

# Country Reports

ASEAN	:	7 countries
Southwest Asia	:	4 countries
Oceania	:	2 countries



## Indonesia

### Targets of the survey and breakdown of respondents

- Survey period : September 1 - October 15, 2009
- Number of companies sent questionnaires : 455 Japanese-affiliated companies operating in Indonesia  
(Based on the survey sent out)
- Number of valid respondents : 129 companies (manufacturing industry: 87;  
non-manufacturing industry: 42, based on valid responses)
- Breakdown of valid respondents by industry : As shown below

(Units: companies, %)

Manufacturing industry			Non-manufacturing industry		
Industry	No. of companies	Composition ratio	Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	4	4.6	Trading company	5	11.9
Textiles (yarn, cloth, synthetic fabrics)	5	5.7	Sales company	8	19.0
Apparel and textile products	1	1.1	Banking	1	2.4
Lumber and wood products	2	2.3	Transport/warehousing	8	19.0
Furniture and interior products	1	1.1	Real estate	1	2.4
Paper and pulp	1	1.1	Communications/software	4	9.5
Chemicals and petroleum products	9	10.3	Construction/plants	5	11.9
Plastic products	6	6.9	Other	10	23.8
Pharmaceuticals	1	1.1	Total	42	100.0
Rubber products	4	4.6			
Ceramics and cement	1	1.1			
Iron and steel (including cast and forged products)	1	1.1			
Nonferrous metals and products	1	1.1			
Fabricated metal products (including plated products)	10	11.5			
General machinery (including metal molds and machine tools)	3	3.4			
Electric machinery and electronic equipment	4	4.6			
Electric and electronic parts and components	2	2.3			
Motor vehicles and motorcycles	7	8.0			
Motor vehicle and motorcycle parts and accessories	15	17.2			
Other	9	10.3			
Total	87	100.0			

### 1. Operating profit forecast

- (1) While operating profit in 2009 is expected to have decreased in manufacturing industries, it is expected to show a major increase in non-manufacturing industries**

Regarding estimated operating profit for 2009, 66.7% of respondent companies in the manufacturing industry replied that they expected to post a profit (valid responses: 87 companies), down 9.7 points from the previous survey. Also in comparison with the previous survey, the percentage of respondent companies in the motor vehicle and motorcycle parts and accessories industry expected to post a profit fell by 20.8 percentage points.

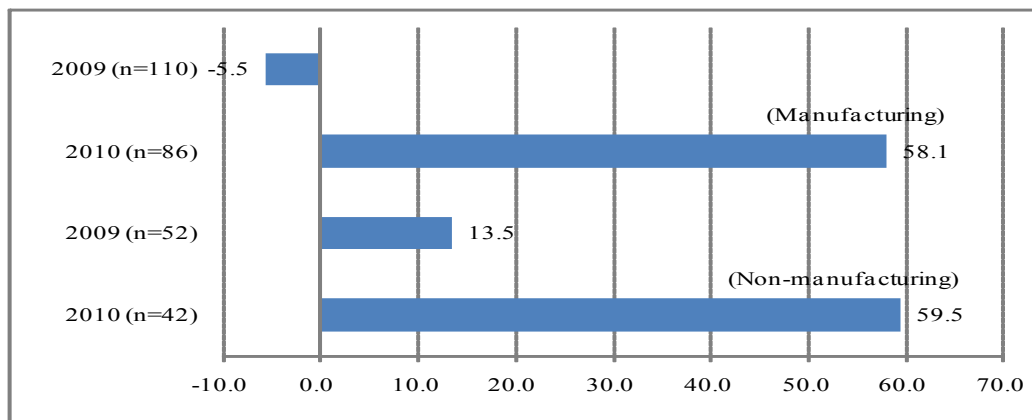
In non-manufacturing industries (valid responses: 42 companies), 81.0% of respondent companies replied that they expected to post a profit, reflecting a major increase of 25.4 points from the previous survey. In particular, 100% of respondent companies in the industries of sales company (valid responses: 8 companies) and transport/warehousing (valid responses: 8 companies) reported that they expected to post profits.

**(2) In 2010, high diffusion-index figures are expected in both manufacturing and non-manufacturing industries**

A look at operating profit forecasts for 2010 in terms of the diffusion index (DI)<sup>1</sup> shows a figure of 58.1 points in manufacturing industries (valid responses: 86 companies), the third highest DI figure among countries subject to the survey, after Bangladesh and New Zealand. In particular, the DI was high in the industries of motor vehicles and motorcycles (7 companies, 100 points) and fabricated metal products (8 companies, 80.0 points), where a look at reasons for improvement shows that “Increase in local market sales” was given by the highest percentages of respondents (100%, 87.5%) in both the motor vehicles and motorcycles and the fabricated metal products industries. These results indicate expectations that in 2010 the economic recovery will strengthen and production and sales of products such as motor vehicles and motorcycles will increase.

At the same time, a look at operating profit forecasts for 2010 in terms of the DI in non-manufacturing industries (valid responses: 42 companies) shows a figure of 59.5 points, so that in non-manufacturing industries as well the DI is second highest after Bangladesh. A look at results by industry shows high DI figures in the industries of trading company (5 companies, 100 points) and sales company (7 companies, 87.5 points). A look at reasons for improvement shows that “Increase in local market sales” was given by the highest percentages of respondents in both the industries of trading company and sales company (100% in both industries). In all industries, consumption in 2010 is forecast to show further increases over 2009.

**Diagram 1: Operating profit forecasts for 2009/2010 in terms of the DI**



<sup>1</sup> DI or “diffusion index” refers to the difference obtained by subtracting the percentage of companies replying profits would “Worsen” from the percentage replying profits would “Improve.” It is an indicator of how business confidence changes.

## **2. Impact of economic recession**

### **(1) “Employment adjustments” had the highest response rates among measures taken in response to the recession**

When subject companies were asked what measures they had taken in the past year in response to the recession (multiple answers allowed), the top three responses in manufacturing industries (valid responses: 76 companies) were “Employment adjustments” (56.6%), “Reduction in costs through improved efficiency of production and sales” (55.3%), and “Cancellation or postponement of new investment/facility investment” (47.4%). A look at the types of employment subject to these employment adjustments shows that while the largest percentage of respondents (44.4%) reported decreases in local employees (non-regular), for both local employees (regular) and Japanese (expatriate) employees the largest percentages (63.5%, 76.2%) reported no change. Thus, Japanese-affiliated companies appear to have carried out employment adjustments focused chiefly on non-regular local employees.

At the same time, among non-manufacturing industries (valid responses: 33 companies) 39.4% of respondents each cited “Employment adjustments” and “Reduction in costs through improved efficiency of production and sales,” while 33.3% of respondents each cited “Cancellation or postponement of new investment/facility investment” or “Expand the range of high value-added products/services.” A look at the types of employment subject to employment adjustments shows that the highest percentages of respondents reported no change in either local employees (regular and non-regular) or in Japanese (expatriate) employees, indicating that personnel reductions were less than in manufacturing industries.

### **(2) Forecasts of capital investment over the coming year call for increases in manufacturing and no change in non-manufacturing industries**

Regarding forecasts of capital investment over the coming year (October 2009 - September 2010), in manufacturing industries (valid responses: 86 companies) more respondents reported forecasts of increases (45.4%) than no change (39.5%). Among industries forecasting increases, the largest percentage doing so was in the motor vehicle and motorcycle parts and accessories industry (53.3%). Sales are forecast to grow against a background of strong private-sector consumption.

Among non-manufacturing industries (valid responses: 41 companies), the highest percentage reported forecasts of no change (53.7%). The percentage was particularly high in the industries of “Construction/plants” (80.0%) and “Sales company” (71.4%). On the other hand, only 19.5% of companies in non-manufacturing industries reported forecasts of increases.

## **3. Business problems**

### **(1) The top problem with labor or employment was “Increase in employee wages” in both manufacturing and non-manufacturing industries**

Among problems with labor or employment, in manufacturing industries (valid responses: 83 companies) the highest percentage (74.7%) reported the problem of “Increase in employee wages.” A look at responses by industry shows high percentages in the industries of “Chemicals and petroleum products” (75.0%) and “Motor vehicles and motorcycles” (71.4%). The next most commonly cited problems were “Restrictions on staff dismissal and reduction” (45.8%) and “Difficulty in localizing managers and site supervisors” (33.7%).

In non-manufacturing industries as well (valid responses: 40 companies), the highest percentage of respondent companies (55.0%) cited the problem of “Increase in employee wages.” This percentage was highest in the industry of “Construction/plants” (80.0%), an indication of the large impact of this problem in that industry.

**Diagram 2: Problems in labor or employment (multiple answers allowed)**

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

		Valid responses	1st	2nd	3rd	4th	5th
Manufacturing	2008 survey	105	Increase in employee wages	Restrictions on staff dismissal and reduction	Difficulty in recruiting middle management staff	Personnel costs of Japanese (expatriate) officers and staff	Difficulty in recruiting engineer staff/difficulty in localizing managers and site supervisors
		100.0	85.7	47.6	33.3	31.4	30.5
	2009 survey	83	Increase in employee wages	Restrictions on staff dismissal and reduction	Difficulty in localizing managers and site supervisors	Difficulty in recruiting middle management staff	Personnel costs of Japanese (expatriate) officers and staff
		100.0	74.7	45.8	33.7	26.5	22.9
Non-manufacturing	2008 survey	54	Increase in employee wages	Difficulty in localizing managers and site supervisors	Restrictions on staff dismissal and reduction	Difficulty in recruiting engineer staff/personnel costs of Japanese (expatriate) officers and staff	
		100.0	68.5	35.2	27.8		22.2
	2009 survey	40	Increase in employee wages	Difficulty in localizing managers and site supervisors	Difficulty in recruiting middle management staff/personnel costs of Japanese (expatriate) officers and staff/restrictions on staff dismissal and reduction		
		100.0	55.0	47.5	37.5		

**(2) A problem in the foreign trade system was time-consuming customs procedures**

Among problems in the foreign trade system, in manufacturing industries (valid responses: 77 companies) the highest percentage (58.4%) reported the problem of “Complicated customs clearance procedures,” followed by “Lack of thorough publicizing of trade rules and regulations” (57.1%). The third most commonly cited problem was “Time-consuming customs procedures” (39.0%).

In non-manufacturing industries as well (valid responses: 34 companies), both “Time-consuming customs procedures” and “Lack of thorough publicizing of trade rules and regulations” were cited by the highest percentages of respondent companies (61.8% in both cases), followed by “Complicated customs clearance procedures” (55.9%)

Thus, in both manufacturing and non-manufacturing industries customs clearance was the greatest problem in the foreign trade system.

**(3) Increases in procurement costs were a problem in production**

Among problems in production, the highest percentage of companies (45.8%) responded that “Increase in procurement costs” was a problem. A look at results by industry shows that the percentage was highest in the industry of “Motor vehicle and motorcycle parts and accessories” (57.1%). Next came “Difficulty in local procurement of parts and raw materials” (42.2%), cited by a high percentage of respondent companies (57.1%) in the “motor vehicles and motorcycles” industry. As such, how to reduce costs appears to be a pressing issue among both motor vehicle and motorcycle parts and accessories firms and assembly firms.

#### 4. Investment environment

##### (1) The most commonly cited advantage in the investment environment was “Market scale/growth potential” (multiple answers allowed)

Regarding advantages in the investment environment, the most common answer from respondent companies in manufacturing industries (valid responses: 83 companies) was “Market scale/growth potential” (66.3%). Among respondent companies, 100% (7 out of 7 companies) of those, in the motor vehicles and motorcycles industry, and 73.3% (11 out of 15 companies) of those in the motor vehicle and motorcycle parts and accessories answered that “Market scale/growth potential” was the benefit. The next most common answer was “An abundance of staff due to low costs” (45.8%).

Overwhelmingly, the most common answer from respondent companies in non-manufacturing industries (valid responses: 40 companies) was “Market scale/growth potential” (92.5%). On the other hand, only 22.5% of companies in these industries answered “An abundance of staff due to low costs.”

**Diagram 3: Advantages in the investment environment (multiple answers allowed)**

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

	Valid responses	1st	2nd	3rd	4th	5th
Manufacturing	83	Market scale/growth potential	An abundance of staff due to low costs	Plenty of partner companies (delivering companies)	An abundance of land/office space, cheap land prices/rent	Stable political and social conditions
	100.0	66.3	45.8	21.7	14.5	10.8
Non-manufacturing	40	Market scale/growth potential	Stable political and social conditions/plenty of partner companies (delivering companies)/an abundance of staff due to low costs			English is widely spoken
	100.0	92.5	22.5			7.5

##### (2) The most commonly cited problems in the investment environment were “Underdeveloped infrastructure”, “Complicated tax” and “Administrative procedures” (multiple answers allowed)

Regarding disadvantages in the investment environment, the highest percentage of respondent companies in manufacturing industries (valid responses: 81 companies) was “Underdeveloped infrastructure (electric power, transportation, communications, etc.)” (75.3%). Next came “Complicated tax procedures” (50.6%), “Unclear policy management by the local government” (49.4%), and “Underdeveloped economic and legal systems, and arbitrary application of the legal system” (40.7%).

In non-manufacturing industries (39 companies), high percentage of respondent companies answered “Complicated administrative procedures (to acquire permits, etc.)” (69.2%), “Underdeveloped infrastructure (electric power, transportation, communications, etc.)” (66.7%), and “Complicated tax procedures” (64.1%).

In both manufacturing and non-manufacturing industries, there are strong desires for improvements to infrastructure and tax and administrative procedures.

## 5. Future business development

### (1) The most common answer concerning directions for companies' business development over the next one to two years was "Expansion," both in manufacturing and non-manufacturing industries

Regarding directions for companies' business development over the next one to two years, among companies in manufacturing industries (valid responses: 85 companies) the highest percentage gave the answer "Expansion" (51.8%). While the percentage of respondent companies answering "Expansion" has fallen by 5.1 points in comparison with the previous year's survey, it remains true that the majority of respondents in manufacturing industries indicated policies of business expansion. A look at results by industry shows that among leading industries a high percentage (71.4%) in the motor vehicles and motorcycles industry gave the answer "Expansion," with the most commonly cited reason for this direction being "Expansion of existing business scale through additional investment" (100%, multiple answers allowed).

Among non-manufacturing industry respondents as well (valid responses: 42 companies), the highest percentage answered "Expansion" (54.8%). This reflects an increase of 7.5 points in comparison with the previous year's survey. This percentage was high among "Sales company" (87.5%), with the most commonly cited reason for this direction being "Creation of new markets (expand business/sales networks)" (85.7%).

### (2) Indonesia was the most promising market in both the manufacturing and non-manufacturing industries

Concerning countries and regions considered promising as business and product markets over the coming one to three years (multiple answers allowed), the most common answer among respondent companies in manufacturing industries (valid responses: 78 companies) was "Indonesia" (75.6%). It is surmised that this is because "Market scale/growth potential," as cited under advantages in the investment environment, is forecast. Next came "Japan" (34.6%) and "China" (24.4%).

Among non-manufacturing industry respondent companies as well (valid responses: 31 companies), as in manufacturing industries "Indonesia" was regarded highly as a market to enter, being given by the highest percentage of such respondents (67.7%). At the same time, it was followed by "Vietnam" in second place (41.9%) and "India" in third (35.5%), indicating an approach aimed at market development in emerging markets.

**Diagram 4: Countries/regions with promising markets for future operation/products in the next one to three years (multiple answers allowed)**

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

	Valid responses	1st	2nd	3rd	4th	5th
Manufacturing	78	Indonesia	Japan	China	Thailand	Vietnam/India
	100.0	75.6	34.6	24.4	23.1	18.0
Non-manufacturing	31	Indonesia	Vietnam	India	China	Thailand
	100.0	67.7	41.9	35.5	32.3	29.0



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

### (1) A breakdown of procurement sources shows “Local” procurement accounted for the highest percentage

Regarding breakdown of procurement sources (average; valid responses: 81 companies), “Local” procurement had the highest percentage (44.3%). A look at results by industry shows that a high percentage of procurement in the “Motor vehicles and motorcycles” industry (59.3%) was local.

In second place was procurement from Japan, with 31.5%. Procurement from Japan accounted for a high percentage (49.9%) in the “Fabricated metal products” industry. In third place was ASEAN (15.6%), which accounted for a high percentage (36.8%) of procurement in the “Plastic products” industry. The top three countries and regions accounted for more than 90% of total procurement, with the percentage of procurement reported as sourced from “Mainland China” only 1.8%.

### (2) A breakdown of local procurement sources shows procurement from “Japan-affiliated companies” accounted for the highest percentage

A look at a breakdown of local procurement sources shows that 46.6% answered “Japan-affiliated companies,” 45.5% “Local companies,” and 7.9% “Other foreign-affiliated companies.”

**Diagram 5: Local procurement ratio and breakdown of raw materials and parts (local, Japan-affiliated, and other foreign-affiliated companies)**

Procurement sources	Valid responses	Composition ratio (%)
		Indonesia Average procurement ratio
Local procurement ratio	81	44.3
Procurement from local companies (included in above)	72	45.5
Procurement from local Japan-affiliated companies (included in above)	72	46.6
Procurement from other foreign-affiliated companies (included in above)	72	7.9
Japan	81	31.5
ASEAN	81	15.6
Mainland China	81	1.8
Other	81	6.8

A look at procurement rates in the “Motor vehicle and motorcycle parts and accessories” industry in Indonesia by “Japan-affiliated companies” and “Local companies” shows that 80.0% of procurement is from Japan-affiliated companies while 19.6% is from local companies. Comparison of these results with those of Thailand, which has a concentration of the motor-vehicle industry, in Thailand 77.2% of procurement is from Japan-affiliated companies while 21.8% is from local companies. Thus, in both Indonesia and Thailand high percentages of procurement in the motor vehicle and motorcycle parts and accessories industry is sourced from “Japan-affiliated companies.”

### (3) Production costs relative to those in China have increased from the previous survey

When respondents were asked about production costs in Indonesia in comparison with the cost of production at affiliates in China assuming that the cost of production at such affiliates in China is 100 units (valid responses: 36 companies), the total percentage giving answers ranging from 100 through 150 or above (100 to

less than 110, 110 to less than 120, 120 to less than 130, 130 to less than 140, 140 to less than 150, 150 or above) rose from 55.5% in the 2008 survey to 61.1% in this year's survey. Also, while the highest percentage of respondents (24.1%) answered "100 to less than 110" in the previous survey, in this survey the highest percentage answered "110 to less than 120" (22.2%)

While the total percentage of respondent companies giving answers of production costs of 100 or higher was 61.1% in Indonesia, it was 63.5% in Thailand and 27.4% in Vietnam.

## **7. Measures against new influenza A (H1N1): health education concerning covering the mouth when coughing and hand washing**

Regarding problems respondent companies faced in responding to the new strain of influenza (A/H1N1), the highest percentage (34.7%) answered "There are no particular problems," while the next highest percentage (31.5%) answered "Making the judgment whether to evacuate expatriate staff and families or not" (multiple answers allowed; valid responses: 124 companies). It would appear that making the judgment whether to evacuate expatriate staff and families or not is an important issue since according to the World Health Organization (WHO) Indonesia also has the largest number of reports (cumulative over the period 2003 - 2009) of human cases of highly pathogenic H5N1 influenza (avian flu).

A look at respondent companies' main countermeasures against the spread of this new influenza strain (multiple answers allowed; valid responses: 123 companies) shows that "Health education concerning covering the mouth when coughing and hand washing," given by the second highest percentage in the previous survey, rose to first place (61.0%) in this survey. Next came "Stockpiling daily items, masks and disinfectants" (54.5%) in second place, while the top answer in the previous survey, "Stockpiling of anti-flu medicine," fell to third place (43.1%).

When respondent companies were asked if they planned to evacuate expatriate employees to their home countries or to surrounding countries if the new strain of influenza were to worsen in the future (valid responses: 121 companies), the most common answer was "Evacuation to home countries or surrounding countries of some expatriate employees only" (39.7%), followed by "Unknown" (22.3%) and, in a close third place, "Remain in the local area" (21.5%). Only a small percentage (13.2%) answered "Prompt evacuation to home countries or surrounding countries."

## **8. Exports/Imports: An Increase in Companies Using Free Trade Agreements (FTAs) and Economic Partnership Agreements (EPAs)**

### **(1) In export/import manufacturing, the percentage of companies using FTAs and EPAs has increased greatly**

Regarding use of bilateral and multilateral FTAs and EPAs, the most common response among respondent companies in export manufacturing (valid responses: 61 companies) was "Currently in use" (45.9%), reflecting an increase of 10.0 percentage points from the previous survey. A look at results by industry shows a high percentage answering "Currently in use" in the "Textiles" industry (80.0%). The answer "No plan to use" was given by 37.7% of respondent companies (vs. 44.6% in the previous year).

Among respondent companies in import manufacturing as well (valid responses: 78 companies), the highest percentage answered "Currently in use" (48.7%), reflecting an increase of 20.0 percentage points from the

previous survey. A look at these results by industry shows high percentages answering “Currently in use” in the “Motor vehicles and motorcycles” (66.7%), “Fabricated metal products” (60.0%), and “Motor vehicle and motorcycle parts and accessories” (57.1%) industries. The percentage of these respondent companies answering “No plan to use” was 26.9% (vs. 41.5% in the previous year).

On the other hand, among respondent companies in export non-manufacturing industries (valid responses: seven companies) 57.1% reported “No plan to use,” while 42.9% answered “Currently in use.” Even among respondent companies in import non-manufacturing industries (valid responses: 12 companies) the highest percentage answered “Currently in use” (58.3%), with a high percentage of “Trading company” (80.0%) reporting that they used FTAs and EPAs. The percentage of these respondent companies answering “No plan to use” was 16.7%.

**(2) The agreement most in use in export manufacturing was AFTA, while in imports it was the Japan-Indonesia EPA**

A look at use of individual FTAs and EPAs among respondent companies who reported that they were engaged in export and import activities shows that the highest percentage of respondents in export manufacturing (valid responses: 61 companies) reported using “AFTA” (26.2%). Next came the “Japan-Indonesia EPA (JIEPA),” cited in the answers of 24.6% of such companies, for an increase of 2.9 percentage points from the previous survey. Only 1.6% reported using the “ASEAN-China FTA (ACFTA).”

Results for import manufacturing (valid responses: 78 companies) showed a rapid increase of 26.6 percentage points from the previous survey in the percentage answering “JIEPA,” which was given by the highest percentage of respondent companies at 43.6%. Percentages using this EPA were high in the “Motor vehicles and motorcycles” (8 companies, 100%) and “Fabricated metal products” (6 companies, 100%) industries. In second place was “AFTA,” cited by 20.5% of respondents, followed by “ACFTA” at 7.7%.

At the same time, in export non-manufacturing (valid responses: 7 companies) both “JIEPA” and “AFTA” were cited by 28.6% of respondents. In import non-manufacturing (valid responses: 12 companies) 50% of companies answered that they used “JIEPA” and 41.7 reported using “AFTA.”

**Diagram 6: Use of EPAs/FTAs by main partner countries**

Upper row: manufacturing; lower row: non-manufacturing

Partner countries/regions in FTAs/EPAs in effect	Number of companies using FTA/EPA		Usage (%)	
	Export	Import	Export	Import
ASEAN (AFTA)	16	16	26.2	20.5
	2	5	28.6	41.7
Japan (JIEPA)	15	34	24.6	43.6
	2	6	28.6	50.0
China (ACFTA)	1	6	1.6	7.7
	1	2	14.3	16.7
South Korea (AKFTA)	2	2	3.3	2.6
	0	0	0.0	0.0

Valid response: manufacturing <61 export companies, 78 import companies>, non-manufacturing <7 export companies, 12 import companies>

### (3) No particular problems in use of FTAs

In export manufacturing (valid responses: 47 companies), when asked about problems in utilizing FTAs the highest percentage (44.7%) of respondent companies answered that “There are no specific problems.” The next most common answers were “The procedures for obtaining a certificate of origin are complicated” (29.8%) and “The cost of checking and issuing a certificate of origin is high” (12.8%).

In import manufacturing as well (valid responses: 62 companies), the highest percentage (37.1%) of respondent companies answered that “There are no specific problems,” followed by “Since custom tariff exemptions can already be enjoyed through investment benefit schemes, an FTA provide no advantages” (14.5%) and “Domestic sales for which custom tariffs are levied is small” (12.9%).

In export non-manufacturing (valid responses: 10 companies) and import non-manufacturing (valid responses: 15 companies) as well, the highest percentages answered that “There are no specific problems” (export non-manufacturing: 6 companies, 60.0%; import non-manufacturing: 9 companies, 60.0%), a sign that such companies face no particularly large problems in use of FTAs.

## 9. Wages

Base salary (monthly), annual salary per employee\* by type of job, and the number of valid responses for each are as follows.

