



FY2022

**Survey on Business Conditions of Japanese Companies
Operating Overseas | Asia & Oceania**

***A Comparison among Six ASEAN Countries
and the Trends in Malaysia***

– Business performance improving leading to higher intention for business expansion, while human resources issues pose risks –

Japan External Trade Organization (JETRO)

Kuala Lumpur Office

February 2023

Key points from the survey results

1. Operating income forecasted as profitable and profit ratio increased for the second consecutive year

- ❖ In Malaysia, the percentage of companies that expect operating profit is 50.0% in FY2020, 59.7% in FY2021, and 63.0% in FY2022, showing increment for the second consecutive year as business performance continues to recover. (Slide 3)
- ❖ The forecast of operating profit for 2023 shows that the percentages for “deteriorated” significantly decrease in all the six ASEAN countries. In Malaysia, the “improved” percentage increased slightly to 47.4%, while the “deteriorated” percentage decreased by 12.5 points from 19.9% to 7.4%. (Slide 5)

2. Intention to expand business has risen sharply, while half of the companies are considering reviewing their supply chains

- ❖ Regarding the business development direction in the next one to two years, 48.4% of companies in Malaysia answered that they would “expand”, a 5.2-point increase from 43.2% in the previous year. The rate of increase was the largest among the six major ASEAN countries. (Slide 6)
- ❖ Labor costs within the manufacturing costs in Malaysia is 21.1%, and material costs account for 58.5%. Compared to the 2019 survey, Malaysia is the only country among the six major ASEAN countries that has seen a decline in its material cost ratio. (Slide 9)
- ❖ 44.7% of companies have reviewed their supply chains (production, sales, and procurement) in some way since the covid-19 pandemic, and 54.2% of companies answered that they would be reviewing it in the future. (Slide 10)

3. Management risks are concentrated on human resources issues such as “labor costs level” and “turnover rate level”

- ❖ Positive evaluation (satisfied/somewhat satisfied) of Malaysia's business environment stood at 60.5%. While “ease of language and communication” and “living environment for expatriates” are cited as advantages, “labor costs level”, “visa/work permit procedures”, and “turnover rate level” are cited as risks. (Slides 14, 15, 16)
- ❖ Particularly, a high percentage of companies in Malaysia cited “employee retention rate” as a management problem. (Slide 17)

4. Companies in Malaysia promote initiatives for decarbonization

- ❖ 36.7% of companies in Malaysia are working on decarbonization. As for specific initiatives, in Malaysia specifically, 73.9% of respondents answered “energy/resource conservation” and 54.9% answered “procurement of renewable/new energy,” which is the highest among the six major ASEAN countries. (Slides 21, 22)
- ❖ Within the six major ASEAN countries, Malaysia has the highest number of companies that answered that they have numerical targets related to decarbonization, at 23.1%.
- ❖ Issues cited include increased costs, unclear government policy, and low awareness. There are also voices that view the lack of incentives for decarbonization as an issue. (Slide 23)

5. Awareness on human rights issues in supply chains is particularly high in Malaysia

- ❖ Among the six major ASEAN countries, Malaysia has the highest percentage of companies that recognize human rights issues as a management issue, at 65.7%. In addition to the policies of the head office and the group as a whole, there are also cases where import restrictions, the risk of suspension of transactions, and industry-specific requests were cited as reasons. (Slides 23, 24)
- ❖ 48.5% of companies in Malaysia have already conducted or plan to conduct human rights due diligence. In conjunction with the high awareness of human rights issues, it recorded the highest percentage among the six major ASEAN countries. (Slide 25)

FY2022 survey outline

Research objectives

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

Survey target

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

Survey period

- August 22nd to September 21st, 2022

Collection status

- We received valid responses from 4,392 companies out of 14,290 surveys sent out. The breakdown by country/region is provided in the table to the right (Valid response rate: 30.7%).

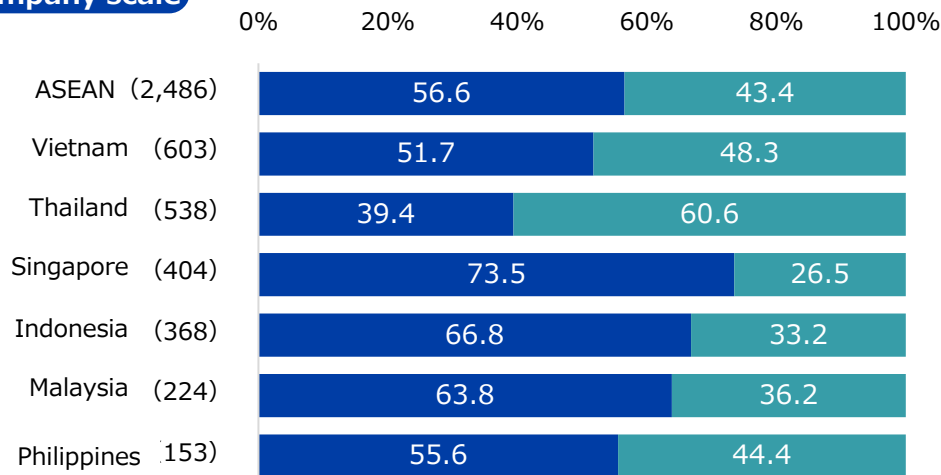
Remarks

- This marks the 36th 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.

(company, %)

	Companies surveyed	Companies responded		Breakdown		Valid Response Rate
		Valid Answer	Composition Ratio	Manufacturing Industry	Non-manufacturing	
ASEAN	9,841	2,486	56.6	1,154	1,332	25.3
Vietnam	1,816	603	13.7	309	294	33.2
Thailand	2,853	538	12.2	300	238	18.9
Singapore	1,084	404	9.2	91	313	37.3
Indonesia	1,788	368	8.4	196	172	20.6
Malaysia	943	224	5.1	120	104	23.8
Philippines	515	153	3.5	85	68	29.7

Company scale



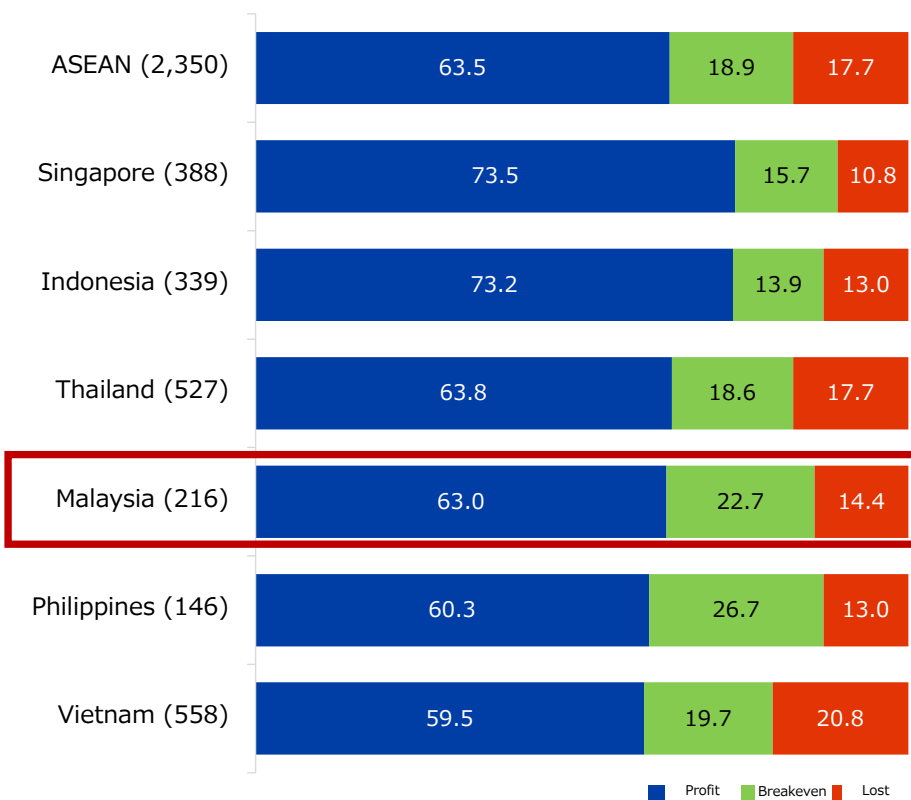
(Note) The source for this entire presentation is excerpted from the [FY2022 Survey on Business Conditions of Japanese Companies Operating Overseas -Asia and Oceania-](#) (JETRO Overseas Research Department)

■ Large ■ SMEs

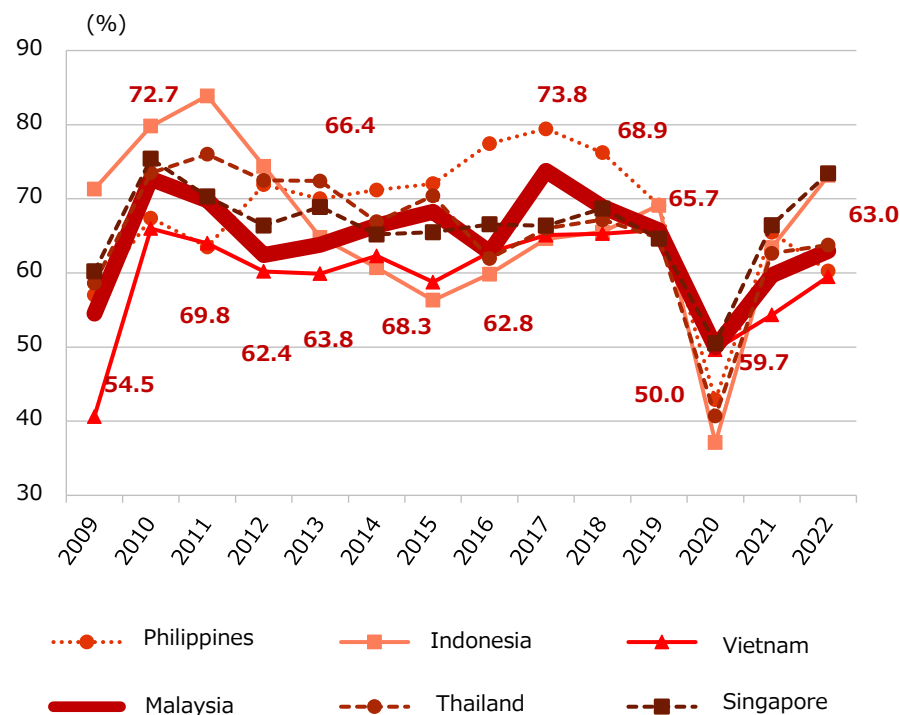
1 | Operating profit forecast for 2022, profit ratio rising for the second consecutive year

- 63.5% of companies in ASEAN as a whole expect operating profits to be in the surplus in 2022, an increase of 6.4% points from the 2021 survey (57.1%).
- In Malaysia, the percentage of companies reporting a “profit” was slightly lower than that of the entire ASEAN region. However, in a time series comparison, the percentage of companies reporting a profit continued to rise for the second consecutive year.

2022 operating profit forecast (by country/region) (%)



Change in percentages of profitable companies 2009-2022 (by country)

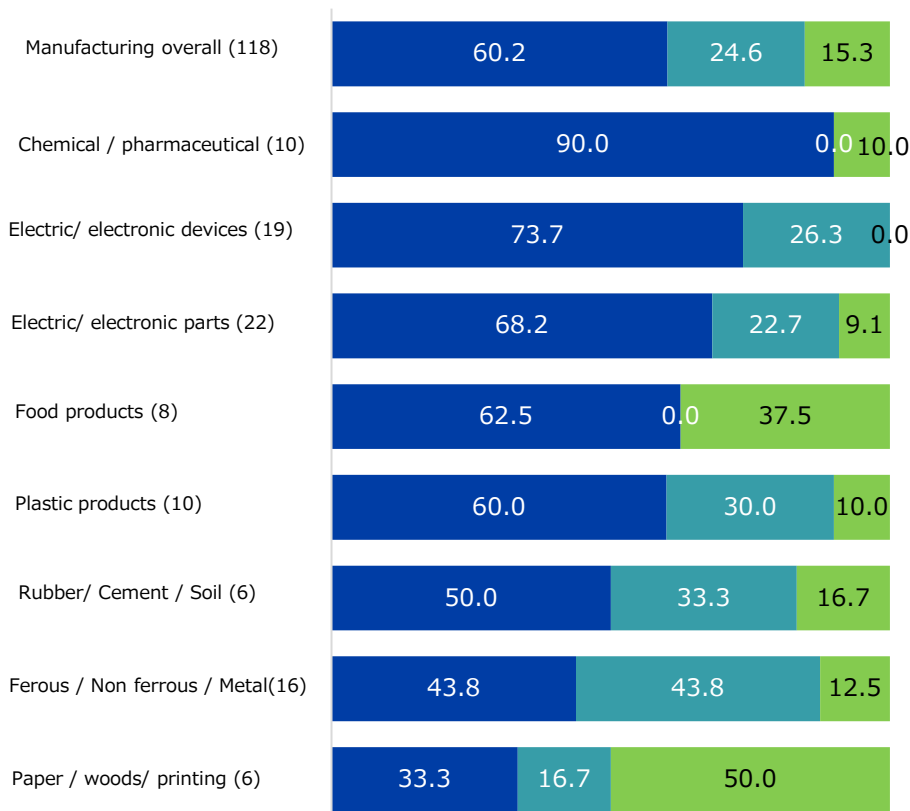


2

Operating profit forecast for 2022, profit ratio rising for the second consecutive year

- In 2022, the profit ratio was 60.2% for the manufacturing industry and 66.3% for the non-manufacturing industry. Compared to the FY2021 survey, they increased by 1.0 and 6.1 points respectively, and the increase percentage for “profit” in the non-manufacturing industry was particularly remarkable.
- The deficit ratio was 15.3% for the manufacturing and 13.3% for the non-manufacturing, a decrease of 7.0 and 10.8 points, respectively.
- Chemicals/pharmaceuticals, electrical/electronic equipment, electrical/electronic equipment parts, and food products in the manufacturing industry, and finance/insurance, sales companies, trading companies/wholesale, and transportation in the non-manufacturing industry each exceed the value of the respective overall percentages.

