



FY2023

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

-Business confidence worsens further, but positive signs exist in major countries in the emerging economies-

Japan External Trade Organization (JETRO)

Research & Analysis Department

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Overview of the Survey

Purpose of the survey: The purpose of the survey is to grasp the actual conditions of Japanese-affiliated business activities operating overseas and to provide the results to a wide range of Japanese companies and policymakers.

Survey method: A questionnaire was distributed and collected online to 18,726 Japanese companies (local subsidiaries with at least 10% Japanese investment, branches and representative offices of Japanese companies) in 83 countries/regions selected through JETRO's overseas office network. Valid responses were received from 7,632 respondents. The effective response rate was 40.8%.

Characteristics of this year: The latest trends are reported on in the outlook for performance in each country and region and the status of responses to new issues amid an increasingly challenging environment for international business, including inflation, a slowdown in the Chinese economy, heightened geopolitical risks, and an increase in regulations motivated by economic security.

Contents of this report: Preceded by results by major region, common global survey items are the following : 1. Operating Profit Forecast , 2. Future Business Development, 3. Human Rights and Decarbonization, 4. Employment Environment and Wages.

■ Overview of the surveys in each region

Region	Number of Target Businesses (companies)	Total Respondents (companies)	Response rate	Survey period	Target countries and regions
North America	1,874	829	44.2%	September 6-26	2 countries
Latin America	721	455	63.1%	August 23-September 27	7 countries
Europe	1,457	830	57.0%	September 1-25	23 countries
Russia	110	73	66.4%	September 13-29	1 country
Asia and Oceania*	14,018	4,982	35.5%	August 21-September 20	20 countries/regions
Middle East	260	228	87.7%	September 4-27	10 countries
Africa	286	235	82.2%	September 4-27	20 countries
Total of all regions	18,726	7,632	40.8%		83 countries/regions

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

Key Findings

1. The number of companies anticipating business expansion in China fell below 30%.

- ❖ 63.4% of Japanese-affiliated companies overseas expect to be profitable in 2023, the first decline in three years. Deterioration in performance in China stands out. In South Korea, Hong Kong, Vietnam, and Singapore, the deterioration in business performance exceeded the improvement.
- ❖ In China, the number of companies expecting to "expand" their business fell below 30% for the first time since the survey began. On the other hand, less than 1% of companies expect to "withdraw or relocate to third countries". This indicates a cautious attitude toward business continuity.
- ❖ Strong domestic demand in major countries in the emerging economies, such as India, Brazil and South Africa is driving improved business performance for companies entering these markets. There is an increasing appetite for local business expansion with an eye to developing markets in neighboring countries and regions.

2. Awareness of business and human rights is growing worldwide, but small and medium-sized enterprises lag behind in their efforts.

- ❖ More than 80% of companies recognize human rights in the supply chain as an important management issue. This is an increase of more than 20 points from the previous year. On the other hand, less than 30% of companies conduct human rights due diligence, unchanged from the previous year.
- ❖ The report highlights the reality that the gap between large firms and small and medium-sized enterprises (SMEs) is widening in terms of respect for human rights and decarbonization efforts. The development of relevant laws and regulations in the countries where they operate is also considered to have affected the progress of their actions.

3. Inflation accelerates wage growth, especially in emerging economies.

- ❖ The problem of human resource shortages is more serious in developed Western countries. In United States and the Netherlands, more than 70% of companies face this problem.
- ❖ Wage base increase rates (nominal) in 2023 are as high as 9.8% in India and 8% in Mexico. On the other hand, in major advanced European economies, wage base increases continue to be unable to keep pace with high inflation rates.

(Note: "Major countries and regions" in this survey refers to 18 countries and regions: China, Hong Kong, South Korea, Singapore, Thailand, Indonesia, Vietnam, India, United States, Mexico, Brazil, the United Kingdom, France, Germany, the Netherlands, Russia, UAE, and South Africa, unless otherwise noted.)

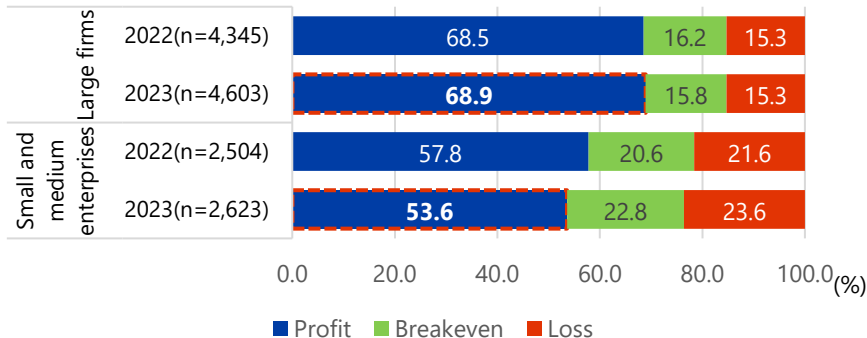
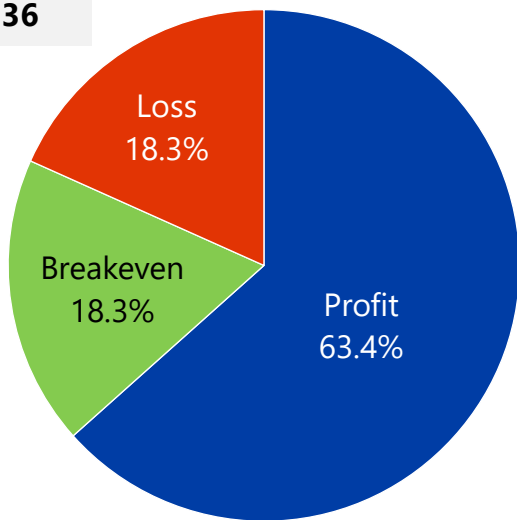
I. Operating Profit Forecast

1 | Ratio of companies expected to be in the black declined for the first time in three years

- **63.4% of companies expect to be profitable in 2023**, while 18.3% expect to be unprofitable. The ratio of companies earning a “profit” decreased 1.1 points from the previous year (64.5%). This is the **first time in three years, since 2020, that the ratio of companies expecting to be profitable has decreased**.
- Compared to the previous year, the **ratio of small and medium-sized enterprises (SMEs) earning a “profit” has decreased**, widening the gap with large firms. By industry, “Banks” (91.8%) are high. A stable performance under high interest rates contributed to this result. The ratio of “loss” decreased in “Accommodations & Travel” by 31.4 points from the previous year, a sign of recovery.

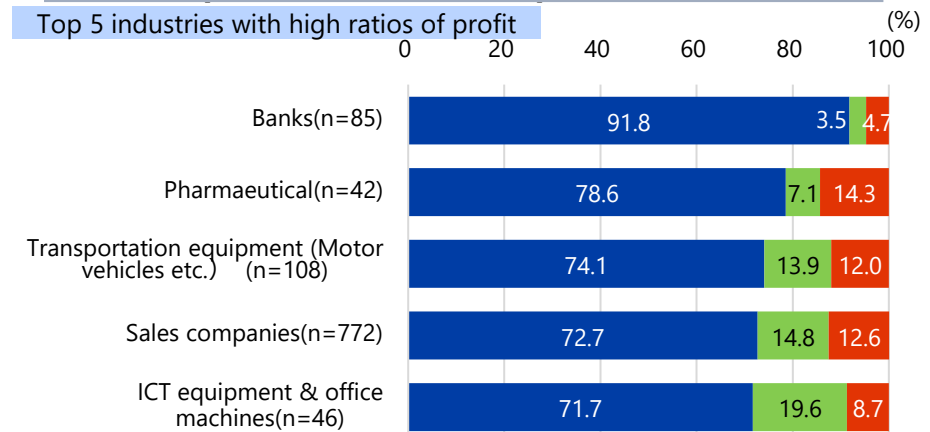
Projected Operating Profit in 2023

n=7,236

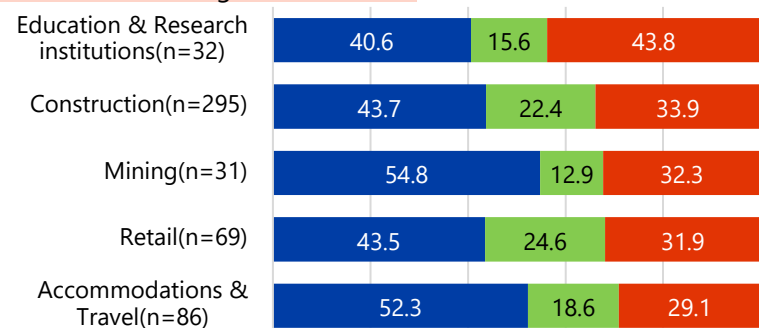


Expectations by major industry

(top 5 industries with surplus/ deficit ratio)



Top 5 industries with the high ratio of loss



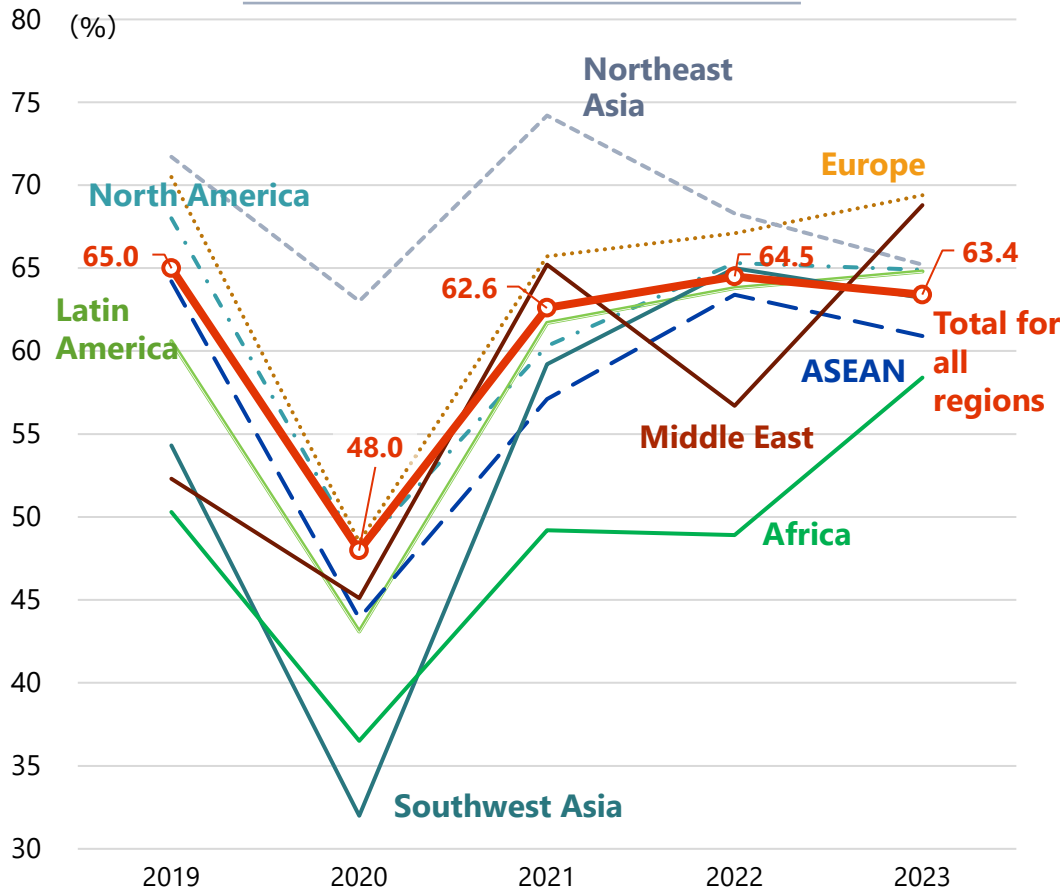
■ Profit ■ Breakeven ■ Loss

(Note: Only industries with n >= 30 are listed.) Copyright © 2023 JETRO. All rights reserved.

2 | Percentage of companies in the black increases in the Middle East and Africa

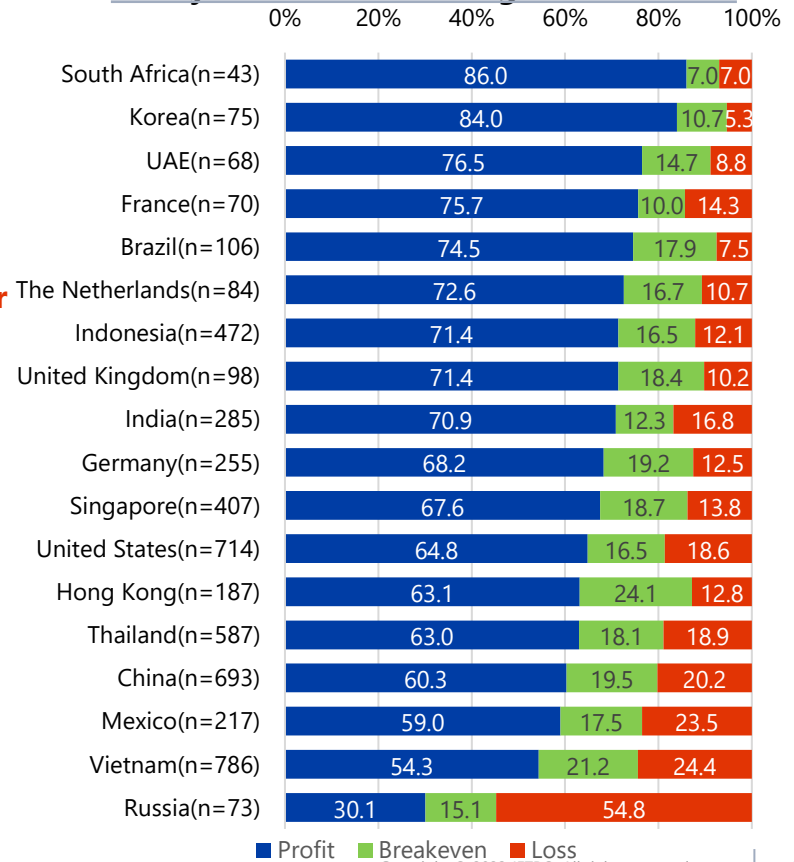
- **The ratio of companies expecting to be profitable was 68.8% in the Middle East (up 12.1 points from the previous year) and 58.4% in Africa (up 9.5 points),** both record highs. Compared to 2019, before the COVID-19 crisis, they are up 16.5 and 8.1 percentage points.
- Among the major countries and regions, South Africa has the highest ratio of surplus at 86.0%, up 26.0 percentage points from the previous year, due to stable demand for mineral resources, recovery in the domestic market, and growth in neighboring markets.