Exchange rate: 1 rupiah = US dollar 0.000103 (average rate in September 2009, calculated using the CEIC database)

### Diagram 7: Wages (base monthly salary and annual salary per employee) by type of job

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

Industry	Job type	2009 survey			2008 (previous) survey		Note
		Base salary (monthly)	Bonus	Annual salary (*)	Base salary (monthly)	Annual salary (*)	
Manufacturing	Workers (general workers)	1,464,347 (65)	2.1 (65)	33,433,819 (58)	1,443,914 (99)	31,156,528 (93)	3 years of experience
	Engineers (core technicians)	2,818,216 (59)	2.2 (59)	55,651,199 (55)	2,829,929 (89)	50,398,132 (85)	Graduates from technical schools or college with 5 years of experience
	Managers (section managers in charge of sales or equivalent)	7,582,906 (60)	2.3 (60)	143,838,190 (55)	7,757,015 (93)	125,711,995 (85)	Graduates from university with 10 years of experience
Non-manufacturing	Staff (general workers)	2,852,943 (35)	1.9 (35)	50,489,000 (32)	2,846,305 (44)	45,545,194 (42)	3 years of experience
	Managers (section managers in charge of sales or equivalent)	9,426,794 (34)	2.0 (34)	156,600,375 (32)	8,234,043 (39)	136,557,599 (38)	Graduates from university with 10 years of experience

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

## Malaysia

### Targets of the survey and breakdown of respondents

- Survey period : September 1- October 15, 2009
- Number of companies contacted : 903 Japanese-affiliated companies operating in Malaysia (Based on the survey sent out)
- Number of respondents : 270 companies (manufacturing industry: 166; non-manufacturing industry: 104, based on valid responses)
- Breakdown of respondents by industry : As shown below

(Unit: Companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	8	4.8
Textiles (yarn, cloth, synthetic fabrics)	2	1.2
Lumber and wood products	1	0.6
Furniture and interior	2	1.2
Paper and pulp	3	1.8
Chemicals and petroleum products	8	4.8
Plastic products	12	7.2
Pharmaceuticals	1	0.6
Rubber products	5	3.0
Ceramics and cement	4	2.4
Iron and steel (including cast and forged products)	8	4.8
Nonferrous metals and products	7	4.2
Fabricated metal products (including plated products)	17	10.2
General machinery (including metal molds and machine	7	4.2
Electric machinery and electronic equipment	28	16.9
Electric and electronic parts and components	24	14.5
Motor vehicles and motorcycles	8	4.8
Motor vehicle and motorcycle parts and accessories	4	2.4
Precision instruments	1	0.6
Printing and publishing	1	0.6
Other	15	9.0
<b>Total</b>	<b>166</b>	<b>100.0</b>

Non-manufacturing industry		
Industry	No. of companies	Composition ratio
Distribution	1	1.0
Trading company	20	19.2
Sales company	21	20.2
Banking	3	2.9
Transport/warehousing	13	12.5
Legal/tax service	2	1.9
Hotel/travel/restaurant	2	1.9
Communications/software	5	4.8
Construction/plants	13	12.5
Other	24	23.1
<b>Total</b>	<b>104</b>	<b>100.0</b>

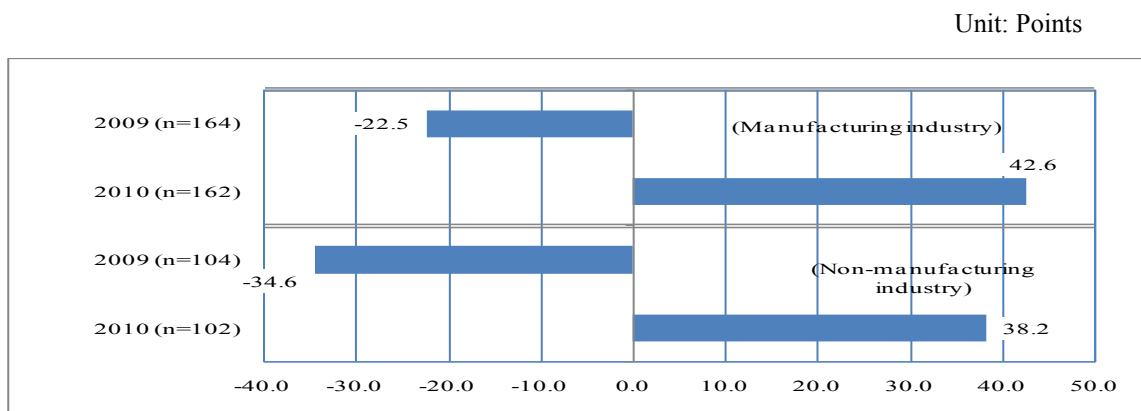
## 1. Operating profit forecast for 2010 expected to improve significantly

In terms of estimated operating profit for 2009, companies in the manufacturing industry (valid responses: 164 companies) replying that they expected to post a profit fell by 7.1 points from the previous survey to 54.9%. Companies in the non-manufacturing industry (valid responses: 104 companies) replying that they expected to post a profit fell by 15.5 points from the previous survey to 53.9%. In the non-manufacturing industry, trading companies fell substantially by 45.0 points from the previous survey, and construction/plants fell by 15.3%.

On the other hand, the operating profit forecast for 2010, in terms of the DI<sup>1</sup>, increased to 42.6 points in the manufacturing industry (valid responses: 162 companies), representing an increase of 65.1 points from 2009 (Diagram 1). As reasons for predicting an increase, the most frequent reply cited was “Increase in sales due to export expansion” (66.7%). A breakdown by industry revealed that the plastic products, fabricated metal products, and electric and electronic parts and components industries expected substantial increases of 72.7 points, 52.9 points, and 50.0 points, respectively.

In the non-manufacturing industry (valid responses: 102 companies), the operating profit forecast for 2010, in terms of the DI, increased by a large margin by 72.8 points from 2009 to 38.2 points. A breakdown by industry revealed that trading company, transport/warehousing, and sales company industries had substantial increases of 60.0 points, 53.9 points, and 40.0 points, respectively. As reasons for predicting an increase, the most frequent reply cited in all three industries was “Increase in local market sales.”

**Diagram 1: Operating profit forecast for 2009/2010, in terms of the DI**



## 2. Impact of economic recession

### (1) “Employment adjustments” and “Launching new business” top the list of measures against economic recession

The top three measures taken by companies in the manufacturing industry (multiple answers allowed; valid responses: 149 companies) in the past year since the global recession began due to the bankruptcy of Lehman Brothers in September, 2008, were “Employment adjustments” (60.4%), “Reduce costs through improved efficiency in production and/or sales” (57.1%), and “Reduce days/hours for sales and operations” (55.0%). In terms of employment adjustments made in the manufacturing industry, “Decrease” (54.6%) was the most

<sup>1</sup> DI or “diffusion index” refers to the difference obtained by subtracting the percentage of companies replying profits would “Worsen” from the percentage replying profits would “Improve.” It is an indicator of how business confidence changes.

frequently cited reply for employment of local-employees (non-regular) while “No change” (49.1% and 75.8%) was the most frequent reply cited for employment of both local employees (regular) and Japanese (expatriate) employees. These responses show that employment adjustments were made by mainly reducing non-regular local employees.

On the other hand, the top three measures taken by companies in the non-manufacturing industry (valid responses: 86 companies) were “Launch new business” (32.6%), “Employment adjustments” (31.4%), and “Cancel/postpone new investment/facility investment” (30.2%). “Launch new business” was the most frequent reply cited among the trading company industry (52.6%).

**(2) Prospects for capital investment over the next one year: “No change” in both manufacturing industry and non-manufacturing industry**

In terms of prospects for capital investment over the next one year (October 2009 - September 2010), among the manufacturing industry (valid responses: 165 companies), the percentage of companies replying “No change” (42.4%) exceeded the percentage replying “Increase” (37.6%). Companies among those replying “No change” were electric machinery and electronic equipment (46.4%), plastic products (36.4%), and electric and electronic parts and components (33.3%).

“No change” (50.0%) was also the most cited reply among companies in the non-manufacturing industry (valid responses: 98 companies). Concerning specific industry types, “Construction/plants” showed the highest percentage (76.9%) that replied “No change.”

**3. Business problems**

**(1) A “Difficulty in recruiting workers” in the manufacturing industry was the soaring problem concerning labor or employment**

In the manufacturing industry (multiple answers allowed, valid responses: 160 companies), “Difficulty in recruiting general workers” (49.4%), an “Increase in employee wages” (40.6%), and a “Low rate of worker retention” (40.0%) were the three most frequently cited problems concerning labor or employment (Diagram 2).

“Difficulty in recruiting general workers,” which was the sixth-ranked problem (34.6%) in the last survey, moved up to the first as the most frequently cited problem in this survey. This is assumed to be due to the Malaysian government’s imposition of a moratorium on the hiring of foreign workers in the manufacturing and service industries in January, 2009. For Japanese-affiliated companies whose production was back on course for recovery, the inability to secure sufficient workers has been a problem since the second quarter of 2009. In fact, “Restrictions on employing foreign workers,” which was the eighth-ranked problem (25.2%) in the last survey, moved up to fourth (38.8%) in this survey.

**Diagram 2: Problems with labor or employment (multiple answers allowed)**

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

		Valid responses	1st	2nd	3rd	4th	5th
Manufacturing industry	2008 survey	107	Increase in employee wages	Difficulty in recruiting engineer staff	Low rate of worker retention	Difficulty in recruiting middle management staff	Restrictions on staff dismissal and reduction
		100.0	59.8	49.5	43.9	37.4	36.5
	2009 survey	160	Difficulty in recruiting general worker (manufacturing only)	Increase in employee wages	Low rate of worker retention	Restrictions on employing foreign workers	Difficulty in recruiting engineer staff (manufacturing only)
		100.0	49.4	40.6	40.0	38.8	38.1
Non-manufacturing industry	2008 survey	67	Increase in employee wages	Difficulty in localizing managers and site supervisors	Restrictions on staff dismissal and reduction	Difficulty in recruiting engineer staff/personnel costs of Japanese (expatriate) officers and staff	Restrictions on employing foreign workers
		100.0	55.2	35.2	27.8	22.2	18.5
	2009 survey	89	Increase in employee wages	Personnel costs of Japanese (expatriate) officers and staff	Restrictions on staff dismissal and reduction	Difficulty in recruiting middle management staff	Difficulty in localizing managers and site supervisors
		100.0	44.9	29.2	28.1	27.0	25.8

In the non-manufacturing industry (valid responses: 89 companies), an “Increase in employee wages” (44.9%) was the most frequently cited problem, followed by “Personnel costs of Japanese (expatriate) officers and staff” (29.2%) and “Restrictions on staff dismissal and reduction” (28.1%). “Personnel costs of Japanese (expatriate) officers and staff” moved up from fifth (16.4%) in the last survey to second, and “Restrictions on staff dismissal and reduction” moved up from fifth (16.4%) to third. It appears that the global recession has added to the sense of urgency for cost reduction and termination of employment.

**(2) Problems in the localization of management: “No progress with development of local staff” was the most frequent response cited**

In terms of problems in the localization of management, in the manufacturing industry (multiple answers allowed, valid responses: 144 companies), “No progress with development of local staff” (62.5%) was the most frequently cited problem, followed by “Difficulty in recruiting executive staff” (49.3%), and “Capabilities in local planning and marketing are weak” (24.3%). The highest percentages of companies in the “Electric and electronic parts and components” industry (77.3%) replied “No progress with development of local staff.” Concerning “Problems with labor or employment,” “Low rate of worker retention” (56.5%) was also the most frequent reply cited from the electric and electronic parts and components industry. As evidenced by these replies, development of local staff has not been making much progress.

In the non-manufacturing industry (84 companies), the most frequently cited reply was “No progress with development of local staff” (53.6%). By industry, “Construction/plants” (72.7%), “Transport/warehousing” (69.2%), and “Trading companies” (58.8%) had high percentages of companies replying “No progress with development of local staff.” Other problems with high percentages were “Difficulty in recruiting executive staff” (44.1%) followed by “Difficulty in reduction of Japanese expatriate staff” (26.2%).

**4. Investment environment**

**(1) Advantages in the investment environment: “Stable political and social conditions” and “English is widely spoken” were ranked high**

In terms of advantages in the investment environment, in the manufacturing industry (multiple answers allowed, valid responses: 164 companies), “Stable political and social conditions” (72.0%) was the most frequently cited response; Malaysia had the second highest percentage of this response following Singapore



(86.2%) (Diagram 3). “English is widely spoken” (68.9%) and “A good living environment for expatriate staff” (36.6%) followed. The former response was ranked second following the Philippines (87.5%), and the latter response was ranked third following Singapore (63.8%) and Thailand (44.3%) in the ASEAN region.

In the non-manufacturing industry (95 companies), the top three responses cited were “English is widely spoken” (76.8%), “Stable political and social conditions” (71.6%), and “A good living environment for expatriate staff” (46.3%), which are the same top three responses in the manufacturing industry. Malaysia has a stable, safe environment is highly evaluated for both the manufacturing industry and the non-manufacturing industry.

**Diagram 3: Advantages in the investment environment**

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

	Valid responses	1st	2nd	3rd	4th	5th
Manufacturing industry	164	Stable political and social conditions	English is widely spoken	A good living environment for expatriate staff	Developed infrastructure (electricity, transportation, communication, etc.)	Tax incentives (corporate tax, export-and-import tariff, etc.)
	100.0	72.0	68.9	36.6	34.8	23.2
Non-manufacturing industry	95	English is widely spoken	Stable political and social conditions	A good living environment for expatriate staff	Developed infrastructure (electricity, transportation, communication, etc.)	Market scale/growth potential
	100.0	76.8	71.6	46.3	34.7	30.5

**(2) Disadvantages in the investment environment: “Unclear policy management by the local government” and “Complicated administrative procedures”**

In terms of disadvantages in the investment environment, in the manufacturing industry (multiple answers allowed, valid responses: 136 companies), “Unclear policy management by the local government” (49.3%) was the most frequently cited problem. This problem was ranked third in the previous survey, but moved up to first place this time. In 2009, the Malaysian government decided to implement mandatory standards for iron and steel products, called Certificate of Approval (COA), which has created confusion. In addition, repeated policy changes in restrictions on employing foreign workers have added to companies’ uncertainty over unclear policy management by the local government. The second cited problem was “Complicated administrative procedures (to acquire permits, etc.)” (33.1%), followed by “Underdeveloped infrastructure (electricity, transportation, communication, etc.)” (23.5%).

In the non-manufacturing industry (valid responses: 93 companies), companies in the “Trading company” industry (60.0%) had the highest percentage replying “Complicated administrative procedures (to acquire permits, etc.)” (48.4%), the most frequent problem cited. The “Transport/warehousing” industry had the highest percentage (76.9%) replying “Restrictions on foreign investment including restrictions on foreign capital ratio” (44.1%) ranking as the second most frequent problem cited. Since April 2009, the government of Malaysia has loosened a series of regulations in the service industry, while restrictions on foreign investment remain in place in the “Transport/warehousing” industry. Large percentages of the “Trading company” and “Construction/plants” industries (50% respectively) replied “Unclear policy management by the local government” (38.7%), ranking the third most frequently cited problem.

## **5. Future business development**

### **(1) Concerning business development for the next one to two years, “Status quo” is expected to increase from the previous survey**

In terms of the direction of each company’s business development over the next one to two years, “Status quo” accounted for 56.7 %, and “Expansion” 40.2% in the manufacturing industry (valid responses: 164 companies). Compared to the previous survey, “Status quo” increased by 9.1 points and “Expansion” decreased by 4.5 points. This shows the cautious stance of the companies towards business development. On the other hand, “Downsizing” accounted for 3.1% (5 companies) and “Move to a third country (region) or withdraw” was 0%, both of which represented decreases from the previous survey. These responses indicate that many companies will maintain their current business activities despite the impact of the global recession.

In the non-manufacturing industry (101 companies), “Status quo” (51.5%) and “Expansion” (41.6%) were the most frequently cited, with “Status quo” increasing 9.5 points and “Expansion” decreasing 14.9 points from the previous survey, indicating that business development has shifted from “Expansion” to “Status quo.” Also, “Downsizing” increased 3.5 points (5 companies) and “Move to a third country (region) or withdraw” increased two points (2 companies) from the previous survey, indicating that the industry has been in strained circumstances due to the impact of the economic slump.

### **(2) Most promising markets are “China” in the manufacturing industry and “Vietnam” in the non-manufacturing industry**

As countries/regions to be expected as promising markets for operation/products over the next one to three years (multiple answers allowed), “China” (39.9%) was cited top in the manufacturing industry (valid responses: 153 companies) (Diagram 4). By industry, China was cited most frequently in the “Electric and electronic parts and components” (60.9%) and “Electric machinery and electronic equipment” (59.3%) industries. This indicates China is a promising market for Japanese-affiliated electrics and electronics manufacturers operating in Malaysia. The next promising market is the neighboring country of “Thailand” (30.7%), followed by “India” and “Malaysia” (both 29.4%). However, both the “Electric and electronic parts and components” and “Electric machinery and electronic equipment” industries had a higher percentage of companies choosing “India” as a promising market over “Thailand.” As evidenced by this fact, companies in Malaysia have shown increasing interest in entering the new giant market with a view to the ASEAN-India FTA, which came into force on January 2010.

In the non-manufacturing industry (valid responses: 74 companies), “Vietnam” (39.2%) was the most frequently cited country. By industry, the “Construction/plants” industry (45.5%) had a higher percentage of companies replying “Vietnam.” These companies are trying to seize business opportunities such as infrastructure projects in this newly opened country. “Trading company” (38.9%) and “Construction/plants” (36.4%) had higher percentages of companies replying “India” (37.8%), ranking second, followed by “Malaysia” (36.5%).

**Diagram 4: Countries/regions with promising markets for future operation/products in the next one to three years (multiple answers allowed)**

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

	Valid responses	1st	2nd	3rd	4th	5th
Manufacturing industry	153	China	Thailand	Malaysia/India	Indonesia	Vietnam/Japan/ Europe
	100.0	39.9	30.7	29.4	20.9	20.3
Non-manufacturing industry	74	Vietnam	India	Malaysia	Indonesia	Thailand/China
	100.0	39.2	37.8	36.5	31.1	25.7

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

### (1) The breakdown of procurement sources: The local procurement ratio was highest

In terms of the breakdown of procurement sources (average), the “Local” procurement ratio was 43.1%, and the procurement ratio from “Japan” 30.0%, “ASEAN” 14.7%, and “Mainland China” 4.5%(Diagram 5). As with Malaysia, in Thailand, where many Japanese-affiliated companies are in operation, the “Local” procurement ratio was 55.6%, and the procurement ratio from “Japan” 31.7%, “ASEAN” 5.9%, and “Mainland China” 2.6%. Compared to Thailand, the local procurement ratio in Malaysia was low while the procurement ratios from ASEAN and mainland China were high.

When comparing Malaysia and Thailand, in terms of the breakdown of procurement sources of electric and electronic parts and components, the “Local” procurement ratio in Malaysia was 36.5% and that in Thailand 33.6%. The procurement ratio from “Japan” in Malaysia was 37.6%, and that in Thailand 42.1%. The procurement ratio from “ASEAN” in Malaysia was 15.7%, and in Thailand, 16.8%. The procurement ratio from “Mainland China” in Malaysia was 7.2%, and in Thailand, 6.0%. In terms of electric and electronic parts and components, the local procurement ratio and the procurement ratio from “China” were higher in Malaysia than in Thailand, while the procurement ratios from “Japan” and “ASEAN” were lower in Malaysia than in Thailand.

### (2) Procurement ratio from local firms exceeds that of Thailand

In terms of a breakdown of the local procurement ratio, the procurement ratio from “Japanese-affiliated firms” was 37.8% (average), “Local firms” 56.9% (average), and “Other foreign-affiliated firms” 5.3% (average). As can be seen, the procurement ratio from local firms was the highest. In Thailand, the local procurement ratio from “Japanese-affiliated firms” was 56.4%, “Local firms” 40.3%, and “Other foreign-affiliated firms” 3.3%, with the highest procurement ratio from “Japanese-affiliated firms.”

When comparing Malaysia and Thailand, in terms of the breakdown of local procurement sources of electric and electronic parts and components, the procurement ratio from “Japanese-affiliated firms” was 57.8% and 63.9% in Malaysia and Thailand respectively. The procurement ratio from “Local firms” was 38.9% and 29.3% in Malaysia and Thailand respectively. The procurement ratio from “Other foreign-affiliated firms” was 3.3% and 6.8% in Malaysia and Thailand respectively. In Malaysia, the procurement ratio from local firms was higher than that in Thailand, suggesting an abundance of local suppliers.

**Diagram 5: Local procurement ratio and breakdown of raw materials and parts (local, Japanese-affiliated, and other foreign-affiliated companies), as compared with Thailand**

Procurement sources	Valid responses	Composition ratio (%)		
		Malaysia Average procurement ratio	Valid responses	Thailand Average procurement ratio
Local procurement ratio	161	43.1	401	55.6
Procurement from local firms	138	56.9	374	40.3
Procurement from Japanese-affiliated firms	138	37.8	374	56.4
Procurement from other foreign-affiliated firms	138	5.3	374	3.3
Japan	161	30.0	401	31.7
ASEAN	161	14.7	401	5.9
Mainland China	161	4.5	401	2.6
Other	161	7.8	401	4.2

### (3) Difference in manufacturing costs with those of China has increased since the previous survey

Concerning manufacturing costs in Malaysia, assuming that the manufacturing cost of the same product is 100 at an affiliated company in China (valid response: 75 companies), the percentage of companies replying “100% to 150% or above” increased from 68.1% in the 2008 survey to 76.0%, almost the same percentage (76.1%) obtained in the 2007 survey. In the previous survey, the percentage replying “100% to less than 110%” (21.3%) was the highest, while in the current survey, the percentage replying “110% to less than 120%” (28.0%) was the highest.

In addition, the total percentage of companies answering the “Local manufacturing costs were 100% or more” was 76.0% in Malaysia and 63.5% in Thailand.

## 7. Measures against new influenza A (H1N1)

In terms of measures taken against new strains of influenza (valid responses: 264 companies in the manufacturing and non-manufacturing industries combined), “Stockpiling of daily necessities, masks, and disinfectants” (63.9%) and “Health education such as coughing etiquette and hand washing” (63.2%) were, respectively, the first and second most frequently cited replies, followed by “Preparation of manuals” (27.1%).

In terms of measures firms would take if a new influenza mutated into a more deadly strain (valid responses: 257 companies), the percentage of companies replying “Unknown” (33.5%) to evacuation to home countries or surrounding countries of expatriate employees was highest, revealing that no specific measures were taken by the companies. Other responses include “Remain in the local area” (26.1%), which slightly exceeded “Evacuation to home countries or surrounding countries of some expatriate employees only” (23.4%).

## 8. Exports/Imports

### (1) About 60% of companies do not plan to use FTAs/EPAs for exports and imports

In terms of the usage of bilateral/multilateral FTAs/EPAs, the highest percentage of companies in the manufacturing industry (valid responses: 137 companies) replied that they had “No plan to use” (59.1%) in export activities, which represented a slight increase by 0.7 points from the previous survey. A breakdown by industry revealed that high percentages of companies in the electric and electronic parts and components industry (78.3%), in the fabricated metal products industry (75.0%), and in the plastic products industry (70.0%) replied “No plan to use.” 27.0% of companies replied “Currently in use.”

The highest percentage of companies in the manufacturing industry (valid responses: 131 companies) also replied they had “No plan to use” (64.9%) FTAs/EPAs in import activities, representing an increase by 3.8 points from the previous survey. A breakdown by industry revealed that high percentages of companies in the electric and electronic parts and components industry (78.3%), in the fabricated metal products industry (76.9%), and in the electric machinery and electronic equipment industry (70.8%) replied “No plan to use.” Companies replying “Currently in use” accounted for 19.1%. The reply “No plan to use” was given by a larger percentage of export-oriented Japanese-affiliated companies, as they have been importing raw materials and parts free of duty through the Free Trade Zone (FTZ) and Licensed Manufacturing Warehouses (LMW) schemes, and also due to the fact that import tariffs for the products have been reduced in accordance with the development of the ASEAN Free Trade Area (AFTA).

On the other hand, the highest percentage of companies in the non-manufacturing industry (valid responses: 43 companies) replied that they had “No plan to use” (72.1%) in export activities while only 11.6% of companies replied “Currently in use.” Similarly, the highest percentage of companies in the non-manufacturing industry (valid responses: 51 companies) replied that they had “No plan to use” (62.8%) in import activities while 19.6% of companies replied “Currently in use.”

## **(2) AFTA is the most utilized FTA in export activities; Japan-Malaysia EPA, the most utilized in import Activities**

In the manufacturing industry for exports (valid answers: 137 companies), the utilization rate of the “ASEAN Free Trade Area (AFTA)” was the highest among companies replying that “They had export/import experience,” at 16.8%, representing a 1.9-point increase from the previous survey (Diagram 6). This was followed by the “Japan-Malaysia EPA (JMEPA), at 15.3%, which represented a 2.4-point increase. The utilization rate of the “ASEAN/China FTA (ACFTA)” was just 3.6%. In the manufacturing industry for imports (valid answers: 131 companies), the utilization rate of the “JMEPA” was the highest among companies at 13.7%, which represented a 1.1-point increase from the previous survey. This was followed by the “AFTA,” at 9.9%, representing a 0.4-point increase, and then the “ACFTA” at 6.1%.

