
Results of JETRO's FY2017 Survey on Business Conditions of Japanese-Affiliated Firms in the Middle East (United Arab Emirates, Saudi Arabia, Turkey, Qatar)

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Key Points of Survey Results

Business conditions are a mix of stability and instability

Half of businesses have plans to expand, but increasing numbers are expected to take a cautious approach

- ★ In 2017 half of the businesses surveyed posted a profit, with approximately 20% registering losses. The number of businesses being affected by deterioration of public order and the political situation, as well as drops in oil prices, were approximately the same as last year.
- ★ Approximately 40% responded that they expect to see improvements in business performance for 2018, due to sales growth in local markets. However, half responded with a more cautious outlook, saying they expect to see a leveling off in performance.
- ★ In regards to business expansion in the next 1 to 2 years, approximately 50% are forecasting an expansion based around sales functions. However, those responding “Remain the same” have increased since last year, at approximately the same percentage (46.2%). 30% of companies in Qatar, which is dealing with a breakdown in international relations with Saudi Arabia etc., answered that they had plans for expansion, remaining the same.
- ★ The greatest challenges are underdeveloped legal systems and a lack of clarity regarding legal system operations. In addition to this, increased labor costs and issues with slow administrative procedures, as well as the unstable political and societal conditions in Turkey and Qatar, have become cause for concern.

Survey Overview

Objective

- To grasp the actual conditions of Japanese-affiliated companies' business activities in the Middle East (United Arab Emirates (UAE), Saudi Arabia, Turkey, and Qatar) and provide the results to the public.

Companies Surveyed

- A questionnaire survey was locally conducted for Japanese-affiliated companies with bases in each of the surveyed countries in the Middle East.
- Valid responses were received from 254 companies (143 from UAE, 42 from Saudi Arabia, 46 from Turkey, and 23 from Qatar).

Period

- September 11 to October 16, 2017

Response Rate

- The response rate was 59.6% (questionnaires were distributed to 426 companies, and valid responses were received from 254 of them).
- By country, the response rate was 63.3% for UAE (143 of 226 companies), 50.6% for Saudi Arabia (42 of 83), 51.7% for Turkey (46 of 89), and 82.1% for Qatar (23 of 28)

Remarks

- This was the fifth survey for UAE and the fourth for Saudi Arabia. It was the third survey that covered all industries for Turkey, and the first survey that had been performed in Qatar.
- JETRO informed the companies to be surveyed of the URL for the questionnaire, and asked them to complete and return it, or sent them questionnaires in Japanese/English by e-mail.

Notes

- All response rates are shown in percentages (%). The response rate is rounded off to the second decimal place. As a result, some of the total figures do not add up to 100%.
- In this report, "N" stands for the number of valid responses (parameter).

Map

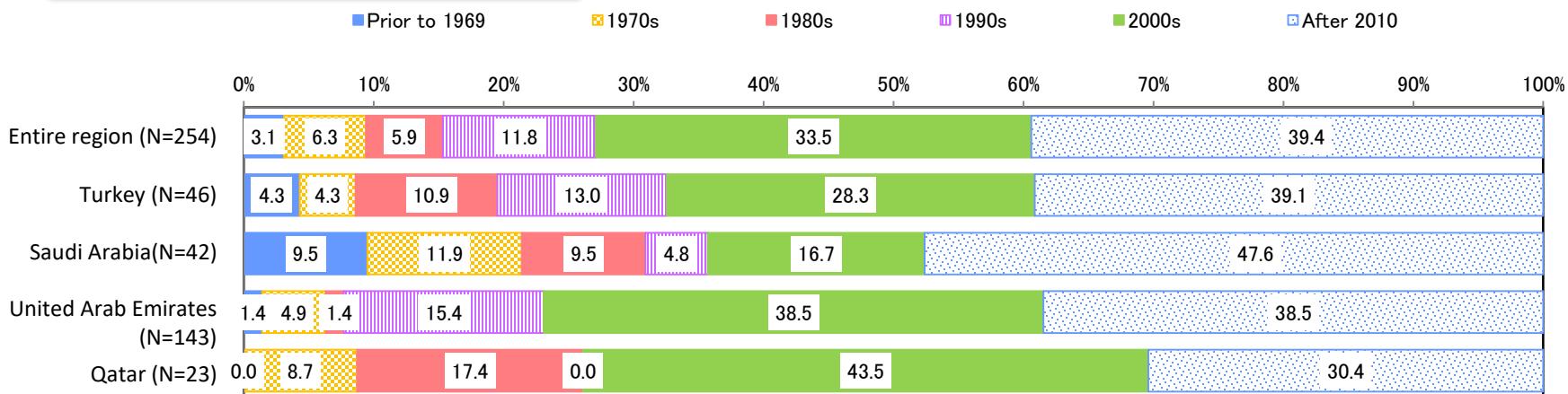


No. of Japanese-affiliated companies (as of October 1, 2016)	No. of bases	Y-o-Y (%)
United Arab Emirates	322	5.9
Turkey	188	36.2
Saudi Arabia	118	▲ 0.8
Israel and the Gaza Strip, etc.	57	58.3
Qatar	47	2.2
Iran	33	3.1
Bahrain	23	▲ 8.0
Jordan	20	▲ 4.8
Oman	19	58.3
Kuwait	16	0.0
Lebanon	8	14.3
Yemen	0	-
Afghanistan	-	-
Iraq	-	-
Syria	-	-
Total	851	12.6

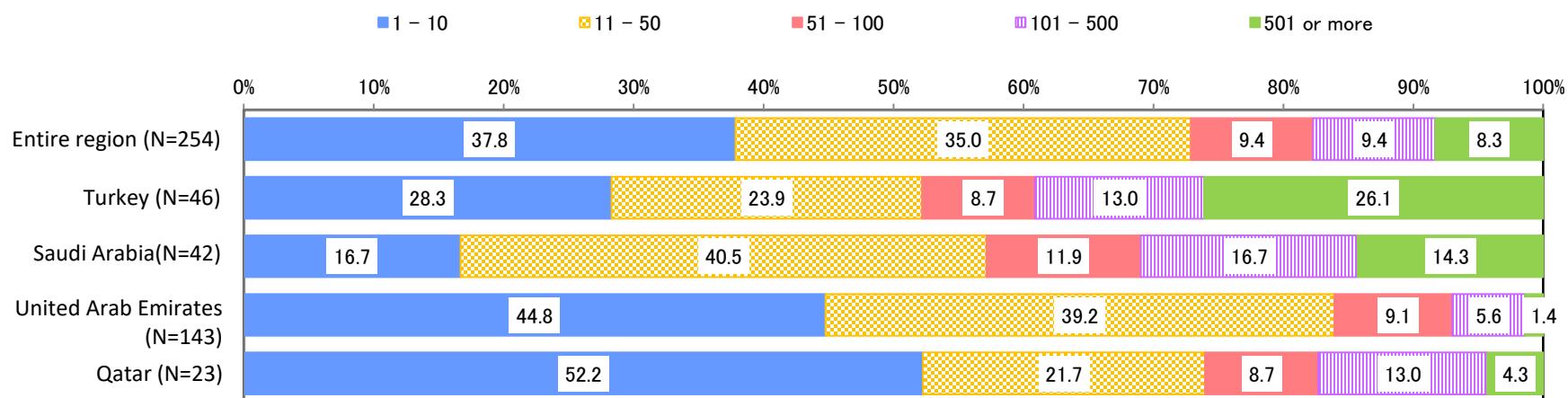
Source: Ministry of Foreign Affairs, "Annual Report of Statistics on Japanese Nationals Overseas (FY2017 Summary version)"

Company Profile (1)

