



2018 Survey on Business Conditions of Japanese Companies in Asia and Oceania

*~A comparison between Malaysia and
major emerging economies in ASEAN~*

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JETRO Kuala Lumpur

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Survey Summary

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1. Target of Survey

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

*This survey has been conducted since 1987, making this year the 32nd version.

2. Period of Survey

9th of October to 9th of November 2018

3. Response rate

Out of a total of 913 surveys sent out, we received valid responses from 266 firms (29.1%). The breakdown of respondents by industry is provided in the table to the right.

*Numbers in tables are rounded, so they do not necessarily add up to 100%.

	Firms responding	
	Valid	(%)
Total	266	100.0
Manufacturing	141	53.0
Electric machinery	47	17.7
Iron/ Non ferrous metals/ Metals	27	10.2
Chemical/ Pharmaceutical	20	7.5
Motor vehicles/ Motorcycles	8	3.0
Food	7	2.6
General machinery	5	1.9
Precision machinery	5	1.9
Other manufacturing	18	6.8
Non-Manufacturing	125	47.0
Wholesale/ Retail	49	18.4
Construction	22	8.3
Transport	15	5.6
Finance/ Insurance	7	2.6
Communications/ Software	6	2.3
Other non-manufacturing	18	6.8
Large enterprise	177	66.5
SME	89	33.5

*Noted only industries which valid responses from more than 5 companies are displayed, so they do not necessarily add up to the total numbers.

*Definition of a SME is based on the SME Act.

For example, a SME is a company that fulfills the standard number of employees OR the amount of equity.

Manufacturing and other : 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

Service : Below 100 employees OR below 50 million yen



Key Points

1. Percentages of profitable companies are on the decline, while profit outlook for export-oriented companies is strong

68.9% of the Japanese companies in Malaysia have forecasted “operating surplus” for 2018. This is a 4.9% decline in comparison to the previous survey conducted last year (73.8%). Looking at the ratio of profitable companies, export-oriented companies with export ratio above 50% accounted for 73.6%, the same as last year; while domestic demand-driven companies with export ratio below 50% dropped significantly to 66.1%. When looking specifically at the electrical machinery equipment manufacturers, where many Japanese companies in Malaysia are involved in, the ratio of profitable companies is 80.8%, the highest amongst all industries.

2. More than half are considering business expansion in Malaysia, the second highest in the region after Vietnam

As a future business development direction for Japanese companies in Malaysia, 54.0% would be expanding their businesses in the next 1-2 years. Within this region, Vietnam ranked highest at 69.8%, followed by Malaysia. Compared to the manufacturing sector, the non-manufacturing sector including wholesale/retail, communication/software, finance/insurance has greater interests for expansion.

3. In terms of investment environment, language ability is an advantage while labour issues are a disadvantage

As an advantage for the investment environment in Malaysia, “lesser language and communication barriers” remained first at 75.9%. Within the region, the same reason was also ranked first for both the Philippines and Singapore at 60.8% and 56.4% respectively, though not as high as Malaysia. On the other hand, labour-related disadvantages such as “soaring labour costs (59.5%)”, “high employees turnover rate (42.0%)”, “recruitment difficulty for technical and middle management (40.1%)” topped the chart.

4. Exports to ASEAN region increased, with procurement mainly done locally and from Japan

The export ratio to sales of Japanese companies in Malaysia was 44.7%. The largest export destination was in the ASEAN region at 45.0%, up from the previous survey (38.2%). Meanwhile, local procurement was the highest at 36.1%, with procurement from Japan catching up at 35.9%.

5. More than 90% of the Japanese companies in Malaysia are pinning high hopes on the new government

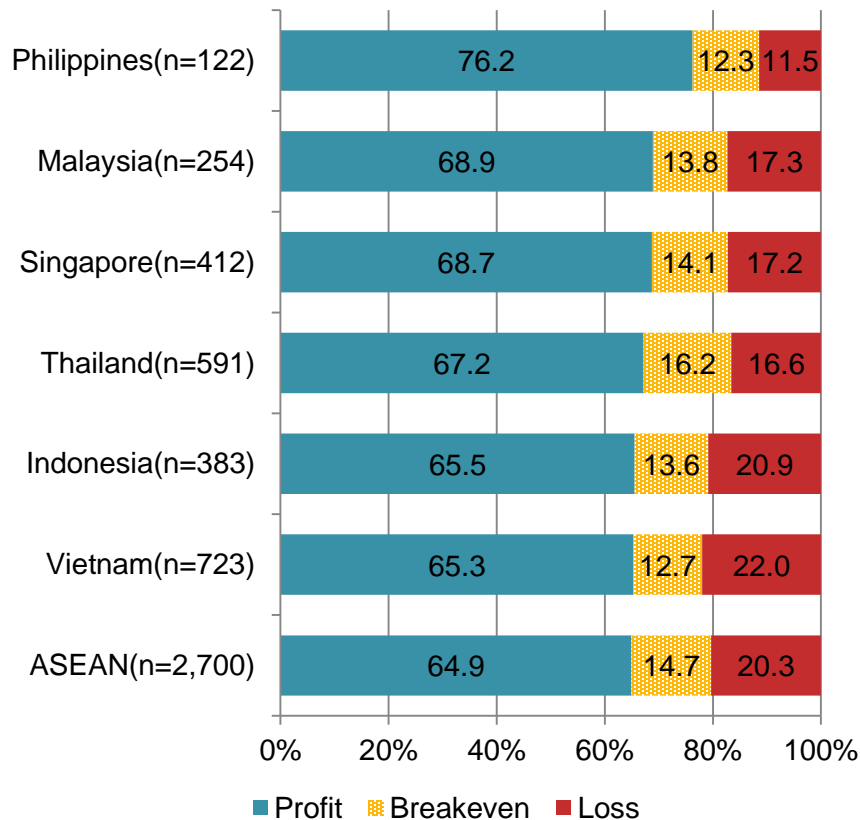
In regards to the new Mahathir regime, 94.6% of Japanese companies in Malaysia responded with “having expectations” or “having some expectations”. As for the content of their expectations, transparency and simplification of administrative procedures, and the formulation of clear industrial policies topped the chart.