On the other hand, in the non-manufacturing industry for exports (valid answers: 43 companies), the utilization rate of the “JMEPA” was as low as 4.7%, and “AFTA” and “Malaysia-Pakistan FTA” were 2.3%. Meanwhile, in the non-manufacturing industry for imports (valid answers: 51 companies), the utilization rate of the “JMEPA” was 15.7% and “AFTA” was 11.8%, both of which had double digit figures in the utilization rate.

## Diagram 6: Use of EPAs/FTAs by major partner country and region

Upper row: manufacturing industry, lower row: non-manufacturing industry

Entered into effect FTA/EPA counterpart/region	Number of firms using FTA/EPA		Utilizing rate (%)	
	Export	Import	Export	Import
ASEAN (AFTA)	23	13	16.8	9.9
	1	6	2.3	11.8
Japan (JMEPA)	21	18	15.3	13.7
	2	8	4.7	15.7
China (ACFTA)	5	8	3.6	6.1
	0	2	0.0	3.9
South Korea (AKFTA)	1	2	0.7	1.5
	0	0	0.0	0.0
Pakistan (Malaysia-Pakistan FTA)	0	0	0.0	0.0
	1	0	2.3	0.0

Valid responses: manufacturing industry <Export: 137, Import: 131>, non-manufacturing industry <Export: 43, Import: 51>

### (3) Problems of utilizing FTA: “No specific problems” most cited

In terms of problems utilizing FTA, the most frequent reply cited by companies in the manufacturing industry for exports (valid responses: 102 companies) was “No specific problems” (43.1%). This was followed by “No advantages to an FTA since the export destinations are exempt from payment of import duty” (25.5%) and “The procedures for obtaining a certificate of origin are complicated” (14.7%).

Also, the reply cited most frequent by companies in the manufacturing industry for imports (valid responses: 100 companies) was “No specific problems” (44.0%), followed by “Since custom tariff exemptions can already be enjoyed through investment benefit schemes, an FTA provides no advantages” (27.0%) and “No advantages to an FTA since the general duty on the export destination is low” (10.0%).

The reply cited most frequently by companies in the non-manufacturing industry for exports (valid responses: 33 companies) was “No specific problems” (60.6%). The second most frequently reply cited was “The procedures for obtaining a certificate of origin are complicated,” at a mere 15.2%.

The most frequent reply cited by the companies in the non-manufacturing industry for imports (valid responses: 36 companies) was “No specific problems” (55.6%), followed by “Suppliers do not know the FTA/EPA scheme” at 19.4%.

## 9. Wages

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

\*1 Malaysian ringgit = US dollar 0.286 (Average rate as of September 2009; calculated using the CEIC database)

### Diagram 7: Wages (base salary and annual salary per employee) by type of job

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

Industry	Job type	2009 survey			2008 (previous) survey		Note
		Base salary (monthly)	Bonus	Annual salary (*)	Base salary (monthly)	Annual salary (*)	
Manufacturing industry	Workers (general workers)	897 (145)	1.6 (144)	14,677 (58)	1,024 (98)	16,625 (91)	3 years of experience
	Engineers (core technicians)	2,604 (131)	1.8 (131)	42,200 (109)	2,678 (89)	43,050 (82)	Graduates from technical schools or colleges with 5 years of experience
	Managers (section managers in charge of sales or equivalent)	5,193 (137)	1.9 (136)	79,688 (114)	5,288 (89)	80,903 (83)	Graduates from university with 10 years of experience
Non-manufacturing industry	Staff (general workers)	2,525 (90)	1.9 (88)	51,210 (77)	2,654 (58)	42,740 (52)	3 years of experience
	Managers (section managers in charge of sales or equivalent)	5,905 (82)	2.2 (80)	98,499 (70)	6,766 (55)	104,046 (50)	Graduates from university with 10 years of experience

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

## Myanmar

### Targets of the survey and breakdown of respondents

Survey period	: September 1 - October 15, 2009
Number of companies sent questionnaires	: 19 Japanese-affiliated companies operating in Myanmar
Number of valid respondents	: 17 companies (manufacturing industry: 6; non-manufacturing industry: 11)
Breakdown of valid respondents by industry	: As shown below

Industry	No. of companies	Composition ratio (%)	Industry	No. of companies	Composition ratio (%)
Apparel and textile products	3	50.0	Construction/plants	4	36.4
Foods, processed agricultural or marine products	1	16.7	Sales company	1	9.1
			Securities	1	9.1
Iron and steel (including cast and forged products)	1	16.7	Real estate	1	9.1
			Hotel/travel/restrant	1	9.1
Medical devices	1	16.7	Communications/software	1	9.1
Total(Manufacturing)	6	100.0	Other	2	18.2
			Total(Non-Manufacturing)	11	100.0

### 1. Business Outlook

Regarding expectations of Japanese-affiliated companies operating in Myanmar concerning 2009 operating profit, in both manufacturing and non-manufacturing industries combined four companies answered that they expected to post an operating profit, seven expected to break even, and five expected to post a loss (valid responses: 16 companies). When asked to compare 2009 operating profit with the previous year's figure, 10 companies answered that they expected results to "Improve," four expected them to "Show no change," and three expected them to "Worsen" (valid responses: 17 companies; see Diagram 1). While in other countries substantially more respondent companies expected results to "Worsen" than to "Improve," in Myanmar more expected them to "Improve" than to "Worsen." The most commonly cited reason for improvement was "Reduction in other costs (improved cost competitiveness)," given by four companies (valid responses: 10 companies).

When asked about forecasts of operating profit for 2010, 11 companies answered that they expected results to "Improve," four expected them to "Show no change," and two expected them to "Worsen" (valid responses: 17 companies). Among reason for improvement (valid responses: 11 companies), the top two responses were "Increase in local market sales" (4 companies) and "Increase in sales due to export expansion" (3 companies).

**Diagram 1: Operating profit for 2009 / 2010 (over the previous year;  
total for manufacturing and non-manufacturing industries combined)**

Upper row: respondent companies; lower row: composition ratio (%)

	Valid responses	Improve	No change	Worsen
2009	17	10	4	3
	100.0	58.8	23.5	17.7
2010	17	11	4	2
	100.0	64.7	23.5	11.8

## 2. Impact of Economic Recession

Four out of 16 respondent companies in both manufacturing and non-manufacturing industries combine that reported “No impact” from the global recession that began in October 2008, while the remaining 12 companies reported a “Significantly negative impact” or a “Slightly negative impact.” Companies handling products and services aimed at the Japanese market, such as apparel and textile products and communications/software, appear to have been affected by Japan’s worsening economy and contraction of its market.

When asked about measures taken in the past year since the global recession took hold, the most common answers among respondent companies in manufacturing industries were “Cancellation or postponement of new investment/facility investment” and “Reduction in days/hours for sales and operations,” each given by three out of five companies. In non-manufacturing industries, the most common answer was “Cancellation or postponement of new investment/facility investment,” given by three out of seven companies. No company in either the manufacturing or the non-manufacturing category answered “Closure/withdrawal of business base (including part of a business base).”

On the subject of expectations for capital investment over the next year (October 2009 - September 2010) compared to the past year (October 2008 - September 2009), answers from respondent companies in the manufacturing sector were split evenly with two of the six expecting capital investment to “Increase,” two expecting it to show “No change,” and two expecting it to “Decrease.” In contrast, in the non-manufacturing sector three of 11 companies expected capital investment to “Increase,” six expected it to show “No change,” none expected it to “Decrease,” and two answered “Not sure.”

## 3. Business Problems

Regarding problems in sales or other business activities (multiple answers allowed), in manufacturing industries the most common answer was “Decrease in sales prices due to global oversupply,” given by five of six companies, followed by “Sluggishness in major sales markets (consumption downturn),” given by four of six. In non-manufacturing industries, the most common answer was “Lack of progress in local deregulation,” given by five of 10 companies, followed by “No increase in new clients or markets,” given by three companies (see Diagram 2).

Regarding problems with labor or employment (multiple answers allowed), in manufacturing industries the most common answer was “Difficulty in recruiting middle management staff,” given by four of six companies, followed by “Low rate of worker retention,” given by three companies. In non-manufacturing industries as well, the most common answer was “Difficulty in recruiting middle management staff,” given by four of 10 companies,



followed by “Increase in employee wages,” “Difficulty in recruiting general staff,” and “Difficulty in localizing managers and site supervisors,” each given by three companies. Possible background reasons for the difficulty in recruitment in Myanmar are the outflow of workers to overseas jobs in nearby countries such as Singapore, Malaysia, and Thailand and to the Middle East, in addition to a shortage of skilled labor and supervisory personnel in light of the short history each industry has in the country.

Regarding problems in production (manufacturing only; multiple answers allowed), the most common answer was “Electric power shortage,” given by five of six companies. Power failures are frequent in Myanmar, where it is common for companies to generate their own electricity to cover shortages. This is a factor leading to increased costs. The next most common answer was “Difficulty in local procurement of parts and raw materials,” given by four companies.

Regarding problems in the localization of management (multiple answers allowed), in manufacturing industries the most common answer was “No progress with development of local staff,” given by five of six companies, followed by “Difficulty in recruiting executive staff,” given by three companies. In non-manufacturing industries, the most common answers were “No progress with development of local staff” and “Difficulty in recruiting executive staff,” each given by six of eight companies. “No progress with development of local staff” was the top answer in nine of the 13 countries covered in this survey, and it can be said to be a difficulty common among these countries.

**Diagram 2: Business problems**

Subject		Valid responses	1st		2nd			3rd			
Problems in sales or other business activities	Manufacturing	6	Decrease in sales prices due to global oversupply		Sluggishness in major sales markets (consumption downturn)			Decrease in production orders from headquarters			
		100.0	83.3		66.7			33.3			
	Non-manufacturing	10	Lack of progress in local deregulation		No increase in new clients or markets			Decrease in production orders from headquarters	Decrease in orders from clients	Sluggishness in major sales markets (consumption downturn)	Competitors' growing market shares (cost-wise competition)
		100.0	50.0		30.0			20.0			
Problems with labor or employment	Manufacturing	6	Difficulty in recruiting middle management staff		Low rate of worker retention			Difficulty in recruiting engineer staff	Restrictions on staff dismissal and reduction	Difficulty in localizing managers and site supervisors	
		100.0	66.7		50.0			33.3			
	Non-manufacturing	10	Difficulty in recruiting middle management staff		Increase in employee wages	Difficulty in recruiting general staff	Difficulty in localizing managers and site supervisors	Low rate of worker retention		Personnel costs of Japanese (expatriate) officers and staff	
		100.0	40.0		30.0			20.0			
Problems in the foreign trade system	Manufacturing	6	Complicated customs clearance procedures		Lack of thorough publicizing of trade rules and regulations			Method for the assessment of customs duties is unclear			
		100.0	83.3		66.7			50.0			
	Non-manufacturing	7	Complicated customs clearance procedures	Lack of thorough publicizing of trade rules and regulations	Time-consuming customs procedures			Method for the assessment of customs duties is unclear			
		100.0	71.4		57.1			42.9			
Problems in production	Manufacturing	6	Electric power shortage		Difficulty in local procurement of parts and raw materials			Inadequate logistics in infrastructure			
		100.0	83.3		66.7			50.0			
Problems in localization of management	Manufacturing	6	No progress with development of local staff		Difficulty in recruiting executive staff			Difficulty in reduction of Japanese expatriate staff		Capabilities in developing local products and services are weak	
		100.0	83.3		50.0			33.3			
	Non-manufacturing	8	No progress with development of local staff	Difficulty in recruiting executive staff	A high turnover rate of executive staff	Capabilities in local planning and marketing are weak	Capabilities in developing local products and services are weak	Low-level language ability (Japanese and English)		Difficulty in reduction of Japanese expatriate staff	
		100.0	75.0		25.0			12.5			

#### 4. Investment Environment

Respondent companies were asked about advantages (strong points) and disadvantages (problems) in the investment environment in Myanmar (multiple answers; see Diagram 3). In manufacturing industries, all respondent companies cited “An abundance of staff due to low costs” as an advantage (valid responses: 5 companies). In addition, one company cited “An abundance of land/office space, cheap land prices/rent.” On the other hand, all companies cited “Underdeveloped infrastructure (electric power, transportation, communications, etc.),” “Unclear policy management by the local government,” and “Complicated administrative procedures (to acquire permits, etc.)” as disadvantages, and five companies cited “Unstable political and social conditions” (valid responses: 6 companies).

In non-manufacturing industries, the most common advantage cited was “Market scale/growth potential,” given by four respondent companies. In addition, “An abundance of staff due to low costs” and “English is widely spoken” each was given by three companies (valid responses: 10 companies). On the other hand, all companies cited “Underdeveloped infrastructure (electric power, transportation, communications, etc.)” as a disadvantage, nine companies cited “Unstable political and social conditions,” eight cited “Complicated administrative procedures (to acquire permits, etc.),” and seven cited “Unclear policy management by the local government” (valid responses: 11 companies).

Since Myanmar plans to hold its first general election in 20 years in 2010, attention is focused on future changes to the political and social situation. If everything goes according to plan, under the new constitution a new congress will meet, followed by transfer of power to a civilian government and establishment of a new government, completing the roadmap for democratization. It is expected that after the new government takes power, in preparation for the establishment of the ASEAN Economic Community in 2015 Myanmar, a member, will make progress on revision of various trade- and investment-related systems.

**Diagram 3: Advantages (strong points) and disadvantages (problems) in the investment environment (multiple answers allowed)**

Subject		Valid responses	1st			2nd		3rd	
Manufacturing	Advantages	5	An abundance of staff due to low costs			An abundance of land/office space, cheap land prices/rent		-	
		100.0	100.0			20.0		-	
	Disadvantages	6	Underdeveloped infrastructure (electric power, transportation, communications, etc.)	Unclear policy management by the local government	Complicated administrative procedures (to acquire permits, etc.)	Unstable political and social conditions		Underdeveloped economic and legal systems, and arbitrary application of the legal system	
		100.0	100.0			82.3		66.7	
Non-manufacturing	Advantages	10	Market scale/growth potential			An abundance of staff due to low costs	English is widely spoken	An abundance of land/office space, cheap land prices/rent	High quality staff
		100.0	40.0			30.0		10.0	
	Disadvantages	11	Underdeveloped infrastructure (electric power, transportation, communications, etc.)			Unstable political and social conditions		Complicated administrative procedures (to acquire permits, etc.)	
		100.0	100.0			81.8		72.7	

## 5. Future Business Development

Regarding directions for companies' business development over the next one to two years, in the manufacturing sector all respondent companies gave the answer "Status quo," with none answering either "Expansion" or "Downsizing" (valid responses: 5 companies). In contrast, in the manufacturing sector six companies answered "Expansion," with the remaining five companies answering "Status quo" and none giving the answers "Downsizing" or "Move to a third country (region) or withdraw" (valid responses: 11 companies). It is possible that two factors behind the large number of manufacturing companies answering "Status quo" is a wait-and-see attitude in preparation for the change of government in 2010 in addition to the recovery in the Japanese market, which is their primary export market.

When asked which countries show potential as markets for future operations/products over the next one to three years, in the manufacturing sector the top answer was "Japan" (given by 3 companies), with "CLM" (1 company) and China (1 company) also being cited (see Diagram 4). On the other hand, among answers from non-manufacturing companies "CLM" was in first place (4 companies), followed by "Japan" (2 companies) and "Vietnam" (1 company).

**Diagram 4: Promising markets for future operation /products in the next 1-3 years (top three countries/regions ranked 1 - 3; number of answering companies in parentheses)**

	Manufacturing (Valid responses: 5 companies)	Non-manufacturing (Valid responses: 7 companies)
1st	Japan (3 companies), CLM (1 company), China (1 company)	CLM (4 companies), Japan (2 companies), Vietnam (1 company)
2nd	China (2 companies), India (1 company), other Southwest Asia (1 company)	China (3 companies), Singapore (1 company), India (1 company), Middle East (1 company)
3rd	Vietnam, Middle East (1 company each)	Philippines, Thailand, CLM, Oceania, Russia, Middle East (1 company each)

Note: CLM refers to Cambodia, Laos, and Myanmar

## 6. Procurement of Raw Materials and Parts (Manufacturing Industries Only)

A look at a breakdown of procurement sources for raw materials and parts in manufacturing industries shows that three companies (in the industries of apparel and textile products and medical devices) reported “Local” procurement of less than 10% and one (in the foods, processed agricultural or marine products industry) reported 100% local procurement. The average rate of local procurement was 18.5% (answers had to total 100%; see Diagram 5). In addition, among other answers the average rate of procurement from Japan was 29.0%, that for Mainland China was 25.7%, and those for other Asian nations and ASEAN nations were 19.2% and 6.7%, respectively.

**Diagram 5: Breakdown of procurement sources and local procurement sources (average)**

(n=6)						
Japan	Mainland China	Other Asia	Local	ASEAN	Europe	Other
29.0%	25.7%	19.2%	18.5%	6.7%	0.8%	0.2%

A look at a breakdown of local procurement sources shows that there was no procurement from Japanese-affiliated companies operating in Myanmar. Regarding procurement from local companies, in the apparel and textile products industry one company procured 10% to less than 20% of local procurement from local companies and one procured 100% from local companies. In the medical devices industry, 100% of local procurement was from local companies. One company in the apparel and textile products industry reported 90% to less than 100% of local procurement was from other foreign-affiliated companies.

When companies were asked about manufacturing costs in Myanmar for their main products, assuming that the manufacturing cost of the same product is 100 at an affiliated company in China, two companies (in the apparel and textile products industry) replied “Less than 80%” (i.e., less expensive than China), one (in the apparel and textile products industry) replied “80% to less than 90%” (i.e., less expensive than China), and one (from the apparel and textile products industry) replied “110% to less than 120%” (i.e., more expensive than China). These results, which make it clear that manufacturing costs in the apparel industry are lower in Myanmar than in China, reflect one of Myanmar’s strengths.

## 7. Measures against new Influenza A (H1N1)

When asked what kind of problems they face in terms of response to the new strain of influenza (A/H1N1), among all respondent companies the most common answer was “Procurement of flu vaccines,” given by 10

companies. Next came “Procurement of masks” and “There are no particular problems,” given by six companies (multiple answers; valid responses: 17 companies). When asked about their main countermeasures for the spread of the new influenza strain (multiple answers; valid responses: 17 companies), the most common answer was “Health education concerning covering the mouth when coughing and hand washing” (8 companies). Next came “No particular countermeasures have been taken” (7 companies) and “Stockpiling daily items, masks and disinfectants” (6 companies).

## **8. Exports/Imports and FTAs/EPAs**

When respondents were asked about the percentage of sales consisting of exports, five of six companies answered “100%” — meaning that they exported all their products. The average export ratio was 83.3%, the highest in the ASEAN region. Regarding export destinations, all companies in the apparel and textile products industry reported exporting all their production to Japan. These results, together with the fact that the values of Japan’s apparel imports from Myanmar have shown strong growth in recent years, indicate that Myanmar has been positioned as a base for export-oriented production. In addition, companies in the foods, processed agricultural or marine products and medical devices industries reported exports to ASEAN nations as well.

When companies in manufacturing industries were asked about use of FTAs and EPAs, for exports one company (in the foods, processed agricultural or marine products industry, using the ASEAN-Japan Comprehensive Economic Partnership [AJCEP]), reported that they were “Currently in use” and two companies (in the apparel and textile products and medical devices industries) reported that they were “Considering using” them. For imports, no companies reported that FTAs and EPAs were “Currently in use” and three companies (in the apparel and textile products and medical devices industries) reported that they were “Considering using” them. In many cases, exports from Myanmar to Japan already are eligible for application of preferential tariffs. When asked about “Problem(s) of utilizing a FTA” for exports, a company in the apparel and textile products industry reported “General custom tariffs at export destinations are low, so an FTA provides no advantages. On the other hand, for imports apparel and textile products companies already enjoy exemption from tariffs on import of raw materials through use of the cutting, making and packing (CMP) system. These may be main causes of the low rate of use of FTAs.

## 9. Wages

Average base salary (monthly) and annual salary per employee\* by type of job in manufacturing and non-manufacturing industries are shown below (calculated by response currency; see Diagrams 6 and 7).

**Diagram 6: Wages (base monthly salary and annual salary per employee) by type of job, paid in USD**

Unit: USD; valid responses in parentheses

	Job type	Base salary (monthly)	Annual salary (*)	Bonus (months)
Manufacturing	Workers (general workers)	- (6)	- (6)	1.4 (6)
	Engineers (core technicians)	- (6)	- (6)	1.5 (6)
	Managers (section managers in charge of sales or equivalent)	- (6)	- (6)	1.5 (6)
Non-manufacturing	Workers (general workers)	121 (7)	1,414 (7)	1.3 (8)
	Managers (section managers in charge of sales or equivalent)	422 (8)	7,331 (8)	1.6 (9)

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

**Diagram 6: Wages (base monthly salary and annual salary per employee) by type of job, paid in kyat**

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

	Job type	Base salary (monthly)	Annual salary (*)	Bonus (months)
Manufacturing	Workers (general workers)	25,000 (6)	600,500 (6)	1.4 (6)
	Engineers (core technicians)	63,333 (6)	1,147,500 (6)	1.5 (6)
	Managers (section managers in charge of sales or equivalent)	129,950 (6)	2,702,333 (6)	1.5 (6)
Non-manufacturing	Workers (general workers)	100,000 (2)	1,280,000 (2)	1.3 (8)
	Managers (section managers in charge of sales or equivalent)	215,000 (2)	2,740,000 (2)	1.6 (9)

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

## Philippines

### Targets of the survey and breakdown of respondents

Survey period: September 1 – October 15, 2009  
 Number of companies contacted: 333 Japanese-affiliated companies operating in the Philippines  
 Number of respondents: 130 companies (manufacturing industry: 89; non-manufacturing industry: 41)

Breakdown of the respondents by industry: As shown below

(Unit: Companies, %)

Manufacturing industry			Non-manufacturing industry		
Industry	No. of company	Composition ratio	Industry	No. of company	Composition ratio
Food, processed agricultural or marine products	3	3.4	Trading company	7	17.1
Apparel and textile products	2	2.2	Sales company	3	7.3
Chemicals	4	4.5	Insurance	2	4.9
Plastic products	5	5.6	Transport/warehousing	3	7.3
Rubber products	4	4.5	Real estate	2	4.9
Ceramics and cement	1	1.1	Communications/software	4	9.8
Iron and steel (including cast and forged products)	3	3.4	Construction/plants	9	22.0
Nonferrous metals and products	2	2.2	Other services	11	26.8
Fabricated metal products (including plated products)	10	11.2	Total	41	100.0
General machinery (including metal molds and machine tools)	3	3.4			
Electric machinery and electrical equipment	9	10.1			
Electric and electronic parts and components	14	15.7			
Motor vehicles and motorcycles	3	3.4			
Motor vehicle and motorcycle parts and accessories	12	13.5			
Precision instruments	4	4.5			
Printing/publishing	1	1.1			
Other manufacturing	9	10.1			
Total	89	100.0			

Breakdown by region		
Region	No. of company	Composition ratio
Manila metropolitan area and its surroundings	65	50.0
Calabarzon and its surroundings*	34	26.2
Subic/Clark and its surroundings	5	3.8
Cebu island and its surroundings	21	16.2
Others	5	3.8
Total	130	100.0

\* Calabarzon: Cavite province, Laguna province, Batangas province, Rizal province, and Quezon province

Distribution of respondents : As shown below

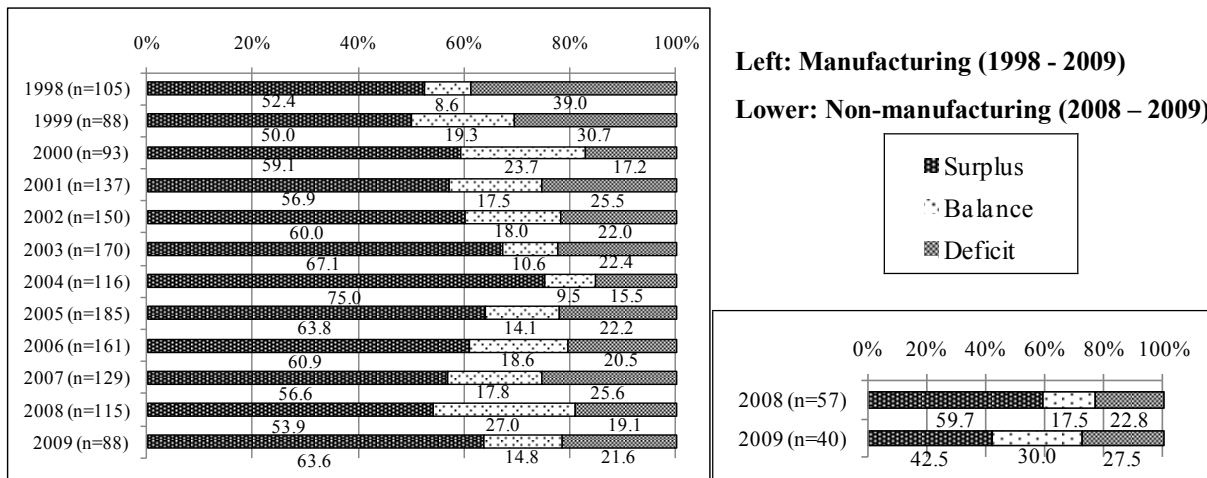
Manufacturing industry						Non-manufacturing industry					
<b>Year of establishment</b>						<b>Year of establishment</b>					
- 1985	- 1990	- 1995	- 2000	- 2005	- 2009	- 1985	- 1990	- 1995	- 2000	- 2005	- 2009
9 companies	10 companies	19 companies	33 companies	11 companies	5 companies	4 companies	6 companies	6 companies	12 companies	7 companies	5 companies
<b>Capitalization (million peso)</b>						<b>Capitalization (million peso)</b>					
- 10	- 50	- 100	- 500	- 1,000	Over 1,000	- 10	- 50	- 100	- 500	- 1,000	Over 1,000
4 companies	17 companies	8 companies	19 companies	9 companies	17 companies	8 companies	9 companies	3 companies	6 companies	3 companies	6 companies
<b>Percentage of Japanese capital (%)</b>						<b>Percentage of Japanese capital (%)</b>					
Less than 33	Less than 50	Less than 66	Less than 75	Less than 100	100	Less than 33	Less than 50	Less than 66	Less than 75	Less than 100	100
1 companies	2 companies	0 companies	5 companies	15 companies	58 companies	0 companies	8 companies	4 companies	1 companies	2 companies	21 companies
<b>Number of employees</b>						<b>Number of employees</b>					
- 50	- 100	- 250	- 500	- 1,000	Over 1,000	- 50	- 100	- 250	- 500	- 1,000	Over 1,000
8 companies	16 companies	26 companies	12 companies	10 companies	15 companies	24 companies	7 companies	4 companies	3 companies	1 companies	0 companies
<b>Percentage of regular employees (%)</b>						<b>Percentage of regular employees (%)</b>					
- 50	- 60	- 70	- 80	- 90	- 100	- 50	- 60	- 70	- 80	- 90	- 100
17 companies	14 companies	11 companies	13 companies	8 companies	18 companies	6 companies	3 companies	2 companies	2 companies	7 companies	17 companies
<b>Number of Japanese expatriates representatives for every 100 employees</b>						<b>Number of Japanese expatriates representatives for every 100 employees</b>					
0	- 0.5	- 1	- 1.5	- 2	Over 2.0	0	- 0.5	- 1	- 1.5	- 2	Over 2.0
5 companies	16 companies	17 companies	17 companies	6 companies	20 companies	4 companies	1 companies	3 companies	2 companies	1 companies	22 companies

## 1. Business outlook

### (1) Operating profit for 2009: The percentage of “Worsen” increased, compared to the previous year

With regard to the expected operating profit for 2009, 57.0% of respondents cited “Surplus”, 19.5% “Balance”, 23.4% “Deficit” (valid responses: total 129 manufacturing/ non-manufacturing companies). In the manufacturing industry, 63.6% of responding companies said “Surplus”, 14.8% “Balance”, and 21.6% “Deficit” (valid responses: 88 companies). In the non-manufacturing industry, 42.5% of responding companies said “Surplus”, 30.0% “Balance”, and 27.5% “Deficit” (valid responses: 40 companies).

