The 2014 (15th) Survey on Business Conditions of Japanese Companies in Latin America

February 2015

Japan External Trade Organization (JETRO)

Latin America Division, Overseas Research Department

Preface

This report summarizes the results of the survey conducted between September and October 2014 on the business conditions of Japanese firms in the seven major Latin American countries (Mexico, Venezuela, Colombia, Peru, Chile, Brazil, and Argentina).

This is the 15th issue of the periodic survey conducted by JETRO. For each survey, the Japanese companies in Latin America have given us considerable support, and we would like to extend our sincere gratitude and appreciation for their cooperation.

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

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

Contents

Chapter 1 Overview of the Survey

1. Response Situation by Country

From September to October 2014, we conducted a questionnaire survey on business conditions of Japanese companies in seven Latin American countries (Mexico, Venezuela, Colombia, Peru, Chile, Brazil, and Argentina). The questionnaires were sent to 665 companies. We received responses from 391 companies, giving a return rate of 58.8%.

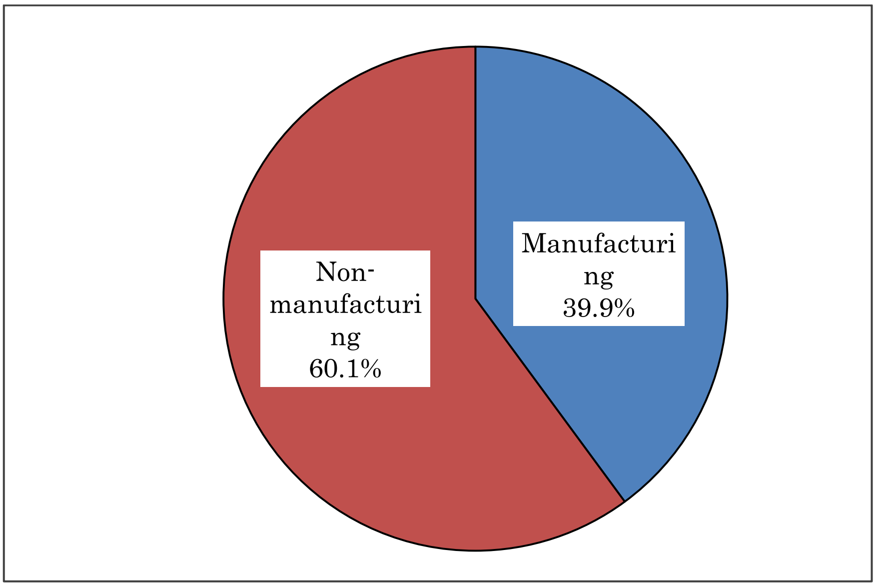
Chart: Number of Questionnaires Sent, Number of Responses, Response Rate

Surveyed Countries	Questionnaires Sent	Respondent Companies	Response Rate
Mexico	262	114	43.5%
Venezuela	19	17	89.5%
Colombia	29	18	62.1%
Peru	28	16	57.1%
Chile	48	38	79.2%
Brazil	235	160	68.1%
Argentina	44	28	63.6%
Latin American Total	665	391	58.8%

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

Of those who responded, 156 companies (39.9%) were operating as manufacturers (manufacturing industry) in Latin America, and 235 companies (60.1%) were non-manufacturers (non-manufacturing industry).

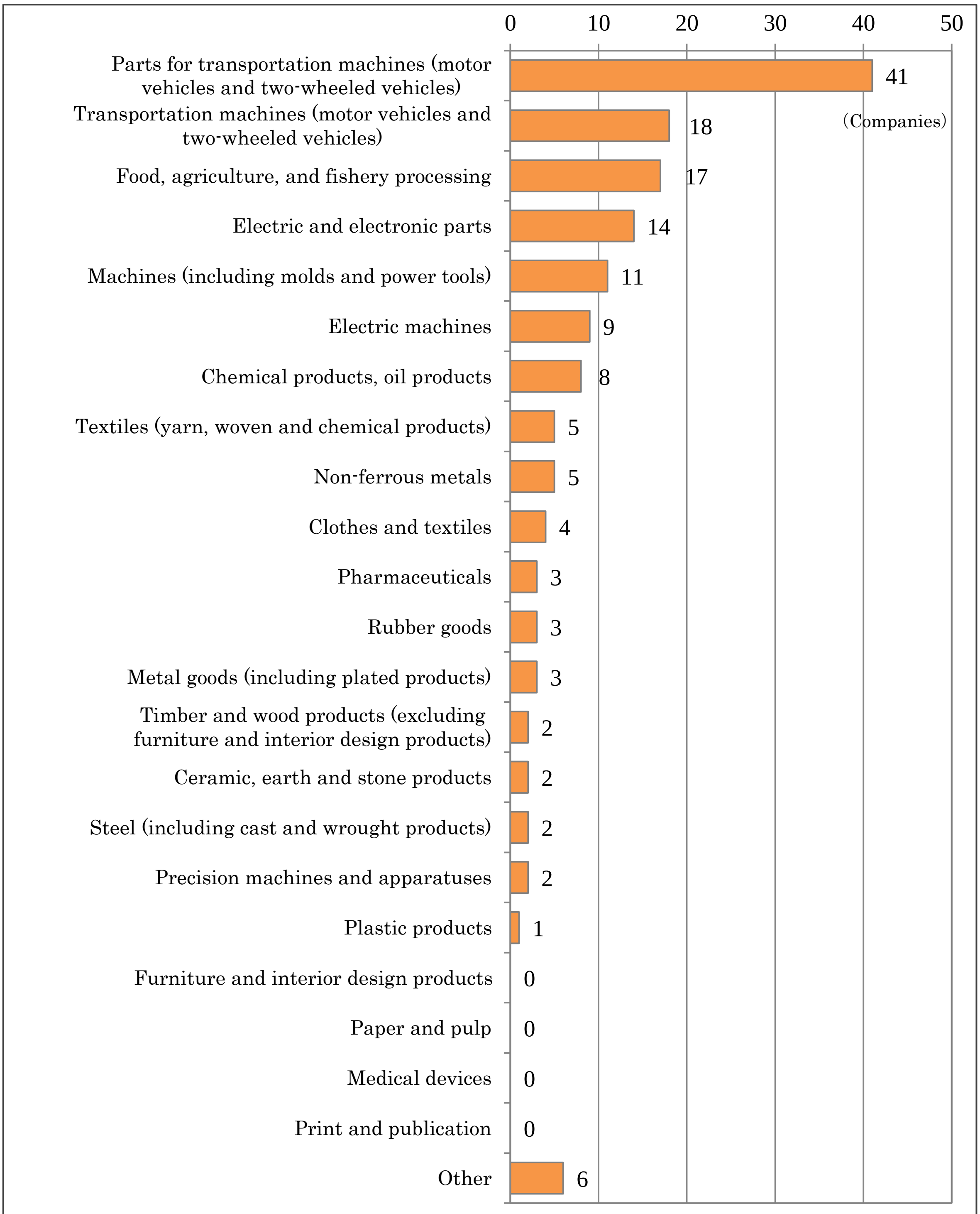
Fig 0-1: Breakdown of Respondents by Industry



3. Product Category of Manufacturing Respondents

As for the product category of the respondent manufacturers, “Parts for transportation machines (motor vehicles and two-wheeled vehicles)” had the most respondents, followed by “Transportation machines (motor vehicles and two-wheeled vehicles),” and “Electric and electronic parts.”

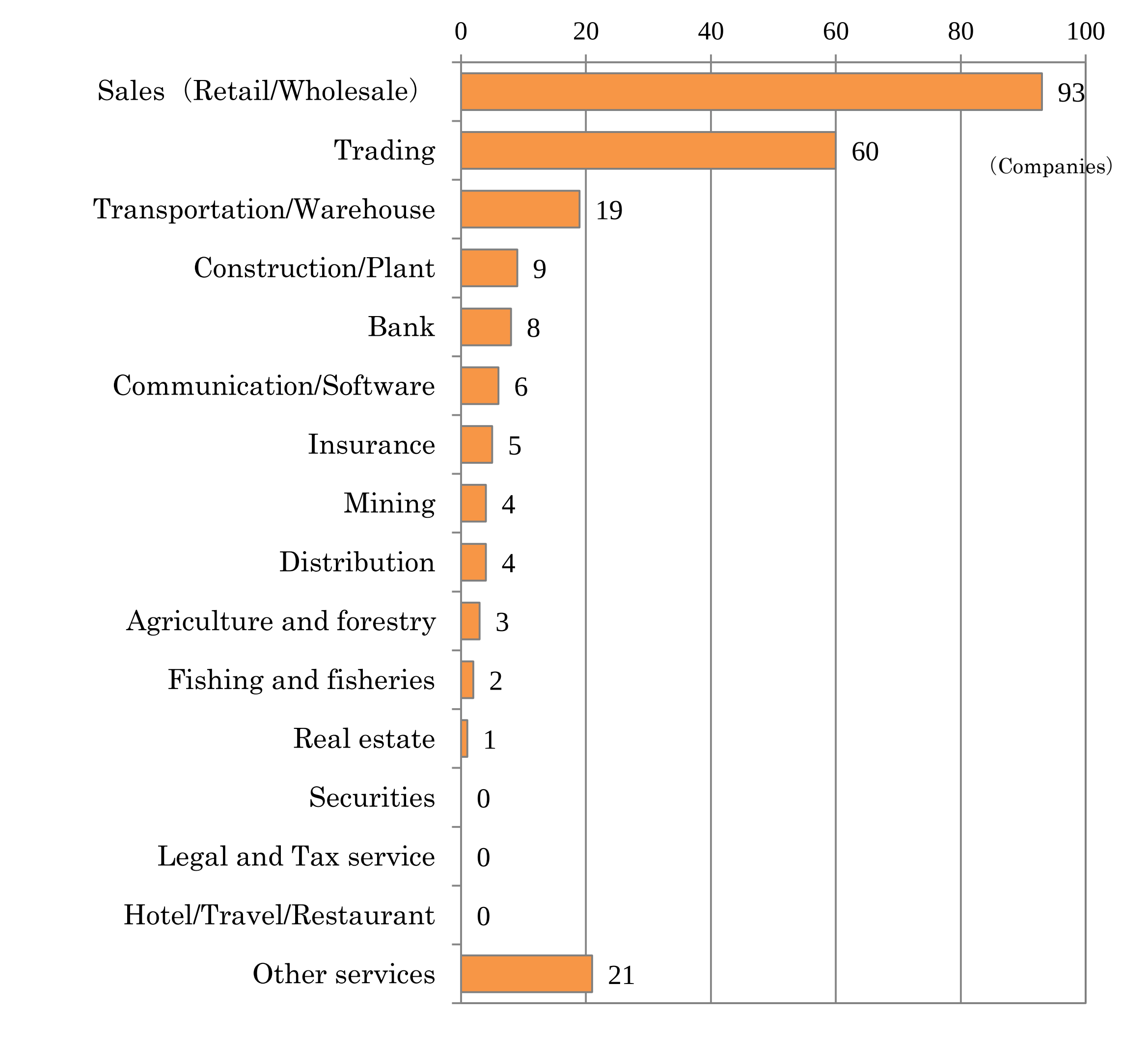
Fig 0-2: Number of Respondents by Product Category in Manufacturing (156 Companies)



4. Business Category of Non-Manufacturing Respondents

Looking at the respondent non-manufacturers by business category, the largest number belonged to "Sales," followed by "Trading," "Transportation/Warehouse," and "Construction/Plant."

Fig 0-3: Number of Respondents by Business Category in Non-Manufacturing (235 Companies)

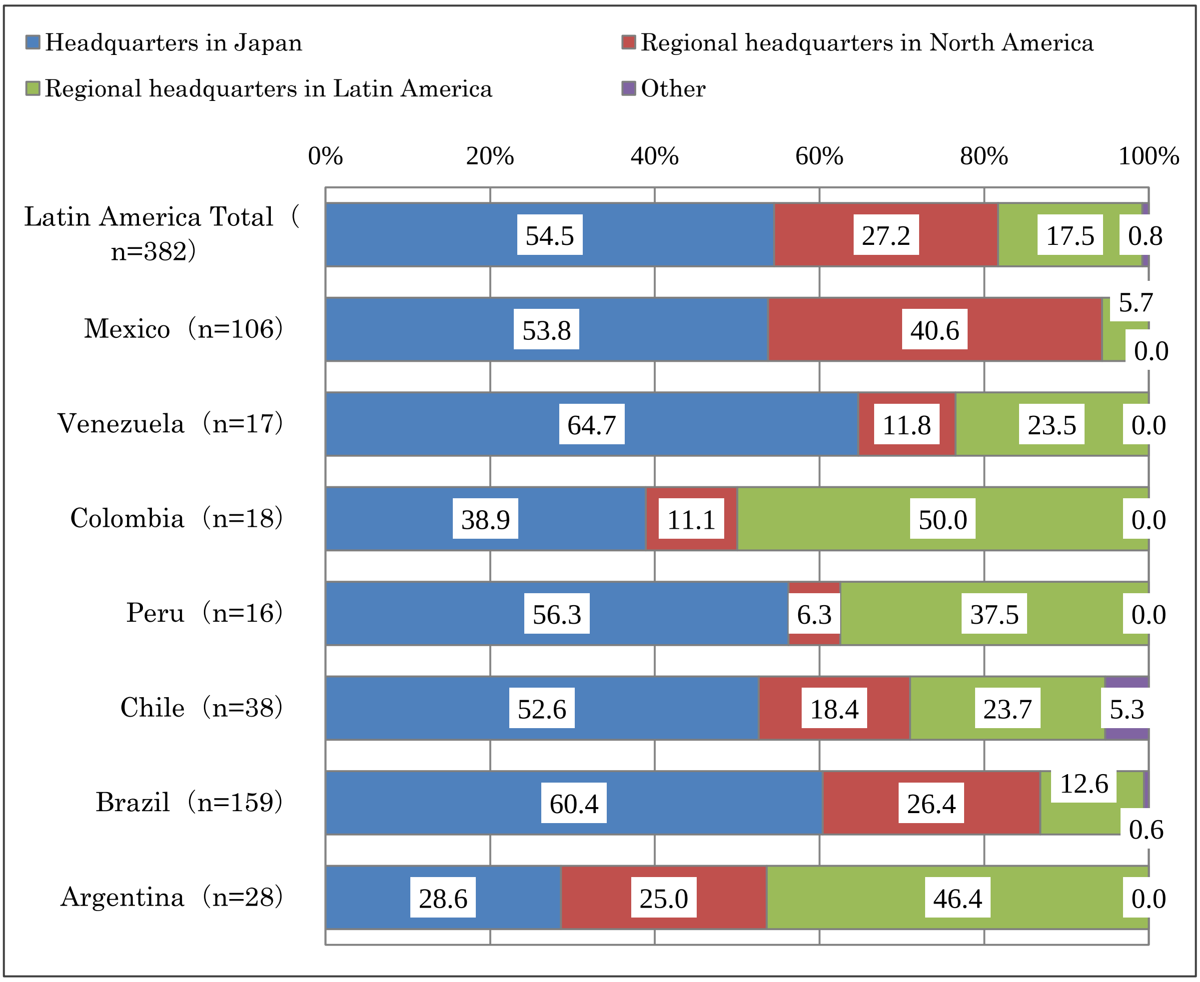


5. Location of Headquarters for Latin American Businesses

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

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

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



Chapter 2 Main Results of the Survey

1. Operating Profit Forecast for 2014

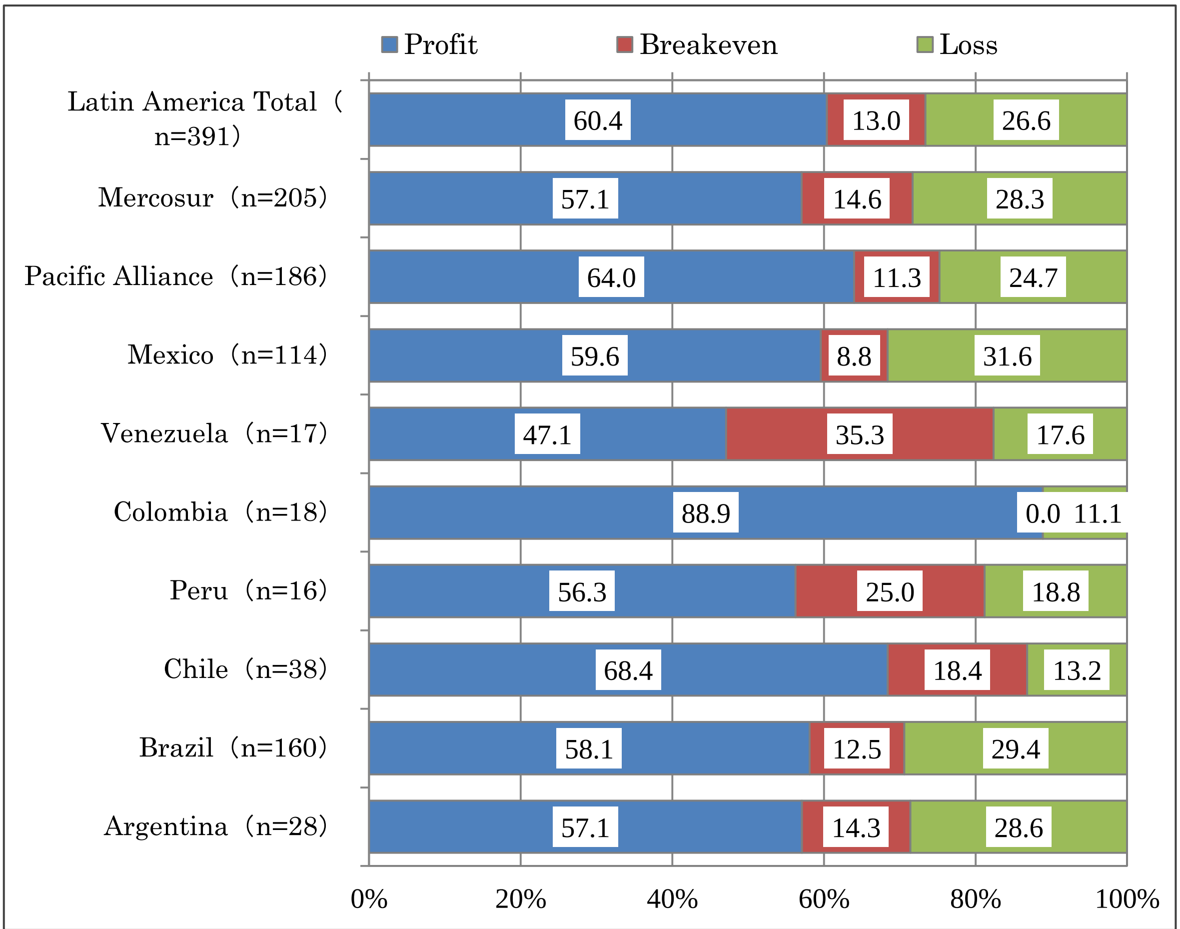
＜Trend of a Polarization Between Profits and Losses as Compared to 2013＞

For the 2014 operating profit forecast, 60.4% of the companies (236 companies) answered that they were forecasting profits, 13.0% (51 companies) said they would breakeven, while 26.6% (104 companies) expected losses. In the 2013 survey, 57.1% of the companies (249 companies) expected profits, 20.9% (91 companies) predicted that they would breakeven, while 22.0% (96 companies) expected losses. Hence, in comparison with 2013, the results for 2014 showed a clearer polarization between companies forecasting profits and those expecting losses.

