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**Results of JETRO's  
FY2016 Survey on Business Conditions of  
Japanese-Affiliated Firms in the Middle East  
(United Arab Emirates, Saudi Arabia, Turkey)**

**February 2017**

**Middle East and Africa Division**

**Overseas Research Department**

**Japan External Trade Organization (JETRO)**

## Key Points of Survey Results

### **Expectation of market growth despite uncertain outlook for the future**

### **About 60% of the companies surveyed plan to expand business**

★ Although more than half of the companies posted a surplus in 2016, approximately 20% registered losses due to the impact of factors such as deterioration of public order and drop in oil prices. Compared to the previous year, more than 30% of the companies forecast a downturn in operating profit.

★ Business performance for 2017 is expected to improve in comparison with 2016.

★ Despite the uncertain outlook for the future, market scale and growth potential are attractive factors. Approximately 60% of the companies plan to expand their business. The investment environment of UAE offers many advantages, including free zones and an attractive tax system.

★ The challenges include an underdeveloped legal system or unclear legal system operation, increase in costs such as labor costs, and slow administrative procedures. For Turkey, a major concern is political and social instability.

# Survey Overview

## Objective

- To grasp the actual conditions of Japanese-affiliated companies' business activities in the Middle East (United Arab Emirates (UAE), Saudi Arabia, and Turkey) 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 212 companies (117 from UAE, 42 from Saudi Arabia, and 53 from Turkey).

## Period

- September 5 to November 13, 2016

## Response Rate

- The response rate was 49.3% (questionnaires were distributed to 430 companies, and valid responses were received from 212 of them).
- By country, the response rate was 47.2% for UAE (117 of 248 companies), 50.6% for Saudi Arabia (42 of 83), and 53.5% for Turkey (53 of 99).

## Remarks

- This was the fourth survey for UAE and the third for Saudi Arabia. For Turkey, it was the second survey that covered all industries.
- 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

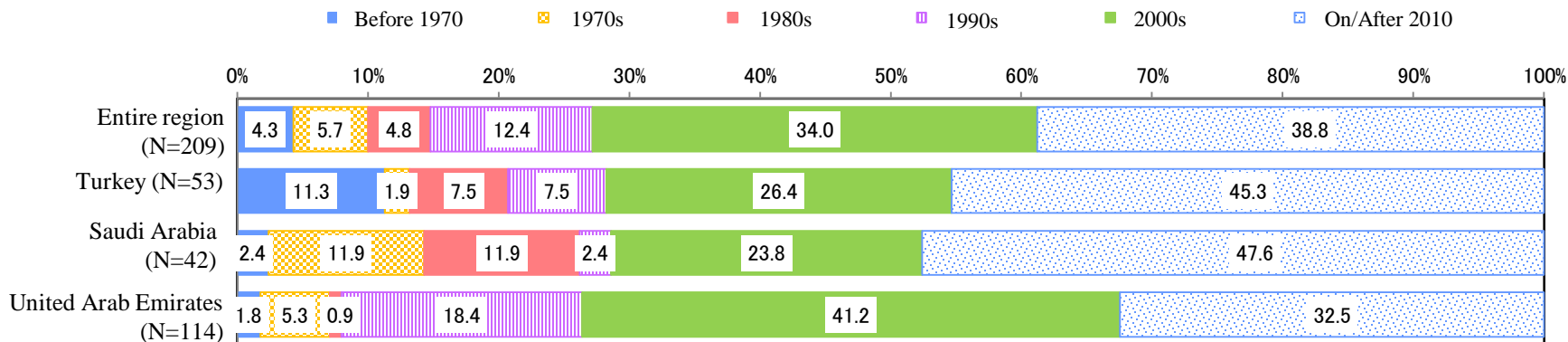


No. of Japanese-affiliated companies (as of October 1, 2015)	No. of bases	Y-o-Y (%)
<b>United Arab Emirates (UAE)</b>	<b>304</b>	<b>▲ 0.3</b>
<b>Turkey</b>	<b>138</b>	<b>22.1</b>
<b>Saudi Arabia</b>	<b>119</b>	<b>7.2</b>
Qatar	46	2.2
Israel and the Gaza Strip, etc.	36	20.0
Iran	32	▲ 3.0
Bahrain	25	31.6
Jordan	21	0.0
Kuwait	16	0.0
Oman	12	▲ 7.7
Lebanon	7	16.7
Yemen	0	-
Afghanistan	-	-
Iraq	-	-
Syria	-	-
<b>Total</b>	<b>756</b>	<b>6.0</b>

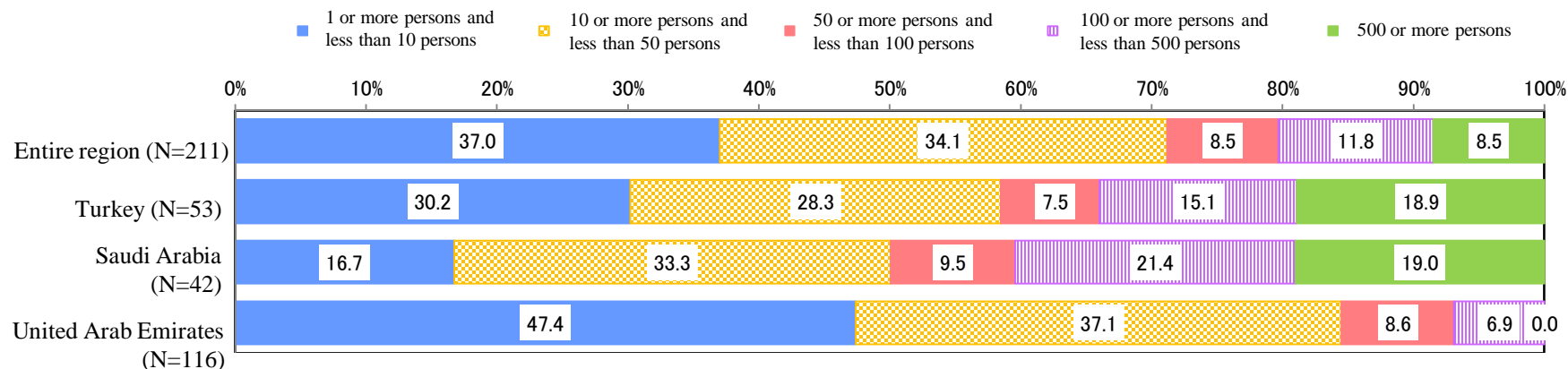
Source: Ministry of Foreign Affairs, "Annual Report of Statistics on Japanese Nationals Overseas (FY2016 Summary version)"