**Diagram 1: Trend of estimated operating profit**



Furthermore, in terms of expected operating profit for 2009 compared to the previous year, 26.4% of respondents stated “Improve,” 31.0% “Show no change,” and as much as 42.6% stated “Worsen” (valid responses: total 129 manufacturing/non-manufacturing companies). In the manufacturing industry, 29.2% of responding companies stated “Improve,” 28.1% “Show no change” 28.1%, and 42.7% “Worsen” (valid responses: 89 companies). In the non-manufacturing industry, 20.0% of responding companies said “Improve”, 37.5% “Show no change”, and 42.5% “Worsen” (valid responses: 40 companies).

With regard to the reason(s) why the operating profit is expected to improve, most companies in the manufacturing industry cited “Increase in sales due to export expansion” (34.6%) (valid responses: 26 companies). Whereas, in the non-manufacturing industry, most companies cited “Reduction in personnel expenses” (62.5%) (valid responses: 8 companies). In terms of the reason(s) why the operating profit for 2009 is expected to worsen, in the manufacturing industry, companies that cited “Decrease in sales due to sluggish exports” were the largest in number (73.7%), followed by “Decrease in local market sales” (39.5%), and “Increase in procurement costs” (34.2%) (valid responses: 38 companies). In the non-manufacturing industry, “Decrease in local market sales” was the most cited reason (47.1%), and 35.3% of responding companies cited “Decrease in sales due to sluggish exports” (valid responses: 17 companies).

### (2) Operating profit for 2010: Both manufacturing and non-manufacturing industry is forecast to improve

In terms of the operating profit forecast for 2010, 41.7% of respondents cited “Improve,” 51.2% “Show no

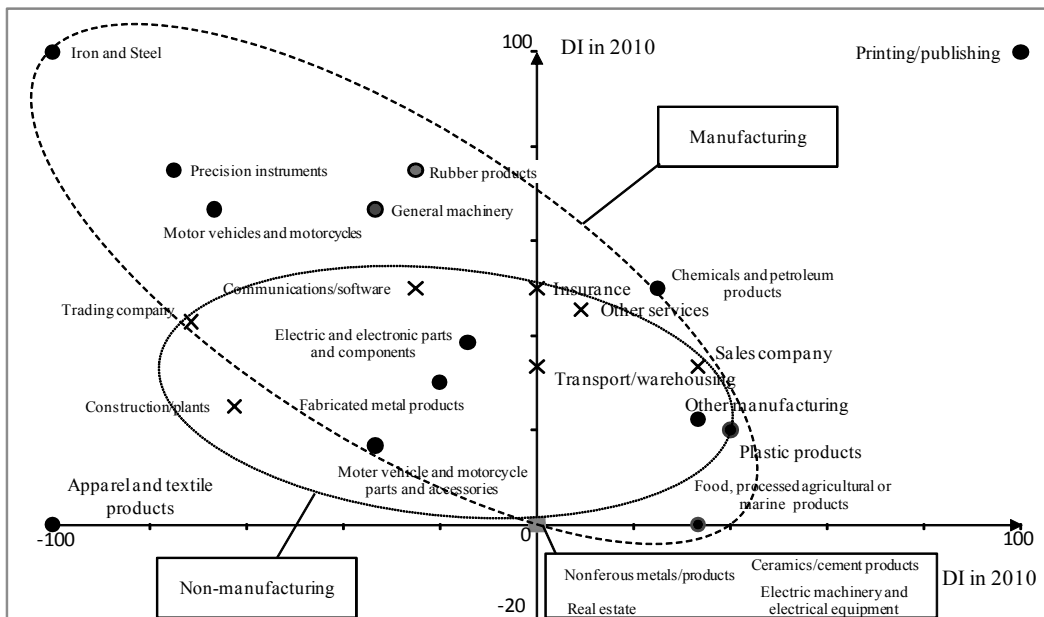


change,” and 7.1% “Worsen” (valid responses: total 127 manufacturing/non-manufacturing companies). As for the reason(s) why the operating profit for 2010 is forecast to improve, in both the manufacturing and non-manufacturing industries, companies that cited “Increase in sales due to export expansion” were the largest in number (71.4% and 50.0% respectively) (valid responses: the manufacturing industry: 35 companies, the non-manufacturing industry: 18 companies),

In terms of the industry-by-industry DI, industries for which “Improve” is greater than “Worsen” both in 2009 and 2010 include “printing/publishing,” “chemicals,” and “sales companies.” Company ‘A’ in the Printing/Publishing industry, in addition to their conventional main line of business; i.e., system integration with a focus on advertising and computer sales, launched new businesses such as those related to environment and education. Although its conventional business didn’t go well, in terms of both sales and profit due to the adverse impact of the financial crisis, the company representative stated, in the post-survey interview, “The forecast is excellent for the new businesses, for which we’ve been making a lot of efforts in preparation. Their sales are forecast to exceed those of the conventional business by a large margin.”

In the manufacturing industry, many companies expect the operating profit to improve in 2010 as it worsened in 2009 (Diagram 2, broken line). On the other hand, the ratio of the companies that cited “Improve” in the non-manufacturing industry is not as high as that of the manufacturing industry. Many companies cited “Show no change” regardless of whether their expected performances for 2009 were “Improve” or “Worsen.”

**Diagram 2: Operating profit forecast compared to the previous year in terms of DI value  
(Horizontal axis: 2009; Vertical axis: 2010)**



## 2. Impact of economic recession

Regarding the impact of global recession on business since the financial crisis, 59.6% of respondents in the manufacturing industry said that it has had “Significantly negative impact.” Whereas, 28.1% said “Slightly negative impact” (valid responses: 89 companies). In the non-manufacturing industry, “Significantly negative

impact” accounted for 51.2%, “Slightly negative impact” 34.2%, and “No impact” 14.6%, while no company suggested “positive impact” (valid responses: 41 companies).

In terms of the time the sales reached (will reach) their lowest point, the percentage of the companies that indicated “January – March 2009” was the highest (39.1%) (valid responses: total 110 manufacturing/non-manufacturing companies). As for the time the sales will recover (recovered) to pre-Lehman shock level (prior to September 2008), the percentage of the companies that replied “Not sure” was 30.9%, and 25.5% indicated “July-September 2009” (valid responses: 110 companies).

In terms of “the measures the company has taken in the past 1 year since the global recession took hold,” in the manufacturing industry, 74.0% of responding companies mentioned “Employment adjustment,” 58.4% “Cancellation or postponement of new investment/facility investment,” and 53.3% “Reduction in costs through improved efficiency of production and sales” (valid responses: 77 companies). In the non-manufacturing industry, 48.5% mentioned “Launching new business” and 42.4% “Employment adjustment” (valid responses: 33 companies).

With regard to changes in the number of employees from the Lehman shock (September 2008) to the survey time (September 2009), in the manufacturing industry, a number of companies reduced the number of non-permanent local employees (48.8%).

On the other hand, in terms of the forecast for the next one-year period from the survey time, many companies are considering an increase in permanent/non-permanent local employees.

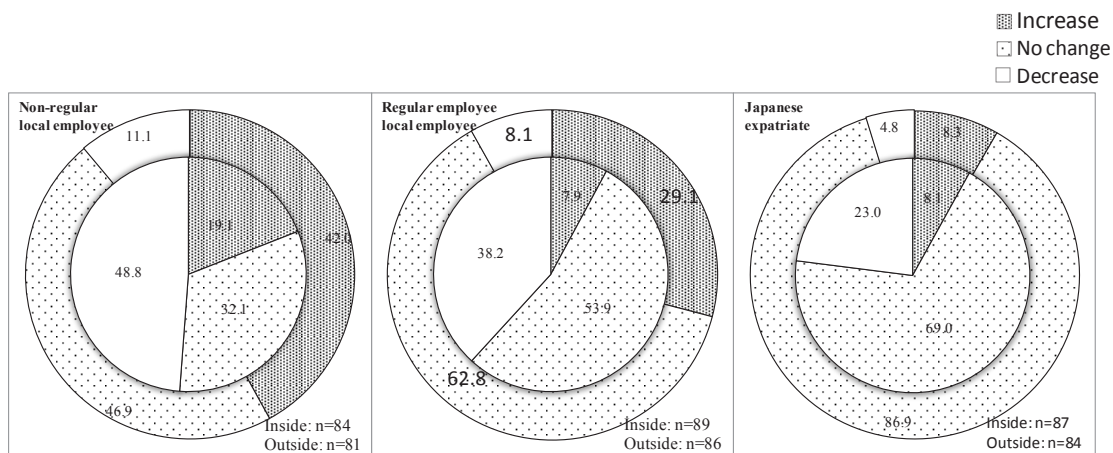
In the non-manufacturing industry, many companies indicated “No change” both in the past one-year period and in that to come. A relatively high percentage of companies said that, although there won’t be much change in the number of employees, they are going to increase the number of permanent local employees.

In terms of the capital investment forecast for the next one year, compared to the past one year, 28.9% of responding companies indicated “Increase,” 44.5% “No change,” and 14.1% “Decrease” (valid responses: 128 companies). In the manufacturing industry, 34.8% cited “Increase”; and among them, those companies that indicated “20% increase” accounted for 15.7% (valid responses: 89 companies).

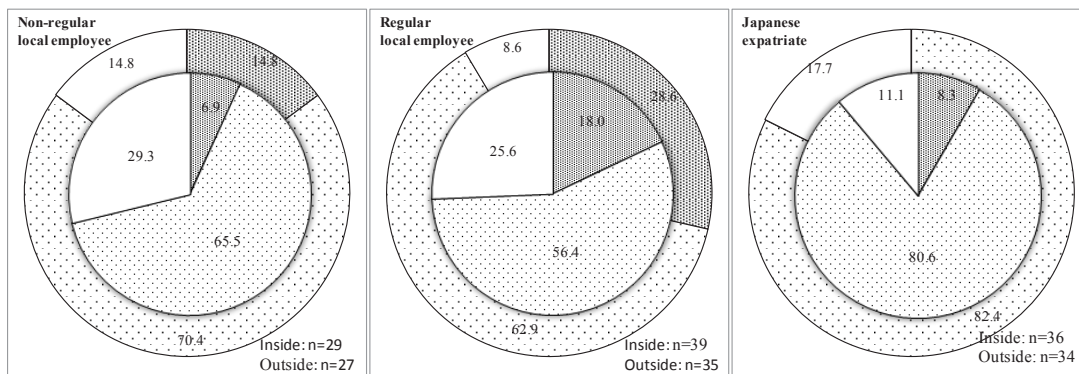
**Diagram 3: Changes in number of employees in the past one year and future forecast**

**(Manufacturing industry)**

Inside: Sept. 2008 – Sept. 2009 (at the time of the survey)  
 Outside: Sept. 2009 – Sept. 2010 (at the time of the survey)



**(Non-manufacturing industry)**



**3. Business problems**

Concerning the problem(s) in sales or other business activities, a high percentage of companies, both in the manufacturing and non-manufacturing industry, cited “Decrease in orders from clients,” accounting for 39.1% and 41.5% respectively (valid responses: manufacturing industry: 87 companies; non-manufacturing industry: 41 companies). In the non-manufacturing industry, a high percentage of respondents also cited “No increase in new clients or markets” (41.5%).

As for problem(s) in financial affairs, financing, or foreign exchange, in the manufacturing industry (valid responses: 85 companies), the percentage of companies that cited “Volatility of Peso exchange rate against the US dollar” was the highest (51.8%), followed by “Volatility of Yen exchange rate against the US dollar” (42.4%). In the non-manufacturing industry, “Tax burdens” was the highest (43.9%).

In regard to the problem(s) with labor or employment (multiple answers), in the manufacturing industry (valid responses: 84 companies), the percentage of the companies that cited “Increase in employee wages” accounted for 45.4%. In the non-manufacturing industry (valid responses: 38 companies), the most cited answer was “Personnel costs of Japanese (expatriate) officers and staff” (42.1%).

As for problem(s) in the foreign trade system, a high percentage of companies, on the whole, cited problems related to customs clearance, as 42.4% cited “Time-consuming customs procedures” and 39.4% “Complicated customs clearance procedures” (valid responses: total of manufacturing and non-manufacturing industries: 99 companies).

In terms of problem(s) in production, 60.0% of the companies cited “Difficulty in local procurement of parts and raw materials,” which is a problem peculiar to developing countries. Furthermore, the percentage of “Limited cost-cutting measures available” and “Difficulty in quality control” was also high (41.2% respectively) (valid responses: manufacturing industry only: 85 companies).

Concerning the problem(s) associated with the localization of management, 55.1% of responding companies cited “No progress with development of the local staff.” “Difficulty in recruiting executive staff” is also high (48.3%) (valid responses: total of manufacturing and non-manufacturing industry: 118 companies).

**Diagram 4: Business problems**

Item		Valid responses	1st		2nd		3rd		
Problem(s) in sales or other business activities	Manufacturing	87	Decrease in orders from clients		Major clients requesting lower prices		Competitors' growing market shares (cost-wise competition)		
		100.0	39.1		36.8		35.6		
	Non-manufacturing	41	No increase in new clients or markets	Decrease in orders from clients	Major clients requesting lower prices		Competitors' growing market shares (cost-wise competition)		
		100.0	41.5		26.8		24.4		
Problem(s) in financial affairs, financing, or foreign exchange	Manufacturing	85	Volatility of local currency's exchange rate against the US dollar		Volatility of the Japanese yen against the US dollar		Volatility of local currency's exchange rate against Yen		
		100.0	51.8		42.4		38.8		
	Non-manufacturing	41	Tax burdens (i.e. corporate taxes and transfer pricing taxes)		Insufficient cash flow necessary for business scale expansion	Volatility of local currency's exchange rate against the US dollar	Volatility of the Japanese yen against the US dollar		
		100.0	43.9		29.3		17.1		
Problem(s) with labor or employment	Manufacturing	84	Increase in employee wages		Restrictions on staff dismissal and reduction		Difficulty in recruiting middle management staff	Difficulty in localizing managers and site supervisors	
		100.0	46.4		38.1		36.9		
	Non-manufacturing	38	Personnel costs of Japanese (expatriate) officers and staff		Increase in employee wages		Difficulty in localizing managers and site supervisors		
		100.0	42.1		36.8		34.2		
Problem(s) in the foreign trade system	Manufacturing	70	Time-consuming customs procedures		Complicated customs clearance procedures		Lack of thorough publicizing of trade rules and regulations		
		100.0	45.7		40.0		38.6		
	Non-manufacturing	29	Complicated customs clearance procedures		Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	Others		
		100.0	37.9		34.5		31.0		
Problem(s) in production	Manufacturing	85	Difficulty in local procurement of parts and raw materials		Limited cost-cutting measures available	Difficulty in quality control	Increase in procurement costs		
		100.0	60.0		41.2		40.0		
Problems in implementing the localization of management	Manufacturing	81	No progress with development of local staff		Difficulty in recruiting executive staff		High turnover rate of executive staff		
		100.0	60.5		50.6		22.2		
	Non-manufacturing	37	Difficulty in recruiting executive staff	No progress with development of local staff	High turnover rate of executive staff		Difficulty in reduction of Japanese expatriate staff	No progress with the transfer of authority from head office to local level	Capability of local planning and marketing are weak
		100.0	43.2		24.3		16.2		

#### **4. Investment environment**

Concerning the advantages (strong points) in the investment environment, 84.3% of respondents cited “English is widely spoken”. In addition, many companies also cited “An abundance of staff due to low costs” (43.3%) (valid responses: total 127 manufacturing/non-manufacturing companies). The working population of the Philippines is around 35 million, about the same as that of Thailand. In terms of the composition of population, young adults (19 years old or under) account for 47% of the total population. Therefore, it is possible to say that the country has an environment where it is easier to get a young workforce than in surrounding countries. Moreover, among ASEAN countries, the Philippines is one of the prominent countries that are producing a lot of university-educated engineers, as there are as many as 40,000 graduates each year.

On the other hand, in terms of disadvantages (problem(s)), a remarkably large number of companies (69.8%) cited “Underdeveloped infrastructure.” Then there were many that cited “Unstable political and social conditions” (57.9%), followed by “Unclear policy management by the local government” (56.4%) (valid responses: total 126 manufacturing/non-manufacturing companies). As we can see from this, many companies, as far as investment is concerned, feel uneasy about the Philippine social infrastructure itself.

One of the examples of unclear policy management is the ad hoc announcement, from time to time, of special holidays (other than usual holidays) by presidential decree. As you are required to pay 30% extra wages for work done on special holidays (for initial 8 hours), if a special holiday is announced all of a sudden, companies have to revise their production plan. As many Japanese-affiliated companies are export-oriented, it is not rare that they keep the production line going even if they have to pay extra wages, because they don’t want to disturb their overseas delivery schedules. In addition, in 2009, as the end-of-Ramadan festival (special holidays) was treated as government-designated general holidays, a 100% penalty rate was applied to the first 8 hours of work for this period. Some of the Japanese-affiliated companies that had just moved to the Philippines are not used to such kind of ad hoc special holidays, and in some cases delivery was delayed.

#### **5. Future business Development**

In regard to the direction of business development over the next one to two years, 63.5% of the companies indicated “Status quo,” while 31.0% of the companies mentioned “Expansion” and 5.6% “Downsizing” (valid responses: total 126 manufacturing/non-manufacturing companies).

As for specific business plan(s) for expansion, the percentage of the companies that cited “Expansion of existing business scale through additional investment” was high (60.0%). In the non-manufacturing industry, many companies cited “Creation of new market (expand business/sales network)” (50.0%) (valid responses: manufacturing industry: 25 companies; non-manufacturing industry: 14 companies).

In terms of specific policy of downsizing, there were 3 companies that cited “Transfer the production of certain items to an affiliate in a third country,” mentioning Malaysia or Thailand as a destination of transfer. On the other hand, in the non-manufacturing industry, many companies cited “Integrate the bases within the local country (region).”

With regard to countries they consider to show potential as markets for future operation/products over the next 1-3 years, the most popular first choice was “China” (28.1%), followed by “the Philippines” (15.8%), and “Japan” (14.0%) (valid responses: manufacturing industry: 79 companies; non-manufacturing industry: 35

companies).

## **6. Procurement of Raw Materials and Parts**

### **(1) Mainly procured from Japan**

There seems to be no particular pattern in the answer (valid responses: 85 companies). 24.7% of respondents answered, the percentage of production costs attributable to materials such as raw materials and parts is, “50% to less than 60%.”

As for the source of procurement of raw materials and parts, on average, “Local” was 29.0%, “Japan” 50.1%, and “ASEAN” 14.6%, procurement from Japan accounting for half (valid responses: 86 companies). The breakdown of the source of local procurement is “Japan-affiliated companies operating in the Philippines” 60.8%, “Local companies” 35.3%, and “Other foreign-affiliated companies” 3.9%, showing that a high percentage of the companies are procuring raw materials and parts from Japan-affiliated companies in the Philippines (valid responses: 71 companies). In terms of future plan(s) for procurement, many companies said that it is important to increase the ratio of local procurement, 58.1% of the companies indicating “Increase ratio of local procurement,” 43.0% “Increase ratio of procurement from ASEAN,” and 23.3% “Maintain current ratios of local procurement” (valid responses: 86 companies).

Concerning the percentage of the total amount of imported raw materials and parts that are not subject to tariffs, 53.8% of responding companies replied “100%,” resulting in the second highest percentage among the 13 countries targeted by the survey and the highest in ASEAN.

As for the cost of production in the Philippines assuming the production cost of typical product is 100 units in China, 22.5% of responding companies said it would be “90 to less than 100,” 16.3% “100 to less than 110,” and 18.4% “110 to less than 120” (valid responses: 49 companies).

## **7. Measures against new influenza A (H1N1)**

In regard to the question, “What kind of problems is your company facing in terms of its response to the new strain of influenza (A/H1N1)?” 35.2% of the companies replied “There are no particular problems,” followed by “Procurement of flu vaccines” (30.4%) (valid responses: total 125 manufacturing/non-manufacturing companies).

As for the main countermeasures for the spread of the new influenza strain, 68.0% of respondents replied “Health education concerning covering the mouth when coughing and hand washing,” and 56.0% “Stockpiling daily items, masks, and disinfectants” (valid responses: total 125 manufacturing/ non-manufacturing companies). For example, as there are many people who work overseas in the Philippines, it is important for the companies to let the information be shared as much as possible by their employees concerning not only the health condition of the employees, but also that of the employees’ family members who came back from overseas work commitment (from infected countries). In addition, if the new strain of influenza again runs riot and impacts economic activities in the North America, there would inevitably be some impact.

## **8. Exports/Imports**

The percentage of export sales out of the total sales was 65.2% on average for the manufacturing industry,

resulting in the second highest ratio in ASEAN after Vietnam (valid responses: 86 companies). The Philippines has an investment benefit scheme where you are entitled to duty free import of materials and parts on condition that you export your products to third countries. Most of the Japanese-affiliated companies are either export-oriented companies or suppliers of export-oriented companies, and located in the export-processing zone for the purpose of receiving such benefits.

As for the export destination for the manufacturing industry, the percentage of “the Japanese market” is the greatest (52.8%), followed by “ASEAN” (22.9%) and “the US” (6.0%). Although more than half of the products are exported to the Japanese market, there are many cases where products are further processed in Japan and then exported to the US. They are exporting automobile parts and computer peripheral devices, mainly intermediate goods, directly to the US. Or, in some cases, they perform final processes in the country of export destination of intermediate goods, and export the final products to the US.

