



FY2022 Questionnaire Survey on Japanese Companies in Malaysia

-Summary of Findings-

11 March 2022

Jointly conducted by

JACTIM & JETRO Kuala Lumpur

Table of Contents

0 . Outline of the Survey/Profile of Respondent Companies	...4
1 . Current Operating Status/Issues	...6
2 . Future Business Policy	...11
3 . Attractiveness & Challenges as an Investment Destination	...12
4 . Labor Issues	...17
5 . Taxation Matters	...21
6 . Presenting Our Requests to the Malaysian Government	...22

Main Points from the Survey Results

1. Production/operation at Japanese companies has recovered but roughly half of non-manufacturing are at pre-Covid levels

- Compared to before Covid-19, the top response by the manufacturing sector is “Above pre-Covid level” while for non-manufacturing it is “Same as pre-Covid-19 level.” Operation at roughly half of the non-manufacturing companies still had not recovered to pre-Covid-19 levels.
- Since the floods at the end of 2021, some respondents replied their supplier still had some damage. As a countermeasure to avoid supply chain issues some had changed their domestic raw materials/parts supplier.

2. Issue for manufacturing was worker shortage, for non-manufacturing restriction on sales activities

- Under operational issues, “Worker shortage” is the highest by far for manufacturing, followed by logistics disruption issues like “Late delivery of products/parts/raw materials from overseas supplier”, “Sea/air freight issues”.
- For non-manufacturing, restriction on face-to-face interaction is a hindrance such as “Restriction on domestic sales activities”.

3. Investment continues to be on an expansion trend

- Roughly 20% of both manufacturing and non-manufacturing sectors were considering “Pure expansion, new business development” . It is the same trend as in the previous survey.
- Reasons for expansion are, “In the midst of shifting from current product to high added value product”, “Changing needs due to growing middle class”, “English proficiency and education level are high and lower cost than Singapore”, etc.

4. As an investment destination attraction is “English proficiency”; issues were “Complicated visa application process”, “Political uncertainty”

- As in the past, the main attractions of Malaysia as a medium to long term investment destination were “English proficiency of workers/citizens”, “Safety/security” and “Good living environment”.
- Trade and investment issues are “Complicated visa application process” and “Political uncertainty”, “Frequent changes in regulation”.

5. Regarding labor, rising wages are an issue as well as various expatriate employment and foreign worker policy matters

- “Rising wages”, “Retention of workers” are key labor related issues.
- Duration and complexity of Employment Pass(EP) application process for expatriates continued to be an issue.
- Regarding foreign worker policy, 60% of manufacturing want hiring of new workers to resume.

6. To the Malaysian government, calls to amend foreign worker policy and improve how regulations are implemented

- In particular, the manufacturing sector wants hiring of new workers to resume in light of the serious foreign worker shortage.
- Requests to standardize method of government announcements, and a provide English version remains high.

Outline of the Survey/ Profile of Respondent Companies (1)

Survey conducted by

- JACTIM
- JETRO Kuala Lumpur

Objective of the Survey

- To grasp the activity status of Japanese companies in Malaysia, disseminate the survey result widely, and utilize it for policy proposals to the Malaysian government.

Main Survey Topics

1. Current operating status/issues
2. Future business policy
3. Attractiveness & challenges as an investment destination
4. Labor issues
5. Taxation matters
6. Presenting our requests to the Malaysian government

Survey Respondents

- JACTIM member companies: 557
- ※Local corporations/branches and representative office. Excludes individual members.

Survey Period

- 19 January – 18 February 2022

Response Status

- Number of valid responses : 174 companies (response ratio: 31.2%)

Respondents by sector

	No. of companies	Composition ratio (%)
Manufacturing sector	98	56.3
Non-manufacturing sector	76	43.7
Total	174	100.0

Respondents by company size

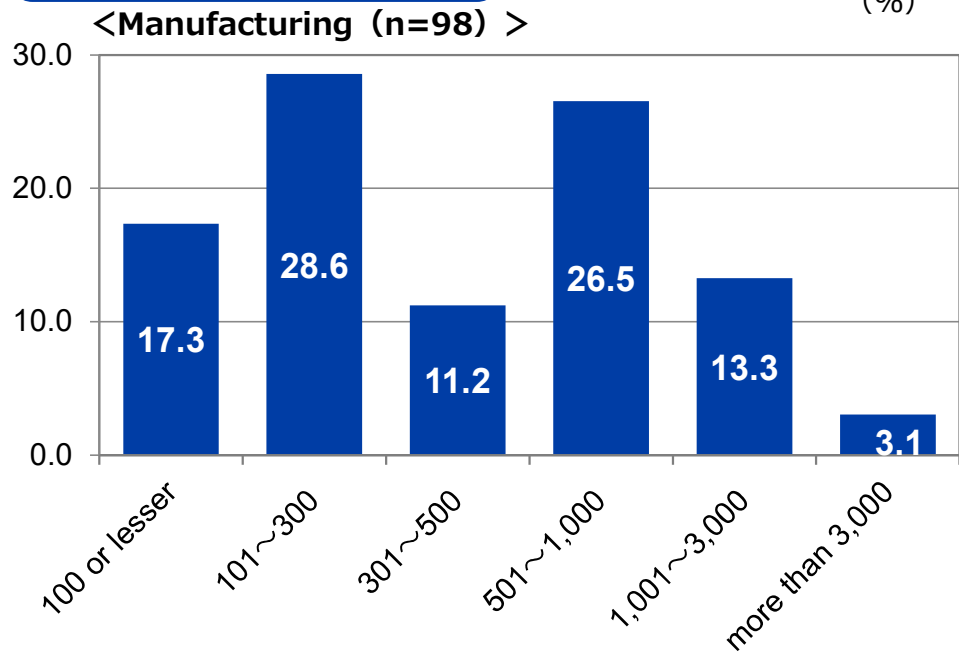
	No. of companies	Composition ratio (%)
Large Enterprise	134	77.0
SME	36	20.7
No parent company in Japan	4	2.3
Total	174	100.0

Respondents by state/region

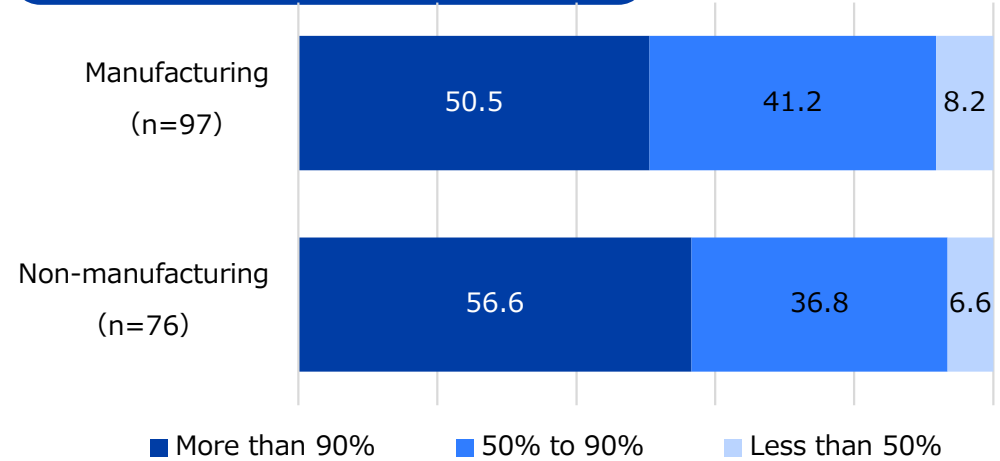
	No. of companies	Composition ratio (%)
Kuala Lumpur	54	31.0
Selangor	58	33.3
Negeri Sembilan	7	4.0
Malacca	5	2.9
Perak	9	5.2
Johore	10	5.7
Penang	18	10.3
Northern region (Kedah, Perlis)	8	4.6
East coast region (Pahang, Kelantan, Terengganu)	4	2.3
East Malaysia (Sabah, Sarawak, Labuan)	1	0.6
Total	174	100.0

Outline of the Survey/ Profile of Respondent Companies (2)

Number of Employees



Percentages of Malaysian Employees



Number of Malaysian Employees

(person)

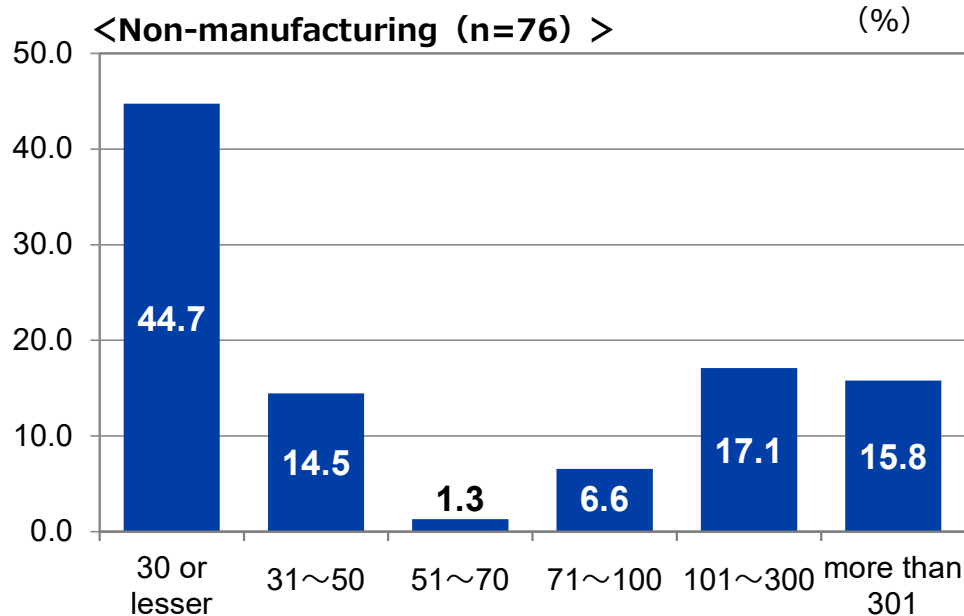
	No. of Persons
Total (n=173)	66,618
Manufacturing (n=97)	55,814
Non-manufacturing (n=76)	10,804

Employment of Foreign Worker

(%)

	Yes	None
Total (n=173)	50.3	49.7
Manufacturing (n=97)	64.9	35.1
Non-manufacturing (n=76)	31.6	68.4

(Note) Companies that did not disclose number of employees were excluded from the denominator, therefore, the "Total" does not tally with the total respondents in the previous slide.

