



BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN JAPAN, 2022

A REPORT FROM BUSINESS SWEDEN, THE EMBASSY OF SWEDEN
AND THE SWEDISH CHAMBER OF COMMERCE IN JAPAN

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FOREWORD

The Business Climate Survey is a key tool used by Team Sweden to take the temperature of Swedish businesses across the globe – an especially important task in times like these where global events, supply chain disruptions and macroeconomic shocks constantly shift the playing field and change the rules of play for global businesses. The survey is conducted in over 20 countries across the world each year and seeks to increase the understanding of Swedish companies' performance in different global markets – the opportunities and challenges faced in each country and how those could be addressed through cooperation, knowledge sharing and bilateral trade dialogues.

Japan is the world's third largest economy and Sweden's third largest export market outside of Europe. Unsurprisingly, Japan is also a key market for Swedish companies with 40 per cent of companies reporting that at least 25 per cent of their total revenue for the Asia-Pacific (APAC) region is generated in Japan. However, it is in some ways also a challenging market to grow in, illustrated by a relatively low intention among Swedish companies to make significant investments into the Japanese market, when compared with other regions.

The 2022 survey finds Swedish companies in Japan emerging with cautious optimism from a global pandemic, which lasted longer than many had expected. Financial performance in Japan stayed robust throughout the last few years, compared to the rest of the region. Our respondents are overwhelmingly expecting the situation to improve from here on, with increased turnover and profitability to come. The view on the business climate in Japan has nearly recovered to pre-pandemic levels, though it is still hampered by long-standing issues around lagging digitalisation. There are also still some insecurities around Japan's commitment to sustainability. In 2020, Japan announced a net-zero emissions goal for 2050. However, it is still heavily dependent on coal for its energy mix, shows a low adoption of electric vehicles and has generally been reluctant to take a definitive stand against fossil fuels.

The relationship between Sweden and Japan is excellent and long-standing, with formal diplomatic relations established in 1868. The trade and investment relations are strong. In early 2019, the EU-Japan Economic Partnership Agreement (EPA) entered into force. It offers a lot of untapped potential to further increase trade and economic cooperation between Sweden and Japan. Team Sweden would like to take the opportunity to join forces with the Swedish business community in Japan to deepen bilateral ties, help the digitalisation of Japan's economy and support its green, post-Covid economic recovery.

Lastly, we would like to extend our most sincere gratitude to the participating companies and respondents which have contributed to this report.



Pereric Högborg
Ambassador of Sweden



Carsten Grönblad
Trade Commissioner,
Business Sweden Japan



Martin Persson
Chairman, Swedish
Chamber of Commerce
and Industry Japan

A huge thanks to this year's respondents



EXECUTIVE SUMMARY

ECONOMICS



Business area

48% Industrial
28% Prof. Services
13% Consumer

68%

of businesses
profitable in 2022
(Top 3 APAC markets)

43%

Increasing their
investments in
coming 12 months

BUSINESS CLIMATE



44%

Positive view of the
Business Climate
(Up from 39% in 2021)

Top 3 benefits

1. Personal Safety
2. Legal Security
3. Infrastructure

Top 3 challenges

1. Digitalisation
2. Corporate taxation
3. Transparency

SUCCESS FACTORS



Top 3 competencies

1. Sales
2. Product development and adaptation
3. Customer feedback

64%

Gain value from the
“Swedish” brand when
doing business in Japan

44%

Say customers consider
sustainability in
purchasing decisions

ABOUT THE SURVEY

The Swedish presence in Japan is dominated by large, mature industrial companies

There are approximately 150 Swedish or Sweden-related subsidiaries currently established in Japan. This year's Business Climate Survey was sent out on the 1st of April 2022 to 130 of these companies. Out of 130, 67 companies answered, resulting in a 52 per cent response rate. Responding companies represent a large share of the total Swedish business presence in Japan, with most major players represented, and the results can thus be considered a reliable picture of the current situation for Swedish businesses in Japan as of Spring 2022.

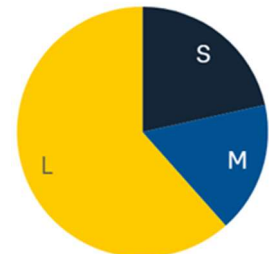
62 per cent of respondents are from large companies with over 1000 global employees. Currently in Japan, more than 10 000 people are employed by Swedish companies, mainly by a handful of the larger firms. The diverse businesses responding to this report are grouped into three broad categories: industrial (48 per cent), professional services (28 per cent), and consumer companies (13 per cent). The top three business categories of Swedish companies operating in Japan are Industrial equipment (21 per cent), Healthcare and pharmaceuticals (12 per cent), and Automotive (10 per cent), with remaining companies belonging to a wide range of sectors.

The Swedish business presence in Japan is long-standing and today dominated by companies who have been present in the country for many years. Only 10 per cent of our respondents entered the Japanese market after 2016 (with new entrants of course heavily hindered during the pandemic period since early 2020), and nearly half of all respondents have been in the market for over 22 years, establishing their Japanese presence before the turn of the millennium. This reflects the general stability and long-term profitability of the Japanese market, though potentially also indicates some untapped potential for new market entrants to take advantage of favourable business conditions in Japan, especially in these times of global and regional uncertainty.