Looking at the respective countries, there were high response rates for "profits" from Colombia, Chile, Mexico, and Brazil, and low response rates for "profits" from Venezuela.

If we were to categorize the seven target countries into members of the Pacific Alliance (Mexico, Colombia, Peru, and Chile) and members of Mercosur (Venezuela, Brazil, and Argentina), we would see that members of the Pacific Alliance predicted better results for their operating profits as compared to members of Mercosur.

Fig 1-1: Operating Profit Forecast for 2014

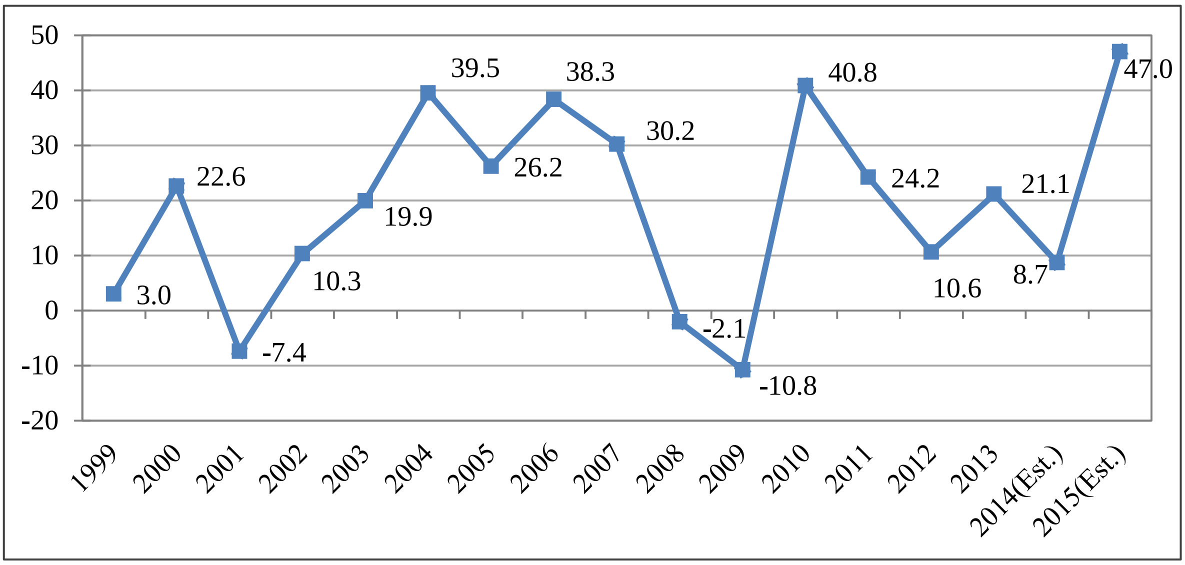


＜Weakest Business Sentiment Since 2009＞

Respondents were asked if their operating profit forecast for 2014 have increased, remained the same, or decreased in comparison with the previous year. The diffusion index that expresses business sentiment (DI = The difference between the ratio that responded “increased” and the ratio that responded “decreased”), calculated based on the responses, was 8.7 points. This was 12.4 points weaker than the 21.1 points registered on the previous survey, and the lowest level since the 2009 survey (-10.8 points) conducted after the Lehman Shock.

However, DI for 2015 (forecast) is at the high level of 47.0 points, indicating that many companies are optimistic that operating profits will improve after 2015.

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



＜Divided Business Conditions Due to Political and Economic Stability/Instability＞

With respect to the DI values for each country, Mexico and Colombia had high DI, while Venezuela, Chile, and Argentina had low DI. Amidst a situation of poor DI values for Latin America overall, business conditions are more positive in Mexico, where there is a growing concentration of Japanese companies as well as improvements in public order, and in Colombia where future growth is anticipated. On the other hand, political and economic instability have resulted in uncertain outlook for Venezuela and Argentina, and this in turn is believed to have contributed to poor business sentiment in these countries. With regard to Chile and Peru, economic deceleration in China has pulled down prices for mineral resources such as copper. This has likely had an impact on the performance of Japanese companies that are mostly engaged in businesses related to resource development.

Fig 1-3: DI Values by Country (2014)

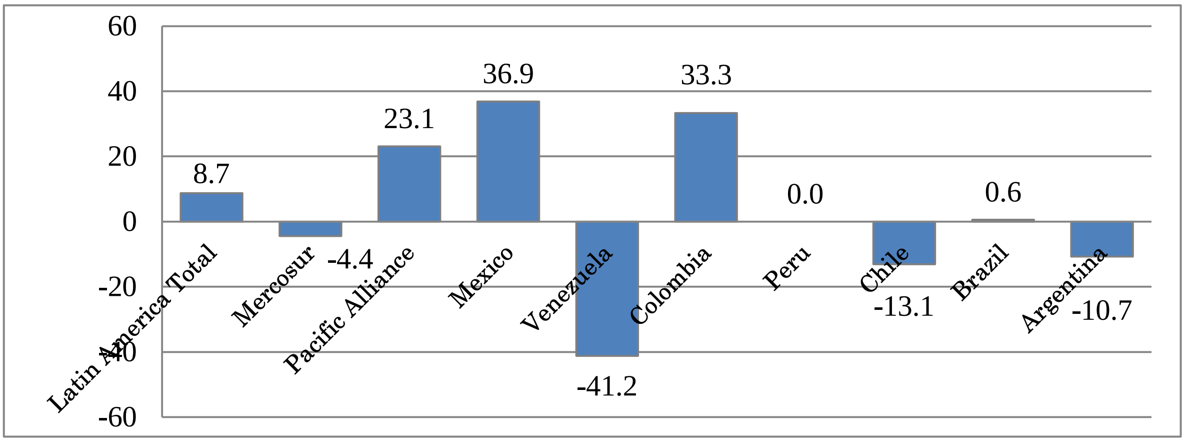
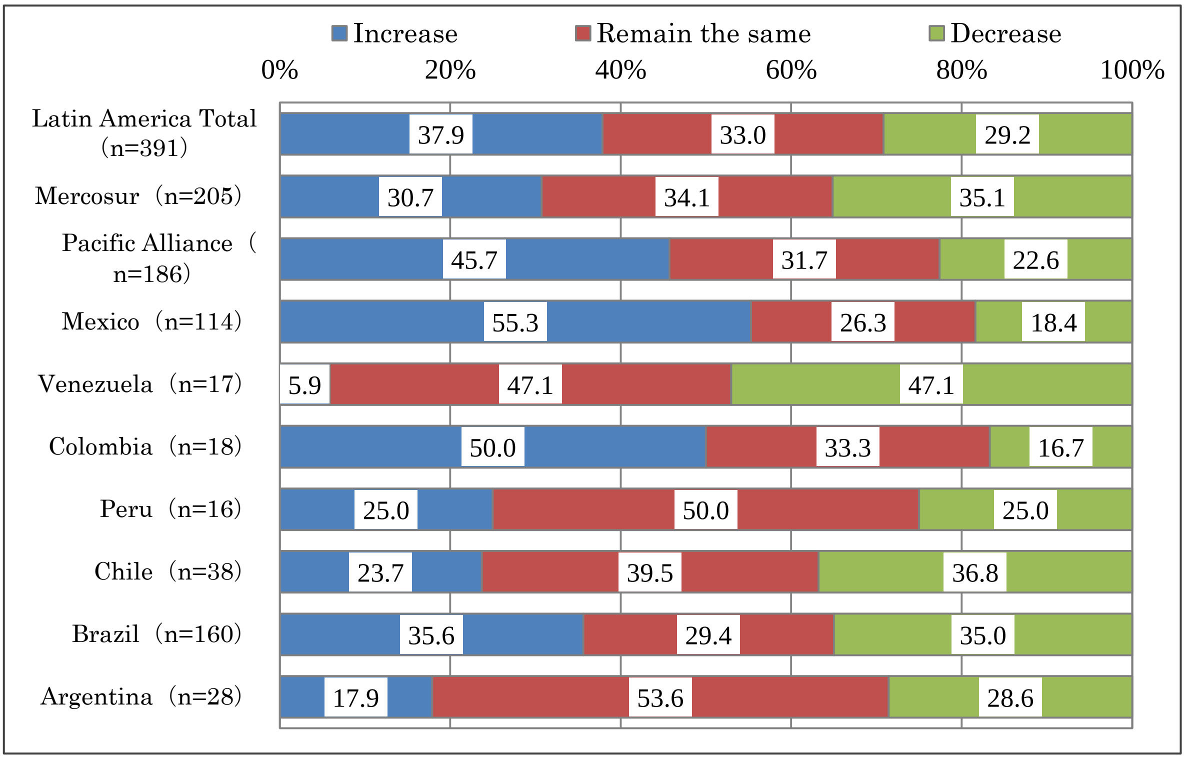


Fig 1-4: 2014 Operating Profit Forecast Compared to 2013

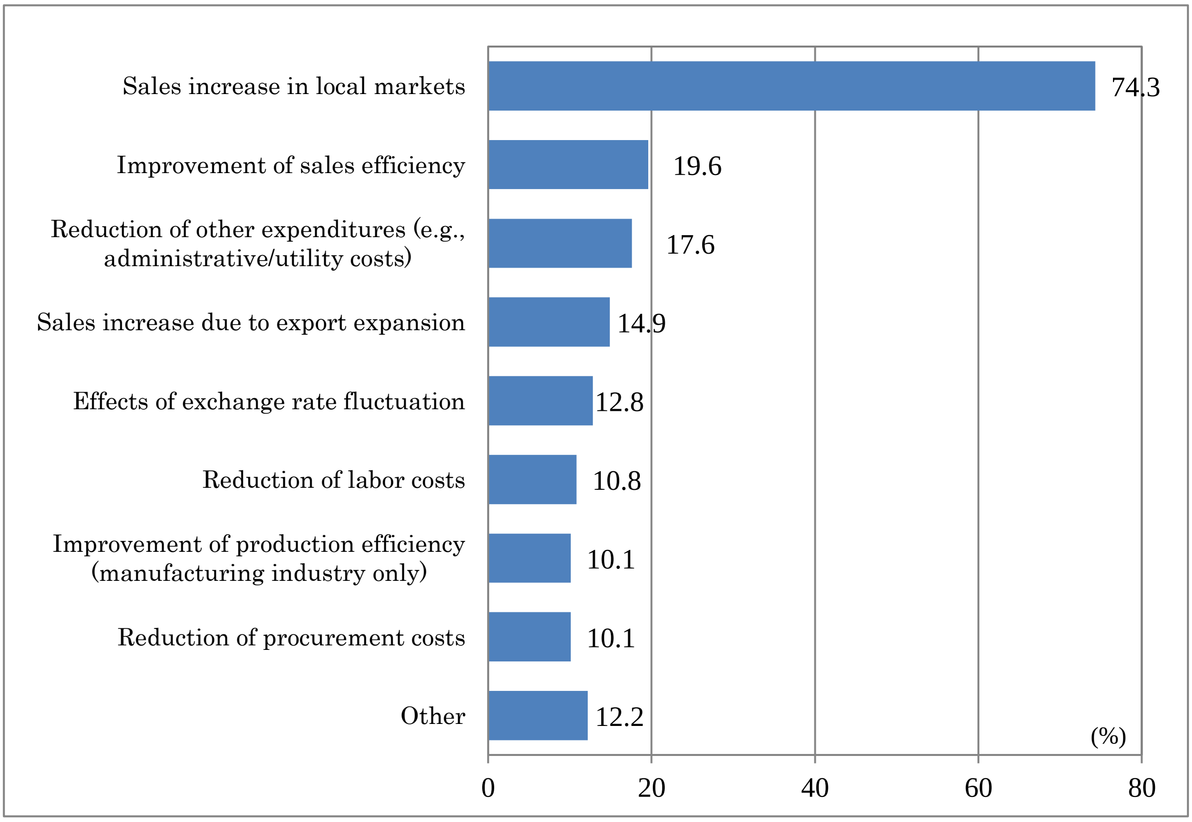


<Expanding Domestic Market a Key Factor in Improvement of Operating Profits>

Looking at the reasons for improvement in the profit forecast, "Sales increase in local markets" stand out at 74.3% (110 companies), followed by "Improvement of sales efficiency" (19.6%, 29 companies), "Reduction of other expenditures (e.g., administrative/utility costs)" (17.6%, 26 companies), "Sales increase due to export expansion" (14.9%, 22 companies), and "Effects of exchange rate fluctuation" (12.8%, 19 companies).

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

Fig 1-5: Reasons for Increase in 2014 Operating Profit Forecast (Latin America Overall, Multiple Answers by 148 Companies)

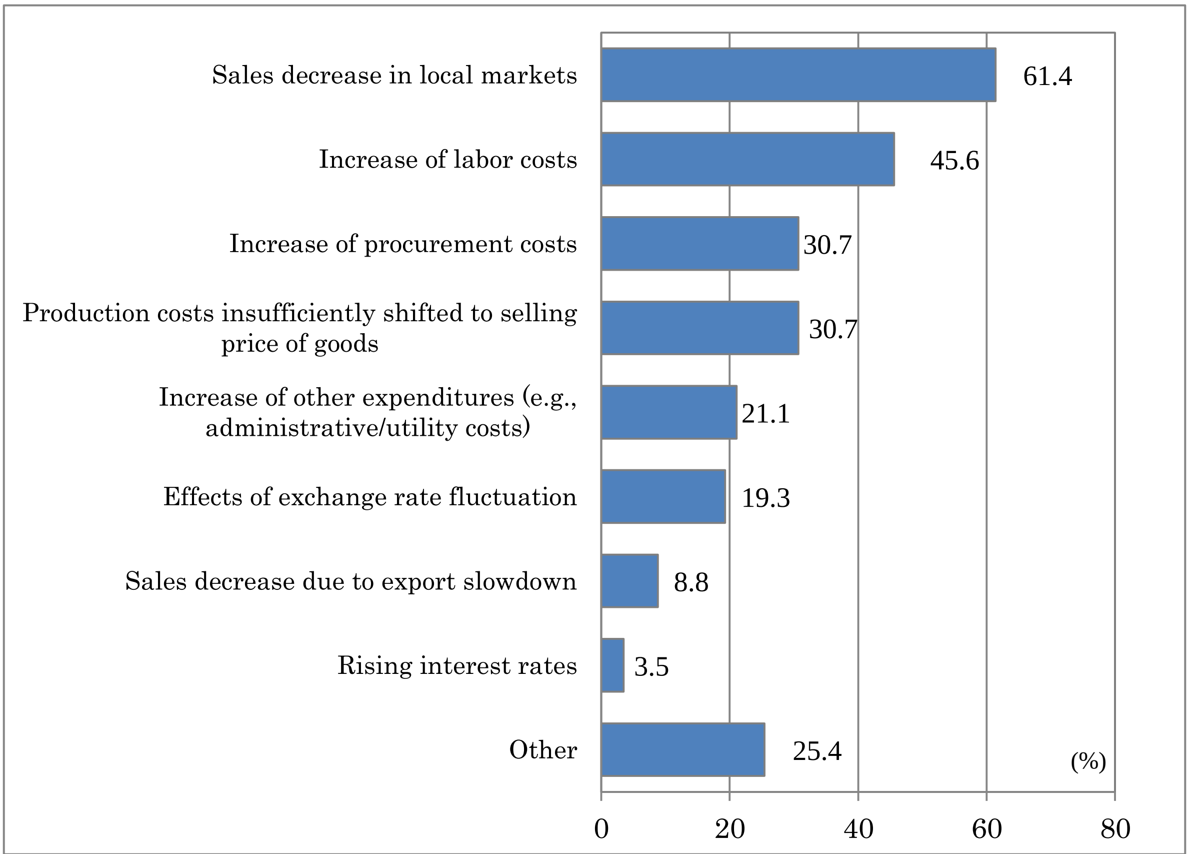


＜Companies Anxious About Profit Decline Due to Economic Recession＞

As for the reasons for decreased operating profit forecast, “Sales decrease in local markets” had the highest score at 61.4% (70 companies). This was followed by “Increase of labor costs” (45.6%, 52 companies), “Increase of procurement costs” (30.7%, 35 companies), and “Production costs insufficiently shifted to selling price of goods” (30.7%, 35 companies). In all the surveys conducted from 2011 to 2013, “Increase of labor costs” (48.9%, 44 companies) had the highest score. However, there are now a greater proportion of companies that state sluggish sales as a result of economic recession as the reason for declining business conditions.

