



FY2022

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

Trend among 7,173 Japanese companies operating in 86 countries & regions worldwide

— Burdened by high prices and Zero-COVID policy.

Supply disruption accelerates local procurement, production and sales. —

Japan External Trade Organization (JETRO)

Overseas Research Department

November 24, 2022

A photograph of a port or logistics yard with several white trucks parked in front of large stacks of shipping containers. The image is partially obscured by a blue geometric overlay.

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Outline 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 19,143 Japanese companies in 86 countries and regions overseas selected using JETRO's overseas office network (local subsidiaries with a Japanese equity stake of 10% or more and branches and representative offices of Japanese companies). Effective responses were obtained from 7173 companies. The effective response rate was 37.5%.

Characteristics of this year: The latest trends are reported on the outlook for performance in each country and region and the status of responses to new issues amid the increasingly complex environment surrounding international business, such as Russia's invasion of Ukraine and China's zero corona policy.

Contents of this report: This report presents the results of following common questions worldwide, prior to the survey results by major region.; I. Operating Profit Forecast, II. Future Business Development Plan, III. Human Resource Management/Wage, IV. Human Rights Policy in Supply Chain, and V. Decarbonization Initiatives

Overview of the surveys in each region

Regional segmentation	Number of Target Businesses (companies)	Total Respondents (companies)	Response rate	Survey period	Target countries and regions
North America	2025	925	45.7%	September 7-30	2 countries
Latin America	730	482	66.0%	August 24-September 28	7 countries
Europe	1445	857	59.3%	1-26 September	22 countries
Russia	106	62	58.5%	14-30 September	1 country
Asia and Oceania (Note)	14,290	4392	30.7%	August 22-September 21	20 countries & regions
Middle East	245	224	91.4%	8-30 September	10 countries
Africa	302	231	76.5%	From September 8 to 30	24 countries
Total for all regions	19,143	7173	37.5%		86 countries & regions

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

Key Findings

1. Zero-COVID policy worsens business performance and hinders business expansion

- ❖ 65% of the approximately 7,000 Japanese companies operating overseas are expected to achieve profitability in 2022, but losses in the automotive parts industry and other industries will increase. Due to the Zero-COVID policy, more than 40% of companies in China suffered deterioration in business performance. Exceed the rate of improvement.
- ❖ 45% of enterprises expand their business locally in the next 1-2 years. Not returning to the level before the COVID-19 pandemic. Cost increases are a drag. On the other hand, the reluctance to invest recovered in the fields of human resources and food and beverage services due to the lifting of operational restrictions and behavioral restrictions.

2. Accelerate supply chain review and localization of management. Emerging trend of expatriate staff reduction in Asia.

- ❖ 60% of manufacturers and a majority of total will work to review their supply chains in the future. The strategy of localization of procurement, production, and sales is accelerating due to soaring raw material and transportation costs and the emergence of supply disruption risks.
- ❖ Over the next one to two years, the number of expatriates will be reduced compared to the level before the new corona crisis, while the number of local employees will increase. The evacuation and temporary return of expatriates in the event of the COVID-19 pandemic, as well as the establishment of remote operations, have also accelerated localization.

3. More than double the number of enterprises engaging in green procurement from the previous year. The delays in the initiative lead to opportunity losses in the market.

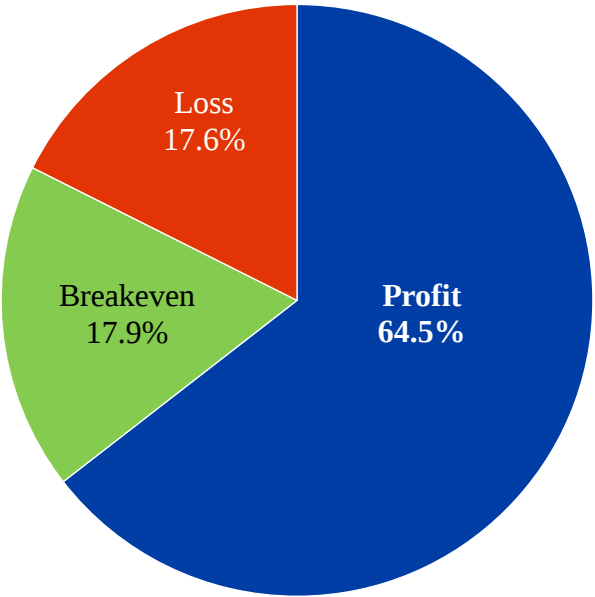
- ❖ 30% of companies implement human rights due diligence (HRDD). In Europe, where legislation is progressing, requests from business partners support HRDD implementation. At SMEs, however, the issue is "understanding of human rights."
- ❖ More than 40% of enterprises have "already engaged in efforts" with regard to decarbonization (reduction of greenhouse gas emissions), an increase of nearly 10% over the previous year. More than twice the number of enterprises engaging in green procurement (requiring suppliers to de-carbon). There is also a risk that unmet transactions opportunities will be limited as awareness of reduction spreads rapidly throughout the supply chain.

1 Profit forecast in 2022 is the same level as in 2019, before the COVID-19 pandemic

- 64.5% of respondents expect to be profitable in 2022, while 17.6% expect to be unprofitable. The share of companies earning “profit” increased by 1.9 points from the previous year (62.6%), being on par with the level in 2019 (65.0%) before the pandemic.
- The ratio of “loss” is high for “Hotels and Travel” (60.5%) because of the continued COVID-19 effects. Its ratio in face-to-face service industries such as “retail” and “eating and drinking” remain high. Among manufacturing industries, the share of loss in “Transportation equipment parts” is the largest.

Projected operating profit in 2022

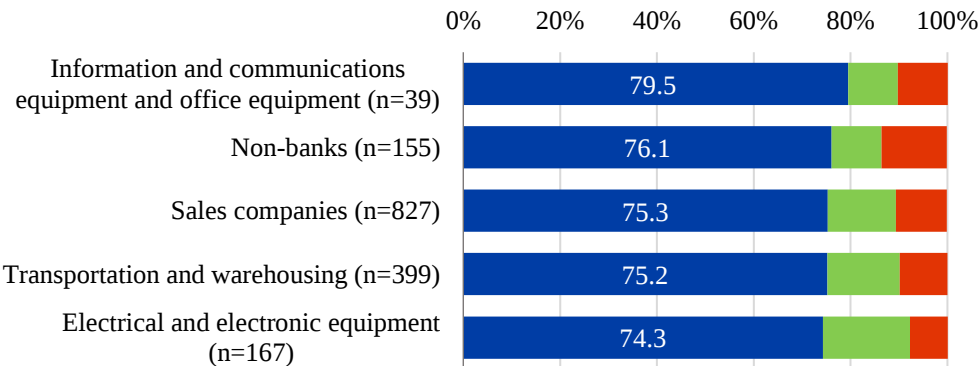
n=6,879



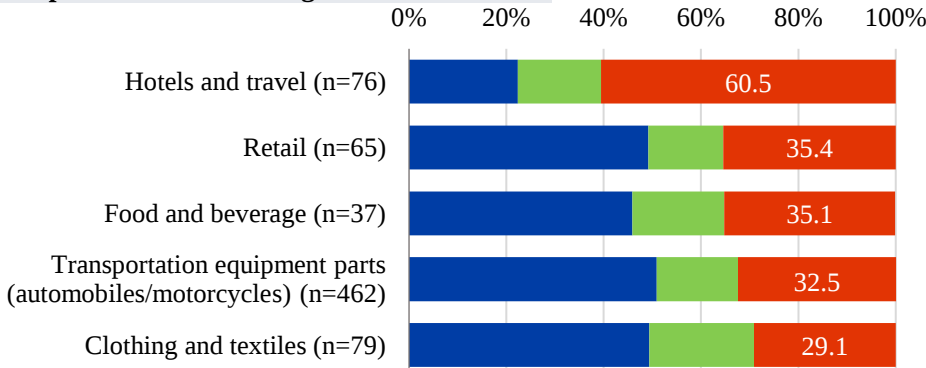
Expectations by major industry

(Top 5 industries with surplus/deficit ratios)

Top 5 industries with high ratios of profit



Top 5 industries with high ratio of loss

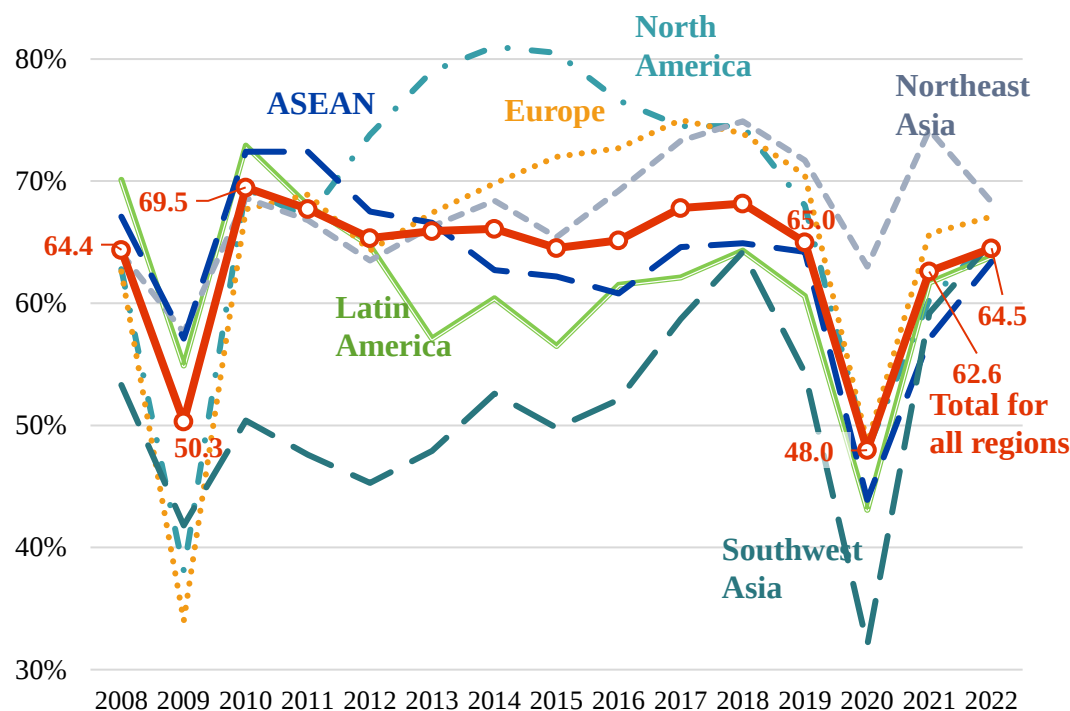


(NOTE) Only industries with n>=30 are listed.

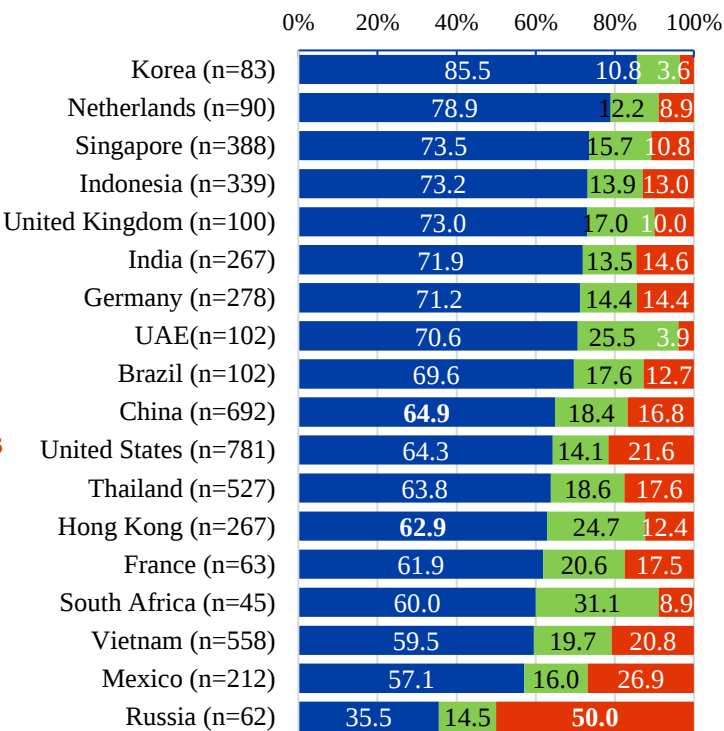
2 | Proportion of profitable enterprises, increase in all regions except Northeast Asia

- The proportion of profitable enterprises increased from the previous survey every regions except for Northeast Asia. In Northeast Asia, “profit” fell 7.3 percentage points to 64.9% in China, which account for the most in its region. Economic activity restrictions associated with the zero-corona policy affected.
- Hong Kong also fell 8.4 percentage points to 62.9%, the second lowest level since 2008 after 52.4% in 2020. Russia, under economic sanctions due to its invasion of Ukraine in February, has recorded a “loss” of 50%.

Trends in proportion of profitable enterprises (by major region)



Operating Profit Forecast for Major Countries and Regions in 2022



Notes: 1. The ratio of surplus, deficit, and equilibrium in the operating profit outlook are by major region. The figures from 2008 onward, which can be obtained in parallel, are used for comparison.
2. In addition to the regions listed above, total for all regions includes Russia (2013, 2015-22), Oceania (2008-2022), the Middle East (2015-2022) and Africa (2013-2022).

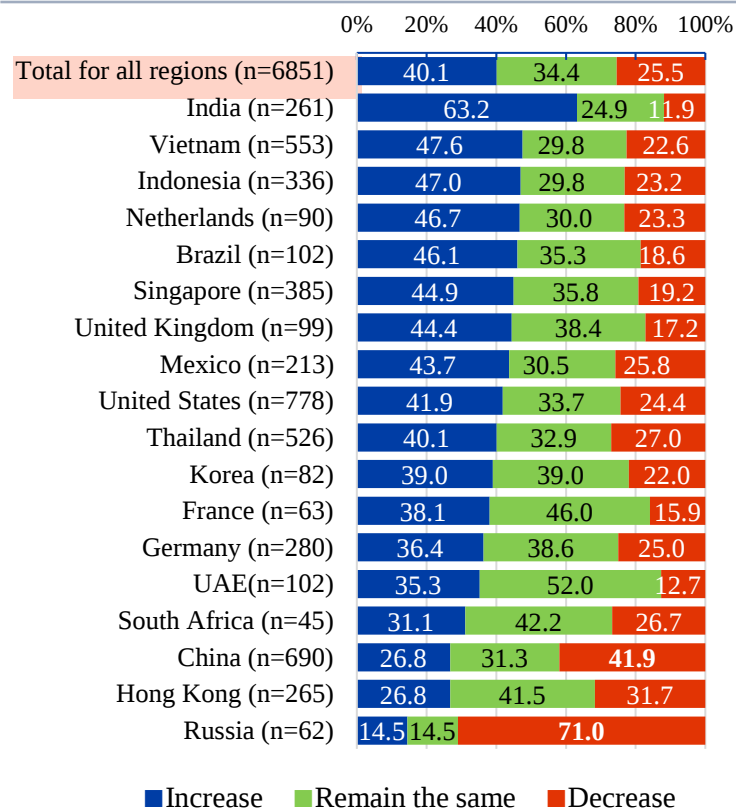
(NOTE) Hong Kong includes two companies in Macau

3 | In China, the percentage of “decrease” in profit from the previous year exceeds “increase”.