# Company Profile (1)

## Year of establishment

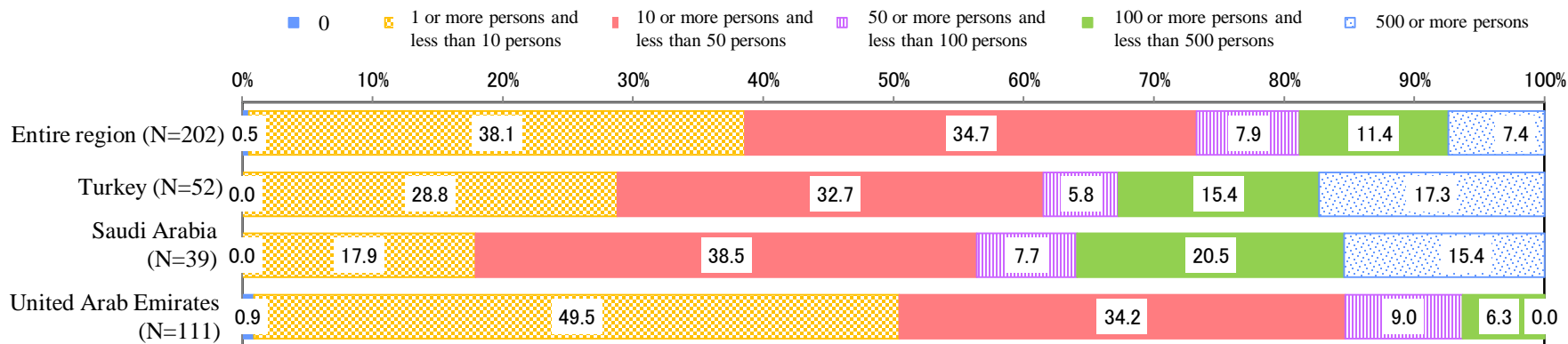


## Total number of employees

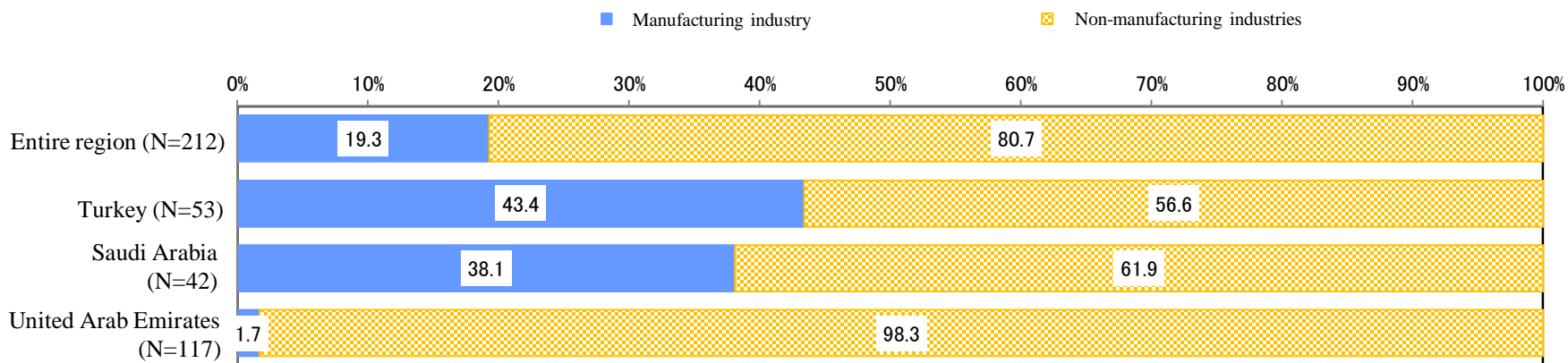


# Company Profile (2)

## Number of regular employees



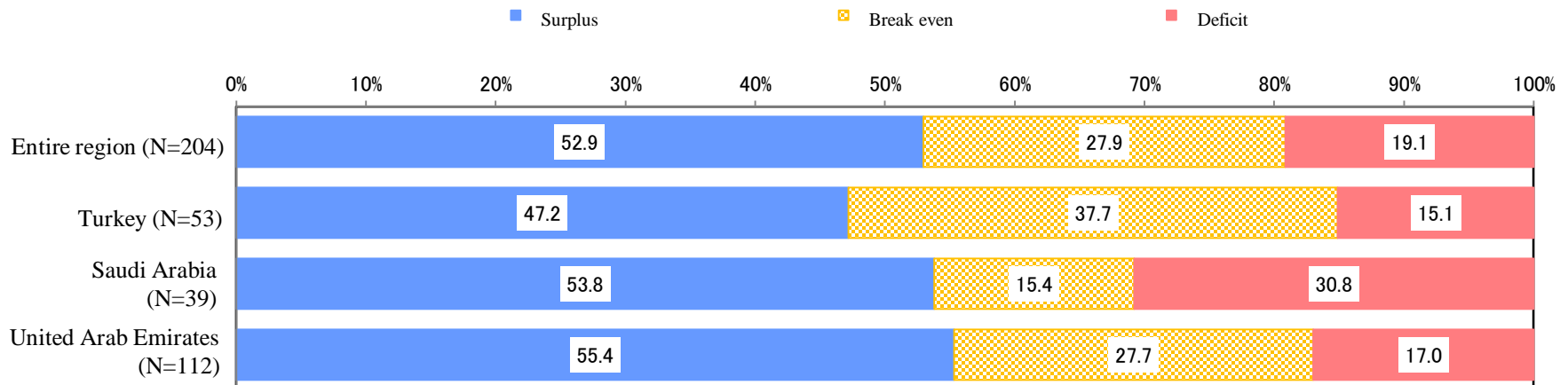
## Industry (Manufacturing and non-manufacturing)



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

- A look at the operating profit forecasts for the Middle East in 2016 indicates that more than half of the companies replied that they estimate a surplus. On the other hand, about 20% of the companies replied that they forecast a loss.
- By country, UAE had the largest percentage of companies predicting a surplus (55.4%), followed by Saudi Arabia at 53.8%. Turkey had the lowest percentage (47.2%) among the three countries, falling below 50%. Conversely, Turkey registered the smallest percentage of companies forecasting a loss (15.1%), followed by UAE at 17.0%. This figure was a little higher than 30% for Saudi Arabia (30.8%). In Saudi Arabia, we observed the two extremes, with the highest percentage of companies estimating a surplus as well as a deficit.

### Operating Profit Estimate for 2016

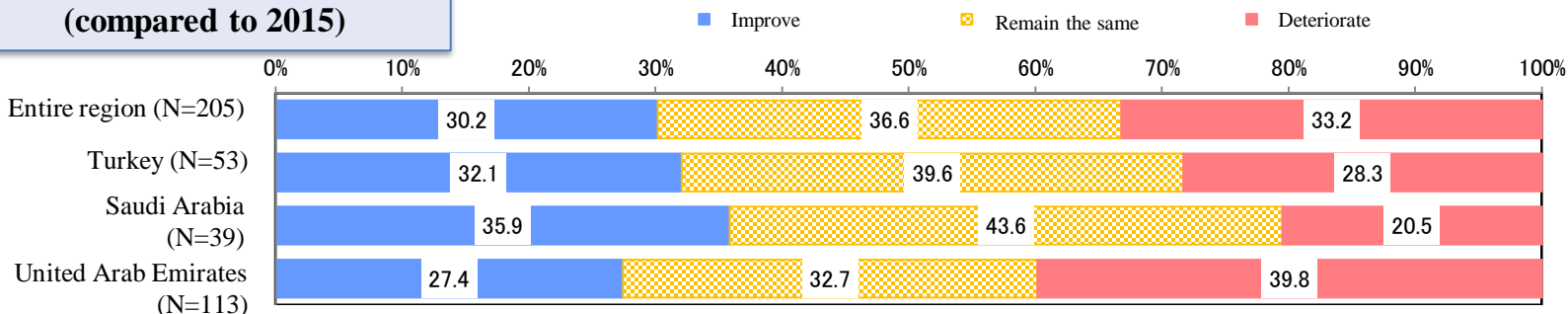


## Operating Profit Estimate (2):

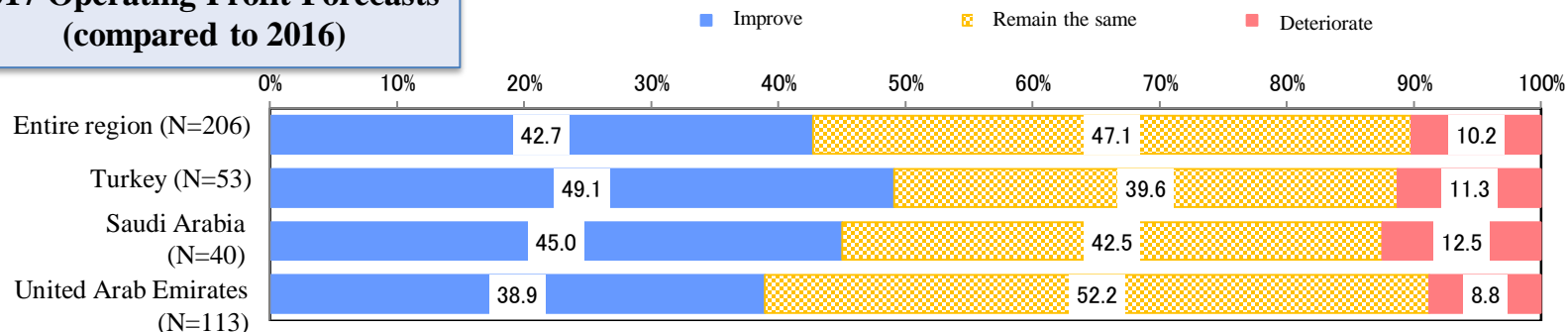
### Increase in companies anticipating improvements in 2017 compared to 2016

