The 2018 Survey on Business Conditions of Japanese Companies in Latin America

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Japan External Trade Organization (JETRO)
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1. Objectives
This survey is designed to comprehend the conditions of Japanese companies’ business activities in Latin America and changes in the local business environment. The survey also aims to provide information that will contribute to the development of overseas business strategies by Japanese companies and to proposals that will promote the improvement of the business environment in Latin American countries.

2. Respondents
Japanese companies (companies that have at least 10% or more direct or indirect Japanese ownership) operating in any of seven Latin American countries

3. Method and period
Questionnaire survey from November 1, 2018 to November 30, 2018

4. Collection of questionnaires
The survey requested 687 companies to respond to the questionnaire and collected responses from 342 companies. The response rate was 49.8%.

5. Breakdown of respondents

<table>
<thead>
<tr>
<th>Number of companies covered by the survey</th>
<th>Number of respondents (companies)</th>
<th>Manufacturing / Non-manufacturing</th>
<th>Company size</th>
<th>Valid response rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Valid responses (companies)</td>
<td>%</td>
<td>Manufacturing (companies)</td>
<td>%</td>
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<tr>
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<td>250</td>
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<td>687</td>
<td>342</td>
<td>100.0</td>
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</table>

6. Note
This survey has been conducted since 1999, and the 2018 survey was the 19th one. The figures shown in the tables and charts have been rounded off, thus the totals may not always add up to 100%.
I-2. Survey Overview: Breakdown by Business sector of Survey companies

Business categories of respondents operating in Latin America

**Manufacturing (131 companies)**
- Transportation equipment parts (Motor vehicles/Motorcycles): 28
- Electrical machinery/Electronic devices (including parts): 24
- Transportation equipment (Motor vehicles/Motorcycles): 18
- Food/Processed food, agricultural or fishery products: 7
- Chemical and allied products/Petroleum products: 6
- Transportation equipment (Railroad vehicles/Ship/Aircraft/Industrial trucks): 5
- Textiles (Spinning/Woven fabrics/Chemical fibers): 4
- Plastic products: 4
- Non-ferrous metals: 3
- Fabricated metal products (including plated products): 3
- Business oriented machinery (including office machines, analytical instruments and medical equipment etc.): 3
- Textile apparel/Textile products: 2
- Medicines: 2
- Rubber products: 2
- Iron and steel (including cast and wrought products): 2
- Information and communication electronics equipment: 2
- Paper/Pulp: 1
- Printing/Publishing: 1
- Ceramic/Stone and clay products: 1
- General-purpose machinery/Production machinery (including molds and machine tools): 1
- Transportation equipment (Railroad vehicles/Ship/Aircraft/Industrial trucks): 1
- Miscellaneous manufacturing industries: 11

**Non-manufacturing (211 companies)**
- Sales company: 68
- Wholesale and retail trade (including trading): 54
- Transport activities/Warehouse: 23
- Finance and insurance: 21
- Construction/Plant: 8
- Mining: 7
- Agriculture and forestry: 6
- Information and communications (including software): 4
- Fisheries: 1
- Electricity/Gas/Heat supply/Water: 1
- Education: 1
- Amusement/Living-related services: 0
- Medical, health care and welfare: 0
- Miscellaneous service industries: 8
As with the previous survey, approx. 80% of companies operating in Latin America have their "Headquarters in Japan" or their "Regional headquarters in North America."
I-4. Survey Overview: Summary points

■ Overview

In 2018, political/economic uncertainty increased all over Latin America, making Japanese companies operating in the region more careful in their business activities. Operating profits forecast for 2018 did not change significantly from the previous survey. Regarding the approach to future business challenges in the next one or two years, however, “Expansion” (51.7%) decreased by 7.8 pp from the previous survey.

Behind the uncertainty surrounding Japanese companies operating in Latin America, there were regime changes in major Latin American countries and the necessity to assess the direction of the new regimes’ policies. In addition, the world began to rigorously evaluate emerging markets with vulnerable fundamentals, and Latin America, particularly Argentina, etc., experienced a significant currency decline and resulting increase in the benchmark interest rate. Moreover, regarding aspects of trade, Latin America’s economic/investment environment changed, such as Mexico’s NAFTA renegotiations.

Main points of the major countries

Mexico: The administration of Andrés Manuel López Obrador, a left-wing politician, took office in December 2018. The administration’s middle-of-the-road, fiscal discipline-focused policies gave reassurance to Japanese companies operating in Mexico, but concerns over the deterioration of the investment environment spread because of the conditions to be achieved for the labor value content rule provided in the announced USMCA (i.e., new NAFTA). However, the largest number of respondents selected “Not sure” about their future measures because agreement details had not been determined during the survey period.

Argentina: Japanese companies operating in Argentina began to view Argentina’s the investment environment more strictly due to adverse conditions in the consumer market, such as the depreciation of peso and rising interest rates.

Brazil: The market favorably viewed the victory of Mr. Bolsonaro, who publicly stated his commitment to open-economy measures and middle-of-the-road fiscal policies, in the presidential election of October 2018. The real began to appreciate against the dollar, although it wildly swung up and down before the election, and the economy calmed down again. As a result, “Profit” regarding the question pertaining to the operating profits forecast for 2019 increased only in Brazil.

Colombia: The election of the Colombia legislature (March) and the presidential election (June) were held in 2018 after peace was established between the former Santos administration and the FARC (a left-wing guerrilla group). The new Duque administration’s continuation of the policy for dialogue with guerrilla groups and pledges that favor businesses gave reassurance to Japanese companies operating in Colombia. Of the countries covered by the survey, Colombia gained the most-positive results in respect to the approach to future business challenges in the next one or two years (“Expansion” 72.2%).
I-4. Survey Overview: Summary points

Complement

In Latin America, over 60% of all companies selected “Profit” regarding the question pertaining to operating profits forecast for 2018, as with the previous survey. By country, “Profit” decreased from the previous survey in many countries, but an increase in “Profit” in Mexico and Brazil offset the drop in Latin America (see page 9). In 2018, DI (business sentiment) slightly declined from the previous survey. By country, Argentina, which showed the second-largest DI improvement in the previous survey, ranked at the bottom in the 2018 survey, with a significant drop. Colombia’s improvement in DI was four times as large as the previous year, while Chile’s DI significantly declined (see page 10). When compared with the operating profits forecast for 2018, Japanese companies operating in Latin America showed a bearish outlook for the operating profits forecast for 2019. By country, “Increase” significantly decreased in Mexico, Peru, and Argentina (from 58.2% to 43.2%, from 47.4% to 32.1%, and from 43.9% to 27.8%, respectively) (see page 17). Regarding the approach to future business challenges in the next one or two years by country, “Expansion” increased from the previous survey only in Brazil (55.7%) (see page 24). Colombia (21.1%) was the highest in “Future plans” to “Increase” the number of Japanese expatriates (see page 33). As competitors in the same business category that compete most intensively in Latin America, “Japanese companies” decreased from the previous survey (from 36.7% to 29.2%) while “European companies” and “South Korean companies” increased (see page 34).

1. Mexico: Many companies are analyzing the effects of NAFTA renegotiations and have not developed specific measures.

Regarding the effects of NAFTA renegotiations on Japanese companies operating in Mexico, “Not sure” accounted for the largest percentage (44.4%) because agreement details had not been determined as of the time of the survey. Comparing “Positive impact” (3.7%) with “Negative impact” (19.4%), negative recognition was more commonly shared among Japanese companies operating in Mexico at the time of the survey (see page 69). Specific negative impact concern concentrated on the stricter rules of origin, such as “Meeting the Labor Value Content rule” (42.5%) (a certain percentage of materials and parts manufactured in areas where the hourly wage is 16 dollars or more must be used for finished cars), “Review of Product Specific Rules (PSR)” (33.8%), and “Requirement to purchase North American steel and aluminum” (26.0%) (see page 69). As current measures in response to the results of the NAFTA renegotiations, “None” (42.3%) and “Not sure” (36.0%) accounted for the majority. Many companies have not yet developed specific measures (see page 69). Regarding companies in the same business category that compete most intensively, “Japanese companies” decreased from the previous survey (from 57.6% to 48.6%), while “European companies” increased (from 10.7% to 17.1%). It appears that one of the reasons for this increase is that German automobile parts-related companies increased their investment in Mexico from the previous year (see page 34). The number of Japanese expatriates increased in the past year (22.5%), but “Future plans” to increase the number was half of that (11.7%) partly because of the impact of NAFTA renegotiations. The percentage of companies planning to increase the number of local employees also decreased from the previous survey (from 57.1% to 50.5%) (see page 33 and page 32).
2. Argentina: Concerns over the financial situation, such as rapid currency depreciation and high interest rates, increased. The business sentiment of Japanese companies operating in Argentina extremely worsened. Specifically, this year’s DI ranked at the bottom (-8.4%), although last year’s DI marked the second-largest improvement (31.7%) in Latin America. Regarding the question pertaining to operating profits forecast for 2018 (YoY), “Decrease” rapidly increased from 9.8% to 41.7% (see page 10). As the reason for “Decrease” in operating profits forecast for 2018, “Effects of exchange rate fluctuation” rapidly increased to 93.3% from 0.0% in the previous survey, against the backdrop of unstable financial situations. “Rising interest rates” also increased significantly from 25.0% to 60.0% (see page 14). Regarding operating profits forecast for 2019 (YoY), “Increase” significantly decreased (from 43.9% to 27.8%) (see page 17). Looking at respondents’ “Future plans” on the number of local employees and the number of Japanese expatriates, “Decrease” significantly increased (from 2.4% to 20.0% and from 12.2% to 35.0%, respectively) (see page 32 and page 33). Regarding benefits and risks in the investment environment, the percentage of companies that regard “Market scale and potential for its growth” as a benefit significantly decreased (from 73.2% to 50.0%) because the domestic market shrank due to rapid currency depreciation and the high interest rate policy (see page 57).

3. Brazil: Policy predictability increased after the presidential election. There is a sign that Japanese companies operating in Brazil have recovered their willingness to expand their businesses. In the question pertaining to operating profits forecast for 2019 (YoY), the percentage of “Increase” increased. Specifically, Brazil’s DI ranked at the top (46.9), and the percentage of “Increase” in operating profits forecast for 2019 (57.0%) was higher than 2018 (53.3%) (see page 17). As an approach to future business challenges in the next one or two years, “Expansion” increased from the previous survey only in Brazil (from 53.5% to 55.7%) (see page 24). As the reason for “Increase” in operating profits forecast for 2018, “Sales increase in local markets” increased (from 75.6% to 77.8%), reflecting the gradual recovery of domestic demand. “Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)” decreased (from 40.0% to 22.2%). The exit of “patient business management” that had continued since 2015 came in sight (see page 11). As the reason for “Increase” in operating profits forecast for 2019, “Sales increase in local markets” increased by 3.7 pp (from 83.0% to 86.7%). “Effects of exchange rate fluctuation” also increased (from 3.8% to 15.6%) among sales companies, etc., because the real began to appreciate against the backdrop of stable exchange rates after the presidential election (see page 18). As a risk in the investment environment, “Labor disputes/lawsuits” significantly decreased (from 65.7% to 48.1%) as a result of labor law reforms realized as part of the former Temer administration’s institutional reforms, lowering its rank to the 8th from the 4th in the previous survey (see page 52).

4. Colombia: Japanese companies operating in Colombia grew bullish, rebounding from market shrinkage that resulted from the tax increase at the end of 2016. Colombia’s business sentiment significantly improved. Its DI grew by approx. four times from the previous year (from 10.0% to 38.9%). “Increase” in operating profits forecast for 2018 (YoY) also increased (from 40.0% to 55.6%) (see page 10). Behind the growth of DI, there is an increase in sales in the local market. The growth of domestic demand began to recover in 2018 after it slowed in 2017 due to value-added tax (IVA) increase (December 2016). As an issue in business management (sales and marketing), “Sluggish sales in major markets” significantly decreased (from 56.7% to 11.1%) (see page 36). Japanese companies’ view on Colombia’s business environment improved from the previous survey. Regarding benefits and risks in the investment environment, continuation of the policy for dialogue with guerrilla groups, and pledges that favor businesses, etc., President Duque, who took office in August 2018, gave reassurances. As for risks, “Political or social instability” significantly decreased from the previous survey (from 52.6% to 22.2%). [Page 53] Looking at approach to future business challenges in the next one or two years, “Expansion” was the highest (72.2%) (see page 24). In the question about “Future plans” on the number of Japanese expatriates, “Increase” accounted for the largest percentage (21.1%) (see page 33).
There was no major change in operating profits forecast for 2018 in Latin America.

As with the previous year, “Profit” accounted for over 60% in Latin America. By country, “Profit” decreased from the previous survey in many countries, but an increase in “Profit” in Mexico and Brazil offset the decrease.
In 2018, the DI (business sentiment) of Latin America slightly declined from the previous survey (from 20.8 to 17.9).

By country, Argentina’s DI ranked at the bottom (-8.4), although it was the second-largest improvement (31.7) in the previous survey. Colombia’s DI grew by approx. four times from the previous year (from 10.0 to 38.9), while Chile’s DI significantly declined (from 46.0 to 17.2).

There was almost no change in operating profits forecast for 2018 in Latin America when compared with the previous survey (from 42.9 to 41.4).

By country, “Increase” increased in Colombia. This suggests that many companies view that the country has moved away from the slump in 2017 caused by the value-added tax (IVA) increase in December 2016 and the resulting domestic demand shrinkage. In Chile and Argentina, “Increase” decreased (from 54.1% to 42.9% and from 41.5% to 33.3%, respectively).

