FY2025

Survey on Business Conditions of Japanese-Affiliated Companies Overseas: Global Edition

- Japanese Companies Steadily Earning Profits Overseas Amid Major Shifts in the Business Environment -

Japan External Trade Organization (JETRO)
Research & Analysis Department

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Survey Overview

Survey Purpose: Understand the actual conditions of Japanese-affiliated business activities operating overseas and share the findings with a wide range of Japanese companies and policymakers.

Survey Method: Questionnaires for online distribution and collection were sent to 17,708 Japanese companies (local subsidiaries with at least 10% Japanese investment, branches and representative offices of Japanese companies) in 82 countries / regions selected through JETRO's overseas office network. 7,485 valid responses were received, resulting in an effective response rate of 42.3%.

FY2025 Features: Despite trade disruptions triggered by additional U.S. tariffs, the performance of Japanese companies operating overseas remains solid. This survey highlights their performance outlook across countries and regions, as well as their responses to challenges such as securing human resources.

Report Contents: Findings by major region, followed by: I. Operating Profit Forecast, II. Future Business Development, III. Impact of Additional U.S. Tariffs, IV. Labor Shortages and Wages, and V. Human Rights Initiatives.

Survey Overview by Region

Region	Number of target businesses (companies)	Total Respondents (companies)	Response Rate	Survey Period	Target Countries and Regions
North America	2,056	735	35.7%	September 2–25	2 countries
Latin America	745	420	56.4%	August 20 - September 26	7 countries
Europe	1,449	778	53.7%	August 20 - September 19	25 countries
Russia	78	50	64.1%	September 4–24	1 country
Asia and Oceania*	12,900	5,109	39.6%	August 19 - September 17	20 countries/regions
Middle East	206	177	85.9%	September 1–22	8 countries
Africa	274	216	78.8%	September 1–22	19 countries
Total for all regions	**17,708**	**7,485**	**42.3%**		**82 countries/regions**

*Note: ① Includes Northeast Asia (China, Hong Kong, Macau, Taiwan, South Korea), ASEAN (excluding Brunei and East Timor), Southwest Asia (India, Bangladesh, Pakistan, and Sri Lanka), and Oceania (Australia and New Zealand). ② Free-response answers have been supplemented or edited where necessary to clarify the intent of the response, without altering the original meaning.

Survey Key Findings

1. Profitability ratio reaches 66.5%, increasing for the second consecutive year

- Record highs in the Middle East, Southwest Asia, and Africa; sentiment deteriorates in Mexico and other regions with strong U.S. trade ties.

2. Business expansion appetite remains strong in the Global South

- Manufacturing-led business expansion continues in Southwest Asia and Africa, while demand in the U.S. market is also increasing.

3. Tariff Measures: Significant negative impact on 40% of manufacturers exporting to the U.S.

- Tariff impacts ripple across entire supply chains; in the automotive sector, one in two companies reports an impact on operating profits.

4. Intensifying competition for talent, over 30% report worsening conditions

- Countries with strong expansion appetite face severe labor shortages. In Vietnam, Asian firms—led by Chinese companies—are major competitors.

5. Human rights due diligence shows signs of wider adoption, particularly in manufacturing

- For the first time, companies implementing HRDD rose over 30%. Approximately 80% consider it an effective way to reduce internal human rights risks.

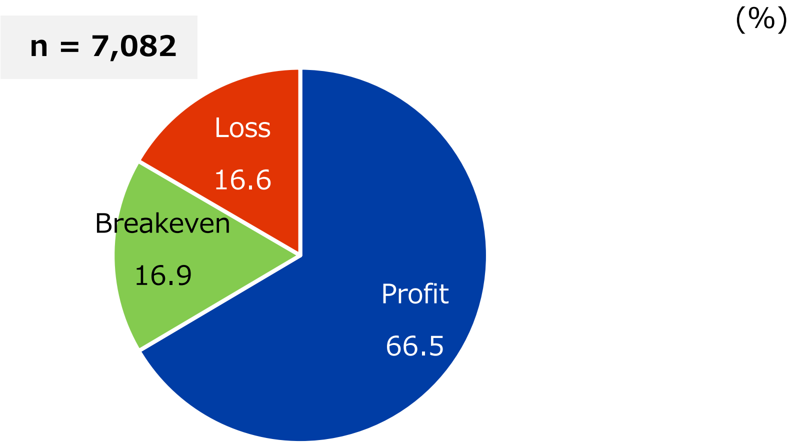
Note: ① Unless otherwise noted, "major countries/regions" in this survey refers to the following 18 countries and regions: China, Hong Kong, South Korea, Singapore, Thailand, Indonesia, Vietnam, India, Australia, United States, Mexico, Brazil, the United Kingdom, France, Germany, the Netherlands, UAE, and South Africa.② Based on the definitions of Japanese headquarters in "The Small and Medium Enterprise Basic Act" and "The Act for Partial Revision of the Industrial Competitiveness Enhancement Act, etc. to Promote the Creation of New Businesses and Investment in Industry", the survey classified companies as large, mid-sized, or small and medium-sized. However, in the results section, "large companies" include "mid-sized companies" in the aggregated data.

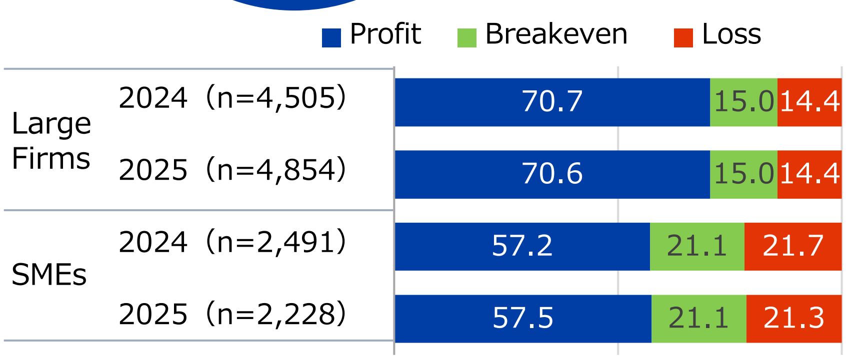
Ⅰ. Operating Profit Forecast
—66.5% of companies in the black, increasing for the 2nd consecutive year—

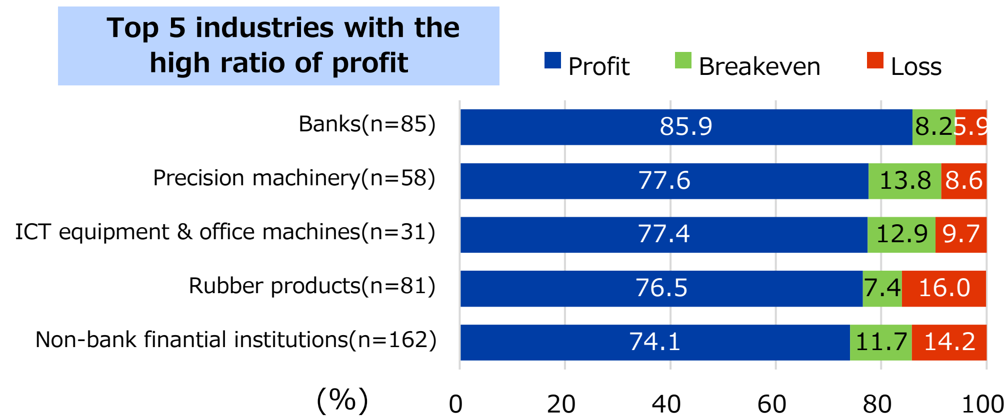
1 | Percentage of Firms in the Black Increased for the Second Consecutive Year

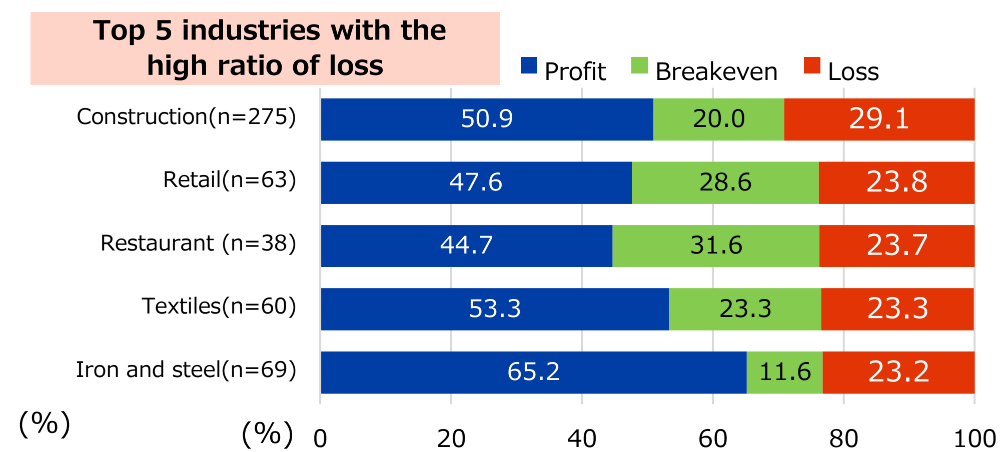
- **<u>The percentage of companies expecting to be "in the black" in 2025 is 66.5%</u>**, up 0.6 points from the previous year. **<u>This marks an increase for the second consecutive year.</u>** The percentage of firms in the red is 16.6%, down 0.4 points from the previous year, **<u>the lowest since 2019</u>**.
- **<u>The proportion of large companies reporting profits exceeds 70%.</u>** By industry, banks are the largest percentage of profitable companies, exceeding 80%. On the other hand, nearly 30% of companies in the construction sector report losses, while profitable companies fell below 50% in retail and restaurant.

Operating Profit Forecast in 2025









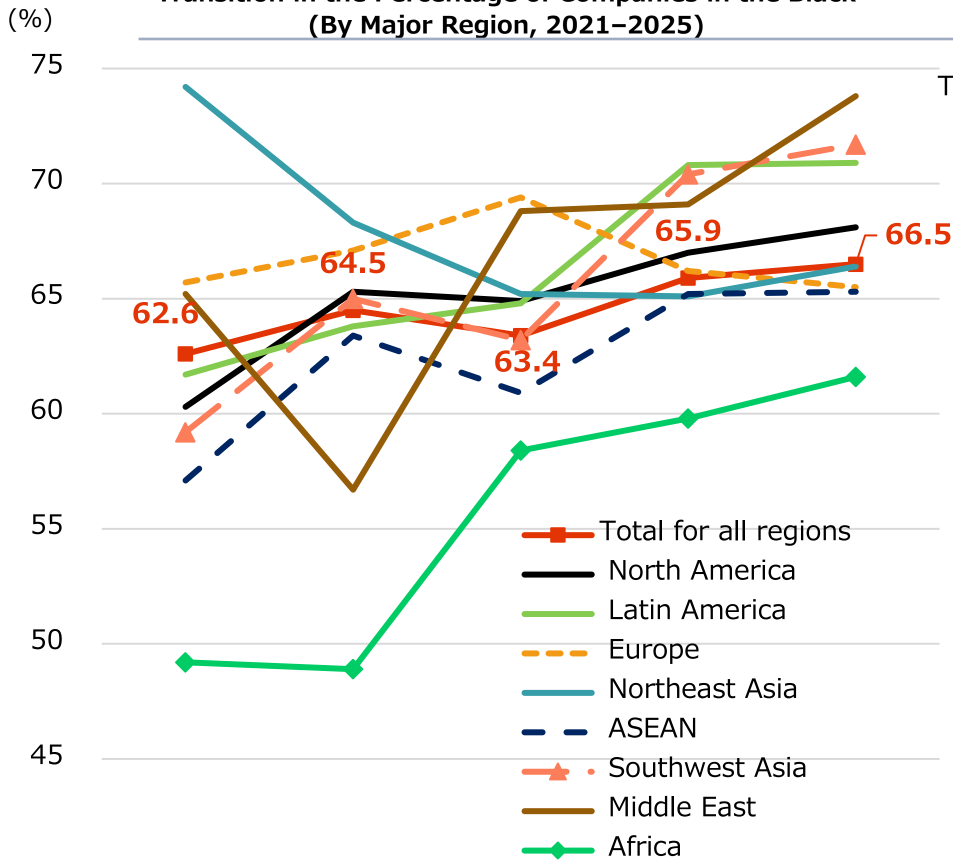
(Note) Only industries with n=30 or more are listed.

2 | Percentage of Profits Hits Record Highs in the Middle East, Southwest Asia, and Africa

- The percentage of companies in the black **increased by 4.7 points to 73.8% in the Middle East, exceeding 70% in Southwest Asia (71.7%) and Latin America (70.9%)**. In Africa (61.6%), the percentage exceeds 60% for the first time since 2013.
- **Among major countries and regions, UAE, Australia, South Korea, Brazil, and South Africa have high percentages of profitable companies, at around 80%**. The percentage for UAE increased by 4.3 point year-on-year, driven by rising demand in Middle East and Africa export markets.

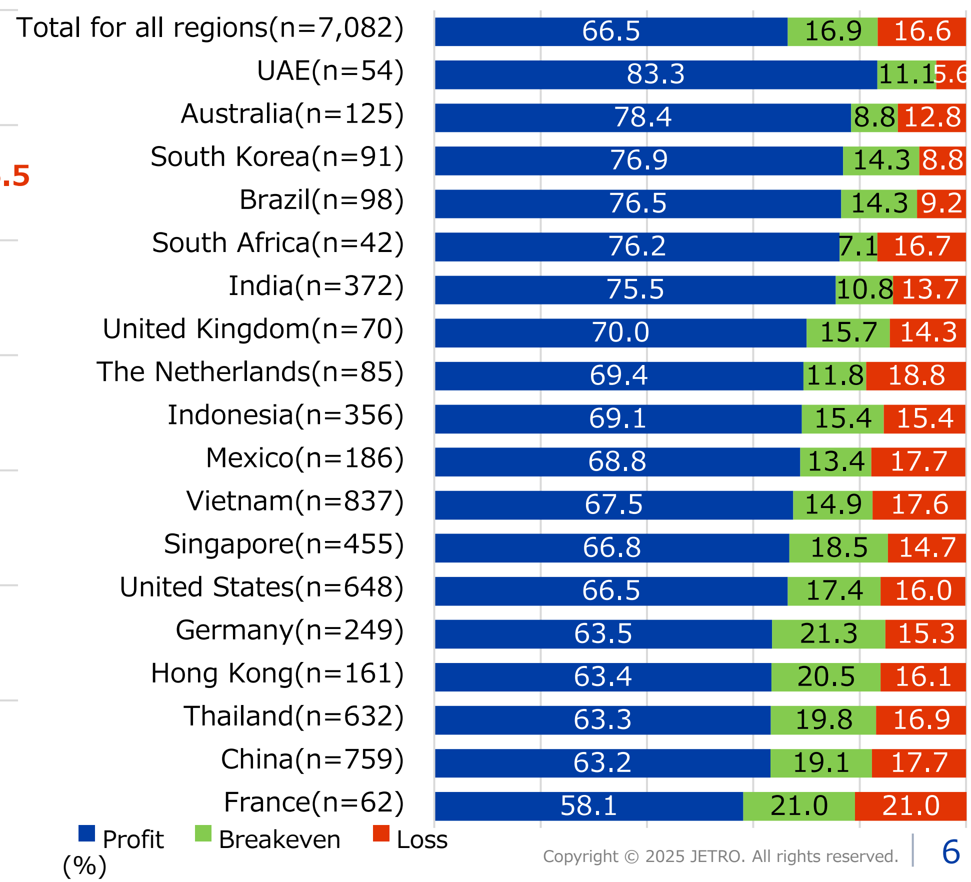
*For Southwest Asia, data is available from 2008 onwards; for the Middle East, 2015 onwards; for Africa, 2013 onwards.

Transition in the Percentage of Companies in the Black (By Major Region, 2021–2025)



(Note) Total for all regions includes Russia and Oceania.

Operating Profit Forecast in 2025 for Major Countries and Regions

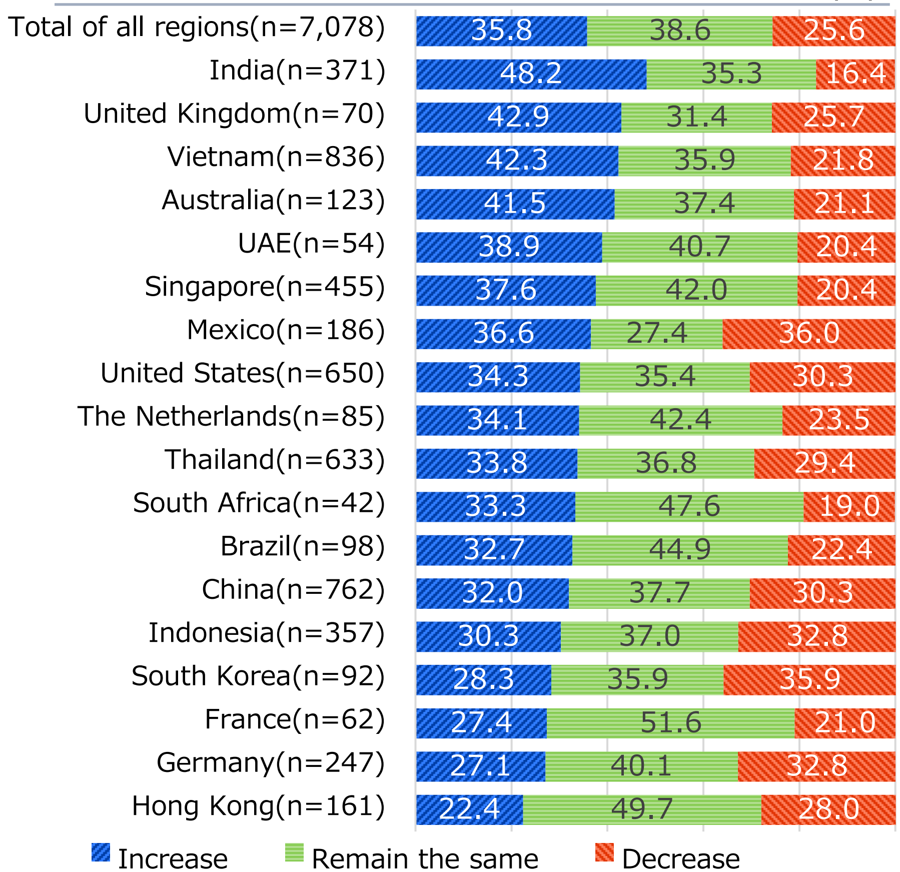


3 Business Confidence Remains Largely Unchanged, with Slight Declines in both “Increase” and “Decrease”

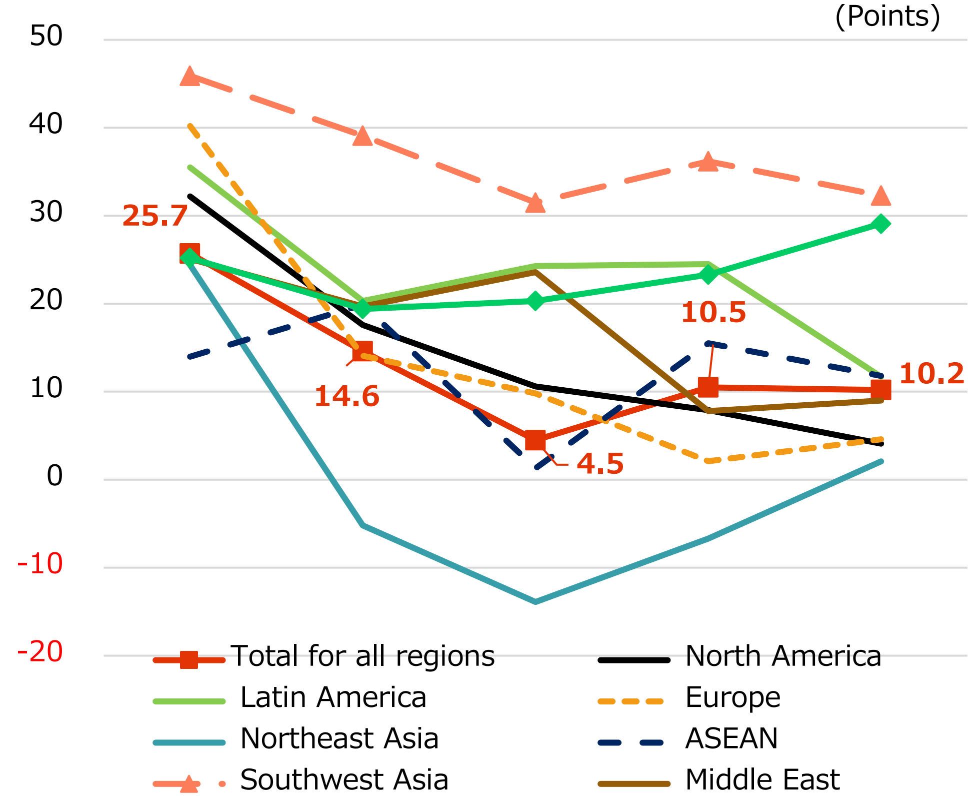
- Regarding the year-over-year operating profit in 2025, **35.8% if companies reported “Increase” (down 0.9 points YoY)**, whereas 25.6% reported “Decrease” (down 0.6 points YoY). In China, “Increase" rose by 7.5 points, while “Decrease" fell below 40% for the first time in four years.
- **The DI (see note) for all regions was 10.2 points, down 0.3 points YoY**. In Latin America, DI was -11.7 points, down 12.8 points. This is attributed to a decline of 10 to 20 percentage points in the percentage of increase observed in Mexico and Brazil.