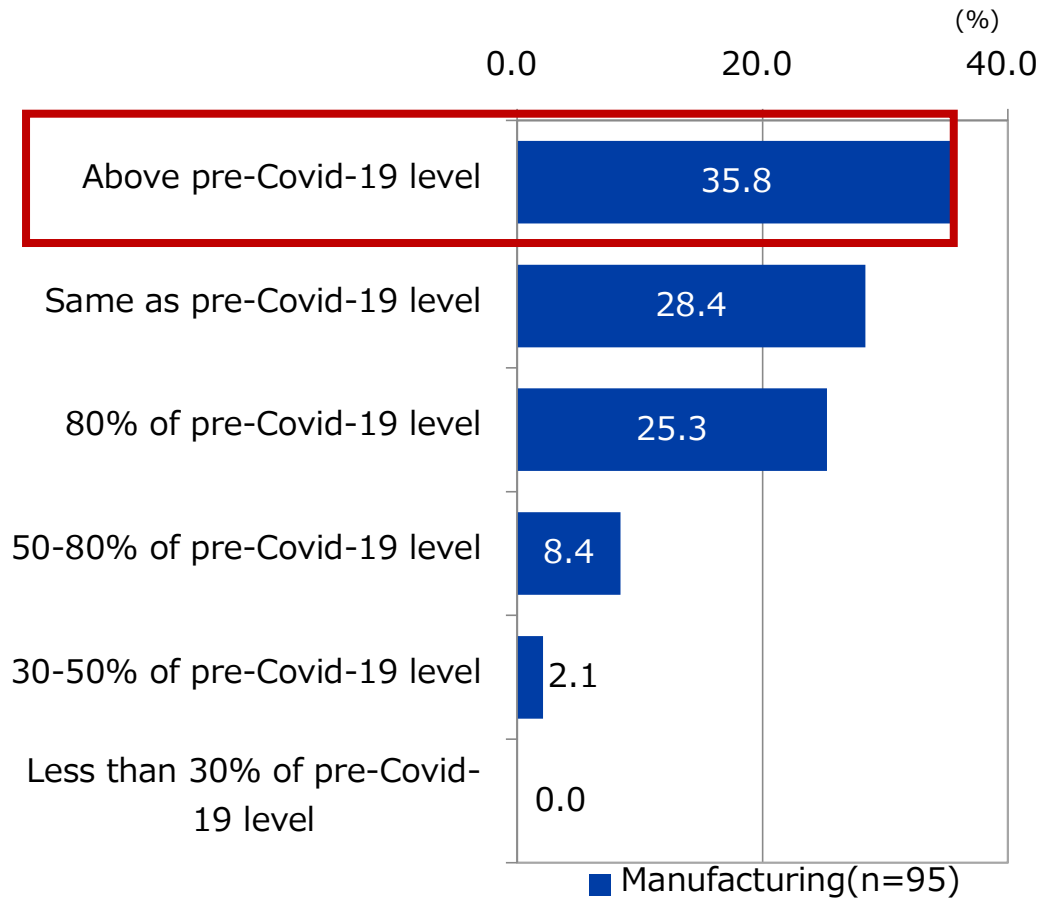


1-1 | Production/Operating Status (as of response date): Signs of recovery

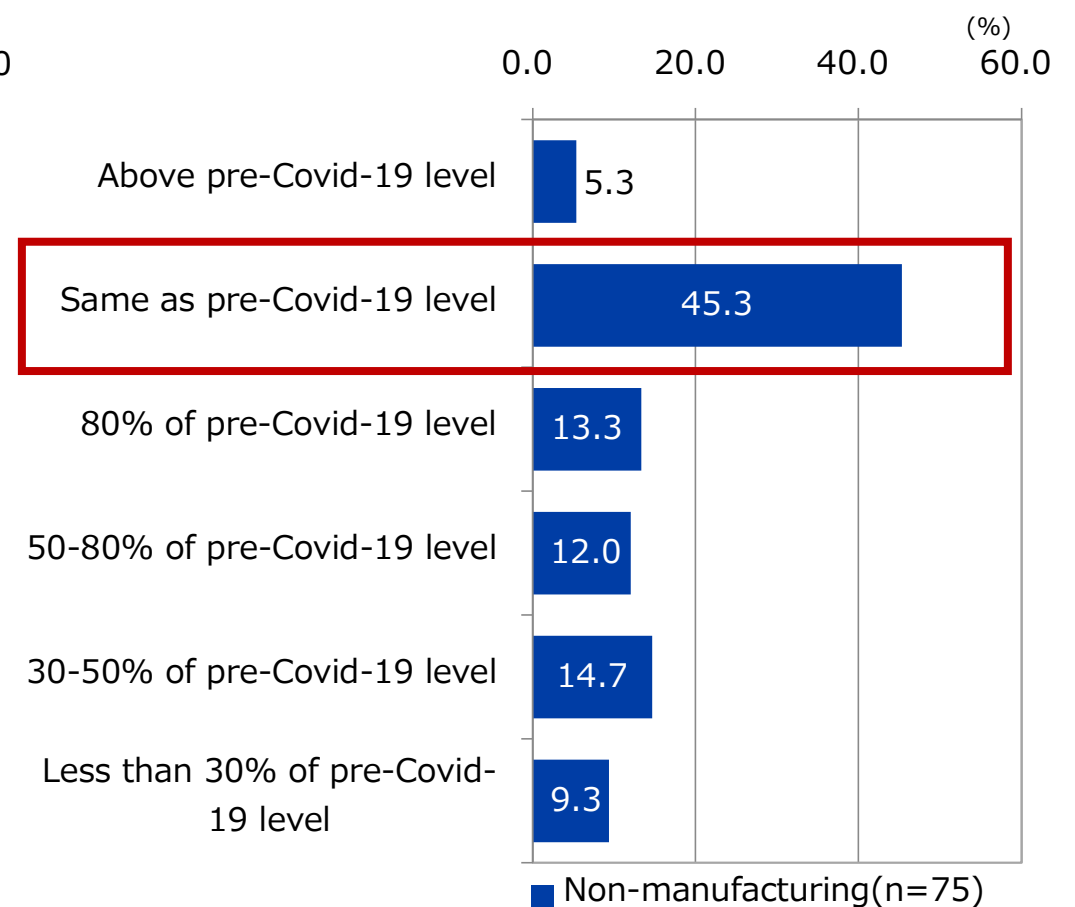
- Compared to pre-Covid-19 period※, 35.8% of the companies in the manufacturing sector responded that their production was “Above pre-Covid-19 level”. While in the non-manufacturing sector, nearly half or 45.3% selected “Same as pre-Covid-19 level”. These indicate strong signs of recovery.
- On the other hand, operation for nearly half of the non-manufacturing companies had not return to pre-Covid-19 levels. It is hoped that the domestic economy would recover further.

※Defined as “March 2020”.

<Manufacturing> Production (Single answer)



<Non-manufacturing> Operation (Single answer)

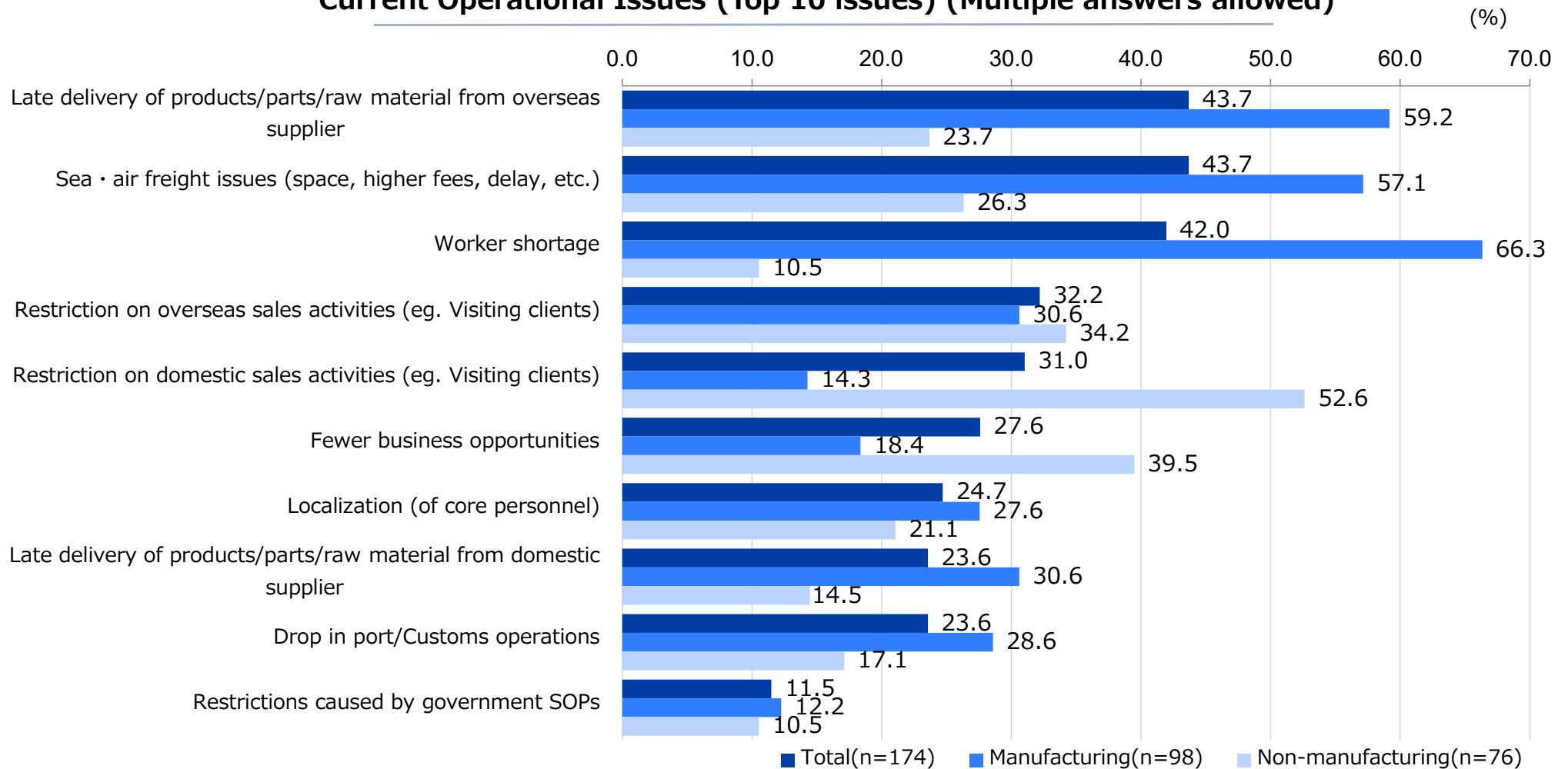


(Note) Companies with no answer were removed from the denominator

1-2 | Issues: Manpower shortage in manufacturing sector; Restriction of sales activities in non-manufacturing sector

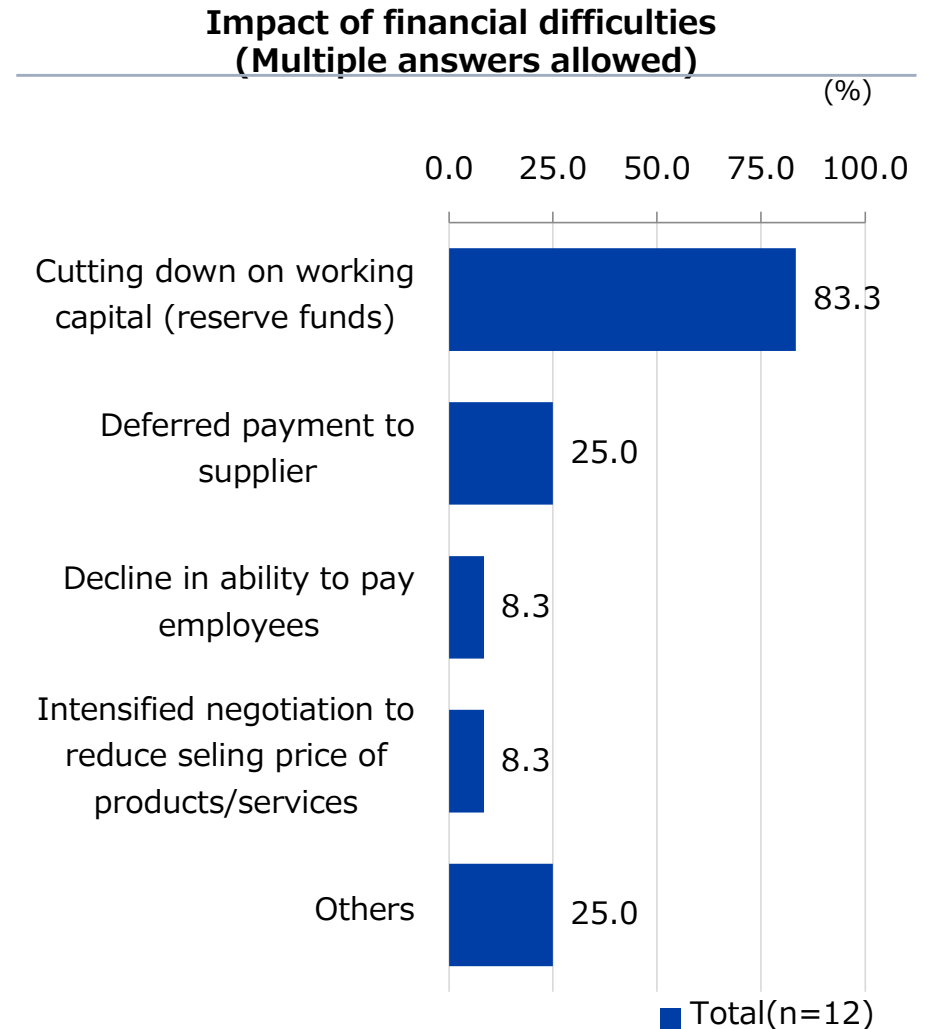
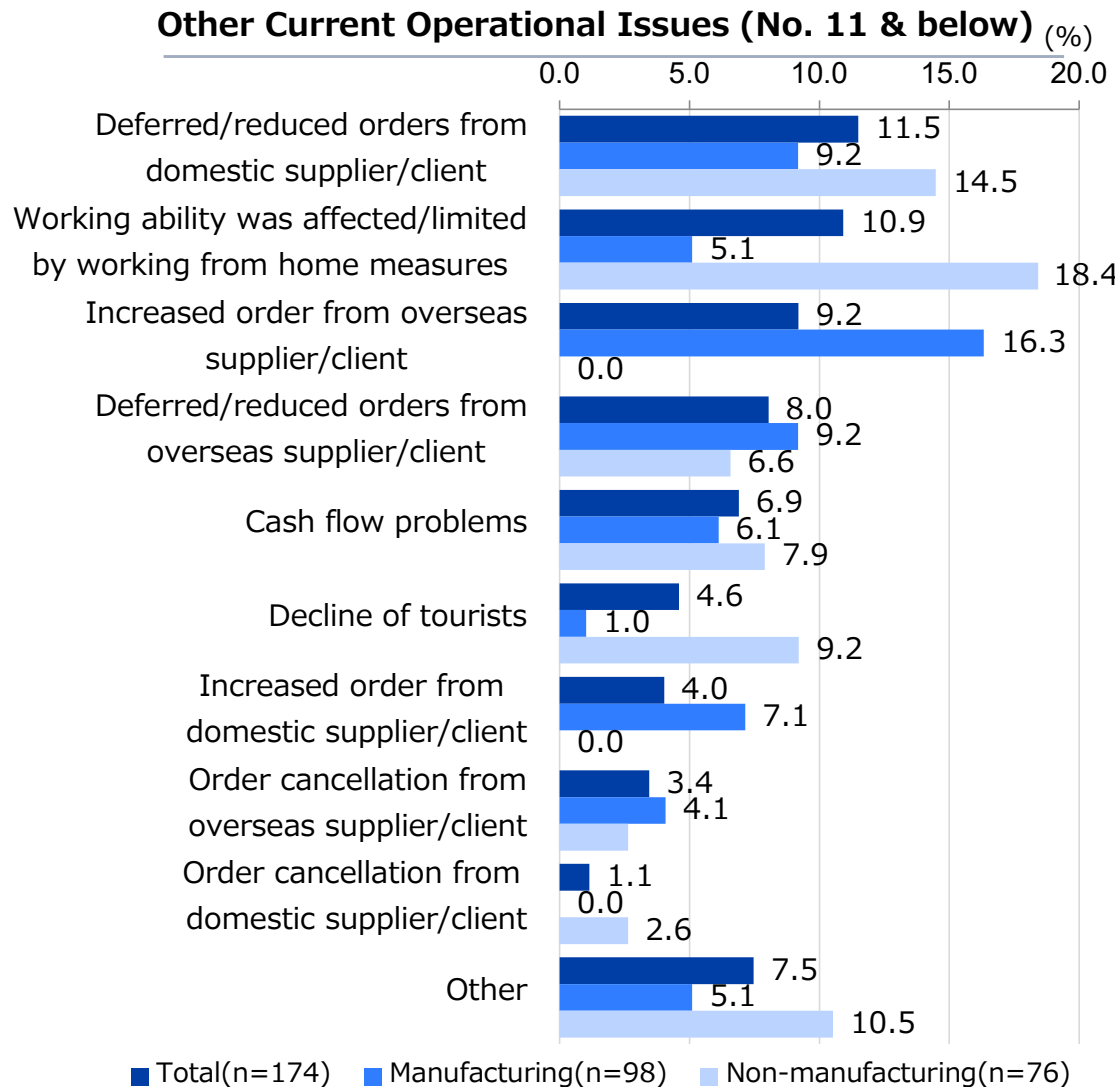
- There was a clear difference between manufacturing and non-manufacturing on operational issues. For manufacturing, “Worker shortage” stood out at 66.3%, followed by logistics disruption issues such as “Late delivery of products/parts/raw materials”, “Sea/air freight issues (space, higher fees, delay, etc.)”
- For non-manufacturing, the hindrance was restriction on in-person activities such as “Restriction on sales activities in Malaysia (such as visiting clients)”

