

FY2024

Survey on Business Condition of Japanese Companies Operating Overseas
| Asia/Oceania Edition

Comparison among six ASEAN Countries
and the trends in Malaysia

-Business sentiment improved for the fourth consecutive year
while competitive environment intensified-

Japan External Trade Organization (JETRO)
Kuala Lumpur Office
January 16, 2025



Key Findings

1. Operating profit forecast for 2024 exceeds the overall ASEAN average, improved for the fourth consecutive year.

- ❖ In Malaysia, the expected operating profit margin for 2024 is 70.8%, stands out as the only major ASEAN country to mark a steady increase over the past four years: 59.7% in 2021, 63.0% in 2022, and 67.9% in 2023. (Slide 4)

2. 48.9% of companies plan to promote local human resource development and employment and consider expanding their business in the post-COVID era.

- ❖ In the post-COVID era, Malaysia has outperformed other major countries in several initiatives: local human resource development (58.8%), employment increase (35.8%), and the promotion of decarbonization (24.9%) (Slide 7)
- ❖ The percentage of companies considering expanding their business in the next one to two years remains at approximately half in Malaysia, at 48.9% (Slide 8).
- ❖ 43.2% of companies are taking steps to decarbonize, and if those planning to do so are included, the figure rises to 83.5% , the highest among major countries. (Slide 10)

3. Non-manufacturing companies see market share expansion but have pointed to the increased competitors; Chinese companies are gaining prominence in the manufacturing industry.

- ❖ 40% of companies responded that the market share of their main products and services has "increased" compared to 2019. In particular, more than 20% of small and medium-sized enterprises responded that their market share has shrunk. By industry, non-manufacturing companies are more likely to have experienced increased market share. (Slide 11)
- ❖ 44.1% of companies have reported an increase in the number of competitors, with a majority of non-manufacturing companies particularly noticing this rise. (Slide 12)
- ❖ In terms of competitors, 69.5% cited local companies, 62.3% cited Japanese companies, and 57.3% cited Chinese companies. Chinese companies are recognized as the strongest competitors, particularly in the manufacturing industry, especially in the electrical and electronics industries. (Slide 13)

4. Over 70% are concerned about rising labor costs, and high employee turnover is the most serious problem among major ASEAN countries.

- ❖ Issues centered on human resources, including rising labor costs, high turnover rates, and labor shortages for both professional and general positions (Slide 16).
- ❖ The base pay increase rate is expected to be 4.2% in 2025. Salaries in the non-manufacturing industry are roughly twice as high as those in the manufacturing industry. (Slide 17)

5. Inflation-related cost increases will affect supply chain management, leading to the transfer of electrical and electronics production to Malaysia.

- ❖ The most common reason influencing procurement policies over the past five years has been 'increasing costs due to global inflation.' In response, companies have explored new sources of procurement, diversified suppliers, increased local procurement, and diversified procurement countries and regions. (Slide 20)
- ❖ Partial progress has been made in transferring production from other countries and regions to Malaysia, particularly in the electrical and electronics industry (Slide 21).

6. 80% of Japanese companies in Malaysia are taking advantage of FTAs/EPAs and are looking forward to the EU-Malaysia agreement coming into force.

- ❖ 78.9% of companies are taking advantage of FTAs, EPAs, and GSPs. The transportation equipment, steel, and food industries are particularly benefiting from these agreements. (Slide 22)
- ❖ When asked which countries they would like to see an FTA with for exports from Malaysia, 66.7% of respondents answered the EU, and 61.1% answered the United States. (Slide 23)

FY2024 Survey Outline

(Company, %)

Purpose of Survey

- The purpose of this study is to grasp the actual state of Japanese corporate activities in Asia and Oceania and to widely disseminate the results.

Survey target

- Japanese companies operating in a total of 20 countries and regions: 5 in Northeast Asia, 9 in ASEAN, 4 in Southwest Asia, and 2 in Oceania (with a direct or indirect investment ratio of 10% or more, as well as branches and representative offices)

Survey period

- August 20th to September 18th 2024

Response rate

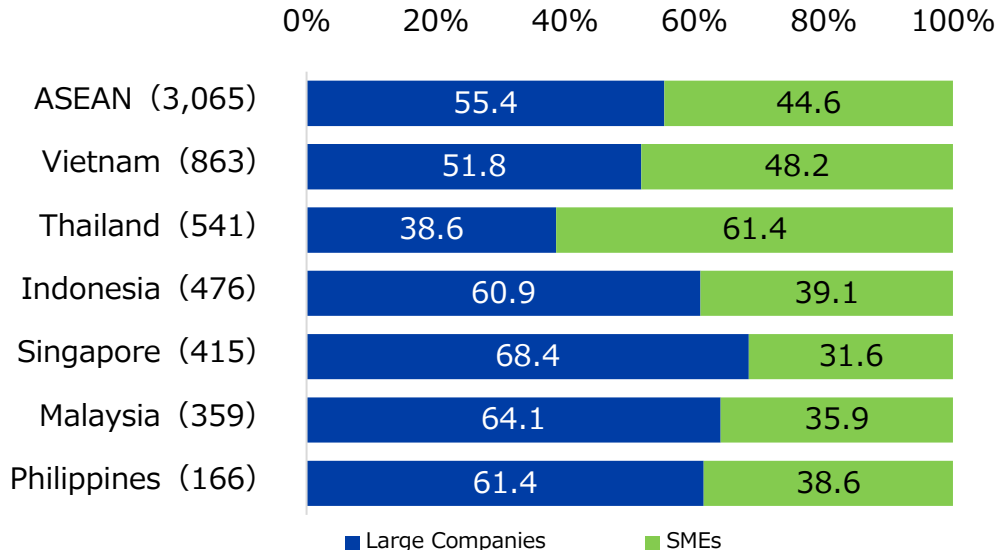
- 13,727 companies were requested to respond; 5,007 valid responses were received.

Remarks

- The survey has been conducted since 1987, and this year marks its 38th.
- Non-manufacturing sector has been included in this survey since 2007.
- Companies that answered at least one question were considered valid responses.
- The numbers in parentheses on each slide indicate the number of valid responses.
- The figures in the chart have been rounded off and therefore do not necessarily add up to 100%.

	Companies surveyed	Number of companies responded		breakdown		valid Response rate
		Valid Answer	Composition ratio	Manufacturing	Non-manufacturing	
ASEAN	9,246	3,065	61.2	1,378	1,687	33.1
Vietnam	2,243	863	17.2	404	459	38.5
Thailand	2,203	541	10.8	300	241	24.6
Indonesia	1,482	476	9.5	267	209	32.1
Singapore	1,116	415	8.3	87	328	37.2
Malaysia	917	359	7.2	177	182	39.1
Philippines	527	166	3.3	72	94	31.5

Company Scale



(Note 1) The source of all this material is the "2024 Survey on the Status of Japanese Companies Expanding Overseas - Asia and Oceania Edition" (JETRO Research Department).

(Note 2) In this document, the "Major ASEAN countries" refer to the following six countries: Vietnam, Thailand, Indonesia, Singapore, Malaysia, and the Philippines. However, the figures for "ASEAN" comprised the survey results for nine countries, namely the aforementioned countries plus Cambodia, Laos, and Myanmar.

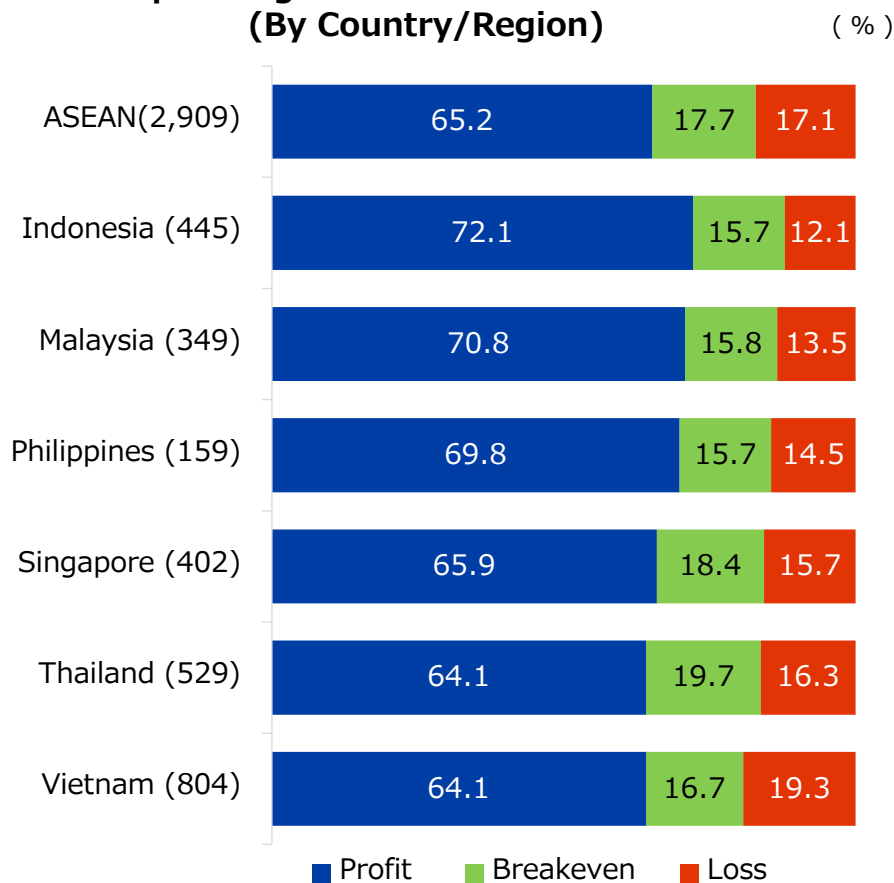
1

Operating profit forecast for 2024:

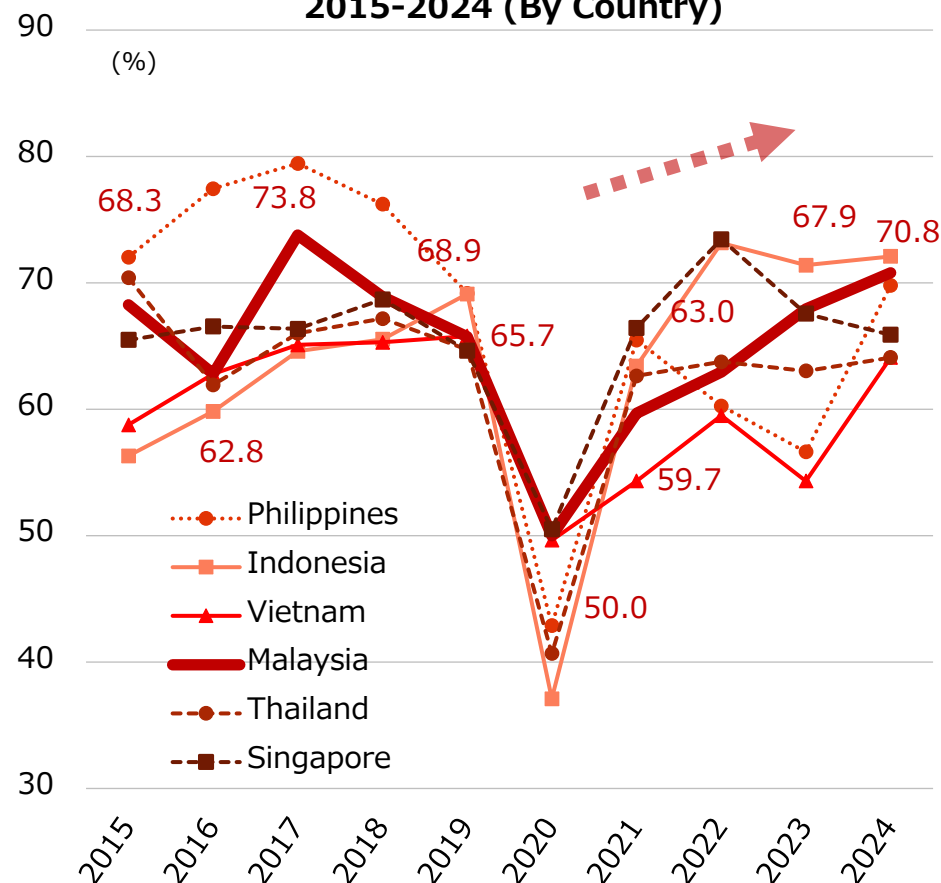
Malaysia's profitability rate exceeds ASEAN overall, improved for fourth consecutive year

- 65.2% of Japanese companies in the ASEAN region expected to make a profit in operating profits in 2024, up 4.3 percentage points from the 2023 survey (60.9%). Meanwhile, 17.1% expected to make a loss, down 2.7 percentage points from the previous year's survey (19.8%).
- In Malaysia, the percentage of companies that reported "profit" was 70.8%, higher than the ASEAN average. Besides, Malaysia was the only major ASEAN country to see its figures improved for fourth consecutive year.