(Note) Abbreviation for Diffusion Index. In this survey, the percentage of companies that increased their operating profit from the previous year (%) is subtracted from the percentage of companies that saw decreases in their operating profit (%).

Operating Profit Projections by Major Countries/Regions in 2025 (Increase/Decrease) (%)



Transition in DI (Major Regions, 2021–2025)



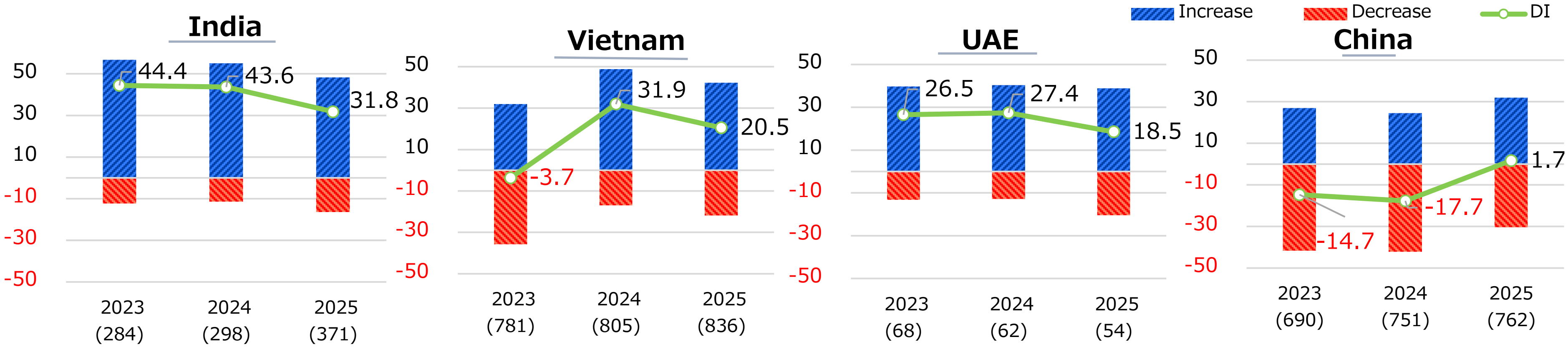
(Note) Total for all regions includes Oceania and Russia.

4 Remarkable Demand Growth in the Global South; China's DI Recovers

- **Regarding factors for "Increase," 78.7% of respondents in India and 90% in UAE cited "increasing demand in local market,"** supported by robust domestic demand. In Vietnam and UAE, "increased demand in export markets" also ranked high.
- In China, cost reductions and improved production efficiency drove **"Increase" responses above 30%, surpassing "Decrease" for the first time in four years**. DI recovered by nearly 20 points, rising from -17.7 points the previous year to +1.7 points.

Transition in DI in Four Major Countries (2023–2025)

(%, points)



(Note) N# in parentheses indicates 'n'.

Reasons for Increased Operating Profit Forecast in 2025

	India (n=178)	(%)
1	**Increasing demand in the local market**	**78.7**
2	Strengthened sales structure in local market	37.1
3	Improvement in production efficiency, sales efficiency, the operating rate	30.3
4	Increasing demand in export markets	21.3
5	Reduction of raw material /parts procurement costs	15.2

	Vietnam (n=354)	(%)
1	**Increasing demand in the local market**	**49.7**
2	**Increasing demand in export markets**	**35.0**
3	Strengthened sales structure in local market	22.0
4	Improvement in production efficiency, sales efficiency, the operating rate	21.2
5	Change in sales prices	15.3

	UAE (n=20)	(%)
1	**Increasing demand in the local market**	**90.0**
2	**Increasing demand in export markets**	**45.0**
2	Strengthened sales structure in local market	45.0
3	Change in sales prices	25.0
4	Improvement in production efficiency, sales efficiency, the operating rate	20.0

	China (n=243)	(%)
1	Increasing demand in the local market	46.5
2	Increasing demand in export markets	30.0
3	**Improvement in production efficiency, sales efficiency, the operating rate**	**28.4**
4	**Reduction of labor costs**	**27.6**
5	**Reduction of other Expenses (e.g., Administrative costs)**	**23.0**

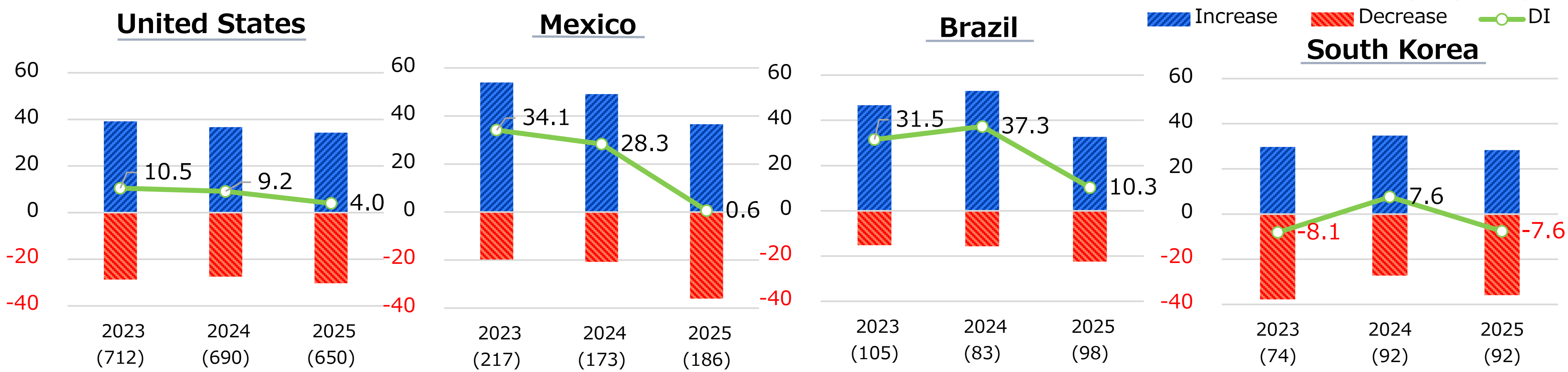
(Note) Respondents were allowed to select multiple reasons.

5 | Mexico's DI Fell 27.7 Points from the Previous Year

- In **Mexico, Brazil, and South Korea, DI deteriorated significantly** compared to the previous year. DI for **Mexico decreases by 27.7 points**. In South Korea, DI decreases by 15.2 points to -7.6 points, turning negative. The percentage of companies trading with the United States is about 80% in Mexico and exceeds 50% in Brazil and South Korea (see Chapter III) .
- Meanwhile, the DI for United States is 4.0 points, but it decreased by 5.2 points year-on-year.

Transition in DI in Four Major Countries (2023–2025)

(%, points)



(Note) N# in parentheses indicates 'n'.

Reasons for Decreased Operating Profit Forecast for 2025

	United States (n=197)	(%)
1	**Rising raw material/parts procurement costs**	**42.6**
2	Decreased demand in local market	36.0
3	Rising of labor costs	31.5
4	Increase of other expenditures (e.g., administrative costs)	16.2
5	Decline in market share due to intensifying competition with other companies	15.7

	Mexico (n=67)	(%)
1	**Decreasing demand in local market**	**49.3**
2	Rising of labor costs	41.8
3	Rising raw material/parts procurement costs	28.4
4	Decreasing demand in export markets	25.4
5	Effects of exchange rate fluctuation	23.9

	Brazil (n=22)	(%)
1	**Rising raw material/parts procurement costs**	**54.5**
2	Decline in market share due to intensifying competition with other companies	50.0
3	Rising of labor costs	45.5
4	Decreasing demand in local market	27.3
5	Effects of exchange rate fluctuation	22.7

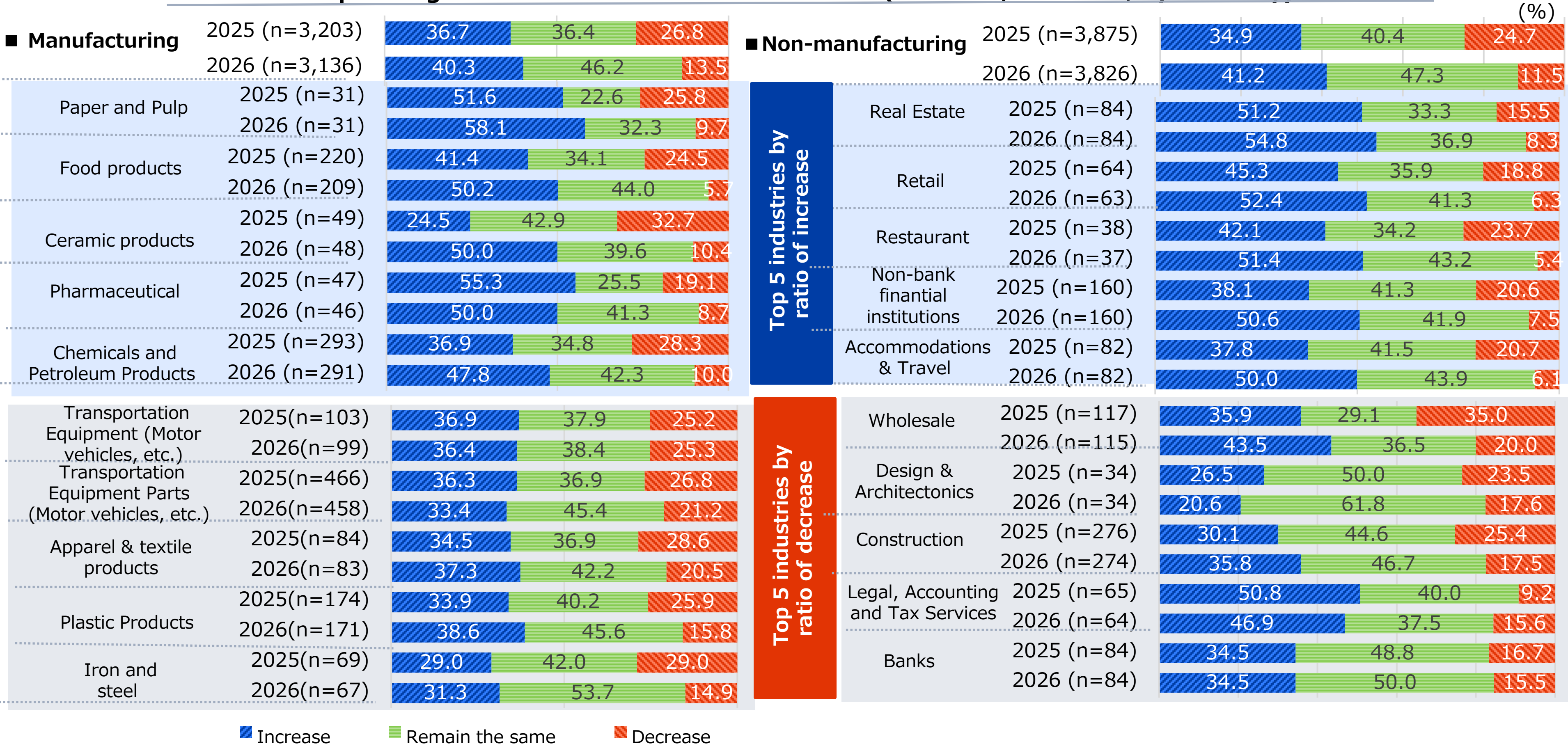
	South Korea (n=33)	(%)
1	**Decreasing demand in local market**	**63.6**
2	Decline in market share due to intensifying competition with other companies	39.4
3	Rising of labor costs	36.4
3	Decreasing demand in export markets	36.4
5	Rising raw material/parts procurement costs	18.2

(Note) Respondents were allowed to select multiple reasons.

6 | Over 40% of Manufacturing and Non-Manufacturing Sectors Expect Improved Operating Profits in 2026

- Operating profit outlook for 2026 (compared to 2025) shows over 40% of manufacturing (40.3%) and non-manufacturing (41.2%) companies expecting "Increase," with the proportion forecasting "Decrease" also declining by more than 10 points. DI for manufacturing sector rises to 26.8 points and for non-manufacturing rises to 29.7 points.
- **The percentage of companies expecting operating profits for 2026 to "Decrease" YoY is the highest in Transportation Equipment (Motor vehicles, etc.) at 25.3%, followed by Transportation Equipment Parts (Motor vehicles, etc.) at 21.2%**. In manufacturing, the percentage expecting "Increase" is high for Paper and Pulp (58.1%) and Food Products (50.2%). In the non-manufacturing sector, Real Estate (54.8%) and Retail (52.4%) ranked high.

Operating Profit Forecasts for 2025 and 2026 (Increase/Decrease, by Industry)

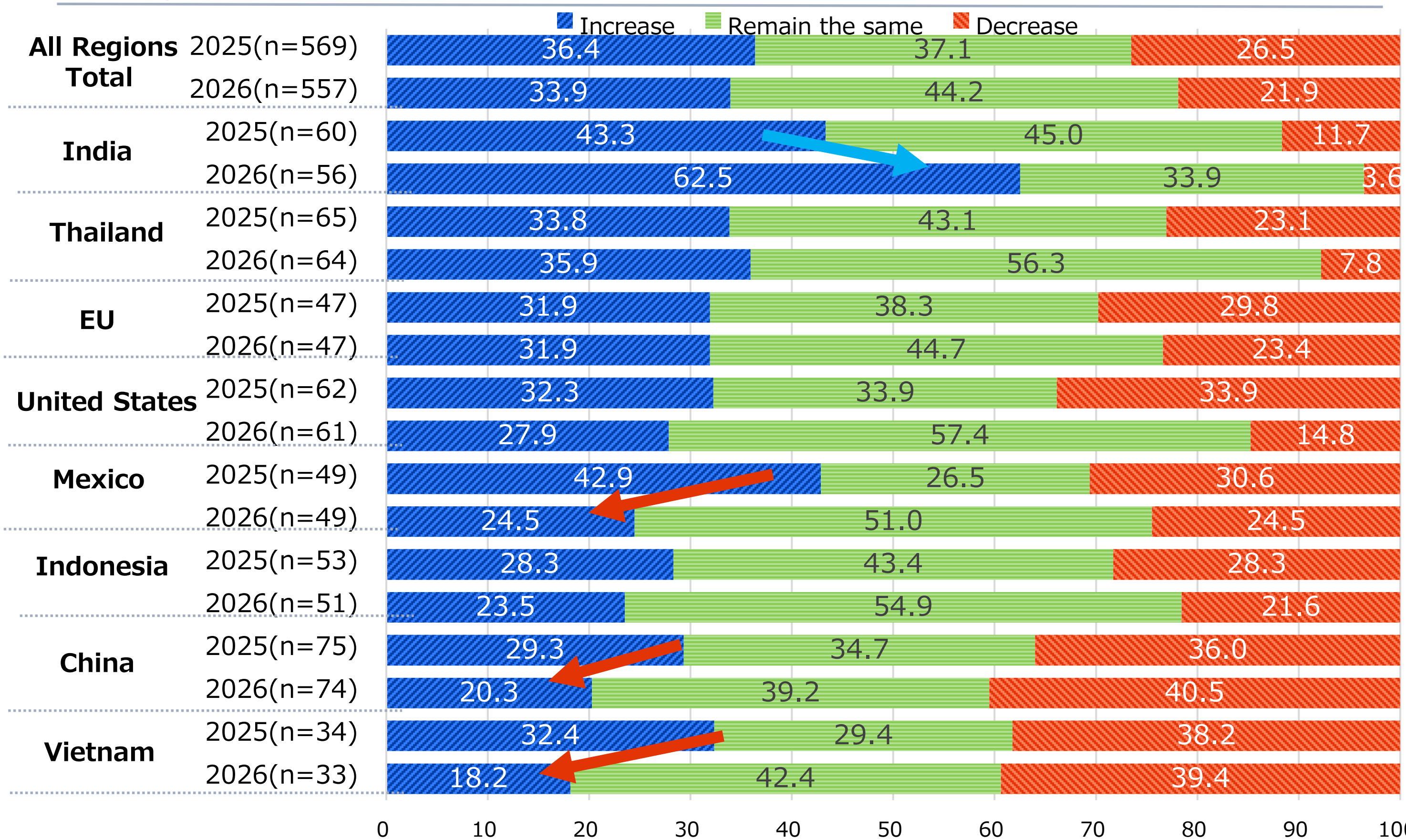


(Note) ① The top five industries for "increase" and "decrease" in 2026 operating profit forecast are listed.
② Only industries with n=30 or more are listed.

7 | Automotive Sector: Over 60% of Japanese Companies in India Foresee Improvement, but Overall Growth Slows

- **The percentage of automotive-related companies (see note) expected to be in the black in 2025 is 69.7%**, up 1.4 points from the previous year. In Vietnam, India, and Indonesia, it exceeds 70%. Meanwhile, in the United States and Mexico, around 20% of respondents expect loss.
- Regarding changes in operating profit forecast for 2026, **the percentage expecting "Increase" plummets in China, Vietnam, and Mexico**. On the other hand, **India has the highest percentage for "Increase" among major countries/regions at 62.5%**, an increase of 19.2 points compared to 2025.

Operating Profit for Automotive and Related Companies in 2025 and 2026 (Increase/Decrease)



Profit	Loss
69.7	13.2
76.7	6.7
67.7	12.3
61.7	17.0
59.0	21.3
69.4	18.4
77.4	7.5
61.3	16.0
88.2	0.0

(%)

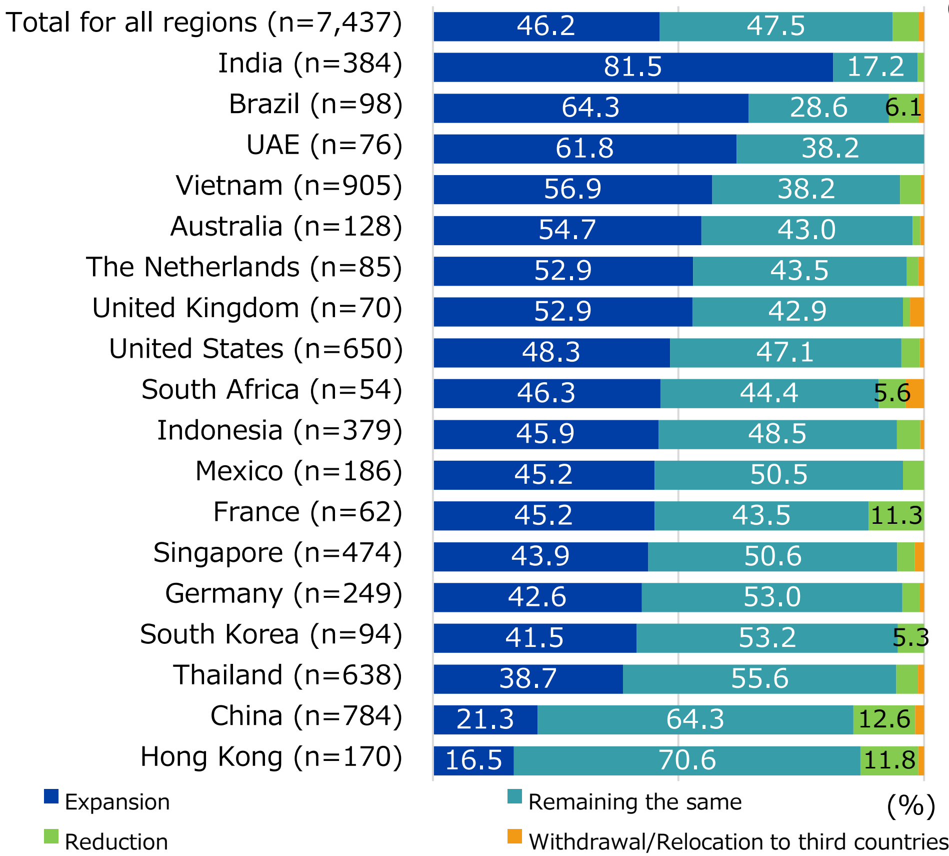
(Note) ① Total of "Transportation Equipment (Motor vehicles, etc.)" and "Transportation Equipment Parts (Motor vehicles, etc.)" for each country/region, including motorcycles. ② Only countries with n=30 or more are shown (except EU). ③ The profit and loss ratios on the right represent the 2025 operating profit forecast for automotive-related companies in each country/region.