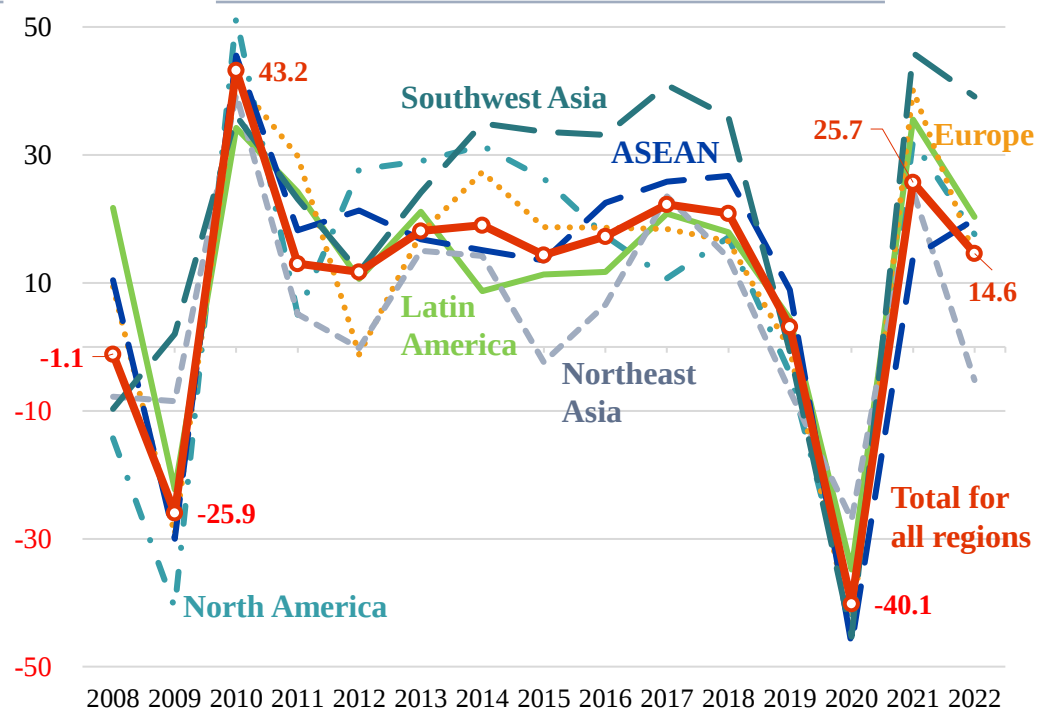
- 40.1% of enterprises expects “increase” in their operating profit in 2022, compared to 2021, down 6.0 percentage points from the previous year. “Decrease” was 25.5%, up 5.1 points. “Decrease” was over 70% in Russia and over 40% in China.
- DI figures indicating business confidence (Note) are a negative 5.2 points in Northeast Asia as the lowest among the major regions. Europe, which was also affected by soaring energy prices, marked 14.6 points, lower than the average of 14.6 points in all regions.

(NOTE) Abbreviation of Diffusion Index. In this survey, year-on-year changes are calculated by subtracting the percentage of enterprises that “decreased” from the percentage of enterprises that “increased.”

Operating Profit Forecast in 2022 (Compared to 2021)



Trends in DI by Major Region (2008-2022)



(NOTE) In addition to the regions listed above, total for all regions includes Russia (2013, 2015-22), Oceania (2008-2022), the Middle East (2015-2022) and Africa (2013-2022).

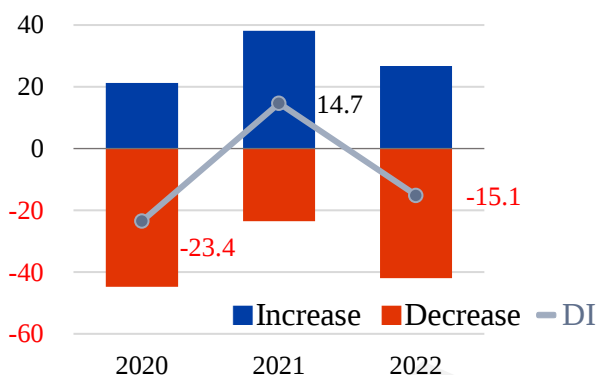
4 | DI was negative in China, down 30 points from 2021

- The DI in China dropped by 29.8 points from 2021, the largest decline among the 5 major countries. The DI in India is over 50 points, second highest level since the previous year. The DI in Viet Nam rose to 30 points.
- In Germany, DI increased by 87.1 points in 2021, but decreased by 29.5 points in 2022. The DI in the US also decreased. It is mainly due to cost burdens such as "higher logistics costs" and "higher raw material and parts procurement costs."

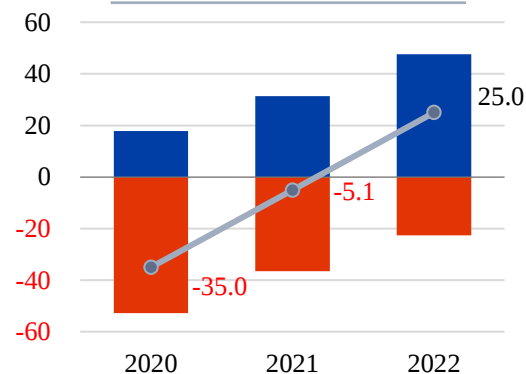
Trends in DI in the 5 Major Countries (2020-2022)

(NOTE) 1. Units are points.
2. "Deterioration" is expressed as negative.

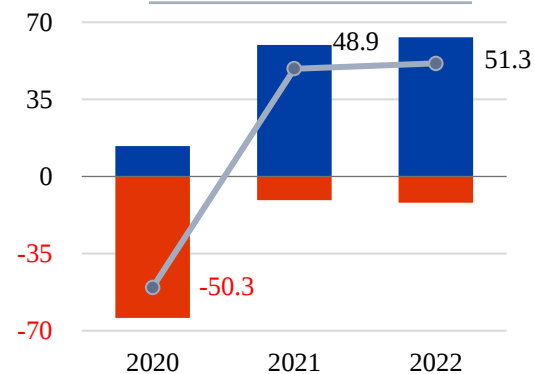
China [Improvement → Deterioration]



Vietnam [deterioration → improvement]



India [Improvement → Improvement]



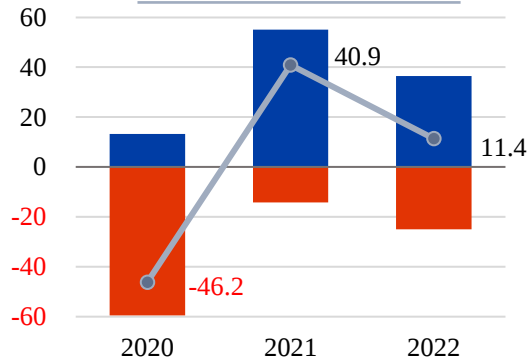
Industries with a particularly high proportion of profit "decrease" in China

1. Transportation equipment and parts : 47 companies (60.3%)
2. General machinery : 14 companies (56.0%)

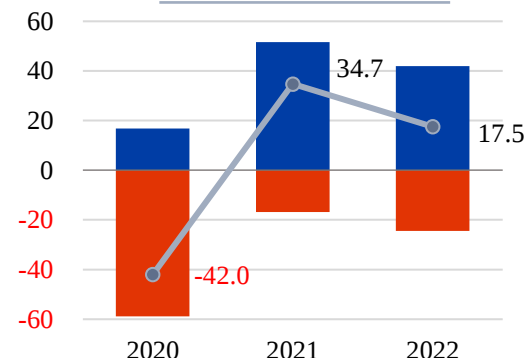
Worsening factor in China (top order) (n=288)

1. Impact of Behavioral Restrictions Caused by the COVID-19 pandemic 55.6%
2. Rebound decrease attributable to COVID 46.5%
3. Increase in material and parts procurement costs 45.8%

Germany [Improvement → Improvement]



U.S. [Improvement → Improvement]

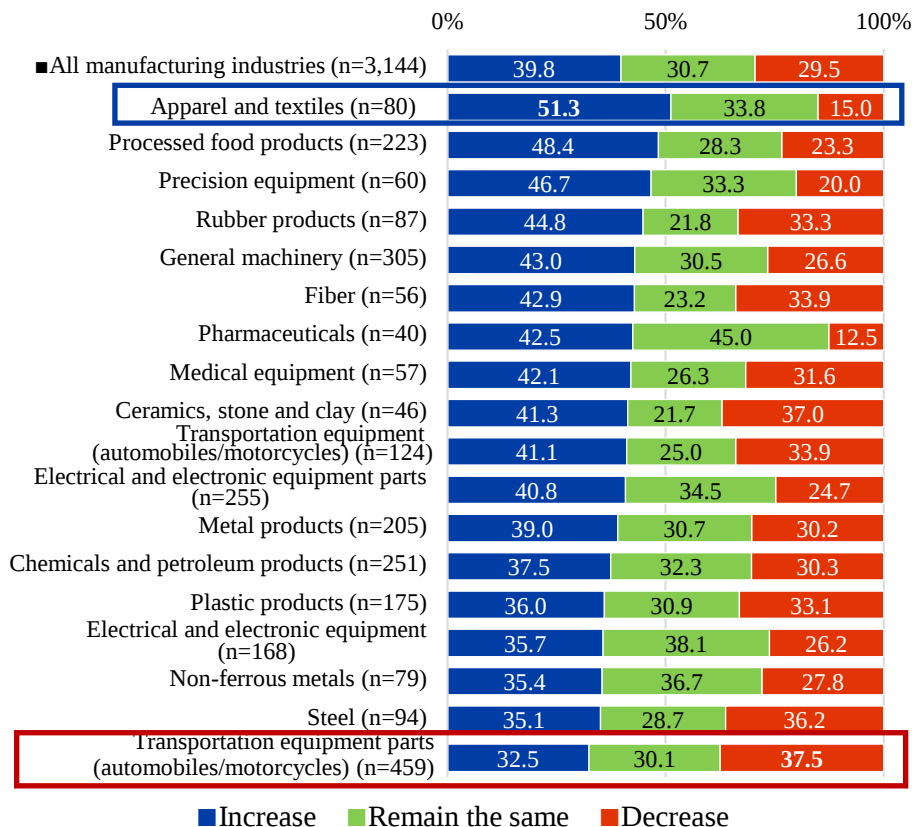


(NOTE) n is the number of Japanese enterprises in China that answered "decreased."

5 | Apparel, hotels, and travels are getting better with the progress in easing COVID-19-related restrictions

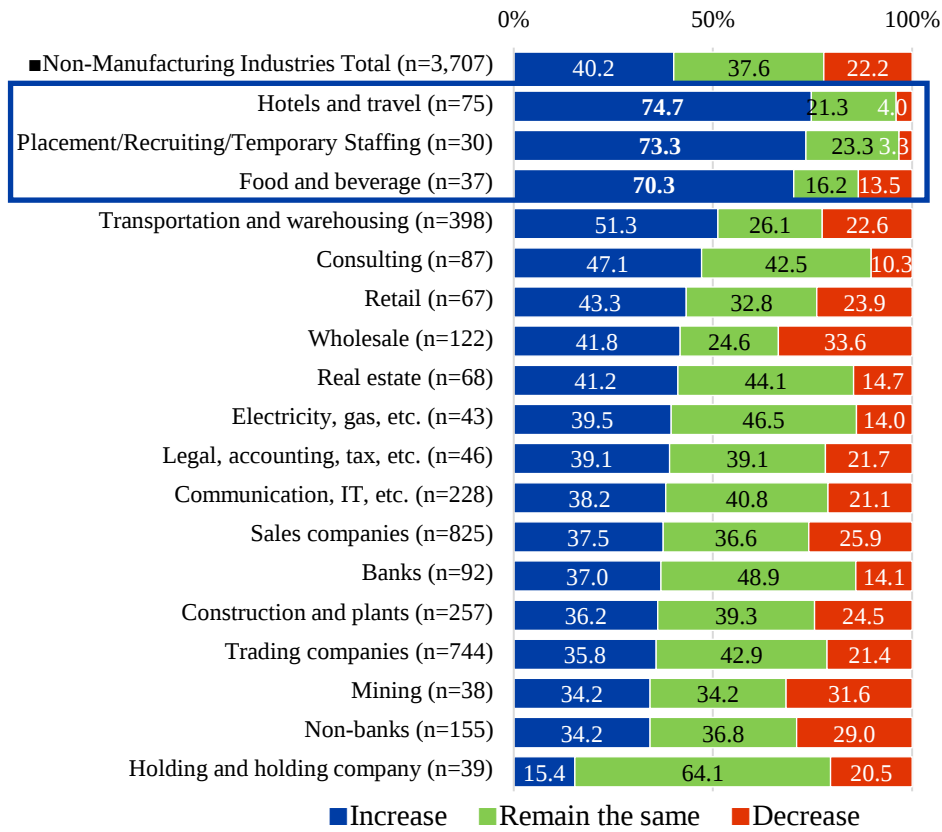
- Profit "increase" in apparel and textile products exceeded 50% due to increased demand associated with more opportunities to go out. On the other hand, "decrease" is nearly 40% in parts for transportation equipment. Rising raw material and parts procurement costs and constraints on the supply of automotive semiconductors had an impact.
- In non-manufacturing, approximately 70% of enterprises responded "increase" in "hotels and travel," "food and beverage" due to the impact of the lifting of restrictions attributable to the COVID-19, and "Placement/Recruiting and temporary staffing" because of the improvement in the labor market led by the economic recovery.

**Operating Profit Forecast for 2022
(Manufacturing Industry, Compared to 2021)**



(NOTE) Only industries with n=40 or more are listed.