**Operating Profit Forecast For 2024
(By Country/Region)**



**Trends In The Percentage Of Profitable Companies
2015-2024 (By Country)**



2

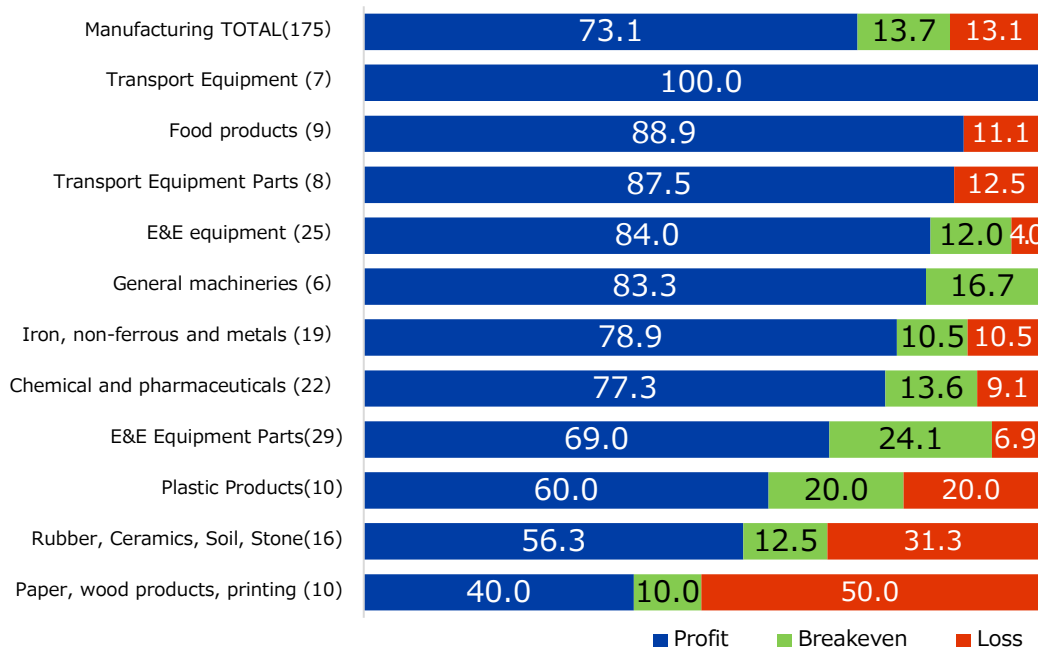
Operating profit forecast for 2024 (Malaysia, by industry): Profitability rate of manufacturing industries increases significantly

- In 2024, the profit-making rate by industry was 73.1% for manufacturing and 68.4% for non-manufacturing. Compared to the previous year's survey, the manufacturing rate increased by 5.6 points, while the non-manufacturing rate decreased by 0.1 points, showing mixed results.
- In the manufacturing sector, more than 80% of respondents in the transport equipment, food products, transport equipment parts, electrical and electronic equipment, and general machinery sectors, as well as in the non-manufacturing sector, finance and insurance, retail, and sales company sectors, all reported a profit.

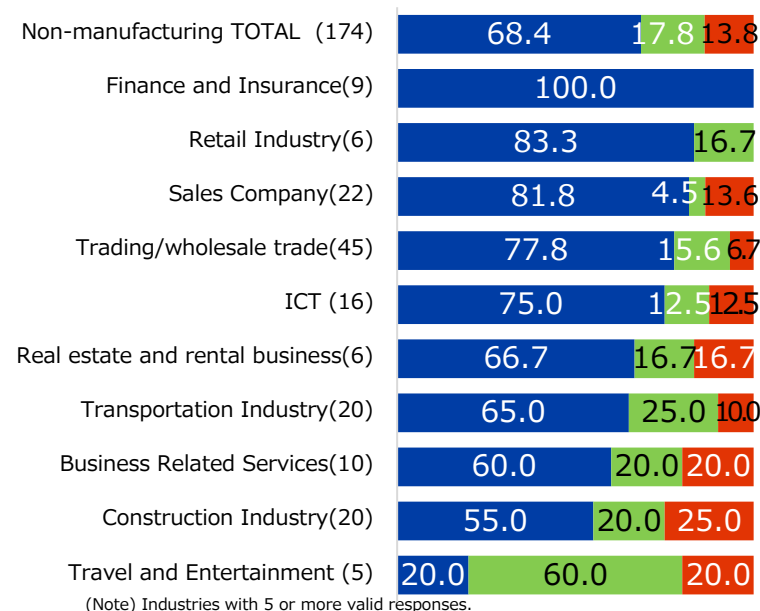
Operating Profit Forecast For 2024 (By Company Size And Industry)



Operating profit forecast for 2024 (manufacturing industry)



Operating profit forecast for 2024 (non-manufacturing)



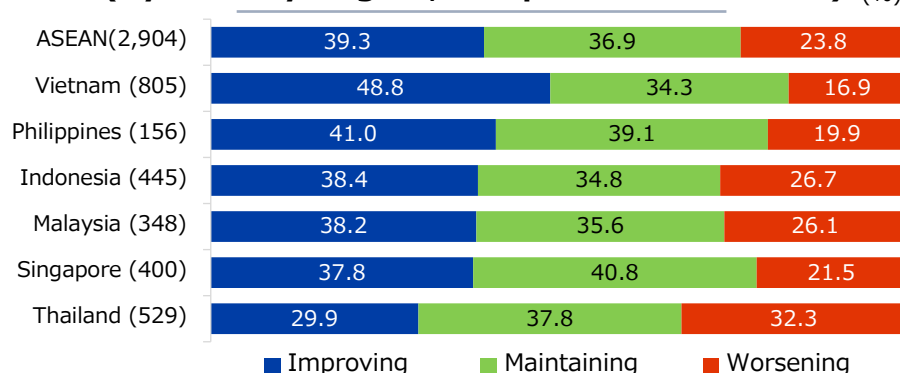
(Note) Industries with 5 or more valid responses.

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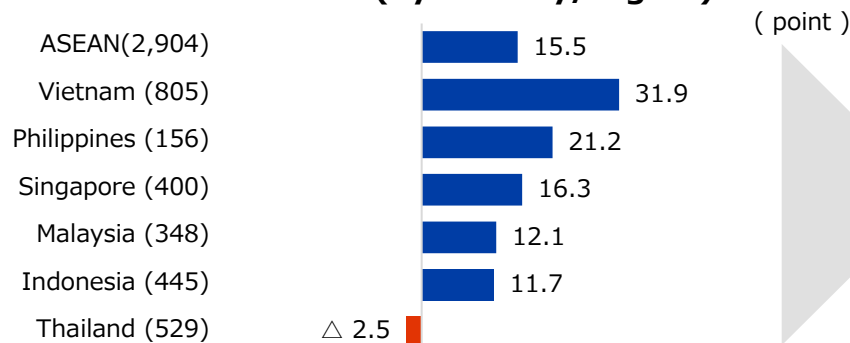
Operating profit forecast (improvement/deterioration): Expectations of improvement increased in 2024; DI value set to improve

- The percentage of companies that responded that their operating profit outlook for 2024 (compared to 2023) will "improve" rose to 39.3% across ASEAN countries, up from 33.6% the previous year. In Malaysia, the percentage also rose to 38.2%, up 4.0 points from 34.2% the previous year.
- The operating profit outlook for 2025 shows that the percentage of companies expecting an "improvement" has increased in all countries compared to 2024 (estimate), with Malaysia's forecast showing a slight increase to 41.9%. The percentage of companies expecting a "deterioration" has significantly decreased from 26.1% to 12.3%.
- The DI value which indicates business confidence, was 12.1 points for Malaysia in 2024 and expected to rise by 17.5 points to 29.6 in 2025.

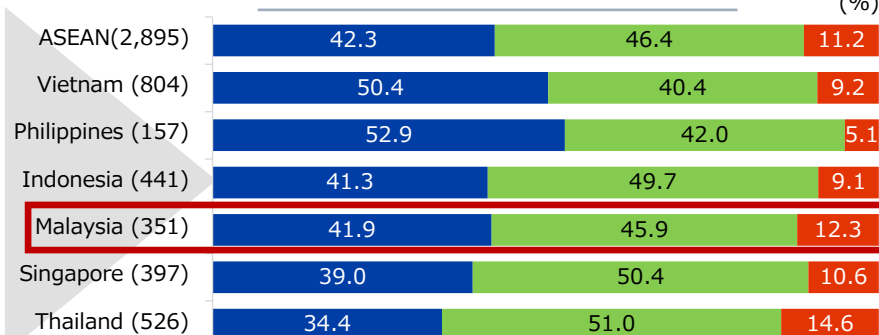
**Operating profit forecast for 2024
(By country/region, comparison with 2023) (%)**



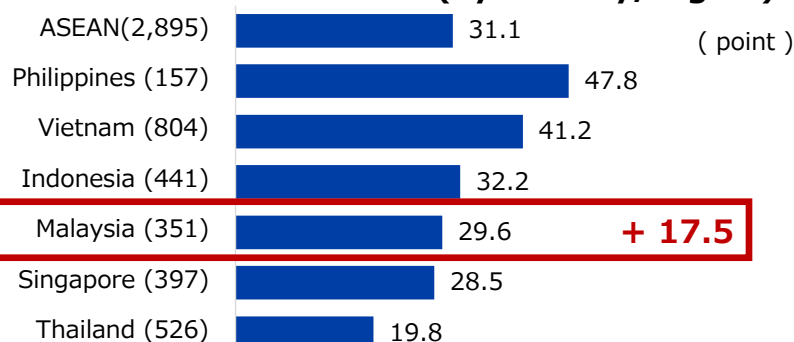
DI value for 2024 (by country/region)



**Operating profit forecast for 2025
(By country/region, comparison with 2024) (%)**



DI value for 2025 (by country/region)



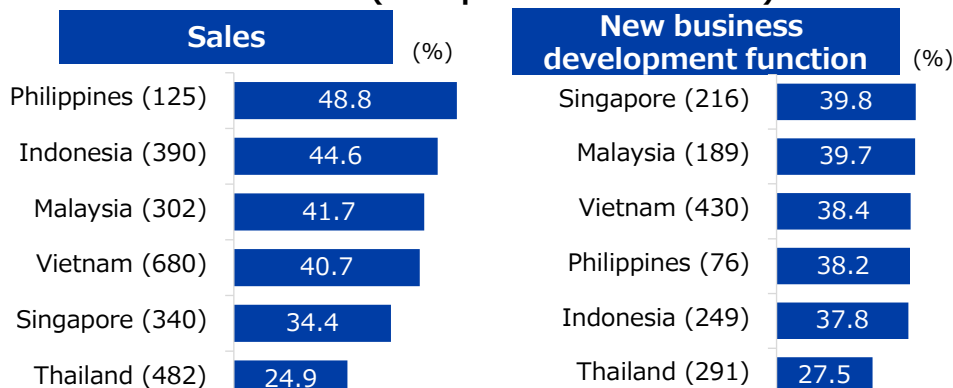
(Note) The DI value is an abbreviation for Diffusion Index, and is the value obtained by subtracting the percentage of companies that answered that it will "deteriorate" from the percentage of companies that answered that it will "improve". An indicator that numerically shows how business confidence is changing.

