

## **Oceania**

### **(Australia and New Zealand)**

#### **◆ Surveys on Oceania began from 2008 alongside surveys on ASEAN and Southwest Asia**

Although the Japanese-affiliated companies operating in Oceania had previously been surveyed on their own, beginning from 2008 they have been included alongside the companies in the ASEAN region and Southwest Asia in the *Survey of Japanese-Affiliated Firms in Asia and Oceania*.

Valid responses were received from a total of 263 respondents in the Oceania region, of which 201 (76.4%) were from Australia and 62 (23.6%) were from New Zealand. The response rate for the entire area was 47.8%.

#### **◆ The non-manufacturing industry in Oceania scored the highest percentage of companies expecting to post an operating profit for 2008**

In terms of estimated operating profit for 2008, 62% of the Japanese-affiliated companies in the manufacturing industry and 74.5% of those in the non-manufacturing industry operating in the Oceania region replied that they expected to post a profit. The percentage of companies in the non-manufacturing industry expecting to post a profit was notable as it surpassed the 67.5% in the ASEAN region and the 45.4% in Southwest Asia. In particular, the 77.9% of the companies in Australia expecting to post a profit was the highest among the 13 countries surveyed.

#### **◆ An “Increase in employee wages” was a major problem affecting labor/employment**

Concerning business problems relating to labor or employment, 81.6% of the companies in the manufacturing industry operating in the Oceania region and 70.6% of the companies in the non-manufacturing industry cited an “Increase in employee wages” as the factor most troubling. These percentages in both the manufacturing and non-manufacturing industries were higher than those in the ASEAN region and Southwest Asia. In particular, the percentage of Australian manufacturers citing this reason reached 94.1%, the highest percentage among the countries covered in the current survey.

#### **◆ Stable businesses activities are expected to continue in mature markets**

Among the Japanese-affiliated companies operating in the Oceania region, the percentages of those citing “Expansion” as the direction for their business development in the next one to two years were low in both manufacturing and non-manufacturing industries, compared to their counterparts in the ASEAN region and Southwest Asia. However, the percentages of companies citing that they would maintain the “Status quo” in

both manufacturing and non-manufacturing industries were the highest among all three regions. While there were no companies in the manufacturing industry citing “Downsizing” or “Move to a third country (region) or withdraw,” 11 companies in the non-manufacturing industry gave such replies, with six of those citing that the reason was to “Integrate the bases within the local country (region)” (six companies).

# Australia

## Targets of the survey and breakdown of respondents

Number of companies contacted: 457 Japanese-affiliated companies operating in Australia

Number of respondents: 201 companies (manufacturing industry: 35; non-manufacturing industry: 166)

Breakdown of respondents by industry: As shown below

(Unit: Companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	10	28.6
Lumber and wood products	2	5.7
Paper and pulp	1	2.9
Chemicals	2	5.7
Rubber products	1	2.9
Ceramics and cement	2	5.7
Nonferrous metals and products	2	5.7
Fabricated metal products (including plated products)	1	2.9
General machinery (including metal molds and machine tools)	2	5.7
Electric machinery and electronic equipment	3	8.6
Electric and electronic parts and components	1	2.9
Motor vehicles and motorcycles	4	11.4
Motor vehicle and motorcycle parts and accessories	3	8.6
Other	1	2.9
Total	35	100.0

Non-manufacturing industry		
Industry	No. of companies	Composition ratio
Agricultural and forestry products	7	4.2
Mining	14	8.4
Distribution	2	1.2
Trading company	23	13.9
Sales company	50	30.1
Banking	4	2.4
Insurance	5	3.0
Securities	2	1.2
Transport/warehousing	8	4.8
Real estate	2	1.2
Hotel/travel/restaurant	13	7.8
Communications/software	4	2.4
Construction/plants	1	0.6
Other	31	18.7
Total	166	100.0

## 1. Business outlook

In terms of the estimated operating profit for 2008, the combined percentage of companies in the manufacturing and the non-manufacturing industries replying that they expected to post a profit was 75.1%, while the percentage replying that they expected to post a loss was 7.6% (valid responses: 197 companies).

The percentage of companies expecting to post a profit was 61.8% in the manufacturing industry (valid responses: 34 companies) and 77.9% in the non-manufacturing industry (valid responses: 163 companies). The percentage of companies in the non-manufacturing industry expecting to post a profit was highest among all 13 countries surveyed (valid responses: 884 companies). By industry, 92.9% of the companies in the mining industry (valid responses: 14 companies) and 86.4% of the trading companies (valid responses: 22 companies) replied that they expected to post a profit.

The percentage of companies expecting operating profit for 2008 to "Improve" over 2007 was a combined 39.1% in the manufacturing and non-manufacturing industries (valid responses: 197 companies).

