



2020 Survey on Business Conditions of Japanese Companies

(Global edition: Trends of 9,000 Japanese companies operating abroad)

—Amid the worst business climate ever with the COVID-19 pandemic, Japanese companies strive to establish new management and sales strategies—

Japan External Trade Organization (JETRO)

Overseas Research Department

March 18, 2021

Survey outlines

Survey objective:	To understand the actual situation of Japanese companies operating abroad and provide the results to a broad range of Japanese companies and policymakers.
Survey methodology:	JETRO conducted a survey using a questionnaire distributed and collected online on 19,087 Japanese companies (local corporations with a 10% or higher stake in Japan, branches and representative offices of Japanese companies) in 86 countries and regions abroad. We received valid responses from 9,182 companies. The valid response rate is 48.1%.
Special features of this year's survey:	In FY2020, we set the consistent survey period for all regions. Also, questions on key themes, such as outlook of operating profits, future direction of business development, and the impact of the COVID-19 pandemic, were standardized for all regions. The above approach enabled us to compare business circumstances across the world.
Contents of this report:	Prior to the results by major region, we will report the results of the common global questions (1. Outlook of operating profits, 2. Future business development, and 3. Impact of the spread of COVID-19).

■ Outline of the survey in each region

Regional classifications	Number of target companies	Number of valid responses	Response rate	Survey period	Target countries/regions
North America	1,757	1,108	63.1	September 10-30	2 countries
Latin America	796	530	66.6	September 1-30	7 countries
Europe	1,419	949	66.9	September 3-24	23 countries
Russia	120	93	77.5	September 10-30	1 country
Asia Pacific (Note)	14,399	5,976	41.5	August 24-September 25	20 countries/regions
Middle East	269	244	90.7	September 1-30	10 countries
Africa	327	282	86.2	September 1-30	23 countries
Total for all regions	19,087	9,182	48.1		86 countries/regions

(Note) Includes Northeast Asia (China, Hong Kong, Macau, Taiwan, South Korea), ASEAN (excluding Brunei), Southwest Asia (India, Bangladesh, Pakistan, Sri Lanka) and Oceania (Australia, New Zealand)

Key findings

Overall summary

- ❖ The loss of the global market due to the spread of coronavirus has caused unprecedented damage to the business performance of Japanese companies operating overseas. Based on the findings of this survey conducted on about 9,000 companies, the business climate of Japanese companies this year hit a record low, below the levels before and after the Asian currency crisis, “the Lehman shock”, and the Great East Japan Earthquake.
- ❖ Under these circumstances, more than 80% of Japanese companies surveyed are accelerating to establish new business strategies and business models in anticipation of business normalization by the end of 2021. In addition to aggressive use of digital technologies, this survey highlighted the companies’ strong willingness to shift to a “contactless” approach through remote operations and on-site automation, and to diversify risks through “diversification and multilateralization” of procurement and supply routes.

1. Outlook of operating profits

- Of the 9,000 Japanese companies throughout the world, 48% expect profits in 2020. The score was down by 17 points from 65% in the previous year, even lower than in 2009 immediately after “the Lehman shock.” The percentage of deficits also hit a record high (1-1).
- The loss of the markets into which they made inroads following the COVID-19 pandemic caused unprecedented damage to the business activities of Japanese companies worldwide (1-1).
- 60% of the companies said that their operating profits would worsen year-on-year. The downturn was particularly severe in the transportation equipment/parts, accommodations/travel, restaurant, and worker dispatching/staffing industries. DI scores (see note), which indicate business climate, hit record lows in all target regions (1-3).
- As for the outlook for 2021, the year-on-year percentage “increase” considerably outperforms that of “decrease” due to the rebound increase (1-6).

(Note) DI stands for Diffusion Index. DI is the value which subtracts the percentage of companies with “decreasing” operating profits from the percentage of companies with “increasing” operating profits.

Key findings (Continued)

2. Future business development

- 40% of the 9,000 Japanese companies plan to “expand” their businesses in the next 1-2 years. However, due to the impact of the COVID-19 pandemic, **the score was down by more than 10 points year-on-year**. In most regions, **the willingness to “expand” was the lowest ever** (2-1).
- On the other hand, **the combined score of business downsizing and transferring to a third country/region is less than 10%**, showing no considerable increase, even amid the COVID-19 pandemic (2-1).

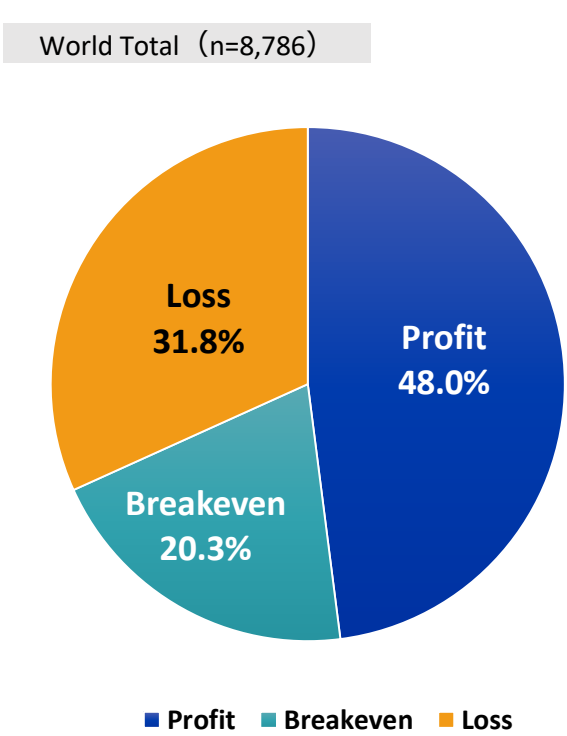
3. Impact of the spread of COVID-19 and status of business review

- As for the timing of business normalization, **slightly more than 30% of respondents cited the first or second half of 2021**. Business recovery in Northeast Asia will take precedence (3-1).
- In the wake of the coronavirus, companies are **shifting their business strategies and business models to digitalization**. In addition to the expansion of the utilization of work from home and teleworking, respondents are strongly willing to promote virtual exhibitions and utilization of AI (3-2).
- They also aim to create **management and business models with risk diversification and tolerance enhancement in mind**. The keywords are a shift to “**non-F2F/contactless**,” “**diversification and multilateralization**” of sales and procurement, and promotion of “**visualization**” of the entire value chain (3-5).
- In the wake of the coronavirus, some progress was seen to pursue rationalization and improve efficiency by reducing the number of Japanese expatriates and localizing management (3-5).

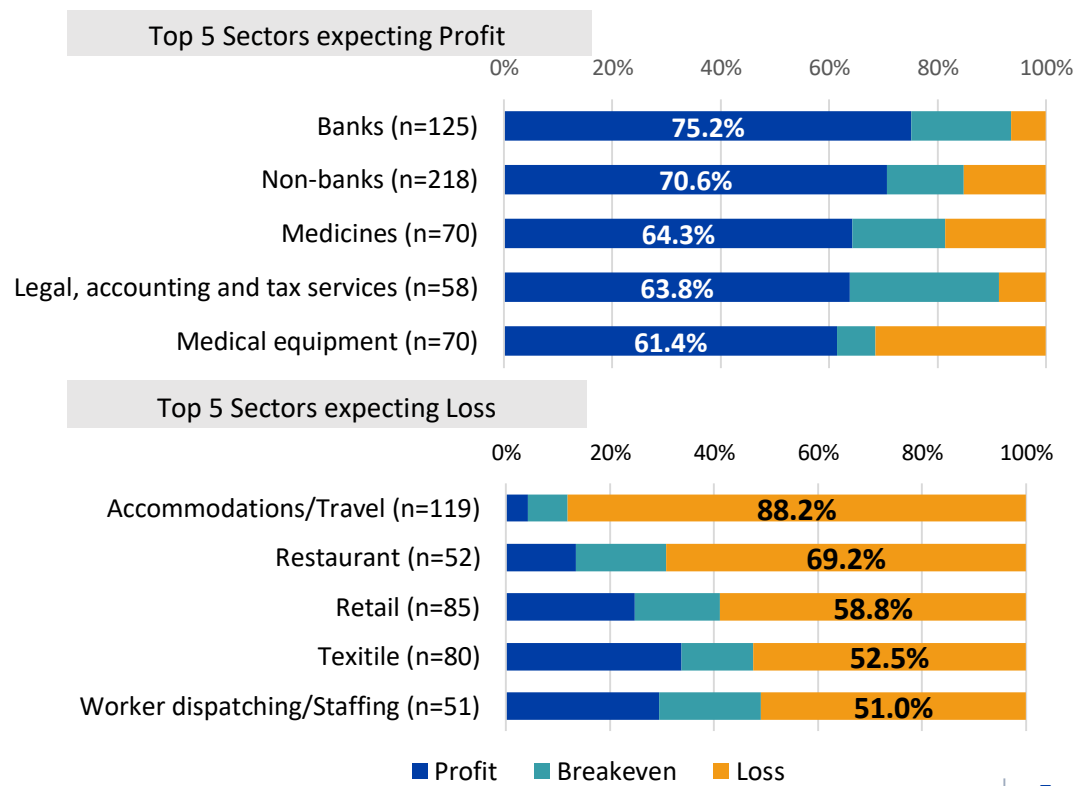
1-1 | Percentage of profitable companies falls below 50% globally for the first time

- Of the Japanese companies with overseas operations (valid responses received from 8,786 companies), 48.0% expect “profit” in 2020, while 31.8% expect “loss.”
- Among all Japanese companies operating abroad, this is the first time since 2008, when comparisons became possible, that the percentage of profitable companies has fallen below 50% of the total. The percentage of companies in deficit exceeded 30% at 31.8%, outperforming that of fiscal 2009, the year immediately after “the Lehman shock,” meaning the score hit a record high.
- About 90% and 70% of the companies in the accommodations/travel and restaurant sectors, respectively, expect losses because the restrictions on activities in response to the COVID-19 pandemic directly affect their business performance.
- On the other hand, more than 60% of companies in the financial sector, which experienced relatively little fluctuation in demand even in the wake of the COVID-19 pandemic, and medicines, medical equipment, and accounting and tax services industries, which saw an increase in demand for some products and services, expect to be in the black, indicating a considerable difference depending on the industry.

