

**FY2023**

**Survey on Business Conditions of Japanese Companies Operating Overseas  
| Asia & Oceania**

**Comparison among six ASEAN countries  
and the trends in Malaysia**

**Business expansion at highest level in five years, amidst noticeable shortages in HR**

Japan External Trade Organization (JETRO)  
Kuala Lumpur Office  
January 19, 2024



# Key findings

## 1. Operating profit forecast increased for the third consecutive year.

- ❖ Malaysia's operating surplus in 2023 was 59.7% in FY2021, 63.0% in FY2022, and 67.9% in FY2023, the only country among major ASEAN countries with its operating surplus increasing for three consecutive years. (slide 3)
- ❖ The operating profit forecast for FY2023 shows an “improved” percentage of 34.2%, while the “deteriorated” percentage is 34.8%. The improvement ratio is expected to increase in 2024. (slide 5)

## 2. 50.2% of companies are considering business expansion, exceeding 50% for the first time in five years.

- ❖ The percentage of companies in Malaysia that are considering business expansion in the next 1 to 2 years is 50.2%, exceeding 50% for the first time in five years. (slide 6)
- ❖ In addition to sales, a relatively high proportion of respondents cited production of high-value-added products and research and development as functions to be expanded. (Slide 8)

## 3. Malaysia's biggest advantage is ease of communication; while risks are mainly centered on human resources.

- ❖ As for the advantages of Malaysia's investment environment, 80% of companies cited the lack of language and communication barriers, followed by the living environment for expatriates and stable political and social situation. (Slide 9)
- ❖ Risks are centered on human resources-related issues including soaring labor costs, high turnover rates, labor shortages, and difficulty in recruiting workers. (Slide 10)

## 4. More than 60% of ASEAN countries are facing a shortage of human resources, the most crucial issue among major ASEAN countries, and they are actively automating their production lines.

- ❖ 63.5% of companies in Malaysia are facing human resources shortage, the highest among major ASEAN countries. (Slide 14)
- ❖ Shortage of professionals and factory workers are particularly serious. Nonetheless, there are cases where employee retention rates have improved with enhanced employee benefits and stronger internal communication. (Slide 16)
- ❖ Malaysia also ranks first in their efforts to automate production lines as well as the level of interest in automation. (Slide 17)

## 5. ESG response, decarbonization efforts, and awareness on human rights in Malaysia are increasing, especially among small and medium-sized enterprises.

- ❖ 45.4% of companies are undertaking decarbonization initiatives, and the percentage rises to 80.5% if we include those “planning to do so”; progress is seen among small and medium-sized enterprises as well. (Slide 20)
- ❖ 85.7% of companies recognise human rights issues as a management challenge, ranking first among major ASEAN countries for the third consecutive year. (Slide 22)

## 6. Market development is focusing on local companies and wealthy class, but there are also issues unique to Malaysia, such as a lack of connections.

- ❖ While a high percentage of B-to-B targets are currently focused on Japanese companies operating in the country, the focus will be shifted towards local companies in the future. Similarly, target for B-to-C is currently the middle class, but in the future, the focus will shift towards the upper class. (Slides 24, 25)
- ❖ The main competitors in the local market are fellow Japanese companies. Challenges in market development include circumstances unique to Malaysia, such as the small market size, a lack of connections with the government and industry, and difficulty in designing marketing campaigns due to the ethnic diversity. (Slide 26)

# FY2023 Survey Outline

(Company, % )

## Purpose of the survey

- To understand the current business activities of Japanese companies in Asia and Oceania and to disseminate these findings.

## Survey target

- Japanese companies in 20 countries/regions (5 in Northeast Asia, 9 in ASEAN, 4 in Southwest Asia, 2 in Oceania, with a direct/indirect investment of 10% or greater and with branches/representative offices)

## Survey period

- August 21 - September 20, 2023

## Response rate

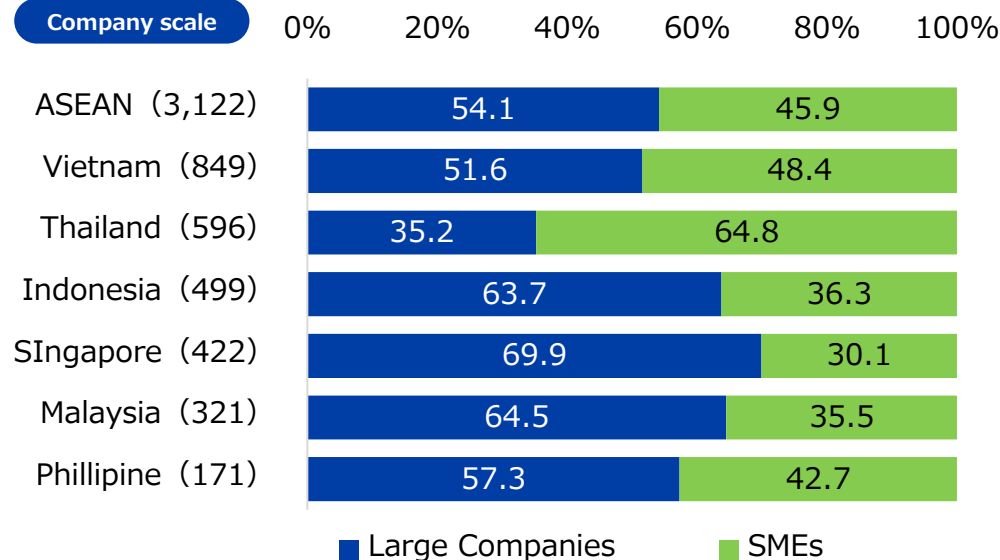
- We asked 14,018 companies to respond, and we received valid responses from 4,982 companies. The breakdown by country is shown in the table on the right.

## Remarks

- The survey has been conducted since 1987, and this year is the 37th edition.
- Non-manufacturing sector has been included in this survey since 2007.
- Companies that answered at least one question were considered valid responses.
- Numbers in brackets indicate the number of companies with valid responses.
- The figures are rounded up, so the totals do not necessarily add up to 100%.

	Companies surveyed	Companies responded		breakdown		valid Response rate
		valid answer	Composition ratio	manufacturing industry	Non-manufacturing industry	
<b>ASEAN</b>	<b>9,574</b>	<b>3,122</b>	<b>62.7</b>	<b>1,419</b>	<b>1,703</b>	<b>32.6</b>
Vietnam	2,122	<b>849</b>	17.0	407	442	40.0
Thailand	2,356	<b>596</b>	12.0	319	277	25.3
Indonesia	1,602	<b>499</b>	10.0	263	236	31.1
Singapore	1,165	<b>422</b>	8.5	90	332	36.2
Malaysia	946	<b>321</b>	6.4	167	154	33.9
Philippines	548	<b>171</b>	3.4	95	76	31.2

## Company scale



(Note 1) All of this material is sourced from "2023 Survey of Japanese Companies Expanding Overseas - Asia and Oceania Edition" (JETRO Research Department).

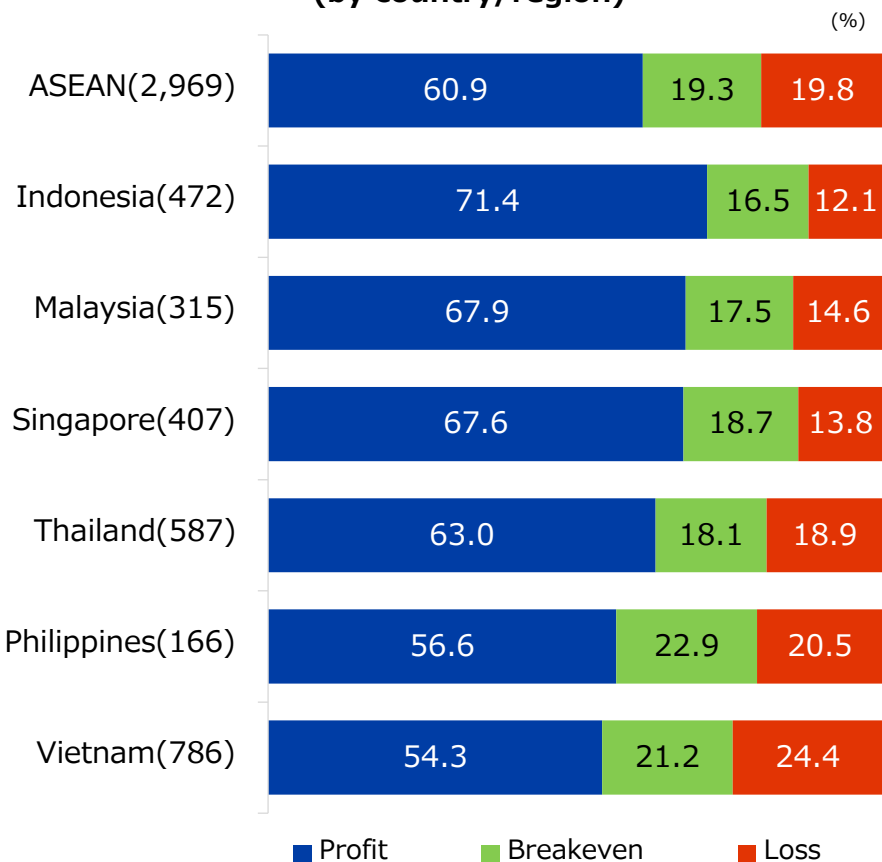
(Note 2) The "major ASEAN countries" in this document refer to the following six countries: Vietnam, Thailand, Indonesia, Singapore, Malaysia, and the Philippines. However, the figures for "ASEAN" comprise of the survey results for nine countries, namely the same six countries mentioned above in addition to Cambodia, Laos, and Myanmar.

1

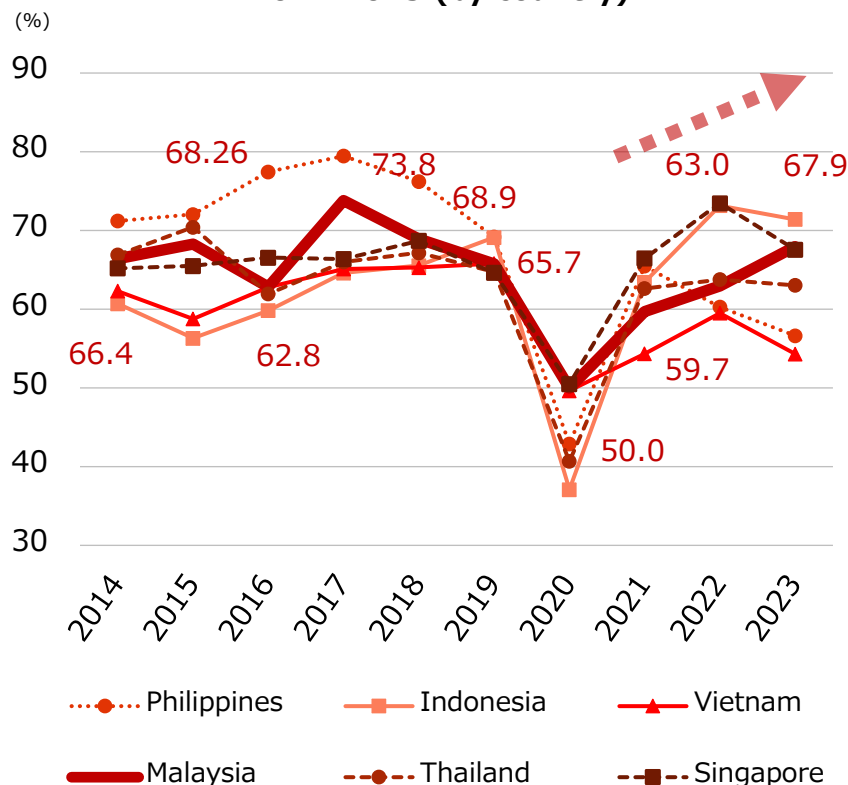
# Operating profit forecast for 2023: Only Malaysia see an increase in profitable companies among major ASEAN countries

- Taking ASEAN as a whole, 60.9% of companies responded that their operating profit forecast for 2023 was profitable, a slight decline from the 2022 survey (63.5%).
- In Malaysia, the percentage of companies responding that they were “profitable” was 67.9%, significantly higher than ASEAN. Compared to 2022, while the percentage of profitable companies has declined across the board in major ASEAN countries, Malaysia was the only country whose number has improved for the third consecutive year.

Operating profit forecast for 2023  
(by country/region)



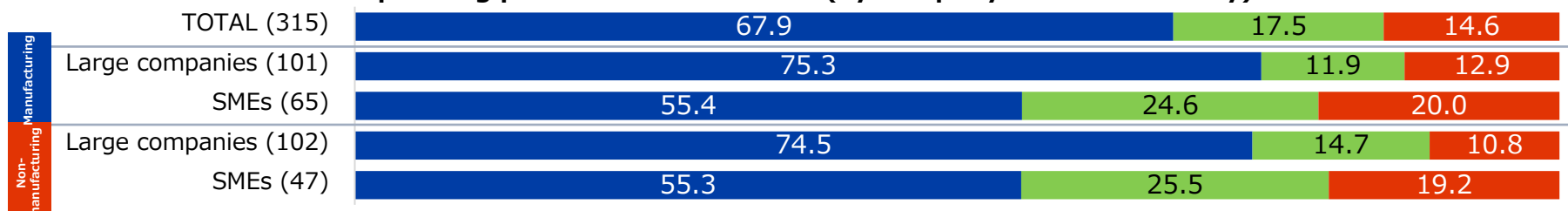
Trends in the percentage of profitable companies  
2014-2023 (by country)



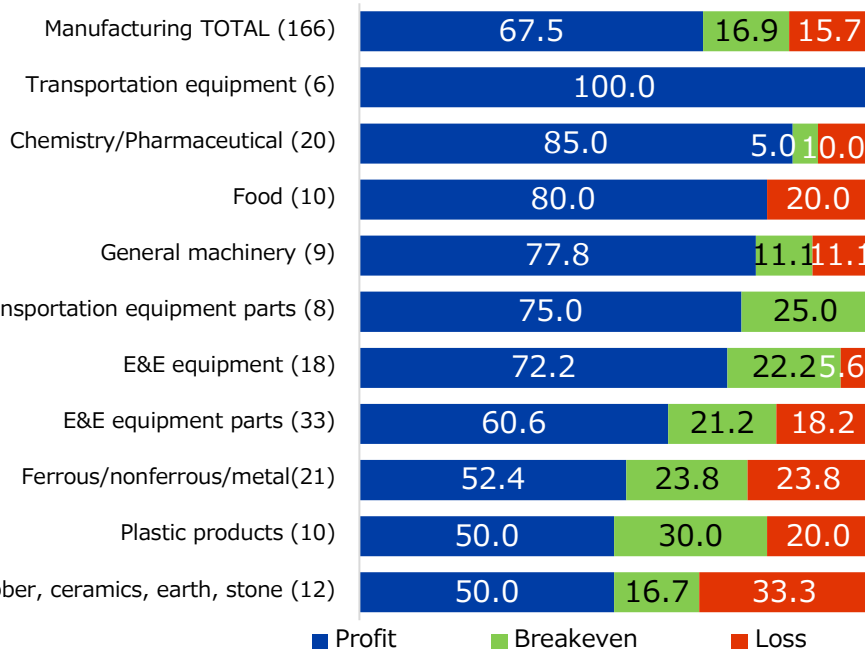
## 2 | Operating profit forecast for 2023 (Malaysia, by industry): Operating profit forecast for manufacturing has improved

- Looking at Malaysia's operating profit forecast for 2023 by industry, the percentage of surplus was 67.5% for manufacturing industry and 68.5% for non-manufacturing industry. Compared to the 2022 survey, these numbers have increased by 7.3 points and 2.2 points respectively, and the increase in the manufacturing industry is particularly noticeable.
- In the manufacturing industry, transportation equipment, chemicals/pharmaceuticals, food, general machinery, transportation equipment parts, and electrical/electronic equipment are major industries, while in the non-manufacturing industry, transportation industry, finance/insurance industry, sales companies, trading/wholesale industries are the major industries. These major industries recorded higher percentages of surpluses than their respective industries' total.

