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

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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

	No. of companies targeted for survey (companies)	No. of companies participating in survey		Breakdown of industry type				Breakdown of company scale				Valid response rate (%)
		Valid responses (companies)	Country percentage distribution (%)	Manufacturing industry (companies)	Percentage distribution within industry type (%)	Non-manufacturing industry (companies)	Percentage distribution within industry type (%)	Major company (companies)	Percentage distribution of company scale (%)	Small- to mid-sized company (companies)	Percentage distribution of company scale (%)	
Mexico	400	177	42.4	98	55.4	79	44.6	147	83.1	30	16.9	44.3
Venezuela	19	14	3.4	4	28.6	10	71.4	13	92.9	1	7.1	73.7
Colombia	35	30	7.2	11	36.7	19	63.3	26	86.7	4	13.3	85.7
Peru	25	19	4.6	7	36.8	12	63.2	14	73.7	5	26.3	76.0
Chile	58	37	8.9	8	21.6	29	78.4	30	81.1	7	18.9	63.8
Brazil	237	99	23.7	46	46.5	53	53.5	83	83.8	16	16.2	41.8
Argentina	53	41	9.8	14	34.1	27	65.9	36	87.8	5	12.2	77.4
TOTAL	827	417	100.0	188	45.1	229	54.9	349	83.7	68	16.3	50.4

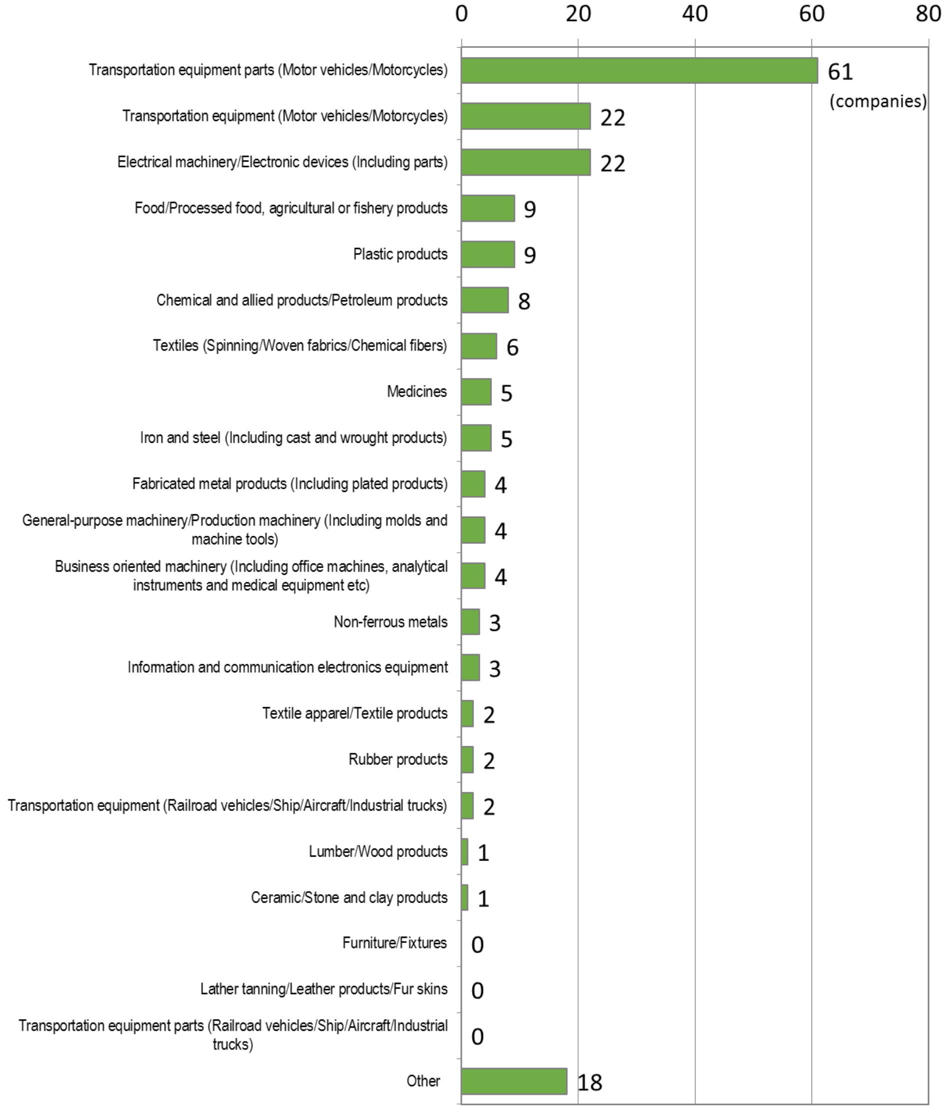
6. Note

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%.

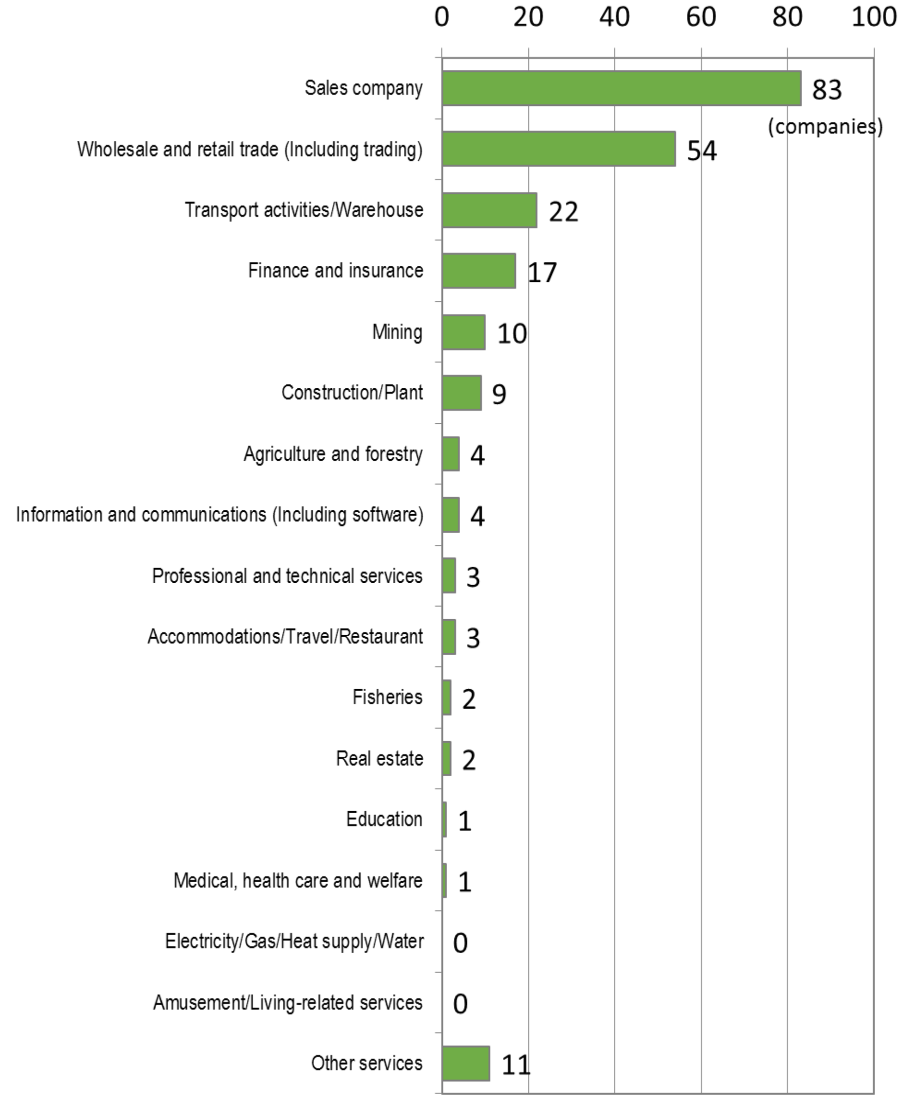
I – 2. Survey Overview: Breakdown by Business sector of the surveyed companies

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

Manufacturing industry (191 companies)



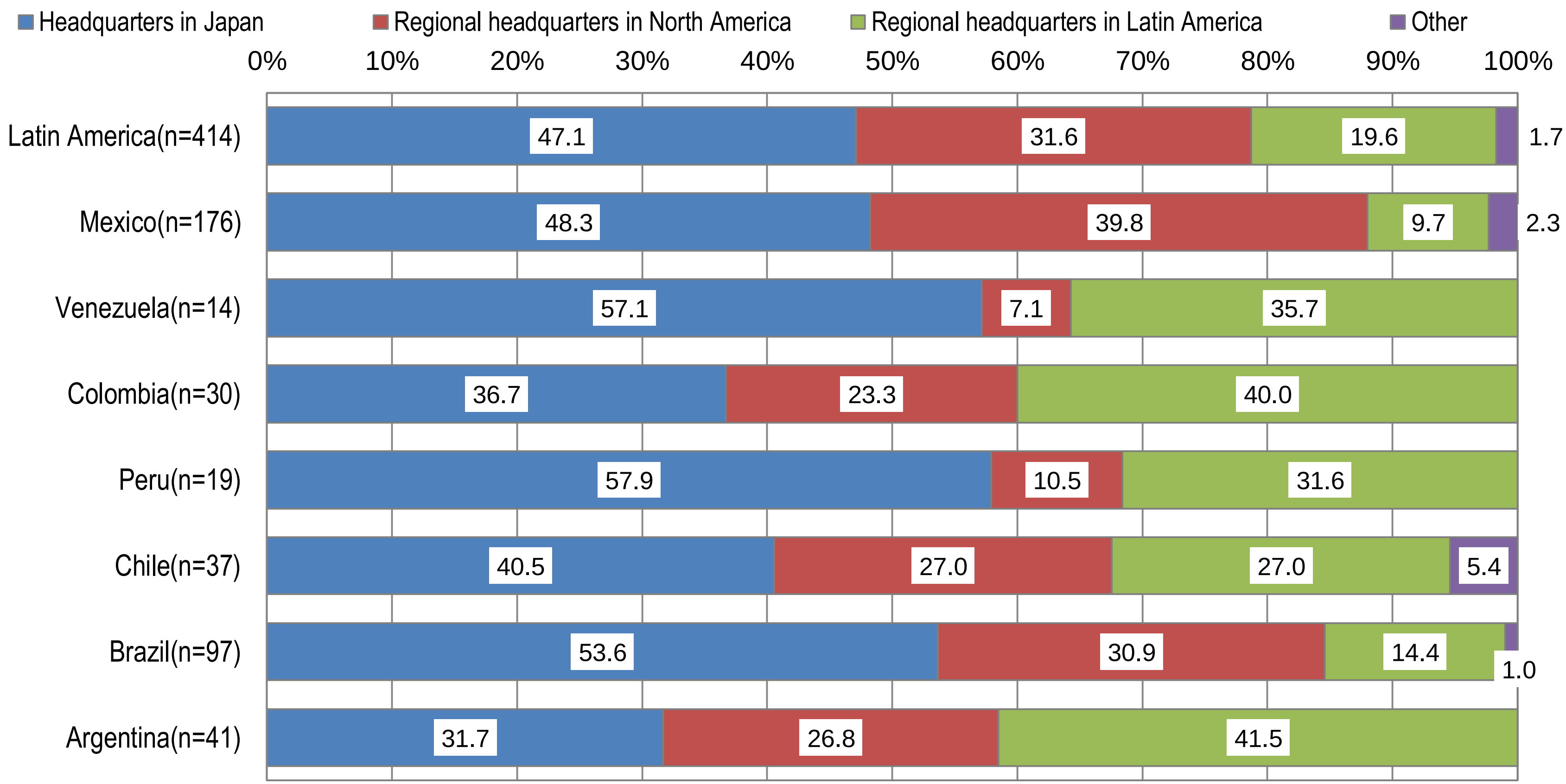
Non-manufacturing industry (226 companies)



I – 3. Survey Overview: Location of regional headquarters for business in Latin America

- 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.

Proportion of Latin American business consolidation regional headquarter locations



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.

I – 4. Survey Overview: Summary points

■**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 yearsexpecting 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% from45.9%), 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.

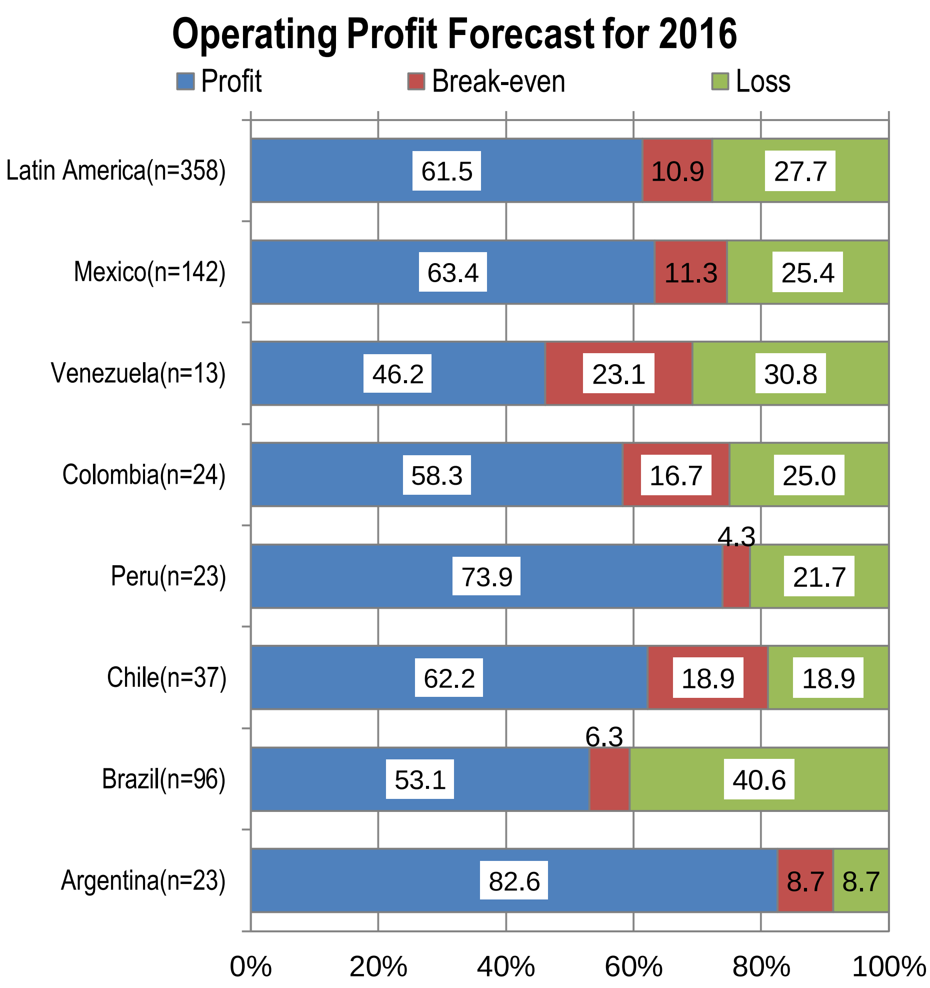
- The recovery of Argentina’s macro economy led to expansion of domestic demand and its diffusion index for 2017 was almost seven times higher (from 4.3 to 31.7) than that of the previous year. **(Document 16, Page 10 in the attached report)**
- Among reasons given for predicting an improved operating 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)**

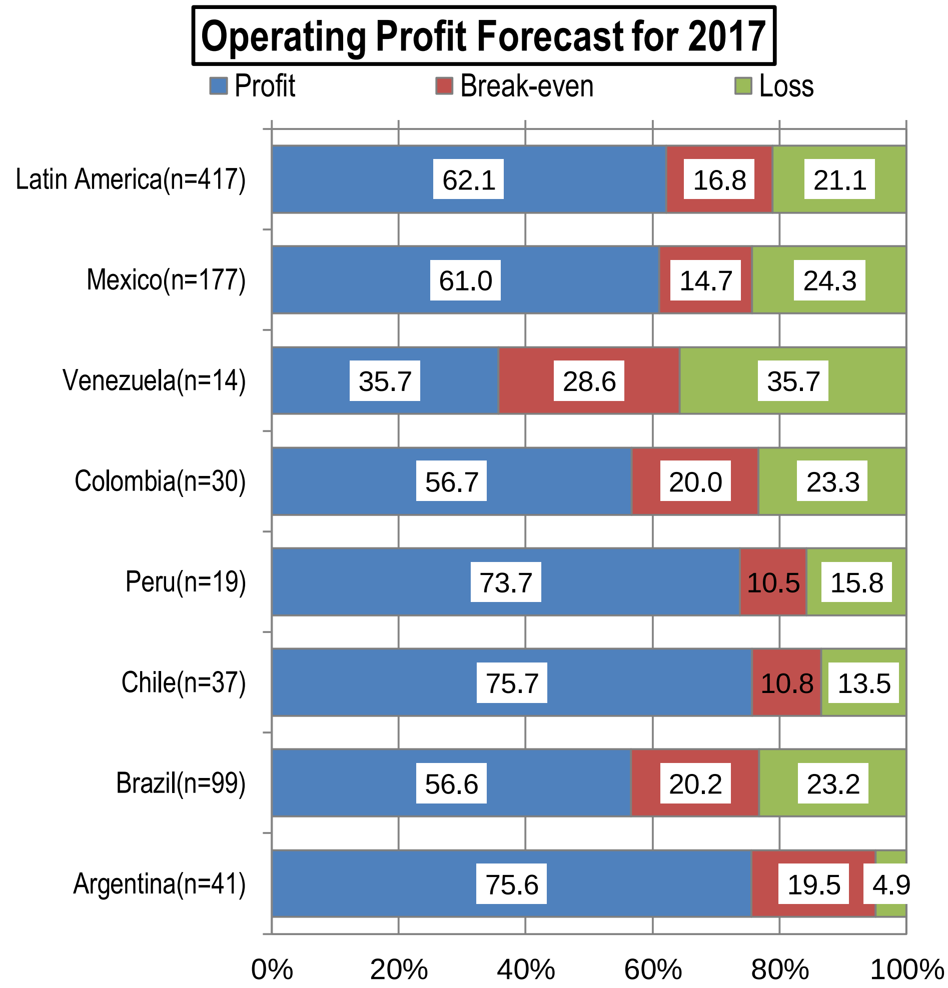
4. Mexico: Current business is stable. Some companies are taking a cautious stance toward expanding business due to the uncertainty surrounding NAFTA's renegotiation.

- 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 surroundingNAFTA'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)**

II – 1 – (1) Operating profit forecast for 2017

- 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.

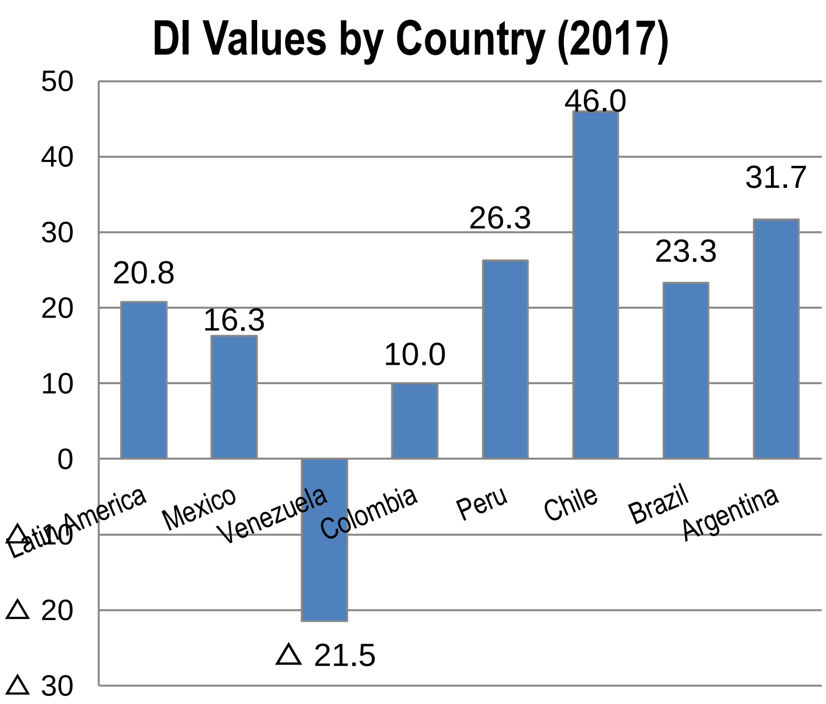


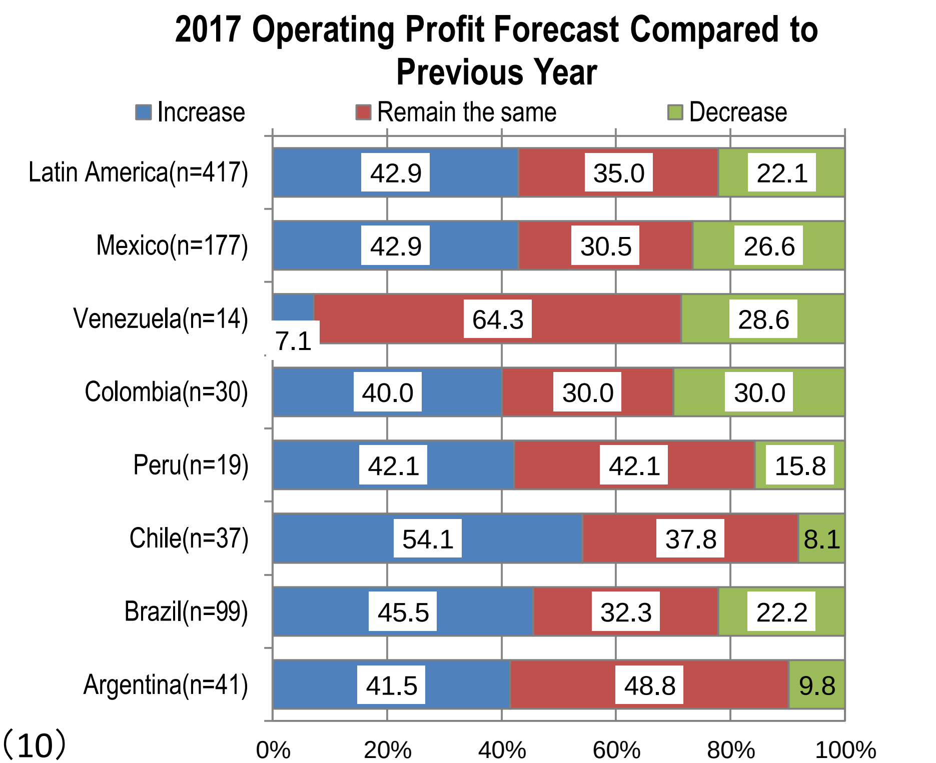


II – 1 – (2) Operating profit forecast for 2017 (compared to previous year)

- 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.

DI Value: The numerical value of the operating profit forecast for 2017 where the reply rate for "Decrease" was subtracted from the reply rate for "Increase" in comparison to the previous year.





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%).

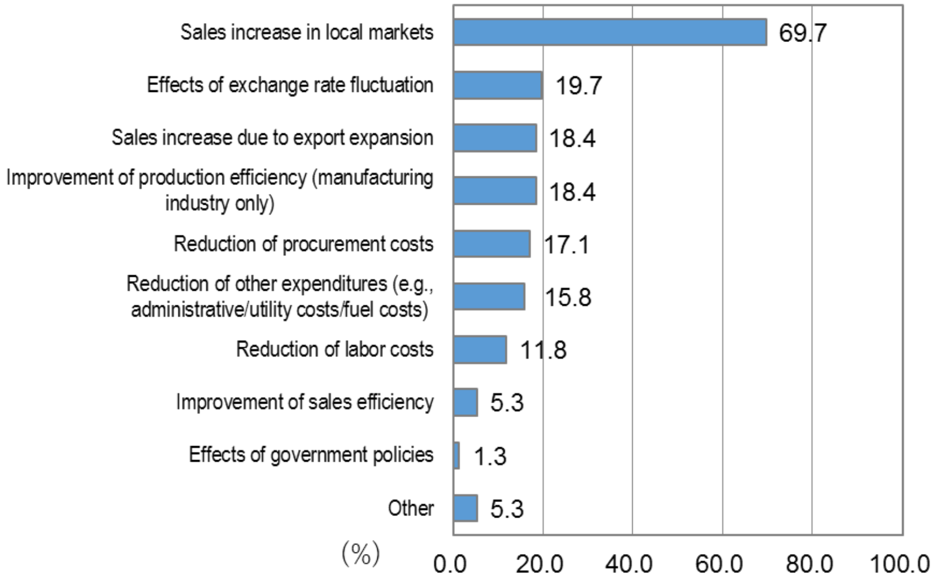
Reasons for increased operating profits forecast for 2017 (Multiple Answers)

(Unit : %)

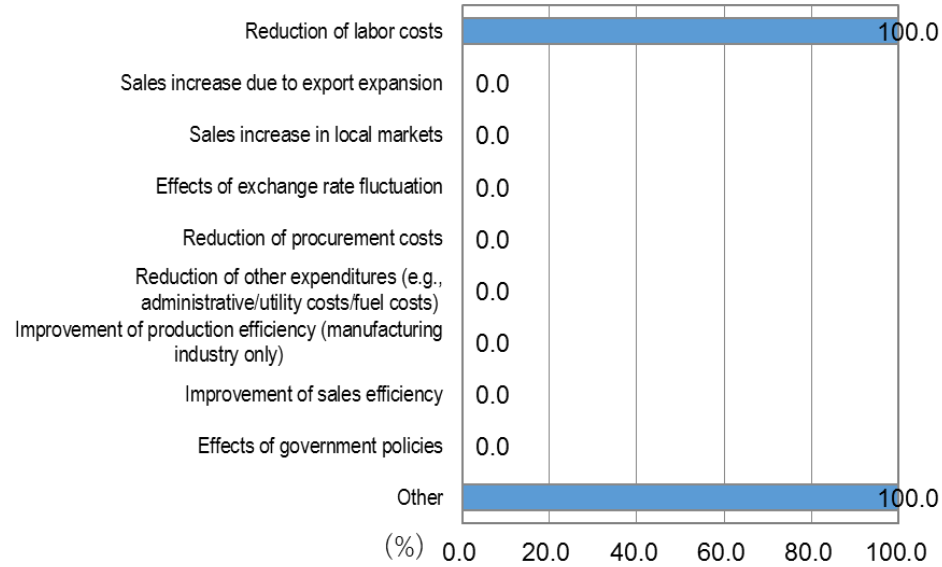
	Valid responses	Sales increase due to export expansion	Sales increase in local markets	Effects of exchange rate fluctuation	Reduction of procurement costs	Reduction of labor costs	Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)	Improvement of production efficiency (manufacturing industry only)	Improvement of sales efficiency	Effects of government policies	Other
Latin America	179	20.1	73.2	15.6	15.6	15.1	21.2	16.8	17.3	2.2	9.5
Mexico	76	18.4	69.7	19.7	17.1	11.8	15.8	18.4	5.3	1.3	5.3
Venezuela	1	0.0	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	100.0
Colombia	12	25.0	75.0	8.3	0.0	8.3	8.3	0.0	8.3	0.0	8.3
Peru	8	25.0	62.5	0.0	0.0	0.0	12.5	12.5	12.5	0.0	25.0
Chile	20	30.0	70.0	20.0	15.0	0.0	10.0	5.0	30.0	0.0	15.0
Brazil	45	15.6	75.6	17.8	22.2	28.9	40.0	26.7	35.6	2.2	11.1
Argentina	17	23.5	94.1	0.0	11.8	17.6	23.5	11.8	17.6	11.8	5.9

II – 1 – (3) Reasons for increased operating profits forecast for 2017 (by country 1)

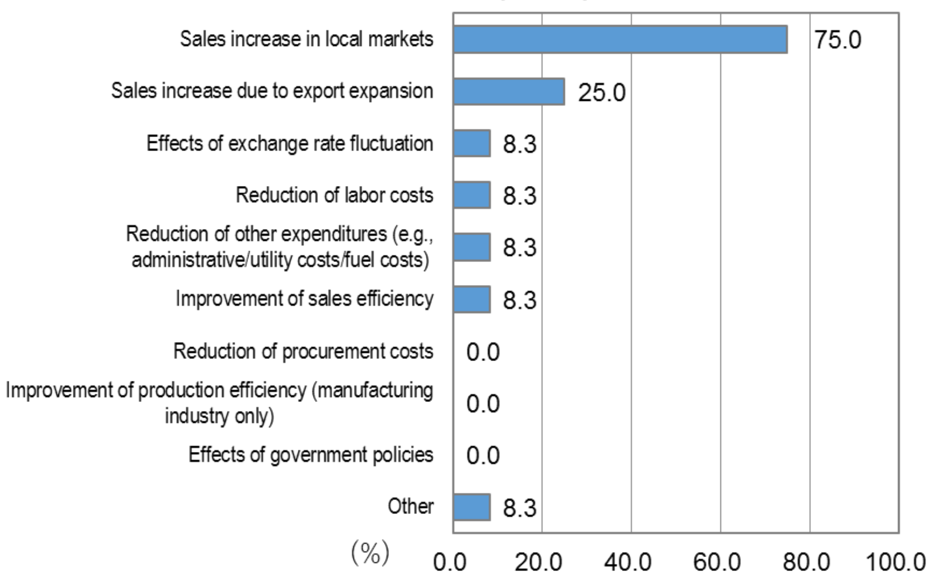
Mexico(n=76)



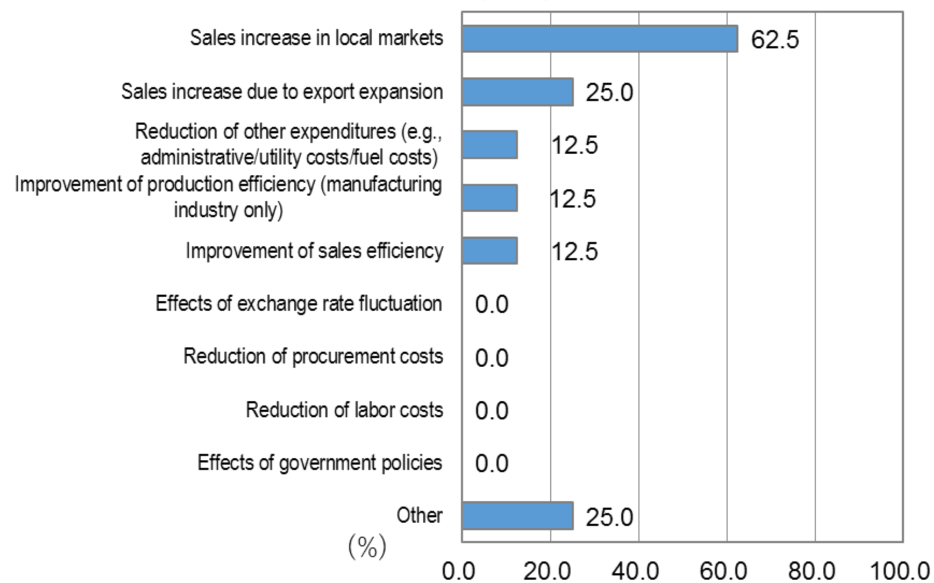
Venezuela(n=1)



Colombia(n=12)

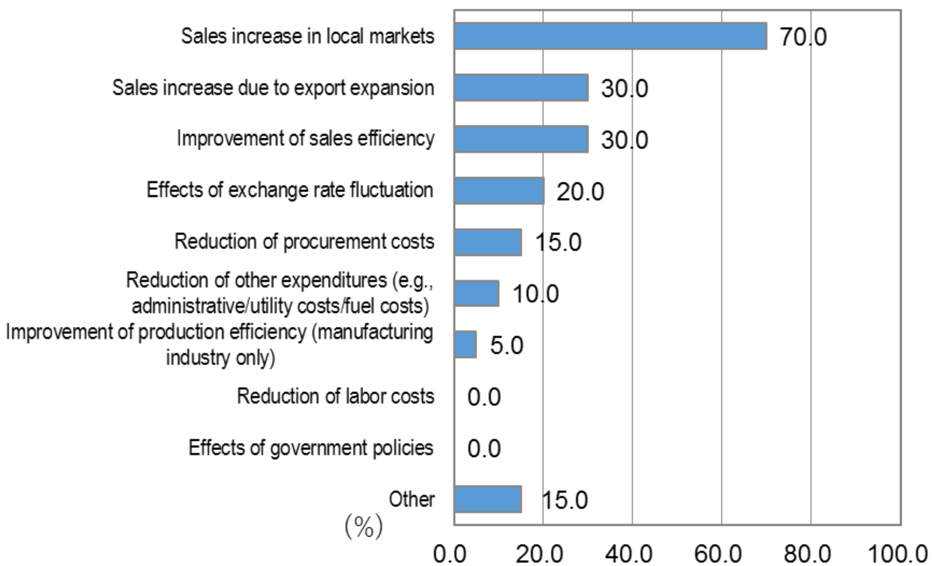


Peru(n=8)

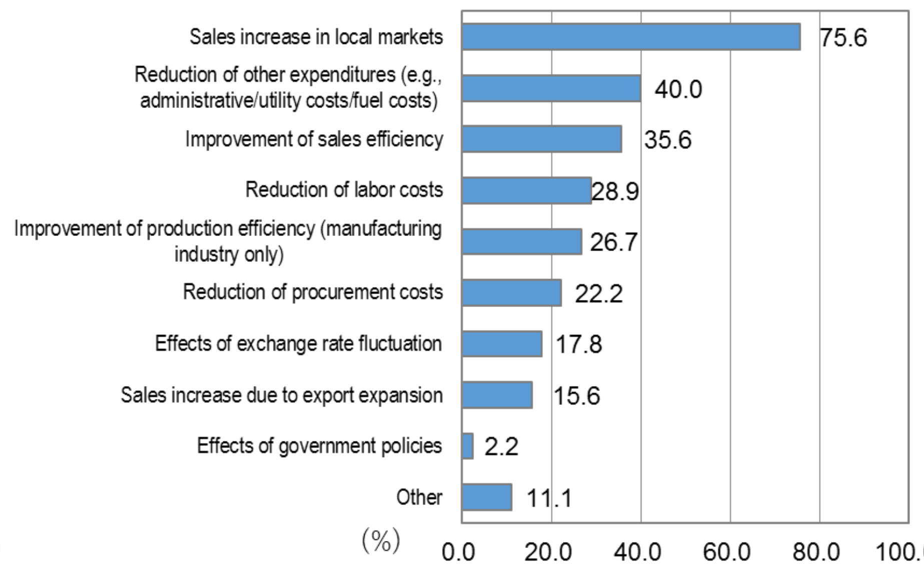


II – 1 – (3) Reasons for increased operating profits forecast for 2017 (by country 2)

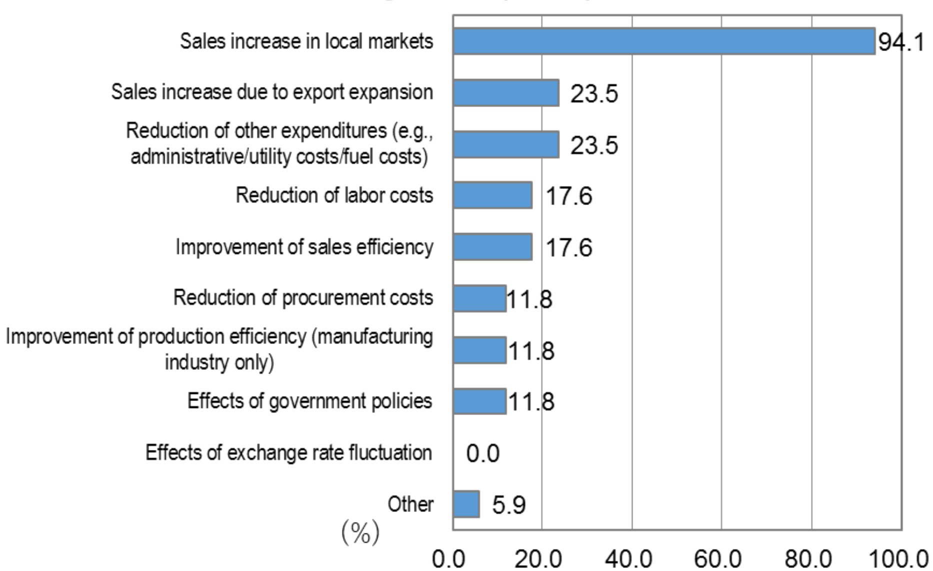
Chile(n=20)



Brazil(n=45)



Argentina(n=17)



II – 1 – (4) Reasons for decreased operating profits forecast for 2017

- 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.