1

Post-COVID business development: High value-added products dominate, promoting local human resource development and employment

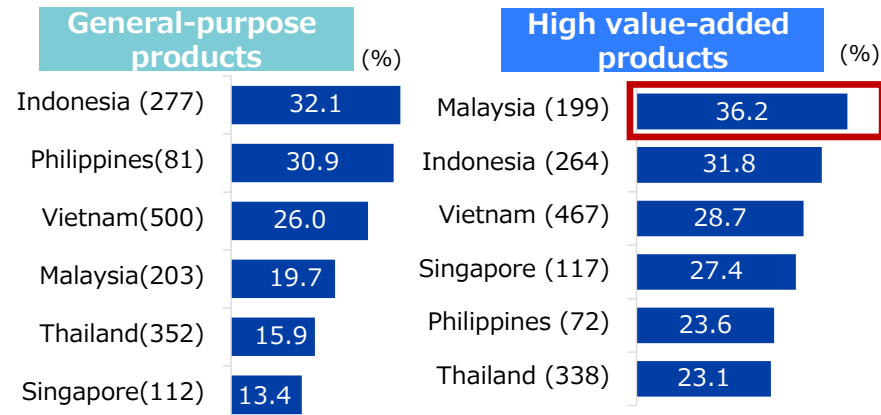
- 40% of companies in Malaysia expanded their sales and new business development functions after the COVID-19 pandemic. As for the expansion of production functions, the expansion was more common for high value-added products (36.2%) than for general-purpose products (19.7%), with the former having the highest proportion among major countries.
- As for initiatives implemented after COVID-19, the main ones were training local human resources (58.8%) and increasing employment (35.8%), but the promotion of decarbonization was also relatively common. In the manufacturing industry, 36.3% of companies had expanded their facilities.

Functions expanded after COVID-19 (multiple answers allowed)



(Note) The population is based on companies that have each function.

Production Function



Initiatives implemented after COVID-19 (multiple answers allowed)

	Developing local human resources	Increased employment of local talent	Localization of expatriate posts	Promoting decarbonization (introduction of renewable energy, energy conservation)	Partnerships/Investment with local companies
Vietnam (746)	49.1	34.5	16.1	14.3	12.5
Thailand (474)	54.2	23.4	15.4	15.2	7.8
Indonesia (409)	57.7	31.1	14.2	17.6	9.5
Singapore (358)	50.0	32.7	26.3	14.0	10.9
Malaysia (313)	58.8	35.8	17.9	24.9	12.1
Philippines (144)	57.6	40.3	13.9	17.4	10.4

Initiatives implemented after COVID-19 (manufacturing industry, multiple answers)

	Facility expansion	Diversification of production items	Introduction of new production technologies	Expanding procurement from local companies	Advancement of production items
Vietnam (364)	44.0	30.8	24.2	21.4	16.8
Thailand (276)	33.3	26.1	18.8	19.6	12.7
Indonesia (231)	39.4	24.2	17.7	15.2	13.0
Singapore (80)	17.5	10.0	15.0	1.3	8.8
Malaysia (157)	36.3	29.3	26.1	19.1	17.8
Philippines (64)	43.8	18.8	20.3	25.0	10.9

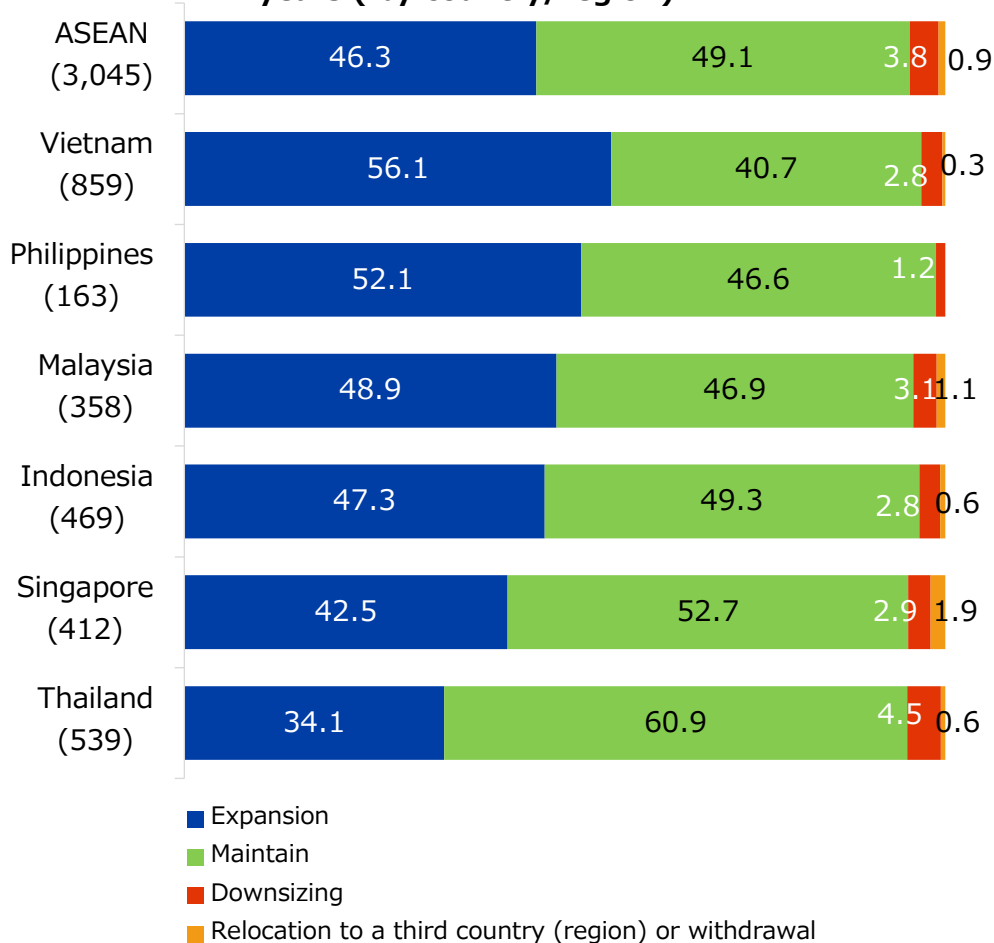
(Note) Values that are 5 points or more higher than the total are shaded.

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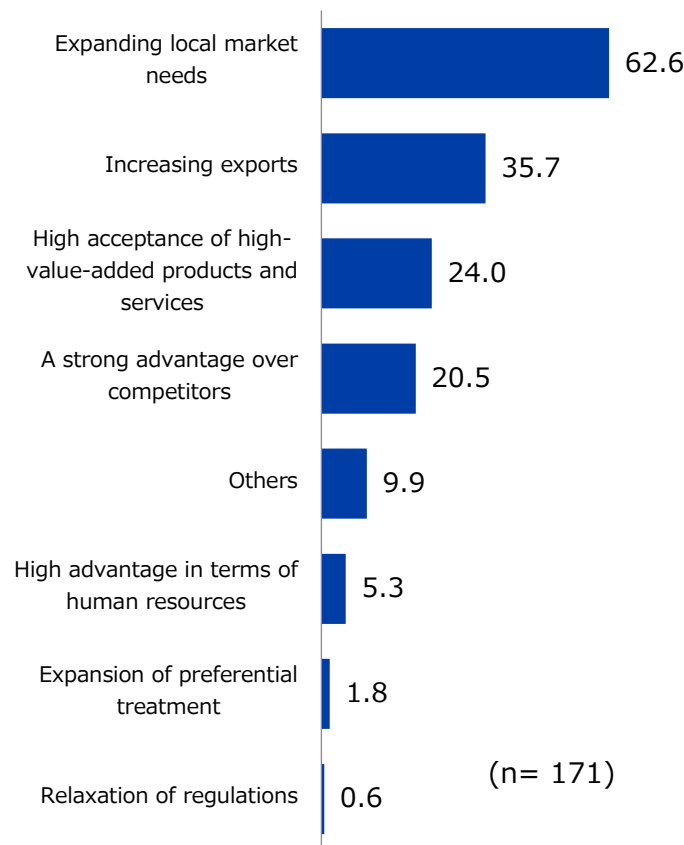
Future business development: Approximately 50% of companies expect to expand their business, while the status quo remains stable

- In regard to the business expansion plans over the next 1-2 years, 48.9% of companies in Malaysia answered that they would "expand," down slightly from the previous year (50.2%), while there was also a slight decrease in those that answered "downsize" and "relocate to a third country or withdraw."
- As for the reason for expanding business, "expanding local market needs" was the most common answer at 62.6%.

Direction of business development over the next 1-2 years (by country/region) (%)



Reasons for expanding business in Malaysia (multiple answers) (%)



3

Future business development (Malaysia, by industry):

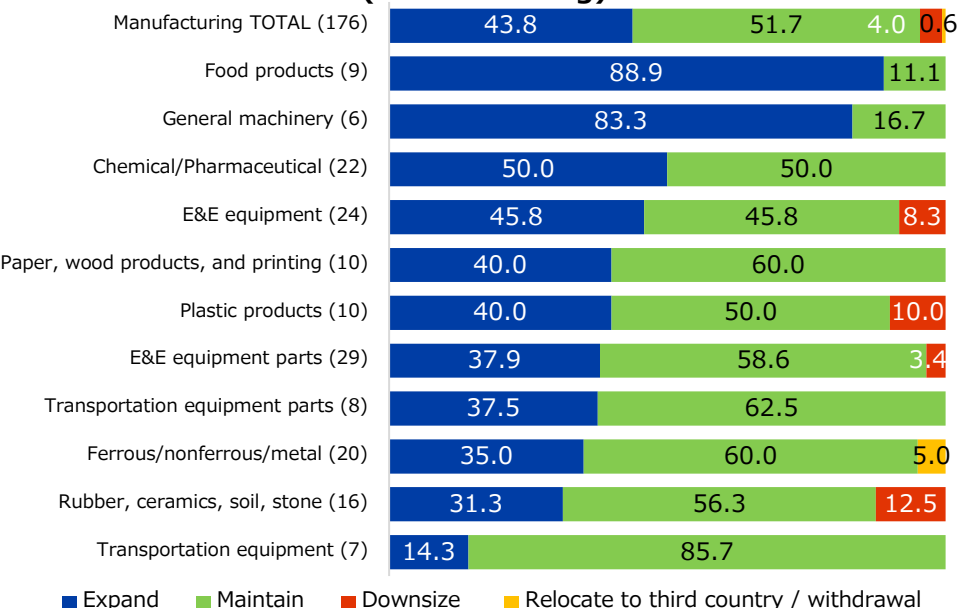
Non-manufacturing industries eager to expand instead of downsizing

- In regard to the direction of business development by industry over the next 1-2 years, the ratio of Japanese companies in Malaysia that responded "to expand" in manufacturing industries such as food, general machinery, chemicals/pharmaceuticals, and electrical/electronics, while non-manufacturing industries such as retail, sales companies, real estate/rental, trading companies/wholesale, information/communications, and finance/insurance had exceeded the overall results.
- In terms of company size, 57.1% of small and medium-sized non-manufacturing companies responded that they would "expand," indicating a proactive desire to expand.

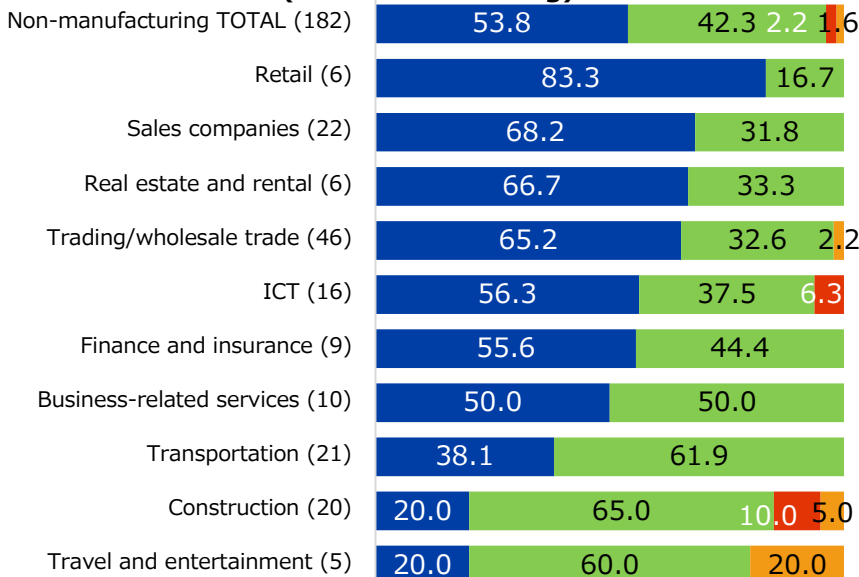
Direction of business development over the next 1-2 years (by company size and industry) (%)



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



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



(Note) Only industries with five or more valid responses are shown.

