

Country Reports

ASEAN

◆ The number of companies expecting to post profit in 2008 slightly decreased

Although Japanese-affiliated manufacturers operating in the ASEAN region, after having undergone inflation in the first half of the year and the financial crisis that emerged in the U.S. in the second half of the year, failed to maintain the levels of the previous survey (70.2%), in terms of companies expecting to post an operating profit in their full-year estimates, such companies still accounted for 67.1% of the total. The original ASEAN member countries generally tended to have higher percentages of companies expecting a profit. However, in Vietnam, where growth has been steady for the past few years, the percentage of companies expecting to make a profit (77.8% in the previous survey) dropped to below 50% (48.2%). The majority of Japanese-affiliated companies in Vietnam depend on imports for their raw materials and parts, and it is evident that they suffered from soaring oil and resource prices in the first half of this year, while also becoming victims of the sharp rise in personnel costs that started from the beginning of 2009.

◆ Countries based on export-oriented economic structures, such as Vietnam and the Philippines, felt the effects of the global recession

The average ratio of exports to total sales for the manufacturing industry in the ASEAN region was 49.9%. Among the ASEAN nations, Myanmar (82.5%), Vietnam (70.2%), the Philippines (67.3%) and Singapore (65.6%) had particularly high ratios. Since the “Lehman collapse” on September 15, 2008, economies around the world have slipped into a global recession and, for the above ASEAN countries—which depend largely on exports—2009 will prove to be a difficult year. By contrast, the global recession may have only a limited effect on Indonesia, with its low ratio of exports to total sales (41.2%), while Thailand, despite having an even lower ratio of 36.7%, may find its growth inhibited by the global decline in automobile sales, as a result of the country's heavy concentration in the automobile industry until now.

◆ The percentage of FTA usage rose as a result of Economic Partnership Agreements (EPAs) with Japan

The percentage of FTA usage in export activities among the companies operating in the ASEAN region rose from the 19.3% of the previous survey to 23.0%. Singapore, with the largest number of FTAs in the ASEAN region, had the highest percentage with 43.2%. Indonesia, on the other hand, which just concluded an EPA with Japan in July 2008, witnessed its percentage of FTA usage jump from the 14.7% in the previous survey to 35.9%.

Among the companies operating in the ASEAN nations, the percentage of FTA usage in import activities was 19.7%. The effects of the conclusion of EPAs with Japan were seen mostly in Indonesia (previously 17.7%, currently 28.7%) and Thailand (previously 14.9%, currently 25.3%), with both countries showing increases of more than 10 percentage points in their utilization rates. The three most-utilized FTAs were all EPAs with Japan: the Japan-Indonesia EPA, Japan-Malaysia EPA and Japan-Thailand EPA.

◆ India was seen by the ASEAN countries as an ideal production base and market in the medium to long term

As optimum production bases for the medium to long term (five to 10 years), the companies cited (1)

Thailand (31.1%), (2) Vietnam (15.2%) and (3) India (12.0%). If countries in which the companies were currently operating were excluded, then the list would include (1) Vietnam (22.9%), (2) India (20.3%), and Thailand (18.6%). On the other hand, India (38.1%) was cited as the most promising market for the manufacturing industry in the medium to long term for the second consecutive year, followed by China (27.4%) and Thailand (27.0%). Japanese-affiliated manufacturers operating in the ASEAN region were eagerly awaiting the signing and entry into force of the ASEAN-India FTA.

Indonesia

Targets of the survey and breakdown of respondents

Number of companies contacted: 746 Japanese-affiliated companies operating in Indonesia

Number of respondents: 166 companies (manufacturing industry: 110; non-manufacturing industry: 56)

Breakdown of respondents by industry: As shown below

(Unit: Companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	4	3.6
Textiles (yarn, cloth, synthetic fabrics)	4	3.6
Apparel and textile products	4	3.6
Lumber and wood products	3	2.7
Furniture and interior products	1	0.9
Chemicals	12	10.9
Petroleum products	1	0.9
Plastic products	7	6.4
Pharmaceuticals	2	1.8
Rubber products	5	4.5
Ceramics and cement	2	1.8
Iron and steel (including cast and forged products)	5	4.5
Nonferrous metals and products	2	1.8
Fabricated metal products (including plated products)	11	10.0
General machinery (including metal molds and machine tools)	3	2.7
Electric machinery and electronic equipment	2	1.8
Electric and electronic parts and components	7	6.4
Motor vehicles and motorcycles	6	5.5
Motor vehicle and motorcycle parts and accessories	16	14.5
Other	13	11.8
Total	110	100.0

Non-manufacturing industry		
Industry	No. of companies	Composition ratio
Fish and marine products	2	3.6
Trading company	11	19.6
Sales company	4	7.1
Banking	2	3.6
Insurance	2	3.6
Transport/warehousing	5	8.9
Real estate	1	1.8
Judicial affairs/taxation	1	1.8
Hotel/travel/restaurant	1	1.8
Communications/software	3	5.4
Construction/plants	11	19.6
Others	13	23.2
Total	56	100.0

1. Business outlook

(1) Improvement in operating income for 2008 expected in manufacturing industry

In terms of estimated operating profit for 2008, 76.4% of the companies in the manufacturing industry replied that they expected to post a profit (valid responses: 110 companies). In the non-manufacturing industry, 55.6% (valid responses: 54 companies) replied that they expected to post a profit. The estimated operating profit for 2008 in terms of the DI, which was derived by subtracting the percentage of companies that replied the estimated operating profit would “Worsen”(compared to the previous year) from the percentage that replied it would “Improve,” was 40.0 points in the manufacturing industry (valid responses: 110 companies). The most cited reasons for improvement (multiple answers allowed) were an “Increase in local market sales” (59.1%) and an “Increase in sales due to higher prices” (50.0%) (valid responses: 66 companies). For example, automobile sales for 2008 have reached a record-high of more than 600,000 units¹. As to the main cause for this upturn in private-sector consumption, many have pointed to the growth of local middle classes, among others².

In the non-manufacturing industry, the estimated profit for 2008, in terms of the DI was 16.7 points, which

represented a decline of 15.4 points from the operating profit forecast for 2008, in terms of the DI (32.1 points) of the previous survey (valid responses: 54 companies in the current survey, 28 in the previous survey). The most cited reasons for the decline in operating profit (multiple answers allowed) were a “Decrease in local market sales”(69.2%), an “Increase in personnel expenses” (38.5%) and an “Increase in fuel costs and utilities” (38.5%) (valid responses: 13 companies).

(2) Operating profit forecasts for 2009 expected to worsen in manufacturing industry

The operating profit forecast for 2009, in terms of the DI, fell to - 5.5 points, which represents a steep decline from the 40.0 points of 2008 (valid responses: 110 companies). The most cited reasons for predicting a decline (multiple answers allowed) was an “Increase in procurement costs” (50.0%), which was followed by a “Decrease in local market sales” (38.1%) and “Insufficient price transfer” (38.1%) (valid responses: 42 companies). In comparison with the previous example, domestic automobile sales for 2009 are predicted to decline by 30% from 2008³.

In the non-manufacturing industry, on the other hand, the operating profit forecast for 2009, in terms of the DI, was expected to drop from 16.7 points in 2008 to 13.5 points (valid responses: 52 companies). Many of the companies cited, as reasons for predicting a decline (multiple answers allowed), a “Decrease in local market sales” (83.3%) and a “Reduction of sales due to higher prices” (50.0%) (valid responses: 12 companies).

2. Status of exports/imports: More companies using FTAs/EPAs

In terms of companies in the manufacturing industry using FTAs/EPAs, 35.9% of them replied that FTAs/EPAs were “Currently in use” in export activities (valid responses: 92 companies). An increasing trend for FTA/EPA usage was noted among manufacturers (2006: 18.5%, with valid responses from 124 companies; 2007: 14.7%, with valid responses from 68 companies). The FTA/EPA usage rate in import activities also rose to 28.7% (valid responses: 94 companies). This increase in usage may be attributed to the growing number of companies utilizing the Japan-Indonesia EPA (JIEPA), which went into effect in July 2008. The JIEPA utilization rate was 21.7% for export activities and 17.0% for import activities (Diagram 1). In terms of imports, the JIEPA was the most heavily used FTA/EPA among those in use in the six ASEAN nations. The JIEPA was used mostly in the textiles, apparel and textile products industry and the plastic products industry for exports, and in the iron and steel industry and fabricated metal products industry for imports.

Diagram 1: Status of FTA/EPA usage (Indonesia)

FTA/EPA Counterpart	Export			Import			
	Number of valid responses (a)	Number of companies for currently in use of FTAs/EPAs (b)	Utilization rate for FTAs/EPA = (b/a) *100	FTA/EPA Counterpart	Number of valid responses (a)	Number of companies for currently in use of FTAs/EPAs (b)	Utilization rate for FTAs/EPA = (b/a) *100
Japan	92	20	21.7	Japan	94	16	17.0
ASEAN	92	6	6.5	ASEAN	94	7	7.4

(Note) Utilization rates of 5% or above.

3. Procurement of raw materials and parts: Raw materials and parts to be procured locally in the future

Among manufacturers, 45.8% procured 50% or more of raw materials and parts locally (valid responses: 96 companies) (Diagram 2). The breakdown of local procurement sources revealed that 18.5% (15 companies) procured 100% (all) of raw materials and parts from local companies, an increase of 5.3 points from the previous survey. In terms of future plans for procuring raw materials and parts (multiple answers allowed), an “Increase ratio of local procurement” was cited by the largest percentage of companies (65.4%) (valid responses: 101 companies). By industry, in the motor vehicle and motorcycle parts and accessories industry, which had the largest number of respondents, 12 out of 14 companies replied “Increase ratio of local procurement.”

Diagram 2: Rate of local procurement of raw materials and breakdown (local companies, Japanese-affiliated companies, other foreign-affiliated companies)

		Upper row: Number of respondent companies, Lower row: Composition ratio (%)						
	Research conducted	Valid Responses	0 to less than 50%	50% to less than 70%	70% to less than 90%	90% to less than 100%	100%	
Local procurement ratios	2007	80	50	11	7	8	4	
		100.0	62.5	13.8	8.8	10.0	5.0	
	2008	96	52	16	15	7	6	
		100.0	54.2	16.7	15.6	7.3	6.3	
Local companies	2007	68	31	13	9	6	9	
		100.0	45.6	19.1	13.2	8.8	13.2	
	2008	81	37	9	13	7	15	
		100.0	45.7	11.1	16.0	8.6	18.5	
Japanese-affiliated companies	2007	68	34	11	11	5	7	
		100.0	50.0	16.2	16.2	7.4	10.3	
	2008	75	37	13	13	5	7	
		100.0	49.3	17.3	17.3	6.7	9.3	
Other foreign-affiliated companies	2007	68	66	2	-	-	-	
		100.0	97.1	2.9	-	-	-	
	2008	30	26	2	1	1	-	
		100.0	86.7	6.7	3.3	3.3	-	

4. Business problems

(1) Increase in procurement costs caused by inflation

In manufacturing, an “Increase in procurement costs” was the most cited problem in production (multiple answers allowed), with 73.4% of the replies. This was followed by “Limited cost-cutting measures available” (43.1%), “Difficulty in local procurement of parts and raw materials” (38.5%) and “Electric power shortage” (38.5%) (valid responses: 109 companies) (Diagram 3). The rise in procurement costs may be attributed to the soaring of commodity prices. For example, while a 13.4% year-on-year increase in wholesales prices was recorded in 2007, a year-on-on year increase of over 20% was recorded in 2008 for the months from January to November⁴.

Moreover, in terms of electricity, planned power outages with no advance warning by the PLN (Indonesia’s state-owned power company) have been taking place with increasing frequency ever since there was a hike in petroleum prices at the end of May 2008⁵. In July 2008, a joint order by the Minister of Industry and the

Minister of Energy and Mineral Resources went into effect, which called for manufacturers to shift operations from weekdays to the weekends, with operations at plants across the country shifting to the weekends⁶, beginning from August.

Diagram 3: Problems in production (multiple answers allowed)

		Upper row: Number of respondent companies, Lower row: Composition ratio (%)					
Research conducted	Valid responses	1	2	3	4	5	
2007	81	Increase in procurement costs	Difficulty in changeover of production items within a short timeframe	Limited cost-cutting measures available	Difficulty in quality control	Insufficient production capacity	
							100.0
2008	109	Increase in procurement costs	Limited cost-cutting measures available	Difficulty in changeover of production items within a short timeframe	Electric power shortage	Insufficient production capacity due to lack of facilities	Difficulty in quality control

(2) Underdeveloped infrastructure a major problem in the investment environment

In regard to problems in the investment environment (multiple answers allowed), 68.5% of the manufacturers cited “Underdeveloped infrastructure” (valid responses: 108 companies), indicating that, as was the case in the previous survey, Indonesia’s infrastructure continued to pose the most serious problems to the investment environment (Diagram 4). The major problems facing the Japanese-affiliated companies included the perennial traffic congestion in Jakarta and concerns about the power supply.

Diagram 4: Problems in the investment environment (multiple answers allowed)

		Upper row: Number of respondent companies, Lower row: Composition ratio (%)						
Research conducted	Valid responses	1	2	3	4	5		
Manufacturing	2007	76	Underdeveloped infrastructure	Complicated tax procedures	Unclear policy management by the local government	Complicated administrative procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system	Unstable or insecure political or social conditions
		100.0	57.9	50.0	46.1	43.4	36.8	
	2008	108	Underdeveloped infrastructure	Unclear policy management by the local government	Complicated administrative procedures	Complicated tax procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system	
		100.0	68.5	52.8	43.5	40.7	36.1	
Non-manufacturing	2007	25	Complicated tax procedures	Unclear policy management by the local government	Underdeveloped infrastructure	Complicated administrative procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system	
		100.0	84.0	68.0	60.0	52.0	36.0	
	2008	54	Unclear policy management by the local government	Complicated tax procedures	Underdeveloped infrastructure	Unstable or insecure political or social conditions	Complicated administrative procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system
		100.0	50.0	46.3	40.7	37.0	29.6	

(3) Customs clearance procedures—the biggest problem within the foreign trade system

Approximately 56.3% of the companies in the manufacturing industry and 56.1% of those in the non-manufacturing industry cited “Complicated customs clearance problems” as a problem in the foreign trade system (multiple answers allowed) (Diagram 5) (valid responses: 96 companies in the manufacturing industry, 41 in the non-manufacturing industry). Moreover, as over 50% of all companies (in both the manufacturing and non-manufacturing industries) cited “Time-consuming customs procedures,” it is evident that customs clearance has become a major obstacle to foreign trade in Indonesia.

Diagram 5: Problems in the foreign trade system (multiple answers allowed)

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

Research conducted	Valid responses	1	2	3	4	5			
Manufacturing	2007	74	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	Complicated customs clearance procedures	Method of assessment of customs duties is unclear	Unclear inspection system		
		100.0	59.5	50.0	48.7	23.0	18.9		
	2008	96	Complicated customs clearance procedures	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	Method of assessment of customs duties is unclear	Unclear inspection system		
		100.0	56.3	53.1	42.7	28.1	17.7		
Non-manufacturing	2007	21	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	Complicated customs clearance procedures	Method of assessment of customs duties is unclear	Criteria for determining classification for customs duties are obscure	Unclear inspection system	
		100.0	71.4	57.1	38.1	33.3			
	2008	41	Complicated customs clearance procedures	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	Unclear inspection system	Method of assessment of customs duties is unclear	Criteria for determining classification for customs duties are obscure	Other
		100.0	56.1	51.2	29.3	24.4	14.6		

5. Competition—local companies were the greatest source of competition

In terms of which country or region was the main source of competition in selling products and services in the local market, the most cited reply among companies in both the manufacturing and non-manufacturing industries was “Indonesia (local companies).” The top-ranked competitors in the manufacturing industry were “Indonesia (local companies)” (34.7%) and “China” (26.7%) (valid responses: 101 companies). In the previous survey, “China” (44.2%) was ranked at the top, followed by “Indonesia (local companies)” (19.5%) (valid responses: 77 companies), which demonstrates the decrease in the number of companies citing China and the increase of those citing local companies. For example, in the motor vehicle and motorcycle parts and accessories industry, which had the largest number of respondents to the previous survey as well as the current survey, while four out of 15 companies in the previous survey replied “Indonesia (local companies)” and four replied “China,” in the current survey, six out of the 15 companies replied “Indonesia (local companies)” and three replied “China.”

In the non-manufacturing industry, the top-ranked competitors were “Indonesia (local companies)” (42.3%), “ASEAN” (15.4%) and “China” (15.4%) (valid responses: 52 companies)⁷. In the previous survey, the top two were “Indonesia (local companies)” (32.0%) and “China” (24.0%) (valid responses: 25 companies). The percentage citing “ASEAN,” which was only 8.0% in the previous survey, increased this year.

6. Future business development: Manufacturers plan to expand business over the next one to two years

In regards to the direction of each company's business development over the next one to two years, 56.9% of companies in the manufacturing industry replied "Expansion" (valid responses: 109 companies). In the previous survey, also, 53.1% of the manufacturers had replied "Expansion," indicating that the majority of the companies intended to continue plans to expand for the time being (valid responses: 81 companies). By contrast, in the non-manufacturing industry, companies that replied "Expansion" (47.3%) in the current survey fell short of the percentage that replied the same way in the previous survey (50.0%) (valid responses: 55 companies). Companies that replied "Status quo," on the other hand, increased to 50.9%.

By industry, 10 out of the 16 companies in the motor vehicle and motorcycle parts and accessories industry and seven out of the 11 companies in the fabricated metal products industries replied "Expansion." Eight out of the 12 companies in the chemicals industry replied "Status quo." In the non-manufacturing industry, on the other hand, six out of the 11 trading companies and nine out of the 10 construction/plants companies replied "Status quo."

7. The effects of and its countermeasures: Advance of inflation is causing repercussions on personnel costs

Concerning whether the advance of inflation had impacted company profits, the majority of companies in both the manufacturing and non-manufacturing industries replied profits had "Significantly worsened." The percentage of those replying that inflation had "Significantly worsened" profit was 56.4% in the manufacturing industry and 50.0% in the non-manufacturing industry (valid responses: 110 companies in the manufacturing industry, 56 in the non-manufacturing industry). In 2008, consumer price indices rose by 11.06% compared to the previous year, which was significantly higher than the 6.59% a year earlier⁸.

In regards to specific types of impact (multiple answers allowed), an "Increase in procurement costs" (83.5%) was the most cited reply, followed by an "Increase in personnel costs" (75.7%) and an "Increase in transportation costs" (69.9%) (valid responses: 103 companies). The cost-push type of inflation, which has played out against the backdrop of the spike in crude oil prices, has directly impacted corporate production activities in the form of soaring raw materials and parts prices, and its repercussions were also being felt in personnel costs. In the non-manufacturing industry, on the other hand, an "Increase in personnel costs" was cited by the largest percentage of companies (65.3%) as a specific effect of inflation (valid responses: 49 companies).

8. Status of infringements on intellectual property rights: Difficulty of understanding true extent of damages

In terms of whether companies had suffered damages from imitations/pirated products in the past year, 14.7% of the companies in the manufacturing industry and 11.3% of those in the non-manufacturing industry replied "Yes" (valid responses: 109 companies in the manufacturing industry, 53 in the non-manufacturing industry). Concerning manufacturing companies replying that they had suffered damages from imitations/pirated products, the specific damages suffered (multiple answers allowed) cited were: "Exact copy of product design and packaging" (the most cited reply with nine companies, 60.0%), followed by a "Partial

copy of product design” with eight companies (53.3%) (valid responses: 15 companies). In the non-manufacturing industry, the “Exact copy of product design and packaging” was the most cited reply with five companies (83.3%), followed by “Illegal use of trademarks such as the brand logo” with four companies (66.7%) (valid responses: six companies). In terms of the monetary amount of damages suffered, 35.7% of the companies in the manufacturing industry and 83.3% of the companies in the non-manufacturing industry replied “Don’t know,” indicating the difficulty of understanding the true extent of the damages in both the manufacturing and non-manufacturing industries (valid responses: 14 companies in the manufacturing industry, six in the non-manufacturing industry).

Approximately 15.7% of the companies in the manufacturing industry and 10.2% of the companies in the non-manufacturing industry were taking countermeasures against imitations (valid responses: 102 companies in the manufacturing industry, 49 in the non-manufacturing industry). In terms of specific measures (multiple answers allowed), “Acquire domestic intellectual property rights (registration) early” was the most cited reply among manufacturers with six companies (40.0%), while “Conduct educational activities for consumers either as a single company or in collaboration with an industrial body” and “Participate in the Intellectual Property Group (IPG)” were the most cited replies with two companies each (40.0%) in the non-manufacturing industry (valid responses: 15 companies in the manufacturing industry, five in the non-manufacturing industry).

9. Responses to standardization

In terms of how companies were responding to standardization (multiple answers allowed), the highest percentage replied that they had adopted the “JIS” (58.1%), which was followed by “International standards” (42.9%) and “European standards” (17.1%) (valid responses: 105 companies). In the non-manufacturing industry, on the other hand, “No standards in the area” was the most cited reply with 37.5%, followed by “Local standards” (31.3%) and “International standards” (27.1%) (valid responses: 48 companies).

Furthermore, it became evident that the wave of European standards being adopted as international standards had also impacted the Japanese-affiliated companies operating in Indonesia. Concerning whether such cases of European standards becoming international standards had affected production, 22.6% of the companies replied “Yes” (valid responses: 93 companies). Specific effects (multiple answers allowed) included “Reviewed suppliers and procurement items” and “Cost increased due to the change of standard,” which were the most cited replies with eight companies each (38.1%), followed by “Reperformed R&D,” which was cited by four companies (19.1%) (valid responses: 21 companies). In the non-manufacturing industry, on the other hand, 17.4% of the companies replied that they had been affected by European standards (valid responses: 46 companies).

