



2017 Survey on Business Conditions of Japanese Companies in Asia and Oceania

~**Malaysia**~

January, 2018

JETRO Kuala Lumpur

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Survey Summary

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1. Survey target audience

Japanese-affiliated companies (with direct or indirect Japanese investment of 10% or greater) in Malaysia: 939 companies

*This survey has been conducted annually since 1987, making this its 31st version.

2. Survey period

11th October to 11th November 2017

3. Response rate

Out of the 939 surveys sent out, we have received valid responses from 227 firms (24.2%). The breakdown of respondents by industry is provided in the table on the right.

*All numbers are rounded, hence they do not necessarily add up to 100%.

	Responded firms	
	Valid	(%)
Total	227	100.0
Manufacturing	130	57.3
Electrical machinery	46	20.3
Iron / Nonferrous metal / Metal	32	14.1
Chemical / Pharmaceutical	17	7.5
Motor vehicles / Motorcycles	7	3.1
Food	4	1.8
Rubber / Leather	4	1.8
Other manufacturing	11	4.8
Non-Manufacturing	97	42.7
Wholesale / Retail	39	17.2
Construction	20	8.8
Transportation	12	5.3
Finance / Insurance	7	3.1
Other non-manufacturing	13	5.7
Large Enterprises	151	66.5
SME	76	33.5

*Only industries with valid responses from at least 4 companies are listed down, hence they do not necessarily match the total.

*The definition of a SME is based on the SME Act.

To be exact, SME refers to a company which fulfills the standard number of employees OR the amount of equity as per the requirements stated below.

Manufacturing & other industries:	Below 300 employees OR below 300 million yen
Wholesale:	Below 100 employees OR below 100 million yen
Retail:	Below 50 employees OR below 50 million yen
Services:	Below 100 employees OR below 50 million yen



Main Findings of the Survey Results

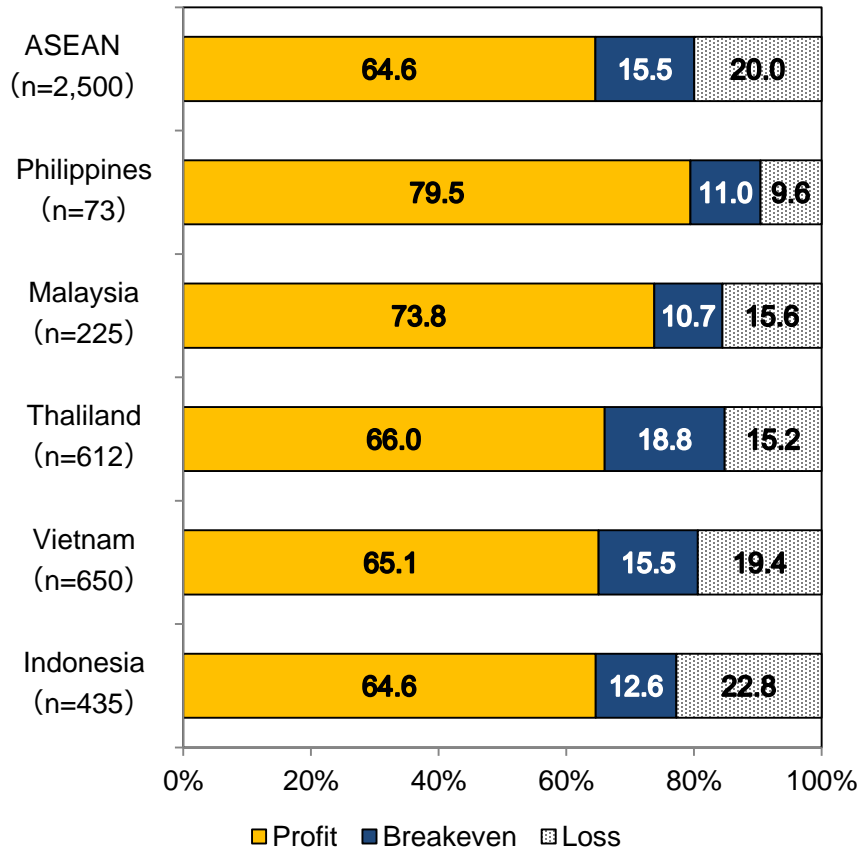
1. **73.8%** of these firms expect an “operating surplus” in 2017. **51.3%** selected “Expansion” as their approach to future business challenges within the next 1 to 2 years. Among the 5 ASEAN countries, business expansion rates for Vietnam and Philippines are highest at 69.5% and 63.4% respectively. “Increase in sales” (86.0%) was the main reason for expansion but it is still considered low compared to other developing countries in ASEAN.
2. **“Challenges with quality control” (71.1%)** was most frequently cited as the management issue in Malaysia, surpassing “Wage increment” (68.1%). 59.5% of the firms selected “Increase in financing cost”, an increase exceeding 10% from 2016. On the other hand, **“Minimum language/communication barrier” (67.3%)** was the most frequently cited merit in terms of the investment environment. Excluding Malaysia, “Market scale/growth potential” was most frequently cited as a merit (50~80%) in the other 4 ASEAN countries (Thailand, Vietnam, Philippines and Indonesia).
3. The manufacturing firms in Malaysia are more actively engaging in automation and labour-saving facilities as countermeasures against the rising costs of manufacturing and services as compared to firms from other ASEAN countries.
4. The rate of local procurement in Malaysia was **38.2%**, down by 4.2% from 2012. On the other hand, procurement from ASEAN has increased and the rate of utilizing FTA for import to ASEAN (38.1%) was high.



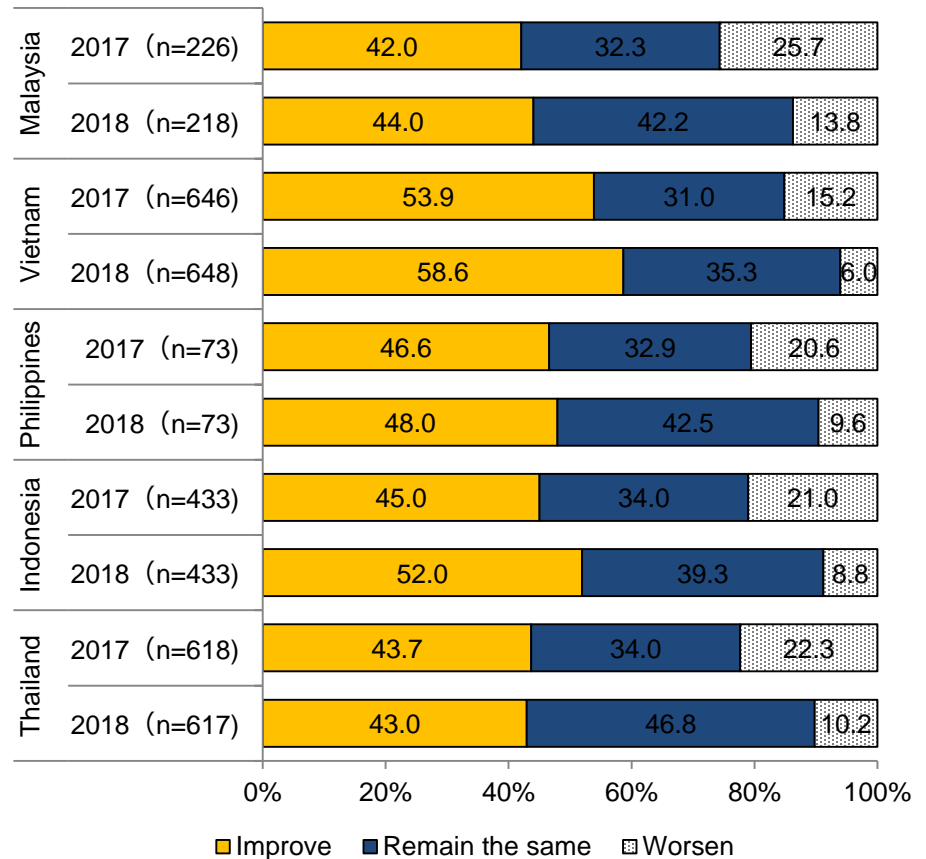
1. Operating Profit Forecast

- A total of 73.8% of these firms expect an operating surplus for 2017, the second highest among ASEAN countries after Philippines. Among all the 20 surveyed countries and regions, Malaysia also ranked fifth highest following South Korea, Taiwan, Philippines and Australia.
- 13.8% of these firms expect their operating profit to “worsen” in 2018, dropping more than 10% from the 2017 forecast.

