

# Overview

# 1. Business Outlook

## (1) Approximately 65% of the Japanese-affiliated companies in both the manufacturing and non-manufacturing industries expect to post an operating profit for 2008

In regards to estimated operating balance in 2008, 65.2% of the Japanese-affiliated companies in the manufacturing industry operating in the ASEAN, Southwest Asia and Oceania regions replied that they expected to post an operating profit (Diagram 1-1).

Among the manufacturers in the ASEAN region, 67.1% expected to post a profit. Compared to the previous survey (November 2007), the percentage of manufacturers expecting a positive result dropped by a substantial 29.6 points in Vietnam and 18.1 points in Singapore, while manufacturers predicting an operating profit increased, albeit marginally, in Indonesia and Thailand, by 4.4 points and 3.2 points, respectively.

The percentage of manufacturing companies in Southwest Asia expecting to post an operating profit stood at 53.3%, lower than that of the ASEAN and Oceania regions. The percentage of manufacturers expecting an operating profit in Bangladesh was particularly low at only 38.9%. In India, the percentage dropped by 20.6 points.

The percentage expecting an operating profit in Oceania was comparable to that of the ASEAN region at 62.0%.

**Diagram1-1: Estimated operating profit for 2008 (January to December) (manufacturing industry)**

(Unit: %)

		Surplus	Balance	Deficit
Total	(n=935)	65.2	17.5	17.2
ASEAN Total	(n=780)	67.1	16.4	16.5
	Indonesia (n=110)	76.4	11.8	11.8
	Malaysia (n=108)	62.0	22.2	15.7
	Myanmar (n=6)	33.3	16.7	50.0
	Philippines (n=115)	53.9	27.0	19.1
	Singapore (n=47)	70.2	14.9	14.9
	Thailand (n=313)	75.4	12.1	12.5
	Vietnam (n=81)	48.2	17.3	34.6
Southwest Asia Total	(n=105)	53.3	24.8	21.9
	Bangladesh (n=18)	38.9	38.9	22.2
	India (n=60)	60.0	15.0	25.0
	Pakistan (n=12)	50.0	50.0	-
	Sri Lanka (n=15)	46.7	26.7	26.7
Oceania Total	(n=50)	62.0	20.0	18.0
	Australia (n=34)	61.8	17.7	20.6
	New Zealand (n=16)	62.5	25.0	12.5

(Note 1) Each question was tabulated using the number of valid responses (n) as parameters.

(Note 2) Since the figures are rounded off, the percentages do not necessarily add up to 100.

The percentage of Japanese-affiliated companies in the non-manufacturing industry as a whole expecting an operating profit was 66.2% (Diagram 1-2).

Among the non-manufacturing companies in the ASEAN region, 67.5% replied that they expected to post an

operating profit. Non-manufacturing companies in Singapore represented the highest percentage at 76.4%. Compared to the previous survey, the percentage in Vietnam and Thailand increased by 16.5 points and 9.9 points, respectively, while that of Indonesia decreased by 12.3 points.

The percentage of non-manufacturing companies in Southwest Asia expecting to post an operating profit, 45.4%, was lower than that in the ASEAN and Oceania regions. The percentage in India expecting an operating profit was 42.1%, which represented a decrease of 26.3 points compared to the previous survey.

The percentage expecting to post an operating profit in Oceania was 74.5%, which was higher than that in the ASEAN nations and Southwest Asia. In particular, the percentage in Australia reached 77.9%, the highest among the 13 nations covered by this survey. Among the companies that replied that they expected an operating profit, the “Mining” industry scored an overwhelming 92.9%, indicating the presence of a resources boom.

In terms of the breakdown of operating profit in the non-manufacturing industry, respondents selected the level of operating profit they earn in the local market, Japan, ASEAN and other markets. They then stated the intermediate value of each range and the average operating profit rate was calculated, after which each percentage was weighted, in order that they would total 100%.

In the non-manufacturing industry as a whole, the “Local market” had a substantial share, accounting for 56.1% of operating profit (Diagram 1-3). In the ASEAN region overall, 63.4% of companies replied that the local market had the largest share of their operating profit, while in Indonesia, Malaysia and Thailand, the local markets had a particularly high share at 81.9%, 76.2%, and 73.5%, respectively. A relatively large percentage of companies in Southwest Asia and Oceania also replied that local markets had the most substantial share, at 55.2% and 59.2%, respectively.

**Diagram1-2: Estimated operating profit for 2008 (January to December) (non-manufacturing industry)**

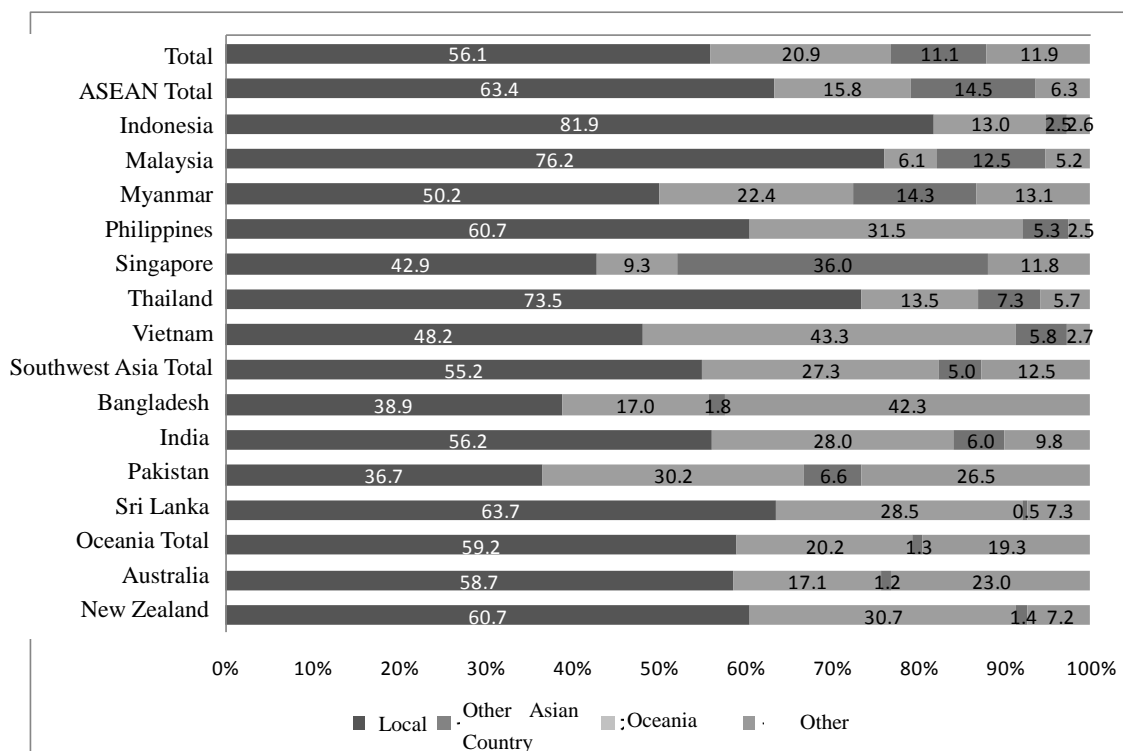
(Unit: %)

		Surplus	Balance	Deficit
Total	(n=884)	66.2	19.8	14.0
ASEAN Total	(n=557)	67.5	19.2	13.3
	Indonesia (n=54)	55.6	38.9	5.6
	Malaysia (n=72)	69.4	22.2	8.3
	Myanmar (n=14)	42.9	14.3	42.9
	Philippines (n=57)	59.7	17.5	22.8
	Singapore (n=140)	76.4	20.0	3.6
	Thailand (n=174)	73.6	12.6	13.8
	Vietnam (n=46)	45.7	17.4	37.0
Southwest Asia Total	(n=119)	45.4	25.2	29.4
	Bangladesh (n=15)	66.7	26.7	6.7
	India (n=76)	42.1	22.4	35.5
	Pakistan (n=14)	50.0	35.7	14.3
	Sri Lanka (n=14)	35.7	28.6	35.7
Oceania Total	(n=208)	74.5	18.3	7.2
	Australia (n=163)	77.9	17.2	4.9
	New Zealand (n=45)	62.2	22.2	15.6

Note 1: Each question was tabulated using the number of valid responses (n) to each question as a parameter.

Note 2: Since the figures are rounded off, the percentages do not necessarily add up to 100.

**Diagram 1-3: Breakdown of operating profit (average, non-manufacturing industry)**



**(2) Estimated operating profit for 2008, in terms of DI values, declined across the board compared to the previous survey (manufacturing industry)**

The percentage of companies in the manufacturing industry that replied that their estimated operating profit for 2008 would “Improve” (41.2%) exceeded the percentage that replied that it would “Worsen” (33.7%) (Diagram 2). As for the reason for such improvement, an “Increase in local market sales” (48.0%) was cited by the largest number of companies (Diagram 3).

On the other hand, an “Increase in procurement costs” (67.4%) was cited the most as a reason for decline, followed by an “Increase in fuel costs and utilities (electricity, gas, etc.)” (49.0%) (Diagram 4).

The estimated operating profit for 2008, in terms of the Diffusion Index (DI), which is derived by subtracting the percentage of companies that replied “Worsen” from the percentage that replied “Improve,” was 7.6 points for the manufacturing industry as a whole (Diagram 5).

The DI for the ASEAN region came out to 10.4 points. When compared to the results of the previous survey (November 2007), excluding Myanmar, which has only been included in the survey from 2008, the DI declined across the board, with the exception of Indonesia. In particular, substantial declines in the DI were recorded for Singapore and Malaysia, with decreases of 39.5 points and 32.4 points, respectively.

The DI for Southwest Asia turned negative by 9.7 points. India’s DI fell to -11.7 points, which marked the first time India has recorded a decline since 1997, when the survey first inquired about profit outlook. Compared to the time of the previous survey, India’s DI has deteriorated drastically with a 50.6-point drop. Among the reasons for the decline in estimated operating profit, many cited an “Increase in procurement costs”

(68.0%) and an “Increase in fuel costs and utilities (electricity, gas, etc.)” (52.0%), which reflect the impact of the surge in crude oil prices. A large percentage also cited an “Insufficient price transfer” (52.0%), indicating their inability to pass the rising costs onto sales prices, due to the tendency of consumers in the Indian market to seek lower-priced products.

In Oceania, both Australia and New Zealand recorded a DI of “0” in 2008, as a result of the percentages of replies for both “Improve” and “Worsen” being equal.

**Diagram 2: Estimated operating profit (over the previous year) for 2008 and 2009 (January to December) (manufacturing industry)**

(Upper row: 2008, Lower row: 2009, Unit: %)

		Improve	Show no change	Worsen
Total	(n=924)	41.2	25.1	33.7
	(n=925)	33.3	35.4	31.4
ASEAN	Total (n=771)	42.3	25.8	31.9
	(n=772)	31.7	36.8	31.5
	Indonesia (n=110)	60.0	20.0	20.0
	(n=110)	32.7	29.1	38.2
	Malaysia (n=108)	30.6	34.3	35.2
	(n=108)	27.8	38.9	33.3
	Myanmar (n=6)	16.7	83.3	-
	(n=5)	-	80.0	20.0
	Philippines (n=115)	41.7	28.7	29.6
	(n=115)	29.6	40.9	29.6
Singapore (n=47)	29.8	21.3	48.9	
(n=44)	36.4	38.6	25.0	
Thailand (n=306)	41.8	24.2	34.0	
(n=309)	30.1	36.9	33.0	
Vietnam (n=79)	45.6	22.8	31.7	
(n=81)	44.4	34.6	21.0	
Southwest Asia	Total (n=103)	35.0	20.4	44.7
	(n=104)	40.4	30.8	28.9
	Bangladesh (n=17)	47.1	17.7	35.3
	(n=17)	35.3	29.4	35.3
	India (n=60)	31.7	25.0	43.3
	(n=60)	48.3	26.7	25.0
Pakistan (n=13)	23.1	7.7	69.2	
(n=13)	30.8	23.1	46.2	
Sri Lanka	(n=13)	46.2	15.4	38.5
	(n=14)	21.4	57.1	21.4
Oceania	Total (n=50)	38.0	24.0	38.0
	(n=49)	42.9	22.5	34.7
	Australia (n=34)	35.3	29.4	35.3
	(n=33)	45.5	21.2	33.3
New Zealand	(n=16)	43.8	12.5	43.8
	(n=16)	37.5	25.0	37.5

**Diagram 3: Reasons for expecting an improvement in profit (manufacturing industry)**

(Upper row: 2008, Lower row: 2009, Unit: %)

		Increase in sales due to export expansion	Increase in local market sales	Increase in sales due to higher prices	Reduction in procurement costs	Reduction in personnel expenses	Reduction in other costs	Improved production efficiency	Initiation/extension of production of high value-added products	Increase in sales due to exchange rate fluctuation	Other
Total	(n=381)	36.5	48.0	29.4	12.1	10.0	20.2	31.0	16.3	11.3	6.0
	(n=305)	39.7	45.3	19.0	22.3	10.2	16.4	40.0	27.2	4.3	6.9
ASEAN Total	(n=326)	38.0	46.3	29.5	13.2	10.1	21.8	31.6	16.6	11.4	5.5
	(n=242)	43.0	41.7	18.6	23.1	10.7	16.9	38.8	31.0	4.1	5.0
Indonesia	(n=66)	24.2	59.1	50.0	9.1	10.6	9.1	24.2	13.6	1.5	3.0
	(n=36)	36.1	38.9	25.0	13.9	16.7	11.1	44.4	22.2	-	2.8
Malaysia	(n=33)	30.3	36.4	24.2	30.3	21.2	39.4	48.5	12.1	27.3	-
	(n=30)	46.7	36.7	16.7	30.0	20.0	26.7	43.3	30.0	10.0	-
Myanmar	(n=1)	-	-	-	-	-	-	100.0	100.0	-	-
	(n=0)	-	-	-	-	-	-	-	-	-	-
Philippines	(n=48)	37.5	25.0	29.2	10.4	18.8	35.4	41.7	18.8	16.7	8.3
	(n=33)	39.4	21.2	9.1	18.2	21.2	30.3	48.5	30.3	6.1	9.1
Singapore	(n=14)	57.1	35.7	28.6	14.3	14.3	14.3	-	28.6	-	7.1
	(n=16)	62.5	31.3	18.8	31.3	-	25.0	31.3	25.0	6.3	6.3
Thailand	(n=128)	44.5	53.1	24.2	12.5	5.5	22.7	29.7	18.8	13.3	3.1
	(n=91)	35.2	52.8	24.2	27.5	6.6	12.1	29.7	35.2	3.3	4.4
Vietnam	(n=36)	41.7	41.7	16.7	11.1	2.8	11.1	33.3	8.3	5.6	19.4
	(n=36)	61.1	44.4	8.3	16.7	2.8	11.1	47.2	33.3	2.8	8.3
Southwest Asia Total	(n=36)	30.6	58.3	25.0	5.6	2.8	8.3	30.6	16.7	8.3	8.3
	(n=42)	26.2	71.4	16.7	19.1	2.4	14.3	50.0	9.5	2.4	11.9
Bangladesh	(n=8)	50.0	37.5	25.0	-	-	-	37.5	12.5	12.5	-
	(n=6)	66.7	33.3	-	-	-	-	50.0	-	-	-
India	(n=19)	15.8	73.7	26.3	10.5	-	10.5	26.3	15.8	10.5	10.5
	(n=29)	13.8	75.9	20.7	13.8	3.5	13.8	41.4	6.9	3.5	10.3
Pakistan	(n=3)	-	100.0	33.3	-	33.3	-	33.3	66.7	-	-
	(n=4)	25.0	100.0	-	75.0	-	-	75.0	50.0	-	50.0
Sri Lanka	(n=6)	66.7	16.7	16.7	-	-	16.7	33.3	-	-	16.7
	(n=3)	66.7	66.7	33.3	33.3	-	66.7	100.0	-	-	-
Oceania Total	(n=19)	21.1	57.9	36.8	5.3	21.1	15.8	21.1	10.5	15.8	10.5
	(n=21)	28.6	33.3	28.6	19.1	19.1	14.3	33.3	19.1	9.5	19.1
Australia	(n=12)	16.7	66.7	33.3	8.3	16.7	8.3	25.0	16.7	8.3	8.3
	(n=15)	33.3	40.0	26.7	26.7	20.0	6.7	40.0	20.0	-	13.3
New Zealand	(n=7)	28.6	42.9	42.9	-	28.6	28.6	14.3	-	28.6	14.3
	(n=6)	16.7	16.7	33.3	-	16.7	33.3	16.7	16.7	33.3	33.3

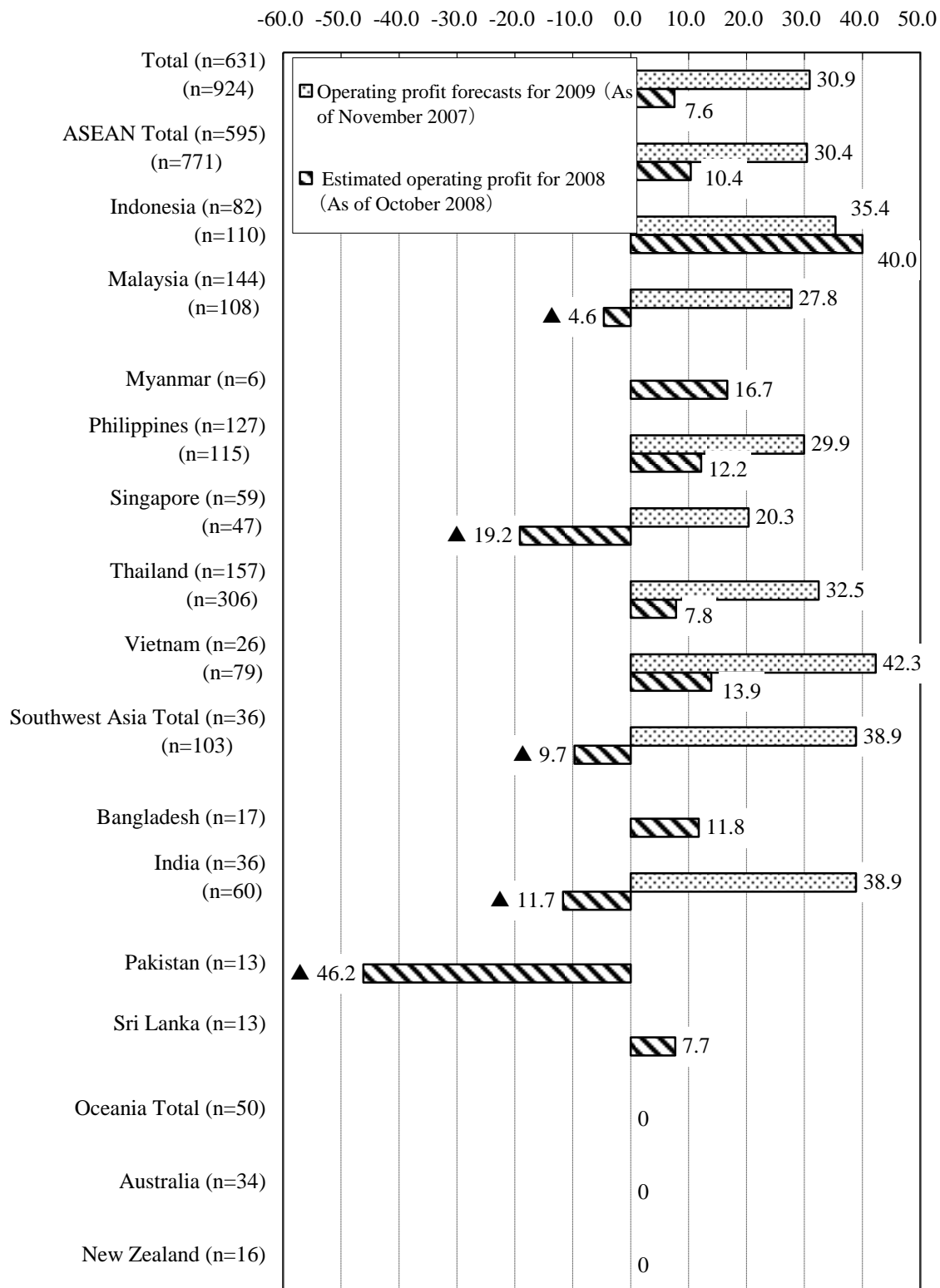
**Diagram 4: Reasons for expecting a decline in profit (manufacturing industry)**

(Upper row: 2008, Lower row: 2009, Unit: %)

		Decrease in sales due to sluggish exports	Decrease in local market sales	Reduction in sales due to higher prices	Increase in procurement costs	Reduction in sales due to exchange rate fluctuations	Increase in personnel expenses	Hike in interest rates	Insufficient price transfer	Increase in fuel costs and utilities (electricity, gas, etc.)	Other
Total	(n=310)	33.2	34.5	11.3	67.4	18.1	32.6	4.5	34.5	49.0	14.8
	(n=289)	43.9	48.1	13.2	52.3	15.9	32.2	3.5	31.8	27.3	12.5
ASEAN Total	(n=246)	35.4	32.9	9.4	66.7	13.8	32.1	0.8	35.0	48.8	14.6
	(n=243)	47.7	49.0	11.1	53.1	14.0	31.7	2.5	32.9	24.7	12.8
Indonesia	(n=22)	36.4	13.6	-	68.2	4.6	36.4	-	45.5	59.1	13.6
	(n=42)	35.7	38.1	16.7	50.0	11.9	35.7	9.5	38.1	33.3	14.3
Malaysia	(n=38)	47.4	26.3	10.5	68.4	18.4	23.7	-	26.3	63.2	13.2
	(n=36)	69.4	47.2	5.6	52.8	13.9	25.0	-	25.0	36.1	11.1
Myanmar	(n=0)	-	-	-	-	-	-	-	-	-	-
	(n=1)	-	100.0	-	-	-	-	-	100.0	-	-
Philippines	(n=34)	41.2	35.3	8.8	47.1	23.5	41.2	-	29.4	32.4	20.6
	(n=34)	55.9	29.4	11.8	38.2	23.5	20.6	2.9	20.6	32.4	11.8
Singapore	(n=23)	26.1	21.7	4.4	52.2	30.4	26.1	-	39.1	73.9	17.4
	(n=11)	54.6	45.5	18.2	54.6	-	18.2	-	36.4	9.1	18.2
Thailand	(n=104)	31.7	47.1	12.5	73.1	10.6	25.0	-	36.5	42.3	11.5
	(n=102)	45.1	63.7	8.8	58.8	13.7	31.4	-	36.3	15.7	10.8
Vietnam	(n=25)	32.0	8.0	8.0	76.0	-	64.0	8.0	36.0	44.0	20.0
	(n=17)	29.4	29.4	17.7	58.8	11.8	70.6	5.9	35.3	29.4	23.5
Southwest Asia Total	(n=45)	24.4	40.0	22.2	71.1	40.0	33.3	26.7	42.2	55.6	15.6
	(n=29)	27.6	34.5	34.5	48.3	31.0	31.0	13.8	27.6	41.4	17.2
Bangladesh	(n=6)	66.7	33.3	16.7	50.0	16.7	50.0	16.7	33.3	66.7	-
	(n=6)	66.7	16.7	16.7	50.0	-	33.3	16.7	33.3	16.7	16.7
India	(n=25)	12.0	36.0	4.0	68.0	28.0	36.0	24.0	52.0	52.0	20.0
	(n=14)	7.1	35.7	28.6	42.9	21.4	28.6	7.1	21.4	35.7	21.4
Pakistan	(n=9)	11.1	77.8	88.9	88.9	88.9	-	44.4	33.3	44.4	11.1
	(n=6)	-	66.7	83.3	83.3	83.3	16.7	33.3	33.3	66.7	16.7
Sri Lanka	(n=5)	60.0	-	-	80.0	40.0	60.0	20.0	20.0	80.0	20.0
	(n=3)	100.0	-	-	-	33.3	66.7	-	33.3	66.7	-
Oceania Total	(n=19)	26.3	42.1	10.5	68.4	21.1	36.8	-	10.5	36.8	15.8
	(n=17)	17.7	58.8	5.9	47.1	17.7	41.2	-	23.5	41.2	-
Australia	(n=12)	25.0	58.3	16.7	66.7	25.0	33.3	-	8.3	25.0	25.0
	(n=11)	18.2	81.8	9.1	54.6	18.2	54.6	-	27.3	27.3	-
New Zealand	(n=7)	28.6	14.3	-	71.4	14.3	42.9	-	14.3	57.1	-
	(n=6)	16.7	16.7	-	33.3	16.7	16.7	-	16.7	66.7	-

**Diagram 5: Estimated operating profit in terms of DI values (manufacturing industry; compared to November 2007)**

(Unit: percentage point)



(Note 1) The Diffusion Index (DI) refers to the difference that is derived by subtracting the percentage of companies replying profit would “Worsen” from the percentage replying profit would “Improve.” This is an indicator of the direction in which the profit outlook is heading.

(Note 2) Myanmar, Bangladesh, Pakistan, Sri Lanka, Australia and New Zealand have been included in the survey from 2008.

The percentage of companies in the non-manufacturing industry that replied that their estimated operating profit for 2008 would “Improve” (38.9%) exceeded the percentage that replied that it would “Worsen” (29.9%) (Diagram 6). As the reason for this improvement, an “Increase in local market sales” (71.2%) was cited by the largest number of companies (Diagram 7).

On the other hand, a “Decrease in local market sales” (47.9%) was cited the most as a reason for decline, followed by an “Increase in personnel expenses” (34.2%) and an “Increase in fuel costs and utilities (electricity, gas, etc.)” (30.4%) (Diagram 8).

The estimated operating profit for 2008, in terms of the DI, was 9.0 points for the non-manufacturing industry as a whole (Diagram 9).

The DI for the ASEAN region came out to 6.5 points. When compared to the previous survey, excluding Myanmar, which has only been included in the survey from 2008, the DI declined across the board for all six ASEAN nations. In particular, a substantial decline in the DI was recorded for Vietnam, with a decrease of 67.2 points.

The DI for Southwest Asia came out to 25.9 points. India’s DI came to 29.6 points, which represented a drop of 17.8 points compared to the time of the previous survey. As the reason for the decline in estimated operating profit, an “Increase in other expenses” (54.6%), including increases in office rent, was cited by the largest number of companies, followed by an “Increase in personnel expenses” (45.5%).

The DI for Oceania was 6.3 points. Australia’s DI was 8.6 points, while New Zealand’s was -2.2 points. As for reasons given for the decline by companies operating in New Zealand, a “Decrease in local market sales” (56.3%), a “Reduction in sales due to higher prices” (43.8%) and a “Decrease in sales due to sluggish exports” (37.5%) ranked as the top three. On the other hand, companies in Australia, similar to their New Zealand counterparts, also cited a “Decrease in local market sales” (50.0%) and a “Reduction in sales due to higher prices” (34.0%) as the top two reasons for decline. However, unlike their New Zealand counterparts, only 4.0% cited a “Reduction in sales due to sluggish exports.” This clearly indicates that the difference in the two countries’ profit outlook was the result of their export performances.



**Diagram 6: Estimated operating profit (over the previous year) for 2008 and 2009 (January to December) (non-manufacturing industry)**

(Upper row: 2008, Lower row: 2009, Unit: %)

		Improve	Show no change	Worsen
Total	(n=876)	38.9	31.2	29.9
	(n=867)	36.9	40.0	23.1
ASEAN Total	(n=552)	37.7	31.2	31.2
	(n=543)	33.0	40.5	26.5
Indonesia	(n=54)	40.7	35.2	24.1
	(n=52)	36.5	40.4	23.1
Malaysia	(n=71)	33.8	38.0	28.2
	(n=70)	21.4	48.6	30.0
Myanmar	(n=14)	35.7	35.7	28.6
	(n=12)	41.7	41.7	16.7
Philippines	(n=57)	35.1	29.8	35.1
	(n=57)	22.8	50.9	26.3
Singapore	(n=141)	34.8	27.7	37.6
	(n=138)	21.7	47.1	31.2
Thailand	(n=170)	41.2	30.0	28.8
	(n=170)	42.4	31.2	26.5
Vietnam	(n=45)	40.0	31.1	28.9
	(n=44)	56.8	29.6	13.6
Southwest Asia Total	(n=116)	45.7	34.5	19.8
	(n=120)	50.0	34.2	15.8
Bangladesh	(n=15)	73.3	13.3	13.3
	(n=15)	80.0	20.0	-
India	(n=71)	45.1	39.4	15.5
	(n=75)	52.0	36.0	12.0
Pakistan	(n=16)	37.5	25.0	37.5
	(n=16)	25.0	43.8	31.3
Sri Lanka	(n=14)	28.6	42.9	28.6
	(n=14)	35.7	28.6	35.7
Oceania Total	(n=208)	38.5	29.3	32.2
	(n=204)	39.7	42.2	18.1
Australia	(n=163)	39.9	28.8	31.3
	(n=159)	40.9	42.8	16.4
New Zealand	(n=45)	33.3	31.1	35.6
	(n=45)	35.6	40.0	24.4

**Diagram 7: Reasons for expecting an improvement in profit (non-manufacturing industry)**

(Upper row: 2008, Lower row: 2009, Unit: %)

		Increase in local market sales of your company	Increase in sales due to higher prices	Increase in sales due to export expansion	Reduction in personnel expenses	Improved sales (service) efficiency	Reduction in other costs (improved cost competitiveness)	Increase in sales due to exchange rate fluctuation	Improved collection of accounts receivable	Development of new products and services	Other
Total	(n=340)	71.2	24.7	16.2	5.9	17.9	11.2	6.5	3.8	22.7	7.7
	(n=320)	69.1	11.6	17.2	7.2	28.4	19.1	4.1	6.6	40.3	6.9
ASEAN Total	(n=208)	74.0	19.7	18.8	4.3	16.4	11.5	5.8	3.9	19.7	6.3
	(n=179)	71.5	7.8	17.9	5.6	26.8	20.1	2.8	3.9	44.7	6.7
Indonesia	(n=22)	90.9	9.1	13.6	9.1	13.6	9.1	-	4.6	27.3	-
	(n=19)	89.5	-	-	-	36.8	10.5	-	-	47.4	5.3
Malaysia	(n=24)	83.3	8.3	16.7	-	12.5	12.5	-	4.2	16.7	4.2
	(n=15)	93.3	13.3	13.3	6.7	53.3	33.3	6.7	6.7	40.0	-
Myanmar	(n=5)	100.0	-	-	-	20.0	-	-	-	20.0	-
	(n=5)	40.0	20.0	-	-	20.0	20.0	-	-	40.0	60.0
Philippines	(n=20)	40.0	25.0	15.0	15.0	10.0	20.0	35.0	-	20.0	10.0
	(n=13)	61.5	7.7	7.7	30.8	23.1	30.8	-	15.4	46.2	-
Singapore	(n=49)	65.3	24.5	34.7	2.0	8.2	14.3	6.1	10.2	18.4	2.0
	(n=30)	73.3	10.0	33.3	3.3	6.7	26.7	-	3.3	26.7	3.3
Thailand	(n=70)	81.4	22.9	14.3	4.3	24.3	11.4	2.9	1.4	20.0	8.6
	(n=72)	69.4	4.2	16.7	5.6	26.4	18.1	4.2	4.2	50.0	6.9
Vietnam	(n=18)	66.7	22.2	11.1	-	22.2	-	-	-	16.7	16.7
	(n=25)	60.0	16.0	28.0	-	32.0	12.0	4.0	-	52.0	8.0
Southwest Asia Total	(n=53)	77.4	18.9	11.3	3.8	20.8	7.6	5.7	3.8	28.3	13.2
	(n=60)	76.7	11.7	15.0	6.7	23.3	11.7	-	13.3	30.0	8.3
Bangladesh	(n=11)	90.9	36.4	27.3	-	54.6	9.1	-	-	54.6	-
	(n=12)	75.0	16.7	41.7	-	33.3	16.7	-	8.3	41.7	8.3
India	(n=32)	78.1	9.4	6.3	6.3	15.6	6.3	-	6.3	21.9	18.8
	(n=39)	82.1	7.7	7.7	10.3	25.6	7.7	-	15.4	30.8	10.3
Pakistan	(n=6)	83.3	16.7	-	-	-	-	16.7	-	33.3	16.7
	(n=4)	75.0	-	25.0	-	-	50.0	-	-	25.0	-
Sri Lanka	(n=4)	25.0	50.0	25.0	-	-	25.0	50.0	-	-	-
	(n=5)	40.0	40.0	-	-	-	-	-	20.0	-	-
Oceania Total	(n=79)	59.5	41.8	12.7	11.4	20.3	12.7	8.9	3.8	26.6	7.6
	(n=81)	58.0	19.8	17.3	11.1	35.8	22.2	9.9	7.4	38.3	6.2
Australia	(n=64)	60.9	46.9	10.9	12.5	15.6	12.5	7.8	1.6	17.2	6.3
	(n=65)	58.5	20.0	12.3	10.8	36.9	21.5	9.2	9.2	35.4	3.1
New Zealand	(n=15)	53.3	20.0	20.0	6.7	40.0	13.3	13.3	13.3	66.7	13.3
	(n=16)	56.3	18.8	37.5	12.5	31.3	25.0	12.5	-	50.0	18.8

