Bangladesh

Targets of the survey and breakdown of respondents

Survey period : September 1 - October 15, 2009

Number of companies contacted : 57 Japanese-affiliated companies operating in Bangladesh

Number of respondents : 24 companies (manufacturing industry: 17; non-manufacturing industry: 7)

Breakdown of the respondents by industry : As shown below

(Unit: Companies, %)

Manufacturing industry		
Industry	No. of company	Composition ratio
Food, processed agricultural or marine products	1	5.9
Apparel and textile products	1	5.9
Plastic products	2	11.8
Pharmaceuticals	1	5.9
Rubber products	1	5.9
Iron and steel (including cast and forged products)	1	5.9
Electric and electronic parts and components	3	17.6
Motor vehicle and motorcycle parts and accessories	1	5.9
Precision instruments	1	5.9
Others	5	29.4
Total	17	100.0

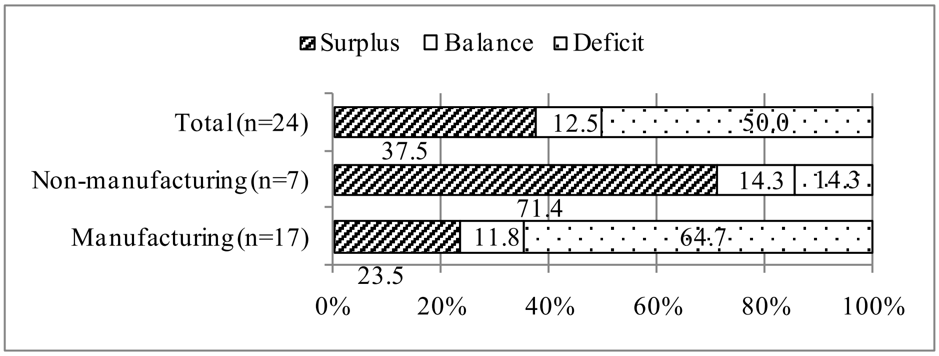
Non-manufacturing industry		
Industry	No. of company	Composition ratio
Trading company	1	14.3
Transport/warehousing	1	14.3
Communications/software	1	14.3
Others	4	57.1
Total	7	100.0

1. Business outlook

(1) Performance and business confidence differ depending on business category

In terms of operating profit for 2009, as many as 50% of respondents expected to be in “Deficit,” 37.5% expected in “Surplus,” and 12.5% expected in “Balance” (valid responses: total of 24 manufacturing/non-manufacturing companies). In the manufacturing industry, 64.7% of respondents expected to be in “Deficit,” while 23.5% said in “Surplus” (valid responses: 17 companies). Meanwhile, in the non-manufacturing industry, 71.4% of respondents expected to be in “Surplus,” while 14.3% said in “Deficit” (valid responses: 7 companies). Clearly, the results show the difference between the manufacturing and non-manufacturing industry.

Diagram 1: Estimated operating profit for 2009



Regarding the operating profit for 2009 compared to that of 2008, 37.5% of respondents indicated "Improve," and 16.7% of these indicated "Show no change," 45.8% of these cited "Worsen" (valid responses: total 24 manufacturing/non-manufacturing companies).

Regarding business confidence, there is a large discrepancy between the manufacturing industry and the non-manufacturing industry (Diagram 2). In the manufacturing industry, more than half of respondents (52.9%) said it is expected to "Worsen," while 23.5% said "Improve" and 23.5% "Show no change" (valid responses: 17 companies). On the other hand, in the non-manufacturing industry, as many as 71.4% of the companies said it is expected to "Improve" (valid responses: 7 companies).

Of 9 companies which indicated "Improve" to the question, 7 companies cited that the reason of "Improve" is "Increase in sales due to development of new products/services." Meanwhile, of 10 companies that said "Worsen," 9 companies cited "Decrease in sales due to sluggish exports" as the reason for that. And 6 companies cited "Increase in personnel expenses."

On the other hand, in terms of the operating profit forecast for 2010, a high percentage of respondents, regardless of whether manufacturing or non-manufacturing industry, replied that it is expected to "Improve." In the manufacturing industry, 81.3% of respondents indicated "Improve," 18.8% "Show no change," and no company expects it will "Worsen" (valid responses: 16 companies). In the non-manufacturing industry, 4 out of 6 respondents said that it is expected to "Improve," and companies that indicated "Show no change" or "Worsen" was 1 each.

In terms of the reason why they expect the operating profit forecast for 2010 to improve, the greatest number of companies (62.5%) cited "Increase in sales due to development of new products/services," and 56.3% of respondents cited "Increase in sales due to export expansion."

Diagram 2: Operating profit forecast for 2008/2009 (over the previous year)

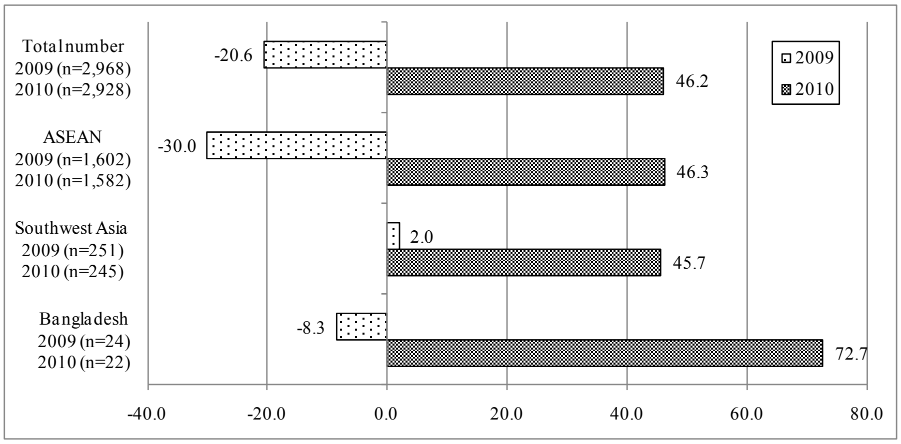
Upper row: number of respondent companies, lower row: composition ratio (%)

	Manufacturing				Non-manufacturing			
	Valid responses	Improve	Show no change	Worsen	Valid responses	Improve	Show no change	Worsen
2009	17	4	4	9	7	5	0	2
	100.0	23.5	23.5	52.9	100.0	71.4	0.0	28.6
2010	16	13	3	0	6	4	1	1
	100.0	81.3	18.8	0.0	100.0	66.7	16.7	16.7

(2) The DI was the highest among 13 countries surveyed

The DI (calculated by subtracting the percentage of respondents that indicated "Worsen" from the percentage that indicated "Improve") was 64.4 points, the highest among the 13 countries, surveyed in the Asia/Oceania region. Even when compared to the average value of the 13 countries (25.6 points), the index of Bangladesh is still remarkably high.

Diagram 3: Diffusion Index for 2008 and 2009 (unit: percentage point)



2. Impact of economic recession

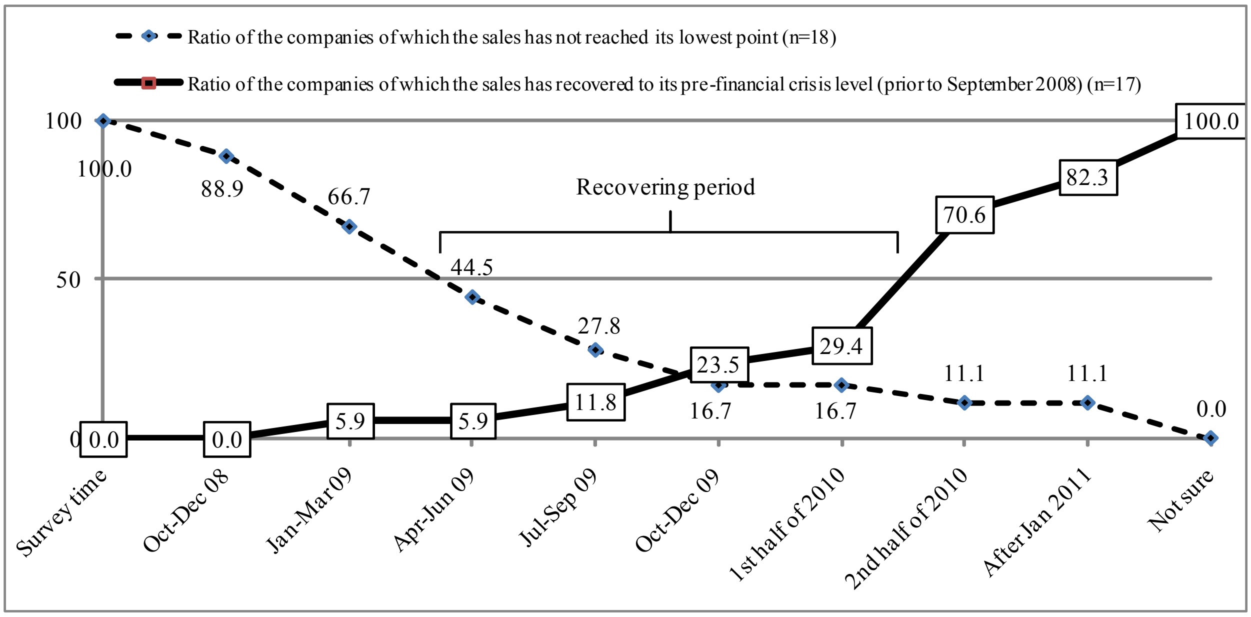
(1) Full-fledged recovery from the second half of 2010

Regarding the impact of the global recession since October 2008, of the 17 companies responding to the question in the manufacturing industry, 52.9% said that it has had "Significantly negative impact," and 23.5% cited "Slightly negative impact." In the non-manufacturing industry, 28.6% of respondents indicated "Significantly negative impact" and "Slightly negative impact" was 42.9%. Meanwhile, there was no company that suggested "positive impact" (valid responses: 7 companies).

In terms of the time when the sales reached (or will reach) its lowest point, 22.2% of respondents indicated "January - March 2009", and the same percentage of those indicated "April - June 2009" (valid responses: 18 companies). It is figured that more than half of the companies' sales had reached its lowest points by the first half of 2009.

On the other hand, with regard to the time when the sales will recover (or recovered) to pre-financial crisis level (prior to September 2008), a high percentage (41.2%) of respondents indicated the "Latter half of 2010" (valid responses: 17 companies). In addition, based on these responses, when the numbers of those companies that have recovered to the pre-crisis level are accumulated, it seems that more than half of the companies would recover by the latter half of 2010.

Diagram 4: The timing of the lowest point of the sales and its recovery



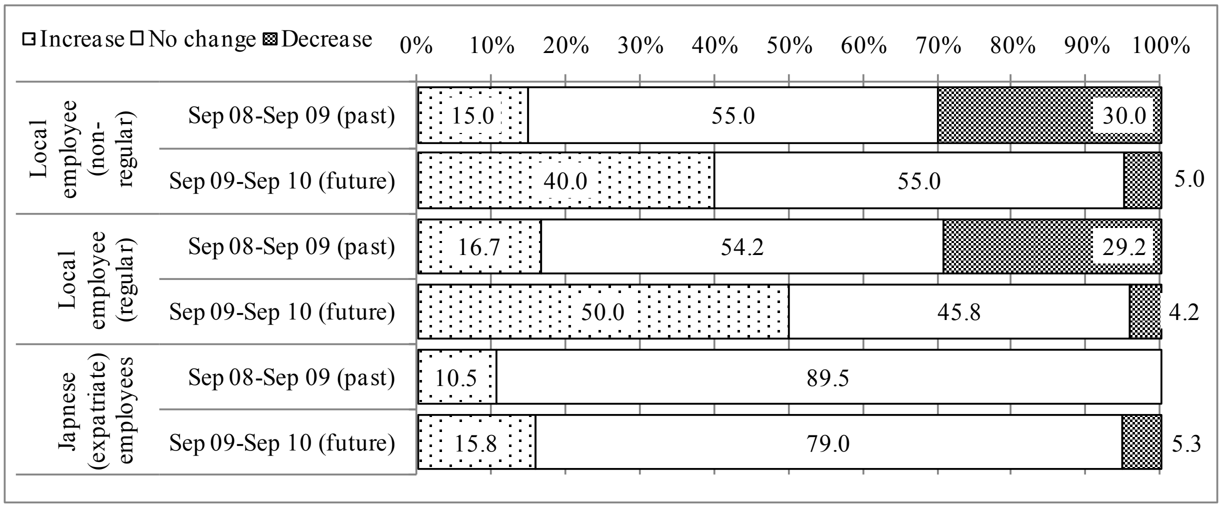
The measures taken in the past one year since the global recession, 9 of 13 respondents mentioned "Reduction in costs through improved efficiency of production and sales," whereas as many as 6 companies mentioned "Reduction in days/hours for sales and operations." In the non-manufacturing industry, 3 of 5 respondents mentioned "Launching new business."

(2) The number of local employees is forecast to increase slightly

In regard to "Changes in number of employees from the start of the financial crisis (September 2008) to the survey time (September 2009)" and "Changes in number of employees forecast for the next one year (to September 2010)," the answers were predominantly "No change" in all categories regardless of whether they were in the manufacturing or the non-manufacturing industry.

In terms of changes in number of local employees, for the one-year period from the start of financial crisis, irrespective of whether they are regular or non-regular employees, the number of companies that indicated "Decrease" was higher than "Increase." However, expectations for change in the number of employee for a year from September 2010, more companies answered "Increase" than "No change" or "Decrease" (valid responses: 20 companies for the question regarding non-regular employees and 24 for the question regarding regular employees). In respect to changes in the number of Japanese expatriate employees, 80-90% of the companies indicated "No change" for the same period. There has not been much change in terms of the number of Japanese expatriate employees influenced by the financial crisis (valid responses: 19 companies).

Diagram 5: Changes in number of employees from the start of the financial crisis (September 2008) to September 2010 (forecast)



In terms of the capital investment forecast for the next one year compared to the past one year, 50% of respondents indicated "Increase" by far exceeding "No change" (29.2%) and "Decrease" (11.8%) (valid responses: 24 companies). Out of those 12 companies that cited "Increase," 4 companies indicated "Increase at least 50%" or "10% increase", 2 companies indicated "30% increase", each a company indicated "40% increase" and "20% increase".

3. Business problems

Concerning problem(s) in sales, the most respondents cited "Decrease in orders from clients" (40.9%), followed by "Major clients requesting lower prices" and "Competitors growing market shares" (31.8% respectively) (valid responses: 22 companies).

As for problem(s) in financial affairs, financing, or foreign exchange, the most cited reply was "Difficulty in procuring funds from local financial institutions" (36.8%) (valid responses: 19 companies). Although foreign-affiliated banks such as Standard Chartered Bank and HSBC are operating in Bangladesh, there has been no Japan-affiliated bank. As a result, in some cases, necessary funding is not always available in a timely manner as required, being a cause of problems. The reliability of financial institutions is low, as Japan-affiliated companies are experiencing delay of L/C settlement on a daily basis by the local banks, including foreign-affiliated banks. In addition, many companies cited "Tax burdens" as a problem. For example, Japan-affiliated companies voice such opinions as "There is no consistency in relation to the applied tax rates, Harmonized Tariff Schedule, taxable valuation, etc." and "Administration regarding the quasi corporate tax levied on investing firms is not carried out in an appropriate or transparent fashion."

In regard to problem(s) with labor or employment, the percentage of the companies that cited "Increase in employee wages" was the highest in both the manufacturing and the non-manufacturing industry, accounting for 78.6% and 75.0%. In addition, in terms of recruiting, middle management staff or engineer staff is more difficult to recruit than general staff (valid responses: 14 manufacturing and 4 non-manufacturing companies).

As for problem(s) in the foreign trade system, many companies cited "Complicated customs clearance procedures" or "Time-consuming customs procedures," 58.8% of the respondents respectively. Although the corruption of the tax officers seems to have been decreased partly because of the powerful anti-corruption campaign pursued for about one year before the start of the current Hasina government in December 2009, by the caretaker cabinet, there still are frequent cases of delay due to slow customs procedures or opaque operation of trade administration system, which in turn are the result of underdeveloped port/customs-related infrastructure and the lack of human capacities. Those Japan-affiliated manufacturing companies that are located in the export-processing zone are operating with higher-than-necessary level of inventory as they have to assume that there will be a delay in parts procurement for a variety of reasons.

Diagram 6: Business problems

Item		Valid responses	1st	2nd	3rd
Problem(s) in sales or other business activities	Total of manufacturing and non-manufacturing	22	Decrease in orders from clients	Major clients requesting lower prices / Competitors' growing market shares (cost-wise competition)	Decrease in orders from the headquarter / Slugishness in major sales markets (consumption downturn) / No increase in new clients or markets
		100.0	40.9	31.8	27.3
Problem(s) in financial affairs, financing, or foreign exchange	Total of manufacturing and non-manufacturing	19	Difficulty in procuring funds from local financial institutions	Tax burdens (i.e. corporate taxes and transfer pricing taxes)	Volatility of the Japanese yen against the US dollar
		100.0	36.8	31.6	26.3
Problem(s) with labor or employment	Manufacturing	14	Increase in employee wages	Difficulty in recruiting engineer staff	Difficulty in recruiting middle management staff / Difficulty in recruiting general staff
		100.0	78.6	35.7	28.6
	Non-manufacturing	4	Increase in employee wages	Difficulty in recruiting middle management staff / Difficulty in localizing managers and site supervisors	Personnel costs of Japanese (expatriate) officers and staff / Restrictions on employing foreign workers
		100.0	75.0	50.0	25.0
Problem(s) in the foreign trade system	Total of manufacturing and non-manufacturing	17	Complicated customs clearance procedures / Time-consuming customs procedures	Lack of throrough publicizing of trade rules and regulations	Method for the assessment of customs duties is unclear / Creteria for determining classification of customs duties are unclear / Unclear inspection system
		100.0	58.8	52.9	23.5
Problem(s) in production	Manufacturing	17	Electric power shortage	Difficulty in local procurement of parts and raw materials	Difficulty in quality control
		100.0	82.4	64.7	47.7
Problems in implementing the localization of management	Total of manufacturing and non-manufacturing	18	No progress with development of local staff	Capability in local planning and marketing are weak	Difficulty in recruiting executive staff
		100.0	50.0	38.9	33.3

In terms of problem(s) in production, 82.4% of respondents cited "Electric power shortage," which is a peculiar problem of developing countries. Recently, the lack of natural gas supplied to the domestic market has become a social issue. The reason for this is said to be the slow pace of gas field development as well as defective supply-demand management of the gas supply company. Since Bangladesh's electric power is generated mostly by gas-fired plants, the impact on its electricity supply is significant. In addition, 64.7% of respondents cited "Difficulty in local procurement of parts and raw materials" as a problem. For such industries as “Plastic products” and “Electric and electronic parts and components,” in which relatively many Japan-affiliated companies are operating, local procurement of parts and raw materials has been difficult because currently there are hardly any supporting industries. On the other hand, as the textile industry, which is the main local industry, particularly strong in spinning and sewing, it is possible to procure even apparel accessories. However, as they are weak in weaving and dyeing, the mid-stream sector has difficulty in local procurement.

Concerning the problem(s) associated with the localization of management, the percentage of the companies that cited “No progress with development of the local staff” was the largest, accounting for 50.0% of the total.

4. Investment environment

Concerning the advantages (strong points) in the investment environment, those companies that replied “An abundance of staff due to low costs” are the largest in number, accounting for 70.0%. In addition, many companies also cited “English is widely spoken” (55.0%) (valid responses: 20 companies).

