The 2017 Survey on Business Conditions of Japanese Companies in Latin America

January 2018
Japan External Trade Organization (JETRO)
Americas Division, Overseas Research Department
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I – 1. Survey Overview: Survey Methods

1. Purpose of the survey
The purpose of this survey is to understand the business conditions of Japanese companies and the changing business environment in Latin America. Also to provide information that will contribute to the promotion of business environment improvement in Latin America and to help Japanese companies on their overseas business strategy drafting.

2. Survey coverage
“Japanese-affiliated firm” of 7 countries in Latin America (companies that has at least 10% of capital contribution from their parent firm in Japan, including direct and indirect investment.)

3. Survey method & period
Questionnaire survey, Oct. 18 - Nov. 22, 2017

4. Valid responses
50.4% (417 / 827)

5. The number of respondents companies by category

<table>
<thead>
<tr>
<th>Country</th>
<th>Manufacturing industry (companies)</th>
<th>Percentage distribution within industry type (%)</th>
<th>Non-manufacturing industry (companies)</th>
<th>Percentage distribution within industry type (%)</th>
<th>Major company (companies)</th>
<th>Percentage distribution of company scale (%)</th>
<th>Small- to mid-sized company (companies)</th>
<th>Percentage distribution of company scale (%)</th>
<th>Valid response rate (%)</th>
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<td>87.8</td>
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<td>TOTAL</td>
<td>827</td>
<td>417</td>
<td>188</td>
<td>45.1</td>
<td>229</td>
<td>54.9</td>
<td>349</td>
<td>83.7</td>
<td>68</td>
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</table>

6. Note
The survey was implemented since 1999, and this fiscal year was the 18th time the survey was held. The values listed in the chart have been rounded up, so totals will not always become 100%.
I – 2. Survey Overview: Breakdown by Business sector of the surveyed companies

Breakdown by Business sector of the surveyed companies (all of Latin America)

Manufacturing industry (191 companies)

- Transportation equipment parts (Motor vehicles/Motorcycles): 61 companies
- Transportation equipment (Motor vehicles/Motorcycles): 22 companies
- Electrical machinery/Electronic devices (including parts): 22 companies
- Food/Processed food, agricultural or fishery products: 9 companies
- Plastic products: 9 companies
- Chemical and allied products/Petroleum products: 8 companies
- Textiles (Spinning/Woven fabrics/Chemical fibers): 6 companies
- Medicines: 5 companies
- Iron and steel (including cast and wrought products): 5 companies
- Fabricated metal products (including plated products): 4 companies
- General-purpose machinery/Production machinery (including molds and machine tools): 4 companies
- Business oriented machinery (including office machines, analytical instruments and medical equipment etc): 4 companies
- Non-ferrous metals: 3 companies
- Information and communication electronics equipment: 3 companies
- Textile apparel/Textile products: 2 companies
- Rubber products: 2 companies
- Transportation equipment (Railroad vehicles/Ship/Aircraft/Industrial trucks): 2 companies
- Lumber/Wood products: 1 company
- Ceramic/Stone and clay products: 1 company
- Furniture/Fixtures: 0 companies
- Leather tanning/Leather products/Fur skins: 0 companies
- Transportation equipment parts (Railroad vehicles/Ship/Aircraft/Industrial trucks): 0 companies
- Other: 18 companies

Non-manufacturing industry (226 companies)

- Sales company: 83 companies
- Wholesale and retail trade (including trading): 54 companies
- Transport activities/Warehouse: 22 companies
- Finance and insurance: 17 companies
- Mining: 10 companies
- Construction/Plant: 9 companies
- Agriculture and forestry: 4 companies
- Information and communications (including software): 4 companies
- Professional and technical services: 3 companies
- Accommodations/Travel/Restaurant: 3 companies
- Fisheries: 2 companies
- Real estate: 2 companies
- Education: 1 company
- Medical, health care and welfare: 1 company
- Electricity/Gas/Heat supply/Water: 0 companies
- Amusement/Living-related services: 0 companies
- Other services: 11 companies

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80% of companies in Central and South America have headquarters in Japan or North America.

Among individual countries in the region, Mexico has the highest number of companies that have headquarters in North America.

Many companies in countries to the south of Colombia have headquarters in Brazil, which is closer in distance.
I – 4. Survey Overview: Summary points

■ Overview:
Recovery of resource prices and increased sales in the local markets has contributed to improved profits for Japanese companies, mainly in major Latin countries such as Chile, Colombia and Peru. As Brazil's economy has been in a recovery trend thanks to the high value of natural resources, Japanese companies in the country are also steadily taking on a more positive outlook. One remarkable difference from the previous year is Argentina's consideration of strengthening functions such as R&D and logistics. In terms of future business expansion in Mexico, ripple effects from the renegotiation of NAFTA are also appearing for the first time. In Venezuela, some companies have been moving forward to reduce the scale of business or withdraw from the country.

■ Brazil and Paraguay: The ratio of companies predicting for a deficit dropped in half, thanks to increased local sales and cost reduction efforts. Some companies have been considering entering in Paraguay as a means of escaping “Brazil cost.”

■ Chile: While operational profits have improved with the increased exports, brought by the copper price recovery in natural resources and expansion of domestic demand, price competition within the domestic market has intensified.

■ Argentina: With the continued improvement of the business environment, opportunities for increasing sales and adding new functions have appeared.

■ Mexico: Current business is steady. Some companies have taken a cautious attitude toward expanding business because of the uncertainty of NAFTA’s renegotiation.
Supplemental:
- While the ratio of companies answering that they will see an operational profit in 2017 was 62.1% across the region, remaining at the same level as the previous year (61.5%), the ratio of companies in the red decreased by 6.6 points. The diffusion index of this year almost doubled from that of the previous year (11.7→20.8). (Document 1, Page 9 in the attached report)
- In forecasts for operational profit in 2017 compared with two years ago, the answer of "remaining at the same level" increased from 27.9% to 35.0%, and that of "declining" decreased from 30.2% to 22.1%. There are indications that the business performance of Japanese companies has been improving in line with economic recovery in the region. (Document 8, Page 10 in the attached report)
- In forecasts for operational profit in 2018 compared with one year ago, the ratio of "improvement" increased by nearly 10 points (52.0%). (Document 3, Page 17 in the attached report)
- Concerning the orientation of business development in the near future, companies in Colombia and Peru stood out for their positive responses, with the ratio of those reporting that they will expand business in the next one or two years at 73.3% in Colombia and 73.7% in Peru. With predictions of full-scale economic recovery in the country, the ratio of companies in Brazil expecting to expand business increased by over 10 points, from 42.7% to 53.5%. For Venezuela, the answer of "transferring to a third country/region or withdrawal from current local market" (21.4%) was chosen for the first time since the answer was included in the questionnaire in 2012. (Document 4, Page 24 in the attached report)
- Regarding the greatest competition in the same field, companies in Colombia and Peru increasingly tend to cite Chinese companies (with an increase from 16.7% to 20.0% in Colombia, and from 17.45% to 31.6% in Peru). In Colombia, this result seemed to come from the fact that the number of Chinese companies increased from 20 to 70 over the past two years. (Document 5, Page 33 in the attached report)

1. Brazil and Paraguay: Early indications of economic recovery, including a drop in half of companies expecting to be in the red, thanks to increased domestic sales and cost reduction. Some companies have been considering entering Paraguay with the aim of avoiding “Brazil cost.”
- The operating loss forecast in 2017 by Japanese companies in Brazil was down by almost half from 40.6% to 23.2%. (Document 6, Page 9 in the attached report)
- This result is partly thanks to the fact that the country was able to break free from a recession in 2017 and that domestic demand is recovering.
- There was a shift in the diffusion index (used to gauge business sentiment) from negative in the previous year to positive (-11.5→23.3)
- Behind the recovery of the operating profit forecast for 2017, the ratio of companies reporting "increased sales in the local market" significantly increased from 43.8% to 75.6%. Focusing efforts on reducing costs in management such as for labor administration, utility and fuel also contributed to the improvement. (Document 8, Page 11 in the attached report)
- On the other hand, since high business costs, collectively referred to as "Brazil cost," seem to still have an impact on management of Japanese companies, the ratios of "complex procedures for customs clearance" (78.8%), "increased labor costs" (66.7%) and "labor disputes/lawsuits" (65.7%) each remained at the same high level as the results of the previous year. In the meantime, the ratio of companies citing "currency volatility" decreased by a large extent from 76% to 50.5% due to stabilization of exchange rates. (Document 9, Page 51 in the attached report)
- 12.1% of Japanese companies in Brazil are considering include to Paraguay in their operation. (Document 10, Page 76 in the attached report)
2. Chile: While operational profits have improved owing to the increase in exports brought by the price recovery in natural resources and expansion of domestic demand, price competition within the domestic market has intensified. 
- With the background of the price recovery in natural resources since the second end of 2016, the operating profit forecast in 2017 increased from 62.2% to 75.7%. (Document 11, Page 9 in the attached report)
- The diffusion index in 2017 approximately quadrupled from the previous survey (up to 46 from 10.8), which revealed that corporate management is in good condition. (Document 12, Page 10 in the attached report)
- Driven by the recovery of resource prices, "increased sales through expanded exports" received the highest ratio of responses in Central and South America as the reason for improvement in operating profit forecast for 2017. (Document 13, Page 11 in the attached report)
- In addition to that, a trend in strengthening functions for producing general-purpose products (up to 23.5% from 11.8%) and high value-added products (up to 17.6% from 5.9%) has been seen. Japanese companies are considering expanding such production functions within the next one or two years expecting the expansion of domestic demand and exports. (Document 14, Page 28 in the attached report)
- Meanwhile, price competition has intensified due to import products increasing through expansion of domestic demand. To the question of problems faced in terms of sales or management, the ratio of companies responding with "emergence of competitors (competition in cost)" rose (up to 56.8% from 45.9%), becoming the highest response for Latin America. (Document 15, Page 35 in the attached report)

3. Argentina: As the business environment continues to improve, opportunities for increasing sales and creating new business models have come to Japanese companies.
- The recovery of Argentina's macro economy led to expansion of domestic demand and its diffusion index for 2017 was almost seven times higher (from 4.3 to 31.7) than that of the previous year. (Document 16, Page 10 in the attached report)
- Among reasons given for predicting an improved operating profit, the ratio of companies pointing out "increased sales in the local market" reached 94.1%. In addition to that, the ratio of those citing "effects of government policies" (11.8%) was the highest in Latin America as companies take into account the Macri Administration's business-friendly policy. (Document 17, Page 11 in the attached report)
- Concerning functions to be expanded in the next one or two years, "R&D" (12.0%) and "regional headquarters function" (16.0%) which did not receive responses in the previous year, while the ratio for "logistics function" increased from 15.4% to 24.0%, indicating respondents are using Argentina in various manners. (Document 18, Page 28 in the attached report)

4. Mexico: Current business is stable. Some companies are taking a cautious stance toward expanding business due to the uncertainty surrounding NAFTA's renegotiation.
- Since Mexico's diffusion index for 2018 was the highest (51.4) across the region, numerous companies see current business as staying relatively solid. (Document 19, Page 17 in the attached report)
- However, regarding future business expansion in the next one or two years, the ratio of companies answering that they would expand decreased approximately 12 points from the previous year's survey (down to 66.1% from 78.9%), and the ratio of those reporting that they would remain at the same level increased approximately 10 points from 20.4% to 29.9%. These results reflect a careful stance toward expanding new business due to the uncertainty surrounding NAFTA's renegotiation. (Document 20, Page 24 in the attached report)
- In this year's survey, we asked Japanese companies in Mexico about the impact of NAFTA's renegotiation. Their most common concerns were regarding "tariffs, trade facilitation and rules of origin" (74.6%). There were many individual comments expressing concern over the modification of the rules of origin in particular. (Document 21, Page 68 in the attached report)
In comparison to the previous survey, the percentage of negative earnings decreased, and that of balanced budget increased in all the surveyed countries.

Among individual countries in the region, Chile’s budget surplus increased following the recovery of resource prices, and Brazil’s deficit decreased by half.
II – 1 – (2) Operating profit forecast for 2017 (compared to previous year)

- **Diffusion Index (business conditions)** for the whole of Central and South America in 2017 increased approximately twofold (11.7→20.8) compared to the previous year. Among individual countries in the region, Chile’s DI increased approximately fourfold (10.8%→46.0%) compared to the previous year, due to the recovery of resource prices. In Brazil and Argentina, where internal demand is recovering, the DI for Brazil turned from negative to positive (-11.5→23.3), and that of Argentina increased approximately sevenfold (4.3→31.7) compared to the previous year.