- Looking at operating profit forecasts for the Middle East, we see that the percentage of companies that responded with an improved forecast from the previous year had increased from 30.2% in 2016 to 42.7% in 2017. On the other hand, the percentage of companies that responded "deteriorate" fell from 33.2% to 10.2%. Overall, the percentage of companies with a brighter outlook on operating profit was higher in 2017 than in 2016.
- By country, the largest percentage of companies responding "improve" for their 2017 operating profit forecasts was observed in Turkey (49.1%), followed by Saudi Arabia (45.0%). UAE had a relatively low percentage at 38.9%. On the other hand, Saudi Arabia had the highest percentage of companies responding "deteriorate" (12.5%), followed by Turkey at 11.3% and UAE coming in with the lowest percentage of 8.8%.
- A comparison with the previous year indicated that the percentage of companies in Saudi Arabia that expect operating profit forecasts to improve had increased from 35.9% in 2016 to 45.0% in 2017. Similar increases were also observed for Turkey, from 32.1% to 49.1%, and for UAE, from 27.4% to 38.9%. On the other hand, the percentage of companies expecting a deterioration in operating profit forecasts fell significantly for each country, from 20.5% to 12.5% for Saudi Arabia, 39.8% to 8.8% for UAE, and 28.3% to 11.3% for Turkey. For each of the countries, many companies predict an upturn from 2016 with respect to their operating profit forecast for 2017.

#### 2016 Operating Profit Estimate (compared to 2015)



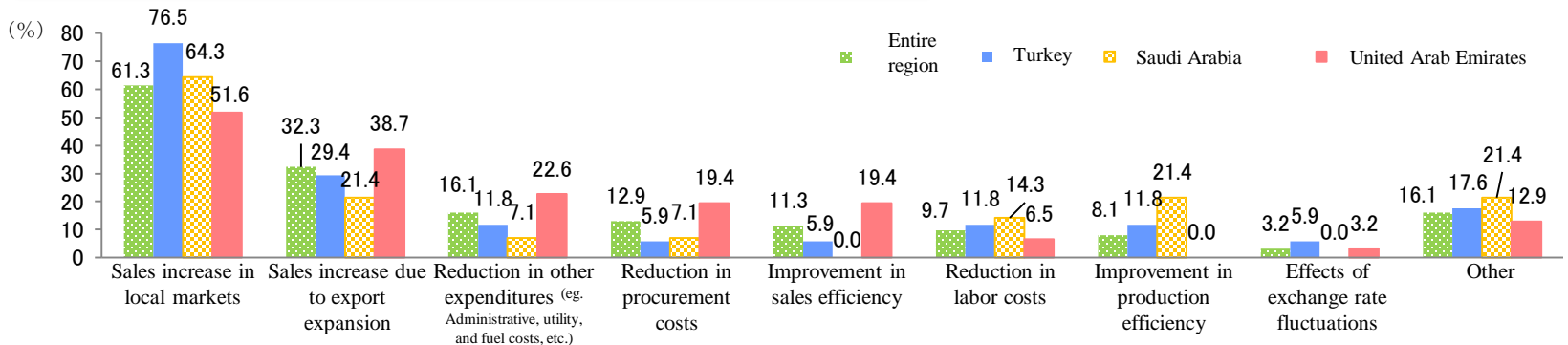
#### 2017 Operating Profit Forecasts (compared to 2016)



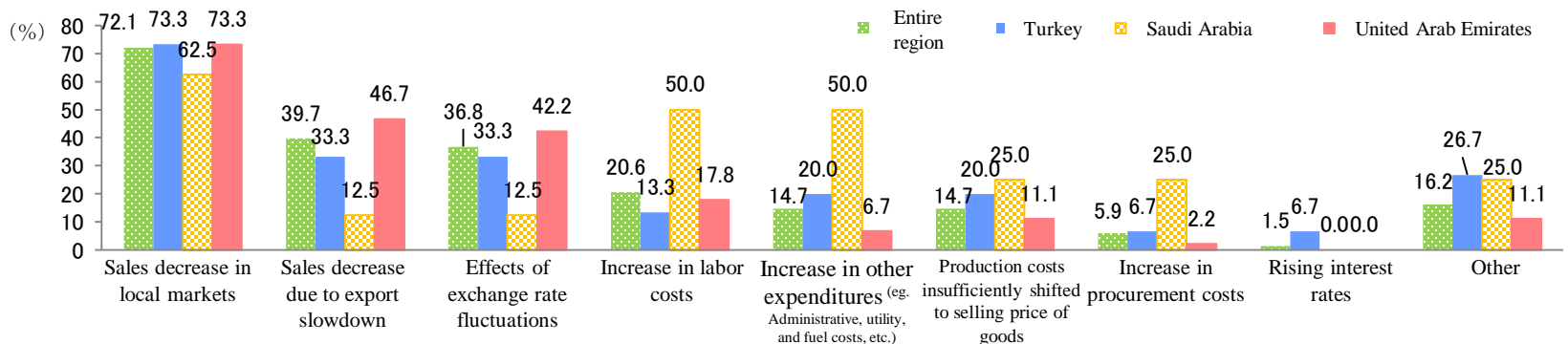
## Operating Profit Estimate (3): Sales in the local markets has an impact on improvement/deterioration in operating profit forecasts

- A look at the main reason for an improvement in forecast for operating profit in 2016 shows that the largest percentage of companies in each country and across the region, between 50 - 70%, answered "sales increase in local markets." This was followed by "Sales increase due to export expansion." In Saudi Arabia, the highest percentage of companies (a little higher than 20%) indicated "Improvement in production efficiency" as the main reason for an improved forecast, while in the UAE, many companies also listed "Reduction in other expenditures," "Reduction in procurement costs" and "Improvement in sales efficiency" as their main reason.
- The largest percentage of companies (60 - 70%) in each country and across the region chose "Sales decrease in local markets" as the main reason for a deterioration in operating profit forecast. In second place for the entire region was "Sales decrease due to export slowdown" at a little lower than 40%. Looking at country, however, the reasons were split among the countries. The top reasons listed by companies in Turkey were "Sales decrease due to export slowdown" and "Effects of exchange rate fluctuation" (a little higher than 30% for both); for Saudi Arabia, these were "Increase in labor costs" and "Increase in other expenditures" (a little higher than 50% for both); for UAE, these were "Sales decreases due to export slowdown" (a little less than 50%) and "Effects of exchange rate fluctuation" (a little higher than 40%).