Trends in proportion of profitable enterprises (by major region)



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

Operating Profit Forecast for Major Countries and Regions in 2023



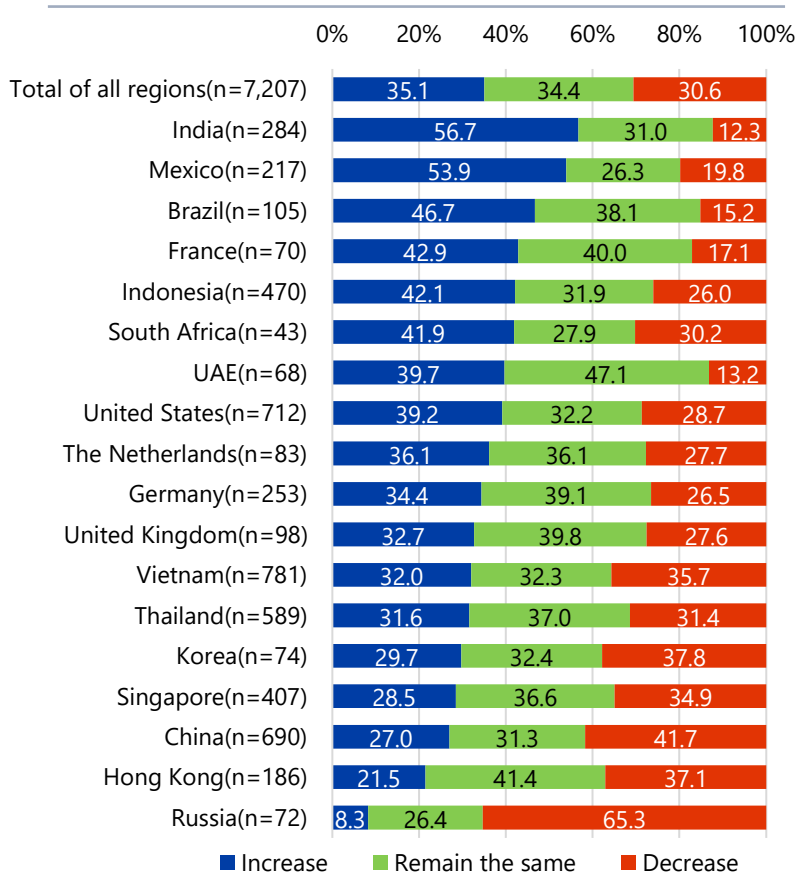
Legend: Profit (blue), Breakeven (green), Loss (red). Copyright © 2023 JETRO. All rights reserved.

3 | DI figures indicating business confidence are significantly lower than the previous year

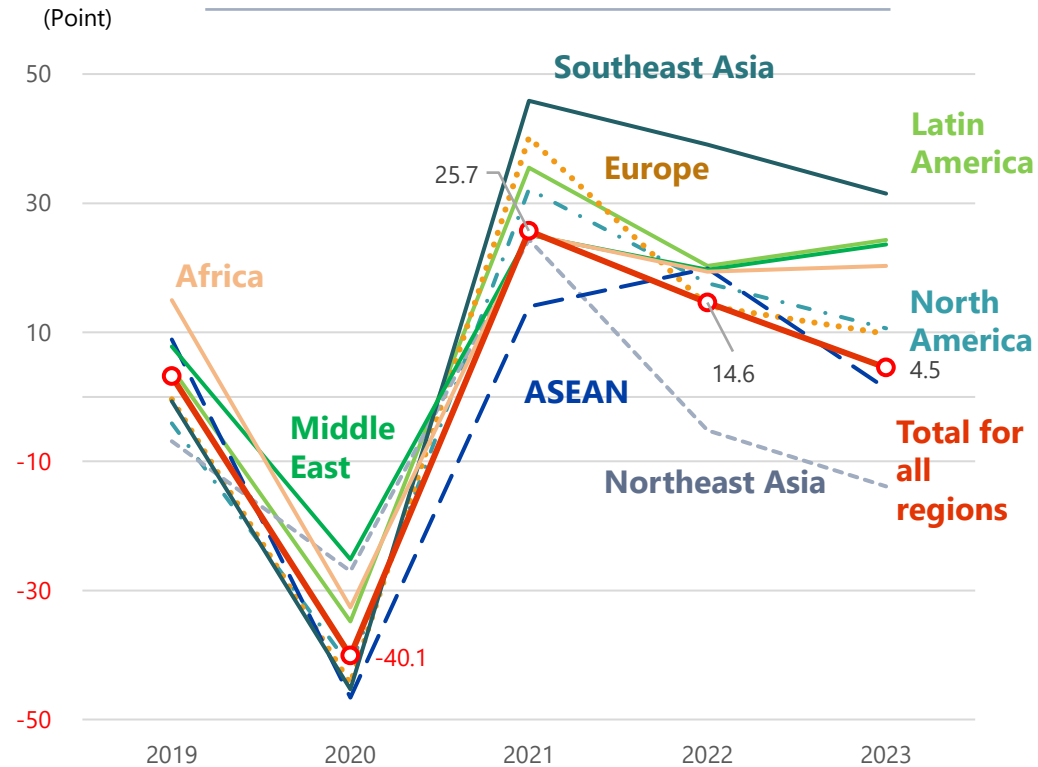
- 35.1% of companies expect operating profit to "increase" in 2023 compared to the previous year. Those answering "decrease" came to 30.6%, up 5.1 points. In Mexico, the ratio of "increase" was 10.2 points up due to increased demand in the local and North American markets.
- The DI figure (Note) indicating business confidence for all regions was 4.5 points, well below the previous year's 14.6.** The **ratio of "decrease" exceeded 40% in China** for the second consecutive year, and the country's **DI figure was -14.7** points, the third lowest after Russia and Hong Kong.

(Note) Abbreviation of Diffusion Index. In this survey, year-on-year changes are calculated by subtracting the percentage of enterprises answering "decreased" from the percentage of enterprises answering "increased."

Operating Profit Forecast in 2023 (Compared to 2022)



Trends in DI by Major Region (2019-2023)

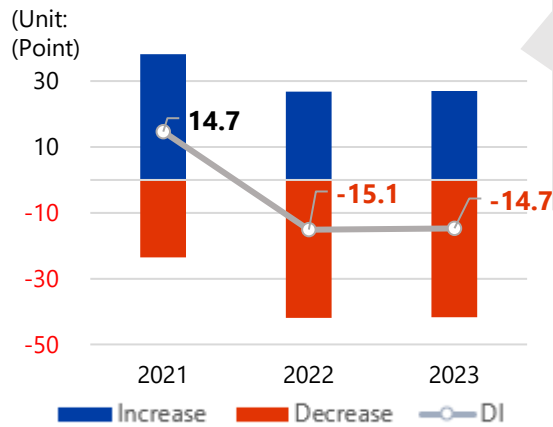


(Note: Total for all regions includes Oceania and Russia.)

4 | Vietnam's DI fell 28.7 points from the previous year

- The DI in China remained around -15 points for the second consecutive year. **The DI in Vietnam was -3.7, down 28.7 points from the previous year.** This decrease is the lowest among major countries/regions, along with Singapore (-32.1).
- The DI in India was 44.4 points, making it the highest among the major countries/regions for the second year in a row.** Mexico (34.1 points) was second highest after India. The decrease in the DI for the U.S. was mainly due to "declining demand in the local market".

China [Improvement < Worsening]



Industries with a high "Decrease" ratios in China (n>=15)

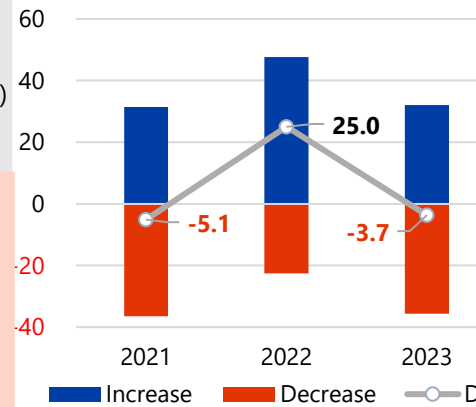
1. Warehousing and logistics (71.7%)
2. Fabricated metal products (61.3%)
3. Electrical and electronic components (48.6%)

Worsening factors in China (Descending order) (n=288)

1. Decreasing demand in local market (67.7%)
2. Intensified market competition with other companies (38.9%)
3. Decreasing demand in export destinations (36.1%)

Vietnam

[Improvement < Worsening]



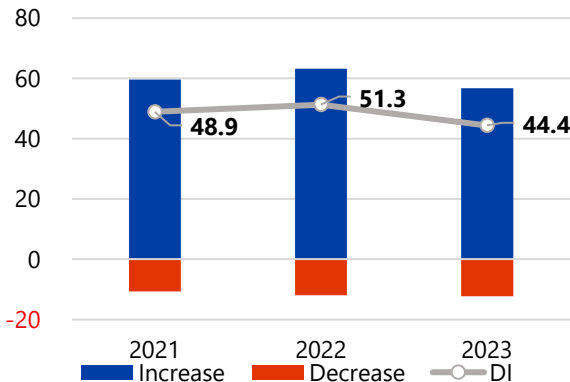
Industries with high "Decrease" ratios in Vietnam (n>=15)

1. Warehousing and logistics(63.3%)
2. Electrical and electronic machinery(63.2%)
3. Trading (49.2%)

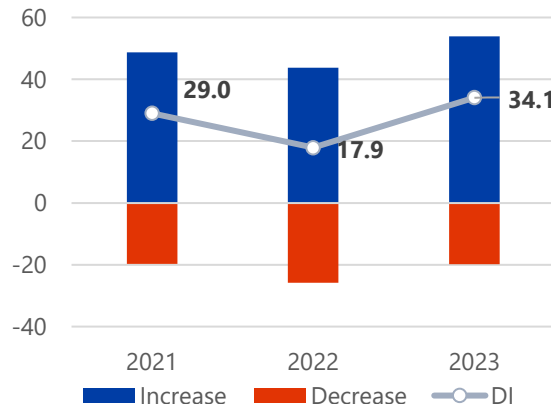
Factors "worsening" in Vietnam (Top) (n=277)

1. Decreasing demand in local market (50.5%)
2. Decreasing demand in export destinations (49.5%)
3. Rising of labor costs (31.0%)

India [Improvement > Worsening]

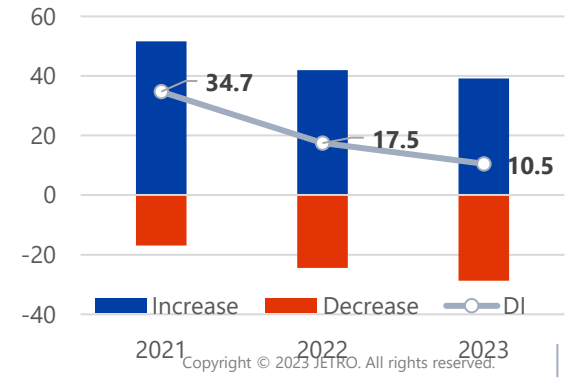


Mexico [Improvement > Worsening]



United States

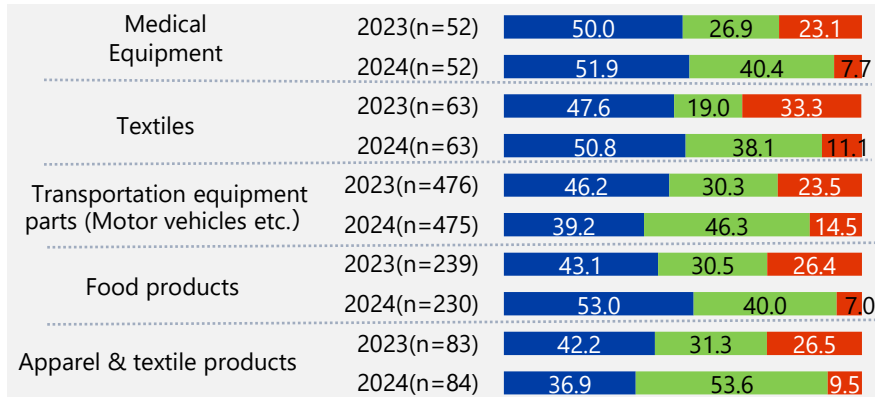
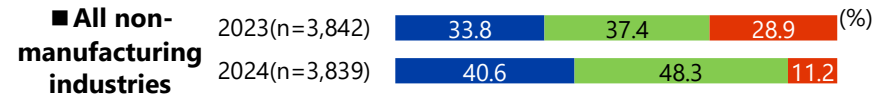
[Improvement > Worsening]



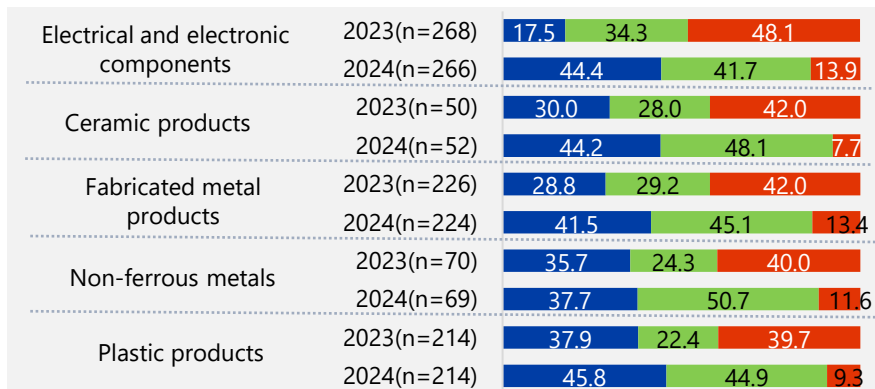
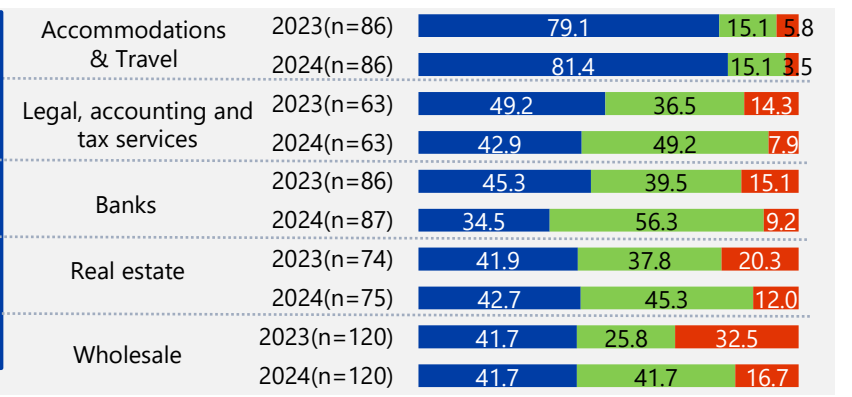
5 Accommodations & Travel improved, while Warehousing and logistics worsened by more than 50%

- Those reporting an "increase" in profit in "Transportation equipment parts (Motor vehicles etc.)" exceeded those reporting a "decrease" by more than 20 points, recovering from the previous year. However, 14.5% of companies expect a "decrease" in 2024, higher than the manufacturing industry average (12.3%).
- In the non-manufacturing sector, the ratio of "increase" was remarkably high in "Accommodations & Travel". On the other hand, **more than 50% of the respondents in "Warehousing and Logistics" chose "decrease"**. In addition to a rebound from the previous year's surge in transportation costs, declining demand and intensifying competition with other companies were the main factors.

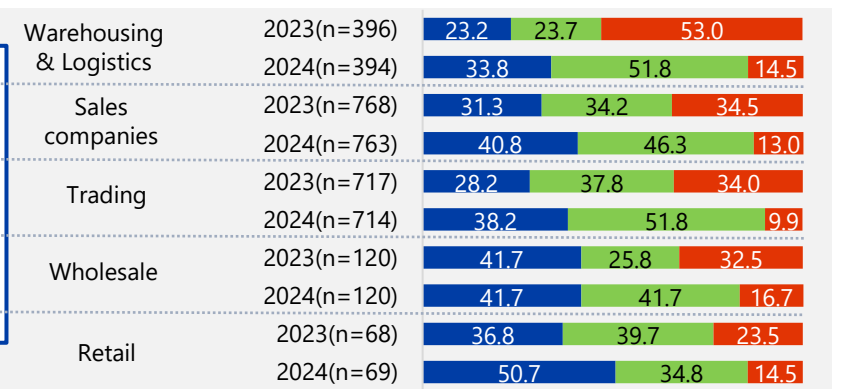
Operated forecast income in 2023 and 2024 (compared to the previous years)



Top 5 industries by ratio of increase



Top 5 industries by ratio of decrease



■ Increase ■ Remain the same ■ Decrease

■ Increase ■ Remain the same ■ Decrease
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(Note: Top 5 industries in Increase/ Decrease in 2023 are listed for each (n=50 or more).)