In the manufacturing industry, the percentage of companies replying profit would "Improve" was the same as the percentage replying it would "Worsen," at 35.3% (valid responses: 34 companies). In the non-manufacturing industry, the percentage of companies replying "Improve" was 39.9%, while the percentage replying "Worsen" was 31.3% (valid responses: 163 companies).

**Diagram 60: Estimated operating profit (over the previous year) for 2008 and 2009**

Unit: Composition ratio (%)

	Improve	Show no change	Worsen	DI	Valid responses
Operating profit forecast for 2008	39.1	28.9	32.0	7.1	197
Manufacturing	35.3	29.4	35.3	0.0	34
Non-manufacturing	39.9	28.8	31.3	8.6	163
Operating profit forecast for 2009	41.7	39.1	19.3	22.4	192
Manufacturing	45.5	21.2	33.3	12.2	33
Non-manufacturing	40.9	42.8	16.4	24.5	159

As for the operating profit forecast for 2009, both the manufacturing and non-manufacturing industries expected improvements over 2008. A combined 41.7% of the companies in the manufacturing and non-manufacturing industries replied profit would “Improve,” while 19.3% replied it would “Worsen” (valid responses: 192 companies). The DI value also improved from 7.1 points for 2008 (“Improve”: 39.1%; “Worsen”: 32.0%) to 22.4 points for 2009 (“Improve”: 41.7%; “Worsen”: 19.3%).

Reasons cited for operating profit in 2009 to improve (in the manufacturing industry) were: (1) an “Increase in local market sales” (40.0%), (2) “Improved production efficiency” (40.0%) and (3) an “Increase in sales due to export expansion” (33.3%) (valid responses: 15 companies).

Reasons cited in the non-manufacturing industry were: (1) an “Increase in local market sales of the company” (58.5%), (2) “Improved sales (service) efficiency” (36.9%) and (3) “Development of new products and services” (35.4%) (valid responses: 65 companies). In both the manufacturing and non-manufacturing industries, companies were anticipating an “Increase in sales,” while at the same time promoting efforts to “Improve efficiency.”

## 2. Status of exports/imports

Among the 29 companies that had export experience, 15 of the companies cited “Japan” as an export destination, while “ASEAN” and “Oceania” were cited by seven companies each and “US” by six companies.

In terms of the usage of existing bilateral/multilateral FTAs/EPAs, 20.8% of the companies replied that FTAs/EPAs were “Currently in use” in export activities (valid responses: 24 companies), while 42.1% replied that FTAs/EPAs were “Currently in use” in import activities (valid responses: 19 companies). The percentage of companies utilizing FTAs/EPAs in import activities was the highest among the 13 countries covered in the current survey.

Furthermore, the percentage of companies “Considering using” FTAs/EPAs in exports was 20.8%, while it was 10.5% for imports.

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

In the manufacturing industry, 68.7% of the companies replied that they procured 50% or more of raw materials and parts locally (domestic procurement within Australia) (valid responses: 32 companies). The percentage of companies that procured 70% or more of materials/parts locally reached 56.2%, while the percentage of companies procuring 100% of materials/parts was also high, at 25.0%. The local procurement

ratios of companies in Australia were extremely high, even when compared to the other countries.

A breakdown of the local procurement sources revealed that the ratio of procurement from local companies was characteristically high, compared with that from Japanese-affiliated companies or other foreign-affiliated companies. Among the companies procuring materials/parts locally, the percentage of companies procuring 100% (all) of materials/parts from local companies was extremely high at 82.8% (valid responses: 29 companies).

**Diagram 61: Rate of local procurement of raw materials and parts and breakdown (local companies, Japanese-affiliated companies, other foreign-affiliated companies)**

	Valid responses	Upper row: Number of respondent companies, Lower row: Composition ratio (%)					
		0-10%	10%-50%	50%-70%	70%-90%	90%-100%	100%
Local procurement ratios	32 100.0	3 9.4	7 21.9	4 12.5	5 15.6	5 15.6	8 25.0
Local companies	29 100.0	0 0.0	4 13.8	1 3.5	0 0.0	0 0.0	24 82.8
Japanese-affiliated companies	5 100.0	0 0.0	0 0.0	2 40.0	2 40.0	0 0.0	1 20.0
Other foreign-affiliated companies	4 100.0	0 0.0	2 50.0	1 25.0	0 0.0	0 0.0	1 25.0

Major overseas procurement sources of raw materials and parts (countries from which 1% or more of materials/parts was procured, multiple answers allowed) were: (1) Japan (cited by 17 companies), (2) Mainland China (10 companies) and ASEAN (nine companies), indicating that the Japanese-affiliated manufacturers most commonly procured materials/parts from Asian nations. Concerning procurement sources outside of Asia, the US and Europe were also cited (by seven companies each).