Operating profit forecast for 2017



Changes in operating profit forecast (for 2017/2018)

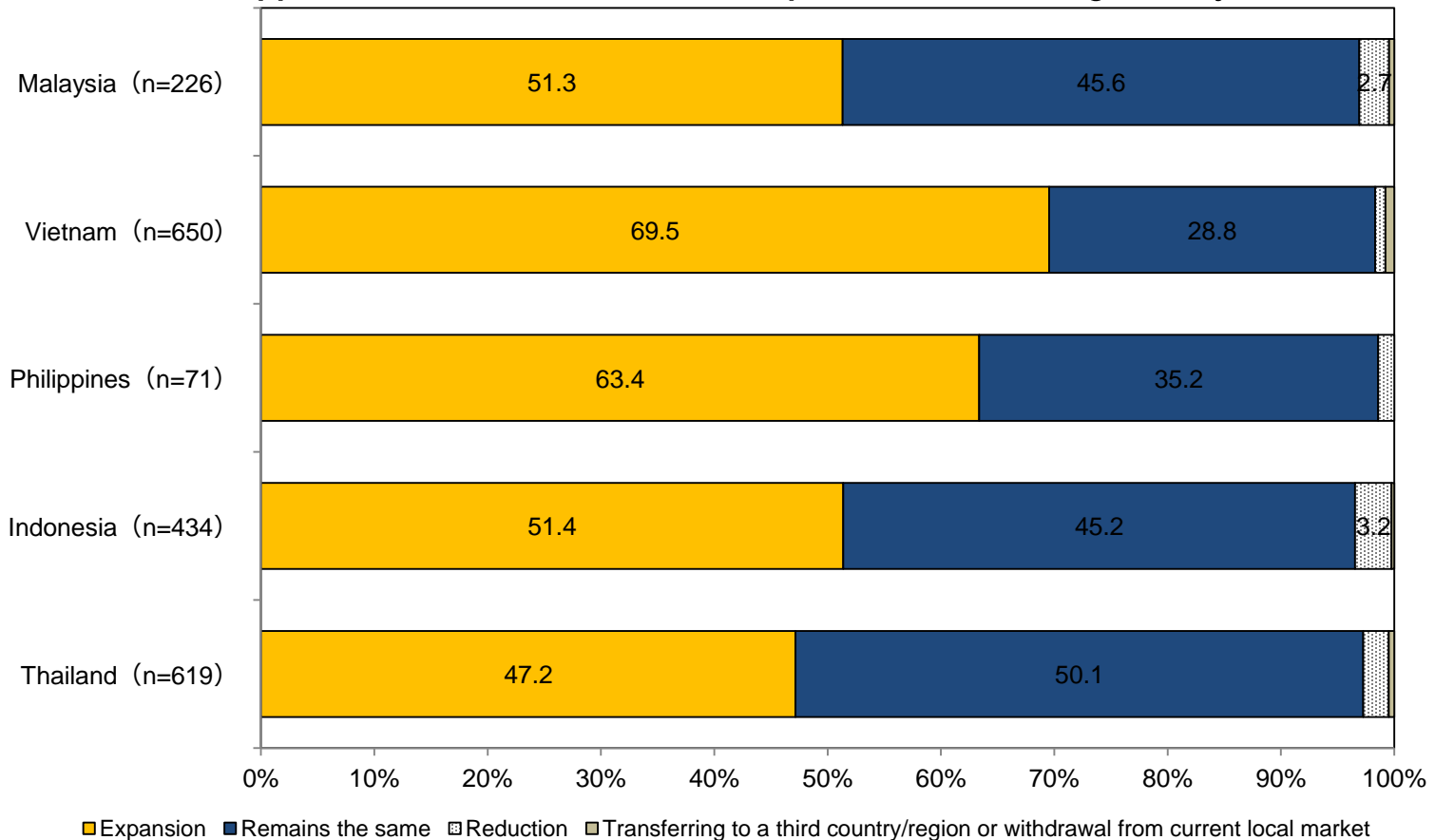




2-1. Future Business Plan

- 51.3% of these firms selected “Expansion” as their approach to future business development within the next 1 to 2 years. It has been 4 years since the 2013 survey to see “Expansion” exceeding the 50% mark.
- Meanwhile, the rate of “Expansion” for Vietnam and Philippines surpassed the 60.0% mark.

Approach to future business development in the coming 1 to 2 years





2-2. Future Business Plan

- Overall, “Sales increase” was the most cited reason for future expansion. Meanwhile, Malaysia ranks first among all 5 ASEAN countries in the “Highly receptive to high value-added product” category at 23.7%.
- As for which business functions to expand, “Sales function” accounts for the highest percentage for Malaysia at 56.9%, followed by “Production of generic product” at 33.3%.

Reasons for future expansion

Function to expand

Sales increase	
Indonesia(n=223)	91.0
Vietnam(n=450)	87.8
Thailand(n=290)	87.6
Philippines(n=45)	86.7
Malaysia(n=114)	86.0

High growth potential	
Indonesia(n=223)	48.4
Vietnam(n=450)	46.2
Philippines(n=45)	44.4
Malaysia(n=114)	33.3
Thailand(n=290)	27.2

Relationship with clients	
Vietnam(n=450)	27.3
Thailand(n=290)	24.5
Indonesia(n=223)	22.4
Philippines(n=45)	20.0
Malaysia(n=114)	13.2

Sales function	
Thailand(n=285)	59.0
Indonesia(n=213)	58.7
Malaysia(n=109)	56.9
Vietnam(n=446)	51.8
Philippines(n=45)	48.9

Production (generic product)	
Philippines(n=45)	48.4
Vietnam(n=446)	46.2
Indonesia(n=213)	44.4
Malaysia(n=109)	33.3
Thailand(n=285)	27.2

Production (high value-added product)	
Indonesia(n=213)	27.3
Thailand(n=285)	24.5
Vietnam(n=446)	22.4
Malaysia(n=109)	20.0
Philippines(n=45)	13.2

Highly receptive to high value-added product	
Malaysia(n=114)	23.7
Thailand(n=290)	22.4
Vietnam(n=450)	17.8
Indonesia(n=223)	14.8
Philippines(n=45)	11.1

Reviewing production & distribution networks	
Philippines(n=45)	17.8
Thailand(n=290)	17.2
Vietnam(n=450)	13.8
Indonesia(n=223)	13.0
Malaysia(n=114)	10.5

Reduction of costs (procurement cost, labor cost, etc)	
Philippines(n=45)	13.3
Thailand(n=290)	10.3
Malaysia(n=114)	9.7
Indonesia(n=223)	8.1
Vietnam(n=450)	7.3

Logistics function	
Philippines(n=45)	15.6
Indonesia(n=213)	14.6
Malaysia(n=109)	11.9
Thailand(n=285)	10.2
Vietnam(n=446)	6.7

R&D	
Malaysia(n=109)	10.1
Vietnam(n=446)	9.2
Indonesia(n=213)	8.0
Thailand(n=285)	6.3
Philippines(n=45)	2.2

Administrative business services function (shared services center, call center)	
Philippines(n=45)	6.7
Malaysia(n=109)	6.4
Indonesia(n=213)	5.6
Vietnam(n=446)	5.6
Thailand(n=285)	3.2