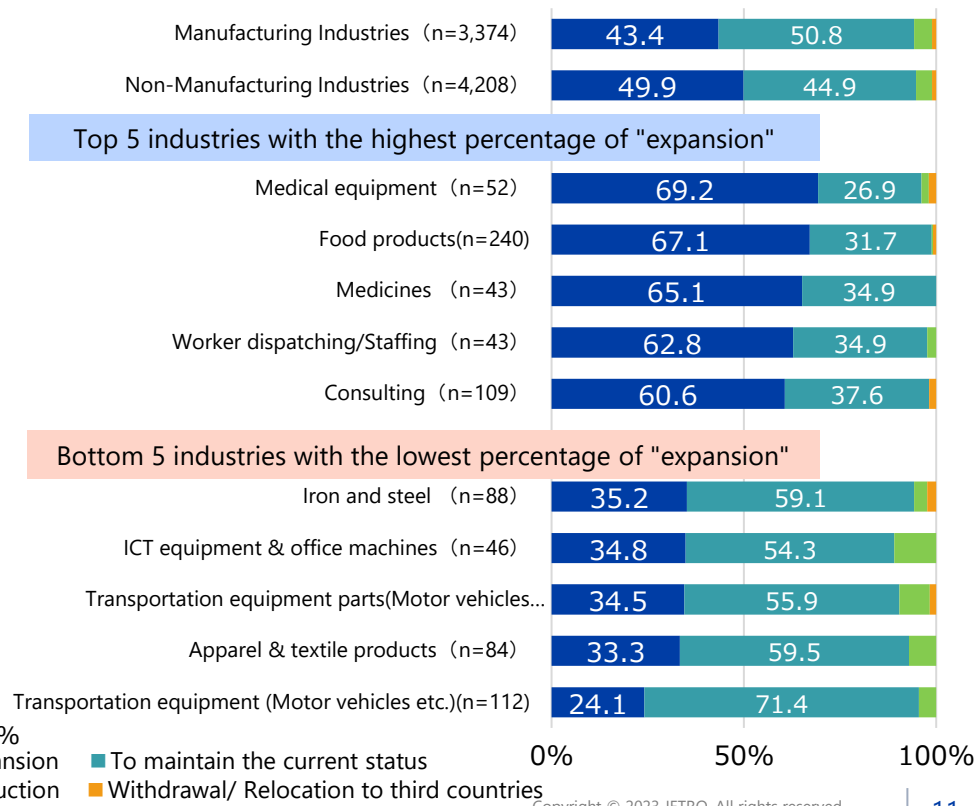
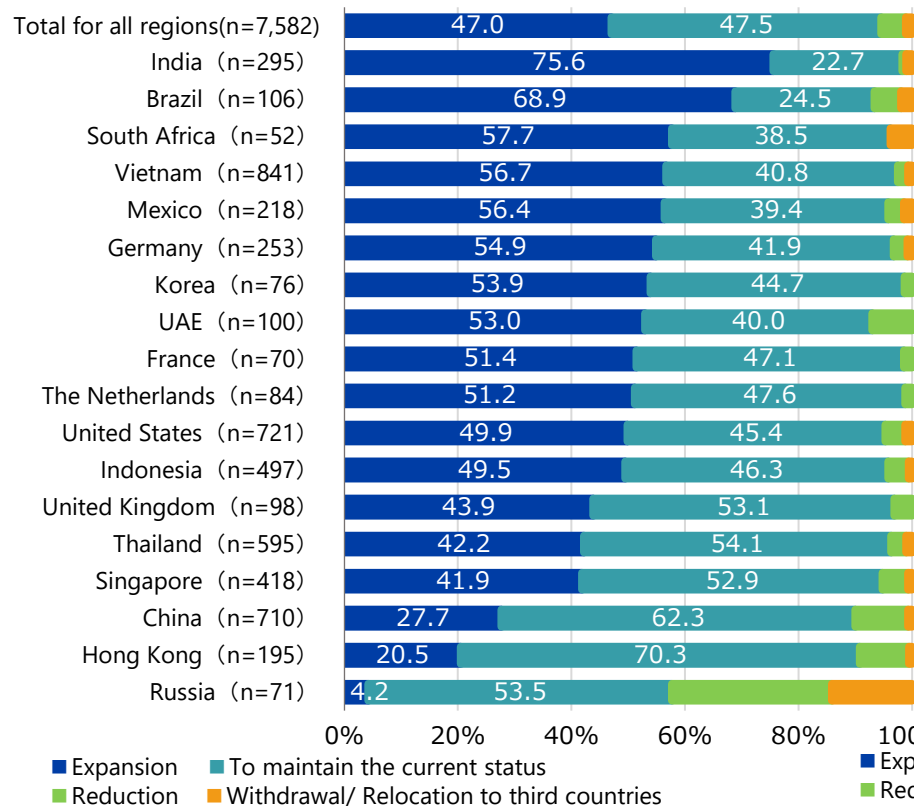
II. Future Business Development

1 | Willingness to expand business falls below 30% in China for the first time

- In the next one to two years, 47.0% of firms said they will "expand" their local operations (up 1.6 points from the previous year), falling short of 2019 (48.9%), before the COVID-19 crisis. In India, more than 75% of the respondents said they will "expand" their operations.
- **In China, "expansion" fell below 30% for the first time. On the other hand, only 0.7% responded "withdrawal or relocation to a third country".**
- By industry, the willingness to expand is low in transportation equipment. This is due to changes in major markets such as China and the United States (a shift to EVs) and declining demand.

Direction of Business Development for the Next 1-2 Years (by Major Countries and Regions)

Direction of business development for the next 1-2 years (by industry)

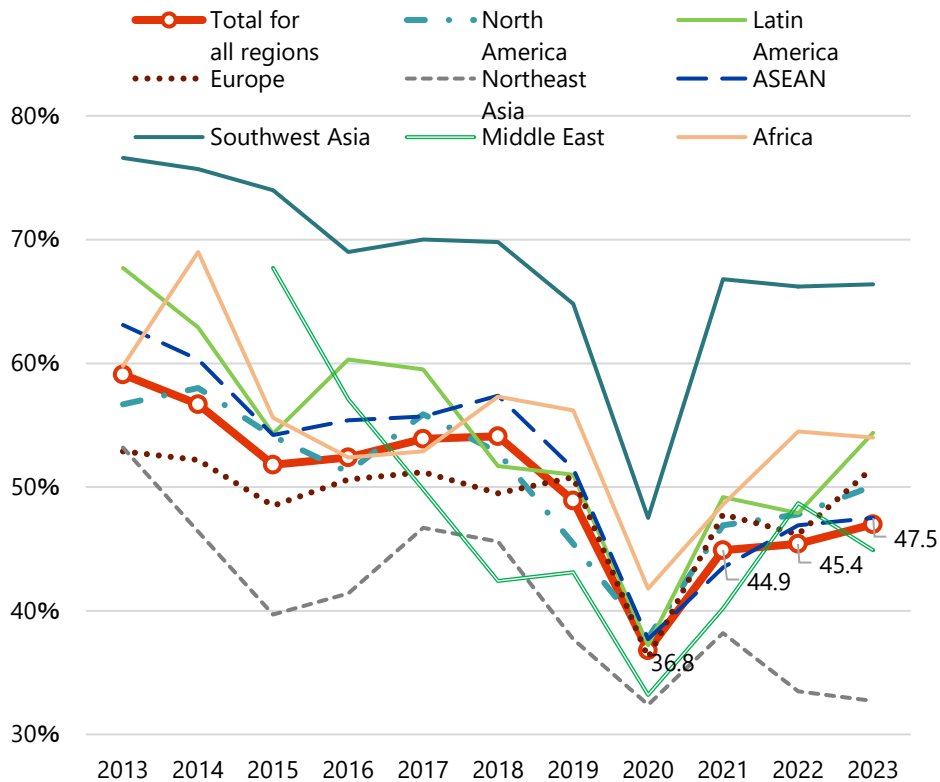


(NOTE) Includes industries with n=40 or more.

2 | Recovery of appetite for business expansion in Europe and Latin America

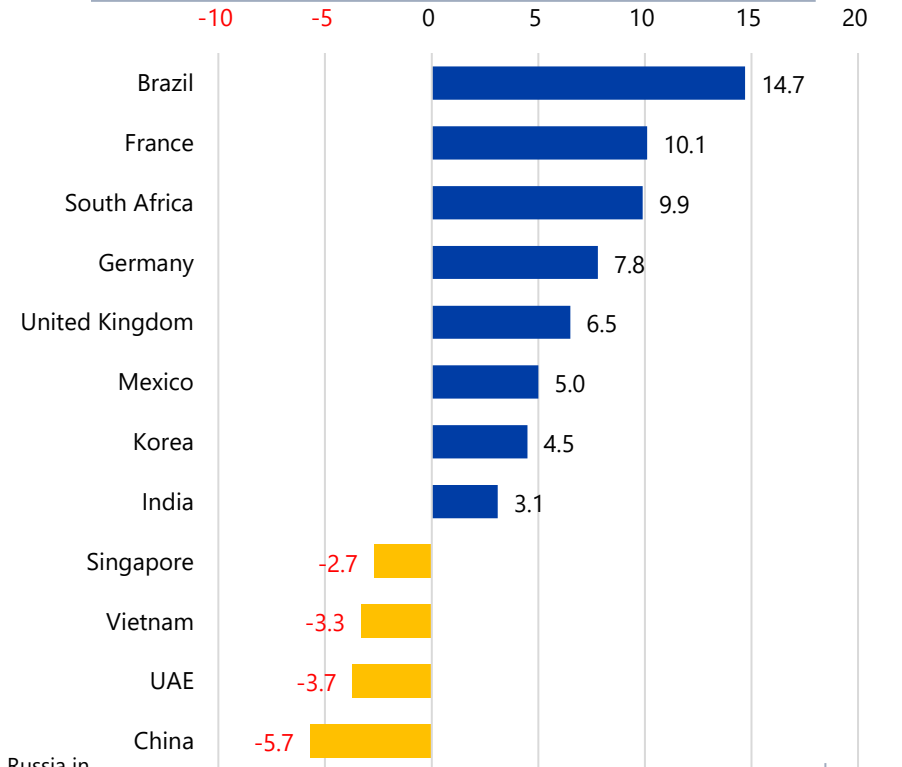
- By major region, the percentage of companies that expect to "expand" their business in Europe and Latin America increased more than 5 percentage points from the previous year. In addition to Europe and Latin America, the percentage of companies anticipating business expansion in North America, Southwest Asia, and Africa all exceeded 50%.
- In Brazil, the percentage of "expansion" increased approximately 15 points from the previous year. **In Brazil and India, robust domestic demand for automobiles and other products is supporting business expansion by Japanese companies.** Uncertainty over the economic outlook and market recovery in China put downward pressure on sentiment.

Trends in the percentage of "expansion" by major region



(Note: The total for all regions includes Oceania and Russia. However, the Middle East in 2013-2014 and Russia in 2014 are not included in the total for all regions for those years because they were not included in the survey.)

Percentage of respondents who answered "expansion" compared to the previous year (by country, selected from the following table)



3 | Main reasons for business expansion/downsizing (free description)

Main reasons for business "expansion"

India

- **Expansion of automobile (including motorcycle) market (32 companies)**
- **Increase in exports to west of India (to the Middle East and Africa) (8 companies)**
- **Increase in investment/increase in number of companies entering the market (8 companies)**
- Relative increase in the standing of Indian products (Large firms, Trading)
- Increase in production items, quality improvement (Large firms, Trading)

Brazil

- **Increase in exports to all of Latin America including neighboring countries (7 companies)**
- **Expectations for new business development (6 companies)**
- Increased demand from automotive OEMs and suppliers (Large firms, Trading)

South Africa

- **Increased exports to sub-Saharan countries, including neighboring countries (Zambia, Namibia, Congo, etc.) (6 companies)**

Vietnam

- **Increase in investment/increase in number of companies entering the market (13 companies)**
- **Increased domestic demand, increased inquiries from local companies (11 companies)**
- **Increase in exports to ASEAN region, U.S., and Europe (8 companies)**
- Increased demand for local procurement (Large firms, Textiles)

Mexico

- **Increase in exports to North America (9 companies)**
- **Expectations of expanded demand and production relocation through near-shoring (8 companies)**
- **Switch to local procurement (especially from China) (5 companies)**

Germany

- **Increased exports to Central and Eastern Europe, Africa, Turkey, etc. (7 companies)**
- **EV market expansion (7 companies)**
- **Expansion of semiconductor market within Europe (6 companies)**
- Increased demand due to rising environmental regulations (Large firms, Chemical and Petroleum products)

Main reasons for business "reduction"

China

Decrease in demand/sales, market contraction (31 companies)

- In addition to a decline in sales due to the sluggish market, the future outlook is not promising (SMEs, Warehousing and logistics)
- Decrease in orders received due to decreased production of customers. Increase in customer relocations (SMEs, General machinery)

Slumping Japanese-affiliated automakers (15 companies)

- Shrinking internal combustion engine market due to electrification (Large firms, Transportation equipment parts)
- Uncertain outlook for Japanese auto sales (SMEs, Transportation equipment parts)

Geopolitical risks in China (7 companies)

- Increased risk awareness toward China (Large firms, Other non-manufacturing industries)

Hong Kong

- Decrease in business via Hong Kong (Large firms, Trading)
- Shift to other Asian regions (SMEs, Retail)

Brazil

- Because it is difficult to envision business growth prospects (Large firms, Mining)
- Inability to allocate sufficient management resources to Brazil and South America (Large firms, Non-manufacturing)

Singapore

- Aggressively considering changes in commercial distribution due to high prices (Large firms, Sales companies)
- Difficulty in sending expatriates (cost, visa requirements, etc.) (Large firms, Sales companies)

Indonesia

- **Decrease in sales (9 companies)**
- Selling price is not in line with cost (Large firms, Electrical and electronic components)
- Profitability deteriorated due to higher labor costs (SMEs, Apparel & textile products)
- Suspension of imports due to import restrictions (SMEs, Trading)