The rest of this report is structured into four main chapters as follows:

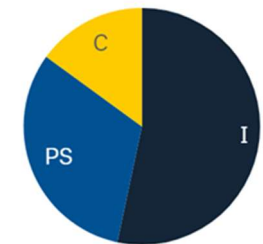
- **Economic outlook:** overall business performance and short-term outlook
- **Market analysis:** business climate and market conditions that contribute positively and negatively to commercial success in Japan
- **How Swedish companies succeed in Japan:** key success factors for Swedish companies in Japan
- **Acting sustainably:** the perception of sustainability-related aspects in the Japanese market

SIZE OF COMPANIES



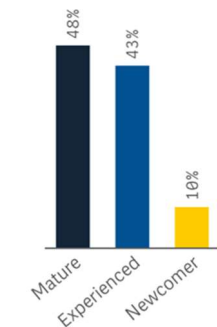
NOTE:
Global employees.
Large >1000: 62%
Medium 250-1000: 17%
Small 0-249: 22%

MAIN INDUSTRY



NOTE:
Industrial: 48%
Professional services: 28%
Consumer: 13%

AGE OF COMPANIES



NOTE:
Mature (-2000): 48%
Experienced (2001-2015): 43%
Newcomer (2016-): 10%

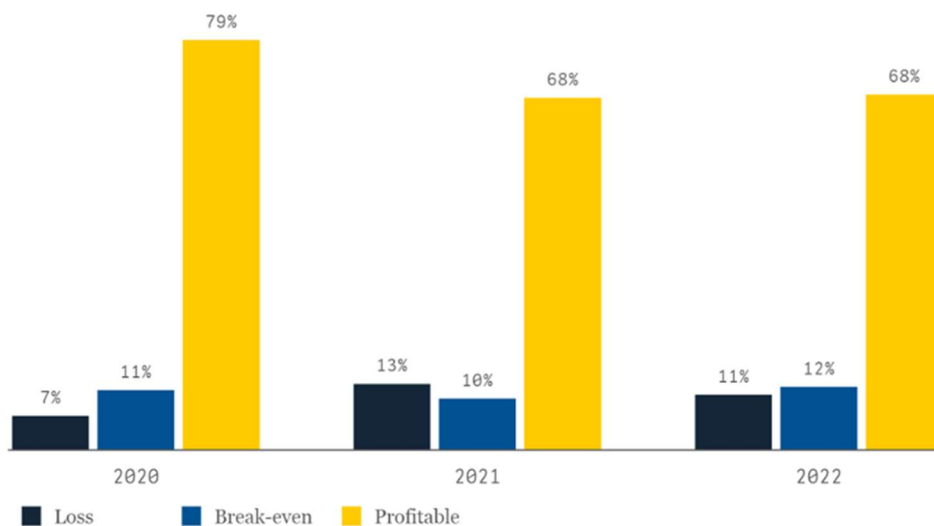
ECONOMIC OUTLOOK

After another challenging year, Swedish businesses in Japan are cautiously optimistic

Overall business sentiment for Japan stayed mostly positive this year despite two years battling a global pandemic, during which Japan closed off from much of the world, severely restricting travel and exchange. On the other hand, life within Japan continued to function without heavy restrictions, with only limited lockdown and state-of-emergency measures being implemented. Perhaps as a result, the negative impact on the profitability of Swedish businesses operating in Japan was also limited, with over two thirds (68 per cent) of firms in Japan staying profitable throughout the period, and only 11 per cent of respondents in the 2022 survey indicating that they expected to make a loss for the year, mainly in the professional services and consumer segments.

This resilience meant that Japan once again compared favourably to most other markets in the region, showing the third highest profitability out of the eight countries in APAC surveyed, and in line with the global average for this survey.

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN JAPAN IN 2022?



NOTE: "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Japan 2022.

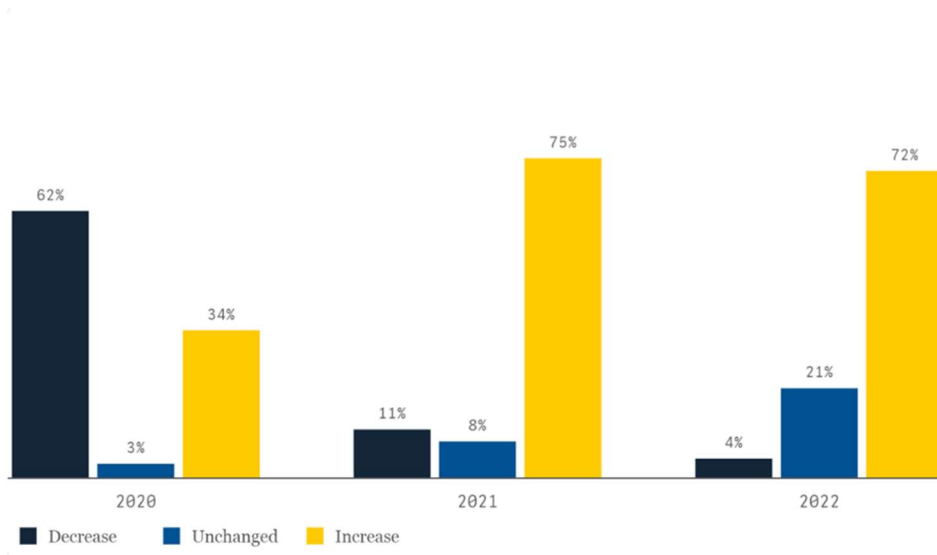
When asked about their expectations for the future, respondents are again optimistic, with 72 per cent expecting turnover in their industry to increase in the coming year. This is a large increase from the results in 2020, but a slight negative trend from 2021, when many companies likely expected an imminent end to pandemic restrictions. Instead, Japan's approach to relaxation of restrictions, especially in travel and new visa issuance, has been markedly slower and more conservative than many had expected, opening to business-related travellers only in March of this year, and with entry for tourists still heavily restricted. Along with recent macroeconomic and geopolitical worries, this has meant a slightly lowered expectation for revenue growth in this year's survey.

