
Survey of Japanese Companies in Southern California 2018

Forward

Since 1983, the Japan Business Association of Southern California (JBA) and the Japan External Trade Organization (JETRO) Los Angeles office have conducted surveys to obtain an accurate assessment of Japanese companies in Southern California. The results of these surveys have been utilized to foster better understanding of Japanese companies in the region and facilitate their business activities.

We have compiled the "Survey of Japanese Companies in Southern California 2018," the 13th of its type, and give thanks to the cooperation of all parties participated. The results of this survey show the great contributions made by Japanese companies to the regional economy in terms of investment and employment. At the same time, it also reveals the business results of Japanese companies in the region as a whole, as well as their challenges to facilitate their business activities. We will utilize the survey results to gain a better understanding of Japanese companies doing business in Southern California, as well as to improve California's overall business environment.

Finally, we would like to extend our sincere gratitude to the JBA members who cooperated in this survey and the Japanese companies that submitted the completed questionnaire to JETRO.

July 17, 2018

Satoshi Okawa
JBA President

Keiichi Nishimoto
Chief Executive Director, JETRO Los Angeles

Survey Objective and Methodology

1. Survey objective

The survey's objective, now on its 13th installment¹, is to foster better understanding of the business conditions and management environment in Japanese companies doing business in Southern California.

2. Survey targets

Japanese companies located in Southern California.

In this survey, Southern California is the area consisting of the following 10 counties: Los Angeles, Orange, San Diego, San Bernardino, Riverside, Ventura, Santa Barbara, Kern, San Luis Obispo and Imperial.

A Japanese company is defined as a company meeting one of the conditions in [1] to [3] below:

- [1] A company with 10% or more of its capital owned (directly or indirectly) by a company headquartered in Japan
- [2] A branch or representative office of a company whose headquarters is located in Japan
- [3] A company established and operated by individuals who have Japanese citizenship or are U.S. citizens of Japanese descent

3. Survey methodology

790 Japanese companies were recognized as having an operation in Southern California. The companies were requested to participate survey though online by JBA and JETRO and 369 companies have responded. (Response rate: 46.7%)

4. Survey period

February through March 2018

¹ The past surveys were conducted in 1983, 1987, 1997, 2000, 2002, 2004, 2006, 2008, 2010, 2012, 2014 and 2016.

Contents

I	Overview of Japanese Companies in Southern California	Page
	1. Geographic distribution	1
	2. Industrial distribution	2
	3. Entity type	4
	4. Market entry/Timing of incorporation	5
	5. Corporate size	8
II	Contributions to Regional Communities	
	1. Job creation	9
	2. Salaries and wages	12
	3. Employee benefits	13
III	Evaluation of Investment and Business Environments	
	1. Evaluation of business performance	14
	2. Future outlook	19
	3. Investment and business plans	21
	4. Advantages of Southern California	22
	5. Concerns over business operations in the future	24
	6. Expectations for state and local governments	26
	[Reference] Specific comments on expectations for state and local governments	27

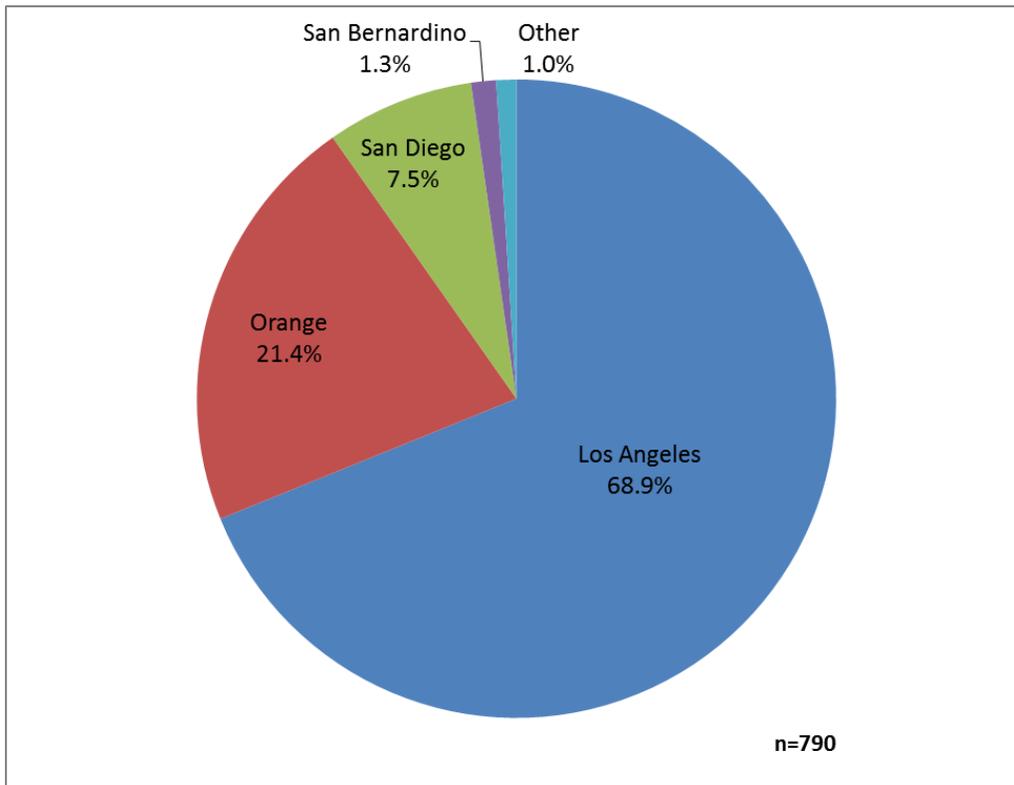
I. Overview of Japanese Companies in Southern California

1. Geographic distribution

This survey confirmed that, including companies that did not respond within the survey period, 790 Japanese companies were operating in Southern California. Southern California is one of the leading global hubs for Japanese companies.²

Looking at the distribution by county, 68.9% of all companies are based in Los Angeles County, followed by Orange County (21.4%) and San Diego County (7.5%), revealing that most Japanese companies are located in these three populous counties.

[Graph 1] Geographic Distribution

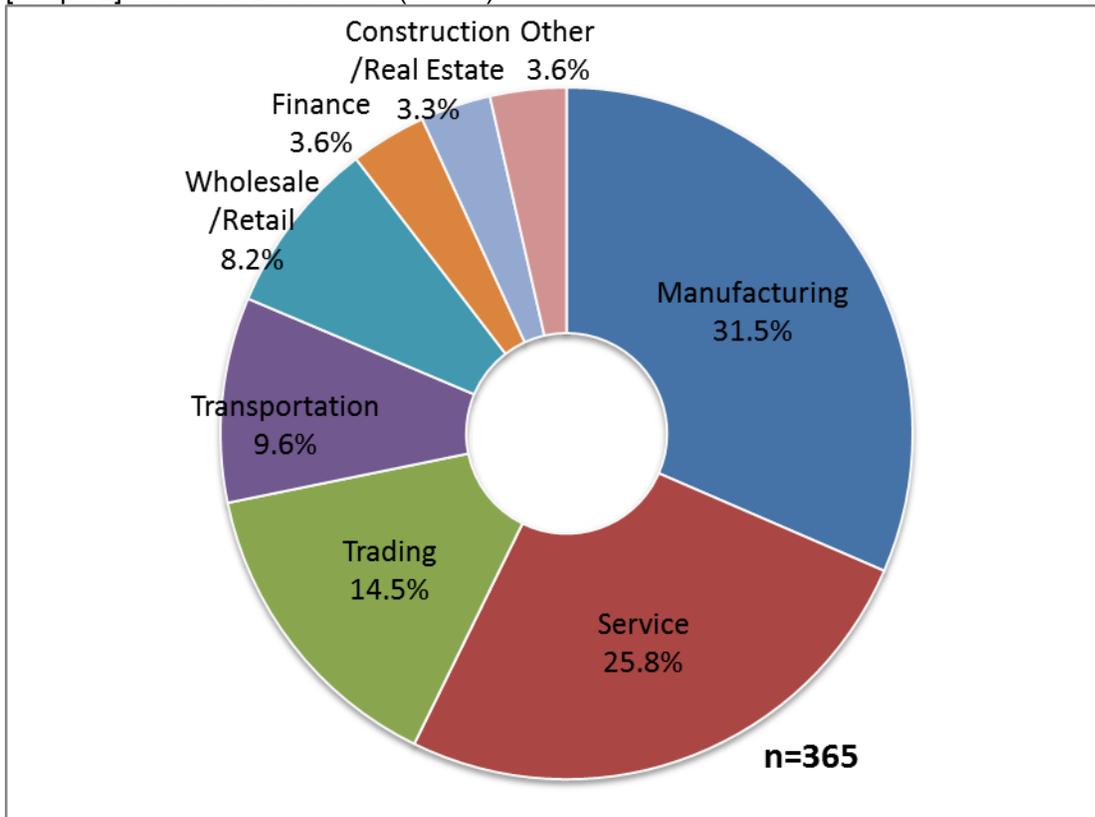


² According to the report "[Foreign Direct Investment in Southern California, 2018](#)" (FDI Report) released by the World Trade Center Los Angeles (WTCLA), 2,541 Japanese firms were operating in the region as of 2017. The WTCLA employs a different survey methodology; for example, they count firms having multiple business locations in the region differently. In this survey, a company having multiple business locations, such as a retail or restaurant operator, is counted as one.

2. Industrial distribution

On industrial distribution, "Manufacturing"³ (31.5%) and "Service"⁴ (25.8%) make up more than 50% of the total, followed by trade/logistics related industries such as "Trading"⁵ (14.5%), "Transportation" (9.6%), and "Wholesale/Retail" (8.2%). Home to the Port of Los Angeles, Port of Long Beach and Los Angeles International Airport, Southern California serves as the largest logistics hub in the U.S., and is also a major trade gateway to Asia. These are significant factors leading to the concentration of these industries in Southern California.

[Graph 2] Industrial Distribution (n=365)



³ "Manufacturing" includes food, automobile and electronics equipment manufacturers.

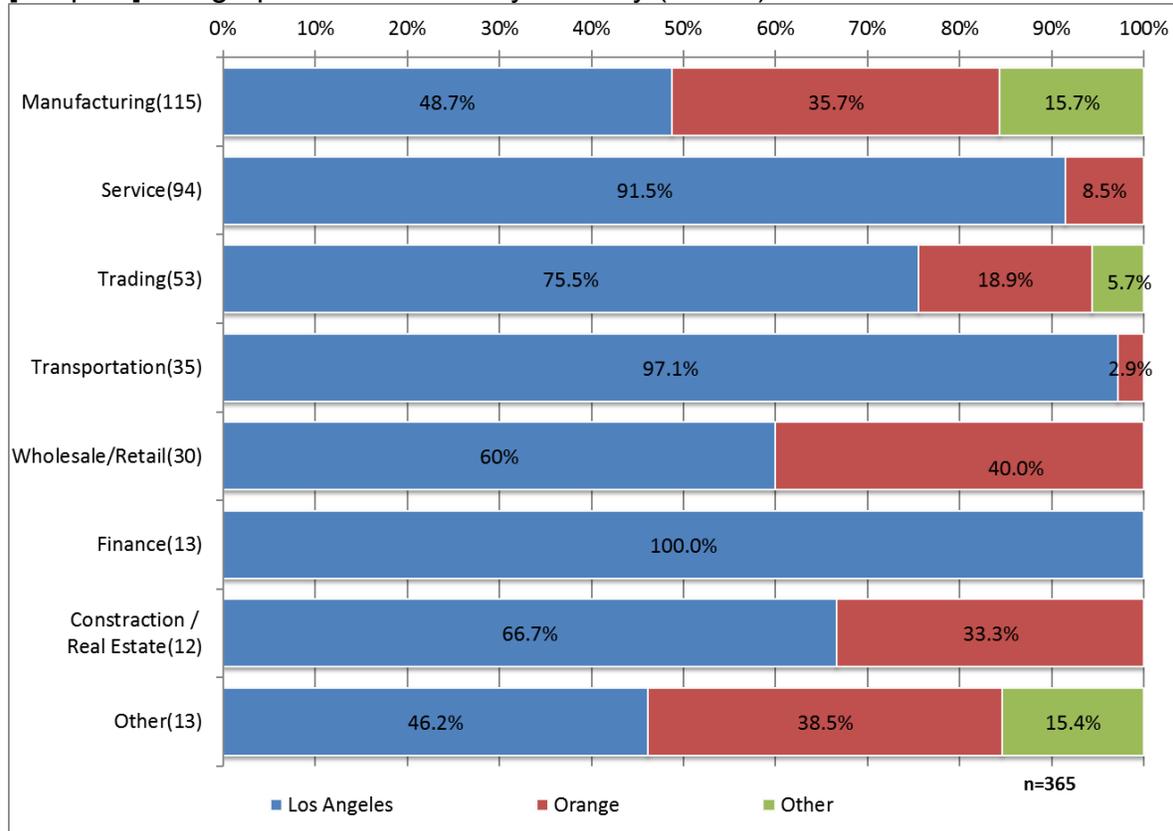
⁴ "Service" includes law firms, accounting firms and other professional services, media/journalism/entertainment, leisure/hospitality, and information systems companies.

⁵ "Trading" includes many companies that import raw materials/parts from their Japanese manufacturing parent, etc., and sell them to customers in the U.S.

