

Southwest Asia (Bangladesh, India, Pakistan and Sri Lanka)

◆ Survey conducted for the first time in Bangladesh, Pakistan and Sri Lanka

From FY2008, the scope of this survey was expanded to include Southwest Asia and the Oceania region (the survey until 2007 included only the ASEAN region and India). Consequently, the survey was conducted for the first time in Bangladesh, Pakistan and Sri Lanka. Valid responses were received from a total of 235 respondents in the four Southwest Asian countries, of which 139, or nearly 60%, were from India. The response rate for the entire area was 51.9% (number of valid responses/number of questionnaires sent), which was considerably higher than the response rates in other areas (ASEAN, Oceania).

◆ In the manufacturing industry, the number of companies expecting operating profit to “Worsen” exceeded the number of those expecting operating profit to “Improve”

In terms of estimated operating profit for 2008, 53.3% of the Japanese-affiliated companies in the manufacturing industry and 45.4% of those in the non-manufacturing industry replied that they expected to post a profit. Compared to the ASEAN and Oceania regions, the percentages of companies in both the manufacturing and non-manufacturing industries expecting to post a profit were low. Moreover, in the manufacturing industry, the percentage of companies replying that their operating profit would “Worsen” compared to the previous year exceeded the percentage that expected their operating profit to “Improve.” In India, for the first time since 1997 when the survey began, the DI value in the manufacturing industry, which was derived by subtracting the percentage of companies predicting profit would “Worsen” from the percentage predicting it would “Improve,” fell below zero.

◆ Trends for business expansion prevalent among the majority of Japanese-affiliated companies operating in Bangladesh and India

In terms of the direction of their business development in the next one to two years, 84.8% of the companies in the manufacturing industry and 79.0% of those in the non-manufacturing industry operating in India replied “Expansion.” In the manufacturing industry, the percentage of companies replying “Expansion” was the highest among the 13 nations surveyed. In Bangladesh, 64.7% of the companies in the manufacturing industry and 93.8% of those in the non-manufacturing industry replied “Expansion.” Additionally, in the non-manufacturing industry, the percentage of companies replying “Expansion” was the highest among the 13 countries surveyed. The expansion trend seen in India and Bangladesh stood out compared to the other countries and regions in the survey and called attention to the high potential of the local markets in these two countries.

Bangladesh

Targets of the survey and breakdown of respondents

Number of companies contacted: 70 Japanese-affiliated companies operating in Bangladesh
 Number of respondents: 35 companies (manufacturing industry: 18; non-manufacturing industry: 17)

Breakdown of respondents by industry: As shown below

(Unit: Companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	2	11.1
Apparel and textile products	1	5.6
Plastic products	1	5.6
Rubber products	1	5.6
Fabricated metal products (including plated products)	1	5.6
Electric and electronic parts and components	2	11.1
Motor vehicle and motorcycle parts and accessories	2	11.1
Precision instruments	1	5.6
Other	7	38.9
Total	18	100.0

Non-manufacturing industry		
Industry	No. of companies	Composition ratio
Trading company	8	47.1
Transport/warehousing	1	5.9
Hotel/travel/restaurant	2	11.8
Communications/software	1	5.9
Other	5	29.4
Total	17	100.0

1. Business outlook

(1) Standout performance by the non-manufacturing industry: 80% of the companies are expecting improvement in 2009

Among the Japanese-affiliated companies operating in Bangladesh, the percentage of those expecting to post a profit exceeded the percentage expecting to post a loss, in terms of the estimated operating profit for 2008 in both the manufacturing and non-manufacturing industries. In the manufacturing industry, 38.9% of the companies replied that they expected to post an operating profit for 2008 and 38.9% replied that they would break even, while 22.2% replied that they expected to post a loss (valid responses: 18 companies). In the non-manufacturing industry, 66.7% replied that they expected to post a profit, 26.7% replied that they expected to break even, while 6.7% replied that they expected to post a loss (valid responses: 15 companies).

Moreover, concerning the estimated operating profit for 2008 compared to 2007, 47.1% of the companies in the manufacturing industry (valid responses: 17 companies) replied that they expected it to “Improve,” while in the non-manufacturing industry (valid responses: 15 companies) those replying “Improve” accounted for 73.3% of the companies, indicating that the non-manufacturing industry overwhelmingly exceeded the manufacturing industry in terms of performance and business outlook (Diagram 40).

There was also a huge gap between the manufacturing and non-manufacturing industries in terms of the operating profit forecast for 2009. In the manufacturing industry, the percentage of companies replying that profit would “Improve” was the same percentage as those saying that it would “Worsen,” at 35.3%, while 29.4% of the companies said that profit would “Show no change” (valid responses: 17). By contrast, in the non-manufacturing industry, 80.0% of the companies replied that profit would “Improve,” while 0% said that it would “Worsen,” which only highlighted the exceptionally rosy outlook prevailing in the non-manufacturing

industry.

Diagram 40: Estimated operating profit (over the previous year) for 2008 and 2009

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

	Manufacturing				Non-manufacturing			
	Valid responses	Improve	Show no change	Worsen	Valid responses	Improve	Show no change	Worsen
2008	17 100.0	8 47.1	3 17.7	6 35.3	15 100.0	11 73.3	2 13.3	2 13.3
2009	17 100.0	6 35.3	5 29.4	6 35.3	15 100.0	12 80.0	3 20.0	0 0

(2) An “Increase in local market sales” contributed to profits

In the manufacturing industry, the operating profit in terms of the DI, which was derived by subtracting the percentage of companies that replied that operating profit would “Worsen” from the percentage that replied it would “Improve,” was expected to drop to 0 points in 2009 (“Improve”: 35.3%; “Worsen”: 35.3%) from the 11.8 points in 2008 (“Improve”: 47.1%; “Worsen”: 35.3%). By contrast, in the non-manufacturing industry, the DI is expected to further improve from the 60.0 points in 2008 (“Improve”: 73.3%; “Worsen”: 13.3%) to 80.0 points in 2009 (“Improve”: 80.0%; “Worsen”: 0%). The 2009 DI value for Bangladesh’s non-manufacturing industry was the highest of the 13 countries surveyed and was exceptionally high when compared to the 13-country average (13.8 points).

As reasons for the improvement in operating profit in the non-manufacturing industry (multiple answers allowed), an “Increase in local market sales” was the most cited reply both in terms of the estimated operating profit for 2008 (90.9%, valid responses: 11 companies) and the operating profit forecast for 2009 (75%, valid responses: 12 companies), pointing to the robust growth of the domestic market in Bangladesh.

Moreover, in the manufacturing industry, a “Decrease in sales due to sluggish exports” was the most cited reply as the reason why operating profit in 2009 would deteriorate (66.7%, valid responses: six companies). This reply seemed to reflect the increasing pressure to lower prices and the need for production adjustment, as a consequence of the decline in demand from the major export markets of Japan and the U.S. stemming from the financial crisis.

2. Status of exports/imports

(1) 100% of exported-oriented companies account for nearly 50% of the companies (manufacturing industry)

Concerning exports, 47.1% of the companies replied that exports accounted for 100% of total sales, meaning all of their products were being exported (valid responses: 17 companies). Establishing export-oriented production bases for the purpose of reducing costs, as illustrated in the “China plus one” strategy, has become the predominant force behind current Japanese investments in Bangladesh. By industry, movements to position Bangladesh as an export base could be seen in the electric and electronic parts and components industry and the motor vehicle and motorcycle parts and accessories industry. On the other hand, 23.5% of the companies replied that export sales accounted for “0%” of total sales, meaning these companies were manufacturing exclusively for the domestic market.

Among the 13 companies that replied that they had export experience, 11 of them cited “Japan” as an export destination. Other export destinations included: “China” and “Other Asian Countries,” which were cited by four companies each; “the U.S.,” which was cited by three companies; and “Europe” and “ASEAN,” which were cited by two companies each.

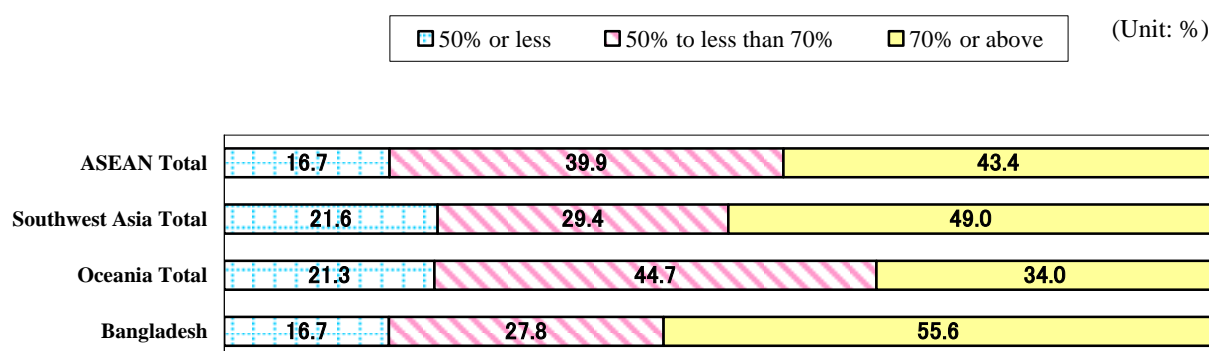
(2) FTA usage was limited—utilized by only one company each in exports and imports

Regarding the usage of existing FTAs/EPAs, only one company (valid responses: 10 companies) replied that a FTA/EPA was “Currently in use” in export activities, and only one company (valid responses: 11 companies) replied that a FTA/EPA was “Currently in use” in import activities. In both cases, the FTA being used was the South Asia Free Trade Area (SAFTA). The number of companies “Considering using” FTAs/EPAs was limited to two in terms of export activities and one in imports, suggesting that there was little interest in utilizing FTAs/EPAs in Bangladesh. Although Bangladesh, at the time of the survey, had not concluded any bilateral FTAs/EPAs, it was considering the possibility of concluding agreements with neighboring countries, such as India.

3. Procurement of raw materials and parts: More than 40% of the companies plan to increase the ratio of local procurement

In the manufacturing industry, 55.6% of the companies replied that the ratio of raw materials and parts costs to the manufacturing costs of major items was “70% or above” (i.e. the total of the percentages of companies that replied “70% to less than 80%,” “80% to less than 90%” and “90% or above”), while 27.8% replied “50% to less than 70%” (Diagram 41). When compared to the other countries and regions in the survey, the ratio of raw materials and parts costs to total manufacturing costs in Bangladesh seemed to be relatively higher than in the ASEAN and Oceania regions.

Diagram 41: Ratio of materials costs to manufacturing costs (Bangladesh and totals for other regions)



As for the ratio of local procurement, 36.4% of the companies (valid responses: 11 companies) replied that they procured “1% to less than 10%” of raw materials and parts from local suppliers. In terms of factors necessary to increase the local procurement ratios of raw materials and parts (multiple answers allowed), 55.6% of the companies replied “Quality improvement by local suppliers” (valid responses: 18 companies). From this, it is evident that the immaturity of local suppliers was hindering the progress of local procurement.

In terms of future procurement policies (multiple answers allowed), an “Increase ratio of local procurement” was the most cited reply (41.2%), which was followed by “Maintain current ratios of local procurement” (35.3%) and “Increase ratio of procurement from ASEAN” (29.4%) (valid responses: 17 companies).