- The DI for Mexico, where investments from Japanese companies have plateaued partially due to the impact of the Trump administration, greatly decreased compared to the previous year (31.0→16.3).

- The survey of business prospects in 2017 in comparison to the previous year showed an increase in “plateau” (27.9%→35.0%), and a decrease in “downturn” (30.2%→22.1%). The end of the recession in South America was reflected in a “decrease” in the decline in performance of Japanese companies in the region.
II – 1 – (3) Reasons for increased operating profits forecast for 2017

- In Central and South America as a whole, “local sales growth” (73.2%) was the number one reason, followed by “reduction of other expenses” (21.2%). In addition, the number of companies that listed “exchange fluctuations” as a reason declined (29.3% → 15.6%), due to the stability of exchange rates.

- Among individual countries in the region, “local sales growth” was the number one reason (94.1%) in Argentina, where economic growth has turned positive. In addition, Argentina had the highest number of companies that listed “local government policy” as a reason (11.8%), due to the business friendly policies of the Macri administration.

- In Brazil, there was an increase in “local sales growth” (43.8% → 75.6%). In addition, continued cost reduction efforts such as “reduction of other expenses” (40.0%) and “reduction of labor costs” (28.9%) also contributed to the improvement.

- Exports increased due to the recovery of resource prices in Chile, which had the highest number of companies that listed “export sales growth” as a reason (18.8% → 30.0%).

Reasons for increased operating profits forecast for 2017 (Multiple Answers)

(Unit : %)

<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 government policies</th>
<th>Other</th>
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II – 1 – (3) Reasons for increased operating profits forecast for 2017 (by country 1)

### Mexico (n=76)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
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<tr>
<td>Sales increase in local markets</td>
<td>69.7</td>
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<tr>
<td>Effects of exchange rate fluctuation</td>
<td>19.7</td>
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<tr>
<td>Sales increase due to export expansion</td>
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<tr>
<td>Improvement of production efficiency (manufacturing industry only)</td>
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<td>Reduction of procurement costs</td>
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<td>Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)</td>
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<tr>
<td>Reduction of labor costs</td>
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<td>Effects of government policies</td>
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<td>Sales increase due to export expansion</td>
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<td>Sales increase in local markets</td>
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### Colombia (n=12)

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<tr>
<td>Reduction of labor costs</td>
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<td>Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)</td>
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<td>Other</td>
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<td>Sales increase in local markets</td>
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II – 1 – (3) Reasons for increased operating profits forecast for 2017 (by country)
In Central and South America as a whole, “local sales decline”, “exchange fluctuations”, “procurement cost increases”, and “labor cost increases” were listed as major causes.

In Mexico, where the peso continued to be weak due to NAFTA renegotiations and the US political climate, “exchange fluctuations” was the number one cause (48.9%), same as the previous year. “Procurement cost increases” was also cited (29.8%), mainly by import/domestic sales companies.

In Venezuela, “local government policy” and “local sales decline” occupied 100%, reflecting the political and economic turmoil in the country.

In Brazil, no companies listed “local government policy” as a cause for worsening earnings prospects (0%) due to structural reforms being implemented by the Temer administration.

### Reasons for decreased operating profits forecast for 2017 (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>
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### II – 1 – (4) Reasons for decreased operating profits forecast for 2017 (by country 1)

#### Mexico (n=47)

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<tr>
<th>Reason</th>
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<td>Effects of exchange rate fluctuation</td>
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<tr>
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<td>29.8%</td>
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<td>Increase of labor costs</td>
<td>23.4%</td>
</tr>
<tr>
<td>Increase of other expenditures (e.g., administrative/utility costs/fuel costs)</td>
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<tr>
<td>Production costs insufficiently shifted to selling price of goods</td>
<td>17.0%</td>
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<tr>
<td>Sales decrease due to export slowdown</td>
<td>12.8%</td>
</tr>
<tr>
<td>Rising interest rates</td>
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<td>Effects of government policies</td>
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#### Venezuela (n=4)

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<td>Effects of government policies</td>
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<tr>
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<td>Sales decrease due to export slowdown</td>
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<tr>
<td>Effects of exchange rate fluctuation</td>
<td>0.0%</td>
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<td>Increase of procurement costs</td>
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<td>Rising interest rates</td>
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#### Colombia (n=9)

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<tr>
<th>Reason</th>
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<tbody>
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<td>Effects of exchange rate fluctuation</td>
<td>22.2%</td>
</tr>
<tr>
<td>Increase of procurement costs</td>
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<tr>
<td>Increase of labor costs</td>
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<td>Production costs insufficiently shifted to selling price of goods</td>
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<td>Rising interest rates</td>
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<tr>
<td>Other</td>
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#### Peru (n=3)

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<tr>
<td>Increase of procurement costs</td>
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<td>66.7%</td>
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<td>Sales decrease due to export slowdown</td>
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<tr>
<td>Effects of exchange rate fluctuation</td>
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<tr>
<td>Increase of labor costs</td>
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<tr>
<td>Increase of other expenditures (e.g., administrative/utility costs/fuel costs)</td>
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</tr>
<tr>
<td>Rising interest rates</td>
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<tr>
<td>Other</td>
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</table>
II – 1 – (4) Reasons for decreased operating profits forecast for 2017 (by country 2)

Chile (n=3)
- Sales decrease in local markets: 33.3%
- Effects of government policies: 33.3%
- Sales decrease due to export slowdown: 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%
- Other: 66.7%

Brazil (n=22)
- Sales decrease in local markets: 59.1%
- Increase of labor costs: 31.8%
- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 31.8%
- Increase of procurement costs: 27.3%
- Production costs insufficiently shifted to selling price of goods: 27.3%
- Sales decrease due to export slowdown: 13.6%
- Effects of exchange rate fluctuation: 9.1%
- Rising interest rates: 0.0%
- Effects of government policies: 0.0%
- Other: 9.1%

Argentina (n=4)
- Increase of labor costs: 75.0%
- Production costs insufficiently shifted to selling price of goods: 50.0%
- Effects of government policies: 50.0%
- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 25.0%
- Rising interest rates: 25.0%
- 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%
- Other: 25.0%
2018 shows positive diffusion indexes (business conditions) except for Venezuela. “Improve” occupies 52% of the earnings prospects for 2018, up nearly 10 points compared to 2017.

Mexico has a high diffusion index for 2018 despite the uncertainty around NAFTA renegotiations, and many companies predict their business in the near future will remain relatively strong.

**DI Value**: The numerical value of the operating profit forecast for 2018 where the reply rate for “Decrease” was subtracted from the reply rate for “Increase” in comparison to the previous year.

### DI Values by Country (2018)

<table>
<thead>
<tr>
<th>Country</th>
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<tr>
<td>Latin America</td>
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<tr>
<td>Mexico</td>
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<tr>
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<td>Brazil</td>
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### 2018 Operating Profit Forecast Compared to Previous Year

<table>
<thead>
<tr>
<th>Country</th>
<th>Increase</th>
<th>Remain the same</th>
<th>Decrease</th>
</tr>
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<td>Venezuela</td>
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<td>6.1</td>
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<tr>
<td>Argentina</td>
<td>43.9</td>
<td>46.3</td>
<td>9.8</td>
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</table>
In Central and South America as a whole, the number one reason was “local sales growth” (75.1%) as it was in the previous year. The numbers were especially noticeable in Brazil (83.0%) and Argentina (88.9%).

Many of the wholesalers and retailers in Peru, including trading companies, answered “export sales growth” (44.4%). “Others” (44.4%) included new product introduction and production increase.

In Argentina, the number of auto manufacturing and other related companies that answered “procurement cost reductions” (11.8% → 22.2%) and “production efficiency” (11.8% → 27.8%) increased compared to 2017 due to the removal of restrictions on imports and changes on the foreign currency policies.

### Reasons for increased operating profits for 2018 (Multiple Answers)

<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 (manufacturing industry only)</th>
<th>Improvement of sales efficiency</th>
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<th>Other</th>
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<td>27.8</td>
<td>16.7</td>
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</table>
### II – 2 – (2) Reasons for increased operating profits for 2018 (by country 1)

#### Mexico (n=103)
- Sales increase in local markets: 72.8%
- Sales increase due to export expansion: 28.2%
- Improvement of production efficiency (manufacturing industry only): 21.4%
- Reduction of procurement costs: 12.6%
- Reduction of other expenditures (e.g., administrative/utility costs/fuel costs): 10.7%
- Improvement of sales efficiency: 9.7%
- Reduction of labor costs: 4.9%
- Effects of exchange rate fluctuation: 3.9%
- Effects of government policies: 0.0%
- Other: 7.8%

#### Venezuela (n=0)
- Sales increase due to export expansion: 0.0%
- Sales increase in local markets: 0.0%
- Effects of exchange rate fluctuation: 0.0%
- Reduction of procurement costs: 0.0%
- Reduction of labor costs: 0.0%
- Reduction of other expenditures (e.g., administrative/utility costs/fuel costs): 0.0%
- Improvement of production efficiency (manufacturing industry only): 0.0%
- Improvement of sales efficiency: 0.0%
- Effects of government policies: 0.0%
- Other: 0.0%

#### Colombia (n=17)
- Sales increase in local markets: 76.5%
- Sales increase due to export expansion: 23.5%
- Reduction of other expenditures (e.g., administrative/utility costs/fuel costs): 23.5%
- Improvement of sales efficiency: 17.6%
- Reduction of labor costs: 11.8%
- Effects of exchange rate fluctuation: 5.9%
- Improvement of production efficiency (manufacturing industry only): 5.9%
- Reduction of procurement costs: 0.0%
- Effects of government policies: 0.0%
- Other: 5.9%

#### Peru (n=9)
- Sales increase in local markets: 55.6%
- Sales increase due to export expansion: 44.4%
- Reduction of procurement costs: 22.2%
- Improvement of production efficiency (manufacturing industry only): 22.2%
- Improvement of sales efficiency: 22.2%
- Reduction of other expenditures (e.g., administrative/utility costs/fuel costs): 11.1%
- Effects of government policies: 11.1%
- Effects of exchange rate fluctuation: 0.0%
- Reduction of labor costs: 0.0%
- Other: 44.4%
II – 2 – (2) Reasons for increased operating profits for 2018 (by country)

**Chile (n=17)**

- Sales increase in local markets: 58.8%
- Improvement of sales efficiency: 29.4%
- Sales increase due to export expansion: 17.6%
- Improvement of production efficiency (manufacturing industry only): 11.8%
- Effects of government policies: 11.8%
- Effects of exchange rate fluctuation: 5.9%
- Reduction of procurement costs: 5.9%
- Reduction of labor costs: 5.9%
- Reduction of other expenditures (e.g., administrative/utility costs/fuel costs): 17.6%
- Other: 0%

**Brazil (n=53)**

- Sales increase in local markets: 83.0%
- Improvement of sales efficiency: 32.1%
- Reduction of procurement costs: 18.9%
- Sales increase due to export expansion: 15.9%
- Improvement of production efficiency (manufacturing industry only): 15.1%
- Reduction of labor costs: 11.3%
- Reduction of other expenditures (e.g., administrative/utility costs/fuel costs): 11.3%
- Effects of exchange rate fluctuation: 3.8%
- Effects of government policies: 3.8%
- Other: 9.4%

**Argentina (n=18)**

- Sales increase in local markets: 88.9%
- Sales increase due to export expansion: 27.8%
- Improvement of production efficiency (manufacturing industry only): 27.8%
- Reduction of procurement costs: 22.2%
- Improvement of sales efficiency: 16.7%
- Effects of exchange rate fluctuation: 11.1%
- Reduction of other expenditures (e.g., administrative/utility costs/fuel costs): 5.6%
- Reduction of labor costs: 0.0%
- Effects of government policies: 0.0%
- Other: 0.0%
In Central and South America as a whole, “local sales decline” (42.1%) was the number one cause listed, followed by “local government policy” (28.9%).

In Mexico, many of the companies selling in domestic markets answered “local sales decline” (58.3%) and “insufficient surcharges” (25.0%) due to the weak peso and inflation. There was a decrease in “exchange fluctuations” (48.9% → 16.7%) and “procurement cost increases” (29.8% → 16.7%), which reduced the negative impact.

