

FY2020
Survey on Business Conditions
of Japanese Companies Operating
Overseas (Asia & Oceania)

A comparison among
6 ASEAN nations
and
the trend in Malaysia

March 2021
JETRO Kuala Lumpur

JETRO Key points of this survey

Operating income expected to decline

- The average surplus for operating income forecast for 2020 in ASEAN is 43.9% while deficit is 37.1%. This is a significant decline in operating income for all countries in comparison to last year (FY2019) which was at 64.2% and 17.1% respectively. (Slide 4)
- The surplus for operating income forecast of Japanese companies in Msia is at 50.0%, higher than the ASEAN average.
- **Deterioration in cashflow is remarkably high in Indonesia and Malaysia.**
- There are many companies in Indonesia and Malaysia facing “worsening cashflow”, with “late payment from clients” becoming an issue for these companies. (Slide 7)

36.1% in Msia intend to expand, especially for “food”, “precision/medical devices”, “transportation”

- In terms of business development over the next 1-2 years, the percentage of ASEAN countries which have selected “expansion” are 10~20% lower than the previous survey. (Slide 8)
- 36.1% of Japanese companies in Malaysia have the intention to “expand”, with its rate of decline being the smallest amongst 6 ASEAN countries (-6.7%). In particular, expanding function for “Production of high value-added products” at 44.4% is the highest amongst 6 ASEAN countries. Food as well as precision/medical devices in the manufacturing sector, and transportation in the non-manufacturing sector have exceeded 60% with high intention for expansion. (Slide 10)

Majority in ASEAN expect business to normalize in “2021H2” post-COVID

- In regards to the business normalization period post-COVID, most companies in all 6 ASEAN countries expect it to happen during the second half of 2021. About half of these companies in each country have reviewed their business strategies and supply chains, as well as introduce digital technologies due to covid-19. (Slides 12, 14)

In addition to the usual labour issues, the impact of covid-19 on sales is now ranked high as a management issue

- Besides the usual management issues such as “wage increment of employees”, “facing challenges in local procurement of raw materials/parts”, and “cost reduction measures reaching its limit”, a few other issues that are deemed to stem from Covid-19 such as “declining orders from clients”, “stagnation in major sales market (sluggish consumption)” and “not acquiring new customers” have surfaced. (Slides 15, 16)
- There are more companies that emphasizes the “qualities of employees” as compared to other ASEAN countries.

Is there a lot of human resources issues and cost factors in order to introduce digital technologies?

- Triggered further by COVID-19, about half of all these companies in all 6 ASEAN countries are contemplating to introduce digital technologies. The percentage of companies that are facing issues in human resources and cost factors are generally high in each country, but we could see that the trend is particularly high in Malaysia. (Slides 21, 22)

JETRO 0. Basic Information

(No., %)

Survey Purpose

- To understand the current business activities of Japanese companies in Asia and Oceania and to disseminate these findings.

Surveyed Countries/Regions

- Japanese companies in 20 countries / regions (5 in Northeast Asia, 9 in ASEAN, 4 in Southwestt Asia, 2 in Oceania, which has a direct/indirect investment of 10% or greater and with branches /representative offices)

Survey Period

- 24th August to 25th September 2020

Survey Response Rate

- We received valid responses from 5,976 companies out of the 14,399 surveys sent out. (Response rate: 41.5%)

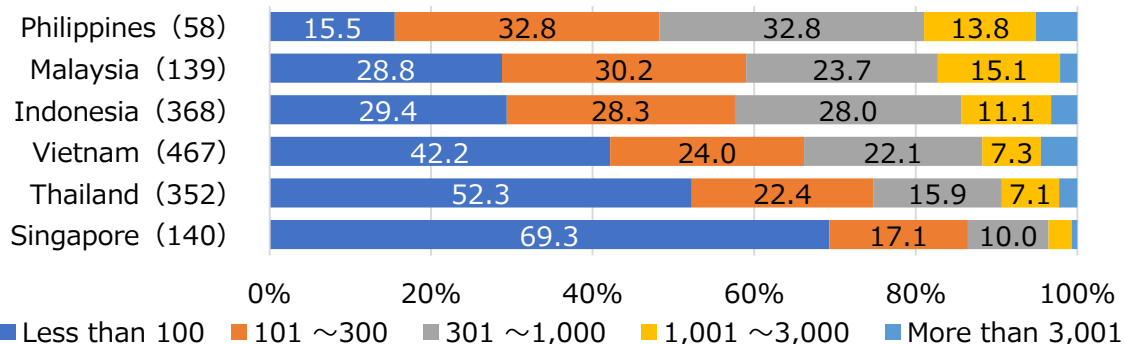
Remarks

- This marks the 34th survey, since 1987.
- Non-manufacturing sector has been included in this survey since 2007.
- Numbers in brackets indicate the number of companies with valid responses.
- Numbers may not add up due to rounding.
- Surveys in Taiwan were conducted with the assistance of Japan-Taiwan Exchange Association.

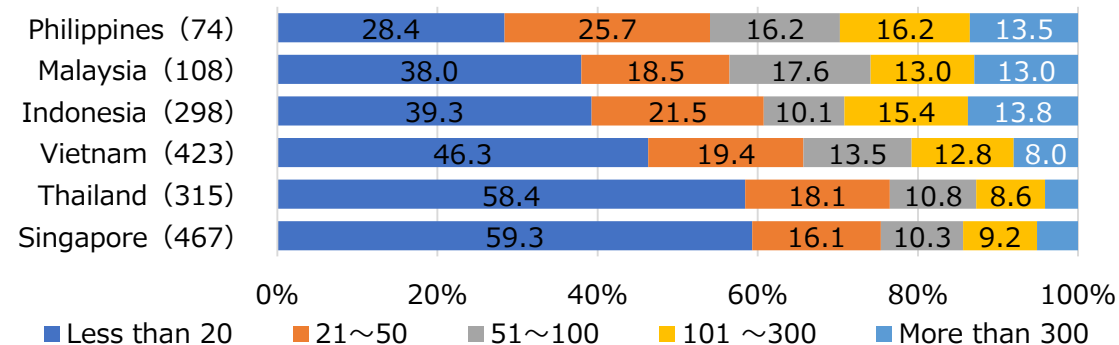
	Companies Surveyed	Companies responding		Category		Valid responses
		Valid	(%)	Mfg	Non-mfg	
ASEAN 9	9,882	3,623	60.6	1,645	1,978	36.7
Vietnam	1,786	905	15.1	474	431	50.7
Thailand	2,775	680	11.4	361	319	24.5
Indonesia	1,997	674	11.3	371	303	33.8
Singapore	1,113	622	10.4	143	479	55.9
Malaysia	946	257	4.3	147	110	27.2
Philippines	471	133	2.2	59	74	28.2

Notes: "ASEAN" refers to its 9 member states excluding Brunei..

No. of employees (manufacturing)



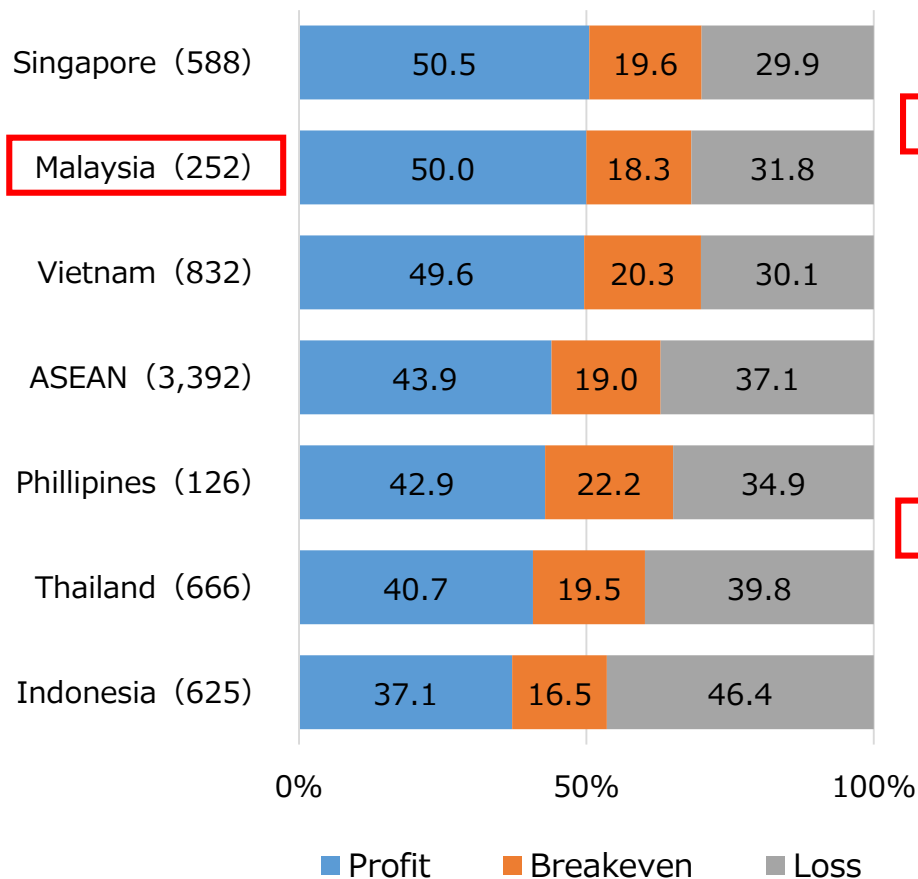
No. of employees (non-manufacturing)



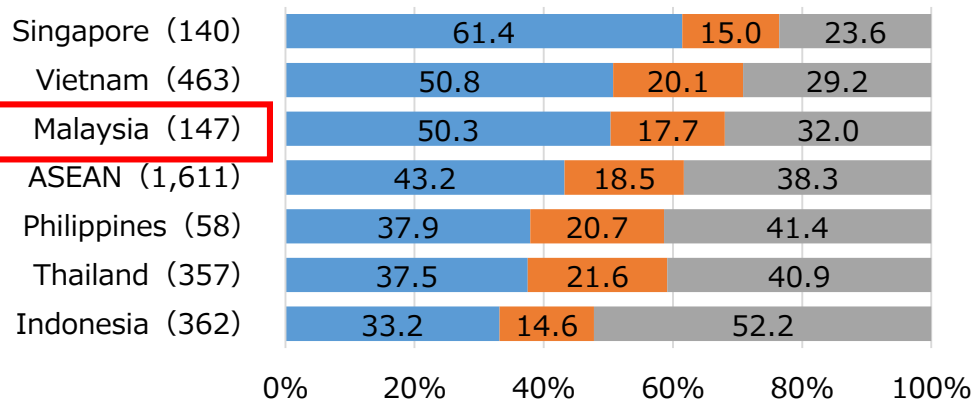
1. Operating Income Forecast (by country)

- The average in ASEAN for operating income forecast in 2020 is 43.9% for surplus ratio and 37.1% for deficit ratio. It was 64.2% and 17.1% respectively for the previous survey (2019). This indicates a significant drop in operating income for all countries.
- Surplus ratio for Malaysia, Vietnam and Singapore are above the ASEAN average, with higher surplus ratio for their non-manufacturing sector compared to the manufacturing sector.