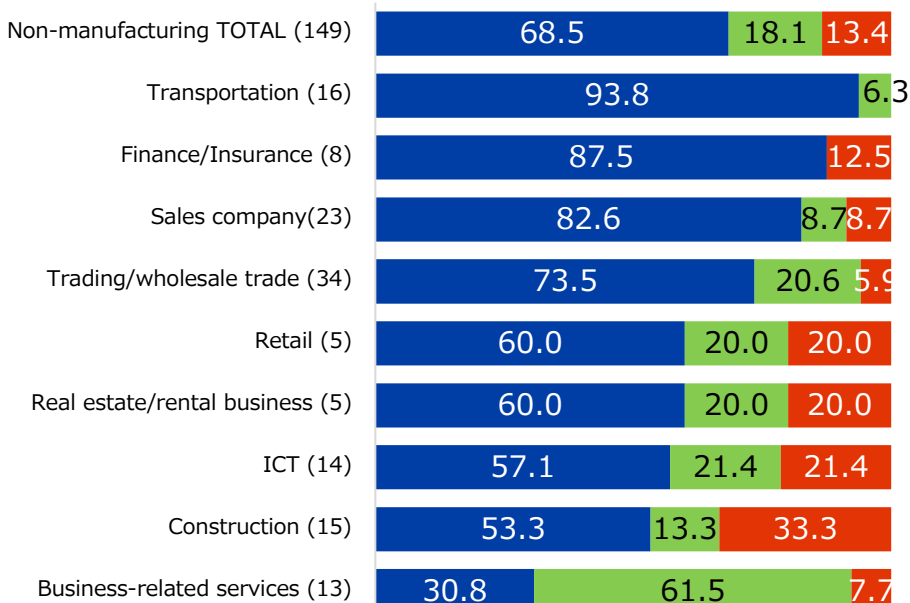
### Operating profit forecast for 2023 (by company size and industry) (%)



#### Manufacturing



#### Non-manufacturing

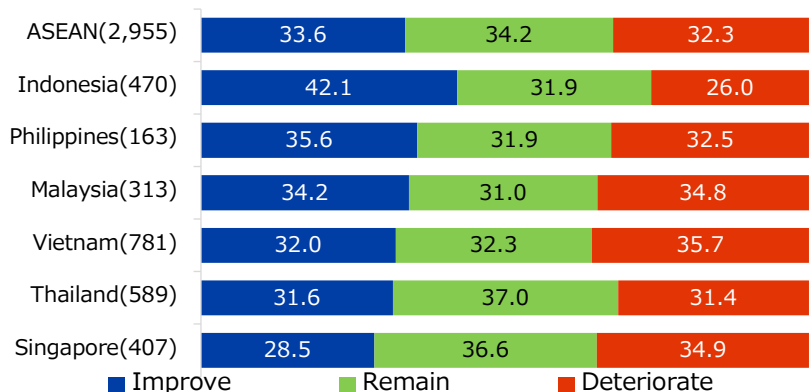


(Note) Only displaying industries with 5 or more valid responses.

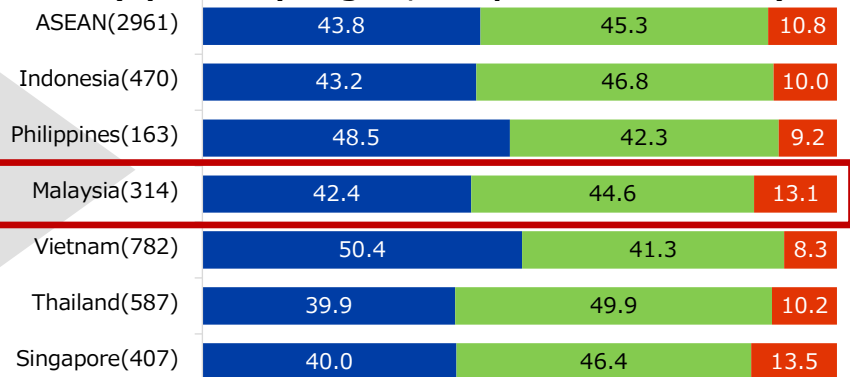
# 3 | Operating profit forecast: Improvement and deterioration were balanced in 2023; DI value set to improve in 2024

- 33.6% of companies in ASEAN answered that their operating profit forecast for 2023 (compared to 2022) will "improve", a significant drop from the previous year (43.8%). Malaysia also fell by more than 10 points to 34.2% from 47.2% last year.
- Regarding the operating profit forecast for 2024, compared to 2023 (estimation), the improvement rate has increased in each country, with Malaysia also increasing by 8.2 points to 42.4%. The deterioration rate also decreased significantly, from 34.8% to 13.1%.
- The DI value (\*), which indicates business confidence in 2023, turned negative in Malaysia. However, DI value in 2024 is expected to increase by 29.9 points to 29.3.

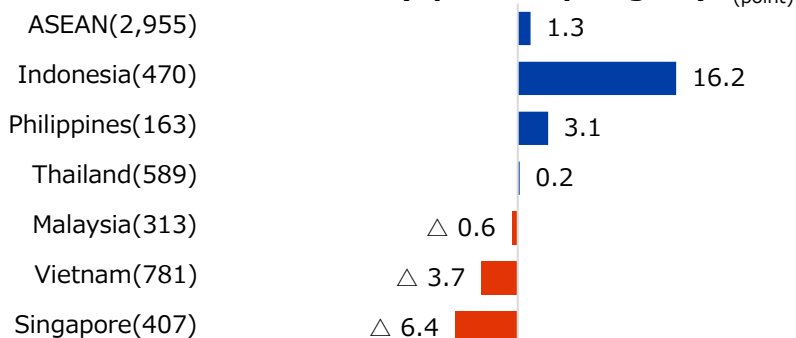
**Operating profit forecast for 2023 (by country/region, comparison with 2022) (%)**



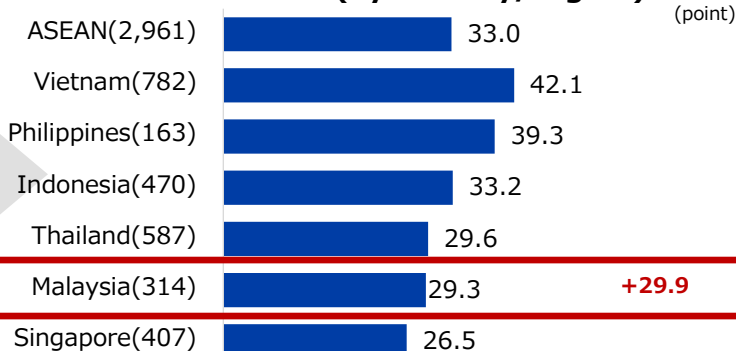
**Operating profit forecast for 2024 (by country/region, comparison with 2023) (%)**



**DI value in 2023 (by country/region) (point)**



**DI value in 2024 (by country/region) (point)**



\*(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.



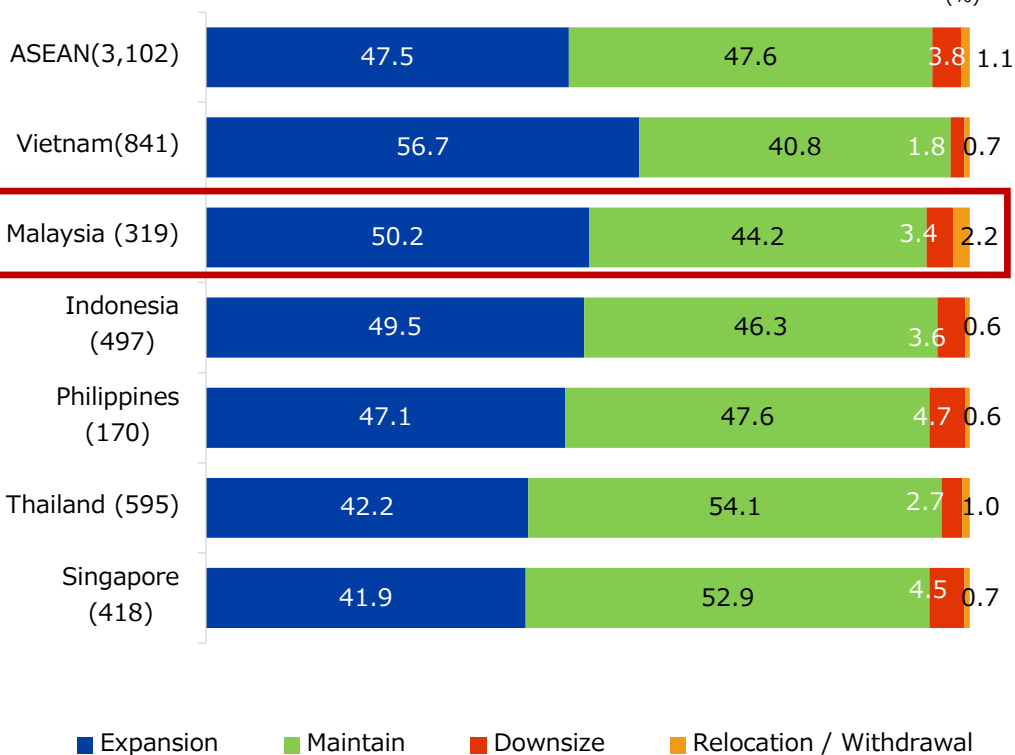
1

Future business development:

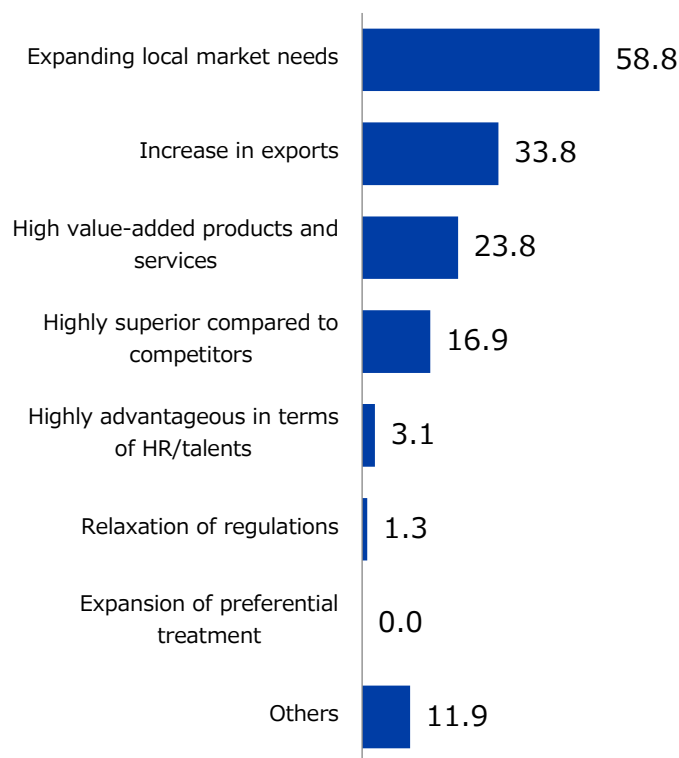
More than 50% intend to expand business, aiming to respond to local needs

- Among the six major ASEAN countries, Vietnam had the highest percentage of companies at 56.7%, selecting “expansion” as their business development direction over the next one to two years, followed by Malaysia at 50.2%, exceeding the 50% mark.
- This is the first time in five years since the 2018 survey (54.0%) that Malaysia has exceeded the 50% mark, and it has increased by 1.8 points compared to the 2022 survey.
- When asked why they are expanding their business, an overwhelming majority (58.8%) cited "expanding local market needs", followed by "increase in exports" and "high value-added products and services".

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



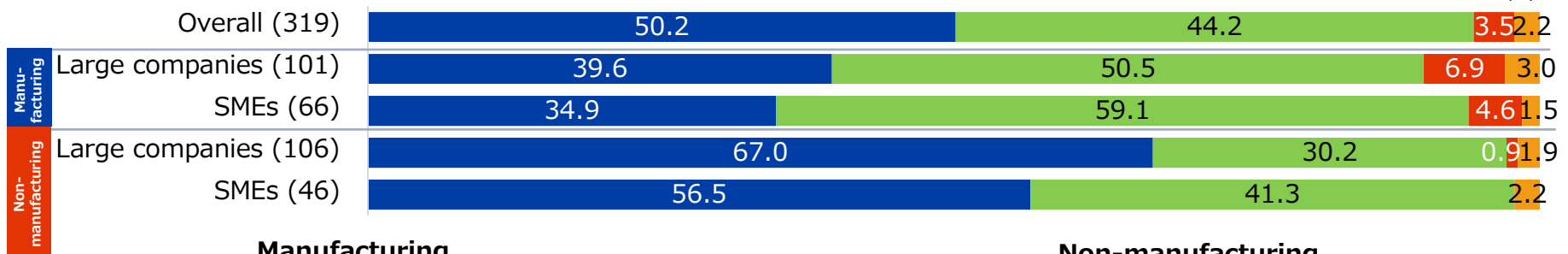
Reasons for expanding business in Malaysia (multiple answers) (%)



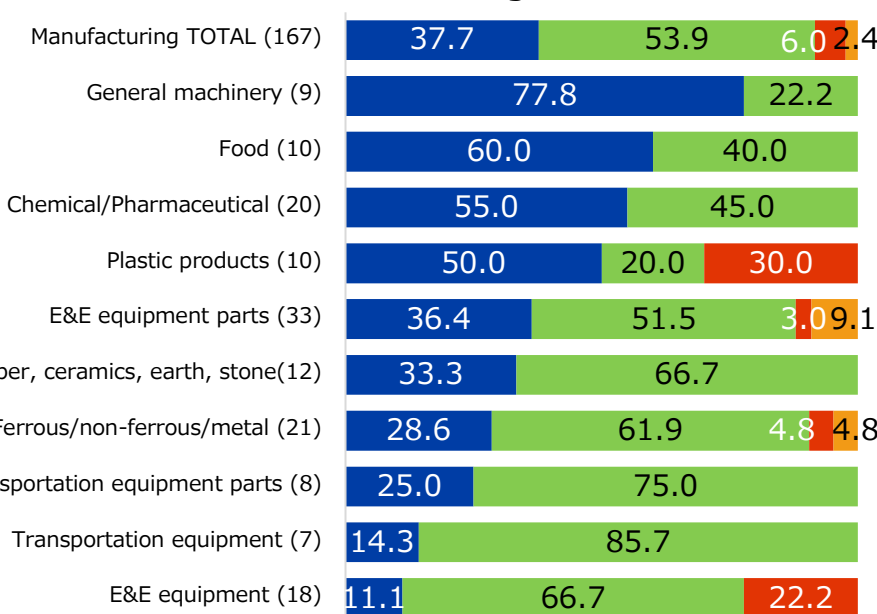
# 2 | Future business development (Malaysia, by industry): Non-manufacturing industries eager to expand, with over 90% of sales companies indicating so

- Regarding the direction of business development in the next 1 to 2 years, looking at the Japanese companies operating in Malaysia by industry, manufacturing industries including general machinery, food, chemical/pharmaceuticals, and plastic products; and non-manufacturers such as sales company, real estate, retail industry, business-related services, and information and communications industry each recorded an “expansion” rate higher than the total of their respective industries.
- By company size, large non-manufacturing companies in particular, had a strong desire to expand at 67.0%.

