

The 14th Survey on Business
Conditions of Japanese Companies in
Latin America

December, 2013

Japan External Trade Organization (JETRO)
Latin America Division, Overseas Research
Department

[DISCLAIMER].....
Please use the information provided in this report at your own discretion and risk. At JETRO, we aim to provide you with the most accurate data possible. However, we kindly ask for your understanding that should you, the reader of this report, suffer financial loss, etc., in connection with the report's contents, neither JETRO nor the authors of the report can be held responsible.
.....

Preface

This report summarizes the results of the survey conducted between September and October 2013 by the Japan External Trade Organization (JETRO), on the business conditions of Japanese firms in the seven major Latin American countries (Mexico, Venezuela, Colombia, Peru, Chile, Brazil, and Argentina).

This is the 14th issue of the periodic survey conducted by JETRO. For each survey, the Japanese companies in Latin America have given us considerable support, and we sincerely appreciate their cooperation.

We hope that this report will be informative for Japanese companies in Latin America, as well as for those looking to do business in the region.

Latin American Offices
Latin America Division, Overseas Research Department
Japan External Trade Organization (JETRO)

Contents

Chapter 1	1
1. Response Situation by Country.....	1
2. Ratio of Manufacturing and Non-Manufacturing among Respondent Companies.....	1
3. Product Category of Manufacturing Respondents.....	2
4. Business Category of Non-Manufacturing Respondents.....	3
5. Location of Headquarters for Latin American Business.....	5
Chapter 2	6
1. Operating Profits Forecast for 2013.....	6
Slightly Declining Trend from 2012.....	6
Business Sentiment Bottomed Out, Showing Recovery.....	7
The Lower the Profit Forecast, the Higher the Business Sentiment.....	8
Expanding Domestic Market Large Factor for Profit Improvement.....	10
Increasing Labor Costs Main Factor for Profit Decrease Forecast.....	11
2. 2014 Forecasts for Operating Profits.....	12
2014 Profits Expected to Further Improve.....	12
Same Reasons as 2013 for Profit Increase.....	14
Operating Profits Depend Greatly on Market Conditions.....	15
3. Business Outlook for the Future.....	16
Business Outlook Varies by Country.....	16
Business Expansion Based on Market Potential.....	18
Most of Expansion Intended in Sales.....	19
Tighter Regulations Prompt Transfer/Withdrawal.....	20
Localization of Labor Force, while Management Remains in Headquarters.....	21
Competent Employees Required for Localization.....	22
Further Localization of Employees.....	23
Plans for Local Employee Increase Apparent in Mexico and Brazil.....	24
4. Approaches for Market Development.....	25
In Latin America Overall, Competition Highest Among Japanese Companies.....	25
Intensifying Market Competition.....	26
5. Issues on Business Management.....	27
Challenged with Emergence of Competitors and Price Reduction Requests.....	27
Financially Challenged by Exchange Rate Fluctuations and Taxation.....	28
Notable Increase in Wages of Employees.....	29
Time-Consuming and Complicated Customs Procedure.....	30
Faced with Difficulties of Local Procurement.....	31
Complex Tax and Administrative Procedures Prominent in Mercosur Countries.....	32
[Reference] Benefits (Strengths) in the Investment Environment.....	34
Concern over Security and Terrorism in Some Countries.....	35

Comparing Brazil and Mexico—Labor Costs, Taxation, and Administrative Procedures	36
6. Procurement Situation of Raw Material and Parts	37
High Ratio of Local Procurement in Brazil.....	37
Procurement Mostly from Japan, Though Less Than Previous Survey.....	39
7. FTA/EPA Utilization and Problems	40
Mexico: Over 50% FTA Utilization in All Areas	40
Brazil: High Use of Mercosur, as Well as Auto Sector Agreement with Mexico for Imports	41
Chile: Over 70% Utilization for Imports in All Regions.....	42
Argentina: Utilization of Mercosur as Well as Auto Sector Agreement with Mexico	43
Colombia: Used for Exports to the Andean Community, and Imports from Mercosur and Mexico	44
Peru: High Utilization for Imports.....	45
Venezuela: Only Using FTA with Mercosur	46
Issues on Export FTAs—Receiving Certificate of Origin and Capable Staff Shortage	47
Demand for FTA Conclusion.....	48
Questionnaire survey tables.....	49

Chapter 1 Outline of the Survey

1. Response Situation by Country

From September to October 2013, we conducted a questionnaire survey on business conditions of Japanese companies in seven Latin American countries (Mexico, Venezuela, Colombia, Peru, Chile, Brazil, and Argentina). The questionnaires were sent to 742 companies. We received responses from a record-high 436 companies, giving a return rate of 58.8%.

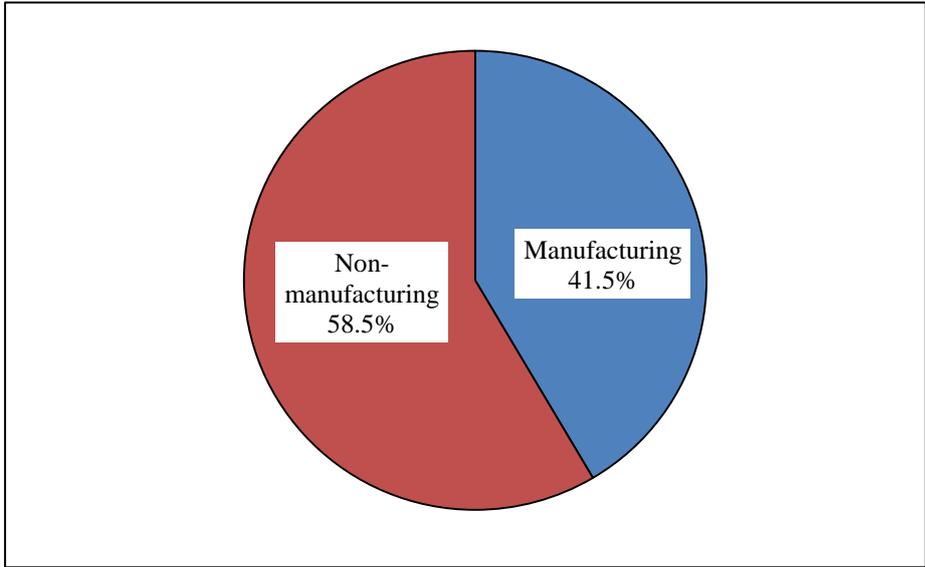
Chart: Number of Questionnaires sent, number of responses, response rate

Surveyed Countries	Questionnaires Sent	Respondent Companies	Response Rate
Mexico	210	105	50.0%
Venezuela	23	19	82.6%
Colombia	29	22	75.9%
Peru	21	14	66.7%
Chile	54	36	66.7%
Brazil	359	206	57.4%
Argentina	46	34	73.9%
Latin American Total	742	436	58.8%

2. Ratio of Manufacturing and Non-Manufacturing among Respondent Companies

Of those who responded, 181 companies (41.5%) were operating as manufacturers in Latin America, and 255 companies (58.5%) were non-manufacturers.

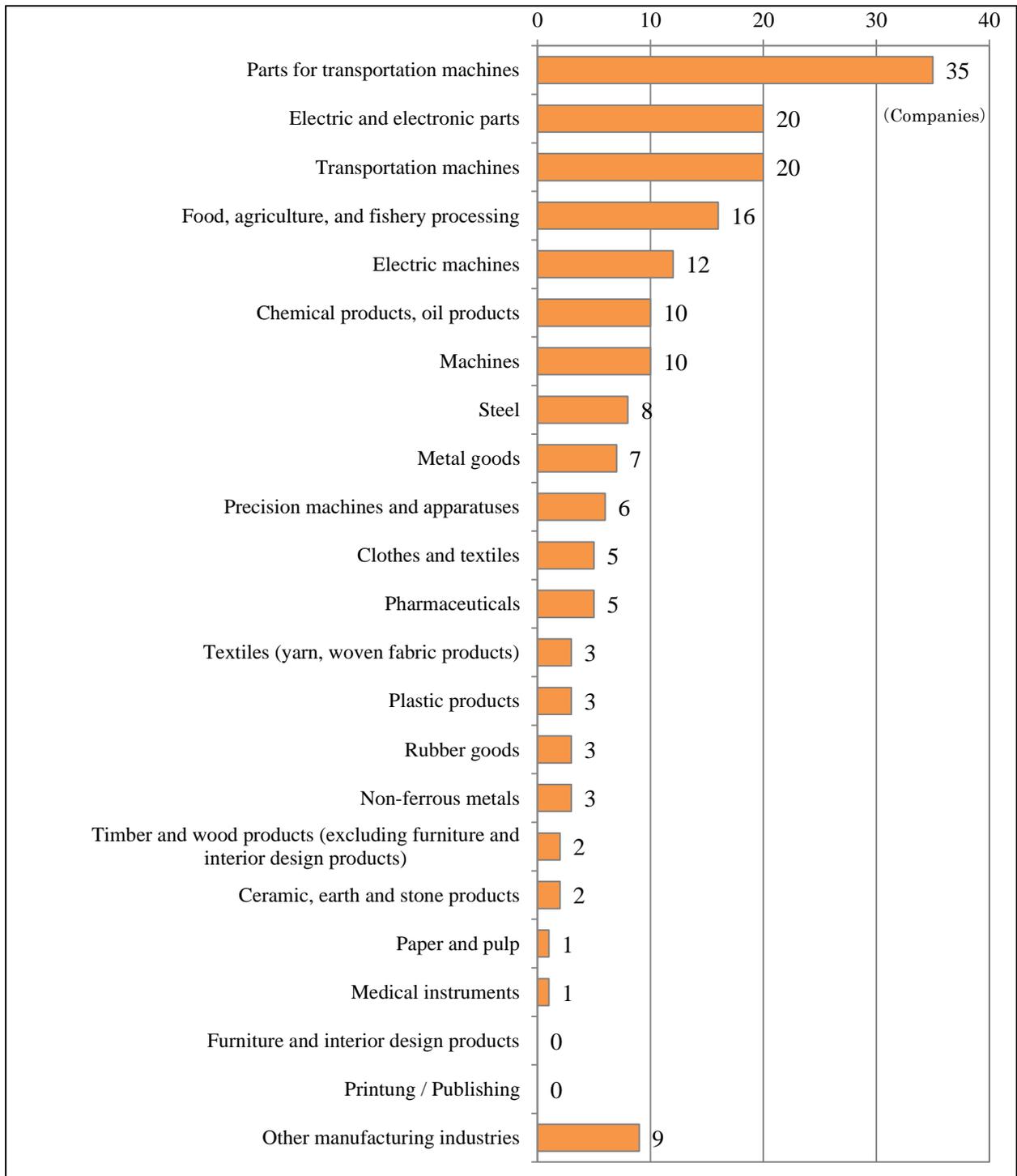
Fig 0-1: Breakdown of Respondents by Industry



3. Product Category of Manufacturing Respondents

As for the product category of the respondent manufacturers, “Parts for transportation machinery (car and motor cycle)” had the most respondents, followed by “Electric & electronic parts,” “Transportation machinery (car and motor cycle),” and “Food, agriculture & fishery processing.”

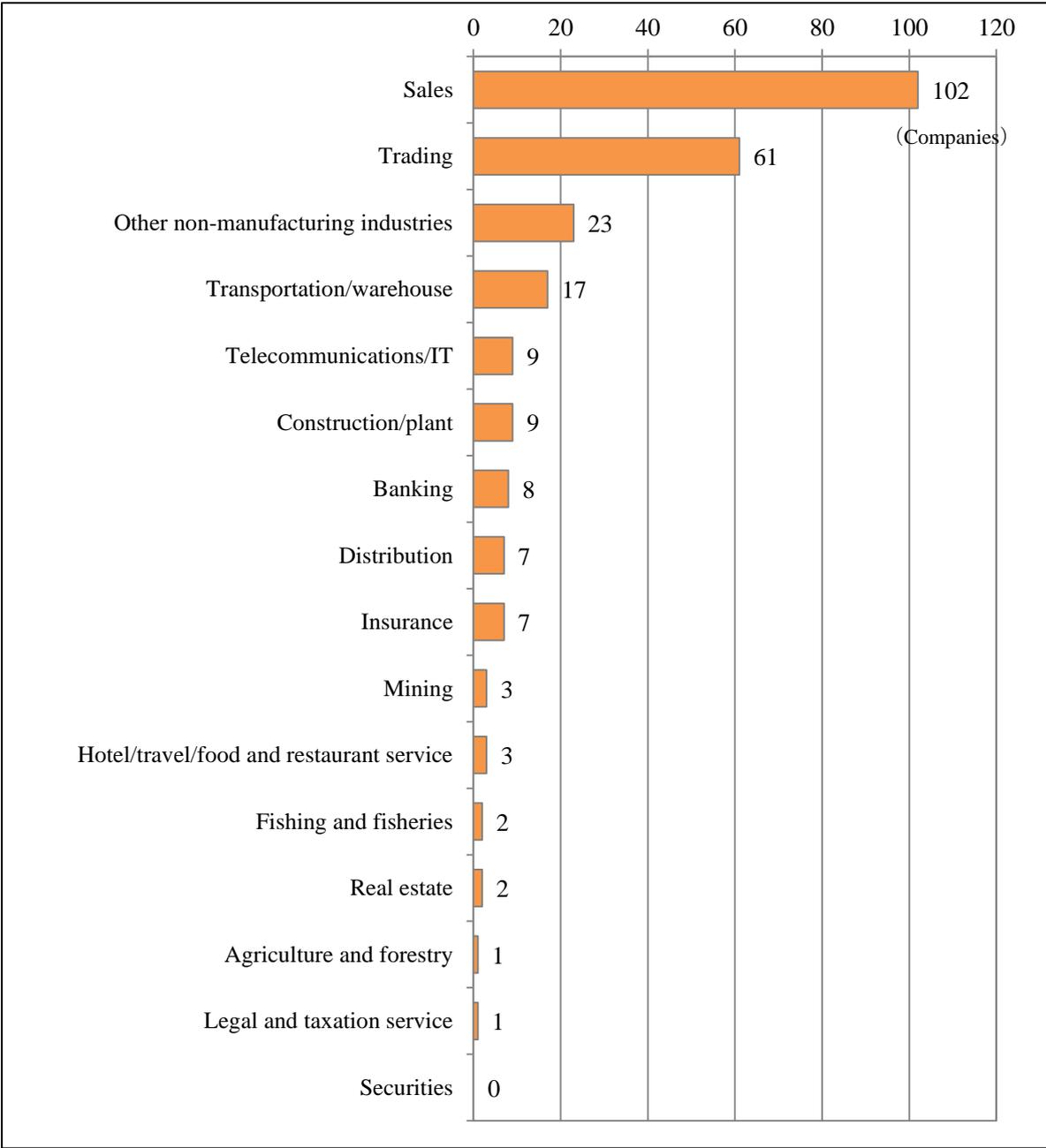
Fig. 0-2: Number of Respondents by Product Category in Manufacturing (181 companies)



4. Business Category of Non-Manufacturing Respondents

Looking at the respondent non-manufacturers by business category, the largest number belonged to “Sales,” followed by “Trading,” “Other non-manufacturing industries,” and “Transportation/warehouse.”

Fig 0-3: Number of Respondents by Business Category in Non-Manufacturing (255 companies)

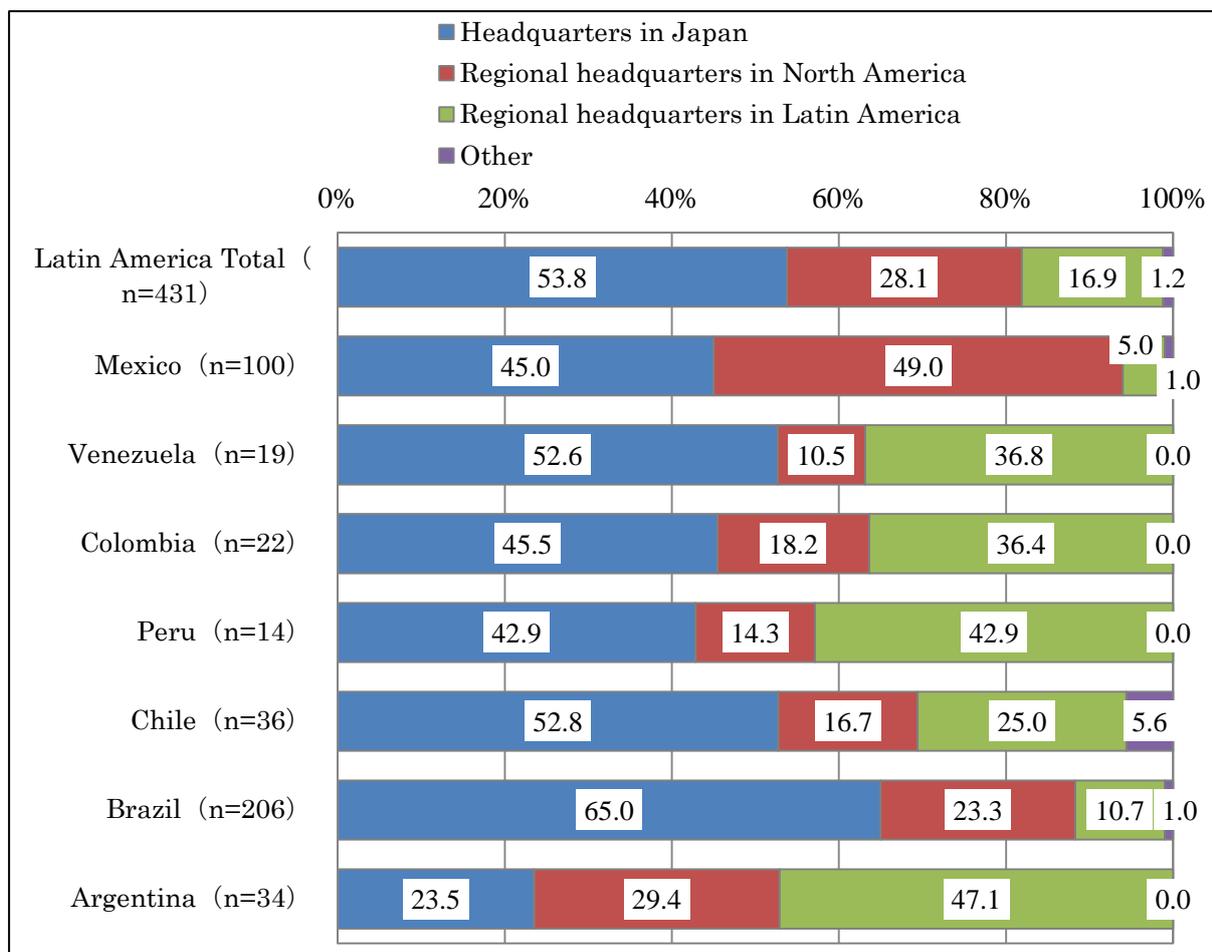


5. Location of Headquarters for Latin American Business

Respondents were asked to choose the location of their headquarters from four options: in Japan, in North America, in Latin America, and other.

For Latin America overall, the majority of respondents had their business headquarters in Japan, followed by North America, then Latin America. Looking at each country, companies in Mexico had the largest ratio of North American headquarters, while many companies in Argentina had headquarters in Latin America. Since these two countries are neighbored by economic giants U.S. and Brazil, it is likely that the company headquarters are located there.

Fig. 0-4: Location of Headquarters for Latin American Operations



Chapter 2 Main Survey Results

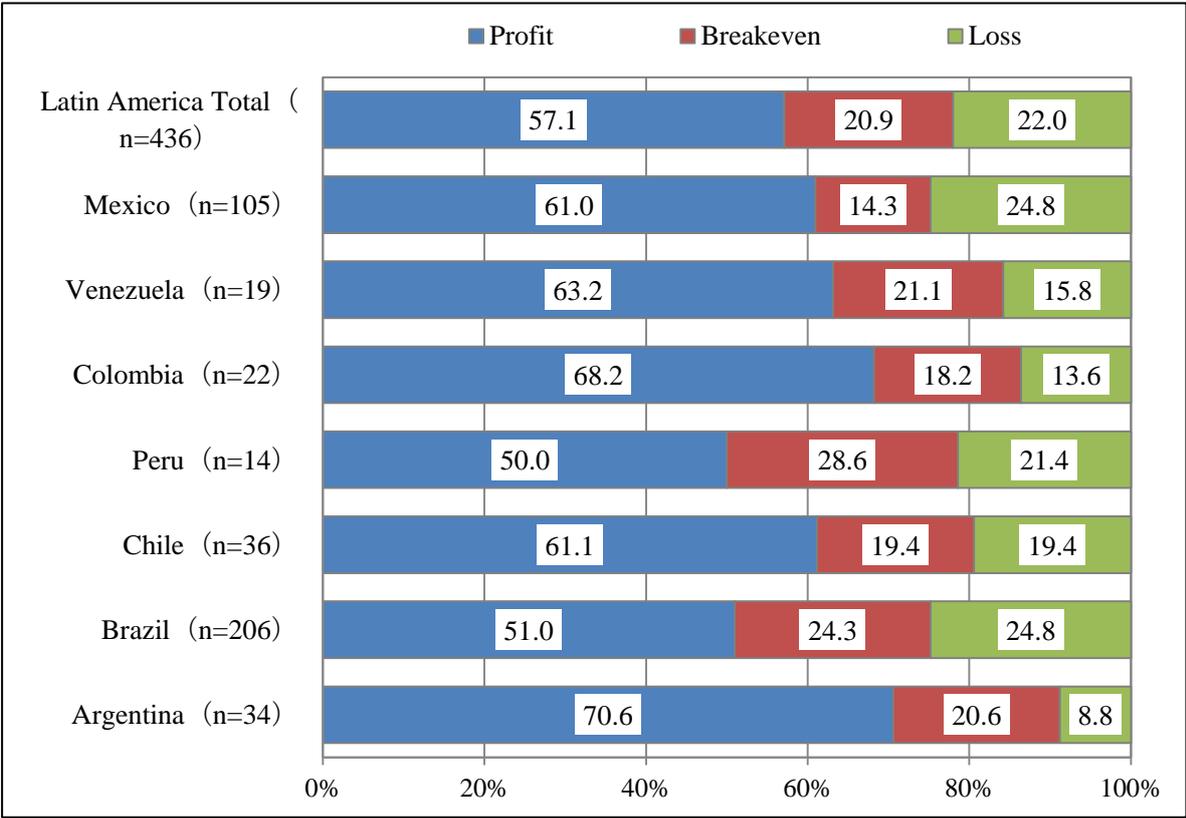
1. Operating Profits Forecast for 2013

Slightly Declining Trend from 2012

For 2013 operating profits forecast, 57.1% (249 companies) answered they would have profits, 20.9% (91 companies) said they would break even, and 22.0% (96 companies) expected losses. In the 2012 survey, “Profits” were 64.7% (202 companies), “Breakeven” were 19.9% (62 companies), and “Losses” were 15.4% (48 companies), so a slightly declining trend can be seen in operating profits.

The percentage of “Profits” was high in Argentina, Colombia, and Venezuela, while low in Peru and Brazil.

Fig. 1-1: Operating Profits Forecast for 2013

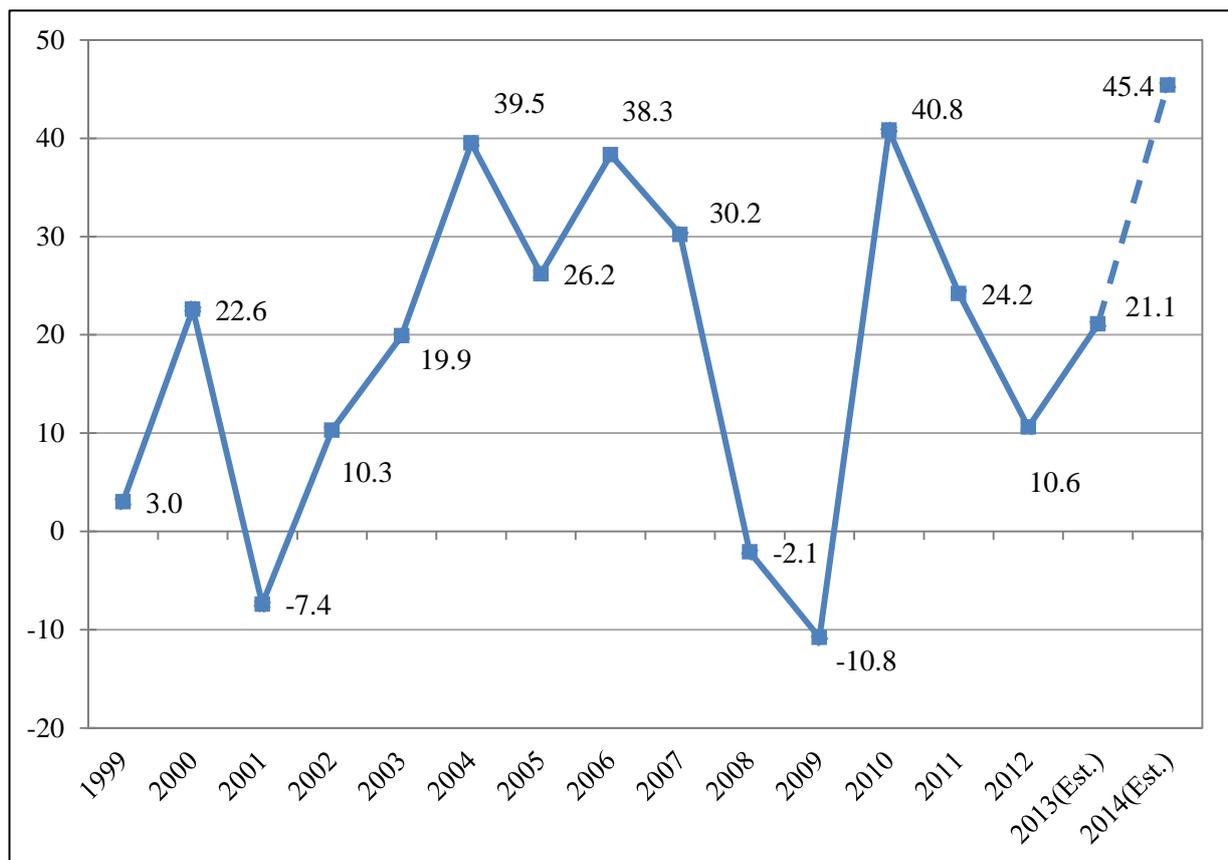


Business Sentiment Bottomed Out, Showing Recovery

The respondents were asked whether their operating profits will “increase,” “remain the same,” or “decrease” in 2013 compared to 2012. The diffusion index (DI= “increase” ratio – “decrease” ratio) calculated from the survey result was 21.1 points. This is 10.5 points higher than last year’s 10.6 points, and the business sentiment is recovering from the two-year decline.

The DI value for 2014 (forecast) is even higher at 45.4 points, indicating that companies have a positive outlook, expecting operating profits to continue to improve after 2014.

Fig. 1-2: Changes in DI Value for Latin America Overall



The Lower the Profit Forecast, the Higher the Business Sentiment

As for the DI value for each country, they were high in Brazil, Mexico, and Peru, while low in Venezuela, Columbia, Chile, and Argentina. Comparing this result with the “Profits,” “Breakeven,” or “Losses” ratio of operating profit forecast shown in Fig. 1-1, the countries with a high ratio of “Profits” had lower DI values, and those with low “Profits” had high DI values, thus showing a reverse phenomenon.