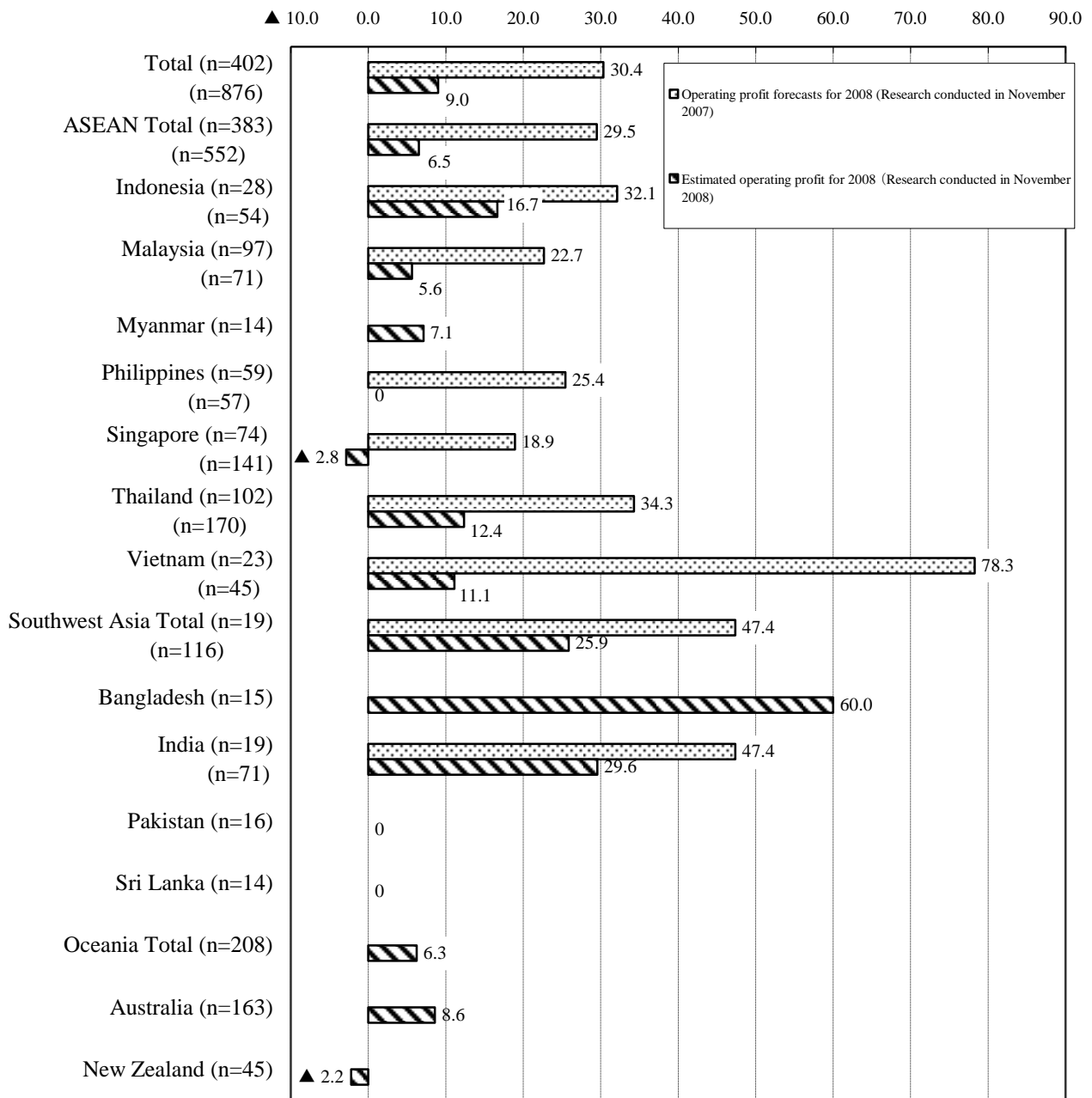
**Diagram 8: Reasons for expecting a decline in profit (non-manufacturing industry)**

(Upper row: 2008, Lower row: 2009, Unit: %)

		Decrease in local market sales of your company	Reduction in sales due to higher prices	Decrease in sales due to sluggish exports	Increase in personnel expenses	Reduction in sales due to exchange rate fluctuations	Increase in other expenditures	Lack of progress in formation of sales and service networks	Hike in interest rates	Increase in fuel costs and utilities (electricity, gas, etc.)	Other
Total	(n=257)	47.9	21.4	13.2	34.2	13.6	30.7	5.1	3.1	30.4	21.8
	(n=199)	52.8	28.1	19.1	24.6	20.1	17.1	3.5	2.5	22.1	23.1
ASEAN Total	(n=168)	47.6	17.3	13.7	32.1	10.1	28.0	4.8	1.2	33.3	22.6
	(n=143)	57.3	25.9	21.7	25.2	18.2	14.7	3.5	2.8	21.7	19.6
Indonesia	(n=13)	69.2	23.1	7.7	38.5	-	30.8	-	-	38.5	7.7
	(n=12)	83.3	50.0	8.3	25.0	-	-	-	16.7	25.0	8.3
Malaysia	(n=20)	60.0	10.0	-	40.0	20.0	35.0	5.0	-	50.0	30.0
	(n=21)	61.9	28.6	14.3	28.6	28.6	19.1	4.8	-	33.3	14.3
Myanmar	(n=4)	25.0	25.0	-	-	-	-	-	-	-	50.0
	(n=2)	50.0	50.0	-	-	-	-	-	-	-	-
Philippines	(n=18)	38.9	27.8	11.1	33.3	11.1	22.2	5.6	-	27.8	16.7
	(n=14)	64.3	42.9	21.4	28.6	14.3	21.4	-	-	28.6	7.1
Singapore	(n=53)	41.5	18.9	20.8	30.2	9.4	32.1	1.9	1.9	18.9	20.8
	(n=43)	46.5	25.6	34.9	18.6	18.6	16.3	2.3	-	16.3	18.6
Thailand	(n=48)	47.9	16.7	16.7	31.3	12.5	25.0	10.4	-	45.8	22.9
	(n=45)	60.0	13.3	17.8	28.9	20.0	11.1	6.7	2.2	13.3	28.9
Vietnam	(n=12)	50.0	-	8.3	33.3	-	25.0	-	8.3	33.3	33.3
	(n=6)	33.3	16.7	16.7	33.3	16.7	33.3	-	16.7	66.7	33.3
Southwest Asia Total	(n=23)	39.1	8.7	13.0	47.8	17.4	34.8	4.4	8.7	8.7	30.4
	(n=19)	47.4	21.1	21.1	15.8	21.1	10.5	5.3	5.3	15.8	42.1
Bangladesh	(n=2)	50.0	-	50.0	100.0	50.0	50.0	-	-	-	-
	(n=0)	-	-	-	-	-	-	-	-	-	-
India	(n=11)	27.3	-	18.2	45.5	18.2	54.6	9.1	9.1	-	27.3
	(n=9)	33.3	11.1	33.3	22.2	22.2	11.1	11.1	11.1	11.1	55.6
Pakistan	(n=6)	66.7	16.7	-	33.3	16.7	16.7	-	-	16.7	33.3
	(n=5)	80.0	20.0	20.0	-	20.0	-	-	-	-	20.0
Sri Lanka	(n=4)	25.0	25.0	-	50.0	-	-	-	25.0	25.0	50.0
	(n=5)	40.0	40.0	-	20.0	20.0	20.0	-	-	40.0	40.0
Oceania Total	(n=66)	51.5	36.4	12.1	34.9	21.2	36.4	6.1	6.1	30.3	16.7
	(n=37)	37.8	40.5	8.1	27.0	27.0	29.7	2.7	-	27.0	27.0
Australia	(n=50)	50.0	34.0	4.0	42.0	18.0	42.0	6.0	6.0	32.0	20.0
	(n=26)	30.8	34.6	3.9	30.8	23.1	34.6	-	-	15.4	30.8
New Zealand	(n=16)	56.3	43.8	37.5	12.5	31.3	18.8	6.3	6.3	25.0	6.3
	(n=11)	54.6	54.6	18.2	18.2	36.4	18.2	9.1	-	54.6	18.2

**Diagram 9: Estimated operating profit, in terms of DI values (non-manufacturing industry, compared to November 2007)**

(Unit: point)



(Note) Same as Diagram 5.

**(3) Operating profit forecasts for 2009, in terms of DI value: Non-manufacturing industry expects improvement**

The percentage of companies in the manufacturing industry predicting that their operating profits for 2009 would “Improve” (33.3%) exceeded the percentage predicting they would “Worsen” (31.4%).

The operating profit forecast for 2009 in countries in the ASEAN, Southwest Asia and Oceania regions in terms of the Diffusion Index (DI) was 2.0 points for the manufacturing industry as a whole (Diagram 10).

The DI for the ASEAN region came out to 0.3 point. A comparison of the DI values of the estimated operating profit for 2008 with that of the operating profit forecast for 2009 shows that the results vary widely by country, as seen in the 30.6-point improvement predicted for Singapore and the 45.5-point decline predicted for Indonesia. As the reason for predicting an improvement in Singapore, an “Increase in sales due to export expansion” was cited by the largest number of companies (62.5%), indicating that the impact of the financial crisis, which originated in the U.S., had not been felt strongly at the time of the survey. As reasons for predicting a decline in Indonesia, more companies cited an “Increase in procurement costs” (50.0%) than a “Decrease in local market sales” (38.1%) or a “Decrease in sales due to sluggish exports” (35.7%), which is an indication of the fact that at the time of the survey rising costs were being perceived as more of a problem than the effects of the financial crisis.

The DI for Southwest Asia came out to 11.5 points. A comparison of the DI values of the estimated operating profit for 2008 with that of the operating profit forecast for 2009 shows a substantial 35.0-point improvement by India. As the reason for the improvement, an “Increase in local market sales” (75.9%) pulled ahead of the second most prevalent reason, “Improved production efficiency” (41.4%), by a wide margin.

The DI for Oceania came out to 8.2 points. A comparison of the DI values of the estimated operating profit for 2008 with that of the operating profit forecast for 2009 shows a 12.1-point improvement in Australia. In New Zealand, “Improvement” and “Decline” were the same at 37.5 points, resulting in a DI of “0.” As reasons for the forecast of improved operating profit in Australia for 2009, most cited an “Increase in local market sales” and “Improved production efficiency” (40.0%, respectively), followed by an “Increase in sales due to export expansion” (33.3%).

In the non-manufacturing industry, the percentage of companies predicting their operating profits for 2009 would “Improve” was 36.9%, while the percentage predicting they would “Worsen” was 23.1%, resulting in a DI of 13.8 points for the non-manufacturing industry as a whole (Diagram 11).

The DI for the ASEAN region came out to 6.5 points. A comparison of the DI values of the estimated operating profit for 2008 with that of the operating profit forecast for 2009 shows a substantial 32.1-point improvement by Vietnam. As reasons for the improvement in the operating profit forecast for Vietnam, the majority cited an “Increase in local market sales of your company” (60.0%) and “Development of new products and services” (52.0%). On the other hand, a 14.2-point decline was predicted for Malaysia. As reasons for the operating profit forecast declining in Malaysia, most cited a “Decrease in local market sales of your company” (61.9%), while in terms of industry, the majority of companies citing this reason were in the construction/plants business.

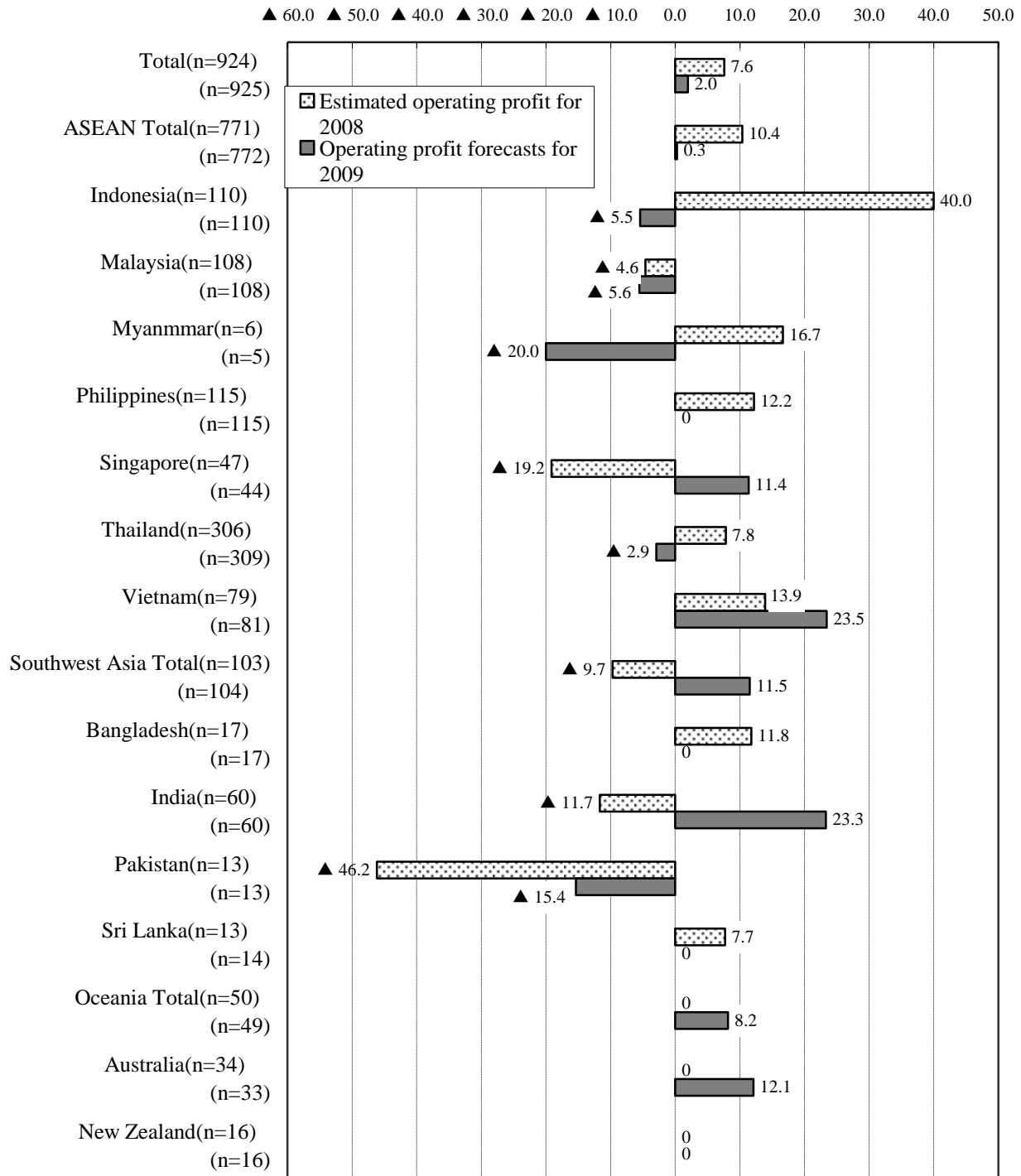
The DI for Southwest Asia came out to 34.2 points. A comparison of the DI values of the estimated operating profit for 2008 with that of the operating profit forecast for 2009 shows a marked 20.0-point improvement by Bangladesh. As reasons for the improvement, an “Increase in local market sales of your company” was cited by the largest number of companies (75.0%), while in terms of industry, the majority of companies citing this reason were trading companies (80.0%).

The DI for Oceania came out to 21.6 points. A comparison of the DI values of the estimated operating profit for 2008 with that of the operating profit forecast for 2009 shows that substantial improvements were recorded by both Australia and New Zealand, at 15.9 points and 13.3 points, respectively. As reasons for the

operating profit forecast for 2009 improving in Australia, most cited an “Increase in local market sales of your company” (58.5%), while in terms of industry, many of the companies citing this reason were sales companies (83.3%) or companies in the hotel/travel/restaurant industry (71.4%). Additionally, as reasons for the operating profit forecast for 2009 improving in New Zealand, many cited an “Increase in local market sales of your company” (56.3%), which was the most prevalent reason among trading companies.

**Diagram 10: Operating profit forecast, in terms of DI values (manufacturing industry)**

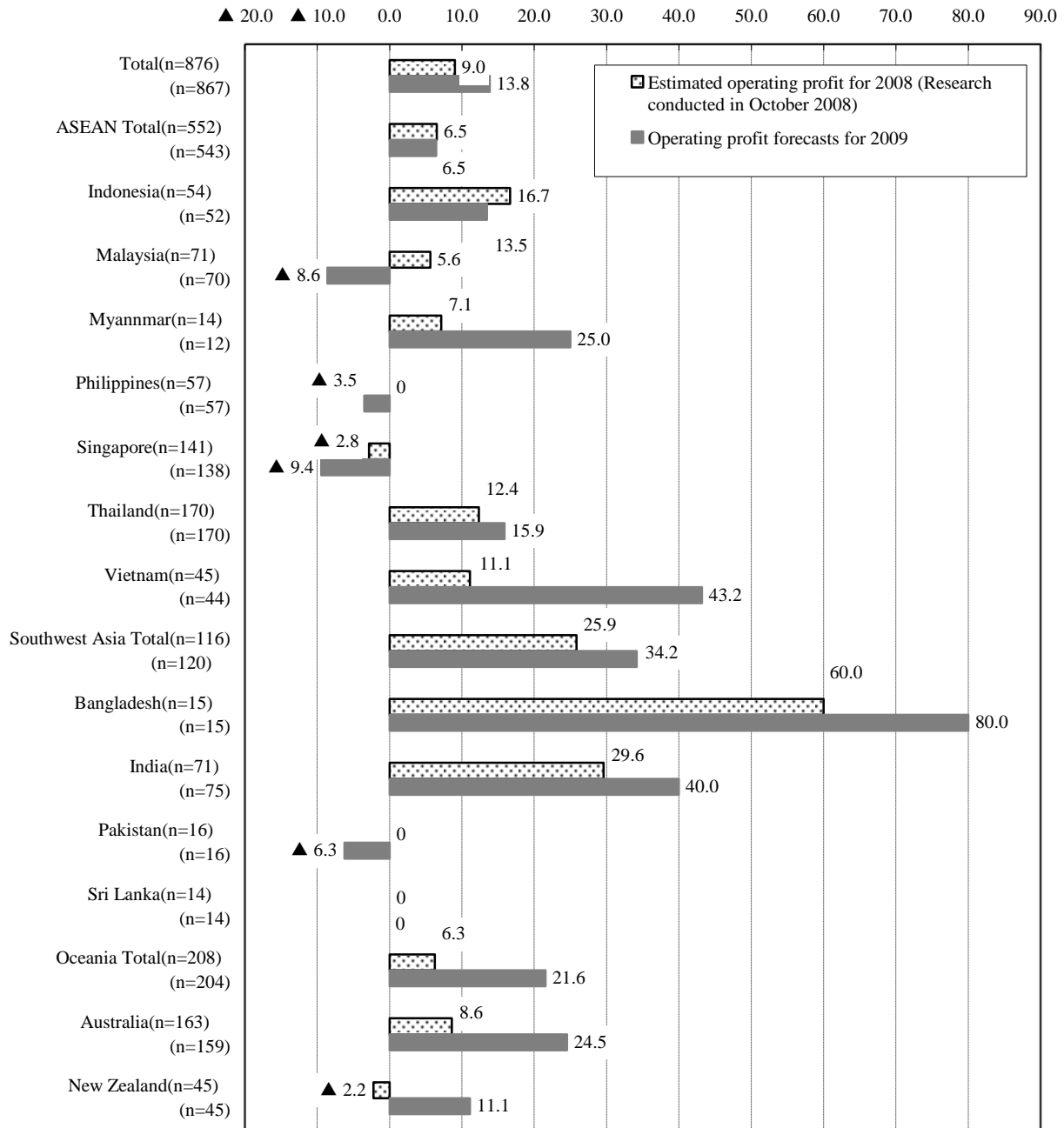
(Unit: point)



(Note) Same as Diagram 5.

**Diagram 11: Operating profit forecast in terms of DI values (non-manufacturing industry)**

(Unit: point)



Note) Same as Diagram 5.

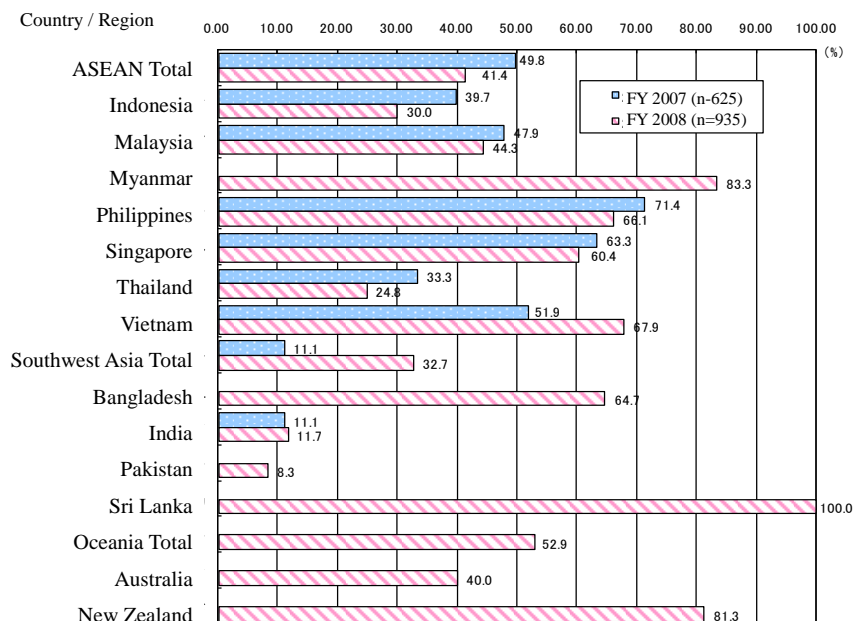
## 2. Status of Exports/Imports

### (1) Percentage of export-oriented companies (by country/region)

Japanese-affiliated manufacturers operating in Asia may, according to a given set of conditions, be including the size of their local markets and local wages, classified into domestic market-oriented companies, export-oriented companies or companies equipped with both domestic market-oriented and export-oriented functions. It is also a fact that, particularly among Japanese-affiliated companies in Asia, there are large numbers of manufacturers that began operations as bases for export to third countries during times when the yen's value was high. For the purpose of this section, "export-oriented companies" is defined as companies whose export sales account for 70% or more of their total sales and observed the status thereof in each country (Diagram 12).

Among the companies operating in the ASEAN region, the percentage of export-oriented companies was 41.4%, which is lower than the percentage in the previous survey (49.8%). This percentage of export-oriented companies has been declining with each successive survey JETRO has taken, dropping by 17.3 points compared to the 58.7% registered in the 2002 survey. Among the ASEAN nations, Myanmar (although there were only a limited number of respondents) has the highest percentage of export-oriented companies at over 80% (83.3%), followed by Vietnam (67.9%) and the Philippines (66.1%). As these countries, compared to others in the ASEAN region, have relatively low wages as well as limited domestic markets, they have become home to large numbers of export bases of Japanese-affiliated companies targeting third countries, which operate in specially designated areas, such as export processing zones. In Vietnam, in particular, almost half of the respondent companies are 100% export companies.

**Diagram 12: Percentage of Japanese-affiliated manufacturers citing an export ratio of 70% or above (by country/region)**



(Note) Myanmar, Bangladesh, Pakistan, Sri Lanka, Australia and New Zealand have been included in the survey from 2008.

Thailand, on the other hand, at a mere 24.8%, has the lowest percentage of export-oriented companies in the ASEAN region, as was the case in the previous year. Thailand is followed by Indonesia at 30.0%. Among countries in the ASEAN region, both of these countries have sizable economies with numerous companies that are engaged in sales in the domestic market as well as export sales. For this reason, Thailand and Indonesia, unlike Vietnam, have only small percentages of 100% export companies at 5.7% and 8.2%, respectively. In the past, many companies considered the ASEAN region merely as an export base for third countries. However, encouraged by the recent strong economic growth of the ASEAN nations and taking a hint from the past, in which companies largely dependent on domestic demand, as epitomized by Thailand's automobile industry, were severely damaged by the Asian monetary crisis of 1997, awareness has been growing for the need to balance domestic and foreign demand.

Vietnam seems to be the only exception to the rule amid this trend toward diminishing percentages of export-oriented companies among ASEAN countries. In the previous survey, the percentage of export-oriented companies in Vietnam was 51.9%, which increased by 16 points to 67.9% in the current survey. It is possible that the dramatic increase in the number of respondents, i.e., from 27 companies to 82 companies, is partly responsible for the upward swing in the percentages. However, to a certain degree, the changes in the business environment brought about by the execution of the clauses required as a result of WTO membership are also considered one of the major factors. Since 2008, the Vietnamese government has been granting trading rights to foreign companies and successively opening up the wholesale market. Consequently, companies that had supplied products primarily to Vietnam's domestic markets are on the verge of being subject to intense competition from products made in other ASEAN countries. These companies are beginning to re-examine the positioning of their Vietnamese bases and are making efforts to put more focus on their exports. This is apparent from the fact that in the previous survey, export-oriented companies and domestic market-oriented companies were more or less equally divided, with 51.9% of companies replying that their export ratios were 70% or above and 44.4% replying that their export ratios were 0% to 30%; while in the current survey, companies citing export ratios of 0% to 30% were down to 27.2%, whereas the percentage of export-oriented companies has risen to 67.9%.

With the exception of India, the nations of Southwest Asia were not included in the previous survey. Southwest Asia is basically divided into two groups: India and Pakistan on the one hand and Bangladesh and Sri Lanka on the other. Japanese-affiliated companies operating in India and Pakistan primarily target the domestic markets. Companies with export ratios of 30% or less in India account for 80% of the total, while in Pakistan they account for 91.7%. Sri Lanka and Bangladesh, on the other hand, are considered export bases, and the percentages of export-oriented companies in those two countries are 100% and 64.7%, respectively.

The survey results of the companies operating in Oceania reflect the characteristics of the industry in which they operate. In New Zealand, the percentage of companies engaged in the foods, processed agricultural or marine products industry and the lumber and wood products industry is high. The companies tend to export their products from New Zealand. For this reason, the percentage of export-oriented companies was high at 81.3%. Australia, on the other hand, while playing host to companies in similar sectors as New Zealand, is also the home of numerous manufacturers of general machinery intended for the domestic market, resulting in a percentage of export-oriented companies of 40.0%.



## (2) Trends by industry

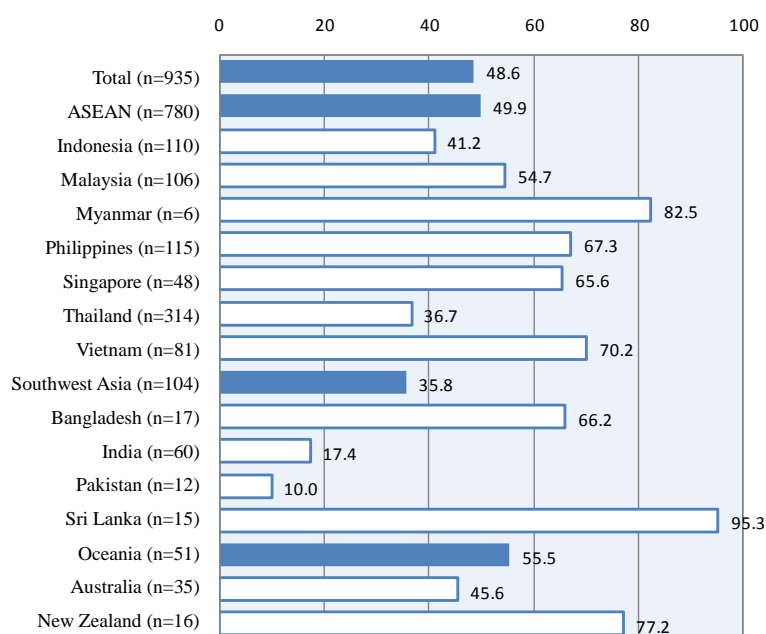
The sectors with the largest number of companies having export ratios of 70% or above are the lumber and wood products industry and the furniture and interior goods industry. All the companies in those industries are export-oriented companies with export ratios of 70% or above. They are followed by the apparel and textile products industry (85.7%), suggesting that export-oriented manufacturers favor light industry products. On the other hand, sectors with large numbers of companies that are manufacturing products for the domestic market (an export ratio of 30% or less) include pharmaceuticals (100%), motor vehicles and motorcycles (82.4%), paper and pulp (66.7%) and iron and steel (64.3%), suggesting a tendency for specializing in their local markets.

## (3) Average ratio of exports to total sales

In the survey, ranges of export ratio to sales were indicated and the respondents selected the appropriate range. Then, the intermediate value of each range was taken to calculate the average export ratio to the total sales of each country. The average export ratio to total sales for the ASEAN region overall was 49.9%. Among the ASEAN nations, Myanmar (although there were only a limited number of respondents) had the highest average ratio with 82.5%, followed by Vietnam (70.2%), the Philippines (67.3%) and Singapore (65.6%). Among the countries in this region, Thailand had the lowest average ratio of exports to total sales at 36.7%, followed by Indonesia (41.2%). This is believed to be due to the fact that in addition to having the major assembly operations of final products taking place locally, these countries have relatively large domestic demand compared to the other ASEAN countries.

In Southwest Asia, on the other hand, there is a clear distinction between the domestic market-oriented group of India and Pakistan and the export-oriented group of Bangladesh and Sri Lanka (Diagram 13).

**Diagram 13: Average export ratio to total sales (by country/region)**

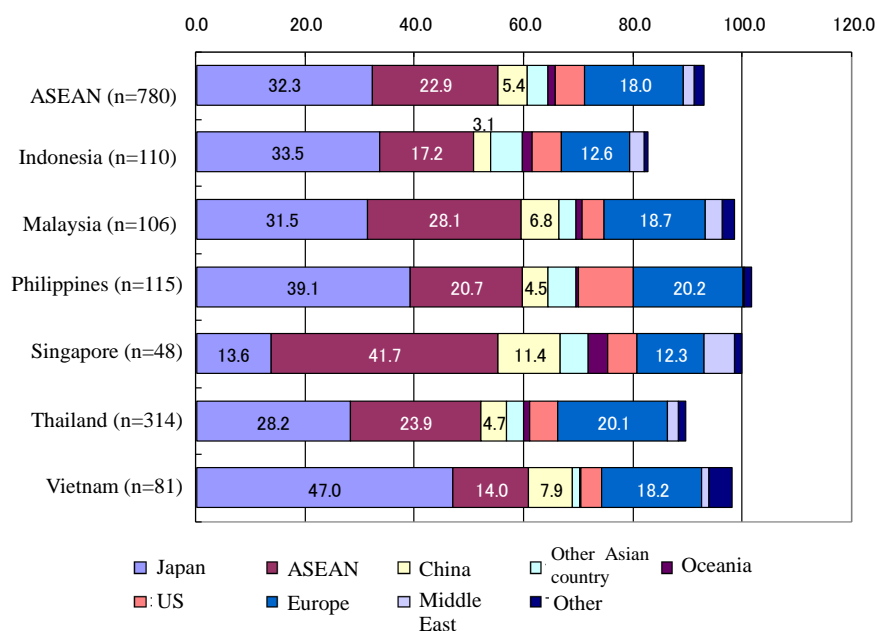


Furthermore, the export ratio to total sales of each ASEAN country by destination country/region to total exports was calculated using the average value of the export ratio by region. Consequently, the totals did not necessarily add up to 100. For the ASEAN region as a whole, Japan is the largest export destination, accounting for about one third (32.3%) of total exports, followed by exports within the ASEAN region (22.9%) and Europe (18.0%). Despite the recent increase in exports to China, it still accounts only for 5.4% of total exports, indicating that among Japanese-affiliated companies, the division of labor between the ASEAN countries and China, in terms of products and manufacturing processes, has taken place only on a limited scale (Diagram 14).

Among the ASEAN nations, Vietnam (47.0%) and the Philippines (39.1%) have large percentages of exports intended for Japan. These companies are bringing the products produced in the ASEAN nations to Japan. They are, in effect, compartmentalizing their production by practicing a division of labor between Japan and ASEAN for their products and manufacturing processes.

In terms of exports within the ASEAN region, the original members of ASEAN have, in an effort to reduce or eliminate tariffs on intra-regional trade, achieved tariff eliminations on 80% of all items in 2008. Among the ASEAN nations, Singapore has a particularly high percentage of exports to other ASEAN nations, accounting for approximately 40% of total export sales. Malaysia and Thailand also have high percentages of exports intended for the ASEAN region, at 28.1% and 23.9%, respectively. The survey methods differed from the previous survey, and thus, technically speaking, such comparisons are not completely accurate. However, a comparison with the previous survey shows that the share of exports intended for Japan and the ASEAN nations has decreased, while the share of exports to the EU has increased. In the previous survey, the percentage of exports to the EU from the ASEAN region as a whole was 6.1%, and the percentages of the individual countries (with the exception of Indonesia at 2.4%) were in the 6% range. However, in this survey, the percentage of exports from the ASEAN region as a whole to the EU dramatically rose to 18.0%.

**Diagram 14: Export ratios of major ASEAN nations by destination (country/region)**



### 3. Status of FTA/EPA Usage

FTAs/EPAs are used by companies in either of two situations: as exporters or as importers. When using FTAs/EPAs, as an exporter, the manufacturer/exporter must obtain a Certificate of Origin (COO) to prove the origin of the product concerned, which involves meticulous preparation of documents required by the screening authorities. Consequently, this process entails procedural costs, such as personnel expenses in addition to the costs involved in the issuance of said certificate. Manufacturers/exporters can enjoy a tariff exemption at the export destination only after such procedures have been completed. Importers, on the other hand, may utilize FTAs/EPAs by merely presenting Certificates of Origin (COO), which have been obtained from the exporters. Moreover, those benefiting the most from FTAs/EPAs are the importers who had previously been required to pay tariffs. There is very little direct benefit to be enjoyed by the exporters or manufacturers of components used to produce the export items, despite having to bear various costs involved in the system.

Many of the Japanese export-oriented companies operating in the ASEAN region do not pay tariffs, as a result of investment benefit schemes implemented by each government. On the other hand, some companies that manufacture and export parts are also similarly exempted from tariffs at export destinations, while some companies are not required to obtain COOs. However, in terms of opening up the markets of Indonesia, which has a low percentage of export-oriented companies yet which has one of the biggest economies in the ASEAN region, and of opening up the markets of Thailand as well, FTAs have played a major role as a means to reduce tariffs.

This survey investigated the status of FTA/EPA usage by both exporters and importers (valid responses: 670 exporters, 635 importers). A company will determine whether it uses an FTA in export activities by considering such factors as: (1) the extent to which the FTA will lower tariffs; (2) whether the export item in question is already treated as a duty-free item at the export destination through investment benefit schemes; (3) whether export volume will be commensurate with the procedural costs; and (4) whether said item satisfies the rules of origin.

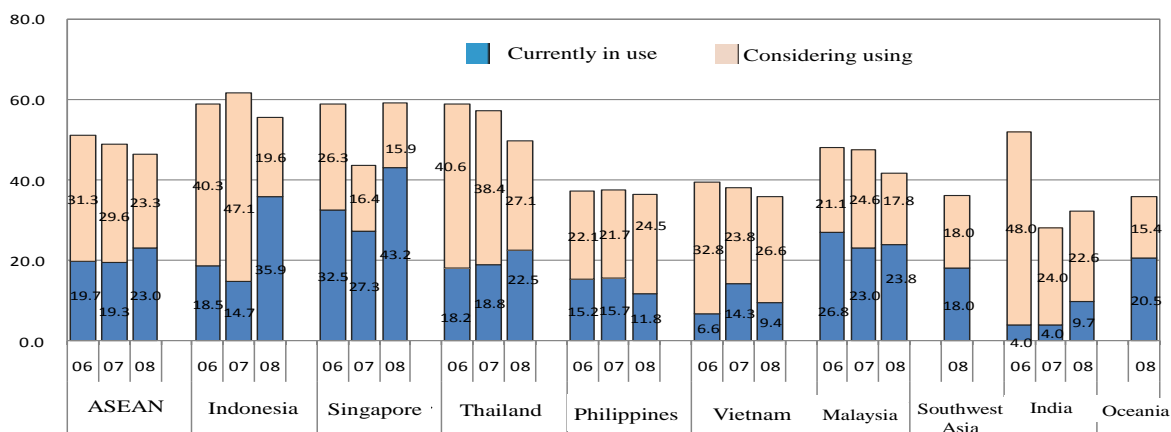
#### (1) FTA/EPA usage in export activities

Twenty-three percent of Japanese-affiliated manufacturers operating in the ASEAN region use FTAs/EPAs in their export activities. The ASEAN nation with the highest percentage of FTA usage is Singapore (utilization rate: 43.2%), followed by Indonesia (utilization rate: 35.9%) and Thailand (utilization rate: 22.5%). In the Philippines and Vietnam, which are considered to be export/processing bases by many Japanese companies, the utilization rate has remained at around 10%. The FTA utilization rates for Southwest Asia and Oceania are 18.0% and 20.5%, respectively (Diagram 15).