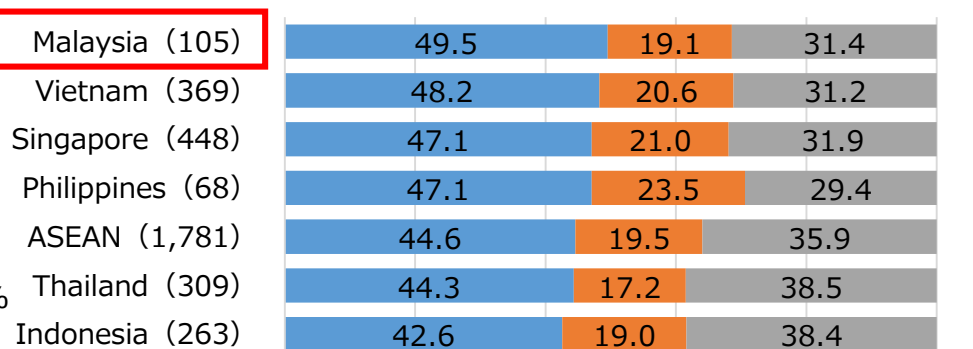
Operating profit forecast for 2020



Operating profit forecast for 2020 (manufacturing)



Operating profit forecast for 2020 (non-manufacturing)



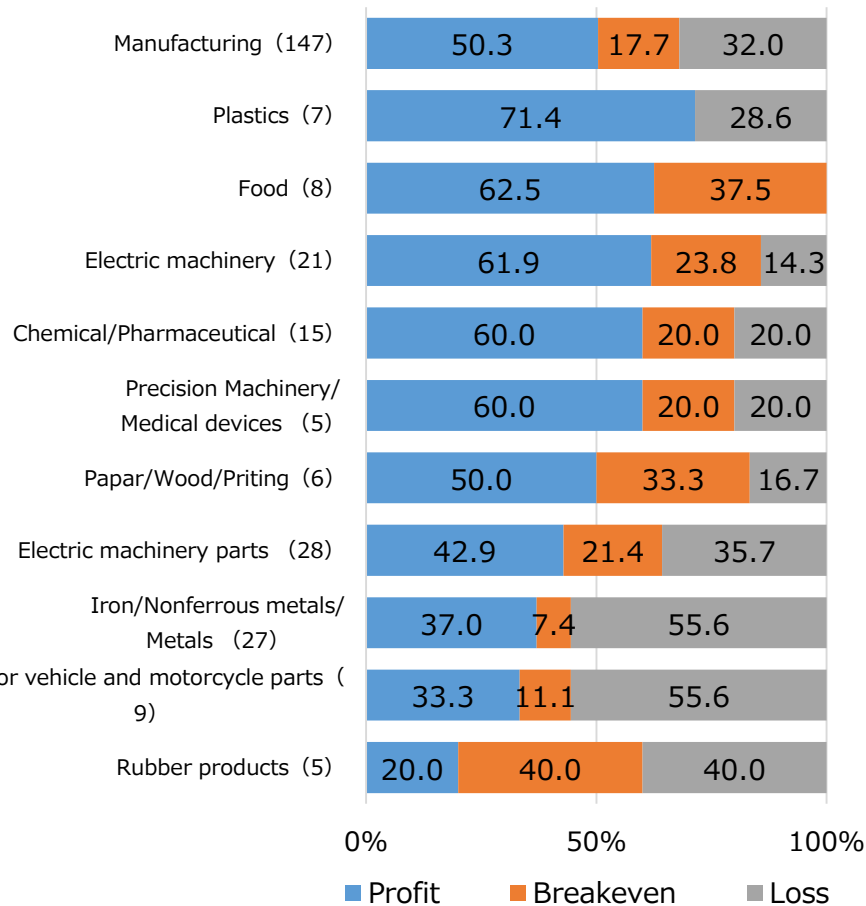
Notes: "ASEAN" refers to its 9 member states excluding Brunei..

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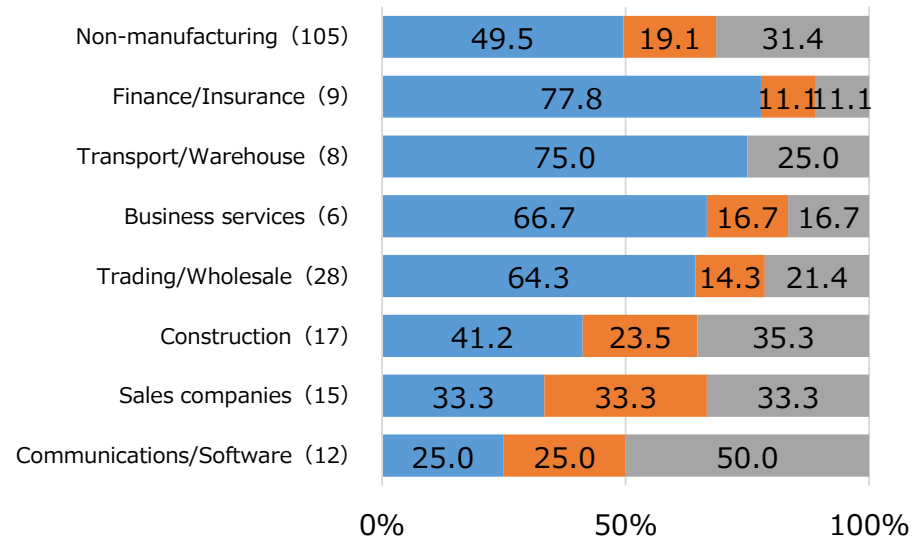
JETRO 1. Operating Income Forecast(Malaysia)

- In the manufacturing sector, plastic products, food items, E&E equipments, chemical/pharmaceutical, precision/medical devices scored high for their surplus ratio, exceeding the average score by 10~20%. In the non-manufacturing sector, finance/insurance, transportation, business services, trading companies/wholesale industry have exceeded the surplus ratio by 60%.
- SMEs have a lower surplus ratio, especially for those in the non-manufacturing sector.

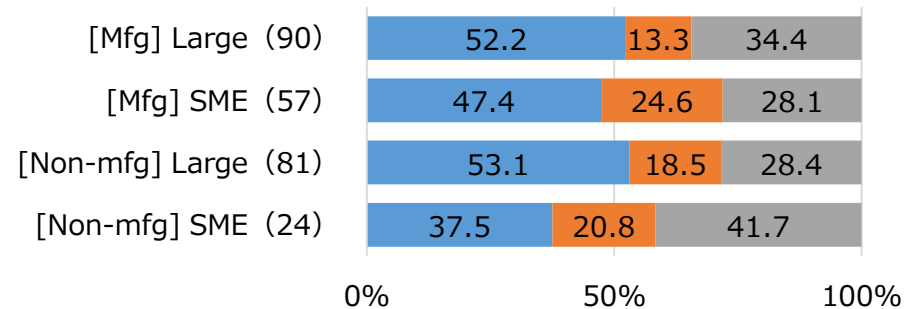
Operating profit forecast for 2020 (manufacturing)



Operating profit forecast for 2020 (non-manufacturing)



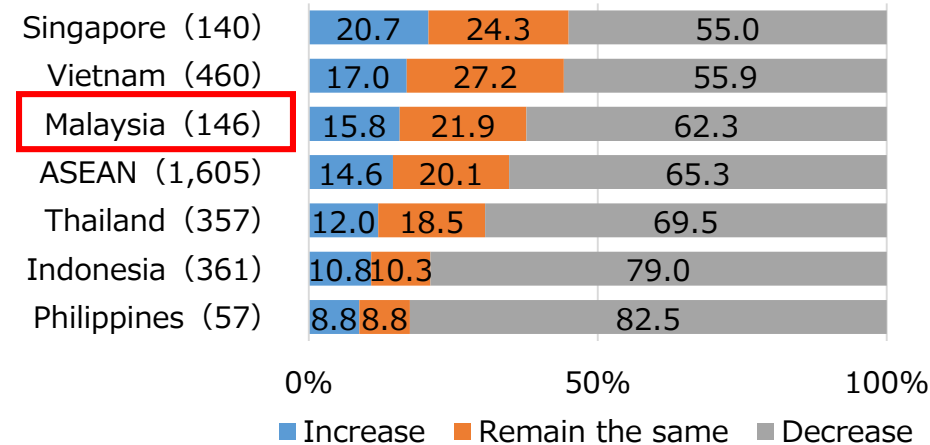
Operating profit forecast for 2020 (by company size)



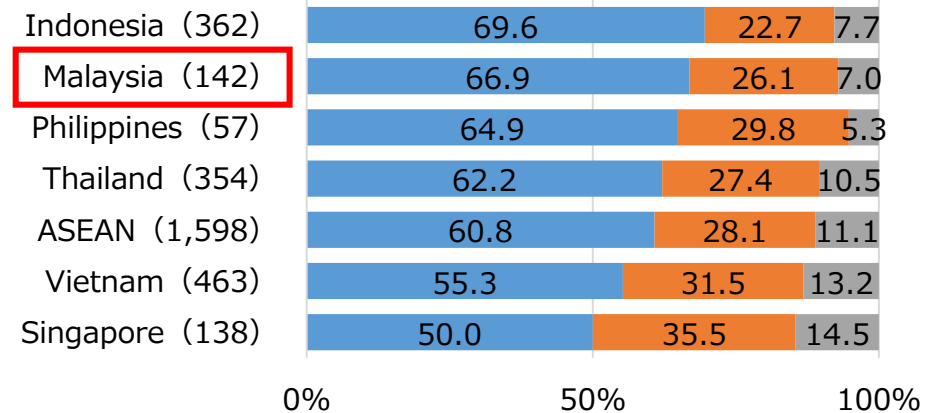
JETRO 1. Operating Income Forecast (versus last year, by country)

- When comparing the operating income forecast in 2020 to 2019, more than half of the companies in all 6 ASEAN countries fared worse.
- Singapore and Vietnam have relatively high prospects for "improvement" in both manufacturing and non-manufacturing sectors, while Indonesia and Thailand have higher tendency for "deterioration". Malaysia comes in the middle among the 6 ASEAN countries, almost the same as the average in ASEAN.
- As for the operating income forecast for 2021, most companies predict for "improvement" compared to 2020, with manufacturing sector faring higher than non-manufacturing sector.

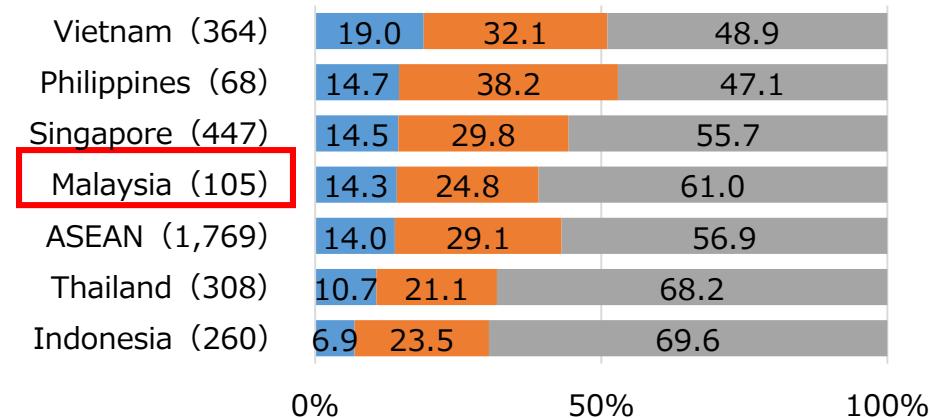
Operating profit forecast for 2020 (mfg, comparison with 2019)



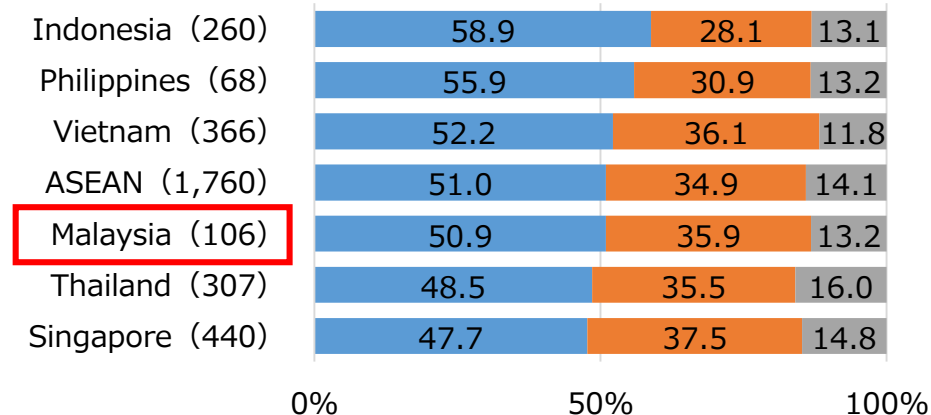
Operating profit forecast for 2021 (mfg, comparison with 2020)



Operating profit forecast for 2020 (non-mfg, comparison with 2019)



