when compared to its FDI to other regions. Indeed, Japanese FDI to Asia almost doubled in four years from 1993 to 1997, while its overall FDI increased 60 percent. As a result of notable increase in Japanese FDI to Asia, the share of Asia in overall Japanese FDI increased from 12.2 percent in 1989 to 24.2 percent in 1996, before declining to 22.6 percent in 1997. In contrast, the share of Western Europe declined from 21.8 percent to 15.4 percent over the same period, while the share of North America remained more or less constant at around 45 percent.

The substantial expansion of Japanese FDI in Asia resulted from several factors. First, favorable economic performance by East Asian economies attracted Japanese FDI, especially local market-oriented FDI, which sought for lucrative market opportunities. Second, Japanese firms, which were interested in export expansion, found Asian economies with their currencies pegged to the U.S. dollar attractive for export production. Third, recognizing benefits of receiving FDI such as inflows of funds, technologies, and managerial know-how, many economies in East Asia introduced various measures to attract FDI. In addition to liberalizing FDI regimes, a number of economies used fiscal and other types of incentives to attract FDI.[2] It is important to note that these three factors noted above were closely related. Indeed, FDI, which were attracted by favorable export environment, rapid economic growth and liberalization in FDI policies, in turn resulted in promoting economic growth, export growth, and trade and FDI liberalization of the FDI recipients in East Asian.[3]

Since the latter half of the 1980s, geographical distribution of Japanese FDI within East Asia has changed notably (Figure 2). After a substantial decline from the 1980s to the early 1990s, Japanese FDI in the NIEs4 registered a steady increase through 1997. A major increase came from FDI in Singapore, as the share of Singapore in Japanese FDI in Asia increased from 9.6 percent in 1993 to 15.0 percent in 1997. A large increase in Japanese FDI in Singapore was due to several large investments in chemicals and semi-conductor sectors. By contrast, Japanese FDI to

---

[2] Pacific Economic Cooperation Conference (1999) reports that many APEC economies liberalized their FDI regimes. It also points out that liberalization mainly came in the form of market access, ant not in the form of reduction in performance requirements such as local-content requirement.

[3] Urata (2001) analyzes the mechanism of economic growth in East Asia during the mid-1980s through the mid-1990s, and he argues that the formation of trade-FDI nexus as one of the most important factors.

other NIEs remained low or declined during the 1993-97 period.

ASEAN4 saw a large increase in Japanese FDI from 1993 to 1997. As a consequence, the share of ASEAN4 in Japanese FDI in East Asia increased from 36.7 percent in 1993 to 51.3 percent in 1997. Among the ASEAN4 countries, Japanese FDI in Indonesia and Thailand increased sharply from the early 1990s to 1997 (Figure 3). Indeed, annual reported outflows of Japanese FDI to Indonesia and Thailand increased sharply from 95 and 68 billion yen in 1993 to 308 and 229 billion yen in 1997, respectively. As a result of rapid increase of Japanese FDI in Indonesia and Thailand, their respective shares in Japanese FDI in Asia increased from 12.4 and 8.9 percent in 1993 to 20.6 and 15.3 percent in 1997. Indeed, Indonesia regained the position of the most attractive country in Asia to Japanese FDI in 1997 after losing that position to China in 1993. Japanese FDI to Malaysia and the Philippines also saw an increase, but the magnitude of the increase was relatively small, when compared to Japanese FDI to Indonesia or Thailand.

Japanese FDI in China increased notably from the early 1990s, as the political stability was restored after the Tiananmen Square incident, and as the Chinese government started to pursue outward-oriented trade and FDI policies rigorously. Although Japanese FDI in China increased remarkably in the first half of the 1990s, it started to decline in 1996, two years before Japanese FDI in NIEs4 and ASEAN4 started to decline. The reduction and abolishment of preferential measures by the Chinese government, which had been accorded to foreign firms, affected negatively to FDI inflows. Specifically, the reduction in the amount of drawback given to exports and the abolishment of tariff exemption on the imports used for export production resulted in reducing attractiveness of China as a host to FDI. One should note that it is not only FDI from Japan but also from other sources that showed a decline in 1996.[4] It may be important to note that China has been a relatively less important FDI destination for Japanese firms than those from other countries.[5]

II.2 After the Crisis

The East Asian economic crisis was triggered by a sharp devaluation of the Thai Baht on July 2, 1997. The unfavorable impact of the Thai crisis spread through other economies in the East Asian region. The crisis changed the FDI environment in

---

[4] The discussions on FDI in China here apply to contracted FDI but not to realized FDI. Usually the trend of contracted FDI precedes that of realized FDI. Indeed, for China realized FDI declined in 1997, one year after a decline recorded on contracted FDI.

[5] See Urata (1998) for the discussions on the changing patterns of FDI in East Asia.

East Asia drastically. On the one hand, substantial devaluation of the currencies increased attractiveness of the devaluating economies as a host to FDI. For foreign firms interested in export production, attractiveness of the devaluating economy increased as devaluation improved price competitiveness of the products produced in that economy. Furthermore, devaluation reduced the amount of foreign currencies required for investments in devaluating economies. Indeed, coupled with a sharp decline in stock prices, sharp devaluation enabled foreign firms to purchase the equity of existing firms at very low prices, leading to the fire sale of the local companies.

In contrast to this “favorable” impact of economic crisis on attracting FDI, the crisis had a discouraging impact on FDI as well. For foreign firms interested in local sales, a substantial decline in local economic activities reduced the attractiveness of the crisis-stricken economies as a destination of their FDI. In addition, increased uncertainty in macroeconomic environment, resulting from the crisis and its aftermath, had a discouraging impact on FDI, as foreign firms regard certainty or low risk as an important factor for making FDI decisions.[6]

Before examining Japanese FDI in Asia after the crisis, let us briefly take a look at overall Japanese FDI from 1997 to the early 2000s. As can be seen from Figure 1, overall Japanese FDI declined in 1998 but rose again in 1999 before experiencing a continuous decline in 2000 and 2001. One of the factors leading to the sharp expansion in 1999 was active M&A (mergers and acquisitions) in developed economies, mainly as a result of worldwide reorganization of various industries including finance and automobiles. The continued decline in Japanese FDI in 2000 and 2001 was largely attributable to poor financial situations of Japanese firms and banks.