**Operating Profit Forecast for 2022
(Non-Manufacturing Industry, Compared to 2021)**

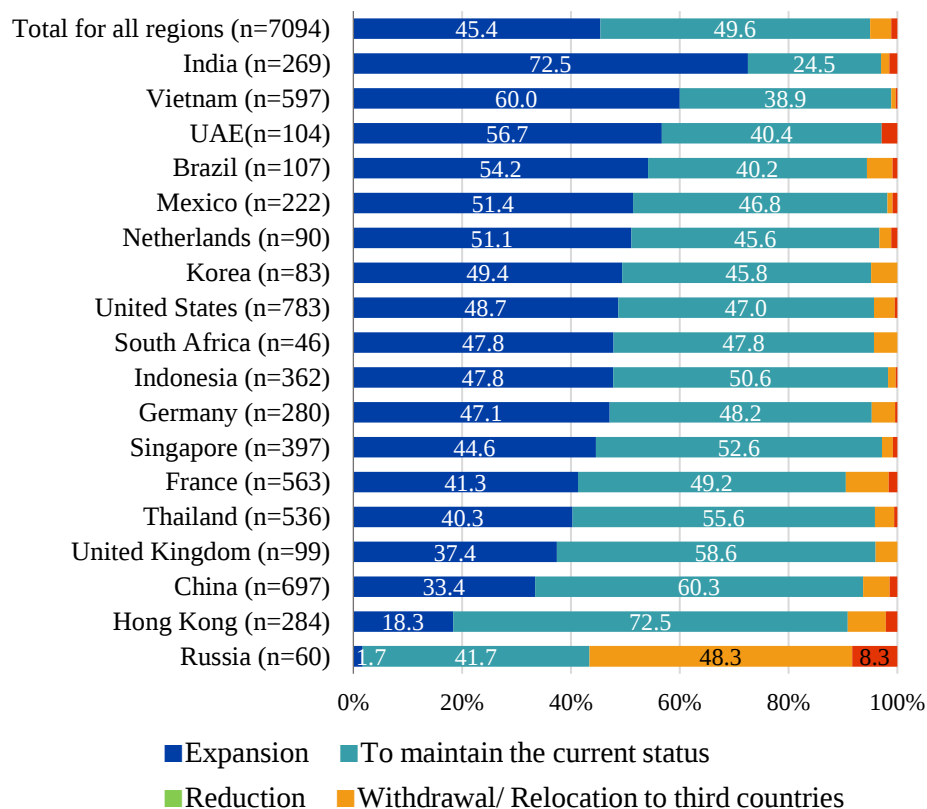


(NOTE) Only industries with n=30 or more are listed.

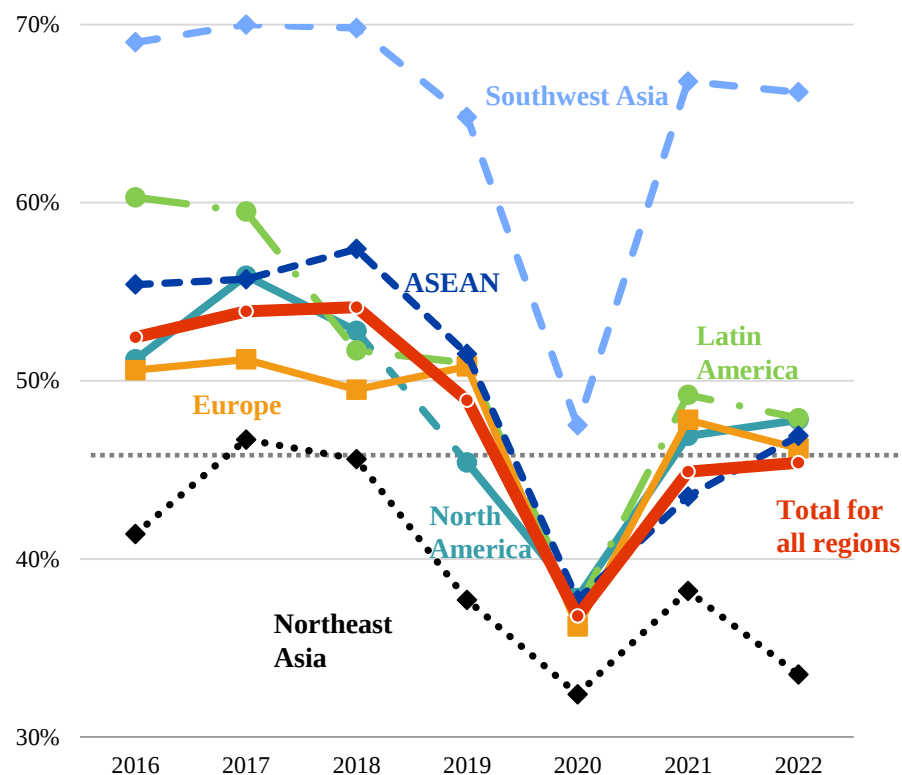
1 | Willingness to expand business, unable to reach before the COVID-19 crisis

- In the next one to two years, 45.4% of enterprises responded that they will “expand” their local business. Remained almost unchanged from the previous year and did not reach the level of 2019 (48.9%) before the outbreak of the COVID-19.
- Ratio of expansion is over 70% in India and 60% in Vietnam. On the other hand, Russia’s “reduction” and “withdrawal or relocation to third countries” together account for nearly 60%. In China, too, a decline in the percentage of expansion from the previous year (40.9% ⇒ 33.4%) is noticeable.

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



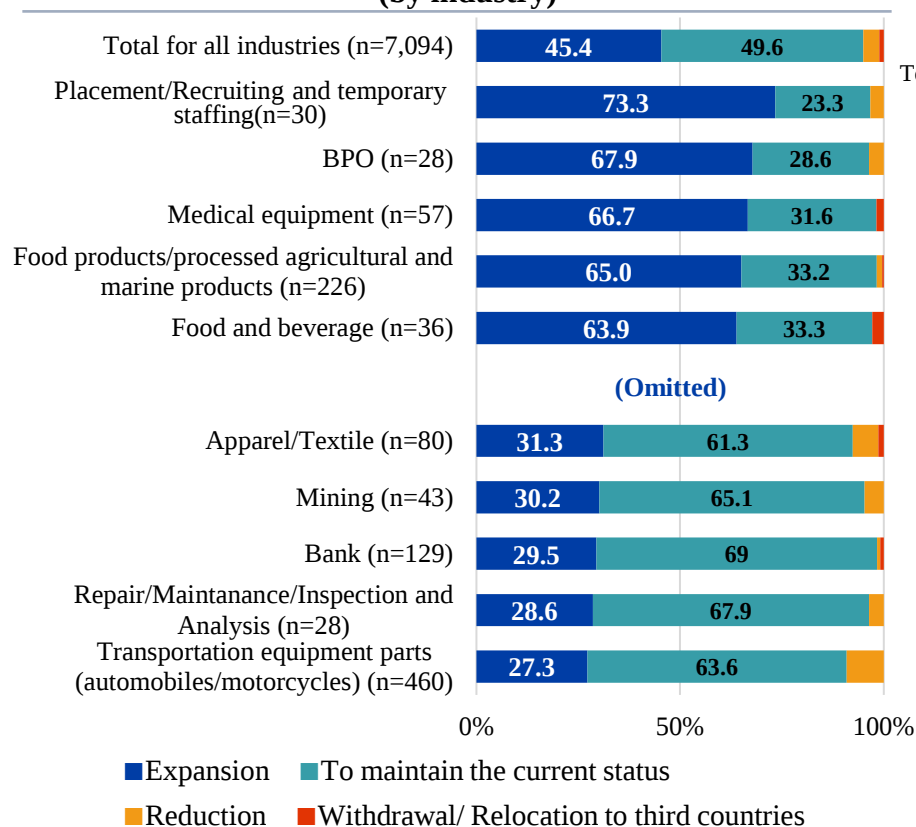
Trends in the Percentage of "Expansion" by Major Region



2 | High appetite for business expansion in industries such as placement and recruitment

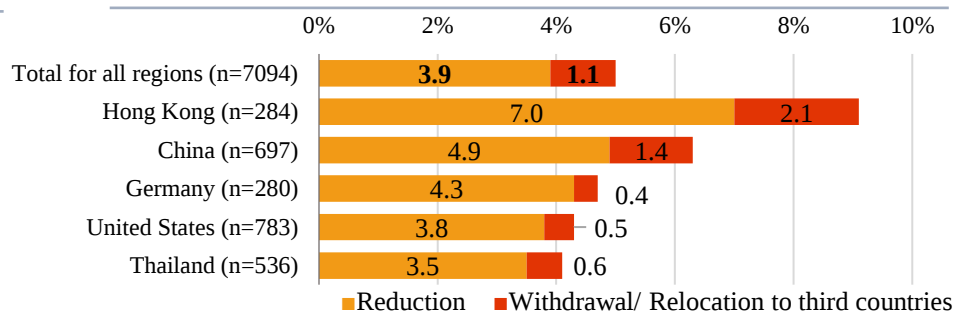
- As in the previous year, high appetite for medical equipment and food/processed agricultural and fishery products. In non-manufacturing industries, replacement/recruitment and food & beverage ranked high. Strong demand for human resources due to the lifting of operating regulations and behavioral restrictions, and a recovery in restaurant demand supported the growth.
- Less than 10% of Hong Kong and China expect to shrink, relocate or withdraw. "Increase in costs" is the largest factor behind the decline in business in the U.S., China, and Hong Kong. In Thailand and Germany, "low growth potential" is the largest.

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



(NOTE) Includes industries with n=20 or more.

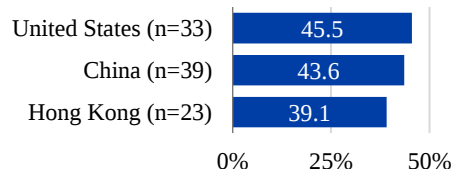
Proportion of Reduction, withdrawal or Relocation



(NOTE) More than 200 valid respondents contracted, with more than 4% relocating and withdrawing from countries and regions

Main reasons for reduction, relocation, and withdrawal

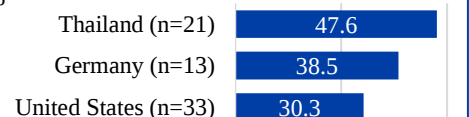
Increased costs



The pace of increase in personnel and fixed costs in China is too fast.
(China/Electrical and Electronic Equipment)

Automation in Japan is proceeding. Price competition has intensified, and it has become difficult to increase and secure production quantities.
(Thailand/Electrical and Electronic Equipment)

Low growth potential

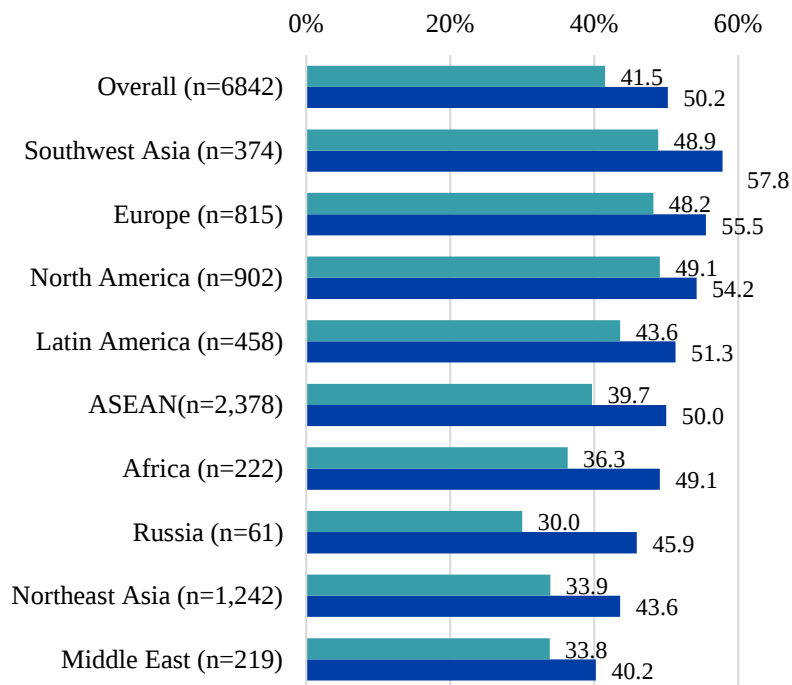


Considering downsizing businesses with low growth potential in the current situation and allocating resources to its core businesses. (Germany/Sales)

3 | 60% of manufacturers will revise their supply chains in the future

- 41.5% of enterprises revised their supply chains (SC: manufacturing, sales, and procurement) until the time of the survey in the second half of 2022 after the outbreak of the COVID-19, and 50.2% of enterprises intend to revise their SC in the future.
- In the manufacturing industry, about 60% of enterprises will revise their SC in the future. Raising selling prices in response to rising manufacturing costs and rising transportation costs, as well as reviewing suppliers in anticipation of supply constraints and disruption risks, are urgent issues.

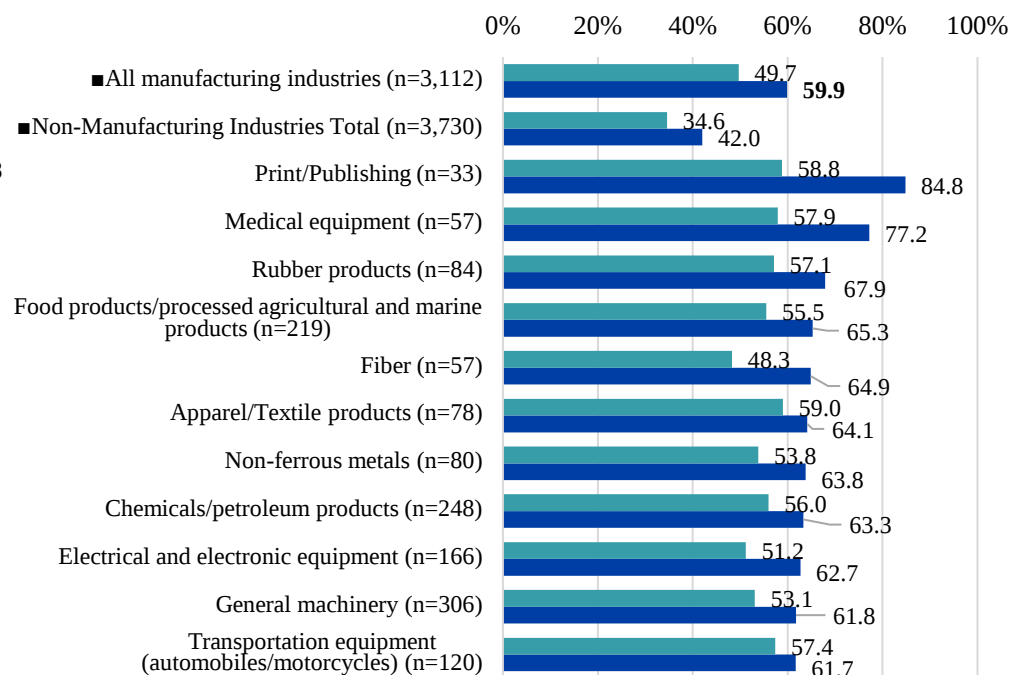
Revise of the supply chain (by region)



■ SC has been revised to date, after COVID-19 outbreak

■ Revising SC in the future

Revise of the supply chain (by industry)



■ SC has been revised to date, after COVID-19 outbreak

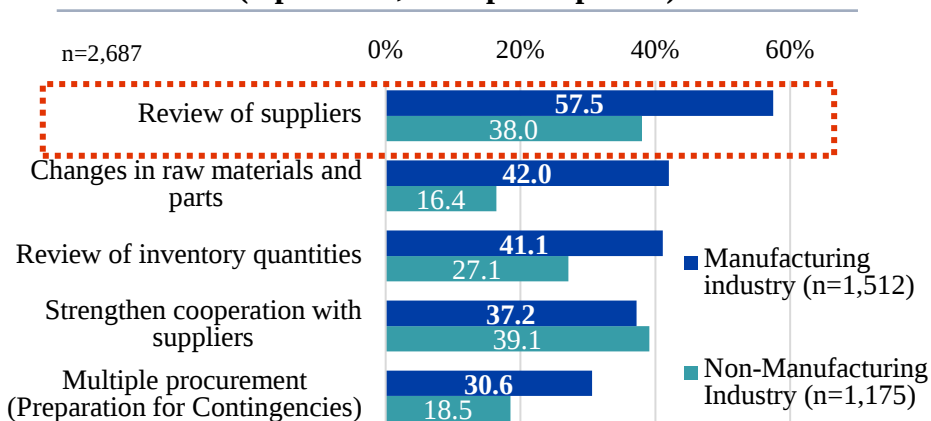
■ Revising SC in the future

(NOTE) 1. For both the left and right charts, n indicates the number of enterprises that answered "will revise SC in the future." It differs from the number of respondents who have "reviewed SC to date since the new corona crisis." 2. The right graph shows only industries with n=20 or more. In addition to manufacturing and non-manufacturing, only the top 11 industries are listed.