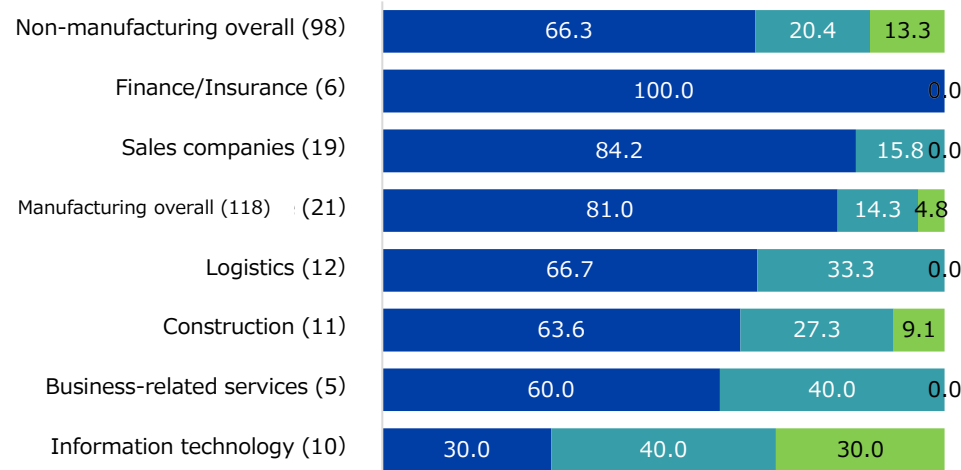
2022 operating profit forecast (by industry)



* Showing only industries with more than 5 valid response

■ profit ■ Break-even ■ loss

2022 operating profit forecast (non-manufacturing)



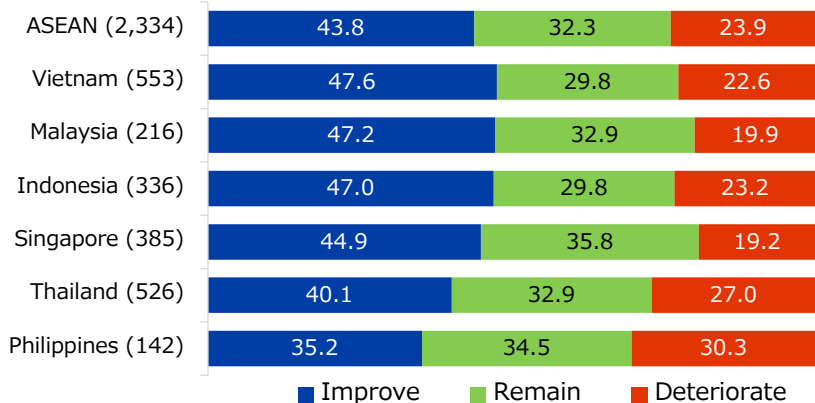
2022 operating profit forecast (by company size and industry)



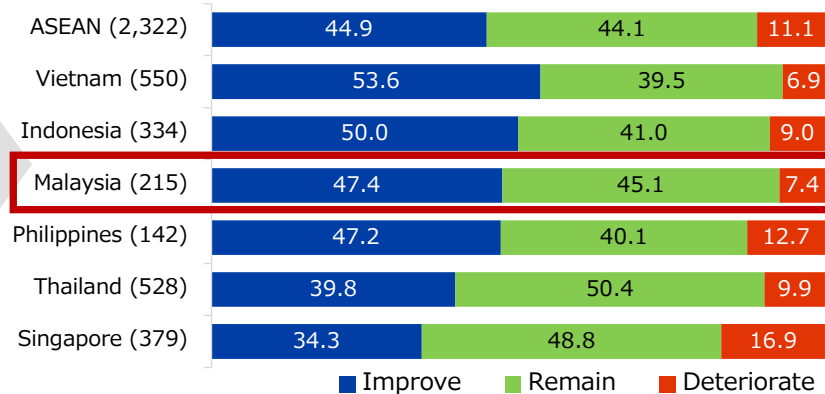
3 | Operating income forecast (by country vs previous year), DI expected to improve

- 43.8% of companies in ASEAN collectively answered that their operating income forecast for 2022 (compared to 2021) will “improve”. Malaysia recorded 47.2%, the second highest after Vietnam. In terms of operating profit forecasts for 2023, the percentage for “deteriorate” is sharply reduced in all six ASEAN countries. In Malaysia, the “improve” percentage increased slightly to 47.4%, while the “deteriorate” percentage dropped 12.5 points from 19.9% to 7.4%.
- DI (*Note), which indicates business confidence in 2022, was the highest among the six ASEAN countries at 27.3 points. The DI value for 2023 is expected to be 40.0 points, an increase of 12.7 points.

2022 operating profit forecast (By country/region vs 2009) (%)



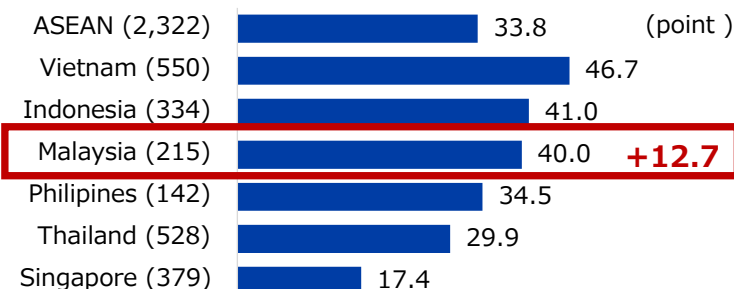
2023 operating profit forecast (By country/region vs 2010) (%)



DI value in 2022 (by country/region)



DI value in 2023 (by country/region)



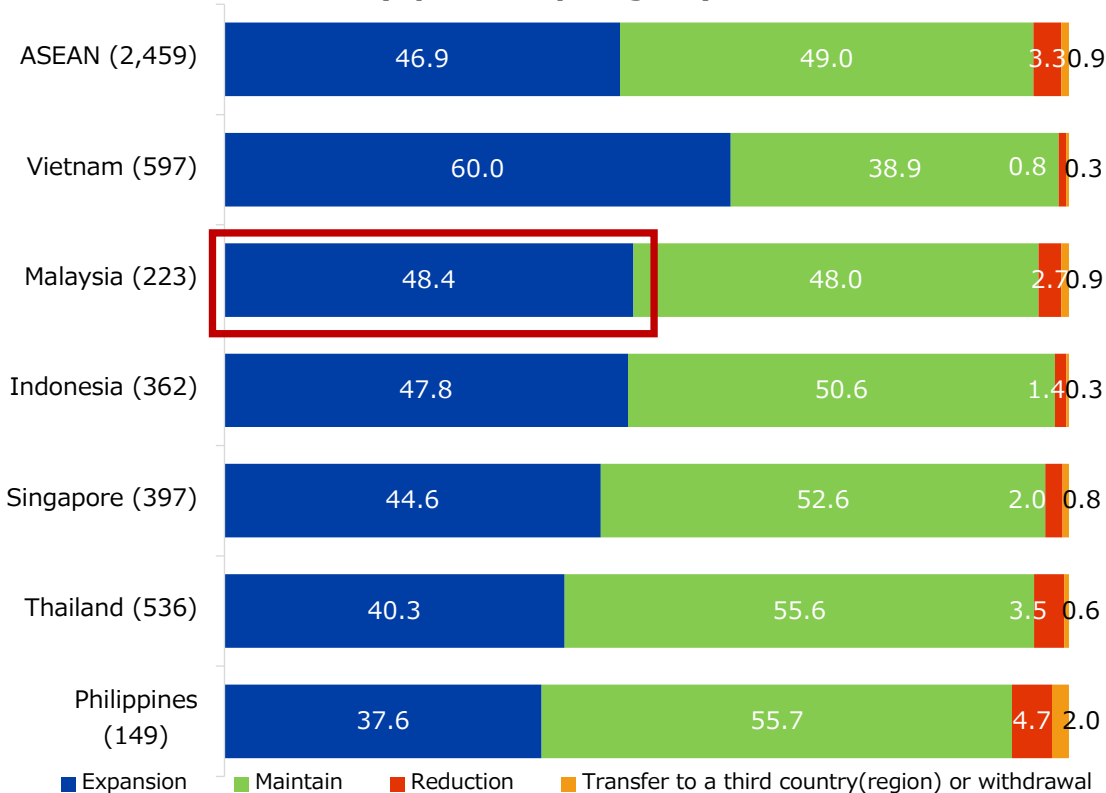
(Note) The DI value is an abbreviation for Diffusion Index, a value obtained by subtracting the percentage of companies responding that the situation had “deteriorated” from the percentage responding that it had “improved.” It is a numerical indicator that shows how business sentiment changes.

1 Intention to expand business in Malaysia rises sharply compared to the previous year

- Regarding the direction of business development in the next one to two years, the percentage of companies that answered “expansion” was highest in Vietnam at 60.0%, followed by Malaysia (48.4%) and Indonesia (47.8%).
- In Malaysia, the “expansion” percentage increased by 5.2 points from 43.2% in the previous year. The rate of increase was the largest among the six major ASEAN countries, followed by Vietnam (4.7 points), the Philippines (4.3 points), and Singapore (3.3 points).
- As for the reason for business “expansion”, the percentage of respondents which answered “high growth potential” was the highest, followed by “increase in sales due to increased export volume” and “increase in sales due to increased export destinations”.

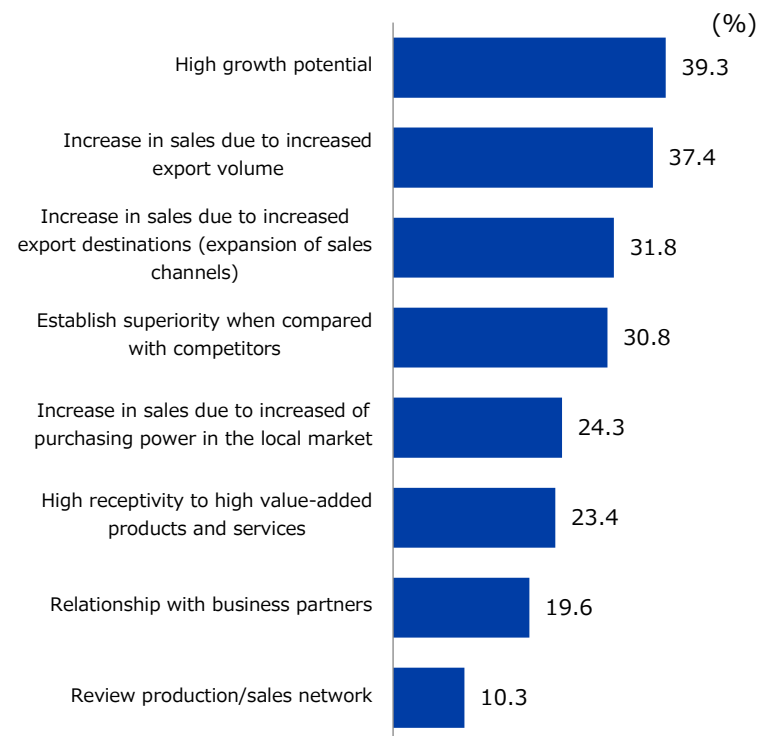
Business development direction in the next 1-2 years (by country/region)

(%)



Reasons for business “expansion” in Malaysia (multiple answers)

(%)

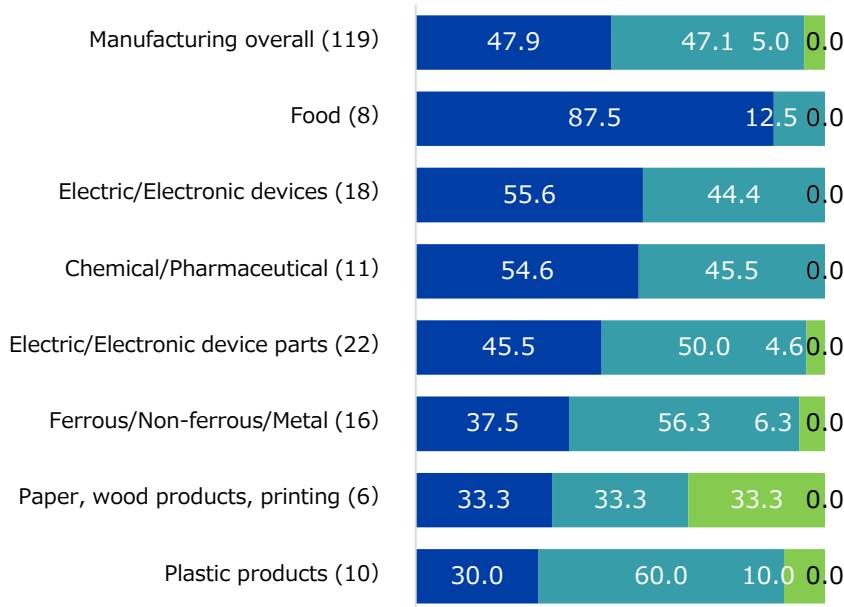


(*Note) Items with a response rate of 10% or more are displayed.