Current Operational Issues (Top 10 issues) (Multiple answers allowed)



1-3 | Issues (cont.): Maintaining cash flow by cutting down on working capital

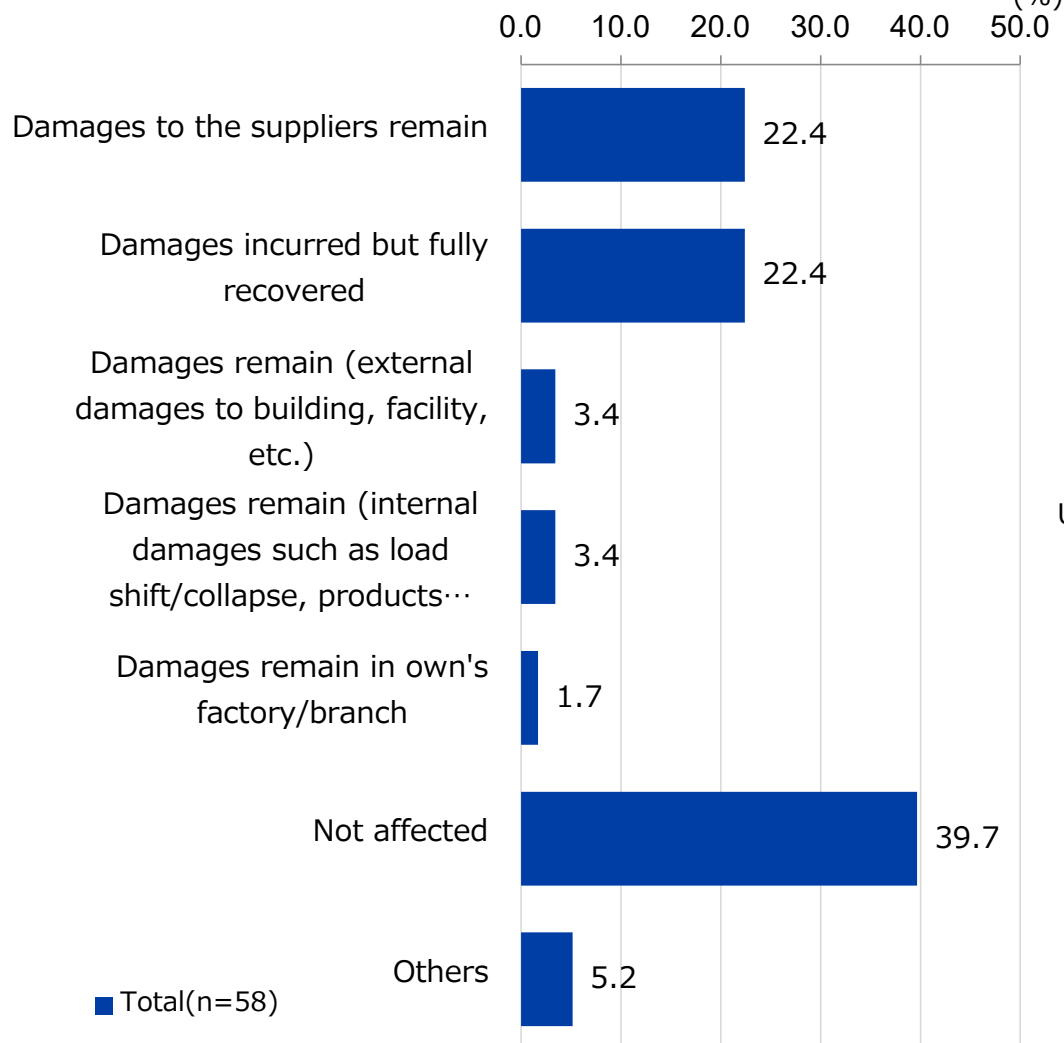
- Other operational issues such as “Working ability was affected/limited by working from home measures” and “Deferred/reduced orders from domestic supplier/client” were particularly common in the non-manufacturing sector.
- Cash flow problems were being overcome by “Cutting down on working capital (reserve funds)”. There were also comments on “Increased interests burden due to higher borrowings from banks”



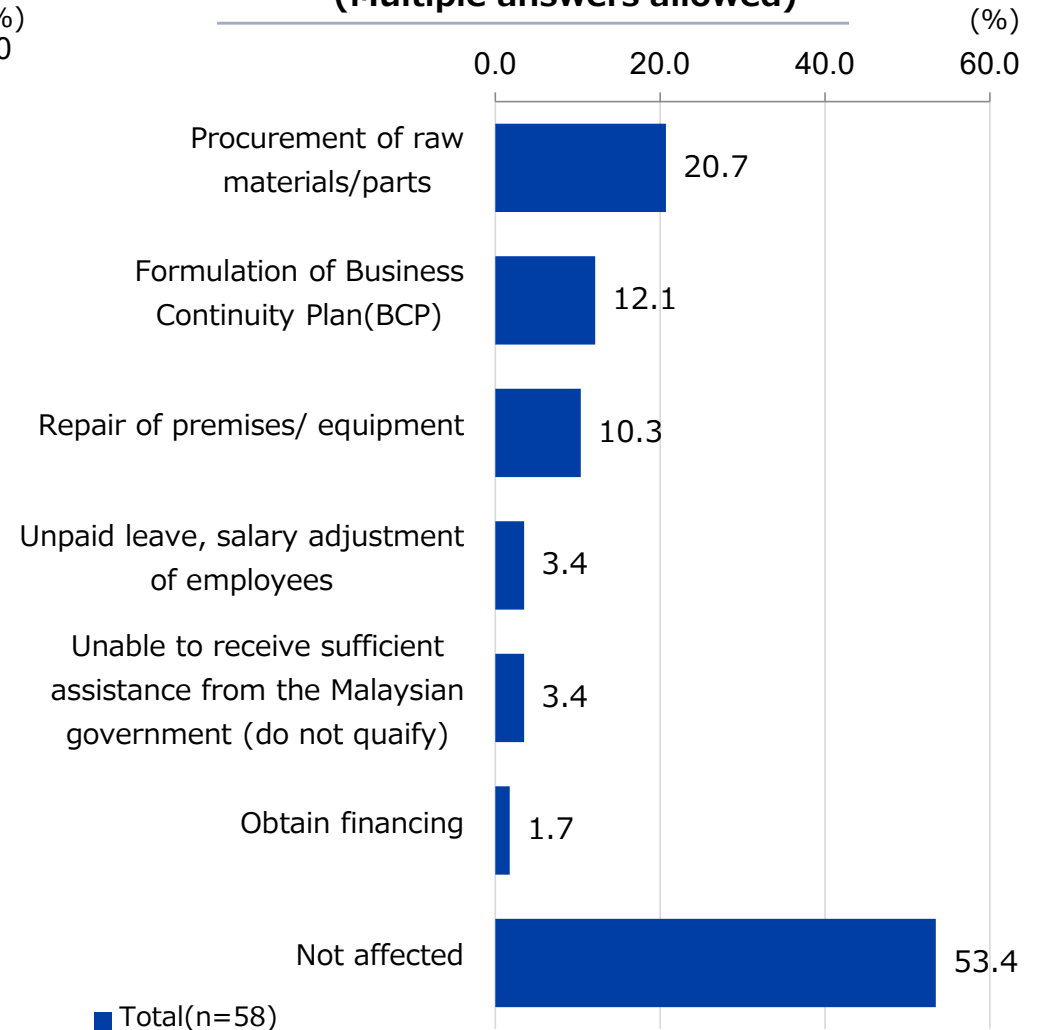
1-4 | Impact of Floods (1): Certain damages to the suppliers remain

- On the impact of floods which occurred across peninsula Malaysia in December 2021, “Damages to the suppliers remain” and “Damages incurred but fully recovered” in Selangor where the damage was most severe, achieved the same percentage.
- Specific issues raised by many were “Procurement of raw materials/parts” and “Formulation of Business Continuity Plan (BCP)”.
- Although 60% of companies nationwide were not affected, more than 20% responded “Damages to the suppliers remain”.

