

# PEST Analysis (Macroenvironmental Factors)

The ITOCHU Group's business environment is changing, and uncertainties are increasing. Through PEST analysis, we fully assess risks and opportunities in the context of macroenvironmental factors—such as economic recession risks, geopolitical risks, and environmental and social risks—and build an even stronger competitive edge by implementing flexible measures and transforming businesses in response to changes in the times and the business environment.

	Macroenvironmental Factors	Opportunities (Items with significant impact are highlighted in blue)	Risks (Items with significant impact are highlighted in red)	Impact Levels over Various Timeframes			(Reference) Related Business Risks (▶ Page 46 Countermeasures for Business Risks)
				Short-term	Medium-term	Long-term	
<b>P</b> Political/Legal	Political Trends <ul style="list-style-type: none"> <li>Retreat of liberalism and democracy (political instability, inequality issues, etc.)</li> <li>Intensification of conflict between different political systems (democracy vs. authoritarianism)</li> <li>Geopolitical risks (Russia, East China Sea, South China Sea, Middle East, North Korea, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Increase in business opportunities of consumer-related businesses influenced by the prioritization of consideration for citizens' lives</li> <li>Expansion of general trading company functions due to the restructuring of supply chains and the increasing difficulty in procuring food, energy, and mineral resources</li> <li>Increases in prices of related items accompanying decreases in production and supply volumes</li> </ul>	<ul style="list-style-type: none"> <li>Unpredictable policy changes and headwinds for the growth of profit</li> <li>Deterioration of the global economy; decline in trade volume; tightening of export and investment restrictions; tariff increase</li> <li>Supply disruptions, economic stagnation, and financial market turmoil due to terrorism and armed conflicts</li> </ul>				<ul style="list-style-type: none"> <li>Market Risk</li> <li>Country Risk</li> <li>Risks Associated with Fund-raising</li> <li>Risks Associated with Taxes</li> <li>Risks Associated with Laws and Regulations</li> <li>Risks Associated with the Environment and Society</li> </ul>
	Economic Policy Trends <ul style="list-style-type: none"> <li>Shifting from inflation control to prioritizing economic growth</li> <li>Normalization of fiscal and monetary policies</li> </ul>	<ul style="list-style-type: none"> <li>Recovery of the economic growth rate</li> <li>Accelerated deregulation and society's expectations of the private sector with respect to economic growth, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Reacceleration of inflation due to economic overheating</li> <li>Higher interest rates in Japan; yen appreciation against the dollar; increase in tax burdens</li> </ul>				
	Changes in the Tax Code and Regulations <ul style="list-style-type: none"> <li>Trade talks, agreements, and de-risking (TPP, RCEP, IPEF, etc., economic security)</li> <li>Regulations to curb GHG emissions (Paris Agreement, etc.)</li> <li>International tax trends (BEPS countermeasures, environmental taxes, corporate tax rate hikes)</li> <li>Tighter regulations in the digital technology field (competitive environment, information management, handling of personal data, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Increase in trade volume and generation of new business channels</li> <li>Expansion of renewable energy markets (wind, solar, hydrogen, ammonia, etc.)</li> <li>Generation of new business channels through introduction of new taxes</li> <li>End of data monopolies held by existing platformers and increase in availability of open data</li> </ul>	<ul style="list-style-type: none"> <li>Disappearance of existing transactions</li> <li>Shrinking of fossil fuel markets (coal, crude oil)</li> <li>Shrinking of existing transactions and increase in tax burden</li> <li>Increase in regulatory response costs and reputational decline or damage</li> </ul>				
<b>E</b> Economic	Macroeconomic Environment (Developed Countries, Emerging Countries)	The emergence of new demand driven by economic recovery in developed countries; increased consumer spending as the standard of living rises in the Global South; growing demand for infrastructure and food resources as the population grows	Emergence of non-performing assets due to monetary tightening or reduction of easing measures				<ul style="list-style-type: none"> <li>Risks Associated with Macroeconomic Factors and Business Model</li> <li>Market Risk</li> <li>Investment Risk</li> <li>Risks Associated with Impairment Loss on Fixed Assets</li> <li>Credit Risk</li> <li>Country Risk</li> <li>Risks Associated with Fund-raising</li> </ul>
	Chinese Economy	Expansion of business opportunities in sectors benefiting from economic stimulus measures	Decreased demand in related sectors due to prolonged adjustment in the real estate market				
	Exchange Rates and Interest Rates	Reduction in overseas financing costs driven by decreased interest rates as inflation subsides	<ul style="list-style-type: none"> <li>Increase in financing costs in Japan due to rising interest rates</li> <li>Negative impact on domestic consumption in Japan caused by excessive yen depreciation</li> </ul>				
	Asset Prices and Commodity Markets (Stocks, Real Estate, Resource Prices, etc.)	Expansion of trading profits due to increased price volatility	A sharp decline in asset and commodity prices in specific sectors				
	Investment Environment (Intensified Competition Due to Increased Players, Industry Restructuring)	Increase in expected returns as growth rebounds; more investment opportunities in fields and regions of strength	Excessive swings in project value				
<b>S</b> Social/Cultural	Responding to Climate Change and Environmental Issues	Increase in business opportunities through the transformation of energy supply chains and the transition to a circular economy; potential for acquisition of new customers due to heightening of added value or enhancement of brand value of existing products and services	Decrease in fossil fuel demand; increase in investment costs due to decarbonization and resource recycling; rising electricity prices				<ul style="list-style-type: none"> <li>Risks Associated with Significant Lawsuits</li> <li>Risks Associated with Human Resources</li> <li>Risks Associated with the Environment and Society</li> <li>Risks Associated with Natural Disasters</li> </ul>
	Cultivating a Workplace Environment	Improvement in labor productivity due to education, utilization of IT tools, and advancement of diversity; increase in flexibility of work systems; improvement in health and motivation; securement of outstanding human resources	Labor shortages due to low birthrate; outflow of personnel; harassment, mental health, and long working hours; increases in health-related costs				
	Respect and Consideration for Human Rights	Business stabilization and recruitment through harmonious coexistence with local communities; enhancement of corporate image through promotion of ethical procurement	Human rights-related project delays and continuity risks (corporate image deterioration, lawsuits and contract cancellations, boycotts, strikes, etc.)				
	Increasing Awareness on Health and Quality of Life	Enhancement of productivity and brand image and lower medical expense burden; increase in demand for products and services compatible with a non-contact society, increase in demand for health promotion and visualization of food safety and security	Decrease in creditworthiness when safety and health issues occur; lower labor productivity; increase in resignation rate; higher medical expense burden				
	Ensuring Stable Procurement and Supply	Increase in demand for rare metals, rare earths, etc.; differentiation through construction of systems for stable procurement and supply provision that reflects consideration for environmental burden and economic security	Increase in additional costs arising from efforts to ensure stable procurement and stable supply of food resources, energy, mineral resources, etc.				
	Strengthening Governance Structure	Rise in corporate value assessment by investors; inflow of investment funds; addition to investment targets; increase in stock prices	Decrease in corporate value assessment by investors; withdrawal of invested funds; exclusion from investment targets; decline in stock price				
	Changes in Business Models Caused by Technological Innovation	Creation and provision of innovative services and new business models; improve productivity and optimize overall supply chain through use of new technology	Obsolescence and extinction of existing business models due to proliferation of new technologies; leaks of internal data due to cyberattacks; confusion due to false information; increase in costs related to digital transformation				

Impact High    Low