“ Covid-19 causing disruption in supply chains and transport is still affecting the business climate in Japan. We also have the effects of rising energy costs, and other issues like the Russia/Ukrainian War and the weakening yen causing uncertainty in our business.

President
Large industrial company

On the other hand, the number of respondents expecting turnover to decrease has sunk significantly when compared to last year, with only four per cent of respondents expecting decreasing turnover, all in the industrial segment.

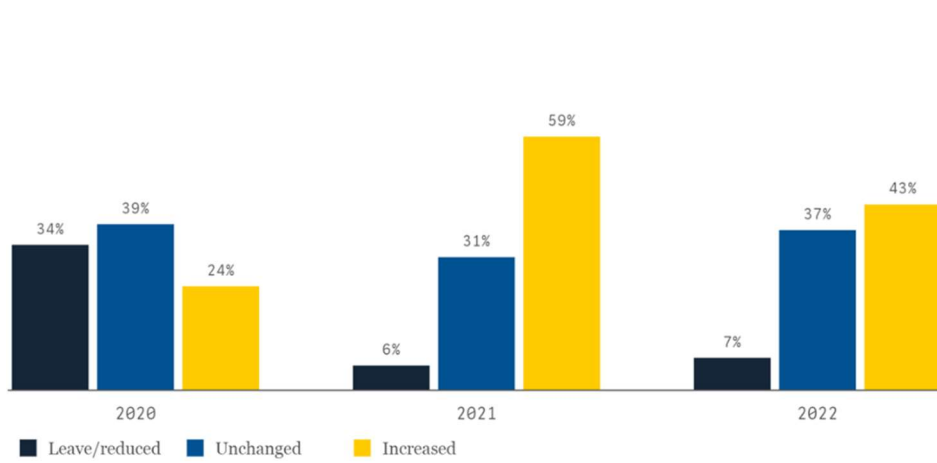
COMPARED TO THE DEVELOPMENT IN THE PAST 12 MONTHS, WHAT ARE YOUR EXPECTATIONS FOR THE COMING 12 MONTHS FOR YOUR INDUSTRY IN JAPAN REGARDING TURNOVER?



NOTE: "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Japan 2022.

The same pattern can be seen when looking at Swedish companies' investment intention for the Japanese market in the coming year, with a marked decrease in respondents answering that they are planning to increase their investment, when compared to the results from the 2021 survey (though still significantly higher than the results in 2020). Only 43 per cent of respondents plan to increase their investments, and among these, only three per cent plan to increase investments significantly. Meanwhile, 37 per cent of respondents will continue with investments at the same level as today, and seven per cent plan to decrease their investments into the market (none of the respondents indicated that they are planning to leave the market in the coming year).

WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN JAPAN, COMPARED TO THE PAST 12 MONTHS?



NOTE: "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Japan 2022.

This figure puts Japan near the bottom of the global results when it comes to investment intention – beating only Hong Kong out of all surveyed APAC markets. This disparity reveals a potential mismatch between financial performance and turnover growth on the one hand and willingness to continue investments into the Japanese market on the other. It remains to be seen whether recent macroeconomic and geopolitical developments, specifically around China and Chinese-adjacent markets, could revive interest in Japan as a stable and trusted market for investment going forward.

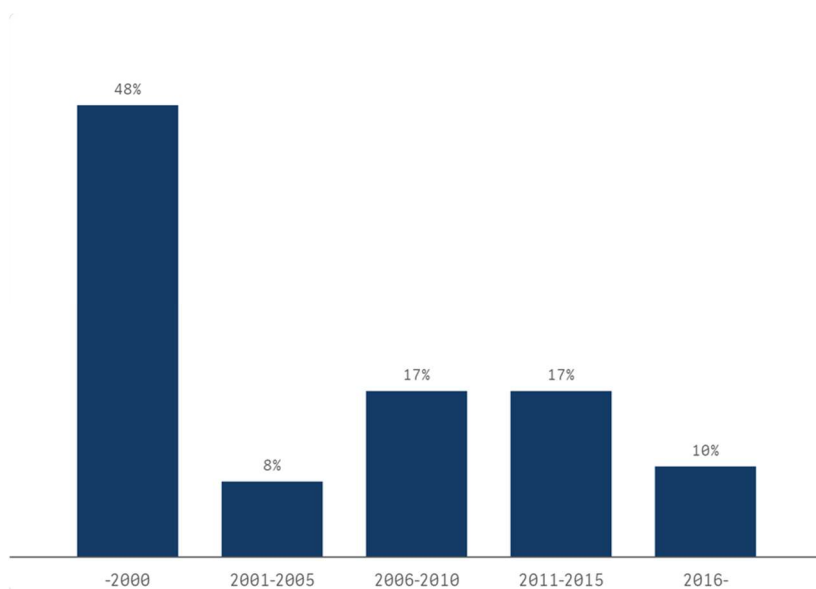
Among all respondents, larger companies and those with a long-standing presence in Japan had a higher investment intention than smaller, more newly established players – 50 per cent of “mature” companies planned to increase their investments, compared to only 33 per cent of “newcomers”, and fully 14 per cent of all “small” company respondents planned to decrease investments next year. This seems to indicate smaller and less experienced operations having a relatively more cautious response to recent uncertainty factors.