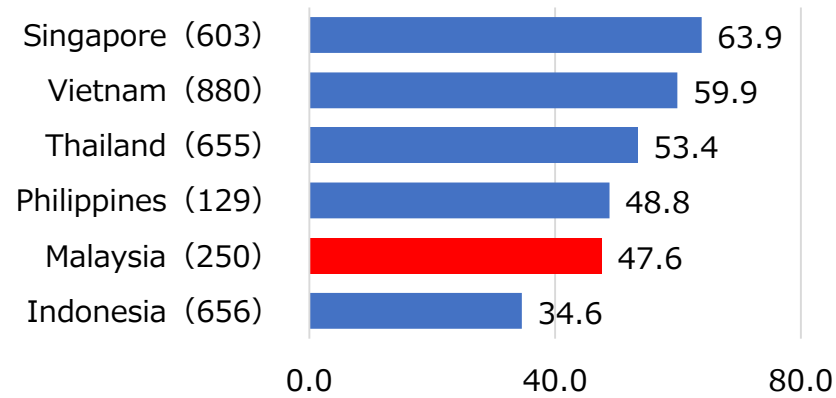
Operating profit forecast for 2021 (non-mfg, comparison with 2020)



JETRO 2. Impact of Covid19 on Cash Flow (by country)

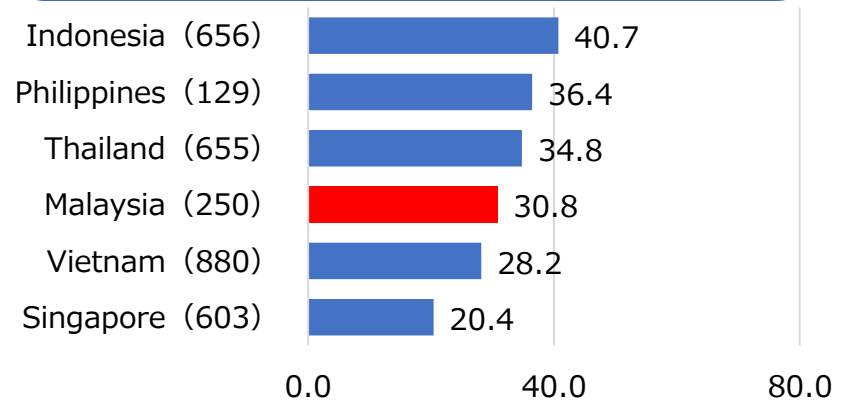
- On the impact of Covid19 on cash flow, many companies in Singapore and Vietnam answered “cash flow has not worsen”, implying that there isn’t much issue with deposits and payments.
- In comparison, roughly 30% of companies in Indonesia and Malaysia are affected by delayed payments from their business counterparts, which are relatively high.

Cash flow has not worsen

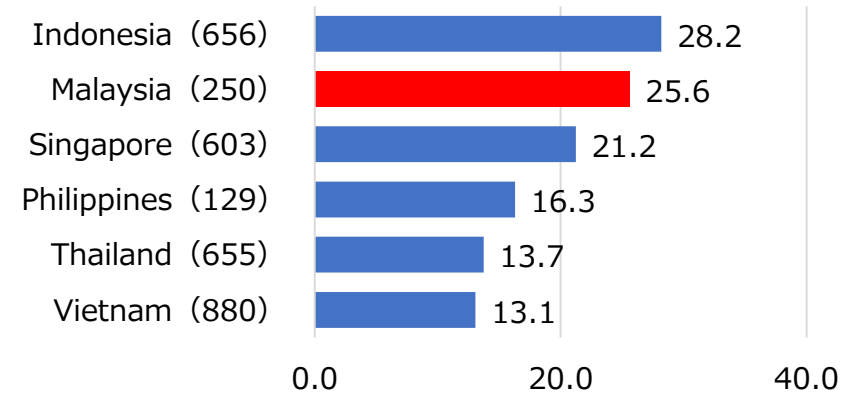


Cash flow has worsen, but payments and deposits are not affected.

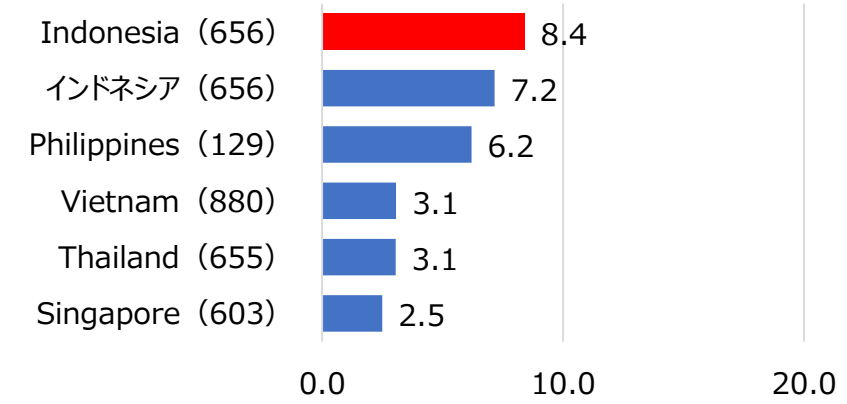
(%)



Delays in receiving payment from business counterparts (products/services provider)

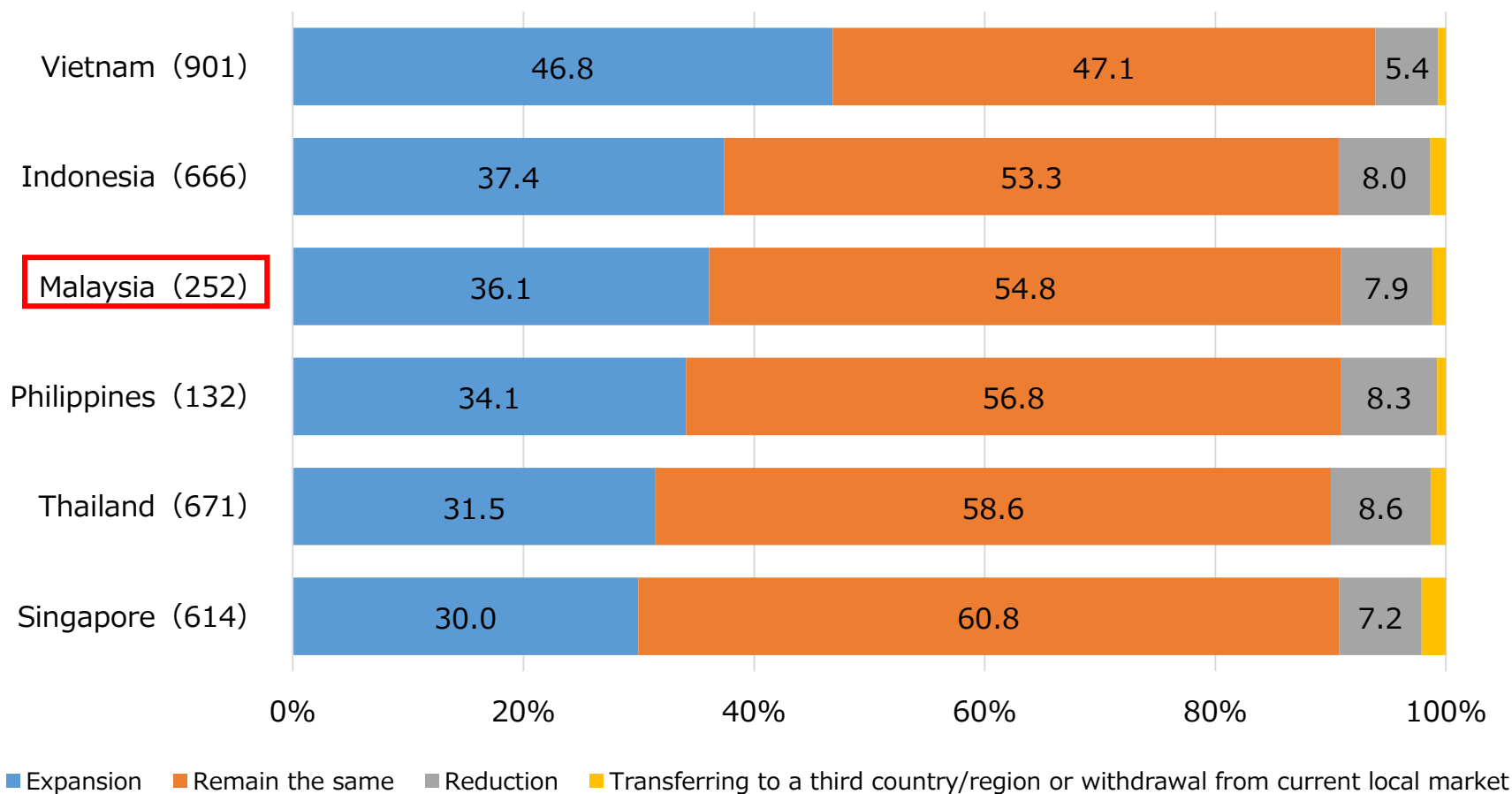


Delays in paying our business counterparts (suppliers or service providers)



JETRO 3. Business Development Direction in 1-2 years (by country)

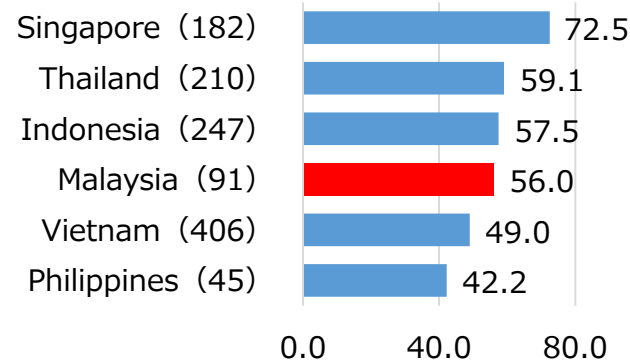
- On the business development direction for the next 1-2 years, companies which would see “expansion” have declined by 10~20% in each country compared to the previous survey.
- Compared to the previous survey (2019), Philippines (-17.7%) and Vietnam (-17.1%) have the highest decline in “expansion”. Meanwhile, Malaysia has the lowest decline, down by 6.0% to 36.1%.



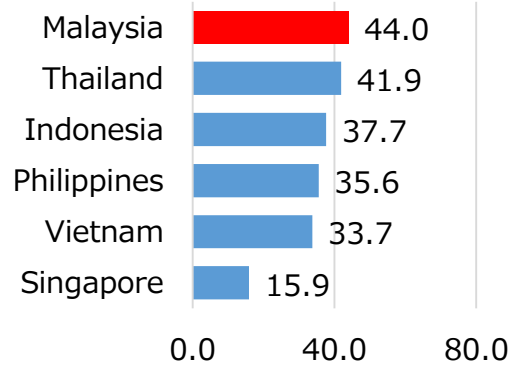
JETRO 3. Business Development Direction in 1-2 years (by types)

- Among companies which have chosen “expansion”, expansion of “sales function” is the most popular.
- In Malaysia, “production function (high value-added products)” and “R&D” are popular selection when compared to other ASEAN countries.