10. Efforts toward CSR

In terms of what type of CSR activities were sought in their country (multiple answers allowed), “Strict observance of local laws and regulations, and respect for international standards such as ISO” was the most cited reply (manufacturing industry: 72.0%; non-manufacturing industry: 70.2%) for both the manufacturing and non-manufacturing industries (valid responses: 107 companies in the manufacturing industry, 47 in the non-manufacturing industry). Regarding with whom the companies collaborated with in CSR activities (multiple answers allowed), 77.6% of the companies in the manufacturing industry and 71.4% of the companies

in the non-manufacturing industry replied “Our company (group) conducts CSR activities independently (planning, implementation, evaluation, etc.)” (valid responses: 107 companies in the manufacturing industry, 42 in the non-manufacturing industry).

In terms of issues or problems existing in CSR activities (multiple answers allowed), the most cited replies involved the internal problems of each company. In both the manufacturing and non-manufacturing industries, “No action plan for CSR has been decided, or it has not been fully shared with local officials” (36.7% and 45.0%, respectively), “There are insufficient budgets, experts and human resources” (41.8% and 40.0%, respectively) and “It is difficult to verify cost-effectiveness” (35.7% and 35.0%, respectively) were the three most cited replies (valid responses: 98 companies in the manufacturing industry, 40 in the non-manufacturing industry).

11. Measures against new strains of influenza: Majority of companies taking measures

Since Indonesia has reported the largest number of cases worldwide of the extremely virulent H5N1 strain of influenza, companies operating in this country have taken more proactive measures compared to the companies in other countries⁹. Approximately 65.4% of the companies in the manufacturing industry and 68.5% of those in the non-manufacturing industry replied “Adequate measures” or “Some measures,” regarding whether measures had been taken against outbreaks of the new strains of influenza (valid responses: 107 companies in the manufacturing industry, 54 in the non-manufacturing industry).

In regard to specific measures being taken against new strains of influenza (multiple answers allowed), “Stockpiling of antibiotics” was the most cited reply (manufacturing industry: 76.7%; non-manufacturing industry: 77.8%) (valid responses: 90 companies in the manufacturing industry, 45 in the non-manufacturing industry). This was followed by “Health education concerning covering the mouth when coughing and hand washing” (60.0% and 48.9%, respectively) and “Drawing up guidelines for evacuation of expatriate employees” (45.6% and 44.4%, respectively).

12. 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 rupiah = USD 0.000091 (Average rate: October 2008)¹⁰

Diagram 6: Wages (basic salary and annual salary per employee) by type of job

Unit: Upper row: IRP, figures in parentheses are the number of valid responses

Industry	Job types	Base salary (monthly)	Annual salary (*)	Note
Manufacturing	Workers (General workers)	1,443,913.8 (99)	31,156,528.4 (93)	3 years of experience
	Engineers (Core technicians)	2,829,929.0 (89)	50,398,131.8 (85)	Graduates from technical schools or colleges with 5 years of experience
	Managers (Section managers in charge of sales)	7,757,014.8 (93)	125,711,994.7 (85)	Graduates from university with 10 years of experience
	Staff (General workers)	2,846,304.5 (44)	44,545,193.7 (42)	3 years of experience
Non-manufacturing	Managers (Section managers in charge of sales)	8,234,042.6 (39.0)	136,557,599.2 (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.)

Footnotes:

¹ CEIC (2009)

² Tsukada (2009)

³ Tsukada (2008)

⁴ BPS (Viewed on February 17, 2009)

⁵ Kuwayama (2009)

⁶ Kuwayama (2008)

⁷ "ASEAN" for the current year denotes the total of Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, and other ASEAN countries.

⁸ BPS (Viewed on February 24, 2009)

⁹ 141 cases (of which 115 persons have died) have been reported between 2003 and February 2, 2009 (WHO 2009).

¹⁰ Calculated from CEIC (2009)

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Malaysia

Targets of the survey and breakdown of respondents

Number of companies contacted: 346 Japanese-affiliated companies operating in Malaysia

Number of respondents: 180 companies (manufacturing industry: 108; non-manufacturing industry: 72)

Breakdown of respondents by industry: As shown below

(Unit: Companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	6	5.6
Textiles (yarn, cloth, synthetic fabrics)	1	0.9
Lumber and wood products	3	2.8
Furniture and interior products	2	1.9
Paper and pulp	2	1.9
Chemicals	8	7.4
Plastic products	4	3.7
Pharmaceuticals	1	0.9
Rubber products	6	5.6
Ceramics and cement	3	2.8
Iron and steel (including cast and forged products)	3	2.8
Nonferrous metals and products	6	5.6
Fabricated metal products (including plated products)	12	11.1
General machinery (including metal molds and machine tools)	3	2.8
Electric machinery and electronic equipment	13	12.0
Electric and electronic parts and components	17	15.7
Motor vehicles and motorcycles	1	0.9
Motor vehicle and motorcycle parts and accessories	4	3.7
Precision instruments	1	0.9
Other	12	11.1
Total	108	100.0

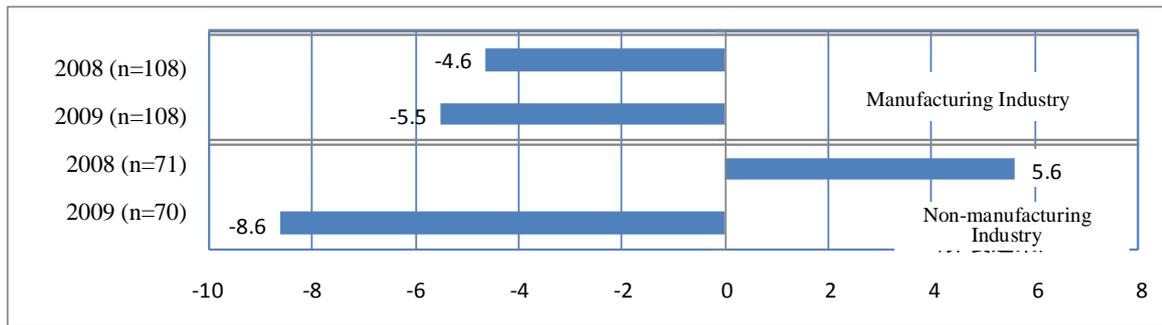
Non-Manufacturing industry		
Industry	No. of companies	Composition ratio
Distribution	2	2.8
Trading company	10	13.9
Sales company	14	19.4
Banking	4	5.6
Transport/warehousing	9	12.5
Communications/software	2	2.8
Construction/plants	13	18.1
Other	18	25.0
Total	72	100.0

1. Business outlook/operating profit forecast for 2009 expected to worsen considerably in the non-manufacturing industry

The operating profit forecast for 2009, in terms of the DI, fell to -5.5 points in the manufacturing industry (valid responses: 108 companies), which represents a drop of approximately 1.0 point from the -4.6 points of 2008. As reasons for predicting a decline, the most cited reply was "Decrease in sales due to sluggish exports" (69.4%). A breakdown by industry revealed that the DI for the electric machinery and electronic equipment industry was -15.4 points, while in the electric and electronic parts and components industry, the DI was "0" as the percentage of companies replying that profit would "Improve" and the percentage replying it would "Worsen" were the same.

In the non-manufacturing industry (valid responses: 70 companies), the operating profit forecast for 2009, in terms of the DI, dropped by 14.2 points from 2008 to -8.6 points. A breakdown by industry revealed that construction/plant companies and trading companies expected the steepest declines of -30.8 points and -20.0 points, respectively. As reasons for predicting a decline, the most cited reply was "Decrease in local market sales" (61.9%).

Diagram 7: Operating profit forecast for 2009, in terms of the DI



2. Status of exports/imports (manufacturing industry)

(1) Usage of FTAs/EPAs for imports increases for third consecutive year

In terms of the usage of bilateral/multilateral FTAs/EPAs, 23.8% of the companies replied that FTAs/EPAs were “Currently in use” in export activities (valid responses: 101 companies), which represented a slight increase from the 23.0% reported in the previous survey. By contrast, “No plan to use” (58.4%) increased by 6.0% from the previous survey. A breakdown by industry revealed that approximately 70% of the companies in the electric machinery and electronic equipment industry and the electric and electronic parts and components industry replied “No plan to use.” As reasons for having “No plan to use” FTAs/EPAs (valid responses: 55 companies), the most cited reply was “No advantages to an FTA since the export destinations are exempt from payment of import duty” (52.7%), followed by “No advantages to an FTA since the general duty on the export destination is low” (23.6%).

Twenty percent of the companies replied that FTAs/EPAs were “Currently in use” in import activities, which represented an increase for the third consecutive year (from 15.7% in 2006 and 19.3% in 2007). Although 61.1% of the companies replied “No plan to use,” the percentage represented a 4.8% decrease from the previous survey. By industry, 60% to 70% of the companies in the electric machinery and electronic equipment industry and the electric and electronic parts and components industry replied “No plan to use.” As reasons for having no plans to use FTAs/EPAs, the most cited reply (45.5%) was: “Already enjoy exemption from tariffs through investment benefit schemes.” This reply was given by a large 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.

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

In exports, the utilization rate of the ASEAN Free Trade Area (AFTA) was the highest among companies replying that they had export/import experience, at 14.9%. This was followed by the Japan-Malaysia EPA (JMEPA), at 12.9%. According to the Ministry of International Trade and Industry of Malaysia (MITI), despite a year-on-year decrease of 0.7% in the number of Certificates of Origin (COO) issued in 2008, as a requirement for the JMEPA, the export amount increased by 25.4% year on year as a result of a spike in the international market prices of such commodities as palm oil.

In import activities, the percentage of companies replying “JMEPA” was the highest at 12.6%, followed by “AFTA” at 9.5%.

3. Procurement of raw materials and parts (manufacturing industry)

(1) Rate of procurement from local companies exceeded those from Thailand and Vietnam

A total of 39.2% of the companies replied that they procured 50% or more of their raw materials and parts locally (domestic procurement within Malaysia) (valid responses: 97 companies). Under similar conditions, the local procurement rate for Thailand was 56.0%, while Vietnam’s was 15.2%, indicating that Malaysia’s local procurement rate was lower than that of Thailand but higher than that of Vietnam.

On the other hand, of the companies replying that they procured 50% or more of their raw materials and parts locally, the percentage of companies procuring raw materials and parts from local companies was 58.3%, which was higher than the same percentage in Thailand (31.1%) and in Vietnam (37.8%). Under similar conditions, in Malaysia, the procurement rate from local companies was higher than those from Japanese-affiliated companies or other foreign-affiliated companies, suggesting an abundance of local suppliers.

Diagram 8: Rate of local procurement of raw materials and parts and breakdown (Local companies, Japanese-affiliated companies, other foreign-affiliated companies)

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

	Valid responses	0%	1% to less than 10%	10% to less than 20%	20% to less than 30%	30% to less than 40%	40% to less than 50%	50% to less than 60%	60% to less than 70%	70% to less than 80%	80% to less than 90%	90% to less than 100%	100%	Total of 50% to 100%
Local procurement ratios	97	-	9	11	17	11	11	7	7	8	8	4	4	
	100.0	-	9.3	11.3	17.5	11.3	11.3	7.2	7.2	8.3	8.3	4.1	4.1	39.2
Local companies	86	-	7	2	8	8	11	6	4	8	6	1	25	
	100.0	-	8.1	2.3	9.3	9.3	12.8	7.0	4.7	9.3	7.0	1.2	29.1	58.3
Japanese-affiliated companies	64	2	3	11	5	7	9	6	6	3	4	3	5	
	100.0	3.1	4.7	17.2	7.8	10.9	14.1	9.4	9.4	4.7	6.3	4.7	7.8	42.3
Other foreign-affiliated companies	28	1	9	7	4	-	3	1	-	2	-	-	1	
	100.0	3.6	32.1	25.0	14.3	-	10.7	3.6	-	7.1	-	-	3.6	14.3

(2) Difference in manufacturing costs with those of China is shrinking

Concerning manufacturing costs in Malaysia, assuming that the manufacturing costs of the same product is 100 at an affiliated company in China (valid response: 47 companies), the percentage of companies replying “100% to 150% or above” declined from 76.1% in the previous survey to 68.1%. In the previous survey, the percentage replying “110% to less than 120%” (28.2%) was the highest, while in the current survey, the percentage replying “100% to less than 110%” (21.3%) was the highest. This suggests that the difference in manufacturing costs with China had shrunk in 2008.

The percentage of companies replying that manufacturing costs in Malaysia were 100% or higher than those in China was higher (68.1%) than that of Thailand and Vietnam, and was thus the highest among the three nations.

Diagram 9: Local manufacturing costs of major products, when assuming the manufacturing costs of the same product at an affiliated company in China to be 100

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

	Valid responses	80% or less	80% to less than 90%	90 to less than 100%	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	Total of 100% to 150% or above
Malaysia (2007)	71 100.0	3 4.2	2 2.8	12 16.9	12 16.9	20 28.2	11 15.5	4 5.6	7 9.9	- -	76.1
Malaysia (2008)	47 100.0	4 8.5	2 4.3	9 19.2	10 21.3	9 19.2	8 17.0	3 6.4	1 2.1	1 2.1	68.1
Thailand (2008)	148 100.0	6 4.1	10 6.8	38 25.7	47 31.8	25 16.9	13 8.8	5 3.4	2 1.4	2 1.4	63.7
Vietnam (2008)	44 100.0	4 9.1	9 20.5	10 22.7	8 18.2	6 13.6	5 11.4	- -	- -	2 4.6	47.8

4. Business problems

(1) An “Increase in employee wages” was the major problem concerning labor/employment

In the manufacturing industry (valid responses: 107 companies), as was the case in the previous survey, an “Increase in employee wages” (59.8%), “Difficulty in recruiting engineering staff” (49.5%) and a “Low rate of worker retention” (43.9%) were the three most cited problems concerning labor or employment.

In the non-manufacturing industry (valid responses: 67 companies), an “Increase in employee wages” (55.2%), “Difficulty in recruiting general staff” and a “Low rate of worker retention” (40.3%, respectively) were the most cited problems.

In addition to these difficulties, from January 28, 2009, the Malaysian government imposed a moratorium on the hiring of foreign workers in the manufacturing and service industries, which has been a cause for concern for Japanese-affiliated companies that utilize foreign workers.

(2) “Unstable or insecure political or social conditions” are becoming a problem within the investment environment

In the manufacturing industry (valid responses: 80 companies), “Complicated administrative procedures” (31.3%) was the most cited problem in terms of the investment environment.

In the non-manufacturing industry (valid responses: 54 companies), “Restrictions on foreign investment, including restrictions on foreign capital ratio” (46.3%) was the most cited reply. In the non-manufacturing industry, the Malaysian government, with the exception of a few sectors, limits foreign capital equity participation to 70%. Additionally, in the previous survey, restrictions on the foreign capital ratio were perceived to be the biggest problem, suggesting a growing demand for relaxation of those regulations.

In a new development, “Unstable or insecure political or social conditions” moved up to fourth place in both the manufacturing and non-manufacturing industries. This is thought to be due to the opposition party picking up control in four states in the general election of March 2008 and the opposition leader and former Deputy Prime Minister Anwar Ibrahim returning to the political arena.

Diagram 10: Problems in the investment environment (Multiple answers allowed)

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

	Year	Valid responses	1	2	3	4	5
Manufacturing	2007	105	Complicated administrative procedures	Underdeveloped infrastructure	Unclear policy management by the local government	Restrictions on foreign investment including restrictions on foreign capital ratio	Undeveloped economic and legal systems, and arbitrary application of the legal system
		100.0	40.0	22.9	19.1	17.1	14.3
	2008	80	Complicated administrative procedures	Underdeveloped infrastructure	Unclear policy management by the local government	Unstable or insecure political or social conditions	Restrictions on foreign investment including restrictions on foreign capital ratio
		100.0	31.3	28.8	26.3	18.8	15.0
Non-manufacturing	2007	79	Restrictions on foreign investment including restrictions on foreign capital ratio	Complicated administrative procedures	Lack of office space and rising rent	Underdeveloped infrastructure / Unclear policy management by the local government	Complicated tax procedures
		100.0	44.3	39.2	19.0	17.7	11.4
	2008	54	Restrictions on foreign investment including restrictions on foreign capital ratio	Complicated administrative procedures (to acquire permits, etc.)	Lack of office space and rising rent	Unstable or insecure political or social conditions / Underdeveloped infrastructure	Unclear policy management by the local government / Complicated tax procedures
		100.0	46.3	25.9	18.5	14.8	9.3

(3) “Time-consuming and complicated customs procedures” were major problems within the foreign trade system

In the manufacturing industry (valid responses: 69 companies), “Time-consuming customs procedures” (43.5%) was the most cited problem in terms of the foreign trade system.

In the non-manufacturing industry (valid response: 39 companies), “Time-consuming custom procedures” (38.5%) was the most cited, followed by “Complicated customs clearance procedures” (35.9%), suggesting that Japanese-affiliated companies in both the manufacturing and non-manufacturing industries find the custom procedures complicated.

5. Competition: China in the manufacturing industry, local companies in the non-manufacturing industry

Regarding which country or region was the main source of competition in selling products in the local market, the most cited reply among the manufacturers (valid responses: 90 companies), was “China” (35.6%). As the main reason for such high-level competition, an overwhelming number of companies cited “Price” (83.2%). As countermeasures against competition, many companies cited “Enhance added value of products” (62.1%).

In the non-manufacturing industry (valid responses: 65 companies), the most formidable competitor was “Malaysia (local companies)” (33.9%). This is thought to be due to the fact that in the non-manufacturing industry, many of the companies provide products and services locally, which necessarily entails the local companies becoming the biggest competition. “Price” (72.6%) was the reason cited most for this type of

high-level competition, while “Enhance added value of products/services” (62.9%) was the most cited countermeasure taken against such competition.

6. Future business development

(1) Concerning business direction for the next one to two years, “Status quo” rivaled “Expansion”

In terms of the direction of each company’s business development over the next one to two years, “Status quo” (47.6%) rivaled “Expansion” (44.7%) in the manufacturing industry (valid responses: 103 companies). Compared to the previous survey, “Status quo” increased by 7.3 percentage points and “Expansion” decreased by 8.1 points. As reasons for expansion, the most cited reply was “Expansion of business size through additional investment” (58.7%).

In the non-manufacturing industry (69 companies), “Expansion” (56.5%) and “Status quo” (42.0%) were the most cited, with “Expansion” increasing 4.5 points from the previous survey (No change for “Status quo”). By industry, many of the sales companies replied “Expansion” (10 out of 13 companies), with “Expansion of product/service scope (market development)” (eight out of 10 companies) as the reason for expansion.

(2) Fewer companies replied “Downsizing” or “Move to a third country or withdraw”

Companies replying “Downsizing” or “Move to a third country or withdraw” decreased from 10 companies in the previous survey to eight in the current survey in the manufacturing industry (“Downsizing”: seven companies “Move to a third country or withdraw”: one company). As reasons for deciding to downsize or move to a third country (region), “Integrate the bases within the local country (region)” (four companies) was the most cited, followed by “Transfer the production of certain items to an affiliate in a third country (region)” (two companies) and “Move the production base to a third country (region),” which was cited by just one company. As the location to which production of certain items is to be moved or the location to which the production base is to be moved (multiple answers allowed), “Vietnam” and “Japan” were cited by two companies each, while “China” was cited by just one. Additionally, in the previous survey, Vietnam was mentioned as a possible location for moving the production of certain items or production bases to (two out of four companies), indicating the high level of interest in this country by these companies. As reasons for moving to the chosen location, the “Level of wages” and “Quality of human resources” were cited by two companies each, and “Growth prospects and potential of the market” and “Administrative and operation costs” were cited by one company each.

In the non-manufacturing industry, companies replying “Downsizing” or “Move to a third country or withdraw” decreased from six in the previous survey to one in the current survey, and as a reason for deciding to downsize or move to a third country (region), “Move the current base to a third country (region)” was cited. As for the location for the move, “Singapore” was often cited, due to its “Completeness of logistical infrastructure” and “Quality of engineers/managers.”

(3) Potential market for products in the medium to long term: “India” most cited in the manufacturing industry; “Malaysia” in the non-manufacturing industry

As countries (regions) to be focused on as potential markets in the medium to long term (five to 10 years), countries with relatively large markets, including “India” (33.0%), “China” (31.1%), “Vietnam” (23.3%) and “Japan” (23.3%) were cited in the manufacturing industry (valid responses: 103 companies).

In the non-manufacturing industry (valid responses: 64 companies), “Malaysia” (54.7%) was the most cited country as the optimum location in the medium to long term for a company’s operations/sales bases. Additionally, as a core role or function sought in an ideal sales base, the “Sales base for the domestic market” (61.0%) was the most cited reply.

Diagram 11: Countries (regions) to be focused on as markets for products (manufacturing industry)/company’s operations/sales bases (non-manufacturing industry) in the medium to long term (five to 10 years) (Multiple answers allowed)

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

	Valid responses	1	2	3	4	5	
Manufacturing	2007	134	India	China	Vietnam	Thailand	EU
		100.0	38.8	38.1	29.1	23.9	19.4
	2008	103	India	China	Vietnam, Japan	Malaysia	Thailand
		100.0	33.0	31.1	23.3	22.3	21.4
Non-manufacturing	2007	82	Malaysia	Singapore	Vietnam	China	Thailand
		100.0	52.4	17.1	11.0	7.3	4.9
	2008	64	Malaysia	Thailand	Vietnam	Singapore	India, China, Middle East
		100.0	54.7	12.5	10.9	7.8	3.1

7. Effects of inflation and its countermeasures: Rising procurement and personnel costs

Concerning if the advance of inflation had impacted the company’s profits, the majority of the companies in the manufacturing industry (valid responses: 107 companies), replied “Significantly worsened” (53.3%). As to the specific types of impact, an “Increase in procurement costs” (77.8%), “Increase in transportation costs” (74.8%) and an “Increase in utilities costs (electricity, gas, etc.)” (72.7%) were cited. An “Increase in procurement costs,” at 74.8%, was also mentioned as the number one problem in production, indicating that it has indeed affected production.