THE JAPANESE MARKET

The Swedish presence in Japan is large and long-standing, with a few new entrants

Japan and Sweden have a close and long-standing trading relationship that dates back over a century. Almost half of all respondents to this year's survey have been present in the Japanese market since before the turn of the millennium, while there are also a few new companies establishing a presence each year. The rate of new entrants has slowed down in recent years, especially during the pandemic, but is now slowly picking up as restrictions are gradually being eased.

IN WHAT YEAR DID YOUR COMPANY ESTABLISH OPERATIONS IN JAPAN?

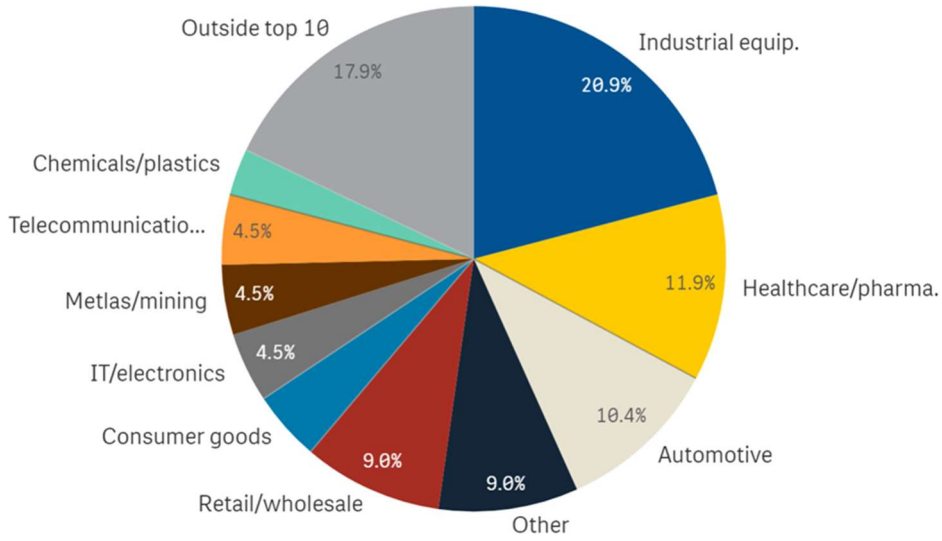


NOTE: The number of respondents for this question was 67. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Japan 2022.

Swedish companies present in Japan represent a varied range of industries and sectors. The largest cohorts are present within industrial equipment, healthcare and automotive sectors. This mirrors Japan's own economy, which has historically been strong in these sectors, as well as its wealthy and rapidly ageing population and the associated strong demand for healthcare services.

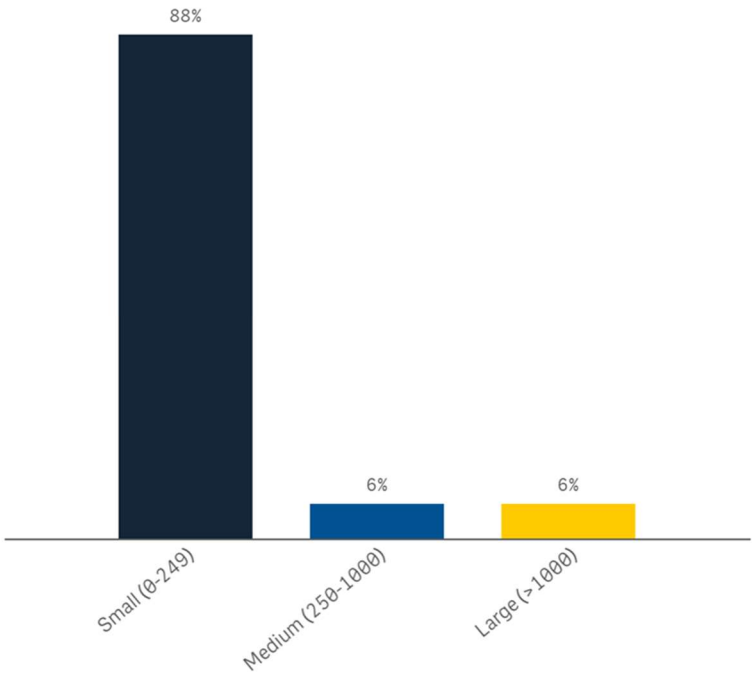
WHAT IS YOUR COMPANY'S MAIN INDUSTRY IN JAPAN?



NOTE: The number of respondents for this question was 67. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Japan 2022.

