

## Honda targets benchmark



Honda has set a global sales target for fiscal 2007 of 4 million cars, considered the benchmark for an automaker to remain independent. **Page 2**

## Summer bonuses reach new heights



Summer bonuses hit a record high, driven by corporate recovery, but gap in payments is widening due to merit-based pay. **Page 5**

## Sakhalin 2 runs into more costs, delays

Pipeline rerouting has caused serious delays at an oil-and-gas project off the Sakhalin coast. Mitsui & Co. and Mitsubishi Corp. are major stakeholders. **Page 11**

## Company In Focus Daihatsu **Page 12**

## 'Fleury Ice' could help solve energy woes



Huge reserves of methane hydrate trapped beneath the sea floor offer the prospect of supplying Japan's energy needs for decades to come. **Page 16**

## Insight

## Fresh thinking marks move

alliances developed by creative ideas

# Top execs stick to expansion in China after revaluation

Japan chief officers project yuan to gain 5-10% in 1 year, but basic strategy unchanged

**A**gainst a background of growing pressure from its trading partners, China revalued the yuan by 2% last week, abandoning the currency's tight peg to the dollar and allowing it to float narrowly against a basket of currencies, although details were not released.

Japanese corporate executives foresee further revaluation of the yuan, around 5-10% in a year, but they are not making significant changes to their strategies of expanding operations in China, seeing the country as a prominent market.

At the same time, the managers are considering alternative markets in a bid to minimize risk caused by overconcentration on China, according to a survey of top executives at major Japanese conducted by Nihon Keizai Shinbun Inc.

"The revaluation of the yuan was within the expected range," noted Fuji Xerox Co. President Toshio Arima.

More than half the 72 respondents said they will strengthen their marketing and production efforts in China, while none plan to reduce operations as a result of the revaluation.

"China is a growth market, and we'll mainly expand our cell-phone and systems-configuration operations," said NEC Corp. President Akinobu Kanasugi.

The revaluation will blunt to a certain extent the competitive edge of exports from China. For Japanese companies operating in the country, however, China represents not only a low-cost production base, but also an enormous market that cannot be

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China's revaluation of the yuan last week has not discouraged Japanese companies.



ignored in formulating their global business strategies.

China's role is changing from "a production base to a business location," in the words of Toshiba Corp. Chairman Tadashi Okamura.

Fast Retailing Co. Chairman Tadashi Yanai said the Uniqlo casual wear chain plans to expand operations in the country "as a sales location."

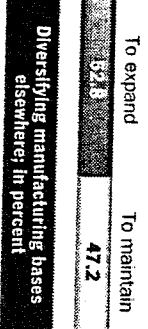
Fujitsu Mitarai, president of Canon Inc., said: "We export products from China, but we also import into China considerable volumes of parts from Japan for production. Because of this, the yuan's revaluation will be neutral for us overall."

Asahi Breweries Ltd. President Koichi Ikeda, said: "We have set up our Chinese breweries at the most appropriate locations for sales in the domestic market not for export. We plan to continue expanding our operations in China in pace with the growth of the market."

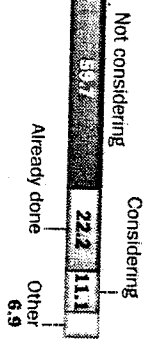
Yoshinori Iida, president of Isuzu Motors Ltd., said, "We will keep on expanding our operations in China. The yuan's revaluation will make our exports from Japan more competitive in China, but we will reap more benefits from cost

## Little effect

Manufacturing and sales operations in China, in percent



Diversifying manufacturing bases elsewhere, in percent



Total does not add up to 100 due to rounding  
Source: Nihon Keizai Shinbun Inc. survey

savings from local production in China." Respondents pointed to the dangers of concentrating business in China, with 24 diversifying into other countries.

## Diversifying locations

Japanese firms are starting to re-evaluate Southeast Asian markets, as Vietnam and other countries now surpass China in terms of cost-competitiveness in such light industries as apparel making.

Several respondents mentioned Vietnam and Thailand as possible production bases. Seven executives cited India as a market with high potential. The revaluation could be a catalyst for change in their global expansion strategies.

Tokuichi Okaya, president of steel wholesaler Okaya & Co., said, "Rather than focusing exclusively on China, we're seeking a balanced overseas expansion."

See Yuan on Page 3

# S. Korea, Taiwan gaining digital share

South Korean and Taiwan manufacturers surpassed their Japanese counterparts in a number of digital product categories in terms of global market share in 1997.



Continued from Page 1

Sumitomo Chemical Co. President Hiromasa Yonekura noted, "We need to spread out our bases in light of the political situation as well."