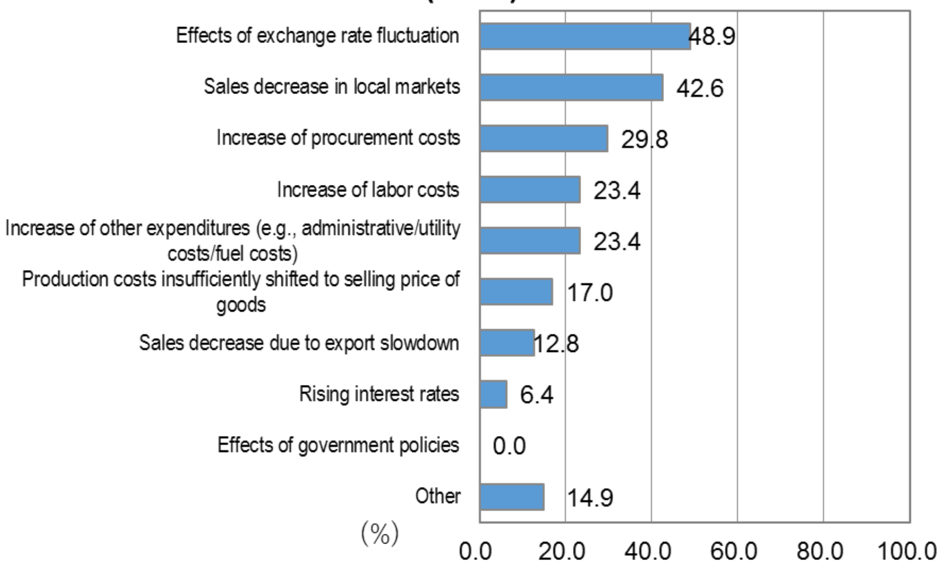
Reasons for decreased operating profits forecast for 2017 (Multiple Answers)

(Unit : %)

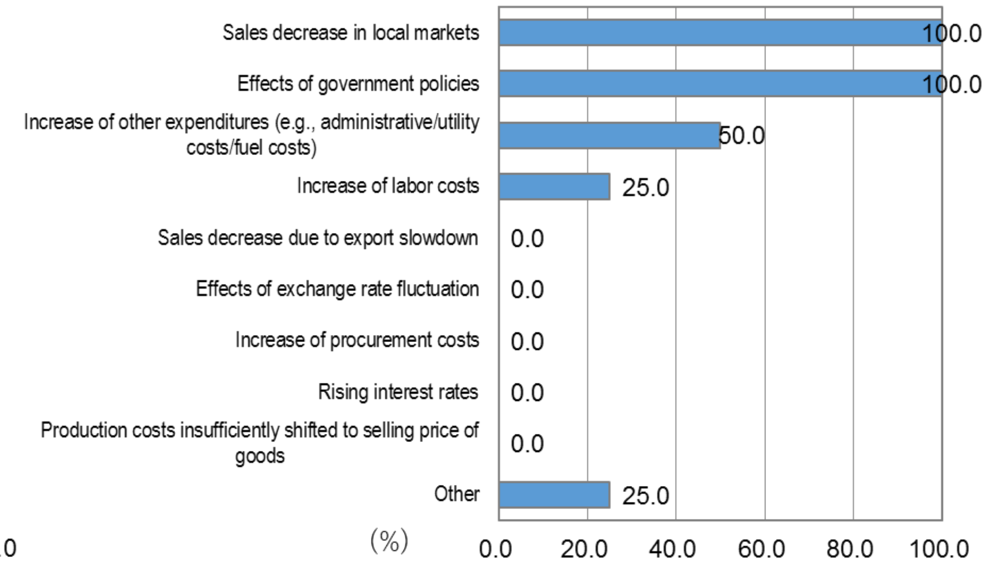
	Valid responses	Sales decrease due to export slowdown	Sales decrease in local markets	Effects of exchange rate fluctuation	Increase of procurement costs	Increase of labor costs	Increase of other expenditures (e.g., administrative/utility costs/fuel costs)	Rising interest rates	Production costs insufficiently shifted to selling price of goods	Effects of government policies	Other
Latin America	92	13.0	50.0	29.3	26.1	26.1	22.8	4.3	20.7	8.7	17.4
Mexico	47	12.8	42.6	48.9	29.8	23.4	23.4	6.4	17.0	0.0	14.9
Venezuela	4	0.0	100.0	0.0	0.0	25.0	50.0	0.0	0.0	100.0	25.0
Colombia	9	33.3	66.7	22.2	22.2	22.2	0.0	0.0	11.1	11.1	22.2
Peru	3	0.0	66.7	0.0	66.7	0.0	0.0	0.0	66.7	0.0	33.3
Chile	3	0.0	33.3	0.0	0.0	0.0	0.0	0.0	0.0	33.3	66.7
Brazil	22	13.6	59.1	9.1	27.3	31.8	31.8	0.0	27.3	0.0	9.1
Argentina	4	0.0	0.0	0.0	0.0	75.0	25.0	25.0	50.0	50.0	25.0

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

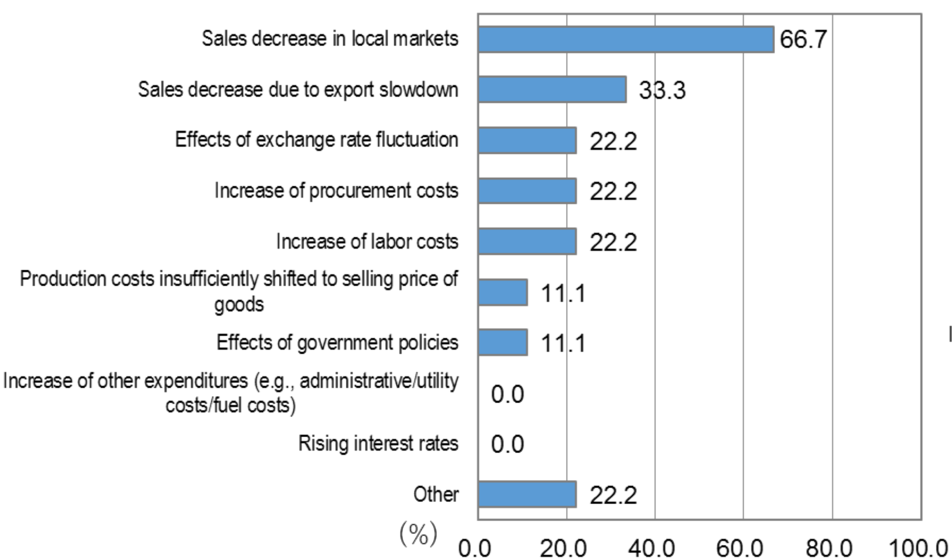
Mexico(n=47)



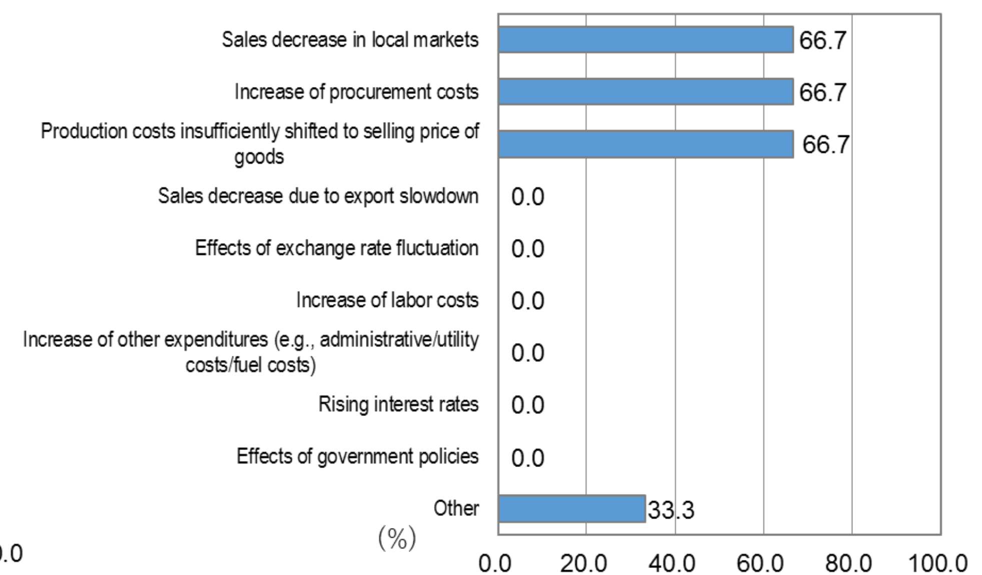
Venezuela(n=4)



Colombia(n=9)

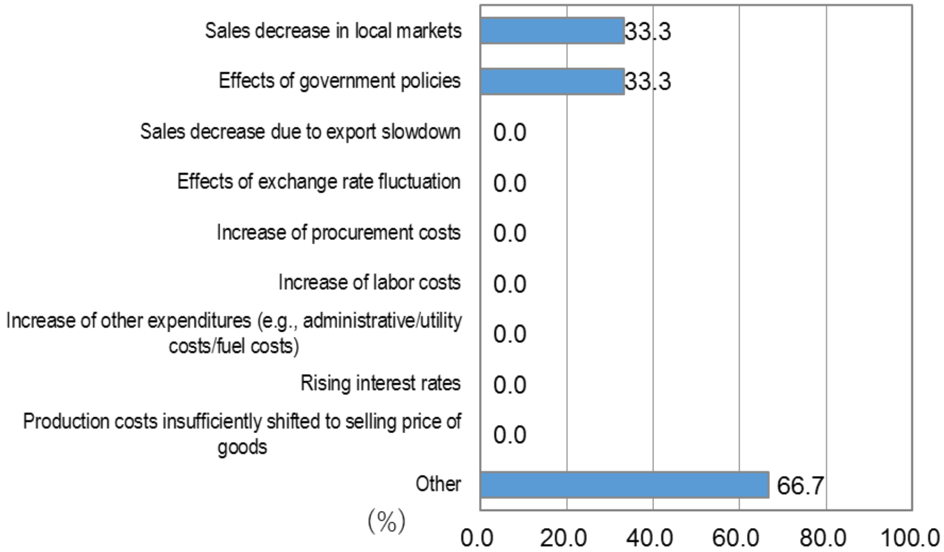


Peru(n=3)

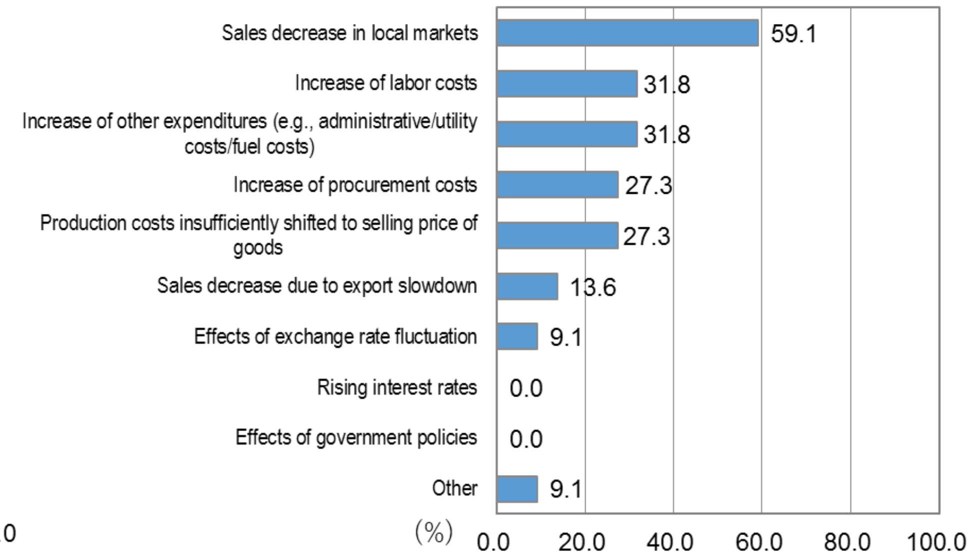


II – 1 – (4) Reasons for decreased operating profits forecast for 2017 (by country 2)

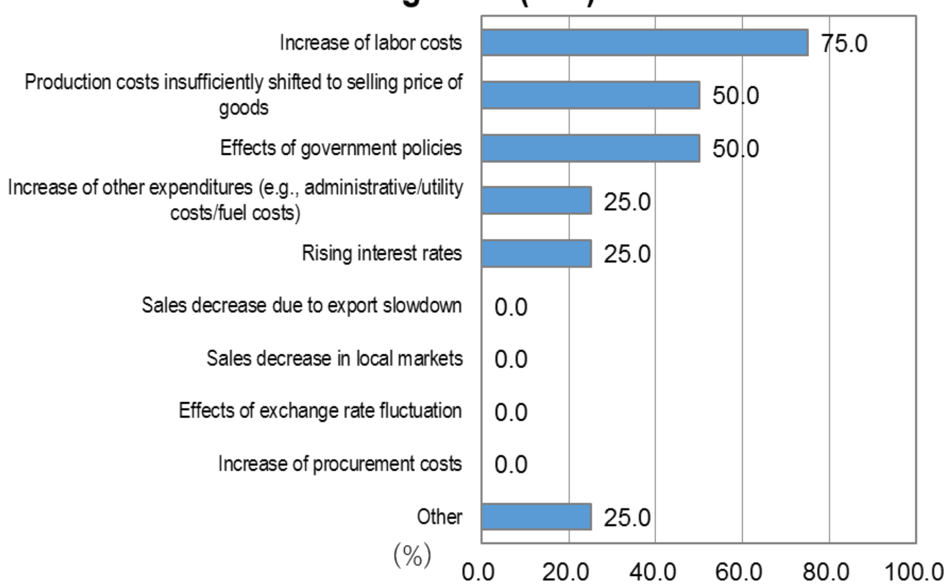
Chile(n=3)



Brazil(n=22)



Argentina(n=4)

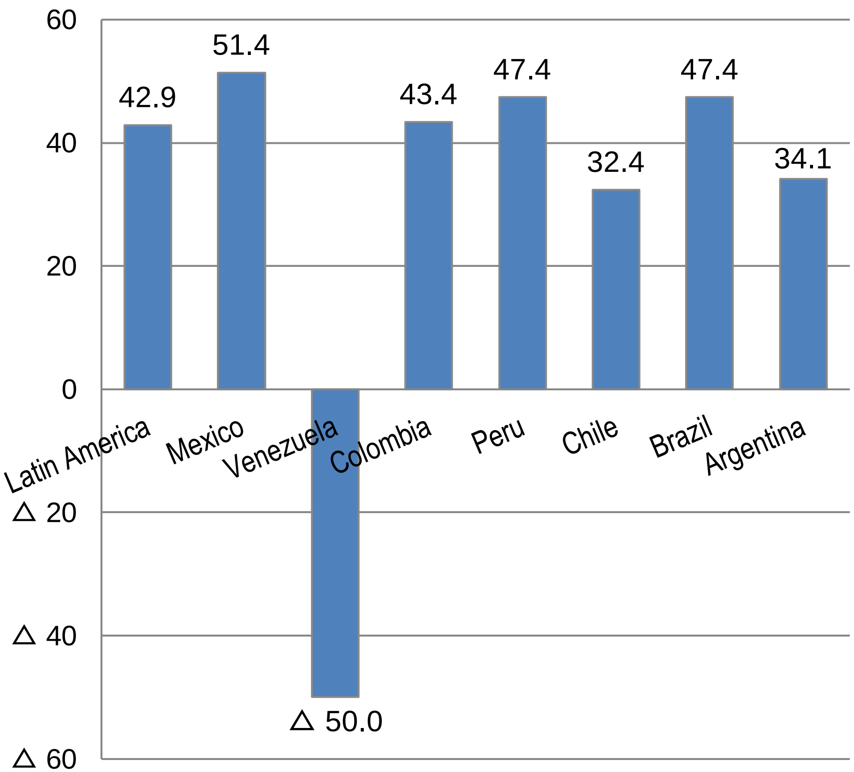


II – 2 – (1) Operating profits forecast for 2018 (compared to previous year)

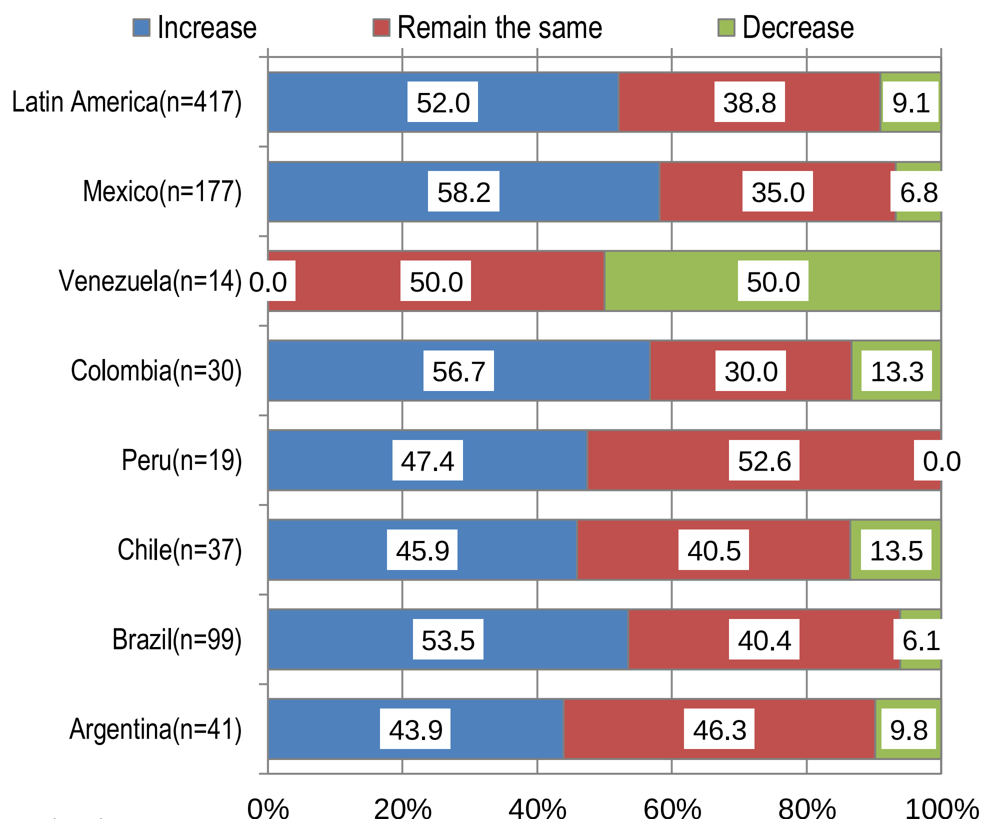
- 2018 shows positive diffusion indexes (business conditions) except for Venezuela. “Improve” occupies 52% of the earnings prospects for 2018, up nearly 10 points compared to 2017.
- Mexico has a high diffusion index for 2018 despite the uncertainty around NAFTA renegotiations, and many companies predict 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)



2018 Operating Profit Forecast Compared to Previous Year



II – 2 – (2) Reasons for increased operating profits for 2018

- 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.

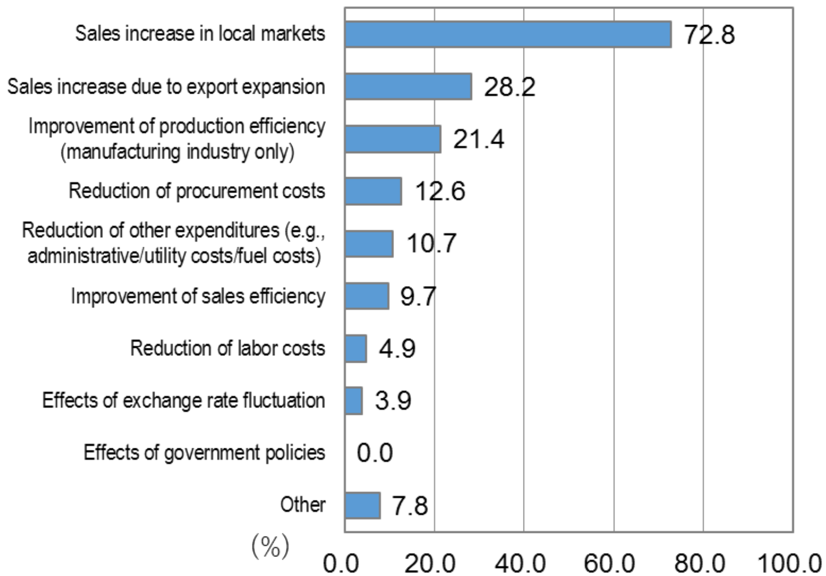
Reasons for increased operating profits for 2018 (Multiple Answers)

(Unit : %)

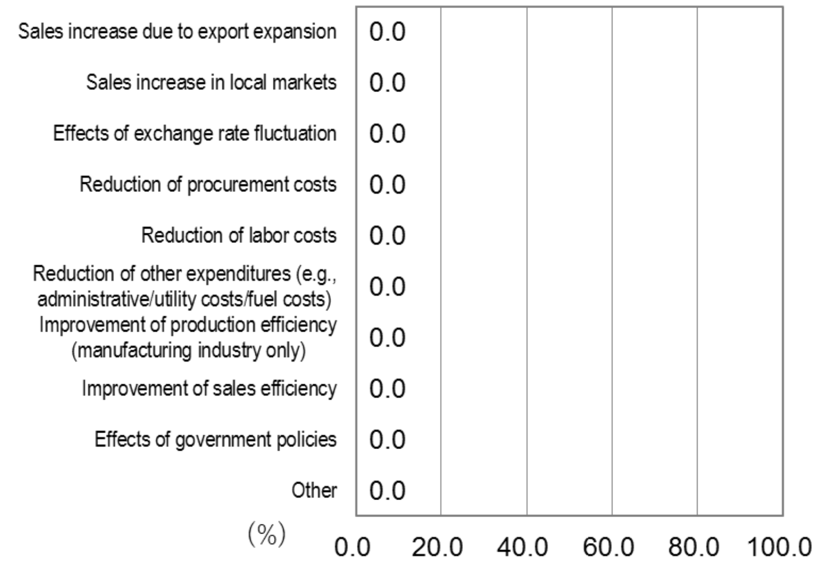
	Valid responses	Sales increase due to export expansion	Sales increase in local markets	Effects of exchange rate fluctuation	Reduction of procurement costs	Reduction of labor costs	Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)	Improvement of production efficiency (manufacturing industry only)	Improvement of sales efficiency	Effects of government policies	Other
Latin America	217	24.4	75.1	4.6	13.8	6.5	10.6	18.4	18.4	2.3	9.7
Mexico	103	28.2	72.8	3.9	12.6	4.9	10.7	21.4	9.7	0.0	7.8
Venezuela	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Colombia	17	23.5	76.5	5.9	0.0	11.8	23.5	5.9	17.6	0.0	5.9
Peru	9	44.4	55.6	0.0	22.2	0.0	11.1	22.2	22.2	11.1	44.4
Chile	17	17.6	58.8	5.9	5.9	5.9	0.0	11.8	29.4	11.8	17.6
Brazil	53	15.1	83.0	3.8	18.9	11.3	11.3	15.1	32.1	3.8	9.4
Argentina	18	27.8	88.9	11.1	22.2	0.0	5.6	27.8	16.7	0.0	0.0

II – 2 – (2) Reasons for increased operating profits for 2018 (by country 1)

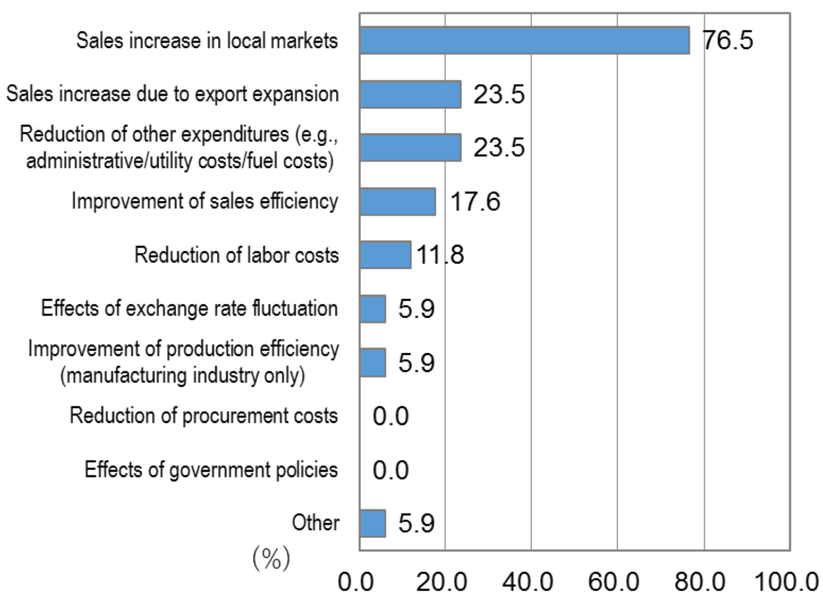
Mexico(n=103)



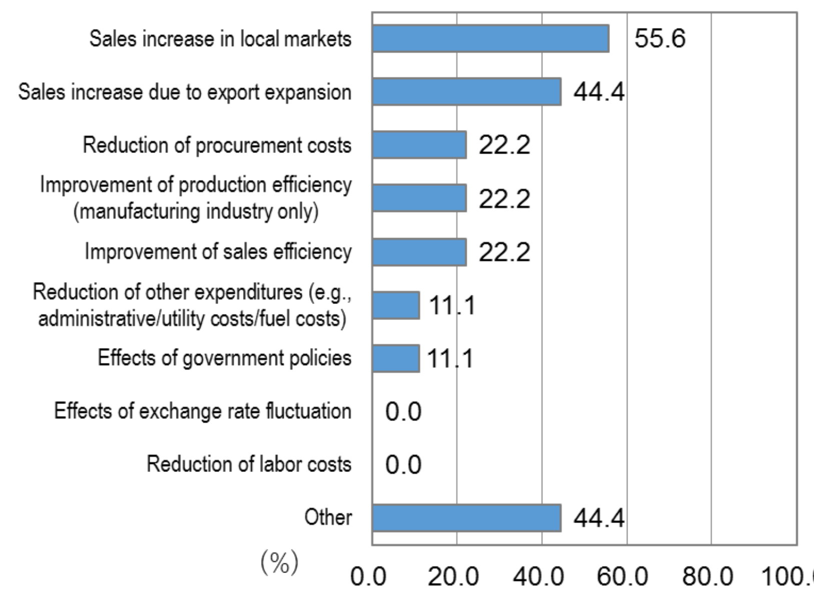
Venezuela(n=0)



Colombia(n=17)

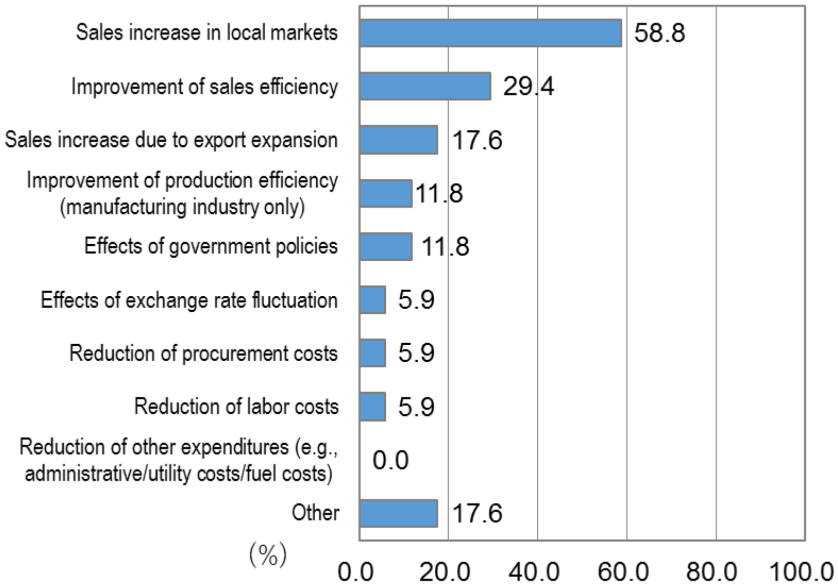


Peru(n=9)

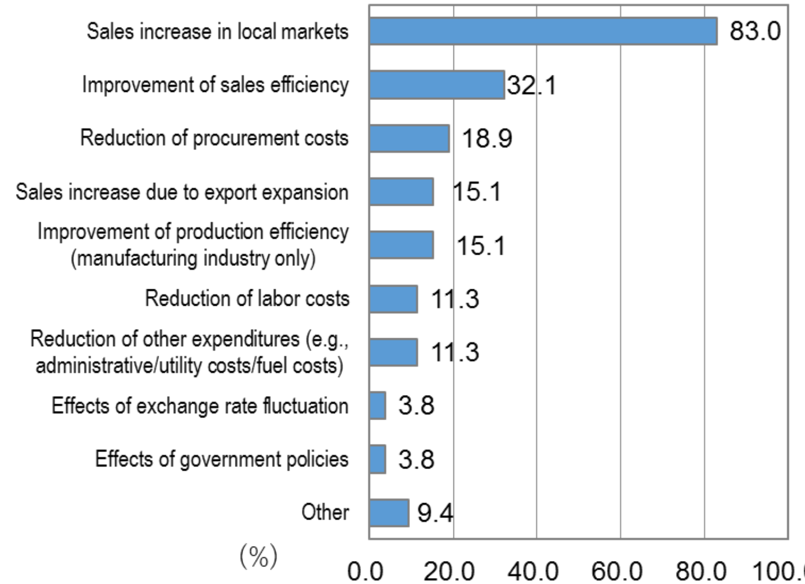


II – 2 – (2) Reasons for increased operating profits for 2018 (by country 2)

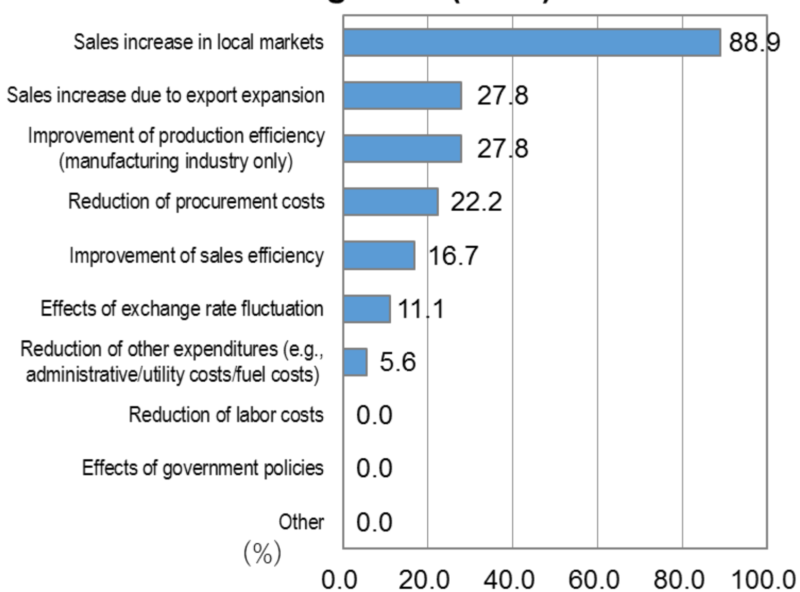
Chile(n=17)



Brazil(n=53)



Argentina(n=18)



II – 2 – (3) Reasons for decreased operating profits forecast for 2018

- 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.

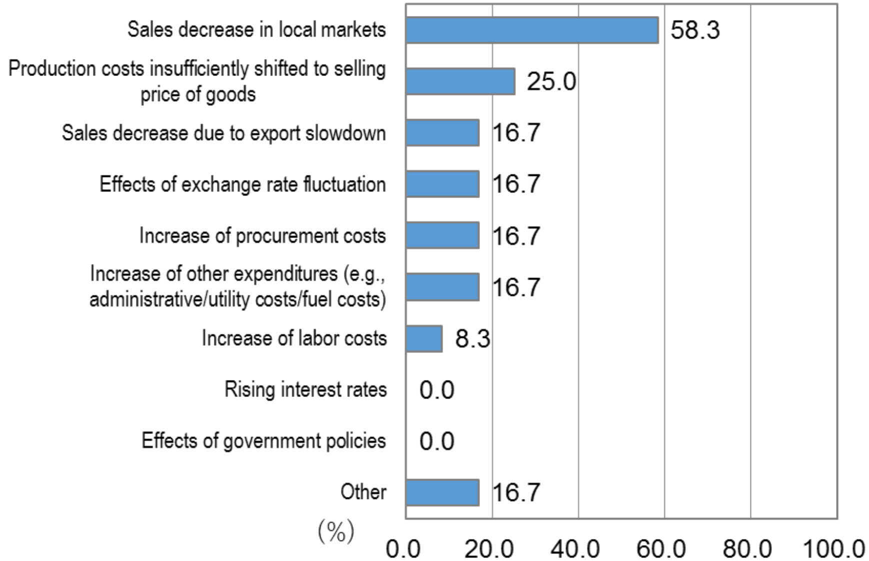
Reasons for decreased operating profits forecast for 2018 (Multiple Answers)

(Unit : %)

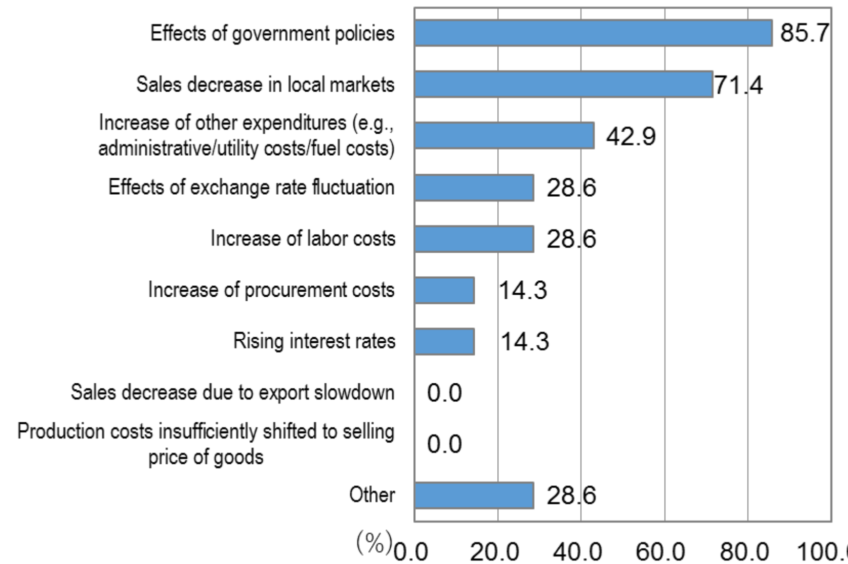
	Valid responses	Sales decrease due to export slowdown	Sales decrease in local markets	Effects of exchange rate fluctuation	Increase of procurement costs	Increase of labor costs	Increase of other expenditures (e.g., administrative/utility costs/fuel costs)	Rising interest rates	Production costs insufficiently shifted to selling price of goods	Effects of government policies	Other
Latin America	38	18.4	42.1	13.2	21.1	21.1	18.4	2.6	13.2	28.9	28.9
Mexico	12	16.7	58.3	16.7	16.7	8.3	16.7	0.0	25.0	0.0	16.7
Venezuela	7	0.0	71.4	28.6	14.3	28.6	42.9	14.3	0.0	85.7	28.6
Colombia	4	50.0	25.0	0.0	25.0	25.0	0.0	0.0	0.0	50.0	25.0
Peru	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chile	5	20.0	20.0	0.0	20.0	0.0	0.0	0.0	0.0	20.0	60.0
Brazil	6	33.3	33.3	16.7	33.3	33.3	16.7	0.0	33.3	0.0	33.3
Argentina	4	0.0	0.0	0.0	25.0	50.0	25.0	0.0	0.0	50.0	25.0

II – 2 – (3) Reasons for decreased operating profits forecast for 2018 (by country 1)

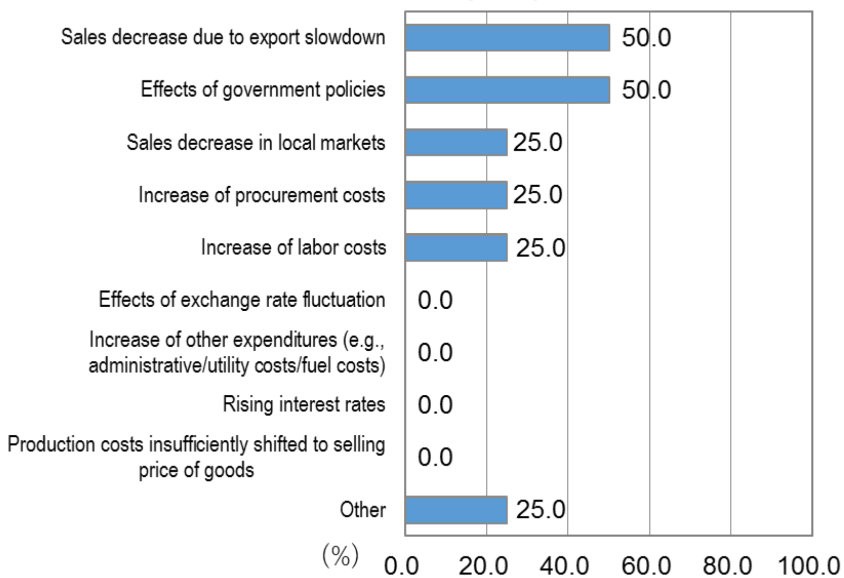
Mexico(n=12)



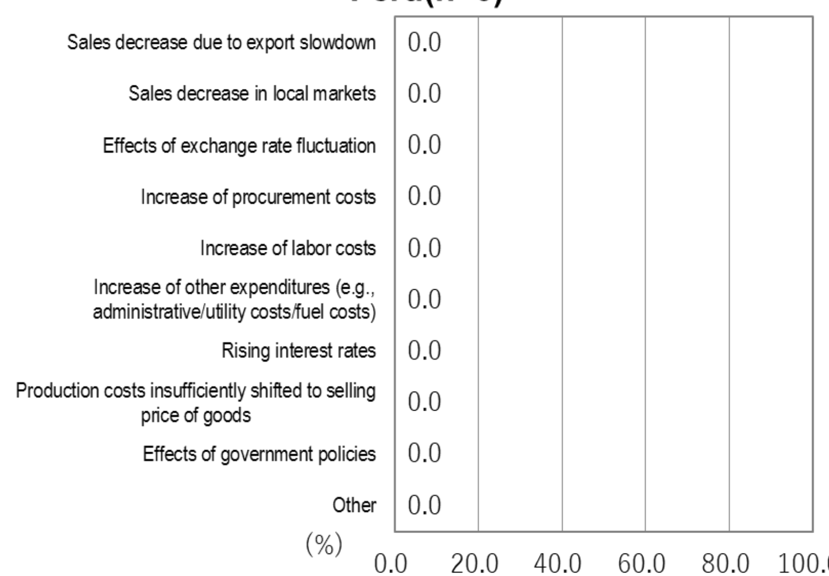
Venezuela(n=7)



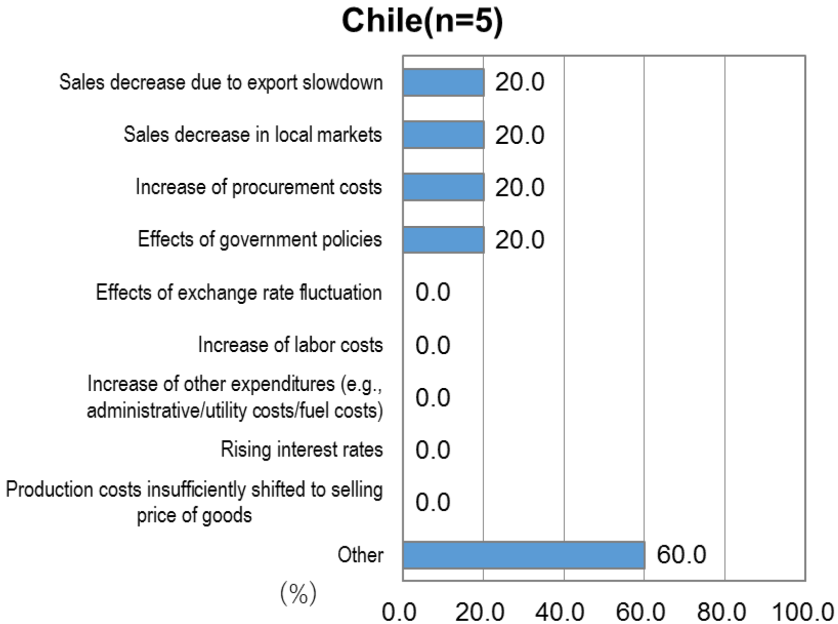
Colombia(n=4)

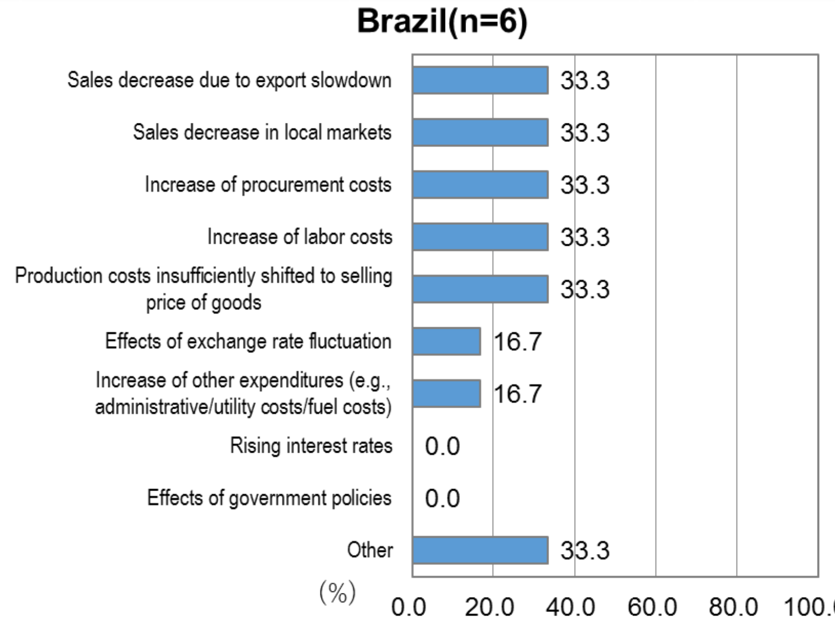


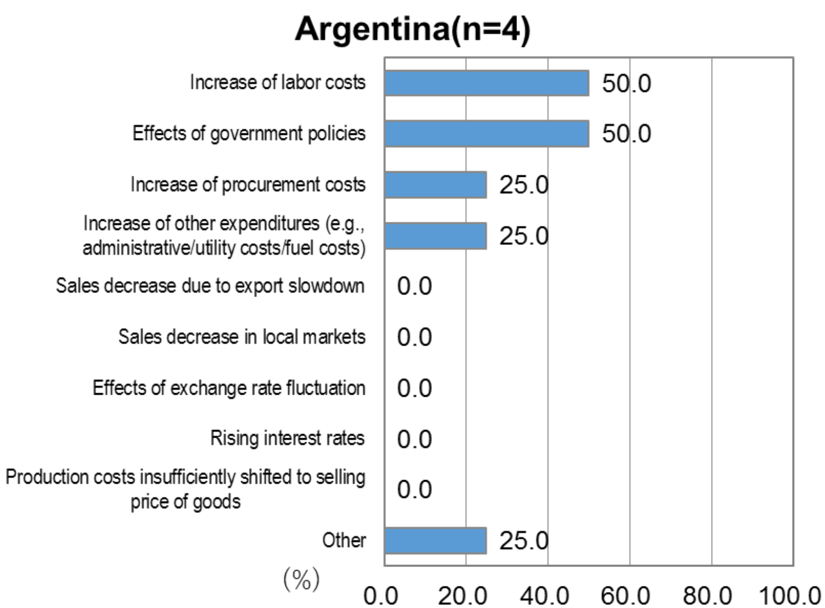
Peru(n=0)



II – 2 – (3) Reasons for decreased operating profits forecast for 2018 (by country 2)



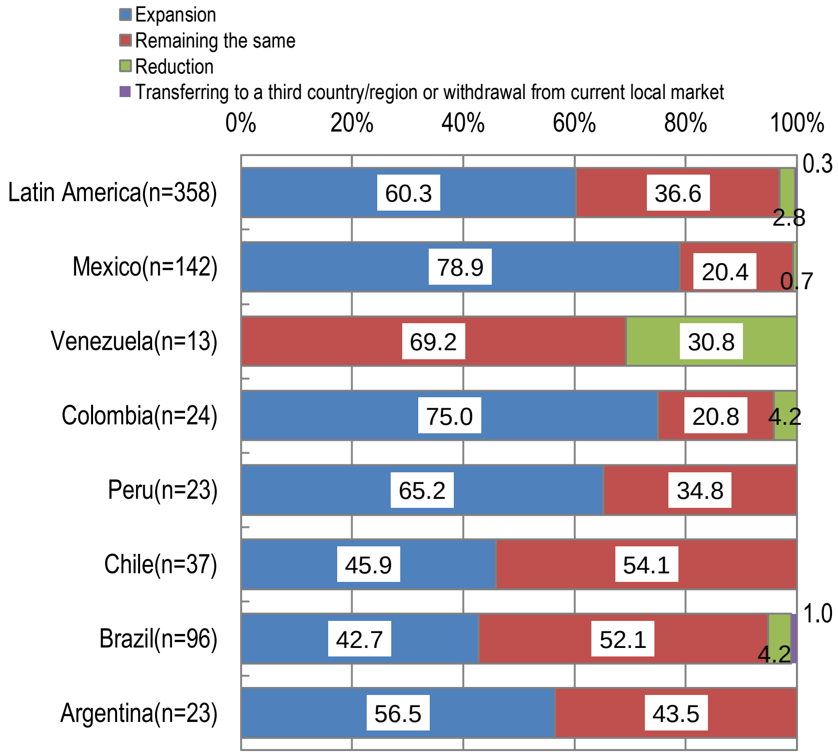




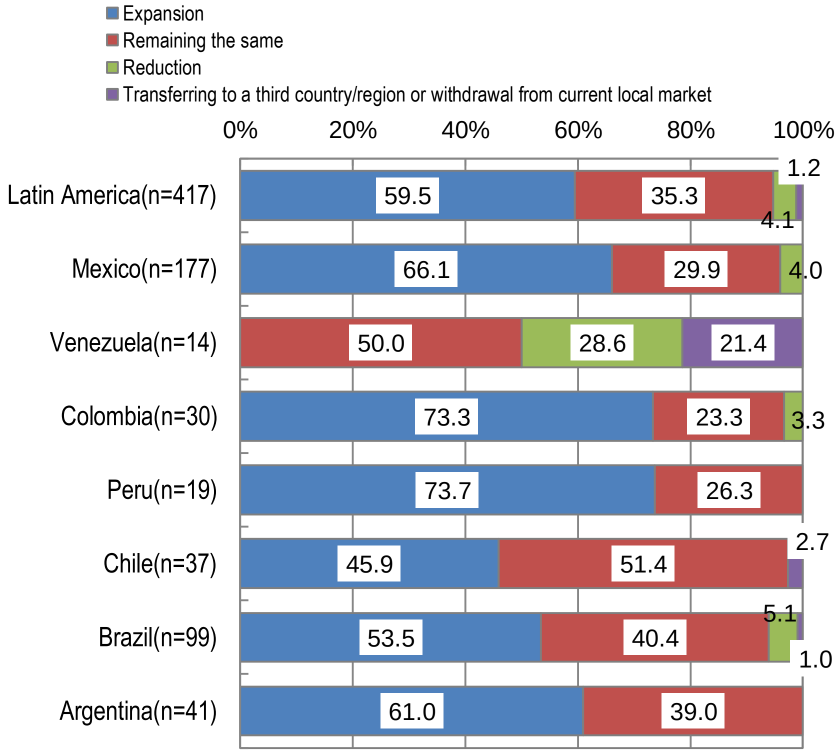
II – 3 – (1) Approach to future business challenges in the next one or two years

- 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



The survey in FY2017



II – 3 – (2) Approach to future business challenges in the next one or two years: Reasons for “Expansion”

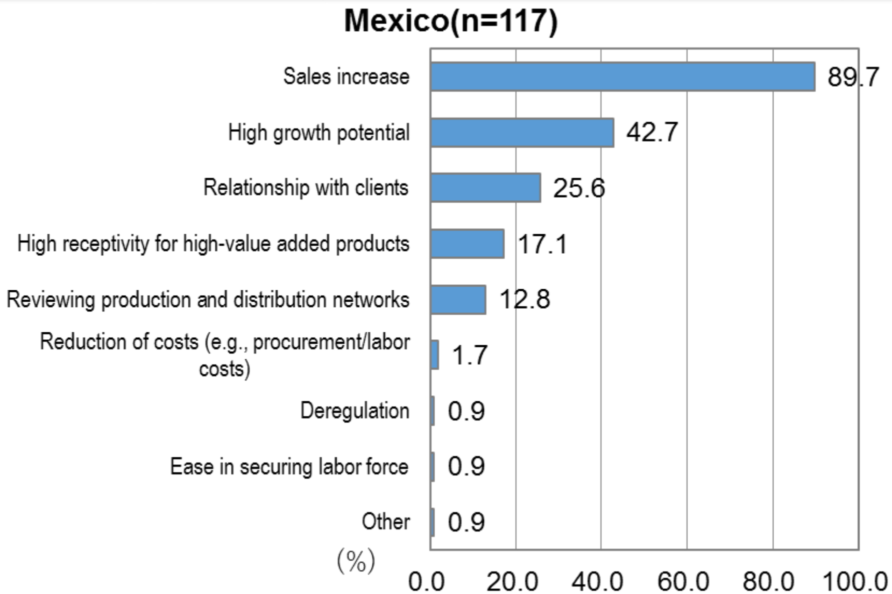
- In Central and South America as a whole, “sales increase” (89.1%), “high future growth prospects and potential” (47.6%) were the major reasons.
- Among individual countries in the region, Colombia showed a large increase in “sales increase” (77.8%→90.9%) compared to the previous year, as did Chile 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.