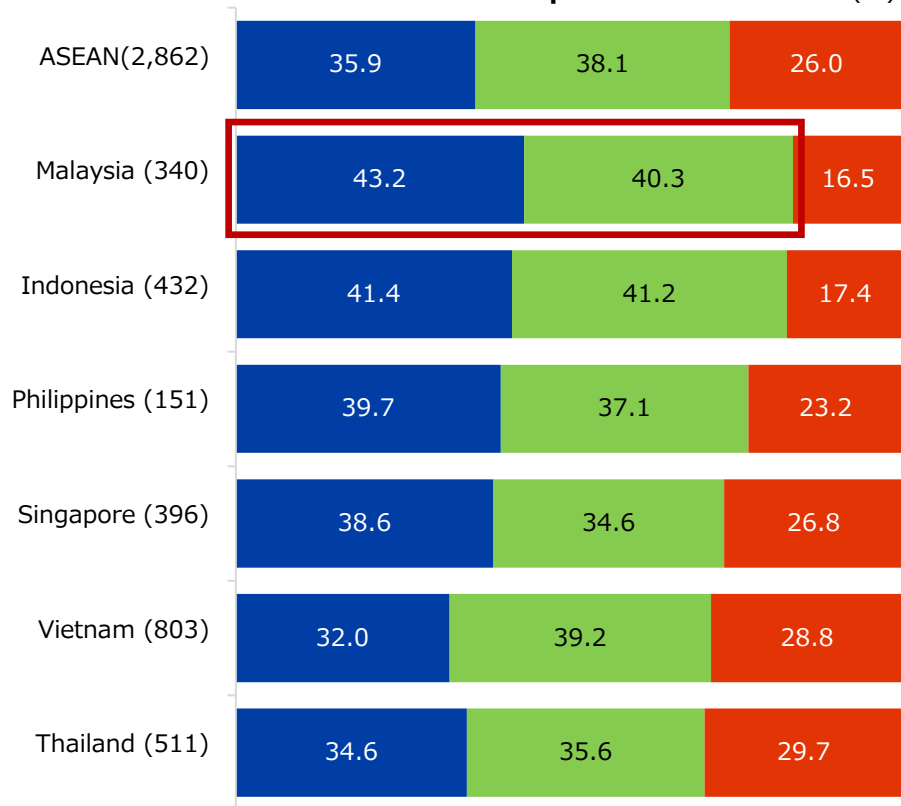
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Efforts towards decarbonization:

Over 80% in the stage of promoting or planning, the highest among major ASEAN countries

- 83.5% of companies responded that they are either "already working" on some form of decarbonization, such as reducing greenhouse gas emissions, or "not working on it, but planning to in the future", remains the highest figure among major countries, following the previous year's survey.
- To be specific, efforts such as the introduction of solar panels and the measurement of emissions, improvements of production and internal processes, as well as innovations in the products and services, are being implemented. On the other hand, some pointed out the challenges of cost burden and lack of incentives.

Status of decarbonization efforts in the countries of operation (%)



■ Already working on it

■ Not working on it yet, but planning to in the future

■ No plans to work on it

Specific efforts towards decarbonization in Malaysia

Improvement of production and internal processes	- Installation of solar panels - Aiming for carbon neutrality by 2050. 100% switched to renewable energy - Visualization and measurement of company CO2 emissions - Moving offices to green-certified buildings, converting company cars to HEVs/BEVs - Increasing productivity through the introduction of highly efficient equipment and reducing emissions through energy conservation - Promoting reuse of rainwater and recycling - Purchasing green power certificates and increasing efficiency through cogeneration
	- Participating in energy/CCS business, EV battery recycling, handling of recycled aviation fuel - Expanding decarbonization services for companies, recommending energy-saving/renewable energy-related products - Providing ESG finance - Explaining the significance and necessity of this initiative to partner companies (including supplier companies) since last year

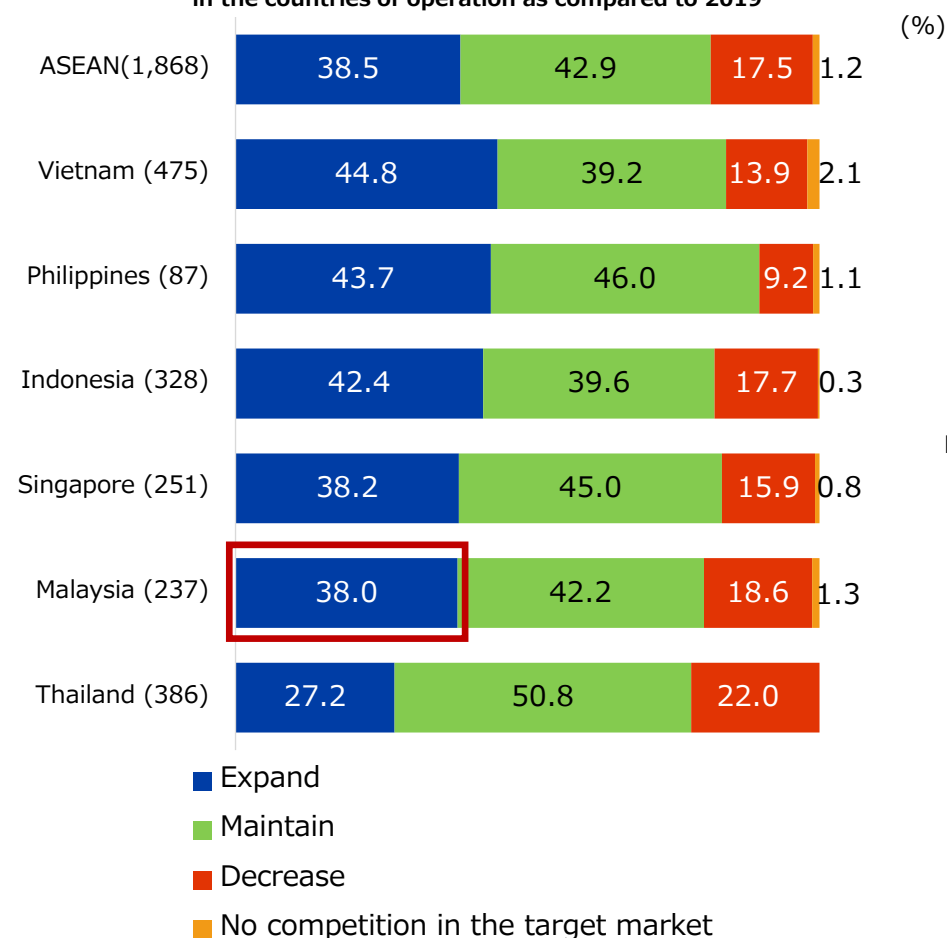
Challenges for decarbonization efforts in Malaysia

Cost burden	- The cost burden is large and is not sufficiently covered by existing preferential treatment. - Subsidies and preferential tax systems for the introduction of energy-saving products and environmentally friendly equipment are not as comprehensive as in Japan, so the spread, sales expansion, and introduction of these products impose a cost burden on customers. As a result, customers often adopt Chinese brands that are "cheap, low-quality, and not energy-saving products."
Malaysian Government Policy Agenda	- The future of the carbon tax (proposed in the latest national budget) - the overall picture and schedule are unclear - Further liberalization of renewable energy trading is required - The mechanism of green-related preferential treatment is difficult to understand - Concerns about the sudden shift to EVs - The difficulty of institutionalizing national strategies at the corporate level
Uncertainty in the external environment	- Compliance with head office policies is difficult - Strengthening European regulations, including the impact of the EU Carbon Border Adjustment Mechanism (CBAM)

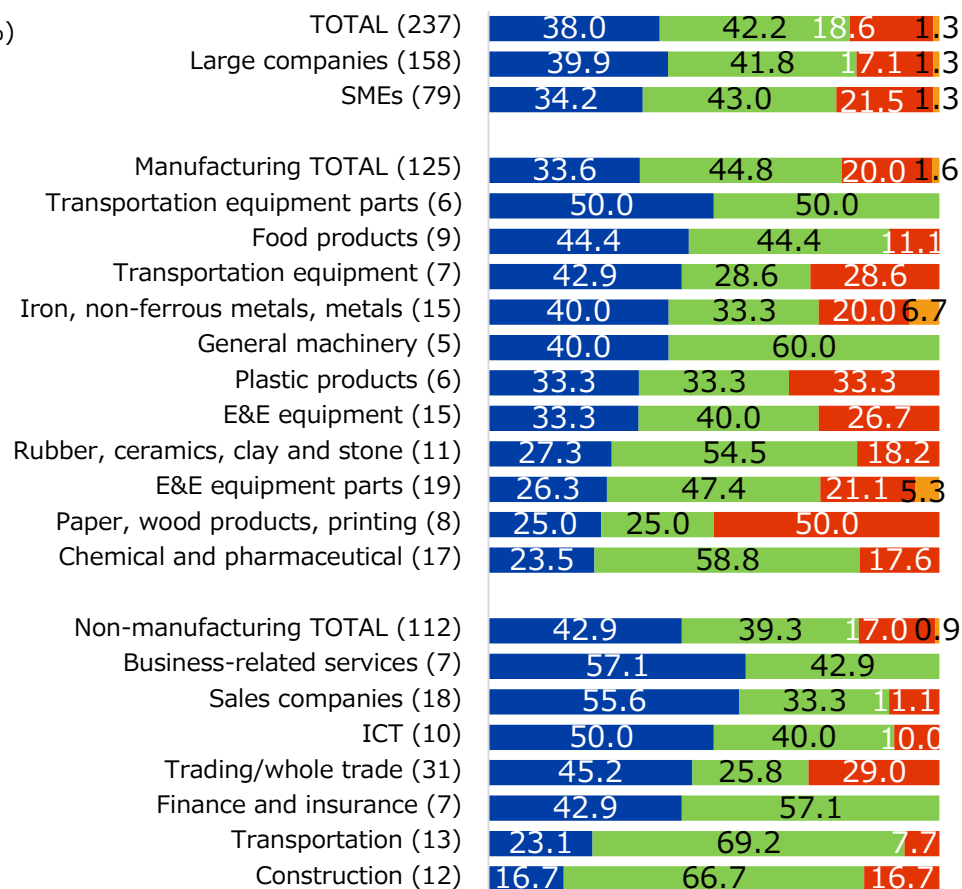
1 Market share: Less than 40% feel expanding; higher proportion in non-manufacturing industries

- Regarding the market share of their main products and services as compared to 2019, the percentage of companies responded an "increase" was relatively low in Malaysia, at less than 40%. In particular, more than 20% of SMEs responded that their market share had "shrunk".
- By industry, more than 50% of companies in the transportation equipment parts, business-related services, sales companies, and information and communications industries responded that their market share had "increased." In non-manufacturing industries overall, 42.9% of companies responded that their market share had "increased", nearly 10 points higher than the manufacturing industries.

Market share of major products and services
in the countries of operation as compared to 2019



Changes in market share in Malaysia (by industry) (%)

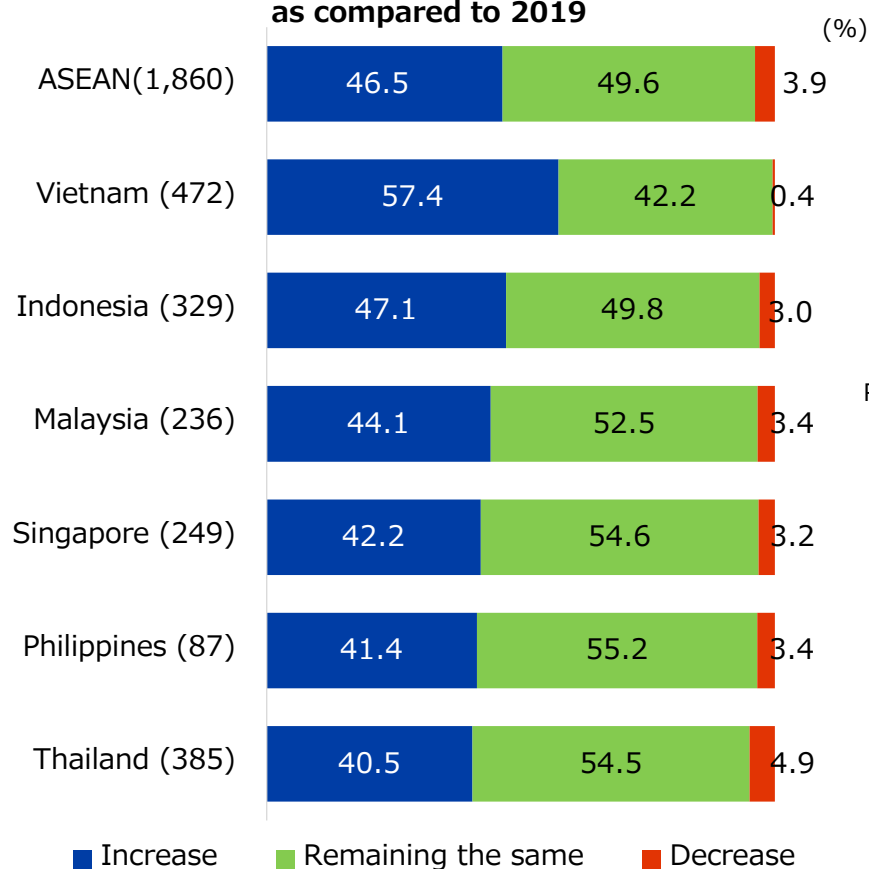


(Note) Industries with 5 or more valid responses.