DI: DI is calculated by subtracting the percentage of “Decrease” from the percentage of “Increase” in operating profits forecast for 2018 (YoY).
II-1-(3) Reasons for “Increase” in Operating Profits Forecast for 2018

- As with the previous survey, “Sales increase in local markets” (76.3%) ranked at the top in Latin America.
- By country, “Sales increase in local markets” significantly increased in Mexico (from 69.7% to 82.2%). In Argentina and Colombia, “Sales increase in local markets” decreased (from 94.1% to 66.7% and from 75.0% to 60.0%, respectively), but an increase in “Sales increase due to export expansion” offset the decrease.
- In Argentina, “Effects of exchange rate fluctuation” significantly increased (from 0.0% to 75.0%), against the backdrop of the depreciation of the peso.
- “Reduction of other expenditures” accounted for a larger percentage in Colombia. In Brazil, the percentage of “Reduction of other expenditures” significantly decreased in this survey, although it was high in the previous survey.

### Reasons for "Increase" in operating profits forecast for 2018 (multiple answers)

<table>
<thead>
<tr>
<th>Valid responses</th>
<th>Sales increase due to export expansion</th>
<th>Sales increase in local markets</th>
<th>Effects of exchange rate fluctuation</th>
<th>Reduction of procurement costs</th>
<th>Reduction of labor costs</th>
<th>Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)</th>
<th>Improvement of production efficiency (manufacturing industry only)</th>
<th>Improvement of sales efficiency</th>
<th>Effects of policies by local, central or foreign governments</th>
<th>Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>131</td>
<td>25.2</td>
<td>76.3</td>
<td>17.6</td>
<td>11.5</td>
<td>15.3</td>
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</tr>
</tbody>
</table>
II-1-(3) Reasons for “Increase” in Operating Profits Forecast for 2018 (by country-1)

**Reasons for [Increase] in operating profits forecast for 2018: Mexico (n=45)**

- Sales increase in local markets: 82.2%
- Sales increase due to export expansion: 24.4%
- Improvement of production efficiency (manufacturing industry only): 20.0%
- Effects of exchange rate fluctuation: 11.1%
- Reduction of procurement costs: 11.1%
- Reduction of other expenditures (e.g., administrative/utility costs/fuel costs): 11.1%
- Improvement of sales efficiency: 6.7%
- Reduction of labor costs: 4.4%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 2.2%
- Other: 0%

**Reasons for [Increase] in operating profits forecast for 2018: Venezuela (n=2)**

- Effects of policies by local, central or foreign governments: 50.0%
- Sales increase in local markets: 0%
- Sales increase due to export expansion: 0%
- Effects of exchange rate fluctuation: 0%
- Reduction of procurement costs: 0%
- Reduction of labor costs: 0%
- Reduction of other expenditures (e.g., administrative/utility costs/fuel costs): 0%
- Improvement of production efficiency (manufacturing industry only): 0%
- Improvement of sales efficiency: 0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0%
- Other: 50.0%

**Reasons for [Increase] in operating profits forecast for 2018: Colombia (n=10)**

- Sales increase in local markets: 60.0%
- Sales increase due to export expansion: 50.0%
- Reduction of labor costs: 30.0%
- Reduction of other expenditures (e.g., administrative/utility costs/fuel costs): 30.0%
- Improvement of sales efficiency: 30.0%
- Effects of exchange rate fluctuation: 10.0%
- Reduction of procurement costs: 10.0%
- Improvement of production efficiency (manufacturing industry only): 0%
- Effects of policies by local, central or foreign governments: 0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0%
- Other: 0%

**Reasons for [Increase] in operating profits forecast for 2018: Peru (n=12)**

- Sales increase in local markets: 83.3%
- Sales increase due to export expansion: 33.3%
- Reduction of other expenditures (e.g., administrative/utility costs/fuel costs): 25.0%
- Improvement of production efficiency (manufacturing industry only): 16.7%
- Improvement of sales efficiency: 16.7%
- Reduction of labor costs: 8.3%
- Effects of exchange rate fluctuation: 0%
- Reduction of procurement costs: 0%
- Effects of policies by local, central or foreign governments: 0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0%
- Other: 16.7%
II-1-(3) Reasons for “Increase” in Operating Profits Forecast for 2018 (by country-2)

**Reasons for [Increase] in operating profits forecast for 2018:**

- **Chile (n=14)**
  - 78.6% Sales increase in local markets
  - 35.7% Sales increase due to export expansion
  - 28.6% Reduction of labor costs
  - 21.4% Improvement of sales efficiency
  - 14.3% Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)
  - 7.1% Reduction of procurement costs
  - 0.0% Effects of exchange rate fluctuation
  - 0.0% Improvement of production efficiency (manufacturing industry only)
  - 0.0% Effects of policies by local, central or foreign governments
  - 0.0% Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)
  - 0.0% Other

- **Brazil (n=36)**
  - 77.8% Sales increase in local markets
  - 25.0% Reduction of labor costs
  - 22.2% Effects of exchange rate fluctuation
  - 22.2% Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)
  - 19.4% Reduction of procurement costs
  - 19.4% Improvement of sales efficiency
  - 13.9% Sales increase due to export expansion
  - 11.1% Improvement of production efficiency (manufacturing industry only)
  - 2.8% Effects of policies by local, central or foreign governments
  - 0.0% Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)
  - 0.0% Other

- **Argentina (n=12)**
  - 66.7% Sales increase in local markets
  - 25.0% Sales increase due to export expansion
  - 16.7% Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)
  - 8.3% Reduction of procurement costs
  - 8.3% Reduction of labor costs
  - 8.3% Improvement of production efficiency (manufacturing industry only)
  - 8.3% Effects of policies by local, central or foreign governments
  - 0.0% Improvement of sales efficiency
  - 0.0% Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)
  - 0.0% Other
### Reasons for “Decrease” in Operating Profits Forecast for 2018

- **In Latin America**, “Sales decrease in local markets,” “Effects of exchange rate fluctuation,” “Increase of procurement costs,” and “Increase of labor costs” were cited as main reasons.
- **In Mexico**, “Sales decrease due to export slowdown” and “Sales decrease in local markets” increased (from 12.8% to 21.7% and from 42.6% to 56.5%, respectively), particularly in Transportation equipment parts (Motor vehicles/Motorcycles).
- **In Colombia**, “Increase of procurement costs” when importing significantly increased (from 22.2% to 66.7%) due to currency depreciation. “Production costs insufficiently shifted to selling price of goods” also increased significantly (from 11.1% to 66.7%), particularly among companies dealing with durables.
- **In Argentina**, “Effects of exchange rate fluctuation” and “Rising interest rates” significantly increased (from 0.0% to 93.3% and from 25.0% to 60.0%, respectively), against the backdrop of financial instability.

#### Reasons for "Decrease" in operating profits forecast for 2018 (multiple answers)

<table>
<thead>
<tr>
<th></th>
<th>Valid responses</th>
<th>Sales decrease due to export slowdown</th>
<th>Sales decrease in local markets</th>
<th>Effects of exchange rate fluctuation</th>
<th>Increase of procurement costs</th>
<th>Increase of labor costs</th>
<th>Increase of other expenditures (e.g., administrative/utility costs/fuel costs)</th>
<th>Rising interest rates</th>
<th>Production costs insufficiently shifted to selling price of goods</th>
<th>Effects of policies by local, central or foreign governments</th>
<th>Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)</th>
<th>Other</th>
</tr>
</thead>
<tbody>
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<td>Latin America</td>
<td>75</td>
<td>14.7</td>
<td>54.7</td>
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<td>26.7</td>
</tr>
<tr>
<td>Mexico</td>
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<td>56.5</td>
<td>30.4</td>
<td>21.7</td>
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<td>26.1</td>
<td>8.7</td>
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<td>0.0</td>
<td>0.0</td>
<td>30.4</td>
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<td>0.0</td>
<td>33.3</td>
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<td>33.3</td>
<td>0.0</td>
<td>0.0</td>
<td>100.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Colombia</td>
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<td>0.0</td>
<td>66.7</td>
<td>0.0</td>
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<td>66.7</td>
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<td>33.3</td>
</tr>
<tr>
<td>Peru</td>
<td>3</td>
<td>33.3</td>
<td>33.3</td>
<td>33.3</td>
<td>0.0</td>
<td>33.3</td>
<td>66.7</td>
<td>33.3</td>
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<td>33.3</td>
<td>0.0</td>
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<tr>
<td>Chile</td>
<td>9</td>
<td>44.4</td>
<td>22.2</td>
<td>33.3</td>
<td>22.2</td>
<td>11.1</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>55.6</td>
</tr>
<tr>
<td>Brazil</td>
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<td>5.3</td>
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<td>36.8</td>
<td>21.1</td>
<td>26.3</td>
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<td>26.3</td>
<td>5.3</td>
<td>0.0</td>
<td>15.8</td>
</tr>
<tr>
<td>Argentina</td>
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<td>0.0</td>
<td>80.0</td>
<td>93.3</td>
<td>60.0</td>
<td>53.3</td>
<td>26.7</td>
<td>60.0</td>
<td>60.0</td>
<td>13.3</td>
<td>0.0</td>
<td>20.0</td>
</tr>
</tbody>
</table>

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Il-1-(4) Reasons for “Decrease” in Operating Profits Forecast for 2018 (by country-1)

Reasons for [Decrease] in operating profits forecast for 2018: Mexico (n=23)

- Sales decrease in local markets: 56.5%
- Effects of exchange rate fluctuation: 30.4%
- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 26.1%
- Sales decrease due to export slowdown: 21.7%
- Increase of procurement costs: 21.7%
- Increase of labor costs: 21.7%
- Production costs insufficiently shifted to selling price of goods: 13.0%
- Rising interest rates: 8.7%
- Effects of policies by local, central or foreign governments: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 30.4%

Reasons for [Decrease] in operating profits forecast for 2018: Venezuela (n=3)

- Sales decrease in local markets: 100.0%
- Effects of policies by local, central or foreign governments: 100.0%
- Increase of procurement costs: 33.3%
- Increase of labor costs: 33.3%
- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 33.3%
- Sales decrease due to export slowdown: 0.0%
- Effects of exchange rate fluctuation: 0.0%
- Rising interest rates: 0.0%
- Production costs insufficiently shifted to selling price of goods: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 0.0%

Reasons for [Decrease] in operating profits forecast for 2018: Colombia (n=3)

- Increase of procurement costs: 66.7%
- Production costs insufficiently shifted to selling price of goods: 66.7%
- Sales decrease due to export slowdown: 0.0%
- Sales decrease in local markets: 0.0%
- Effects of exchange rate fluctuation: 0.0%
- Increase of labor costs: 0.0%
- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 0.0%
- Rising interest rates: 0.0%
- Effects of policies by local, central or foreign governments: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 33.3%

Reasons for [Decrease] in operating profits forecast for 2018: Peru (n=3)

- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 66.7%
- Sales decrease due to export slowdown: 33.3%
- Sales decrease in local markets: 33.3%
- Effects of exchange rate fluctuation: 33.3%
- Increase of labor costs: 33.3%
- Rising interest rates: 33.3%
- Effects of policies by local, central or foreign governments: 33.3%
- Increase of procurement costs: 33.3%
- Production costs insufficiently shifted to selling price of goods: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 33.3%
II-1-(4) Reasons for “Decrease” in Operating Profits Forecast for 2018 (by country-2)
II-2-(1) Operating Profits Forecast for 2019 (YoY)

- DI (business sentiment) for 2019 was positive, except for Venezuela. However, the growth of DI shrunk from the previous survey, except for Chile.
- As operating profits forecast for 2019 (YoY) in Latin America, “Increase” accounted for 43.9%, down 8.1 pp from the 2018 survey. By country, “Increase” significantly decreased in Mexico, Peru, and Argentina (from 58.2% to 43.2%, from 47.4% to 32.1%, and from 43.9% to 27.8%, respectively).

DI: DI is calculated by subtracting the percentage of “Decrease” from the percentage of “Increase” in operating profits forecast for 2019 (YoY).

**DI by country (2019)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Increase</th>
<th>Remain the same</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America (n=319)</td>
<td>43.9%</td>
<td>41.7%</td>
<td>14.4%</td>
</tr>
<tr>
<td>Mexico (n=111)</td>
<td>43.2%</td>
<td>41.4%</td>
<td>15.3%</td>
</tr>
<tr>
<td>Venezuela (n=12)</td>
<td>8.3%</td>
<td>41.7%</td>
<td>50.0%</td>
</tr>
<tr>
<td>Colombia (n=18)</td>
<td>61.1%</td>
<td>16.7%</td>
<td>22.2%</td>
</tr>
<tr>
<td>Peru (n=28)</td>
<td>32.1%</td>
<td>57.1%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Chile (n=35)</td>
<td>45.7%</td>
<td>54.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Brazil (n=79)</td>
<td>57.0%</td>
<td>32.9%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Argentina (n=36)</td>
<td>27.8%</td>
<td>50.0%</td>
<td>22.2%</td>
</tr>
</tbody>
</table>

Copyright © 2019 JETRO. All rights reserved. Reproduction without permission is prohibited.
As with the previous survey, “Sales increase in local markets” ranked at the top (75.7%) in Latin America. The percentage was particularly high in Brazil, Peru, and Colombia (86.7%, 88.9%, and 90.9%, respectively).

In Chile, “Reduction of labor costs” significantly increased from the previous survey (from 5.9% to 25.0%). In Brazil, “Sales increase in local markets” increased by 3.7 pp (from 83.0% to 86.7%). “Effects of exchange rate fluctuation” also increased (from 3.8% to 15.6%) among sales companies, etc., against the backdrop of stable exchange rates after the presidential election.