Whilst respondents are generally large firms on a global level, most have a limited presence locally in the Japanese market. 88 per cent of respondents have fewer than 250 local employees in Japan, with 41 per cent of local organizations being smaller than 10 employees. However, there are also a few very large local organisations which employ a significant number of personnel in Japan.

SWEDISH FIRMS' LOCAL NUMBER OF EMPLOYEES IN JAPAN IN 2022



NOTE: The number of respondents for this question was 65. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Japan 2022.

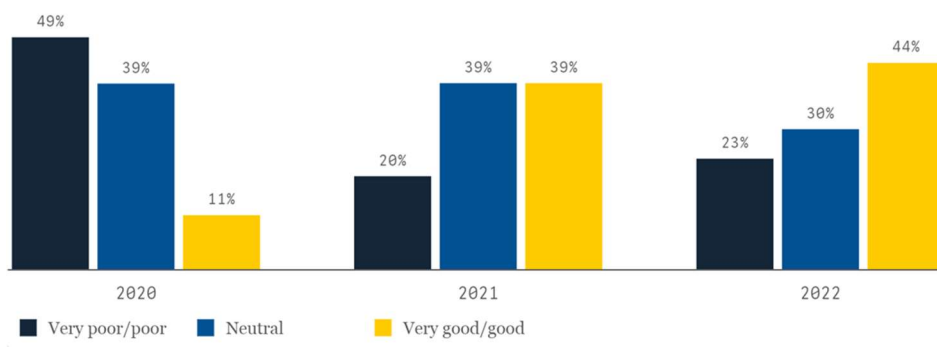
Perception of the Japanese business climate keeps improving as pandemic fades

After a major dip in 2020, and subsequent partial recovery in 2021, the general perception among Swedish companies of the overall business climate in Japan has continued to improve gradually in this year's survey. Fully 44 per cent of respondents now have a positive view of the circumstances in Japan, up from 11 per cent two years ago, and from 39 per cent in 2021. However, it should also be noted that the number of respondents who perceive a poor business climate has also slightly increased since 2021, with a marked decrease in neutral perceptions – a slight polarisation of perspectives amongst the Swedish business cohort.

Interestingly, smaller companies are significantly more positive about the business climate than the very large respondents, with 50 per cent and 56 per cent of small- and medium-size companies having a positive view. Also overrepresented in the positive answers are professional services firms, out of which fully 74 per cent now have an optimistic view of the situation, compared to only 33 per cent of both consumer- and industry-oriented companies. Finally, there is also a trend for newer entrants into the Japanese market to have a more positive view of the local business climate than their longer-established peers.

A score of 44 per cent puts Japan solidly in the middle ranks of all surveyed APAC markets – behind markets like India and South Korea, but placing ahead of China, Indonesia and Hong Kong.

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN JAPAN?



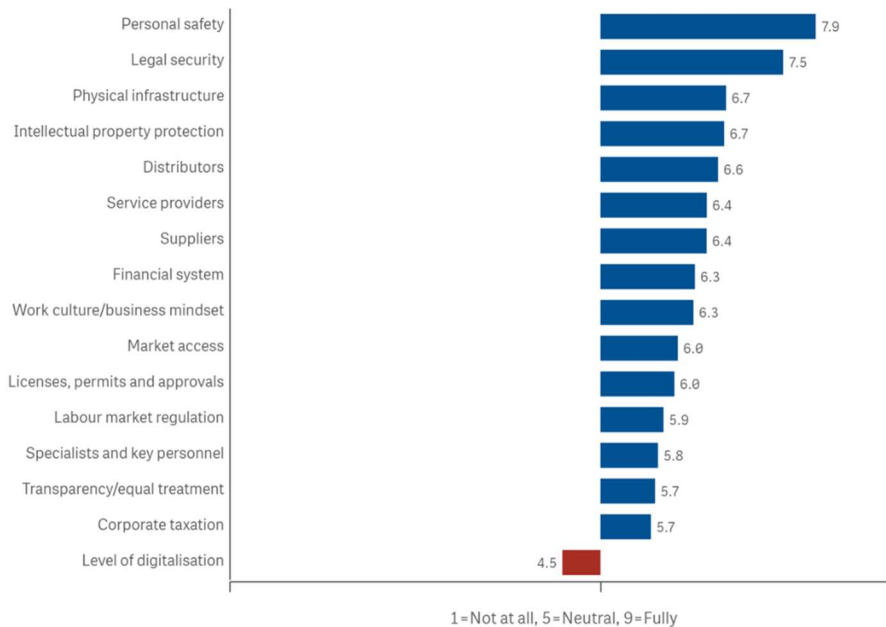
NOTE: "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Japan 2022.

Slow digitalisation is both a challenge and potential opportunity for Swedish firms

Though the overall business climate perception has changed, when breaking down the individual components of Japanese business conditions the picture is very similar to what has been seen historically in this survey. Swedish companies in Japan again appreciate Japan's status as a secure and developed partner in Asia, with high scores for safety, legal and intellectual property security, as well as good physical infrastructure. Lower scores are awarded for aspects related to Human Resources, such as labour market regulation, work culture, and availability of specialist skillsets.