On geographic distribution by industry, Los Angeles County was the highest, home to local Japanese companies, while 30 to 40 % of "Wholesale/Retail", "Manufacturing" and "Construction/Real Estate" are located in Orange County.

13% of "Manufacturing" are also located in San Diego County which was included under "Other".

[Graph 3] Geographic Distribution by Industry (n=365)



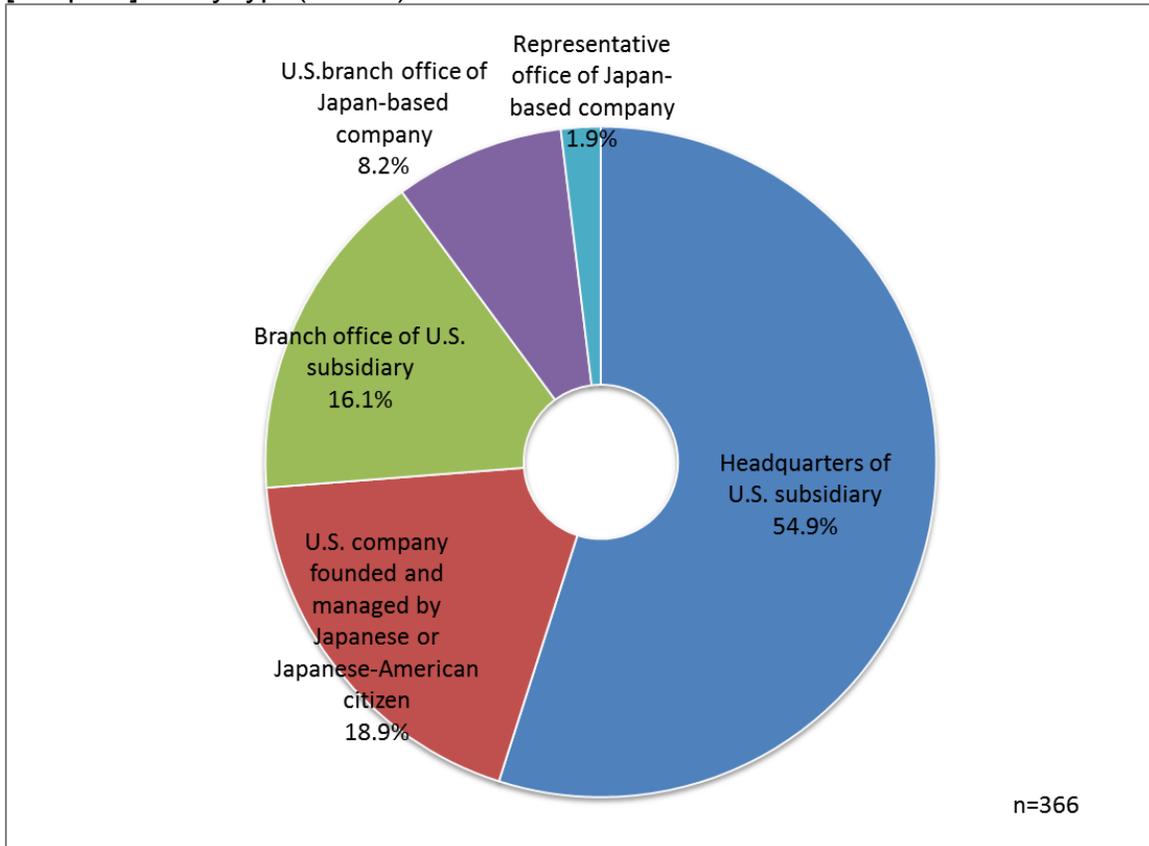
3. Entity type

On entity type, approx. 90% of the companies operate as a "U.S. corporation" (local corporation), while less than 10% of those companies operate as a "U.S. branch of Japanese company" (or branch of foreign company when viewed from the U.S. side).

For "U.S. corporation," over 50% are "Headquarters of U.S. subsidiary". Southern California plays a vital geographic role for Japanese companies to enter the U.S. market.

Although they have no capital relationship with Japanese companies, "U.S. company founded and managed by Japanese or Japanese-American citizen(s)" account for approx. 20% of the total. This figure includes U.S. companies started by Japanese immigrants.

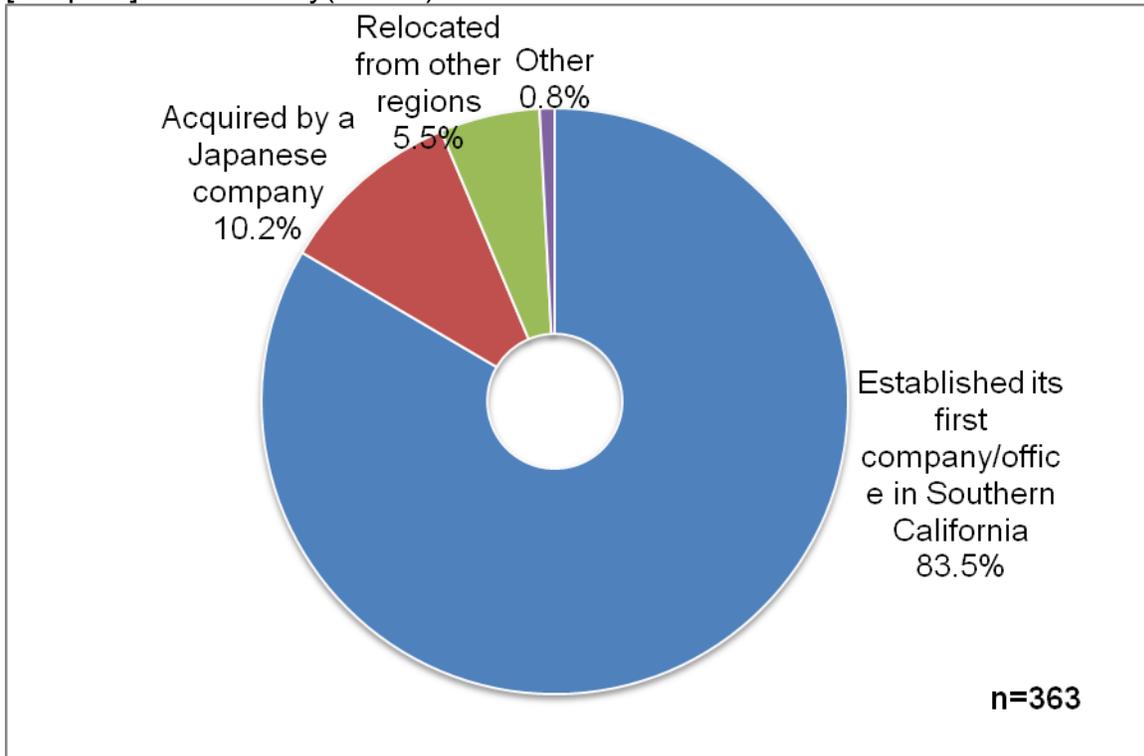
[Graph 4] Entity type(n=366)



4. Market entry/Timing of incorporation

More than 80% of Japanese companies have been newly established. Typically, Investments by Japanese companies contributes greatly to the local economy.

[Graph 5] Market entry(n=363)



Viewing the background of advance into Southern California of Japanese companies, Japanese companies advanced into the U.S. market in the 1950s, for the purpose of conducting market research and seeking business deals. In the 1960s to 1970s Japanese companies advanced into the U.S. to promote exports and market expansion.

After 1970s, U.S.-Japan textile negotiations signaled the beginning of trade-friction issues related to sheet glass, televisions, iron and steel, semiconductors, etc., thus encouraging advance into the U.S. of Japanese companies for local production. After 1980s, such local production was further promoted, due in part to the need to correct the trade imbalance between Japan and the United States.

Concurrently, increasing number of Japanese companies advancing into the U.S. market in search of investment opportunities in order to utilize excess funds generated on the back of the rising yen and bubble economy, which peaked from 1986 to 1990.

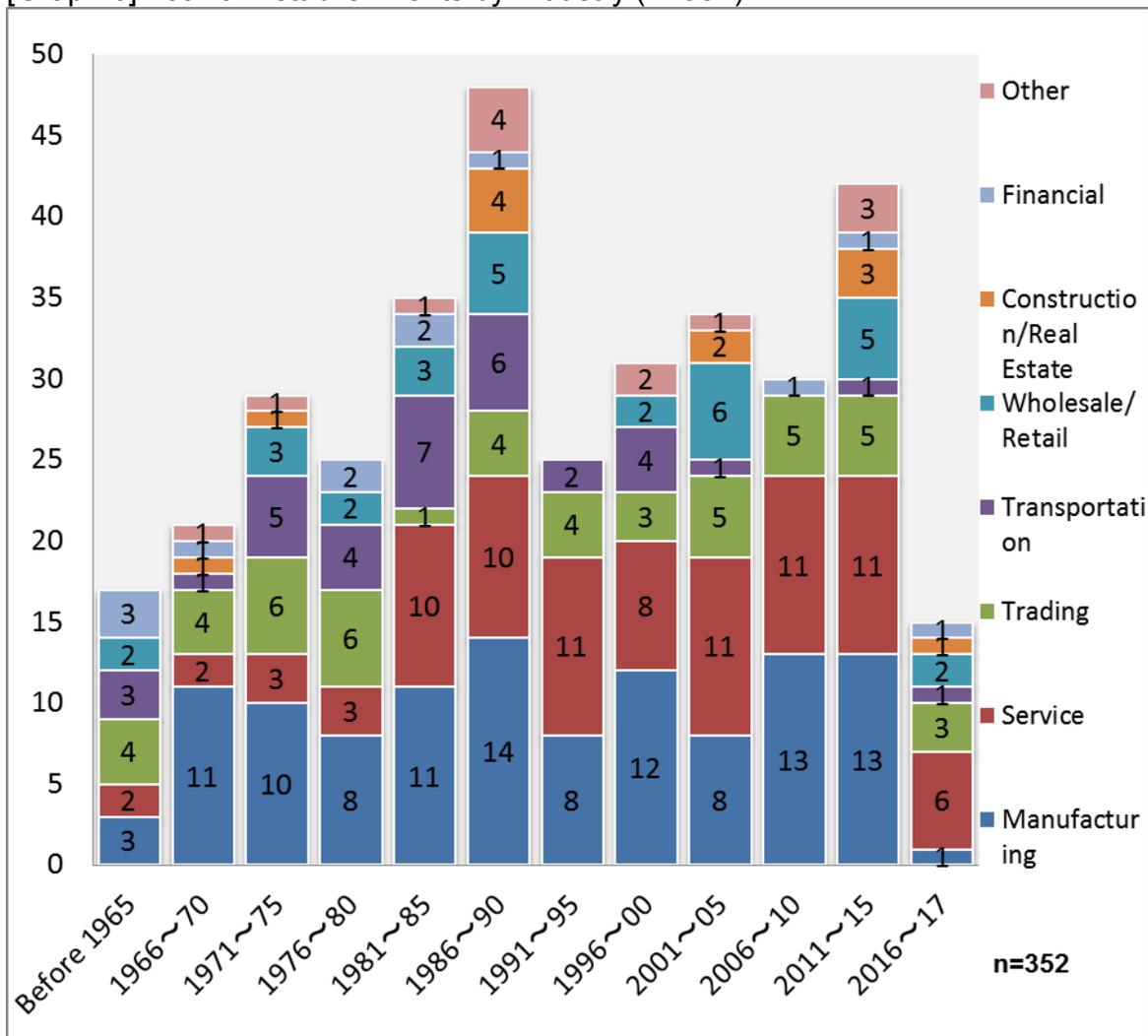
After 1991, the advance into the U.S. of Japanese companies slowed down in the aftermath of the collapse of the bubble economy, with some even withdrawing business from the U.S. market. However, after 1996, the recovery was seen among information service fields, including those in film and publishing, to advance into the U.S. markets.

Since 2006, the advance into the U.S. of Japanese companies has become stagnant due to the slumping U.S. economy triggered by the collapse of Lehman Brothers and other associated factors; however, the economy is on a path to recovery in recent years.

By industry, early advance into the U.S. of Japanese companies included "Wholesale/Retail" and "Trading" companies that required relatively small amounts of capital investment. "Manufacturing" also expanded to the U.S. in earnest against the backdrop of the rising yen and increasing trade friction, and "Transportation" companies that supported the logistics operations of those companies also set up operations in the U.S. in the 1980s.

After reaching its peak in 1986 to 1990, advance into the U.S. of "Manufacturing" companies has started to recede, while "Service" companies have continued at a strong pace.