II. Future Business Development
—Business expansion appetite remains strong in the Global South—

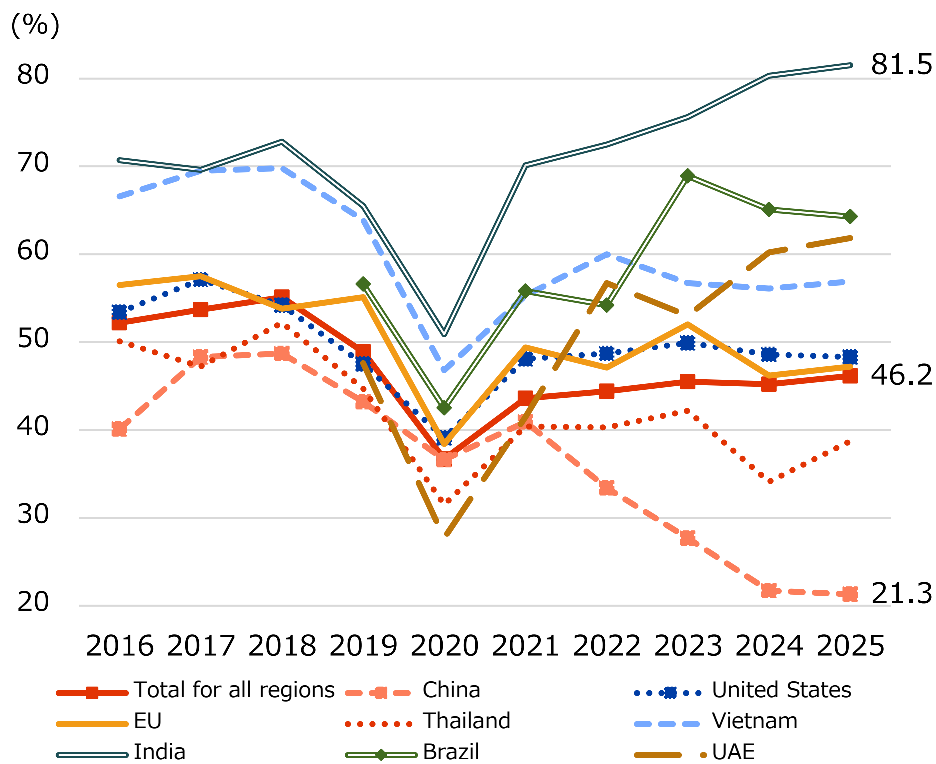
1 In India, Expansion Intentions Exceed 80%, While Signs of Bottoming Out Emerge in China

- The percentage of companies planning to “Expand” their local operations in the next 1 to 2 years increased by 1.0 percentage points year-on-year to 46.2% but has remained stagnant below 50% since the pandemic began. In contrast, **over 80% of companies in India intend to “expand” for the second consecutive year.**
- China’s “Expansion” rate fell by 0.4 points from the previous year’s survey to 21.3%. This marks the third consecutive year below 30%, **setting a new low since comparable data began in 2007, although the decline was smaller than in the previous year.**

Direction of Business Development Over the Next 1-2 Years (By Major Countries/Regions)



“Expansion” Ratio Trends (By Major Country/Region, 2016–2025)

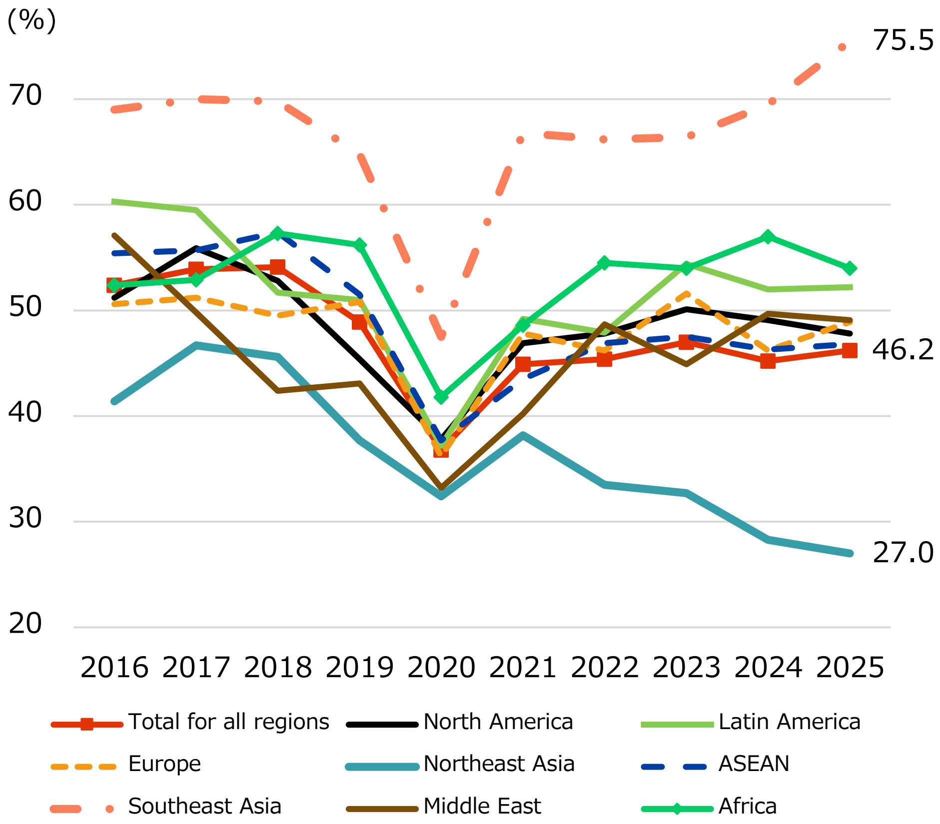


Note: Total for all regions includes Oceania and Russia.
Data for Brazil and UAE is from 2019 due to constraints.

2 | Expansion Intentions Rise in Southwest Asia

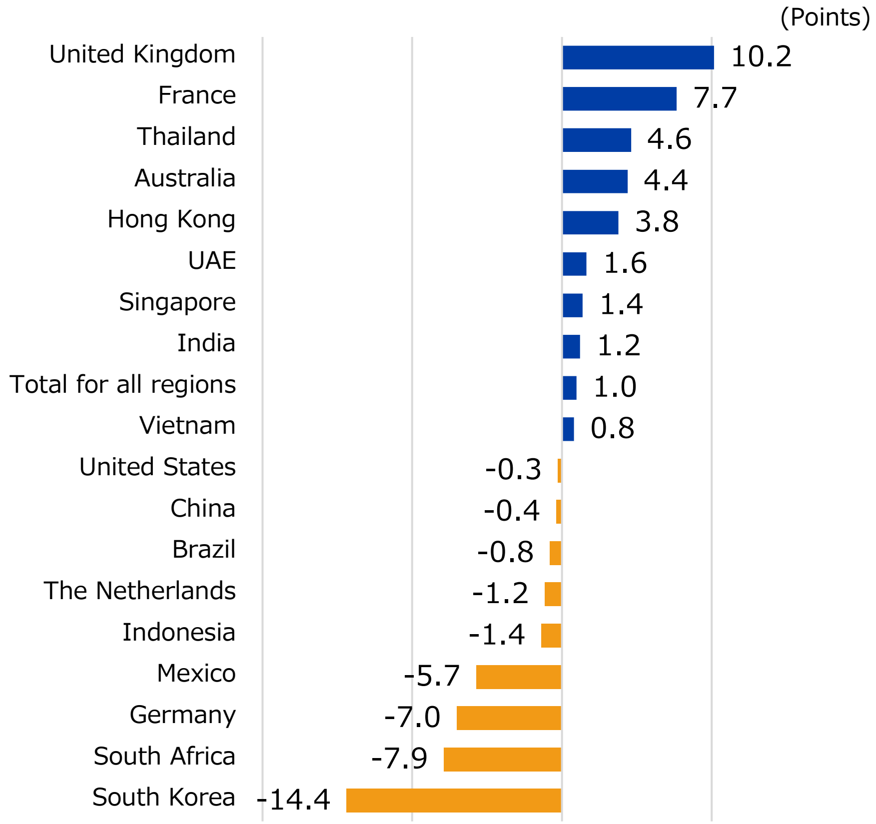
- By region, **the share of companies planning to expand in Southwest Asia rose by 6.0 percentage points year-on-year.** Europe, which had seen a decline of more than 5 points in the previous survey, showed a modest recovery with a 2.7 points increase. In contrast, Northeast Asia fell by 1.3 points, marking its lowest level since 2007.
- In country-specific trends, the United Kingdom recorded a 10.2-point increase in expansion plans compared to the previous year, reaching its highest level since 2014. France rebounded from the previous year's drop in expansion sentiment, rising by 7.7 points. Meanwhile, South Korea posted a sharp decline of 14.4 points from the prior year.

Trend in the "Expansion" Ratio (Major Regions, 2016–2025)



Note: Total for all regions includes Oceania and Russia.

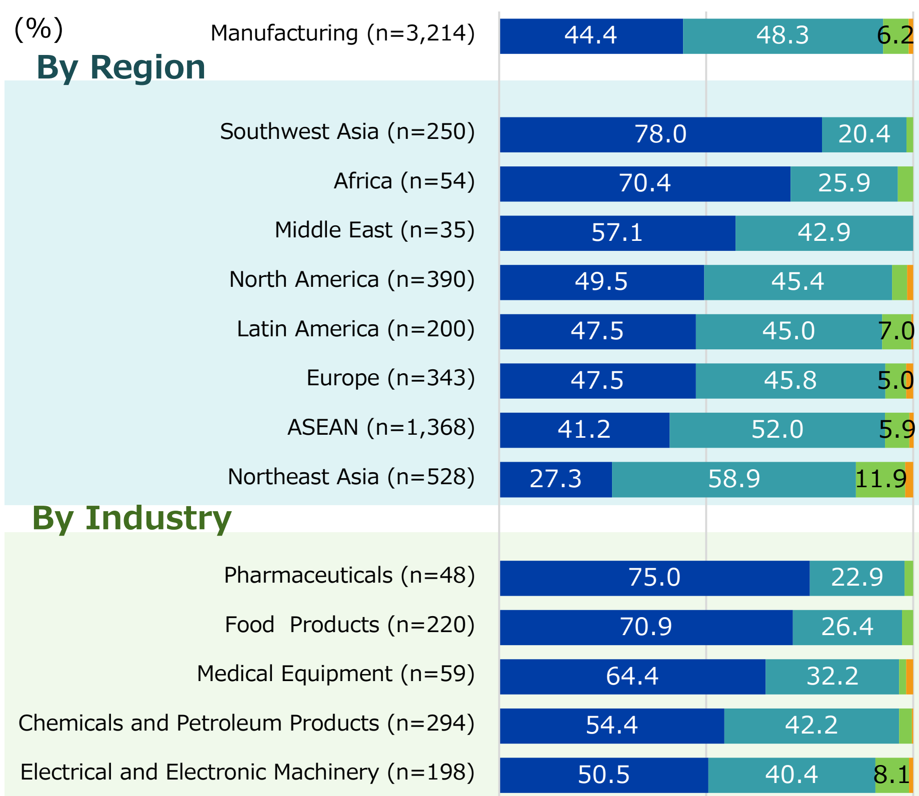
Year-On-Year Change in the Percentage Responding "Expansion" (By Country/Region)



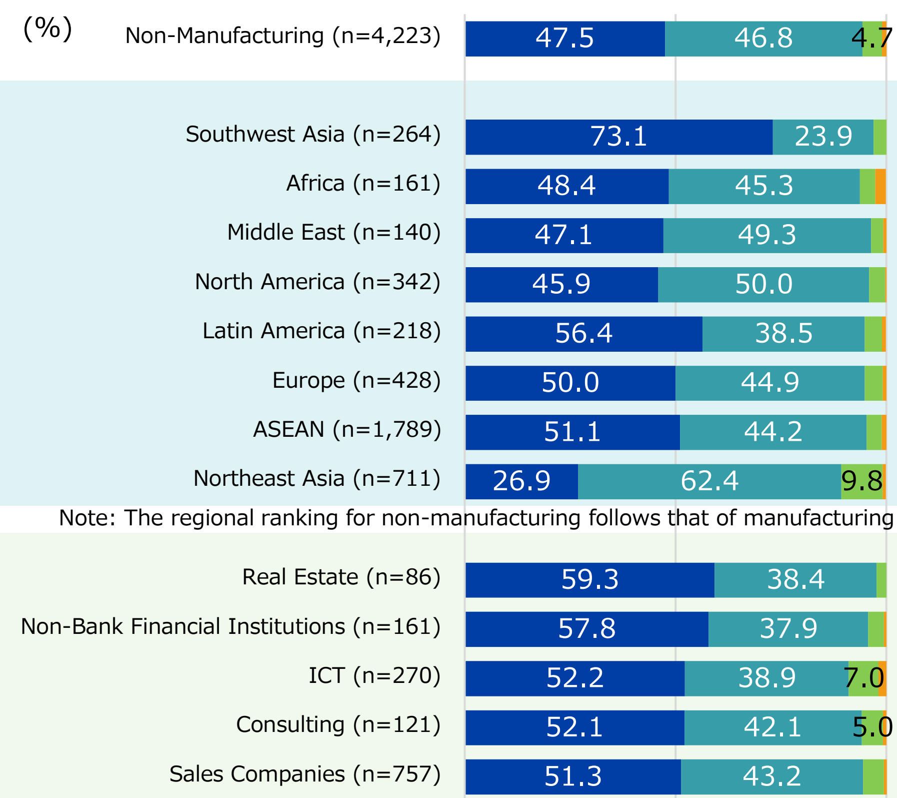
3 Strong Expansion Intentions in Manufacturing Across Southwest Asia and Africa

- The share of manufacturing firms planning expansion rose by 1.3 percentage points from the previous year. By region, **intention to expand exceeded 70% in Southwest Asia (78%) and Africa (70.4%).** By industry, pharmaceuticals posted a significant increase of 20.7 points year-on-year.
- In non-manufacturing sectors, the proportion planning expansion remained flat compared to the previous year. By region, **Southwest Asia (73.1%) was the only area surpassing 70%,** followed by Latin America (56.4%). By industry, nearly 60% of real estate businesses reported expansion, marking a 14 points increase from the prior year.

Direction of Business Development Over the Next 1-2 Years (Manufacturing)



Direction of Business Development Over the Next 1-2 Years (Non-Manufacturing)



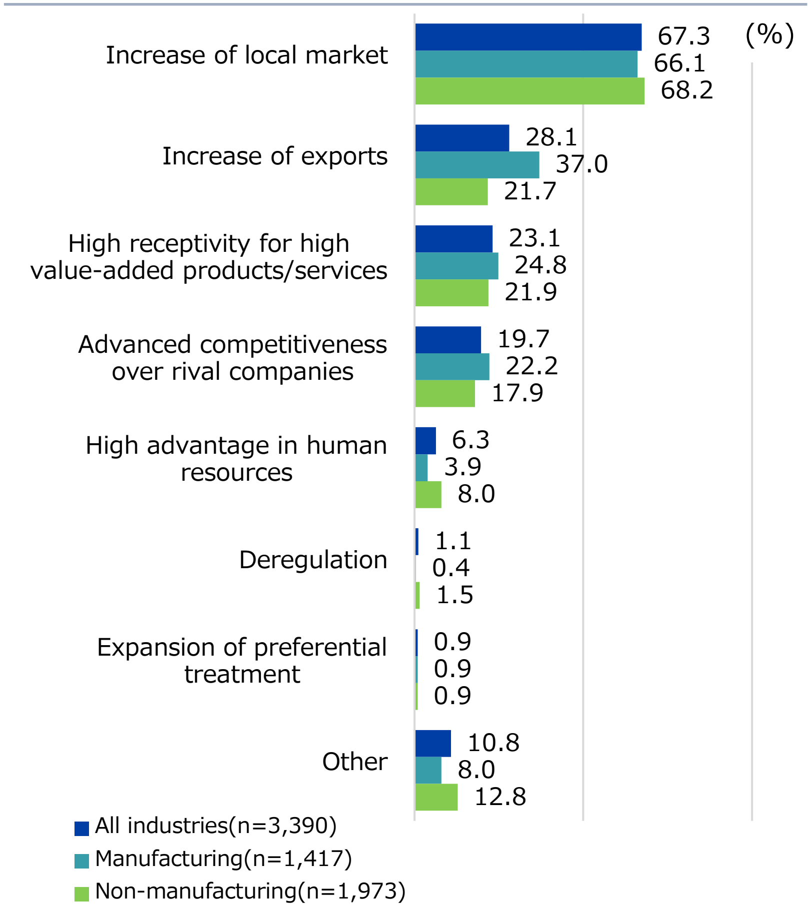
■ Expansion ■ Remaining the same ■ Reduction ■ Withdrawal/Relocation to third countries

Note: By industry. Only the top 5 industries with n=40 or more.

4 U.S.: Increase in Local Market Demand Share

- The primary reason cited for "expansion" **was "Expansion of local market needs" at 67.3%**.
- The percentage of companies selecting "Expansion of local market needs" was highest in India at 88.1%, maintaining its top position from the previous year. Brazil, U.S., and Indonesia followed, each exceeding 70%. Notably, the U.S. (74.5%) saw a 4.9-point increase from the previous year. Multiple respondents cited **the reshoring of manufacturing to the U.S. as a factor driving this expansion in local demand.**

Reasons for "Expansion"



Note: Multiple reasons may be selected.

Reasons for "Expansion" (Top 5 Countries/Regions by Reason) (%, points)

Increase of local market

		%	YoY
1	India (310)	88.1	-0.8
2	Brazil (63)	74.6	-6.9
3	United States (310)	74.5	4.9
4	Indonesia (172)	70.9	-4.1
5	China (163)	66.9	1.9

- Expanding demand for infrastructure (India)
- Increased demand due to manufacturing reshoring (United States)
- Increase in number of client stores (Indonesia)

Increase of exports

		%	YoY
1	UAE (47)	48.9	2.1
2	Vietnam (509)	39.1	-2.0
3	Thailand (245)	35.9	-7.4
4	China (163)	33.1	6.2
5	Singapore (204)	28.4	-10.4

- New market development in Africa (UAE)
- Relocating factories to counter tariffs (Vietnam)
- Developing new products for export (China)

High receptivity for high value-added products/services

		%	YoY
1	Brazil (63)	36.5	10.6
2	United Kingdom (37)	35.1	-6.8
3	China (163)	31.3	1.9
4	Australia (67)	29.9	8.8
5	The Netherlands (45)	28.9	7.7

- High awareness of quality and after-sales service (Brazil)
- Sales of high-priced products expanding (Australia)

Advanced competitiveness over rival companies

		%	YoY
1	Indonesia (172)	27.9	1.1
2	Brazil (63)	27.0	-0.8
2	United Kingdom (37)	27.0	-5.3
4	The Netherlands (45)	26.7	8.5
5	Thailand (245)	23.7	6.5

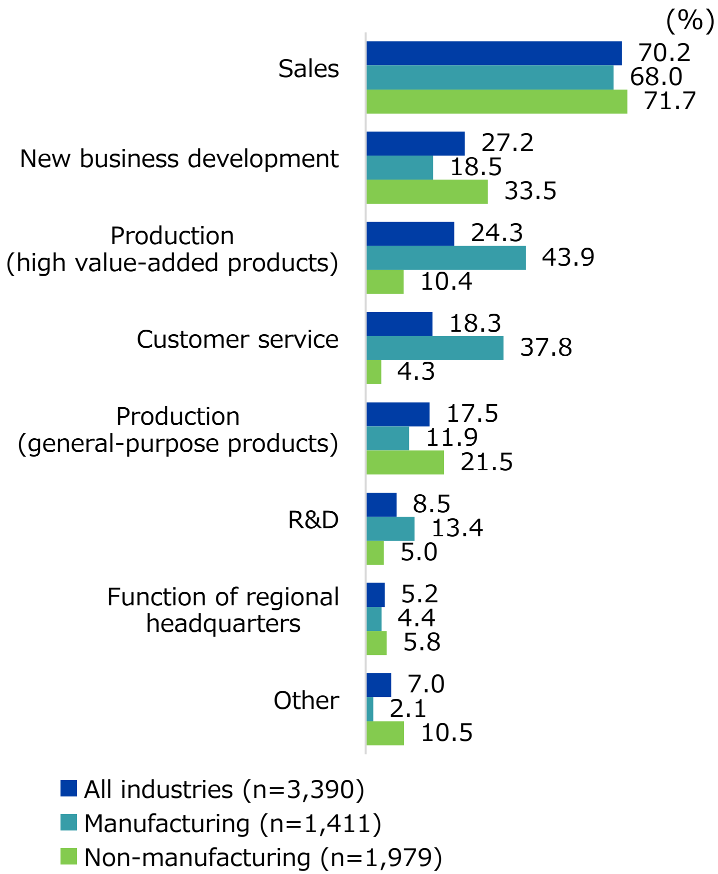
- Halal compliance (Indonesia)
- Increased requests from large corporations due to regulatory compliance (Brazil)

Note: Numbers in parentheses indicate 'n'. Only countries/regions with n=30 or more are listed. Free-response answers have been supplemented or edited where necessary to clarify the respondent's intent, without altering the original meaning.

5 Over 40% of Manufacturers Focus on Producing High-Value-Added Goods

- **For expanding functions, "sales" exceeded 70%**. Focusing on manufacturing, over 80% of companies in Food Products and Transportation Equipment (motor vehicles etc.) plan to expand "sales."
- **43.9% of manufacturers responded they would expand "Production (high value-added goods)"**. This reached over half in Metal Products and Transportation Equipment (motor vehicles etc.). For metal products, the proportion expanding "Production (general-purpose goods)" was also high at 57.6%.