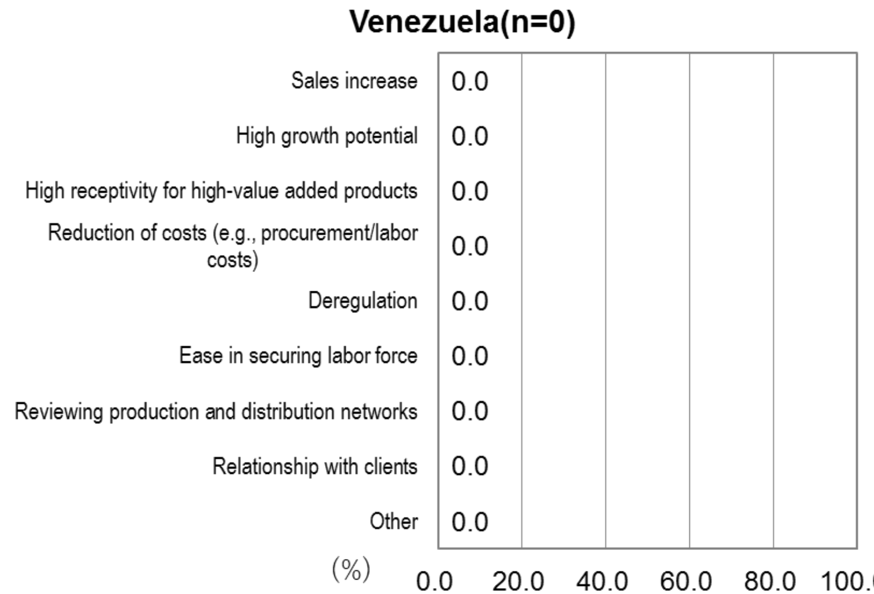
Reasons for “Expansion” (Multiple Answers)

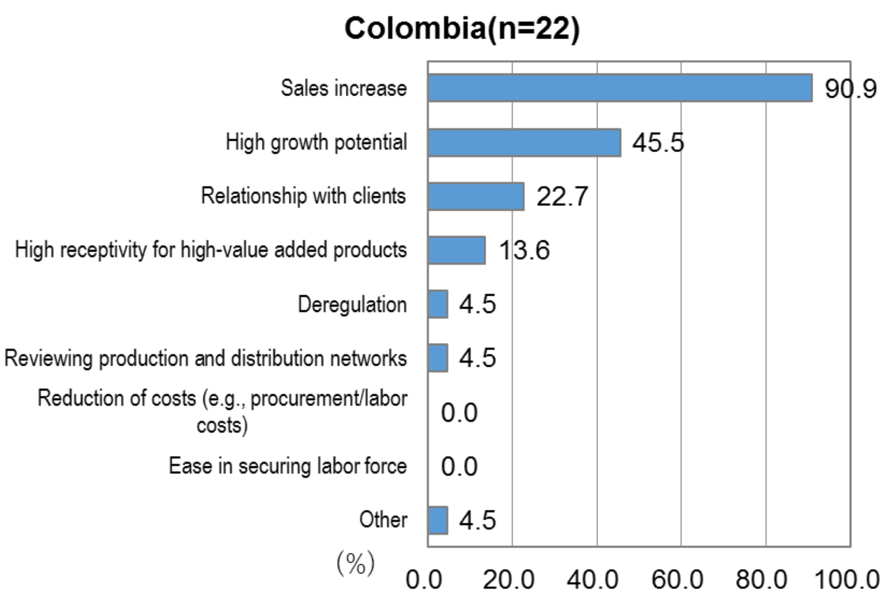
(Unit : %)

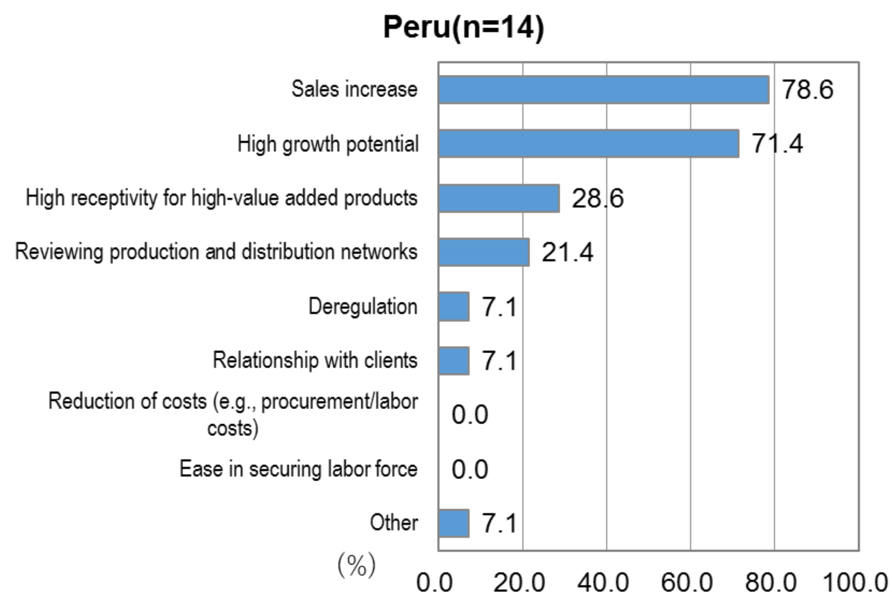
	Valid responses	Sales increase	High growth potential	High receptivity for high-value added products	Reduction of costs (e.g., procurement/labor costs)	Deregulation	Ease in securing labor force	Reviewing production and distribution networks	Relationship with clients	Other
Latin America	248	89.1	47.6	19.0	3.6	4.4	0.8	14.1	26.2	4.4
Mexico	117	89.7	42.7	17.1	1.7	0.9	0.9	12.8	25.6	0.9
Venezuela	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Colombia	22	90.9	45.5	13.6	0.0	4.5	0.0	4.5	22.7	4.5
Peru	14	78.6	71.4	28.6	0.0	7.1	0.0	21.4	7.1	7.1
Chile	17	94.1	35.3	29.4	0.0	0.0	0.0	0.0	23.5	11.8
Brazil	53	90.6	56.6	24.5	7.5	7.5	1.9	20.8	30.2	11.3
Argentina	25	84.0	48.0	8.0	12.0	16.0	0.0	20.0	36.0	0.0

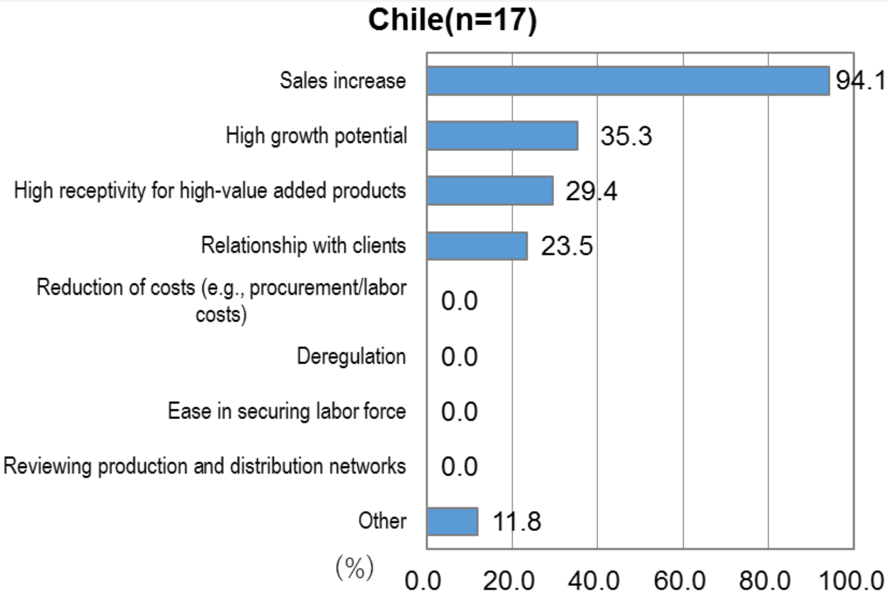
II – 3 – (2) Approach to future business challenges in the next one or two years: Reasons for “Expansion” (by country 1)

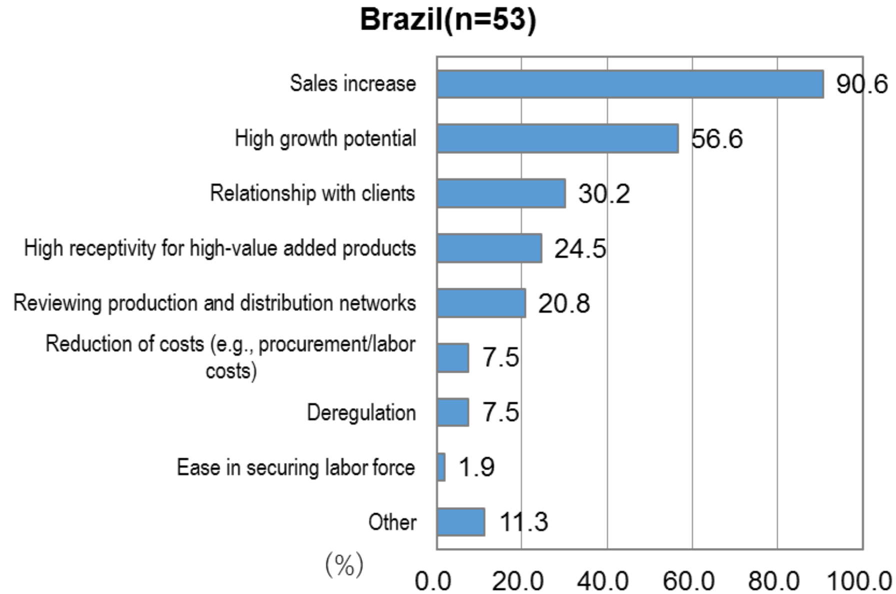


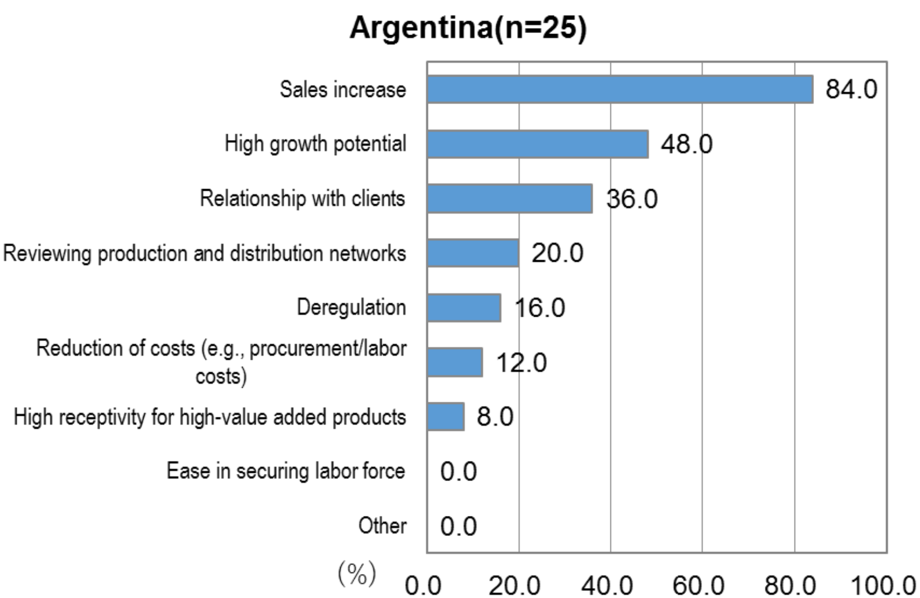







Chile(n=17)
Sales increase 94.1
High growth potential 35.3
High receptivity for high-value added products 29.4
Relationship with clients 23.5
Reduction of costs (e.g., procurement/labor costs) 0.0
Deregulation 0.0
Ease in securing labor force 0.0
Reviewing production and distribution networks 0.0
Other 11.8
(%)
0.0 20.0 40.0 60.0 80.0 100.0


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
(%)
0.0 20.0 40.0 60.0 80.0 100.0


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
(%)
0.0 20.0 40.0 60.0 80.0 100.0

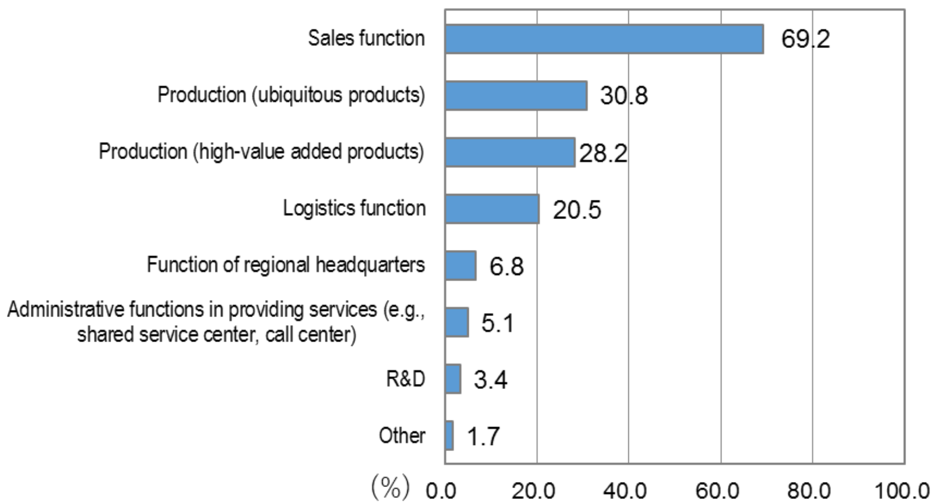
- In Central and South America as a whole, “sales function” was the number one function in the answers (76.4%→75.0%), same as the previous year. It was particularly high in Colombia with 95.5%. Although this percentage largely exceeded Asia (62.3%), the percentages for the “manufacturing function” are 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)

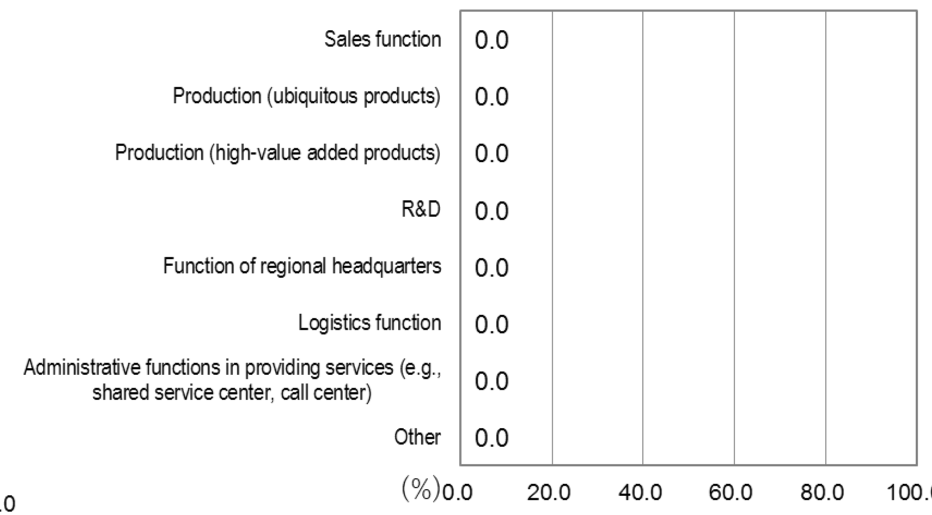
(Unit : %)

	Valid responses	Sales function	Production (ubiquitous products)	Production (high-value added products)	R&D	Function of regional headquarters	Logistics function	Administrative functions in providing services (e.g., shared service center, call center)	Other
Latin America	248	75.0	22.2	23.0	4.4	7.7	19.0	9.3	6.5
Mexico	117	69.2	30.8	28.2	3.4	6.8	20.5	5.1	1.7
Venezuela	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Colombia	22	95.5	4.5	4.5	0.0	4.5	22.7	13.6	0.0
Peru	14	78.6	7.1	14.3	7.1	7.1	21.4	0.0	21.4
Chile	17	76.5	23.5	17.6	0.0	0.0	17.6	5.9	11.8
Brazil	53	75.5	11.3	24.5	5.7	9.4	11.3	20.8	13.2
Argentina	25	80.0	28.0	20.0	12.0	16.0	24.0	8.0	8.0

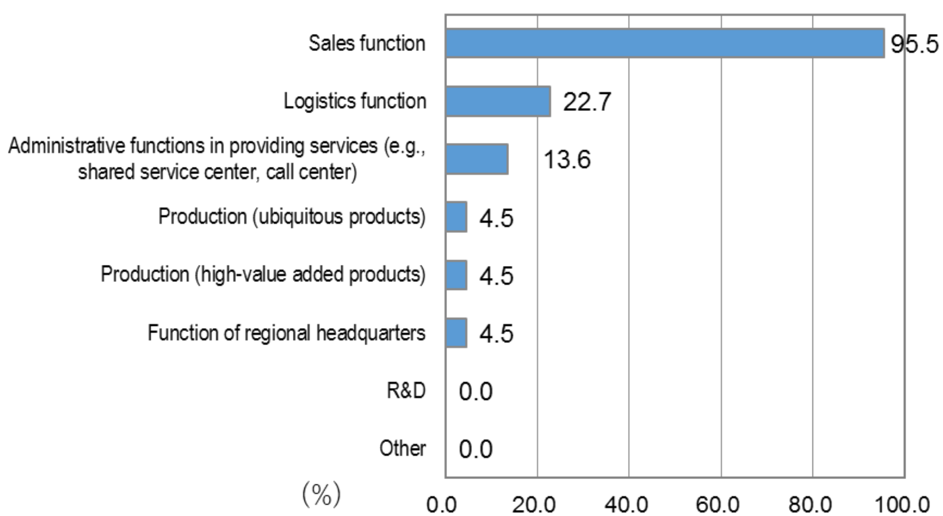
Mexico (n=117)



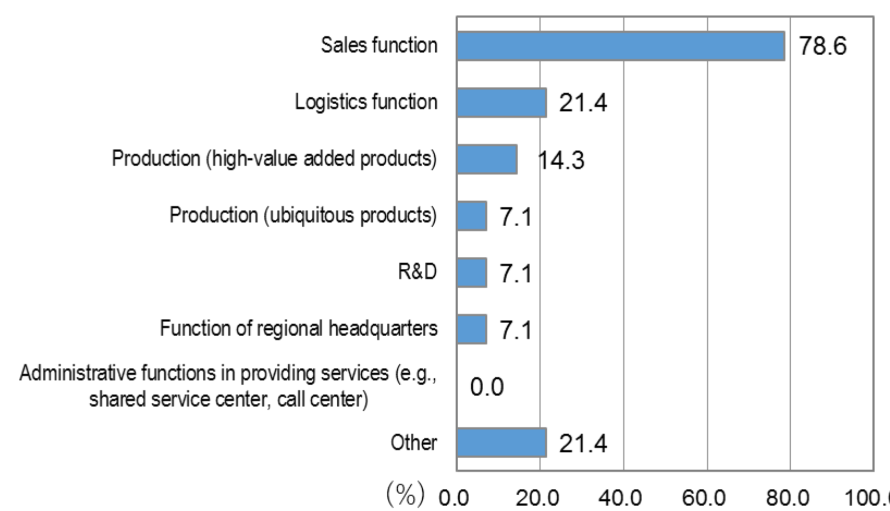
Venezuela(n=0)



Colombia(n=22)

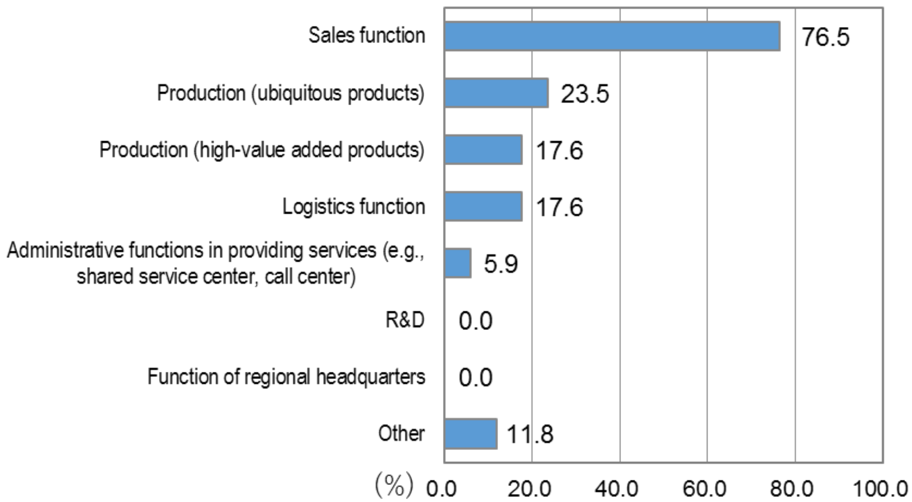


Peru(n=14)

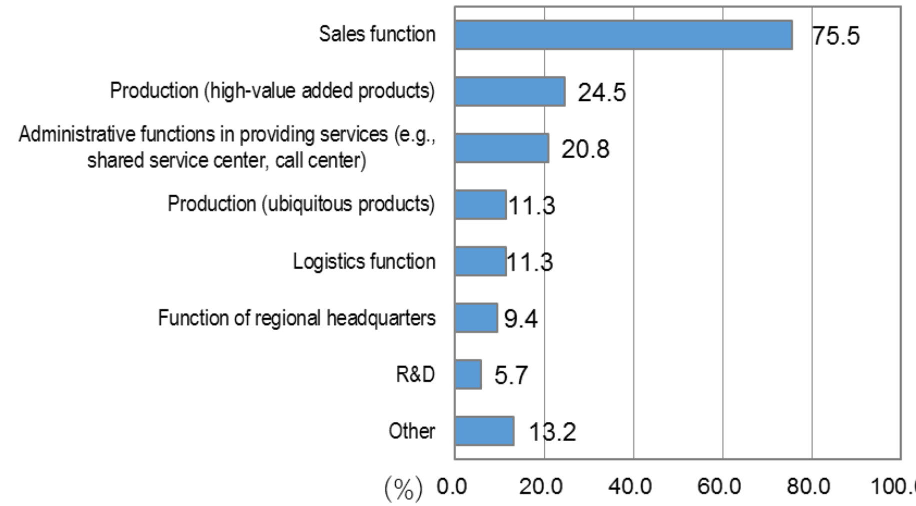


II – 3 – (3) Approach to future business challenges in the next one or two years: Functions companies wanted to expand in detail (by country 2)

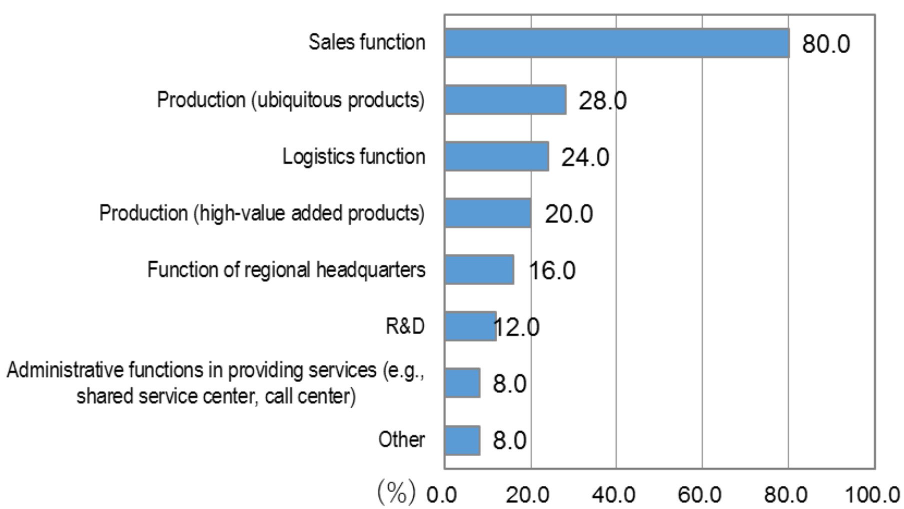
Chile(n=17)



Brazil(n=53)

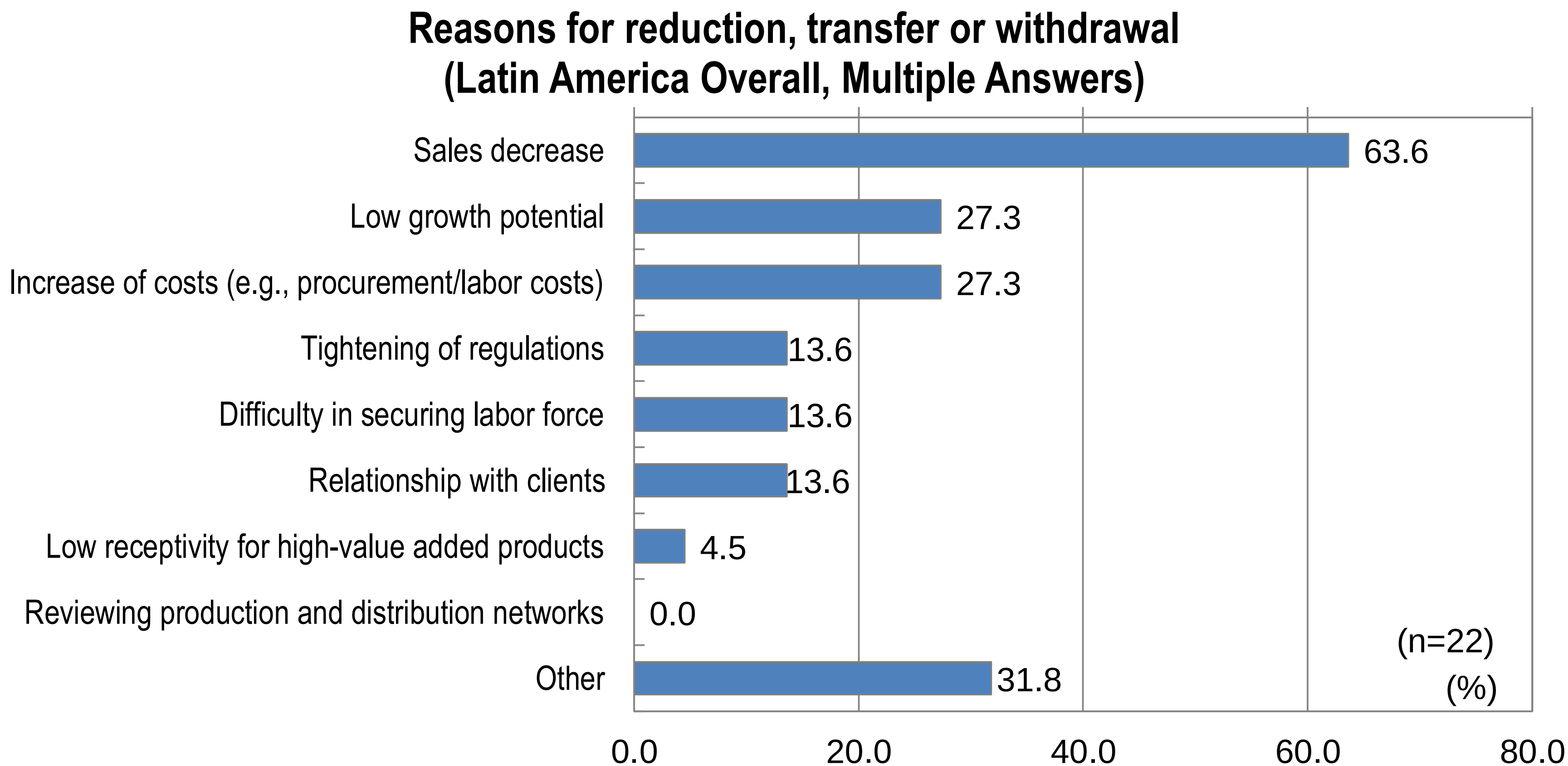


Argentina(n=25)



II – 3 – (4) Business outlook for the next one or two years: Reasons for reduction, transfer or withdrawal

- 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.

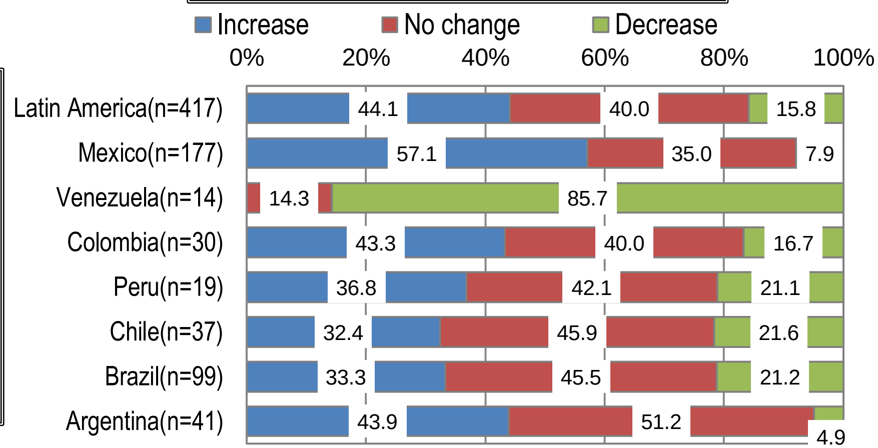


II – 3 – (5) Changes in the number of local employees and Japanese expatriate staff

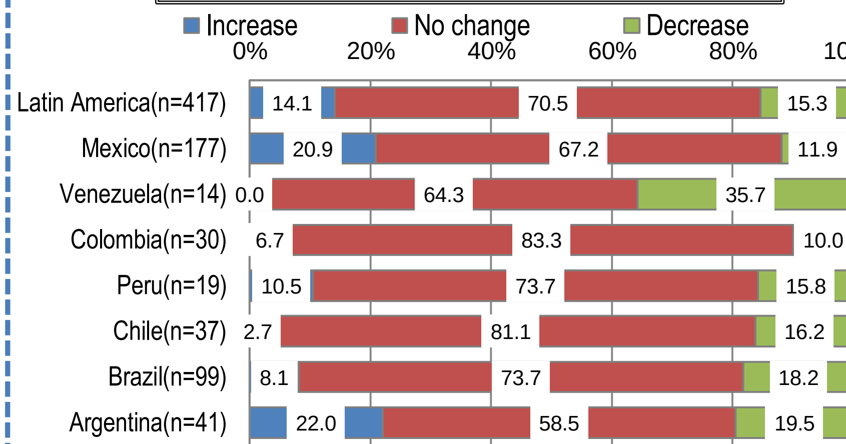
- Many companies in Mexico continued to increase their number of employees and expats. However, the percentage of “wait-and-see (plateau)” also increased.
- In Venezuela, 15.4% of companies answered that they would decrease their number of expats in 2017. In fact the percentage was 35.7%, indicating a rapid deterioration of security and social conditions in the country.

Past one year

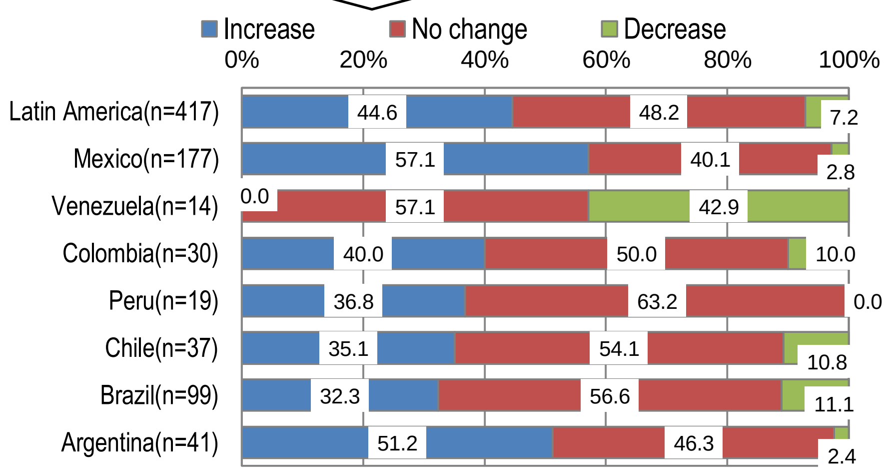
Number of local employees

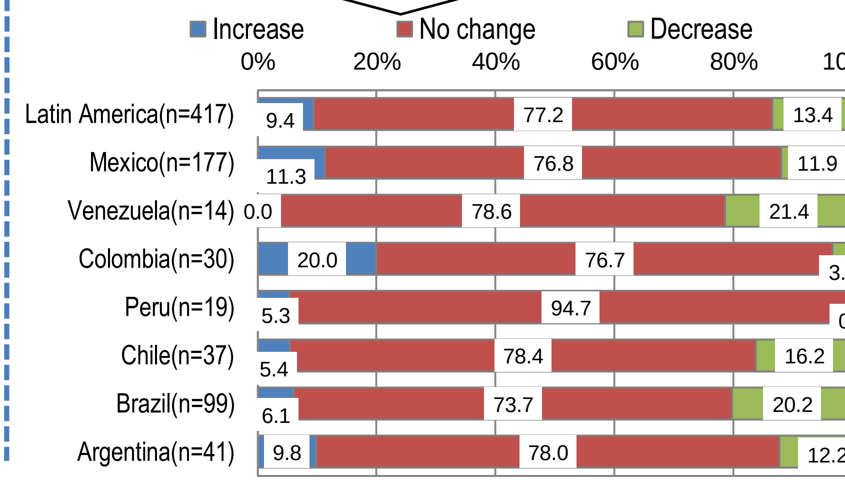


Number of japanese expatriates



Future plans

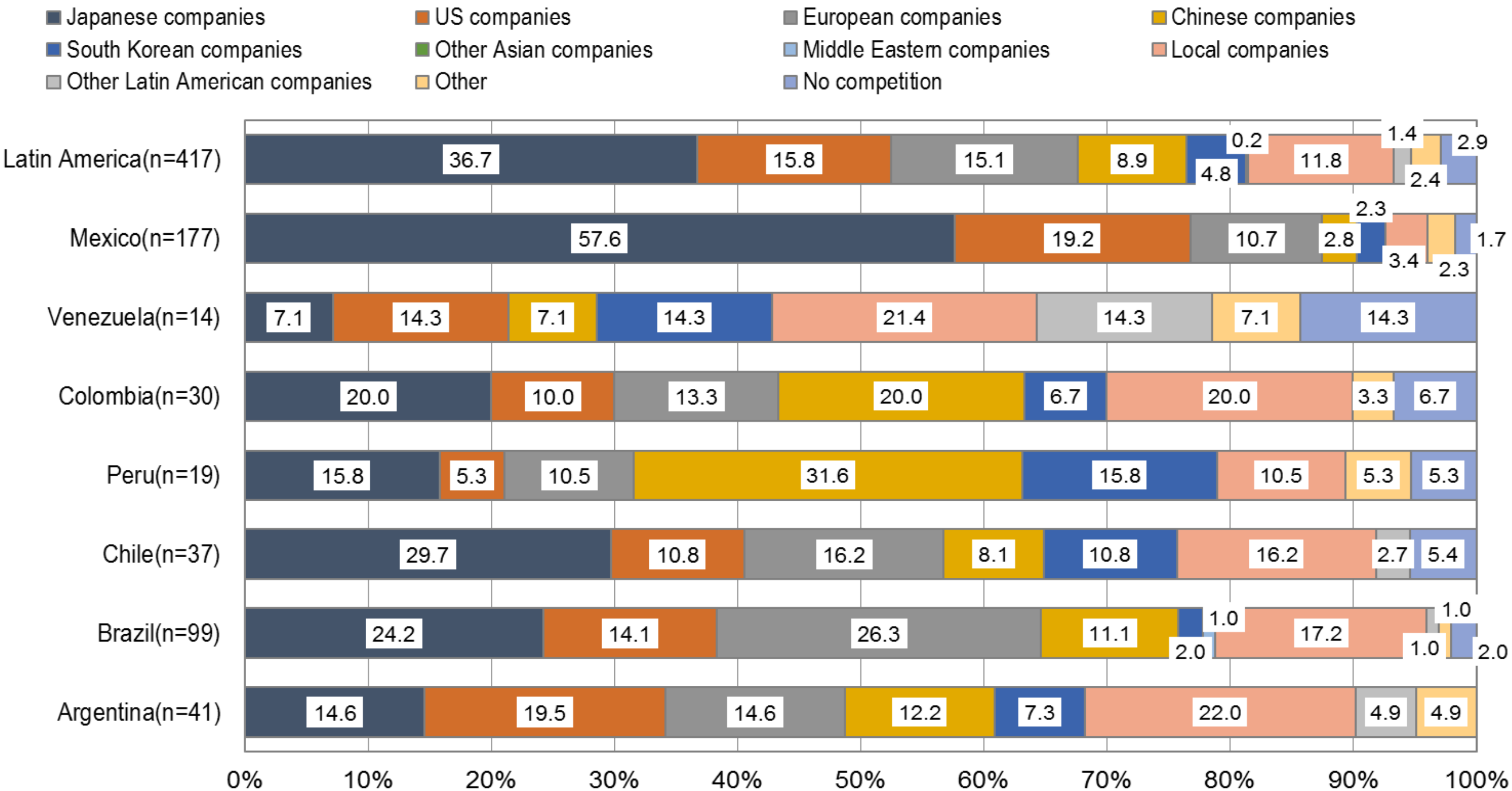




Ⅱ – 4 – (1) Challenges to explore market: Competitors in the same industry

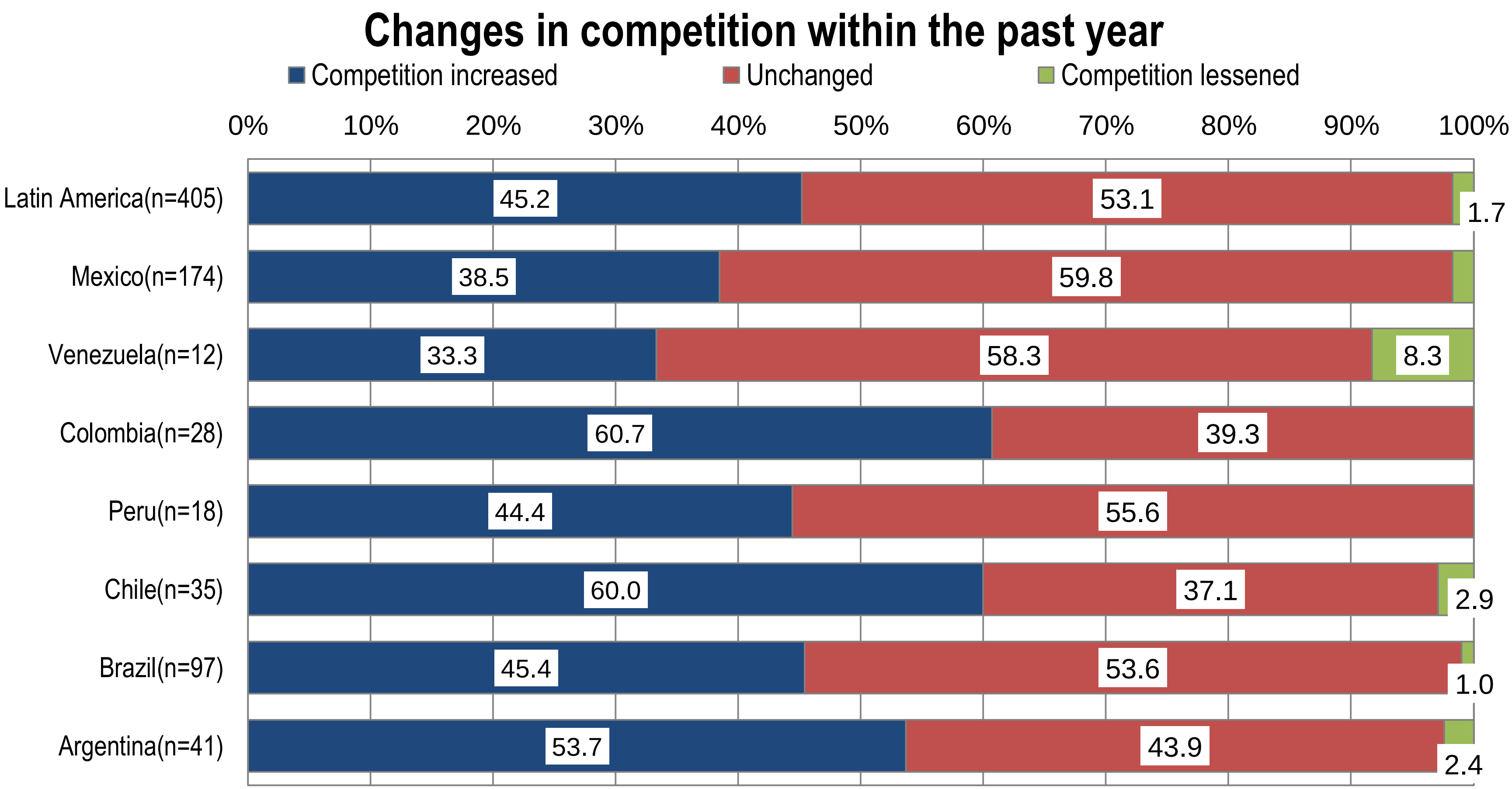
- The competitors of the construction/plant engineering companies in Venezuela have shifted from "US companies" (38.5%→14.3%) to "local companies" (15.4%→21.4%) and "other South American companies" (0%→14.3%) due to economic sanctions imposed by the US government.
- Competition with Chinese companies 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



II – 4 – (2) Challenges to explore market: Changes in competition

- 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%).