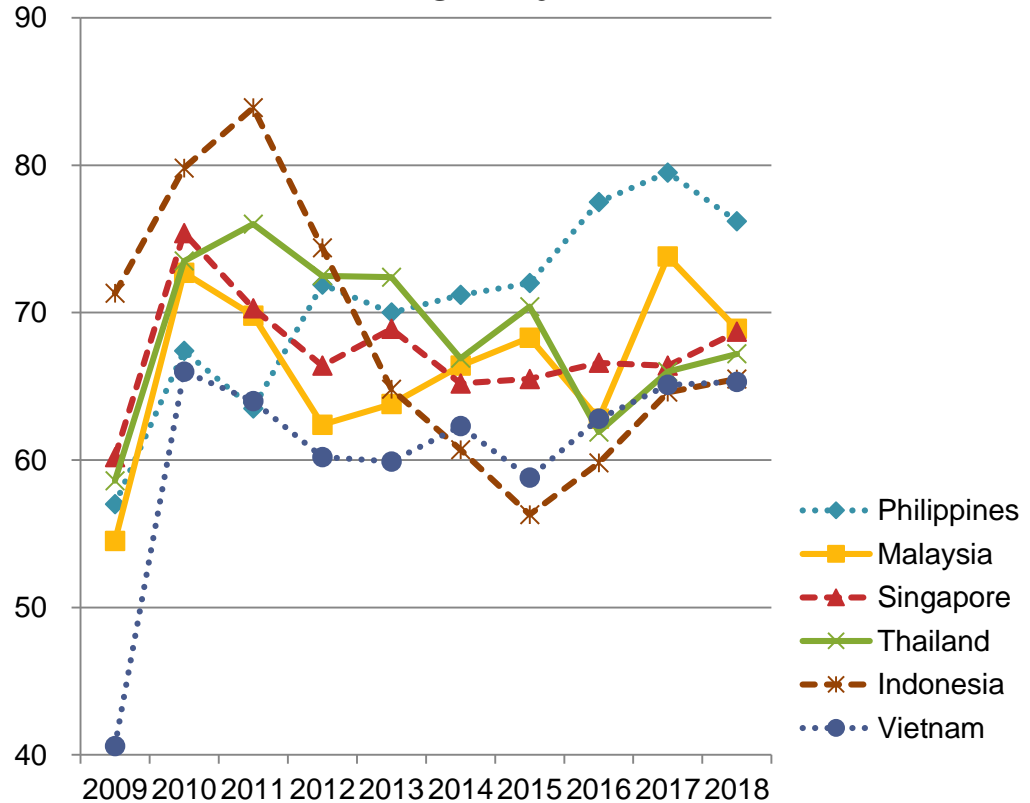
1-1. Operating Profit Forecast

68.9% of Japanese companies in Malaysia chose “surplus” for their operating profit forecast. This is the second highest in ASEAN after the Philippines, albeit decreasing by 4.9% from the previous survey (73.8%). On the contrary, 17.3% of the companies selected “deficit”, an increase of 1.7% from the previous year.

Operating profit forecast for 2018



Percentages of profitable firms 2009 to 2018 ~ASEAN6~

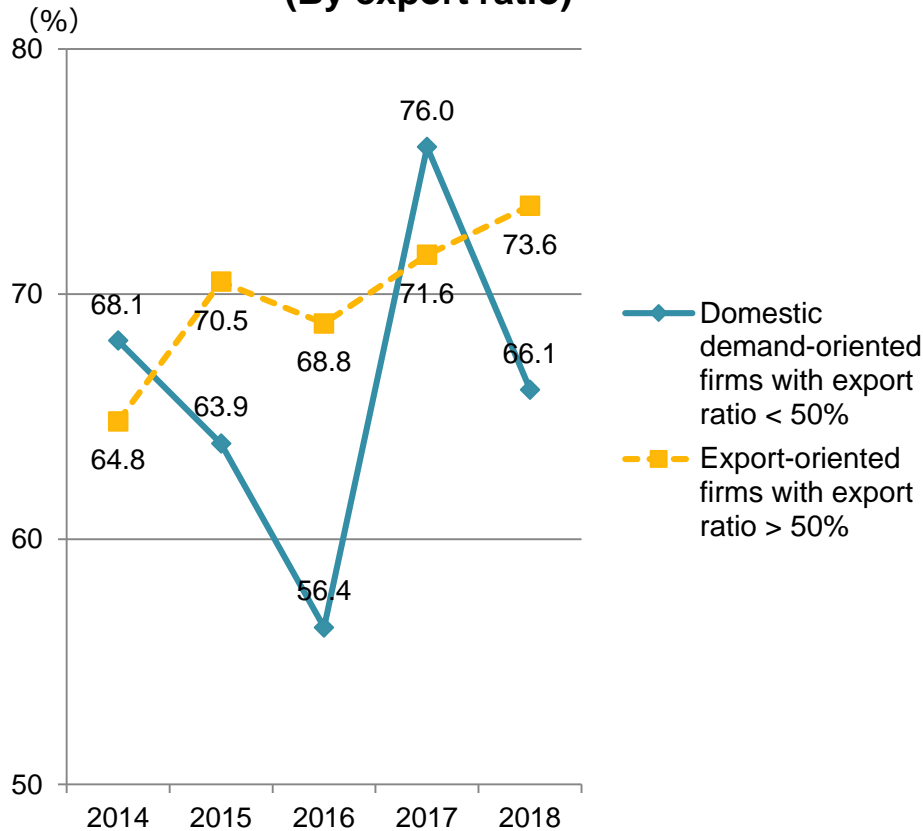




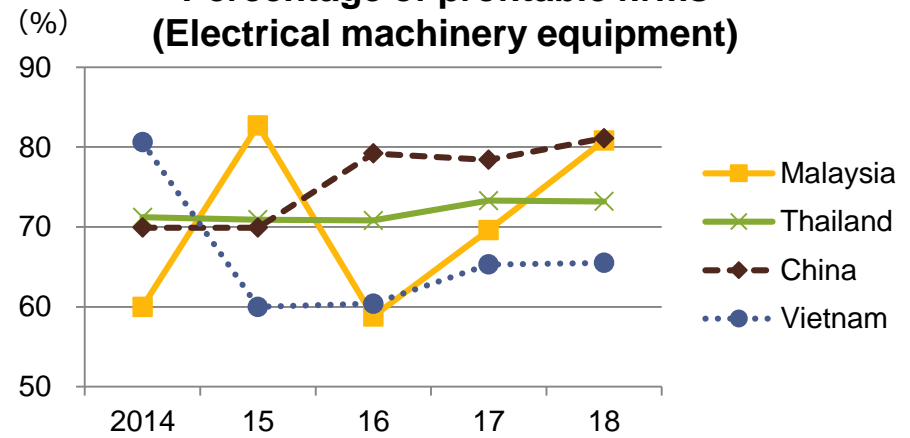
1-2. Operating Profit Forecast ~By export ratio / By industry~

The percentage of Japanese companies in Malaysia which forecasted operating profitability for 2018 was 68.9%. However, by export ratio, export-oriented companies with more than 50% export ratio to sales accounted for 73.6%, 4.7% higher than the overall percentage and 2.0% higher than last year.