**Diagram 5: Use of FTAs/EPAs in the Philippines**

Number of companies (manufacturing industry): 89		Export	Import
Number of companies engaging in export/import		79.8% (71)	83.1% (74)
Currently in use		21.1% (15)	14.9% (11)
Considering using		18.3% (13)	14.9% (11)
No plan to use		60.6% (43)	70.3% (52)

FTA/EPA name	Export	Import
ASEAN Free Trade Area (AFTA)	15.5% (11)	12.2% (9)
Japan-Philippine Economic Partnership Agreement (JPEPA)	7.0% (5)	9.5% (7)
ASEAN-China Free Trade Area (ACFTA)	4.2% (3)	2.7% (2)
ASEAN-Korea Free Trade Area (AKFTA)	2.8% (2)	0.0% (0)

Number of companies (non-manufacturing industry): 41		Export	Import
Number of companies engaging in export/import		43.9% (18)	43.9% (18)
Currently in use		0% (0)	11.1% (2)
Considering using		22.2% (4)	22.2% (4)
No plan to use		77.8% (14)	66.7% (12)

FTA/EPA name	Export	Import
ASEAN Free Trade Area (AFTA)	0% (0)	11.1% (2)
Japan-Philippine Economic Partnership Agreement (JPEPA)	0% (0)	5.6% (1)

With regard to the use of FTA/EPA, 21.1% of respondents said “Currently in use” on the export side, 14.9% on the import side. The most frequently used FTA is “ASEAN Free Trade Area (AFTA),” as 11 companies on the export side, 9 companies on the import side, said that they are using it. Although most companies are not using it for export or import, we can see that it is used more for export than import. As mentioned above, most Japanese-affiliated companies are located in the Export Processing Zone. So long as companies are registered with the Philippine Economic Zone Authority (PEZA) or Board of Investment (BOI), import of raw materials and parts are exempted from duty. For this reason, there is no need to use FTA for their import for them.

In terms of the problem(s) of utilizing a FTA for export, many companies that have already been using FTA/EPA cited “The cost of checking and issuing a certificate of origin is high” or “The procedures for

obtaining a certificate of origin are complicated,” each accounting for 26.7%. On the other hand, 38.5% of “Considering using” companies cited “There are no specific problems,” and also, 41.9% of “No plan to use” companies indicated “There are no specific problems.” As many companies that are “Considering using” also cited “The procedures for obtaining a certificate of origin are complicated” and “Complexity arising because existing FTA/EPA regulations vary in different rules of origin,” each accounting for 23.1%, it seems that they have an impression that the system is cumbersome and complicated.

In terms of the problem(s) of utilizing a FTA for import, many companies that have already been using FTA/EPA cited “There are no specific problems” (54.5%). On the other hand, many companies that has no plan to use said, “Since custom tariff exemption can already be enjoyed through investment benefit scheme, an FTA provides no advantages” (34.5%), accounting for a high percentage of the total respondents together with “There are no specific problems” (30.8%).

**Diagram 6: Problem(s) of utilizing a FTA for export (by utilization, valid responses: 28 companies)**

	Currently in use	Considering using	No plan to use
<b>The cost of checking and issuing a certificate of origin is high</b>	<b>26.7</b>	0.0	0.0
<b>The procedures for obtaining a certificate of origin are complicated</b>	<b>26.7</b>	23.1	4.7
Complexity arising because existing FTA/EPA regulations vary in different rules of origin	13.3	23.1	4.7
There are no specific problems	13.3	<b>38.5</b>	<b>41.9</b>
Other	13.3	0.0	9.3
There is a reduction or exemption of custom tariffs at the export destination, so an FTA provides no advantages	6.7	7.7	9.3
Rules of Origin create too many obstacles	6.7	0.0	9.3
Parts suppliers do not know the FTA/EPA system and cannot obtain the necessary documentation	6.7	7.7	0.0
No FTA/EPA exists with the export destinations	6.7	0.0	4.7
General custom tariffs at export destinations are low, so an FTA provides no advantages	0.0	15.4	7.0



**Diagram 7: Problem(s) of utilizing a FTA for import (by utilization, valid responses: 38 companies)**

	Currently in use	Considering using	No plan to use
<b>There are no specific problems</b>	<b>54.5</b>	<b>27.3</b>	30.8
The difference between the FTAs graded custom tariff rate reductions and general custom tariffs is small, so there are no advantages	18.2	9.1	0.0
Suppliers do not know the FTA/EPA system	9.1	0.0	0.0
An FTA/EPA does not exist between the import destinations	9.1	0.0	1.9
Since custom tariff exemptions can already be enjoyed through investment benefit schemes (EPZ and investment incentives, etc.), an FTA provide no advantages	0.0	18.2	<b>40.4</b>
Domestic sales for which custom tariffs are levied is small	0.0	18.2	3.8
The FTA has not been acknowledged by the merchandizing trade	0.0	9.1	0.0
General custom tariffs are low, so an FTA provides no advantages	0.0	9.1	3.8
Other	0.0	9.1	3.8

## 9. Wages

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

1 Peso = 0.2077 US dollar (average rate for September 2009; Source: Bangko Sentral ng Pilipinas)

**Diagram 8: Overall wages (base monthly salary, bonus, and annual salary)**

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

	Job type	Base salary (monthly)	Bonus	Annual salary (*)	Note
Manufacturing industry	Workers (general workers)	10,653 (78)	1.5 (77)	173,611 (72)	3 years of experience
	Engineers (core technicians)	16,579 (70)	1.5 (70)	266,904 (66)	Graduates from technical schools or colleges with 5 years of experience
	Managers (section managers in charge of sales or equivalent)	41,562 (69)	1.6 (68)	671,811 (63)	Graduates from university with 10 years of experience
Non-manufacturing industry	Staff (general workers)	17,558 (37)	1.8 (36)	278,406 (34)	3 years of experience
	Managers (section managers in charge of sales or equivalent)	49,568 (36)	1.9 (35)	789,508 (33)	Graduates from university with 10 years of experience

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

**Diagram 9: Wages (base salary, bonus, and annual salary) by the region**

Manufacturing industry		Base salary (monthly)	Bonus	Annual salary (*)	Non-manufacturing industry		Base salary (monthly)	Bonus	Annual salary (*)
<b>Workers (general workers)</b>	Manila and its surroundings	14,239 (23)	1.6 (23)	221,589 (22)	<b>Staff (general workers)</b>	Manila and its surroundings	18,216 (30)	1.9 (29)	297,585 (27)
	Calabarzon and its surroundings	10,082 (29)	1.5 (27)	177,866 (25)		Calabarzon and its surroundings	13,333 (3)	1.1 (3)	203,000 (3)
	Subic/Clark and its surroundings	8,785 (4)	1.0 (4)	144,099 (4)		Subic/Clark and its surroundings	10,000 (1)	1.5 (1)	150,000 (1)
	Cebu island and its surroundings	7,392 (17)	1.4 (17)	118,906 (16)		Cebu island and its surroundings	17,723 (3)	1.6 (3)	224,000 (3)
<b>Engineers (core technicians)</b>	Manila and its surroundings	18,890 (21)	1.7 (21)	314,504 (20)	<b>Managers (section managers in charge of sales or equivalent)</b>	Manila and its surroundings	50,395 (29)	1.9 (28)	845,337 (26)
	Calabarzon and its surroundings	16,538 (25)	1.6 (26)	280,969 (22)		Calabarzon and its surroundings	43,333 (3)	1.7 (3)	606,667 (3)
	Subic/Clark and its surroundings	14,912 (4)	1.3 (4)	247,944 (4)		Subic/Clark and its surroundings	18,000 (1)	1.5 (1)	250,000 (1)
	Cebu island and its surroundings	13,213 (15)	1.6 (15)	192,800 (15)		Cebu island and its surroundings	58,333 (3)	1.8 (3)	668,333 (3)
<b>Managers (section managers in charge of sales or equivalent)</b>	Manila and its surroundings	48,786 (22)	1.8 (21)	864,926 (20)	Unit: peso/month; figures in parentheses are the number of valid responses (*) Annual salary per employee (annual total of base salary, allowances, social security costs, overtime, and bonuses, etc.)				
	Calabarzon and its surroundings	41,324 (23)	1.6 (24)	688,199 (20)					
	Subic/Clark and its surroundings	37,861 (4)	1.3 (4)	607,529 (4)					
	Cebu island and its surroundings	30,108 (15)	1.6 (15)	418,532 (14)					

## Singapore

### Targets of the survey and breakdown of respondents

- Survey period : September 1 - October 15, 2009
- Number of companies sent questionnaires : 742 Japanese-affiliated companies operating in Singapore  
(Based on the survey sent out)
- Number of respondents : 221 companies (manufacturing industry: 58;  
non-manufacturing industry: 163 based on valid responses)
- Breakdown of respondents by industry : As shown below

Manufacturing industry			Manufacturing industry		
Industry	No. of companies	Composition ratio	Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	7	12.1	Mining	1	0.6
Chemicals and petroleum products	17	29.3	Distribution	1	0.6
Plastic products	2	3.4	Trading company	34	20.9
Ceramics and cement	1	1.7	Sales company	62	38.0
Iron and steel (including cast and forged products)	2	3.4	Banking	2	1.2
Nonferrous metals and products	2	3.4	Insurance	2	1.2
Fabricated metal products (including plated products)	4	6.9	Transport/warehousing	13	8.0
General machinery (including metal molds and machine tools)	2	3.4	Real estate	1	0.6
Electric machinery and electronic equipment	5	8.6	Hotel/travel/restaurant	2	1.2
Electric and electronic parts and components	6	10.3	Communications/software	6	3.7
Motor vehicles and motorcycles	1	1.7	Construction/plants	13	8.0
Motor vehicle and motorcycle parts and accessories	1	1.7	Other	26	16.0
Printing and publishing	1	1.7	Total	163	100.0
Other	7	12.1			
Total	58	100.0			

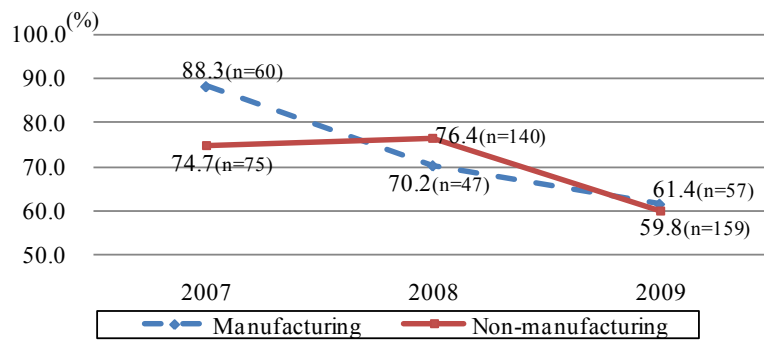
### 1. Operating profit forecast

#### (1) Declines in percentages of both manufacturers and non-manufacturers expecting to post operating profit

In terms of estimated operating profit for 2009, 60.2% of respondent companies replied that they expected to post a profit, while 22.2% said they expected to break even and 17.6% expected a loss (valid responses: 216 companies). The percentage of companies replying that they expected to post a profit showed a large decrease from 74.9% in the previous survey (on estimated operating profit for 2008). The extent of decrease is the second largest after Thailand among 17 countries/regions subject to the survey. Since the Singapore economy is highly dependent on foreign demand due to the nation-state's small domestic market, these results indicate the direct impact of the global economic downturn.

In comparison with the previous survey (2008), the percentages of respondent firms expecting to post operating profit has decreased in both manufacturing and non-manufacturing industries. However, the extent of the decrease was greater among non-manufacturing than among manufacturing industries.

**Diagram 1: Trend in respondent companies expecting to post operating profit (2007 - 2009)**



A look at the percentage of companies answering that they expected to post operating profit in top four industries in terms of numbers of respondent companies shows that 66.1% of sales companies (valid responses: 62 companies), 58.8% of trading companies (valid responses: 34 companies), 52.9% of chemicals and petroleum products companies (valid responses: 17 companies), and 69.2% of construction/plants companies (valid responses: 13 companies) gave that answer.

## (2) Nearly 50% of companies expect “improvement” in operating profit in 2010

A look at operating profit forecasts for 2010 shows that 48.6% of respondent companies expected it to “improve,” 38.3% expected it to “show no change,” and 13.1% expected it to “worsen.” Thus, the percentage expecting improvement was much larger than that expecting worsening (valid responses: 214 companies). In non-manufacturing industries in particular (valid responses: 158 companies), 50.0% said they expected improvement, an indication that such industries had brighter expectations than did manufacturing industries (44.6%).

A look at operating profit forecasts for 2010 by leading industry shows that 55.9% of trading companies expected it to “improve” while 14.7% expected it to “worsen” — a markedly more pronounced tendency toward expectation of a recovery in business performance than in other industries. On the other hand, in the “construction/plants” industry, in which a high percentage of companies expected profits in 2009, the percentage expecting worsening in 2010 (23.1%) was higher than that expecting improvement (7.7%). It is thought that this is a result of a leveling off in 2010 of development of large-scale construction projects, such as multipurpose resorts with casinos, that have triggered growth until now, and of little prospect of new large-scale projects.

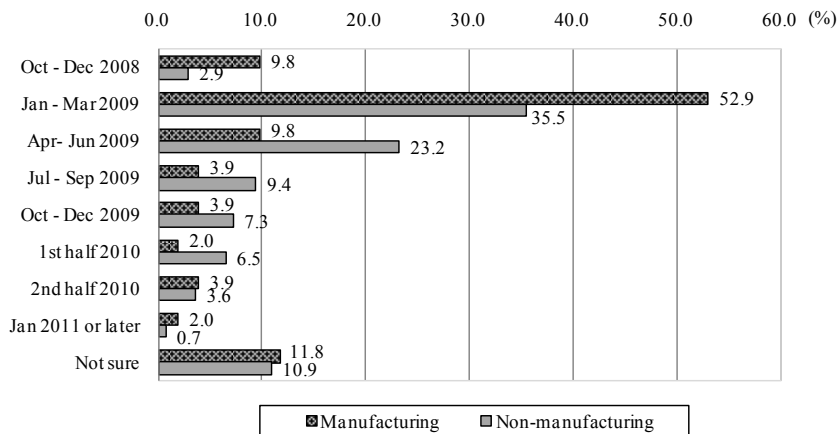
## 2. Impact of economic recession

### (1) More than 60% of companies say sales had bottomed out by the first half of 2009

When asked when their sales did or would reach their lowest point as a result of the global recession that began in October 2008, the highest percentage of respondent companies answered “January - March 2009” (40.2%), followed by “April - June 2009” (19.6%). When combined with those answering “October - December 2008” (4.8%), 64.6% of the companies said their sales had reached their lowest point by the first half of 2009 (valid responses: 189 companies). A look at the growth rate of the Singapore economy in comparison with the previous year also shows a recovering trend, after bottoming out in the first quarter of 2009.

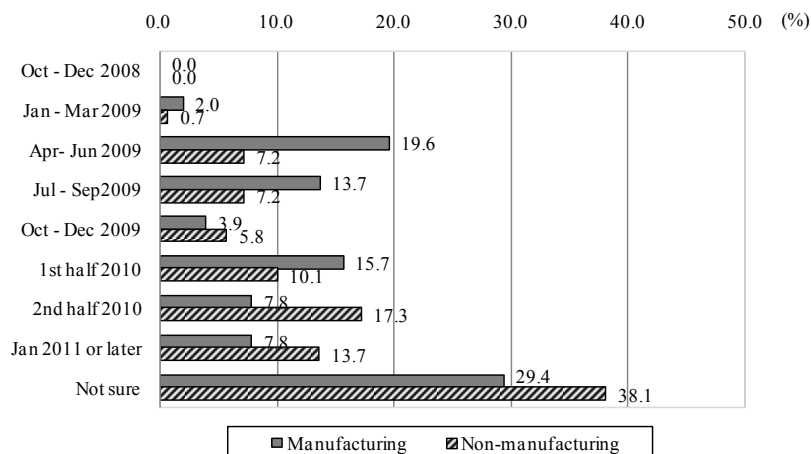
In manufacturing industries in particular (valid responses: 51 companies), the percentage of companies answering “January - March 2009” was 52.9%. Including this percentage, more than 70% of companies in these industries said that sales had bottomed out by the first half of 2009, a sign that the recovery in these industries began at an earlier stage than in non-manufacturing industries.

**Diagram 2: When sales did (or will) reach their lowest point**



At the same time, when asked when their sales did or would recover to a pre-financial crisis level (prior to September 2008), the highest percentages in both manufacturing and non-manufacturing industries — 35.8% of firms in both categories combined (valid responses: 190 companies) — answered “Not sure.” In manufacturing industries, the next most common answer, “April - June 2009,” was given by a high percentage (19.6%) of respondents, indicating that companies in those industries expected an earlier recovery than did those in non-manufacturing industries.

**Diagram 3: When sales did (or will) recover to a pre-financial crisis level**



**(2) A movement toward launching new businesses, centered on service industries**

When respondent companies were asked what measures they had taken in the past year since the global recession took hold (multiple answers allowed), the most common response was “reduction in costs through

improved efficiency of production and sales,” given by 41.9% of respondents, followed by “employment adjustments” (36.1%), “cancellation or postponement of new investment/facility investment,” (33.5%), and “launching new business” (30.9%), in that order (valid responses: 191 companies).

A high percentage of respondent companies in non-manufacturing industries (35.3%) answered “launching new business” (valid responses: 139 companies), particularly in “transport/warehousing” (50.0%) and “trading company” (44.8%). While companies took a diverse range of measures including cost reductions and employment adjustments, a new trend appears to have developed, centered on service industries, in which companies attempt to break out of the recession through launching new businesses.

### 3. Business problems

On the subject of problems in sales or other business activities, the most common answer was “competitors’ growing market shares,” given by 53.3% of respondent companies, followed by “sluggishness in major sales markets,” which also was given by more than 50% of respondent companies (valid responses: 214 companies). Thus, it appears that the economic downturn has forced companies to face tough business conditions in terms of both cost competition and a downturn in demand. High percentages of respondents cited exchange-rate volatility and costs of Japanese expatriate and local staff as well.

**Diagram 4: Business problems: top five answers**

Top: specific problem; bottom: percentage of companies citing problem (Unit: %)

	1st	2nd	3rd	4th	5th
Problem(s) in sales or other business activities n=214	Competitors’ growing market shares (cost-wise competition)	Sluggishness in major sales markets (consumption downturn)	Decrease in orders from clients	Major clients requesting lower prices	No increase in new clients or markets
	53.3	52.8	49.5	44.4	32.2
Problem(s) in production n=52	Limited cost-cutting measures available	Increase in procurement costs	Difficulty in quality control	Difficulty in local procurement of parts and raw materials	Insufficient production capacity due to lack of facilities
	59.6	53.9	30.8	23.1	15.4
Problem(s) in financial affairs, financing, or foreign exchange n=221	Volatility of local currency’s exchange rate against the US dollar	Volatility of local currency’s exchange rate against the Japanese yen	Volatility of the Japanese yen against the US dollar	Insufficient cash flow necessary for business scale expansion	Tax burdens (i.e. corporate taxes and transfer pricing taxes)
	44.7	43.2	31.0	12.2	8.6
Problem(s) with labor or employment n=221	Personnel costs of Japanese (expatriate) officers and staff	Increase in employee wages	Low rate of worker retention	Difficulty in recruiting middle management staff	Difficulty in localizing managers and site supervisors
	47.3	45.3	21.4	19.9	17.4

### 4. Investment environment

Regarding advantages in the investment environment (multiple answers allowed), in both manufacturing and non-manufacturing industries the highest percentage of respondent companies answered that “stable political and social conditions” were such an advantage. The percentage of companies giving that answer reached 87.8%, the highest among all countries subject to the survey (valid responses: 213 companies). Other answers given by high percentages of respondents included “English is widely spoken” (62.9%), “a good living environment for expatriate staff” (60.6%), “ample infrastructure (electricity, transportation, telecommunications, etc.)” (53.1%),

and “tax incentives (corporate tax, export/import customs duties, etc.)” (50.7%). Each of the top five answers was given by more than 50% of respondents.

On the other hand, regarding disadvantages in the investment environment (multiple answers allowed), the highest percentage of companies answered “insufficient land/office space, rising land prices/rent,” an answer given by 68.0% of respondent companies in manufacturing industries (valid responses: 50 companies) and 82.4% of those in non-manufacturing industries (valid responses: 131 companies). All other answers were given by less than 5% of respondents, indicating that concerns of companies operating in Singapore are concentrated on “insufficient land/office space, rising land prices/rent.”

## **5. Future business development**

### **(1) A decreasing percentage of companies plan business “expansion”**

Regarding directions for companies’ business development over the next one to two years, 38.6% gave the answer “expansion,” 50.2% “status quo,” 8.4% “downsizing,” and 2.8% “move to a third country (region) or withdraw.” The percentage of companies intending to expand their businesses fell by 8.8 points from the level of 47.4% in the fiscal 2008 (previous year’s) survey (valid responses: 215 companies). These results indicate that one-half of Japanese-affiliated companies operating in Singapore are cautious about future prospects.

When companies answering that they planned future business “expansion” were asked the reasons why (specific business plans), 66.7% of those in manufacturing industries (valid responses: 21 companies) and 74.2% of those in non-manufacturing industries (valid responses: 62 companies) answered “creation of new markets (expand business/sales networks). Thus, the high percentages of companies in both manufacturing and non-manufacturing industries giving that answer stands out.

### **(2) A trend also is apparent toward relocation to neighboring countries for cost reasons**

On the other hand, when companies answering that they planned future business “downsizing” or to “move to a third country (region) or withdraw” (9 manufacturing and 15 non-manufacturing companies) were asked the reasons why (specific business plans), 52.2% (12 companies) answered “integrate the bases within the local country (region),” 39.1% (nine companies) “transfer certain products and services to an affiliate in a third country (region),” and 21.7% (five companies) “move the production base to a third country (region)” (valid responses: 23 companies).

Among companies answering either “move the production base to a third country (region)” or “transfer certain products and services to an affiliate in a third country (region)” (multiple answers allowed), the most commonly cited destinations for such relocation were Thailand and Malaysia, each given by five companies.

When asked the reasons they decided to move to the location given (multiple answers allowed), the highest number of companies — nine companies (81.8%) — answered “level of wages,” followed by “administrative and operation costs,” an answer that eight companies (72.3%) gave (valid responses: 11 companies).

### **(3) India is considered the most promising market**

When asked to rank the top three countries/regions they considered to show potential as markets for their companies’ future operations/products over the next one to three years, the country most commonly cited by

respondents was India, given by 23.2% of companies, followed by China at 13.8% and Singapore, their own location, by 12.3% (valid responses: 203 companies).

When the top three countries or regions chosen by respondent companies were ranked by scores derived by assigning three points to countries ranked most promising, two points to those ranked second most promising, and one point to those ranked third, the top three among manufacturing companies were India (52 points), China (45 points), and Thailand (42 points), while among non-manufacturing companies the top three were India (164 points), Vietnam (142 points), and Indonesia (120 points). Thus, India was ranked as the most promising market in both manufacturing and non-manufacturing industries.

**Diagram 5: Countries/regions considered to show potential as markets for future operations/products over the next one to three years**

Valid responses: 213 companies (56 in manufacturing and 147 in non-manufacturing industries)

Rank	Country	Total points	Manufacturing	Non-manufacturing
1	India	216	52	164
2	Vietnam	182	40	142
3	Thailand	150	42	108
	Indonesia	150	30	120
5	China	119	45	74

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

### (1) Approximately 40% of respondent companies reported local procurement of less than 10%

A breakdown of sources for procurement of raw materials and parts shows that the percentage of respondent companies reporting local procurement of 0% — that is, that they conducted absolutely no local procurement — was 22.6%, while 15.1% reported local procurement of 1% to less than 10%, so that nearly 40% of respondent companies reported local procurement of less than 10% (valid responses: 53 companies).

When these results are viewed by industry, local procurement was relatively high in the chemicals and petroleum products industry and low in the general machinery industry and electric and electronic parts and components industry. Local procurement across all industries averaged 35.8%, while procurement from other leading sources averaged 29.6 from Japan, 18.0% from ASEAN countries (other than Singapore), and 5.6% from China.

A breakdown of sources of locally procured parts and raw materials shows that across all industries the highest percentage of respondent companies reported procurement from “local companies,” at 44.1% on average, followed by “Japan-affiliated companies” at 40.8% and “other foreign-affiliated companies” at 15.1.

### (2) Plans to increase procurement from ASEAN countries

When asked about plans for procuring raw materials and parts in the future, 37.0% of respondent companies answered “increase ratio of procurement from ASEAN,” 35.2% “maintain ratio of local procurement,” and 22.2% “increase ratio of procurement from China” (valid responses: 54 companies). While in most leading ASEAN nations the percentage of respondent companies answering that they planned to increase the ratio of local procurement was overwhelmingly high, these results show that among companies operating in Singapore high percentages intend to increase their ratios of procurement from ASEAN and from China.



When asked what percentage of the total amount of raw materials and parts imported by their company is not subject to tariffs, 39.6% of respondent companies answered “100%” — that is, none of the raw materials and parts they import are subject to tariffs. On the other hand, the percentage answering “0%” was 25.0 percent. The industry to which tariffs apply to raw materials and parts to the greatest extent was the chemicals and petroleum products industry, in which while 26.7% of respondent companies said “100%” of the total amount of raw materials and parts imported by their company is not subject to tariffs, 40.0% answered that “0%” was not subject to tariffs.