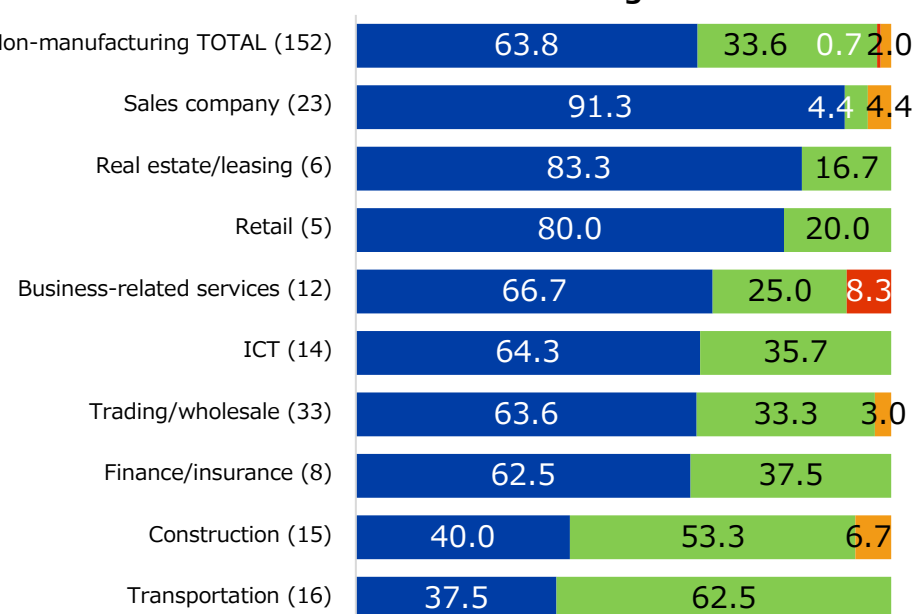
**Direction of business development over the next 1-2 years (by company size and industry)** (%)



**Manufacturing**



**Non-manufacturing**



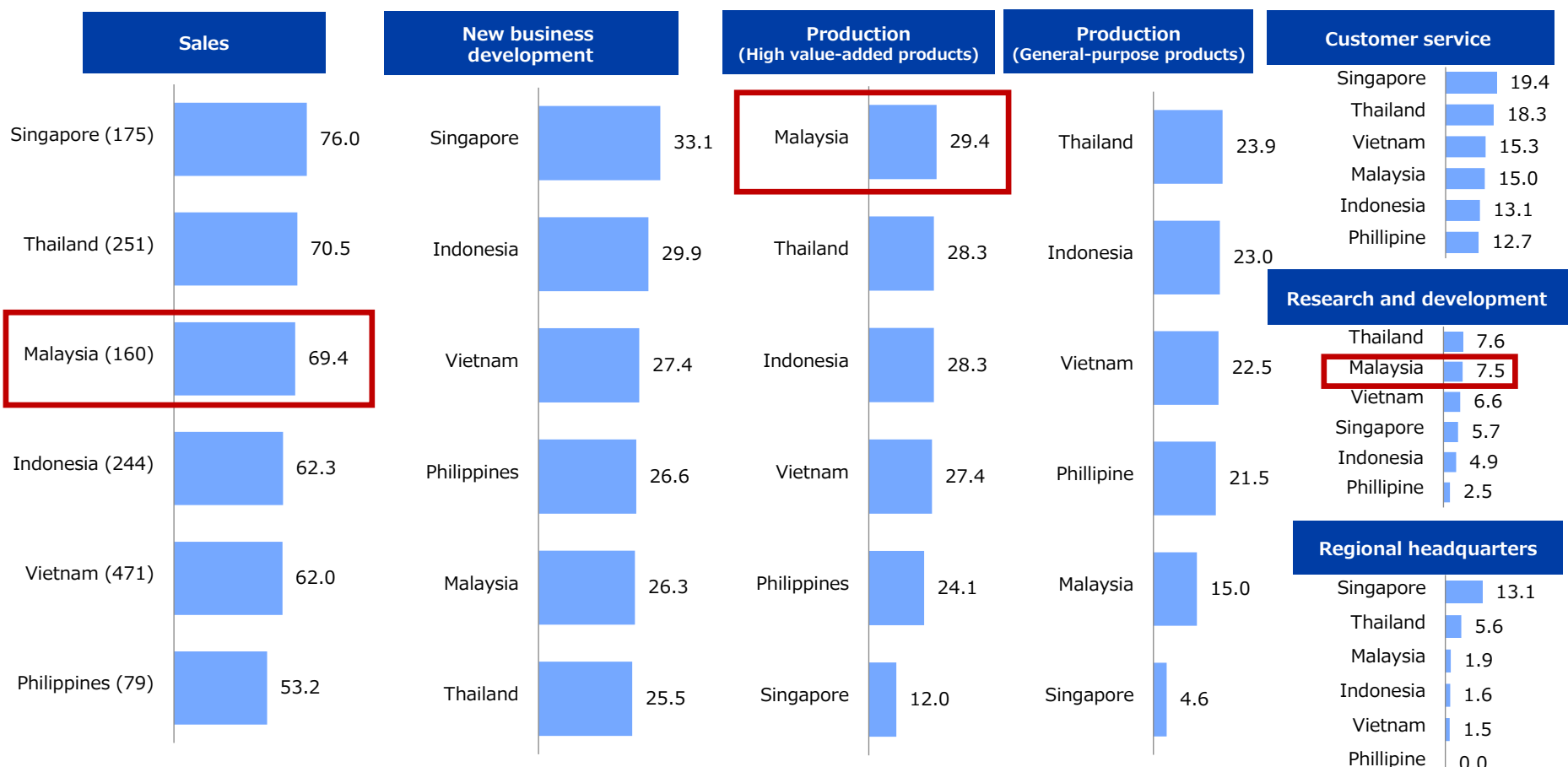


3

# Business functions to be expanded: Almost 70% in Malaysia are strengthening sales as well as high value-added production

- For companies that indicated they would be expanding their business in the next 1-2 years, the most common business function selected in each country was "sales functions", with nearly 70% of companies in Malaysia cited so.
- The number of companies in Malaysia that would be expanding their "production (high value-added products)" was the highest among the major ASEAN countries, and 14.4 points higher than companies that would be expanding "production (general purpose products)". "Research and development" for Malaysia also ranked second highest after Thailand.

**Business functions to be expanded (multiple answers)**



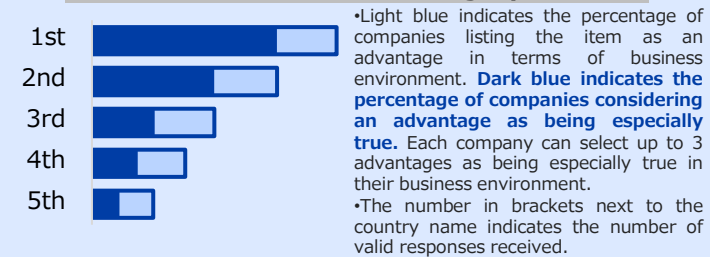
(Note) The number of valid responses in bracket next to each country name under "Sales" function applies to all other functions as well.

# 1 Investment environment: Top 5 advantages in each country

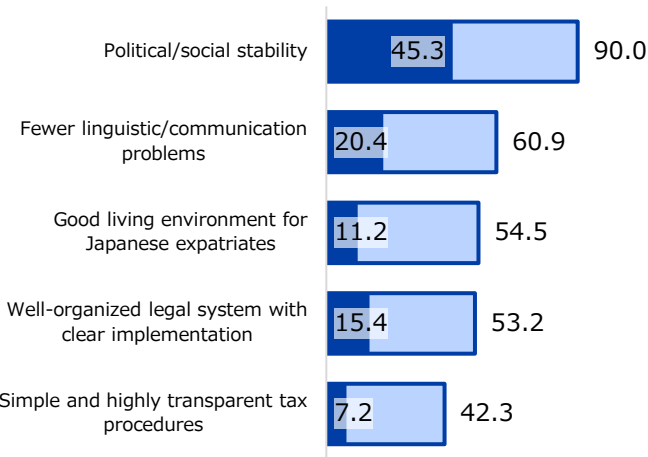
**Top 5 advantages in terms of investment environment  
(multiple answers)**

(%)

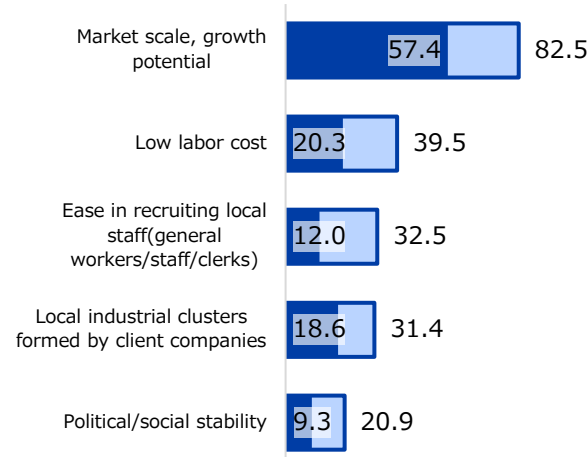
### How to read the bar graph



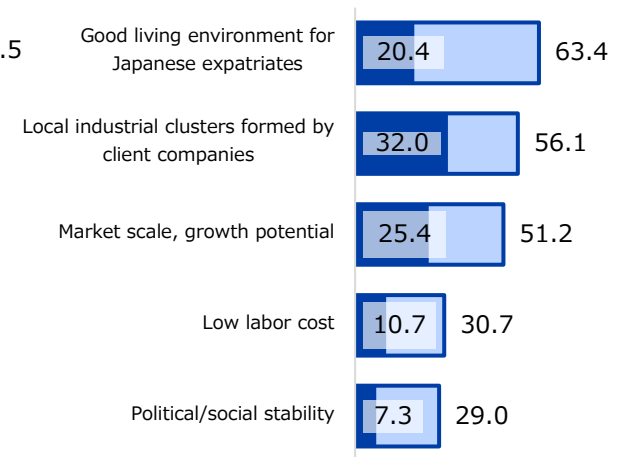
### Singapore ( 402 )



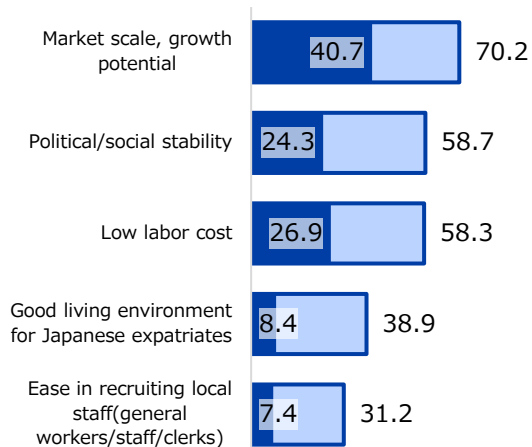
### Indonesia ( 474 )



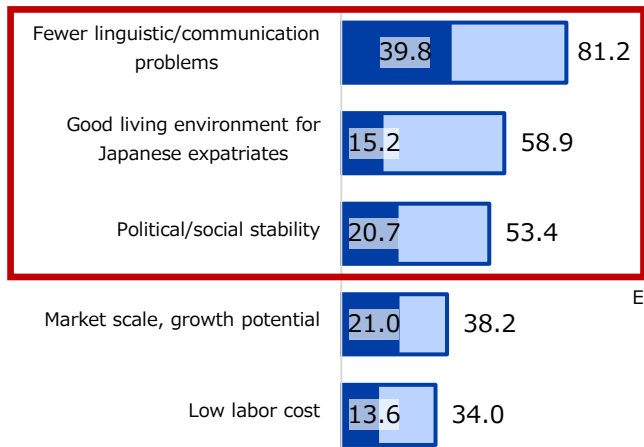
### Thailand ( 563 )



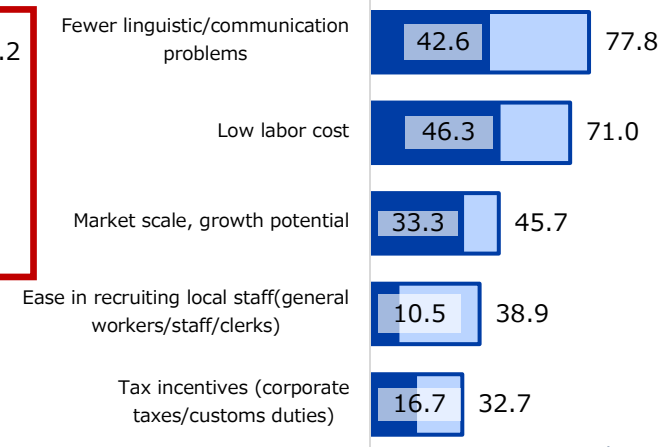
### Vietnam ( 808 )



### Malaysia ( 309 )



### Philippines ( 162 )



# 2 | Investment environment: Top 5 risks in each country

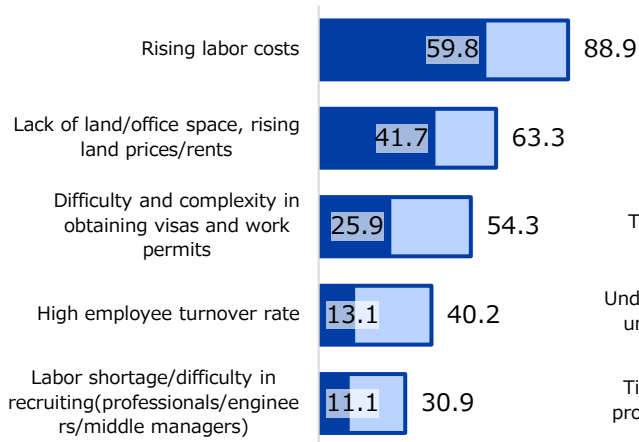
**Top 5 risks in the investment environment  
(multiple answers)**

(%)

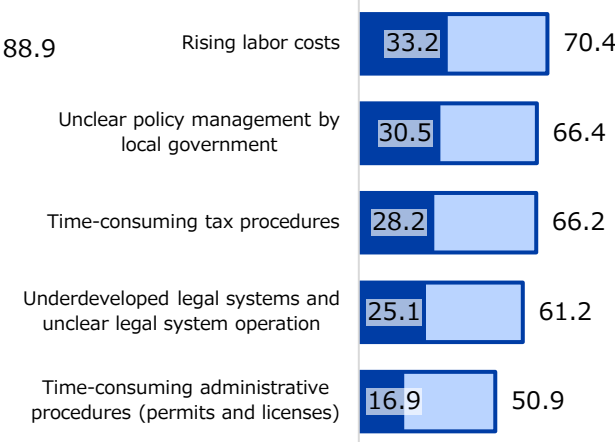
**How to read the graph**

- Light blue indicates the percentage of companies listing the item as a risk in terms of business environment. **Dark blue indicates the percentage of companies considering a risk as being especially true.** Each company can select up to 3 risks as being especially true in their business environment.
- The number in brackets next to the country name indicates the number of valid responses received.