It seems that the companies with negative forecast consider that the economy has bottomed out and the worst is over, so even though they currently forecast bad results, they feel that it’s getting better than the previous year.

Meanwhile, in Venezuela, the regulation on foreign currency acquisition and the resulting lack of raw materials, and high inflation rate discourage new entry into its market. Since there is little competition, the companies are currently able to make profits. Yet it is difficult to foresee the future with unstable politics and economy, which seems to result in low business sentiments.

Fig. 1-3: DI Value by Country (2013)

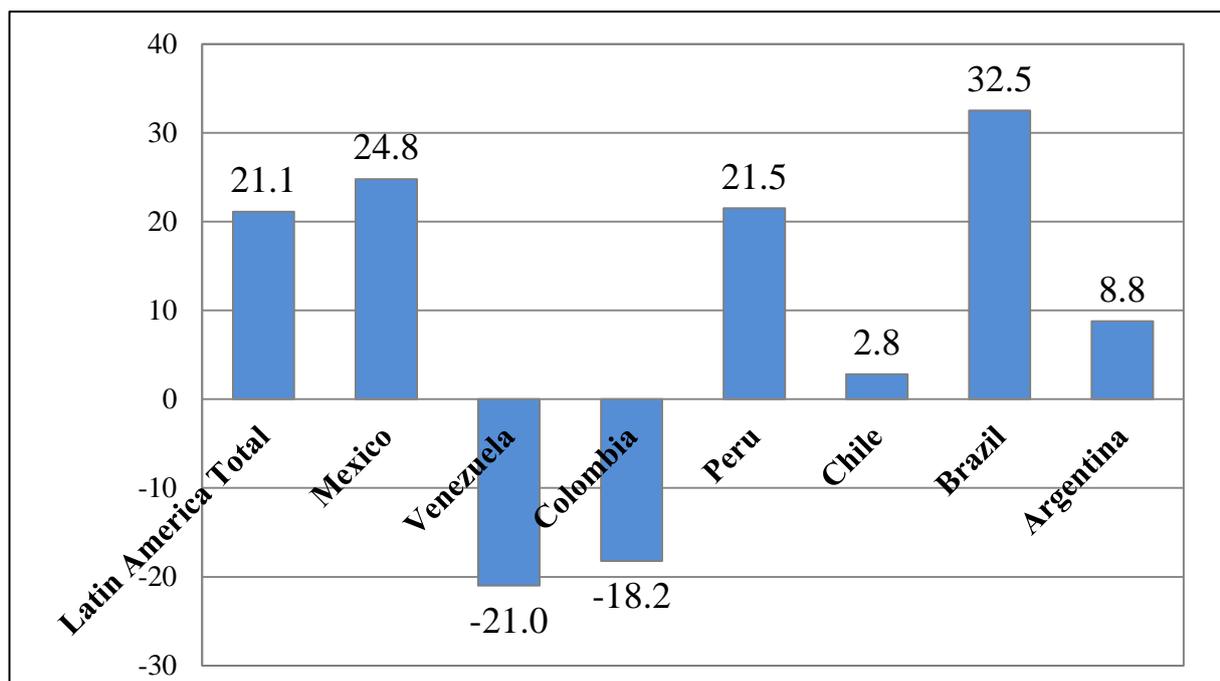
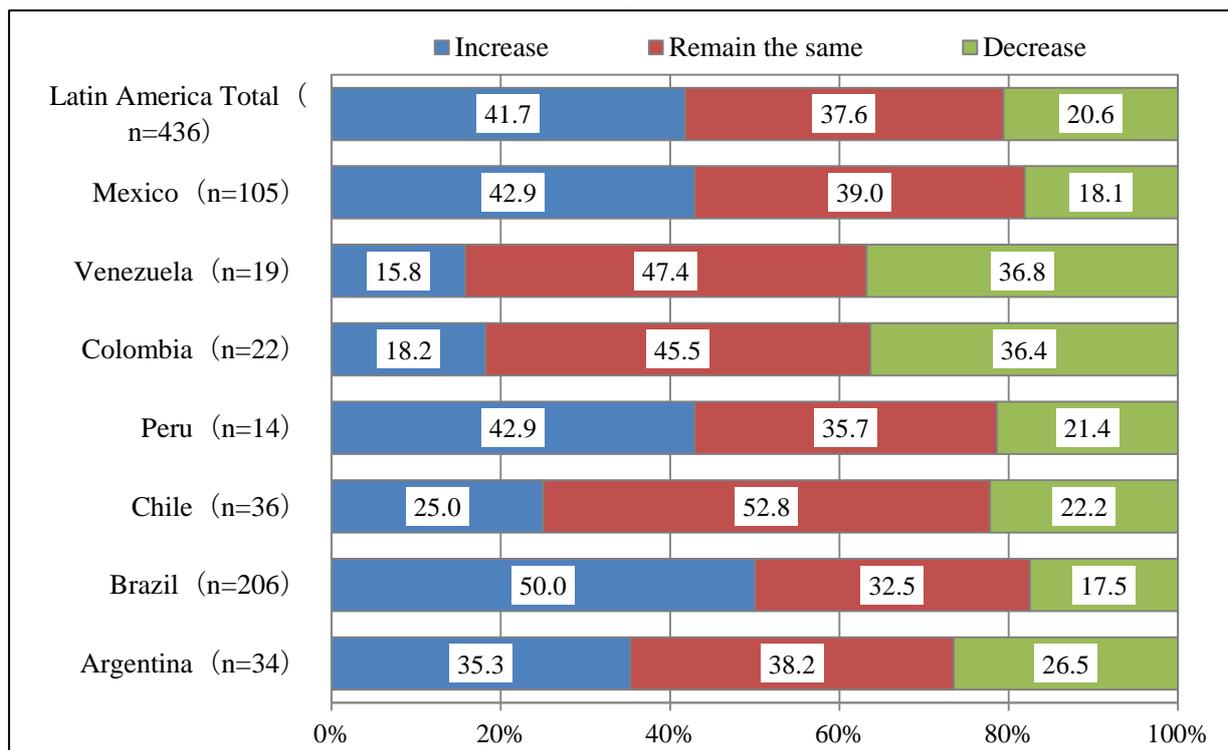


Fig. 1-4: 2013 Operating Profits Forecast Compared to 2012

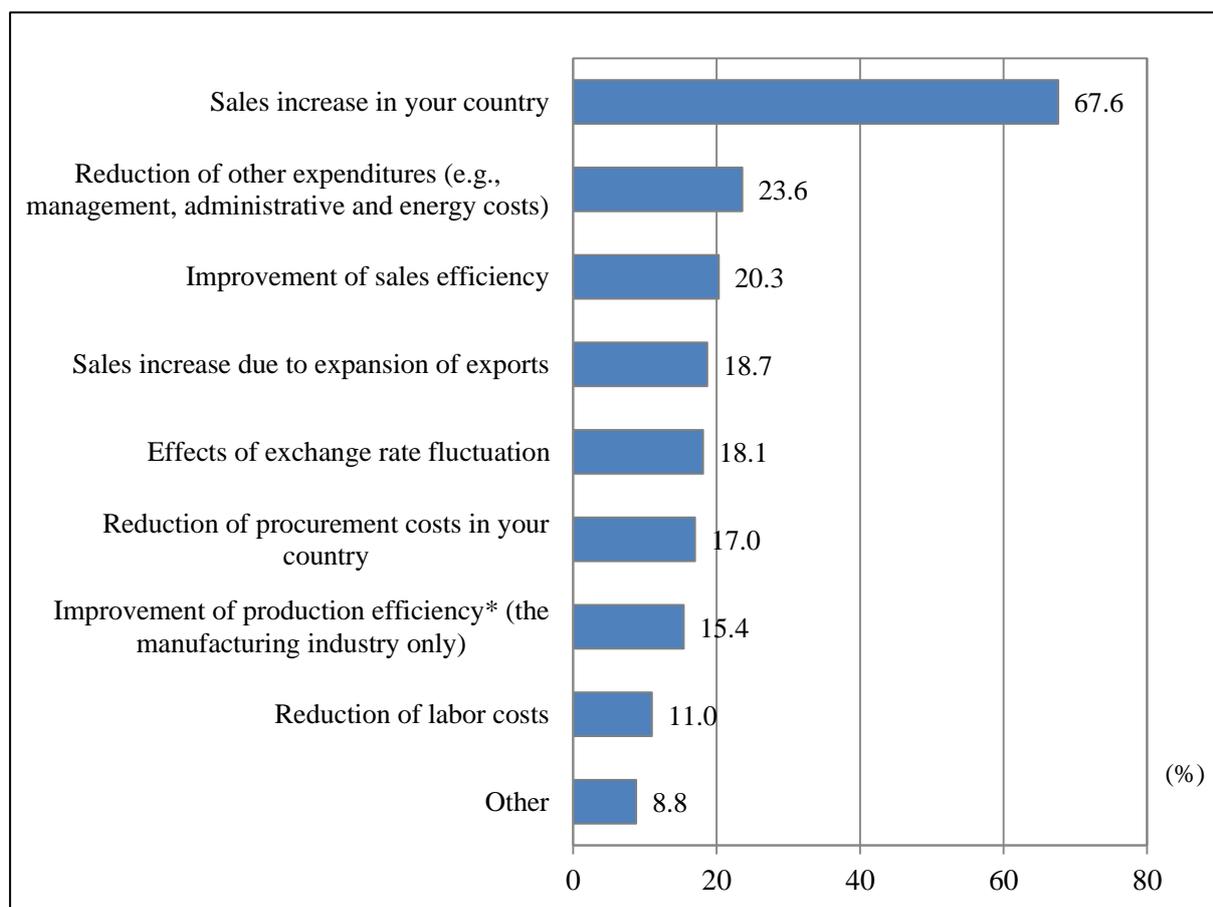


Expanding Domestic Market Large Factor for Profit Improvement

As the reasons for improvement in the profit forecast, “Sales increase in own country” stand out at 67.6% (123 companies), followed by “Reduction of expenditure (management, energy costs)” (23.6%, 43 companies), “Improvement of sales efficiency” (20.3%, 37 companies), “Sales increase due to expansion of exports” (18.7%, 34 companies), and “Effects of exchange rate fluctuation” (18.1%, 33 companies).

The results show that rather than the corporate efforts such as cost reduction and improved efficiency, the expansion of the domestic market plays a larger role in profit forecasts.

Fig. 1-5: Reasons for Increase in 2013 Profit Forecast (Latin America overall, multiple answers by 182 respondents)

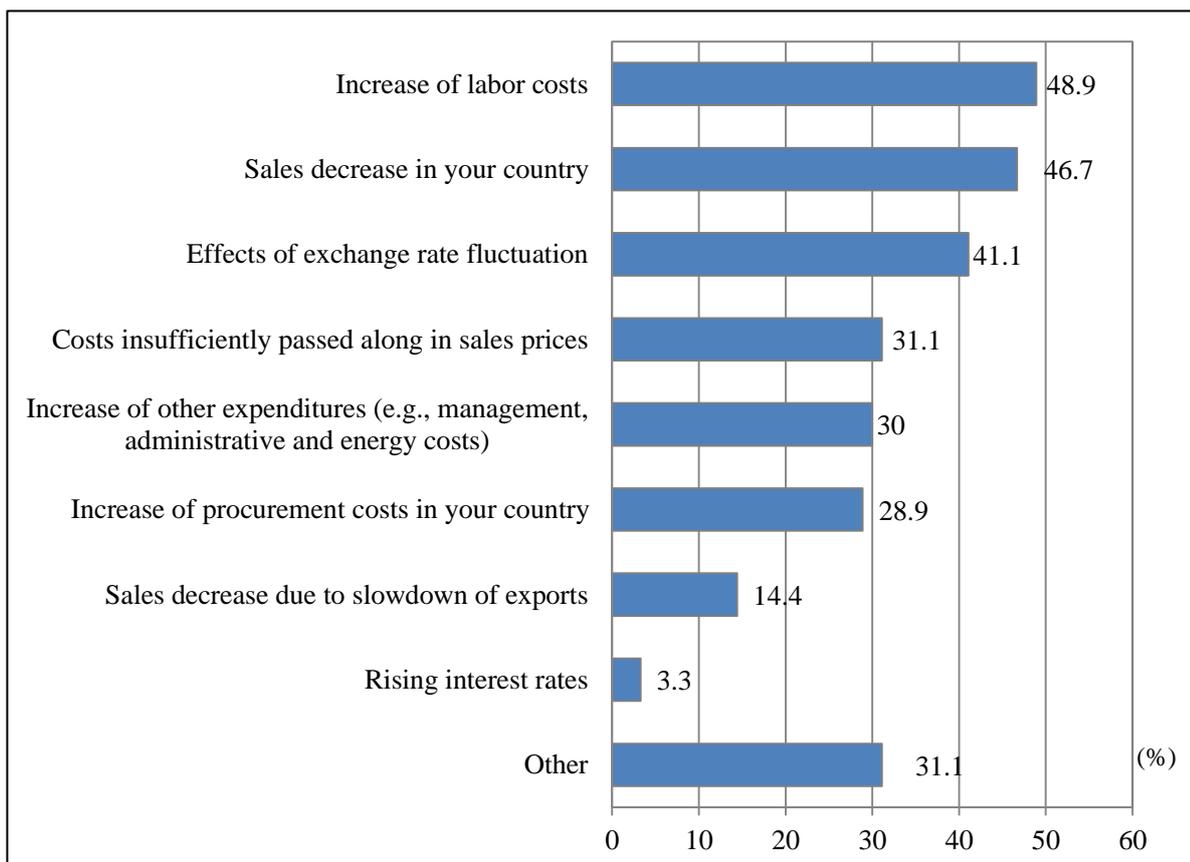


Increasing Labor Costs Main Factor for Profit Decrease Forecast

For the reasons of decreased profit forecast, “Increase of labor costs” had the highest score at 48.9% (44 companies), followed by “Sales decrease in own country” (46.7%, 42 companies), and “Effects of exchange rate fluctuation” (41.1%, 37 companies). Even in the 2011 and 2012 survey, “Increase of labor costs” had the highest score. The issue of labor cost is considered to be a structural factor affecting corporate earnings.

Looking at each country, Argentina (66.7%), Chile (62.5%), and Brazil (61.1%) had high scores for “Increase of labor costs,” while Colombia (25.0%) and Mexico (26.3%) had extremely low scores for that reason, showing that the situation differs by country within Latin America. As for Colombia, the main reasons for decreased profit forecast are “Sales decrease in own country” (75.0%), Effects of exchange rate fluctuation” (37.5%), and “Costs insufficiently passed along in sales prices” (37.5%). For Mexico, “Sales decrease in own country” (52.6%) is given as the main reason for decreased profit forecast.

Fig. 1-6: Reasons for Decrease in 2013 Profit Forecast (Latin America overall, multiple answers by 90 respondents)



2. 2014 Forecasts for Operating Profits

2014 Profits Expected to Further Improve

The DI value showing the business sentiment for 2014 was 45.4 points for Latin America overall. This is significantly higher than the 2013 figure of 21.1, reflecting the companies' expectations for improved profits in 2014.

Looking at each country, all except Venezuela have higher DI values for 2014 compared to 2013. As we have seen in Fig. 1-1, Venezuela had a high ratio of companies expecting profits for 2013, but the future outlook is unclear due to political and economic instability, resulting in low business sentiment for both 2013 and 2014.

Fig. 2-1: DI Value by Country (2014)

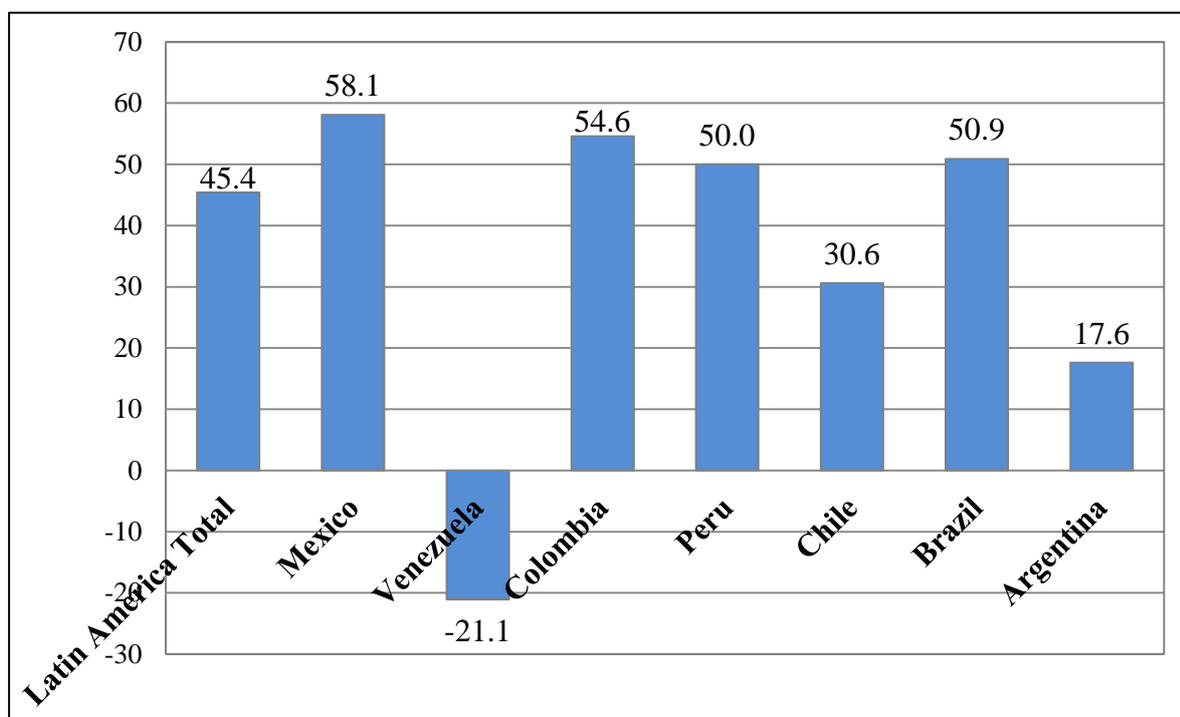
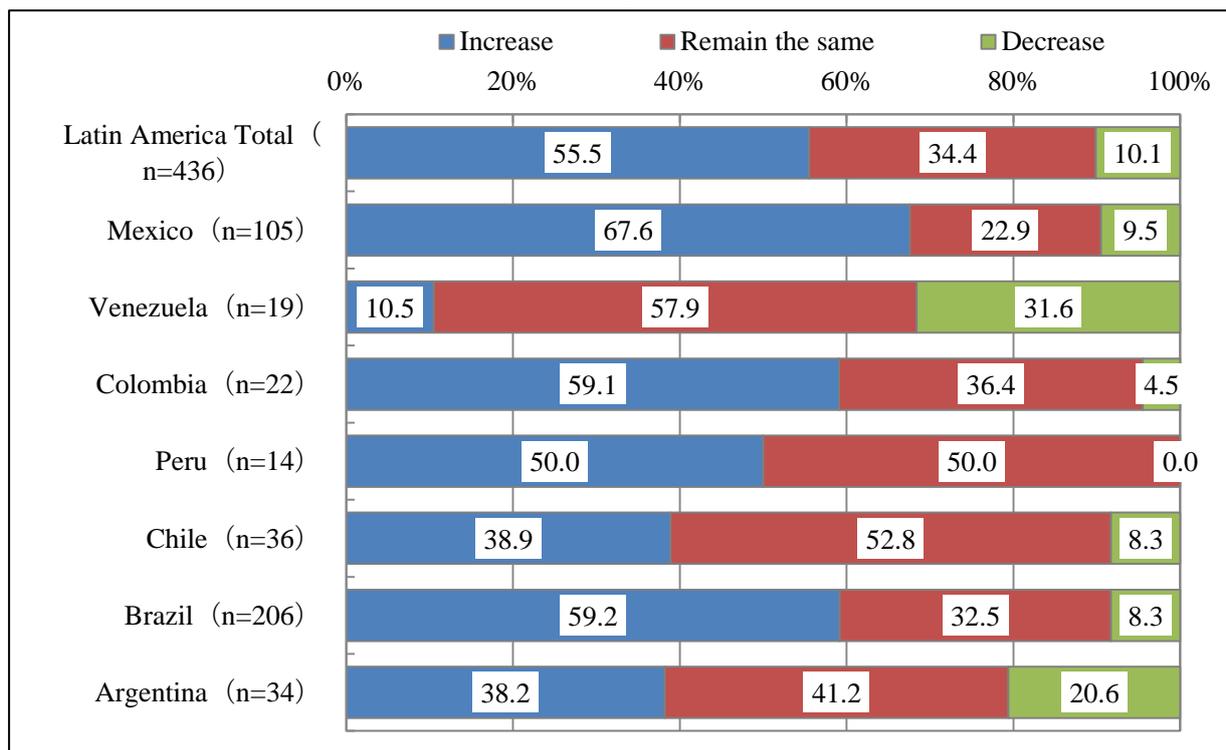


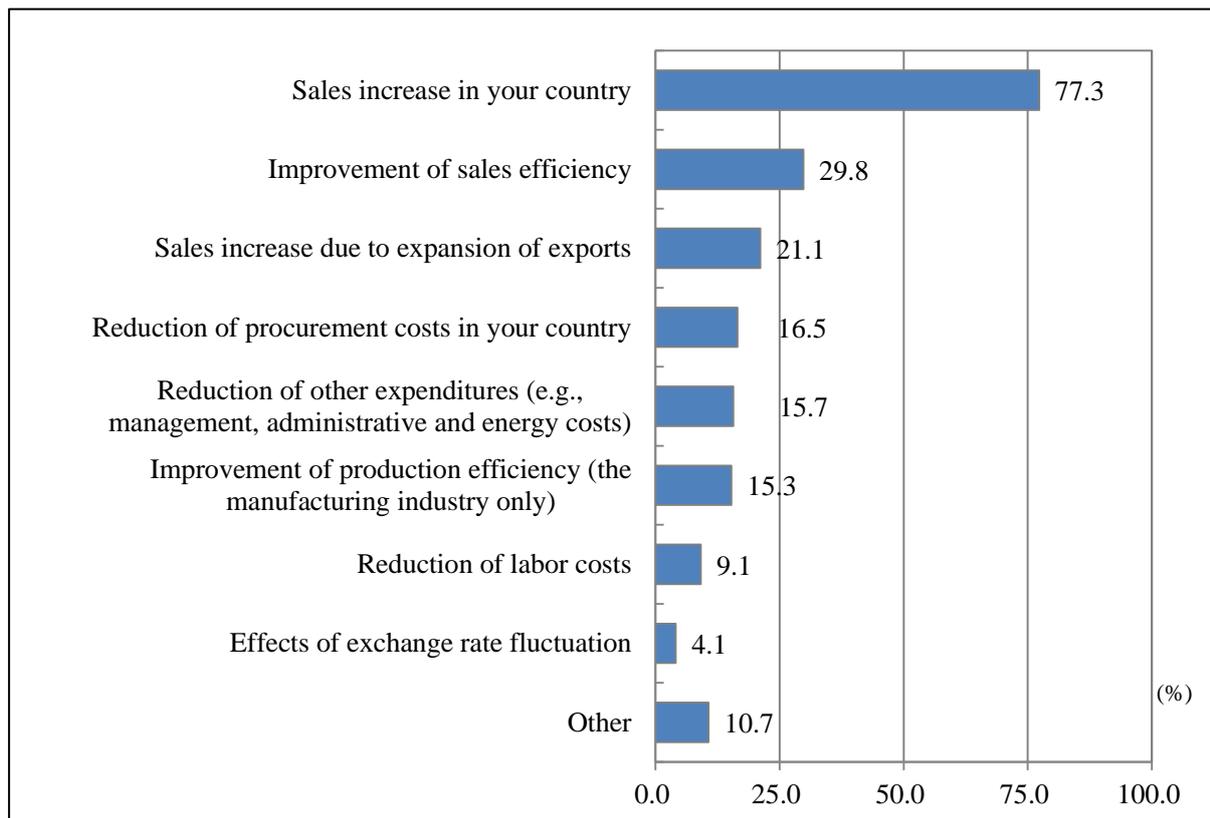
Fig. 2-2: 2014 Operating Profit Forecasts Compared to Previous Year



Same Reasons as 2013 for Profit Increase

For reasons on operating profits increase, “Sales increase in own country” scored the highest at 77.3%, way ahead of “Improvement of sales efficiency” (29.8%) and “Sales increase due to expansion of exports” (21.1%). Although the order is slightly different, the results are roughly the same as the reasons for increase in 2013 profit forecast.

Fig. 2-3: Reasons for Increase in 2014 Profit Forecast (Latin America overall, multiple answers by 242 respondents)

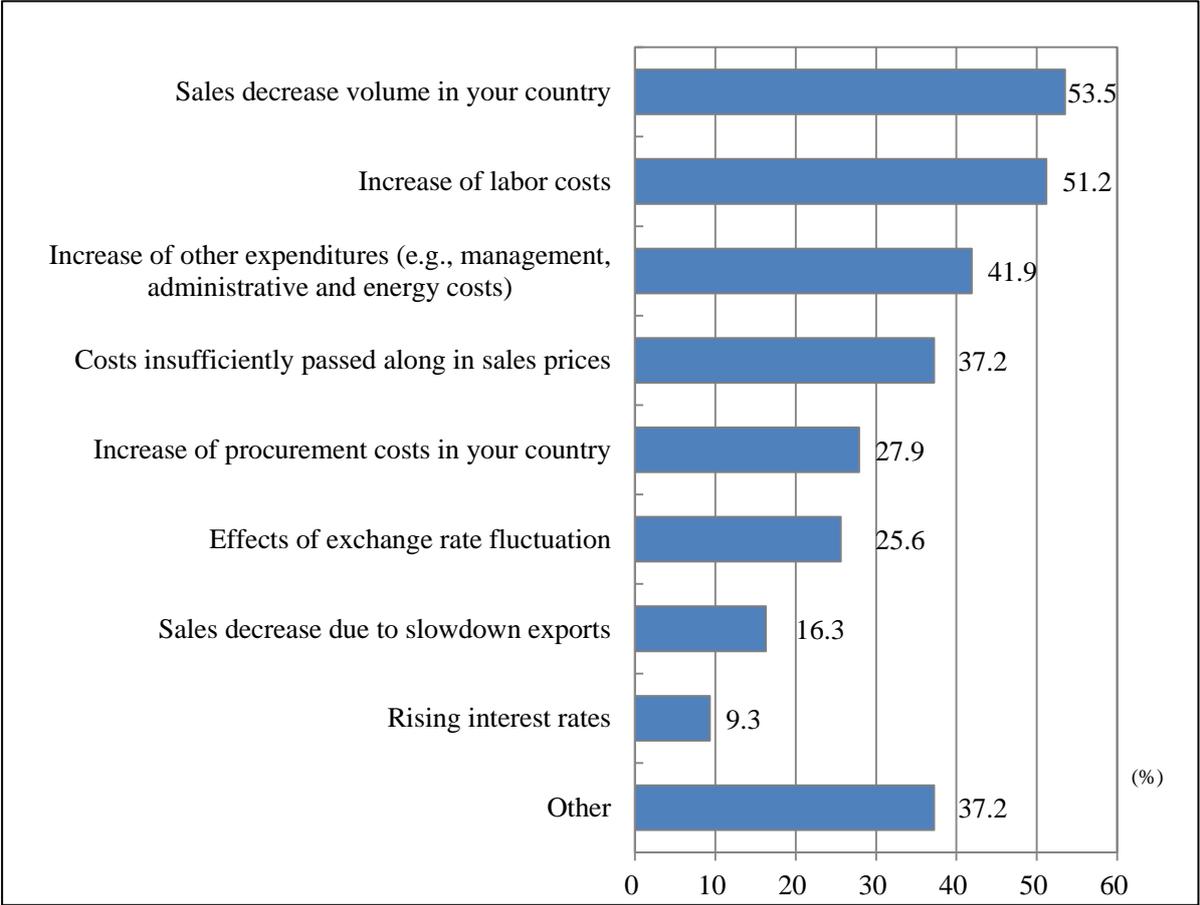


Operating Profits Depend Greatly on Market Conditions

The main reasons for decrease in operating profit forecast are “Decrease of sales volume in own country” (53.5%), “Increase of labor costs” (51.2%), and “Increase of other expenditures (management, administrative, and energy costs)” (41.9%). As shown in Fig. 2-3, the major reason for increases in operating profit forecast was “Sales increase in own country,” while the major reason for decreases is also “Sales decrease in own country,” showing relations with market conditions. It can be viewed to mean that while market expansion leads to improved operating profits, the tougher competition reduces sales and weighs on the operating profits.