With the exception of Argentina, all the countries had more than 50% of respondents that selected “Sales decrease in local markets” as the reason behind the decline in operating profit forecasts, suggesting the serious impact of the economic recession. Furthermore, the proportion of respondents that chose “Increase of labor costs” were high among the Mercosur member states of Brazil (57.1%), Argentina (50.0%), and Venezuela (50.0%), and low among the Pacific Alliance member states of Mexico (23.8%), Peru (25.0%), Colombia (33.3%), and Chile (35.7%), showing a clear contrast in results between the two groups.

Fig 1-6: Reasons for Decrease in 2014 Operating Profit Forecast ＜Latin America Overall, Multiple Answers by 114 Companies)



2. 2015 Forecasts for Operating Profits

＜2015 Operating Profits Expected to Improve＞

The DI value showing the business sentiment for 2015 was 47.0 points for Latin America overall. This is significantly higher than the 2014 figure of 8.7 points, reflecting the companies' expectations for improved profits in 2015 even amidst tough business conditions at the present.

Looking at each country, all except Venezuela have higher DI values for 2015 compared to 2014. With the aim of creating a "21st century socialist country," the Venezuela government has imposed foreign currency restrictions and other regulations that have had an impact on the operation of businesses, resulting in pessimistic business sentiment among companies.

Fig 2-1: DI Value by Country (2015)

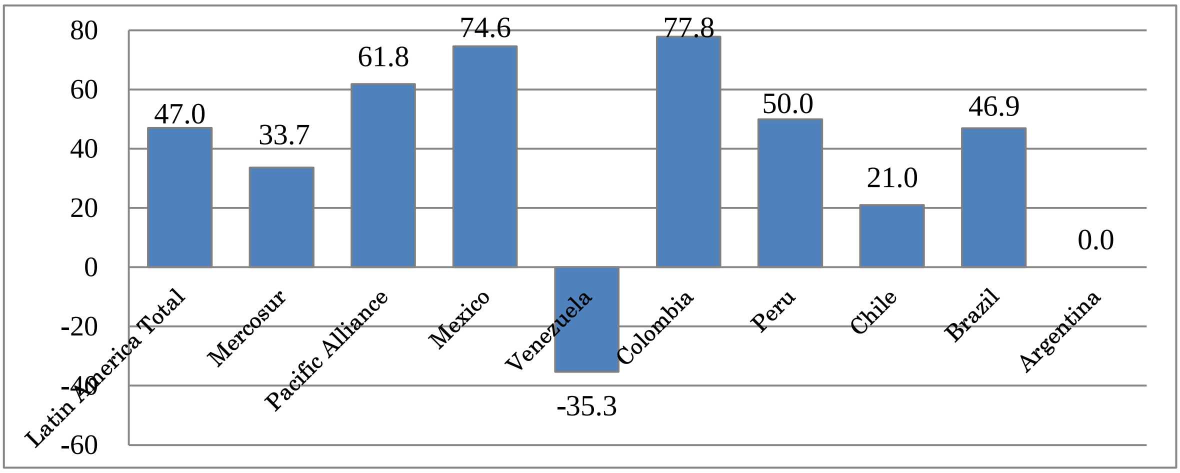
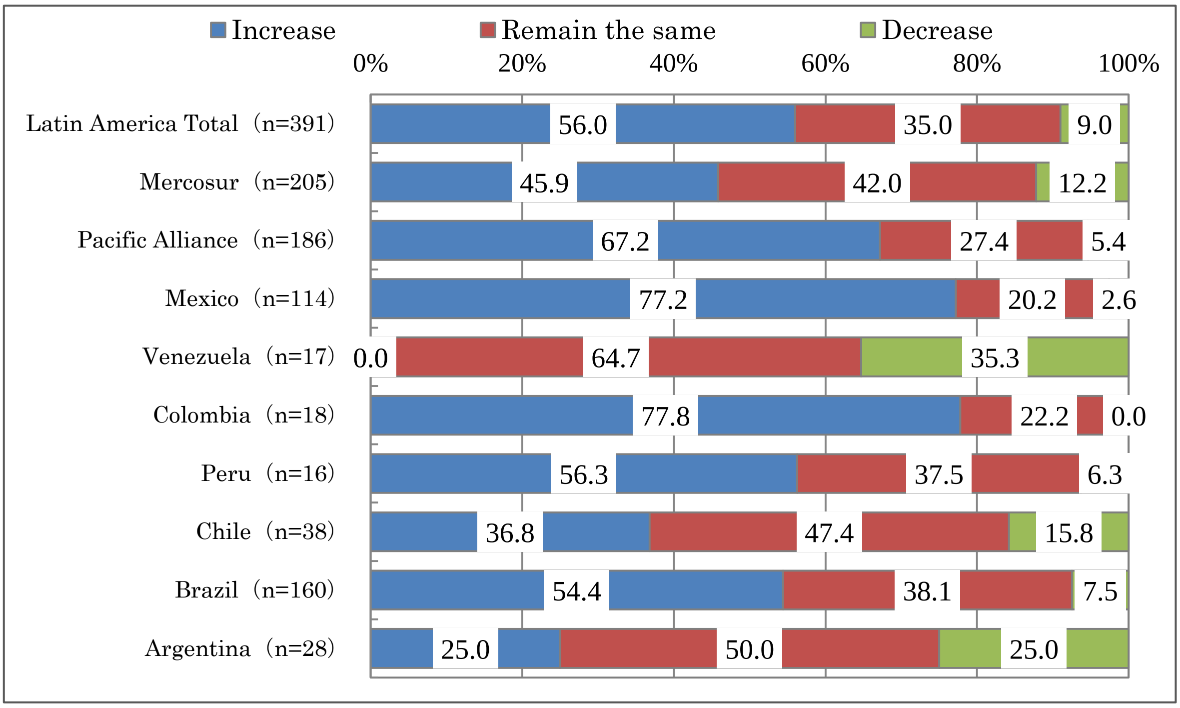


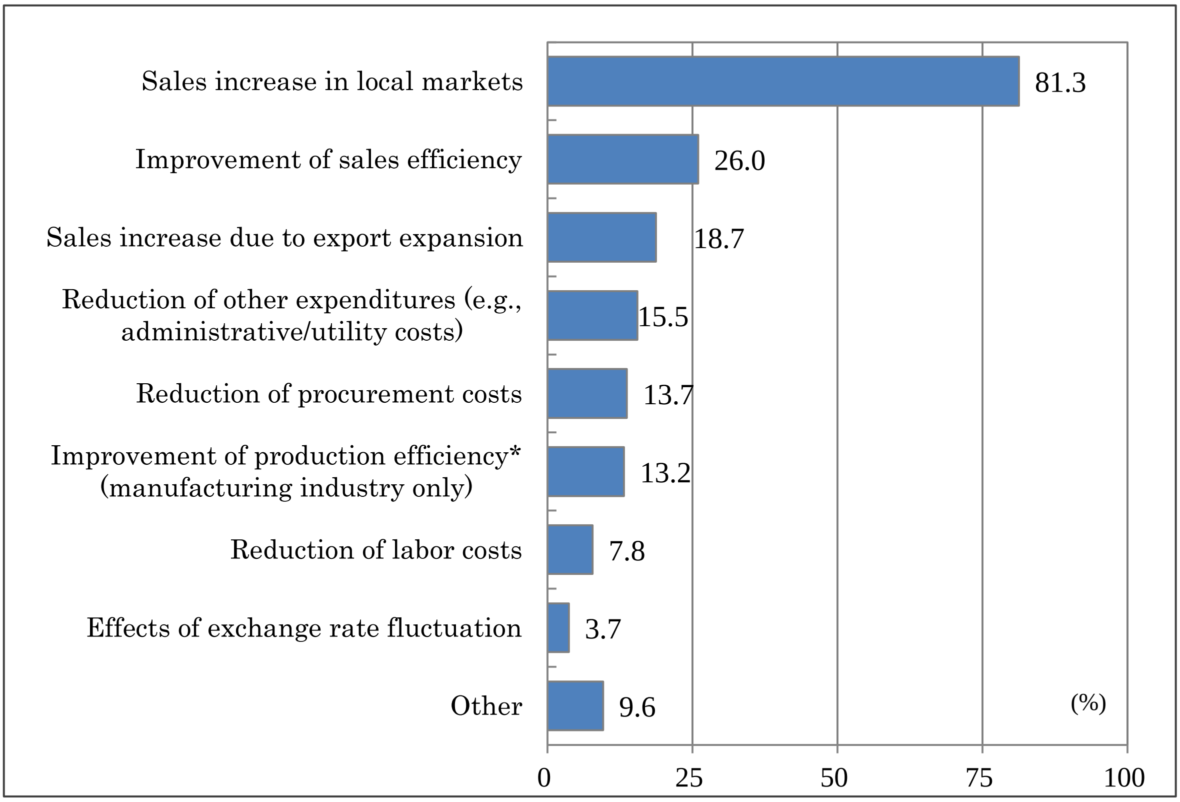
Fig 2-2: 2015 Operating Profit Forecast Compared to Previous Year



＜Same Reasons as 2014 for Increase in Operating Profit＞

For reasons on increase in operating profit, "Sales increase in local markets" scored the highest at 81.3%, way ahead of "Improvement of sales efficiency" (26.0%) and "Sales increase due to export expansion" (18.7%). Despite a slightly different order for the reasons below the top three reasons, the results are roughly the same as the reasons for increase in 2014 operating profit forecast.

Fig 2-3: Reasons for Increase in 2015 Operating Profit Forecast (Latin America Overall, Multiple Answers by 219 Companies)

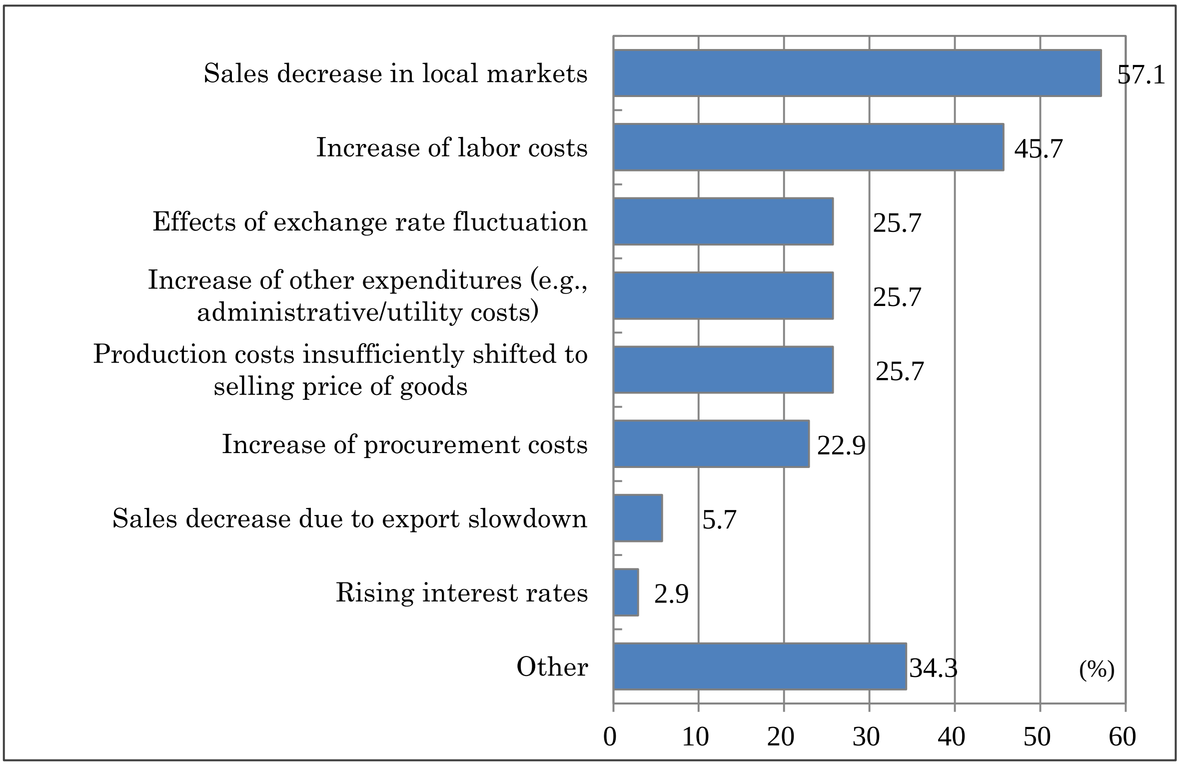


＜Increase or Decrease in Operating Profits Highly Dependent on Market Trends＞

The main reasons for decrease in operating profit forecast are "Sales decrease in local markets" (57.1%), "Increase of labor costs" (45.7%), and "Effect of exchange rate fluctuation," "Production costs insufficiently shifted to selling price of goods," and "Increase of other expenditures (eg., administrative/ utility costs)" (all 25.7% respectively). As shown in Fig. 2-3, the major reason for increase in operating profit forecast was "Sales increase in local markets," while the major reason for decrease is also "Sales decrease in local markets," suggesting the relationship between this factor and market trends.

We can also see that increase in costs such as labor and management costs is a factor that has a negative impact on operating profits.

Fig 2-4: Reasons for Decrease in 2015 Operating Profit Forecast (Latin America Overall, Multiple Answers by 35 Companies)



3. Business Outlook for the Future

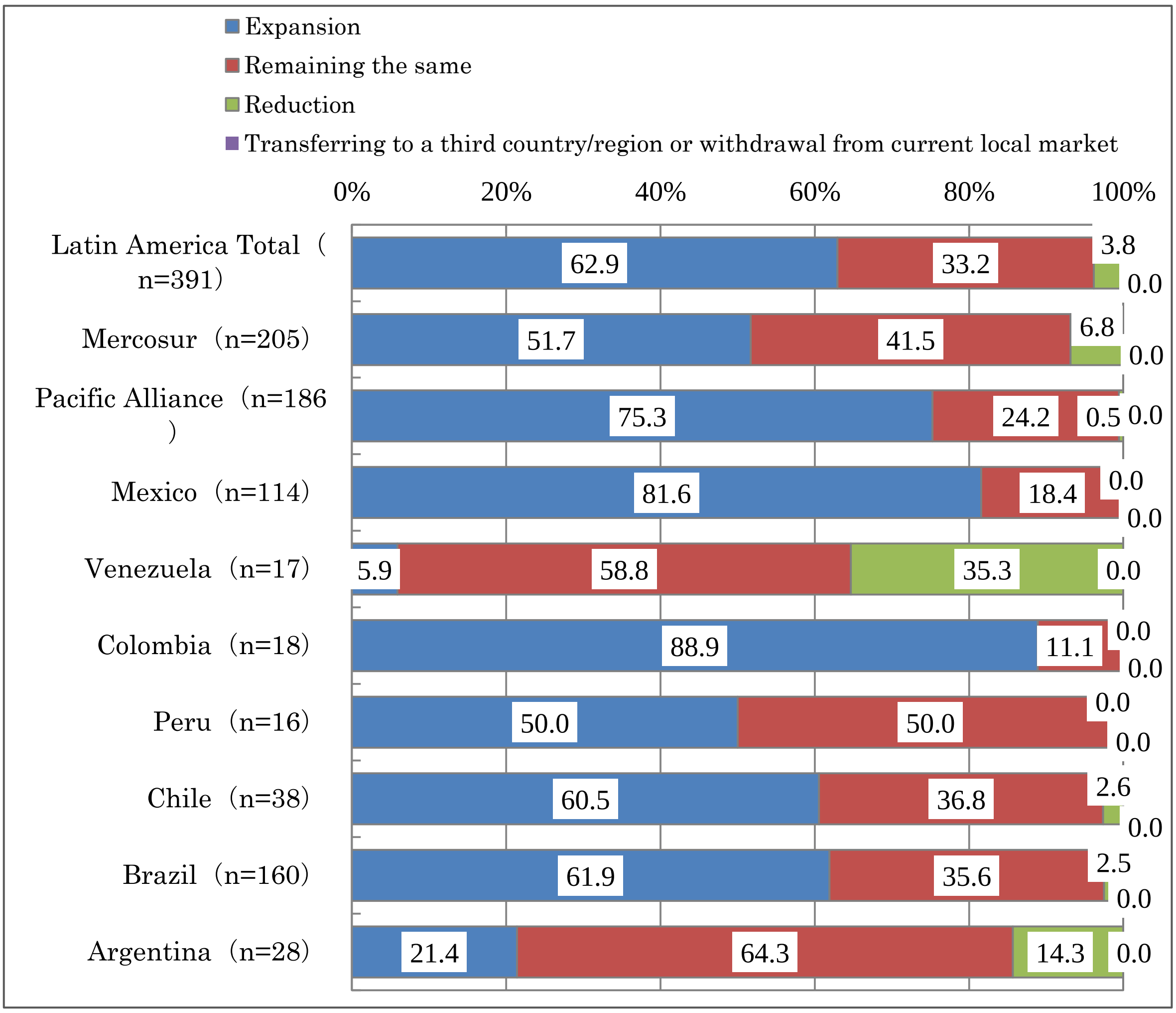
＜Significant Gap in Business Outlook for Each Country＞

For Latin America overall, concerning business outlook for the next one to two years, 62.9% of the respondents (246 companies) answered "Expansion," significantly exceeding the 33.2% (130 companies) that answered "Remaining the same" and the 3.8% (15 companies) that answered "Reduction."