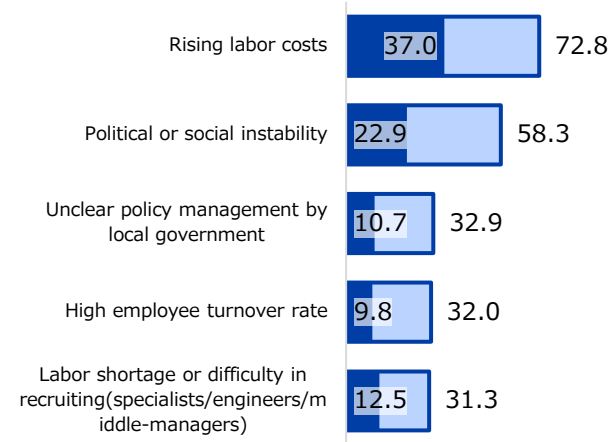
## Singapore ( 398 )



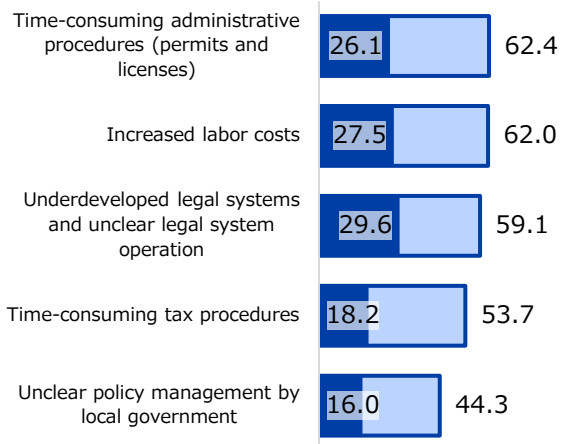
## Indonesia ( 479 )



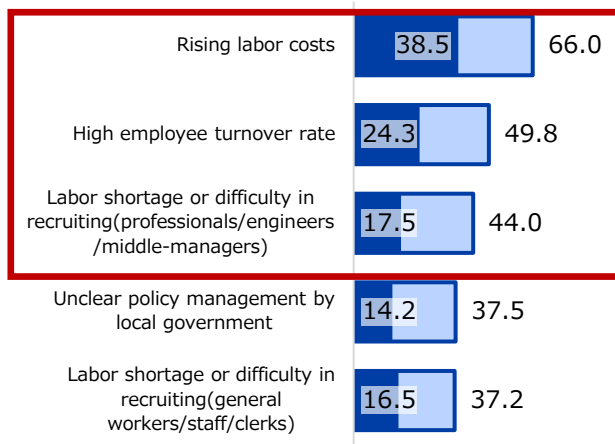
## Thailand ( 559 )



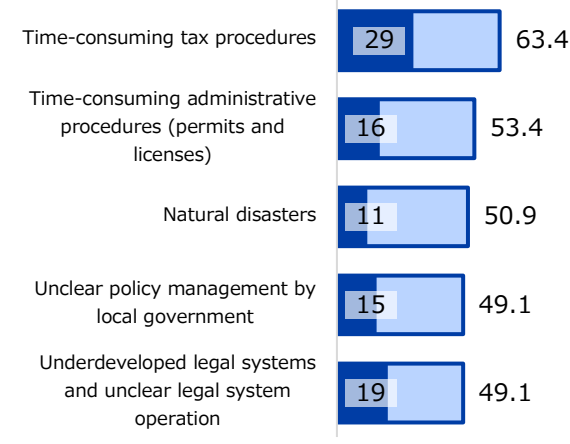
## Vietnam ( 801 )



## Malaysia ( 309 )



## Philippines ( 161 )

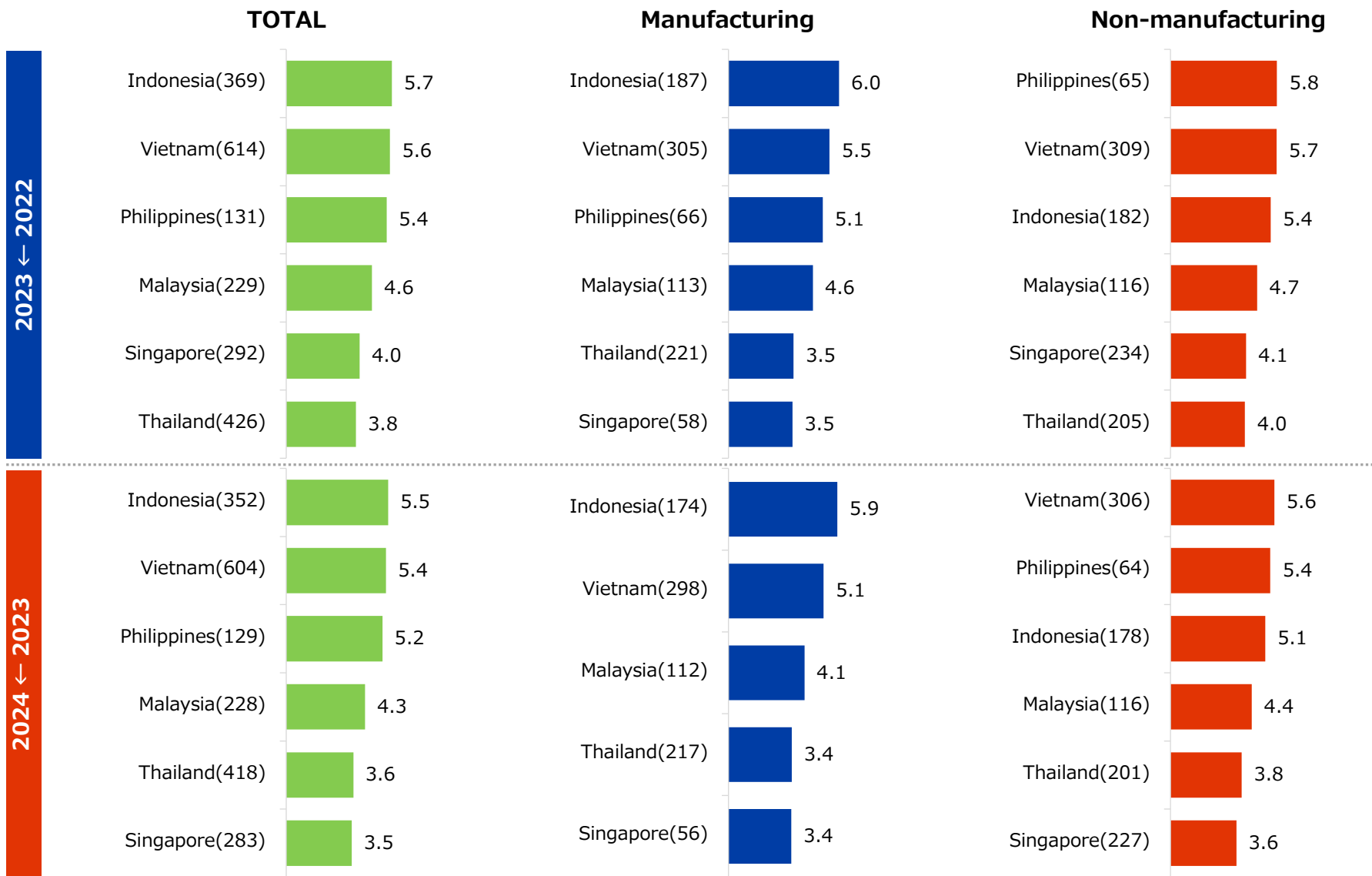


(Note) Policy management refers to industrial policy, energy policy, foreign investment regulations, etc.

3

# Salary: Annual increment rate

(%)

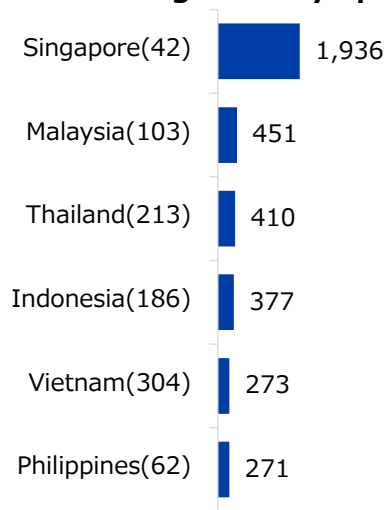


(Note) The salary increment rate is the base salary increment rate (nominal), excluding payments based on individual abilities such as skills and performance. Average for all occupations.

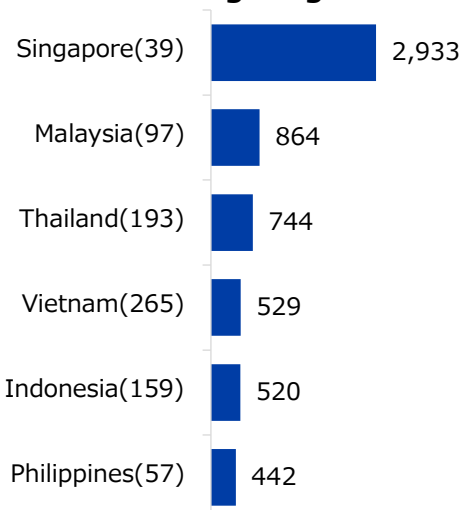
# 4 | Salary: Basic monthly salary (average)

(US\$)

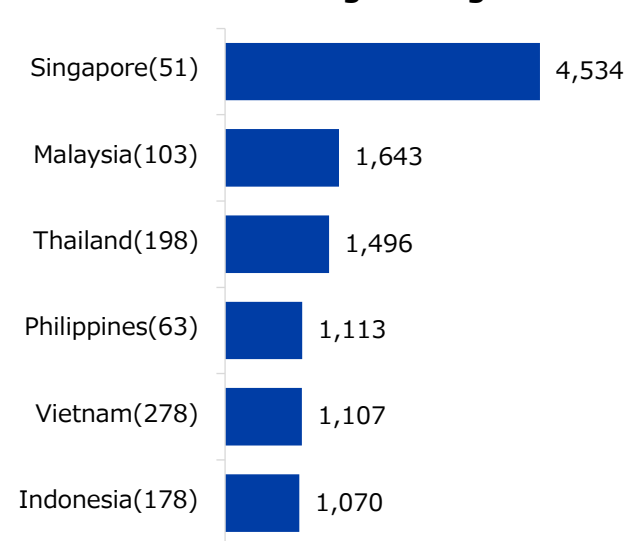
## Manufacturing: Factory operator



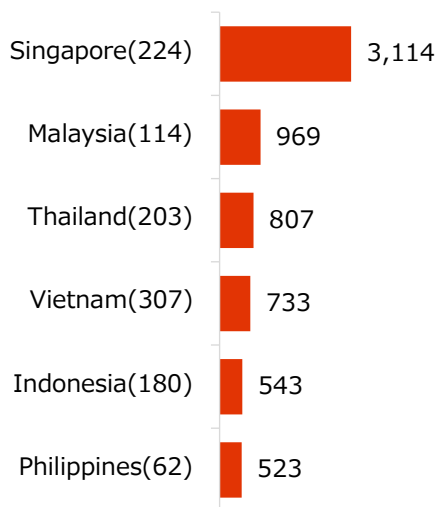
## Manufacturing: Engineer



## Manufacturing: Manager



## Non-manufacturing: Office worker



## Non-manufacturing: Manager

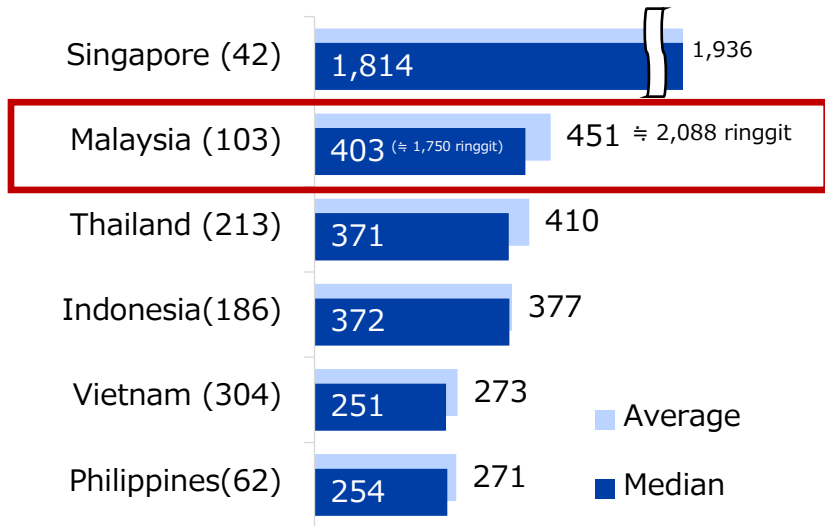


- Basic salary: Excluding allowances, as of August 2023.
- Factory operator: A full-time general worker with approximately 3 years of working experience. However, contract workers and workers on probationary period are excluded.
- Engineer: A mid-level engineer in full-time employment who has graduated from a vocational school or university and has about 5 years of working experience.
- Manager (manufacturing industry): Full-time employee at the sales manager level with at least a university degree and about 10 years of working experience.
- Office worker: Full-time regular employees with around 3 years of working experience. Temporary employees and employees during the probationary period are excluded.
- Manager (non-manufacturing): Full-time employee at the sales manager level with at least a degree and about 10 years of working experience.