We can also see that increases in labor and management costs negatively affect the operating profits.

Fig. 2-4: Reasons for Decrease in 2014 Profit Forecast (Latin America overall, multiple answers by 43 respondents)



3. Business Outlook for the Future

Business Outlook Varies by Country

For Latin America overall, concerning the business outlook in the next one or two years, 67.7% (295 companies) answered “Expansion,” far exceeding the answers “Remain the same” at 27.3% (119 companies) and “Reduction” at 4.1% (18 companies).

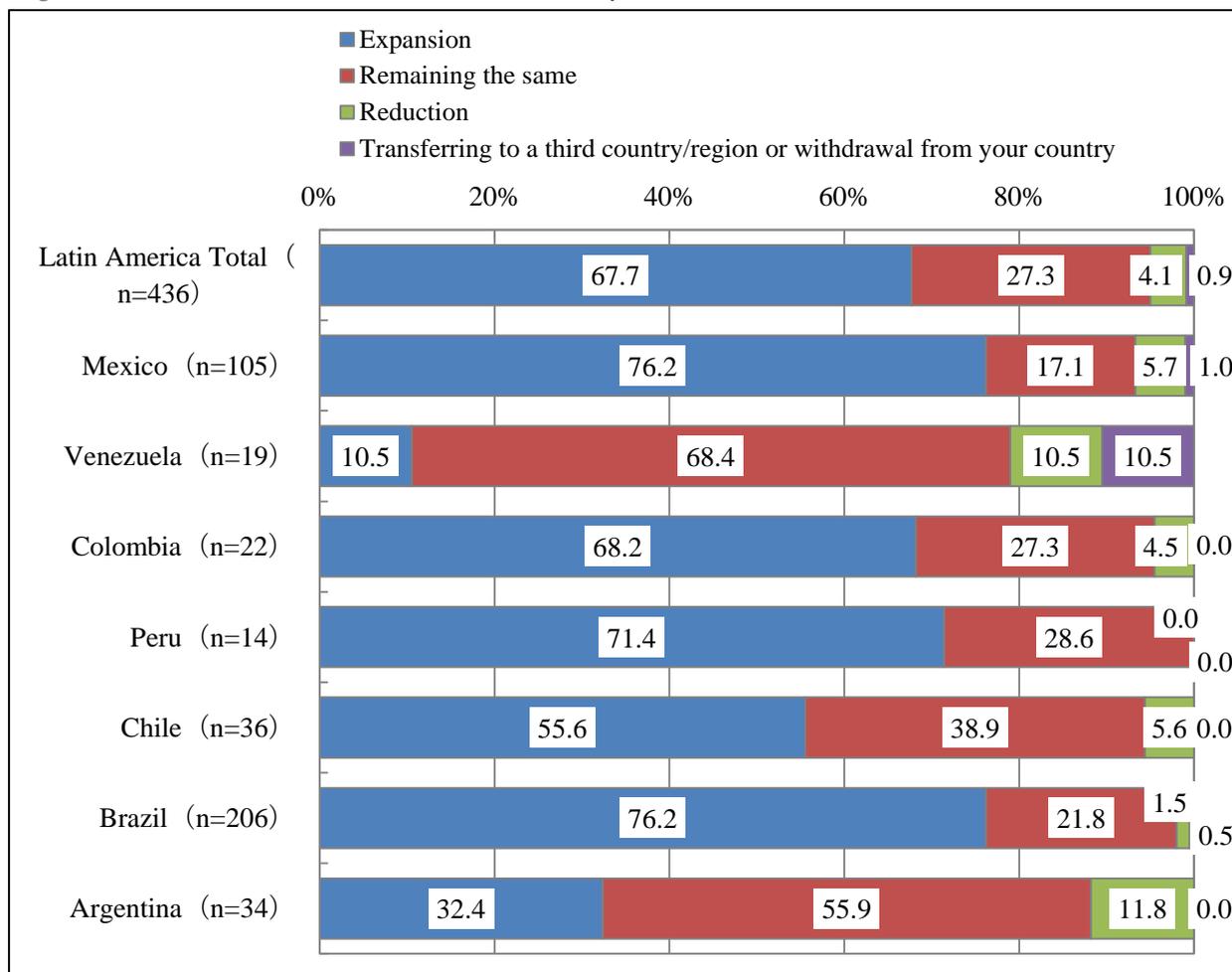
Looking at each country, 76.2% in both Brazil and Mexico answered “Expansion,” followed by 71.4% in Peru. In contrast, “Remain the same” scored the highest in Venezuela (68.4%) and Argentina (55.9%).

In Venezuela and Argentina, there are many factors of political and economic uncertainty such as import regulations, exchange control, sales price control due to high inflation, and unstable government. So it can be assumed that compared to other countries, the ratio of “Reduction” and “Transferring to a third country/region or withdrawal from own country” were higher. Especially in Venezuela, although all companies answered “Remain the same” in the previous survey, this time, some companies answered “Reduction” and “Transferring to a third country/region or withdrawal from own country.”

In Venezuela, various factors with negative impact on business are becoming apparent, such as excess social security for the poor, stagnating capital investment in the main oil industry, the accompanying delays in foreign currency issuance for import settlement with decreasing foreign reserve, and the resulting goods shortages and inflation. In March 2013, President Chavez died and the administration was succeeded by President Maduro. Yet the situation shows no signs of improvement, and some companies may be considering pulling out their business.

However, both Venezuela and Argentina are rich in natural resources with a relatively large population and market. So many companies still have not decided on reduction or withdrawal, but are taking a wait-and-see attitude.

Fig. 3-1: Business Outlook for the Next 1-2 years



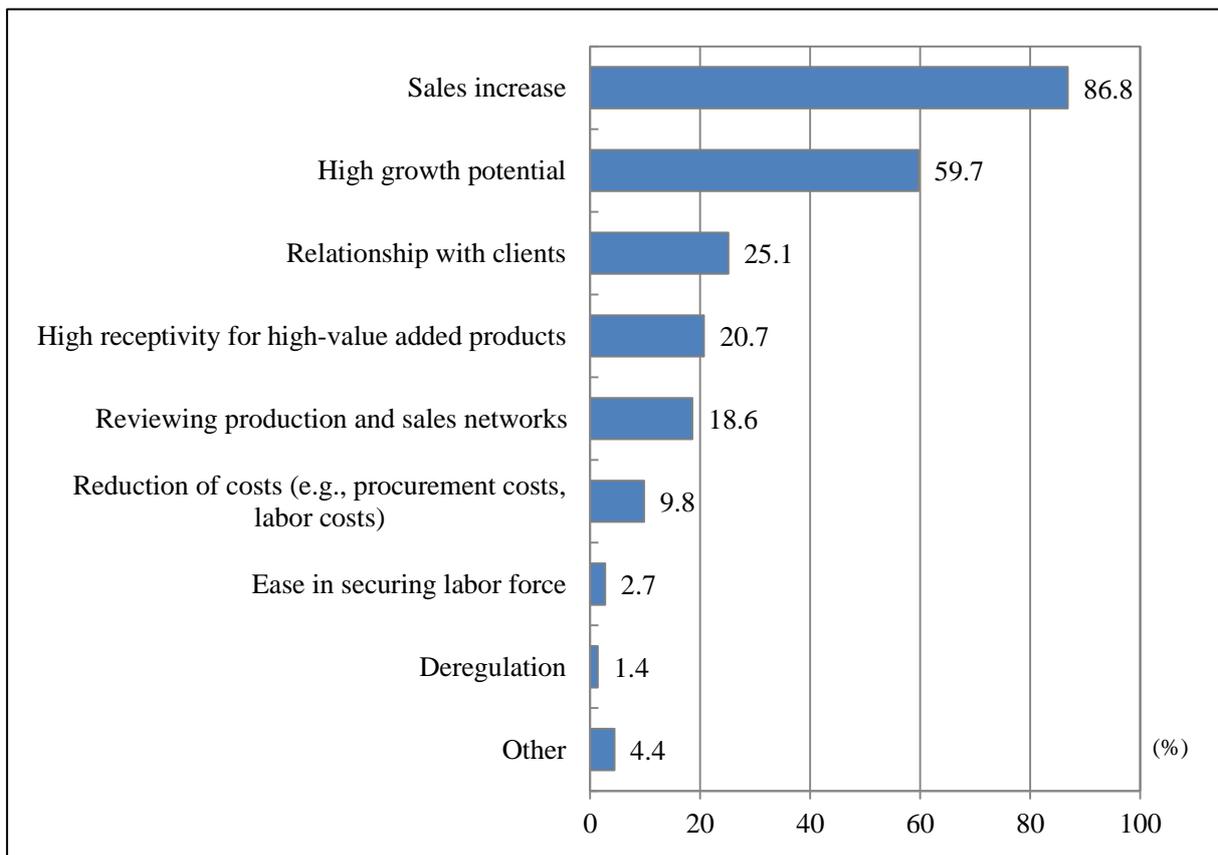
Business Expansion Based on Market Potential

The main reasons given for business expansion were “Sales increase” (86.8%) and “High growth potential” (59.7%).

Looking at each country, the answer “Sales increase” was high in Venezuela (100.0%, 2 companies), Mexico (93.8%, 75 companies), and Colombia (93.3%, 14 companies), while “High growth potential” scored high in Venezuela (100.0%, 2 companies), Colombia (86.7%, 13 companies), and Peru (80.0%, 8 companies).

Overall, many companies are planning to expand their business based on market growth and high potential, and few consider “Ease in securing labor force” or “Deregulation” as reasons for business expansion.

Fig. 3-2: Reasons for “Expansion” (Latin America overall, multiple answers by 295 respondents)



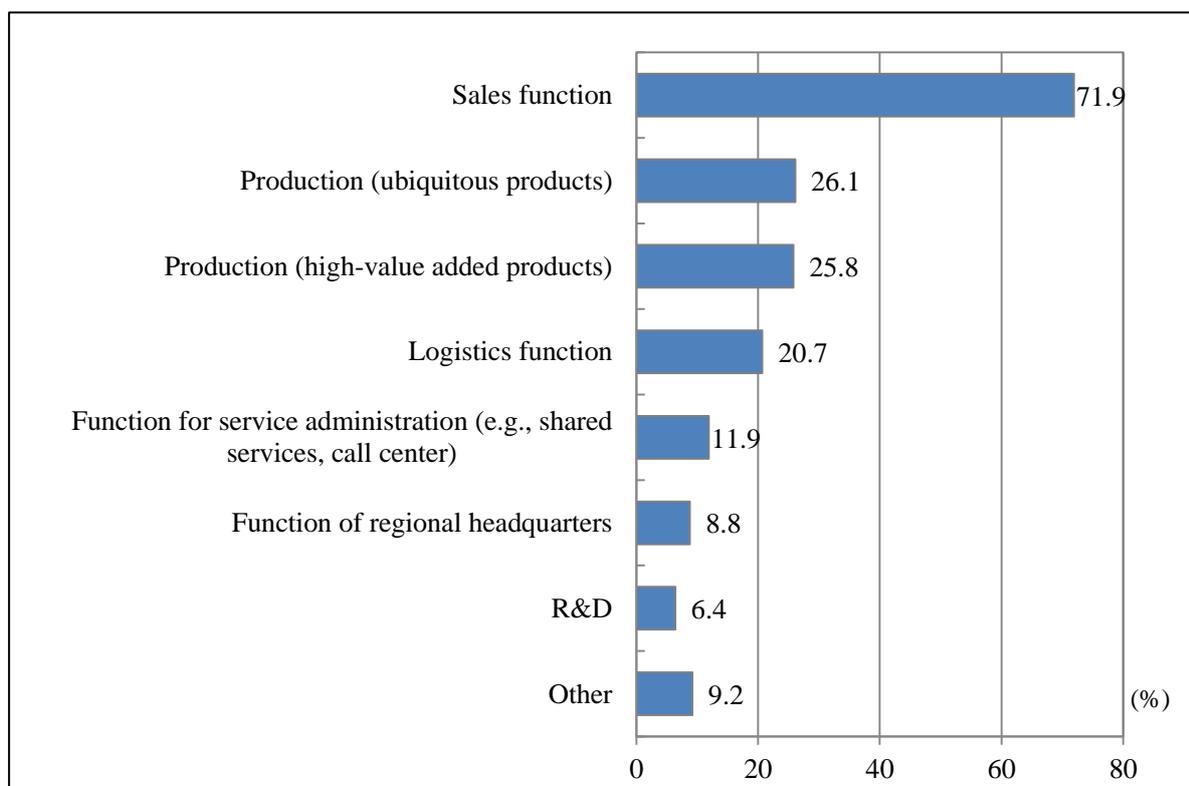
Most of Expansion Intended in Sales

As for the specific area intended for expansion, “Sales function” (71.9%) ranks way at the top, while “Production (general products)” (26.1%), “Production (high-value added products)” (25.8%), and “Logistics function” (20.7%) follow far behind.

Looking at each country, high scores in “Sales function” were noted in Peru (90%, 9 companies), Colombia (86.7%, 13 companies), and Chile (80.0%, 16 companies).

For Latin America overall, those who answered they would expand “Production” and “Logistics” functions remained in the 20% level, showing that strengthening of sales is the main focus in developing business in the Latin American market.

Fig. 3-3: Areas of Expansion (Latin America overall, multiple answers)



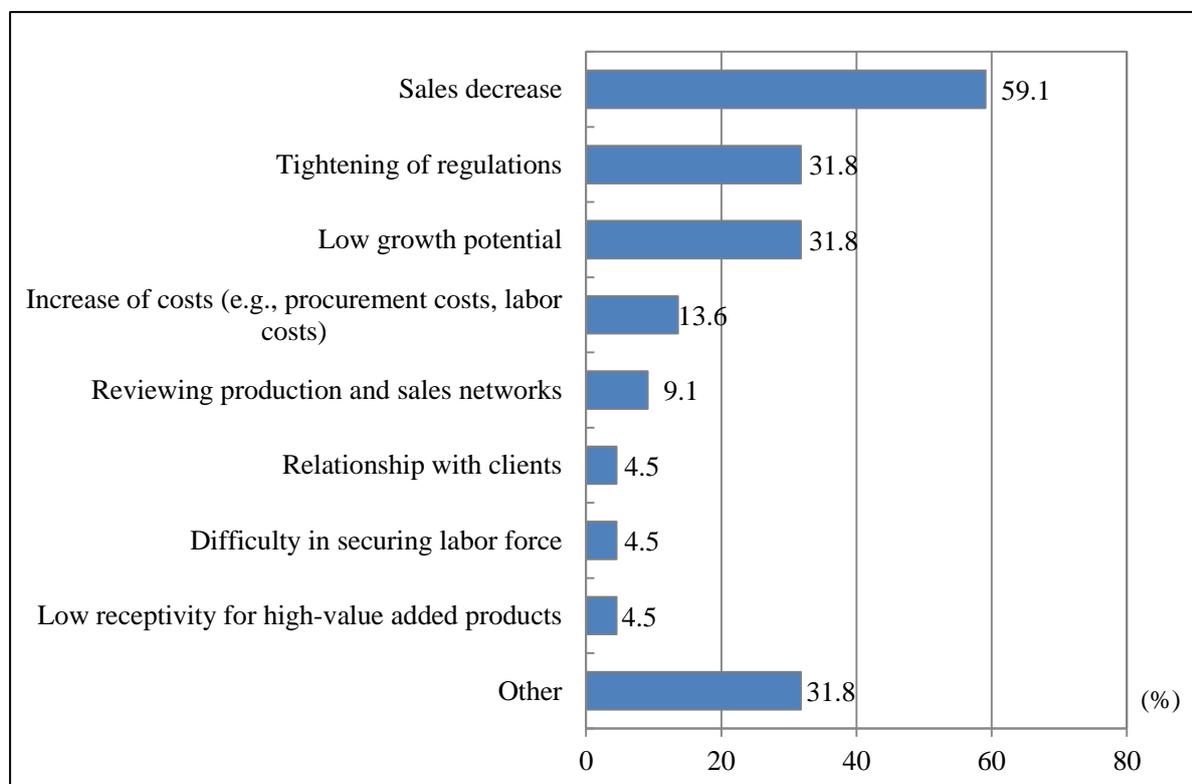
Tighter Regulations Prompt Transfer/Withdrawal

Although very few, some companies replied business “Reduction” (4.1%, 18 companies) and “Transfer to a third country/region or withdrawal” (0.9%, 4 companies).

Especially in Venezuela, the answers “Reduction” and “Transfer to a third country/region or withdrawal” both reached 10.5%. In Argentina, although none replied “Transfer to a third country/region or withdrawal,” “Reduction” scored 11.8%.

The reasons for these outlooks were “Sales decrease” followed by “Tightening of regulations.” As previously mentioned, the effects of import regulations, exchange control, and sales price control in Venezuela and Argentina can be seen.

Fig. 3-4: Reasons for “Reduction” and “Transfer to a third country/region or withdrawal” (Latin America overall, multiple answers)

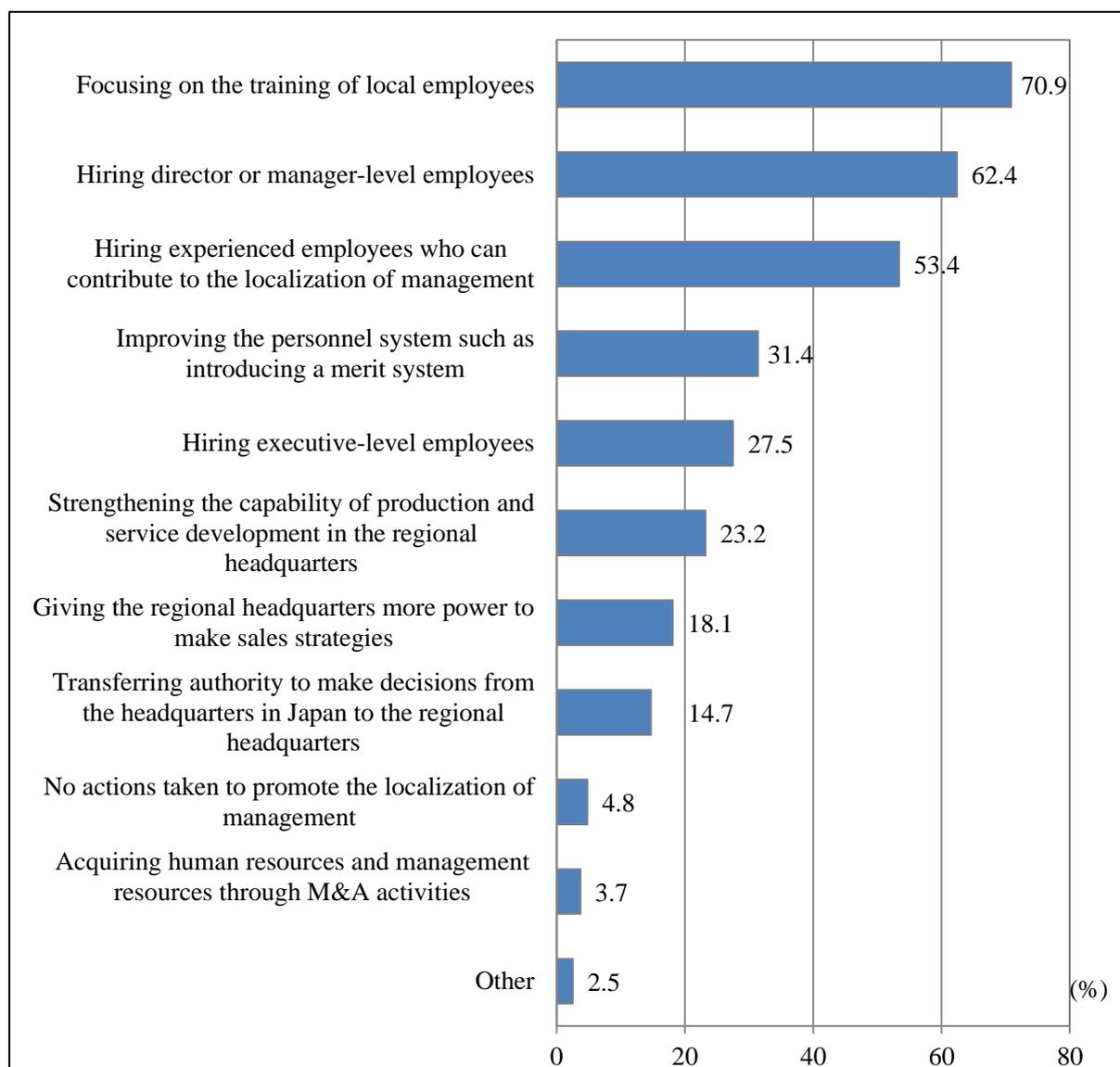


Localization of Labor Force, while Management Remains in Headquarters

In relation to the business outlook, we also asked about the localization of the management. The high scoring answers were “Focusing on the training of local employees” (70.9%, 309 companies), “Hiring director or manager-level employees” (62.4%, 272 companies), “Hiring experienced employees who can contribute to the localization of management” (53.4%, 233 companies). Within each country, the answers were roughly in the same order as in Latin America overall.

Meanwhile, “Strengthening the capacity of production and service development in the region” (23.2%, 101 companies), “Giving the regional Headquarters more power to make strategies” (18.1%, 79 companies) and “Transferring authority from headquarter to region” (14.7%, 64 companies) scored low. This shows that although the labor force continues to be localized, the management authority remains at the headquarters.

Fig. 3-5: Efforts Toward Localization (Latin America overall, multiple answers)

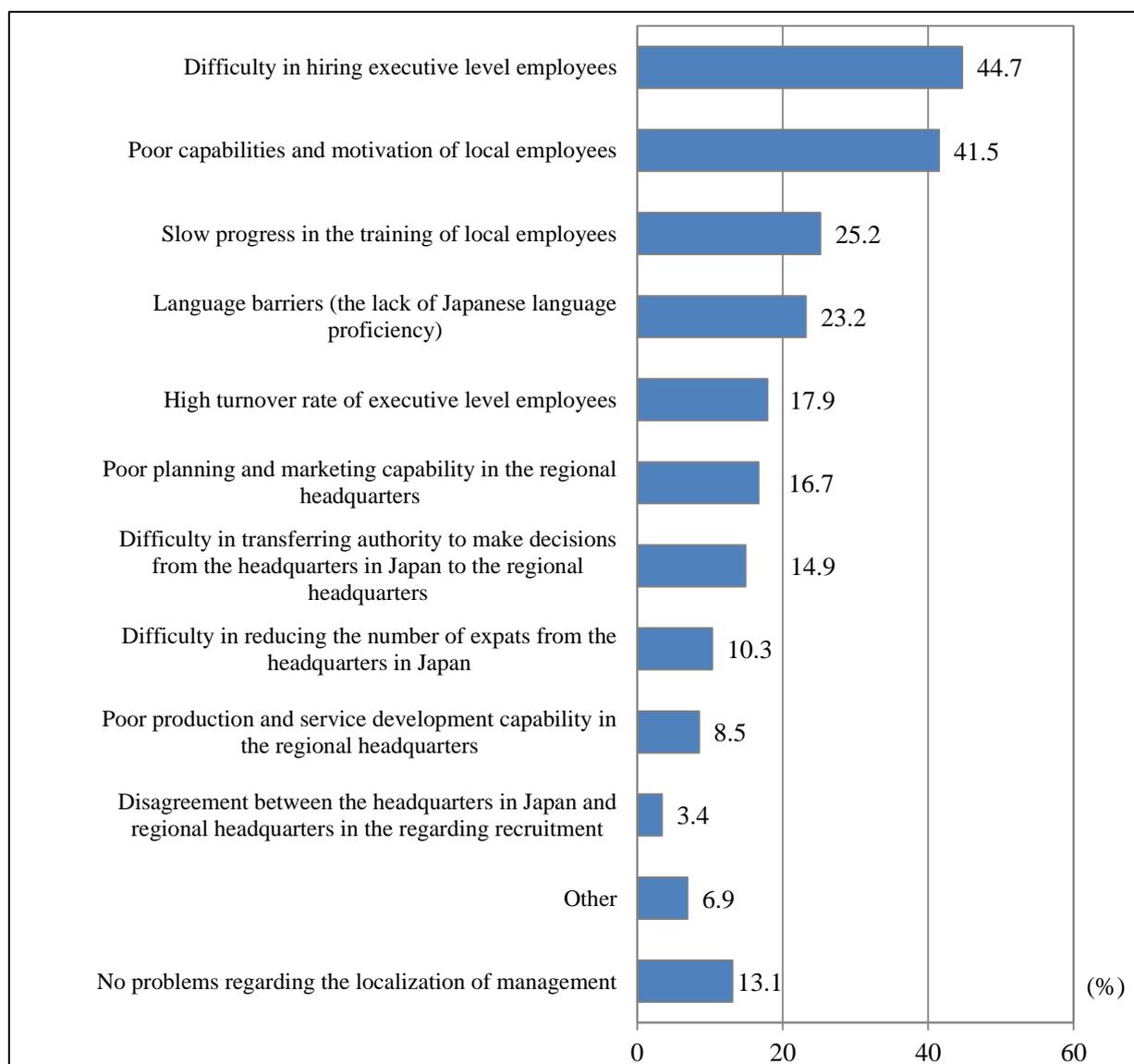


Competent Employees Required for Localization

As for the problems in pursuing localization of management, “Difficulty in hiring executive level employees” (44.7%, 195 companies), “Poor capabilities and motivation of local employees” (41.5%, 181 companies), and “Slow progress in the training of local employees” (25.2%, 110 companies) were the top reasons for Latin America overall. But when we look at each country, the answers come in a different order.

For example, in Peru, 50.0% of the companies gave “Lack of language proficiency (Japanese and English) in employees” as the highest scoring answer, but it is not a big issue in Colombia (13.6%) or Mexico (15.2%). In Argentina, “No problems” came in second at 29.4% following “Difficulty in hiring executive level employees” (35.3%), and there seems to be little problem in localization.

Fig. 3-6: Problems Concerning Localization of Management (Latin America overall, multiple answers)



Further Localization of Employees

In Latin America overall during the past year, the number of local employees increased at 45.4%, and Japanese expatriates increased at 23.4% of the respondents. We can see that the Japanese companies in the region are proceeding with the localization of employees.

Looking at each country, Venezuela, Chile, and Argentina feature high rates of “No change” or “Decrease” in numbers for both local employees and Japanese expatriates. Meanwhile, Mexico, Peru, and Brazil have a relatively high rate of “Increase” for both local employees and Japanese expatriates. This trend matches with the “Expand” and “Remain the same” business outlook for the Next 1-2 years, as shown in Fig. 3-1.