Ease of securing labor force	
Philippines(n=45)	11.1
Vietnam(n=450)	4.2
Indonesia(n=223)	2.7
Malaysia(n=114)	0.9
Thailand(n=290)	0.0

Deregulations	
Vietnam(n=450)	2.7
Malaysia(n=114)	2.6
Thailand(n=290)	2.1
Indonesia(n=223)	0.5
Philippines(n=45)	0.0

(Multiple answers allowed, Unit: %)

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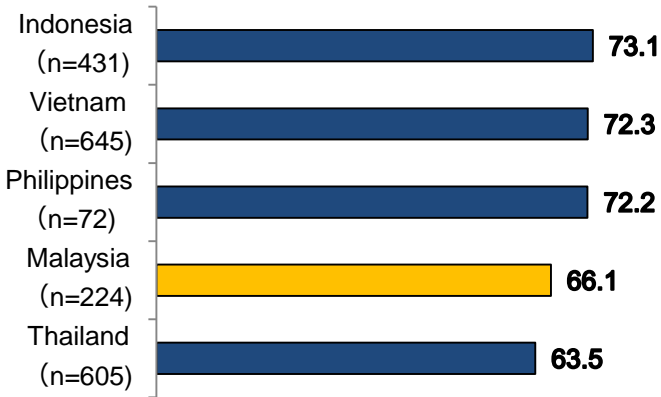


3. Localization of Corporate Management

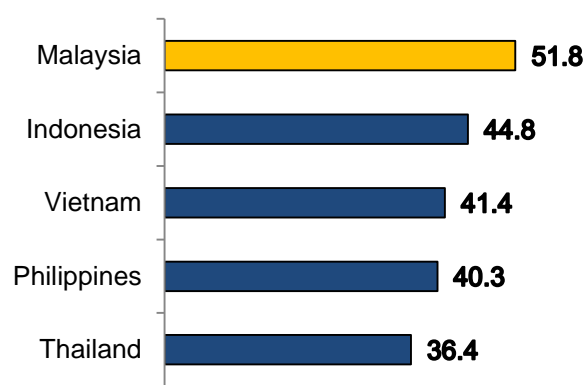
(Unit: %)

- In terms of localizing corporate management, 66.1% of firms in Malaysia selected “Reinforcing the training and development of human resources for localization”, while 51.8% chose “Assigning local staff to general manager/managerial position”.
- In contrast, the number of firms in Malaysia which selected “No particular action taken” was the lowest among the 5 ASEAN countries.

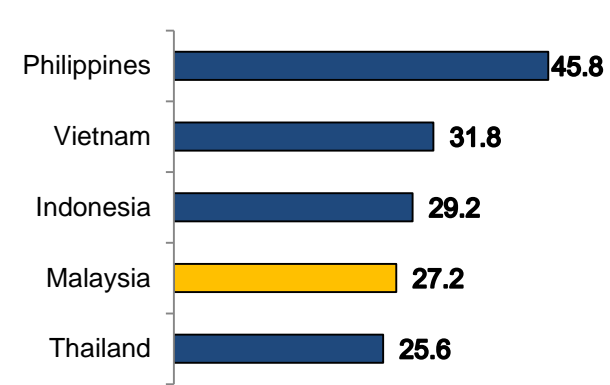
Reinforcing the training and development of human resources for localization



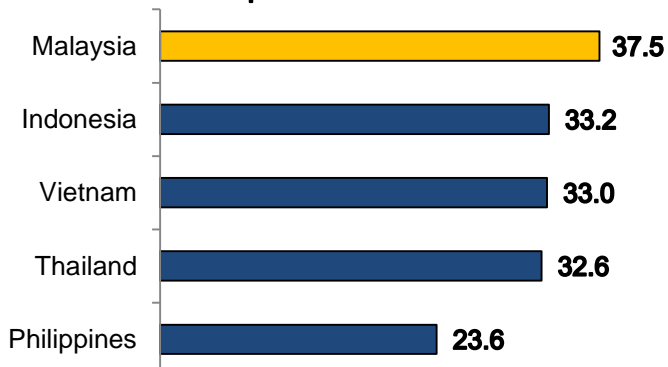
Assigning local staff to general manager/managerial position



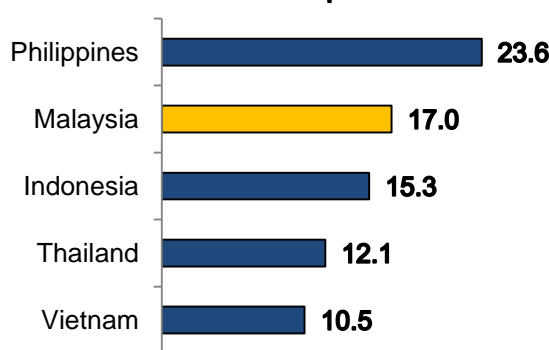
Reforming the personnel system



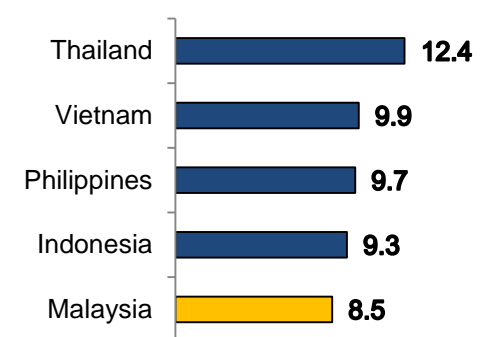
Encouraging mid-hiring activities to secure competent local staff



Assigning local staff to executive position



No particular action taken





4. Management Issues

Management Issues in the 5 ASEAN countries (Multiple answers allowed)

Malaysia	2017	2016
1 Challenges with quality control (n=121)	71.1	64.2
2 Wage increment (n=226)	68.1	67.7
3 Increase in procurement costs (n=121)	59.5	41.5
4 Volatility of the local currency exchange rate against the US dollar (n=223)	55.6	56.9
5 Quality of employees (n=226)	52.2	53.3

(Unit: %)
*Those highlighted in pink indicates a percentage increase exceeding 10% from the 2016 survey.

Thailand	2017	2016
1 Wage increment (n=594)	63.0	59.3
2 Challenges with quality control (n=339)	54.0	59.0
3 Stagnant progress in local deregulation (n=595)	50.6	47.3
4 Quality of employees (n=594)	50.5	48.5
5 Price cut request from main clients (n=595)	43.9	40.6

Vietnam	2017	2016
1 Wage increment (n=640)	75.2	75.5
2 Difficulty in local procurement of raw materials and parts (n=376)	65.2	64.8
3 Challenges with quality control (n=376)	57.2	58.6
4 Quality of employees (n=640)	46.7	42.5
5 Complicated customs clearance procedures(n=634)	46.7	47.5

Indonesia	2017	2016
1 Wage increment (n=427)	80.8	82.2
2 Difficulty in local procurement of raw materials and parts (n=238)	64.3	56.3
2 Complicated customs clearance procedures (n=424)	59.7	48.8
4 Tax burden (n=428)	58.9	51.1
5 Time-consuming customs procedures (n=424)	57.3	46.0

Philippines	2017	2016
1 Difficulty in local procurement of raw materials and parts (n=46)	54.4	62.1
2 Difficulty in recruiting engineering staff (n=46)	50.0	36.7
2 Quality of employees (n=72)	50.0	57.3
2 Challenges with quality control (n=46)	50.0	53.5
5 Wage increment (n=72)	45.8	44.7



5. Advantages of the Investment Environment

- In terms of advantages of the investment environment, as much as 67.3% of firms value the “minimum language/communication barrier” in Malaysia.
- “Political/social stability” which declined tremendously during last year’s survey has climbed back by 9.2% to 57.7%.