In the non-manufacturing industry (valid responses: 72 companies), “Slightly worsened” (48.6%) was the most cited reply. As for specific types of impact, the top-ranking replies were an “Increase in personnel costs” (62.9%), “Increase in transportation costs” (54.8%) and an “Increase in fuel costs” (45.2%).

From June to August 2008, the Malaysian government raised the price of gasoline, electricity and gas against the backdrop of a global hike in crude oil prices, the effects of which were felt in both the manufacturing and non-manufacturing industries.

8. Status of infringements on intellectual property rights and countermeasures: Over 80% replied no damage

Concerning those that had suffered damages from imitations/pirated products in the past year, an overwhelming number of companies in the manufacturing industry (valid responses: 104 companies) replied

“No” (86.5%). Similarly, nearly 90% of the companies replied “No” (87.8%) as to whether they had taken countermeasures against imitations. On the other hand, among companies replying that they had suffered damages (13.5%), an “Exact copy of product design and packaging” (71.4%) was the most cited reply. Additionally, among the companies replying that they had taken countermeasures against imitations (12.2%), “Acquire domestic intellectual property rights (registration) early” (58.3%) was the most cited reply.

Additionally, in the non-manufacturing industry (valid responses: 69 companies) nearly 90% (87.0%) of companies replied “No” as to whether they had suffered damages from imitations/pirated products. In terms of countermeasures against imitations, nearly 80% (79.7%) replied that they had not taken any. On the other hand, among companies replying that they had suffered damages (13.0%), “Illegal use of trademarks such as the brand logo” (66.7%) was the most cited reply. Additionally, among the companies replying that they had taken countermeasures against imitations (20.3%), “Acquire domestic intellectual property rights (registration) early” (53.9%) was the most cited reply.

The percentage of companies reporting damage was low for both the manufacturing and non-manufacturing industries, and it was evident that no particular countermeasures were being taken by such companies.

9. Responses to standardization: Hopes for the formulation of international standards through Japan-Europe and Japan-Asia collaborations

Regarding the standards used in the production of the companies’ major products, the majority of companies in the manufacturing industry (valid responses: 102 companies) replied “International standards” (53.9%) and “JIS” (50.0%). In terms of the companies’ wishes regarding standardization, the most cited reply was “Preparation of international standards through collaboration between Japan and Europe” (48.3%), a response which was particularly prevalent among companies in the electric and electronic parts and component industry. Japanese-affiliated companies exporting products to Europe have already begun to respond to environmental restrictions on electric and electronic parts and components introduced by Europe (such as RoHS), and this is thought to be behind hopes regarding the formulation of international standards through Japan-Europe collaboration.

In regards to the standards used in the production of the companies’ major products, many of the companies in the non-manufacturing industry (valid responses: 68 companies) replied “No standards in the area” (39.7%) and “International standards” (35.3%). In terms of hopes regarding standardization, the most cited reply was “Formulation of international standards through collaboration between Japan and Asian countries” (35.9%), followed by “Formulation of international standards through collaboration between Japan and Europe” (30.8%).

10. Efforts toward CSR: Inadequate cost-effectiveness; budget cited as issues

Concerning what type of CSR activities were particularly sought, “Strict observance of local laws and regulations and respect for international standards, such as ISO” (82.4%) was the most cited reply in the manufacturing industry (valid responses: 102 companies). It is characteristic that Malaysia had the highest percentage of companies in the ASEAN region replying “Engagement in local (or wider area) environmental issues” (36.3%). Japanese-affiliated companies have been known to popularize activities involving tree planting and sorting garbage, engage in activities to educate the public and are characterized by a strong

awareness of the environment. In terms of issues or problems existing in CSR activities, the most cited reply was “It is difficult to verify cost-effectiveness” (43.0%), which represented the highest percentage in the ASEAN region. This suggests that the value of CSR activities has not yet been clearly assessed in Malaysia.

In the non-manufacturing industry (valid responses: 68 companies), the type of CSR activities that were particularly sought after were “Strict observance of local laws and regulations and respect for international standards, such as ISO” (67.7%). It is also characteristic that Malaysia had the highest percentage of companies in the ASEAN region replying “Support for charitable activities, the arts, and cultural activities” (17.7%). Japanese-affiliated companies have been known to donate a portion of earnings to charitable organizations, in addition to taking part in the arts and cultural activities, such as inviting European orchestras to visit. In terms of issues or problems existing in CSR activities, the most cited reply was “There are insufficient budget, experts and human resources” (47.3%).

11. Measures against new strains of influenza: Health education concerning the implementation of hand-washing

In terms of measures taken against new strains of influenza, in the manufacturing industry (valid responses: 107 companies) more than 80% of the companies replied either “No measures” (48.6%) or “Not many measures” (32.7%), exceeding the ASEAN average of 70%. The last confirmed case of avian influenza in Malaysia was in June 2007, and outbreaks have been relatively uncommon compared to the neighboring countries of Indonesia, Vietnam and Thailand. For this reason, it is thought there is little awareness of crisis management in Malaysia and consequently only few measures have been taken. However, among the companies replying that “No measures” were being taken, the percentage of companies replying “Yes” (54.8%) rivaled the percentage replying “No” (45.2%) to the question of whether the company planned to devise measures in the future against an outbreak. Among the companies replying “No,” the most cited reasons for not formulating (or not being able to formulate) measures were “Have no information on which to base a decision” (56.8%) and “Do not know what should be done” (43.2%). On the other hand, among companies replying “Adequate measures” (1.9%) and “Some measures” (16.8%), “Health education concerning covering the mouth when coughing and hand washing” (46.5%) and “Draw up guidelines for evacuation of expatriate employees” (41.9%) were the most cited replies in terms of specific measures being taken

In the non-manufacturing industry (valid responses: 72 companies), companies replying “No measures” (41.7%) and “Not many measures” (27.8%) accounted for approximately 70% of the total. Among those replying that “No measures” were being taken, the percentage of companies replying “Yes” (62.7%) far exceeded the percentage replying “No” (37.3%) to the question of whether the company planned to devise measures in the future against an outbreak. Among those replying “No,” the most cited reasons for not formulating (or not being able to formulate) measures was “Have no information on which to base a decision” (52.0%). On the other hand, among those replying “Adequate measures” (1.4%) and “Some measures” (29.2%), “Health education concerning covering the mouth when coughing and hand washing” (38.5%) was the most cited reply in terms of specific measures being taken.

12. 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 Malaysian ringgit = USD 0.283575 (Average rate as of October 2008; calculated from the CEIC database)

Diagram 12: Wages (basic salary and annual salary per employee) by type of job

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

	Job types	Base salary (monthly)	Annual salary (*)	Note
Manufacturing	Workers (General workers)	1,024.4 (98)	16,624.6 (91)	3 years of experience
	Engineers (Core technicians)	2,678.0 (89)	43,049.7 (82)	Graduates from technical schools or colleges with 5 years of experience
	Managers (Section managers in charge of sales)	5,289.7 (89)	80,904.2 (83)	Graduates from university with 10 years of experience
Non-manufacturing	Staff (General workers)	2,654.2 (58)	42,739.8 (51)	3 years of experience
	Managers (Section managers in charge of sales)	6,166.3 (55)	104,046.2 (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

Number of companies contacted: 20 Japanese-affiliated companies operating in Myanmar

Number of respondents: 20 companies (manufacturing industry: six; non-manufacturing industry: 14)

Breakdown of respondents by industry: As shown below

(Unit: Companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	1	16.7
Textiles (yarn, cloth, synthetic fabrics)	1	16.7
Apparel and textile products	3	50.0
Iron and steel (including cast and forged products)	1	16.7
Total	6	100.0

Non-manufacturing industry		
Industry	No. of companies	Composition ratio
Distribution	1	7.1
Trading company	2	14.3
Securities	1	7.1
Real estate	1	7.1
Hotel/travel/restaurant	1	7.1
Communication/software	1	7.1
Construction/plants	5	35.7
Other	2	14.3
Total	14	100.0

1. Business outlook

In terms of estimated operating profit for 2008, two out of the six Japanese-affiliated manufacturers (Apparel and textile products, iron and steel) replied that they expected to post a profit, while one replied that it would break even, and three companies replied they expected to post a loss. Concerning how estimated operating profit for 2008 would compare with the previous year, one out of the six companies replied it would “Improve” (Textiles), five replied “Show no change” and none said that they expected profit to “Worsen” (Diagram 13). As for the operating profit forecast for 2009, none of the companies replied “Improve,” four out of the five companies (Food, processed agricultural or marine products, apparel and textile products) replied “Show no change” and one company (Iron and steel) replied “Worsen.”

In the non-manufacturing industry, on the other hand, in terms of estimated operating profit for 2008, six out of 14 companies replied that they expected to post a profit, while two replied that they would break even, and six replied that they expected to post a loss, showing that the same number of companies expected a profit as expected a loss. Concerning how estimated operating profit for 2008 would compare with the previous year, replies were spread out fairly evenly, with five out of the 14 companies replying it would “Improve,” five replying “Show no change” and four replying “Worsen.” As reasons for the improvement, companies cited such factors as “Increase in local market sales” and “Development of new products and services.” As for the operating profit forecast for 2009, five out of the 12 companies replied “Improve,” five companies replied, “Show no change” and two companies replied “Worsen.” As reasons for predicting improvement, companies cited such factors as “Increase in local market sales” and “Development of new products and services.”

In terms of the source of operating profit and profit breakdown of companies within the non-manufacturing industry, nine companies replied “Local,” of which five companies in the distribution and the

construction/plants industries replied “100%.” Five companies from the trading house, communications/software and other industries replied “Japan,” four companies in the construction/plants and other industries replied “ASEAN” and two companies from the trading house and another industry replied “Middle East.”

Diagram 13: Estimated operating profit for 2008 and 2009 (over the previous year)

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

Year	Manufacturing				Non-manufacturing			
	Valid responses	Improve	Show no change	Worsen	Valid responses	Improve	Show no change	Worsen
2008	6 100.0	1 16.7	5 83.3	-	14 100.0	5 35.7	5 35.7	4 28.6
2009	5 100.0	0 0.0	4 80.0	1 20.0	12 100.0	5 41.7	5 41.7	2 16.7

2. Status of exports/imports

Concerning the ratio of exports to total sales, four out of the six companies in the manufacturing industry replied “100%.” Notably in the apparel and textile products industry, all the companies replied “100% of products exported to Japan.” Although it has always been difficult for companies catering to domestic demand to set up plants in Myanmar, it is evident that Myanmar is becoming established as a production base for export-oriented companies.

As for the usage of existing bilateral/multilateral FTAs/EPAs, only one manufacturer in the apparel and textile products industry replied that the ASEAN-FTA (AFTA) was currently being used in export activities. Most of the products made by Japanese-affiliated manufacturers operating in Myanmar are intended for the local market or the Japanese market, so FTAs intended for the ASEAN market are rarely used. Low FTA usage may also be attributed to the fact that preferential tariff rates have already been applied to the majority of Myanmar’s exports to Japan. Low FTA usage in import activities, on the other hand, may be attributed to the use of the CMP (Cutting, Making and Packing) System, under which Japanese-affiliated manufacturers in the textiles industry already enjoy a tax exemption on imports of raw materials. In December 2008, the ASEAN-Japan Comprehensive Economic Partnership (AJCEP), between Japan and five ASEAN nations, including Myanmar, went into effect. It is hoped, as a result, that exports to Japan of knitwear and shoe products, which had previously not enjoyed the benefits of preferential tax treatment, would increase.

3. Procurement of raw materials and parts

Concerning the ratio of the cost of raw materials and parts to the manufacturing costs of major items, the ratio was low in the apparel and textile products industry at “50% to less than 70%,” while in the textiles industry and the iron and steel industry, some companies replied “90% or above.” In terms of the procurement source, the companies in the foods, processed agricultural or marine products industry replied that they had a 100% local procurement rate, while in the apparel and textile products industry, allowing for minor differences in the procurement ratios, all the companies procured raw materials from Japan, in addition to the ASEAN nations and China.

In regards to future plans for the procurement of raw materials and parts, the most cited reply (from three out

of five companies) was “Increase ratio of procurement from ASEAN.” As for the factors necessary to increase local procurement ratios of raw materials and parts (multiple answers allowed), the most cited reply (from four out of six companies) was “Quality improvement by local suppliers,” followed by “Expansion of affiliated suppliers into the local area” (from three out of six companies).

Moreover, as for the percentage of the amount of raw materials and parts imported by a company that is not subject to tariffs, the sole textile company replied “100%,” i.e. all raw materials and parts were imported tax-free, and the three apparel and textile products companies replied “70% to less 100%” or “100%,” indicating that a large percentage of the raw materials and parts were being imported free from tariffs. It is evident that the manufacturers are receiving tax-exemption treatment for imports of raw materials as a result of the use of the CMP System mentioned above.

Concerning manufacturing costs in Myanmar for the main products of a company, assuming that the manufacturing cost of the same product is 100 at an affiliated company in China, two out of four companies (one from the textiles industry and the other from the apparel and textile products industry) replied “Less than 80%,” while two companies (both from the apparel and textile products industry) replied “80% to less than 90%.” While the majority of companies in the ASEAN region as a whole replied “100% to less than 110%,” the low manufacturing cost, particularly in Myanmar’s apparel industry, was noteworthy. Recently, Myanmar has been attracting attention as a post-China/Vietnam production base due to the low cost of manufacturing found there.

4. Business problems

The most prevalent problem in sales and other business activities (multiple answers allowed) was “Sluggishness in major sales markets,” which was cited by five out of six companies in the manufacturing industry. However, in the non-manufacturing industry, the most prevalent problem was “No increase in new clients or markets,” which was cited by eight out of the 14 companies (Diagram 14).

As for problems in production (manufacturing industry only, multiple answers allowed), “Electric power shortage,” was cited by five out of six companies. Myanmar has always been plagued by power outages, and the shortfall in power has generally been covered by in-house power generation. However, as diesel fuel is necessary for power generation, production costs can be severely impacted when fuel prices rise.

In the manufacturing industry, the most prevalent problems concerning labor or employment (multiple answers allowed) were “Increase in employee wages” and “Low rate of worker retention,” each of which were cited by four out of six companies, while in the non-manufacturing industry, the most prevalent problem was “Difficulty in recruiting,” which was cited by five out of 12 companies, followed by “Low rate of worker retention.” Behind this difficulty in recruitment is the chronic shortage of skilled workers and supervisors, which stems from the fact that these industries in Myanmar are still in their infancy, in addition to the massive outflow of migrant workers from Myanmar into the neighboring countries of Singapore, Malaysia and Thailand, as well as the Middle East.

Both the manufacturing industry (valid responses: six companies) and the non-manufacturing industry (valid responses: 14 companies) cited “Underdeveloped infrastructure” and “Unclear policy management by the local government,” as the two highest-ranking problems occurring within the investment environment (multiple answers allowed). In terms of infrastructure, Japan has conveyed its need for a stable electricity supply and

construction of a highway on the Thailand border while attending venues such as the Myanmar-Japan Trade and Investment Workshop, held in July 2007, and the workshop for the apparel industry, held in August and October of 2008. Both the manufacturing and non-manufacturing industries have also cited “Unstable or insecure political or social conditions,” as the third most prevalent problem within the investment environment. This is thought to be due to the anti-government uprising involving Buddhist monks and citizens of Myanmar that was suppressed by the military in May 2007 and the damage and confusion following the massive cyclone, which struck in May 2008. During that same time, a national referendum on a new constitution was conducted, and the constitution was ratified by a majority of voters. In 2010, a multi-party general election is scheduled to take place, and during 2010 or at the beginning of 2011, the parliament will be convened and the transition to civilian rule should be completed. If these events come to fruition, it should mark a significant turning point in the political environment of Myanmar, and thus, future developments are being closely monitored.

Diagram 14: Business problems

Unit: %, multiple answers allowed

Items		Valid responses	1		2			3			
Problems in sales or other business activities	Manufacturing	6	Sluggishness in major sales markets		Decrease in sales prices due to global oversupply			Major clients requesting lower prices		No increase in new clients or markets	
		100.0	83.3		50.0			33.3			
	Non-manufacturing	14	No increase in new clients or markets		Lack of progress in local deregulation			Major clients requesting lower prices		Competitors' growing market shares	
		100.0	57.1		50.0			28.6			
Problems in production	Manufacturing	6	Electric power shortage		Insufficient production capacity due to lack of facilities	Difficulty in changeover of production items within a short timeframe	Difficulty in quality control	Increase in procurement costs		Difficulty in local procurement of parts and raw materials	
		100.0	83.3		50.0			33.3			
Problems in financial affairs, financing, or foreign exchange	Manufacturing	6	Volatility of local currency's exchange rate against the US dollar		Restrictions on fund procurement and settlements	Tax burdens		Shortage of cash flow necessary for capital investment			
		100.0	83.3		50.0			33.3			
	Non-manufacturing	14	Volatility of local currency's exchange rate against the US dollar		Restrictions on fund procurement and settlements	Tax burdens		Shortage of cash flow necessary for expansion of sales		Volatility of local currency's exchange rate against the Japanese yen	
		100.0	42.9		35.7			14.3			
Problems with labor or employment	Manufacturing	6	Increase in employee wages	Low rate of worker retention	Difficulty in recruiting engineer staff			Difficulty in recruiting general staff	Difficulty in recruiting middle management staff	Personnel costs of Japanese (expatriate) officers and staff	Difficulty in localizing managers and site supervisors
		100.0	66.7		50.0			33.3			
	Non-manufacturing	12	Difficulty in recruiting general staff		Low rate of worker retention			Increase in employee wages	Difficulty in recruiting engineer staff	Personnel costs of Japanese (expatriate) officers and staff	Difficulty in localizing managers and site supervisors
		100.0	41.7		33.3			25.0			
Problems in the investment environment	Manufacturing	6	Underdeveloped infrastructure	Unclear policy management by the local government	Unstable or insecure political or social conditions	Complicated administrative procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system	Complicated tax procedures	Restrictions on foreign investment including restrictions on foreign capital ratio	Lack of protection of intellectual property rights	
		100.0	100.0		83.3			33.3			
	Non-manufacturing	14	Underdeveloped infrastructure	Unclear policy management by the local government	Unstable or insecure political or social conditions	Undeveloped economic and legal systems, and arbitrary application of the legal system		Complicated administrative procedures			
		100	71.4		64.3			57.1			
Problems in the foreign trade system	Manufacturing	6	Lack of thorough publicizing of trade rules and regulations		Complicated customs clearance procedures			Time-consuming customs procedures			
		100.0	83.3		66.7			50.0			
	Non-manufacturing	10	Method of assessment of customs duties is unclear		Complicated customs clearance procedures			Time-consuming customs procedures			
		100.0	80.0		70.0			50.0			

5. Competition

Concerning which country or region was the main source of competitors in selling products in the local market (at the time of the survey), the manufacturers cited neighboring countries, with the iron and steel companies replying “Thailand” and the foods, processed agricultural or marine products companies replying “Bangladesh.” In the non-manufacturing industry, the construction/plants companies cited “Thailand,” “Taiwan” and “South Korea” as the main source of competitors, while the communications/software companies cited “China,” the distribution companies cited “Myanmar” and the hotel/travel/restaurant companies cited “Europe” (valid responses: 13 companies).

6. Future business development

In regards to the direction of each company’s business development over the next one to two years, two out of the six companies in the manufacturing industry replied “Expansion,” while the rest replied “Status quo.” There were no companies replying “Downsizing” or “Move to a third country (region) or withdraw” (Diagram 15). In the non-manufacturing industry, five out of the 14 companies replied “Expansion,” while the rest replied “Status quo.” There were no companies replying “Downsizing” or “Move to a third country (region) or withdraw.” Among the manufacturers, particularly in the apparel industry, some of the companies had been operating in Myanmar for nearly 10 years and were finding that production had picked up and that they were entering a phase of business expansion. In the non-manufacturing industry, partly because many of the companies that had found business becoming difficult had withdrawn from the country, the replies suggested that those companies that had remained intended “to maintain the status quo until business conditions changed.”

The manufacturing industry, in replying to a question on optimum production bases in the medium to long term (five to 10 years), cited “Vietnam” and “India,” in addition to “Myanmar” (valid responses: five companies). In terms of regions to be focused on as potential markets in the medium to long term, “China,” “Japan,” “Thailand” and “Europe” were cited. It should be noted that the U.S. has imposed economic sanctions on Myanmar since 2003, and thus, does not, in principle, engage in any trade with said country.

Diagram 15: Direction of business development over the next one to two years

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

	Valid responses	Expansion	Status quo	Downsizing	Move to a third country (region) or withdraw
Manufacturing	6	2	4	-	-
	100.0	33.3	66.7	-	-
Non-manufacturing	14	5	9	-	-
	100.0	35.7	64.3	-	-

7. Effects of inflation and its countermeasures

In term of whether the advance of inflation had impacted profit, five out of the six companies in the manufacturing industry replied profit had “Significantly worsened,” while in the non-manufacturing industry, five out of the 13 companies replied “Significantly worsened” and six companies replied “Slightly worsened.” Concerning specific types of impact (multiple answers allowed), all the companies in the manufacturing industry replied an “Increase in fuel costs,” while many companies also cited an “Increase in transportation costs” and “Increase in personnel costs” (valid responses: six companies). In the non-manufacturing industry, the most cited reply was also an “Increase in fuel costs” at 63.6%, while an “Increase in transportation costs” and “Increase in procurement costs” were also frequently cited.