Fig. 3-7: Changes in the Number of Local Employees for the Past 1 Year

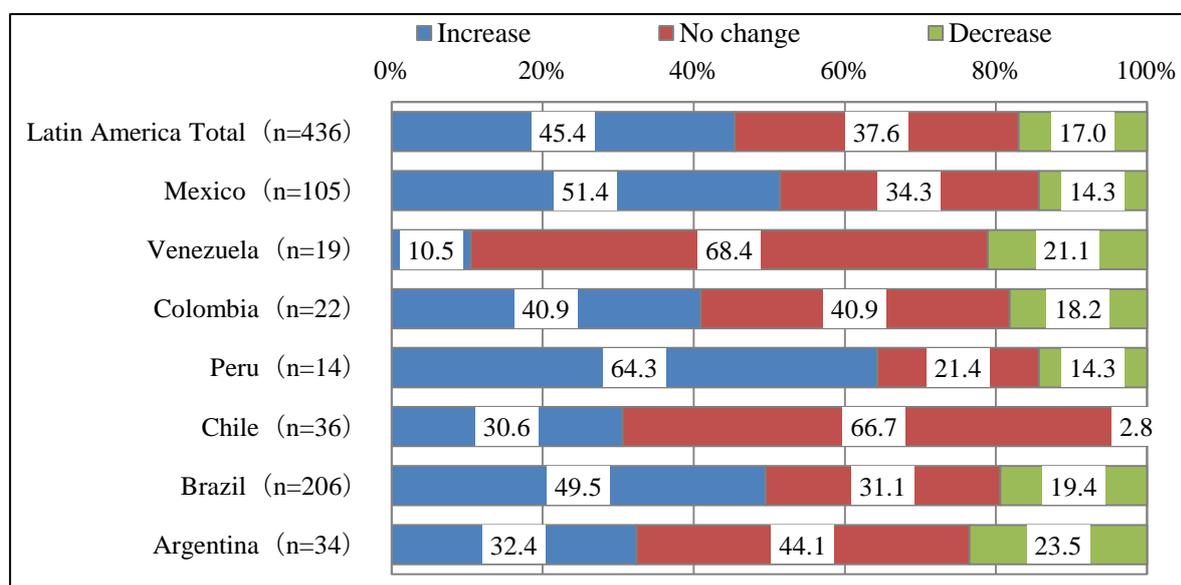
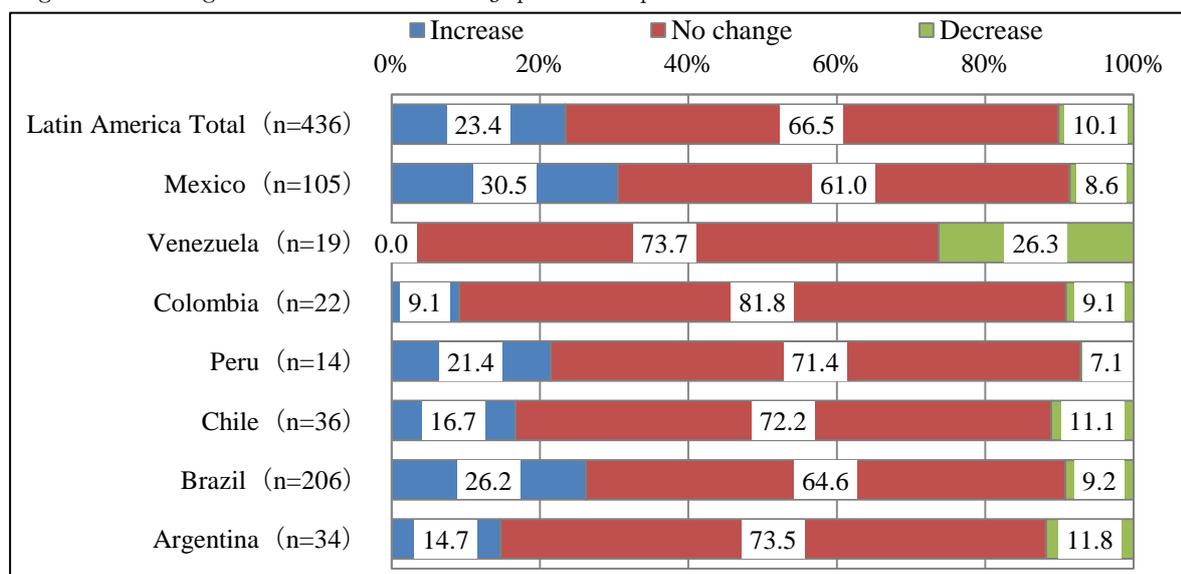


Fig. 3-8: Changes in the Number of Japanese Expatriates for the Past 1 Year



Plans for Local Employee Increase Apparent in Mexico and Brazil

Concerning future plans on the number local employees, 53.2% answered “Increase” in Latin America overall. Yet, for the number of Japanese expatriates, only 14.4% answered “Increase,” and the trend to increase the number of local employees, but not Japanese expatriates, as shown in Fig. 3-7 and 3-8, are more apparent in the future plans.

For each country, similar to the results on changes within the past year, the ratio of “No change” is high in Venezuela, Chile, and Argentina. In contrast, although Peru had the highest ratio of “Increase” of local employees within the past year, it is beaten by Mexico and Brazil for future plans.

Fig. 3-9: Future Plans on the Number of Local Employees

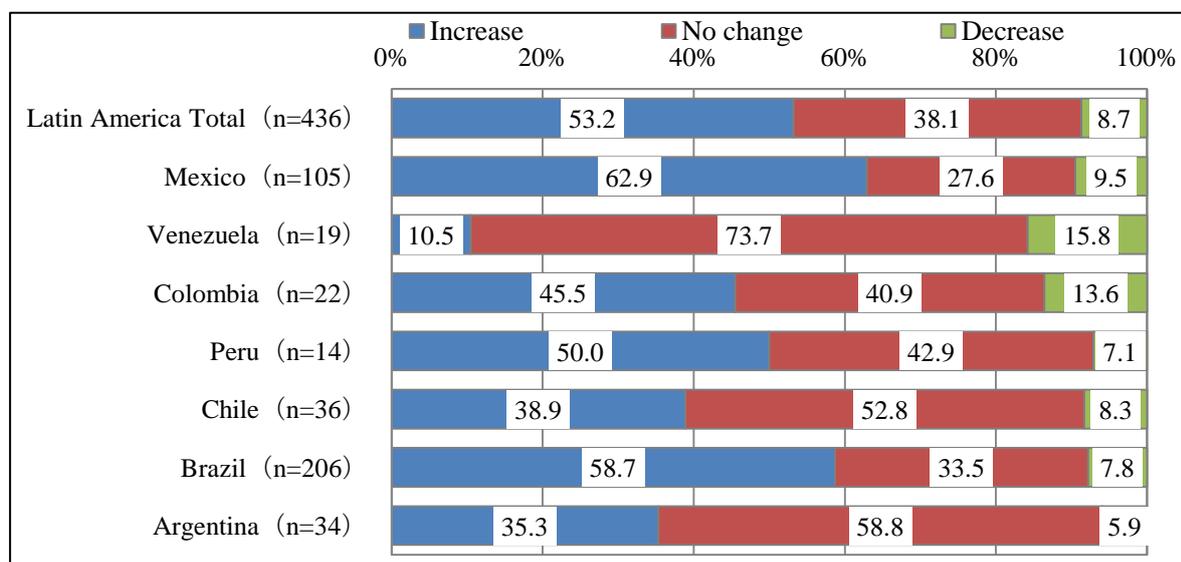
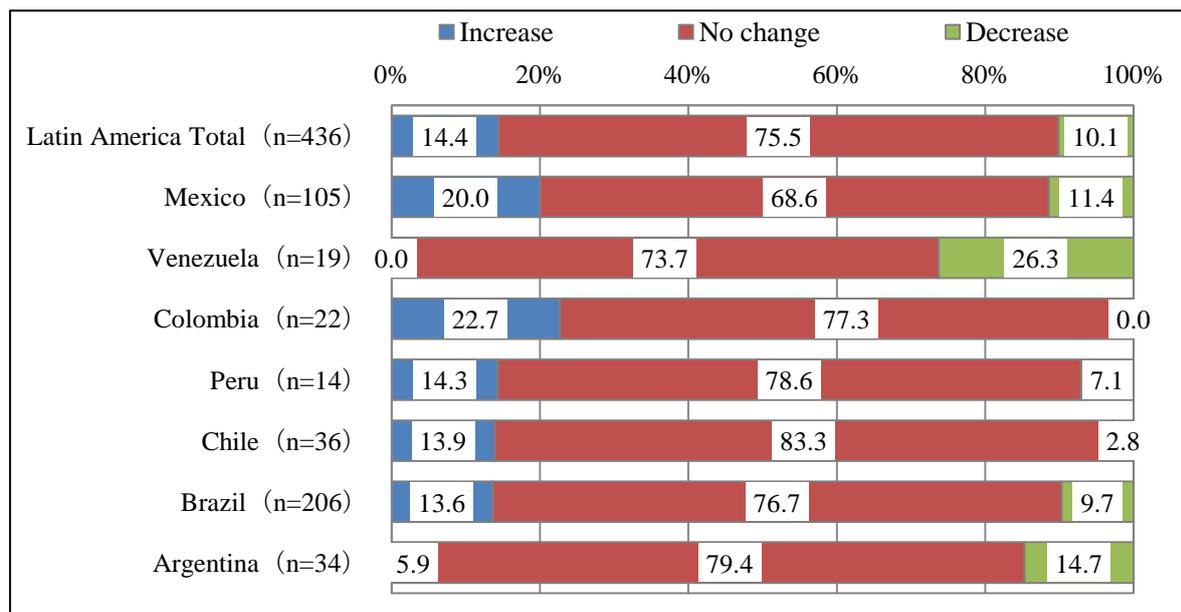


Fig. 3-10: Future Plans on the Number of Japanese Expatriates



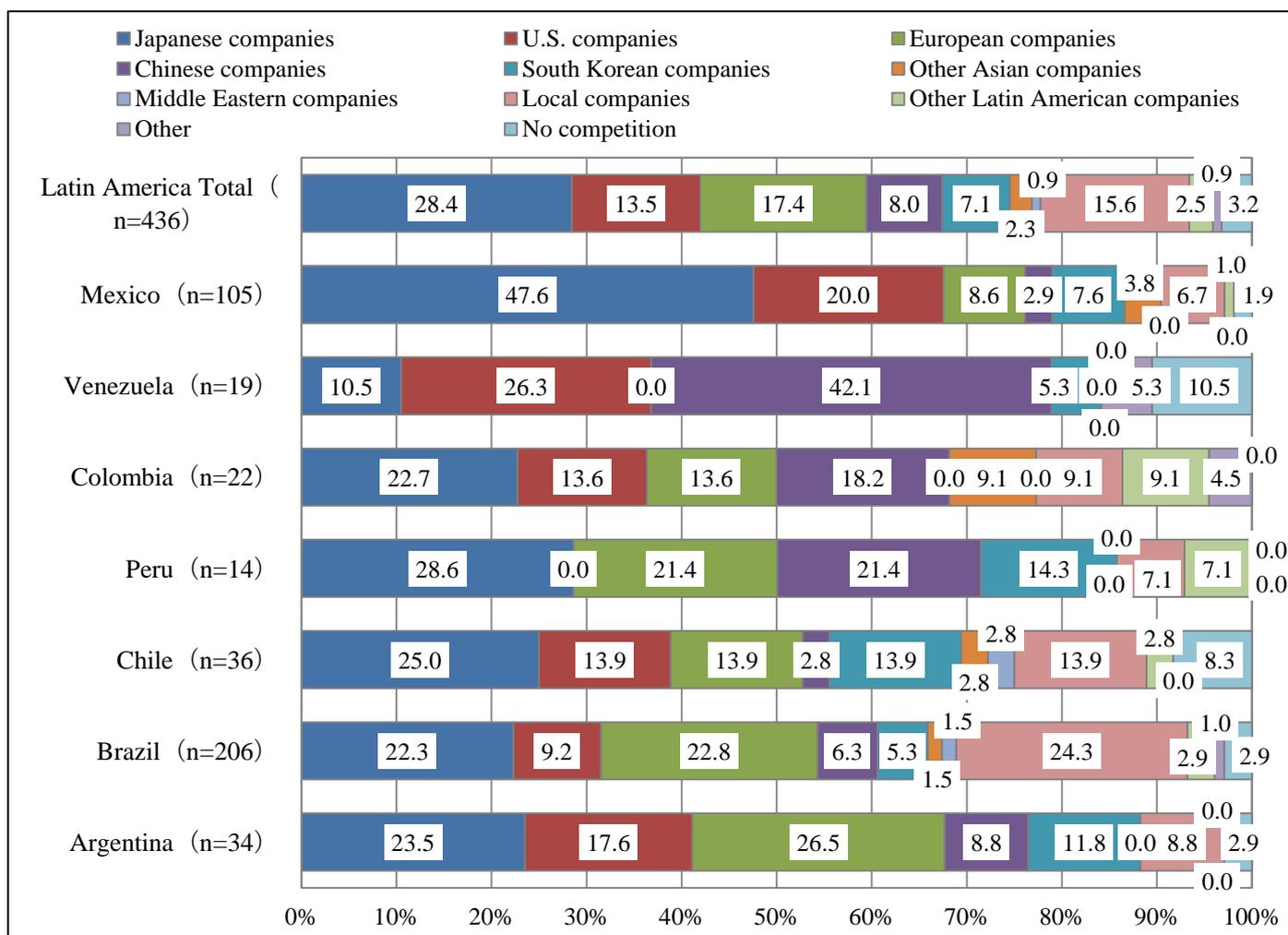
4. Approaches for Market Development

In Latin America Overall, Competition Highest Among Japanese Companies

When asked about the main competitors in their business, 28.4% (124 companies) answered Japanese companies, followed by 17.4% (76 companies) European companies, 13.5% (59 companies) U.S. companies, 8.0% (35 companies) Chinese companies, and 7.1% (31 companies) South Korean companies.

Mexico (47.6%), Peru (28.6%), and Chile (25.0%) had the highest ratio of Japanese companies as main competitors, while in Argentina (26.5%), Brazil (22.8%), and Peru (21.4%), the competition was mostly with European companies. U.S. companies were the main rivals in Venezuela (26.3%) and Mexico (20.0%), and the ratio was in the 10% level in other countries. In general, Chinese and South Korean companies are increasing their presence in the Latin American market. Venezuela (42.1%) and Peru (21.4%) had the highest ratio of Chinese competitors, while Peru (14.3%) and Chile (13.9%) showed more competition from South Korean companies.

Fig. 4-1: Main Competitors in the Same Business

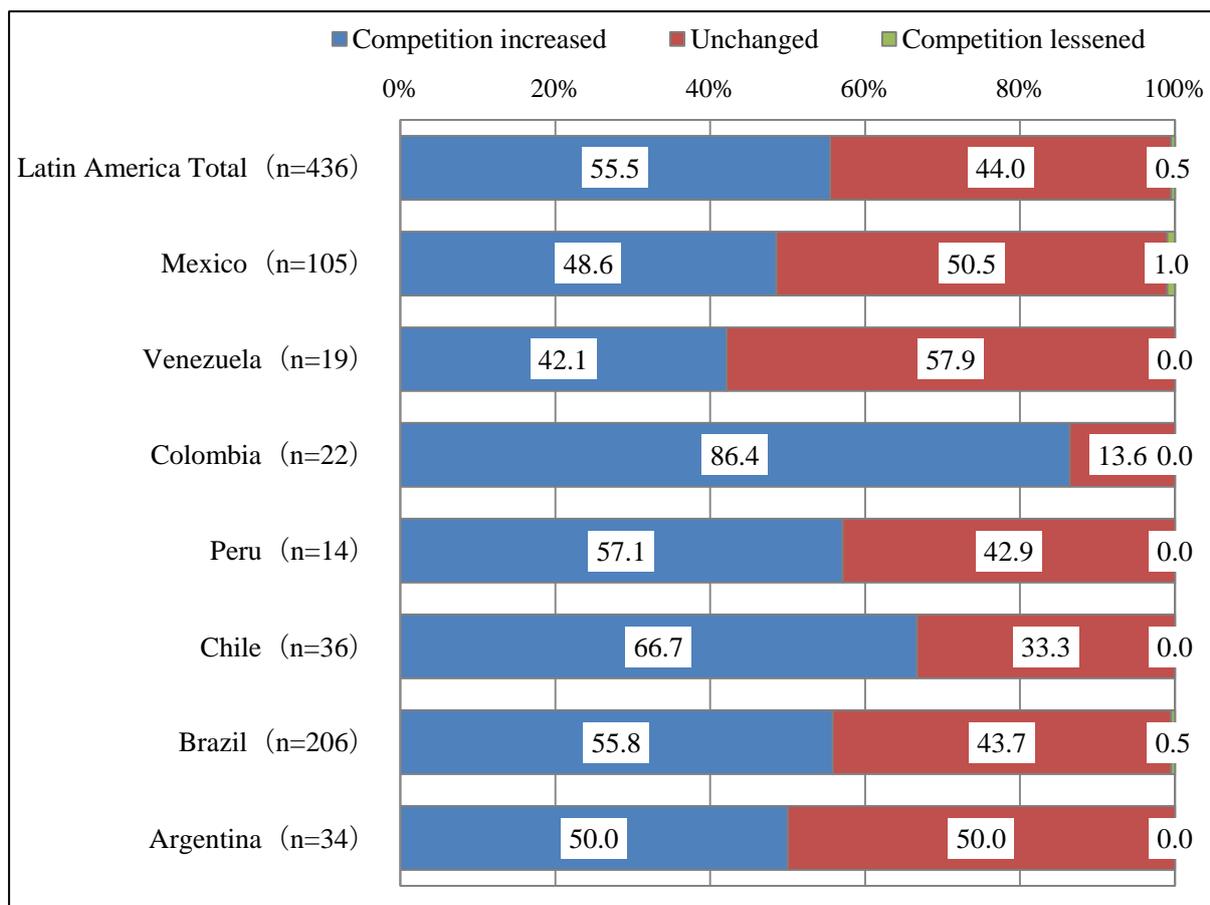


Intensifying Market Competition

Concerning the change in market competition, 55.5% answered that it has increased. This ratio has risen from the 2011 survey (50.6%) and the 2012 survey (54.4%). Meanwhile, 44.0% answered “Unchanged”, gradually decreasing from 2011 (47.8%) and 2012 (44.5%) surveys. The results reveal the fierce competition between Japanese, U.S., European, Chinese, and South Korean companies in the Latin American market. The ratio of increased competition was, from the highest order, 86.4% in Colombia, 66.7% in Chile, 57.1% in Peru, 55.8% in Brazil, and 48.6% in Mexico. Compared to the previous fiscal year, the “Increased” ratio rose in Colombia (55.6% in 2012), Chile (51.6% in 2012), and Peru (55.6% in 2012), while Brazil (61.3% in 2012) and Mexico (53.5% in 2012) each showed a slight decrease.

For Japanese companies, Brazil and Mexico are still the main battlefields for developing the Latin American market. Yet, more Japanese companies may be considering Colombia, Chile, and Peru as the next market after Brazil and Mexico, thereby intensifying the competition. Similar to previous surveys, the ratio of “Unchanged” is high in Argentina and Venezuela. Behind this is the fact that there are few newcomers to the market due to problems in the business environment.

Fig. 4-2: Change in Competition in the Past 12 Months

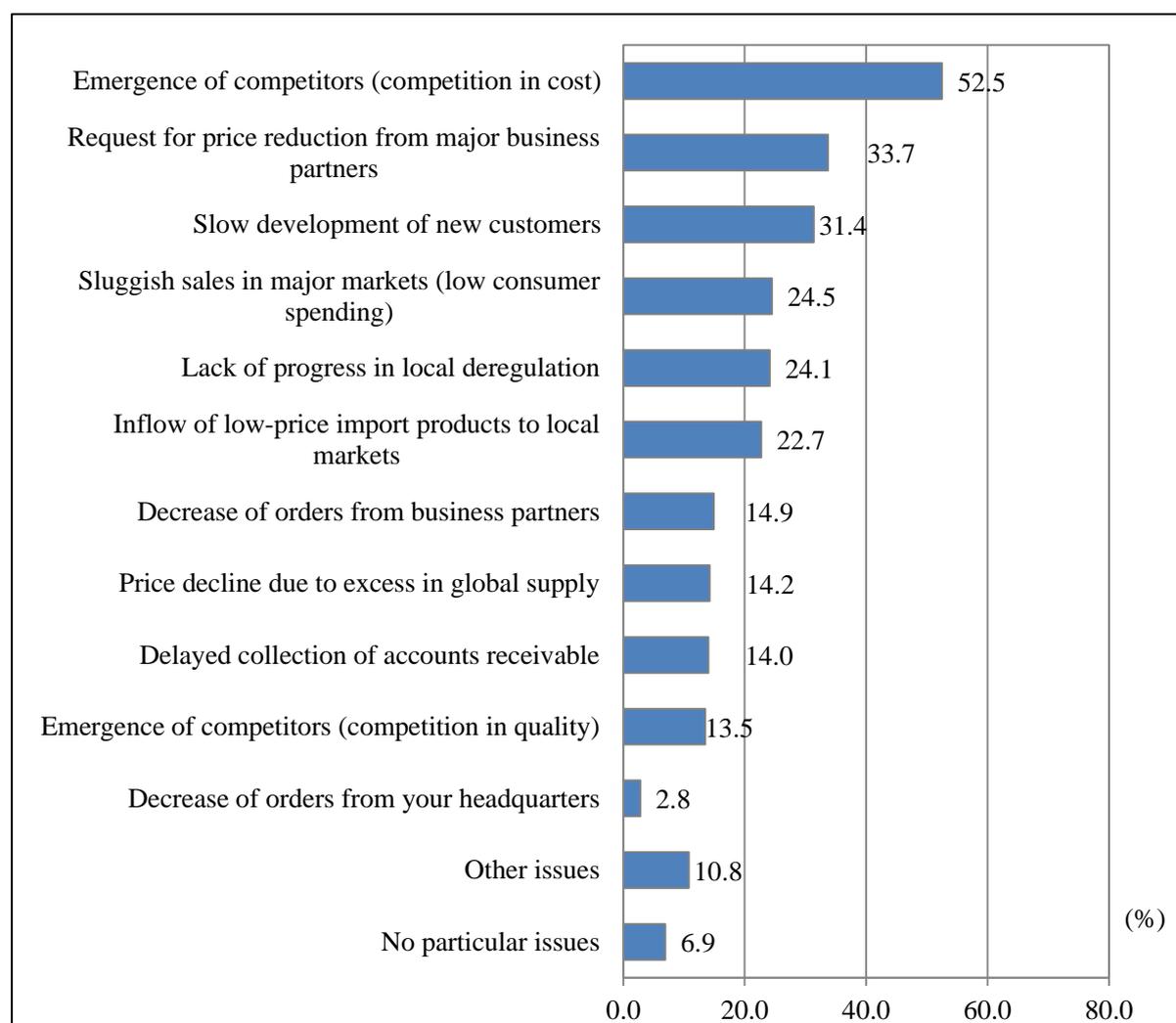


5. Issues on Business Management

Challenged with Emergence of Competitors and Price Reduction Requests

For issues on sales and marketing, the high-percentage answers were “Emergence of competitors (competition in cost)” at 52.5% (229 companies), followed by “Request for price reduction from major business partners” at 33.7% (147 companies). These are the top two issues for all countries except Venezuela, which has “Lack of progress in local deregulation” (52.6%, 10 companies), and “Delayed collection of accounts receivable” (36.8%, 7 companies) as the major concerns. The continuance of price controls on basic foods and some medical products etc. as anti-inflationary measures, and an increase in the number of items for which it is required to submit certificates of domestic non-production and insufficiency to acquire foreign currency for import, which makes acquiring foreign currency for import more difficult, seem to be behind this.

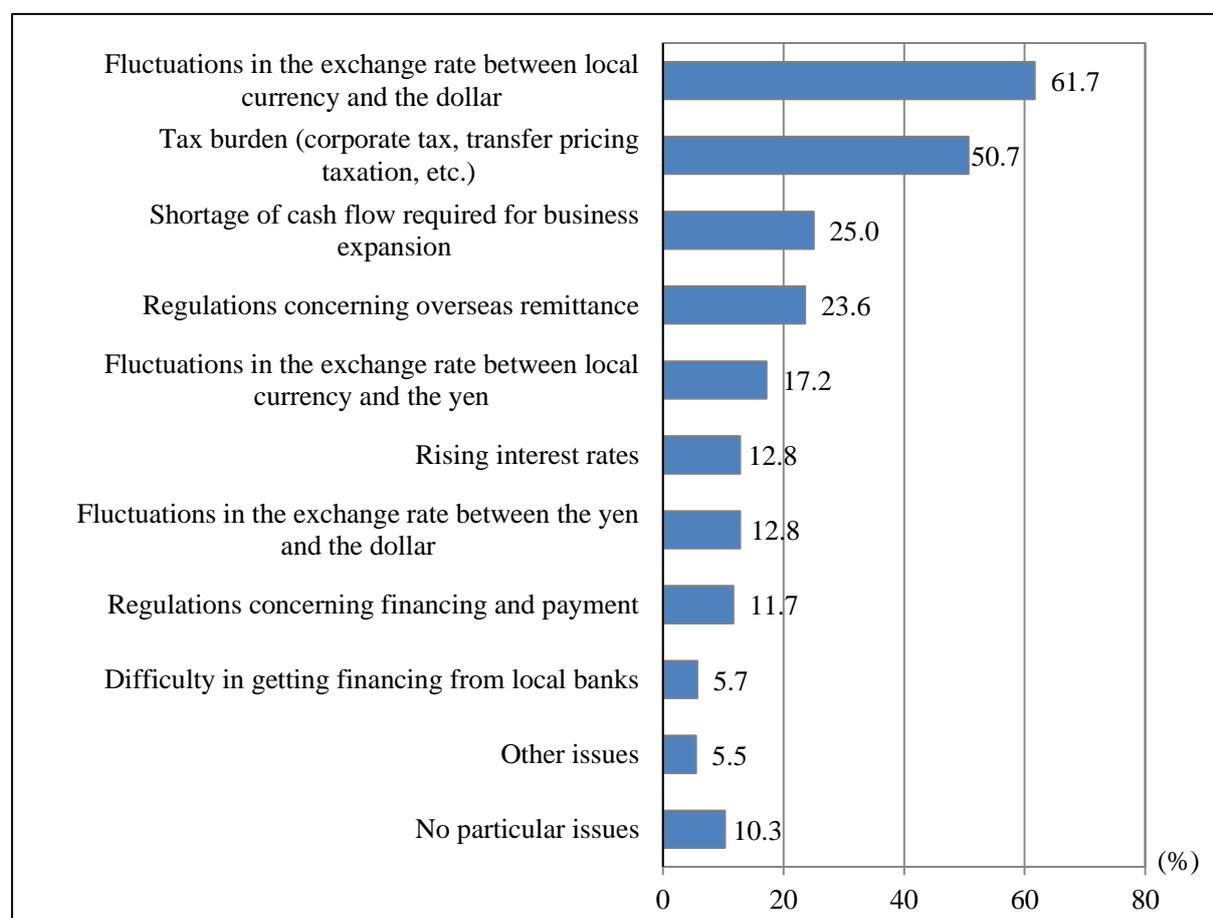
Fig. 5-1: Current Issues on Sales and Marketing (Latin America overall, multiple answers)



Financially Challenged by Exchange Rate Fluctuations and Taxation

The top issue in the finance, monetary, and foreign exchange fields was “Fluctuation in the exchange rate between local currency and the dollar” at 61.7% (269 companies), followed by “Tax burden (corporate tax, transfer pricing taxation, etc.)” at 50.7% (221 companies). For “Fluctuation in the exchange rate between local currency and the dollar,” Argentina (73.5%, 25 companies) and Colombia (68.2%, 15 companies) had high scores. As for “Tax burden (corporate tax, transfer pricing taxation, etc.)”, Brazil (70.9%, 146 companies) and Peru (57.1%, 8 companies) have high scores. Meanwhile, on “Regulations concerning overseas remittance,” the two countries Argentina (88.2%, 30 companies) and Venezuela (84.2%, 16 companies) stood out, while all other countries scored low. This is because when securing foreign currency for transferring profits in Argentina, the central bank’s inspection is becoming more strict while the inspection criteria is not disclosed. In Venezuela, allocation of foreign currency needs to be acquired from the Commission for the Administration of Currency Exchange (CADIVI) when securing foreign currencies. However, allocations for transferring profits and dividends are hardly ever approved, although they are authorized in CADIVI’s administrative decision document.