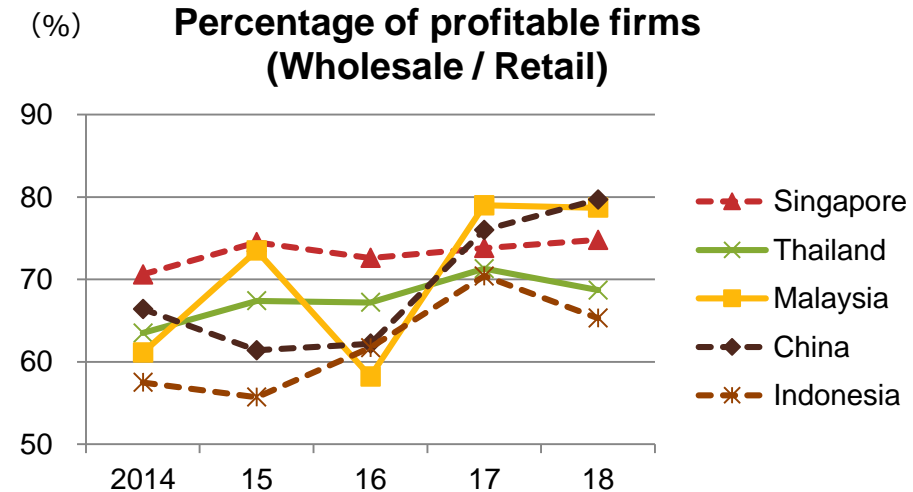
Percentage of profitable firms in Malaysia (By export ratio)



Percentage of profitable firms (Electrical machinery equipment)



Percentage of profitable firms (Wholesale / Retail)

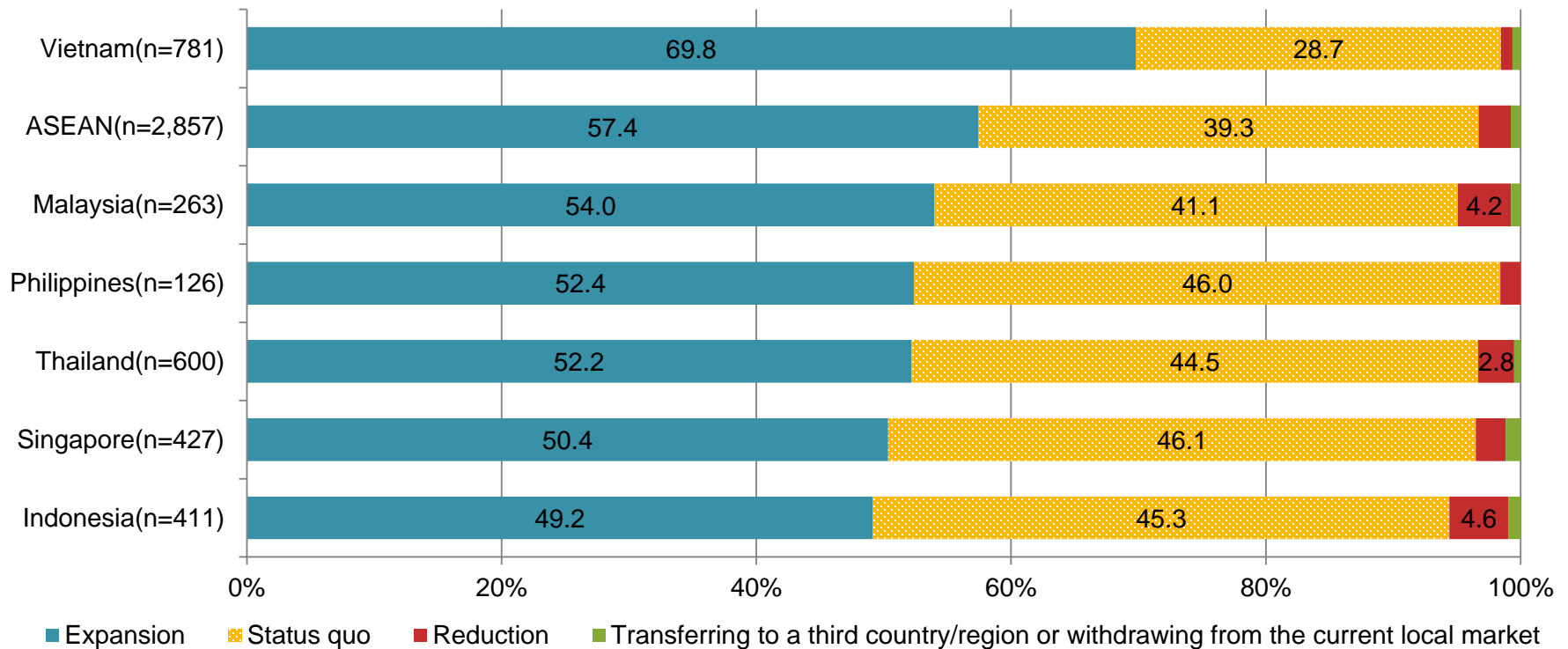




2. Future Business Plan

- For the second consecutive year, more than half or 54.0% of Japanese companies in Malaysia responded with “Expansion” for their business development in the next 1-2 years, an increase of 2.7% from the previous survey (51.3%). However, 4.2% of companies selected “Reduction”, a slight increase from the previous survey (2.7%).
- For those looking for business expansion, 55.1% selected “Sales” and 34.8% selected “Production of high value-added products”, with the latter having increased 5.4% from the previous survey (29.4%).
- The intention for business expansion in the next 1-2 years in Vietnam is consistently high. On the contrary, the Philippines which had been on the high side has dropped by 11% from last year.

Approach to future business challenges in the next 1 to 2 years





3. Management Issues

(Unit : %)