<table>
<thead>
<tr>
<th></th>
<th>Valid responses</th>
<th>Sales increase due to export expansion</th>
<th>Sales increase in local markets</th>
<th>Effects of exchange rate fluctuation</th>
<th>Reduction of procurement costs</th>
<th>Reduction of labor costs</th>
<th>Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)</th>
<th>Improvement of production efficiency</th>
<th>Improvement of sales efficiency</th>
<th>Effects of policies by local, central or foreign governments</th>
<th>Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>140</td>
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<td>75.7</td>
<td>10.0</td>
<td>12.1</td>
<td>9.3</td>
<td>17.1</td>
<td>17.9</td>
<td>15.0</td>
<td>2.1</td>
<td>0.0</td>
<td>6.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>48</td>
<td>31.3</td>
<td>70.8</td>
<td>8.3</td>
<td>14.6</td>
<td>4.2</td>
<td>12.5</td>
<td>27.1</td>
<td>14.6</td>
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<td>0.0</td>
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<td>0.0</td>
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<td>100.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Colombia</td>
<td>11</td>
<td>45.5</td>
<td>90.9</td>
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<td>18.2</td>
<td>9.1</td>
<td>27.3</td>
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<td>0.0</td>
<td>9.1</td>
</tr>
<tr>
<td>Peru</td>
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<td>22.2</td>
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<td>0.0</td>
<td>0.0</td>
<td>33.3</td>
<td>11.1</td>
<td>11.1</td>
<td>0.0</td>
<td>0.0</td>
<td>11.1</td>
</tr>
<tr>
<td>Chile</td>
<td>16</td>
<td>37.5</td>
<td>56.3</td>
<td>0.0</td>
<td>18.8</td>
<td>25.0</td>
<td>31.3</td>
<td>12.5</td>
<td>12.5</td>
<td>0.0</td>
<td>0.0</td>
<td>6.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>45</td>
<td>17.8</td>
<td>86.7</td>
<td>15.6</td>
<td>8.9</td>
<td>8.9</td>
<td>17.8</td>
<td>11.1</td>
<td>20.0</td>
<td>4.4</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Argentina</td>
<td>10</td>
<td>10.0</td>
<td>60.0</td>
<td>30.0</td>
<td>20.0</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
<td>0.0</td>
<td>0.0</td>
<td>20.0</td>
</tr>
</tbody>
</table>

Reasons for "Increase" in operating profits forecast for 2019 (multiple answers)
### Reasons for \[\text{Increase}\] in Operating Profits Forecast for 2019 (by country-1)

#### Mexico (n=48)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales increase in local markets</td>
<td>70.8</td>
</tr>
<tr>
<td>Sales increase due to export expansion</td>
<td>31.3</td>
</tr>
<tr>
<td>Improvement of production efficiency</td>
<td>27.1</td>
</tr>
<tr>
<td>Reduction of procurement costs</td>
<td>14.6</td>
</tr>
<tr>
<td>Improvement of sales efficiency</td>
<td>14.6</td>
</tr>
<tr>
<td>Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)</td>
<td>12.5</td>
</tr>
<tr>
<td>Effects of exchange rate fluctuation</td>
<td>8.3</td>
</tr>
<tr>
<td>Reduction of labor costs</td>
<td>4.2</td>
</tr>
</tbody>
</table>

**Other**

- Effects of policies by local, central or foreign governments
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)

#### Venezuela (n=1)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effects of policies by local, central or foreign governments</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Other**

- Sales increase due to export expansion
- Sales increase in local markets
- Effects of exchange rate fluctuation
- Reduction of procurement costs
- Reduction of labor costs
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)

#### Colombia (n=11)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales increase in local markets</td>
<td>90.9</td>
</tr>
<tr>
<td>Sales increase due to export expansion</td>
<td>45.5</td>
</tr>
<tr>
<td>Improvement of production efficiency</td>
<td>27.3</td>
</tr>
<tr>
<td>Reduction of labor costs</td>
<td>18.2</td>
</tr>
<tr>
<td>Reduction of procurement costs</td>
<td>9.1</td>
</tr>
<tr>
<td>Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)</td>
<td>9.1</td>
</tr>
<tr>
<td>Improvement of sales efficiency</td>
<td>9.1</td>
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</tbody>
</table>

**Other**

- Effects of policies by local, central or foreign governments
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)

#### Peru (n=9)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales increase in local markets</td>
<td>88.9</td>
</tr>
<tr>
<td>Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)</td>
<td>33.3</td>
</tr>
<tr>
<td>Sales increase due to export expansion</td>
<td>22.2</td>
</tr>
<tr>
<td>Improvement of production efficiency</td>
<td>11.1</td>
</tr>
<tr>
<td>Improvement of sales efficiency</td>
<td>11.1</td>
</tr>
<tr>
<td>Effects of exchange rate fluctuation</td>
<td>0.0</td>
</tr>
<tr>
<td>Reduction of procurement costs</td>
<td>0.0</td>
</tr>
<tr>
<td>Reduction of labor costs</td>
<td>0.0</td>
</tr>
<tr>
<td>Effects of policies by local, central or foreign governments</td>
<td>0.0</td>
</tr>
</tbody>
</table>

**Other**

- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)
II-2-(2) Reasons for “Increase” in Operating Profits Forecast for 2019 (by country-2)

### Reasons for [Increase] in operating profits forecast for 2019: Chile (n=16)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales increase in local markets</td>
<td>56.3%</td>
</tr>
<tr>
<td>Sales increase due to export expansion</td>
<td>37.5%</td>
</tr>
<tr>
<td>Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)</td>
<td>25.1%</td>
</tr>
<tr>
<td>Reduction of labor costs</td>
<td>18.8%</td>
</tr>
<tr>
<td>Reduction of procurement costs</td>
<td>12.5%</td>
</tr>
<tr>
<td>Improvement of production efficiency</td>
<td>12.5%</td>
</tr>
<tr>
<td>Improvement of sales efficiency</td>
<td>0%</td>
</tr>
<tr>
<td>Effects of exchange rate fluctuation</td>
<td>0%</td>
</tr>
<tr>
<td>Effects of policies by local, central or foreign governments</td>
<td>0%</td>
</tr>
<tr>
<td>Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

### Reasons for [Increase] in operating profits forecast for 2019: Brazil (n=45)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales increase in local markets</td>
<td>86.7%</td>
</tr>
<tr>
<td>Improvement of sales efficiency</td>
<td>20.0%</td>
</tr>
<tr>
<td>Sales increase due to export expansion</td>
<td>17.8%</td>
</tr>
<tr>
<td>Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)</td>
<td>17.8%</td>
</tr>
<tr>
<td>Effects of exchange rate fluctuation</td>
<td>15.6%</td>
</tr>
<tr>
<td>Improvement of production efficiency</td>
<td>11.1%</td>
</tr>
<tr>
<td>Reduction of procurement costs</td>
<td>8.9%</td>
</tr>
<tr>
<td>Reduction of labor costs</td>
<td>8.9%</td>
</tr>
<tr>
<td>Effects of policies by local, central or foreign governments</td>
<td>0%</td>
</tr>
<tr>
<td>Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

### Reasons for [Increase] in operating profits forecast for 2019: Argentina (n=10)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales increase in local markets</td>
<td>60.0%</td>
</tr>
<tr>
<td>Effects of exchange rate fluctuation</td>
<td>30.0%</td>
</tr>
<tr>
<td>Reduction of procurement costs</td>
<td>20.0%</td>
</tr>
<tr>
<td>Sales increase due to export expansion</td>
<td>10.0%</td>
</tr>
<tr>
<td>Reduction of labor costs</td>
<td>10.0%</td>
</tr>
<tr>
<td>Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)</td>
<td>10.0%</td>
</tr>
<tr>
<td>Improvement of production efficiency</td>
<td>10.0%</td>
</tr>
<tr>
<td>Improvement of sales efficiency</td>
<td>10.0%</td>
</tr>
<tr>
<td>Effects of policies by local, central or foreign governments</td>
<td>0.0%</td>
</tr>
<tr>
<td>Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Other categories include:
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)
■ In Latin America, “Sales decrease in local markets” was the most-commonly cited reason for “Decrease” (47.8%), followed by “Increase of labor costs” and “Effects of exchange rate fluctuation.”

■ By country, “Increase of labor costs” and “Effects of exchange rate fluctuation” were the most-common reasons in Mexico. The percentage of “Effects of exchange rate fluctuation” was also high in Colombia and Argentina.

### Reasons for "Decrease" in operating profits forecast for 2019 (multiple answers)

<table>
<thead>
<tr>
<th>Valid responses</th>
<th>Sales decrease due to export slowdown</th>
<th>Sales decrease in local markets</th>
<th>Effects of exchange rate fluctuation</th>
<th>Increase of procurement costs</th>
<th>Increase of labor costs</th>
<th>Increase of other expenditures (e.g., administrative/utilty costs/fuel costs)</th>
<th>Rising interest rates</th>
<th>Production costs insufficiently shifted to selling price of goods</th>
<th>Effects of policies by local, central or foreign governments</th>
<th>Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)</th>
<th>Other</th>
</tr>
</thead>
<tbody>
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Il-2-(3) Reasons for “Decrease” in Operating Profits Forecast for 2019 (by country-1)

**Reasons for [Decrease] in operating profits forecast for 2019: Mexico (n=17)**

- Sales decrease in local markets: 58.8%
- Effects of exchange rate fluctuation: 23.5%
- Increase of procurement costs: 23.5%
- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 17.6%
- Sales decrease due to export slowdown: 11.8%
- Production costs insufficiently shifted to selling price of goods: 5.9%
- Effects of policies by local, central or foreign governments: 5.9%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 17.6%

**Reasons for [Decrease] in operating profits forecast for 2019: Venezuela (n=6)**

- Effects of policies by local, central or foreign governments: 83.3%
- Sales decrease in local markets: 50.0%
- Effects of exchange rate fluctuation: 16.7%
- Increase of procurement costs: 16.7%
- Increase of labor costs: 16.7%
- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 16.7%
- Sales decrease due to export slowdown: 0.0%
- Production costs insufficiently shifted to selling price of goods: 0.0%
- Rising interest rates: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 16.7%

**Reasons for [Decrease] in operating profits forecast for 2019: Colombia (n=4)**

- Effects of exchange rate fluctuation: 50.0%
- Sales decrease due to export slowdown: 25.0%
- Increase of procurement costs: 25.0%
- Increase of labor costs: 25.0%
- Production costs insufficiently shifted to selling price of goods: 25.0%
- Sales decrease in local markets: 0.0%
- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 0.0%
- Rising interest rates: 0.0%
- Effects of policies by local, central or foreign governments: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 25.0%

**Reasons for [Decrease] in operating profits forecast for 2019: Peru (n=3)**

- Increase of labor costs: 33.3%
- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 33.3%
- Production costs insufficiently shifted to selling price of goods: 33.3%
- Effects of policies by local, central or foreign governments: 33.3%
- Sales decrease due to export slowdown: 0.0%
- Sales decrease in local markets: 0.0%
- Effects of exchange rate fluctuation: 0.0%
- Increase of procurement costs: 0.0%
- Rising interest rates: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 100.0%
### Reasons for “Decrease” in Operating Profits Forecast for 2019 (by country-2)

#### Chile (n=0)

- Sales decrease due to export slowdown: 0.0%
- Sales decrease in local markets: 0.0%
- Effects of exchange rate fluctuation: 0.0%
- Increase of procurement costs: 0.0%
- Increase of labor costs: 0.0%
- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 0.0%
- Rising interest rates: 0.0%
- Production costs insufficiently shifted to selling price of goods: 0.0%
- Effects of policies by local, central or foreign governments: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 0.0%

#### Brazil (n=8)

- Sales decrease due to export slowdown: 0.0%
- Sales decrease in local markets: 0.0%
- Effects of exchange rate fluctuation: 0.0%
- Increase of procurement costs: 0.0%
- Increase of labor costs: 0.0%
- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 0.0%
- Rising interest rates: 0.0%
- Sales decrease due to export slowdown: 0.0%
- Increase of procurement costs: 0.0%
- Rising interest rates: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 0.0%

#### Argentina (n=8)

- Sales decrease in local markets: 87.5%
- Effects of exchange rate fluctuation: 62.5%
- Increase of labor costs: 62.5%
- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 37.5%
- Sales decrease due to export slowdown: 25.0%
- Increase of procurement costs: 25.0%
- Rising interest rates: 25.0%
- Production costs insufficiently shifted to selling price of goods: 12.5%
- Effects of policies by local, central or foreign governments: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 25.0%
In Latin America, “Expansion” (51.7%) decreased by 7.8 pp from the previous survey. “Expansion” decreased from the previous survey in all countries, except for Brazil.

By country, “Remaining the same” increased in Mexico (from 29.9% to 36.9%) because the country was expecting NAFTA renegotiations and the presidential election.

In Venezuela, “Reduction” reached 50.0% due to economic conditions that continued to worsen under the Maduro administration.
In Latin America, “Sales increase in local markets” (83.6%), “High growth potential” (37.0%), and "Sales increase due to export expansion" (33.9%) were the main reasons for expansion.

By country, “Reduction of costs (e.g., procurement/labor costs)” increased from the previous survey in Mexico and Chile.

In Argentina, “High receptivity for high-value added products/services” significantly increased (from 8.0% to 41.7%) in many business categories.