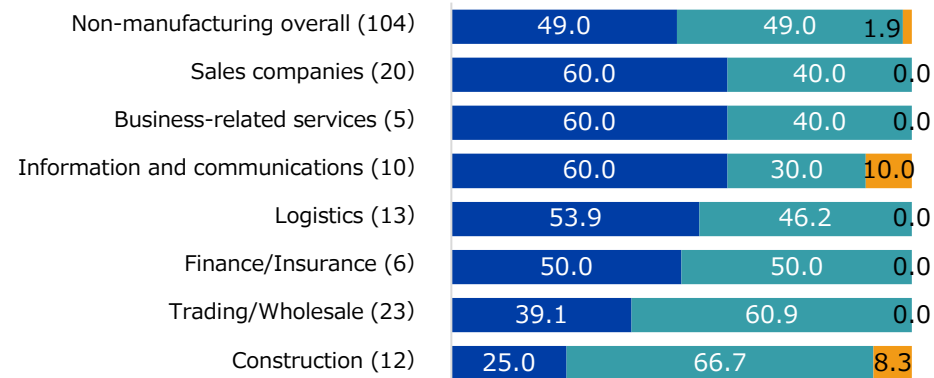
2 | Direction of business development by industry (Malaysia)

- In the next one to two years, looking at the situation of Japanese companies operating in Malaysia by industry: food, electrical/electronic equipment, chemicals/pharmaceuticals under the manufacturing industry, and sales companies, business-related services, information and communications, transportation, and finance/insurance under the non-manufacturing industry, recorded an “expansion” percentage that exceeded the major industry classifications.
- In the manufacturing industry, no company chose “transfer to a third country (region) or withdrawal”.
- By company size, there was no significant difference in the non-manufacturing sector, while in the manufacturing sector, the proportion of large firms that “expanded” was slightly higher than that of SMEs.

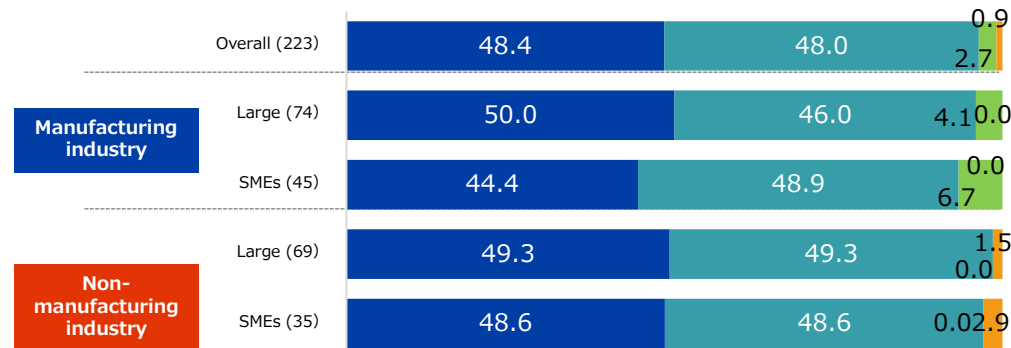
Direction of business development in the next 1-2 years (manufacturing industry)



Direction of business development in the next 1-2 years (non-manufacturing industry)



Direction of business development in the next 1-2 years (by company size and industry)



* Only showing industries with number of valid responses of more than five companies

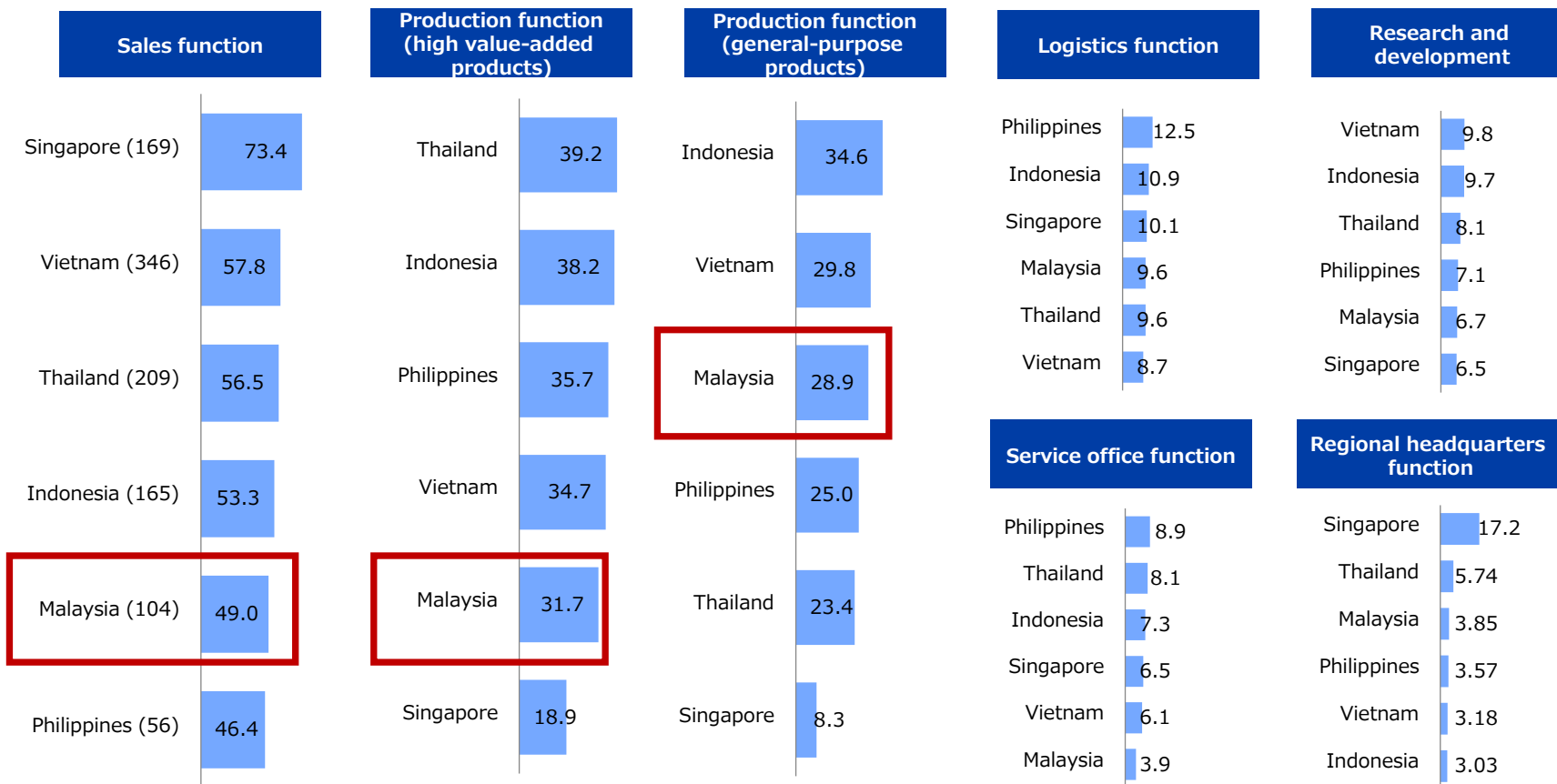
3

Business development in the next 1-2 years; expansion of sales function is the most cited functions

- For companies that chose "expansion" as the direction of business development, the most common function to expand was "sales function".
- In Malaysia, "sales function" accounted for the largest percentage of responses at 49.0%, followed by "production function (high value-added products)" at 31.7% and "production function (general-purpose products)" at 28.9%. The latter is relatively high compared to other countries.

Functions to expand (multiple answers)

(%)

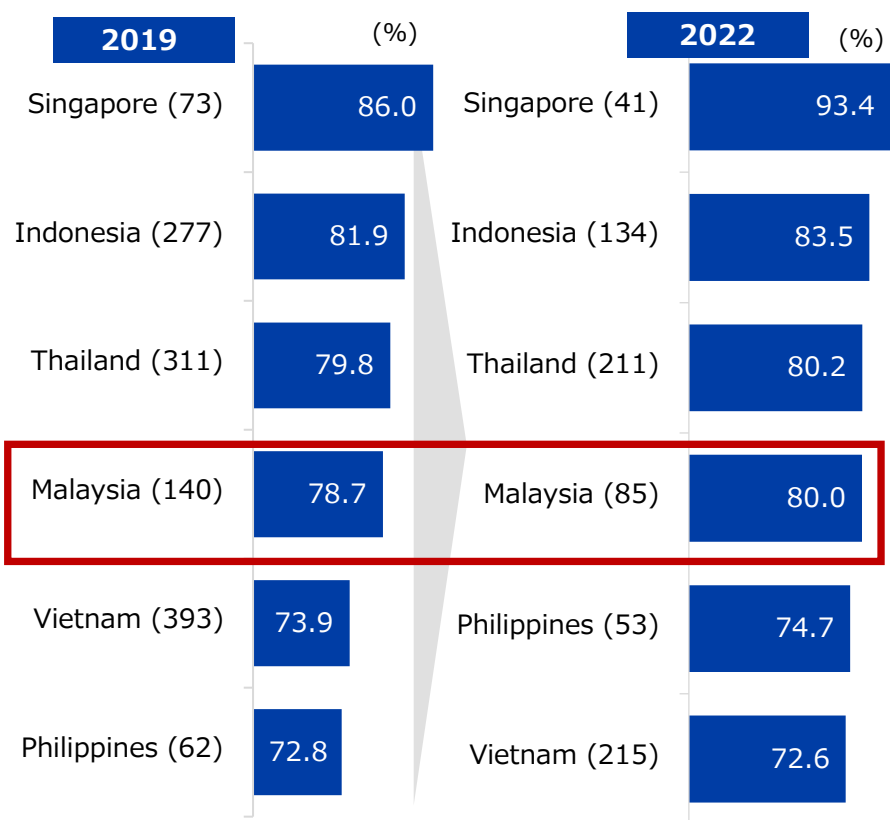


4 In Malaysia, rising labor costs outweigh the impact of soaring material costs

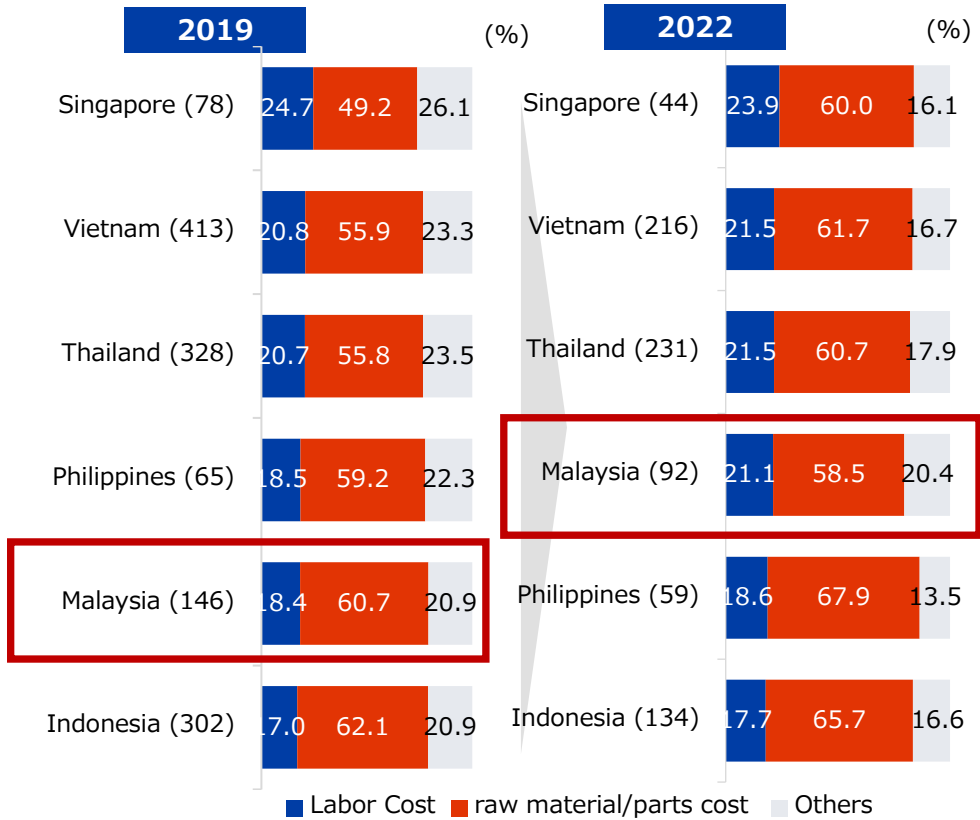
Manufacturing industry only

- Considering Japan's manufacturing cost at a value of 100, Malaysia's manufacturing cost is 80.0, which ranks fourth among the six major ASEAN countries. It increased by 1.3 points from the 2019 survey (78.7%). These might have been impacted by the weakening yen, high prices due to supply chain disruptions, and rising labor costs.
- From the manufacturing costs in Malaysia, labor cost accounted for 21.1%, and material costs accounted for 58.5%. Compared to the 2019 survey, the labor cost percentage increased by 2.7 points, while the material cost percentage decreased by 2.2 points. It is the only major ASEAN country in which the material cost percentage has shrunk and has risen to the fourth place in terms of the high labor cost percentage. The impact of the minimum wage hike and other factors appear to have outweighed the increase in material costs.