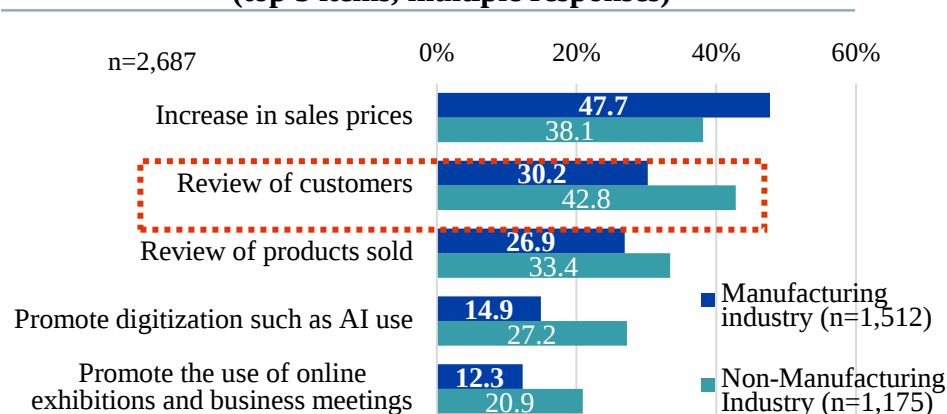
4 Acceleration of localization of procurement and sales in response to supply disruptions

- 57.5% of manufacturers are reviewing suppliers, and over 40% plan reviews of raw materials/parts, and inventories. In terms of specific details of the review of suppliers, the promotion of localized procurement is conspicuous.
- In the review of sales, "increase in sales price" is the highest, reflecting the rise in energy prices and raw material costs, as well as the rise in transportation costs. In the review of customers, strengthening sales to local markets is the main focus of the strategy.

**Details of future revisions to procurement
(top 5 items, multiple responses)**



**Details of future sales revisions
(top 5 items, multiple responses)**



Major Patterns of Reviewing Suppliers (Top)

Manufacturing industry (n=568)		
1. Japan ⇒ (after change) Locating Country/region	87 companies	(15.3%)
2. Locating Country and Region	81 companies	(14.3%)
⇒ (After change) Locating Country and Region		
3. China ⇒ (after change) Country/region	37 companies	(6.5%)
Non-Manufacturing Industry (n=279)		
1. Country and Region	56 companies	(20.1%)
⇒ (After change) Locating Country and Region		
2. Japan ⇒ (after change) Country/region	18 companies	(6.5%)
3. Japan ⇒ (After change) China	16 companies	(5.7%)

(NOTE) Excluding Europe and Russia.

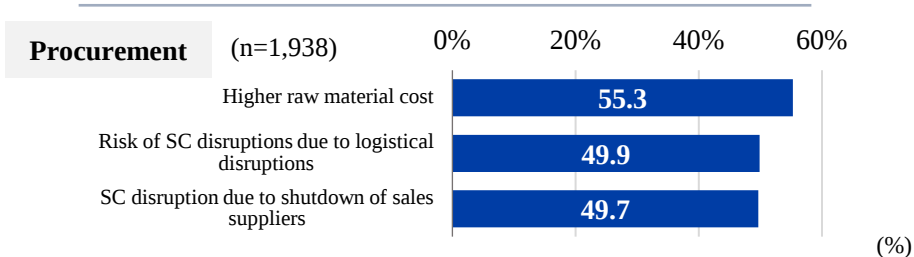
Major Patterns of Reviewing Customers (Top)

Manufacturing industry (n=281)		
1. Locating Country and Region	81 companies	(28.8%)
⇒ (After change) Locating Country and Region		
2. Country/Region	19 companies	(6.8%)
⇒ (After change) Discontinuation of sales		
3. Japan ⇒ (after change) Locating Country/region	15 companies	(5.3%)
Non-Manufacturing Industry (n=283)		
1. Locating Country and Region	108 companies	(38.2%)
⇒ (After change) Locating Country and Region		
2. Country/Region	15 companies	(5.3%)
⇒ (After change) Discontinuation of sales		
3. Japan ⇒ (after change) Japan	11 companies	(3.9%)

5 | Rising costs and supply chain disruption as challenges

- "Soaring raw material costs" (55.3%) was the biggest reason for reviewing procurement. A large proportion of enterprises also cite "supply chain (SC) disruption risk" due to chaotic logistics and their clients' shutdown.
- "Soaring logistics costs" is the biggest reason for the reviewing sales, especially in France and the Netherlands. About 80% of retailers and about 70% of hotels/travels also cited "changes in consumer behavior and markets."

Reasons for reviewing procurement (top 3, multiple answers)

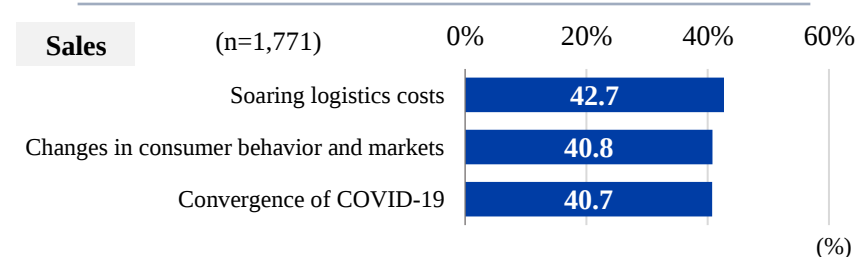


Higher raw material cost			
By country		By industry	
Thailand (n=187)	68.4	Food products/processed agricultural and fishery products (n=87)	72.4
Vietnam (n=188)	58.0	Rubber products (n=37)	70.3
Indonesia (n=122)	57.4	Transportation equipment parts (automobiles/motorcycles) (n=167)	68.3

Response to supply chain disruption risks associated with logistics disruptions			
By country		By industry	
Germany (n=95)	67.4	Rubber products (n=37)	64.9
US (n=294)	59.2	Electrical equipment (n=65)	61.5
France (n=22)	54.5	Chemicals/petroleum products (n=107)	60.7

Response to supply chain disruption risks associated with the suspension or closure of sales and procurement sources			
By country		By industry	
Germany (n=95)	63.2	Rubber products (n=37)	78.4
China (n=222)	55.9	Electrical equipment (n=65)	73.8
Singapore (n=99)	55.6	Electrical equipment parts (n=96)	61.5

Reasons for reviewing sales (top 3, multiple answers)



Soaring logistics costs			
By country		By industry	
France (n=22)	63.6	Iron and steel (including cast and forged products) (n=22)	68.2
Netherlands (n=29)	55.2	Rubber products (n=30)	60.0
US (n=255)	49.0	Food products/processed agricultural and fishery products (n=95)	55.8
Germany (n=102)			

Changes in consumer behavior and markets (e.g., shift to online)			
By country		By industry	
France (n=22)	63.6	Retail (n=27)	77.8
Korea (n=19)	57.9	Hotel/Travel (n=29)	65.5
Germany (n=102)	50.0	Food products/processed agricultural and fishery products (n=95)	57.9

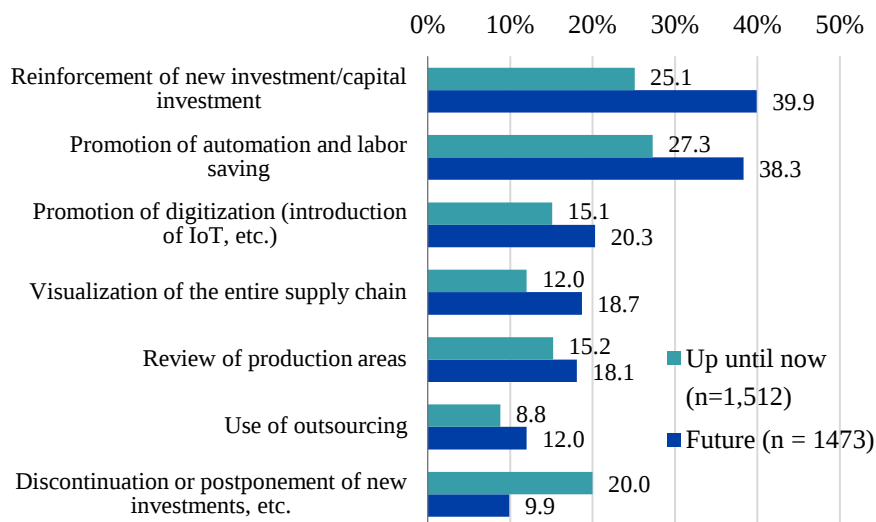
Convergence of COVID-19			
By country		By industry	
Hong Kong (n=70)	51.4	Hotel/Travel (n=29)	75.9
Indonesia (n=94)	50.0	Transport/warehouse (n=75)	62.7
Thailand (n=159)	49.7	Retail (n=27)	55.6

(NOTE) Only top 3 items described. n >= 10 for country, n>=20 for industry. Excludes Latin America, Russia, the Middle East, and Africa.

6 | Appetite for new investment, automation and labor saving

- In reviewing production, a high proportion in the manufacturing chose increasing new or additional investment (39.9%) and promoting automation/labor saving (38.3%), while below 20% consider changes in production sites.
- Reviewing production sites are typically done as a relocation within the country where they operate. The number of respondents choosing transfer to third countries or complete withdrawal is limited.

**Details of reviewing production
(manufacturing only, multiple answers)**



(NOTE) Top 7 listed. Excludes Latin America, Russia, the Middle East, and Africa.

Major patterns to review production sites

Manufacturing industry only (n=160)

1. A country where they operate ⇒ Relocation within its country	28 companies (17.5%)
2. Japan ⇒ A country where they operate	11 companies (6.9%)

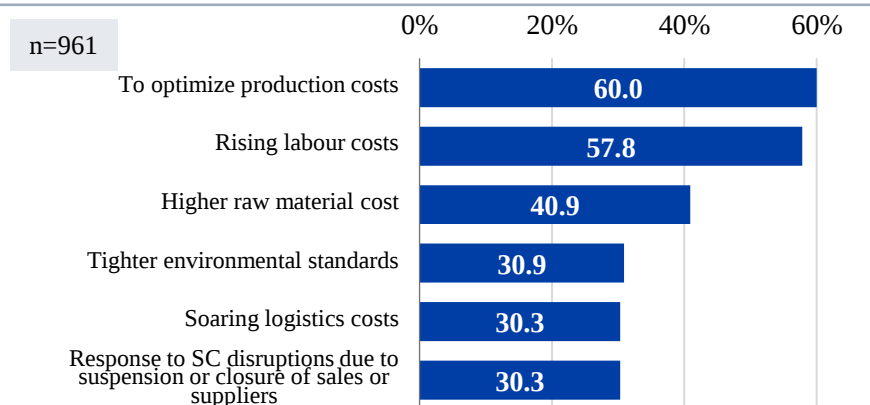
(NOTE) Only the top two items are listed. Excluding Europe and Russia.

By region (manufacturing only, multiple answers)

Item	North America (n=264)	Europe (n=223)	ASEAN (n=624)	Southwest Asia (n=101)	Northeast Asia (n=271)
Reinforcing new investments	38.6%	30.5%	44.4%	52.5%	33.9%
Automation/labor saving	36.4%	30.0%	37.7%	32.7%	50.6%
Suspension of new investment	8.7%	15.7%	7.9%	10.9%	11.1%

(NOTE) Major items listed. Excludes Latin America, Russia, the Middle East, and Africa.

Major reasons to review (manufacturing only, multiple answers)

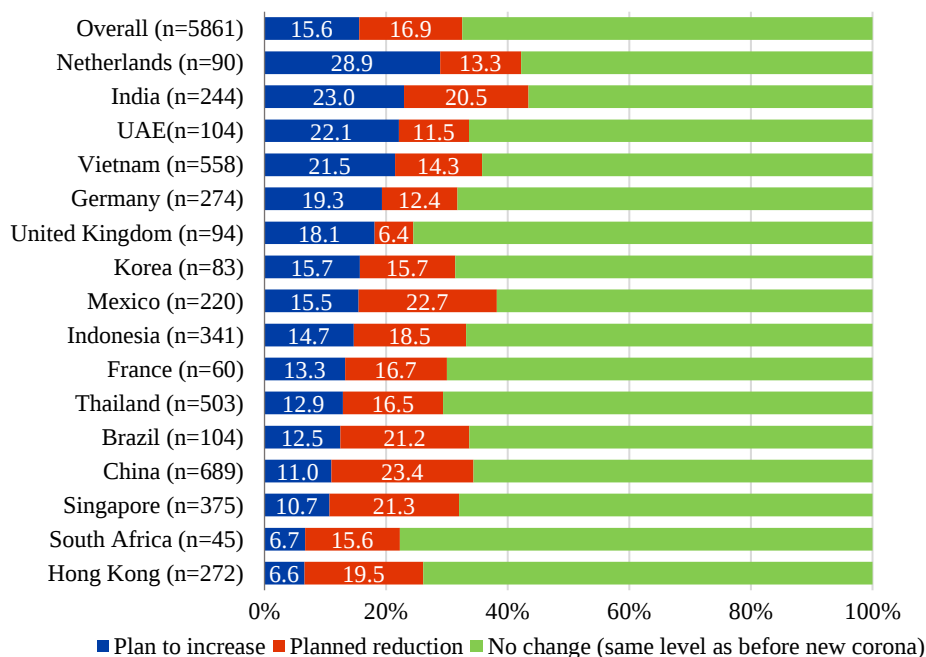


(NOTE) Top 6 listed. Excludes Latin America, Russia, the Middle East, and Africa.