Advantages of the Investment Environment in 5 ASEAN countries (Multiple answers allowed)

Malaysia	2017	2016
1 Minimum language/communication barrier (n=148)	67.3	65.7
2 Political/social stability (n=127)	57.7	48.5
3 Excellent living environment for expatriate (n=113)	51.4	42.9
4 Good infrastructures (n=92)	41.8	45.5
5 Low labour costs (n=47)	21.4	12.7

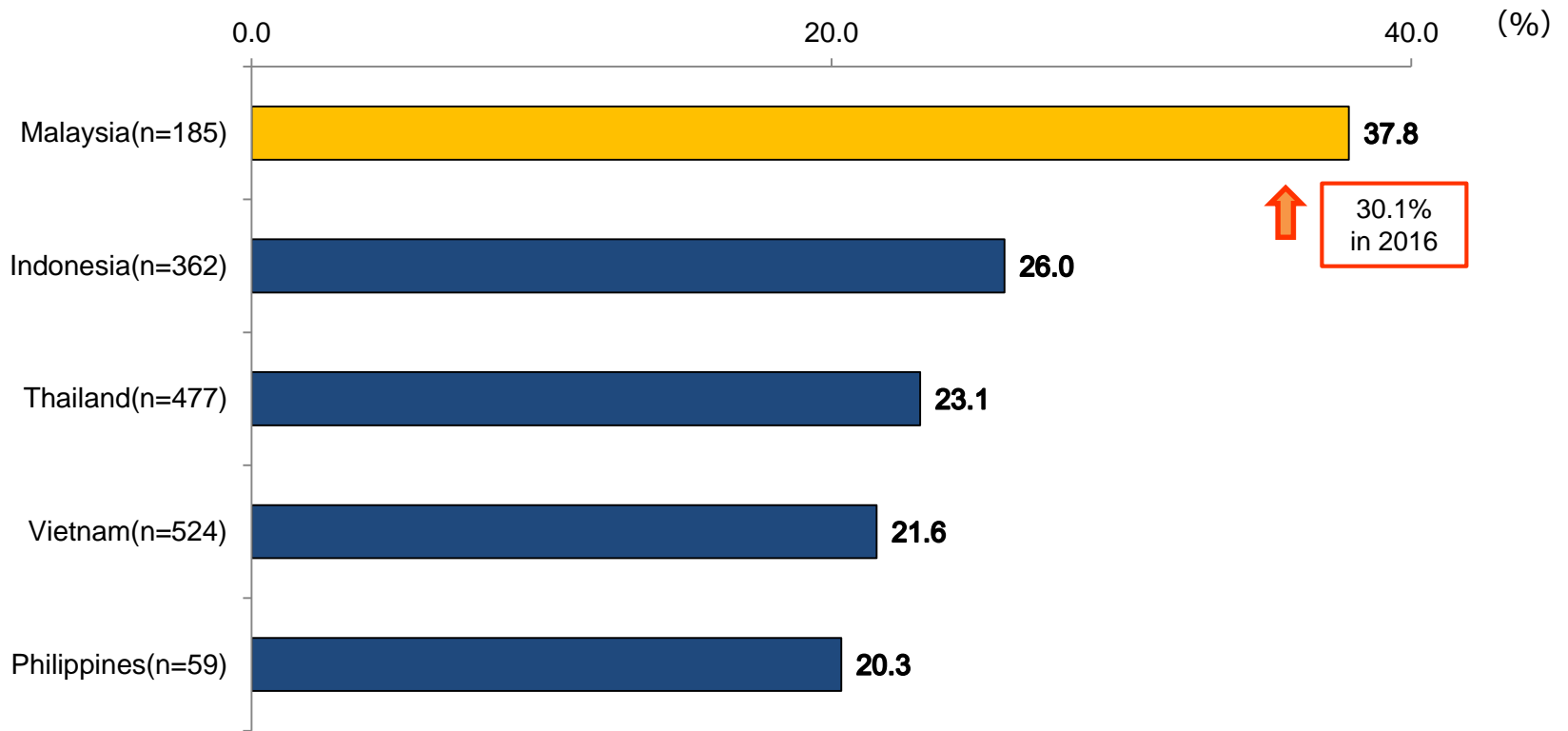
(Unit: %)
 ※Those highlighted in blue indicates a drop of more than 10% from previous year

Thailand	2017	2016	Vietnam	2017	2016
1 Excellent living environment for expatriate (n=305)	53.2	58.3	1 Market scale/growth potential (n=408)	64.2	57.5
2 Market scale/growth potential (n=284)	49.6	43.5	2 Political/social stability (n=393)	61.8	63.4
3 Business cluster (n=260)	45.4	48.0	3 Low labour costs (n=334)	52.5	54.1
4 Good infrastructures (n=168)	29.1	31.6	4 Excellent living environment for expatriate(n=156)	24.5	24.1
5 Political/social stability (n=155)	27.1	19.5	5 Ease of employing general worker (n=120)	18.9	24.4
Indonesia	2017	2016	Philippines	2017	2016
1 Market scale/growth potential (n=351)	83.6	83.8	1 Low labour costs (n=49)	68.1	68.0
2 Business cluster (n=97)	23.1	23.5	2 Minimum language/communication barrier(n=39)	54.2	73.8
3 Ease of employing general worker (n=88)	21.0	22.9	3 Market scale/growth potential (n=35)	48.6	46.6
4 Low labour costs (n=83)	19.8	19.7	4 Ease of employing general worker (n=26)	36.1	40.8
5 Political/social stability (n=73)	17.4	16.8	5 Tax incentives (n=16)	22.2	31.1