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

- **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.**

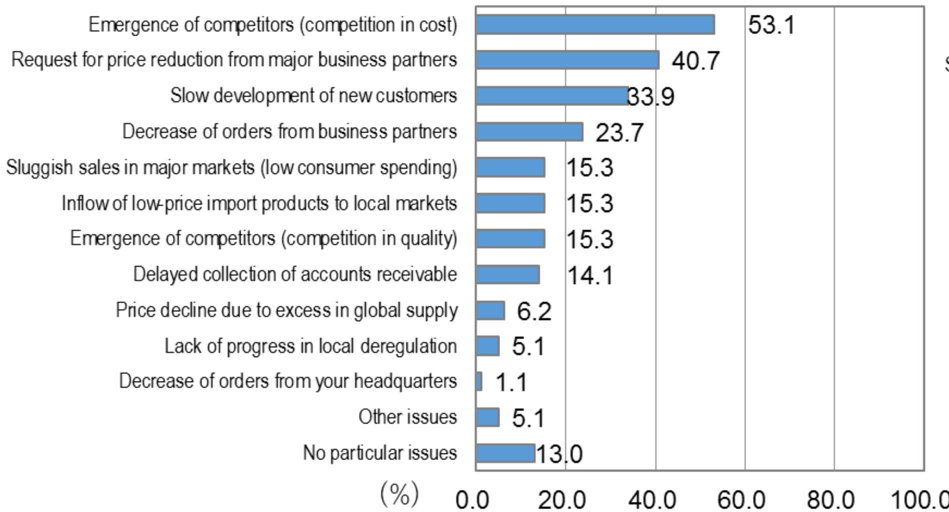
Issues in the field of sales and marketing (Multiple Answers)

(Unit : %)

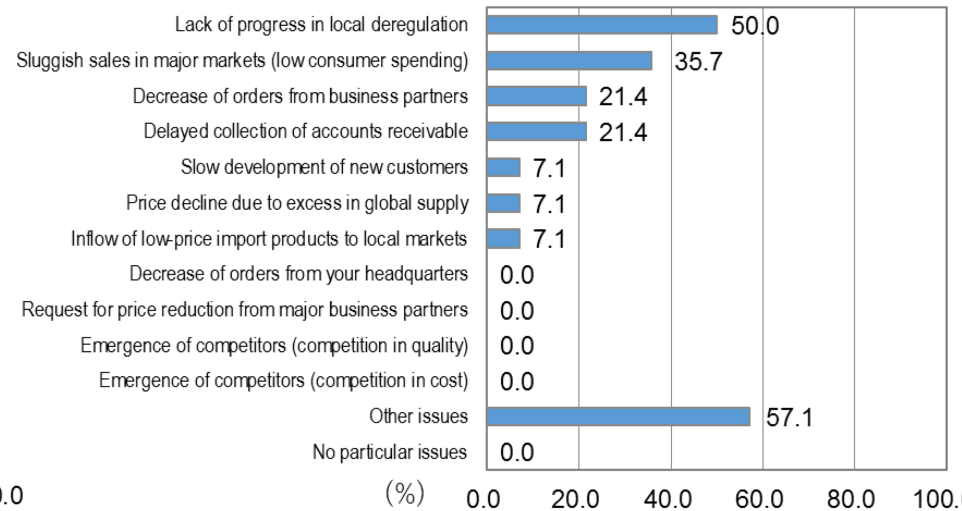
	Valid responses	Decrease of orders from your headquarters	Decrease of orders from business partners	Request for price reduction from major business partners	Sluggish sales in major markets (low consumer spending)	Slow development of new customers	Price decline due to excess in global supply	Inflow of low-price import products to local markets	Emergence of competitors (competition in quality)	Emergence of competitors (competition in cost)	Lack of progress in local deregulation	Delayed collection of accounts receivable	Other issues	No particular issues
Latin America	417	1.9	19.9	32.1	28.1	32.1	7.7	17.7	14.1	49.4	13.9	15.8	11.3	10.1
Mexico	177	1.1	23.7	40.7	15.3	33.9	6.2	15.3	15.3	53.1	5.1	14.1	5.1	13.0
Venezuela	14	0.0	21.4	0.0	35.7	7.1	7.1	7.1	0.0	0.0	50.0	21.4	57.1	0.0
Colombia	30	0.0	20.0	16.7	56.7	36.7	3.3	26.7	23.3	46.7	16.7	20.0	16.7	0.0
Peru	19	5.3	5.3	5.3	10.5	10.5	10.5	26.3	26.3	42.1	5.3	5.3	15.8	31.6
Chile	37	8.1	5.4	27.0	16.2	21.6	16.2	8.1	16.2	56.8	5.4	10.8	13.5	13.5
Brazil	99	1.0	26.3	36.4	52.5	41.4	8.1	21.2	10.1	51.5	16.2	19.2	8.1	4.0
Argentina	41	2.4	7.3	24.4	19.5	26.8	7.3	22.0	9.8	43.9	43.9	19.5	22.0	9.8

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

Mexico(n=177)

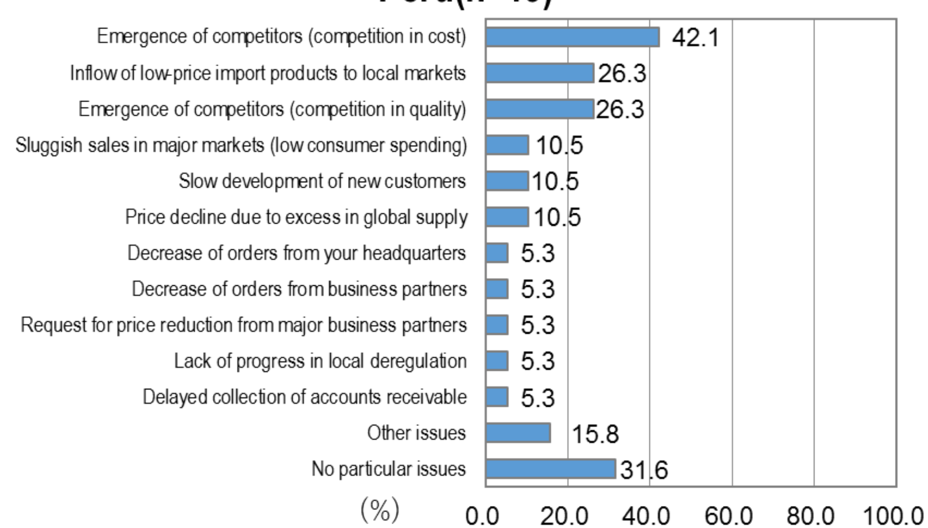


Venezuela(n=14)



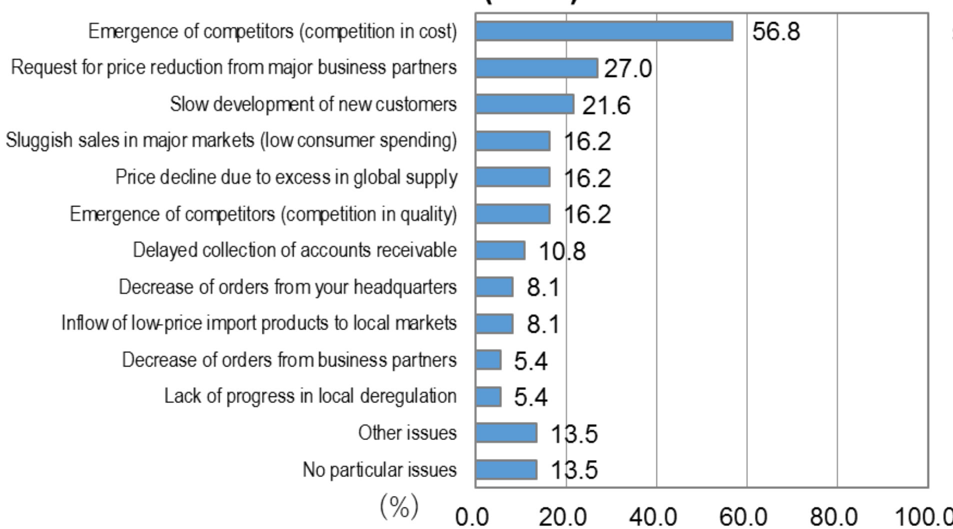
Colombia(n=30)

Peru(n=19)



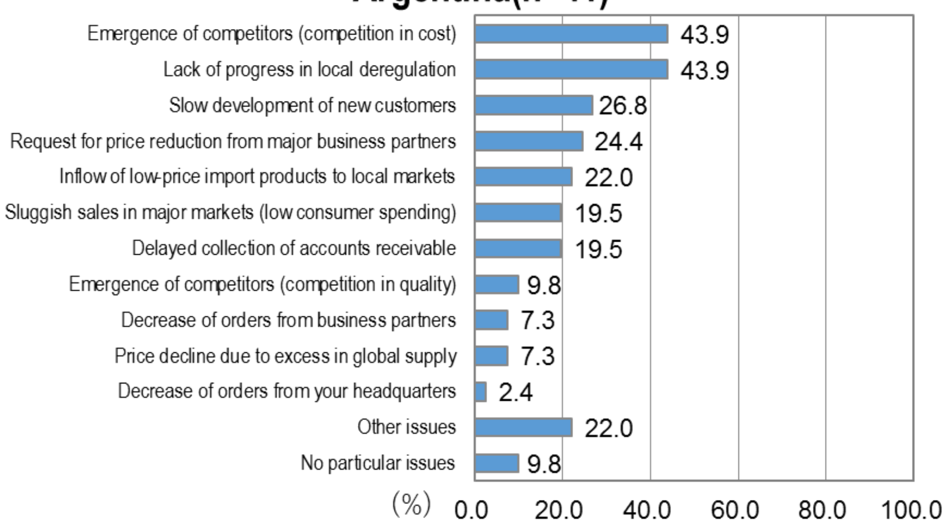
II – 5 – (1) Issues with business management: Issues in the field of sales and marketing (by country 2)

Chile(n=37)



Brazil(n=99)

Argentina(n=41)



- **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.**

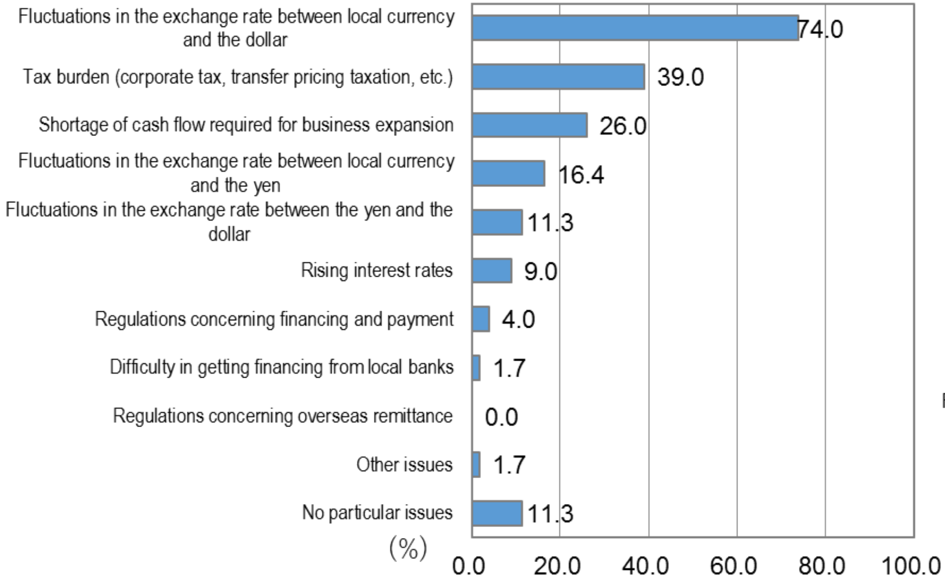
Issues in the field of finance, monetary and foreign exchange (Multiple Answers)

(Unit : %)

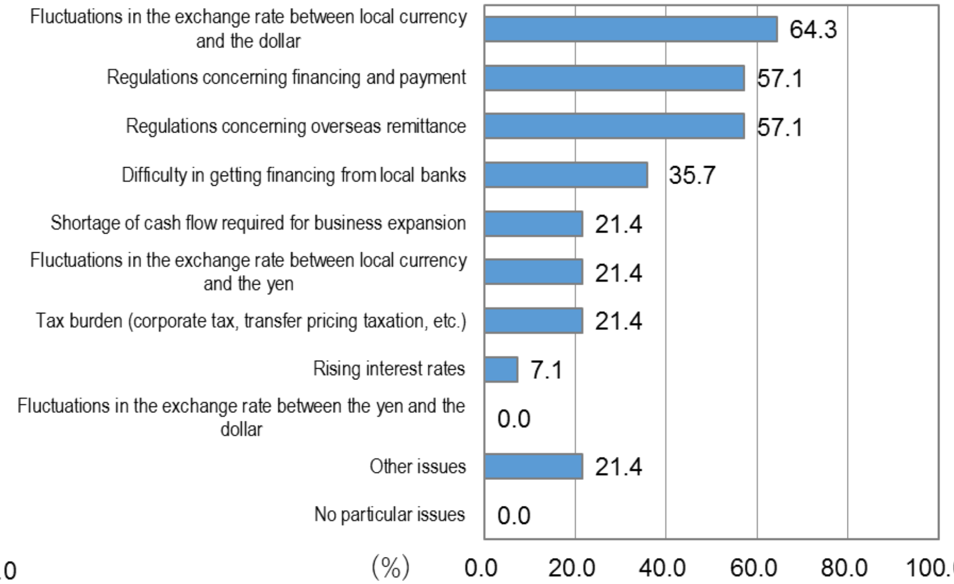
	Valid responses	Shortage of cash flow required for business expansion	Difficulty in getting financing from local banks	Fluctuations in the exchange rate between local currency and the dollar	Fluctuations in the exchange rate between local currency and the yen	Fluctuations in the exchange rate between the yen and the dollar	Regulations concerning financing and payment	Regulations concerning overseas remittance	Tax burden (corporate tax, transfer pricing taxation, etc.)	Rising interest rates	Other issues	No particular issues
Latin America	417	24.5	7.0	62.4	14.9	8.2	10.1	10.8	46.0	10.3	4.6	9.8
Mexico	177	26.0	1.7	74.0	16.4	11.3	4.0	0.0	39.0	9.0	1.7	11.3
Venezuela	14	21.4	35.7	64.3	21.4	0.0	57.1	57.1	21.4	7.1	21.4	0.0
Colombia	30	16.7	6.7	63.3	0.0	10.0	6.7	16.7	46.7	6.7	3.3	10.0
Peru	19	10.5	0.0	36.8	5.3	5.3	0.0	0.0	47.4	5.3	15.8	15.8
Chile	37	10.8	5.4	45.9	10.8	10.8	0.0	8.1	27.0	0.0	2.7	16.2
Brazil	99	27.3	13.1	49.5	21.2	4.0	18.2	23.2	68.7	9.1	5.1	7.1
Argentina	41	36.6	9.8	68.3	9.8	4.9	17.1	14.6	46.3	34.1	7.3	4.9

II – 5 – (2) Issues with business management: Issues in the field of finance, monetary and foreign exchange (by country 1)

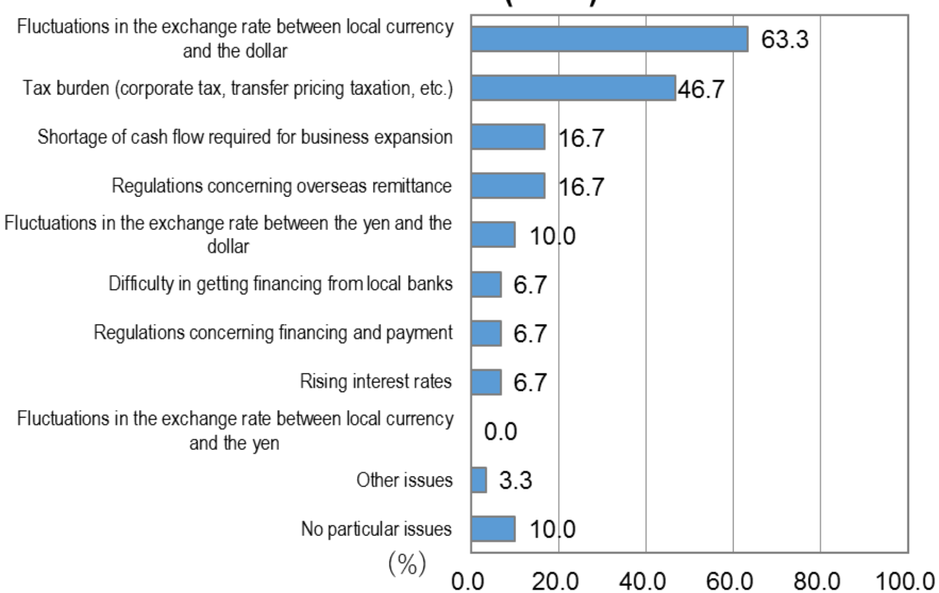
Mexico(n=177)



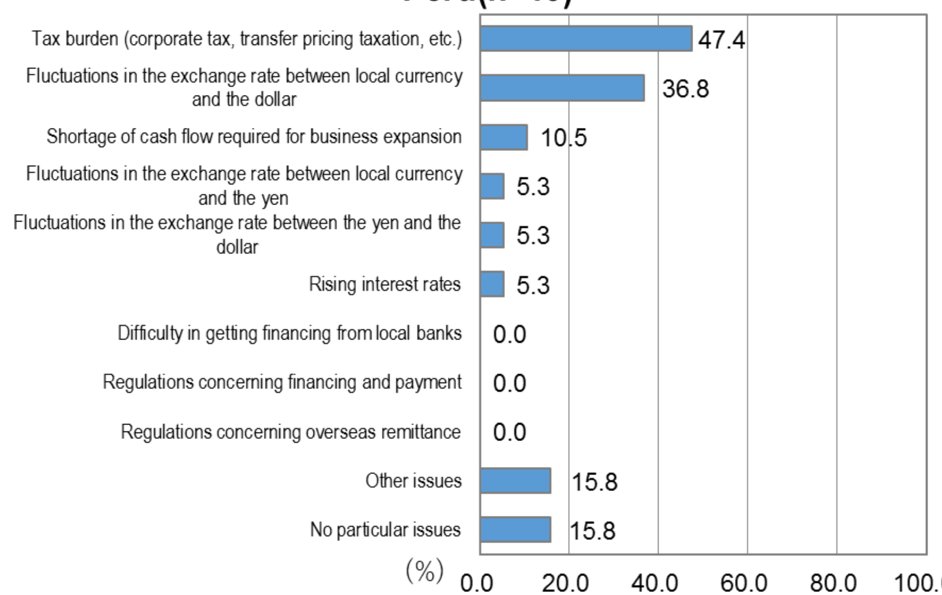
Venezuela(n=14)



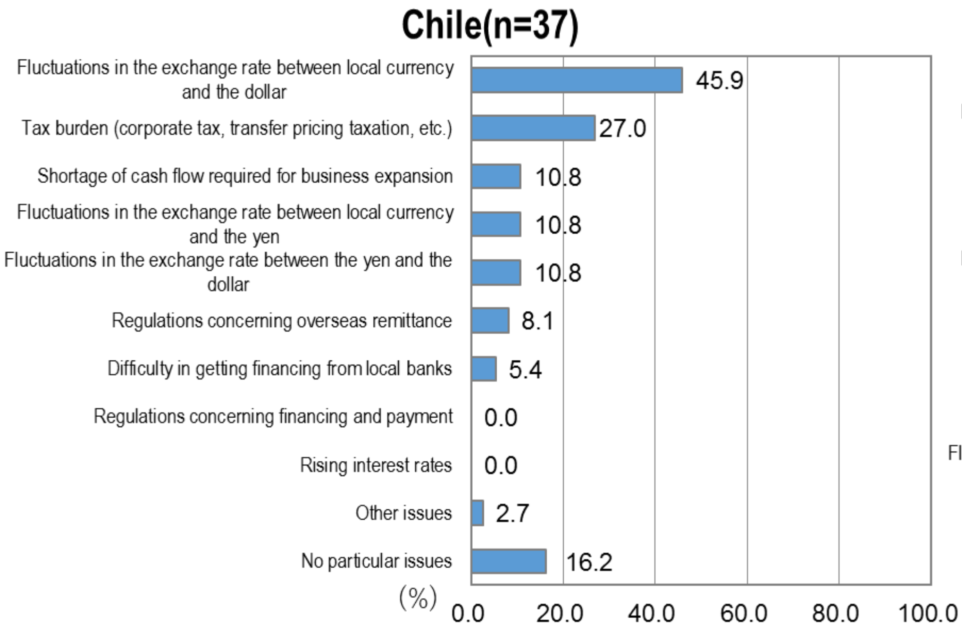
Colombia(n=30)

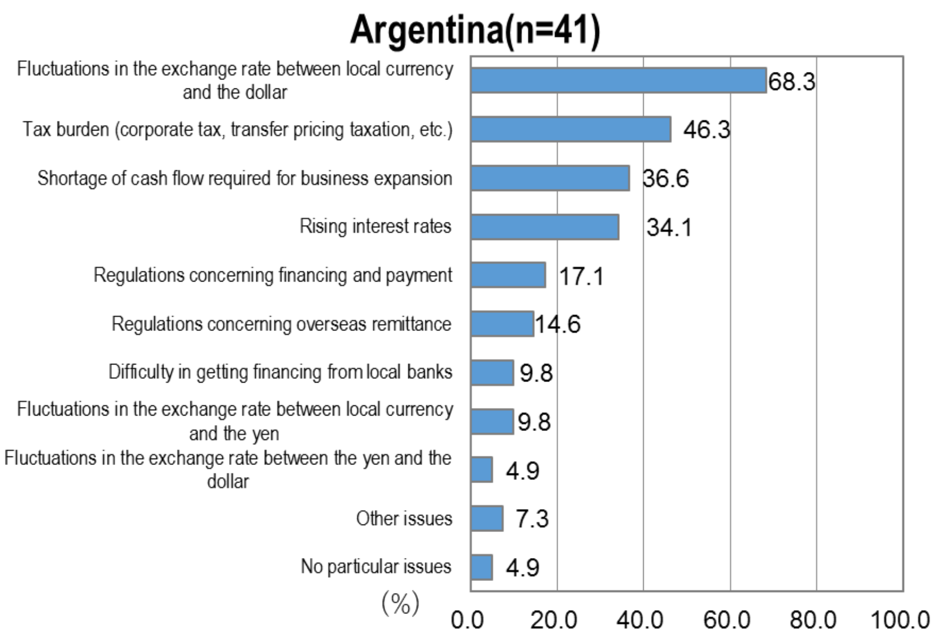


Peru(n=19)



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





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

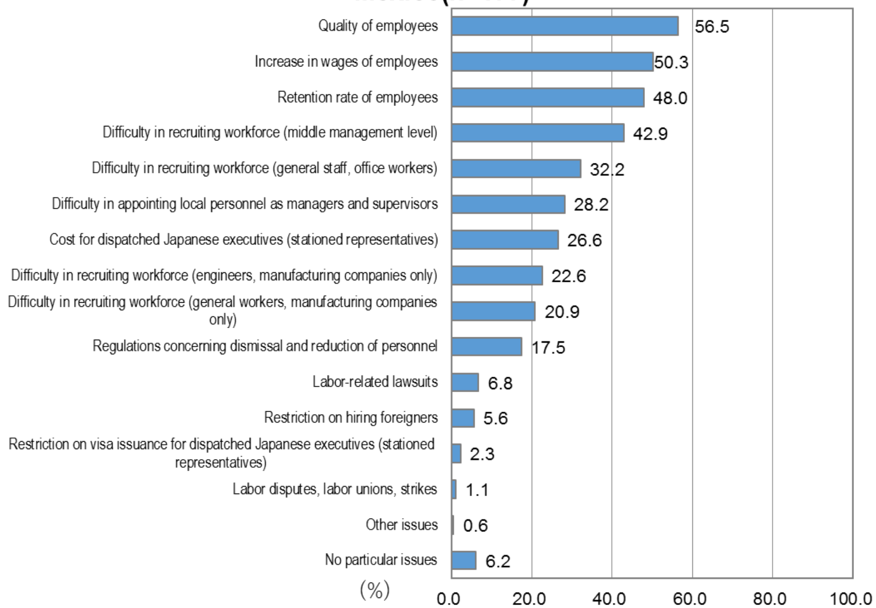
- Among individual countries, Mexico, where competition among companies over recruitment is fierce due to an increase in Japanese companies in the region, had the highest percentage in the region for “difficulty in middle-level management recruitment” (42.9%), “quality of employees” (56.5%), and “retention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

(Unit : %)

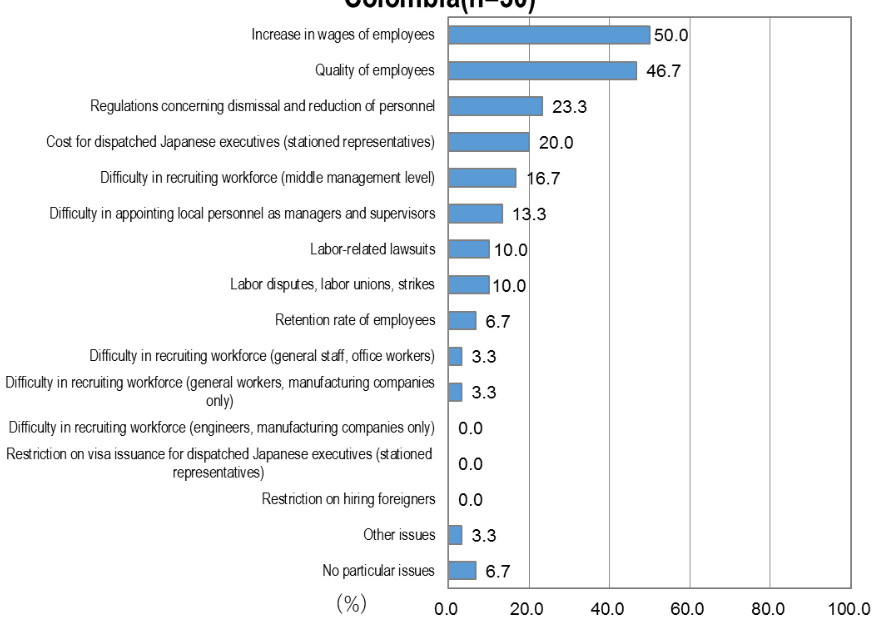
	Valid responses	Increase in wages of employees	Difficulty in recruiting workforce (general staff, office workers)	Difficulty in recruiting workforce (middle management level)	Difficulty in recruiting workforce (general workers, manufacturing companies only)	Difficulty in recruiting workforce (engineers, 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	47.5	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

Mexico(n=177)

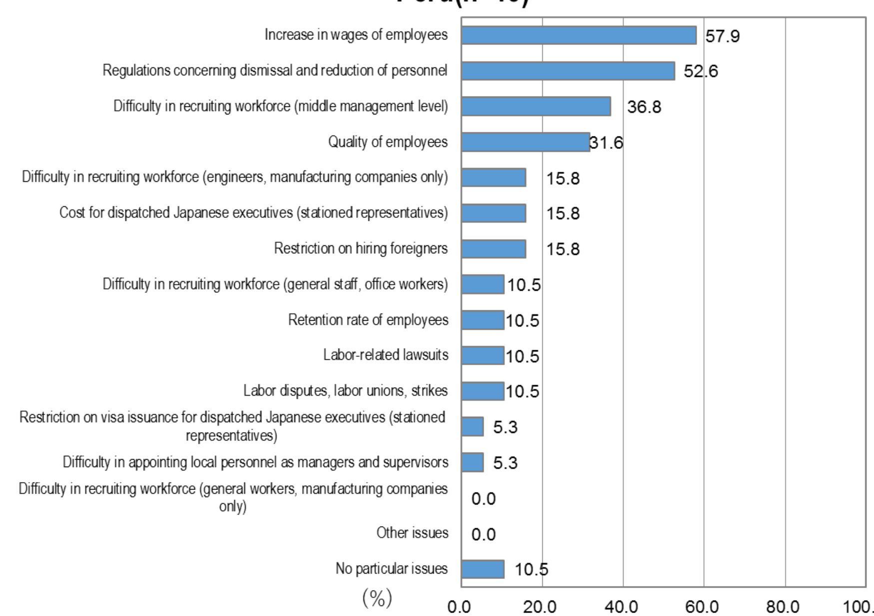


Venezuela(n=14)

Colombia(n=30)

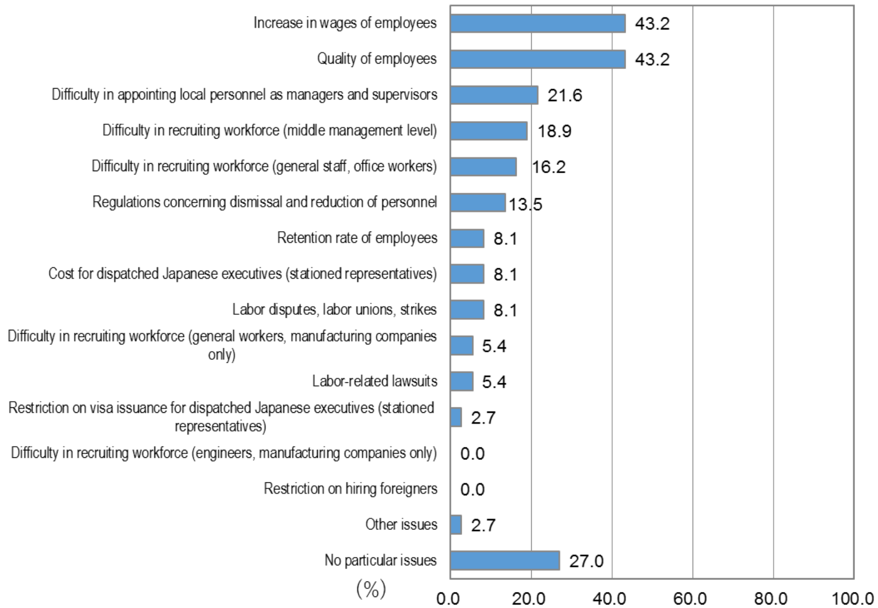


Peru(n=19)

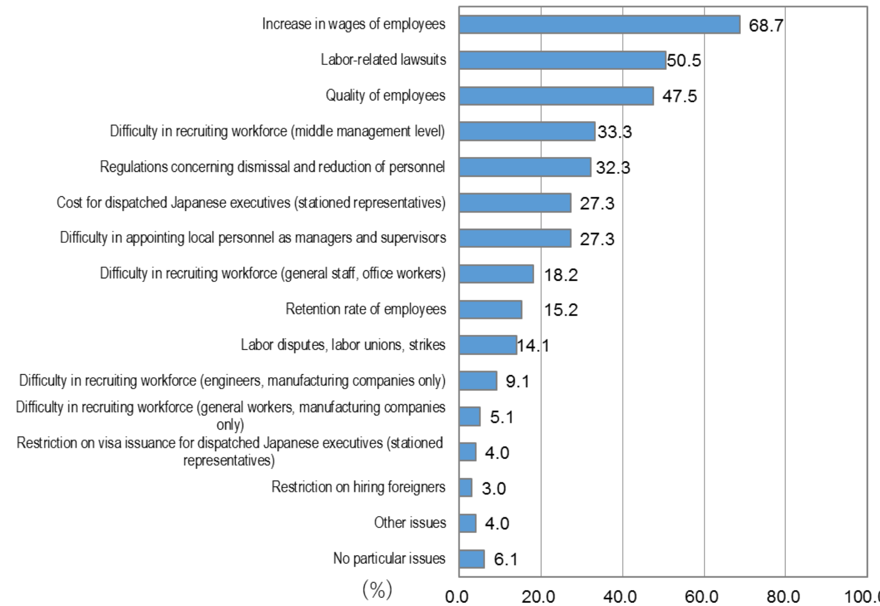


II – 5 – (3) Issues with business management: Issues in the field of employment and labor (by country 2)

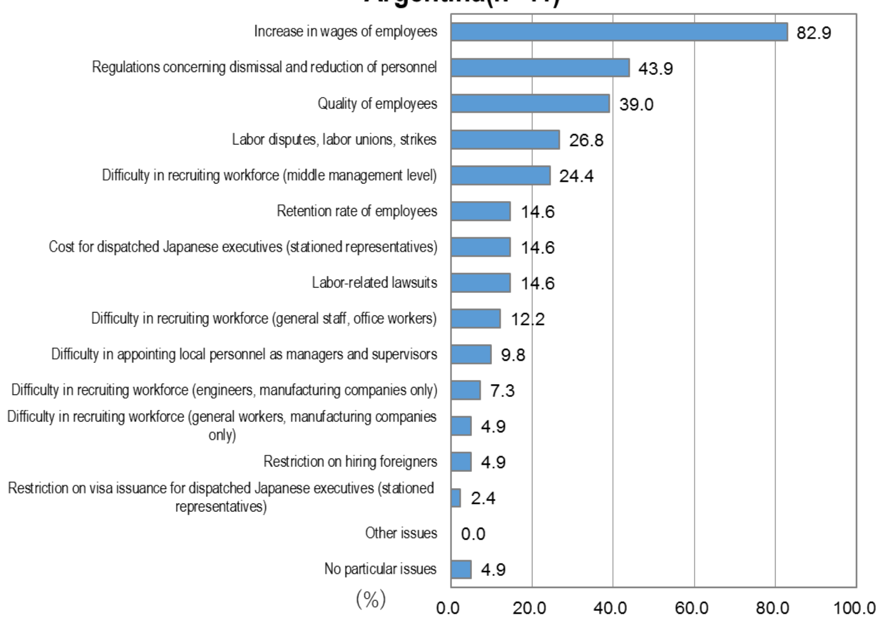
Chile(n=37)



Brazil(n=99)



Argentina(n=41)



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

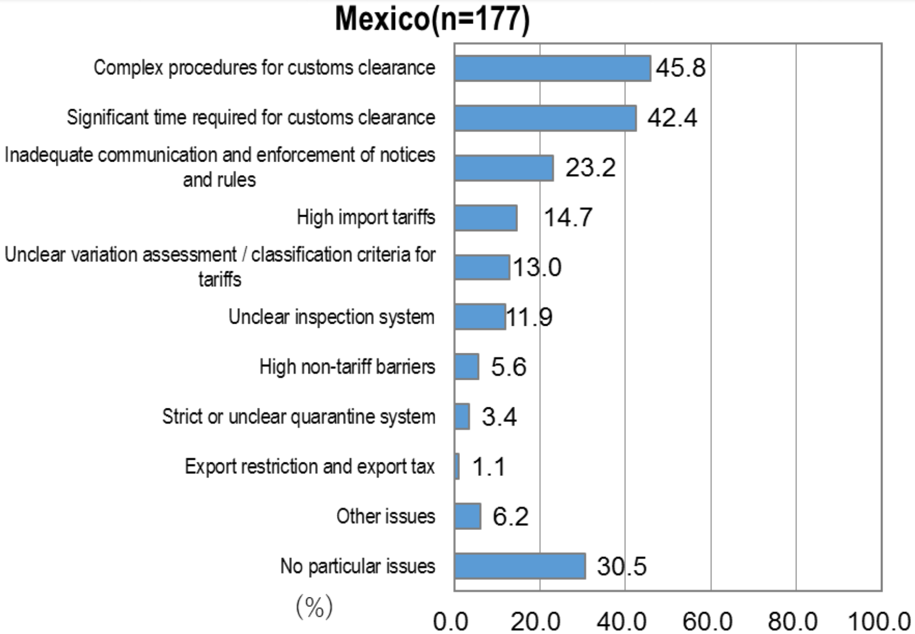
- **Pacific Alliance countries (Mexico, Colombia, Peru, and Chile) had high percentages of "no particular problem". The percentage in Chile in particular reached 70%.**
- **Mercosur countries (Brazil, Argentina) had high percentages for issues related to imports including "complexity in custom clearance"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

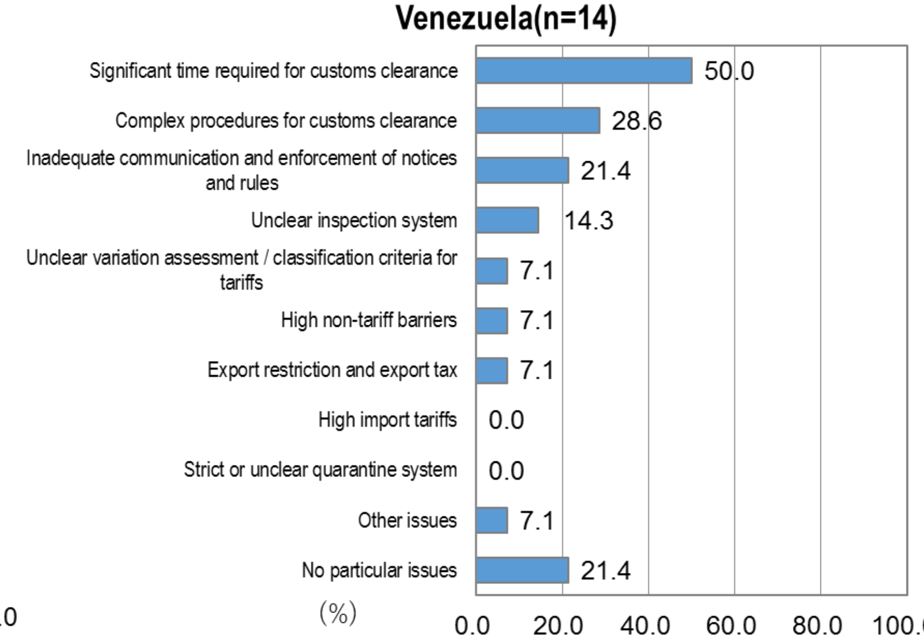
Issues in the field of trade systems (Multiple Answers)