On the other hand, nearly one-quarter of the Japanese companies operating in the ASEAN region (23.3%), or the equivalent of the number of companies with FTAs/EPAs currently in use, are considering using FTAs/EPAs. By country, Thailand has the highest percentage of Japanese companies that are considering using FTAs/EPAs (27.1%), followed by Vietnam (26.6%) and the Philippines (24.5%), suggesting high expectations thereof. Consequently, if the companies with FTAs/EPAs “Currently in use” and the companies “Considering using FTAs/EPAs” were classified as companies interested in FTAs/EPAs, nearly half (46.3%) of the companies

operating in the ASEAN region would fall into this category. Among the countries mentioned here, the countries with the highest level of company interest in FTAs/EPAs are Singapore (59.1%), followed by Indonesia (55.4%) and Thailand (49.6%).

**Diagram 15: Trends in the utilization rates of FTAs/EPAs and the rates of companies considering using FTAs/EPAs in their export activities**



(Note) ASEAN includes Myanmar. Southwest Asia includes Bangladesh, Pakistan and Sri Lanka. Oceania denotes Australia and New Zealand. These countries have been included in the survey from 2008.

The FTA/EPA utilization rates in export activities were examined by considering the individual FTAs/EPAs concluded between each of the countries. Since a small number of respondents could limit the parameter and thus inadvertently raise the utilization rate, FTAs that (1) were cited by 20 or more companies (valid responses) and (2) had utilization rates of 5% or above were extracted (Diagram 16). The FTA most utilized in the Asia-Pacific region is Singapore's AFTA, which is used by 31.8% of Japanese-affiliated manufacturers in Singapore. This is followed by Indonesia's EPA with Japan (JIEPA), with a utilization rate of 21.7%. Although the JIEPA had only been in force since July 2008, just four months prior to the survey, it was already being utilized by one out of every five companies. The main sectors in which the Japanese-affiliated companies utilized the JIEPA include textiles, apparel and textile products, lumber and wood products, and plastic products. The third most utilized FTA in the ASEAN region is Singapore's ASEAN-China FTA (ACFTA) with 18.2%. The ACFTA is being used primarily in the sectors of foods, processed agricultural or marine products, chemicals, and electric and electronic parts and components. The percentage of exports intended for China among Japanese-affiliated manufacturers in Singapore is higher than that intended for other neighboring countries, at an average of 11.4%.

The recent three-year trend of the FTA/EPA utilization rate and the rate of companies considering using FTAs/EPAs in export activities shows that utilization rates have increased in Indonesia, Singapore, Thailand and India. In particular, the utilization rate in Indonesia has been boosted by the conclusion of an EPA with Japan in July 2008. The utilization rate in Thailand has also been boosted by the FTA which came into effect in November 2007. However, the survey did not indicate a rise in the utilization rate of the AJCEP, as it went into force on December 1, 2008, after this survey was taken. Classifying FTA/EPA utilization rates and the rate of considering using FTAs/EPAs as a "percentage of interest in FTAs/EPAs shown by companies," it is

evident that this percentage has been steadily declining in the ASEAN region the past three years. Furthermore, the number of companies with no interest in using FTAs/EPAs shows moderate but steady growth. This is thought to be because the companies are already enjoying exemptions from import duties or it is due to the absence of FTAs with major export destinations, such as the U.S. and Europe.

Among the 16 most utilized FTAs/EPAs, which have been classified according to the country of location, five of the FTAs, or nearly one-third, are those utilized by Japanese-affiliated companies in Singapore. Since the conclusion of a bilateral FTA with New Zealand in 2001, Singapore has concluded FTAs with countries in the Asia-Pacific region, including Japan (2002), Australia (2003), India (2005) and South Korea (2006). As a result, Singapore has come into possession of the most extensive FTA network in Asia, and the benefits of such a network are being enjoyed by the Japanese-affiliated companies through the utilization of FTAs and other agreements.

From the perspective of FTA counterparties, the FTAs/EPAs commonly utilized by Japanese-affiliated companies in the Asia-Pacific region are the ASEAN FTA (AFTA) (six FTAs) and the four EPAs with Japan.

**Diagram 16: Sixteen most utilized FTAs in export activities**

Rank	Country of location	Country/region of the FTA counterpart	Valid responses	Utilization rate by FTA	(Reference) Share of companies utilizing the FTAs of the country of location
1	Singapore	ASEAN	44	31.8	43.2
2	Indonesia	Japan	92	21.7	35.9
3	Singapore	China	44	18.2	43.2
4	Australia	New Zealand	24	16.7	20.8
5	Malaysia	ASEAN	101	14.9	23.8
6	Thailand	ASEAN	262	13.7	22.5
7	Malaysia	Japan	101	12.9	23.8
8	Thailand	Japan	262	11.5	22.5
9	Singapore	Japan	44	11.4	43.2
10	Singapore	South Korea	44	9.1	43.2
11	Singapore	Australia	44	9.1	43.2
12	Philippines	ASEAN	102	8.8	11.8
13	Vietnam	ASEAN	64	7.8	9.4
14	Indonesia	ASEAN	92	6.5	35.9
15	India	Thailand	31	6.5	9.7
16	Malaysia	China	101	5.0	23.8

(Note) FTAs/EPAs cited by 20 or more valid responses and with utilization rates of 5% or above

Although the AFTA came into effect in 1993, it has been the center of increasing interest recently as the deadline for tariff elimination approaches. According to materials provided by the ASEAN Secretariat, as of August 2008, the interim goal of eliminating tariffs on 80% of the items has been achieved by the ASEAN-6, with Singapore, having eliminated tariffs on all items, in the lead, followed by Brunei (rate of tariff elimination: 85.4%), the Philippines (82.9%), Malaysia (82.6%), Thailand (80.0%) and Indonesia (80.0%). Consequently, as of 2008, the average tariff among the ASEAN-10 is 1.95%, and among the ASEAN-6, it is less than 1.0%, at 0.97%. ASEAN has entered the final phase before the complete elimination of tariffs set for 2010. Furthermore, in August 2008, changes were made to the terms of use, in order to further encourage AFTA usage. Previously, ASEAN had ruled that the decision on rules of origin, which was a prerequisite to AFTA usage,

would be based on the “40% Regional Value Content (RVC).” From August 2008, ASEAN has adopted another criterion of “Change in Tariff Classification (CTC)” in the rules of origin. As a result of this change, hope is mounting that the products that until now have not been qualified for AFTA usage would become eligible for tax benefits under the AFTA, which has the lowest levels of tariffs in Asia.

Many of the EPAs concluded with Japan, on the other hand, with the exception of the EPA with Singapore, have come into effect in or after 2006, and the full extent of their tariff reduction has not taken effect. However, Indonesia’s EPA, with a utilization rate of 21.7%, ranks among the top 16 FTAs/EPAs utilized in export activities, followed by the EPAs of Malaysia, Thailand and Singapore. Japan’s tariff on non-agricultural products, such as industrial products, has always been one of the lowest in the world. According to the World Tariff Profiles 2008 (WTO), Japan’s tariff on non-agricultural products is 2.6% (simple average), which is lower than that of the U.S. (3.2%) and the EU (3.8%). However, Japan levies tariffs of 21.8% on agricultural products. Among this product group, tariffs levied on dairy products (154.7%) and cereals and cereal products (64.3%) are particularly high. As of February 2009, Japan grants Generalized System of Preferences (GSP) treatment, which levies lower rates than that of the normal tariffs, on 337 agricultural and fishery products and 5,980 industrial products from developing countries. Japan’s EPA stipulates that as long as the GSP rate is lower than the preferential rate under the EPA for any given product covered by the GSP, the product may continue to use the GSP rate. However, for most items the EPA rates are lower than the GSP rates, and thus, they are no longer covered by the GSP. Therefore, in the current survey, many of the companies claiming EPA utilization had switched from the GSP to the EPA.

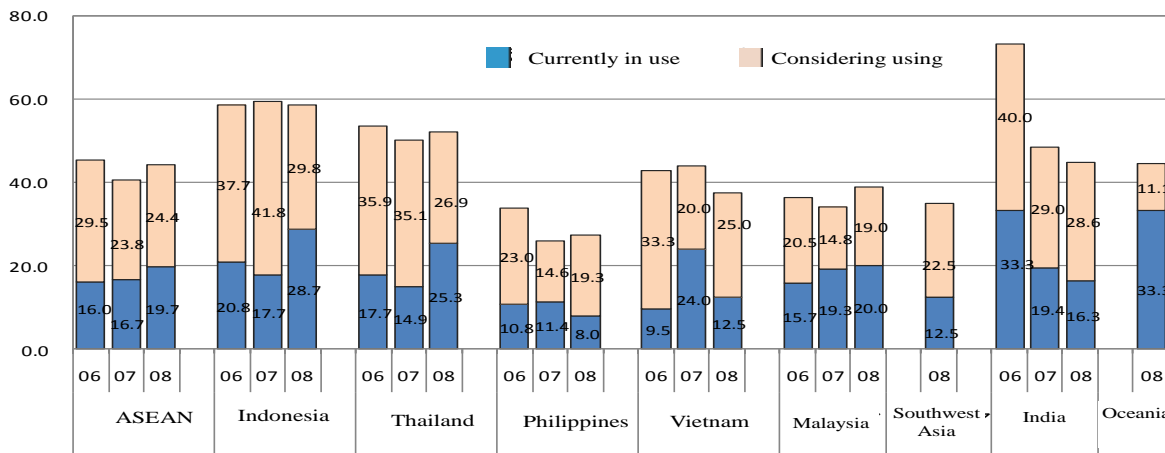
One example is the EPA that came into effect between Thailand and Japan in November 2007. After the EPA with Japan went into force, export sales utilizing the GSP declined drastically. According to the Department of Foreign Trade of Thailand’s Ministry of Commerce, exports intended for Japan utilizing the GSP during the period from January to November 2008 amounted to USD 127.08 million. This represents an 88.8% drop from the same period of the previous year (USD 1,134.52 million) and is a clear indication that exporters who had previously utilized the GSP had switched over to the EPA.

## **(2) FTA/EPA usage in import activities**

Among Japanese-affiliated companies operating in the ASEAN region, 19.7% use FTAs/EPAs for their import activities, which represents a smaller percentage than those for export activities (23.0%). What is most distinctive is the high rate of FTA/EPA utilization in the Oceania region (33.3%). In particular, 42.1% of the companies operating in Australia replied that they use FTAs/EPAs, making Australia the country with the highest FTA/EPA utilization rate for import activities. Australia is followed by Indonesia (28.7%), Thailand (25.3%) and Malaysia (20.0%). In the past three surveys, the utilization rates for Indonesia, Thailand and Malaysia have increased. As mentioned in the section on exports, the growth in the FTA/EPA utilization rates of Indonesia and Thailand in 2008 is thought to be attributable to the EPAs with Japan coming into effect. As indicated by the 27 companies utilizing FTAs/EPAs in Indonesia, the Japan-Indonesia EPA (JIEPA) has the highest utilization rate. Among the 27 companies, 23 have import experience vis-à-vis Japan and 70%, or 16 companies, utilize the JIEPA. Among the 16, the most numerous were companies in the iron and steel sector and the fabricated metal products sector with three companies each, followed by the motor vehicle and motorcycle parts sector with two companies.

Moreover, 24.4% of the companies operating in the ASEAN region replied that they were considering using FTAs/EPAs. The percentage of companies interested in FTAs/EPAs, combining the companies with FTAs/EPAs currently in use and the companies considering using FTAs/EPAs, has not changed significantly in the past three years, at around 45% for the ASEAN region as a whole. The same level is maintained in the Oceania region, which has been included in this survey from 2008, and India. Although the degree of interest varied from country to country, the percentage of companies that are interested in FTAs/EPAs tends to be relatively high in Indonesia and Thailand (Diagram 17).

**Diagram 17: Utilization rates of FTAs/EPAs in import activities**



(Note 1) ASEAN includes Myanmar. Southwest Asia includes Bangladesh, Pakistan and Sri Lanka. Oceania denotes Australia and New Zealand. These countries have been included in the survey from 2008.

(Note 2) Singapore has been omitted from this chart since tariffs have been eliminated on all items except for six alcoholic beverage items, including beer.

Utilization rates for each FTA in the import activities for each country were calculated and, as was the case with exports, FTAs that (1) were cited by 20 or more companies (valid responses) and (2) had utilization rates of 5% or above were extracted. The finding showed that the FTA/EPA with the highest utilization rate was Indonesia’s EPA with Japan (JIEPA) at 17%. This was followed by the Japan-Malaysia EPA and the Japan-Thailand EPA, demonstrating that the three most utilized FTAs/EPAs for import activities are those with Japan. The AFTA rounded out the rest of the list, with the exception of the Early Harvest (EH) scheme (early reduction in customs tariffs on specified items) under the India-Thailand FTA (TIFTA), which came in fifth place (Diagram 18).

**Diagram 18: Nine most utilized FTAs/EPAs in import activities**

Rank	Country of location	Country/region of the FTA counterpart	Valid responses	Utilization rate by FTA	(Reference) Share of companies utilizing the FTAs of the country of location
1	Indonesia	Japan	94	17.0	28.7
2	Malaysia	Japan	95	12.6	20.0
3	Thailand	Japan	253	12.3	25.3
4	Thailand	ASEAN	253	10.3	25.3
5	India	Thailand	49	10.2	16.3
6	Malaysia	ASEAN	95	9.5	20.0
7	Vietnam	ASEAN	64	9.4	12.5
8	Philippines	ASEAN	88	8.0	8.0
9	Indonesia	ASEAN	94	7.4	28.7

(Note) FTAs/EPAs cited by 20 or more valid responses and with utilization rates of 5% or above

In Oceania, the Thailand-Australia FTA (TAFTA) came into effect in January 2005. Major Japanese-affiliated companies have been utilizing this FTA to import automobiles and electrical appliances from Thailand. This FTA has not been included in Diagram 18 as only 19 valid responses were received from companies operating in Australia. However, the TAFTA, with its utilization rate of 31.6%, was the most utilized FTA in Australia. In terms of Australian passenger automobile imports, Thailand is the third largest trading partner behind Japan and Germany. Moreover, in terms of commercial automobile imports, Thailand is Australia's greatest trading partner, ahead of Japan and the U.S.

### (3) Reasons for not using FTAs/EPAs

Since the beginning of this decade, FTAs/EPAs have been rapidly gaining recognition in Asia. However, more than half of the companies "have no plan to use FTAs/EPAs," although the number of the companies varies widely by country. As reasons for not using FTAs/EPAs in export activities in the ASEAN region, "No advantages to an FTA since export destinations are exempt from payment of import duty" was cited by the largest number of companies in the ASEAN region (123 companies: 37.6%), followed by "No FTA or EPA exists with the export destinations" (75 companies: 22.9%). Some companies also cited "No advantages to an FTA since the general duty on the export destinations is low" (65 companies: 19.9%). The results of this survey prove that when bringing products manufactured overseas back to Japan, there is no compelling need to use an FTA/EPA, since Japanese tariffs have already been eliminated or are at extremely low levels. As reasons for not using FTAs/EPAs in Southwest Asia and the Oceania region, "No FTA or EPA exists with the export destinations" was cited by approximately 40% of the respondent companies (Diagram 19).



**Diagram 19: Reasons for not using FTAs/EPAs (exports)**

[Export]

(Unit: % of the number of companies)

	No advantages to an FTA since the general duty on the export destinations is low	No advantages to an FTA since the export destinations are exempt from payment of import duty	Rules of Origin create too many obstacles	Cost incurred in screening and issuance of certificates of origin	Complicated procedures involved in obtaining certificates of origin	Obtaining the necessary documents is impossible since our parts-supplying companies are not aware of FTA/EPAs	Complexity arising because existing FTA/EPA regulations vary in different countries of origin	No FTA or EPA exists with the export destinations	Other
ASEAN Total (n=327)	19.9	37.6	4.0	2.5	4.6	1.5	4.6	22.9	22.6
Indonesia (n=34)	17.7	38.2	2.9	8.8	5.9	2.9	5.9	26.5	35.3
Malaysia (n=55)	23.6	52.7	-	-	1.8	-	1.8	14.6	14.6
Myanmar (n=4)	-	75.0	25.0	-	-	-	-	25.0	-
Philippines (n=61)	9.8	32.8	4.9	-	3.3	1.6	9.8	21.3	27.9
Singapore (n=15)	6.7	40.0	-	13.3	13.3	6.7	6.7	20.0	26.7
Thailand (n=122)	26.2	32.8	6.6	2.5	6.6	1.6	4.1	22.1	22.1
Vietnam (n=36)	19.4	33.3	-	-	-	-	-	38.9	16.7
Southwest Asia Total (n=37)	16.2	18.9	-	-	-	2.7	2.7	37.8	29.7
India (n=19)	10.5	5.3	-	-	-	5.3	-	42.1	42.1
Oceania Total (n=24)	12.5	29.2	-	-	-	-	-	41.7	25.0

An overwhelming number of companies in the ASEAN region that replied they had “no plan to use” FTAs/EPAs cited “Already enjoy exemption from tariffs through investment benefit scheme” (157 companies out of 321: 48.9%) as the reason for non-utilization. This was followed by “Insignificance of domestic sales on which tariffs are charged” (13.4%) and “No FTA or EPA exists with the import origins” (13.1%). In Oceania and Southwest Asia, the overwhelming reason was “No FTA or EPA exists with the import origins” for both regions, at 50.0% and 42.6%, respectively (Diagram 20).

**Diagram 20: Reasons for not using FTAs/EPAs (imports)**

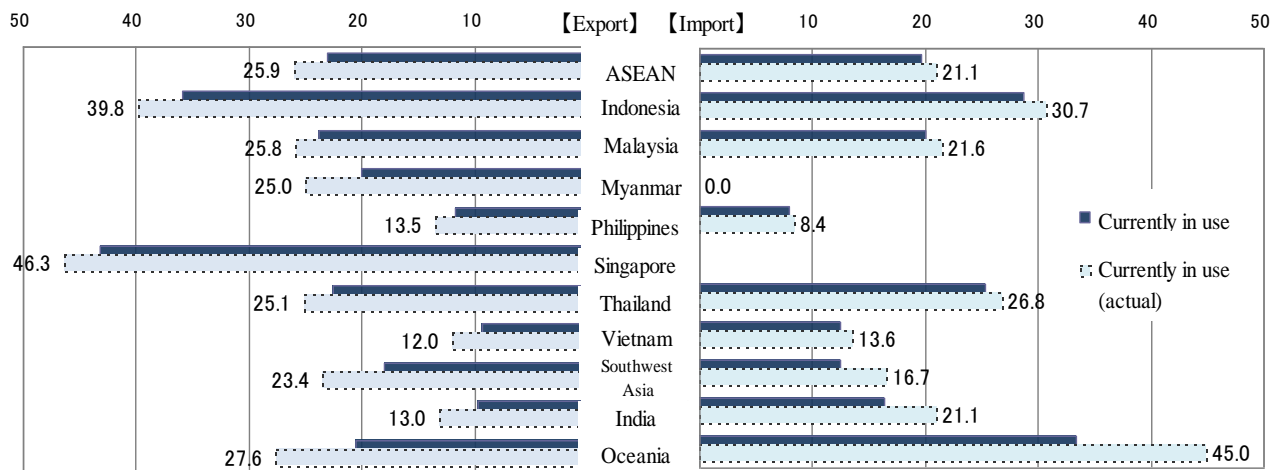
[Import]

	Already enjoy exemption from tariffs through investment benefit schemes	Insignificance of domestic sales on which tariffs are charged	Our parts-supplying companies are not aware of FTA/EPAs	Application of an FTA is not allowed in intermediate trade	No advantages to an FTA since general duty is low	No advantages to an FTA since the FTA duty is progressively lowered, minimizing the difference between it and the general duty	No FTA or EPA exists with the import origins	Other
ASEAN Total (n=321)	48.9	13.4	2.2	0.3	12.8	4.1	13.1	15.9
Indonesia (n=35)	34.3	14.3	-	-	11.4	5.7	17.1	31.4
Malaysia (n=55)	45.5	20.0	-	1.8	14.6	3.6	12.7	10.9
Myanmar (n=5)	20.0	60.0	20.0	-	-	-	40.0	-
Philippines (n=60)	61.7	8.3	3.3	-	5.0	-	8.3	16.7
Singapore (n=18)	-	22.2	5.6	-	22.2	-	16.7	38.9
Thailand (n=113)	51.3	10.6	2.7	-	15.9	8.0	12.4	14.2
Vietnam (n=35)	68.6	8.6	-	-	11.4	-	14.3	2.9
Southwest Asia Total (n=47)	29.8	4.3	4.3	-	2.1	4.3	42.6	14.9
India (n=23)	4.4	-	8.7	-	4.4	8.7	47.8	30.4
Oceania Total (n=14)	-	-	-	-	14.3	7.1	50.0	28.6

Needless to say, utilization of an FTA or EPA would be impossible unless such an arrangement exists at the export destination or import origin. Therefore, the utilization rate of FTAs/EPAs was once again calculated, but this time, the number of companies that replied “No FTA or EPA exists with the export destinations (import

origins)” was subtracted from the number of valid responses (parameter), and once again, that number was divided by the number of companies with FTAs/EPAs currently in use, calculating the actual utilization rate. This time, the utilization rate for export activities rose from 23.0% to 25.9%, and the rate for import activities rose from 20.6% to 21.1%. The actual utilization rate in Oceania is particularly high, with the utilization rate in export activities rising 7.1 percentage points to 27.6% and in import activities rising 11.7 percentage points to 45.0% (Diagram 21).

**Diagram 21: Utilization rate and actual utilization rate of FTAs/EPAs**



(Note) Actual utilization rate is calculated as follows: Number of companies with FTAs/EPAs currently in use divided by the number of valid responses the number of companies that cited "No FTA or EPA exists" with the counterparty)

#### (4) Prerequisite for the use of FTAs/EPAs in export activities: Margin of preference

As mentioned earlier, when using FTAs/EPAs in export activities, the exporter must complete procedures to obtain a COO, and such procedures entail costs. Only when the margin of preference exceeds the costs of obtaining COOs will the use of FTAs/EPAs be considered. This survey investigated what percentage difference in using the MFN duty and the FTA duty (tariff advantages) it would take to decide in favor of using FTAs/EPAs among companies with FTAs/EPAs currently in use or companies considering using FTAs/EPAs. Among the 390 Japanese-affiliated companies in Asia and Oceania, the largest number of companies (28.2%) replied “3% to less than 5%,” which was followed by “5% to less than 7%” (27.9%). On the other hand, 15.6% of the companies replied that they would not consider using an FTA unless the difference exceeded “10% or more.” It is believed that the companies replying “10% or more” require a margin of preference of 10% or more for obtaining a Certificate of Origin (COO) since the volume of export sales itself is marginal.

The average margin of preference required by Japanese-affiliated companies to decide in favor of using FTAs/EPAs, which was calculated using the intermediate value of each response range, is 5.3%. The required percentage difference is the lowest in the ASEAN region at 5.2%, followed by Oceania and Southwest Asia at 5.9% and 6.2%, respectively. In the ASEAN region, companies tend to be more familiar with the procedures involved in obtaining Certificates of Origin (COO), and for this reason it is believed that the average value is lower than that of Southwest Asia and Oceania. For example, in Indonesia, screening to determine the origin

of products can be completed on the same day or within three days at the most, and COOs are issued on the day of application. Thus, Indonesia is one of the most user-friendly nations in the ASEAN region, as far as FTAs are concerned from a procedural standpoint. Since the EPA between Japan and Indonesia came into effect in July 2008, many Japanese-affiliated companies have commented that obtaining COOs in Indonesia is easy and that they have no problem obtaining them because it usually only takes one day. In this survey also, the average margin of preference is the lowest for Indonesia at 4.3%, which is a whole 1% lower than the average. The complexity of the documentation and the procedural costs required for obtaining a COO varies by country, and it is thought that greater complexity in the procedures involved will result in a higher margin of preference. Therefore, in general, companies will decide to use an FTA if a 5% to 6% margin of preference can be enjoyed by using FTA duties on the products that are subject to general duties at the export destination (Diagram 22).

**Diagram 22: Margin of preference required to consider the use of FTA**

Unit: %

	Asia and Oceania Total	ASEAN						Southwest Asia	Oceania
		Thailand	Indonesia	Malaysia	Philippines	Vietnam			
Valid responses	390.0	339.0	152.0	66.0	39.0	36.0	26.0	34.0	17.0
1% or less	6.7	6.8	7.2	10.6	5.1	2.8	0.0	5.9	5.9
1% to less than 3%	14.4	14.7	17.1	15.2	12.8	13.9	11.5	8.8	17.6
3% to less than 5%	28.2	28.9	23.7	40.9	25.6	38.9	23.1	23.5	23.5
5% to less than 7%	27.9	28.6	28.9	22.7	43.6	16.7	34.6	26.5	17.6
7% to less than 9%	2.6	2.7	3.9	4.5	0.0	0.0	0.0	2.9	0.0
9% to less than 10%	4.6	4.7	6.6	1.5	2.6	5.6	7.7	5.9	0.0
10% or above	15.6	13.6	13.2	4.5	10.3	22.2	23.1	26.5	35.3
Average	5.3	5.2	5.3	4.3	5.2	5.6	6.3	6.2	5.9

**(5) Prerequisite for use of FTAs/EPAs in import activities: “Management costs of investment benefit schemes”**

As mentioned earlier, nearly half, or 48.9%, of companies in the ASEAN region that do not use FTAs/EPAs cited “Already enjoy exemption from tariffs through investment benefit scheme” as a reason for non-utilization. In many of the ASEAN countries, raw materials and parts for products intended for export, for example, have already been exempted from import duties through investment benefit schemes. Therefore, in such cases, there is no compelling need to use FTAs or EPAs. Although the procedures vary by country, prospective users of these investment benefit schemes are required—assuming that the investment itself has been approved by the government—to file applications and receive approval prior to importing products, make regular reports to the authorities concerned, and manage imported raw materials and parts that are intended for products to be sold on the domestic market separately from the imported raw materials and parts that are intended for products for export, among others.

In order for companies that are already using investment benefit schemes to switch to FTAs/EPAs, the preferential tariff rates of the FTAs/EPAs must fall below the management costs required for enjoying the benefits of the schemes. Concerning the management costs involved in using investment benefit schemes, the most prevalent reply throughout Asia, from nearly half of all respondent companies (valid responses: 159 companies), was “1% or less” of the import value of the raw materials and parts. This was followed by “1% to less than 3%” (33.3%). Based on the intermediate value of each response range, the average value of the management cost of an investment benefit scheme was calculated as a percentage of the import value of the raw

materials and parts. For the whole of Asia, as well as the entire ASEAN region, the average management cost came to 1.9%, while it was 2.3% for Southwest Asia. The country requiring the highest management cost was Thailand at an average 2.2%, followed by Vietnam (2.1%) and Malaysia (1.7%). The country with the lowest management cost was Indonesia at 1.3% (Diagram 23).

Currently, the FTA/EPA with the most progressive form of tariff exemptions is the AFTA. Among the ASEAN-6, the average AFTA tariff rate was 0.97% in 2008. Therefore, in the case of the AFTA, tariff rates have fallen below management costs and the prerequisites for usage have been satisfied. However, in terms of procurement by the Japanese-affiliated companies, the percentage of procurement from the ASEAN region is limited. In the previous survey, procurement from the ASEAN region amounted to a mere 11.5% of the total, including local procurement, and it was evident that Japanese-affiliated companies were still largely dependent on Japan (37.8% of total procurement) as a source of procurement (while local procurement amounted to 40.0%). Consequently, Japanese-affiliated companies will need to wait until the substantial tariff exemptions under the bilateral EPAs between Japan and the individual nations of ASEAN or the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) takes effect. The EPAs between Japan and ASEAN (excluding Singapore) came into effect beginning in July 2006 with Malaysia, in 2007 with Thailand and in 2008 with Indonesia and ASEAN, as a whole. The EPAs entered into by Japan require a maximum of 10 years for the complete elimination of tariffs. For this reason, companies that mainly procure raw materials and parts from Japan are expected to continue using investment benefit schemes for the time being.

**Diagram 23: Management costs of investment benefit schemes as percentages of import value of raw materials and parts**

(Unit: %)

	Asia Total	ASEAN						Southwest Asia
		Thailand	Indonesia	Malaysia	Philippines	Vietnam		
Valid responses	159	146	55	12	21	34	23	13
1% or less	49.1	50.0	36.4	58.3	66.7	64.7	43.5	38.5
1% to less than 3%	33.3	32.9	43.6	33.3	19.0	23.5	34.8	38.5
3% to less than 5%	8.2	8.2	10.9	8.3	4.8	5.9	4.3	7.7
5% to less than 7%	5.0	4.8	3.6	0.0	4.8	0.0	17.4	7.7
7% to less than 9%	1.3	0.7	1.8	0.0	0.0	0.0	0.0	7.7
9% to less than 10%	1.3	1.4	1.8	0.0	0.0	2.9	0.0	0.0
10% or above	1.9	2.1	1.8	0.0	4.8	2.9	0.0	0.0
Average	1.9	1.9	2.2	1.3	1.7	1.6	2.1	2.3

## 4. Procurement of Raw Materials and Parts

### (1) 40% of the companies said “Materials costs account for more than 70% of manufacturing costs”

In terms of the ratio of materials costs, including the cost of raw materials and parts to the manufacturing costs\* of major products (on a monetary base: 100=estimated manufacturing cost ratio for 2008), 43.6% of the companies in the Asia-Pacific region as a whole replied “70% or above,” 38.9% replied “50% to less than 70%” and 17.5% replied “less than 50%” (valid responses: 909 companies).

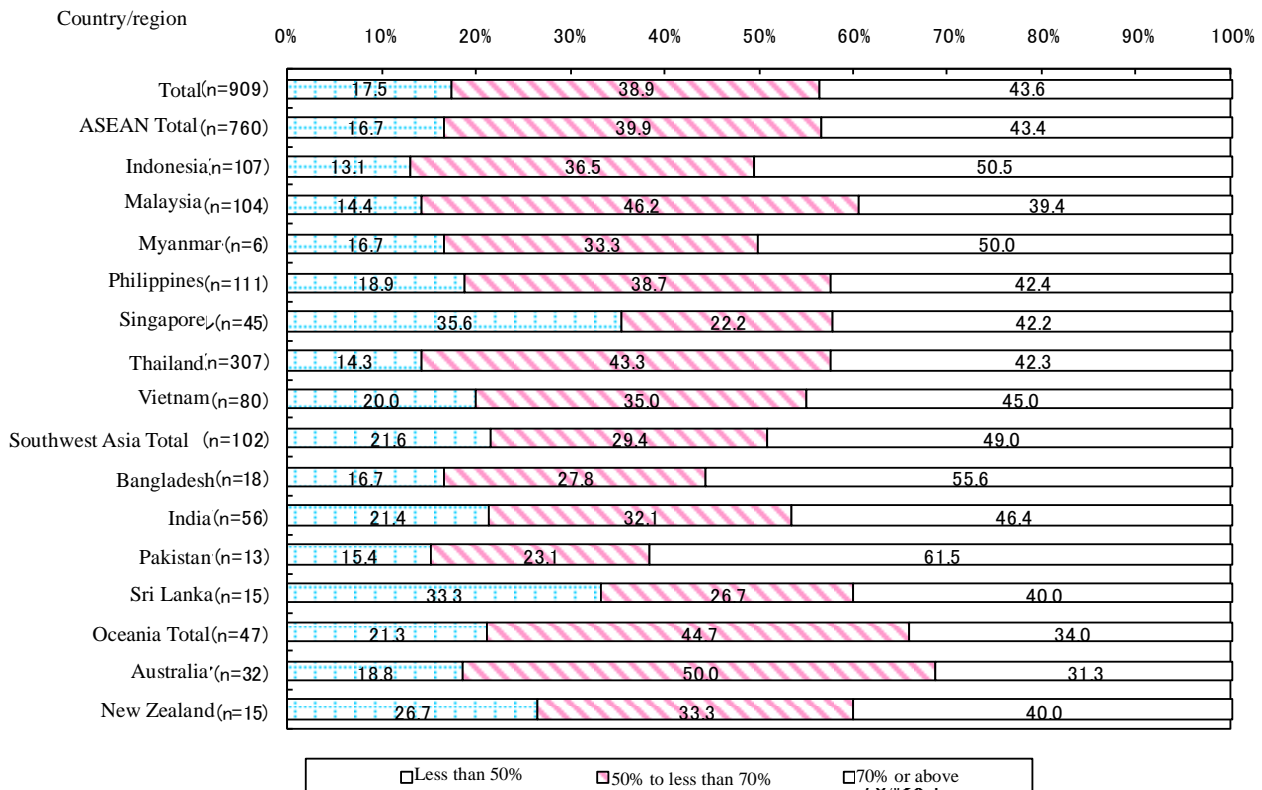
In the ASEAN region, 43.4% replied “70% or above.” By country, half of the companies in Indonesia replied “70% or above.” Singapore had a higher percentage of companies replying “less than 50%” than other countries at 35.6%, suggesting that higher volumes of higher-value-added items are being produced and personnel costs are higher compared to the other countries.

In Southwest Asia, 49.0% of the companies replied “70% or above.” By country, the majority of the companies in Pakistan (61.5%) and Bangladesh (55.6%) replied “70% or above.”

In the Oceania region, the most prevalent reply was “50% to less than 70%,” which was given by 44.7% of the companies.

\*Manufacturing cost” here refers to the total cost of manufacturing products and includes the cost of raw materials, labor costs and other costs incurred at the manufacturing site.