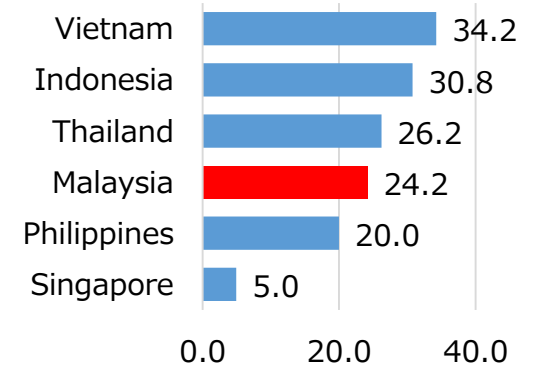
Sales function



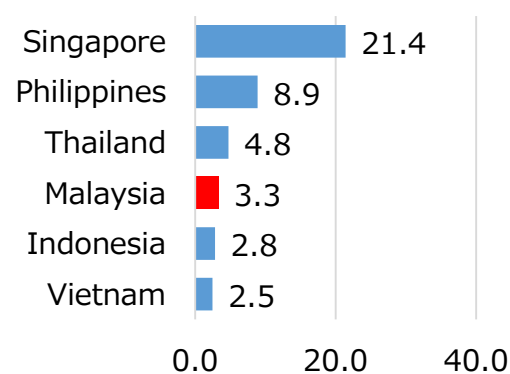
Production (high value-added products)



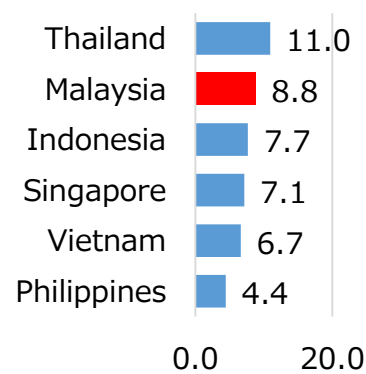
Production (general-purpose products) (%)



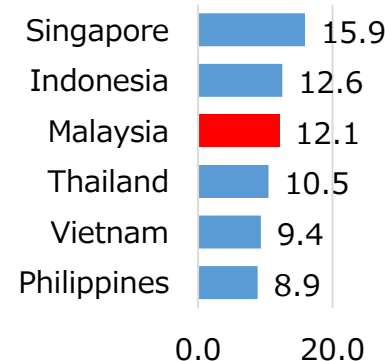
Function of Regional headquarters



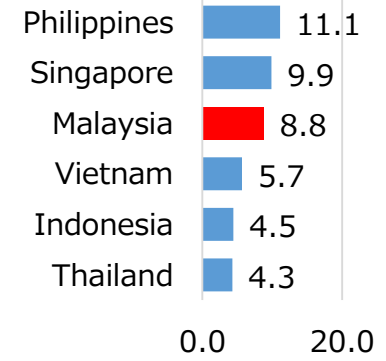
R&D



Logistics function



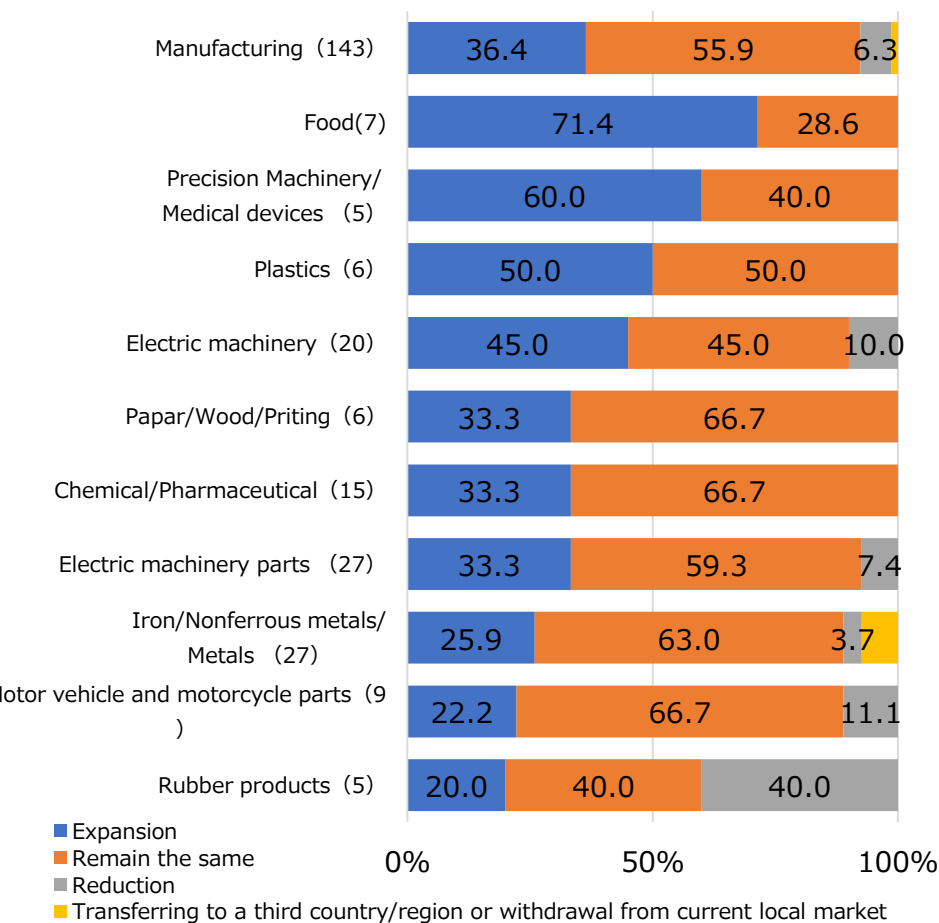
Administrative functions in providing services (e.g., Shared services center, call center)



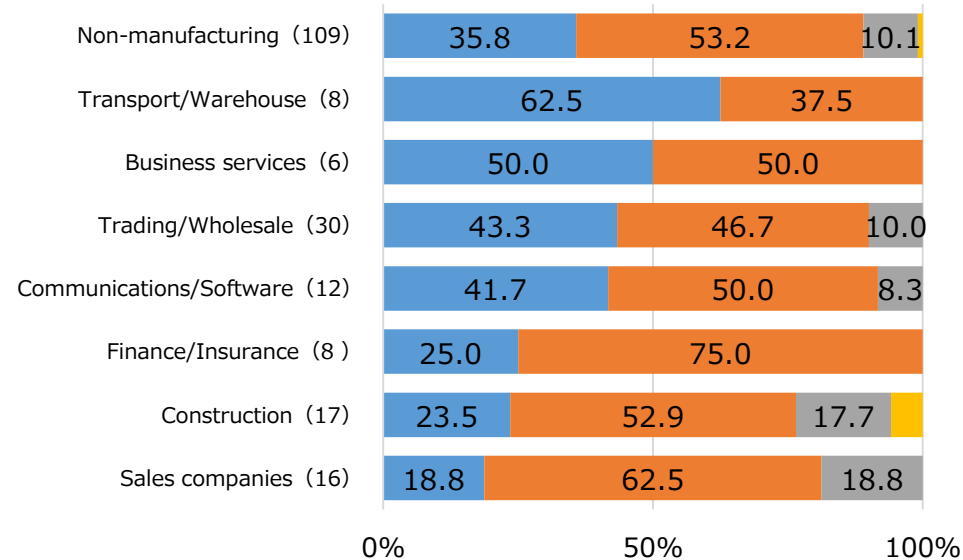
JETRO 3. Business Development Direction in 1-2 years (Malaysia)

- For Japanese companies in Malaysia, companies in food, precision/medical devices, plastic products, E&E equipments industries have a higher ratio of selecting "expansion" compared to the overall average in Malaysia.
- Similarly for the non-manufacturing sector, transportation, business services and trading/wholesale industries exceeded the overall average for ASEAN.

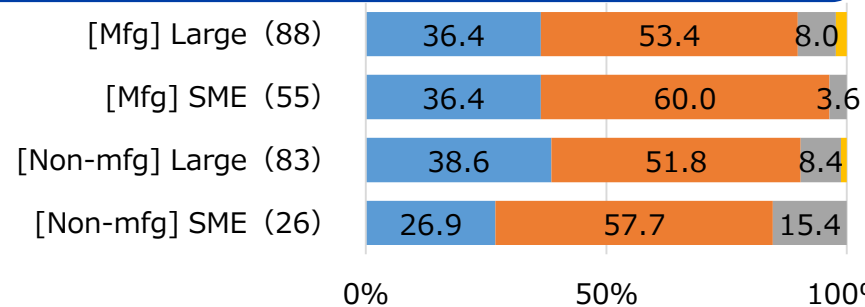
Business development direction (Mfg)



Business development direction (Non-mfg)



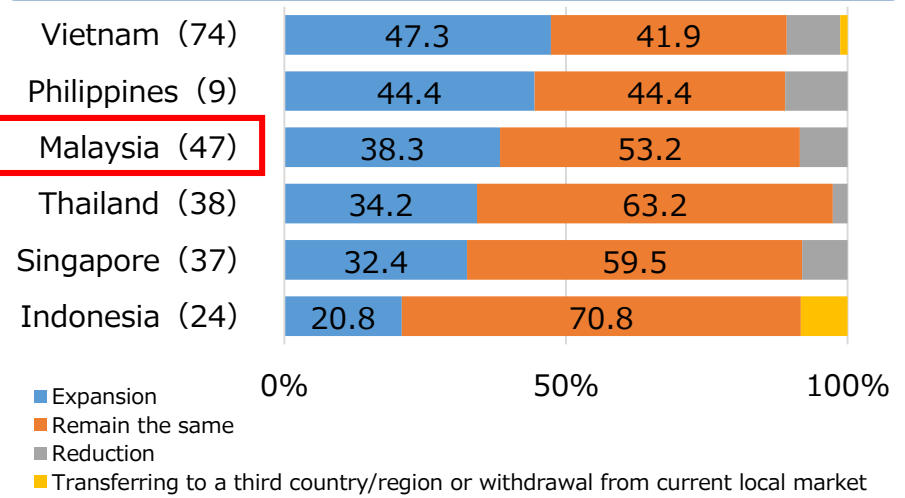
Business development direction (by company size)



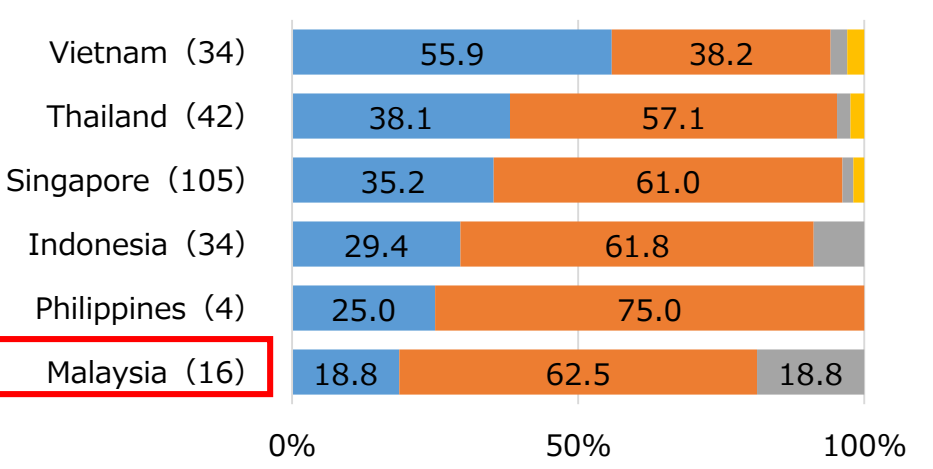
JETRO 3. Business Development Direction in 1-2 years (by industry)

- E&E, the primary industry in Malaysia, has an “expansion” rate at 38.3%, higher than the overall average for Malaysia. The same industry in Vietnam and Philippines has strong intention for expansion as well.
- For the non-manufacturing sector, Malaysia’s transportation industry has the highest intention for expansion among the 6 ASEAN countries while sales companies scored the lowest at 18.8%.