Year of establishment

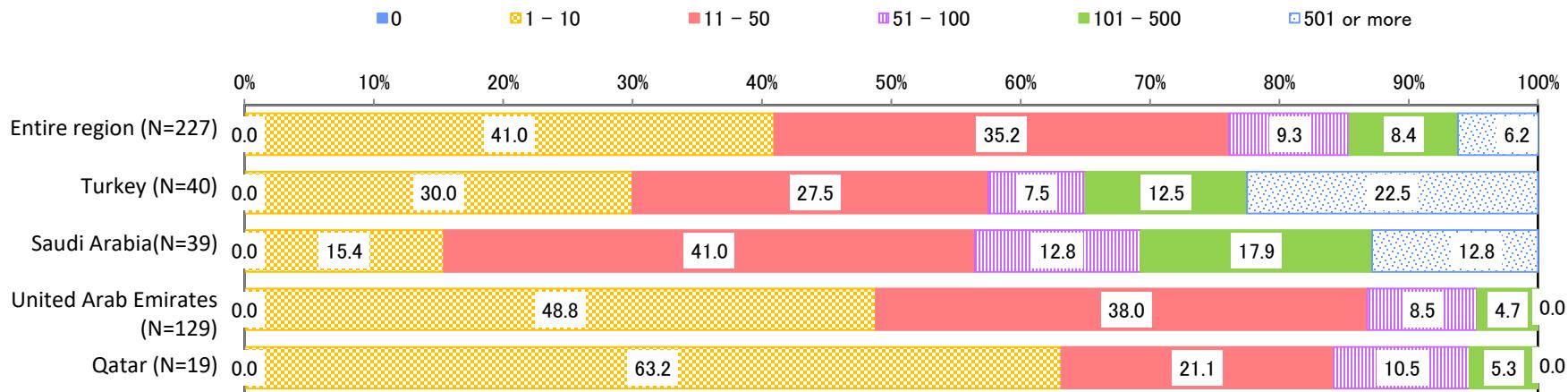


Total number of employees

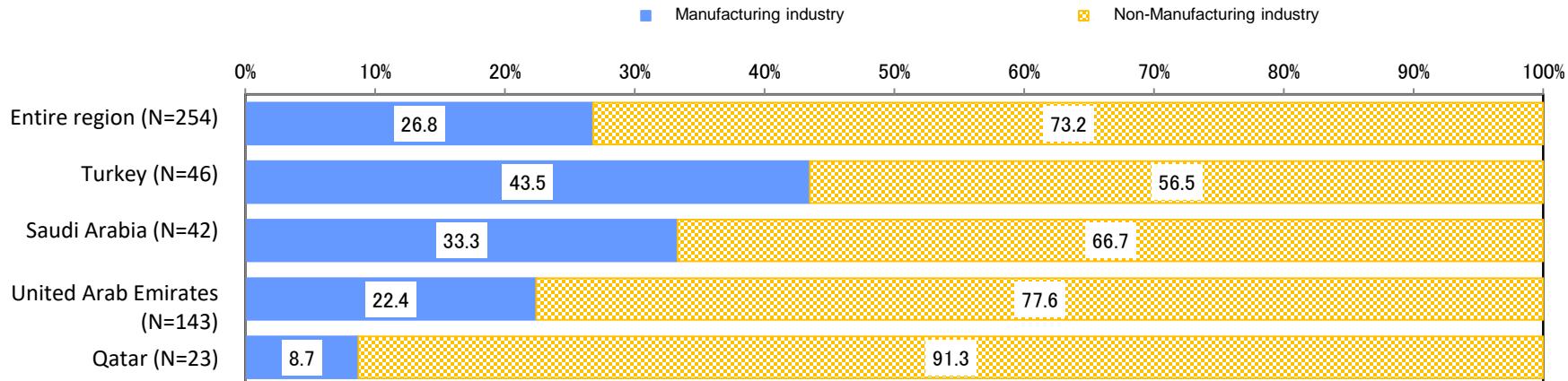


Company Profile (2)

Number of regular employees



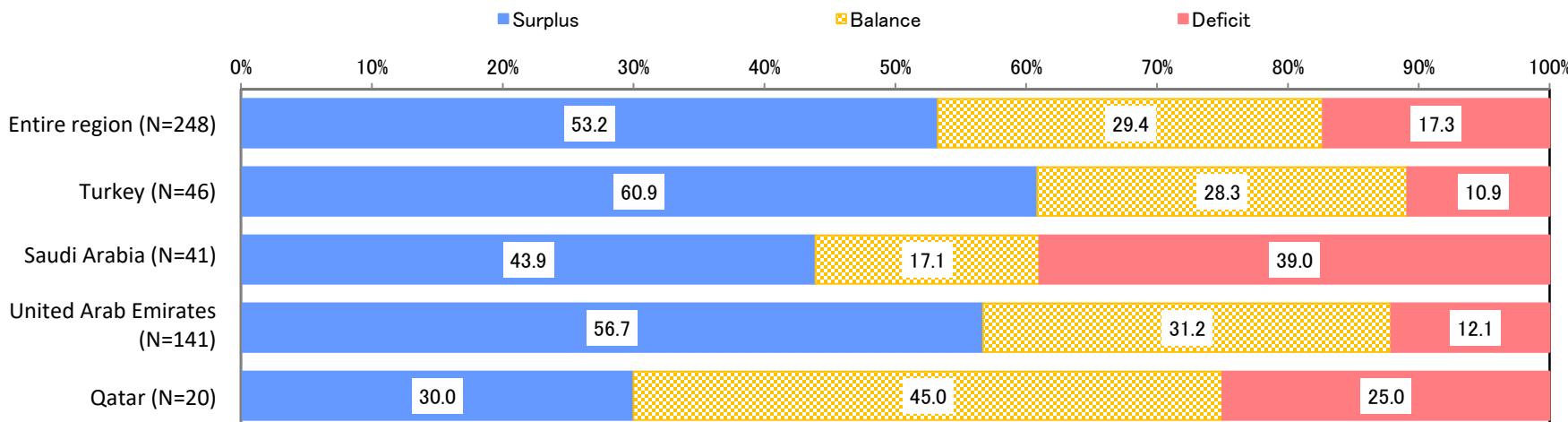
Industry (Manufacturing and non-manufacturing)



Operating Profit Estimate (1): Surplus rate above 50%

- Operating profit forecast for 2017: Approximately half of the companies surveyed answered that they estimated a surplus. However, due to the effects of the breakdown in diplomatic relations with surrounding countries, only 30% of companies in Qatar forecast a surplus.
- On the other hand, the percentage of companies that forecast a deficit was approximately 20%. However, two extremes were observed in Saudi Arabia, which had the highest percentage of companies estimating a surplus as well as a deficit, with 39.0% estimating a deficit.

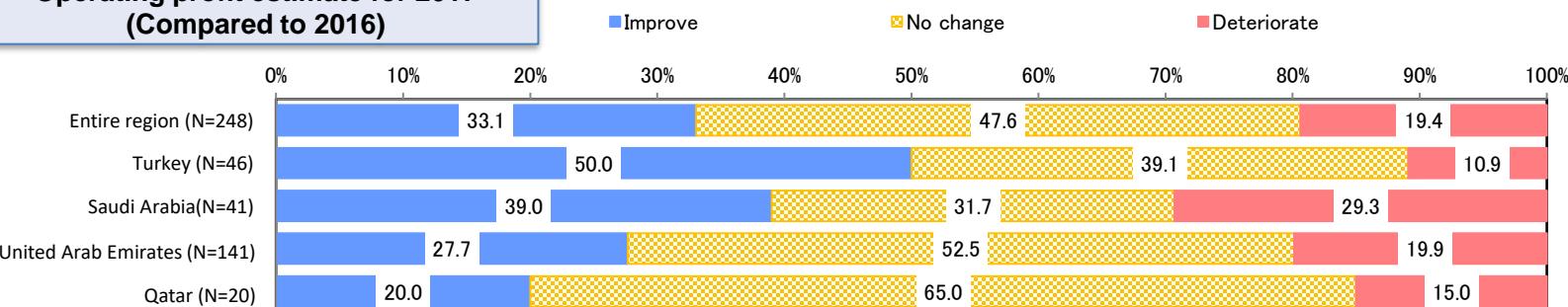
Operating profit estimate for 2017



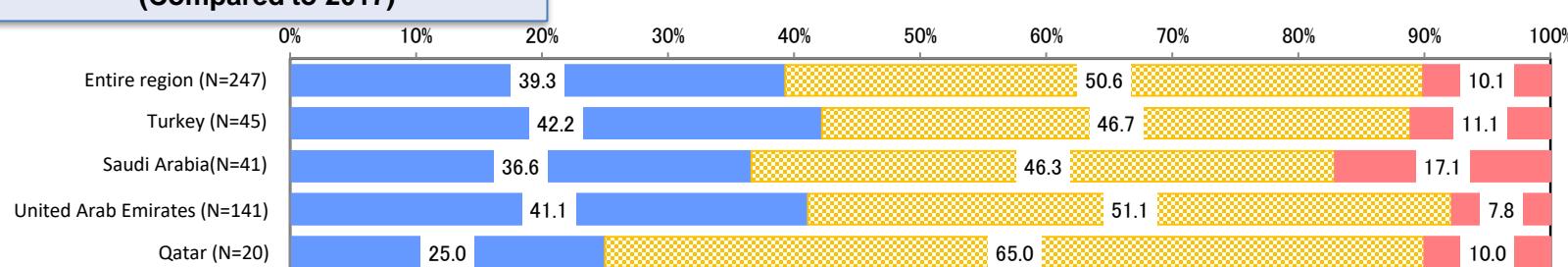
Operating Profit Estimate (2): Increase in companies anticipating improvements in 2018 compared to 2017

- Operating Profit Estimate: The percentage of companies that answered that they expect to see an improvement over the past year has increased since 2017, with 39.3% expecting an improvement in 2018, compared to 33.1% for 2017. More companies have a brighter outlook compared to last year
- The largest percentage was Turkey at 50.0%. This can be seen as a recoil after the frequent political problems seen in 2016 such as the attempted coup.
- Forecast for 2018: For all countries, the most common response was "No change" at 50 - 60% However, Qatar, which has had a breakdown in diplomatic relations with its surrounding countries, was the lowest at 25.0%.
- On the other hand, the number of companies that responded "deteriorate" was the highest in Saudi Arabia at 17.1%, followed by Turkey (11.1%), and Qatar (10.0%), with UAE the lowest at 7.8%.