Local manufacturing cost (by country/region) when considering the manufacturing cost in Japan as 100



Percentage of labor and material costs in manufacturing costs (by country/region)

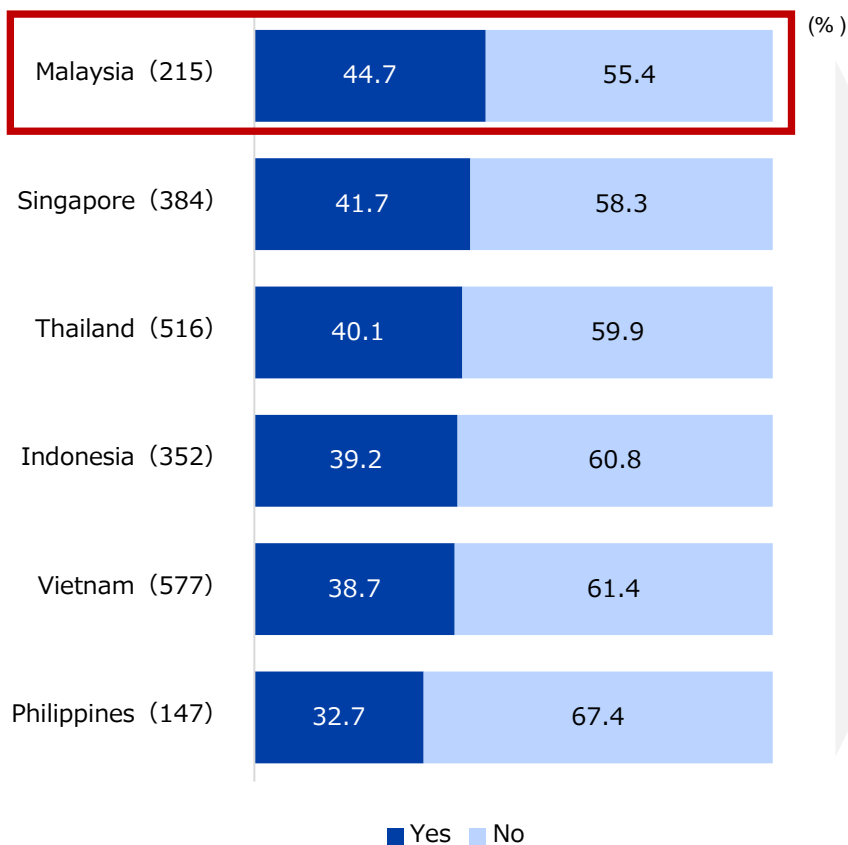


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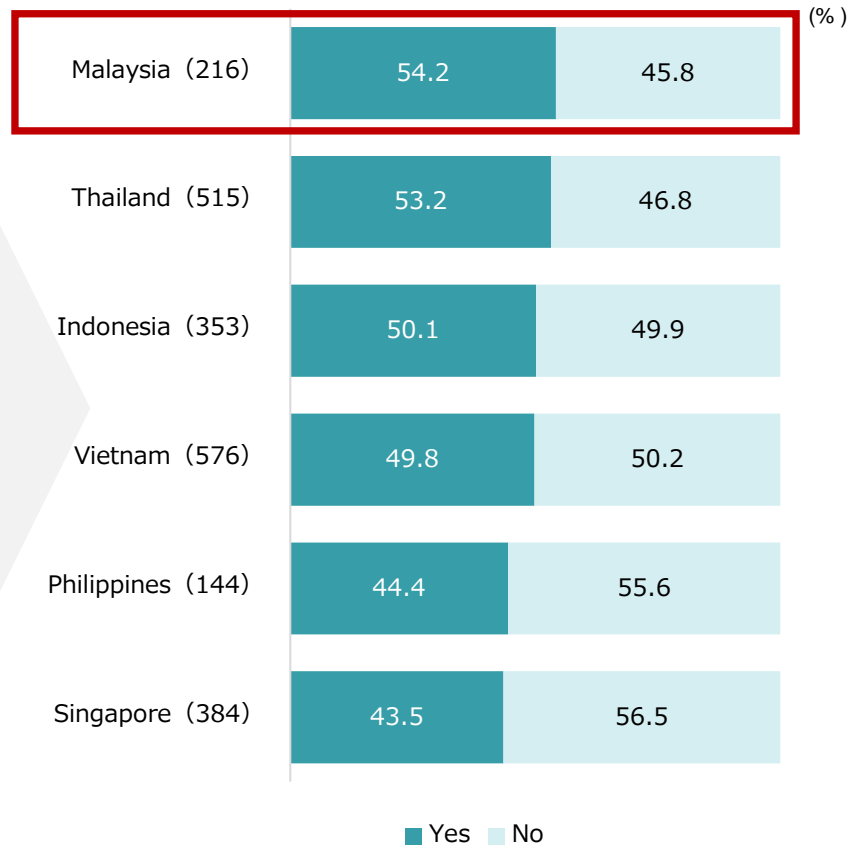
More than half of the companies are considering reviewing their supply chains

- 44.7% of companies have somehow reviewed their supply chains (SC: production, sales, and procurement) by the time this survey was conducted in the second half of 2022 after the Covid-19 pandemic. 54.2% companies answered that they will review their SC in the future. At any point in time, Malaysia had the highest rate of “yes” to review the SC among the six major ASEAN countries.
- 63.9% of manufacturing companies in Malaysia responded that they would review their SC in the future. It was 21.6 points higher than the non-manufacturing companies (42.3%) .

**2020 to present
(Sales/procurement/production) review**



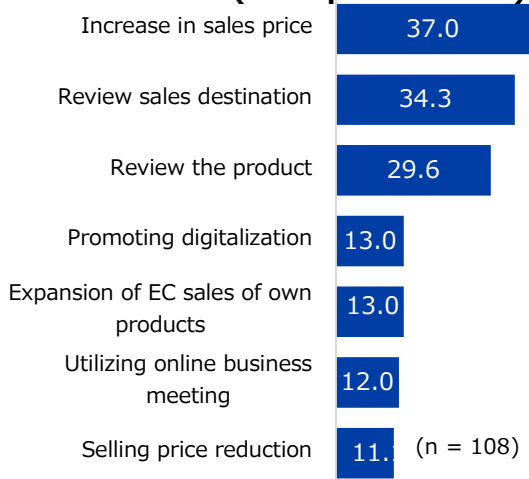
**Future supply chain
(Sales/procurement/production) review**



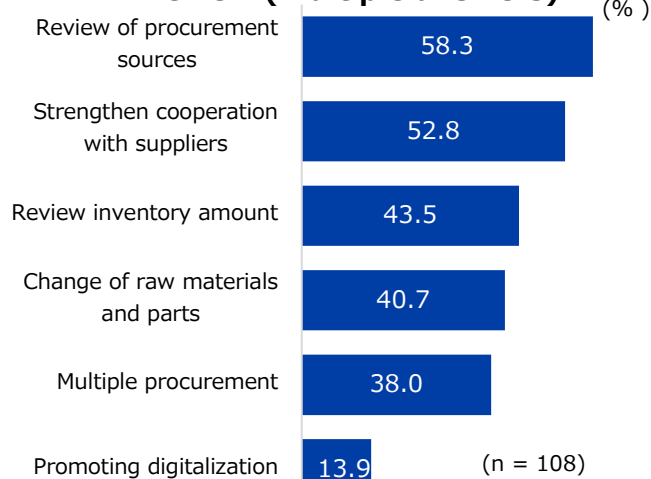
6 | Details and reasons for reviewing the supply chain (Malaysia)

- For companies that responded that they had revised the SC, when queried about the details of their review on sales strategy, the most common answer was “increase in sales price”, at about 40%. As for the reason, “Soaring logistic costs” (48.5%) was mostly cited.
- Nearly 60% responded that they would “review procurement sources” as a review of their procurement strategy. More than 60% of companies cited the response to the SC disruption risk as a reason.
- 30% of the respondents said that they would revise production by “increasing new investment, etc.” and “promoting automation and labor saving”, with about 70% citing “soaring labor costs” as the main reason.

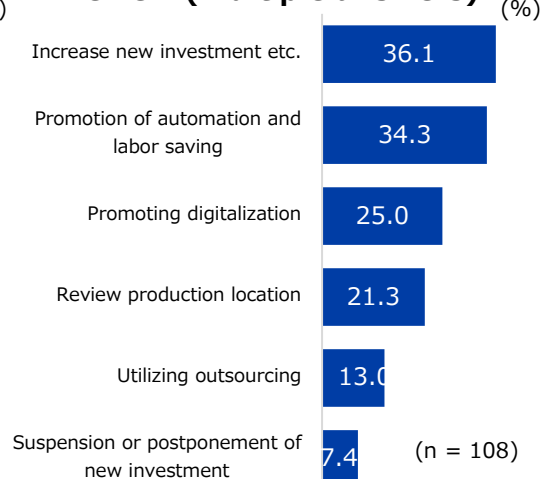
Contents of future sales review (multiple answers) (%)



Contents of future procurement review (multiple answers) (%)



Contents of future production review (multiple answers) (%)



Reasons for reviewing sales in the future (multiple answers) (66)

Soaring logistics costs	48.5
Convergence of new coronavirus infection	37.9
Changes in consumer behavior and markets (migration to online, etc.)	36.4
Respond to future supply chain disruption risks associated with logistics disruptions	31.8
Soaring labor costs	31.8

Reasons for reviewing procurement in the future (multiple answers) (80)

Respond to future supply chain disruption risks associated with logistics disruptions	62.5
Soaring raw material costs	60.0
Respond to future supply chain disruption risks associated with the suspension or closure of sales and procurement sources	57.5
Respond to future supply chain disruption risks due to the increasing tension in the international situation	56.3
Promotion of local procurement	53.8

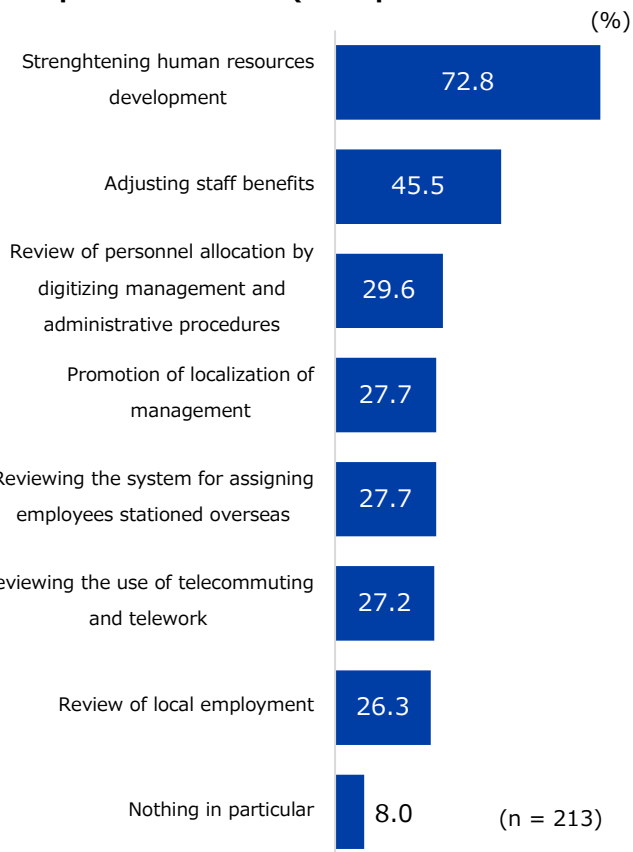
Reasons for reviewing production in the future (multiple answers) (55)

Soaring labor costs	67.3
Optimization of production costs	60.0
Soaring raw material costs	43.6
Strengthening environmental regulations	40.0
Convergence of new coronavirus infection	36.4

7 | Review of management and corporate structure and company attendance percentage (Malaysia)

- 72.8% of companies answered that they would review “strengthening human resource development” in the future when reviewing management and corporate structure. It could be seen that companies are prioritising on strengthening existing human resources, as the other revisions such as adjustment of benefit and digitalization fell way behind in percentages.
- Looking at the trend in the percentage of company attendance, the number of companies that answered “90% or more” increased significantly from 2021 to 2022, and this trend is expected to continue beyond 2023. Also, the number of respondents who answered “more than 55% and less than 90%” increased slightly from 2022 to 2023.