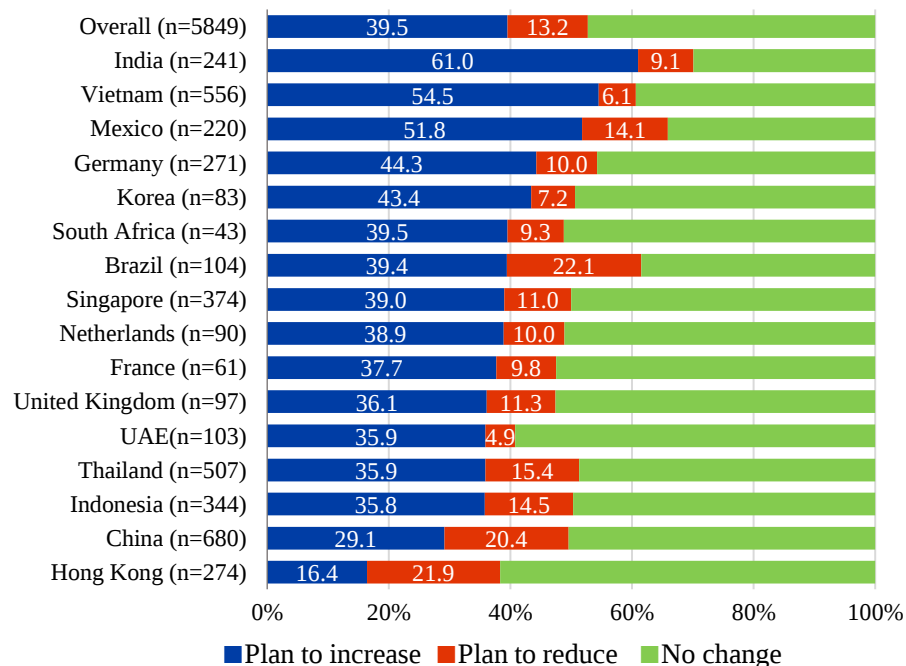
1 Moves to Reduce Expatriates in Asia and Latin America

- Over the next 1-2 years, more companies plan to “reduce” the number of expatriates than “increase” compared to pre-COVID. This trend is obvious in China, Hong Kong, and major countries in ASEAN. Localization is the key in network reorganization.
- As for local employees, on the other hand, “increase” exceeded “reduce” in all major countries except Hong Kong. The temporary evacuation of expatriates due to COVID-19 resulted in a remote business management system that accelerated localization.

**Increase or reduce in the number of expatriates for the next 1-2 years
(compared to the number before the COVID-19 pandemic)**



**Increase or reduce in number of local employees in the next 1-2 years
(compared to the number before the COVID-19 pandemic)**



Reasons to Increase

Strengthen structure to launch new businesses and expand business, etc. 59.0%

Reorganization of structure in line with promotion of localization 58.4%

Reasons to Reduce

Downsizing of structure due to economic stagnation and declining sales 25.2%

Reasons to Increase

Strengthen structure in line with economic recovery and increased sales 57.7%

Strengthen structure to launch new businesses and expand business, etc. 53.3%

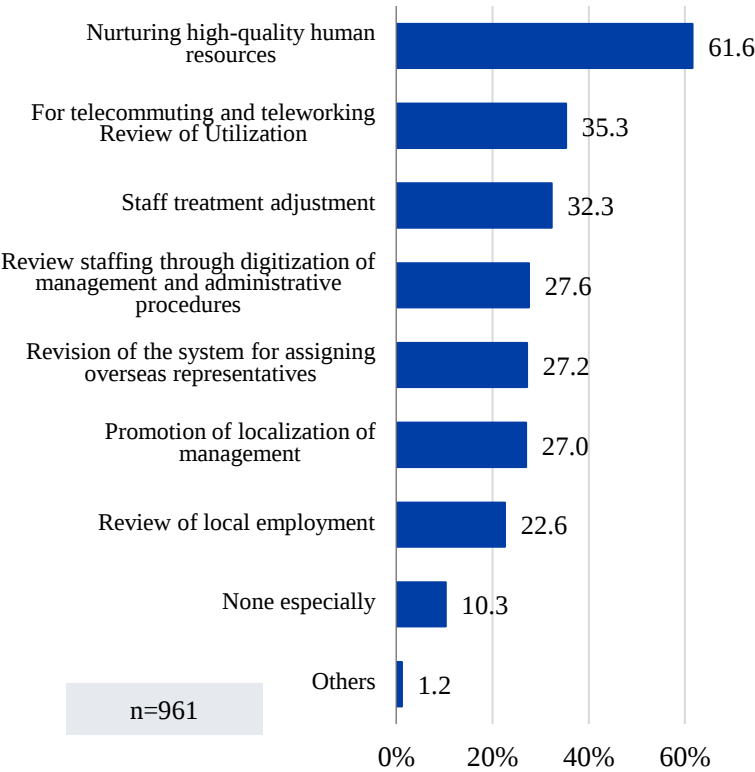
Reasons to Reduce

Downsizing of structure due to economic stagnation and declining sales 42.1%

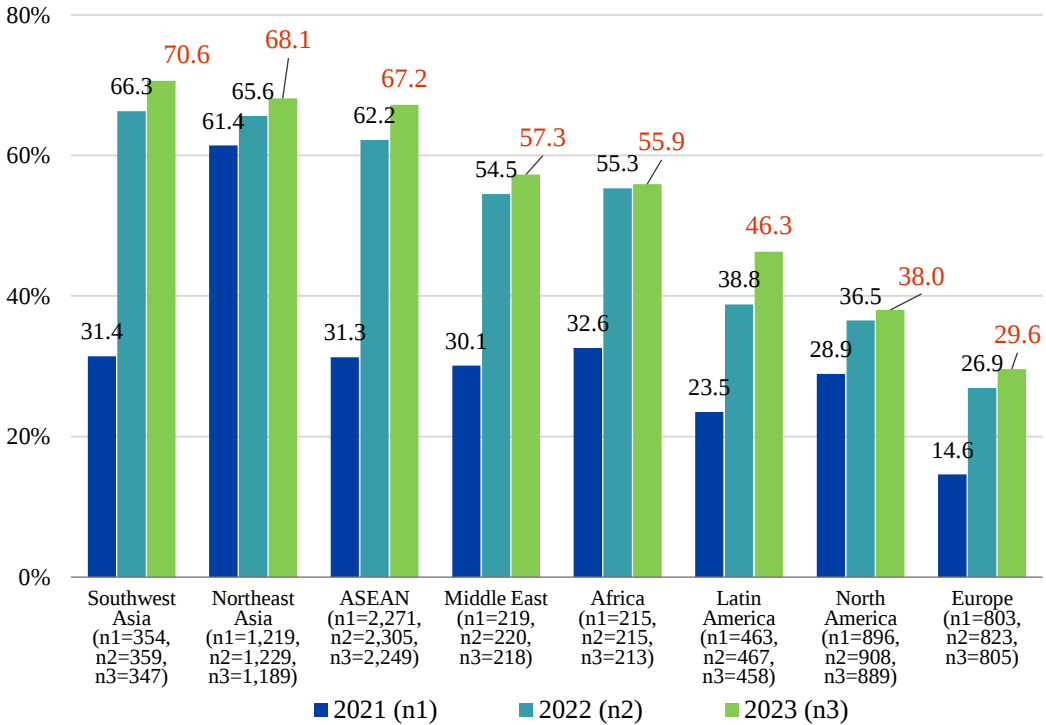
2 | Regional differences in the normalization of the telework: high ratio of coming to work in Asia

- More than 60% of respondents will “strengthen human resource development” in terms of reviewing management systems. 35.3% of enterprises will “review of the use of telecommuting and telework” promoted during the COVID-19 pandemic.
- In 2023, the percentage of companies which, in principle, require all employees to come to work at the company (90% or more of all employees) would increase to around 70% in Asia. On the other hand, its percentages are less than 30% in Europe and less than 40% in North America respectively, meaning that telework has become firmly normal in these regions.

Review management and its systems (multiple answers allowed)



Proportion of enterprises with all (90% or more) employees come to work

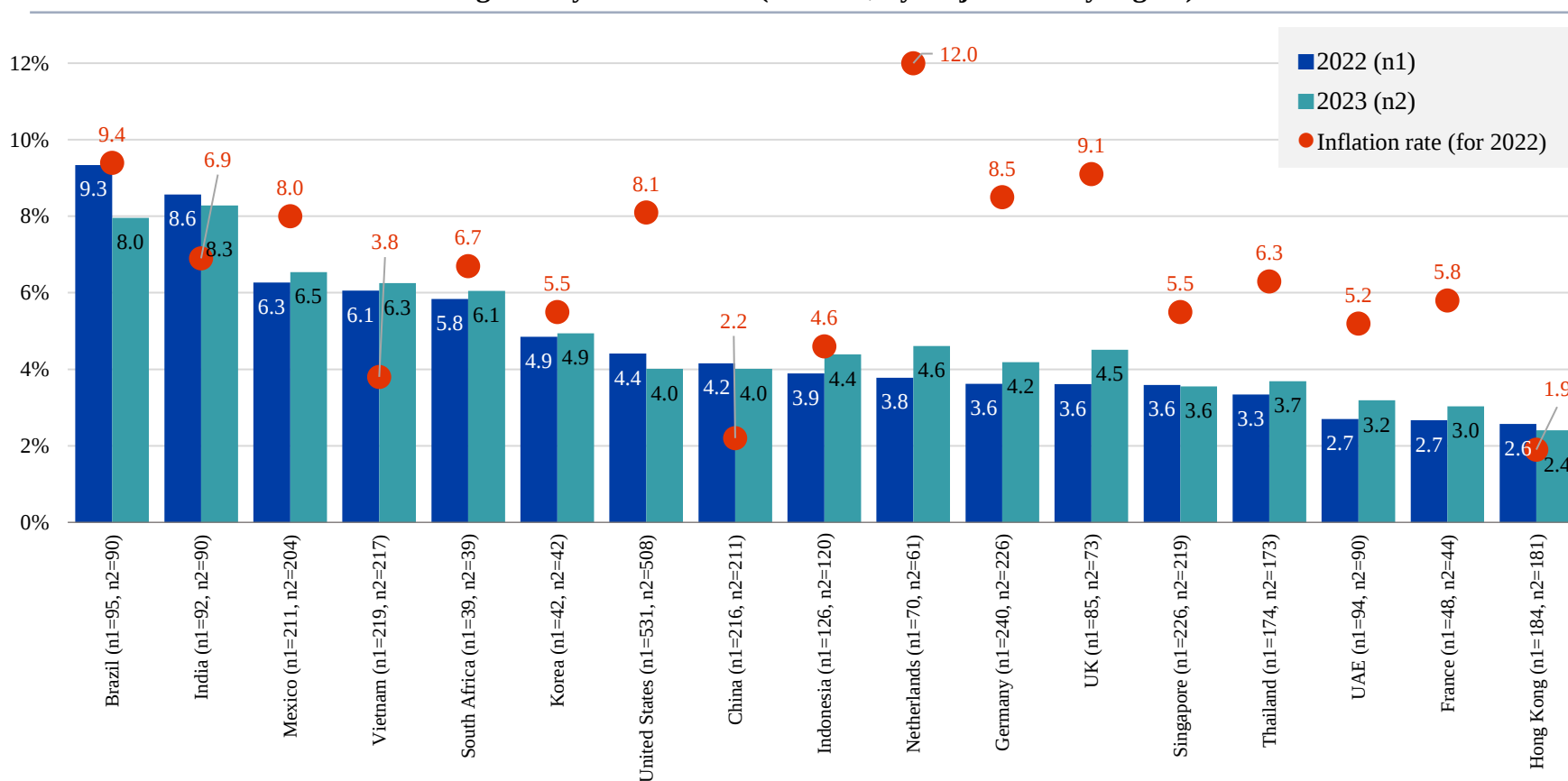


(NOTE) 1. Percentage of “In principle, all employees come to the company (90% or more come to work)”. 2. 2022 is the time of the survey responses, and 2023 is the future plans.

3 Wage up exceeding inflation rates in India and Vietnam

- Workers' salary increase rates (nominal and average) recorded more than 8% for the second consecutive year in Brazil and India, more than 6% in Mexico and Vietnam. Salary increase rates exceeds inflation rates in Vietnam and India .
- On the other hand, salary increase rates in major European countries are expected to be lower than inflation rates in each country. Some companies responded to the surge in local prices by adding bonuses and lump-sum payments, rather than by raising salary.

Average salary increase rate (nominal, by major country/region)



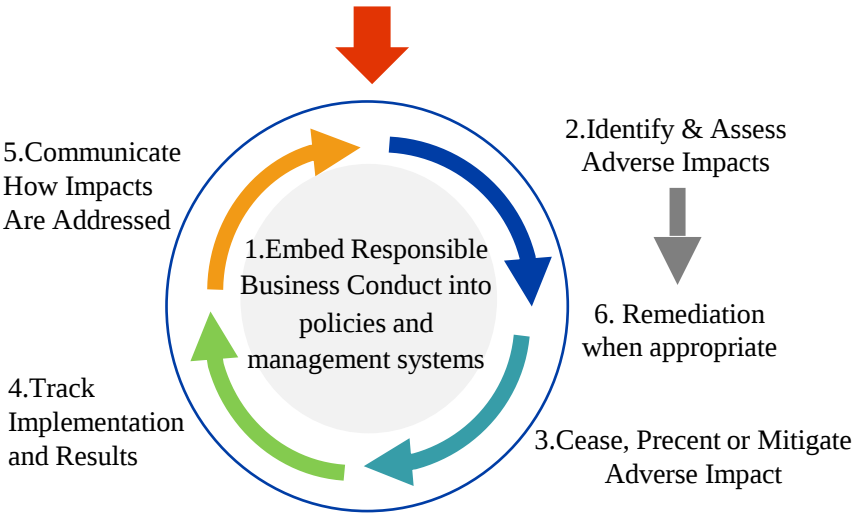
(NOTE) Inflation rate is the growth rate of CPI(consumer price index) for 2022 (as of October 2022). Source: IMF.

1 Responsible behavior required of a corporation

- Based on the UN Guiding Principles on Business and Human Rights, over 20 countries including Japan has formulated an Action Plan (NAP). In September 2022, the government of Japan released Guidelines on Respecting Human Rights in Responsible Supply Chains.
- European countries has legalized human rights due diligence. The U.S. has expanded regulations to suspend imports that rely on forced labour. An inappropriate response would harm a company's reputation, potentially leading to a decline in sales.