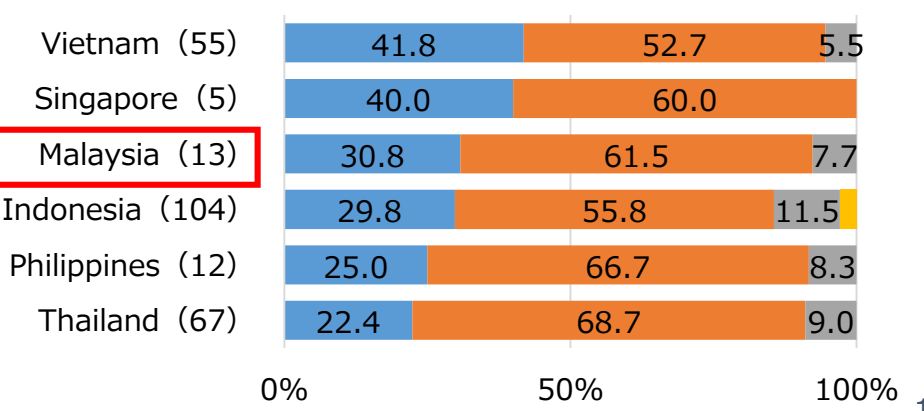
Business development direction (Electric Machinery & parts)



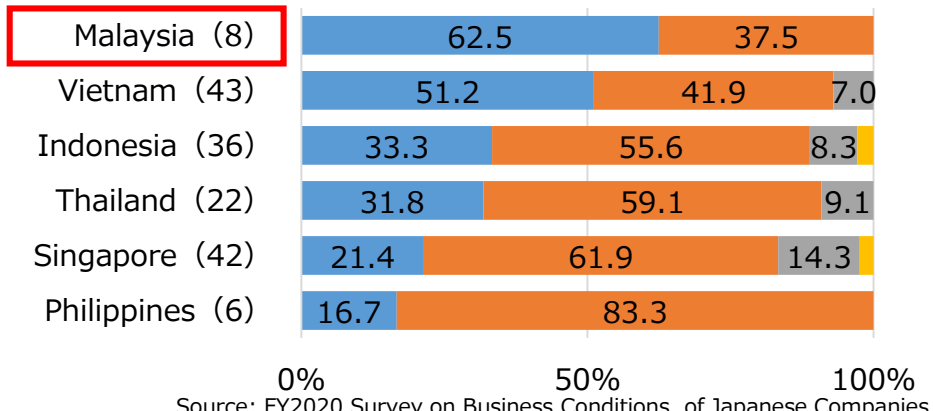
Business development direction (Sales companies)



Business development direction (Motor vehicle and motorcycle parts)

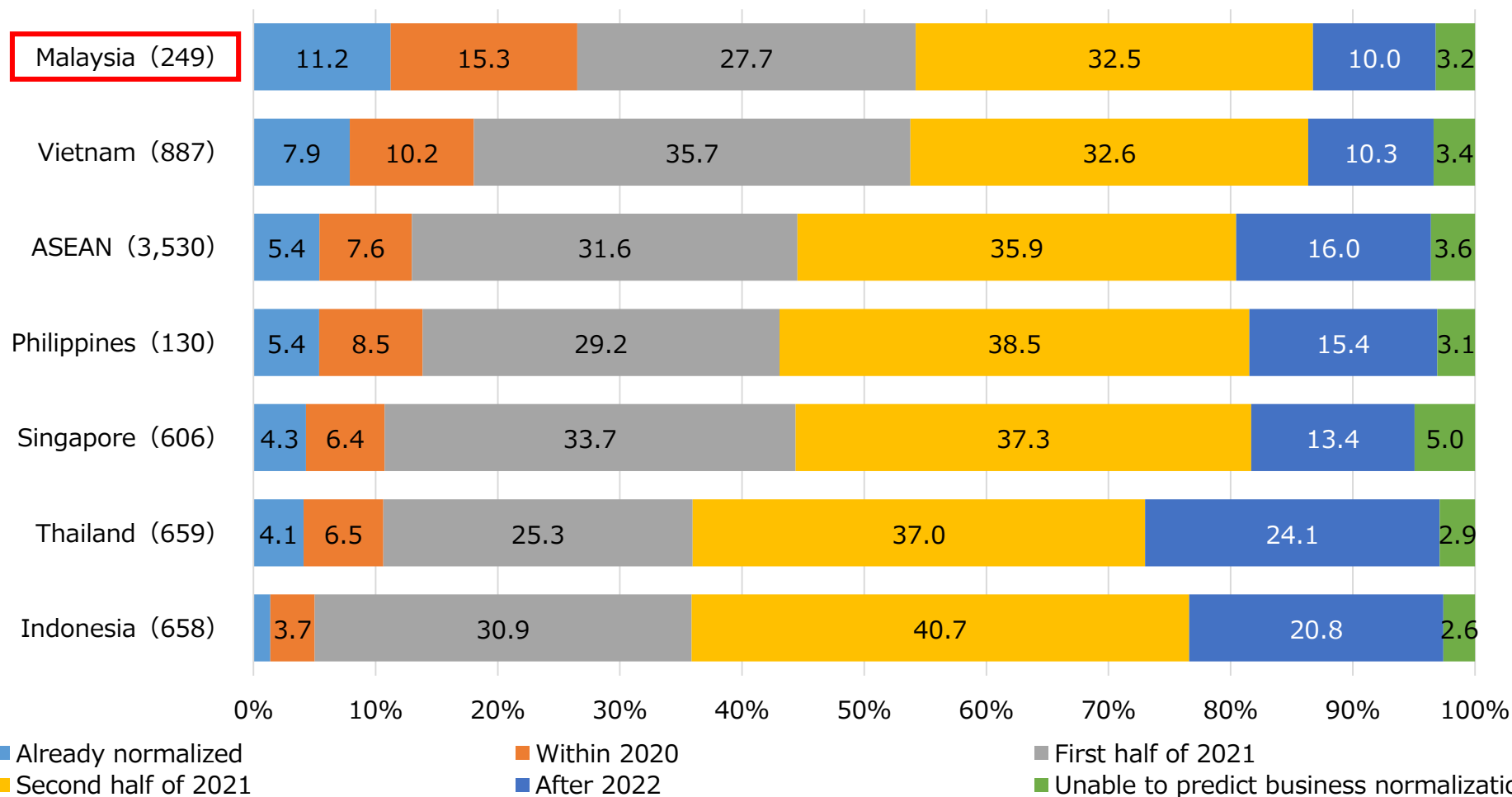


Business development direction (Transport/Warehouse)



4. Business Normalization Post-Covid (by country)

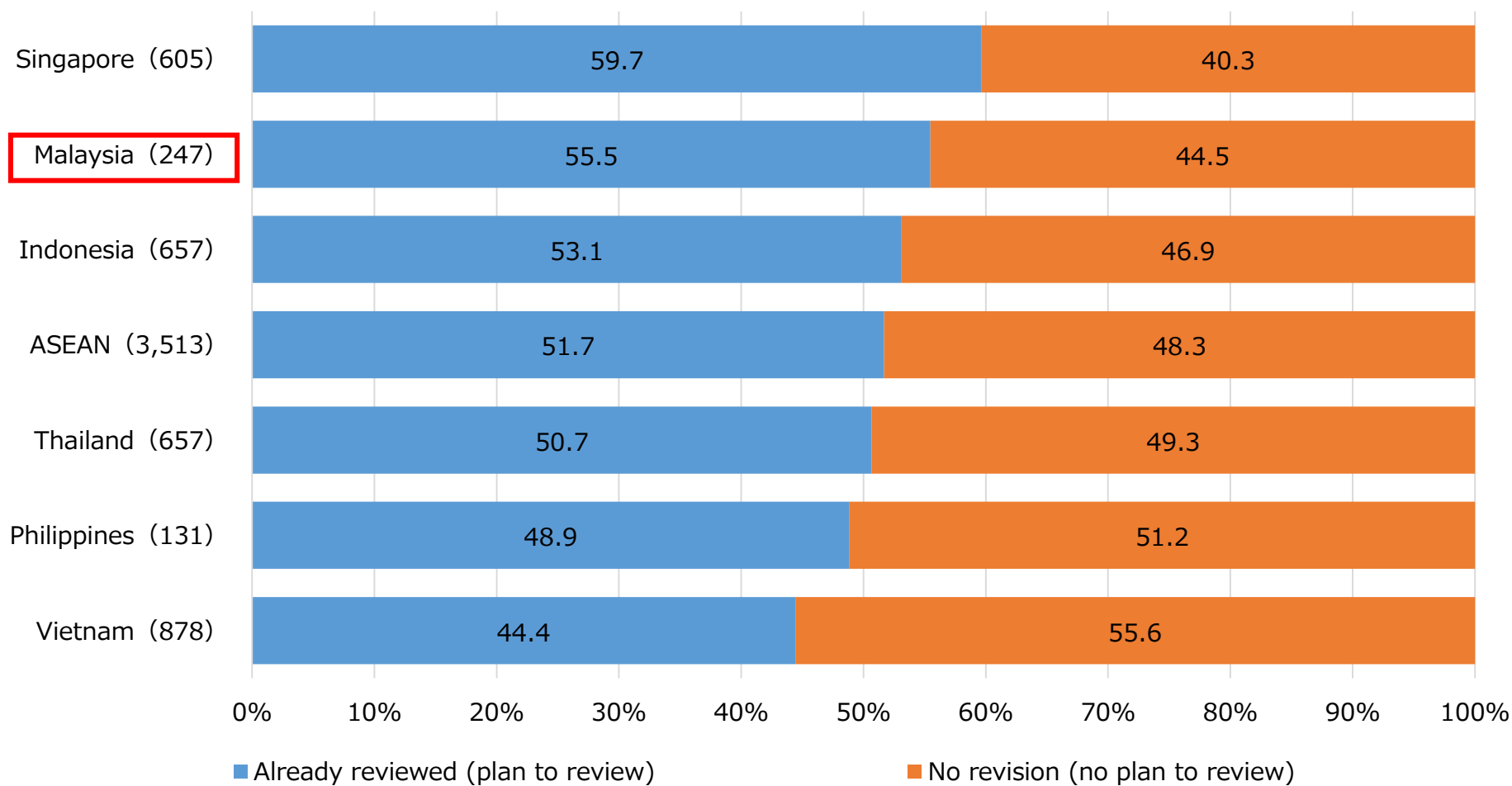
- In regards to the business normalization period post-covid, at the time of this survey (Aug-Sept 2020), Malaysia had the highest percentage of companies at 11.2% which answered that their businesses “are already back to normal”. On the other hand, companies in Thailand have the highest percentage at 24.1% for selecting “after 2022”.
- Overall, majority of companies in the 6 ASEAN countries opted for “second half of 2021”.



Notes: "ASEAN" refers to its 9 member states excluding Brunei..

JETRO 5. Review of Business Strategy Post-Covid (by country)

- Approximately half of the companies in all 6 ASEAN countries “reviewed their business strategies/models (or have plans to do so)” following the spreading of the novel coronavirus infection. The same trend is apparent in all 6 ASEAN countries.



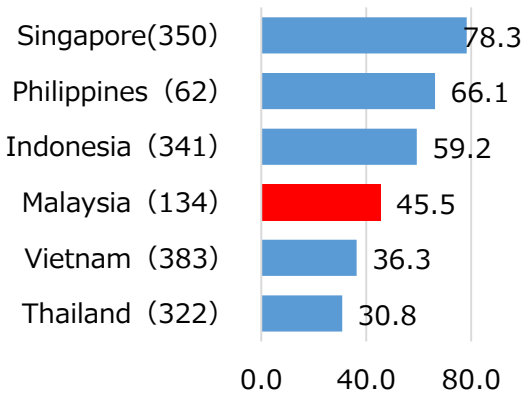
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JETRO 5. Contents of Business Strategy Review Post-Covid

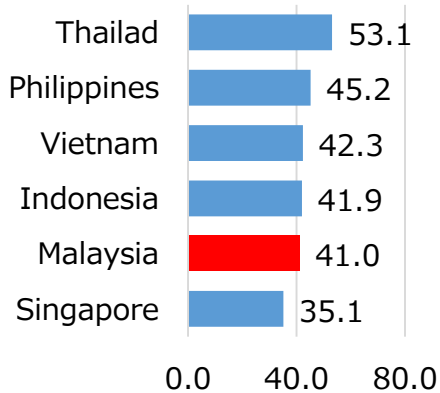
(by country)

- For companies which opted for “reviewed their business strategies/models (or have plans to do so)”, in addition to the review of sales destination, other popular business strategies include working from home, virtual exhibition, online business meeting, higher utilization of digital marketing/AI/etc., and introduction/utilization of digital technologies.