Fig. 5-2: Current Issues on Finance, Monetary, and Foreign Exchange (Latin America overall, multiple answers)

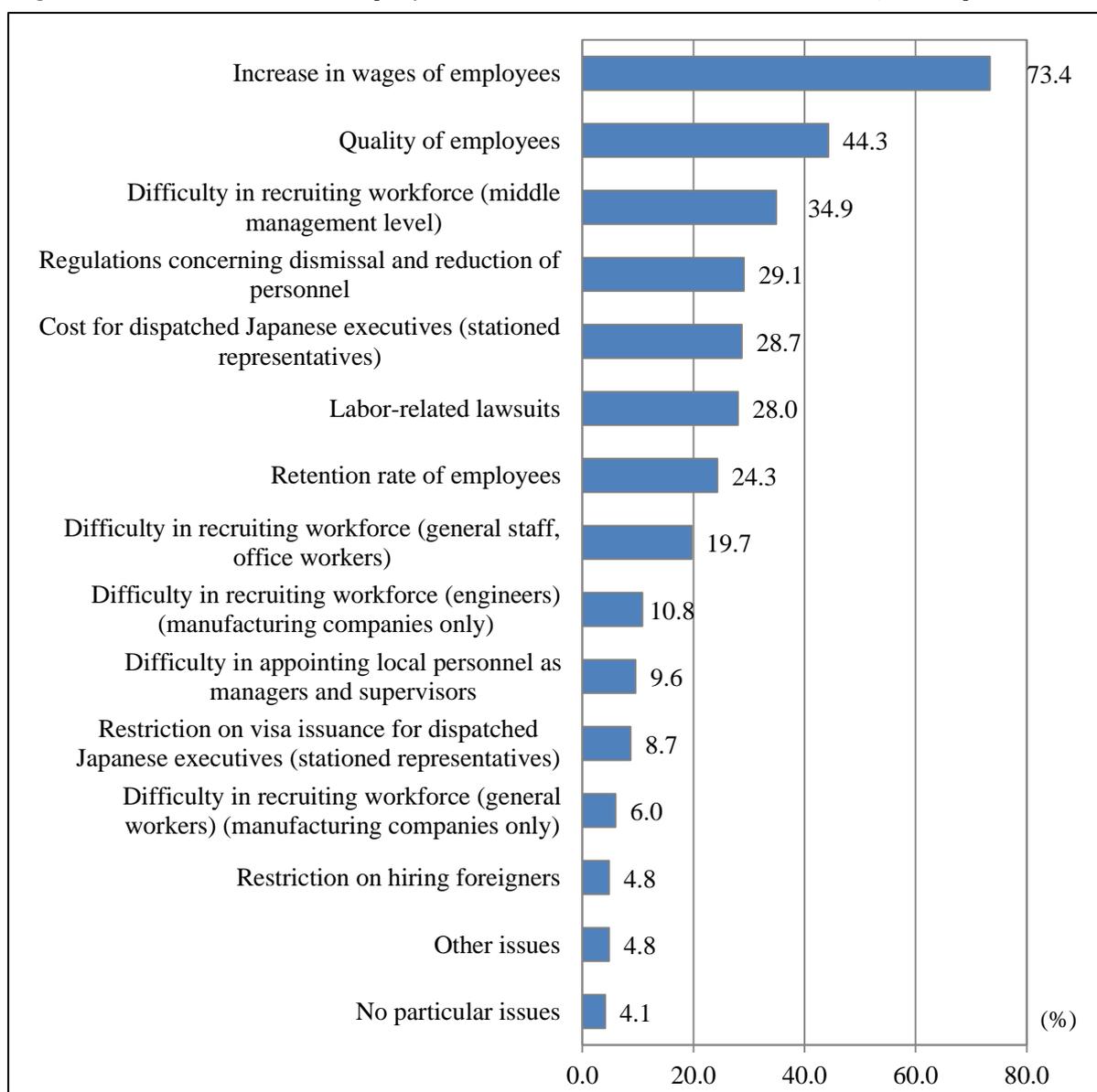


Notable Increase in Wages of Employees

For issues regarding employment and labor, “Increase in wages of employees” scored high at 73.4% (320 companies). This ratio has been increasing, from 58.9% in 2011 and 60.2% in 2012, and accounts for the largest portion of management issues.

This is followed by “Quality of employees” at 44.3% (193 companies), then “Difficulty in recruiting workforce (middle management level)” at 34.9% (152 companies). Against a backdrop of a steady economy, the unemployment rate has become lower in Latin America, and the turnover rate is on the rise. Regardless of positions, there is a strong competition over talented staff, and Japanese companies seem to be having a hard time in securing the desired quality and headcount in the workforce.

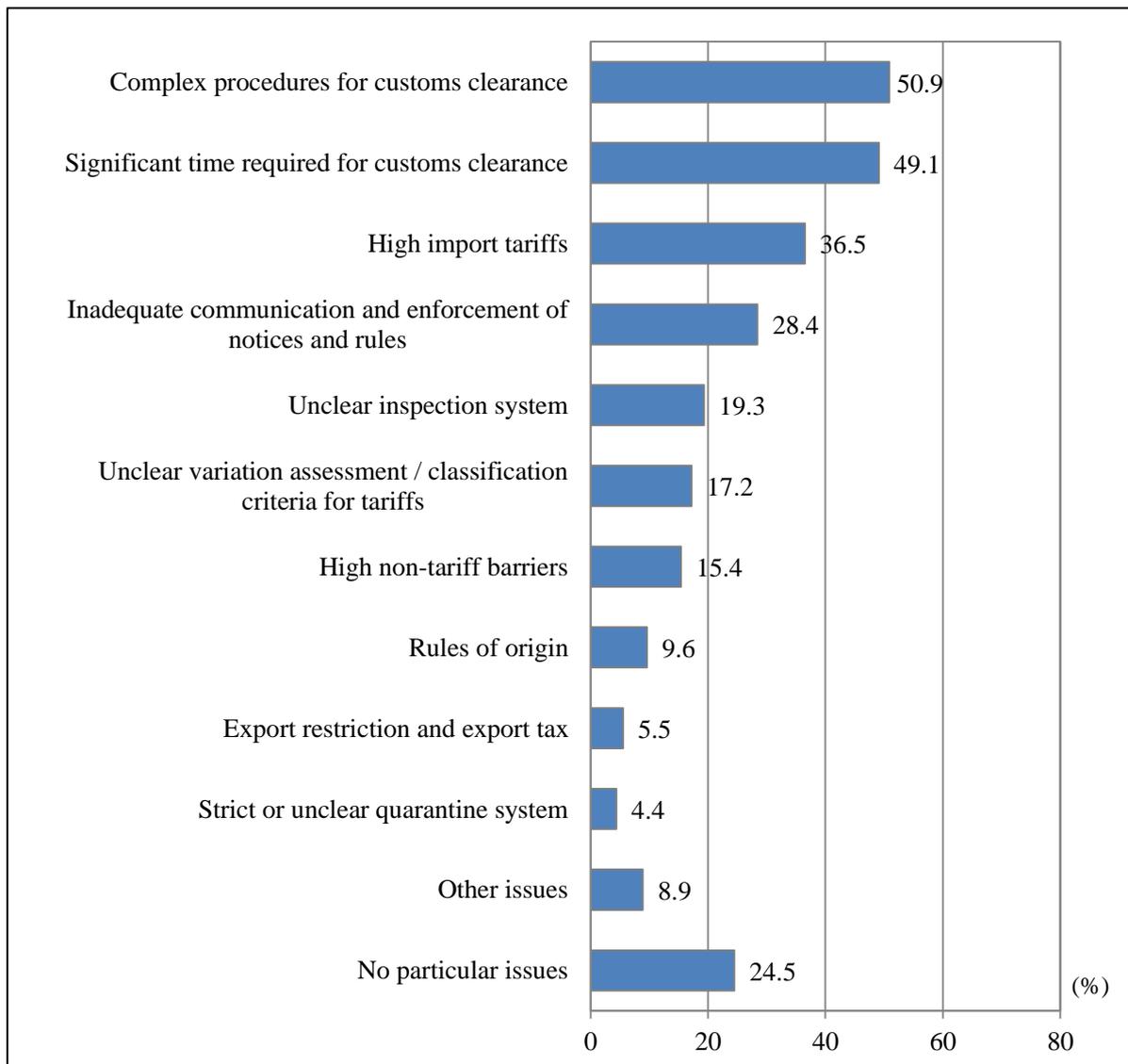
Fig. 5-3: Current Issues on Employment and Labor (Latin America overall, multiple answers)



Time-Consuming and Complicated Customs Procedure

Regarding the trade system, the highest scoring issues were “Complex procedures for customs clearance” at 50.9% (222 companies), and “Significant time required for customs clearance” at 49.1% (214 companies). The ratio for these two were especially high in the Mercosur nations of Brazil, Argentina, and Venezuela (60% to less than 90%), while in the Pacific Alliance countries, the figures for Mexico, Colombia, and Peru were at the 30% level, and less than 3% in Chile. The results portray the characteristics of the Mercosur countries, which are seen as pursuing protectionist policies.

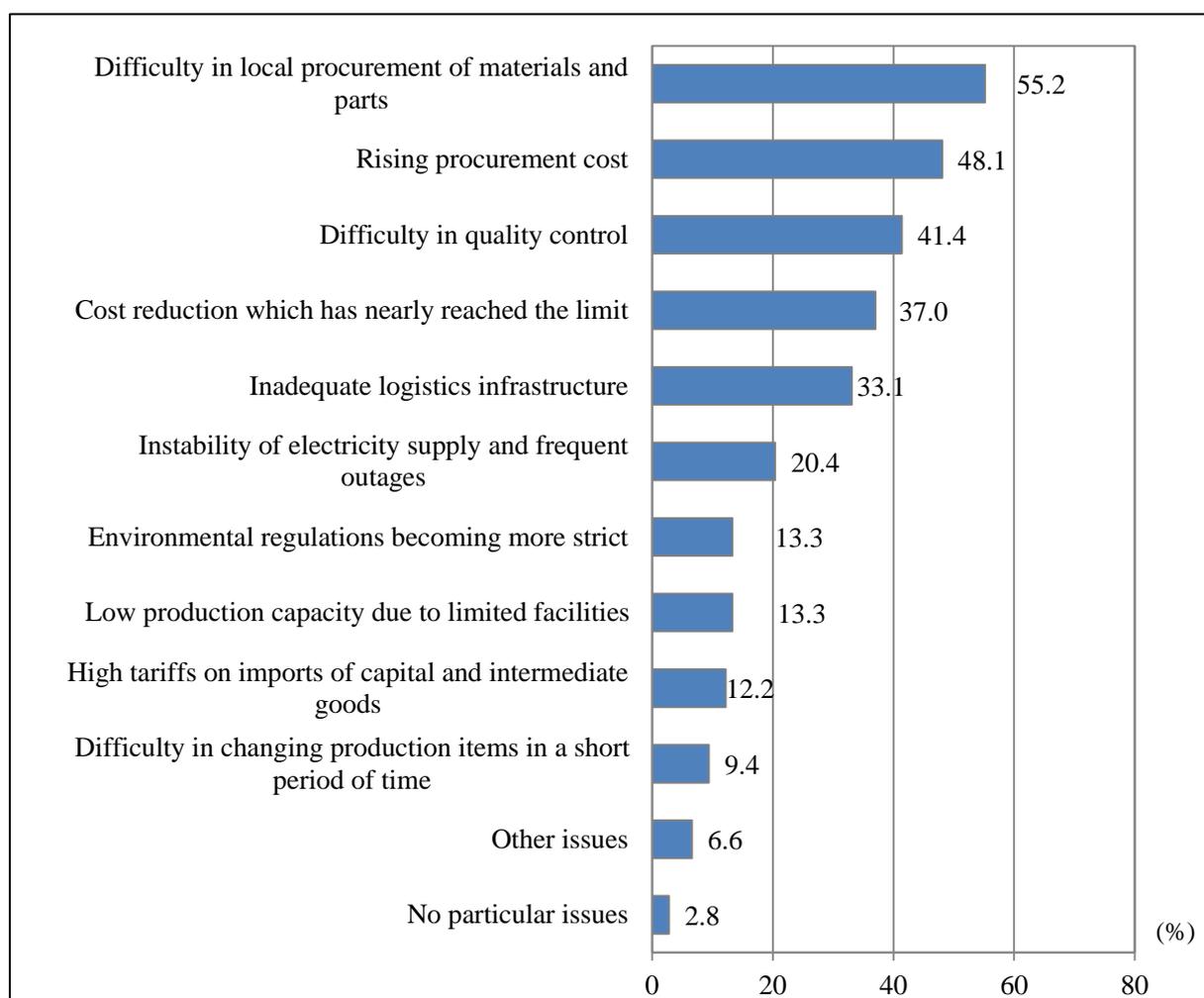
Fig. 5-4: Current Issues on the Trade System (Latin America overall, multiple answers)



Faced with Difficulties of Local Procurement

For issues on production, “Difficulty in local procurement of materials and parts” (55.2%, 100 companies) and “Rising procurement cost” (48.1%, 87 companies) showed high percentages. Especially on the difficulty of local procurement, the response was in the 60% to 90% range in all countries surveyed except for Peru and Chile, where very few Japanese companies have their production base. So the issue can be seen as a common problem among Japanese manufacturers in Latin America. However, Brazil alone remained at 49.4%. This is probably due to the fact that Brazil had already set high customs barrier compared to Mexico and other countries to promote the growth of its domestic industries, and therefore some parts-supply industries already exist.

Fig. 5-5: Current Production Issues (Latin America overall, multiple answers by 181 manufacturing companies)

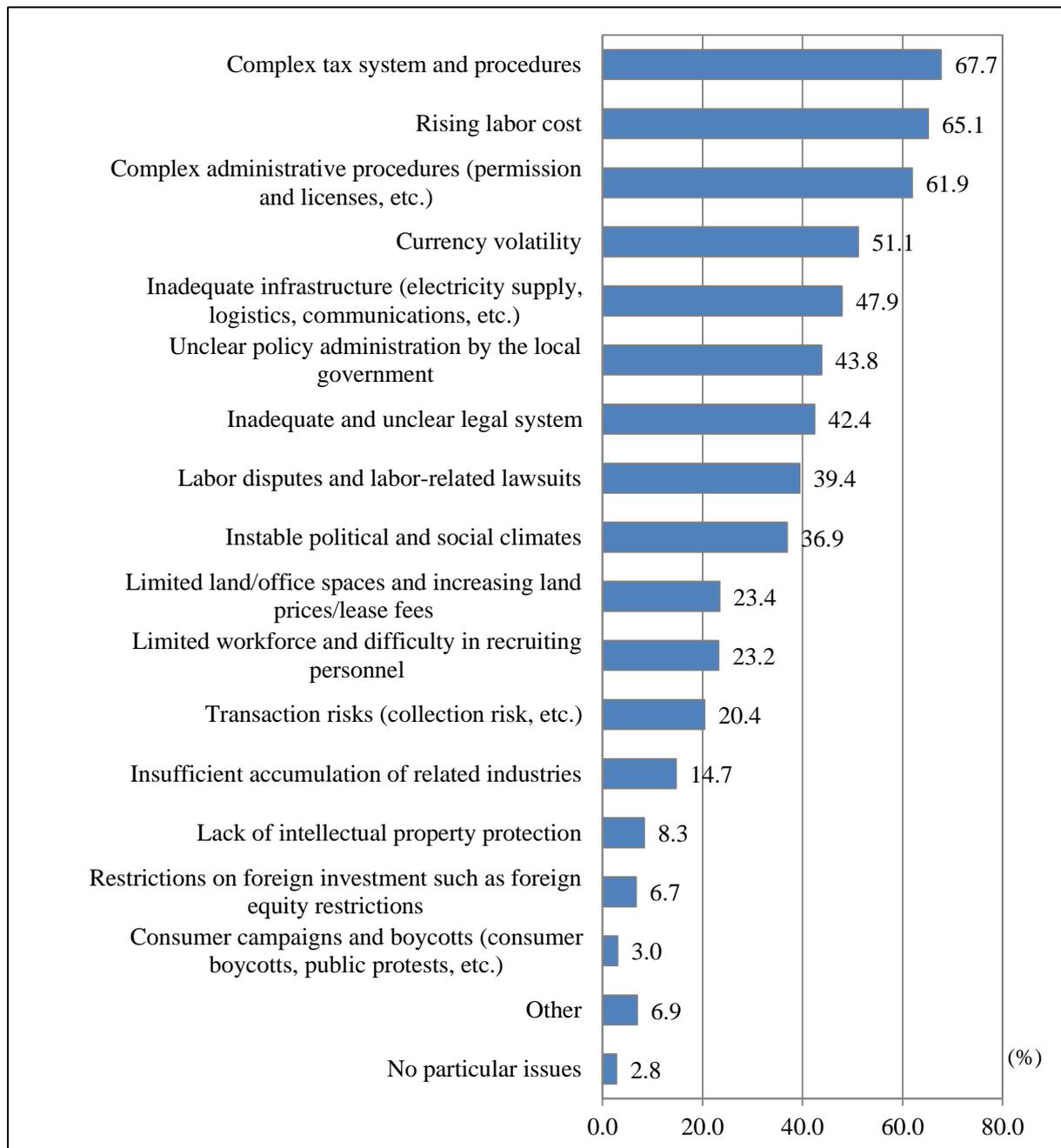


Complex Tax and Administrative Procedures Prominent in Mercosur Countries

For issues on the investment environment, “Complex tax system and procedures” scored 67.7% (295 companies) for Latin America overall. Yet when looking at each country, the Mercosur states of Brazil (88.3%, 182 countries), Argentina (64.7%, 22 companies), and Venezuela (63.2%, 12 companies), showed high percentages. Similarly, with “Complex administrative procedures (permission and licenses, etc.),” the response was 61.9% (270 companies) for Latin America overall, while the Mercosur countries Venezuela (94.7%, 18 companies), Argentina (76.5%, 26 companies), and Brazil (73.8%, 152 companies) all had higher percentages than the total for Latin America. In addition to the previously mentioned customs procedure, the Mercosur countries have noticeably tough investment environments.

Meanwhile, those who answered “Rising labor cost” were 85% (175 companies) in Brazil, 79.4% (27 companies) in Argentina, followed by 68.4% (13 companies) in Venezuela, 61.1% (22 companies) in Chile, and 40.9% (9 companies) in Colombia, showing that the issue is a common problem for all Japanese companies in Latin America, regardless of location.

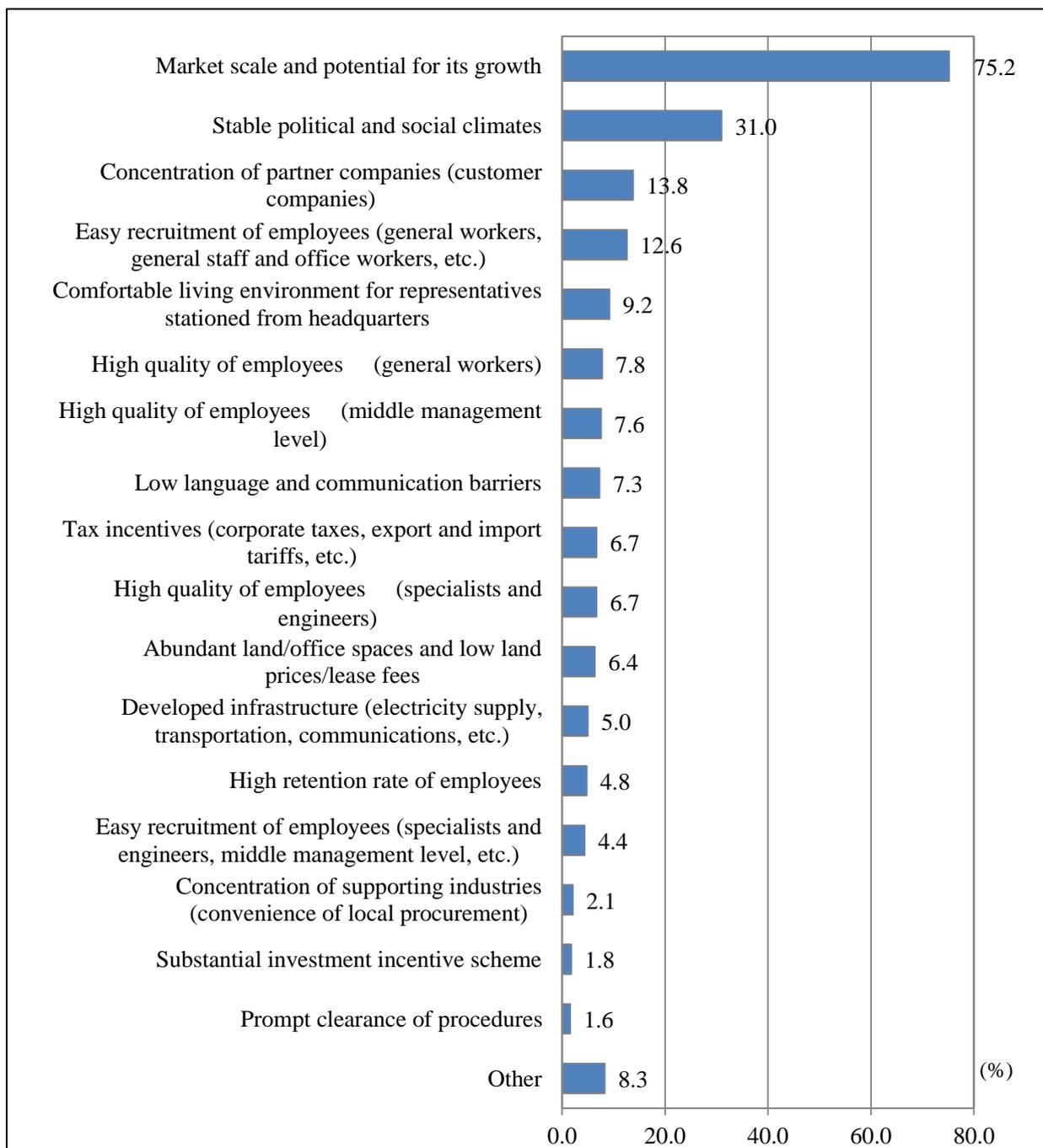
Fig. 5-6: Current Risks (Issues) in the Investment Environment (Latin America overall, multiple answers)



[Reference] Benefits (Strengths) in the Investment Environment

The percentage of “Market scale and potential for its growth” stands out at 75.2% (328 companies). The high-scoring countries were Colombia at 90.9% (20 companies), Mexico at 85.7% (90 companies), and Brazil at 84.0% (173 companies). “Stable political and social climates” came in second at 31.0% (135 companies), with high percentage in Chile at 83.3% (30 companies) and in Colombia at 59.1% (13 companies).

Fig. 5-7: Benefits (Strengths) in the Investment Environment (Latin America overall, multiple answers)

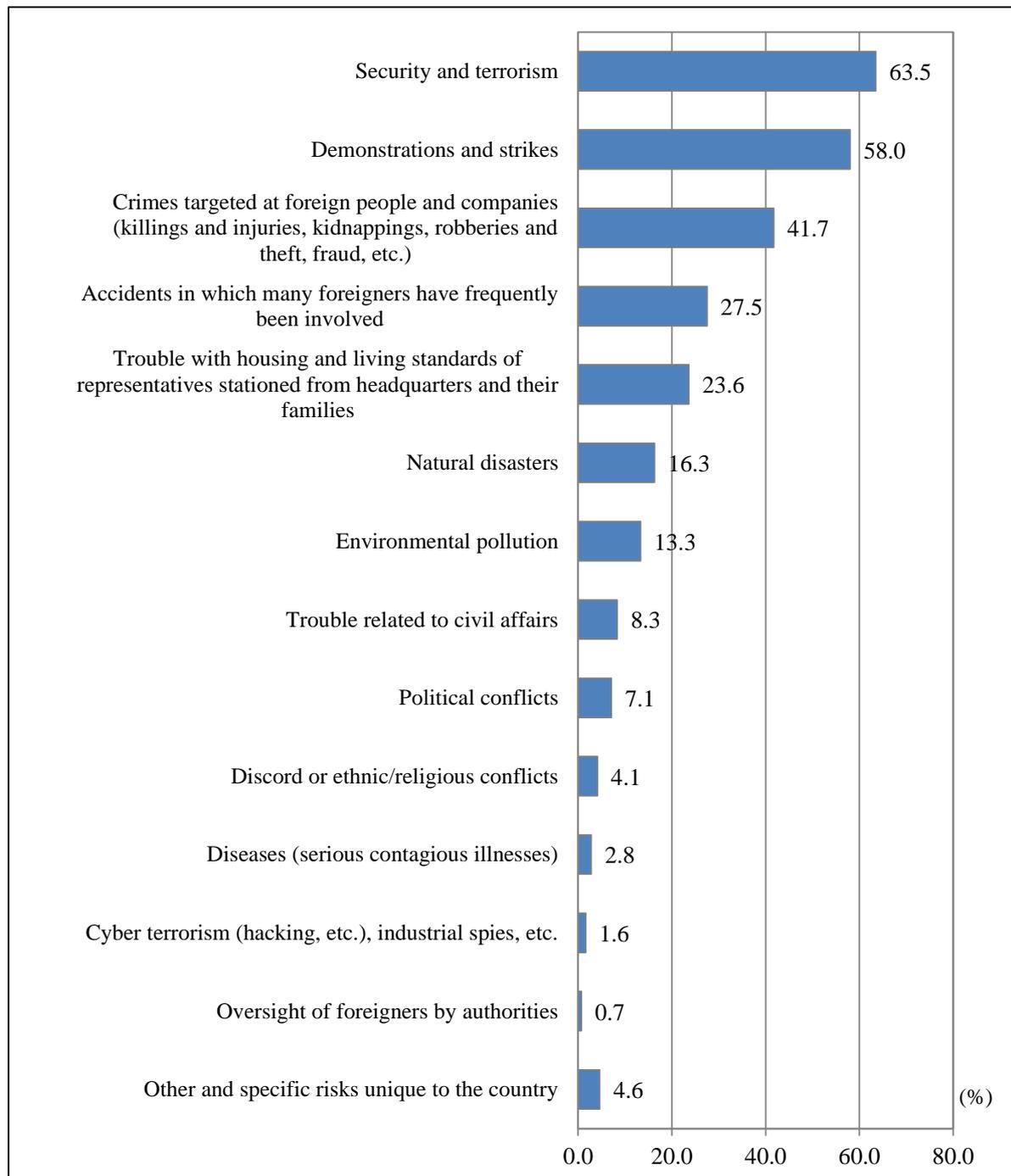


Concern over Security and Terrorism in Some Countries

Regarding security issues, “Security and terrorism” ranked top at 63.5% (277 companies). By country, Peru (85.7%, 12 companies), Colombia (81.8%, 18 companies), Venezuela (78.9%, 15 companies), and Mexico (75.2%, 79 companies) had the highest percentages.