International principles calling for voluntary efforts

	Major international principles, declarations, etc.
UN	The Ten Principles of the Global Compact
	Guiding Principles on Business and Human Rights
ILO	Declaration on Fundamental Principles and Rights at Work
	Multinational Enterprises (MNE) Declaration
OECD	Guidelines for MNE
	Due Diligence Guidance for Responsible Business Conduct



Source: OECD.

Major regulations, Japanese response and investor awareness

Countries/regions	Major laws/regulations
UK	Modern Slavery Act 2015
France	Duty of Vigilance Act
Germany	Supply chain due diligence Act (entry into force in Jan 2023)
EU	Supply Chain Due Diligence Obligation Rules for Importers of Conflict Mineral Resources
Norway	Act relating to enterprises' transparency and work on fundamental human rights and decent working conditions
US	Federal: Uygur Forced Labor Prevention Act State: California Supply Chain Transparency Act
Australia	Modern Slavery Act 2018

Measures taken by the Government of Japan

- Oct 2020: NAP on business and human rights
- Sep 2022: Guidelines on Respecting Human Rights in Responsible Supply Chains

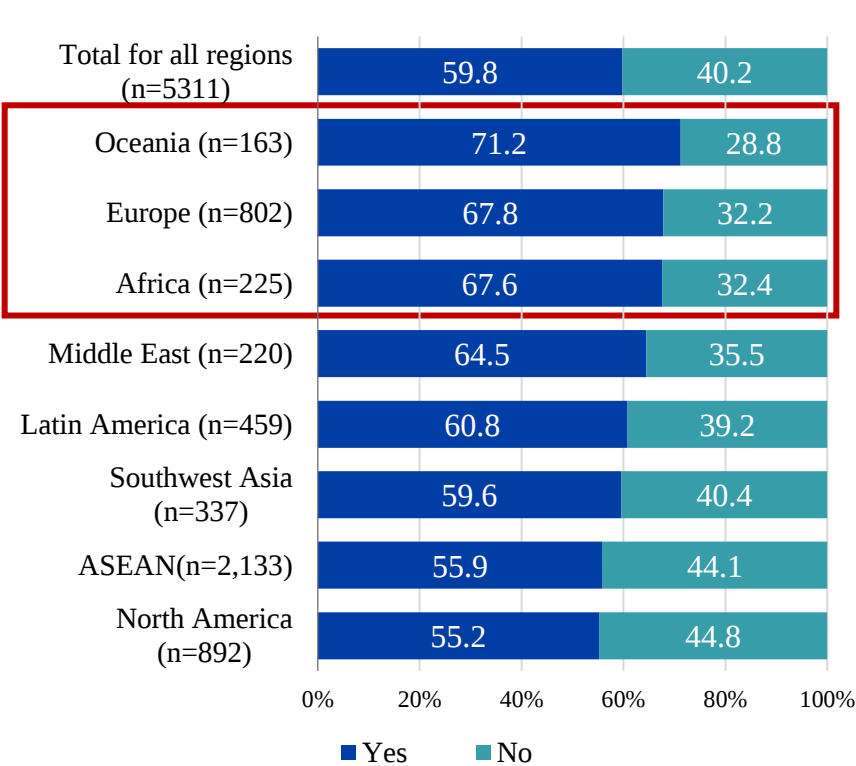
Penetration of SDGs/ESG

- **ESG disclosure standards are being developed.** EU and the U.S. consider disclosure-requirements rules. Major disclosure standards (GRI, SASB, etc.) are under work for integration by IFRS Foundation.

2 | 60% Recognize Human Rights As Management Challenges

- 59.8% of respondents have recognize human rights in their supply chain as a management challenge, a slight increase from the previous year (58.6%). Oceania, Europe, and Africa have marked approximately 70%.
- Many companies cited local laws/regulations and demands from their clients as reasons for their recognition. They also referred to "reputation risk," "SDGs," and "changes in public opinion and consumer awareness."

Recognize human rights as Management challenges by region



(NOTE) All regions exclude Russia, China, Hong Kong, Macao, and Taiwan.

※ Aggressive corrective measures against discrimination against blacks and others who were discriminated in the apartment heights era.

Reasons for recognizing human rights as management challenges

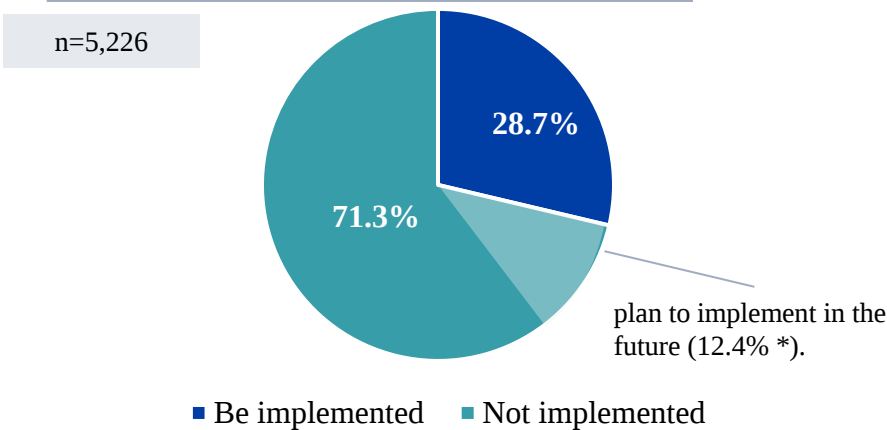
Main reasons	Comment
Local Laws/ Regulations	German law and EU law will regulate. (German/general machinery)
	BEE policies* (South Africa/Transportation equipment)
	Stringent requirements of the Modern Slave Law (Australian/Metal Products)
	U.S. legislation affects USMCA. (Mexico/Trading)
Human rights Risk	Business without caring human rights will prevent products to be sold under export country regulations (Malaysia/Electrical parts)
	Child or family labor are observed in local factories (India/Ceramics, stone and clay).
	Ensuring labor safety is important (Bangladesh/Apparel and Textiles)
	Treatment of Subcontracting (Foreign) Workers (Thailand/Construction)
Business Risk	Problems of Indigenous Peoples (Australia/Dealers)
	Raw materials (cobalt) involve human rights risks (Spain/metal products)
	Problems of child labor are likely to occur (Ghana/trading company)
	Essential for Business Continuity (Belgium/Chemicals and Petroleum Products)
Clients' demands	Directly linked to our reputation risk (U.K./sales company)
	Lawsuit risk is a large business risk (Netherlands/ceramics, stone and clay)
	Clients pay close attention to child labor and environmental destruction (Brazil/trading company)
	European suppliers began to ask a response to the situation. (UAE/construction)
Others	[Clients] require for new/continuous transactions (Germany/trading company)
	Increase in risk of supply-chain disruption (Korea/Chemicals/medecines)
	SDGs has become a global standard (Argentine/Transportation Equipment)
	Growing public opinion (France/Transportation and warehousing)
	Changes in consumer awareness (Vietnam/Retail)
	The Ministry of Economy, Trade and Industry has started a study group, and all companies are required to work on it (Morocco/transport equipment parts).
	Improving the working environment is a major factor in the employment of new employees (Czech Republic/Construction)

3 | 40% of respondents conducts human rights due diligence

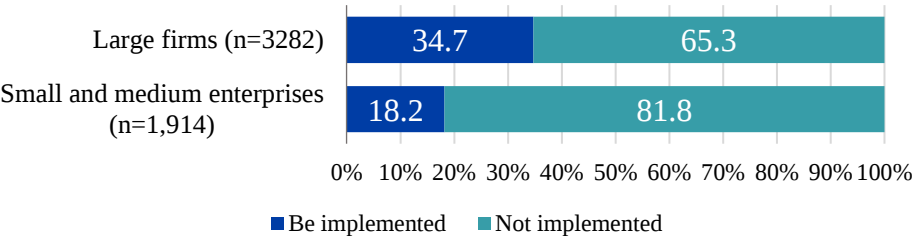
- 28.7% of respondents has conducted human rights due diligence (HRDD). About 40% of Japanese-affiliated companies (will) conduct HRDD, together with 12.4% which responded not implemented, but they plan to do so.
- Huge differences lies across region. Over 40% of respondents implemented in Australia (Modern Slavery Act), South Africa (BEE policies*), the UK (Modern Slavery Act), and France (Duty of Vigilance Act).

※ Aggressive corrective measures against discrimination against blacks and others who were discriminated in the apartment heights era.

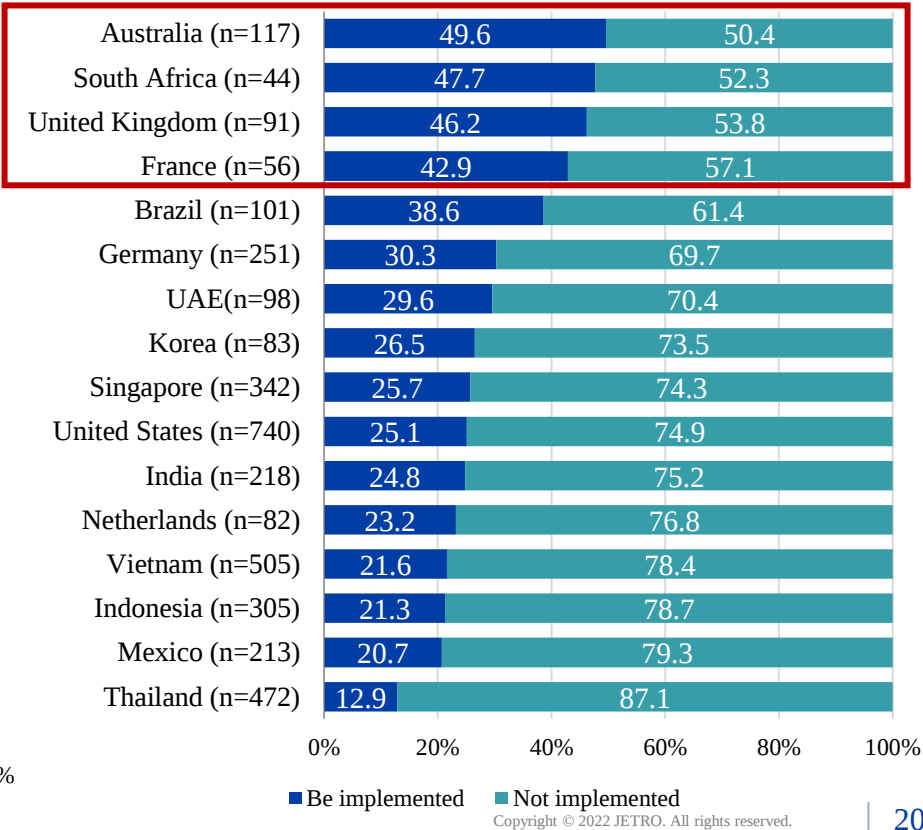
Do you implement HRDD?



(NOTE) ① Of those who do not implementing human rights DD (71.3%), 12.4% is calculated by dividing the number of those (n = 647) who responded “we plan to implement human rights DD in the future” by the total (n = 5,226).
② Excludes Russia, China, Hong Kong, Macao, and Taiwan.



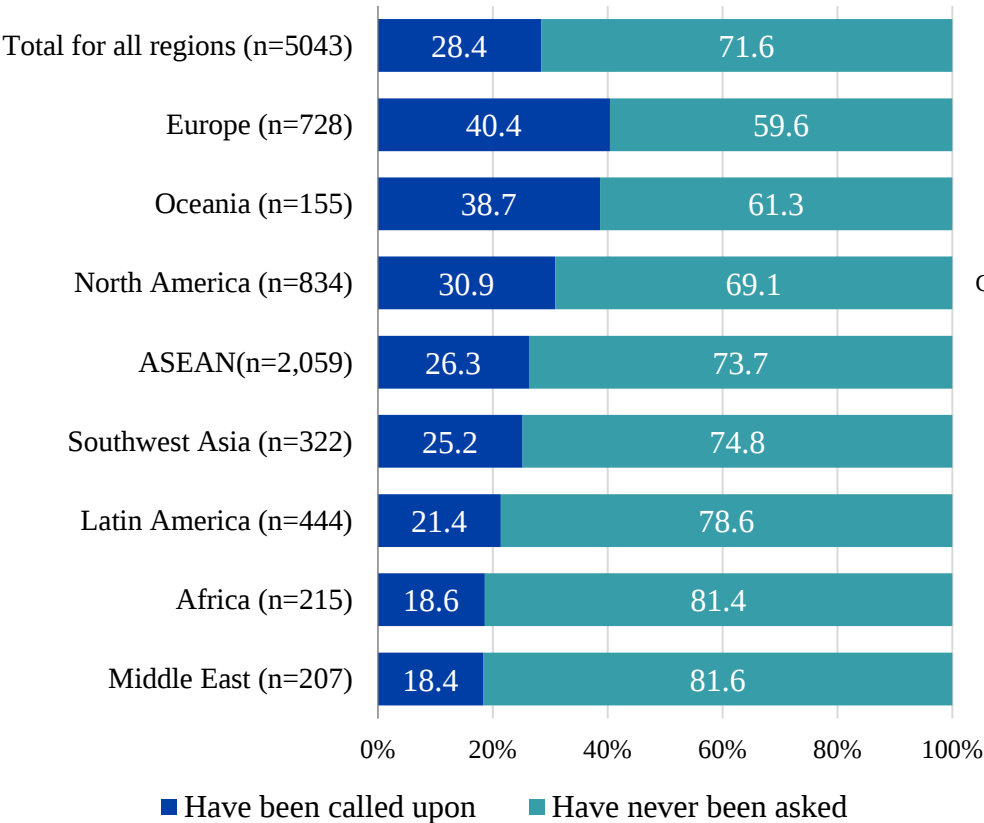
Comparison by major countries



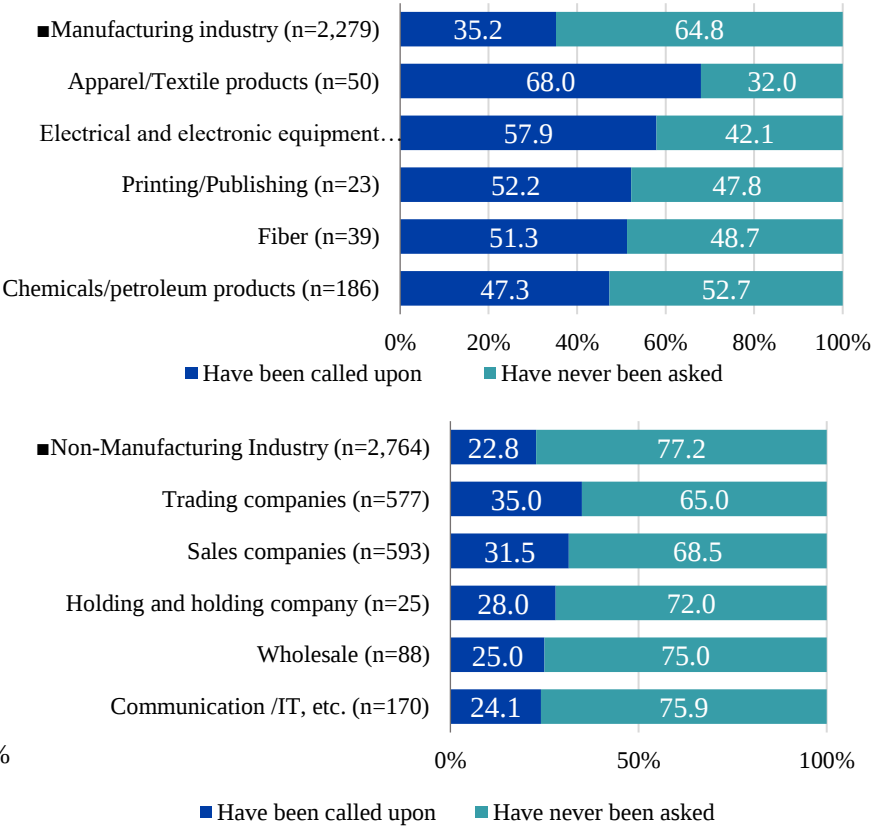
4 | 40% in Europe receive requests for compliance

- 40.4% of respondent in Europe and 38.7% of them in Oceania have been requested by their clients to comply with human rights policies. With local regulations, its rates of the UK, Germany, and the US exceed average in the manufacturing.
- While apparel/textile products and electrical/its components are leading in manufacturing sector, trading and sales exceed the average in non-manufacturing.