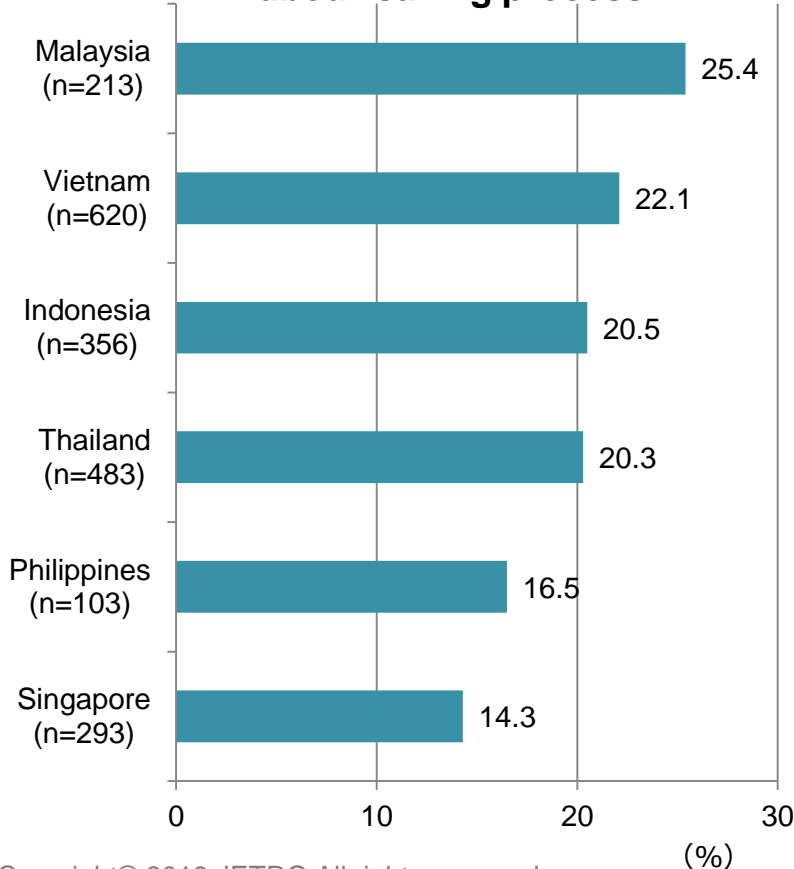
Malaysia	2018	2017	Singapore	2018	2017
1 Increased wage (n=261)	66.7	68.1	1 Increased wage (n=427)	55.7	56.2
2 Difficulty in quality control (n=135)	59.3	71.1	2 Growing market shares of competitors (cost-wise competition) (n=407)	48.4	51.0
3 Quality of employees (n=261)	54.8	52.2	3 Increased cost in procurement of raw materials and parts (n=85)	45.9	27.5
4 Increased cost in procurement of raw materials and parts (n=135)	51.1	59.5	4 Difficulty in developing new clients (n=407)	44.2	42.1
5 Growing market shares of competitors (cost-wise competition) (n=255)	50.6	52.0	5 Personnel costs of Japanese (expatriate) managers and staff (n=427)	34.4	34.0
Thailand	2018	2017	Vietnam	2018	2017
1 Increased wage (n=597)	59.3	63.0	1 Increased wage (n=779)	73.0	75.2
2 Difficulty in quality control (n=314)	58.6	54.0	2 Difficulty in local procurement of raw materials and parts (n=406)	58.1	65.2
3 Quality of employees (n=597)	50.1	50.5	3 Difficulty in quality control (n=406)	54.7	57.2
4 Growing market shares of competitors (cost-wise competition) (n=592)	49.5	50.6	4 Growing market shares of competitors (cost-wise competition) (n=723)	49.5	46.1
5 Increased cost in procurement of raw materials and parts (n=314)	47.8	37.8	5 Complicated customs clearance procedures (n=711)	45.7	46.7
Indonesia	2018	2017	Philippines	2018	2017
1 Increased wage (n=409)	78.2	80.8	1 Difficulty in local procurement of raw materials and parts (n=64)	60.9	54.4
2 Volatility of local currency's exchange rate against the US dollar (n=410)	64.2	37.9	2 Increased cost in procurement of raw materials and parts (n=64)	53.1	32.6
3 Increased cost in procurement of raw materials and parts (n=213)	62.4	48.7	3 Increased wage (n=124)	50.8	45.8
4 Difficulty in local procurement of raw materials and parts n=213)	60.1	64.3	4 Difficulty in quality control (n=64)	48.4	50.0
5 Tax burdens (n=410)	53.9	58.9	5 Tax burdens (n=125)	46.4	40.3



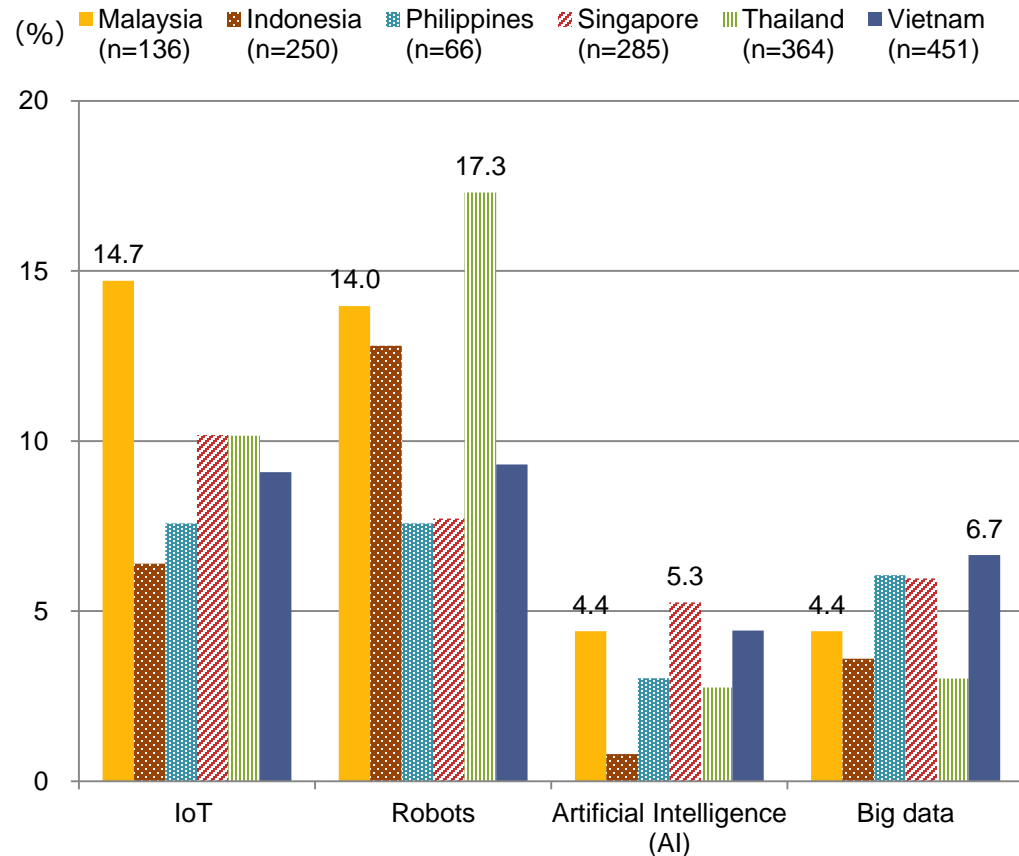
4. Taking Measures for Rising Costs of Production and Services / Utilization of Digital Technology

- Malaysia ranks highest in the region at 25.4%, down from 37.8% last year, on the percentage of companies that selected “Promotion of automation / labour-saving process” as a countermeasure against rising costs.
- Meanwhile in terms of utilization rate for digital technology, Malaysia ranks highest for companies utilizing IoT at 14.7%.