On Corp. President Hisao Sakuta said, "We factor in the local market and production costs when considering locations such as Russia, Eastern Europe and Asian countries outside China."

Hajime Sawabe, president of TDK Corp., commented, "We will consider diversifying production bases into India and Vietnam depending on the situation."

### BRICs attractive

NTN Corp. President Yasunobu Suzuki, said, "The distribution of risks and markets and ideal placement of production bases are always on my mind. We will accelerate diversification of production bases in the BRICs — Brazil, Russia, India and China — as well as Eastern Europe and other Asian countries."

The five major general trading houses said they intend to expand their Chinese operations, but they expressed caution. "China remains a key market, but we want to proceed with our business expansion plans while carefully weighing the risks involved," Itochu Corp. President Eizo Kobayashi noted.

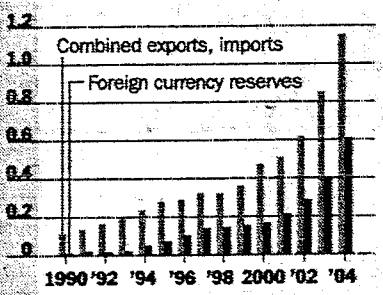
Shoei Utsuda, president of Mitsui & Co., explained, "We will continue to optimize the distribution of our production and sales bases in the wider Asian region, including Southeast Asia and India."

### Reaction insufficient

The majority of respondents deemed the extent of Beijing's revaluation of the yuan as insufficient. "Market participants will not be satisfied until at least 5% is reached," said Japan Energy

### Soaring

China's two-way trade, foreign currency reserves; in trillions of dollars



Source: The Nihon Keizai Shimbun

Corp. President Mitsunori Takahagi.

Asked about the projected size of the yuan's revaluation one year ahead, 32% of respondents expected 5-10%, 13% predicted 10-20% and 3% said 20-30%, while 37.5% did not make any projections. "Without a double-digit adjustment, external pressures will not subside," warned Orix Corp. Chairman Yoshihiko Miyauchi.

As for the revaluation's impact on the yen and other Asian currencies, 32% said they expect the Japanese currency to strengthen.

TDK President Sawabe said, "The yen may firm up against the dollar to past ¥100 next year."

Expressing a widely held sentiment, Nippon Steel Corp. President Akio Mimura said, "The impact of the revaluation of the yuan will be limited, and the yen's rise temporary."

Yasuyuki Shimizu, president of Nippon Mining Holdings Inc., said: "In the short term, the yen will likely firm up against the dollar. But in the medium term, the yen may depreciate again if the Chinese economy starts slowing. So it is difficult to make predictions now."

## Japan bank groups plan to raise lending in China

The revaluation of the yuan is not expected to affect the plans of major Japanese banking groups to increase their lending in China.

Mitsubishi Tokyo Financial Group Inc., Mizuho Financial Group Inc., Sumitomo Mitsui Financial Group Inc. and UFJ Holdings Inc. all expect their lending operations in China to expand.

That is because foreign banks will likely be allowed to offer yuan-denominated loans and take deposits in China starting in late 2006, as part of the nation's obligations as a member of the World Trade Organization.

"If the yuan is revalued higher than 5%, it may have an impact" on Japanese companies' demand for funds in China, said an SMFG official.

Unless the Chinese authorities

implement such steep revaluation, "Japanese businesses will calmly (to the yuan's appreciation) because they will be unable to find suitable alternatives to China as a manufacturing base or a market," an official at Mizuho Bank said.

Buoyed by optimism, the Japanese banking groups plan to open more branches and upgrade their representative offices to branches.

For example, Mizuho Bank has applied to open a subsidiary in Jiangsu Province, where the Tokyo-Mitsubishi already has a branch. Likewise, Qingdao in Shandong Province will also likely play a role in the Japanese bank's expansion in the near future.

## Trading in Chinese stocks so on appreciation of currency

The trading value of Chinese stocks jumped 20-30% on July 22 at online brokerage Rakuten Securities Inc., following the revaluation of the yuan.

"Recently, buying and selling have been neck and neck, but today, buying was in the lead," said a representative at Rakuten Securities.

A Daiwa Asset Management Co. official noted that currency revaluations have had this effect before. He said, "In the past, currency revaluations have led to rises in stock values. In the medium to long range, this will be favorable for the stock market."

Business expansions in China by

major Japanese securities firms will also likely pick up pace in the new currency regime. A representative at Daiwa Securities, which founded a joint security firm in Shanghai last year, expects the yuan to boost business opportunities.

"The stronger yuan will encourage buying by Chinese companies and businesses," the spokesman said. "Business opportunities will include the brokering of corporate acquisitions and similar work."

Nomura Securities Co. has found a financial holding firm in China in fiscal 2005.

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