Turning to Japanese FDI in Asia after the crisis, one finds that annual flows of Japanese FDI in Asia declined sharply from 1.5 trillion yen in 1997 to 800 billion yen in 1998. The decline continued through 2000 before starting to increase in 2001. Despite the slight increase in 2001, the magnitude of Japanese FDI that year was still very low, when compared to its earlier levels in the 1990s. Although Japanese FDI to Asia remained low from the late 1990s to early 2000s, its share in overall Japanese FDI increased because of sharp declines in its FDI to North America and Europe. Specifically, the share of Asia in overall Japanese FDI increased from 16 percent in

---

[6]In their study of the locational determinants of Japanese firms, Urata and Kawai (2001) found those low economic risks in terms of small variations in exchange rate and inflation are important "pull" factors for Japanese FDI. In addition to the low economic risks, they also found that low wages, well-developed infrastructure, agglomeration, and good governance are important factors for attracting Japanese FDI.

1998 to 20 percent in 2001. It should be noted that Latin America attracted Japanese FDI successfully in recent years. Indeed, Japanese FDI to Latin America was larger than the corresponding values to North America or Asia (Figure 1).

One observes variations in Japanese FDI in different economies in East Asia. Japanese FDI in ASEAN4 declined remarkably after the crisis from 699 billion yen in 1997 to 225 billion yen in 2000 before increasing to 294 billion yen in 2001. Among ASEAN4 economies Indonesia experienced the most striking drop in Japanese FDI from 308 billion yen in 1997 to 46 billion yen in 2000. Thailand also recorded a substantial decline from 229 billion yen in 1997 to 91 billion yen in 1999. These striking turnarounds observed for Japanese FDI in Indonesia and Thailand can be explained by the factors that led to the financial bubble in the pre-crisis period and the bursting of the bubble in the post-crisis period.

Optimistic future economic prospects of these economies and liberalization in FDI regimes played important roles for attracting large amount of Japanese FDI in the pre-crisis period. Reversal of optimistic future prospects and the realization of the weak financial and corporate sectors in these countries, which was largely due to the lack of good governance, on the part of investors were very important factors behind sharp decline in Japanese FDI in the post-crisis period. In addition, political instability played a very important role in discouraging Japanese FDI in Indonesia. In contrast to dramatic performance in these two economies, Japanese FDI to Malaysia and the Philippines saw relatively stable developments despite their downward trends. An examination of Japanese FDI in ASEAN4 from the 1990s to the early 2000s reveals an exceptionally large FDI in 1996 and 1997. Recognizing these exceptional developments in the period prior to the crisis, one may regard the developments in the post crisis period as those returning to the previous 'normal' patterns.

Compared to the developments in ASEAN4, Japanese FDI in the NIEs remained relatively stable. However, the importance of individual NIEs in attracting Japanese FDI changed before and after the crisis. One of the noteworthy developments was significant expansion in Japanese FDI to Korea, partly as a result of liberalization in FDI policies in Korea. Another notable development was a substantial decline in Japanese FDI to Singapore. This decline is due to the negative impact of the crisis not only on Singaporean economy but also on the surrounding countries such as Indonesia, Malaysia, and Thailand, since many Japanese firms regard Singapore as a regional hub in Southeast Asia.

Japanese FDI to China showed a very interesting pattern, as it continued to decline through 1999 after reaching a peak in 1995. However, Japanese FDI in China started to increase in 2000 and the increase continued through 2001. Having noted the recent increase in Japanese FDI to China and a notable increase in the interest in

China among foreign investors in recent years, which will be discussed more in detail later, it is worth noting that Japanese FDI to China remained relatively low. Indeed, the average share of China in overall Japanese FDI from 1990-2000 was 3.3 percent, much smaller than the corresponding share for world FDI at 6.2 percent. By contrast, the share of ASEAN4 in overall Japanese FDI during the same period was 7.5 percent, much larger than the corresponding share of 2.6 percent for world FDI. These observations indicate that ASEAN4 were more important host countries to Japanese FDI than China during the 1990s.

II.3 Several Notable Characteristics of Recent Japanese FDI in Asia

We saw above that annual flows of Japanese FDI have been on downward trend in recent years. However, as a result of continued FDI, businesses of Japanese firms at their overseas affiliates have been increasing steadily. According to a survey conducted by the Ministry of Economy, Trade and Industry (METI), the ratio of overseas sales to total sales[7] (overseas sales ratio) for Japanese firms increased steadily from 3.0 percent in 1985 to 13.1 percent in 1998[8]. Although the overseas sales ratio for Japanese firms continuously increased in recent years, the ratio is still significantly lower than the ratios for the US firms or German firms, which are reported at 32.1 and 27.7 percent in 1997, respectively[9]. These observations tend to indicate that overseas sales, or overseas activities, of Japanese firms are likely to expand in the future. As to the geographical distribution of sales by overseas affiliates of Japanese firms, those in developed regions account for two-thirds of total sales, while those in Asia amount to 23 percent in 1998. Among the affiliates in Asia, those in the NIEs, ASEAN4, and China account for 9.5, 6.9, and 6.0 percent of overall sales, respectively.

An examination of sectoral distribution of Japanese FDI reveals that a significantly larger portion of Japanese FDI in Asia have been undertaken in the manufacturing sector, when compared to the case for the rest of the world. Indeed, the share of manufacturing in Japanese FDI in Asia was 56.5 percent, while the corresponding share for Japanese FDI in the world was much smaller at 36.1 percent (Table 1). The high share of manufacturing for Japanese FDI in Asia, compared to Japanese FDI in other parts of the world, implies that Japanese firms assign a role of production base to their Asian affiliates, from which a large portion of the products are exported.

---

[7] Total sales include sales in Japan and sales at overseas affiliates of Japanese firms.

[8] METI(2001).

[9] METI(2001).

Among manufacturing sub-sectors electric machinery had the largest share (14.8% of total), while among non-manufacturing sub-sectors commerce had the largest share (10.1% of total). A comparison of sectoral distribution of Japanese FDI in ASEAN4 and China indicates that the sectoral patterns are similar for Malaysia, the Philippines, Thailand, and China, whereas Indonesia exhibits a quite different pattern. Japanese FDI in Malaysia, the Philippines, Thailand, and China are concentrated in manufacturing, particularly in electric machinery. Unlike the patterns in these countries, Japanese FDI in Indonesia had a relatively large share in non-manufacturing, especially in mining, and among the manufacturing sub-sectors chemicals had a large share. Differences in sectoral patterns of Japanese FDI among the countries under study are attributable to various factors such as natural resource endowments and FDI policies. For example, large shares of mining and chemical sectors for Japanese FDI in Indonesia are due to rich endowments of oil and natural gas in Indonesia, and low shares of transport machinery in Malaysia and finance and insurance in China are due to their restrictive FDI regimes in respective sectors..