Current damages: Selangor (Multiple answers allowed)
(%)



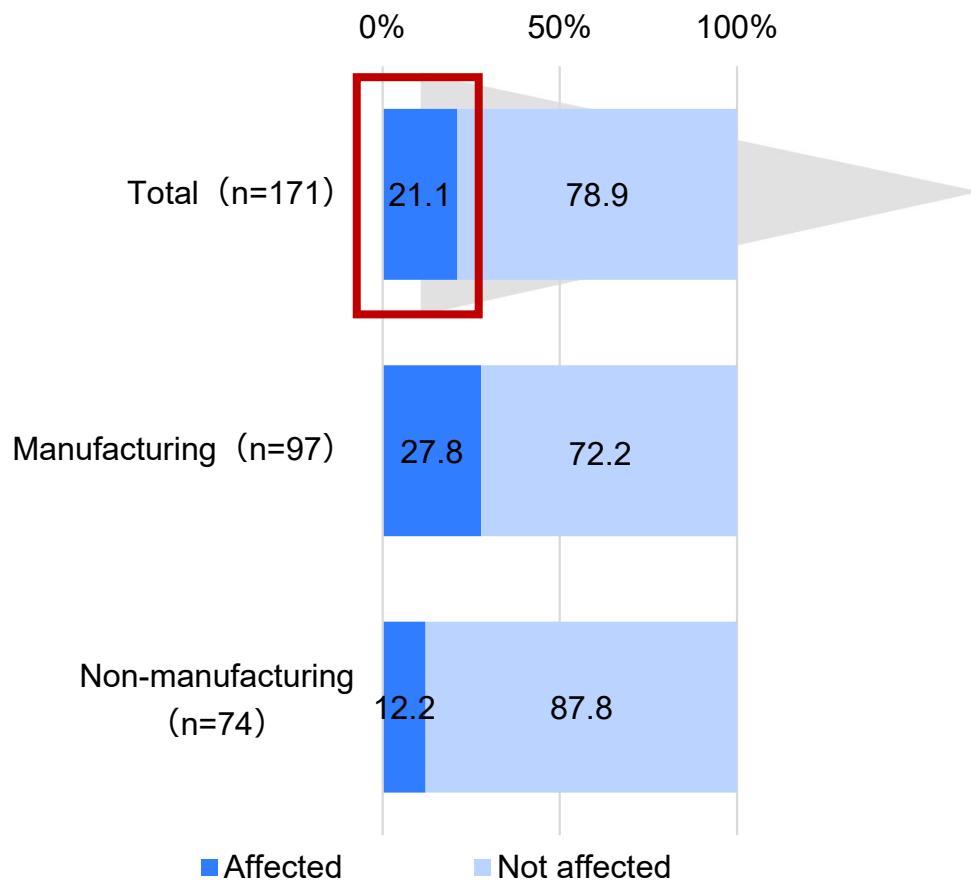
Issues due to heavy rain: Selangor (Multiple answers allowed)
(%)



1-5 | Impact of Floods (2): Have to change suppliers for raw material/parts

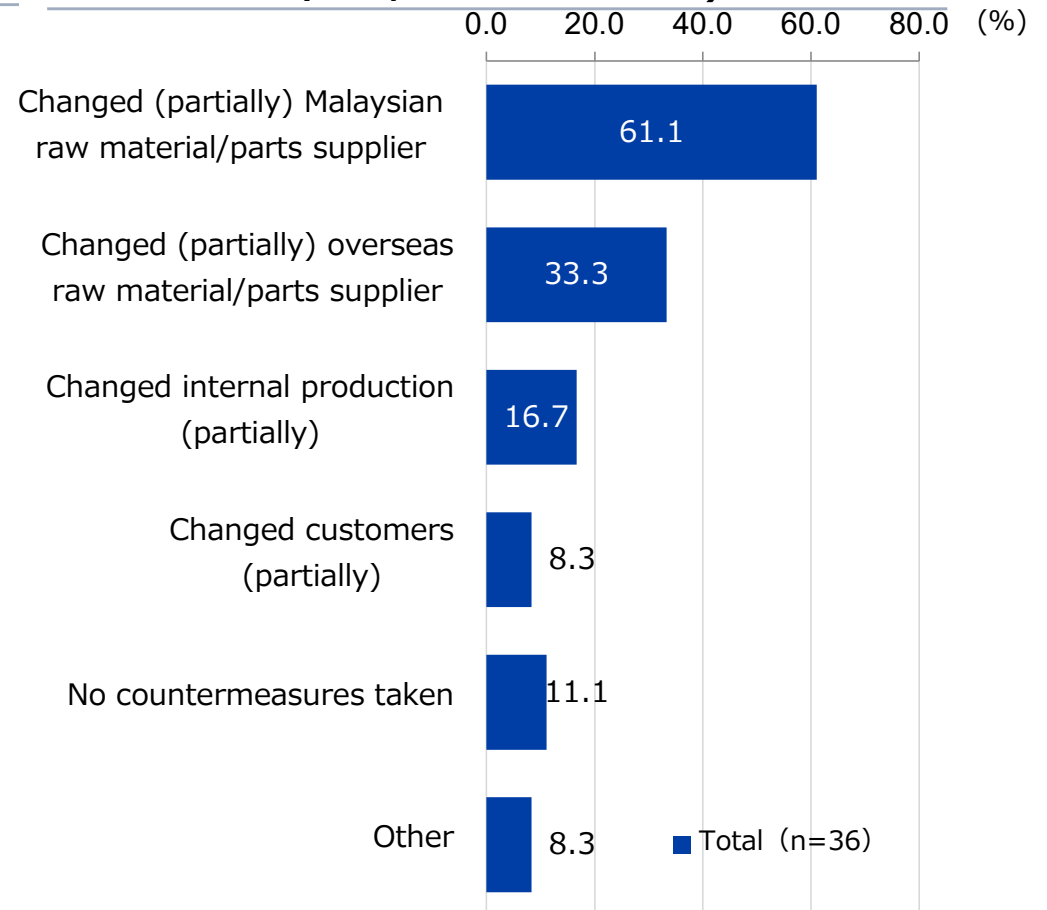
- 21.1% of companies nationwide responded that their supply chain had been “Affected”; It was 27.8% for the manufacturing sector.
- To overcome the impact, the most common countermeasure taken was to “Partially changed supplier of raw material and parts”. Roughly 60% responded that the alternate source was “Within Malaysia” while about 30% was from “Overseas”.

**Impact of heavy rain on the supply chain
(Multiple answers allowed)**



Note: Companies with no answer were excluded from the denominator

**If affected, countermeasures taken or planning to take
(Multiple answers allowed)**

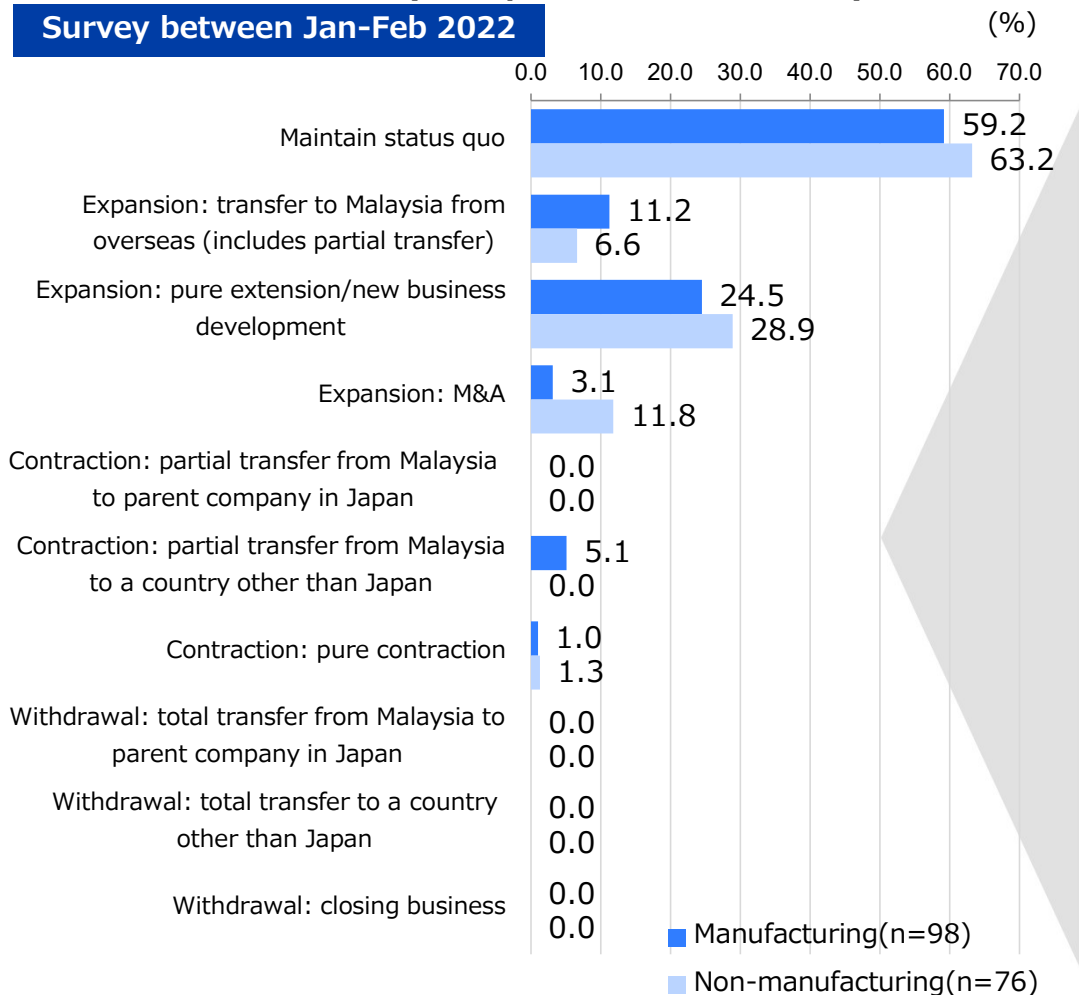


Note: Breakdown only includes companies whose supply chain was “Affected”

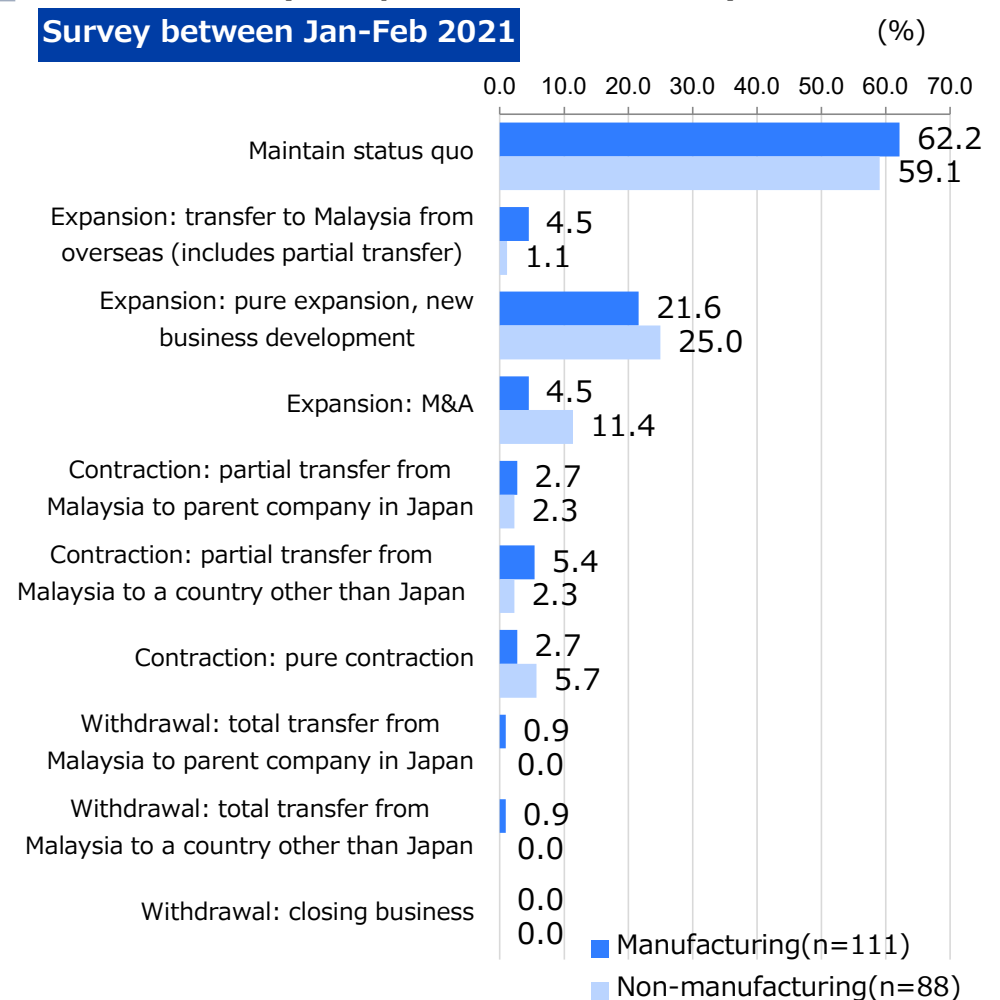
2 | Future Business Plan: As with last survey, more than 20% are considering expansion

- Roughly 20% of both manufacturing and non-manufacturing sectors were considering “Pure expansion, new business development”. This was the same trend as the previous survey.
- Reasons given for responding to “Pure expansion, new business development” were: “In midst of shifting from current product to high value-added product” (E&E), “EV expansion in auto sector” (steel/non-steel), “Changing needs of growing middle class” (wholesale/retail), “English proficiency and education level are high but at a lower cost compared to Singapore” (telecommunication · IT).