However, it should be noted that the breakdown of the rate of procurement from Japan—the most cited procurement source outside of Australia—revealed that all the companies procured “1% to less than 70%” of raw materials and parts from Japan (valid responses: 17 companies). Furthermore, in regard to future plans for the procurement of raw materials and parts (multiple answers allowed), no companies replied that they intended to “Increase ratio of procurement from Japan” (valid responses: 25 companies).

#### 4. Business problems

In terms of problems in sales or other business activities (multiple answers allowed), (1) an “Inflow of cheap imported goods into local markets” (40.0%), (2) “Major clients requesting lower prices” (34.3%) and (3) “Sluggishness in major sales markets (consumption downturn)” (31.4%) were cited by companies in the manufacturing industry (valid responses: 35 companies). In the non-manufacturing industry, (1) “Sluggishness in major sales markets (consumption downturn)” (42.9%), (2) “Competitors’ growing market

shares (cost-wise competition) (33.7%) and (3) “No increase in new clients or markets” (27.0%) were cited (valid responses: 163 companies).

In terms of problems concerning labor or employment (multiple answers allowed), an “Increase in employee wages” was the most cited reply in both the manufacturing (94.1%) and non-manufacturing (73.1%) industries (valid responses: 190 companies). Inflation at the beginning of the year seemed to have impacted the rise in personnel costs. In the manufacturing industry, in addition to an “Increase in employee wages,” “Difficulty in recruiting middle management staff” and “Difficulty in recruiting engineer staff” were cited by 38.2% of the companies each, while 35.3% cited “Low rate of worker retention” (valid responses: 34 companies). “Difficulty in recruiting general staff” was cited by 17.7% of the companies.

In the non-manufacturing industry, “Difficulty in recruiting general staff” was cited by 38.5% of the companies and “Low rate of worker retention” was cited by 37.2% (valid responses: 156 companies). In addition, “Difficulty in recruiting engineer staff” was cited by 28.2% of the companies. It is evident that Japanese-affiliated companies in both the manufacturing and non-manufacturing industries were facing major recruitment problems.

**Diagram 62: Problems with labor or employment (top three)**

Unit: %, multiple answers allowed

Item		Valid responses	1	2		3
Problem(s) with labor or employment	Manufacturing	34	Increase in employee wages	Difficulty in recruiting middle management staff	Difficulty in recruiting engineer staff	Low rate of worker retention
		100.0	94.1	38.2		35.3
	Non-manufacturing	156	Increase in employee wages	Difficulty in recruiting general staff		Low rate of worker retention
		100.0	73.1	38.5		37.2

Major problems in the investment environment (multiple answers allowed) consisted of: “Complicated administrative procedures (to acquire permits, etc.)” (28.0%), the “Lowering of custom tariff levels (including the lowering of custom tariffs due to FTA/EPA)” (16.0%) and an “Unclear policy management by the local government” (8.0%) (Diagram 64). A comparison with the ASEAN nations and Southwest Asia is shown in Diagram 63.

When considering the investment environment in the East Asia region, the problems facing the companies operating in Australia are indicative of the characteristics of industrialized nations.

**Diagram 63: Problems in the investment environment (top three) (manufacturing industry)**

Unit: %, multiple answers allowed

	Valid responses	1	2	3	
Total	832	Unstable or insecure political or social conditions	Underdeveloped infrastructure	Unclear policy management by the local government	
	100.0	42.4	41.7	39.8	
ASEAN Total	694	Unstable or insecure political or social conditions	Unclear policy management by the local government	Underdeveloped infrastructure	
	100.0	44.5	41.1	38.3	
Southwest Asia Total	100	Underdeveloped infrastructure	Unstable or insecure political or social conditions	Complicated administrative procedures	
	100.0	76.0	43.0	42.0	
Oceania Total	38	Complicated administrative procedures	Unclear policy management by the local government	Underdeveloped infrastructure	Lowering of custom tariff levels
	100.0	23.7	18.4	13.2	
Australia	25	Complicated administrative procedures	Lowering of custom tariff levels	Unclear policy management by the local government	
	100.0	28.0	16.0	8.0	

**Diagram 64: Problems in the investment environment (top three)**

Unit: %, multiple answers allowed

	Valid responses	1	2	3	
Manufacturing	25	Complicated administrative procedures	Lowering of custom tariff levels	Unclear policy management by the local government	
	100.0	28.0	16.0	8.0	
Non-manufacturing	147	Lack of office space and rising rent	Complicated administrative procedures (to acquire permits, etc.)	Underdeveloped infrastructure (electric power, transportation, communications, etc.)	
	100.0	51.7	17.0	15.0	

## 5. Competition

In terms of which country was the main source of competition in selling products/services in the local market (as of the time of the survey), “China” was cited by the largest number of companies in the manufacturing industry and “Australia” was cited by the largest number of companies in the non-manufacturing industry. Countries cited by the manufacturing industry were: (1) “China” (26.1%), (2) “US” (17.4%) and (3) “Australia” (17.4%) (valid responses: 23 companies). Countries cited by the non-manufacturing industry were: (1) “Australia” (28.1%), (2) “China” (15.1%) and (3) “Europe” (15.1%) (valid responses: 146 companies).