Functions to "Expand"



Note: Multiple functions may be selected.

Functions to "Expand" (Manufacturing, Top 5 Industries)

(%)

	Sales	
1	Food products (155)	85.8
2	Transportation equipment (motor vehicles etc.) (40)	80.0
3	Chemicals and petroleum products (157)	74.5
4	Electrical and Electronic machinery (98)	71.4
5	General machinery (131)	70.2

	New business development	
1	General machinery (131)	24.4
2	Chemicals and petroleum products (157)	24.2
3	Miscellaneous manufacturing industries (86)	20.9
4	Electrical and electronic components (100)	19.0
5	Food products (155)	16.8

	Production (high value-added products)	
1	Fabricated metal products (85)	56.5
2	Transportation equipment (motor vehicles etc.) (40)	50.0
3	Transportation equipment parts (motor vehicles etc.) (153)	48.4
4	Plastic products (64)	48.4
5	Electrical and electronic components (100)	47.0

	Production (general-purpose goods)	
1	Fabricated metal products (85)	57.6
2	Transportation equipment parts (motor vehicles etc.) (153)	46.4
3	Plastic products (64)	42.2
4	Transportation equipment (motor vehicles etc.) (40)	40.0
5	Electrical and Electronic Equipment Components (100)	39.0

Note: Figures in parentheses indicate 'n'. Only industries with n=40 or more are listed.

6 Production Bases Expand in the Global South

- Companies expanding their "sales" functions, both in manufacturing and non-manufacturing sectors, showed higher rates in Germany and Singapore compared to the overall regional average.
- **The proportion of companies expanding "production" functions tends to be higher primarily in Global South countries**. Among these, companies in India, Vietnam, Mexico, and Indonesia show a strong tendency toward expanding production functions for both high-value-added goods and commodities.

"Expanding" Functions (Top 8 Countries/Regions by Function, Manufacturing)

(%)

Sales			Production (high value-added goods)			Production (general-purpose goods)		
1	Singapore (39)	92.3	1	India (167)	50.3	1	Vietnam (207)	56.0
2	Brazil (33)	84.8	2	Mexico (38)	50.0	2	India (167)	52.7
3	Germany (43)	74.4	3	Vietnam (207)	49.8	3	Indonesia (86)	51.2
4	Indonesia (86)	72.1	4	Thailand (105)	48.6	4	Mexico (38)	39.5
5	China (93)	67.7	5	China (93)	48.4	5	Brazil (33)	39.4
6	United States (171)	66.7	6	Indonesia (86)	47.7	6	Thailand (105)	31.4
7	India (167)	65.3	7	United States (171)	37.4	7	China (93)	29.0
8	Thailand (105)	61.0	8	Germany (43)	34.9	8	United States (171)	27.5

Expanding Functions (Top 8 Countries/Regions by Function, Non-Manufacturing)

(%)

Sales			New business development			Customer service		
1	Mexico (45)	86.7	1	Australia (57)	42.1	1	India (143)	34.3
2	Germany (61)	83.6	2	Mexico (45)	40.0	2	Indonesia (85)	25.9
3	United States (133)	77.4	3	India (143)	37.8	3	Thailand (140)	24.3
4	India (143)	76.2	4	Indonesia (85)	36.5	4	Mexico (45)	22.2
5	UAE (37)	75.7	5	China (71)	32.4	5	China (71)	21.1
6	China (71)	74.6	5	UAE (37)	32.4	6	Vietnam (304)	20.1
7	Thailand (140)	74.3	7	Singapore (167)	32.3	7	Brazil (30)	20.0
8	Singapore (167)	71.9	8	Vietnam (304)	31.3	8	Australia (57)	19.3

Note: Figures in parentheses indicate 'n'. Only countries/regions with n=30 or more are listed.

7 China's Economic Slowdown Dampens Expansion Plans; U.S. Faces Uncertainty Ahead

- The primary reasons for downsizing, relocation, or withdrawal from China include **deteriorating business conditions and reduced demand due to the economic slowdown**.
- In the United States, many companies are postponing expansion due to uncertainty over **future prospects caused by tariff policies**. Some companies, affected by **reduced orders and increased costs due to tariffs**, are considering downsizing, relocation, or withdrawal.

"Remaining the same"

China

- Profitability is improving, but volatility remains high; economic trends require close monitoring (Metal Products)
- **Impact of China's economic slowdown and U.S. tariffs** (Plastic Products)
- Amidst limited prospects for significant market expansion, competition with local companies is also intensifying (General Machinery)

United States

- **Tariff policy** uncertainty poses expansion risks (Distributor)
- **Tariff policies may shrink the industry, but some overseas production is expected to return to the U.S.** (Transportation Equipment (motor vehicles etc.))
- The outlook for the manufacturing and automotive industries is uncertain (Chemicals and Petroleum Products)

South Korea

- Intense competition makes expansion difficult (Chemicals and Petroleum Products)

Hong Kong

- **Market recovery remains uncertain due to** political instability **and additional tariffs** (General Machinery)

"Reduction"

China

- Shift of business partners to Southeast Asia leading to reduced orders (Plastic Products)
- Significant decrease in orders due to a change in procurement policy by the headquarters (General Machinery)
- **Decrease in capital investment by Japanese companies** in China (Electrical and Electronic Machinery)
- Restructuring of **unprofitable businesses due to economic downturn** (Wholesale)

United States

- **Increased costs due to tariffs** (Wholesale)
- Lower orders from existing customers; new customers monitoring tariff impacts (Metal Products)
- Reducing fixed costs due to decreased sales to major clients (Transportation Equipment Parts (motor vehicles etc.))

France

- Declining orders due to intensifying competition with other companies (Electrical and Electronic machinery)

Thailand

- Competing with low-priced equivalent products from Chinese companies (General Machinery)

"Withdrawal/Relocation to third countries"

China

- Decision made by Japanese headquarters in light of economic conditions (General Machinery)
- **No prospect of future demand recovery** (Transportation Equipment (motor vehicles etc.))
- **Ongoing losses** (Agriculture, Forestry, and Fisheries)

United States

- Rising maintenance costs and **reduced profits due to reciprocal tariffs** (Chemicals and Petroleum Products)
- Declining demand and high costs, coupled with **difficulty passing on tariff costs to prices** (Transportation Equipment (motor vehicles etc.))

Singapore

- Declining competitiveness as neighboring countries improve infrastructure (Sales Companies)

United Kingdom

- Rising labor and maintenance costs (ICT)

Note: Underlined text refers to U.S. tariffs. Free-response answers have been supplemented or edited within the scope of preserving the original intent to clarify the respondent's meaning.

III. Impact of Additional U.S. Tariff Measures — 40% of Manufacturing Companies Exporting to the U.S. Face Significant Negative Impact —

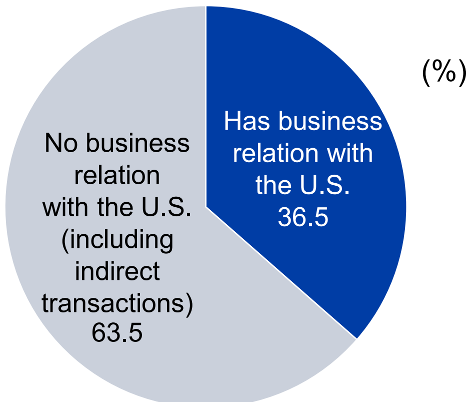
※ The respondents in this section do not include Japanese companies based in the United States. The impact on operating profit forecasts is based on the tariff measures implemented by the Trump administration by August 15, 2025, as well as retaliatory measures by the country/region where the respondent is located and third countries/regions.

1 Approximately 37% of Companies Have Business Relationship with the U.S.

- **Companies having some form of business relationship with the United States accounted for 36.5%**. By country, the proportion exceeded three-quarters in Mexico and Canada, which are geographically close to the United States. It also exceeded 50% in South Korea and Brazil.
- Regarding transaction types, export to the United States is the most common, with export via a third country or business partner accounting for 14.8%.

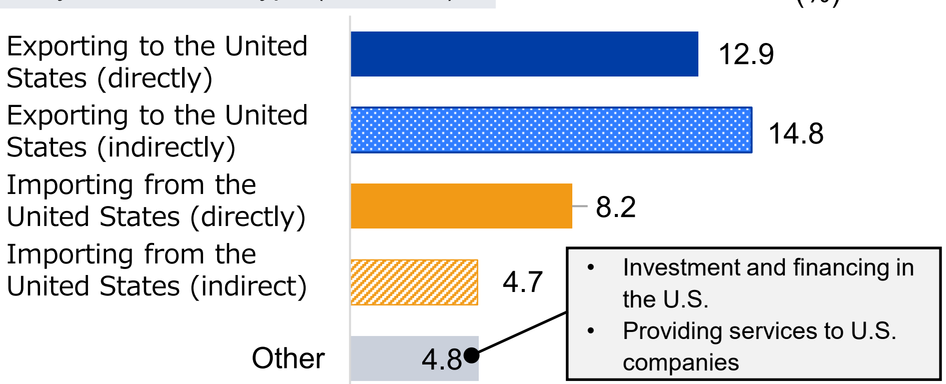
Business Situation with the U.S. (at time of response): Total / By Transaction Type / By Country

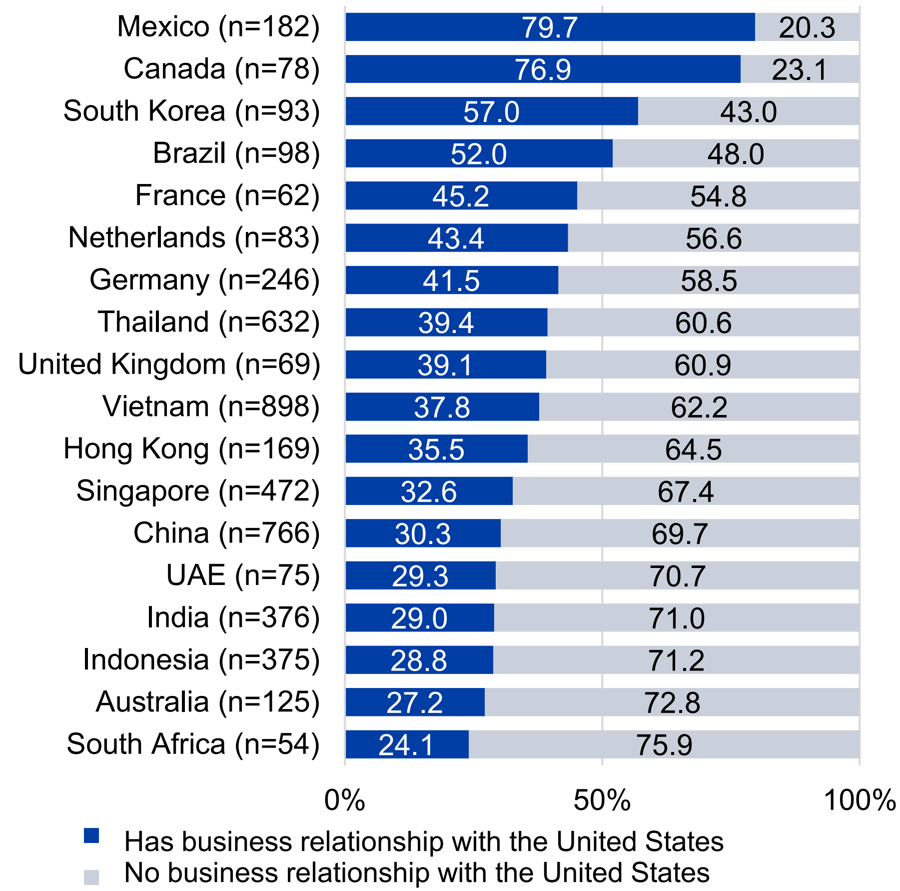
Total (n = 6,701)



※ "Has business relations with the U.S." is the number excluding "No business relations with the U.S." from the total respondents.

By Transaction Type (n = 6,701)



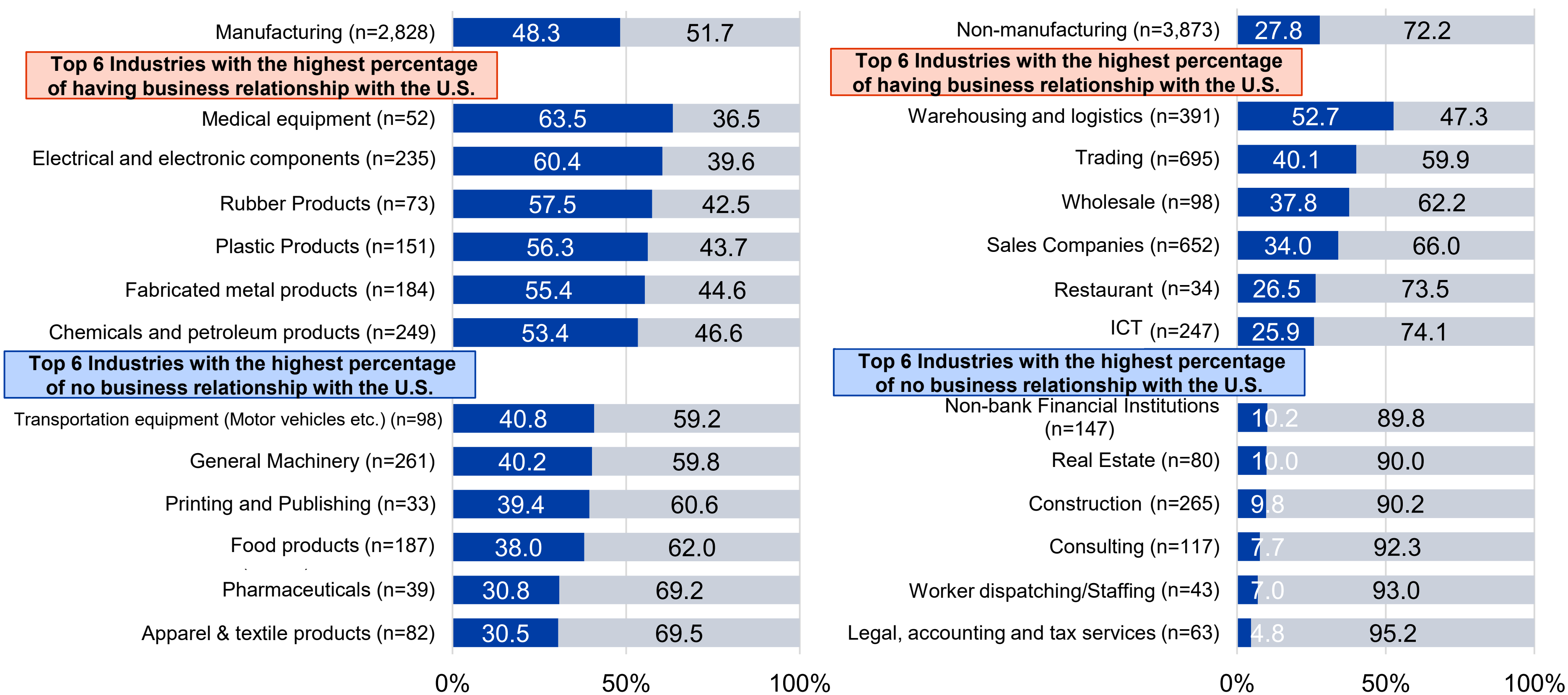


Note: ① Multiple responses allowed for transaction type. ② "Indirect" means "via a third country or business partner."
③ Respondents do not include Japanese companies in the U.S.

2 | Approximately 50% of Manufacturing Companies Have Business Relationships with the U.S.

- **<u>In the manufacturing sector, 48.3% reported having some form of business relationship with the United States</u>**, more than 20 percentage points higher than non-manufacturing companies (27.8%). This figure exceeded 60% in medical equipment and electrical machinery parts/electronic device parts .
- In the non-manufacturing sector, **<u>over half of companies in Transport Activities / Logistics / Warehouse</u>**, and around 40% in Trading and Wholesale reported doing business with the United States.

Business Situation with the U.S. (at time of response): By Industry



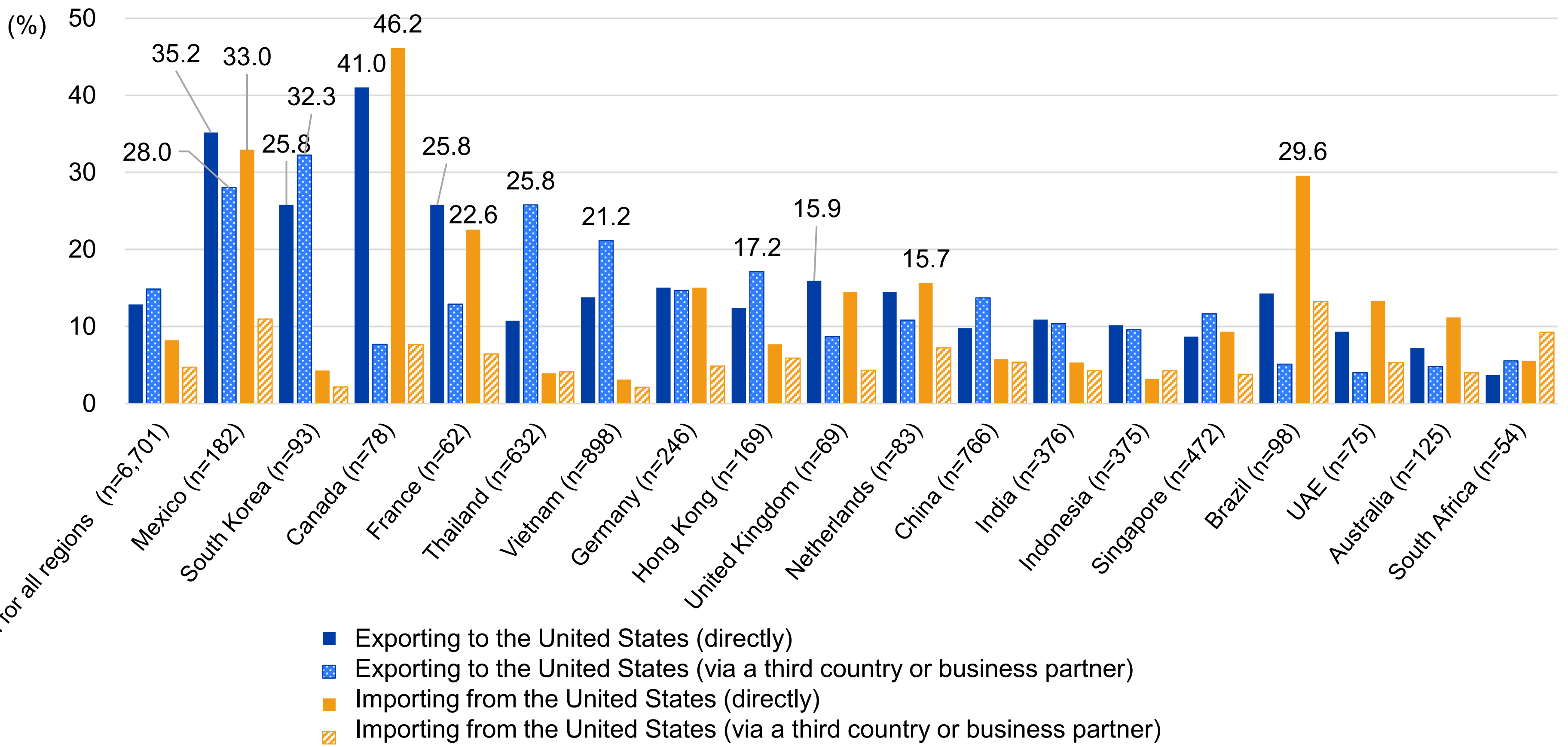
■ Has business relationship with the United States
■ No business relationship with the United States (including indirect transactions)

Note: ① n = 30 or more.
② Respondents do not include Japanese companies in the U.S.

3 | Higher Proportion of Export to the U.S. in Mexico, Canada, and South Korea

- Companies having business relationship with U.S. generally show a higher proportion of export transactions (direct/indirect) than import transactions.
- **Both the proportion of direct exports to and direct imports from the United States are higher in Mexico and Canada due to their geographical proximity**. South Korea (25.8%) follows for direct exports, while Brazil (29.6%) follows for direct imports.