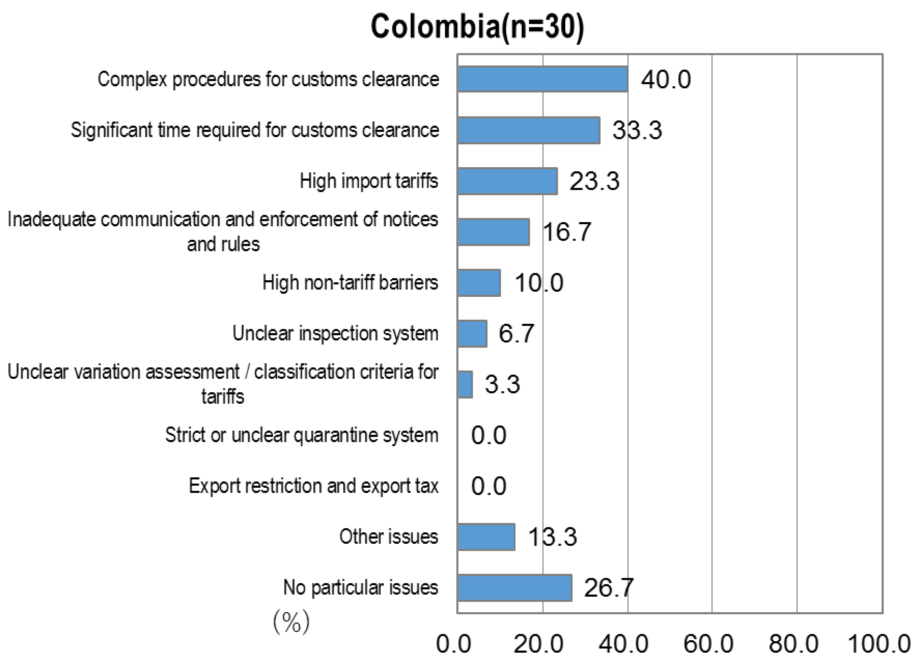
(Unit : %)

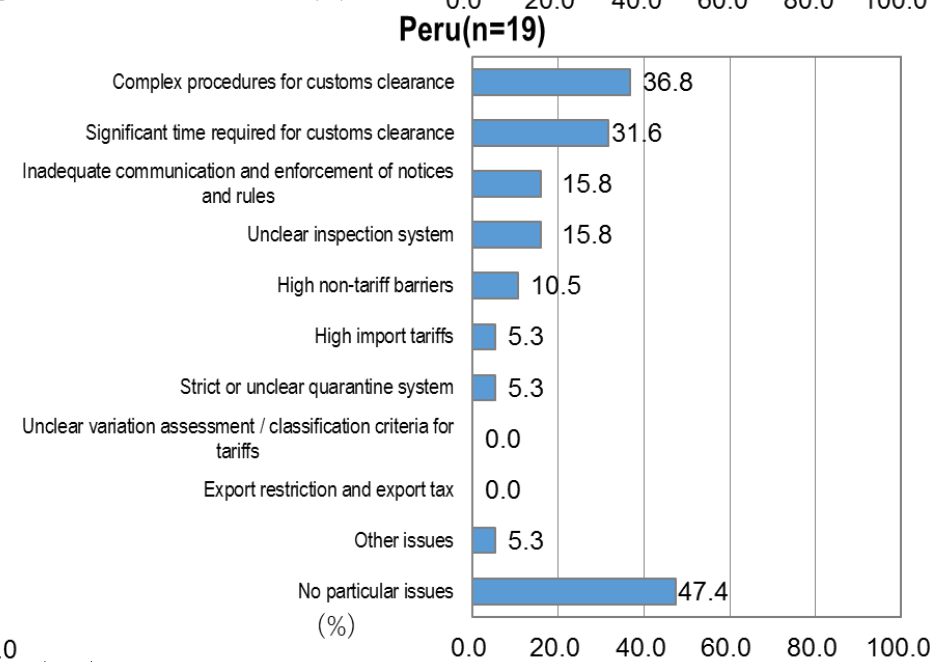
	Valid responses	Complex procedures for customs clearance	Significant time required for customs clearance	Inadequate communication and enforcement of notices and rules	Unclear variation assessment / classification criteria for tariffs	High import tariffs	Unclear inspection system	High non-tariff barriers	Strict or unclear quarantine system	Export restriction and export tax	Other issues	No particular issues
Latin America	417	46.5	46.3	20.9	14.6	27.8	14.4	9.8	4.3	3.1	7.0	28.5
Mexico	177	45.8	42.4	23.2	13.0	14.7	11.9	5.6	3.4	1.1	6.2	30.5
Venezuela	14	28.6	50.0	21.4	7.1	0.0	14.3	7.1	0.0	7.1	7.1	21.4
Colombia	30	40.0	33.3	16.7	3.3	23.3	6.7	10.0	0.0	0.0	13.3	26.7
Peru	19	36.8	31.6	15.8	0.0	5.3	15.8	10.5	5.3	0.0	5.3	47.4
Chile	37	8.1	13.5	2.7	0.0	2.7	0.0	0.0	2.7	0.0	13.5	70.3
Brazil	99	58.6	66.7	27.3	28.3	62.6	26.3	18.2	8.1	5.1	3.0	13.1
Argentina	41	70.7	58.5	17.1	19.5	46.3	14.6	17.1	4.9	12.2	9.8	14.6

II – 5 – (4) Issues with business management: Issues in the field of trade systems (by country 1)



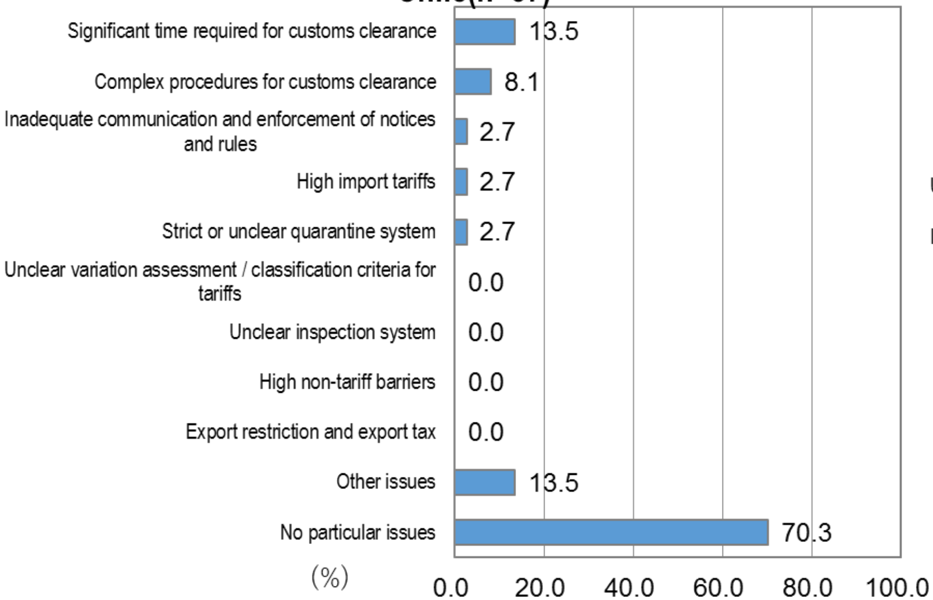




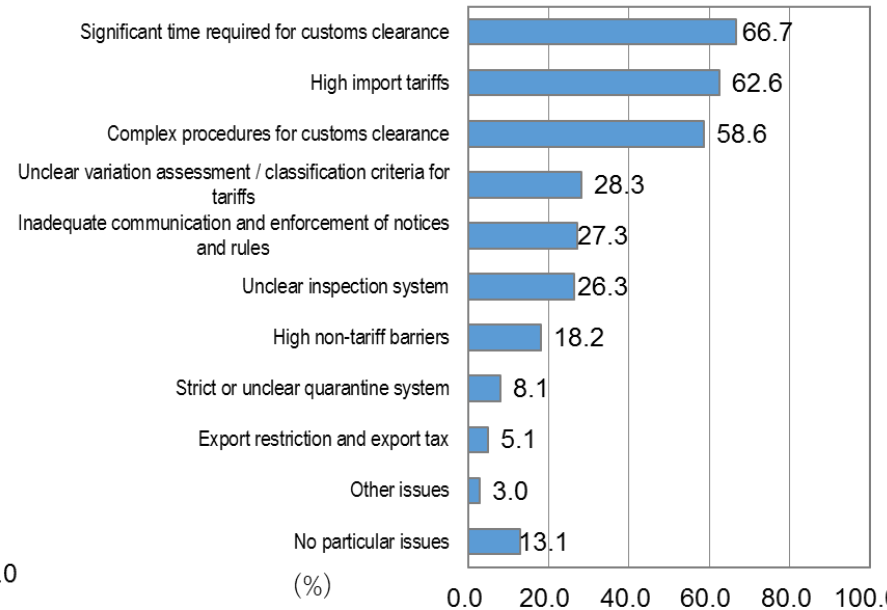


II – 5 – (4) Issues with business management: Issues in the field of trade systems (by country 2)

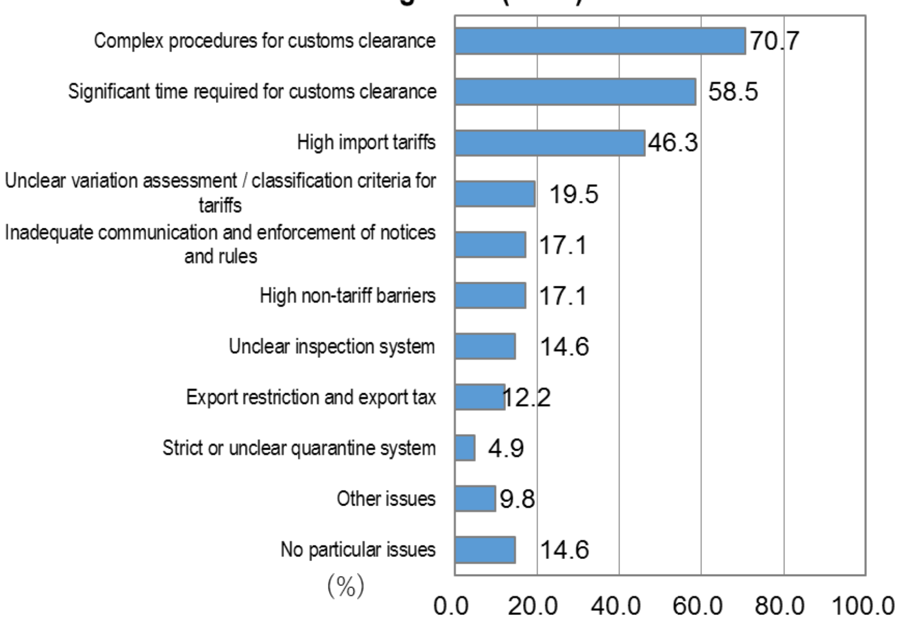
Chile(n=37)



Brazil(n=99)



Argentina(n=41)



II – 5 – (5) Issues with business management: Issues in the field of production

- 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 anissue (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%).

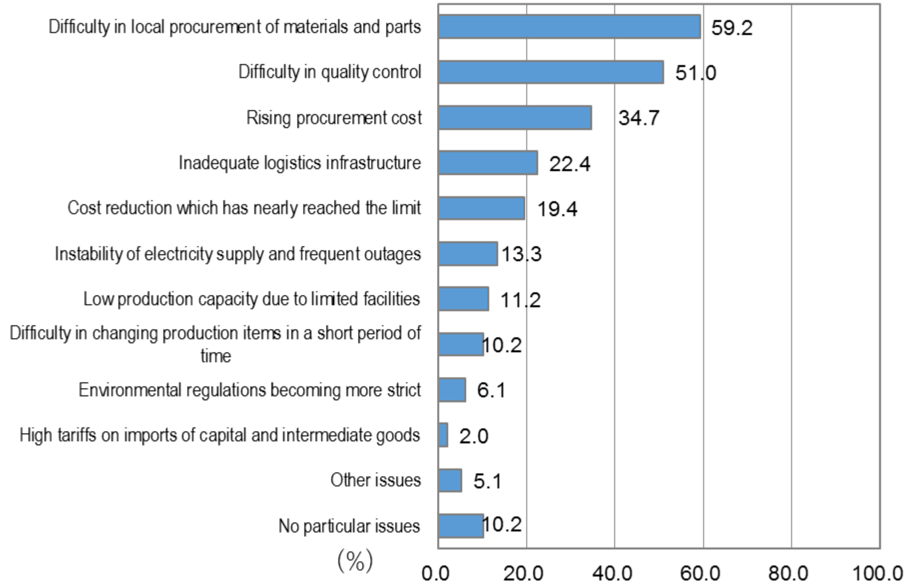
Issues in the field of production (Multiple Answers)

(Unit : %)

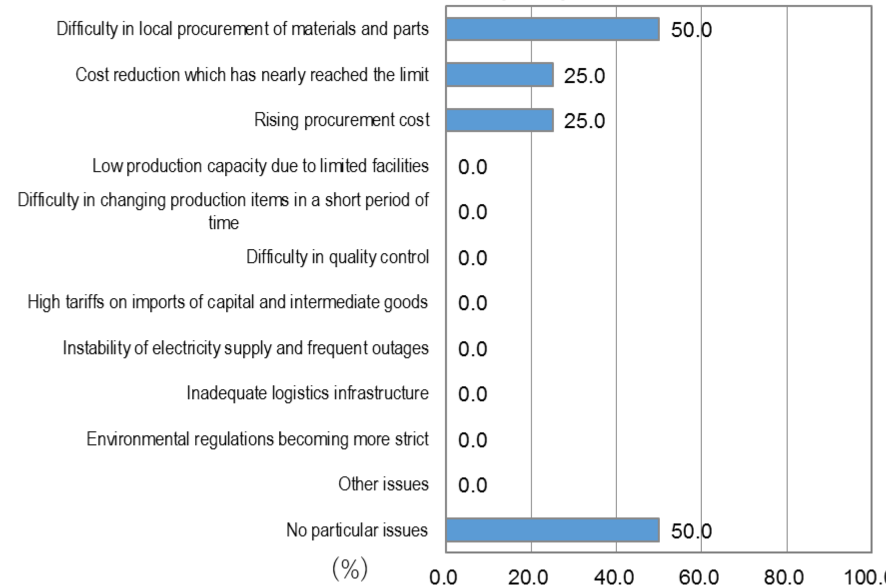
	Valid responses	Low production capacity due to limited facilities	Cost reduction which has nearly reached the limit	Rising procurement cost	Difficulty in local procurement of materials and parts	Difficulty in changing production items in a short period of time	Difficulty in quality control	High tariffs on imports of capital and intermediate goods	Instability of electricity supply and frequent outages	Inadequate logistics infrastructure	Environmental regulations becoming more strict	Other issues	No particular issues
Latin America	191	11.0	25.7	40.3	55.5	10.5	39.3	6.8	12.6	22.5	10.5	4.2	15.7
Mexico	98	11.2	19.4	34.7	59.2	10.2	51.0	2.0	13.3	22.4	6.1	5.1	10.2
Venezuela	4	0.0	25.0	25.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.0
Colombia	11	9.1	18.2	18.2	36.4	0.0	9.1	0.0	9.1	36.4	9.1	9.1	36.4
Peru	7	42.9	14.3	57.1	14.3	28.6	42.9	0.0	0.0	28.6	42.9	14.3	14.3
Chile	9	22.2	22.2	22.2	33.3	0.0	11.1	0.0	0.0	0.0	11.1	11.1	33.3
Brazil	48	8.3	37.5	52.1	60.4	14.6	31.3	14.6	16.7	29.2	16.7	0.0	16.7
Argentina	14	0.0	42.9	64.3	64.3	7.1	35.7	28.6	14.3	7.1	7.1	0.0	14.3

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

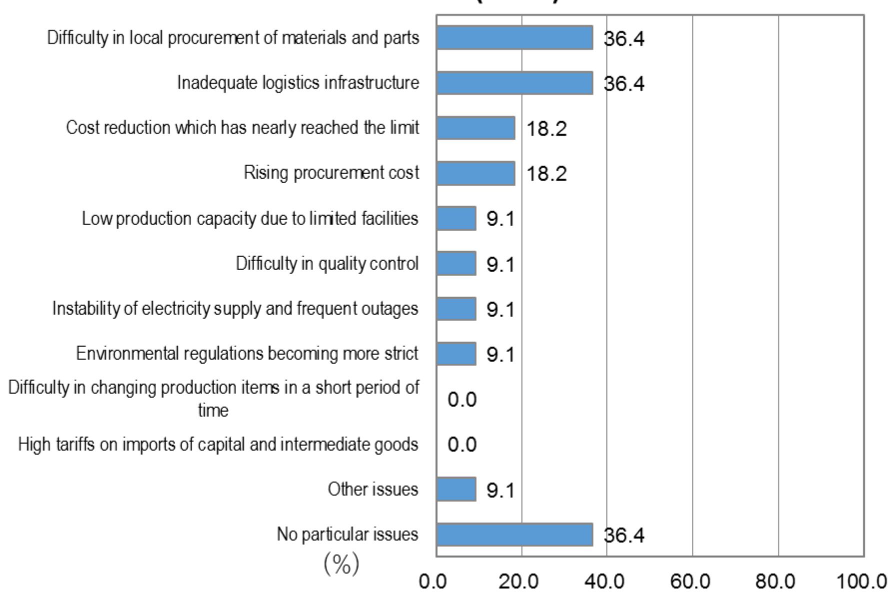
Mexico(n=98)



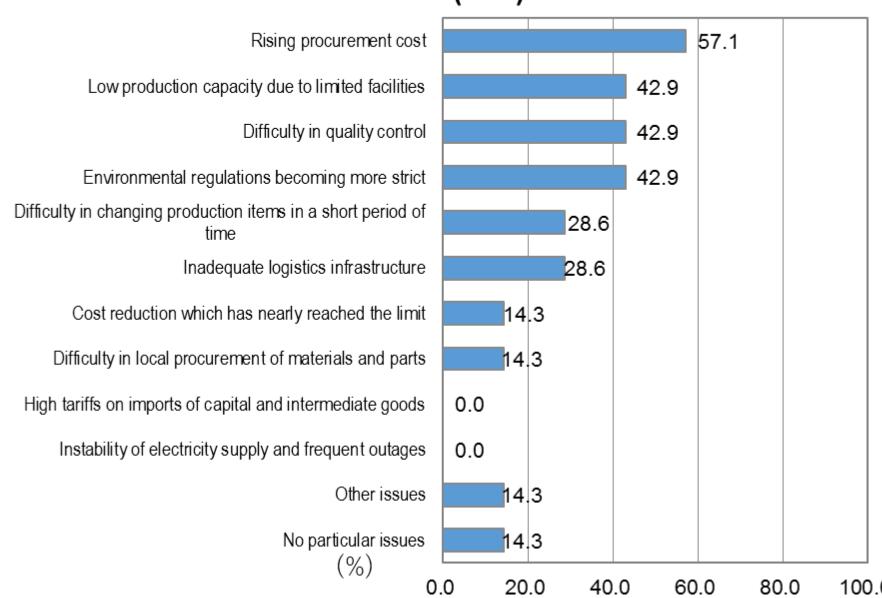
Venezuela(n=4)

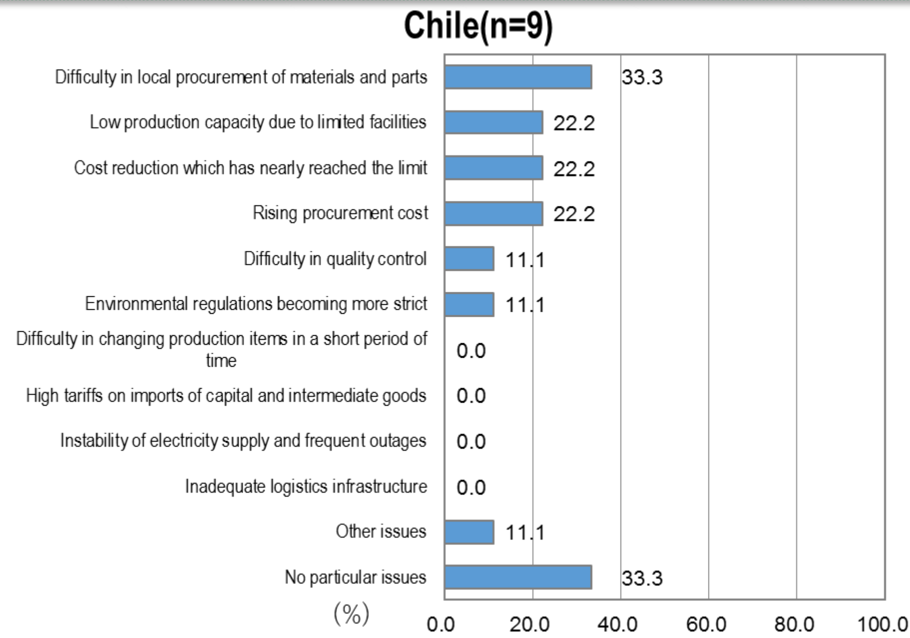


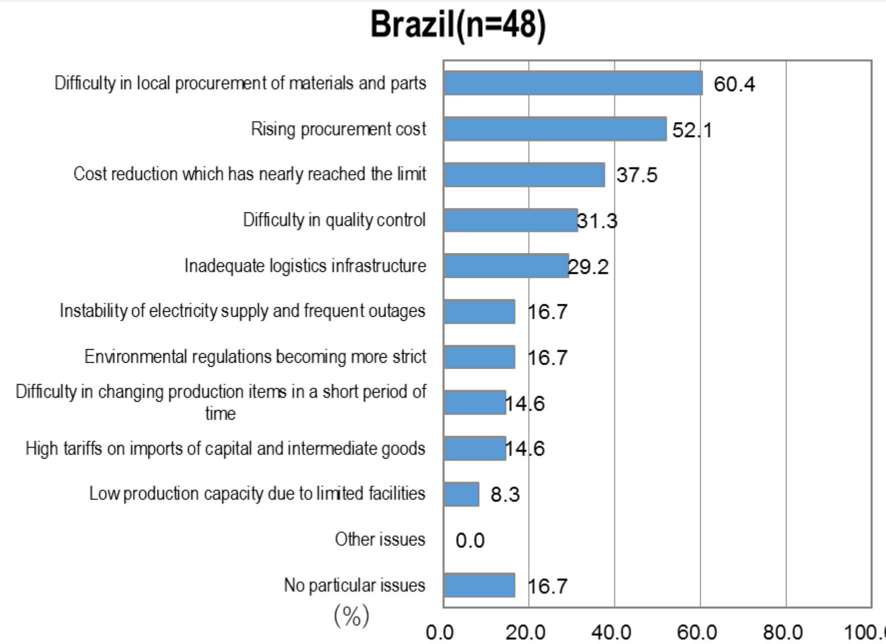
Colombia(n=11)

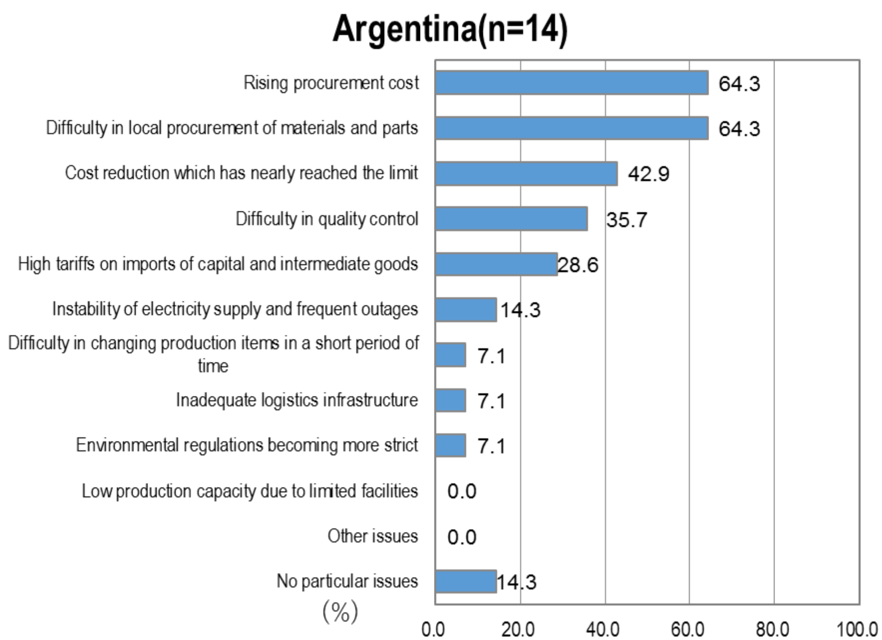


Peru(n=7)

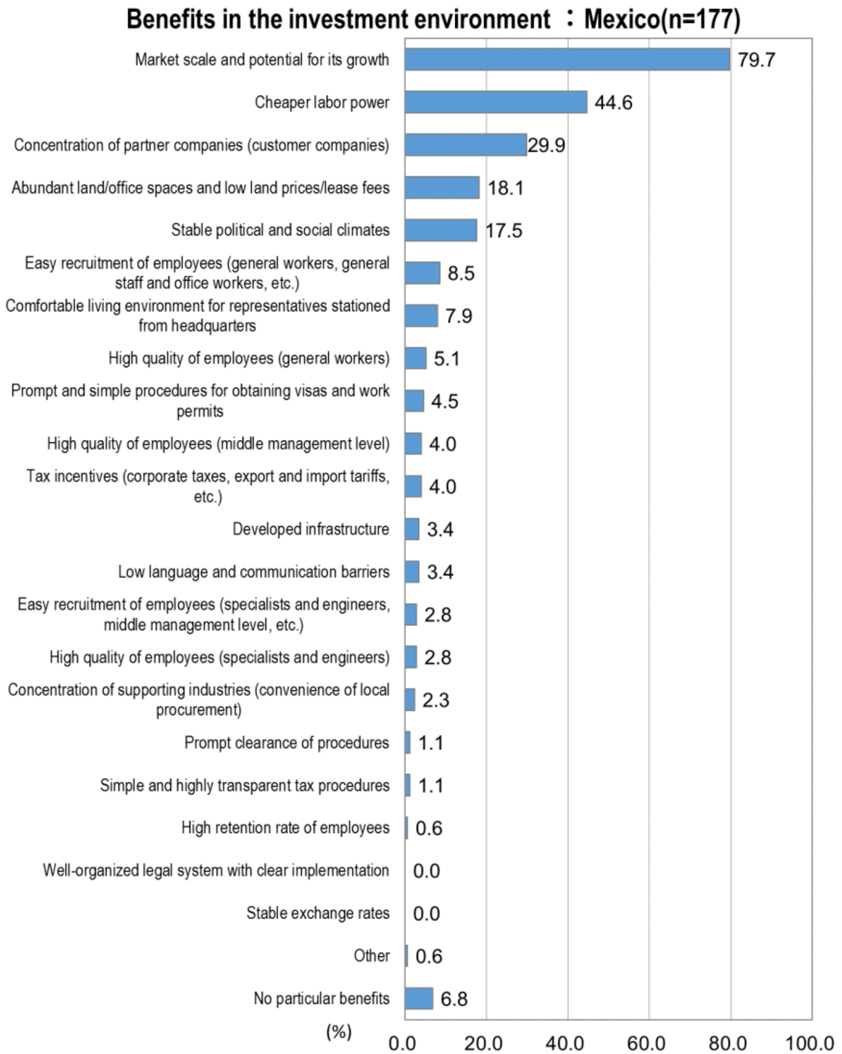


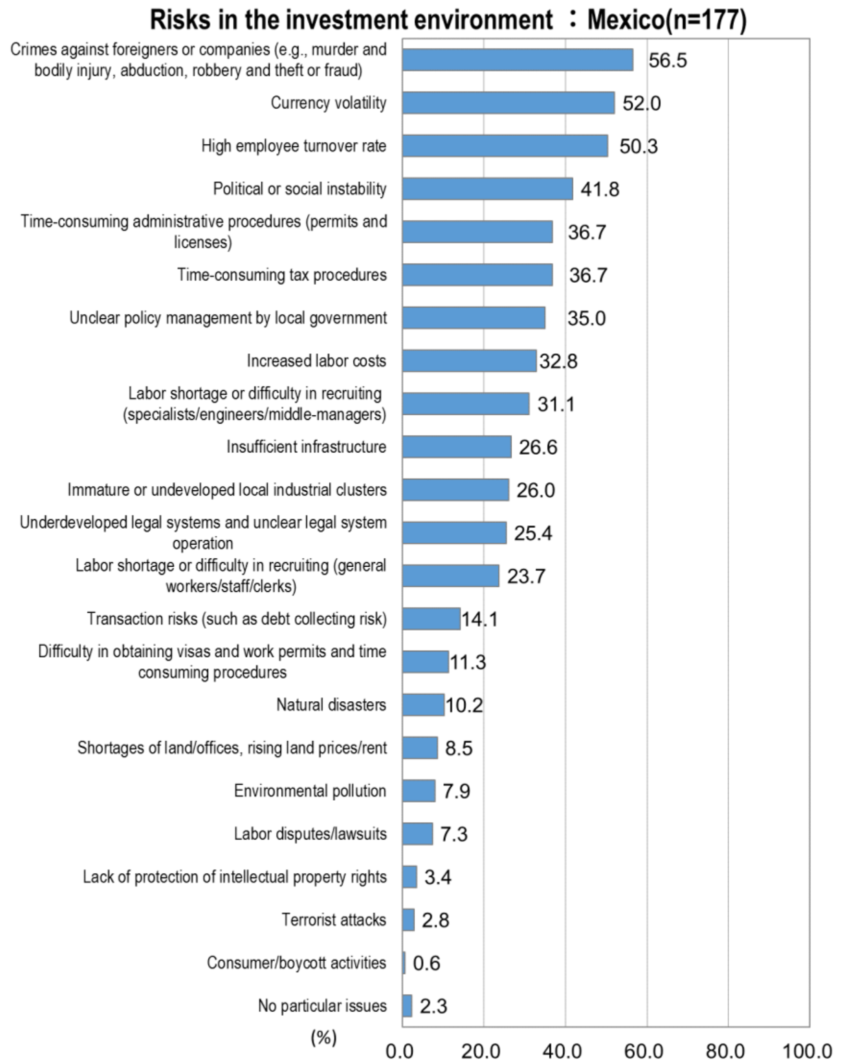

Chile(n=9)
Difficulty in local procurement of materials and parts 33.3
Low production capacity due to limited facilities 22.2
Cost reduction which has nearly reached the limit 22.2
Rising procurement cost 22.2
Difficulty in quality control 11.1
Environmental regulations becoming more strict 11.1
Difficulty in changing production items in a short period of time 0.0
High tariffs on imports of capital and intermediate goods 0.0
Instability of electricity supply and frequent outages 0.0
Inadequate logistics infrastructure 0.0
Other issues 11.1
No particular issues 33.3
(%)
0.0 20.0 40.0 60.0 80.0 100.0


Brazil(n=48)
Difficulty in local procurement of materials and parts 60.4
Rising procurement cost 52.1
Cost reduction which has nearly reached the limit 37.5
Difficulty in quality control 31.3
Inadequate logistics infrastructure 29.2
Instability of electricity supply and frequent outages 16.7
Environmental regulations becoming more strict 16.7
Difficulty in changing production items in a short period of time 14.6
High tariffs on imports of capital and intermediate goods 14.6
Low production capacity due to limited facilities 8.3
Other issues 0.0
No particular issues 16.7
(%)
0.0 20.0 40.0 60.0 80.0 100.0


Argentina(n=14)
Rising procurement cost 64.3
Difficulty in local procurement of materials and parts 64.3
Cost reduction which has nearly reached the limit 42.9
Difficulty in quality control 35.7
High tariffs on imports of capital and intermediate goods 28.6
Instability of electricity supply and frequent outages 14.3
Difficulty in changing production items in a short period of time 7.1
Inadequate logistics infrastructure 7.1
Environmental regulations becoming more strict 7.1
Low production capacity due to limited facilities 0.0
Other issues 0.0
No particular issues 14.3
(%)
0.0 20.0 40.0 60.0 80.0 100.0

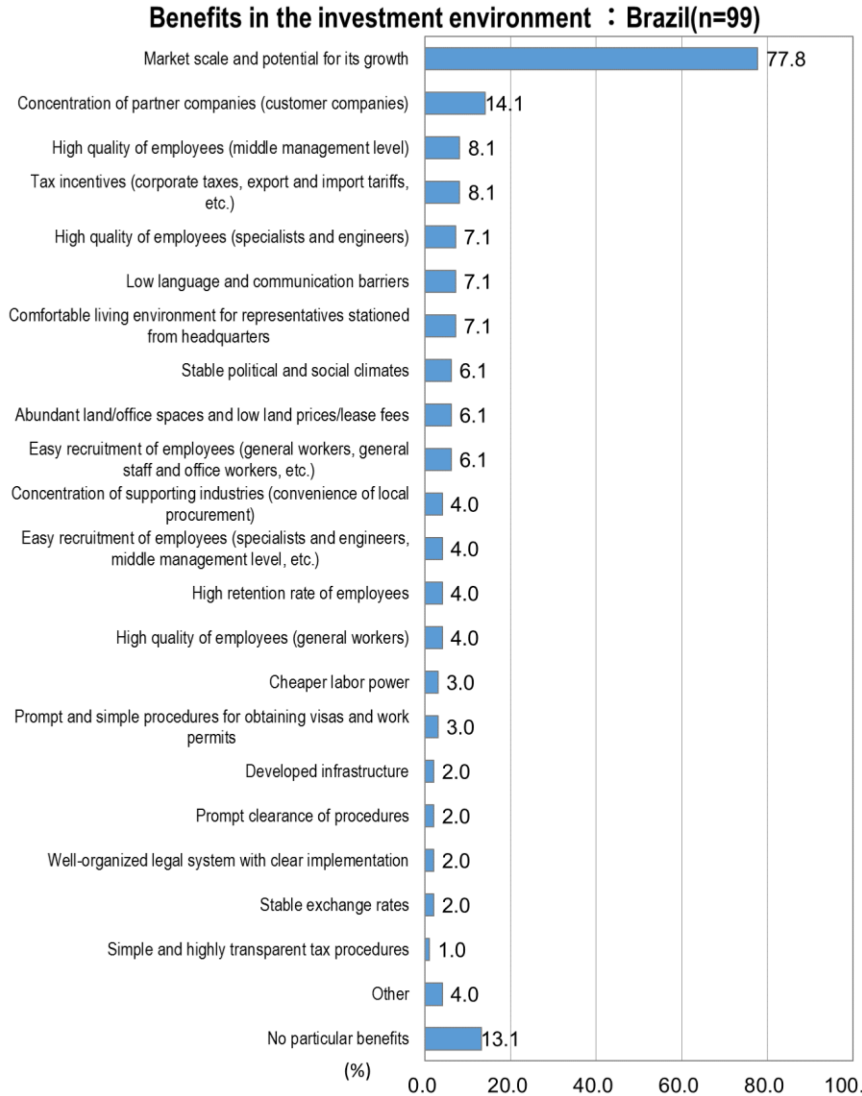
- For benefits, 44.6% of companies answered “low labor costs”, which is significantly higher than in other countries in Central and South America. For risks, close to 60% of companies were concerned about crime and deteriorating security in places such as Guanajuato, where many Japanese companies operate. This turned out to be the most answered risk.

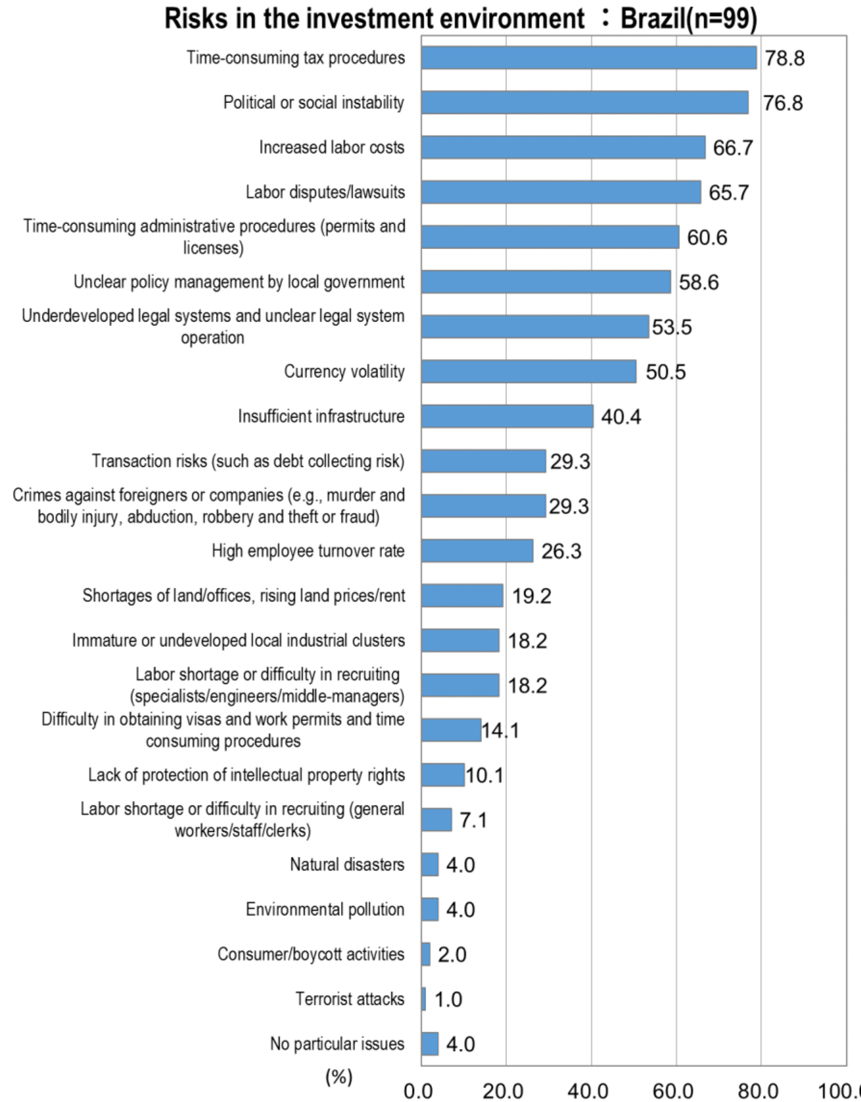




II – 5 – (6) Issues with business management: Benefits and risks in the investment environment -Brazil-

■ **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.**

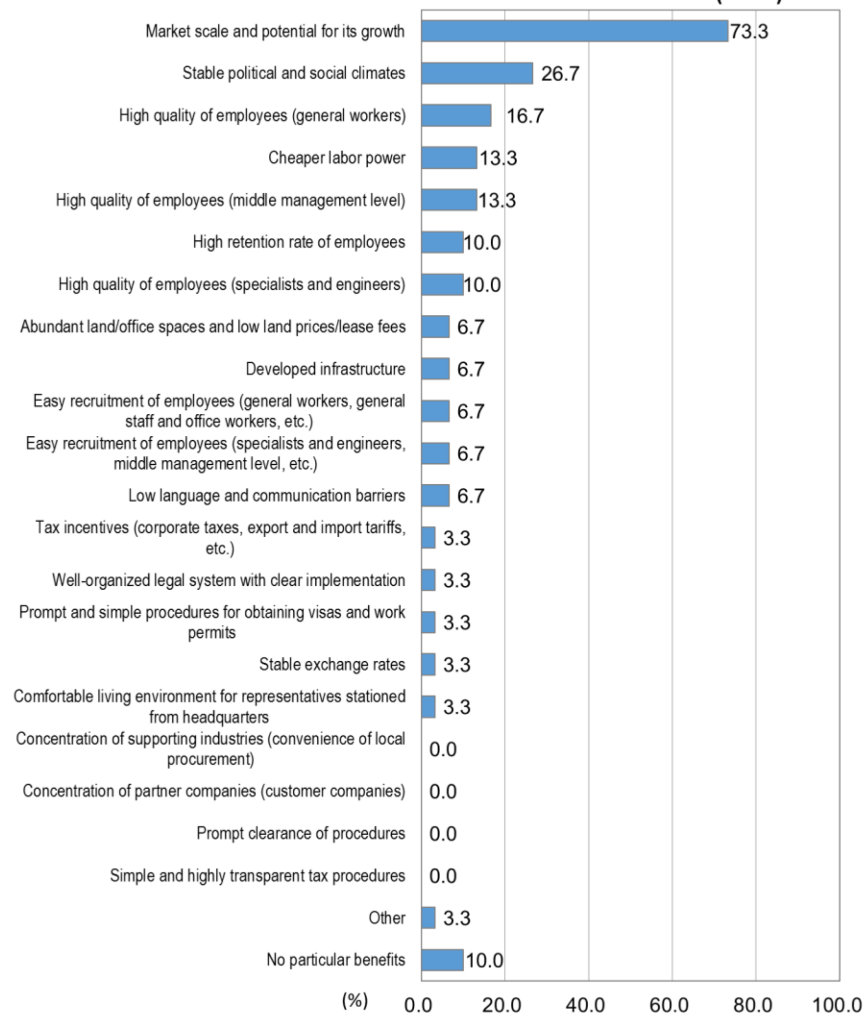




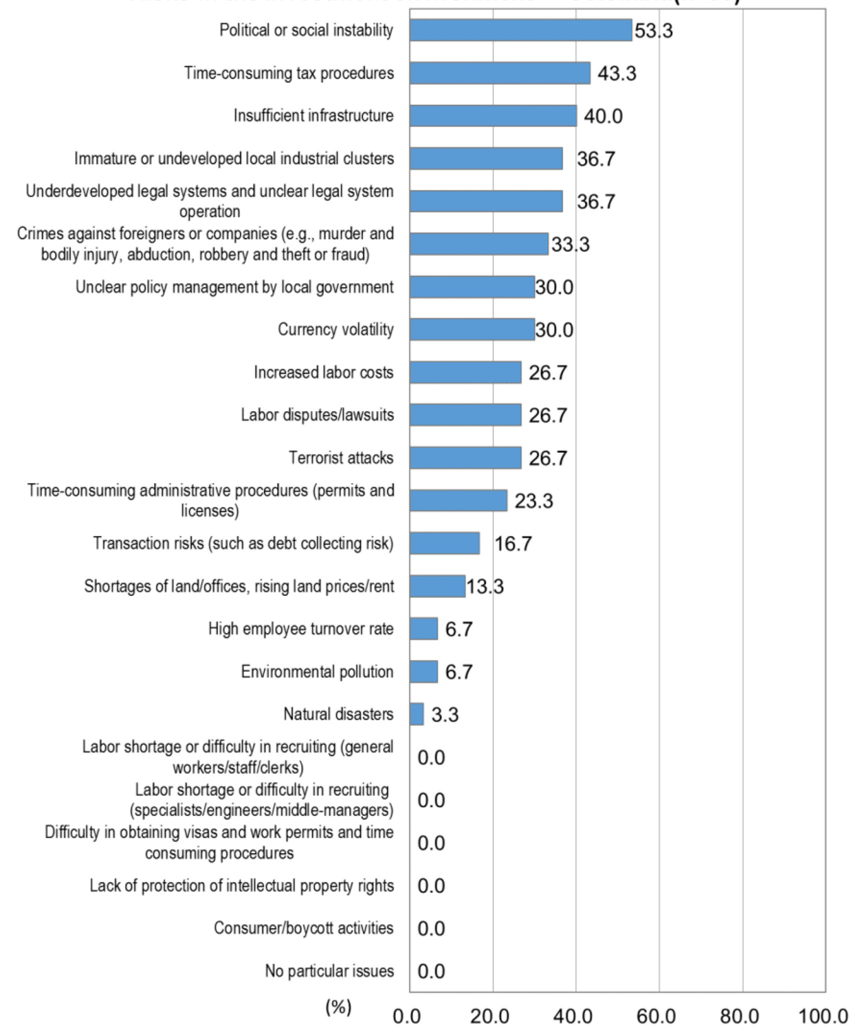
II – 5 – (6) Issues with business management: Benefits and risks in the investment environment -Colombia-

■ 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.