Operational profit forecast for 2020



Operating profits forecast for 2020 by industry

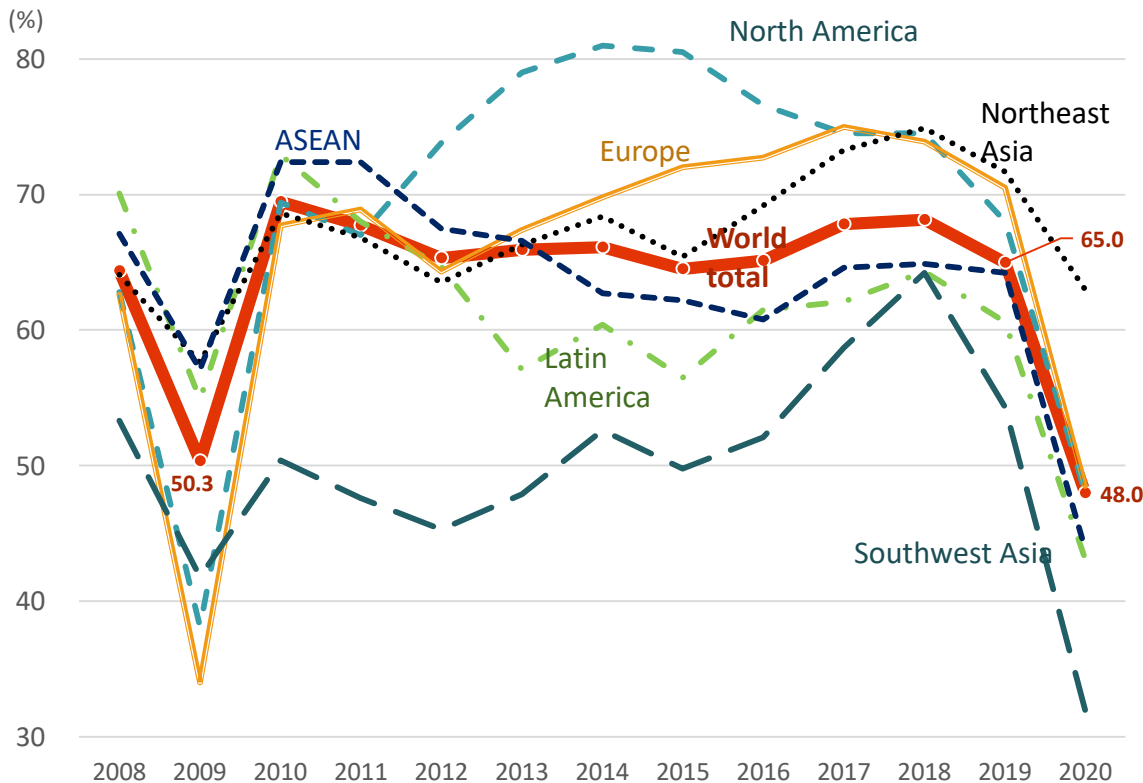


1-2 | The companies in deficit account for 20% or less in China and South Korea, but over 50% in India.

- The percentage of profitable companies was down by 17 points from 65.0% in the previous year. This is the first time in 11 years that the overall score has fallen below the 2009 record low of 50.3%. (see note).
- By region, the percentage of profitable companies in Latin America, ASEAN, and Oceania was the lowest, while the percentage of companies in deficit was the highest.
- India was the only major country with the percentage of “deficit” exceeding 50%. In Indonesia, the percentage of “profit” was down by 32 points from 2019. In addition, the percentage of “deficit” was up by 31.5 points. On the other hand, in China and South Korea, the percentage of profitable companies is relatively high, exceeding 60% and 70%, respectively.

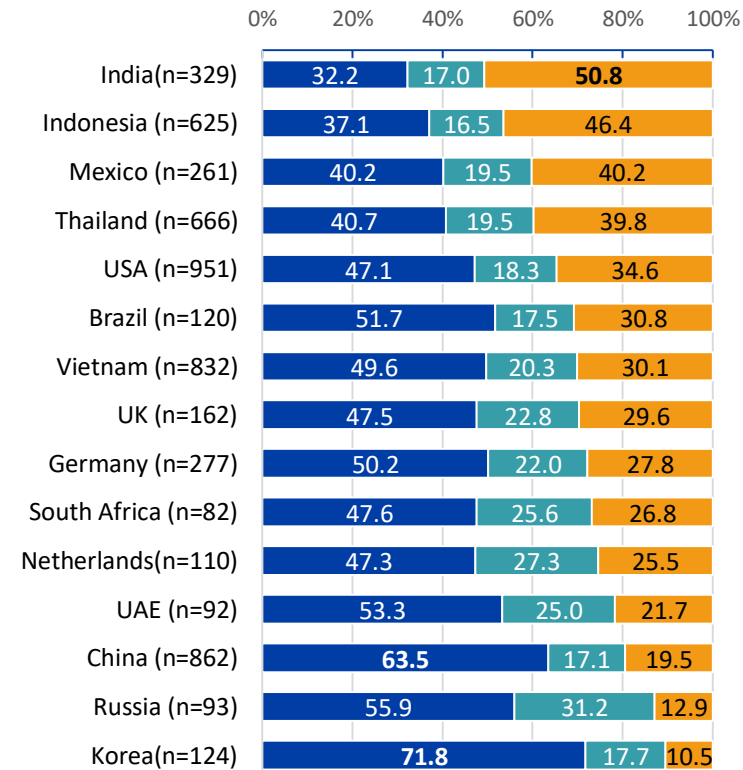
(Note) As for the percentage of operating profit, the outlook for profit, loss, and breakeven figures are available for 2008 and later on a side-by-side basis for each major region and are compared.

Proportion of profitable companies 2008-2020 (by region)



(Note) World total includes companies operating in Russia (2013, 2015-20), Oceania (2008-2020), Middle East (2015-2020), Africa (2013-2020).

Operational profit forecast for 2020 (by country)