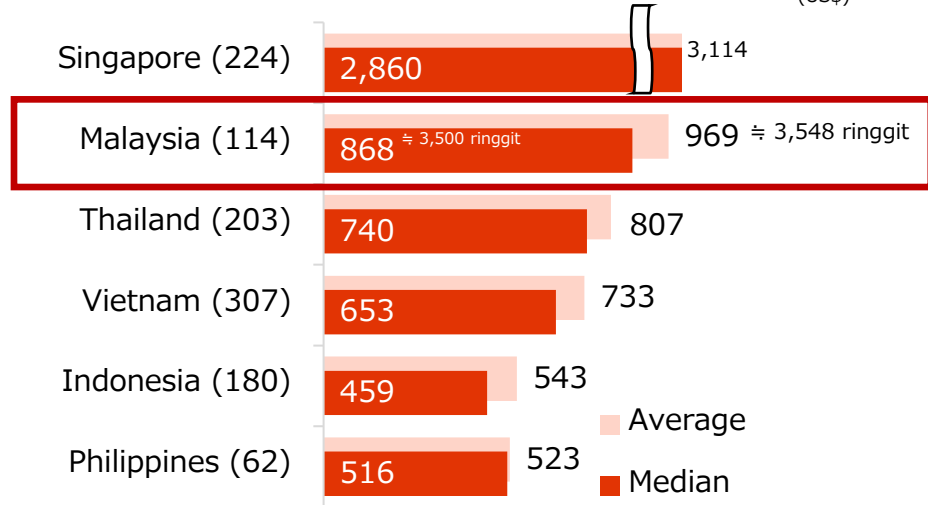
Note: Answers were provided in the respective countries' currency. The average wages for each job were then converted into US dollars using the average exchange rate as of August 2023 as announced by the central banks of each country.

# 5 | Salary: Basic monthly salary by industry (average & median)

**Manufacturing: Factory operator** (US\$)



**Non-manufacturing: Office worker** (US\$)



**Malaysia: Salary for factory operator by state**

State	Number of valid responses	Average (RM)	Median (RM)
Penang	12	1,732	1,750
Johor	11	1,978	1,858
Selangor	52	2,222	2,000

(Note) Displaying states with 10 or more valid responses.

**Malaysia: Salary for office worker by state**

State	Number of valid responses	Average (RM)	Median (RM)
Selangor	48	4,149	4,000
Kuala Lumpur	58	4,896	4,400

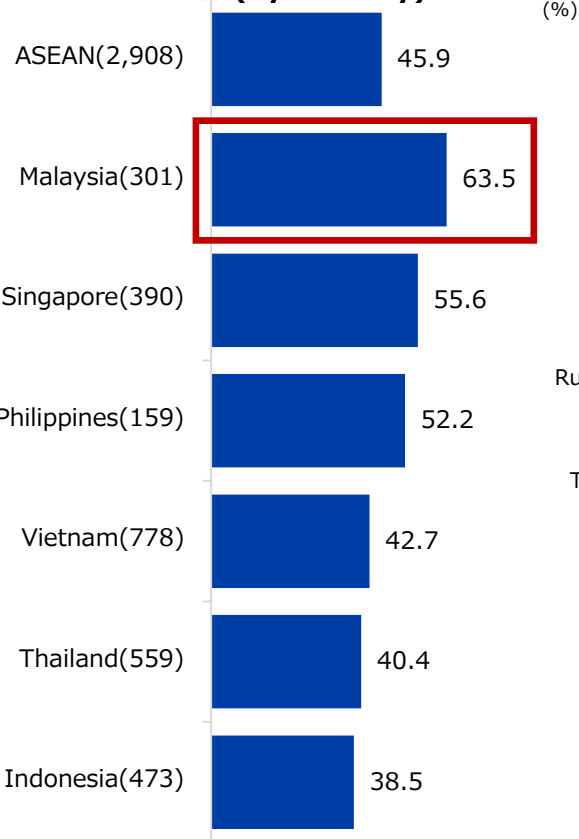
(Note) Displaying states with 10 or more valid responses.



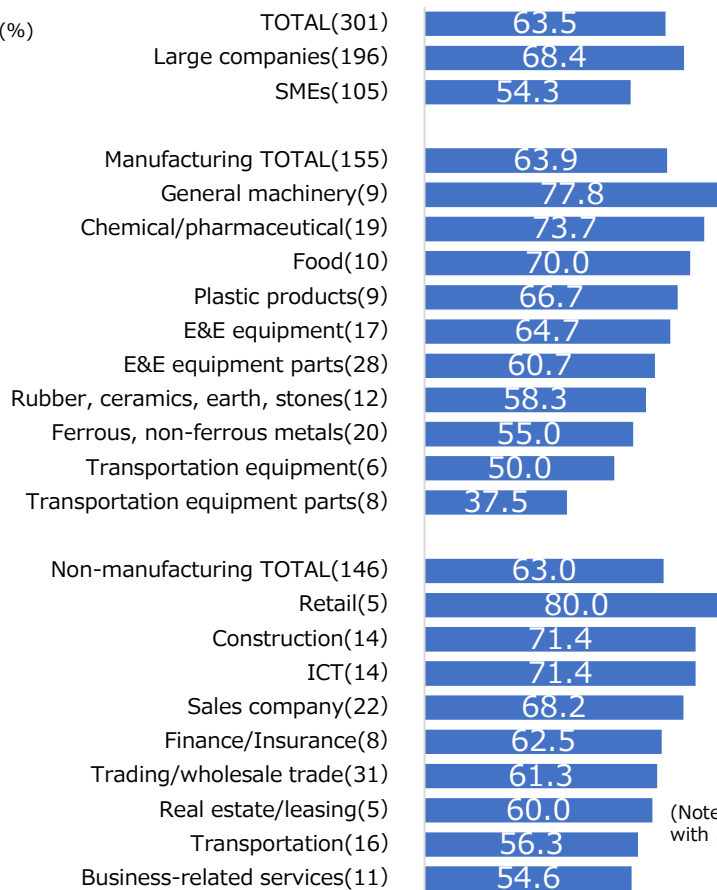
# 1 Perception on human resources shortage issue: Malaysia has the most companies facing human resources shortages

- Within ASEAN, 45.9% of companies said they were facing human resources shortage. Among them, the shortage was particularly noticeable in Malaysia at 63.5%.
- By industry, the shortage rate is almost the same for both manufacturing and non-manufacturing industry. 80% of general machinery and retail businesses are facing human resources shortages.
- In Malaysia by states, more than 60% of companies in Selangor, Johor and Kuala Lumpur, where many companies are based in, are experiencing human resources shortages.

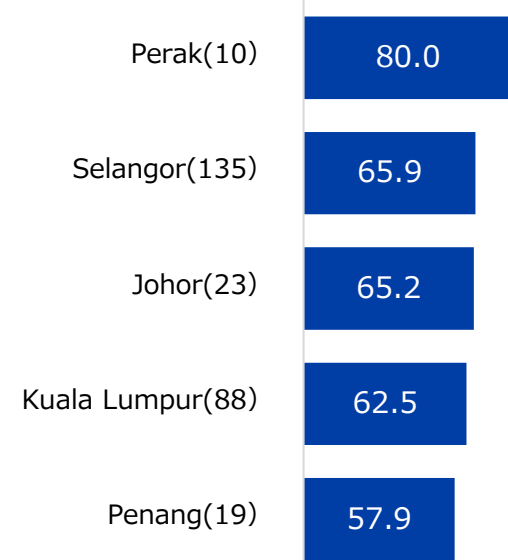
**Facing human resources shortages (by country)** (%)



**Malaysia (by industry)** (%)



**Malaysia (by region)** (%)



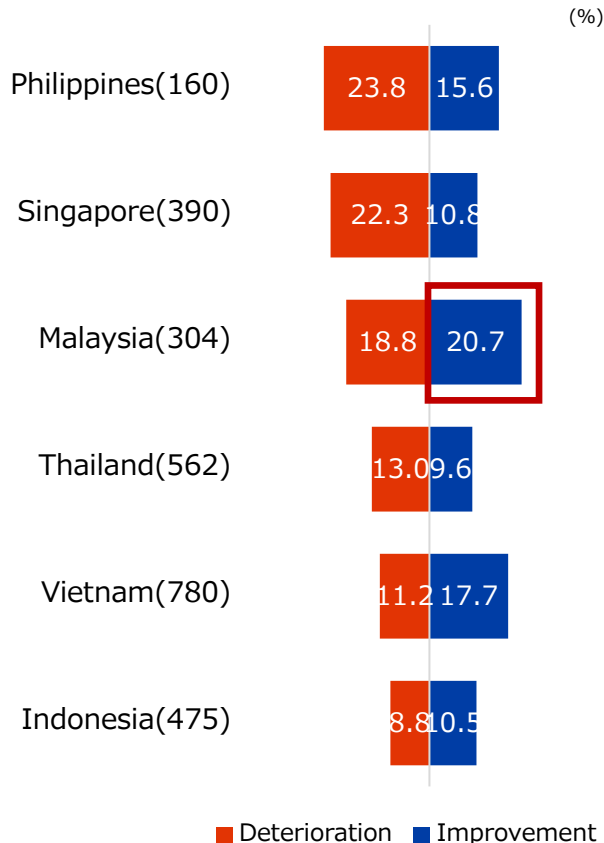
(Note) Displaying states with 10 or more valid responses.

(Note:middle bar graph) Displaying industries with 5 or more valid responses.

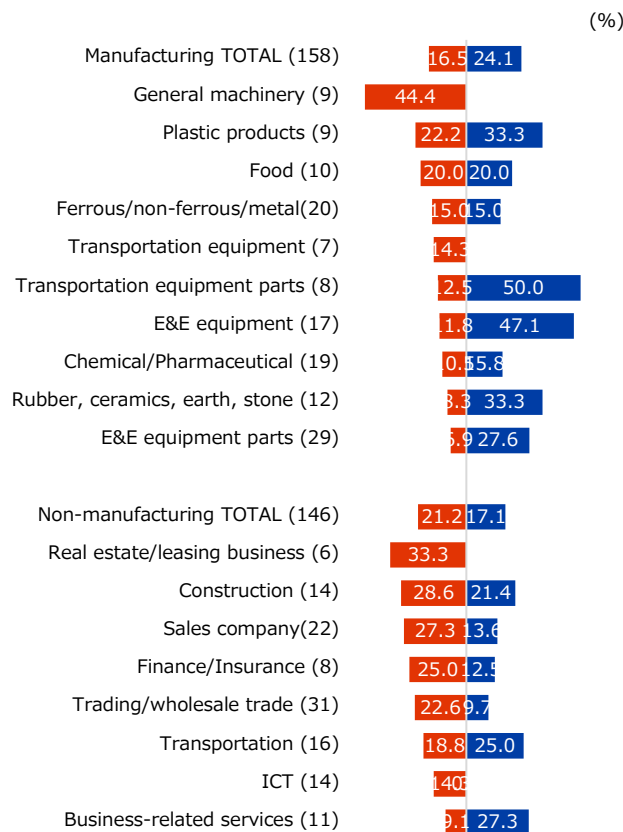
# 2 | Changes in employment situation since 2022: About 60% remain unchanged from 2022; with some improvement observed in Selangor

- Regarding the employment situation in 2023 (Aug-Sep), the proportion of respondents for “deterioration” and “improvement” was almost the same in Malaysia, with 60% citing “no changes” in comparison to the same period last year. The “improvement” rate at 20.7% for Malaysia was the highest among the major ASEAN countries.
- Looking at Malaysia by industry, there were generally many industries with a high rate of “improvement” in the manufacturing industry and a high rate of “deterioration” in the non-manufacturing industry.
- By state, Selangor’s rate of “improvement” stood out, while no respondent in Perak and Malacca cited “deterioration”.

**Changes in the employment situation in each country (vs 2022)**

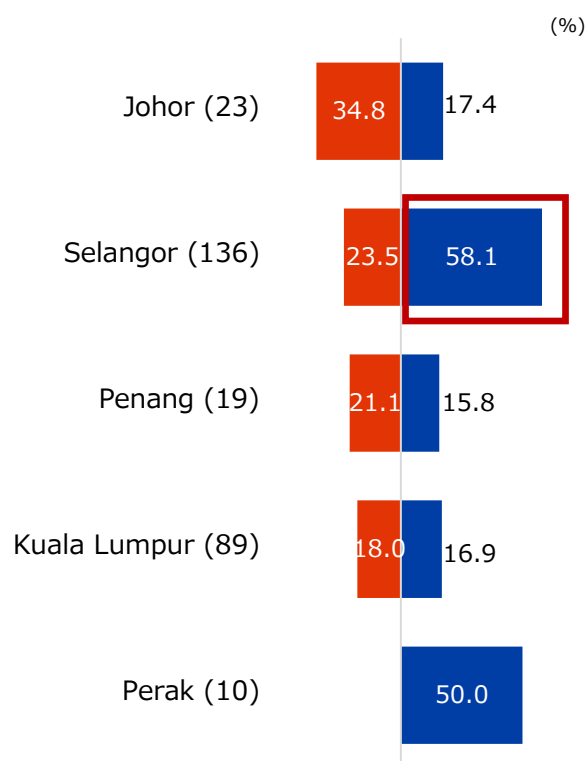


**Changes in the employment situation in Malaysia (vs 2022, by industry)**



(Note) Displaying industries with 5 or more valid responses.

**Changes in the employment situation in Malaysia (vs 2022, by state)**

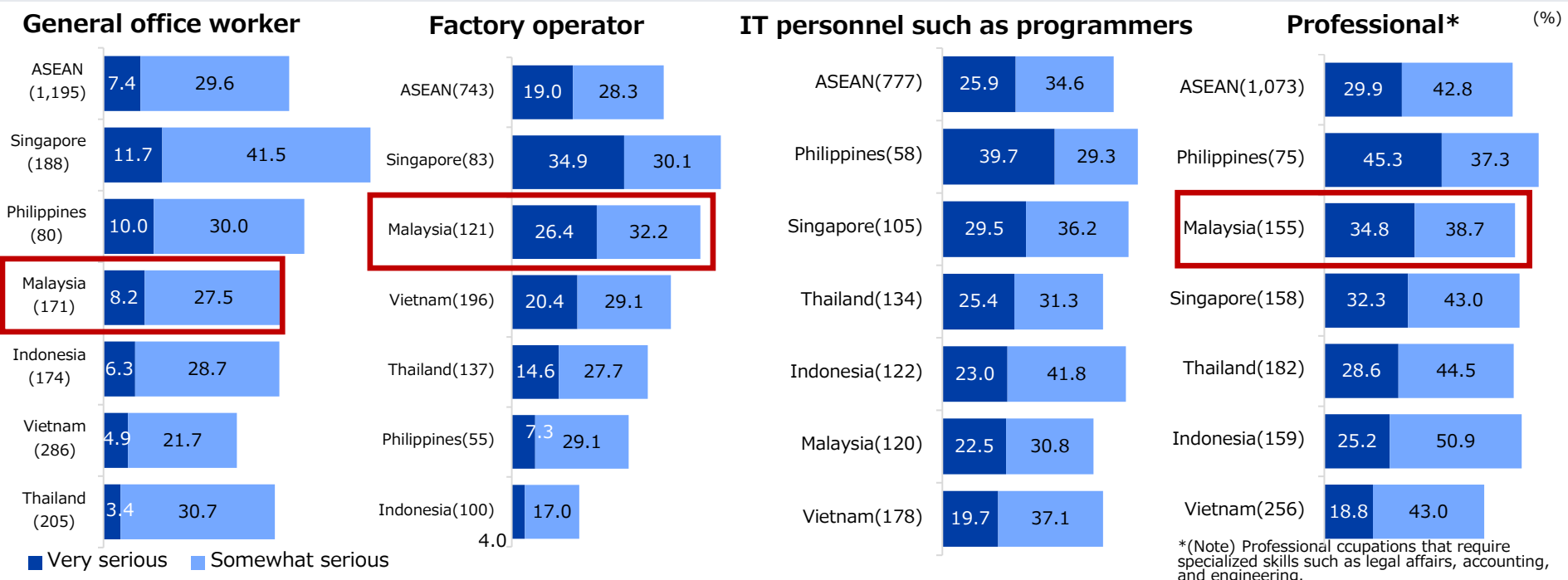


(Note) Displaying states with 10 or more valid responses.