Benefits in the investment environment ：Colombia(n=30)

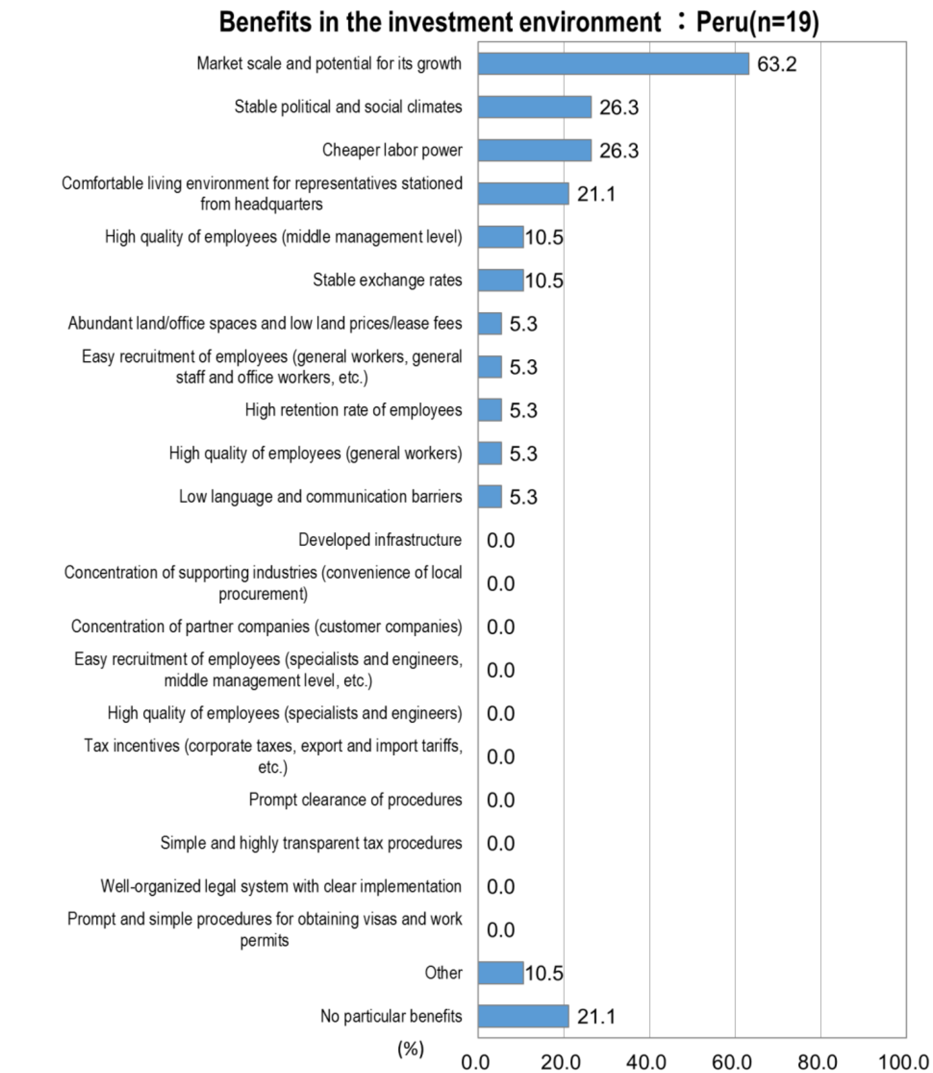


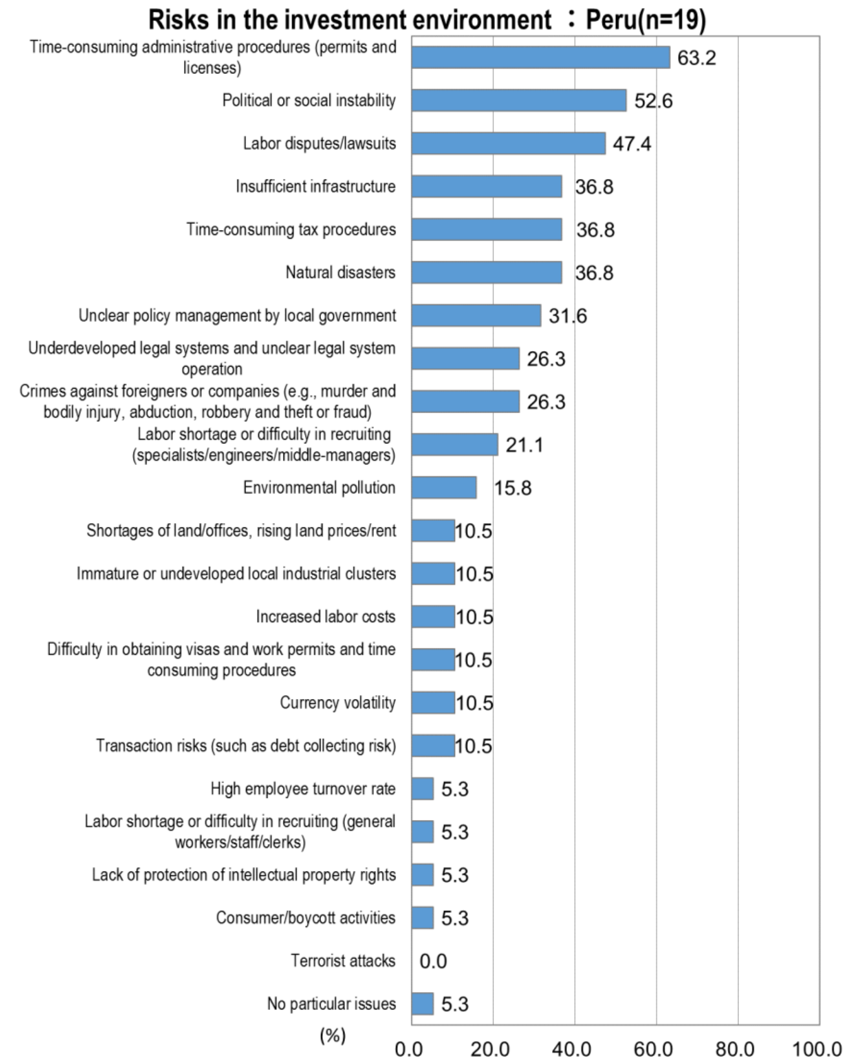
Risks in the investment environment ：Colombia(n=30)



II – 5 – (6) Issues with business management: Benefits and risks in the investment environment -Peru-

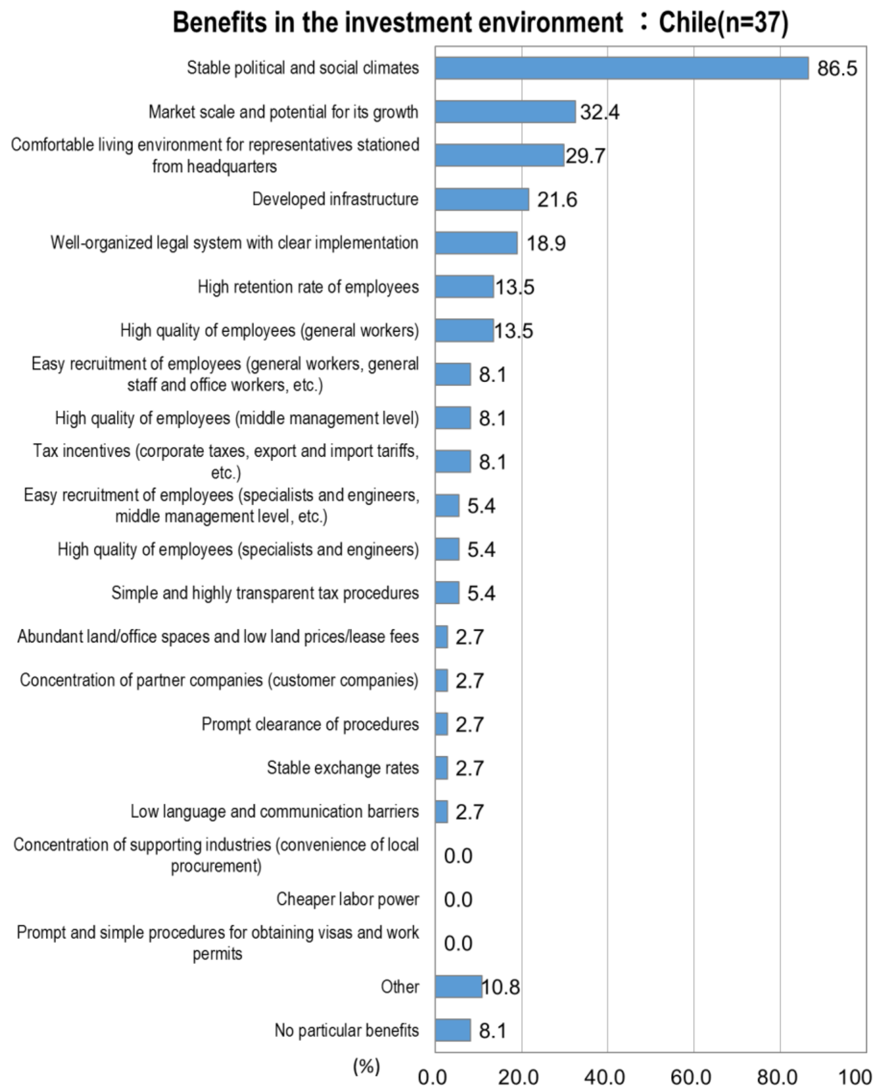
■ As the country is facing a possible change of administration following a corruption scandal, the number of companies that listed “unstable political/social environment” as a risk increased significantly (21.7%→52.6%). Moreover, the percentage for “labor disputes/lawsuits” approximately doubled due to a miners’ strike (26.1%→47.4%).

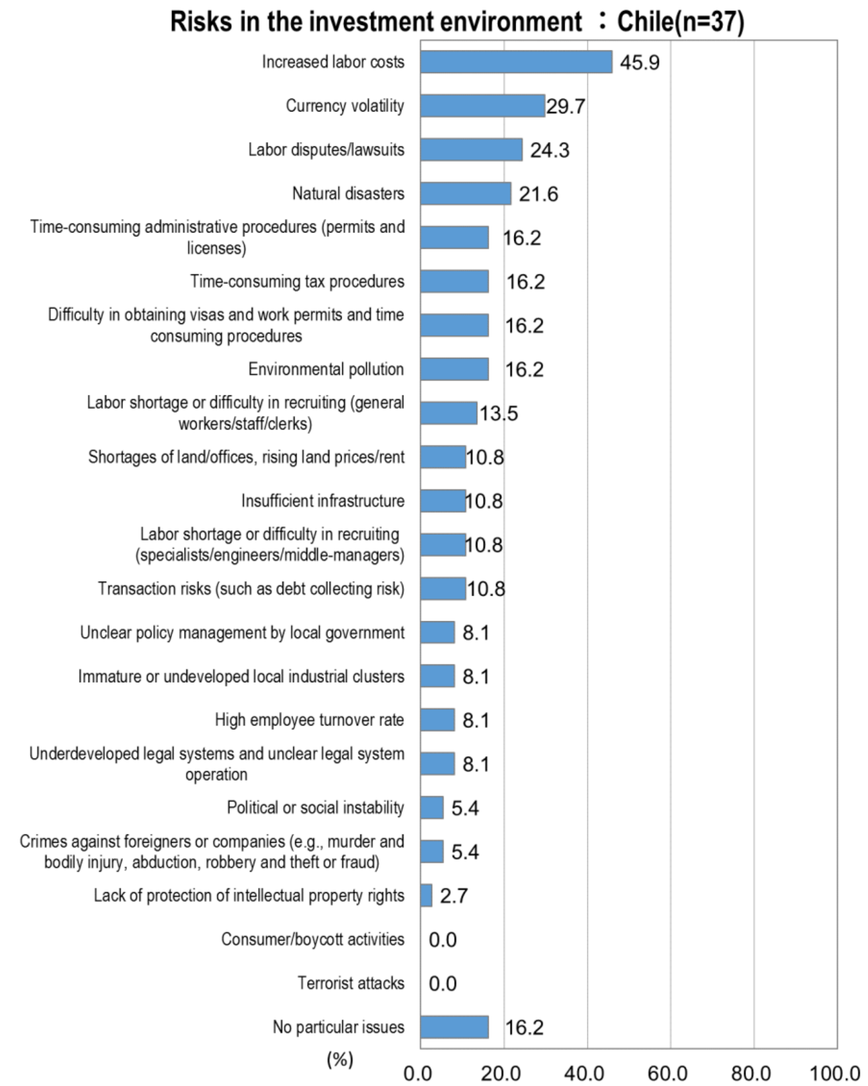




II – 5 – (6) Issues with business management: Benefits and risks in the investment environment -Chile-

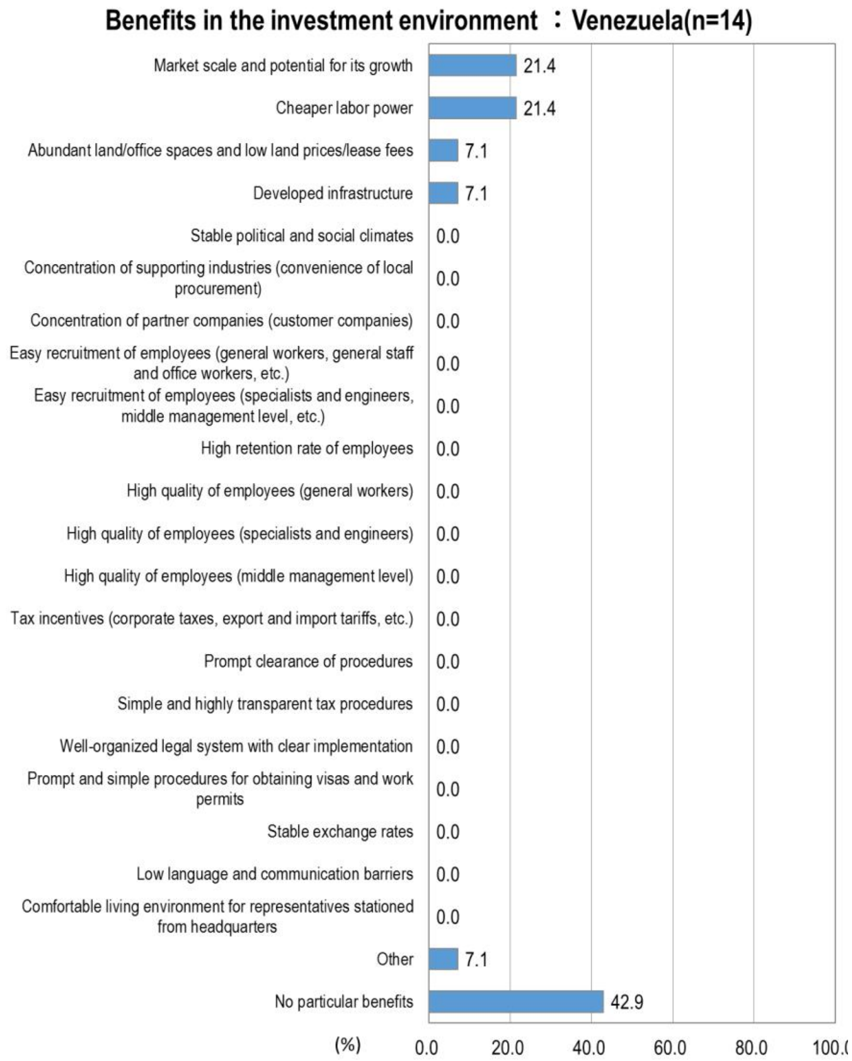
- It had the highest percentage in Central and South America for "stable political/social environment" (73.9%→86.5%). On the other hand, as the peso has been strong, "unstable exchange rate" moved from the 5th to 2nd highest risk (18.9%→29.7%).

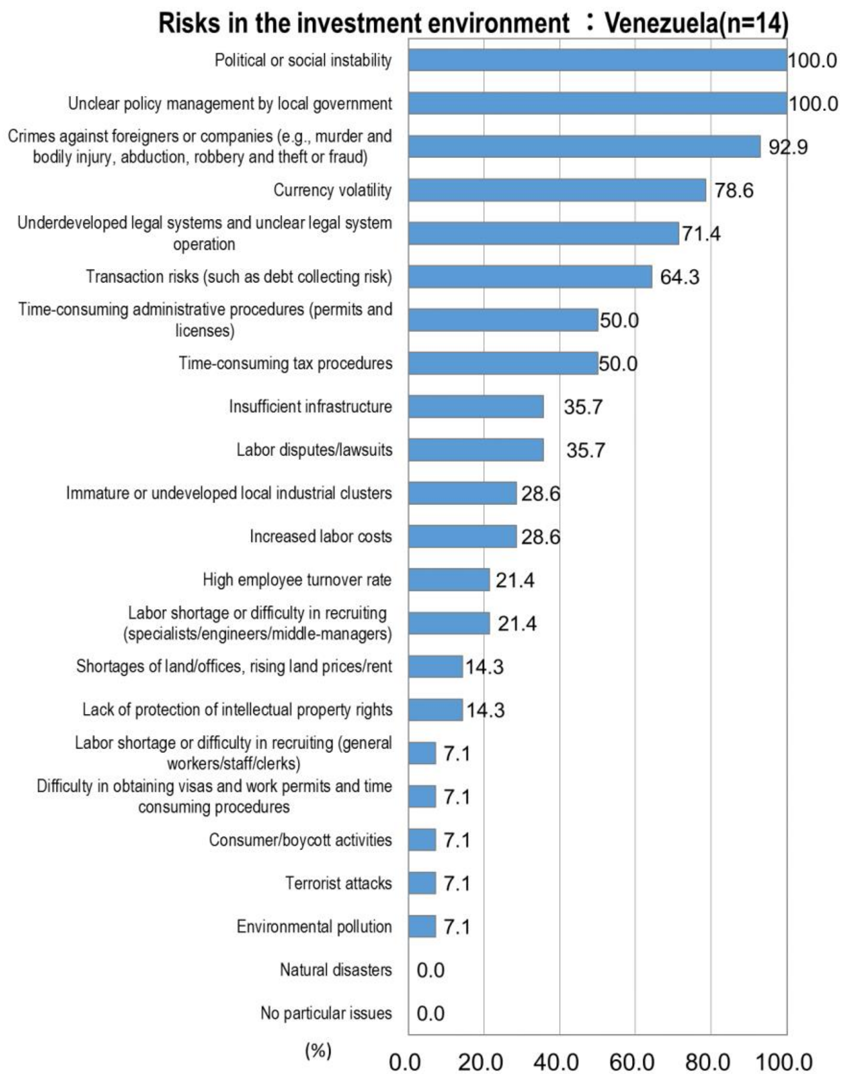




II – 5 – (6) Issues with business management: Benefits and risks in the investment environment-Venezuela-

- **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.**

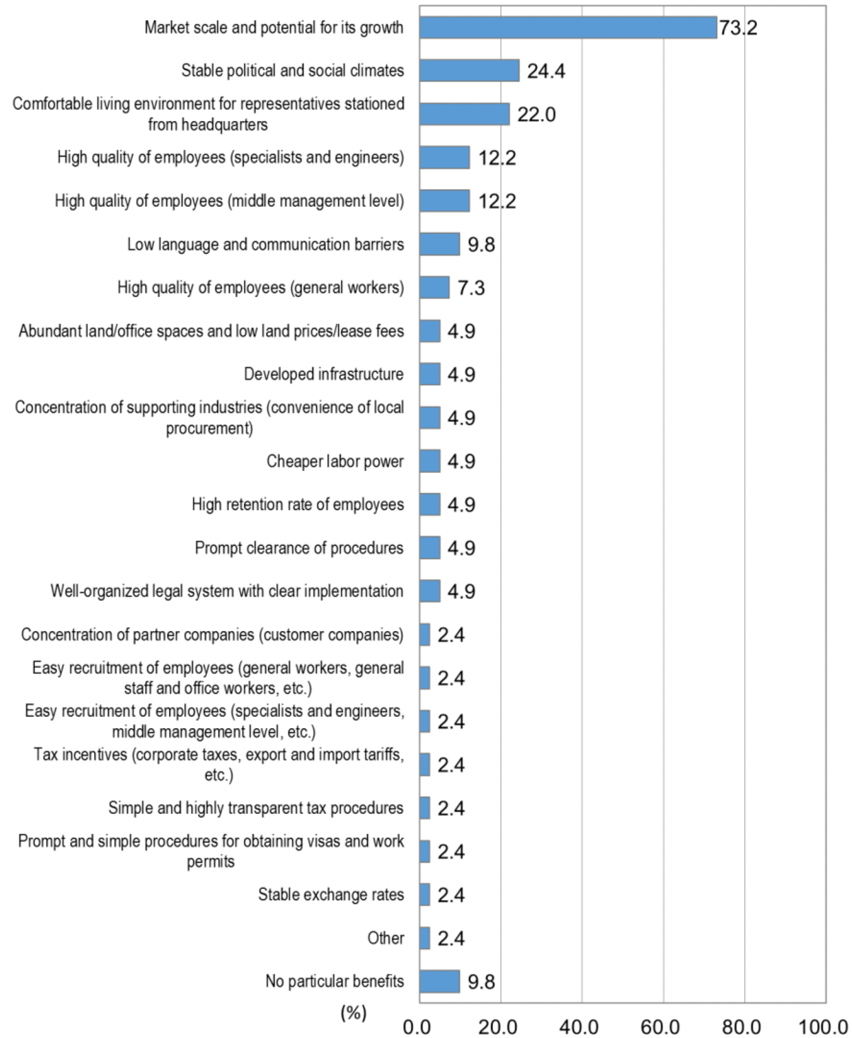




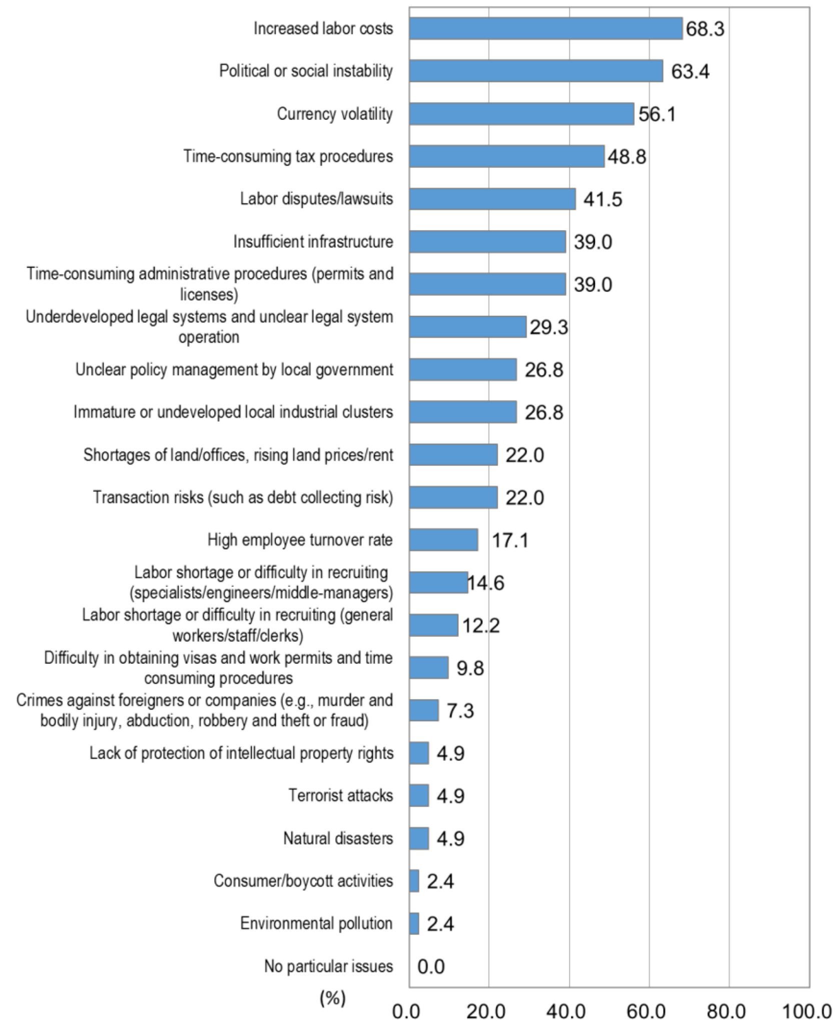
II – 5 – (6) Issues with business management: Benefits and risks in the investment environment-Argentina-

- 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%).

Benefits in the investment environment ：Argentina(n=41)

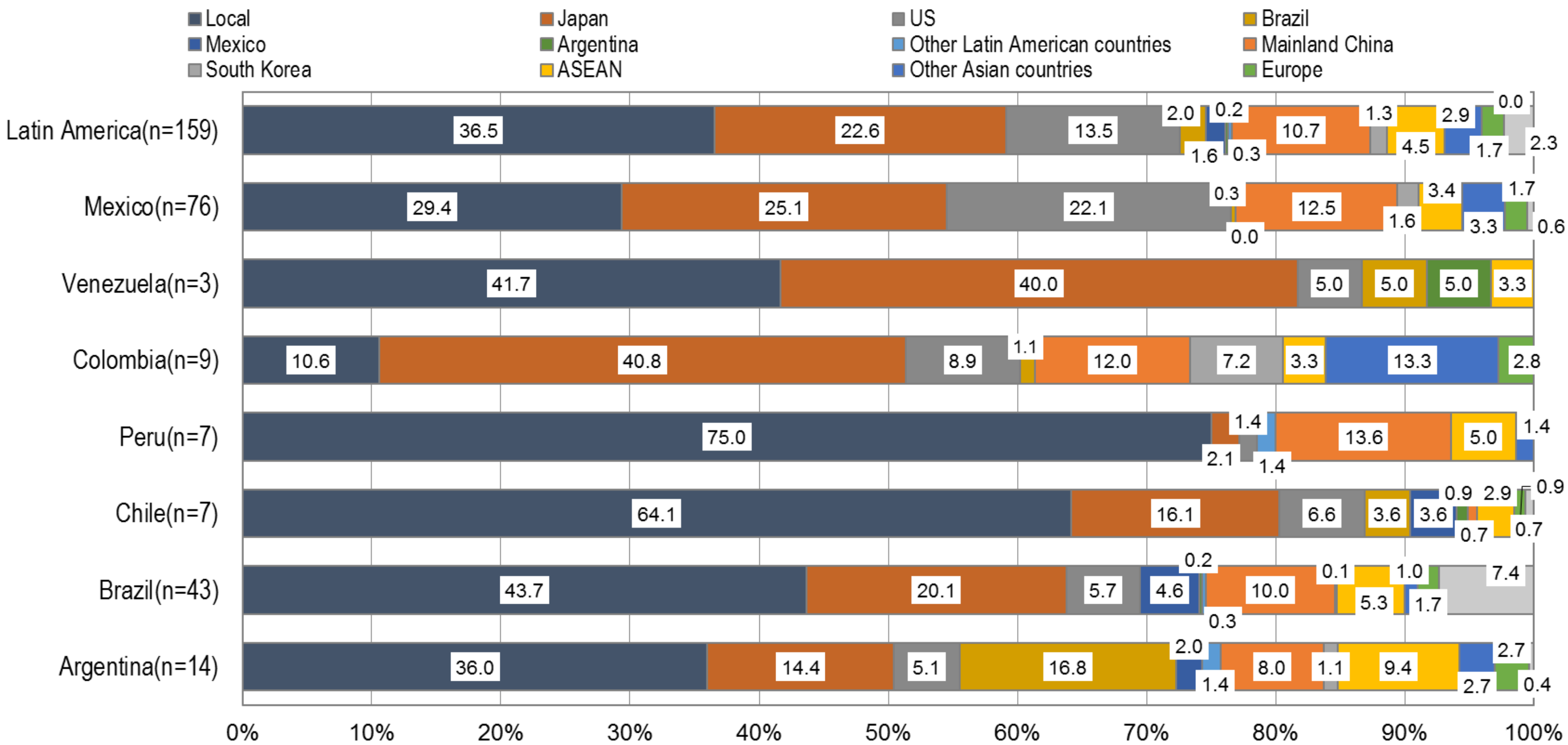


Risks in the investment environment ：Argentina(n=41)



- 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%).

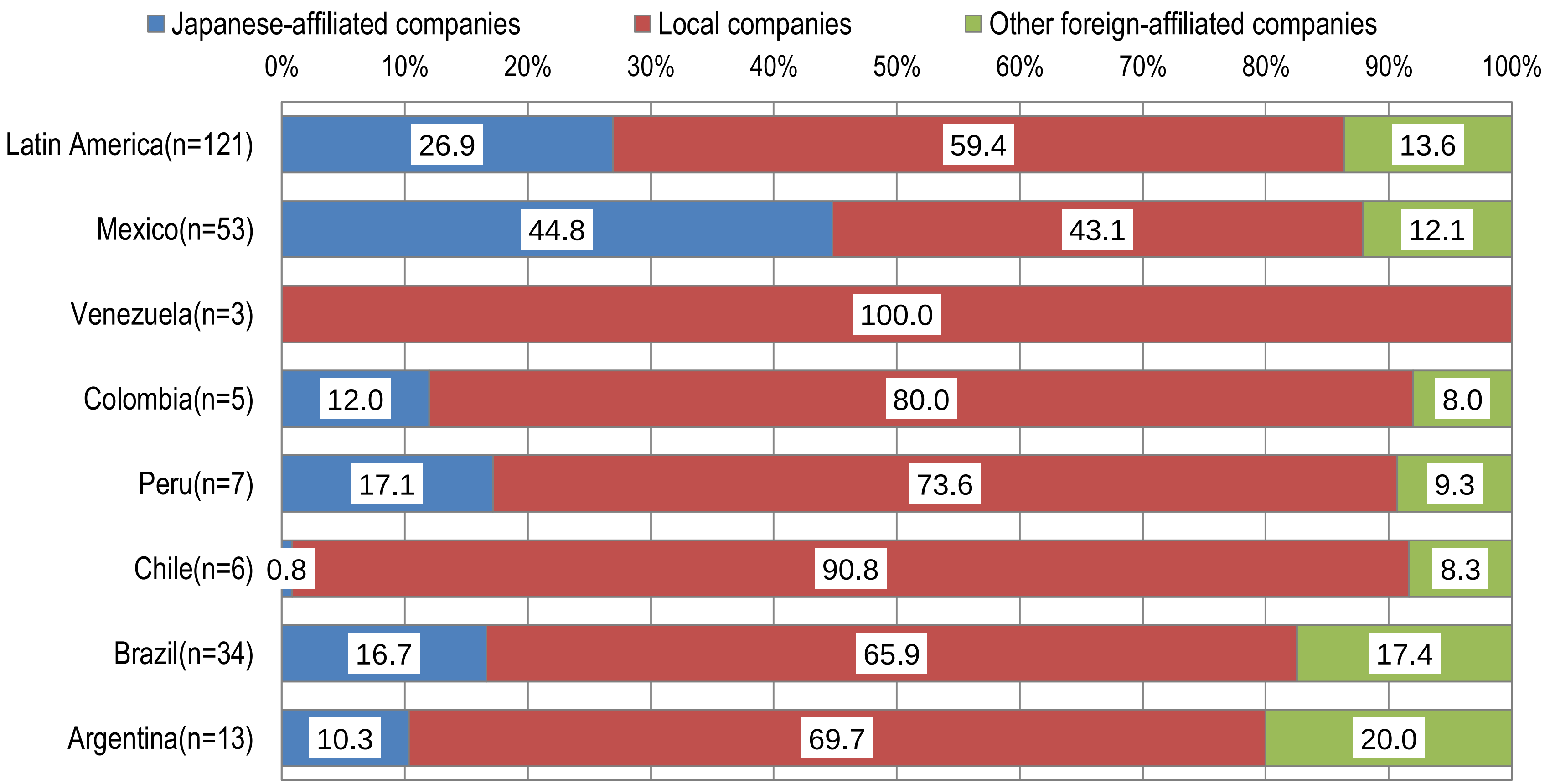
Breakdown of procurement sources (Manufacturing industry)



II – 6 – (2) Procurement of raw materials and parts: Breakdown of local procurement

- 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 higher rate of procurement from local companies.

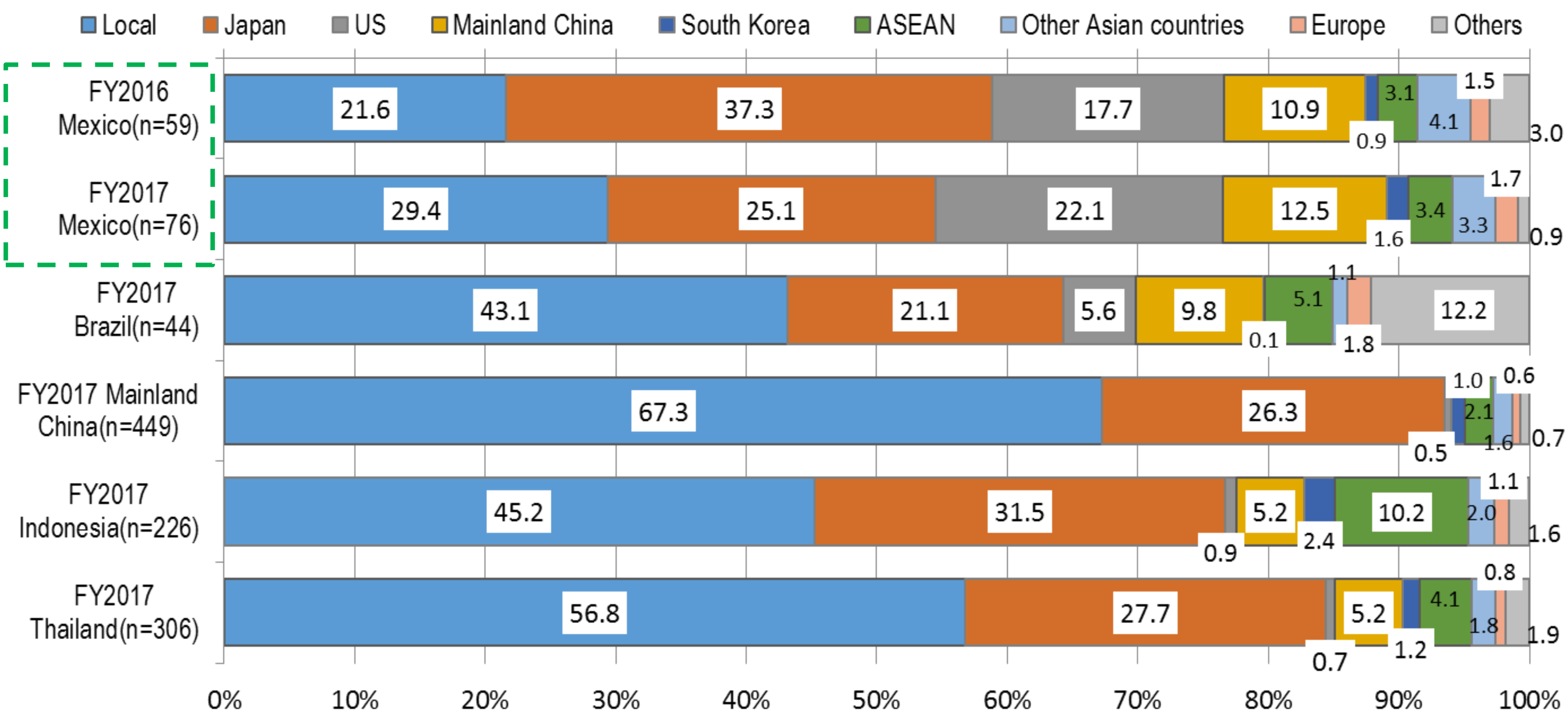
Breakdown of local procurement [Local] (Manufacturing industry)



II – 6 – (3) Procurement of raw materials and parts in Mexico -compared to the auto-producing countries-

- 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.

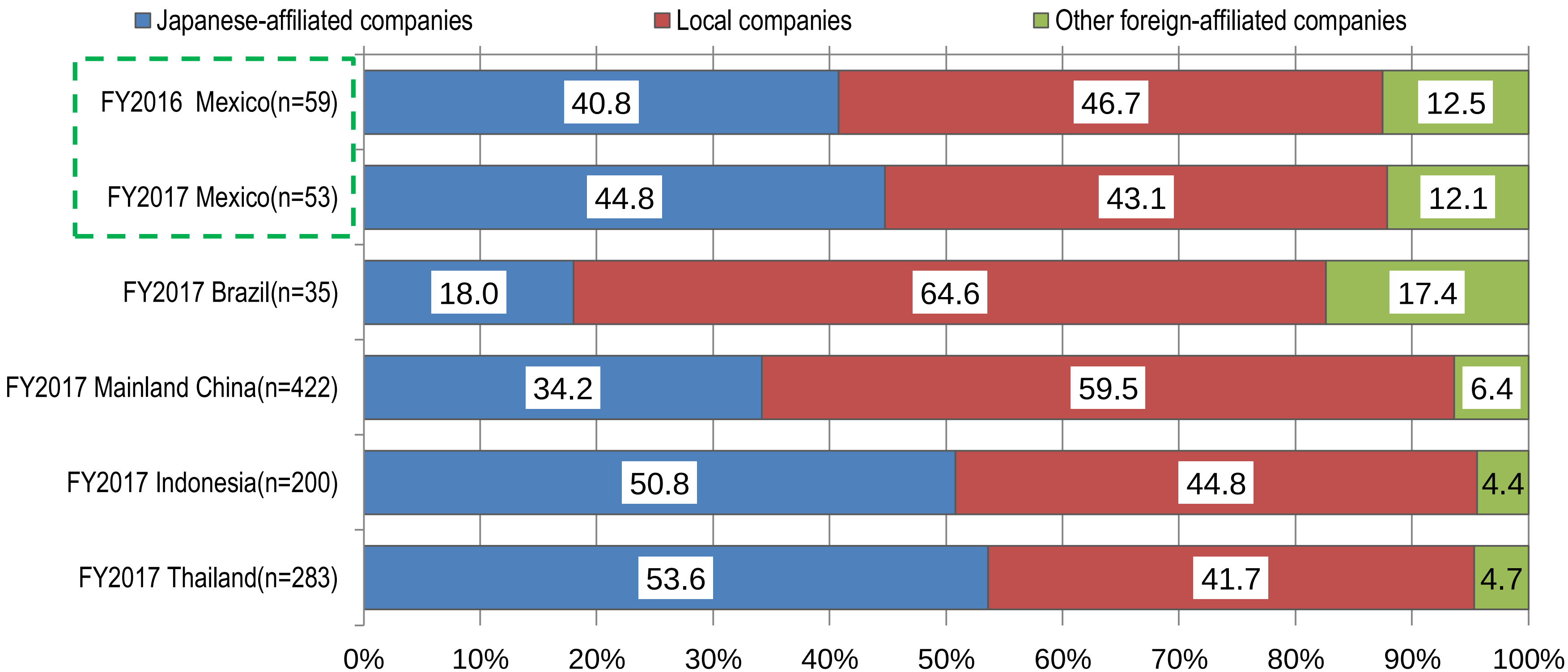
Parts and raw materials suppliers (by country and region) of expanding Japanese companies



II – 6 – (3) Procurement of raw materials and parts in Mexico -compared to the auto-producing countries-

- 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]

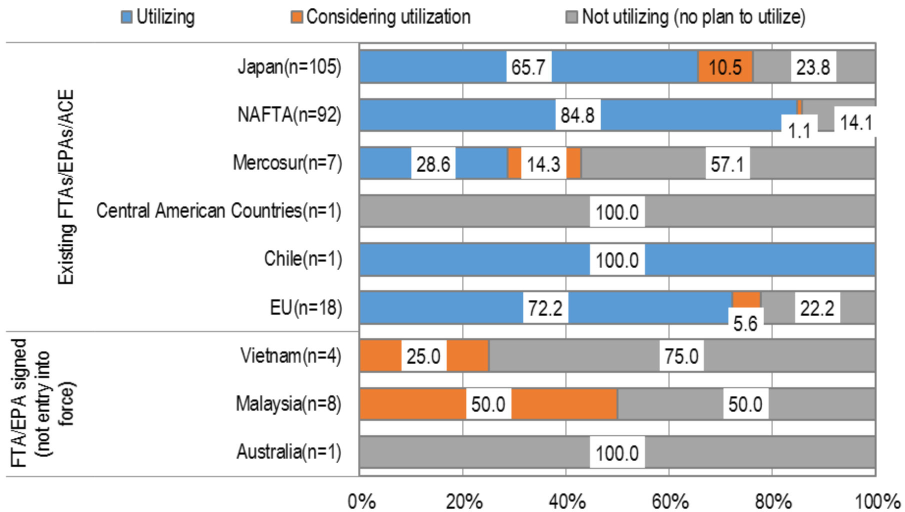


Note): "2017 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania", "The 2016 and The 2017 Survey on Business Conditions of Japanese Companies in Latin America"

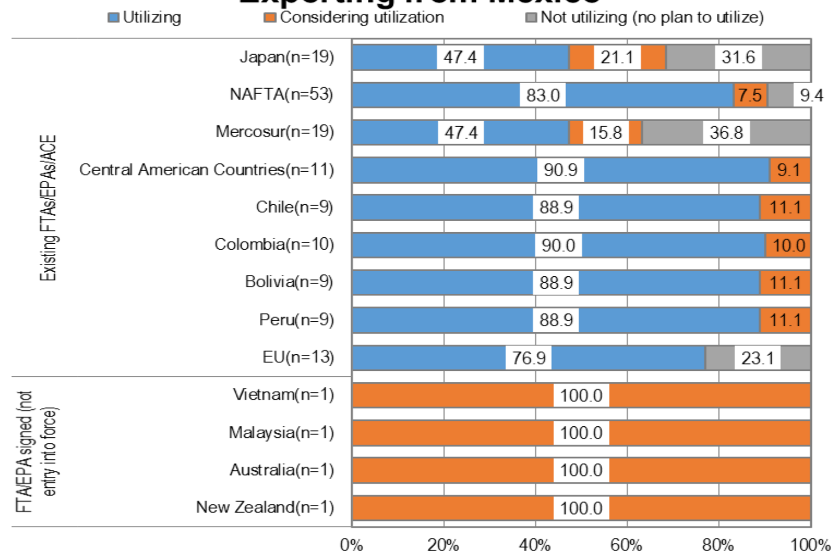
II – 7 – (1) The utilization of, and problems faced in utilizing FTA/EPA: Mexico

■ 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.