Coming out on the very bottom as a strong outlier is again Japan's slow pace of digitalisation. Japan is a famously conservative market and notorious for sticking to old-fashioned business practices like fax machines, *hanko*-stamps and physical paperwork. Indeed, Japan's score for the perception of digitalisation is the lowest of all markets surveyed this year.

HOW WELL DO THE FOLLOWING CONDITIONS MEET THE NEEDS OF YOUR COMPANY IN JAPAN?



“Still conservative, digitalisation is way too slow. We still get orders by fax!”

Regional Director
Manufacturing company

NOTE: The number of respondents for this question was 67.
SOURCE: Business Climate Survey for Swedish Companies in Japan 2022.

Japan's government have promised to boost digitalisation for decades, with limited success. However, recently ambitions have been further raised with the creation of a new Digital Agency and associated Digital Transformation strategy in September last year, along with the acceleration of the “Society 5.0” strategy, all aiming for the rapid digitalisation and potentiation of the Japanese public sector as well as broader society.

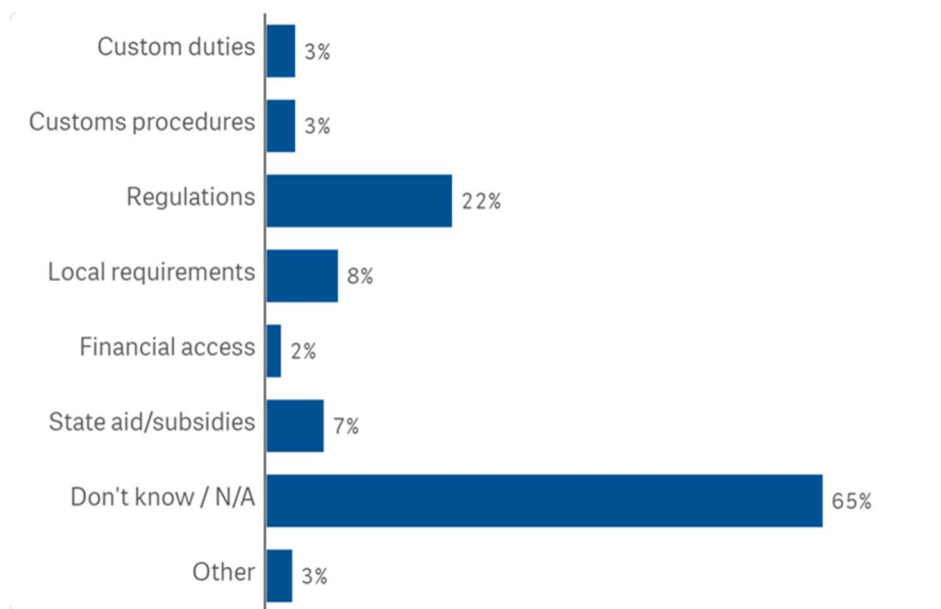
Some observers have also raised hopes that the recent pandemic could bring a silver lining, having forced Japan's business and society into widespread and rapid adoption of digital solutions, including e-commerce, digital payments, teleworking, remote medical care, and digital identification. A significant portion of Japan's substantial economic relief packages were also earmarked to support the digitalisation of smaller businesses, in an effort to accelerate a recovery that would also leave Japan's economy more resilient in the long-term.

We see that Swedish companies, as digital leaders, have a key role to play in supporting Japan's digitalisation efforts with their valuable experience and strong digital offerings, as well as through setting demands and advocating for an ambitious policy agenda. In this sense, digitalisation can not only be a challenge for Swedish companies in the Japanese market, but also potentially a key business opportunity.

Overall low trade barriers to enter the Japanese market

In terms of market access, Japan ranks amongst the very top of countries in this year's global survey – placing it in the top three along with Singapore and The Netherlands. Swedish companies in Japan have historically had few issues with trade barriers, and the situation has improved even further with the implementation of the Japan-EU economic partnership agreement after 2019, removing most of the remaining tariffs and other barriers.

HAS YOUR COMPANY IN THE PAST YEAR ENCOUNTERED TRADE BARRIERS IN JAPAN WITH A NOTICEABLY NEGATIVE IMPACT ON OPERATIONS, IN ANY OF THE FOLLOWING AREAS?



NOTE: The number of respondents for this question was 67.

SOURCE: Business Climate Survey for Swedish Companies in Japan 2022.

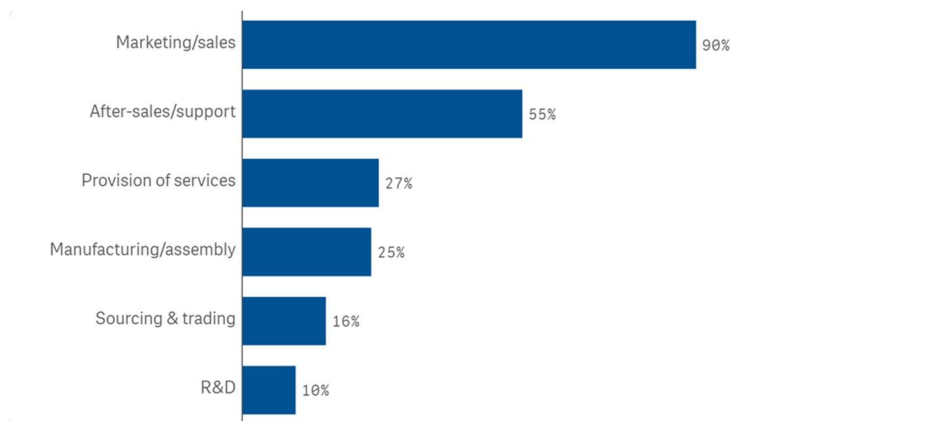
When companies do encounter trade barriers, it is usually in terms of Japan-specific regulations or other local requirements impeding the sales of their products or services. Often, these barriers can be overcome through more extensive adaptation of the products for the Japanese market, but they can nevertheless sometimes have a negative effect on the operations and results of Swedish firms in the market.