Details of future revisions to management and corporate structure(multiple answers allowed)



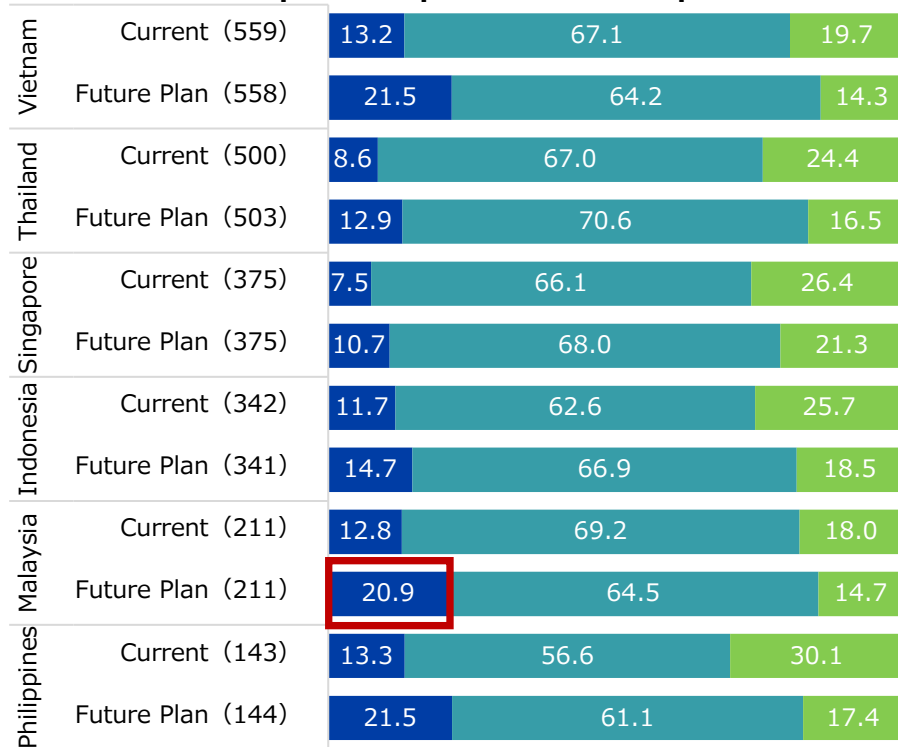
Changes of attendance percentage after 2021 (Malaysia) (%)

	2021			2022			Beyond January 2023		
	Overall (207)	Manufacturing (112)	Non-Manufacturing (95)	Overall (209)	Manufacturing (112)	Non-manufacturing (97)	Overall (204)	Manufacturing (112)	Non-manufacturing (92)
In principle, all employees come to the office (Company attendance rate: 90% or more)	30.4	40.2	19.0	67.5	72.3	61.9	68.6	74.1	62.0
Mainly work at the office, and some remote work is also implemented (company attendance percentage: 55% or more and less than 90%)	25.1	26.8	23.2	16.3	13.4	19.6	17.7	13.4	22.8
Remote work and coming to the office at the same frequency and percentage (percentage of staffs coming to the office: 45% or more and less than 55%)	16.4	10.7	23.2	4.8	2.7	7.2	3.9	2.7	5.4
Mainly remote work, with some going to the office (percentage of staffs coming to the office: 10% or more and less than 45%)	12.6	10.7	14.7	5.7	4.5	7.2	3.9	1.8	6.5
In principle, all employees work remotely (Company attendance rate: less than 10%)	11.1	3.6	20.0	2.4	0.9	4.1	2.5	1.8	3.3
There are no jobs that can be performed at home	4.4	8.0	0.0	3.4	6.3	0.0	3.4	6.3	0.0

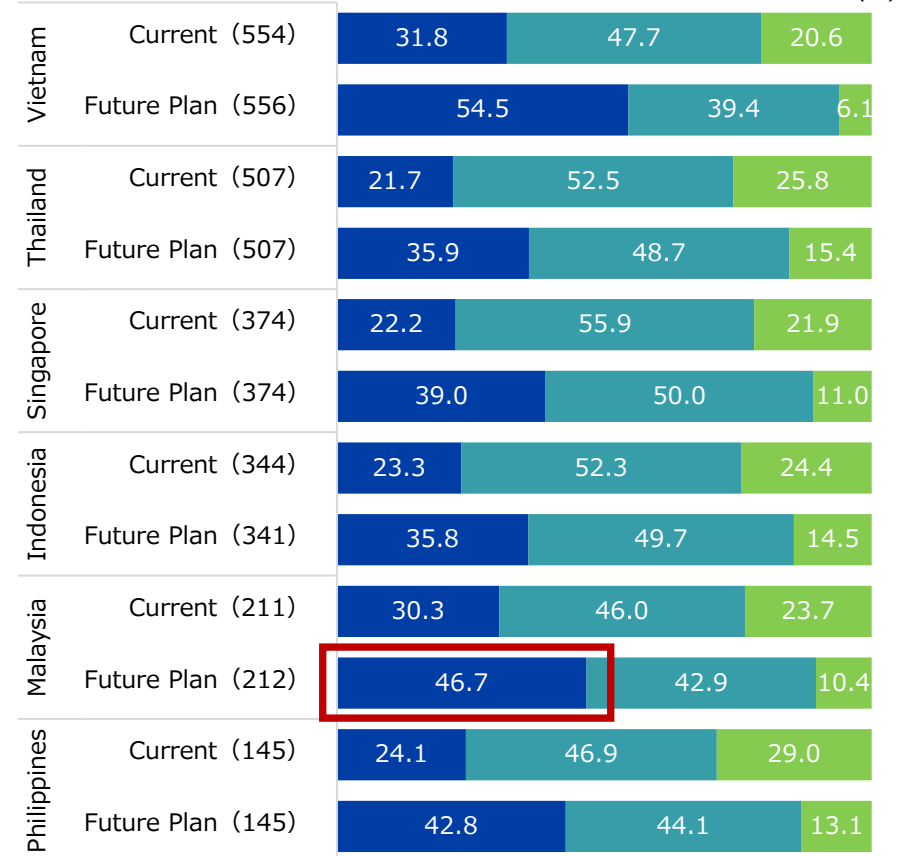
8 | Changes in the number of employees stationed overseas and the number of local employees

- 60% of companies in Malaysia answered that there was no change in the number of employees stationed overseas as of the second half of 2022 compared to the pre-coronavirus pandemic. The percentage of respondents who answered that they would “increase” their future plans was 8.1 points higher than at present.
- 46.7% of companies in Malaysia answered that they plan to increase the number of local employees in the next one to two years, which is 16.4 points higher than at present. This percentage greatly exceeds that of the expatriates. On the other hand, the number of respondents that planned to decrease was 13.3 points lower than at present.

Changes in the number of expatriates compared to pre-coronavirus pandemic (%)



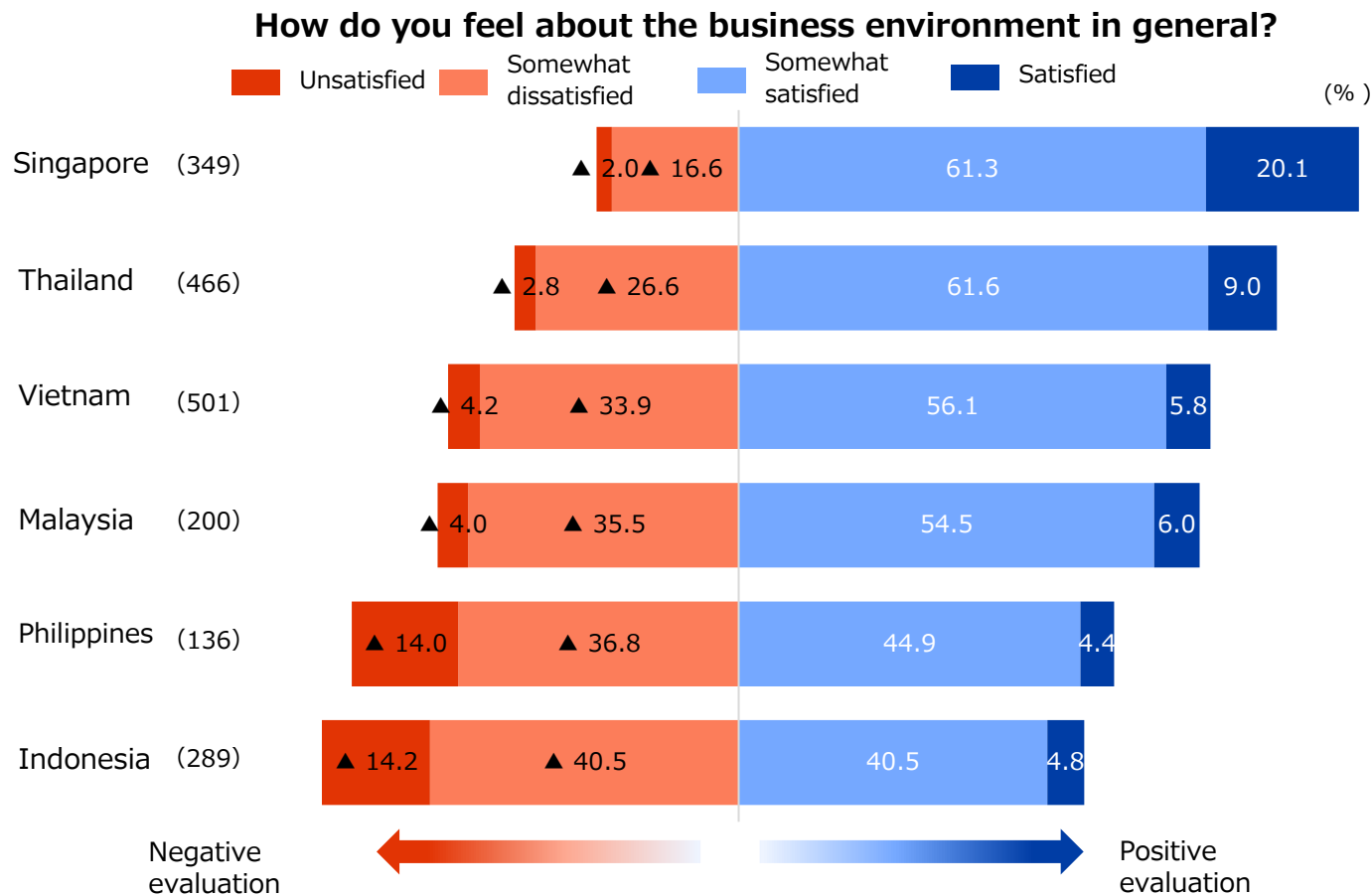
Changes in the number of local employees compared to pre-coronavirus pandemic (%)



■ Increase
■ No changes (compared to pre-coronavirus pandemic)
■ Decrease

1 | Feeling about the business environment in general

- More than 80% of respondents in Singapore gave a positive evaluation (satisfied/somewhat satisfied) regarding the overall business environment. Over 70% in Thailand and over 60% in Vietnam and Malaysia answered similarly.
- In Malaysia, what is seen as an advantage in terms of the business environment is “ease of language/communication” (70.8%) and “living environment for expatriates” (55.0%), with the latter achieving the highest score among the six major ASEAN countries.
- On the other hand, “labor costs” (60.8%), “visa/work permit procedures” (56.5%), and “turnover rate” (55.4%) are seen as risks in the business environment in Malaysia, whereby “turnover rate” had the highest response rate among the major ASEAN countries.



* Figures in parentheses indicate the number of valid responses.

2 Business environment benefits (by country)

Benefits in the business environment (top 5 items, multiple answers)

(%)

Singapore (322)		
1	Ease of language and communication	64.0
2	Political/social situation	59.0
3	Living environment for expatriates	54.4
4	Status of development of the legal system (preferential treatment for foreign investment, regulations, etc.)	53.7
5	Development status of preferential tax treatment (corporate tax, commodity tax, import/export duties, etc.)	52.8

Malaysia (171)		
1	Ease of language and communication	70.8
2	Living environment for expatriates	55.0
3	Market growth potential	44.4
4	Security/Crime/Terrorism	35.7
5	Current market size	30.4

Thailand (380)		
1	Living environment for expatriates	46.3
2	Market growth potential	44.2
3	Ease of hiring human resources required by the company, ease of hiring employees (general workers, general staff, clerks, etc.)	39.5
4	Development status of preferential tax treatment (corporate tax, commodity tax, import/export duties, etc.)	36.3
5	Status of development of the legal system (preferential treatment for foreign investment, regulations, etc.)	34.5

Indonesia		
1	Market growth potential	78.5
2	Current market size	61.9
3	Ease of hiring human resources required by the company, ease of hiring employees (general workers, general staff, clerks, etc.)	43.1
4	Ease of language and communication	30.8
5	Living environment for expatriates	23.1

Philippines (124)		
1	Ease of language and communication	77.4
2	Ease of hiring human resources required by the company, ease of hiring employees (general workers, general staff, clerks, etc.)	56.5
3	Market growth potential	54.8
4	Labor cost level	48.4
5	Living environment for expatriates	33.1

Vietnam (451)		
1	Market growth potential	74.1
2	Current market size	46.1
3	Living environment for expatriates	43.2
4	Ease of hiring human resources required by the company, ease of hiring employees (general workers, general staff, clerks, etc.)	37.5
5	Political/social situation	34.4

(Note 1) Indicates the number of valid responses

(Note 2) Those highlighted in light blue are the items where more than 70% of companies selected as an advantage in the business environment.

3 Business environment risks (by country)

Risks in the business environment (top 5 items, multiple answers) (%)

Singapore (323)		
1	Labor cost	81.1
2	Land price/Rent	71.8
3	Visa/work permit procedures	70.9
4	Level of turnover rate	45.2
5	Employment/labor system	39.3

Indonesia (288)		
1	Efficiency of the tax system and tax procedures	69.1
2	Status of development of the legal system (preferential treatment for foreign investment, regulations, etc.)	67.7
3	Efficiency of administrative procedures (licensing, etc.)	66.3
4	Labor cost	59.4
5	Political/social situation	58.3
5	Transparency in the operation of systems and policies (industrial policy, energy policy, foreign investment regulations, etc.)	58.3
5	Employment/labor system	58.3

Malaysia (186)		
1	Labor cost	60.8
2	Visa/Work Permit Procedures	56.5
3	Level of turnover rate	55.4
4	Efficiency of administrative procedures (licensing, etc.)	50.5
4	Employment/labor system	50.5

Philippines (130)		
1	Efficiency of the tax system and tax procedures	70.8
2	Status of development of the legal system (preferential treatment for foreign investment, regulations, etc.)	61.5
3	Efficiency of administrative procedures (licensing, etc.)	60.0
4	Political/social situation	59.2
5	Response to natural disasters	52.3

Thailand (443)		
1	Political/social situation	62.3
2	Labor cost level	57.1
3	Exchange rate change	52.8
4	Price fluctuation	39.7
5	Response to natural disasters	37.5

Vietnam (477)		
1	Efficiency of administrative procedures (licensing, etc.)	66.3
2	Efficiency of the tax system and tax procedures	57.9
3	Status of development of the legal system (preferential treatment for foreign investment, regulations, etc.)	55.4
4	Level of turnover rate	50.7
5	Visa/work permit procedures	47.8

(Note 1) Indicates the number of valid responses

(Note 2) The items highlighted in pink are the items that more than 70% of companies answered as business environment risks.