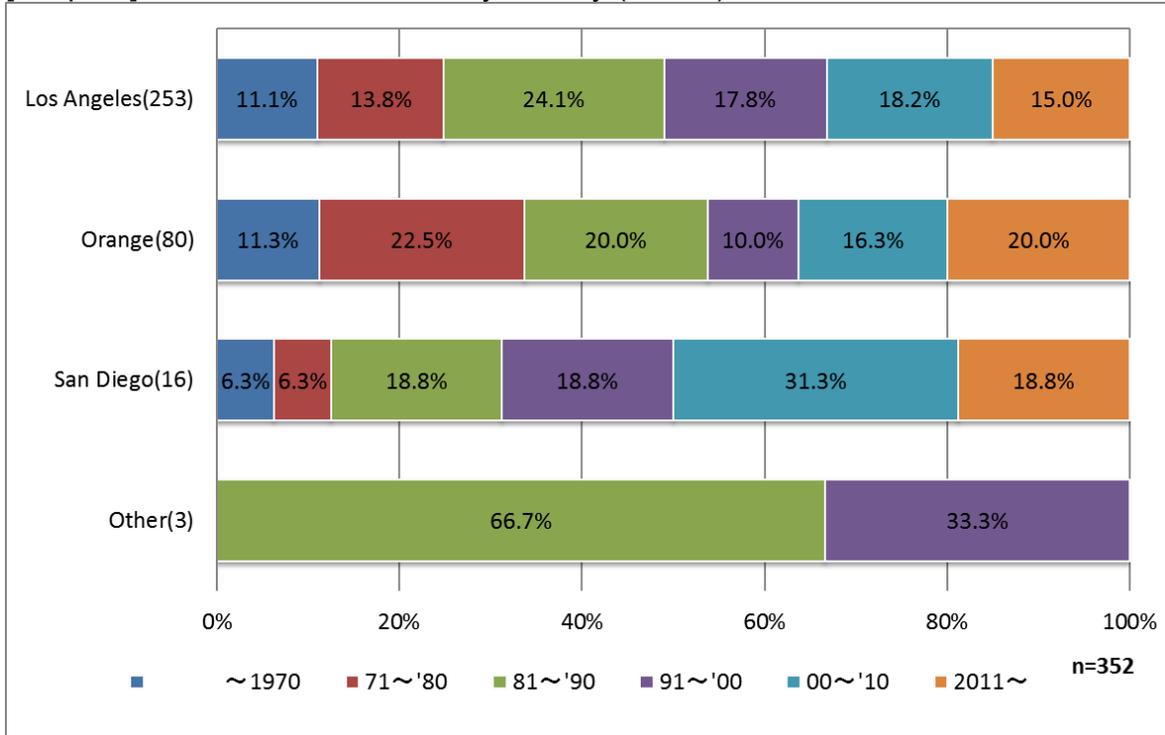
[Graph 6] Year of Establishments by Industry (n=352)



(Note) The number-of-companies distribution is based on the year the companies responding to this survey were established, and did not include companies that have already closed their operations here.

On the year of establishment by county, the large percentage was in Orange and San Diego counties were established in and after 2001, while the companies in Los Angeles County are much earlier.

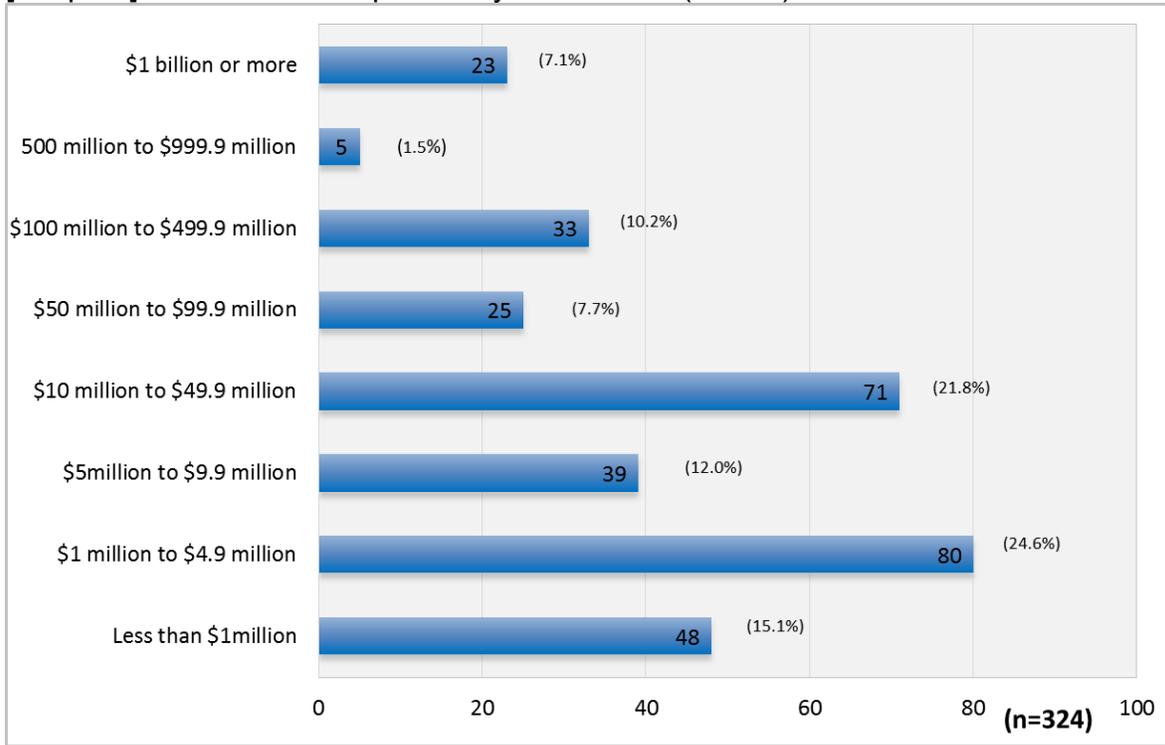
[Graph 7] Year of Establishment by County (n=352)



5. Corporate size

For the corporate sizes by total sales, companies with "sales of \$1 million or more but less than \$5 million per year" and "sales of \$10 million or more but less than \$50 million per year" were accounted for a relatively large, more 20% of the total. However, among the responses with total sales were vary from "less than \$1 million" to "\$1 billion or more" depend on size of the corporation.

[Graph 8] Number of Companies by Total Sales (n=324)



II. Contributions to Regional Communities

1. Job creation

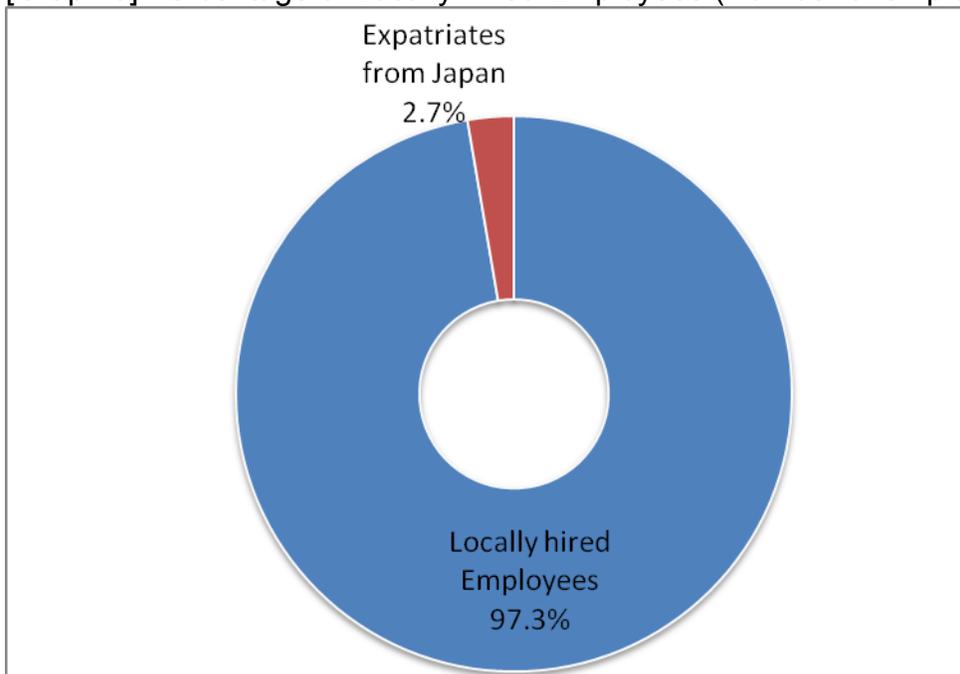
The total number of employees hired by 359 respond companies reached 53,493. Of these, 97.3% of the total were hired locally with 52,056 employees, while the remaining 1,437 are expatriates from Japan.

Also, the average number of employees per Japanese company is 149.0. The total estimate of 117,714 people (including 114,552 people hired locally) are employed by the 790 Japanese companies, including companies that did not respond to the survey, in Southern California. The number indicates that Japanese companies are contributing to the local economy through job creation.

[Table 1] Number of Employees Hired by Japanese Companies (n=359)

	Total (people)	Expatriates from Japan	Locally hired employees
Number of employees (n=359)	53,493	1,437	52,056
Average number of employees per company	149.0	4.0	145.0
Total employments in Southern California (by 790 companies, estimate)	117,714	3,162	114,552

[Graph 9] Percentage of Locally Hired Employees (Number of employees 53,493)



A breakdown of the number of employees by industry shows that "Manufacturing" accounted for the highest of 30,457 employees(56.9%), 10,681 employees(20.0%) in "Service" with followed by 6,080 employees(11.4%) in "Wholesale/Retail".

[Table 2] Employment Size by Industry (n=359)

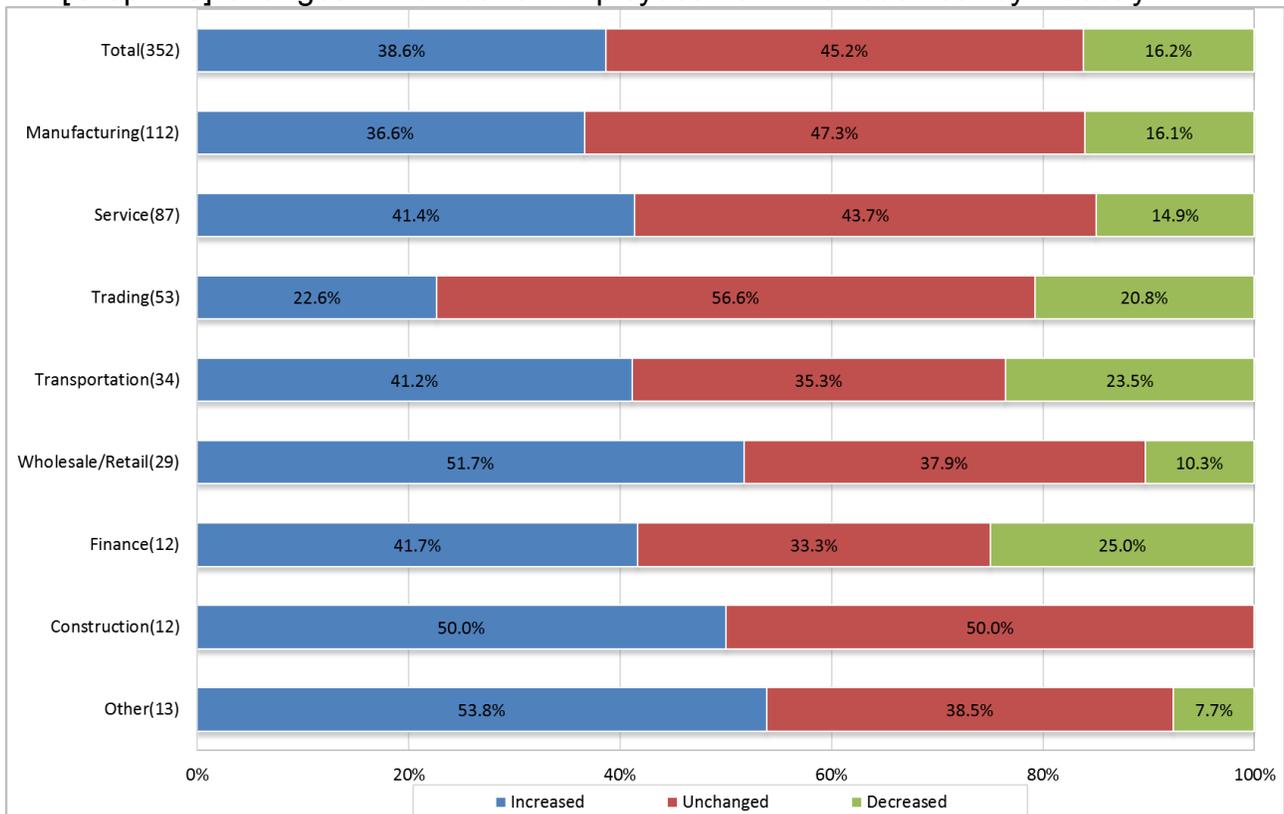
Industry	Number of employees (people)	Number of companies	Ratio (%)
Manufacturing	30,457	115	56.9%
Service	10,681	90	20.0%
Wholesale/Retail	6,080	30	11.4%
Transportation	2,547	35	4.8%
Trading	1,623	51	3.0%
Construction/Real Estate	583	12	1.1%
Financial	479	13	0.9%
Other	1,043	13	1.9%
Total	53,493	359	100%

The change in the number of employees compared to the previous year, 38.6% of companies in all industries "Increased" , while 16.2% said "Decreased". 45.2% of all industries replied "Unchanged".

By industry, "Increased" from the previous year was found in some industries such as "Wholesale/Retail", "Construction/Real Estate", "Financial", "Service" and "Transportation".

On the other hand, "Decreased" from the previous year rose in "Financial," "Transportation" and "Trading".

[Graph 10] Changes in Number of Employees from Previous Year by Industry



2. Salaries and wages

A total of \$3,623.48 million (\$3.6billion) in salaries and wages (including benefits) were paid per year by the 237 Japanese companies in Southern California.

The average salaries and wages of the 40,428 employees was \$89,628 per employee per year.

When this figure is multiplied by an estimate total employment number of Japanese companies in the region with 117,714, the "Total amount of salaries and wages paid per year in Southern California" is estimated as \$10,550.48 million (\$10.5billion).