Business Situation with the U.S. (at time of response): By Transaction Type (Exports/Imports)

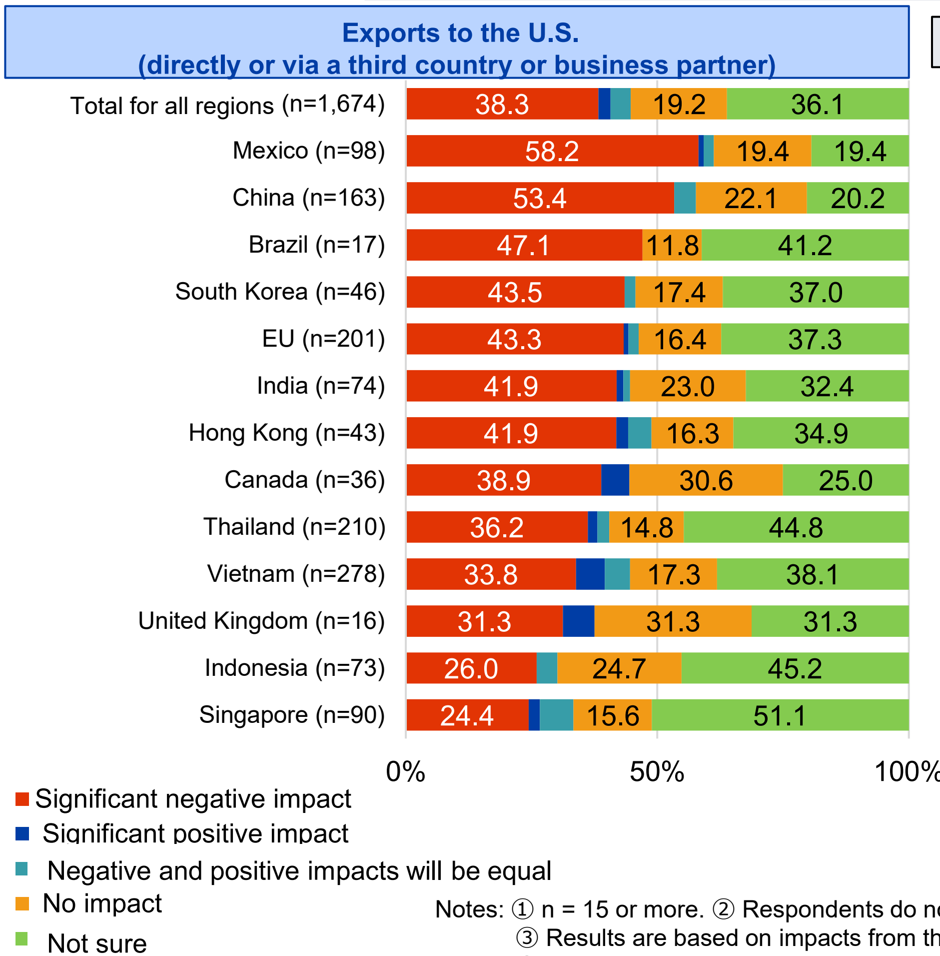


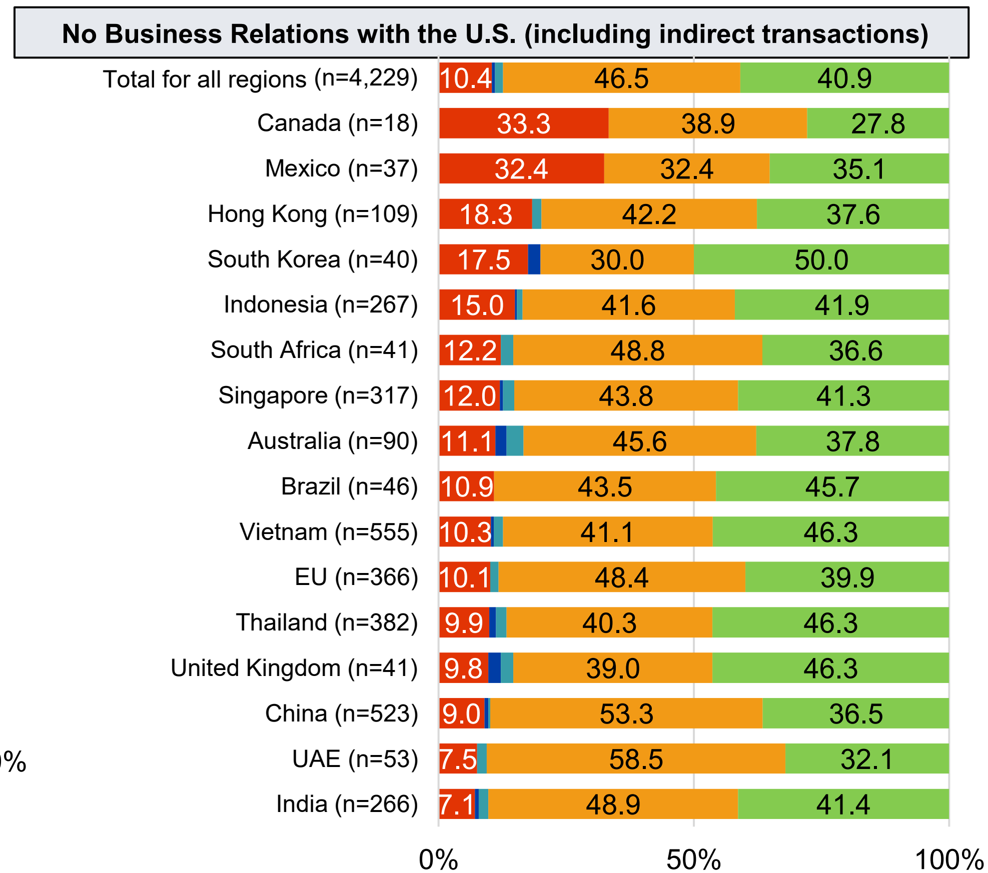
Note: ① 'n' is the total number of companies that answered this question. ② Respondents do not include Japanese companies in the U.S.

4 | Mexican and Chinese Exporters to the U.S. Face Negative Impacts

- **Over half of companies in Mexico and China exporting to the U.S. reported "significant negative impact"**.
- Among companies with no business relationship with U.S., most reported "no impact." However, **in Canada and Mexico, which are geographically close to the United States, over 30% of companies reported "significant negative impact."**

Impact of Tariff Increases on Operating Profit Forecasts in 2025 (by Country)





Notes: ① n = 15 or more. ② Respondents do not include Japanese companies in the U.S.
③ Results are based on impacts from the measures implemented by August 15, 2025.
④ EU member countries are aggregated under the EU.

5 | Decreasing U.S. Demand and Reduced Cost Competitiveness Are the Main Causes of Negative Impact

- Among companies exporting to the U.S., **the most frequently cited reason for negative impact on operating profit forecasts was "decreasing demand in the U.S. market," exceeding 60% in Vietnam, Thailand, and Canada**. In Canada, approximately 70% cited "decreasing cost competitiveness in the U.S. market." This was primarily due to increasing costs from tariffs, particularly affecting the manufacturing sector.
- In Mexico, over 40% cited "decreasing demand in the local market."

Reasons for Negative Impact by the Tariff Increases on Operating Profit Forecasts in 2025

(Top 10 countries, companies exporting to the U.S. (directly or via a third country or business partner)

(%)

Country	Overall	U.S. Market			Local Market			Export Markets Outside the U.S.			Increasing procurement and import costs	Decline in sales and profit margins due to the global economic downturn
		Decreasing demand	Intensifying competition	Decreasing cost competitiveness	Decreasing demand	Intensifying competition	Decreasing cost competitiveness	Decreasing demand	Intensifying competition	Decreasing cost competitiveness		
Total for all regions	**699**	**56.2**	**10.7**	**34.0**	**23.7**	**9.4**	**9.6**	**7.3**	**3.7**	**2.0**	**17.2**	**20.2**
Vietnam	106	**67.9**	14.2	30.2	18.9	8.5	10.4	7.5	2.8	2.8	10.4	12.3
China	92	**54.3**	6.5	33.7	21.7	7.6	5.4	6.5	1.1	1.1	19.6	17.4
EU	91	**52.7**	7.7	41.8	23.1	9.9	9.9	4.4	1.1	2.2	22.0	20.9
Thailand	81	**64.2**	11.1	33.3	25.9	11.1	7.4	6.2	3.7	0.0	9.9	14.8
Mexico	59	**57.6**	13.6	23.7	42.4	11.9	8.5	3.4	1.7	0.0	32.2	23.7
India	32	**50.0**	0.0	34.4	18.8	3.1	6.3	0.0	6.3	0.0	12.5	6.3
Singapore	27	**48.1**	11.1	29.6	18.5	11.1	3.7	18.5	11.1	3.7	11.1	25.9
Indonesia	22	54.5	4.5	**59.1**	13.6	4.5	0.0	9.1	0.0	0.0	9.1	40.9
South Korea	21	47.6	14.3	**52.4**	9.5	14.3	14.3	14.3	4.8	4.8	9.5	19.0
Canada	13	61.5	30.8	**69.2**	23.1	23.1	23.1	0.0	0.0	0.0	53.8	23.1

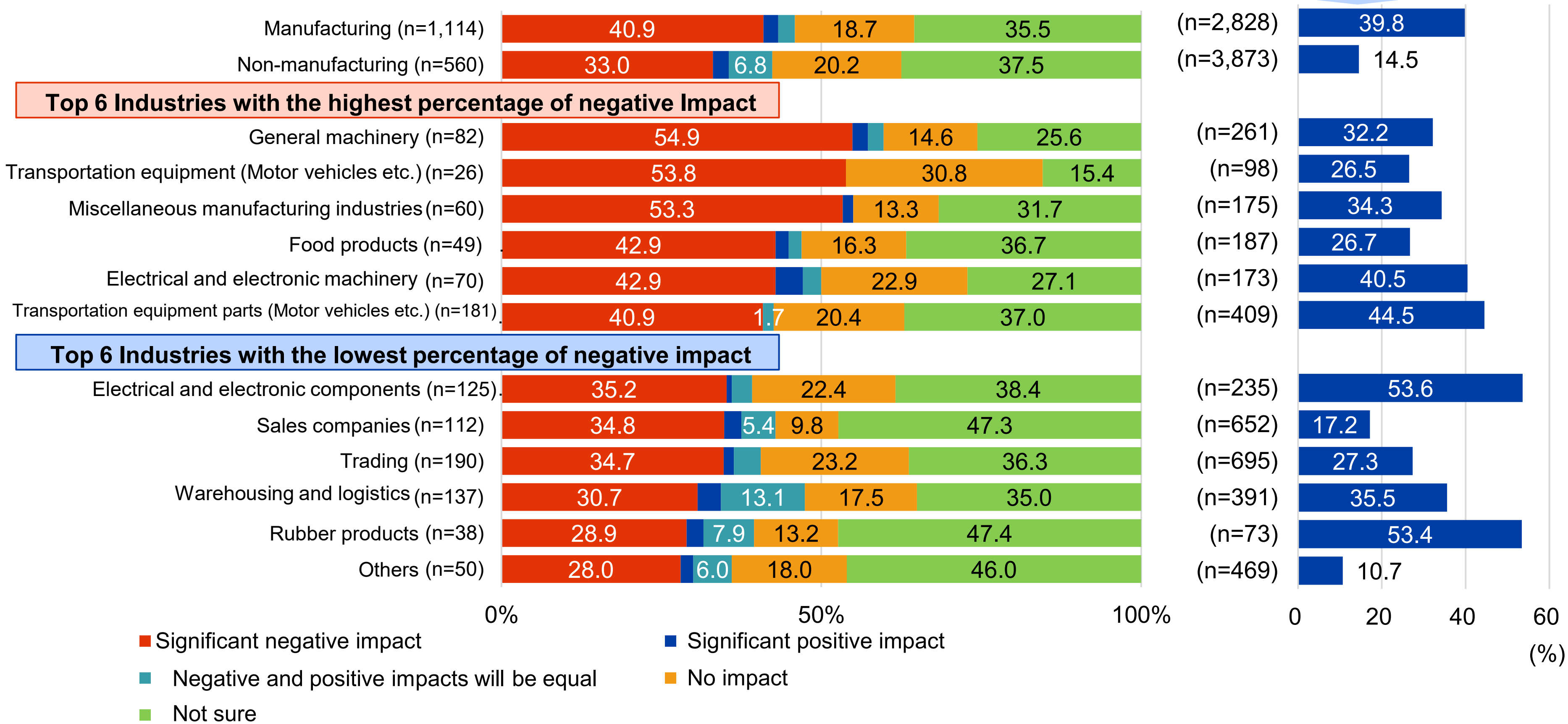
Notes: ① Respondents do not include Japanese companies in the U.S. ② Calculated based on respondents reporting "significant negative impact" or "Negative and positive impacts will be equal." Multiple responses allowed. ③ Options shown exclude "other." ④ Results are based on impacts from the measures implemented by August 15, 2025. ⑤ Canada and countries with n ≥ 45 exporting to the U.S. are shown. ⑥ Items with orange background represent the proportion exceeding the overall average for each option. Items in bold red text represent the highest proportion for each country. ⑦ EU member countries are aggregated under the EU.

6 | 40% of Manufacturing Companies Exporting to the U.S. Face Negative Impact

- Among companies exporting to the U.S., **approximately 40% in the manufacturing sector responded "significant negative impact."** By industry, this proportion exceeded 50% in General Machinery, Transportation Equipment (motor vehicles/motorcycles), and Miscellaneous Manufacturing Industries.
- Industries with lower "significant negative impact" rates tend to have higher "not sure" rates. **Many cited: "depending on future developments and customer's strategies,"** suggesting a wait-and-see stance at present.

Impact of Tariff Increases on Operating Profit Forecasts in 2025
(Companies Exporting to the U.S. (directly or via a third country or business partners), by Industry)

Percentage of Companies Exporting to the U.S. (directly or indirectly) for Each Industry

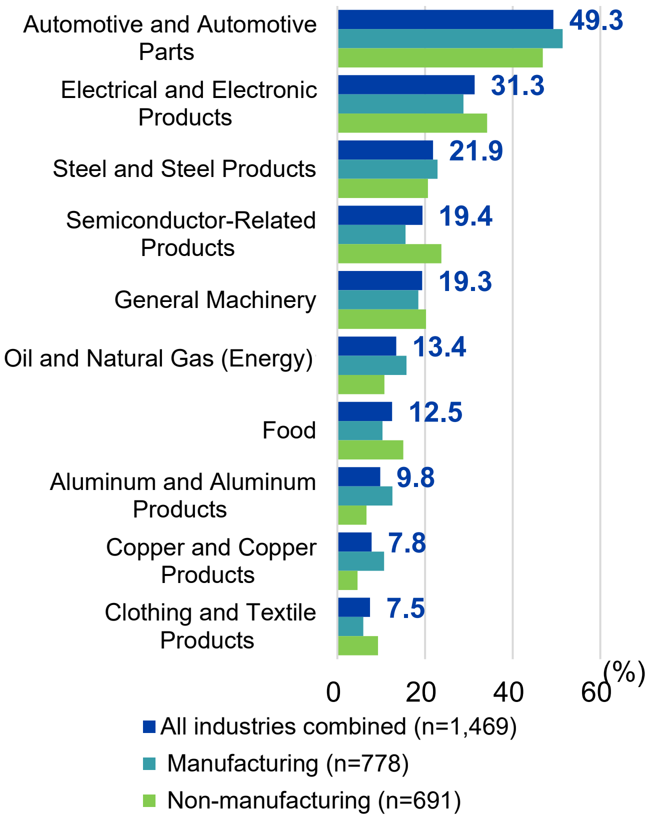


Note: ① n = 30 or more. ② Respondents do not include Japanese companies in the U.S. ③ Results are based on impacts from the measures implemented by August 15, 2025.

7 Impact of Tariff Measures Spreading Across the Entire Supply Chain

■ Items having the greatest impact on operating profit include automobiles and steel, which face additional U.S. tariffs. Those items were cited not only by companies in Manufacturing Tinished Goods and Parts, but **also by Warehousing and Logistics companies as well as Trading and Sales companies supplying raw materials and components, indicating widespread supply chain impact**.

Top 10 Items Having the Greatest Impact on Operating Profit



Top 4 Items Having the Greatest Impact (by Industry, Top 7 Industries)

(%)

	Automobiles and Automotive Parts	
1	Transportation equipment parts (Motor vehicles etc.) (106)	96.2
2	Transportation equipment (Motor vehicles etc.) (20)	95.0
3	Rubber products (24)	83.3
4	Electrical and electronic components (66)	66.7
5	Warehousing and logistics (117)	66.7
6	Chemicals and petroleum products (74)	58.1
7	Plastic products(45)	55.6

	Electrical and Electronic Products	
1	Electrical and electronic machinery (59)	84.7
2	Electrical and electronic components (66)	72.7
3	Construction (29)	48.3
4	Warehousing and logistics (117)	42.7
5	Sales companies (171)	39.2
6	Other Manufacturing (47)	36.2
7	Miscellaneous manufacturing industries (142)	28.9

	Steel and Steel Products	
1	Iron and Steel (20)	70.0
2	Fabricated metal products (49)	51.0
3	General machinery (85)	45.9
4	Transportation equipment (Motor vehicles etc.) (20)	35.0
5	Transportation equipment parts (Motor vehicles etc.) (106)	32.1
6	Trading (142)	31.0
7	Others (62)	25.8

	Semiconductor-Related Products	
1	Electrical and electronic machinery (59)	39.0
2	Sales companies (171)	35.1
3	Construction (29)	34.5
4	Warehousing and logistics (117)	27.4
5	Electrical and electronic components (66)	24.2
6	Trading (142)	23.2
7	Miscellaneous manufacturing industries (47)	21.3

Note: ① Results are based only on companies that reported some impacts in the question regarding "Impact of tariff increases on operating profits forecasts in 2025." ② Respondents could select up to three items having the greatest impact. ③ Respondents do not include Japanese companies in the U.S. ④ The Numbers in parentheses in the right table are 'n'. ⑤ The table on the right shows only industries with n ≥ 20. ⑥ Options shown exclude "other."

8 | Companies in Many Countries Express Concern over Intensifying Future Competition with China

- Respondents across most major countries express concern about future negative impacts. In Asia, where the manufacturing sector has a large presence, **while there is expectation for increasing demand driven by rising local sourcing needs, there is also significant concern about intensifying competition with Chinese companies**.
- Respondents in Canada and Mexico anticipate **increasing competitiveness by leveraging the USMCA**, but are concerned about the review of the agreement in 2026.

Future Expectations and Concerns Regarding the Impact of Tariff Increases and Countermeasures (Free-Response Comments)

<Legend>
Expectations for Positive Impact
Concerns Regarding Negative Impact

+ Increasing demand due to suppliers shifting from the U.S.
– Lower demand due to decreasing competitiveness of customers in the region
– **Intensifying competition due to influx of Chinese and Indian products**
– Increasing production and procurement costs
– Declining investment sentiment

+ Increasing demand and investment **driven by rising local sourcing needs**
+ Business opportunities for Japanese products as substitutes for U.S. competitors
– Production contraction and decreasing demand due to reducing exports to the U.S.
– Disruption of production plans and pricing due to shifting export destinations
– U.S. countermeasures against China's export controls
– Declining investment sentiment
– Increasing production and procurement costs, procurement difficulties

+ Utilizing the United States-Mexico-Canada Agreement (USMCA) offers advantage over competitors in Europe and Asia
– Increasing costs due to expanding additional tariff measures

+ Increasing demand driven by **rising local sourcing needs**, enhanced domestic competitiveness against U.S. products
– Acceleration of protectionism in India and China
– Depreciation of local currencies against the dollar
– Declining future consumer and investment sentiment
– Increasing production and procurement costs, procurement difficulties

+ Increasing demand driven by **rising local sourcing needs**
– Production contraction and decreasing demand due to reducing exports to the U.S.

+ Increasing demand driven by accelerated logistics hub development
+ Increasing orders and investment driven by **rising local procurement needs**
– Intensifying competition due to increasing investment by Chinese companies
– **Price declines due to influx of Chinese products**
– Rising production and procurement costs, procurement difficulties
– Declining consumer and investment sentiment

+ Expanding business opportunities through utilization of the USMCA
+ Acceleration of nearshoring
– Decreasing competitive advantage due to the review of the USMCA
– Domestic stagnation of Mexican products losing export markets
– Declining investment sentiment

+ Increasing cost competitiveness of exports to the U.S.
– **Intensifying competition and price declines due to influx of Chinese and Indian products**
– Increasing production and procurement costs

– **Price declines due to influx of Chinese products**
– Lengthening of logistics lead times
– Domestic stagnation of Brazilian products losing export markets

+ Increasing interest in African business
– Declining investment sentiment

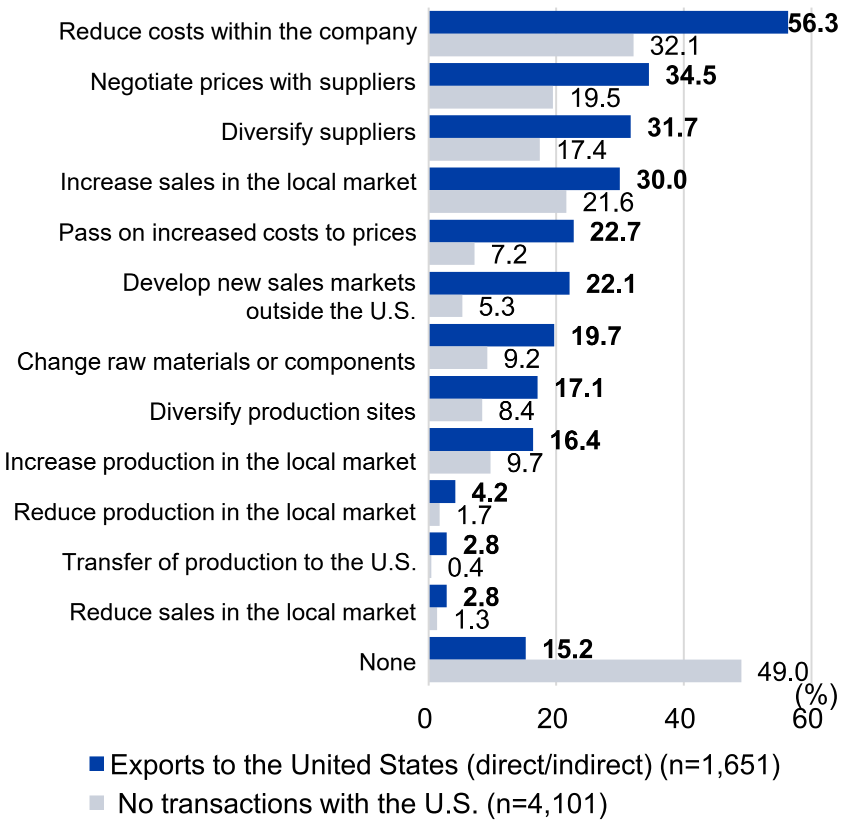
+ Positioning as a low-risk partner for potential U.S. customers in supply chains centered on Asia-Pacific
– Intensifying competition for sourcing within Australia due to shift in sourcing from China

Note: ① Free-response answers are supplemented or edited where necessary to clarify the respondent's intent, without altering the original meaning. ② Compiled from free-response comments of approximately 1,500 respondents across 18 countries that mentioned future impacts. ③ Respondents do not include Japanese companies in the U.S.