**Diagram 24: Ratio of materials costs to manufacturing costs (by country/region)**



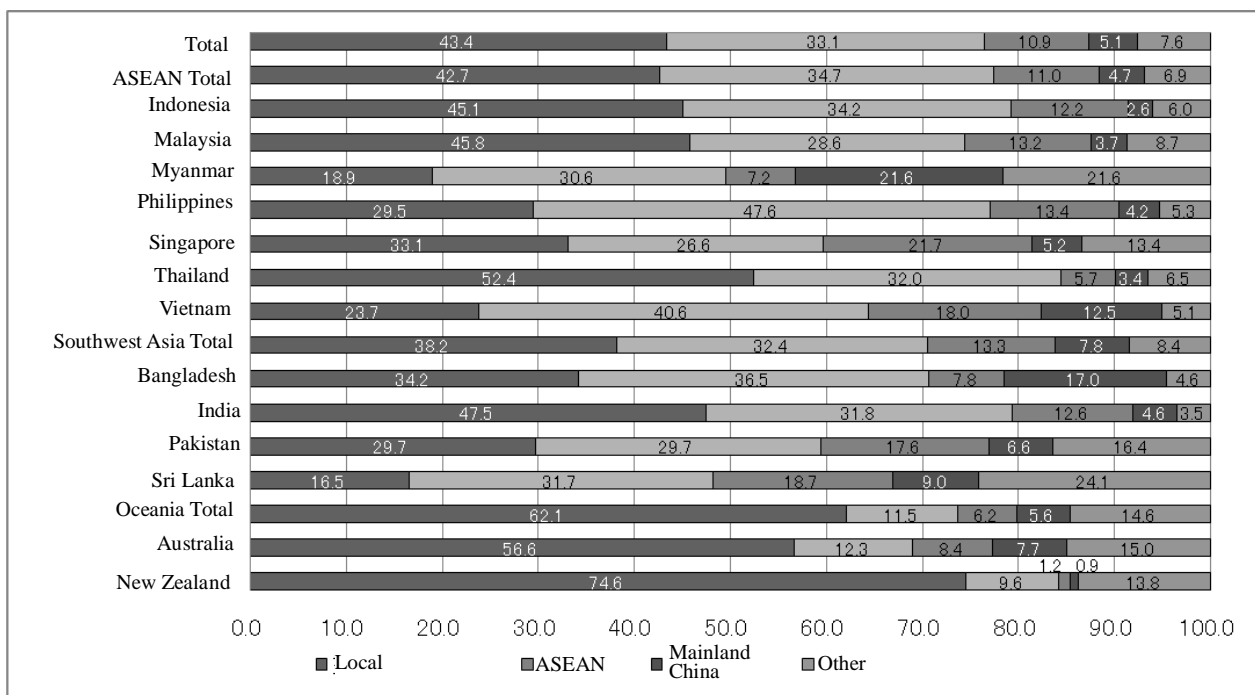
## (2) Raw materials and parts are procured locally and from Japan

As for the breakdown of procurement sources, the respondents selected the appropriate range for their procurement ratio. The intermediate value of each response range was taken and the average procurement rate calculated by procurement source. Then, in order to facilitate country-by-country comparison, each percentage was weighted so that they would total 100 (Diagram 25). In the ASEAN region, Thailand had the highest ratio of local procurement at 52.4%, followed by Malaysia (45.8%) and Indonesia (45.1%), suggesting the advanced state of agglomeration in the supporting industries of these countries compared to the other countries. The Philippines and Vietnam had high ratios of procurement from Japan (47.6% and 40.6%, respectively).

In Southwest Asia, India had the highest ratio of local procurement (47.5%). In the Oceania region, Australia and New Zealand had higher ratios of local procurement than of procurement from abroad.

Japanese-affiliated companies have a particularly large presence in the motor vehicle and motorcycle industry and the electric and electronic parts and components industry. In terms of the motor vehicle and motorcycle industry, the local procurement ratios of Thailand and Indonesia were high at 70.0% and 68.3%, respectively, while the average local procurement ratio for the entire Asia-Pacific region was 43.4%. Furthermore, in the electric and electronic parts and components industry, while the average local procurement ratio for the entire Asia-Pacific region was 29.3%, the local procurement ratios of India and Thailand were high at 61.7% and 42.3%, respectively, suggesting the advanced state of agglomeration in the supporting industries of these countries compared to the other countries (ratios are unweighted averages).

**Diagram 25: Average procurement ratios by procurement source**



(Note) "Other" includes "Other Asian countries," "Oceania," "U.S.," "Europe," "Middle East" and "Others."

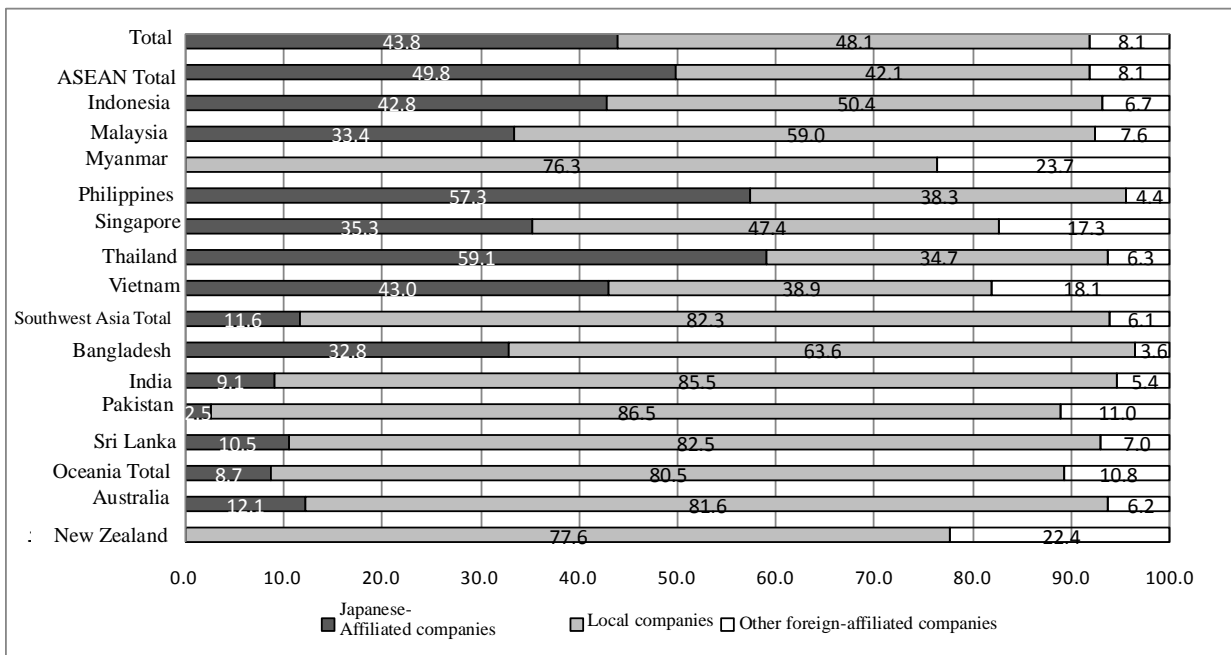
### (3) Local procurement: Procurement from Japanese-affiliated companies in ASEAN and local companies in Southwest Asia and Oceania (average)

In terms of local procurement sources, the respondents, similarly to the preceding section, selected the appropriate range of the procurement ratio for each of the following: Japanese affiliated-companies, local companies and other foreign-affiliated companies. The intermediate value of each response range was taken to calculate the average procurement rate, after which each percentage was weighted in order that they would total 100%. In the ASEAN region as a whole, the procurement ratio from Japanese-affiliated companies was the highest (49.8%), followed by procurement from local companies (42.1%). In Southwest Asia as a whole, local companies dominated as procurement sources with a procurement ratio of 82.3%, indicating the scarcity of foreign companies, including Japanese companies, operating in the area. Additionally, in the Oceania region, the ratio of procurement from local companies was the highest (80.5%).

In the ASEAN region, the ratio of local procurement from Japanese-affiliated companies was high in Thailand (59.1%) and the Philippines (57.3%). In both countries, there is a high agglomeration of Japanese-affiliated companies, in addition to a well-developed industrial infrastructure, mainly in the motor vehicle and motorcycle industry and the electric machinery and electronic equipment industry, which has resulted in a high ratio of procurement from Japanese companies operating in these countries.

As mentioned in the preceding section, a large percentage of companies operating in India procure materials locally, and their procurement sources are mostly local companies (85.5%) rather than Japanese-affiliated companies operating in the area (9.1%).

**Diagram 26: Average local procurement ratios**



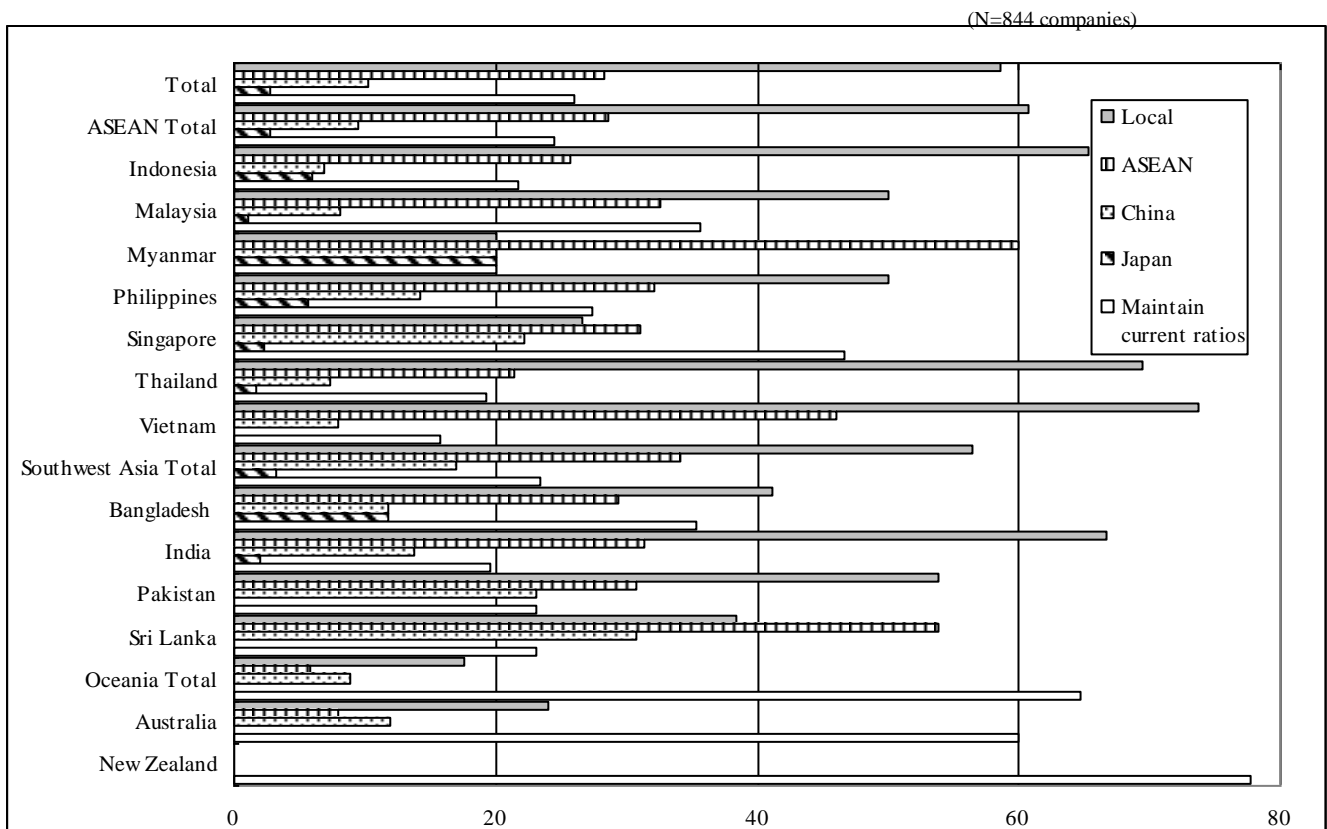
#### (4) Future plans for procurement of raw materials and parts: Local procurement

In terms of plans for procuring raw materials and parts in the future, “Increase ratio of local procurement” was cited by the largest number of companies in the ASEAN region, as well as Southwest Asia (60.8% and 56.4%, respectively), while in the Oceania region, “Maintain current ratios of local procurement” was the most prevalent reply at 64.7% (multiple answers allowed; valid responses: 844 companies).

In the ASEAN region, “Increase ratio of local procurement” was cited by a large number of companies in Vietnam (73.7%), Thailand (69.5%) and Indonesia (65.4%). Vietnam had the smallest number of companies in Asia planning to “Maintain current ratios of local procurement” (15.8%). In Thailand and Indonesia, where industrial agglomeration is taking place as part of regional specialization, movements seem to be underway to further increase the ratio of local procurement in the motor vehicle and motorcycle industry and the electric machinery and electronic equipment industry.

In Southwest Asia, “Increase ratio of local procurement” was cited by a large number of companies in India (66.7%). In terms of industry, many of the companies giving this reply were in the electric machinery and electronic equipment and their parts and components industries, as well as the motor vehicle and motorcycle and their parts and components industries, suggesting that agglomeration is taking place in the supporting industries.

**Diagram 27: Future procurement sources for raw materials and parts (by country/region, multiple answers allowed)**





## (5) The main factor in increasing local procurement ratios: Quality improvement by local suppliers

In regard to what factor was necessary to increase local procurement ratios of raw materials and parts, “Quality improvement by local suppliers” was cited the most (78.7%), followed by “Cost reduction by local suppliers” (56.8%) and “Strict observance of delivery dates by local suppliers” (39.0%) in the ASEAN region as a whole (multiple answers allowed; valid responses: 888 companies).

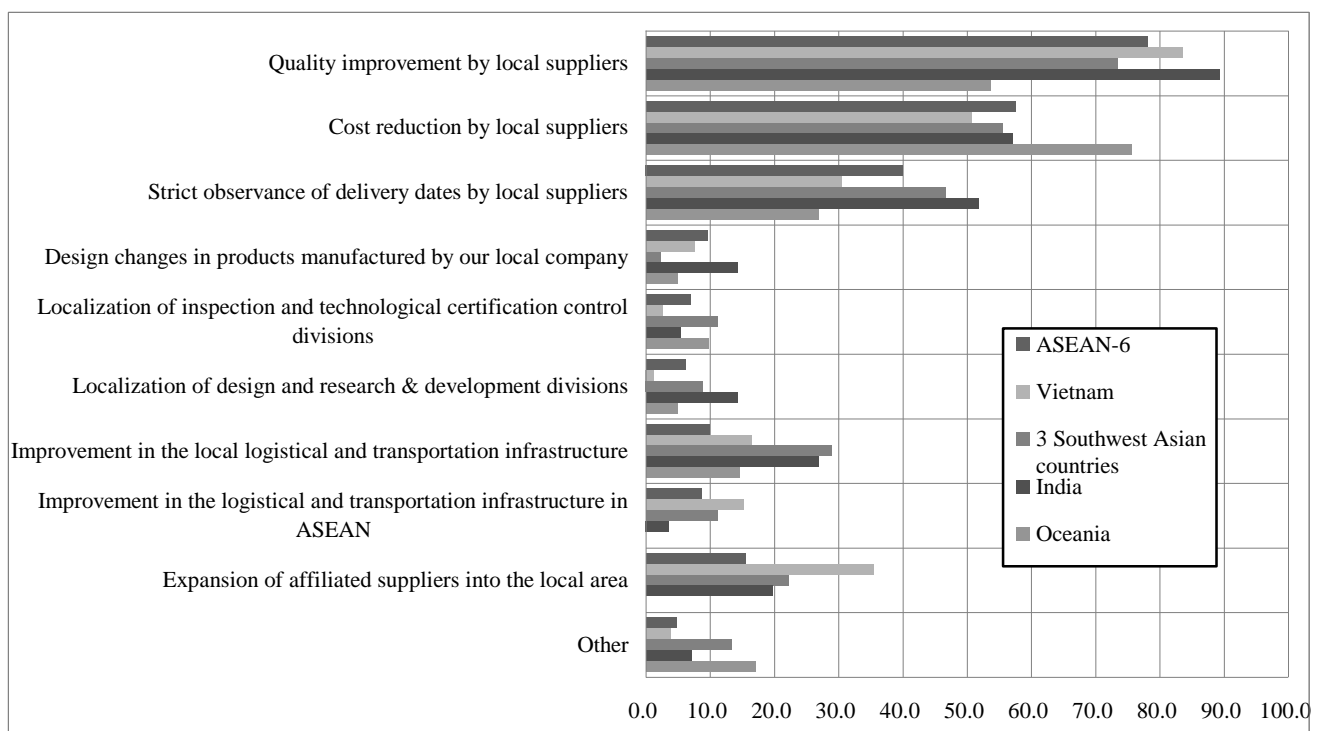
Vietnam seems to harbor expectations and has the need for increasing local procurement, as evidenced by its higher percentage—compared to the other ASEAN nations—of companies seeking “Expansion of affiliated suppliers into the local area” (35.4%) and its overwhelming percentage of companies planning to “Increase ratio of local procurement” (73.7%) of raw materials and parts in the future.

In Southwest Asia, as was the case in the ASEAN region, “Quality improvement by local suppliers” was cited the most (82.2%), followed by “Cost reduction by local suppliers” (56.4%) and “Strict observance of delivery dates by local suppliers” (49.5%). Moreover, compared to the ASEAN region, there were a higher percentage of companies citing “Improvement in the local logistical and transportation infrastructure.”

In the Oceania region, “Cost reduction by local suppliers” was cited the most (75.6%), followed by “Quality improvement by local suppliers” (53.7%) and “Strict observance of delivery dates by local suppliers” (26.8%).

**Diagram 28: Factors necessary to increase local procurement ratios of raw materials and parts (by country/region; multiple answers allowed)**

n=888 companies



## **(6) Percentage of the total amount of imported raw materials and parts not subject to tariffs**

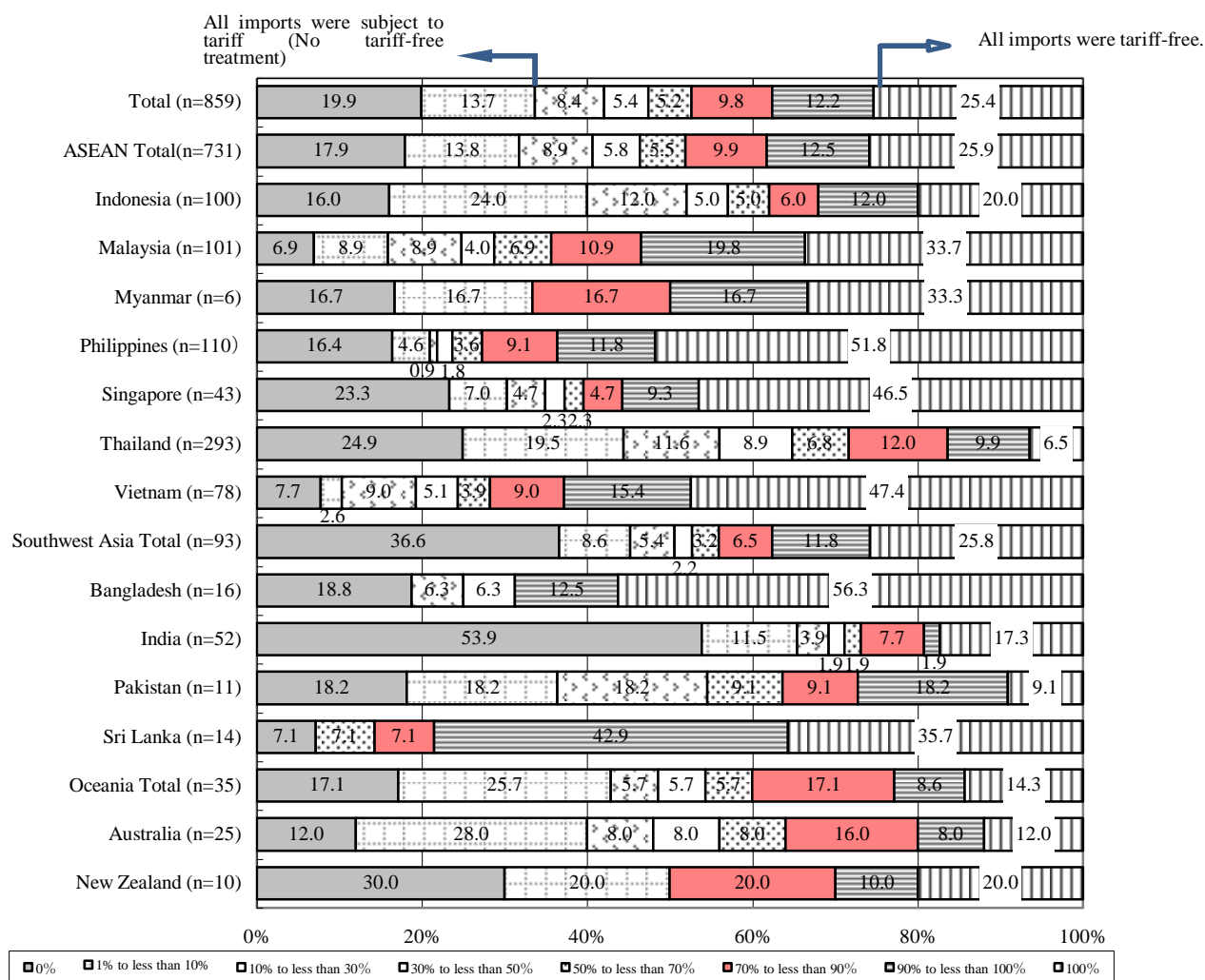
Concerning the percentage of the total amount of imported raw materials and parts that were not subject to tariffs, 25.9% of the companies in the ASEAN region, 25.8% in Southwest Asia and 14.3% in the Oceania region replied “100% (= all imported raw materials and parts were tariff-free)” (valid responses: 859 companies).

In the ASEAN region, the countries with high percentages of companies reporting “All imports were tariff-free,” were the Philippines (51.8%), Vietnam (47.4%) and Singapore (46.5%). By industry, sectors with the majority of companies reporting “All imports were tariff-free” were the electric and electronic parts and components industry (77.8%) and the fabricated metal products industry (70.0%) in the Philippines, the electric machinery and electronic equipment industry (77.8%) and the apparel and textile products industry (75.0%) in Vietnam, and the petroleum products industry (66.7%) and the plastic products industry (66.7%) in Singapore. It is safe to assume that in the Philippines and Vietnam, investment incentives, including the exemption of import duties on raw materials in export processing zones, are being used with greater frequency when producing products intended for export. In Singapore, it is thought that in addition to the traditional low levels of general duties, the utilization of the AFTA is further expanding the scope of tariff-free items. On the other hand, the largest percentage of companies in Thailand (24.9%) replied “0% (= no tariff-free treatment).” By industry, many of the companies in the fabricated metal products industry (39.1%) and the motor vehicle and motorcycle parts and accessories industry (35.9%) replied that they did not enjoy any tariff-free treatment whatsoever. Thailand has the highest simple average tariff rates (2006) among the ASEAN-6, with the simple average tariff rates on apparel and motor vehicles and motorcycles set particularly high. The Japan-Thailand EPA came into effect in November 2007, and as a result, import duties on all industrial products imported from Japan, with the exception of automobiles, are scheduled to be eliminated in seven to 10 years from the EPA’s effective date.

In Southwest Asia, the country with the highest percentage of companies reporting “all imports were tariff-free” was Bangladesh (56.3%). India, on the other hand, in an effort to fortify the competitiveness of its domestic manufacturing industry, has been slow to implement tariff exemption schemes on raw materials for exporting companies, and the percentage of companies replying that they did not enjoy any tariff-free treatment whatsoever was the highest in the whole of Asia at 53.9%. Therefore, expectations are high for the early signing and enforcement of the ASEAN-India FTA, of which negotiations concluded in August 2008, and the conclusion of the Japan-India EPA, which targets the elimination of tariffs on 90% of items and of which negotiations have been ongoing since January 2007.

In the Oceania region, 12.0% of the companies in Australia and 20.0% of the companies in New Zealand replied “All imports were tariff-free.”

**Diagram 29: Percentage of the total amount of imported raw materials and parts not subject to tariffs (by country/region; 100 = total amount procured from other countries) n = 859 companies**



**(7) 60% reported that manufacturing costs were “higher than in China”**

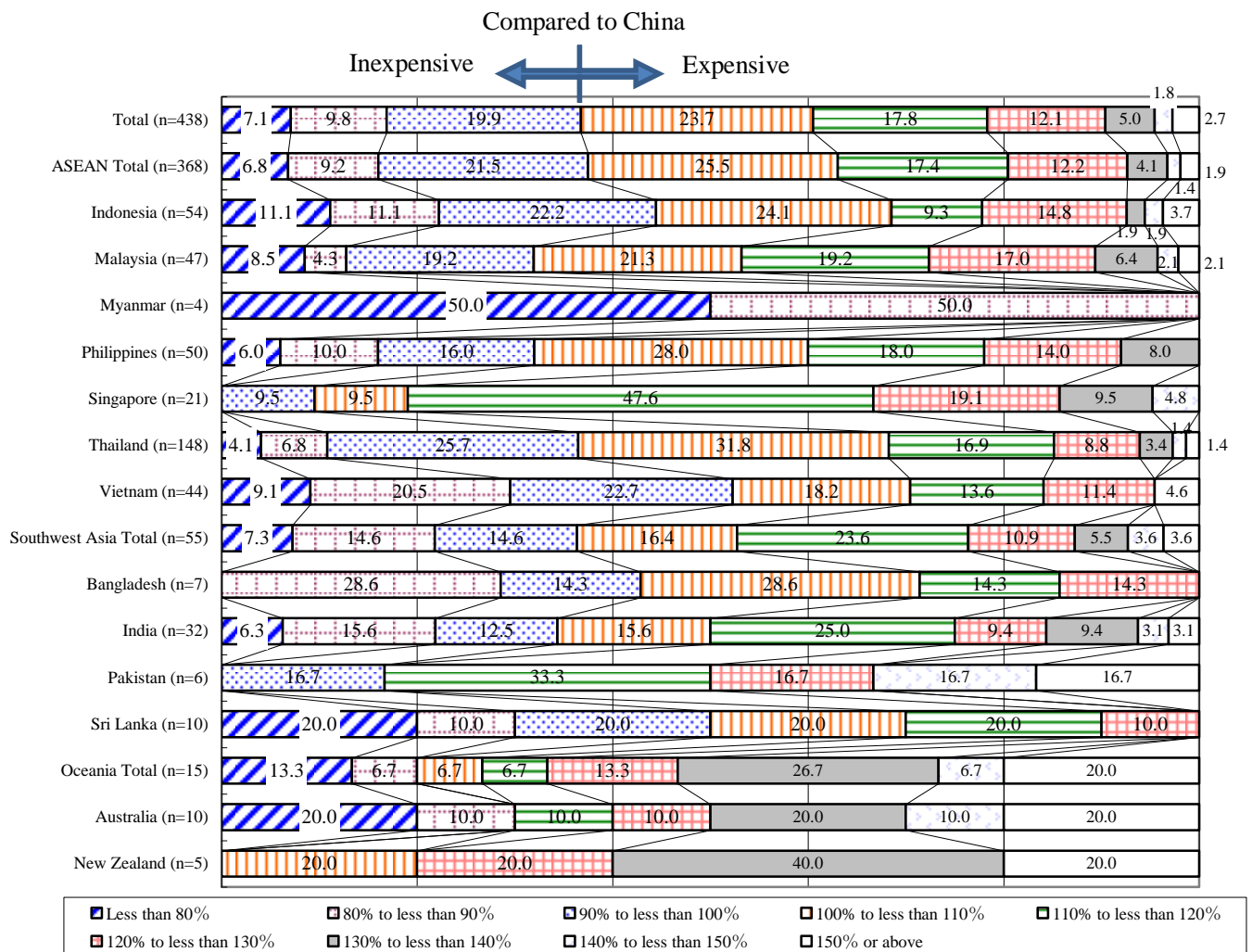
In terms of the manufacturing costs of the main products manufactured locally—assuming the manufacturing cost for the same product by an affiliated company in China to be 100 (valid responses: 438 companies)—in the entire region covering ASEAN, Southwest Asia and Oceania, 63.1% of the companies replied that manufacturing costs were “100% or above (local manufacturing costs were higher than the manufacturing costs in China),” while 36.9% replied “Less than 100% (local manufacturing costs were lower than the manufacturing costs in China).” By industry, many of the companies in the rubber products, the nonferrous metals and products, and the apparel and textile products industries replied “Less than 100%.”

In the ASEAN region, 62.5% of the companies replied “100% or above.” By country, Singapore had the highest percentage with 90.5%, followed by Malaysia (68.1%) and the Philippines (68.0%). The percentage of companies replying “Less than 100%” was high in Myanmar (100%) and Vietnam (52.3%), indicating that manufacturing costs in these countries remained less expensive than those in China.

In Southwest Asia, the percentage of firms replying “100% or above” was 63.6%, which was nearly equivalent to that of the ASEAN region. By country, the percentage was the highest in Pakistan (83.3%). The percentage replying “Less than 100%,” on the other hand, was high in Sri Lanka (50.0%) and Bangladesh (42.9%). In India, a high percentage of companies in the textiles, pharmaceuticals, and motor vehicles and motorcycles industries replied “Less than 100%.”

In the Oceania region, the percentage of companies replying “100% or above” reached 80.0%. However, in Australia, certain replies pointed toward manufacturing costs that were less expensive than in China, with one company in the rubber products industry replying “Less than 80%” and one company in the nonferrous metals and products industry replying “80% to less than 90%.”

**Diagram 30: Local manufacturing costs (compared to manufacturing costs in China, by country/region)**



## 5. Business Problems

### (1) Problems in sales or other business activities

In terms of what problem Japanese-affiliated manufacturers operating in the ASEAN region, Southwest Asia and the Oceania region had encountered in sales or other business activities—as was the case in the previous survey—the most frequently cited reply was “Major clients requesting lower prices” (46.3%) (Diagram 31-1). This was followed by “Sluggishness in major sales markets” (44.4%), which moved into second place from the fifth-place spot in the previous survey. In contrast, the second most frequently cited reply in the previous survey, “Competitors’ growing market shares” (25.4%), dropped to fifth place in this survey, suggesting that the recession is perceived as more of a problem than the emergence of any competitor.

In the ASEAN region, “Major clients requesting lower prices” (48.0%) was the most frequently cited reply, as was the case in the previous survey, followed by “Sluggishness in major sales markets” (45.8%), which jumped to second place from its previous fifth-place spot. “Sluggishness of major sales markets” was cited as a business problem by many export-oriented manufacturers, including 69.2% of them in the electric machinery and electronic equipment industry in Malaysia and 55.6% in the electric and electronic parts and components industry in the Philippines.

In Southwest Asia, “Major clients requesting lower prices” (41.2%) was the most frequently cited reply, followed by “Sluggishness in major sales markets” (35.3%), which was closely followed by “Competitor’s growing market shares” (33.3%), indicating the increased pressure on manufacturers to cut back costs, fueled by demands for lower prices by clients and the emergence of competitors.

In the Oceania region, “Sluggishness in major sales markets” (43.1%) was the most frequently cited reply. In New Zealand, this percentage climbed to 68.8%. Concerning the export destinations of manufacturers in New Zealand, the overwhelming majority (14) of the 16 respondent companies cited “Japan.” By industry, many of these companies were in the lumber and wood products industry and the foods, processed agricultural or marine products industry, which shows that exports to Japan in these industries had been in a slump.

In non-manufacturing industries, as a whole, the most frequently cited reply, as was the case in the previous survey, was “Competitors’ growing market shares (cost-wise competition)” (45.1%) (Diagram 31-2). This was followed by “Sluggishness in major sales markets” (42.4%), which jumped to second place from its previous fourth-place spot, suggesting that the impact of sluggish sales on these industries had been far-reaching.

In the ASEAN region, “Competitors’ growing market shares (cost-wise competition)” (49.5%) was the most frequently cited reply followed by “Sluggishness in major sales markets” (42.2%). Companies citing “Competitors’ growing market shares (cost-wise competition)” were most numerous in Thailand (58.1%), while in terms of industry, this reply was given most frequently by firms in the transport/warehousing industry (80.8%). Companies citing “Sluggishness in major sales markets” were most numerous in Singapore (49.3%), while in terms of industry, this reply was given most frequently by sales companies (63.8%).

In Southwest Asia, “Competitors’ growing market shares (cost-wise competition)” was the most frequently cited reply (42.6%), while some companies also cited “Lack of progress in local deregulation” and “Accounts receivable in arrears.”

In the Oceania region, the two most frequently cited replies were “Sluggishness in major sales markets” (48.1%) and “Competitors’ growing market shares” (35.1%). By industry, companies in the hotel/travel/restaurant industry both in Australia and New Zealand overwhelmingly cited the former as a major business problem, with 92.3% in Australia and 85.7% in New Zealand doing so, while 49.0% of the sales companies in Australia and 57.1% of the hotel/travel restaurant industry in New Zealand cited the latter.