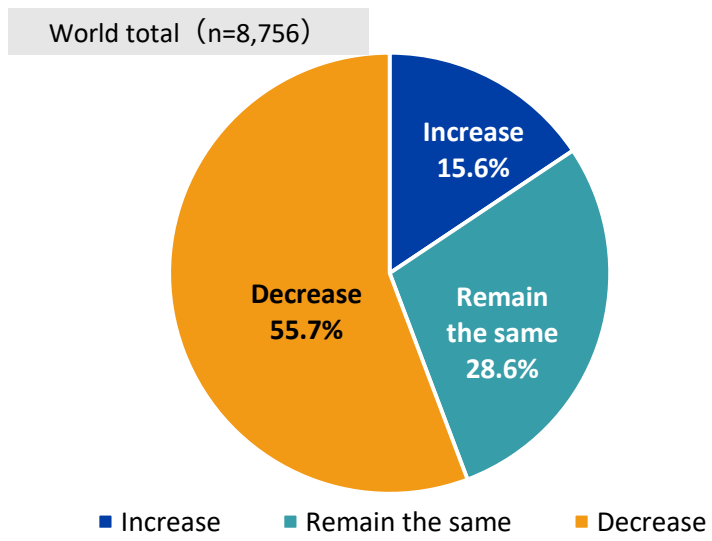


■ Profit ■ Breakeven ■ Loss

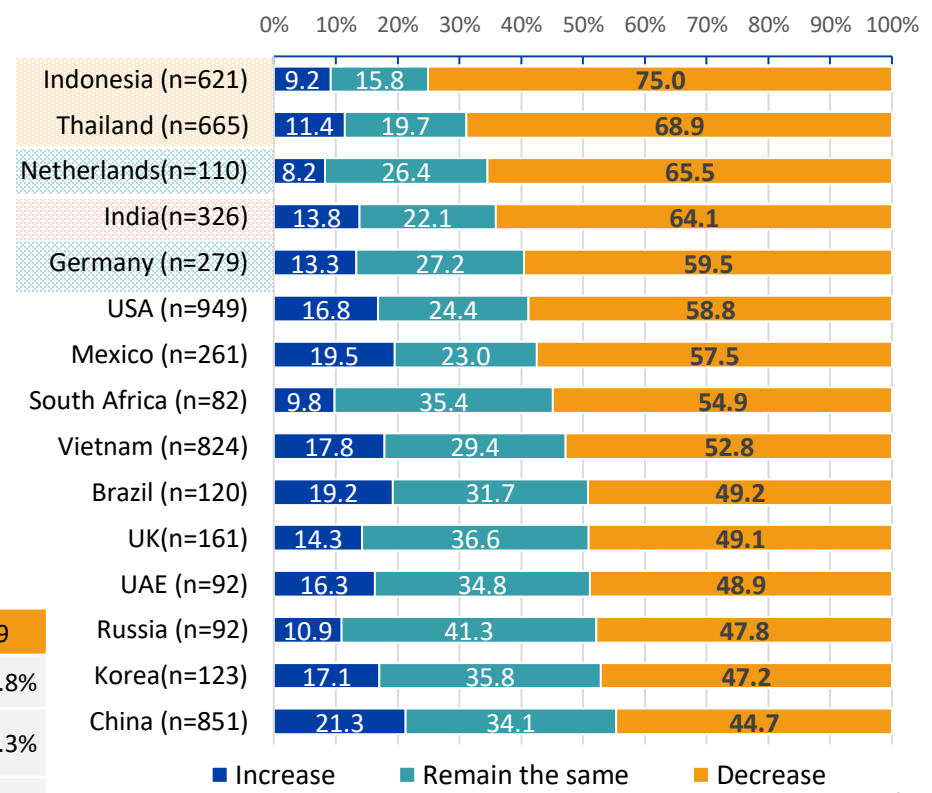
1-3 | About 60% of respondents reported a year-on-year “deterioration” due to market losses resulting from the impact of the coronavirus.

- Nearly 60% of the companies expect their operating profits to “deteriorate” in 2020 compared to the previous year. Compared to the previous year’s survey, the percentage of “improvement” was down by 17.1 points and that of “deterioration” was up by 26.2 points.
- The main reason for the deterioration is the loss of the domestic market due to the coronavirus. In Indonesia and Thailand, where the score of “deterioration” is particularly high, “deterioration” was seen in transportation equipment parts, which has a high composition ratio by industry, at 100% and 80%, respectively. The related service industry was also involved, contributing significantly to the overall deterioration.
- On the other hand, the percentage of the companies with “deterioration” is relatively low in countries like China and South Korea, where the spread of COVID-19 was successfully contained at an early stage.

Operational profit for 2020 (compare to 2019)



Operational profit for 2020 (compare to 2019) by country



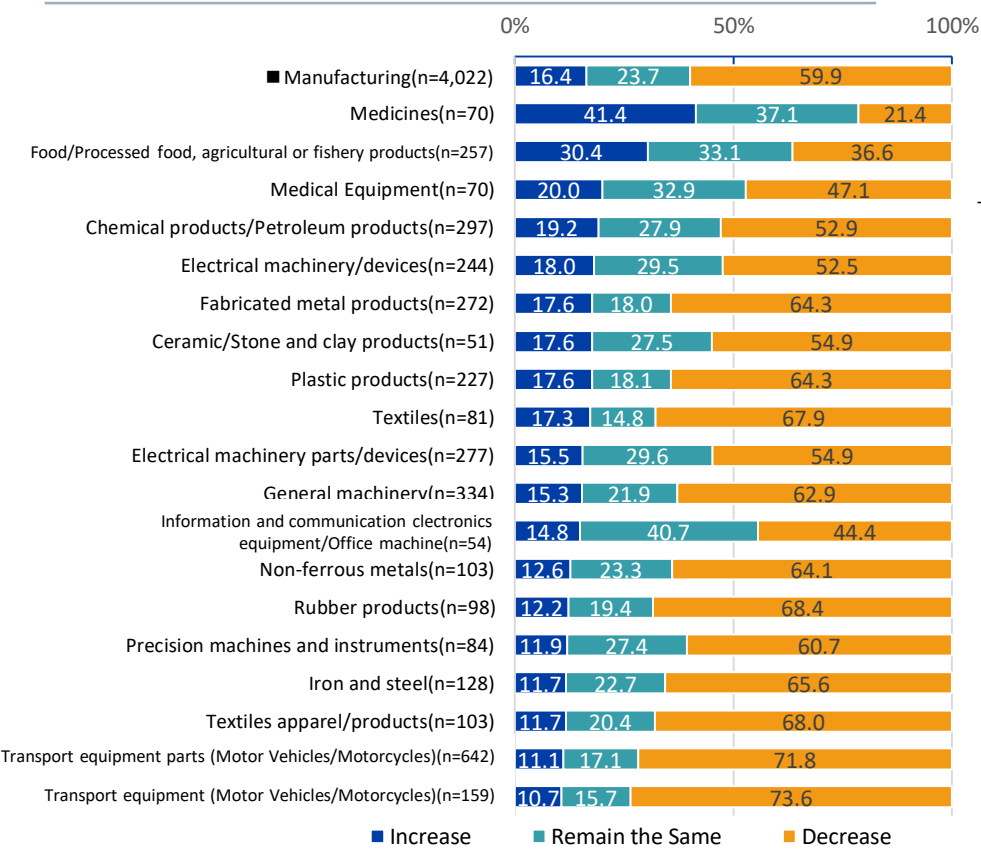
Reasons for “Decrease” (n=4,841) *Multiple answers

Rank	Reasons (top 3)	Ratio	Affected by COVID-19
1	Sales decrease in local markets	76.9%	96.8%
2	Sales decrease due to export slowdown	41.4%	96.3%
3	Increase of labor costs	11.5%	28.2%

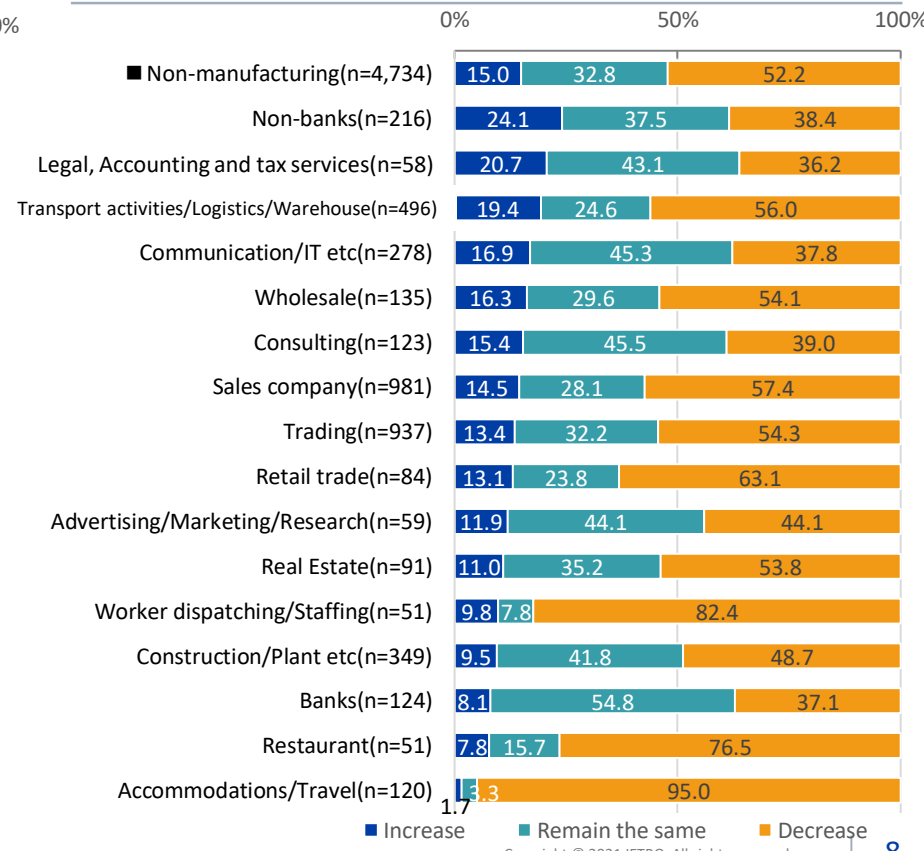
1-4 | The downturn was particularly severe in the transportation equipment/parts, accommodations/travel, restaurant, and worker dispatching/staffing industries.

- In the manufacturing sector, over 70% of companies in the transportation equipment (motor vehicles/motorcycles) and parts sector cited “deterioration” while “improvement” was cited by more or less around 10%. This is due to an enormous drop in sales volume in the first half of 2020 in major automotive markets such as Southeast Asia, the US, and Europe. About 70% of the companies in the textile apparel/textile products and textiles sectors also cited “deterioration” due to the impact of the loss of destination markets and export markets.
- In the non-manufacturing sector, 95% of companies in the accommodations/travel industry and about 80% of companies in the restaurant industry, both of which are affected considerably by activity restrictions, responded that their operating profits have “deteriorated.” In line with the worsening employment environment due to the economic downturn, “deterioration” was cited by more than 80% of the companies in the worker dispatching/staffing industry.