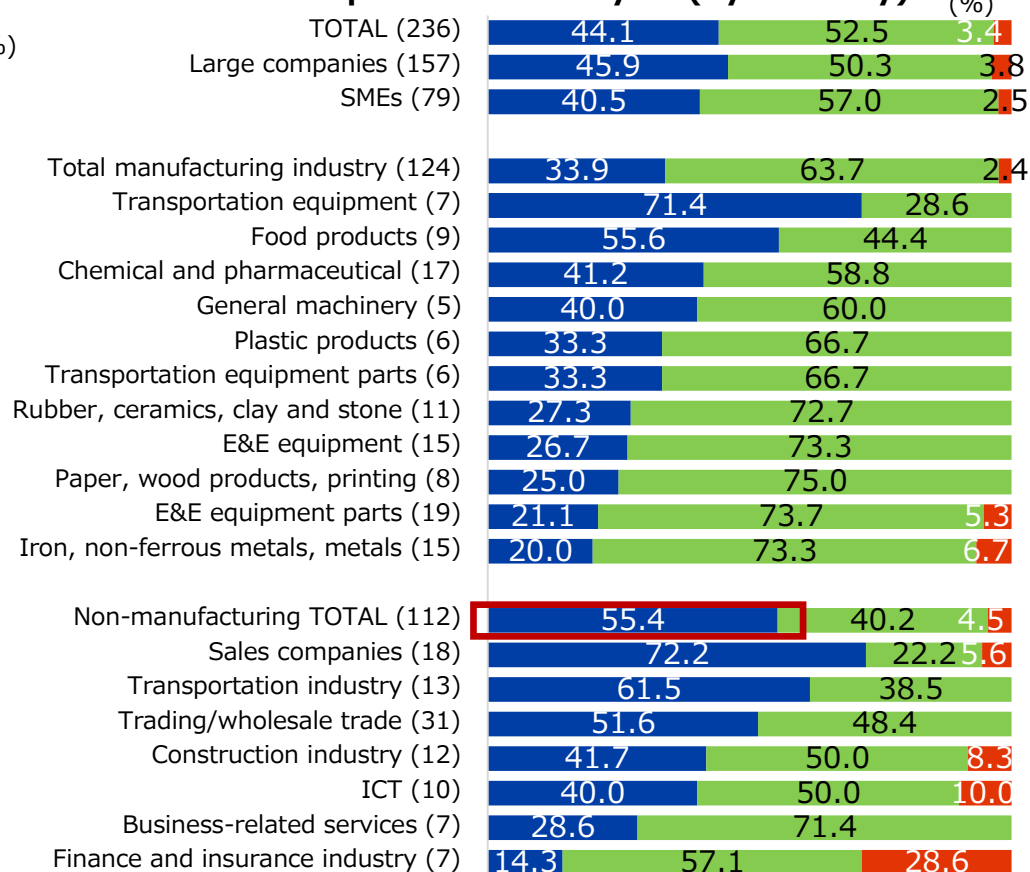
2 | Number of competitors : Increase in non-manufacturing industries

- As compared to 2019, the percentage of companies in Malaysia that responded "the number of competitors had increased" was 44.1%, on par with the ASEAN region overall.
- In terms of industry, the percentage of companies that responded an "increase" was high in sales companies (72.2 %), transportation equipment (71.4 %), shipping (61.5 %), food (55.6 %), and trading companies/wholesale (51.6 %). For non-manufacturing industries, the overall percentage was 55.4 %, 21.5 percentage points higher than in manufacturing, suggesting that more companies feel that competition has increased.

**Number of competitors in the countries of operation
as compared to 2019**



Number of competitors in Malaysia (by industry)



(Note) Industries with 5 or more valid responses.

3

Competing companies :

Although local companies make up the majority, Chinese companies have a large presence in the manufacturing industry

- In Malaysia, local companies made up 69.5% of competitors, followed by Japanese companies at 62.3% and Chinese companies at 57.3%.
- Specifically in the manufacturing industry, 32.0% of respondents identified Chinese companies as their most competitive opponents, making it the second highest level among major countries, after Thailand.
- In particular, the proportion of respondents who considered Chinese companies to be the most competitive opponents was high in the fields of electrical and electronic equipment parts and chemicals and pharmaceuticals.

Competitors (top three competitive forces, multiple answers)

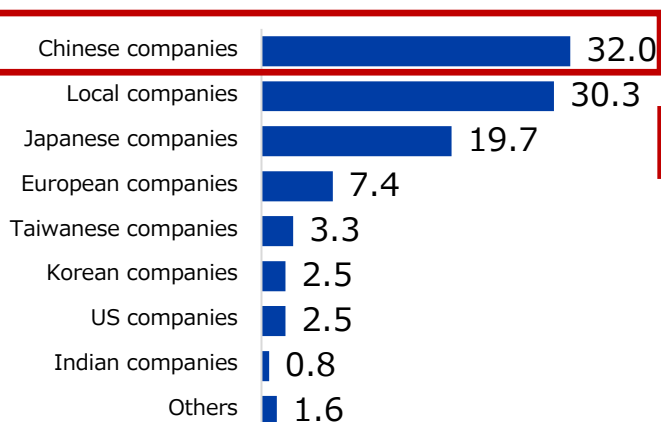
(%)

	Local Business	Japanese companies	Chinese companies	Taiwanese companies	Korean companies	European companies	US companies	Indian companies	others
ASEAN(1,894)	69.2	64.6	53.8	12.6	19.5	16.2	10.3	3.8	6.9
Vietnam (505)	73.7	62.4	47.1	19.2	30.5	10.5	6.3	1.8	6.7
Thailand (374)	74.6	74.1	64.2	11.0	9.4	11.0	6.4	4.8	3.5
Indonesia (333)	68.5	64.6	53.5	10.8	23.4	15.9	6.9	6.3	5.1
Singapore (256)	50.0	60.5	57.8	10.2	15.6	31.6	27.7	4.3	8.6
Malaysia (239)	69.5	62.3	57.3	11.3	11.7	20.5	13.0	3.8	5.0
Philippines (87)	71.3	70.1	37.9	8.0	13.8	16.1	14.9	2.3	10.3

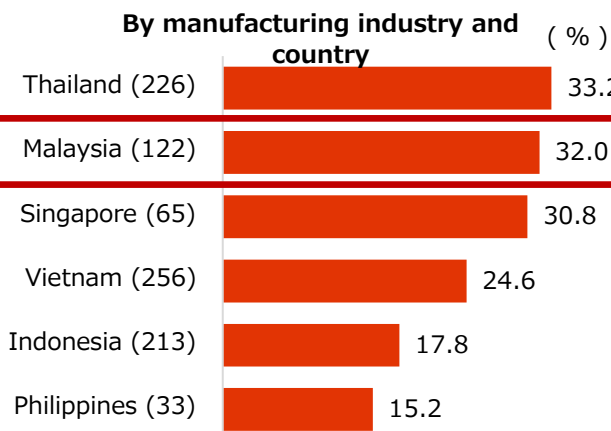
(Note 1) Competitors are classified according to the countries/regions of investment of companies registered in the country/region in which they operate, not according to the country/region of origin of the products or services they provide.

(Note 2) Response rates of 70% or more are shown in orange, and those between 50% and 70% are shown in light orange.

Competitors in Malaysia (manufacturing industry only) (%)



Percentage of respondents who cited Chinese companies as their most competitive opponents



Breakdown by industry (%)

Top 3 Industries	
Electrical and Electronic Equipment Parts (18)	44.4
Electrical and Electronic Equipment (15)	40.0
Chemistry/Pharmaceuticals (17)	29.4

4

Reason for considering them the biggest competitor :

Cost competitiveness and speed of decision-making pose a threat

- Across all countries, the most common reason given for considering China their biggest competitor was "cost competitiveness." In Malaysia, this was also the most common answer at 77.6%, followed by "speed of decision-making" (35.4%) and "brand/recognition" (25.3%).
- Specifically, in addition to challenges with human resources, comments were received stating that competition with local and Chinese companies is intensifying not only in terms of price but also in terms of quality. Circumstances unique to Malaysia were also mentioned, such as ESG compliance and strong ties between local companies.

Reasons for considering them the biggest competitor
(multiple answers, items with an answer rate of 20% or more) (%)

	Cost competitiveness	Decision-making Speed	Brand and reputation	Sale network	Product and service technical capabilities	Alignment with local companies	High sales ability
ASEAN(1,880)	75.1	30.9	26.6	25.3	23.7	23.2	20.8
Vietnam (502)	76.1	31.3	24.5	24.9	20.1	19.5	23.1
Thailand (372)	79.8	29.0	20.2	21.8	25.5	22.6	19.9
Indonesia (330)	76.1	29.1	26.4	25.5	27.6	28.5	19.1
Singapore (255)	68.2	35.7	37.3	29.0	29.4	20.8	20.4
Malaysia (237)	77.6	35.4	25.3	23.2	20.7	24.9	20.3
Philippines (85)	71.8	23.5	31.8	24.7	22.4	25.9	23.5

(Reference) Biggest competitor		
Local	Japanese	Chinese
36.1	27.0	21.4
39.6	25.3	18.0
30.5	34.5	27.8
38.7	31.5	17.4
28.1	19.9	25.0
37.7	20.9	25.9
39.1	31.0	11.5

(Note 1) Values that are 5 points or more higher than the total are shaded.

(Note 2) The biggest competitors refer to the percentage of responses for the most competitive competitors and are the top three (local, Japanese, and Chinese). The number of valid responses for this percentage differs from that in the table on the left.