### Approach to future business challenges in the next 1 or 2 years: Reasons for “Expansion” (multiple answers)

<table>
<thead>
<tr>
<th>Country</th>
<th>Valid responses</th>
<th>Sales increase due to export expansion</th>
<th>Sales increase in local markets</th>
<th>High growth potential</th>
<th>High receptivity for high-value added products/services</th>
<th>Reduction of costs (e.g., procurement/lab or costs)</th>
<th>Deregulation</th>
<th>Ease in securing labor force</th>
<th>Reviewing production and distribution networks</th>
<th>Relationship with clients</th>
<th>Effects of policies by local, central or foreign governments</th>
<th>Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)</th>
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II-3-(2) Approach to Future Business Challenges in the Next One or Two Years: Reasons for “Expansion” (by country-1)

**Mexico (n=67)**
- Sales increase in local markets: 85.1%
- Sales increase due to export expansion: 32.8%
- High growth potential: 31.3%
- Relationship with clients: 17.9%
- High receptivity for high-value added products/services: 13.4%
- Reduction of costs (e.g., procurement/labor costs): 7.5%
- Reviewing production and distribution networks: 6.0%
- Effects of policies by local, central or foreign governments: 4.5%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 3.0%
- Ease in securing labor force: 1.5%
- Deregulation: 0.0%
- Other: 1.5%

**Venezuela (n=0)**
- Sales increase in local markets: 0.0%
- Sales increase due to export expansion: 0.0%
- High growth potential: 0.0%
- Relationship with clients: 0.0%
- High receptivity for high-value added products/services: 0.0%
- Reduction of costs (e.g., procurement/labor costs): 0.0%
- Deregulation: 0.0%
- Ease in securing labor force: 0.0%
- Reviewing production and distribution networks: 0.0%
- Effects of policies by local, central or foreign governments: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 0.0%

**Colombia (n=13)**
- Sales increase in local markets: 73.3%
- Sales increase due to export expansion: 53.3%
- High growth potential: 46.7%
- Relationship with clients: 33.3%
- High receptivity for high-value added products/services: 20.0%
- Reduction of costs (e.g., procurement/labor costs): 20.0%
- Deregulation: 0.0%
- Ease in securing labor force: 0.0%
- Reviewing production and distribution networks: 0.0%
- Effects of policies by local, central or foreign governments: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 0.0%

**Peru (n=15)**
- Sales increase in local markets: 73.3%
- Sales increase due to export expansion: 53.3%
- High growth potential: 46.7%
- Relationship with clients: 33.3%
- High receptivity for high-value added products/services: 20.0%
- Reduction of costs (e.g., procurement/labor costs): 20.0%
- Deregulation: 0.0%
- Ease in securing labor force: 0.0%
- Reviewing production and distribution networks: 0.0%
- Effects of policies by local, central or foreign governments: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 0.0%
II-3-(2) Approach to Future Business Challenges in the Next One or Two Years: Reasons for “Expansion” (by country-2)

Approach to future business challenges in the next 1 or 2 years; Reasons for [Expansion]: Chile (n=14)

- Sales increase in local markets: 71.4%
- Sales increase due to export expansion: 35.7%
- High receptivity for high-value added products/services: 21.4%
- High growth potential: 14.3%
- Reduction of costs (e.g., procurement/labor costs): 14.3%
- Reviewing production and distribution networks: 14.3%
- Relationship with clients: 14.3%
- Deregulation: 0.0%
- Ease in securing labor force: 0.0%
- Effects of policies by local, central or foreign governments: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 14.3%

Approach to future business challenges in the next 1 or 2 years; Reasons for [Expansion]: Brazil (n=44)

- Sales increase in local markets: 88.6%
- High growth potential: 38.6%
- High receptivity for high-value added products/services: 29.5%
- Sales increase due to export expansion: 22.7%
- Reviewing production and distribution networks: 18.2%
- Relationship with clients: 15.9%
- Effects of policies by local, central or foreign governments: 9.1%
- Reduction of costs (e.g., procurement/labor costs): 6.8%
- Deregulation: 4.5%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 2.3%
- Ease in securing labor force: 0.0%
- Other: 6.8%

Approach to future business challenges in the next 1 or 2 years; Reasons for [Expansion]: Argentina (n=12)

- Sales increase in local markets: 66.7%
- High growth potential: 58.3%
- High receptivity for high-value added products/services: 41.7%
- Sales increase due to export expansion: 33.3%
- Reduction of costs (e.g., procurement/labor costs): 16.7%
- Relationship with clients: 8.3%
- Effects of policies by local, central or foreign governments: 8.3%
- Deregulation: 0.0%
- Ease in securing labor force: 0.0%
- Reviewing production and distribution networks: 0.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
- Other: 0.0%
In Latin America, the percentage of “Sales function” was overwhelmingly high. In particular, the percentage reached 92.3% in Colombia. “Production” and “Logistics function” accounted for approx. 20%.

By country, “Production (high-value added products)” increased in Argentina, Peru, and Colombia.

### Functions to be expanded (multiple answers)

<table>
<thead>
<tr>
<th></th>
<th>Valid responses</th>
<th>Sales function</th>
<th>Production (general-purpose products)</th>
<th>Production (high-value added products)</th>
<th>R&amp;D</th>
<th>Function of regional headquarters</th>
<th>Logistics function</th>
<th>Administrative functions in providing services (e.g., shared service center, call center)</th>
<th>Other</th>
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<tbody>
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<td>73.9</td>
<td>18.2</td>
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</table>
II-3-(3) Approach to Future Business Challenges in the Next One or Two Years: Functions to Be Expanded (by country-1)

Functions to be expanded: Mexico (n=67)

- Sales function: 65.7%
- Production (general-purpose products): 26.9%
- Production (high-value added products): 26.9%
- Logistics function: 22.4%
- R&D: 6.0%
- Administrative functions in providing services (e.g., shared service center, call center): 6.0%
- Function of regional headquarters: 3.0%
- Other: 4.5%

Functions to be expanded: Venezuela (n=0)

- Sales function: 0.0%
- Production (general-purpose products): 0.0%
- Production (high-value added products): 0.0%
- R&D: 0.0%
- Function of regional headquarters: 0.0%
- Logistics function: 0.0%
- Administrative functions in providing services (e.g., shared service center, call center): 0.0%
- Other: 0.0%

Functions to be expanded: Colombia (n=13)

- Sales function: 92.3%
- Administrative functions in providing services (e.g., shared service center, call center): 30.8%
- Function of regional headquarters: 23.1%
- Logistics function: 15.4%
- R&D: 7.7%
- Production (general-purpose products): 0.0%
- Production (high-value added products): 0.0%
- Other: 7.7%

Functions to be expanded: Peru (n=15)

- Sales function: 60.0%
- Production (high-value added products): 33.3%
- Function of regional headquarters: 33.3%
- R&D: 13.3%
- Administrative functions in providing services (e.g., shared service center, call center): 13.3%
- Logistics function: 6.7%
- Production (general-purpose products): 6.7%
- Other: 6.7%
II-3-(3) Approach to Future Business Challenges in the Next One or Two Years: Functions to Be Expanded (by country-2)

Functions to be expanded: Chile (n=14)

- Sales function: 71.4%
- Production (high-value added products): 14.3%
- Logistics function: 14.3%
- R&D: 14.3%
- Production (general-purpose products): 7.1%
- Administrative functions in providing services (e.g., shared service center, call center): 7.1%
- Function of regional headquarters: 0.0%
- Other: 7.1%

Functions to be expanded: Brazil (n=44)

- Sales function: 86.4%
- Administrative functions in providing services (e.g., shared service center, call center): 20.5%
- Production (high-value added products): 15.9%
- Function of regional headquarters: 15.9%
- R&D: 11.4%
- Logistics function: 9.1%
- Production (general-purpose products): 4.5%
- Other: 0.0%

Functions to be expanded: Argentina (n=12)

- Sales function: 75.0%
- Logistics function: 33.3%
- Administrative functions in providing services (e.g., shared service center, call center): 25.0%
- Production (general-purpose products): 8.3%
- Function of regional headquarters: 8.3%
- R&D: 8.3%
- Production (high-value added products): 8.3%
- Other: 0.0%
“Sales decrease in local markets” and “Increase of costs” were overwhelming reasons for “Reduction” or “Transferring to a third country/region or withdrawal from current local market.”

Reasons for “Reduction” or “Transferring to a third country/region or withdrawal from current local market” (Latin America, multiple answers)

- Sales decrease in local markets: 65.0%
- Increase of costs (e.g., procurement/labor costs): 40.0%
- Effects of policies by local, central or foreign governments: 20.0%
- Low growth potential: 15.0%
- Low receptivity for high-value added products/services: 10.0%
- Tightening of regulations: 10.0%
- Reviewing production and distribution networks: 10.0%
- Relationship with clients: 10.0%
- Sales decrease due to export slowdown: 5.0%
- Difficulty in securing labor force: 5.0%
- Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries): 0.0%
The percentage of companies that plan to increase the number of local employees decreased by 10.4 pp from the previous survey. By country, the percentage decreased in all countries, except for Brazil. In particular, the percentage significantly decreased in Argentina (from 51.2% to 22.5%).

### FY2017 survey

<table>
<thead>
<tr>
<th>Country</th>
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<th>Decrease</th>
</tr>
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### FY2018 survey

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### Future plans

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<tr>
<td>Argentina</td>
<td>51.2</td>
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</table>

Copyright© 2019 JETRO. All rights reserved. Reproduction without permission is prohibited
The “Increase” in the number of Japanese expatriates was the largest in Mexico in the past year (22.5%), followed by Colombia (15.8%). In Argentina, on the other hand, “Increase” decreased by 12 pp from the previous survey (10.0%).

The percentage of companies that plan to increase the number of Japanese expatriates in the future was the largest in Colombia. This is because the growth of domestic demand began to recover in 2018 after slowing in 2017 due to increased value-added tax (IVA) (December 2016). In Mexico, the “Future plans” percentage (11.7%) was half that of the past year’s percentage partly because of the effects of NAFTA renegotiations.
II-4-(1) Challenges in Exploring Market: Competitors in the Same Business Category

As competitors in the same business category in Latin America, “Japanese companies” decreased (from 36.7% to 29.2%), while “European companies” and “South Korean companies” increased.

In Mexico, “Japanese companies” decreased from the previous survey (from 57.6% to 48.6%), while “European companies” increased (from 10.7% to 17.1%). It is believed that one of the reasons for this increase is that German automobile parts-related companies increased their investment in Mexico from the previous year.

In Colombia, “South Korean companies” increased (from 6.7% to 11.1%) among durables-related companies because of the Colombia-South Korea FTA that took effect in 2016.
II-4-(2) Challenges in Exploring Market: Changes in Competition

With regard to changes in competition in the past year, “Competition increased” increased from the previous survey in Latin America (from 45.2% to 50.6%).

In Chile, in particular, “Competition increased” increased more significantly from the previous survey (from 60.0% to 72.7%). This is probably because of the penetration of “Chinese companies,” etc.

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<th>Unchanged</th>
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<td>Chile</td>
<td>72.7%</td>
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<td>45.5%</td>
<td>51.9%</td>
<td>2.6%</td>
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<tr>
<td>Argentina</td>
<td>62.9%</td>
<td>34.3%</td>
<td>2.9%</td>
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</table>
As with the previous survey, “Emergence of competitors (competition in cost)” (47.0%), “Sluggish sales in major markets (low consumer spending)” (31.7%), “Request for price reduction from major business partners” (31.0%), and “Slow development of new customers” (29.8%) were more-frequently cited in Latin America.

In Chile, “Inflow of low-price import products to local markets” and “Emergence of competitors (competition in quality)” increased (from 8.1% to 22.9% and from 16.2% to 22.9%, respectively) as the reasons for fiercer competition against the backdrop of the emergence of Chinese companies.

In Colombia, “Sluggish sales in major markets” significantly decreased (from 56.7% to 11.1%). This is because the growth of domestic demand began to recover in 2018, although it slowed in 2017 as a result of value-added tax (IVA) increase (December 2016).

In Argentina, “Sluggish sales in major markets” significantly increased from the previous survey (from 19.5% to 66.7%).

### Issues in sales and marketing (multiple answers)

<table>
<thead>
<tr>
<th>Valid responses</th>
<th>Decrease of orders from your headquarters</th>
<th>Decrease of orders from business partners</th>
<th>Request for price reduction from major business partners</th>
<th>Sluggish sales in major markets (low consumer spending)</th>
<th>Slow development of new customers</th>
<th>Price decline due to excess in global supply</th>
<th>Inflow of low-price import products to local markets</th>
<th>Emergence of competitors (competition in quality)</th>
<th>Emergence of competitors (competition in cost)</th>
<th>Lack of progress in local deregulation</th>
<th>Delayed collection of accounts receivable</th>
<th>Other issues</th>
<th>No particular issues</th>
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<td>16.7</td>
<td>30.6</td>
<td>11.1</td>
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</tbody>
</table>
II-5-(1) Issues in Business Management: Sales and Marketing (by country-1)

**Issues in sales and marketing: Mexico (n=111)**

- Emergence of competitors (competition in cost) 51.4%
- Request for price reduction from major business partners 42.3%
- Slow development of new customers 29.7%
- Sluggish sales in major markets (low consumer spending) 27.9%
- Decrease of orders from business partners 18.9%
- Delayed collection of accounts receivable 16.2%
- Inflow of low-price import products to local markets 13.5%
- Emergence of competitors (competition in quality) 10.8%
- Lack of progress in local deregulation 8.1%
- Price decline due to excess in global supply 4.5%
- Decrease of orders from your headquarters 1.8%
- Other issues 12.6%
- No particular issues 9.0%

**Issues in sales and marketing: Venezuela (n=12)**

- Delayed collection of accounts receivable 33.3%
- Sluggish sales in major markets (low consumer spending) 25.0%
- Slow development of new customers 25.0%
- Decrease of orders from business partners 16.7%
- Inflow of low-price import products to local markets 8.3%
- Lack of progress in local deregulation 8.3%
- Decrease of orders from your headquarters 0.0%
- Request for price reduction from major business partners 0.0%
- Price decline due to excess in global supply 0.0%
- Emergence of competitors (competition in quality) 0.0%
- Emergence of competitors (competition in cost) 0.0%
- Other issues 58.3%
- No particular issues 0.0%

**Issues in sales and marketing: Colombia (n=18)**

- Emergence of competitors (competition in cost) 50.0%
- Slow development of new customers 38.9%
- Inflow of low-price import products to local markets 33.3%
- Delayed collection of accounts receivable 22.2%
- Request for price reduction from major business partners 16.7%
- Emergence of competitors (competition in quality) 16.7%
- Sluggish sales in major markets (low consumer spending) 11.1%
- Lack of progress in local deregulation 11.1%
- Decrease of orders from your headquarters 0.0%
- Decrease of orders from business partners 0.0%
- Price decline due to excess in global supply 0.0%
- Other issues 0.0%
- No particular issues 16.7%

**Issues in sales and marketing: Peru (n=28)**

- Emergence of competitors (competition in cost) 50.0%
- Inflow of low-price import products to local markets 35.7%
- Slow development of new customers 28.6%
- Request for price reduction from major business partners 21.4%
- Emergence of competitors (competition in quality) 17.9%
- Price decline due to excess in global supply 14.3%
- Sluggish sales in major markets (low consumer spending) 10.7%
- Lack of progress in local deregulation 7.1%
- Decrease of orders from business partners 3.6%
- Decrease of orders from your headquarters 0.0%
- Delayed collection of accounts receivable 0.0%
- Other issues 17.9%
- No particular issues 10.7%
-II-5-(1) Issues in Business Management: Sales and Marketing (by country-2)

### Chile (n=35)

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<tr>
<td>Emergence of competitors (competition in quality)</td>
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<td>Price decline due to excess in global supply</td>
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<tr>
<td>Decrease of orders from business partners</td>
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<td>Lack of progress in local deregulation</td>
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<tr>
<td>Other issues</td>
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</tr>
<tr>
<td>No particular issues</td>
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### Brazil (n=79)

<table>
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<tr>
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<tr>
<td>Emergence of competitors (competition in cost)</td>
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<td>Slow development of new customers</td>
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<tr>
<td>Request for price reduction from major business partners</td>
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<td>Inflow of low-price import products to local markets</td>
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<tr>
<td>Lack of progress in local deregulation</td>
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### Argentina (n=36)

<table>
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<td>Emergence of competitors (competition in cost)</td>
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<td>Request for price reduction from major business partners</td>
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<td>Inflow of low-price import products to local markets</td>
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<td>16.7%</td>
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<td>Price decline due to excess in global supply</td>
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</tr>
<tr>
<td>Other issues</td>
<td>11.1%</td>
</tr>
<tr>
<td>No particular issues</td>
<td>2.8%</td>
</tr>
</tbody>
</table>
In Latin America, the percentage of “Fluctuations in the exchange rate between local currency and the dollar” was exceptionally high at 65.5%.