## **7. Measures against new influenza A (H1N1): progress made on practical countermeasures**

Regarding problems (multiple answers allowed) respondent companies faced in responding to the new strain of influenza (A/H1N1), while the highest percentage (37.9%) answered “there are no particular problems,” answers such as “observing the health of staff who has returned from affected countries” (30.8%) and “Adopt different measures depending on severity of illness” (20.6%) were given by higher percentages than in other countries and regions. On the other hand, the answer “procurement of anti-flu medicine,” which was one of the top answers in other countries and regions, was given by only 9.4 percent.

When asked about their main countermeasures for the spread of the new influenza strain, 63.4% answered “stockpiling daily items, masks and disinfectants” and 59.2% “health education concerning covering the mouth when coughing and hand washing,” while 33.3% answered “preparation of a manual” and 30.5% “limiting business trips.”

## **8. Exports/Imports**

### **(1) A high percentage of exports is to ASEAN countries**

When respondents were asked about the percentage of their sales consisting of exports, in manufacturing industries the average was 70.8% (valid responses: 52 companies), while in non-manufacturing industries the average was 54.7% (valid responses: 114 companies). This export ratio was relatively low among non-manufacturing industries because industries focused on domestic services, such as the construction/plants and transport/warehousing industries, brought down the overall average. A look at the export ratios in leading manufacturing industries (only for those industries with valid responses from five or more companies) shows that all had high export ratios: 73.3% in the chemicals and petroleum products industry, 76.3% in electric and electronic parts and components, and 68.0% in electric machinery and electronic equipment.

A breakdown of export destinations shows that the highest percentage, 56.0%, went to ASEAN countries, followed by 9.7% to Japan and 6.0% to China. Viewed by industry, these results showed that the percentages of exports to ASEAN countries were high (69.8% and 59.6%, respectively) among sales companies and trading companies, which had high numbers of valid responses, pushing up the average percentage of exports to ASEAN countries among all industries. A breakdown (by average) of export destinations in manufacturing industries showed that the top three destinations were ASEAN countries at 39.3%, Japan at 15.0%, and China at 11.1%, in that order.

**(2) The FTA used most is AFTA**

Regarding usage of existing bilateral or multilateral FTAs or EPAs (i.e., those already in force) for import or export activities (applies only to companies carrying out import or export activities), the percentage of manufacturing companies answering that FTAs or EPAs were “currently in use” was 47.9% (23 companies) — the highest among all countries subject to the survey. For imports, only 2.6% (one company) used FTAs or EPAs. The reason for this low usage of FTAs or EPAs in imports is the fact that import tariffs already have been eliminated for almost all products (under most-favored-nation tariff rates).

Among non-manufacturing industries, while for exports 19.6% (20 companies) answered that FTAs or EPAs were “currently in use,” more than one-half (51.0%) said they had “no plan to use” them. Meanwhile, for imports the situation differed from that among manufacturing industries, as a certain degree of respondent companies — 15.6% (15 companies) — answered that FTAs or EPAs were “currently in use.” A look at results by industry shows that use among trading companies and sales companies stands out, as it appears that these are used mainly in cases such as trilateral trade in which settlement is conducted based in Singapore, rather than in direct import transactions.

**Diagram 6: Use of FTAs/EPAs (exports, imports)**

Top: number of responding companies; bottom: percentage of total (%)

	Export				Import			
	Valid responses	Currently in use	Considering using	No plans to use	Valid responses	Currently in use	Considering using	No plans to use
Manufacturing	48	23	8	17	38	1	4	33
	100.0	47.9	16.7	35.4	100.0	2.6	10.5	86.8
Non-manufacturing	102	20	30	52	96	15	24	57
	100.0	19.6	29.4	51.0	100.0	15.6	25.0	59.4

A look at use of EPAs and FTAs by partner country or region shows that for exports the percentages of respondent companies using the ASEAN Free Trade Area (AFTA) was high both in manufacturing (37.5%, 18 companies) and non-manufacturing (12.7%, 13 companies). For imports, the percentage of companies using the Japan-Singapore FTA rose to 7.3% (seven companies) in non-manufacturing industries.

**Diagram 7: Use of FTAs/EPAs by major partner country**

Upper row: manufacturing; lower row: non-manufacturing

Partner countries/regions in FTAs/EPAs in effect	Number of companies using FTA/EPA		Usage (%)	
	Export	Import	Export	Import
ASEAN	18	0	37.5	0.0
	13	5	12.7	5.2
Japan	10	0	20.8	0.0
	5	7	4.9	7.3
China	10	1	20.8	2.6
	9	3	8.8	3.1
South Korea	8	0	16.7	0.0
	0	0	0.0	0.0
India	4	0	8.3	0.0
	3	1	2.9	1.0
Australia	6	1	12.5	2.6
	2	1	2.0	1.0
New Zealand	3	0	6.3	0.0
	0	0	0.0	0.0
Outside Asia/Oceania	1	0	2.1	0.0
	0	1	0.0	1.0

Valid responses: manufacturing 48 companies (export), 38 companies (import); non-manufacturing 102 companies (export), 96 companies (import)

## 9. Wages

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

Exchange rate: 1 SGD = US dollar 0.7032 (average rate in September 2009, calculated using the CEIC database)

**Diagram 8: Wages (base salary and annual salary per employee) by job type**

Units: SGD, bonuses in months times base salary; valid responses in parentheses

	Job type	Fiscal 2009 survey			Fiscal 2008 (previous) survey		Note
		Base salary (monthly)	Bonus	Annual salary (*)	Base salary (monthly)	Annual salary (*)	
Manufacturing	Workers (general workers)	1,375 (46)	2.0 (45)	29,652 (43)	1,517 (39)	31,203 (38)	3 years of experience
	Engineers (core technicians)	2,840 (39)	2.2 (39)	46,440 (36)	2,793 (35)	63,527 (34)	Graduates from technical school or university with 5 years of experience
	Managers (section managers in charge of sales or equivalent)	4,774 (43)	2.3 (43)	74,914 (39)	4,634 (38)	81,193 (37)	Graduates from university with 10 years of experience
Non-manufacturing	Staff (general workers)	3,314 (135)	2.2 (137)	50,700 (116)	2,607 (134)	39,211 (123)	3 years of experience
	Managers (section managers in charge of sales or equivalent)	5,740 (125)	2.3 (126)	88,968 (108)	5,253 (121)	79,276 (112)	Graduates from university with 10 years of experience

(\*) Annual salary cost refers to the total cost per employee (annual total of base salary, allowances, social security, overtime, bonuses, etc.)

## Thailand

### Targets of the survey and breakdown of respondents

- Survey period : September 1 - October 15, 2009
- Number of companies contacted : 1,572 Japanese-affiliated companies operating in Thailand  
(Based on the survey sent out)
- Number of respondents : 704 companies (manufacturing industry: 417;  
non-manufacturing industry: 176, based on valid responses)
- Breakdown of respondents by industry : As shown below

Industry	No. of companies	Composition ratio	Industry	No. of companies	Composition ratio
Motor vehicles and motorcycle parts and accessories	82	19.7	Trading company	81	28.2
			Sales company	54	18.8
Fabricated metal products (including plated products)	33	7.9	Transport/warehousing	32	11.1
			Construction/plants	23	8.0
General machinery (including metal molds and machine tools)	33	7.9	Communications/software	11	3.8
			Hotel/travel/restaurant	8	2.8
Plastic product	30	7.2	Distribution	5	1.7
Electric machinery and electronic equipment	29	7.0	Insurance	5	1.7
			Banking	2	0.7
Chemical and petroleum products	26	6.2	Judicial affairs/taxation	2	0.7
Electric and electronic parts and components	26	6.2	Mining	1	0.3
			Other	63	22.0
Foods, processed agricultural or marine products	23	5.5	Total (Non-manufacturing)	287	100.0
Iron and steel (including cast and forged products)	20	4.8			
Textiles (yarn, cloth, synthetic fabrics)	14	3.4			
Motor vehicles and motorcycles	14	3.4			
Nonferrous metals and products	13	3.1			
Apparel and textile products	8	1.9			
Rubber products	7	1.7			
Ceramics and cement	6	1.4			
Printing and publication	3	0.7			
Paper and pulp	2	0.5			
Precision instruments	2	0.5			
Lumber and wood products	1	0.2			
Other	45	10.8			
Total (Manufacturing)	417	100.0			

### 1. Business outlook

#### (1) Nearly 70% of the companies in the manufacturing industry expecting operating profit for 2009 to “Worsen” from the previous year

In terms of the estimated operating profit for 2009, 61.6% of the Japanese-affiliated companies in the manufacturing industry operating in Thailand replied that they expected to post a “profit” (valid responses: 417 companies). A breakdown by industry revealed that large percentages of the respondents in motor vehicles and motorcycles (92.9%), chemical and petroleum products (84.6%), and foods, processed agricultural or marine

products (73.9%) expected to post profits. Meanwhile, 19.5% of the companies in the manufacturing industry replied that they expected operating profit for 2009 to “Improve” over the previous year, while 66.8% replied that it would “Worsen” (valid responses: 416 companies; Diagram 1). The estimated operating profit for 2009, in terms of the DI value (which is derived by subtracting the percentage of companies that replied estimated operating profit would “Worsen” from the percentage that replied that it would “Improve”) was -47.3 points. This is a substantial deterioration from the estimated operating profit for 2008 in terms of the DI value (7.8 points) in the previous survey. A breakdown by industry revealed that negative figures were especially large in iron and steel (-80.0 points), motor vehicles and motorcycles (-78.6 points), motor vehicle and motorcycle parts and accessories (-74.4 points) and fabricated metal products (-72.7 points). As reasons for the estimated operating profit to worsen (multiple answers allowed), the companies most often cited a “Decrease in local market sales” (79.8%), highlighting deteriorated domestic markets (valid responses: 277 companies). This top reason was followed by a “Decrease in sales due to sluggish exports” (58.5%). It is thought that contraction of the automotive market due to the global economic recession has broadly affected companies in Thailand, where many industries and companies are involved in automobile-related businesses in relation to materials, parts or components, and so on, resulting in the worsening corporate estimates for operating profit.

In the non-manufacturing industry, on the other hand, 54.0% of the Japanese-affiliated companies operating in Thailand replied that they expected to post an operating “profit” for 2009 (valid responses: 285 companies). A breakdown by industry revealed that large percentages of the companies in the insurance (100%) and distribution (60.0%) expected to post profits. As for the operating profit forecast for 2009, 22.5% of the companies replied that it would “Improve” over the previous year, while 56.5% replied that it would “Worsen.” As a result, the DI value stood at -34.0 points. A breakdown by industry revealed that negative figures were especially large in construction/plants (-65.2 points), and hotel/travel/restaurant (-50.0 points). As reasons for the estimated operating profit to worsen, just as in the case of the manufacturing industry, a “Decrease in local market sales” (75.5%) was the most cited reply, which outnumbered the second-ranked reason of a “Decrease in sales due to sluggish exports” (32.7%) (valid responses: 159 companies).

## **(2) About 60% of the companies expecting operating profit for 2010 to “Improve” over the previous year**

In sharp contrast, many of the companies, both in the manufacturing industry and in the non-manufacturing industry, replied that they expected operating profit in 2010 to improve. In the manufacturing industry, about 60% of the companies expected an improvement in operating profit for 2010: 59.8% of the companies replied that it would “Improve” over 2009, while 32.7% replied that it would “Show no change,” and 7.6% replied that it would “Worsen” (valid responses: 410 companies). The DI value was 52.2 points, making a large positive swing from the negative outlook for 2009. A breakdown by industry revealed that positive figures were especially large in fabricated metal products (71.9 points), chemical and petroleum products (65.4 points), nonferrous metals and products (61.5 points), and motor vehicles and motorcycles (57.2 points). As reasons for the estimated operating profit to improve (multiple answers allowed), an “Increase in local market sales” (75.1%) was the most often cited reply, followed by an “Increase in sales due to export expansion” (57.1%) (valid responses: 245 companies).

In the non-manufacturing industry, on the other hand, 56.5% of the companies replied that operating profit

for 2010 would “Improve” over 2009, while 33.6% replied that it would “Show no change” and 9.9% replied that it would “Worsen.” The DI value was 46.6 points, indicating a trend toward improvement similar to that in the manufacturing industry (valid responses: 283 companies). A breakdown by industry revealed that positive figures were large among trading companies (56.3 points) and communications/software (54.6 points). As reasons for the estimated operating profit to improve, the companies most often cited an “Increase in local market sales” (77.5%) (valid responses: 160 companies).

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

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

	Manufacturing					Non-manufacturing				
	Valid responses	Improve	Show no change	Worsen	DI	Valid responses	Improve	Show no change	Worsen	DI
2009	416	81	57	278	-47.3	285	64	60	161	-34.0
	100.0	19.5	13.7	66.8		100.0	22.5	21.1	56.5	
2010	410	245	134	31	52.2	283	160	95	28	46.6
	100.0	59.8	32.7	7.6		100.0	56.5	33.6	9.9	

## 2. Impact of the economic recession and countermeasures

Concerning the impact of the global economic recession since October 2008, 90.4% of the companies in the manufacturing industry and 88.8% of the companies in the non-manufacturing industry replied that they had received “Significantly negative impact” or “Slightly negative impact,” revealing that the majority of companies have been affected (valid responses: 415 companies in the manufacturing industry, 286 companies in the non-manufacturing industry). In particular, all companies (100%) in iron and steel, fabricated metal products, electric and electronic parts and components, and motor vehicles and motorcycles reported that they had received a negative impact. On the other hand, 8.0% of the companies in the manufacturing industry and 9.1% of the companies in the non-manufacturing industry replied that they had received “No impact.” Among them, a relatively high percentage; more precisely, 60.9%, of companies in foods, processed agricultural or marine products reported that they had received “No impact.”

The survey asked the companies about the timing when their sales reached (or would reach) the lowest point after having been impacted by the recession. In the manufacturing industry, the most often cited reply was “January – March 2009” (43.2%), followed by “April – June 2009” (29.6%) (valid responses: 368 companies). In the non-manufacturing industry, the most often cited reply was “April – June 2009” (26.3%), followed by “January – March 2009” (24.3%) (valid responses: 247 companies). Combined with “October – December 2008” (0.8% of companies in the manufacturing industry and 2.0% of companies in the non-manufacturing industry), about 60% of the companies as a whole reported that their sales would have bottomed out by the first half of 2009.

Meanwhile, in terms of the timing when their sales would (or did) recover to pre-financial crisis level (prior to September 2008), “Not sure” was the most often cited reply in both the manufacturing industry (31.6%) and the non-manufacturing industry (27.4%), indicating that the outlook remains unclear (valid responses: 370 companies in the manufacturing industry, 248 companies in the non-manufacturing industry).

With regard to measures taken in the past one year since the global recession took hold, the most often cited

reply in the manufacturing industry was “Cancellation or postponement of new investment/facility investment” (63.9%). This was followed by “Employment adjustments” and “Reduction in days/hours for sales and operations” (both with 58.5%) and “Reduction in costs through improved efficiency of production and sales” (57.7%) (valid responses: 371 companies). In the non-manufacturing industry, the most often cited reply was “Launching new business” (40.5%), followed by “Employment adjustments” (33.3%) and “Reduction in costs through improved efficiency of production and sales” (27.8%) (valid responses: 252 companies). Meanwhile, “Closure / withdrawal of business base (including part of a business base)” was the least often cited reply in both the manufacturing industry (3.2%) and the non-manufacturing industry (4.8%), indicating that most of the companies hung in there and maintained their business bases through employment adjustments and cost reduction efforts. Additionally, free-style answers revealed various company-specific measures, including “Reduction of Japanese personnel (locally hired)” (a company in the motor vehicle and motorcycle parts and accessories industry) and “Market development from Thailand to neighboring countries” (a trading company).

Taking a look at employment adjustments in particular, more than half of the companies in the manufacturing industry “Reduced” the number of non-permanent/permanent local employees in the past one year (September 2008 to August 2009), while the corresponding percentage of the companies in the non-manufacturing industry was some 20%, much smaller than the companies in the manufacturing industry. Concerning Japanese expatriate employees, about 20% of the companies in the manufacturing industry and about 10% of the companies in the non-manufacturing industry “Reduced” the number of those expatriates.

In terms of prospects for capital investment over the next one year (October 2009 ~ September 2010) in comparison with the past one year (October 2008 - September 2009), 41.3% of the companies in the manufacturing industry replied that they planned an “Increase,” while 35.3% replied that they expected “No change” and 13.7% replied that they planned a “Decrease” (valid responses: 417 companies; Diagram 2). Among the companies which planned an “Increase,” about 10% of them replied that they expected an “Increase of at least 50%.” In the non-manufacturing industry, on the other hand, nearly half, or, more precisely, 46.9% of the companies replied that they expected “No change” (valid responses: 275 companies).

**Diagram 2 Prospects for capital investment over the next one year (October 2009 - September 2010) in comparison with the past one year (October 2008 - September 2009)**

	Valid responses	Total	Increase (%)					No change (%)	Total	Decrease (%)					Not sure (%)
			at least 50%	40%	30%	20%	10%			10%	20%	30%	40%	at least 50%	
Manufacturing	417	41.3	11.3	1.0	9.4	12.0	7.7	35.3	13.7	0.7	2.6	3.1	1.0	6.2	9.8
Non-manufacturing	275	22.9	2.9	0.7	4.0	7.6	7.6	46.9	8.7	1.5	3.6	1.5	-	2.2	21.5

### 3. Business problems

#### In terms of problems in sales or other business activities, the most prevalent problem concerned

##### “Decrease in orders from clients”

In terms of problems in sales or other business activities (multiple answers allowed), “Decrease in orders from clients” was the most often cited reply in both the manufacturing industry (valid responses: 414

companies) and the non-manufacturing industry (valid responses: 280 companies) (with 54.1% and 50.4%, respectively). In the manufacturing industry, this was followed by “Major clients requesting lower prices” (43.2%) and “Sluggishness in major sales markets (consumption downturn)” (42.8%). In the non-manufacturing industry, “Sluggishness in major sales markets (consumption downturn)” (44.6%) and “No increase in new clients or markets” (43.6%) were pointed out (Diagram 3). Just as in the case of other countries, the market environment has been severe in Thailand with intensifying competition in the wake of consumption downturn and client requests for lower prices. Companies are required to respond to these changes in the market.

In terms of problems with labor or employment (multiple answers allowed), “Increase in employee wages” was the most often cited reply in both the manufacturing industry (valid responses: 405 companies) and the non-manufacturing industry (valid responses: 267 companies) (with 43.7% and 37.5%, respectively). It is thought that a certain level of increase in wages has become a business burden amid decreasing profits, as it is not easy to reduce wages from the standpoint of labor management while the economy remains sluggish. In addition, the revised Labor Protection Act was enacted effective from May 2008, whereby employers are now required to grant equitable rights and welfare indiscriminately to dispatched workers who are working in the same conformation as permanent employees. This raises concerns about the potential increase in wages of dispatched workers. Moreover, if a company is located in an industrial park and surrounded by many other companies, the company will need to offer benefitting wages in order to secure capable employees.

In terms of problems in production (multiple answers allowed, manufacturing industry only), “Difficulty in quality control” was the most often cited reply at 54.5%, followed by “Limited cost-cutting measures available” (50.0%) (valid responses: 402 companies).

In terms of problems in the localization of management (multiple answers allowed), “No progress with development of local staff” was the most often cited reply in both the manufacturing industry (valid responses: 397 companies) and the non-manufacturing industry (valid responses: 269 companies) (with 64.7% and 53.5%, respectively). This was followed by “Difficulty in recruiting executive staff” (with 41.8% and 42.0%, respectively) and “Low-level language ability (Japanese and English)” (with 35.5% and 30.9%, respectively). “No progress with development of local staff” was the most prevalent problem in nine countries out of the 13 countries surveyed, and thus it can be said to be a common trouble among all countries.



**Diagram 3 Business problems**

Unit: %, multiple answers allowed

Item		Valid responses	1st	2nd	3rd
Problems in sales or other business activities	Manufacturing	414	Decrease in orders from clients	Major clients requesting lower prices	Sluggishness in major sales markets (consumption downturn)
		100.0	54.1	43.2	42.8
	Non-manufacturing	280	Decrease in orders from clients	Sluggishness in major sales markets (consumption downturn)	No increase in new clients or markets
		100.0	50.4	44.6	43.6
Problems with labor or employment	Manufacturing	405	Increase in employee wages	Difficulty in localizing managers and site supervisors	Personnel costs of Japanese (expatriate) officers and staff
		100.0	43.7	36.8	29.1
	Non-manufacturing	267	Increase in employee wages	Personnel costs of Japanese (expatriate) officers and staff	Difficulty in localizing managers and site supervisors
		100.0	37.5	31.5	30.0
Problems in production	Manufacturing	402	Difficulty in quality control	Limited cost-cutting measures available	Difficulty in local procurement of parts and raw materials
		100.0	54.5	50.0	41.0
Problems in the localization of management	Manufacturing	397	No progress with development of local staff	Difficulty in recruiting executive staff	Low-level language ability (Japanese and English)
		100.0	64.7	41.8	35.5
	Non-manufacturing	269	No progress with development of local staff	Difficulty in recruiting executive staff	Low-level language ability (Japanese and English)
		100.0	53.5	42.0	30.9

#### 4. Investment environment

The survey asked about the advantages (strong points) and the disadvantages (problems) in the investment environment (multiple answers allowed; refer to the diagrams in “4. Investment Environment” of *Survey of Japanese-Affiliated Firms in Asia and Oceania (FY 2009 Survey)*). In the manufacturing industry (valid responses: 409 companies), the highest percentage of the companies cited “Plenty of partner companies (delivering companies)” (47.4%) as the most prevalent advantage. This was followed by “A good living environment for expatriate staff” (44.3%) and “Market scale/Growth potential” (40.6%). Notably, in comparison to surrounding countries, including Indonesia (21.7%), Malaysia (20.1%), and Vietnam (12.2%), a relatively high percentage of the companies in Thailand cited “Plenty of partner companies” as an advantage. This can be said to reflect the accumulation of companies mainly in the motor vehicle industry as well as the electric/electronic industry, since Japanese-affiliated manufacturing companies have been operating in Thailand for many years.

In terms of the disadvantages, “Unstable political and social conditions” (64.8%) was the most often cited reply (valid responses: 383 companies), just as in the previous FY2008 survey. This was followed by “Unclear policy management by the local government” (33.4%) and “Complicated administrative procedures (to acquire permits, etc.)” (33.2%). It is thought that many companies cited “Unstable political and social conditions”

partly because of the antigovernment activities by the United Front for Democracy against Dictatorship (UDD, the so-called red shirt protestors) who support Thaksin Shinawatra, the former prime minister, and often hold massive rallies, demanding dissolution of the Diet, and so on and partly because of the health problems of King Bhumibol Adulyadej, whom the Thai people love and respect. Nevertheless, there are no particular difficulties in daily life and corporate activities.

In the non-manufacturing industry, the highest percentage of the companies cited “Market scale/Growth potential” (64.5%) as the most prevalent advantage. This was followed by “Plenty of partner companies (delivering companies)” and “A good living environment for expatriate staff” (both with 43.6%) and then “Developed infrastructure” (20.5%) (valid responses: 273 companies). Especially high percentages of the companies in insurance (100%), distribution (100%) and construction/plants (72.7%) cited “Market scale/growth potential.” In terms of the disadvantages, on the other hand, “Unstable political and social conditions” (68.3%) was the most often cited reply, just as in the manufacturing industry. This was followed by “Unclear policy management by the local government” and “Restrictions on foreign investment including restrictions on foreign capital ratio” (both with 38.1%) and then “Complicated administrative procedures (to acquire permits, etc.)” (36.9%) (valid responses: 268 companies). The Foreign Business Act limits foreign ownership up to 49% in almost all service industries with some exceptions, setting a barrier for foreign companies against entering and operating in Thailand.

## **5. Future business development**

Asked about the appropriate direction for the business development over the next one to two years, 49.9% of the companies in the manufacturing industry replied that they foresaw “Expansion,” and 48.2% replied that they foresaw “Status quo, ” while 1.2% replied that they foresaw “Downsizing,” and 0.7% foresaw “Move to a third country (region) or withdraw” (valid responses: 417 companies). A breakdown by industry revealed that large percentages of the companies in fabricated metal products (63.6%), foods, processed agricultural or marine products (60.9%), and iron and steel (60.0%) anticipated “Expansion.” In terms of reasons or specific plans for business development, “Expansion of existing business scale through additional investment” was the most often cited reply (60.1%), followed by “Creation of new markets (expand business/sales networks)” (41.8%) and “Diversification of product and services contents (sector expansion)” (38.5%) (valid responses: 208 companies).