One new development concerning Japanese FDI in Asia after the crisis has been the increase in one type of M&As in that Japanese firms increased capital subscription of their existing overseas affiliates. At least two reasons may be given to explain a large number of M&As after the crisis. First, Japanese parent firms provided financial support to their Asian affiliates, which were faced with credit crunch and stagnated sales. Second, the increase in FDI by Japanese firms was in response to liberalization in FDI policies in Asian economies. Realizing that FDI could contribute to economic recovery and sustainable economic growth, East Asian economies liberalized FDI policies. Among various measures to attract FDI, relaxation of the restriction on equity participation resulted in an increase in FDI inflows. Being concerned with possible dominance of local market and industry by foreign firms, East Asian governments had strict restrictions on the level of equity participation by foreign firms. In many industries, which these governments regard important, only minority equity participation was allowed. However, with the relaxation of the restriction, in many cases majority ownership, in some cases even 100 percent ownership, became possible.

III. The Motives and Determinants of Japanese FDI in East Asia

Japanese firms have undertaken FDI with various motives to achieve the eventual objective of maximizing profits. This section attempts to identify the motives and the determining factors behind Japanese FDI in East Asia.

Table 2 reports the results of the METI survey inquiring the motives of Japanese firm in undertaking FDI in Asia and other parts of the world. The most important motive behind undertaking FDI by Japanese firms is revealed to be to expand local sales, regardless of the destinations of Japanese FDI. Indeed, approximately 20 to 30 percent of the respondents from various regions indicated this motive. One could detect the proportion of respondents indicating local sales motive to be high for Japanese FDI in developed economies such as North America and the NIEs in comparison with the cases for Japanese FDI in ASEAN4 or China. One major difference in the motives for the affiliates in developed and developing regions is the importance of low cost production. For the affiliates in ASEAN4 and China low cost production is very important motive, whereas for the affiliates in North America it is not.

A comparison of the results of the survey on the affiliates in ASEAN4 and China reveals that the motives behind undertaking FDI in ASEAN4 and China are very similar. One significant difference is the importance of 'follow business partner' motive. For the affiliates in ASEAN4, 12 percent of the respondents indicated that they undertook FDI to follow business partners, while the corresponding ratio for the affiliates in China is lower at 7.5 percent. These differences may stem from the differences in the level of development of supporting industries, part-supplying industry, in ASEAN4 and China. Underdevelopment of efficient supporting industry in ASEAN4 necessitates Japanese assembling firms to ask their business partners, or part-supplying firms, to undertake FDI in ASEAN4. Another somewhat smaller difference in the motives for Japanese FDI in ASEAN4 and China is their sales destinations. Japanese firms tend to undertake FDI in ASEAN4 with a view to supply their products in East Asia, probably to other ASEAN members, while Japanese firms tend to use their affiliates in China to export their products to Japan. These differences appear largely due to geographical distances from Japan, and the presence of free trade agreement for ASEAN members (AFTA). Under the AFTA foreign trade among the ASEAN members is free from restrictions, thereby providing opportunities for the affiliates of Japanese firms in ASEAN countries to expand sales in other ASEAN member countries.

To deepen our understanding of Japanese FDI, we analyze the results of the survey on the determining factors for Japanese FDI in Asia. The results shown in Table 3 reveals that the determining factors for Japanese FDI in ASEAN4 and China are similar. Prospects of increase in local demand were very important determinant for Japanese FDI in ASEAN4 and China, along with those in North America and the NIEs. Availability of low-wage labor was indicated to be very important determinant for Japanese FDI in ASEAN4 and China. Industry promotion policies by the host government played a role for Japanese firms in choosing ASEAN4 and China as their hosts. It should be noted that both ASEAN4 and China score low in infrastructure as a factor attracting Japanese FDI. One notable difference between the affiliates in ASEAN4 and China is capability of production for Japanese market in terms of price and quality. Presence of such capability was important for only 4.8 percent of Japanese FDI in ASEAN4, whereas the corresponding ratio for Japanese FDI in China was slightly higher at 7.2 percent. Presence of other Japanese firms played a more important role for Japanese FDI in ASEAN4 than those in China. This finding is consistent with an earlier observation that 'follow business partner' was an important motive for Japanese FDI in ASEAN4. Once again this observation points to the shortage of local supporting industry in ASEAN4.

An examination of the motives and determining factors for Japanese FDI revealed that they are very similar for Japanese FDI in ASEAN4 and in China. This finding appears to indicate that ASEAN4 and China are competitors in the race for attracting FDI, making the comparison between ASEAN4 and China as FDI host meaningful.

IV. FDI Strategies of Japanese Firms in East Asia in the Coming Years

This section examines the future prospects of FDI by Japanese firms with a focus on their operation in East Asia, in particular on ASEAN4 and China. The analysis utilizes mainly the results of a questionnaire survey conducted on Japanese firms by Japan Bank for International Cooperation (JBIC) in July-August 2001. For the 2001 survey, the most recent one in its annual survey series, which began in 1989, the questionnaire was sent to 759 firms with more than three overseas affiliates, and responses from 501 firms were obtained.

IV.1 FDI Plans

Concerning the future plans of FDI by Japanese firms, one observes an encouraging trend in recent years. According to the JBIC survey, the share of Japanese firms indicating "expansion" in FDI in medium-term future increased from 54.5 percent in 2000 to 71.6 percent in 2001 (Table 4). The same active attitude toward FDI by Japanese firms can be found from the survey that expanding and strengthening overseas operation was indicated as the most important agenda for the respondents. Indeed, out of 14 agenda listed in the questionnaire including strengthening business relations with business partners, improving efficiency in production, and others, as many as 54.4 percent of the respondents indicated expansion and strengthening of overseas production as the most important agenda. In the 2000 survey the corresponding share was 20.9 percent. Several reasons may be given for the increasing importance of FDI for Japanese firms. Facing pessimistic future prospects of the Japanese economy, many Japanese firms have found overseas markets attractive. Some Japanese firms consider overseas production as an effective way to reduce production cost, in order to compete in increasingly competitive markets.

Among different regions and countries, as many as 76.3 percent of the respondents indicated their plan to expand their FDI in China. The corresponding share for ASEAN4 was significantly lower at 51.5 percent. Attractiveness of China for Japanese firms as a destination of their FDI can also be found from the results of the survey on the most promising potential FDI hosts. As shown in Table 5, China has been the most promising host country to Japanese FDI for all the years shown in the table. For the 2001 survey, 82 percent of the respondents indicated China as a promising country. Among other East Asian economies, Thailand, Indonesia, Vietnam, Taiwan, Korea, Malaysia, and Singapore are ranked among top 10. It is worth noting that the percentage share of the respondents indicating China as a promising country increased sharply from 65 percent in 2000 to 82 percent in 2001.

Among different sectors, Japanese firms in the automobile sector are most keen on expanding or strengthening their overseas operations, since as many as 90 percent of them indicated their expansion plans. Albeit at a lesser degree, many Japanese firms in electric machinery indicated their expansion plans. As to their expansion plans by regions, Japanese firms in electric and automobile industries consider that China is very important. Although the shares of the respondents in these two industries indicated that their plans for expansion in ASEAN4 were lower when compared to those in China, the shares are significantly higher than those for other regions. These findings reflect the view of Japanese firms that both China and ASEAN4 are important for their overseas operations, which in turn appears to reflect Japanese firms' strategy to diversify risks associated with their FDI.