4 | Problems in management: The problem of increasing wage is the highest common problem

- Common management problems in many countries are “employee wage increase” and “increase in procurement costs”.
- In Malaysia, awareness on the problem of “employee retention rate” is particularly high compared to other countries.

Problems by country/region (top 5 items, multiple answers)

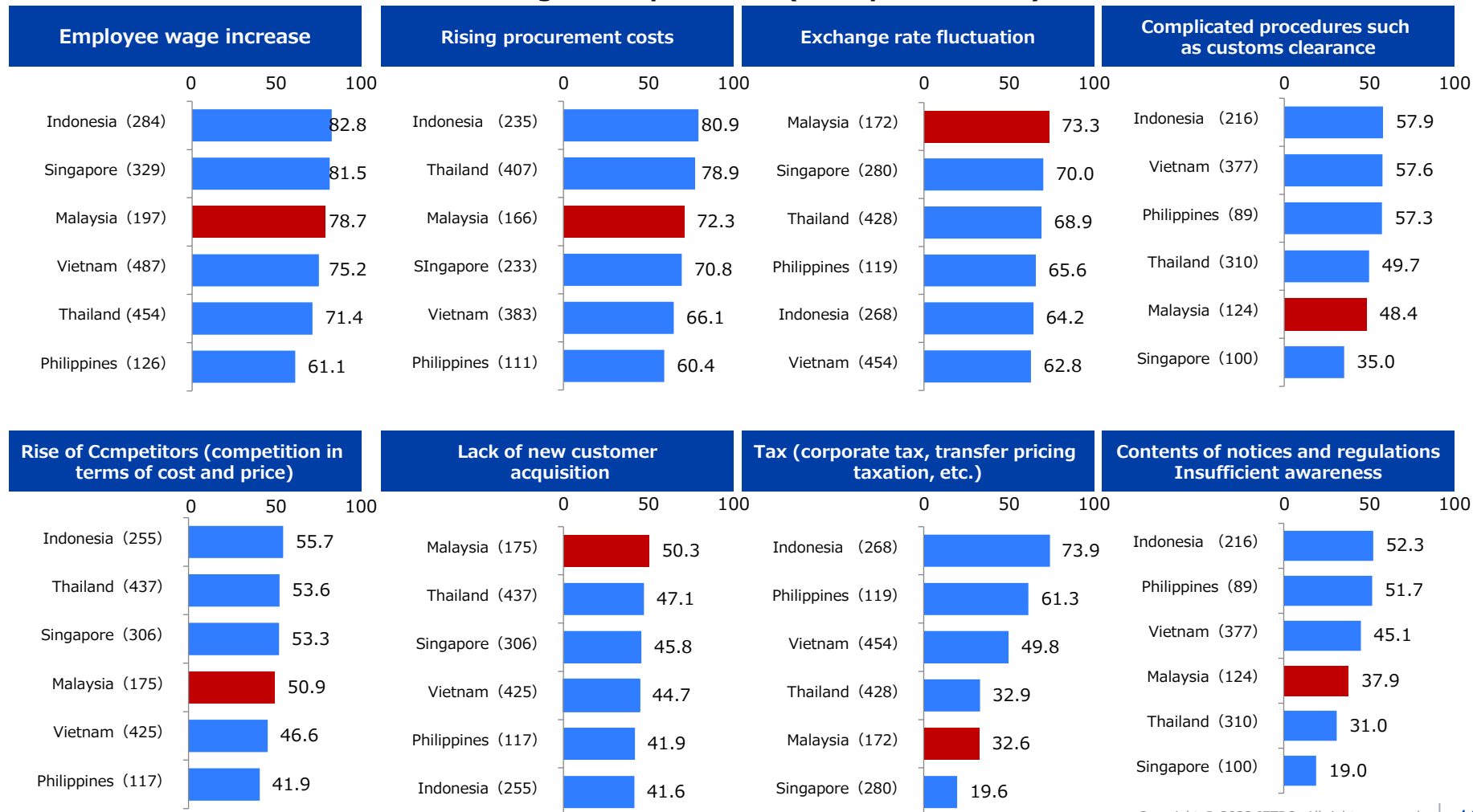
Singapore			(%)	Indonesia			(%)
1	Employee wage increase		81.5	1	Employee wage increase		82.8
2	Rising procurement costs		70.8	2	Rising procurement costs		80.9
3	Exchange rate fluctuation		70.0	3	Tax burden (corporate tax, transfer pricing taxation, etc.)		73.9
4	Rise of competitors (competition in terms of cost and price)		53.3	4	Exchange rate fluctuation		64.2
5	Lack of new customer acquisition		45.8	5	Complicated procedures such as customs clearance		57.9
Malaysia			(%)	Vietnam			(%)
1	Employee wage increase		78.7	1	Employee wage increase		75.2
2	Exchange rate fluctuation		73.3	2	Rising procurement costs		66.1
3	Rising procurement costs		72.3	3	Exchange rate fluctuation		62.8
4	Employee retention rate		52.8	4	Complicated procedures such as customs clearance		57.6
5	Rise of competitors (competition in terms of cost and price)		50.9	5	Tax burden (corporate tax, transfer pricing taxation, etc.)		49.8
Thailand			(%)	Philippines			(%)
1	Rising procurement costs		78.9	1	Exchange rate fluctuation		65.6
2	Employee wage increase		71.4	2	Tax burden (corporate tax, transfer pricing taxation, etc.)		61.3
3	Exchange rate fluctuation		68.9	3	Employee wage increase		61.1
4	Rise of competitors (competition in terms of cost and price)		53.6	4	Rising procurement costs		60.4
5	Complicated procedures such as customs clearance		49.7	5	Complicated procedures such as customs clearance		57.3

5 | Management problems

- Problems with a high response rate and are common among major ASEAN countries include “increase in employee wages”, “increase in procurement costs”, and “exchange rate fluctuations”.
- In Malaysia, the percentage of companies that see “exchange rate fluctuations” and “Lack of new customer acquisition” as problems was particularly high.

Management problems (multiple answers)

(%)



(Note) The top 8 items extracted from the responses in whole ASEAN area.

6 | Wages: Annual salary increment rate

(Unit: %)

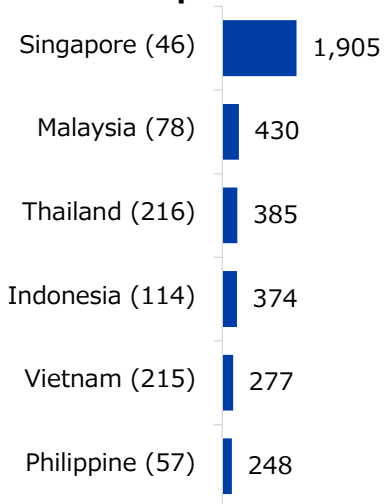


* Salary increment rate is the rate of increase in basic salary (nominal), excluding salaries that depend on individual ability, such as skill-based wages and performance-based wages. Average for all occupations.

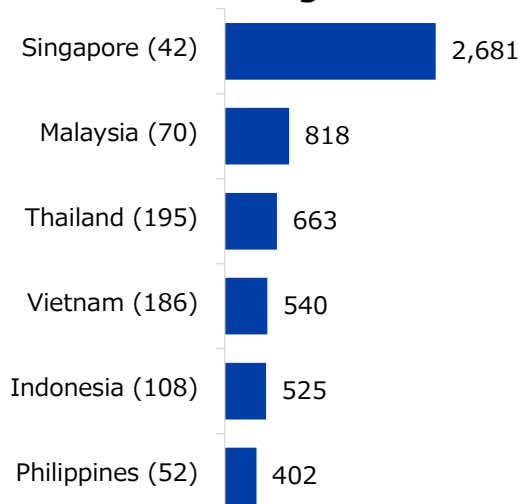
7 | Wages: Monthly basic salary

(Unit: USD)

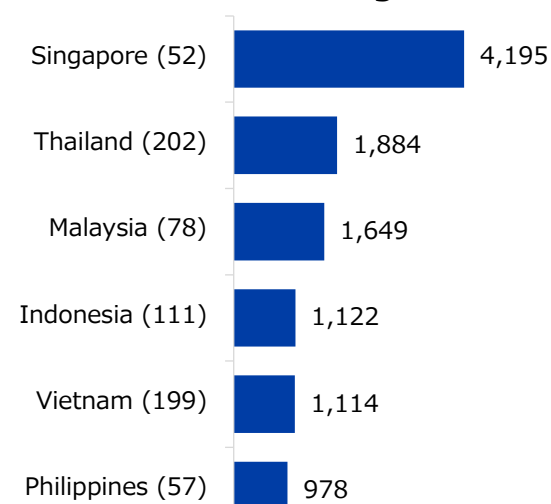
Manufacturing Operator



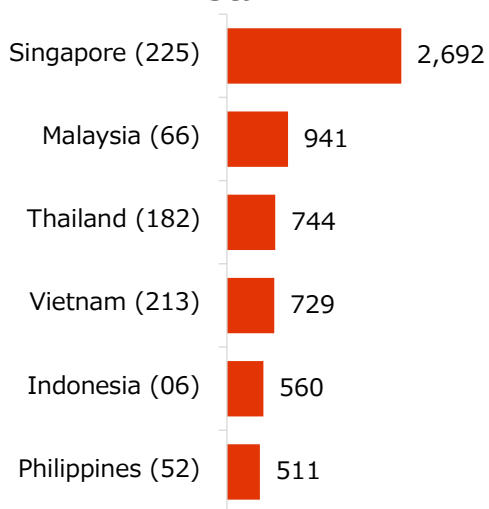
Manufacturing Engineer



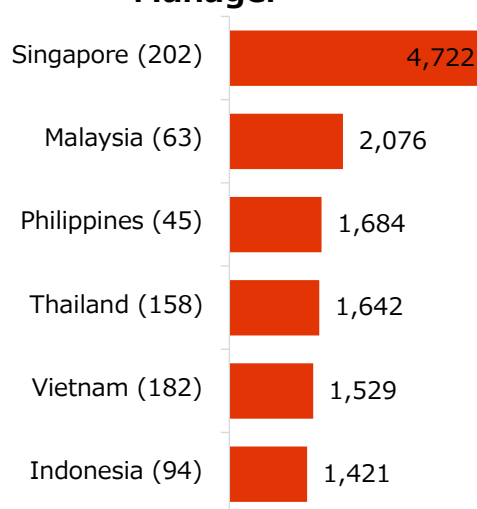
Manufacturing Manager



Non-Manufacturing Staff



Non-Manufacturing Manager



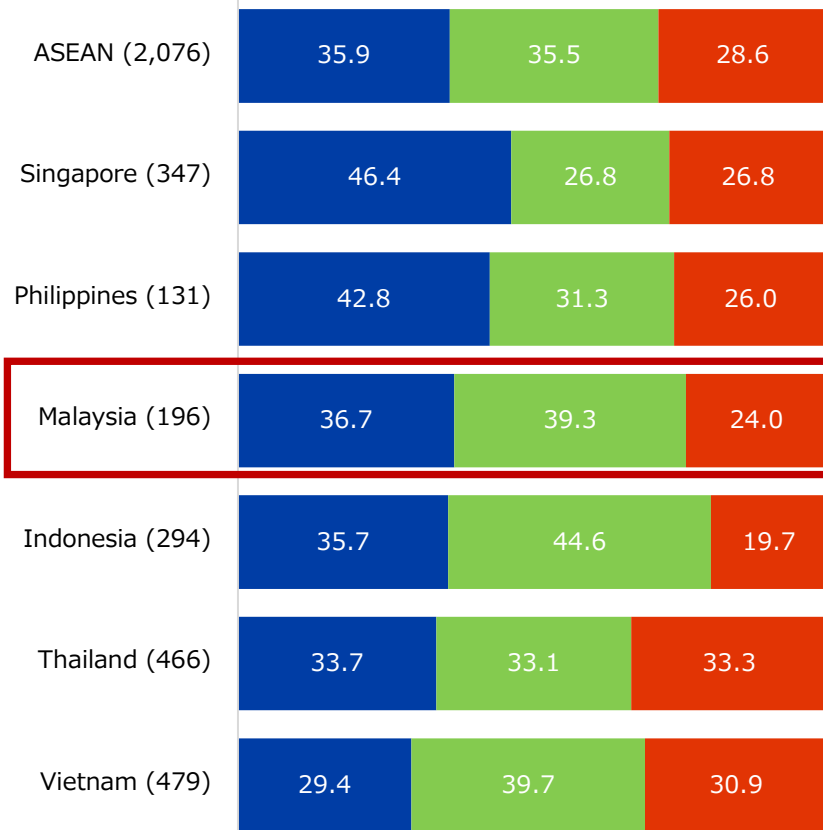
- Basic salary: Salary excluding allowances, as of August 2022
- Worker: In the case of regular worker with about three years of work experience. However, contract worker and worker on probation are excluded.
- Engineer: Full-time mid-level engineer who has graduated from a vocational school or a university (or higher) and has about five years of practical experience.
- Manager (manufacturing industry): Full-time sales manager level, college graduate or above, and with about ten years of work experience.
- Staff: In the case of a regular employee with about three years of work experience. Temporary employees and employees on probation are excluded.
- Manager (non-manufacturing industry): Full-time sales manager level, college graduate or above, and with about ten years of work experience.