6. Countermeasures against Rising Cost of Manufacturing and Services

Adoption of Automation and Labour-Saving Facilities

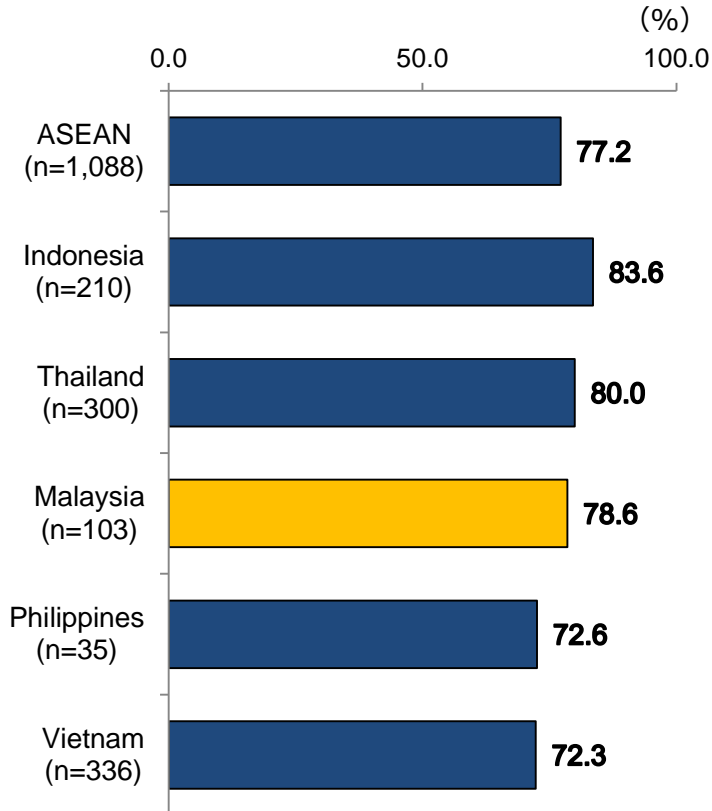




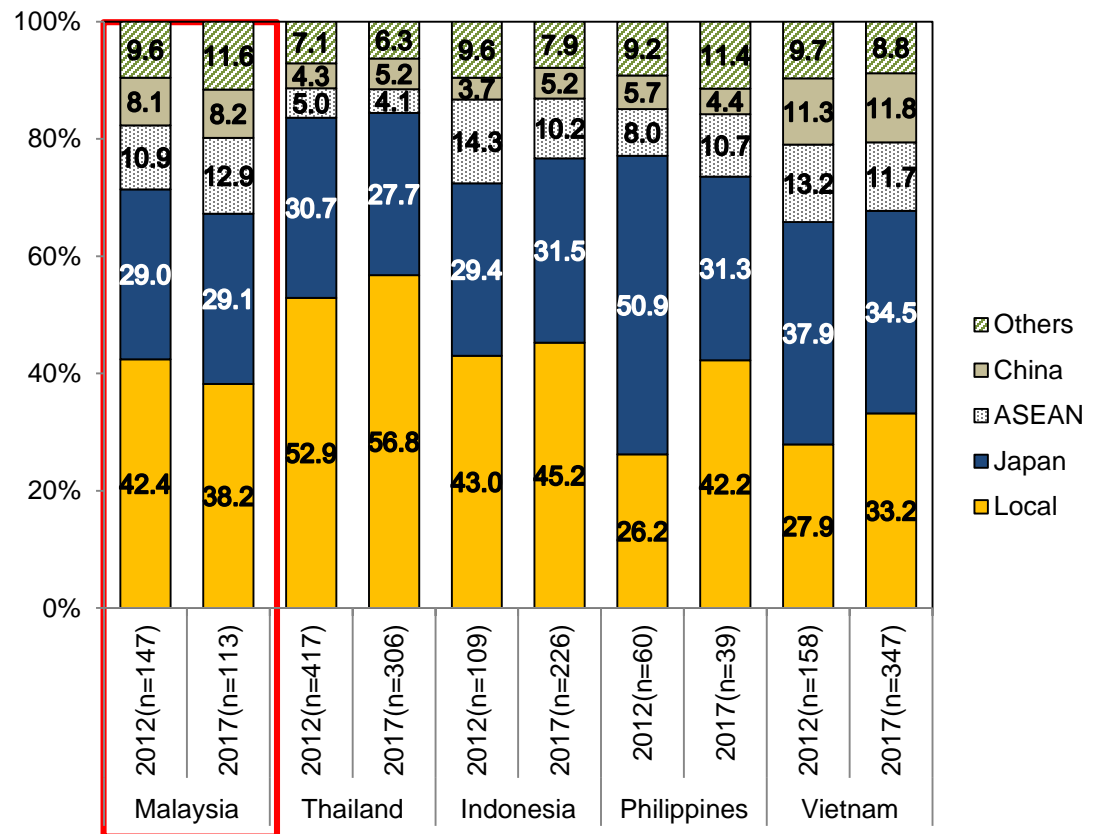
7. Procurement of Raw Materials and Parts

- If the production cost in Japan is taken as 100, production cost in Malaysia amounts to 78.6%, which is lower than Thailand and Indonesia.
- Malaysia's local procurement of raw materials and parts is the second lowest after Vietnam. Nonetheless procurement from the ASEAN region has increased in comparison to the 2012 survey.

Local production cost in comparison to production cost in Japan taken as 100



Source of Procurement for the 5 ASEAN countries (in comparison to the 2012 survey)

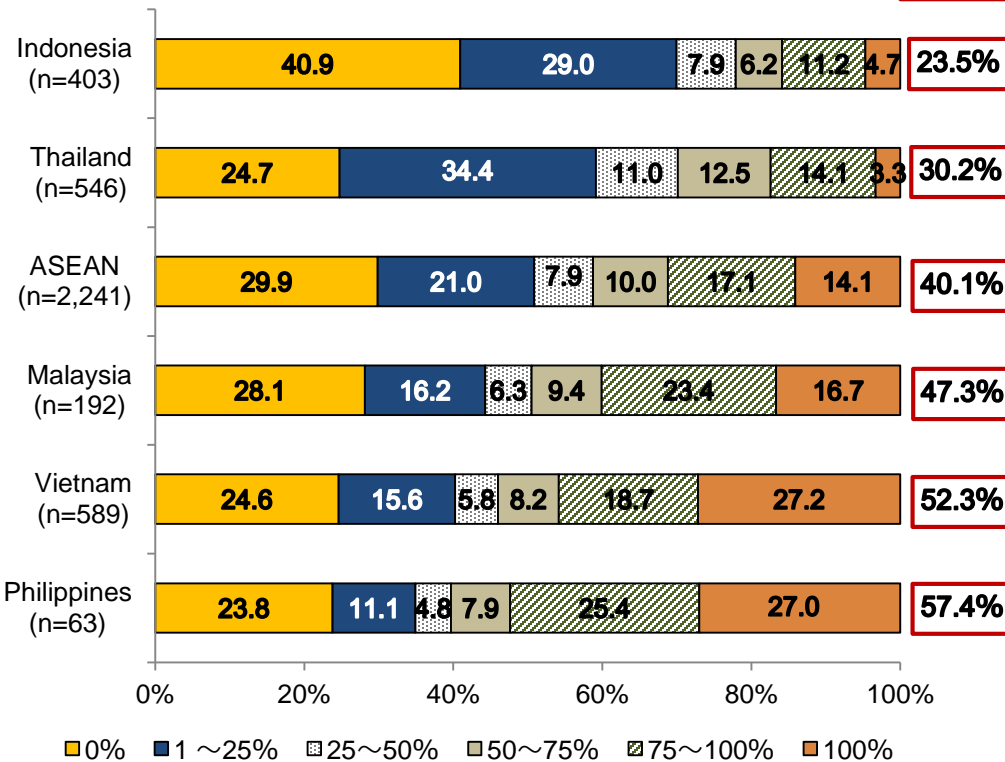




8-1. Export

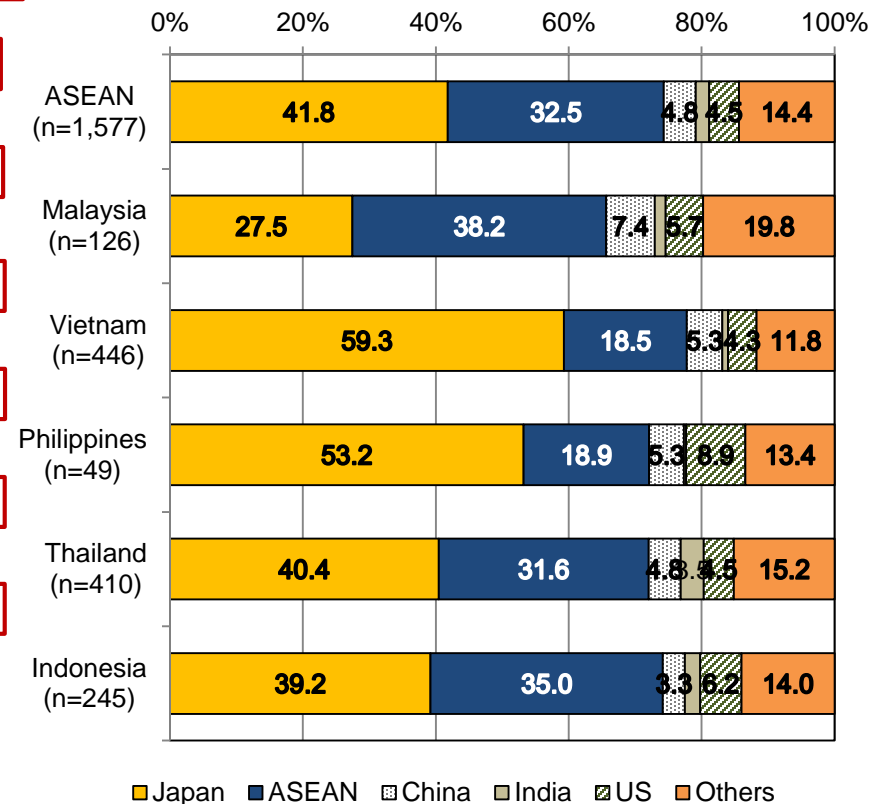
- Malaysia's average ratio of exports to total sales was 47.3%. 16.7% of Japanese firms in Malaysia are fully exporting firms, ranking third among the 5 ASEAN countries after Vietnam and Philippines. Meanwhile, non-exporting firms in Malaysia have increased marginally by 3.4% from the previous survey.
- Among the 5 ASEAN countries, Malaysia ranks the highest (38.2%) for exports to ASEAN destination. As for exports to Japan, Vietnam and Philippines exceeded the 50% mark, whereas Thailand and Indonesia accounted for 40% each.