## 6. Future business development

In regards to the direction of each company’s business development over the next one to two years, a combined 52.5% of the companies in the manufacturing and non-manufacturing industries replied “Expansion,” while 44.5% replied they would maintain the “Status quo” and 2.5% replied “Downsizing” (valid responses: 200 companies).

In the manufacturing industry alone, 42.9% of the companies cited “Expansion” as the direction of their future business development and 57.1% replied “Status quo,” while no companies replied “Downsizing” (valid responses: 35 companies). In the non-manufacturing industry, 54.6% replied “Expansion” and 41.8% replied “Status quo,” while 3.0 % replied “Downsizing” (valid responses: 165 companies).

As to the reason (specific policy) for downsizing or moving to a third country (region) and/or withdrawing, “Integrate the bases within the local country (region)” was cited by the companies.

Furthermore, as to the reasons for future expansion (multiple answers allowed), “Expansion of business through additional investments” was the most cited reply in the manufacturing industry (46.7%), while “Expansion of product/service scope (market development)” was the most cited reply in the non-manufacturing industry (57.8%).

Additionally, other than their own country, “India” was cited by the highest percentage of companies in the manufacturing industry (7.1%) as the optimum location for production bases in the medium to long term (five to 10 years) (valid responses: 28 companies). In the non-manufacturing industry, other than their own countries, “India” and “Singapore” were cited by the highest percentage of companies, at 6.2% each, as the optimum locations for sales bases for their products/sales in the medium to long term (five to 10 years) (valid responses: 146 companies). From this it is evident that, other than their own country, many of the companies in both the manufacturing and non-manufacturing industries were considering entering Asian markets.

**Diagram 65: 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 and Non-manufacturing	200	105	89	5	1
	100.0	52.5	44.5	2.5	0.5
Manufacturing	35	15	20	0	0
	100.0	42.9	57.1	0.0	0.0
Non-manufacturing	165	90	69	5	1
	100.0	54.6	41.8	3.0	0.6

As for the core roles or functions sought in ideal production bases (multiple answers allowed), “Production base for high-value-added products for the domestic market” was cited by the highest percentage of companies in both the manufacturing and non-manufacturing industries (valid responses: 28 companies in the manufacturing industry, 135 in the non-manufacturing industry).

The percentage of those in the manufacturing industry (46.4%), in particular, was the highest among the 13 countries covered in the current survey. From this, it is evident that, rather than moving to a third country, companies both in the manufacturing and non-manufacturing industries were considering business developments intended for domestic demand, i.e., for the domestic sales market.

## 7. Effects of inflation and its countermeasures

Nearly all of the companies in the manufacturing and non-manufacturing industries replied that the advance of inflation had negatively affected profit

In the manufacturing industry, 91.4% replied that inflation had either “Significantly worsened” (57.1%) or “Slightly worsened” (34.3%) profit (valid responses: 35 companies), while in the non-manufacturing industry,



75.7% replied that inflation had either “Significantly worsened” (42.4%) or “Slightly worsened” (33.3%) profit. (valid responses: 165 companies).

**Diagram 66: 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 and Non-manufacturing	200	90	9	67	8	20	6
	100.0	45.0	4.5	33.5	4.0	10.0	3.0
Manufacturing	35	20	0	12	1	2	0
	100.0	57.1	0.0	34.3	2.9	5.7	0.0
Non-manufacturing	165	70	9	55	7	18	6
	100.0	42.4	5.5	33.3	4.2	10.9	3.6

In terms of the specific types of impact the advance of inflation had, the three most cited replies in the manufacturing industry were: (1) an “Increase in transportation costs” (75.8%), (2) “Increase in procurement costs” (69.7%) and (3) an “Increase in personnel costs” (66.7%), with only a few companies citing a “Decrease in sales” (9.1%) (valid responses: 33 companies). In the non-manufacturing industry, (1) an “Increase in personnel costs” (62.1%), (2) “Increase in transportation costs” (50.7%) and (3) an “Increase in procurement costs” (50.0%) were the three most cited replies, indicating that in the non-manufacturing industry, where the ratio of personnel costs to total costs is higher than in the manufacturing industry, an “Increase in personnel costs” was the biggest factor weighing down profits (valid responses: 140 companies). On the other hand, in the non-manufacturing industry, there were also a number of companies citing an “Increase in sales” (8.6%).

**8. CSR activities**

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 the manufacturing and non-manufacturing industries, at a combined 82.5%, which was followed by “Ensuring product and service safety as well as (or) offering new products and services” at 47.5% and “Endeavors to improve the working environment” at 37.0% (valid responses: 200 companies).