Looking at the responses by country, the percentage of responses for "Expansion" was 88.9% (16 companies) for Colombia and 81.6% (93 companies) for Mexico, followed by 61.9% (99 companies) for Brazil and 60.5% (23 companies) for Chile. In contrast with these countries, Argentina and Venezuela had a high proportion of companies that responded "Remaining the same" at 64.3% and 58.8% respectively, while the percentages for "Reduction" were 14.3% and 35.3% respectively.

With regard to Venezuela and Argentina, there are many factors contributing to uncertainty for the political and economic outlook in the future, such as import regulations, currency controls, high inflation rate and the resulting controls on sale prices, and political instability. As such, there is a higher percentage of companies that chose "Reduction" as compared to other countries.

Fig 3-1: Business Outlook for the Next One to Two Years



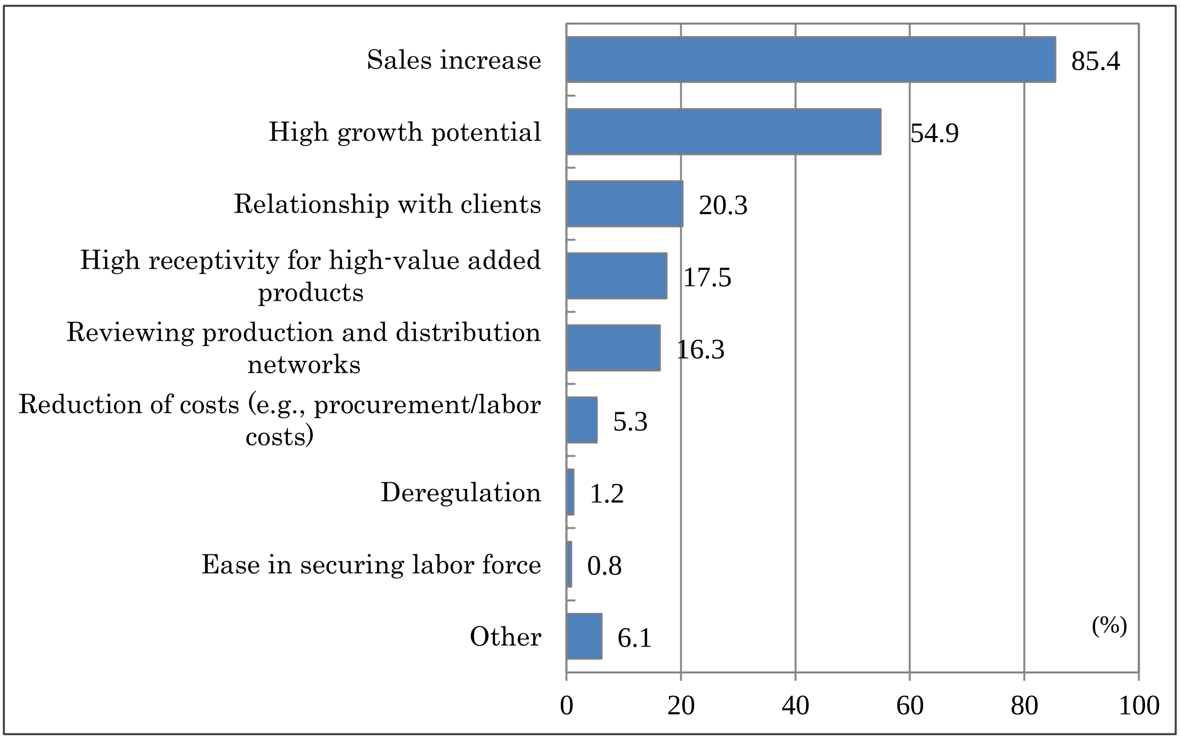
＜Business Expansion in Anticipation of Market Potential＞

The main reasons given for expectations of future business expansion were “Sales increase” (85.4%) and “High growth potential” (54.9%).

Looking at each country, the answer “Sales increase” was high in Venezuela (100.0%, 1 company), Peru (100.0%, 8 companies), Mexico (93.5%, 87 companies), and Colombia (81.3%, 13 companies), and Brazil (80.8%, 80 companies). “High growth potential” scored high in Peru (75.0%, 6 companies) and Colombia (62.5%, 10 companies).

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

Fig 3-2: Reasons for “Expansion” (Latin America Overall, Multiple Answers by 246 Companies)



＜Sales Function at the Heart of Expansion Plans＞

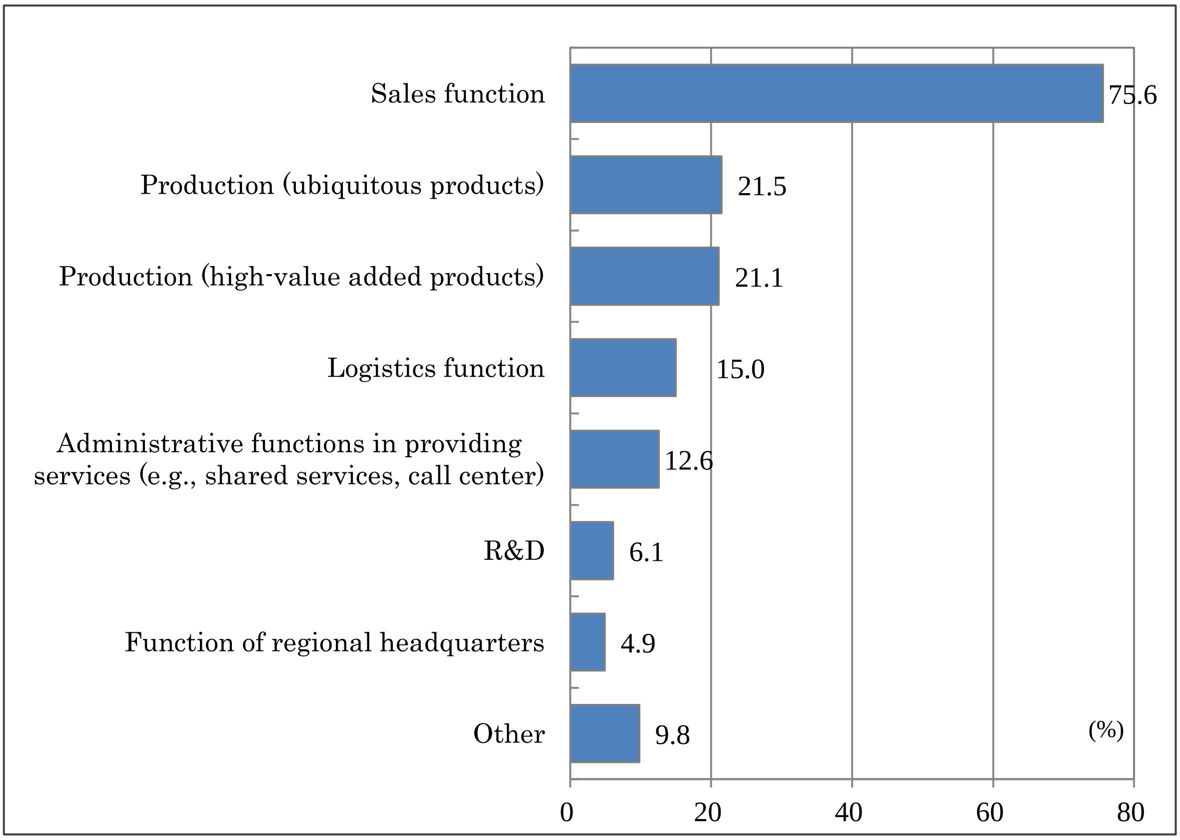
As for the specific functions intended for expansion, "Sales function" (75.6%) ranks at the top, followed by "Production (ubiquitous products)" (21.5%), "Production (high-value added products)" (21.1%), and "Logistics function" (15.0%,) lagging far behind.

Looking at each country, high scores in "Sales function" were noted for Colombia (100%, 16 companies), Peru (100%, 8 companies), Venezuela (100%, 1 company), Brazil (83.8%, 83 companies), and Argentina (83.3%, 5 companies).

For Latin America overall, those who answered they would expand "Production" functions remained at the 21% level, while those who responded for "Logistics function" stood at about 15.0%. These figures indicate that the strengthening of sales is the main focus in business development strategies for the Latin American market.

On the other hand, Mexico had high percentages for "Production (ubiquitous products)" and "Production (high-value added products" at 37.6% (35 companies) and 31.2% (29 companies) respectively, Argentina had high percentages for "Production (high-value added products" and "R&D" at 50.0% (3 companies) and 33.3% (2 companies) respectively, while Chile had high percentage for "Logistics function" (30.4%, 7 companies). These figures suggest a trend of growing segregation of functions among the countries.

Fig 3-3: Areas of Expansion (Latin America Overall, Multiple Answers)



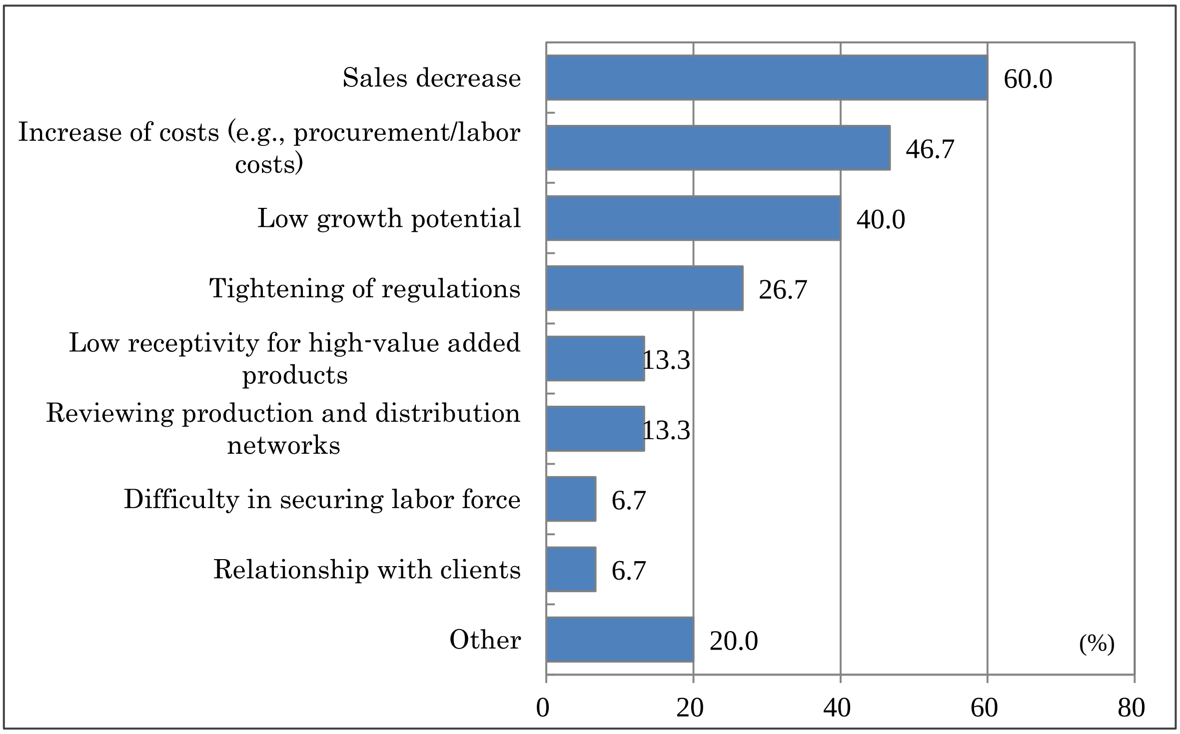
＜Economic Recession as a Cause of Business Contraction＞

Although very few, some companies replied business “Reduction” (3.8%, 15 companies) as the direction of their business outlook.

Particularly in Venezuela, the answers for “Reduction” reached 35.3% of the companies that responded. In Argentina, the percentage for “Reduction” scored 14.3%.

The reasons for such business outlook in Venezuela and Argentina were “Sales decrease” followed by “Increase of costs (eg., procurement/labor costs)” and “Low growth potential.” These may be attributed to the impact of the economic recession in both countries.

Fig 3-4: Reasons for “Reduction” and “Transfer to a Third Country/Region or Withdrawal” (Latin America Overall, Multiple Answers)

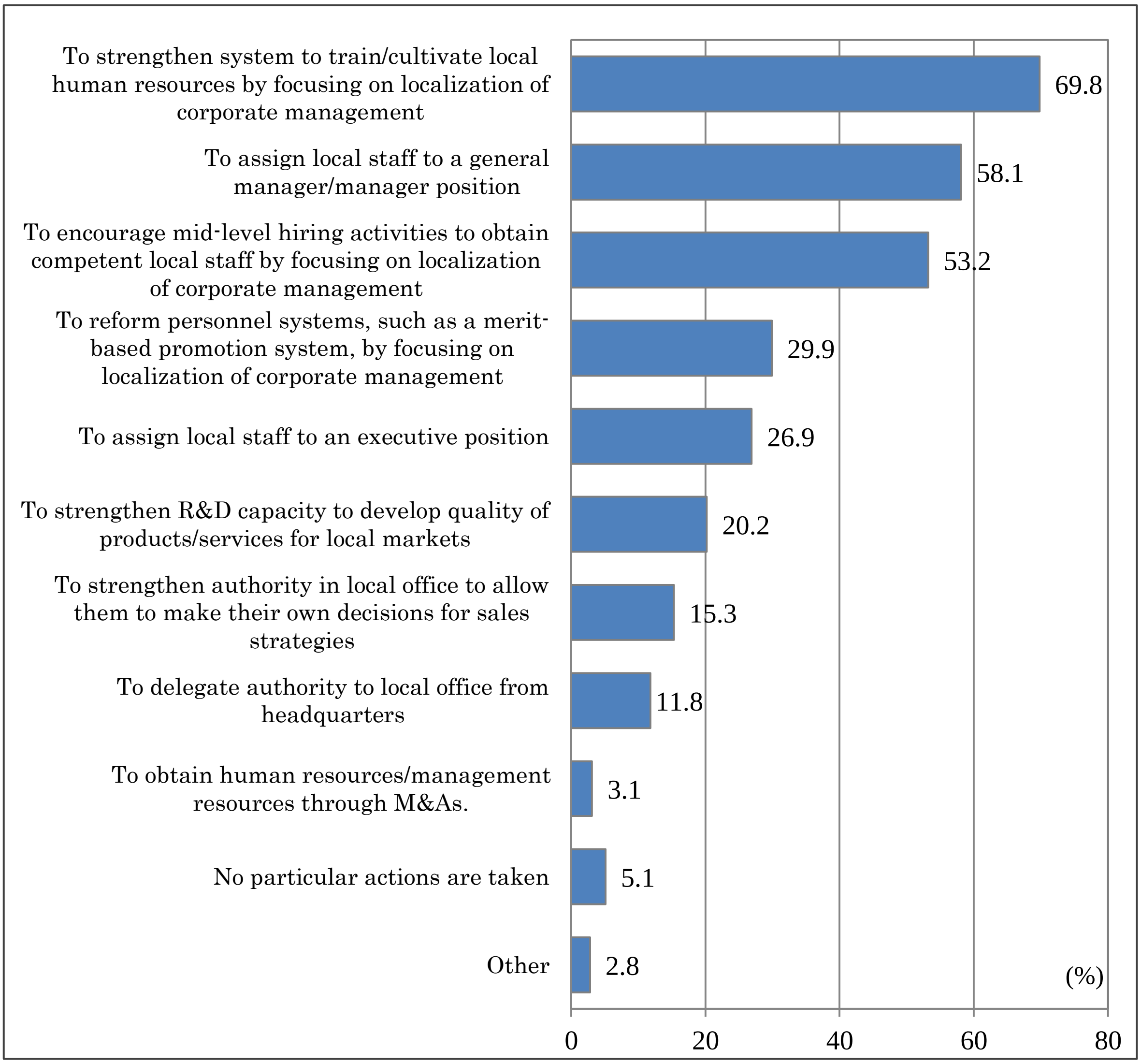


＜Increasing Localization of Labor Force Despite Retention of Management Authority at Headquarters＞

In relation to the business outlook, the survey also asked companies about the localization of the management. The high scoring answers, in order, were “To strengthen system to train/cultivate local human resources by focusing on localization of corporate management” (69.8%, 273 companies), “To assign local staff to a general manager/manager position” (58.1%, 227 companies), “To encourage mid-level hiring activities to obtain competent local staff by focusing on localization of corporate management” (53.2%, 208 companies). Within each country, the top-ranking responses for each country were roughly in the same order as in Latin America overall.