[Table 3] Total Amount of Salaries and Wages Paid by Japanese Companies

Total salaries and wages (including benefits) paid per year (n=237)	\$3,623.48 million (\$3.6billion)
Average salaries and wages paid per year per employee (*1)	\$89,600
Total amount of salaries and wages paid per year in Southern California (*2)	\$10,550.47 million (\$10.5billion)

(1*) \$3,623.48million / 40,428 employees (with 237 companies that responded)

(2*) \$89,628 X117,714 employees (Estimated)

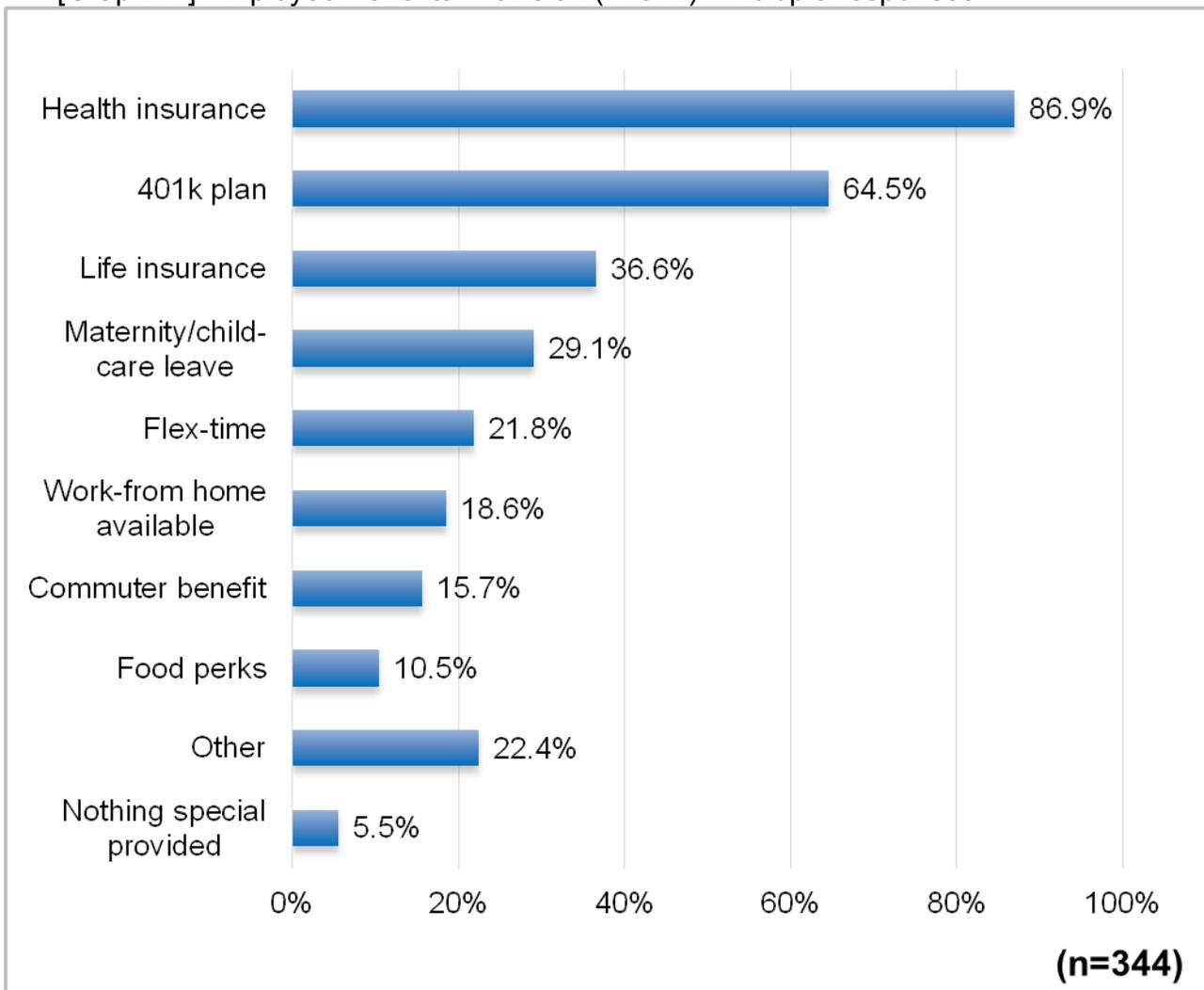
3. Employee benefits

Japanese companies offers various employee benefits to their local employees.

The most popular benefits included " Health insurance(Medical/Dental)" (86.9%), "401k plan" (64.5%), "Life insurance" (36.6%), "Maternity/child-care leave" (29.1%) and "Flex-time" (21.8%).

"Other" includes "Free fitness gym membership", "Housing assistance", "Unlimited paid time off", "Stock options" ,"IRA (Individual Retirement Account) " , "Volunteer leave" , "Tuition assistance program" and "A bonus and extra vacation days for long-trerm worker".

[Graph 11] Employee Benefits Provision (n=344) * Multiple responses



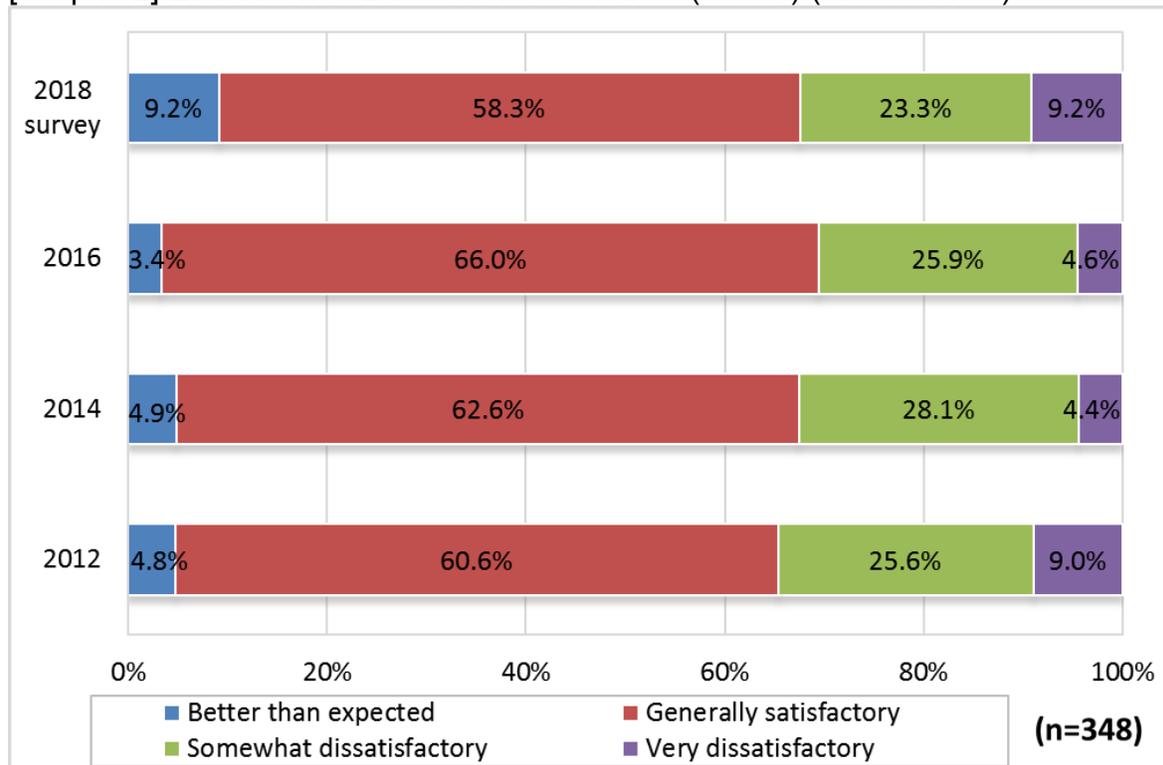
III. Evaluation of Investment and Business Environments

1. Evaluation of business performance

As for the evaluation of overall business performance in 2017, approx. 70% of all responses were positive, such as "Better than expected" or "Generally satisfactory." This was the same trend as the previous survey. In particular, the number of companies responded as "Better than expected" business performance rose over the previous survey.

On the other hand, the percentage of "Very dissatisfactory" has also increased from previous survey.

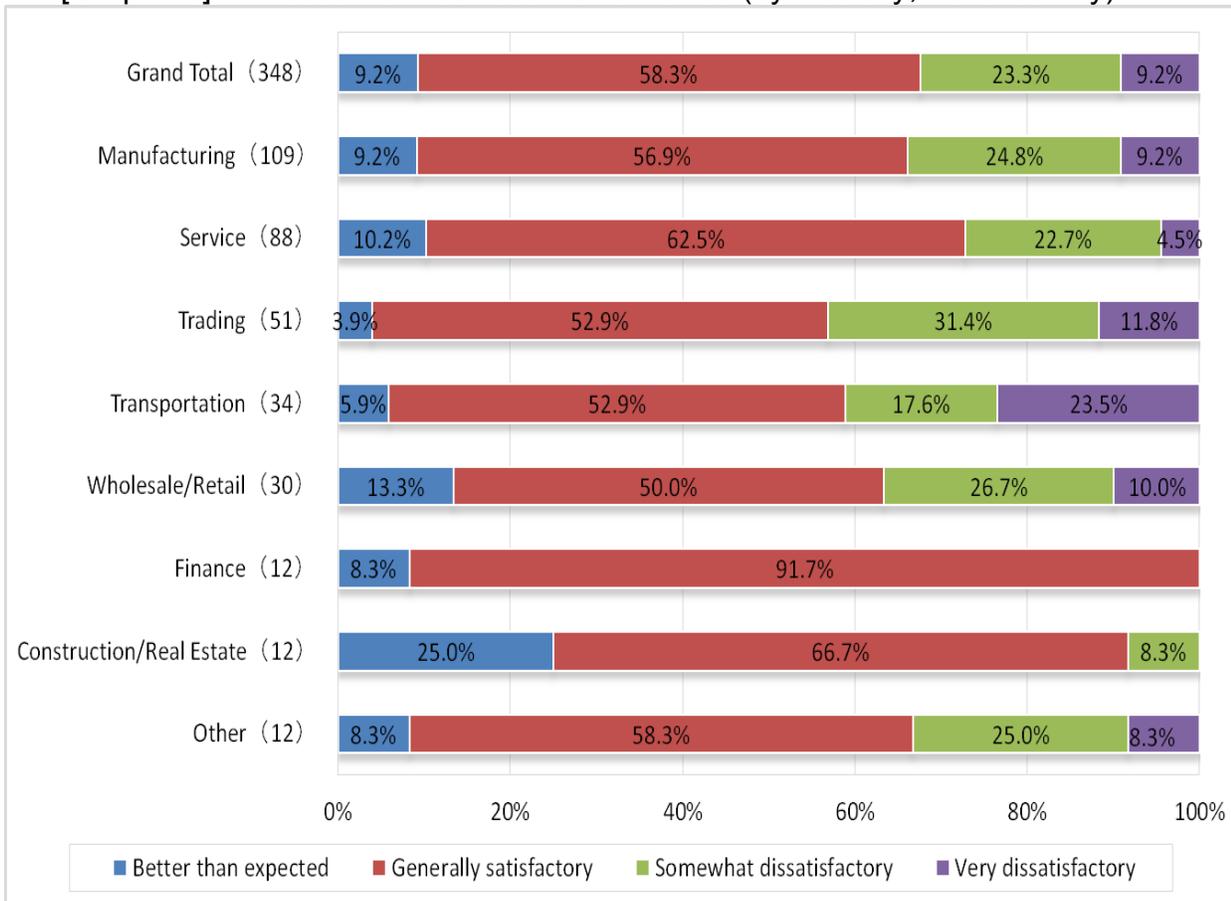
[Graph 12] Evaluation of Business Performance (n=348) (All industries)



For the evaluation of business performance by industry, the percentage of "Better than expected" or "Generally satisfactory" was higher in Financial, Construction/Real Estate and Service than others.

On the other hand, 40% of companies responded as "Somewhat dissatisfactory" or "Very dissatisfactory" in Trading, Transportation and Wholesale/Retail responded that they were "Somewhat dissatisfactory" or "Very dissatisfactory" with their business performance, which was higher than other industries.