### Reasons for improvement in 2016 operating profit estimate



### Reasons for deterioration in 2016 operating profit estimate

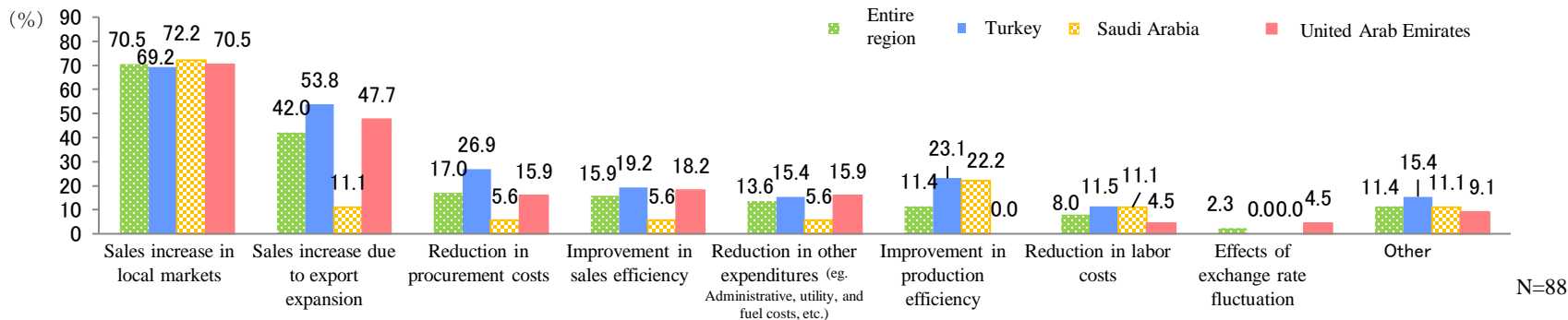




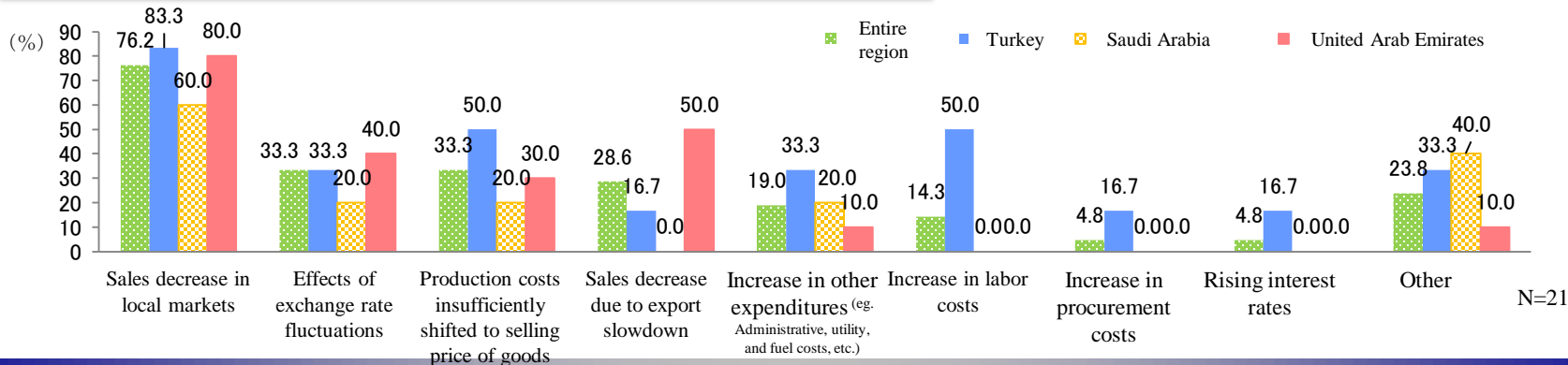
# Operating Profit Estimate (4): In 2017, continued impact of sales in the local markets

- Looking at the reasons for improvements in operating profit for each country and across the region based on the operating profit estimate for 2017, we see that approximately 70% of the companies indicated "Sales increase in local markets." With the exception of Saudi Arabia, this was followed by 40 - 50% of the companies selecting "Sales increase due to export expansion." For Saudi Arabia, the percentage of companies that selected this response was low, at 10%, while as many as 20% of the companies chose "Improvement in production efficiency" as their reason.
- The largest percentage of companies in each country and across the region (60 - a little more than 80%) indicated "Sales decrease in local markets" as the reason for deterioration in operating profit. This was followed by "Effects of exchange rate fluctuation" and "Production costs insufficiently shifted to selling price of goods" (a little higher than 30% for both) for the entire region. By country, the main reasons selected by companies in Turkey were "Production costs insufficiently shifted to selling price of goods" (50%); for UAE, the largest percentage of companies indicated "Sales decrease due to export slowdown." For Saudi Arabia, the reasons were split between "Effects of exchange rate fluctuation," "Production costs insufficiently shifted to selling price of goods" and "Increase in other expenditures" at 20% each.

## Reasons for improvement in 2017 operating profit estimate



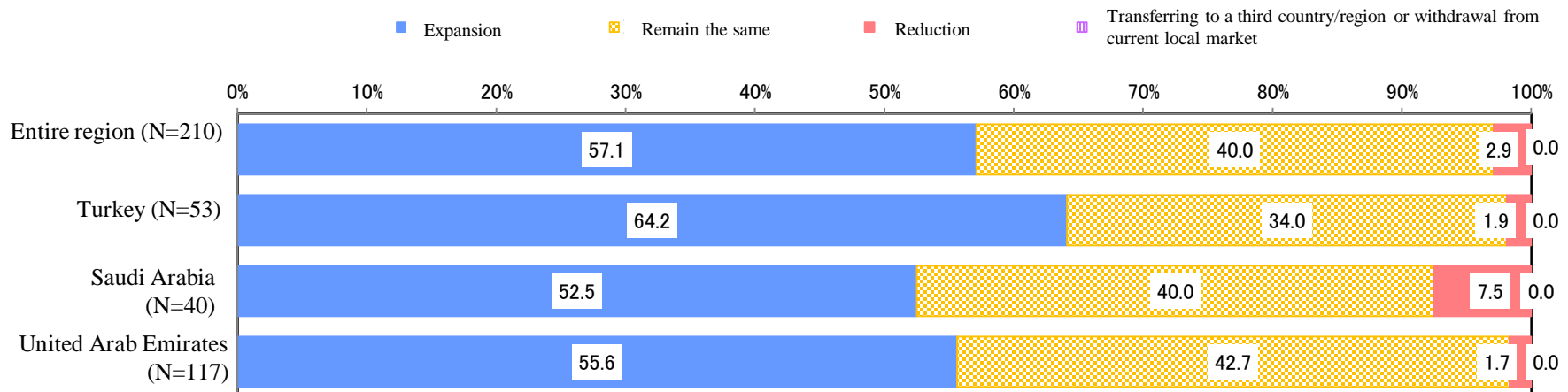
## Reasons for deterioration in 2017 operating profit estimate



# Future Business Operations (1): About 60% of the companies are motivated to expand their business

- With respect to the direction of business operations in the next one to two years from 2016, more than half of the companies in each country and across the region answered "Expansion." Combined with "Remain the same," more than 90% of the companies expect to expand their businesses or maintain the status quo. However, the percentage of companies that indicated "Reduction" in Saudi Arabia was 7.5%; this was a higher figure in comparison with the other countries.