**Future business plan in Malaysia
(Multiple answers allowed)**



**Future business plan in Malaysia
(Multiple answers allowed)**

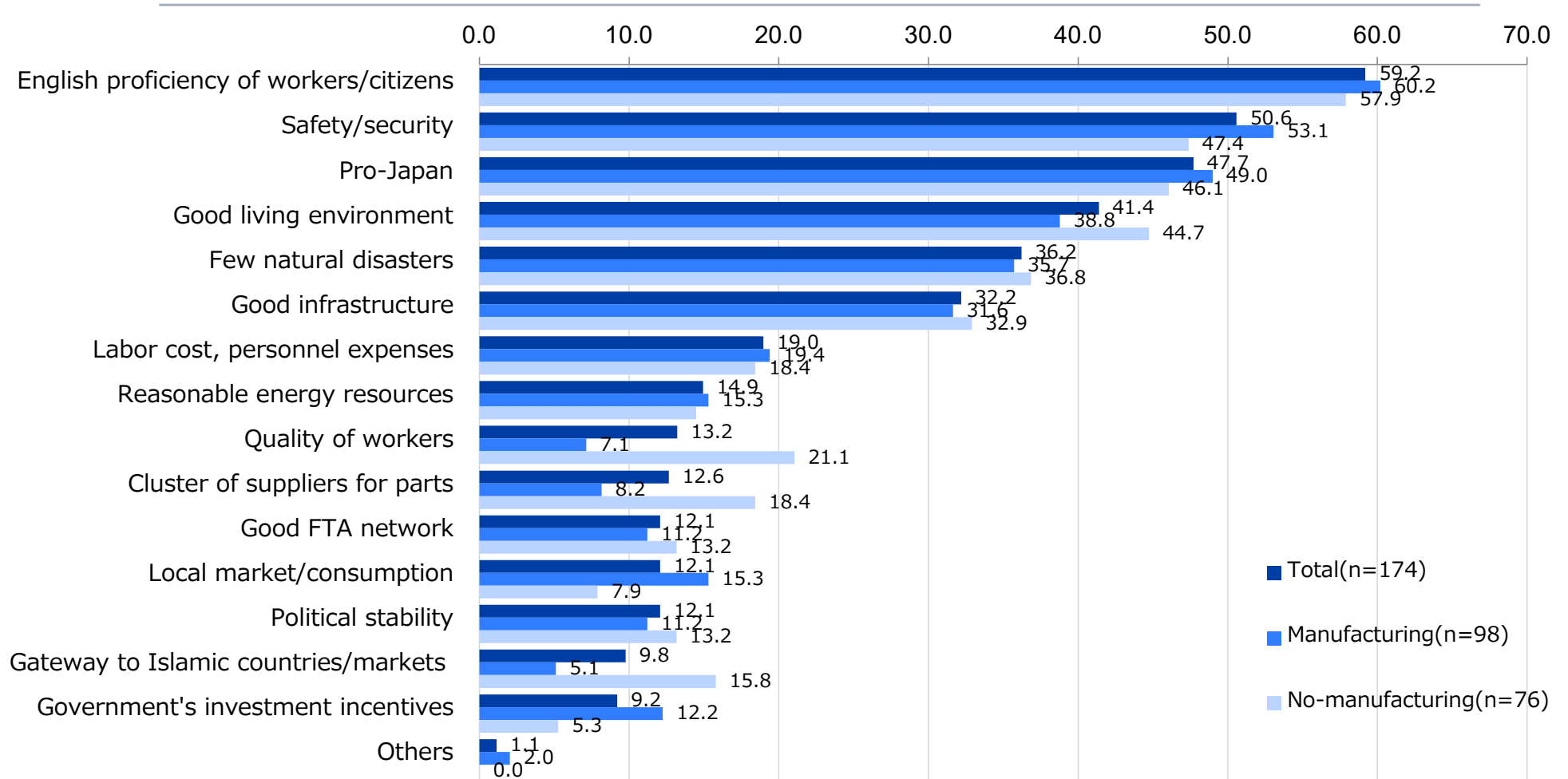


Note: “Others” is not displayed

3-1 | Medium to Long Term Attractiveness: English proficiency, safety/security, Pro-Japan

- As in the past, “English proficiency of workers/citizens”, “Safety/security”, “Pro-Japan” and “Good living environment” topped the list of Malaysia’s attractiveness for medium to long term investment. There was not much discrepancy in the top reasons among different businesses.
- “Few natural disasters” fell from 2nd to 5th place due to the floods at the end of 2021. Meanwhile, assessment of “Government’s incentives for investment” remained low at 9.2%.

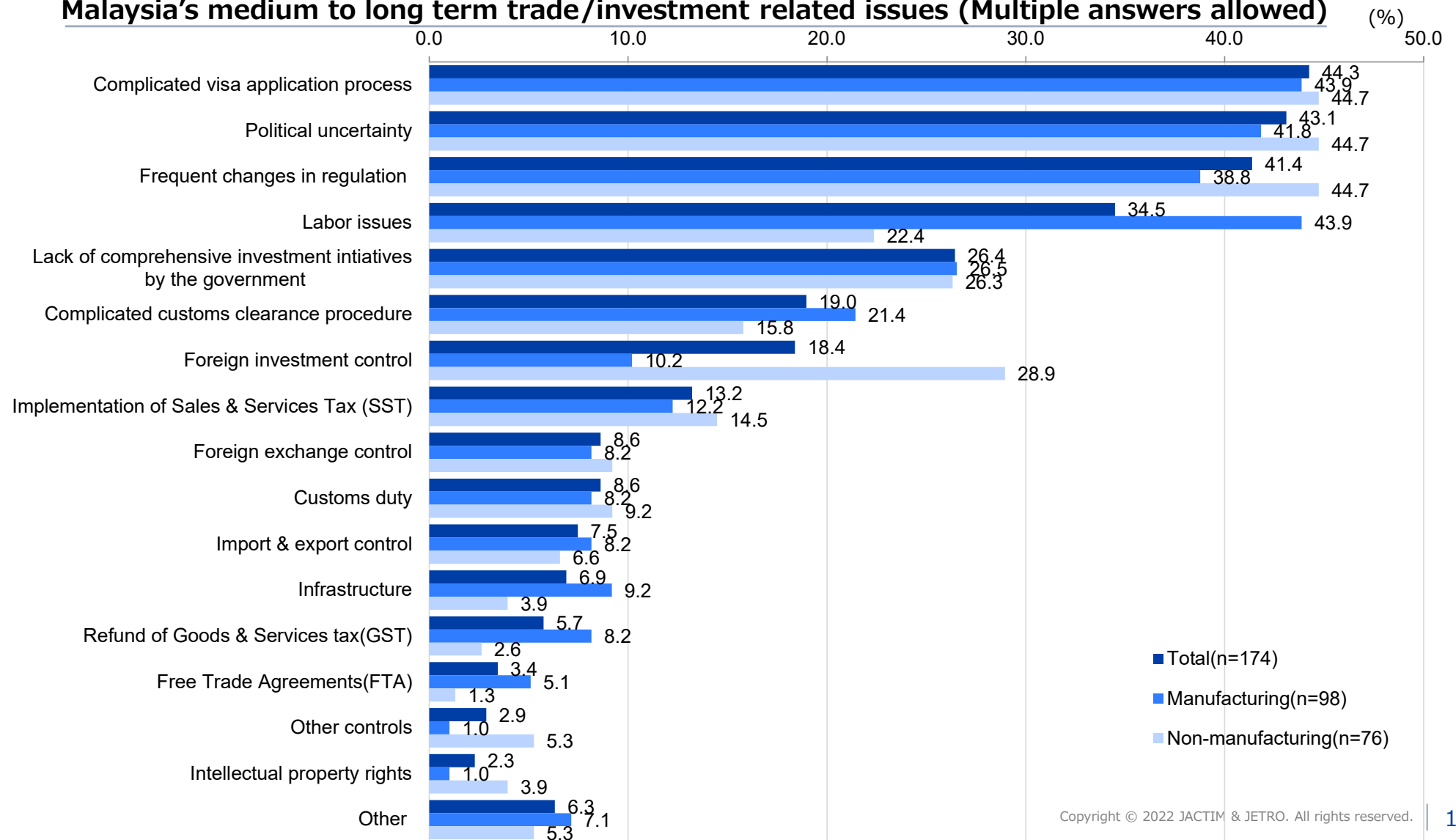
Attractions of Malaysia for medium to long term investment (Multiple answers allowed) (%)



3-2 | Medium to Long Term Issues: Complicated visa application process, political uncertainty

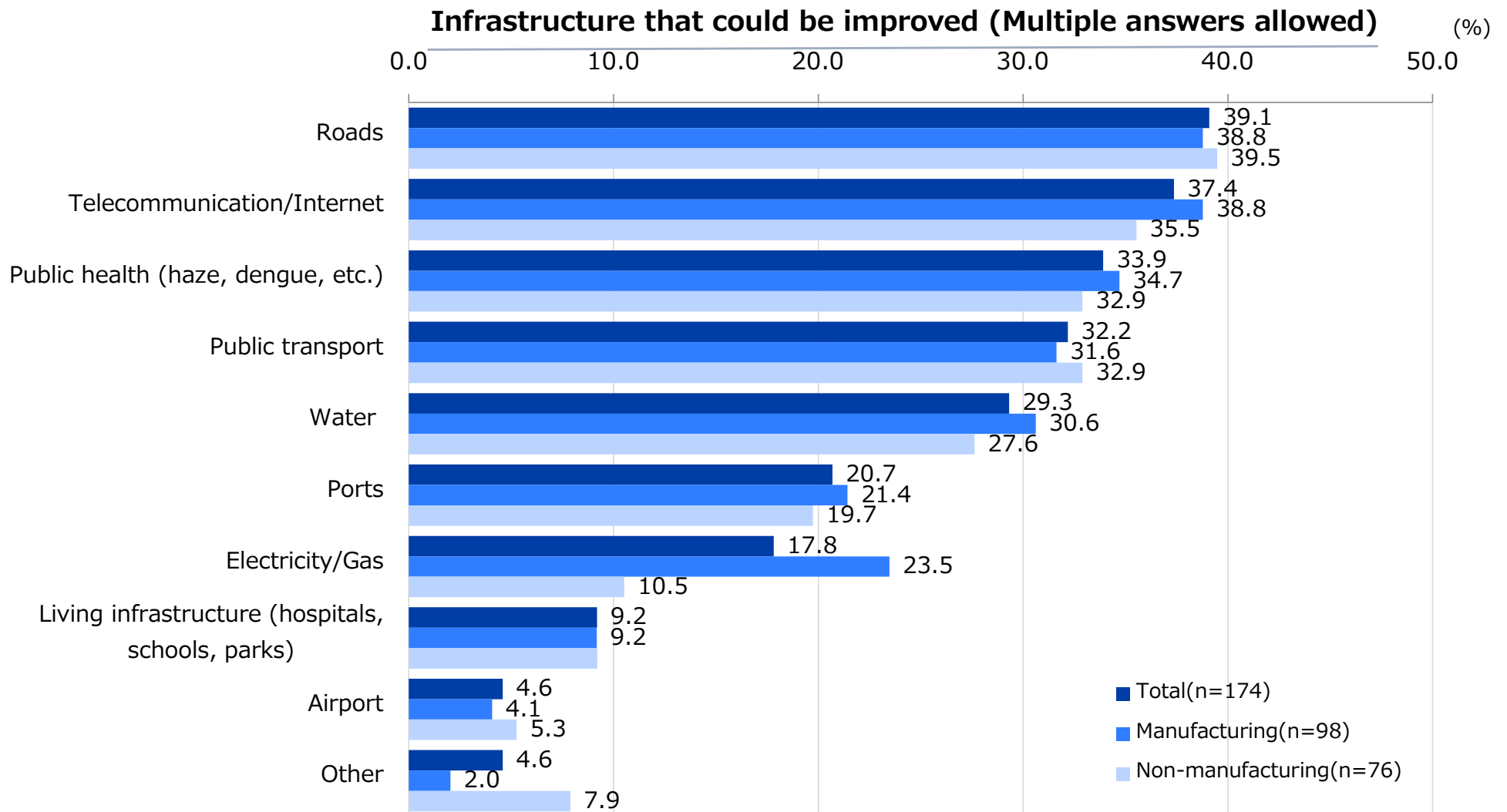
- Listed at the top of Malaysia’s trade/investment related issues in the medium to long term were “Complicated visa application process”, “Political uncertainty” and “Frequent changes in regulations”.
- Many in manufacturing had “Labor issues” while for non-manufacturing it was “Foreign investment control”. In relation to the former, there were comments of “Labor shortage.”