**Diagram 31-1: Problems in sales or business activities (top five) (manufacturing industry)**

(Multiple answers allowed, unit: %, Valid responses: 919)

	Valid responses	1	2	3	4	5	
Total	918	Major clients requesting lower prices	Sluggishness in major sales markets	Decrease in orders from major clients	No increase in new clients or markets		Competitors’ growing market shares
	100.0	46.3	44.4	34.3	27.6		25.4
ASEAN Total	765	Major clients requesting lower prices	Sluggishness in major sales markets	Decrease in orders from major clients	No increase in new clients or markets		Competitors’ growing market shares
	100.0	48.0	45.8	36.6	27.7		24.8
Indonesia	108	Major clients requesting lower prices	Sluggishness in major sales markets	No increase in new clients or markets	Decrease in orders from major clients		Inflow of cheap imported goods into local markets
	100.0	41.7	35.2	28.7	24.1		24.1
Malaysia	106	Sluggishness in major sales markets	Major clients requesting lower prices	Decrease in orders from major clients	Competitors’ growing market shares		Decrease in production orders from headquarters
	100.0	50.9	49.1	37.7	27.4		No increase in new clients or markets
Myanmar	6	Sluggishness in major sales markets	Decrease in sales prices due to global oversupply	Major clients requesting lower prices	No increase in new clients or markets	Decrease in production orders from headquarters	Inflow of cheap imported goods into local markets
	100.0	83.3	50.0	33.3	16.7		Competitors’ growing market shares
Philippines	113	Sluggishness in major sales markets	Major clients requesting lower prices	Decrease in orders from major clients	No increase in new clients or markets		Decrease in production orders from headquarters
	100.0	47.8	42.5	40.7	31.0		23.9
Singapore	47	Sluggishness in major sales markets	Major clients requesting lower prices	Decrease in orders from major clients	No increase in new clients or markets	Inflow of cheap imported goods into local markets	Competitors’ growing market shares
	100.0	46.8	44.7	34.0	27.7		25.5
Thailand	309	Major clients requesting lower prices	Sluggishness in major sales markets	Decrease in orders from major clients	No increase in new clients or markets		Competitors’ growing market shares
	100.0	52.1	48.5	41.8	27.8		26.9
Vietnam	76	Major clients requesting lower prices	Sluggishness in major sales markets	Decrease in orders from major clients	Decrease in production orders from headquarters		No increase in new clients or markets
	100.0	50.0	35.5	30.3	29.0		25.0
Southwest Asia Total	102	Major clients requesting lower prices	Sluggishness in major sales markets	Competitors’ growing market shares	Inflow of cheap imported goods into local markets		No increase in new clients or markets
	100.0	41.2	35.3	33.3	28.4		26.5
Bangladesh	17	Major clients requesting lower prices	Decrease in orders from major clients	Sluggishness in major sales markets	Decrease in production orders from headquarters	No increase in new clients or markets	Decrease in sales prices due to global oversupply
	100.0	58.8	47.1	41.2	29.4		Competitors’ growing market shares
India	58	Major clients requesting lower prices	Competitors’ growing market shares	Inflow of cheap imported goods into local markets	Sluggishness in major sales markets		No increase in new clients or markets
	100.0	39.7	36.2	29.3	25.9		24.1
Pakistan	13	Major clients requesting lower prices	Sluggishness in major sales markets	Inflow of cheap imported goods into local markets	Competitors’ growing market shares	No increase in new clients or markets	Decrease in orders from major clients
	100.0	38.5	30.8	23.1	15.4		Decrease in sales prices due to global oversupply
Sri Lanka	14	Major clients requesting lower prices	Sluggishness in major sales markets	Inflow of cheap imported goods into local markets	Decrease in production orders from headquarters	No increase in new clients or markets	Decrease in sales prices due to global oversupply
	100.0	64.3	50.0	42.9	35.7		Competitors’ growing market shares
Oceania Total	51	Sluggishness in major sales markets	Major clients requesting lower prices	Inflow of cheap imported goods into local markets	No increase in new clients or markets		Decrease in orders from major clients
	100.0	43.1	31.4	29.4	27.5		23.5
Australia	35	Inflow of cheap imported goods into local markets	Major clients requesting lower prices	Sluggishness in major sales markets	No increase in new clients or markets	Competitors’ growing market shares	Decrease in production orders from headquarters
	100.0	40.0	34.3	31.4	20.0		Decrease in orders from major clients
New Zealand	16	Sluggishness in major sales markets	No increase in new clients or markets	Decrease in orders from major clients	Major clients requesting lower prices		Decrease in production orders from headquarters
	100.0	68.8	43.8	37.5	25.0		18.8

**Diagram 31-2: Problems in sales or other business activities (top five) (non-manufacturing industry)**

(Multiple answers allowed, unit: %, Valid responses: 878)

	Valid responses	1		2		3		4		5			
Total	878	Competitors' growing market shares		Sluggishness in major sales markets		No increase in new clients or markets		Major clients requesting lower prices		Decrease in sales prices			
	100.0	45.1		42.4		33.0		29.5		23.5			
ASEAN Total	548	Competitors' growing market shares		Sluggishness in major sales markets		No increase in new clients or markets		Major clients requesting lower prices		Decrease in sales prices			
	100.0	49.5		42.2		37.2		31.8		24.3			
Indonesia	54	Major clients requesting lower prices		Sluggishness in major sales markets		Competitors' growing market shares		No increase in new clients or markets		Decrease in sales prices			
	100.0	35.2		33.3		29.6		27.8		18.5			
Malaysia	71	Competitors' growing market shares		Sluggishness in major sales markets		No increase in new clients or markets		Major clients requesting lower prices		Decrease in sales prices			
	100.0	46.5		45.1		40.9		35.2		22.5			
Myanmar	14	No increase in new clients or markets		Lack of progress in local deregulation		Major clients requesting lower prices	Competitors' growing market shares	Competitors' growing market shares		Decrease in orders from headquarters	Sluggishness in major sales markets	Decrease in sales prices	Accounts receivable in arrears
	100.0	57.1		50.0		28.6		14.3		7.1			
Philippines	57	No increase in new clients or markets	Competitors' growing market shares		Sluggishness in major sales markets		Major clients requesting lower prices		Decrease in sales prices		Decrease in orders from headquarters		
	100.0	45.6		42.1		26.3		21.1		19.3			
Singapore	136	Competitors' growing market shares		Sluggishness in major sales markets		No increase in new clients or markets		Major clients requesting lower prices		Decrease in sales prices			
	100.0	50.0		49.3		38.2		35.3		34.6			
Thailand	172	Competitors' growing market shares		Sluggishness in major sales markets		No increase in new clients or markets		Major clients requesting lower prices		Decrease in sales prices			
	100.0	58.1		44.8		33.1		32.0		25.0			
Vietnam	44	Competitors' growing market shares		No increase in new clients or markets		Lack of progress in local deregulation		Sluggishness in major sales markets		Competitors' growing market shares			
	100.0	54.6		38.6		31.8		27.3		25.0			
Southwest Asia Total	122	Competitors' growing market shares		Sluggishness in major sales markets		Major clients requesting lower prices		Lack of progress in local deregulation		No increase in new clients or markets			
	100.0	42.6		33.6		28.7		23.0		22.1			
Bangladesh	15	Competitors' growing market shares		Major clients requesting lower prices	Sluggishness in major sales markets		Decrease in sales prices	Lack of progress in local deregulation	Competitors' growing market shares	Accounts receivable in arrears		No increase in new clients or markets	
	100.0	46.7		40.0		33.3		26.7		13.3			
India	76	Competitors' growing market shares		Major clients requesting lower prices		Sluggishness in major sales markets	Lack of progress in local deregulation	No increase in new clients or markets		Decrease in sales prices	Competitors' growing market shares		
	100.0	54.0		32.9		27.6		22.4		21.1			
Pakistan	18	Sluggishness in major sales markets		No increase in new clients or markets		Major clients requesting lower prices		Decrease in orders from headquarters	Competitors' growing market shares	Lack of progress in local deregulation	Accounts receivable in arrears		
	100.0	55.6		22.2		16.7		11.1		5.6			
Sri Lanka	13	Sluggishness in major sales markets	No increase in new clients or markets	Accounts receivable in arrears	Decrease in orders from headquarters	Decrease in sales prices	Competitors' growing market shares	Major clients requesting lower prices	Lack of progress in local deregulation				
	100.0	30.8		15.4		7.7							
Oceania Total	208	Sluggishness in major sales markets		Competitors' growing market shares		No increase in new clients or markets		Major clients requesting lower prices	Decrease in sales prices		Competitors' growing market shares		
	100.0	48.1		35.1		28.4		24.0		13.5			
Australia	163	Sluggishness in major sales markets		Competitors' growing market shares		No increase in new clients or markets		Decrease in sales prices		Major clients requesting lower prices			
	100.0	42.9		33.7		27.0		24.5		21.5			
New Zealand	45	Sluggishness in major sales markets		Competitors' growing market shares		Major clients requesting lower prices	No increase in new clients or markets	Decrease in sales prices		Decrease in orders from headquarters			
	100.0	66.7		40.0		33.3		22.2		17.8			

## **(2) Problems in production (manufacturers only)**

In terms of production, the most frequently cited reply was an “Increase in procurement costs” (71.1%) (Diagram 32). This was followed by “Limited cost-cutting measures available” (38.8%) and “Difficulty in local procurement of parts and raw materials” (38.1%). It should also be noted that an “Increase in procurement costs” was the reason most frequently cited by manufacturers (67.4%) for the estimated decline in operating profit in 2008. This is indicative of the fact that despite rising procurement costs, manufacturers have nearly exhausted all cost-cutting measures at their disposal.

Similarly in the ASEAN region, an “Increase in procurement costs” was the most frequently cited reply (71.6%). A breakdown by country and industry of the respondents citing this problem indicates that manufacturers of motor vehicles and motorcycle parts and accessories in Thailand were the most numerous at 90.6%. While procurement costs continue to rise, manufacturers also cited “Major clients requesting lower prices” as the number one problem in sales. This is indicative of the harsh business environment in which manufacturers of parts and accessories are finding themselves having to contend with rising costs on the one hand and demands for lower prices on the other.

Additionally, in Southwest Asia, an “Increase in procurement costs” was the most frequently cited reply (62.4%). By contrast, however, manufacturers in Southwest Asia have cited “Electric power shortage” (43.6%) as their fourth largest production problem, which differentiates them from their counterparts in the ASEAN and Oceania regions. The magnitude of this problem may be surmised from the fact that it was the most frequently cited production problem among manufacturers in Bangladesh (70.6%) and Pakistan (69.2%).

Furthermore, in the Oceania region, an “Increase in procurement costs” (81.6%) was also the most frequently cited reply. It is also characteristic for this region that “Stricter environmental regulations” (24.5%) came in third place. This is a reflection of the strict environmental impact assessment requirement in place in Australia, which requires foreign-affiliated companies to submit environmental impact statements upon entry into the Australian market.



**Diagram 32: Problems in production (top five) (manufacturing industry)**

(Multiple answers allowed, unit: %, Valid responses: 914)

	Valid responses	1	2	3	4	5		
Total	914	Increase in procurement costs	Limited cost-cutting measures available	Difficulty in local procurement of parts and raw materials	Difficulty in quality control	Insufficient production capacity due to lack of facilities		
	100.0	71.1	38.8	38.1	37.6	20.1		
ASEAN Total	764	Increase in procurement costs	Limited cost-cutting measures available	Difficulty in quality control	Difficulty in local procurement of parts and raw materials	Insufficient production capacity due to lack of facilities		
	100.0	71.6	40.8	38.2	37.8	22.0		
Indonesia	109	Increase in procurement costs	Limited cost-cutting measures available	Difficulty in local procurement of parts and raw materials	Electric power shortage	Insufficient production capacity due to lack of facilities	Difficulty in quality control	
	100.0	73.4	43.1	38.5	37.6	33.9		
Malaysia	103	Increase in procurement costs	Limited cost-cutting measures available	Difficulty in quality control	Difficulty in local procurement of parts and raw materials	Insufficient production capacity due to lack of facilities		
	100.0	74.8	51.5	42.7	31.1	22.3		
Myanmar	6	Electric power shortage	Insufficient production capacity due to lack of facilities	Difficulty in changeover of production items within a short timeframe	Difficulty in quality control	Increase in procurement costs	Difficulty in local procurement of parts and raw materials	Limited cost-cutting measures available
	100.0	83.3	50.0	33.3	16.7			
Philippines	112	Increase in procurement costs	Difficulty in local procurement of parts and raw materials	Limited cost-cutting measures available	Difficulty in quality control	Insufficient production capacity due to lack of facilities		
	100.0	60.7	46.4	42.0	36.6	14.3		
Singapore	46	Increase in procurement costs	Limited cost-cutting measures available	Difficulty in quality control	Difficulty in local procurement of parts and raw materials	Insufficient production capacity due to lack of facilities		
	100.0	73.9	50.0	21.7	19.6	17.4		
Thailand	309	Increase in procurement costs	Difficulty in quality control	Limited cost-cutting measures available	Difficulty in local procurement of parts and raw materials	Insufficient production capacity due to lack of facilities		
	100.0	75.1	39.2	38.2	31.4	21.4		
Vietnam	79	Difficulty in local procurement of parts and raw materials	Increase in procurement costs	Difficulty in quality control	Electric power shortage	Limited cost-cutting measures available		
	100.0	69.6	68.4	45.6	34.2	29.1		
Southwest Asia Total	101	Increase in procurement costs	Difficulty in local procurement of parts and raw materials	Difficulty in quality control	Electric power shortage	Limited cost-cutting measures available		
	100.0	62.4	47.5	45.5	43.6	25.7		
Bangladesh	17	Electric power shortage	Increase in procurement costs	Difficulty in quality control	Difficulty in local procurement of parts and raw materials	Limited cost-cutting measures available	Insufficient production capacity due to lack of facilities	
	100.0	70.6	52.9	47.1	29.4	23.5		
India	56	Increase in procurement costs	Difficulty in local procurement of parts and raw materials	Difficulty in quality control	Electric power shortage	Limited cost-cutting measures available		
	100.0	66.1	51.8	48.2	37.5	23.2		
Pakistan	13	Electric power shortage	Increase in procurement costs	Difficulty in quality control	Difficulty in local procurement of parts and raw materials	High customs duties on imported capital goods and intermediary goods		
	100.0	69.2	53.9	38.5	30.8	23.1		
Sri Lanka	15	Increase in procurement costs	Difficulty in local procurement of parts and raw materials	Limited cost-cutting measures available	Insufficient production capacity due to lack of facilities	Difficulty in quality control	Difficulty in changeover of production items within a short timeframe	
	100.0	66.7	46.7	40.0	33.3	26.7		
Oceania Total	49	Increase in procurement costs	Limited cost-cutting measures available	Stricter environmental regulations	Difficulty in local procurement of parts and raw materials	Difficulty in quality control		
	100.0	81.6	34.7	24.5	22.5	12.2		
Australia	33	Increase in procurement costs	Limited cost-cutting measures available	Difficulty in local procurement of parts and raw materials	Stricter environmental regulations	Difficulty in quality control		
	100.0	78.8	30.3	27.3	24.2	15.2		
New Zealand	16	Increase in procurement costs	Limited cost-cutting measures available	Stricter environmental regulations	Difficulty in local procurement of parts and raw materials	Electric power shortage	Difficulty in changeover of production items within a short timeframe	Difficulty in quality control
	100.0	87.5	43.8	25.0	12.5	6.3		

### **(3) Problems in financial affairs, financing or foreign exchange**

The top two problems in financial affairs, financing, or foreign exchange cited by the manufacturing industry as a whole were “Volatility of local currency’s exchange rate against the US dollar” (58.1%) and “Volatility of local currency’s exchange rate against the Japanese yen” (43.0%) (Diagram 33-1).

In the ASEAN region, also, “Volatility of local currency’s exchange rate against the US dollar” (57.2%) and “Volatility of local currency’s exchange rate against the Japanese yen” (42.5%) took the top two spots.

Similarly in Southwest Asia, “Volatility of local currency’s exchange rate against the US dollar” (58.0%) was the most frequently cited problem. In particular, the percentage in Pakistan was the highest among the nations of Southwest Asia with 83.3%. This is thought to be a reflection of the drastic depreciation of the Pakistan rupee since June 2008. In Bangladesh and Sri Lanka, on the other hand, a relatively large percentage of manufacturers have cited “Shortage of cash flow necessary for capital investment.”

Additionally, in the Oceania region, “Volatility of local currency’s exchange rate against the US dollar” (71.4%) and “Volatility of local currency’s exchange rate against the Japanese yen” (53.1%) were the two most cited replies.

The top two problems in financial affairs, financing or foreign exchange cited by the non-manufacturing industry as whole were “Volatility of local currency’s exchange rate against the US dollar” (43.3%) and “Volatility of local currency’s exchange rate against the Japanese yen” (38.6%) (Diagram 33-2).

Furthermore, in the ASEAN region, “Volatility of local currency’s exchange rate against the US dollar” (42.0%) and “Volatility of local currency’s exchange rate against the Japanese yen” (36.7%) took the top two spots.

In Southwest Asia, on the other hand, “Tax burdens” ranked the highest at 50.4%. This seems to be a major problem in India where 62.5% of the manufacturers cited this problem, which is an indication of the complexity of the national tax system for companies engaging in manufacturing and sales activities in India.

In the Oceania region, “Volatility of local currency’s exchange rate against the Japanese yen” (51.7%) and “Volatility of local currency’s exchange rate against the US dollar” (49.3%) were the two most cited replies.

**Diagram 33-1: Problems in financial affairs, financing or foreign exchange (top five)**  
**(manufacturing industry)**

(Multiple answers allowed, unit: %, Valid responses: 895)

	Valid responses	1	2	3	4	5		
Total	895	Volatility of local currency's exchange rate against the US dollar	Volatility of local currency's exchange rate against the Japanese yen	Tax burdens	Shortage of cash flow necessary for capital investment	Volatility of the Japanese yen against the US dollar		
	100.0	58.1	43.0	26.6	20.6	19.9		
ASEAN Total	746	Volatility of local currency's exchange rate against the US dollar	Volatility of local currency's exchange rate against the Japanese yen	Tax burdens	Shortage of cash flow necessary for capital investment	Volatility of the Japanese yen against the US dollar		
	100.0	57.2	42.5	26.1	21.3	19.6		
Indonesia	106	Volatility of local currency's exchange rate against the US dollar	Tax burdens	Volatility of local currency's exchange rate against the Japanese yen	Shortage of cash flow necessary for capital investment	Rising interest rates		
	100.0	50.9	47.2	32.1	27.4	24.5		
Malaysia	103	Volatility of local currency's exchange rate against the US dollar	Volatility of local currency's exchange rate against the Japanese yen	Shortage of cash flow necessary for capital investment	Volatility of the Japanese yen against the US dollar	Tax burdens		
	100.0	66.0	43.7	21.4	20.4	17.5		
Myanmar	6	Volatility of local currency's exchange rate against the US dollar	Restrictions on fund procurement and settlements	Tax burdens	Shortage of cash flow necessary for capital investment	Difficulty in procuring funds from local financial institutions	Volatility of the Japanese yen against the US dollar	
	100.0	83.3	50.0	33.3	16.7			
Philippines	112	Volatility of local currency's exchange rate against the US dollar	Volatility of local currency's exchange rate against the Japanese yen	Volatility of the Japanese yen against the US dollar	Tax burdens	Shortage of cash flow necessary for capital investment		
	100.0	64.3	46.4	33.9	25.9	24.1		
Singapore	44	Volatility of local currency's exchange rate against the US dollar	Volatility of local currency's exchange rate against the Japanese yen	Volatility of the Japanese yen against the US dollar	Shortage of cash flow necessary for capital investment	Rising interest rates		
	100.0	77.3	36.4	27.3	15.9	6.8		
Thailand	299	Volatility of local currency's exchange rate against the Japanese yen	Volatility of local currency's exchange rate against the US dollar	Tax burdens	Shortage of cash flow necessary for capital investment	Rising interest rates		
	100.0	54.9	53.9	24.8	16.4	15.1		
Vietnam	76	Volatility of local currency's exchange rate against the US dollar	Shortage of cash flow necessary for capital investment	Volatility of the Japanese yen against the US dollar	Tax burdens	Restrictions on fund procurement and settlements	Difficulty in procuring funds from local financial institutions	
	100.0	43.4	30.3	27.6	25.0	14.5		
Southwest Asia Total	100	Volatility of local currency's exchange rate against the US dollar	Volatility of local currency's exchange rate against the Japanese yen	Rising interest rates	Tax burdens	Shortage of cash flow necessary for capital investment	Volatility of the Japanese yen against the US dollar	
	100.0	58.0	42.0	34.0	30.0	21.0		
Bangladesh	16	Shortage of cash flow necessary for capital investment	Difficulty in procuring funds from local financial institutions	Restrictions on fund procurement and settlements	Volatility of local currency's exchange rate against the US dollar	Volatility of the Japanese yen against the US dollar	Tax burdens	Rising interest rates
	100.0	43.8	31.3	25.0	18.8		12.5	
India	58	Volatility of local currency's exchange rate against the US dollar	Volatility of local currency's exchange rate against the Japanese yen	Tax burdens	Rising interest rates	Volatility of the Japanese yen against the US dollar		
	100.0	65.5	51.7	39.7	37.9	20.7		
Pakistan	12	Volatility of local currency's exchange rate against the US dollar	Volatility of local currency's exchange rate against the Japanese yen	Rising interest rates	Shortage of cash flow necessary for capital investment	Difficulty in procuring funds from local financial institutions	Volatility of the Japanese yen against the US dollar	
	100.0	83.3	66.7	8.3				
Sri Lanka	14	Volatility of local currency's exchange rate against the US dollar	Shortage of cash flow necessary for capital investment	Volatility of the Japanese yen against the US dollar	Tax burdens	Volatility of local currency's exchange rate against the Japanese yen	Rising interest rates	
	100.0	50.0	35.7	28.6	21.4	14.3		
Oceania Total	49	Volatility of local currency's exchange rate against the US dollar	Volatility of local currency's exchange rate against the Japanese yen	Tax burdens	Volatility of the Japanese yen against the US dollar	Rising interest rates		
	100.0	71.4	53.1	26.5	22.5	16.3		
Australia	35	Volatility of local currency's exchange rate against the US dollar	Volatility of local currency's exchange rate against the Japanese yen	Tax burdens	Volatility of the Japanese yen against the US dollar	Rising interest rates		
	100.0	65.7	51.4	31.4	22.9	17.1		
New Zealand	14	Volatility of local currency's exchange rate against the US dollar	Volatility of local currency's exchange rate against the Japanese yen	Volatility of the Japanese yen against the US dollar	Tax burdens	Rising interest rates	Shortage of cash flow necessary for capital investment	Restrictions on fund procurement and settlements
	100.0	85.7	57.1	21.4	14.3	7.1		

**Diagram 33-2: Problems in financial affairs, financing or foreign exchange (top five) (non-manufacturing industry)**

(Multiple answers allowed, unit: %, Valid responses: 824)

	Valid responses	1	2	3	4	5
Total	824	Volatility of local currency's exchange rate against the US dollar 43.3	Volatility of local currency's exchange rate against the Japanese yen 38.6	Tax burdens 26.6	Shortage of cash flow necessary for expansion of sales 17.0	Volatility of the Japanese yen against the US dollar 16.0
	100.0	43.3	38.6	26.6	17.0	16.0
ASEAN Total	510	Volatility of local currency's exchange rate against the US dollar 42.0	Volatility of local currency's exchange rate against the Japanese yen 36.7	Tax burdens 25.1	Shortage of cash flow necessary for expansion of sales 18.2	Volatility of the Japanese yen against the US dollar 17.1
	100.0	42.0	36.7	25.1	18.2	17.1
Indonesia	50	Volatility of local currency's exchange rate against the US dollar 60.0	Tax burdens 46.0	Volatility of local currency's exchange rate against the Japanese yen 28.0	Volatility of the Japanese yen against the US dollar 22.0	Shortage of cash flow necessary for expansion of sales 20.0
	100.0	60.0	46.0	28.0	22.0	20.0
Malaysia	64	Volatility of local currency's exchange rate against the US dollar 48.4	Volatility of local currency's exchange rate against the Japanese yen 45.3	Tax burdens 25.0	Shortage of cash flow necessary for expansion of sales 21.9	Volatility of the Japanese yen against the US dollar 14.1
	100.0	48.4	45.3	25.0	21.9	14.1
Myanmar	14	Volatility of local currency's exchange rate against the US dollar 42.9	Restrictions on fund procurement and settlements 35.7	Tax burdens 14.3	Shortage of cash flow necessary for expansion of sales 7.1	Volatility of the Japanese yen against the US dollar 7.1
	100.0	42.9	35.7	14.3	7.1	7.1
Philippines	57	Volatility of local currency's exchange rate against the US dollar 47.4	Tax burdens 35.1	Volatility of local currency's exchange rate against the Japanese yen 33.3	Shortage of cash flow necessary for expansion of sales 26.3	Volatility of the Japanese yen against the US dollar 14.0
	100.0	47.4	35.1	33.3	26.3	14.0
Singapore	125	Volatility of local currency's exchange rate against the US dollar 44.0	Volatility of local currency's exchange rate against the Japanese yen 39.2	Volatility of the Japanese yen against the US dollar 32.8	Shortage of cash flow necessary for expansion of sales 9.6	Rising interest rates 7.2
	100.0	44.0	39.2	32.8	9.6	7.2
Thailand	160	Volatility of local currency's exchange rate against the Japanese yen 41.9	Volatility of local currency's exchange rate against the US dollar 28.8	Tax burdens 26.3	Shortage of cash flow necessary for expansion of sales 21.3	Difficulty in procuring funds from local financial institutions 9.4
	100.0	41.9	28.8	26.3	21.3	9.4
Vietnam	40	Volatility of local currency's exchange rate against the US dollar 47.5	Tax burdens 35.0	Restrictions on fund procurement and settlements 27.5	Volatility of local currency's exchange rate against the Japanese yen 22.5	Rising interest rates 20.0
	100.0	47.5	35.0	27.5	22.5	20.0
Southwest Asia Total	113	Tax burdens 50.4	Volatility of local currency's exchange rate against the US dollar 38.9	Shortage of cash flow necessary for expansion of sales 23.9	Volatility of local currency's exchange rate against the Japanese yen 23.0	Rising interest rates 21.2
	100.0	50.4	38.9	23.9	23.0	21.2
Bangladesh	12	Difficulty in procuring funds from local financial institutions 41.7	Volatility of local currency's exchange rate against the US dollar 33.3	Restrictions on fund procurement and settlements 25.0	Tax burdens 16.7	Shortage of cash flow necessary for expansion of sales 16.7
	100.0	41.7	33.3	25.0	16.7	16.7
India	72	Tax burdens 62.5	Volatility of local currency's exchange rate against the US dollar 38.9	Rising interest rates 29.2	Shortage of cash flow necessary for expansion of sales 23.6	Volatility of local currency's exchange rate against the Japanese yen 22.2
	100.0	62.5	38.9	29.2	23.6	22.2
Pakistan	16	Volatility of local currency's exchange rate against the US dollar 62.5	Volatility of local currency's exchange rate against the Japanese yen 31.3	Difficulty in procuring funds from local financial institutions 25.0	Shortage of cash flow necessary for expansion of sales 18.8	Restrictions on fund procurement and settlements 12.5
	100.0	62.5	31.3	25.0	18.8	12.5
Sri Lanka	13	Tax burdens 46.2	Shortage of cash flow necessary for expansion of sales 30.8	Difficulty in procuring funds from local financial institutions 23.1	Volatility of local currency's exchange rate against the Japanese yen 15.4	Restrictions on fund procurement and settlements 7.7
	100.0	46.2	30.8	23.1	15.4	7.7
Oceania Total	201	Volatility of local currency's exchange rate against the Japanese yen 51.7	Volatility of local currency's exchange rate against the US dollar 49.3	Tax burdens 16.9	Volatility of the Japanese yen against the US dollar 12.9	Shortage of cash flow necessary for expansion of sales 10.0
	100.0	51.7	49.3	16.9	12.9	10.0
Australia	158	Volatility of local currency's exchange rate against the US dollar 51.3	Volatility of local currency's exchange rate against the Japanese yen 50.6	Tax burdens 17.7	Volatility of the Japanese yen against the US dollar 11.4	Shortage of cash flow necessary for expansion of sales 10.1
	100.0	51.3	50.6	17.7	11.4	10.1
New Zealand	43	Volatility of local currency's exchange rate against the Japanese yen 55.8	Volatility of local currency's exchange rate against the US dollar 41.9	Volatility of the Japanese yen against the US dollar 18.6	Tax burdens 14.0	Shortage of cash flow necessary for expansion of sales 9.3
	100.0	55.8	41.9	18.6	14.0	9.3

#### **(4) Problems with labor or employment**

Among manufacturers in the ASEAN region, Southwest Asia and the Oceania region, an “Increase in employee wages” was the most frequently cited problem in terms of labor or employment (Diagram 34-1).

In the ASEAN region, the rankings in labor and employment problems have not changed since the previous survey, with an “Increase in employee wages” (70.5%) coming in first, followed by “Difficulty in recruiting engineer staff” (42.8%) and “Difficulty in recruiting middle management staff” (39.4%). The percentage of manufacturers citing an “Increase in employee wages” was particularly high in Indonesia (85.7%) and Vietnam (85.2%), where increases in their minimum wages have taken place.

In Southwest Asia, an “Increase in employee wages” was the most frequently cited reply (75.0%). This was followed by a “Low rate of worker retention” (46.2%). In India, as was the case in the previous survey, an “Increase in employee wages” (78.3%) and a “Low rate of worker retention” (51.7%) took the top two spots, indicating that these problems continued to pose major problems for manufacturers operating in India.

Additionally, in the Oceania region, an “Increase in employee wages” (81.6%) was the most frequently cited reply. The percentage of manufacturers citing an “Increase in employee wages” (94.1%) was particularly high in Australia. This is thought to be due to the pressure to raise wages in the tight labor market that has emerged as a result of the resources boom in Australia during the first half of the previous year and the ensuing strong economy.

An “Increase in employee wages” (65.7%) was also the most frequently cited reply among companies in the non-manufacturing industry in the ASEAN region, Southwest Asia and the Oceania region (Diagram 34-2).

In the ASEAN region, “Personnel costs of Japanese (expatriate) officers and staff” (33.5%) jumped to second place from its previous fifth-place spot and became the second biggest labor or employment problem behind an “Increase in employee wages” (63.6%). By country, Singapore had the highest percentage citing this problem at 45.4% and it was cited most frequently by trading companies (57.1%). This is thought to be due to the effects of growing inflation and the resulting rise in personnel and housing expenses.

In Southwest Asia, an “Increase in employee wages” was the most frequently cited reply (67.2%). In India, the rankings have not changed since the previous survey, with an “Increase in employee wages” (70.1%) coming in first, followed by the “Personnel costs of Japanese (expatriate) officers and staff” (48.1%) and a “Low rate of worker retention” (40.3%).

In the Oceania region, “Difficulty in recruiting general staff” (37.6%) and a “Low rate of worker retention” (33.0%) ranked in the top three behind an “Increase in employee wages” (70.6%).

**Diagram 34-1: Problems with labor or employment (top five) (manufacturing industry)**

(Multiple answers allowed, unit: %, Valid responses: 922)

	Valid responses	1		2		3			4			5	
Total	922	Increase in employee wages		Difficulty in recruiting engineer staff		Difficulty in recruiting middle management staff			Low rate of worker retention			Difficulty in localizing managers and site supervisors	
	100.0	71.6		41.3		39.1			35.9			29.6	
ASEAN Total	769	Increase in employee wages		Difficulty in recruiting engineer staff		Difficulty in recruiting middle management staff			Low rate of worker retention			Difficulty in localizing managers and site supervisors	
	100.0	70.5		42.8		39.4			34.6			32.3	
Indonesia	105	Increase in employee wages		Restrictions on staff dismissal and reduction		Difficulty in recruiting middle management staff			Personnel costs of Japanese (expatriate) officers and staff			Difficulty in recruiting engineer staff	
	100.0	85.7		47.6		33.3			31.4			30.5	
Malaysia	107	Increase in employee wages		Difficulty in recruiting engineer staff		Low rate of worker retention			Difficulty in recruiting middle management staff			Restrictions on staff dismissal and reduction	
	100.0	59.8		49.5		43.9			37.4			36.5	
Myanmar	6	Increase in employee wages	Low rate of worker retention	Difficulty in recruiting engineer staff		Difficulty in recruiting general staff	Difficulty in recruiting middle management staff	Personnel costs of Japanese (expatriate) officers and staff	Difficulty in localizing managers and site supervisors		Restrictions on staff dismissal and reduction		
	100.0	66.7		50.0		33.3			16.7				
Philippines	114	Increase in employee wages		Difficulty in recruiting engineer staff		Difficulty in recruiting middle management staff			Low rate of worker retention			Difficulty in localizing managers and site supervisors	
	100.0	66.7		49.1		40.4			36.0			30.7	
Singapore	48	Increase in employee wages		Difficulty in recruiting general staff	Difficulty in recruiting engineer staff	Difficulty in recruiting middle management staff		Low rate of worker retention		Personnel costs of Japanese (expatriate) officers and staff		Restrictions on employing foreign workers	
	100.0	75.0		33.3		31.3			29.2		18.8		
Thailand	308	Increase in employee wages		Difficulty in recruiting engineer staff		Difficulty in recruiting middle management staff			Difficulty in localizing managers and site supervisors			Low rate of worker retention	
	100.0	65.9		42.9		39.3			38.0			35.7	
Vietnam	81	Increase in employee wages		Difficulty in recruiting middle management staff		Low rate of worker retention			Difficulty in recruiting engineer staff			Difficulty in localizing managers and site supervisors	
	100.0	85.2		54.3		50.6			45.7			33.3	
Southwest Asia Total	104	Increase in employee wages		Low rate of worker retention		Difficulty in recruiting middle management staff			Difficulty in recruiting engineer staff			Personnel costs of Japanese (expatriate) officers and staff	
	100.0	75.0		46.2		36.5			34.6			27.9	
Bangladesh	16	Increase in employee wages		Difficulty in recruiting middle management staff	Difficulty in recruiting engineer staff	Low rate of worker retention			Difficulty in recruiting general staff		Personnel costs of Japanese (expatriate) officers and staff	Restrictions on staff dismissal and reduction	Difficulty in localizing managers and site supervisors
	100.0	75.0		37.5		31.3			18.8		12.5		
India	60	Increase in employee wages		Low rate of worker retention		Difficulty in recruiting middle management staff		Difficulty in recruiting engineer staff		Personnel costs of Japanese (expatriate) officers and staff		Difficulty in recruiting general staff	
	100.0	78.3		51.7		38.3			33.3			21.7	
Pakistan	13	Low rate of worker retention		Increase in employee wages		Difficulty in recruiting middle management staff	Difficulty in recruiting engineer staff	Personnel costs of Japanese (expatriate) officers and staff		Difficulty in localizing managers and site supervisors		Difficulty in recruiting general staff	Restrictions on staff dismissal and reduction
	100.0	53.9		46.2		23.1			15.4		7.7		
Sri Lanka	15	Increase in employee wages		Difficulty in recruiting middle management staff	Restrictions on staff dismissal and reduction	Low rate of worker retention		Difficulty in localizing managers and site supervisors		Difficulty in recruiting general staff	Difficulty in recruiting engineer staff	Personnel costs of Japanese (expatriate) officers and staff	
	100.0	86.7		40.0		33.3			26.7				
Oceania Total	49	Increase in employee wages		Difficulty in recruiting middle management staff		Low rate of worker retention			Difficulty in recruiting engineer staff			Difficulty in recruiting general staff	
	100.0	81.6		38.8		34.7			32.7			20.4	
Australia	34	Increase in employee wages		Difficulty in recruiting middle management staff	Difficulty in recruiting engineer staff	Low rate of worker retention			Personnel costs of Japanese (expatriate) officers and staff		Difficulty in recruiting general staff	Restrictions on staff dismissal and reduction	
	100.0	94.1		38.2		35.3			20.6		17.7		
New Zealand	15	Increase in employee wages		Difficulty in recruiting middle management staff		Low rate of worker retention			Difficulty in recruiting general staff			Difficulty in recruiting engineer staff	
	100.0	53.3		40.0		33.3			26.7			20.0	

**Diagram 34-2: Problems with labor or employment (top five) (non-manufacturing industry)**

(Multiple answers allowed, unit: %, Valid responses: 865)

	Valid responses	1	2	3				4		5			
Total	865	Increase in employee wages	Difficulty in recruiting general staff	Low rate of worker retention				Personnel costs of Japanese (expatriate) officers and staff		Difficulty in recruiting engineer staff			
	100.0	65.7	33.2	29.9				28.9		26.0			
ASEAN Total	549	Increase in employee wages	Personnel costs of Japanese (expatriate) officers and staff	Difficulty in recruiting general staff				Low rate of worker retention		Difficulty in recruiting engineer staff			
	100.0	63.6	33.5	31.0				28.8		26.1			
Indonesia	54	Increase in employee wages	Difficulty in localizing managers and site supervisors	Restrictions on staff dismissal and reduction				Difficulty in recruiting engineer staff	Personnel costs of Japanese (expatriate) officers and staff	Restrictions on employing foreign workers			
	100.0	68.5	35.2	27.8				22.2		18.5			
Malaysia	67	Increase in employee wages	Difficulty in recruiting general staff	Low rate of worker retention	Difficulty in recruiting engineer staff				Personnel costs of Japanese (expatriate) officers and staff	Restrictions on staff dismissal and reduction	Difficulty in localizing managers and site supervisors		
	100.0	55.2	40.3		28.4				16.4		14.9		
Myanmar	12	Difficulty in recruiting general staff	Low rate of worker retention	Increase in employee wages	Difficulty in recruiting engineer staff	Personnel costs of Japanese (expatriate) officers and staff	Difficulty in localizing managers and site supervisors	Restrictions on employing foreign workers					
	100.0	41.7	33.3		25.0				16.7				
Philippines	56	Increase in employee wages	Low rate of worker retention	Personnel costs of Japanese (expatriate) officers and staff				Difficulty in recruiting general staff	Difficulty in recruiting engineer staff	Difficulty in localizing managers and site supervisors			
	100.0	57.1	44.6		32.1				30.4		23.2		
Singapore	141	Increase in employee wages	Personnel costs of Japanese (expatriate) officers and staff	Difficulty in recruiting general staff				Difficulty in recruiting engineer staff	Low rate of worker retention	Difficulty in localizing managers and site supervisors			
	100.0	77.3	45.4		31.9				25.5		12.1		
Thailand	173	Increase in employee wages	Personnel costs of Japanese (expatriate) officers and staff	Difficulty in recruiting general staff	Difficulty in localizing managers and site supervisors			Low rate of worker retention					
	100.0	55.5	34.7		28.9				27.8		21.4		
Vietnam	46	Increase in employee wages	Difficulty in recruiting engineer staff	Difficulty in recruiting general staff				Personnel costs of Japanese (expatriate) officers and staff		Low rate of worker retention			
	100.0	76.1	41.3		39.1				34.8		30.4		
Southwest Asia Total	122	Increase in employee wages	Difficulty in recruiting general staff	Personnel costs of Japanese (expatriate) officers and staff				Low rate of worker retention		Difficulty in localizing managers and site supervisors			
	100.0	67.2	36.1		34.4				30.3		22.1		
Bangladesh	14	Increase in employee wages	Difficulty in recruiting general staff	Difficulty in localizing managers and site supervisors	Difficulty in recruiting engineer staff				Low rate of worker retention		Restrictions on staff dismissal and reduction	Restrictions on employing foreign workers	Labor problems (strikes, union problems, etc.)
	100.0	50.0	42.9		28.6				14.3		7.1		
India	77	Increase in employee wages	Personnel costs of Japanese (expatriate) officers and staff	Low rate of worker retention				Difficulty in recruiting general staff		Difficulty in recruiting engineer staff			
	100.0	70.1	48.1		40.3				37.7		16.9		
Pakistan	18	Increase in employee wages	Difficulty in recruiting general staff	Difficulty in localizing managers and site supervisors	Difficulty in recruiting engineer staff				Personnel costs of Japanese (expatriate) officers and staff		Low rate of worker retention		
	100.0	44.4	33.3		27.8				22.2		11.1		
Sri Lanka	13	Increase in employee wages	Difficulty in recruiting engineer staff	Difficulty in recruiting general staff	Difficulty in localizing managers and site supervisors		Low rate of worker retention	Labor problems (strikes, union problems, etc.)	Personnel costs of Japanese (expatriate) officers and staff	Restrictions on staff dismissal and reduction			
	100.0	100.0	30.8		23.1				15.4		7.7		
Oceania Total	194	Increase in employee wages	Difficulty in recruiting general staff	Low rate of worker retention				Difficulty in recruiting engineer staff		Restrictions on staff dismissal and reduction			
	100.0	70.6	37.6		33.0				28.9		17.0		
Australia	156	Increase in employee wages	Difficulty in recruiting general staff	Low rate of worker retention				Difficulty in recruiting engineer staff		Restrictions on staff dismissal and reduction			
	100.0	73.1	38.5		37.2				28.2		17.3		
New Zealand	38	Increase in employee wages	Difficulty in recruiting general staff	Difficulty in recruiting engineer staff				Low rate of worker retention	Restrictions on staff dismissal and reduction	Personnel costs of Japanese (expatriate) officers and staff			
	100.0	60.5	34.2		31.6				15.8		10.5		

## **(5) Problems in the investment environment**

Among the problems in the investment environment, “Unstable or insecure political or social conditions” (42.4%) jumped to first place from its previous fourth-place spot for the manufacturing industry as a whole (Diagram 35-1).