4. Business problems

(1) Increasing pressure to lower costs

As for problems in sales or other business activities (multiple answers allowed) in the manufacturing industry, “Major clients requesting lower prices” was the most cited reply at 58.8%, which was followed by a “Decrease in orders from clients,” which was cited by 47.1% of the companies (Diagram 42). In the non-manufacturing industry, the most cited reply was “Competitors’ growing market shares (cost-wise competition),” at 46.7%. There seemed to be increasing pressure to lower costs as a result of major clients requesting lower prices and intensified competition (valid responses: 17 companies in the manufacturing industry, 15 companies in the non-manufacturing industry).

On the other hand, an “Increase in employee wages” was the most cited problem with labor or employment (multiple answers allowed) in both the manufacturing (valid responses: 16 companies) and non-manufacturing industries (valid responses: 14 companies).

(2) Crucial issues surfacing in terms of infrastructure

As problems in production (manufacturing industry only, multiple answers allowed), “Electric power shortage” was cited by 70.6% of the companies, which, in effect, highlighted the problems unique to emerging countries (valid responses: 17 companies). Many companies also cited an “Increase in procurement costs” at 52.9%, indicating that, at the time of the survey, Bangladesh had not been an exception to the rule and was firmly entrenched in inflation, mainly due to rising crude oil prices.

In terms of problems in the investment environment (multiple answers allowed), overwhelming percentages in both the manufacturing industry at 88.2% (valid responses: 17 companies) and the non-manufacturing industry at 93.3% (valid responses: 15 companies) cited “Underdeveloped infrastructure (electric power, transportation, communications, etc.),” indicating that the development of the country’s infrastructure was the biggest task at hand.

Moreover, in both the manufacturing and non-manufacturing industries, companies cited “Unstable or insecure political or social conditions” as a major problem second only to the problem of underdeveloped infrastructure (manufacturing industry: 82.4%; non-manufacturing industry: 66.7%). In Bangladesh, an interim caretaker government had held power for more than two years since the dissolution of the country’s parliament at the end of October 2006. Since then, in the general elections of December 2008, a new government headed by former Prime Minister Sheikh Hasina was formed. At the time of the survey (October 2008), which was during the run-up to the general elections, concerns were being raised over the effects of the clashing political parties on public safety, as well as the risks of policy shifts, which can be seen in the replies by the companies.

Diagram 42: Business problems

Unit: %, multiple answers allowed

Item		Valid responses	1	2		3	
Problem(s) in sales or other business activities	Manufacturing	17	Major clients requesting lower prices	Decrease in orders from clients		Sluggishness in major sales markets (consumption downturn)	
		100.0	58.8	47.1		41.2	
	Non-manufacturing	15	Competitors' growing market shares (cost-wise competition)	Major clients requesting lower prices	Sluggishness in major sales markets (consumption downturn)	Lack of progress in local deregulation	Decrease in sales prices
		100.0	46.7	40.0		33.3	
Problem(s) in production	Manufacturing	17	Electric power shortage	Increase in procurement costs	Difficulty in quality control	Difficulty in local procurement of parts and raw materials	
		100.0	70.6	52.9		47.1	
Problem(s) with labor or employment	Manufacturing	16	Increase in employee wages	Difficulty in recruiting middle management staff	Difficulty in recruiting engineer staff	Low rate of worker retention	
		100.0	75.0	37.5		31.3	
	Non-manufacturing	14	Increase in employee wages	Difficulty in recruiting general staff	Difficulty in localizing managers and site supervisors	Difficulty in recruiting engineer staff	
		100.0	50.0	42.9		28.6	
Problem(s) in the investment environment	Manufacturing	17	Underdeveloped infrastructure	Unstable or insecure political or social conditions		Unclear policy management by the local government	
		100.0	88.2	82.4		70.6	
	Non-manufacturing	15	Underdeveloped infrastructure	Unstable or insecure political or social conditions		Unclear policy management by the local government	Complicated administrative procedures
		100.0	93.3	66.7		53.3	

5. Competition: China—the most formidable competitor

Concerning which country was the main source of competition in selling products/services on the local market (as of the time of the survey), “China” was cited by the largest number of companies in both the manufacturing and non-manufacturing industries. In the manufacturing industry, the countries that were most often cited were “China” (58.3%), “Bangladesh” (16.7%) and “No competitors” (16.7%) (valid responses: 12 companies). In the non-manufacturing industry, on the other hand, the countries that were cited were “China” (31.3%), “India” (25.0%) and “Europe” (18.8%) (valid responses: 16 companies).

6. Future business development: More than 90% of the manufacturing industry plans to expand business

Regarding the direction of each company's business development over the next one to two years, “Expansion” was cited by 64.7% of the companies in the manufacturing industry and 93.8% of the companies in the non-manufacturing industry. The rest in both industries replied that they would maintain the “Status quo,” and there were no companies replying “Downsizing” or “Move to a third country (region) or withdraw” (valid responses: 17 companies in the manufacturing industry, 16 companies in the non-manufacturing industry).

The percentage of companies in the non-manufacturing industry replying “Expansion” was the highest of the 13 countries questioned in the current survey. In terms of the totals for the 13 countries in the survey, the percentage of companies replying “Expansion” was 58.9% in the manufacturing industry and 57.2% in the non-manufacturing industry, indicating that the expansion tendency in Bangladesh stood clearly apart from the other countries and regions covered.

In the non-manufacturing industry, where more than 90% of the companies planned to expand business,

“Expansion of product/service scope (market development)” was cited by the largest percentage of companies at 80.0% as the reason (specific business plan) (multiple answers allowed) for doing so, followed by “Expansion of product/service content (diversification),” with 46.7% of the replies. With a population of roughly 150 million, Bangladesh has become the focus of attention thanks to its potential market size, and efforts by each company to develop new markets and diversify its services have been accelerating.

7. Effects of inflation and its countermeasures: Increasing transportation costs and personnel costs due to the extended period of inflation

In terms of the impact of the advance of inflation on profit, 47.1% of the companies in the manufacturing industry replied that profit had “Significantly worsened,” while 35.3% replied that it had “Slightly worsened” (valid responses: 17 companies). In the non-manufacturing industry, 33.3% of the companies replied, “Significantly worsened,” while 40.0% replied “Slightly worsened” (valid responses: 15 companies). In Bangladesh, consumer prices began to rise as a result of successive floods and cyclones in the latter half of 2007. Since then, prices have been hovering at high levels as a result of the subsequent surge in crude oil prices. During the June to September period in 2008, which immediately preceded the start of the survey, consumer prices increased more than 10% for four consecutive months.

As specific types of impact caused by inflation (multiple answers allowed), 100% of the companies in the manufacturing industry said there was an “Increase in transportation costs,” and many also cited an “Increase in procurement costs” (78.6%) and an “Increase in personnel costs” (78.6%).

In the non-manufacturing industry, on the other hand, an “Increase in personnel costs” was the most cited reply at 75%.

8. Status of infringements on intellectual property rights

Pertaining to if any companies had suffered damages from imitations/pirated products in the past year, only four in the manufacturing industry (valid responses: 16 companies) and two in the non-manufacturing industry (valid responses: 14 companies) replied “Yes.”

Concerning what type of damages the companies in the manufacturing industry had suffered (multiple answers allowed), “Exact copy of product design and packaging,” “Partial copy of product design” and “Illegal use of trademarks, such as the brand logo” were cited by two companies each. In the non-manufacturing industry, “Exact copy of product (contents) design and packaging” was cited by two companies and “Partial copy of product (Contents) design” was cited by one company.

9. Responses to standardization: High acquisition ratio of international standardization in both the manufacturing and non-manufacturing industries

Concerning how companies were responding to standardization, 62.5% of those in the manufacturing industry replied that they had adopted “International standards,” which was followed by “JIS” at 43.8% (valid responses: 16 companies). The results reflect the high percentage of export-oriented companies among the Japanese-affiliated manufacturers in Bangladesh, and in particular, the high percentage of export-oriented companies manufacturing products intended for the Japanese market.

Additionally, in the non-manufacturing industry, “International standards” had been adopted by the highest

percentage of companies at 46.7%, which was followed by “JIS” (40.0%) (valid responses: 15 companies).

10. CSR activities: The importance of involvement in poverty and education issues

Concerning what type of CSR activities were sought within their country (multiple answers allowed), in the manufacturing industry, “Endeavors to improve the working environment” was the most cited reply at 76.5%, followed by “Strict observance of local laws and regulations, and respect for international standards such as ISO,” “Engagement in local (or wider area) poverty and education issues” and “Engagement in local (or wider area) environmental issues”—all three of which were cited by 52.9% of the companies (valid responses: 17 companies).

In the non-manufacturing industry, “Strict observance of local laws and regulations, and respect for international standards such as ISO” was cited by 60.0% of the companies, followed by “Ensuring product and service safety as well as (or) offering new products and services” and “Engagement in local (or wider area) poverty and education issues,” both of which were cited by 53.5% of the companies (valid responses: 15 companies). The fact that “Engagement in local (or wider area) poverty and education issues” came in second place in both the manufacturing and non-manufacturing industries is a feature unique to the Least among Less Developed Countries (LLDC), which place the highest priority on reducing poverty and ensuring the security of everyday subsistence.

In regards to with whom the companies collaborated with in CSR activities (multiple answers allowed), 60.0% of the companies in the manufacturing industry and 73.3% of those in the non-manufacturing industry replied, “Our company (group) conducts CSR activities independently (planning, implementation, evaluation, etc.).”

11. Measures against new strains of influenza—high awareness but lack of information is an issue

One company in the manufacturing industry and four in the non-manufacturing industry replied, “Adequate measures” had been taken against new strains of influenza. Additionally, six companies in the manufacturing industry and three in the non-manufacturing industry replied, “Some measures” had been taken against new strains of influenza (valid responses: 16 companies in the manufacturing industry; 14 in the non-manufacturing industry).

On the basis of the totals for the manufacturing and non-manufacturing industries, the percentage of companies replying “Adequate measures” and “Some measures” totaled 46.7% (14 companies out of 30), which is the second highest percentage behind Indonesia in the 11 nations of the ASEAN region and Southwest Asia (and the same as the percentage in Pakistan). The percentage for the entire ASEAN region and Southwest Asian countries put together was 30.8%. In Bangladesh, the H5N1 sub-type influenza virus has been confirmed mainly at poultry farms across the nation, and human infection from the virus was reported in May 2008. For this reason, there seemed to be a higher awareness of the risks of infection compared to other regions and countries.

Among the companies replying “No measures” or “Not many measures” had been taken against the outbreak, “Have no information on which to base decisions” was the most cited reason in both the manufacturing and non-manufacturing industries for not formulating (or not being able to formulate) such measures, indicating the

difficulty of making decisions on the local level in the absence of adequate information.

12. Wages

The basic salary (monthly) and the annual salary per employee* by type of job and the number of valid responses for each are as follows.