HOW SWEDISH COMPANIES SUCCEED IN JAPAN

Adapting and co-developing to meet local customer demands is a key to success

As in the majority of international markets, the operations of Swedish firms in Japan are in most cases centred around Marketing, Sales, and After-sales/customer support functions. Compared to results from previous years, there has been some shift towards also engaging in local manufacturing in Japan – up to 25 per cent of respondents this year from 20 per cent last year.

OPERATIONS OF SWEDISH FIRMS IN THE JAPANESE MARKET

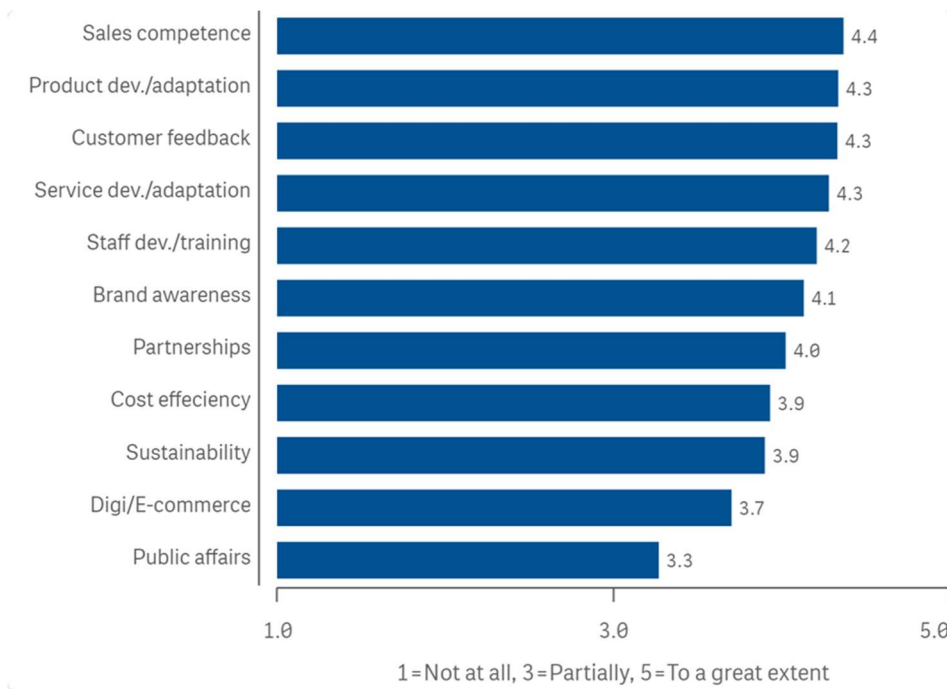


NOTE: The number of respondents for this question was 67. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Japan 2022.

In terms of key competency areas for the local organisation to succeed in Japan, sales competence unsurprisingly takes the top spot again this year. This is followed by skill in Product and Service development and adaptation as well as dealing and responding to Customer feedback. The high importance put onto these skills by Swedish companies to succeed in the Japanese market highlights the need for firms to properly adapt their offering to the needs and requirements of the local Japanese market, often in collaboration (or at least based on feedback from) local customers, whilst still retaining the strengths of their unique product and branding.

TO DATE, WHICH OF THE FOLLOWING AREAS HAVE BEEN IMPORTANT IN MAINTAINING COMPETITIVENESS IN JAPAN?



NOTE: The number of respondents for this question was 67. "Don't know/Not applicable" responses are included but not shown in figure.

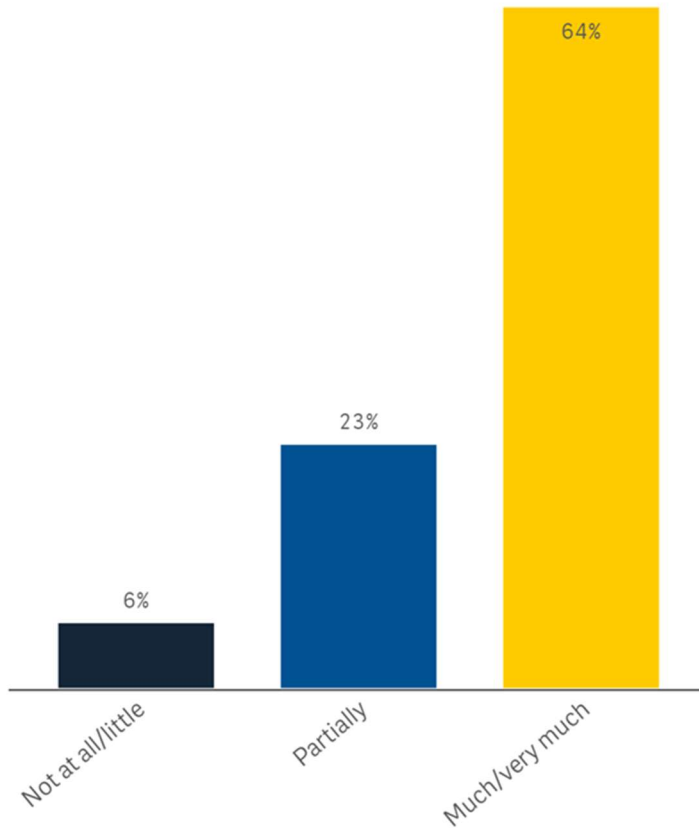
SOURCE: Business Climate Survey for Swedish Companies in Japan 2022.