Additionally, in the ASEAN region, “Unstable or insecure political or social conditions” (44.5%) jumped to first place from the previous fourth-place spot. This was due to the fact that “Unstable or insecure political or social conditions” (60.0%) became the most frequently cited problem among manufacturers in Thailand. Thailand had been plagued with internal strife, beginning with the occupation of the prime minister’s office by anti-Thaksin protestors at the end of August 2008, followed by the state of emergency declared in Bangkok as a result of the pro- and anti-Thaksin forces battling each other on the streets in September and culminating in the sacking of Prime Minister Samack on grounds of violating conflict of interest rules in the constitution.

In Southwest Asia, “Underdeveloped infrastructure” (76.0%) was the most frequently cited reply, but, with the exception of India, “Unstable or insecure political or social conditions” (43.0%) also ranked among the top problems in the investment environment, illustrating the underlying quest by manufacturers for political stability in the area. In India, “Underdeveloped infrastructure (electric power, transportation, communications, etc.)” (79.0%) was once again the most frequently cited reply, suggesting that India’s infrastructure remained a major problem in the investment environment.

As the countries in the Oceania region are industrialized, there were very few matters of concern regarding the investment environment compared to the ASEAN nations and the countries of Southwest Asia, and even the most frequently cited problem of “Complicated administrative procedures” was only mentioned by 23.7% of the respondents.

In the non-manufacturing industry, as a whole, “Lack of office space and rising rent” (39.9%) was the most frequently cited reply, as was the case in the previous survey (Diagram 35-2).

In the ASEAN region, “Unstable or insecure political or social conditions” (36.9%) jumped to first place from the previous fifth-place spot. This is mainly attributable to the fact that “Unstable or insecure political or social conditions” (63.9%) became the most frequently cited problem among companies operating in Thailand.

In Southwest Asia, “Underdeveloped infrastructure” (67.7%) was the most frequently cited reply. Many of the trading companies in Bangladesh (85.7%) and many of the sales companies (83.3%), transport and warehousing companies (75.0%), and trading companies (73.9%) in India, in particular, cited this problem. This was followed by “Complicated tax procedures” (49.2%) in second place. The percentage of companies citing “Complicated tax procedures” was particularly high in India (62.8%), suggesting that complicated domestic regulations and tax procedures were becoming obstacles to investment.

In the Oceania region, a large percentage of companies cited “Lack of office space and rising rent” (48.6%). However, other than this problem, there were very few matters of concern for companies in Oceania, unlike their counterparts in the ASEAN region and Southwest Asia.



**Diagram 35-1: Problems in the investment environment (top five) (manufacturing industry)**

(Multiple answers allowed, unit: %, Valid responses: 832)

	Valid responses	1	2	3	4	5
Total	832	Unstable or insecure political or social conditions	Underdeveloped infrastructure	Unclear policy management by the local government	Complicated administrative procedures	Complicated tax procedures
	100.0	42.4	41.7	39.8	36.2	25.0
ASEAN Total	694	Unstable or insecure political or social conditions	Unclear policy management by the local government	Underdeveloped infrastructure	Complicated administrative procedures	Complicated tax procedures
	100.0	44.5	41.1	38.3	36.0	24.1
Indonesia	108	Underdeveloped infrastructure	Unclear policy management by the local government	Complicated administrative procedures	Complicated tax procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system
	100.0	68.5	52.8	43.5	40.7	36.1
Malaysia	80	Complicated administrative procedures	Underdeveloped infrastructure	Unclear policy management by the local government	Unstable or insecure political or social conditions	Restrictions on foreign investment including restrictions on foreign capital ratio
	100.0	31.3	28.8	26.3	18.8	15.0
Myanmar	6	Underdeveloped infrastructure	Unclear policy management by the local government	Unstable or insecure political or social conditions	Complicated administrative procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system
	100.0	100.0	83.3	33.3		
Philippines	110	Underdeveloped infrastructure	Unstable or insecure political or social conditions	Unclear policy management by the local government	Complicated administrative procedures	Complicated tax procedures
	100.0	65.5	60.0	54.6	31.8	27.3
Singapore	22	Complicated administrative procedures	Unstable or insecure political or social conditions	Underdeveloped infrastructure	Complicated tax procedures	Restrictions on foreign investment including restrictions on foreign capital ratio
	100.0	13.6	9.1	4.6		
Thailand	290	Unstable or insecure political or social conditions	Unclear policy management by the local government	Complicated administrative procedures	Complicated tax procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system
	100.0	60.0	33.5	31.7	20.3	18.3
Vietnam	78	Underdeveloped infrastructure	Unclear policy management by the local government	Complicated administrative procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system	Unstable or insecure political or social conditions
	100.0	74.4	55.1	43.6	30.8	14.1
Southwest Asia Total	100	Underdeveloped infrastructure	Unstable or insecure political or social conditions	Complicated administrative procedures	Complicated tax procedures	Unclear policy management by the local government
	100.0	76.0	43.0	42.0	40.0	39.0
Bangladesh	17	Underdeveloped infrastructure	Unstable or insecure political or social conditions	Unclear policy management by the local government	Complicated administrative procedures	Complicated tax procedures
	100.0	88.2	82.4	70.6	58.8	41.2
India	57	Underdeveloped infrastructure	Complicated administrative procedures	Complicated tax procedures	Unclear policy management by the local government	Undeveloped economic and legal systems, and arbitrary application of the legal system
	100.0	79.0	47.4	22.8	19.3	17.5
Pakistan	13	Unstable or insecure political or social conditions	Underdeveloped infrastructure	Unclear policy management by the local government	Lack of protection of intellectual property rights	Complicated tax procedures
	100.0	92.3	61.5	38.5	23.1	15.4
Sri Lanka	13	Unstable or insecure political or social conditions	Unclear policy management by the local government	Underdeveloped infrastructure	Complicated administrative procedures	Complicated tax procedures
	100.0	84.6	69.2	61.5	38.5	30.8
Oceania Total	38	Complicated administrative procedures	Unclear policy management by the local government	Underdeveloped infrastructure	Lowering of custom tariff levels	Unstable or insecure political or social conditions
	100.0	23.7	18.4	13.2	2.6	
Australia	25	Complicated administrative procedures	Lowering of custom tariff levels	Unclear policy management by the local government	Unstable or insecure political or social conditions	Undeveloped economic and legal systems, and arbitrary application of the legal system
	100.0	28.0	16.0	8.0	4.0	
New Zealand	13	Unclear policy management by the local government	Underdeveloped infrastructure	Complicated administrative procedures	Complicated tax procedures	Restrictions on foreign investment including restrictions on foreign capital ratio
	100.0	38.5	30.8	15.4	7.7	

**Diagram 35-2: Problems in the investment environment (top five) (non-manufacturing industry)**

(Multiple answers allowed, unit: %, Valid responses: 815)

	Valid responses	1	2	3	4	5			
Total	815	Lack of office space and rising rent	Unstable or insecure political or social conditions	Complicated administrative procedures	Underdeveloped infrastructure	Unclear policy management by the local government			
	100.0	39.9	29.9	29.2	26.0	24.4			
ASEAN Total	512	Unstable or insecure political or social conditions	Lack of office space and rising rent	Complicated administrative procedures	Unclear policy management by the local government	Restrictions on foreign investment including restrictions on foreign capital ratio			
	100.0	36.9	36.5	29.7	28.3	24.2			
Indonesia	54	Unclear policy management by the local government	Complicated tax procedures	Underdeveloped infrastructure	Unstable or insecure political or social conditions	Complicated administrative procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system		
	100.0	50.0	46.3	40.7	37.0	29.6			
Malaysia	54	Restrictions on foreign investment including restrictions on foreign capital ratio	Complicated administrative procedures	Lack of office space and rising rent	Unstable or insecure political or social conditions	Underdeveloped infrastructure	Unclear policy management by the local government	Complicated tax procedures	
	100.0	46.3	25.9	18.5	14.8	9.3			
Myanmar	14	Underdeveloped infrastructure	Unclear policy management by the local government	Unstable or insecure political or social conditions	Undeveloped economic and legal systems, and arbitrary application of the legal system	Complicated administrative procedures	Complicated tax procedures	Lack of office space and rising rent	Lack of protection for intellectual property rights
	100.0	71.4	64.3	57.1	42.9	7.1			
Philippines	57	Unstable or insecure political or social conditions	Complicated administrative procedures	Underdeveloped infrastructure	Complicated tax procedures	Unclear policy management by the local government			
	100.0	61.4	43.9	42.1	38.6	36.8			
Singapore	120	Lack of office space and rising rent	Unstable or insecure political or social conditions	Complicated administrative procedures	Lack of protection for intellectual property rights	Unclear policy management by the local government	Complicated tax procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system	Restrictions on foreign investment including restrictions on foreign capital ratio
	100.0	86.7	6.7	4.2	3.3	1.7			
Thailand	166	Unstable or insecure political or social conditions	Restrictions on foreign investment including restrictions on foreign capital ratio	Unclear policy management by the local government	Complicated administrative procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system			
	100.0	63.9	41.0	34.3	28.9	19.9			
Vietnam	47	Complicated administrative procedures	Lack of office space and rising rent	Underdeveloped infrastructure	Unclear policy management by the local government	Undeveloped economic and legal systems, and arbitrary application of the legal system			
	100.0	68.1	57.5	51.1	44.7	38.3			
Southwest Asia Total	124	Underdeveloped infrastructure	Complicated tax procedures	Complicated administrative procedures	Lack of office space and rising rent	Unstable or insecure political or social conditions			
	100.0	67.7	49.2	47.6	41.1	39.5			
Bangladesh	15	Underdeveloped infrastructure	Unstable or insecure political or social conditions	Unclear policy management by the local government	Complicated administrative procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system	Lack of protection for intellectual property rights		
	100.0	93.3	66.7	53.3	33.3	26.7			
India	78	Underdeveloped infrastructure	Complicated tax procedures	Lack of office space and rising rent	Complicated administrative procedures	Unclear policy management by the local government			
	100.0	66.7	62.8	56.4	55.1	16.7			
Pakistan	17	Unstable or insecure political or social conditions	Underdeveloped infrastructure	Unclear policy management by the local government	Complicated tax procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system	Complicated administrative procedures		
	100.0	94.1	64.7	58.8	29.4	23.5			
Sri Lanka	14	Unstable or insecure political or social conditions	Underdeveloped infrastructure	Unclear policy management by the local government	Complicated administrative procedures	Complicated tax procedures	Lack of office space and rising rent	Undeveloped economic and legal systems, and arbitrary application of the legal system	Lack of protection for intellectual property rights
	100.0	100.0	50.0	28.6	14.3	7.1			
Oceania Total	179	Lack of office space and rising rent	Underdeveloped infrastructure	Complicated administrative procedures	Complicated tax procedures	Unclear policy management by the local government			
	100.0	48.6	15.6	15.1	11.7	8.9			
Australia	147	Lack of office space and rising rent	Complicated administrative procedures	Underdeveloped infrastructure	Complicated tax procedures	Unclear policy management by the local government			
	100.0	51.7	17.0	15.0	12.2	8.8			
New Zealand	32	Lack of office space and rising rent	Underdeveloped infrastructure	Unclear policy management by the local government	Complicated tax procedures	Undeveloped economic and legal systems, and arbitrary application of the legal system	Unstable or insecure political or social conditions	Complicated administrative procedures	Restrictions on foreign investment including restrictions on foreign capital ratio
	100.0	34.4	18.8	9.4	6.3	3.1			

## **(6) Problems in the foreign trade system**

Among the problems in the foreign trade system, “Complicated customs clearance procedures” (44.0%) was the most frequently cited reply by the manufacturing industry as a whole, as was the case in the previous survey (Diagram 36-1).

Additionally, in the ASEAN region, “Complicated customs clearance procedures” (45.0%) was the most frequently cited reply, as was the case in the previous survey. The percentage of manufacturers in Vietnam citing this problem was particularly high at 75.3%. This was followed by “Lack of thorough publicizing of trade rules and regulations” (37.5%) and “Time-consuming customs procedures” (36.1%). It is evident that these three problems, which had also scored in the top three in the previous survey, continue to pose problems to manufacturers operating in this area.

In Southwest Asia, “Time-consuming customs procedures” (56.3%), “Complicated customs clearance procedures” (48.3%) and “Lack of thorough publicizing of trade rules and regulations” (32.2%) took the top three spots.

In the Oceania region, “Strict quarantine system” (17.2%) was the most frequently cited reply. The percentage of manufacturers in the foods, processed agricultural or marine products industry in Australia citing this problem was particularly high at 33.3%. Compared to the ASEAN region and Southwest Asia, there were relatively few manufacturers citing “Complicated customs clearance procedures” and “Time-consuming customer procedures,” at 10.3% each. In general, there were few matters of concern about the foreign trade system in the Oceania region.

As was the case with the manufacturing industry, “Complicated customs clearance procedures” (30.9 %) was the most frequently cited reply by the non-manufacturing industry. (Diagram 36-2).

In the ASEAN region, “Lack of thorough publicizing of trade rules and regulations” (35.7%) jumped to first place from the previous third place. This problem was cited by numerous companies in Indonesia (51.2%) and Vietnam (50.0%). This was followed by “Complicated customs clearance procedures” (35.1%), which dropped to second place from the previous first-place spot.

In Southwest Asia, “Time-consuming customs procedures” (58.6%) and “Complicated customs clearance procedures” (57.6%) took the top two spots.

As was the case with the manufacturing industry, “Strict quarantine system” (22.7%) was the most frequently cited reply by Oceania’s non-manufacturing industry. This is thought to be due to the strict quarantine system imposed by the relevant authorities on imports of foods and agricultural products in the Oceania region. In particular, the percentage of companies replying “Strict quarantine system” in New Zealand climbed to 52.2%, while in terms of industry, the majority of companies citing this reply were trading companies (57.1%).

**Diagram 36-1: Problems in the foreign trade system (top five) (manufacturing industry)**

(Multiple answers allowed, unit: %, Valid responses: 700)

	Valid responses	1	2	3	4	5
Total	700	Complicated customs clearance procedures	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	Method of assessment of customs duties is unclear	Criteria for determining classification for customs duties are obscure
	100.0	44.0	37.6	35.6	24.6	19.9
ASEAN Total	584	Complicated customs clearance procedures	Lack of thorough publicizing of trade rules and regulations	Time-consuming customs procedures	Method of assessment of customs duties is unclear	Criteria for determining classification for customs duties are obscure
	100.0	45.0	37.5	36.1	26.9	21.6
Indonesia	96	Complicated customs clearance procedures	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	Method of assessment of customs duties is unclear	Unclear inspection system
	100.0	56.3	53.1	42.7	28.1	17.7
Malaysia	69	Time-consuming customs procedures	Complicated customs clearance procedures	Lack of thorough publicizing of trade rules and regulations	Criteria for determining classification for customs duties are obscure	Method of assessment of customs duties is unclear
	100.0	43.5	30.4	24.6	21.7	18.8
Myanmar	6	Lack of thorough publicizing of trade rules and regulations	Complicated customs clearance procedures	Time-consuming customs procedures	Method of assessment of customs duties is unclear	Criteria for determining classification for customs duties are obscure
	100.0	83.3	66.7	50.0	33.3	Unclear inspection system
Philippines	79	Lack of thorough publicizing of trade rules and regulations	Complicated customs clearance procedures	Time-consuming customs procedures	Method of assessment of customs duties is unclear	Unclear inspection system
	100.0	41.8	40.5	35.4	17.7	16.5
Singapore	16	Method of assessment of customs duties is unclear	Complicated customs clearance procedures	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	Criteria for determining classification for customs duties are obscure
	100.0	12.5	6.3	6.3	6.3	6.3
Thailand	245	Complicated customs clearance procedures	Lack of thorough publicizing of trade rules and regulations	Method of assessment of customs duties is unclear	Criteria for determining classification for customs duties are obscure	Time-consuming customs procedures
	100.0	39.2	35.5	35.1	30.2	26.1
Vietnam	73	Complicated customs clearance procedures	Lack of thorough publicizing of trade rules and regulations	Time-consuming customs procedures	Unclear inspection system	Method of assessment of customs duties is unclear
	100.0	75.3	48.0	46.6	20.6	17.8
Southwest Asia Tot	87	Time-consuming customs procedures	Complicated customs clearance procedures	Lack of thorough publicizing of trade rules and regulations	Method of assessment of customs duties is unclear	Criteria for determining classification for customs duties are obscure
	100.0	56.3	48.3	32.2	16.1	14.9
Bangladesh	15	Complicated customs clearance procedures	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	Unclear inspection system	Method of assessment of customs duties is unclear
	100.0	66.7	60.0	20.0	6.7	
India	50	Time-consuming customs procedures	Complicated customs clearance procedures	Lack of thorough publicizing of trade rules and regulations	Method of assessment of customs duties is unclear	Criteria for determining classification for customs duties are obscure
	100.0	60.0	50.0	20.0	18.0	16.0
Pakistan	11	Time-consuming customs procedures	Complicated customs clearance procedures	Method of assessment of customs duties is unclear	Unclear inspection system	Lack of thorough publicizing of trade rules and regulations
	100.0	36.4	27.3	18.2		
Sri Lanka	11	Lack of thorough publicizing of trade rules and regulations	Time-consuming customs procedures	Complicated customs clearance procedures	Method of assessment of customs duties is unclear	Criteria for determining classification for customs duties are obscure
	100.0	63.6	54.6	36.4	9.1	
Oceania Total	29	Strict quarantine system	Complicated customs clearance procedures	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	Method of assessment of customs duties is unclear
	100.0	17.2	10.3	6.9	3.5	
Australia	21	Strict quarantine system	Time-consuming customs procedures	Complicated customs clearance procedures	Method of assessment of customs duties is unclear	High non-tariff barriers
	100.0	23.8	9.5	4.8		
New Zealand	8	Complicated customs clearance procedures	Lack of thorough publicizing of trade rules and regulations	Time-consuming customs procedures		
	100.0	25.0	12.5			

**Diagram 36-2: Problems in the foreign trade system (top five) (non-manufacturing industry)**

(Multiple answers allowed, unit: %, Valid responses: 598)

	Valid responses	1		2		3			4			5	
Total	598	Complicated customs clearance procedures		Time-consuming customs procedures		Lack of thorough publicizing of trade rules and regulations			Method of assessment of customs duties is unclear			Criteria for determining classification for customs duties are obscure	
	100.0	30.9		29.9		27.3			23.2			18.4	
ASEAN Total	345	Lack of thorough publicizing of trade rules and regulations		Complicated customs clearance procedures		Time-consuming customs procedures			Method of assessment of customs duties is unclear			Criteria for determining classification for customs duties are obscure	
	100.0	35.7		35.1		30.7			29.6			22.0	
Indonesia	41	Complicated customs clearance procedures	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations		Unclear inspection system			Method of assessment of customs duties is unclear	Criteria for determining classification for customs duties are obscure		High non-tariff barriers	
	100.0	56.1		51.2		29.3			24.4			7.3	
Malaysia	39	Time-consuming customs procedures		Complicated customs clearance procedures		Lack of thorough publicizing of trade rules and regulations			Criteria for determining classification for customs duties are obscure			Method of assessment of customs duties is unclear	
	100.0	38.5		35.9		25.6			23.1			20.5	
Myanmar	10	Method of assessment of customs duties is unclear		Complicated customs clearance procedures		Time-consuming customs procedures			Lack of thorough publicizing of trade rules and regulations	Criteria for determining classification for customs duties are obscure		Unclear inspection system	High non-tariff barriers
	100.0	80.0		70.0		50.0			30.0			10.0	
Philippines	40	Lack of thorough publicizing of trade rules and regulations		Complicated customs clearance procedures	Time-consuming customs procedures	Method of assessment of customs duties is unclear			Criteria for determining classification for customs duties are obscure			Unclear inspection system	
	100.0	37.5		35.0		27.5			22.5			20.0	
Singapore	50	Complicated customs clearance procedures		Lack of thorough publicizing of trade rules and regulations		Time-consuming customs procedures			Method of assessment of customs duties is unclear	Criteria for determining classification for customs duties are obscure	Unclear inspection system	High non-tariff barriers	Strict quarantine system
	100.0	18.0		12.0		10.0			4.0			2.0	
Thailand	131	Method of assessment of customs duties is unclear		Lack of thorough publicizing of trade rules and regulations		Criteria for determining classification for customs duties are obscure			Complicated customs clearance procedures			Time-consuming customs procedures	
	100.0	39.7		38.9		29.0			28.2			22.9	
Vietnam	34	Complicated customs clearance procedures	Lack of thorough publicizing of trade rules and regulations	Time-consuming customs procedures		Method of assessment of customs duties is unclear			Unclear inspection system			Criteria for determining classification for customs duties are obscure	
	100.0	50.0		41.2		32.4			20.6			14.7	
Southwest Asia Total	99	Time-consuming customs procedures		Complicated customs clearance procedures		Method of assessment of customs duties is unclear			Lack of thorough publicizing of trade rules and regulations			Criteria for determining classification for customs duties are obscure	
	100.0	58.6		57.6		33.3			32.3			21.2	
Bangladesh	15	Time-consuming customs procedures		Complicated customs clearance procedures		Method of assessment of customs duties is unclear			Lack of thorough publicizing of trade rules and regulations	Criteria for determining classification for customs duties are obscure	Unclear inspection system	High non-tariff barriers	Strict quarantine system
	100.0	73.3		60.0		33.3			26.7			13.3	
India	62	Complicated customs clearance procedures	Time-consuming customs procedures	Lack of thorough publicizing of trade rules and regulations	Method of assessment of customs duties is unclear	Criteria for determining classification for customs duties are obscure			Unclear inspection system	High non-tariff barriers		Strict quarantine system	
	100.0	56.5		37.1		19.4			11.3			3.2	
Pakistan	11	Complicated customs clearance procedures		Lack of thorough publicizing of trade rules and regulations		Time-consuming customs procedures	Method of assessment of customs duties is unclear		Criteria for determining classification for customs duties are obscure			Unclear inspection system	
	100.0	54.6		45.5		36.4			27.3			18.2	
Sri Lanka	11	Time-consuming customs procedures		Complicated customs clearance procedures		Criteria for determining classification for customs duties are obscure			Method of assessment of customs duties is unclear	Strict quarantine system			
	100.0	72.7		63.6		18.2			9.1				
Oceania Total	154	Strict quarantine system		Time-consuming customs procedures		Criteria for determining classification for customs duties are obscure			Lack of thorough publicizing of trade rules and regulations			Complicated customs clearance procedures	Unclear inspection system
	100.0	22.7		9.7		8.4			5.2			4.6	
Australia	131	Strict quarantine system		Time-consuming customs procedures		Criteria for determining classification for customs duties are obscure			Lack of thorough publicizing of trade rules and regulations			Complicated customs clearance procedures	Unclear inspection system
	100.0	17.6		10.7		9.2			4.6			3.8	
New Zealand	23	Strict quarantine system		Complicated customs clearance procedures	Lack of thorough publicizing of trade rules and regulations	Unclear inspection system	Time-consuming customs procedures	Method of assessment of customs duties is unclear	Criteria for determining classification for customs duties are obscure	High non-tariff barriers			
	100.0	52.2		8.7		4.4							

## 6. Source of Competition

### (1) Chinese companies and local companies are biggest competitors in selling products and services

In terms of which country or region companies currently see as their main source of competitors in selling products in their local market (the nationality of the company) (Diagram 37-1), the respondents excluded Japanese-affiliated companies that are operating in the same category of business (valid responses: 785 from the manufacturing industry, 837 from the non-manufacturing industry).

Among companies in the manufacturing industry in the ASEAN region, only in Indonesia were there more companies citing “Local companies (Indonesia)” (34.7%) than companies citing “China” (26.7%). In Thailand, the percentage of companies citing “Local companies” (30.4%) and “China” (30.8%) were about the same. A breakdown by industry revealed that in Indonesia, a high percentage of companies in the nonferrous metals and products, the iron and steel, and the apparel and textile products industries cited “Local companies;” while in Thailand, a lot of companies in the foods, processed agricultural or marine products and the motor vehicle and motorcycle parts and accessories industries cited “Local companies.” These results attest to the competitiveness of the local products. In Vietnam and the Philippines, on the other hand, extremely large numbers of companies cited “China” over “Local companies,” which indicate the large presence of Chinese products in the local markets. A breakdown by industry revealed that in Vietnam, there were a lot of companies in the apparel and textile products, the electric and electronic parts and components, and the plastic products industries that replied “China.” In the Philippines, a number of companies in the plastic products, the rubber products and the motor vehicle and motorcycle parts and accessories industries replied that “China” was their most formidable competitor.

In Southwest Asia, large percentages of companies in Sri Lanka (63.6%) and Bangladesh (58.3%) cited “China” over “Local companies.” A breakdown by industry revealed that in Sri Lanka, there were many companies in the electric machinery and electronic equipment, the motor vehicle and motorcycle, and the textiles industries that cited “China,” while in Bangladesh, a large number of companies in the electric and electronic parts and components and the motor vehicle and motorcycle parts and accessories industries cited “China.”

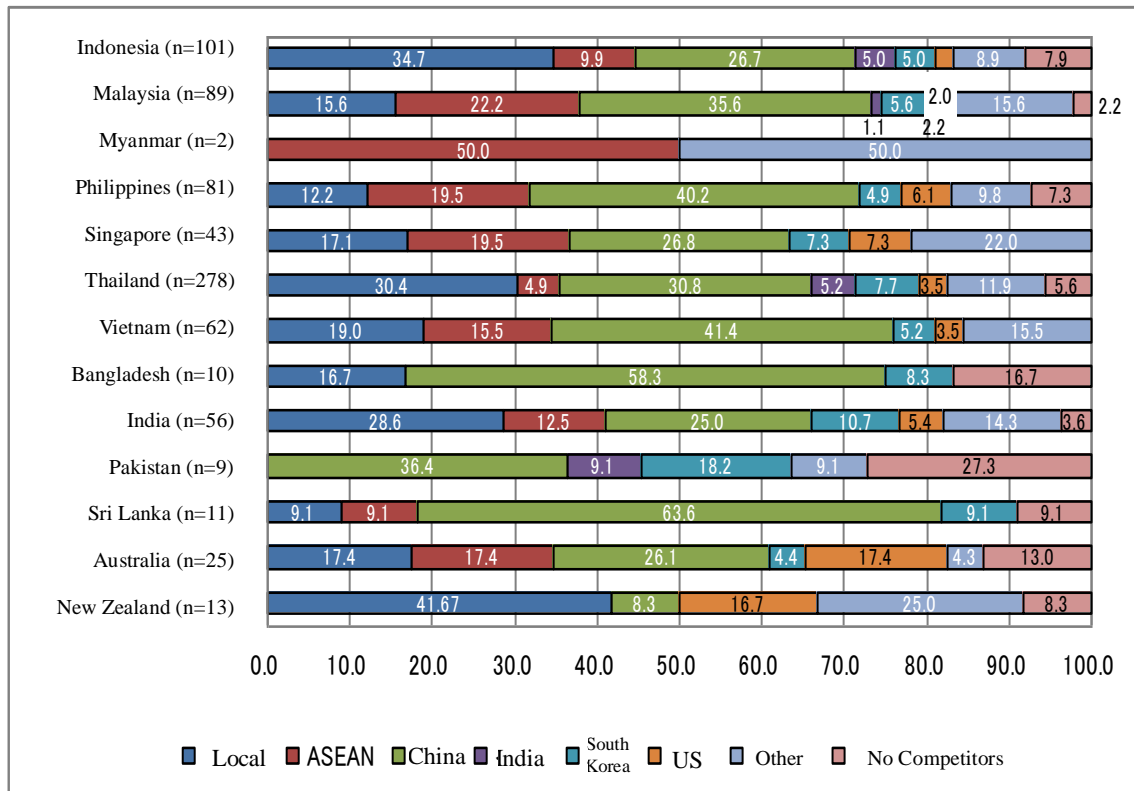
In the Oceania region, the percentage citing “China” was the highest (26.1%), while in New Zealand the percentage of companies citing “Local companies” was the highest (41.7%).

As for the non-manufacturing industry (Diagram 37-2), in the ASEAN region, there were overwhelming percentages of companies in Indonesia and Malaysia citing “Local companies”(42.3% and 33.9%, respectively), indicating the high levels of protection afforded to the service industries in these countries. In Singapore, on the other hand, where the service industries are widely opened to foreign companies, the percentage of companies citing “China” (24.5%) was the highest.

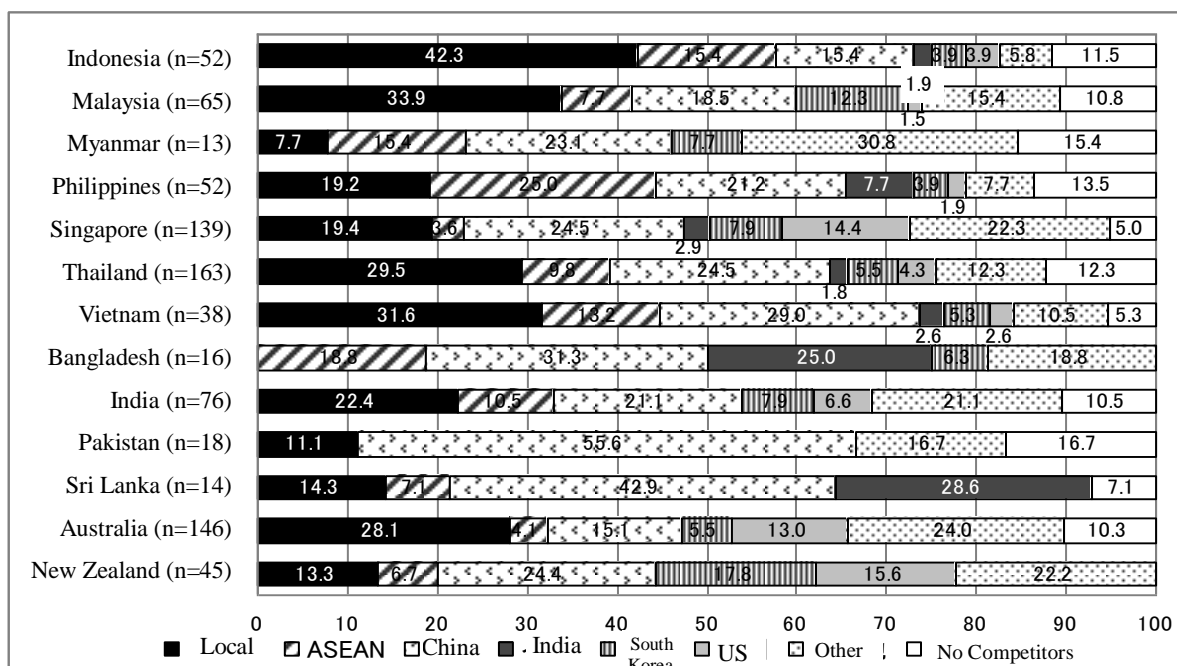
In Southwest Asia, large percentages of companies in Pakistan and Sri Lanka (55.6% and 42.9%, respectively) cited “China” over “Local companies.” A breakdown by industry revealed that in Pakistan, there were more companies in the construction/plant industry and trading companies that cited “China,” while in Sri Lanka more companies in the communications and software and the construction/plant industries cited “China.”