By country, the percentage remarkably increased in Brazil, Argentina, and Venezuela. In Argentina, in particular, the percentage reached 97.2%. “Rising interest rates” also increased significantly in Argentina (from 34.1% to 61.6%).

In Colombia and Chile, “Tax burden” decreased.

### Issues in finance, monetary and foreign exchange (multiple answers)

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<th>Shortage of cash flow required for business expansion</th>
<th>Difficulty in getting financing from local banks</th>
<th>Fluctuations in the exchange rate between local currency and the dollar</th>
<th>Fluctuations in the exchange rate between local currency and the yen</th>
<th>Fluctuations in the exchange rate between the yen and the dollar</th>
<th>Regulations concerning financing and payment</th>
<th>Regulations concerning overseas remittance</th>
<th>Tax burden (corporate tax, transfer pricing taxation, etc.)</th>
<th>Rising interest rates</th>
<th>Other issues</th>
<th>No particular issues</th>
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</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>319</td>
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<td>2.5</td>
<td>11.4</td>
<td>20.3</td>
<td>59.5</td>
<td>3.8</td>
<td>2.5</td>
<td>5.1</td>
</tr>
<tr>
<td>Argentina</td>
<td>36</td>
<td>30.6</td>
<td>27.8</td>
<td>97.2</td>
<td>11.1</td>
<td>0.0</td>
<td>2.8</td>
<td>11.1</td>
<td>36.1</td>
<td>61.1</td>
<td>5.6</td>
<td>2.8</td>
</tr>
</tbody>
</table>
Issues in Business Management: Finance, Monetary and Foreign Exchange (by country-1)

### Issues in finance, monetary and foreign exchange: Mexico (n=111)
- Fluctuations in the exchange rate between local currency and the dollar: 65.8%
- Tax burden (corporate tax, transfer pricing taxation, etc.): 31.5%
- Shortage of cash flow required for business expansion: 24.3%
- Rising interest rates: 15.3%
- Fluctuations in the exchange rate between local currency and the yen: 13.5%
- Fluctuations in the exchange rate between the yen and the dollar: 6.3%
- Regulations concerning financing and payment: 3.6%
- Regulations concerning overseas remittance: 2.7%
- Difficulty in getting financing from local banks: 1.8%
- Other issues: 9.9%
- No particular issues: 15.3%

### Issues in finance, monetary and foreign exchange: Venezuela (n=12)
- Fluctuations in the exchange rate between local currency and the dollar: 75.0%
- Regulations concerning financing and payment: 66.7%
- Regulations concerning overseas remittance: 33.3%
- Difficulty in getting financing from local banks: 25.0%
- Shortage of cash flow required for business expansion: 16.7%
- Fluctuations in the exchange rate between local currency and the yen: 8.3%
- Tax burden (corporate tax, transfer pricing taxation, etc.): 8.3%
- Fluctuations in the exchange rate between the yen and the dollar: 0.0%
- Rising interest rates: 0.0%
- Other issues: 50.0%
- No particular issues: 0.0%

### Issues in finance, monetary and foreign exchange: Colombia (n=18)
- Fluctuations in the exchange rate between local currency and the dollar: 61.1%
- Tax burden (corporate tax, transfer pricing taxation, etc.): 33.3%
- Regulations concerning overseas remittance: 16.7%
- Rising interest rates: 16.7%
- Shortage of cash flow required for business expansion: 16.7%
- Difficulty in getting financing from local banks: 11.1%
- Fluctuations in the exchange rate between local currency and the yen: 11.1%
- Fluctuations in the exchange rate between the yen and the dollar: 5.6%
- Regulations concerning financing and payment: 5.6%
- Regulations concerning overseas remittance: 5.6%
- Difficulty in getting financing from local banks: 5.6%
- Other issues: 0.0%
- No particular issues: 16.7%

### Issues in finance, monetary and foreign exchange: Peru (n=28)
- Tax burden (corporate tax, transfer pricing taxation, etc.): 28.6%
- Fluctuations in the exchange rate between local currency and the dollar: 21.4%
- Rising interest rates: 14.3%
- Shortage of cash flow required for business expansion: 7.1%
- Difficulty in getting financing from local banks: 7.1%
- Fluctuations in the exchange rate between local currency and the yen: 7.1%
- Fluctuations in the exchange rate between the yen and the dollar: 3.6%
- Regulations concerning financing and payment: 3.6%
- Regulations concerning overseas remittance: 0.0%
- Other issues: 3.6%
- No particular issues: 35.7%
II-5-(2) Issues in Business Management: Finance, Monetary and Foreign Exchange (by country-2)

Issues in finance, monetary and foreign exchange: Chile (n=35)

- Fluctuations in the exchange rate between local currency and the dollar: 42.9%
- Fluctuations in the exchange rate between local currency and the yen: 8.6%
- Difficulty in getting financing from local banks: 5.7%
- Regulations concerning overseas remittance: 5.7%
- Fluctuations in the exchange rate between the yen and the dollar: 2.9%
- Regulations concerning financing and payment: 2.9%
- Rising interest rates: 20.0%
- Other issues: 2.9%
- No particular issues: 0.0%

Issues in finance, monetary and foreign exchange: Brazil (n=79)

- Fluctuations in the exchange rate between local currency and the dollar: 75.9%
- Fluctuations in the exchange rate between local currency and the yen: 26.6%
- Difficulty in getting financing from local banks: 20.3%
- Regulations concerning overseas remittance: 11.4%
- Rising interest rates: 3.8%
- Other issues: 2.5%
- No particular issues: 5.1%

Issues in finance, monetary and foreign exchange: Argentina (n=36)

- Fluctuations in the exchange rate between local currency and the dollar: 97.2%
- Rising interest rates: 61.1%
- Tax burden (corporate tax, transfer pricing taxation, etc.): 36.1%
- Shortage of cash flow required for business expansion: 30.6%
- Difficulty in getting financing from local banks: 27.8%
- Fluctuations in the exchange rate between local currency and the yen: 11.1%
- Regulations concerning overseas remittance: 11.1%
- Regulations concerning financing and payment: 2.8%
- Fluctuations in the exchange rate between the yen and the dollar: 2.8%
- Other issues: 5.6%
- No particular issues: 2.8%
In Latin America, “Increase in wages of employees” (58.6%) was more-commonly cited. In Brazil and Argentina, in particular, the percentage was high, at 63.3% and 72.2%, respectively.

In Argentina, “Labor disputes, labor unions, strikes” increased (from 26.8% to 33.3%) because there was a move to demand a wage increase at or above the inflation rate.
### Issues in employment and labor: Mexico (n=111)

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in wages of employees</td>
<td>61.3%</td>
</tr>
<tr>
<td>Quality of employees</td>
<td>42.3%</td>
</tr>
<tr>
<td>Difficulty in recruiting workforce (middle management level)</td>
<td>41.4%</td>
</tr>
<tr>
<td>Retention rate of employees</td>
<td>30.6%</td>
</tr>
<tr>
<td>Difficulty in appointing local personnel as managers and supervisors</td>
<td>29.7%</td>
</tr>
<tr>
<td>Difficulty in recruiting workforce (general staff, office workers)</td>
<td>25.2%</td>
</tr>
<tr>
<td>Cost for dispatched Japanese executives (stationed representatives)</td>
<td>20.7%</td>
</tr>
<tr>
<td>Difficulty in recruiting workforce (engineers, manufacturing companies only)</td>
<td>17.1%</td>
</tr>
<tr>
<td>Difficulty in recruiting workforce (general workers, manufacturing companies only)</td>
<td>12.6%</td>
</tr>
<tr>
<td>Regulations concerning dismissal and reduction of personnel</td>
<td>7.2%</td>
</tr>
<tr>
<td>Labor-related lawsuits</td>
<td>3.6%</td>
</tr>
<tr>
<td>Restriction on hiring foreigners</td>
<td>2.7%</td>
</tr>
<tr>
<td>Restriction on visa issuance for dispatched Japanese executives (stationed representatives)</td>
<td>0.9%</td>
</tr>
<tr>
<td>Labor disputes, labor unions, strikes</td>
<td>3.6%</td>
</tr>
<tr>
<td>Other issues</td>
<td>6.3%</td>
</tr>
<tr>
<td>No particular issues</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

### Issues in employment and labor: Venezuela (n=12)

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in wages of employees</td>
<td>58.3%</td>
</tr>
<tr>
<td>Regulations concerning dismissal and reduction of personnel</td>
<td>41.7%</td>
</tr>
<tr>
<td>Quality of employees</td>
<td>41.7%</td>
</tr>
<tr>
<td>Difficulty in recruiting workforce (middle management level)</td>
<td>33.3%</td>
</tr>
<tr>
<td>Difficulty in recruiting workforce (general staff, office workers)</td>
<td>25.0%</td>
</tr>
<tr>
<td>Retention rate of employees</td>
<td>25.0%</td>
</tr>
<tr>
<td>Cost for dispatched Japanese executives (stationed representatives)</td>
<td>25.0%</td>
</tr>
<tr>
<td>Difficulty in appointing local personnel as managers and supervisors</td>
<td>16.7%</td>
</tr>
<tr>
<td>Labor-related lawsuits</td>
<td>16.7%</td>
</tr>
<tr>
<td>Difficulty in recruiting workforce (general workers, manufacturing companies only)</td>
<td>8.3%</td>
</tr>
<tr>
<td>Difficulty in recruiting workforce (engineers, manufacturing companies only)</td>
<td>8.3%</td>
</tr>
<tr>
<td>Restriction on visa issuance for dispatched Japanese executives (stationed representatives)</td>
<td>8.3%</td>
</tr>
<tr>
<td>Labor disputes, labor unions, strikes</td>
<td>8.3%</td>
</tr>
<tr>
<td>Restriction on hiring foreigners</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other issues</td>
<td>0.0%</td>
</tr>
<tr>
<td>No particular issues</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

### Issues in employment and labor: Colombia (n=18)

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of employees</td>
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</tr>
<tr>
<td>Increase in wages of employees</td>
<td>27.8%</td>
</tr>
<tr>
<td>Regulations concerning dismissal and reduction of personnel</td>
<td>16.7%</td>
</tr>
<tr>
<td>Difficulty in recruiting workforce (middle management level)</td>
<td>11.1%</td>
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<tr>
<td>Difficulty in recruiting workforce (engineers, manufacturing companies only)</td>
<td>11.1%</td>
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<tr>
<td>Cost for dispatched Japanese executives (stationed representatives)</td>
<td>11.1%</td>
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<tr>
<td>Difficulty in appointing local personnel as managers and supervisors</td>
<td>5.6%</td>
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<td>Difficulty in recruiting workforce (general staff, office workers)</td>
<td>5.6%</td>
</tr>
<tr>
<td>Retention rate of employees</td>
<td>0.0%</td>
</tr>
<tr>
<td>Difficulty in recruiting workforce (general workers, manufacturing companies only)</td>
<td>0.0%</td>
</tr>
<tr>
<td>Restriction on visa issuance for dispatched Japanese executives (stationed representatives)</td>
<td>0.0%</td>
</tr>
<tr>
<td>Restriction on hiring foreigners</td>
<td>0.0%</td>
</tr>
<tr>
<td>Labor-related lawsuits</td>
<td>0.0%</td>
</tr>
<tr>
<td>Labor disputes, labor unions, strikes</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other issues</td>
<td>0.0%</td>
</tr>
<tr>
<td>No particular issues</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