1 Bangladesh taka = 0.01459 USD (Average rate: October 2008; source: Bangladesh Bank)

Diagram 43: Wages (basic salary and annual salary per employee) by type of job

Unit: BDT, figures in parentheses are the number of valid responses

	Job types	Base salary (monthly)	Annual salary (*)	Note
Manufacturing	Workers (General worker)	3,936.7 (18)	79,127.8 (18)	3 years of experience
	Engineers (Core technicians)	12,467.7 (13)	241,807.7 (13)	Graduates from technical schools or colleges with 5 years of experience
	Managers (Section managers in charge of sales)	31,741.3 (16)	560,337.5 (16)	Graduates from university with 10 years of experience
Non-manufacturing	Staff (General workers)	21,008.4 (14)	342,614.7 (11)	3 years of experience
	Managers (Section managers in charge of sales)	48,143.8 (14)	687,756.0 (11)	Graduates from university with 10 years of experience

(*) Annual salary per employee (annual total of base salary, allowances, social security costs, overtime, and bonuses, etc)

(Note) In the case of the apparel industry, which is a major industry in Bangladesh, the statutory minimum wage (basic monthly salary) for medium-level factory employees (excluding workers in the export processing zone) is 1,420–1,730 takas, depending on the worker's grade.

India

Targets of the survey and breakdown of respondents

Number of companies contacted: 268 Japanese-affiliated companies operating in India
 Number of respondents: 139 companies (manufacturing industry: 61; non-manufacturing industry: 78)

Breakdown of respondents by industry: As shown below

(Unit: Companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	5	8.2
Textiles (yarn, cloth, synthetic fabrics)	1	1.6
Chemicals	8	13.1
Pharmaceuticals	2	3.3
Rubber products	1	1.6
Ceramics and cement	1	1.6
Iron and steel (including cast and forged products)	1	1.6
Nonferrous metals and products	1	1.6
General machinery (including metal molds and machine tools)	4	6.6
Electric machinery and electronic equipment	5	8.2
Electric and electronic parts and components	3	4.9
Motor vehicles and motorcycles	4	6.6
Motor vehicle and motorcycle parts and accessories	11	18.0
Precision instruments	2	3.3
Other	12	19.7
Total	61	100.0

Non-manufacturing industry		
Industry	NO. of companies	Composition ratio
Trading company	23	29.5
Sales company	12	15.4
Banking	1	1.3
Insurance	3	3.8
Securities	1	1.3
Transport/warehousing	12	15.4
Hotel/travel/restaurant	3	3.8
Communications/software	5	6.4
Construction/plants	5	6.4
Other	13	16.7
Total	78	100.0

1. Business outlook

(1) Percentage of companies posting a profit declined from the previous year

In both the manufacturing and non-manufacturing industries, the percentage of companies expecting to post an operating profit for 2008 declined from the previous year. In the manufacturing industry, 60.0% of the companies replied that they expected to post a profit, which represented a 20.6-point drop from the previous year (80.6%) (valid responses: 60 companies). In the non-manufacturing industry, only 42.1% of the companies replied that they expected to post a profit, representing a 26.3-point drop from the previous year (68.4%) (valid responses: 76 companies). During the first half of 2008, high inflation and the ensuing rise in costs weighed down corporate profit, while the markets began to weaken under the effects of the fiscal austerity measures implemented as a part of the government's anti-inflationary policy. Furthermore, the global financial crisis, which surfaced in September, managed to deliver a further blow to an already precarious situation.

Nowhere is this slowdown in the manufacturing industry more evident than in the estimated operating profit for 2008 compared to 2007. In the manufacturing industry, the percentage of companies replying that they expected operating profit for 2008 to "Improve" over the previous year was 31.7%, which represented a 25-point drop compared to the previous year (58.3%). In contrast, the percentage of companies replying that

they expected it to “Worsen” was 43.3%, which represented a huge increase from the previous year (30.6%) (Diagram 44).

The reasons cited by the manufacturing industry for the operating profit in 2008 to worsen were: (1) an “Increase in procurement costs” (68.0%), (2) “Insufficient price transfer” (52.0%), an “Increase in fuel costs and utilities” (52.0%), (3) an “Increase in personnel expenses” (36.0%) and a “Decrease in local market sales (36.0%) (valid responses: 25 companies). Judging from these replies, it is evident that at the time of the survey (October 2008), staggering inflation and the ensuing rise in costs in the first half of the year were being perceived more than the weakening market due to the global financial crisis as factors weighing down corporate profit. Reason (2) “Insufficient price transfer” was indicative of the difficulties of transferring the increased production costs onto sales prices, as the majority of the Japanese-affiliated manufacturers were domestic-sales oriented companies and the competition for lower prices was becoming even more intense in the domestic market.

(2) Operating forecast for 2009 expected to “Improve” through increase in local market sales

On the other hand, in terms of the operating profit forecast for 2009, both the manufacturing and non-manufacturing industries predicted it to “Improve.” The DI value, which was derived by subtracting the percentage of companies replying that operating profit would “Worsen” from the percentage replying that it would “Improve,” rose considerably from the -11.6 points for 2008 (“Improve”: 31.7%; “Worsen”: 43.3%) to +23.3 points for 2009 (“Improve”: 48.3%; “Worsen”: 25.0%) in the manufacturing industry. Additionally, in the non-manufacturing industry, the DI value was expected to improve from the 29.6 points in 2008 (“Improve”: 45.1%; “Worsen”: 15.5%) to 40.0 points in 2009 (“Improve”: 52.0%; “Worsen”: 12.0%).

As a reason for the improvement, an “Increase in local market sales” was the most cited reply in both the manufacturing and non-manufacturing industries.

Diagram 44: Estimated operating profit (over the previous year) for 2008 and 2009

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

	Manufacturing				Non-manufacturing			
	Valid responses	Improve	Show no change	Worsen	Valid response	Improve	Show no change	Worsen
2008	60	19	15	26	71	32	28	11
	100.0	31.7	25.0	43.3	100.0	45.1	39.4	15.5
2009	60	29	16	15	75	39	27	9
	100.0	48.3	26.7	25.0	100.0	52.0	36.0	12.0

2. Status of exports/imports: Majority of companies reported zero exports, focused mainly on domestic sales

Concerning the percentage of export sales to total sales, 53.3% (32 companies) of the companies in the manufacturing industry replied “0%” and 20.0% (12 companies) replied “1% to less than 10%,” indicating that the Japanese-affiliated manufacturing companies operating in India were predominantly domestic sales-oriented (valid responses: 60 companies).

In terms of the usage of existing bilateral/multilateral FTAs/EPAs, only three companies replied that FTAs/EPAs were “Currently in use” in export activities (valid responses: 31 companies), while eight companies

replied that FTAs/EPAs were “Currently in use” (valid responses: 49 companies) in import activities. Among the FTAs/EPAs in force, the India-Thailand FTA had the highest utilization rate, with five companies replying that they used this FTA in import activities and two companies replying that they used it in export activities. In terms of this particular FTA, at the time of the survey, only the Early Harvest measures had taken effect, and thus, only 82 items were eligible for tax exemption. Once the entire agreement, which is currently under negotiation, goes into effect and all items, in principle, become eligible for tax exemption, FTA usage by the Japanese-affiliated companies is expected to become more widespread.

In terms of future use, seven companies replied that they were “Considering using” FTAs/EPAs in export activities, while 14 companies replied that they were “Considering using” FTAs/EPAs in import activities, suggesting that FTAs/EPAs were generating more interest in import activities (domestic sales, procurement) than in export activities.

3. Procurement of raw materials and parts

(1) High local procurement ratio

A total of 56.2% of the manufacturers replied that they procured 50% or more of their raw materials and parts locally (domestic procurement within India) (valid responses: 48 companies). Moreover, the percentage of companies procuring 70% or more of their materials locally climbed to 35.4%, which illustrated the exceptionally high local procurement rate in India compared to the nations in the ASEAN region.

Sources for the procurement of raw materials and parts outside of India (countries/regions from which 1% or more of the materials have been procured) included Japan (45 companies), ASEAN (23 companies), China (17 companies) and Other Asian Countries (10 companies). Among the 17 companies that replied that they procured raw materials and parts from China, 11 companies (64.7%) cited procurement ratios of “1% to less than 10%,” suggesting that China’s presence as a supplier was not very prominent.

(2) Strong presence of local companies further increased the local procurement ratio

The breakdown of local procurement resources revealed another major feature of procurement in India: the exceptionally high ratio of local companies that served as sources of procurement compared to Japanese-affiliated companies and other foreign companies (Diagram 45). Among the companies procuring raw materials and parts locally, 47.8% (22 companies), or nearly half of the companies, replied that they procured 100% of their materials from local companies, suggesting an abundance of local suppliers.

Diagram 45: Rate of local procurement of raw materials and parts and breakdown (local companies, Japanese-affiliated companies, other foreign-affiliated companies)

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

	Valid responses	0-10%	10-50%	50-70%	70-90%	90-100%	100%
Local procurement ratio	48	7	14	10	11	2	4
	100.0	14.6	29.2	20.8	22.9	4.2	8.3
Local companies	46	3	6	4	7	4	22
	100.0	6.5	13.0	8.7	15.2	8.7	47.8
Japanese-affiliated companies	20	9	10	0	0	0	1
	100.0	45.0	50.0	0	0	0	5.0
Other foreign-affiliated companies	14	7	5	2	0	0	0
	100.0	50.0	35.7	14.3	0	0	0

In regards to future procurement policies (multiple answers allowed), “Increase ratio of local procurement” was the most cited reply (66.7%). Other replies included “Increase ratio of procurement from ASEAN” (31.4%), “Maintain current ratios of local procurement” (19.6%), and “Increase ratio of procurement from China” (13.7%) (valid responses: 51 companies). By industry, in the motor vehicle and motorcycle parts and accessories industry, which had the largest number of respondents, nine out of 10 companies replied “Increase ratio of local procurement.”

4. Business problems

(1) Intensified cost competition under inflationary conditions

In terms of problems concerning production in the manufacturing industry (multiple answers allowed), an “Increase in procurement costs” was the most cited reply at 66.1%, which was followed by “Difficulty in local procurement of parts and raw materials” (51.8%) and “Difficulty in quality control” (48.2%) (valid responses: 56 companies). Reflecting various factors, such as the surge in crude oil prices, India, in June 2008, recorded a double-digit inflation rate (taken from the wholesale price index, which is available on a weekly basis) for the first time in 13 years, and later, in August, the inflation rate nearly reached 13%. The hike in the prices of major materials, including iron, steel and cement, became directly linked to the increase in procurement costs of manufacturers.

In regards to problems in sales or other business activities (multiple answers allowed) in the manufacturing industry, “Major clients requesting lower prices” was the reply cited by the highest percentage of companies at 39.7%, which was closely followed by “Competitors’ growing market shares (quality-wise competition)” at 36.2%. These replies suggest the double-bind the Japanese-affiliated manufacturers found themselves in with rising procurement costs and increasing pressure to lower prices from major clients, on the one hand, and the inability to transfer the increased portion of their production costs onto sales prices, on the other.

In the non-manufacturing industry, “Competitors’ growing market shares (cost-wise competition)” was the most cited problem in sales at 54.0%, which was followed by “Major clients requesting lower prices” (32.9%) (valid responses: 76 companies). By industry, a large percentages of (1) trading companies (valid responses: 12 out of 22 companies), (2) sales companies (seven out of 12 companies), (3) transport/warehousing companies (seven out of 12 companies) and (4) construction/plant companies (four out of five companies) cited “Competitors’ growing market shares (cost-wise competition)” as a problem in sales, suggesting that cost

competition was particularly fierce in these industries.