United States

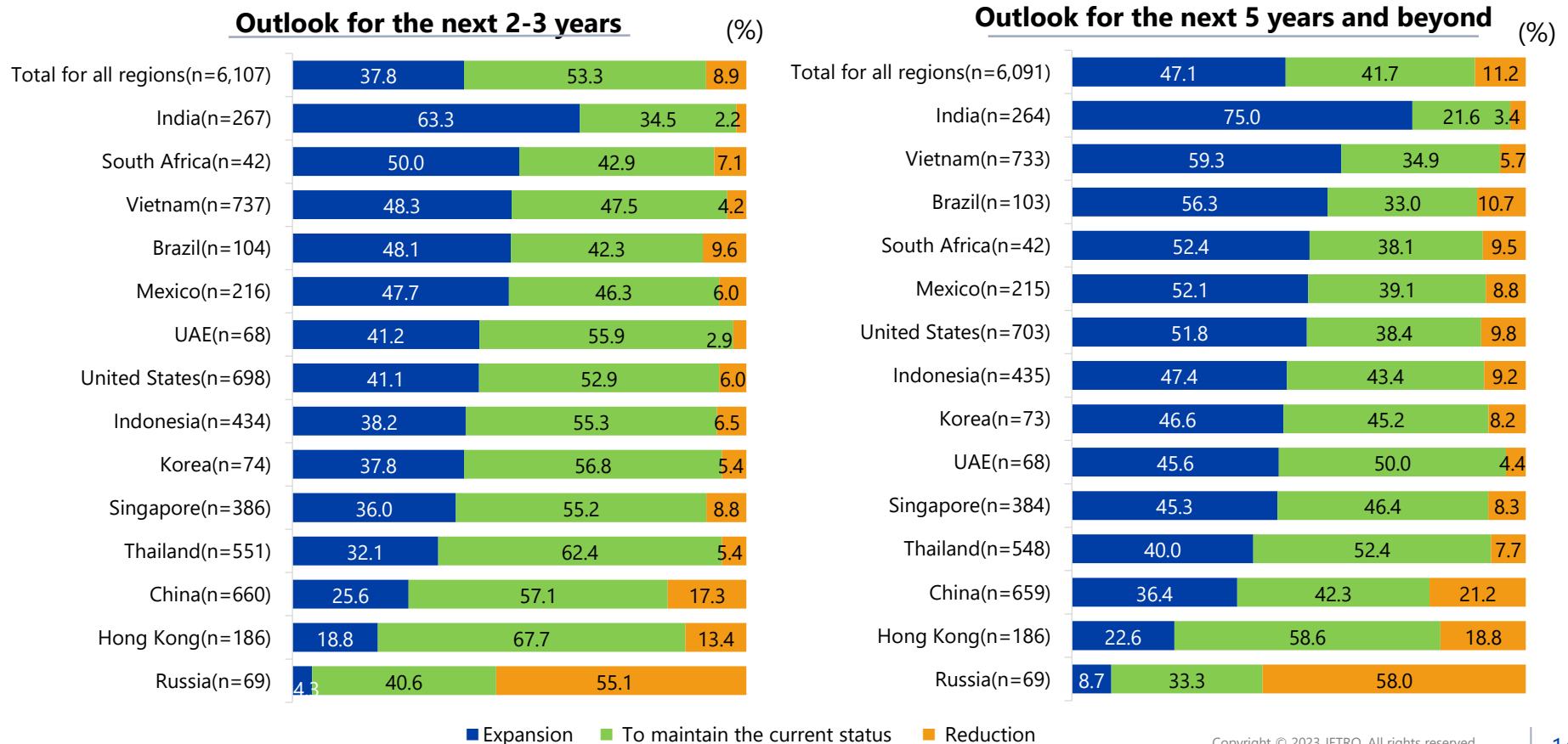
- **Rising material and labor costs (6 companies)**
- Integration of bases in the Americas (SMEs, Transportation equipment parts)
- Changes in component groups due to the electrification of automobiles (Large firms, Transportation equipment parts)
- Difficult to secure quality human resources in the U.S. (SMEs, Transportation equipment parts)

(Note) Top 6 countries/regions with the highest percentage of "expansion" and top 6 countries/regions with the highest percentage of "reduction" (excluding UAE and Russia)

4 | Sales share expected to increase in India and Vietnam

- The proportion of firms that expect the share of sales of the destination country/region in their group's sales to "expand" in the future is **relatively high in emerging countries such as India, South Africa, Vietnam, Brazil, and Mexico**.
- Looking ahead to the next five years and beyond, three-quarters of the firms in India and about 60% of the firms in Vietnam expect to "expand" their presence in the country/region where they are located within their own group. The **potential of the domestic market is leading to a willingness to expand business over the medium term**.

Prospects for the share of sales within the company's group in the country/region where the company is located



(Note) Europe is not included.

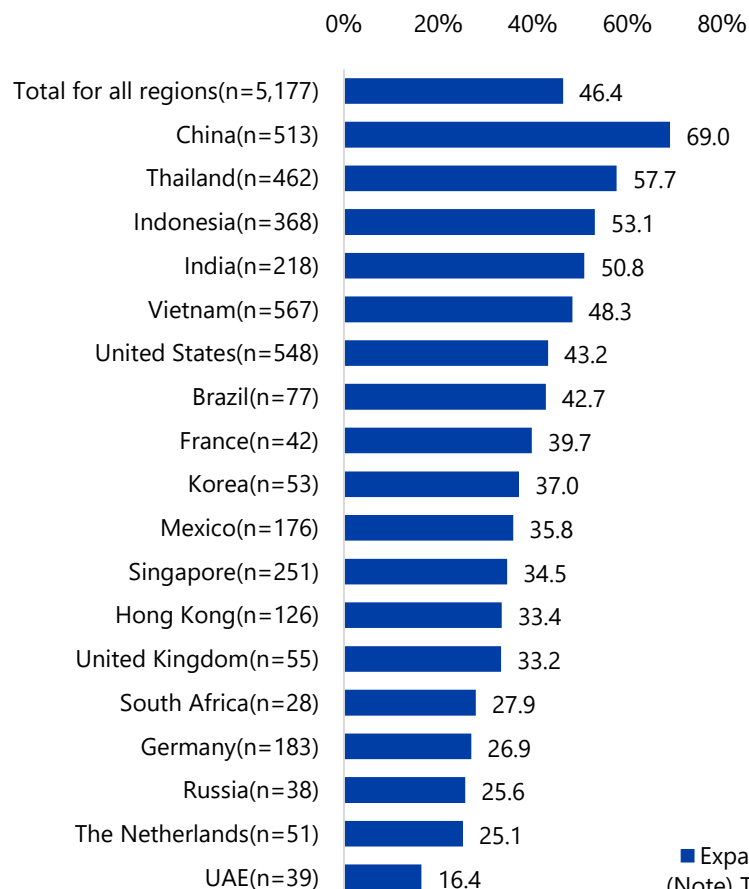
5

China's local procurement rate is about 70%; India is expected to expand in the future

- In a comparison of the average local procurement rate of Japanese companies operating in major countries and regions, China stands out with a rate of approximately 70%. The average local procurement rate in Thailand, Indonesia, and India also exceeded 50%.
- As for policies for the next one to two years, a quarter of the companies intend to "expand" their local procurement rate, while more than 70% intend to "maintain the status quo". India was the only major country/region where more than 50% of companies answered that they would "expand" local procurement in the future.

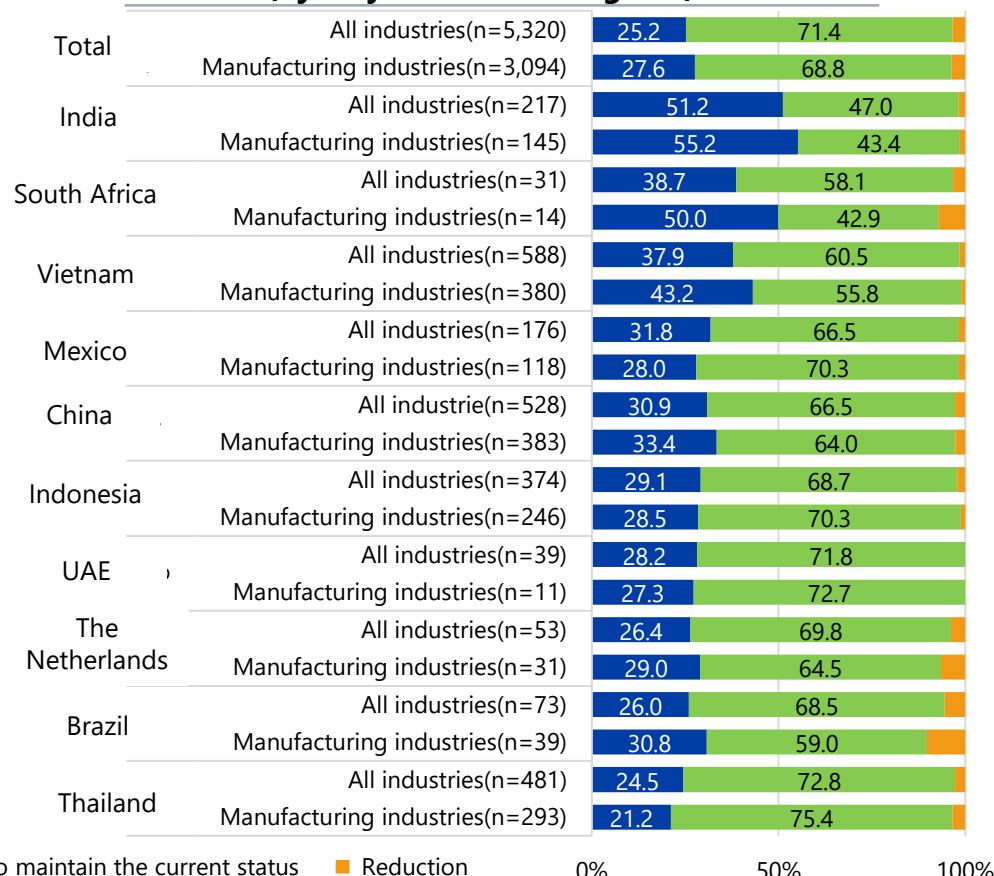
Local procurement rate

(average of all industries, by major countries/regions)



Direction of local procurement over the next 1-2 years

(by major countries/regions)



■ Expansion ■ To maintain the current status ■ Reduction

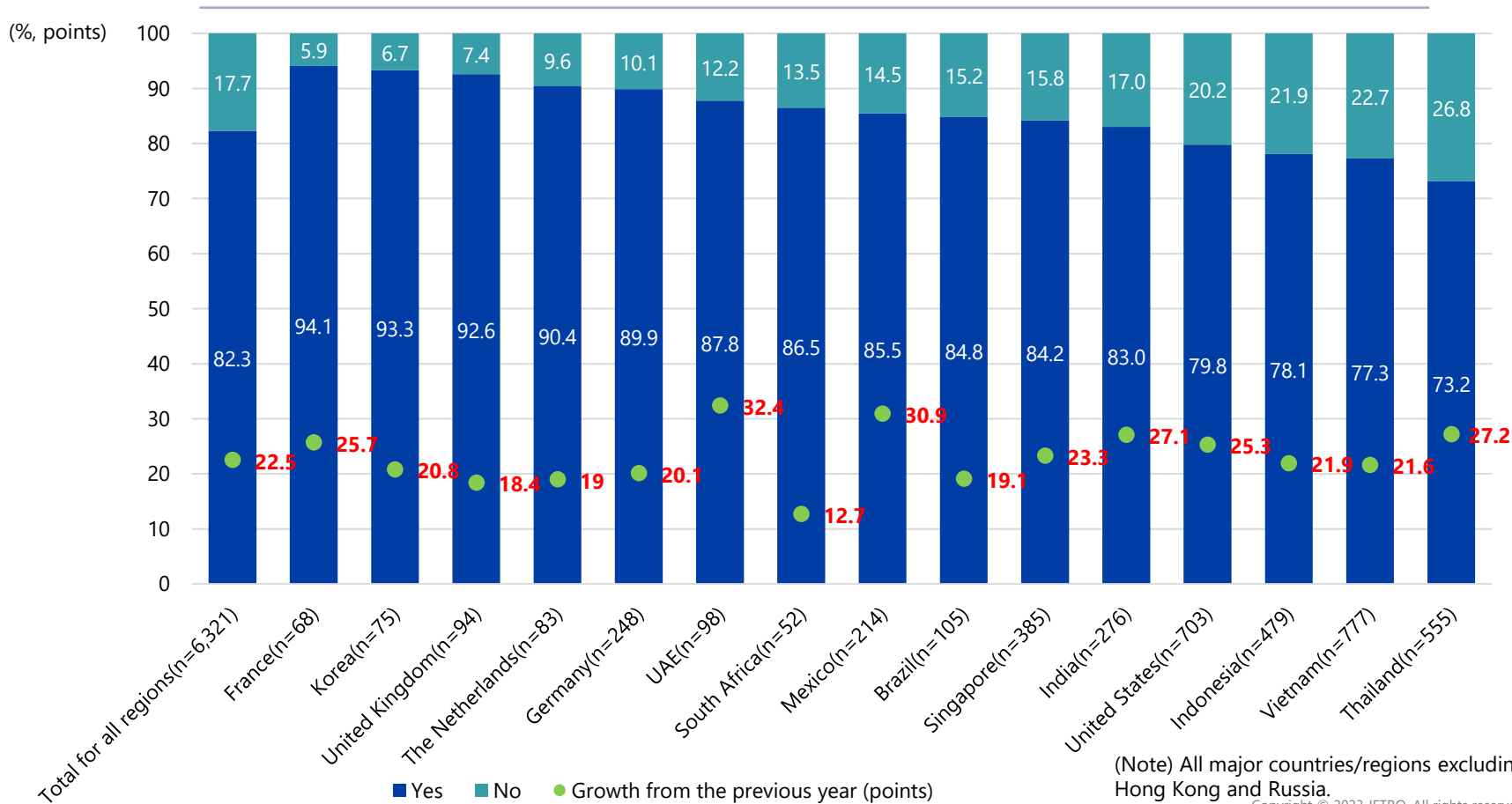
(Note) The top 10 countries in the 18 major countries/regions with the highest percentage of "expansion" in all industries.

III. Human Rights and Decarbonization

1 | More than 80% recognize human rights as an important management challenge

- Among Japanese companies operating overseas, **82.3% recognize human rights issues in their supply chains as an important management challenge**. Compared to the previous year (59.8%), there was a marked increase in recognition worldwide.
- Particularly in major European countries, about 90% of the respondents recognized it as an important management challenges.

Recognition of human rights as an important management challenge (by major countries/regions)



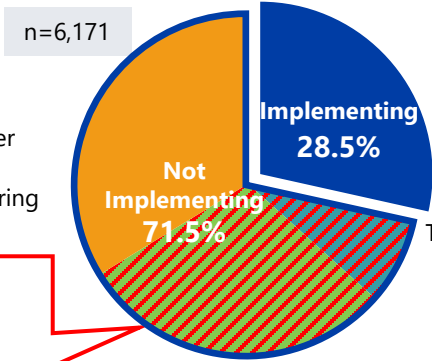
(Note) All major countries/regions excluding China, Hong Kong and Russia.

2 | Preparations and studies are underway for implementation of HRDD

- While awareness is on the rise, **the percentage of respondents conducting human rights due diligence (HRDD) was 28.5%, about the same as the previous year (28.7%)**. The percentage of SMEs implementing HRDD was 17.1%, down from 18.2% in the previous year. The gap with large firms (34.5%) widened.
- More than half of ICT equipment and office machines (64.7%) in the manufacturing sector, and banks (67.2%) and mining (53.1%) in the non-manufacturing sector have conducted HRDD.

**Do you implement HRDD?
(overall, by company size, and by industry)**

- Implementing
- Preparing for implementation
- Gathering information to consider implementation
- Neither implementing nor gathering information



37.8%
Preparing for HRDD implementation (8.2%) or gathering information to consider implementation (29.6%)

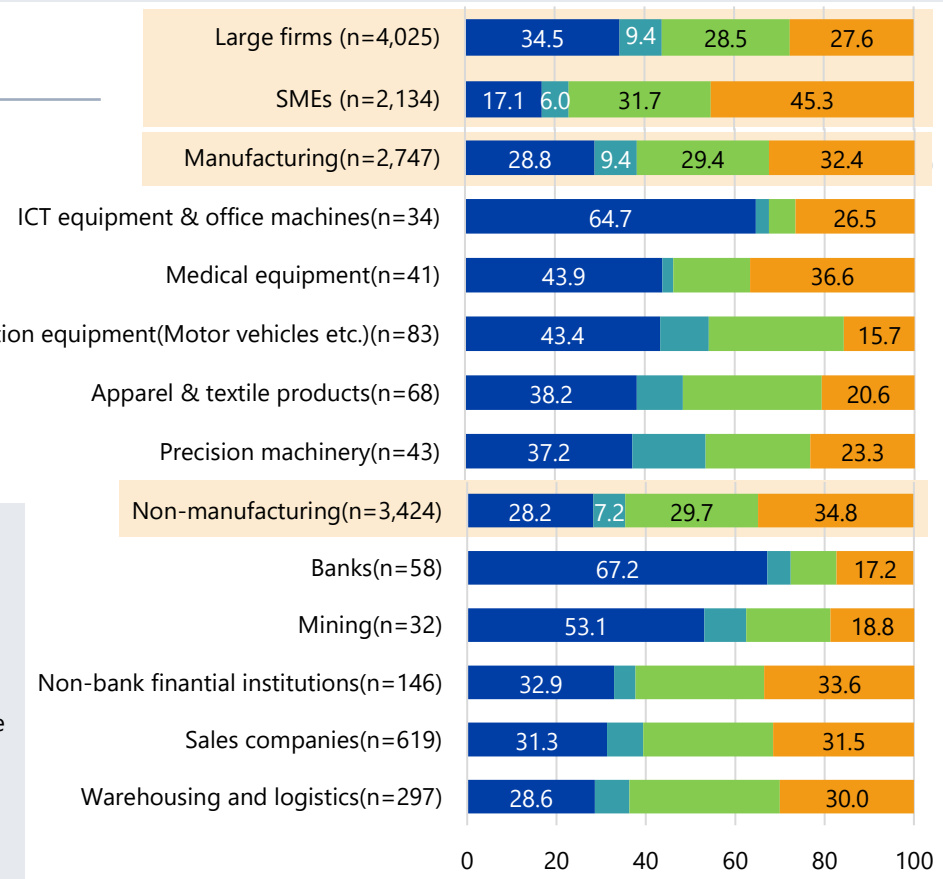
Main reasons for implementing

- Implementation in accordance with head office and group-wide policies/directions
- Requests and audits from clients, etc.
- Social responsibility
- ESG management as important/risk aversion
- Improvement of the company's working environment
- Compliance (with laws and ordinances)

Main reasons for not implementing

- No instructions from head office, suppliers, etc. ; considered and implemented by head office
- No/limited supply chain
- Insufficient manpower; labor cannot be allocated
- Not required due to company size or business model
- I don't know the specific method
- Little understanding of HRDD

(Note)The survey covers all regions except China, Hong Kong, Macau, Russia, and Venezuela.