Ratio of exports to total sales
(by country, with responses from 0~100%) **Average**



Breakdown of export destinations

(by country, with responses adding up to 100%)



■ Japan ■ ASEAN ■ China ■ India ■ US ■ Others



8-2. Promising Destinations for Export / Import

- Malaysia deems other ASEAN region countries such as Indonesia, Vietnam and Thailand as their promising export markets.
- The percentages of Vietnam and Philippines seeing Japan as their largest export market have increased from the 2016 survey.

Most promising export market for business/products over the next 1 to 3 years in 5 ASEAN countries

Malaysia	2017	2016
1 Indonesia (n=16)	10.7	20.0
2 Vietnam (n=13)	8.7	12.4
2 Japan (n=13)	8.7	9.0
4 Thailand (n=11)	7.3	17.2
4 China (n=11)	7.3	5.5

(Unit: %)

Thailand	2017	2016
1 Vietnam (n=101)	20.2	21.8
2 Japan (n=74)	14.8	12.3
3 CLM (Cambodia, Laos, Myanmar) (n=72)	14.4	14.5
4 Indonesia (n=71)	14.2	15.2
5 India(n=61)	12.2	10.7

Vietnam	2017	2016
1 Japan (n=164)	32.7	29.1
2 CLM (Cambodia, Laos, Myanmar) (n=66)	13.2	14.1
3 Thailand (n=57)	11.4	13.0
4 China (n=36)	7.2	5.4
5 US (n=34)	6.8	9.0

Indonesia	2017	2016
1 Japan (n=71)	23.4	24.2
2 Vietnam (n=31)	10.2	6.3
3 Thailand (n=30)	9.9	11.7
4 India (n=29)	9.5	8.2
5 US (n=22)	7.2	8.6

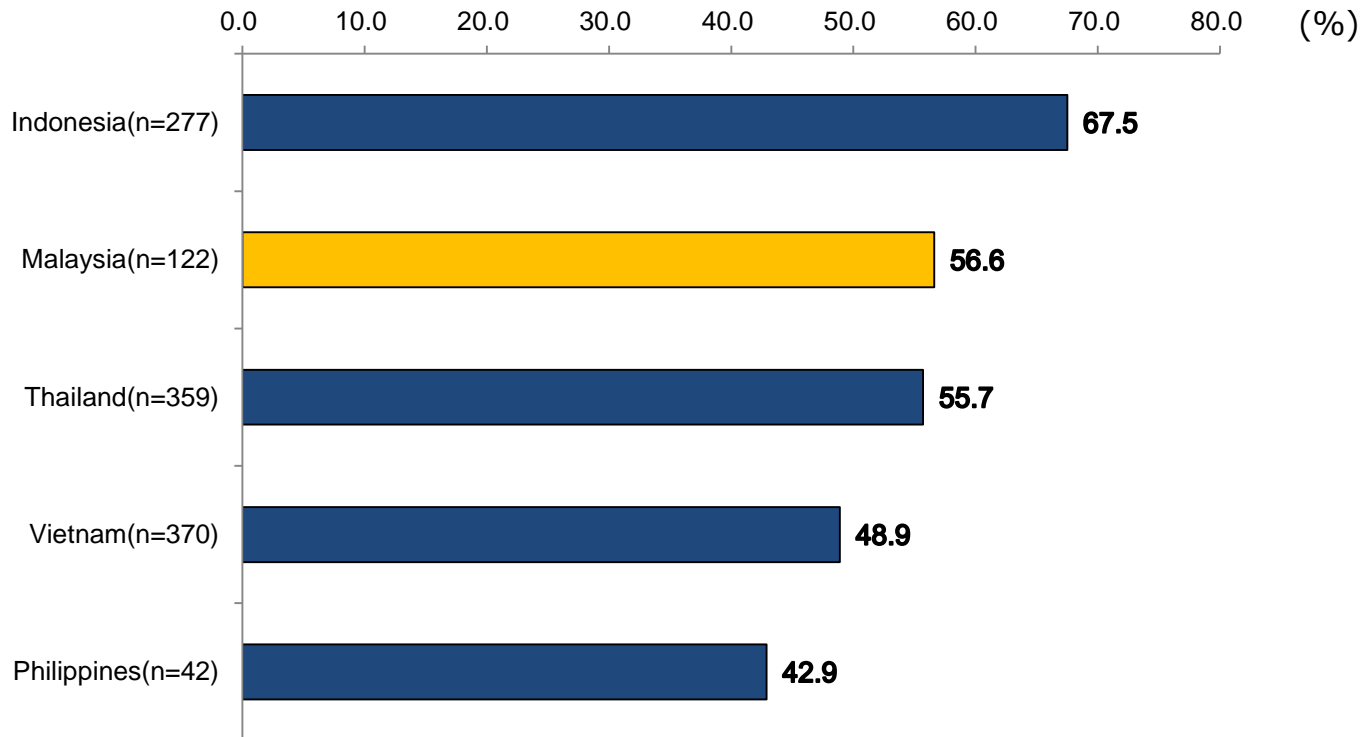
Philippines	2017	2016
1 Japan (n=18)	34.0	24.7
2 China (n=6)	11.3	9.0
2 US (n=6)	11.3	12.4
4 Thailand (n=5)	9.4	11.2
5 Vietnam/Indonesia (n=3)	5.7	6.7/7.9



9. Utilization of Existing FTAs/EPAs

- Malaysia's FTA utilization rate stands at 56.6%, which is the second highest in the 5 ASEAN countries after Indonesia.
- FTA utilization rate for both imports and exports towards ASEAN and China are high. The FTA utilization rate for exports towards ASEAN and China are 50.7% and 55.6% respectively, as well as 38.1% and 27.1 % respectively for imports.

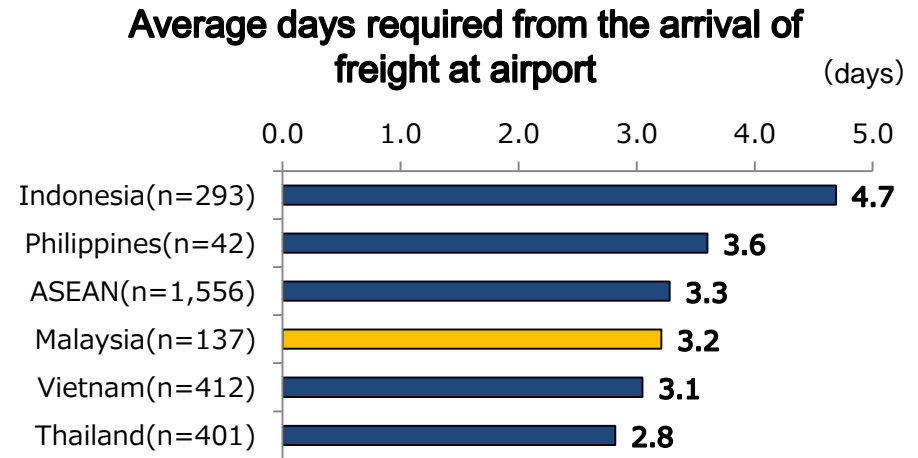
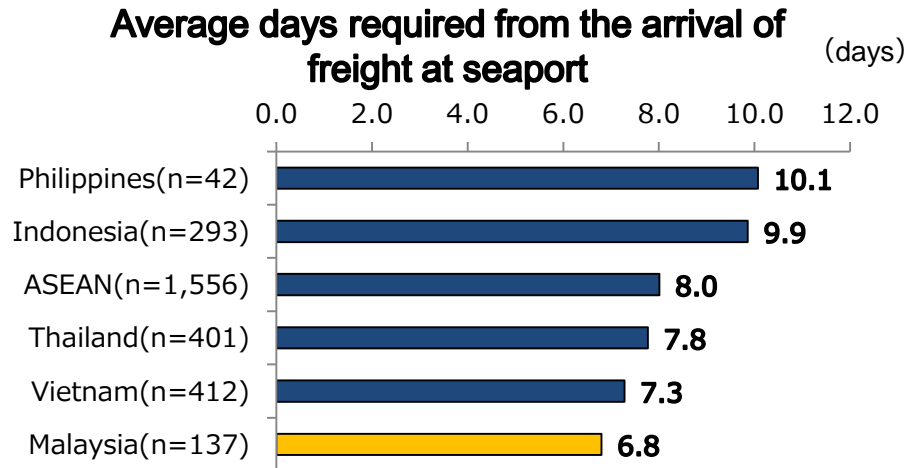
FTAs/EPAs Utilization Rate among 5 ASEAN Countries