* Responses are denominated in the home country/region's currency. The average wages denominated in the home country/region's currency for each occupation are converted into US dollars at the average exchange rate in September 2022 (as announced by the central banks of each country/region).

1 | Approximately 40% of companies have already implemented decarbonization initiatives

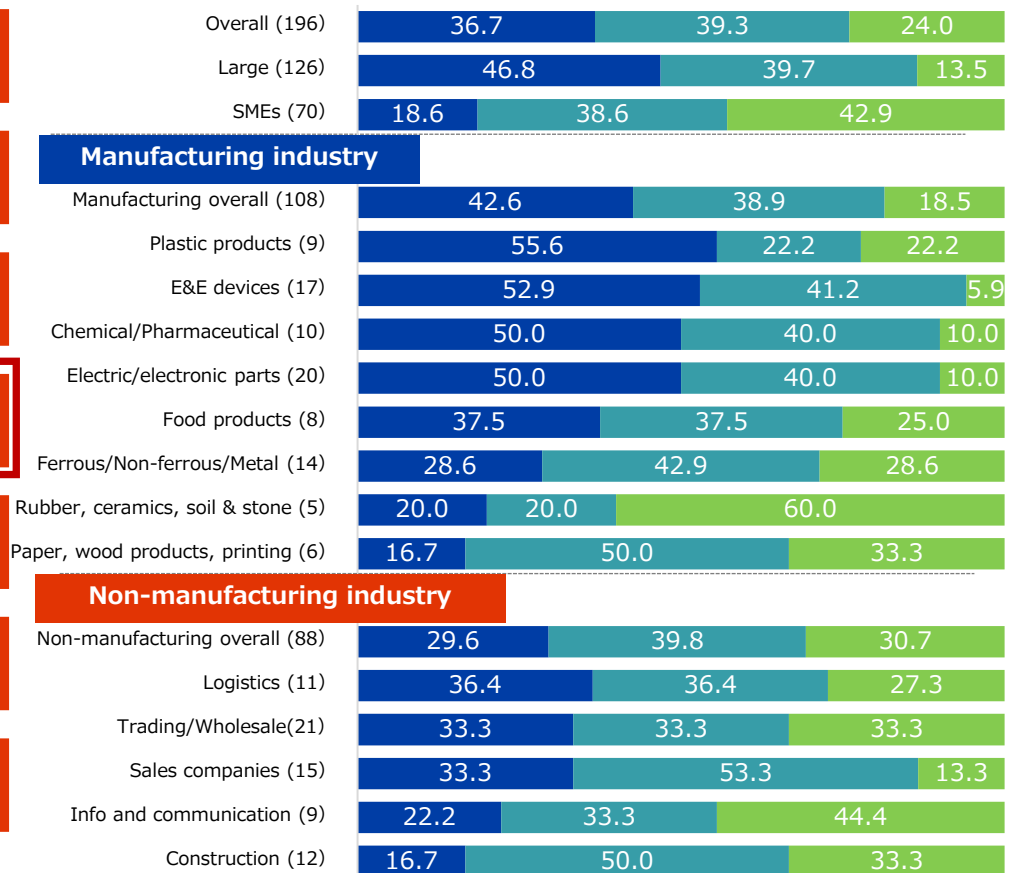
- 36.7% of companies in Malaysia are working on decarbonization, such as reducing greenhouse gases, etc.
- By industry, 42.6% of companies in the manufacturing industry and 29.6% in the non-manufacturing industry are “implementing” some sort of decarbonization initiatives.

Status of implementation on decarbonization initiatives (%)



■ Implementing
 ■ Planning to implement
 ■ No plan to implement

Status of implementation on decarbonization initiatives (Malaysia) (%)

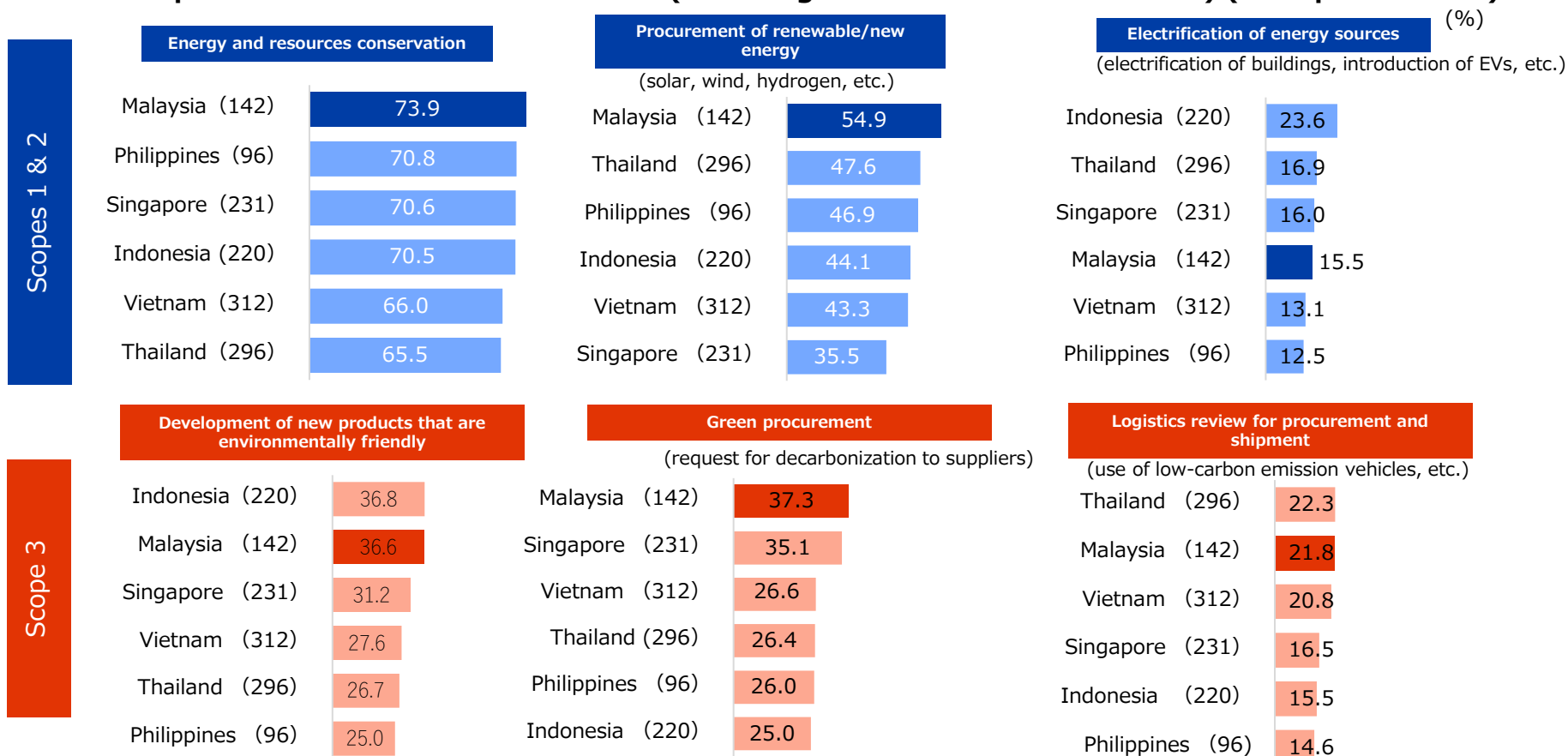


■ Implementing ■ Planning to implement ■ No plan to implement

2 | 70% of companies implement/consider energy and resource conservation

- For companies that responded they have already implemented or are considering decarbonization initiatives in their countries of operations, the answers received in most countries were “energy and resources conservation” and “procurement of renewable/new energy”.
- Especially in Malaysia, 73.9% selected “energy and resources conservation” while 54.9% selected “procurement of renewable/new energy”. This was the highest percentage among the six major ASEAN countries.

Specific decarbonization initiatives (including those under consideration) (multiple answers)



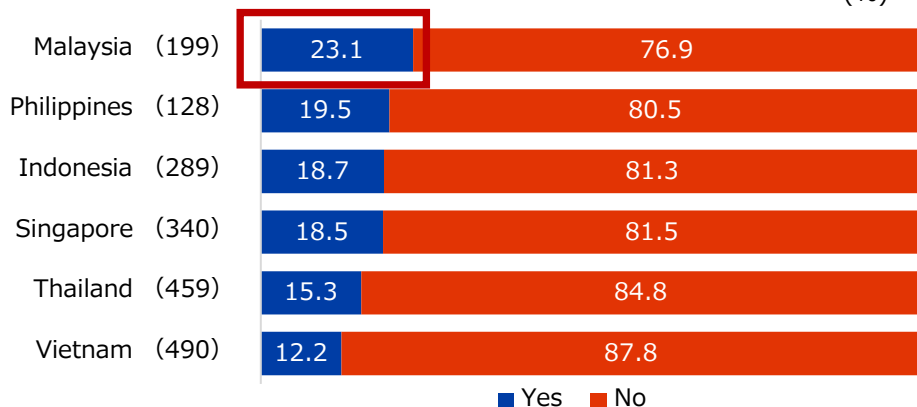
*Companies which responded that they are working on or are considering decarbonization in their respective establishment are targets for this questions.

** For explanations of Scopes 1 to 3 , refer to the website of the Ministry of the Environment (https://www.env.go.jp/earth/ondanka/supply_chain/gvc/supply_chain.html).

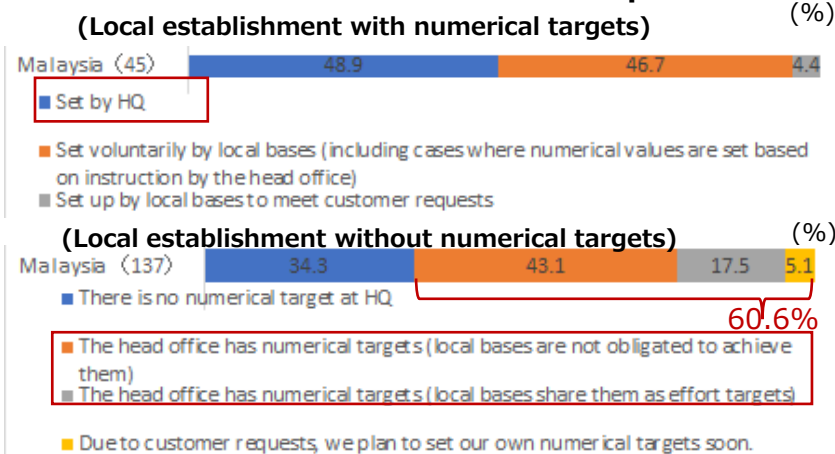
3 More than 20% of companies have numerical targets. Challenges include rising costs, etc.

- Among the six major ASEAN countries, Malaysia has the highest number of companies that answered that they have numerical targets related to decarbonization, at 23.1%.
- Among the companies that have numerical targets in their local establishment, half of them were determined by the head office. Even among companies that do not have numerical targets locally, 60.6% have the target at their headquarters.
- Challenges to decarbonization include increased costs, unclear government policy, and low awareness. In particular, with regard to cost, there were voices calling for a system that would give incentives for decarbonization against the local preference for low cost. Examples of efforts included the introduction of renewable energy, solar power generation, energy conservation, and resource replacement.

Presence or absence of numerical targets related to decarbonization at local establishment(s) (%)



Numerical targets in the local establishment and headquarters (%)



Decarbonization Challenges and Specific Initiatives (Malaysia)

Challenges	Initiatives and its effectiveness
<ul style="list-style-type: none"> • Primary intention of lowering cost in the local establishment • Expenditure on costs necessary for energy saving equipment • There is a gap between government targets and reality, and it is difficult to connect decarbonization to business • Unclear government policies and regulations • There is no government policy that can make decarbonization efforts profitable • Awareness among all employees is low, and the environmental awareness of the nation is not sufficiently high. 	<ul style="list-style-type: none"> • Introduction of solar power generation • Effective use of exhaust heat in the manufacturing process • Reuse of rainwater, use of natural sunlight in warehouses • Zero waste to landfill • Replacement of petroleum resources with plant-derived resources • Improvement of clean room air conditioning operation method (nighttime control accuracy adjustment, individual control for each section) • Development and sales of new environmentally friendly materials • Proposal of utilizing renewable energy to customers

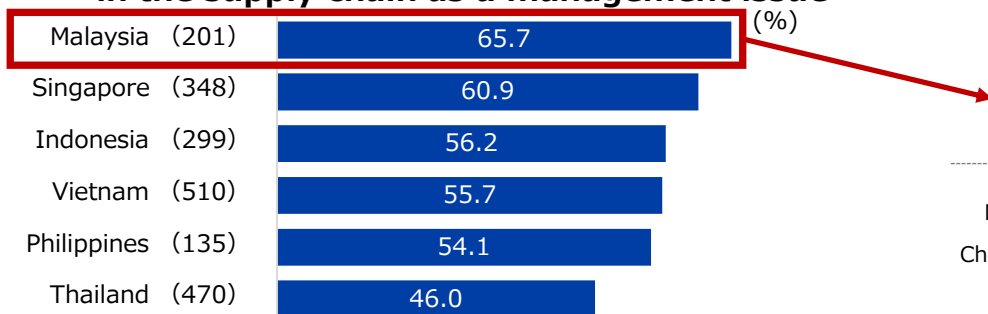
<Reference> Examples of numerical targets related to decarbonization at local establishment

- Achieving carbon neutrality
- Comply with the standards and goals of the host country/region
- Reduce annual carbon dioxide emissions (reduce XX% compared to the previous year, reduce XX% compared to 2013, reduce XX tons annually, reduce XX% per unit of production, etc.)
- Reduction in consumption of electricity, water, and paper resources, power saving
- Set renewable power usage rate, switch to 100% renewable energy