Since 2005, inflation has accelerated in Myanmar, adversely impacting the lives of citizens, as well as corporate activities. According to the yearly consumer price indices (CPI) released by the government, since fiscal year 2005 when the CPI was 10.7%, inflation has risen significantly every year, by 26.3% in fiscal year 2006 and 32.9% in fiscal year 2007. In 2007, in particular, inflation bore down on the poor to such an extent that it gave rise to the pro-democracy demonstrations. Furthermore, in May 2008, Cyclone Nargis struck the Ayeyarwady and Yangon divisions, and prices momentarily skyrocketed in the city of Yangon. The Japanese-affiliated companies in Myanmar stated that inflation has affected the most basic elements of management, including wages, transportation expenses, meal expenses and fuel costs. In particular, the burden posed by the cost of fuel required for in-house power generation, such as diesel fuel, had become immense. However, from the latter half of 2008, inflation seems to have run its course as fuel and food prices came down, and in 2009, the burden of inflation on management is expected to lighten compared to the previous year.

8. Status of infringements on intellectual property rights

Concerning the damage suffered from imitations/pirated products in the past year, only a few companies—one out of six in the manufacturing industry and two out of 12 in the non-manufacturing industry—said “Yes.”

9. Responses to standardization

In terms of standardization in the manufacturing industry, three apparel and textile products companies—along with the textiles company that in the previous section replied that they “exported 100% of their products to Japan”—replied that they had adopted “Japan Industrial Standards (JIS).” The foods, processed agricultural or marine products company and the iron and steel company, on the other hand, replied that they had adopted “Local standards.” In the non-manufacturing industry, many of the construction/plants companies replied that they had adopted “JIS,” while the distribution company and trading companies replied that they had adopted “International standards.”

10. Efforts toward CSR

Concerning what type of CSR activities were sought in their country (multiple answers allowed), in the manufacturing industry, the most prevalent replies were “Endeavors to improve the working environment” and “Engagement in local poverty and education issues,” which were cited by four out of the six companies. “Strict observance of local laws and regulations, and respect for international standards such as ISO” followed,

cited by three out of the six companies. In the non-manufacturing industry, “Human resources training, technology transfer, or increase of the local procurement ratio” was the most cited reply, with nine out of the 13 companies, followed by “Strict observance of local laws and regulations, and respect for international standards such as ISO” and “Engagement in local poverty and education issues.”

11. Measures against new strains of influenza

In terms of measures against new strains of influenza, none of the manufacturers and only one out of the 14 companies in the non-manufacturing industry replied that they implemented “Adequate measures.” Moreover, only two companies in the manufacturing industry and one in the non-manufacturing industry replied that “Some measures” were being implemented. Particularly in the non-manufacturing industry, over 70% replied that “No measures” were being implemented. As to the reasons why companies that replied “Not many measures” or “No measures” had not established (or could not establish) measures, “Do not know what should be done” was the most cited reply in the manufacturing industry. In the non-manufacturing industry, “Do not know what should be done” and “Have not received instructions from headquarters” were the most frequently cited replies.

The last reported case of a human contracting avian influenza in Myanmar was in May 2007 (one person died), and no more cases have been reported since then. As the result of the government taking thorough measures, such as completely eradicating the source of the outbreak, the companies did not seem to be very concerned over this risk, which may be the reason for their lack of measures. However, the situation also seems to indicate the difficulty of implementing specific measures based on local-level judgment in the absence of necessary information.

12. Wages

In terms of which currency was being used to pay the employees, in the manufacturing industry, four companies replied “US dollars” and two companies replied the local currency, the “Kyat.” In the non-manufacturing industry, 10 companies replied “US dollars,” while four companies replied “Kyat.”

The following diagram shows the average basic salary (monthly) and the annual salary*¹ per employee by type of job for the manufacturing and non-manufacturing industries in each of the currencies (Diagram 16-1, 16-2).

*¹ For the average of the total amount (paid in US dollars and kyats) shown in US dollars, please refer to the Overview.

Diagram 16-1: Wages (basic salary and annual salary per employee) by type of job paid in US dollars

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

	Job types	Base salary (monthly)	Annual salary (*)	Note
Manufacturing	Workers (General workers)	16.7 (3)	673.3 (3)	3 years of experience
	Engineers (Core technicians)	105.0 (3)	1,961.0 (3)	Graduates from technical schools or colleges with 5 years of experience
	Managers (Section managers in charge of sales)	300.0 (3)	3,166.7 (3)	Graduates from university with 10 years experience
Non-manufacturing	Staff (General workers)	148.0 (10)	2,205.6 (9)	3 years of experience
	Managers (Section managers in charge of sales)	402.2 (9)	5,883.3 (9)	Graduates from university with 10 years experience

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

Diagram 16-2: Wages (basic salary and annual salary per employee) by type of job paid in kyats

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

	Job types	Base salary (monthly)	Annual salary (*)	Note
Manufacturing	Workers (General workers)	19,500.0 (2)	435,000.0 (2)	3 years of experience
	Engineers (Core technicians)	29,000.0 (2)	607,500.0 (2)	Graduates from technical schools or colleges with 5 years of experience
	Managers (Section managers in charge of sales)	45,000.0 (2)	1,070,000.0 (2)	Graduates from university with 10 years experience
Non-manufacturing	Staff (General workers)	166,750.0 (4)	2,634,666.7 (3)	3 years of experience
	Managers (Section managers in charge of sales)	318,750.0 (4)	4,300,000.0 (4)	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.)

The Philippines

Targets of the survey and breakdown of respondents

Number of companies contacted: 333 Japanese-affiliated companies operating in the Philippines

Number of respondents: 172 companies (manufacturing industry: 115;
non-manufacturing industry: 57)

Breakdown of respondents by industry: As shown below

(Unit: Companies, %)

Manufacturing Industry		
Industry	No. of Companies	Composition ratio
Foods, processed agricultural or marine products	2	1.7
Furniture and interior products	1	0.9
Chemicals	5	4.3
Plastic products	10	8.7
Pharmaceuticals	1	0.9
Rubber products	7	6.1
Ceramics and cement	1	0.9
Iron and steel (including cast and forged products)	7	6.1
Nonferrous metals and products	4	3.5
Fabricated metal products (including plated products)	10	8.7
General machinery (including metal molds and machine tools)	4	3.5
Electric machinery and electronic equipment	9	7.8
Electric and electronic parts and components	18	15.7
Motor vehicles and motorcycles	3	2.6
Motor vehicle and motorcycle parts and accessories	15	13.0
Precision instruments	3	2.6
Other	15	13.0
Total	115	100.0

Non-manufacturing Industry		
Industry	No. of Companies	Composition ratio
Distribution	1	1.8
Trading company	8	14.0
Sales company	4	7.0
Insurance	2	3.5
Transport/warehousing	9	15.8
Real estate	3	5.3
Hotel/travel/restaurant	2	3.5
Communications/software	6	10.5
Construction/plants	11	19.3
Other	11	19.3
Total	57	100.0

1. Business Outlook

(1) Decline in percentage of companies expecting improvement in operating income for 2008

In terms of estimated operating profit for 2008, 53.9% of the companies in the manufacturing industry replied that they expected to post a profit (valid responses: 115 companies). In the non-manufacturing industry 59.7% (valid responses: 57 companies) replied that they expected to post a profit.

The estimated operating profit for 2008 (from the previous year), in terms of the DI, which was derived by subtracting the percentage of companies that replied that the estimated operating profit would “Worsen” from the percentage that replied that it would “Improve,” was 12.2 points in the manufacturing industry (valid responses: 115 companies). As reasons for improvement (multiple answers allowed), the most cited replies were “Improved production efficiency” (41.7%) and an “Increase in sales due to export expansion” (37.5%) (valid responses: 48 companies).

In the non-manufacturing industry, on the other hand, the estimated operating profit, in terms of the DI, was “0” points (valid responses: 57 companies). Compared to the operating profit forecast for 2008 (25.4 points) in the previous survey, this represents a decline of 25.4 points (valid responses in previous survey: 59 companies). Concerning the reasons for the improvement in operating profit (multiple answers allowed), the most cited reply was an “Increase in local market sales” (40.0%) (valid responses: 20 companies).

(2) Operating profit forecasts for 2009 expected to worsen in the non-manufacturing industry

The operating profit forecast for 2009 in the manufacturing industry, in terms of the DI, was 0 points, which represents a decline from the 12.2 points of 2008 (valid responses: 115 companies). Concerning the reasons for predicting a decline (multiple answers allowed), the most cited reply was a “Decrease in sales due to sluggish exports” (55.9%), which was followed by an “Increase in procurement costs” (38.2%) (valid responses: 34 companies).

In the non-manufacturing industry, on the other hand, the operating profit forecast for 2009, in terms of the DI, was expected to drop from 0 points in 2008 to -3.5 points (valid responses: 57 companies). Concerning the reasons for predicting a decline (multiple answers allowed), many of the companies cited a “Decrease in local market sales” (64.3%) and a “Reduction in sales due to higher prices” (42.9%) (valid responses: 14 companies).

2. Status of exports/imports

(1) Increased expectations for FTAs/EPAs

In terms of company usage of FTAs/EPAs, 11.8% of the companies replied that FTAs/EPAs were “Currently in use” in export activities, and 24.5% replied that they were “Considering using” them. (valid responses: 102 companies). In contrast, in terms of import activities, 8.0% of the companies replied that FTAs/EPAs were “Currently in use,” and 19.3% replied that they were “Considering using” them (valid responses: 88 companies).

In terms of the ASEAN Free Trade Area (AFTA), ASEAN-China FTA (ACFTA) and ASEAN-South Korea FTA (AKFTA), the six original members of ASEAN, including the Philippines, China and South Korea, at the time of the survey, were aiming for the complete elimination of tariffs by 2010.^{1, 2, 3} In December 2008, after the completion of this survey, the Japan-Philippines Economic Partnership (JPEPA) went into effect, and consequently, examples of JPEPA usage are expected to increase in the future.

(2) The major reason for not utilizing FTAs/EPAs

Concerning the reasons for not using FTA/EPAs in export activities (multiple answers allowed), the most cited reply in the current survey, as in the previous survey, was “No advantages to an FTA since the export destinations are exempt from payment of import duty” (32.8%) (valid responses: 61 companies). The JPEPA, which went into effect December 2008 after the completion of this survey, is expected to be utilized in exports to Japan, as many of the Japanese-affiliated manufacturers deliver products to their parent companies in Japan⁴.

On the other hand, concerning reasons for having “No plan to use” FTAs/EPAs in import activities (multiple answers allowed), the most cited reply in the current survey, as in the previous survey, was “Already enjoy

exemption from tariffs through investment benefit schemes” (61.7%) (valid responses: 60 companies). The majority of the Japanese-affiliated manufacturers were operating in industrial complexes located in special economic zones designated by the Philippine Economic Zone Authority (PEZA), and the raw materials and parts necessary for their production were generally exempted from tariffs. However, customs exemption is limited to imported raw materials and parts used in the manufacture of export products. Consequently, as manufacturers—despite PEZA authorization—are required to pay customs duty on materials for products intended for the local market, there is potential for FTA/EPA usage (up to 30% of production may be sold domestically). If sales on the local market increase, the utilization rate of FTAs/EPAs should also rise accordingly.

3. Procurement of raw materials and parts

(1) Low local procurement rate

Twenty-three percent of the manufacturers procured 50% or more of their raw materials and parts locally (valid responses: 96 companies) (Diagram 17). On the other hand, 48.1% procured 50% or more their raw materials and parts from Japan, while 29.5% of the companies procured 70% or more of their raw materials and parts from Japan. Major procurement sources of raw materials and parts other than Japan included ASEAN nations (60 companies), China (31 companies) and other Asian countries (23 companies). The insufficient development of local supporting industries may be cited as the main reason for the large percentage of procurement from overseas. Additionally, the fact that many of the Japanese-affiliated manufacturers already benefit from customs exemption measures adopted by PEZA and the average tariffs in the Philippines under Most Favored Nation (MFN) status are relatively low, even among the six original members of ASEAN, may also be considered factors⁵.

Diagram 17: Breakdown of major procurement sources

	Unit/ Upper row: Number of respondent companies, Lower row: Composition ratio (%)					
	Valid responses	Less than 50%	50% to less than 70%	70% to less than 90%	50% to less than 100%	100%
Local	96 100.0	74 77.1	7 7.3	5 5.2	4 4.2	6 6.3
Japan	102 100.0	53 52.0	19 18.6	17 16.7	11 10.8	2 2.0

(2) Policy to increase ratio of local procurement: Quality improvement by local suppliers is an issue

Concerning future plans for procuring raw materials and parts (multiple answers allowed), an “Increase ratio of local procurement” was cited by the largest percentage of companies (50.0%) (valid responses: 106 companies). By industry, in the electric and electronic parts and components industry, which had the largest number of respondents, 10 out of the 18 companies replied, an “Increase ratio of local procurement.” In terms of what factor was necessary to increase local procurement (multiple answers allowed), as was the case in the previous survey, “Quality improvement by local suppliers” was cited by the largest percentage of companies (75.7%) (valid responses: 111 companies).

4. Business problems

(1) Problems in sales and other business activities: Concerns about sluggishness in major sales markets

In terms of problems in sales and other business activities (multiple answers allowed), the percentage of companies replying “Sluggishness in major sales markets” increased by 20.3 points to 47.8% in the manufacturing industry, making it the most frequently cited reply (valid responses: 113 companies). In the non-manufacturing industry, also, companies replying “Sluggishness in major sales markets” increased by 13.8 points to 42.1%. The major increases in both the manufacturing and non-manufacturing industries may be attributed to the fact that at the time of the survey (October 2008), the effects of the stagnation in domestic and major export markets due to the global financial crisis were beginning to be felt, in addition to the slow growth of the “middle classes” capable of purchasing Japanese brands.

Diagram 18: Problems in sales or other business activities (multiple answers allowed)

		Unit/ Upper row: Number of respondent companies, Lower row: Composition ratio (%)							
	Research conducted	Valid responses	1	2	3		4	5	
Manufacturing	2007	120	Major clients requesting lower prices	Competitors' growing market shares	Decrease in orders from clients	No increase in new clients or markets	Sluggishness in major sales markets	Decrease in production orders from headquarters	
			51.7	30.0	29.2		27.5	25.0	
	2008	113	Sluggishness in major sales markets (consumption downturn)	Major clients requesting lower prices	Decrease in orders from clients		No increase in new clients or markets	Decrease in production orders from headquarters	
			47.8	42.5	40.7		31.0	23.9	
Non-manufacturing	2007	53	No increase in new clients or markets	Competitors' growing market shares (cost-wise competition)	Major clients requesting lower prices	Sluggishness in major sales markets	Decrease in orders from headquarters	Lack of progress in local deregulation	
			39.6	34.0	28.3		18.9	11.3	
	2008	57	No increase in new clients or markets	Competitors' growing market shares (cost-wise competition)	Sluggishness in major sales markets (consumption downturn)	Major clients requesting lower prices		Decrease in sales prices	Decrease in orders from headquarters
			45.6	42.1	26.3		21.1	19.3	

(2) An “Increase in employee wages” the major problem in labor or employment

In terms of problems with labor or employment (multiple answers allowed), an “Increase in employee wages” was the most cited reply in both the manufacturing and non-manufacturing industries at 66.7% and 57.1%, respectively (valid responses: 114 companies in the manufacturing industry, 56 in the non-manufacturing industry). People’s livelihoods were severely impacted in 2008 due to the soaring price of rice and hikes in public transport fares, and wage increases anticipated by general employees usually reflect the inflation rate felt in real life rather than the statistical rate of price increases announced by the government. Consequently, some Japanese-affiliated companies have had to appease the dissatisfaction of their workers, who held back on demands for wage increases, by supplementing wages with payments of rice and compensation for transport fares, rather than raising basic salaries, which have been the basis for calculating overtime pay and bonuses⁶.

Diagram 19: Problems with labor or employment (multiple answers allowed)

		Unit/ Upper row: Number of respondent companies, Lower row: Composition ratio (%)						
Research conducted	Valid responses	1	2	3	4		5	
Manufacturing	2007	125	Increase in employee wages	Difficulty in recruiting engineer staff	Difficulty in localizing managers and site supervisors	Difficulty in recruiting middle management staff	Restrictions on staff dismissal and reduction	Labor problems (strikes, union problems, etc.)
		100.0	76.8	52.0	38.4	35.2		29.6
	2008	114	Increase in employee wages	Difficulty in recruiting engineer staff	Difficulty in recruiting middle management staff	Low rate of worker retention		Difficulty in localizing managers and site supervisors
		100.0	66.7	49.1	40.4	36.0		30.7
Non-manufacturing	2007	53	Increase in employee wages	Low rate of worker retention	Difficulty in recruiting engineer staff	Difficulty in localizing managers and site supervisors		Restrictions on staff dismissal and reduction
		100.0	54.7	45.3	37.7	30.2		26.4
	2008	56	Increase in employee wages	Low rate of worker retention	Personnel costs of Japanese (expatriate) officers and staff	Difficulty in recruiting general staff	Difficulty in recruiting engineer staff	Difficulty in localizing managers and site supervisors
		100.0	57.1	44.6	32.1	30.4		23.2

5. Competition: China—the greatest source of competition

In terms of which country was the main source of competition in selling products/services on the local market, 40.2% of the companies in the manufacturing industry replied “China” (valid responses: 82 companies). In the non-manufacturing industry, the most cited reply in the previous survey was the “Philippines (local companies)” (27.8%), while in the current survey, the most cited reply was “China” (21.2%) (valid responses: 52 companies in current survey, 54 in previous survey).

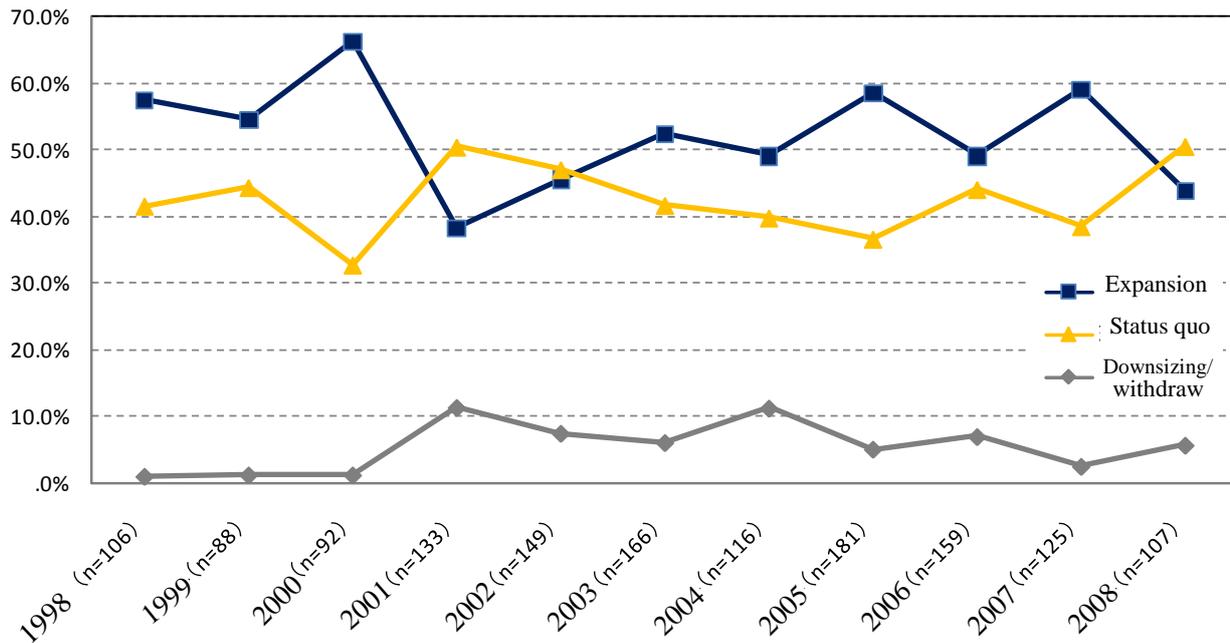
One such example is low-priced Chinese motorcycles, which are beginning to exert a major presence in the Philippines. According to sources in the Japanese motorcycle industry, the number of Chinese motorcycles sold has increased from 98,400 units in 2006 to 135,600 units in 2007 and to 160,000 units in 2008. A comparison of motorcycles with the same engine size shows that motorcycles made by Chinese manufacturers generally are 15% to 20% less expensive than those made by Japanese manufacturers. The Chinese are rapidly gaining ground due to this price difference. If the purchasing power of consumers declines any further due to rising prices or the recession, interest in inexpensive Chinese motorbikes could gain even greater momentum⁷.

6. Future business development: Companies planning to maintain “Status quo” exceed companies planning to “Expand”

In terms of the direction of each company’s business development over the next one to two years, the most cited reply was to maintain the “Status quo” in both the manufacturing and the non-manufacturing industries, at 50.5% and 58.2%, respectively (valid responses: 107 companies in the manufacturing industry, 55 in the non-manufacturing industry). A breakdown of the replies from the industries with the largest number of respondents indicated that 10 out of 18 companies (55.6%) in the electric and electronic parts and components industry, nine out of 13 companies (69.2%), in the motor vehicle and motorcycle parts and accessories industry, and nine out of 11 companies (81.8%) in the construction/plants industry replied “Status quo.”

While many of the companies in both the manufacturing and non-manufacturing industries replied “Expansion” in the previous survey, companies in the current survey, by contrast, took a cautious approach. In the manufacturing industry, this marked the first time the percentage for “Status quo” exceeded the percentage for “Expansion” since the 2001 survey, which was taken in the midst of the IT recession (survey taken from November to December 2001), and the survey taken the following year (2002 survey taken in November 2002) (Diagram 20).