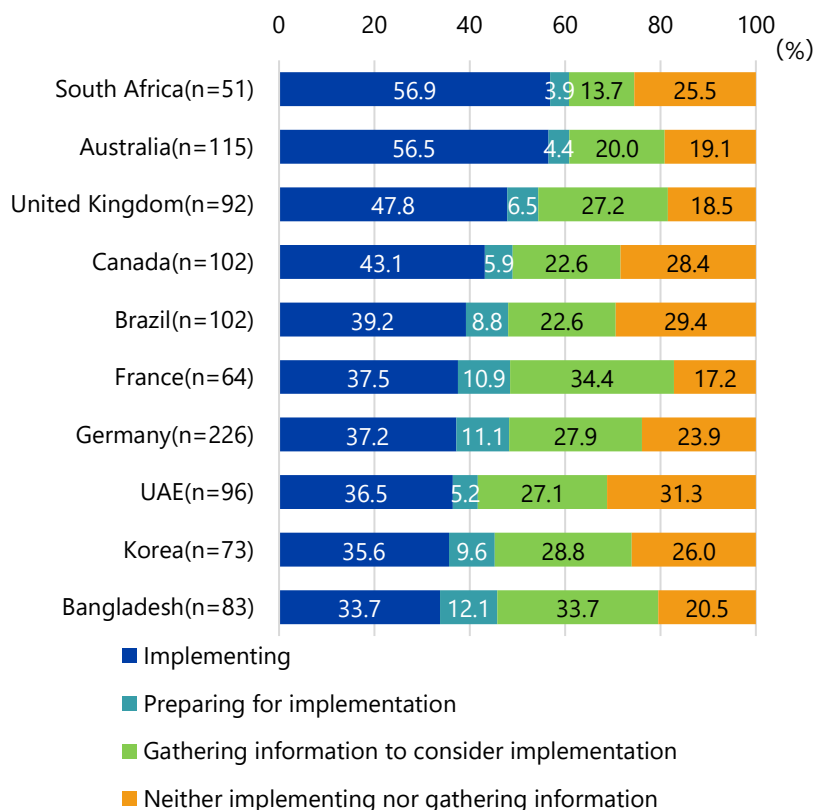


(Note) Among industries with n=30 or more, the top 5 industries in terms of the percentage of HRDD implementation are selected for each of the manufacturing and non-manufacturing sectors.

3 | Some countries are moving forward with implementing HRDD through legislation.

- The percentages of HRDD implementation by country/region were significantly higher in **South Africa (56.9%) and South Korea (35.6%), each up 9.1 points from the previous year.** South Korea is moving toward enacting Asia's first human rights and environmental DD law.
- Australia (56.5%), the United Kingdom (47.8%), and Germany (37.2%), which are moving toward mandatory HRDD through legislation, also made progress in implementing HRDD compared to the previous year.

Do you implement HRDD? (top 10 countries)



(Note) The top 10 countries/regions with the highest percentage of HRDD implementation among all countries/regions with n=50 or more, excluding China, Hong Kong, Macau, Russia, and Venezuela.

Countries with advanced progress in HRDD implementation and related laws

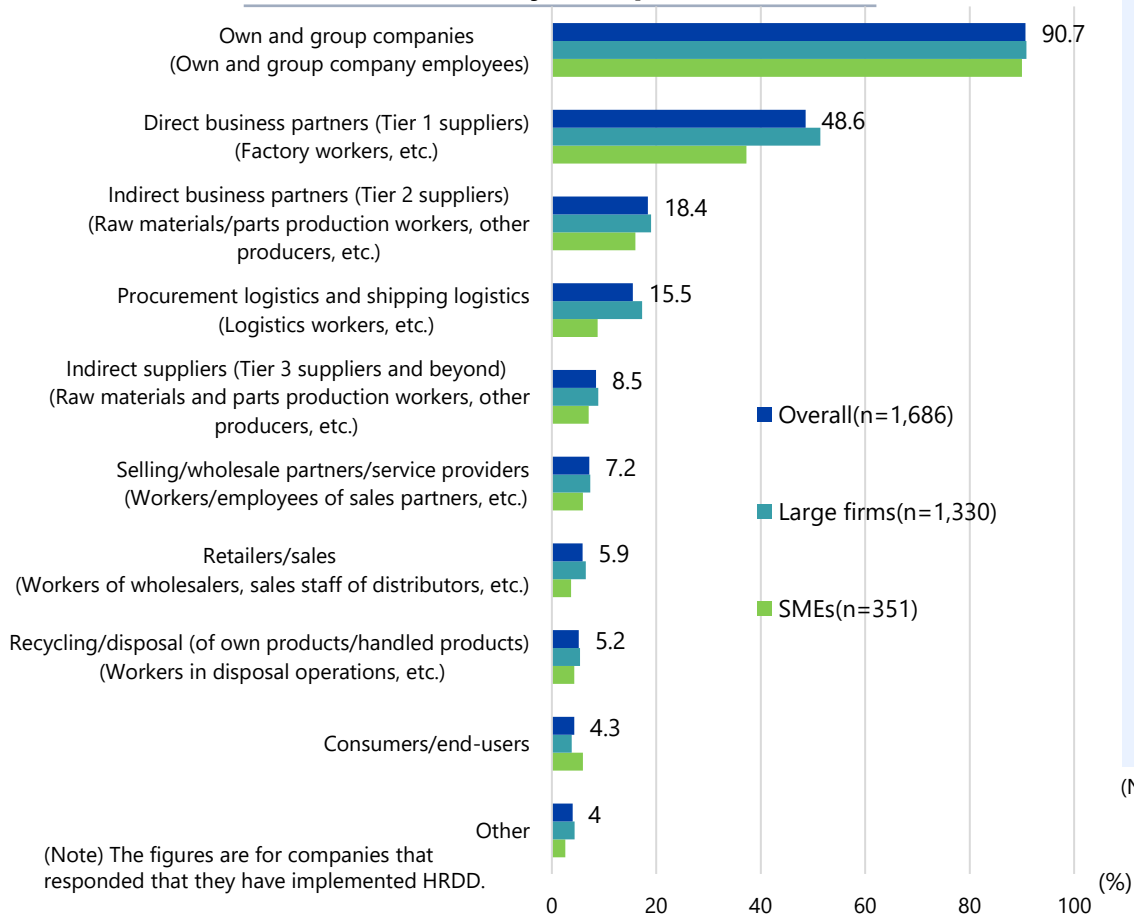
Countries (YoY change in HRDD implementation)	Comments on key regulations and HRDD implementation
South Africa (+9.1 points)	BEE policies (see note) <ul style="list-style-type: none"> • Respect for human rights is required when conducting business activities (Trading)
South Korea (+9.1 points)	Bill on Human Rights and Environmental Protection for Sustainable Business Management (proposed on September 1, 2023) <ul style="list-style-type: none"> *If enacted, Korea will be the first country in Asia to mandate human rights and environmental DD. • There is a check from the distributor (Chemical and petroleum products) • Ensuring compliance (Trading)
Australia (+6.9 points)	Modern Slavery Act 2018 <ul style="list-style-type: none"> • Modern Slavery Act 2018 requires the filing of a Modern Slavery Statement annually (Real estate)
Germany (+6.9 points)	The Act on Corporate Due Diligence Obligations in Supply Chains <ul style="list-style-type: none"> • Conducting internal HRDD in preparation for possible application of the Act on Corporate Due Diligence Obligations in Supply Chains (Electrical and electronic machinery)
United Kingdom (+1.7 points)	Modern Slavery Act <ul style="list-style-type: none"> • Response to the UK Modern Slavery Act (Non-bank financial institutions) • Issuing modern slavery act policy to supplier (General machinery)

(Note) Aggressive corrective measures for discrimination against blacks and others who were discriminated against during the apartheid era.

4 | Challenges in understanding supply chains and requesting HRDD from suppliers

- More than 90% of the respondents have implemented HRDD for “in-house and group companies,” while implementation for suppliers has lagged behind. **The difference in the implementation of HRDD for Tier 1 suppliers is large, at 51.4% for large firms and 37.3% for SMEs.**
- Understanding and surveying the supply chains or requesting suppliers and customers to share awareness and initiatives were cited by many companies as challenges. Locally rooted customs and awareness are also a hindrance to HRDD implementation.

To what extent do you implement HRDD?



Major challenges in HRDD initiatives

- **Understanding supply chains, information gathering and research on human rights issues (113 companies)**
- Local religion, culture, work environment, and business practices, and the resulting public attitudes and needs (105 companies)
- **Sharing awareness with suppliers or customers, requesting their engagement, etc. (101 companies)**
- Lack of internal resources (funds, personnel, time, etc.), internal training, and company-wide recognition and alignment of efforts (69 companies)
- Compliance with laws and regulations (60 companies)
- Do not know how to work on HRDD, there are issues on how to do it (24 companies)
- Perceptions that vary by country/region and language/communication issues (16 companies)
- Increased costs and risks due to implementation of HRDD (13 companies)

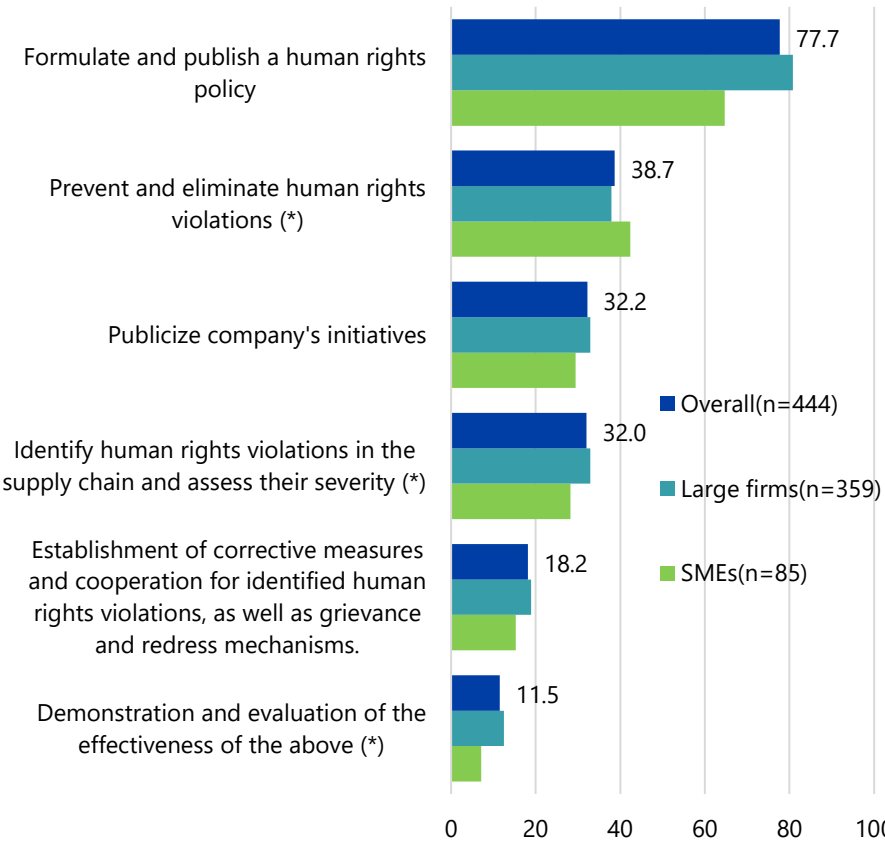
(Note) The survey covers all regions except China, Hong Kong, Macau, Russia, and Venezuela. Major challenges raised regardless of whether or not a company implements HRDD are listed.

Reference

(North America and Europe) Efforts on HRDD are limited

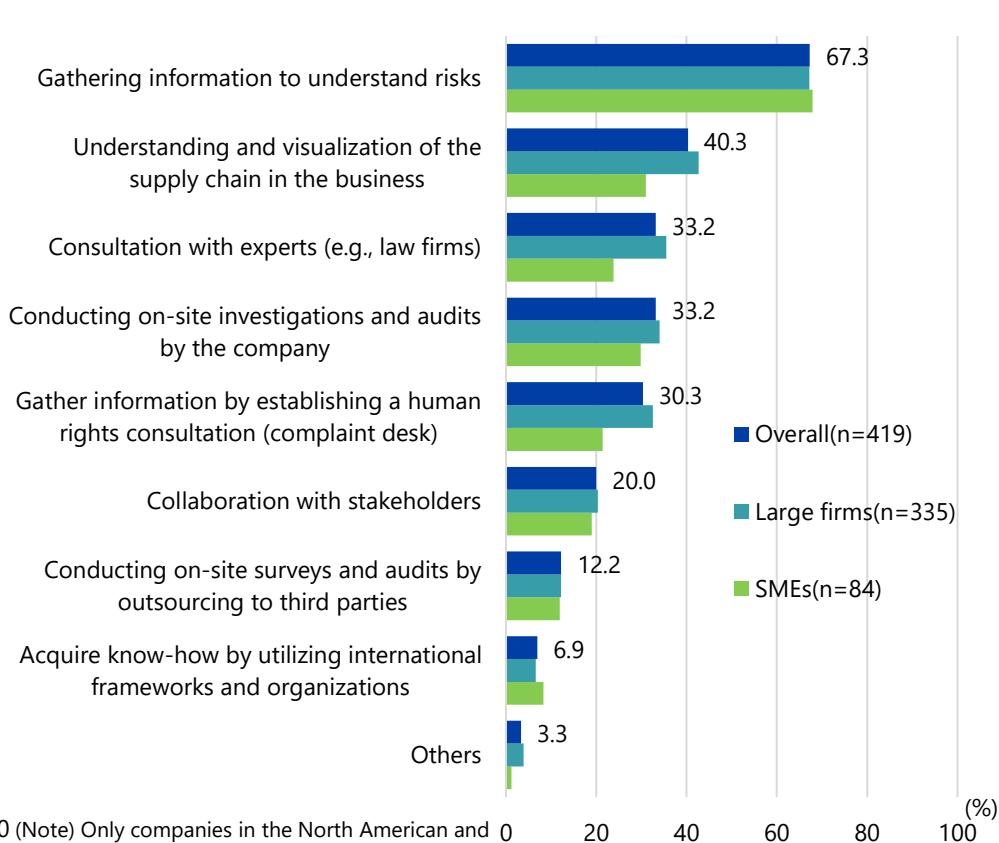
- The most common HRDD initiative is "**formulation and publication of human rights policy**" (77.7%). All others came to less than 40%, and there is a lack of diversification in effort.
- In efforts to identify and assess human rights risks, "**gathering information to identify risks**" (67.3%) ranked first. The gap between large firms and SMEs is widening in terms of understanding and visualizing supply chains and consulting with experts.