Promotion of automation and labour-saving process



Digital technologies utilized in local business

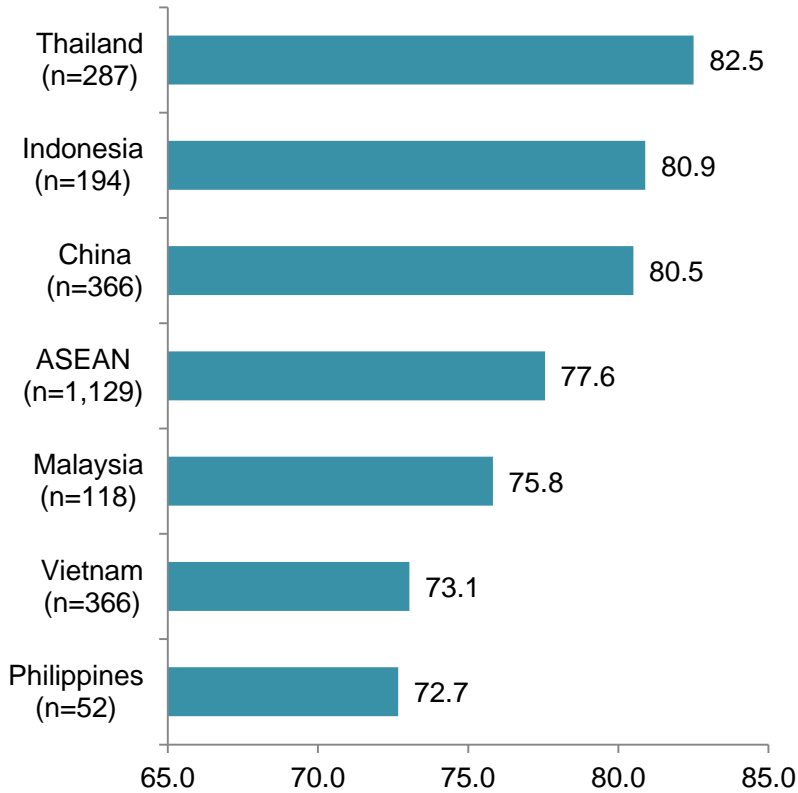




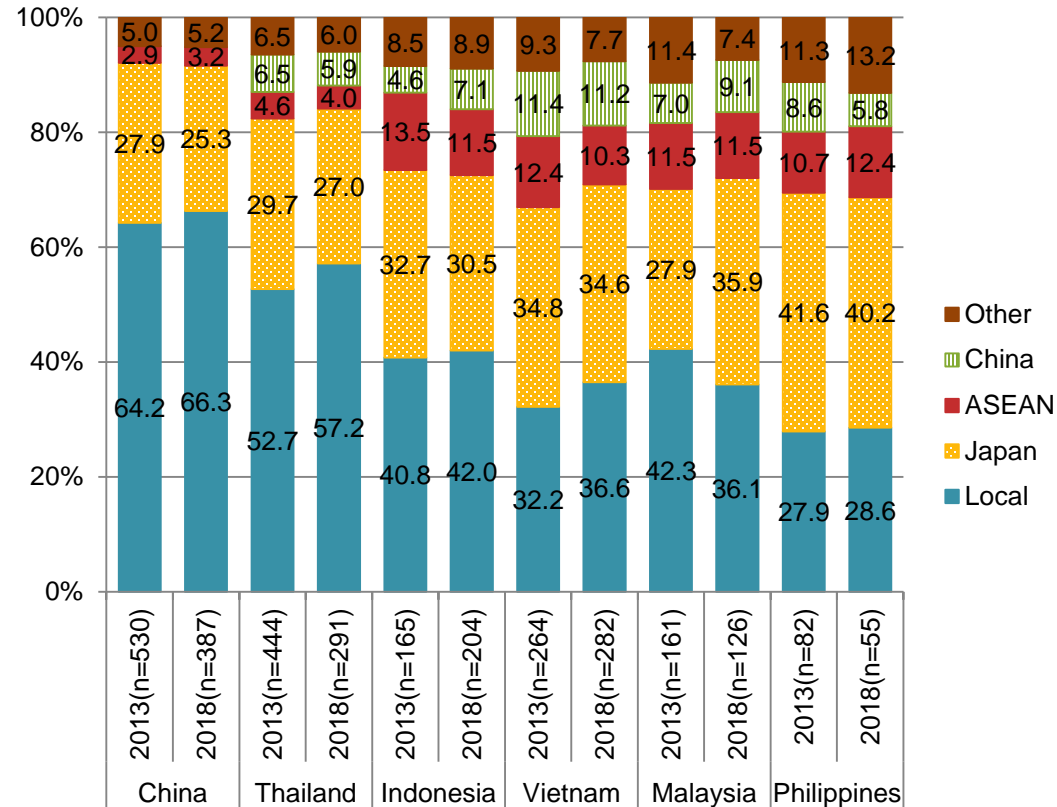
5-1. Procurement of Raw Materials and Parts

- If we put Japan's manufacturing cost at 100, Malaysia's manufacturing cost stood at 75.8%, lower than Thailand and Indonesia.
- The local procurement rate for raw materials and parts in Malaysia was 36.1%, second lowest in ASEAN 6 after the Philippines, and 6.2% lower than the 2013 survey. In contrast, procurement from Japan increased by 8.0%.

Local production cost in comparison with production cost in Japan, which is taken as 100



Procurement sources of major countries (comparison between the 2013 and 2018)





5-2. Procurement of Raw Materials

(単位：%)

The percentage of companies which will maintain its status quo for future procurement of raw materials and parts has increased, while the percentage of companies which will be raising their procurement rate from “India” has slightly increased for Malaysia, Singapore and Vietnam.

Countries / regions that have plans to raise the procurement rate (Manufacturing sector only)

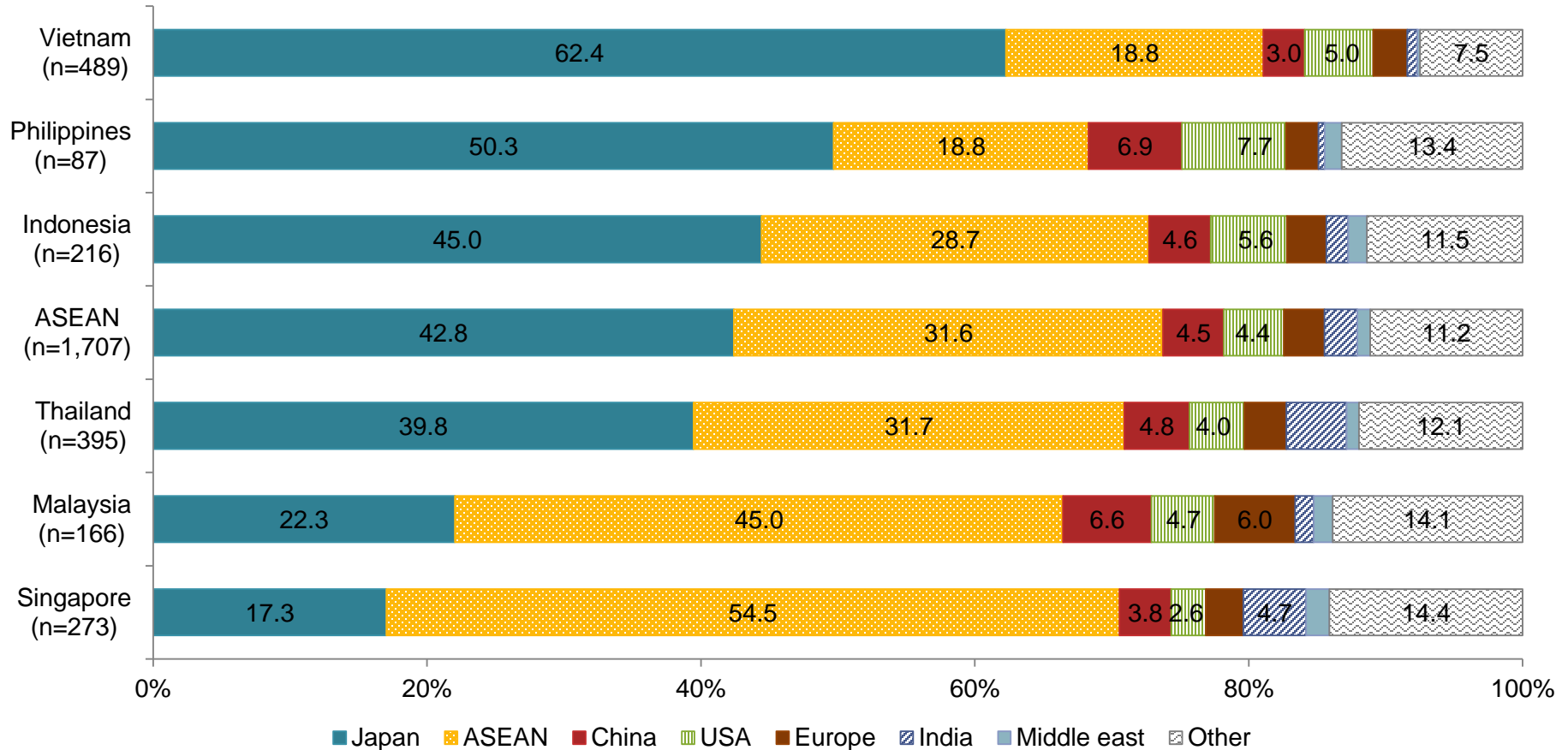
		Local	ASEAN	China	India	Japan	Remaining the same	Other
Indonesia	2014(n=262)	79.0	34.7	13.0	6.1	6.9	13.0	2.7
	2018(n=205)	66.3	28.3	9.8	5.9	6.3	22.9	1.5
Malaysia	2014(n=164)	68.3	50.6	20.7	2.4	11.0	17.7	1.8
	2018(n=128)	57.8	42.2	15.6	3.9	6.3	23.4	3.1
Philippines	2014(n=88)	71.6	42.1	11.4	2.3	20.5	12.5	-
	2018(n=59)	57.6	42.4	6.8	-	17.0	20.3	1.7
Singapore	2014(n=43)	32.6	41.9	20.9	7.0	2.3	27.9	4.7
	2018(n=68)	27.9	39.7	14.7	11.8	10.3	38.2	2.9
Thailand	2014(n=356)	81.7	30.1	12.1	5.1	12.6	12.9	1.4
	2018(n=302)	70.9	23.5	9.3	4.3	5.0	20.2	1.7
Vietnam	2014(n=268)	77.6	43.3	12.7	1.1	11.9	10.8	0.4
	2018(n=397)	72.0	33.0	10.3	2.8	7.8	16.6	1.3