In response to the question on the reasons for expanding/strengthening operations in East Asia, Japanese firms indicated their interest in responding to local market demand. This factor is particularly important for their future FDI plans in China and to lesser extent for their FDI plans in the NIEs and ASEAN4. Other important factors for expanding/strengthening their operations in China and ASEAN4 are similar and they include using low-wage labor, supplying parts to business partners, using cheap materials, exploring new markets, and developing new products for the local markets. One interesting difference concerning the reasons for expanding/strengthening operations in ASEAN4 and China is the importance of 'responding to regional integration.' For their ASEAN4 operations 6.4 percent of Japanese firms indicated 'responding to regional integration' as a factor behind expanding/strengthening their operations, whereas the corresponding ratio for their China operations is lower at 0.6 percent. Obviously the high share recorded for their operations in ASEAN4 is due to the presence of AFTA.

Japanese firms are planning to use various means to meet their objectives of expanding/strengthening their operations in East Asia. It is interesting to observe different strategies for their operations in ASEAN4 and China from the results of the survey. For their operations in ASEAN4 Japanese firms emphasize strengthening and expanding existing production and distribution systems, while for their operations in China they emphasize building new production and distribution systems. Specifically, 40.9 and 23.7 percent of the respondents indicated their plans to set up new bases in production and distribution in China, respectively, while the corresponding shares for their operations in ASEAN4 are significantly lower at 17.9 and 7.6 percent, respectively. These differences in Japanese firms' strategies toward ASEAN4 and China are mainly due to the differences in their past experiences in these two regions. Japanese firms have been operating in ASEAN4 much longer than in China. Accordingly, Japanese firms have more or less completed their initial FDI plans in ASEAN4, while their operations in China are in the early stage. It is also important to note that China's accession to the WTO has opened new opportunities in many sectors including distribution sector to foreign firms, leading to the building of new operations.

The survey reveals another interesting difference in Japanese firms' strategies in ASEAN4 and China. For their operations in ASEAN4, Japanese firms are not interested in cooperation with other firms in such forms as joint ventures and strategic alliances. However, Japanese firms consider such cooperation as an effectively strategy in China. This difference in strategies concerning inter-firm cooperation is evidenced by the following survey results. For their FDI plans in China, 25.1 percent of the respondents considered cooperation with other firms, while the share is much lower at 9.7 percent for their FDI plans in ASEAN4. One observes the lack of familiarity in the Chinese market as an important factor, which necessitates Japanese firms to cooperate with other firms.

IV.2 Restructuring of Operations in Asia

Firms pursue their overseas strategies by undertaking new FDI as well as restructuring the existing overseas operations. We examine Japanese firms' strategies toward restructuring of their operations in East Asia to discern their overall business strategies in the region.

According to the results of the JBIC 2001 survey, the proportions of Japanese firms carrying out restructuring of their existing operations in ASEAN4 and China are 64 and 61 percent, respectively, increase from 52 and 42.5 percent in the previous year. Similarly large proportions of Japanese firms are considering further restructuring in the near future.

Several factors that necessitate restructuring by Japanese firms can be identified. One factor common for operations in ASEAN4 and China is increased competition. Competition with local firms, foreign firms, particularly Japanese firms has increased as a result of active FDI by foreign firms, which in turn was attributable to liberalization of FDI policies in East Asian countries and to expected high economic growth of these countries. Another factor leading to restructuring rapid increase in production costs, which mainly result from high economic growth. One important factor that forces Japanese firms to restructure their operations in ASEAN4 is regional trade liberalization under the AFTA. Under the free regional trade system, firms attempt to set up production plants in a country where most efficient production can be achieved.

Faced with pressures for restructuring, many Japanese firms have attempted to consolidate their production system in ASEAN4 and in China. Specifically, many Japanese firms in electronics and automobile reduced the number of production plants and expanded the scale of their operations at a few selected plants where efficient production can be achieved. Such strategy has been carried out actively in ASEAN4, where free regional trade is pursued. Albeit at a lesser extent, the similar strategy has been pursued in China, where many Japanese firms so far have invested without a cohesive country strategy. Another popular restructuring strategy is to strengthen sales promotion. This is particularly important for their operations in China, since distribution sector has been liberalized as a result of China's accession to the WTO.

So far many Japanese firms have implemented regional production strategy, under which Japanese firms divide their production process into several sub-processes and locate each sub-process in a country where that particular process is carried out most efficiently. For example, in the production of electronic products such as TVs and other audio-visual products, integral parts and components are produced in Japan, and other somewhat less sophisticated parts and components are produced in the NIEs. These parts and components are then shipped to ASEAN4 and China, where low-wage labor is abundant, to be used for assembling of the final products. However, under the new strategy, Japanese firms aim at setting up self-contained production system both in ASEAN4 and China, where they can expect large sales expansion. In addition to expected sales expansion, an improvement in technical capability in ASEAN4 and China contributed to the change in business strategy by Japanese firms. Many Japanese firms assign formulation of overall corporate strategy, R&D activities, and other activities, which have impacts on their worldwide operations, to their main office in Japan.

V. The Problems Faced by Japanese Firms in East Asia

Asian affiliates of Japanese firms are faced with various problems in doing their business. Identification of these problems is very important for the host country governments in order to attract FDI. With this observation in mind, we examine the problems faced by Japanese firms in Asia by mainly using the information obtained from the JBIC 2001 survey.

Table 7 shows the results of the JBIC survey. One notices immediately that Japanese firms face many more problems in China than in ASEAN countries. However, one identifies various different problems that are faced by Japanese firms in different ASEAN countries. The problem of unstable exchange rates was felt strongly by Japanese firms in ASEAN4 countries, particularly those in Thailand and Indonesia. By contrast, many Japanese firms in China did not point out the problems of exchange rate instability.

For Japanese firms in Thailand, recruiting managers is one of the serious problems. Indeed, this problem does not seem to have alleviated over time, as shown by the result of the survey shown in Table 8. It is worth noting that 38 percent of the respondents thought that infrastructure was improving. For Japanese firms in Indonesia political and social instability is the most serious problem since as many as 94.4 percent of the respondents indicated so. It is also important to point out that 55 percent of the respondents thought that the situation is worsening. In addition to political and social instability and exchange rate instability, underdevelopment of legal system and infrastructure are pointed out as serious problems by many Japanese firms. As to the problems in Malaysia, restrictive FDI regime, political instability, unstable exchange rates, difficulty in recruiting managers are pointed out by many Japanese firms. Turning to the problems in Vietnam, many Japanese firms face more problems in Vietnam than in Thailand, Indonesia, or Malaysia, as shown by relatively high responding rates to many problems. Among the problems underdeveloped infrastructure, underdeveloped legal system, difficulty in procuring parts and components are indicated by many Japanese firms. These situations do not appear to be improving.