### Reasons for decreased operating profits forecast for 2018 (Multiple Answers) (Unit : %)

<table>
<thead>
<tr>
<th>Country</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>
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<th>Other</th>
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II – 2 – (3) Reasons for decreased operating profits forecast for 2018 (by country 1)

### Mexico (n=12)

<table>
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<tr>
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<td>Sales decrease in local markets</td>
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<tr>
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<tr>
<td>Sales decrease due to export slowdown</td>
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</tr>
<tr>
<td>Effects of exchange rate fluctuation</td>
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</tr>
<tr>
<td>Increase of procurement costs</td>
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<tr>
<td>Increase of other expenditures (e.g., administrative/utility costs/fuel costs)</td>
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<td>Effects of government policies</td>
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### Venezuela (n=7)

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<td>Increase of procurement costs</td>
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### Colombia (n=4)

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<tr>
<td>Increase of procurement costs</td>
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<td>Increase of other expenditures (e.g., administrative/utility costs/fuel costs)</td>
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<td>Rising interest rates</td>
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### Peru (n=0)

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<th>Percent (%)</th>
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<tr>
<td>Effects of government policies</td>
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<tr>
<td>Other</td>
<td>0.0</td>
</tr>
</tbody>
</table>
II – 2 – (3) Reasons for decreased operating profits forecast for 2018 (by country 2)

**Chile (n=5)**
- Sales decrease due to export slowdown: 20.0%
- Sales decrease in local markets: 20.0%
- Increase of procurement costs: 20.0%
- Effects of government policies: 20.0%
- 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%
- Production costs insufficiently shifted to selling price of goods: 0.0%
- Other: 60.0%

**Brazil (n=6)**
- Sales decrease due to export slowdown: 33.3%
- Sales decrease in local markets: 33.3%
- Increase of procurement costs: 33.3%
- Increase of labor costs: 33.3%
- Production costs insufficiently shifted to selling price of goods: 33.3%
- Effects of exchange rate fluctuation: 16.7%
- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 16.7%
- Rising interest rates: 0.0%
- Effects of government policies: 0.0%
- Other: 33.3%

**Argentina (n=4)**
- Increase of labor costs: 50.0%
- Effects of government policies: 50.0%
- Increase of procurement costs: 25.0%
- Increase of other expenditures (e.g., administrative/utility costs/fuel costs): 25.0%
- Sales decrease due to export slowdown: 0.0%
- Sales decrease in local markets: 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%
- Other: 25.0%
In Central and South America as a whole, “expansion” occupied approximately 60%, as it did in the previous year, which fell short of Southwest Asia (70.0%), but exceeded Eastern Europe (57.9%), ASEAN (55.7%), Africa (52.9%), Middle East (49.8%), and East Asia (46.7%). This indicates a more positive attitude from foreign companies in the region, compared to those in other newly industrialized countries.

In Colombia and Peru, “expansion” occupied as much as 74%. Brazil showed an increase of more than 10 points (42.7% → 53.5%) due to the prospect of significant domestic economic recovery.

In Mexico, “expansion” dropped by approximately 12 points (78.9% → 66.1%), and “keeping the status quo” increased by approximately 10 points (20.4% → 29.9%), indicating cautious attitudes toward starting new business.

In Venezuela, “relocation (withdrawal) to other countries (regions)” (21.4%) was seen for the first time, following deterioration in the security and business environments.

### The survey in FY2016

<table>
<thead>
<tr>
<th>Country</th>
<th>Expansion</th>
<th>Remaining the same</th>
<th>Reduction</th>
<th>Transferring to a third country/region or withdrawal from current local market</th>
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</thead>
<tbody>
<tr>
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<td>60.3%</td>
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<tr>
<td>Mexico (n=142)</td>
<td>78.9%</td>
<td>20.4%</td>
<td>0.7%</td>
<td>0.8%</td>
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<tr>
<td>Venezuela (n=13)</td>
<td>69.2%</td>
<td>30.8%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Colombia (n=24)</td>
<td>75.0%</td>
<td>20.8%</td>
<td>4.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Peru (n=23)</td>
<td>65.2%</td>
<td>34.8%</td>
<td>0%</td>
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<tr>
<td>Chile (n=37)</td>
<td>45.9%</td>
<td>54.1%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Brazil (n=96)</td>
<td>42.7%</td>
<td>52.1%</td>
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<td>Argentina (n=23)</td>
<td>56.5%</td>
<td>43.5%</td>
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### The survey in FY2017

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<th>Remaining the same</th>
<th>Reduction</th>
<th>Transferring to a third country/region or withdrawal from current local market</th>
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<td>66.1%</td>
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<tr>
<td>Venezuela (n=14)</td>
<td>50.0%</td>
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<td>Colombia (n=30)</td>
<td>73.3%</td>
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<tr>
<td>Peru (n=23)</td>
<td>73.7%</td>
<td>26.3%</td>
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<td>0.0%</td>
</tr>
<tr>
<td>Chile (n=37)</td>
<td>45.9%</td>
<td>51.4%</td>
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<td>2.7%</td>
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<td>Brazil (n=99)</td>
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<td>Argentina (n=41)</td>
<td>61.0%</td>
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In Central and South America as a whole, “sales increase” (89.1%), “high future growth prospects and potential” (47.6%) were the major reasons.

Among individual countries in the region, Colombia showed a large increase in “sales increase” (77.8% → 90.9%) compared to the previous year, as did Chile and Brazil, both of which had a percentage higher than 90%. Peru is the only country in the region that showed an increase in “high future growth prospects and potential” (60.0% → 71.4%).

Argentina had the highest number of auto manufacturing and other related companies that answered “relationships with clients” (36.0%), and also the highest number of trading companies that answered “mitigation of restrictions” (16.0%) due to the mitigation of import/export restrictions being implemented in the country.

### Reasons for “Expansion” (Multiple Answers)

<table>
<thead>
<tr>
<th></th>
<th>Valid responses</th>
<th>Sales increase</th>
<th>High growth potential</th>
<th>High receptivity for high-value added products</th>
<th>Reduction of costs (e.g., procurement/labor 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>Other</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)
II – 3 – (2) Approach to future business challenges in the next one or two years: Reasons for “Expansion” (by country 2)

Chile (n=17)
- Sales increase: 94.1%
- High growth potential: 35.3%
- High receptivity for high-value added products: 29.4%
- Relationship with clients: 23.5%
- 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%
- Other: 11.8%

Brazil (n=53)
- Sales increase: 90.6%
- High growth potential: 56.6%
- Relationship with clients: 30.2%
- High receptivity for high-value added products: 24.5%
- Reviewing production and distribution networks: 20.8%
- Reduction of costs (e.g., procurement/labor costs): 7.5%
- Deregulation: 7.5%
- Ease in securing labor force: 1.9%
- Other: 11.3%

Argentina (n=25)
- Sales increase: 84.0%
- High growth potential: 48.0%
- Relationship with clients: 36.0%
- Reviewing production and distribution networks: 20.0%
- Deregulation: 16.0%
- Reduction of costs (e.g., procurement/labor costs): 12.0%
- High receptivity for high-value added products: 8.0%
- Ease in securing labor force: 0.0%
- Other: 0.0%
In Central and South America as a whole, “sales function” was the number one function in the answers (76.4% → 75.0%), same as the previous year. It was particularly high in Colombia with 95.5%. Although this percentage largely exceeded Asia (62.3%), the percentages for the “manufacturing function” are low (26.1% for general-purpose products and 32.3% for high value added products in Asia), indicating that Japanese companies in the region see Central and South America as a major sales market.

Among individual countries, the percentages of “manufacturing of general-purpose products” and “manufacturing of high value added products” improved in Chile, indicating the efforts being made in manufacturing function enhancement (11.8% → 23.5%, 5.9% → 17.6% respectively).

Argentina showed improvement in “research development” (0% → 12.0%), “area management function” (0% → 16.0%), and “logistics function” (15.4% → 24.0%), indicating the various efforts being made to utilize Argentina as a business platform.

### Functions companies wanted to expand in detail (Multiple Answers)

<table>
<thead>
<tr>
<th></th>
<th>Valid responses</th>
<th>Sales function</th>
<th>Production (ubiquitous 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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</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>248</td>
<td>75.0</td>
<td>22.2</td>
<td>23.0</td>
<td>4.4</td>
<td>7.7</td>
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<tr>
<td>Mexico</td>
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<td>28.2</td>
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<td>6.8</td>
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<tr>
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<td>11.3</td>
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<tr>
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<td>20.0</td>
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<td>16.0</td>
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</tbody>
</table>

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II – 3 – (3) Approach to future business challenges in the next one or two years: Functions companies wanted to expand in detail (by country 1)

**Mexico (n=117)**

- Sales function: 69.2%
- Production (ubiquitous products): 30.8%
- Production (high-value added products): 28.2%
- Logistics function: 20.5%
- Function of regional headquarters: 6.8%
- Administrative functions in providing services (e.g., shared service center, call center): 5.1%
- R&D: 3.4%
- Other: 1.7%

**Venezuela (n=0)**

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

**Colombia (n=22)**

- Sales function: 95.5%
- Logistics function: 22.7%
- Administrative functions in providing services (e.g., shared service center, call center): 13.6%
- Production (ubiquitous products): 4.5%
- Production (high-value added products): 4.5%
- Function of regional headquarters: 4.5%
- R&D: 0.0%
- Other: 0.0%

**Peru (n=14)**

- Sales function: 78.6%
- Logistics function: 21.4%
- Production (high-value added products): 14.3%
- Production (ubiquitous products): 7.1%
- R&D: 7.1%
- Function of regional headquarters: 7.1%
- Administrative functions in providing services (e.g., shared service center, call center): 0.0%
- Other: 21.4%
II – 3 – (3) Approach to future business challenges in the next one or two years: Functions companies wanted to expand in detail (by country 2)

### Chile (n=17)
- Sales function: 76.5%
- Production (ubiquitous products): 23.5%
- Production (high-value added products): 17.6%
- Logistics function: 17.6%
- Administrative functions in providing services (e.g., shared service center, call center): 5.9%
- R&D: 0.0%
- Function of regional headquarters: 0.0%
- Other: 11.8%

### Brazil (n=53)
- Sales function: 75.5%
- Production (high-value added products): 24.5%
- Administrative functions in providing services (e.g., shared service center, call center): 20.8%
- Production (ubiquitous products): 11.3%
- Logistics function: 11.3%
- Function of regional headquarters: 9.4%
- R&D: 5.7%
- Other: 13.2%

### Argentina (n=25)
- Sales function: 80.0%
- Production (ubiquitous products): 28.0%
- Logistics function: 24.0%
- Production (high-value added products): 20.0%
- Function of regional headquarters: 16.0%
- R&D: 12.0%
- Administrative functions in providing services (e.g., shared service center, call center): 8.0%
- Other: 8.0%
The percentages of “sales decline” (81.8%→63.6%), “low future growth prospects and potential” (45.5%→27.3%), and “low acceptance for high value added products” (18.2%→4.5%) declined, proving the recovery of domestic markets. On the other hand, the number of companies that answered “reduction” and “relocation/withdrawal” doubled (11 companies→22 companies) in Central and South America as a whole, 90% of which were located in Venezuela, Brazil and Mexico.

The percentage of “Others” approximately tripled (9.1%→31.8%). More specifically, many companies listed uncertainty about the domestic situation and deteriorating public safety.

### Reasons for reduction, transfer or withdrawal

(Latin America Overall, Multiple Answers)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage (%)</th>
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<tbody>
<tr>
<td>Sales decrease</td>
<td>63.6</td>
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<tr>
<td>Low growth potential</td>
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<td>Increase of costs (e.g., procurement/labor costs)</td>
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(n=22)
Many companies in Mexico continued to increase their number of employees and expats. However, the percentage of “wait-and-see (plateau)” also increased.

In Venezuela, 15.4% of companies answered that they would decrease their number of expats in 2017. In fact the percentage was 35.7%, indicating a rapid deterioration of security and social conditions in the country.
The competitors of the construction/plant engineering companies in Venezuela have shifted from “US companies” (38.5%→14.3%) to “local companies” (15.4%→21.4%) and “other South American companies” (0%→14.3%) due to economic sanctions imposed by the US government.