On the other hand, 25.9% of the companies in the manufacturing industry and 27.6% of the companies in the non-manufacturing industry cited “Sluggishness in major sales markets,” which represented a considerable increase compared to the percentage of companies replying similarly in the previous survey (manufacturing industry: 18.2%; non-manufacturing industry: 10.0%). It seems that the effects of such sluggishness on the domestic and major export markets resulting from the global financial crisis were slowly becoming evident at the time of the survey (October 2008).

(2) Underdeveloped infrastructure and taxation were major problems in the investment environment

In terms of problems concerning the investment environment (multiple answers allowed), 79.0% of the companies in the manufacturing industry (valid responses: 57 companies) and 66.7% of the companies in the non-manufacturing industry (valid responses: 78 companies) cited “Underdeveloped infrastructure (electric power, transportation, communications, etc.),” illustrating the fact that India’s infrastructure, as was the case in the previous survey (2007), continued to be a major challenge in the investment environment (Diagram 46). In the manufacturing industry, this was followed by “Complicated tax procedures” (47.4%) and “Complicated administrative procedures (to acquire permits, etc.)” (47.4%). In the non-manufacturing industry, “Complicated tax procedures” (62.8%) also came in second after the problem with infrastructure. It was evident that in both the manufacturing and non-manufacturing industries, complicated administrative and taxation procedures were proving to be major obstacles to investment in India. The rankings of the replies have not changed in the past few years, and judging from the percentages of the replies addressed to each question, the situation does not seem to be improving in any way.

Diagram 46: Problems in the investment environment (top four replies)

Unit: % multiple answers allowed

	Valid responses	1	2	3	4	
Manufacturing	57	Underdeveloped infrastructure	Complicated tax procedures	Complicated administrative 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	
Non-manufacturing	78	Underdeveloped infrastructure	Complicated tax procedures	Lack of office space and rising rent	Complicated administrative procedures	
	100.0	66.7	62.8	56.4	55.1	
Result of 2007 survey (Problems in the investment environment)						
	Valid responses	1	2	3	4	
Manufacturing	31	Underdeveloped infrastructure	Complicated tax procedures	Complicated administrative procedures	Lack pro protection of intellectual property rights	
	100.0	83.9	64.5	48.4	22.6	
Non-manufacturing	20	Underdeveloped infrastructure	Lack of office space and rising rent	Complicated tax procedures	Complicated administrative procedures	
	100.0	70.0	55.0	45.0	40.0	

5. Competition: Local companies

Concerning which country was the main source of competition in selling products/services on the local market (as of the time of the survey), “India” was cited by the largest number of companies in both the

manufacturing and non-manufacturing industries. The countries most often cited by the companies in the manufacturing industry were “India” (28.6%), “China” (25.0%), “Europe” (12.5%), “South Korea” (10.7%) and “Thailand” (7.1%) (valid responses: 56 companies). In the non-manufacturing industry, the countries cited as the main sources of competition were “India” (22.4%), “China” (21.1%), “Europe” (15.8%), “No competitors” (10.5%) and “South Korea” (7.9%) (valid responses: 76 companies).

India has been known as a market in which local companies hold relatively high market shares in a wide variety of industries. However, judging from the above replies, it is evident that Chinese companies have entered the competition to acquire a slice of the market in both areas of products and services, and have become competitors on a par with the Indian companies.

6. Future business development: Maintain expansion policy for the next one to two years

In terms of the direction of each company’s business development over the next one to two years, “Expansion” was cited by 84.8% of the companies in the manufacturing industry and 79.0% of the companies in the non-manufacturing industry, while the rest of the companies replied they would maintain the “Status quo.” There were no companies that replied “Downsizing” or “Move to a third country (region) or withdraw” (Diagram 47).

Compared to the other countries or regions in the survey, the percentage of companies in the manufacturing industry replying “Expansion” was the highest of the 13 countries questioned in the current survey, and in the non-manufacturing industry, the percentage replying “Expansion” was the third highest behind Bangladesh (93.8%) and Vietnam (84.1%). In terms of the totals for the ASEAN countries, the percentage of companies replying “Expansion” was 57.6% in the manufacturing industry and 56.2% in the non-manufacturing industry, indicating that the tendency toward expansion in India stood clearly apart from the other countries and regions covered in this survey.

Diagram 47: Direction of business development for the next one to two years

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

	Valid responses	Expansion	Status quo	Downsizing	Move to a third country (region) or withdraw
Manufacturing	59 100.0	50 84.8	9 15.3	0 0	0 0
Non-manufacturing	76 100.0	60 79.0	16 21.1	0 0	0 0

A look at the trends of business development by each major industry—in terms of the industries with the largest number of respondents—indicated that in the manufacturing industry, eight out of the 11 companies in the motor vehicle and motorcycle parts and accessories industry (72.7%), seven out of the eight companies in the chemicals industry (87.5%), and five out of the five companies in the electric machinery and electronic equipment industry (100%) replied “Expansion.” In the non-manufacturing industry, 18 out of the 22 trading companies (81.8%), 11 out of the 12 companies (91.7%) in the transport/warehousing industry and nine out of the 12 sales companies (75.0%) replied “Expansion.”

7. Effects of inflation and its countermeasures

(1) Manufacturing industry has been affected more severely

Although nearly all of the companies replied that profit had “Worsened” as a result of the advance of inflation, the degree to which profit was impacted differed between the manufacturing industry and the non-manufacturing industry (Diagram 48). In the manufacturing industry, 56.7% of the companies (valid responses: 60 companies) replied profit had “Significantly worsened,” while in the non-manufacturing industry, the percentage of companies giving the same reply was considerably lower at only 24.4% (valid responses: 78 companies). By contrast, 55.1% of the companies in the non-manufacturing industry replied profit had “Slightly worsened,” indicating that although profit in general was down, the degree of deterioration was not as serious as in the manufacturing industry.

Diagram 48: Degree of impact of advancing inflation on profit

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

	Valid response	Significantly worsened	Significantly improved	Slightly worsened	Slightly improved	Hardly any impact	No impact
Manufacturing	60	34	2	23	0	1	0
	100.0	56.7	3.3	38.3	0	1.7	0
Non-manufacturing	78	19	3	43	5	8	0
	100.0	24.4	3.9	55.1	6.4	10.3	0

(2) Repercussions of advancing inflation were also felt in personnel costs

Concerning the specific types of impact from inflation, the most cited reply in the manufacturing industry was an “Increase in procurement costs” (86.4%), which was followed by an “Increase in transportation costs” (62.7%), an “Increase in personnel costs” (62.7%) and an “Increase in fuel costs” (61.0%). The cost-push type of inflation, which played out against the backdrop of a spike in crude oil prices, directly impacted corporate production activities in the form of soaring raw materials and parts prices and transportation costs, and its repercussions were also felt in personnel costs. In the non-manufacturing industry, on the other hand, an “Increase in personnel costs” was cited by the largest percentage of companies (67.1%) as a specific effect of inflation.

8. Status of infringements on intellectual property rights: Greatest damage felt in the electric machinery and electronic equipment industry

In terms of whether companies had suffered damages from imitations/pirated products in the past year, 21.1% of the companies in the manufacturing industry (valid responses: 57 companies) and 9.1% of the companies in the non-manufacturing industry (valid responses: 77 companies) replied “Yes.” In the manufacturing industry, damages to electric machinery and electronic equipment companies stand out, with four out of the five companies replying “Yes” to the question of whether they had suffered damages. By contrast, in the motor vehicle and motorcycle parts industry, which had the most respondents, all 11 companies replied “No.”

Concerning the types of damages suffered (multiple answers allowed), in the manufacturing industry, the “Exact copy of product design and packaging” was cited the most, by seven companies (58.3%), which was followed by the “Partial copy of product design” and “Illegal use of trademarks such as the brand logo,” which were cited by five companies each (41.7%) (valid responses: 12 companies). In the non-manufacturing industry, “Illegal use of trademarks such as the brand logo” was the most cited reply, by four companies (57.1%) (valid responses: seven companies).

9. Responses to standardization: Centered mainly on international standards and JIS

In terms of how companies were responding to standardization, the highest percentage of companies in the manufacturing industry, or 47.3%, replied that they had adopted the “JIS,” which was followed by “International standards” (38.2%) and “European standards” (25.5%). “In-house standards which are stricter than any other standards” was cited by 21.8% of the companies (valid responses: 55 companies).

In the non-manufacturing industry, on the other hand, more than half of the companies replied “International standards” at 54.6%, which was followed by “No standards in the area” (28.6%) and “JIS” (20.8%) (valid responses: 77 companies).

The percentage of companies replying “Local standards” in the above question was low at 16.4% in the manufacturing industry and 14.3% in the non-manufacturing industry. Currently, in India, it is compulsory for a portion of food product materials, processed foods, cement, and iron and steel products to acquire BIS (The Bureau of Indian Standards) certification regarding imports and domestic productions. Yet, the products subject to this compulsory certification scheme are extremely limited, and cases where products manufactured or exported by Japanese-affiliated companies fall under this scheme are rare.

However, beginning from 2009, the Indian government, as a part of its policy to protect domestic industries, has expanded the list of mainly iron and steel products that are subject to the compulsory certification scheme. As a result, the import activities of certain Japanese-affiliated companies have been affected. In the future, more Japanese-affiliated sales and trading companies are expected to acquire BIS certification.

10. Efforts toward CSR: Promoting independent company (group) efforts

In terms of what type of CSR activities were particularly sought in their country (multiple answers allowed), “Strict observance of local laws and regulations, and respect for international standards such as ISO” was the most cited reply in both the manufacturing (valid responses: 57 companies) and non-manufacturing industries (valid responses: 74 companies) (manufacturing industry: 82.5%; non-manufacturing industry: 71.6%). This was followed by “Human resources training, technology transfer, or increase of the local procurement ratio” (manufacturing industry: 47.4%; non-manufacturing industry: 35.1%).

In regards to with whom the companies collaborated with when performing CSR activities (multiple answers allowed), 74.6% of the companies in the manufacturing industry and 74.0% of the companies in the non-manufacturing industry replied “Our company (group) conducts CSR activities independently (planning, implementation, evaluation, etc.)” Additionally, 21.8% of the companies in the manufacturing industry replied they collaborated with “Local government agencies” in their CSR activities, while 20.6% of the companies in the non-manufacturing industry replied that they collaborated with “Private non-profit bodies (NGOs or NPOs).”

11. Measures against new strains of influenza

(1) Not even half of the companies had taken measures

In terms of the measures companies had taken against new strains of influenza, those replying “Adequate measures” were extremely few and far between at a mere 3.5% in the manufacturing industry and 10.4% in the non-manufacturing industry. Even when combined with the companies replying “Some measures” (manufacturing industry: 32.8%; non-manufacturing industry: 23.4%), the total did not add up to even half of the companies (manufacturing industry: 58; non-manufacturing industry: 77). In the manufacturing industry, those replying “No measures” accounted for more than half of the companies at 51.7%.

“Have no information on which to base decision” was the most cited reason in both the manufacturing and non-manufacturing industries for not formulating (or not being able to formulate) such measures, which was followed by “Have not received instructions from headquarters,” indicating the difficulty of making decisions on the local level in the absence of adequate information.