The survey also asked the companies to select three countries/regions with the most promising markets over the next one to three years, in order of importance from 1 to 3. (Points were summed up as follows: Rank 1st = 3 points, 2nd = 2 points, 3rd = 1 point, then the countries/regions were ranked based on total scores.) In the manufacturing industry, the results were as follows: Thailand is in first place (535 points), India second (368 points), China third (272 points), Vietnam fourth (226 points), and Indonesia fifth (195 points) (valid responses: 399 companies; Diagram 4). Thailand ranked first presumably because many suppliers seem to anticipate promising demand from plenty of companies at home. Meanwhile, India is selected as the most promising export destination. A number of manufacturing companies operating in Thailand are aiming at the huge Indian market. In fact, various products have already been exported from Thailand to India, including TV sets, air conditioners, automobile parts, and foods.

In the non-manufacturing industry, on the other hand, 52.5% of the companies contemplated “Expansion”

for their business development and 44.4% contemplated “Status quo,” while 2.1% contemplated “Downsizing” and 1.1% contemplated “Move to a third country (region) or withdraw” (valid responses: 284 companies). A breakdown by industry revealed that large percentages of the companies in the hotel/travel/restaurant (75.0%) and the insurance (60.0%) contemplated “Expansion.” In terms of most promising markets over the next one to three years, Thailand is ranked first (332 points) as in the manufacturing industry, but Vietnam is ranked second (251 points) and India third (234 points), with China fourth (160 points) and Indonesia fifth (104 points) (valid responses: 248 companies).

**Diagram 4 Promising markets for future operation/products in the next 1-3years (top 10)**

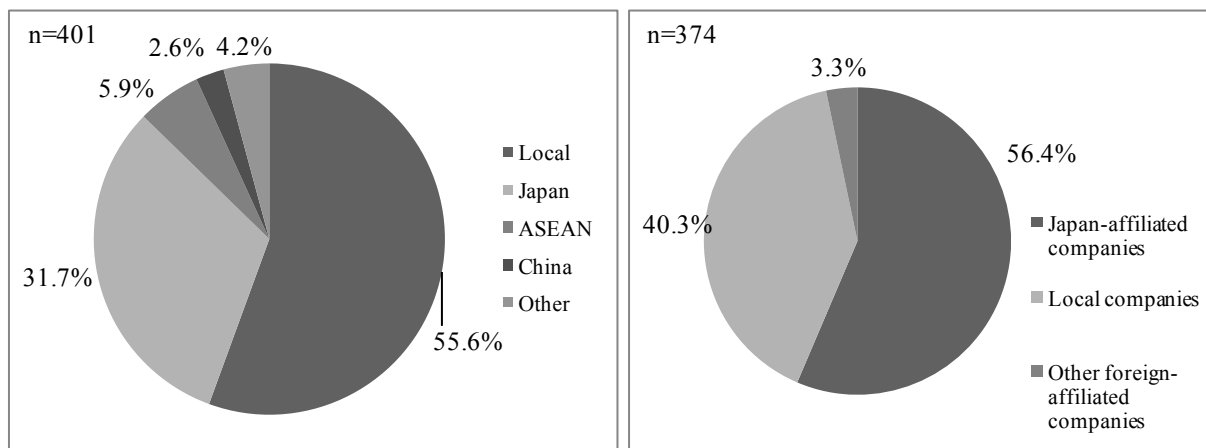
Manufacturing (n=399)				Non-manufacturing (n=248)			
Ranking	Country/Region	Points	Firms	Ranking	Country/Region	Points	Firms
1	Thailand	535	201	1	Thailand	332	128
2	India	368	173	2	Vietnam	251	122
3	China	272	116	3	India	234	123
4	Vietnam	226	126	4	China	160	72
5	Indonesia	195	100	5	Indonesia	104	56
6	Japan	172	86	6	CLM (Cambodia, Laos and Myanmar)	77	44
7	Europe	114	61	7	Japan	69	32
8	US	88	49	8	Malaysia	38	21
9	Malaysia	63	42	9	Middle-East	22	14
10	Middle-East	53	34	10	Europe	20	10

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

According to the breakdown of procurement sources for raw materials and parts used by the Japanese-affiliated companies in the manufacturing industry operating in Thailand, the local procurement ratio was 55.6% on average (the respondents were asked to ensure that the ratios should total 100%. Valid responses: 401 companies; Diagram 5). Compared to Indonesia (44.3%), Malaysia (43.1%), and Vietnam (24.0%), the local procurement ratio is high in Thailand, indicating a high level of industrial accumulation. A breakdown by industry revealed that the local procurement ratio was high in foods, processed agricultural or marine products (80.5% on average), motor vehicles and motorcycles (74.2% on average), and general machinery (63.4% on average). In contrast, the local procurement ratio was relatively low in nonferrous metals and products (31.3% on average) and electric and electronic parts and components (33.6% on average).

According to the breakdown of local procurement sources, procurement from local Japanese-affiliated companies accounted for 56.4% on average, while procurement from local companies accounted for 40.3% on average and that from other foreign-affiliated companies 3.3% on average (valid responses: 374 companies).

**Diagram 5 Breakdown of procurement sources and local procurement sources**



## 7. Measures against new Influenza A (H1N1)

Asked about problems with measures against the new strain of influenza, 45.5% of the respondents replied that “There are no particular problems” (multiple answers allowed; valid responses: 694 companies on a combined basis of the manufacturing and the non-manufacturing industries). This was followed by “Procurement of flu vaccines” (20.6%), “Health checks of visitors to workplaces” (17.6 %) and “Making the judgment whether or not to evacuate expatriate staff and families” (17.4%).

In regard to main countermeasures for the spread of this new influenza strain, “Health education concerning covering the mouth when coughing and hand washing” (64.5%) topped the list, followed by “Stockpiling daily items, masks, and disinfectants” (57.1%) and “Preparation of a manual” (20.9%) (multiple answers allowed; valid responses: 699 companies). Nearly 20% of the respondents replied that “No particular countermeasures have been taken” (19.2%).

Asked about future measures on how to handle expatriate employees if the new strain of influenza mutates and causes a high fatality rate (of up to 2%), the largest percentage of the respondents replied that they were “Unknown” (37.6%). “Evacuation to home countries or surrounding countries of some expatriate employees only” (26.1%) was the second most often cited reply, followed by a narrow margin by “Remain in the local area” (25.2%) (valid responses: 687 companies).

Japanese-affiliated companies operating in Thailand often voice a request for the relevant government bodies to prepare countermeasures against the new strain of influenza, since corporate-level protection is limited.

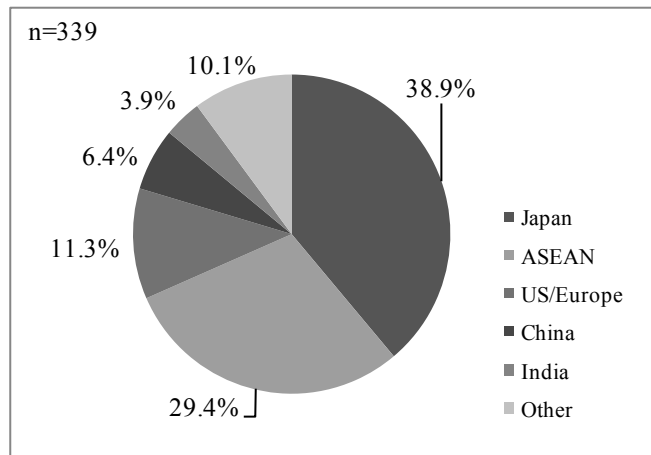
## 8. Exports/Imports and FTAs/EPAs

### (1) Japan is the largest export destination

The average percentage of export sales out of total sales was 36.4% for the Japanese-affiliated companies in the manufacturing industry operating in Thailand (valid responses: 401 companies). A breakdown by industry revealed that the export percentage was low in fabricated metal products (16.0%), motor vehicles and motorcycles (17.8%), and iron and steel (20.9%), indicating that many companies operating in these industries aim at the domestic market. On the other hand, industries with a high export percentage include apparel and textile products (76.4%), electric machinery and electronic equipment (69.6%), and foods, processed

agricultural or marine products (66.1%), indicating that Thailand is a production and export base for these industries. Looking at the breakdown of export destinations, Japan (38.9% on average) topped the list, followed by ASEAN and US/Europe (valid responses: 339 companies; Diagram 6).

**Diagram 6 Breakdown of export destinations (Averages, Manufacturing)**



For the Japanese-affiliated companies in the non-manufacturing industry operating in Thailand, on the other hand, the average percentage of export sales out of total sales was 17.7%, lower than that of the companies in the manufacturing industry (valid responses: 228 companies). In terms of main export destinations, Japan (40.5% on average) topped the list, followed by ASEAN (34.1% on average) and US/Europe (6.7% on average), with the same ranking order as that for the companies in the manufacturing industry (valid responses: 125 companies).

**(2) Manufacturing industry most often uses AFTA and JTEPA among FTAs/EPAs**

The survey asked about FTA/EPA usage in export and import activities. In regard to the usage in export activities, 27.5% of the companies in the manufacturing industry replied that FTAs/EPAs were “Currently in use,” 23.9% replied that they were “Considering using,” and 48.7% replied that they had “No plan to use” (valid responses: 335 companies; Diagram 7). In regard to the usage in import activities, 25.0% of the companies in the manufacturing industry replied that FTAs/EPAs were “Currently in use,” 26.5% replied that they were “Considering using,” and 48.6% replied that they had “No plan to use” (valid responses: 344 companies).

In the non-manufacturing industry, on the other hand, 20.0% of the respondents replied that FTAs/EPAs were “Currently in use” in export activities, 27.4% replied that they were “Considering using,” and 52.6% replied that they had “No plan to use” (valid responses: 135 companies). In terms of the usage in import activities, 25.7% of the respondents replied that FTAs/EPAs were “Currently in use,” 30.9% replied that they were “Considering using,” and 43.4% replied that they had “No plan to use.” The companies in the non-manufacturing industry using FTAs/EPAs were limited mainly to trading companies and sales companies.

**Diagram 7 Use of FTAs/EPAs in export and import activities**

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

	Exports				Imports			
	Valid responses	Currently in use	Considering using	No plan to use	Valid responses	Currently in use	Considering using	No plan to use
Manufacturing	335	92	80	163	344	86	91	167
	100.0	27.5	23.9	48.7	100.0	25.0	26.5	48.6
Non-manufacturing	135	27	37	71	152	39	47	66
	100.0	20.0	27.4	52.6	100.0	25.7	30.9	43.4

In terms of the utilization status of individual FTAs/EPAs currently used by the companies in the manufacturing industry, the FTA with the highest utilization rate in exports was to the ASEAN (the ASEAN Free Trade Area, AFTA), while the EPAs with the highest utilization rates in imports were to Japan (the Japan-Thailand Economic Partnership Agreement (JTEPA) and the ASEAN-Japan Comprehensive Economic Partnership (AJCEP)) (Diagram 8).

AFTA commenced in 1993, and its use has been expanding since 2003, when tariff rates on all items were reduced to 5% or less among the original member countries of ASEAN. (Note: As of January 1, 2010 after this survey questionnaire was completed, the custom tariffs on products in the Inclusion List (IL) have been eliminated among the six original members of ASEAN.) By industry, companies using FTAs/EPAs in their export activities are mainly classified in motor vehicle and motorcycle parts and accessories (12 companies), electric machinery and electronic equipment (7 companies), and motor vehicles and motorcycles (5 companies), while companies using FTAs/EPAs in their import activities were mainly classified in motor vehicle and motorcycle parts and accessories (9 companies), motor vehicles and motorcycles (4 companies), and textiles (4 companies).

Concerning FTAs/EPAs with Japan, the JTEPA went into effect in November 2007. Under this EPA, the import tariffs on all mining and manufacturing products from Japan, with the exception of motor vehicles, will be eliminated in seven to 10 years. In addition, the AJCEP went into effect on June 1, 2009. By industry, companies using these EPAs in their export activities were mainly classified in foods, processed agricultural or marine products (11 companies), textiles (7 companies), and apparel and textile products (6 companies), while companies using them in their import activities were mainly classified in motor vehicle and motorcycle parts and accessories (12 companies), textiles (6 companies), iron and steel (5 companies), and motor vehicles and motorcycles (5 companies).

In terms of trade with Australia, New Zealand and India, the number of companies using FTAs in export activities by far exceeded the number of companies using FTAs in import activities. By industry, companies using FTAs in exports to Australia were mainly classified in electric machinery and electronic equipment (5 companies) and motor vehicles and motorcycles (2 companies). The Thailand-Australia FTA, which went into effect in January 2005, immediately eliminated tariffs on 49% of the items on the Thai side and 83% of the items on the Australian side. In recent years, there has been an increase in exports of commercial vehicles such as pickup trucks from Thailand to Australia, driven by the utilization of this FTA. The Thailand-New Zealand FTA went into effect in July 2005. By industry, companies using this FTA in exports to New Zealand were

mainly classified in electric machinery and electronic equipment (2 companies) and motor vehicles and motorcycles (2 companies). In the Thailand-India FTA, early reductions of tariffs on 82 items such as home electric appliances, parts of motor vehicles, etc. were implemented through the Early Harvest Scheme (EHS) from September 1, 2004, and these tariffs have been eliminated effective from September 1, 2006. By industry, companies using this FTA in exports to India were mainly classified in electric machinery and electronic equipment (4 companies), motor vehicles and motorcycles (2 companies), and nonferrous metals and products (2 companies).

**Diagram 8 Number of companies using FTAs/EPAs and utilization rates (Manufacturing)**

Parameter: 335 export companies, 344 import companies

Country/region which has concluded FTA/EPA with Thailand	Number of companies using FTAs/EPAs		FTA/EPA usage rate (%)	
	Exports	Imports	Exports	Imports
ASEAN	50	34	14.9	9.9
Australia	16	5	4.8	1.5
New Zealand	7	1	2.1	0.3
Japan	48	62	14.3	18.0
China	5	3	1.5	0.9
India	12	4	3.6	1.2
Outside Asia/Oceania	8	3	2.4	0.9

In regard to problems of utilizing FTAs, replies from the companies in the manufacturing industry which reported that FTAs/EPAs were “Currently in use” are summarized as follows. On the export side, the largest percentage, or, specifically, 34.8%, of the respondents cited “There are no specific problems” and “The procedures for obtaining a certificate of origin are complicated,” respectively (valid responses: 92 companies). On the import side, “There are no specific problems” (47.7%) was also the most often cited reply, followed by “Since custom tariff exemptions can already be enjoyed through investment benefit schemes (EPZ and investment incentives, etc.), an FTA provides no advantages” (12.8%) (valid responses: 86 companies). As far as imports are concerned, companies that have been approved by Thailand’s Board of Investment (BOI) are exempt from the import duty on parts and materials imported for the manufacturing of products intended for export. With the aim of becoming the major production base for electric and electronic equipment and machinery in the ASEAN region, Thailand has also established the EEI Scheme, in which the components required for the production of certain electric and electronic equipment and machinery, as well as their parts, are exempt from the import duty. Partly because many Japanese-affiliated companies already enjoy these benefits, the FTA utilization has little room for expansion.

## 9. Wages

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

\* 1 THB = 0.0296 US dollar (September 2009 average rate, calculated using the CEIC database)

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

	Job type	Base salary (monthly)	Annual salary	Bonus (Number of months)	Note
Manufacturing	Workers (general workers)	7,790 (367)	150,305 (318)	2.5 (363)	3 years of experience
	Engineers (core technicians)	18,251 (348)	310,751 (308)	2.6 (345)	Graduates from technical schools or colleges with 5 years of experience
	Managers (section managers in charge of sales or equivalent)	45,327 (352)	727,168 (305)	2.6 (348)	Graduates from university with 10 years of experience
Non-manufacturing	Staff (general workers)	18,553 (255)	344,806 (225)	2.4 (251)	3 years of experience
	Managers (section managers in charge of sales or equivalent)	45,865 (215)	743,258 (194)	2.5 (213)	Graduates from university with 10 years of experience



## Vietnam

### Targets of the survey and breakdown of respondents

Survey period	: September 1 - October 15, 2009
Number of companies contacted	: 290 Japanese-affiliated companies operating in Vietnam (Based on the survey sent out)
Number of respondents	: 143 companies (manufacturing industry: 92; non-manufacturing industry: 51; valid response rate: 49.3%)

Breakdown of respondents by industry : As shown below

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	4	4.3
Textiles (yarn, cloth, synthetic fabrics)	-	-
Apparel and textile products	8	8.7
Lumber and wood products	2	2.2
Furniture and interior products	1	1.1
Paper and pulp	-	-
Chemicals and petroleum products	2	2.2
Plastic products	10	10.9
Pharmaceuticals	-	-
Rubber products	3	3.3
Ceramics and cement	2	2.2
Iron and steel (including cast and forged products)	3	3.3
Nonferrous metals and products	3	3.3
Fabricated metal products (including plated products)	8	8.7
General machinery (including metal molds and machine tools)	4	4.3
Electric machinery and electronic equipment	5	5.4
Electric and electronic parts and components	13	14.1
Motor vehicles and motorcycles	-	-
Motor vehicle and motorcycle parts and accessories	7	7.6
Precision instruments	-	-
Medical devices	1	1.1
Printing and publication	-	-
Other	16	17.4
<b>Total (valid responses)</b>	<b>92</b>	<b>100.0</b>

Non-manufacturing industry		
Industry	No. of companies	Composition ratio
Fish and marine products	-	-
Agricultural and forestry products	-	-
Mining	-	-
Distribution	1	2.0
Trading company	-	-
Sales company	-	-
Banking	3	5.9
Insurance	1	2.0
Securities	-	-
Transport/warehousing	6	11.8
Real estate	2	3.9
Legal/tax service	-	-
Hotel/travel/restaurant	1	2.0
Communications/software	11	21.6
Construction/plants	7	13.7
Other	19	37.3
<b>Total</b>	<b>51</b>	<b>100.0</b>

(Unit: Companies, %)

Operating region	No. of companies	Composition ratio
North	66	46.2
Central	4	2.8
South	73	51.0
<b>Total</b>	<b>143</b>	<b>100.0</b>

## 1. Business outlook

### (1) Less than half of the companies expect “Surplus”

Among the Japanese-affiliated manufactures operating in Vietnam, 42.4% answered “Surplus” when asked

about their expected operating profits for 2009, while 39.1% of them expected “Deficit” (valid responses: 92 companies). Among non-manufacturers, 37.3% expected “Surplus,” while 27.5% said their operating profits would be in “Deficit” (valid responses: 51 companies). Both in the manufacturing and non-manufacturing industries, more companies expected “Surplus” than forecast “Deficit,” just as in the previous year (2008). In both industries, however, the share of the companies expecting “Surplus” was much smaller than the average in ASEAN (58.8% among manufacturers, and 54.7% among non-manufacturers).

## **(2) Business sentiment rapidly deteriorated for 2009**

In terms of comparison between operating profits in the previous year (2008) and expected profits for 2009, 28.9% of the Japanese-affiliated companies operating in Vietnam responded that their profits would “Improve,” while 38.0% said that theirs would “Worsen,” with the DI, which represents business sentiment of companies, standing at minus 9.1 points. The figure is a staggering 39.6 points below the DI for “Business Outlook for 2009” (30.4 points) surveyed between September and November 2008, immediately after the financial crisis. This fact suggests that companies were deprived of a significant part of their business confidence by impacts of the financial crisis during the past 12 months. Nevertheless, the DI for Vietnam remains at a relatively positive level as compared with indexes for other countries.

As a reason for forecasting their worsened profits, 50.0% of the respondents, the largest percentage, mentioned “Decrease in sales due to sluggish exports” (valid responses from 52 manufacturers and non-manufacturers). Exports from Vietnam in 2009 fell by 9.7% from the previous year to \$56,584,000,000, with serious impacts felt by Japanese-affiliated companies, as most of them are processor-exporters.

In the northern part of the country, manufacturers saw their DI standing at minus 6.2 percentage points, while those in the South saw theirs at plus 2.4 points, a difference of almost nine percentage points between the two regions. This divergence seems to be attributed to most of the Japanese companies in the North being processor-exporters while many of those in the South also sell their products in the domestic market.

## **(3) In 2010 exports are expected to recover, with business sentiments improved**

Comparing their operating profits with those in 2009, 59.7% of the companies responded their profits for 2010 would “Improve,” while 5.8% expected theirs to “Worsen,” with the DI standing at 53.9 points, a great positive change in business sentiment for 2010. Among manufacturers, more than 70% of the companies expected their profits to “Improve” in the industries of fabricated metal products (including plated products) (87.5%), and general machinery (including metal molds and machine tools) (75.0%). Among non-manufacturers, improvement was expected by more than 70% of the companies in the industries of construction/plants (85.7%) and communications/software (70.0%).

In the northern part of the country, Japanese manufacturers saw their DI standing at 67.3 points, while those in the South saw theirs at 34.1 points, almost half the North’s figure. In the North, when manufacturers were asked why they expected their profits to “Improve,” 60.6% of them, the largest percentage, pointed out “Increase in sales due to export expansion.” In 2009, manufacturers in the northern part were severely hit by the financial crisis, but most of them now expect exports to increase, with improved business sentiment for 2010.

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

Unit: Composition ratio (%)

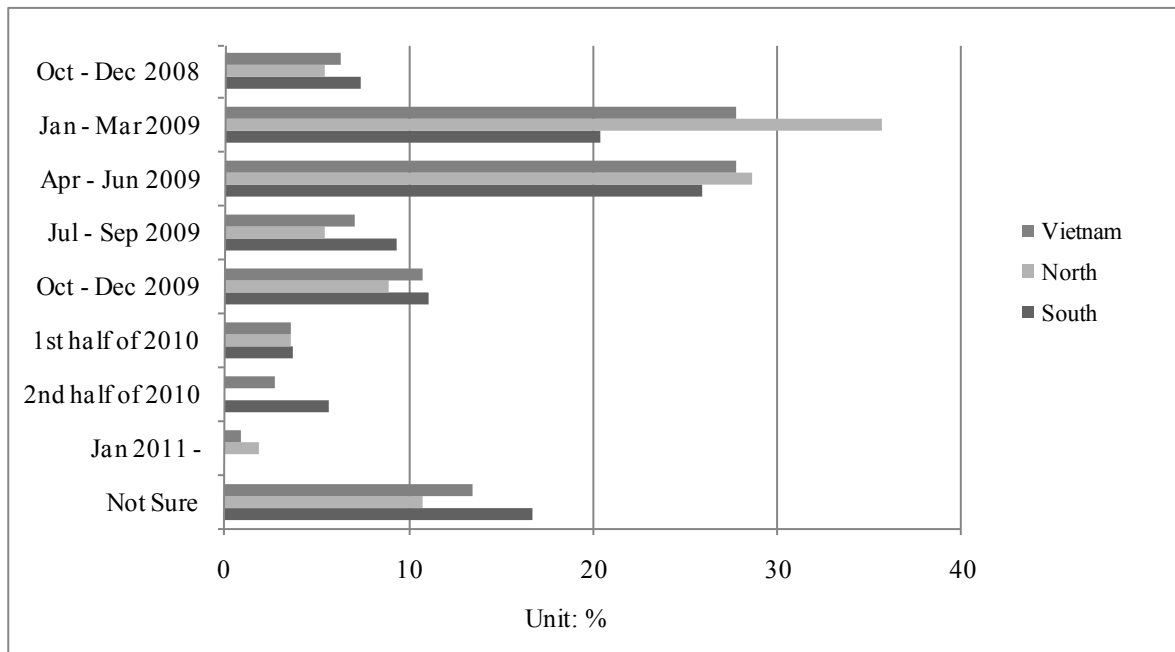
	Manufacturing					Non-manufacturing			
	Region	Valid responses	Improve	No change	Worsen	Valid responses	Improve	No change	Worsen
2009	Whole	92	32.6	29.4	38.0	50	22.0	40.0	38.0
	North	48	31.3	31.3	37.5	18	22.2	44.4	33.3
	South	41	36.6	29.3	34.2	31	22.6	35.5	41.9
2010	Whole	90	60.0	32.2	7.8	49	59.2	38.8	2.0
	North	46	71.7	23.9	4.4	16	56.3	43.8	-
	South	41	46.3	41.5	12.2	32	59.4	37.5	3.1

## 2. Impacts of economic recession and countermeasures

### (1) The first half saw sales hit bottom

Asked about impacts of the global recession from October 2008, as many as 80.7% of the companies responded that it had had a “Significantly negative impact” on them (valid responses: 140 companies). This percentage is below the average among the ASEAN countries (88.1%), but nonetheless, more than 80% of the Japanese companies in the country found themselves hit by the financial crisis. Especially in the industry of parts manufacturers, such as “Electric and electronic parts and components” (84.6%) and “Motor vehicle and motorcycle parts and accessories” (83.3%), more than 80% of the companies pointed out “Negative impact.” Among non-manufacturers, so did more than 80% of the companies in the “Transport/warehousing” (100%) and “Communications/software” (100%) industries. In industries less sensitive to business fluctuations, such as “Foods and processed agricultural or marine products,” the necessities of life, the share of companies that had felt “Negative impacts” remained at 50.0%. Asked when their sales had reached its lowest point, 27.7% of the companies, the largest share, answered “January - March 2009,” and the same percentage said “April - June 2009.” That is, more than 50% in total saw their sales hit the bottom in the first half of the year. In the North, 64.3% of the respondents said that their sales had reached its lowest point in the first half of 2009 (January - June 2009), and in the South, 46.3% of the companies said so.