In the Oceania region, the percentage citing “Local companies” was the highest (28.1%) in Australia, especially in the insurance and sales industries, while in New Zealand, the percentage of companies citing “China” was the highest (24.4%).

**Diagram 37-1: Main source of competitors currently selling products and services on the local market (manufacturing industry) (unit: %; valid responses: 785 companies)**



**Diagram 37-2: Main source of competitors currently selling products and services on the local market (non-manufacturing industry) (unit: %; valid responses: 837 companies)**



## **(2) Price, quality and marketing are reasons for competitiveness of competitors**

The main reason(s) causing strong competition (valid responses: 773 from the manufacturing industry, 791 from the non-manufacturing industry, multiple answers allowed) (Diagram 38-1) was also specified by the companies concerned.

In the manufacturing industry, “Price” (88.0%) was the most cited reply by an overwhelming margin of 70.9 points over “Quality” (17.1%), the second most cited reply in the Asia-Pacific region as a whole. The top two replies were followed by “Marketing” (14.9%), “Branding” (11.4%) and “Aggressive capital investment” (11.0%). As seen earlier in the problems with sales or other business activities, Japanese-affiliated manufacturers have been under pressure from major clients to lower prices, while the problems with production revealed that rising procurement prices are becoming a major problem, both of which point to the harsh price competition Japanese-affiliated manufacturers are encountering in the local markets.

In the ASEAN region, “Price” (88.4%) was the most cited reply, followed by “Quality” (17.7%) and “Marketing” (13.9%). A breakdown by country revealed that the percentages of companies citing “Price” were highest in Indonesia and Vietnam (both 93.6%) for the whole region. In the preceding question, companies in Indonesia had cited “Local companies” as their biggest competitors, while companies in Vietnam had cited “China” as their biggest competitors. These results point out the intense price competition with the local companies or Chinese companies facing the Japanese-affiliated companies in this region.

In Southwest Asia, the most cited replies were “Price” (86.1%), followed by “Marketing” (23.3%) and “Branding” (15.1%). In Pakistan, all respondent companies cited “Price” (100.0%). This was followed by a “Large range of products” (33.3%), “R&D capabilities” and a “Strong network of companies/individuals in the country” (22.2%).

In the Oceania region, the most cited replies were “Price” (84.2%), “Branding” (15.8%), “Quality,” a “Large range of products” and “Marketing” (13.2% each).

Additionally, in the non-manufacturing industry (Diagram 38-2), “Price” (70.0%) was the most cited reply by an overwhelming margin of 47.6 points over “Marketing” (22.4%)—the second most cited reply in the Asia-Pacific region as a whole. The top two replies were followed by “Branding” (18.8%), “Quality” (18.3%) and a “Strong network of companies/individuals in the country” (16.2%). A breakdown by industry revealed that, with the exception of the banking and real estate industries, all sectors considered “Price” to be the competitor’s main source of competitiveness. In the banking industry, the largest percentage of companies cited “Excellent human resources” (35.3%), while in the real estate industry, a “Strong network of companies/individuals in the country” (44.4%) was cited by the largest percentage of companies.



**Diagram 38-1: Reasons for strong competition (top five) (manufacturing industry) (multiple answers allowed; unit: %; valid responses: 773 companies)**

	Valid responses	1			2			3			4			5							
Total	773	Price			Quality			Marketing			Branding			Aggressive capital investment							
	100.0	88.0			17.1			14.9			11.4			11.0							
ASEAN Total	649	Price			Quality			Marketing			Aggressive capital investment			Branding							
	100.0	88.4			17.7			13.9			11.1			10.6							
Indonesia	94	Price			Quality			Marketing			Branding		Strong network of companies/individuals in the country		Aggressive capital investment						
	100.0	93.6			21.3			14.9			11.7			10.6							
Malaysia	89	Price			Quality		Branding		Aggressive capital investment			Excellent human resources		R&D capabilities		Marketing					
	100.0	83.2			14.6		11.2		10.1			5.6									
Myanmar	2	Price	Quality	Aggressive capital investment																	
	100.0	50.0																			
Philippines	81	Price			Quality			Marketing		Strong network of companies/individuals in the country			Aggressive capital investment			Branding					
	100.0	80.3			23.5			14.8			9.9			7.4							
Singapore	43	Price			Quality		Marketing		Branding		R&D capabilities		Aggressive capital investment		Strong network of companies/individuals in the country		Excellent human resources		Large range of products		
	100.0	83.7			20.9		16.3		11.6			4.7									
Thailand	278	Price			Marketing			Quality			Branding		Aggressive capital investment		Strong network of companies/individuals in the country						
	100.0	90.7			15.5			14.4			9.4			7.6							
Vietnam	62	Price			Quality			Aggressive capital investment			Marketing			Branding							
	100.0	93.6			21.0			19.4			11.3			9.7							
Southwest Asia Total	86	Price			Marketing			Branding			Quality		Strong network of companies/individuals in the country		R&D capabilities						
	100.0	86.1			23.3			15.1			14.0			12.8							
Bangladesh	10	Price			Aggressive capital investment			Quality		R&D capabilities		Marketing		Strong network of companies/individuals in the country		Excellent human resources		Large range of products			
	100.0	80.0			40.0			20.0			10.0										
India	56	Price			Marketing			Branding			Quality			R&D capabilities		Strong network of companies/individuals in the country					
	100.0	83.9			26.8			23.2			14.3			10.7							
Pakistan	9	Price			Large range of products			R&D capabilities		Strong network of companies/individuals in the country			Quality		Aggressive capital investment		Marketing				
	100.0	100.0			33.3			22.2			11.1										
Sri Lanka	11	Price			Aggressive capital investment		Large range of products		Marketing		Strong network of companies/individuals in the country		Quality		Excellent human resources		R&D capabilities				
	100.0	90.9			18.2			9.1													
Oceania Total	38	Price			Branding			Quality		Large range of products		Marketing		Aggressive capital investment		Strong network of companies/individuals in the country		R&D capabilities			
	100.0	84.2			15.8			13.2			7.9			5.3							
Australia	25	Price			Quality		Branding		Large range of products			Aggressive capital investment		Strong network of companies/individuals in the country		Excellent human resources		R&D capabilities		Marketing	
	100.0	88.0			16.0		12.0		8.0			4.0									
New Zealand	13	Price			Marketing			Branding		Large range of products		Quality		Aggressive capital investment		R&D capabilities		Strong network of companies/individuals in the country			
	100.0	76.9			30.8			15.4		7.7											

(Note) "Others" have been omitted.

**Diagram 38-2: Reasons for strong competition (top five) (non-manufacturing industry) (multiple answers allowed; unit: %; valid responses: 791 companies)**

	Valid responses	1	2	3	4	5			
Total	791	Price	Marketing	Branding	Quality	Strong network of companies/individuals in the country			
	100.0	70.0	22.4	18.8	18.3	16.2			
ASEAN Total	492	Price	Quality	Marketing	Strong network of companies/individuals in the country	Branding	Excellent human resources		
	100.0	71.5	18.3	17.1	15.2	14.0			
Indonesia	46	Price	Strong network of companies/individuals in the country	Excellent human resources	Marketing	Quality	Branding		
	100.0	76.1	19.6	17.4	15.2	10.9			
Malaysia	62	Price	Quality	Marketing	Excellent human resources	Branding			
	100.0	72.6	21.0	17.7	14.5	12.9			
Myanmar	11	Price	Strong network of companies/individuals in the country	Quality	Marketing	Branding	Aggressive capital investment	Excellent human resources	R&D capabilities
	100.0	63.6	27.3	18.2	9.1				
Philippines	47	Price	Quality	Excellent human resources	Aggressive capital investment	Marketing	Strong network of companies/individuals in the country	Branding	
	100.0	72.3	21.3	14.9	10.6	6.4			
Singapore	134	Price	Marketing	Branding	Quality	Strong network of companies/individuals in the country			
	100.0	70.2	23.9	20.9	16.4	14.2			
Thailand	153	Price	Quality	Strong network of companies/individuals in the country	Branding	Marketing	Excellent human resources		
	100.0	74.5	19.6	17.0	16.3	11.8			
Vietnam	39	Price	Strong network of companies/individuals in the country	Excellent human resources	Marketing	Quality			
	100.0	59.0	28.2	23.1	18.0	15.4			
Southwest Asia Total	118	Price	Marketing	Strong network of companies/individuals in the country	Quality	Branding	Excellent human resources		
	100.0	76.3	30.5	21.2	20.3	17.0			
Bangladesh	16	Price	Aggressive capital investment	Quality	R&D capabilities	Marketing	Strong network of companies/individuals in the country	Branding	Large range of products
	100.0	68.8	37.5	31.3	25.0	18.8			
India	73	Price	Marketing	Branding	Quality	Excellent human resources	Strong network of companies/individuals in the country	Aggressive capital investment	
	100.0	76.7	39.7	28.8	24.7	13.7			
Pakistan	15	Price	Strong network of companies/individuals in the country	Aggressive capital investment	Marketing				
	100.0	86.7	13.3	6.7					
Sri Lanka	14	Price	Aggressive capital investment	Marketing	Quality	R&D capabilities	Strong network of companies/individuals in the country		
	100.0	71.4	14.3	7.1					
Oceania Total	181	Price	Marketing	Branding	Quality	Large range of products			
	100.0	61.9	28.2	27.6	17.1	15.5			
Australia	137	Price	Marketing	Branding	Quality	Aggressive capital investment	Large range of products		
	100.0	56.9	31.4	29.9	18.3	13.1			
New Zealand	44	Price	Large range of products	Branding	Marketing	Strong network of companies/individuals in the country			
	100.0	77.3	22.7	20.5	18.2	15.9			

### (3) Competing by enhancing the added value of products

Concerning “countermeasures against competitors” (valid responses: 767 from the manufacturing industry, 787 from the non-manufacturing industry, multiple answers allowed) (Diagram 39-1), in the manufacturing industry, the percentage of companies citing “Enhance added value of products” (59.8%) was the highest for the Asia-Pacific region as a whole, followed by “Bolster sales and marketing capabilities” (35.7%), “Enhance after-sales service” (26.3%) and “Reduce price” (26.1%). This is indicative of the stance of the

Japanese-affiliated companies to keep up with competitors by launching enhanced products and strengthening their marketing and after-sales services.

In the ASEAN region, the top three replies were “Enhance added value of products” (59.9%), “Bolster sales and marketing capabilities” (34.5%), and “Reduce price” (26.9%). A breakdown by country revealed that “Reduce price” was the second most cited reply in the Philippines and Vietnam, which indicates the intense price competition with other companies in these countries.

In Southwest Asia, “Enhance added value of products” (54.7%) was the most cited reply, followed by “Bolster sales and marketing capabilities” (45.4%), “Enhance after-sales service”(34.9%), “Reduce price” (29.1%) and “Launch new products or models” (27.9%). In India, the percentages of companies citing “Bolster sales and marketing capabilities” (51.8%) and “Enhance added value of products” (50.0%) were nearly equal.

In the Oceania region, “Enhance added value of products” (71.1%) was the most cited reply, followed by “Bolster sales and marketing capabilities” (34.2%), “Enhance after-sales service” (31.6%), “Strengthen R&D capabilities” (21.1%), “Improve efficiency of logistics” (21.1%) and “Launch new products or models” (18.4%).

A breakdown by industry revealed that, with the exception of the companies in the lumber and wood products industry and the furniture and interior products industry, the percentage of companies citing “Enhance added value of products” was the highest. In the lumber and wood products industry, “Bolster sales and marketing capabilities” (60.0%) was the most cited reply, while in the furniture and interior products industry “Launch new products or models” (80.0%) was the most cited reply.

In the non-manufacturing industry (Diagram 39-2), as was the case in the manufacturing industry, “Enhance added value of products” (62.6%) was the most cited reply in the Asia-Pacific region. This was followed by “Bolster sales and marketing capabilities” (43.2%), “Enhance after-sales service” (26.8%), “Increase new clients” (24.0%) and “Launch new products or services” (23.5%). In the non-manufacturing industry, only a small percentage cited “Reduce price” (16.3%), indicating that, unlike the manufacturing industry, waging price competition was not a feasible course of action.

**Diagram 39-1: Countermeasures against competitors (top five) (manufacturing industry) (multiple answers allowed; unit: %; valid responses: 767 companies)**

	Valid responses	1	2	3	4	5				
Total	767	Enhance added value of products	Bolster sales and marketing capabilities	Enhance after-sales service	Reduce price	Strengthen R&D capabilities				
	100.0	59.8	35.7	26.3	26.1	18.4				
ASEAN Total	643	Enhance added value of products	Bolster sales and marketing capabilities	Reduce price	Enhance after-sales service	Strengthen R&D capabilities				
	100.0	59.9	34.5	26.9	24.9	17.9				
Indonesia	93	Enhance added value of products	Bolster sales and marketing capabilities	Reduce price	Enhance after-sales service	Expand facilities				
	100.0	54.8	35.5	28.0	24.7	19.4				
Malaysia	87	Enhance added value of products	Bolster sales and marketing capabilities	Enhance after-sales service	Strengthen R&D capabilities	Reduce price				
	100.0	62.1	40.2	23.0	21.8	17.2				
Myanmar	2	Bolster sales and marketing capabilities	Improve efficiency of logistics							
	100.0	50.0								
Philippines	80	Enhance added value of products	Reduce price	Enhance after-sales service	Bolster sales and marketing capabilities	Focus and concentrate on existing products/operations	Launch new products or models			
	100.0	63.8	23.8	21.3	20.0		17.5			
Singapore	44	Enhance added value of products	Bolster sales and marketing capabilities	Enhance after-sales service	Strengthen R&D capabilities	Reduce price				
	100.0	59.1	45.5	31.8	27.3	18.2				
Thailand	275	Enhance added value of products	Bolster sales and marketing capabilities	Reduce price	Enhance after-sales service	Strengthen R&D capabilities				
	100.0	61.5	36.4	29.5	26.6	19.6				
Vietnam	62	Enhance added value of products	Reduce price	Bolster sales and marketing capabilities	Enhance after-sales service	Expand facilities				
	100.0	54.8	38.7	27.4	21.0	17.7				
Southwest Asia Total	86	Enhance added value of products	Bolster sales and marketing capabilities	Enhance after-sales service	Reduce price	Launch new products or models				
	100.0	54.7	45.4	34.9	29.1	27.9				
Bangladesh	10	Enhance added value of products	Strengthen R&D capabilities	Reduce price	Bolster sales and marketing capabilities	Improve efficiency of logistics	Expand facilities	Launch new products or models	Focus and concentrate on existing products/operations	Enhance after-sales service
	100.0	80.0	40.0	30.0	20.0					
India	56	Bolster sales and marketing capabilities	Enhance added value of products	Enhance after-sales service	Reduce price	Launch new products or models				
	100.0	51.8	50.0	33.9	28.6	25.0				
Pakistan	9	Enhance added value of products	Enhance after-sales service	Launch new products or models	Bolster sales and marketing capabilities	Improve efficiency of logistics	Focus and concentrate on existing products/operations	Strengthen R&D capabilities	Expand facilities	Reduce price
	100.0	55.6	44.4	33.3	22.2	11.1				
Sri Lanka	11	Enhance added value of products	Reduce price	Enhance after-sales service	Focus and concentrate on existing products/operations	Launch new products or models	Bolster sales and marketing capabilities	Expand facilities	Improve efficiency of logistics	
	100.0	54.6	36.4	27.3	18.2	9.1				
Oceania Total	38	Enhance added value of products	Bolster sales and marketing capabilities	Enhance after-sales service	Strengthen R&D capabilities	Improve efficiency of logistics	Launch new products or models			
	100.0	71.1	34.2	31.6	21.1	18.4				
Australia	25	Enhance added value of products	Bolster sales and marketing capabilities	Improve efficiency of logistics	Enhance after-sales service	Strengthen R&D capabilities	Focus and concentrate on existing products/operations			
	100.0	76.0	36.0	28.0	24.0	16.0				
New Zealand	13	Enhance added value of products	Enhance after-sales service	Strengthen R&D capabilities	Launch new products or models	Bolster sales and marketing capabilities	Focus and concentrate on existing products/operations	Improve efficiency of logistics		
	100.0	61.5	46.2	30.8	15.4	7.7				

**Diagram 39-2: Countermeasures against competitors (top five) (non-manufacturing industry) (multiple answers allowed; unit: %; valid responses: 787 companies)**

	Valid responses	1	2	3	4	5			
Total	787	Enhance added value of products/services	Bolster sales and marketing capabilities	Enhance after-sales service	Increase new clients	Launch new products or services			
	100.0	62.6	43.2	26.8	24.0	23.5			
ASEAN Total	490	Enhance added value of products/services	Bolster sales and marketing capabilities	Enhance after-sales service	Increase new clients	Launch new products or services			
	100.0	63.3	42.0	25.5	23.9	20.4			
Indonesia	46	Enhance added value of products/services	Bolster sales and marketing capabilities	Increase new clients	Enhance after-sales service	Focus and concentrate on existing products/services/operations			
	100.0	71.7	37.0	28.3	23.9	21.7			
Malaysia	62	Enhance added value of products/services	Bolster sales and marketing capabilities	Increase new clients	Enhance after-sales service	Launch new products or services			
	100.0	62.9	46.8	32.3	29.0	25.8			
Myanmar	11	Enhance added value of products/services	Increase new clients	Bolster sales and marketing capabilities	Enhance after-sales service	Reduce price	Launch new products or services	Focus and concentrate on existing products/services/operations	
	100.0	45.5	36.4	27.3	18.2	9.1			
Philippines	47	Enhance added value of products/services	Bolster sales and marketing capabilities	Enhance after-sales service	Increase new clients	Reduce price	Launch new products or services		
	100.0	57.5	31.9	21.3	19.2	14.9			
Singapore	133	Enhance added value of products/services	Bolster sales and marketing capabilities	Enhance after-sales service	Launch new products or services	Reduce price			
	100.0	63.9	50.4	27.8	24.1	21.1			
Thailand	154	Enhance added value of products/services	Bolster sales and marketing capabilities	Increase new clients	Enhance after-sales service	Launch new products or services			
	100.0	66.2	41.6	26.0	25.3	22.7			
Vietnam	37	Enhance added value of products/services	Bolster sales and marketing capabilities	Enhance after-sales service	Reduce price	Increase new clients	Focus and concentrate on existing products/services/operations		
	100.0	51.4	29.7	21.6	18.9	16.2			
Southwest Asia Total	115	Enhance added value of products/services	Bolster sales and marketing capabilities	Launch new products or services	Enhance after-sales service	Increase new clients			
	100.0	64.4	39.1	32.2	28.7	23.5			
Bangladesh	16	Enhance after-sales service	Launch new products or services	Increase new clients	Enhance added value of products/services	Reduce price	Bolster sales and marketing capabilities	Focus and concentrate on existing products/services/operations	
	100.0	56.3	50.0	43.8	31.3	25.0			
India	72	Enhance added value of products/services	Bolster sales and marketing capabilities	Launch new products or services	Enhance after-sales service	Increase new clients			
	100.0	66.7	45.8	31.9	27.8	20.8			
Pakistan	15	Enhance added value of products/services	Launch new products or services	Bolster sales and marketing capabilities	Expand facilities	Increase new clients	Focus and concentrate on existing products/services/operations	Reduce price	Enhance after-sales service
	100.0	73.3	33.3	20.0	13.3	6.7			
Sri Lanka	12	Enhance added value of products/services	Bolster sales and marketing capabilities	Enhance after-sales service	Expand facilities	Increase new clients	Focus and concentrate on existing products/services/operations	Reduce price	Launch new products or services
	100.0	66.7	33.3	25.0	16.7	8.3			
Oceania Total	182	Enhance added value of products/services	Bolster sales and marketing capabilities	Enhance after-sales service	Launch new products or services	Increase new clients			
	100.0	59.9	48.9	29.1	26.4	24.7			
Australia	137	Enhance added value of products/services	Bolster sales and marketing capabilities	Launch new products or services	Enhance after-sales service	Increase new clients			
	100.0	58.4	53.3	26.3	24.8	22.6			
New Zealand	45	Enhance added value of products/services	Enhance after-sales service	Bolster sales and marketing capabilities	Increase new clients	Launch new products or services	Focus and concentrate on existing products/services/operations		
	100.0	64.4	42.2	35.6	31.1	26.7			

## 7. Future Business Development

### (1) In Southwest Asia, expansion of business size cited most by India's manufacturing industry and Bangladesh's non-manufacturing industry

In terms of the direction of Japanese-affiliated companies' business development over the next one to two years (Diagram 40), of those operating in the ASEAN region, Southwest Asia and the Oceania region, "Expansion" accounted for nearly 60% (58.9%) of the replies in the manufacturing industry. In the ASEAN region, "Expansion" accounted for more than half of the replies (57.6%), while "Status quo" increased by 4.3 points over the previous survey. In Southwest Asia, 84.8% of the manufacturers in India replied "Expansion." In the Oceania region, on the other hand, the number of companies that replied "Status quo" exceeded that which replied "Expansion." The countries with the largest number of companies replying "Expansion" were (1) India, (2) Vietnam and (3) Thailand. Moreover, in India and Thailand, there were no companies that replied "Downsizing" or "Move to a third country (region) or withdraw." In Thailand, the increases in the percentages of companies citing "Expansion," among those in the chemicals industry (90.5%), the motor vehicle and motorcycle parts and accessories industry (80.8%) and the electric machinery and electronic equipment industry (72.4%), were noteworthy. However, in all three of these countries, the percentage of companies citing "Expansion" had decreased from the previous survey and the percentage of companies citing "Status quo" had increased, indicating that the uncertainty in the economic outlook was forcing them to adopt a "wait-and-see" attitude.

In the non-manufacturing industry, as was the case in the manufacturing industry, "Expansion" accounted for nearly 60% (57.2%) of the replies. In particular, the percentages of such replies in (1) Bangladesh, (2) India and (3) Vietnam were high. None of the companies replied "Downsizing" or "Move to a third country (region) or withdraw," suggesting their strength as emerging markets. Trading companies (87.5%) in Bangladesh, transport/warehousing companies (91.7%) and trading companies (81.7%) in India, and communication/software companies (85.7%) and transport/warehousing companies (83.3%) in Vietnam seem to have particularly high hopes for increased domestic demand.

#### Diagram 40: Direction of business development over next one to two years

(Top: 2006 Valid responses: 821 companies)

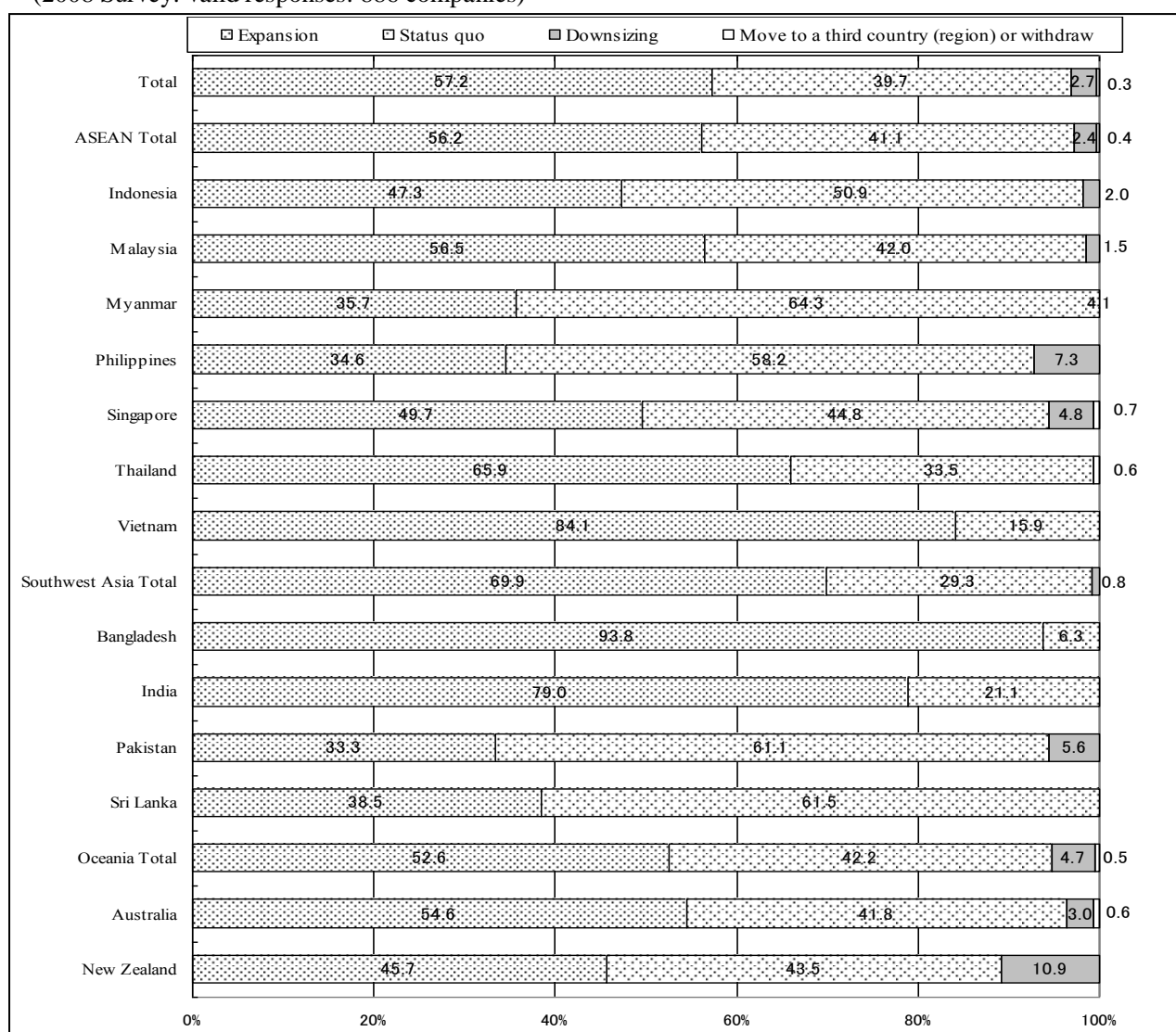
(Middle: 2007 Valid responses: 621 companies)

(Bottom: 2008 Valid responses: 905 companies)

		Expansion	Status quo	Downsizing	Move to a third country (region) or withdraw
Total	2006	55.5	39.5	3.9	1.1
	2007	61.2	33.3	4.5	1.0
	2008	58.9	38.1	2.4	0.6
ASEAN Total	2006	54.1	40.7	4.1	1.1
	2007	59.6	34.6	4.8	1.0
	2008	57.6	38.9	2.8	0.7
Indonesia	2006	50.4	45.4	4.3	0.0
	2007	53.1	38.3	7.4	1.2
	2008	56.9	41.3	1.8	0.0
Malaysia	2006	45.0	49.6	5.3	0.0
	2007	52.8	40.3	6.3	0.7
	2008	44.7	47.6	6.8	1.0
Myanmar	2006				
	2007				
	2008	33.3	66.7	0.0	0.0
Philippines	2006	49.1	44.0	5.7	1.3
	2007	59.2	38.4	1.6	0.8
	2008	43.9	50.5	3.7	1.9
Singapore	2006	39.5	44.2	8.1	8.1
	2007	55.0	30.0	11.7	3.3
	2008	40.4	46.8	10.6	2.1
Thailand	2006	63.2	35.8	1.0	0.0
	2007	65.8	30.9	2.6	0.7
	2008	65.2	33.4	1.0	0.3
Vietnam	2006	82.4	16.2	1.5	0.0
	2007	92.6	7.4	0.0	0.0
	2008	77.6	22.4	0.0	0.0
Southwest Asia Total	2006				
	2007				
	2008	74.0	25.0	1.0	0.0
Bangladesh	2006				
	2007				
	2008	64.7	35.3	0.0	0.0
India	2006	88.6	11.4	0.0	0.0
	2007	90.6	9.4	0.0	0.0
	2008	84.8	15.3	0.0	0.0
Pakistan	2006				
	2007				
	2008	61.5	30.8	7.7	0.0
Sri Lanka	2006				
	2007				
	2008	53.3	46.7	0.0	0.0
Oceania Total	2006				
	2007				
	2008	47.1	52.9	0.0	0.0
Australia	2006				
	2007				
	2008	42.9	57.1	0.0	0.0
New Zealand	2006				
	2007				
	2008	56.3	43.8	0.0	0.0

(Note) Myanmar, Bangladesh, Pakistan, Sri Lanka, Australia and New Zealand have been included in the survey from 2008.

**Diagram 41: Direction of business development over next one to two years (non-manufacturing industry)**  
(2008 Survey: valid responses: 886 companies)



**(2) Specific policies for expansion of business size—manufacturing industry: additional investment; non-manufacturing industry: market development**

In terms of specific policies concerning expansion of business size (valid responses: 532 from the manufacturing industry, 506 from the non-manufacturing industry, multiple answers allowed) (Diagram 42-1), in the manufacturing industries of the ASEAN region, Southwest Asia and Oceania, (1) “Expansion of business size through additional investments,” (2) “Expansion (diversification) of production items” and (3) “Enhancement of high added-value production items” were cited in that order. Characteristically, in Singapore and in Australia, “Strengthening of design, research, and development functions” garnered 42.1% and 33.3% of the replies, respectively, which was indicative of the companies’ focus on strengthening the functions of the ASEAN and Oceania regions as R&D centers.

In the non-manufacturing industry, the percentage of companies replying “Expansion of product/service scope (market development)” was the highest overall. This was followed by “Expansion of product/service content (diversification)” in the ASEAN region and Southwest Asia, and “Expansion of business size through



additional investments” in the Oceania region. Furthermore, “Strengthening of planning, research, and development functions,” similarly to the case in the manufacturing industry, garnered a relatively low percentage, even though it placed fourth overall.

**Diagram 42-1: Specific policies for expansion of business (top five response rates) (manufacturing industry) (multiple answers allowed; unit: %; valid responses: 532 companies)**

	Valid responses	1		2		3		4		5	
Total	532	Expansion of business size through additional investments		Expansion (diversification) of production items		Enhancement of high added-value production items		Strengthening of design, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	66.5		51.9		37.6		16.5		10.2	
ASEAN Total	432	Expansion of business size through additional investments		Expansion (diversification) of production items		Enhancement of high added-value production items		Strengthening of design, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	67.4		53.0		38.2		16.7		10.9	
Indonesia	62	Expansion of business size through additional investments		Expansion (diversification) of production items		Enhancement of high added-value production items		Strengthening of design, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	72.6		53.2		37.1		11.3		9.7	
Malaysia	46	Expansion of business size through additional investments		Expansion (diversification) of production items		Enhancement of high added-value production items		Strengthening of design, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	58.7		52.2		50.0		15.2		6.5	
Myanmar	2	Enhancement of high added-value production items	Expansion (diversification) of production items	Expansion of business size through additional investments	Consolidation of specific product/service bases in your local company						
	100.0	100.0		50.0							
Philippines	47	Expansion of business size through additional investments		Expansion (diversification) of production items		Enhancement of high added-value production items		Strengthening of design, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	68.1		57.5		42.6		14.9		12.8	
Singapore	19	Expansion of business size through additional investments		Enhancement of high added-value production items		Strengthening of design, research, and development functions		Expansion (diversification) of production items		Consolidation of specific product/service bases in your local company	
	100.0	79.0		47.4		42.1		26.3		5.3	
Thailand	197	Expansion of business size through additional investments		Expansion (diversification) of production items		Enhancement of high added-value production items		Strengthening of design, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	66.0		51.8		34.0		17.3		12.7	
Vietnam	59	Expansion of business size through additional investments		Expansion (diversification) of production items		Enhancement of high added-value production items		Strengthening of design, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	69.5		61.0		35.6		15.3		8.5	
Southwest Asia Total	76	Expansion of business size through additional investments		Expansion (diversification) of production items		Enhancement of high added-value production items		Strengthening of design, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	67.1		50.0		36.8		13.2		5.3	
Bangladesh	11	Expansion of business size through additional investments	Expansion (diversification) of production items	Enhancement of high added-value production items		Strengthening of design, research, and development functions		Consolidation of specific product/service bases in your local company			
	100.0	54.6		45.5		18.2		9.1			
India	49	Expansion of business size through additional investments		Expansion (diversification) of production items		Enhancement of high added-value production items		Strengthening of design, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	71.4		49.0		30.6		12.2		2.0	
Pakistan	8	Enhancement of high added-value production items		Expansion of business size through additional investments	Expansion (diversification) of production items	Strengthening of design, research, and development functions	Consolidation of specific product/service bases in your local company				
	100.0	50.0		37.5		12.5					
Sri Lanka	8	Expansion of business size through additional investments		Expansion (diversification) of production items		Enhancement of high added-value production items		Strengthening of design, research, and development functions	Consolidation of specific product/service bases in your local company		
	100.0	87.5		62.5		50.0		12.5			
Oceania Total	24	Expansion of business size through additional investments		Expansion (diversification) of production items		Enhancement of high added-value production items		Strengthening of design, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	50.0		37.5		29.2		25.0		12.5	
Australia	15	Expansion of business size through additional investments		Strengthening of design, research, and development functions		Enhancement of high added-value production items	Expansion (diversification) of production items	Consolidation of specific product/service bases in your local company			
	100.0	46.7		33.3		26.7		13.3			
New Zealand	9	Expansion of business size through additional investments	Expansion (diversification) of production items	Enhancement of high added-value production items		Strengthening of design, research, and development functions	Consolidation of specific product/service bases in your local company				
	100.0	55.6		33.3		11.1					

**Diagram 42-2: Specific policies for expansion of business (top five response rates) (non-manufacturing industry) (multiple answers allowed; unit: %; valid responses: 506 companies)**

	Valid responses	1		2		3		4		5	
Total	506	Expansion of product/service scope (market development)		Expansion of product/service content (diversification)		Expansion of business size through additional investments		Strengthening of planning, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	68.0		48.0		38.7		11.1		4.4	
ASEAN Total	309	Expansion of product/service scope (market development)		Expansion of product/service content (diversification)		Expansion of business size through additional investments		Strengthening of planning, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	70.9		46.3		34.6		9.7		4.5	
Indonesia	25	Expansion of product/service scope (market development)		Expansion of product/service content (diversification)		Expansion of business size through additional investments		Strengthening of planning, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	68.0		60.0		28.0		12.0		8.0	
Malaysia	39	Expansion of product/service scope (market development)		Expansion of business size through additional investments		Expansion of product/service content (diversification)		Strengthening of planning, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	69.2		38.5		35.9		7.7		2.6	
Myanmar	5	Expansion of product/service content (diversification)		Expansion of business size through additional investments	Expansion of product/service scope (market development)						
	100.0	80.0		60.0							
Philippines	19	Expansion of product/service scope (market development)		Expansion of business size through additional investments		Expansion of product/service content (diversification)		Consolidation of specific product/service bases in your local company			
	100.0	63.2		42.1		31.6		5.3			
Singapore	72	Expansion of product/service scope (market development)		Expansion of product/service content (diversification)		Expansion of business size through additional investments		Strengthening of planning, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	72.2		37.5		26.4		5.6		4.2	
Thailand	112	Expansion of product/service scope (market development)		Expansion of product/service content (diversification)		Expansion of business size through additional investments		Strengthening of planning, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	75.9		54.5		29.5		8.9		4.5	
Vietnam	37	Expansion of product/service scope (market development)		Expansion of business size through additional investments		Expansion of product/service content (diversification)		Strengthening of planning, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	62.2		59.5		43.2		27.0		5.4	
Southwest Asia Total	86	Expansion of product/service scope (market development)		Expansion of product/service content (diversification)		Expansion of business size through additional investments		Strengthening of planning, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	67.4		51.2		37.2		17.4		7.0	
Bangladesh	15	Expansion of product/service scope (market development)		Expansion of product/service content (diversification)		Strengthening of planning, research, and development functions		Consolidation of specific product/service bases in your local company		Expansion of business size through additional investments	
	100.0	80.0		46.7		40.0		20.0		13.3	
India	60	Expansion of product/service scope (market development)		Expansion of product/service content (diversification)		Expansion of business size through additional investments		Strengthening of planning, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	68.3		55.0		41.7		13.3		1.7	
Pakistan	6	Expansion of product/service scope (market development)		Expansion of business size through additional investments		Expansion of product/service content (diversification)	Strengthening of planning, research, and development functions				
	100.0	66.7		33.3		16.7					
Sri Lanka	5	Expansion of business size through additional investments	Expansion of product/service content (diversification)	Consolidation of specific product/service bases in your local company		Expansion of product/service scope (market development)					
	100.0	60.0		40.0		20.0					
Oceania Total	111	Expansion of product/service scope (market development)		Expansion of business size through additional investments		Expansion of product/service content (diversification)		Strengthening of planning, research, and development functions		Consolidation of specific product/service bases in your local company	
	100.0	60.4		51.4		50.5		9.9		1.8	
Australia	90	Expansion of product/service scope (market development)		Expansion of business size through additional investments		Expansion of product/service content (diversification)		Strengthening of planning, research, and development functions			
	100.0	57.8		55.6		45.6		7.8			
New Zealand	21	Expansion of product/service content (diversification)	Expansion of product/service scope (market development)	Expansion of business size through additional investments		Strengthening of planning, research, and development functions		Consolidation of specific product/service bases in your local company			
	100.0	71.4		33.3		19.1		9.5			

### (3) Manufacturing industry most likely to relocate to Vietnam or China

In terms of the specific plans that companies that replied “Downsizing” or “Move to a third country (region) or withdraw” and to which third country (region) they intended to relocate to (valid responses: 24 from the manufacturing industry, 24 from the non-manufacturing industry, multiple answers allowed), in the manufacturing industry, responses were received from companies in five ASEAN countries (Diagram 43-1). Among those, 75% replied that they would move production lines/bases to other countries, including “Transfer some products/services to an affiliate in a third country (region)” (41.7%) and “Move the current based to a third country (region)” (33.3%).