Meanwhile, “To strengthen R&D capacity to develop quality of products/services for local markets” (20.2%, 79 companies),“To strengthen authority in local office to allow them to make their own decisions for sales strategies” (15.3%, 60 companies) and “To delegate authority to local office from headquarters” (11.8%, 46 companies) scored low. This shows that despite continuing localization of the labor force, the management authority continues to be held by the headquarters.

Fig 3-5: Efforts Toward Localization (Latin America Overall, Multiple Answers)

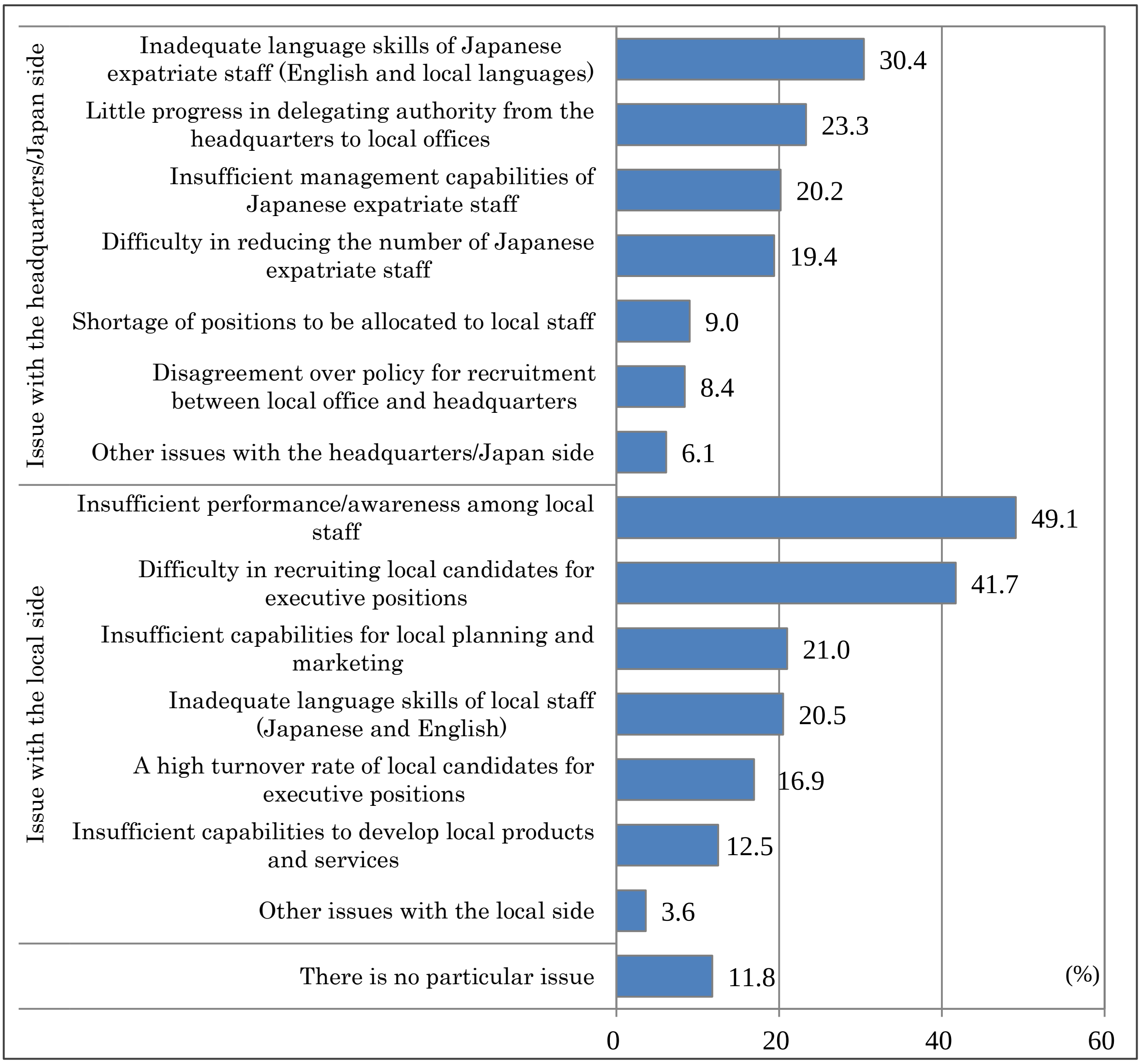


＜Gap Between Delegation of Authority and Competency of Local Employees＞

With regard to problems faced by companies in promoting management localization, top responses related to problems on the headquarters/Japan side were “Inadequate language skills of Japanese expatriate staff (English and local languages)” (30.4%, 119 companies), “Little progress in delegating authority from the headquarters to local offices” (23.3%, 91 companies), and “Insufficient management capabilities of Japanese expatriate staff” (20.2%,79 companies). On the other hand, top responses for issues related to the local side were “Insufficient performance/awareness among local staff” (49.1%, 192 companies) and “Difficulty in recruiting local candidates for executive positions” (41.7%, 163 companies).

With regard to responses by the individual countries, the percentage of companies that chose “Insufficient performance/awareness among local staff” exceeded 30% for all countries. The figure was particularly high for Brazil (53.8%, 86 companies) and Mexico (50.9%, 58 companies). For “Difficulty in recruiting local candidates for executive positions,” the percentage of responses was high for Venezuela (58.8%, 10 companies), Chile (50.0%, 19 companies), and Brazil (45.6%, 73 companies).

Fig 3-6: Problems Concerning Localization of Management (Latin America Overall, Multiple Answers)



＜Advancing Localization of Human Resources＞

In Latin America overall during the past year, the number of local employees increased for 45.0% of the respondents, while the number of Japanese expatriates increased for 21.0% of the respondents. Based on this, we can see that a high percentage of Japanese companies in the region are increasing the number of local employees over the number of Japanese expatriates.

Looking at each country, Mexico and Colombia have a higher percentage of companies of increase for both local employees and Japanese expatriates than Latin America overall. This trend, exhibited by Mexico and Colombia, corresponds with the trend for companies choosing “Expand” and “Remain the same” for their business outlook for the next one to two years, as shown in Fig. 3-1.

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

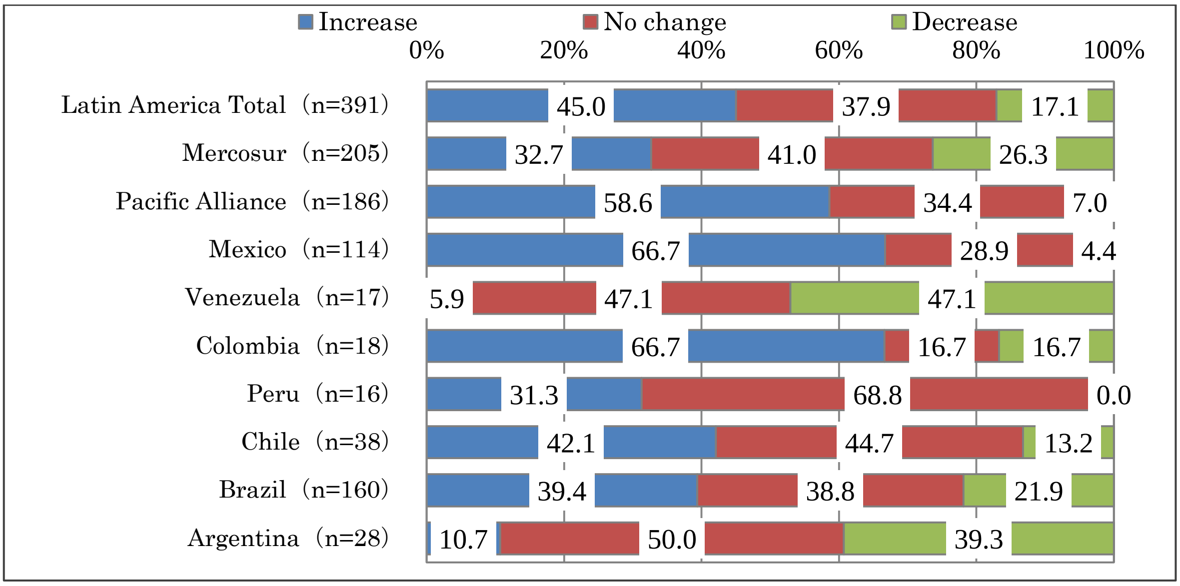
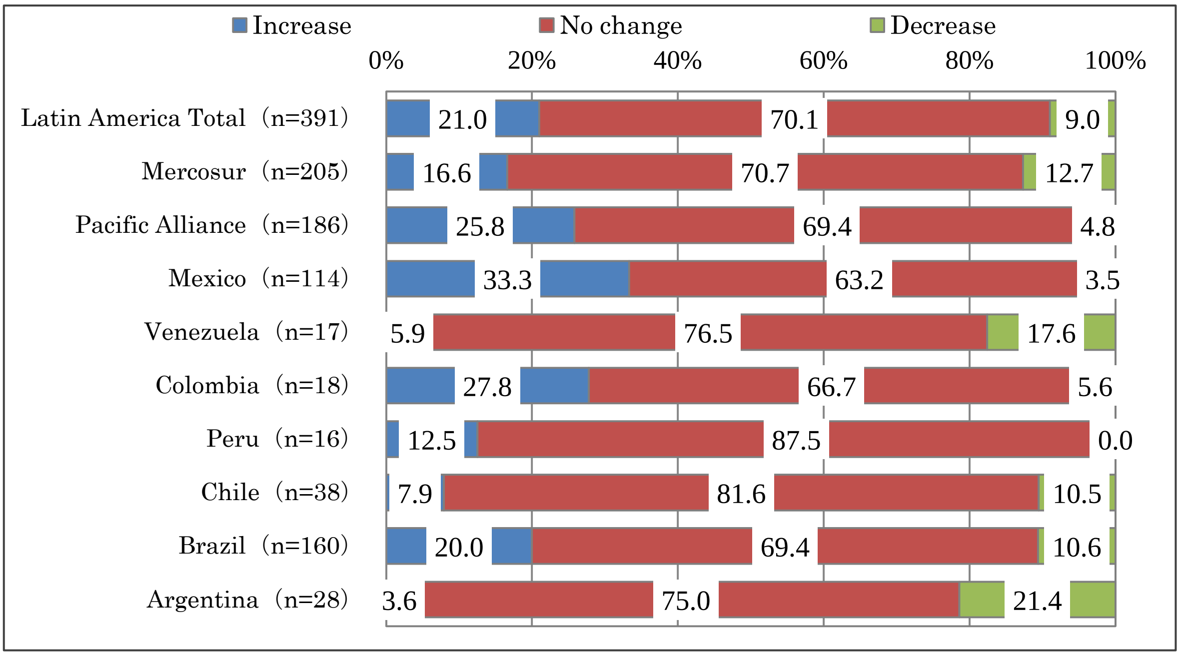


Fig 3-8: Changes in the Number of Japanese Expatriates for the Past Year



＜Notable Plans to Increase Number of Local Employees in Mexico and Colombia＞

Concerning future plans on the number of local employees in Latin America overall, 49.9% answered "Increase." On the other hand, only 15.3% answered "Increase" with regard to the number of Japanese expatriates. Looking at changes over the past year as shown in Fig. 3-7 and 3-8, there is a marked trend toward increasing the number of local employees, but not the number of Japanese expatriates in the future.

For each country, similar to the results on changes within the past year, the ratio for plans to "Increase" the number of both local employees and Japanese expatriates in the future is high for Mexico and Colombia. In contrast, the percentage of companies that responded "No change" for number of local employees in the future in Venezuela, Peru, and Argentina, is higher than the percentage of companies that responded with "Increase."

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

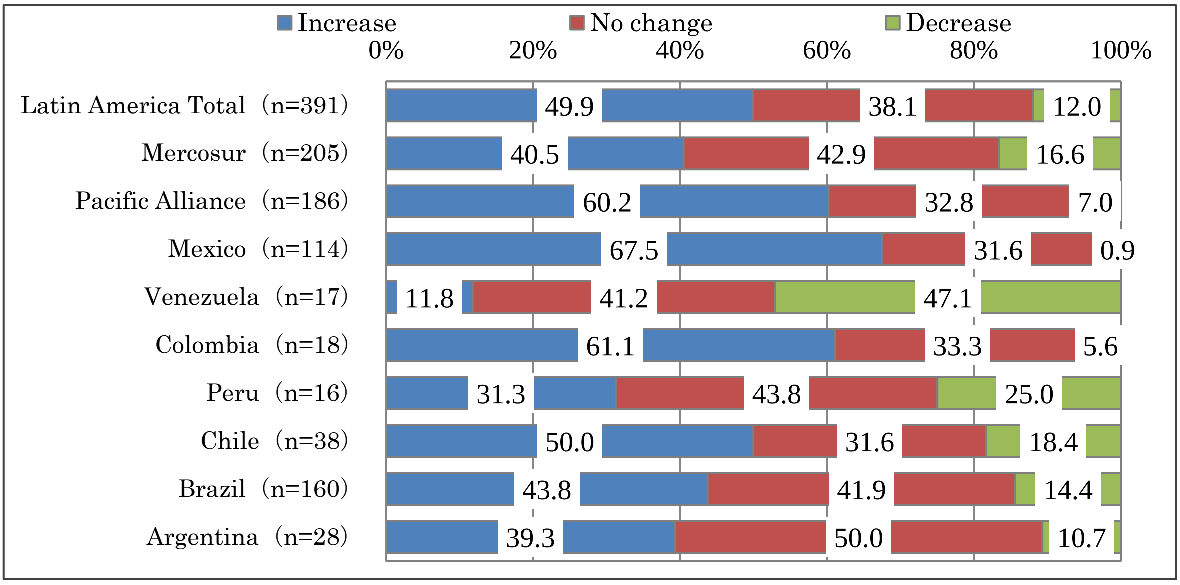
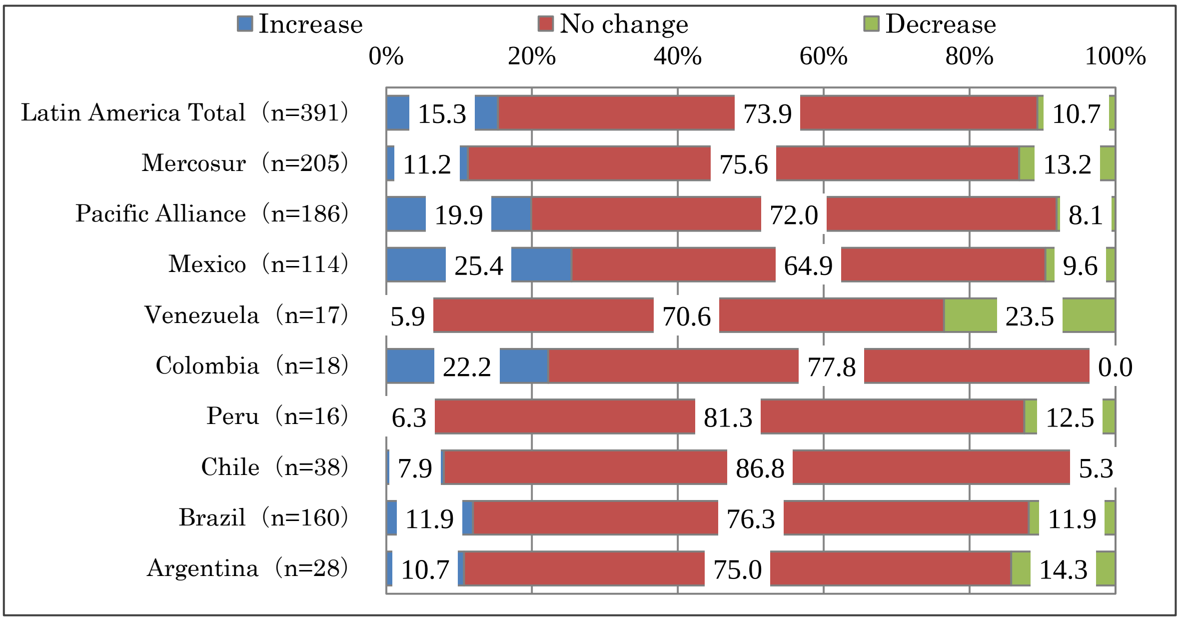