9 Cost Reduction and Strengthening Sales Networks as key Countermeasures

- As countermeasures against U.S. tariffs, **over 50% of companies exporting to the U.S. selected "reduce costs within the company."** Over 30% are also working on "negotiate prices with suppliers," "diversify suppliers," and "increase sales in the local market."
- The percentage of responses citing "Pass on increased costs to prices" was higher among European countries. **In South Korea and France, where relatively more companies export directly to the U.S., the proportion of "develop new sales markets outside the United States" is higher compared to other countries**.

Countermeasures to U.S. Tariff Measures (by Transaction Type)



Note: ① Multiple responses allowed. ② Options shown exclude "other." ③ Respondents do not include Japanese companies in the U.S.

Top 5 Countries by Countermeasure

(%)

Reduce costs within the company			
1	Mexico	(140)	64.3
2	Thailand	(247)	57.9
3	China	(226)	54.9
4	Vietnam	(331)	52.9
5	India	(109)	52.3

Negotiate prices with suppliers			
1	Mexico	(140)	41.4
2	France	(28)	39.3
3	South Korea	(51)	39.2
4	Australia	(34)	38.2
5	Brazil	(48)	37.5

Diversify suppliers			
1	Brazil	(48)	45.8
2	France	(28)	42.9
3	Hong Kong	(59)	39.0
4	Mexico	(140)	37.9
5	United Kingdom	(27)	37.0

Increase sales in the local market			
1	Australia	(34)	44.1
2	Mexico	(140)	43.6
3	India	(109)	42.2
4	Brazil	(48)	33.3
5	Germany	(98)	31.6

Pass on increased costs to prices			
1	The Netherlands	(35)	40.0
2	Mexico	(140)	35.7
3	France	(28)	35.7
4	Brazil	(48)	31.3
5	Germany	(98)	30.6

Develop new sales markets outside the U.S.			
1	South Korea	(51)	29.4
2	France	(28)	28.6
3	Hong Kong	(59)	25.4
4	Brazil	(48)	20.8
5	Vietnam	(331)	19.9

Note: ① The numbers in parentheses are 'n'. ② 'n' represents companies having some form of business relationship with the United States. ③ Only countries with n ≥ 25 are listed. ④ Respondents do not include Japanese companies in the U.S.

10 Strengthen Supply Chains in Destination Countries and Regions

- Regarding **procurement**, there is a trend toward "**increasing local procurement**" in Canada, Mexico, and Asia.
- For **production**, notable activities include "**initiating local manufacturing**" and "**developing new products**" in Asia.
- In terms of **sales**, companies are focusing on "**developing new markets and business areas**" across regions. Moves to strengthen efforts to cater to domestic demand are also evident.

Specific countermeasures against U.S. tariff measures (Free-Response Comments)

	Procurement	Production	Sales
Canada Mexico	• Advancing **local sourcing** within North America to meet **USMCA rules of origin** • Discussing the necessity of **sourcing raw materials within the region** with business partners	• Shifting production from Japan to Mexico • Developing manufacturing partners in Canada • Flexibility and optimization of production systems	• Increasing Canadian products and focusing on domestic sales in Canada • Partially bear tariff costs in anticipation of decreasing sales • Diversifying sales channels (automotive → aviation, etc.) • **Expanding proprietary brand products** potentially growing profit • Promoting price stability **based on the USMCA**
Latin America	• Securing procurement sources in Asia and Europe		• Focusing on **sales expansion in South America,** particularly Brazil
Europe	• Developing procurement sources outside the U.S.	• Improving efficiency through digitalization	• Developing sales channels within Europe • Diversifying sales channels (e.g., shifting toward non-automotive applications) • **Investment in differentiating technologies** • Adjustment of inventory levels and sales prices
ASEAN Oceania	• Consider switching from U.S. imported materials to local sourcing • Aiming to **increase local procurement rates** and obtain certificates of origin	• Promoting the development of **new high value-added products (such as high-priced items and specialized products)** • **Development of alternatives (low-cost versions)** • Commencement of **local production**, transfer of production within the region	• Developing new export markets outside the United States • Strengthening intra-regional trade
India	• **Increase local procurement rates** • Promoting local production for local consumption	• Considering **domestic production within India** • **Product Development for markets outside the United States**	• **Focus on domestic demand (Indian market)** • Developing new export markets outside the United States • Capturing substitute demand for U.S. competitors
China	• **Increase local procurement rates** • Developing procurement sources outside the United States	• Shifting production to group companies in countries facing relatively lower tariff rates	• Increasing sales personnel to meet **local procurement needs** • Strengthening and increasing domestic sales bases • Entry into new businesses • **Expanding business into Southeast Asia, the Middle East, and Africa**
Middle East Africa	• Switching procurement sources to India and China • Diversification of procurement sources		• Developing **sales channels for consumers** • Expanding business scope into peripheral businesses

Note: ① Free-response answers are supplemented or edited where necessary to clarify the respondent's intent, without altering the original meaning. ② Compiled from free-response comments mentioning countermeasures in 18 countries. ③ Respondents do not include Japanese companies in the U.S.

IV. Labor Shortage and Wages

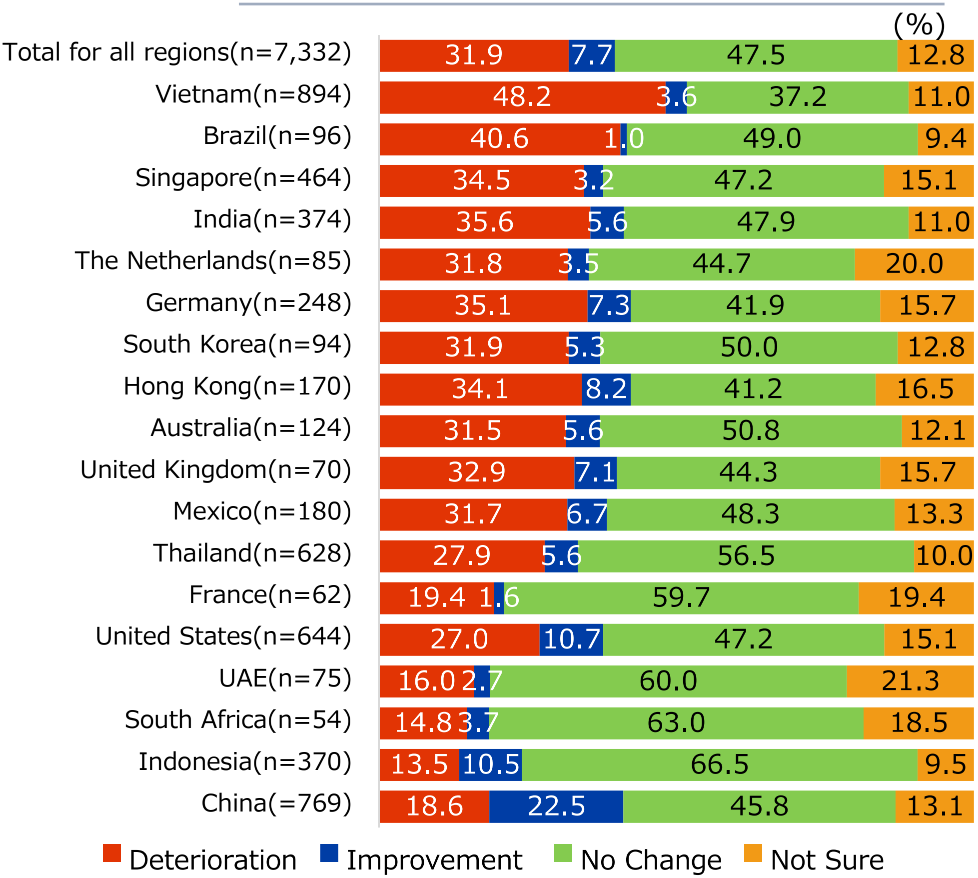
― Intensifying Talent Acquisition Competition, Over 30% Report Worsening Conditions ―

1 | Labor Shortages Worsen, with China the Only Country Where Improvement Outpaces Deterioration

- Regarding talent acquisition in local labor markets over the past two years, the largest proportion of companies report "no change." Meanwhile, the proportion reporting "Deterioration" (31.9%) significantly exceeded the proportion reporting "Improvement" (7.7%).
- Looking at the DI (See note) by country/region, the negative values are large in India, Brazil, and Vietnam, where the percentage of expansion is high for future business development. **Vietnam, in particular, shows the lowest value (-44.6)**. In contrast, **China, facing a slowing domestic economy and high youth unemployment rates, saw its labor market ease, resulting in the only positive value among major countries/regions**.

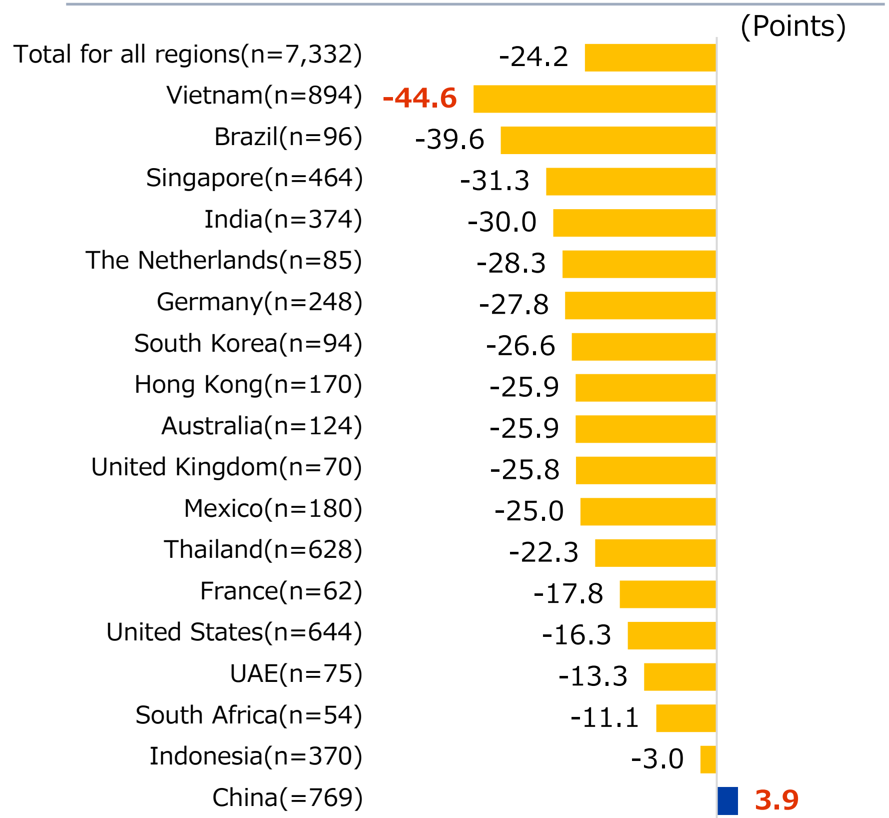
(Note) Abbreviation for Diffusion Index. In this survey, the percentage of companies that increased their operating profit from the previous year (%) is subtracted from the percentage of companies that saw decreases in their operating profit (%).

Talent Acquisition Situation Over the Past Two Years



(Note) Countries/regions listed in order of lowest DI values.

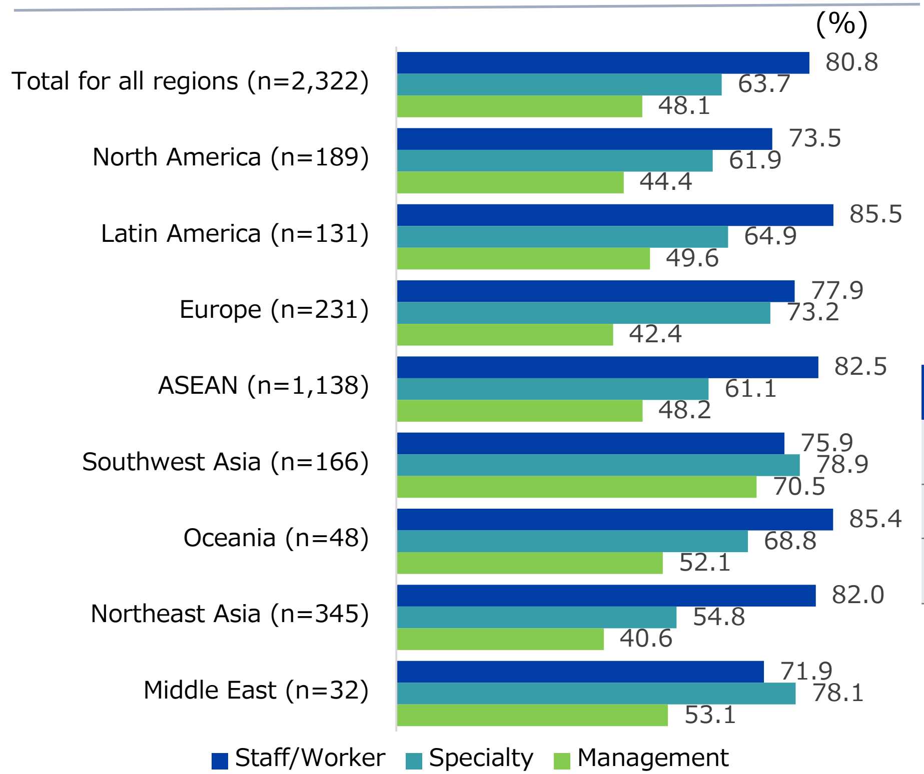
Talent Acquisition Situation Over the Past Two Years (DI)



2 Struggles to Secure Staff and Workers: Wages and Benefits as the Underlying Cause

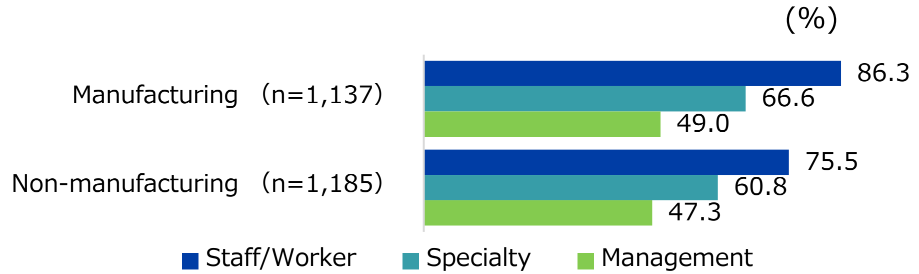
- 80 percent of companies reporting worsening staffing conditions struggle to secure staff/worker-level talents. **This proportion is particularly high in Latin America and Oceania**. In Southwest Asia, the worsening rate is higher for specialty occupations and managers. By industry, manufacturing faces worse conditions across all occupations compared to non-manufacturing. However, even in non-manufacturing, securing highly-skilled talent is difficult in ICT, consulting, and construction sector.
- **The common underlying factor for deterioration across all occupations is "rising demands for wages and benefits**." **For staff/workers and specialty occupations, "intensifying competition with other companies for human resources"** is cited; **for managerial positions**, **"mismatch between skills of job seekers and those required by the company"** is highlighted.

Occupations Experiencing Worsening Staffing Conditions (By Region)



(Note) ①Multiple responses allowed. ②Responses from companies that reported a "deterioration" in staffing over the past two years. ③Only regions/industries with n=30 or more are shown. ④Total for all regions includes Russia and Africa.

Occupations Experiencing Worsening Staffing Conditions (By Industry)



Industries Experiencing Particularly Severe Deterioration (Top 3 Industries by Occupation)

(%)

Staff/Workers	
Apparel & textile products (n=46)	97.8
Plastic products (n=78)	97.4
Fabricated metal products (n=95)	95.8

Professional	
ICT (n=77)	90.9
Consulting (n=32)	87.5
Construction	86.5

Management	
Non-bank financial institutions (n=32)	62.5
Electrical & electronic components (n=71)	56.3
Wholesale (n=34)	55.9

3 Intensifying Competition for Talent with Chinese Companies in Vietnam

- The major intensifying competitior for talent is local companies. Meanwhile, **over 30% of respondents report no intensification**.
- Looking at countries/regions where talent acquisition has intensified over the past two years, **in India, where Japanese companies are actively expanding, higher percentage of respondents cite competition among Japanese firms. In Vietnam, competition with Asian firms is highlighted, primarily Chinese companies whose presence has grown recently**. In Brazil, competition is more intense among local, Japanese, and European firms.

Intensifying Competitors for Talent Acquisition

(%)

		Local	Japanese	Chinese	Taiwanese	US	European	Korean	Indian	Competition with other companies is not intensifying
By Industry	Total for all regions (n=7,169)	41.7	23.6	18.0	4.7	6.8	7.9	7.7	1.0	34.7
	Manufacturing (n=3,104)	43.8	20.6	22.8	7.3	6.9	7.4	10.0	0.9	30.3
	Non-manufacturing (n=4,065)	40.1	25.9	14.4	2.7	6.6	8.2	6.0	1.1	38.1
By Country/Region	Brazil (n=90)	46.7	27.8	21.1	1.1	17.8	22.2	6.7	2.2	17.8
	India (n=369)	54.5	37.4	4.3	3.8	10.3	13.0	10.3	-	23.8
	Vietnam (n=876)	29.0	33.7	33.9	22.4	6.4	8.8	30.7	0.6	26.6
	South Korea (n=92)	55.4	28.3	5.4	0.0	12.0	9.8	-	0.0	28.3
	United States (n=631)	53.7	25.7	6.2	1.7	-	4.9	4.9	1.4	30.1
	Mexico (n=176)	31.3	33.0	31.3	1.7	18.2	15.9	9.7	0.6	32.4
	Singapore (n=449)	42.3	23.4	18.7	3.1	12.2	13.6	4.2	1.1	34.3
	Thailand (n=627)	32.1	29.3	34.3	4.1	2.7	4.3	3.3	0.5	34.9
	Germany (n=232)	49.6	17.7	12.5	1.3	2.2	-	0.9	0.9	38.8
	Hong Kong (n=167)	34.1	33.5	24.0	2.4	8.4	6.6	1.8	0.6	38.9
	South Africa (n=54)	37.0	7.4	33.3	0.0	1.9	11.1	1.9	11.1	40.7
	Netherlands (n=83)	45.8	13.3	8.4	1.2	6.0	-	1.2	2.4	41.0
	Australia (n=121)	43.8	18.2	5.8	0.0	5.0	4.1	0.0	0.8	41.3
	United Kingdom (n=66)	43.9	18.2	4.5	1.5	3.0	-	3.0	3.0	42.4
	China (n=750)	50.4	15.7	-	1.1	2.8	3.5	0.5	0.1	43.2
	Indonesia (n=368)	28.0	27.2	25.3	2.4	3.8	5.4	9.5	1.1	44.6
	France (n=58)	37.9	8.6	8.6	1.7	8.6	-	1.7	0.0	53.4
	UAE (n=74)	14.9	18.9	13.5	1.4	8.1	10.8	6.8	6.8	60.8

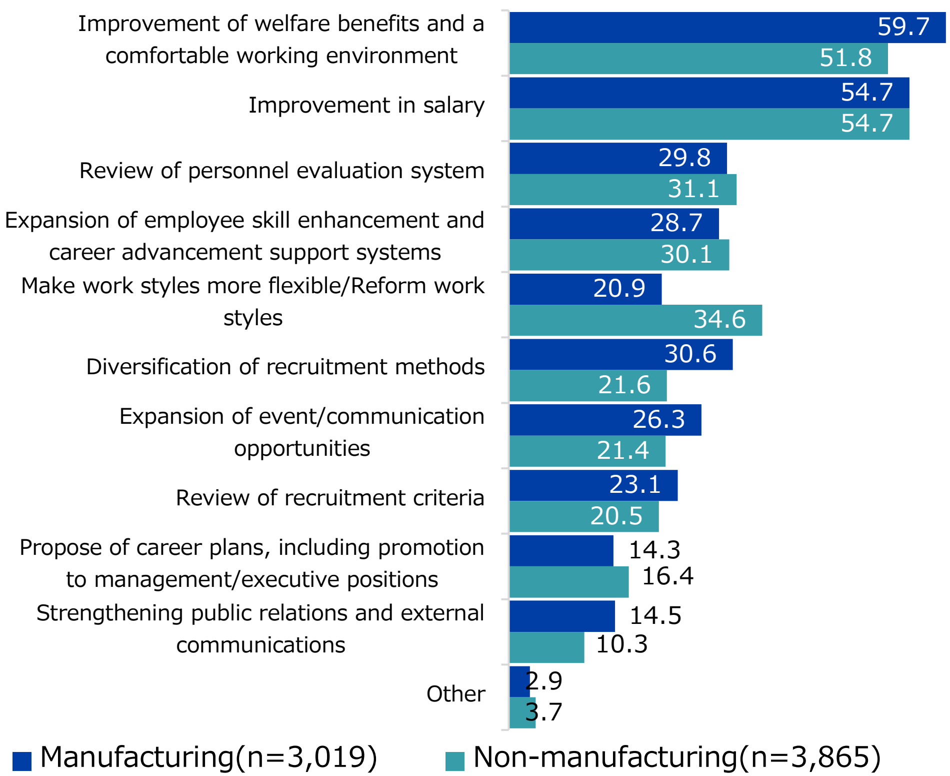
(Note) ① Multiple responses allowed. ② Red background indicates the top 3 competitors in each country/region. ③ "-" indicates that "local companies" and nationalities of competitors are the same. For the European region, "local companies" are defined as "European companies, including those from countries/regions other than those of location."