### Issues in employment and labor: Peru (n=28)

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of employees</td>
<td>39.3%</td>
</tr>
<tr>
<td>Increase in wages of employees</td>
<td>35.7%</td>
</tr>
<tr>
<td>Regulations concerning dismissal and reduction of personnel</td>
<td>28.6%</td>
</tr>
<tr>
<td>Difficulty in recruiting workforce (middle management level)</td>
<td>28.6%</td>
</tr>
<tr>
<td>Retention rate of employees</td>
<td>14.3%</td>
</tr>
<tr>
<td>Labor disputes, labor unions, strikes</td>
<td>14.3%</td>
</tr>
<tr>
<td>Restriction on visa issuance for dispatched Japanese executives (stationed representatives)</td>
<td>10.7%</td>
</tr>
<tr>
<td>Difficulty in appointing local personnel as managers and supervisors</td>
<td>10.7%</td>
</tr>
<tr>
<td>Labor-related lawsuits</td>
<td>10.7%</td>
</tr>
<tr>
<td>Difficulty in recruiting workforce (general staff, office workers)</td>
<td>7.1%</td>
</tr>
<tr>
<td>Restriction on hiring foreigners</td>
<td>7.1%</td>
</tr>
<tr>
<td>Difficulty in recruiting workforce (general workers, manufacturing companies only)</td>
<td>3.6%</td>
</tr>
<tr>
<td>Difficulty in recruiting workforce (engineers, manufacturing companies only)</td>
<td>3.6%</td>
</tr>
<tr>
<td>Cost for dispatched Japanese executives (stationed representatives)</td>
<td>3.6%</td>
</tr>
<tr>
<td>Other issues</td>
<td>3.6%</td>
</tr>
<tr>
<td>No particular issues</td>
<td>21.4%</td>
</tr>
</tbody>
</table>
II-5-(3) Issues in Business Management: Employment and Labor (by country-2)

Issues in employment and labor: Chile (n=35)

- Increase in wages of employees: 54.3%
- Quality of employees: 22.9%
- Difficulty in recruiting workforce (general staff, office workers): 20.0%
- Retention rate of employees: 14.3%
- Difficulty in recruiting workforce (middle management level): 11.4%
- Regulations concerning dismissal and reduction of personnel: 11.4%
- Cost for dispatched Japanese executives (stationed representatives): 8.6%
- Difficulty in appointing local personnel as managers and supervisors: 2.9%
- Difficulty in recruiting workforce (general workers, manufacturing companies only): 2.9%
- Difficulty in recruiting workforce (engineers, manufacturing companies only): 0.0%
- Restriction on hiring foreigners: 0.0%
- Labor-related lawsuits: 0.0%
- Other issues: 2.9%
- No particular issues: 11.4%

Issues in employment and labor: Brazil (n=79)

- Increase in wages of employees: 63.3%
- Quality of employees: 45.6%
- Regulations concerning dismissal and reduction of personnel: 41.8%
- Difficulty in recruiting workforce (middle management level): 31.6%
- Difficulty in recruiting workforce (general staff, office workers): 30.4%
- Cost for dispatched Japanese executives (stationed representatives): 20.3%
- Labor disputes, labor unions, strikes: 16.5%
- Difficulty in appointing local personnel as managers and supervisors: 13.9%
- Retention rate of employees: 11.4%
- Difficulty in recruiting workforce (engineers, manufacturing companies only): 8.9%
- Difficulty in recruiting workforce (general workers, manufacturing companies only): 2.5%
- Restriction on hiring foreigners: 2.5%
- Restriction on visa issuance for dispatched Japanese executives (stationed representatives): 1.3%
- Other issues: 1.3%
- No particular issues: 6.3%

Issues in employment and labor: Argentina (n=36)

- Increase in wages of employees: 72.2%
- Regulations concerning dismissal and reduction of personnel: 38.9%
- Quality of employees: 33.3%
- Labor disputes, labor unions, strikes: 33.3%
- Labor-related lawsuits: 25.0%
- Difficulty in recruiting workforce (general staff, office workers): 13.9%
- Cost for dispatched Japanese executives (stationed representatives): 13.9%
- Difficulty in recruiting workforce (middle management level): 11.1%
- Retention rate of employees: 8.3%
- Difficulty in recruiting workforce (engineers, manufacturing companies only): 5.6%
- Difficulty in appointing local personnel as managers and supervisors: 2.8%
- Difficulty in recruiting workforce (general workers, manufacturing companies only): 0.0%
- Restriction on visa issuance for dispatched Japanese executives (stationed representatives): 0.0%
- Restriction on hiring foreigners: 0.0%
- Other issues: 0.0%
- No particular issues: 2.8%
“Significant time required for customs clearance” and “High import tariffs” exceeded 50% in MERCOSUR (Brazil and Argentina). In Argentina, “Export restriction and export tax” increased (from 12.2% to 38.9%) due to the impact of the export tax introduced in September 2018.

Issues in trade system (multiple answers)

<table>
<thead>
<tr>
<th>Country</th>
<th>Valid responses</th>
<th>Complex procedures for customs clearance</th>
<th>Significant time required for customs clearance</th>
<th>Inadequate communication and enforcement of notices and rules</th>
<th>Unclear variation assessment / classification criteria for tariffs</th>
<th>High import tariffs</th>
<th>Unclear inspection system</th>
<th>High non-tariff barriers</th>
<th>Strict or unclear quarantine system</th>
<th>Export restriction and export tax</th>
<th>Other issues</th>
<th>No particular issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>319</td>
<td>38.2</td>
<td>41.7</td>
<td>20.1</td>
<td>10.7</td>
<td>24.8</td>
<td>12.9</td>
<td>6.0</td>
<td>2.8</td>
<td>5.3</td>
<td>9.1</td>
<td>27.6</td>
</tr>
<tr>
<td>Mexico</td>
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<td>41.4</td>
<td>43.2</td>
<td>20.7</td>
<td>11.7</td>
<td>9.0</td>
<td>11.7</td>
<td>2.7</td>
<td>1.8</td>
<td>0.0</td>
<td>9.9</td>
<td>25.2</td>
</tr>
<tr>
<td>Venezuela</td>
<td>12</td>
<td>25.0</td>
<td>41.7</td>
<td>33.3</td>
<td>16.7</td>
<td>8.3</td>
<td>8.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>25.0</td>
<td>8.3</td>
</tr>
<tr>
<td>Colombia</td>
<td>18</td>
<td>5.6</td>
<td>16.7</td>
<td>22.2</td>
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<td>22.2</td>
<td>5.6</td>
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<td>16.7</td>
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<tr>
<td>Peru</td>
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<td>14.3</td>
<td>28.6</td>
<td>3.6</td>
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<td>7.1</td>
<td>17.9</td>
<td>7.1</td>
<td>3.6</td>
<td>0.0</td>
<td>7.1</td>
<td>60.7</td>
</tr>
<tr>
<td>Chile</td>
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<td>20.0</td>
<td>0.0</td>
<td>0.0</td>
<td>5.7</td>
<td>2.9</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>11.4</td>
<td>57.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>79</td>
<td>53.2</td>
<td>53.2</td>
<td>29.1</td>
<td>15.2</td>
<td>53.2</td>
<td>19.0</td>
<td>8.9</td>
<td>3.8</td>
<td>3.8</td>
<td>5.1</td>
<td>20.3</td>
</tr>
<tr>
<td>Argentina</td>
<td>36</td>
<td>58.3</td>
<td>55.6</td>
<td>25.0</td>
<td>19.4</td>
<td>50.0</td>
<td>13.9</td>
<td>16.7</td>
<td>0.0</td>
<td>38.9</td>
<td>5.6</td>
<td>8.3</td>
</tr>
</tbody>
</table>
II-5-(4) Issues in Business Management: Trade System (by country-1)

**Issues in trade system: Mexico (n=111)**

- Significant time required for customs clearance: 43.2%
- Complex procedures for customs clearance: 41.4%
- Inadequate communication and enforcement of notices and rules: 20.7%
- Unclear variation assessment / classification criteria for tariffs: 11.7%
- Unclear inspection system: 11.7%
- High import tariffs: 9.0%
- High non-tariff barriers: 2.7%
- Strict or unclear quarantine system: 1.8%
- Export restriction and export tax: 0.0%
- Other issues: 9.9%
- No particular issues: 25.2%

**Issues in trade system: Venezuela (n=12)**

- Significant time required for customs clearance: 41.7%
- Inadequate communication and enforcement of notices and rules: 33.3%
- Complex procedures for customs clearance: 25.0%
- Unclear variation assessment / classification criteria for tariffs: 16.7%
- High import tariffs: 8.3%
- Unclear inspection system: 8.3%
- High non-tariff barriers: 0.0%
- Strict or unclear quarantine system: 0.0%
- Export restriction and export tax: 0.0%
- Other issues: 25.0%
- No particular issues: 8.3%

**Issues in trade system: Colombia (n=18)**

- Inadequate communication and enforcement of notices and rules: 22.2%
- High import tariffs: 22.2%
- Significant time required for customs clearance: 16.7%
- Strict or unclear quarantine system: 16.7%
- Complex procedures for customs clearance: 5.6%
- Unclear inspection system: 5.6%
- High non-tariff barriers: 5.6%
- Unclear variation assessment / classification criteria for tariffs: 0.0%
- Export restriction and export tax: 0.0%
- Other issues: 16.7%
- No particular issues: 16.7%

**Issues in trade system: Peru (n=28)**

- Significant time required for customs clearance: 28.6%
- Unclear inspection system: 17.9%
- Complex procedures for customs clearance: 14.3%
- High import tariffs: 7.1%
- High non-tariff barriers: 7.1%
- Inadequate communication and enforcement of notices and rules: 3.6%
- Strict or unclear quarantine system: 3.6%
- Unclear variation assessment / classification criteria for tariffs: 0.0%
- Export restriction and export tax: 0.0%
- Other issues: 7.1%
- No particular issues: 60.7%
II-5-(4) Issues in Business Management: Trade System (by country-2)

Issues in trade system: Chile (n=35)

- Significant time required for customs clearance: 20.0%
- Complex procedures for customs clearance: 14.3%
- High import tariffs: 5.7%
- Unclear inspection system: 2.9%
- Inadequate communication and enforcement of notices and rules: 0.0%
- Unclear variation assessment/classification criteria for tariffs: 0.0%
- High non-tariff barriers: 0.0%
- Strict or unclear quarantine system: 0.0%
- Export restriction and export tax: 0.0%
- Other issues: 11.4%
- No particular issues: 57.1%

Issues in trade system: Brazil (n=79)

- Complex procedures for customs clearance: 53.2%
- Significant time required for customs clearance: 53.2%
- High import tariffs: 53.2%
- Inadequate communication and enforcement of notices and rules: 29.1%
- Unclear inspection system: 19.0%
- Unclear variation assessment/classification criteria for tariffs: 15.2%
- High non-tariff barriers: 8.9%
- Strict or unclear quarantine system: 3.8%
- Export restriction and export tax: 3.8%
- Other issues: 5.1%
- No particular issues: 20.3%

Issues in trade system: Argentina (n=36)

- Complex procedures for customs clearance: 58.3%
- Significant time required for customs clearance: 55.6%
- High import tariffs: 50.0%
- Export restriction and export tax: 38.9%
- Inadequate communication and enforcement of notices and rules: 25.0%
- Unclear variation assessment/classification criteria for tariffs: 19.4%
- High non-tariff barriers: 16.7%
- Unclear inspection system: 13.9%
- Strict or unclear quarantine system: 0.0%
- Other issues: 5.6%
- No particular issues: 8.3%
In Latin America, “Increase of procurement costs” and “Difficulty in local procurement of materials and parts” exceeded 50%.

In Mexico, “Increase of procurement costs” increased (from 34.7% to 51.9%).

In Colombia, “Environmental regulations becoming more strict” increased (from 9.1% to 25.0%) due to national emissions controls.

In Brazil, “Increase of procurement costs” increased (from 52.1% to 64.7%) among companies depending on imports for materials because of the impact of currency depreciation.

In Argentina, “Inadequate logistics infrastructure” increased (from 7.1% to 26.7%), particularly in the automotive industry.

### Issues in production (only manufacturing) (multiple answers)

<table>
<thead>
<tr>
<th></th>
<th>Valid responses</th>
<th>Low production capacity due to limited facilities</th>
<th>Cost reduction which has nearly reached the limit</th>
<th>Increase of procurement costs</th>
<th>Difficulty in local procurement of materials and parts</th>
<th>Difficulty in changing production items in a short period of time</th>
<th>Difficulty in quality control</th>
<th>High tariffs on imports of capital and intermediate goods</th>
<th>Instability of electricity supply and frequent outages</th>
<th>Inadequate logistics infrastructure</th>
<th>Environmental regulations becoming more strict</th>
<th>Other issues</th>
<th>No particular issues</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Latin America</strong></td>
<td>126</td>
<td>10.3</td>
<td>22.2</td>
<td>50.8</td>
<td>50.8</td>
<td>10.3</td>
<td>34.1</td>
<td>7.1</td>
<td>12.7</td>
<td>25.4</td>
<td>10.3</td>
<td>11.1</td>
<td>14.3</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td>52</td>
<td>7.7</td>
<td>17.3</td>
<td>51.9</td>
<td>63.5</td>
<td>15.4</td>
<td>44.2</td>
<td>1.9</td>
<td>13.5</td>
<td>19.2</td>
<td>7.7</td>
<td>13.5</td>
<td>5.8</td>
</tr>
<tr>
<td><strong>Venezuela</strong></td>
<td>3</td>
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<td>33.3</td>
<td>0.0</td>
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<tr>
<td><strong>Colombia</strong></td>
<td>8</td>
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<td>12.5</td>
<td>37.5</td>
<td>37.5</td>
<td>0.0</td>
<td>25.0</td>
<td>12.5</td>
<td>25.0</td>
<td>25.0</td>
<td>0.0</td>
<td>25.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Peru</strong></td>
<td>7</td>
<td>14.3</td>
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<td>42.9</td>
<td>42.9</td>
<td>0.0</td>
<td>28.6</td>
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<td>0.0</td>
<td>42.9</td>
<td>28.6</td>
<td>14.3</td>
<td>14.3</td>
</tr>
<tr>
<td><strong>Chile</strong></td>
<td>7</td>
<td>0.0</td>
<td>0.0</td>
<td>14.3</td>
<td>0.0</td>
<td>0.0</td>
<td>14.3</td>
<td>0.0</td>
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<td>0.0</td>
<td>14.3</td>
<td>0.0</td>
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</tr>
<tr>
<td><strong>Brazil</strong></td>
<td>34</td>
<td>20.6</td>
<td>44.1</td>
<td>64.7</td>
<td>52.9</td>
<td>11.8</td>
<td>29.4</td>
<td>17.6</td>
<td>14.7</td>
<td>35.3</td>
<td>11.8</td>
<td>8.8</td>
<td>11.8</td>
</tr>
<tr>
<td><strong>Argentina</strong></td>
<td>15</td>
<td>0.0</td>
<td>13.3</td>
<td>53.3</td>
<td>33.3</td>
<td>6.7</td>
<td>33.3</td>
<td>6.7</td>
<td>6.7</td>
<td>26.7</td>
<td>0.0</td>
<td>13.3</td>
<td>20.0</td>
</tr>
</tbody>
</table>
II-5-(5) Issues in Business Management: Production (by country-1)