Fig 3-10: Future Plans on the Number of Japanese Expatriates



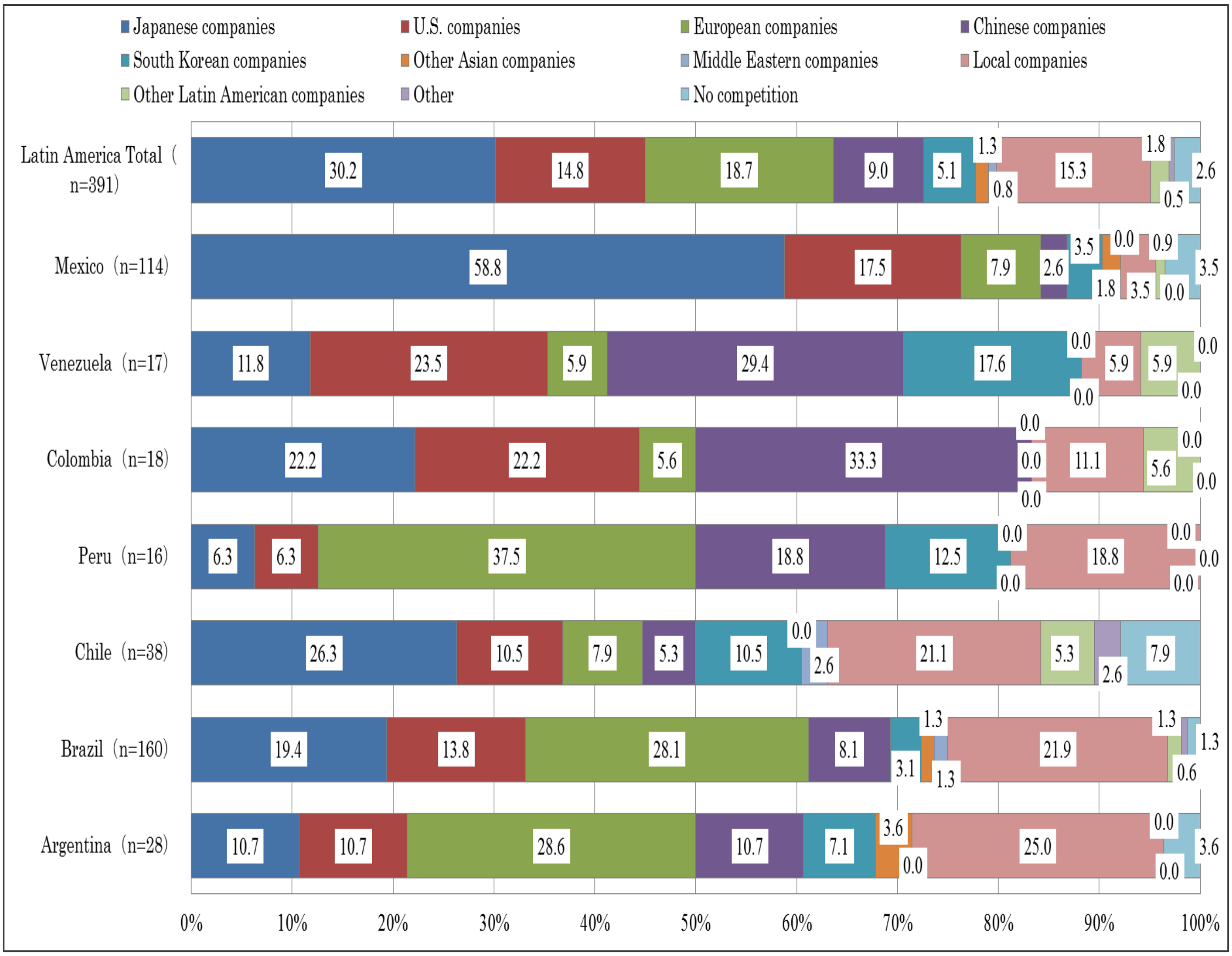
4. Efforts in Market Development

＜Competition With Japanese Companies Highest for Latin America Overall＞

When asked about the main competitors in their business, 30.2% of the respondents answered Japanese companies. This was followed by 18.7% answering European companies, 14.8% answering U.S. companies, 9.0% answering Chinese companies, and 5.1% answering South Korean companies. There was also a high percentage of companies (15.3%) that viewed local companies as their competitors.

Mexico (58.8%) and Colombia (22.2%) were countries where Japanese companies were the main competitors. Countries that had a high percentage of companies competing with European companies were Peru (37.5%), Argentina (28.6%), and Brazil (28.1%). U.S. companies were the main competitors in Venezuela (23.5%) and Colombia (22.2%), and the ratio was at the 10% level for other countries. In general, Chinese and South Korean companies are increasing their presence in the Latin American market. Colombia (33.3%) and Venezuela (29.4%) had the highest ratio of Chinese competitors, while Venezuela (17.6%) and Peru (12.5%) had more competition from South Korean companies.

Fig 4-1: Main Competitors in the Same Industry



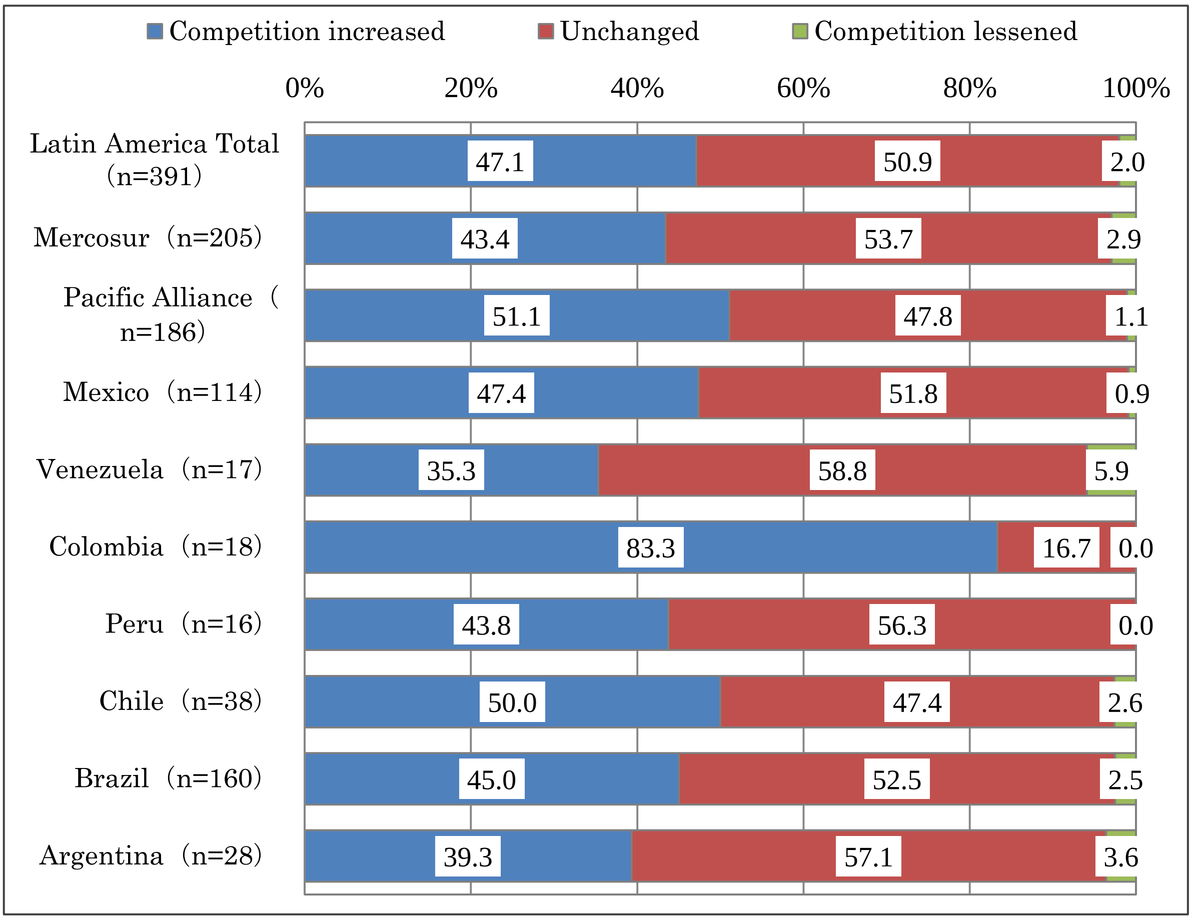
＜Continuing Intensification of Market Competition＞

Concerning changes in market competition, 50.9% answered that the level of competition has remained unchanged, exceeding the percentage of companies that responded that competition has increased (47.1%), which generated the highest response in the previous survey. Looking at the percentage of companies that answered “Competition increased” for each country, the percentage for Colombia (83.3%) has remained overwhelming high since the last survey (86.4%).

For Japanese companies, Brazil and Mexico have retained their positions as the main battlegrounds in their efforts to develop their businesses in the Latin America market. However, due to growing attention being paid to Colombia among European and American companies, the responses have continued to be “Competition increased” for both these countries. Similar to surveys conducted in previous years, there have been no changes in the competition conditions for Venezuela, Argentina, and Peru, for which percentages remain high.

Comparing the Pacific Alliance and Mercosur, we can see that in comparison with companies in Mercosur member states where domestic products are in an advantageous position due to protectionist policies, companies in the Pacific Alliance that advocate free market economies face competition conditions that are more intense.

Fig 4-2: Changes in Competition in the Past Year



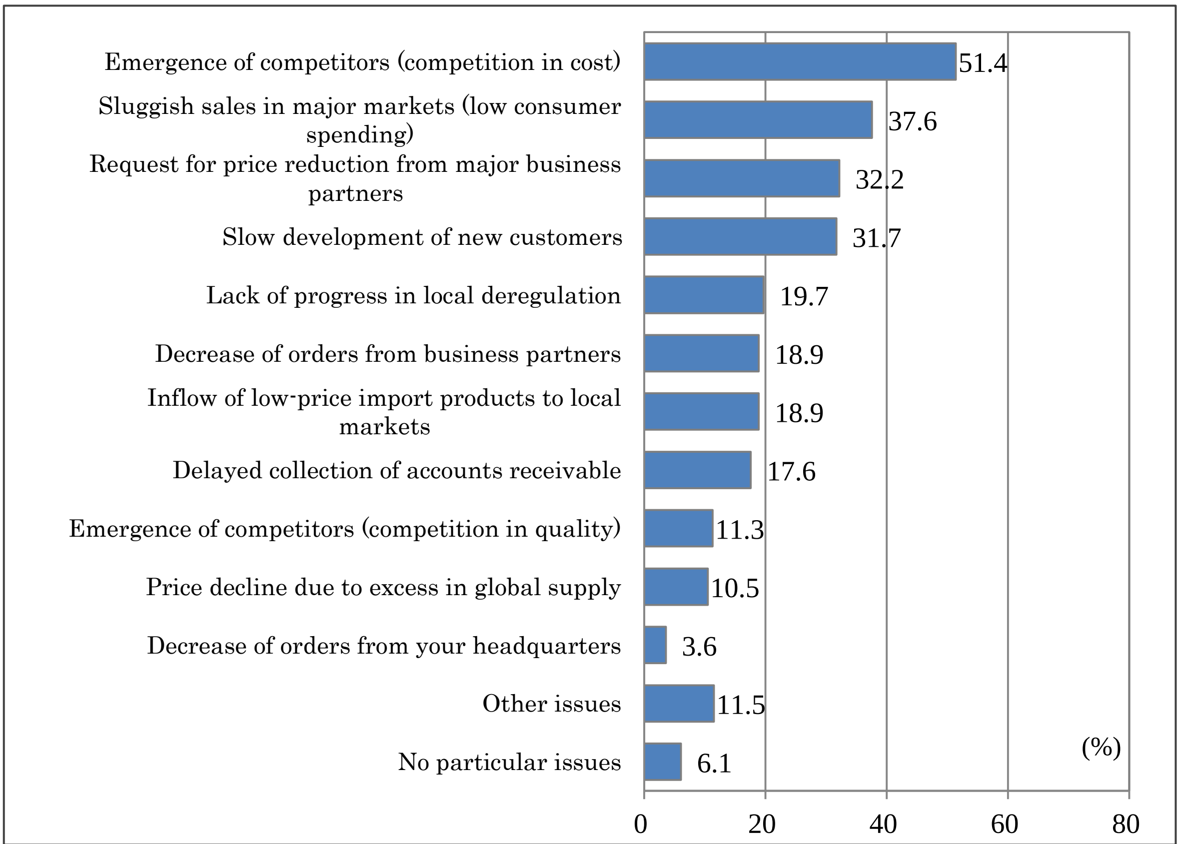
5. Current Management Issues Faced by Companies

＜Confronted with the Emergence of Competitors and Price Reduction Requests from Business Partners＞

With regard to sales and marketing issues that companies are currently facing, the highest percentage of companies chose “Emergence of competitors (competition in cost)” (51.4%, 201 companies), followed by “Sluggish sales in major markets (low consumer spending)” (37.6%, 147 companies) and “Request for price reduction from major business partners” (32.2%, 126 companies).

Looking at the results by country, “Emergence of competitors (competition in cost)” took the top spot in all the countries, with the exception of Venezuela, where the top answer was “Other issues” (58.8%, 10 companies), followed by “Delayed collection of accounts receivable” (41.2%, 7 companies) and “Lack of progress in local deregulation” (29.4%, 5 companies). These results are likely to be backed by factors such as the continuation of price controls and other inflationary measures targeted at basic food items and some pharmaceutical products, the increase in items that are subjected to the submission of domestic non-production certificates or for which inadequate certificates have been submitted in the acquisition of foreign currency for imports, and the resulting difficulties that business partners face in securing foreign currency for imports. “Emergence of competitors” was also not a major concern in Argentina, where the top issue was “Lack of progress in local deregulation” (57.1%, 16 companies), followed by “Sluggish sales in major markets (low consumer spending)” (35.7%, 10 companies), and “Other issues” (32.1%, 9 companies).

Fig 5-1: Current Sales and Marketing Issues (Latin America Overall, Multiple Answers)



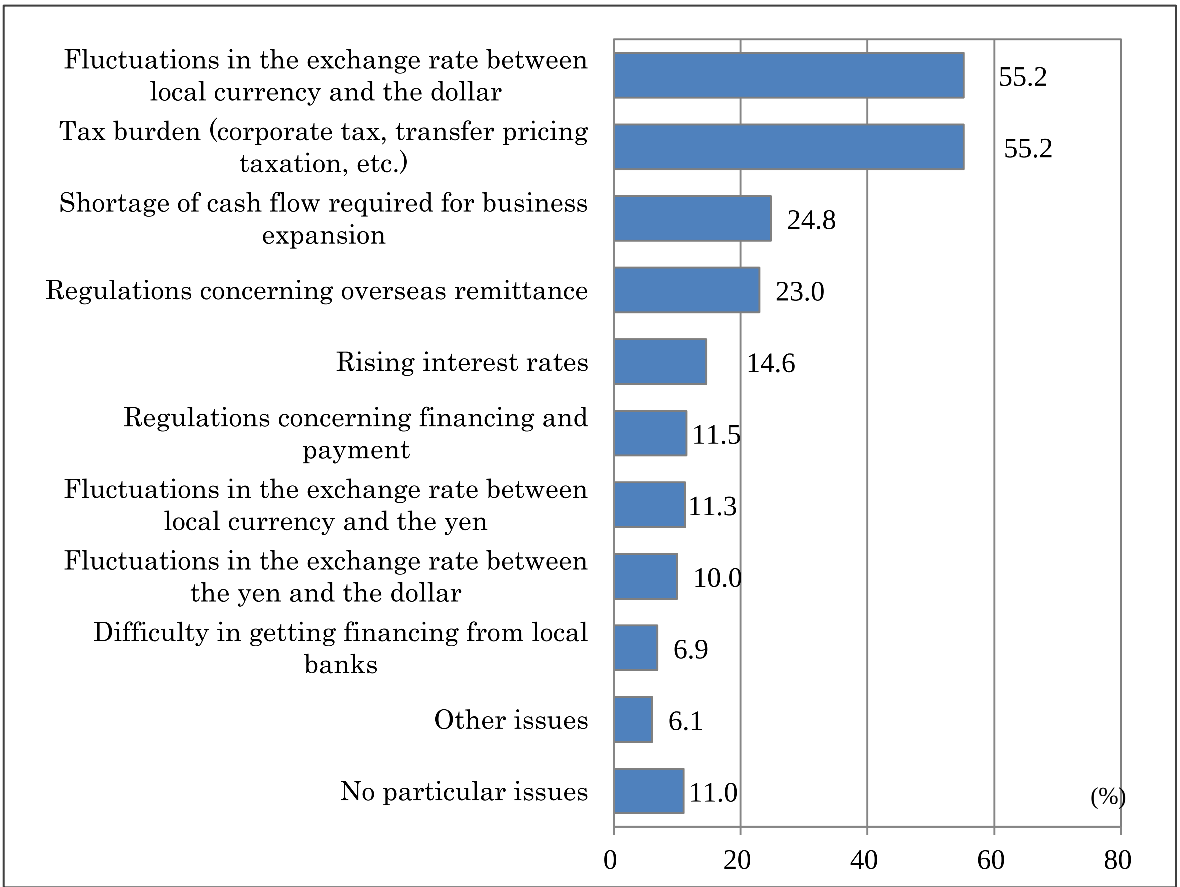
＜Struggles in Dealing with Exchange Rate Fluctuations and Taxation for Financial Challenges＞

With regard to financial, monetary, and foreign exchange challenges that companies are presently confronted by, both “Fluctuations in the exchange rate between local currency and the dollar” and “Tax burden (corporate tax, transfer pricing taxation, etc.)” generated a high percentage of responses at 55.2% (216 companies).