# 3

## Degree of severity in human resources shortages by job type Serious human resources shortages for professional field; some efforts proven successful in retaining workers

- Looking at the percentages of companies citing human resources shortage as "very serious" or "somewhat serious" by job type, it is apparent that higher percentages were recorded for factory worker (58.6%) and professional field (73.5%) in Malaysia, clearly indicating a sense of inadequacy for human resources in these fields.
- Regarding specific measures to recruit and retain employees, in addition to enhancing employee welfare and increasing salaries, we found that strengthening internal communication by holding regular in-house events had also led to successful retention of human resources.



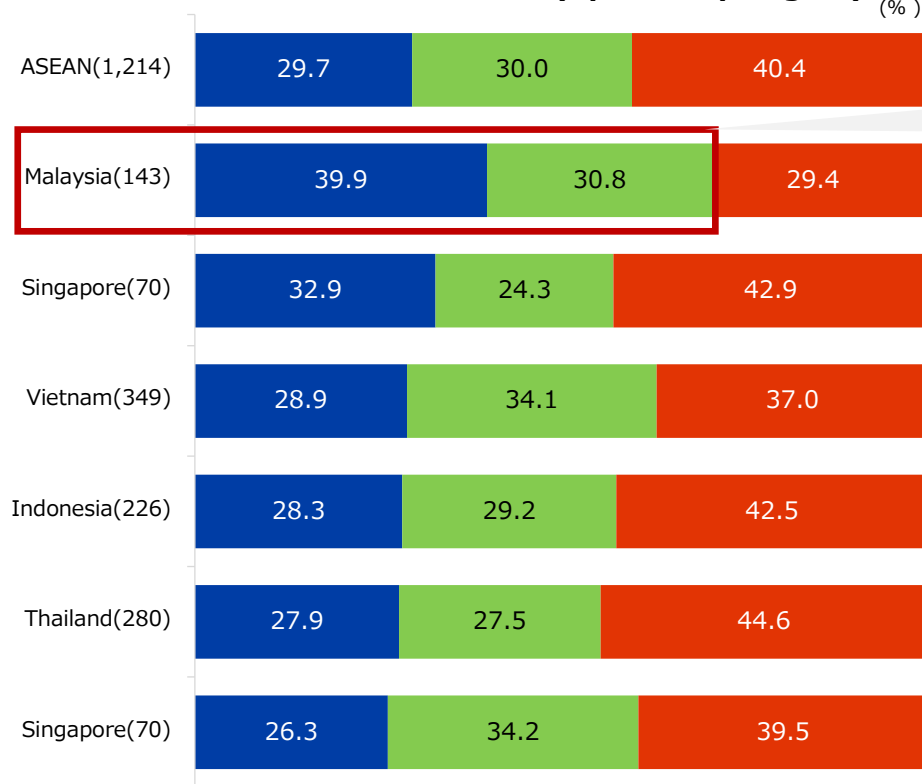
### Specific measures and success stories regarding recruitment and retention of human resources in Malaysia

<b>Enhancement of employee welfare</b>	<ul style="list-style-type: none"> <li>Renovate the welfare building and establish a refreshment room for staffs</li> <li>Factory employees are retained <b>by increasing meal allowances</b></li> <li><b>Schedule holidays</b> according to the region</li> <li><b>Continuation of remote work</b> for office worker, introduce <b>flexible working arrangement</b></li> </ul>	<b>Efforts in recruitment and promotion</b>	<ul style="list-style-type: none"> <li>Active hiring of former employees or <b>senior citizens (over 50s)</b></li> <li>Hold job fairs at universities, advertise on social media, accept interns</li> <li><b>Reward trip to Japan</b> for outstanding employees</li> <li>Revise the evaluation system. Set management track/professional career track</li> </ul>
<b>Salary increment</b>	<ul style="list-style-type: none"> <li>Perform salary increment regularly</li> <li>Payment of <b>incentives for good attendance rate</b></li> <li>Retention rate has improved after <b>increasing the number of bonus payments</b></li> </ul>	<b>Improve team communication</b>	<ul style="list-style-type: none"> <li>Holding team-building events and reward long-term service to employees</li> <li><b>Regular in-house events</b> (fun trips, etc.) result in retention</li> <li>Change from top-down style to dialogue-style communication</li> </ul>

# 4 Interests and efforts in implementing automation: 40% of production lines have been automated; Malaysia highest among major ASEAN countries

- The percentage of companies that are already working on automation stood at 39.9% in Malaysia, which ranked first among major ASEAN countries. If future plans are also included, the ratio rises to about 70%.
- Reflecting current efforts, Malaysia also stood out in terms of the level of interest in automation at 36.1%. Only lesser than 20% of companies are “not very interested” or “not interested” in automation.

Status on automation initiative (by country/region) (%)

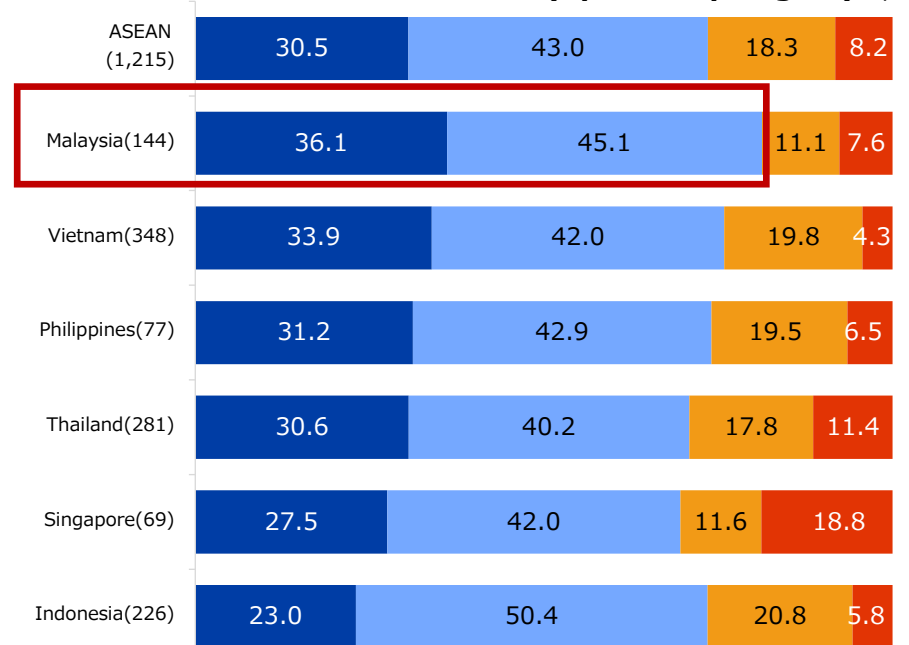


- Already working on it
- Have not started but have plans to work on it in the future
- No plans to work on it for the time being

**Specific examples in Malaysia**

- Introduction of robots
- Unmanned inspection, automation of visual inspection
- Automatic aggregation of operational data
- Optimization through collaboration between manpower and automated equipment
- Implementing Industry 4.0

Level of interest in automation (by country/region) (%)

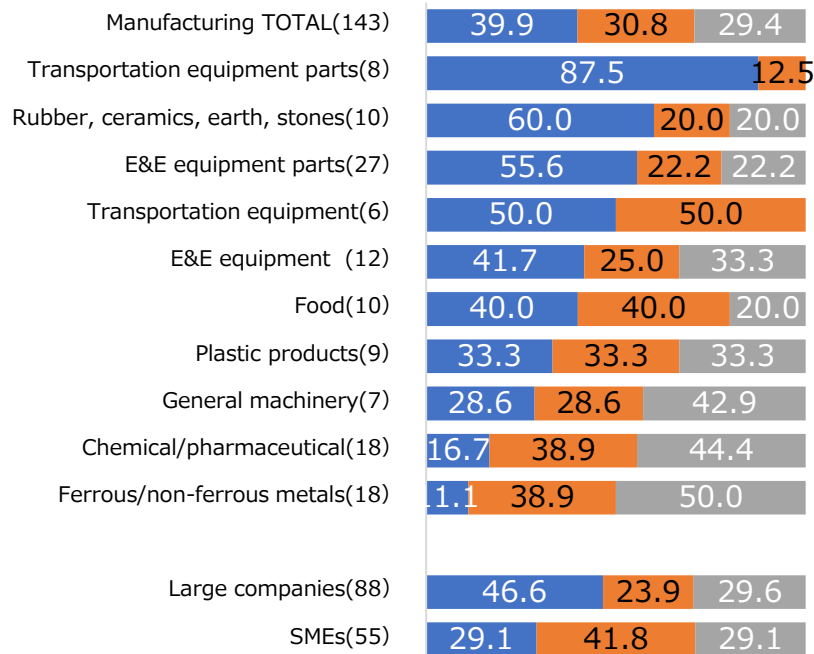


- Very interested
- Fairly interested
- Not very interested
- Not interested

# 5 | Interests and efforts in implementing automation (Malaysia): Progress in automation for transportation equipment parts and E&E equipment parts

- Looking at companies that are already working on automation by industry, transportation equipment parts accounted for the largest share at 87.5%, followed by rubber, ceramics, earth, stone, and E&E equipment parts. By company size, 46.6 % of large companies have already implemented automation.
- By industry, the level of interest in automation was particularly high in transportation equipment parts and food products.
- 30% of companies have no plans to undertake such initiatives due to factors such as unsuitable manufacturing process for automation or lack of funds.

**Automation initiative status (by industry and scale) (%)**



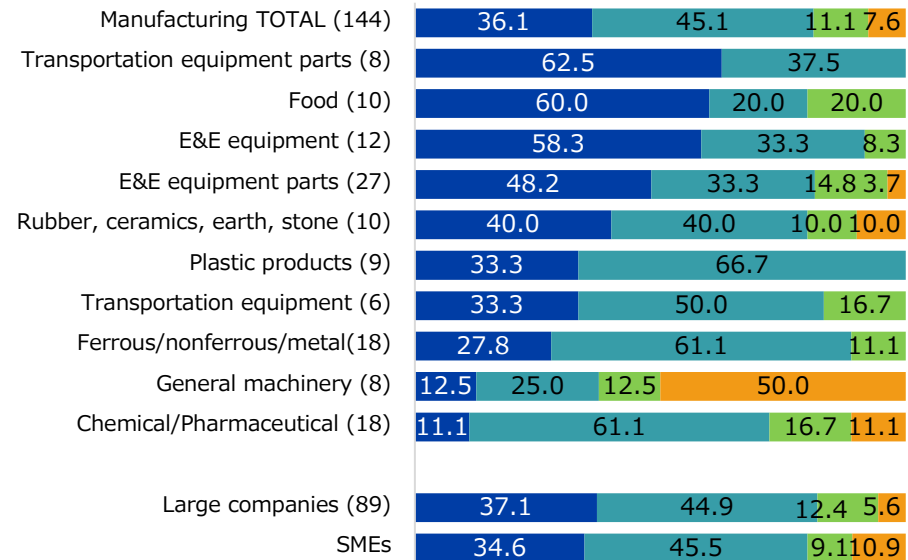
- Already working on it
- Have not started but have plans to work on it in the future
- No plans to work on it for the time being

(Note) Displaying industries with 5 or more valid responses.

**Reasons for not working on automation**

- Manufacturing process is not suitable for automation
- Limited processes that can be automated
- Due to high-mix, low-volume production, automation costs cannot be recovered.
- There are issues to be addressed before automation (improving operating rates, normalizing machine operation)
- Lack of funds

**Level of interest in automation (by industry and size) (%)**



- Very interested
- Fairly interested
- Not very interested
- Not interested

## 6 | Reasons and hurdles for implementing automation: Sophistication of production lines / technology and a rise in labour costs

- In Malaysia, 78.2% of companies cited “sophistication of production lines/technology” and 73.3% cited “rising labour costs” as reasons for them implementing automation. 51.5% also cited “shortage of workers”, ranking second highest among major ASEAN countries after Singapore.
- Nearly 60% of companies in Malaysia cited “difficulty securing HR capable of handling automation technology” as a hurdle to automation. Although other countries also had high response rates for this reason, Malaysia ranked the highest; indicating these companies are having a tough time securing human resources.

### Background / reasons for implementing automation (by country/region)

(%)

Country / Region	Sophistication of production lines/ technology	Rising labour costs	Shortage of workers	High added value to manufactured products	Easy to secure manpower who can handle automation technology	Reducing manpower for infectious disease control	Stable power supply	Cheap electricity bill	Others
ASEAN (721)	77.7	75.3	33.0	26.1	4.4	2.9	1.0	0.8	3.6
Vietnam (219)	79.9	74.0	37.0	27.9	3.2	4.1	0.9	-	2.3
Thailand (155)	76.8	79.4	31.0	25.8	5.2	4.5	1.3	0.6	3.9
Indonesia (129)	78.3	79.1	9.3	20.2	3.1	-	-	2.3	3.1
Singapore (39)	64.1	82.1	64.1	23.1	7.7	2.6	2.6	-	2.6
<b>Malaysia (101)</b>	<b>78.2</b>	<b>73.3</b>	<b>51.5</b>	<b>24.8</b>	<b>5.9</b>	<b>4.0</b>	<b>1.0</b>	<b>2.0</b>	<b>3.0</b>
Philippines (46)	84.8	67.4	21.7	32.6	2.2	-	2.2	-	6.5

### Hurdles to automation in the investment environment (by country/region)

Country / Region	Difficulty securing HR capable of handling automation technology	No support policy from the local government	High electricity bill	Unstable power supply	Others	Nothing in particular
ASEAN (678)	51.5	21.8	15.6	9.9	11.8	23.7
Vietnam (208)	48.6	18.3	6.3	17.3	15.9	27.4
Thailand (148)	56.1	16.9	20.3	4.7	8.1	23.0
Indonesia (117)	48.7	31.6	10.3	4.3	7.7	25.6
Singapore (34)	44.1	14.7	23.5	5.9	8.8	29.4
<b>Malaysia (94)</b>	<b>56.4</b>	<b>21.3</b>	<b>16.0</b>	-	<b>14.9</b>	<b>21.3</b>
Philippines (45)	46.7	35.6	51.1	17.8	6.7	15.6
Cambodia (19)	52.6	15.8	21.1	21.1	26.3	10.5

(Note 1 ) Survey targeted at companies that are already working on automation or are planning to do so in the future.

(Note 2 ) Darker highlights of a column indicate higher percentages.