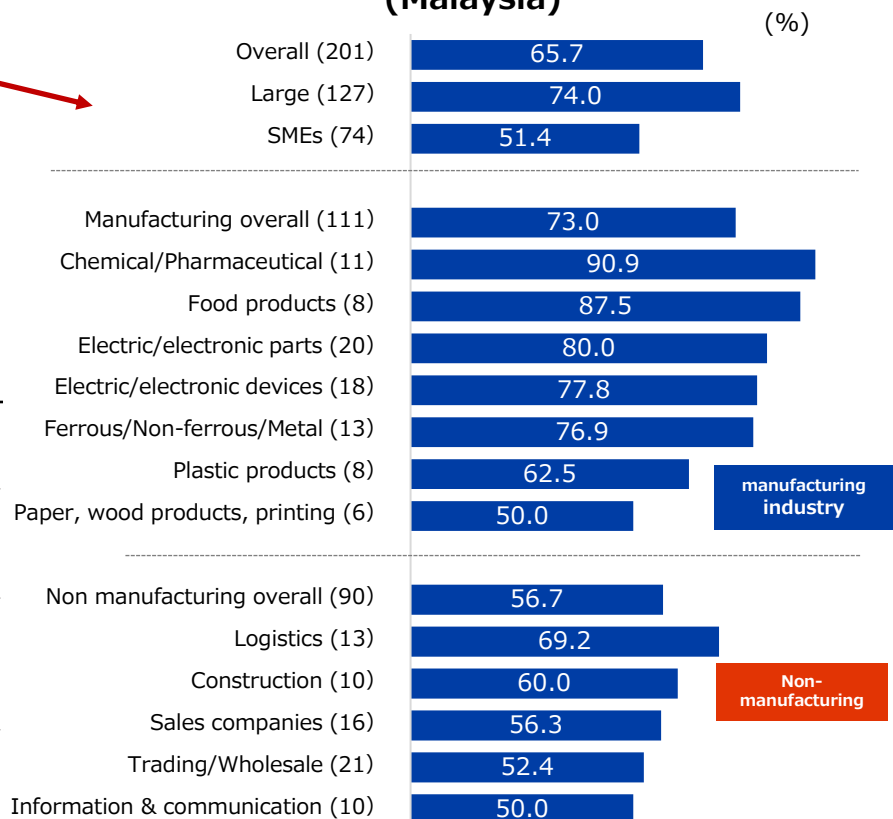
1 Awareness of human rights issues as a management issue is high in Malaysia

- Malaysia has the highest percentage of companies that recognize human rights issues in their supply chains as a management issue, standing at 65.7%. High response rates are found among the chemical/pharmaceutical, food products, and electrical/electronic devices and parts sector in manufacturing; and among the non-manufacturing, logistic and construction industries had particularly high response rates.
- As reasons for this, there were multiple responses that cited the policies of the head office and the entire group. Specifically in the chemical and pharmaceutical fields, whereby 90% of companies are aware such management issues: cases of actual import restrictions and the risk of suspension of transactions. In some cases, industry-specific requests were cited as reasons.

Percentage of companies which recognize human rights issues in the supply chain as a management issue



Awareness of human rights issues (Malaysia)



Main reasons for recognizing it as a management issue (in Malaysia)

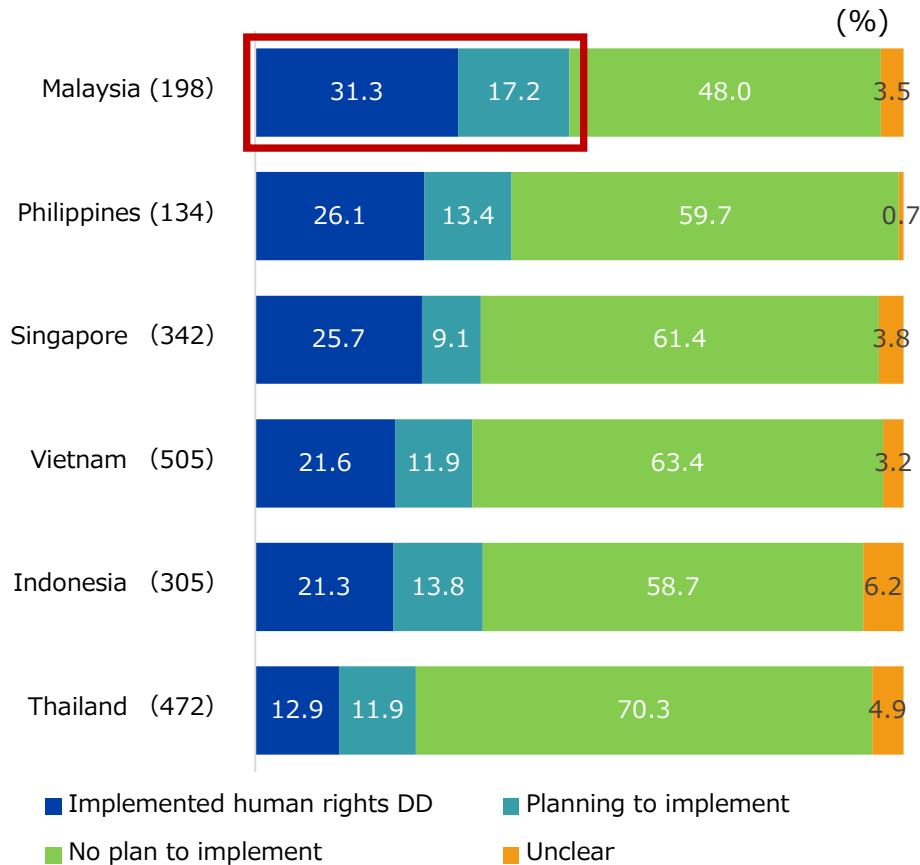
Head office policy	<ul style="list-style-type: none"> Presented as a policy of the head office (mostly in electricity, electronics, etc.) The parent company, which accounts for more than 90% of procurement, recognizes it as a management issue and is working on it (sales companies).
Human rights risk	<ul style="list-style-type: none"> Procurement from a supply chain that has cleared human rights issues is obligatory when exporting products (sales companies). In particular, fair treatment of foreign employees is important and leads to maintaining customer trust (E&E)
Management risk	<ul style="list-style-type: none"> There are cases where other companies have been subjected to import restrictions due to human rights issues pointed out by the US authorities (chemicals and pharmaceuticals). There are risks of suspension of transactions due to human rights violations (chemicals/pharmaceuticals).
Requests from customers	<ul style="list-style-type: none"> There is a confirmation request from the business partner (precision/medical equipment) This falls under one of the audit checklists for the customer (ferrous metals, non-ferrous metals, metals)
Industry-specific requirements	<ul style="list-style-type: none"> Compliance to the Responsible Business Alliance (RBA) Code of Conduct in the electronics industry (E&E) Investigation request from customer regarding conflict minerals from suppliers (ferrous metals, non-ferrous metals, metals)

* Displaying industries with more than five valid responses only

2 Implementation Status of Human Rights Due Diligence (DD)

- 48.5% of companies in Malaysia have already implemented or are planning to implement human rights DD. In tandem with the high awareness of human rights issues, it also recorded the highest percentage among other major ASEAN countries.
- As for specific concerns regarding human rights, responses regarding human rights risks in the supply chain including suppliers, were common among all countries. In Malaysia, some country-specific circumstances, such as strengthening measures against harassment under the revised Employment Act and the working environment for foreign workers, were also mentioned. As a preventive measure, various responses were cited, including establishment of internal audits and acquisition of documents from business partners.

Implementation status of human rights due diligence



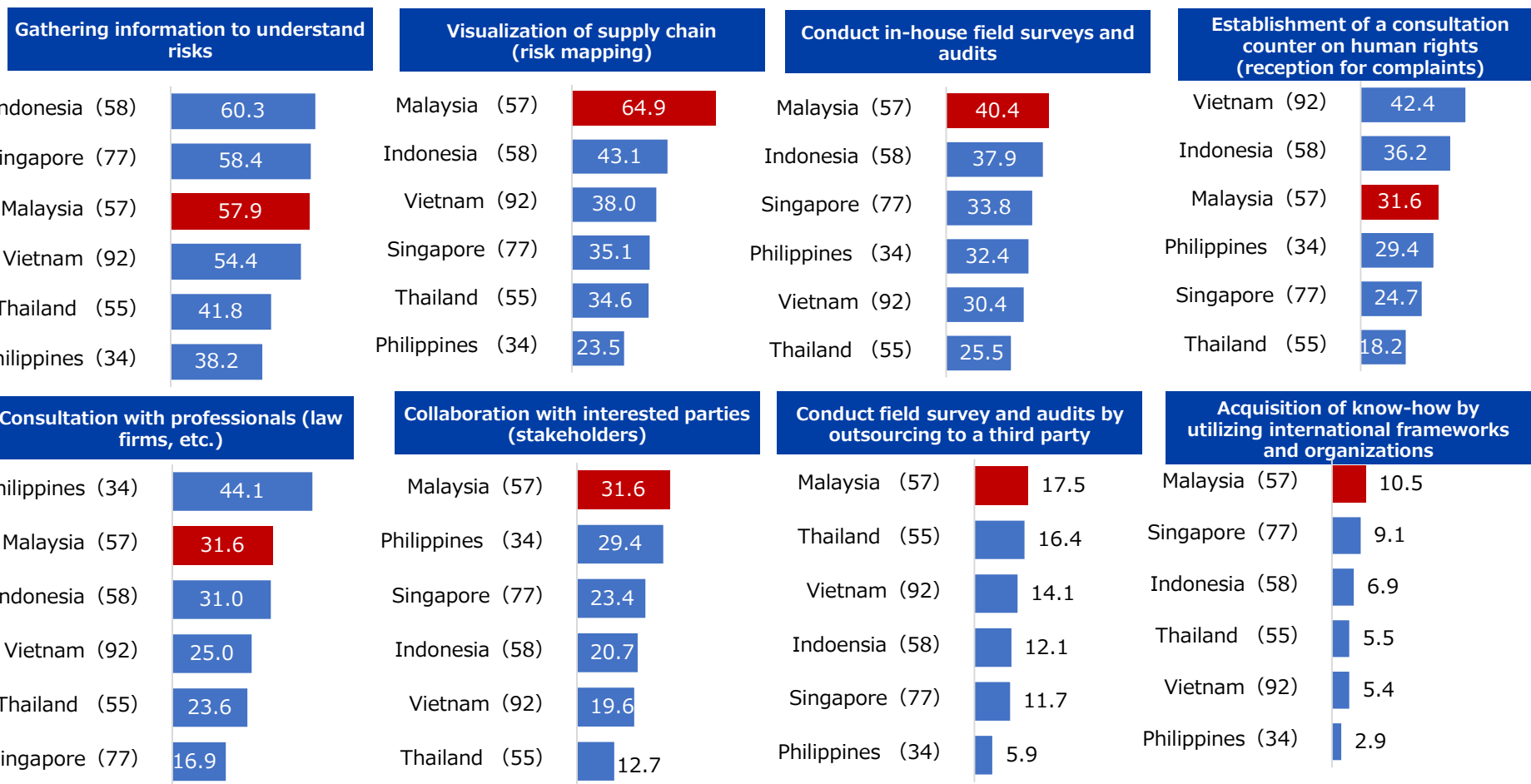
Concerns about specific human rights risks and its preventive measures (Malaysia, free description)

Concerns	Preventive Measures
Strengthening of national penalties on harassment (transportation, E&E, etc.)	Create <u>harassment countermeasures and internal reporting system</u> in accordance with the policy in Japan. Conduct in-house <u>training and audits</u> by external organizations .
Damage to brand image, especially risk within suppliers and contractors (E&E)	<u>Formulated standard operating procedures for hiring foreign workers</u> at group manufacturing companies, and each company must comply with them.
Labor risks (child labor, overwork), discrimination based on race or gender within the company, harassment issues within supplier (general machinery)	To <u>visit and audit</u> supplier before any transaction.
Being pointed out by external parties regarding the working / living environment of foreign workers in the company and supply chain (E&E)	Promote initiatives to <u>improve the environment</u> and conduct voluntary <u>internal audits</u> . <u>Avoid relying on only one company</u> for procurement sources.
Human rights risks at the top of the supply chain are investigated indirectly through temporary suppliers and trading companies, so it is difficult to grasp the discrepancy between the investigation report and the actual situation (E&E).	Getting <u>written declaration to avoid the risk of human rights violations</u> as a record.
Campaign to boycott raw materials and products from the Xinjiang Uyghur region (textiles and clothing)	Collecting information from the raw material suppliers and <u>obtaining certificate of non-use</u> .

3 | Majority of companies engage in gathering information to identify and assess the risks

- Among companies that implement human rights DD, many of them work on “gathering information to understand risks”, “visualization of supply chains”, and to “conduct in-house field surveys and audits” when identifying and evaluating risks.
- In Malaysia, the response rates were high among the six major ASEAN countries for multiple items, including “visualization of supply chain”, “conduct in-house field surveys and audits”, and “collaboration with interested parties”.

Efforts to identify and assess human rights risks (multiple answers allowed) (%)



* Ranking high among ASEAN countries.

For enquiries regarding this report:

**Japan External Trade Organization
(JETRO)**

Kuala Lumpur Office



60-3-2171-6100



MAK@jetro.go.jp



**9th Floor, ChulanTower,
No. 3, Jalan Conlay,
50450 Kuala Lumpur, MALAYSIA**

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