In the manufacturing industry, “Strict observance of local laws and regulations, and respect for international standards such as ISO” was cited by 97.1% of companies, “Endeavors to improve the working environment,” was cited by 58.8% and “Ensuring product and service safety as well as (or) offering new products and services” and “Engagement in local (or wider area) environmental issues” were cited by 55.9% each (valid responses: 34 companies). In terms of the organizations with whom the companies collaborated with when they engaged in CSR activities (multiple answers allowed), 85.3% of the companies in the manufacturing industry and 82.3% of the companies in the non-manufacturing industry replied that “Our company (group) conducts CSR activities independently (planning, implementation, evaluation, etc.)” (valid responses: 34 companies in the manufacturing industry, 164 in the non-manufacturing industry).

Additionally, 26.5% of the companies in the manufacturing industry and 14.6% of those in the non-manufacturing industry replied that they collaborated with “Local government agencies” when performing CSR activities.

## New Zealand

### Targets of the survey and breakdown of respondents

Number of companies contacted: 93 Japanese-affiliated companies operating in New Zealand

Number of respondents: 62 companies (manufacturing industry: 16; non-manufacturing industry: 46)

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	25.0
Textiles (yarn, cloth, synthetic fabrics)	1	6.3
Lumber and wood products	5	31.3
Paper and pulp	1	6.3
Chemicals	1	6.3
Nonferrous metals and products	1	6.3
Fabricated metal products (including plated products)	1	6.3
Other	2	12.5
Total (valid responses)	16	100.0

Non-manufacturing industry		
Industry	No. of companies	Composition ratio
Trading company	9	19.6
Distribution	5	10.9
Sales company	9	19.6
Banking	1	2.2
Insurance	2	4.4
Transport/warehousing	4	8.7
Hotel/travel/restaurant	7	15.2
Communications/software	4	8.7
Other	5	10.9
Total (valid responses)	46	100.0

## 1. Business outlook

### (1) Approximately 60% expected to post profit in 2008

About 62.2% of the companies replied that they expected to post an operating profit for 2008, while 14.8% replied that they expected to post a loss (valid responses: 61 companies).

Moreover, the percentages by industry show that in the manufacturing industry, 62.5% of the companies expected to post a profit, while 12.5% expected to post a loss (valid responses: 16 companies). In the non-manufacturing industry, 62.2% expected to post a profit, while 15.6% expected to post a loss (valid responses: 45 companies).

Furthermore, the percentage of companies expecting operating profit for 2008 to “Improve” over 2007 was a combined 36.1% for the manufacturing and non-manufacturing industries (valid responses: 61 companies). In the manufacturing industry, the percentage of companies replying “Improve” and the percentage replying “Worsen” were the same at 43.8% (valid responses: 16 companies). In the non-manufacturing industry, the percentage of companies replying “Improve” was 33.3%, while the percentage replying “Worsen” was 35.6% (valid responses: 45 companies).

As the reason for the estimated operating profit for 2008 to worsen over 2007 (multiple answers allowed), a “Decrease in local market sales” was cited by the highest percentage of companies in the non-manufacturing industry at 56.3%, which was followed by a “Reduction in sales due to higher prices” at 43.8% (valid responses: 16 companies). In New Zealand, the housing boom came to an end in the fall of 2007, and since then the economy has been in a recession. Furthermore, from the latter half of 2008, the financial crisis managed to inflict damaging blows to an already weakened economy and had all but deflated consumer confidence within New Zealand. All of the above are thought to have contributed to the deterioration of operating profit.

## (2) Operating profit forecast for 2009: Major improvement expected in the non-manufacturing industry

As for the operating profit forecast for 2009, a combined 36.1% of the companies in the manufacturing and non-manufacturing industries replied that they expected it to “Improve,” while 27.9% replied that they expected it to “Worsen” (valid responses: 61 companies). The DI value also improved from -1.6 points for 2008 (“Improve”: 36.1%; “Worsen”: 37.7%) to +8.2 points for 2009 (“Improve”: 36.1%; “Worsen”: 27.9%).

In the manufacturing industry, the operating profit forecast for 2009, in terms of the DI value, was 0 points (“Improve”: 37.5%; “Worsen”: 37.5%, valid responses: 16 companies), which showed no change from the 0 points in 2008 (“Improve”: 43.8%; “Worsen”: 43.8%). By contrast, in the non-manufacturing industry, the DI value improved considerably from the -2.3 points in 2008 (“Improve”: 33.3%; “Worsen”: 35.6%) to +11.2 points in 2009 (“Improve”: 35.6%; “Worsen”: 24.4%). By industry, three out of the four communications/software companies (75.0%) and five out of the eight trading companies (62.5%) replied that their operating profit forecast for 2009 would “Improve.”

As reasons for the operating profit in 2009 to improve (multiple answers allowed), an “Increase in local market sales” was cited by the highest percentage of companies in the non-manufacturing industry at 56.3%, which was followed by “Development of new products and services” at 50.0% and an “Increase in sales due to export expansion” at 37.5% (valid responses: 16 companies).