Diagram 20: Direction of business development (manufacturing industry)



7. Effects of inflation and its countermeasures

Concerning whether the advance of inflation had impacted profits, the majority of the companies replied that profit had “Worsened.” However, the extent of the impact seemed to differ between the manufacturing industry and the non-manufacturing industry. While more than half of the companies in the manufacturing industry (54.0%) replied “Significantly worsened,” the percentage in the non-manufacturing industry was considerably lower at 40.0% (valid responses: 113 companies in the manufacturing industry, 55 in the non-manufacturing industry). In the non-manufacturing industry, companies replying “Slightly worsened” accounted for 50.9%, indicating that earnings on the whole had deteriorated. However, it is evident that the extent of the impact was not as severe as it was in the manufacturing industry. According to the National Statistics Office (NSO), in 2008, consumer price indices rose by 9.3% compared to the previous year, which was significantly higher than the 2.8% climb posted in 2007.

As specific types of impact in the manufacturing industry, an “Increase in procurement costs” (72.9%) was the most cited reply, followed by an “Increase in personnel costs” (69.2%) and “Increase in utilities costs (electricity, gas, etc.)” (64.5%) (valid responses: 107 companies). In the non-manufacturing industry, an “Increase in personnel costs” was the most cited reply at 58.0% (valid responses: 50 companies).

8. Status of infringements on intellectual property rights: Difficulty in understanding the true extent of damages

In terms of whether companies had suffered damages from imitations/pirated products in the past year, 4.4% of the companies in the manufacturing industry and 10.7% of the companies in the non-manufacturing industry replied “Yes” (valid responses: 113 companies in the manufacturing industry, 56 in the non-manufacturing industry). Regarding the amount of damage, five companies in the manufacturing industry (100.0%) and four companies in the non-manufacturing industry (66.7%) replied “Don’t know,” indicating the difficulty in understanding the true extent of the damages in both the manufacturing and the non-manufacturing industries (valid responses: five companies in the manufacturing industry, six in the non-manufacturing industry).

In the manufacturing industry, 13.6% of the companies and 8.0% of those in the non-manufacturing industry were taking countermeasures against imitations (valid responses: 103 companies in the manufacturing industry, 50 in the non-manufacturing industry). Concerning specific measures (multiple answers allowed), “Acquire domestic intellectual property rights (registration) early” was the most cited reply among the manufacturers with eight companies (57.1%) (valid responses: 14 companies). Behind the manufacturers’ apparent disregard for taking any countermeasures against imitations was the fact that they did not feel the necessity to copyright their registered designs in the first place. Typically, Japanese-affiliated manufacturers in the Philippines mainly produce and export partly-finished products, such as motor vehicle and motorcycle parts and electric and electronic parts. Therefore, the fact that many of these companies represented the middle link in the supply chain and engaged in make-to-order production may also be pointed out as a factor⁹.

9. Responses to standardization

Concerning how companies were responding to standardization (multiple answers allowed), the highest percentage of companies in the manufacturing industry replied that they had adopted “International standards” at 64.2%, which was followed by “JIS” (47.2%) and “European standards” (20.8%) (valid responses: 106 companies). In the non-manufacturing industry, on the other hand, “International standards” was the most cited reply at 40.7%, followed by “No standards in the area” (29.6%) and “JIS” and “Local standards” (24.1% each) (valid responses: 54 companies).

Furthermore, it became evident that the wave of European standards being adopted as international standards had also impacted the Japanese-affiliated companies operating in the Philippines. Concerning whether the cases of European standards becoming international standards had affected production, 26.0% of the companies replied “Yes” (valid responses: 100 companies). Specific effects (multiple answers allowed) included that “Cost increased due to the change of standard,” which was the most frequently cited reply, by 19 companies (73.1%), followed by “Reviewed suppliers and procurement items,” which was cited by 12 companies (46.2%) (valid responses: 26 companies). In the non-manufacturing industry, on the other hand, 17.3% of the companies replied that they had been affected by European standards (valid responses: 52 companies).

The Philippines, with its large number of export-oriented companies, produces many products that are subject to the EU’s environmental regulations, including motor vehicle and motorcycle accessories, plastic parts for electrical appliances, mold resin for semiconductors and liquid crystal film. Even if the products are being delivered to the U.S. or Asian companies (customers), as long as they are part of a supply chain of

exports intended for the EU, the companies will have no choice but to comply with the regulations. Companies that have already complied with RoHS (Restriction of Hazardous Substances) have stated that they incurred increased costs from the purchase of analysis equipment and having to request third-party organizations for tests and the like. Other companies noted that they have had to change suppliers since some suppliers were not willing to switch from the substances restricted by the EU to alternatives¹⁰.

10. Efforts toward CSR

In terms of who companies collaborated with when performing CSR activities (multiple answers allowed), 74.3% of the companies in the manufacturing industry and 76.0% of the companies in the non-manufacturing industry replied, “Our company (group) conducts CSR activities independently (planning, implementation, evaluation, etc.)” (valid responses: 109 companies in the manufacturing industry, 50 in the non-manufacturing industry). It should be noted that 7.3% of the companies in the manufacturing industry and 4.0% of the companies in the non-manufacturing industry replied “Private non-profit bodies (NGOs or NPOs).” There were a number of cases where Japanese-affiliated companies collaborated with international NGOs based in the U.K. or the U.S. Since international NGOs possess extensive expertise in project management, collaborating with such organizations is one way of achieving steady results despite having only limited resources¹¹.

11. Measures against new strains of influenza: Appropriate gathering of information is the task at hand

Since no cases of the extremely virulent H5N1 strain of influenza have been reported, the Philippines has done relatively little in the area of adopting measures against new strains of influenza¹². In the manufacturing industry, 19.1% of the companies and 27.3% of those in the non-manufacturing industry replied “Adequate measures” and “Some measures” to the question of whether measures had been taken against outbreaks of the new strains of influenza (valid responses: 115 companies in the manufacturing industry, 55 in the non-manufacturing industry). Moreover, 54.9% of the companies in the manufacturing industry and 39.6% of the companies in the non-manufacturing industry replied “No” to if they planned to devise measures in the future against an outbreak (valid responses: 113 companies in the manufacturing industry, 53 in the non-manufacturing industry). Concerning the reasons for not establishing (or being unable to establish) measures, “Have no information on which to base decisions” was the most cited reply in both the manufacturing and the non-manufacturing industries (manufacturing industry: 62.9%; non-manufacturing industry: 40.0%). The companies are in need of controlling the risk of an outbreak by first obtaining accurate information from experts and then implementing appropriate measures.

12. 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 Philippine peso = USD 0.020822 (Average rate: October 2008)¹³

Diagram 21: Wages (basic salary and annual salary per employee) by type of job

Unit/ PHP, figures in parentheses are the number of valid responses

Industry	Job types	Base Salary (Monthly)	Annual Salary (*)	Note
Manufacturing	Workers (General workers)	9,355.7 (105)	205,895.2 (95)	3 years of experience
	Engineers (Core technicians)	15,118.5 (98)	232,001.6 (91)	Graduates from technical schools or colleges with 5 years of experience
	Managers (Section managers in charge of sales)	40,825.0 (92)	600,111.5 (86)	Graduates from university with 10 years of experience
Non-manufacturing	Staff (General workers)	15,965.9 (46)	275,524.9 (45)	3 years of experience
	Managers (Section managers in charge of sales)	46,574.4 (44)	733,176.7 (44)	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.)

Footnotes:

¹ The “six original members of ASEAN” refer to Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

² In terms of ACFTA, the six original members of ASEAN, including the Philippines, and China plan to eliminate tariffs on some items following the general schedule (Normal Track items) by 2010. However, a portion of the Normal Track items will be allowed more flexibility in their timetable for the elimination of tariffs, and for these items, totaling 150 or less, the six ASEAN nations and China plan to extend the period until January 1, 2012.

³ In terms of AKFTA, items have been divided into “Normal Track” items, which will be subject to a reduction of tariffs, and “Sensitive Track” items, which will not be subject to a reduction of tariffs or to a more moderate form of reduction. South Korea intends to completely eliminate tariffs on Normal Track items by January 1, 2010, and the six ASEAN nations also intend to completely eliminate tariffs, in principle, some time in the future.

⁴ Yoneyama (December 5, 2008)

⁵ The simple average tariff rate for 2007 was 6.3%—the lowest among the six ASEAN nations after Singapore (0.0%) (WTO 2009).

⁶ Ito (2008)

⁷ Yoneyama (February 25, 2009)

⁸ NSO (2009)

⁹ Sato (December 25, 2008)

¹⁰ Sato (June 11, 2008)

¹¹ Yoneyama (January 16, 2009)

¹² As of February 18, 2009; WHO (2009)

¹³ Calculated from the CEIC database

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Singapore

Targets of the survey and breakdown of respondents

Number of companies contacted: 761 Japanese-affiliated companies operating in Singapore

Number of respondents: 194 companies (manufacturing industry: 48, non-manufacturing industry: 146)

Breakdown of respondents by industry: As shown below

(Unit: Companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	7	14.6
Chemicals	9	18.8
Petroleum products	3	6.3
Plastic products	3	6.3
Iron and steel (including cast and forged products)	1	2.1
Fabricated metals products (including plated products)	5	10.4
General machinery (including metal and molds and machine tools)	4	8.3
Electric machinery and electronic equipment	1	2.1
Electric and electronic parts and components	7	14.6
Motor vehicle and motorcycle parts and accessories	2	4.2
Precision instruments	1	2.1
Other	5	10.4
Total	48	100.0

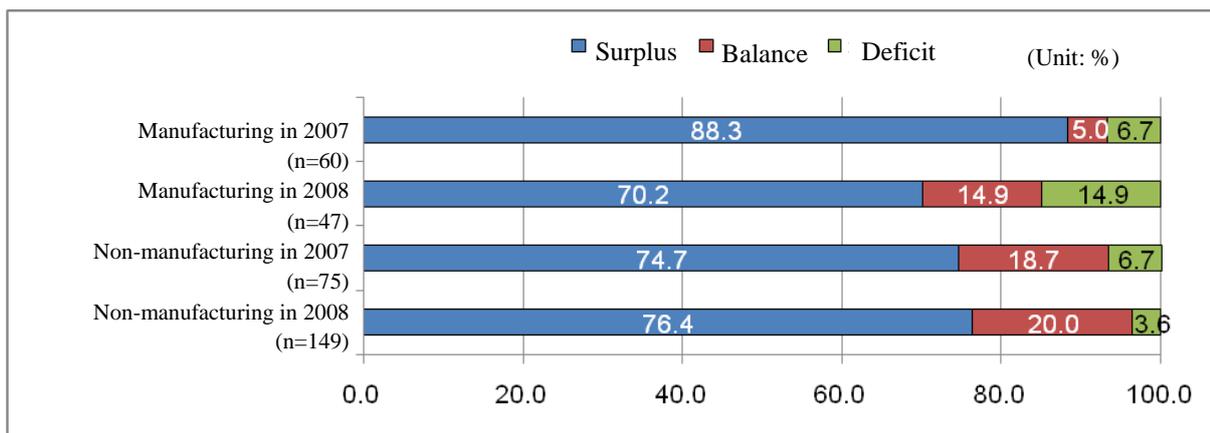
Non-manufacturing industry		
Industry	No. of companies	Composition ratio
Fish and marine products	1	0.7
Trading company	30	20.6
Sales company	48	32.9
Banking	6	4.1
Insurance	4	2.7
Transport/warehousing	13	8.9
Hotel/travel/restaurant	3	2.1
Communications/software	3	2.1
Construction/plants	13	8.9
Other	25	17.1
Total	146	100.0

1. Business outlook: Decline in percentage of manufacturers expecting to post operating profit for 2008

In terms of estimated operating profit for 2008, companies in the manufacturing industry (valid responses: 47 companies) replying that they expected to post a profit fell by 18.1 points from the previous survey to 70.2%. In the non-manufacturing industry, companies replying that they expected to post a profit showed a marginal increase of 1.7 points from the previous survey to 76.4% (valid responses: 140 companies).

The estimated operating profit for 2008, in terms of the DI, dropped to -19.1 points in the manufacturing industry. In the past decade, the rare occasions when the DI value fell below zero in the manufacturing industry were in 1998, as a result of the Asian monetary crisis, and in 2001, the year the IT bubble collapsed. In the non-manufacturing industry, also, the DI value dropped to -2.8 points.

Diagram 22: Estimated operating profit for 2008



2. Status of exports/imports (manufacturing industry only)

(1) In terms of exports, “Currently in use” was the most cited reply concerning FTAs/EPAs

In regards to the usage of bilateral/multilateral FTAs/EPAs (valid responses: 44 companies), “Currently in use” (43.2%) was the most cited reply in terms of export activities, which represents an increase of 15.9 percentage points from the previous survey. A breakdown by industry revealed that FTA/EPA use was markedly higher among companies in the chemicals industry as their utilization rate jumped 32.3% over the previous survey to 77.8%. In terms of imports, the most prevalent reply was “No plan to use,” which was cited by 77.8% of the companies. As reasons for having “No plan to use” FTAs/EPAs, many companies cited “Insignificance of domestic sales on which tariffs are charged” and “No advantages to FTA since the general duty is low” (22.2% each). In Singapore, the use of FTAs/EPAs in import activities is extremely limited as only six products are subject to import tariffs, including beer and samsu (distilled liquor made with herbs).

(2) AFTA is the most utilized FTA

Among the companies replying that they had export experience (valid responses: 44 companies), the ASEAN Free Trade Area (AFTA) was the highest in both the utilization rate (31.8%) and the number of companies using the FTA (14 out of 44 companies). Additionally, the rate of utilization of the ASEAN-China FTA was 18.2% (eight out of 44 companies), the rate of utilization of the bilateral EPA with Japan was 11.4% (five out of 44 companies), and the rate of utilization of the ASEAN-South Korea FTA was 9.1% (four out of 44 companies), indicating that the use of bilateral and multilateral FTAs/EPAs is widespread among the Japanese-affiliated manufacturers in Singapore.

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

(1) Increased procurement from local companies

A total of 32.5% of the companies replied that they procured 50% or more of their raw materials and parts locally (domestic procurement within Singapore) (valid responses: 40 companies). A breakdown of the procurement sources revealed that the percentage of companies replying that they procured 100% (all) of their raw materials and parts from local companies increased considerably from the 1.8% (one company) in the previous survey to 22.2% (eight companies) in the current survey. Concerning future plans for procuring raw

materials and parts (multiple answers allowed), “Maintain current ratios of local procurement” (46.7%) was the most cited reply (valid responses: 45 companies).

(2) Growing difference in manufacturing costs between Singapore and China

Concerning manufacturing costs in Singapore, assuming that the manufacturing cost of the same product is 100 at an affiliated company in China (valid responses: 21 companies), the most cited reply, as was the case in the previous survey, was “110% to less than 120%” (47.6%). In the previous survey, the second most cited reply was “100% to less than 110%.” However, in the current survey, the percentage replying “120% to less than 130%” (19.1%) was greater. Moreover, the total percentage of the companies replying 100% to 150% or above rose from 80.5% in the previous survey to 90.5% in the current survey. Furthermore, in terms of production problems faced by the Japanese-affiliated manufacturers in Singapore, an “Increase in procurement costs” was the most cited reply, providing proof of the fact that manufacturing costs have climbed in Singapore.

4. Business problems

(1) An “Increase in employee wages” deemed a major problem concerning labor/employment

In the manufacturing industry (valid responses: 48 companies), an “Increase in employees wages” (75.0%) was the most cited reply in terms of problems concerning labor or employment, as was the case in the previous survey. This was followed by “Difficulty in recruiting general staff” and “Difficulty in recruiting engineer staff” (both with 33.3%), indicating the continuing problems of securing staff.

In the non-manufacturing industry (valid responses: 141 companies), as was the case in the previous survey, an “Increase in employee wages” (77.3%) and “Personnel costs of Japanese (expatriate) officers and staff” (45.4%) were the two most cited problems with labor or employment. These percentages represented the highest percentages among the entire ASEAN region. It is evident that for Singapore, with its high personnel costs, increasing wages are the major problem concerning labor or employment.

Diagram 23: Problems with labor or employment (multiple answers allowed)

Upper row: Number of respondent companies , Lower row: Composition ratio (%)

		Valid responses	1	2	3	4	5			
Manufacturing	2007	58	Increase in employee wages	Personnel costs of Japanese (expatriate) officers and staff		Low rate of worker retention		Difficulty in recruiting middle management staff	Difficulty in recruiting engineer staff	Difficulty in localizing managers and site supervisors
		100.0	77.6	37.9		36.2		34.5		24.1
	2008	48	Increase in employee wages	Difficulty in recruiting general staff	Difficulty in recruiting engineer staff	Difficulty in recruiting middle management staff	Low rate of worker retention	Personnel costs of Japanese (expatriate) officers and staff		Restrictions on employing foreign workers
		100.0	75.0	33.3		31.3		29.2		18.8
Non-manufacturing	2007	74	Increase in employee wages	Personnel costs of Japanese (expatriate) officers and staff		Low rate of worker retention		Difficulty in localizing managers and site supervisors		Difficulty in recruiting general staff
		100.0	78.4	46.0		36.5		33.8		32.4
	2008	141	Increase in employee wages	Personnel costs of Japanese (expatriate) officers and staff		Difficulty in recruiting general staff		Difficulty in recruiting engineer staff	Low rate of worker retention	Difficulty in localizing managers and site supervisors
		100.0	77.3	45.4		31.9		25.5		12.1

(2) “Lack of office space and rising rent” the major problem in the investment environment for the non-manufacturing industry

As for problems in the investment environment, “Complicated administrative procedures” was, as was the case in the previous survey, the most cited reply by companies in the manufacturing industry (valid responses: 22 companies), though the percentage was relatively low at only 13.6%.

In the non-manufacturing industry (valid responses: 120 companies), a “Lack of office space and rising rents,” (86.7%) was cited by an overwhelming number of companies, representing the highest percentage in the entire ASEAN region. “Lack of office space and rising rents” also came in first place in the previous survey and continues to pose problems for the Japanese-affiliated companies.

5. Competition: Competing against China, the most formidable competitor, with enhanced added value

Concerning which country or region was the main source of competitors in selling products on the local market, the most cited reply among the manufacturers (valid responses: 41) was “China” (26.8%). As the main reason for China’s competitiveness, more than 80% cited “Price” (83.7%). In regards to countermeasures used to compete with such competition, many of the companies cited “Enhance added value of products” (59.1%) and “Bolster sales and marketing capabilities” (45.5%). The main competitor, the reasons for their competitiveness and the countermeasures taken against them have not changed from the previous survey.

In the non-manufacturing industry (valid responses: 139 companies), “China” (24.5%) replaced “Singapore (local companies),”—the most cited reply in the previous survey—as the most formidable competitor. As the main reason for competitor strength, “Price” (70.2%) was the most cited reply, and as for countermeasures taken, many cited “Enhance added value of products/services” (63.9%) and “Bolster sales and marketing capabilities” (50.4%). Clearly, both the manufacturing and non-manufacturing industries perceive China to be the most formidable competitor and intend to compete with China’s inexpensive prices by enhancing the added value of products and services.

6. Future business development

(1) Marked emphasis on strengthening design, research and development functions

In regards to the direction of each company’s business development over the next one to two years, in the manufacturing industry (valid responses: 47 companies), 46.8% of the companies replied that they intended to maintain the “Status quo” and 40.4% of the companies replied they had plans for “Expansion.” Compared to the previous survey, those replying “Status quo” increased by 16.8 points, while “Expansion” decreased by 14.6 points. It was characteristic that the percentage of those citing “Strengthening of design, research, and development functions” (42.1%) as the reason for expansion was more than twice the ASEAN average (16.7%). There are a number of examples of Japanese-affiliated companies strengthening R&D functions through joint studies with Singapore research institutes or through the establishment of proprietary R&D centers.

In terms of the direction of business development in the non-manufacturing industry (valid responses: 145 companies), 49.7% of the companies cited “Expansion,” while 44.8% of the companies cited “Status quo,” representing a 4.4-point decrease for “Expansion” and a 4.3-point increase for “Status quo” from the previous

survey. As for reasons for selecting “Expansion,” an “Expansion of product/service scope (market development)” was cited by the highest percentage of companies (72.2%).

Diagram 24: Reasons for company business development expansion in the future (multiple answers allowed)

		Upper row: Number of respondent companies, Lower row: Composition ratio (%)					
	Year	Valid responses	1	2	3	4	5
Manufacturing	2007	33	Enhancement of high added-value production items	Expansion of business size through additional investments	Expansion (diversification) of production items	Strengthening of design, research, and development functions	Other
		100.0	51.5	45.5	39.4	24.2	12.1
	2008	19	Expansion of business size through additional investments	Enhancement of high added-value production items	Strengthening of design, research, and development functions	Expansion (diversification) of production items	Production consolidation of specific manufacturing items in your local company
		100.0	79.0	47.4	42.1	26.3	5.3
Non-manufacturing	2007	40	Expansion of product/service scope (market development)	Expansion of product/service content (diversification)	Expansion of business size through additional investments	Consolidation of specific product/service bases in your local company	Other
		100.0	55.0	50.0	17.5	7.5	5.0
	2008	72	Expansion of product/service scope (market development)	Expansion of product/service content (diversification)	Expansion of business size through additional investments	Strengthening of planning, research, and development functions	Consolidation of specific product/service bases in your local company / Other
		100.0	72.2	37.5	26.4	5.6	4.2

(2) Fewer manufacturers replied “Downsizing” or “Move to a third country (region) or withdraw”

The number of companies replying “Downsizing” or “Move to a third country (region) or withdraw” decreased in the manufacturing industry from nine companies in the previous survey to six. A closer look at the companies replying “Downsizing” or “Move to a third country (region) or withdraw” revealed that “Move the production base to a third country (region)” was the most cited, with four companies, followed by “Transfer the production of certain items to an affiliate in a third country (region)” (one company) and “Integrate the bases within the local country (region)” (one company). As the location to which the entire production or the production of certain items was to be moved (multiple answers allowed), “Thailand” and “Vietnam” were cited by two companies each, while “Malaysia,” “Japan” and “China” were also mentioned by one company each. Concerning the reasons for moving to the chosen location (multiple answers allowed), the “Size of the market,” “Growth prospects and potential of the market” and “Level of wages” were cited by two companies each.