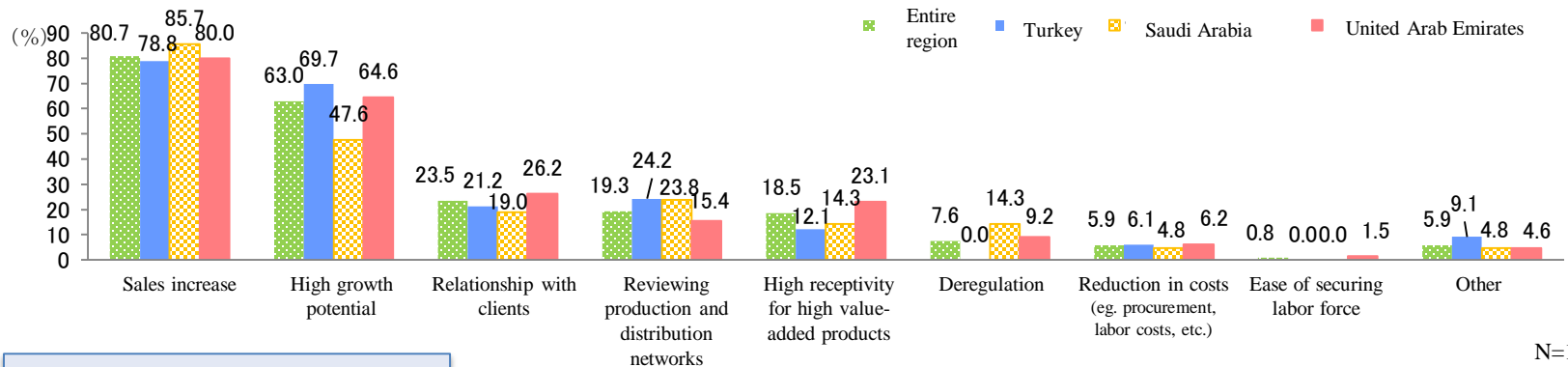
## Direction of business operations in the next one to two years



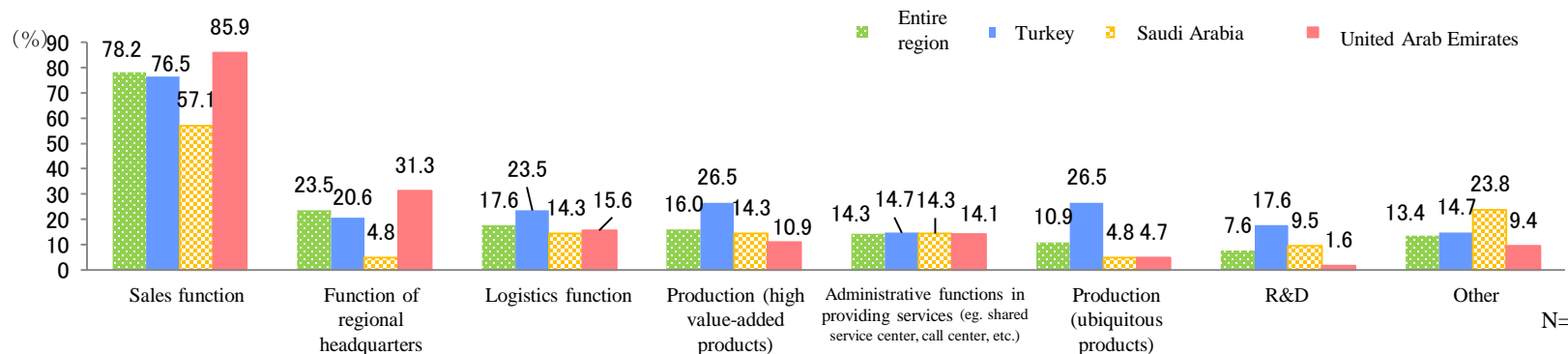
## Future Business Operations (2): Main function to be expanded is "Sales function"

- Among the reasons for business expansion, the two primary factors with the highest percentage of responses in each country and across the region were "Sales increase" and "High growth potential." In third place for Turkey and Saudi Arabia was "Reviewing production and distribution networks; in UAE, this was "Relationship with clients."
- Among the functions to be expanded, an overwhelmingly high percentage of companies in each country and across the region indicated "Sales function" (a little less than 60% - a little less than 90%). Looking at the reasons ranking in second place and below by country, differences were observed between the countries. For UAE, this was "Function of regional headquarters (31.3%); for Turkey, "Production (high value-added products)" and "Production (ubiquitous products)" (26.5% each); for Saudi Arabia, the functions were "Logistics function," "Production (high value-added products)" and "Administrative functions in providing services" (14.3% each).

### Reasons for expansion



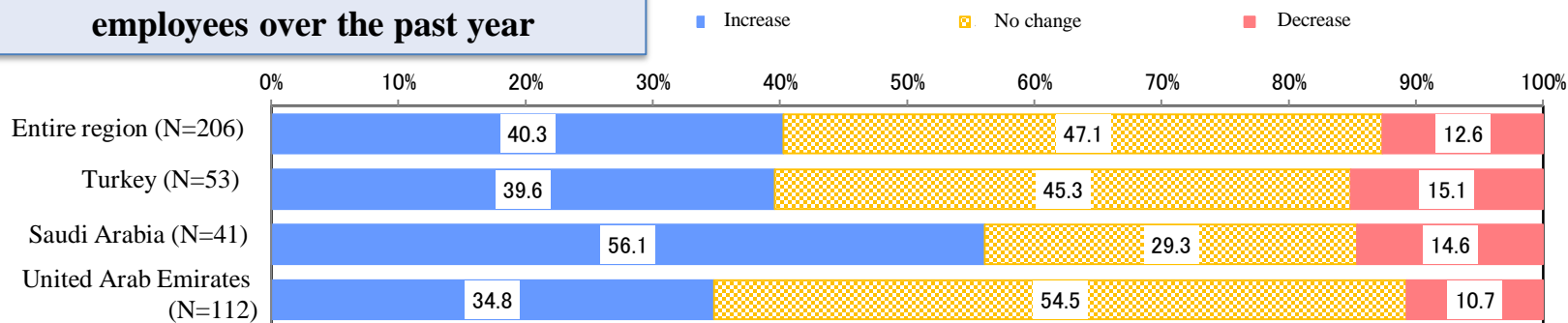
### Functions to be expanded



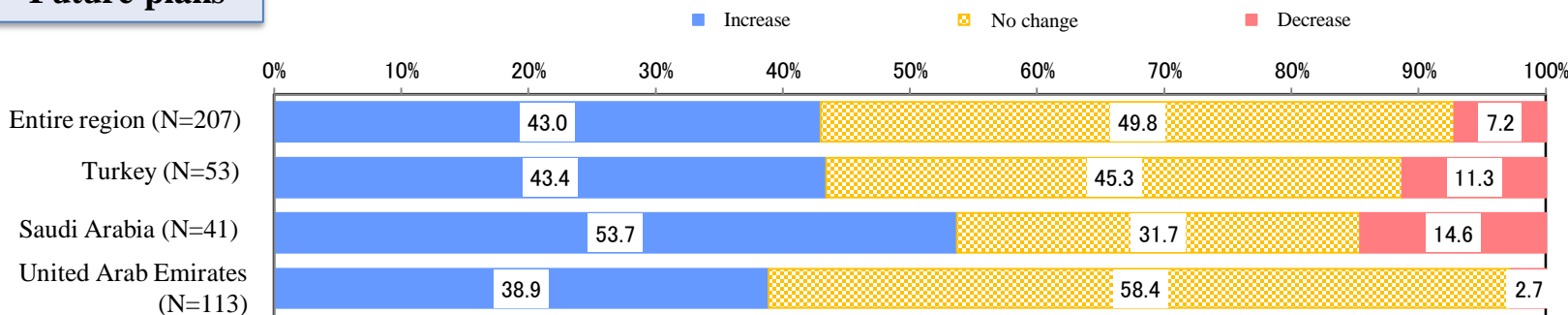
# Changes in Human Resource Structure (1): More than 40% of the companies increase number of local employees