6-1. Export / Import

Looking at the breakdown of export destinations for Japanese companies in Malaysia, ASEAN took the largest share at 45.0%. Meanwhile, in comparison with other countries in the ASEAN region, export ratio to Europe and China were high for Japanese companies in Malaysia.

Breakdown of export destinations (by country / region, responses total 100%)





6-2. Export / Import Most promising export market for business/products over the next 1-3 years

- Same as the previous survey, Indonesia has been considered by the Japanese companies in Malaysia as the most important export destination.
- Within the region, there is an upward trend that regards India as a promising market.

Malaysia (n=199)	2018	2017
1 Indonesia	14.1	10.7
2 China	14.1	7.3
3 India	10.6	4.7
4 Vietnam	9.6	8.7
5 Japan	8.5	8.7

Thailand (n=496)	2018	2017
1 Vietnam	24.0	20.2
2 India	15.7	12.2
3 Japan	15.5	14.8
4 CLM (Cambodia, Lao, Myanmar)	13.5	14.4
5 Indonesia	10.1	14.2

Indonesia (n=269)	2018	2017
1 Japan	19.0	23.4
2 Vietnam	16.0	10.2
3 India	8.9	9.5
4 Thailand	8.6	9.9
5 USA	6.7	7.2

Singapore (n=343)	2018	2017
1 Vietnam	16.0	15.5
2 India	15.5	11.8
3 Indonesia	12.5	20.3
4 Thailand	12.5	11.4
5 Malaysia	9.3	10.7

Vietnam (n=579)	2018	2017
1 Japan	34.7	32.7
2 CLM (Cambodia, Lao, Myanmar)	11.4	13.2
3 Thailand	9.8	11.4
4 China	7.9	7.2
5 USA	6.7	6.8

Philippines(n=94)	2018	2017
1 Japan	34.0	34.0
2 USA	16.0	11.3
2 China	10.6	11.3
4 Vietnam	7.5	5.6