**Operating profit estimate for 2017
(Compared to 2016)**



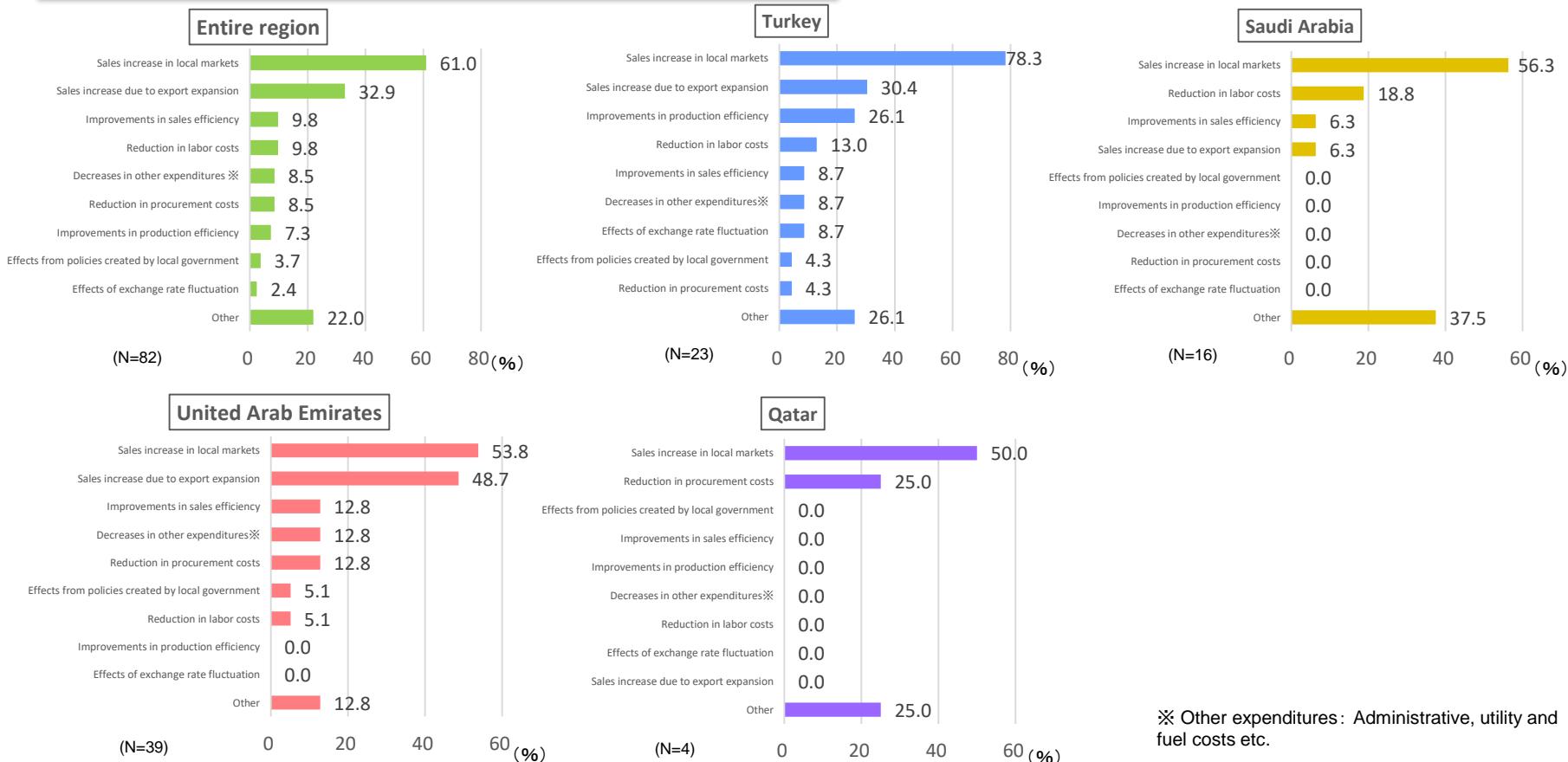
**Operating profit forecasts for 2018
(Compared to 2017)**



Operating Profit Estimate (3): Sales in local markets has an impact on improvement in operating profit forecasts

- The most common reason stated for "Improvement" in operating profit estimates for 2017, was "sales in local markets".
- Turkey and the United Arab Emirates responded with "Sales increase due to export expansion" (30.4% and 48.7% respectively), and Saudi Arabia with "Reduction in labor costs" (18.8%). Qatar answered with "Reduction in procurement costs"(25.0%).

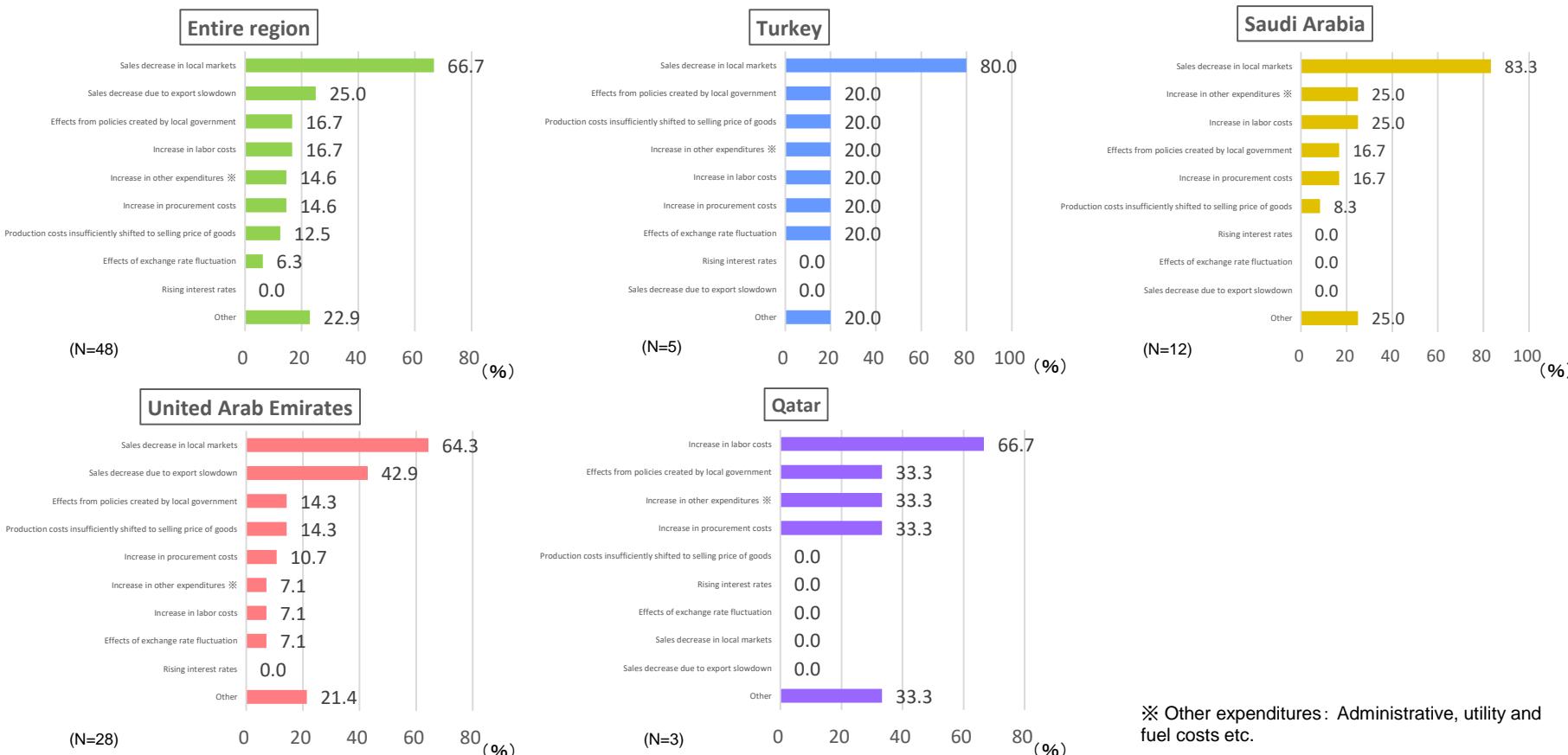
Operating profit estimate for 2017



Operating Profit Estimate (4): Deterioration also has a large impact on sales in local markets

- Except for Qatar, the most common reason stated for "Deterioration" in operating profit estimates for 2017, was "Sales decrease in local markets" (60% - 80%). Companies in Qatar answered "Increase in labor costs" (66.7%) as the most common reason.

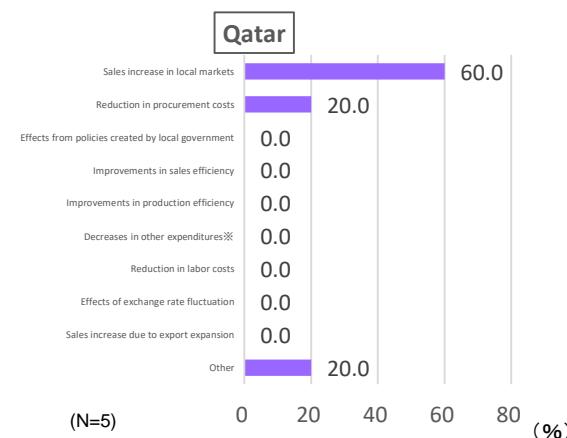
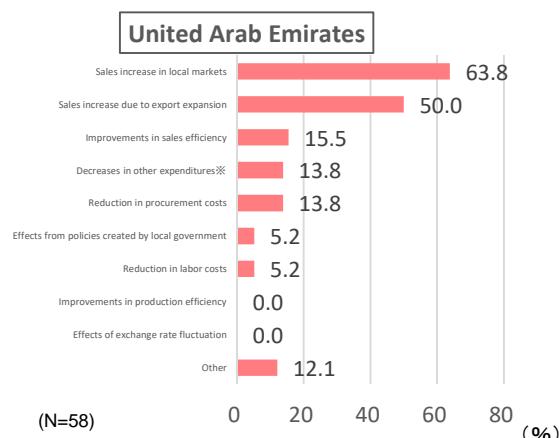
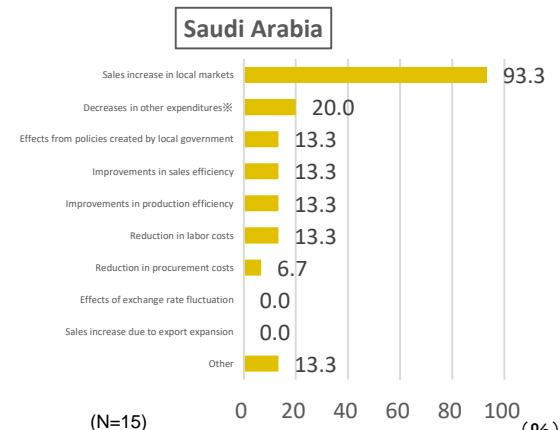
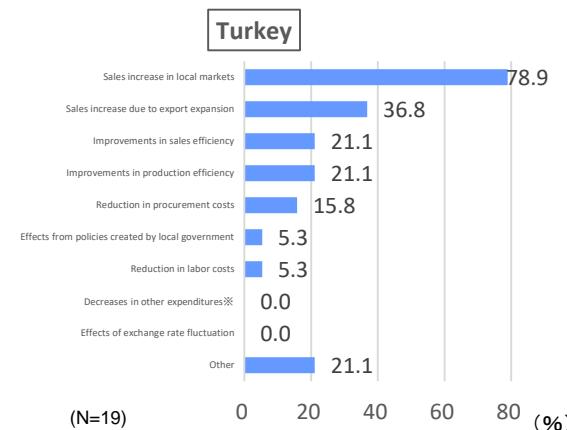
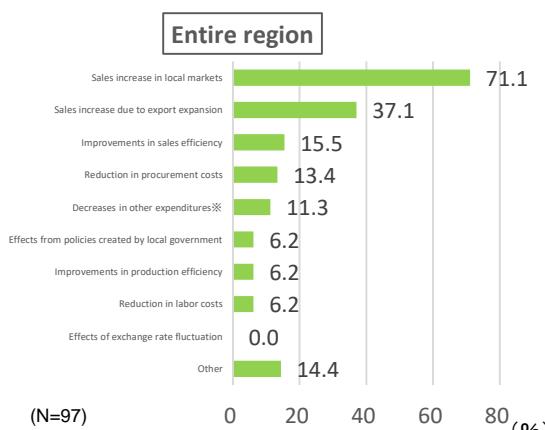
Reasons for deterioration in 2017 operating profit estimate



Operating Profit Estimate (5): In 2018, continued impact of sales in the local markets

- 2018 operating profit estimate: The most common reason stated for "Improvement" was "Increase in sales in local markets" (60% - 90%).
- This was followed by "Sales increase due to export expansion" (Approx. 40% - 50%, does not include Saudi Arabia or Qatar). Companies in Saudi Arabia answered with "Decreases in other expenditures", and those in Qatar with "Reductions in procurement costs"(20% each).