As noted earlier, Japanese firms face many problems in China. The problems that were indicated by a more than one-third of the respondents include legal system (lack of transparency, instability, underdevelopment), tax system (instability, lack of transparency), complicated administrative procedures, and political and social instability. Having noted the presence of many problems in China that discourage FDI, it should be emphasized that the environment is improving notably. As shown in Table 8, a large portion of the respondents indicated 'improvement' in many problems in China. In particular, infrastructure is indicated to have improved noticeably. Other problems that appear to have alleviated include distribution system, political and social instability, legal system, FDI approval procedure. China had a lot of room for improving FDI environment and therefore it may not have been so difficult to improve the situation. However, one should recognize the efforts made by the Chinese government to improve FDI environment, in order to attract FDI.

VI. Conclusions

Annual flows of Japanese foreign direct investment have been declining since the late 1990s after experiencing a steady increase in the mid-1990s. This decline is largely due to unfavorable financial position of Japanese firms and banks, which is in turn attributable to long recession in Japan. The declining trend is likely to be reversed in the near future, because a large number of Japanese firms are interested in expanding/strengthening their overseas operations. Under prolonged recession in Japan and increased competition in many markets in the world Japanese firms regard overseas operations as a key factor in determining their performance. Specifically, Japanese firms find business opportunities in the growing economies and they also find overseas operations as a means to conduct business efficiently or at low cost.

Among various parts of the world Japanese firms are keen on expanding/strengthening their operations in East Asia, because they consider East Asia to provide them with growing demand and low cost production. Among East Asian economies, Japanese firms find China most attractive, but they also find ASEAN4 countries attractive. It is important to realize that similar factors, namely huge potential market and abundant supply of cheap labor, make China and ASEAN4 attractive to Japanese FDI. At present, many Japanese firms appear to have operations both in China and ASEAN4 because they think FDI environments in ASEAN4 and China are more or less comparable and because they are interested in diversifying risks. However, if and when ASEAN and China FTA becomes effective and free trade between them is achieved, Japanese firms may consolidate their operations in the most appropriate location. If China continues to achieve high economic growth and pursue trade and FDI liberalization under their WTO commitments, and if ASEAN4 cannot achieve sustainable economic growth or trade and FDI liberalization, it appears quite certain that China would attract large amount of FDI at the cost of ASEAN4. Indeed, there have been a number of cases where Japanese firms shifted their operations from ASEAN4 to China.

In order to attract FDI and to achieve economic growth by utilizing the benefits of FDI, ASEAN4 have to provide an attractive FDI environment. The results of the JBIC survey and other studies have shown the importance of open trade and FDI regimes, stable macroeconomic environment, and well-established and well-functioning soft and hard infrastructure. Soft infrastructure includes educational and training systems for improving the quality of human resources, well-functioning markets with effective legal systems, and others, while hard infrastructure includes efficient and reliable transportation and communication systems, stable supply of electricity, efficient supporting industries, and others.

To successfully provide such favorable FDI environments, ASEAN4 countries have to carry out a number of policies including trade and FDI liberalization, restructuring of legal and tax systems on their own. They also should use multilateral, regional, and bilateral frameworks to construct favorable FDI environments. Specifically, trade and FDI liberalization under the WTO, APEC, and FTA such as AFTA, proposed China-ASEAN, Japan-ASEAN FTAs would prove effective. Furthermore, economic and technical assistance under the frameworks of the World Bank, APEC, EPA (economic partnership agreements) such as Japan-ASEAN EPA would contribute substantially to enhance FDI environments.

References

Japan Bank for International Cooperation (2002) "Japanese Manufacturing Companies Show Intention to Expand Overseas Business Operations as They Continue Domestic and International Management Reformation at Brisk Pace: The Result of FY2000 Survey," *Journal of Research Institute for Development and Finance*, no.5, January.

Japan Bank for International Cooperation (2002) "JBIC FY2001 Survey: The Outlook of Japanese Foreign Direct Investment," *Journal of Research Institute for Development and Finance*, no.9, January.

Kawai, Masahiro and Shujiro Urata (1998) "Are Trade and Direct Investment Substitutes of Complements? An Empirical Analysis of Japanese Manufacturing Industries," in H.Lee and D.Roland-Holst eds., *Economic Development and Cooperation in the Pacific Basin: Trade, Investment and Environmental Issues,* Cambridge University Press.

Ministry of Economy, Trade and Industry (2001), Wagakuni Kigyo no Kaigai Jigyo Katsuodo [Comprehensive Survey of Overseas Activities of Japanese Firms].

Pacific Economic Cooperation Conference (1999) *Assessing APEC Individual Action Plans and Their Contribution to APEC's Goals*, Manila.

Urata, Shujiro (1993) "Japanese Foreign Direct Investment and Its Effect on Foreign Trade in Asia," Takatoshi Ito and Anne O. Krueger eds., *Trade and Protectionism,* University of Chicago Press for NBER.

Urata, Shujiro (1998) "Foreign Direct Investment and APEC," in Vinod K. Aggarwal and Charles E. Morrison eds., *Asia-Pacific Crossroads: Regime Creation and the Future of APEC,* St. Martin's Press, New York.

Urata, Shujiro (2001) "Emergence of An FDI-Trade Nexus and Economic Growth in East Asia," in Joseph E. Stiglitz and Shahid Yusuf eds., *Rethinking the East Asian Miracle*, Oxford University Press, New York.

Urata, Shujiro and Hiroki Kawai (2001) "The Determinants of the Location of Foreign Direct Investment by Japanese Small and Medium-sized Enterprises," *Small Business Economics* 15.