- A look at the changes in the number of local employees in the past year show that 40.3% of the companies in the entire region indicated an increase, while 47.1% of the companies indicated no change to the number. Looking at the characteristics by country, more than 50% of the companies in Saudi Arabia responded "Increase," while the figure remained below 40% for both Turkey and UAE. On the other hand, the percentage of companies that indicated "Decrease" was 15.1% for Turkey, 14.6% for Saudi Arabia, and 10.7% for UAE. Although Saudi Arabia has put in place strong policies for hiring employees from the country ("Saudization" of the workforce), retention rate is low, resulting in a higher percentage of "Increase" responses than the other countries.
- With regard to future plans for the entire region, 43.0% of the companies indicated "Increase," 49.8% indicated "No change" while a low percentage of companies at 7.2% indicated "Decrease." Looking at the characteristics by country, the percentage of companies in Saudi Arabia that responded "Increase" was the highest among the three countries at more than 50%, while its percentage for "Decrease" was also the highest at 14.6%. On the other hand, UAE registered the lowest percentage (38.9%) for "Increase" among the three countries, and its percentage for "Decrease" was also the lowest at 2.7%. Based on this, we can see that companies in Saudi Arabia are the most proactive with respect to its future plans for hiring local employees, while companies in UAE are taking a relatively cautious approach.

## Changes in the number of local employees over the past year



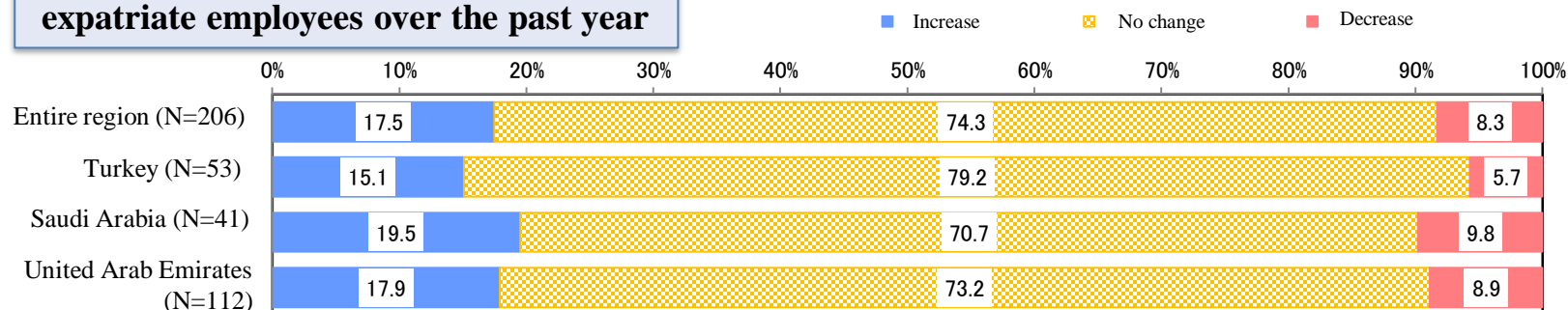
## Future plans



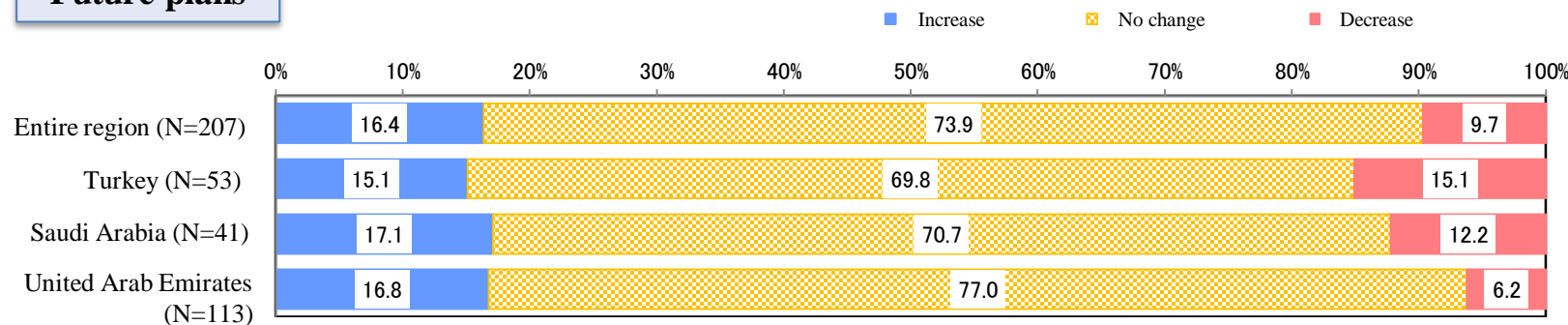
## Changes in Human Resource Structure (2): Number of Japanese expatriate employees remains largely unchanged

- A look at the changes in the number of Japanese expatriate employees over the past year show that it has remained unchanged for most of the companies in the entire region (74.3%), increased for 17.5% of the companies, and decreased for 8.3% of the companies. There are no significant differences in the figures by country.
- With respect to future plans for the entire region, 73.9% of the companies indicated that the number would remain unchanged, 16.4% indicated that it would increase, while 9.7% indicated that it would decrease. By country, there was no significant difference in the percentage of companies that chose "Increase." However, the percentage of companies that answered "Decrease" was relatively high for Turkey (15.1%) and Saudi Arabia (12.2%), but low for UAE (6.2%).