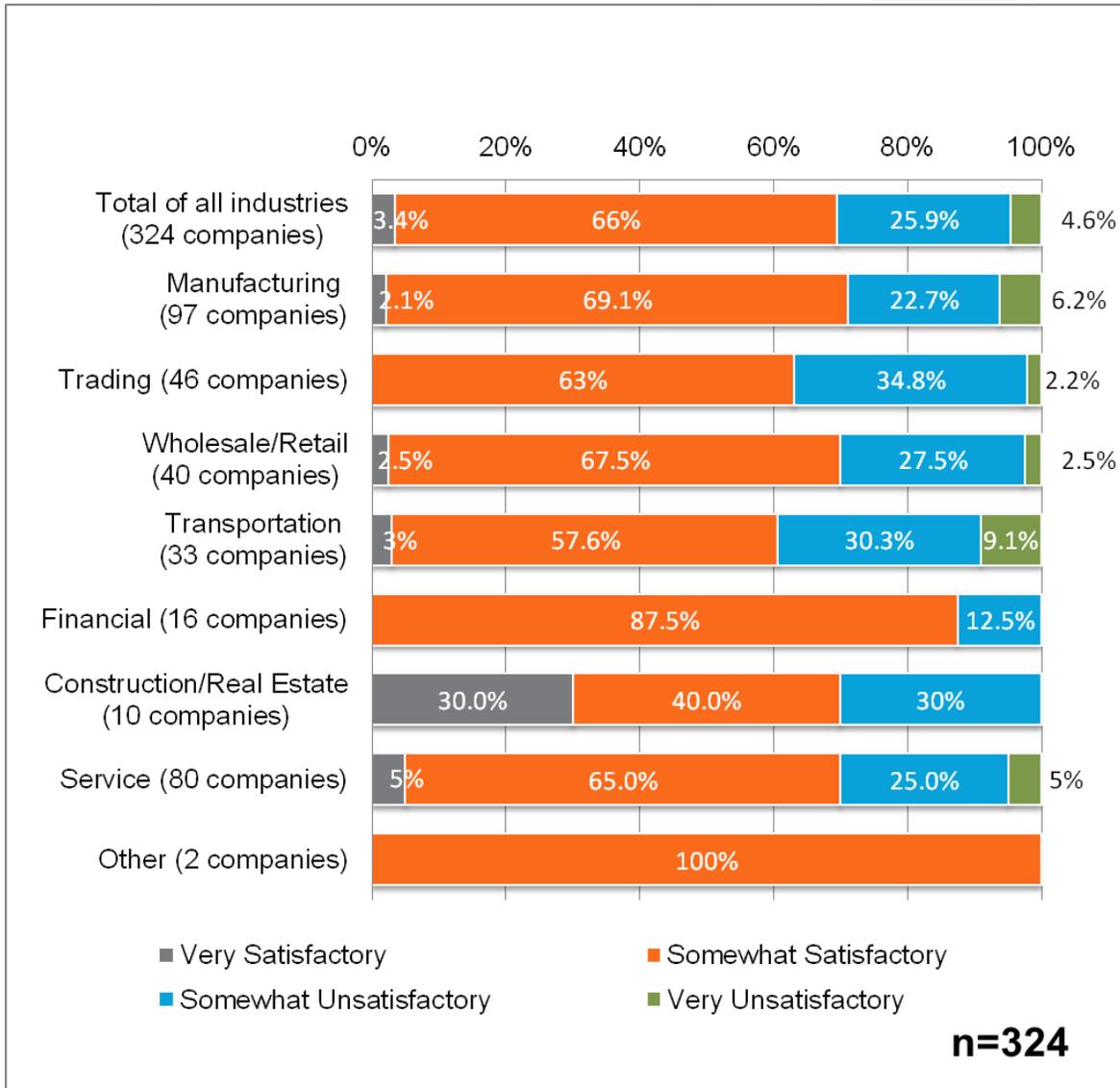
[Graph 13] Evaluation of Business Performance (by Industry; 2018 Survey)



Comparing "Very Satisfactory" and "Very Unsatisfactory" in business performance from previous survey result, the percentages has increased significantly in most of industries.

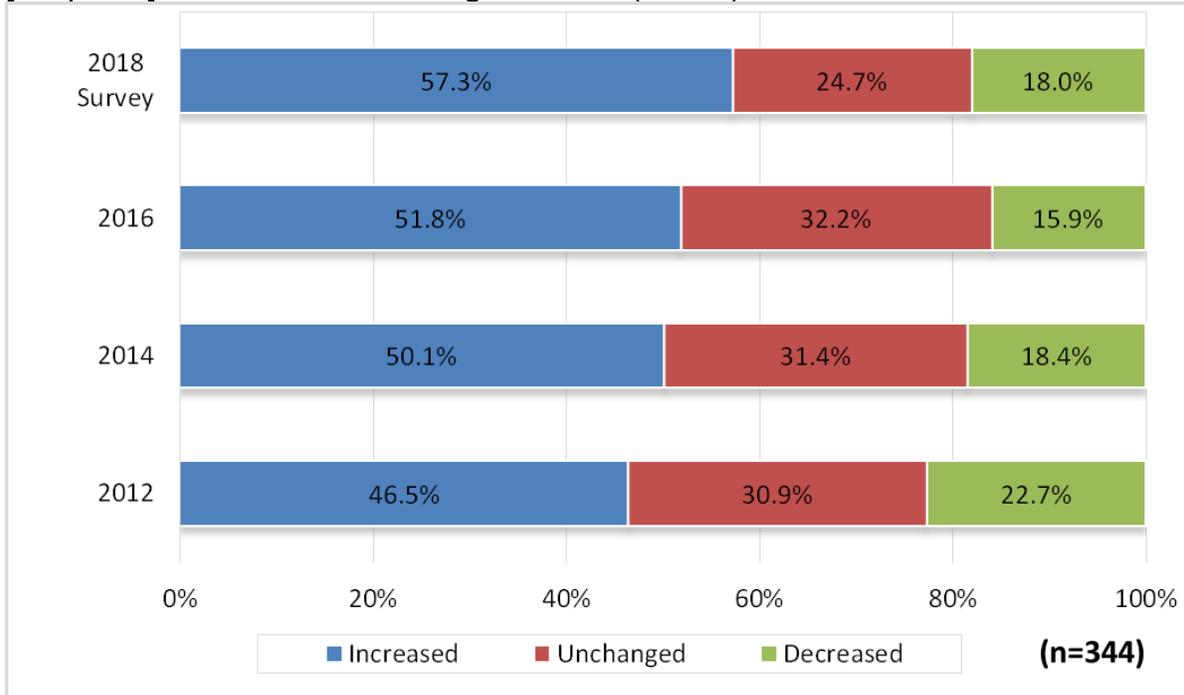
Although these results cannot be discussed on the same page because the responding companies are different in 2018 and 2016 surveys, this survey found that the evaluation of business performance has been divided into two, "Very Satisfactory" or "Very Unsatisfactory."

[Reference] Evaluation of Business Performance (by Industry) (2016 Survey)



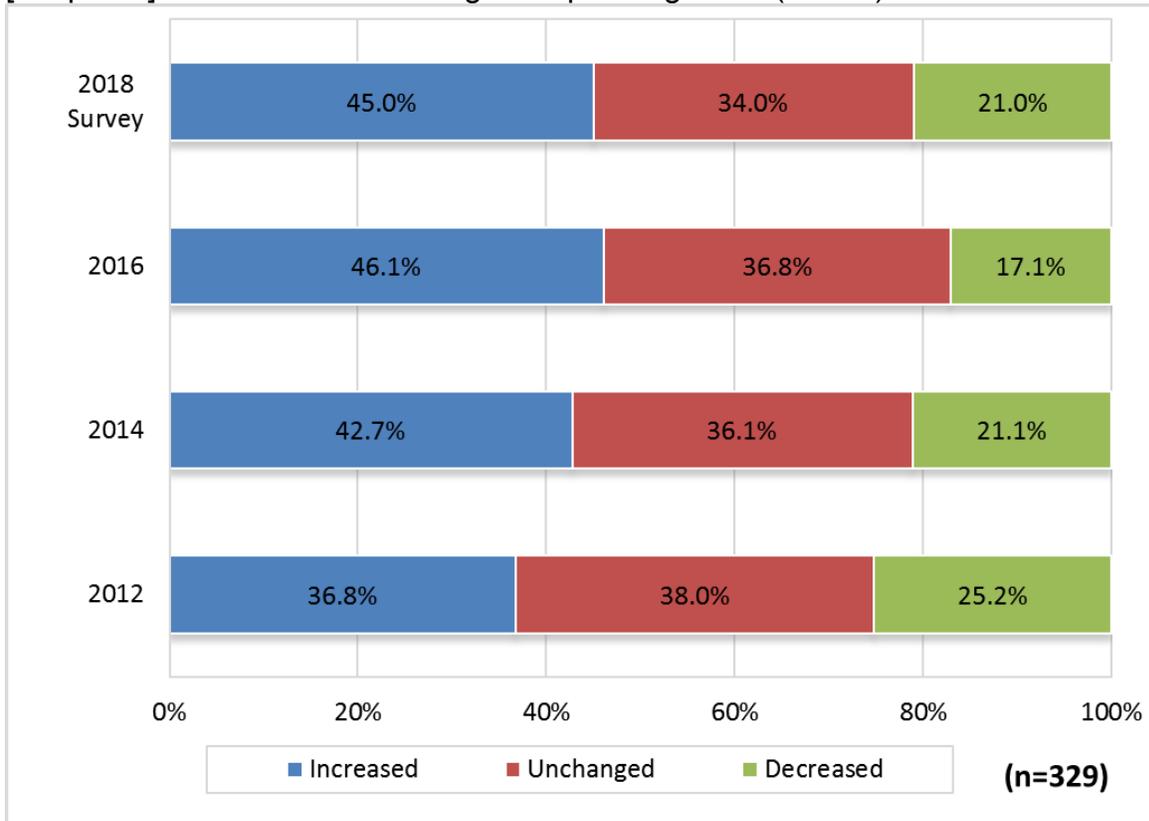
Year over year changes in sales in 2017 reportedly "Increased" at 57.3% of companies, rising from 51.8% in the previous survey. On the other hand, the percentage of companies whose sales "Decreased" also rose slightly compared to the previous survey.

[Graph 14] Year Over Year Change in Sales (n=344)



On the operating profit year over year in 2017, 45.0% of companies responded as "Increased", which is roughly the same as 46.1% in the previous survey. Also, 21.0% responded as, up slightly from 17.1% in the previous survey, said that their profit "Decreased".

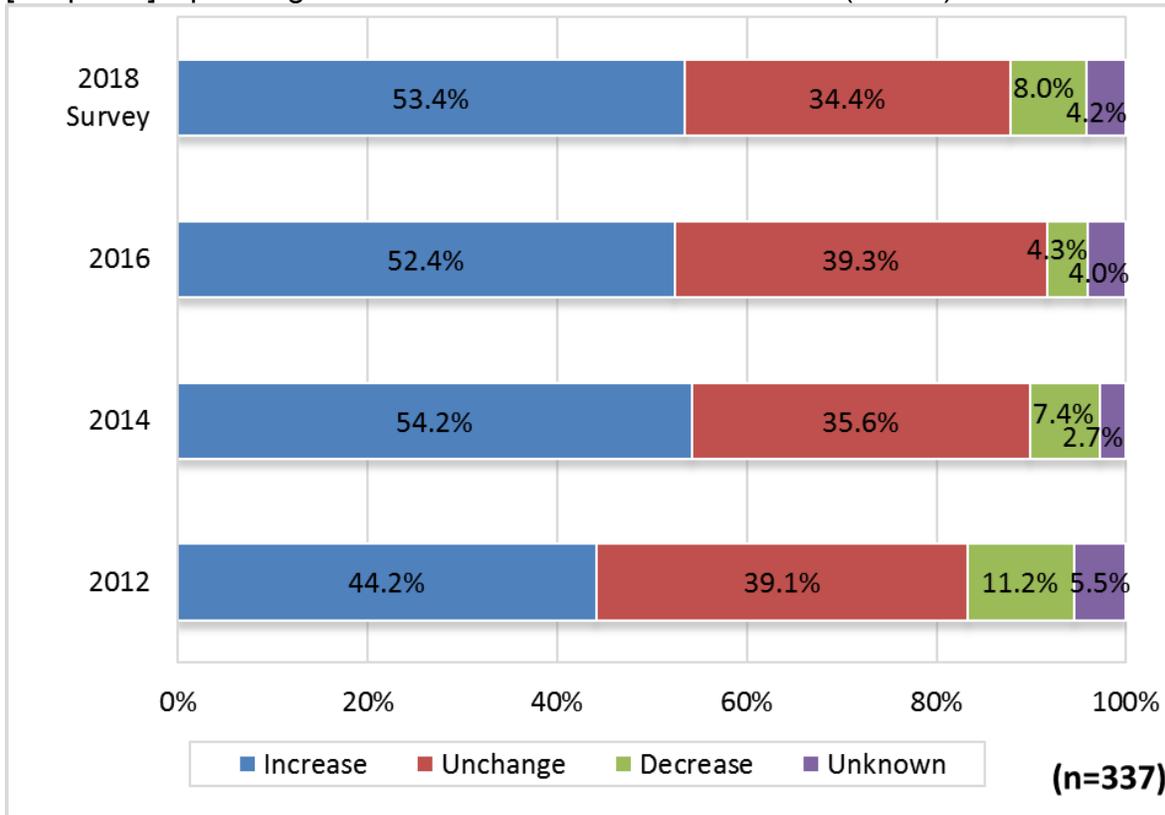
[Graph 15] Year Over Year Change in Operating Profit (n=329)