**Diagram 67: Estimated operating profit (over the previous year) for 2008 and 2009**

Unit: Composition ratio (%)

	Improve	Show no change	Worsen	DI	Valid responses
Operating profit forecast for 2008	36.1	26.2	37.7	-1.6	61
Manufacturing	43.8	12.5	43.8	0.0	16
Non-manufacturing	33.3	31.1	35.6	-2.3	45
Operating profit forecast for 2009	36.1	36.1	27.9	8.2	61
Manufacturing	37.5	25.0	37.5	0	16
Non-manufacturing	35.6	40.0	24.4	11.2	45

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

### (1) Majority of the companies were export-oriented companies

Concerning the ratio of export sales to total sales, 81.3% of the manufacturers replied that they exported 70% or more of their products, indicating that the majority of these companies were export-oriented companies (valid responses: 16 companies). By industry, they included companies in the foods, processed agricultural or marine products, the textiles (yarn, cloth, synthetic fibers), the lumber and wood products, the paper and pulp, and the nonferrous metals and products industries.

Out of the industries stated above, companies in the lumber and wood products and the nonferrous metals and products industries replied that they exported 100% of their products. On the other hand, there were no companies replying that export sales accounted for 0% of total sales, i.e., all of their products were being sold on the domestic market.

“Japan” was cited as an export destination by 14 of the companies that exported products (multiple answers allowed). Companies that replied they exported 100% of their products to Japan were in the foods, processed

agricultural or marine products, the lumber and wood products, and the nonferrous metals and products industries. Other countries (regions) cited as export destinations included: “Oceania” (cited by seven companies) and “ASEAN” and “Other Asian countries” (cited by five companies each). For Japanese-affiliated manufacturers operating in New Zealand, the Asian markets were the major destinations for exports.

**(2) FTA usage limited: Used only by three companies in exports and one in imports**

Concerning the usage of existing bilateral/multilateral FTAs/EPAs, only three companies replied that FTAs/EPAs were “Currently in use” in export activities (valid responses: 15 companies), and only one company replied that FTAs/EPAs were “Currently in use” in import activities (valid responses: eight companies). Two out of the three companies utilizing FTAs/EPAs in exports used the New Zealand-Thailand FTA. Companies that were “Considering using” FTAs/EPAs were also limited to one company each for exports and imports. The company “Considering using” the FTA in export activities was in the foods, processed agricultural or marine products industry, while the company “Considering using” the FTA in import activities was in the chemicals industry.

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

In the manufacturing industry, the percentage of companies procuring 100% of their raw materials and parts locally (domestic procurement within New Zealand) accounted for 64.3% of the companies (valid responses: 14 companies). These included companies in the textiles (yarn, cloth, synthetic fabrics), the lumber and wood products, paper and pulp, and the nonferrous metals and products industries. The percentage of companies with 100% local procurement in New Zealand was exceptionally high compared to the 5.8% in the ASEAN region (40 companies) and the 10.1% in Southwest Asia (eight companies).

This is thought to reflect the copious amount of investment in companies that process local raw materials, such as those in the lumber and wood products (five companies) and the foods, processed agricultural or marine products (four companies) industries and the absence of assembly-type manufacturers, such as those in the motor vehicle and motorcycle, the motor vehicle and motorcycle parts and accessories, and the electric machinery and electronic parts industries.

Moreover, the high ratio of local companies acting as suppliers as opposed to Japanese-affiliated and other foreign-affiliated companies is a salient feature of local procurement in New Zealand. Companies replying that they procured 100% of their materials from local companies (eight companies) accounted for 72.7%.

**Diagram 68: 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	0-10%	10-50%	50-70%	70-90%	90-100%	100%
Local procurement ratio	14	-	1	1	3	-	9
	100.0	-	7.1	7.1	21.4	-	64.3
Local companies	11	-	2	-	1	-	8
	100.0	-	18.2	-	9.1	-	72.7
Japanese-affiliated companies	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Other foreign-affiliated	4	-	1	1	1	-	1
	100.0	-	25.0	25.0	25.0	-	25.0

Procurement sources of raw materials and parts other than New Zealand (countries from which 1% or more of materials/parts was procured) included “Europe” (cited by five companies), “Japan,” “Oceania” and the “US” (cited by four companies each), “mainland China” (three companies), “ASEAN” (two companies) and “Other Asian countries” (one company), indicating the presence of diverse procurement sources.

Concerning future plans for the procurement of raw materials and parts (multiple answers allowed), the highest percentage of companies (77.8%) replied “Maintain current ratios of local procurement” (valid responses: nine companies).