4 Improving Benefits and Renumeration to Boost Recruitment and Retention

- To recruit and retain talent, **more than half of respondents** across all industries **are focusing on “improvement of welfare benefits and a comfortable working environment” and “improvement in salary**.” Additionally, a high proportion of manufacturing companies are diversifying recruitment methods, while non-manufacturing companies are prioritizing work style reforms and flexibility.
- By country/region, Japanese companies in India and Brazil showed relatively higher response rates for each initiative. This suggests companies are diversifying their approaches amid worsening environment around talent acquisition in both countries.

Measures for Recruitment and Retention of Personnel (By Industry)

(%)



Measures for Recruitment and Retention (Top 3 Countries/Regions for Each Measure)

(%)

1. Improvement of welfare benefits and a comfortable working environment	
Brazil (n=89)	**68.5**
South Korea (n=90)	66.7
United Kingdom (n=66)	63.6

2. Improvement in salary	
UAE (n=68)	66.2
India (n=355)	**61.1**
Vietnam (n=858)	61.1

3. Review of personnel evaluation system	
South Korea (n=90)	43.3
Brazil (n=89)	**42.7**
India (n=355)	**42.3**

4. Expansion of employee skill enhancement and career advancement support systems	
Brazil (n=89)	**39.3**
UAE (n=68)	36.8
India (n=355)	**35.5**

5. Make work styles more flexible/Reform work styles	
Germany (n=228)	57.5
United Kingdom (n=66)	54.5
France (n=54)	53.7

6. Diversification of recruitment methods	
India (n=355)	**36.1**
Mexico (n=175)	32.6
Vietnam (n=858)	32.2

(Note) ① Multiple responses allowed. ② The table on the right shows the top 6 measures.

5 Promoting Recruitment through University Partnerships and Social Media

- Specific measuress include: for recruitment, **securing talent through partnerships with local universities and utilizing social media**; for retention, **supporting skill development** such as dispatching employees to Japan, and supporting them to obtain qualifications; and organizing social gatherings and company trips for **enhancing employee engagement.**

Japanese Companies' Initiatives for Recruitment and Retention

Vietnam

Recruit-ment

- Expand commuting bus coverage to broaden recruitment areas. **Strengthen university partnerships and actively invite high school students for factory visits** (ICT Equipment & Office Equipment)
- Utilize **local social media** (Sales Company)

Retention

- Quantify tasks to clarify roles and priority. For workers, score skill levels and conduct annual evaluation tests (Transportation Equipment Parts (Motor Vehicles etc.))
- Organize company trips and social gatherings (Medical equipment)
- **Cover fees for Japanese language classes and exam for employees pursuing Japanese language certification** (Trading Company)

Brazil

Recruit-ment

- **Promote internship positions through universities and social media** (Transportation Equipment Parts (Motor vehicles etc.))

Retention

- Host promotion celebration dinners **where families are welcome** (Electricity, Gas, Heat Supply & Water)

India

Recruit-ment

- **Shift from mid-career hiring to new graduate hiring, providing training from scratch** (Sales Company)
- Partner with **universities and colleges** to acquire talent (Transportation Equipment (Motor vehicles etc.))

Retention

- Host family days to provide enjoyable events for employees' families (Transportation Equipment Parts (Motor vehicles etc.))
- **Hold social gatherings to gather feedback** and implement improvements (Chemical and Petroleum Products)
- **Dispatch engineers to the parent company in Japan** to get them to learn work methods and etiquette while having cultural experiences (ICT)

Other Major Countries/Regions

Recruitment

- Review recruitment policies and standards, **clarifying requirements for job experience, education, and skills** (United States / Fabricated Metal Products)
- Revise the system to recruit engineers with specialized skills to **provide more favorable employment conditions** than general engineers (China / Non-ferrous Metals)
- Hiring through referrals from graduates (United Kingdom / Sales Companies)
- **Relax language requirements**. Previously required Japanese proficiency, but expanded eligibility to include those expressing interest in Japanese (United States / Non-ferrous Metals)

Retention

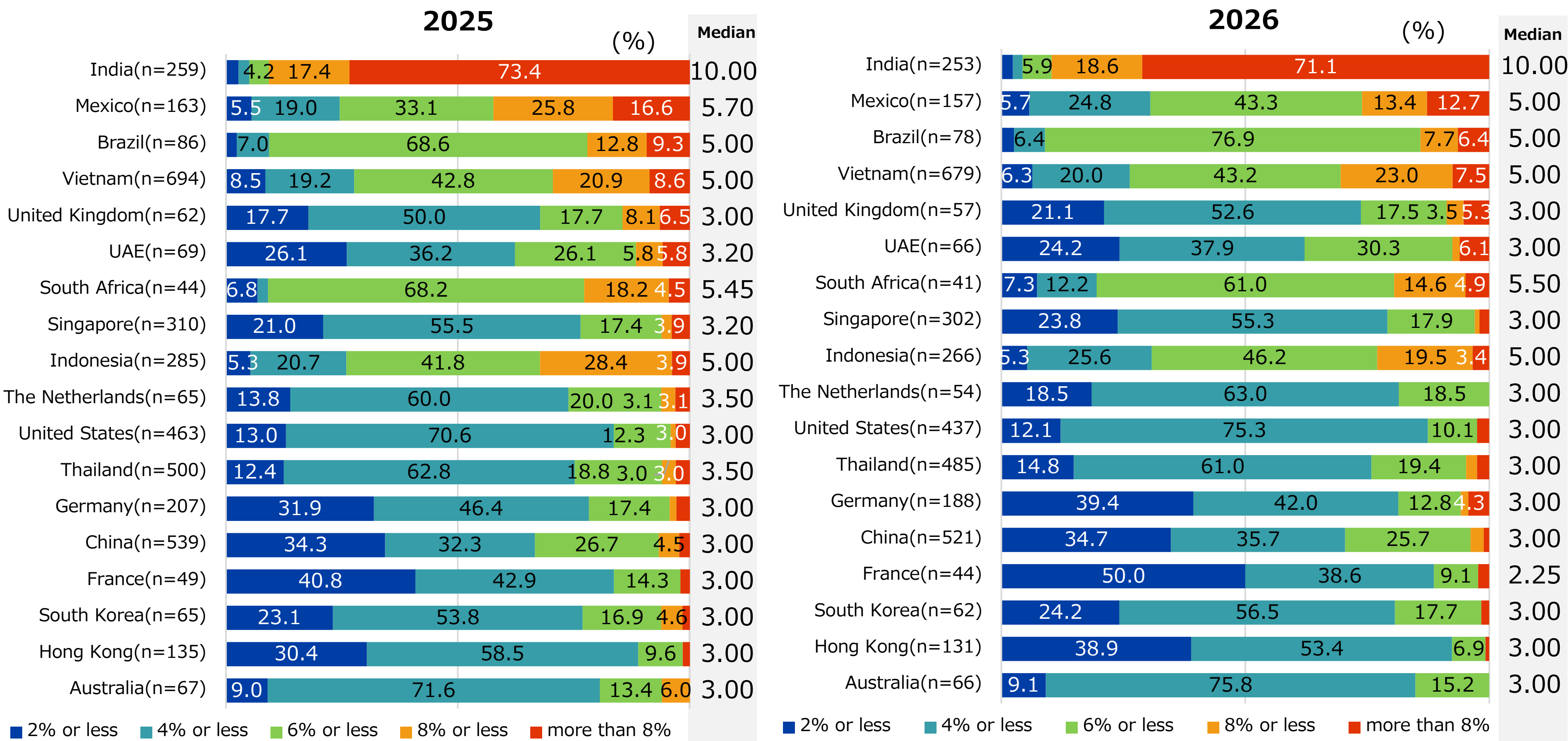
- **Provide one-time retention bonuses** to ensure critical development projects remain uninterrupted (United States / Medical Equipment)
- Increase number of company holidays (The Netherlands / Chemicals and Petroleum Products)
- Change operations to **benchmark salaries against the local market** (Singapore / Holding Company)
- Expand local staff health insurance coverage at company expense (Germany / Sales Company)
- **Reduce standard working hours by one hour** (Thailand / Trading)
- Provide round-trip airfare for annual home leave (UAE / Others)
- **Introduce study leave** and cover online course fees (South Africa / Trading)

(Note)① The left table shows measures by respondents in Vietnam, Brazil, and India with a turnover rate in 2024 below 5% for non-managerial or non-managerial level.
② To clarify the intent of the response, the open-ended response has been revised to the extent that it does not undermine the intent of the original text.

6 High Base Salary Increases in Countries with Intensifying Talent Acquisition

- **Base salary increases (nominal, average)** for 2025 and 2026 **exceed inflation forecasts in all major countries and regions**.
- Trends are particularly high in emerging countries and regions with intensifying talent acquisition competition, such as India and Vietnam. In India specifically, over 70% of companies implemented base salaryincreases exceeding 8%.

Nominal Base Salary Increase Rates



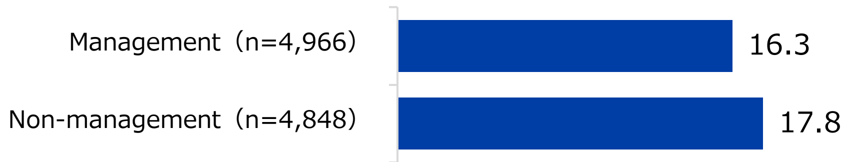
(Note) ① Figure shows the distribution based on the rate reported by each company.
② Companies are listed in descending order of the percentage reporting a base pay increase rate more than 8% for 2025.

7 High Foreign Nationals Ratios in Developed Countries and Industries Requiring Specialized Skills

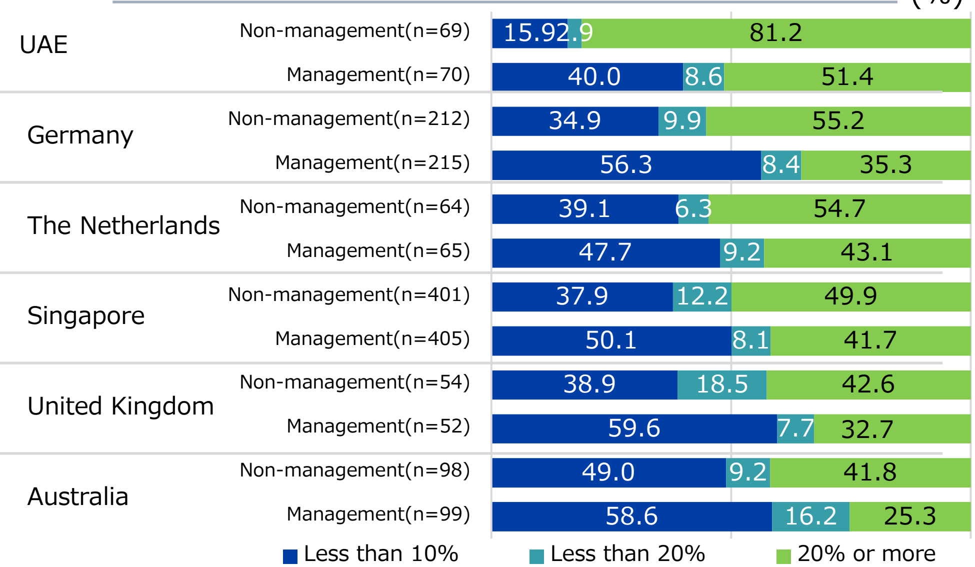
- **More than 50% of respondents in UAE, Germany and the Netherlands have a ratio of 20% or more of foreign nationals in non-managerial level staff in 2024**. For managerial level positions, over 40% of respondents in the UAE, the Netherlands, and Singapore have a ratio of 20% or more.
- By industry, **sectors requiring specialized skills** such as banking and consulting show **relatively high foreign nationals ratios across all occupation types**.

(Note) This survey defines "foreign nationals" as "individuals who are not Japanese nationals or nationals of the country/region of location."

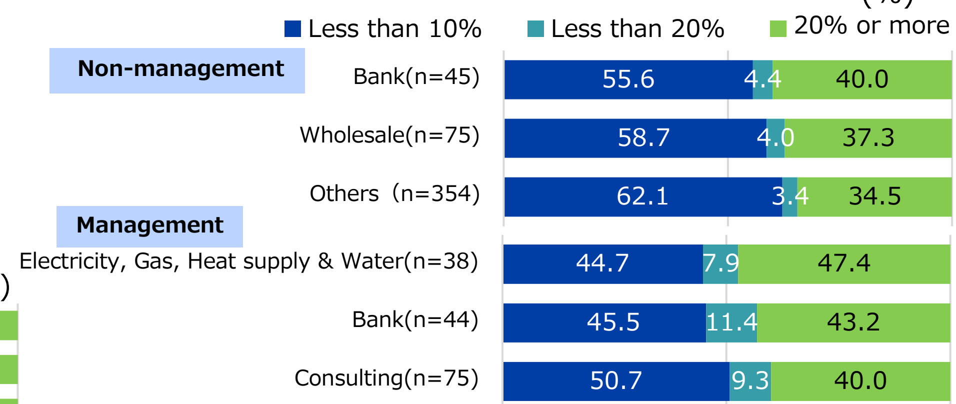
Foreign Nationals Ratio (Average, 2024)



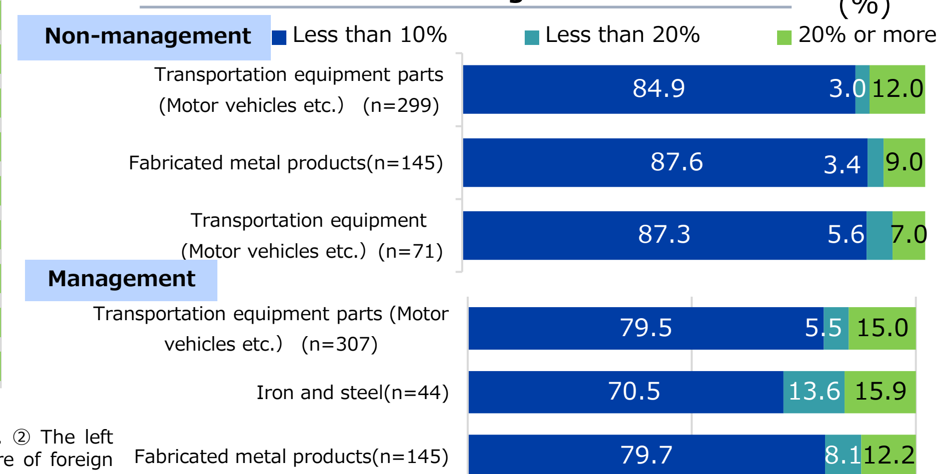
Countries/Regions With High Foreign Nationals Ratios



Industries With High Foreign Nationals Ratios



Industries With Low Foreign Nationals Ratios



(Note)①Northeast Asia (excluding South Korea) and North America were excluded from the question. ② The left figure shows the top 6 countries/regions with the highest percentage of companies whose share of foreign nationals in non-management employees exceeds 20%. ③ The right figure shows the top or bottom 3 in ratio of foreign nationals among industries with n=30 or more. ④ Figure shows the distribution based on the rate reported by each company.

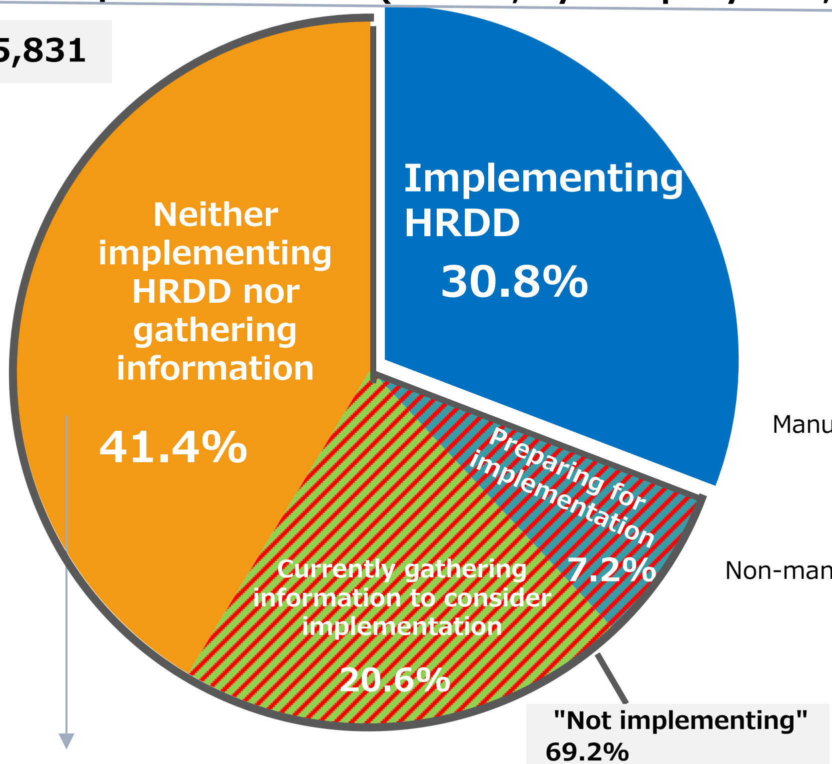
V. Human Rights Initiatives

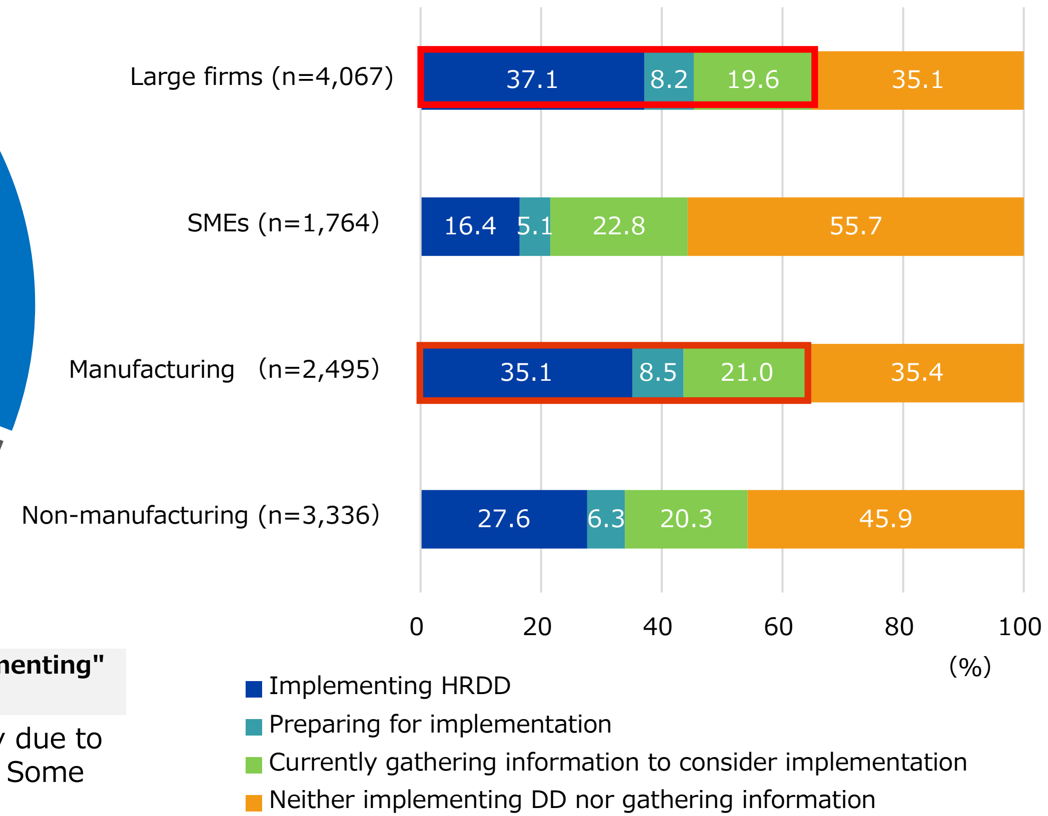
— Signs of Expansion in Human Rights Due Diligence, Centered on Manufacturing —

1 Overall Implementation Rate of Human Rights Due Diligence (HRDD) Approximately 30%.

- **<u>The proportion of companies implementing</u>** HRDD **<u>increased by 2.3 percentage points from 2023 (28.5%) to 30.8%</u>**. Even among companies "not implementing," nearly 30% have begun preparations or information gathering.
- Among large enterprises and manufacturers, the combined percentage of companies implementing, preparing to implement, or considering implementing HRDD is approximately 65%. A gap is evident between the HRDD implementation rate of SMEs and that of large firms.