### Changes in the number of Japanese expatriate employees over the past year



### Future plans

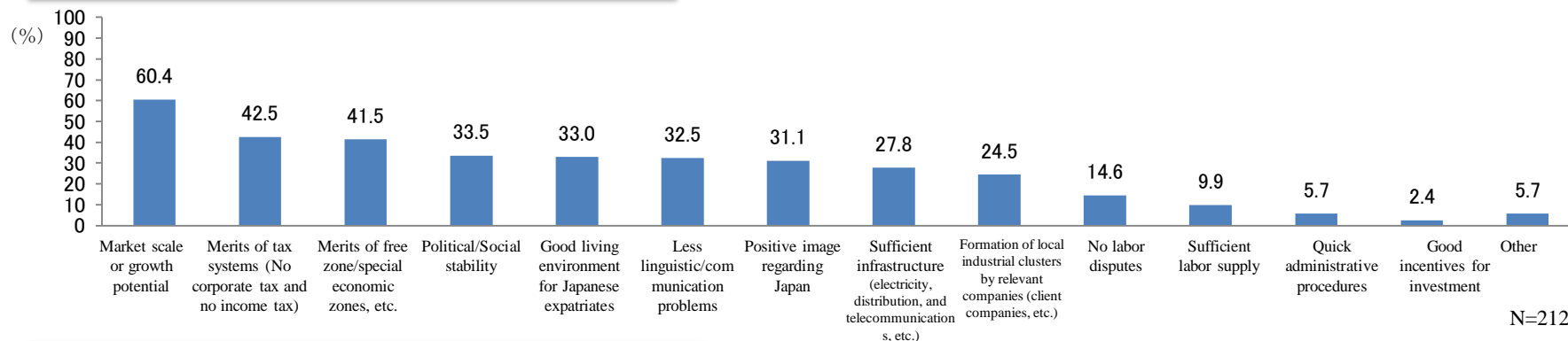


## Investment Environment (Entire Region):

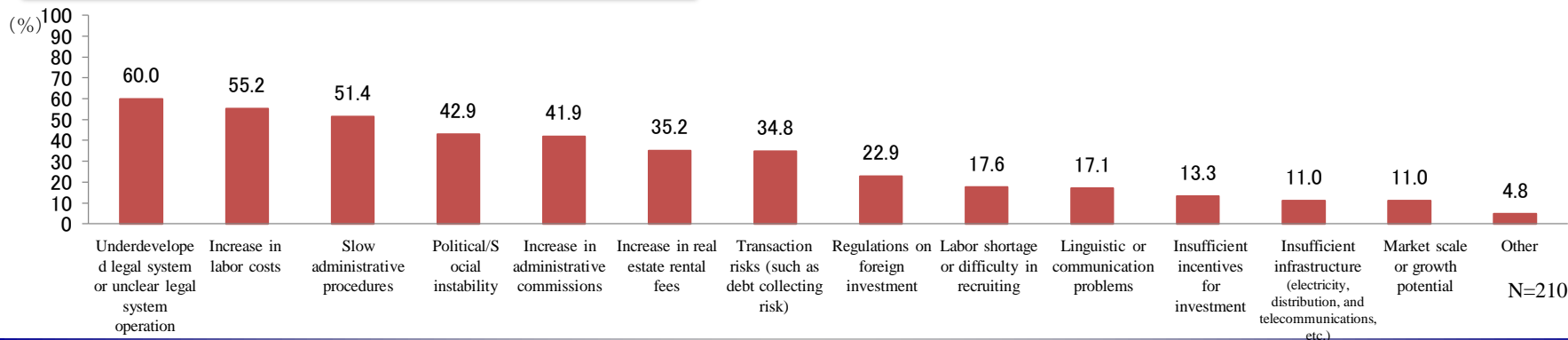
### Greatest challenge is “underdeveloped legal system or unclear legal system operation”

- With respect to the attractions of the investment environment in the entire region, 60% of the companies listed "Market scale or growth potential." There were also many companies that gave high rating to "Merits of tax systems (No corporate tax and no income tax)" (42.5%) and "Free zone (No regulations for foreign investment and one-stop services)" (41.5%).
- As for the challenges in the investment environment in the entire region, 60% of the companies pointed out "Underdeveloped legal system or unclear legal system operation," followed by "Increase in labor costs" (55.2%) and "Slow administrative procedures" (51.4%). Furthermore, more than 40% of the companies listed "Political/Social instability" (42.9%) and "Increase in administrative commissions" (41.9%) as the challenges they face.

#### Attractions of the investment environment



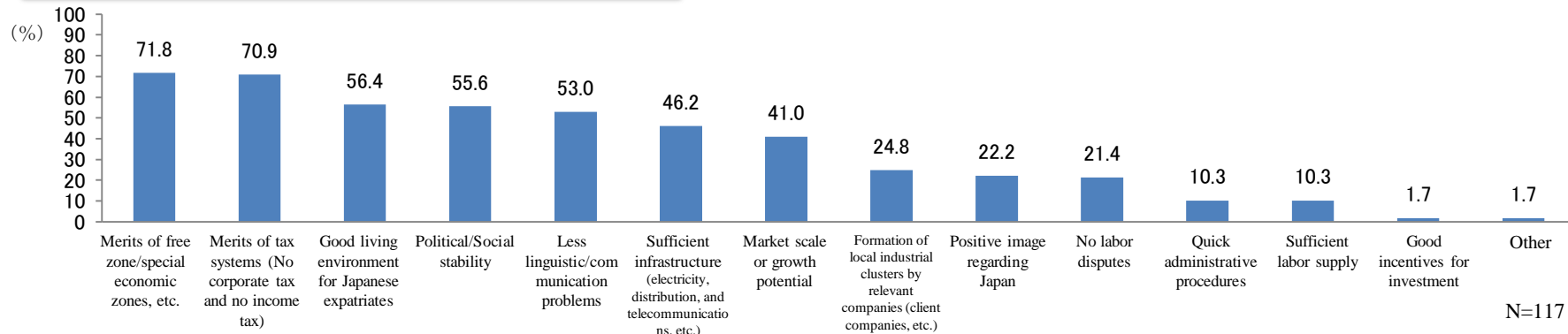
#### Challenges of the investment environment



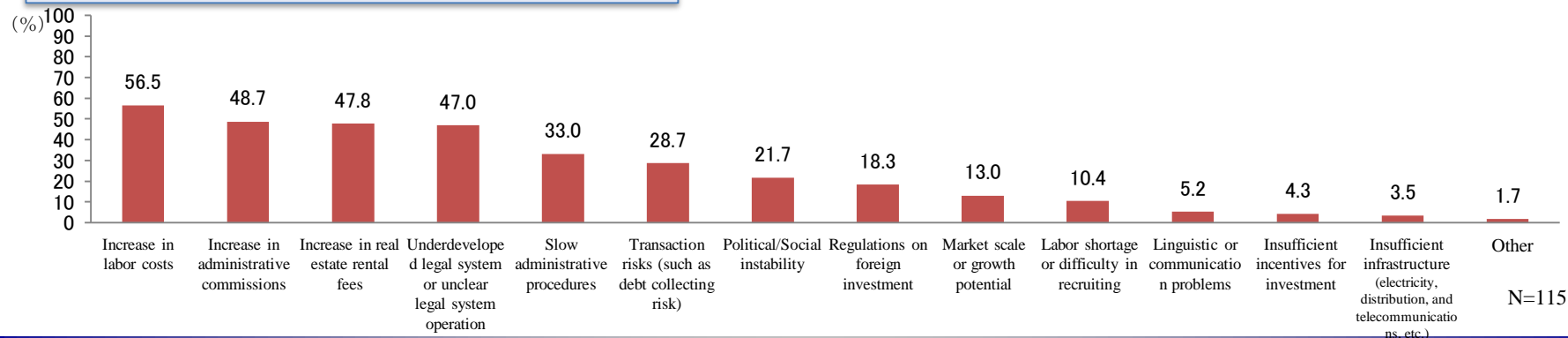
# Investment Environment (United Arab Emirates): Challenge of rising costs despite improvements in investment environment

- With respect to the attractions of the investment environment in the UAE, more than 70% of the companies listed the merits of "Free zone (No regulations for foreign investment and one-stop services)" and "Merits of tax systems (No corporate tax and no income tax)". More than half of the companies also gave high ratings to the aspects of "Good living environment for Japanese expatriates," "Political/Social stability," and "Less linguistic/communication problems." On top of that, more than 40% of the companies listed "Sufficient infrastructure (electricity, distribution, and telecommunications, etc.)" and "Market scale or growth potential" as attractive factors.
- As for the challenges in UAE's investment environment, more than 50% of the companies listed "Increase in labor costs," and close to 50% of the companies also pointed out the serious impact of "Increase in administrative commissions," "Increase in real estate rental fees," and "Increase in costs." This was followed by "Underdeveloped legal system or unclear legal system operation," although the percentage for this aspect was lower than the other countries.