As for the individual countries, Argentina (85.7%, 24 companies), Venezuela (76.5%, 13 companies), and Chile (71.1%, 27 companies) registered high proportion of responses for “Fluctuations in the exchange rate between local currency and the dollar.” Brazil (80.0%, 128 companies) had a particularly high figure for “Tax burden (corporate tax, transfer pricing taxation, etc.).”

On the other hand, “Regulations concerning overseas remittance,” which had a low percentage for other countries, was prominently high for Argentina (82.1%, 23 companies) and Venezuela (70.6%, 12 companies). This is because when securing foreign currency for transferring profits in Argentina, the central bank’s inspection is becoming increasingly strict and the inspection criteria is not disclosed. In Venezuela, allocation of foreign currency has to be acquired from the Commission for the Administration of Currency Exchange (CADIVI) when securing foreign currencies. However, allocations for transferring profits and dividends are hardly ever approved.

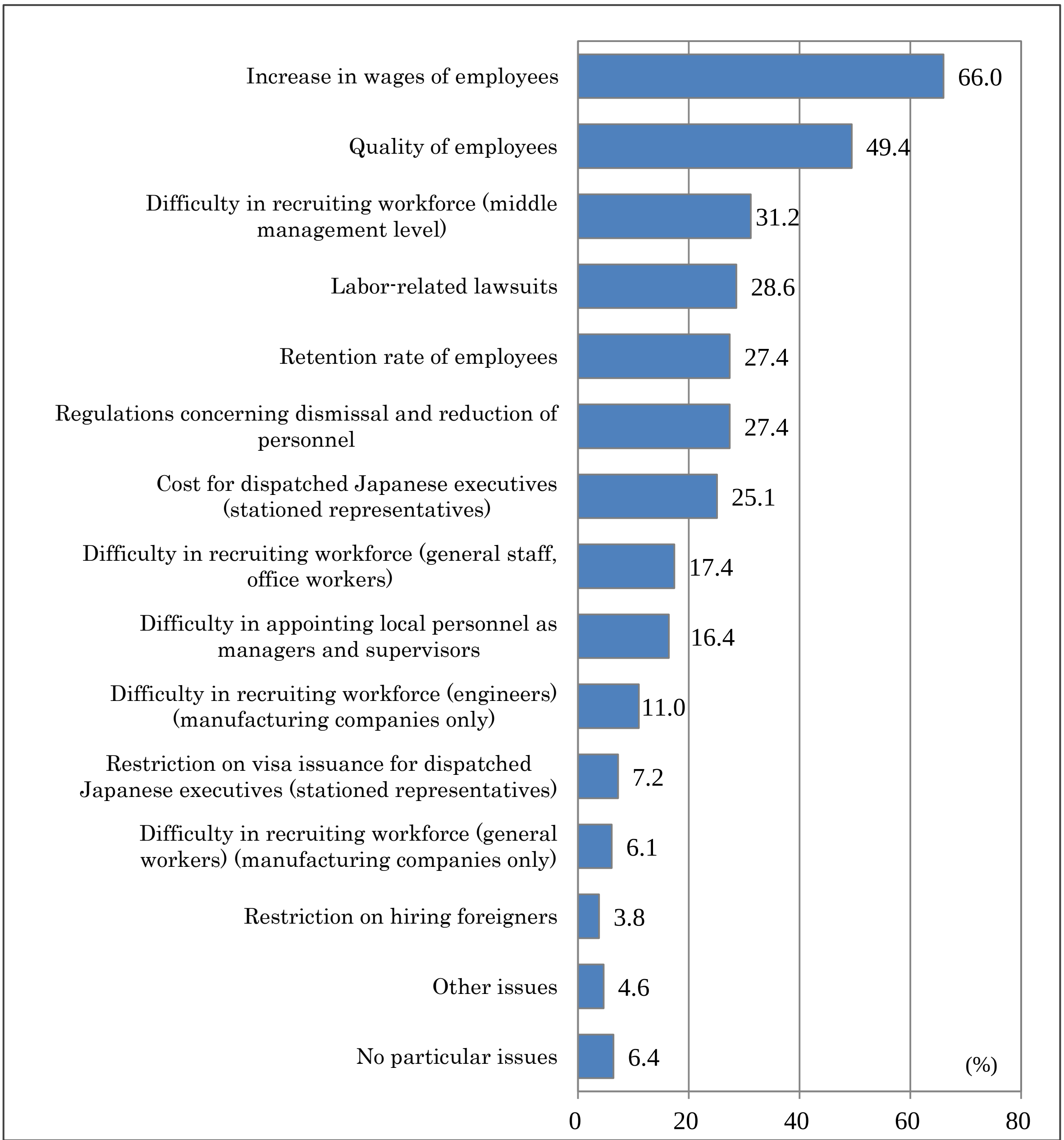
Fig 5-2: Current Financial, Monetary, and Foreign Exchange Issues (Latin America Overall, Multiple Answers)



＜Companies Face Issues of Increase in Employee Wages and Recruitment Difficulties＞

In the aspects of employment and labor, a high percentage of companies faced the issue of "Increase in wages of employees" (66.0%, 258 companies), followed by "Quality of employees" (49.4%, 193 companies), and "Difficulty in recruiting workforce (middle management level)" (31.2%, 122 companies). Countries with a high proportion of companies facing "Difficulty in recruiting workforce (middle management level)" were Chile (39.5%, 15 companies), Mexico (36.0%, 41 companies), Colombia (33.3%, 6 companies), and Brazil (33.1%, 53 companies). Companies in these countries are struggling to secure outstanding human resources, and Japanese companies are also facing difficulties in the aspects of employee quality and securing an adequate number of employees.

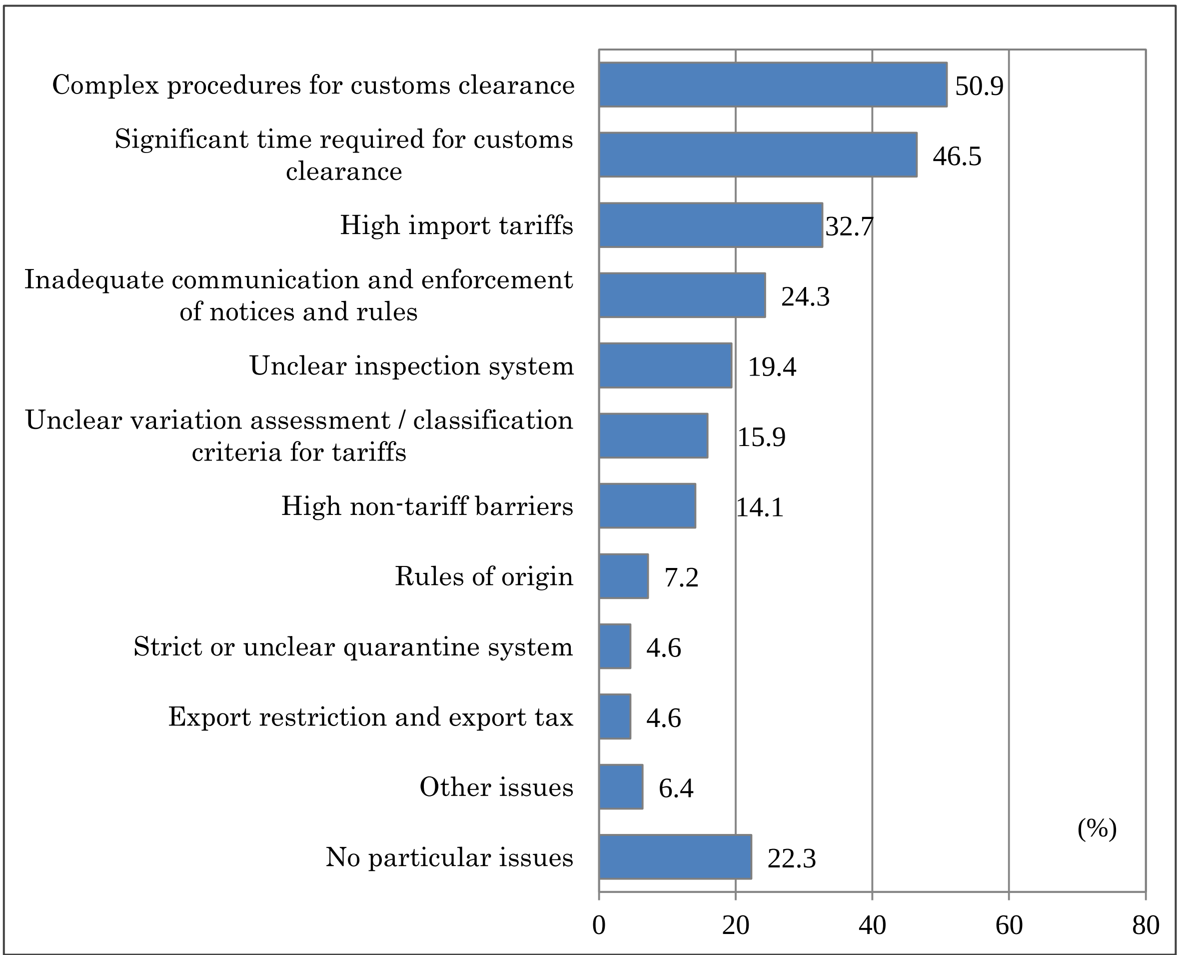
Fig 5-3: Current Employment and Labor Issues (Latin America Overall, Multiple Answers)



＜Time-Consuming and Complex Customs Procedures＞

Regarding the trade system, the highest scoring issues were “Complex procedures for customs clearance” at 50.9% (199 companies), and “Significant time required for customs clearance” at 46.5% (182 companies). The ratio for these two issues was especially high in the Mercosur member states of Brazil, Argentina, and Venezuela (50% - 60%), while the ratio for “Complex procedures for customs clearance” was also high in Mexico at 59.6% (68 companies).

Fig 5-4: Current Trade System Issues (Latin America Overall, Multiple Answers)

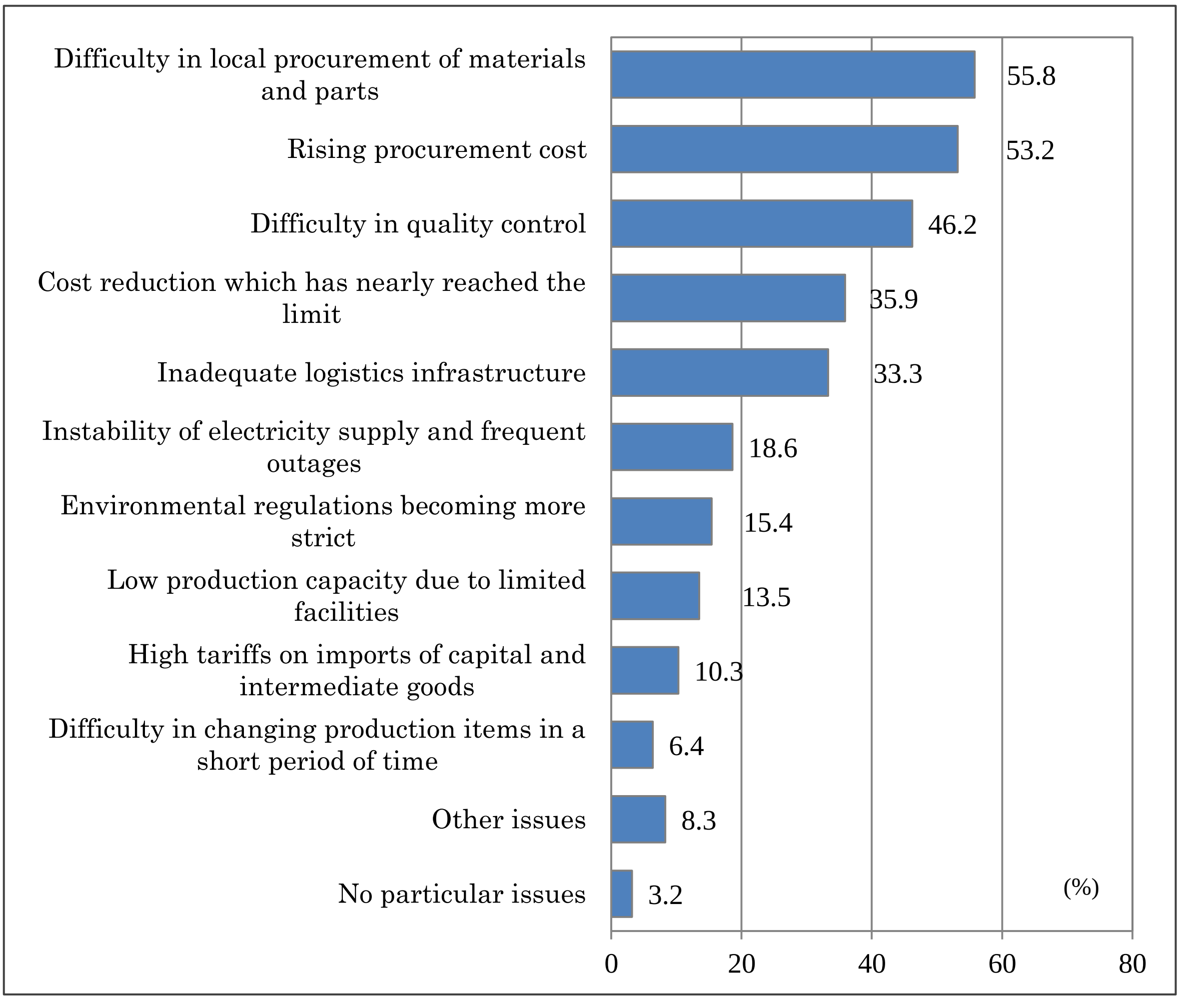


＜Faced with Difficulties in Local Procurement＞

For issues on production, “Difficulty in local procurement of materials and parts” (55.8%, 87 companies) and “Rising procurement cost” (53.2%, 83 companies) showed high percentages.

Looking at the breakdown of results by country, the difficulty of local procurement remained as low as in the previous survey for Peru and Chile, where very few Japanese companies have their production bases, as well as for Brazil where the development of supporting industries has reached a certain level. However, the percentage was high for Mexico, Venezuela, and Argentina, all of which registered more than 60%. However, Brazil is characterized by a high percentage of companies that perceive “Rising procurement cost” as a problem. Since before, Brazil has already established a high customs barrier and put effort into nurturing its domestic industries. As such, a certain degree of supporting industries exists in the country. However, the impact of “Brazil costs” have resulted in high prices for the local procurement of parts, so some industries that have to achieve a certain level of local procurement rate under the government’s industrial policy have had no choice but to procure even parts that are relatively expensive.