Specific initiatives being implemented as HRDD



(Note) Only companies in North America and Europe that responded that they have implemented HRDD were included.

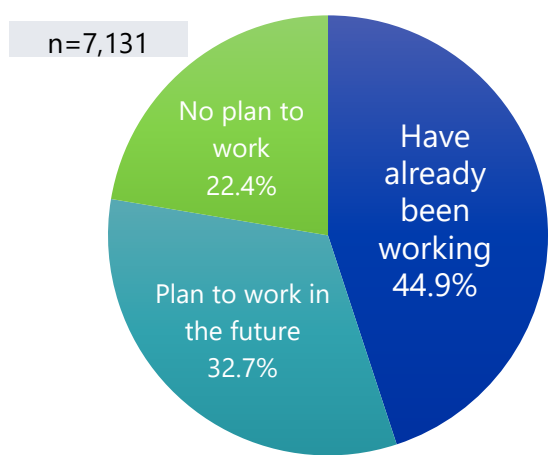
Initiatives to identify and assess human rights risks



(Note) Only companies in the North American and European regions that have implemented HRDD to any extent are included.

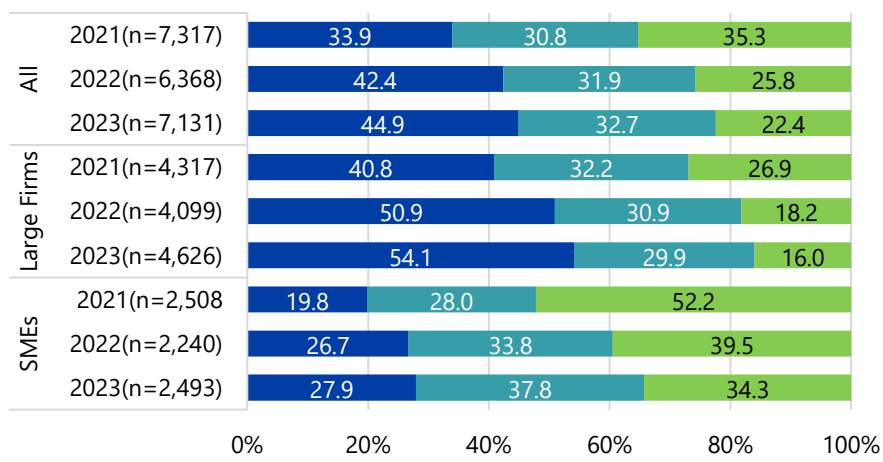
5 | More companies committed to decarbonization

- A total of 77.6% of companies are "already working on decarbonization" or "have plans to work on decarbonization".
- **Since 2021, the number of companies working to decarbonize has consistently increased.** However, the percentage of firms that are engaged **has increased by 13.3 percentage points** for large firms and 8.1 percentage points for small and medium-sized enterprises compared to 2021, **widening the gap between large firms and SMEs.**

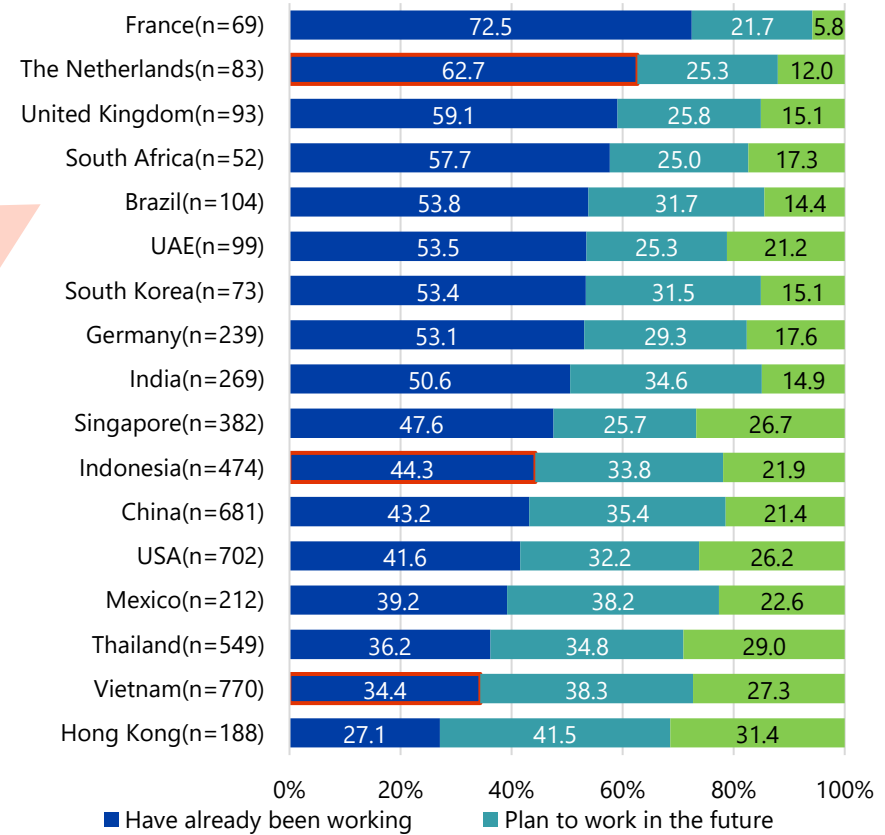


Action for decarbonization

"Have already been working"
Countries that increased by 5 points or more from the previous year
 Indonesia: +8.6 points
 The Netherlands: +7.5 points
 Vietnam: +5.0 points



By major countries and regions

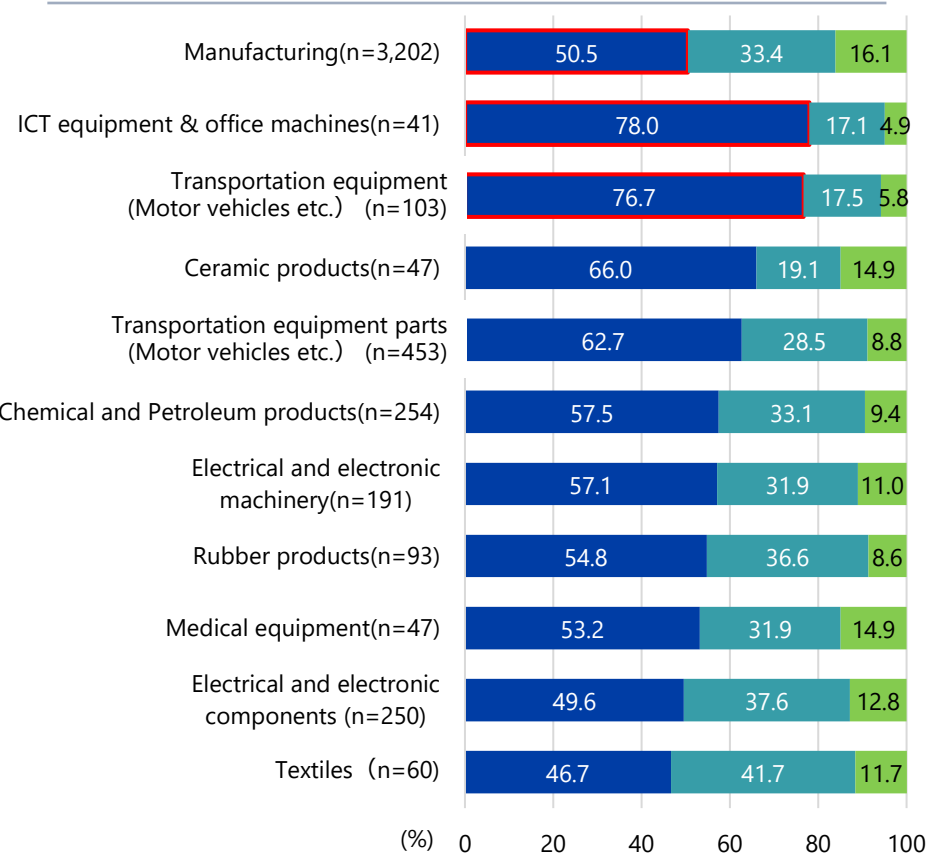


■ Have already been working ■ Plan to work in the future ■ No plan to work (Note: Russia is not included in the 2022-2023 period.)

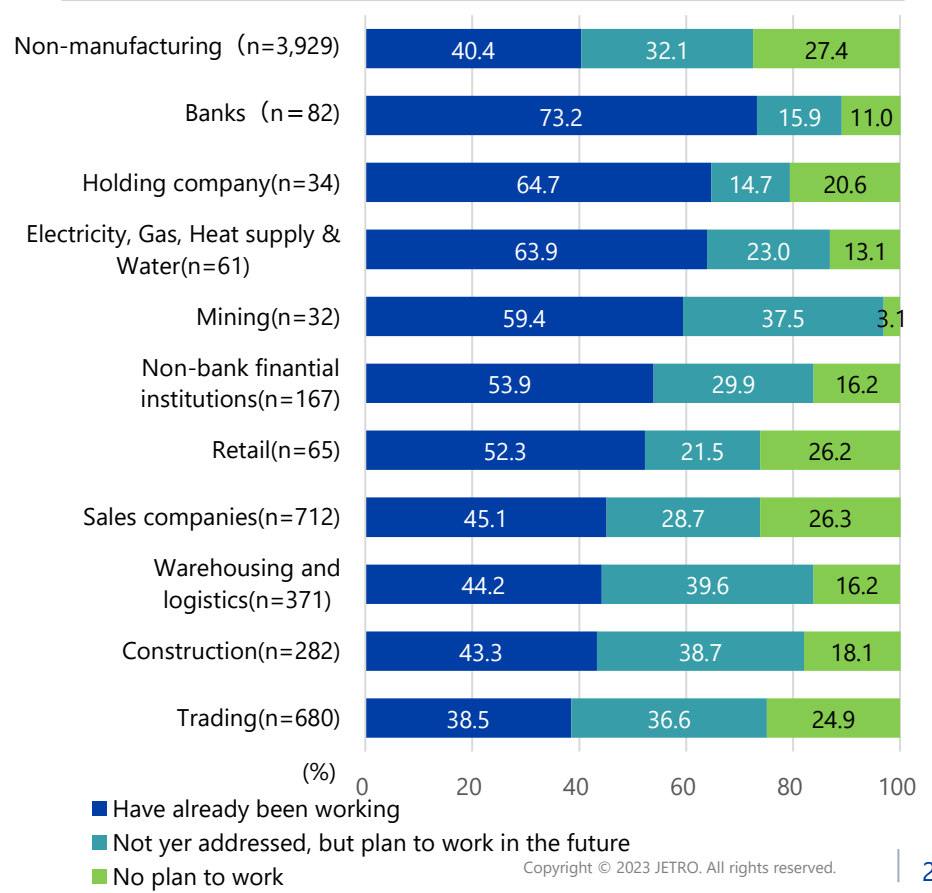
6 | Manufacturing industry exceeds 50% for the first time

- For the first time, the number of companies committed to decarbonization **exceeded 50% in the manufacturing sector**. As in the previous year, more progress was made in the manufacturing sector compared to the non-manufacturing sector.
- Among manufacturers, more than 75% of companies in the information and telecommunications equipment/office equipment and transportation equipment (automobiles, etc.) industries, where efforts have made the most progress, answered "already engaged," up 23.9 points and 7.1 points, respectively, from the previous year.

Action for decarbonization (Manufacturing, Top 10)



Action for decarbonization (Non-manufacturing, Top 10)

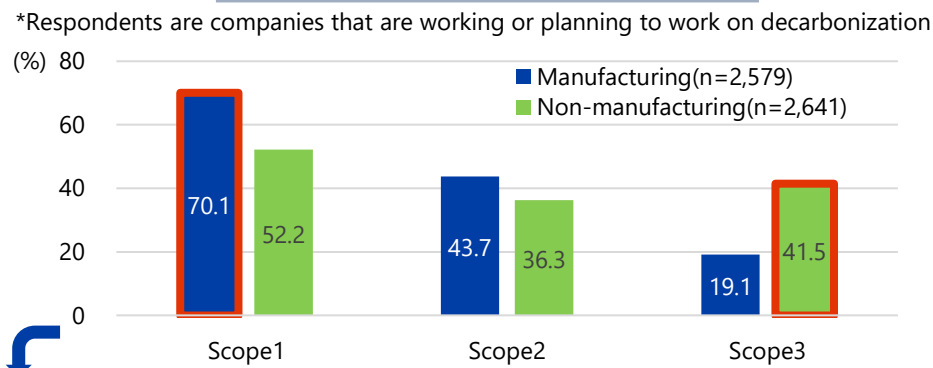


(Note: Only industries with n=30 or more.)

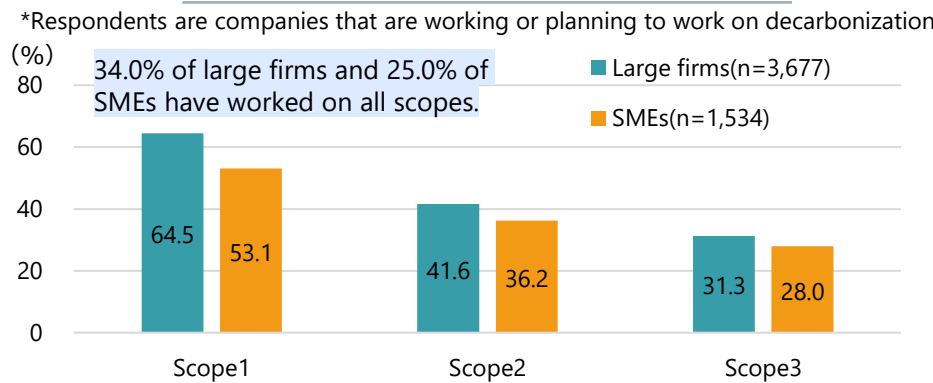
7 | Scope 3 initiatives differ between manufacturing and non-manufacturing industries

- About 70% of companies in the manufacturing industry cited "emissions from their own industrial processes, etc. (Scope 1)" as a target for GHG emission reductions. Meanwhile, a higher percentage of non-manufacturers than manufacturers cited "emissions other than their own (Scope 3)" as a target for GHG reduction.
- Large firms were 9 percentage points more likely to report that they are working on all reductions from Scope 1 to Scope 3.

Scope of decarbonization (by industry)



Scope of decarbonization (by company size)



By industry

Scope 1: Top 3	Transportation equipment (automobiles, etc.), (92) 83.7%	Chemicals and petroleum products, (221) 79.6%	Information and communication equipment/office equipment, (37) 78.4%
Scope 2: Top 3	Mining, (31) 58.1%	ICT equipment & office machines, (37) 54.1%	Nonferrous metals, (55) 50.9%
Scope 3: Top 3	Banks, (41) 62.1%	Consulting, (44) 56.8%	Trading companies, (470) 54.5%

(Note) (1)only industries with n=30 or more (2) Figures in parentheses represent the number of companies that responded validly.

What is Scope 1,2,and 3?