In contrast, the ratio of “Discord or ethnic/religious conflicts” (4.1%, 18 companies) and “Diseases (serious contagious illnesses)” (2.8%, 12 companies) were low.

Fig. 5-8: Current Issues on Security (Latin America overall, multiple answers)

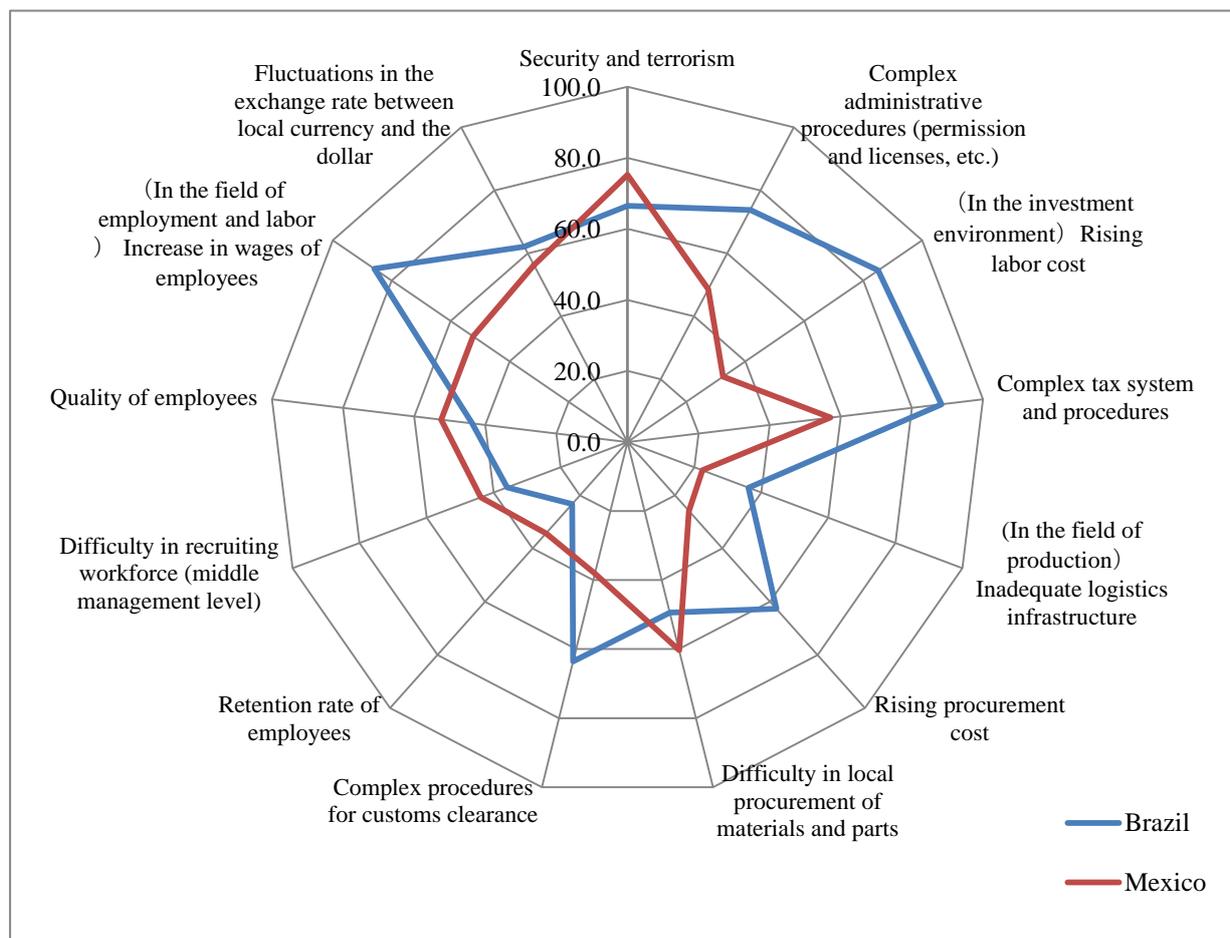


Comparing Brazil and Mexico—Labor Costs, Taxation, and Administrative Procedures

We have compared Brazil and Mexico where many Japanese companies are located, by the previously described management issues. In Brazil, “Complex administrative procedures (permission and licenses, etc.),” “Rising labor cost (in the investment environment),” “Complex tax system and procedures,” “Rising procurement cost,” “Complex procedures for customs clearance,” and “Increase in wages of employees (in the field of employment and labor)” are given as the main problems. In particular, the constant upward pressure on wages in Brazil’s labor market seems to be one factor behind the “Rising labor cost” response.

Meanwhile in Mexico, “Security and terrorism,” “Quality of employees,” “Difficulty in recruiting workforce (middle management level),” “Retention rate of employees,” and “Difficulty in local procurement of material and parts” are given as the main problems. The percentage of “Security” continued to be high in Mexico similar to the previous year, while in Brazil, the figure jumped to 66.5% from 14.9% in 2012. This is seen as the effect of a large-scale demonstration demanding improved educational and medical services and anti-inflationary and corruption prevention measures, which was triggered by the bus and metro fare increase in June 2013.

Fig. 5-9: Current Issues (Comparison between Brazil and Mexico, multiple answers)



6. Procurement Situation of Raw Material and Parts

High Ratio of Local Procurement in Brazil

For Latin America overall, the local procurement rate of “25% to less than 75%” garnered the highest response at 35.4%, followed by “Less than 10%” at 24.3%. We have compared Brazil (83 respondents to this question) and Mexico (58 respondents to this question) where many manufacturing companies are located. In Brazil, “75% to 100%” rose to 32.5% from 32.1% in 2012, and “25% to less than 75%” rose to 43.4% from 35.8% in 2012. In Mexico, the ratio of “75% to 100%” fell to 10.3% from 16.2% in 2012, and “25% to less than 75%” fell to 31.0% from 35.1% in 2012. In Brazil, the “Less than 10%” response fell to 13.3% from 18.9% in 2012, and “10% to less than 25%” also decreased to 10.8% from 13.2% in 2012. In contrast, Mexico’s figures for “Less than 10%” fell to 37.9% from 45.9%, while “10% to less than 25%” showed a notable increase to 20.7% from 2.7% in 2012.

The local procurement rate is low in Mexico. This is because Mexico can utilize preferential duties such as FTAs and The Program of Sectoral Promotion (PROSEC) when importing raw materials and parts. Yet in recent years, Japanese supplier chains are being built to Tier2 and Tier3 levels, mostly in the auto industry. So in the medium term, local procurement is expected to expand.

Fig. 6-1: Local Procurement Ratio for Products Manufactured at Local Plant (181 manufacturing companies)

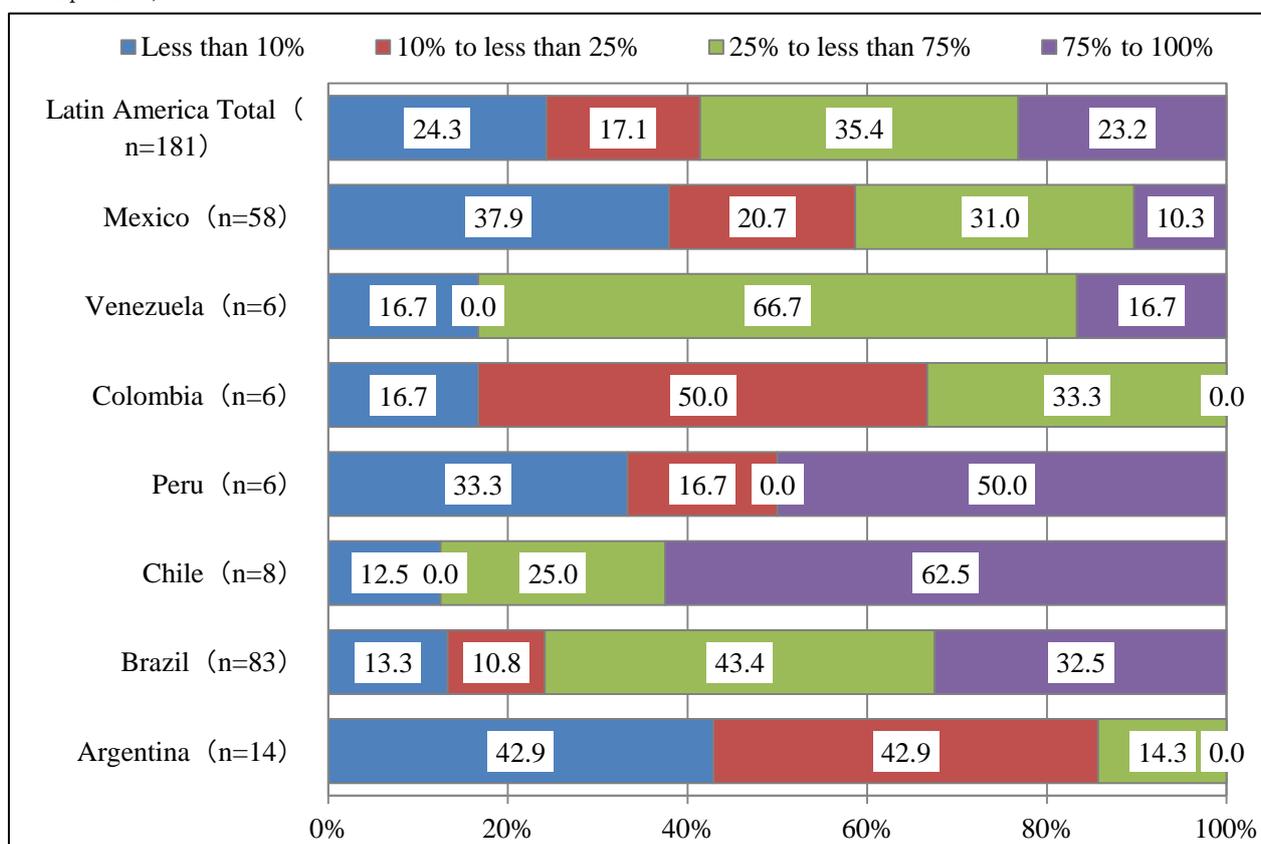
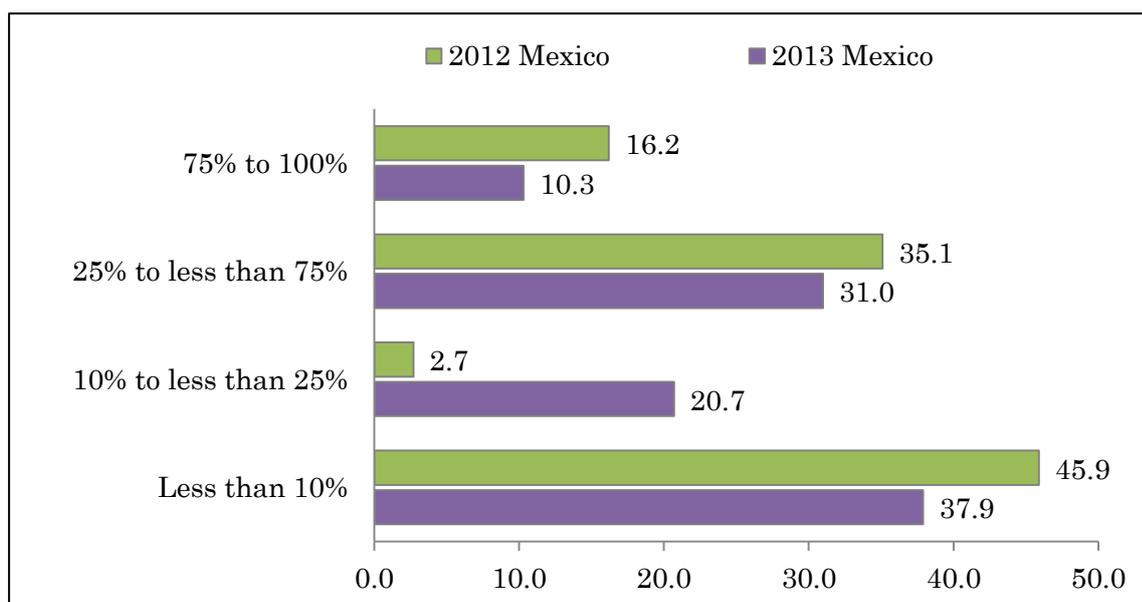
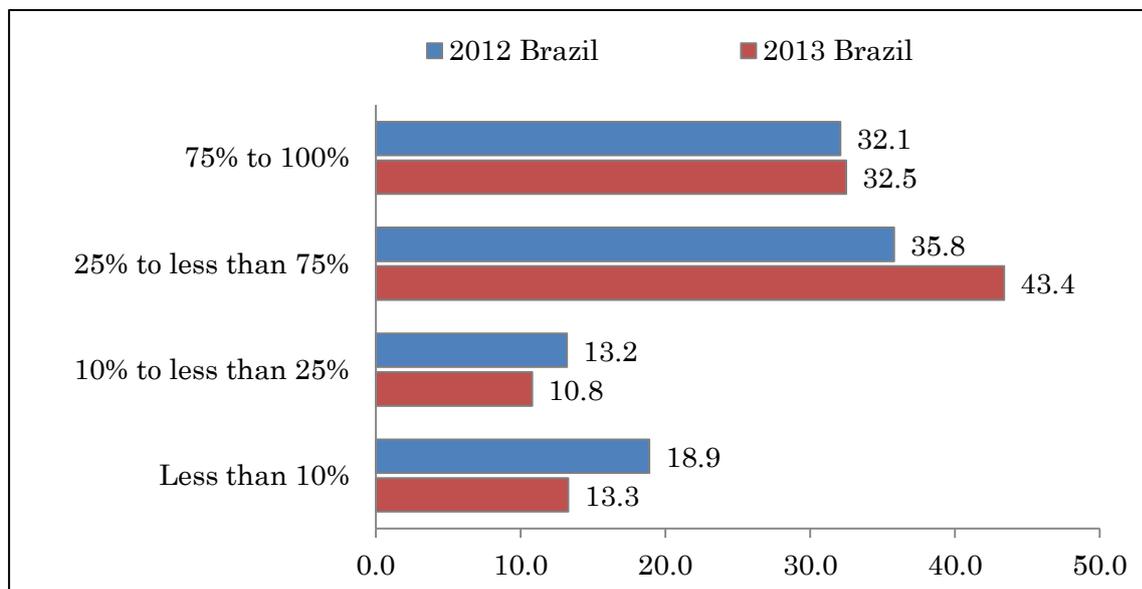


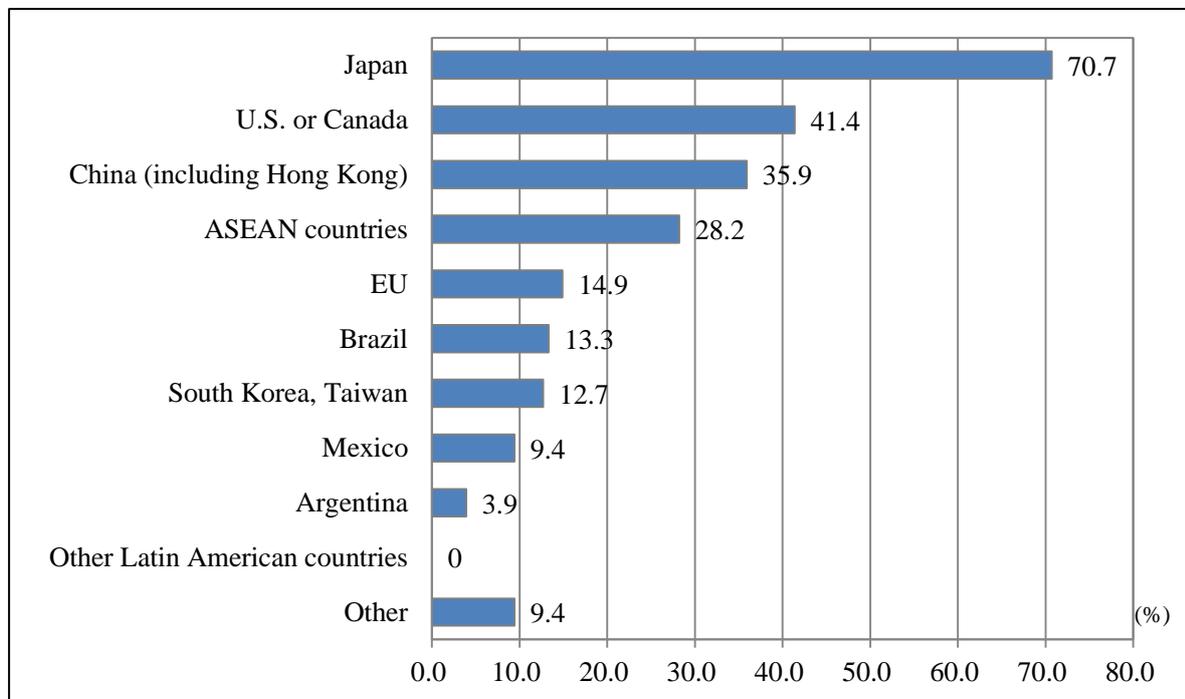
Fig. 6-2: Local Procurement Rate of Raw Materials/Parts for Products Manufactured in Local Plants (Comparison between Brazil and Mexico, changes from 2012 to 2013)



Procurement Mostly from Japan, Though Less Than Previous Survey

For Latin America overall, procurement from Japan is the highest at 70.7% (128 companies, -1.4 points from 2012), followed by the U.S. and Canada at 41.4% (75 companies, +3.6 points from 2012), China (including Hong Kong) at 35.9% (65 companies, +1.7 points from 2012). Procurement from China has increased from two years ago, and we can see that Japanese companies are starting to seek the optimum regions for procurement, not only Japan (globalization of procurement). This trend is especially notable in Brazil, where 63.9% (53 companies, -14.5 points from 2012) of Japanese companies procure from Japan, 36.1% (30 companies, +10.6 points from 2012) from China, and 31.3% (26 companies, +1.9 points from 2012) from the U.S. and Canada.

Fig. 6-3: Foreign Procurement of Raw Materials/Parts (multiple answers from 181 manufacturers)



7. FTA/EPA Utilization and Problems

Mexico: Over 50% FTA Utilization in All Areas

The most utilized FTA in Mexico is NAFTA. Among the companies exporting to the NAFTA region (U.S. and Canada), 80.0% (77.3% in 2012) utilize NAFTA. Also, out of the 60 companies (42 in 2012) importing from the NAFTA region, 43 companies (35 in 2012) use NAFTA. As for other free trade agreements, the Mexico-Mercosur Auto Sector Agreement, Mexico-Five Central American Countries FTA, Mexico-Chile FTA, and Mexico-EU FTA are widely utilized for export, and Mexico-EU FTA and the Japan-Mexico FTA are the ones most utilized for import.

Mexico is considered one of the advanced FTA nations in Latin America, actively building FTA networks with various countries and regions. The results of this survey reveal that Japanese companies in Mexico are making full use of these networks in developing their business.

Fig. 7-1: Mexico (Exports)

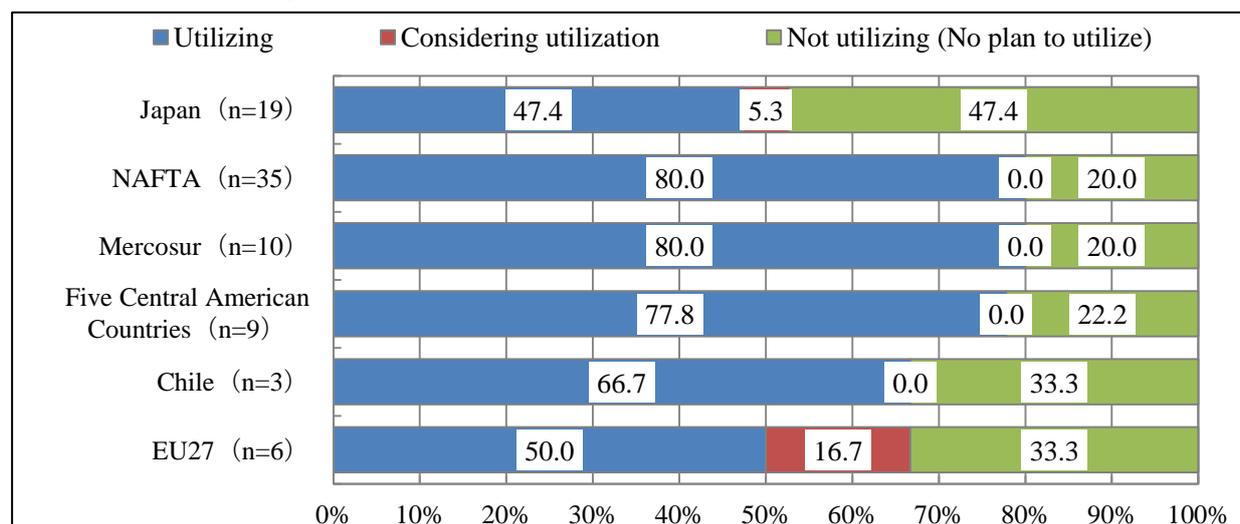
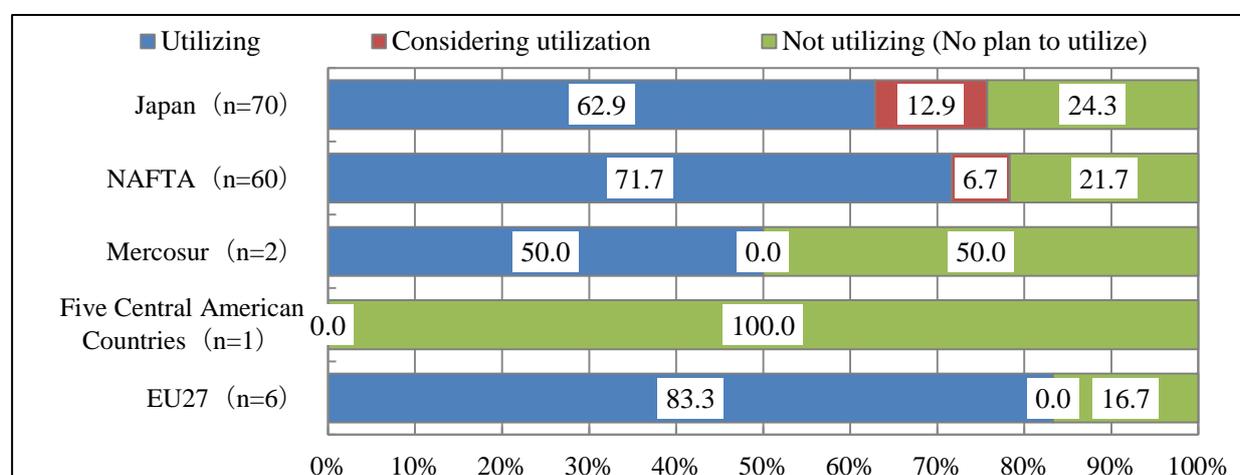


Fig. 7-2: Mexico (Imports)



Brazil: High Use of Mercosur, as Well as Auto Sector Agreement with Mexico for Imports

The free trade agreement mostly used by Japanese companies in Brazil is Mercosur, utilized by 51.8% (29 companies) for exports and 41.4% (12 companies) for imports. FTAs are highly used for imports from Mexico. This is probably due to the utilization of auto sector agreements which define the customs-free amount for finished cars etc. between Mexico and Mercosur.

Fig. 7-3: Brazil (Exports)

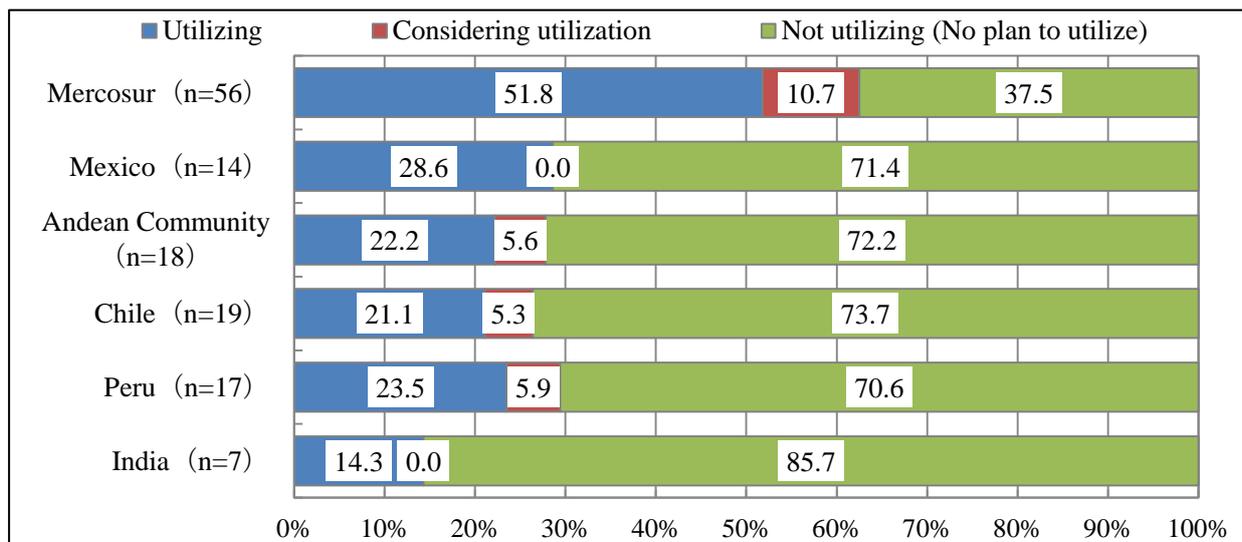
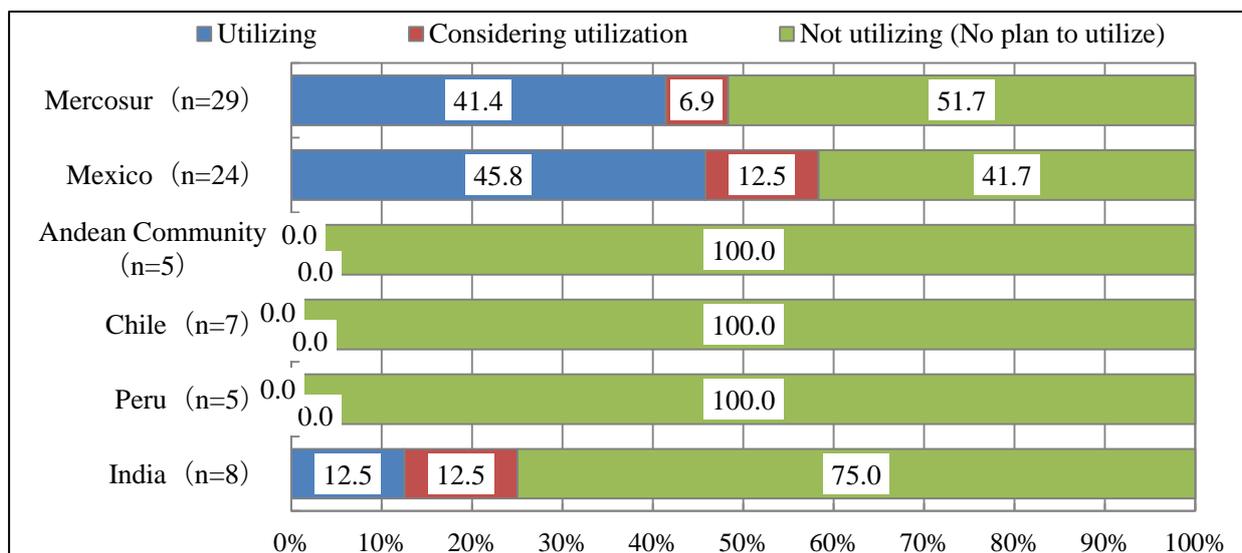


Fig. 7-4: Brazil (Imports)



(Note: FTAs with India, Peru, Chile, Mexico, and the Andean Community are concluded within the Mercosur framework. Agreements with Mexico consist only of those related to automobiles and auto parts.)