As for the destination for relocating their production lines/bases to over the next one to two years, “Vietnam” was cited the most (six companies), followed by “China” (five companies) and “Thailand” and “Japan” (four companies each). Vietnam was selected by a wide spectrum of companies in the plastic products, the fabricated metal products (including plated products), the electric machinery and electronic equipment, and the electric and electronic parts and components industries, etc.

In terms of the reasons for selecting their particular destinations, the most cited replies were “Growth prospects and potential of the market” and “Level of wages” (44.4% each), “Administrative and operation costs” (33.3%) and “Quality of human resources” (22.2%).

#### Diagram 43-1: Reasons for selecting “Downsizing” or “Move to a third country (region) or withdraw” for future business development and destination for relocation (manufacturing industry)

(Upper: number of respondent companies, lower: composition ratio (%), multiple answers allowed, Valid responses: 24companies)

	Reason				Relocation destination	
	Valid responses	Integrate the bases within the local country (region)	Move the production base to a third country (region)	Transfer the production of certain items to an affiliate in a third country (region)	Valid responses	Relocation destination
Total	24	6 25.0	8 33.3	10 41.7		
ASEAN Total	24	6 25.0	8 33.3	10 41.7		
Indonesia	2	- -	- -	2 100.0	2	Vietnam (1), China (1)
Malaysia	7	4 57.1	1 14.3	2 28.6	3	Vietnam (2), Japan (2), China (1)
Philippines	5	- -	2 40.0	3 60.0	5	Indonesia (1), Thailand (2), Vietnam (1), India (2), China (1)
Singapore	6	1 16.7	4 66.7	1 16.7	5	Malaysia (1), Thailand (2), Vietnam (2), Japan (1), China (1)
Thailand	4	1 25.0	1 25.0	2 50.0	3	Other ASEAN country (1), Japan (1), China (1)

(Note) There were no companies replying “Downsizing” or “Relocate/withdraw” in the other countries

In the non-manufacturing industry, “Integrate the bases within the local country (region)” accounted for 50.0% of the replies. Australia, in particular, had a high percentage of companies that replied, “Integrate the bases within the local country (region).”

Companies selecting relocation consisted of sales companies and construction/plants companies (three

companies each) and transport/warehousing companies (two companies). Concerning the reasons for selecting their particular destinations, the most cited replies were: “Administrative and operation costs” (60%), “Growth prospects and potential of the market” (40%), “Competitive strengths of their company in the market” (40%) and “Completeness of logistical infrastructure” (30%), etc.

**Diagram 43-2: Reasons for selecting “Downsizing” or “Move to a third country (region) or withdraw” for future business development and destination for relocation (non-manufacturing industry)**

(Upper: number of respondent companies, bottom: composition ratio (%), multiple answers allowed, Valid responses: 24companies)

	Reason				Relocation destination	
	Valid responses	Integrate the bases within the local country (region)	Move the production base to a third country (region)	Transfer the production of certain items to an affiliate in a third country (region)	Valid responses	Relocation destination
Total	24	12 50.0	4 16.7	8 33.3		
ASEAN Total	13	5 38.5	3 23.1	5 38.5		
Malaysia	1	-	1 100.0	-	1	Singapore (1)
Philippines	4	2 50.0	1 25.0	1 25.0	2	Thailand (1), Vietnam (2), Other (1)
Singapore	8	3 37.5	1 12.5	4 50.0	5	Malaysia (1), Philippines (1), Thailand (1), India (1), Other Southwest Asia (1), Hong Kong (1), Other (2)
Southwest Asia Total	1	1 100.0	-	-		
Pakistan	1	1 100.0	-	-	-	
Oceania Total	10	6 60.0	1 10.0	3 30.0		
Australia	6	5 83.3	1 16.7	-	1	Singapore (1)
New Zealand	4	1 25.0	-	3 75.0	2	Australia (1), Japan (1)

(Note) There were no companies replying “Downsizing” or “Relocate/withdraw” in the other countries

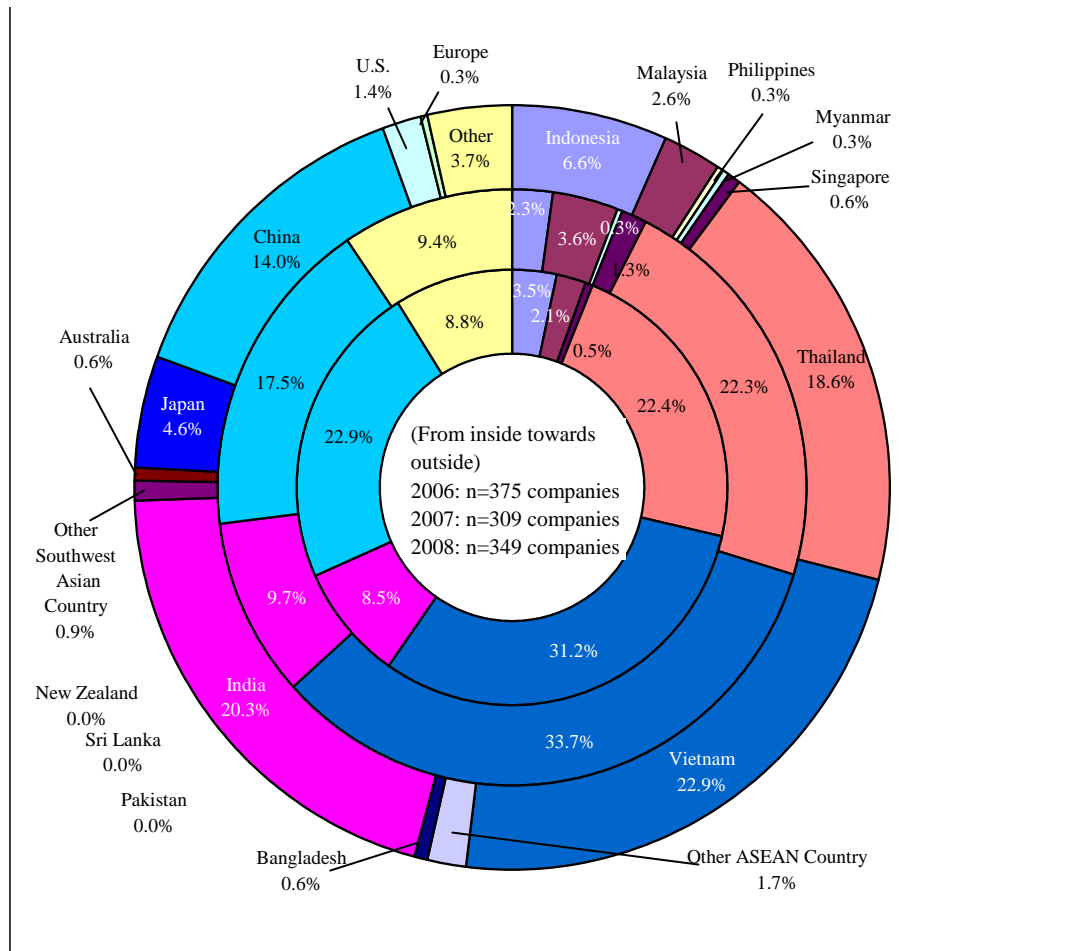
**(4) Vietnam and India thought to be optimum third countries for production bases in the medium to long term (manufacturing industry)**

Concerning which country (region) would be the optimum location for operations/production bases in the medium to long term (five to 10 years) (valid responses: 856 from the manufacturing industry, only one answer allowed) (Diagram 44), the countries that were thought to be promising were: (1) Thailand (31.1%, 266 companies), (2) Vietnam (15.2%, 130 companies) and (3) India (12%, 102 companies).

When replies that chose the countries in which they were currently operating were omitted from consideration as optimum locations for production bases, the top countries (third countries/regions) chosen

(valid responses: 349 companies) as medium- to long-term production bases were: (1) Vietnam (22.9%, 80 companies), (2) India (20.3%, 71 companies) and (3) Thailand (18.6%, 65 companies). Despite the decrease by 10.8 points from the previous survey, Vietnam still managed to maintain the number one spot. India, on the other hand, increased by 10.6 points from the previous survey and overtook Thailand, which had previously come in second place. The evaluation of China also fell from the 17.5% in the previous survey to 14.0%. This is thought to reflect the rapid changes taking place in China's investment/business environments.

**Diagram 44: Optimum locations for production bases in the medium to long term (five to 10 years) (excluding evaluation of the country of current operation, net)**



**(5) Degree of satisfaction with optimum production bases in medium to long term: Replies were split within ASEAN region (manufacturing industry)**

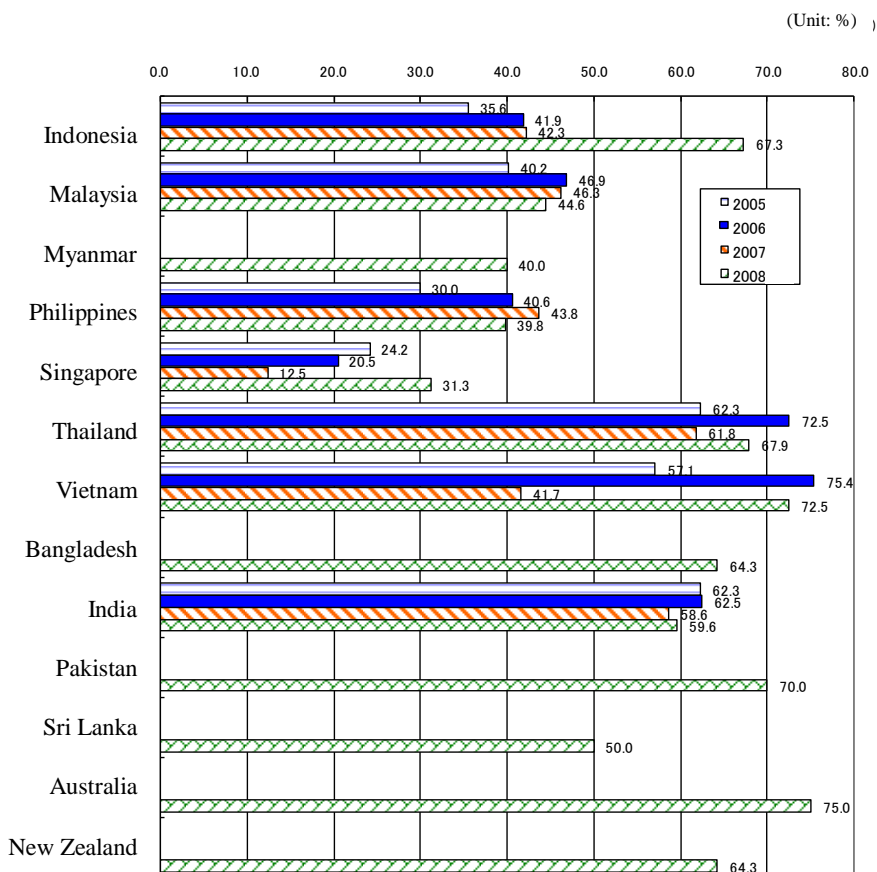
The percentage of replies stating that the countries of current operations were the optimum locations for the companies' operations/production bases in the medium to long term (five to 10 years) (Diagram 45) represented the "degree of satisfaction" companies have with the country of current operations as a production base, from the standpoint of the investment/business environment and the market (growth potential).

In the ASEAN region, the opinions were split on how the companies evaluated the countries in which they were currently operating. On the one hand were the three countries of Vietnam, Thailand and Indonesia, which registered a degree of satisfaction on the 60% to 70% level, while the countries of Malaysia, Myanmar,

the Philippines and Singapore, on the other hand, registered levels of 30% to 40%. Thailand and Vietnam were also evaluated as being promising destinations by Japanese-affiliated companies that are not currently operating in these two countries. Thus, Vietnam and Thailand were regarded to be promising as optimum production bases, as well as countries providing high degrees of satisfaction.

In Southwest Asia, half of the companies operating in Sri Lanka replied that the country in which they were currently operating was the optimum production base. A high degree of satisfaction was indicated by 60% of the companies operating in India and 60% to 70% of those in Pakistan and Bangladesh.

**Diagram 45: Potential of current country of operations as production base in the medium to long term**



(Note) Myanmar, Bangladesh, Pakistan, Sri Lanka, Australia and New Zealand have been included in the survey from 2008.

**(6) Thailand is the optimum location for production bases in the medium to long term, by industry (manufacturing)**

Concerning the optimum locations for companies' operations/production bases in the medium to long term (five to 10 years), by industry (Diagram 46), in the top 12 industries from which valid responses were received, Thailand was named number one.

The optimum locations for production bases for the motor vehicle and motorcycle parts and accessories industry was (1) Thailand (37.8%), (2) Indonesia (17.1%) and (3) India (14.4%). Additionally, in the motor vehicle and motorcycle industry, Thailand led the field as the optimum location for production bases, as indicated in the ranking of (1) Thailand (39.3%), (2) India (17.9%) and (3) Indonesia (14.3%). In the future,

the reorganization and consolidation of the motor vehicle and motorcycle industry is expected to center on Thailand and India. Additionally, in the chemicals and the iron and steel industries, Thailand, India and Indonesia took the top three spots.

In contrast, the electric machinery and electronic equipment industry named (1) Thailand, (2) Malaysia and (3) Vietnam, while the electric and electronic parts and components industry named (1) Thailand, (2) Vietnam and (3) China as the optimum locations for production bases. Industries that named Vietnam as the optimum location following Thailand included the fabricated metal products (the same percentage as Thailand), the plastics products and the general machinery industries, attesting to Vietnam's position as a base for the processing and assembly of parts.



**Diagram 46: Optimum locations for production in the medium to long term by major industries (Unit: companies; composition ratio: %; number of valid respondent companies: 856)**

Total (856 companies)			Motor vehicle and motorcycle parts and accessories (111 companies)			Electric and electronic parts and components (91 companies)			Fabricated metal products (68 companies)			Chemicals (64 companies)			Foods, processed agricultural or marine products (60 companies)		
Thailand	266	31.1	Thailand	42	37.8	Thailand	31	34.1	Thailand	19	27.9	Thailand	14	21.9	Thailand	20	33.3
Vietnam	130	15.2	Indonesia	19	17.1	Vietnam	22	24.2	Vietnam	14	20.6	India	14	21.9	Australia	9	15.0
India	102	11.9	India	16	14.4	China	12	13.2	Indonesia	9	13.2	Indonesia	7	10.9	Malaysia	6	10.0
Indonesia	93	10.9	Vietnam	15	13.5	Malaysia	6	6.6	India	8	11.8	Vietnam	7	10.9	India	6	10.0
Malaysia	54	6.3	Philippines	7	6.3	Indonesia	5	5.5	Malaysia	5	7.4	China	6	9.4	Vietnam	5	8.3
China	49	5.7	Other	3	2.7	Philippines	4	4.4	Philippines	4	5.9	Singapore	4	6.3	Indonesia	4	6.7
Philippines	42	4.9	Malaysia	2	1.8	Singapore	4	4.4	Japan	3	4.4	Malaysia	2	3.1	New Zealand	3	5.0
Australia	23	2.7	Australia	2	1.8	India	4	4.4	Myanmar	1	1.5	Other Southwest Asian country	2	3.1	China	2	3.3
Singapore	17	2.0	China	2	1.8	Other ASEAN country	1	1.1	Other ASEAN country	1	1.5	Australia	2	3.1	Myanmar	1	1.7
Japan	16	1.9	Pakistan	1	0.9	Bangladesh	1	1.1	New Zealand	1	1.5	Japan	2	3.1	Philippines	1	1.7
Other	13	1.5	Japan	1	0.9	Sri Lanka	1	1.1	China	1	1.5	Philippines	1	1.6	Singapore	1	1.7
Bangladesh	11	1.3	U.S.	1	0.9				U.S.	1	1.5	Other ASEAN	1	1.6	Sri Lanka	1	1.7
New Zealand	9	1.1							Other	1	1.5	Bangladesh	1	1.6	Other	1	1.7
Pakistan	7	0.8										Europe	1	1.6			
Other ASEAN country	6	0.7															
Sri Lanka	6	0.7															
U.S.	5	0.6															
Myanmar	3	0.4															
Other Southwest Asian country	3	0.4															
Europe	1	0.1															
Electric machinery and electronic equipment (58 companies)			Plastic products (57 companies)			General machinery (39 companies)			Iron and steel (38 companies)			Nonferrous metals and products (28 companies)			Motor vehicles and motorcycles (28 companies)		
Thailand	23	39.7	Thailand	20	35.1	Thailand	16	41.0	Thailand	16	42.1	Thailand	7	25.0	Thailand	11	39.3
Malaysia	8	13.8	Vietnam	13	22.8	Vietnam	8	20.5	Indonesia	5	13.2	India	5	17.9	India	5	17.9
Vietnam	6	10.3	Indonesia	4	7.0	India	8	20.5	India	5	13.2	Malaysia	3	10.7	Indonesia	4	14.3
China	5	8.6	Philippines	4	7.0	China	3	7.7	Vietnam	3	7.9	Philippines	3	10.7	Australia	3	10.7
Indonesia	4	6.9	India	4	7.0	Indonesia	2	5.1	Philippines	2	5.3	Indonesia	2	7.1	Philippines	2	7.1
India	4	6.9	China	4	7.0	Philippines	1	2.6	China	2	5.3	Vietnam	2	7.1	Pakistan	2	7.1
Philippines	3	5.2	Japan	2	3.5	Sri Lanka	1	2.6	Other	2	5.3	Other ASEAN country	1	3.6	Japan	1	3.6
Singapore	1	1.7	Other	2	3.5				Singapore	1	2.6	Pakistan	1	3.6			
Australia	1	1.7	Malaysia	1	1.8				Pakistan	1	2.6	Other Southwest Asian country	1	3.6			
Japan	1	1.7	Singapore	1	1.8				Japan	1	2.6	Australia	1	3.6			
U.S.	1	1.7	Bangladesh	1	1.8							U.S.	1	3.6			
Other	1	1.7	U.S.	1	1.8							Other	1	3.6			
Rubber products (26 companies)																	
Thailand	8	30.8															
Indonesia	4	15.4															
Malaysia	3	11.5															
Vietnam	3	11.5															
India	3	11.5															
Philippines	2	7.7															
Japan	2	7.7															
Bangladesh	1	3.8															

## (7) India named promising market in the medium to long term (manufacturing industry)

In terms of which country showed potential as a market for the companies' operations/products in the medium to long term (five to 10 years) (valid responses: 884 from the manufacturing industry, multiple answers allowed) (Diagram 47), countries cited as promising markets were (1) India, (2) China and (3) Thailand. Among the top 12 industries from which valid responses were received, India placed at the top in nine of the industries—almost all of the industries evaluated India as having potential for further market development. The other three industries named Thailand (foods, processed agricultural or marine products industry and plastic products industry) and China (electric and electronic parts and components industry). In the ASEAN region—in addition to Thailand—Indonesia, which has a tremendously large market, and Vietnam, which has potential as an emerging market, were thought to be promising.

**Diagram 47: Countries, regions regarded as promising markets in the medium to long term (five to 10 years)**

	Total (884 companies)			Motor vehicle and motorcycle parts and accessories (110 companies)			Electric and electronic parts and components (95 companies)			Fabricated metal products (71 companies)		
		No. of companies	Ratio		No. of companies	Ratio		No. of companies	Ratio		No. of companies	Ratio
1	India	337	38.1	India	54	49.1	China	42	44.2	India	23	32.4
2	China	242	27.4	Thailand	37	33.6	India	31	32.6	Thailand	21	29.6
3	Thailand	239	27.0	Indonesia	31	28.2	Vietnam	30	31.6	China	20	28.2
4	Vietnam	222	25.1	Vietnam	28	25.5	Thailand	29	30.5	Vietnam	19	26.8
5	Japan	163	18.4	China	25	22.7	Europe	27	28.4	Japan	19	26.8
	Foods, processed agricultural or marine products (64 companies)			Chemicals (64 companies)			Electric machinery and electronic equipment (60 companies)			Plastic products (56 companies)		
		No. of companies	Ratio		No. of companies	Ratio		No. of companies	Ratio		No. of companies	Ratio
1	Thailand	21	32.8	India	34	53.1	India	26	43.3	Thailand	24	42.9
2	China	18	28.1	China	22	34.4	Europe	18	30.0	China	21	37.5
3	Japan	15	23.4	Vietnam	14	21.9	Vietnam	14	23.3	Vietnam	16	28.6
4	Middle East	12	18.8	Indonesia	13	20.3	U.S.	13	21.7	India	16	28.6
5	India	11	17.2	Thailand	12	18.8	China	10	16.7	Japan	14	25.0
							Middle East	10	16.7			
	Iron and steel (40 companies)			General machinery (40 companies)			Motor vehicles and motorcycles (31 companies)			Nonferrous metals and products (27 companies)		
		No. of companies	Ratio		No. of companies	Ratio		No. of companies	Ratio		No. of companies	Ratio
1	India	19	47.5	India	29	72.5	India	12	38.7	India	12	44.4
2	Thailand	14	35.0	Vietnam	17	42.5	Indonesia	6	19.4	Thailand	9	33.3
3	Vietnam	11	27.5	Indonesia	10	25.0	Vietnam	6	19.4	Vietnam	7	25.9
4	Indonesia	10	25.0	Thailand	10	25.0	Thailand	5	16.1	China	7	25.9
5	China	6	15.0	Middle East	10	25.0	Middle East	5	16.1	Japan	6	22.2
	Rubber products (26 companies)											
		No. of companies	Ratio									
1	India	11	42.3									
2	Thailand	7	26.9									
3	Vietnam	6	23.1									
4	Japan	6	23.1									
5	China	5	19.2									
	U.S.	5	19.2									

**(8) Thailand regarded as promising sales base in the medium to long term; Vietnam regarded highly as third-country destination (non-manufacturing industry)**

In regards to what companies thought was the optimum location for sales bases of operations/ products and services in the medium to long term (five to 10 years), in the non-manufacturing industry (valid responses: 805 from the non-manufacturing industry, only one answer allowed) (Diagram 48), the most cited countries were (1) Thailand (18%, 145 companies), (2) Singapore (15.7%, 126 companies) and (3) Australia (11.7%, 94 companies).

Among the top 12 industries from which valid responses were received, Thailand placed at the top in trading companies and the transport/warehousing, construction/plants and distribution industries, while Singapore placed at the top among sales companies and the banking and insurance industries, which is indicative of the potential held for sales companies and the financial services industry in this country. Moreover, Australia placed at the top among the hotel/travel/restaurant, mining, real estate, and agricultural and forestry products industries, indicating the high regard held for services utilizing Australia's abundant resources that are high in growth potential as optimum locations.

On other hand, when replies that chose the countries in which they were currently operating were omitted from consideration as optimum locations for production bases, the top countries (third countries/regions) chosen (valid responses: 290 companies) as optimum locations for sales bases in the medium to long term were (1) Vietnam (15.2%, 44 companies), (2) Thailand (14.1%, 41 companies) and (3) India (13.4%, 39 companies) (Diagram 49). The evaluation of Vietnam reflects its potential as a sales market and the gradual deregulation taking place there in the logistics field.

**Diagram 48: Sales bases of companies' operations/products and services for the medium to long term (five to 10 years)**

(multiple answers allowed; unit: %; valid responses: 805 companies)

	Total (856 companies)			Trading company (164 companies)			Sales company (157 companies)			Transport/warehousing (86 companies)			Construction/plants (83 companies)			Communications/software (39 companies)		
1	Thailand	145	18.0	Thailand	30	18.3	Singapore	42	26.8	Thailand	20	23.3	Thailand	17	20.5	Vietnam	9	23.1
2	Singapore	126	15.7	Singapore	29	17.7	Australia	31	19.8	India	13	15.1	Malaysia	12	14.5	Thailand	6	15.4
3	Australia	94	11.7	India	29	17.7	Thailand	27	17.2	Singapore	8	9.3	Indonesia	10	12.1	India	5	12.8
4	India	88	10.9	Vietnam	15	9.2	India	16	10.2	Vietnam	7	8.1	Vietnam	10	12.1	Japan	5	12.8
5	Vietnam	68	8.5	Australia	10	6.1	New Zealand	8	5.1	Australia	7	8.1	Singapore	8	9.6	Singapore	3	7.7
6	Indonesia	43	5.3	Indonesia	9	5.5	Malaysia	7	4.5	Philippines	6	7.0	Other	7	8.4	Indonesia	2	5.1
7	Malaysia	43	5.3	New Zealand	7	4.3	Vietnam	7	4.5	China	6	7.0	India	5	6.0	New Zealand	2	5.1
8	New Zealand	37	4.6	Japan	6	3.7	Other	5	3.2	Indonesia	3	3.5	Philippines	4	4.8	China	2	5.1
9	Other	33	4.1	China	6	3.7	Japan	4	2.6	Malaysia	3	3.5	Sri Lanka	2	2.4	Other	2	5.1
10	Japan	31	3.9	Bangladesh	5	3.1	Indonesia	3	1.9	New Zealand	3	3.5	Australia	2	2.4	Malaysia	1	2.6
11	Philippines	24	3.0	Malaysia	3	1.8	China	2	1.3	Other	3	3.5	Myanmar	1	1.2	Philippines	1	2.6
12	China	19	2.4	Philippines	3	1.8	Middle East	2	1.3	Myanmar	2	2.3	Other ASEAN Country	1	1.2	Middle East	1	2.6
13	Bangladesh	11	1.4	Middle East	3	1.8	Philippines	1	0.6	Japan	2	2.3	Pakistan	1	1.2			
14	Middle East	11	1.4	Other	3	1.8	Pakistan	1	0.6	Other ASEAN Country	1	1.2	Japan	1	1.2			
15	Myanmar	7	0.9	Myanmar	2	1.2	Europe	1	0.6	Europe	1	1.2	Hong Kong	1	1.2			
16	Europe	7	0.9	Pakistan	2	1.2				Middle East	1	1.2	U.S.	1	1.2			
17	Pakistan	5	0.6	Hong Kong	1	0.6												
18	Sri Lanka	5	0.6	Taiwan	1	0.6												
19	U.S.	3	0.4															
20	Other ASEAN Country	2	0.3															
21	Hong Kong	2	0.3															
22	Taiwan	1	0.1															

	Hotel/travel/restaurant (35 companies)			Banking (21 companies)			Insurance (20 companies)			Distribution (16 companies)			Mining (12 companies)			Real estate (7 companies)		
1	Australia	9	25.7	Singapore	4	19.1	Singapore	4	20.0	Thailand	6	37.5	Australia	7	58.3	Australia	2	28.6
2	Thailand	4	11.4	Thailand	4	19.1	India	4	20.0	New Zealand	5	31.3	Japan	2	16.7	Indonesia	1	14.3
3	New Zealand	4	11.4	Malaysia	3	14.3	Thailand	3	15.0	Malaysia	2	12.5	Indonesia	1	8.3	Philippines	1	14.3
4	India	3	8.6	Vietnam	3	14.3	Indonesia	2	10.0	Myanmar	1	6.3	Vietnam	1	8.3	Sri Lanka	1	14.3
5	Philippines	2	5.7	Other	3	14.3	Australia	2	10.0	Vietnam	1	6.3	Other	1	8.3	China	1	14.3
6	Singapore	2	5.7	Australia	2	9.5	New Zealand	2	10.0	Australia	1	6.3				Other	1	14.3
7	Vietnam	2	5.7	Indonesia	1	4.8	Philippines	1	5.0									
8	Bangladesh	2	5.7	Japan	1	4.8	Vietnam	1	5.0									
9	Japan	2	5.7				U.S.	1	5.0									
10	Indonesia	1	2.9															
11	Malaysia	1	2.9															
12	Pakistan	1	2.9															
13	China	1	2.9															
14	Europe	1	2.9															

**Diagram 49: Sales bases of companies' operations/products and services in the medium to long term (evaluation as third-country destinations)**

(Multiple answers allowed, Unit: %, Valid responses 805 companies)

Selected Country	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	Banglades	India	Pakistan	Sri Lanka	Australia	New Zealand	Total	Net Total	
Valid responses	49	64	12	49	139	159	35	14	72	12	12	146	42	805		
Country/ region selected as optimum for sales bases of operations/ products and services in the medium to long term	Indonesia	37	-	-	2	1	1	-	-	-	-	2	-	43	6	
	Malaysia	-	35	1	-	4	1	-	-	-	2	-	-	43	8	
	Myanmar	-	-	5	-	-	2	-	-	-	-	-	-	7	2	
	Philippines	-	-	-	24	-	-	-	-	-	-	-	-	24	0	
	Singapore	2	5	-	6	95	3	2	1	3	-	-	9	126	31	
	Thailand	3	8	2	6	13	104	2	-	4	1	-	2	145	41	
	Vietnam	2	7	2	6	3	21	24	-	1	-	1	1	68	44	
	Other ASEAN Country	-	1	-	-	-	1	-	-	-	-	-	-	2	2	
	Bangladesh	-	-	-	-	-	-	1	10	-	-	-	-	11	1	
	India	2	2	-	-	8	13	1	1	49	1	1	9	88	39	
	Pakistan	-	-	-	-	-	-	-	-	1	4	-	-	5	1	
	Sri Lanka	-	-	-	-	-	-	-	-	1	-	4	-	5	1	
	Australia	-	-	-	-	-	-	1	-	-	-	-	91	2	94	3
	New Zealand	-	-	-	-	-	-	-	-	-	-	-	4	33	37	4
	Japan	1	1	-	4	1	3	1	1	3	1	2	8	5	31	31
	China	-	2	-	-	3	6	1	-	1	-	-	6	-	19	19
	Hong Kong	-	-	-	-	-	-	-	-	1	-	1	-	-	2	2
	Taiwan	-	-	-	-	1	-	-	-	-	-	-	-	-	1	1
	U.S.	-	1	-	-	-	-	1	-	-	-	-	1	-	3	3
	Europe	1	-	-	-	-	-	-	-	1	-	-	5	-	7	7
Middle and Near East	-	2	-	-	3	1	-	-	4	1	-	-	-	11	11	
Other	1	-	2	1	7	3	1	1	3	4	1	8	1	33	33	

**(9) Role as “Sales base for the domestic market” primarily sought for sales bases (non-manufacturing industry)**

In regards to the core roles or functions companies sought in ideal sales bases of products and services (valid responses: 758 from the non-manufacturing industry, multiple answers allowed) (Diagram 50), overall, a “Sales base for the domestic market” accounted for 58.7% of the replies, which was followed by a “Sales base for a third country/region” (26.1%), and “Regional Headquarters” (23.1%). Although the roles and functions sought by the majority of the countries was a “Sales base for domestic market,” in Singapore, the “Regional Headquarters” function accounted for nearly 50% of the replies.

**Diagram 50: Core roles and functions sought in ideal sales bases of products and services (multiple answers allowed)**

(Unit: number of companies; composition ratio: %; number of valid respondent companies: 758 companies)

Total (908)	Sales base for the domestic market 58.7%	Sales base for a third country/region 26.1%	Regional headquarters 23.1%
Indonesia (45)	Sales base for the domestic market 77.8%		
Malaysia (59)	Sales base for the domestic market 61.0%	Sales base for a third country/region 23.7%	
Myanmar (10)	Sales base for the domestic market 50.0%	Sales base for a third country/region 50.0%	
Philippines (48)	Sales base for the domestic market 52.1%		
Singapore (132)	Sales base for a third country/region 50.0%	Regional headquarters 46.2%	Sales base for the domestic market 36.6%
Thailand (153)	Sales base for the domestic market 67.3%	Sales base for a third country/region 32.0%	Regional headquarters 20.3%
Vietnam (32)	Sales base for the domestic market 59.4%	Sales base for a third country/region 18.8%	
Bangladesh (14)	Sales base for the domestic market 64.3%	Sales base for a third country/region 28.6%	Headquarters of the supply chains in the region 28.6%
India (69)	Sales base for the domestic market 75.6%		
Pakistan (10)	Sales base for the domestic market 30.0%	Sales base for a third country/region 30.0%	
Sri Lanka (10)	Sales base for the domestic market 60.0%	Regional headquarters 20.0%	Sales base for a third country/region 20.0%
Australia (135)	Sales base for the domestic market 60.0%	Regional headquarters 17.0%	
New Zealand (41)	Sales base for the domestic market 75.6%		