Reasons for improvement in 2018 operating profit forecasts

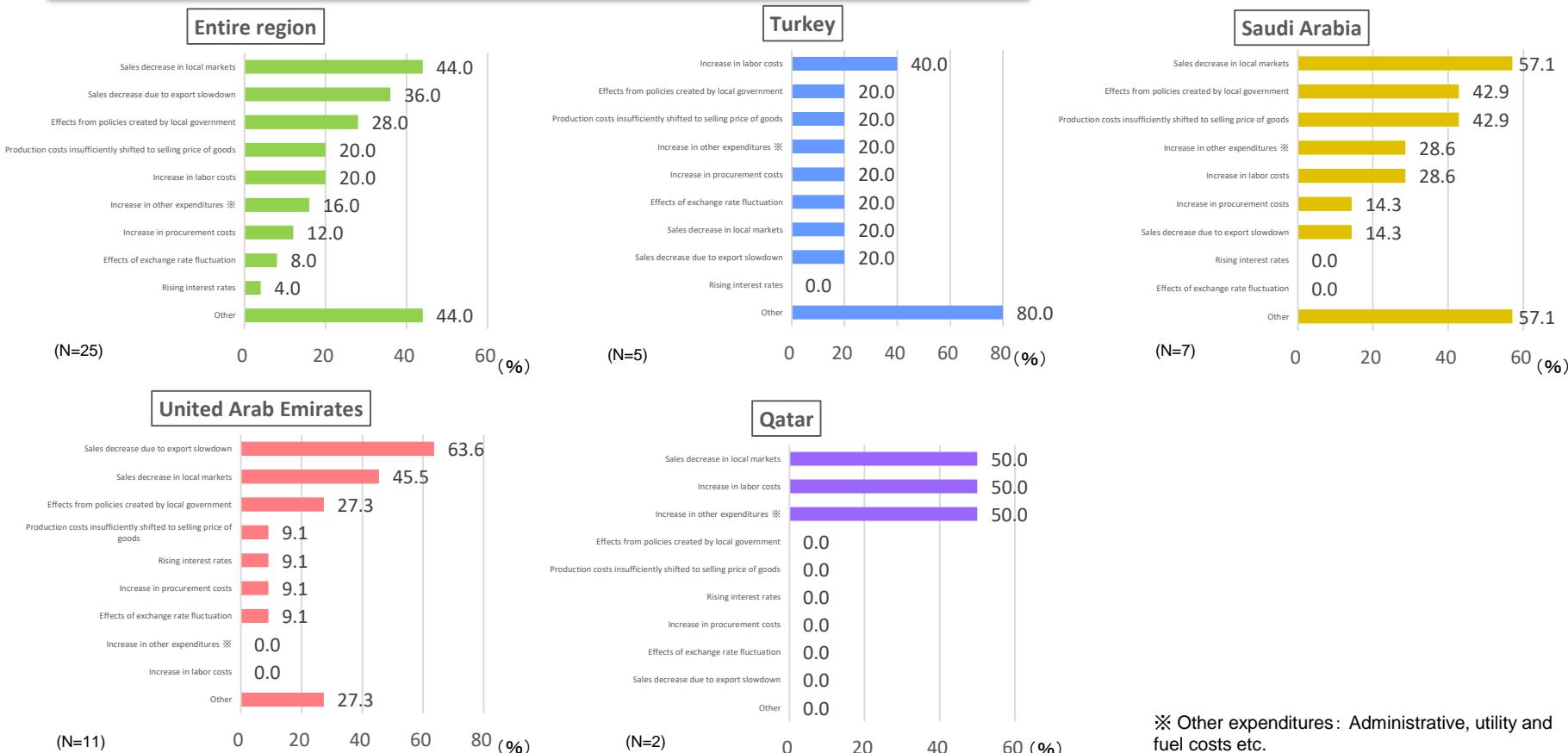


※ Other expenditures: Administrative, utility and fuel costs etc.

Operating Profit Estimate (6): Reasons for deterioration are also related to the large impact sales in local markets have

- Operating profit forecast for 2018: The most common reason stated for "deterioration" for the entire region was "Sales decrease in local markets" (44.0%), followed by "Sales decrease due to export slowdown" (36.0%).
- When broken down by country, companies in Turkey responded "Increase in labor costs" (40.0%), those in Saudi Arabia with "Sales decrease in local markets" (57.1%), UAE with "Sales decrease due to export slowdown" (63.6%), and Qatar with "Sales decrease in local markets", "Increase in labor costs", and "Increase in other expenditures" (50.0% each)

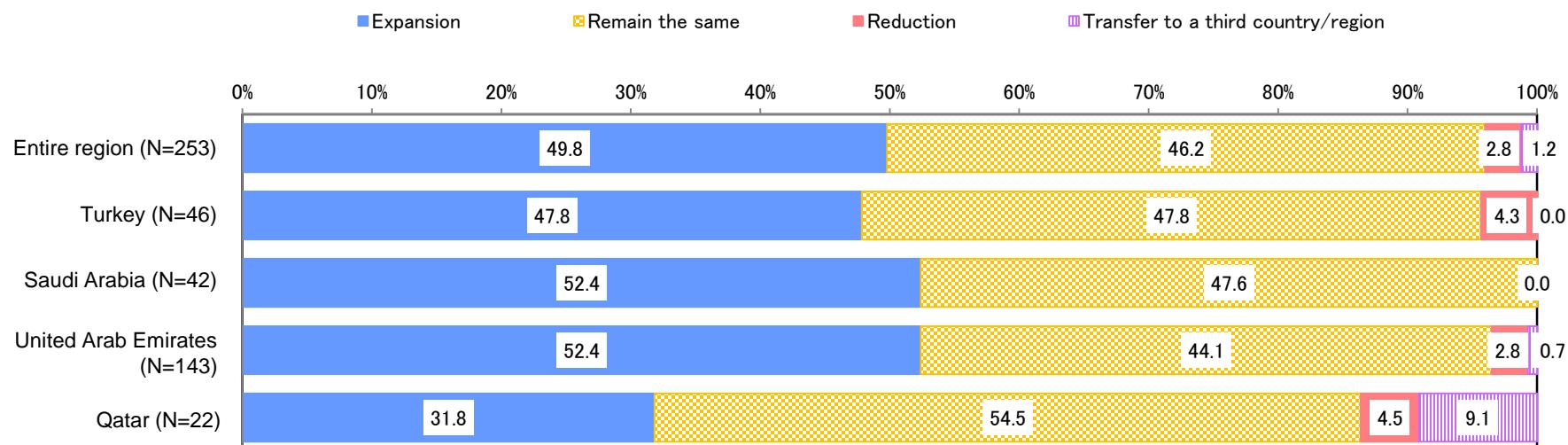
Reasons for deterioration in 2018 operating profit forecasts



Future Business Operations (1): About 50% of the companies are motivated to expand their business

- Direction of business operations in the next one to two years Except for Qatar, almost all companies responded with “Expansion”
- Only 30% of companies in Qatar responded with this, with the percentage of companies selecting “Transferring to a third country/region” at 9.1%, which was higher than in other countries.