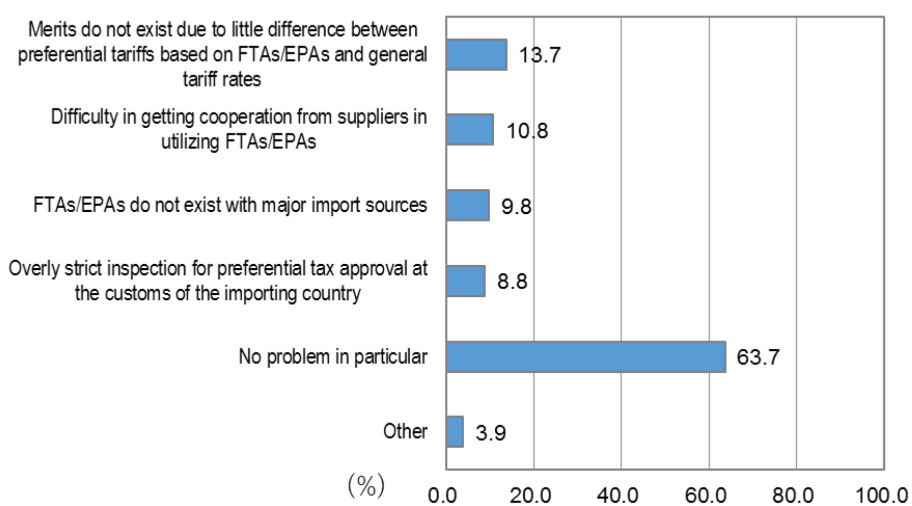
Importing to Mexico



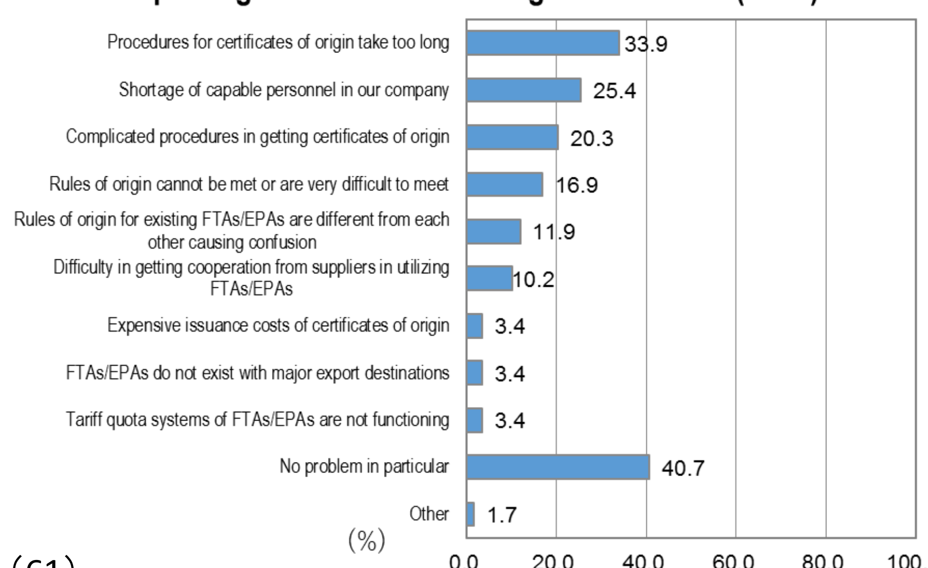
Exporting from Mexico



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

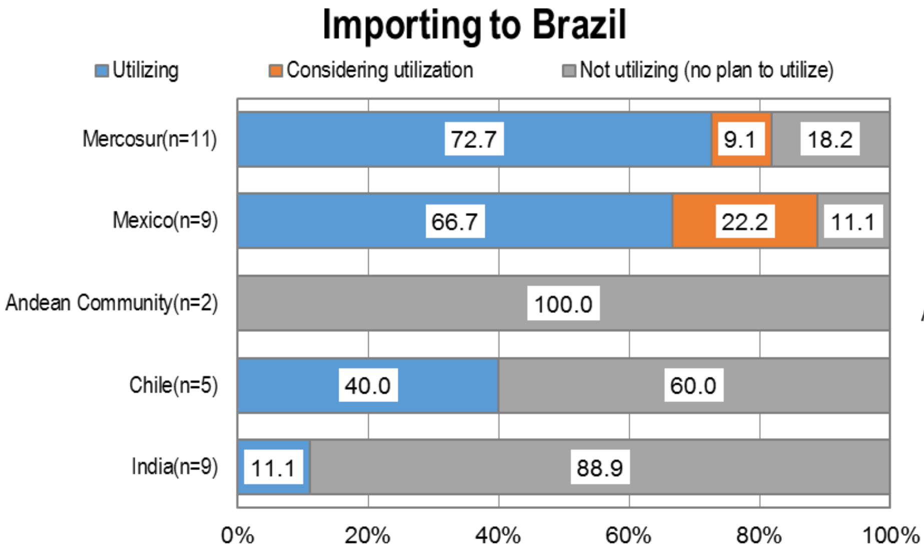


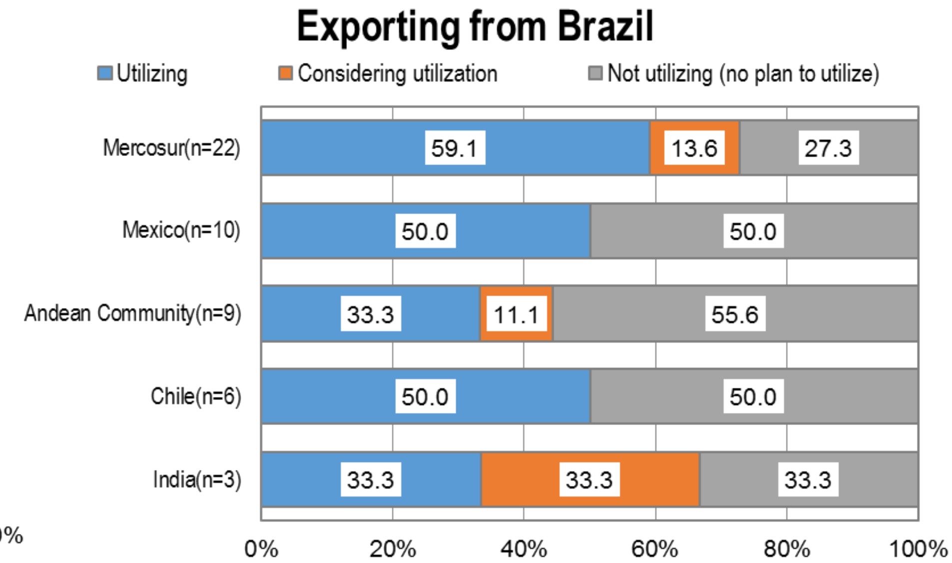
Exporting issues when utilizing FTA：Mexico(n=59)

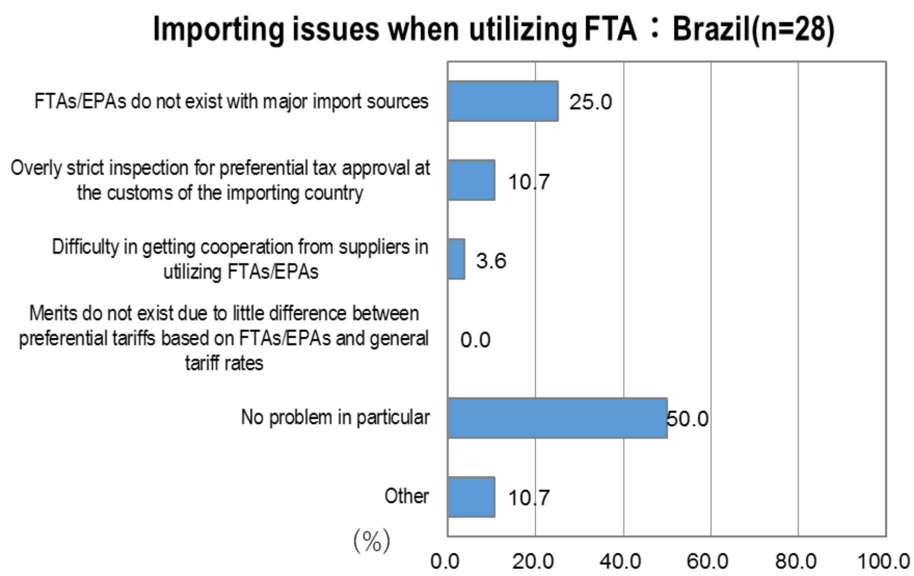


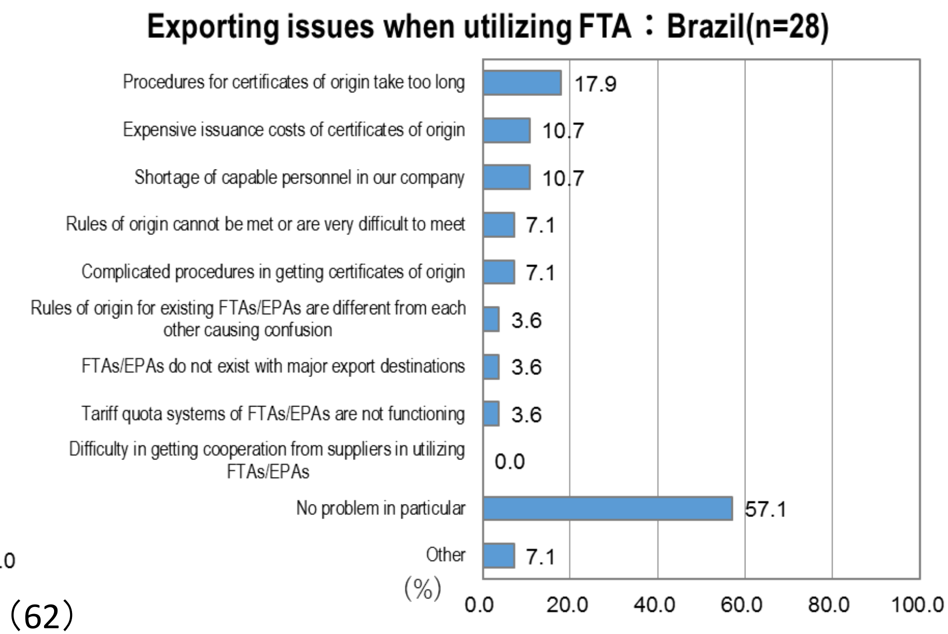
II – 7 – (1) The utilization of, and problems faced in utilizing FTA/EPA: Brazil

■ 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%).





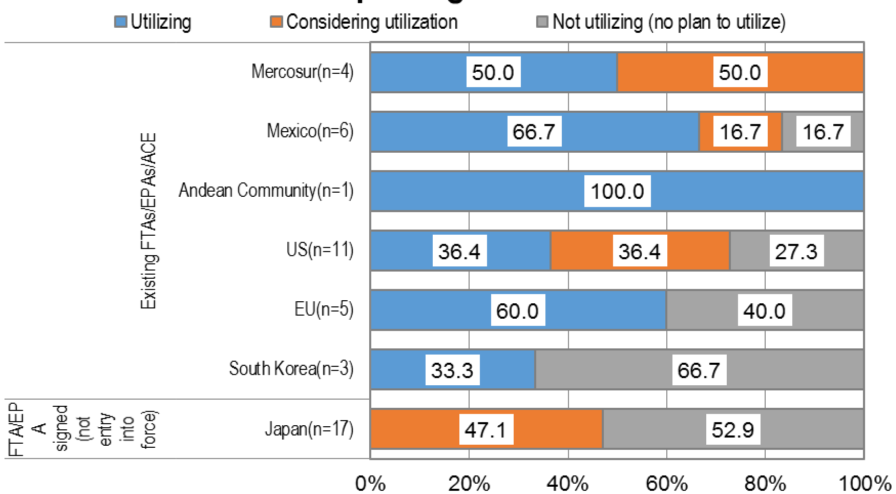




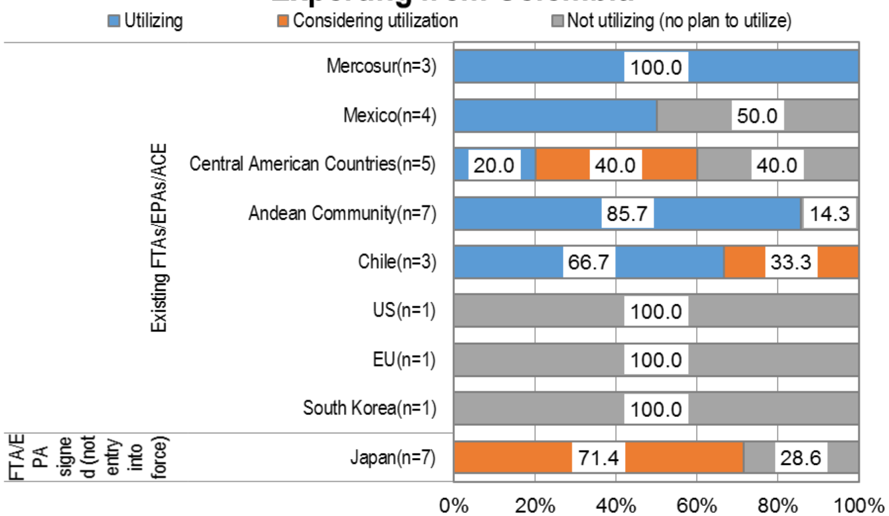
II – 7 – (1) The utilization of, and problems faced in utilizing FTA/EPA: Colombia

- 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.

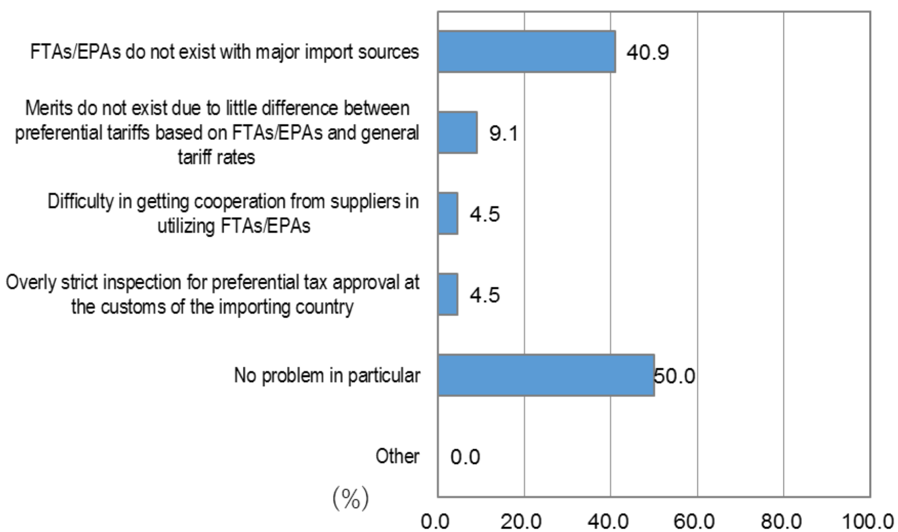
Importing to Colombia



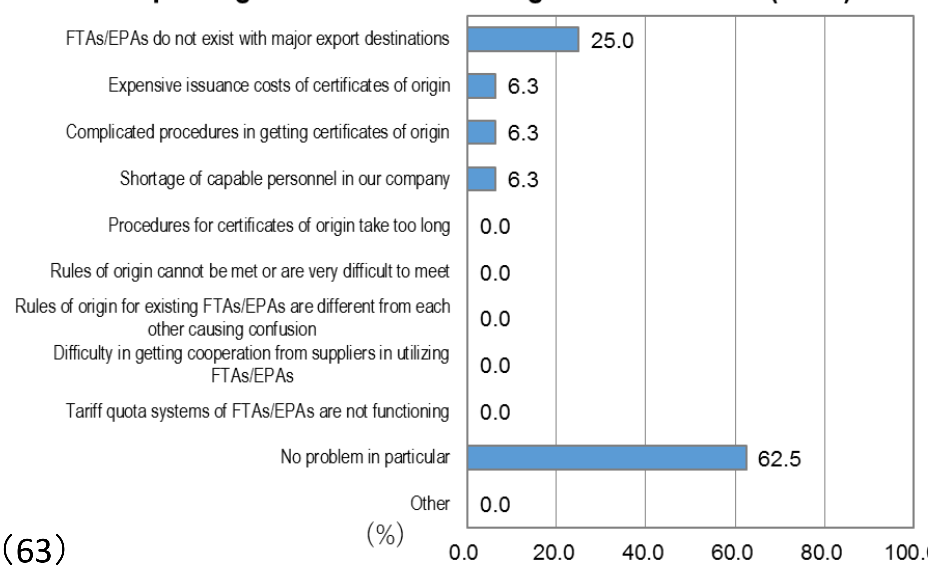
Exporting from Colombia



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

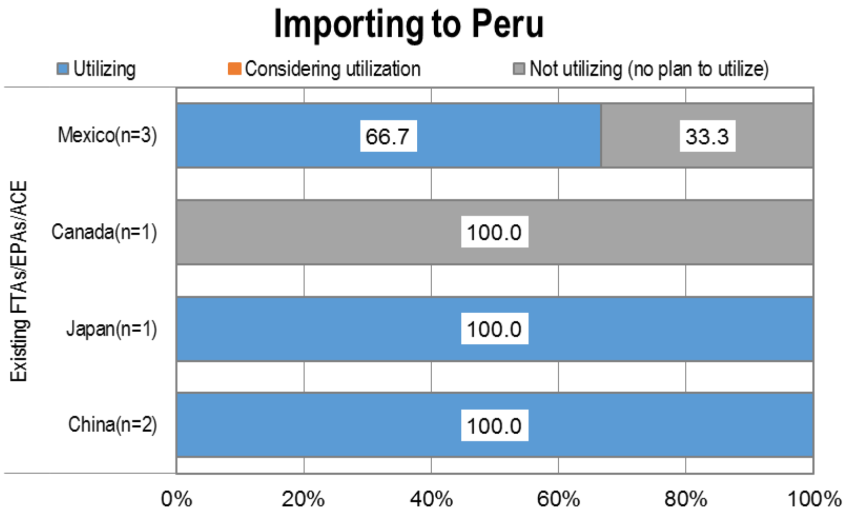


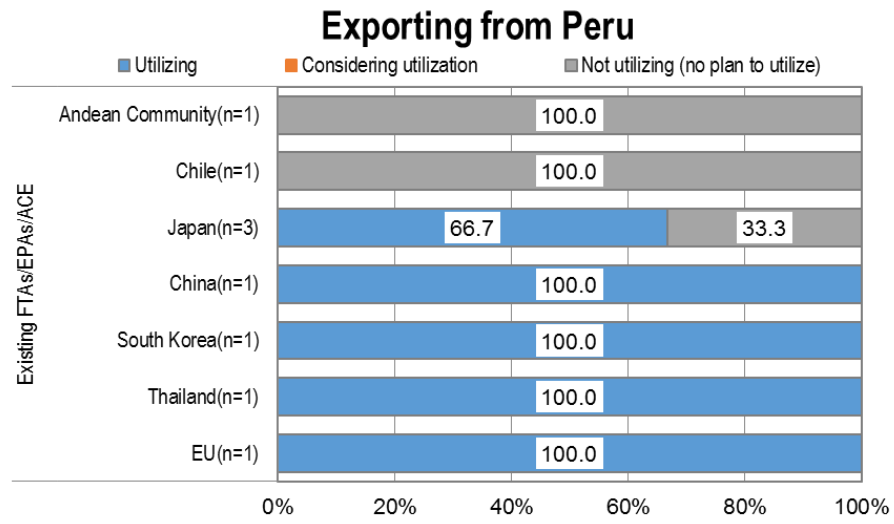
Exporting issues when utilizing FTA：Colombia(n=16)

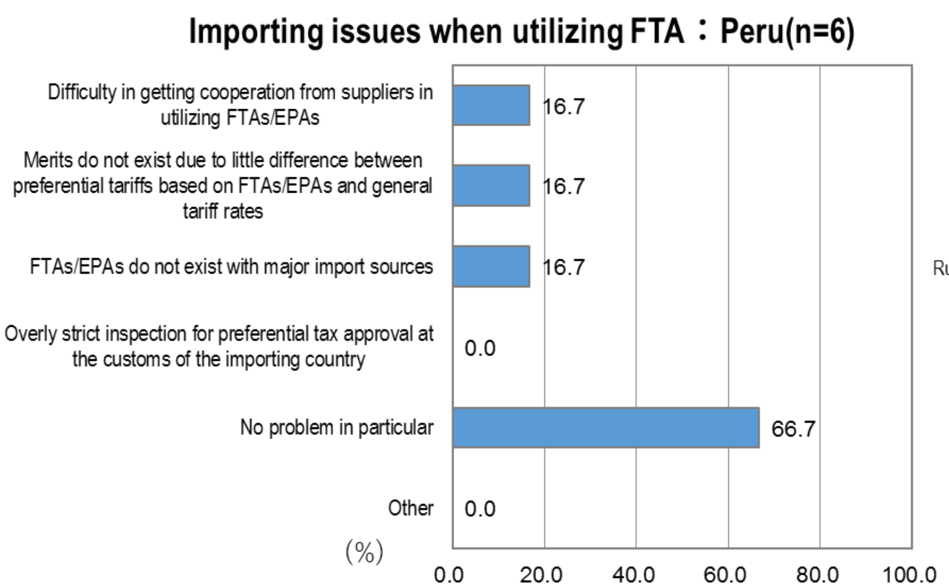


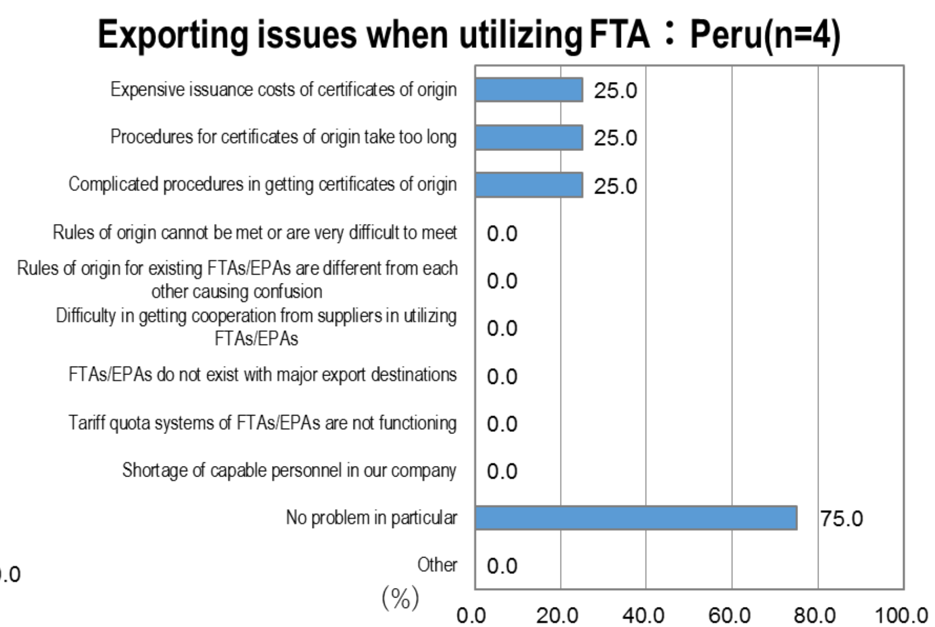
II – 7 – (1) The utilization of, and problems faced in utilizing FTA/EPA: Peru

■ Many of the companies utilized bilateral FTA/EPAs for exports to Asia.



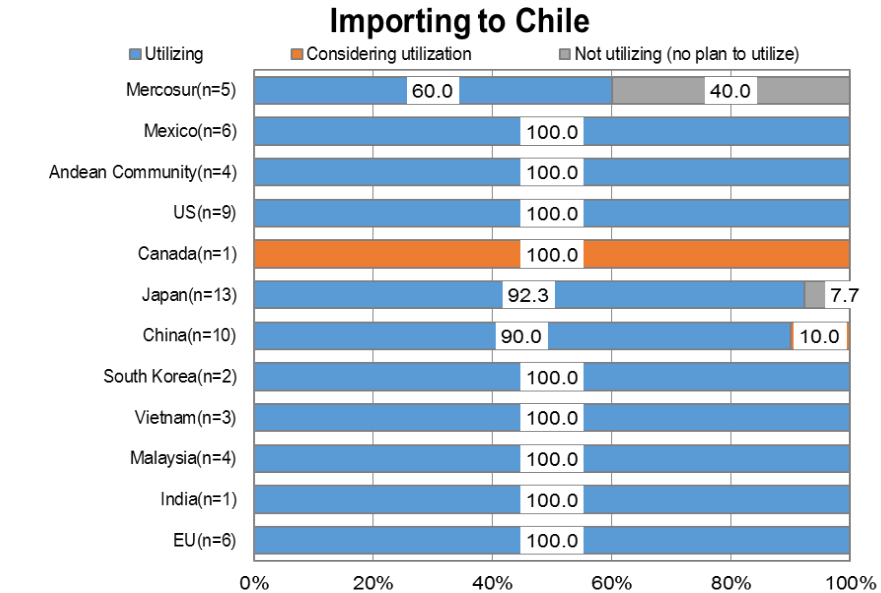


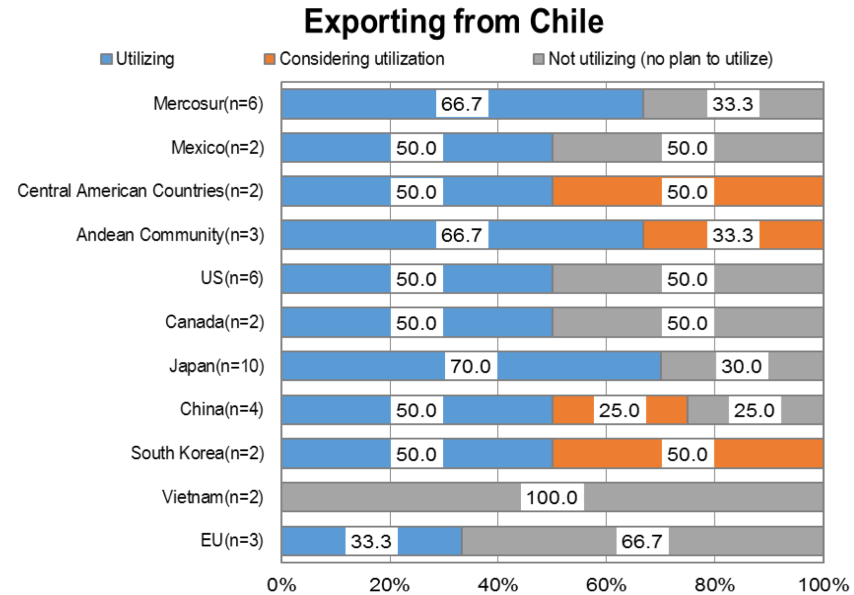


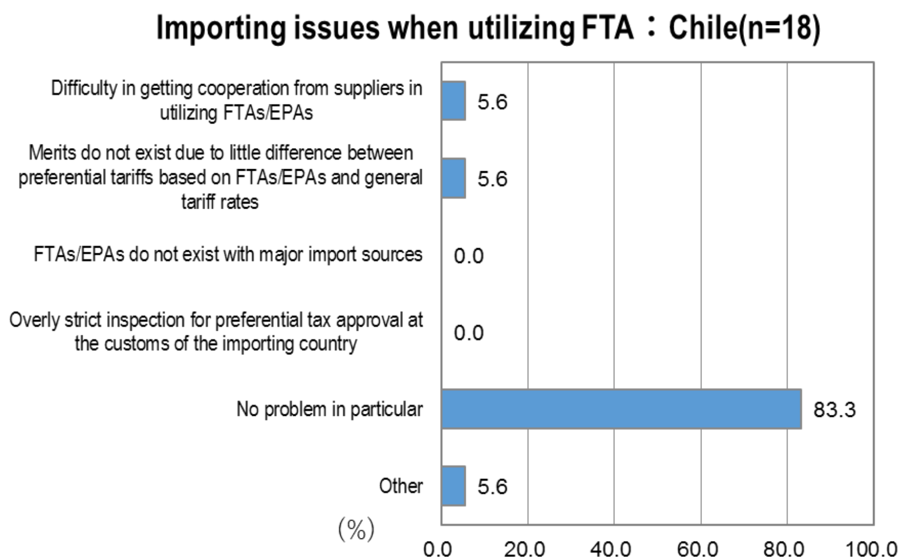


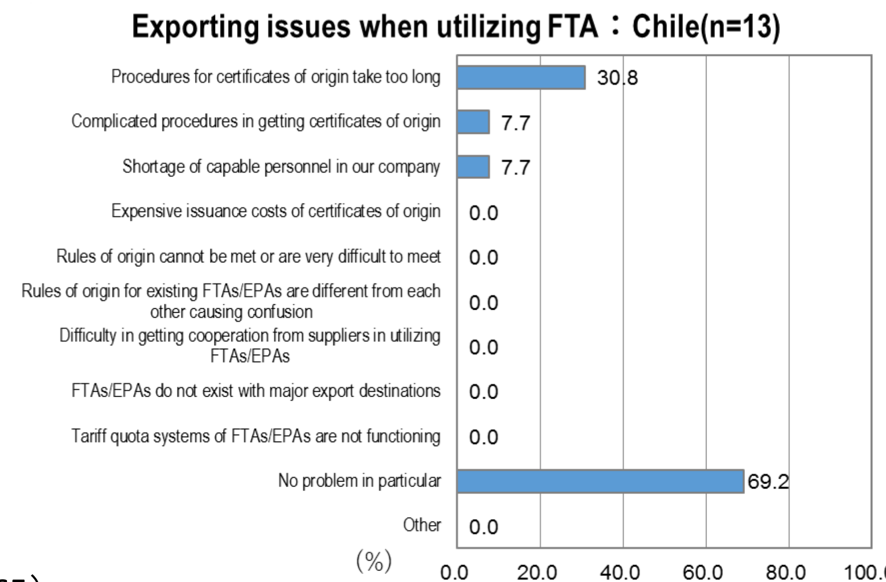
II – 7 – (1) The utilization of, and problems faced in utilizing FTA/EPA: Chile

■ **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.**

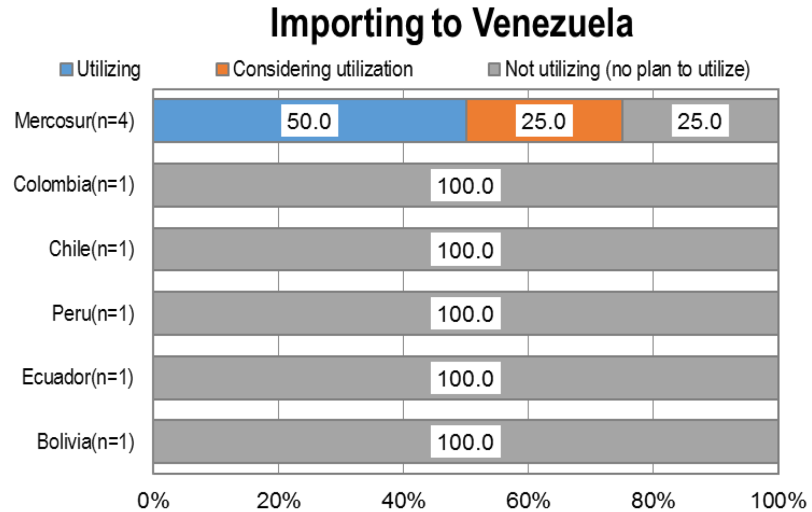


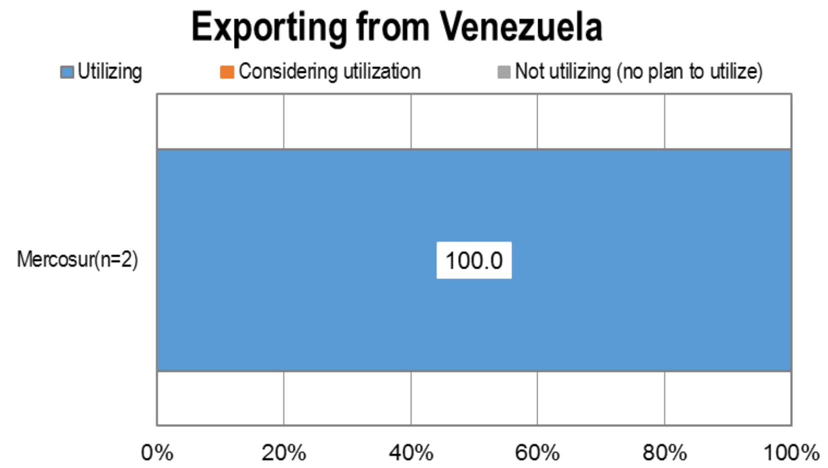


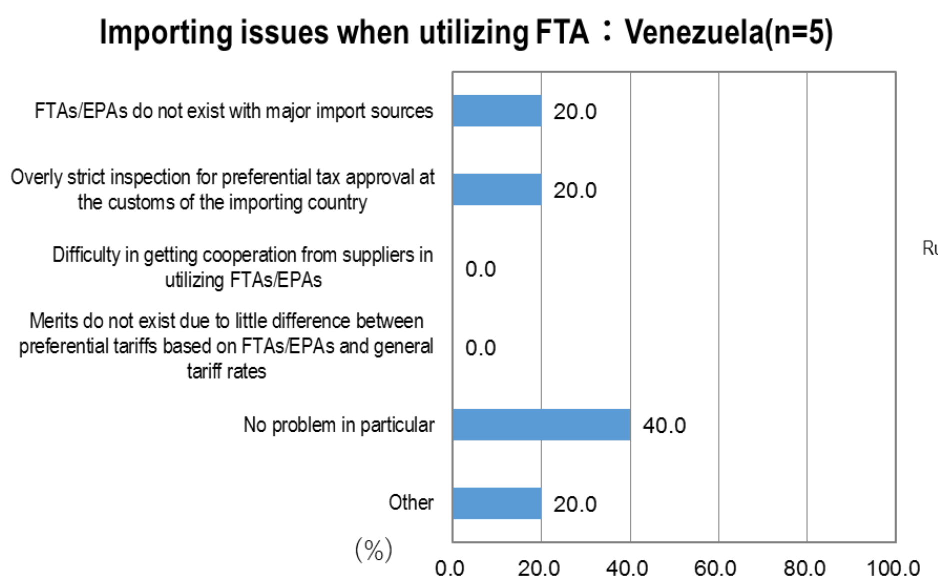


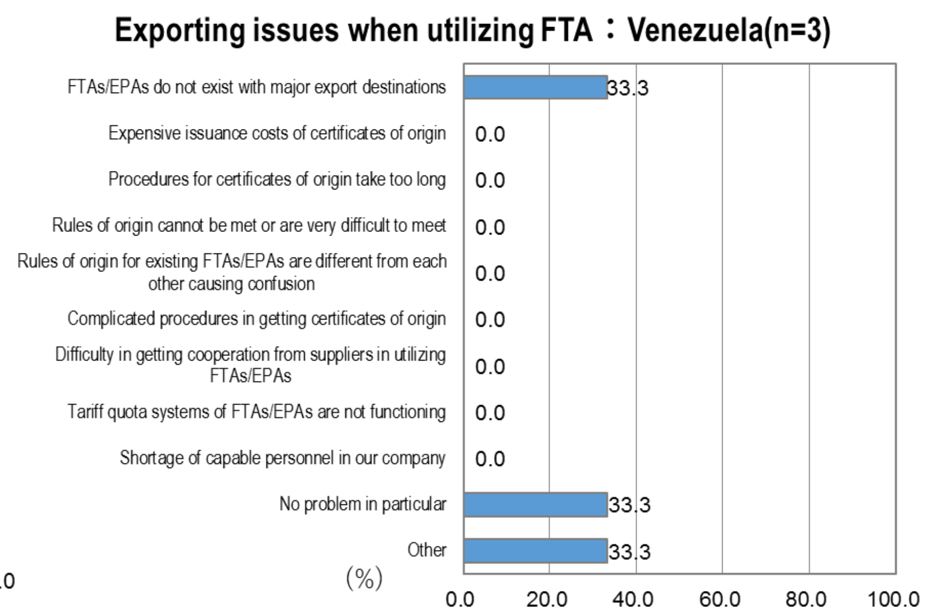


■ **Although Venezuela was suspended from Mercosur, it can still use the preferential tariff system in accordance with an agreement among the Mercosur countries.**





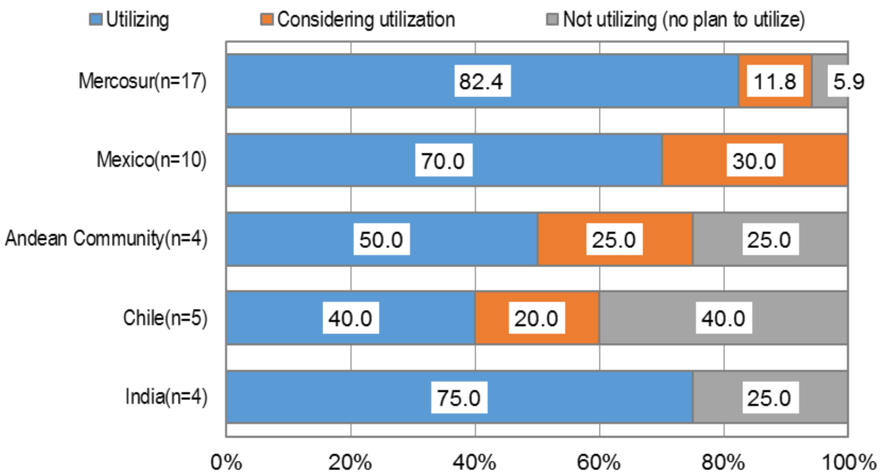




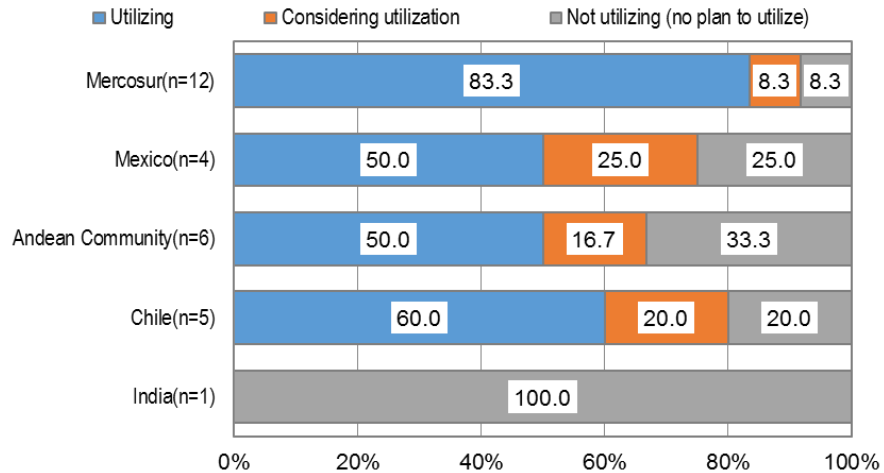
II – 7 – (1) The utilization of, and problems faced in utilizing FTA/EPA: Argentina

■ In Argentina, many of the companies utilized Mercosur agreements and economic complementation agreements (ACE 55, etc.) with Mexico for both exports and imports.