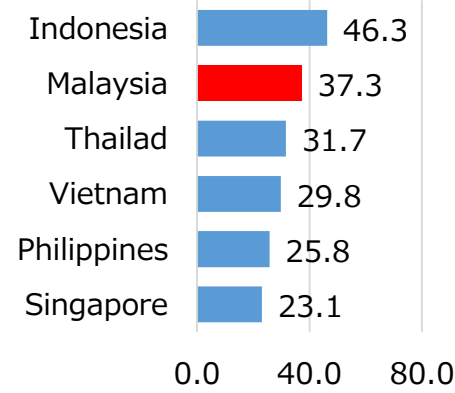
Expansion of Work-from-home / Telework



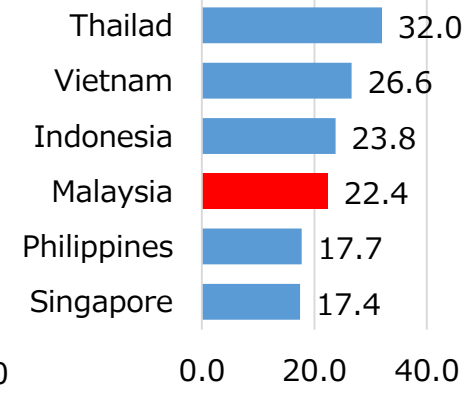
Revision of Selling place



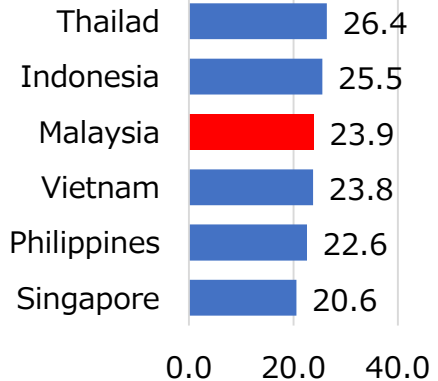
Rationalization by staff reduction



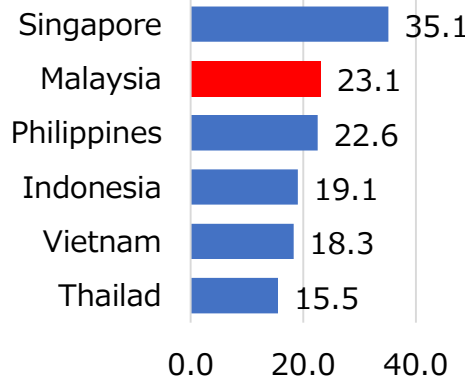
Change the source of procurement



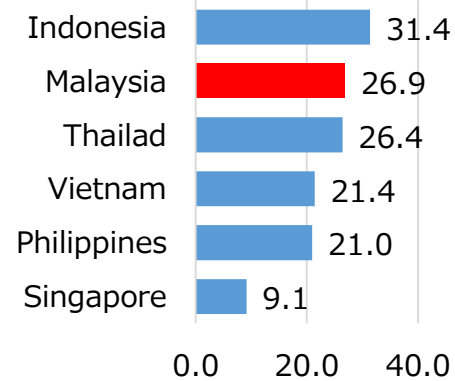
Revision of products/ services



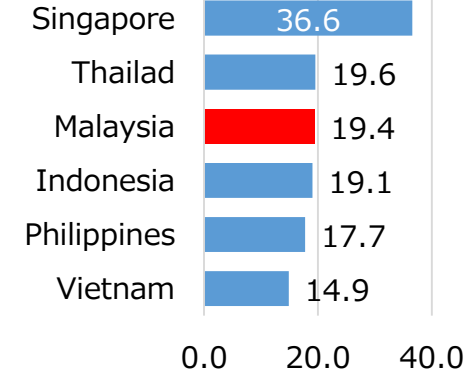
Utilization of virtual Exhibition/online meeting



Cancel or postpone of New investment



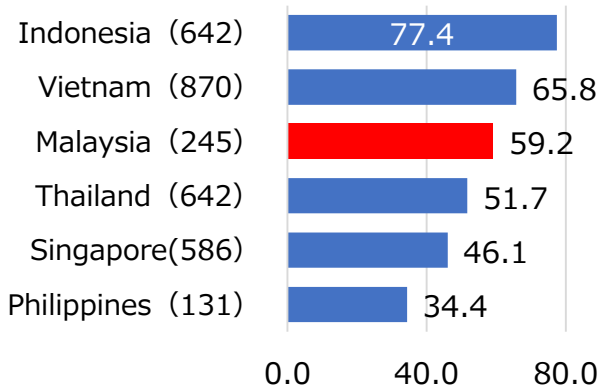
Digitalization by digital Marketing /AI etc



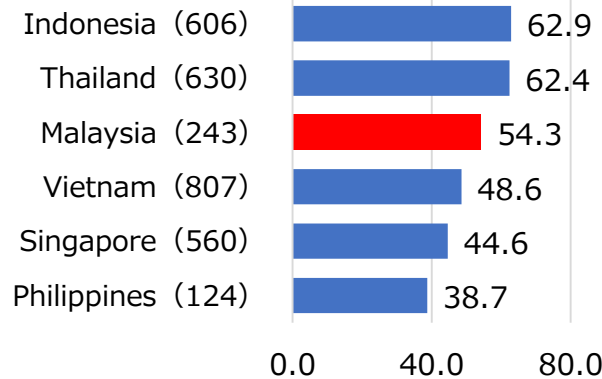
JETRO 6. Management Issues (by country, Top 1-5)

- For the overall top 10 management issues in ASEAN, besides the usual ones such as “wage increment of employees”, “challenges in local procurement of raw materials/parts” and “cost reduction measures reaching its limit”, new issues stemming from the impact of Covid-19 such as “declining orders from clients”, “stagnation in major sales market (sluggish consumption)” and “not acquiring new customers” have surfaced.
- The percentage of companies in Malaysia which values “the quality of employees” is higher than other ASEAN countries.

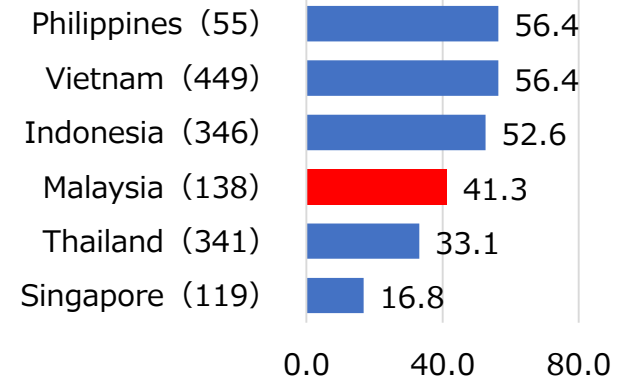
Wage increment



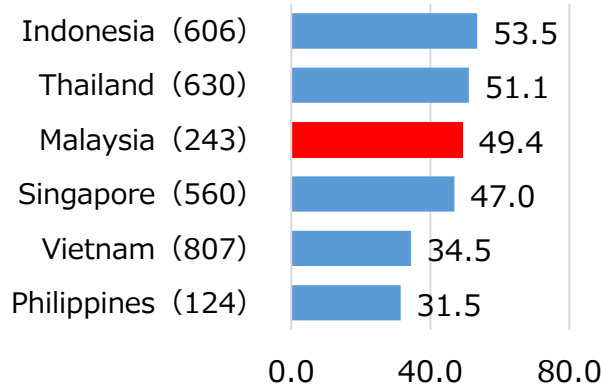
Decrease in order volume from business partners



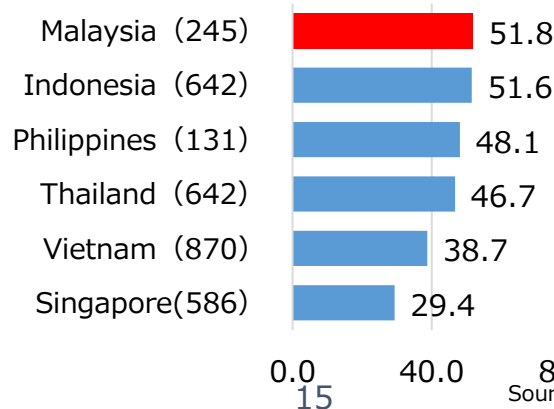
Difficulty in local procurement of raw materials and parts (only for manufacturing companies)



Sluggishness in major sales markets (consumption downturn)

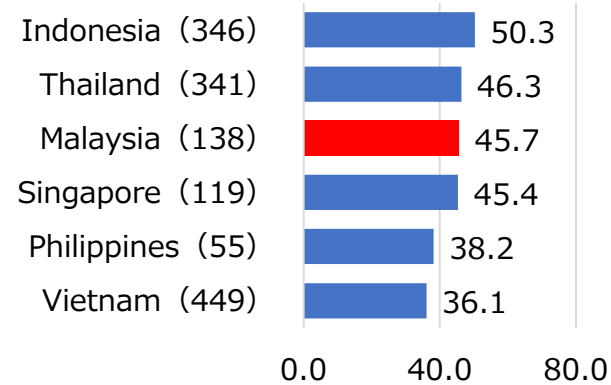


Quality of employees

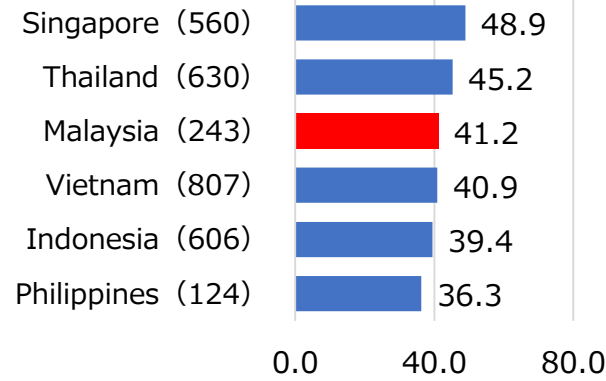


JETRO 6. Management Issues (by country, Top 6-10)

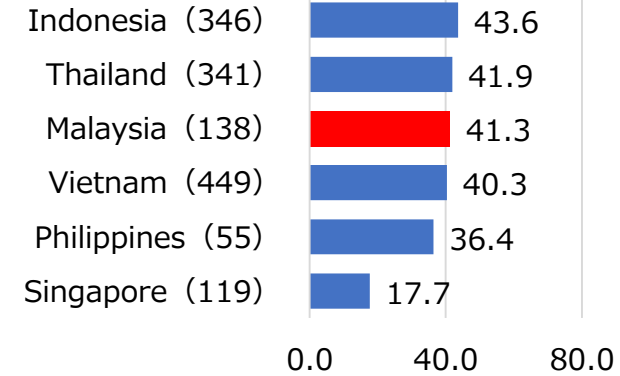
No more room for cost-cutting (only manufacturing companies)



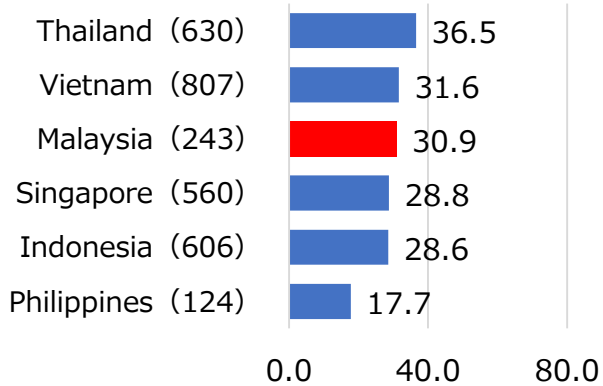
Difficulty in developing new clients



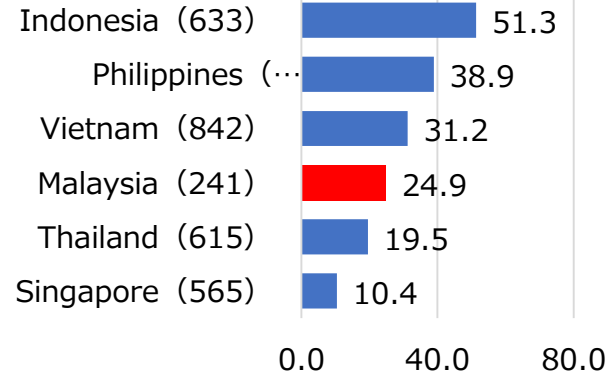
Difficulty in quality control (only manufacturing companies)



Growing market shares of competitors (cost-wise competition)