10. Period Required from the Arrival of Freight

- The average days required in Malaysia for freight arrival via both seaport and airport are short among the 5 ASEAN countries.
- As for issues related to trade system, Malaysia has the lowest percentage of firms (22.2%) which selected “complicated customs clearance procedures” among the 5 ASEAN countries. It can be said that Malaysia has an advantage in transportation and customs clearance among other ASEAN countries.



Top 5 Issues on Foreign Trade System

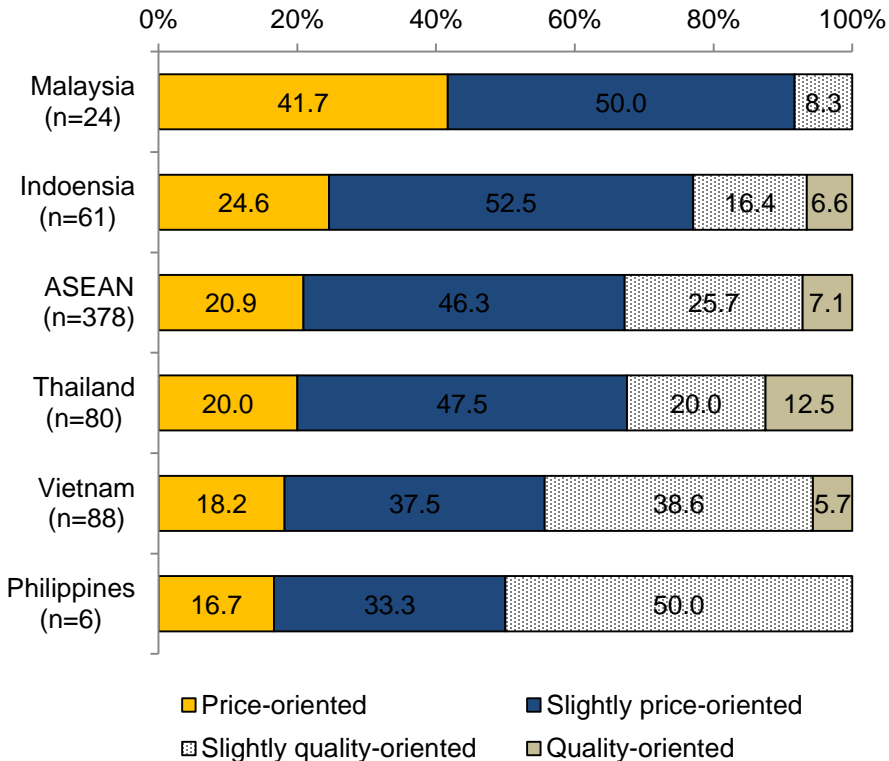
	Complicated customs clearance procedures	Time-consuming customs procedures	Lack of thorough information on trade rules and regulations	Unclear methods for assessing customs duties, obscure criteria for determining classification of customs duties	High import duties
Indonesia (n=424)	59.7	57.3	46.0	29.5	24.5
Vietnam (n=634)	46.7	30.9	33.9	24.8	12.8
Philippines (n=70)	34.3	27.1	30.0	15.7	4.3
Thailand (n=580)	27.2	18.1	23.1	24.3	19.3
Malaysia (n=212)	22.2	23.1	20.8	9.4	5.7



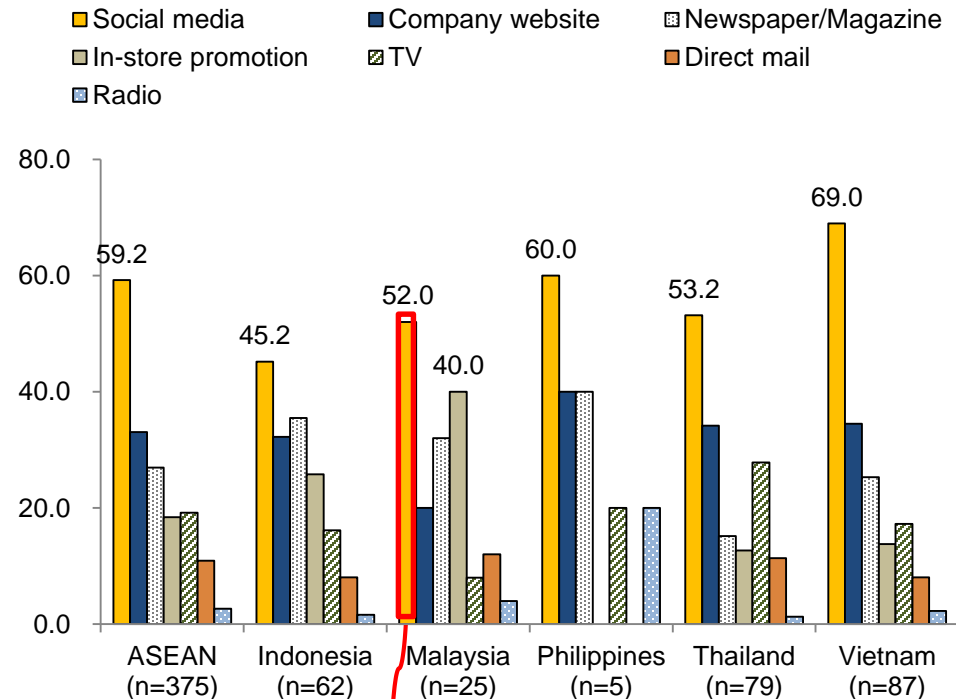
11. Challenges in Local Market Development

- Malaysian consumers are typically more “price oriented” compared to other ASEAN countries as 41.7% tend to make purchasing decision based solely on pricing factor.
- All firms in the 5 ASEAN countries voted for “Social media” as their most effective advertising media. In Malaysia, as much as 40% of firms, particularly among retail trade, deem “In-store promotion” as an effective advertising media as well.