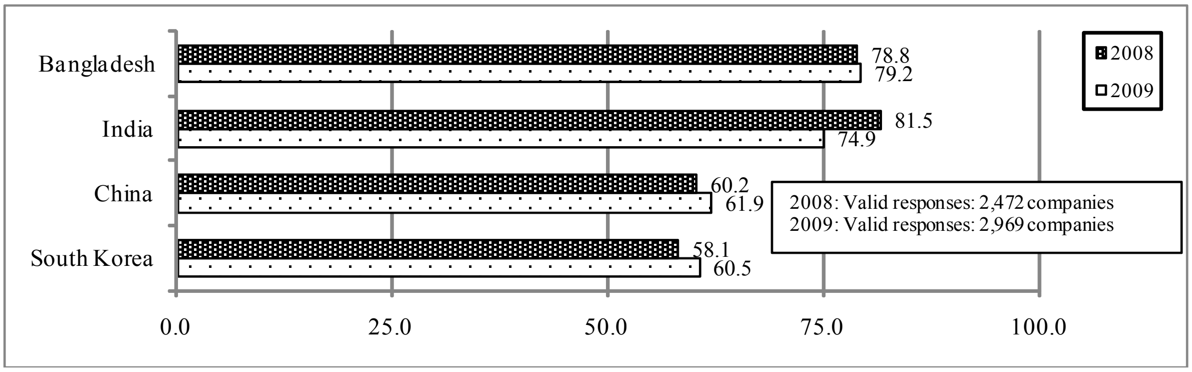
On the other hand, in terms of the disadvantages (problem(s)), a large number of companies (86.4%) cited “Underdeveloped infrastructure,” as was the case for last year’s survey. Following the problem of the infrastructure, “Unstable political and social conditions” was the second largest issue, as it was last year, accounting for 72.7%. The political situation is more stabilized than before, following the inauguration of government headed by Sheikh Hasina (former Prime Minister) at the general election at the end of December 2008. However, the feeling of distrust concerning stability of the political condition is still strong. There has been no improvement from last year’s survey with the percentage of “Unstable political and social condition.”

5. Future business development

In regard to the direction of business development over the next one to two years, 79.2% of the companies indicated “Expansion.” All other companies said “Status quo,” while no company mentioned “Downsizing” or “Move to a third country (region) or withdraw” (valid responses: 24 companies). The percentage of “Expansion” is the largest among the 13 countries targeted for this survey. As for specific business plan(s) for expansion, the percentage of companies that cited “Expansion of existing business scale through additional investment” was remarkably high, both in the manufacturing and the non-manufacturing industry, accounting for 75.0% and 66.7% respectively. In the manufacturing industry, many companies also cited “Diversification of product and services contents (sector expansion)” (58.3%). UNIQLO, which entered the Bangladesh market in 2008, is producing approximately 90% of its products in China. However, the company has announced its plan to shift approximately 30% of its overall production to Bangladesh in the future with an eye on the possibility of the country becoming its production base for the US and European markets. In the non-manufacturing industry, many companies also cited “Increase in high value-added products and services” as they are planning, in addition to the expansion of existing business, to improve quality as well. In the textile sector, two inspection service companies have come to operate in Bangladesh, providing a total support from consigned local production to delivery management service. As export to Japan expands, the sphere of activities is also expanding into related services.

Diagram 7: The ratio of companies that replied “Expansion” regarding the policy over the next one to

three years (top 4 countries, unit: %)



6. Procurement of raw materials and parts

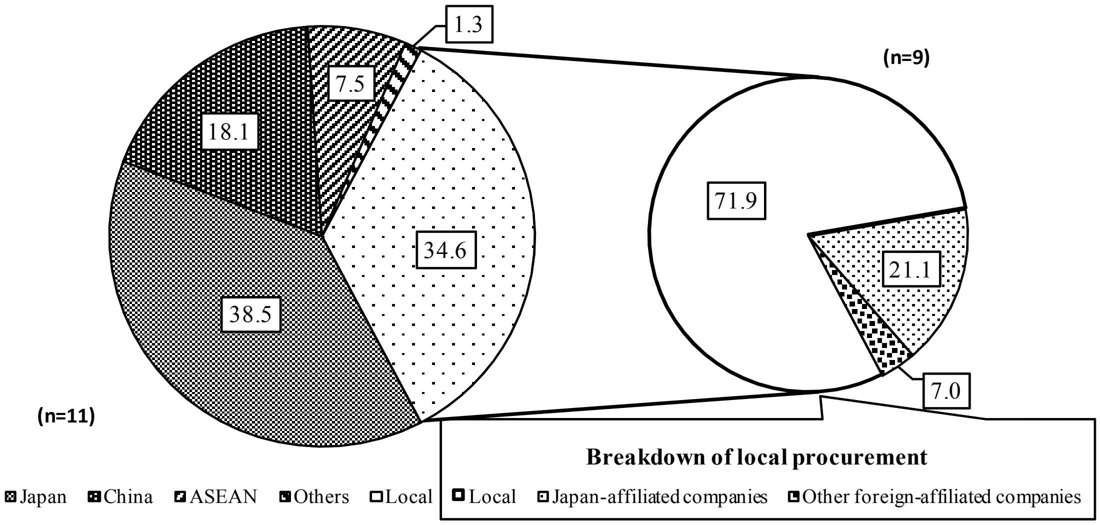
The ratio of the companies that answered the percentage of costs for raw materials and parts to production costs of major products is "60% to less than 70%" was the highest (43.8%). The companies for which the percentage of material cost is 50% or more accounted for as much as 87.5%. This ratio is the highest after Pakistan and India. However, the ratio of the companies for which said percentage is 70% or more was 37.5%, a decline from the survey last year, when it was 55.6% (valid responses: 16 companies).

As for the source of procurement of raw material and parts, the breakdown was: Local 26.9%, Japan 38.5%, China 18.1%, and ASEAN 7.5%. Compared with other Southwest Asian countries, the ratio of procurement from Japan and China is relatively high (valid responses: 15 companies).

Concerning the procurement from China, regardless of textile or non-textile, in many cases, companies procure raw material and parts from China since they have their production bases in the country.

The breakdown of the source of local procurement is: Japan-affiliated companies 21.1%, Local companies 71.9%, and other foreign-affiliated companies 7.0%, showing a high ratio of procurement from local companies (valid responses: 9 companies). In terms of future plan(s) for procurement, those companies that replied "Increase ratio of local procurement" or "Maintain current ratios of local procurement" accounted for 37.5% respectively (valid responses: 16 companies). On the other hand, "Increase ratio of procurement from China," which had been selected by many companies in last year's survey, decreased to 6.3%.

Diagram 8: Source of procurement of raw materials and parts (left) and source of local procurement (right)



Concerning the percentage of the total amount of imported raw materials and parts which are not subject to tariffs, 69.2% of the companies replied “100%,” showing the highest percentage among the 13 countries targeted by the survey. Most Japan-affiliated companies operating in Bangladesh consider Bangladesh to be an export base and are located in the EPZ. Therefore, a duty free scheme is applied to the raw materials and parts they import.

As for the production cost of major products in Bangladesh, assuming the production cost of typical product is 100 units in China, four out of 8 responding companies said it would be “80 to less than 90,” two companies “90 to less than 100,” and two companies “100 to less than 110.”

7. Measures against new influenza A (H1N1)

In regard to the question, “What kind of problems is your company facing in terms of its response to the new strain of influenza (A/H1N1)?”, 70.8% of all the respondents replied “There are no particular problems” (valid responses: 24 companies). In Bangladesh, infection of the new strain of influenza was confirmed on June 19, 2009, for the first time. Although WHO raised the warning level to phase six and there was a report of infection in Bangladesh, the Japan-affiliated companies operating in Bangladesh took a wait-and-see attitude. There were fewer cases of infection and symptoms were less severe compared with other neighboring countries. Individual companies have already taken such precautionary measures as stockpiling anti-influenza drug. For these reasons, many companies decided to take a wait-and-see stance rather than intensify the countermeasures by, for example, issuing a warning against travel to Bangladesh. As for the main countermeasures against the spread of the new influenza strain, those companies that replied “Health education concerning covering the mouth when coughing and hand washing” accounted for 56.5% of the total respondents (valid responses: 23 companies).

8. Exports/Imports

The percentage of export sales out of the total sales is high, as its average for the manufacturing industry is 78.4% (valid responses: 15 companies). Most of the Japan-affiliated companies export almost all their production. 10 out of 15 companies chose "100%" for the answer to the question regarding the percentage of sales consisting of exports. As for the export destination for the manufacturing industry, the percentage of "the Japanese market" is the greatest (72.2%), followed by "the US market" (7.6%) and "Mainland China" (6.6%).

With regard to the use of FTA/EPA, 2 out of 15 companies use FTA/EPA in export and 1 out of 15 companies uses FTA/EPA in import. As for the breakdown of FTA that is currently in use, all of them are using South Asian Free Trade Area (SAFTA). Further, in terms of the problem(s) of using FTA in export, 5 out of 10 companies mentioned, "There are no specific problems." Whereas the problem(s) of using FTA in import, 4 out of 11 companies cited, "Since custom tariff exemption can already be enjoyed through investment benefit scheme, an FTA provides no advantages."

9. Wages

The basic salary (monthly) and the annual salary per employee* by type of job and the number of valid responses for each are as follows:

1 Bangladesh taka = 0.01448 US dollar (Average rate for September 2009, Source: State Bank of Pakistan)

Diagram 9: Wages (base monthly salary, bonus, and annual salary per employee)

Unit: taka/month; figures in parentheses are the number of valid responses

	Job type	Base salary (monthly)	Bonus	Annual salary (*)	Note
Manufacturing industry	Workers (general workers)	8,643 (22)	1.8 (16)	62,587 (16)	3 years of experience
	Engineers (core technicians)	12,104 (15)	1.8 (15)	230,608 (15)	Graduates from technical schools or college with 5 years of experience
	Managers (section managers in charge of sales or equivalent)	26,102 (14)	2.0 (14)	474,677 (14)	Graduates from university with 10 years of experience
Non-manufacturing industry	Staff (general workers)	23,000 (6)	1.7 (5)	405,000 (4)	3 years of experience
	Manager (section managers in charge of sales or equivalent)	66,250 (4)	2.0 (4)	1,200,000 (4)	Graduates from university with 10 years of experience

(*) Total cost per employee (annual total of base salary, allowances, social security, overtime, bonuses, etc.)

India

Targets of the survey and breakdown of respondents

Survey Period : September 1 - October 15, 2009

Number of companies contacted : 268 Japanese-affiliated companies operating in India (Based on the survey sent out)

Number of respondents : 177 companies (manufacturing industry: 79; non-manufacturing industry: 98; based on valid responses)

Breakdown of respondents by region where they operate: As shown below

(Unit: Companies, %)

Operating region	No. of companies	Composition ratio
Delhi and its surrounding areas	83	46.9
Mumbai and its surrounding areas	34	19.2
Bangalore and its surrounding areas	35	19.8
Chennai and its surrounding areas	20	11.3
Others	5	2.8
Total	177	100.0

Breakdown of respondents by industry: As shown below

(Unit: Companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	4	5.1
Chemicals and petroleum products	8	10.1
Plastic products	1	1.3
Rubber products	1	1.3
General machinery (including metal molds and machine tools)	8	10.1
Electric machinery and electronic equipment	5	6.3
Electric and electronic parts and components	2	2.5
Motor vehicles and motorcycles	5	6.3
Motor vehicle and motorcycle parts and accessories	22	27.8
Precision instruments	2	2.5
Medical devices	1	1.3
Printing and publication	1	1.3
Other manufacturing industries	19	24.1
Total	79	100.0

Non-manufacturing industry		
Industry	No. of companies	Composition ratio
Trading company	21	21.4
Sales company	32	32.7
Banking	1	1.0
Insurance	3	3.1
Transport/warehousing	12	12.2
Hotel/travel/restaurant	2	2.0
Communications/software	7	7.1
Construction/plants	4	4.1
Other	16	16.3
Total	98	100.0

1. Business outlook

(1) Percentage of companies posting a profit declined from the previous year

Among the Japanese-affiliated companies operating in India, the percentage of companies expecting to post an operating profit for 2009 was 43.7%, the percentage expecting a balanced operating profit/loss was 22.4%, and that expecting an operating loss was 33.9%. This was the first time since the start of the survey for India in 1996 that the percentage of companies expecting an operating profit was less than 50% (valid responses: 174 companies). When we compared the above result with those in the previous year (estimate of operating profit for 2008), in the manufacturing industry the percentage of companies expecting a profit was significantly down to 44.2% from 60.0%. On the other hand, in the non-manufacturing industry the percentage of companies expecting a profit showed almost no change (from 42.1% to 43.3%).

The background of significant decline of companies expecting a profit from the previous year was sluggish development of the Indian domestic market triggered by an effect of financial crisis that became obvious from the late of 2008 to the first half of 2009 (such as the credit crisis and the credit crunch). However, more importantly, we believe it is because of the significant change in breakdown of respondents in the survey compared with the previous year. When we look at the respondents to the survey of 2009 by year of establishment, the percentage of companies that were established in and after 2005 accounted for nearly the majority of the total (47.1%), which is remarkably higher than other countries and regions covered by the survey. Additionally, on a single year basis, 14.0% of the companies were established in 2008, which was the highest ratio. Therefore, the highest contributing factor for the decline in the percentage of the companies expecting a profit in this survey was the larger percentage of the companies that were established in recent years and that have not yet developed a stable profit base (i.e., it takes time to post a stable profit).

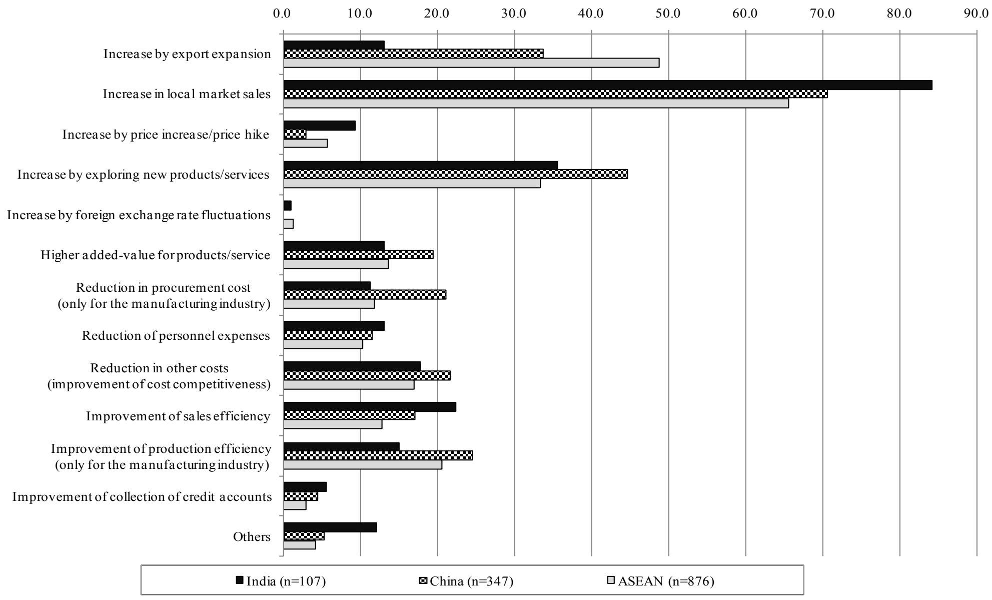
When we compare the expected operating profit for 2009 with that in the previous year, the percentage of companies replying that they expected to "Improve" their profit for 2009 was higher than those replying that they expected to "Worsen," for both the manufacturing and non-manufacturing industries. Among 17 countries and regions covered by the survey, there were only two countries, India and Myanmar, in 2009 that reported a positive DI value, which is derived by subtracting the percentage of companies replying that operating profit would "Worsen" from the percentage replying that it would "Improve."

(2) Operating profit for 2010 further improves thanks to an increase of sales in local market

For the forecast of operating profit for 2010, both the manufacturing and non-manufacturing industries expected further improvement. In the manufacturing industry, 61.0% of the companies replied that the operating profit would "Improve" for 2010 compared with that for 2009, 28.6% replied "Show no change," and 10.4% replied "Worsen" (valid responses: 77 companies). In the non-manufacturing industry, 63.8% of the companies replied that the operating profit would "Improve" for 2010 compared with that for 2009, 27.7% replied "Show no change," and 8.5% replied "Worsen" (valid responses: 94 companies). In both the manufacturing and non-manufacturing industries, more than 60% of the companies expected to "Improve," while the percentage of companies expecting to "Worsen" was very low, at approximately 10%.

As reasons for improvement in operating profit, an "Increase in local market sales" was the most frequently cited reply both in the manufacturing and non-manufacturing industries, with 84.1% (valid responses: 107 companies). When we compare the major reasons for improvement and individual percentages of replies with those in China and ASEAN, the percentage of companies in India that cited "Increase in sales due to export expansion" was significant low and many companies sought profit resources in the domestic demand (see below). For other items, the percentage of companies in India that selected "Improved sales efficiency" was high compared with those in ASEAN and China, which means that the companies in India still see sufficient room for improvement in the current insufficient sales and distribution system.

Diagram 1: Reasons of Improvement in forecast of operating profit in 2010 (total of manufacturing and non-manufacturing industries)



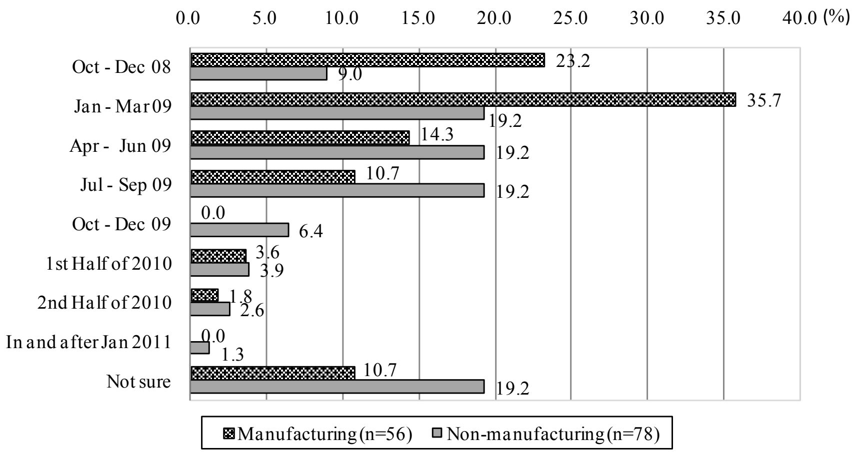
2. Impact of economic recession

(1) More than 70% of manufacturing companies hit the bottom by the first half of 2009

When we asked when the sales hit (or would hit) the bottom after the global recession that has continued since October 2008, 26.1%, the largest percentage, of the companies replied “January - March 2009,” and 17.2%, the second largest percentage, of the companies said “April - June 2009.” After aggregating the percentage of the companies that replied that their sales hit the bottom in “October - December 2008” (14.9%), 58.2% of the companies started the recovery of sales by the first half of 2009 (valid responses: 134 companies).

When we look at the individual trends in the manufacturing industry and the non-manufacturing industry, the percentage of companies that replied “January - March 2009” was 35.7% in the manufacturing industry, and the percentage of companies that hit the bottom in “October - December 2008” reached 23.2%. After aggregating with the percentage of companies that hit the bottom in “April - June 2009” (14.3%), more than 70% of companies had hit the bottom by the first half of 2009 in the manufacturing industry, which means that the manufacturing industry started its recovery of sales earlier than the non-manufacturing industry (valid responses: 56 companies). On the other hand, in the non-manufacturing industry, 19.2% of the companies replied that they hit the bottom in “January to March of 2009,” “April - June 2009,” or “July - September 2009” each, and the same percentage of companies said “Not sure,” clearly showing a different condition from the manufacturing industry in India, which started the recovery ahead of other countries and regions under the survey (valid responses: 78 companies).