Specific circumstances and concerns regarding the competitive environment in the countries of operation

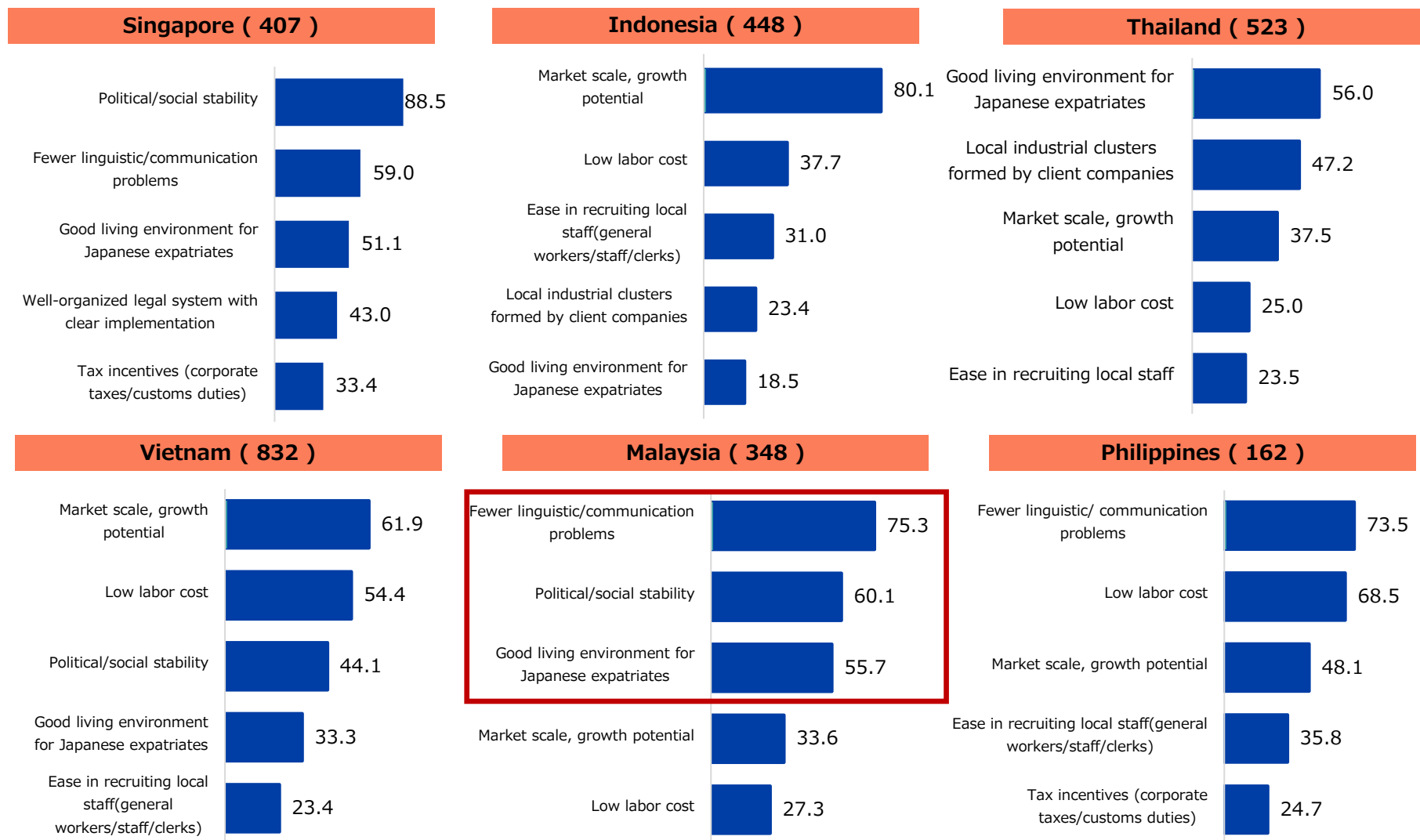
Human Resources Challenges	- There is a competition for talent in the industry, and it remains difficult to secure talent. - Rising labor costs, resulting in a competitive disadvantage in pricing compared to neighboring countries Rising wages to secure quality human resources put pressure on management
Malaysia-specific factors	- Western countries have raised concerns about human rights issues and environmental damage linked to forced labor. Therefore, there is a need to provide thorough explanations, considering Environmental, Social, and Governance (ESG) principles. Advertising restrictions that take Islam into consideration due to the nature of the product - While demand has been slow to recover since the COVID-19 outbreak, the number of players has remained steady, resulting in intensified competition in bidding conditions, etc. - Selling to domestic car companies is challenging because of their strong personal connections and established relationships. - Indirectly affected by the boycott of American brands concerning the Palestinian issue.

Expanding presence of local and international companies	- Frequent price competition with local companies makes it challenging to convey the unique value of our company to them. Local companies are closely tied together, making it difficult to enter the ring - Chinese products are not only cheaper, but their quality is also improving. - As Western companies shift their focus to Asian manufacturing, there are concerns that increasing costs may diminish the advantages of local production. - In the home appliance market, the primary competitors were previously Korean manufacturers. However, in recent years, Chinese manufacturers have aggressively entered the market with low prices. Additionally, there are growing concerns about the rise of counterfeit products on e-commerce sites. - The improvement in quality and low prices of local products have weakened the advantage of Japanese quality
Business Partner Circumstances	- As major manufacturers, who are our clients, increasingly handle maintenance in-house to reduce costs, orders to external vendors, including our company, have decreased. - Most of the customers are Japanese manufacturing companies, and demand itself is decreasing

1 Investment environment (top 5 benefits of each country): Fewer Language and communication barriers is a plus

Top 5 benefits of the investment environment (multiple answers)

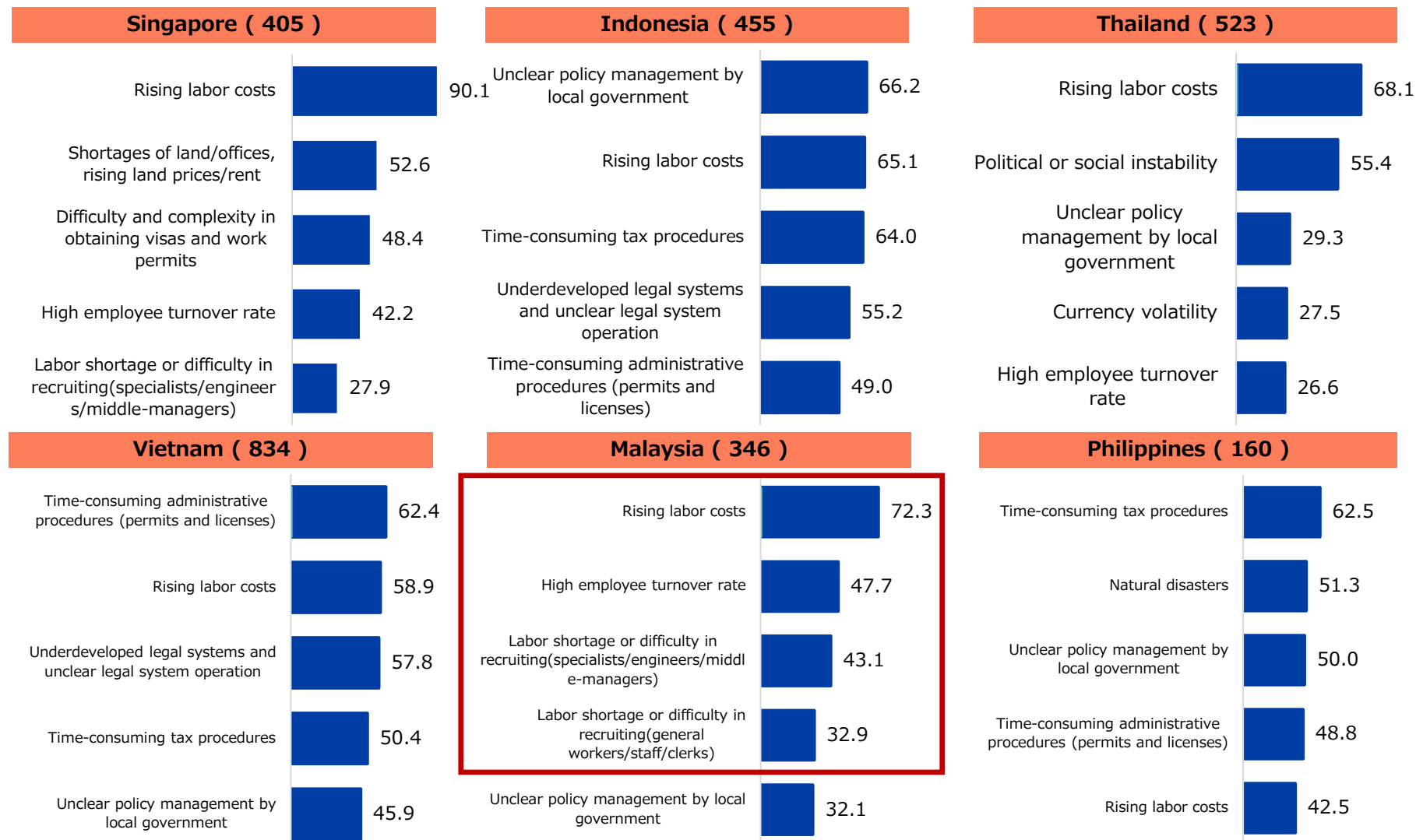
(%)



2 | Investment environment (top 5 risks in each country): Primarily human resources issues, with rising labor costs and high turnover rates

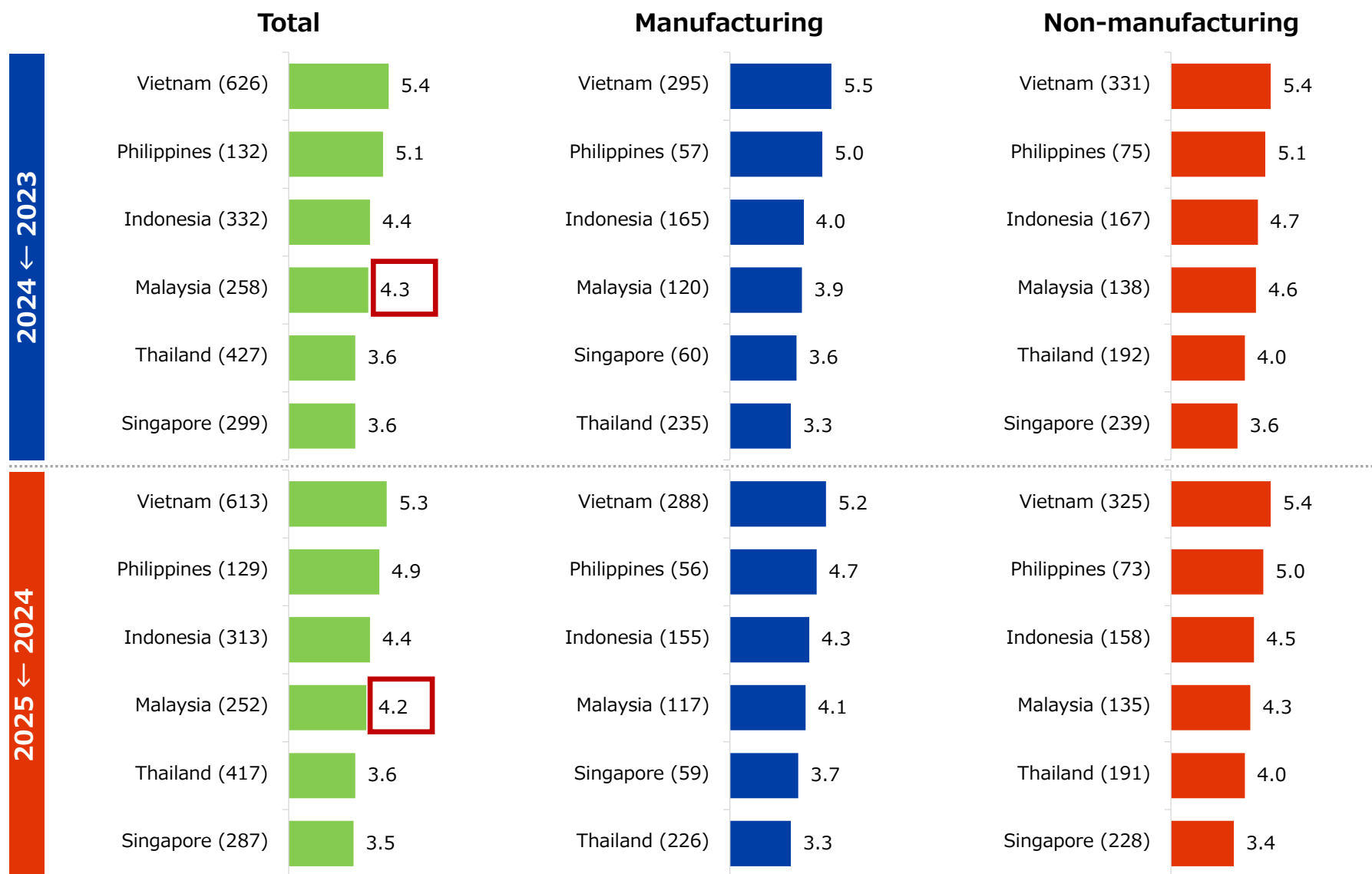
Top 5 risks to the investment environment (multiple answers)

(%)



(Note) Policy management refers to industrial policy, energy policy, foreign investment restrictions, etc.