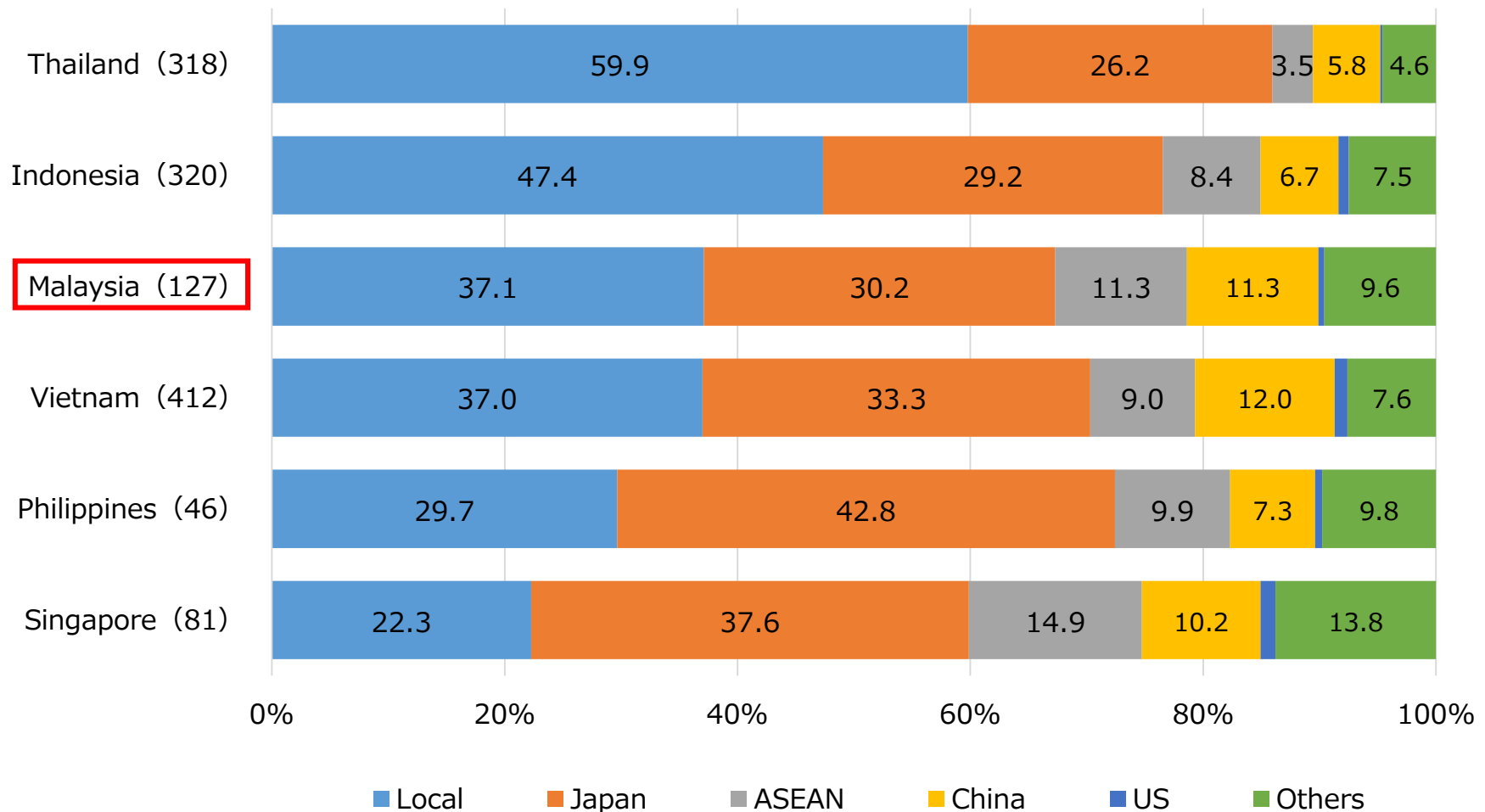


Tax burdens (i.e. corporate taxes and transfer pricing taxes)



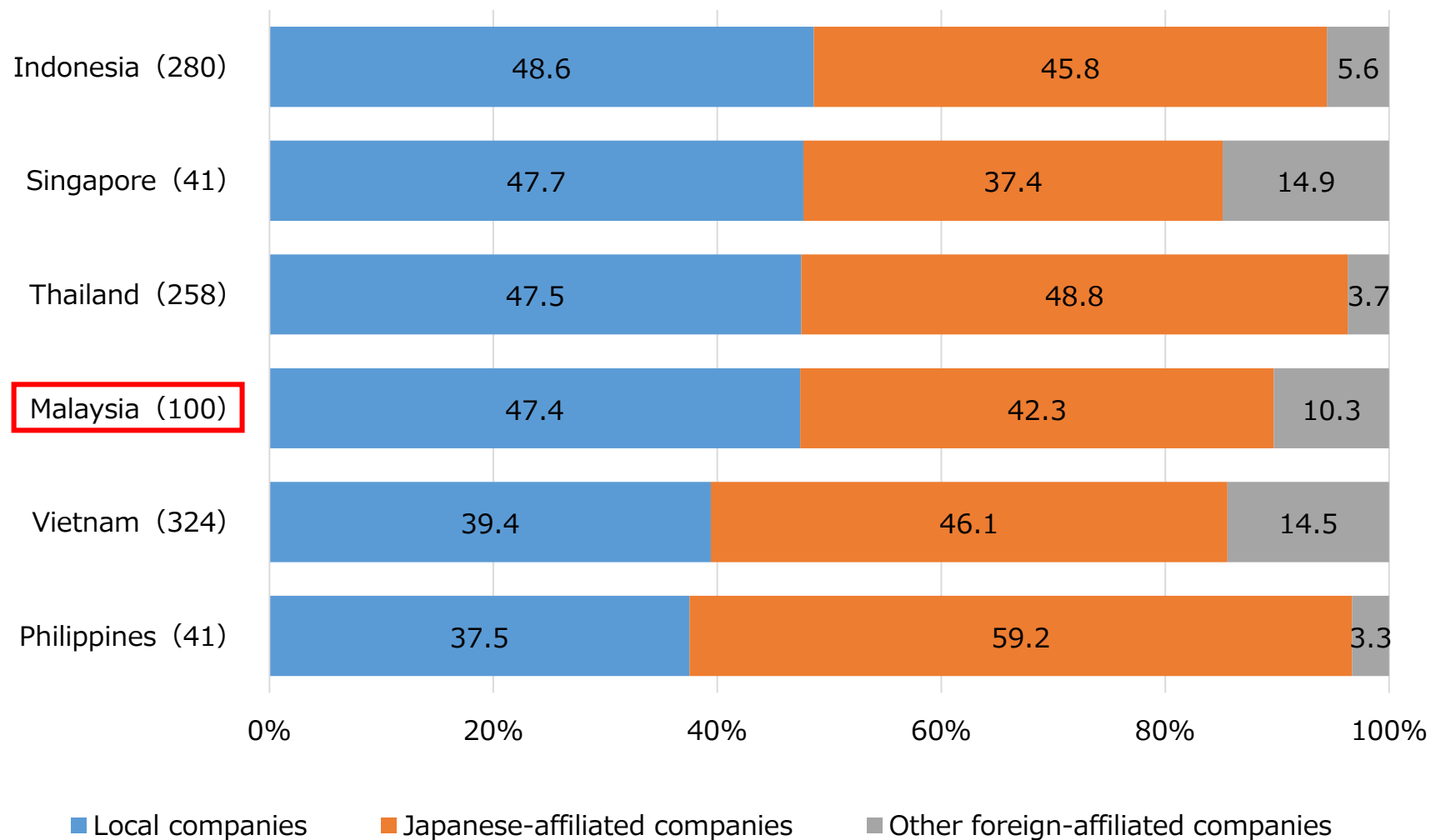
JETRO 7. Sources of Procurement 1 (by country)

- Local procurement rate is high in Thailand (59.5%) and Indonesia (47.7%), and low in Philippines (29.7%) and Singapore (22.3%).
- Procurement rate within the ASEAN region is relatively high in Singapore and Malaysia.



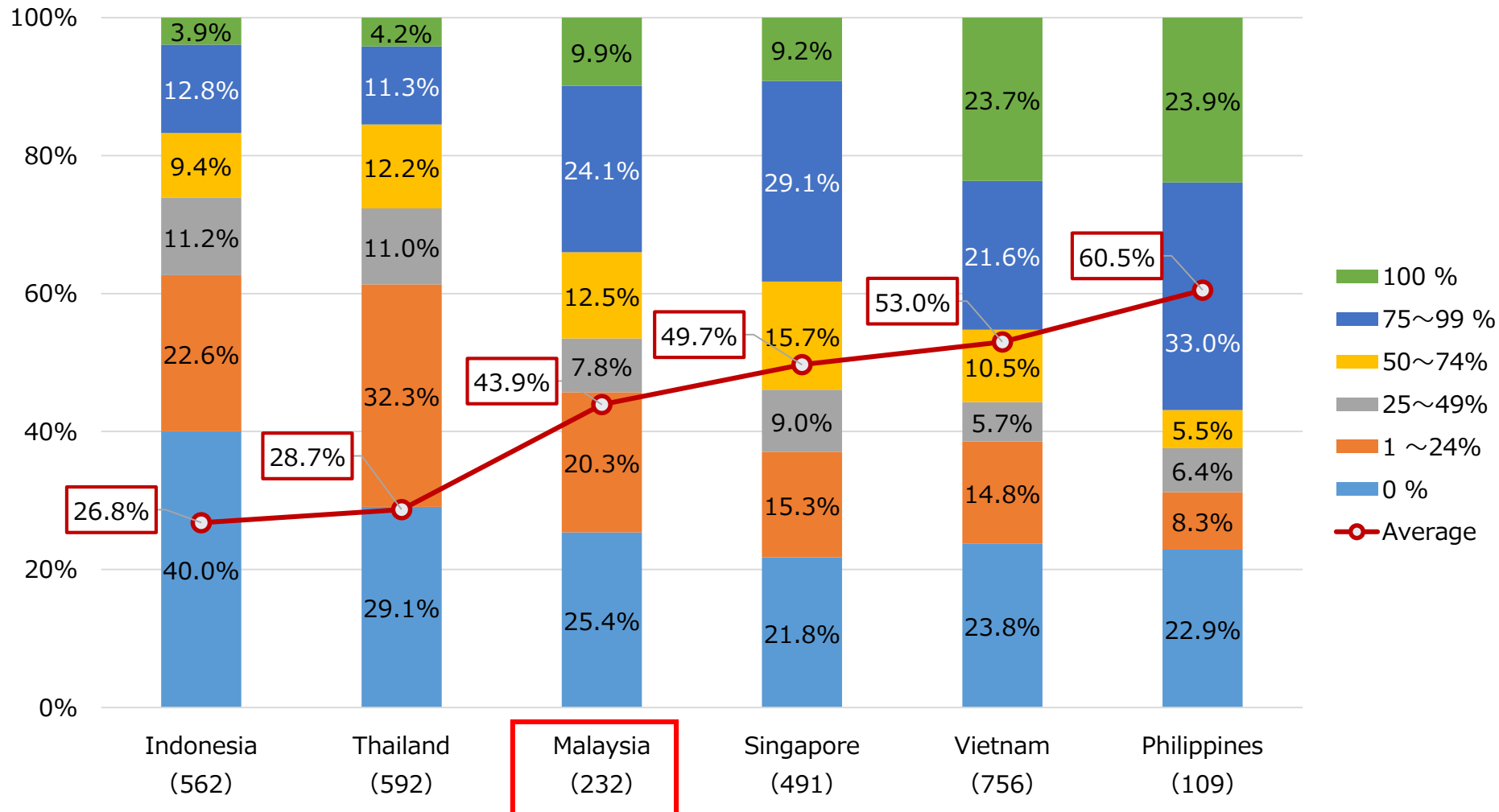
JETRO 7. Sources of Procurement 2 (by country)

■ In Indonesia, Singapore, Thailand and Malaysia, nearly 50% of local procurement are sourced from local companies.