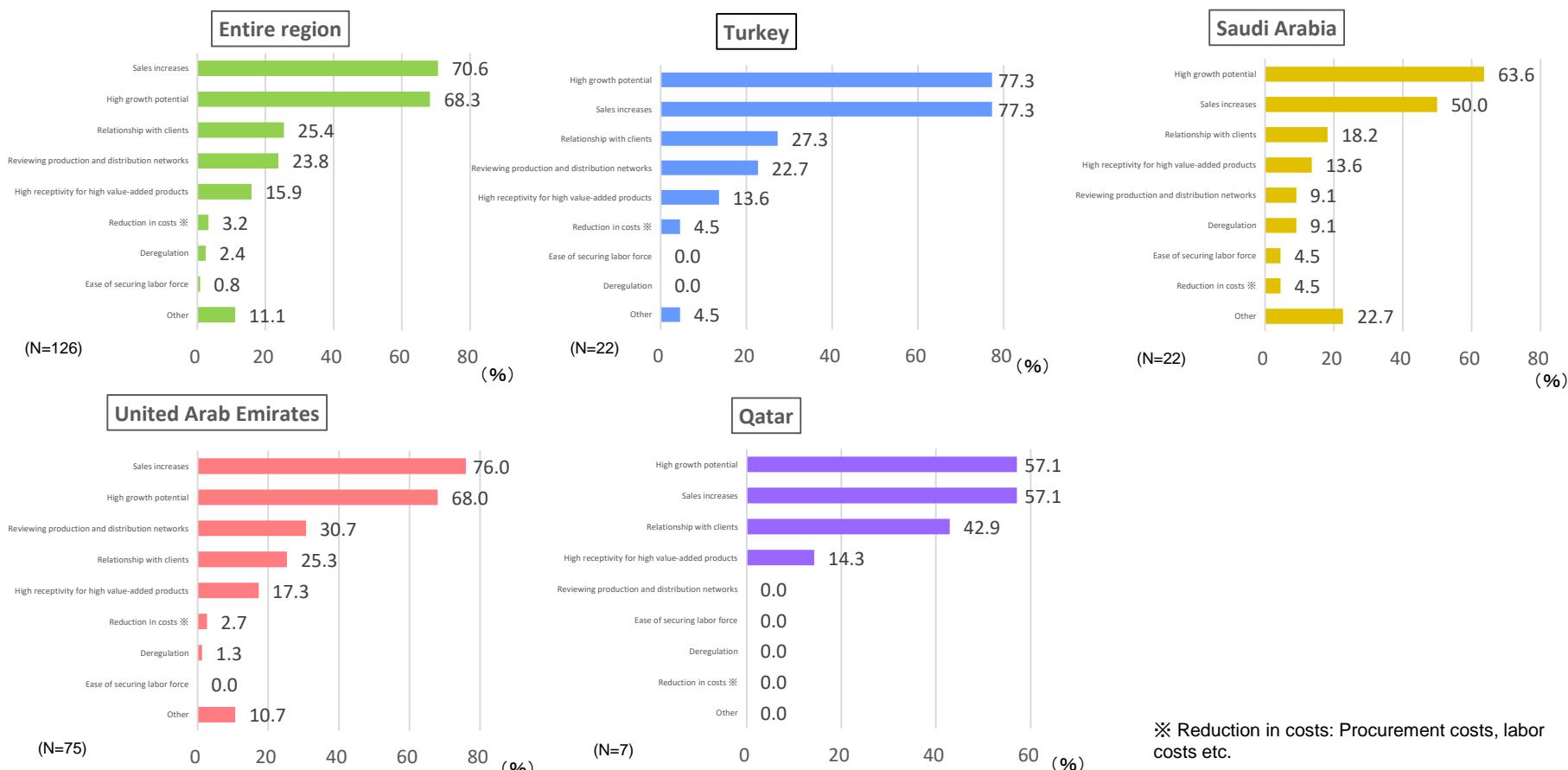
Direction of business operations in the next one to two years



Future Business Operations (2): Primary reason for expansion was “Sales increases”, “High growth potential”

- Reasons for expansion: The two largest factors were “Sales increases” and “High growth potential”
- In UAE the primary reason was “Reviewing production and distribution networks” with Turkey, Saudi Arabia and Qatar answering “Relationship with clients”.

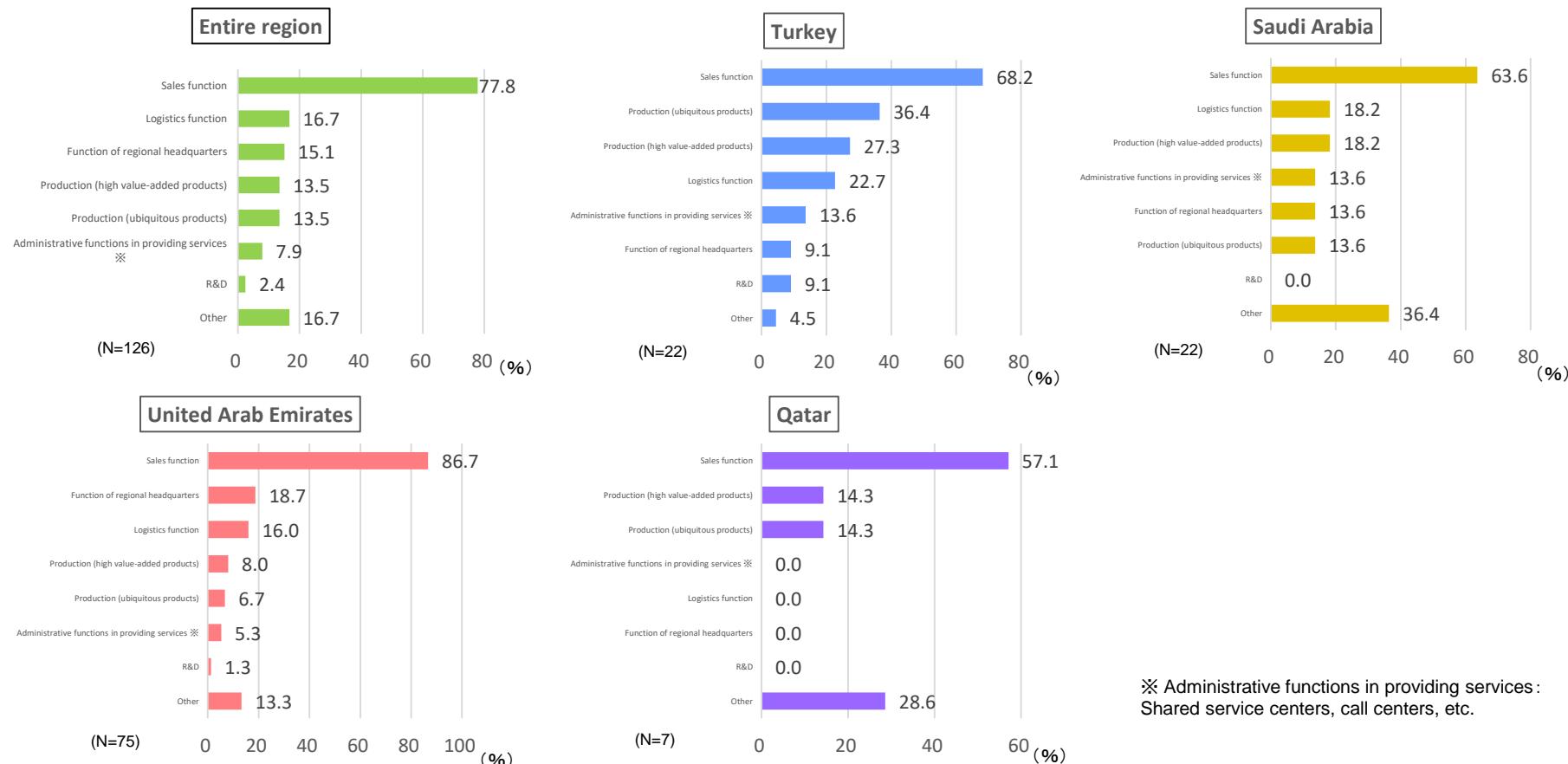
Reasons for expansion



Future Business Operations (3): Primary reason for expansion function was “Sales function”

- Reasons for expansion All companies surveyed replied with “Sales function” as the most common answer (Approx. 60% - 90%)
- For companies in Turkey, other common responses were: “Production (ubiquitous products)” (36.4%), those in Saudi Arabia were: “Logistics function” and “Production (high value-added products)” (18.2% each), and those in UAE were: “Function of regional headquarters”(18.7%) and those in Qatar were “Production(high value-added products) and “Production (ubiquitous products)” (14.3% each).

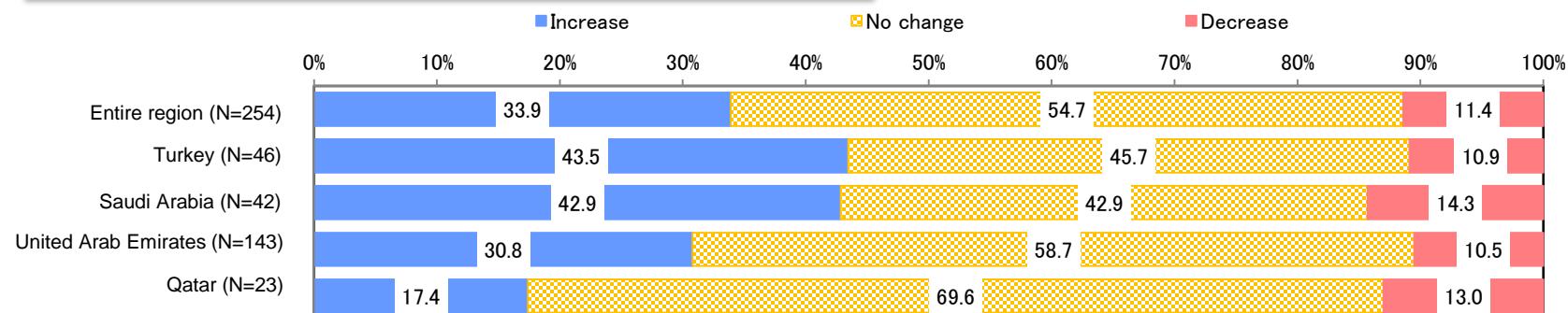
Functions to be expanded



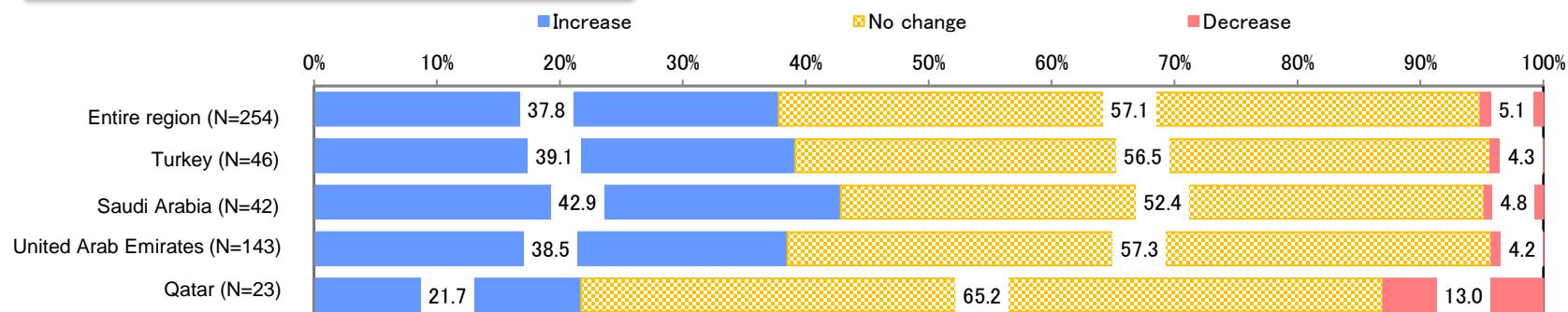
Changes in Human Resource Structure (1): More than 30% of the companies to increase number of local employees

- Number of local employees: For the entire region, 33.9% of respondents answered "Increase" and 54.7% "No change". More than 40% of companies in Turkey and Saudi Arabia responded with "Increase", compared to approximately 30% in UAE and <=20% in Qatar. On the other hand, 10% of all companies surveyed in the region responded with "Decrease", with the highest being in Saudi Arabia which has a high rate of employee turnover.
- Future plans: The most common response for the entire region was "No change" (57.1%), followed by "Increase" (37.8%) and "Decrease" (5.1%). However, owing to the high rate of employee turnover, 42.9% of companies in Saudi Arabia responded with "Increase".
- Qatar had the lowest number of responses for "Increase" at 21.7%, and the highest for "Decrease" at 13.0%. This can be thought to be a side-effect of the cut-off of diplomatic relations with surrounding countries, which seems to be a long-term issue.