Operating profit forecast for 2020 by industry (Manufacturing)



Operating profit forecast for 2020 by industry (Non-Manufacturing)

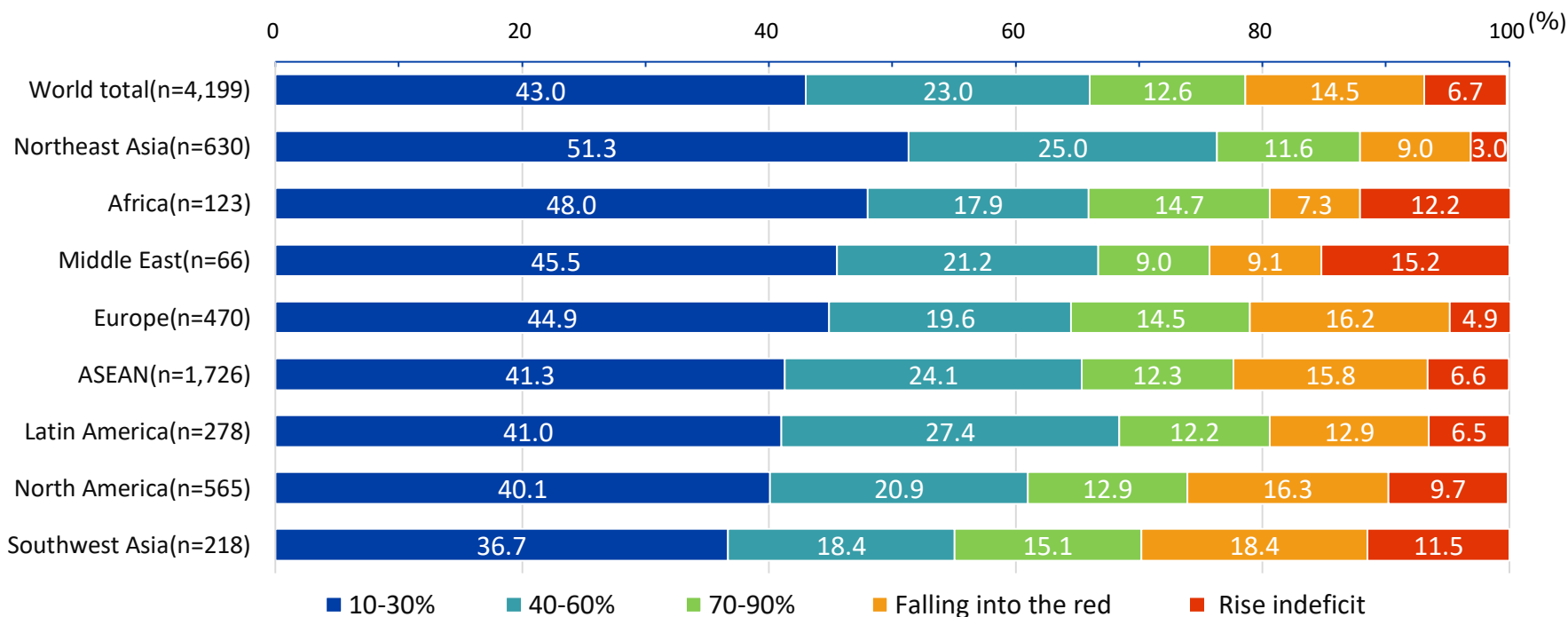


(Note) Countries/regions for which the number of valid responses is 50 companies or more

1-5 | The extent of deterioration varied depending on the response to the coronavirus in the countries/regions in which the company operates

- Of the companies whose operating profits will deteriorate in 2020 compared to the previous year, “decrease by 30%” was cited by 18.2% and “decrease by 20%” by 17.0%, accounting for 35.2% of the total. In addition, 14.5% of companies turned from profit to deficit in comparison with the previous year.
- In the Northeast Asian region, the percentage of companies with a decrease of only 10 to 30% is relatively high at 51.3%. On the other hand, the percentage of companies with a decrease of over 70% or gone into the red is low. The reason behind this is faster containment of the coronavirus in China, Taiwan, and South Korea than in other regions, and the decline in operating profit due to operational restrictions and restricted activities was kept relatively small.
- Hotels and travel industry, which had the largest percentage of “deterioration” by industry, also experienced a serious decline in operating profits, with 37.4% of companies expecting to “fall into the red” in 2020. In addition, 22.2% of respondents expected a “90% decrease” in operating profits and 15.2% expected an “80% decrease.”

Percentage of decrease in operational profits (change compared to 2019)

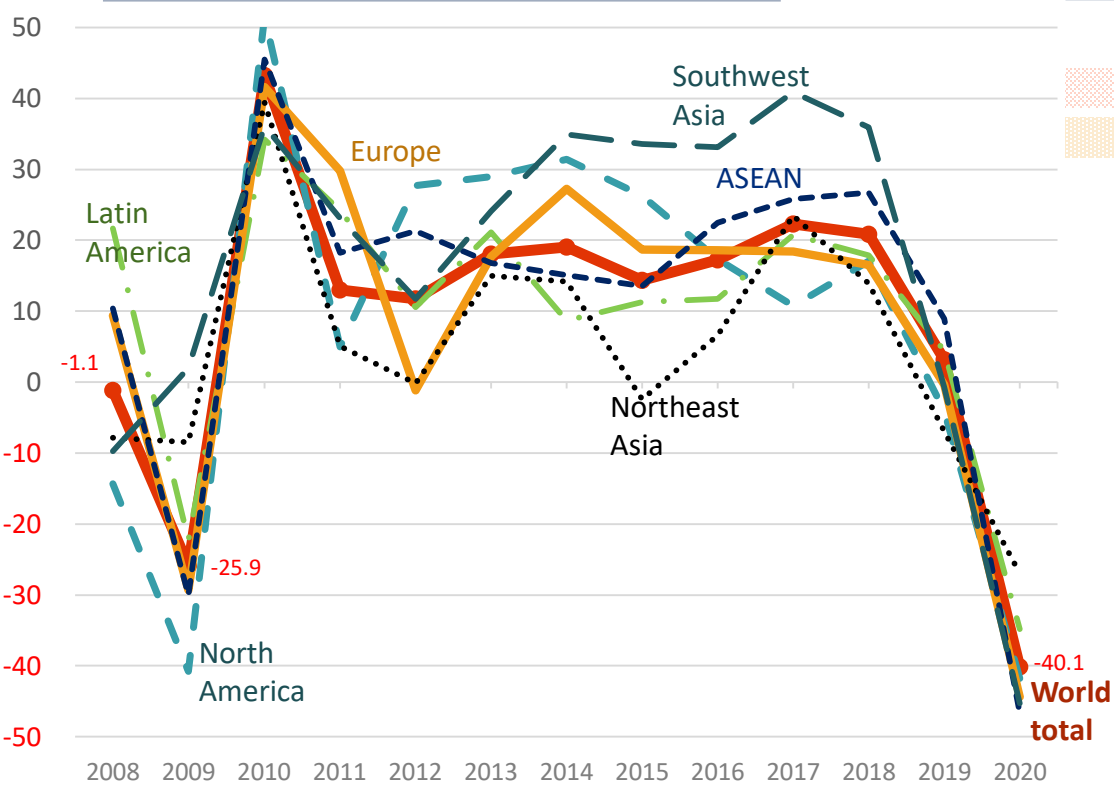


1-6 | Record low business climate in all regions including North America, Europe, and Asia

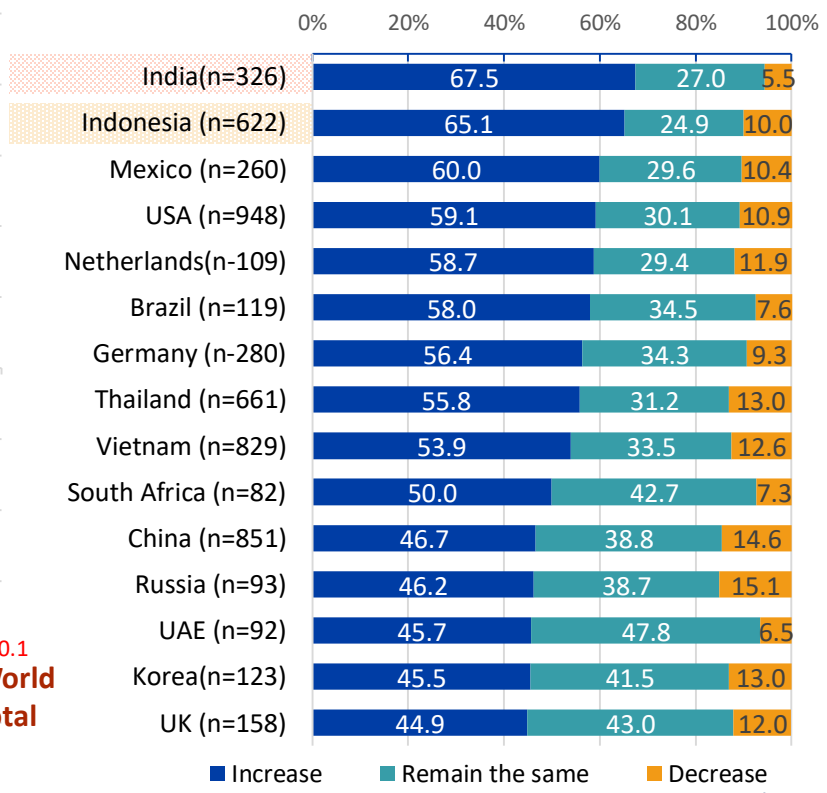
- The DI score, which indicates the business climate, was at negative 40.1 points for all regions combined. Regarding major regions, all regions showed negative growth, with the exception of Northeast Asia (-20.3 points), showing a considerable decline of more than 30-50 points from the previous year.
- The score of North America was lower than that of 2009, the year immediately after “the Lehman shock,” and all regions hit new record lows (Note).
- In the outlook for 2021, a high percentage of companies expect operating profits to improve in all major countries, due to a rebound from the sizable deterioration of 2020. The DI scores of all 15 major countries exceeded 30 points, with 50 points in Indonesia and Brazil, and 60 points in India.