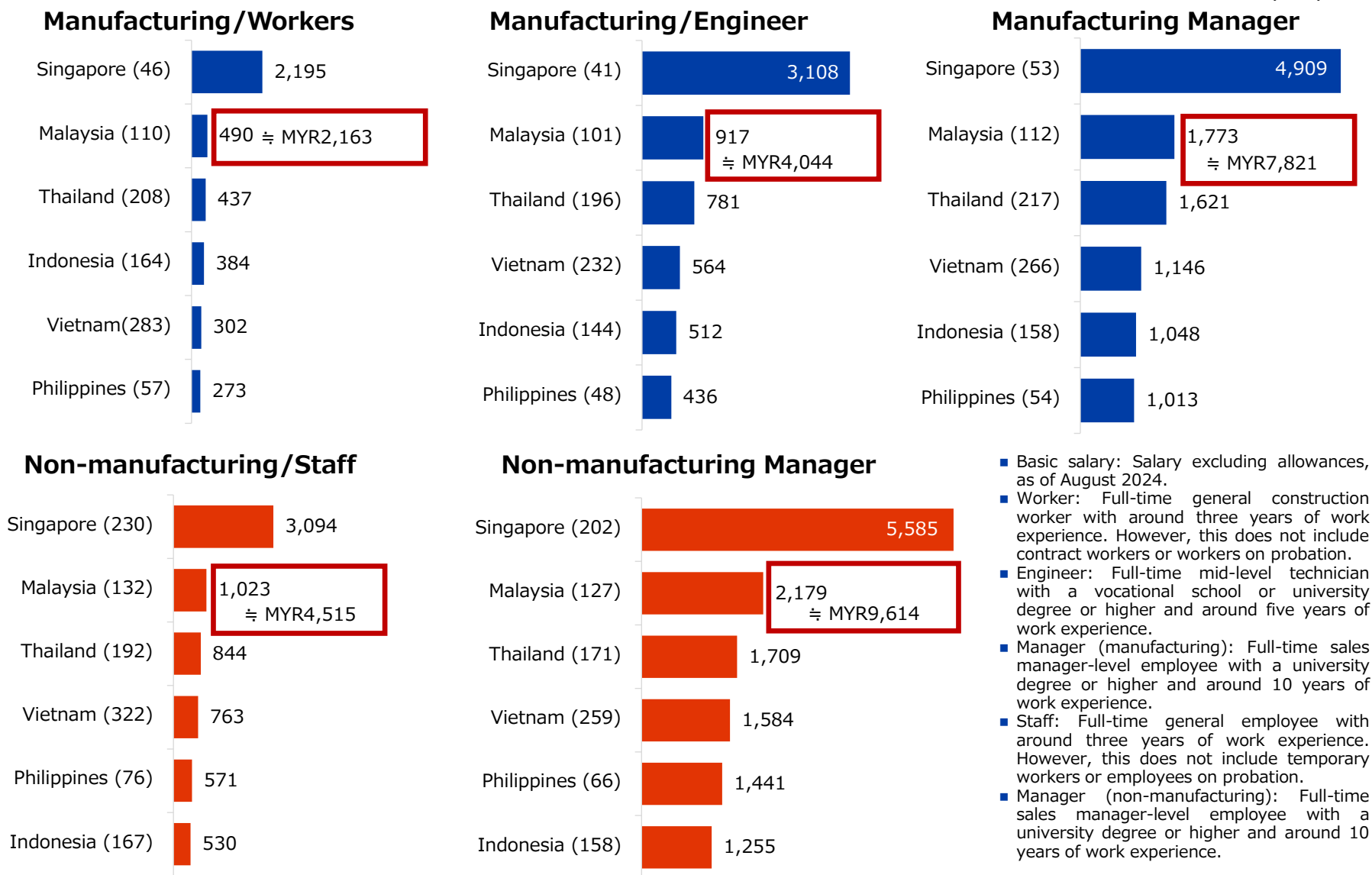
3 | Salary (base pay increase rate): Malaysia expected to increase by 4.2 % in 2025 (%)



(Note) The salary increment rate is the base salary increment rate (nominal), excluding payments based on individual abilities such as skills and performance. Average for all occupations.

4 | Salary (basic monthly salary / average): The average for manufacturing workers is MYR2,163

(USD)

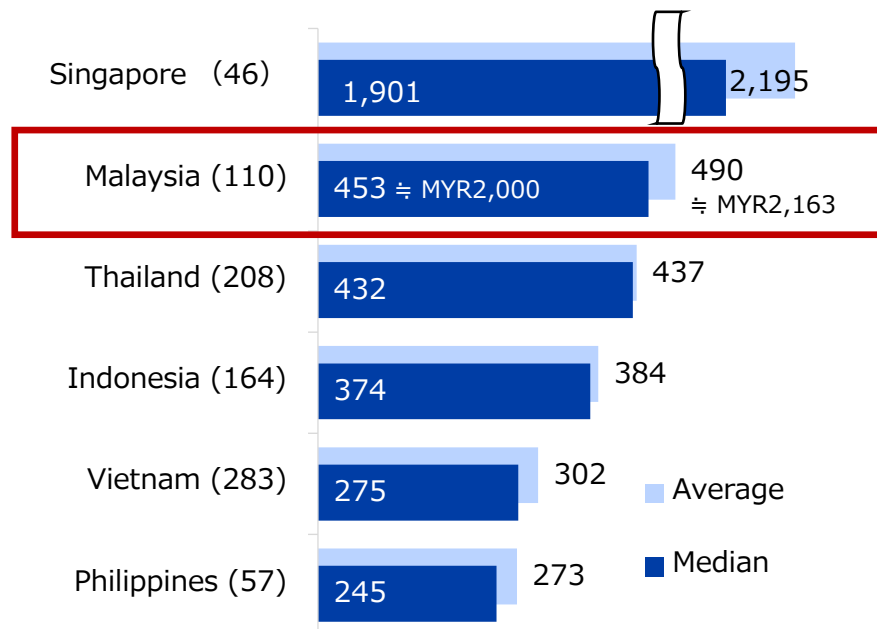


(Note) Countries/regions with 5 or more valid responses.

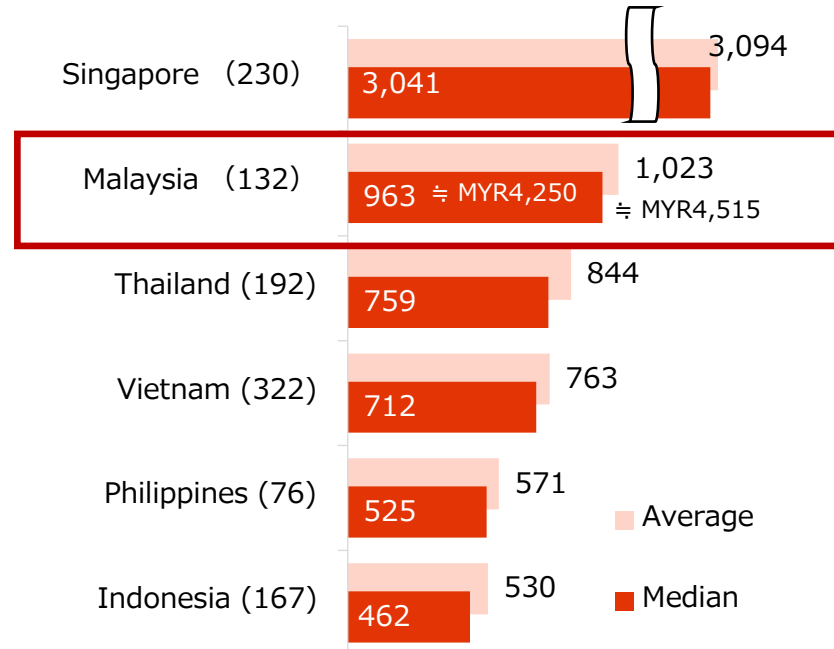
5

Salary (basic monthly salary for manufacturing and non-manufacturing): Non-manufacturing staff earn roughly twice as much as manufacturing workers

Manufacturing/Workers



Non-manufacturing/Staff (USD)



Malaysia: Salary for factory operator by state

(MYR)

States and Federal Territories	Valid number of responses	Average	Median
Penang	11	1,770	1,600
Johor	17	2,398	2,000
Selangor	51	2,262	2,000

(Note) Regions with 10 or more valid responses.

Malaysia: Salary for office worker by state

(MYR)

States and Federal Territories	Valid number of responses	Average	Median
Selangor	48	4,256	4,000
Kuala Lumpur	76	4,815	4,542

1 Factors influencing procurement policy over the past five years: Inflation-related cost increases, nearly 80% are looking for new suppliers

Manufacturing only

- Over the past five years (2019-2024), the most common factor influencing procurement policies has been the rising costs of raw materials and components due to global inflation. In Malaysia, additional prominent factors include US-China trade friction and the increasing focus on environmental sustainability and decarbonization.
- Regarding procurement measures implemented over the past five years, most respondents answered that they had "developed new suppliers", followed by "diversifying suppliers" and "increasing local procurement". In Malaysia, "diversifying procurement countries and regions" also tended to be relatively common.

Background that influenced procurement policies over the past five years (by country/region) (%)

	Rising raw material and component costs due to global inflation	Rising logistics costs due to global inflation	Supply chain disruption due to COVID-19 outbreak	Impact of US-China trade friction	Local government policies to promote domestic production	Growing momentum for the environment and decarbonization	Growing momentum for human rights in supply chains	others
ASEAN(1,246)	78.5	60.1	41.5	25.0	10.3	11.8	5.2	5.3
Vietnam (363)	74.4	55.6	43.3	30.0	3.6	11.3	5.0	5.0
Thailand (282)	85.5	61.0	35.8	20.9	3.9	9.6	3.5	4.6
Indonesia (231)	78.4	58.0	32.9	19.0	34.2	9.1	3.5	3.9
Singapore (76)	76.3	67.1	53.9	26.3	9.2	17.1	6.6	6.6
Malaysia (166)	81.9	63.3	53.0	35.5	7.8	18.1	9.6	4.8
Philippines (66)	81.8	72.7	45.5	21.2	7.6	16.7	3.0	3.0

Procurement actions taken in the past five years (by country/region) (%)

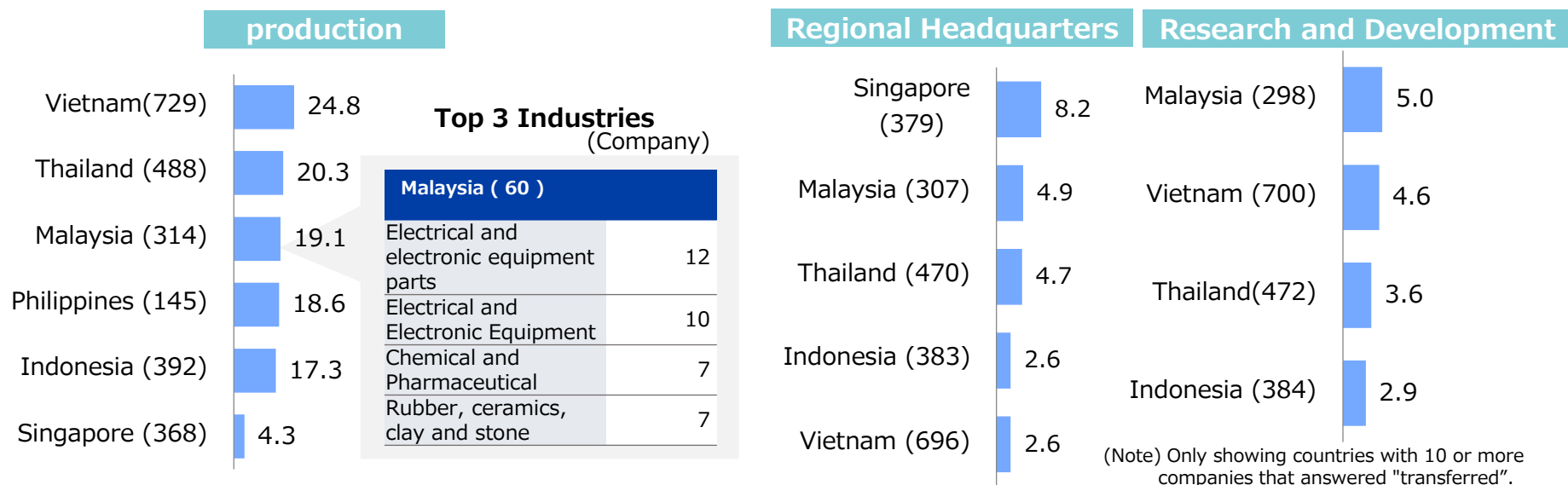
	New supplier Development	Increased local content	Supplier Decentralization	Strengthening in-house production	Procurement country/region Decentralization	Changes to procurement policies with an awareness of the environment and decarbonization	Changes to procurement policies to take human rights into consideration in the supply chain	others
ASEAN(1,199)	73.6	43.7	31.8	23.4	22.0	10.5	5.5	4.2
Vietnam (359)	77.7	51.3	30.9	26.7	22.0	8.4	4.5	3.9
Thailand (270)	72.6	42.6	26.7	26.7	14.4	8.9	4.4	3.3
Indonesia (226)	73.0	48.7	30.5	24.8	16.8	7.5	4.4	2.7
Singapore (69)	58.0	18.8	42.0	14.5	37.7	15.9	5.8	13.0
Malaysia (152)	75.7	39.5	40.1	21.1	29.6	18.4	10.5	3.9
Philippines (62)	75.8	46.8	35.5	12.9	27.4	19.4	8.1	3.2

(Note) Values that are 5 points or more higher than the total are displayed in light orange, and values that are 10 points or more higher are displayed in orange.