Whether clients have asked compliance with the human rights policy



(NOTE) All regions exclude Russia, China, Hong Kong, Macao, and Taiwan.

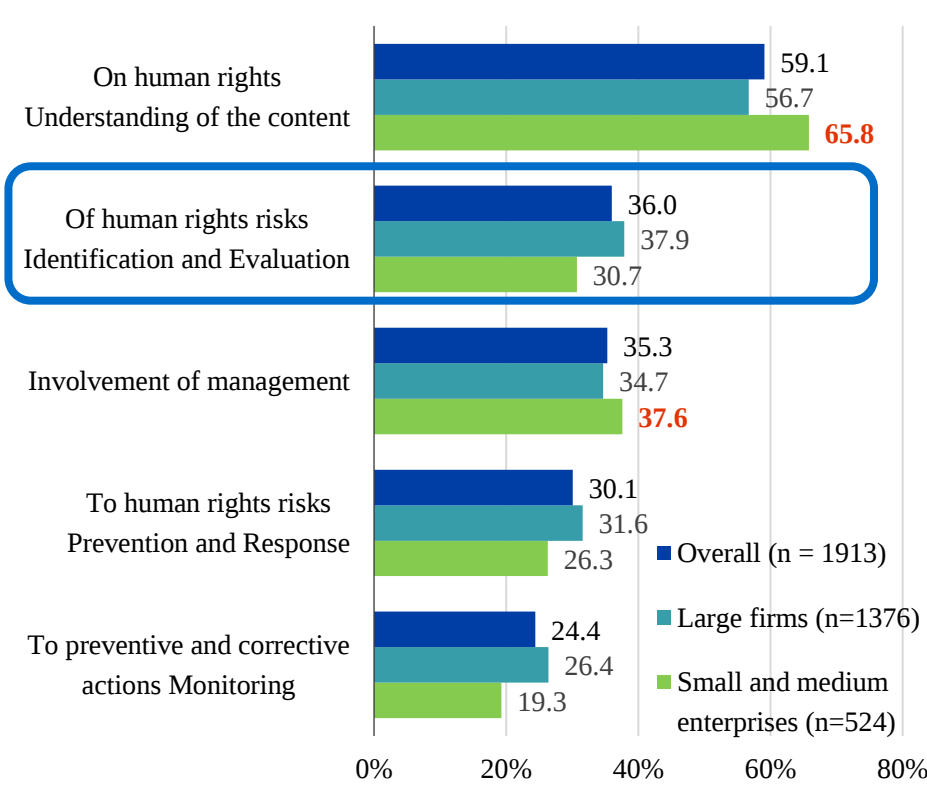


(NOTE) Only the top five industries with n = 20 or more are listed.

5 SMEs need to understand human rights issues

- Major challenges for HRDD are the understanding of the human rights, identifying risks, and commitment by executives. Large enterprises face challenges at implementation stage, SMEs do so prior to implementation.
- In identifying/assessing risks, companies conduct “information gathering,” "visualization of supply chains" and use of experts, audits, and consultation services.

Challenges in HRDD (Top 5, Multiple answers allowed)



(NOTE) ① The survey covers all regions except Russia, China, Hong Kong, Macao, and Taiwan.
②n is "implementing human rights DD" or "planning to implement human rights DD in the future."

Risk Identification and Evaluation Efforts (Top 5, Multiple answers allowed)

Efforts	Response	Examples
Information Gathering	51.9% (n=680)	• Inspection in selecting suppliers (Indonesia/Textiles)
Supply Chain Visualization	43.4% (n=568)	• Confirmation letters by business partners (Vietnam/Electrical and Electronic Equipment) • Request of Self-declaration from new business partners (Germany/Transportation & Warehousing)
Use Expert	32.6% (n=427)	• Voluntary audits in cooperation with a law firm (Malaysia/Electrical Equipment and Components)
On-site inspections	31.5% (n=412)	• Determining whether to continue contracts based on the result of direct audits (India/Rubber products)
Consultation Desk Establishment	30.6% (n=401)	• Establishment of hotlines from internal and business partners (Brazil/Chemicals and Petroleum Products)

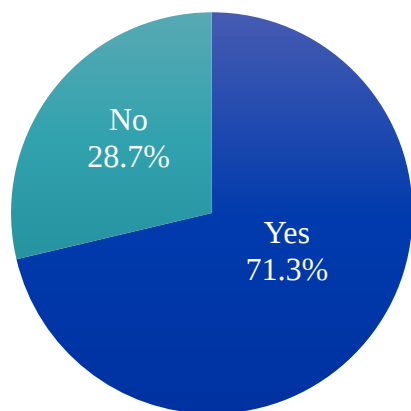
(NOTE) The respondents are 1,309 companies who implemented human rights DD.

1 | Major progress in decarbonization initiatives in one year

- 71.3% responded recognized decarbonization (reduction of greenhouse gas emissions) in the supply chain as a management issue.
- 42.4% is engaging in decarbonization already, an increase of nearly 10% from the previous year's survey (33.9%). Compared to SMEs, by large firms are progressing, and 50.9% of large enterprises answered that they are "already working."

Do you recognize decarbonization in the supply chain as a management issue?

n=6,355



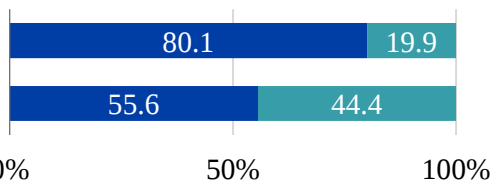
Main reasons for responding "Yes"

- Recognized by the head office as an issue (645 companies)
- Requests from customers (401 companies)
- Industry policies (269 companies)
- Global trends (268 companies)
- Socially Responsible & SDGs (252 companies)

Main reasons for responding "No"

- No headquarters policy or no regulations in countries/regions where we have operations
- No/low carbon dioxide emissions
- Limited supply chain/Difficulty of taking actions
- Too early

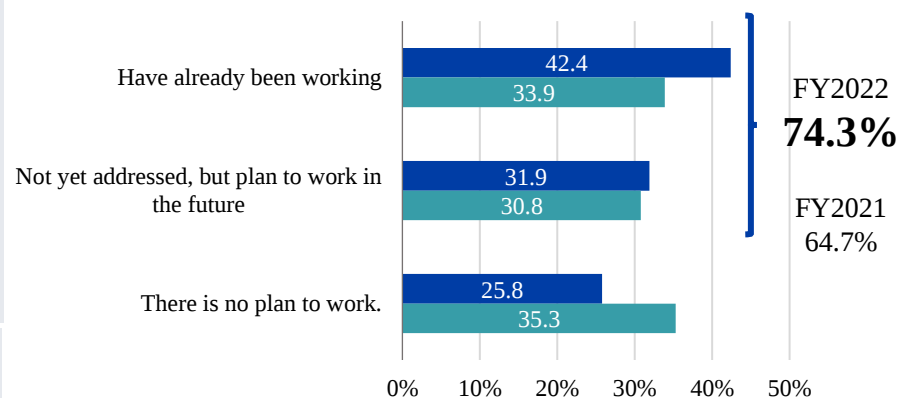
Large firms (n=4075)



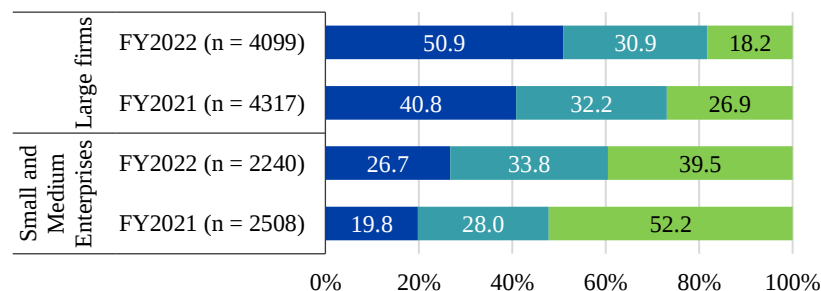
■ Yes

■ No

Action for decarbonization



■ FY2022 (n = 6368) ■ FY2021 (n = 7317)



■ Have already been working

■ Not yet addressed, but plan to work in the future

■ There is no plan to work.

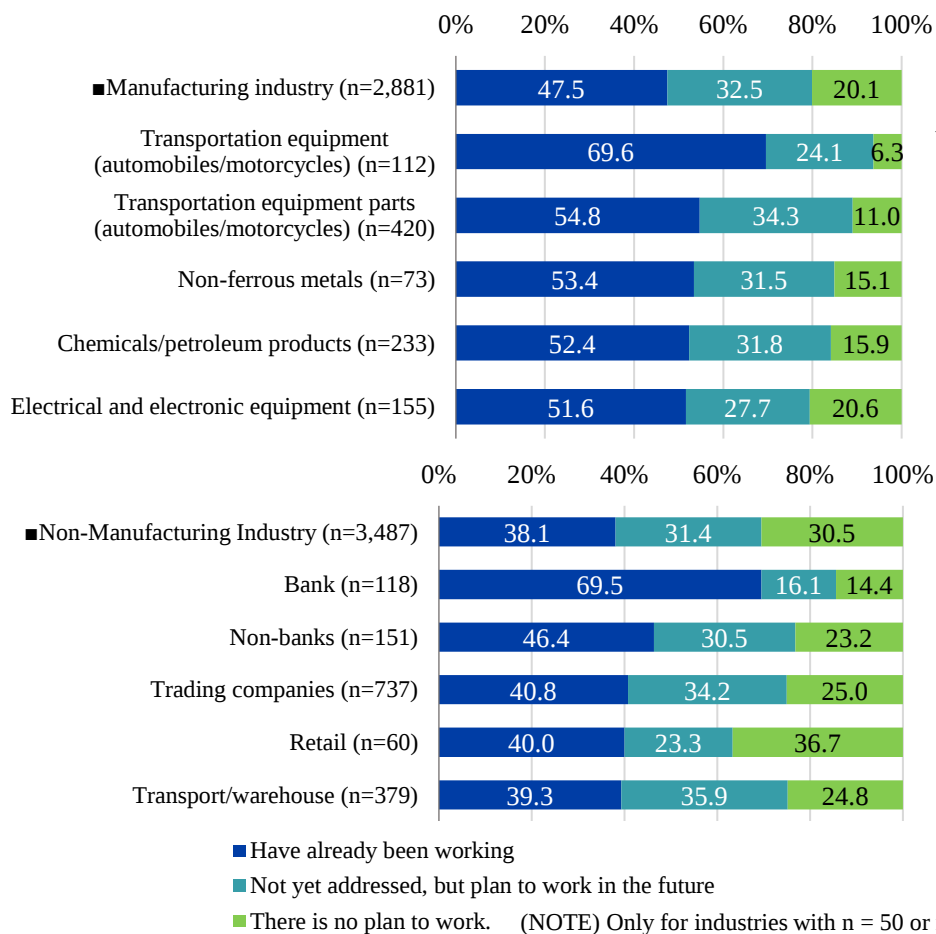
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(NOTE) The survey covers all regions except Russia.

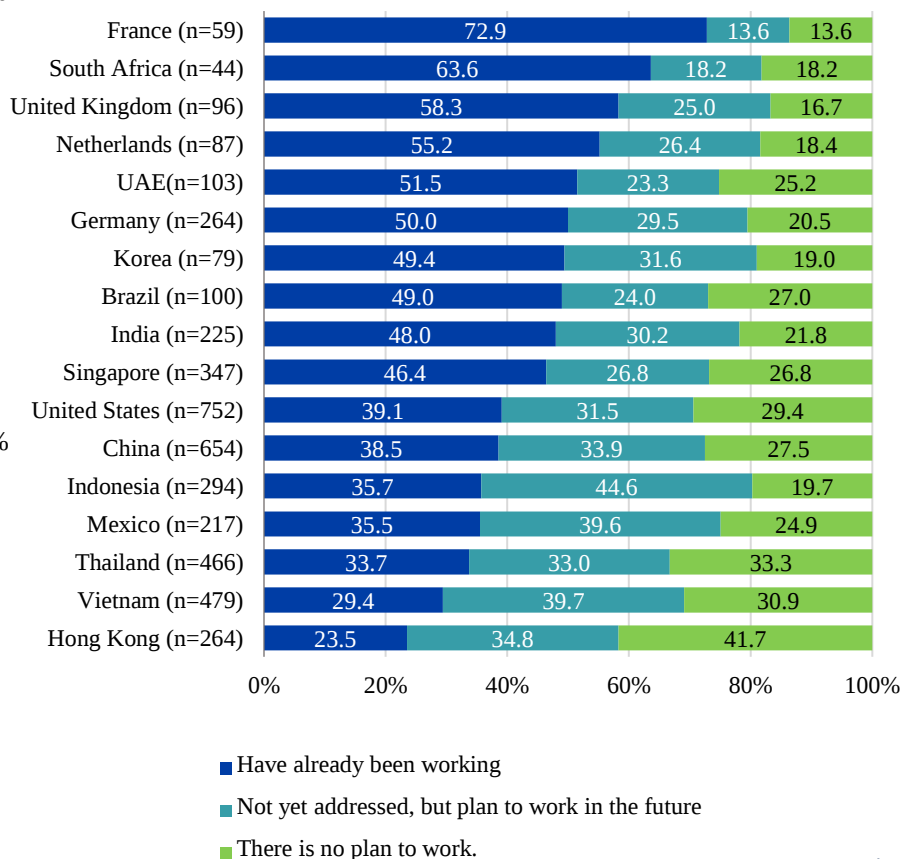
2 | Acceleration of initiatives in industries such as transportation equipment and banks

- Compared to the non-manufacturing industry, actions are more advanced in the manufacturing . Approximately 70% of transport equipment and banks answered that they are "already working." This reflects acceleration of actions in those industries.
- Major European countries rank high, and more than half of the companies in each country answered that they are "already working."