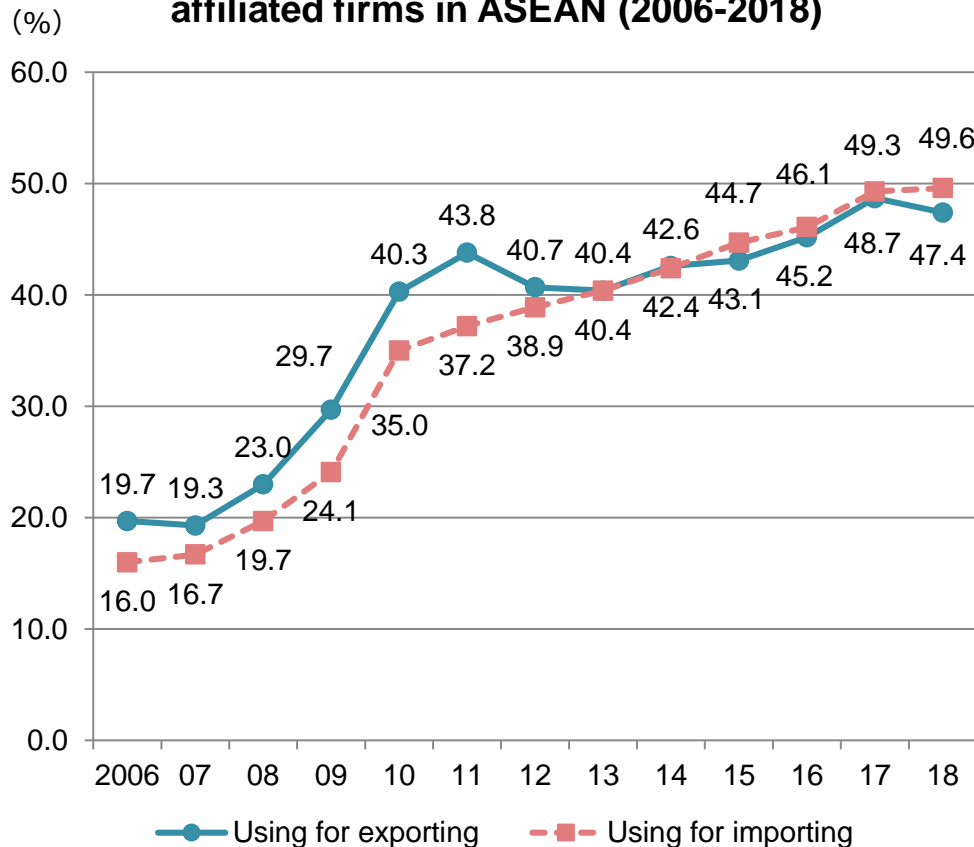
(Unit : %)
*nの数は2018年



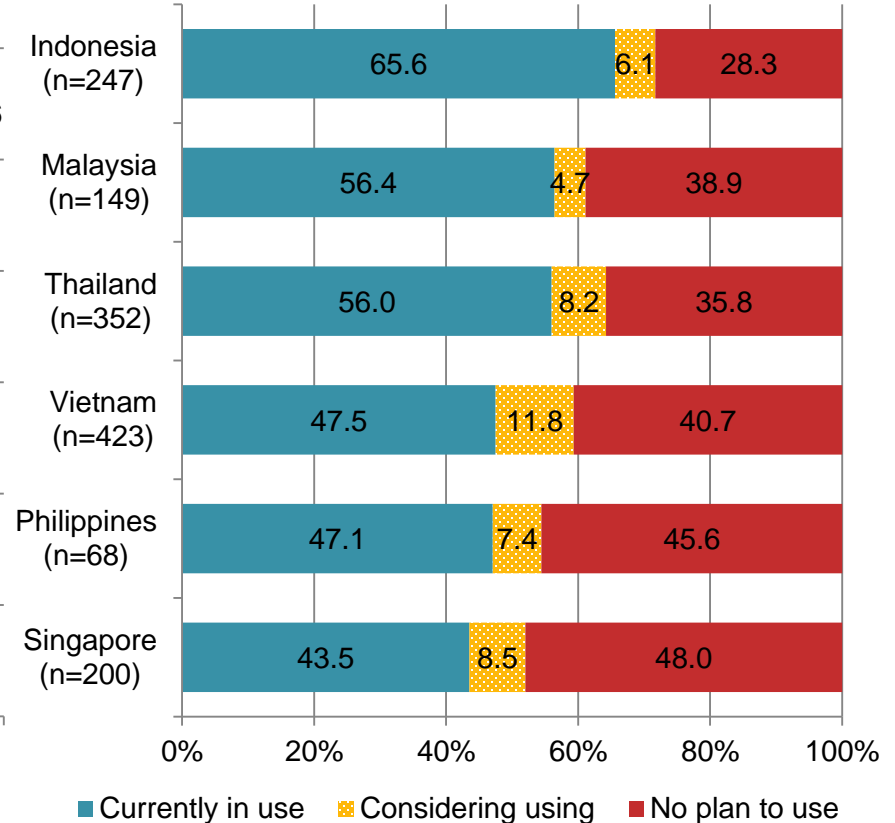
7. FTA/EPA utilization

- The utilization rate for FTA/EPA by Japanese companies in ASEAN has nearly tripled in the past 10 years.
- The utilization rate for FTA/EPA by Japanese companies in Malaysia is 56.4%, similar to the previous survey (56.6%). Highly utilized FTAs are the ATIGA, AKFTA, ACFTA, and AANZFTA. Meanwhile for EPAs concluded with Japan, the total utilization rate for both MJEPA and AJCEP combined is about 40%.

Trends in FTA/EPA utilization by Japanese-affiliated firms in ASEAN (2006-2018)



Ratio of FTA/EPA utilization by country

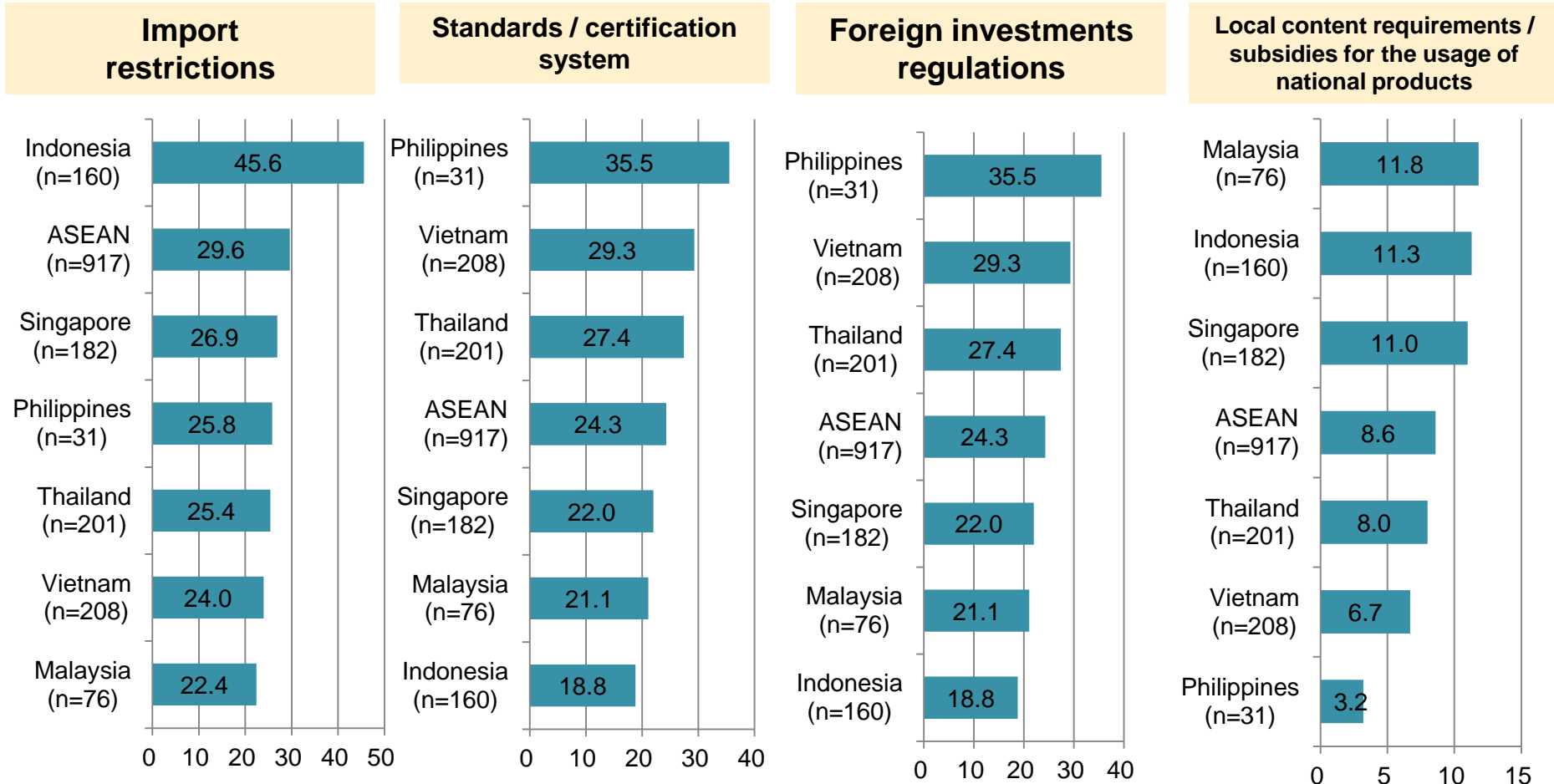




8-1. Non-tariff measures that impede businesses in the country

(Unit : %)

- These are the top four non-tariff measures with the highest response rate in ASEAN region by countries. 22.4% of companies in Malaysia selected “import restrictions” as a non-tariff measure that has impeded their businesses, the highest response rate from Malaysia.
- Meanwhile, “local content requirements” remained stagnant at 11.8% for Malaysia, but is the highest in the region.