#### **4. Business problems**

##### **(1) Increases in procurement costs and requests for lower prices weighing down profits**

Concerning problems in sales or other business activities (multiple answers allowed), 40.0% of the companies in the non-manufacturing industry cited “Competitors growing market shares (cost-wise competition)” (valid responses: 45 companies), suggesting that pressure to lower costs is mounting as companies face requests by major clients to lower prices and intensified competition.

In terms of problems concerning labor or employment (multiple answers allowed), an “Increase in employee wages” was the most cited reply in both the manufacturing (valid responses: 15 companies) and the non-manufacturing (valid responses: 38 companies) industries.

**Diagram 69: Business problems (top three)**

Unit: %, Multiple answers allowed

Items		Valid responses	1	2	3
Problems in sales or other business activities	Manufacturing	16	Sluggishness in major sales markets (consumption downturn)	No increase in new clients or markets	Decrease in orders from clients
		100.0	68.8	43.8	33.3
	Non-manufacturing	45	Sluggishness in major sales markets (consumption downturn)	Competitors' growing market shares (cost-wise competition)	Major clients requesting lower prices
		100.0	66.7	40.0	33.3
Problems with labor or employment	Manufacturing	15	Increase in employee wages	Difficulty in recruiting middle management staff	Low rate of worker retention
		100.0	53.3	40.0	33.3
	Non-manufacturing	38	Increase in employee wages	Difficulty in recruiting general staff	Difficulty in recruiting engineer staff
		100.0	60.5	34.2	31.6

**(2) In the non-manufacturing industry “Lack of office space and rising rent” was the only problem seen within the investment environment**

In terms of problems in production (manufacturing industry only, multiple answers allowed), an “Increase in procurement cost” was cited by 87.5% of the companies, or roughly twice the percentage of companies citing “Limited cost-cutting measures available” (valid responses: 16 companies). This suggests that the impact of inflation in the first half of 2008 led to the rise of procurement costs in the manufacturing industry.

In the manufacturing industry, “Unclear policy management by the local government” was the most cited problem in the investment environment (multiple answers allowed) at 38.5% (valid responses: 13 companies).

In the non-manufacturing industry, “Lack of office space and rising rent” was cited by 34.4% of the companies, while “Unclear policy management by the local government,” “Complicated tax procedures” and “Underdeveloped economic and legal systems, and arbitrary application of the legal system” were cited by 9.4% each (valid responses: 32 companies).

**Diagram 70: Business problems (top three)**

Unit: %, Multiple answers allowed

Items		Valid responses	1	2	3		
Problems in production	Manufacturing	16	Increase in procurement costs	Limited cost-cutting measures available	Stricter environmental regulations		
		100.0	87.5	43.8	25.0		
Problems in the investment environment	Manufacturing	13	Unclear policy management by the local government	Underdeveloped infrastructure	Complicated administrative procedures		
		100.0	38.5	30.8	15.4		
	Non-manufacturing	32	Lack of office space and rising rent	Underdeveloped infrastructure (electric power, transportation, communications, etc.)	Unclear policy management by the local government	Complicated tax procedures	Underdeveloped economic and legal systems, and arbitrary application of the legal system
		100.0	34.4	18.8	9.4		

## 5. Competition

Regarding which country was the main source of competition in selling products/services in the local market, “China” was cited by a combined 21.1% of the companies in the manufacturing and non-manufacturing industries (valid responses: 57 companies), followed by “New Zealand” at 19.3% and “Australia” and the “US” at 15.8% each.

In the manufacturing industry, “New Zealand” was cited as the most formidable competitor by 41.7% of the companies, while “Australia” and the “US” were cited by 16.7% each (valid responses: 12 companies). Meanwhile, “China” was mentioned as a competitor by only one company.

In the non-manufacturing industry, on the other hand, as the main source of competition in selling products/services on the local market at that time, “China” was cited by the highest percentage of companies at 24.4%, followed by “South Korea” at 17.8%, “Australia” and the “US” at 15.6% each, and “New Zealand” at 13.3% (valid responses: 45 companies). Trading companies, in particular, seemed to perceive Chinese companies as their most formidable competitors, with four out of nine companies (44.4%) replying “China.” Locally, competition is heating up between Japanese-affiliated distribution and retail companies and Chinese sales companies dealing in Chinese souvenirs and Japanese food.

As for the main reason behind the competitors’ ability (multiple answers allowed), “Price” was cited by the highest percentage of companies in the manufacturing and non-manufacturing industries, at a combined 77.2% (valid responses: 57 companies). Moreover, concerning countermeasures to be taken against the competition (multiple answers allowed), “Enhance added value of products/services” was cited by 63.8% of the companies (valid responses: 58 companies).

## 6. Future business development

In terms of the direction of each company’s business development over the next one to two years, a combined 48.4% of the companies in the manufacturing and non-manufacturing industries replied “Expansion,” while 43.5% replied they would maintain the “Status quo” and 8.1% replied “Downsizing” (valid responses: 62 companies). All of the companies that replied “Downsizing” were in the non-manufacturing industry.