Table 1 Japanese FDI in ASEAN4 and China by Sectors: 1990-2001 Cumulative Value (billion yen, %)

	Value (billion yen)							Sectoral composition (%)						
	Indonesia	Malaysia	Philippine	Thailand	China	Asia	Total	Indonesia	Malaysia	Philippine	Thailand	China	Asia	Total
Manufacturing	987	659	463	1,012	1,634	6,507	23,789	52.1	74.6	72.6	67.7	74.3	56.5	36.1
Food	18	23	75	44	92	305	2,696	0.9	2.7	11.7	2.9	4.2	2.7	4.1
Textiles	92	12	3	53	199	435	791	4.9	1.3	0.5	3.6	9.0	3.8	1.2
Wood and pulp	45	26	3	10	26	120	555	2.4	2.9	0.5	0.7	1.2	1.0	0.8
Chemicals	388	87	28	105	117	1,032	2,975	20.5	9.8	4.5	7.0	5.3	9.0	4.5
Metal products	112	84	42	174	141	735	1,656	5.9	9.5	6.7	11.6	6.4	6.4	2.5
General machinery	19	48	34	79	201	530	1,860	1.0	5.4	5.3	5.3	9.1	4.6	2.8
Electric machinery	112	218	172	255	445	1,708	7,103	5.9	24.7	27.0	17.1	20.2	14.8	10.8
Transport machinery	126	19	74	190	180	750	3,640	6.6	2.1	11.6	12.7	8.2	6.5	5.5
Other manufacturing	75	142	32	102	233	892	2,515	4.0	16.1	5.0	6.8	10.6	7.8	3.8
Non-manufacturing	896	222	167	383	512	4,655	41,374	47.3	25.1	26.2	25.6	23.3	40.4	62.8
Agriculture	1	1	2	7	4	22	160	0.1	0.1	0.3	0.5	0.2	0.2	0.2
Fishery	14	15	2	0	6	61	112	0.8	1.7	0.3	0.0	0.3	0.5	0.2
Mining	382	16	10	1	5	423	1,609	20.2	1.8	1.6	0.1	0.2	3.7	2.4
Construction	11	8	6	41	43	164	447	0.6	0.9	0.9	2.7	1.9	1.4	0.7
Commerce	13	19	7	105	108	1,161	6,347	0.7	2.2	1.1	7.0	4.9	10.1	9.6
Finance and insurance	221	55	40	68	14	1,016	12,217	11.7	6.2	6.2	4.5	0.6	8.8	18.5
Services	120	62	34	45	214	852	7,809	6.3	7.1	5.3	3.0	9.7	7.4	11.9
Tranportation	22	6	46	65	22	345	5,250	1.2	0.7	7.3	4.4	1.0	3.0	8.0
Real estate	105	39	20	51	98	600	7,408	5.5	4.4	3.1	3.4	4.4	5.2	11.2
Other non-manufacturing	6	1	1	0	0	9	16	0.3	0.1	0.1	0.0	0.0	0.1	0.0
Branches	10	3	8	99	54	349	708	0.5	0.3	1.2	6.6	2.5	3.0	1.1
Total	1,893	884	638	1,494	2,200	11,510	65,871	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Reported values
Source: Ministry of Finance

Table 2 Motives of FDI by Japanese Firms: 1998 (%)

	Asia	ASEAN4	China	NIEs	N.America	World
Access to natural resources	3.9	3.6	4.6	3.4	5.0	4.2
Achieve low cost production	16.9	18.6	17.7	12.9	6.6	12.4
Reduce cost of production	12.6	13.6	14.1	9.4	5.7	9.1
Follow business partners	9.5	12.0	7.5	8.7	9.3	8.3
Expand local sales	24.9	22.5	24.5	28.5	32.5	28.2
Expand regional sales	9.7	9.5	7.9	13.1	9.3	11.8
Expand exports to ROW	5.7	5.0	5.8	7.0	6.2	6.7
Expand exports to Japan	6.4	6.2	7.8	5.0	4.3	5.2
Obtain earnings such as dividends	6.9	6.1	6.7	7.5	9.0	7.8
Avoid exchange rate risks	2.0	1.9	2.0	2.1	4.2	2.8
Avoid trade frictions	0.6	0.5	0.3	1.3	2.6	1.3
Conduct R&D	0.9	0.5	1.1	1.2	5.2	2.1

Note: The figures indicate percentage of the respondents indicating the stated motives. Multiple answers are allowed.
Source: METI(2001)

Table 3 Determining Factors for Japanese FDI: 1998 (%)

	Asia	ASEAN4	China	NIEs	N.America	World
Industry promotion policies by host government	9.5	10.4	9.5	7.5	3.1	7.5
Availability of low-wage labor	20.2	22.8	21.5	14.4	6.7	14.6
Availability of engineers	2.8	2.2	2.7	3.8	5.4	3.4
Availability of locally produced parts	3.9	3.1	4.0	5.3	5.0	3.8
Availability of cheap land/finance	5.6	6.6	6.0	3.2	4.7	4.9
Capability to produce products for Japanese market	5.6	4.8	7.2	4.9	3.4	4.6
Prospects of increase in local demand	21.4	19.9	21.5	23.2	29.3	24.2
Prospects of increase in regional demand	10.2	10.1	8.7	12.8	9.5	11.6
Good infrastructure	6.8	4.7	5.6	12.0	13.7	9.9
Presence of other Japanese firms	11.6	13.5	10.5	10.8	13.3	11.3

Note: The figures indicate percentage of the respondents indicating the stated motives. Multiple answers are allowed.
Source: METI(2001)

Table 4 Future FDI Plans by Japanese Firms (%)

	Expansion Strength-ening	Maintain current level	Reduction
Overall industry			
All regions	71.6	28.0	0.4
ASEAN4	51.5	46.2	2.3
China	76.3	23.2	0.5
NIEs	32.0	66.7	1.4
Electric machinery			
All regions	72.3	26.6	1.1
ASEAN4	57.8	36.1	6.0
China	86.4	13.6	0.0
NIEs	38.8	61.3	0.0
Automobile industry			
All regions	90.0	10.0	0.0
ASEAN4	65.0	33.4	1.7
China	74.1	25.9	0.0
NIEs	10.9	86.9	2.2

Note: Percentage of the firms indicating their future plans.
The responses for all regions and those for regional groups do not necessary add up.
Source: Japan Bank for International Cooperation (2002)