8-2. Non-tariff Measures that impede businesses in Malaysia

(Unit : %)
*n≥3の業種のみ

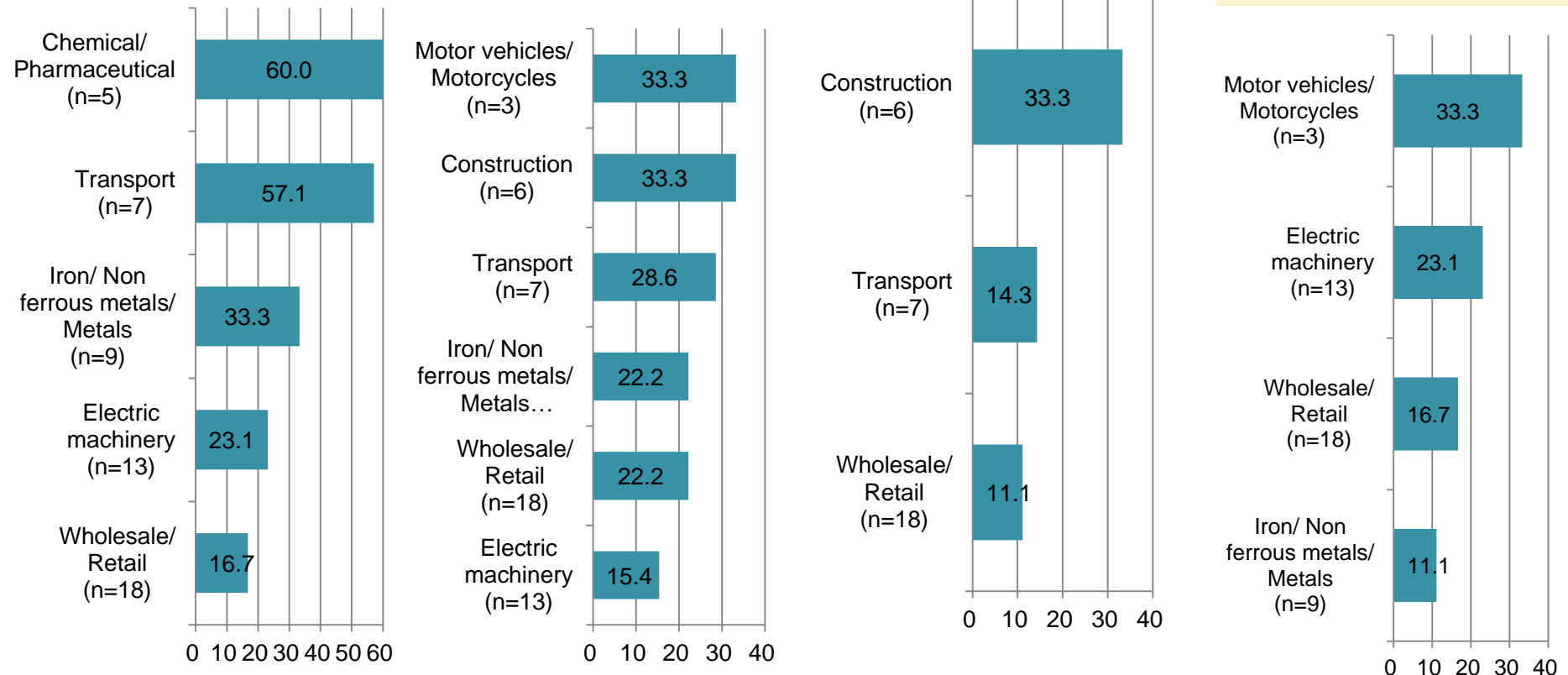
Regarding the top four non-tariff measures that have received the highest response rates in ASEAN region, if we are to narrow down and look at the results for Japanese companies in Malaysia by industry, “import restrictions” in chemical / pharmaceutical manufacturing as well as transportation industry exceeded 50%.

Import restrictions

Standards and conformity assessment system

Foreign investment regulations

Local content requirements, subsidies contingent on the use of domestic over imported goods



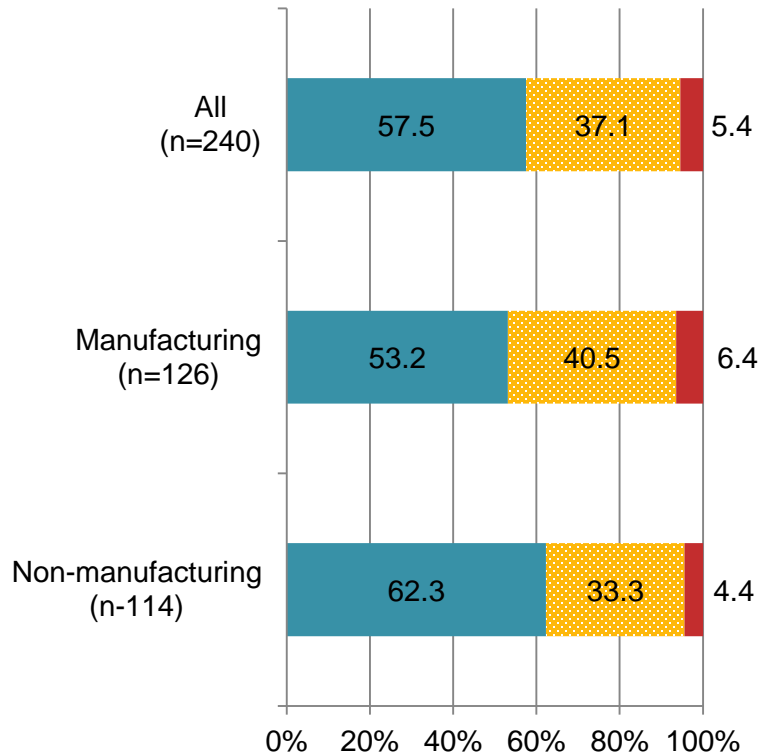


9. Expectations and Concerns for the New Government

- More than 90% of Japanese companies in Malaysia are either “having expectations” or “having some expectations” towards the new Mahathir regime that came into power since May 2018. Compared to the manufacturing sector, the non-manufacturing sector seems to have higher expectations towards the new government.
- Their expectations include “anti-corruption” and “simplification of governmental administrative procedures”; whereas their concerns include “a sudden shift in policy”. In addition, policies concerning foreign workers have often called for flexibility employment, but there is also a growing concern over labour shortages due to the reduction policy of foreign workers.

How much expectations do you have for the new government?

■ Definitely ■ To a certain degree ■ Not really ■ No



Expectations and Concerns toward the New Regime (Top 5 answers, multiple answers allowed)

Expectations (n=236) (%)

1	Anti-corruption	55.5
2	Simplification of administrative procedures at government offices	54.7
3	Formulation of medium to long-term policy for the manufacturing sector	47.9
4	Flexibility in the employment of foreign workers	45.3
5	Consolidation of corporate tax system (including incentives) to promote investment	44.9

Concerns (n=231) (%)

1	A sudden shift in policy	59.3
2	An economic downturn	43.7
3	Rising cost of doing business	42.4
4	A labour shortage among foreign workers	41.1
5	Excessive depreciation of the Ringgit	38.1



Thank you very much!

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**“2018 JETRO Survey on Business
Conditions of Japanese Companies
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