(2) Task at hand is to practice thorough headquarters-led preparations and proper information gathering

On the other hand, concerning whether the companies intended to devise measures against an outbreak of the new strain of influenza, 44.2% of the companies in the manufacturing industry and 55.3% of the companies in the non-manufacturing industry replied “Yes” (valid responses: 52 companies in the manufacturing industry; 76 in the non-manufacturing industry). Although there have been no reports of human infection of the H5N1 influenza virus in India, there has been widespread infection among the poultry farms, mainly in the Eastern farming areas. The scope of infection is gradually spreading from rural to urban areas, so appropriate and speedy information gathering and thorough headquarters-led preparations are important tasks at hand.

12. Wages

The basic salary (monthly) and the annual salary per employee* by type of job and the number of valid responses for each are as stated in Diagram 49.

1 Indian rupee = 0.0203 USD (Average rate: October 2008; source: Reserve Bank of India)

Diagram 49: Wages (basic salary and annual salary per employee) by type of job

Unit: INR, figures in parentheses are the number of valid responses

	Job types	Base salary (monthly)	Annual salary (*)	Note
Manufacturing	Workers (General worker)	9,230.3 (44)	137,928.1 (40)	3 years of experience
	Engineers (Core technicians)	22,664.9 (43)	335,457.5 (40)	Graduates from technical schools or colleges, and 5 years of experience
	Managers (Section managers in charge of sales)	50,307.9 (48)	770,979.6 (45)	Graduates from university with 10 years experience
Non-manufacturing	Staff (General workers)	25,522.0 (65)	395,004.0 (64)	3 years of experience
	Managers (Section managers in charge of sales)	67,530.0 (62)	1,099,486.0 (60)	Graduates from university with 10 years experience

(*) Annual salary per employee (annual total of base salary, allowances, social security costs, overtime, and bonuses, etc.)

Pakistan

Targets of the survey and breakdown of respondents

Number of companies contacted: 47 Japanese-affiliated companies operating in Pakistan

Number of respondents: 32 companies (manufacturing industry: 13; non-manufacturing industry: 19)

Breakdown of respondents by industry: As shown below

Manufacturing industry			Non-manufacturing industry		
Industry	No. of companies	Composition ratio	Industry	No. of companies	Composition ratio
Plastic products	1	7.7	Trading company	8	42.1
Iron and steel (including cast and forged products)	1	7.7	Sales company	1	5.3
Nonferrous metals and products	1	7.7	Banking	1	5.3
Motor vehicles and motorcycles	6	46.2	Real estate	1	5.3
Motor vehicle and motorcycle parts and accessories	2	15.4	Hotel/travel/restaurant	1	5.3
Other	2	15.4	Construction/plants	4	21.1
Total	13	100.0	Other	3	15.8
			Total	19	100.0

1. Business outlook

(1) Estimated operating income for 2008: Companies expecting operating profit to “Worsen” exceeded percentage expecting it to “Improve”

Although a high percentage of Japanese-affiliated companies operating in Pakistan in both the manufacturing and non-manufacturing industries expected to post a bigger operating profit for 2008 when compared to the previous year (2007), there seemed to be a downward trend in business sentiment.

In the manufacturing industry, 50% of companies replied that they expected to post a profit, and the same percentage replied that they expected to break even, meaning no companies replied that they expected to post a loss (valid responses: 12 companies). In the non-manufacturing industry, 50% replied that they expected to post a profit, 35.7% replied that they expected to break even and 14.3% replied that they expected to post a loss (valid responses: 14 companies). In both the manufacturing and non-manufacturing industries, the percentage of companies expecting a profit largely exceeded the percentage expecting a loss.

However, when compared to the results of 2007, an extremely high percentage of companies in the manufacturing industry, 69.2%, replied that the expected operating profit for 2008 would “Worsen,” far exceeding the percentage replying that it would “Improve,” at 23.1% (valid responses: 13 companies) (Diagram 50). In the non-manufacturing industry, 37.5% replied that profit would “Improve,” 25.0% replied that it would “Show no change” and 37.5% replied that it would “Worsen” (valid responses: 16 companies).

Diagram 50: Estimated operating profit (over the previous year) for 2008 and 2009

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

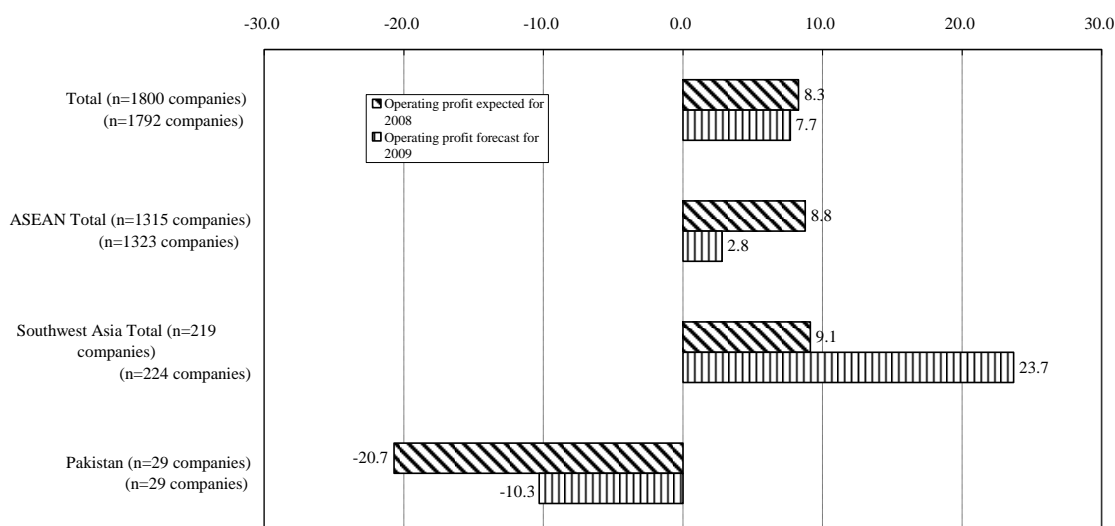
	Manufacturing				Non-manufacturing			
	Valid responses	Improve	Show no change	Worsen	Valid responses	Improve	Show no change	Worsen
2008	13	3	1	9	16	6	4	6
	100.0	23.1	7.7	69.2	100.0	37.5	25.0	37.5
2009	13	4	3	6	16	4	7	5
	100.0	30.8	23.1	46.2	100.0	25.0	43.8	31.3

(2) Declining trend expected to continue in 2009

The operating profit forecasts for 2009 (compared to 2008) also showed few signs of improvement. In the manufacturing industry, the percentage replying that operating profit would “Improve” in 2009 was 30.8%, while 46.2% replied it would “Worsen.” In the non-manufacturing industry, the percentage of companies expecting profit to “Worsen” (31.3%) exceeded those expecting it to “Improve” (25.0%).

The DI value, which was derived by subtracting the percentage of companies replying profit would “Worsen” from the percentage of companies replying it would “Improve,” was -20.7 points for 2008 (“Improve”: 31.0%; “Worsen”: 51.7%) and -10.3 points for 2009 (“Improve”: 27.6%; “Worsen”: 37.9%) (Totals for the manufacturing and non-manufacturing industries; valid responses from 29 companies for both 2008 and 2009). These values were exceptionally low compared to the other countries and regions in the current survey (Diagram 51).

Diagram 51: Estimated operating profit for 2008 and 2009, in terms of the DI value (total of manufacturing and non-manufacturing industries; unit: points)



2. Status of exports/imports: Majority of Japanese-affiliated companies targeting the domestic market

Concerning the percentage of export sales to total sales (manufacturing industry only), 58.3% of the companies replied “0%,” meaning they sold all their products in the domestic market, and 33.3% replied “1% to less than 10%,” indicating that the Japanese-affiliated companies operating in Pakistan were predominantly oriented toward domestic sales (valid responses: 12 companies).

In regards to the usage of existing bilateral/multilateral FTAs/EPAs, two out of seven companies replied that FTAs/EPAs were “Currently in use” in export activities, with no companies replying FTAs/EPAs were “Currently in use” in import activities. Not only were FTAs/EPAs not currently used in imports, but nine out of the 10 companies responding also stated that they had “No plan to use” them. As for the reason for having no plans to use FTAs/EPAs, five out of the eight companies replied, “No FTA or EPA exists with the import origins.”

3. Procurement of raw materials and parts: Majority of companies plan to increase ratio of local procurement

A look at the major procurement sources of raw materials and parts on the basis of the valid responses received reveal that many of the companies procured raw materials and parts locally (11 companies), from Japan (10 companies) and from ASEAN nations (nine companies). The breakdown of local procurement sources showed that, out of nine valid responses, six companies (66.7%) procured “100%” of their materials, two companies procured “80% to less than 90%” and one company procured “90% to less than 100%” of their materials from local companies, suggesting that local procurement was largely dependent on local companies.

Concerning future procurement policies (multiple answers allowed), “Increase ratio of local procurement” was the most cited reply (53.9%), which was followed by “Increase ratio of procurement from ASEAN” (30.8%), “Increase ratio of procurement from China” (23.1%) and “Maintain current ratios of local procurement” (23.1%). However, no companies replied “Increase ratio of procurement from Japan” (valid responses: 13 companies).

4. Business problems

(1) Drastic depreciation of the Pakistan rupee weighed profits down

Concerning problems within production in the manufacturing industry (multiple answers allowed), “Electric power shortage” was the most cited reply (69.2%), highlighting the challenges unique to developing countries (Diagram 52). This reply was followed by an “Increase in procurement costs” (53.9%) and “Difficulty in quality control” (38.5%) (valid responses: 13 companies).

Regarding problems in financial affairs, financing or foreign exchange (multiple answers allowed), the percentage of companies replying “Volatility of local currency’s exchange rate against the US dollar” was the highest in both the manufacturing (valid responses: 12 companies) and non-manufacturing (valid responses: 16 companies) industries, which was followed by the percentages of companies replying “Volatility of local currency’s exchange rate against the Japanese yen.”

During the past few years, the Pakistan rupee had been steadily trading at about 1 USD = 60 Pakistan rupees. However, beginning from June 2008, the rupee depreciated drastically, and at the time of the survey in October, it was trading at 1 USD = 80 Pakistan rupees. The drastic depreciation of the rupee was thought to be weighing down the companies’ profits, as Japanese-affiliated companies imported a large part of raw materials and parts from Japan and ASEAN nations, while maintaining low ratios of export sales to total sales.

Diagram 52: Business problems

Unit: %, Multiple answers allowed

Items		Valid responses	1	2	3
Problems in production	Manufacturing	13	Electric power shortage	Increase in procurement costs	Difficulty in quality control
		100.0	69.2	53.9	38.5
Problems in financial affairs, financing, or foreign exchange	Manufacturing	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
		100.0	83.3	66.7	
	Non-manufacturing	16	Volatility of local currency's exchange rate against the US dollar	Volatility of local currency's exchange rate against the Japanese yen	Difficulty in procuring funds from local financial institutions
		100.0	62.5	31.3	25.0
Problems in the investment environment	Manufacturing	13	Unstable or insecure political or social conditions	Underdeveloped infrastructure (electric power, transportation, communications, etc.)	Unclear policy management by the local government
		100.0	92.3	61.5	38.5
	Non-manufacturing	17	Unstable or insecure political or social conditions	Underdeveloped infrastructure (electric power, transportation, communications, etc.)	Unclear policy management by the local government
		100.0	94.1	64.7	58.8

(Note): Items cited by less 20% of the respondents were omitted.