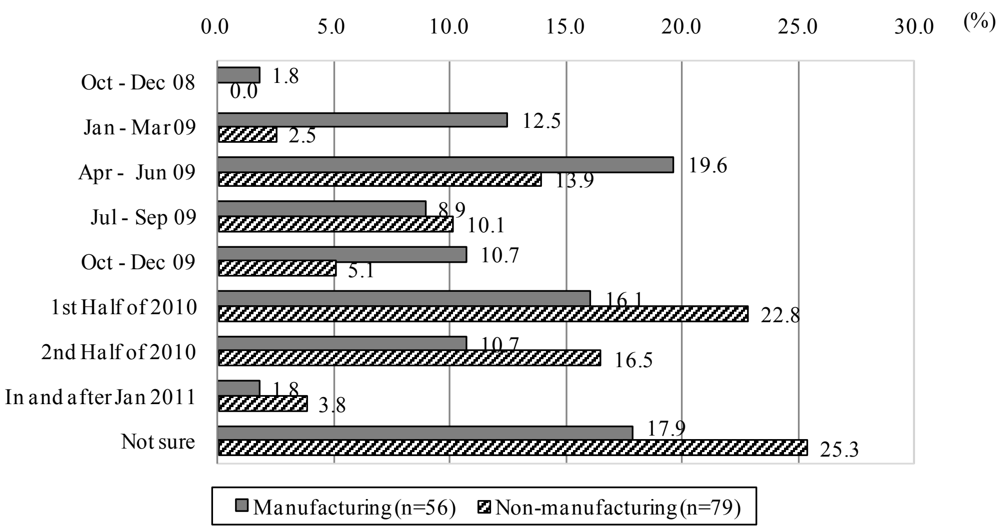
Diagram 2　Timing (or expected timing) of hitting the sales bottom



(2) By the end of 2009, more than 50% of manufacturing companies had recovered to the level before the financial crisis

Next, when we asked when the sales recovered to the level recorded before the financial crisis (i.e., before September 2008), we see different features in the manufacturing industry and non-manufacturing industry. In the manufacturing industry, the percentage of companies that replied “April - June 2009” was the highest at 19.6%, and the majority (53.6%) of the companies, including the above, replied that their sales had recovered to the level before the financial crisis by the end of 2009 (December 2009) (valid responses: 56 companies). On the other hand, in the non-manufacturing industry, the most popular answer was “Uncertain,” at 25.3%, followed by the “First half of 2010” at 22.8%, and the “Latter half of 2010” at 16.5%, which indicates that the non-manufacturing industry lags significantly behind in the expectation of recovery in the manufacturing industry. Only 31.6% of non-manufacturing companies expected that their sales would recover to the level before the financial crisis by the end of 2009, which is remarkably lower than in the manufacturing industry.

Diagram 3　Timing (or expected timing) of recovery of sales to the level before the financial crisis



3. Business problems

We asked about business problems individually in the aspects of (i) Sales and other business activities, (ii) Production, (iii) financial affairs, financing, or foreign exchange, (iv) Labor or employment, and (v) Foreign trade system. The following Diagram 4 shows the top five replies in each of the above aspects.

Diagram 4 Business problems: top five replies in each aspect (upper: detailed description of the problem; lower: percentage of companies) (Unit: %)

	Valid responses	1st	2nd	3rd	4th	5th
Problems in sales and other business activities	172	Competitors' gwowing market shares (cos-wise competition)	Major clients requesting lower prices	No increase in new clients of markets	Decrease in orders from clients (No. 3 in the same ratio)	Sluggishness of major sales markets (consumption downtum)
	100.0	52.9	45.9	26.2	26.2	24.4
Problems in production	67	Electric power shortage	Inadequate logistics infrastructure (No.1 in the same ratio)	Difficulty in local procurement of parts and raw materials	Increase in procurement cost	Difficulty in quality control
	100.0	56.7	56.7	47.8	46.3	38.8
Problems in financial affairs, financing, or foreign exchange	157	Volatility of local currency's exchange rate against the Japanese yen	Tax burdens (corporate taxes, transfer pricing taxes)	Volatility of local currency's exchange rate against the US dollar	Insufficient cash flow nessesary for business scale expansion	Volatility of the Japanese yen against the US dollar
	100.0	47.1	40.8	40.1	29.9	17.2
Problems in labor or employment	161	Increase in employee wages	Personnel costs of Japanese (expatriate) officers and staff	Low rate of worker retention	Difficulty in recruiting middle management staff	Difficulty in localizing managers and site supervisors
	100.0	62.7	49.1	32.3	31.1	16.2
Problems in foreign trade system	147	Complicated customs clearance procedures	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	Method for the assessment of customs duties is unclear	Criteria for determining classification of customs duties are obscure
	100.0	68.0	59.9	39.5	28.6	19.1

In the problems on production among the manufacturing industry, "Electric power shortage" and "Inadequate logistics infrastructure" recorded the highest citation rate, at 56.7%, each (valid responses: 67 companies). When we look at the characteristics in each area where the companies are operating, 64.5% of companies operating in Delhi and its surrounding area (North area) cited "Electric power shortage" and the same number cited "Inadequate logistics infrastructure," which is higher than the overall average of companies operating in India. This suggests that the problems of the electric power and distribution system are severer in this area than in other areas in India. On the other hand, the percentage of companies operating in Bangalore and its surrounding areas (South area) that replied "Electric power shortage" was 40.0% and those that replied "Undeveloped distribution system" was 46.7%, both of which are significantly lower than the overall average of companies operating in India.

In Mumbai and its surrounding areas (East area), the percentage of companies that replied "Inadequate logistics infrastructure" was 66.7%, the highest by geographic area. However, the percentage of companies that cited "Electric power shortage" was relatively low at 44.4%. In Chennai and its surrounding area (South-West area), the percentage of companies that replied "Electric power shortage" was 70.0%, the highest by geographical area, and those that cited "Inadequate logistics infrastructure" was 40.0%, the lowest by geographical area.

4. Investment environment

In regards of advantages in the investment environment (multiple answers allowed), 84.0%, which was the highest ratio, of companies cited the "Market scale/growth potential," followed by 61.5% of companies that cited English communication capability (valid responses: 169 companies). Particularly, in the non-manufacturing industry, more than 90% of companies emphasized the "Market size/growth potential." By industry, 96.6% of sales companies (valid responses: 29 companies) and 95.0% of trading companies (valid responses: 20 companies) indicated this advantage.

On the other hand, regarding the disadvantages, 81.6% of manufacturing companies (valid responses: 76 companies) and 83.5% of non-manufacturing companies (valid responses: 91 companies) replied "Undeveloped infrastructure (electric power, transportation, and communications)." These figures were higher than the percentage of replies in the previous year (2008), indicating that infrastructure is the most challenging issue in the investment environment of India.

The next problem was "Complicated tax procedures," which proves that the complicated domestic tax system and taxation procedures are one of the largest investment barriers in India both for the manufacturing industry and the non-manufacturing industry. The top three problems, including "Complicated administrative procedures (to acquire permits, etc.)," which was ranked third, stays in the same ranking in recent years. In addition, the percentage of companies that listed these top three disadvantages as problems has increased, which means that the situation has yet not been improved.

Diagram 5 Advantages and disadvantages in the investment environment - Top five issues

Upper row: detailed item; lower row: percentage of respondents (%)

	Valid response	1st	2nd	3rd	4th	5th
Advantages	169	Market scale/growth potential	English is widely spoken	Stable political and social situation	An abundance of staff due to low costs	Plenty of partner companies (delivering companies)
Percentage of response (%)	100.0	84.0	61.5	23.7	20.1	16.0
Disadvantages	167	Undeveloped infrastructure (electric power, transportation, communications)	Complicated tax procedures	Complicated administrative procedures (to acquire permits, etc.)	Insufficient land and office space, rising land prices/ rent	Unclear policy management by the local government
Percentage of response (%)	100.0	82.6	68.9	65.3	45.5	26.4

5. Future business development

In terms of the direction of business development of each company over the next one to two years, 74.9% of the companies replied that their business development would be "Expansion," 24.6% replied "Status quo," and 0.6% replied "Downsizing" (one company) (valid responses: 175 companies). Although the percentage of companies that replied "Expansion" was down by 6.6 points compared with the survey in the previous year (81.5%), this figure is the second highest, following Bangladesh, among 17 countries and regions covered by the survey. The only one company that replied "Downsizing" cited that it would be in the form of "Integrating the bases within the local country (region)."

When we look at the trend of business development by each major industry - in terms of the industries with the largest number of respondents - in the manufacturing industry, 72.7% of the companies in motor vehicle and motorcycle parts and accessories (valid responses: 22 companies), 75.0% of the companies in general machinery (including metal molds and machine tools) (valid responses: 8 companies), and 62.5% of the companies in chemical and petroleum product (valid responses: 8 companies) replied “Expansion.” In the non-manufacturing industry, 80.7% of sales companies (valid responses: 31 companies), 76.2% of trading companies (valid responses: 21 companies), and 75.0% of companies in the transport/warehousing industry (valid responses: 12 companies) replied “Expansion.”

By geographic area where the Japanese companies are operating, 90% of the companies located in Chennai and its surrounding areas replied “Expansion” (valid responses: 20 companies), showing that they had significantly higher interests in business expansion than other respondents.

When we asked how companies would expand business in the future, 62.1%, which is the largest percentage, of the manufacturing companies replied that they would expand business by “Expansion of existing business scale through additional investment.” Next was “Creation of new markets (expand business/sales networks), with 50.0% of the manufacturing companies replying so. On the other hand, in the non-manufacturing companies, 65.8%, which is the largest percentage, of the companies replied that they would expand business by “Creation of new markets (expand business/sales networks).”

6. Procurement of raw materials and parts (manufacturing industry only)

(1) High presence of local companies as suppliers

For major manufacturing items, 27.3% of the companies replied that the ratio of raw materials and parts cost to total manufacturing cost was “70% to less than 80%,” 18.2% replied “60% to less than 70%,” and 18.2% of the companies replied “50% to less than 60%.” Only 10.6% of the companies replied that the ratio was “Less than 50%” (valid responses: 66 companies). In India, the ratio of raw materials and parts is relatively higher than that in ASEAN and the Oceania region.

The averaged “Local” procurement ratio of raw materials and parts was 44.5%, which was high, following only Thailand in the ASEAN and South-West Asian region. The percentage of the companies that procured more than 50% of raw materials and parts locally (i.e., in India) reached more than 50% (51.6%), and approximately 30% (29.7%) of the companies procured more than 70% locally.

When we look at the average local procurement ratio by each major industry - in terms of the industries with the largest number of respondents, the ratio of the companies in motor vehicle and motorcycle parts and accessories was 47.2% (valid responses: 21 companies), that in the chemical industry was 26.9% (valid responses: 7 companies), and that in general machinery (including metal molds and machine tools) was 72.3% (valid responses: 6 companies). We can see a higher local procurement ratio in the general machinery industry.

Sources for the local procurement, consist of “Local companies,” for which average ratio in all the industries was extremely high at 81.3%, and the procurement from “Japanese-affiliated companies” and “Other foreign affiliated companies” was only 10.6% and 8.2%, respectively (valid responses: 52 companies). This indicates that secondary and tertiary suppliers mainly consisting of local companies have been developed and accumulated steadily.

(2) Approximately 70% of companies plan to increase the local procurement ratio

Sources for the procurement of raw materials and parts outside India, was Japan with an average procurement ratio of 31.0%, ASEAN with a ratio of 16.5%, and China with a ratio of 3.2%. This means that more than 95% of raw materials and parts were procured in Asia.

In regards to the future procurement policies for raw materials and parts (multiple answers allowed), "Increase ratio of local procurement" was the most cited reply at 69.6%. Other replies included "Increase ratio of procurement from ASEAN" (20.3%), "Maintain current ratios of local procurement" (20.3%), and "Increase ratio of procurement from China" (7.3%) (valid responses: 69 companies). On the other hand, regarding Japan, from which the companies have procured more than 30% of raw materials and parts, only 1.5% of the companies (one company) replied that it would "Increase ratio of procurement from Japan," which shows a significant decline of Japan as a procurement source.

By industry, in the motor vehicle and motorcycle parts and accessories industry, which had the largest number of respondents, 21 out of 22 companies with valid responses (95.5%) replied "Increase ratio of local procurement."

7. Measures against new influenza A (H1N1) - More concrete measures were taken

When we asked what kind of problems the companies faced in terms of response to the new strain of influenza (A/H1N1) (multiple answers allowed), 49.7%, which is the highest ratio, of the companies replied "There are no particular problems," while the percentage of the companies that replied "Obtain anti-flu medicine" was higher (29.2%) than in other countries and regions.

In terms of the concrete countermeasures companies had taken against the spread of this new influenza strain, 55.8%, which was the highest percentage, of the companies replied "Health education concerning covering the mouth when coughing and hand washing," 43.0% of the companies replied "Stockpiling of daily items, masks, and disinfectants," and 34.9% of the companies replied "Preparation of a manual." Additionally, 27.9% of the companies cited "Stockpiling of anti-flue medicine." This percentage is relatively high compared with other countries and regions covered by the survey.

8. Exports/Imports

(1) Companies operating in India clearly seek more sales domestically

When we look at the percentage of export sales to total sales, 56.9% of the manufacturing companies and 67.1% of the non-manufacturing companies replied "0%"; i.e., they had no exports. This shows that the Japanese-affiliated companies operating in India focused more on selling goods and services domestically (valid responses: 138 companies). The average percentage of export sales was 12.2%, which was the lowest among all the countries and regions covered by the survey. Particularly, the percentage of export sales of the manufacturing industry in India was less than 10% (9.9%).

By geographical area, while the percentage of export sales of companies operating in Delhi and its surrounding area where the largest number of Japanese-affiliated companies are located was 6.1% (valid responses: 68 companies), which is significantly lower than the national average. This clearly reflects the characteristic of this area located inland (away from the port), that industries more seeking domestic sales. On the other hand, the percentage of export sales of companies operating in Mumbai and its surrounding areas was

19.4% (valid responses: 27 companies), and the percentage in Bangalore and its surrounding area was 29.7% (valid responses: 23 companies), both of which are relatively high.

(2) Particular industries use the FTA (Early Harvest scheme) between Thailand and India

In terms of the usage of existing bilateral/multilateral EPAs/FTAs, while only eight companies (four manufacturing companies and four non-manufacturing companies) replied that EPAs/FTAs were "Currently in use" for exports, 21 companies (11 manufacturing companies and 10 non-manufacturing companies) replied "Currently in use" for imports.

Among the EPAs/FTAs in force, the India-Thailand FTA had the highest utilization rate, with 12 companies replying that they used this FTA in import activities and four companies replying that they used it in export activities. In this particular FTA, at the time of the survey, as only the Early Harvest measures had taken effect, only 82 items were eligible for tax exemption. Thus, the type of industry using this FTA was limited to two industries; (1) the motor vehicle and motorcycle industry, and (2) the motor vehicle and motorcycle parts and accessories industry in the manufacturing industry. In the non-manufacturing industry, trading companies and sales companies used it for both export and import activities.

Diagram 6　Use of FTAs/EPAs (Exports and Imports)

Upper row: number of companies; lower row: composition ratio (%)

	Export				Import			
	Valid response	Currently in use	Considering using	No plan to use	Valid response	Currently in use	Considering using	No plan to use
Manufacturing	43	4	11	28	58	11	21	26
	100.0	9.3	25.6	65.1	100.0	19.0	36.2	44.8
Non-manufacturing	37	4	9	24	56	10	17	29
	100.0	10.8	24.3	64.9	100.0	17.9	30.4	51.8

When we asked the importance of EPA/FTA with Japan, 46.9% of the companies replied "Very important," and 29.7% of the companies replied "Important." In the manufacturing industry, the percentage of companies that replied "Very important" exceeded 50% (51.6%). Regarding anticipated effects by the EPA/FTA with Japan, 91.1% of the manufacturing companies and 86.5% of non-manufacturing companies expected "Reduction in the custom tariffs of your company's locating country," both of which are the largest in terms of the number of responses.

9. Wages

The basic salary (monthly), annual salary per employee* by type of job and the number of valid responses for each are as stated in Diagram 7 (average in India) and Diagram 8 (by major geographical area):

*1 Indian rupee = 0.02064 US dollar (Average rate in September 2009; Source: CEIC database)

Diagram 7 Wages (base monthly salary and annual salary per employee) by type of job (see Note below)

Unit: INR, bonus figure indicates a multiple of the monthly base salary; figures in parentheses are the number of valid responses

		Survey in FY2009			Survey in FY2008		
	Job type	Base salary (monthly)	Bonus	Annual salary (*)	Base salary (monthly)	Annual salary (*)	Note
Manufacturing	Workers (general workers)	9,103 (51)	1.0 (49)	155,648 (44)	9,230 (44)	137,928 (40)	3 years of experience
	Engineers (core technicians)	21,820 (57)	1.1 (51)	390,903 (52)	22,665 (43)	335,458 (40)	Graduates from vocational college or university with 5 years of experience
	Managers (section managers in charge of sales or equivalent)	50,083 (58)	1.2 (51)	919,285 (53)	50,308 (48)	770,980 (45)	Graduate from university with 10 years of experience
Non-manufacturing	Staff (general staffs)	25,204 (75)	1.6 (68)	410,424 (72)	25,522 (65)	395,004 (64)	3 years of experience
	Managers (section managers in charge of sales or equivalent)	61,714 (68)	1.7 (61)	1,048,337 (66)	67,530 (62)	1,099,486 (60)	Graduate from university with 10 years of experience

Diagram 8 Wages (base monthly salary and annual salary per employee) by type of job - Details by major geographical area (see Note below)

Manufacturing		Base Salary (monthly)	Bonus	Annual Salary (*)
Workers (general worker)	Delhi and its surrounding areas	9,503 (21)	0.9 (20)	172,332 (17)
	Mumbai and its surrounding areas	7,528 (7)	1.0 (7)	130,965 (7)
	Bangalore and its surrounding areas	10,096 (13)	1.0 (13)	171,846 (13)
	Chennai and its surrounding areas	8,078 (10)	1.2 (7)	109,731 (7)
Engineers (core technicians)	Delhi and its surrounding areas	22,423 (26)	1.1 (22)	436,801 (23)
	Mumbai and its surrounding areas	16,312 (8)	1.3 (8)	269,064 (8)
	Bangalore and its surrounding areas	26,127 (15)	1.1 (14)	435,133 (15)
	Chennai and its surrounding areas	17,290 (8)	1.3 (6)	266,838 (6)
Managers (section managers in charge of sales or equivalent)	Delhi and its surrounding areas	54,062 (26)	1.3 (22)	1,113,282 (23)
	Mumbai and its surrounding areas	40,368 (8)	1.3 (8)	709,025 (8)
	Bangalore and its surrounding areas	55,433 (15)	1.1 (14)	893,317 (15)
	Chennai and its surrounding areas	38,308 (9)	1.3 (6)	577,806 (7)

Non-manufacturing		Base Salary (monthly)	Bonus	Annual Salary (*)
Staff (general workers)	Delhi and its surrounding areas	24,896 (34)	1.7 (34)	453,287 (33)
	Mumbai and its surrounding areas	22,421 (19)	1.7 (20)	358,139 (18)
	Bangalore and its surrounding areas	28,057 (15)	1.3 (9)	400,110 (14)
	Chennai and its surrounding areas	28,143 (7)	1.0 (5)	363,429 (7)
Managers (section managers in charge of sales or equivalent)	Delhi and its surrounding areas	59,928 (31)	1.8 (32)	1,065,966 (30)
	Mumbai and its surrounding areas	58,059 (17)	1.7 (16)	1,042,235 (17)
	Bangalore and its surrounding areas	73,577 (13)	1.4 (8)	1,147,354 (12)
	Chennai and its surrounding areas	56,470 (7)	1.2 (5)	817,857 (7)

Unit: Upper row - INR; lower row - number of month, figures in parentheses are the number of valid responses

Note/(*): Annual salary per employee (annual total of base salary, allowances, social security costs, overtime, and bonuses, etc.)

Pakistan

Targets of the survey and breakdown of respondents

Survey period	:	September 1 - October 15, 2009
Number of companies sent questionnaires	:	52 Japanese-affiliated companies operating in Pakistan (10.6% increase from last year)
Number of valid respondents	:	26 companies (manufacturing industry: 13; non-manufacturing industry: 13)
Breakdown of valid respondents by industry	:	As shown below

(Units: companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Plastic products	1	7.7
Pharmaceuticals	1	7.7
Iron and steel (including cast and forged products)	1	7.7
Motor vehicles and motorcycles	5	38.5
Motor vehicle and motorcycle parts and accessories	1	7.7
Other	4	30.8
Total	13	100.0

Manufacturing industry		
Industry	No. of companies	Composition ratio
Trading company	3	23.1
Banking	1	7.7
Communications/software	2	15.4
Construction/plants	3	23.1
Other	4	30.8
Total	13	100.0

1. Business outlook

(1) An increase in the percentages of manufacturers expecting to post operating profit

Regarding expectations of Japanese-affiliated companies operating in Pakistan concerning 2009 operating profit, in manufacturing industries the percentage of respondent companies answering that they expected to post an operating profit was 61.5%, while the percentage expecting to post a loss was 30.8% and that expecting to break even was 7.7% (valid responses: 13 companies). In comparison with last year's survey (expectations for 2008 operating profit), the percentage answering that they expected to post a profit has increased (from 50.0% to 61.5%). Primary causes of this increase include the fact that the low value of the rupee in international currency markets due to a drop in official interest rates has contributed to a recovery in export manufacturing and increased sales by automotive firms as market interest rates have fallen.