Issues in production (only manufacturing): Mexico (n=52)

- Difficulty in local procurement of materials and parts: 63.5%
- Increase of procurement costs: 51.9%
- Difficulty in quality control: 44.2%
- Inadequate logistics infrastructure: 19.2%
- Cost reduction which has nearly reached the limit: 17.3%
- Difficulty in changing production items in a short period of time: 15.4%
- Instability of electricity supply and frequent outages: 7.7%
- Low production capacity due to limited facilities: 7.7%
- Environmental regulations becoming more strict: 1.9%
- High tariffs on imports of capital and intermediate goods: 1.9%
- Other issues: 13.5%
- No particular issues: 5.8%

Issues in production (only manufacturing): Venezuela (n=3)

- Difficulty in local procurement of materials and parts: 66.7%
- Instability of electricity supply and frequent outages: 66.7%
- Cost reduction which has nearly reached the limit: 33.3%
- Inadequate logistics infrastructure: 33.3%
- Low production capacity due to limited facilities: 0.0%
- Increase of procurement costs: 0.0%
- Difficulty in changing production items in a short period of time: 0.0%
- Difficulty in quality control: 0.0%
- High tariffs on imports of capital and intermediate goods: 0.0%
- Environmental regulations becoming more strict: 0.0%
- Other issues: 33.3%
- No particular issues: 0.0%

Issues in production (only manufacturing): Colombia (n=8)

- Increase of procurement costs: 37.5%
- Difficulty in local procurement of materials and parts: 37.5%
- Difficulty in quality control: 25.0%
- Inadequate logistics infrastructure: 25.0%
- Environmental regulations becoming more strict: 25.0%
- Low production capacity due to limited facilities: 12.5%
- Cost reduction which has nearly reached the limit: 12.5%
- High tariffs on imports of capital and intermediate goods: 12.5%
- Instability of electricity supply and frequent outages: 12.5%
- Difficulty in changing production items in a short period of time: 0.0%
- Other issues: 0.0%
- No particular issues: 25.0%

Issues in production (only manufacturing): Peru (n=7)

- Increase of procurement costs: 42.9%
- Difficulty in local procurement of materials and parts: 42.9%
- Inadequate logistics infrastructure: 42.9%
- Difficulty in quality control: 28.6%
- Environmental regulations becoming more strict: 28.6%
- Low production capacity due to limited facilities: 14.3%
- Cost reduction which has nearly reached the limit: 0.0%
- Difficulty in changing production items in a short period of time: 0.0%
- High tariffs on imports of capital and intermediate goods: 0.0%
- Instability of electricity supply and frequent outages: 0.0%
- Other issues: 14.3%
- No particular issues: 14.3%
The percentage of “Cheaper labor power” (60.4%) as a benefit was much higher in Mexico than in other Latin American countries. As for risks, “Crime targeting foreigners and foreign affiliated companies” (63.1%) ranked at the top, as with the previous survey (56.5%), due to worsening security conditions, followed by “Political or social instability,” which significantly increased (from 41.8% to 60.4%).
As with the previous survey, “Market scale and potential for its growth” was prominent as a benefit in the investment environment. As for risks, “Currency volatility” increased by 15.3 pp from the previous year, while “Labor disputes/lawsuits” decreased (from 65.7% to 48.1%).
A large percentage of companies (73.7%) regard Colombia’s “Market scale and potential for its growth” as a benefit, as with the previous survey (73.3% to). As for risks, reassurance was given via the continuation of the policy for dialogue with guerrilla groups, pledges that favor businesses, etc., of President Duque, who took office in August 2018; and “Political or social instability” significantly decreased from the previous survey (from 53.3% to 22.2%).
In Peru, “Stable exchange rates” (ranked the 2nd) was more-commonly sited as a benefit than in other countries. As for risks, “Time-consuming administrative procedures,” which ranked at the top in the previous survey, fell to the 4th (from 63.2% to 28.6%).
As with the previous survey, “Increased labor costs” was the top risk. However, the percentage decreased by over 10 pp from the previous survey.
There are still many risks because Venezuela’s unstable political/economic conditions are not expected to improve.
“Market scale and potential for its growth” as a benefit significantly decreased (from 73.2% to 50.0%) because the domestic market shrunk due to rapid currency depreciation and a high interest rate policy. As for risks, “Currency volatility” and “Political or social instability” significantly increased (from 56.1% to 88.9% and from 63.4% to 83.3%, respectively), occupying the top two positions.

**Benefits in the investment environment: Argentina (n=40)**

<table>
<thead>
<tr>
<th>Benefit</th>
<th>(% )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market scale and potential for its growth</td>
<td>50.0</td>
</tr>
<tr>
<td>Comfortable living environment for representatives stationed from headquarters</td>
<td>20.0</td>
</tr>
<tr>
<td>High retention rate of employees</td>
<td>10.0</td>
</tr>
<tr>
<td>Low language and communication barriers</td>
<td>10.0</td>
</tr>
<tr>
<td>Abundant land/office spaces and low land prices/lease fees</td>
<td>7.5</td>
</tr>
<tr>
<td>High quality of employees (specialists and engineers)</td>
<td>7.5</td>
</tr>
<tr>
<td>High quality of employees (middle management level)</td>
<td>7.5</td>
</tr>
<tr>
<td>Concentration of partner companies (customer companies)</td>
<td>5.0</td>
</tr>
<tr>
<td>Cheaper labor power</td>
<td>5.0</td>
</tr>
<tr>
<td>Easy recruitment of employees (specialists and engineers, middle management level, etc.)</td>
<td>5.0</td>
</tr>
<tr>
<td>High quality of employees (general workers)</td>
<td>5.0</td>
</tr>
<tr>
<td>Stable political and social climates</td>
<td>2.5</td>
</tr>
<tr>
<td>Concentration of supporting industries (convenience of local procurement)</td>
<td>2.5</td>
</tr>
<tr>
<td>Easy recruitment of employees (general workers, general staff and office workers, etc.)</td>
<td>2.5</td>
</tr>
<tr>
<td>Prompt clearance of procedures</td>
<td>2.5</td>
</tr>
<tr>
<td>Prompt and simple procedures for obtaining visas and work permits</td>
<td>2.5</td>
</tr>
<tr>
<td>Developed infrastructure</td>
<td>0.0</td>
</tr>
<tr>
<td>Tax incentives (corporate taxes, export and import tariffs, etc.)</td>
<td>0.0</td>
</tr>
<tr>
<td>Simple and highly transparent tax procedures</td>
<td>0.0</td>
</tr>
<tr>
<td>Well-organized legal system with clear implementation</td>
<td>0.0</td>
</tr>
<tr>
<td>Stable exchange rates</td>
<td>0.0</td>
</tr>
<tr>
<td>Other</td>
<td>0.0</td>
</tr>
<tr>
<td>No particular benefits</td>
<td>30.0</td>
</tr>
</tbody>
</table>

**Risks in the investment environment: Argentina (n=36)**

<table>
<thead>
<tr>
<th>Risk</th>
<th>(% )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency volatility</td>
<td>88.9</td>
</tr>
<tr>
<td>Political or social instability</td>
<td>83.3</td>
</tr>
<tr>
<td>Increased labor costs</td>
<td>69.4</td>
</tr>
<tr>
<td>Unclear policy management by local government (industrial policies, energy policies, foreign investment regulations, etc.)</td>
<td>58.3</td>
</tr>
<tr>
<td>Time-consuming tax procedures</td>
<td>55.6</td>
</tr>
<tr>
<td>Labor disputes/lawsuits</td>
<td>47.2</td>
</tr>
<tr>
<td>Insufficient infrastructure</td>
<td>38.9</td>
</tr>
<tr>
<td>Underdeveloped legal systems and unclear legal system operation</td>
<td>36.1</td>
</tr>
<tr>
<td>Immature or undeveloped local industrial clusters</td>
<td>33.3</td>
</tr>
<tr>
<td>Time-consuming administrative procedures (permits and licenses)</td>
<td>33.3</td>
</tr>
<tr>
<td>Transaction risks (such as debt collecting risk)</td>
<td>33.3</td>
</tr>
<tr>
<td>Shortages of land/offices, rising land prices/rent</td>
<td>13.9</td>
</tr>
<tr>
<td>Labor shortage or difficulty in recruiting (specialists/engineers/middle-managers)</td>
<td>11.1</td>
</tr>
<tr>
<td>Difficulty in obtaining visas and work permits and time consuming procedures</td>
<td>8.3</td>
</tr>
<tr>
<td>Lack of protection of intellectual property rights</td>
<td>8.3</td>
</tr>
<tr>
<td>High employee turnover rate</td>
<td>5.6</td>
</tr>
<tr>
<td>Labor shortage or difficulty in recruiting (general workers/staff/lers)</td>
<td>0.0</td>
</tr>
<tr>
<td>Consumer boycott activities (boycott of goods, public protests, etc.)</td>
<td>0.0</td>
</tr>
<tr>
<td>Crimes against foreigners or companies (e.g., murder and bodily injury, abduction, robbery and theft or fraud)</td>
<td>0.0</td>
</tr>
<tr>
<td>Terrorist attacks</td>
<td>0.0</td>
</tr>
<tr>
<td>Natural disasters</td>
<td>0.0</td>
</tr>
<tr>
<td>Environmental pollution</td>
<td>0.0</td>
</tr>
<tr>
<td>No particular issues</td>
<td>2.8</td>
</tr>
</tbody>
</table>
As a procurement source, “Japan” increased (from 21.6% to 34.2%) among Japanese companies operating in Mexico, while “Chinese companies” increased (from 10.0% to 15.6%) among Japanese companies in Brazil. Among Japanese companies operating in Argentina, “Brazil,” which is Argentina’s biggest trade partner, accounted for a larger percentage (19.9%) than other Latin American countries.
A large percentage of Japanese companies operating in Mexico are still procuring from Japanese companies operating in Mexico.

Among Japanese companies operating in Peru, procurement from Japanese companies operating in Peru decreased from the previous survey (from 17.1% to 0.0%). Some companies noted that they had shifted their procurement sources to local companies.

The percentage of Japanese companies operating in Argentina that are procuring from Japanese companies operating in Argentina increased (from 10.3% to 21.8%).

**Breakdown of local procurement sources of materials/parts (82 manufacturers)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Japanese-affiliated companies</th>
<th>Local companies</th>
<th>Other foreign-affiliated companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>26.2</td>
<td>60.8</td>
<td>13.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>41.1</td>
<td>45.7</td>
<td>13.3</td>
</tr>
<tr>
<td>Venezuela</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>16.0</td>
<td>84.0</td>
<td></td>
</tr>
<tr>
<td>Peru</td>
<td>80.0</td>
<td></td>
<td>20.0</td>
</tr>
<tr>
<td>Chile</td>
<td>3.3</td>
<td>96.7</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>17.7</td>
<td>66.1</td>
<td>16.2</td>
</tr>
<tr>
<td>Argentina</td>
<td>21.8</td>
<td>63.2</td>
<td>15.0</td>
</tr>
</tbody>
</table>
The percentage of Japanese companies operating in Mexico and utilizing NAFTA (currently, the USMCA) decreased both in imports to Mexico and exports from Mexico (imports: from 84.8% to 71.4%; exports: from 83.0% to 73.0%). On the other hand, the percentage of such companies utilizing MERCOSUR agreements increased (imports: from 28.6% to 75.0%; exports: from 47.4% to 72.7%).

**Import issues in FTA/EPA utilization: Mexico (n=79)**

- FTAs/EPAs do not exist with major import sources: 11.4%
- Merits do not exist due to little difference between preferential tariffs based on FTAs/EPAs and general tariff rates: 10.1%
- Overly strict inspection for preferential tax approval at the customs of the importing country: 8.9%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 2.5%
- No particular issues: 69.6%
- Other: 5.1%

**Export issues in FTA/EPA utilization: Mexico (n=47)**

- Shortage of capable personnel in our company: 21.3%
- Rules of origin cannot be met or are very difficult to meet: 19.1%
- Rules of origin for existing FTAs/EPAs are different from each other causing confusion: 19.1%
- Procedures for certificates of origin take too long: 12.8%
- Complicated procedures in getting certificates of origin: 12.8%
- Expensive issuance costs of certificates of origin: 4.3%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 0.0%
- FTAs/EPAs do not exist with major export destinations: 0.0%
- Tariff quota systems of FTAs/EPAs are not functioning: 0.0%
- No particular issues: 55.3%
- Other: 2.1%
A large percentage of Japanese companies operating in Brazil are using FTAs/EPAs for exports to Colombia (75.0%). This is probably because of ACE59, which was expanded/renewed between Colombia and MERCOSUR in December 2017.