(2) Unstable or insecure political or social conditions perceived as problem

As for problems within the investment environment (multiple answers allowed), extremely high percentages—92.3% of the companies in the manufacturing industry (valid responses: 13 companies) and 94.1% of the companies in the non-manufacturing industry (valid responses: 17 companies)—cited “Unstable or insecure political or social conditions.”

Since the end of 2007, Pakistan had been plagued by events that had shaken the nation, such as the declaration of a state of emergency following deterioration in public security and the assassination of former Prime Minister Bhutto. This continued into 2008 as the political situation plunged into even greater turmoil with the change of the regime following the general elections and the resignation of President Musharraf and the collapse of the coalition government, among others. Furthermore, there have been numerous terrorist attacks in the country, while tension mounts in its relations with India. Therefore, the aforementioned replies are thought to strongly reflect the unstable domestic situation in Pakistan during 2008.

Other major problems cited by large portions of both the manufacturing and non-manufacturing industries included “Underdeveloped infrastructure (electric power, transportation, communications, etc.)” and “Unclear policy management by the local government.”

5. Competition: Threatened by the low prices of Chinese companies

Concerning which country was the main source of competition in selling products/services in the local market (as of the time of the survey), “China” was cited by the largest number of companies in both the manufacturing and non-manufacturing industries. In the manufacturing industry, “China” was cited by 36.4% of the companies, which was followed “No competitors” (27.3%) and “South Korea” (18.2%) (valid responses: 11 companies). In the non-manufacturing industry, on the other hand, “China” was cited by 55.6% of the companies (valid responses: 18 companies).

As the main reason behind the assessment of the competition, 100% of the companies in the manufacturing industry and 86.7% of the companies in the non-manufacturing industry cited “Price,” and there were few companies in either industry citing other reasons. It is evident that in a price-oriented market, the influx of inexpensive Chinese products was perceived as a major threat.

In the manufacturing industry, “Enhance added value of products” (55.6%) and “Enhance after-sales service” (55.6%) were the two most cited countermeasures taken against the competition, indicating the companies’ efforts to differentiate themselves from the influx of low-priced products (valid responses: nine companies).

In the non-manufacturing industry, “Enhance added value of products/services” was cited by an overwhelming 73.3%, which was followed by “Launch new products or services” (33.3%) (valid responses: 15 companies).

6. Future business development: “Expansion” cited by only 33% in the non-manufacturing industry

Concerning the direction of each company’s business development over the next one to two years, in the manufacturing industry, 61.5% of the companies replied “Expansion,” 30.8% of them said they would maintain the “Status quo” and 7.7% replied “Downsizing” (valid responses: 13 companies). In the non-manufacturing industry, 33.3% replied “Expansion,” 61.1% replied “Status quo” and 5.6% replied “Downsizing” (valid responses: 18 companies) (Diagram 53).

Compared to the other countries or regions in the survey, the percentage of companies in the non-manufacturing industry replying “Expansion” was the lowest of the 13 target countries in the current survey. Furthermore, Pakistan was the only one of the four countries in southwest Asia (Bangladesh, India, Pakistan and Sri Lanka) with respondents, irrespective of those companies replying “Downsizing” and being from both the manufacturing or non-manufacturing industries.

7. Effects of inflation and its countermeasures: Corporate activities hit by inflation of over 20%

In terms of the impact of advancing inflation on profit, a high percentage of companies in the manufacturing industry replied profit had “Significantly worsened” at 69.2%, which was followed by “Slightly worsened” at 23.1% and “Hardly any impact” at 7.7% (one company only) (valid responses: 13 companies).

In the non-manufacturing industry, on the other hand, “Significantly worsened” and “Slightly worsened” were cited by 44.4% of the companies, followed by “Hardly any impact” at 11.1% (valid responses: 18 companies). No companies in either the manufacturing or non-manufacturing industry said profit “Significantly Improved” or “Slightly Improved” due to inflation.

Diagram 53: Degree of impact of advancing inflation on profit

Upper row: Number of respondent companies, Lower row: Composition ratio (%)

	Valid responses	Significantly worsened	Significantly improved	Slightly worsened	Slightly improved	Hardly any impact	No impact
Manufacturing	13	9	0	3	0	1	0
	100.0	69.2	0	23.1	0	7.7	0
Non-manufacturing	18	8	0	8	0	2	0
	100.0	44.4	0	44.4	0	11.1	0

In regards to specific types of impact (multiple answers allowed), more than 80% of the companies in the manufacturing industry cited “Increase in procurement costs” (81.8%), “Increase in fuel costs” (81.8%) and “Increase in utilities costs (electricity, gas, etc.)” (81.8%) (valid responses: 11 companies). In the non-manufacturing industry, “Increase in personnel costs” (86.7%) was the most cited reply, which was followed by “Increase in utilities costs (electricity, gas, etc.)” (53.3%) (valid responses: 15 companies).

Pakistan’s consumer price indices (CPI), which began to climb significantly from the second half of 2008, as the result of the global rise of energy and resource prices and an imbalance in domestic supply and demand, had recorded a 25% year-on-year increase at the time of the survey in October 2008. In Pakistan, which depends on imports for its energy and resources, domestic prices continued to hover at high levels even after crude oil and materials prices came down as a result of the continuing depreciation of the rupee.

8. Status of infringements on intellectual property rights: Damage escalating among certain companies

Concerning whether companies had suffered damages from imitations/pirated products in the past year, 30.8% of those in the manufacturing industry and 5.9% of those (one company only) in the non-manufacturing industry replied “Yes” (valid responses: 13 companies in the manufacturing industry, 17 in the non-manufacturing industry).

Among the five companies in the manufacturing and non-manufacturing industries that replied they had suffered damages, four cited “Illegal use of trademarks such as the brand logo” and two cited “Partial copy of product design,” as the types of specific damages suffered (multiple answers allowed).

As for the amount of damages, three out of the above five replied “Over US\$100,000,” while two replied “Don’t know,” suggesting that the damages were relatively serious.

9. Responses to standardization differ widely from manufacturing industry to non-manufacturing industry

In regards to how companies were responding to standardization, the highest percentage of those in the manufacturing industry replied that they had adopted “In-house standards which are stricter than any other standards” at 53.9%, which was followed by “JIS” (46.2%) and “International standards” (38.5%) (valid responses: 13 companies).

In the non-manufacturing industry, on the other hand, more than half of the companies, or 52.9%, replied that they had adopted “International standards,” which was followed by “No standards in the area” (29.4%) and “Local standards” (23.5%). The percentage of companies replying “In-house standards which are stricter than

any other standards” and “JIS,” which were commonly cited in the manufacturing industry, was 5.9% (one company) each in the non-manufacturing industry (valid responses: 17 companies).

10. CSR activities: Focusing on independent company (group) efforts

Concerning what type of CSR activities were particularly sought in their country (multiple answers allowed), “Strict observance of local laws and regulations, and respect for international standards such as ISO” was the most cited reply in both the manufacturing industry at 76.9% and the non-manufacturing industry at 66.7% (valid responses: 13 companies in the manufacturing industry, 18 in the non-manufacturing industry). Other frequently cited replies included “Endeavors to improve the working environment” (61.5%) and “Human resources training, technology transfer, or increase of the local procurement ratio” (61.5%) in the manufacturing industry, and “Engagement in local (or wider area) poverty and education issues” (38.9%) in the non-manufacturing industry.

Concerning with whom the companies collaborated with in CSR activities (multiple answers allowed), 92.3% of those in the manufacturing industry and 75.0% of those in the non-manufacturing industry replied, “Our company (group) conducts CSR activities independently (planning, implementation, evaluation, etc.).” In fact, there were few companies in the manufacturing and the non-manufacturing industries that replied they collaborated with other international institutions or local governments (valid responses: 13 companies in the manufacturing industry, 16 companies in the non-manufacturing industry).

11. Measures against new strains of influenza: Replies indicate acute awareness of danger, but lack of information becoming a challenge

In terms of measures against new strains of influenza, two companies in the manufacturing industry and three in the non-manufacturing industry replied “Adequate measures” were being taken. Additionally, four companies in the manufacturing industry and five in the non-manufacturing industry replied “Some measures” were being taken (valid responses: 12 companies in the manufacturing industry, 18 in the non-manufacturing industry).

Based on the totals of both the manufacturing and non-manufacturing industries, the percentage of companies replying that either “Adequate measures” or “Some measures” were being taken added up to 46.7%, the second-highest result behind that of Indonesia and tying Bangladesh, among the 11 countries in the ASEAN region and southwest Asia covered in this survey.

Concerning whether companies intended to devise measures against future outbreaks, 53.3% of the companies replied “Yes” (valid responses: 30 companies, total of manufacturing industry and non-manufacturing industry).

At the time of the survey, three cases of human infection of the H5N1 influenza virus had been reported in Pakistan, and for this reason it is thought that companies in Pakistan showed an acute awareness of the risk of infection compared to the other countries and regions.

“Have no information on which to base decision” was the most cited reason for not formulating (or not being able to formulate) such measures (valid responses: 14 companies), indicating the difficulty of gathering information and making decisions on the local level under an inadequate personnel framework.

12. Wages

The basic salary (monthly) and the annual salary per employee* by type of job and the number of valid responses for each are as shown below.

1 Pakistan rupee = 0.012433 USD (Average rate: October 2008; source: State Bank of Pakistan)

Diagram 54: Wages (basic salary and annual salary per employee) by type of job

Unit: PKR, figures in parentheses are the number of valid responses

	Job types	Base salary (monthly)	Annual salary (*)	Note
Manufacturing	Workers (General worker)	8,430.9 (13)	164,847.3 (13)	3 years of experience
	Engineers (Core technicians)	24,490.8 (13)	431,659.3 (13)	Graduates from technical schools or colleges with 5 years of experience
	Managers (Section managers in charge of sales)	53,276.9 (13)	979,384.6 (13)	Graduates from university with 10 years of experience
Non-manufacturing	Staff (General workers)	24,840.1 (18)	416,608.9 (16)	3 years of experience
	Managers (Section managers in charge of sales)	66,550.0 (16)	1,086,180.5 (14)	Graduates from university with 10 years of experience

(*) Annual salary per employee (annual total of base salary, allowances, social security costs, overtime, and bonuses, etc.)