On the other hand, in non-manufacturing industries expectations of both profit and loss were reported by 38.5% of respondent companies each, while 23.1% answered that they expected to break even (valid responses: 13 companies). In comparison with last year's survey, the percentage answering that they expected to post a loss has increased (from 14.3% to 38.5%).

(2) Slight improvement expected in 2010

In manufacturing industries, when asked expectations for operating profit in 2009 compare to 2008 figures, the percentage of companies answering that they expected it to "worsen" (53.9%) was higher than the percentage answering that they expected it to "improve" (38.5%) (valid responses: 13 companies). However, when asked expectations for operating profit in 2010 compare to those for 2009, the percentage of companies answering that they expected it to “improve” (46.2%) was higher than the percentage answering that they expected it to “worsen” (15.4%).

In non-manufacturing industries, when comparing expectations for operating profit in 2009 to 2008 figures the percentage of companies answering that they expected it to “worsen” was 61.5%, much higher than the 15.4% who answered that they expected it to “improve” (valid responses: 13 companies). Comparing expectations for operating profit in 2010 to those for 2009, a high percentage of 46.2% of companies answered that they expected it to “show no change,” while only 30.8% said that they expected it to “improve.”

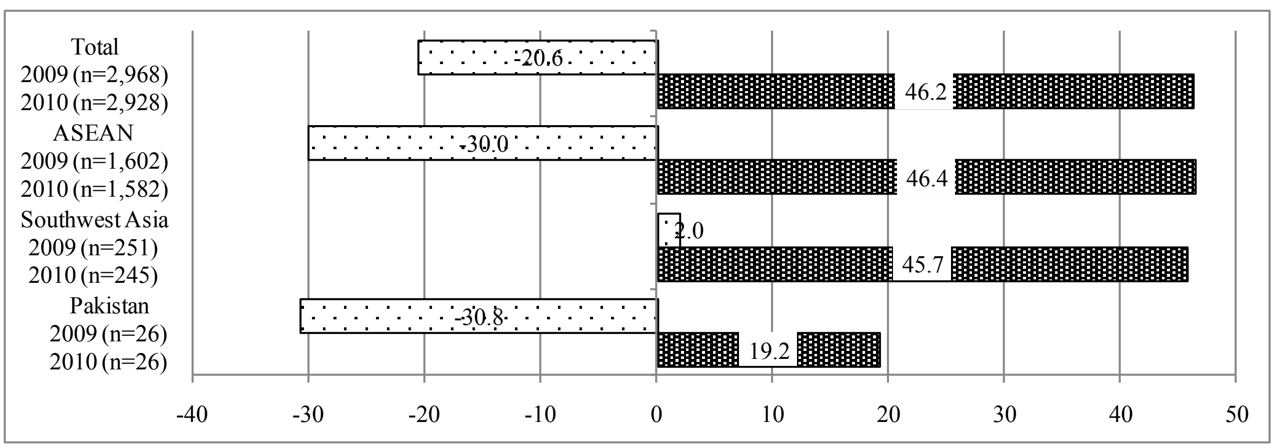
Diagram 1: Operating profit forecast for 2009/2010 (over the previous year)

Top: respondent companies; bottom: percentage of total

	Manufacturing				Non-manufacturing			
	Valid responses	Improve	No change	Worsen	Valid responses	Improve	No change	Worsen
2009	13 100.0	5 38.5	1 7.7	7 53.9	13 100.0	2 15.4	3 23.1	8 61.5
2010	13 100.0	6 46.2	5 38.5	2 15.4	13 100.0	4 30.8	6 46.2	3 23.1

A look at the diffusion index (DI), calculated by subtracting from the percentage of companies reporting that they expected improvement from the previous year those reporting that they expected worsening, shows that the DI is -30.8 points (improvement: 26.9%; worsening: 57.7%) for 2009 but +10.3 points (improvement: 38.5%; worsening: 19.2%) for 2010 (totals of both manufacturing and non-manufacturing industries; valid responses: 26 for both 2009 and 2010). Thus, business outlook shows a somewhat improving trend toward 2010.

Diagram 2: Operating profit forecast in 2009/2010 in terms of DI (total of manufacturing and non-manufacturing respondent companies; unit: points)

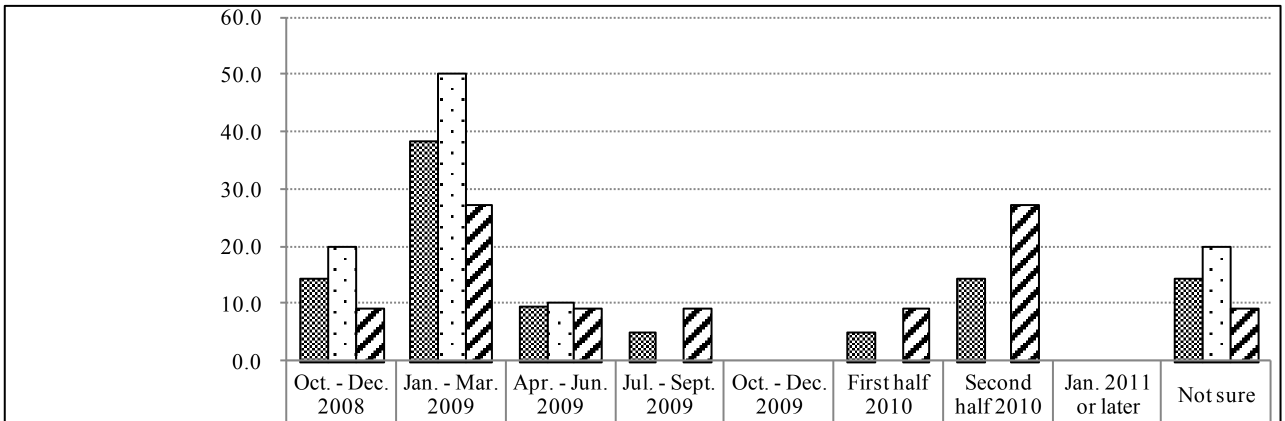


2. Impacts of economic recession

The percentages of respondent companies in manufacturing industries that reported a “significantly negative impact” or a “slightly negative impact” from the global recession that began in October 2008 each were 38.5%

(valid responses: 13 companies). In non-manufacturing industries, the percentages reporting a “significantly negative impact” or a “slightly negative impact” each were 50% (valid responses: 12 companies).
When asked when their sales did or would reach their lowest point as a result of the recession, 50.0% of respondent companies in manufacturing industries answered “January - March 2009,” and four-fifths of the companies said their sales had reached their lowest point by the first half of 2009 (valid responses: 10 companies). On the other hand, in non-manufacturing industries sales did not necessarily bottom out quickly, as 27.3% of such companies answered that their sales would reach their lowest point in the “latter half of 2010” — together with “January - March 2009,” this answer was given by the highest percentage of respondents.

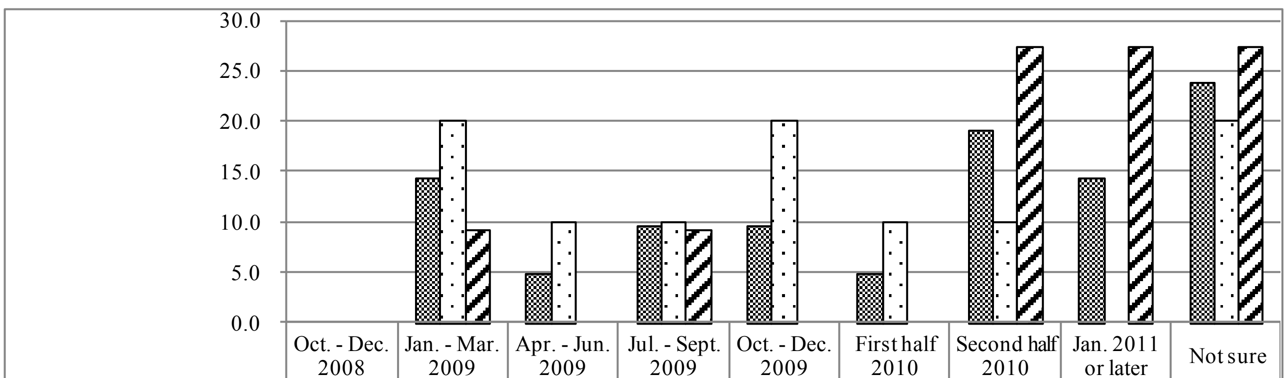
Diagram 3: When sales did (or will) reach their lowest point



	Oct. - Dec. 2008	Jan. - Mar. 2009	Apr. - Jun. 2009	Jul. - Sept. 2009	Oct. - Dec. 2009	First half 2010	Second half 2010	Jan. 2011 or later	Not sure
Total (n=21)	14.3	38.1	9.5	4.8	0.0	4.8	14.3	0.0	14.3
Manufacturing (n=10)	20.0	50.0	10.0	0.0	0.0	0.0	0.0	0.0	20.0
Non-manufcturing (n=11)	9.1	27.3	9.1	9.1	0.0	9.1	27.3	0.0	9.1

When respondents were asked when their sales did or will recover to a pre-financial crisis level (prior to September 2008), considerable variation was apparent by industry. In non-manufacturing industries, the highest percentages answered “latter half of 2010” or “from January 2011,” with each of these answers given by 27.3% of respondents (valid responses: 11 companies).

Diagram 4: When sales did (or will) recover to a pre-financial crisis level (prior to September 2008)



	Oct. - Dec. 2008	Jan. - Mar. 2009	Apr. - Jun. 2009	Jul. - Sept. 2009	Oct. - Dec. 2009	First half 2010	Second half 2010	Jan. 2011 or later	Not sure
Total (n=21)	0.0	14.3	4.8	9.5	9.5	4.8	19.1	14.3	23.8
Manufacturing (n=10)	0.0	20.0	10.0	10.0	20.0	10.0	10.0	0.0	20.0
Non-manufcturing (n=11)	0.0	9.1	0.0	9.1	0.0	0.0	27.3	27.3	27.3

When asked about measures taken against the global recession took hold, high percentages of respondents answered “reduction in costs through improved efficiency of production and sales,” which was given by 60.0% of respondent companies in manufacturing industries and 33.3% in non-manufacturing industries (valid responses: 10 companies in manufacturing industries and 12 companies in non-manufacturing industries). In addition, large percentages of companies in manufacturing industries answered “cancellation or postponement of new investment/facility investment” (60.0%) and “employment adjustments” (50.0%).

3. Business problems

Regarding problems in sales or other business activities, a high percentage of the companies in manufacturing industries answered “sluggishness in major sales markets (consumption downturn)” and “competitors’ growing market shares (cost-wise competition),” each given by 61.5% (valid responses: 13 companies). Companies are forced to battle for customers as consumption slows in response to high inflation rates and uncertainties about the future. In non-manufacturing industries, 50.0% of respondent companies answered “decrease in orders from clients” (valid responses: 12 companies).

Regarding problems in financial affairs, financing, or foreign exchange, 84.6% of respondent companies in manufacturing industries answered “volatility of local currency’s exchange rate against the US dollar.” Next came “volatility of local currency’s exchange rate against the Japanese yen” and “rising interest rates” (valid responses: 12 companies). In non-manufacturing industries, a high percentage of respondent companies answered “volatility of the Japanese yen’s exchange rate against the US dollar” (valid responses: 9 companies). The decline in the value of the rupee against the dollar, which had advanced at an average of 5.3% per month, ceased in November 2008. In 2009, as exchange rates were stable, the rupee declined slightly against the dollar, falling in the first half of the year by only an average of 0.4% per month,

Regarding problems with labor or employment, high percentages of respondent companies answered “increase in employee wages,” by 58.3% of respondent companies in manufacturing industries and 70.0% of those in non-manufacturing industries (valid responses: 12 companies in manufacturing industries and 10 companies in non-manufacturing industries). While companies had kept wages down since 2008 in response to the global economic downturn precipitated by the collapse of Lehman Brothers, in 2009 they were forced to accept increases of 15 - 20% in wages in response to high inflation rates.

Regarding problems in the foreign trade system, high percentages of the companies in manufacturing industries (valid responses: 11 companies) cited “method for the assessment of customs duties is unclear” (54.6%) and “criteria for determining classification of customs duties are obscure” (36.4%).

Regarding problems in production, the highest percentage of the companies answered “electric power shortage,” (81.8%), up from 69.2% in last year’s survey (valid responses: 11 companies). Electric power shortage is a particularly large problem, with the two largest manufacturing cities of Karachi and Lahore suffering 6 hours power failures on consecutive days. While companies respond by setting up private generation facilities using sources such as diesel fuel and liquefied petroleum gas, they still face the problem of rising production costs. In addition, even after commodity prices fell worldwide. In Pakistan, there was a delay in the impact of this drop being felt on domestic prices of petroleum products and other products. Prices continue to rise by approximately 30%, chiefly on food products, due to causes including rising transportation costs. This pushes up production costs in manufacturing industries.

Regarding localization of management, 45.5% of the companies in manufacturing industries (valid responses: 11 companies) and 66.7% of the companies in non-manufacturing industries (valid responses: six companies) — the highest percentage in each case — reported “difficulty in recruiting executive staff,” indicating that movement of superior staffs to overseas and turnover are problems in this area.

Diagram 5: Business problems

		Valid responses	1st	2nd	3rd
Problems in sales	Manufacturing	13	Sluggishness in major sales markets (consumption downturn) Competitors' growing market shares (cost-wise competition)	Inflow of cheap imported goods into local markets	Major clients requesting lower prices
		100.0	61.5	38.5	30.8
	Non - Manufacturing	12	Decrease in orders from clients	No increase in new clients or markets	Major clients requesting lower prices Accounts receivable in arrears
		100.0	50.0	33.3	25.0
Problems in financial affairs, financing, or foreign exchange	Manufacturing	13	Volatility of local currency's exchange rate against the US dollar	Volatility of local currency's exchange rate against the Japanese yen Rising interest rates	Tax burdens (i.e. corporate taxes and transfer pricing taxes) Volatility of the Japanese yen against the US dollar
		100.0	84.6	46.2	38.5
	Non - Manufacturing	9	Volatility of the Japanese yen against the US dollar	Insufficient cash flow necessary for business scale expansion Difficulty in procuring funds from local financial institutions	Volatility of local currency's exchange rate against the US dollar Rising interest rates Other
		100.0	44.4	22.2	11.1
Problems in labor or employment	Manufacturing	12	Increase in employee wages	Difficulty in recruiting middle management staff Difficulty in recruiting engineer staff	Low rate of worker retention
		100.0	58.3	41.7	33.3
	Non - Manufacturing	10	Increase in employee wages	Difficulty in recruiting general staff Difficulty in recruiting middle management staff Low rate of worker retention Other	Restrictions on staff dismissal and reduction Difficulty in localizing managers and site supervisors
		100.0	70.0	20.0	10.0
Problems in foreign trade (system)	Manufacturing	11	Method for the assessment of customs duties is unclear	Criteria for determining classification of customs duties are obscure	Complicated customs clearance procedures Time-consuming customs procedures Other
		100.0	54.6	36.4	27.3
	Non - Manufacturing	6	Lack of thorough publicizing of trade rules and regulations	Time-consuming customs procedures Criteria for determining classification of customs duties are obscure	Complicated customs clearance procedures Unclear inspection system Other
		100.0	50.0	33.3	16.7
Problems in production	Manufacturing	11	Electric power shortage	Increase in procurement costs	Difficulty in local procurement of parts and raw materials
		100.0	81.8	72.7	63.6
Problems in localization of management	Manufacturing	11	Difficulty in recruiting executive staff	Difficulty in reduction of Japanese expatriate staff	A high turnover rate of executive staff Capabilities in local planning and marketing are weak
		100.0	45.5	36.4	27.3
	Non - Manufacturing	6	Difficulty in recruiting executive staff	A high turnover rate of executive staff Low-level language ability (Japanese and English) No progress with development of local staff No progress with the transfer of authority from head office to local level	
		100.0	66.7	16.7	

4. Investment environment

Regarding advantages (strong points) in the investment environment, the most common answer from respondent companies was “market scale/growth potential,” given by 75.0% of respondents in manufacturing industries (valid responses: 12 companies) and 54.6% of those in non-manufacturing industries (valid responses: 11 companies). Thus, although Pakistan faces a wide range of problems, it still boasts a market of 170 million people with a strong consumption orientation. Also, there are signs of a transformation in the market as the lower middle class earning 12,000 - 15,000 rupee per month (approximately 14 million households) sees household income increase and reaches the level at which it purchases luxury items in addition to the necessities of living. Other answers given by high percentages of respondents were “English is widely spoken,” given by 58.3% of those in manufacturing industries, and “high quality staff,” given by 45.5%

of those in non-manufacturing industries.

At the same time, regarding disadvantages (problems) in the investment environment, as was the case in last year's survey the highest percentage of respondents answered "unstable political and social conditions," given by 100.0% of those in manufacturing industries (valid responses: 13 companies) and 84.6% of those in non-manufacturing industries (valid responses: 13 companies). In spring 2009, government forces began a mopping-up operation against the Taliban in northwestern border provinces, and there were frequent cases of terrorism in the vicinity. While this had only a minor impact on the southern city of Karachi, where many Japanese-affiliated companies are located, many companies viewed the security situation with uncertainty.

In manufacturing industries 92.3% of respondent companies answered "underdeveloped infrastructure (electric power, transportation, communications, etc.)." Worsening of the security situation and electric power shortages let the choices for investment decreasing.

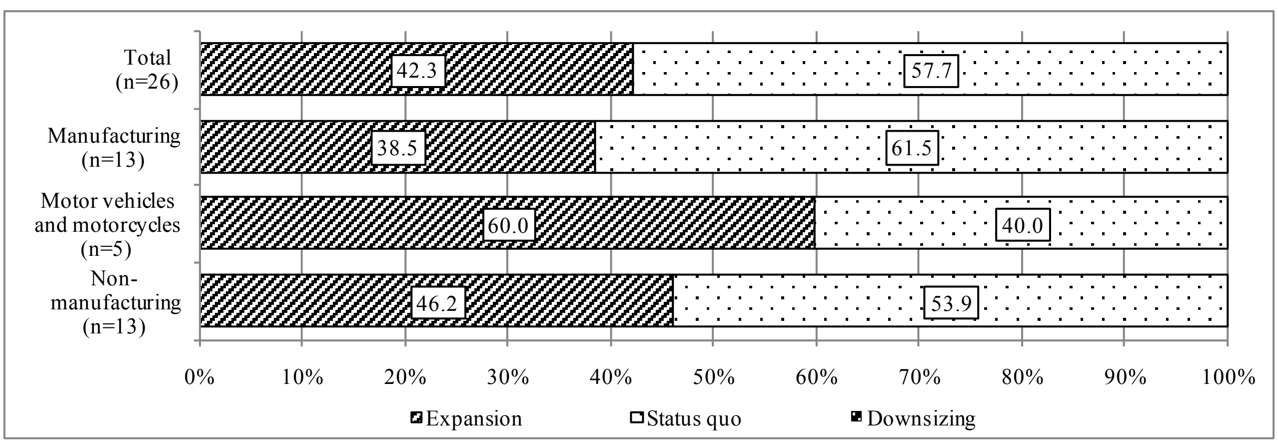
5. Future business development

Regarding directions for companies' business development over the next one to two years, among companies in manufacturing industries 38.5% gave the answer "expansion," 61.5% gave the answer "status quo," and none answered "downsizing" (valid responses: 13 companies). Among these, three out of five companies in the motor vehicles and motorcycles industry, in which a large number of Japanese firms are active in Pakistan, answered "expansion." Some aggressive moves are being made in this industry, as for example the motorcycle manufacturer with the largest share of the Pakistan market is focusing on development of low-priced bikes and has set a target of reaching annual production of one million bikes within five years.

In non-manufacturing industries as well, 46.2% of respondent companies gave the answer "expansion," 53.9% "status quo," and none "downsizing" (valid responses: 13 companies).

When asked about plans for business expansion, 72.7% of all respondent companies answered "expansion of existing business scale through additional investment," 45.5% "creation of new markets (expand business/sales networks)," and 27.3% "diversification of product and services" (valid responses: 11 companies).

Diagram 6: Directions for companies' business development over the next one to two years



6. Procurement of raw materials and parts

The percentage of respondent companies reporting that 70% or more of production costs of typical products was attributable to raw materials and parts was 69.2%, higher than in other countries (valid responses: 13 companies). It is conceivable that the drop in the value of the rupee has pushed up the costs of raw materials and parts.