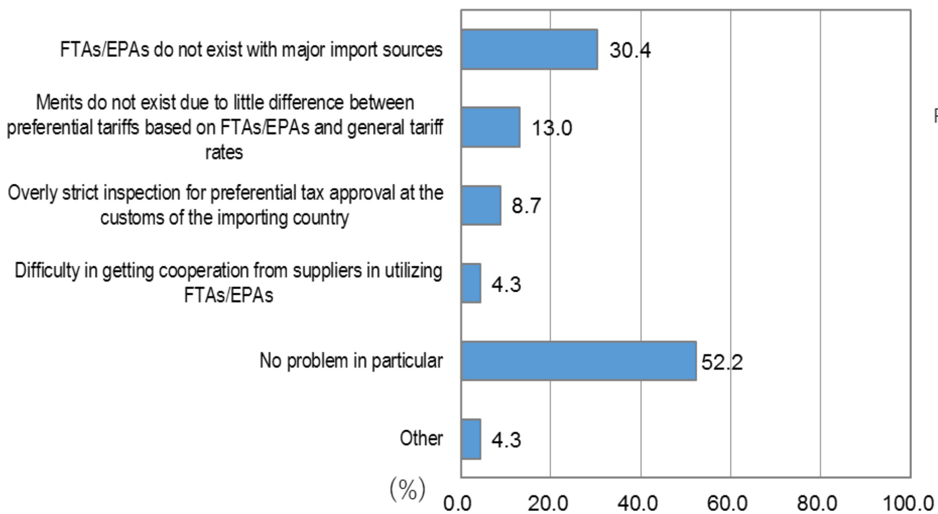
Importing to Argentina



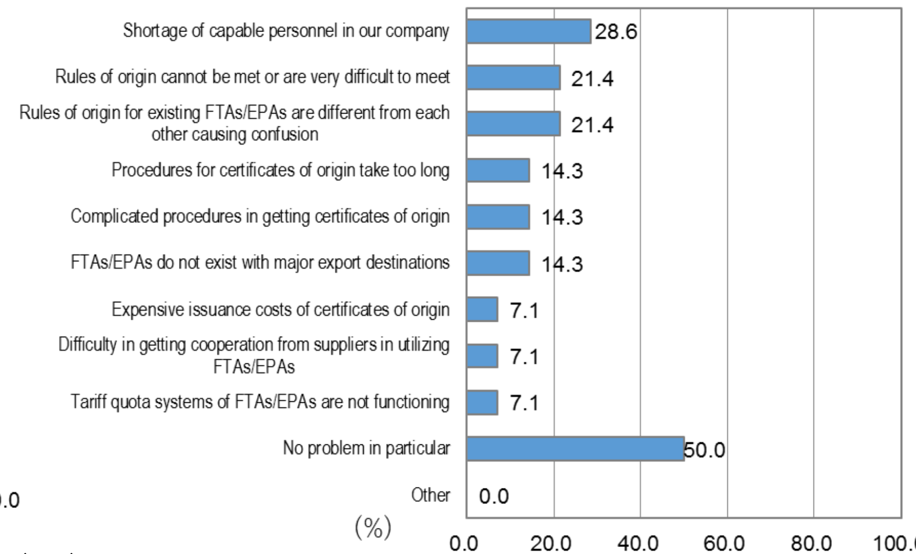
Exporting from Argentina



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



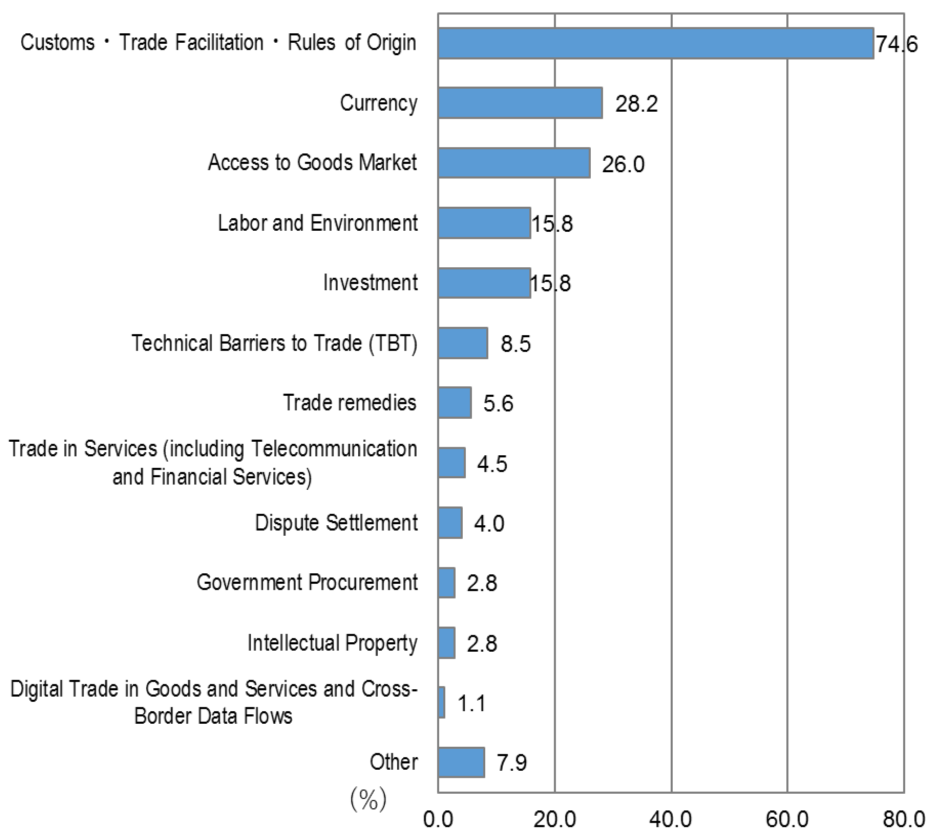
Exporting issues when utilizing FTA：Argentina(n=14)



II – 7 – (2) Effects of The North American Free Trade Agreement (NAFTA) renegotiations (Only for companies in Mexico)

■ 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



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]

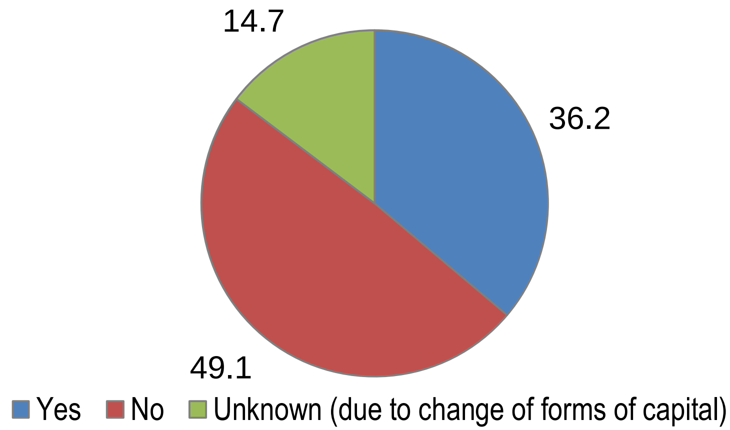
◆Some expressed expectations regarding NAFTA renegotiations and the deregulation of land transportation, on which foreign capital entry regulations are still imposed.

- 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]

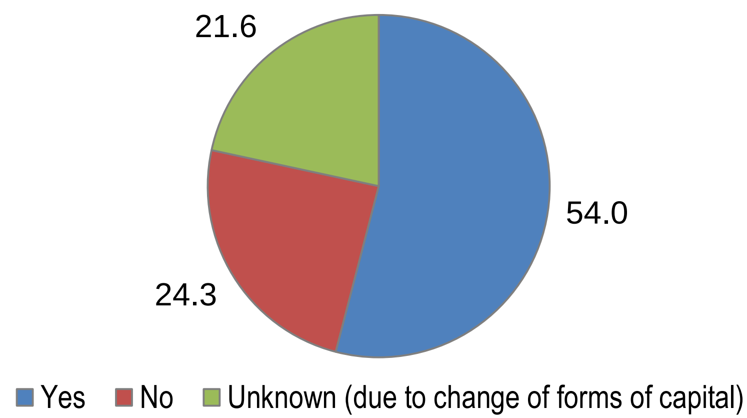
II – 8 – (1) Recovery of the initial investment (by country 1)

■ 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).

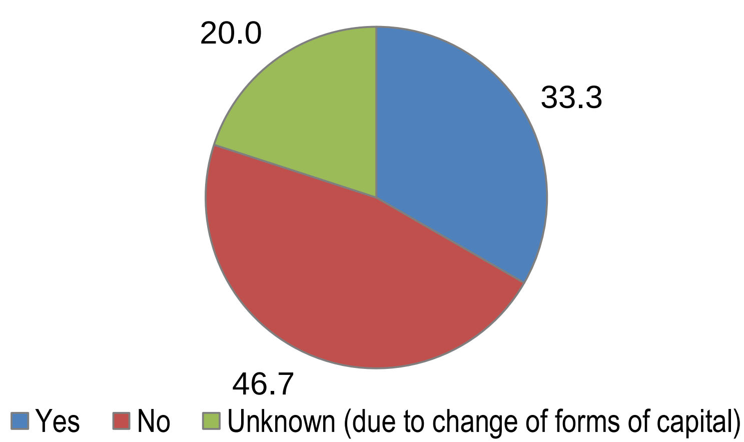
Has Your Company recovered initial investment in this country?（Mexico）n=177



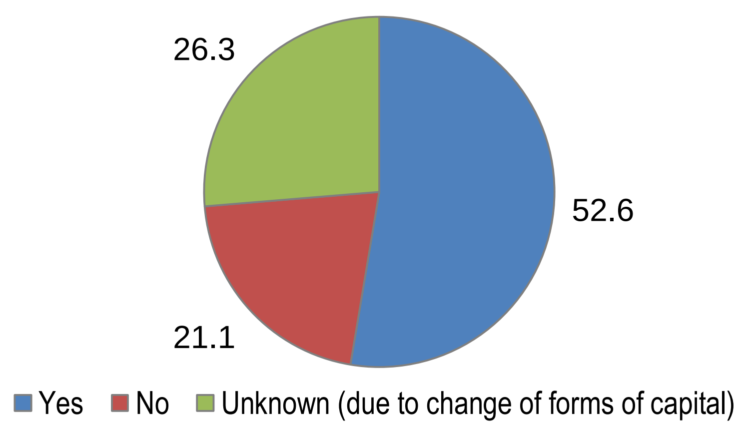
Has Your Company recovered initial investment in this country?（Chile）n=37



Has Your Company recovered initial investment in this country?（Colombia）n=30

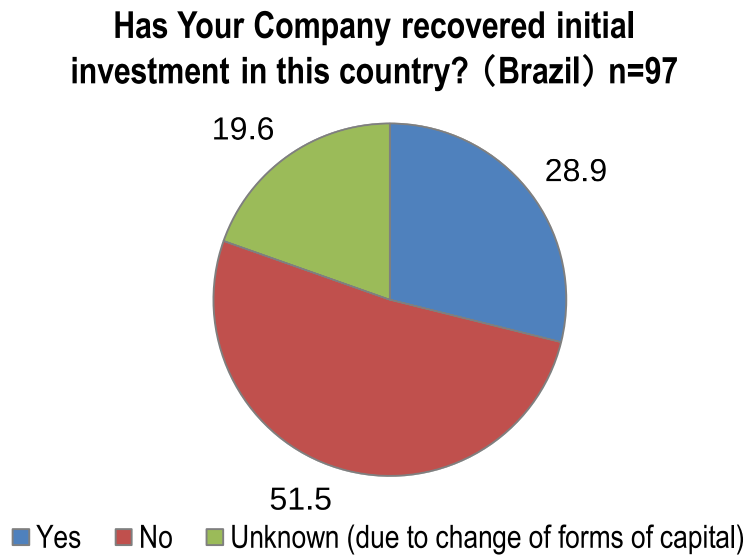


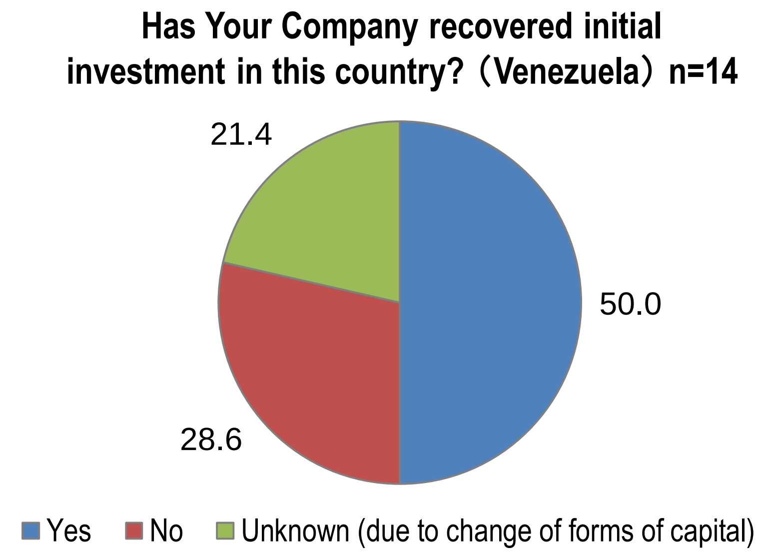
Has Your Company recovered initial investment in this country?（Peru）n=19

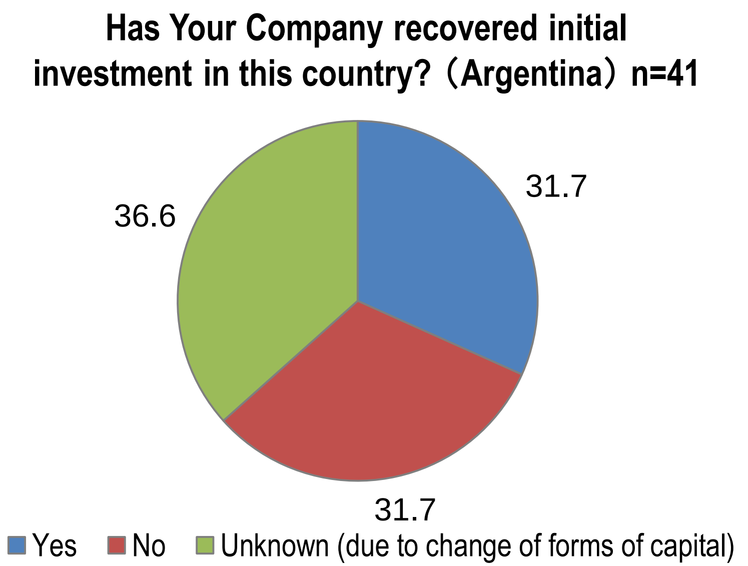


II – 8 – (1) Recovery of the initial investment (by country 2)

■ 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%).

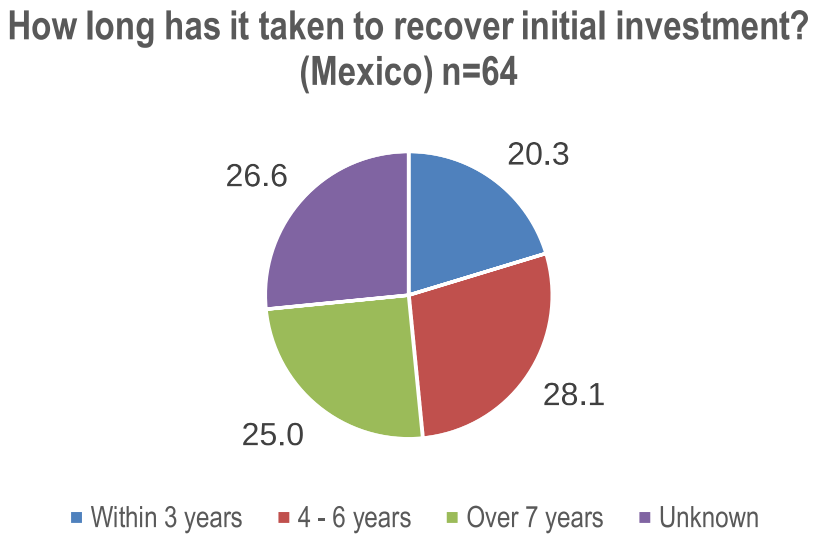


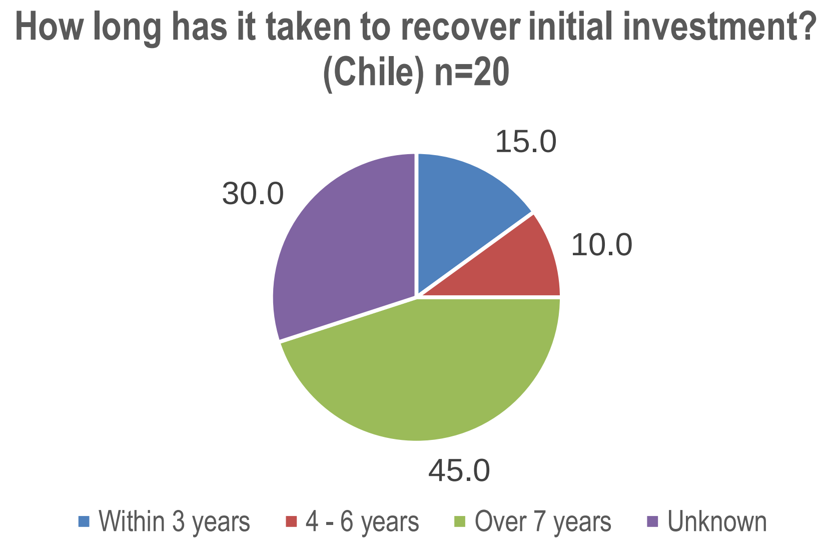


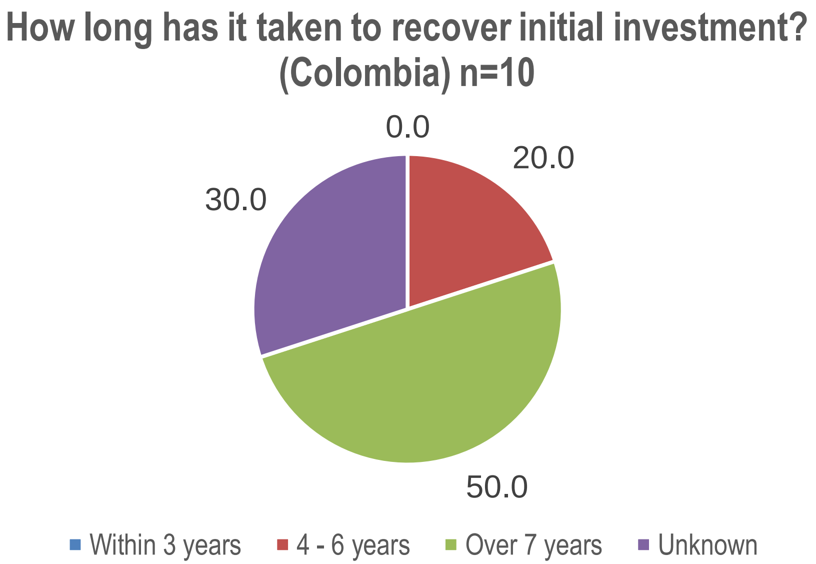


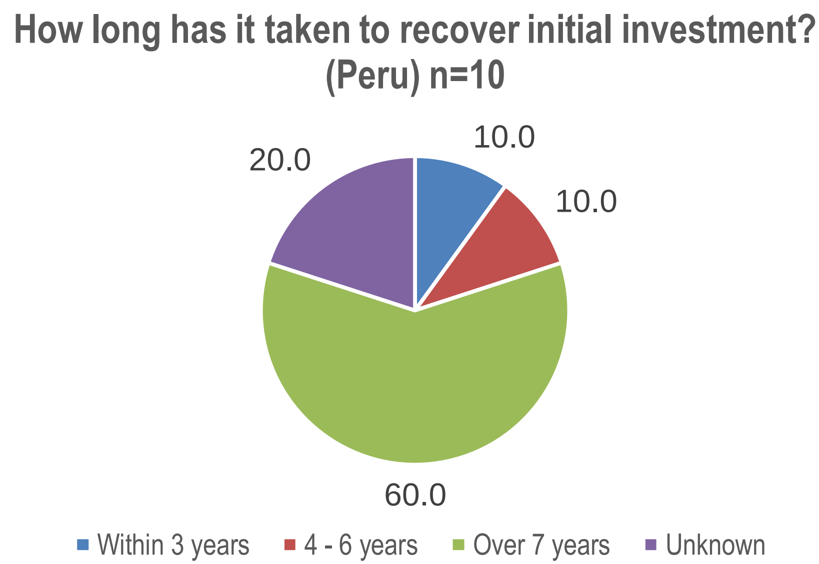
II – 8 – (2) Time necessary for return on initial capital investments (by country 1)

■ **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.**





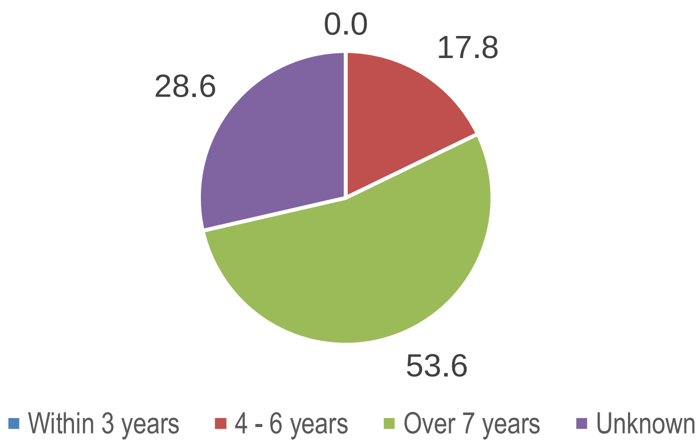




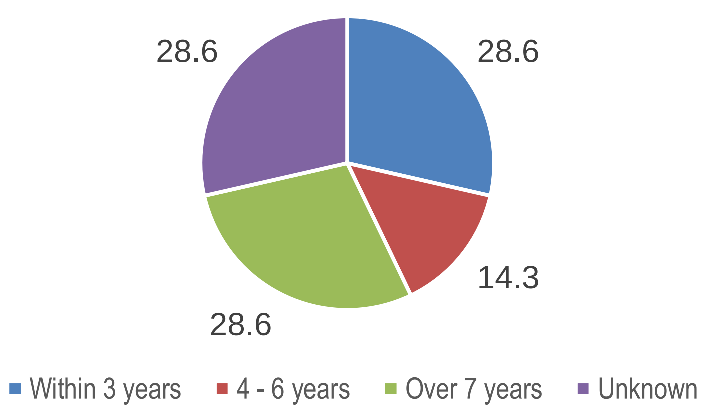
II – 8 – (2) Time necessary for return on initial capital investments (by country 2)

■ 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.

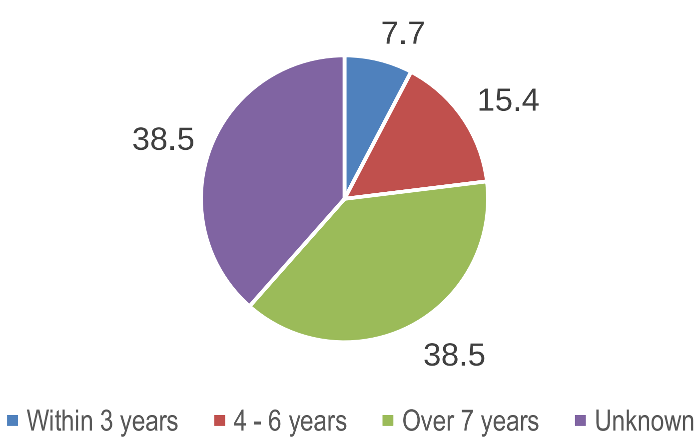
How long has it taken to recover initial investment? (Brazil) n=28



How long has it taken to recover initial investment? (Venezuela) n=7



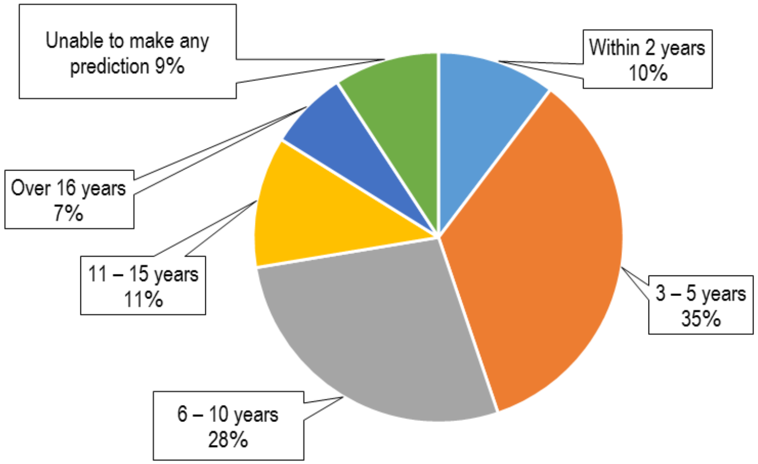
How long has it taken to recover initial investment? (Argentina) n=13



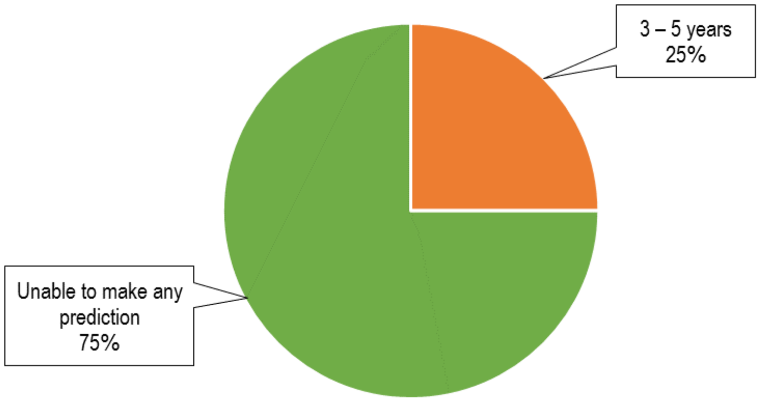
II – 8 – (3) Estimated time necessary for return on initial capital investment (by country 1)

- 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%).

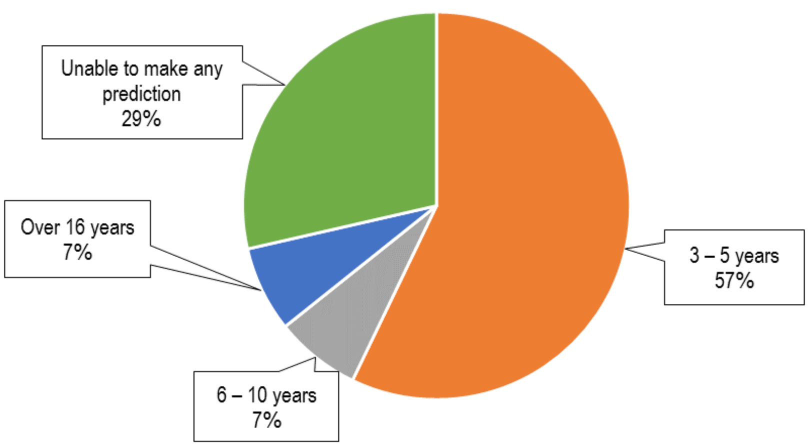
How much longer does your company expect to recover initial investment? (Mexico) n=87



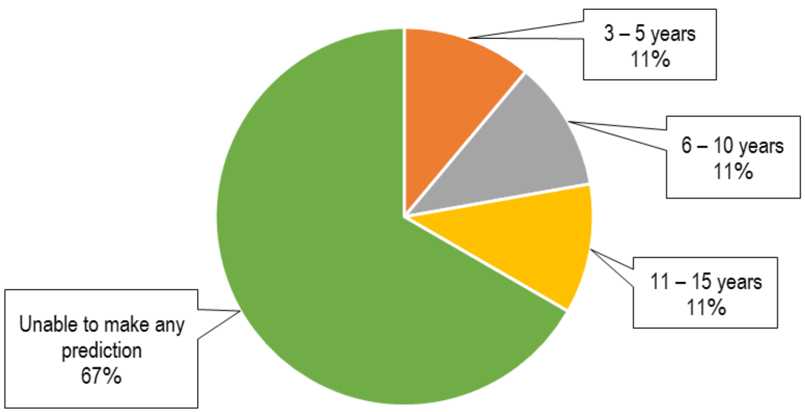
How much longer does your company expect to recover initial investment? (Peru) n=4



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

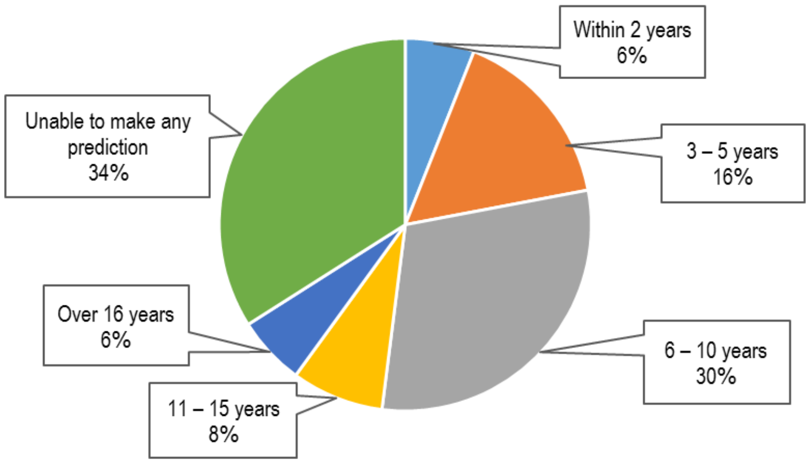


How much longer does your company expect to recover initial investment? (Chile) n=9

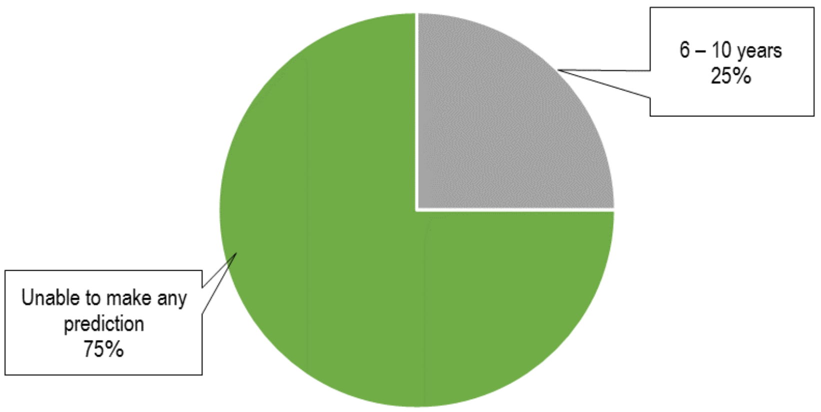


■ A little over 20% of companies in Brazil answered that they expected to recover their initial investment within five years. More than 60% of companies in Argentina answered that they expected initial investment recovery within five years.

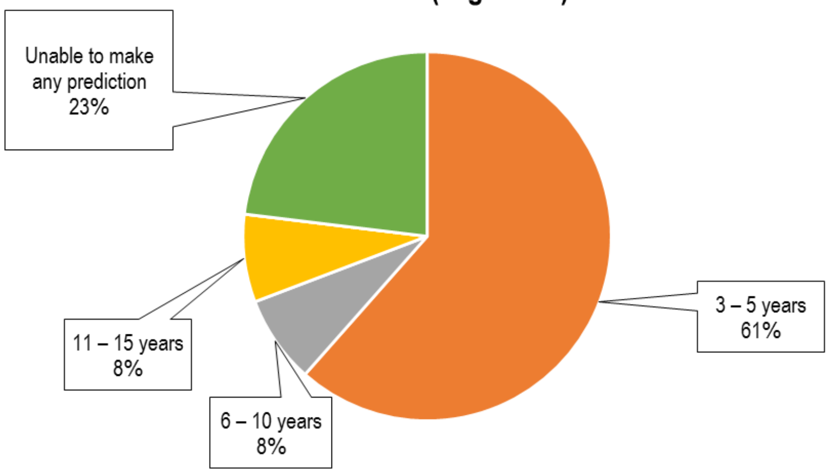
How much longer does your company expect to recover initial investment? (Brazil) n=50



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



How much longer does your company expect to recover initial investment? (Argentina) n=13

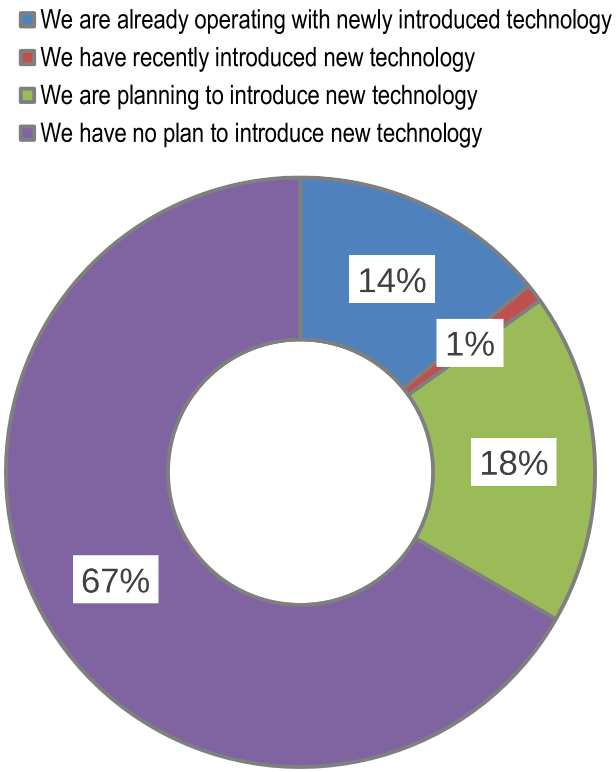


II – 8 – (4) Introduction of new technologies (Only for companies in Brazil)

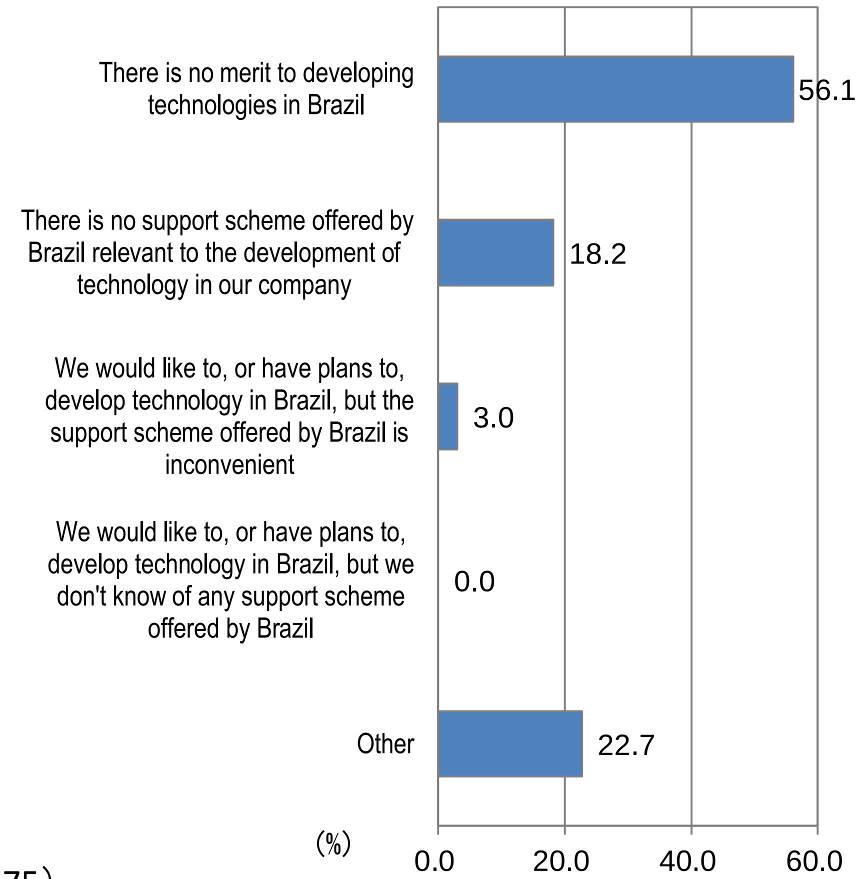
■ **Approximately one third of companies, especially those in the wholesaler/retailer and service industries, answered that they had “introduced”, “recently introduced”, or “plan to introduce” new technology.**

* 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)



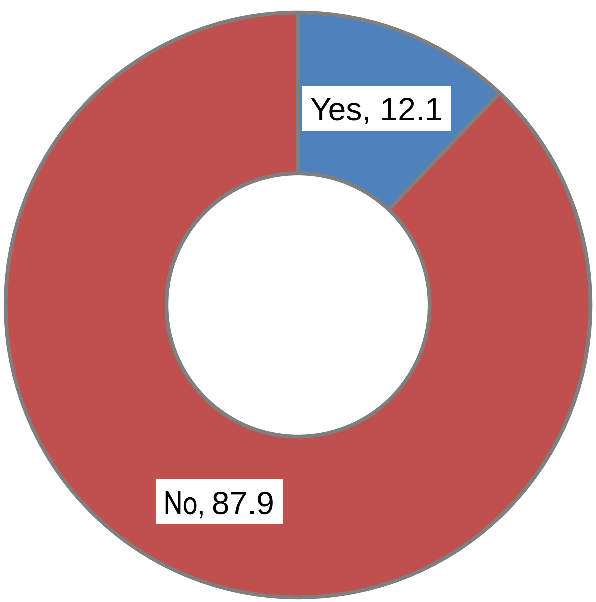
Why does you company have no plan to introduce new technology in Brazil? (# of respondents : 66)



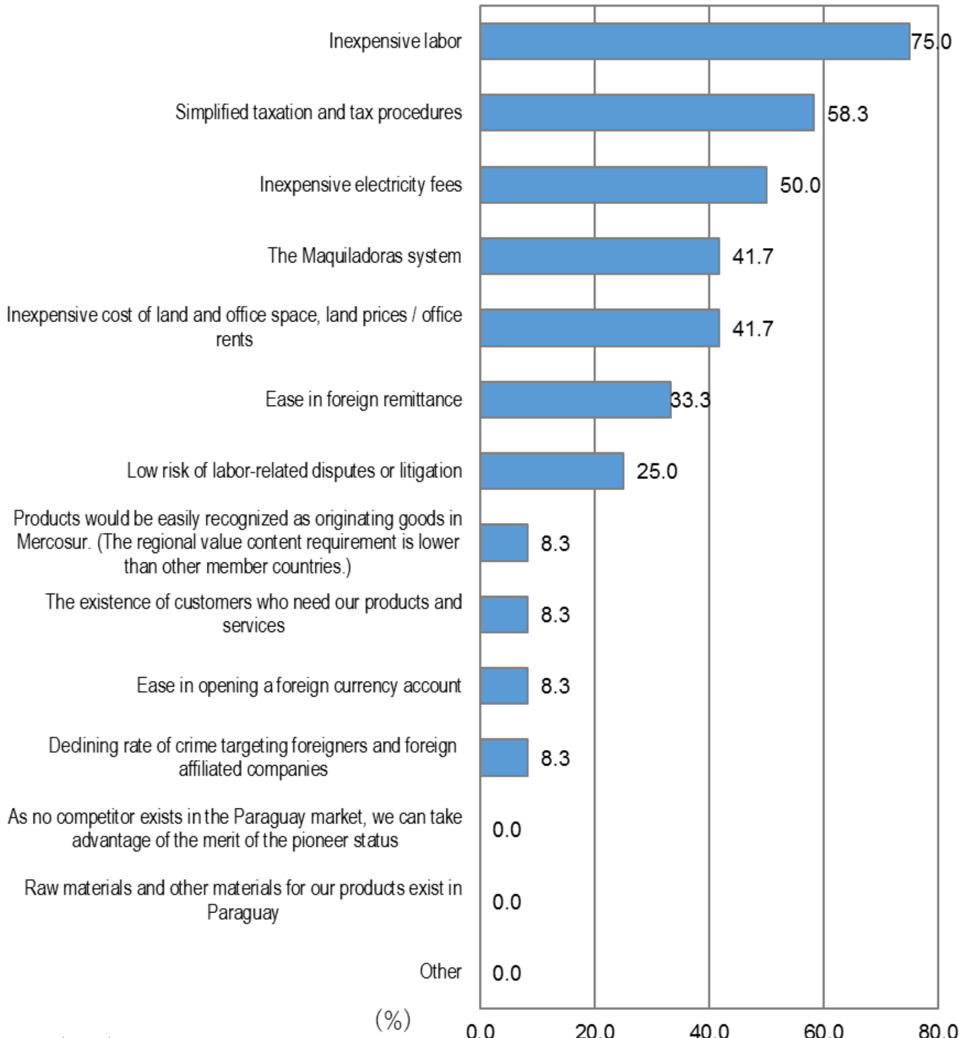
II – 8 – (5) Potential of Paraguay as a business destination (Only for companies in Brazil)

■ 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%).

Is there any plan or possibility of introducing Paraguay's comparative advantages compared with Brazil's ones such as low hiring costs to your business?
(# of respondents : 99)



What kind of merits can you expect if you answered yes?
(# of respondents : 12)



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