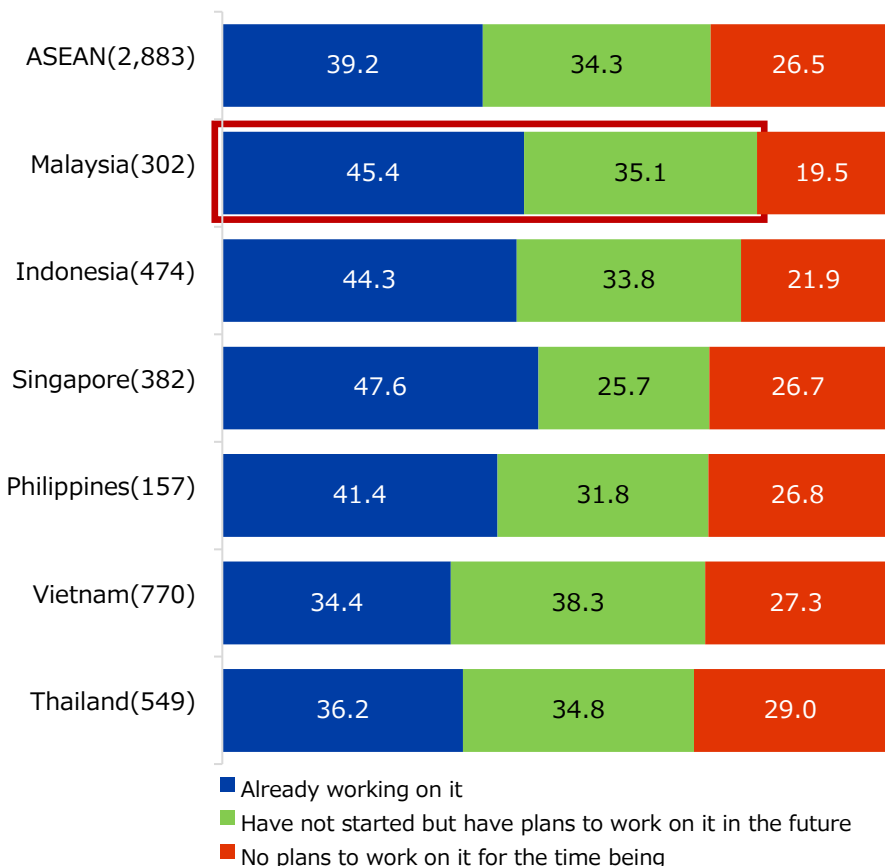
1

Efforts toward decarbonization:

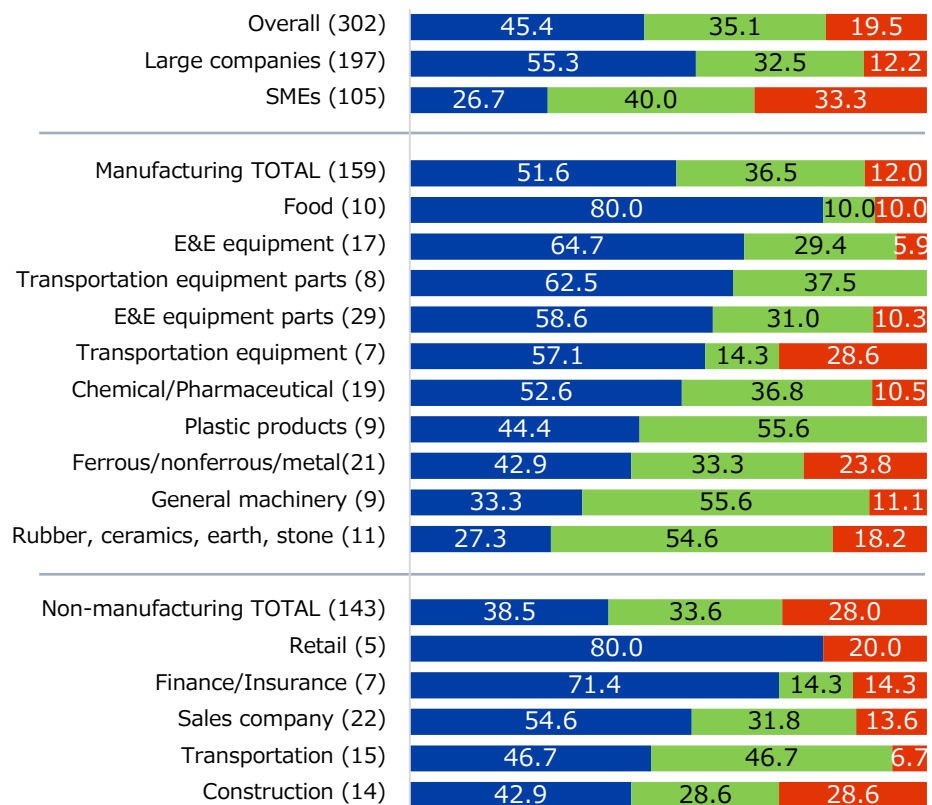
# More than 80% of companies in Malaysia have decarbonization initiatives, including SMEs

- 80.5% of companies in Malaysia answered that they are "already working on it" or "have not started but have plans to work on it in the future", such as reducing greenhouse gases, which is the highest among major ASEAN countries. Compared to the previous year's survey, the percentage has increased by 4.5 points.
- By size, the number of SMEs in Malaysia that has "no plans to work on it" has decreased by 9.6 points from the previous year's survey. SMEs also appear to be making progress in decarbonization efforts. By industry, 51.6% from the manufacturing industry and 38.5% from the non-manufacturing industry responded that they were "already working on it", an increase by nearly 10 points respectively from the previous year's survey.

Status of decarbonization efforts (%)



Status of decarbonization efforts in Malaysia (by industry)



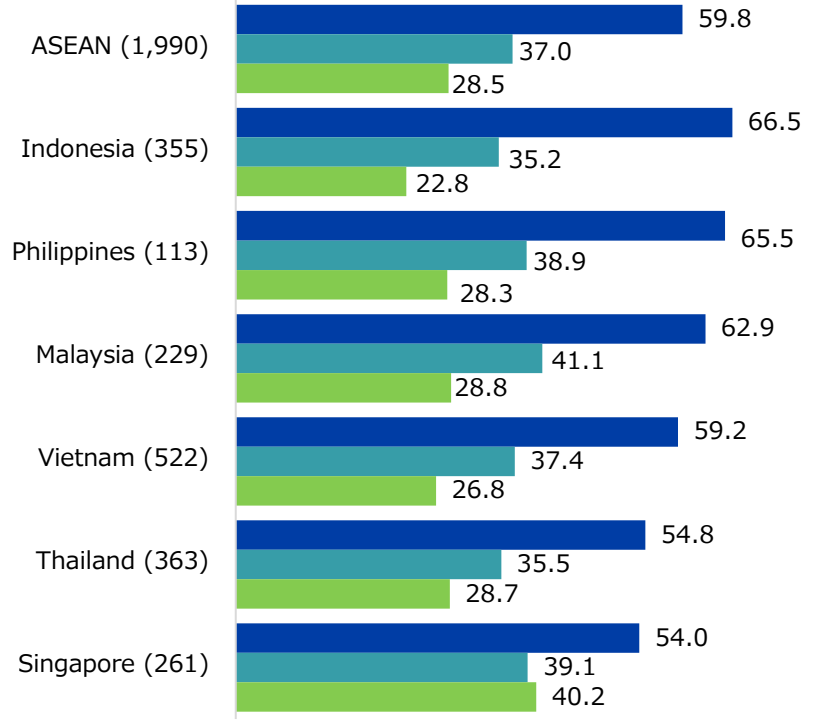
(Note) Only displaying industries with 5 or more valid responses.

# 2

## Decarbonization initiatives and challenges: Progress seen among manufacturing industry in Scope 1 and 2, and among non-manufacturing industry in Scope 3

- Regarding specific efforts towards decarbonization, many countries are involved in Scope 1 initiatives, including Malaysia.
- Examples in Malaysia include greening production and internal procedures, as exemplified by the use of renewable energy such as the introduction of solar panels, innovating products such as biomass fuel, and promoting surveys and research.
- On the other hand, many people complain of policy inadequacies such as a lack of incentives and lack of transparency, and other issues including cost burden and low public awareness.

**Target of decarbonization efforts (multiple answers, including future plans) (%)**



**Specific efforts for decarbonization in Malaysia**

<b>Greening of production and internal procedures</b>	<ul style="list-style-type: none"> <li>Production and utilization of biomass plastics (plastic)</li> <li><b>In-house recycling</b> of defective products (plastic)</li> <li>Introduction of solar panels and hybrid cars (ferrous/nonferrous/metal)</li> <li>Introduction of carpooling (transportation)</li> </ul>
<b>Innovation of products handled</b>	<ul style="list-style-type: none"> <li>Handling biomass fuel (trading/wholesale)</li> <li>Sales of energy-saving products. <b>Utilize renewable energy (RE) across group companies.</b> Minimize power consumption in business operations. Responding to future home appliance recycling regulations. Purchasing RE certificates. Initiatives to utilize oil palm (sales company)</li> </ul>
<b>Survey / research</b>	<ul style="list-style-type: none"> <li>For coal-dependent power generation businesses, research on <b>converting to biomass fuel</b> and developing other products (transportation)</li> <li>Production R&amp;D for SAF raw materials (education/medical)</li> </ul>

**Challenges to decarbonization efforts in Malaysia**

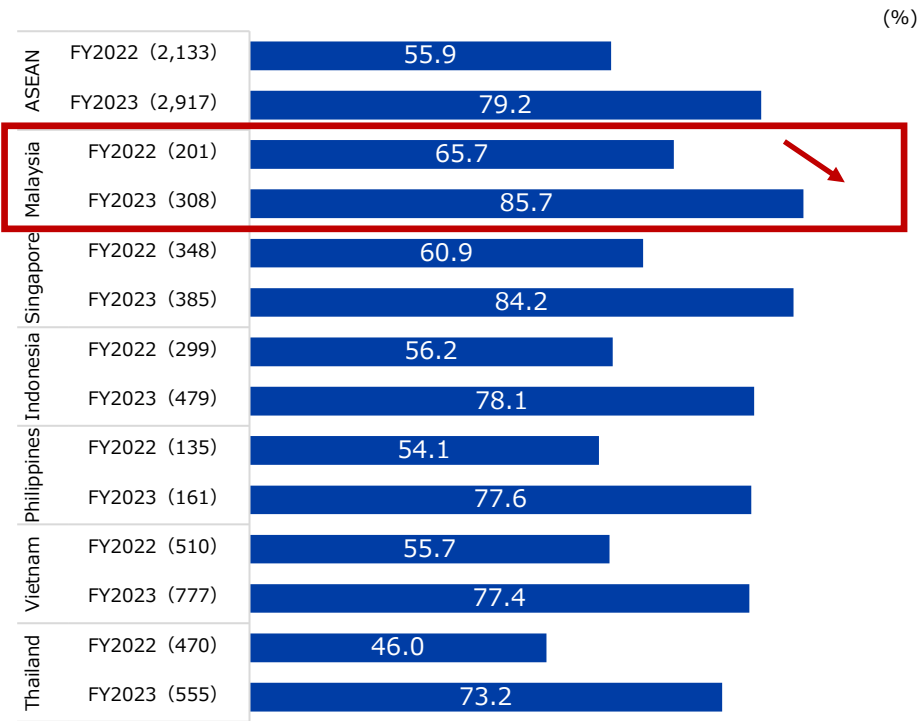
<b>Inadequacy in policies</b>	<ul style="list-style-type: none"> <li><b>Insufficient incentive</b> for decarbonization (general machinery)</li> <li>Details of subsidies and incentives for solar power generation <b>are unclear</b> (rubber, ceramics, earth, stone)</li> <li>The Roadmap for Decarbonization (NETR) has been announced, but the challenge lies on how to translate this into concrete actions (trading/wholesalers)</li> <li>Insufficient supply of green power certificates to meet renewable energy demand (finance/insurance)</li> <li>Tight schedule for compliance with ESG guidelines from authorities (finance/insurance)</li> </ul>
<b>Cost burden</b>	<ul style="list-style-type: none"> <li>Huge implementation cost (real estate/rental industry)</li> <li>Requires large amount of capital investment (textiles/clothing)</li> <li>Surge in green electricity price (E&amp;E equipment)</li> </ul>
<b>National consciousness</b>	<ul style="list-style-type: none"> <li>Low level of awareness in Malaysia (E&amp;E equipment)</li> <li>With <b>abundant fossil resources</b>, we have doubts about the government's seriousness toward decarbonization (E&amp;E equipment)</li> <li>Low gasoline price is affecting EV penetration (finance/insurance).</li> </ul>

- Initiatives for Scope 1 (direct greenhouse gas emissions by businesses: fuel combustion, industrial processes)
- Initiatives for Scope 2 (indirect emissions associated with the use of electricity, heat, and steam supplied by other companies)
- Initiatives for Scope 3 (indirect emissions other than Scope 1 and Scope 2: Efforts to address other companies' emissions related to business activities)

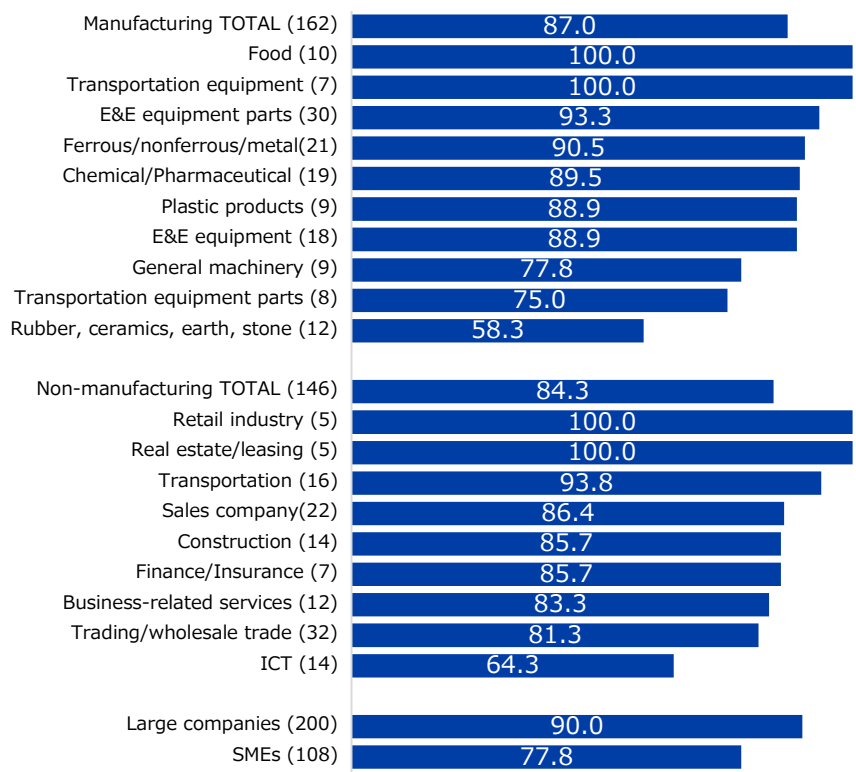
# 3 Human rights issues in the supply chain: Malaysia ranks first on awareness of human rights issues for the third consecutive year

- The percentage of companies that recognize human rights issues as an important management challenge was 79.2% in ASEAN, while the percentage in Malaysia was higher at 85.7%. Malaysia's response rate ranked first among major ASEAN countries for the third consecutive year.
- In Malaysia by company size, the number of large companies was 90.0%, an increase of 16.0 points from the previous year, and the percentage of SMEs was 77.8%, an increase of 26.4 points from the previous year.
- By industry, response rates were particularly high for manufacturing industries such as food products, transportation equipment, electrical/electronic equipment parts, and iron/nonferrous metals/metals, and for non-manufacturing industries such as retail trade, real estate/leasing industry, and transportation industry.