Number of local employees changes in the previous year



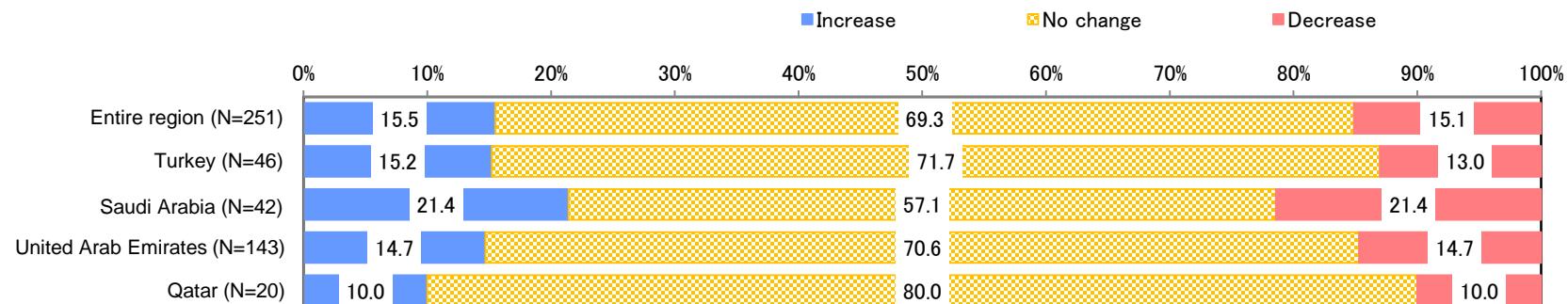
Number of local employees future plans



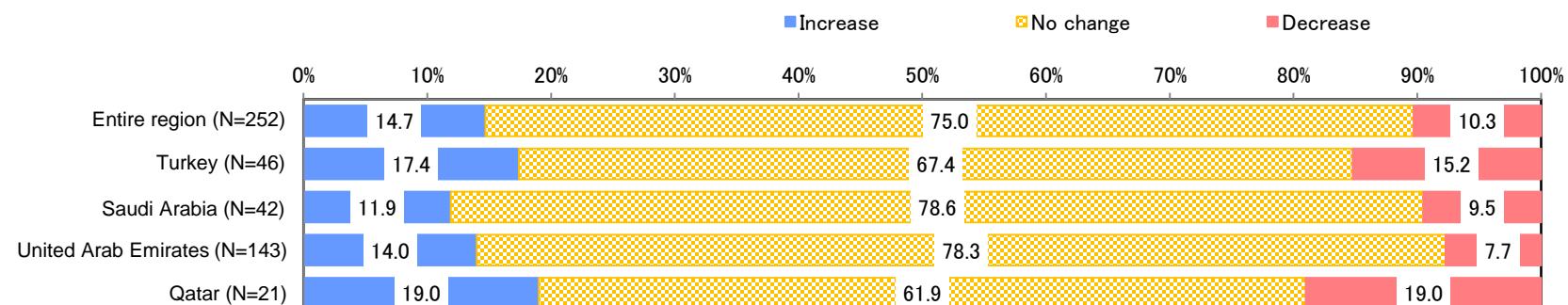
Changes in Human Resource Structure (2): Number of Japanese expatriate employees remains largely unchanged

- Numbers of Japanese expatriate employees: “No change” had the greatest number of responses at 69.3% However, Saudi Arabia had a large number of responses for “Increase” and “Decrease”, both of which were at 21.4% Qatar was the opposite, with “Increase” and “Decrease” being the lowest at 10.0%.
- “No change” was the most common answer regarding future plans, at 60% - 70%. However, answers for “Expand” and “Decrease” were slightly high in both Qatar and Turkey, at 20%

Number of Japanese expatriate employees changes in the previous year



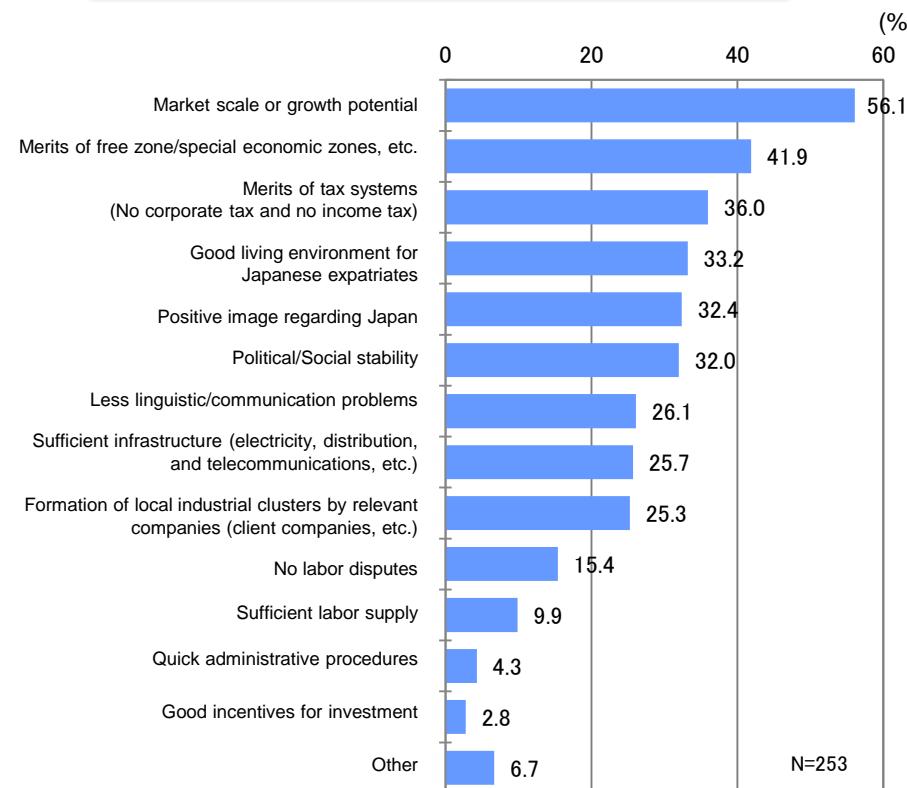
Number of Japanese expatriate employees future plans



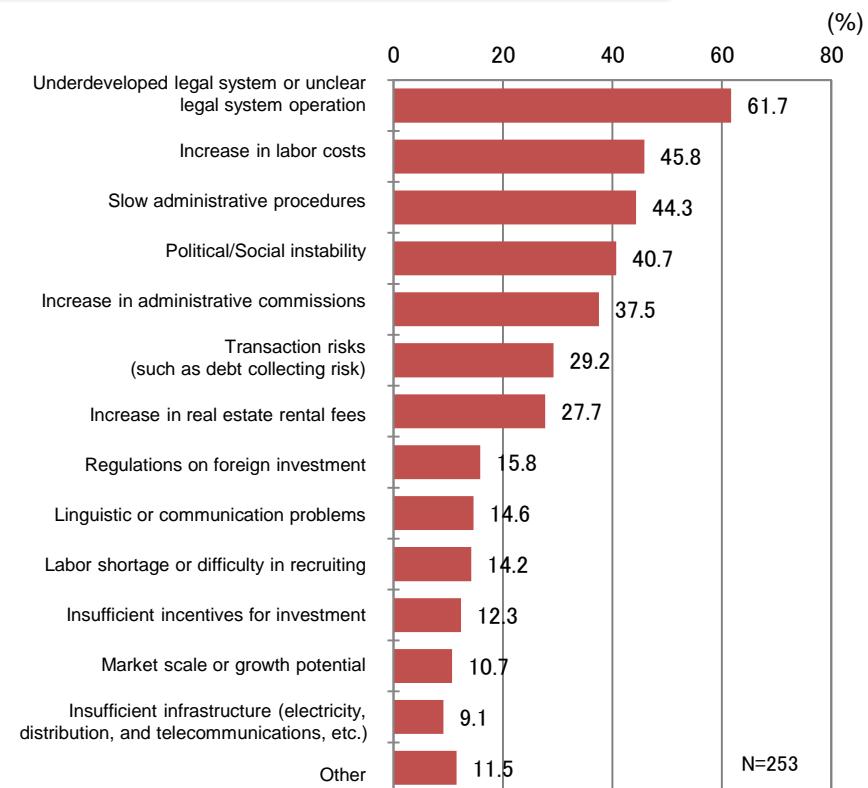
Investment environment (entire region): Greatest challenge is “underdeveloped legal system or unclear legal system operation”

- Attractions of the investment environment: The largest number of responses were for "Market scale or growth potential", at approximately 60%. "Free zone (No regulations for foreign investment and one-stop services)" was at 41.9%, followed by "Merits of tax systems (No corporate tax and no income tax)" at 36.0%
- Challenges of the investment environment: 60% of companies responded "Challenges of the investment environment or underdeveloped legal system", followed by "Increase in labor costs" (45.8%), and "Slow administrative procedures" (44.3%).