A look at procurement sources for raw materials and parts shows that on average 31.9% of these were procured locally, 32.5% from Japan, and 12.1% from ASEAN countries. A breakdown of procurement sources shows that a high percentage of 78.1 were “local companies,” and the percentage of “other foreign-affiliated companies” also was relatively high at 17.9%. On the other hand, the rate of procurement from Japan-affiliated companies operating in Pakistan was low at 4.0% on average (valid responses: 12 companies).

When asked about plans for procuring raw materials and parts in the future, 38.5% of respondent companies answered “increase ratio of local procurement,” while 30.8% answered “increase ratio of procurement from China” (valid responses: 13 companies). For some products, mainly imported parts and materials are used to satisfy quality standards, leading to increased product costs.

When asked what percentage of the total amount of raw materials and parts imported by their company is not subject to tariffs, 8.3% of all respondent companies answered “100%” (i.e., none of the raw materials and parts they import are subject to tariffs). This was the lowest result on this item among all 13 countries surveyed. In contrast, the percentage answering “0%” (i.e., all of the raw materials and parts they import are subject to tariffs was 58.3%, the highest among all 13 countries surveyed.

7. Measures against new influenza A (H1N1)

In response to the question “What kind of problems is your company facing in terms of its response to the new strain of influenza (A/H1N1)?” 6 out of the 13 respondent companies in manufacturing industries. In non-manufacturing industries, 9 out of the 11 respondent companies answered “there are no particular problems.” In Pakistan, the first case of infection with the A/H1N1 virus was confirmed in August 2009. It is thought that during the survey period (September - October 2009), the virus was not yet prevalent in the country. There was little sense of the virus as a threat, as a result. Among countermeasures for the spread of this new influenza strain, the highest percentage, 44.0% of all respondent companies, answered “stockpiling of anti-flu medicine,” followed by “health education concerning covering the mouth when coughing and hand washing,” which was given by 36.0% of respondents (valid responses: 25 companies in total, from both manufacturing and non-manufacturing industries).

In response to the question “In the future, if the new strain of influenza mutates and causes a high fatality rate of up to 2%, is your company planning to evacuate its expatriate employees to their home countries and to surrounding countries?” the most common answer was “unknown,” given by 10 of the 22 companies. Among that answered “other,” many gave answered such as “follow headquarters policy” or “need to ask headquarters,” indicating that there were few cases in which evacuation plans are being developed based on local decisions.

In September 2009, the Japanese consulate general in Karachi gave a symposium on responding to A/H1N1 to communicate information on subjects such as trends in flu symptoms and how to administer flu medicine. In symposium, medical officials’ explained that there is no need for undue fear, and companies are trying to respond calmly to A/H1N1.

8. Exports/Imports

Percentages of exports sales out of total were much lower than in other countries, averaging 1.8% in manufacturing industries and 14.0% in non-manufacturing industries (valid responses: 12 manufacturing companies and five non-manufacturing companies). There are few locations of exporting firms in Pakistan, which has an economic structure led by domestic demand.

Regarding the importance of Pakistan entering into an FTA/EPA with Japan, two companies each answered “very important” and “important,” one answered “neutral,” three answered “unimportant,” and three answered “no idea.” Regarding anticipated effects of concluding an FTA/EPA with Japan, of the three valid responses all three companies answered that they expected a reduction in Pakistan’s custom tariffs.

9. Wages

The base salary (monthly) and annual salary per employee*, and valid responses for each are shown in the table below.

Exchange rate: 1 rupee = US dollar 0.012433 (average rate in September 2009, from the State Bank of Pakistan)

Diagram 9: Wages (base monthly salary, bonuses, and annual salary per employee) by type of job

Units: rupee, months; valid responses in parentheses

	Job type	Base salary (monthly)	Bonus	Annual salary (*)	Notes
Manufacturing	Workers (general workers)	11,254 (13)	2.6 (12)	204,633 (12)	3 years of experience
	Engineers (core technicians)	40,496 (13)	2.6 (11)	670,573 (11)	Graduates from vocational college or university with 5 years of experience
	Managers (section managers in charge of sales or equivalent)	89,917 (13)	2.5 (11)	1,573,182 (11)	Graduates from university or graduate school with 10 years of experience
Non-manufacturing	Workers (general workers)	18,626 (18)	2.0 (11)	328,546 (11)	3 years of experience
	Managers (section managers in charge of sales or equivalent)	65,807 (16)	2.3 (10)	1,251,909 (11)	Graduates of university or graduate school with 10 years of experience

(*) Annual salary per employee (annual total of base salary, allowances, social security, overtime, bonuses, etc.)

Sri Lanka

Targets of the survey and breakdown of respondents

Survey period	:	September 1 - October 15, 2009
Number of companies contacted	:	64 Japanese-affiliated companies operating in Sri Lanka (Based on the survey sent out)
Number of respondents	:	27 companies (manufacturing industry: 19; non-manufacturing industry: 8, based on valid responses)
Breakdown of respondents by industry	:	As shown below

(Unit: Companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	1	5.3
Apparel and textile products	2	10.5
Plastic products	1	5.3
Ceramics and cement	2	10.5
Fabricated metal products (including plated products)	1	5.3
General machinery (including metal molds and machine tools)	1	5.3
Electric machinery and electronic equipment	1	5.3
Electric and electronic parts and components	3	15.8
Other	7	36.8
Total	19	100.0

Non-manufacturing industry		
Industry	No. of companies	Composition ratio
Distribution	1	12.5
Sales company	1	12.5
Hotel/travel/restaurant	1	12.5
Construction/plants	3	37.5
Other	2	25.0
Total	8	100.0

1. Estimated operating profit: the number of companies expecting to post profit on the decline, with the outlook for 2010 worsening further

In terms of the estimated operating profit for 2009, 25.9% of the Japanese-affiliated companies operating in Sri Lanka replied that they expected to post a profit, while 44.4% replied that they expected to break even, and 29.6% replied that they expected to post a loss, revealing that companies expecting to post a loss outnumbered those expecting to post a profit (valid responses: 27 companies). The percentage of companies expecting to post a profit is the second lowest after Myanmar among the 17 countries/regions covered in this survey. Compared to the corresponding estimate for 2008 (the previous survey, valid responses: 29 companies), the percentage of companies expecting to post a profit decreased by 15.5 percentage points (from 41.4% to 25.9%).

Compared to business results for the previous year, 2008, 18.5% of the companies replied that they expected operating profit for 2009 to "Improve," while 37.0% replied that it would "Show no change" and 44.4% replied that it would "Worsen," showing that the percentage of companies expecting a deterioration by far exceeded that of companies expecting an improvement (valid responses: 27 companies). As reasons for the estimated operating profit to "Worsen" (multiple answers allowed), both "Decrease in sales due to sluggish exports" and "Decrease in local market sales" topped the list, each cited by 58.3% of the companies. Then came an "Increase in personnel expenses," cited by 33.3% of the companies.

The operating profit forecast for 2010 also showed little sign of improvement compared to 2009. Many companies operating in ASEAN, China, India, and Oceania expected operating profit for 2010 to improve on the strengths of an increase in local market sales and export expansion. In contrast, 23.1% of the respondents in Sri Lanka replied that they expected operating profit for 2010 to "Improve," while 53.9% replied that it would "Show no change" and 23.1% replied that it would "Worsen," revealing that the percentage of companies expecting a deterioration was equal to that of companies expecting an improvement (valid responses: 26 companies). The DI value, which is derived by subtracting the percentage of companies that replied estimated operating profit would "Worsen" from the percentage that replied that it would "Improve," stood at 0 points. This is the lowest score in the 17 countries/regions covered in this survey, falling far below the average of 46.2 points.

2. Impact of economic recession

(1) Many companies implemented countermeasures such as employment adjustments and working hour reductions

The survey asked the companies about the timing when their sales reached (or would reach) the lowest point after having been impacted by the global economic recession since October 2008. "April - June 2009" was the most often cited reply at 30.0%, followed by "Not sure" at 20.0% (valid responses: 20 companies). In terms of the timing when their sales would recover to pre-financial crisis level (prior to September 2008), "Not sure" was the most often cited reply at 35.0%, followed by "2nd half of 2010" at 20.0%.

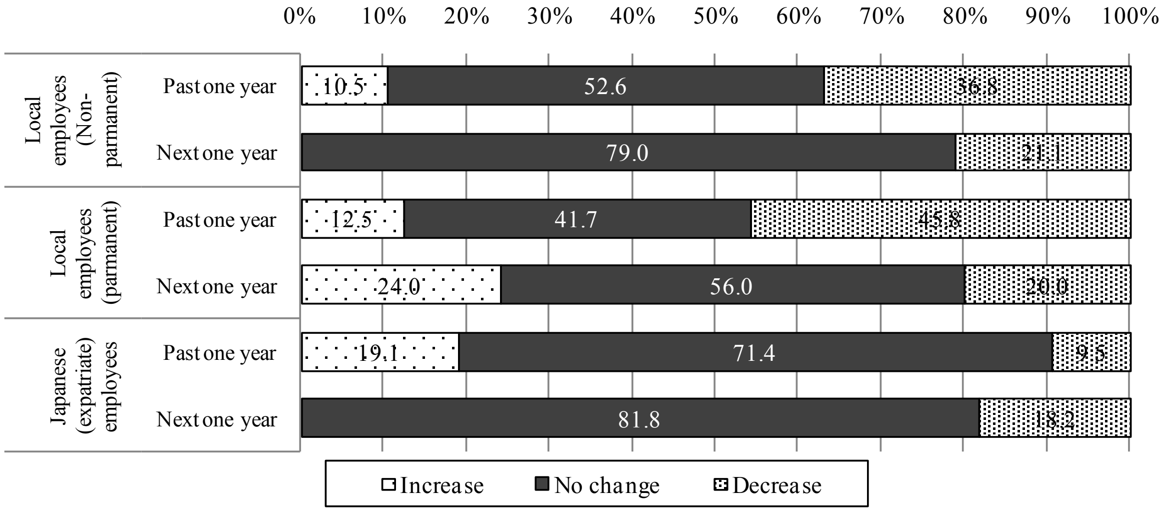
In regard to measures taken in the past one year since the global recession took hold (multiple answers allowed), "Employment adjustments" topped the list, cited by 65.0% of the companies. This was followed by "Reduction in days/hours for sales and operations" at 55.0%. These percentages by far exceeded the respective averages of the 17 countries/regions covered in this survey (45.6% and 29.8, respectively). Especially in the manufacturing industry, more than 70%; more precisely, 73.3%, of the respondents cited these two measures. Half of the companies (50.0%) also cited "Reduction in costs through improved efficiency of production and sales" and "Cancellation or postponement of new investment/facility investment," indicating that many companies operating in Sri Lanka took specific countermeasures of various types.

(2) The number of Japanese expatriate employees to be reduced over the next one year

In terms of changes in the number of employees during the period of September 2008 to September 2009 (the past one year), the percentages of companies that reported a "Decrease" in local employees, both non-regular and regular staff, (36.8% and 45.8%, respectively) exceeded the percentages of those that reported an "Increase" (10.5% and 12.5%, respectively). On the other hand, 19.1% of the companies reported an "Increase" in Japanese expatriate employees, while 9.5% reported a "Decrease" in these expatriates, indicating that more companies increased rather than decreased Japanese expatriates.

In terms of expectations for changes in the number of employees during the period of September 2009 to September 2010 (the next one year), no companies (0%) forecasted an "Increase" in both local employees (non-parmanent) and Japanese expatriate employees, while 21.1% and 18.2% of the companies forecasted a "Decrease" in those employees, respectively. As for local employees (parmanent), the percentage of companies that forecasted an "Increase" (24.0%) exceeded the percentage of those that forecasted a "Decrease" (20.0%). Yet, there is no obvious sign of job growth.

Diagram 1 Changes in the number of employees in the past one year and the forecast for the next one year



3. Business problems

Asked about business problems (multiple answers allowed), more than half of the respondents cited "Sluggishness in major sales markets (consumption downturn)" (52.0%) as a prevailing problem in sales or other business activities, and "Increase in employee wages" (62.5%) as well as "Restrictions on staff dismissal and reduction" (54.2%) as prevailing problems with labor or employment. A comparison with the previous FY2008 survey revealed that "Restrictions on staff dismissal and reduction" had not ranked as a major problem in the previous survey. This change in ranking reflects that many companies faced a new challenge of adjusting employment in the wake of the economic downturn.

In addition, in terms of the foreign trade system, many respondents pointed out problems in customs such as "Complicated customs clearance procedures" (57.1%) and "Time-consuming customs procedures" (52.4%).

Diagram 2　Business problems

Unit: %, multiple answers allowed

<table>
<tr><th>Item</th><th>Valid responses</th><th>1st</th><th>2nd</th><th colspan="2">3rd</th></tr>
<tr><td rowspan="2">Problems in sales or other business activities</td><td>25</td><td>Sluggishness in major sales markets (consumption downturn)</td><td>Decrease in orders from clients</td><td colspan="2">Major clients requesting lower prices</td></tr>
<tr><td>100.0</td><td>52.0</td><td>48.0</td><td colspan="2">44.0</td></tr>
<tr><td rowspan="2">Problems with labor or employment</td><td>24</td><td>Increase in employee wages</td><td>Restrictions on staff dismissal and reduction</td><td colspan="2">Low rate of worker retention</td></tr>
<tr><td>100.0</td><td>62.5</td><td>54.2</td><td colspan="2">29.2</td></tr>
<tr><td rowspan="2">Problems in the foreign trade system</td><td>21</td><td>Complicated customs clearance procedures</td><td>Time-consuming customs procedures</td><td colspan="2">Unclear inspection system</td></tr>
<tr><td>100.0</td><td>57.1</td><td>52.4</td><td colspan="2">33.3</td></tr>
<tr><td rowspan="2">Problems in production (Manufacturing only)</td><td>18</td><td>Increase in procurement costs</td><td>Difficulty in local procurement of parts and raw materials</td><td>Difficulty in quality control</td><td>Inadequate logistics infrastructure</td></tr>
<tr><td>100.0</td><td>55.6</td><td>50.0</td><td colspan="2">38.9</td></tr>
<tr><td rowspan="2">Problems in the localization of management</td><td>25</td><td>No progress with development of local staff</td><td>Difficulty in recruiting executive staff</td><td colspan="2">Capabilities in local planning and marketing are weak</td></tr>
<tr><td>100.0</td><td>64.0</td><td>32.0</td><td colspan="2">24.0</td></tr>
</table>

4. Investment environment

In terms of the advantages in the investment environment (multiple answers allowed), “English is widely spoken” is the most often cited reply at 63.6%, followed by “An abundance of land/office space, cheap land prices/rent,” “High-quality staff” and “Tax incentives (corporate tax, export/import customs duties, etc.)” with each of the three items cited by 31.8% of the respondents (valid responses: 22 companies).

In terms of the disadvantages in the investment environment, on the other hand, “Unclear policy management by the local government” was the most often cited reply at 64.0%, followed by “Unstable political and social conditions” and “Underdeveloped infrastructure (electric power, transportation, communications, etc.)” with each cited by 48.0% of the respondents (valid responses: 25 companies).

In the previous FY2008 survey, “Unstable political and social conditions” had been the largest disadvantage in the investment environment, cited by notably as high as 92.6% of the respondents (valid responses: 27 companies). In the FY2009 survey, however, the percentage of companies that cited this item remarkably decreased. Behind this drastic change lies the long-awaited end of the Sri Lankan Civil War in May 2009. Since then, even in the capital city of Colombo, there have been no random terrorist bombings, which used to occur frequently during the more-than-25-year civil war. As revealed in the comparison with the previous survey, Japanese-affiliated companies operating in Sri Lanka now recognize that the security problem or the largest obstacle in the investment environment has at last started to move in the direction of improvement in the wake of the end of the civil war.

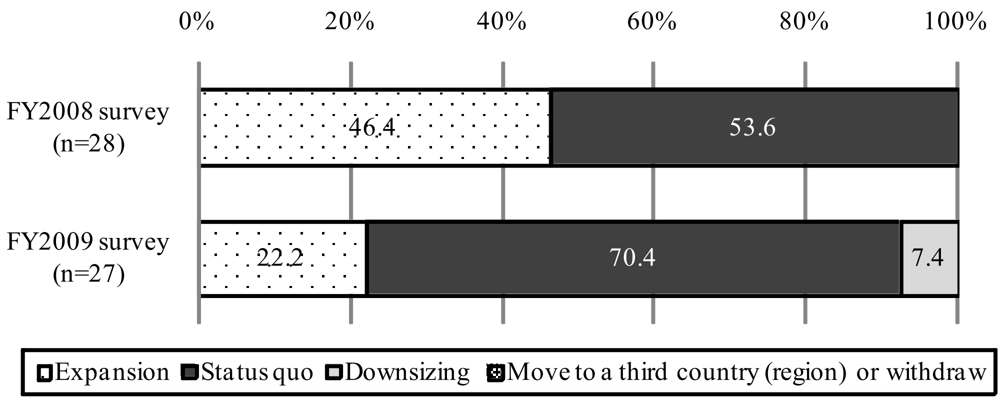
5. Future business development

Concerning the appropriate direction for the business development over the next one to two years, 22.2% of the respondents replied that they foresaw “Expansion” and 70.4% replied that they foresaw “Status quo,” while

7.4% replied that they foresaw “Downsizing” and no respondent or 0% foresaw “Move to a third country (region) or withdraw” (valid responses: 27 companies). Compared to the previous FY2008 survey, the percentage of companies expecting “Expansion” more than halved (from 46.4% to 22.2%, as shown in the following Diagram 3).

Targeting the 22.2% of the respondents (6 companies) that cited “Expansion” as the direction of their future business development, the survey asked about reasons or specific plans (multiple answers allowed). In response, 83.3% (5 companies) cited “Expansion of existing business scale through additional investment.” This was followed by “Increase in high value-added products and services” and “Creation of new markets (expand business/sales networks)” with each being cited by 50.0% of the respondents (3 companies).

Diagram 3　Direction of business development over the next one to two years



In terms of most promising regions/countries (1st to 3rd) as markets for future operation/products over the next one to three years, the highest percentage, 33.3%, of the companies ranked “India” as the first country, and the second highest percentage, 14.3%, of the respondents ranked “Japan” as the first country. Meanwhile, 9.5% of the respondents ranked “Other Southwest Asian countries,” including Sri Lanka where the companies are located, as the first position (valid responses: 21 companies).

6.　Procurement of raw materials and parts

(1)　Low local procurement ratio

In terms of the ratio of local procurement of raw materials and parts in the manufacturing industry, the average ratio of the respondents stood at 22.3%, which was the second lowest after Myanmar among the countries and regions covered in this survey (valid responses: 17 companies). Major overseas procurement sources of parts and raw materials (countries from which 1% or more of their materials and parts have been procured) were Japan (cited by 13 companies), ASEAN (10 companies), Mainland China (7 companies), Other Asian countries (6 companies), and Europe (5 companies). Among them, procurement from Japan, which was the largest source in terms of procurement cost, accounted for 29.0% of the total amount of procurement of the respondents, and that from ASEAN, the second largest procurement source, accounted for 25.7%. These figures were higher than the local procurement ratio.

Concerning plans for procuring raw materials and parts in the future (multiple answers allowed), “Increase ratio of procurement from ASEAN" (38.9%) and "Maintain current ratios of local procurement" (38.9%) were the most often cited replies, followed by "Increase ratio of local procurement" (22.2%) and "Increase ratio of procurement from China" (the same 22.2%). On the other hand, no companies (0.0%) replied that they planned to "Increase ratio of procurement from Japan," with the ratio currently being the highest (valid responses: 18 companies).

(2) About 35% of the companies benefiting from the exemption of tariffs on raw materials and parts

In regard to the percentage of raw materials and parts procured not subject to tariffs (duty free imports) to the total amount of raw materials and parts procured through imports, the largest percentage, or 35.3%, of the companies replied "0%," which means they paid tariffs on all imported raw materials and parts. On the other hand, 23.5% of the companies replied "90% to less than 100%" and 11.8% replied "100%," revealing that 35.3% of the companies received the exemption of tariffs on 90% or more of their imported raw materials and parts.