- Competition with Chinese companies is increasing in Colombia and Peru (16.7%→20.0%, 17.45→31.6%, respectively), which is especially noticeable in Colombia, where the number of Chinese companies operating in the country increased from 20 to 70 in the last two years.
- Argentina showed an increase in “US companies” (8.7%→19.5%), and “local companies” (13.0%→22.0%).

### Most competitive companies in the same business category

<table>
<thead>
<tr>
<th>Region</th>
<th>Japanese companies</th>
<th>US companies</th>
<th>European companies</th>
<th>Chinese companies</th>
<th>Middle Eastern companies</th>
<th>Local companies</th>
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In Central and South America as a whole, the number of companies that answered “competition escalated” over the past year decreased from the previous year’s survey (53.6% → 45.2%).

As expansion by Japanese companies into Mexico has slowed down, the percentage of “no change in competition” increased (44.1% → 59.8%).

Although competition for small business opportunities was severe in Brazil in the previous year, business opportunities increased due to an increase in demand in 2017, which resulted in a decrease in the percentage of “competition escalated” (56.5% → 45.4%).

### Changes in competition within the past year

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<th>Country</th>
<th>Competition increased</th>
<th>Unchanged</th>
<th>Competition lessened</th>
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Economic recovery in Chile resulted in an increase in internal demand, which caused the current severe price competition. Therefore, the percentage of “rise of competitors (in price competition)” increased (45.9% → 56.8%), which was the highest percentage in the region.

In Argentina, the percentage of “lack of progress in deregulation” jumped from 17.4% to 43.9%, compared to the previous year, due to the slow speed of reforms up to the midterm congressional election in October 2017.

### Issues in the field of sales and marketing (Multiple Answers)

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II – 5 – (1) Issues with business management: Issues in the field of sales and marketing (by country 1)

**Mexico (n=177)**

- Emergence of competitors (competition in cost): 40.7%
- Request for price reduction from major business partners: 33.9%
- Slow development of new customers: 23.7%
- Decrease of orders from business partners: 15.3%
- Sluggish sales in major markets (low consumer spending): 15.3%
- Inflow of low-price import products to local markets: 15.3%
- Emergence of competitors (competition in quality): 14.1%
- Delayed collection of accounts receivable: 14.1%
- Price decline due to excess in global supply: 6.2%
- Lack of progress in local deregulation: 5.1%
- Decrease of orders from your headquarters: 1.1%
- Other issues: 5.1%
- No particular issues: 13.0%

**Venezuela (n=14)**

- Lack of progress in local deregulation: 50.0%
- Sluggish sales in major markets (low consumer spending): 35.7%
- Decrease of orders from business partners: 21.4%
- Delayed collection of accounts receivable: 21.4%
- Slow development of new customers: 7.1%
- Price decline due to excess in global supply: 7.1%
- Inflow of low-price import products to local markets: 7.1%
- Decrease of orders from your headquarters: 0.0%
- Request for price reduction from major business partners: 0.0%
- Emergence of competitors (competition in quality): 0.0%
- Emergence of competitors (competition in cost): 57.1%
- Other issues: 0.0%
- No particular issues: 0.0%

**Colombia (n=30)**

- Sluggish sales in major markets (low consumer spending): 56.7%
- Emergence of competitors (competition in cost): 46.7%
- Slow development of new customers: 36.7%
- Inflow of low-price import products to local markets: 26.7%
- Emergence of competitors (competition in quality): 23.3%
- Decrease of orders from business partners: 20.0%
- Delayed collection of accounts receivable: 20.0%
- Request for price reduction from major business partners: 16.7%
- Lack of progress in local deregulation: 16.7%
- Price decline due to excess in global supply: 3.3%
- Decrease of orders from your headquarters: 0.0%
- Other issues: 16.7%
- No particular issues: 0.0%

**Peru (n=19)**

- Emergence of competitors (competition in cost): 42.1%
- Inflow of low-price import products to local markets: 26.3%
- Emergence of competitors (competition in quality): 26.3%
- Sluggish sales in major markets (low consumer spending): 10.5%
- Slow development of new customers: 10.5%
- Price decline due to excess in global supply: 10.5%
- Decrease of orders from your headquarters: 5.3%
- Decrease of orders from business partners: 5.3%
- Request for price reduction from major business partners: 5.3%
- Lack of progress in local deregulation: 5.3%
- Delayed collection of accounts receivable: 5.3%
- Other issues: 15.8%
- No particular issues: 31.6%
II – 5 – (1) Issues with business management: Issues in the field of sales and marketing (by country 2)
Mexico’s percentage of “exchange fluctuations against the US dollar” was the highest in the region, same as the previous year (70.4% → 74.0%), reflecting volatile exchange fluctuations impacted by NAFTA renegotiations and the US political climate.

Argentina’s percentage of “exchange fluctuations against the US dollar” was the second highest after Mexico (68.3%). The percentage of “regulations for international remittance”, which had been a large obstacle in company activities, decreased for the third year in a row (96.8% → 17.4% → 14.6%). Easier foreign currency payment contributed to the significant improvement in “required cash flow for business expansion” (56.5% → 36.6%).

In Brazil, the percentage of “rise in interest rates” declined (20.8% → 9.1%), as the country’s policy rate was significantly lowered.

### Issues in the field of finance, monetary and foreign exchange (Multiple Answers)

<table>
<thead>
<tr>
<th>Valid responses</th>
<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>
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<td>46.3</td>
<td>34.1</td>
<td>7.3</td>
</tr>
</tbody>
</table>
Issues with business management: Issues in the field of finance, monetary and foreign exchange (by country)

**Mexico (n=177)**
- Fluctuations in the exchange rate between local currency and the dollar: 74.0%
- Tax burden (corporate tax, transfer pricing taxation, etc.): 39.0%
- Shortage of cash flow required for business expansion: 26.0%
- Fluctuations in the exchange rate between local currency and the yen: 16.4%
- Rising interest rates: 9.0%
- Regulations concerning financing and payment: 4.0%
- Difficulty in getting financing from local banks: 1.7%
- Regulations concerning overseas remittance: 0.0%
- Other issues: 1.7%
- No particular issues: 11.3%

**Venezuela (n=14)**
- Fluctuations in the exchange rate between local currency and the dollar: 64.3%
- Regulations concerning financing and payment: 57.1%
- Regulations concerning overseas remittance: 57.1%
- Difficulty in getting financing from local banks: 35.7%
- Shortage of cash flow required for business expansion: 21.4%
- Fluctuations in the exchange rate between local currency and the yen: 21.4%
- Tax burden (corporate tax, transfer pricing taxation, etc.): 21.4%
- Rising interest rates: 7.1%
- Fluctuations in the exchange rate between the yen and the dollar: 0.0%
- Other issues: 21.4%
- No particular issues: 0.0%

**Colombia (n=30)**
- Fluctuations in the exchange rate between local currency and the dollar: 63.3%
- Tax burden (corporate tax, transfer pricing taxation, etc.): 46.7%
- Shortage of cash flow required for business expansion: 16.7%
- Regulations concerning overseas remittance: 16.7%
- Fluctuations in the exchange rate between the yen and the dollar: 10.0%
- Difficulty in getting financing from local banks: 6.7%
- Regulations concerning financing and payment: 6.7%
- Rising interest rates: 6.7%
- Fluctuations in the exchange rate between local currency and the yen: 0.0%
- Other issues: 3.3%
- No particular issues: 10.0%

**Peru (n=19)**
- Tax burden (corporate tax, transfer pricing taxation, etc.): 47.4%
- Fluctuations in the exchange rate between local currency and the dollar: 36.8%
- Shortage of cash flow required for business expansion: 10.5%
- Fluctuations in the exchange rate between local currency and the yen: 5.3%
- Fluctuations in the exchange rate between the yen and the dollar: 5.3%
- Rising interest rates: 5.3%
- Difficulty in getting financing from local banks: 0.0%
- Regulations concerning financing and payment: 0.0%
- Regulations concerning overseas remittance: 0.0%
- Other issues: 15.8%
- No particular issues: 15.8%

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II – 5 – (2) Issues with business management: Issues in the field of finance, monetary and foreign exchange (by country 2)

**Chile (n=37)**
- Fluctuations in the exchange rate between local currency and the dollar: 45.9%
- Tax burden (corporate tax, transfer pricing taxation, etc.): 27.0%
- Shortage of cash flow required for business expansion: 10.8%
- Fluctuations in the exchange rate between local currency and the yen: 10.8%
- Fluctuations in the exchange rate between the yen and the dollar: 10.8%
- Regulations concerning overseas remittance: 8.1%
- Difficulty in getting financing from local banks: 5.4%
- Regulations concerning financing and payment: 0.0%
- Rising interest rates: 0.0%
- Other issues: 2.7%
- No particular issues: 16.2%

**Brazil (n=99)**
- Tax burden (corporate tax, transfer pricing taxation, etc.): 68.7%
- Fluctuations in the exchange rate between local currency and the dollar: 49.5%
- Shortage of cash flow required for business expansion: 27.3%
- Regulations concerning overseas remittance: 23.2%
- Fluctuations in the exchange rate between local currency and the yen: 21.2%
- Regulations concerning financing and payment: 18.2%
- Difficulty in getting financing from local banks: 13.1%
- Rising interest rates: 9.1%
- Fluctuations in the exchange rate between the yen and the dollar: 4.0%
- Other issues: 5.1%
- No particular issues: 7.1%

**Argentina (n=41)**
- Fluctuations in the exchange rate between local currency and the dollar: 68.3%
- Tax burden (corporate tax, transfer pricing taxation, etc.): 46.3%
- Shortage of cash flow required for business expansion: 36.6%
- Rising interest rates: 34.1%
- Regulations concerning financing and payment: 17.1%
- Regulations concerning overseas remittance: 14.6%
- Difficulty in getting financing from local banks: 9.8%
- Fluctuations in the exchange rate between local currency and the yen: 9.8%
- Fluctuations in the exchange rate between the yen and the dollar: 4.9%
- Other issues: 7.3%
- No particular issues: 4.9%
II – 5 – (3) Issues with business management: Issues in the field of employment and labor

Among individual countries, Mexico, where competition among companies over recruitment is fierce due to an increase in Japanese companies in the region, had the highest percentage in the region for “difficulty in middle-level management recruitment” (42.9%), “quality of employees” (56.5%), and “retention rate of employees” (48.0%).

In Brazil, where labor lawsuits are common, the percentage of “issues related to labor lawsuits” stood out at as high as 50%.

In Brazil, the inflation rate, on which pay revisions are based, decreased. This lowered the percentage of “pay increase for employees” (87.5% → 68.7%).