Sri Lanka

Targets of the survey and breakdown of respondents

Number of companies contacted: 68 Japanese-affiliated companies operating in Sri Lanka

Number of respondents: 29 companies (manufacturing industry: 15; non-manufacturing industry: 14)

Breakdown of respondents by industry: As shown below

(Unit: Companies, %)

Manufacturing industry		
Industry	No. of companies	Composition ratio
Foods, processed agricultural or marine products	1	6.7
Apparel and textile products	2	13.3
Ceramics and cement	1	6.7
Fabricated metal products (including plated products)	1	6.7
General machinery (including metal molds and machine tools)	1	6.7
Electric and electronic parts and components	3	20.0
Motor vehicles and motorcycles	1	6.7
Other	5	33.3
Total	15	100.0

Non-manufacturing industry		
Industry	No. of companies	Composition ratio
Mining	1	7.1
Real estate	1	7.1
Hotel/travel/restaurant	2	14.3
Communications/software	1	7.1
Construction/plants	7	50.0
Other	2	14.3
Total	14	100.0

1. Business outlook

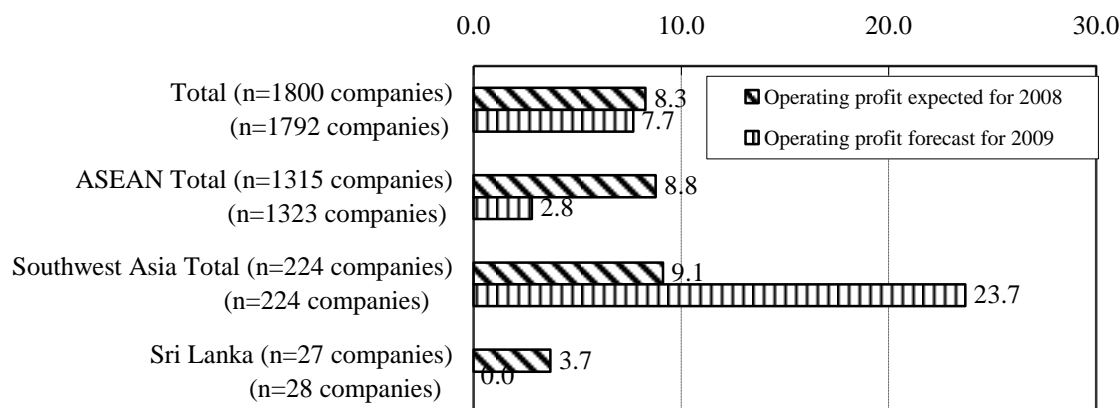
(1) Less than half of companies expecting to post profit

Among the Japanese-affiliated companies operating in Sri Lanka, 46.7% of companies in the manufacturing industry replied that they expected to post an operating profit for 2008, while 26.7% of the companies replied that they expected to break even, and the same percentage replied that they expected to post a loss (valid responses: 15 companies). In the non-manufacturing industry, on the other hand, the percentage of companies expecting to post a profit equaled the percentage of companies expecting to post a loss at 35.7% each, while 28.6% of the companies replied that they expected to break even (valid responses: 14 companies). In both the manufacturing and non-manufacturing industries, the percentage of companies expecting to post a profit was considerably lower than the average for the 13 countries covered in this survey, as well as the average of the ASEAN nations and of the nations of Southwest Asia.

(2) No major improvements in 2009 expected

The operating profit forecast for 2009 also showed little sign of improvement compared to 2008 (Diagram 55). In terms of the DI value, which was derived by subtracting the percentage of companies expecting operating profit to “Worsen” in 2009 from the percentage of companies expecting it to “Improve,” both the manufacturing (“Improve”: 21.4%; “Worsen”: 21.4%) and the non-manufacturing (“Improve”: 28.6%; “Worsen”: 28.6%) industries scored 0 points, indicating there was little sign of improvement over 2008.

Diagram 55: Estimated operating profit for 2008 and operating profit forecast for 2009, in terms of DI (total of manufacturing and non-manufacturing industries; unit: points)



2. Status of exports/imports: Majority of Japanese-affiliated manufacturing companies are export-oriented

In regards to exports, 46.7% of the companies replied that export sales accounted for 100% of their total sales, meaning all of their products were being exported. About 33.3% replied that export sales accounted for “90% to less than 100%” of total sales and 20.0% replied that they accounted for “80% to less than 90%” of total sales. However, no companies replied that export sales accounted for less than 80% of total sales (valid responses: 15 companies). In Sri Lanka, manufacturers that basically export 80% or more of domestically manufactured products receive a reduction in corporate taxes and are allowed duty-free importation of capital goods and raw materials/parts. Almost all of the Japanese-affiliated manufacturers take advantage of this scheme and utilize Sri Lanka as a base for exporting goods to the markets of other countries.

Export destinations (countries to which more than 1% of their products are being exported) cited were: (1) “Japan” (cited by 10 companies), (2) “Other Asian countries (excluding ASEAN and China)” (10 companies), (3) “Europe” (nine companies) and (4) the “US” (seven companies). It is thought that the companies mainly had India in mind when they cited “Other Asian countries” as an export destination.

3. Procurement of raw materials and parts

(1) Low local procurement ratio: Planned to increase procurement from ASEAN

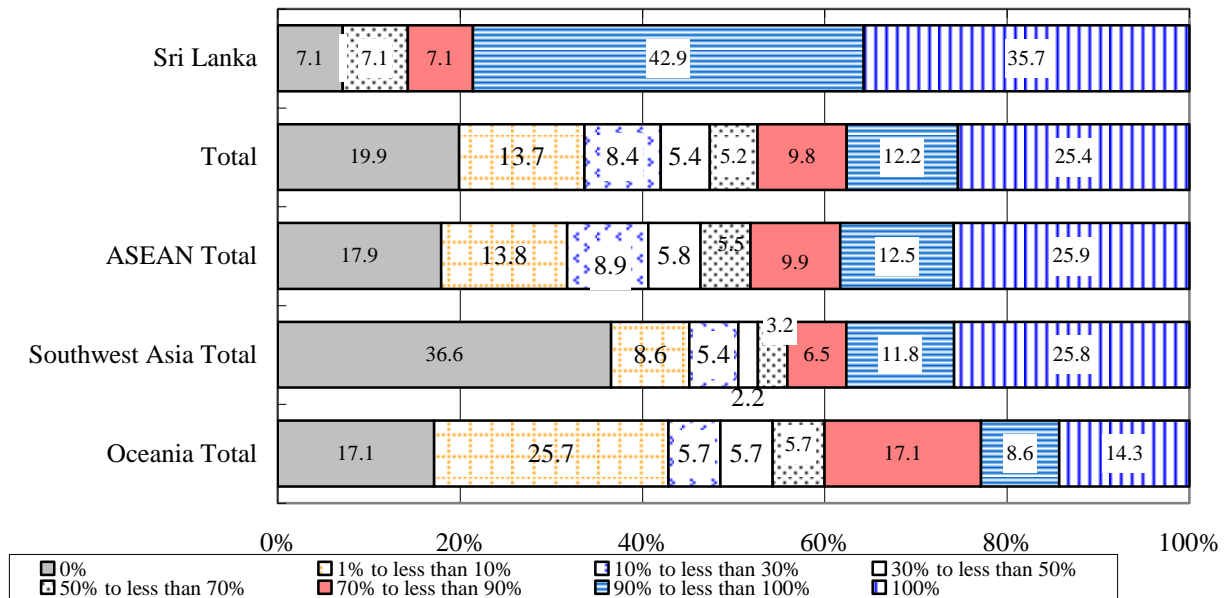
The ratio of local procurement of raw materials and parts in the manufacturing industry is low, and even among the nine companies that said they procured a certain amount of parts and materials locally, 55.6% replied that their local procurement ratios were “1% to less than 10%.” Major overseas procurement sources of parts and raw materials (countries from which 1% or more of their materials/parts is being procured) were “Japan” (cited by 11 companies), “ASEAN nations” (eight companies), “Other Asian nations” (five companies) and “Europe” (five companies).

Concerning future procurement policies (multiple answers allowed), an “Increase ratio of procurement from ASEAN” (53.9%) was the most cited reply, which was followed by an “Increase ratio of local procurement” (38.5%) and an “Increase ratio of procurement from China” (30.8%) (valid responses: 13 companies).

(2) The benefits of zero tariffs enjoyed for majority of imported raw materials and parts

In regards to the ratio of raw materials/parts procured duty free to the total amount of raw materials/parts procured through imports, 35.7% of the companies replied “100%” and 42.9% replied “90% to less than 100%” (valid responses: 14 companies) (Diagram 56). As mentioned earlier in 2. Status of exports/imports, in Sri Lanka, manufacturers that basically export 80% or more of their domestically manufactured products receive a reduction in corporate taxes and are allowed duty-free importation of capital goods and raw materials/parts. Evidently, Japanese-affiliated companies operating in Sri Lanka are utilizing this scheme and importing the majority of their raw materials and parts duty free, as a majority of them are export-oriented companies.

Diagram 56: Ratio of raw materials/parts imported duty-free to total amount of raw materials/parts procured through imports (total procurement through import amount = 100)



4. Business problems

(1) Increases in procurement costs and personnel costs weighing down profits

Concerning problems in production within the manufacturing industry (multiple answers allowed), an “Increase in procurement cost” was the most cited reply at 66.7%, which was followed by “Difficulty in local procurement of parts and raw materials” at 46.7% and “Limited cost-cutting measures available” at 40.0% (valid responses: 15 companies) (Diagram 57).

In terms of problems concerning labor or employment (multiple answers allowed), an “Increase in employee wages” was cited by the highest percentage of companies in both the manufacturing industry (valid responses: 15 companies) and the non-manufacturing industry (valid responses: 13 companies). It is evident from these replies that items relating to increasing costs, in particular, were being perceived as major problems in each of the questions above.

Sri Lanka has been almost completely dependant on imports for its fuel energy, so the brunt of soaring crude oil prices during the first half of 2008 was borne by domestic products, whose prices similarly soared. After

April 2008, Sri Lanka, along with Vietnam and Pakistan, maintained inflation rates higher than 25%, one of the highest in Asia. It is thought that the high inflation rate had a devastating impact on corporate activities by raising raw materials costs and personnel expenses, in addition to fuel energy and transportation costs.

(2) Unstable or insecure political or social conditions were major concerns

The most frequently cited problem within the investment environment (multiple answers allowed) was “Unstable or insecure political or social conditions,” which was cited by 84.6% of the companies in the manufacturing industry (valid responses: 13 companies) and 100% of the companies in the non-manufacturing industry (valid responses: 14 companies). Other problems mentioned by large percentages of companies both in the manufacturing and non-manufacturing industries included “Unclear policy management by the local government” and “Underdeveloped infrastructure.”

In January 2008, the indefinite ceasefire agreement, which had been concluded between the Sri Lanka government and the anti-government forces (LTTE), expired, and fighting intensified between the government forces and LTTE in the northeastern part of the country. Indiscriminate terrorist bomb attacks riddled the city of Colombo from April to June 2008, causing many fatalities. Uncertainty over public safety due to the above events and the Japanese government’s decision to upgrade its travel advisory warnings to Sri Lanka (which have since been lowered) have resulted in the cancellation/postponement of business trips by clients and delays in projects, thus becoming major concerns for Japanese-affiliated companies operating in Sri Lanka.