2. Future outlook

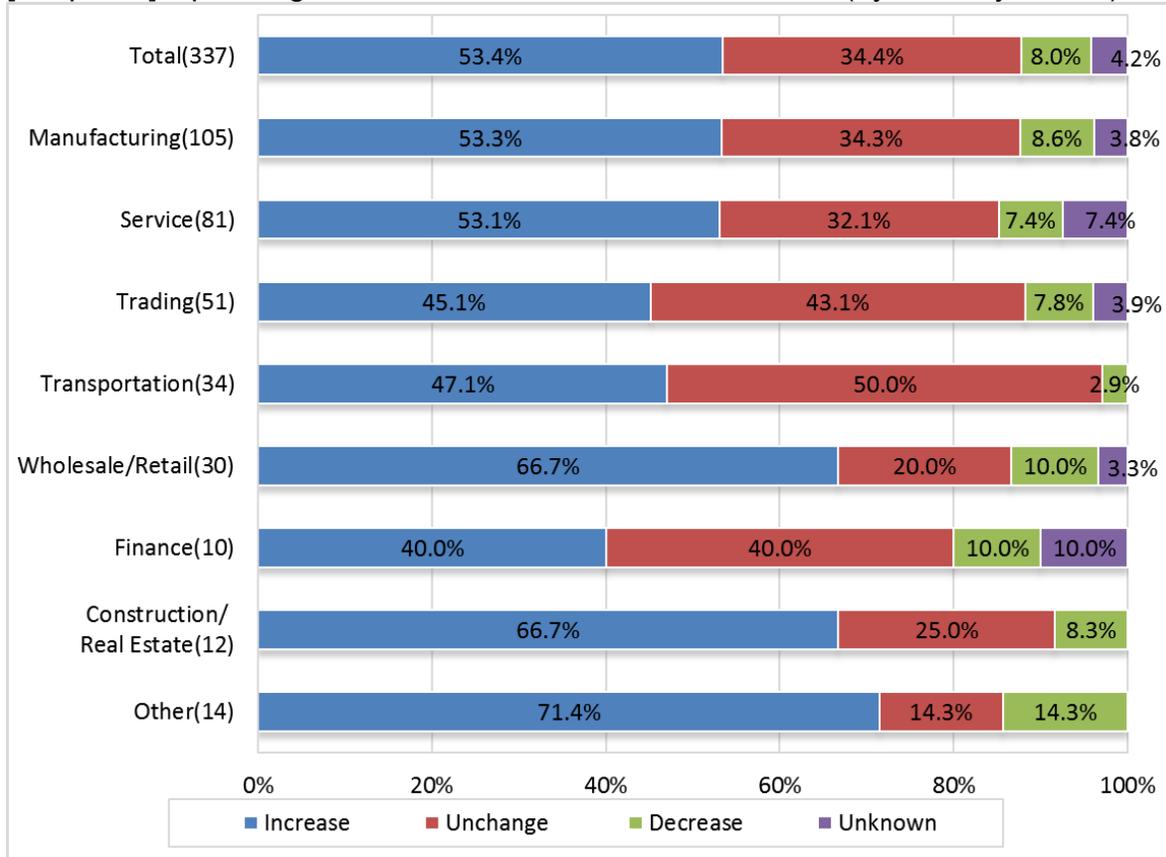
53.4% companies predicted their operating profit for the next one or two years would "increase", which is roughly same as the previous survey. On the other hand, "decrease" was up from 4.3% in the previous survey to 8.0%.

[Graph 16] Operating Profit Outlook For the Next 1-2 Years (n=337)



As industry breakdown, over 50% of companies in the "Wholesale/Retail", "Construction/Real Estate", "Manufacturing" and "Service" were expected their profit would "increase" .

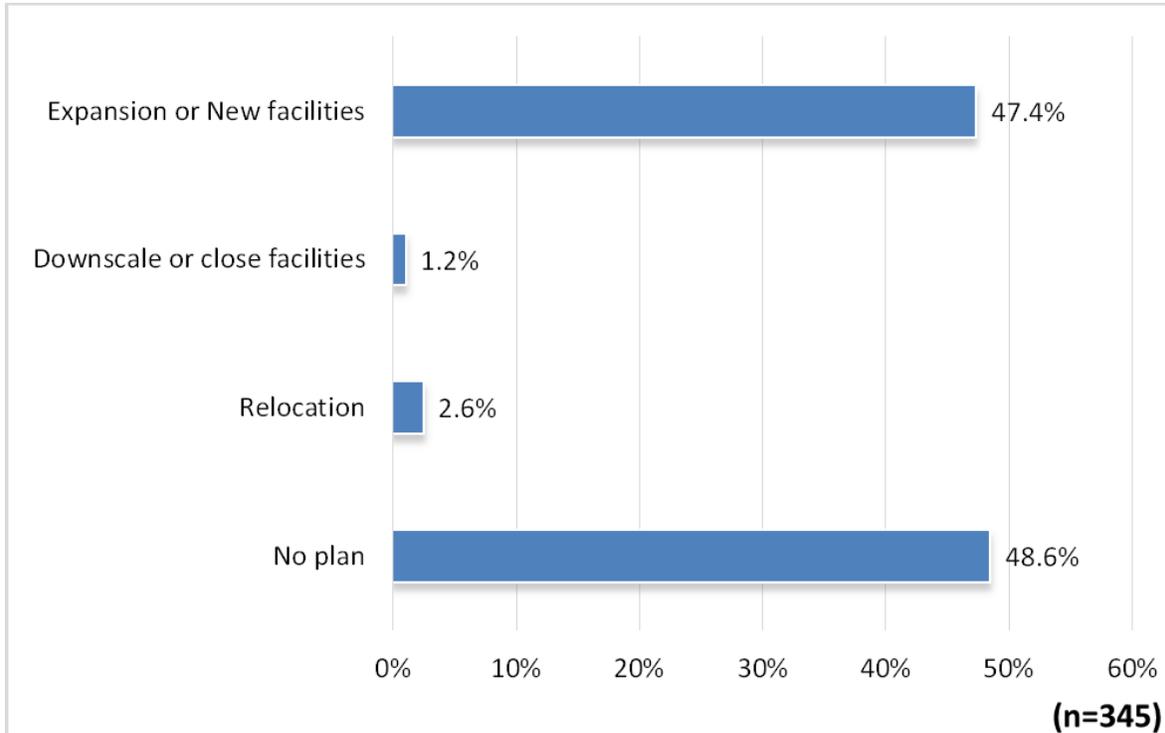
[Graph 17] Operating Profit Outlook For the Next 1-2 Years (by Industry;n=337)



3. Investment and business plans

As for investment and business plans over the next one or two years, 47.4% of respondents said that they were planning an "Expansion or new facilities". Many Japanese companies are looking for expand their facility investments/business operations.

[Graph 18] Investment and Business Plans for Next 1-2 Years(n=345)



4. Advantages of Southern California

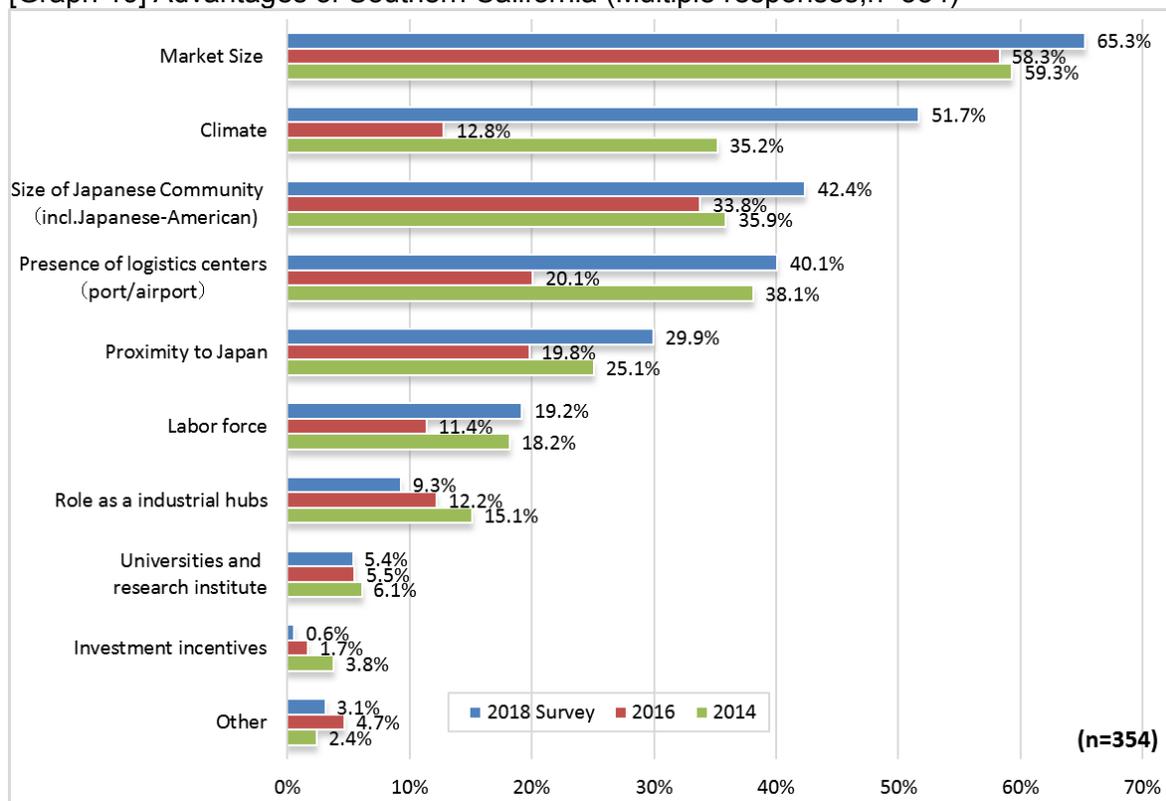
Asked about the advantages of Southern California, "Market size" was the top of 65.3%, which is same as the previous survey. California is the most populous state in the U.S. with 40 million population, and certainly its large consumer market that accounts for a half of the state's population.

The second greatest advantage was 51.7% in "Climate". This percentage is significantly increased from 12.8% in the previous survey. Southern California has a mild climate year round.

According to the National Oceanic and Atmospheric Administration (NOAA), the U.S. suffered record \$306 billion damage from major natural disasters in 2017⁶. In 2017, powerful hurricanes hit the southern states in the summer and fall, flooding wide areas including nearby cities. In California, dry weather caused forest fire in certain mountainous regions in the summer, and also in late 2017. In early 2018, cold waves hit the East Coast of the U.S.. These events could have served as wakeup calls for many businesses that realized how much damage the companies could suffer from natural disasters.

In addition, the respondents also recognized "Size of Japanese community(including Japanese-American community)" (42.4%), "Presence of logistics centers(port/air port)" (40.1%), and "Proximity to Japan" (29.9%) as other advantages of the region, all of which accounting for a higher percentage compared to the previous survey.

[Graph 19] Advantages of Southern California (Multiple responses;n=354)



⁶ NOAA "Billion-Dollar Weather and Climate Disasters: Overview" (<https://www.ncdc.noaa.gov/billions/>)

Based on an industry breakdown, more than half of the companies said "Market size" as an advantage in all industry sectors.

Also, over 50% of companies in the "Manufacturing", "Transportation", "Wholesale/Retail" and "Construction/Real Estate" said that "Climate" as an advantage, while the majority of "Financial" and "Service" companies found "Size of Japanese community" as an advantage of the region. "Presence of logistics centers" was viewed as an advantage by around 60% in "Trading" and around 90% in "Transportation".

[Table 4] Advantages of Operating Business in Southern California (by Industry)
(Multiple responses; n=354)

	Market size	Climate	Size of Japanese Community	Presence of logistics centers	Proximity to Japan	Labor force	Role as a industrial hubs	Universities and research institute	Investment incentives	Other
Manufacturing (110)	60.0%	51.3%	33.9%	38.3%	27.8%	21.7%	10.4%	5.2%	0.0%	4.3%
Service (90)	62.8%	45.7%	60.6%	21.3%	28.7%	22.3%	4.3%	5.3%	1.1%	4.3%
Trading (53)	64.2%	45.3%	28.3%	54.7%	37.7%	20.8%	17.0%	5.7%	0.0%	0.0%
Transportation (34)	70.6%	55.9%	41.2%	85.3%	41.2%	5.9%	11.8%	2.9%	0.0%	2.9%
Wholesale /Retail (29)	69.0%	41.4%	51.7%	20.7%	0.0%	13.8%	6.9%	3.4%	0.0%	3.4%
Finance (13)	53.8%	38.5%	61.5%	23.1%	7.7%	0.0%	7.7%	7.7%	0.0%	0.0%
Construction/ Real Estate (12)	91.7%	75.0%	41.7%	16.7%	25.0%	25.0%	0.0%	0.0%	0.0%	0.0%
Other (13)	53.8%	69.2%	46.2%	23.1%	38.5%	30.8%	15.4%	23.1%	7.7%	0.0%