In Sri Lanka, manufacturers that regularly export 80% or more of their domestically manufactured products receive a reduction in corporate taxes and are allowed duty-free importation of capital goods, raw materials, and parts. The above result, in which the respondents' replies were divided into two major groups, is considered to reflect whether or not they are utilizing this scheme of exempting tariffs.

7. Measures against new influenza A (H1N1)

Concerning problems with measures against the new strain of influenza (H1N1), the percentage of the respondents replying that "There are no particular problems" reached 76.9%, which was the highest ratio among the 17 countries/regions surveyed in this survey. In contrast, percentages of the respondents citing other items were extremely low: "Observing staff who has returned from affected countries" and "Health checks of visitors to workplaces" were cited by 7.7% (two companies) each, and each of the remaining replies was cited by 3.9% (one company).

Also in terms of main countermeasures against the spread of this new influenza strain (multiple answers allowed), the percentage of the companies replying that "No particular countermeasures have been taken" reached a majority, at 53.9%. Among other replies, "Health education concerning covering the mouth when coughing and hand washing" (34.6%) and "Stockpiling daily items, masks, and disinfectants" (15.4%) showed relatively high ratios but remained at substantially lower levels in comparison to the other countries and regions covered by this survey.

In Sri Lanka, several persons were confirmed to have been infected by the new strain of influenza, calling for attention to a certain degree. However, this does not mean that it has had socioeconomic impacts. At the time when this survey was conducted, no Japanese expatriate was confirmed to be infected (the first case of an infected Japanese expatriate was confirmed later on September 30, 2009, but spread of the infection among Japanese expatriates and their families has not been confirmed as of February 2010). Therefore, it is thought that the above survey results reflect that the companies operating in Sri Lanka were not in a situation where they felt the need to take any urgent measure.

8. Exports/Imports

In regard to the percentage of export sales out of total sales, 40.0% of the companies in the manufacturing industry (valid responses: 15 companies) replied that export sales accounted for “100%” of their total sales, meaning that all of their products were being exported. In addition, 33.3% and 13.3% of the manufacturers replied that export sales accounted for “90% to less than 100%” and “80% to less than 90%,” respectively, revealing that 86.6% of the companies were exporting 80% or more of their products.

In Sri Lanka, manufacturers that regularly export 80% or more of their domestically manufactured products receive a reduction in corporate taxes and are allowed duty-free importation of capital goods, raw materials, and parts. As shown in these survey results, many of the Japanese-affiliated manufacturers take advantage of this scheme and utilize Sri Lanka as a base for exporting goods to markets in other countries.

The breakdown of export destinations of the manufactures exporting their products (in which average percentages were calculated so that they would total 100%, Diagram 5) revealed that “Japan” was the largest export destination, accounting for 28.9% of the total. Following that lead, “Europe” and “US” accounted for 21.7% and 16.2%, respectively. While exports to the US and European markets are driven by apparel and textile products, exports to the Japanese market are diversified and the exporting companies range in various industries, including plastic products and electric and electronic parts and components but excluding apparel and textile products.

In regard to the utilization of the existing (effectuated) bilateral and multilateral FTAs and EPAs in export and import activities (only manufacturing companies engaged in exports and imports were questioned), 18.8% (3 companies) of the respondents replied that FTAs/EPAs were “Currently in use” in their export and import activities, respectively, while 56.3% (9 companies) replied that they were “Considering using” for their export activities and 37.5% (6 companies) replied they were “Considering using” for their import activities (valid responses: 16 companies). Specifically, all the companies which cited “Currently in use” in their export and import activities are utilizing the Sri Lanka - India FTA.

Diagram 4 Percentage of exports out of total sales (manufacturing industries)

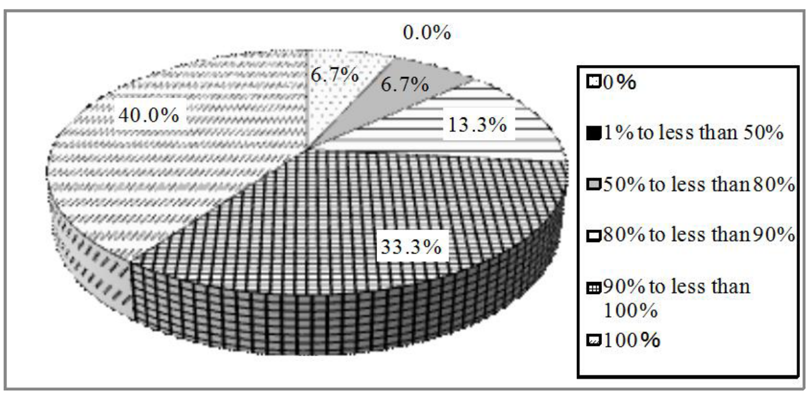
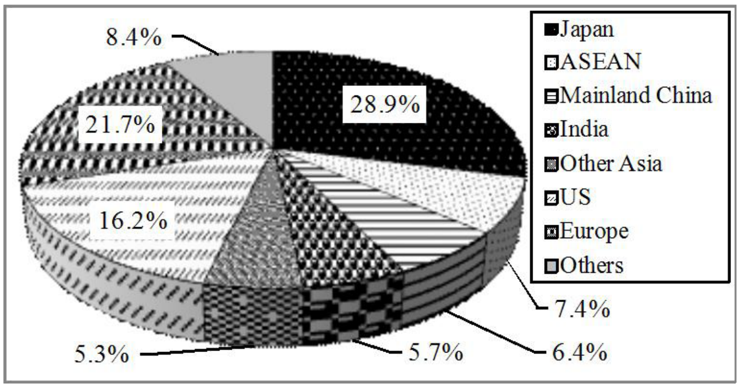


Diagram 5　Breakdown of export destinations (manufacturing industries' averages by country/region, calculated so that they would total 100%)



9.　Wages

The base salary (monthly) and the annual salary per employee* by type of job, and the number of valid responses for each are as follows:

* 1 Sri Lanka rupee ＝ 0.00871 US dollar (Average exchange rate of September 2009, calculated using the CEIC database)

Diagram 6　Wages (base monthly salary and annual salary per employee) by type of job

Unit: LKR; figures in parentheses are the number of valid responses

		FY2009 survey			FY2008 (previous) survey		
	Job type	Base salary (monthly)	Bonus (Number of months)	Annual salary (*)	Base salary (monthly)	Annual salary (*)	Note
Manufacturing	Workers (general workers)	11,755 (17)	1.6 (16)	188,903 (15)	11,186 (14)	172,882 (14)	3 years of experience
	Engineers (core technicians)	32,133 (15)	1.8 (13)	439,429 (14)	26,500 (12)	388,417 (12)	Graduates from technical schools or university with 5 years of experience
	Managers (section managers in charge of sales or equivalent)	71,938 (16)	1.7 (15)	1,145,219 (14)	59,615 (13)	915,692 (13)	Graduates from university with 10 years of experience
Non-manufacturing	Staff (general workers)	26,571 (7)	1.8 (7)	500,625 (6)	26,571 (14)	679,000 (14)	3 years of experience
	Managers (section managers in charge of sales or equivalent)	95,000 (6)	1.6 (6)	1,466,167 (6)	80,357 (14)	1,452,571 (14)	Graduates from university with 10 years of experience

(*) Annual salary per employee (annual total of base salary, allowances, social security costs, overtime, and bonuses, etc.)

Australia

Targets of the survey and breakdown of respondents

Survey period	September 1 - October 15, 2009
Number of companies contacted:	353 Japanese-affiliated companies operating in Australia (Based on the survey sent out)
Number of valid respondents:	214 companies (manufacturing industry: 50; non-manufacturing industry: 164)
Breakdown of valid respondents by industry:	As shown below

(Units: Companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine	17	34.0
Lumber and wood products	5	10.0
Paper and pulp	1	2.0
Plastic products	1	2.0
Ceramics and cement	2	4.0
Iron and steel (including cast and forged products)	1	2.0
Nonferrous metals	1	2.0
Fabricated metal products (including plated products)	2	4.0
Electric machinery and electronic equipment	5	10.0
Motor vehicles and motorcycles	1	2.0
Motor vehicle and motorcycle parts and accessories	10	20.0
Printing and publishing	1	2.0
Other	3	6.0
Total	50	100.0

Non-mufacturing industry		
Industry	No. of companies	Composition ratio
Agriculture and forestry products	2	1.2
Mining	16	9.5
Distribution	2	1.2
Trading company	21	12.5
Sales company	68	40.5
Banking	3	1.8
Insurance	7	4.2
Securities	1	0.6
Transport/warehousing	12	7.1
Real estate	4	2.4
Hotel/travel/restaurant	9	5.4
Communications/software	4	2.4
Construction/plants	1	0.6
Other	18	10.7
Total	168	100.0

1. Operating profit forecast

(1) Operating profit in 2009 is expected to show a massive decrease

Forecasts for 2009 on operating profit of Japanese-affiliated companies operating in Australia show that while 29.9% of respondent companies forecast “Improvement” from 2008, 52.8% forecast “Worsening.” The diffusion index (DI) value, an indicator of business confidence (percentage of companies reporting that they expected improvement minus those reporting that they expected worsening), was -22.9 points (valid responses: 214 companies). This represents a worsening of 22.9 points from the DI value for the “2009 business outlook” (0 points) asked in the survey in the previous fiscal year (conducted September - November 2008), which took place in the immediate aftermath of the financial crisis. These results indicate that companies’ business confidence has worsened considerably over the one-year period in which the impact of the financial crisis was felt (See Diagram).

Industries in which particularly high percentages of respondent companies answered that they expected

“Worsening” were the “lumber and wood products” (DI value: -80 points) among the companies in the manufacturing industry and the “mining industry” (DI value: -56.3 points), “trading company” (DI value: -81.0 points), and “hotel/travel/restaurant” (DI value: -77.8 points) among that of the non-manufacturing industry.

A look at reasons for worsening shows that “Decrease in local market sales” was given by the highest percentages of respondents in both manufacturing and non-manufacturing industries (63.0% of the companies in the manufacturing industry and 50.6% of that of the non-manufacturing industry; valid responses: 110 companies). Thus, in Australia, where few Japanese-affiliated companies operate processing operations for export and there is a high concentration of such firms from non-manufacturing industry, chiefly carrying out business in the domestic market, the impact of the financial crisis has made itself apparent in the form of a “Decrease in local market sales.”

Diagram 1: Operating profit forecast for 2009/2010 (over the previous year)

	Industry	Valid responses	Improve	No change	Worsen
2009	Manufacturing	50	30.0	14.0	56.0
	Non-manufacturing	164	29.9	18.3	51.8
	Total	214	29.9	17.3	52.8
2010	Manufacturing	49	65.3	20.4	14.3
	Non-manufacturing	160	51.9	38.8	9.4
	Total	209	55.0	34.5	10.5

(2) The outlook on operating profit improves for 2010

The percentage of respondent companies answering that they expected operating profit to “Improve” in 2010 over 2009 was 55.0%, while the percentage answering that they expected it to “Worsen” was 10.5%, for a DI value of 44.5 points. Thus, the business outlook for 2010 shows major improvement (valid responses: 209 companies). In the manufacturing industry, the percentage of respondent companies answering that they expected operating profit to “Improve” was 65.3%, while the percentage answering that they expected it to “Worsen” was 14.3%, for a DI value of 51.0 points (valid responses: 49 companies), and in the non-manufacturing industry the percentage of respondent companies answering that they expected it to “Improve” was 51.9%, the percentage answering that they expected it to “Worsen” was 9.4%, and the DI value was 42.5 points (valid responses: 160 companies).

In the manufacturing industry, those including the “electric machinery and electronic equipment” (75.0%) and “motor vehicle and motorcycle parts and accessories” (70.0%), and in the non-manufacturing industry those including the “hotel/travel/restaurant” (77.8%), reported particularly bright business outlooks, with 70% or more of respondent companies expecting that it would “Improve.”

In both manufacturing and non-manufacturing industries, the most cited reply (68.7%) on reasons for improvement in operating profit in 2010 was “Increase in local market sales” (valid responses: 115 companies). Thus, while the decrease in local market sales was pronounced in 2009, as a result of the financial crisis, most companies expect domestic demand to recover in 2010.

2. Impact of the economic recession

(1) A quick bottoming out of the economy

The percentage of respondent companies that reported a "negative impact" from the global economic recession that began in October 2008 was 84.0% (valid responses: 213 companies). In the manufacturing industry, 83.3% of respondent companies reported a "negative impact" (valid responses: 48 companies), while in the non-manufacturing industry 84.2% reported a "negative impact" (valid responses: 165 companies).

When results are looked at by industry, while in general every industry reported a negative impact, in particular nine companies in the "lumber and wood products," "mining industry," and "hotel/travel/restaurant" reported a "negative impact."

When asked when their sales reached their lowest point, the highest percentage of respondent companies answered "January - March 2009" (24.4%). When combined with those answering "October - December 2008" (5.7%) and those answering "April - June 2009" (20.5%), more than five firms said sales had reach their lowest point by the first half of 2009 (valid responses: 176 companies). In the manufacturing industry, 51.3% of respondent companies said that "Sales had reached their lowest point" by the first half of 2009 (valid responses: 39 companies), while in the non-manufacturing industry 50.4% (valid responses: 137 companies) said so.

(2) Respondents strive to "Improve the efficiency of production and sales"

When asked when their sales did or would recover to a pre-financial crisis level (prior to September 2008), the highest percentages in both manufacturing and non-manufacturing industries — 42.1% of the companies in the former (valid responses: 38 companies) and 36.0% of those in the latter category (valid responses: 136 companies) — answered "Not sure." The next highest percentages — 15.8% of manufacturing firms and 14.7 of non-manufacturing firms — answered "First half of 2010." Comparison with other countries and regions shows that compared with South Korea, in which private-sector consumption, capital investment and exports all recovered during the first half of 2009 and markets such as Indonesia and China, in which domestic demand has been relatively strong, Australia's economic recovery is slow, and many firms expect sales levels to recover in 2010 or later.

Diagram 2: Periods cited in the highest percentages of responses, by country and region (percentages in parentheses)

Apr - Jun 2009	Jul - Sep 2009	Oct - Dec 2009	1st half 2010	2nd half 2010
South Korea (19.4)	Philippines (25.5) Indonesia (22.9) China (20.6) Taiwan (16.9) Vietnam (14.6)	Taiwan (16.9)	Myanmar (25.0) Malaysia (20.4) India (20.0) Hong Kong (18.8) Thailand (17.2) Australia (14.9) Vietnam (14.6)	Bangladesh (41.2) New Zealand (32.1) Sri Lanka (20.0) Pakistan (19.1) Singapore (14.7) Vietnam (14.6)

When respondent companies were asked what measures they had taken in the past year since the global recession took hold (multiple answers allowed), the most cited responses included “Reduction in costs through improved efficiency of production and sales” (43.5%), “Employment adjustments” (41.8%), and “Cancellation or postponement of new investment/facility investment” (40.7%), in that order (valid responses: 177 companies). Especially, in the manufacturing industry, the percentage answering “Reduction in costs through improved efficiency of production and sales” was particularly high at 67.5%. In the non-manufacturing industry, however, the percentage answering “Reduction in costs through improved efficiency of production and sales” was only 36.5%. These results were characterized by a relatively high percentage of 30.5% of respondent companies answering “Rise in sales price,” which was given by low percentages of respondents in other countries (total of both manufacturing and non-manufacturing industries’ responses).

The percentage of companies answering “Closure/withdrawal of business base (including part of a business base)”, at 12.4% (total of both manufacturing and non-manufacturing industries’ responses), also was high in comparison with other countries (average among 17 countries in Asia and Oceania: 4.9%). A high percentage of respondents (55.6%) gave this answer in the “hotel/travel/food service”in particular.

(3) No change in employment outlook

When asked about changes in numbers of employees over the period from September 2008, before the financial crisis, through September 2009, more than 30% of the respondent companies (valid responses: 210 companies) answered that they had “Decreased” local employees — both non-permanent (33.1%) and permanent (36.2%). Regarding forecasts for the next year beginning September 2009, although 11.2% of respondent companies said they would “Increase” non-permanent employees and 23.4% that they would do so for permanent employees, these results were very low in comparison with other countries (averages among 17 countries in Asia and Oceania: 23.4% of respondent companies said they would increase “Non-permanent” local employees and 33.8% that they would do so for “Permanent” local employees). At the same time, the percentages of companies saying that they would remain “Status quo” were 63.7% for “Permanent” and 73.8% for “Non-permanent” employees.

When asked about expectations for capital investment over the coming one-year period (October 2009 - September 2010) in comparison with the previous year (October 2008 - September 2009), while the percentage of companies answering that they expected to “Increase” investment was low at 24.3%, the percentage answering “No change” was 50.0% (valid responses: 206 companies).

3. Business problems

(1) An “Increase in employee wages” is a subject of concern

On the subject of problems in sales or other business activities (multiple answers allowed), the most cited reply was “Sluggishness in major sales markets (consumption downturn),” given by 56.3% of respondent companies (valid responses: 206 companies).

In the area of problems in financial affairs, financing, or foreign exchange (multiple answers allowed), the most cited reply was “Volatility of local currency’s exchange rate against the US dollar,” given by 54.8% of respondent companies, followed by “Volatility of local currency’s exchange rate against the Japanese yen,” given by 54.3% of the companies (valid responses: 197 companies). In the manufacturing industry in particular, the percentage of companies answering “Volatility of local currency’s exchange rate against the US dollar” reached 64.4%, more than 10 percentage points higher than the 52.0% of that of the non-manufacturing companies giving that answer.

Regarding problems with labor or employment (multiple answers allowed), the most cited reply was “Increase in employee wages,” given by 57.5% of the respondent companies (valid responses: 181 companies). In the non-manufacturing industry in particular, the percentage of companies giving that answer was 59.3%, more than eight percentage points higher than 51.2% of the manufacturing industry that did so.

(2) Cost-related problems rise to the top

When respondents were asked about problems in production (multiple answers allowed, manufacturing industry only), the most cited reply was “Increase in procurement costs,” given by 58.5% of respondent companies (valid responses: 41 companies). On the other hand, problems such as “Electric power shortage” (4.9%) and “Inadequate logistics infrastructure” (2.4%) were cited by 5% or less of respondents, indicating that the infrastructure-related problems seen in developing countries in Asia were not identified in replies from the developed country of Australia.

In addition, regarding the foreign trade system the most commonly cited replies were “Time-consuming customs procedures” and “Strict quarantine system,” each given by 25% of respondent companies. Furthermore, other replies given included “Criteria for determining classification of customs duties are obscure” (13%) and “Complicated customs clearance procedures” (13%). Despite its developed-country status, one of Australia’s characteristics is its laxity in procedural matters. Also, its quarantine system is very strict.

Diagram 3: Problems in the investment environment

(Unit: %; multiple answers allowed)

Subject	By region	Valid responses	1st	2nd	3rd
Problem(s) in sales or other business activities	Manufacturing	48	Sluggishness in major sales markets (consumption downturn)	Decrease in orders from clients	Major clients requesting lower prices
		100.0	58.3	52.1	39.6
	Non-manufacturing	158	Sluggishness in major sales markets (consumption downturn)	Competitors’ growing market shares (cost-wise competition)	Major clients requesting lower prices
		100.0	55.7	37.3	30.4
Problem(s) with labor or employment	Manufacturing	41	Increase in employee wages	Restrictions on staff dismissal and reduction	Personnel costs of Japanese (expatriate) officers and staff
		100.0	51.2	31.7	22.0
	Non-manufacturing	140	Increase in employee wages	Restrictions on staff dismissal and reduction	Personnel costs of Japanese (expatriate) officers and staff
		100.0	59.3	27.1	26.4
Problem(s) in production (Manufacturing only)	Manufacturing	41	Increase in procurement costs	Limited cost-cutting measures available	Difficulty in local procurement of parts and raw materials
		100.0	58.5	36.6	24.4
Problem(s) in the foreign trade system	Manufacturing	24	Time-consuming customs procedures	Strict quarantine system	High non-tariff barriers
		100.0	33.3	29.2	20.8
	Non-manufacturing	73	Strict quarantine system	Time-consuming customs procedures	Criteria for determining classification of customs duties are unclear
		100.0	23.3	21.9	15.1

4. Investment environment – Highlighting characteristics that are particular to a developed country

Regarding advantages in the investment environment (multiple answers allowed), the percentage of companies answering that “Stable political and social conditions” were such an advantage reached 84.1% (valid responses: 201 companies), followed by “English is widely spoken” (42.3%) and “A good living environment for expatriate staff” (33.8%). On the other hand, a very low percentage (0.5%) of respondents answered “An abundance of staff due to low costs.”