(Note) Comparison of periods up to 2020 from 1996 for ASEAN, from 2005 in North America and Latin America, from 2008 in Europe, from 2005 in Northeast Asia and Southwest Asia and Oceania, from 2015 in the Middle East, and from 2013 in Africa

Transition of DI (2008-2020) by region



Operational profit for 2021 (compare to 2020) by country



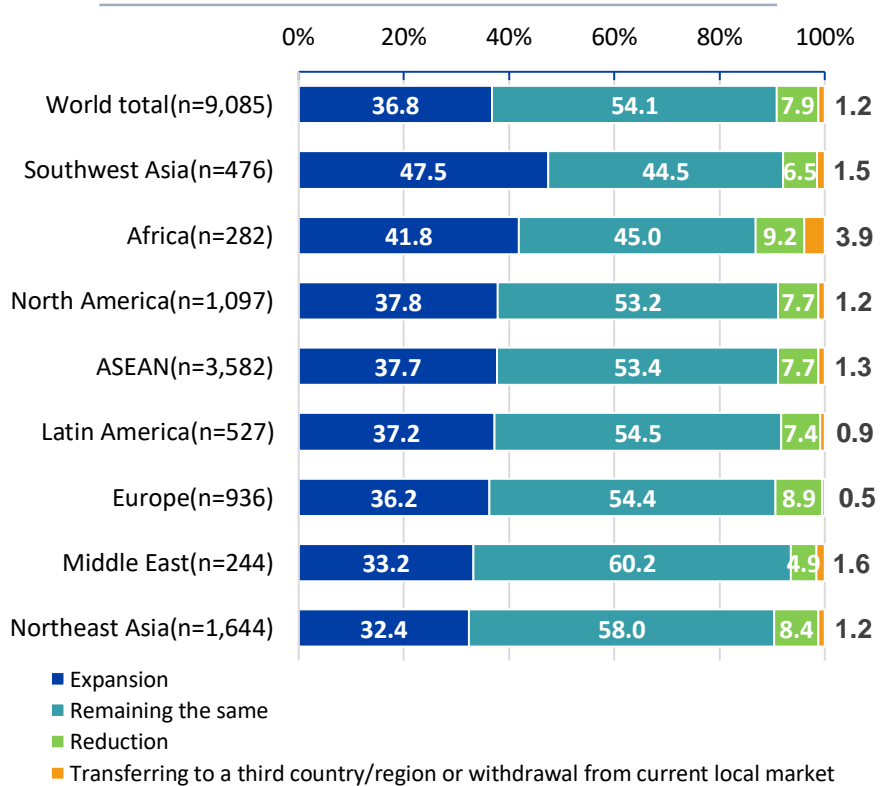
(Note) World total includes companies operating in Russia (2013, 2015-20), Oceania (2008-2020), Middle East (2015-2020), Africa (2013-2020)

2-1 | With business “expansion” dropping to a little less than 40%, companies are taking a wait-and-see position

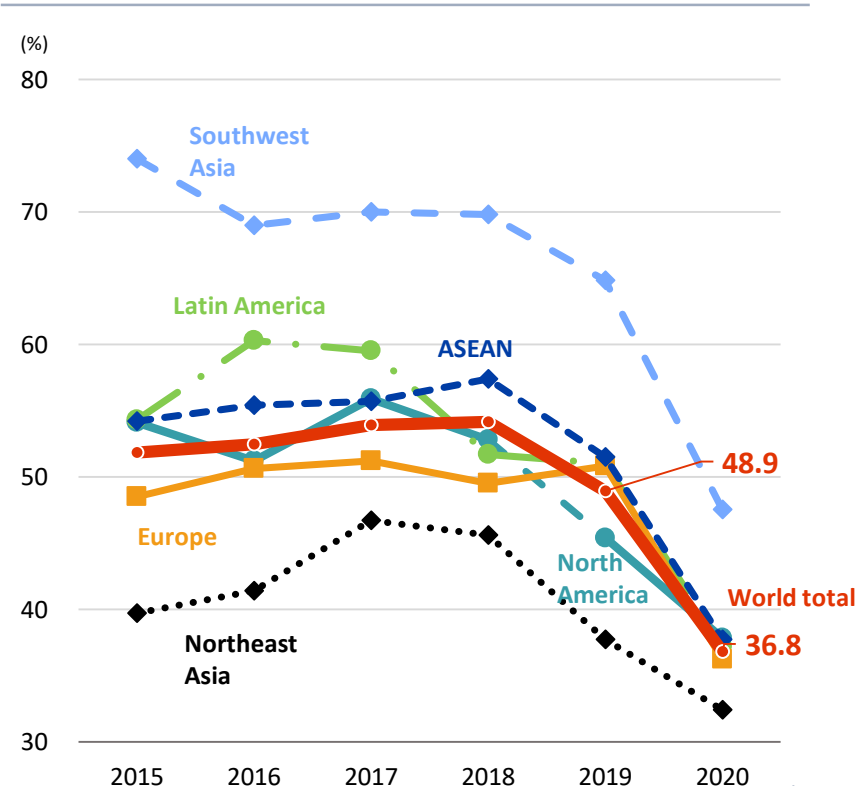
- Regarding the direction of business development over the next one to two years, 36.8% of the companies (valid responses from 9,085 companies) cited “expansion,” whose score is down by more than 10 points from 48.9% in the previous year’s survey. The percentage was in the 30% range in all regions except Southwest Asia (47.5%) and Africa (41.8%), while in all regions except Europe, the percentage was the lowest ever in the comparable range (see note).
- On the other hand, “Reduction” and “Transferring to a third country/region or withdrawal from current local market” accounted for less than 10% in total in all regions except Africa. In most regions, more than 50% of companies cited “remaining the same,” indicating that many companies are taking a wait-and-see position due to future uncertainty following the spread of COVID-19.

(Note) Comparison of periods up to 2020 from 2012 in North America and Latin America, from 2008 in Europe, from 1999 in Northeast Asia, ASEAN, and Southwest Asia, from 2015 in the Middle East, and from 2013 in Africa

Direction of business development over the next 1-2 years (by region)



Proportion of “Expansion” 2015-2020 (by region)