Table 5 Ten Most Promising Economies to Japanese FDI

	2001	%	2000	%	1999	%	1998	%	1997	%	1996	%	1995	%
Medium-term (next 3 years)														
1	China	82	China	65	China	55	China	55	China	64	China	68	China	74
2	U.S.A.	32	U.S.A.	41	U.S.A.	39	U.S.A.	41	U.S.A.	36	Thailand	36	Thailand	36
3	Thailand	25	Thailand	24	Thailand	27	Thailand	23	Indonesia	28	Indonesia	34	Indonesia	33
4	Indonesia	14	Indonesia	15	India	15	Indonesia	16	Thailand	25	U.S.A.	32	U.S.A.	32
5	India	13	Malaysia	12	Indonesia	15	India	15	India	23	Vietnam	27	Vietnam	28
6	Vietnam	12	Taiwan	11	Vietnam	11	Philippines	14	Vietnam	19	Malaysia	20	Malaysia	22
7	Taiwan	11	India	10	Malaysia	9	Malaysia	14	Philippines	14	India	18	India	17
8	Korea	8	Vietnam	9	Philippines	9	Vietnam	14	Malaysia	13	Philippines	13	Philippines	15
9	Malaysia	8	Korea	9	U.K.	9	Brazil	11	Brazil	8	Singapore	10	Singapore	10
10	Singapore	6	Philippines	8	Brazil	8	U.K.	10	Taiwan	8	U.K.	7	U.K.	7
											Taiwan	7		
Long-term (next 10 years)														
	2001	%	2000	%	1999	%	1998	%	1997	%	1996	%	1995	%
1	China	86	China	70	China	66	China	64	China	73	China	74	China	78
2	India	28	U.S.A.	38	U.S.A.	30	U.S.	34	India	36	India	39	Vietnam	41
3	U.S.A.	25	India	22	India	27	India	25	U.S.	31	Vietnam	33	India	36
4	Thailand	19	Thailand	21	Thailand	24	Indonesia	20	Vietnam	24	U.S.A.	31	U.S.A.	30
5	Vietnam	14	Indonesia	14	Vietnam	18	Thailand	19	Indonesia	21	Indonesia	24	Indonesia	24
6	Indonesia	14	Vietnam	14	Indonesia	18	Vietnam	18	Thailand	16	Thailand	24	Thailand	24
7	Brazil	8	Malaysia	10	Brazil	14	Brazil	14	Brazil	11	Malaysia	12	Myanmar	15
8	Taiwan	7	Brazil	9	Malaysia	8	Philippines	13	Philippines	11	Myanmar	11	Malaysia	13
9	Malaysia	6	U.K.	9	Philippines	8	Malaysia	7	Malaysia	9	Philippines	11	Philippines	11
10	Korea	5	Taiwan	8	Mexico	7	U.K.	6	Myanmar	5	Mexico	6	U.K.	6
10	Philippines	5												

Source: Japan Bank for International Cooperation (2001,2002)

Table 6 Reasons for Expanding/Strengthening Overseas Operation in the Next 3 years (%)

	ASEAN4	China	NIES
Responding to local sales expansion	55.9	74.3	61.4
Exploring new market	22.1	29.3	29.8
Supplying parts to business partners (assemblers)	34.8	31.8	28.9
Using low-wage labor	47.5	57.2	17.5
Developing new products for the local markets	13.7	14.5	15.8
Using cheap materials	27.9	31.5	15.8
Avoding exchange rate risks	4.4	2.6	2.6
Responing to regional integration	6.4	0.6	- -
Responing to requests by host country government	- -	1.0	- -

Note: Multiple responses are allowed.

Source: Japan Bank for International Cooperation (2002)

Table 7 The Problems Faced by Japanese Firms (%)

	Thailand	Indonesia	Malaysia	Vietnam	China
Underdeveloped infrastructure	14.9	24.1	14.3	38.6	27.3
Legal system (underdevelopment)	17.2	25.9	7.1	36.4	43.8
Legal system (lack of transparency)	14.9	16.7	7.1	20.5	53.3
Legal system (instability)	5.7	16.7	3.6	15.9	52.1
Tax system (complicated system)	4.6	7.4	3.6	2.3	16.8
Tax system (lack of transparency)	13.8	7.4	7.1	11.4	36.5
Tax system (instability)	2.3	7.4	3.6	11.4	42.2
Tax system (high tariff rates)	10.3	5.6	0.0	9.1	17.5
Restriction on equity participation	10.3	7.4	32.1	11.4	20.3
Complicated administrative procedure	5.7	3.7	17.9	15.9	34.9
Political and social instability	11.5	94.4	32.1	25.0	34.0
Unstable exchange rates	48.3	57.4	32.1	22.7	15.2
Difficulty in procuring local parts	19.5	11.1	17.9	34.1	20.6
Underdevelopment of supporting industry	10.3	13.0	0.0	22.7	10.2
Difficulty in obtaining finance	11.5	11.1	17.9	9.1	16.2
Tough competition	29.9	20.4	21.4	13.6	23.8
Difficulty in recruiting managers	23.0	11.1	28.6	20.5	19.7
Difficulty in recruiting workers	13.8	11.1	14.3	9.1	10.5
Increase in wages	20.7	11.1	21.4	6.8	14.0
Labor disputes	9.2	11.1	3.6	2.3	12.7
Shortage of information on the host country	4.6	5.6	0.0	18.2	9.5
Others	0.0	0.0	3.6	0.0	0.3
The number of respondents	87	54	28	44	315

Source: Japan Bank for International Cooperation (2002)

Table 8 Changing FDI Environment in ASEAN and China(%)

	Thailand	Indonesia	Malaysia	Philippines	Vietnam	China
Infrastructure						
Improving	37.9	12.9	26.1	10.6	19.3	57.1
No change	28.4	34.1	33.0	28.4	13.8	22.5
Worsening	2.1	12.5	1.6	6.4	0.7	0.5
Legal system						
Improving	13.6	3.6	5.6	2.5	9.4	22.7
No change	48.1	41.2	45.0	32.3	16.1	44.1
Worsening	0.3	7.5	1.7	3.6	0.7	4.5
Tax system						
Improving	9.0	2.6	4.6	2.5	5.3	13.8
No change	49.9	43.2	45.9	33.5	17.7	48.1
Worsening	2.1	6.5	0.7	1.8	0.4	5.7
Political and social conditions						
Improving	12.3	2.6	7.0	2.5	10.2	26.7
No change	51.8	10.7	50.3	23.5	28.2	51.0
Worsening	6.6	55.2	5.3	28.1	0.0	2.2
FDI approval procedure						
Improving	13.7	4.2	6.7	3.2	5.3	20.2
No change	39.8	35.9	36.6	26.3	16.8	42.2
Worsening	1.2	3.9	1.0	1.8	0.0	2.5
Distribution system						
Improving	15.8	4.9	9.4	4.3	6.0	29.0
No change	44.5	41.4	40.8	31.2	18.9	39.0
Worsening	0.6	5.5	1.0	1.8	0.4	1.1
Recruitment: Managers						
Improving	8.1	3.3	4.3	0.7	1.1	13.9
No change	45.8	37.6	37.7	27.9	19.2	43.2
Worsening	3.3	6.5	5.7	3.6	0.0	5.7
Recruitment: Workers						
Improving	9.7	7.2	5.7	1.8	5.3	18.3
No change	49.2	37.3	41.8	31.2	18.6	49.0
Worsening	0.9	6.2	3.0	1.8	0.0	1.4
Labor problems						
Improving	4.5	1.0	1.7	0.7	1.1	8.4
No change	50.2	33.9	42.7	27.5	18.2	53.0
Worsening	1.8	12.4	2.0	5.7	0.0	2.7

Note: The figures in the table do not add up to 100, as the figures under the category 'do not know' are not shown. If they are included, the figures would add up to 100 percent.