In the non-manufacturing industry, companies replying “Downsizing” or “Move to a third country (region) or withdraw” increased from four companies in the previous survey to eight in the current survey. A closer look at the companies replying “Downsizing” or “Move to a third country (region) or withdraw” revealed that “Transfer some products/services to an affiliate in a third country (region)” was cited by four companies, “Integrate the bases within the local country (region)” was cited by three and “Move the current base to a third

country (region)” was cited by one company. As for the location to which the current base or a portion of the products/services was to be moved (multiple answers allowed), “Malaysia,” “Philippines,” “Thailand,” “India,” “Other Southwest Asian countries” and “Hong Kong” were cited by one company each. Concerning the reasons for moving to the chosen locations (multiple answers allowed), “Administrative and operation costs” was the most cited reply (four companies), followed by “Size of the market,” “Competitive strengths of the company in the market” and “Level of wages,” which were cited by two companies each.

(3) Potential market for products in the medium to long term: “India” most cited in the manufacturing industry, “Singapore” in the non-manufacturing industry

In the manufacturing industry (valid responses: 44 companies), as countries (regions) to be focused on as potential sales markets in the medium to long term (five to 10 years), countries with relatively large markets, such as “India” (47.7%) and “China” (36.4%), were cited most, followed by “Vietnam” (20.5%).

In the non-manufacturing industry (valid responses: 139 companies), “Singapore” (68.4%) was the most cited country as the optimum location in the medium to long term for company operations/sales bases. As for countries other than Singapore, “Thailand” was the most frequently cited at 9.4%.

7. The effects of inflation and its countermeasures: Rising procurement costs

In regards to if the advance of inflation had impacted profits, the majority of companies in the manufacturing industry (valid responses: 45 companies) replied “Significantly worsened” (53.3%). Concerning specific types of impact, an “Increase in procurement costs” was cited by 90.5% of the companies—the highest percentage in the ASEAN region. An “Increase in procurement costs” was also the most cited business problem relating to production, indicating the impact it had on production activities in Singapore.

In the non-manufacturing industry (valid responses: 145 companies), “Slightly worsened” (49.7%) was the most cited reply. As for the specific type of impact, an “Increase in procurement costs” (51.9%) was the most cited reply, representing the highest percentage in the ASEAN region.

8. Status of infringements on intellectual property rights and its countermeasures: Non-manufacturing industry has incurred the most damage in the ASEAN region

Concerning whether companies had suffered damages from imitations/pirated products in the past year, nearly 90% of those in the manufacturing industry (valid responses: 46 companies) replied “No” (87.0%). Similarly, approximately 80% of the companies replied “No” (81.8%) to whether they had taken countermeasures against imitations. On the other hand, among those replying that they had suffered damages (13.0%), “Exact copy of product design and packaging” (66.7%) was the most cited reply concerning the type of the damage they suffered. Among companies replying that they had taken countermeasures against imitations (18.2%), “Acquire domestic intellectual property rights (registration) early” was the most cited countermeasure in the ASEAN region at 75.0%.

In the non-manufacturing industry (valid responses: 144 companies), the percentage of companies replying “No” as to whether they had suffered damages from imitations/pirated products was nearly 80% (79.9%)—the lowest percentage in the ASEAN region. In terms of countermeasures against imitations, the percentage of companies replying that they had not taken any measures was the lowest among the ASEAN nations (79.1%),

meaning that nearly 80% of the companies had not taken any countermeasures against imitations. On the other hand, among companies replying that they had suffered damages (20.1%), “Exact copy of product (Contents) design and packaging” (58.6%) was the most cited reply, especially among sales companies. Additionally, among those replying that they had taken countermeasures against imitations (20.9%), “Acquire domestic intellectual property rights (registration) early” (42.9%) was the specific measure most cited.

Diagram 25: Whether damages from imitations/pirated products have been incurred in the past year

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

Manufacturing	Valid responses	Yes	No	Non-manufacturing	Valid responses	Yes	No
ASEAN Total	768	88	680	ASEAN Total	551	76	475
	100.0	11.5	88.5		100.0	13.8	86.2
Indonesia	109	16	93	Indonesia	53	6	47
	100.0	14.7	85.3		100.0	11.3	88.7
Malaysia	104	14	90	Malaysia	69	9	60
	100.0	13.5	86.5		100.0	13.0	87.0
Myanmar	6	1	5	Myanmar	12	2	10
	100.0	16.7	83.3		100.0	16.7	83.3
Philippines	113	5	108	Philippines	56	6	50
	100.0	4.4	95.6		100.0	10.7	89.3
Singapore	46	6	40	Singapore	144	29	115
	100.0	13.0	87.0		100.0	20.1	79.9
Thailand	314	38	276	Thailand	171	20	151
	100.0	12.1	87.9		100.0	11.7	88.3
Vietnam	76	8	68	Vietnam	46	4	42
	100.0	10.5	89.5		100.0	8.7	91.3

9. Responses to standardization: Hopes for formulation of international standards through Japan-Europe and Japan-Asia collaborations

In regards to the standards used in the production of major products, the majority of companies in the manufacturing industry (valid responses: 47 companies) replied “International standards” (48.9%) and “JIS” (38.3%). In terms of wishes regarding standardization, the most cited reply was “Preparation of international standards through collaboration between Japan and Europe” (40.0%), which was particularly prevalent among the foods, processed agricultural or marine products industry, as well as the chemicals industry. There have been a number of cases where European regulations, such as the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), have become international standards, and this is thought to be advantageous to company business, regarding the formulation of international standards through Japan-Europe collaboration.

Concerning standards used in the production of the companies’ major products in the non-manufacturing industry (valid responses: 141 companies), “International standards” (43.3%) was the most cited reply. In terms of wishes regarding standardization, the most cited reply was “Formulation of international standards through collaboration between Japan and Europe” (37.9%), which was particularly prevalent among trading companies. This was followed by “Formulation of international standards through collaboration between Japan and other Asian countries” (30.5%), which was cited by many sales companies.

10. Efforts toward CSR: Inadequate cost-effectiveness and budget cited as issues

In terms of what type of CSR activities were particularly sought, “Strict observance of local laws and regulations, and respect for international standards such as ISO” (93.5%) was the most cited reply in the manufacturing industry (valid responses: 46 companies), followed by “Ensuring product and service safety as well as (or) offering new products and services” (47.8%). The respective percentages for these replies were the highest in the ASEAN region. By contrast, the percentages of companies replying “Engagement in local (or wider area) environmental issues” (23.9%) and “Human resources training, technology transfer, or increase of the local procurement ratio” (21.7%) were the lowest in the entire ASEAN region, suggesting that in Singapore the emphasis of CSR activities was on compliance and safety. In terms of issues or problems existing in CSR activities, many of the companies cited “There are insufficient budgets, experts and human resources” (44.2%), “No action plan for CSR has been decided, or it has not been fully shared with local officials” and “It is difficult to verify cost-effectiveness” (32.6% each).

In the non-manufacturing industry (valid responses: 137 companies), the types of CSR activities that were particularly sought were “Strict observance of local laws and regulations, and respect for international standards such as ISO” at 89.8% and “Ensuring product and service safety as well as (or) offering new products and services” at 40.9%. By contrast, the respective percentages of companies replying “Endeavors to improve the working environment” (22.6%) and “Human resources training, technology transfer, and increase of the local procurement ratio” (19.7%) were the lowest in the entire ASEAN region, suggesting that in Singapore, where the labor and production environments are already in place, these problems have more or less been solved. In terms of issues or problems existing within CSR activities, many of the companies cited “There are insufficient budgets, experts and human resources” (41.8%), “It is difficult to verify cost-effectiveness” (41.8%) and “No action plan for CSR has been decided, or it has not been fully shared with local officials” (38.5%), suggesting that the assessment and significance of CSR activities had not yet become widespread.

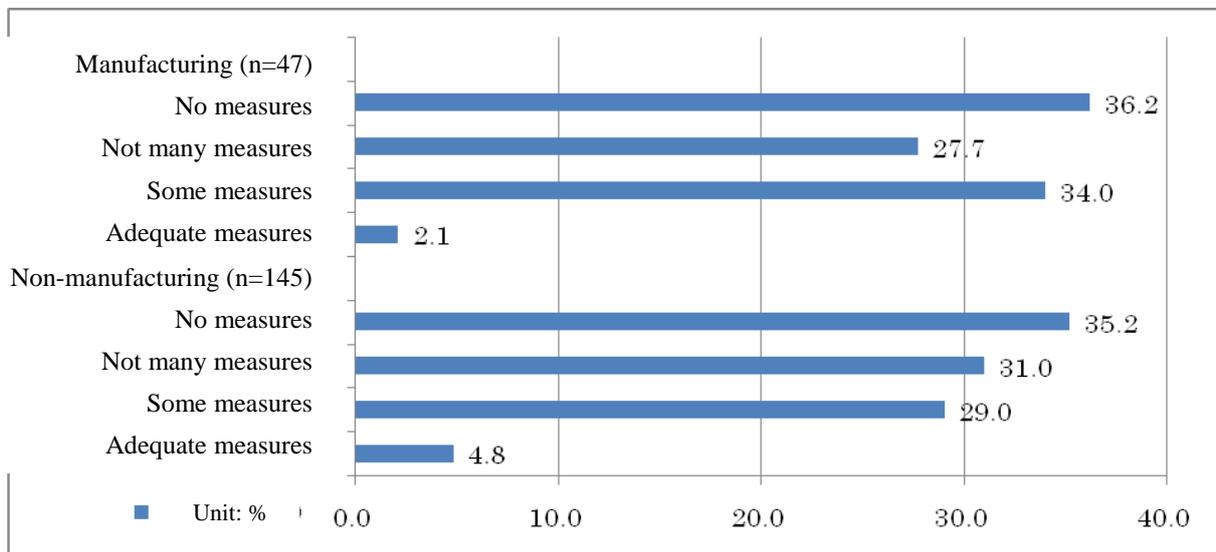
11. Measures against new strains of influenza: Measures taken to a certain extent

In terms of measures against new strains of influenza, the number of companies in the manufacturing industry (valid responses: 47 companies) replying they had taken “No measures” (36.2%) or “Not many measures” (27.7%) combined to account for 63.9% of the total, but fell short of the ASEAN average of 72.5%. Since many of the Japanese-affiliated companies had their Asian headquarters in Singapore, it was thought necessary for the headquarters to formulate countermeasures prior to the other Asian bases. Therefore, among the companies replying “No measures,” the percentage of companies replying “Yes” (64.4%) to whether they planned to devise measures against an outbreak in the future exceeded the percentage of those answering “No” (35.6%), suggesting that even the companies that had not already taken measures against an outbreak intended to do so in the future. Among the companies replying “No,” many cited “Do not know what should be done” (50.0%), “Have no information on which to base decision” (43.8%) and “Have not received instructions from headquarters” (43.8%) as reasons for not formulating (or not being able to formulate) measures. The percentage replying “Have not received instructions from headquarters” was the highest in the ASEAN region, suggesting that companies in Singapore were considered the Asian headquarters of Japanese-affiliated companies and were closely coordinating with head offices in Japan. On the other hand, among companies replying “Adequate measures” (2.1%) or “Some measures” (34.0%), “Health education concerning covering

the mouth when coughing and hand washing” (51.9%) and “Preparation of a manual” (40.7%) were the most cited replies in terms of specific measures being taken.

In the non-manufacturing industry (valid responses: 145 companies), the number of companies replying “No measures” (35.2%) or “Not many measures” (31.0%) accounted for 66.2% of the total, which was roughly equal to the ASEAN average of 67.0%. Among the companies replying “No measures” were being taken, the percentage of those replying “Yes” (60.6%) exceeded the percentage replying “No” (39.4%) to the question of whether the company planned to devise measures against an outbreak in the future. Among the companies replying “No,” the most cited reason for not formulating (or not being able to formulate) measures was “Have no information on which to base decision” (49.1%). On the other hand, among companies replying “Some measures” (29.0%) or “Adequate measures” (4.8%), “Health education concerning covering the mouth when coughing and hand washing” (39.0%), “Plan for evacuation of expatriate employees” (32.5%) and “Preparation of a manual” (31.2%) were more frequently cited in terms of specific measures being taken.

Diagram 26: Measures against new strains of influenza



12. 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 Singapore dollar = USD 0.677369 (Average rate: October 2008; calculated from the CEIC database)

Diagram 27: Wages (basic salary and annual salary per employee) by type of job

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

	Job type	Base salary (monthly)	Annual salary*	Remarks
Manufacturing	Workers (General workers)	1,516.6 (39)	31,202.8 (38)	3 years of experience
	Engineers (Core technicians)	2,792.8 (35)	63,527.1 (34)	Graduates from technical schools or colleges with 5 years of experience
	Managers (Section managers in charge of sales)	4,634.2 (38)	81,192.8 (37)	Graduates from university with 10 years of experience
Non-manufacturing	Staff (General workers)	2,606.9 (134)	39,211.5 (123)	3 years of experience
	Managers (Section managers in charge of sales)	5,252.9 (121)	79,276.3 (112)	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.)

Thailand

Targets of the survey and breakdown of respondents

Number of companies contacted: 1,545 Japanese-affiliated companies operating in Thailand

Number of respondents: 493 companies (manufacturing industry: 317; non-manufacturing industry: 176)

Breakdown of respondents by industry: As shown below

(Unit: Companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	18	5.7
Textiles (yarn, cloth, synthetic fabrics)	10	3.2
Apparel and textile products	7	2.2
Furniture and interior products	1	0.3
Paper and pulp	2	0.6
Chemicals	21	6.6
Petroleum products	3	1.0
Plastic products	24	7.6
Rubber products	6	1.9
Ceramics and cement	4	1.3
Iron and steel (including cast and forged products)	21	6.6
Nonferrous metals and products	7	2.2
Fabricated metal products (including plated products)	25	7.9
General machinery (including metal molds and machine tools)	19	6.0
Electric machinery and electronic equipment	29	9.2
Electric and electronic parts and components	35	11.0
Motor vehicles and motorcycles	7	2.2
Motor vehicle and motorcycle parts and accessories	54	17.0
Precision instruments	4	1.3
Other	20	6.3
Total	317	100.0

Non-manufacturing industry		
Industry	No. of companies	Composition ratio
Distribution	7	4.0
Trading company	48	27.3
Sales company	25	14.2
Banking	4	2.3
Insurance	2	1.1
Transport/warehousing	27	15.3
Real estate	2	1.1
Judicial affairs/taxation	1	0.6
Hotel/travel/restaurant	3	1.7
Communications/software	7	4.0
Construction/plants	17	9.7
Other	33	18.8
Total	176	100.0

1. Business Outlook

(1) 30% of the manufacturing industry expecting operating profit for 2009 to improve

In terms of the estimated operating profit for 2008, 75.4% of the Japanese-affiliated manufacturers operating in Thailand replied that they expected to post a profit (valid responses: 313 companies). A breakdown by industry revealed that large percentages of the electric and electronic parts and components, the motor vehicle and motorcycle parts and accessories, and the motor vehicle and motorcycle industries expected to post profits. Moreover, 41.8% of the manufacturing industry replied that they expected operating profit in 2008 to "Improve" over the previous year, while 34.0% replied that it would "Worsen" (valid responses: 306 companies). The estimated operating profit for 2008, in terms of the DI, which was derived by subtracting the percentage of companies that replied estimated operating profit would "Worsen" from the percentage that replied that it would "Improve," was 7.8 points. This is an improvement from the estimated operating profit for 2007 in terms of the DI (-1.3 points) in the previous survey (Diagram 28). As reasons for the estimated

operating profit to improve (multiple answers allowed), the companies cited an “Increase in local market sales” (53.1%) and an “Increase in sales due to export expansion” (44.5%). It is thought exports were performing strongly mainly in the motor vehicle and motorcycle industry, as well as the electric and electronic industry until the third quarter of 2008, and many of the companies in these industries had expected their business performance to improve.

The operating profit forecast for 2009 fell under the impact of the global recession. Among the responding companies, 30.1% replied that they expected operating profit for 2009 to “Improve,” while 36.9% replied that it would “Show no change,” and 33.0% replied they expected it to “Worsen,” indicating that companies expecting improvement accounted for only 30% of the total (valid responses: 309 companies). The operating profit forecast for 2009, in terms of the DI, was -2.9 points, which represented a considerable decline from the “Estimated operating profit for 2008 in terms of DI” (32.5 points) of the previous survey.

In the non-manufacturing industry, on the other hand, 73.6% of the Japanese-affiliated companies operating in Thailand replied that they expected to post an operating profit for 2008 (valid responses: 174 companies). A breakdown by industry revealed that nearly all of the companies in the distribution, banking and communications/software industries expected to post a profit. As reasons for the improvement in estimated operating profit, an “Increase in local market sales” (81.4%) was the most cited reply.

As for the operating profit forecast for 2009, 42.4% of the companies replied that it would “Improve” over 2008, while 31.2% replied that it would “Show no change,” and 26.5% replied that it would “Worsen.” The DI value was 15.9 points, indicating that the prospects in the non-manufacturing industry were better than those in the manufacturing industry (valid responses: 170 companies). It is thought that the effects of the financial crisis that began in the U.S. on domestic demand were not as serious as those on net exports. As reasons for the improvement in the operating profit forecast for 2009, companies most often cited an “Increase in local market sales” (69.4%) and “Development of new products and services” (50.0%).

Diagram 28: Estimated operating profit (over the previous year) for 2008 and 2009

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
2008	306	128	74	104	7.8	170	70	51	49	12.4
	100.0	41.8	24.2	34.0		100.0	41.2	30.0	28.8	
2009	309	93	114	102	▲ 2.9	170	72	53	45	15.9
	100.0	30.1	36.9	33.0		100.0	42.4	31.2	26.5	

2. Status of exports/imports

(1) For more than half of the companies, export sales account for “0% to less than 30%” of total sales

In terms of the percentage of export sales companies had to total sales (valid responses: 314 companies), a total of 55.7% of the companies replied “0%” or “1% to less than 30%.” Japanese-affiliated companies operating in Thailand had one of the lowest percentages of export sales to total sales and the highest percentage of domestic sales in the entire ASEAN region (Diagram 29). Companies with low percentages of export sales were concentrated in the motor vehicle and motorcycle parts and accessories, the iron and steel, and the plastic products industries, among others. This is thought to be due to the fact that Thailand, being the main

production base in the ASEAN region for the motor vehicle and motorcycle industry and the electric and electronic industry, had an agglomeration of suppliers selling domestically, in addition to the fact that Thailand had one of the largest economies in ASEAN and there was an abundance of manufacturers producing products for the domestic market. By contrast, the percentage of companies replying that their export rates were “70% to less than 100%” or “100%” only amounted to 24.8%, the lowest in the entire ASEAN region.

Concerning a breakdown of the companies’ export destinations, those with a high percentage of exports intended for Japan were concentrated in the foods, processed agricultural or marine products industry, the chemicals industry, and the apparel and textile products industry, among others, and more than 50% of the companies in each of these industries replied that their export rates were “70% to less than 100%” or “100%.” Companies with high percentages of exports to other ASEAN nations were concentrated in the motor vehicle and motorcycle industry and its associated parts and accessories industry, as well as the chemicals industry, with more than 40% replying that their export rates were “70% to less than 100%” or “100%.”

Diagram 29: Percentage of export sales to total sales

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

Valid responses	0%	1 - 30%	30 - 50%	50 - 70%	70 - 100%	100%
314	38	137	31	30	60	18
100.0	12.1	43.6	9.9	9.6	19.1	5.7

(2) AFTA and JTEPA were the FTAs with the highest utilization rates

In regards to FTA/EPA usage in export and import activities, 22.5% of the companies replied that FTAs/EPAs were “Currently in use” in export activities, 27.1% replied that they were “Considering using them” and 50.4% replied that they had “No plan to use” FTAs/EPAs (valid responses: 262 companies). Similar replies were given in terms of import activities, with 25.3% replying that FTAs/EPAs were “Currently in use,” 26.9% replying that they were “Considering using” them and 47.8% replying that they had “No plan to use” FTAs/EPAs (valid responses: 253 companies). Although the percentage of companies that were currently using FTAs/EPAs was still limited, there was clearly an increase in usage over the previous survey. (The percentage using FTAs/EPAs in export activities was 18.8%, and the percentage using FTAs/EPAs in import activities was 14.9%.) This is thought to be due to the fact that the Japan-Thailand EPA, which went into effect in November 2007, resulted in more companies utilizing FTAs/EPAs, thus raising the utilization rate.

Concerning reasons for having “No plan to use” FTAs/EPAs for exports, companies cited “No advantage to an FTA since the export destinations are exempt from payment of import duty” (32.8%) and “No advantages to an FTA since the general duty on the export destinations is low” (26.2%). In terms of imports, the most cited reply was “Already enjoy exemption from tariffs through investment benefit schemes” (51.3%). As far as imports are concerned, companies that have been approved by Thailand’s Board of Investment (BOI) are exempt from import duty on parts imported for the production of products intended for export. Thailand, in accordance with its plan to become the major production base for electric and electronic equipment and machinery in the ASEAN region, has established a scheme (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 import duty. Because many of the Japanese-affiliated companies already enjoy these benefits, FTA utilization has little room for expansion.