By industry, three out of the four companies in the foods, processed agricultural or marine products segment (75.0%) of the manufacturing industry and six out of the nine sales companies (66.7%), as well as five out of nine trading companies (55.6%) of the non-manufacturing industry, replied “Expansion.”

Among the companies that replied “Downsizing” in the non-manufacturing industry, 75.0% cited “Transfer some products/services to an affiliate in a third country (region)” and 25.0% cited “Integrate the bases within the local country (region)” as the reasons (multiple answers allowed) for such a move (valid responses: four companies). Moreover, in cases where a move of current bases or a portion of products/services was being contemplated, “Australia” and “Japan” were both cited by one company each as the location to which operations were being moved (multiple answers allowed) (valid responses: two companies).

The reason given by the company (multiple answers allowed) which replied it was planning to move to “Australia” was “Competitive strengths of the company in the market;” and the reason given by the company moving to “Japan” was “Administrative and operation costs.”

## 7. Effects of inflation and its countermeasures

### (1) Impact more severe in the manufacturing industry

Concerning whether the advance of inflation had impacted profit, nearly all of the companies in the manufacturing and non-manufacturing industries replied that profit had “Worsened.” However, the degree to which profit had been impacted differed between the manufacturing industry and the non-manufacturing industry.

Compared to the 43.8% in the manufacturing industry that replied, “Significantly worsened” (valid responses: 16 companies), only 26.1% of the companies replied similarly in the non-manufacturing industry (valid responses: 46 companies). Although the situation had deteriorated to a certain extent in the non-manufacturing industry, the degree to which profit had been impacted was evidently not as severe as in the manufacturing industry.

#### Diagram71: Impact of advancing inflation on profit

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

	Valid response	Significantly worsened	Significantly improved	Slightly worsened	Slightly improved	Hardly any impact	No impact
Manufacturing and Non-manufacturing	61	19	1	27	3	7	5
	100.0	31.1	1.6	44.3	4.9	11.5	8.2
Manufacturing	16	7	-	7	-	2	-
	100.0	43.8	-	43.8	-	12.5	-
Non-manufacturing	46	12	1	20	3	5	5
	100.0	26.1	2.2	43.5	6.5	10.9	10.9

### (2) Impact of inflation did not extend to the increase in personnel costs in the non-manufacturing industry

In terms of the specific types of impact that the advance of inflation caused (multiple answers allowed), the four most frequently cited replies in the manufacturing industry were: (1) an “Increase in transportation costs” (85.7%), (2) an “Increase in procurement costs” (71.4%), (3) an “Increase in fuel costs” (57.1%) and (4) an “Increase in personnel costs” (57.1%) (valid responses: 14 companies).

In the non-manufacturing industry, on the other hand, the three most cited replies were: (1) an “Increase in transportation costs” (63.9%), (2) an “Increase in procurement costs” (58.3%) and (3) an “Increase in fuel costs” (38.9%) (valid responses: 36 companies). It should be noted that only 25.0% of those in the non-manufacturing industry replied an “Increase in personnel costs.” This was the lowest of the 13 countries covered in the current survey and extremely low compared to the averages posted by the ASEAN nations (56.3%), Southwest Asia (72.7%) and Oceania (54.6%). Despite the shift of power from the Labor Party to the NZ National Party in the fall 2008 election, the common notion that workers had been carefully protected by the Labor Party government, which lasted for nine years, was shared by labor and management alike. In fact, when wages were revised at Japanese-affiliated companies, in most cases, they were done basically within the rate of year-on-year increases in consumer prices or below.



## 8. 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 the manufacturing and non-manufacturing industries at a combined 78.7%, which was followed by “Ensuring product and service safety as well as (or) offering new products and services” at 63.9% and “Endeavors to improve the working environment” at 42.6% (valid responses: 61 companies). By contrast, “Human resources training, technology transfer, or increase of the local procurement ratio” and “Engagement in local (or wider area) poverty and education issues” were only cited by 23.0% and 3.3% of the companies, respectively. New Zealand being an industrialized nation, there were considerably fewer companies citing the last two replies than in the ASEAN region and Southwest Asia.

Concerning who the companies collaborated with when they engaged in CSR activities (multiple answers allowed), a combined 70.7% of those in the manufacturing and the non-manufacturing industries replied “Our company (group) conducts CSR activities independently (planning, implementation, evaluation, etc.)” while 31.0% replied “Local government agencies” and 13.8% replied “Private non-profit bodies (NPOs or NGOs)” (valid responses: 58 companies). Compared to the companies in other countries, the percentage that collaborated with “Private non-profit bodies (NPOs or NGOs)” was high. Private non-profit bodies, such as the Rotary Club and the Auckland Club (corporate clubs), are extremely active in New Zealand, and the companies are thought to be collaborating with such organizations when performing CSR activities.