Consumer preference (Balance between price & quality)



Effective advertising methods



Composition of social media (Malaysia)

*Multiple answers allowed

- ① Facebook 83%
- ② Instagram 50%
- ③ Twitter 33%

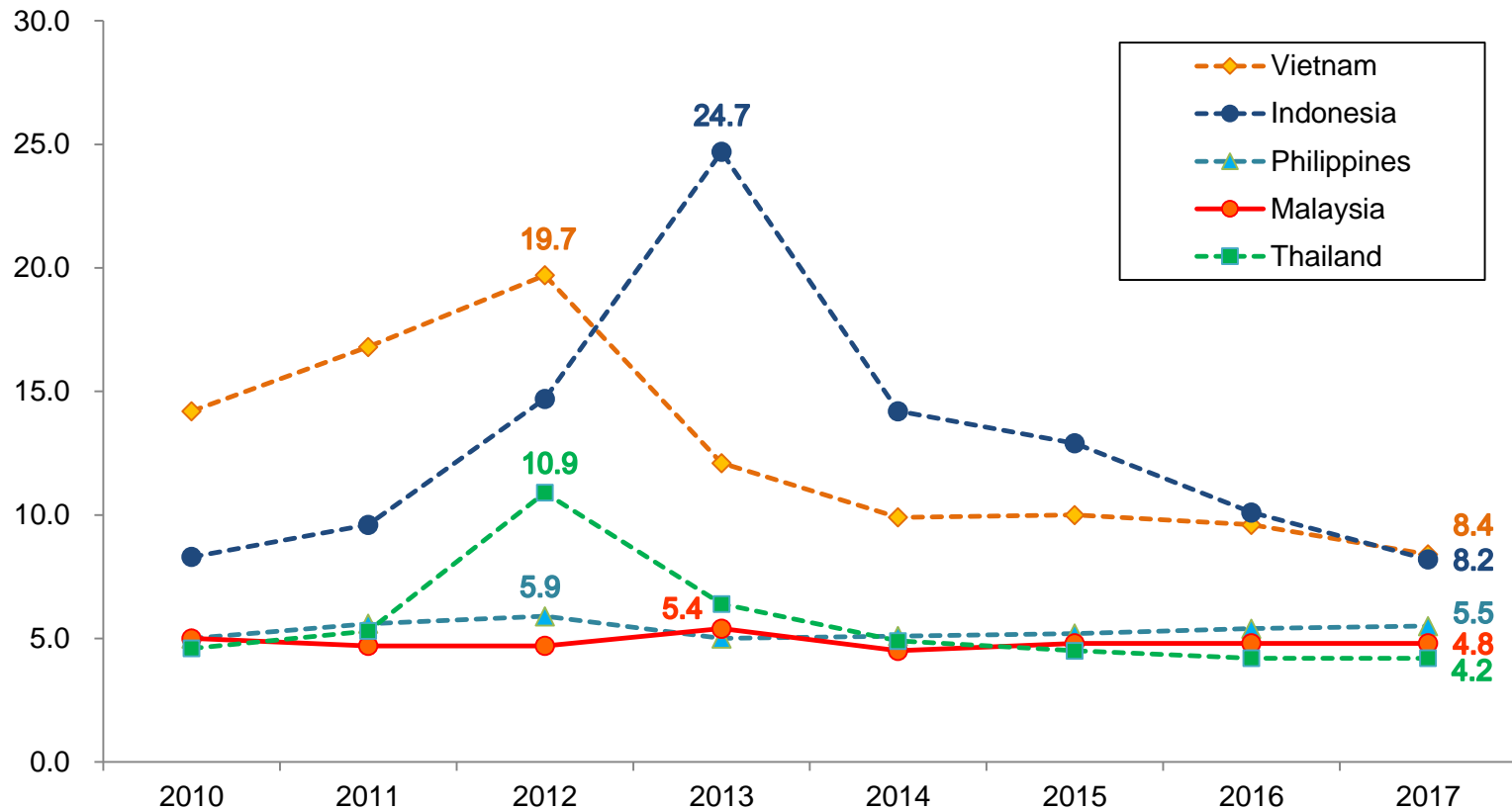


12. Salary Increment Rates for Previous Fiscal Year

- Salary increment rates in the 5 ASEAN countries were stable in recent years, with Malaysia and Philippines maintaining at the 4.0~5.0% mark since 2010.
- In Malaysia, salary increment rate was 4.8% in 2017 and forecasted to be 4.6% in 2018.

(Unit : %)

Changes in Salary Increment Rate for Previous Fiscal Year (Since 2010)



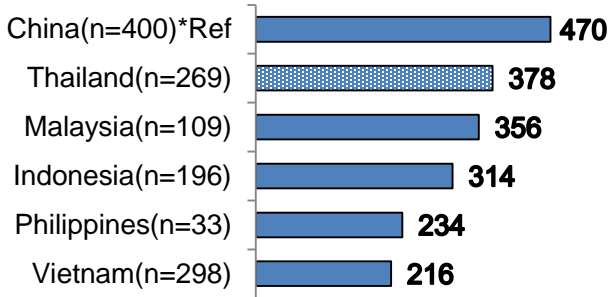


13. Basic Monthly Wages

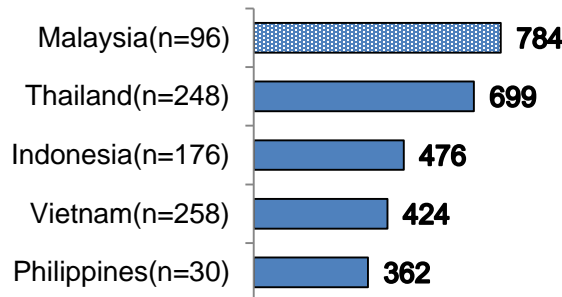
- Wages in Malaysia are the highest among the 5 ASEAN countries in most of the industries and occupations.
- Wages of worker and staff in Malaysia are **76%** and **95%** in reference to China's standard as comparison.

(Unit: US dollar)

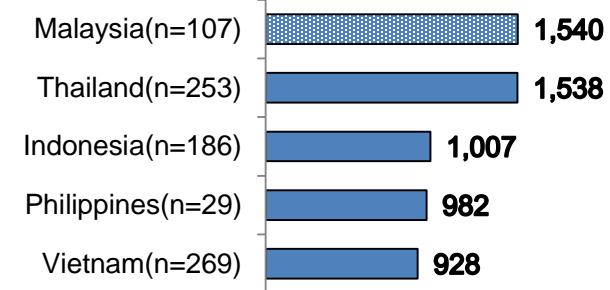
Manufacturing - Worker



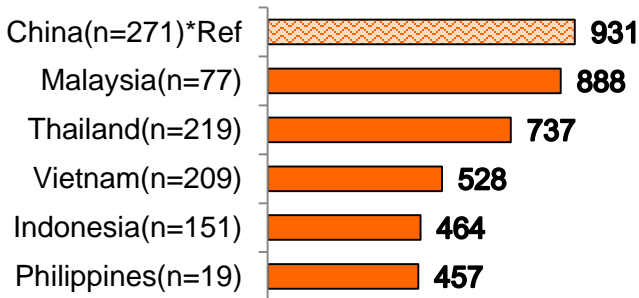
Manufacturing - Engineer



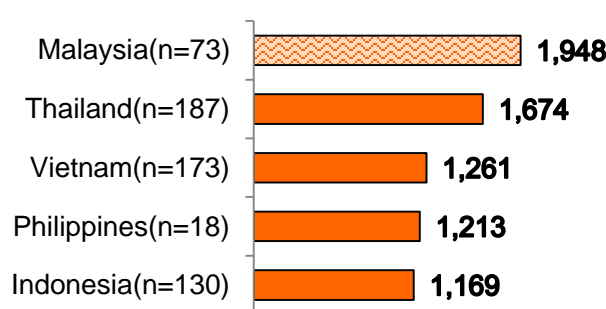
Manufacturing - Manager



Non-manufacturing - Staff



Non-manufacturing - Manager



Base salary: Salary excluding benefits, as of October 2017
 Worker: Regular general worker with 3 years work experience, not including contract-based and probationary worker.
 Engineer: Regular employee who are core technicians, graduates of a vocational college or university, and have 5 years work experience.
 Manager(Manufacturing): Regular employees who are section managers in charge of sales; university graduate, and who have 10 years work experience.
 Staff: Regular general workers with 3 years work experience, not including dispatched and probationary workers.
 Manager(Non-manufacturing): Regular employees who are section managers in charge of sales; university graduates, and who have 10 years work experience.