Attractions of the investment environment



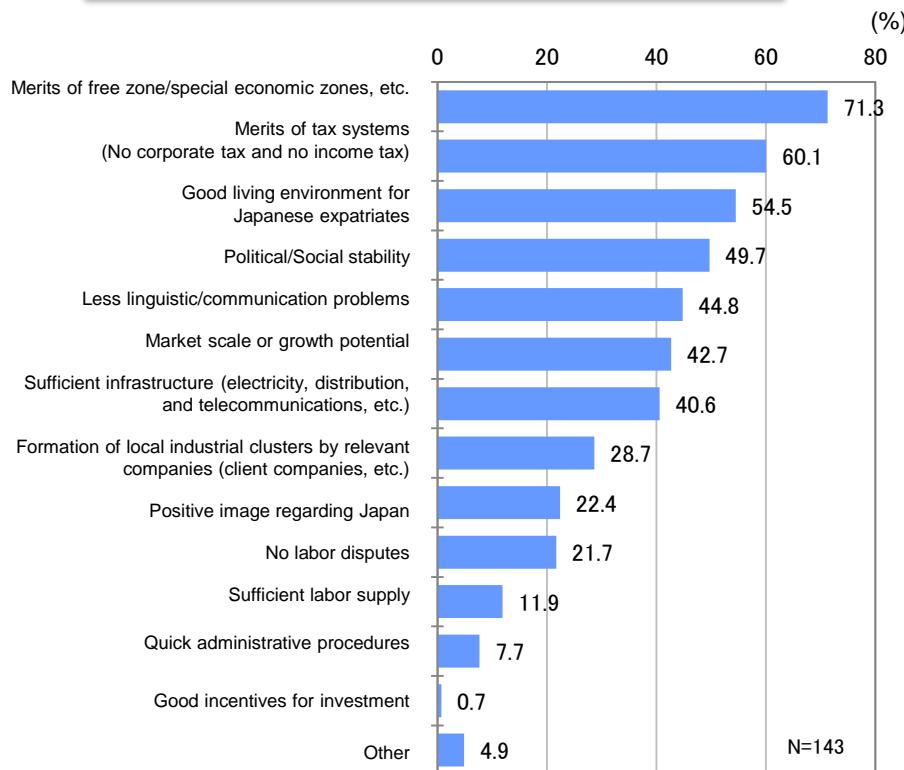
Challenges of the investment environment



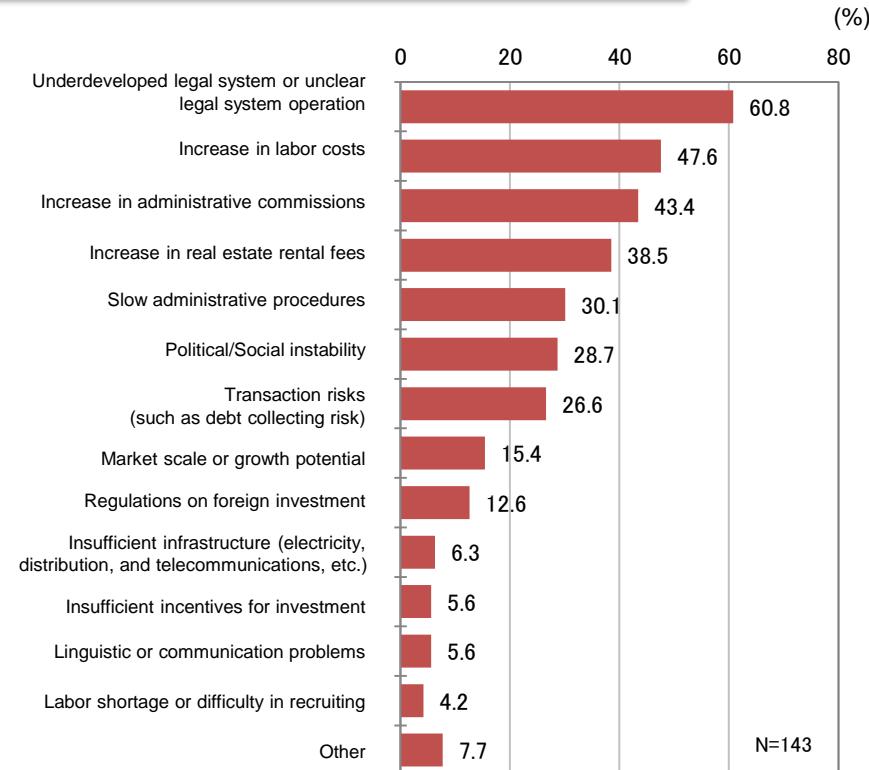
Investment environment (United Arab Emirates): Challenge of rising costs and legal system despite improvements in investment environment

- UAE attractions: Companies praised its “Free zone (No regulations for foreign investment and one-stop services)” ($\geq 70\%$), and “Merits of tax systems (No corporate tax and no income tax)” ($\geq 60\%$). Companies also praised the UAE’s “Good living environment for Japanese expatriates” and “Political/social stability”.
- UAE challenges: Many companies pointed out issues such as the “Underdeveloped legal system or unclear legal system operation” (60%), as well as increasing expenses such as “Increase in labor costs” (40%), “Increase in administrative commissions”, and “Increase in real estate rental fees”, but this percentage was low compared to other countries.

Attractions of the investment environment



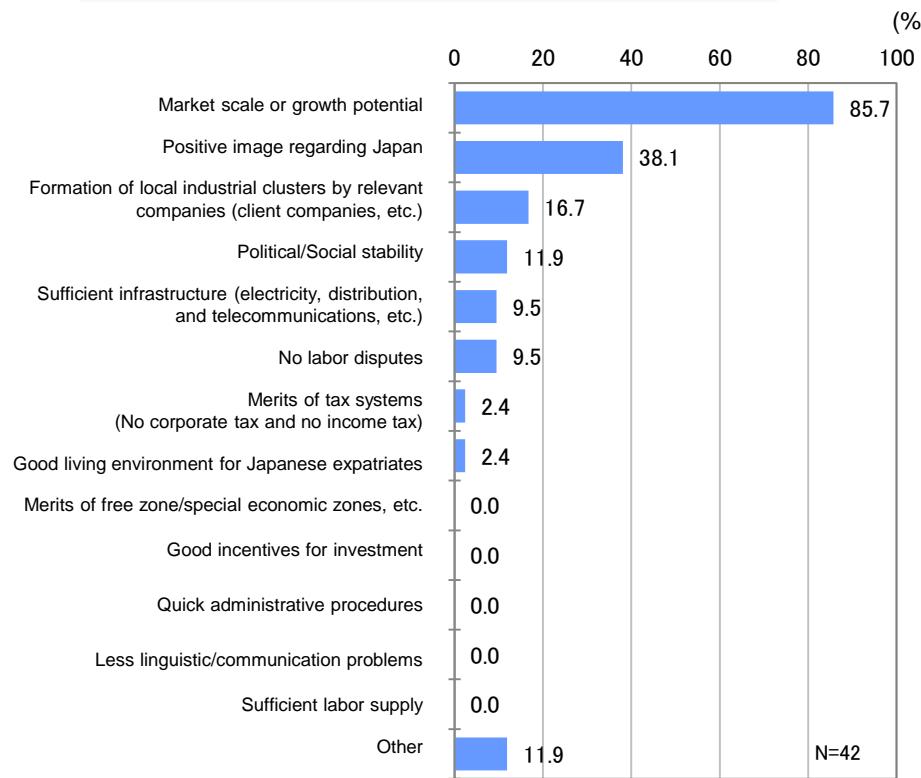
Challenges of the investment environment



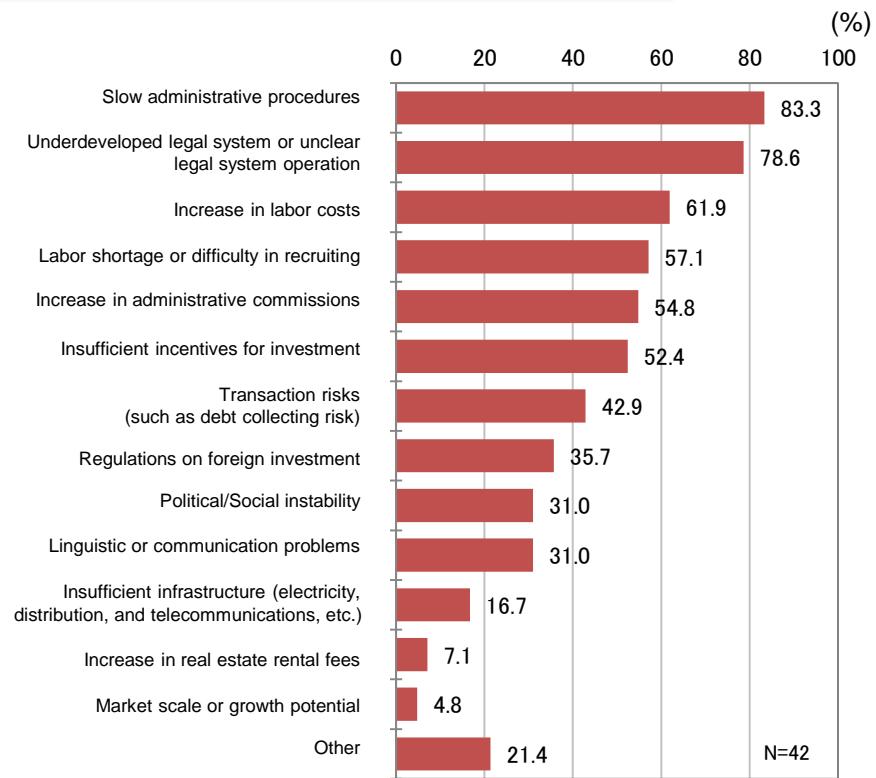
Investment environment (Saudi Arabia): Despite attractive market potential, there are numerous challenges related to slow administrative procedures etc.