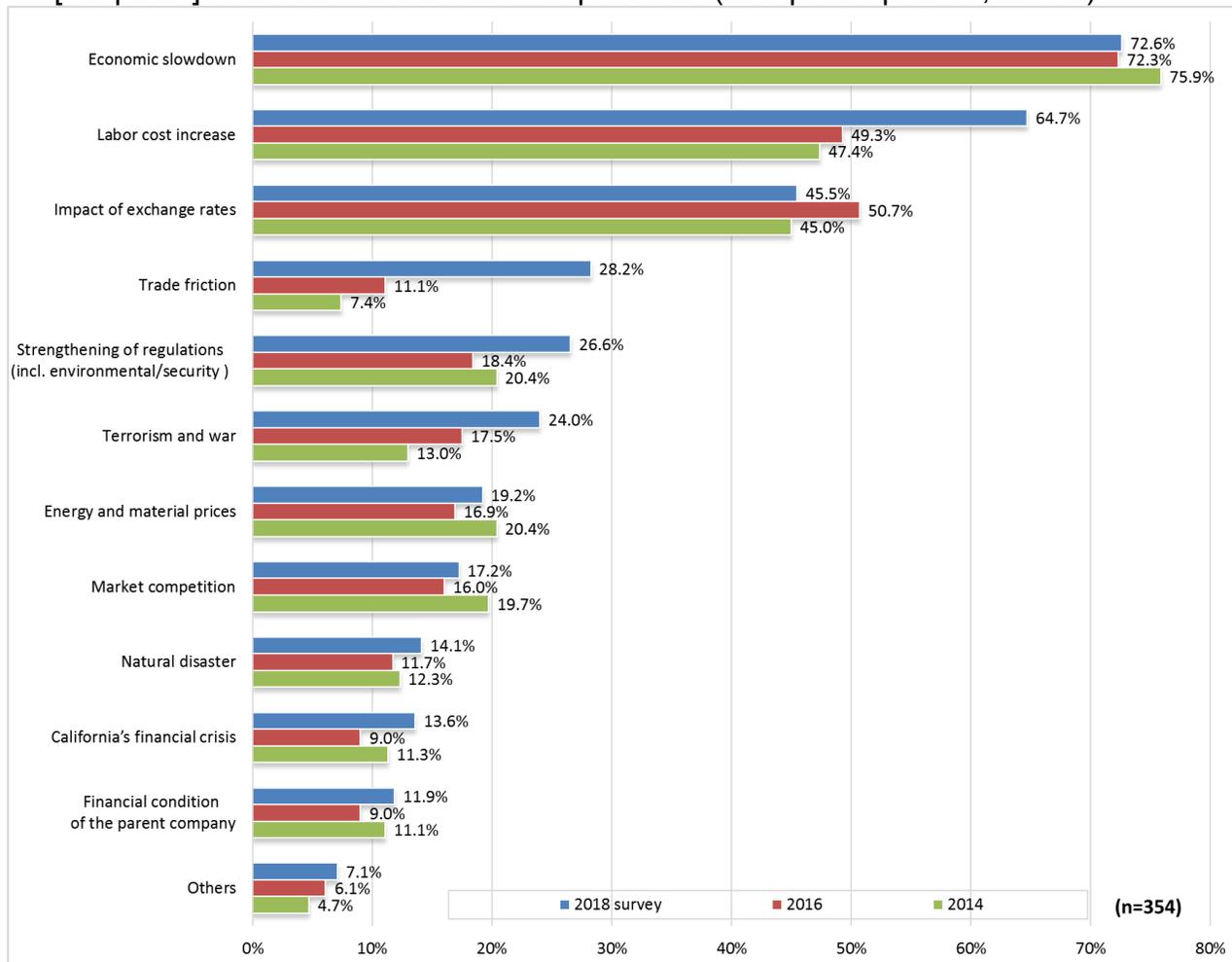
5. Concerns over business operations in the future

72.6% of companies said "Economic slowdown" as the highest of concerns over business operations in the future, followed by 64.7% said "Labor cost increase" and 45.5% said "Impact of exchange rates".

Compared to the previous survey, "Impact of exchange rates" was down 5.2 points, while that of companies said "Labor cost increase" was up 15.4 points. On "Labor cost increase", the statutory minimum wage in California is \$11 per hour as of January 2018, which will be increased to \$15 per hour by 2022. Some cities are setting higher rates than the state's minimum wage. This is great concern among the Japanese companies.

Also a majority of companies said "Trade friction", "Strengthening of regulations" and "Terrorism and war" as concerns. These responses highlight the growing concerns in trade, economic and national security policies under the Trump administration.

[Graph 20] Concerns over Business Operations (Multiple responses; n=354)



By industry, many companies said "Economic slowdown" and "Labor cost increase" as major concerns across the industries. At least 50% of companies in the "Manufacturing", "Trading" and "Wholesale/Retail" said "Impact of exchange rates" was a concern.

[Table 5] Concerns over Business (by Industry) (Multiple responses; n=354)

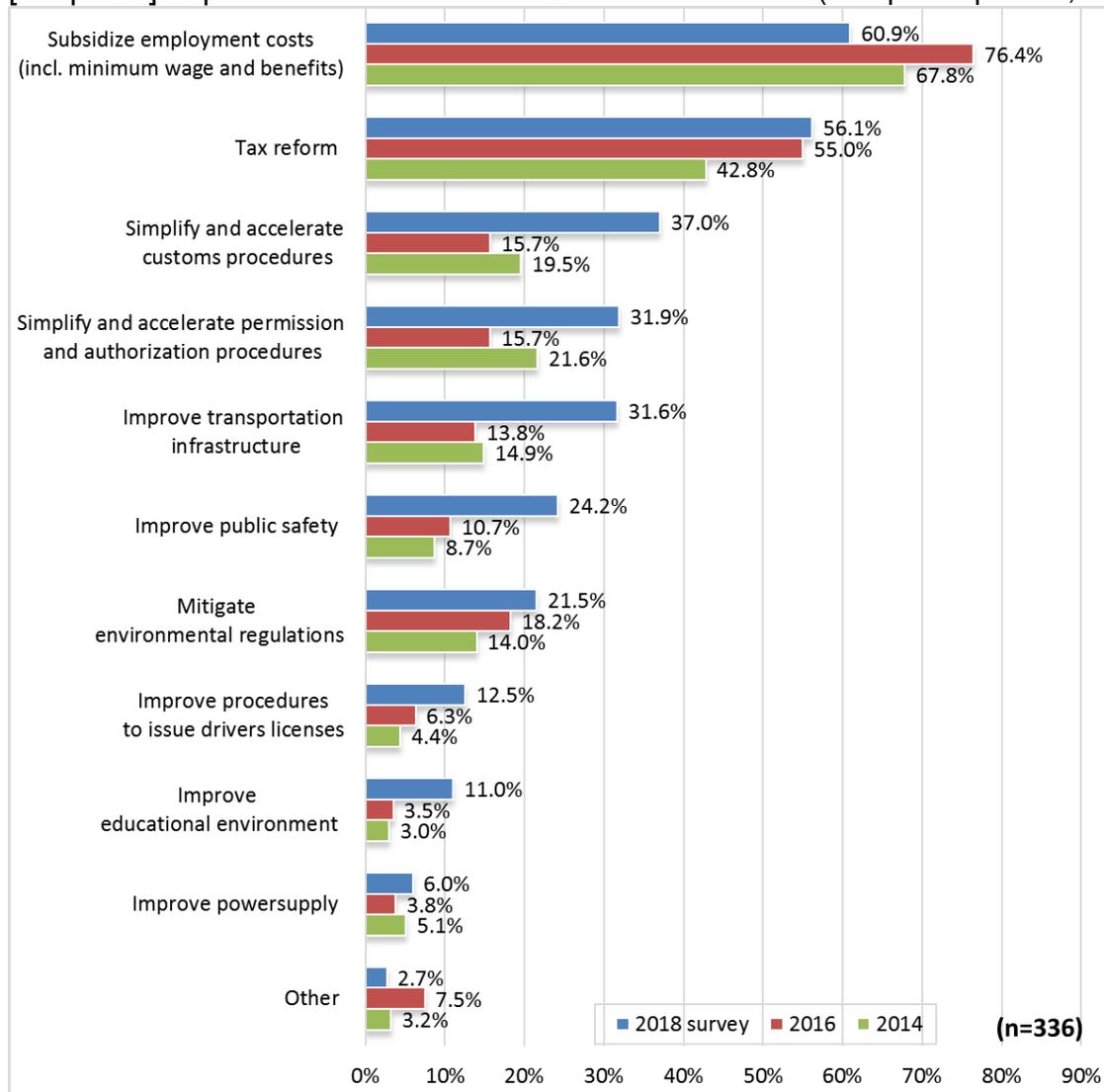
	Economic slowdown	Labor cost increase	Impact of exchange rates	Trade friction	Strengthening of regulations (incl. environmental/security)	Terrorism and war	Energy and material prices	Market competition	Natural disasters	California's financial crisis	Financial condition of the parent company	Others
Manufacturing (110)	70.0%	64.5%	54.5%	37.3%	26.4%	13.6%	26.4%	26.4%	13.6%	10.0%	10.9%	4.5%
Service (91)	67.0%	61.5%	30.8%	8.8%	14.3%	30.8%	6.6%	4.4%	13.2%	14.3%	15.4%	13.2%
Trading (53)	77.4%	56.6%	54.7%	37.7%	26.4%	28.3%	24.5%	18.9%	9.4%	7.5%	7.5%	5.7%
Transportation (34)	82.4%	88.2%	44.1%	47.1%	47.1%	32.4%	26.5%	11.8%	32.4%	29.4%	17.6%	5.9%
Wholesale /Retail (29)	75.9%	69.0%	55.2%	31.0%	34.5%	20.7%	10.3%	34.5%	10.3%	3.4%	6.9%	3.4%
Finance (12)	75.0%	58.3%	33.3%	8.3%	33.3%	33.3%	8.3%	0.0%	8.3%	8.3%	8.3%	0.0%
Construction/ Real Estate (12)	83.3%	58.3%	25.0%	0.0%	16.7%	41.7%	16.7%	16.7%	16.7%	33.3%	16.7%	0.0%
Other (13)	69.2%	61.5%	46.2%	38.5%	46.2%	7.7%	38.5%	15.4%	7.7%	30.8%	7.7%	15.4%

6. Expectations for state and local governments

When asked about how the state and local governments improve the business climate in Southern California, the majority of respondents said "Subsidize employment costs (including minimum wage and benefits)" and "Tax reform". The companies expressed dissatisfactions over the cost burdens on employers from rising employee benefit expenses/minimum wages, and over the corporate tax rates that are higher than in other states.

Other areas of improvement included "Simplify and accelerate permission and authorization procedures" and "Improve transportation infrastructure" which were found more than 30% of companies.

[Graph 21] Expectations for State and Local Governments(Multiple responses;n=336)



[Reference] Specific comments on expectations for state and local governments.

1. Issues related to labor costs

<Labor costs>

- Impact of rising minimum wages on the price competitiveness of California companies against companies in other states
- Brisk economy is creating a labor shortage, which in turn is pushing the labor cost higher. We need measures that attract many talents.
- Escalating labor cost and fuel cost are making it difficult to secure talented workers unless higher salaries are offered. Along with labor cost and fuel cost, office rents are also soaring--all three factors are driving the overall fixed costs higher.
- For companies doing business in the U.S., Southern California is a lot more expensive place than other states in terms of prices of goods and labor cost. High prices and rents may have positive effects on public safety, but they are detrimental to the competitiveness of companies operating here. Hiring individuals having the same skills is more expensive here than in other states. Due to higher prices and labor costs, expensive staff are not necessarily excellent talents.
- Concerns over escalating labor cost
- Labor cost is higher than in other states, which is hindering business expansion.
- California is putting heavy burdens on us in terms of high infrastructure cost and minimum wages. Measures to ease these burdens will help.
- Workers' compensation cost is too high compared to other states.
- We are struggling because the minimum wage is rising so fast that we cannot transfer the increase to customers and our profit is impacted.
- Traffic congestion, no regulation over rising real estate prices, higher wages. These cost burdens have many negative effects on the business operations. Please work on eliminating these burdens.
- The minimum wage is rising, from current \$12 to \$13.25, and eventually to \$15. Based on simple calculations, we must charge customers 1.5 times what the prices were when the minimum wage was \$10, to break even. We may soon have to pay \$40 for a hamburger and a glass of beer, plus tax and tip. We are very concerned that, when that day comes, customers may not be able to afford it. Plus, California does not accept tip credit and minimum wage for tipped employee. In other words, servers will earn \$15 per hour plus tips, which is more than the pays of some exempt managers. It doesn't make sense that the serves who work 6-hour shift a day, 5 days a week, earn more than the managers who work longer hours every day. One solution to eliminate this unreasonableness is to accept tip credit and minimum wage for tipped employees. The restaurant industry is a low-margin industry to begin with (3 to 5% on average, although some may argue other figures). When we are struggling to pay high salaries to the managers, why is it that the floor staff gets 20% of tips from the customers and the company must pay them \$15 per hour? I can't help but think the floor staff are treated preferentially. The measures I mentioned will keep us in business without having to raise the prices of hamburgers, in the earlier example. Please push these measures forward at all cost. Although having these risk factors, California and the U.S. are markets filled with dreams and presenting unlimited possibilities. I hope many Japanese businesses will enter the U.S. market and I will support them.
Lowering of labor cost (including FUTA)

<Labor laws>

- In California, labor laws unfairly favor employees, so much so that even employees who break the law or lie often win in court. Also, labor cost is escalating at a rapid pace not seen in other industrialized nations, and many workers who have grown up in this skewed environment are unproductive and self-centered, creating problems in running our business. Also, in many cases the extreme state of America's sue-happy society is preventing business expansion while increasing costs.
- Employers face high risk of being sued by their employees.
- In industrial accident lawsuits, judgments are excessively favorable to the employees. The companies should be treated fairly. A company and its employee have an at-will employment relationship, in principle, but this is not the case in California.
- Labor cost is too high, workers are overly protected, and harassment compliance is also costly.

<Hiring, recruiting and staffing>

- We painfully feel manufacturers don't have enough workers. Our industry is one where automation is difficult, so we are improving the work environment and wages to secure talents. Through hiring activity, I realized the pool of Japanese/English bilingual engineers and sales representatives was shrinking. Although the cost of living is different, in the U.S. we need \$40,000 to hire a salesperson fresh out of school. I suspect many other companies are utilizing the J1 training program visa. Our company is also considering J1. Many Japanese companies must be employing non-Japanese, but for Japanese companies to grow, it will be great that opportunities for Japanese to work in the U.S. increase.
- Difficulty hiring new employees (Japanese staff)
- Hiring talented staff is difficult.
- Securing talented individuals, work visa support issues
- Securing and retaining key persons
- We are considering hiring new graduates locally, so venues or environments where we can contact Japanese students studying here would be very meaningful to us. Also, is it possible to create a sample government handbook, etc., to reduce employment risks?