### Issues in the field of employment and labor (Multiple Answers)

| Valid responses | Increase in wages of employees | Difficulty in recruiting workforce (general staff, office workers) | Difficulty in recruiting workforce (middle management level) | Difficulty in recruiting workforce (general workers, manufacturing companies only) | Difficulty in recruiting workforce (engineers, manufacturing companies only) | Retention rate of employees | Quality of employees | Cost for dispatched Japanese executives (stationed representatives) | Restriction on visa issuance for dispatched Japanese executives (stationed representatives) | Regulations concerning dismissal and reduction of personnel | Difficulty in appointing local personnel as managers and supervisors | Restriction on hiring foreigners | Labor-related lawsuits | Labor disputes, labor unions, strikes | Other issues | No particular issues |
|-----------------|--------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|----------------------------|---------------------|---------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------|------------------------------------------|-------------------------------------------|-------------------------------------|-------------------------------------|
| Latin America   | 417                            | 57.6                                                          | 22.1                                                          | 33.8                                                          | 11.5                                                          | 13.4                                     | 27.8                                                      | 48.9                                                          | 22.5                                                          | 2.6                                                          | 26.4                                                          | 23.3                                                          | 4.3                                                                      | 18.5                                                      | 8.9                                                                      | 1.9                                             | 8.2                                             |
| Mexico          | 177                            | 50.3                                                          | 32.2                                                          | 42.9                                                          | 20.9                                                          | 22.6                                     | 48.0                                                      | 56.5                                                          | 26.6                                                          | 2.3                                                          | 17.5                                                          | 28.2                                                          | 5.6                                                                      | 6.8                                                      | 1.1                                                                      | 0.6                                             | 6.2                                             |
| Venezuela       | 14                             | 50.0                                                          | 21.4                                                          | 21.4                                                          | 7.1                                                          | 7.1                                      | 21.4                                                      | 35.7                                                          | 14.3                                                          | 0.0                                                          | 50.0                                                          | 21.4                                                          | 0.0                                                                      | 14.3                                                      | 14.3                                                                     | 7.1                                             | 7.1                                             |
| Colombia        | 30                             | 50.0                                                          | 3.3                                                           | 16.7                                                          | 3.3                                                           | 0.0                                      | 6.7                                                      | 46.7                                                          | 20.0                                                          | 0.0                                                          | 23.3                                                          | 13.3                                                          | 0.0                                                                      | 10.0                                                      | 10.0                                                                     | 3.3                                             | 6.7                                             |
| Peru            | 19                             | 57.9                                                          | 10.5                                                          | 36.8                                                          | 0.0                                                           | 15.8                                     | 10.5                                                      | 31.6                                                          | 15.8                                                          | 5.3                                                          | 52.6                                                          | 5.3                                                           | 15.8                                                                     | 10.5                                                      | 10.5                                                                     | 0.0                                             | 10.5                                             |
| Chile           | 37                             | 43.2                                                          | 16.2                                                          | 18.9                                                          | 5.4                                                           | 0.0                                      | 8.1                                                      | 43.2                                                          | 8.1                                                           | 2.7                                                          | 13.5                                                          | 21.6                                                          | 0.0                                                                      | 5.4                                                      | 8.1                                                                      | 2.7                                             | 27.0                                             |
| Brazil          | 99                             | 68.7                                                          | 18.2                                                          | 33.3                                                          | 5.1                                                           | 9.1                                      | 15.2                                                      | 47.3                                                          | 27.3                                                          | 4.0                                                          | 32.3                                                          | 27.3                                                          | 3.0                                                                      | 50.5                                                      | 14.1                                                                     | 4.0                                             | 6.1                                             |
| Argentina       | 41                             | 82.9                                                          | 12.2                                                          | 24.4                                                          | 4.9                                                           | 7.3                                      | 14.6                                                      | 39.0                                                          | 14.6                                                          | 2.4                                                          | 43.9                                                          | 9.8                                                           | 4.9                                                                      | 14.6                                                      | 26.8                                                                     | 0.0                                             | 4.9                                             |
II – 5 – (3) Issues with business management: Issues in the field of employment and labor (by country 1)

**Mexico (n=177)**
- Quality of employees: 56.5%
- Increase in wages of employees: 50.3%
- Retention rate of employees: 48.0%
- Difficulty in recruiting workforce (middle management level): 42.9%
- Difficulty in recruiting workforce (general staff, office workers): 32.2%
- Difficulty in appointing local personnel as managers and supervisors: 28.2%
- Cost for dispatched Japanese executives (stationed representatives): 26.6%
- Difficulty in recruiting workforce (engineers, manufacturing companies only): 22.6%
- Difficulty in recruiting workforce (general workers, manufacturing companies only): 20.9%
- Regulations concerning dismissal and reduction of personnel: 17.5%
- Labor-related lawsuits: 6.8%
- Restriction on hiring foreigners: 5.6%
- Restriction on visa issuance for dispatched Japanese executives (stationed representatives): 2.3%
- Labor disputes, labor unions, strikes: 1.1%
- Other issues: 0.6%
- No particular issues: 6.2%

**Venezuela (n=14)**
- Increase in wages of employees: 50.0%
- Regulations concerning dismissal and reduction of personnel: 50.0%
- Quality of employees: 35.7%
- Difficulty in recruiting workforce (general staff, office workers): 21.4%
- Difficulty in recruiting workforce (middle management level): 21.4%
- Retention rate of employees: 21.4%
- Difficulty in appointing local personnel as managers and supervisors: 21.4%
- Cost for dispatched Japanese executives (stationed representatives): 14.3%
- Labor-related lawsuits: 14.3%
- Labor disputes, labor unions, strikes: 7.1%
- Difficulty in recruiting workforce (general workers, manufacturing companies only): 7.1%
- Difficulty in recruiting workforce (engineers, manufacturing companies only): 7.1%
- Restriction on visa issuance for dispatched Japanese executives (stationed representatives): 0.0%
- Restriction on hiring foreigners: 0.0%
- Other issues: 7.1%
- No particular issues: 7.1%

**Colombia (n=30)**
- Increase in wages of employees: 50.0%
- Quality of employees: 46.7%
- Regulations concerning dismissal and reduction of personnel: 23.3%
- Cost for dispatched Japanese executives (stationed representatives): 20.0%
- Difficulty in recruiting workforce (middle management level): 16.7%
- Difficulty in appointing local personnel as managers and supervisors: 13.3%
- Labor-related lawsuits: 10.0%
- Labor disputes, labor unions, strikes: 10.0%
- Retention rate of employees: 6.7%
- Difficulty in recruiting workforce (general staff, office workers): 3.3%
- Difficulty in recruiting workforce (general workers, manufacturing companies only): 3.3%
- Difficulty in recruiting workforce (engineers, 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: 3.3%
- No particular issues: 6.7%

**Peru (n=19)**
- Increase in wages of employees: 57.9%
- Regulations concerning dismissal and reduction of personnel: 52.6%
- Quality of employees: 36.8%
- Difficulty in recruiting workforce (middle management level): 31.6%
- Difficulty in recruiting workforce (general staff, office workers): 15.8%
- Difficulty in recruiting workforce (general workers, manufacturing companies only): 15.8%
- Difficulty in recruiting workforce (engineers, manufacturing companies only): 15.8%
- Cost for dispatched Japanese executives (stationed representatives): 15.8%
- Retention rate of employees: 10.5%
- Labor disputes, labor unions, strikes: 10.5%
- Restriction on hiring foreigners: 10.5%
- Restriction on visa issuance for dispatched Japanese executives (stationed representatives): 10.5%
- Other issues: 5.3%
- No particular issues: 10.5%

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II – 5 – (3) Issues with business management: Issues in the field of employment and labor (by country 2)

Chile (n=37)

- Increase in wages of employees: 43.2%
- Quality of employees: 43.2%
- Difficulty in appointing local personnel as managers and supervisors: 21.6%
- Difficulty in recruiting workforce (middle management level): 18.9%
- Difficulty in recruiting workforce (general staff, office workers): 16.2%
- Regsulations concerning dismissal and reduction of personnel: 13.5%
- Retention rate of employees: 8.1%
- Cost for dispatched Japanese executives (stationed representatives): 8.1%
- Labor disputes, labor unions, strikes: 8.1%
- Difficulty in recruiting workforce (general workers, manufacturing companies only): 5.4%
- Labor-related lawsuits: 5.4%
- Restriction on visa issuance for dispatched Japanese executives (stationed representatives): 2.7%
- Difficulty in recruiting workforce (engineers, manufacturing companies only): 0.0%
- Restriction on hiring foreigners: 0.0%
- Other issues: 2.7%
- No particular issues: 27.0%

Argentina (n=41)

- Increase in wages of employees: 82.9%
- Regulations concerning dismissal and reduction of personnel: 43.9%
- Quality of employees: 39.0%
- Labor disputes, labor unions, strikes: 26.8%
- Difficulty in recruiting workforce (middle management level): 24.4%
- Retention rate of employees: 14.6%
- Cost for dispatched Japanese executives (stationed representatives): 14.6%
- Labor-related lawsuits: 14.6%
- Difficulty in recruiting workforce (general staff, office workers): 12.2%
- Difficulty in appointing local personnel as managers and supervisors: 9.8%
- Difficulty in recruiting workforce (engineers, manufacturing companies only): 7.3%
- Difficulty in recruiting workforce (general workers, manufacturing companies only): 4.9%
- Restriction on hiring foreigners: 4.9%
- Restriction on visa issuance for dispatched Japanese executives (stationed representatives): 4.9%
- Other issues: 2.4%
- No particular issues: 4.9%

Brazil (n=99)

- Increase in wages of employees: 68.7%
- Labor-related lawsuits: 50.5%
- Quality of employees: 47.5%
- Difficulty in recruiting workforce (middle management level): 33.3%
- Regulations concerning dismissal and reduction of personnel: 32.3%
- Cost for dispatched Japanese executives (stationed representatives): 27.3%
- Difficulty in appointing local personnel as managers and supervisors: 27.3%
- Difficulty in recruiting workforce (general staff, office workers): 18.2%
- Retention rate of employees: 15.2%
- Labor disputes, labor unions, strikes: 14.1%
- Difficulty in recruiting workforce (engineers, manufacturing companies only): 9.1%
- Restriction on visa issuance for dispatched Japanese executives (stationed representatives): 5.1%
- Restriction on hiring foreigners: 4.0%
- Other issues: 3.0%
- No particular issues: 6.1%
### Issues with business management: Issues in the field of trade systems

- **Pacific Alliance countries** (Mexico, Colombia, Peru, and Chile) had high percentages of “no particular problem”. The percentage in Chile in particular reached 70%.
- **Mercosur countries** (Brazil, Argentina) had high percentages for issues related to imports including “complexity in custom clearance” (58.6%, 70.7% respectively), “long times for custom clearance” (66.7%, 58.5%), and “high import tax” (62.6%, 46.3% respectively).

### Issues in the field of trade systems (Multiple Answers)

(Unit : %)

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<tr>
<th></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>
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</table>
II – 5 – (4) Issues with business management: Issues in the field of trade systems (by country 1)

**Mexico (n=177)**
- Complex procedures for customs clearance: 45.8%
- Significant time required for customs clearance: 42.4%
- Inadequate communication and enforcement of notices and rules: 23.2%
- High import tariffs: 14.7%
- Unclear variation assessment / classification criteria for tariffs: 13.0%
- Unclear inspection system: 11.9%
- High non-tariff barriers: 5.6%
- Strict or unclear quarantine system: 3.4%
- Export restriction and export tax: 1.1%
- Other issues: 6.2%
- No particular issues: 30.5%

**Venezuela (n=14)**
- Significant time required for customs clearance: 50.0%
- Complex procedures for customs clearance: 28.6%
- Inadequate communication and enforcement of notices and rules: 21.4%
- Unclear inspection system: 14.3%
- Unclear variation assessment / classification criteria for tariffs: 7.1%
- High non-tariff barriers: 7.1%
- Export restriction and export tax: 7.1%
- High import tariffs: 0.0%
- Strict or unclear quarantine system: 0.0%
- Other issues: 7.1%
- No particular issues: 21.4%

**Colombia (n=30)**
- Complex procedures for customs clearance: 40.0%
- Significant time required for customs clearance: 33.3%
- High import tariffs: 23.3%
- Inadequate communication and enforcement of notices and rules: 16.7%
- High non-tariff barriers: 10.0%
- Unclear inspection system: 6.7%
- Unclear variation assessment / classification criteria for tariffs: 3.3%
- Strict or unclear quarantine system: 0.0%
- Export restriction and export tax: 0.0%
- Other issues: 13.3%
- No particular issues: 26.7%

**Peru (n=19)**
- Complex procedures for customs clearance: 36.8%
- Significant time required for customs clearance: 31.6%
- Inadequate communication and enforcement of notices and rules: 15.8%
- Unclear inspection system: 15.8%
- High non-tariff barriers: 10.5%
- High import tariffs: 5.3%
- Strict or unclear quarantine system: 5.3%
- Unclear variation assessment / classification criteria for tariffs: 0.0%
- Export restriction and export tax: 0.0%
- Other issues: 5.3%
- No particular issues: 47.4%

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II – 5 – (4) Issues with business management: Issues in the field of trade systems (by country)

Chile (n=37)
- Significant time required for customs clearance: 13.5%
- Complex procedures for customs clearance: 8.1%
- Inadequate communication and enforcement of notices and rules: 2.7%
- High import tariffs: 2.7%
- Strict or unclear quarantine system: 2.7%
- Unclear variation assessment / classification criteria for tariffs: 0.0%
- Unclear inspection system: 0.0%
- High non-tariff barriers: 0.0%
- Export restriction and export tax: 0.0%
- Other issues: 13.5%
- No particular issues: 70.3%

Argentina (n=41)
- Complex procedures for customs clearance: 70.7%
- Significant time required for customs clearance: 58.5%
- High import tariffs: 46.3%
- Unclear variation assessment / classification criteria for tariffs: 19.5%
- Inadequate communication and enforcement of notices and rules: 17.1%
- High non-tariff barriers: 17.1%
- Unclear inspection system: 14.6%
- Export restriction and export tax: 12.2%
- Strict or unclear quarantine system: 4.9%
- Other issues: 9.8%
- No particular issues: 14.6%

Brazil (n=99)
- Significant time required for customs clearance: 66.7%
- High import tariffs: 62.6%
- Complex procedures for customs clearance: 58.6%
- Unclear variation assessment / classification criteria for tariffs: 28.3%
- Inadequate communication and enforcement of notices and rules: 27.3%
- Unclear inspection system: 26.3%
- High non-tariff barriers: 18.2%
- Strict or unclear quarantine system: 8.1%
- Export restriction and export tax: 5.1%
- Other issues: 3.0%
- No particular issues: 13.1%
Among individual countries, Peru, Colombia, and Chile, where there are many companies that process raw materials and exports, had low percentages for “difficulty in procurement of raw materials/components”. However, the percentages for Mexico, Brazil, and Argentina, where there are many manufacturing companies, were high (59.2%, 60.4%, 64.3%, respectively).