Action for decarbonization (Top five industries)



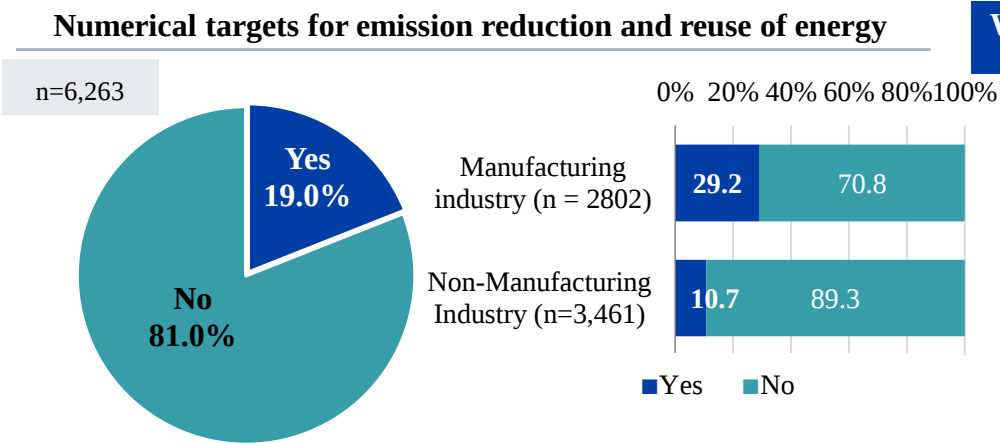
Action for decarbonization (by Major Countries and Regions)



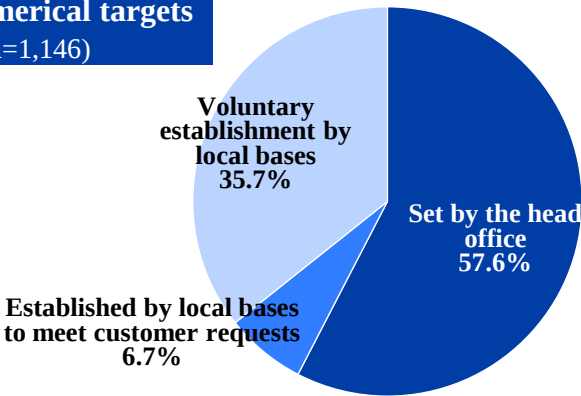
3 | Initiatives accelerate, but numerical targets are set at less than 20%

- The percentage of enterprises with their own numerical targets was 19.0%, less than one-fifth of respondents. Meanwhile in manufacturing, it accounts for nearly 30%. The ratio is especially high among transportation equipment industry.
- As for the background for setting numerical targets, more than half was “set by head office” and only 6.7% of customer requests. In addition, only 3.5% of enterprises that do not have numerical targets, plan to set it by customer requests.

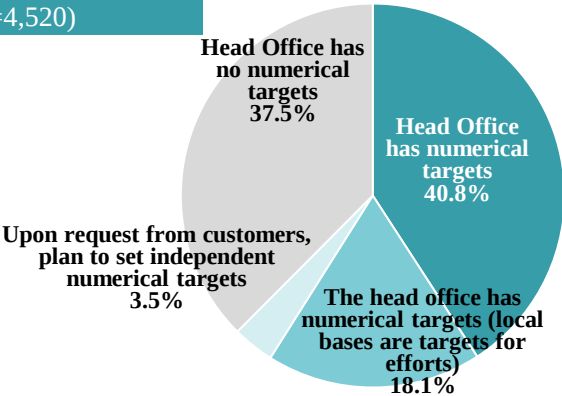
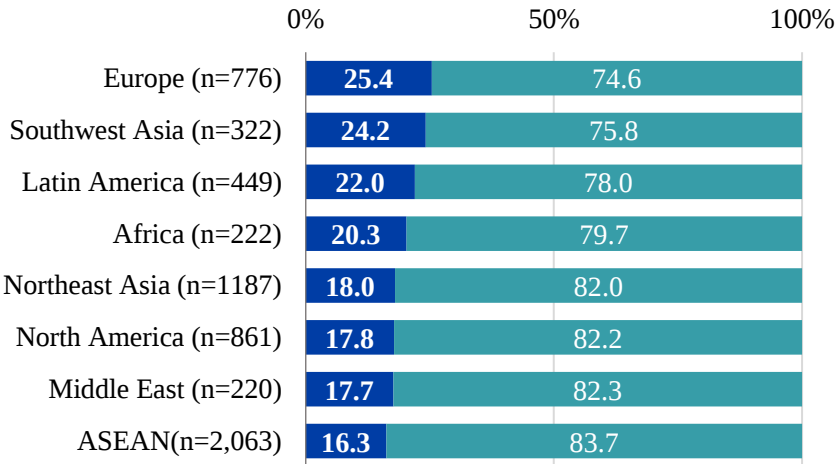
Numerical targets for emission reduction and reuse of energy



With numerical targets (n=1,146)



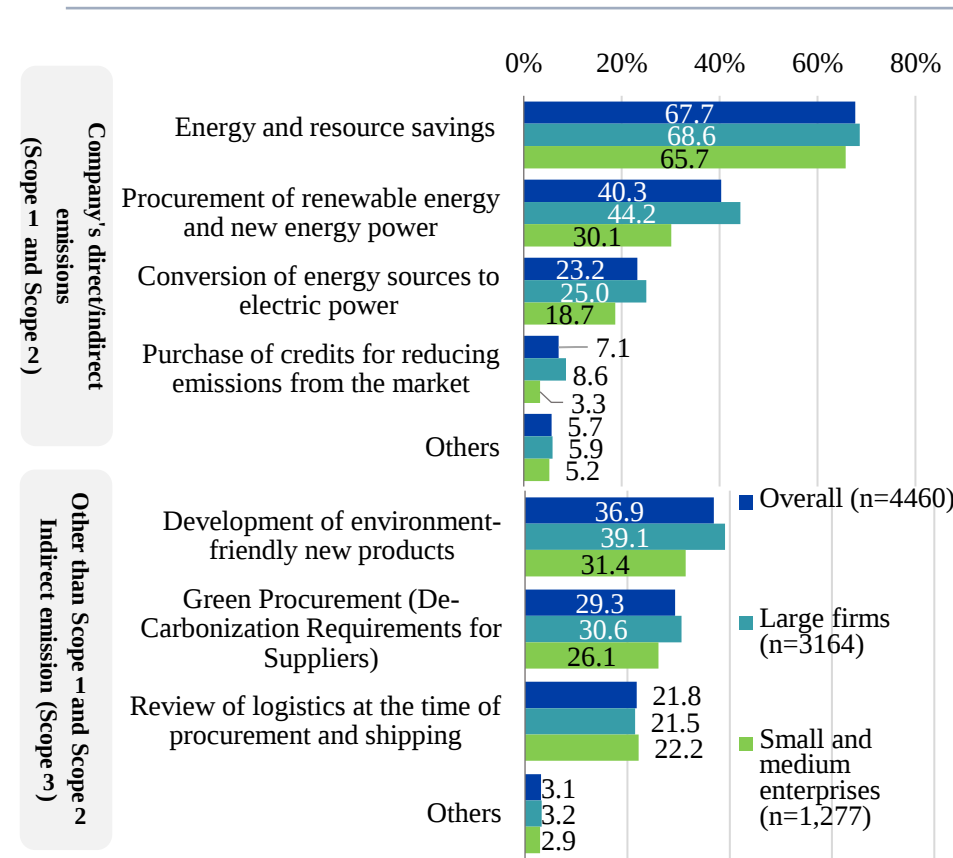
No numerical target set (n=4,520)



4 | Companies engaging in green procurement have more than doubled compared to the previous year

- “Energy and resource savings” has the highest ratio in specific decarbonization actions. Compared to the previous year, both large firms (13.6% ⇒ 30.6%) and SMEs (11.1% ⇒ 26.1%) engaged in "green procurement" showed a significant increase.
- In the case of new businesses and investment projects, the introduction and switching of alternative energy sources is noticeable. New business opportunities are created, such as product development using other recycled materials.

Details of decarbonization actions (multiple answers allowed)



(NOTE) n is the number of companies that responded "have already taken action" or "plan to take action in the future."

New projects and new business opportunities

- Electricity used will be **switched to electricity derived from renewable energy sources** from April this year. (Chile/Foods)
- Shift from heavy oil to low-load fuel (LNG/ ammonia) (Singapore/Transportation/Warehousing)

Alternative energy

- **Development of products using recycled materials and biomass materials** (U.S./Chemicals and Petroleum Products)
- **Reducing emissions by switching to low GWP refrigerants** (Spain/Chemicals and Pharmaceuticals)
- **Development and diffusion of concrete that absorbs carbon dioxide** (Bangladesh/Construction)

Develop and switch to eco-friendly raw material parts

- **Introduction of carbon recycling technology** (U.S./ceramics, stone and clay)

Recovery and utilization of carbon dioxide

- Supply of products to the renewable energy business and provision of **visualization systems for energy optimization** at customer facilities (U.S./Electrical and Electronic Equipment)

Ascertaining energy consumption, carbon dioxide emissions, etc.

- **Specifying uses of funds, such as green deposits and green finance** Product development and promotion (Australia/Finance/Insurance)

Greening of finance

(NOTE) Excerpt from comments.

5 | Regional Differences in Challenges to De-Carbon Initiatives

- Issues to be addressed included the low level of awareness of the environment among employees as a common in the region, and the difficulty of responding to the increase in costs associated with switching materials and fuels.
- On the other hand, issues such as the ambiguity of government targets in emerging economies and the difficulty of breaking away from conventional energy, as well as unfairness in Europe due to differences in regulations.

Challenges for initiatives and local regulations and systems that are difficult to respond to (by region)

Europe

- **Cost** Increase packaging material costs through de-plastic (U.K./sales company)
- **Regulations** Due to the fact that the calculation of the minimum production volume, which requires credits, varies depending on the governmental authorities in each region, regulations are not fair with competitors. (Belgium/Chemicals/Petroleum Products)
- **Regulations** There is a growing tendency for regulations on recycling to spread across countries. We are struggling to respond to changes in the descriptions of product labels. (Germany/Food/Processed Agriculture)

Africa

- **Switching suppliers**
 - There are few high-quality packaging suppliers. Difficulty in importing manufacturing facilities that take decarbonisation into account. (Algeria/Food/Processed Agriculture and Marine Products)
 - **Escape of conventional energy**
 - Cannot propose clean energy because of gasoline subsidies (Nigeria/trading company)
- (NOTE) Extracted from comments.

Middle East

- **Regulations** Although decarbonisation is advocated in the Middle East, there are no new regulations or targets to achieve, and the need for this is not realized. (UAE/ Trading Company)
- **Escape of conventional energy** Since the power charge is originally low, it is difficult to realize the merit even if the solar panel equipment is introduced, because the investment recovery period is too long. (Saudi Arabia/Transportation Equipment)

Northeast Asia

- **Quality** Decarbonization is being investigated by using recycled materials, but material quality is not stable. (China/Textiles)
- **Regulations** In many cases, Regulations are not in line with actual conditions, and as a result, it is easy to make gray situations (South Korea/sales companies)

ASEAN and Southwest Asia

- **Regulations** There are no standards in place to enable the reuse of various wastes as other raw materials. (Vietnam/Other non-manufacturing)
- **Regulations** Unclear local system (Laos/electrical and electronic equipment parts)
- **Switching suppliers**
- Difficulty in obtaining substitutes for plastic containers such as boxed lunches (India/restaurant industry)

North America

- **Awareness** The concept of ecology is dilutive to employees in the United States, and it takes time to disseminate the concepts of decarbonisation and energy conservation. (U.S./Precision Instruments)
- **Cost** Stricter restrictions on trucks, such as those in CA, create a significant decline in the number of trucks, making it difficult to increase costs and arrange (U.S./Transportation/Warehousing)

Latin America

- **Escape of conventional energy**
- While the industry is promoting the strengthening of emission regulations, the dissemination of fuel properties that satisfy the regulations is delayed. There is a contrary trend, such as the government backing the imports of used vehicles that are not subject to regulation. (Mexico/Sales companies)
- **Regulations** Although it is possible to set internal targets, the definition and classification of decarbonisation acceptable to outside the company are issues (Brazil/Electrical and Electronic Equipment)

Supply chain emissions (manufacturing)

Policy and regulations changes

- Declaration of carbon neutral targets
- Introduction of regulations such as carbon taxes and the Carbon Border Coordination Mechanism (EU), and tightening of environmental laws

Company's emission reduction policy

- Announcement of carbon neutral targets/Understanding of current conditions and disclosure of information
- Participation in the international initiatives

Social responsibilities

- Growing global awareness
- Need to increase corporate value in terms of CSR and SDGs

Supply Chain Flow

Upstream

Scope3

Other than Scope1&2

- 1. Purchased goods and services**
 - Review of raw materials and parts
 - De-carbon requirements for suppliers
- 2. Capital goods**
 - Selection of facilities with low carbon emissions
- 3. Transportation and delivery**
 - Review of procurement logistics
- 4. Travel of personnel**
 - Switching company cars and reviewing commuting patterns

In-house

Scope1

Combustion of fuel
Industrial process

- Reviewing fuel and facilities
- Credit purchases for emission reductions
- Introduction of CCUS

Scope2

Use of electricity,
heat and steam

- Energy saving
- Switching to renewable energy

Downstream

Scope3

Other than Scope1&2

- 1. Transportation and delivery**
 - Review shipping, warehousing, and sales
- 2. Use of sold products**
 - Developing products with low carbon emissions
- 3. End of life treatment of sold products**
 - Review of collection and disposal processes
 - Promotion of recycling

Examples of Reduction Initiatives

Examples of Activities

De-carbon demand for procurement

- Inquiries to existing suppliers
- Establishment of emission reduction targets and requests for reduction action
- Addition to negotiations conditions for new projects
- Support for suppliers engaging in initiatives (technology grants, subsidies)

Decarbonization of products

- Development of products that emit less carbon/are easy to reuse and recycle (changes in product specifications and packaging)
- For automobiles, it may be necessary to review the product lineup based on the emission regulations of each country and the introduction policy of zero-emission vehicles.

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