Chile: Over 70% Utilization for Imports in All Regions

The Japanese companies in Chile are mainly using FTAs for imports. They seem to be using FTA as a tool for surviving Chile's price-competitive market. The Japan-Chile EPA utilization is 37.5% for exports and 72.7% for imports.

Fig. 7-5: Chile (Exports)

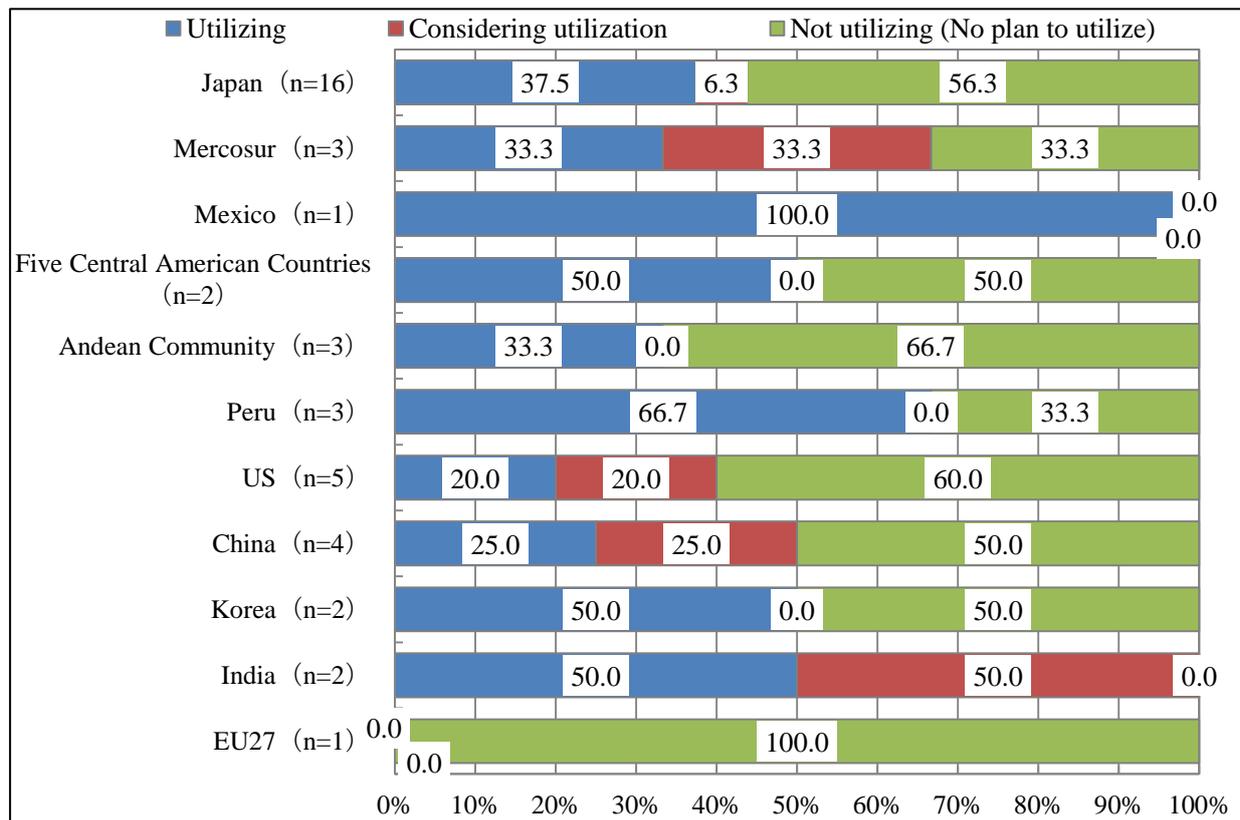
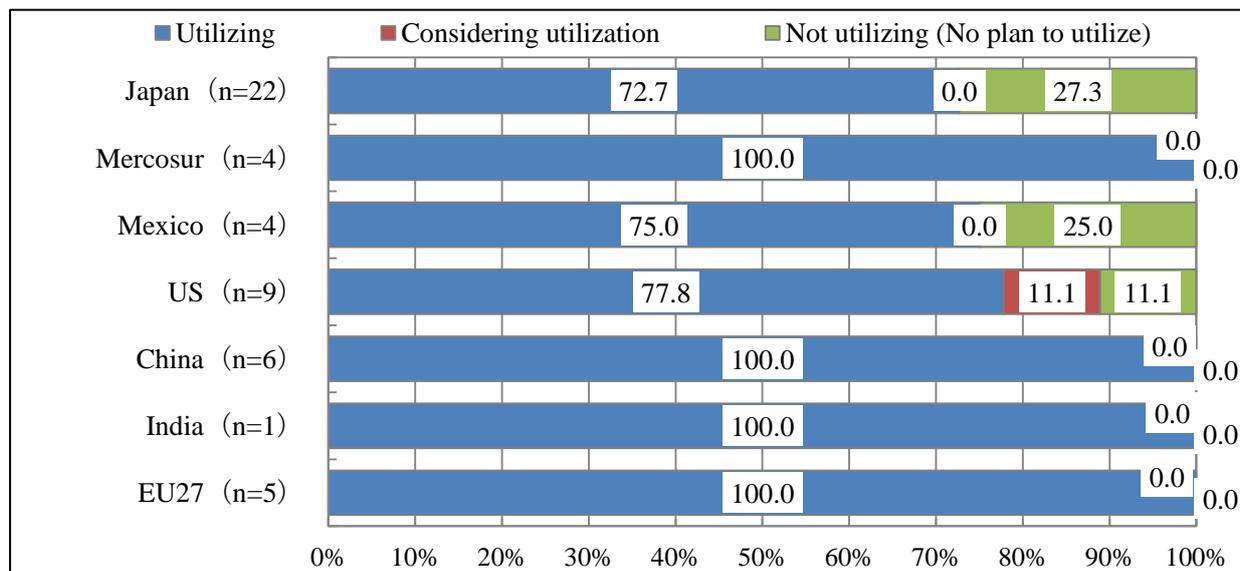


Fig. 7-6: Chile (Imports)



Argentina: Utilization of Mercosur as Well as Auto Sector Agreement with Mexico

The trade agreement utilized by Japanese companies in Argentina is Mercosur, used by 75.0% for exports, and 92.3% for imports. The auto sector agreement with Mexico is also being used, mostly for imports, utilized by three companies (one company for exports).

Fig. 7-7: Argentina (Exports)

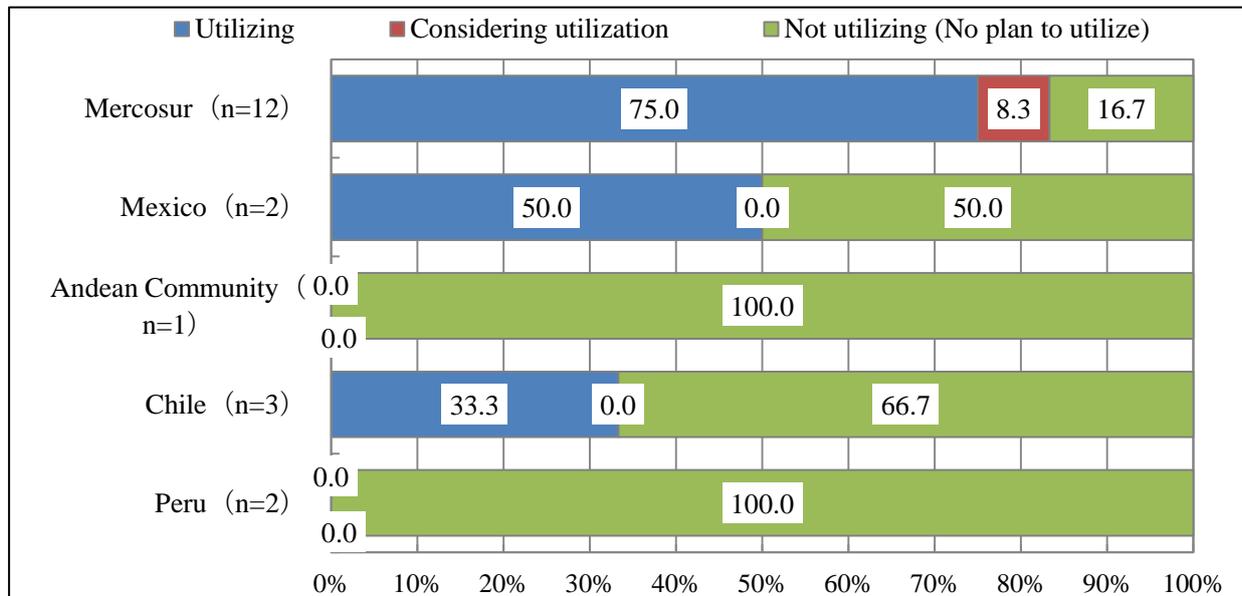
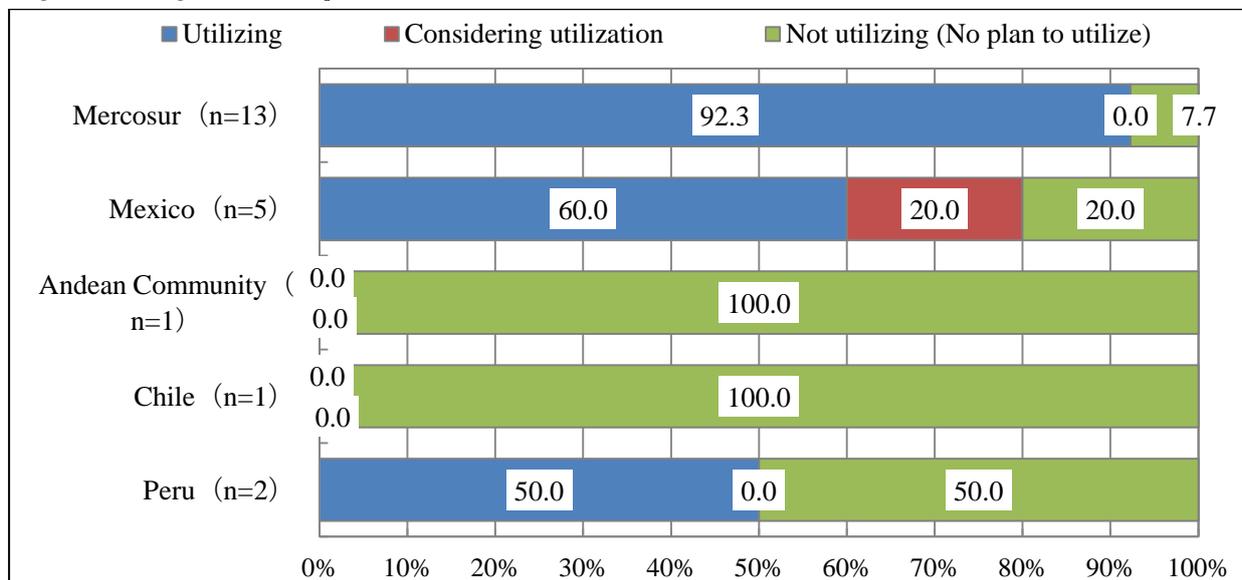


Fig. 7-8: Argentina (Imports)



(Note: FTAs with Peru, Chile, Mexico, and the Andean Community are concluded within the Mercosur framework.)

Colombia: Used for Exports to the Andean Community, and Imports from Mercosur and Mexico

The free trade agreements utilized by Japanese companies in Colombia are the FTAs with the Andean Community and Mercosur. With the Andean Community, the FTA is utilized for exports by 72.7%. With Mercosur, the FTA is mainly used for imports at 83.3%. The FTA utilization for imports from Mexico is also high. Three companies (75.0%) were utilizing FTAs for exports to the five Central American countries.

Fig. 7-9: Colombia (Exports)

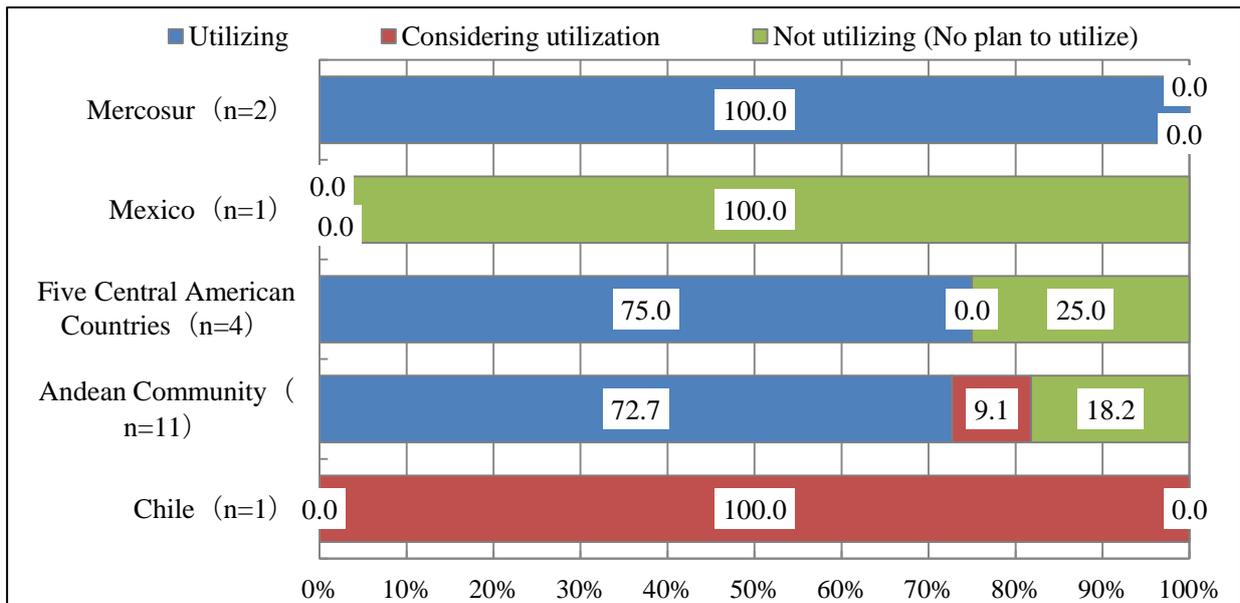
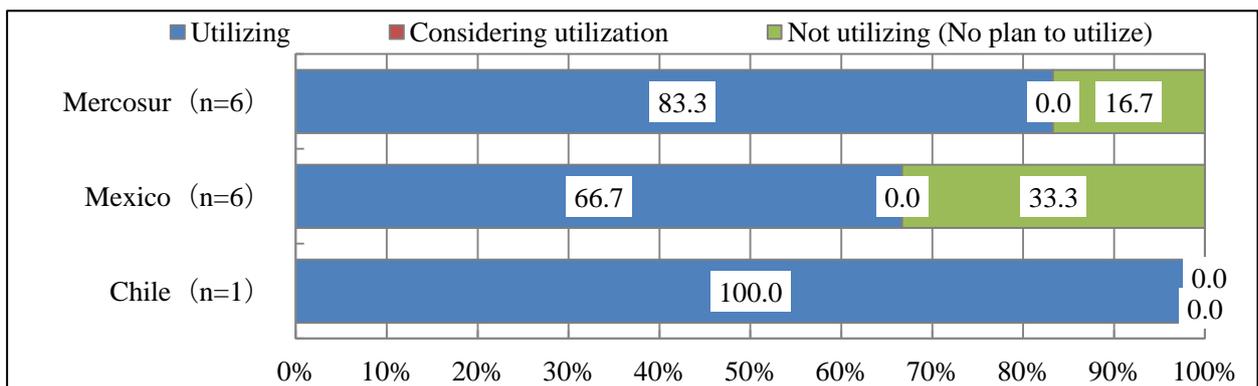


Fig. 7-10: Colombia (Imports)



Peru: High Utilization for Imports

Japanese companies in Peru mainly utilize FTAs for imports. As is the case in Chile, the FTAs are being used as a tool for surviving the price-competitive market in Peru. The Japan-Peru EPA is used by two companies (40.0%) for export, and four companies (50.0%) for import. There are also three Japanese companies (100%) utilizing the China-Peru EPA for imports.

Fig. 7-11: Peru (Exports)

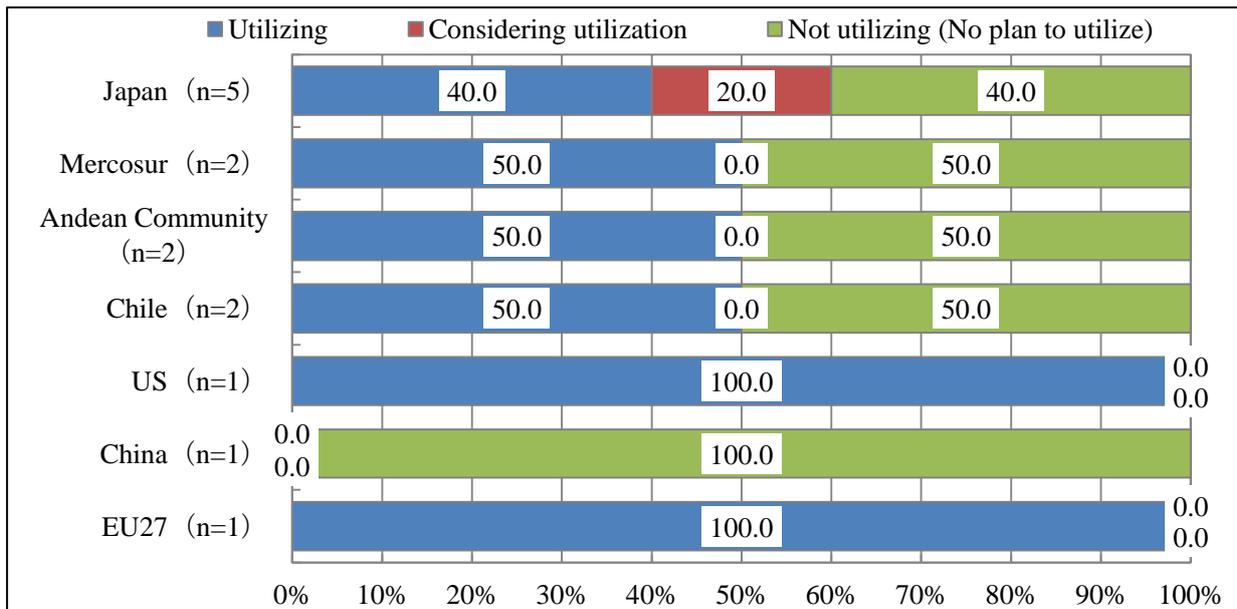
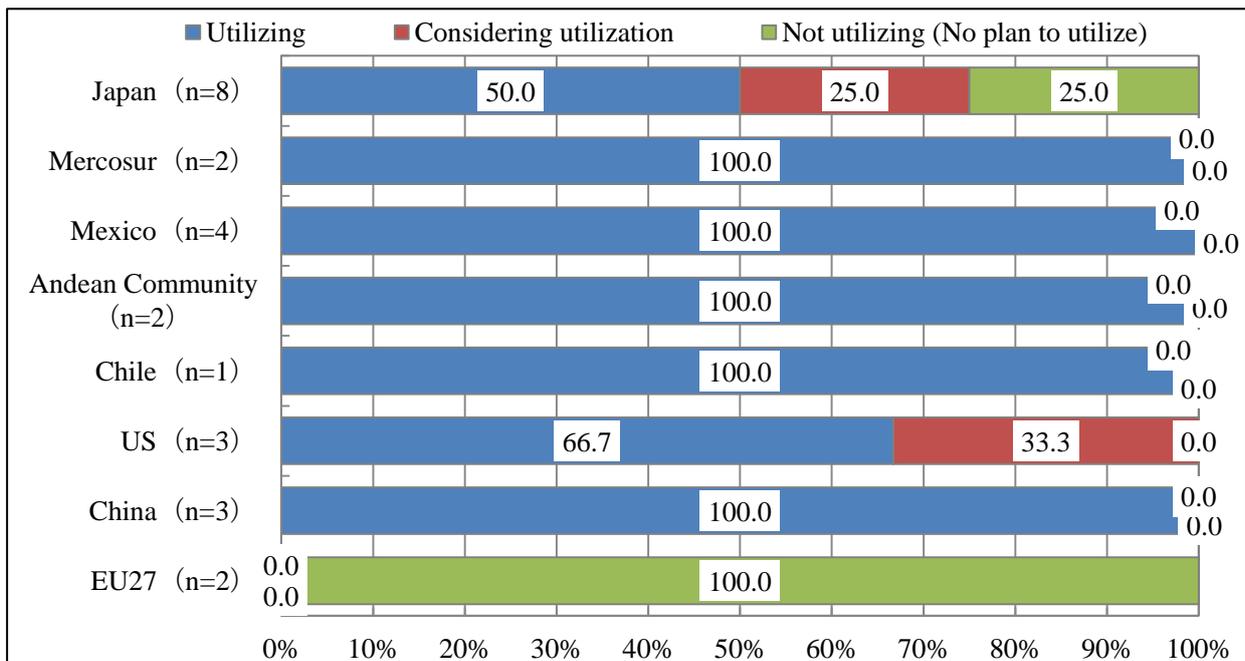


Fig. 7-12: Peru (Imports)



Venezuela: Only Using FTA with Mercosur

Among Japanese companies in Venezuela, those utilizing the trade agreement with Mercosur were two for exports, and just one for imports.

Fig. 7-13: Venezuela (Exports)

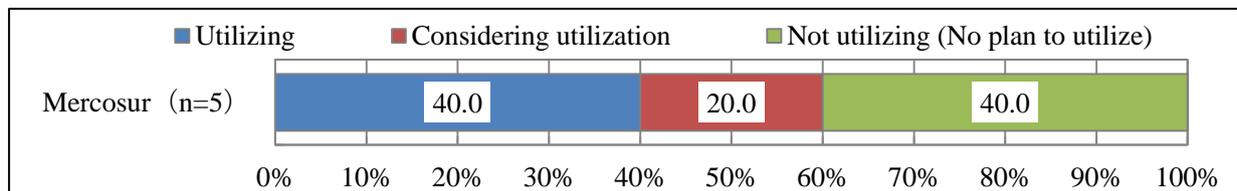
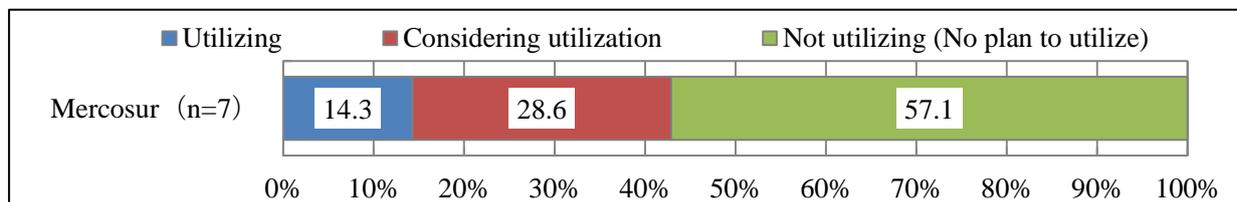


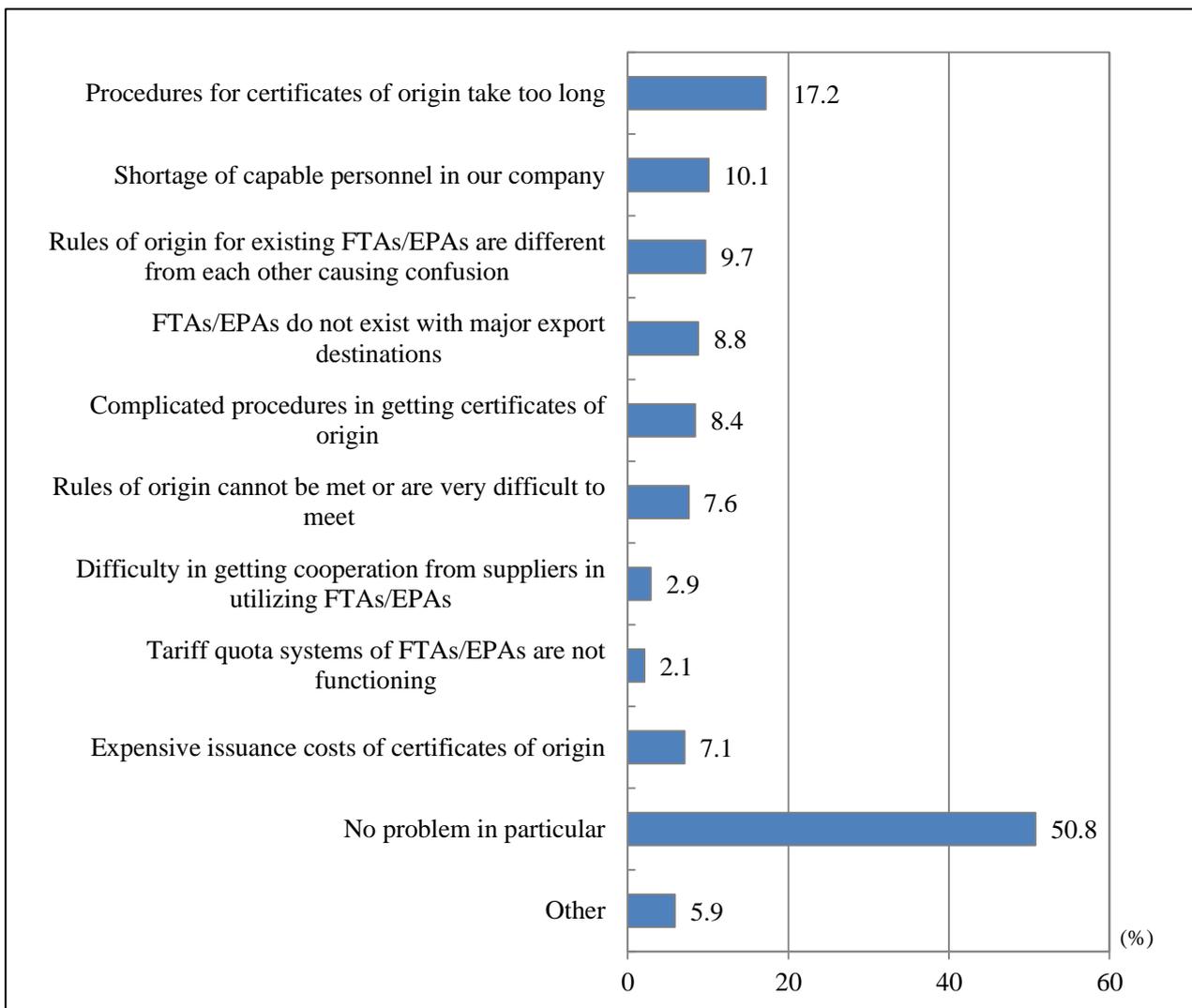
Fig. 7-14: Venezuela (Imports)



Issues on Export FTAs—Receiving Certificate of Origin and Capable Staff Shortage

In utilizing the FTAs for exports, there currently seems to be no serious problems. Yet, the same issues pointed out in the last survey, “Procedures for certificates of origin take too long” at 17.2% (16.1% in 2012) and “Shortage of capable personnel in company” at 10.1% (9.5% in 2012) still remain. Other relatively high responses include “Rules of origin for existing FTAs/EPAs are different from each other causing confusion” at 9.7% and “FTAs/EPAs do not exist with major export destinations” at 8.8%.