The Swedish brand image continues to create value in the Japanese market

Building a strong brand in Japan can take a long time, as the market is characterised by strong brand loyalty, and trust is a currency that is highly valued but slow to acquire. In this environment, many Swedish brands take advantage of the existing positive impression amongst Japanese consumers and decision-makers of Sweden as a country and the quality and values of Swedish products overall.

Sweden is strongly associated in Japan with premium quality, advanced and efficient technology, sustainability and nature-friendliness, and ethical values around e.g. gender equality and animal rights. Almost two-thirds of respondents to this year's survey have in some way built on these impressions and, doing so, found that the Swedish brand has contributed significantly to their success in the Japanese market. This result has been stable over the last few years and is high also in comparison to the overall APAC picture, with Japan placed in the top three APAC markets for valuing the Swedish brand, alongside South Korea and India.

TO WHAT EXTENT WOULD YOU ESTIMATE THAT THE “SWEDISH BRAND” CONTRIBUTES TO YOUR BUSINESS IN JAPAN?



“ For smaller companies without strong brands, it can be very valuable to use the image of ‘Sweden’, especially its association with sustainability, renewable energy, and advanced technology.

Director
Industrial products manufacturer

NOTE: The number of respondents for this question was 66. “Don’t know/Not applicable” responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Japan 2022.

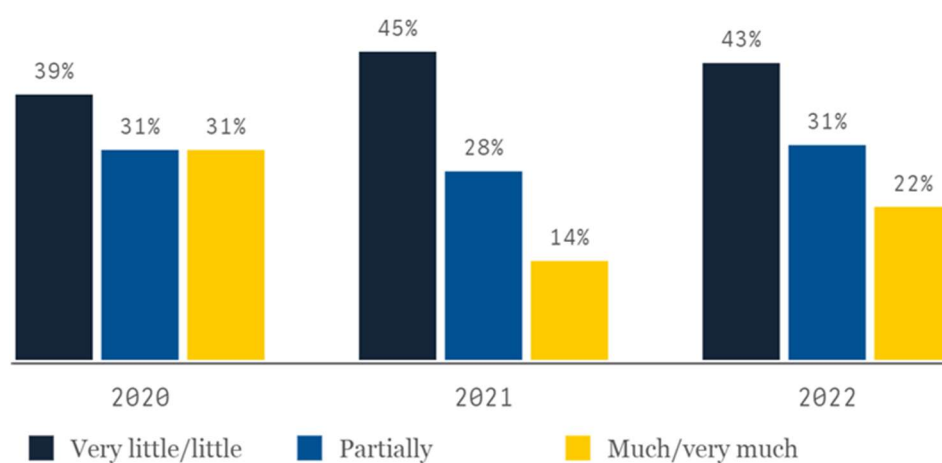
ACTING SUSTAINABLY

Japan is starting to value sustainability, but change is happening gradually

Although sustainability has historically been an underprioritised area in Japan, recent years have seen increasing ambition from the Japanese government in accelerating a sustainable transition for Japan, most notably through the setting of a target for Net-zero CO₂ emissions by 2050 and the launch of the multi-trillion-yen Green Innovation Fund. The private sector is gradually getting the message, with over 500 businesses, including many major corporations, joining the Japan Climate Initiative (JCI), and with the creation of platforms such as Japan Climate Leaders' Partnership (JCLP).

Despite these rising ambitions, there is still some doubt as to how far down into Japanese companies' awareness and purchasing strategies these considerations have penetrated. In 2020, only 31 per cent of respondents in Japan felt that their customers fully considered environmental aspects in their purchasing decisions – a low number in a global results comparison. This dropped even further during the last two years, as Japanese society focused fully on dealing with the more immediate impacts of the pandemic. This year's survey shows a slight recovery in the figure, up to 22 per cent. This can be compared to a global average of 40 per cent, and also puts Japan second-to-last amongst the APAC markets, ahead only of Indonesia.

TO WHAT EXTENT DO CUSTOMERS IN JAPAN CONSIDER ENVIRONMENTAL ASPECTS OF A PRODUCT OR SERVICE IN THEIR PURCHASING DECISION?



As with digitalisation, there are potentially strategic gains to be made by Swedish companies, which generally have a strong sustainability offering, positioning themselves as partners in Japan's upcoming sustainable transition, as environmental considerations gradually work themselves down from government targets to corporate strategy and into middle-management KPIs.

“ Consumers do not have enough awareness on environmental issues to be willing to pay a price premium for sustainable product alternatives. A lack of government incentives fails to improve this situation.

President
Automotive company