Source: Japan Bank for International Cooperation (2002)

Figure 1 Japan's Foreign Direct Investment by Regions

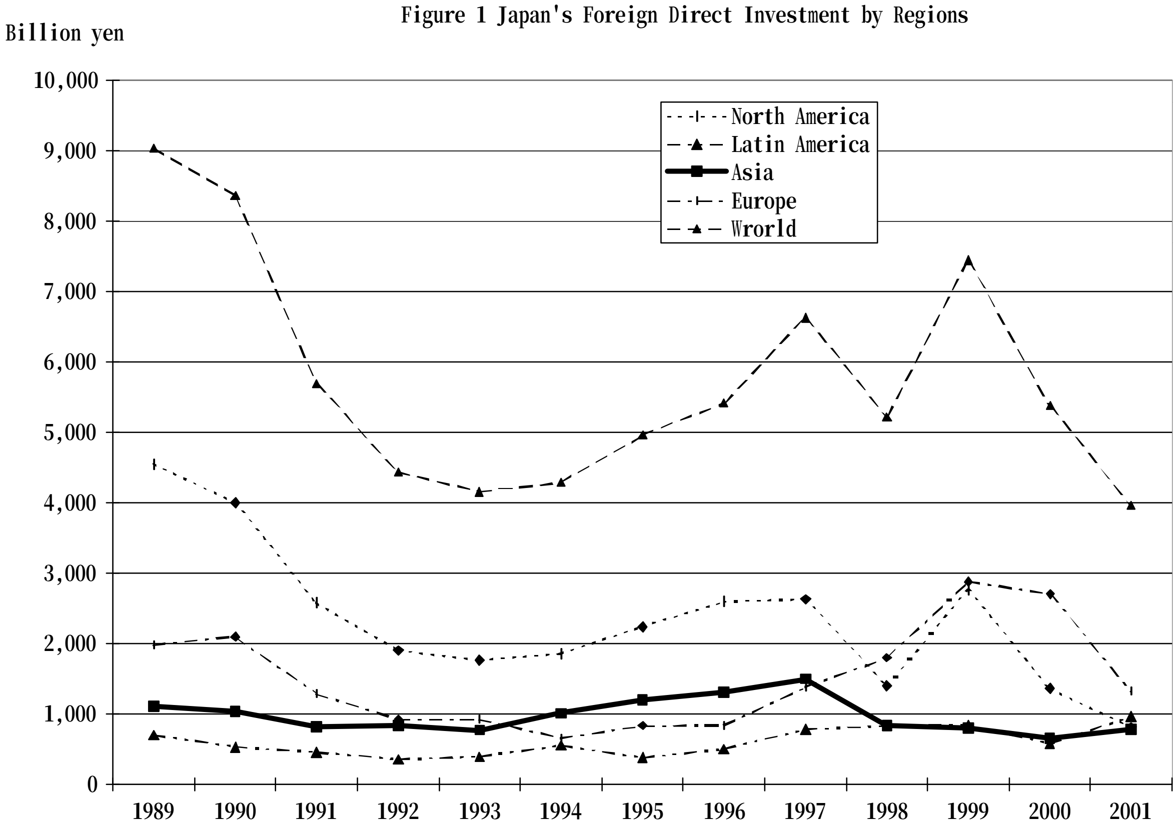

Figure 2 Japan's Foreign Direct Investment in Asia

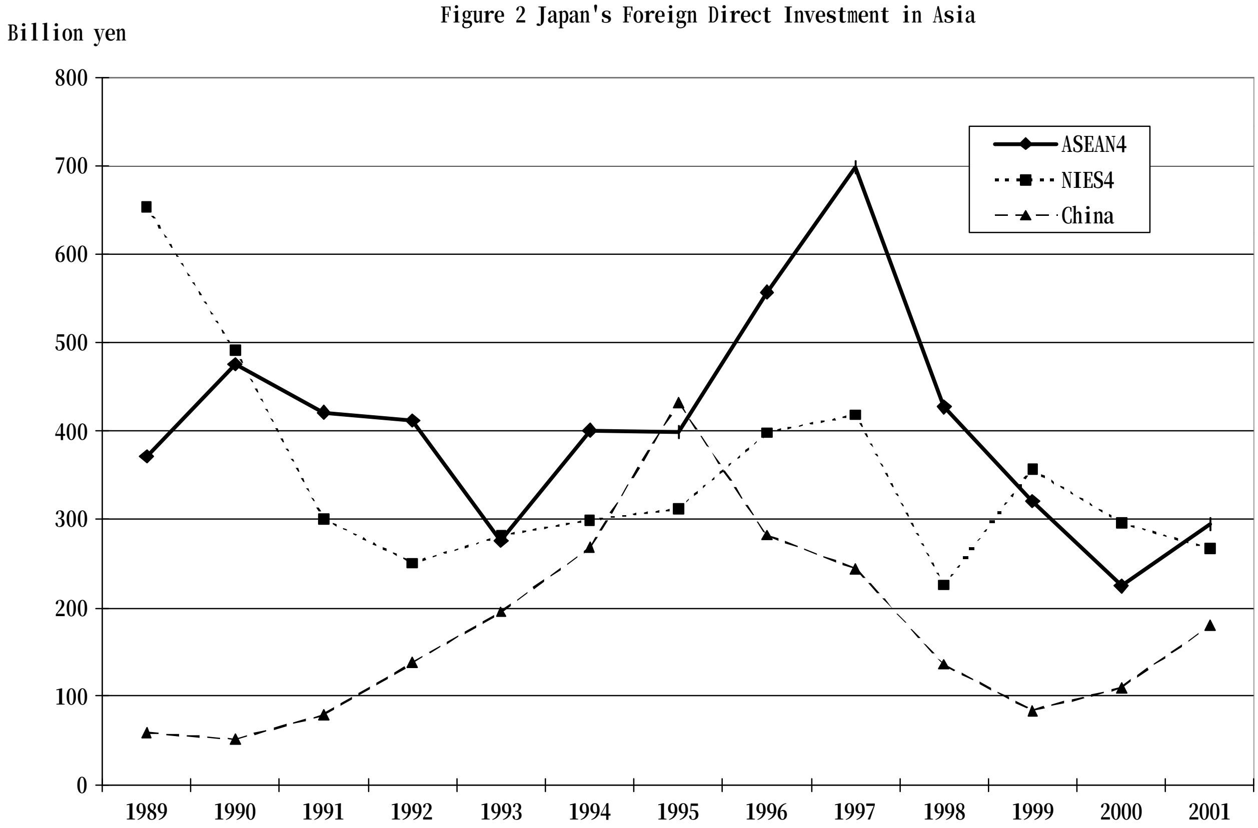

Figure 3 Japan's FDI in ASEAN4