Malaysia’s medium to long term trade/investment related issues (Multiple answers allowed)



3-3 | Infrastructure Issues: Roads, Telecommunication/Internet

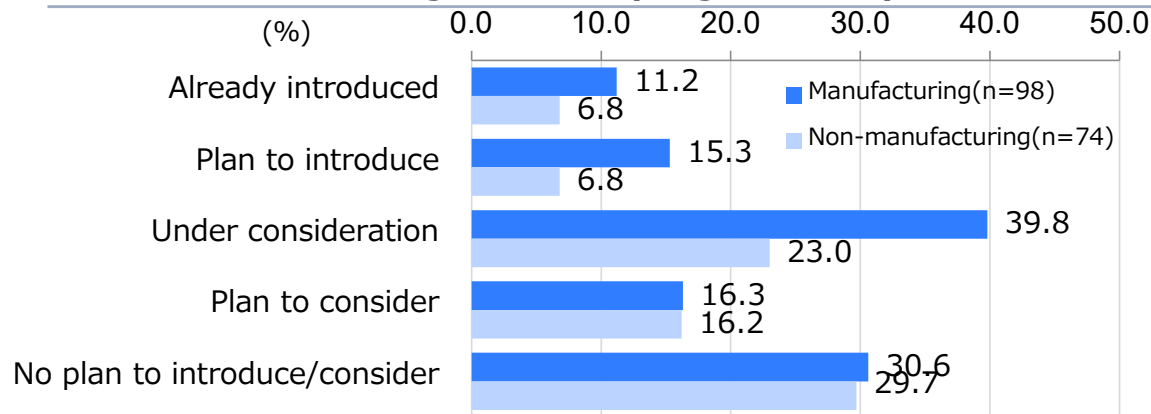
- “Roads” and “Telecommunication/Internet” each scored nearly 40% as the infrastructure in Malaysia that respondents felt had rooms for improvement.
- In the aftermath of the floods in late 2021, several companies mentioned “flood management” as an issue.



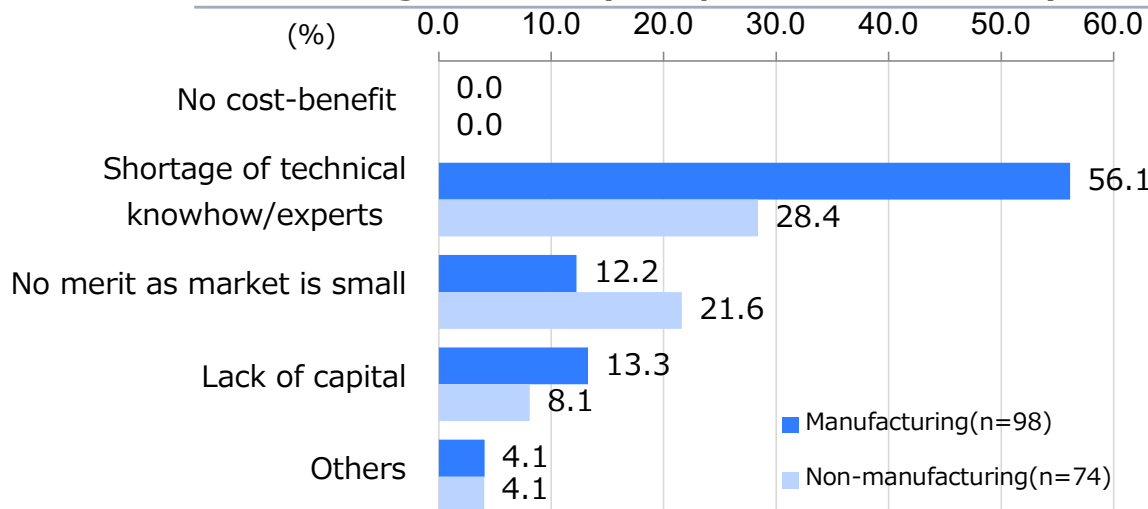
3-4 | Mechanization/Automation/ Digitalization: There are some progress amid challenges

- 20.9% of companies had "Already introduced" or "Plan to introduce" facilities and technologies for mechanization, automation or digitalization. About half of the Japanese companies selected "Under consideration" or "Plan to consider" while a high ratio in manufacturing sector selected "Under consideration". There are many companies installing automation such as robotics or digitalization of their company processes.
- Meanwhile, no cost benefit, shortage of technology knowhow/experts were raised as issues for introducing such technology.

Plans to introduce mechanization/automation /digitalization (Single answer)



Factors against mechanization/automation /digitalization (Multiple answers allowed)



Note: Companies with no answer are excluded from the denominator

Specific mechanization/automation /digitalization plans

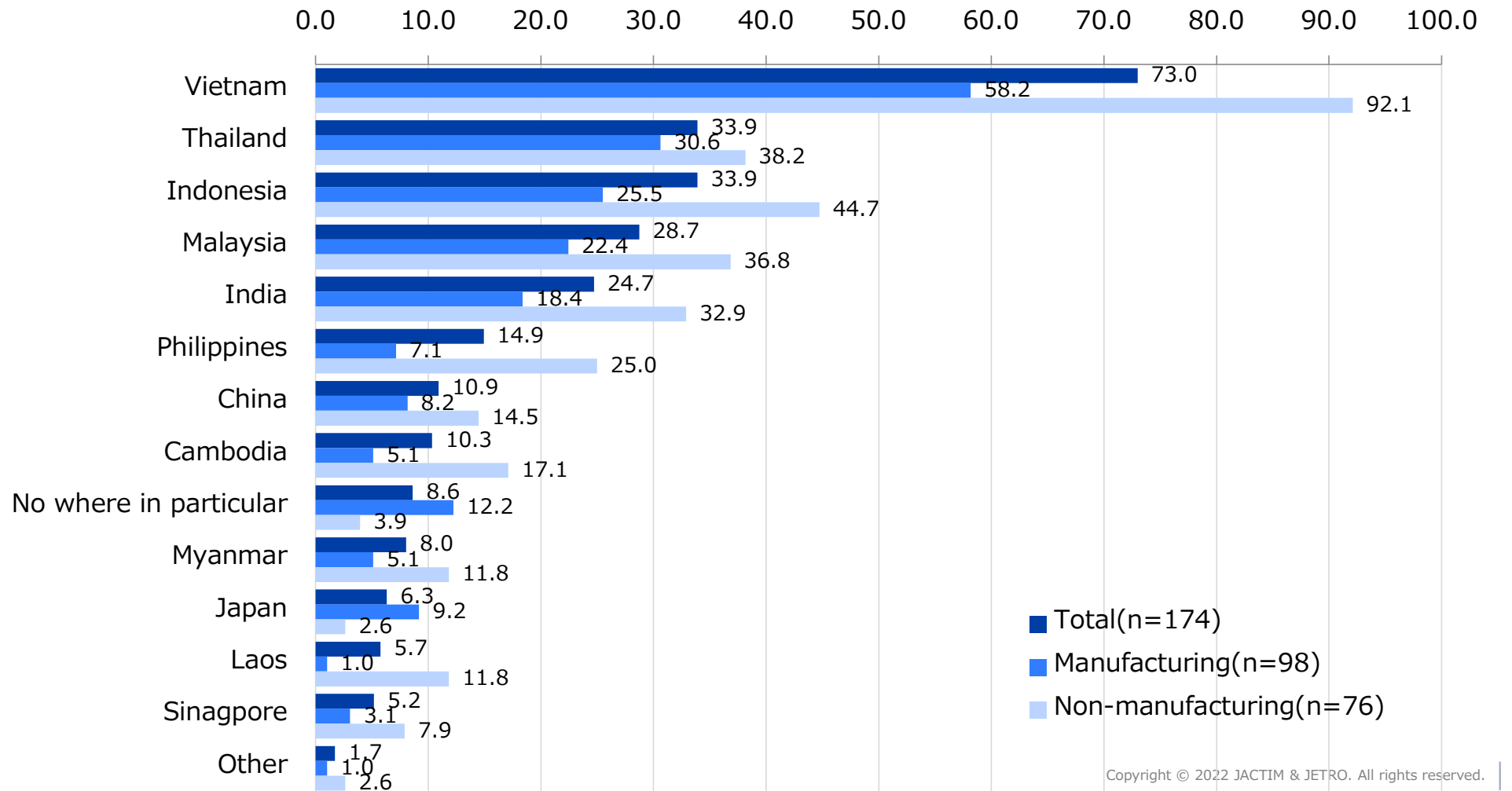
	Comments [Industry]
Mechanization	<ul style="list-style-type: none"> Transforming into smart factory, such as the introduction of New Store System [E&E] Automation within group companies [ferrous/non-ferrous] Introduction of manpower-reduction equipment, core system [other manufacturing]
Automation	<ul style="list-style-type: none"> Robotics Process Automation [textile/chemical/pharmaceutical] Automated exterior inspection using camera [machinery] Automated since beginning being a process industry [chemical/pharmaceutical] CBOT for production facility [E&E] Automation of production facility, cobot, automatic test equipment [E&E]
Digitalization	<ul style="list-style-type: none"> Digitalization of ledgers/vouchers and their approval process [other manufacturing] Expand wireless network [E&E] Digitalization of primarily the back office [textile/chemical · pharmaceutical] BIM, various building production based on 3D modeling technology [construction/engineering] HR system, partial digitalization of project management system [construction/engineering]

3-5 | Investment Destination: 70% find Vietnam attractive, higher among non-manufacturing

- From an objective viewpoint “Vietnam” stood out as an attractive investment destination as in the past, but for the non-manufacturing sector it was a notable 90%.
- As always, response from the non-manufacturing sector was high whether it was “Thailand”, “Indonesia” or other countries.
- Ratio of companies selecting “Malaysia” was around 30%, and it ranked fairly high at the 4th position.

From an objective viewpoint, promising investment destination (Multiple answers allowed)

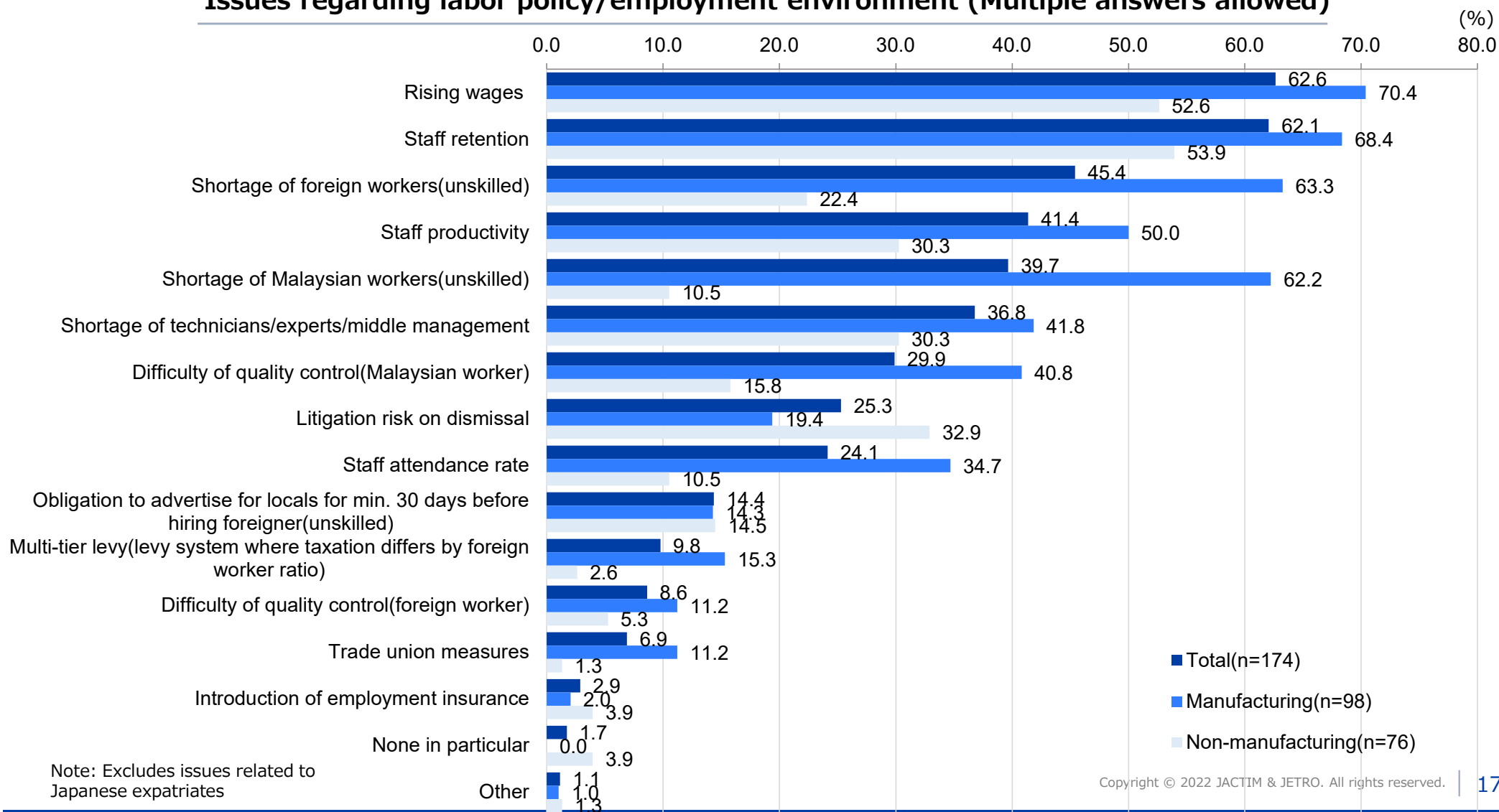
(%)