**Diagram 2 Period when sales reached its lowest point (by region)**



**(2) Positive attitudes toward increasing local regular employees**

Asked about measures they had taken in the previous one year to counter the global recession (multiple answers allowed), the largest percentage of companies mentioned “Cancellation or postponement of new investment/facility investment” (44.6%), followed by “Employment adjustments” (42.9%), and then “Reduction in days/hours for sales and operations” (36.6%) (valid responses: 112 companies). Few referred to “Rise in sales price” (4.5%) or “Closure/withdrawal of business base (including part of a business base)” (1.8%). For answers to open ended questions, “Cut in fixed costs” (Electric and electronic parts and components) and “Destocking” (Iron and steel) were found.

Asked about changes in the number of employees from September 2008, before the financial crisis, to September 2009, around 30% of the companies answered “Decrease” during the previous 12 months among both non-permanent employees (31.2%) and permanent employees (29.2%), almost 10% lower than the ASEAN average (41.0% for non-regular employees, and 37.3% for regular employees), demonstrating a lower level of labor adjustment of local employees than in other countries. In terms of the coming 12 months from September 2009, 52.9% of the companies forecast an “Increase” in local permanent employees.

In the northern part of the country, 59.7% of the respondents said they would increase local regular employees, almost 10% higher than in the South (48.6%). Between January and March 2009, many companies in Hanoi offered their employees a voluntary retirement program or avoided extending employment contracts once they had expired, in order to cut payroll. With production recovering afterwards, companies seem ready to increase their personnel in almost all industries.

Asked about changes in the number of Japanese expatriate employees during the previous 12 months, 73.0% of the companies, the largest share, answered “No change” (valid responses: 137 companies), with 16.8% responding “Decrease” and 10.2% “Increase.” In terms of the coming 12 months, as many as 77.7% of the companies forecast “No change” (valid responses: 133 companies). Many companies intend to hire local

employees, while few consider adding Japanese expatriates, suggesting probable further localization of personnel (replacing Japanese expatriates with local employees) in Vietnam.

There are many challenges to “Localization,” however. In responses to questions about problems companies had encountered in the localization of management (multiple answers allowed), the top three answers were “Difficulty in recruiting executive staff” (57.8%), “No progress with development of local staff” (54.8%), and “Low-level language ability (Japanese and English)” (40.0%) (valid responses: 135 companies). The issue of “Low-level language ability (Japanese and English)” was chosen by the highest percentage of respondents (40.0%) in the ASEAN region (ASEAN average: 26.1%). Companies naturally show concerns that their employees lack sufficient linguistic abilities, because language is a fundamental communication tool. They have few employees who have a good command of Japanese or English. As an incentive, some companies set the level of pay for an employee according to his/her grade in a Japanese language proficiency test. Fortunately, Vietnamese people are very keen to learn the Japanese language. There are many university students who study in a Japanese language department. Japanese comics are very popular, especially among young people. According to Japan Foundation, the number of Japanese-language learners in Vietnam rapidly increased from 18,029 in the year 2000 to 29,982 in 2006.

In terms of capital investment for the coming 12 months (October 2009 - September 2010) compared with the previous 12 months (October 2008 - September 2009), 35.0% of the companies forecast “Increase,” the second largest percentage in the ASEAN region after Indonesia (37.0%). Especially in the North, 43.1% of the respondents answered “Increase,” much higher than in the South (28.2%).

### **3. Business problems**

#### **(1) Companies are still concerned with increase in employee wages**

Asked about problems in financial affairs, financing, or foreign exchange (multiple answers allowed), 36.6% of the companies mentioned “Volatility of local currency’s exchange rate against the US dollar;” 31.7% of them answered “Insufficient cash flow necessary for business scale expansion;” and 30.1% pointed out “Volatility of the Japanese yen against the US dollar” (valid responses: 123 companies).

In terms of problems with labor or employment (multiple answers allowed), 71.2% of the companies, the largest share just as in the previous year, pointed out “Increase in employee wages,” followed by “Difficulty in recruiting middle management staff” (36.7%) and “Low rate of worker retention” (36.7%) (valid responses: 139 companies). In the country the issue of “Increase in employee wages” was mentioned by the largest percentage of respondents among ASEAN countries, more than 30% higher than the region’s average (46.8%). In Vietnam, the minimum wage has been on the rise year by year; the minimum wage paid by foreign-affiliated companies in Hanoi and Ho Chi Minh City has risen from \$55 (USD) in 2006 through \$63 in 2008, and \$72 in 2009 to \$75 (1,200,000 dong) as of January 1, 2010. The level of wages in Vietnam remains low compared with those in other countries. Monthly wages for workers in the manufacturing industry remain at less than half the wages in China (see the part of “Wages”). But with its minimum wage on the rise, the country is losing “Cheap labor,” its competitive advantage in the investment environment.

In terms of Difficulty in recruiting middle management staff, companies especially suffer from a shortage of chief accountants, who must be qualified by the state, finding that a “sellers’ market” has formed. In general,

office workers prefer workplaces in a city center, making it difficult for companies based in suburbs to hire excellent office workers.

In the North, 38.1% of the Japanese-affiliated companies mentioned “Low rate of worker retention,” while 44.4% of the respondents in the South did so.

**Diagram 3 Business problems (1) (top three problems, by region)**

Unit: %, multiple answers allowed

Item	Region	Valid responses	1st	2nd	3rd	
Problems in sales or other business activities	Vietnam	140	Competitors' growing market shares (cost-wise competition)	Major clients requesting lower prices	No increase in new clients or markets	
		100.0	39.3	37.1	35.0	
	North	64	No increase in new clients or markets	Competitors' growing market shares (cost-wise competition)	Decrease in orders from clients	
		100.0	43.8	40.6	40.6	
	South	72	Competitors' growing market shares (cost-wise competition)	Major clients requesting lower prices	Decrease in orders from clients	
		100.0	38.9	37.5	27.8	
Problems in financial affairs, financing, or foreign exchange	Vietnam	123	Volatility of local currency's exchange rate against the US dollar	Insufficient cash flow necessary for business scale expansion	Volatility of the Japanese yen against the US dollar	
		100.0	36.6	31.7	30.1	
	North	56	Volatility of local currency's exchange rate against the US dollar	Insufficient cash flow necessary for business scale expansion	Volatility of the Japanese yen against the US dollar	
		100.0	37.5	35.7	32.1	
	South	64	Volatility of local currency's exchange rate against the US dollar	Volatility of the Japanese yen against the US dollar	Insufficient cash flow necessary for business scale expansion	Tax burdens (i.e. corporate taxes and transfer pricing taxes)
		100.0	35.9	29.7	26.6	
Problems with labor or employment	Vietnam	139	Increase in employee wages	Difficulty in recruiting middle management staff	Low rate of worker retention	
		100.0	71.2	36.7	36.7	
	North	63	Increase in employee wages	Difficulty in recruiting middle management staff	Difficulty in localizing managers and site supervisors	
		100.0	74.6	38.1	38.1	
	South	72	Increase in employee wages	Low rate of worker retention	Difficulty in recruiting middle management staff	
		100.0	68.1	44.4	36.1	

**(2) Upward pressure on procurement costs is weakening**

Among problems in the foreign trade system (multiple answers allowed), the top three issues were “Complicated customs clearance procedures” (76.2%), “Time-consuming customs procedures” (54.0%), and “Lack of thorough publicizing of trade rules and regulations” (54.0%) (valid responses: 126 companies). Asked about problems in production (manufacturers only; multiple answers allowed), 68.2% of them

mentioned “Difficulty in local procurement of parts and raw materials,” the largest percentage in the ASEAN region (Its average stands at 44.9%) (valid responses: 88 companies). This answer was followed by “Increase in procurement costs” (40.9%), almost 30% below the previous year’s level (68.4% in 2008). In 2008, Vietnam saw a rapid price rise (average inflation rate of 23% in 2008), which pushed up procurement costs. With a recent slowdown of inflation (average inflation rate of 6.9% in 2009), upward pressure on procurement costs is weakening.

**Diagram 4 Business problems (2) (top three problems, by region)**

Unit: %, multiple answers allowed

Item	Region	Valid responses	1st	2nd	3rd	
Problems in in the foreign trade system	Vietnam	126	Complicated customs clearance procedures	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	
		100.0	76.2	54.0	54.0	
	North	61	Complicated customs clearance procedures	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	
		100.0	78.7	60.7	59.0	
	South	61	Complicated customs clearance procedures	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	
		100.0	75.4	47.5	47.5	
Problems in production (Manufacturers only)	Vietnam	88	Difficulty in local procurement of parts and raw materials	Increase in procurement costs	Difficulty in quality control	
		100.0	68.2	40.9	37.5	
	North	45	Difficulty in local procurement of parts and raw materials	Electric power shortage	Difficulty in quality control	Increase in procurement costs
		100.0	66.7	46.7	44.4	
	South	41	Difficulty in local procurement of parts and raw materials	Increase in procurement costs	Limited cost-cutting measures available	
		100.0	70.7	36.6	26.8	

#### 4. Investment environment

Asked about advantages Vietnam had in its investment environment (multiple answers allowed), as many as 64.5% of the companies, the largest share, mentioned its “Stable political and social conditions” (valid responses: 138 companies). This answer was also chosen by the largest percentage of companies in Singapore and Malaysia. In Vietnam, it was followed by “Market scale/growth potential” (47.8%). Along with India, Vietnam has come into the spotlight as an emerging market. Its market size, with a population of 86,000,000, the third largest in ASEAN, attracts attention from many companies. The third largest percentage of companies chose “An abundance of staff due to low costs” (37.7%). Meanwhile, “English is widely spoken” was mentioned by 10.1% of the respondents (ASEAN average: 31.7%), and “A good living environment for expatriate staff” by 7.3 (ASEAN average: 36.2%), both chosen by only a fraction of the companies.

**Diagram 5 Advantages in the investment environment (top three advantages, by region)**

Unit: %, multiple answers allowed

Item	Valid responses	1st	2nd	3rd
Vietnam	138	Stable political and social conditions	Market scale/growth potential	An abundance of staff due to low costs
	100.0	64.5	47.8	37.7
North	63	Stable political and social conditions	Market scale/growth potential	An abundance of staff due to low costs
	100.0	55.6	49.2	42.9
South	71	Stable political and social conditions	Market scale/growth potential	An abundance of staff due to low costs
	100.00	71.3	49.3	33.8

In terms of disadvantages in its investment environment (multiple answers allowed), the top three answers were “Complicated administrative procedures (to acquire permits, etc.)” (67.2%), “Underdeveloped infrastructure (electric power, transportation, communications, etc.)” (66.4%), and “Complicated tax procedures” (51.8%) (valid responses: 137 companies).

**Diagram 6 Disadvantages in the investment environment (top three advantages, by region)**

Unit: %, multiple answers allowed

Item	Valid responses	1st	2nd	3rd
Vietnam	137	Complicated administrative procedures (to acquire permits, etc.)	Underdeveloped infrastructure (electric power, transportation, communications, etc.)	Complicated tax procedures
	100.0	67.2	66.4	51.8
North	63	Complicated administrative procedures (to acquire permits, etc.)	Underdeveloped infrastructure (electric power, transportation, communications, etc.)	Complicated tax procedures
	100.0	74.0	68.3	55.6
South	70	Complicated administrative procedures (to acquire permits, etc.)	Underdeveloped infrastructure (electric power, transportation, communications, etc.)	Complicated tax procedures
	100.00	62.9	62.9	48.6

## 5. Future business development

### (1) Vietnam still has a larger percentage of companies that “intend to expand business”

Asked about the direction of their business development over the next one to two years, 58.0% of the companies answered “Business expansion,” 22% lower than the share of those which had responded so for the 2008 survey (80.0%), conducted in September and October 2008 (valid responses: 2,472 companies). However, “Downsizing” or “Move to a third country (region) or withdraw” was mentioned only by 2.1% of the



respondents. In terms of the percentage of Japanese-affiliated companies operating in Vietnam that intended to “Expand business,” Vietnam took fifth place, after Bangladesh, India, China, and South Korea. The 2008 survey was conducted immediately after the financial crisis, when most respondents believed it would have only a slight impact on Vietnam’s real economy, which probably kept a larger percentage of companies there keen to expand business.

Among manufacturers, more than 60% of the companies showed their intention to “Expand business” in the industries of “Motor vehicle and motorcycle parts and accessories” (71.4%), and “Fabricated metal products (including plated products)” (62.5%). Among non-manufacturers, so did more than 60% of respondents in the industries of “Transport/warehousing” (66.7%) and “Communications/software” (63.6%). In Vietnam, with the spread of motorcycles as ordinary people’s means of transportation, the production of two-wheelers increased in 2009 by 6% from the previous year to 3,050,000 units. The quantity of freight transported also grew in 2009 by 4.1% from the previous year. The strong domestic demand for motorcycles and the healthy growth of freight seem to be reflected by the anticipated direction of business expansion for the coming one or two years in the industries of “Motor vehicle and motorcycle parts and accessories” and “Transport/warehousing.”

## **(2) Manufacturers in the North and non-manufacturers in the South show clear intention to expand business**

In the northern part of the country, 57.6% of the companies responded “Expansion,” and in the South so did 58.9%, showing only a small difference between the regions. But among manufacturers, seen separately from non-manufacturers, 60.4% of the respondents answered “Expansion” in the North while in the South 56.1% said so. Among non-manufacturers, seen independently, 50.0% of them responded “Expansion” in the North, as did 62.5% in the South. That is, manufacturers in the North and non-manufacturers in the South had stronger intention to expand business.

## **6. Procurement of raw materials and parts**

### **(1) The local procurement rate stays low**

The local procurement rate among Japanese-affiliated companies operating in Vietnam stood at 24.0%, almost half the average among 17 countries and regions in the Asia/Oceania region. It is 0.3% higher than the local procurement rate in 2008 (23.7%), but still far below high rates in Thailand (55.6%), Indonesia (44.3%), and Malaysia (43.1%), which have developed local supporting industries.

Among procurement sources other than the local market, the procurement rate from Japan stood at 38.9%, the second highest among the 17 countries and regions after that from the Philippines, followed by that from the ASEAN region (18.9%) and that from China (9.0%).

The breakdown of sources for local procurements shows that 43.8%, almost half, of the raw materials and parts were procured from “Japan-affiliated companies operating in Vietnam,” 37.4% from “Local companies,” and 18.8% from “Other foreign-affiliated companies.”

### **(2) Some industries see their local procurement rates rise**

Among major industries, the industries of “Foods and processed agricultural or marine products,” which

mainly processes local products, had the highest local procurement rate (40.0%). On the other hand, among industries that need high value-added parts, local procurement rates were lower, below 20%, such as “Electric machinery and electronic equipment” (19.2%), and “Electric and electronic parts and components” (14.1%), with most materials and parts procured from Japan.

The industries of “Motor vehicle and motorcycle parts and accessories” had a local procurement rate of 10.8%, the lowest among the major eight industries (on a respondent basis). This is 3% higher than the rate for 2008 (7.5%), but remains at a low level. In 2009, new car sales grew by 7% from the previous year to 119,460 units, (total of 11 foreign automobile makers participating in Vietnam Automobile Manufacturers’ Association and five local manufacturers). Automobiles are steadily coming into wide use in Vietnam, but car manufacturers are facing great challenges in developing suppliers and procuring raw materials and parts in the local market.

Some industries saw their local procurement rates picking up. In the industries of “Electric machinery and electronic equipment,” the ratio rose from 15% to 19.2% (up 4.2%), and in “Iron and steel (including cast and forged products),” the rate grew from 5.0% to 23.3% (up 18.3%).

## **7. Measures for influenza A (H1N1)**

Asked what kind of problems they were facing in terms of their response to the new strain of influenza (multiple answers allowed), 43.0% of the companies, the largest share, answered “There are no particular problems,” followed by “Procurement of flu vaccines” (19.7%) and “Making the judgment whether or not to evacuate expatriate staff and families” (16.2%) (valid responses: 142 companies). In terms of main countermeasures for the spread of the new influenza strain (multiple answers allowed), 62.7% of the companies mentioned “Health education concerning covering the mouth when coughing and hand washing,” 57.0% of them referring to “Stockpiling daily items, masks, and disinfectants,” and 23.9% responding “Stockpiling of anti-flu medicine.” On the other hand, “Limiting business trips” and “Send expatriate staff home temporarily” were each mentioned by a fraction of the respondents, 6.3% and 0.7% respectively. In the North, “Establishment of a staff member in charge” was mentioned by 4.6% of the companies operating there, while in the South, the answer was chosen by a larger share of the respondents, 9.6%. “Limiting business trips” was referred to by 10.8% of the companies operating in the North, a larger share than in the South, where the answer was chosen by 2.7% of the respondents. Answers to the two questions show a difference in characteristics between the North and South.

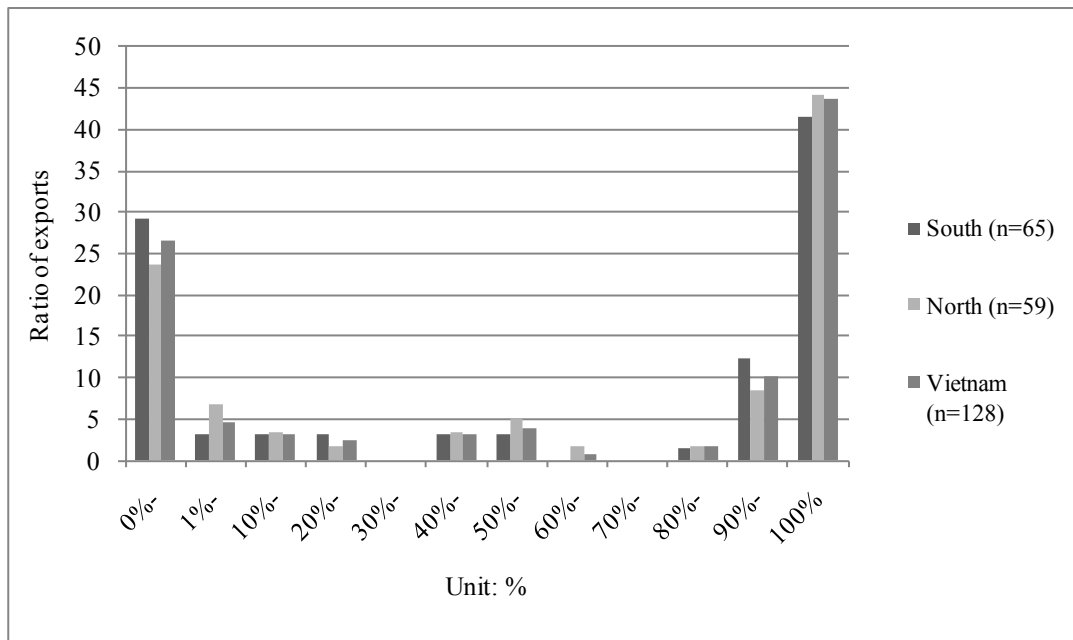
## **8. Exports/Imports**

### **(1) More than 50% of the companies export 100% of their products (full-exporters)**

The average export ratio of the Japanese-affiliated companies operating in Vietnam reached 72.0%, the second highest in ASEAN after Myanmar (83.3%), and more than 20% higher than the ASEAN average (49.5%) (valid responses: 87 companies). The wage level in Vietnam is relatively low as compared with other ASEAN countries. In addition, its domestic market is of limited size. Therefore, most of the Japanese-affiliated companies there regard the country as a base for exports to third countries. The share of the companies with an export ratio of 100% (full-exporters) went over one-half, to 56.3%. By industry, “Lumber and wood products,” “Rubber products,” and “Medical devices” exported 100% of their products.

Industries with an export ratio of 80% or more include “Apparel and textile products” (97.9%), “Nonferrous metals and products” (97.5%), “Electric and electronic parts and components” (88.5%), and “Electric machinery and electronic equipment” (80.0%).

**Diagram 7 Percentage of exports out of total sales (by region)**



Asked about breakdown of export destinations (manufacturers only; multiple answers allowed), 54.4% of the companies referred to “Japan,” a much larger share than the ASEAN average (38.6%) (valid responses: 77 companies). The second most common destination was “ASEAN” (18.3%), followed by “Northeastern Asia (China, Hong Kong, Taiwan, and South Korea)” (9.6%). Compared with other ASEAN countries, Vietnam exports a smaller portion to “ASEAN” countries (ASEAN average: 30.3%). This suggests Vietnam has not yet been fully integrated into the supply-chain network of the ASEAN region.

**(2) More companies are using FTAs**

When Japanese-affiliated companies engaged in export and/or import were asked about their “use of FTAs/EPAs,” 23.2% of them answered “Currently in use” for export (valid responses: 95 companies), and 21.0% said so for import (valid responses: 91 companies). A larger percentage of companies than before used FTAs both for export (9.4% in 2008) and import (12.5% in 2008).

In the North, 16.7% of the manufacturers operating there answered that FTAs/EPAs were “Currently in use” for export, while in the South, as many as 28.0% of such companies said so. In terms of imports, 16.3% of the manufacturers in the North used FTAs/EPAs, and in the South so did 23.9% of the manufacturers. Both for export and import, a larger portion of the manufacturers used FTAs/EPAs in the South than in the North.

**(3) AJCEP and Japan-Vietnam EPA are also used**

Asked what FTA/EPA was often used for export (manufacturers only; multiple answers allowed), 16.4% of the respondents, the largest share, pointed out Japan-Vietnam EPAs (AJCEP and JVEPA) (valid responses: 73

companies), followed by the FTA for ASEAN Free Trade Area (AFTA) (12.3%). AJCEP (effective as of December 1, 2008) and JVEPA, which came into force within only one year, are now used by many Japanese companies. AJCEP is preferred by many textile companies for its “Two-step rule.” With AJCEP coming into force in Thailand on June 1, 2009, some textile companies started examining whether they would import textiles from the country. AJCEP’s rules of origin allow a company in a member state to import textiles produced in another member country and export to Japan after obtaining the certificate of origin, Form AJ, which impose no tariff on such products processed in Japan. That is, if textiles imported from China, for instance, are used for sewing clothes, they are not exempted from Japanese import tariffs. However, clothes made of textiles from Thailand could receive benefits of AJCEP for reduced tariffs.

By industry, AJCEP or JVEPA was used by four companies in “Apparel and textile products,” two in “Motor vehicle and motorcycle parts and accessories,” one in “Foods and processed agricultural or marine products,” one in “Plastic products,” one in “Nonferrous metals and products,” one in “Fabricated metal products (including plated products),” and one in “Electric and electronic parts and components.”

Asked what FTA/EPA was often used for import (manufacturers only; multiple answers allowed), 16.7% of the respondents, the largest share, pointed out AFTA (valid responses: 72 companies), followed by Japan-Vietnam EPAs (AJCEP and JVEPA) (9.7%). AJCEP or JVEPA was used by one company in “Apparel and textile products,” two in “Electric and electronic parts and components,” and two in “Motor vehicle and motorcycle parts and accessories.”

## 9. Wages

The base salary (monthly) and the annual salary per employee (\*) by type of job, and the numbers of valid responses for each question are shown on the tables below:

**Diagram 8 Wages (base salary, bonus, and average annual salary per employee) in Vietnam and by region**

Unit: USD, figures in parentheses are the number of valid responses

	Job type	Base Salary (Monthly)	Annual Salary (*)	Note
Manufacturing	Workers (general workers)	101 (84)	1,903 (79)	3 years of experience
	Engineers (core technicians)	287 (76)	4,520 (72)	Graduates from technical schools or colleges with 5 years of experience
	Managers (section managers in charge of sales or equivalent)	736 (71)	11,500 (68)	Graduates from university with 10 years of experience
Non-manufacturing	Staff (general workers)	344 (47)	5,584 (42)	3 years of experience
	Managers (section managers in charge of sales or equivalent)	848 (36)	13,646 (33)	Graduates from university with 10 years of experience

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

Unit: USD

Manufacturing		Base Salary (Monthly)	Bonus	Annual Salary (*)	Non-manufacturing		Base Salary (Monthly)	Bonus	Annual Salary (*)
Workers (general workers)	North	104.0	1.3	1,666.5	Staff (general workers)	North	347.5	1.7	5,528.5
		45	42	42			17	15	15
	Central	85.6	1.3	1,471.9		Central			
South	99.7	1.3	2,212.3	South	321.0	1.4	5,053.2		
	36	36	35	32	32	30			
Engineers (core technicians)	North	287.1	1.3	4,528.0	Managers (section managers in charge of sales)	North	750.9	1.8	12,053.4
		40	39	38			15	14	14
	Central	179.6	1.5	2,060.6		Central			
South	293.3	1.3	4,586.4	South	837.3	1.3	12,798.1		
	34	34	33	23	23	22			
Managers (section managers in charge of sales)	North	822.3	1.8	12,816.7	Unit: USD/month; figures in the lower cells are numbers of valid responses (*) Annual salary per employee (annual total of base salary, allowances, social security costs, overtime and bonuses, etc.)				
		37	36	35					
	Central	220.8	1.5	3,091.0					
South	669.3	1.4	10,556.4						
	32	32	31						