**Percentage of companies which recognize human rights issues in the supply chain as an important management challenge**



**Percentage in Malaysia (by industry)** (%)



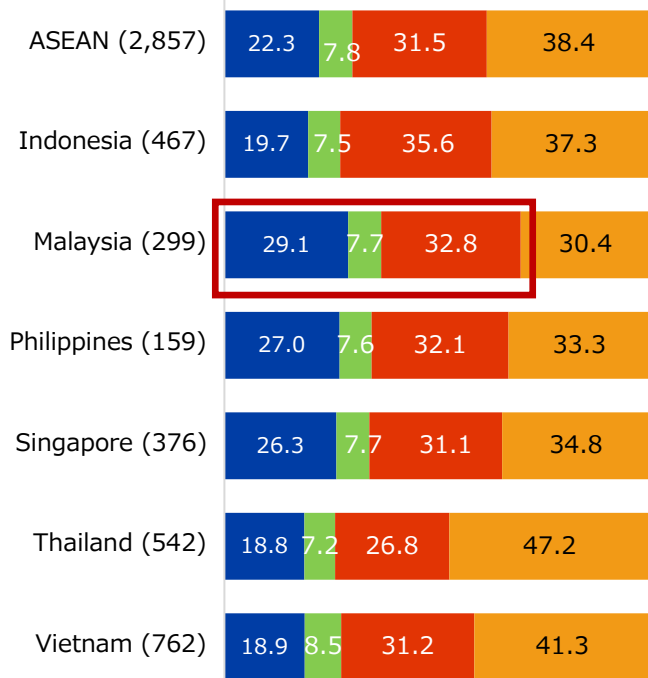
(Note) In the 2022 survey, the question was "Do you recognize human rights issues as a management challenge?" but in 2023, the question has been changed to "Do you recognize human rights issues as an important management challenge?"

(Note) Industries with 5 or more valid responses . Copyright © 2024 JETRO. All rights reserved.

# 4 | Implementation of human rights due diligence (DD): 30% of companies in Malaysia have implemented DD

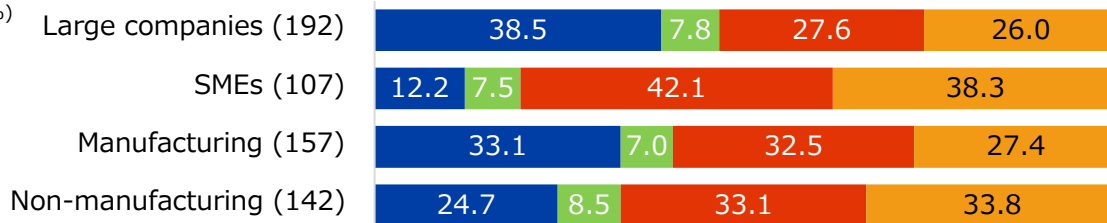
- The percentage of companies implementing human rights due diligence (DD) was 22.3% in ASEAN, and 29.1% in Malaysia. Including companies that are preparing or collecting information for implementation consideration, Malaysia's ratio rises to 69.6%, the highest among the major ASEAN countries.
- The implementation rate was particularly high among large companies by company size; and among manufacturing industry.
- The reasons for implementing human rights DD were the policies of the head office, requests from customers, and the fact that foreign workers are often employed due to circumstances unique to Malaysia. On the other hand, there are also cases where respondents do not feel it is necessary, or they recognize it is necessary but do not implement it due to a lack of internal resources.

**Human rights DD implementation status (by country/region)** (%)



- Human rights DD is being implemented
- Preparing for implementation
- Collecting information for consideration of implementation
- Neither human rights DD nor information gathering has been conducted

**DD implementation status in Malaysia (by size and industry)**



## Background of DD implementation in Malaysia

### Reason for implementing HR DD

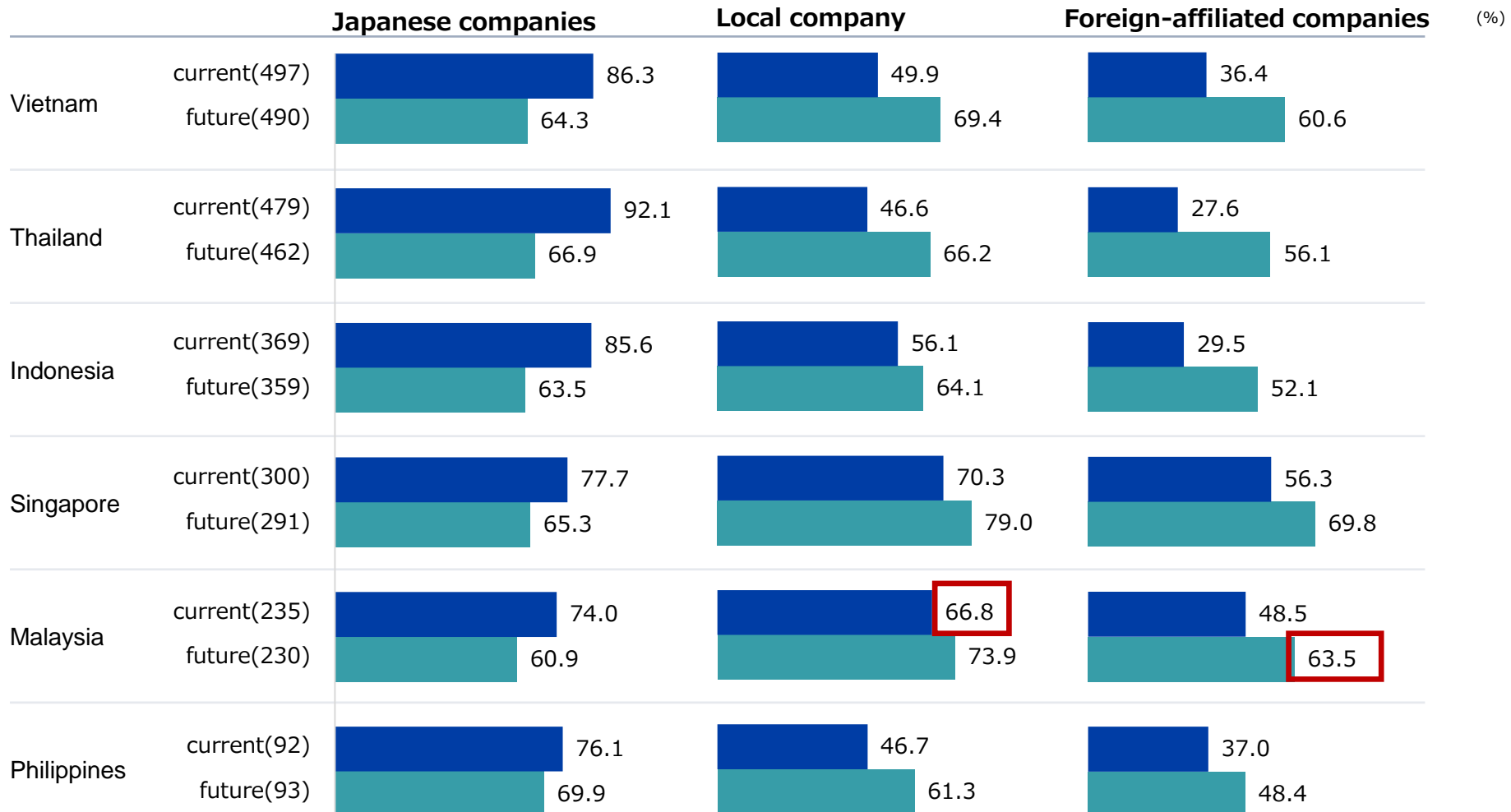
- Based on **head office policy and guidance**. Respect for human rights is the most important item in the Group Code of Conduct.
- Increased company vision and global interest provide guidance based on **customer requests** and customer audits.
- Required to comply with the Responsible Business Alliance (RBA) at the request of US customers.
- We believe that consideration for human rights in accordance with international standards is the **foundation of sustainability management**.
- Companies that neglect human rights are not sustainable and cannot develop stable businesses.
- We view conflict minerals issue as an important issue to fulfil our social responsibility.
- When managing entrusted assets, we consider all ESG perspectives when selecting investment destinations.
- For compliance and **continued employment of foreign workers** (avoiding complaints from human rights organizations).
- Malaysia is a **melting pot**. If there is injustice, it will be difficult to maintain control.

### Reason for not implementing

- Because the **head office policy has not been determined**.
- Because I don't think there is a particular problem.
- If there are no human rights violations and operations are normal, I don't think this will happen in the future.
- Since most of our purchased items are purchased from vendors designated by our customers, we do not carry out human rights DD in-house and **do not feel the need** to do so.
- As an industry, the risk of human rights violations in the supply chain is relatively low, and there are currently no requests from supervisory authorities.
- All employees are Malaysian, and no foreigners are employed. In addition, employment conditions are set in accordance with government requirements and laws.
- There is insufficient information and future issues to consider.
- **Lack of in-house resources, unable to manage**.
- Low priority.
- I don't know the specific implementation method.
- I am unaware about the existence of human rights DD in the first place.

# 1 | B-to-B/G target group: In the future, the proportion of local companies will surpass Japanese companies.

- In Malaysia, the current target group for corporate (B-to-B) business is Japanese companies, at 74.0%. This trend is common across ASEAN, but in Malaysia, the proportion of local companies is also relatively high at nearly 70%.
- In the future, local companies will outnumber Japanese companies in each country. The proportion of foreign-affiliated companies is also expected to exceed 50% in each country.



(Note) Foreign-affiliated companies exclude Japanese companies.

## 2 | B-to-C target group: Mainly middle class; with upper class set to surpass 80% in the future

- The target group in Malaysia for non-manufacturing consumer (B-to-C) businesses is currently the middle class, which accounts for the largest proportion at around 80%. Although it is currently the second-highest after Indonesia, it is the only country among major ASEAN countries to see a decline of more than 10 points in the future.
- In the future, the ratio of targeting upper income group will increase across all major ASEAN countries except the Philippines. Malaysia is also expected to increase by 6.1 points, making it the highest among major ASEAN countries.





## Competitors:

# 3 Most competitors are fellow Japanese companies; with challenges unique to Malaysia

- In terms of competitors in the local market in ASEAN, Japanese companies accounted for 65.8%, followed by local companies at 61.2%. Similarly in Malaysia, Japanese company accounted for the highest number at 61.0%, but the percentage for China companies were relatively high across major ASEAN countries.
- Several challenges in market development in Malaysia were cited such as the small market size, lack of connections with the government/industry, intentions of government-linked companies (GLCs), the presence of Bumiputera companies, and the difficulty of marketing due to ethnic diversity, some of which are challenges unique to Malaysia.

**Competitors in each country (up to 3, multiple answers)** (%)

	Local company	Japan company	China company	Europe company	South Korea company	US company	Taiwan company	ASEAN company	Hong Kong company
ASEAN (2,309)	61.2	65.8	35.1	10.7	12.4	7.7	7.8	5.8	0.8
Vietnam (552)	66.7	63.0	28.1	6.9	18.5	6.5	12.9	7.6	0.4
Thailand (505)	62.8	76.4	42.4	6.3	5.5	5.0	6.1	1.8	-
Indonesia (400)	65.0	64.8	31.8	9.8	16.5	5.5	4.8	3.5	0.8
Singapore (320)	48.4	66.3	39.1	20.9	8.4	14.1	7.8	6.6	1.9
<b>Malaysia (264)</b>	<b>55.3</b>	<b>61.0</b>	<b>38.6</b>	<b>18.9</b>	<b>11.0</b>	<b>12.5</b>	<b>8.0</b>	<b>8.3</b>	<b>1.5</b>
Philippines (99)	53.5	62.6	35.4	10.1	13.1	10.1	6.1	5.1	-

(Note 1) Competitors are based on the classification of the investment country of the company registered in the country where it operates. This is not a classification based on the country or region of origin of the products or services provided.

(Note 2) If the response rate is 70% and above, it is coloured dark orange; if it is 50% and or above but lesser than 70%, it is coloured orange; and if it is lesser than 50% but exceeds the total percentage by 10 points or more, it is in light orange.

## Challenges in market development in Malaysia

### Small market size

- The market is small and does not expand (ferrous, non-ferrous, metal).
- Demand itself is weak.** Retail was at its peak during the coronavirus pandemic. Have to develop new market (plastic products).
- We only target Japanese companies, but it is difficult to acquire new customers as there are **fewer Japanese companies entering Malaysia** (finance/insurance)

### Lack of connections with government and industry

- Difficult to obtain information due to weak local connections (rubber, ceramics, earth and stone).
- Difficulty approaching local industry (chemical/pharmaceutical)
- There are **barriers to connect with the government and penetrating the government sector** (transportation equipment).

### Difficult to secure human resources

- Difficulty securing and retaining sales personnel (other manufacturing industries)
- Training and securing professional staff (agriculture, forestry and fisheries)

### Request for price reduction

- We are in a very difficult situation as our products are not price-competitive against cheap products from Chinese companies (electrical/electronic equipment).
- Market demand that **prioritizes cost** and not Japanese quality (ferrous, nonferrous, and metal)

### Malaysia-specific factors

- It is very difficult to raise funds (electrical/electronic equipment)
- When dealing with GLCs, it is necessary to **grasp the intentions of the Malaysian government in a timely** and accurate manner (trading companies/wholesalers)
- Loss of profits and payment delays due **to contracts routed through Bumiputera** companies in government procurement projects (sales company)
- Different marketing strategies for **Chinese, Malay, and Indian markets are required** (retail).
- While the future of EVs is influencing demand, the outlook for EVs is still unclear, and the head office and industry are having a hard time identifying future trends (travel/entertainment).

## For enquiries regarding this report

Japan External Trade Organization (JETRO)

Kuala Lumpur Office



60-3-2171-6100



MAK@jetro.go.jp



9th Floor, ChulanTower,  
No.3 Jalan Conlay,  
50450 Kuala Lumpur, MALAYSIA

### ■ Disclaimer

[ Note ] The total may not tally because it includes fractions of a unit.

[ Disclaimer ] Please use the information provided in this report at your own discretion and responsibility. Although JETRO strives to provide information as accurate as possible, JETRO assumes no responsibility whatsoever for any disadvantages that may arise to users related to the content provided in this report. Please note that we cannot be held responsible.

Reproduction without permission is prohibited