2. Issues related to tax

- California has higher taxes than other states, so lowering the tax rates will increase the advantages of California.
- The business taxation by the City of Los Angeles is complex, and we want it simplified.
- The state and local governments should exert influence and persuade successful Japanese companies not to move to other states to reduce tax burdens for the short term.
- We don't have the courage, but several companies will likely follow Toyota, which left Torrance, to seek new business locations out of state. Does the state government have any plan to stop this outflow?
- The U.S. tax reform that became law on December 22, 2017 includes a broader definition of CFC and a provision to prevent erosion of tax source. We are concerned how they might affect the transfer price taxation on our Mexican subsidiary, etc.

3. Issues related to relaxation of environmental regulations

- Environmental regulations are becoming tougher each year, making it difficult for

- manufacturers to make new investments.
- Relaxation and revision of environmental regulations
 - It has no direct impact on our business at the moment, but the mismatch between the environmental regulations at state and federal levels may create potential problems for the state. Reportedly the state has no intention to relax its environmental regulations, but such staunch position may create a conflict with the federal government and eventually impact the industries within the state. We are interested in how it will all pan out.
 - California (and ports of Long Beach & Los Angeles) recently enacted regulations mandating complete "zero emissions" for ships, trucks and port handling equipment by 2030. While we support movement towards more clean energy equipment, the regulations have gone beyond what is reasonable. Some aspects do not yet have proven technology. Costs for some aspects will be astronomical and prohibitive. Infrastructure will probably not be fully capable.

4. Issues related to permit/license procedures

<Regulations>

- Logistically, the new regulation on trucking drivers is making the driver's job more cumbersome. In relation to this, a shortage of drivers is preventing smooth movement of goods and products at some companies over the past few months.
- Regulations are too tough.
- In conducting any environmental infrastructure business (especially waste power generation business), specific regulations toward improving the environment (especially reduction of greenhouse gases) by the local and state governments, and expediting of permits/licenses application procedures and processes for business roll-out, are essential. The enactment of very tough regulations on raw garbage treatment, etc., is supportive of business roll-out toward reduction of greenhouse gases; however, it is a must to reduce the volumes of waste in metropolitan areas. As for waste materials other than raw garbage, the state and local governments must also provide economic assistance and make long-term commitment to promote heat treatment technology that is most environmentally friendly and provides an efficient way of reducing waste volumes. To make waste power generation business a reality, we ask that the governments actively discuss introducing incentives linked to power generation volume, securing a budget for grants, etc., and work on these measures based on specific schedules.
- Revision or repeal of Prop 65. This law protects consumers by "making the regulated substances public"; instead of protecting consumers, however, Prop 65 is reportedly nothing more than an income source for lawyers in California. The state lists the regulated substances and requires warning labels to be displayed on products that contain any of the listed substances. This approach presents the following problems:
[1] Companies are not sufficiently notified. Companies don't know the list is there, so they can't comply.
[2] The consumer body contracted by the state does not immediately notify a violating company of its violation; instead, it lets the company continue selling the violating product for 3 years or so, before slapping a notification. Since the company has sold the product more, the amount of penalty is higher. It appears the consumer body is intentionally delaying the notification to increase the penalty. [3] As mentioned earlier, companies are not fully notified of the regulation, which makes it virtually non-existent in the actual market. Only a handful of companies whose violation got caught by the consumer body are forced to pay a penalty and put labels on the products to warn of

the regulated substances. This approach not only costs the company a lot of money reconditioning the label, but it also leads to boycotting of the product by consumers who will stop buying it due to the label. [4] To begin with, the regulated substances under Prop 65 are not necessarily harmful because they are permitted for use by the FDA, etc., under the stated circumstances.

In other words, this regulation is a double standard. Prop 65 is causing a dilemma, because it reduces the ability of compliant companies to sell and weakens the appetite of new players to enter the market, and consequently helps non-compliant companies sell their products. By revising or repealing Prop 65 and introducing a revised/new regulation more in line with the FDA, etc., California can protect a healthy competitive environment and truly protect consumers.

- There are too many import regulations, and popular food products readily available in Japan cannot be imported. (Instant/cup noodles, seasonings including ready-made curry sauce mix, retort food...due to regulations on animal extracts, egg and daily products)

Before regulating the import of exotic products, please look at the current state where these everyday food products are not allowed to be imported.

<Visa-related>

- We want to bring talents necessary for business expansion from Japan, but there are so many obstacles. Unless it becomes easier to obtain visas, we will face difficulty fighting in the business battlefield.
- I have been working with an E2 visa since 2000. I want to apply for a green card, but since I am the only worker in the office, the company cannot use the Executive Transfer program. We are reluctant to resort to other long, cumbersome procedures, and I am still an E2 employee today. I will have to visit the U.S. Embassy in Tokyo to renew my visa every five years, but I always have a fear that the U.S. government will one day stop renewing the visa. I wonder if a program could be introduced to help Japanese nationals who have been working for many years locally in a key, full-time position in a company, such as myself. For example, allowing a person who has been working locally on an E2 or other work visa for the same company/at the same position for at least 10 years, to apply for a green card. Such a program will help those individuals who are well-versed in the situations overseas and the U.S. and who can bring stable economic benefits here, to stay in the U.S. for a longer time, which I believe is beneficial to the U.S. It would be great if you could relay my message to the government.
- We were established in 1994 as a maquiladora company. The scheme was to set up a sales company in the U.S. and operate a production factory in Mexico. Japanese expatriates resided in the U.S. and crossed the border every day to manage/supervise the Mexican factory. This maquiladora scheme was abolished in 2000 with the introduction of NAFTA, and we continued to operate the factory in the same manner without problems. Around 2012, however, the U.S. Embassy in Japan tightened the review for visa applicants and obtaining U.S. visas became difficult. It was as if they were saying, "If you are working in Mexico, you should obtain a Mexican visa." For people like us who were posted from Japan and lived in a city near the border, it was commonsense, and also a benefit, to "have a home and live in the U.S. and work in Mexico." By paying corporate tax, acquisition tax, etc., as a U.S. corporation, I believe we are contributing to the U.S. somewhat. It is our sincere hope that obtaining work visas will become easier for companies having sub-subsidiaries in Mexico or Canada.
- We have a factory in Mexico. I commute to work by crossing the border, but renewing

visas for Japanese expatriates is difficult. Living in the U.S., Japanese expatriates contribute to the state or local government by spending money on living expenses and entertainment, paying income taxes, etc. One expatriate moved to Tijuana this year due to visa-related issues, but ideally this person could live on the U.S. side of the border when the living standard and safety are considered. These problems may only affect expatriates living at the border, but we ask that the state government petition the federal government for relaxation of visa regulations.

- After the Trump administration came to power, getting work visas became so difficult.
- We may have no choice as we operate as a maquiladora, but obtaining work visas is really difficult.
- The procedure is cumbersome, and obtaining work visas is somewhat difficult.
- Difficult to obtain work visas. Ways to reduce fixed expenses (how to reduce medical expenses as well as insurance expenses).
- Making it easier to obtain work visas
- Something must be done to address the problems with the immigration law (visas).
- We hope that obtaining work visas will become easier or more work visas will be issued to the Japanese.
- Obtaining work visas is difficult.
- Employing/hiring promising Japanese graduates who have received a degree in the U.S. is difficult because obtaining work visas for them is not easy.
- The review standards for work visas were tightened under the Trump administration, which is creating a very big wall for our company in hiring people. National policies like this are beyond our control, so we can only change our business model, etc., to cope with them. It would be great if latest information were made available to us.
- Difficulty getting visas. Declining number of Japanese students studying in the U.S.
- Getting visas is difficult, and we have headaches.
- Obtaining work visas is a cumbersome, difficult process.
- Obtaining work visas. We want to hire part-time student workers as full-time, but can't get visas.

We understand that things have become difficult under the Trump administration, but it will be greatly helpful if something is done.

- Japanese citizens cannot obtain global entry visas. (Korean, British, German and Indian citizens can.)

The high hurdle of getting work visas is making it difficult to secure bilingual talents. (I must add that the federal government (not the state government) may be to blame.)

<Business licenses>

- At city level, obtaining a business license for a retail store often takes longer than initially anticipated.

In particular, we experienced many troubles with the local engineers, etc., we hired. If the review process is expedited, the wait time becomes shorter and we can put our business on track faster. At any rate, we must sign a lease agreement before applying for a business license, so the site sits idle until the license is approved. I don't think this is good for the city.

5. Issues related to export/import procedures

- There are many problems relating to import/export. In particular, the code is becoming increasingly complex for movement of goods between the U.S. and Mexico, and things are taking a longer time. We, too, are spending a longer time importing goods through FedEx from Mexico.

- Man-hours are increasing due partly to aging seaport/airport facilities and partly to absence of centralized management. The time it takes to receive/deliver goods at facilities is getting longer each year, which is increasing the cost and also eating away the advantage of temporal proximity.

6. Transportation infrastructure

- Urgent need to improve the social infrastructure (roads, railways, airports, etc.)
- Road condition, elimination of traffic congestion, training of truck drivers, restructuring of dockworkers unions, etc.
- As for work visas, it would be great if proper reviews were conducted to help us improve talent quality and hire more Japanese. Also, we feel the local infrastructure is not as good as the infrastructure in Japan.
In particular, there are too many power outages, the resolution of which is an item on our wish list.

7. Other

<Cost of living>

- Market rates for rents, etc., are too high.
- California has mild weather and is a convenient place, but everything costs more.
- The rent of our warehouse increased by 50% this year. From land rents and various insurances to taxes, everything is so expensive in California. Doing business is becoming difficult, and living here is also getting harder, each year.
- Everything costs more here, but schools in Japan have fixed budgets for student trips, so providing sufficient services is becoming difficult each year. We can shorten the itinerary, increase self-paid meals, and resort to other measures, but there are limits. Tour guides are aging, and we can't find young people to replace them.

<Efforts to attract investments and prevent companies from moving out of state>

- We hope the government will make active efforts to attract companies and boost the industries in Southern California.
- We feel California is giving priorities to companies offering high added value at the risk of eliminating traditional manufacturers. However, many jobs come from the manufacturing sector. With the advancement of AI, transportation, restaurants, finance, retail and other industries will likely employ fewer people, but automating the manufacturing jobs is still not easy. Please recognize the importance of the manufacturing sector which is not a new industry but still a source of stable employment. Buying all manufactured goods from China will only weaken the U.S. industries. As the gateway to Asian goods entering the U.S., California has the responsibility for the first line of defense. We ask for more assistance for manufacturers in the U.S.
- Over the medium- to long-term horizon, it is important to make it easier, not only for Japanese companies, but for all companies, to do business in California. Compared to other growing states, clearly the aging infrastructure and high fixed expenses are disadvantages of California. California is number one in innovation and diversity, but we need policies to stop the moving-out of manufacturers that are the cornerstones of industries.
- Why did Nissan and Toyota move to other states? Why couldn't the state government give them incentives to stay?

<Other>

- Some local governments are biased toward the opinions and views of certain countries and groups, and do not always make fair judgments or take fair administrative actions based on facts or academic proof.
The approval to install the comfort women statue and wrong teaching about comfort women in history classes are prime examples. In the U.S. where various ethnic groups live, administrative actions based on one-sided arguments can only worsen the racial tension. For us Japanese working for Japanese companies, and their families, California is becoming a very difficult place to live in. We demand fair, impartial and equal administrative actions and judgments that do not favor certain countries or groups.

(Security measures and crime prevention)

- There are too many traffic accidents in California. Problems abound, such as reckless driving, over-speeding and tailgating.
- Gun regulation, policing, establishment of emergency shelters and evacuation routes, tax reform (lowering of corporate tax rates)
- There should be more proactive measures to prosecute and deport illegal immigrants who commit crimes.
I was involved in an accident caused by an illegal immigrant who was driving without license, and since the other side had no insurance, I received no compensation. In the country governed by the rule of law, this is hard to believe. Stop using our hard-earned tax dollars to provide health care, education, living subsidies, food stamps and other free services to illegal immigrants; these dollars should be returned to us in the form of tax cuts.
- The homeless population in Santa Monica has increased significantly, and crime rate is also rising.
Those kicked out of the skid row may be moving in, or the Expo Line may be helping, but homeless people and criminals are coming into the area and crime rate is increasing of late. Train-line opening has pros and cons, but without tight security, I'm afraid crime rate will only increase.
- Whenever we are not sure about any law, rule or procedure, we must confirm with an expert. However, we can't hire expensive experts frequently. It will help if there is a window at the government where we can go and ask questions casually and easily (ideally the service is free and available in Japanese).

(DMV)

- As a Japanese national working in the U.S., the driver's license renewal process, etc., should be improved. Probably because I make frequent business trips (exit and enter the country frequently), it took more than a year for me to renew my license and actually get a new license. It was such trouble having to renew a temporary license every 3 months.
- Now they issue a driver's license to a visa holder to cover the duration of his/her I-94, which is a progress; however, visa holders should be issued a 5-year license, just like citizens.
- Improvement of the license issuance operations at DMV that affect our employees moving to the U.S.

(End)