In terms of the utilization status of individual FTAs in imports and exports (262 companies for exports, 253 companies for imports), the FTAs with the highest utilization rates were the ASEAN Free Trade Area (AFTA) and the Japan-Thailand EPA (Diagram 30). Among these, 13.7% of companies replied that AFTA was “Currently in use” for export activities, and 10.3% of the companies replied that it was “Currently in use” for import activities. Industries with companies replying that AFTA was “Currently in use” for export activities included textiles, chemicals, iron and steel, electric machinery and electronic equipment, motor vehicle and motorcycle, and motor vehicle and motorcycle parts and accessories, while companies in the textiles, the motor vehicle and motorcycle, the motor vehicle and motorcycle parts and accessories, and the nonferrous metals and products industries replied that AFTA was “Currently in use” for import activities. Although AFTA commenced in 1993, it was only after the six original members of ASEAN decided to reduce the import duty on all items to below 5% in 2003, did the practice of division of labor among the Japanese-affiliated companies in the region become common, mainly in the motor vehicle and motorcycle industry and the electric and electronics industry, which had the effect of increasing utilization.

In terms of the JTEPA, 11.5% of companies replied the JTEPA was “Currently in use” for export activities and 12.3% of the companies replied that it was “Currently in use” for import activities. The industries with companies replying that the JTEPA was “Currently in use” for export activities included the foods, processed agricultural or marine products, the textiles, the chemicals, and the plastic products industries, while companies in the foods, processed agricultural or marine products, the textiles, the chemicals, the general machinery, and the motor vehicle and motorcycle industries replied that the JTEPA was “Currently in use” for import activities. The JTEPA went into effect in November 2007 and under this EPA, the import duty on all mining and manufacturing imports from Japan, with the exception of motor vehicles and motorcycles, will be eliminated in seven to 10 years.

FTA usage in transactions with China was extremely limited, at 0.8% for exports and 0.4% for imports. The ASEAN-China FTA has gone into effect between Thailand and China, and prior to this, the Early Harvest (EH) scheme, which enabled the early reduction of customs tariffs, was adopted in 2003. The reduction of tariffs for other items began in 2005. Normal track items (90% of the total trade amount) will have their tariffs eliminated by 2010.

In terms of trade with Australia and India, the percentage of companies utilizing FTAs in exports exceeded the percentage of companies using FTAs in import activities. By industry, there were overwhelming percentages of companies in the motor vehicle and motorcycle industry and the nonferrous metals and products industry using FTAs in exports to Australia. The Thailand-Australia FTA, which went into effect in January 2005, eliminated tariffs on 49% of the items on the Thai side and about 83% of the items on the Australian side. Recently, there has been an increase in exports of commercial vehicles, such as pickup trucks and ambulances, from Thailand to Australia using the FTA. In terms of exports to India, industries with large percentages of FTA usage included the electric machinery and electronic equipment, the motor vehicle and motorcycle, and the general machinery industries. In the Thailand-India FTA, the early reduction of tariffs on 82 items has been implemented through the EH system. Such items include household appliances and motor vehicle and motorcycle parts and accessories.

Finally, concerning what percentage difference between general duties and FTA duties would cause companies to consider using an FTA, 80 out of 152 companies, i.e., more than half, replied “3% to less than 7%.” The standard difference in duties that would cause the companies to consider FTA usage is thought to be around 5%.

Diagram 30: FTA usage in trade with countries that have concluded FTAs

Upper row: Composition ratio (%), Lower row: Number of valid responses (companies)

	Thailand-ASEAN	Thailand-Australia	Thailand-NZ	Thailand-Japan	Thailand-China	Thailand-India
In use for exports (Total number of companies: 262)	13.7	3.1	1.1	11.5	0.8	2.7
	36	8	3	30	2	7
In use for imports (Total number of companies: 253)	10.3	1.6	-	12.3	0.4	0.4
	26	4	-	31	1	1

3. Procurement of raw materials and parts

In terms of the ratio of the cost of raw materials and parts to the manufacturing costs of major items produced by the companies in the manufacturing industry, 25.7% of the companies replied “60% to less than 70%” and 21.2% replied “70% to less than 80%.” Forty-two point three percent of the companies replied “70% or above,” which was roughly equivalent to the ASEAN average (Diagram 31).

Thirty-five point eight percent of the companies (valid responses: 288 companies) replied that they procured “70% to less than 100%” or “100%” of their raw materials and parts locally. This ratio was the highest in the ASEAN region, with the exception of Myanmar, and suggested the sufficiency of local suppliers in Thailand. In terms of the rate of procurement from Japan, more than half (52.2%) of the companies replied “1% to less than 30%.” Moreover, the percentage of companies giving a procurement rate of “70% to less than 100%” (15.3%) from Japan was higher than the respective percentages from the ASEAN region and China, indicating that Japan was the largest procurement source after Thailand (local procurement).

Diagram 31: Breakdown of procurement sources for raw materials and parts

Upper row: Number of valid responses, Lower row: Composition ratio (%)

	Valid responses	0%	1-30%	30-50%	50-70%	70-100%	100%
Local Companies	288	3	77	47	58	84	19
	100.0	1.0	26.7	16.3	20.1	29.2	6.6
Japan	268	2	140	53	27	41	5
	100.0	0.8	52.2	19.8	10.1	15.3	1.9
ASEAN	105	9	81	6	6	3	-
	100.0	8.6	77.1	5.7	5.7	2.9	-
Mainland China	89	7	75	2	3	2	-
	100.0	7.9	84.3	2.3	3.4	2.3	-
Other Asian Countries	54	15	32	4	2	1	-
	100.0	27.8	59.3	7.4	3.7	1.9	-

(Note) Oceania, U.S., Europe, the Middle East and others have been omitted.

In regards to what factor was necessary to increase local procurement ratios (multiple answers allowed), the most cited reply was “Quality improvement by local suppliers” at 81.9%, followed by “Cost reduction by local suppliers” (59.5%) and “Strict observance of delivery dates by local suppliers” (40.5%), indicating that there is much room for improvement in terms of QCD (quality, cost, delivery) (valid responses: 299 companies). On the other hand, the percentage of companies pointing out “Improvement in infrastructure” was lower (6.0%) than the percentage of similar replies in Vietnam (16.5%) and Indonesia (15.4%), suggesting progress in the development of infrastructure in the region.

Concerning future plans for the procurement of raw materials and parts (multiple answers allowed), “Increase ratio of local procurement” (69.5%) was the most cited reply, followed by “Increase ratio of procurement from ASEAN” (21.4%) (valid responses: 285 companies).

4. Business problems

(1) Rising procurement costs

In terms of problems in production for the manufacturing industry (multiple answers allowed), the most prevalent problem concerned an “Increase in procurement costs,” which was cited by 75.1% of the companies, followed by “Difficulty in quality control” (39.2%), which trailed by 35.9 points (valid responses: 309 companies, Diagram 32). It is thought that the worldwide hike in crude oil and materials, which lasted through the first half of 2008, played a major part in the rise of procurement costs.

As for problems with labor or employment (multiple answers allowed), an “Increase in employee wages” was the most cited reply in both the manufacturing (valid responses: 308 companies) and non-manufacturing industries (valid responses: 173 companies) (65.9% and 55.5%, respectively). In May 2008, the amended Labor Protection Act was enforced in Thailand. Under the Act, temporary workers were entitled to equivalent levels of benefits as regular employees, which gave rise to concerns over increasing personnel costs. Moreover, in June 2008, the statutory minimum wage for Bangkok and its environs was revised to 203 baht, which represented a 4.6% increase from the previous 194 baht.

(2) Concerns over political and social conditions being highlighted

Concerning problems within the investment environment (multiple answers allowed), “Unstable or insecure political or social conditions” was the most cited reply in both the manufacturing (valid responses: 290 companies) and non-manufacturing industries (valid responses: 166 companies) (60.0% and 63.9%, respectively). Moreover, both the manufacturing and non-manufacturing industries ranked “Unclear policy management by the local government” near the top (33.5% and 34.3%, respectively), demanding consistency in the policies of the government. Thailand had been plagued with internal strife in 2008, beginning with the occupation of the prime minister’s office by PAD (anti-Thaksin protestors) at the end of August, followed by the state of emergency declared in Bangkok as a result of the pro- and anti-Thaksin (PAD) forces battling each other on the streets of the capital in September and culminating in the sacking of Prime Minister Samack on grounds of violating conflict of interest rules in the constitution. (The occupation of the airport by PAD at the end of November is not reflected in this survey as it occurred after the completion of the survey.) Additionally, a large percentage of the non-manufacturing industry also cited “Restrictions on foreign investment, including restrictions on foreign capital ratio” (41.0%).

Diagram 32: Business problems

Items		Valid responses	1	2	3	
Problems in sales or other business activities	Manufacturing	309	Major clients requesting lower prices	Sluggishness in major sales markets (consumption downturn)	Decrease in orders from clients	
		100.0	52.1	48.5	41.8	
	Non-manufacturing	172	Competitors' growing market shares (cost-wise competition)	Sluggishness in major sales markets (consumption downturn)	No increase in new clients or markets	
		100.0	58.1	44.8	33.1	
Problems in production	Manufacturing	309	Increase in procurement costs	Difficulty in quality control	Limited cost-cutting measures available	
		100.0	75.1	39.2	38.2	
Problems with labor or employment	Manufacturing	308	Increase in employee wages	Difficulty in recruiting engineer staff	Difficulty in recruiting middle management staff	
		100.0	65.9	42.9	39.3	
	Non-manufacturing	173	Increase in employee wages	Personnel costs of Japanese (expatriate) officers and staff	Difficulty in recruiting general staff	Difficulty in localizing managers and site supervisors
		100.0	55.5	34.7	28.9	
Problems in the investment environment	Manufacturing	290	Unstable or insecure political or social conditions	Unclear policy management by the local government	Complicated administrative procedures	
		100.0	60.0	33.5	31.7	
	Non-manufacturing	166	Unstable or insecure political or social conditions	Restrictions on foreign investment including restrictions on foreign capital ratio	Unclear policy management by the local government	
		100.0	63.9	41.0	34.3	

5. Competition

Concerning which companies were considered main competitors (excluding Japanese-affiliated companies) in selling products on the local market, the percentages of companies in the manufacturing industry (valid responses: 286 companies) cited “Chinese” (30.8%) and “Thai” companies (30.4%), the two most cited replies, and nearly equal. These two countries were followed by “South Korea” (7.7%). In the non-manufacturing industry, by contrast, “Thailand” (29.5%) was the most cited reply, followed by “China” (24.5%) and “South Korea” (5.5%) (valid responses: 163 companies). Both the manufacturing and non-manufacturing industries seemed to perceive that the main source of competition for Japanese-affiliated companies operating in Thailand was local and Chinese companies, not U.S./European or South Korean companies. Concerning countermeasures taken against the competition, “Enhance added value of products (products/services)” was the most cited reply in both the manufacturing and non-manufacturing industries (61.5% and 66.2%, respectively). Companies were trying to distinguish themselves by enhancing the added value of their products and services.

6. Future business development

In terms of the direction of each company's business development over the next one to two years, in the manufacturing industry, “Expansion” was cited by 65.2% of the companies, “Status quo” by 33.4%, “Downsizing” by 1.0%, and “Move to a third country (region) or withdraw” by 0.3% (valid responses: 302 companies). A breakdown by industry revealed that large percentages of companies in the electric machinery

and electronic equipment industry and its affiliated parts and components industry, as well as the motor vehicle and motorcycle parts and accessories industry, where export sales were strong, cited “Expansion.” As reasons for expecting their businesses to expand, “Expansion of business size through additional investments” (66.0%), “Expansion (diversification) of production items” (51.8%) and “Enhancement of high added-value production items” (34.0%) were the top-ranked replies.

Concerning optimum locations for production bases in the medium to long term (five to 10 years), an overwhelming number of companies cited “Thailand” (67.9%), which was followed by India at 12.1%, Vietnam at 10.1% and China at 3.0%. In terms of what core functions were required for their ideal production bases, the most cited reply was “Production base for general-purpose goods for the domestic market” (41.9%), followed by “Production base for inexpensive general-purpose goods for export to a third country” (38.2%) and “Production base for high value-added products for the domestic market” (36.8%). Moreover, in regard to the countries (regions) that the companies intended to concentrate on as a market for sales of their products in the medium to long term (multiple answers allowed), “India” (47.4%) was the most cited, indicating their strong interest in the massive emerging market, followed by “Thailand” (43.1%). It is evident that, with its agglomeration of suppliers and progress in the development of infrastructure, such as ports and highways, Thailand continues to be focused on as a production base for domestic sales and exports.

In the non-manufacturing industry, “Expansion” was cited by 65.9% of the companies and “Status quo” was cited by 33.5%, with “Move to a third country (region) or withdraw” cited by a mere 0.6% and “Downsizing” garnering not a single reply (valid responses: 170 companies). As sales bases for the medium to long term, “Thailand” was the most cited reply at 65.4%, followed by Vietnam (13.2%) and India (8.2%). Core functions sought in sales bases were in descending order, “Sales base for the domestic market” (67.3%), “Sales base for a third country/region” (32.0%) and “Regional headquarters” (20.3%).

7. Effects of inflation and its countermeasures

During the first half of 2008, the global surge in crude oil and food prices drove the countries in Asia into inflation and pushed up the management costs of the Japanese-affiliated companies. In Thailand, the consumer price index (CPI) rose 7.6% in May from the same month a year earlier. However, in June, the CPI rose 8.9% year on year and in July by 9.2%. As part of anti-inflation measures, the Thai government provided support for people’s livelihoods by lowering the commodity taxes on light oil and gasoline containing ethanol, and making electricity and water partially free, as well as making a portion of bus and railway fees free from August 1. Later, as a result of the fall in crude oil prices and the livelihood support measures, the rate of increase of the CPI over the previous year fell to 6.4% in August. By October (the time of the survey), it had settled down to 3.9% (in December, it reached a record low of 0.4%).

Under such circumstances, concerning whether the advance of inflation had impacted profit, 49.8% of the companies in the manufacturing industry replied that profit had “Significantly worsened” and 38.6% replied “Slightly worsened” (valid responses: 311 companies). In the non-manufacturing industry, 33.5% of the companies replied, “Significantly worsened” and 43.9% replied “Slightly worsened” (valid responses: 173 companies).

In terms of the specific types of impact that inflation had in the manufacturing industry (multiple answers allowed), 84.0% of the companies replied an “Increase in procurement costs,” while an “Increase in

transportation costs” (65.3%), an “Increase in personnel costs” (53.4%) and an “Increase in fuel costs” (50.3%) also ranked near the top.

In the non-manufacturing industry, the two most cited replies, an “Increase in transportation costs” (55.0%) and an “Increase in personnel costs” (53.0%) were cited by nearly equal numbers of companies. These were followed by an “Increase in procurement costs” (49.7%).

8. Status of infringements on intellectual property rights

In terms of whether companies had suffered damages from imitations/pirated products in the past year, 12.1% of the companies in the manufacturing industry (valid responses: 314 companies) and 11.7% of the companies in the non-manufacturing industry (valid responses: 171 companies) replied “Yes.” Concerning those companies that had suffered damages from imitations/pirated products, the specific kind of damage listed (multiple answers allowed), among the manufacturers, were: the “Exact copy of product design and packaging”—the most cited reply at 62.2%, followed by “Partial copy of product design” (48.7%) and “Illegal use of trademarks such as the brand logo” (35.1%). In the non-manufacturing industry, the “Exact copy of product (Contents) design and packaging” was the most cited reply at 60.0%, followed by “Partial copy of product (Contents) design” and “Illegal use of trademarks such as the brand logo” (45.0% each). In terms of countermeasures against imitations, 92.1% of companies in the manufacturing industry and 86.4% in the non-manufacturing industry replied that they had not taken any, meaning the majority of the companies had not taken any countermeasures.

9. Responses to standardization

Concerning how companies were responding to standardization (multiple answers allowed), the highest percentage of companies in the manufacturing industry replied that they had adopted “JIS” at 52.3%, which was followed by “International standards” at 45.3% (valid responses: 300 companies). In the non-manufacturing industry, “International standards” was the most cited reply at 32.9%, followed by “Local standards” (25.3%) (valid responses: 170 companies).

In terms of hopes regarding standardization, the most cited reply in the manufacturing industry was “Preparation of international standards through collaboration between Japan and Europe” at 43.0%, which was followed by “Preparation of Asian standards using the Japan Industrial Standards as the core” (26.0%). In the non-manufacturing industry, as well, the most cited reply was “Formulation of international standards through collaboration between Japan and Europe” (30.3%), which was followed by “Formulation of international standards through collaboration between Japan and other Asian countries” (22.9%).

10. Efforts toward CSR

In terms of what type of CSR activities were particularly sought in their country (multiple answers allowed), in the manufacturing industry, “Strict observance of local laws and regulations, and respect for international standards such as ISO” was the most cited reply at 83.5%, which was followed by “Endeavors to improve the working environment” (51.5%), “Human resources training, technology transfer, or increase of local procurement ratio” (35.3%) and “Engagement in local (or wider area) environmental issues” (34.3%) (valid responses: 303 companies).

In the non-manufacturing industry, the type of CSR activities that were particularly sought were “Strict observance of local laws and regulations, and respect for international standards such as ISO” at 71.3%, which was followed by “Ensuring product and service safety as well as (or) offering new products and services” at 39.5% and “Endeavors to improve the working environment” (28.1%) (valid responses: 167 companies).

In both the manufacturing and non-manufacturing industries, “Engagement in local (or wider area) poverty and education issues” was cited by less than 10% of the companies, which was one of the lowest percentages in Asia, along with Singapore and Malaysia.

11. Measures against new strains of influenza: Measures taken to a certain extent

In terms of measures taken against new strains of influenza, companies in the manufacturing industry replying “Adequate measures” had been taken accounted for a mere 1.3% (four companies) and those replying “Some measures” totaled 18.6%, meaning that less than 20% of the companies had taken any measures (valid responses: 312 companies). In the non-manufacturing industry, companies replying “Adequate measures” accounted for 1.7% (three companies), and together with companies replying “Some measures” (23.3%), accounted for over 20% of the companies (valid responses: 172 companies).

Concerning specific measures being taken against new strains of influenza, in the manufacturing industry, “Health education concerning covering the mouth when coughing and hand washing” was the most cited at 54.2%, followed by “Stockpiling of antibiotics” (31.7%) and “Draw up guidelines for evacuation of expatriate employees” (29.2%). In the non-manufacturing industry, “Health education concerning covering the mouth when coughing and hand washing” was the most cited at 35.7%, followed by “Stockpiling of antibiotics” (34.3%) and “Preparation of a manual” (30.0%).

In Thailand, 25 people were infected with avian influenza from 2004 to 2006, of which 17 died (no infections have been reported since 2007). The most cited reasons for not formulating (or not being able to formulate) measures were, both in the manufacturing and non-manufacturing industries, “Have no information on which to base decision” and “Do not know what should be done,” suggesting that the lack of information was hindering the formulation of specific measures.

12. Wages

Diagram 33: Wages (basic salary and annual salary per employee) by type of job

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

	Job types	Base salary (monthly)	Annual salary (*)	Note
Manufacturing	Workers (General workers)	8,286.5 (276)	202,026.9 (256)	3 years of experience
	Engineers (Core technicians)	19,826.2 (266)	354,523.6 (246)	Graduates from technical schools or colleges with 5 years of experience
	Managers (Section managers in charge of sales)	47,827.8 (266)	874,226.1 (246)	Graduates from university with 10 years experience
Non-manufacturing	Staff (General workers)	17,925.4 (163)	383,169.0 (148)	3 years of experience
	Managers (Section managers in charge of sales)	49,083.8 (147)	765,618.2 (137)	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.)

Vietnam

Targets of the survey and breakdown of respondents

Number of companies contacted: 277 Japanese-affiliated companies operating in Vietnam

Number of respondents: 129 companies (manufacturing industry: 82; non-manufacturing industry: 47)

Breakdown of respondents by industry: As shown below

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	6	7.3
Apparel and textile products	4	4.9
Paper and pulp	1	1.2
Chemicals	3	3.7
Plastic products	12	14.6
Pharmaceuticals	1	1.2
Rubber products	2	2.4
Ceramics and cement	1	1.2
Iron and steel (including cast and forged products)	2	2.4
Nonferrous metals and products	4	4.4
Fabricated metal products (including plated products)	6	7.3
General machinery (including metal molds and machine tools)	4	4.9
Electric machinery and electronic equipment	5	6.1
Electric and electronic parts and components	9	11.0
Motor vehicles and motorcycles	3	3.7
Motor vehicle and motorcycle parts and accessories	6	7.3
Other	13	15.9
Total	82	100.0

(Unit: Companies, %)

Non-manufacturing industry		
Industry	No. of companies	Composition ratio
Agricultural and forestry products	1	2.1
Distribution	1	2.1
Trading company	2	4.3
Sales company	2	4.3
Banking	3	6.4
Insurance	2	4.3
Transport/warehousing	7	14.9
Real estate	1	2.1
Hotel/travel/restaurant	2	4.3
Communications/software	7	14.9
Construction/plants	4	8.5
Other	15	31.9
Total	47	100.0

1. Business Outlook

(1) Greater percentage of companies in non-manufacturing industry expecting their operating profit forecast to "Improve" for 2009

Among the Japanese-affiliated companies operating in Vietnam, the percentage of companies expecting to post a profit exceeded the percentage expecting to post a loss in terms of the estimated operating balance for 2008, in both the manufacturing and non-manufacturing industries. In the manufacturing industry, 48.2% of the companies replied that they expected to post an operating profit for 2008, 17.3% replied that they would post neither an operating profit nor a loss and 34.6% replied that they expected to post a loss (valid responses: 81 companies). In the non-manufacturing industry, 45.7% replied that they expected to post a profit, 17.4% replied that they expected to break even and 37.0% replied that they expected to post a loss (valid responses: 46 companies).

On the other hand, concerning the estimated operating profit for 2008 compared to 2007, 45.6% of the companies in the manufacturing industry (valid responses: 79 companies) replied that they expected it to "Improve," and 40.0% of the companies in the non-manufacturing industry (valid responses: 45 companies) replied that they expected it to "Improve."