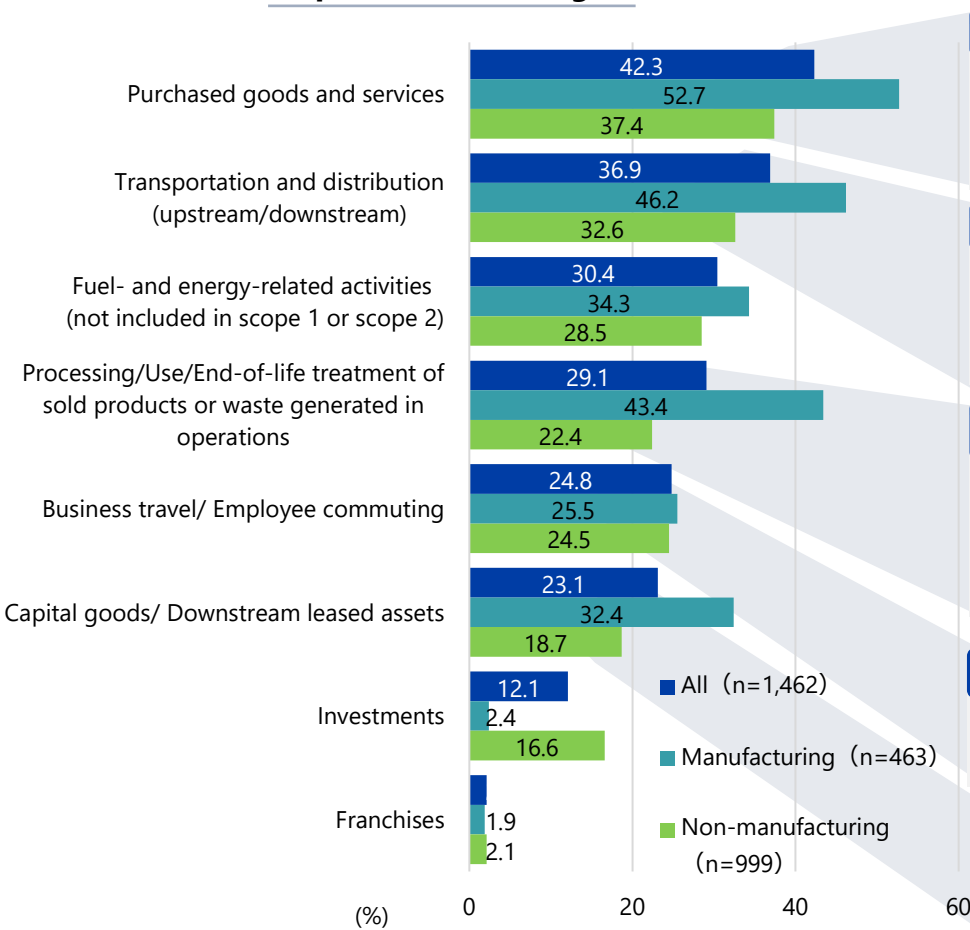
Supply Chain Flow	Upstream	One's own company		downstream
	Scope 3	Scope 1	Scope 2	Scope 3
	Categories outside Scope 1 and 2 Example <ul style="list-style-type: none"> ● Products and services purchased ● Capital goods ● Transportation and delivery ● Employee transfers 	Fuel combustion Industrial process	Use of electricity, heat, and steam	Categories outside Scope 1 and 2 Example <ul style="list-style-type: none"> ● Transportation and delivery ● Use of products sold ● Disposal of sold products

(Source: Ministry of the Environment and Ministry of Economy, Trade and Industry, "Green Value Chain Platform")

8 | Methods to reduce emissions other than those of one's own company

- **About half of the manufacturers that are working to reduce Scope 3 will decarbonize their entire supply chain, from product procurement and transportation to consumption and disposal.** The non-manufacturing sector is also involved in product purchasing, transportation and delivery, and investment.
- Even companies with no or low emissions of their own **can work toward decarbonization through Scope 3 reductions.**

Scope 3 initiative targets



Examples of Scope 3 Initiatives

- Purchased goods and services**
 - Switching suppliers
 - Expanding the ratio of sustainable raw materials
 - Switching to reusable packaging
- Transportation and distribution (upstream / downstream)**
 - Conversion from air and truck transportation to ship and rail transportation, etc.
 - Improved efficiency of transportation and shipping
 - Direct shipment of products imported via third countries
- Processing/Use/End-of-life treatment of sold products or waste generated in operations**
 - Recycling of sold products
 - Development of services that enable customers to decarbonize their businesses.
 - Use of returnable containers for product sales
 - Adding carbon footprint assessment service.
- Employee travel and employer commuting**
 - Sharing of cars when traveling/use of trains for business trips
 - Encouraging telework
- Capital goods and leased assets**
 - Converting all company vehicles to EVs at lease renewal
 - Reduction of leased office space

(Note) Companies that responded that they are working or plan to work on Scope 3 reduction.

9 | The challenge is to balance business activities with the need to respond to decarbonization

- Companies are facing more clear challenges against the backdrop of the international trend toward decarbonization. **Local regulations that inhibit the introduction of renewable energy (e.g., solar power)** are a bottleneck in some countries.
- While progress is being made in establishing rules related to information disclosure and reporting obligations, there are many voices pointing out the **difficulty in understanding and dealing with the calculation methods and measurement standards for emissions in** their own companies and in their supply chains.

Common challenges regardless of region or industry

Cost increase/cost-effectiveness

- Cost of installing equipment to accommodate decarbonization
- Costs of fuel for renewable energy and decarbonization (e.g., SAF)
- High cost of recycled materials and other raw material that contribute to decarbonization
- Cost increase due to compliance with carbon pricing system
- Difficult to ensure profitability, inconsistent with economic rationality

Lack of policies, subsidies and other support

- Broad policy framework exists, but specific roadmap and details are unclear
- Delays in administrative permits
- Lack of subsidies and incentives for decarbonization efforts

Lack of awareness of decarbonization, lack of infrastructure

- Lack of awareness of decarbonization among government, public, and local suppliers; difficulty in passing on prices
- Lack of infrastructure such as public transportation, renewable electricity supply
- Lack of local suppliers and supporting industries

Delayed development of systems and infrastructure related to EV

- Lack of EV charging facilities
- Lack of subsidies for EV purchases
- Zero Emission Compliance for Commercial Vehicles (California, USA)
- New EVs by 2035 (France)

Green Power Certificates, development of carbon pricing

- Insufficient supply of green power certificates and skyrocketing prices (China, Taiwan, Malaysia)
- Early development of emissions trading markets (Thailand, Brazil, Chile, UK, Taiwan, Indonesia, Philippines)
- No bilateral credits (JCM) have been introduced (Laos, India, Ghana, Kenya, South Africa)

Restrictions and regulations regarding solar power generation

Country	Contents
Indonesia	Regulations for the installation of solar power generation equipment, etc. (28 companies)
Vietnam	Solar panel installation permit regulations, time consuming (22 companies)
Mexico	Private solar power generation above a certain amount requires approval (17 companies)
Thailand	Unable to sell solar power (4 companies)
India	Regulation of capacity to sell solar power (3 companies)

Calculation of emissions(inclu. Scope 3), and information disclosure

Country /region	Contents
The US 7 companies	<ul style="list-style-type: none"> No international standards for calculating emissions Difficult to quantify emission Responding to climate change-related disclosure requirements
Europe 20 companies	<ul style="list-style-type: none"> Response to CBAM, speed gap within the EU Difficult to ascertain emissions from suppliers and transportation Scope 3 criteria unclear, no uniform standards Differences between Japanese and overseas clients in calculation methods and standards Compliance with European Sustainability Reporting Standards
Other regions	<ul style="list-style-type: none"> Response to Mandatory Climate-Related Information Disclosure (Australia) Response to Scope 3 Disclosure Request (Singapore)

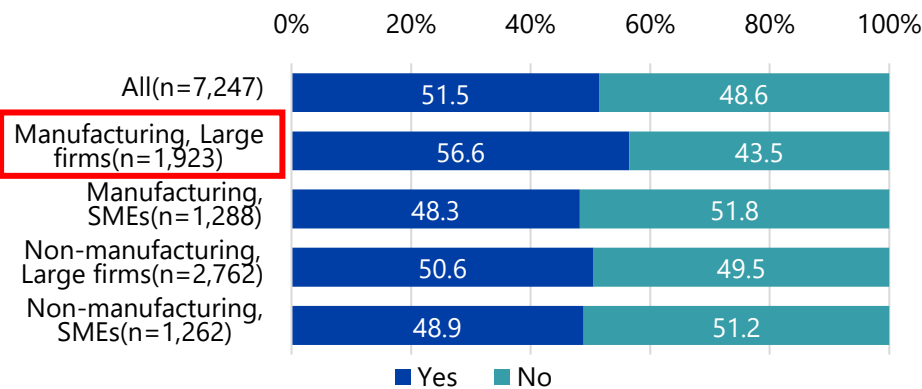
(Note) CBAM: Carbon Border Adjustment Measure in the EU

IV. Employment Environment and Wages

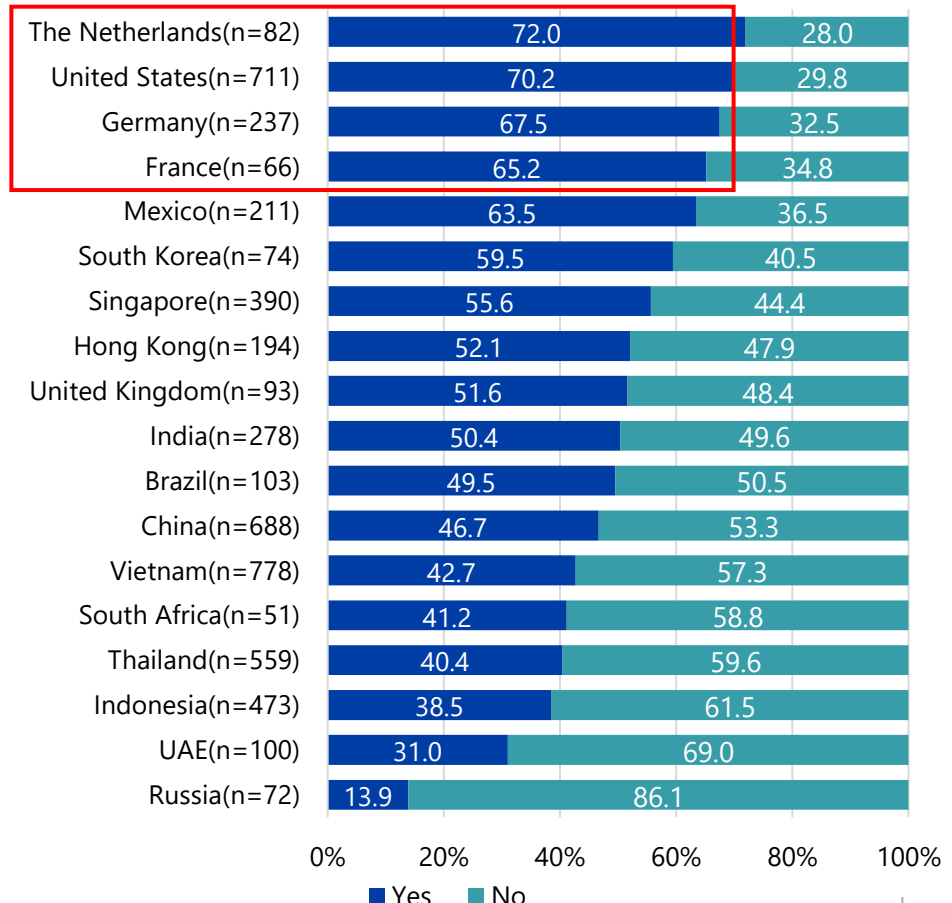
1 | Severe labor shortage in North America and Europe

- More than 50% of Japanese companies face the challenge of labor shortages. By region, over 60% of companies in North America and Europe face this problem.
- Companies in the Netherlands, US, Germany, and France are facing severe labor shortages.

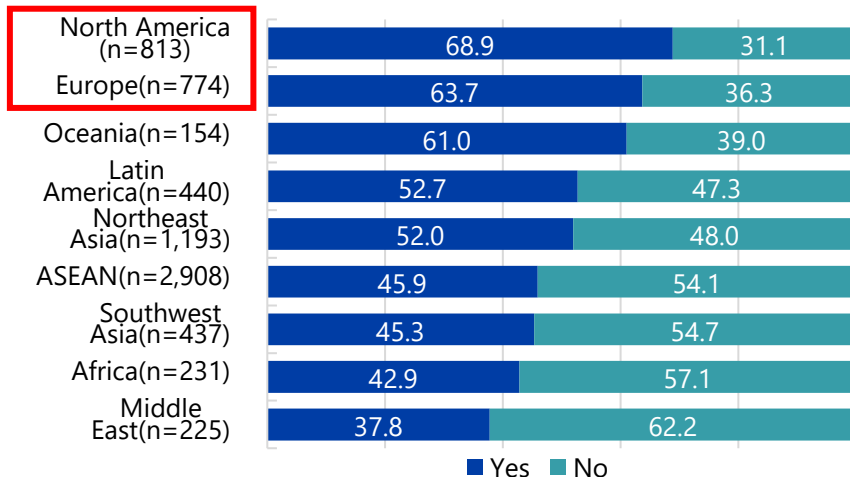
Are you facing labor shortage? (By company size)



Are you facing labor shortage? (by major countries & region)



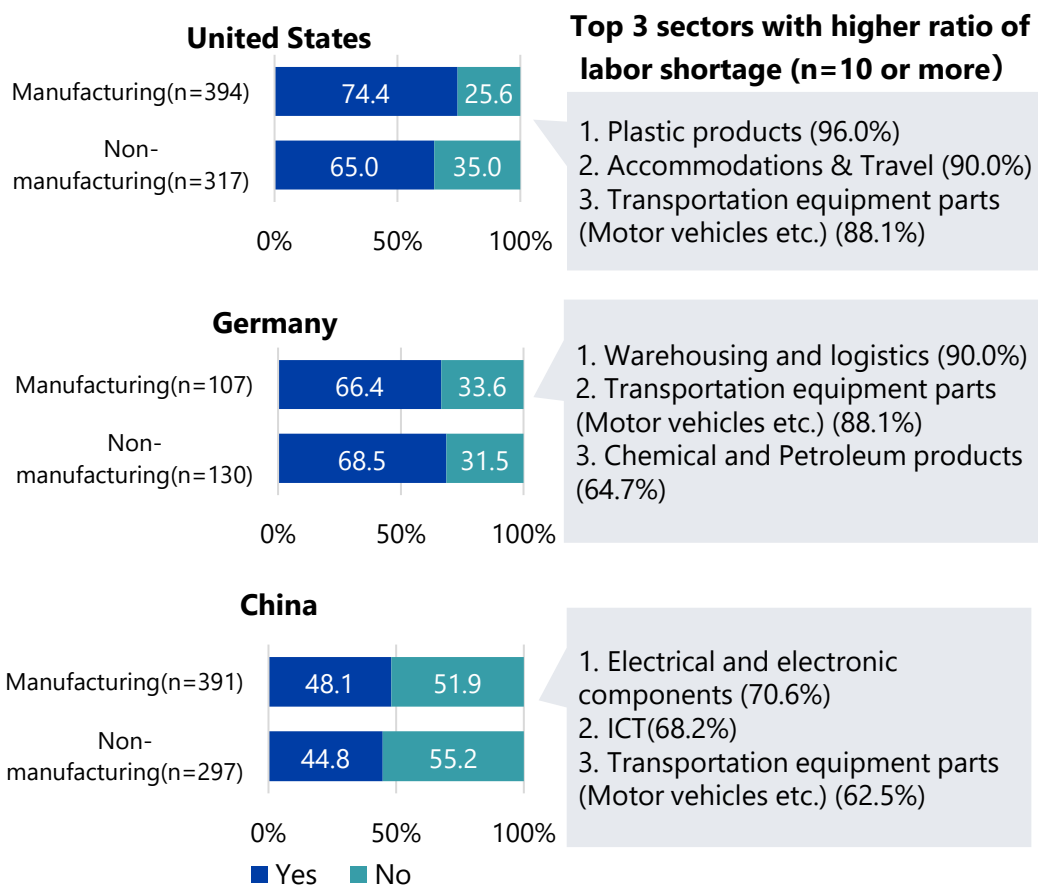
Are you facing labor shortage? (By region)