**Import issues in FTA/EPA utilization: Brazil (n=31)**

- FTAs/EPAs do not exist with major import sources: 45.2%
- Overly strict inspection for preferential tax approval at the customs of the importing country: 6.5%
- Merits do not exist due to little difference between preferential tariffs based on FTAs/EPAs and general tariff rates: 3.2%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 0.0%
- No particular issues: 48.4%
- Other: 0.0%

**Export issues in FTA/EPA utilization: Brazil (n=25)**

- Rules of origin for existing FTAs/EPAs are different from each other causing confusion: 32.0%
- Procedures for certificates of origin take too long: 24.0%
- Rules of origin cannot be met or are very difficult to meet: 20.0%
- Complicated procedures in getting certificates of origin: 20.0%
- Shortage of capable personnel in our company: 16.0%
- Expensive issuance costs of certificates of origin: 12.0%
- FTAs/EPAs do not exist with major export destinations: 12.0%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 4.0%
- Tariff quota systems of FTAs/EPAs are not functioning: 4.0%
- No particular issues: 44.0%
- Other: 4.0%
A half of all Japanese companies operating in Colombia were “Considering utilization” for imports and exports if a Japan-Colombia EPA takes effect. A half of all companies also cited “FTAs/EPAs do not exist with major export destinations” as an export issue.

### Import issues in FTA/EPA utilization: Colombia (n=13)
- FTAs/EPAs do not exist with major import sources: 30.8%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 7.7%
- Meets do not exist due to little difference between preferential tariffs based on FTAs/EPAs and general tariff rates: 7.7%
- Overly strict inspection for preferential tax approval at the customs of the importing country: 0.0%
- No particular issues: 53.8%
- Other: 0.0%

### Export issues in FTA/EPA utilization: Colombia (n=11)
- FTAs/EPAs do not exist with major export destinations: 45.5%
- Expensive issuance costs of certificates of origin: 0.0%
- Procedures for certificates of origin take too long: 0.0%
- Rules of origin cannot be met or are very difficult to meet: 0.0%
- Rules of origin for existing FTAs/EPAs are different from each other causing confusion: 0.0%
- Complicated procedures in getting certificates of origin: 0.0%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 0.0%
- Tariff quota systems of FTAs/EPAs are not functioning: 0.0%
- Shortage of capable personnel in our company: 0.0%
- No particular issues: 54.5%
- Other: 0.0%
FTAs/EPAs are utilized for imports more than exports because Peru’s main industry is a primary industry and because Peru’s manufacturing sector has not been fully developed.

**FTAs/EPAs Utilization and Related Issues (Responses of Companies Engaging in Trade): Peru**

<table>
<thead>
<tr>
<th>Imports to Peru</th>
<th>Utilizing</th>
<th>Considering utilization</th>
<th>Not utilizing (no plan to utilize)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mercosur(5 companies)</td>
<td>80.0</td>
<td>20.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Mexico(4 companies)</td>
<td>75.0</td>
<td>25.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Central American Countries(1 company)</td>
<td>100.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Chile(1 company)</td>
<td>100.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>US(7 companies)</td>
<td>57.1</td>
<td>42.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Canada(1 company)</td>
<td>56.3</td>
<td>43.7</td>
<td>0.0</td>
</tr>
<tr>
<td>Japan(16 companies)</td>
<td>80.0</td>
<td>0.0</td>
<td>20.0</td>
</tr>
<tr>
<td>China(5 companies)</td>
<td>100.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>South Korea(1 company)</td>
<td>100.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Thailand(4 companies)</td>
<td>100.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>EU(3 companies)</td>
<td>66.7</td>
<td>33.3</td>
<td>0.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exports from Peru</th>
<th>Utilizing</th>
<th>Considering utilization</th>
<th>Not utilizing (no plan to utilize)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mercosur(2 companies)</td>
<td>50.0</td>
<td>50.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Mexico(1 company)</td>
<td>100.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Andean Community(1 company)</td>
<td>100.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Chile(1 company)</td>
<td>100.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>US(1 company)</td>
<td>100.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Canada(1 company)</td>
<td>100.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Japan(8 companies)</td>
<td>25.0</td>
<td>75.0</td>
<td>0.0</td>
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<tr>
<td>China(5 companies)</td>
<td>60.0</td>
<td>40.0</td>
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</tr>
<tr>
<td>South Korea(1 company)</td>
<td>100.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Thailand(2 companies)</td>
<td>50.0</td>
<td>50.0</td>
<td>0.0</td>
</tr>
<tr>
<td>EU(3 companies)</td>
<td>33.3</td>
<td>66.7</td>
<td>0.0</td>
</tr>
</tbody>
</table>

**Import issues in FTA/EPA utilization: Peru(n=15)**

- Merits do not exist due to little difference between preferential tariffs based on FTAs/EPAs and general tariff rates: 6.7%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 0.0%
- FTAs/EPAs do not exist with major import sources: 0.0%
- Overly strict inspection for preferential tax approval at the customs of the importing country: 0.0%
- No particular issues: 80.0%
- Other: 13.3%

**Export issues in FTA/EPA utilization: Peru(n=8)**

- Expensive issuance costs of certificates of origin: 12.5%
- Procedures for certificates of origin take too long: 12.5%
- Rules of origin cannot be met or are very difficult to meet: 12.5%
- Complicated procedures in getting certificates of origin: 12.5%
- Shortage of capable personnel in our company: 12.5%
- Rules of origin for existing FTAs/EPAs are different from each other causing confusion: 0.0%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 0.0%
- FTAs/EPAs do not exist with major export destinations: 0.0%
- Tariff quota systems of FTAs/EPAs are not functioning: 62.5%
- No particular issues: 0.0%
- Other: 0.0%
The FTA/EPA "Utilizing" rate is high in imports to Chile, against a backdrop of FTA/EPA conclusions with Southeast Asia.
Against a backdrop of political/economic confusion, there is no prospect that FTA/EPA utilization will improve.

**Imports to Venezuela**

- Utilizing: 66.7%
- Considering utilization: 33.3%
- Not utilizing (no plan to utilize): 0%

**Exports from Venezuela**

- Utilizing: 100.0%
- Considering utilization: 0%
- Not utilizing (no plan to utilize): 0%

**Import issues in FTA/EPA utilization: Venezuela (n=3)**

- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 33.3%
- Merits do not exist due to little difference between preferential tariffs based on FTAs/EPAs and general tariff rates: 0.0%
- FTAs/EPAs do not exist with major import sources: 0.0%
- Overly strict inspection for preferential tax approval at the customs of the importing country: 0.0%
- No particular issues: 33.3%
- Other: 33.3%

**Export issues in FTA/EPA utilization: Venezuela (n=3)**

- Procedures for certificates of origin take too long: 66.7%
- Expensive issuance costs of certificates of origin: 0.0%
- Rules of origin for existing FTAs/EPAs are different from each other causing confusion: 0.0%
- Complicated procedures in getting certificates of origin: 0.0%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 0.0%
- FTAs/EPAs do not exist with major export destinations: 0.0%
- Tariff quota systems of FTAs/EPAs are not functioning: 0.0%
- Shortage of capable personnel in our company: 0.0%
- No particular issues: 33.3%
- Other: 33.3%
The percentage of “FTAs/EPAs do not exist with major import sources” was higher (68.0%) in Argentina than in other Latin American countries. A Japanese company operating in Argentina cited Colombia, a new FTA partner, as an export destination from Argentina.
About half of all Japanese companies operating in Mexico (45.0%) consider the combined use of the Japan-Mexico EPA and the CPTTP for imports into Mexico.
Some Japanese companies operating in Peru are considering CPTTP (TPP11) utilization for exports from Peru to Southeast Asia and Japan. In Chile, many respondents selected “Considering utilization” for exports to many contracting countries.
Regarding the effects of NAFTA renegotiations on Japanese companies operating in Mexico, “Not sure” accounted for the largest percentage (44.4%) because agreement details had not been determined as of the time of this survey. Comparing “Positive impact” (3.7%) with “Negative impact” (19.4%), negative recognition was more commonly shared among Japanese companies operating in Mexico at the time of the survey.

Specific negative impact concern concentrated on the stricter rules of origin, such as “Meeting the Labor Value Content rule” (42.5%), “Review of Product Specific Rules (PSR)” (33.8%), and “Requirement to purchase North American steel and aluminum” (26.0%). Regarding impact on automobiles and automotive parts if Article 232 of the U.S. Trade Expansion Act is applied, "Not sure" was most-commonly cited (38.4%).

As current measures in response to the results of the NAFTA renegotiations, “None” (42.3%) and “Not sure” (36.0%) accounted for the majority. Many companies have not yet developed specific measures.
In Peru and Colombia, a high percentage of Japanese companies were able to recover their initial investment (60.7% and 50.0%, respectively). On the other hand, this percentage was low (33.3%) in Venezuela, where political/economic confusion reigns. “Not sure” was also high in Venezuela (33.3%).
A longer period of time is required to recover initial investment in resource business-centered countries. On the other hand, "Within 3 years" was more frequently cited (30.8%) in Mexico, where many Japanese SMEs are operating.

### Period required to recover initial investment

<table>
<thead>
<tr>
<th>Country</th>
<th>Latin America(n=146)</th>
<th>Mexico(n=52)</th>
<th>Venezuela(n=4)</th>
<th>Colombia(n=9)</th>
<th>Peru(n=17)</th>
<th>Chile(n=16)</th>
<th>Brazil(n=32)</th>
<th>Argentina(n=16)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>21.2</td>
<td>30.8</td>
<td>25.0</td>
<td>22.2</td>
<td>17.6</td>
<td>18.8</td>
<td>15.6</td>
<td>6.3</td>
</tr>
<tr>
<td></td>
<td>15.8</td>
<td>21.2</td>
<td>22.2</td>
<td>22.2</td>
<td>17.6</td>
<td>6.3</td>
<td>6.3</td>
<td>25.0</td>
</tr>
<tr>
<td></td>
<td>30.1</td>
<td>30.8</td>
<td>75.0</td>
<td>22.2</td>
<td>23.5</td>
<td>37.5</td>
<td>40.6</td>
<td>18.8</td>
</tr>
<tr>
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</tr>
</tbody>
</table>

- Within 3 years
- 4 - 6 years
- Over 7 years
- Not sure
In Venezuela, all respondents selected “Unable to make any prediction” due to political/economic confusion. In Mexico, about half of all respondents answered that they expect to recover initial investment “within 5 years (including within 2 years).”

### Period expected to be required to recover initial investment

<table>
<thead>
<tr>
<th>Country</th>
<th>Within 2 years</th>
<th>3 – 5 years</th>
<th>6 – 10 years</th>
<th>11 – 15 years</th>
<th>Over 16 years</th>
<th>Unable to make any prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>7.8</td>
<td>28.4</td>
<td>30.2</td>
<td>7.8</td>
<td>1.7</td>
<td>24.1</td>
</tr>
<tr>
<td>Mexico</td>
<td>13.6</td>
<td>38.6</td>
<td>29.5</td>
<td>11.4</td>
<td>2.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Venezuela</td>
<td></td>
<td></td>
<td>100.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>40.0</td>
<td></td>
<td>40.0</td>
<td></td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td>Peru</td>
<td></td>
<td>66.7</td>
<td></td>
<td></td>
<td>33.3</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>33.3</td>
<td>33.3</td>
<td></td>
<td>11.1</td>
<td>22.2</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>5.3</td>
<td>18.4</td>
<td>31.6</td>
<td>2.26</td>
<td>39.5</td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>7.7</td>
<td>30.8</td>
<td></td>
<td>15.4</td>
<td>23.1</td>
<td></td>
</tr>
</tbody>
</table>

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“Yes” increased from the previous survey (from 12.1% to 18.1%). As the role of business sites in Paraguay assumed by Japanese companies that selected “Yes,” “Manufacturing” accounted for over 50%, with reasons such as “Inexpensive labor” and “The Maquila system.”

Is there any plan or possibility of introducing Paraguay’s comparative advantages compared with Brazil’s ones such as low hiring costs to your business? (n=83)

- Yes 18.1%
- No 81.9%

Specific reasons (top 3)

<table>
<thead>
<tr>
<th>Reason</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A lack of attractiveness as a market and sales site</td>
<td>50.0</td>
</tr>
<tr>
<td>Our company does not cover Paraguay</td>
<td>41.2</td>
</tr>
<tr>
<td>A lack of human resources and employees</td>
<td>13.2</td>
</tr>
</tbody>
</table>

Specific reasons (top 5)

<table>
<thead>
<tr>
<th>Reason</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inexpensive labor</td>
<td>46.7</td>
</tr>
<tr>
<td>The Maquila system</td>
<td>46.7</td>
</tr>
<tr>
<td>Simplified taxation and tax procedures</td>
<td>33.3</td>
</tr>
<tr>
<td>Low risk of labor-related disputes or litigation</td>
<td>33.3</td>
</tr>
<tr>
<td>The existence of customers who need our products and services</td>
<td>33.3</td>
</tr>
</tbody>
</table>
“Cause effect or concern” was selected by many companies in Transportation equipment parts (Motor vehicles/Motorcycles), Electrical machinery/Electronic devices, Wholesale and retail trade (mainly trading companies), etc. "No particular effect or concern" (approx. 40%) was selected by companies that are less directly related to trade, such as financial and service companies. "Not sure" accounted for approx. 30%. It appears that Japanese companies operating in Brazil or Argentina are unable to assess specific effects because only a few trade agreements are available under present circumstances.

**Effect or concern caused by the lack of a trade agreement between Japan and MERCOSUR**

(Responses of Japanese Companies Operating Only in Brazil or Argentina)

<table>
<thead>
<tr>
<th>Response Rate by Country</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Responses of Japanese companies operating in Brazil (n=82)</strong></td>
<td></td>
</tr>
<tr>
<td>Cause effect or concern</td>
<td>25.6</td>
</tr>
<tr>
<td>No particular effect or concern</td>
<td>37.8</td>
</tr>
<tr>
<td>Not sure</td>
<td>36.6</td>
</tr>
<tr>
<td><strong>Responses of Japanese companies operating in Argentina (n=40)</strong></td>
<td></td>
</tr>
<tr>
<td>Cause effect or concern</td>
<td>35.0</td>
</tr>
<tr>
<td>No particular effect or concern</td>
<td>40.0</td>
</tr>
<tr>
<td>Not sure</td>
<td>25.0</td>
</tr>
</tbody>
</table>
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