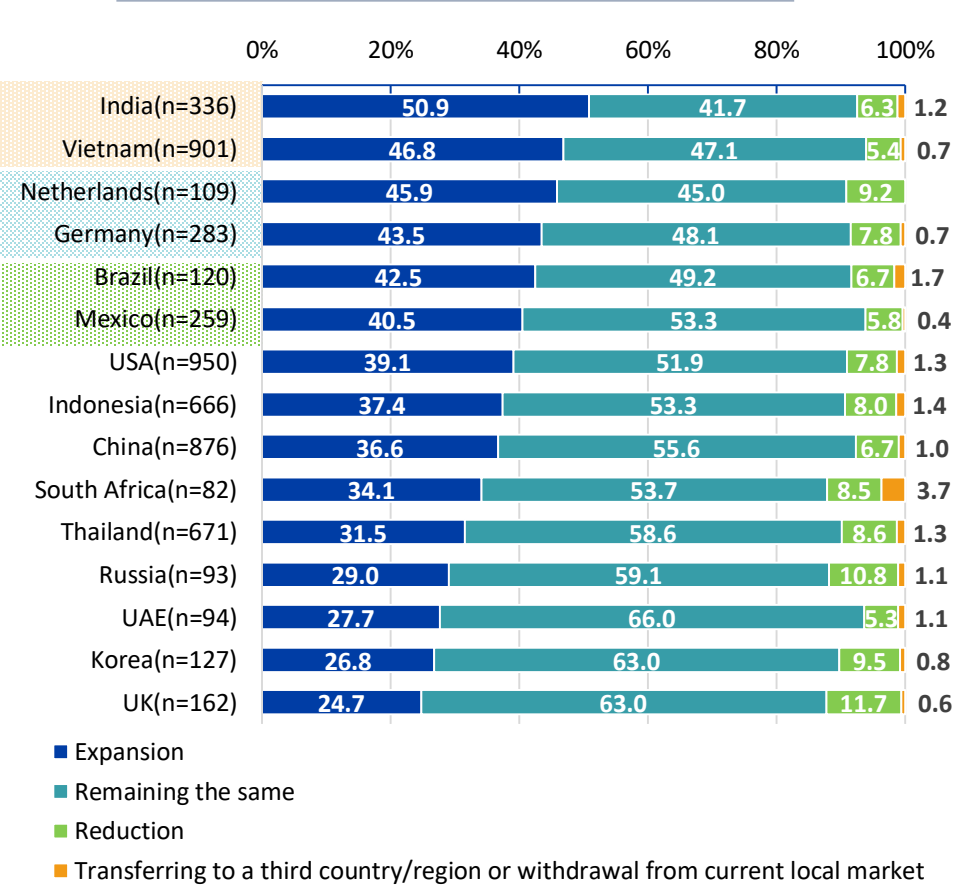


(Note) World total includes companies operating in Russia and Oceania

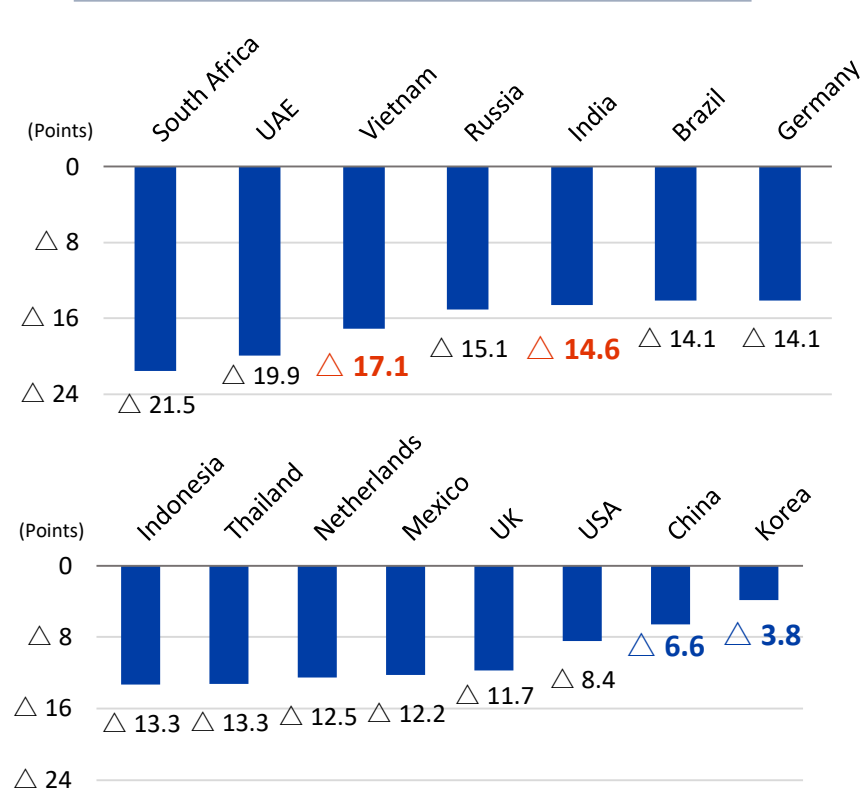
2-2 | Willingness to expand business weakened across major countries

- On observation of major countries, India was the only country where more than half the companies cited “expansion” at 50.9%. In Vietnam, which is the focus of attention as a destination for dispersing supply chains in response to the spread of COVID-19, nearly half the companies (46.8%) cited “expansion.” However, these two countries have also seen a significant decline in their willingness to expand their businesses, with -14.6 points and -17.1 points, respectively, compared to the previous year.
- On the other hand, although China (36.6%) and South Korea (26.8%) had relatively low percentages of “expansion,” year-on-year differences were only -6.6 points and -3.8 points, respectively. In all major economies, the percentage of “expansion” was lower than in the previous year.

Direction of business development over the next 1-2 years (by major countries)



Proportion of “Expansion” 2020 (compare to 2019) (by major countries)

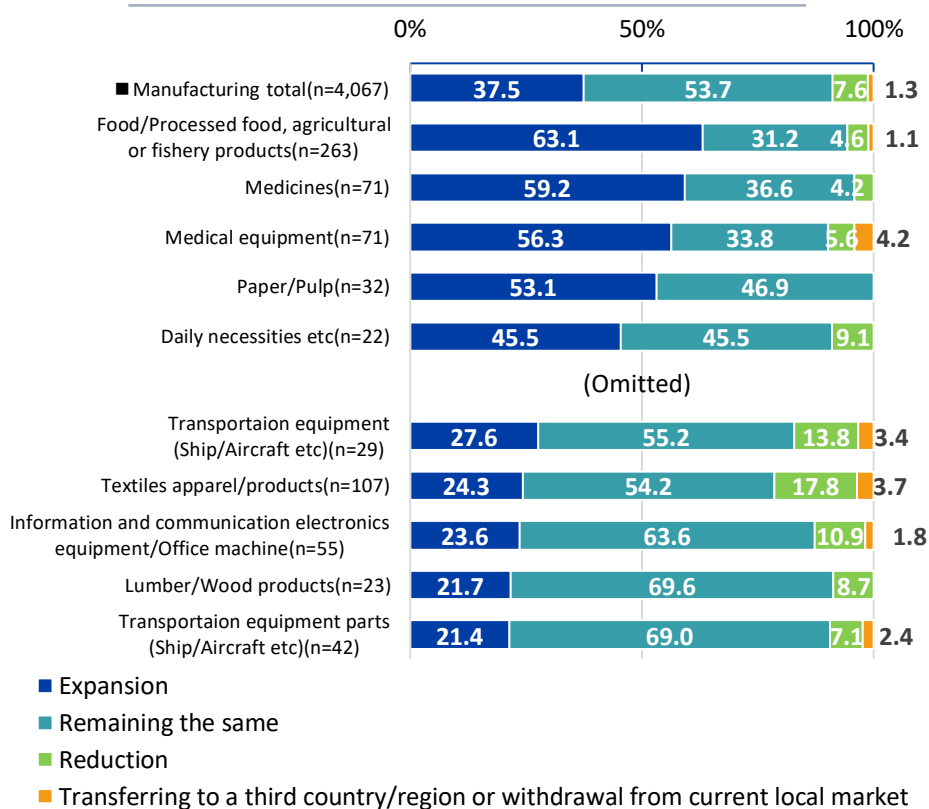


(Note) The figure for USA in 2019 is based on the survey results only for manufacturing companies.

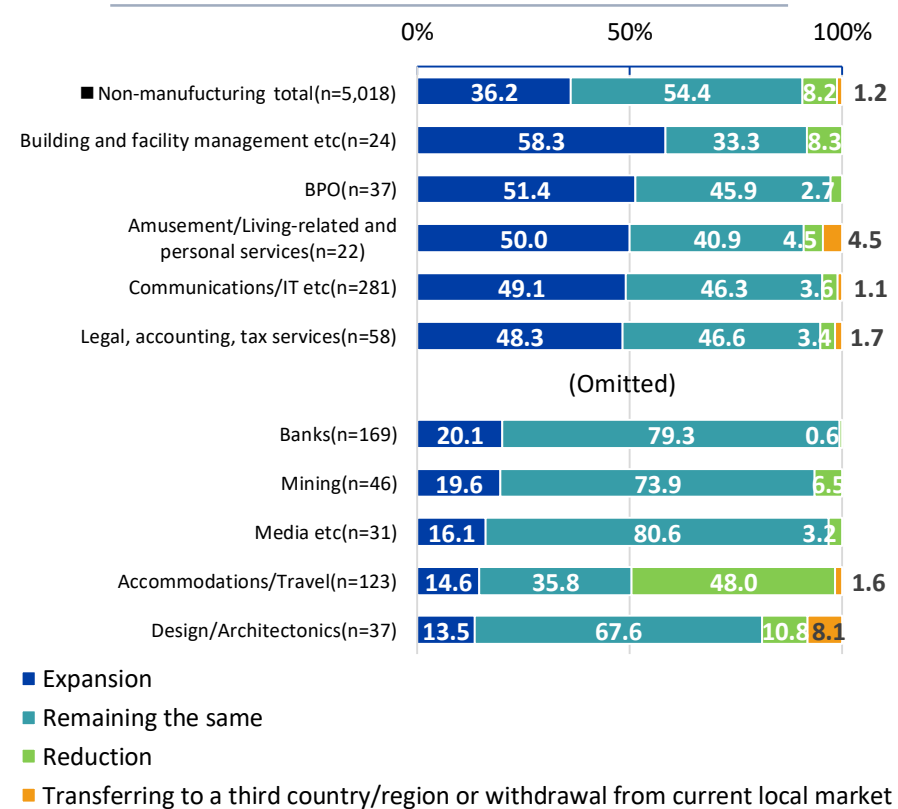
2-3 | 60% of companies in the food and medicines industries, which have steady demand, are willing to expand their businesses

- By industry, more than 50% of respondents in the manufacturing sector selected "Expansion" in industries with steady demand, even after the COVID-19 pandemic, such as food/processed food, agricultural or fishery products (63.1%), medicines (59.2%), and medical equipment (56.3%). On the other hand, the scores of the industries, such as transportation equipment (railroad vehicles/ship/aircraft/industrial trucks) (27.6%) and their parts (21.4%) which have been enormously affected by movement restrictions, including lockdowns and border closures, were as low as in the 20% range.
- In the non-manufacturing industries, "Expansion" was cited only by 14.6% and the score of "Reduction" was by far the highest at 48.0% in the accommodations/travel industry, suffering from an enormous negative impact of the spread of COVID-19.