Do You Implement HRDD? (Overall, by Company Size, by Industry)





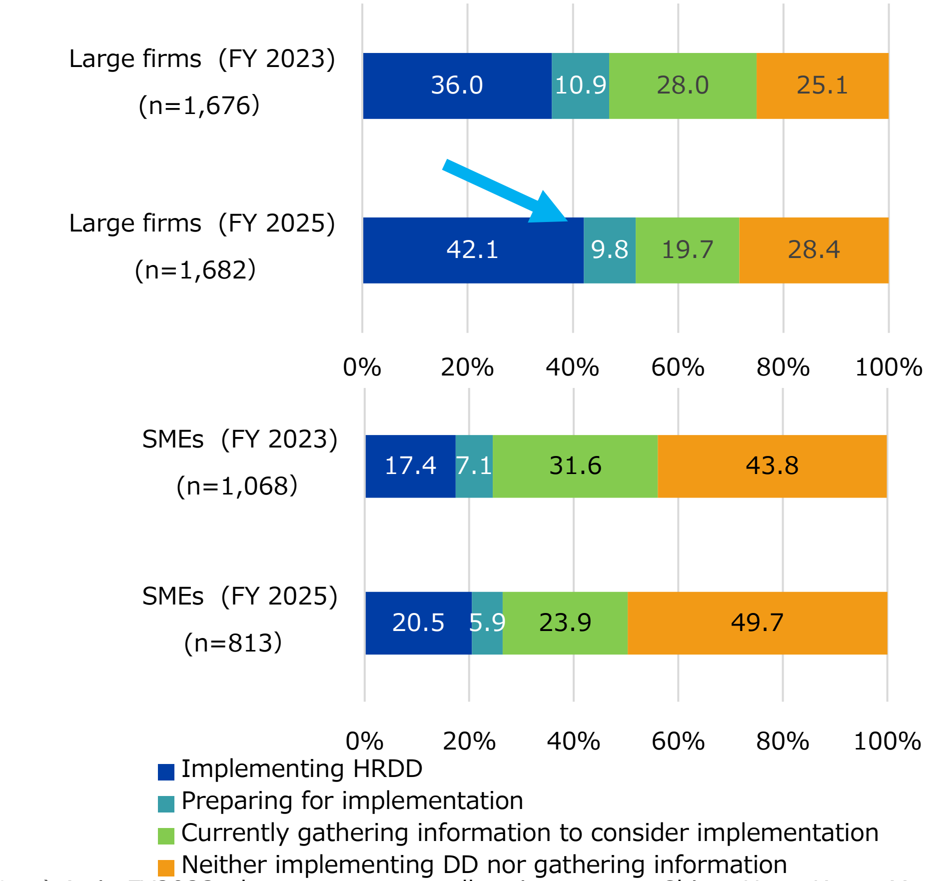
Notable reasons cited included "not applicable to our company due to size or business activities" and "no requests from customers." Some companies reported hearing about HR DD for the first time.

(Note) As in FY2023, the survey covered all regions except China, Hong Kong, Macau, Russia, and Venezuela. In FY2024, the same question was included for some regions (Europe, Middle East, Africa).

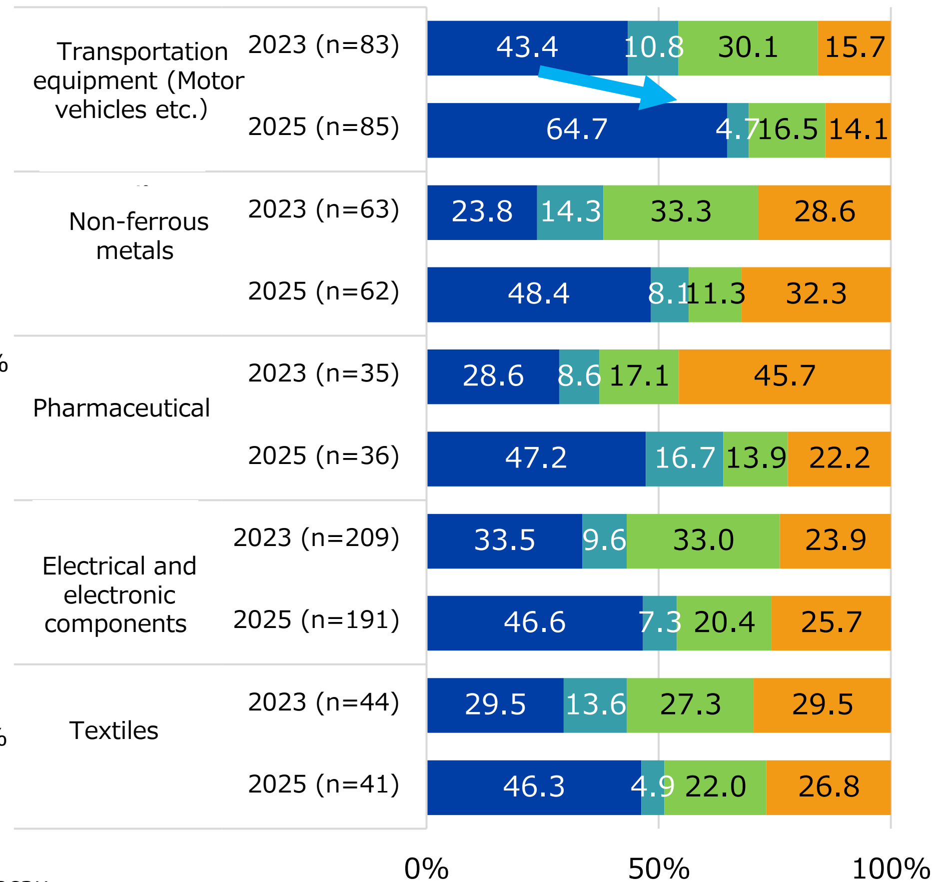
2 | Manufacturing Industry HRDD Implementation Rate Increases from Fiscal Year 2023

- The implementation rate of human rights due diligence **in the manufacturing sector was 42.1% for large firms (up 6.1 percentage points from 2023) and 20.5% for SMEs (up 3.1 percentage points)**.
- By manufacturing sector, Transportation Equipment (automobiles, etc.) reached 64.7% (up 21.3 percentage points), with notable increases also seen in Non-Ferrous Metals, Pharmaceuticals, Electrical/Electronic Equipment Components, and Textiles.

Biennial Comparison of Human Rights DD Implementation Rates by Company Size in Manufacturing



Human Rights DD Implementation Rates by Industry in Manufacturing (Top 5 Industries)



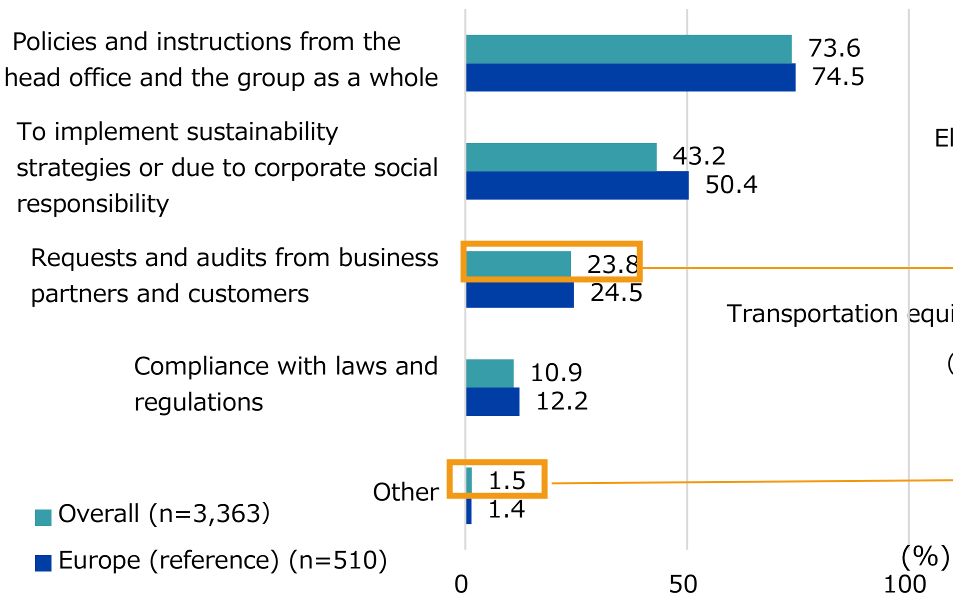
(Note) As in FY2023, the survey covers all regions except China, Hong Kong, Macau, Russia, and Venezuela. In FY2024, the same questions were applied to certain regions (Europe, Middle East, Africa).

(Note) Only industries with n=30 or more are shown.

3 Reasons for Implementing HRDD: Corporate Policies Take Precedence

- The reasons for implementing HRDD are: **following headquarters policy, the implementation of sustainability strategies, etc.** Notable trends include: **Industries of responding companies citing "Requests/audits from business partners or customers" as a reason, Clothing/Textile Products and Plastic Products** account for **over half**, while Electrical/Electronic Equipment Components, Non-Ferrous Metals, Metal Products, and Rubber Products exceed 40%.
- Under "Other," comments included opinions anticipating societal/customer demands and reasons for obtaining international certifications.

Reasons for Implementing HRDD, Reviewing Content, and Gathering Information



(Reference) Regarding the above items, by region, the implementation of sustainability strategies and high levels of corporate social responsibility stand out in Europe. Furthermore, the percentage of companies implementing HRDD in Europe (41.7%) has increased by 4.5 percentage points from the 2024 survey (Europe edition).

Top Industries Citing "Requests or Audits From Business Partners or Customers" as a Reason

(Note) Among industries with n=30 or more, the top industries selecting "Requests or audits from business partners or customers" are excerpted.

Specific Examples of "Other"
- To prepare for HRDD requests from shareholders and customers (U.S. / Transportation Equipment Components (Automotive, etc.))
- To respond to future societal trends (Malaysia / Electrical and Electronic Equipment Components)
- To obtain various certifications such as FSC and GRS, and to comply with audit standards set by clients (United States / Sales Company)
- To meet requirements of certification bodies like SEDEX (Thailand / Food & Agri-Marine Products)
- To respond to EcoVadis assessments (Czech Republic / Transportation & Warehousing)
- To address the diversification of values across generations, with particular attention to harassment (UK / Retail)
- Based on fund management policies (UK / Non-Bank)

(Note) ① Companies that responded "Implementing HRDD," "Preparing to implement," or "Preparing to consider implementation" are included.
② Multiple reasons could be selected. ③ FSC refers to the Forest Stewardship Council, and GRS refers to the Global Recycle Standard.
④ Free-response answers have been supplemented or edited where necessary to clarify the respondent's intent, without altering the original meaning.

4 HRDD Implementation in Supply Chains, Including Emerging and Developing Countries

- A certain number of companies implement HRDD on direct suppliers. **Implementing HRDD on indirect suppliers is a challenge,** with **opinions** stating **that visualizing the supply chain and evaluating effectiveness are difficult**.
- Degree of HRDD implementation varies by company in emerging and developing countries.

To What Extent Is HRDD Being Implemented Within the Supply Chain and Other Areas?

(%)

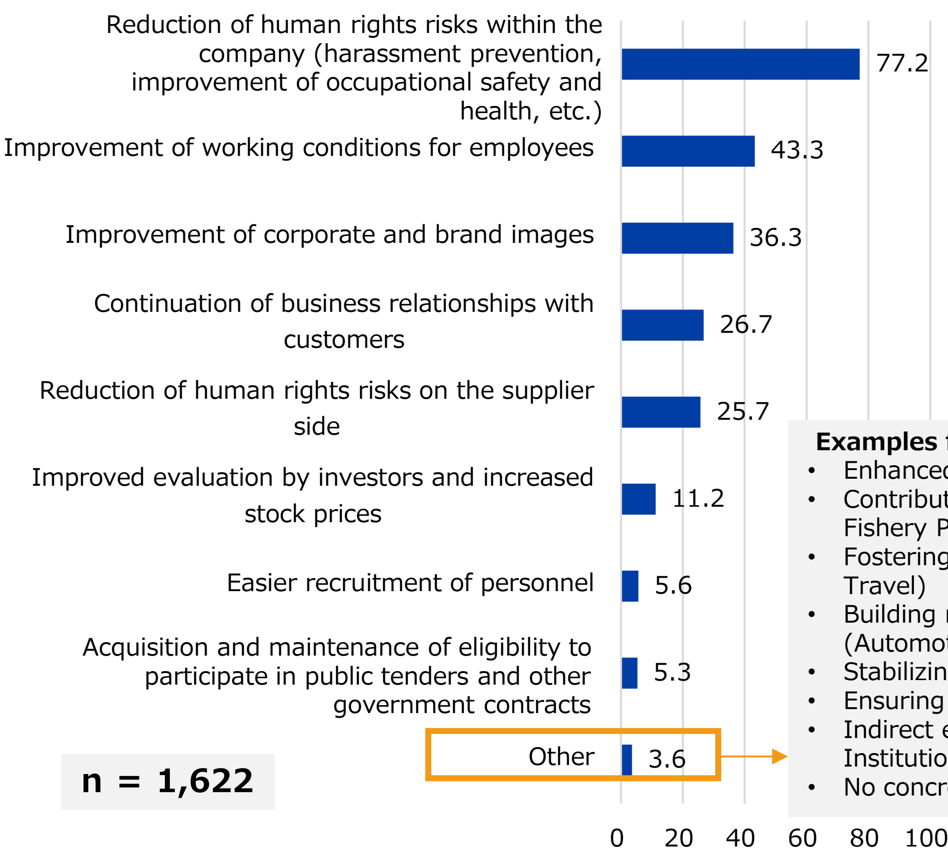
		Own company/group companies (employees of own company/group companies)	Direct business partners (Tier 1 suppliers) (factory employees, etc.)	Indirect business partners (Tier 2 suppliers and below) (raw material/component producers, other producers, etc.)	Procurement logistics/shipping logistics (logistics workers, etc.)	Other
Emerging/Developing Countries	**Overall Average (n=593)**	**90.6**	**39.1**	**12.3**	**9.1**	**2.9**
	South Africa (n=22)	100.0	36.4	22.7	13.6	0.0
	Mexico (n=40)	95.0	40.0	15.0	12.5	5.0
	Brazil (n=39)	92.3	59.0	17.9	12.8	0.0
	Vietnam (n=181)	90.6	42.5	11.6	7.2	2.8
	UAE (n=30)	90.0	26.7	13.3	20.0	3.3
	Thailand (n=104)	89.4	33.7	8.7	5.8	3.8
	India (n=101)	89.1	36.6	9.9	8.9	3.0
	Indonesia (n=76)	88.2	36.8	14.5	9.2	2.6
Developed Countries	**Overall Average (n=501)**	**90.0**	**37.3**	**10.4**	**9.4**	**2.0**
	South Korea (n=31)	100.0	29.0	16.1	12.9	0.0
	France (n=23)	91.3	26.1	8.7	13.0	4.3
	Australia (n=57)	91.2	45.6	17.5	22.8	1.8
	Germany (n=67)	91.0	37.3	9.0	6.0	0.0
	The Netherlands (n=22)	90.9	36.4	9.1	4.5	4.5
	Singapore (n=104)	88.5	34.6	7.7	5.8	2.9
	United States (n=163)	88.3	37.4	9.8	7.4	1.2
	United Kingdom (n=34)	88.2	47.1	8.8	11.8	5.9
(Reference) Global Average (n=1,720)		90.8	39.8	12.3	11.5	2.5

(Note) ① Applies to companies that responded "implementing HRDD." The percentage implementing HRDD in emerging/developing countries (the above 8 countries) is 24.8% (n=2,460), while in developed countries (the above 8 countries) it is 32.6% (n=1,635). ② Multiple reasons could be selected. ③ The overall average is the value for the 8 countries classified as emerging/developing and advanced economies. China and Hong Kong are excluded as they were not included in the survey questions.
④ In this slide, among the 16 major countries, those classified as Advanced Economies by the IMF are designated as developed countries, and countries not included in the advanced economies are classified as emerging/developing economies.

5 Effects of Implementing HRDD Ripple Throughout Companies and Beyond

- **Approximately 80% cited "reducing internal human rights risks,"** and over 40% cited **"improving employee working conditions."** This indicates that many companies related effects of implementing HRDD leading to improvements in their own working environments and increased employee engagement.
- Beyond enhancing corporate image and brand image as intangible assets, a significant number of responses also indicated that it helped mitigate risks in business execution with external stakeholders, such as maintaining customer relationships and reducing human rights risks on the supplier side.

Specific Benefits of HRDD Implementation



(Reference) "OECD Guidelines for Multinational Enterprises on Responsible Business Conduct" (Excerpt from the Preamble) It recommends that each enterprise undertake risk-based due diligence to identify, prevent, and mitigate actual and potential adverse impacts on matters covered by the Guidelines, and to account for how it addresses them.
→ In addition to benefits for the company itself, it is important to conduct risk-based human rights due diligence across the entire value chain, including suppliers.

Examples from open-ended responses in the "Other" category

- Enhanced social responsibility (U.S. / Transportation & Warehousing)
- Contribution to resolving child labor issues (Africa, etc. / Food & Agricultural and Fishery Products)
- Fostering a culture of mutual respect across the entire team (Mexico / Hotel & Travel)
- Building relationships with suppliers (Brazil / Transportation Equipment Parts (Automotive, etc.))
- Stabilizing employee turnover rates (Vietnam / Real Estate)
- Ensuring Business Stability (Thailand / Consulting)
- Indirect effects on deterring harassment, etc. (Vietnam / Non-Bank Financial Institutions)
- No concrete effects visible yet (UK / Sales Company)

(Note) ① Applies to companies that responded "Implementing HRDD" ② Multiple reasons could be selected.
③ Free-response answers have been supplemented or edited where necessary to clarify the intent of the response, without altering the original meaning.

VI. Conclusions

Survey Key Findings

1. **66.5% of companies expect to be profitable in 2025**, increasing for the second consecutive year. The proportion exceeded 70% in the Middle East, Southwest Asia, and Latin America, while Africa surpassed 60% for the first time. While over 40% of companies anticipate further improvement in operating profits for 2026, the number of companies forecasting deteriorating performance increased in countries with significant trade ties to the United States, such as Mexico, Brazil, and South Korea. **For future business development**, over 80% of companies in India aim to "expand" for the second consecutive year. In Africa, 70% of manufacturers plan to expand. Business expansion continues in the Global South, particularly in the manufacturing industry. By industry, over 70% of companies in Pharmaceuticals and Agriculture, Forestry & Fisheries Products aim to "expand."

2. **Regarding the impact of additional U.S. tariffs**, approximately 40% of all companies exporting to the United States reported significant negative effects, with the figure exceeding 50% in Mexico and China. Across the automotive and auto parts supply chain, roughly half of all companies reported being affected. Notable concerns include declining demand in the U.S. market and intensifying competition from third-country companies, such as those from China, in target markets. Companies exporting to the U.S. are responding by reducing their own costs, diversifying procurement, and strengthening sales networks. Specific countermeasures include efforts to review supply chains, such as increasing local procurement rates, starting local production, and developing sales channels.

3. **Labor shortages are intensifying.** Over the past two years, over 30% of companies reported worsening conditions in securing talent, with notable deterioration in Vietnam, Brazil, and India—countries where business expansion rates are high. While local firms are the primary competitors, Chinese companies came in first in Vietnam. While more than half of companies are enhancing benefits, working conditions, and wages, others are focusing on strengthening recruitment through university partnerships and social media, as well as improving retention by offering skill development programs and organizing internal events. Progress is evident in **human rights initiatives**. Over 30% of companies now implement human rights due diligence. In the transportation equipment (Motor vehicles, etc.), implementation exceeded 60%, a significant increase from the 2023 survey. Many companies cited benefits linked to improving their own working environments and employee engagement, with approximately 80% noting "reduction of internal human rights risks" and over 40% citing "improvement in employee working conditions."

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