4-1 | Employment Environment: Issues of rising wage, retention rate, recruitment of foreign workers

- As in the past, "Rising wage" was the highest, cited by around 60% of companies. It was followed by "Staff retention" and "Shortage of foreign workers (unskilled)".
- In particular, "Shortage of foreign workers (unskilled)" ranked noticeably higher than the previous survey. For manufacturing "Shortage of Malaysian workers (unskilled)" was approximately at 60% as well, making it a serious problem just like foreign workers.

Issues regarding labor policy/employment environment (Multiple answers allowed)

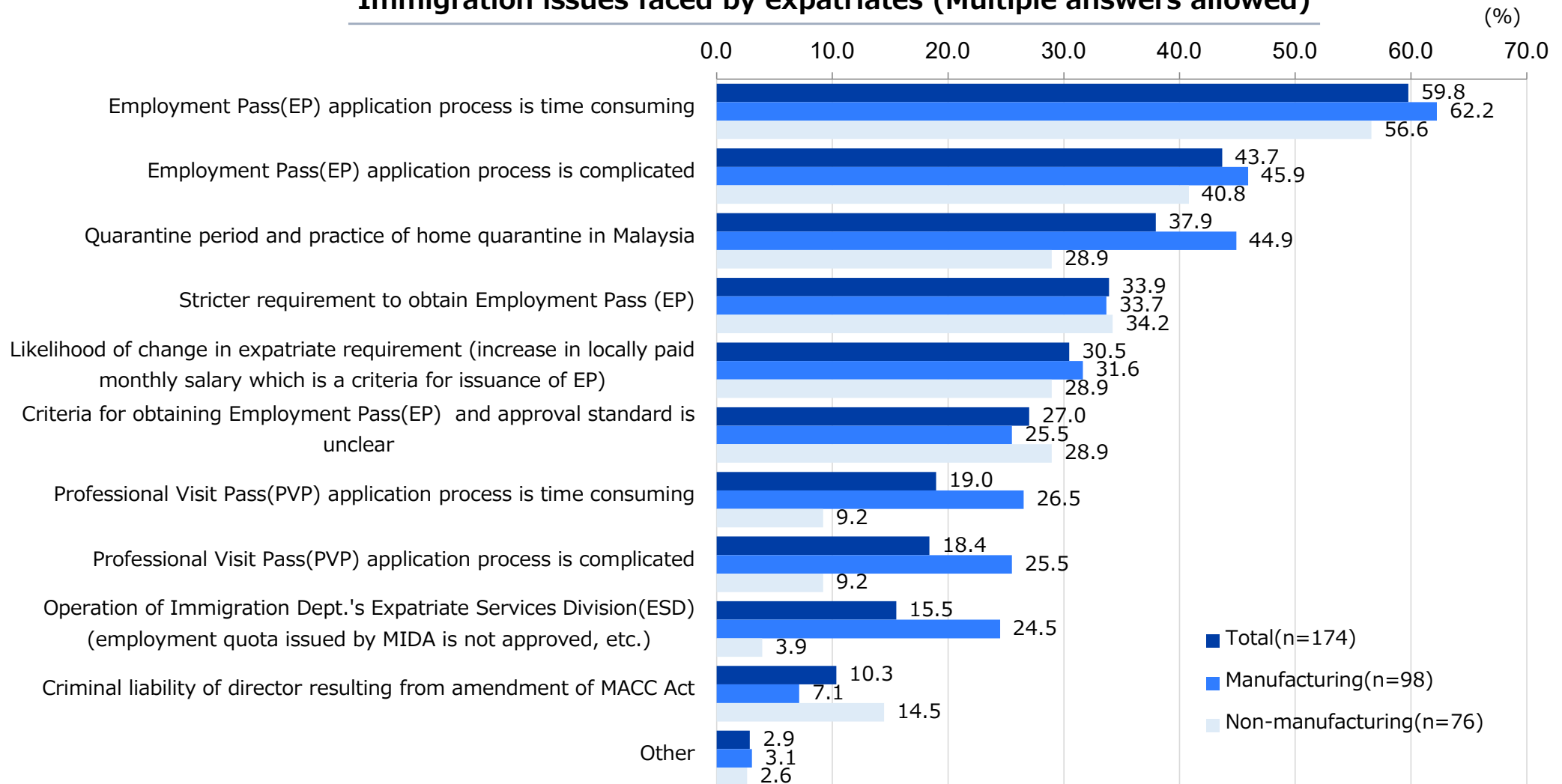


Note: Excludes issues related to Japanese expatriates

4-2 | Employment of Expatriates: Issues with time required & complexity of EP application

- “Employment Pass (EP) application process is time consuming” and “Employment Pass (EP) application process is complicated” continued to be the major issues in the employment of Japanese expatriates.
- “Quarantine period and practice of home quarantine in Malaysia” was the next highest and there were comments requesting quarantine exemption for those who were fully vaccinated.
- Meanwhile, there were also requests to address issues that “Professional Visit Pass (PVP) application process is complicated”.

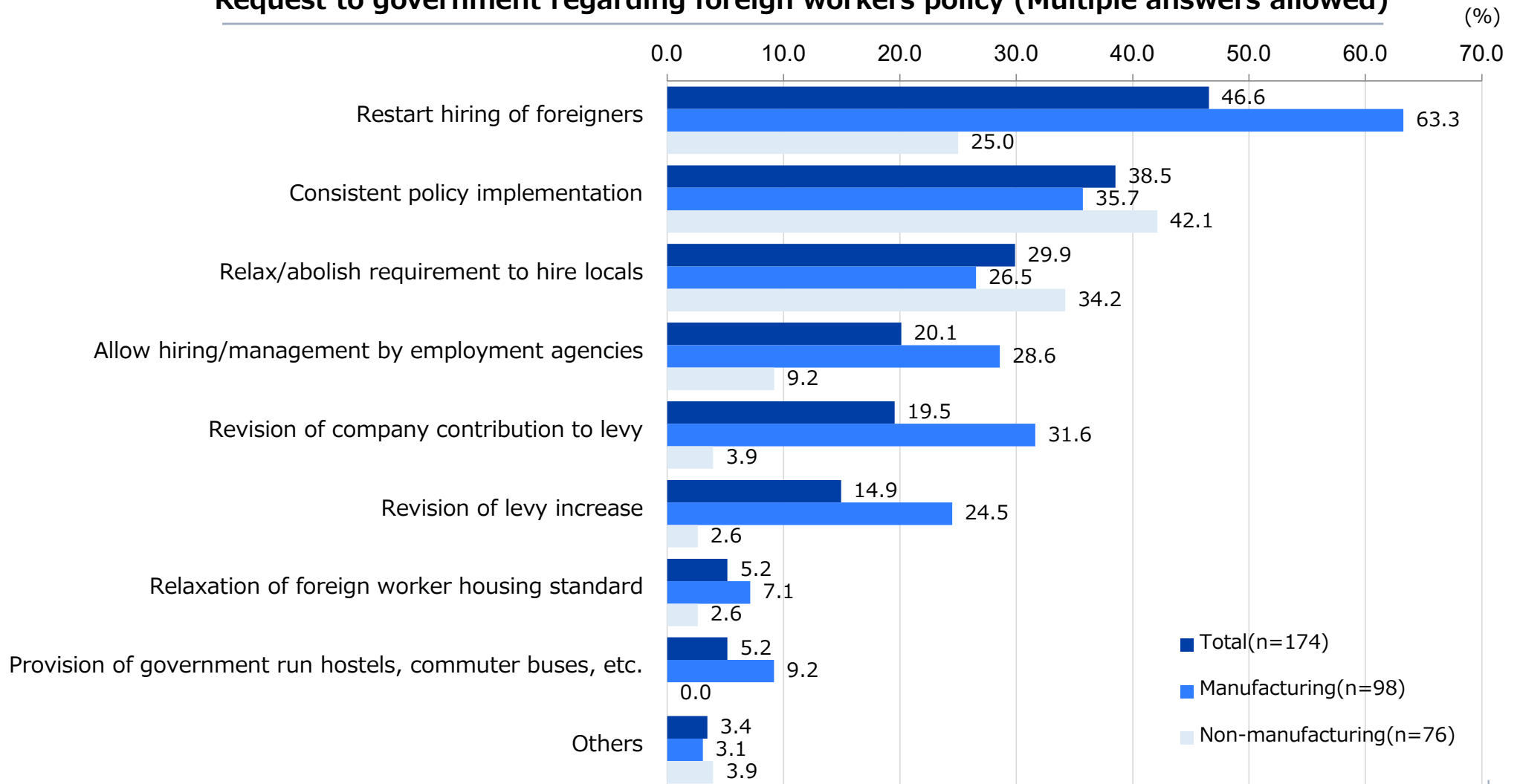
Immigration issues faced by expatriates (Multiple answers allowed)



4-3 Foreign Worker Policy: 60% in the manufacturing seeks for new recruitment to resume

- The top request to the government by the manufacturing sector on foreign worker policy was to “Restart hiring of foreigners”. Although online applications have been accepted from 2022, the overall flow and procedural details had yet to be clarified at the time of this survey.
- Since the spread of Covid-19, there have been frequent changes in foreign worker policy. For this reason as well there were continuing calls for “Consistent policy implementation”.