2 | Transfer of functions over the past five years: 19.1% of production functions were transferred for function optimization and risk diversification

- In Malaysia, 19.1% of respondents said they had transferred production functions from other countries/regions in the past five years (2019-2024), with the trend particularly notable for electrical/electronic equipment parts and electrical/electronic equipment at 15.6%.
- The percentage of companies that transferred their regional headquarters to Malaysia was 4.9%, and for research and development it was 5.0%, a relatively high trend among major countries.
- Reasons given for the transfer included optimization of functional allocation, risk diversification, and customer strategy, and with regard to regional headquarters functions in particular, there were comments pointing out advantages over Singapore in terms of costs, etc.

Percentage of companies that responded "There has been a transfer" (by function)



Background and reasons for the transfer to Malaysia

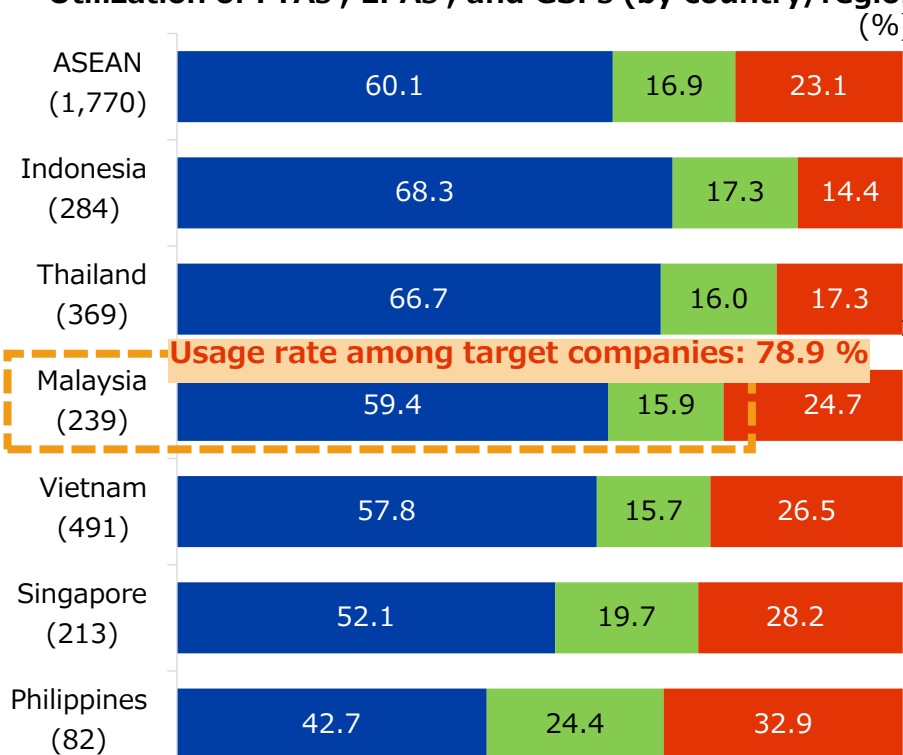
Production	• Optimize functional allocation within the group and reorganize bases • Division of roles with factories in Japan • Risk diversification, BCP, US-China trade friction • Changes in import regulations in other countries • Follow customer strategies. • Receive government incentives and processing cost benefits compared to the previous location.	Regional Headquarters	• Rising costs in Singapore, increasing difficulty in obtaining visas • Accelerated decision-making • Speedy response and relatively low cost
		Research and Development	• To reduce costs and increase speed • The development of products whose main sales destinations are in the ASEAN region has been transferred to Malaysia.

1

FTA, EPA, and GSP utilization rate : Regardless of company size, 80% of target companies are utilizing

- The percentage of companies in Malaysia utilizing FTAs, EPAs, and Generalized System of Preferences (GSP) was 59.4%, almost the same as for ASEAN as a whole. Furthermore, the utilization rate among target companies was 78.9%, approaching 80%.
- By manufacturing industry type, all target companies in the transport equipment and transport equipment parts industries were utilizing them, while utilization rates also exceeded 70% in the iron, non-ferrous metals, metals, food, chemicals, pharmaceuticals, and rubber, ceramics, and stone. There were almost no differences based on company size.

Utilization of FTAs , EPAs , and GSPs (by country/region)



■ Utilizing FTAs, EPAs, and GSPs

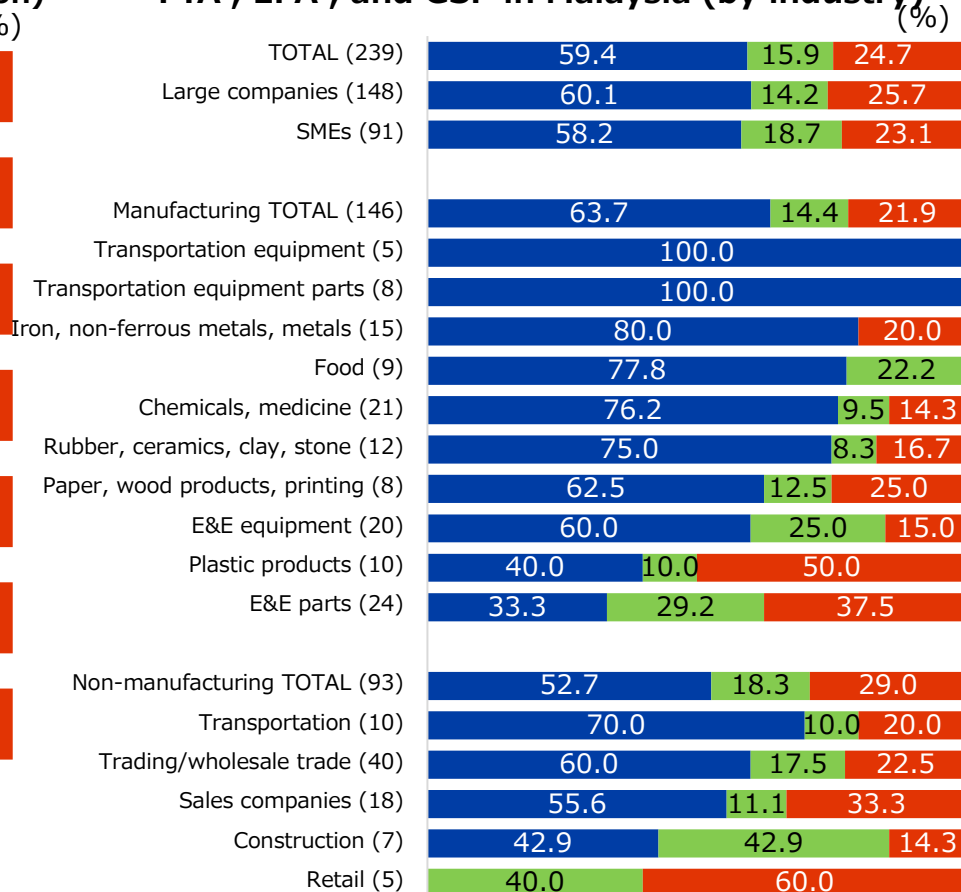
■ Not being able to take advantage of FTAs, EPAs, and GSPs

■ Not eligible for FTA, EPA, or GSP

(Note 1) "Not eligible" refers to cases where the general tariff on an export or import item is 0%, where a tariff reduction or exemption system other than an FTA is used, or where the item is not subject to an FTA , etc.

(Note 2) For data by industry, only showing five or more valid responses.

FTA , EPA , and GSP in Malaysia (by industry)



2 | FTA, EPA, and GSP utilization rates : High expectations for the FTA with the EU to come into effect

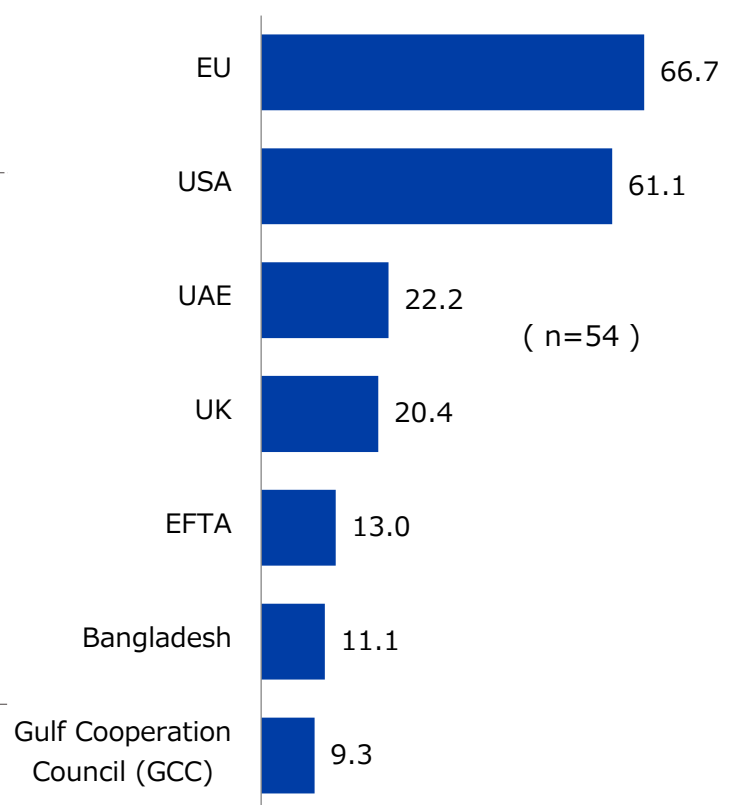
- Issues raised regarding currently effective FTAs and EPAs include differences in HS codes between exporting and importing countries, the long lead time for authorities to issue Certificates of Origin, and the transfer of production to other countries and regions due to the lack of an agreement with the EU.
- Reflecting these issues, the EU was the most popular country/region where exporters from Malaysia desired an FTA/EPA to be established (66.7%), followed by the United States (61.1%). The UAE and UK, which were expected to come into effect at the time of the survey, received a response rate of 20%.

Specific methods and issues of using FTAs, EPAs, and GSPs

Specific usage methods	• For exports from Malaysia to Japan (imports to Japan), FTA-reduced tax rates will be applied to palm-related products [food products]. • Utilizing the ASEAN Trade in Goods Agreement (ATIGA), we import final products in bulk from Indonesia and Thailand duty-free, repack them in small bags for sale in Malaysia, and sell them domestically and export them. The main export destinations are Middle Eastern countries [food products].
Issues	• The timing of revisions differs between the exporting and importing sides, and there are often differences in the HS codes of the target items. [Transportation equipment] • While the RCEP has further reduced import barriers for Chinese products, it is unclear what incentives these products received in China, making it uncertain whether the competition is fair. [Sales company] • For repackaged products for export, it is necessary to obtain a back-to-back Certificate of Origin when exporting to Middle Eastern countries while applying bonded treatment in Malaysia, but the establishment of a completely independent bonded warehouse and operation is costly. [food products] • The application and acquisition process for a Certificate of Origin at the Ministry of Investment, Trade and Industry (MITI) takes 2-3 days for the review before the certificate is obtained. In addition, in the case of Johor State, the MITI branch office is closed on Fridays and Saturdays, which does not coincide with the working days of private companies, causing further delays in arrangements. [Transportation] (Note) • Currently, there is no FTA between Malaysia and the EU, so there are cases where products intended for export to the EU need to be manufactured in other countries, such as Vietnam.

(Note) Starting January 2025, the state of Johor is scheduled to observe Saturdays and Sundays as public holidays. This change is expected to resolve the inconsistency in holidays with federal government agencies.

Countries and regions hoping for FTA/EPA to come into effect for exports from Malaysia (%)



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[Note] As figures less than the unit are included, the digits may not match.

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