As for the operating profit forecast for 2009, 44.4% of the companies in the manufacturing industry replied that it would "Improve," while 21.0% replied that it would "Worsen" (valid responses: 81 companies). In the non-manufacturing industry, on the other hand, 56.8% of the companies replied that it would "Improve," while

13.6% replied that it would “Worsen” (valid responses: 44 companies).

Diagram 34: Estimated operating profit (over the previous year) for 2008 and 2009

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

	Manufacturing				Non-manufacturing			
	Valid responses	Improve	Show no change	Worsen	Valid response	Improve	Show no change	Worsen
2008	79 100.0	36 45.6	18 22.8	25 31.7	45 100.0	18 40.0	14 31.1	13 28.9
2009	81 100.0	36 44.4	28 34.6	17 21.0	44 100.0	25 56.8	13 29.6	6 13.6

(2) In the manufacturing industry, an “Increase in procurement costs” and an “Increase in personnel expenses” were main reasons for worsening profit

The estimated operating profit for the manufacturing industry, in terms of the DI, which was derived by subtracting the percentage of companies that replied that the estimated operating profit would “Worsen” from the percentage that replied that it would “Improve,” dropped drastically from the 51.9 points (“Improve”: 63.0 points; “Worsen”: 11.1; valid responses: 27 companies) in 2007 in the previous survey (survey taken from the end of October to the beginning of December 2007), to 13.9 points for 2008 in the current survey (“Improve”: 45.6; “Worsen”: 31.7; valid responses: 79 companies). Concerning reasons for the estimated operating profit to worsen, the most cited reply was an “Increase in procurement costs” at 76.0%, which was followed by an “Increase in personnel costs” at 64.0%. The sharp hike in Vietnam’s consumer prices (January 2008: 14.1% to August 2008: 28.3%, compared to the same period in the previous year) is thought to be the reason behind the increase in procurement costs. Meanwhile, the increase of personnel expenses is thought to be due to the move by the Vietnamese government to raise the statutory minimum wage at foreign-affiliated companies in January 2008. As a result, wages at foreign-affiliated companies in Hanoi and Ho Chi Minh City went up by an average of approximately 15% (870,000 dong to 1,000,000 dong).

In the non-manufacturing industry, the DI value for 2008 was 8.7 points (“Improve”: 45.7; “Worsen”: 37.0; valid responses: 46 companies), which was an improvement over the DI value for 2007 of 0 points (“Improve: 29.1; “Worsen”: 29.1; valid responses: 24 companies). Concerning reasons for the improvement in estimated operating profit for 2008, an “Increase in local market sales” was the most cited reply at 66.7%, which was followed by an “Increase in sales due to higher prices” and “Improved sales (service) efficiency” at 22.2%, respectively (valid responses: 18 companies). The fact that some companies replied an “Increase in sales due to higher prices” suggests that some companies were successful in passing on to prices a portion of their cost increases resulting from the intense inflation in 2008.

2. Status of exports/imports

(1) Nearly 50% of companies (manufacturing industry) were 100% export-oriented companies

In terms of exports, 49.4% of the companies in the manufacturing industry replied that export sales accounted for 100% of their total sales, meaning all of their products were being exported (valid responses: 81 companies). The majority of the Japanese investments in Vietnam are in export-oriented companies. By industry, the electric machinery and electronic equipment industry and the apparel and textile products industry

had high percentages of companies replying “100%.” In contrast, 11.1% of the companies replied that export sales accounted for “0%” of total sales, meaning these companies were manufacturing exclusively for the domestic market.

Among the 72 companies that replied they had export experience, 52 companies (72.2%) cited “Japan” as an export destination. Other export destinations included “ASEAN” (40.3%), “Mainland China” (22.2%), “Europe” (22.2%), “the U.S.” (18.1%) and “Other Asian countries” (13.9%). From this, it is clear that Japanese-affiliated manufacturers operating in Vietnam were exporting to a wide range of destinations that included not only Asia but Europe and the U.S. as well.

(2) ASEAN Free Trade Area was the most utilized FTA

In terms of the usage of existing bilateral/multilateral FTAs/EPAs, only six companies (valid responses: 64 companies) replied that FTAs/EPAs were “Currently in use” in export activities and eight companies (valid responses: 64 companies) replied that FTAs/EPAs were “Currently in use” in import activities. In both import and export activities, the ASEAN Free Trade Area (AFTA) was the most utilized FTA.

The percentage of companies replying that they were “Considering using” FTAs/EPAs in export activities was 26.6% (valid responses: 64 companies), while the percentage “Considering using” FTAs/EPAs in importing activities was 25.0% (valid responses: 64 companies). By industry, the “apparel and textile products” industry had a high percentage of companies (75%) replying that they were “Considering using” FTAs/EPAs (valid responses: four companies).

3. Procurement of raw materials and parts

In the manufacturing industry, companies replying that they procured “0% to less than 10%” of raw materials and parts locally (from Vietnam) accounted for 37.9% of the total (valid responses: 66 companies). On the other hand, companies replying that they procured 70% or more of their raw materials and parts accounted for only 15.2% of the total, suggesting that the low local procurement rate, which had always been a problem in Vietnam, still prevailed.

A breakdown of local procurement sources indicated that 12 companies (22.6%) procured “100%” of their raw materials and parts from local companies, while 15.6% of the companies replied that they procured “100%” of their raw materials and parts from “Japanese-affiliated companies” and 8.8% procured “100%” of their raw materials and parts from “Other foreign-affiliated companies.”

Diagram 35: Rate of local procurement of raw materials and parts and breakdown of procurement sources (local companies, Japanese-affiliated companies, other foreign-affiliated companies)

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

	Valid responses	0-10%	10%-50%	50-70%	70-90%	90%-100%	100%
Local procurement ratio	66	25	31	0	1	5	4
	100.0	37.9	47.0	0.0	1.5	7.6	6.1
Local companies	53	15	18	3	4	1	12
	100.0	28.3	34.0	5.7	7.5	1.9	22.6
Japanese-affiliated companies	45	8	10	4	8	8	7
	100.0	17.8	22.2	8.9	17.8	17.8	15.6
Other foreign-affiliated companies	34	13	13	3	1	1	3
	100.0	38.2	38.2	8.8	2.9	2.9	8.8

In terms of factors that were necessary to increase the local procurement ratios of raw materials and parts (multiple answers allowed), 83.5% of the companies replied, “Quality improvement by local suppliers,” which was followed by “Cost reduction by local suppliers” at 50.6% (valid responses: 79 companies).

Concerning future procurement policies (multiple answers allowed), those replying “Increase ratio of local procurement” accounted for 73.7% of the total number of companies, which was followed by “Increase ratio of procurement from ASEAN” at 46.1% (valid responses: 76 companies).

4. Business problems

In regards to problems concerning production (manufacturing industry only, multiple answers allowed), “Difficulty in local procurement of parts and raw materials” was the most cited reply at 69.6%, which was followed by an “Increase in procurement costs” at 68.4% (valid responses: 79 companies) (Diagram 36). In addition to the difficulty of local procurement, which was pointed out in the last question, staggering inflation (January 2008: 14.1% to August 2008: 28.3%) is also thought to have contributed to the increase in procurement costs.

In terms of problems regarding sales or other business activities (multiple answers allowed), “Major clients requesting lower prices” was the most cited reply in the manufacturing industry at 50.0%, which was followed by “Sluggishness in major sales markets (consumption downturn)” at 35.5% (valid responses: 76 companies). It is evident that manufacturers were feeling the pressure from major clients to lower prices amid the climate of rising procurement costs. In the non-manufacturing industry, 54.6% of the companies replied “Competitors’ growing market shares (cost-wise competition),” 38.6% of the companies replied “No increase in new clients or markets” and 31.8% of the companies replied “Lack of progress in local deregulation” (valid responses: 44 companies).

In regards to problems with labor or employment (multiple answers allowed), an “Increase in employee wages” was the most cited reply in both the manufacturing industry (valid responses: 81 companies) and non-manufacturing industry (valid responses: 46 companies) at 85.2% and 76.1%, respectively. In January 2008, a hike in the statutory minimum wage at foreign-affiliated companies was implemented, causing wages at foreign-affiliated companies in Hanoi and Ho Chi Minh City to increase by an average of approximately 15% (870,000 dong to 1,000,000 dong). A rash of strikes in the first half of 2008 also contributed to the rise in

employee wages.

Concerning problems in the investment environment (multiple answers allowed), the most cited reply in the manufacturing industry was “Underdeveloped infrastructure” at 74.4%, which was followed by “Unclear policy management by local government” and “Complicated administrative procedures” at 55.1% each (valid responses: 78 companies). In the non-manufacturing industry, “Complicated administrative procedures (to acquire permits, etc.)” was cited by 68.1% of the companies, which was followed by “Lack of office space and rising rent” at 57.5% and “Underdeveloped infrastructure (electric power, transportation, communications, etc.)” at 51.1% (valid responses: 47 companies). Both the manufacturing and non-manufacturing industries found the underdeveloped infrastructure of the country to be a major problem. It should be noted that in the previous survey, the percentage of companies in the manufacturing industry that replied “Underdeveloped infrastructure” was 69.2% (valid responses: 26 companies), which suggests a deterioration of the situation as the percentage of companies citing this problem had increased by 5.2 points. In contrast, in the non-manufacturing industry, the problem surrounding the underdeveloped infrastructure is gradually being resolved, as indicated by the fact that in the previous survey 76.9% had cited that reply (valid responses: 26 companies). The complicated domestic regulations of Vietnam were also posing problems for investment.

Diagram 36: Business problems (top three problems)

		Unit: %, multiple answers allowed			
Items		Valid responses	1	2	3
Problems in sales or other business activities	Manufacturing	76	Major clients requesting lower prices	Sluggishness in major sales markets (consumption downturn)	Decrease in orders from clients
		100.0	50.0	35.5	30.3
	Non-manufacturing	44	Competitors' growing market shares (cost-wise competition)	No increase in new clients or markets	Lack of progress in local deregulation
		100.0	54.6	38.6	31.8
Problems in production	Manufacturing	79	Increase in procurement costs	Difficulty in local procurement of parts and raw materials	Difficulty in quality control
		100.0	68.4	69.6	45.6
Problems with labor or employment	Manufacturing	81	Increase in employee wages	Difficulty in recruiting middle management staff	Low rate of worker retention
		100.0	85.2	54.3	50.6
	Non-manufacturing	46	Increase in employee wages	Difficulty in recruiting engineer staff	Difficulty in recruiting general staff
		100.0	76.1	41.3	39.1
Problems in the investment environment	Manufacturing	78	Underdeveloped infrastructure (electric power, transportation, communications, etc.)	Unclear policy management by the local government	Complicated administrative procedures (to acquire permits, etc.)
		100.0	74.4	55.1	55.1
	Non-manufacturing	47	Lack of office space and rising rent	Underdeveloped infrastructure (electric power, transportation, communications, etc.)	Complicated administrative procedures (to acquire permits, etc.)
		100.0	57.5	51.1	68.1

5. Competition

Regarding which country was the main source of competition in selling products/services on the local market (as of the time of the survey), “China” was cited by largest number of companies (24 companies) in the manufacturing industry, which was followed by “Vietnam,” cited by 11 companies (valid responses: 58 companies). In the non-manufacturing industry, 12 companies cited “Vietnam” and 11 companies cited “China” (valid responses: 38 companies).

As for the main reason of the strong competition (multiple answers allowed), an overwhelming percentage of companies (93.6%) in the manufacturing industry cited “Price” (valid responses: 62 companies). Concerning countermeasures taken to compete (multiple answers allowed), the most cited reply was “Enhance added value of products” at 54.8% (valid responses: 62 companies). By industry, companies mainly in the apparel and textile products, the iron and steel (including cast and forged products), the fabricated metal products (including plated products), and the motor vehicle and motorcycle industries were enhancing the added value of their products, in order to compete with the influx of inexpensive Chinese products.

6. Future business development

In regards to the direction of each company’s business development over the next one to two years, in the manufacturing industry, “Expansion” was cited by 77.6% of the companies, while “Expansion” was also cited by 84.1% of the companies in the non-manufacturing industry, with the rest replying they would maintain the “Status quo.”

Comparisons with other countries/regions showed that in the non-manufacturing industry, the percentage of companies replying “Expansion” (84.1%) was the second highest among the 13 countries subject to the survey—behind Bangladesh (93.8%)—and the highest in the ASEAN region. In the ASEAN region as a whole, companies citing “Expansion” only accounted for 57.6% of the companies in the manufacturing industry and 57.2% of the companies in the non-manufacturing industry, suggesting that business expansion tendencies in Vietnam were strong.

Diagram 37: Direction of business development over the next one to two years

	Valid responses	Expansion	Status quo	Downsizing	Move to a third country (region)
Manufacturing	76	59	17	0.0	0.0
	100.0	77.6	22.4	0.0	0.0
Non-manufacturing	44	37	7	0.0	0.0
	100.0	84.1	15.9	0.0	0.0

A look at the trends by major industry, in terms of the industries with the largest number of respondents, indicated that in the manufacturing industry, eight out of the 11 companies in the plastic products industry (72.7%), eight out of the nine companies in the electric and electronic parts and components industry (88.9%), five out of the six companies in the fabricated metal products (including plated products) industry and the motor vehicle and motorcycle parts and accessories industry (83.3% each) replied “Expansion.” In the non-manufacturing industry, six out of the seven companies in the communications/software industry (85.7%), five out of the six companies in the transport/warehousing industry (83.3%) and three out of the four companies

in the construction/plant industry (75.0%) replied “Expansion.”

In both the manufacturing and the non-manufacturing industries, large percentages cited “Expansion” as the direction for future business development, the specific reasons (multiple answers allowed) for which were “Expansion of business size through additional investment,” which was the most cited at 69.5%, followed by “Expansion (diversification) of production items” at 61.0% (valid responses: 59 companies). In the non-manufacturing industry, “Expansion of product/service scope (market development)” was cited by 62.2% of the companies, which was followed by “Expansion of business size through additional investments” at 59.5% (valid responses: 37 companies). With a population of about 85 million, the Vietnamese market promises high growth potential. It has also been said that consumer appetites have been running high, particularly among the affluent classes in Hanoi and Ho Chi Minh City. Therefore, further efforts by the Japanese-affiliated companies aimed toward market development and the expansion/diversification of production items are expected to accelerate in the future.

7. Effects of inflation and its countermeasures

In terms of whether the advance of inflation had impacted corporate profit, 91.0% of the companies in the manufacturing industry and 78.3% of the companies in the non-manufacturing industry replied that profit had “Worsened,” although the degree to which profit was impacted differed slightly from the manufacturing industry to the non-manufacturing industry. In the manufacturing industry, the majority of the companies (56.4%) replied “Significantly worsened” (valid responses: 78 companies), while in the non-manufacturing industry the percentage of companies replying “Significantly worsened” was only 39.1% (valid responses: 46 companies).

Diagram 38: Degree of impact of advancing inflation on profit

		Upper row: Number of respondent companies, Lower row: Composition ratio (%)					
	Valid responses	Significantly worsened	Significantly improved	Slightly worsened	Slightly improved	Hardly any impact	No impact
Manufacturing	78	44	-	27	1	5	1
	100.0	56.4	-	34.6	1.3	6.4	1.3
Non-manufacturing	46	18	2	18	1	7	0
	100.0	39.1	4.4	39.1	2.2	15.2	0.0

In the manufacturing industry, where the effects of inflation were the most severe, specific types of impact cited by the companies included an “Increase in personnel costs” (95.7%), followed by an “Increase in procurement costs” (78.3%), an “Increase in transportation costs” (65.2%) and an “Increase in fuel costs” (60.9%) (valid responses: 69 companies).

An “Increase in personnel costs” was also cited as a specific type of impact by an overwhelming 81.6% of the companies in the non-manufacturing industry (valid responses: 38 companies).

8. Status of infringements on intellectual property rights

Concerning whether companies had suffered damages from imitations/pirated products in the past year, only 10.5% of the companies in the manufacturing industry (valid responses: 76 companies) and 8.7% of the companies in the non-manufacturing industry (valid responses: 46 companies) replied “Yes.”

In regards to those that had suffered damage, the specific kinds of damage mentioned were (multiple answers allowed), the “Exact copy of product design and packaging,” which was the most cited reply, with five companies (62.5%), followed by “Illegal use of trademarks such as the brand logo,” cited by four companies (50.0%) (valid responses: 8 companies). In the non-manufacturing industry, the “Exact copy of product (Contents) design and packaging” and “Partial copy of product (Contents) design” were the two most cited replies at two companies each (50.0%) (valid responses: four companies).

9. Responses to standardization

Concerning how companies were responding to standardization, the highest percentage of those in the manufacturing industry replied that they had adopted the “JIS” at 53.3%, which was followed by “International standards” (44.0%) and “European standards” (10.7%) (valid responses: 75 companies). In the non-manufacturing industry, on the other hand, “International standards” was the most cited reply at 47.7%, followed by “No standards in the area” (36.4%) and “JIS” (20.5%) (valid responses: 44 companies).

The percentage of companies replying “Local standard” was low in both industries at 9.3% in the manufacturing industry and 11.4% in the non-manufacturing industry (ASEAN average: 16.9% in the manufacturing industry, 22.6% in the non-manufacturing industry).

10. Efforts toward CSR

In regards to what types of CSR activities were particularly sought in their country (multiple answers allowed), “Strict observance of local laws and regulations, and respect for international standards such as ISO” was the most cited reply in both the manufacturing (valid responses: 79 companies) and non-manufacturing industries (valid responses: 40 companies) (manufacturing industry: 82.3%; non-manufacturing industry: 67.5%). This was followed by “Human resources training, technology transfer, or increase of the local procurement ratio” (manufacturing industry: 48.1%; non-manufacturing industry: 45.0%) and “Endeavors to improve the working environment” (manufacturing industry: 48.1%; non-manufacturing industry: 42.5%). “Human resources training, technology transfer, or increase of the local procurement ratio” was ranked high in both industries and was ranked high overall in the ASEAN region (ASEAN average: 38.7% in the manufacturing industry, 29.6% in the non-manufacturing industry).

In terms of with whom companies collaborated when performing CSR activities (multiple answers allowed), 74.0% of the companies in the manufacturing industry and 68.4% of the companies in the non-manufacturing industry replied, “Our company (group) conducts CSR activities independently (planning, implementation, evaluation, etc.)” (valid responses: 73 companies in the manufacturing industry, 38 companies in the non-manufacturing industry). Additionally, 27.4% of the manufacturing industry and 42.1% of the non-manufacturing industry replied that they collaborated with the “Japan Chamber of Commerce, etc., in the local area” when conducting CSR activities.

In terms of issues or problems existing in CSR activities (multiple answers allowed), many of the companies

in both the manufacturing industry (valid responses: 68 companies) and the non-manufacturing industry (valid responses: 33 companies) cited “No action plan for CSR has been decided” (manufacturing industry: 44.1%; non-manufacturing industry: 42.4%), “There are insufficient budgets, experts and human resources” (manufacturing industry: 42.7%; non-manufacturing industry: 36.4%), and “Problems in the local government agencies’ observance of laws and regulations” (manufacturing industry: 25.0%; non-manufacturing industry: 24.2%). “Problems in the local government agencies’ observance of laws and regulations” was ranked high in both manufacturing and non-manufacturing industries and was ranked high overall in the ASEAN region (ASEAN average: 13.8% in the manufacturing industry, 9.9% in the non-manufacturing industry).

11. Measures against new strains of influenza

In regards to measures against new strains of influenza, the percentage of companies replying they had taken “Adequate measures” was extremely low at 2.6% in the manufacturing industry and 2.2% in the non-manufacturing industry. Even together with the companies replying “Some measures” (manufacturing industry: 21.8%; non-manufacturing industry: 33.3%), they did not add up to even half of the companies (valid responses: 78 companies in the manufacturing industry, 45 companies in the non-manufacturing industry).

On the other hand, concerning whether the companies intended to devise measures against an outbreak of new strains of influenza, 54.4% of the companies in the manufacturing industry and 43.2% of the companies in the non-manufacturing industry replied “Yes” (valid responses: 79 companies in the manufacturing industry, 44 companies in the non-manufacturing industry).

12. Wages

The following diagram indicates the average basic salary (monthly) and the average annual salary per employee by type of job for the manufacturing and non-manufacturing industries in each of the currencies used in the replies.

*For the average of the total amount of USD-denominated and dong-denominated salaries (in USD), please refer to the Overview.

Diagram 39-1: Wages (basic salary and annual salary per employee) by type of job (paid in dong)

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

Industry	Job types	Base Salary (Monthly)	Annual Salary (*)	Note
Manufacturing	Workers (General workers)	1,348,456 (57)	22,413,801 (57)	3 years of experience
	Engineers (Core technicians)	3,908,739 (57)	62,276,754 (57)	Graduates from technical schools or colleges with 5 years of experience
	Managers (Section managers in charge of sales)	14,657,625 (57)	174,030,386 (57)	Graduates from university with 10 years of experience
Non-manufacturing	Staff (General workers)	4,661,693 (20)	110,792,196 (20)	3 years of experience
	Managers (Section managers in charge of sales)	12,342,332 (20)	200,614,230 (20)	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 39-2: Wages (basic salary and annual salary per employee) by type of job (paid in USD)

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

Industry	Job types	Base Salary (Monthly)	Annual Salary (*)	Note
Manufacturing	Workers (General workers)	132 (23)	2,132 (19)	3 years of experience
	Engineers (Core technicians)	356 (20)	6,022 (19)	Graduates from technical schools or colleges with 5 years of experience
	Managers (Section managers in charge of sales)	664 (22)	11,120 (19)	Graduates from university with 10 years of experience
Non-manufacturing	Staff (General workers)	412 (26)	5,865 (26)	3 years of experience
	Managers (Section managers in charge of sales)	1,118 (20)	15,725 (18)	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.)