Request to government regarding foreign workers policy (Multiple answers allowed)

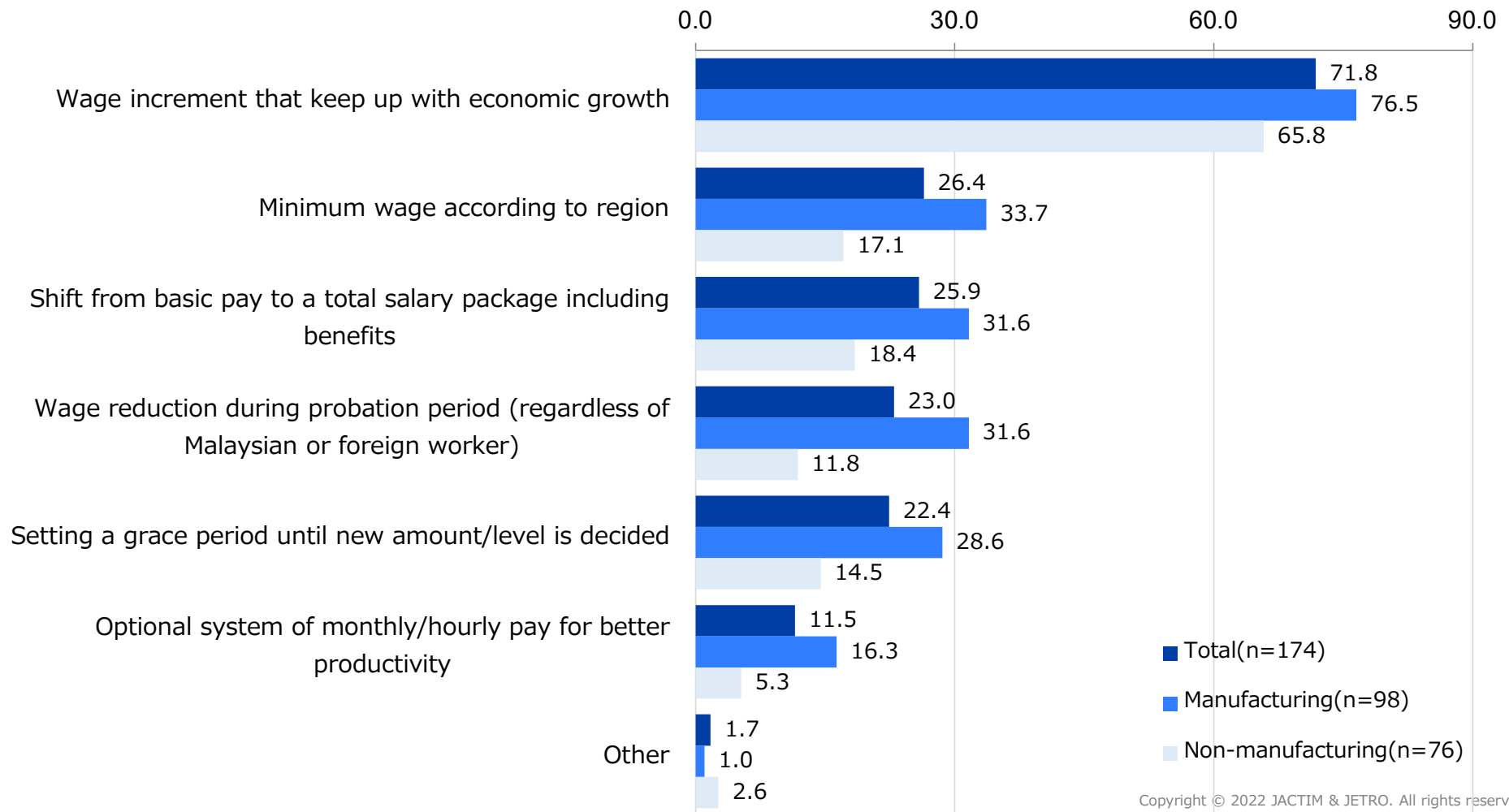


4-4 | Minimum Wage: Wage Increment that keep up with economic growth

- With reports that minimum wage would be raised in 2022, companies that selected “Wage increase in keeping with economic growth” as being the key point to be considered by the government was 70%, making it the top item as in past surveys.
- It was followed by “Minimum wage according to region” and “Shift from basic pay to a total salary package including benefits”. The response from the manufacturing sector was high for all points noted below.

**Points to be considered when amending Minimum Wage Act
(Multiple answers allowed)**

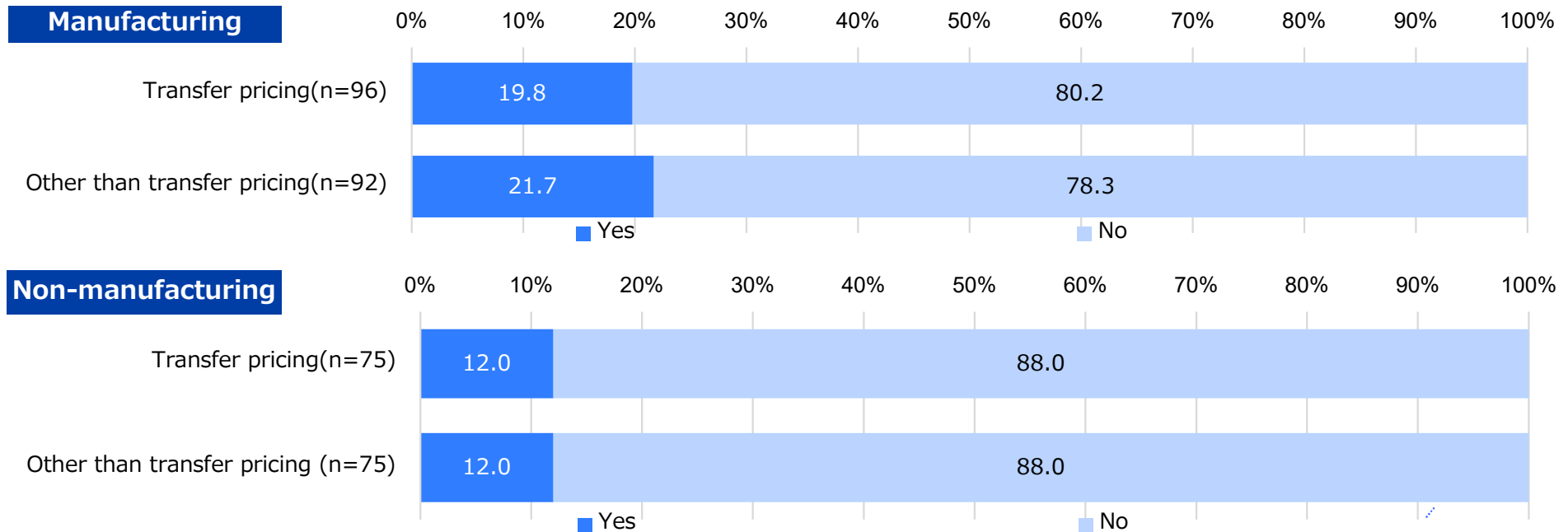
(%)



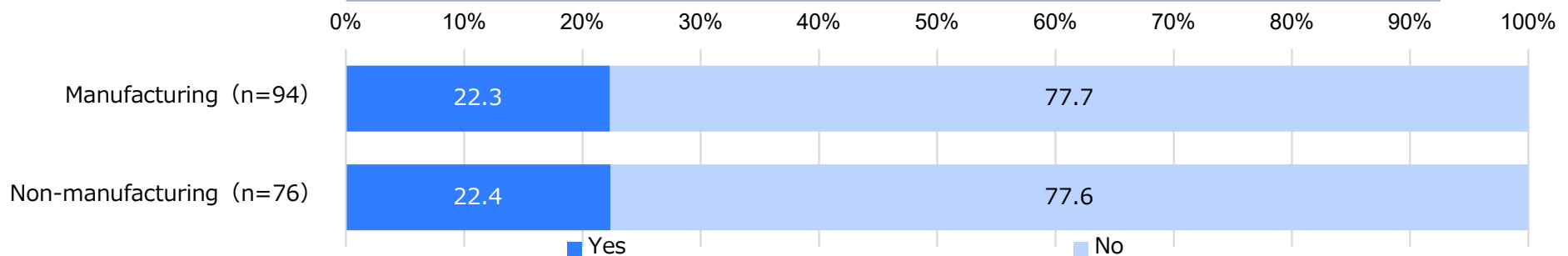
5 | Approximately 20% of manufacturing companies were subjected to tax inspection

- The ratio of companies that were subjected to transfer pricing inspection was 19.8% for manufacturing and 12.0% for non-manufacturing. Compared to the previous survey (11.9%, 4.7% respectively), both had increased by more than 7%.
- In both manufacturing and non-manufacturing, more than 20% of the companies replied that the tax refund for the previous year was late.

Tax inspection over the past one year (Single answer)



Late payment of tax refund in the past 1 year (Single answer)



6-1 | Requests to the Malaysian Government

	Specific issues, Requests
Foreign workers	<ul style="list-style-type: none"> • Lift ban on hiring of foreign workers. • Worker shortage is unresolved and becoming more serious, resulting in neighboring companies vying among each other for workers. • Review cost of hiring foreign workers.
Covid-19 related	<ul style="list-style-type: none"> • Clarify and regularly update Covid-19 related immigration requirements, and make the information available in English. • Early reopening of border, reconsider quarantine requirements, strategy for endemic stage (※Already in place after the survey). • Resume PIKAS (under MITI) to promote Covid-19 boosters. • Clearer SOPs.
Relaxation of EP/PVP conditions, Acceleration of issuance	<ul style="list-style-type: none"> • Relax requirement for obtaining Employment Pass (EP). • Prompt handling of application to approval process for EP, Professional Visit Pass (PVP). • Simplify EP application process. In particular, relax the requirements for key posts and shorten the application period. • Make the maximum period for PVP longer, allow renewal.
Clearer regulations, Establishment of grace period	<ul style="list-style-type: none"> • Refrain from making sudden government announcements and same day implementation. • Standardize how government announcements are made, and provide both Malay and English versions. • Ensure all implementing agencies are aware of government decisions. Parties responsible for executing what has been announced by the government are unaware of new developments. • Inconsistent response depending on the officer (eg. visa application). • Improve efficiency of various procedures/service (despite calling multiple times no one answers the phone).
Short term business travel	<ul style="list-style-type: none"> • Regulation and submission documents for business travel are too numerous and complicated.
Others	<ul style="list-style-type: none"> • Refund of import tax for materials to be re-exported takes too long, and is impacting cash flow. • Urgent formulation and implementation of a comprehensive flood mitigation plan, especially for the coastal area on Klang side in Shah Alam. • Various types of assistance for tourism industry.

6-2 | Expected Investment Incentive

Expectation to new incentives (area)

Cutting-edge technology, automation	<ul style="list-style-type: none"> • Formulation of clear guideline for mechanization/automation/digitalization investments. • Subsidies for rationalization investments. • Tax breaks for automation investments. • Formulate an incentive policy to promote electrification and carbon neutral activities by setting numerical targets rather than specifying technology and let each company select the actual method. • Transparent, simplified, and shorter approval process for obtaining MSC. • Review the investment incentives given to companies that have continuously invested and maintained their MSC status; provide new incentives depending on their degree of contributions.
Environment, green technology	<ul style="list-style-type: none"> • Incentives for energy conservation and environmental improvement investments. • Clarify policy on ESG related investments. • Increase incentives for environmentally friendly vehicles, especially hybrids. • Introduce a bilateral offset crediting mechanism (Joint Crediting Mechanism: JCM).
Others	<ul style="list-style-type: none"> • Subsidize facility investments by SMEs, and provide tax incentives. • Incentives for local production. • Provision of free land. • Lowering of corporate tax, compensation for companies that were unable to operate due to Covid-19.

Expectation to expand existing incentives

Relaxation of conditions for investment incentive	<ul style="list-style-type: none"> • Provide a condition-free incentive as the application procedure is complicated. • Although subsidies are available for development and facility costs of a new business in medical and aviation sectors which the government hopes to grow in the future, the existing scheme is too difficult for SMEs. The scheme should be reviewed to lighten the burden on the company. • Clarify when regulations will come into effect; provide a grace period by taking a company's development schedule into consideration.
Expansion of policy	<ul style="list-style-type: none"> • Expand the re-investment allowance; extend the period. • Extend the tax exemption under Green Investment Tax Allowance (GITA). • Extend the incentive period for large scale investments; or make the incentive always available. • In addition to lower taxes, a simpler visa application and renewal process for expatriates. • Expand business sectors covered by the incentive.

6-3 | Requests to Government on Security

	Specific Issue, Requests
Police	<ul style="list-style-type: none"> • Officers are still asking for bribes. Please instill better morals and enhance anti-corruption efforts. • Anxiety of not knowing what the police will ask for at road blocks, and other enforcement activities. • Do not conduct speeding violation enforcement on highways without any show of evidence. • Enhance patrols for areas with expatriate residents (e.g., Mont Kiara) to combat kidnapping of children.
Traffic accident, traffic manners	<ul style="list-style-type: none"> • Stricter enforcement of traffic violations such as speeding, no helmet, ignoring traffic lights. • Stronger action against poor traffic manners (slipping past between cars, not using signals when turning, driving against traffic, road rage, illegal parking on street). Also want enforcement other than drunk driving. • Stricter enforcement of motorbikes ignoring traffic lights. This is also important for tourists and necessary for increasing tourism revenue. • Low traffic safety awareness of gig workers.
Others	<ul style="list-style-type: none"> • Construction and maintenance of sidewalks. • Insufficient street lighting (dark roads, dead light bulb) . • Issuance of driving license by JPJ is extremely slow, in some cases it took 6 months from application to approval. Please allow an individual to continue driving if their international license expires during the waiting period. Both JPJ and Royal Malaysian Police need to be aware of this and all police stations should be informed. • Prior warning should be issued if heavy rain is forecasted.

■ Disclaimer

Information provided in this report is to be used under the discretion and responsibility of the user. Although the utmost effort has been made to provide accurate information, please note that we are not responsible for any loss that may occur in connection with the content of this report.

All rights reserved.