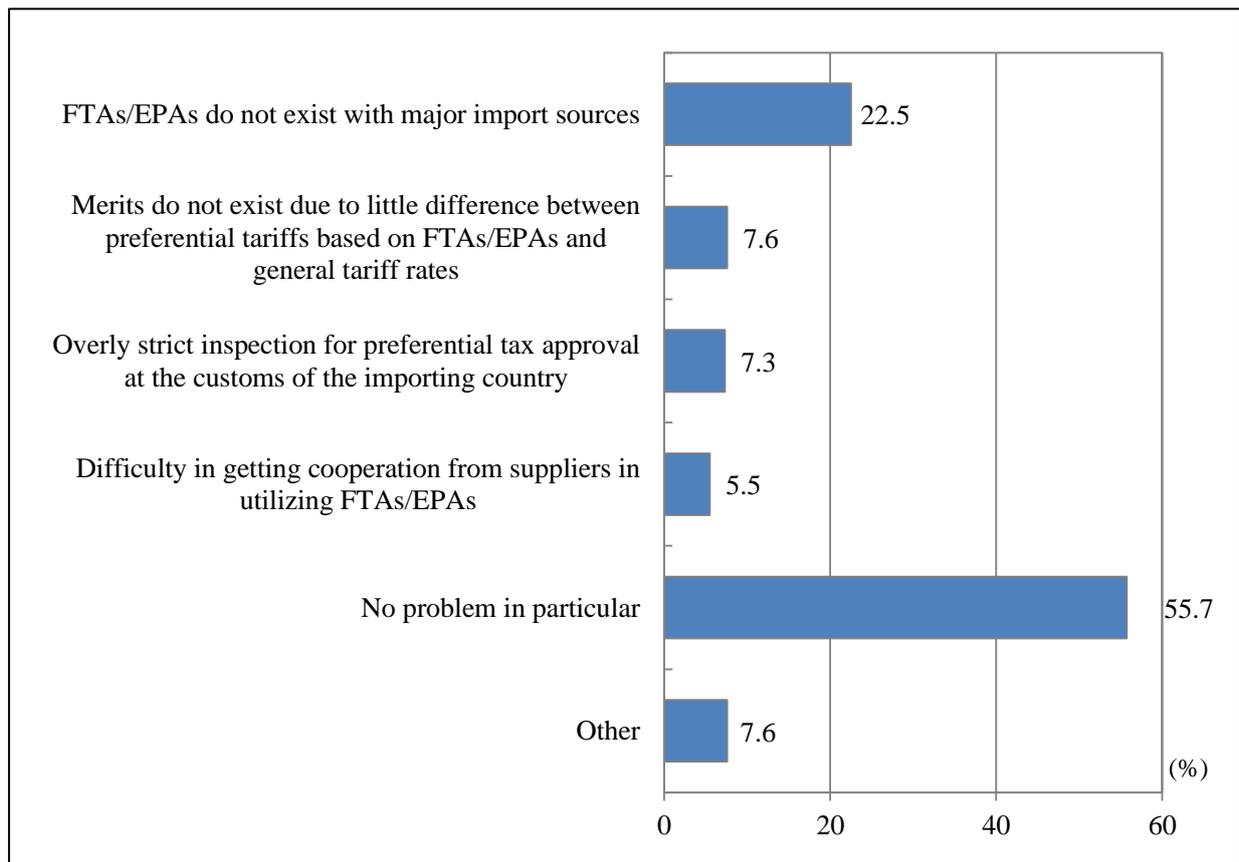
Fig. 7-15: Problems in Utilizing FTAs for Exports



Demand for FTA Conclusion

As with exports, there currently seems to be no serious problems in utilizing FTAs for imports. However, “FTAs/EPAs do not exist with major import sources” garnered the most response at 22.5%, showing a growing demand for the conclusion of FTAs for the import and sales business in Latin America.

Fig. 7-16: Problems in Utilizing FTAs for Imports



**2013 JETRO Survey on Business Conditions of
Japanese Companies in Latin America**

Thank you very much for your kind cooperation in these JETRO surveys. Estimated time to complete this survey is about 20 – 30 minutes.

1. Every year, JETRO conducts this survey focusing on the activities of Japanese companies operating in Latin America, to assess and to understand the business situation in Latin America.
2. Throughout the survey, "Your Company" refers to the company in Latin America. Please base your responses solely on the business activities/performance/management issues of the company in Latin America.
3. Your individual response to this survey will not be made public. Data on individual companies will be strictly held confidential. JETRO will only publicize aggregate data of this survey. General information such as your headquarters name and address will be used only to keep JETRO and your company in touch.
4. If you have any technical problems while filling out the survey, please contact the following person in charge. (For inquires about contents of the survey or the way to fill in your answers, please contact the JETRO overseas office which sent you this survey.)

Latin America Division, Overseas Research Department, Japan External Trade Organization (JETRO)
6F, Ark Mori Building, 12-32, Akasaka 1-chome, Minato-ku, Tokyo 107-6006 Japan
Tel: +81-3-3582-4690, Fax: +81-3-3587-2485, E-mail: ORC@jetro.go.jp

Please reply no later than 15/10, 2013

If the direct or indirect Japanese ownership of your company is less than 10%, or your corporate status is an "expatriate office" or "liaison office", your company is **NOT subject to this survey**. In this case, please click the "Cancel" button below to terminate the survey.

Cancel

Please fill in the blanks below.

Country of operation for Your Company (or factory)

- Mexico Colombia Venezuela Peru Chile Argentina Brazil

Company name

Your name

Your title

Address

Phone

Fax

E-mail

Name of Japanese parent company

<Regional headquarters for business in Latin America>

(Please select, from the following options, the organization taking primary responsibility for business in the region.)

1. Headquarters in Japan
 2. Regional headquarters in North America
 3. Regional headquarters in Latin America, (Country name)
 4. Other

Industry (In the case that Your Company is a sales company owned by a manufacturer and does not engage in manufacturing in Latin America, please answer with "sales company")

<**Manufacturing in Latin America:** Please check the category below that best describes your main products.>

1. Food, agriculture, and fishery processing
 2. Textiles (yarn, woven fabric products)
 3. Clothes and textiles
 4. Timber and wood products (excluding furniture and interior design products)

- 5. Furniture and interior design products
- 6. Paper and pulp
- 7. Chemical products, oil products
- 8. Pharmaceuticals
- 9. Rubber goods
- 10. Ceramic, earth and stone products
- 11. Steel
- 12. Non-ferrous metals
- 13. Metal goods
- 14. Machines
- 15. Electric machines
- 16. Electric and electronic parts
- 17. Transportation machines
- 18. Parts for transportation machines
- 19. Precision machines and apparatuses
- 20. Other

<**Non-manufacturing in Latin America:** Please check the category below that best describes your business.>

- 1. Fishing and fisheries
- 2. Agriculture and forestry
- 3. Mining
- 4. Distribution
- 5. Trading
- 6. Sales
- 7. Banking
- 8. Insurance
- 9. Securities
- 10. Transportation/warehouse
- 11. Real estate
- 12. Legal and taxation service
- 13. Hotel/travel/food and restaurant service
- 14. Telecommunications/IT
- 15. Construction/plant
- 16. Other

Company size (Please check either large-scale or small- and medium-sized company regarding your parent company in Japan.)

- Large-scale company Small- and medium-sized company

*Your parent company in Japan is categorized as a “small- and medium-sized company” if it satisfies any of the following conditions stipulated by the Small and Medium-sized Enterprise Basic Act of Japan.

- 1) Manufacturing, construction, transportation and all other industries not listed under items 2) – 4): capital of 300 million JPY or less, or employs 300 or fewer people
- 2) Wholesale industry: capital of 100 million JPY or less, or employs 100 or fewer people
- 3) Service industry: capital of 50 million JPY or less, or employs 100 or fewer people
- 4) Retail industry: capital of 50 million JPY or less, or employs 50 or fewer people

■ Employees in your company

Total number of employees: Of that number, how many employees are full time?

Number of managers: Of that number, how many are locally hired?

1. Status of operations

Q1. What is your operating profit forecast for 2013 (from January to December)?

1. Profit 2. Breakeven 3. Loss

Q2. How will your operating profits for 2013 (from January to December) change compared to 2012?

1. Increase 2. Remain the same 3. Decrease
→Go to Q3 →Go to Q5 →Go to Q4

Q3. (This question is only for those who answered “Increase” in Q2.)

What are the reasons for increased operating profits forecast for 2013

(Choose as many as apply)

- 1. Sales increase due to expansion of exports
- 2. Sales increase in your country
- 3. Effects of exchange rate fluctuation

- 4. Reduction of procurement costs in your country
- 5. Reduction of labor costs
- 6. Reduction of other expenditures (e.g., management, administrative and energy costs)
- 7. Improvement of production efficiency* (the manufacturing industry only)
- 8. Improvement of sales efficiency
- 9. Other

* "Improvement of production efficiency" here includes improvement of manufacturing procedures (e.g., introduction of a cell production system) and computerized production management.

Q4. (This question is only for those who answered "Decrease" in Q2.)

What are the reasons for decreased operating profits forecast for 2013?

(Choose as many as apply)

- 1. Sales decrease due to slowdown of exports
- 2. Sales decrease in your country
- 3. Effects of exchange rate fluctuation
- 4. Increase of procurement costs in your country
- 5. Increase of labor costs
- 6. Increase of other expenditures (e.g., management, administrative and energy costs)
- 7. Rising interest rates
- 8. Costs insufficiently passed along in sales prices
- 9. Other

Q5. What is your operating profit forecast for 2014 compared to 2013?

1. Increase 2. Remain the same 3. Decrease

→Go to Q6 →Go to Q8 →Go to Q7

Q6. (This question is only for those who answered "Increase" in Q5.)

What are the reasons for increased operating profits forecast for 2014?

(Choose as many as apply)

- 1. Sales increase due to expansion of exports
- 2. Sales increase in your country
- 3. Effects of exchange rate fluctuation
- 4. Reduction of procurement costs in your country

- 5. Reduction of labor costs
- 6. Reduction of other expenditures (e.g., management, administrative and energy costs)
- 7. Improvement of production efficiency* (the manufacturing industry only)
- 8. Improvement of sales efficiency
- 9. Other

* "Improvement of production efficiency" here includes improvement of manufacturing procedures (e.g., introduction of a cell production system) and computerized production management.

Q7. (This question is only for those who answered "Decrease" in Q5.)

What are the reasons for decreased operating profits forecast for 2014?

(Choose as many as apply)

- 1. Sales decrease due to slowdown exports
- 2. Sales decrease volume in your country
- 3. Effects of exchange rate fluctuation
- 4. Increase of procurement costs in your country
- 5. Increase of labor costs
- 6. Increase of other expenditures (e.g., management, administrative and energy costs)
- 7. Rising interest rates
- 8. Costs insufficiently passed along in sales prices
- 9. Other

2. Future business outlook

Q8. What is the outlook of your business in the next one or two years?

- 1. Expansion 2. Remaining the same 3. Reduction
 →Go to Q9, 10 →Go to Q12 →Go to Q11
- 4. Transferring to a third country/region or withdrawal from your country
 →Go to Q11

Q9. (This question is only for those who answered "Expansion" in Q8.)

What are the reasons for the future expansion of business?

(Choose as many as apply)

- 1. Sales increase

- 2. High growth potential
- 3. High receptivity for high-value added products
- 4. Reduction of costs (e.g., procurement costs, labor costs)
- 5. Deregulation
- 6. Ease in securing labor force
- 7. Reviewing production and sales networks
- 8. Relationship with clients
- 9. Other

Q10. (This question is only for those who answered “Expansion” in Q8.)

What function would you like to expand?

(Choose as many as apply)

- 1. Sales function
- 2. Production (ubiquitous products)
- 3. Production (high-value added products)
- 4. R&D
- 5. Function of regional headquarters
- 6. Logistics function
- 7. Function for service administration (e.g., shared services, call center)
- 8. Other

Q11. (This question is only for those who answered “Reduction” or “Transferring to a third country/region or withdrawal from your country” in Q8.)

What are the reasons for the future reduction, transfer or withdrawal?

(Choose as many as apply)

- 1. Sales decrease
- 2. Low growth potential
- 3. Low receptivity for high-value added products
- 4. Increase of costs (e.g., procurement costs, labor costs)
- 5. Tightening of regulations
- 6. Difficulty in securing labor force
- 7. Reviewing production and sales networks
- 8. Relationship with clients
- 9. Other

Q12. Localization of management

How do you carry out the localization of management? Please answer based on your efforts toward localization since the establishment of the local office.

(Choose as many as apply)

- 1. Focusing on the training of local employees
- 2. Hiring experienced employees who can contribute to the localization of management.
- 3. Improving the personnel system such as introducing a merit system
- 4. Hiring executive-level employees
- 5. Hiring director or manager-level employees
- 6. Strengthening the capability of production and service development in the regional headquarters
- 7. Giving the regional headquarters more power to make sales strategies
- 8. Transferring authority to make decisions from the headquarters in Japan to the regional headquarters
- 9. Acquiring human resources and management resources through M&A activities.
- 10. No actions taken to promote the localization of management
- 11. Other

Q13. What are problems in pursuing localization of management (if you are pursuing localization)?

(Choose as many as apply)

- 1. Difficulty in hiring executive level employees
- 2. High turnover rate of executive level employees
- 3. Disagreement between the headquarters in Japan and regional headquarters in the regarding recruitment
- 4. Language barriers (the lack of Japanese language proficiency)
- 5. Poor capabilities and motivation of local employees
- 6. Difficulty in reducing the number of expats from the headquarters in Japan
- 7. Slow progress in the training of local employees
- 8. Difficulty in transferring authority to make decisions from the headquarters in Japan to the regional headquarters
- 9. Poor production and service development capability in the regional headquarters
- 10. Poor planning and marketing capability in the regional headquarters
- 11. Other
- 12. No problems regarding the localization of management

Q14. Changes in the number of employees

	Number of local employees			Number of Japanese expatriates		
	Increase	No change	Decrease	Increase	No change	Decrease
This year compared to last year	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Future plans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. Issues with business management

What issues involving business management does your company recognize as particularly serious? Please select all applicable answers to each question below.

Q15. What issues does your company have in the field of sales and marketing? (Multiple answers allowed)

1. Decrease of orders from your headquarters
2. Decrease of orders from business partners
3. Request for price reduction from major business partners
4. Sluggish sales in major markets (low consumer spending)
5. Slow development of new customers
6. Price decline due to excess in global supply
7. Inflow of low-price import products to local markets
8. Emergence of competitors (competition in quality)
9. Emergence of competitors (competition in cost)
10. Lack of progress in local deregulation
11. Delayed collection of accounts receivable
12. Other issues (specify: _____)
13. No particular issues

Q16. What issues does your company have in the field of finance, monetary and foreign exchange? (Multiple answers allowed)

1. Shortage of cash flow required for business expansion
2. Difficulty in getting financing from local banks
3. Fluctuations in the exchange rate between local currency and the dollar
4. Fluctuations in the exchange rate between local currency and the yen
5. Fluctuations in the exchange rate between the yen and the dollar
6. Regulations concerning financing and payment

7. Regulations concerning overseas remittance
8. Tax burden (corporate tax, transfer pricing taxation, etc.)
9. Rising interest rates
10. Other issues (specify:_____)
11. No particular issues

Q17. What issues does your company have in the field of employment and labor? (Multiple answers allowed)

1. Increase in wages of employees
2. Difficulty in recruiting workforce (general staff, office workers)
3. Difficulty in recruiting workforce (middle management level)
4. Difficulty in recruiting workforce (general workers) (manufacturing companies only)
5. Difficulty in recruiting workforce (engineers) (manufacturing companies only)
6. Retention rate of employees
7. Quality of employees
8. Cost for dispatched Japanese executives (stationed representatives)
9. Restriction on visa issuance for dispatched Japanese executives (stationed representatives)
10. Regulations concerning dismissal and reduction of personnel
11. Difficulty in appointing local personnel as managers and supervisors
12. Restriction on hiring foreigners
13. Labor-related lawsuits
14. Other issues (specify:_____)
15. No particular issues

Q18. What issues does your company have in the trade system? (Multiple answers allowed)

1. Complex procedures for customs clearance
2. Significant time required for customs clearance
3. Inadequate communication and enforcement of notices and rules
4. Unclear variation assessment / classification criteria for tariffs
5. High import tariffs
6. Unclear inspection system
7. High non-tariff barriers*
8. Strict or unclear quarantine system
9. Export restriction and export tax
10. Rules of origin
11. Other issues (specify:_____)
12. No particular issues

*Non-tariff barriers are measures to protect domestic industries from imported products by restricting imports through means other than tariffs. Examples of this measure include quantitative restriction and subsidies for production and consumer tax not directly related to trade.

Q19. (This question is only for manufacturing companies. For non-manufacturing companies, please go to Q20) What issues does your company have in the field of production? (Multiple answers allowed)

1. Low production capacity due to limited facilities
2. Cost reduction which has nearly reached the limit
3. Rising procurement cost
4. Difficulty in local procurement of materials and parts
5. Difficulty in changing production items in a short period of time
6. Difficulty in quality control
7. High tariffs on imports of capital and intermediate goods
8. Instability of electricity supply and frequent outages
9. Inadequate logistics infrastructure
10. Environmental regulations becoming more strict
11. Other issues (specify: _____)
12. No particular issues

4. Benefits and risks in the investment environment

Q.20 What benefits (strengths) does your company see in the investment environment? (Multiple answers allowed)

1. Stable political and social climates
2. Market scale and potential for its growth
3. Abundant land/office spaces and low land prices/lease fees
4. Developed infrastructure (electricity supply, transportation, communications, etc.)
5. Concentration of supporting industries (convenience of local procurement)
6. Concentration of partner companies (customer companies)
7. Easy recruitment of employees (general workers, general staff and office workers, etc.)
8. Easy recruitment of employees (specialists and engineers, middle management level, etc.)
9. High retention rate of employees
10. High quality of employees (general workers)
11. High quality of employees (specialists and engineers)
12. High quality of employees (middle management level)
13. Tax incentives (corporate taxes, export and import tariffs, etc.)

14. Substantial investment incentive scheme
15. Prompt clearance of procedures
16. Low language and communication barriers
17. Comfortable living environment for representatives stationed from headquarters
18. Other (specify:_____)

Q.21 What risks (issues) does your company see in the investment environment? (Multiple answers allowed)

1. Instable political and social climates
2. Inadequate infrastructure (electricity supply, logistics, communications, etc.)
3. Unclear policy administration by the local government
4. Complex administrative procedures (permission and licenses, etc.)
5. Complex tax system and procedures
6. Inadequate and unclear legal system
7. Restrictions on foreign investment such as foreign equity restrictions
8. Lack of intellectual property protection
9. Insufficient accumulation of related industries
10. Currency volatility
11. Limited workforce and difficulty in recruiting personnel
12. Limited land/office spaces and increasing land prices/lease fees
13. Rising labor cost
14. Labor disputes and labor-related lawsuits
15. Transaction risks (collection risk, etc.)
16. Consumer campaigns and boycotts (consumer boycotts, public protests, etc.)
17. Other (specify:_____)
18. No particular issues

Q.22 What risks (issues) does your company have in the field of security? (Multiple answers allowed)

1. Discord or ethnic/religious conflicts
2. Political conflicts
3. Demonstrations and strikes
4. Natural disasters
5. Environmental pollution
6. Diseases (serious contagious illnesses)
7. Security and terrorism
8. Cyber terrorism (hacking, etc.), industrial spies, etc.
9. Oversight of foreigners by authorities

- 10. Crimes targeted at foreign people and companies (killings and injuries, kidnappings, robberies and theft, fraud, etc.)
- 11. Accidents in which many foreigners have frequently been involved
- 12. Trouble related to civil affairs
- 13. Trouble with housing and living standards of representatives stationed from headquarters and their families
- 14. Other and specific risks unique to the country (specify:_____)

5. Challenges to explore market and source of competitive power

Q23. Regarding competition between your company and companies in the same business categories (Please select only one.):

(1) Which of the following competes most intensively with your company?

- Japanese companies U.S. companies European companies
- Chinese companies South Korean companies Other Asian companies
- Middle Eastern companies Local companies
- Other Latin American companies Other No competition

(2) How has the competition with companies selected in (1) above changed in the last 12 months?

- Competition increased Unchanged Competition lessened

<Procurement of raw materials and parts (Only for companies engaged in manufacturing activity locally)>

Q.24. What was the ratio of the local procurement of raw materials/parts for products manufactured in your local plant? (Based on the price as of September 2013)

- Less than 10% 10% to less than 25% 25% to less than 75%
- 75% to 100%

Q25. What foreign country is your company mainly purchasing raw materials and parts from, if any? (Choose as many as apply)

- Japan U.S. or Canada EU China (including Hong Kong)
 ASEAN countries South Korea, Taiwan Mexico Brazil
 Argentina Other Latin American countries Other

* Please answer for procurement from countries other than the country in which your company is located.

In Latin America, multilateral and bilateral free trade agreements (FTAs), economic partnership agreements (EPAs), ACE (the Economic Complementary Agreement, auto agreements, etc.) and preferential trade agreements and tariff reduction have developed. Please answer the following questions on your utilization of these FTAs/EPAs/ACE. (Prior tariff reduction measures and/or Early Harvest* are included.)

* Early Harvest refers to an early tariff reduction undertaken on specified products.

Q26. How has your company been utilizing existing bilateral or multilateral FTAs/ EPAs/ACE ?

Please fill any other countries in parentheses if they are not listed.

(Choose as many as apply)

	Please select all of your export/import destinations.		Utilization of preferential tax rates provided by FTAs <u>in exports</u>			Utilization of preferential tax rates provided by FTAs <u>in imports</u>		
	Exporting to	Importing from	Utilizing	Considering utilization	Not utilizing (No plan to utilize)	Utilizing	Considering utilization	Not utilizing (No plan to utilize)
Japan	<input type="checkbox"/> ₁	<input type="checkbox"/> ₂	<input type="checkbox"/> ₃	<input type="checkbox"/> ₄	<input type="checkbox"/> ₅	<input type="checkbox"/> ₆	<input type="checkbox"/> ₇	<input type="checkbox"/> ₈
NAFTA*	<input type="checkbox"/> ₁	<input type="checkbox"/> ₂	<input type="checkbox"/> ₃	<input type="checkbox"/> ₄	<input type="checkbox"/> ₅	<input type="checkbox"/> ₆	<input type="checkbox"/> ₇	<input type="checkbox"/> ₈
Mercosur**	<input type="checkbox"/> ₁	<input type="checkbox"/> ₂	<input type="checkbox"/> ₃	<input type="checkbox"/> ₄	<input type="checkbox"/> ₅	<input type="checkbox"/> ₆	<input type="checkbox"/> ₇	<input type="checkbox"/> ₈
Five Central American Countries***	<input type="checkbox"/> ₁	<input type="checkbox"/> ₂	<input type="checkbox"/> ₃	<input type="checkbox"/> ₄	<input type="checkbox"/> ₅	<input type="checkbox"/> ₆	<input type="checkbox"/> ₇	<input type="checkbox"/> ₈
Chile	<input type="checkbox"/> ₁	<input type="checkbox"/> ₂	<input type="checkbox"/> ₃	<input type="checkbox"/> ₄	<input type="checkbox"/> ₅	<input type="checkbox"/> ₆	<input type="checkbox"/> ₇	<input type="checkbox"/> ₈
EU 27	<input type="checkbox"/> ₁	<input type="checkbox"/> ₂	<input type="checkbox"/> ₃	<input type="checkbox"/> ₄	<input type="checkbox"/> ₅	<input type="checkbox"/> ₆	<input type="checkbox"/> ₇	<input type="checkbox"/> ₈
()	<input type="checkbox"/> ₁	<input type="checkbox"/> ₂	<input type="checkbox"/> ₃	<input type="checkbox"/> ₄	<input type="checkbox"/> ₅	<input type="checkbox"/> ₆	<input type="checkbox"/> ₇	<input type="checkbox"/> ₈
()	<input type="checkbox"/> ₁	<input type="checkbox"/> ₂	<input type="checkbox"/> ₃	<input type="checkbox"/> ₄	<input type="checkbox"/> ₅	<input type="checkbox"/> ₆	<input type="checkbox"/> ₇	<input type="checkbox"/> ₈

*NAFTA: US, Canada and Mexico

**Mercosur: Brazil, Argentina, Paraguay, Uruguay and Venezuela

***Five Central American Countries: Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica

Q27. What problems are you facing in utilizing FTAs/EPAs in exports? (Only for companies engaged in exporting)(Choose as many as apply)

- 1. Expensive issuance costs of certificates of origin
- 2. Procedures for certificates of origin take too long
- 3. Rules of origin cannot be met or are very difficult to meet
- 4. Rules of origin for existing FTAs/EPAs are different from each other causing confusion
- 5. Complicated procedures in getting certificates of origin
- 6. Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs
- 7. FTAs/EPAs do not exist with major export destinations
- 8. Tariff quota systems of FTAs/EPAs are not functioning
- 9. Shortage of capable personnel in our company
- 10. No problem in particular
- 11. Other

Q28. What problems are you facing in utilizing FTAs/EPAs in imports? (Only for companies engaged in importing)
(Choose as many as apply)

- 1. Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs
- 2. Merits do not exist due to little difference between preferential tariffs based on FTAs/EPAs and general tariff rates
- 3. FTAs/EPAs do not exist with major import sources
- 4. Overly strict inspection for preferential tax approval at the customs of the importing country
- 5. No problem in particular
- 6. Other

Q29. If there are any problems which you consider to have had an impact on your business development in the country Your Company is located, other than those chosen in above questions, please let us know the details and its impacts on Your Company.

Thank you very much for your cooperation.

**The 14th Survey on Business Conditions of Japanese Companies
in Latin America**

Issued December 2013

Written by	Overseas Research Dept.	Satoshi Yoshida
	Latin America Div. Overseas Research Dept.	Yusuke Uchio
Collaborators		Takao Nakahata
		Akira Ito
	Mexico Office	Nobuhiro Nakajima
	Caracas Office	Kentaro Matsuura
	Bogota Office	Fumihiko Shimizu
	Lima Office	Masayuki Fujimoto
	Santiago Office	Takaharu Horinouchi
	Sao Paulo Office	Toshio Kii

**Japan External Trade Organization(JETRO)
an Independent Administrative Institution**

Ark Mori Bldg., PO Box 528

1-12-32 Akasaka, Minato-ku, Tokyo 107-6006

Phone: +81-3-3582-4690

(Overseas Research Department, Latin American Division)