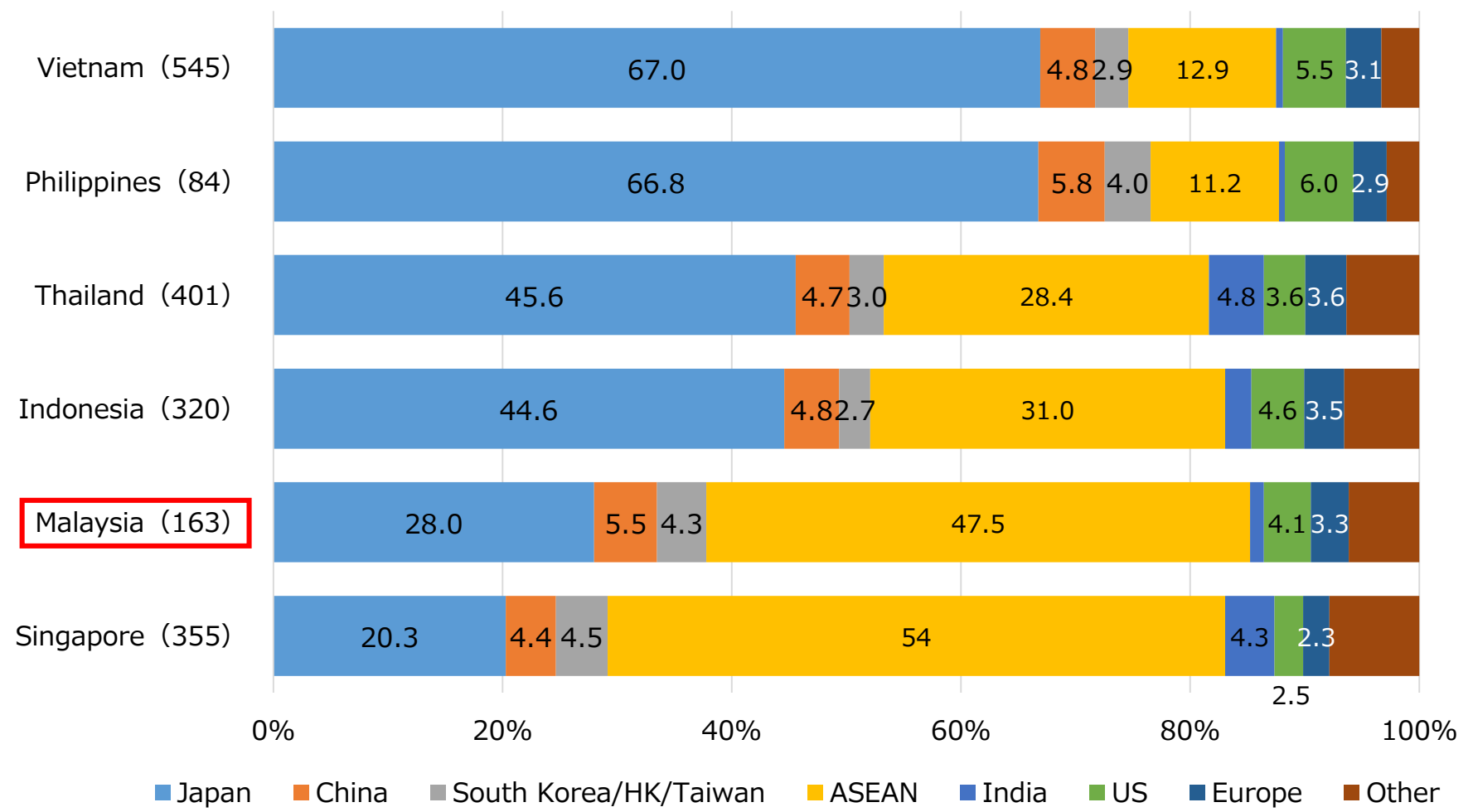
JETRO 8. Export Ratio (by country)

- Among the 6 ASEAN countries, Philippines, Vietnam, Singapore and Malaysia are considered “export oriented” while Indonesia and Thailand are “domestic demand-driven”.
- In particular, more than 20% of companies in the Philippines and Vietnam are fully exporting their products.



JETRO 8. Export Destination (by country)

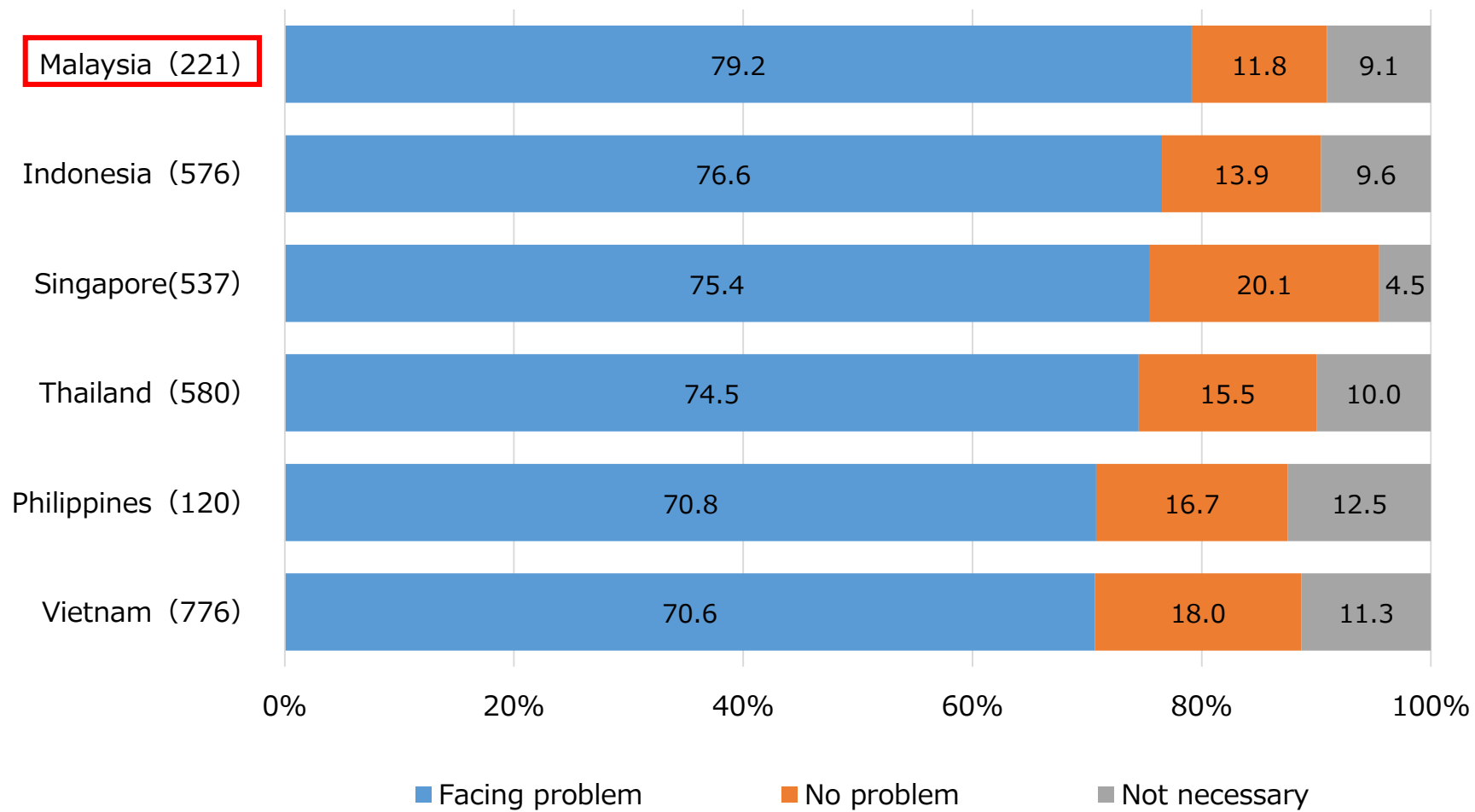
- Exports to ASEAN are the highest in Singapore and Malaysia, at 54.0% and 47.5% respectively.
- On the other hand, approximately 70% are exported to Japan in export-oriented Vietnam and Philippines.
- Meanwhile, in comparison to the previous survey, exports from ASEAN countries to China and US remain the same.



JETRO 9. Challenges in Introducing Digital Technologies

(by country)

- More than 90% of companies in each country view it necessary to introduce digital technologies.
- Percentages of companies which are “facing obstacles” are similar in each country, an indication that many companies are facing such issues.

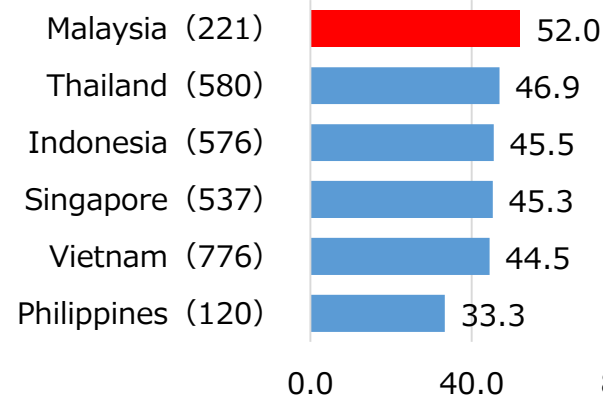


JETRO 9. Challenges in Introducing Digital Technologies

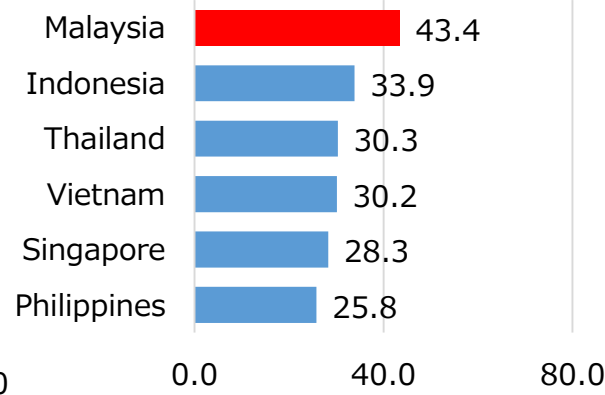
(by country)

- Malaysia has a relatively high percentage for each of the main challenges in introducing digital technologies.
- Particularly in HR-related issues such as insufficient talents in digital technologies and lack of understanding among employees.

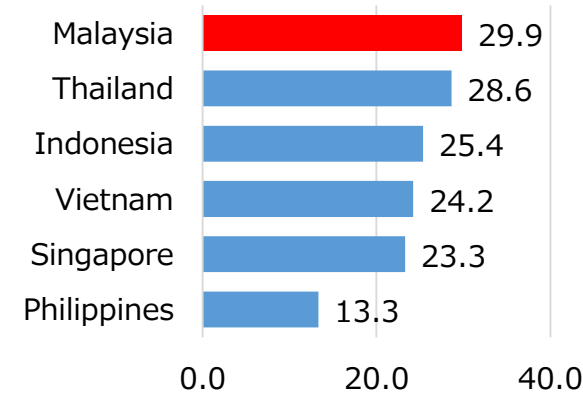
Shortage of talents who are well-versed in digital technology



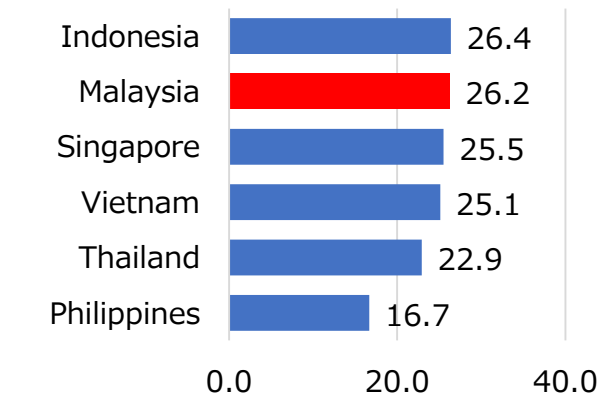
High introduction cost



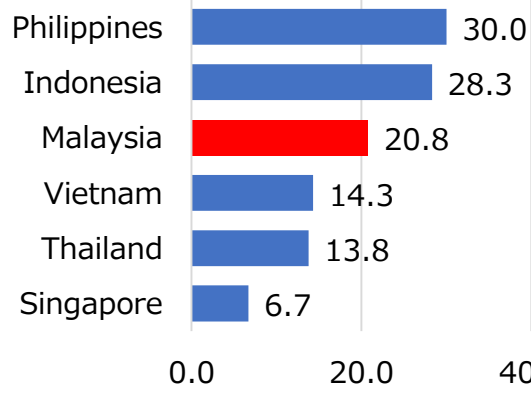
Lack of understanding among staffs on the adoption of digital technology



Lack of information on the available digital technologies



Poor infrastructure on information/communication (internet, etc.)



Concerns on the management of personal/corporate information