Diagram 57: Business problems

Unit: %, multiple answers allowed

Item		Valid responses	1	2	3		
Problem(s) in production	Manufacturing	15	Increase in procurement costs	Difficulty in local procurement of parts and raw materials	Limited cost-cutting measures available		
		100.0	66.7	46.7	40.0		
Problem(s) with labor or employment	Manufacturing	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
		100.0	86.7	40.0		33.3	
	Non-manufacturing	13	Increase in employee wages	Difficulty in recruiting engineer staff		Difficulty in recruiting general staff	
		100.0	100.0	30.8		23.1	
Problem(s) in the investment environment	Manufacturing	13	Unstable or insecure political or social conditions	Unclear policy management by the local government		Underdeveloped infrastructure	
		100.0	84.6	69.2		61.5	
	Non-manufacturing	14	Unstable or insecure political or social conditions	Underdeveloped infrastructure	Unclear policy management by the local government	Complicated administrative procedures	Complicated tax procedures
		100.0	100.0	50.0		28.6	

5. Competition: Becoming aware of rivalry with Chinese companies

In terms of which country was the main source of competition in selling products/services on the local market (as of the time of the survey), “China” was cited by the largest number of companies in both the manufacturing and non-manufacturing industries. The percentage replying “China” in the manufacturing industry was notable at 63.6%, while countries other than China were mentioned by less than 10% of the

respondents (valid responses: 11 companies).

In the non-manufacturing industry, on the other hand, 42.9% of the companies cited “China,” which was followed by “India” (28.6%) and “Sri Lanka” (14.3%) (valid responses: 16 companies).

In the manufacturing industry, “Enhance added value of products” (54.6%) was the most cited countermeasure taken against the competition, indicating the companies’ efforts to differentiate themselves from the influx of low-priced Chinese products (valid responses: 11 companies). In the non-manufacturing industry, on the other hand, “Enhance added value of products/services” (66.7%) was the most cited reply, which was followed by “Bolster sales and marketing capabilities,” at 33.3% (valid responses: 12 companies).

6. Future business development

(1) No plans to downsize or move to a third country

In regards to the direction of each company’s business development over the next one to two years, “Expansion” was cited by the majority, or 53.3%, of the companies in the manufacturing industry, while the remaining 46.7% replied they would maintain the “Status quo” (valid responses: 15 companies). In contrast, in the non-manufacturing industry, only 38.5% of the companies replied “Expansion” and the remaining 61.5% replied “Status quo” (valid responses: 13 companies). No companies replied “Downsizing” or “Move to a third country (region) or withdraw” in either the manufacturing or non-manufacturing industry.

(2) Companies considering business expansion and diversification as they look beyond to the Indian market

In the manufacturing industry, where the majority of the companies cited “Expansion” as the direction of their future business development, the most frequently cited reason for this (multiple answers allowed) was “Expansion of business size through additional investments” at 87.5%, which was followed by “Expansion (diversification) of production items” at 62.5%.

In terms of which countries (regions) companies in the manufacturing industry intended to focus on as sales markets for their products in the medium to long term (five to 10 years) (multiple answers allowed), the highest percentage of companies cited “India” at 60.0%, which was followed by “Europe” (33.3%). Furthermore, it should be noted that only one company (6.7%) cited “Sri Lanka,” the local market (valid responses: 15 companies).

7. Effects of inflation and its countermeasures: an “Increase in personnel costs” cited as most serious problem

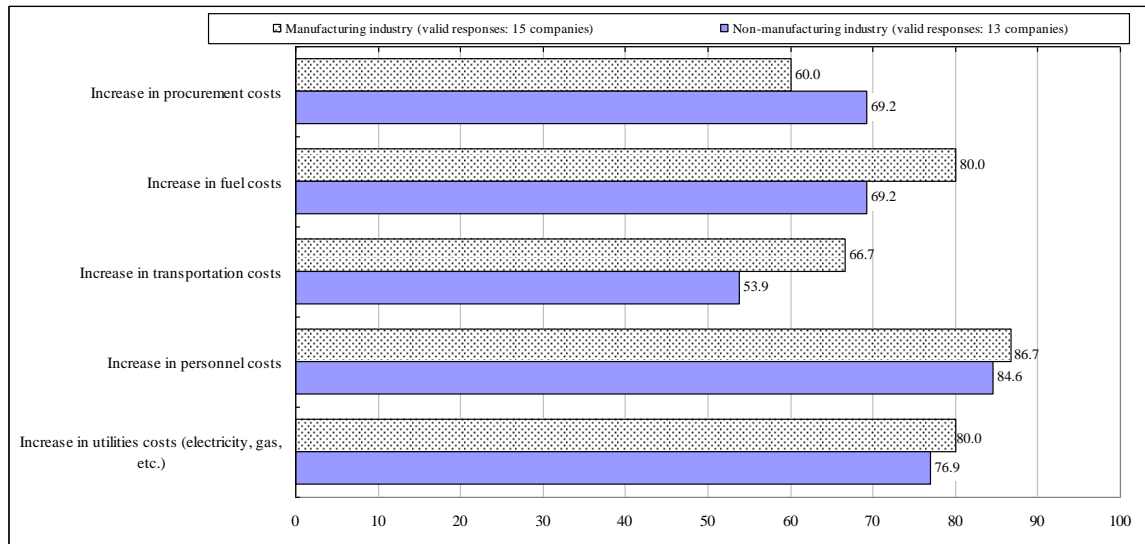
In terms of whether the advance of inflation had impacted profit, an extremely large proportion of the companies in the manufacturing industry, at 66.7%, replied inflation had “Significantly worsened” profit, and 33.3% of the companies replied profit had “Slightly worsened,” with no other response given (valid responses: 15 companies) (Diagram 58).

In the non-manufacturing industry, on the other hand, 57.1% of the companies replied profit had “Significantly worsened” and 28.6% of the companies replied it had “Slightly worsened,” while “Slightly improved” and “Hardly any impact” were cited by one company (7.1%) each (valid responses: 14 companies).

In terms of the specific types of impact advancing inflation had made (multiple answers allowed), an

“Increase in personnel costs” was cited by over 80% of the companies—the highest percentage—in both the manufacturing and non-manufacturing industries. Other common types of impact included an “Increase in procurement costs,” an “Increase in fuel costs,” an “Increase in transportation costs” and an “Increase in utilities costs (electricity, gas, etc.),” which were cited by over 60.0% of the respondents in both the manufacturing and non-manufacturing industries (valid responses: 15 companies in the manufacturing industry, 13 companies in the non-manufacturing industry).

Diagram 58: Specific types of impact of advancing inflation on profits (multiple answers allowed)



8. Status of infringements on intellectual property rights and its countermeasures: Extent of damage not known

In terms of whether companies had suffered damages from imitations/pirated products in the past year, in the manufacturing industry, 35.7% of the companies replied “Yes,” while 64.3% replied “No.” The percentage replying “Yes” was the highest among the 11 ASEAN and Southwest Asian countries covered in the current survey (valid responses: 14 companies). As for specific types of damage (multiple answers allowed), “Partial copy of product design” and “Illegal use of trademarks such as the brand logo” were the two most common replies, cited by 60.0% of the companies each.

However, those that had replied “Yes”—in terms of the extent of the damages incurred—all the companies replied “Don’t know” in regard to the approximate amount of damages.

By contrast, in the non-manufacturing industry, the percentage of companies replying “Yes” to whether they had suffered damages from imitations/pirated products in the past year was 7.7% (one company only), while 92.3% replied “No” (valid responses: 13 companies). The company replying “Yes” to the previous question, however, replied “Don’t know” concerning the approximate amount of damages.

9. Responses to standardization: High percentage of companies acquiring “International standards” in both manufacturing and non-manufacturing industries

In terms of how companies were responding to standardization, 69.2% of the companies in the manufacturing industry replied that they had adopted “International standards,” which was followed by

“European standards” at 30.8%. Only 7.7% (one company only) replied that they had acquired “JIS,” which were the standards of Japan, their major export destination (valid responses: 13 companies).

In the non-manufacturing industry, “International standards” had also been adopted by the highest percentage of companies at 41.7%, which was followed by “European standards,” “Local standards” and “No standards in area,” which were cited by 25.0% of the companies each (valid responses: 12 companies).

Concerning the measures being taken for exports to multiple countries with differing product standards, 53.9% of the companies in the manufacturing industry (valid responses: 13 companies) and 83.3% of the companies in the non-manufacturing industry (valid responses: six companies) replied “Products are produced to meet each country’s standards,” indicating that a high percentages of the companies were adopting the standards of each market they were exporting to, as necessary.

10. Efforts toward CSR: Taken mainly through independent company (group) efforts

Concerning what type of CSR activities were particularly sought in their country (multiple answers allowed), in the manufacturing industry, “Strict observance of local laws and regulations, and respect for international standards such as ISO,” “Ensuring product and service safety as well as (or) offering new products and services” and “Endeavors to improve the working environment” were each cited by 53.3% of the companies (valid responses: 15 companies).

In the non-manufacturing industry, “Strict observance of local laws and regulations, and respect for international standards such as ISO” was the most cited at 78.6%, which was followed by “Endeavors to improve the working environment” and “Engagement in local (or wider area) environmental issues,” which were cited by 50.0% of the companies each (valid responses: 15 companies).

In terms of who the companies collaborated with when performing CSR activities (multiple answers allowed), 86.7% of the companies in the manufacturing industry and 85.7% of the companies in the non-manufacturing industry replied, “Our company (group) conducts CSR activities independently (planning, implementation, evaluation, etc.)” In fact, there were few companies in either the manufacturing or non-manufacturing industry that replied that they collaborated with other international institutions or local governments.

11. Measures against new strains of influenza: Awareness of risks low compared to neighboring countries

In terms of measures against new strains of influenza, no companies in either the manufacturing or non-manufacturing industry replied they had taken “Adequate measures.” Moreover, 14.3% of the companies in the manufacturing industry and 28.6% of those in the non-manufacturing industry replied they had taken “Some measures,” illustrating that the number of companies taking any measures against an outbreak in Sri Lanka was extremely low compared to other countries covered in the current survey (valid responses: 14 companies in the manufacturing industry, 14 companies in the non-manufacturing industry).

At the time of the survey, no cases of the H5N1 influenza virus had been confirmed in Sri Lanka, and compared to neighboring countries (Bangladesh, Pakistan and India, etc) where outbreaks of the virus had been confirmed, the awareness of risk seemed to be lacking among the companies. Furthermore, as reasons for not formulating (or not being able to formulate) any measures, 57.1% of the companies in the manufacturing

industry and 30.0% of the companies in the non-manufacturing industry replied, “We do not think that an outbreak will occur.”

12. Wages

The basic salary (monthly) and the annual salary per employee* by type of job and the number of valid responses for each are as shown below.

1 Sri Lanka rupee = 0.009253 USD (Average rate: October 2008; source: Central Bank of Sri Lanka)

Diagram 59: Wages (basic salary and annual salary per employee) by type of job

Unit: LKR, figures in parentheses are the number of valid responses

	Job types	Base salary (monthly)	Annual salary (*)	Note
Manufacturing	Workers (General worker)	11,185.7 (14)	172,882.1 (14)	3 years of experience
	Engineers (Core technicians)	26,500.0 (12)	388,416.7 (12)	Graduates from technical schools or colleges, and 5 years of experience
	Managers (Section managers in charge of sales)	59,615.4 (13)	915,692.3 (13)	Graduates from university with 10 years experience
Non-manufacturing	Staff (General workers)	26,571.4 (14)	679,000.0 (14)	3 years of experience
	Managers (Section managers in charge of sales)	80,357.1 (14)	1,452,571.4 (14)	Graduates from university with 10 years experience

(*) Annual salary per employee (annual total of base salary, allowances, social security costs, overtime, and bonuses, etc.)