Regarding disadvantages in the investment environment (multiple answers allowed), the highest percentage of companies (46.2%) answered “Insufficient land/office space, rising land prices/rent” (valid responses: 132 companies). Other answers, such as “Unclear policy management by the local government” (9.9%) and “Underdeveloped economic and legal systems, and arbitrary application of the legal system” (3.8%), were given by less than 10% of respondents.

Diagram 4: Advantages/disadvantages in the investment environment

(Unit: %; multiple answers allowed)

<table>
<tr><th>Subject</th><th>By region</th><th>Valid responses</th><th>1st</th><th colspan="2">2nd</th><th colspan="2">3rd</th></tr>
<tr><td rowspan="4">Advantages (strong points) in the investment environment</td><td rowspan="2">Manufacturing</td><td>46</td><td>Stable political and social conditions</td><td colspan="2">English is widely spoken</td><td colspan="2">Ample infrastructure (electricity, transportation, telecommunications, etc.)</td></tr>
<tr><td>100.0</td><td>89.1</td><td colspan="2">45.7</td><td colspan="2">41.3</td></tr>
<tr><td rowspan="2">Non-manufacturing</td><td>155</td><td>Stable political and social conditions</td><td colspan="2">English is widely spoken</td><td colspan="2">A good living environment for expatriate staff</td></tr>
<tr><td>100.0</td><td>82.6</td><td colspan="2">41.3</td><td colspan="2">33.6</td></tr>
<tr><td rowspan="4">Disadvantages (problems) in the investment environment</td><td rowspan="2">Manufacturing</td><td>26</td><td>Insufficient land/office space, rising land prices/rent</td><td>Complicated administrative procedures</td><td>Complicated tax procedures</td><td>Underdeveloped infrastructure</td><td>Lowering of custom tariff levels (including the lowering of custom tariffs due to FTA/EPA)</td></tr>
<tr><td>100.0</td><td>42.3</td><td colspan="2">15.4</td><td colspan="2">11.5</td></tr>
<tr><td rowspan="2">Non-manufacturing</td><td>106</td><td>Insufficient land/office space, rising land prices/rent</td><td colspan="2">Complicated tax procedures</td><td colspan="2">Complicated administrative procedures</td></tr>
<tr><td>100.0</td><td>47.2</td><td colspan="2">23.6</td><td colspan="2">20.8</td></tr>
</table>

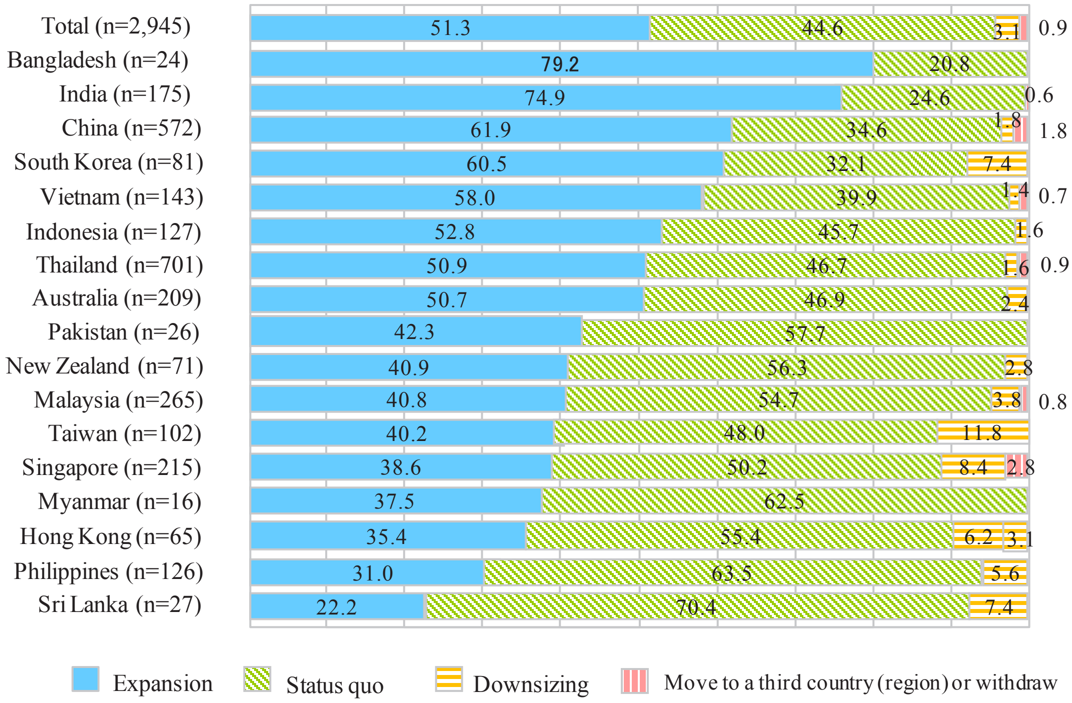
5. Future business development

(1) A strong outlook for business expansion

Regarding directions for companies’ business development over the next one to two years, among the companies in the manufacturing industry (valid responses: 48 companies) 39.6% gave the answer “Expansion,” while 54.0% of companies in the non-manufacturing industry (valid responses: 161 companies) gave that answer. When answers from both manufacturing and non-manufacturing industries are combined, the percentage answering “Expansion” is 50.7% (valid responses: 209 companies). Although this percentage is slightly lower than that in the FY 2008 survey (52.5%), it indicates that the outlook for business expansion in the mature market of Australia is roughly the same as in Thailand and Indonesia.

In the manufacturing industry, 70% or more of respondents in the “electric machinery and electronic equipment" (80.0%) indicated an outlook for business expansion. Similarly, in the non-manufacturing industry 70% or more of respondents in the "mining industry" (73.3%) did so.

Diagram 5: Directions for companies' business development over the next one to two years (by country/region)



6. Procurement of raw materials and parts

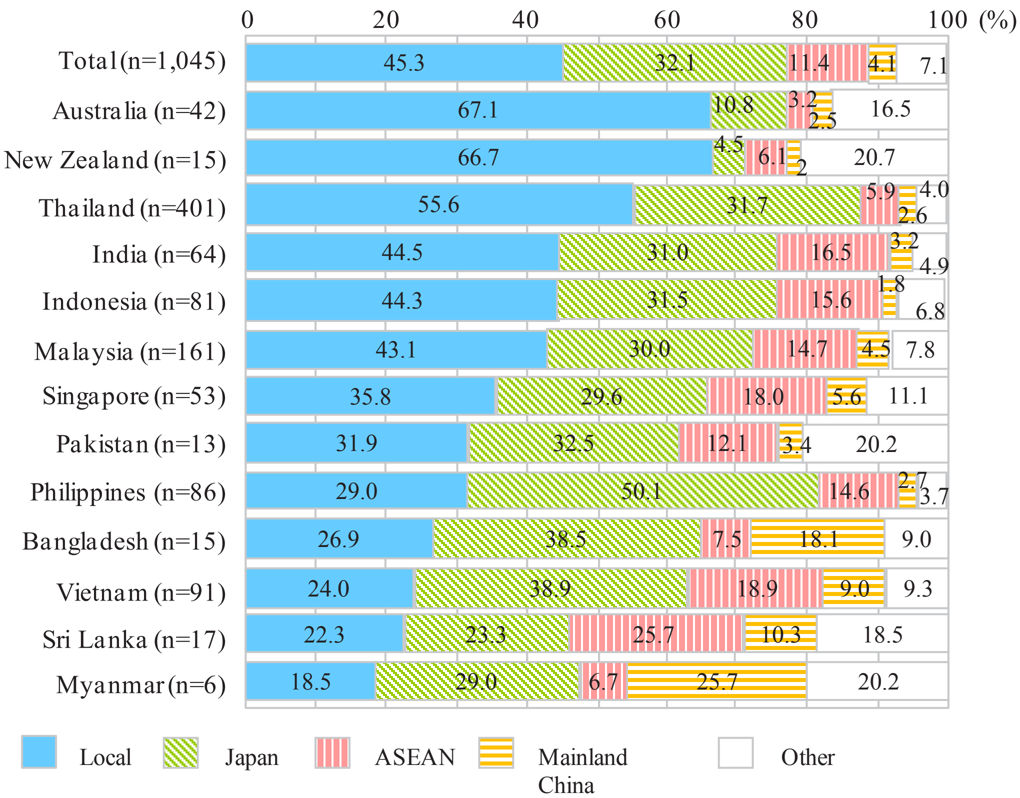
(1) High rates of local procurement, formation of Oceania's own supply chains

Regarding the percentage of production costs of typical products attributable to costs of parts and raw materials (manufacturing industry only), 26.8% of respondent companies said that costs of parts and raw materials accounted for "70% or more" of production costs, substantially lower than the average (40.4%) for the 17 countries of Asia and Oceania (valid responses: 41 companies). Thus, a pronounced tendency is apparent for the percentage of production costs attributable to costs of parts and raw materials to be relatively low in Australia, along with other developed countries within the region, such as Singapore and New Zealand. This shows that costs other than those of parts and raw materials, such as labor and administrative costs, are higher than in other countries and regions.

The rate of local procurement (average) of Japan-affiliated companies in Australia (manufacturing industry only) was 67.1%, the highest among all 17 countries and regions in Asia and Oceania subject to this survey (valid responses: 42 companies) and much higher than the average among those 17 countries and regions (45.3%).

The average percentages of procurement from non-local (overseas) sources were 10.8% for Japan, 3.2% for ASEAN, and 2.5% for Mainland China. Unlike in ASEAN and southwest Asian countries, the procurement rate from ASEAN is low, indicating that respondent firms in Australia have formed their own self-sufficient procurement methods that differ from those in Asian regions.

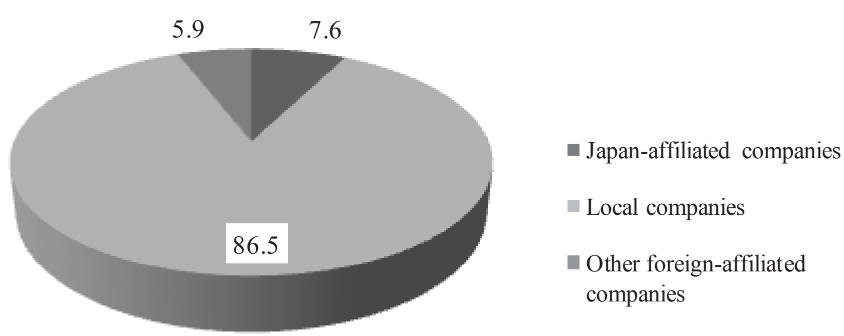
Diagram 6: Breakdown of procurement for raw materials and parts (by country and region)



(2) Local companies have a high supply capacity

A look at a breakdown of local procurement sources by company type shows that only a small percentage of 7.6% on average answered “Local Japan-affiliated companies,” while 86.5% answered “Local companies” and 5.9% “Other foreign-affiliated companies” (valid responses: 38 companies). Unlike in other Asian countries, the percentage of procurement from Japan-affiliated companies is low while that from local companies is very high. This is an indication of the high supply capacity of local companies in Australia, who appear to be able to supply quality suited to the requirements of Japan-affiliated companies.

Diagram 7: Breakdown of local procurement sources



7. Measures for syuuinfluenza A (H1N1)

Regarding problems respondent companies faced in responding to the new strain of influenza A (H1N1), the highest percentage (47.9%) answered "There are no particular problems," while the next highest percentage (20.1%) answered "Observing staff who has returned from affected countries (method and duration)" (multiple answers allowed; valid responses: 209 companies). This contrasts to the results for ASEAN countries, where many companies considered "Procurement of flu vaccines" to be difficult.

When respondent companies were asked what they planned to do if the new strain of influenza were to worsen in the future (valid responses: 208 companies), 18.8% answered "Remain in the local area" — the same as the percentage of that answered that they would "Evacuate", as the sum (18.8%) of those answering "Prompt evacuation to home countries or surrounding countries" (11.5%) and those answering "Evacuation to home countries or surrounding countries of some expatriate employees only" (7.2%).

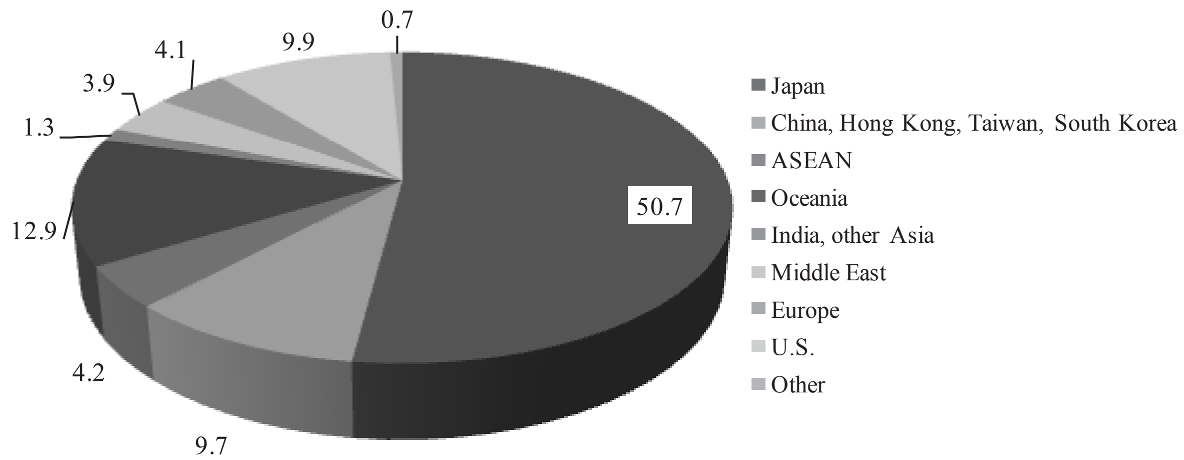
8. Exports/Imports

(1) High percentages of exports to Oceania, Europe, and the United States

When respondents were asked about the percentage of sales consisting of exports (manufacturing industry only), the average export ratio of Japan-affiliated companies in Australia was 39.9%, while the percentage of companies with export ratios of 0% (i.e., those whose entire sales were to the domestic market) was 28.6% (valid responses: 42 companies). Unlike in ASEAN countries, where many Japanese-affiliated companies operate processing operations for export (the average export ratio of Japan-affiliated companies in ASEAN countries was 45.4%), many Japan-affiliated companies in Australia are focused on strengthening sales to the domestic Australian market, which has a high level of buying power. At the same time, export ratios were high in industries such as "foods, processed agricultural or marine products" (56.4%) and "lumber and wood products" (85.0%), while ratios of domestic sales were high among manufacturers of machinery, in the "electric machinery and electronic equipment" (in which 50% of companies sold exclusively to the domestic market) and the "motor vehicle and motorcycle parts and accessories" (in which 62.5% of companies did so).

A breakdown of export destinations (multiple answers allowed, manufacturing industry only) shows that the highest percentage of respondent companies (50.7%) cited "Japan" (valid responses: 32 companies). Next came "Oceania" at 12.9% and "U.S." at 9.9%. The percentage of exports to ASEAN countries was low at 4.2%. Unlike companies located in ASEAN countries, an Australian own supply chain appears to have formed, with high percentages of exports going to markets within the Oceania region, the U.S., and Europe.

Diagram 8: Breakdown of export destinations (by country and region)



(2) Use of the Thailand-Australia FTA advances

Among Japan-affiliated companies in Australia (manufacturing industry only), the percentage answering that they “Currently use FTAs/EPAs for exports” was 25.0% (valid responses: 32 companies). The percentage answering that they “Currently use FTAs/EPAs for imports” was 51.7% (valid responses: 29 companies). The percentage using FTAs/EPAs for imports has increased as a result of the Thailand-Australia FTA, which took effect in January 2005.

The FTA used by the highest percentage of respondents for exports (manufacturing industry only) was the Australia-New Zealand FTA, used by 15.6% of respondents, followed by the Thailand-Australia FTA (9.4%).

On the other hand, the FTA used by the highest percentage of respondents for imports was the Thailand-Australia FTA, used by 27.6% of respondents (eight companies). This FTA particularly saw use in the “motor vehicle and motorcycle parts and accessories” (five companies).

The ASEAN-Australia-New Zealand Free Trade Agreement took effect January 1, 2010. As a result, it is expected that Australian exports to ASEAN markets will increase in the future, as use of the FTA increases.

9. Wages

Base salary (monthly) and annual salary per employee* for each job type, and valid responses for each are shown in the following diagram.

Diagram 9: Wages (base salary and annual salary per employee) by job type

Units: AUD; valid responses in parentheses

	Job type	Base salary (monthly)	Bonus	Annual salary cost (*)	Note
Manufacturing	Workers (general workers)	3,765 (33)	0.3 (15)	49,193 (33)	3 years of experience
	Engineers (core technicians)	5,639 (26)	0.4 (15)	78,392 (27)	Graduates from technical schools or colleges with 5 years of experience
	Managers (section managers in charge of sales or equivalent)	8,073 (29)	1.0 (20)	109,021 (33)	Graduates from university with 10 years of experience
Non-manufacturing	Staff (general workers)	4,421 (108)	0.9 (77)	60,280 (118)	3 years of experience
	Managers (section managers in charge of sales or equivalent)	8,097 (107)	1.4 (82)	113,725 (120)	Graduates from university with 10 years of experience

(*) Annual salary per employee (annual total of base salary, allowances, social security costs, overtime, and bonuses, etc.)

New Zealand

Targets of the survey and breakdown of respondents

Survey period: September 1, 2009 to October 15, 2009

Number of companies contacted: 112 Japanese-affiliated companies operating in New Zealand (based on the survey sent out)

Number of respondents: 71 companies (manufacturing industry: 16; non-manufacturing industry: 55)

Breakdown of respondents by industry: As shown below

(Unit: Companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	4	25.0
Textiles (yarn, cloth, synthetic fabrics)	1	6.3
Lumber and wood products	4	25.0
Paper and pulp	1	6.3
Rubber products	1	6.3
Nonferrous metals and products	1	6.3
Fabricated metal products (including plated products)	1	6.3
General machinery (including metal molds and machine tools)	1	6.3
Printing and publishing	1	6.3
Other	1	6.3
Total (valid responses)	16	100.0

Non-manufacturing industry		
Industry	No. of companies	Composition ratio
Fish and marine products	1	1.8
Agricultural and forestry products	2	3.6
Distribution	7	12.7
Trading company	11	20.0
Sales company	14	25.5
Banking	1	1.8
Insurance	2	3.6
Transport/warehousing	5	9.1
Hotel/travel/restaurant	7	12.7
Communications/software	1	1.8
Other	4	7.3
Total (valid responses)	55	100

1. Operating profit forecast

(1) Substantial deterioration of the operating profit forecast for 2009 in the non-manufacturing industry

As for the operating profit forecast for 2009 for Japanese-affiliated companies operating in New Zealand, 29.6% of the companies responded that they expected this to “Improve” compared to 2008, while the percentage that responded that it would “Worsen” was 50.7%. The DI value (number of points for “Improve” – “Worsen”), which expresses the companies’ business confidence, was -21.1 points (valid responses: 71 companies; refer to Diagram 1). It has deteriorated by roughly 70 points from the DI value (47.4 points) for the “Operating profit forecast for 2009” inquired after in the September – November 2008 survey conducted directly after the outbreak of the financial crisis. This implies that the business confidence of the companies has deteriorated considerably in the one-year period in which the impact from the financial crisis has become manifest. Viewed by industry, for the manufacturing industry the percentage of companies that responded that it would “Improve” was 31.3% and those responding it would “Worsen” was 43.8%, with a DI value of -12.5

points (valid responses: 16 companies). For the non-manufacturing industry the percentage of companies that responded it would "Improve" was 29.1% and those responding that it would "Worsen" was 52.7%, with a DI value, which expresses business confidence, of -23.6 points (valid responses: 55 companies). The deterioration of business confidence was more serious in the non-manufacturing industry than in the manufacturing industry.

Industries in which the percentage of companies responding "Worsen" was particularly high including "hotel/travel/restaurant" (DI value of -100 points) and "trading company" (DI value of -45.5 points). Conversely, the DI value for "distribution" came to 28.5 points.