Brazil and Argentina had high percentages for “close-to-limit cost reductions”, (37.5%, 42.9% respectively), and “procurement cost increases” (52.1%, 64.3% respectively). Many pointed out the cost issues in Brazil.

Many companies in Peru, where there are many Japanese companies in the mining industry, listed “further tightening of environmental regulations” as an issue (42.9%).

Colombia, where the cost of transportation from ports to major cities is high, had the highest number of companies that listed “lack of logistics infrastructure” as an issue (36.4%).
II – 5 – (5) Issues with business management: Issues in the field of production (by country)

Mexico (n=98)

- Difficulty in local procurement of materials and parts: 59.2%
- Rising procurement cost: 34.7%
- Cost reduction which has nearly reached the limit: 19.4%
- Instability of electricity supply and frequent outages: 13.3%
- Low production capacity due to limited facilities: 11.2%
- Difficulty in changing production items in a short period of time: 10.2%
- Environmental regulations becoming more strict: 6.1%
- High tariffs on imports of capital and intermediate goods: 2.0%
- Other issues: 5.1%
- No particular issues: 10.2%

Venezuela (n=4)

- Difficulty in local procurement of materials and parts: 50.0%
- Rising procurement cost: 25.0%
- Low production capacity due to limited facilities: 0.0%
- Difficulty in changing production items in a short period of time: 0.0%
- Instability of electricity supply and frequent outages: 0.0%
- Inadequate logistics infrastructure: 0.0%
- Environmental regulations becoming more strict: 0.0%
- Other issues: 0.0%
- No particular issues: 50.0%

Colombia (n=11)

- Difficulty in local procurement of materials and parts: 36.4%
- Inadequate logistics infrastructure: 36.4%
- Cost reduction which has nearly reached the limit: 18.2%
- Rising procurement cost: 18.2%
- Low production capacity due to limited facilities: 9.1%
- Difficulty in quality control: 9.1%
- Instability of electricity supply and frequent outages: 9.1%
- Environmental regulations becoming more strict: 9.1%
- Difficulty in changing production items in a short period of time: 0.0%
- High tariffs on imports of capital and intermediate goods: 0.0%
- Other issues: 9.1%
- No particular issues: 36.4%

Peru (n=7)

- Rising procurement cost: 57.1%
- Low production capacity due to limited facilities: 42.9%
- Difficulty in quality control: 42.9%
- Environmental regulations becoming more strict: 42.9%
- Difficulty in changing production items in a short period of time: 28.6%
- Inadequate logistics infrastructure: 28.6%
- Cost reduction which has nearly reached the limit: 14.3%
- Difficulty in local procurement of materials and parts: 14.3%
- 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%
II – 5 – (5) Issues with business management: Issues in the field of production (by country 2)
For benefits, 44.6% of companies answered “low labor costs”, which is significantly higher than in other countries in Central and South America. For risks, close to 60% of companies were concerned about crime and deteriorating security in places such as Guanajuato, where many Japanese companies operate. This turned out to be the most answered risk.
Few companies saw factors other than “market size/future growth prospects” as investment benefits. On the other hand, although exchange rate has stabilized, many were still voicing concerns over various risks, including taxes.
For risks, the percentage for “unstable political/social environment” largely increased from the previous survey (29.2% → 53.3%), moving from the 6th to the number one risk. The reasons for this include low approval ratings for the current administration, unclear prospects regarding the presidential election, and a lack of progress in peace negotiations with guerrilla forces.
As the country is facing a possible change of administration following a corruption scandal, the number of companies that listed “unstable political/social environment” as a risk increased significantly (21.7% → 52.6%). Moreover, the percentage for “labor disputes/lawsuits” approximately doubled due to a miners’ strike (26.1% → 47.4%).

**Benefits in the investment environment : Peru (n=19)**

- Market scale and potential for its growth: 63.2%
- Stable political and social climates: 26.3%
- Cheaper labor power: 26.3%
- Comfortable living environment for representatives stationed from headquarters: 21.1%
- High quality of employees (middle management level): 10.5%
- Stable exchange rates: 10.5%
- Abundant land/office spaces and low land prices/lease fees: 5.3%
- Easy recruitment of employees (general workers, general staff and office workers, etc.): 5.3%
- High retention rate of employees: 5.3%
- High quality of employees (general workers): 5.3%
- Low language and communication barriers: 5.3%
- Developed infrastructure: 0.0%
- Concentration of supporting industries (convenience of local procurement): 0.0%
- Concentration of partner companies (customer companies): 0.0%
- Easy recruitment of employees (specialists and engineers, middle management level, etc.): 0.0%
- High quality of employees (specialists and engineers): 0.0%
- Tax incentives (corporate taxes, export and import tariffs, etc.): 0.0%
- Prompt clearance of procedures: 0.0%
- Simple and highly transparent tax procedures: 0.0%
- Well-organized legal system with clear implementation: 0.0%
- Prompt and simple procedures for obtaining visas and work permits: 0.0%
- Other: 10.5%
- No particular benefits: 21.1%

**Risks in the investment environment : Peru (n=19)**

- Time-consuming administrative procedures (permits and licenses): 63.2%
- Political or social instability: 52.6%
- Labor disputes/lawsuits: 47.4%
- Insufficient infrastructure: 36.8%
- Time-consuming tax procedures: 36.8%
- Natural disasters: 36.8%
- Unclear policy management by local government: 31.6%
- Underdeveloped legal systems and unclear legal system operation: 26.3%
- Crimes against foreigners or companies (e.g., murder and bodily injury, abduction, robbery and theft or fraud): 26.3%
- Labor shortage or difficulty in recruiting (specialists/engineers/middle-managers): 21.1%
- Environmental pollution: 15.8%
- Shortages of land/offices, rising land prices/rent: 10.5%
- Immature or undeveloped local industrial clusters: 10.5%
- Increased labor costs: 10.5%
- Difficulty in obtaining visas and work permits and time consuming procedures: 10.5%
- Currency volatility: 10.5%
- Transaction risks (such as debt collecting risk): 10.5%
- High employee turnover rate: 5.3%
- Labor shortage or difficulty in recruiting (general workers/staff/derek): 5.3%
- Lack of protection of intellectual property rights: 5.3%
- Consumer/boycott activities: 5.3%
- Terrorist attacks: 0.0%
- No particular issues: 5.3%
It had the highest percentage in Central and South America for “stable political/social environment” (73.9% → 86.5%). On the other hand, as the peso has been strong, “unstable exchange rate” moved from the 5th to 2nd highest risk (18.9% → 29.7%).

II – 5 – (6) Issues with business management: Benefits and risks in the investment environment - Chile -
Many companies saw no investment benefits in Venezuela due to the unstable political and economic situation, and listed various risks. The percentage for “crimes targeting foreigners/foreign companies (murder, assault, abduction, robbery, theft, fraud, etc.)” in particular was more than 90%, reflecting the rapid deterioration of the security situation in the country.

**Benefits in the investment environment : Venezuela(n=14)**

- Market scale and potential for its growth: 21.4%
- Cheaper labor power: 21.4%
- Abundant land/office spaces and low land prices/lease fees: 7.1%
- Developed infrastructure: 7.1%
- Stable political and social climates: 0.0%
- Concentration of supporting industries (convenience of local procurement): 0.0%
- Concentration of partner companies (customer companies): 0.0%
- Easy recruitment of employees (general workers, general staff and office workers, etc.): 0.0%
- High retention rate of employees: 0.0%
- High quality of employees (general workers): 0.0%
- High quality of employees (specialists and engineers): 0.0%
- Tax incentives (corporate taxes, export and import tariffs, etc.): 0.0%
- Prompt clearance of procedures: 0.0%
- Simple and highly transparent tax procedures: 0.0%
- Well-organized legal system with clear implementation: 0.0%
- Prompt and simple procedures for obtaining visas and work permits: 0.0%
- Stable exchange rates: 0.0%
- Low language and communication barriers: 0.0%
- Comfortable living environment for representatives stationed from headquarters: 0.0%
- Other: 7.1%
- No particular benefits: 42.9%

**Risks in the investment environment : Venezuela(n=14)**

- Political or social instability: 100.0%
- Unclear policy management by local government: 100.0%
- Crimes against foreigners or companies (e.g., murder and bodily injury, abduction, robbery and theft or fraud): 92.9%
- Currency volatility: 78.6%
- Underdeveloped legal systems and unclear legal system operation: 71.4%
- Transaction risks (such as debt collecting risk): 64.3%
- Time-consuming administrative procedures (permits and licenses): 50.0%
- Time-consuming tax procedures: 50.0%
- Insufficient infrastructure: 35.7%
- Labor disputes/lawsuits: 35.7%
- Immature or undeveloped local industrial clusters: 28.6%
- Increased labor costs: 28.6%
- High employee turnover rate: 21.4%
- Labor shortage or difficulty in recruiting (specialists/engineers/middle-managers): 21.4%
- Shortages of land/office spaces, rising land prices/rent: 14.3%
- Lack of protection of intellectual property rights: 14.3%
- Labor shortage or difficulty in recruiting (general workers/staff/clerks): 7.1%
- Difficulty in obtaining visas and work permits and time consuming procedures: 7.1%
- Consumer/boycott activities: 7.1%
- Terrorist attacks: 7.1%
- Environmental pollution: 7.1%
- Natural disasters: 0.0%
- No particular issues: 0.0%
The rapid rise of labor costs caused by inflation was once again the number one risk, same as in the previous year (68.3%). As the Macri administration continues to secure political foundations in the central and local districts, the number of companies that listed “stable political/social environment” as a benefit increased (13.0% → 24.4%).
Comparing Mexico and Brazil, where the auto industry is concentrated, the local procurement rate of Mexico (29.4%) falls short of that of Brazil (43.7%), indicating that Mexico still depends on the US and Japan for procurement.

In Argentina, where there are many auto-related companies that have plants in Brazil, procurement from Brazil accounted for as much as 16.8%. On the other hand, the local procurement rate of companies, especially auto manufacturing companies, went up from the previous year (22.3% → 36.0%).

**Breakdown of procurement sources (Manufacturing industry)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Local</th>
<th>Japan</th>
<th>Brazil</th>
<th>US</th>
<th>Other Latin American countries</th>
<th>Other Asian countries</th>
<th>ASEAN</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>36.5</td>
<td>22.6</td>
<td>13.5</td>
<td>2.0</td>
<td>0.2</td>
<td>0.3</td>
<td>10.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Mexico</td>
<td>29.4</td>
<td>25.1</td>
<td>22.1</td>
<td>0.3</td>
<td>12.5</td>
<td>1.6</td>
<td>1.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Venezuela</td>
<td>41.7</td>
<td>40.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>3.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>10.6</td>
<td>40.8</td>
<td>12.0</td>
<td>7.2</td>
<td>3.3</td>
<td>13.3</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Peru</td>
<td>75.0</td>
<td>2.1</td>
<td>13.6</td>
<td>5.0</td>
<td>0.9</td>
<td>0.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>64.1</td>
<td>16.1</td>
<td>3.6</td>
<td>3.6</td>
<td>0.7</td>
<td>0.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>43.7</td>
<td>20.1</td>
<td>5.7</td>
<td>4.6</td>
<td>0.1</td>
<td>0.3</td>
<td>10.0</td>
<td>7.4</td>
</tr>
<tr>
<td>Argentina</td>
<td>36.0</td>
<td>14.4</td>
<td>5.1</td>
<td>16.8</td>
<td>0.3</td>
<td>8.0</td>
<td>2.7</td>
<td>0.4</td>
</tr>
</tbody>
</table>
In Central and South America as a whole, the rate of local procurement from Japanese companies in the region increased from the previous year (19.9% → 26.9%).