- Attractions of Saudi Arabia: "Market scale or growth potential" (>80%). Followed by "Positive image regarding Japan" (38.1%).
- Challenges for Saudi Arabia: "Slow administrative procedures", "Underdeveloped legal system or unclear legal system operation" (Approx. 80%). There were also many other challenges including: "Increase in labor costs" (approx. 60%), "Labor shortage or difficulty in recruiting". "Increase in administrative commissions", and "Insufficient incentives for investment" (>=50%).

Attractions of the investment environment



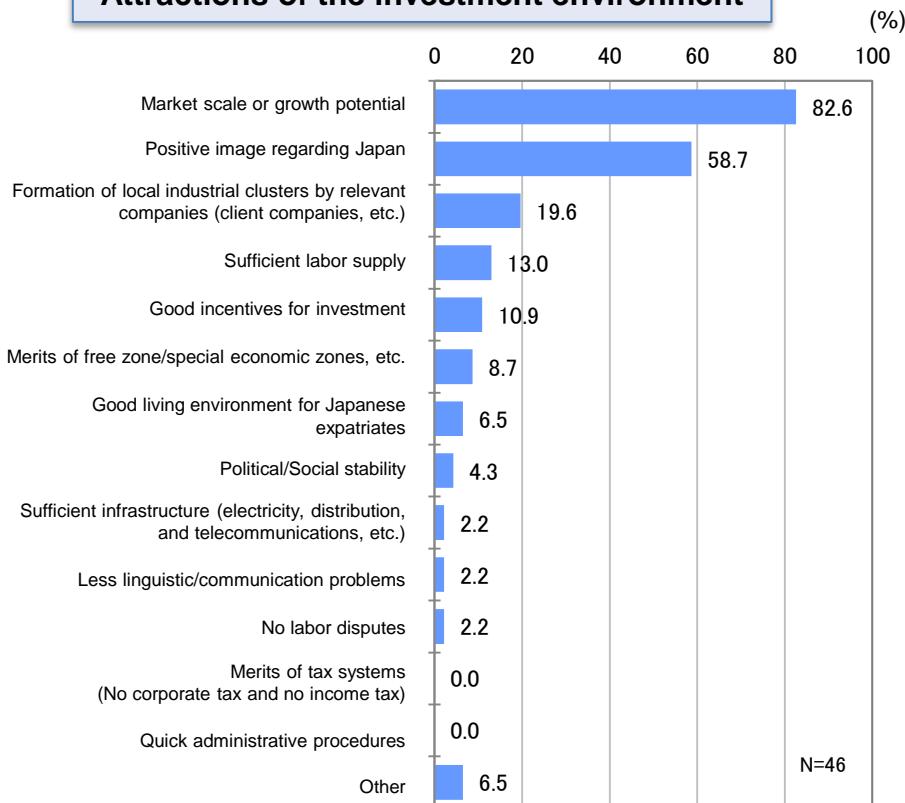
Challenges of the investment environment



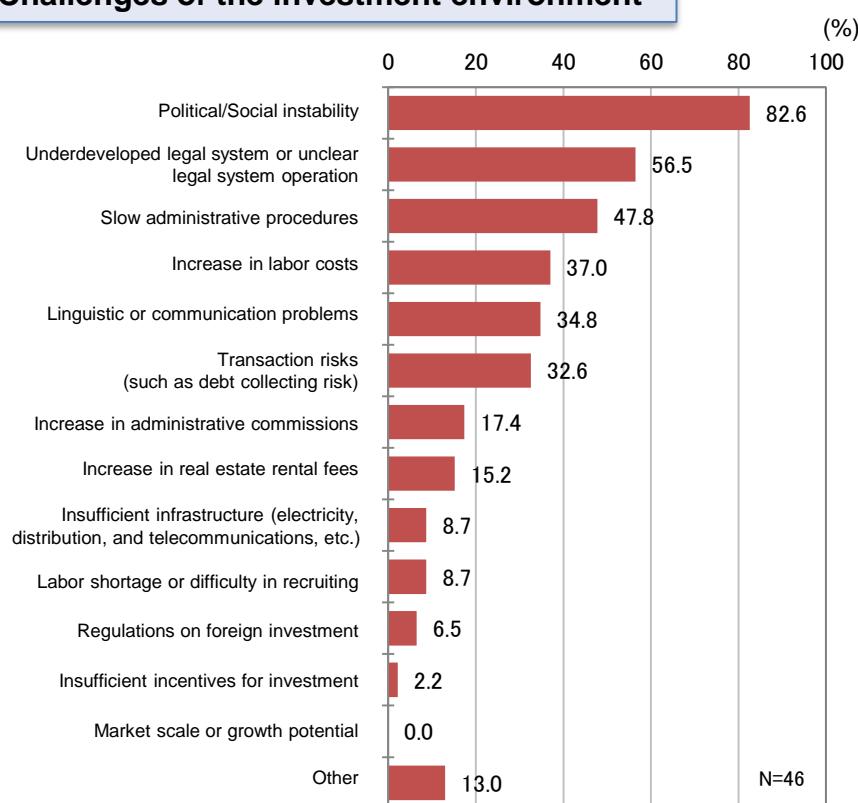
Investment environment (Turkey): “Political/Social instability” poses the greatest challenge

- Attractions of Turkey: "Market scale or growth potential" (>=80%), "Positive image regarding Japan" (approx. 60%).
- Challenges for Turkey: "Political/Social instability" (>=80%) "Underdeveloped legal system or unclear legal system operation", "Slow administrative procedures" (Approx. 50% - 60%), "Increase in labor costs", "Linguistic or communication problems", "Transaction risks (such as debt collecting risk)" (>=30%)

Attractions of the investment environment

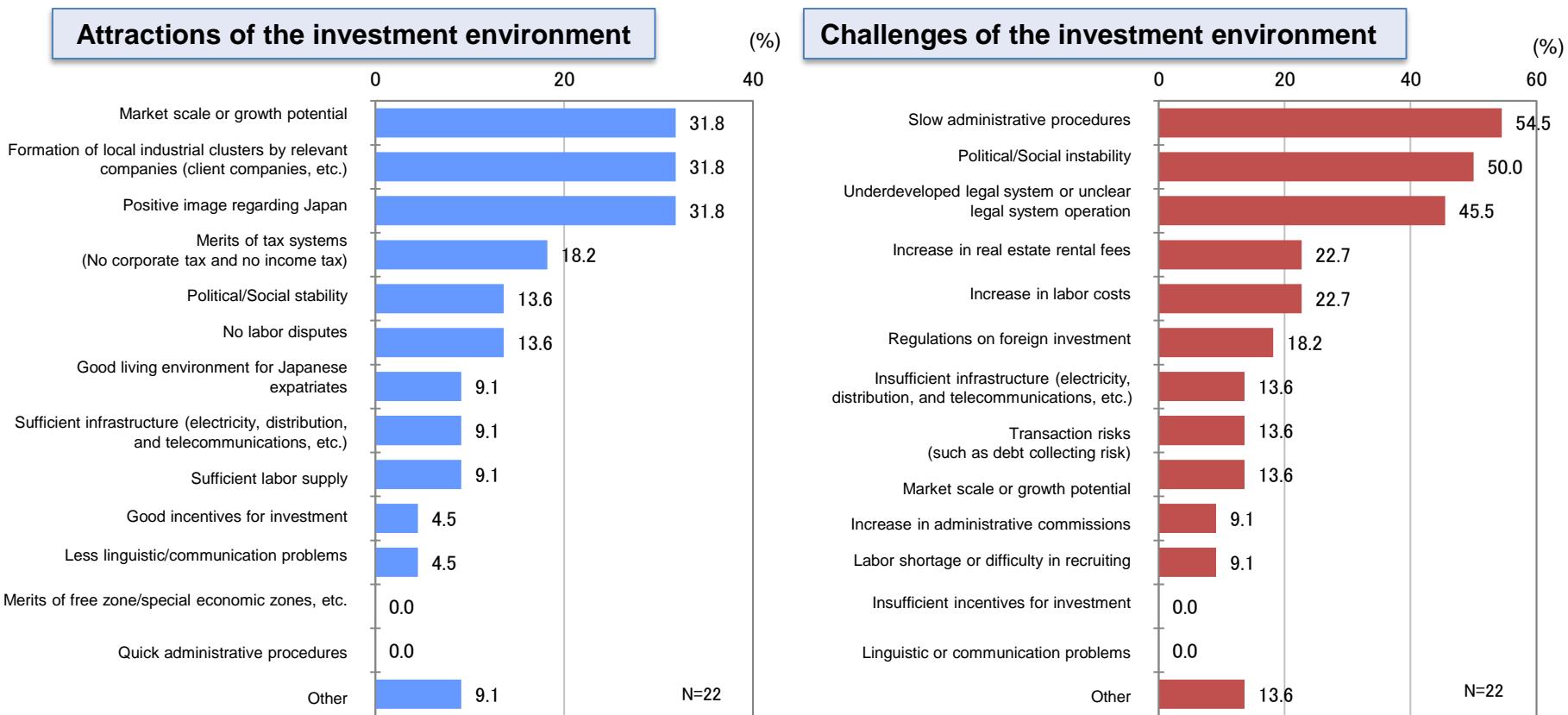


Challenges of the investment environment



Investment environment (Qatar): Greatest challenges include slow administrative procedures and political/social stability

- Attractions of Qatar: "Market scale or growth potential", "Formation of local industrial clusters by relevant companies (client companies, etc.)", and "Positive image regarding Japan" (>=30%).
- Challenges for Qatar: "Slow administrative procedures", "Political/social stability" (>=50%). Also include "Underdeveloped legal system or unclear legal system operation", "Increase in real estate rental fees", and "Increase in labor costs"





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