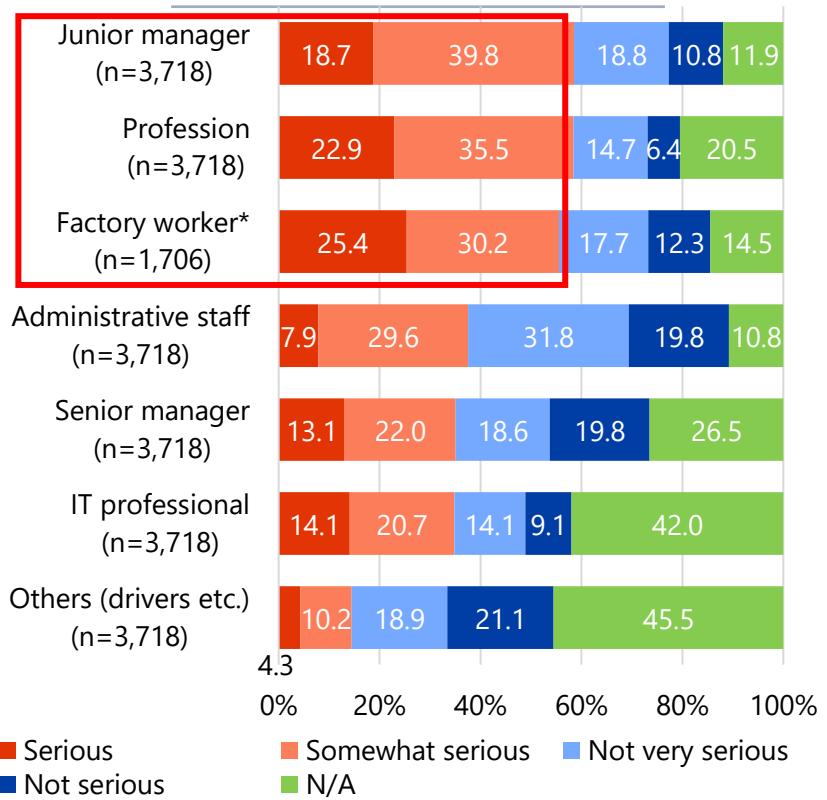
2 | Labor shortages are more severe in the manufacturing sector in the US

- Labor shortages are more serious in the manufacturing sector in the US. Around 90% of companies in the plastic products and transportation equipment parts industries are facing a severe labor shortage.
- This survey revealed that the job positions of management, professional and factory workers are experiencing a more severe shortage.

Are you facing labor shortage? (United States, Germany, China)



Severity of labor shortages (by job position)



(Note) 1. Only companies that responded, "Facing labor shortage" included.
 2. N/A indicates that the company does not employ any workers in the position.
 3. "Factory worker" is an option only for companies in the manufacturing sector.

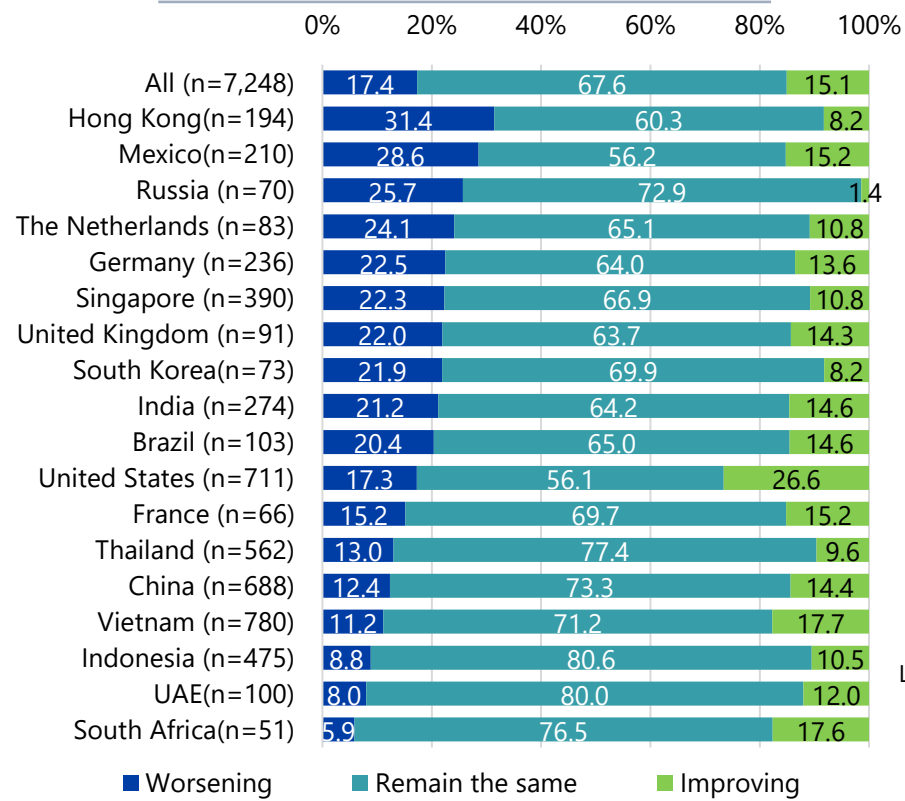
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3 | Worsening employment situation in major countries and regions

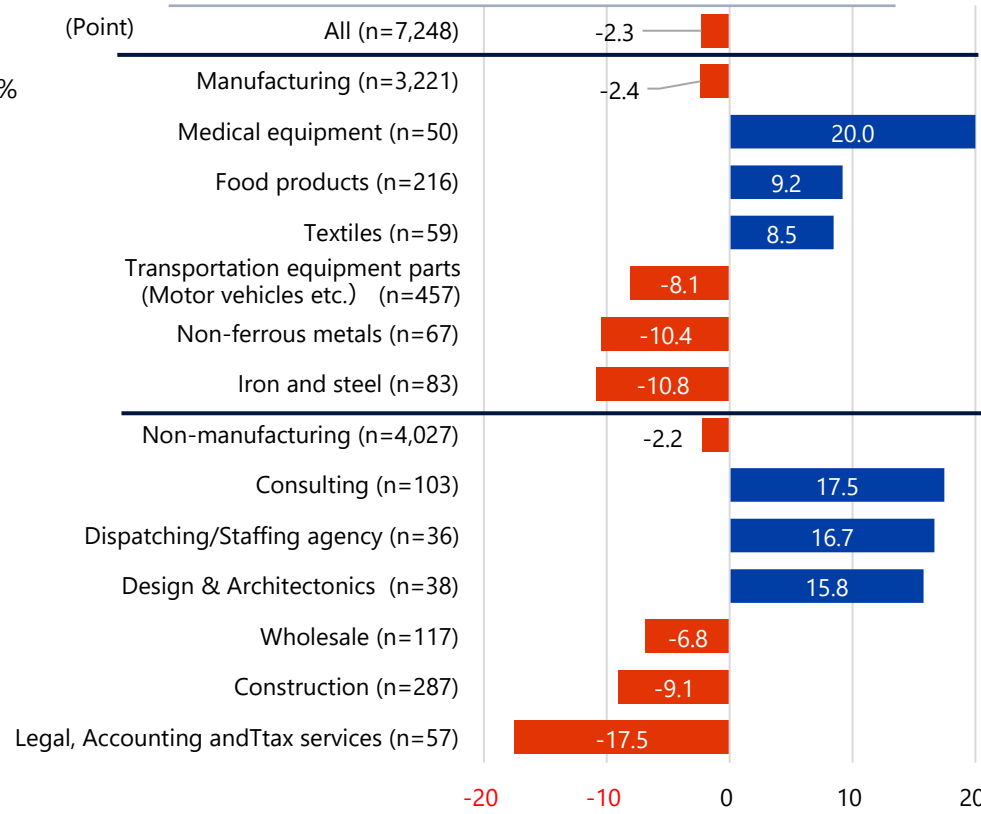
- A high percentage in Mexico, Russia, Singapore and the UK indicated a “worsening employment situation” compared to the same period of the previous year.
- The DI (see note) improved in medical equipment and consulting. Meanwhile, “worsening” exceeded “improving” in iron and steel, and legal, accounting and tax services.

(Note) Abbreviation of “diffusion index”. In this survey, year-on-year changes are calculated by subtracting the percentage of enterprises answering “worsening” from the percentage of enterprises answering “improving.”

Changes in the employment situation (by major countries and regions)



DI of change in the employment situation (by industry)



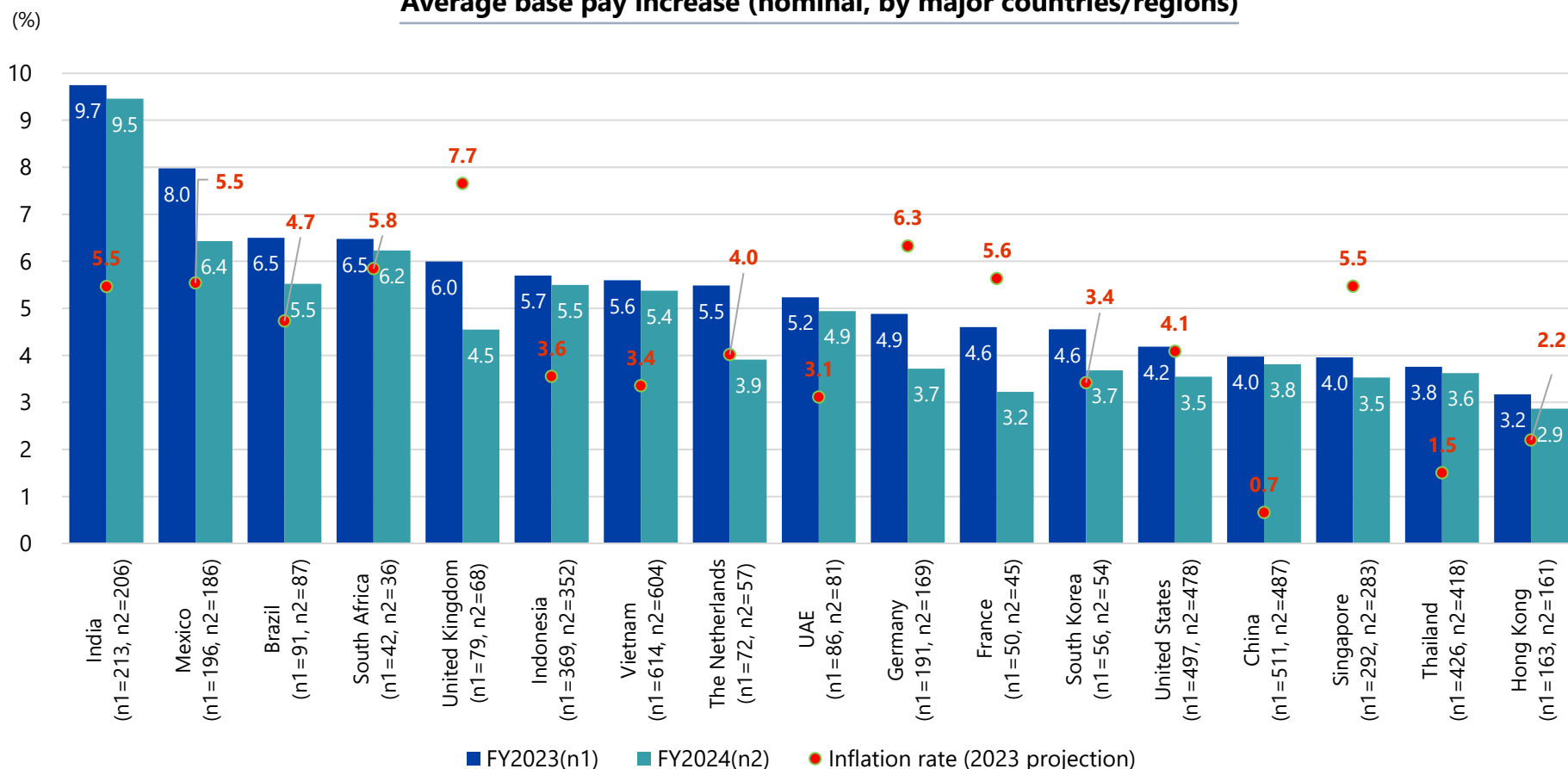
Note: (1) Compared to the same period the previous year (August-September 2022), (2) The right graph shows only industries in which n=50 or more.

(Note) The top and bottom three DI values for change in human resources and employment status for manufacturing and non-manufacturing from industries in which n=30 or more. Copyright © 2023 JETRO. All rights reserved.

4 | Base pay increase exceeds inflation in India and Mexico

- The base pay increase rate (nominal, average) for FY2023 is as high as 9.8% in India and 8.0% in Mexico, and will exceed 6% in Brazil and South Africa.
- In the UK, Germany, France and Singapore, the base pay increase rate is lower than the inflation rate.

Average base pay increase (nominal, by major countries/regions)



(Note: Inflation rates are as of October 2023. Source: IMF [World Economic Outlook, October 2023].

5 | Efforts in recruitment and employee retention

- Efforts to recruit and retain workers include **flexible work arrangements (e.g., telework), regular salary increases linked to the inflation rate, and transparency in the evaluation system.**
- In North America and Latin America, examples were given of introducing incentive for referrals at the time of hiring, as well as of maintaining and improving the motivation of local personnel through the provision of welfare programs, such as cafeterias in emerging countries.

Effective initiatives in recruitment and employee retention (by major region)

Europe

- (Recruitment) Priority in current employees by encouraging them to apply by **posting job ads internally two weeks before posting them externally.** (The Netherlands/bank)
- (Employee retention) Introduction of telecommuting 4 to 5 days a week. **Applicants are always asked whether or not telecommuting has been introduced.** (Germany/education and research institute)

Middle East and Africa

- (Recruitment) **Recruitment and rotation of personnel from the parent company's Indian subsidiary** (UAE/sales company)
- (Retention) Stable salary payment, with **annual salary increases based on CPI** to give employees motivation and sense of satisfaction (South Africa/others)

China and North Asia

- (Recruitment) Priority interviewing given to those recommended by internal personnel (China/sales company)
- (Employee retention) **Enhance the welfare system to the same level as that of the parent company** (daily allowance for business trips, lending of cell phones to employees above a certain level, etc.) (China/manufacturing)
- Increased employee loyalty and productivity through continued **hybrid telework** (Korea/transportation and warehousing)

Asia and Oceania

- (Recruitment) **Hiring technical intern trainees as managers at local bases when they return to their home countries** (Cambodia/manufacturing).
- The number of fresh graduate applicants increased due to partnerships with excellent universities, etc. The competitive ratio for our job offers increased 400 times (Indonesia/retail)
- (Employee retention) Improved retention of factory workers by **offering vegan meals in the cafeteria** (Bangladesh/manufacturing industry)

North America

- (Recruitment) **Introduction of a reward system for employee referrals** (U.S./transportation equipment parts)
- (Employee retention) 20% increase in productivity by establishing **pay raises based on fair hourly wage setting and cost-of-living adjustments (COLA) with surrounding U.S. firms** (U.S./fabricated metal products).
- (Employee retention) **Giving office workers the option to telecommute instead of requiring them to come to work has reduced turnover** (Canada/transportation equipment parts)

Latin America

- (Recruitment) Increased number of applicants **due to up-front payment for hiring workers and incentive payments for job placement** (Mexico/transportation equipment parts)
- A **systematic management system** was introduced with a personnel evaluation system, and the turnover rate decreased and became stable (Mexico/manufacturing)

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