Direction of business development over the next 1-2 years (Manufacturing)



Direction of business development over the next 1-2 years (Non-manufacturing)

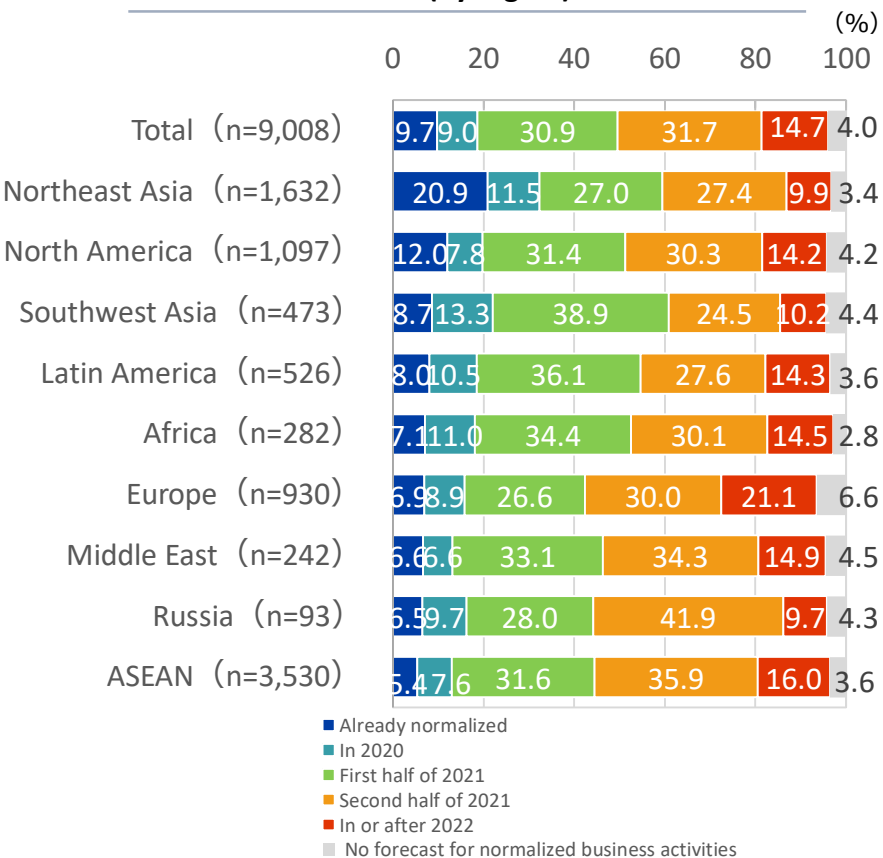


(Note) Of industries above n=20, top/bottom 5 industries in terms of proportion of "Expansion" are listed.

3-1 | Business normalization anticipated in late 2021

- The second half of 2021 is cited as the timing when business activity is surely expected to normalize (30.9% in the first half of that year and 31.7% in the second half). About 80% (81.3%) of all companies expect normalization by the second half of 2021, including those expecting a recovery within 2020.
- Approximately 30% (29.1%) of companies in China answered that their business activities have “already normalized” thanks to thorough measures such as strict lockdowns and tracking of infected people. The score was also over 20% in the Northeast Asian region, including Taiwan and South Korea. On the other hand, the percentage of companies that expect normalization within 2020 is low in ASEAN countries, the Middle East, and Europe.
- By industry, medicines, which only experienced a limited impact, have shown quick recovery. Despite a sharp drop in the market, over 30% of transportation equipment parts (motor vehicles/motorcycles) companies expect recovery within this year due to steady demand. On the other hand, the recovery of services for individuals that involve frequent face-to-face interactions is relatively slow.

Timing when business activities are expected to normalize (by region)



Industries expected to normalize business activities by the end of 2020

Top 5 Industries

Industry	Share (%)
Medicines (n=70)	34.3
Transportation equipment parts (Motor vehicles/Motorcycles) (n=637)	32.5
Agriculture/Forestry/Fisheries (n=36)	30.6
Building and facility management (n=24)	29.2
Media/Mass communication/Contents (n=31)	29.0

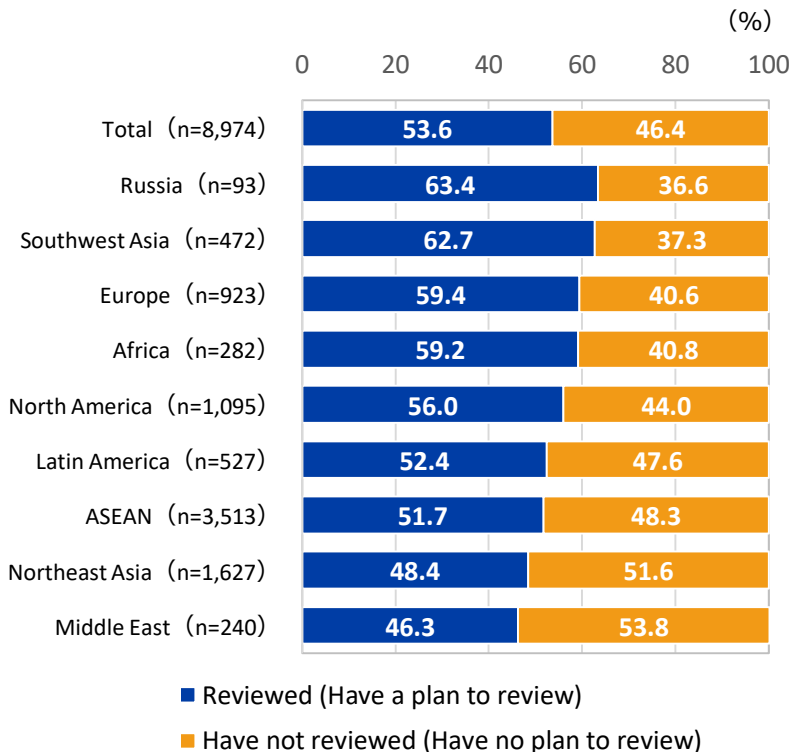
Bottom 5 industries

Industry	Share (%)
Accommodations/Travel (n=123)	0.8
Amusement/Living-related and personal services (n=21)	9.6
Transportation equipment (Railroad vehicles/Ship/Aircraft/Industrial trucks) (n=29)	10.3
Worker dispatching/Staffing (n=48)	10.4
Mining (n=45)	11.1

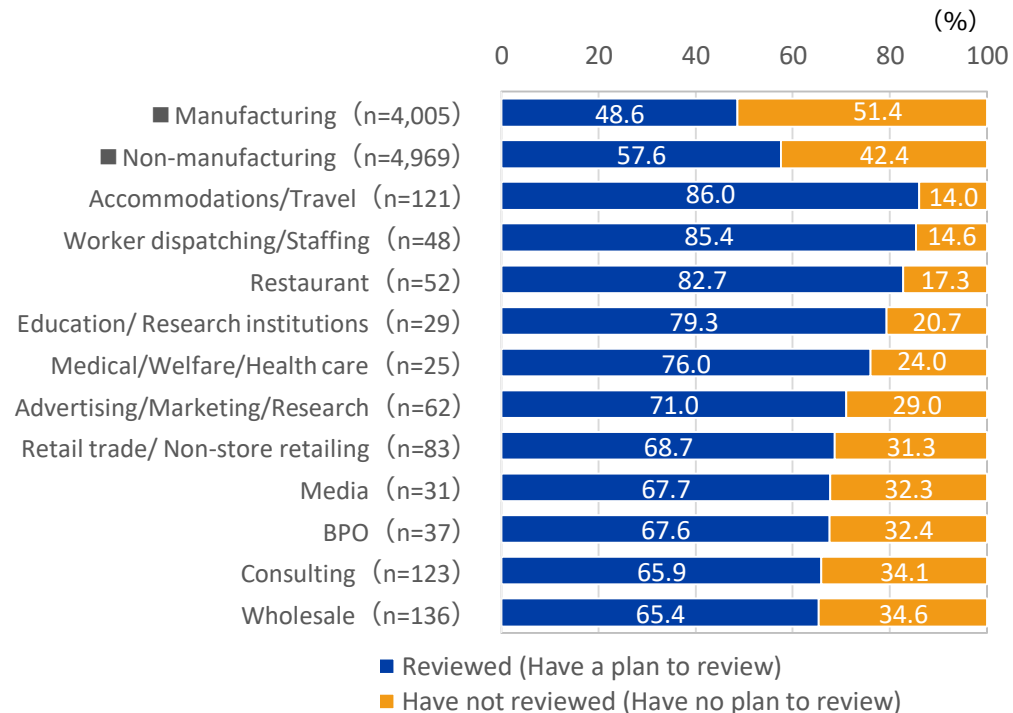
3-2 | More than half the companies review their business strategies

- In the wake of the COVID-19 pandemic, companies are fully aware of the crisis and 53.6% of all respondents said that they “have reviewed (or have a plan to review)” their business strategies and models.
- By industry, the scores of “have reviewed (or have a plan to review)” are particularly high in the industries such as “accommodations/travel” (86.0%), “worker dispatching/staffing” (85.4%), and “restaurant” (82.7%). The higher the percentage of industries that suffered losses or decreased business performance due to the impact of COVID-19, the more proactive they are in reviewing their business strategies and business models.