In Mexico, where many Japanese companies operate, including secondary suppliers (Tier 2), the local procurement rate from Japanese companies was higher than in other countries, and it went up by 4 points from the previous year.

Because South American countries with natural resources, such as Chile, have many companies that process and export local resources, they have a higher rate of procurement from local companies.
Many of the Japanese OEM manufacturers and auto parts manufacturers (Tier 1 and Tier 2) in Mexico still have difficulties in procuring parts and raw materials from local companies. Local procurement of parts and raw materials has still not reached the standards of Brazil and Asia. However, as new Japanese suppliers have begun operations in the country in the last few years, the local procurement rate has increased from the previous year.
OEM manufacturers are eager to procure locally to avoid parts/raw material supply being concentrated in Japan. In recent years, as more and more Tier 2 Japanese companies have expanded into Mexico, the local procurement rate by Japanese companies has gone up (40.4% → 44.8%), which has raised the entire local procurement rate (21.6% → 29.4%).

On the other hand, Japanese companies in Mexico have a narrower base compared to Thailand, and the local procurement rate of parts and raw materials from Japanese companies is low. Therefore, the capacity for growth for Japanese suppliers that supply parts and raw materials to Japanese companies in Mexico is still large.

Breakdown of local procurement [Local]

<table>
<thead>
<tr>
<th>Year</th>
<th>Japanese-affiliated companies</th>
<th>Local companies</th>
<th>Other foreign-affiliated companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2016 Mexico</td>
<td>40.8%</td>
<td>46.7%</td>
<td>12.5%</td>
</tr>
<tr>
<td>FY2017 Mexico</td>
<td>44.8%</td>
<td>43.1%</td>
<td>12.1%</td>
</tr>
<tr>
<td>FY2017 Brazil</td>
<td>18.0%</td>
<td>64.6%</td>
<td>17.4%</td>
</tr>
<tr>
<td>FY2017 Mainland China</td>
<td>34.2%</td>
<td>59.5%</td>
<td>6.4%</td>
</tr>
<tr>
<td>FY2017 Indonesia</td>
<td>50.8%</td>
<td>44.8%</td>
<td>4.4%</td>
</tr>
<tr>
<td>FY2017 Thailand</td>
<td>53.6%</td>
<td>41.7%</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

The Japan-Mexico EPA has been utilized for imports. NAFTA has been utilized by more than 80% of the companies for both exports and imports. CPTPP has mainly been considered by companies that import from Malaysia and Vietnam.

### Importing to Mexico

<table>
<thead>
<tr>
<th>Source of Origin</th>
<th>Utilizing</th>
<th>Considering utilization</th>
<th>Not utilizing (no plan to utilize)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan (n=105)</td>
<td>65.7%</td>
<td>10.5%</td>
<td>23.8%</td>
</tr>
<tr>
<td>NAFTA (n=92)</td>
<td>84.8%</td>
<td>1.1%</td>
<td>14.1%</td>
</tr>
<tr>
<td>Mercosur (n=7)</td>
<td>28.6%</td>
<td>57.1%</td>
<td>14.1%</td>
</tr>
<tr>
<td>Central American Countries (n=1)</td>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chile (n=1)</td>
<td>100.0%</td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td>EU (n=18)</td>
<td>72.2%</td>
<td>22.2%</td>
<td></td>
</tr>
<tr>
<td>Vietnam (n=4)</td>
<td>25.0%</td>
<td>75.0%</td>
<td></td>
</tr>
<tr>
<td>Malaysia (n=8)</td>
<td>50.0%</td>
<td>50.0%</td>
<td></td>
</tr>
<tr>
<td>Australia (n=1)</td>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Exporting from Mexico

<table>
<thead>
<tr>
<th>Destination</th>
<th>Utilizing</th>
<th>Considering utilization</th>
<th>Not utilizing (no plan to utilize)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan (n=19)</td>
<td>47.4%</td>
<td>21.1%</td>
<td>31.6%</td>
</tr>
<tr>
<td>NAFTA (n=53)</td>
<td>83.0%</td>
<td></td>
<td>9.4%</td>
</tr>
<tr>
<td>Mercosur (n=19)</td>
<td>47.4%</td>
<td>15.8%</td>
<td>36.8%</td>
</tr>
<tr>
<td>Central American Countries (n=11)</td>
<td>88.9%</td>
<td>9.1%</td>
<td></td>
</tr>
<tr>
<td>Chile (n=9)</td>
<td>88.9%</td>
<td></td>
<td>11.1%</td>
</tr>
<tr>
<td>Colombia (n=10)</td>
<td>10.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bolivia (n=9)</td>
<td>88.9%</td>
<td></td>
<td>11.1%</td>
</tr>
<tr>
<td>Peru (n=9)</td>
<td>88.9%</td>
<td></td>
<td>11.1%</td>
</tr>
<tr>
<td>EU (n=13)</td>
<td>76.9%</td>
<td>23.1%</td>
<td></td>
</tr>
<tr>
<td>Vietnam (n=1)</td>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia (n=1)</td>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia (n=1)</td>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Zealand (n=1)</td>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Importing issues when utilizing FTA: Mexico (n=102)

- Merits do not exist due to little difference between preferential tariffs based on FTAs/EPAs and general tariff rates: 13.7%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 10.8%
- FTAs/EPAs do not exist with major import sources: 9.8%
- Overly strict inspection for preferential tax approval at the customs of the importing country: 8.8%
- No problem in particular: 63.7%
- Other: 3.9%

### Exporting issues when utilizing FTA: Mexico (n=59)

- Procedures for certificates of origin take too long: 33.9%
- Shortage of capable personnel in our company: 25.4%
- Complicated procedures in getting certificates of origin: 20.3%
- Rules of origin cannot be met or are very difficult to meet: 16.9%
- Rules of origin for existing FTAs/EPAs are different from each other causing confusion: 11.9%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 10.2%
- Expensive issuance costs of certificates of origin: 3.4%
- FTAs/EPAs do not exist with major export destinations: 3.4%
- Tariff quota systems of FTAs/EPAs are not functioning: 3.4%
- No problem in particular: 40.7%
- Other: 1.7%
Impacted by the strengthening of the rules of origin within the Economic Complementation Agreement (ACE 55) with Mexico, utilization for imports into Brazil declined from the previous year (85.7% → 66.7%).

II – 7 – (1) The utilization of, and problems faced in utilizing FTA/EPA: Brazil

- **Importing to Brazil**
  - Mercosur (n=11): Utilizing 72.7%, Considering utilization 9.1%, Not utilizing (no plan to utilize) 18.2%
  - Mexico (n=9): Utilizing 66.7%, Considering utilization 22.2%, Not utilizing (no plan to utilize) 11.1%
  - Andean Community (n=2): Utilizing 100.0%
  - Chile (n=5): Utilizing 40.0%, Considering utilization 60.0%
  - India (n=9): Utilizing 11.1%, Considering utilization 88.9%

- **Exporting from Brazil**
  - Mercosur (n=22): Utilizing 59.1%, Considering utilization 13.6%, Not utilizing (no plan to utilize) 27.3%
  - Mexico (n=10): Utilizing 50.0%
  - Andean Community (n=9): Utilizing 33.3%, Considering utilization 11.1%, Not utilizing (no plan to utilize) 55.6%
  - Chile (n=6): Utilizing 50.0%
  - India (n=3): Utilizing 33.3%

**Importing issues when utilizing FTA: Brazil (n=28)**
- FTAs/EPAs do not exist with major import sources: 25.0%
- Overly strict inspection for preferential tax approval at the customs of the importing country: 10.7%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 3.6%
- Merits do not exist due to little difference between preferential tariffs based on FTAs/EPAs and general tariff rates: 0.0%
- No problem in particular: 50.0%
- Other: 10.7%

**Exporting issues when utilizing FTA: Brazil (n=28)**
- Procedures for certificates of origin take too long: 17.9%
- Expensive issuance costs of certificates of origin: 10.7%
- Shortage of capable personnel in our company: 10.7%
- Rules of origin cannot be met or are very difficult to meet: 7.1%
- Complicated procedures in getting certificates of origin: 7.1%
- Rules of origin for existing FTAs/EPAs are different from each other causing confusion: 3.6%
- FTAs/EPAs do not exist with major export destinations: 3.6%
- Tariff quota systems of FTAs/EPAs are not functioning: 3.6%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 0.0%
- No problem in particular: 57.1%
- Other: 7.1%
Many of the companies utilized various agreements with Mexico for imports, and with the Andean Community (85.7%) and Mercosur (100%) for exports. A relatively large number of companies have considered utilizing the Japan-Colombia EPA. There are high expectations towards an early agreement on the negotiation.

### Importing to Colombia

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Utilizing</th>
<th>Considering utilization</th>
<th>Not utilizing (no plan to utilize)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mercosur(n=4)</td>
<td>50.0</td>
<td>50.0</td>
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</tr>
<tr>
<td>Mexico(n=6)</td>
<td>66.7</td>
<td>16.7</td>
<td>16.7</td>
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<tr>
<td>Andean Community(n=1)</td>
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<tr>
<td>US(n=11)</td>
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<td>36.4</td>
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<td>EU(n=5)</td>
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</tr>
<tr>
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<tr>
<td>Japan(n=17)</td>
<td>47.1</td>
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### Exporting from Colombia

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<thead>
<tr>
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<th>Considering utilization</th>
<th>Not utilizing (no plan to utilize)</th>
</tr>
</thead>
<tbody>
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<tr>
<td>Mexico(n=4)</td>
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<tr>
<td>Central American Countries(n=5)</td>
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<tr>
<td>Andean Community(n=7)</td>
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<tr>
<td>Chile(n=3)</td>
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<tr>
<td>US(n=1)</td>
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</tr>
<tr>
<td>EU(n=1)</td>
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</tr>
<tr>
<td>South Korea(n=1)</td>
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<tr>
<td>Japan(n=7)</td>
<td>71.4</td>
<td>28.6</td>
<td></td>
</tr>
</tbody>
</table>

### Importing issues when utilizing FTA: Colombia(n=22)

- FTAs/EPAs do not exist with major import sources: 40.9%
- Meds do not exist due to little difference between preferential tariffs based on FTAs/EPAs and general tariff rates: 9.1%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 4.5%
- Overly strict inspection for preferential tax approval at the customs of the importing country: 4.5%
- No problem in particular: 50.0%
- Other: 0.0%

### Exporting issues when utilizing FTA: Colombia(n=16)

- FTAs/EPAs do not exist with major export destinations: 25.0%
- Expensive issuance costs of certificates of origin: 6.3%
- Complicated procedures in getting certificates of origin: 6.3%
- Shortage of capable personnel in our company: 6.3%
- 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%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 0.0%
- Tariff quota systems of FTAs/EPAs are not functioning: 0.0%
- No problem in particular: 62.5%
- Other: 0.0%
Many of the companies utilized bilateral FTA/EPAs for exports to Asia.

**Importing to Peru**

<table>
<thead>
<tr>
<th>Country</th>
<th>Utilizing</th>
<th>Considering utilization</th>
<th>Not utilizing (no plan to utilize)</th>
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</thead>
<tbody>
<tr>
<td>Mexico</td>
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<tr>
<td>Canada</td>
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<tr>
<td>Japan</td>
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</tr>
<tr>
<td>China</td>
<td>100.0</td>
<td></td>
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</table>

**Exporting from Peru**

<table>
<thead>
<tr>
<th>Country</th>
<th>Utilizing</th>
<th>Considering utilization</th>
<th>Not utilizing (no plan to utilize)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andean Community</td>
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<td></td>
</tr>
<tr>
<td>Chile</td>
<td>100.0</td>
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</tr>
<tr>
<td>Japan</td>
<td>66.7</td>
<td>33.3</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>100.0</td>
<td></td>
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</tr>
<tr>
<td>South Korea</td>
<td>100.0</td>
<td></td>
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<tr>
<td>Thailand</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU</td>
<td>100.0</td>
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</tr>
</tbody>
</table>

**Importing issues when utilizing FTA**: Peru (n=6)

- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 16.7%
- Merits do not exist due to little difference between preferential tariffs based on FTAs/EPAs and general tariff rates: 16.7%
- FTAs/EPAs do not exist with major import sources: 16.7%
- Overly strict inspection for preferential tax approval at the customs of the importing country: 0.0%
- No problem in particular: 66.7%
- Other: 0.0%

**Exporting issues when utilizing FTA**: Peru (n=4)

- Expensive issuance costs of certificates of origin: 25.0%
- Procedures for certificates of origin take too long: 25.0%
- Complicated procedures in getting certificates of origin: 25.0%
- 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%
- 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 problem in particular: 75.0%
- Other: 0.0%
The number of companies that utilize FTAs is particularly high for imports. More than 80% of the companies answered they had “no particular problems” utilizing them.
Although Venezuela was suspended from Mercosur, it can still use the preferential tariff system in accordance with an agreement among the Mercosur countries.