As reasons for the operating profit in 2009 to worsen, a "Decrease in sales due to sluggish exports" was cited by the highest percentage of companies in the manufacturing industry at 85.7% (valid responses: seven companies), while a "Decrease in local market sales" was cited by the highest percentage of companies in the non-manufacturing industry (valid responses: 29 companies) at 65.5%.

(2) Improvement for the operating profit forecast for 2010

The percentage of companies that responded that operating profits for 2010 would "Improve" compared to 2009 was 62.0%, and those responding it would "Worsen" was 5.6%. This gives a DI value of 56.4 percentage point with the forecast for 2010 improving substantially (valid responses: 71 companies). The percentage of companies in the manufacturing industry that responded it would "Improve" was 68.8% and those responding it would "Worsen" was 6.3%, for a DI value of 62.5 points (valid responses: 16 companies). The percentage of companies in the non-manufacturing industry that responded it would "Improve" was 60.0% and those responding that it would "Worsen" was 5.5%, for a DI value of 54.5 points (valid responses: 55 companies).

When viewed by industry, 70% or more of companies expect it to "Improve" in areas like "lumber and wood products" (75.0%) for the manufacturing industry and "distribution" (71.4%) and "sales company" (71.4%) for the non-manufacturing industry.

In terms of the reason for operating profits for 2010 to improve, an "Increase in sales in local markets" occupied the top position for both the manufacturing industry (valid responses: 11 companies) and the non-manufacturing industry (valid responses: 33 companies) (at 54.6% and 60.6%, respectively).

Diagram 1: Estimated operating profit for 2009/2010

(Unit: Companies, %)

	Industry	Valid responses	Improve	Show no change	Worsen	DI value
2009	Manufacturing industry	16	31.3	25.0	43.8	▲ 12.5
	Non-manufacturing industry	55	29.1	18.2	52.7	▲ 23.6
	Overall	71	29.6	19.7	50.7	▲ 21.1
2010	Manufacturing industry	16	68.8	25.0	6.3	62.5
	Non-manufacturing industry	55	60.0	34.6	5.5	54.5
	Overall	71	62.0	32.4	5.6	56.4

2. Impact of the economic recession

(1) Bottoming out in 2009

With regard to the impact from the global economic recession from October 2008 onward, the percentage of companies that responded "It had a negative impact" was 85.3% (valid responses: 68 companies). By industry, 93.8% of the companies in the manufacturing industry (valid responses: 16 companies) and 82.7% of the companies in the non-manufacturing industry (valid responses: 52 companies) responded that "It had a negative impact".

Viewed by type of industry, all industry types responded that it had a generally negative impact, but in particular 100% of the companies in sectors like "lumber and wood products" (4 companies) and "hotel/travel/restaurant" (7 companies) responded that "It had a negative impact".

In terms of the periods in which sales bottomed out, the top spots in order were "July - September 2009" (21.4%), "April - June 2009" (17.9%), and "October - December 2009" (16.1%) (valid responses: 56 companies; refer to Diagram 2).

In the manufacturing industry, the highest percentage of companies responded that this bottomed out in "October - December 2009" at 28.6% (valid responses: 14 companies), whereas in the non-manufacturing industry the highest percentage of companies responded "July - September 2009" (21.4%) (valid responses: 42 companies). A difference was seen in the periods in which sales bottomed out in the manufacturing and non-manufacturing industries.

Diagram 2: Periods cited in the highest percentage of responses (by country and region; percentages in parentheses)

Apr - Jun 2009	Jul - Sep 2009	Oct - Dec 2009	1st half of 2010	2nd half of 2010
South Korea (19.4)	Philippines (25.5) Indonesia (22.9) China (20.6) Taiwan (16.9) Vietnam (14.6)	Taiwan (16.9)	Myanmar (25.0) Malaysia (20.4) India (20.0) Hong Kong (18.8) Thailand (17.2) Australia (14.9) Vietnam (14.6)	Bangladesh (41.2) New Zealand (32.1) Sri Lanka (20.0) Pakistan (19.1) Singapore (14.7) Vietnam (14.6)

(2) Economic recovery forecasted for the second half of 2010

With regard to the timing in which sales will (did) recover to their levels from before the outbreak of the financial crisis (from September 2008 onward), the highest percentage of companies in both the manufacturing industry and non-manufacturing industries responded the "Second half of 2010" (at 28.6% and 33.3%, respectively; valid responses: 14 companies and 42 companies, respectively). Many companies are seeing later periods of economic recovery compared to other countries.

Companies were asked about the measures they took over the past one-year period since the economic slowdown became evident, with multiple answers allowed. The top responses to this were included "Employment adjustments" (50.9%), "Reduction in costs through improved efficiency of production and sales"

(49.1%), and “Cancellation or postponement of new investment/facility investment” (43.9%) (valid responses: 57 companies). There was a particularly high percentage of companies that responded with “Employment adjustments” in the “hotel/travel/restaurant” industry (85.7%), yet conversely this was low for “trading company” (25.0%).

(3) Low willingness to hire

When inquiries were made into changes in the number of employees as of September 2008 (in the past) from before the outbreak of the financial crisis, approximately 40% of the companies responded that they would “Decrease” both non-permanent (42.0%) and permanent (38.6%) local employees. On the other hand, when it comes to forecasts for the one-year period starting from September 2009, the percentage of companies that responded they would “Increase” non-permanent local employees was a mere 6.3% (the average value for 17 countries in Asia and Oceania was 23.4%), with as many as 85.4% responding they would have “No change” (valid responses: 48 companies). The percentage of companies that responded they would “Increase” permanent local employees was a mere 20.3% (the average value for the 17 countries in Asia and Oceania was 33.8%).

For Japanese expatriate employees, the percentage of companies responding “Decrease” employees over the past one-year period was 3.6% and the number that chose “Increase” was 5.5%, with “Increase” slightly edging out “Decrease.” Conversely, those that had “No change” amounted to 90.9% (valid responses: 55 companies). The current situation differs from that for local employees in that the vast majority of companies have only one expatriate employee from Japan, and so in actuality they cannot carry out employment adjustment for Japanese expatriate employees.

When it comes to the one-year forecast from September 2009 onward, the percentage of companies that responded that they would “Increase” Japanese expatriate employees came to 6.3% for the manufacturing industry and 0% for the non-manufacturing industry. Yet conversely the percentage of companies responding that they would “Decrease” them was 12.5% for the manufacturing industry and 2.6% for the non-manufacturing industry, with “Decrease” vastly outstripping “Increase” for both the manufacturing and non-manufacturing industries. There are few companies that are thinking about increasing local employees and likewise Japanese expatriate employees, even after an economic recovery.

Regarding forecasts for facility investment for the coming one-year period (October 2009 - September 2010), compared to the previous one-year period (October 2008 – September 2009), the percentage of companies that responded they would “Increase” this was low at 18.6%. Conversely the percentage of companies that responded they would have “No change” with this was over 50% at 57.1% (valid responses: 70 companies). Viewed by industry, the percentage of companies that responded that they would “Increase” this was 25.0% in the manufacturing industry (valid responses: 16 companies) and 16.7% in the non-manufacturing industry (valid responses: 54 companies).

3. Business problems

(1) Increasing employee wages is a challenge

For “Problem(s) in sales or other business activities” (multiple answers allowed), from the top down in order these were “Sluggishness in major sales markets (consumption downturn)” (72.5%), “Decrease in orders from clients" (53.6%), and "Major clients requesting lower prices" (43.5%) (valid responses: 69 companies).

For "Problem(s) in financial affairs, financing, or foreign exchange" (multiple answers allowed), "Volatility of local currency's exchange rate against the Japanese yen" came in the most at 58.7%, followed by "Volatility of local currency's exchange rate against the US dollar" (54.0%) (valid responses: 63 companies). For the manufacturing industry in particular, the percentage of companies that cited "Volatility of local currency's exchange rate against the US dollar" came to 80.0% (valid responses: 15 companies).

For "Problem(s) with labor or employment" (multiple answers allowed), "Increase in employee wages" had the highest percentage of responses by companies at 48.2% (valid responses: 54 companies).

(2) Ranking problems in terms of cost highly

For problems in production (multiple answers allowed, manufacturing industry only), the percentage of companies that responded "Limited cost-cutting measures available" and "Increase in procurement costs" was the most frequent at 46.2% each (valid responses: 13 companies). Conversely, responses such as "Electric power shortage" or "Inadequate logistics infrastructure" which are frequently seen in developing countries came to less than 10%.

Diagram 3: Business problems (top three items)

Unit: %, multiple answers allowed

Item	By region	Valid responses	1st	2nd	3rd
Problem(s) in sales or other business activities	Manufacturing	16	Sluggishness in major sales markets (consumption downturn)	Decrease in orders from clients	Major clients requesting lower prices Inflow of cheap imported goods into local markets
		100.0	75.0	50.0	31.3
	Non-manufacturing	53	Sluggishness in major sales markets (consumption downturn)	Decrease in orders from clients	Major clients requesting lower prices
		100.0	71.7	54.7	47.2
Problem(s) in production	Manufacturing	13	Increase in procurement costs	Limited cost-cutting measures available	Stricter environmental regulations
		100.0	46.2	46.2	15.4
Problem(s) with labor or employment	Manufacturing	13	Increase in employee wages	Restrictions on staff dismissal and reduction	Difficulty in recruiting middle management staff
		100.0	61.5	38.5	23.1
	Non-manufacturing	41	Increase in employee wages	Restrictions on staff dismissal and reduction	Difficulty in recruiting general staff
		100.0	43.9	29.3	19.5

4. Investment environment – Highlighting characteristics one would expect of a developed country

In terms of advantages in the investment environment (multiple answers allowed), the most frequent response was "Stable political and social conditions" (84.6%), followed by "English is widely spoken" (36.9%) (valid responses: 65 companies). Yet conversely "Market scale/growth potential" only accounted for 10.8%.

In terms of disadvantages in the investment environment (multiple answers allowed), the most frequent response was “Underdeveloped infrastructure (electric power, transportation, communications, etc.)” (21.1%). Next was “Insufficient land/office space, rising land prices/rent,” followed by “Unclear policy management by the local government” at 18.4% (valid responses: 38 companies).

Diagram 4: Advantages and disadvantages in the investment environment

Unit: %, multiple answers allowed

Item	By region	Valid responses	1st	2nd	3rd
What are the advantages (strong points) in the investment environment?	Manufacturing	16	Stable political and social conditions	High quality staff	Ample infrastructure / English is widely spoken
		100.0	75.0	18.8	18.8
	Non-manufacturing	49	Stable political and social conditions	English is widely spoken	Ample infrastructure (electricity, transportation, telecommunications, etc.)
		100.0	87.8	42.9	28.6
What are the disadvantages (problem(s)) in the investment environment?	Manufacturing	13	Insufficient land/office space, rising land prices/rent	Underdeveloped infrastructure (electric power, transportation, communications, etc.)	Unclear policy management by the local government
		100.0	23.1	23.1	15.4
	Non-manufacturing	25	Underdeveloped infrastructure (electric power, transportation, communications, etc.)	Unclear policy management by the local government	Complicated administrative procedures (to acquire permits, etc.)
		100.0	20.0	20.0	20.0

5. Future business development

Regarding the direction for business development over the coming one to two years, 43.8% of manufacturing industry companies (valid responses: 16 companies) and the non-manufacturing industry (valid responses: 22 companies) responded “Expansion.” This is 40.9% overall, which is lower than the average value (51.3%) for 17 countries in Asia and Oceania and a drop of 7.5 points from the value for FY2008 (of 48.4%). Conversely, responses to the effect of maintaining the “Status quo” came to 56.3% overall.

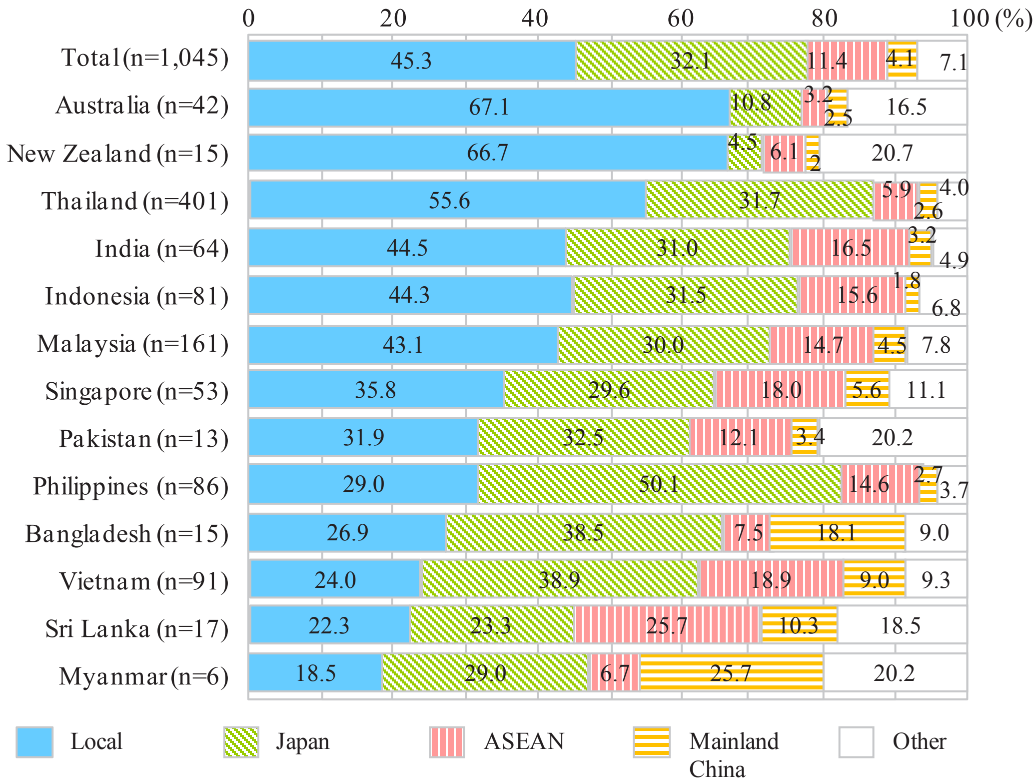
6. Procurement of raw materials and parts (manufacturing industry only)

(1) High rates of local procurement, formation of Oceania’s own supply chains

The percentage of companies that responded “70% or higher” for the ratio of costs of parts and raw materials from things like raw materials and parts making up the production costs of representative products came to 26.7%, which fell far below the average value (40.4%) for 17 countries in Asia and Oceania (valid responses: 41 companies). A trend toward a relatively low ratio of materials costs making up the production costs appears prominently along with other developed countries within the region, such as Singapore and Australia. The reason for this is that the labor costs and administrative costs incurred in addition to costs of parts and raw materials are high in comparison with those of other countries and regions.

Looking at a breakdown of procurement sources shows that the local procurement rate was 66.7%. It was in second place behind Australia out of the 17 countries in Asia and Oceania, and far outstripped the average value (45.3%) for these 17 countries (valid responses: 15 companies).

Diagram 5: Breakdown of procurement for raw materials and parts

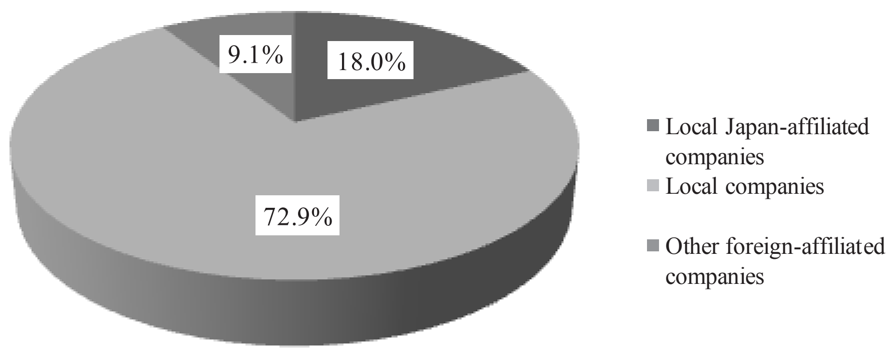


Looking at other procurement sources shows that ASEAN accounted for 6.1%, Japan for 4.5%, followed by Mainland China with 2.0%. It differs from the countries of Asia in that its procurement rate from ASEAN is low. This implies a state of affairs wherein New Zealand has formed self-contained procurement methods differing from those of the Asian regions.

(2) High supply capacity of local companies

Viewing a breakdown of local procurement sources by company reveals that procurement from "Local Japan-affiliated companies" made up 18.0%, "Local companies" made up 72.9%, and "Other foreign-affiliated companies" made up 9.1% (valid responses: 38 companies). Procurement from Japan-affiliated companies is low, while the procurement rate from local companies is extremely high. This implies a state of affairs wherein New Zealand's local companies have a high supply capacity and are capable of providing quality that is consistent with the requirements of Japan-affiliated companies.

Diagram 6: Breakdown of procurement sources in the local region



7. Measures for influenza A (H1N1)

When companies were asked about problems they had in responding to the new strain of influenza (multiple answers allowed), the majority responded that "There are no particular problems" at 47.1%, followed by "Observing staff who has returned from affected countries (method and duration)" (20.0%) (valid responses: 70 companies). This is in contrast with the numerous companies that are finding the "Procurement of flu vaccines" difficult in ASEAN countries.

The percentage of companies that responded "Remain in the local area" in the event that the new strain of influenza were to grow increasingly virulent was 33.3%. In contrast with this the percentage of companies answering that they would "Evacuate" through a combination of "Prompt evacuation to home countries or surrounding countries" (14.3%) and "Evacuation to home countries or surrounding countries of some expatriate employees only" (1.6%) came to 15.9% (valid responses: 63 companies).

8. Exports/Imports

(1) Average export ratio in excess of 60%

For the export ratio of proceeds (manufacturing industry only), the average export ratio for the manufacturing industry was 66.1%, which far surpassed the average value (49.5%) for 17 countries in Asia and Oceania (valid responses: 15 companies). Looking at that by type of industry reveals that sectors like "foods, processed agricultural or marine products" (73.8%) and "lumber and wood products" (95.5%) had particularly high export ratios.

With regard to the manufacturing industry, looking at a breakdown of export destinations (multiple answers allowed) shows that "Japan" was the most common response at 41.5% (valid responses: 15 companies). Next was "Oceania" at 22.9%, followed by "China" at 8.3%. Export ratios were low for the "US" at 5.6% and "Europe" at 3.9%.

(2) Use of the New Zealand - China FTA moving forward

For the manufacturing industry, the percentage of companies that responded that FTAs/EPAs for exports were "Currently in use" was 35.7% (valid responses: 14 companies), and the percentage responding that

FTAs/EPAs for imports were "Currently in use" came to 22.2% (valid responses: 9 companies). It was noted that there were companies which are making use of the Australia – New Zealand FTA (3 companies) and the New Zealand - China FTA (2 companies) for exports among them. On the other side, companies have continued to use the Australia - New Zealand FTA (2 companies) and the New Zealand - China FTA (1 company) for imports.

The ASEAN - Australia - New Zealand FTA was entered into effect on January 1, 2010, on account of which exports from New Zealand bound for ASEAN are expected to increase in the future along with the increased use of this FTA.

9. Wages

Base salary (monthly) and annual salary (note) for each job type, as well as the number of valid responses for each of these, are as shown in the following diagram.

* 1 NZ dollar = 0.7046 US dollars (September 2009 average rate, calculated using the CEIC database)

Diagram 7: Wages (base salary, bonuses, annual salary) by job type

Unit: NZD, figures in parenthesis are the number of valid responses

	Job type	Base salary (monthly)	Bonus	Annual salary (*)	Note
Manufacturing	Workers (general workers)	3,824 (11)	0.9 (6)	48,409 (12)	3 years of experience
	Engineers (core technicians)	5,299 (9)	0.4 (5)	66,167 (9)	Graduates from technical schools or colleges with 5 years of experience
	Managers (section managers in charge of sales or equivalent)	7,120 (10)	1.0 (6)	95,682 (11)	Graduates from university with 10 years experience
Non-manufacturing	Staff (general workers)	4,022 (30)	0.9 (18)	50,372 (33)	3 years of experience
	Managers (section managers in charge of sales or equivalent)	7,032 (31)	1.1 (21)	89,260 (34)	Graduates from university with 10 years experience

(*) Annual salary per employee (annual total of base salary, allowances, social security costs, overtime, and bonuses, etc.)