Reviewing the business strategies and business model (by region)



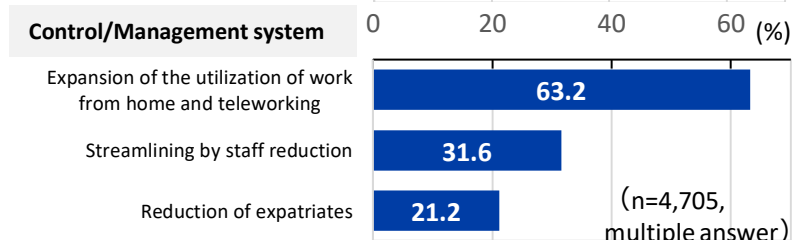
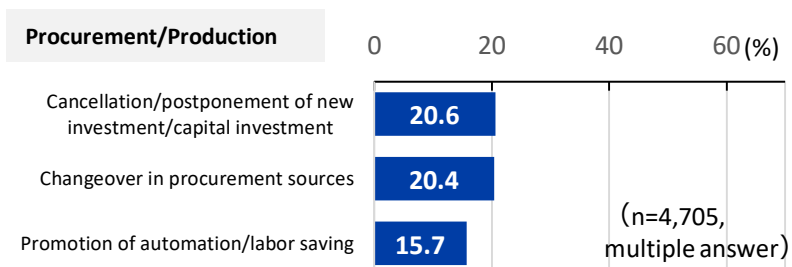
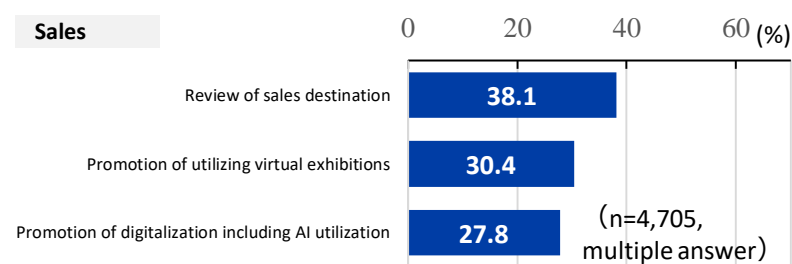
Reviewing the business strategies and business model (by Industry)



3-3 | Digital solutions in progress mainly in the US and Europe

- Regarding the sales strategy, following “Review of sales destination,” shift to online- and digital-based activities, such as “Promotion of utilizing virtual exhibitions” and “Promotion of digitalization including AI utilization,” were cited frequently as specific activities to be reviewed, mainly in the US and Europe. JETRO also supports the digitization activities of companies by exhibiting at Alibaba.com and promotional supports.
- As for procurement and production, in addition to “Cancellation/postponement of new investment/capital investment,” a large proportion of companies use solutions such as “Changeover in procurement sources” and “Promotion of automation/labor saving.” On the other hand, only 6.2% of companies make drastic changes in the supply chain, like “Review of production site.”
- In terms of control/management system, over 60% of all respondents cited “Expansion of the utilization of work from home and teleworking,” indicating by far the highest score.

Detail of the review of the business strategies and business model



(Note) Each strategy lists the top three items.

Detail of the review (Top three items; by major region)

Europe (n=536, multiple answer) (%)	
1 Expansion of the utilization of teleworking	80.6
2 Promotion of utilizing virtual exhibitions	40.7
3 Promotion of digitalization including AI utilization	35.6
North America (n=606, multiple answer)	
1 Expansion of the utilization of teleworking	76.9
2 Promotion of utilizing virtual exhibitions	44.4
3 Streamlining by staff reduction	37.5
Southwest Asia (n=286, multiple answer)	
1 Expansion of the utilization of teleworking	68.9
2 Review of sales destination	42.7
3 Reduction of expatriates	31.5
ASEAN (n=1,768, multiple answer)	
1 Expansion of the utilization of teleworking	51.1
2 Review of sales destination	43.0
3 Streamlining by staff reduction	32.0
Northeast Asia (n=767, multiple answer)	
1 Expansion of the utilization of teleworking	51.1
2 Review of sales destination	42.1
3 Streamlining by staff reduction	30.5

3-4 | Review of sales destinations and staff reduction are dominant in emerging and developing countries

- The score of “Review of sales destination” was over 50% in Thailand. The response rates were high among Asian countries, such as China and India. Not only developing new customers both domestically and internationally, but also discontinuation of sales were cited as specific review methods.
- The score of “Streamlining by staff reduction” was the highest in Indonesia among the major countries. This is probably because there have been many terminations of employment contracts among the companies that have hired personnel as contract workers. By industry, the response rates were high among face-to-face contact industries, such as accommodations/travel and restaurant, as well as transportation equipment.
- Regarding “virtual exhibitions,” some respondents said that they were progressing into more active usage of webinars and online business meetings.

Major business strategies and business model of the review (by country and industry)

(%)

Expansion of the utilization of work from home and teleworking				Review of sales destination			
Country		Industry		Country		Industry	
Netherland (n=60)	90.0	Banks (n=87)	92.0	Thailand (n=322)	53.1	Textile apparel/Textile products (n=60)	66.7
United Kingdom (n=84)	86.9	legal, accounting and tax services (n=27)	85.2	UAE (n=44)	47.7	Textiles (n=40)	62.5
South Africa (n=50)	86.0	Communications/IT (n=173)	82.1	China (n=369)	46.1	Consulting (n=77)	54.5
France (n=64)	84.4	Media (n=20)	80.0	India (n=207)	44.4	Plastic products (n=107)	53.3
Brazil (n=78)	80.8	Medicines (n=36)	77.8	Vietnam (n=383)	42.3	Iron and steel (n=53)	50.9

Streamlining by staff reduction				Promotion of utilizing virtual exhibitions			
Country		Industry		Country		Industry	
Indonesia (n=341)	46.3	Accommodations/Travel (n=103)	59.2	France (n=64)	50.0	Medicine (n=36)	58.3
Mexico (n=115)	43.5	Transportation equipment parts (Motor vehicles/Motorcycles) (n=280)	58.9	Germany (n=163)	45.4	Precision machines and instruments (n=51)	56.9
Netherland (n=60)	41.7	Rubber products (n=41)	53.7	United States (n=525)	43.8	Accommodations/Travel (n=103)	54.4
Brazil (n=78)	38.5	Restaurant (n=43)	53.5	Brazil (n=78)	43.6	Media (n=20)	50.0
United States (n=525)	37.3	Iron and Steel (n=53)	49.1	South Africa (n=50)	42.0	Sales Company (n=560)	48.4

Promotion of digitalization including AI utilization				Review of sales products			
Country		Industry		Country		Industry	
France (n=64)	57.8	Media (n=20)	75.0	France (n=64)	37.5	Textile (n=40)	40.0
South Korea (n=71)	46.5	Medicines (n=36)	55.6	South Africa (n=50)	36.0	Textile apparel/Textile products (n=60)	40.0
Russia (n=59)	42.4	Advertising/Marketing/Research (n=44)	52.3	China (n=369)	32.0	Communications/IT (n=173)	39.9
Brazil (n=78)	39.7	Precision machines and instruments (n=51)	51.0	Mexico (n=115)	31.3	Restaurant (n=43)	39.5
United States (n=525)	37.1	Education/ Research institutions (n=22)	50.0	Thailand (n=322)	26.4	Retail (n=56)	35.7

(Note) Only industries above n=20 are listed.

3-5 | Promotion of “visualization,” “diversification,” “non-contact,” and “rationalization”

- Companies are now prepared to establish management and business models that incorporate the same type of pandemic in light of COVID-19. The percentage of respondents who will start “Review of sales destination” and “Promotion of digitalization including AI utilization” after the spread of COVID-19 and in the future was 73.6% and 65.8%, respectively.
- The responses mentioned above lead to “visualization of the supply chain” including actions like “promotion of visualization” and “suggestion of the optimal transportation channel.” Also, “diversification/multilateralization” is the keyword for risk diversification as seen in “Changeover in procurement sources” (67.5%) and “Implementation of multiple sourcing” (63.5%). “Promotion of automation/labor saving” (55.0%) is suggestive of strengthening “contactless” on worksites. Actions to prompt “rationalization and improvement of efficiency” are also in progress through promotion of management localization which involves reduction of expatriates.

Timing to review major business strategies