## Attractions of the investment environment



## Challenges of the investment environment

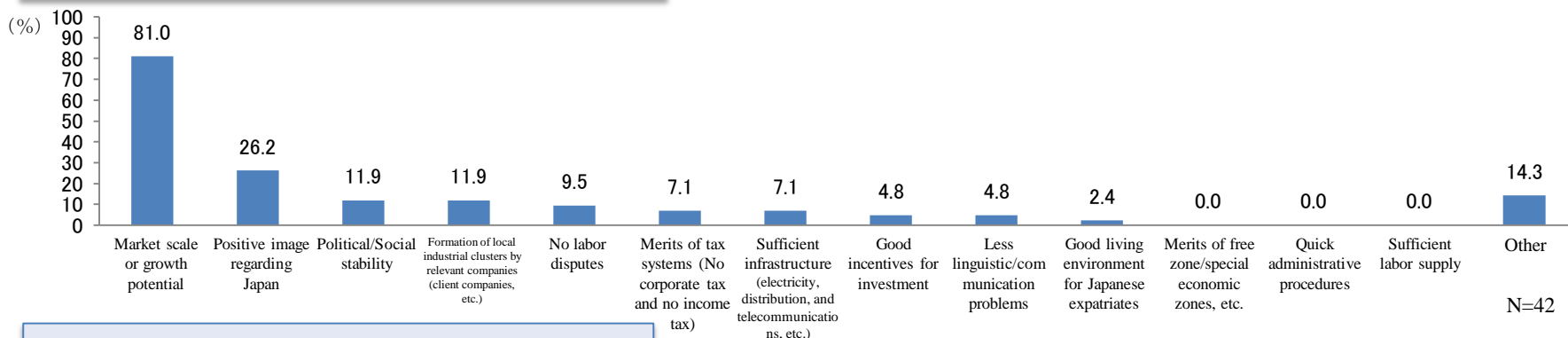


# Investment Environment (Saudi Arabia):

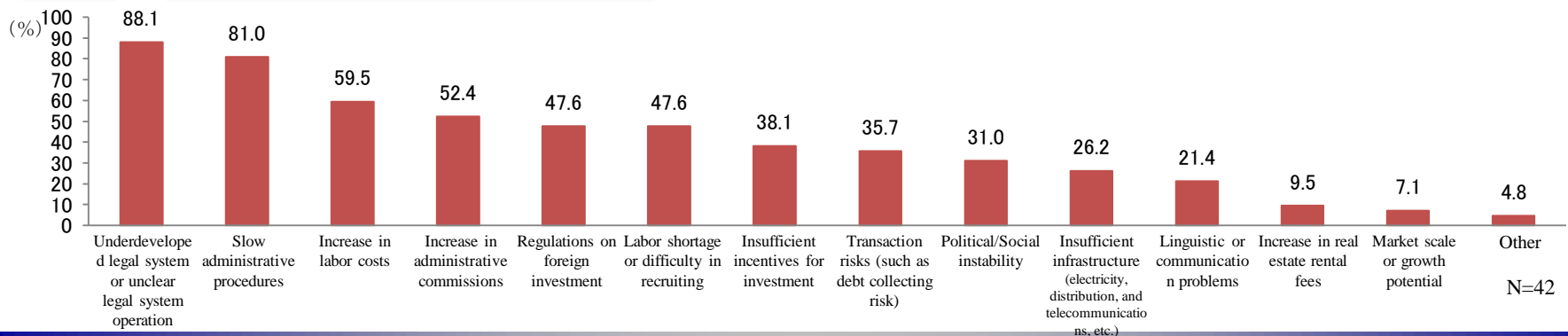
Despite attractive market potential, numerous challenges including underdeveloped legal system

- 80% of the companies rated the investment environment of Saudi Arabia for the attraction of its "Market scale or growth potential." This was followed by "Positive image regarding Japan," although the figure remained at the level of 26.2%.
- With respect to the challenges in Saudi Arabia's investment environment, a little less than 90% of the companies listed "Underdeveloped legal system or unclear legal system operation." Furthermore, more than 80% of the companies pointed out the aspect of "Slow administrative procedures." Apart from these, more than 50% of the companies listed "Increase in labor costs" and "Increase in administrative commissions," while more than 40% pointed out the challenges of "Regulations on foreign investment" and "Labor shortage or difficulty in recruiting." Saudi Arabia's investment environment appears to be confronted by numerous challenges.

## Attractions of the investment environment



## Challenges of the investment environment

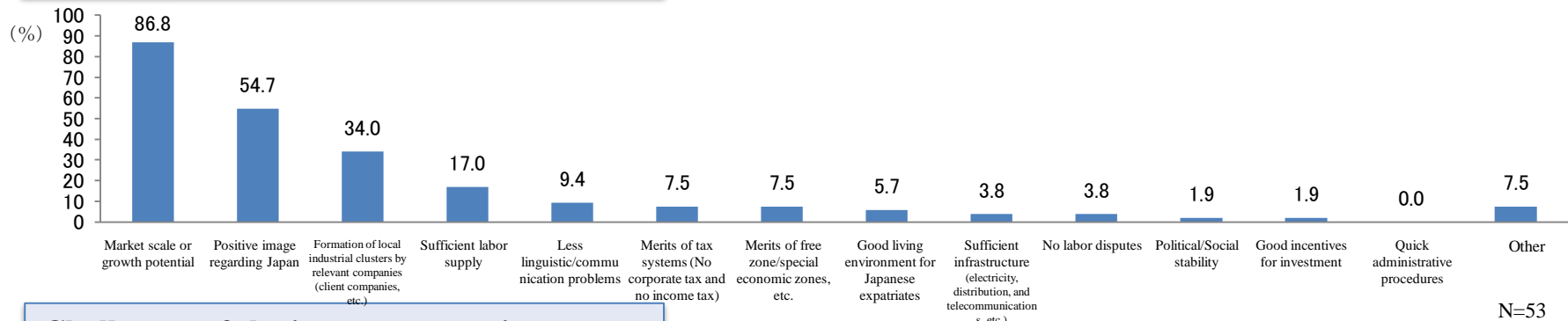




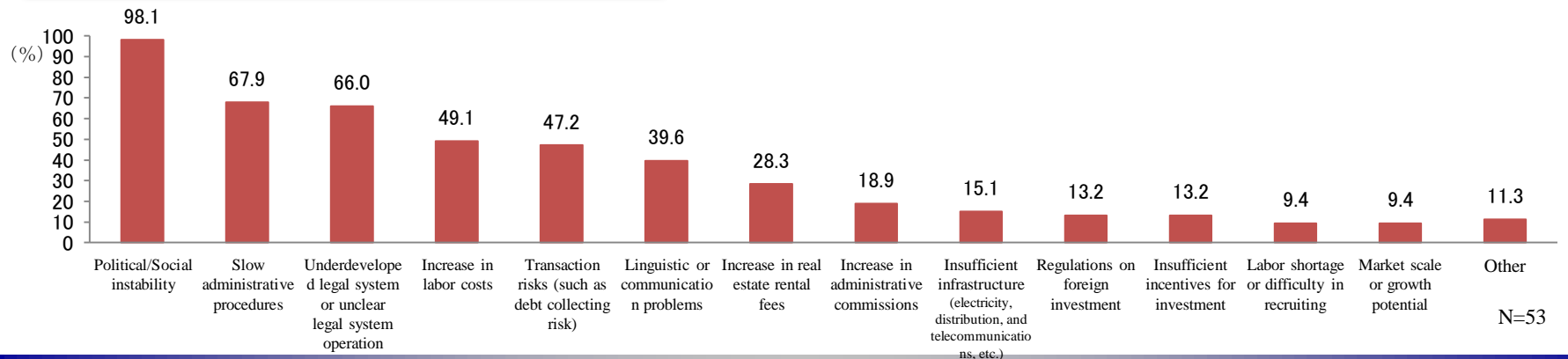
# Investment Environment (Turkey): “Political/Social instability” poses the greatest challenge

- Overall, more than 80% of the companies listed "Market scale or growth potential" as an attraction of Turkey's investment environment, while more than 50% selected "Positive image regarding Japan."
- The investment environment of Turkey, which has been troubled by many security issues last year, including terrorism, was assessed by almost all the companies as being plagued by "Political/Social instability." Apart from this, more than 60% of the companies listed "Slow administrative procedures" and "Underdeveloped legal system or unclear legal system operation" as the challenges. In addition, close to 50% of the companies indicated "Increase in labor costs" and "Transaction risks (such as data collecting risk)" as their challenges.

## Attractions of the investment environment



## Challenges of the investment environment





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