### Importing to Venezuela

<table>
<thead>
<tr>
<th>Country</th>
<th>Utilizing</th>
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<th>Not utilizing (no plan to utilize)</th>
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</thead>
<tbody>
<tr>
<td>Mercosur(n=4)</td>
<td>50.0</td>
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<td>25.0</td>
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<tr>
<td>Colombia(n=1)</td>
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<td>Chile(n=1)</td>
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<tr>
<td>Peru(n=1)</td>
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</tr>
<tr>
<td>Ecuador(n=1)</td>
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<td></td>
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<tr>
<td>Bolivia(n=1)</td>
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</table>

### Exporting from Venezuela

<table>
<thead>
<tr>
<th>Country</th>
<th>Utilizing</th>
<th>Considering utilization</th>
<th>Not utilizing (no plan to utilize)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mercosur(n=2)</td>
<td>100.0</td>
<td></td>
<td></td>
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</tbody>
</table>

### Importing issues when utilizing FTA: Venezuela(n=5)

- FTAs/EPAs do not exist with major import sources: 20.0%
- Overly strict inspection for preferential tax approval at the customs of the importing country: 20.0%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs: 0.0%
- Merits do not exist due to little difference between preferential tariffs based on FTAs/EPAs and general tariff rates: 0.0%
- No problem in particular: 40.0%
- Other: 20.0%

### Exporting issues when utilizing FTA: Venezuela(n=3)

- FTAs/EPAs do not exist with major export destinations: 33.3%
- 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 problem in particular: 33.3%
- Other: 33.3%
In Argentina, many of the companies utilized Mercosur agreements and economic complementation agreements (ACE 55, etc.) with Mexico for both exports and imports.

**Importing to Argentina**

- **Mercosur (n=17)**
  - Utilizing: 82.4%, Considering utilization: 11.8%, Not utilizing (no plan to utilize): 5.9%

- **Mexico (n=10)**
  - Utilizing: 70.0%, Considering utilization: 30.0%, Not utilizing (no plan to utilize): 0%

- **Andean Community (n=4)**
  - Utilizing: 50.0%, Considering utilization: 25.0%, Not utilizing (no plan to utilize): 25.0%

- **Chile (n=5)**
  - Utilizing: 40.0%, Considering utilization: 20.0%, Not utilizing (no plan to utilize): 40.0%

- **India (n=4)**
  - Utilizing: 75.0%, Considering utilization: 25.0%, Not utilizing (no plan to utilize): 0%

**Exporting from Argentina**

- **Mercosur (n=12)**
  - Utilizing: 83.3%, Considering utilization: 8.3%, Not utilizing (no plan to utilize): 8.3%

- **Mexico (n=4)**
  - Utilizing: 50.0%, Considering utilization: 25.0%, Not utilizing (no plan to utilize): 25.0%

- **Andean Community (n=6)**
  - Utilizing: 50.0%, Considering utilization: 16.7%, Not utilizing (no plan to utilize): 33.3%

- **Chile (n=5)**
  - Utilizing: 60.0%, Considering utilization: 20.0%, Not utilizing (no plan to utilize): 20.0%

- **India (n=1)**
  - Utilizing: 100.0%, Not utilizing (no plan to utilize): 0%

**Importing issues when utilizing FTA: Argentina (n=23)**

- FTAs/EPA do not exist with major import sources: 30.4%
- Markets do not exist due to little difference between preferential tariffs based on FTAs/EPA and general tariff rates: 13.0%
- Overly strict inspection for preferential tax approval at the customs of the importing country: 8.7%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPA: 4.3%
- No problem in particular: 52.2%
- Other: 4.3%

**Exporting issues when utilizing FTA: Argentina (n=14)**

- Shortage of capable personnel in our company: 28.6%
- Rules of origin cannot be met or are very difficult to meet: 21.4%
- Rules of origin for existing FTAs/EPA are different from each other causing confusion: 21.4%
- Procedures for certificates of origin take too long: 14.3%
- Complicated procedures in getting certificates of origin: 14.3%
- FTAs/EPA do not exist with major export destinations: 14.3%
- Expensive issuance costs of certificates of origin: 7.1%
- Difficulty in getting cooperation from suppliers in utilizing FTAs/EPA: 7.1%
- Tariff quota systems of FTAs/EPA are not functioning: 7.1%
- No problem in particular: 50.0%
- Other: 0.0%
As for specific interests regarding NAFTA renegotiation among Japanese companies in Mexico, the percentage of "customs clearing/trade facilitation/rules of origin" (74.6%) was significantly high, followed by "exchange rate" (28.2%), and "access to goods markets" (26.0%). Focusing on interests for each industry, concerns over "customs clearing/trade facilitation/rules of origin" among manufacturers were high (81.6%, of these, "transportation equipment and related parts" occupied 84.9%), and "exchange rate" and "access to goods markets" among non-manufacturers occupied 28.2% and 26.0% respectively, which was higher than that of manufacturers (20.4%, 21.4% respectively).

Specific areas of interest in the renegotiation of NAFTA

- Customs • Trade Facilitation • Rules of Origin: 74.6%
- Currency: 28.2%
- Access to Goods Market: 26.0%
- Labor and Environment: 15.8%
- Investment: 15.8%
- Technical Barriers to Trade (TBT): 8.5%
- Trade remedies: 5.6%
- Trade in Services (including Telecommunication and Financial Services): 4.5%
- Dispute Settlement: 4.0%
- Government Procurement: 2.8%
- Intellectual Property: 2.8%
- Digital Trade in Goods and Services and Cross-Border Data Flows: 1.1%
- Other (%): 7.9%

Comments from individual companies

- Many companies are concerned about reviews to the rules of origin, and many of the service industry companies are concerned about a decline in the number of Japanese companies, which are their major clients. Some companies are concerned about a breakdown of NAFTA negotiations and the withdrawal of the US from NAFTA.
  - Modifications to the rules of origin would force them to change operational processes and procurement schedules, which would increase workloads. [Transportation equipment (car/motorcycle) etc. related companies]
  - Strengthening the rules of origin. Currently from Mexico due to a tariff jump, but many are greatly concerned that 70% of raw materials might become Japanese, or steel materials might become subjected to tracing. [Iron and steel, etc. related companies]
  - If modifications to the rules of origin result in tariffs imposed on exports to the US, the benefits of operating in Mexico would decrease. [Trading companies]
  - A decline in the number of Japanese companies (clients) and investment would directly affect sales. [Service industry companies including construction, finance, insurance]
  - The impact that withdrawal of the US from NAFTA would have on tariffs [Transportation equipment (car/motorcycle), and others companies]

- Some expressed expectations regarding NAFTA renegotiations and the deregulation of land transportation, on which foreign capital entry regulations are still imposed.
  - If investment renegotiations result in the deregulation of foreign capital entry into land transportation in Mexico, it would expand business opportunities. [Transportation/Storage related companies]
When asked if they had recovered initial investment, 50% of companies answered “No,” as many of the auto manufacturing companies in the country had only recently started operating. A high percentage of companies that expanded into Chile and Peru in the 1980’s or before had recovered their initial investment (54.0%, 52.6%, respectively).

- **Recovery of the initial investment (by country 1)**

  - **Mexico**
    - Yes: 49.1%
    - No: 36.2%
    - Unknown: 14.7%
  - **Colombia**
    - Yes: 33.3%
    - No: 24.3%
    - Unknown: 46.7%
  - **Chile**
    - Yes: 54.0%
    - No: 21.6%
    - Unknown: 24.3%
  - **Peru**
    - Yes: 52.6%
    - No: 26.3%
    - Unknown: 21.1%
Although a high percentage of companies in Brazil had expanded into the country in the 1980’s or before, less than 30% of companies had recovered their initial investment (28.9%).

**Brazil**

- **n=97**
- **Yes: 51.5%**
- **No: 28.9%**
- **Unknown (due to change of forms of capital): 19.6%**

**Argentina**

- **n=41**
- **Yes: 50.0%**
- **No: 28.6%**
- **Unknown (due to change of forms of capital): 21.4%**

**Venezuela**

- **n=14**
- **Yes: 36.6%**
- **No: 31.7%**
- **Unknown (due to change of forms of capital): 31.7%**

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Approximately 50% of companies in Mexico answered that they had recovered their initial investment within six years. It took more than seven years for 50% of companies in Peru and Colombia to do so.
No company was able to recover their initial investment within three years from the commencement of operations in Brazil. Among the companies that had recovered their initial investment, it took more than seven years for 50% of them to do so.

How long has it taken to recover initial investment?

(Brazil) n=28

- Within 3 years: 0.0%
- 4 - 6 years: 17.8%
- Over 7 years: 53.6%
- Unknown: 28.6%

Argentina) n=13

- Within 3 years: 28.6%
- 4 - 6 years: 14.3%
- Over 7 years: 28.6%
- Unknown: 38.5%

(Venezuela) n=7

- Within 3 years: 28.6%
- 4 - 6 years: 14.3%
- Over 7 years: 28.6%
- Unknown: 38.5%

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With approximately 50% of companies in Mexico answering that they expect initial investment recovery within five years, it had the lowest percentage of “unclear or no prospects”. Many of the companies, especially resource and energy companies, in Chile answered “unclear or no prospects” (66.7%).

How much longer does your company expect to recover initial investment? (Mexico) n=87

- Unable to make any prediction: 9%
- Within 2 years: 10%
- 6 – 10 years: 28%
- 11 – 15 years: 11%
- Over 16 years: 7%
- 3 – 5 years: 35%

How much longer does your company expect to recover initial investment? (Peru) n=4

- Unable to make any prediction: 75%
- 3 – 5 years: 25%

How much longer does your company expect to recover initial investment? (Colombia) n=14

- Unable to make any prediction: 29%
- Over 16 years: 7%
- 6 – 10 years: 7%
- 3 – 5 years: 57%

How much longer does your company expect to recover initial investment? (Chile) n=9

- Unable to make any prediction: 67%
- 3 – 5 years: 11%
- 6 – 10 years: 11%
- 11 – 15 years: 11%
A little over 20% of companies in Brazil answered that they expected to recover their initial investment within five years. More than 60% of companies in Argentina answered that they expected initial investment recovery within five years.
Approximately one third of companies, especially those in the wholesaler/retailer and service industries, answered that they had "introduced", "recently introduced", or "plan to introduce" new technology.

* The words here "introduction of new technology" indicate any of the following, or similar, conditions.
  - The development of new technology within Brazil (For companies in the chemical sector or agro-industrial sector for which raw materials exist within Brazil)
  - Using equipment with technology considered new even at the global level (after localizing the technology to the Brazilian market if needed) (For companies in the manufacturing industry and the mining sector)
  - Building a system through a combination of recent technologies and delivering it to customers (For companies in the ICT-related industry and the service industry)

**Has your company introduced new technology in Brazil or does it plan to? (# of respondents: 99)**

- 67%: We are already operating with newly introduced technology
- 14%: We have recently introduced new technology
- 1%: We are planning to introduce new technology
- 18%: We have no plan to introduce new technology

**Why does your company have no plan to introduce new technology in Brazil? (# of respondents: 66)**

- 56.1%: There is no merit to developing technologies in Brazil
- 18.2%: There is no support scheme offered by Brazil relevant to the development of technology in our company
- 3.0%: We would like to, or have plans to, develop technology in Brazil, but the support scheme offered by Brazil is inconvenient
- 0.0%: We would like to, or have plans to, develop technology in Brazil, but we don't know of any support scheme offered by Brazil
- 22.7%: Other
12.1% of Japanese companies in Brazil answered that “there is a possibility of expanding into Paraguay”. As for specific benefits, they listed “low labor costs” (75.0%), “simplified taxation system/tax procedures” (53.8%), and “low electricity costs” (50.0%).
Please contact the following for inquiries regarding this document:

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