Fig 5-5: Current Production Issues (Latin America Overall, Multiple Answers by 156 Companies)

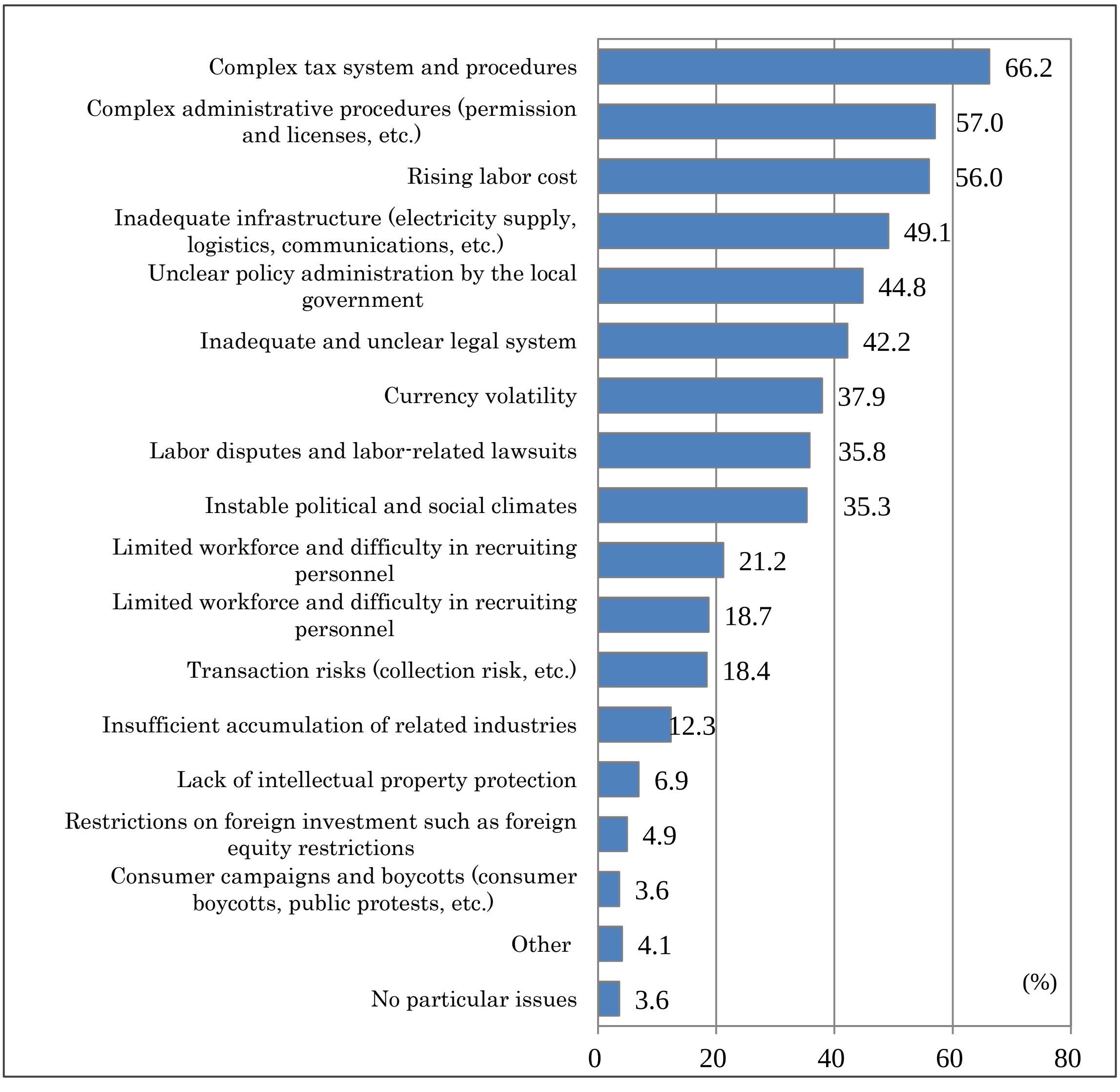


＜Complex Tax and Administrative Procedures a Prominent Issue in Mercosur Countries＞

For issues related to the investment environment, "Complex tax system and procedures" scored 66.2% (259 companies) for Latin America overall. However, looking at each country, the Mercosur state of Brazil (86.9%, 139 countries) had a high percentage. Similarly, with "Complex administrative procedures (permission and licenses, etc.)," the response was 57.0% (223 companies) for Latin America overall, while the Mercosur countries of Venezuela (88.2%, 15 companies), Argentina (64.3%, 18 companies), and Brazil (71.3%, 114 companies) all had higher percentages than the figure for the overall Latin America region. The Mercosur countries have noticeably tough investment environments.

Meanwhile, those who answered "Rising labor cost" were 80.6% (129 companies) in Brazil, 78.6% (22 companies) in Argentina, and 58.8% (10 companies) in Venezuela, followed by 55.3% (21 companies) in Chile, suggesting that the issue is a common problem for all Japanese companies in Latin America. However, the percentage was 23.7% (27 companies) in Mexico, indicating that pressures to raise labor cost in the country remain weak.

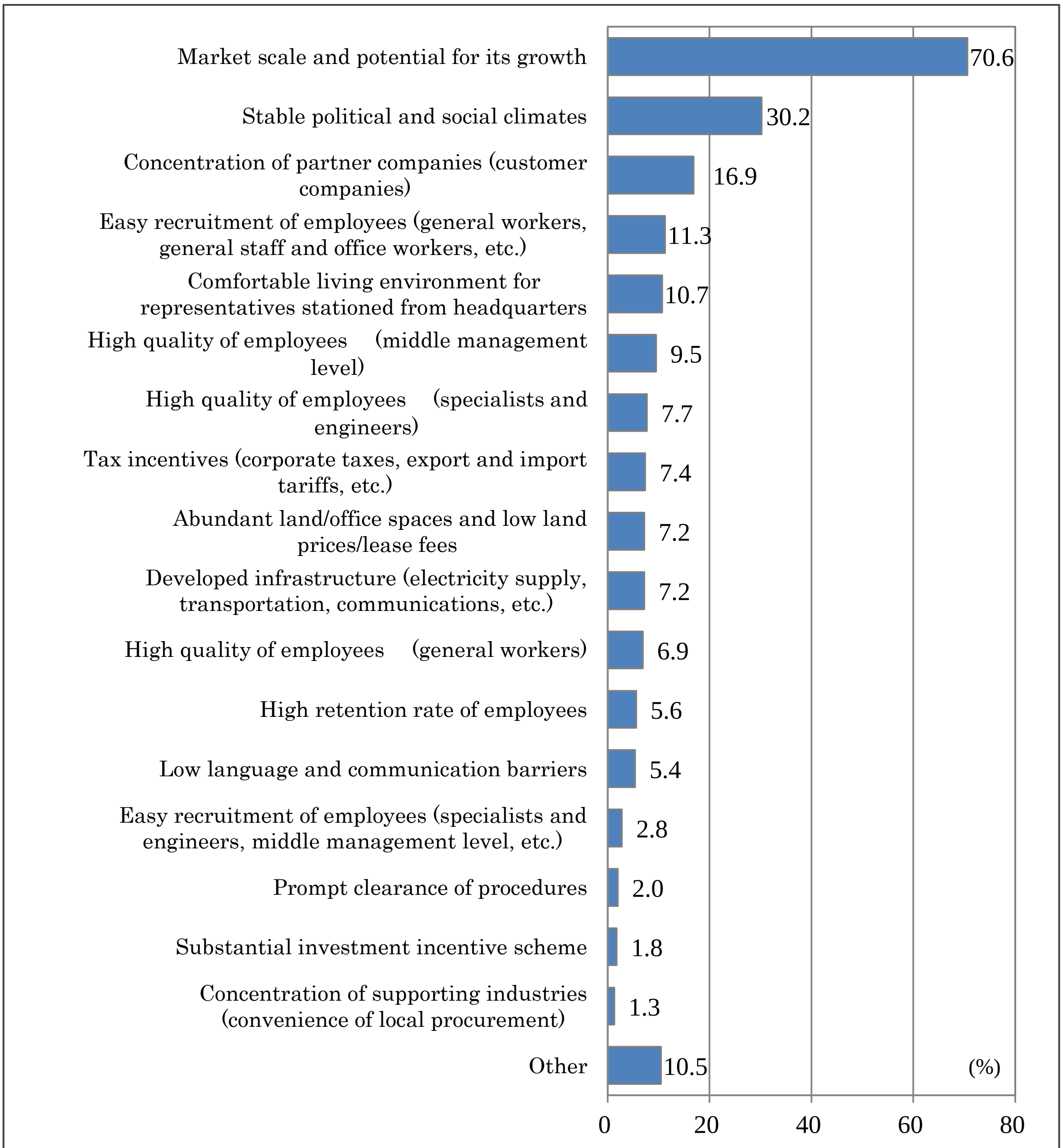
Fig 5-6: Current Risks (Issues) in the Investment Environment (Latin America Overall, Multiple Answers)



[Reference] Benefits (Strengths) in the Investment Environment

The percentage of "Market scale and potential for its growth" stands out at 70.6% (276 companies). The high-scoring countries were Colombia at 88.9% (16 companies), Mexico at 81.6% (93 companies), and Brazil at 81.3% (130 companies). "Stable political and social climates" came in second at 30.2% (118 companies), with high percentages in Chile at 78.9% (30 companies) and in Colombia at 77.8% (14 companies). Mexico is characterized by a high percentage of respondents (38.6%, 44 companies) answering "Concentration of partner companies (customer companies)." Just like in Thailand where there is a concentration of Japanese automobile companies, the large number of Japanese customers appears to be one of the draws of Mexico.

Fig 5-7: Benefits (Strengths) in the Investment Environment (Latin America Overall, Multiple Answers)

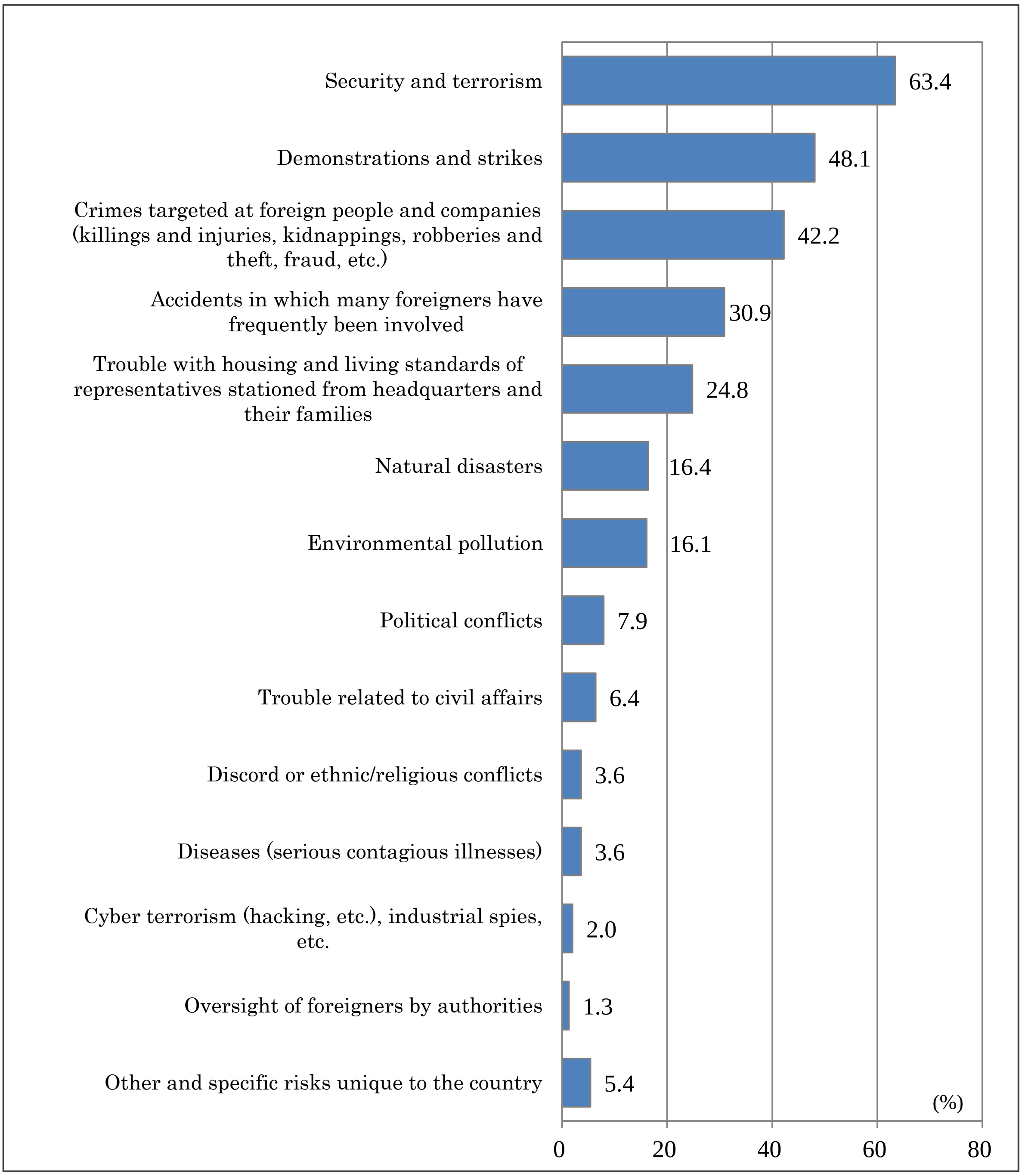


＜Strong Concerns Over Security in Some Countries＞

Regarding security issues, “Security and terrorism” ranked top at 63.4% (248 companies). By country, Peru (75.0%, 12 companies), Colombia (66.7%, 12 companies), Venezuela (88.2%, 15 companies), and Mexico (69.3%, 79 companies) had the highest percentages.

In contrast, the ratio of “Discord or ethnic/religious conflicts” (3.6%, 14 companies) and “Diseases (serious contagious illnesses)” (3.6%, 14 companies) were low.

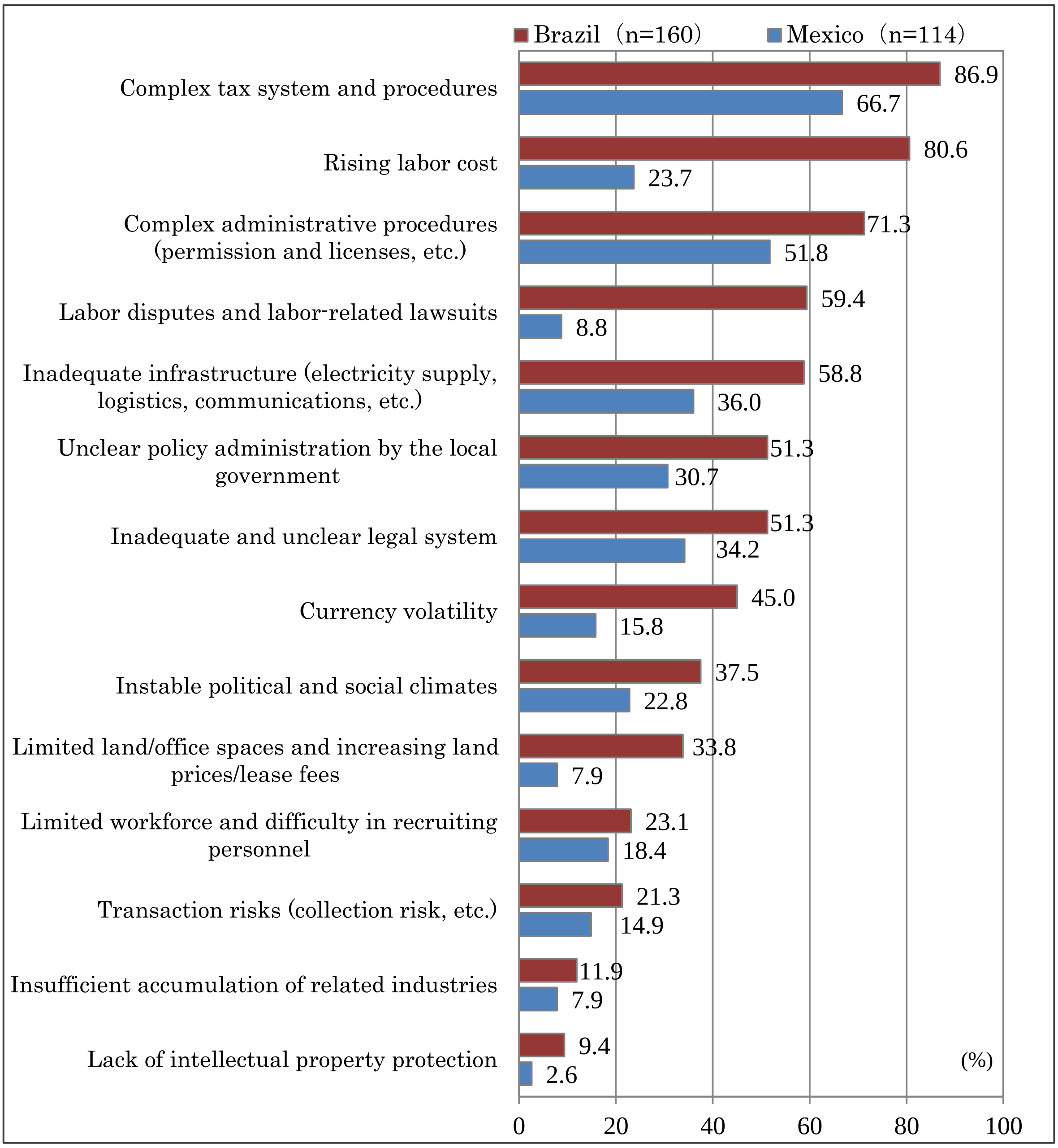
Fig 5-8: Current Security Issues (Latin America Overall, Multiple Answers)



＜Differences in Labor Costs, Taxation, and Administrative Procedures in Brazil and Mexico＞

We have compared Brazil and Mexico where many Japanese companies are located, based on the previously described management issues. In Brazil, “Complex tax system and procedures,” “Complex administrative procedures (permission and licenses, etc.),” “Rising labor cost,” “Currency volatility,” and “Inadequate infrastructure” are given as the main problems. In particular, the constant upward pressure on wages in Brazil’s labor market seems to be one factor behind the “Rising labor cost” response. In most aspects of the investment environment, more companies have pointed out issues for Brazil than for Mexico, revealing the high hurdles in the business environment in Brazil.

Fig 5-9: Risks (Issues) in the Investment Environment (Comparison of Brazil and Mexico, Multiple Answers)



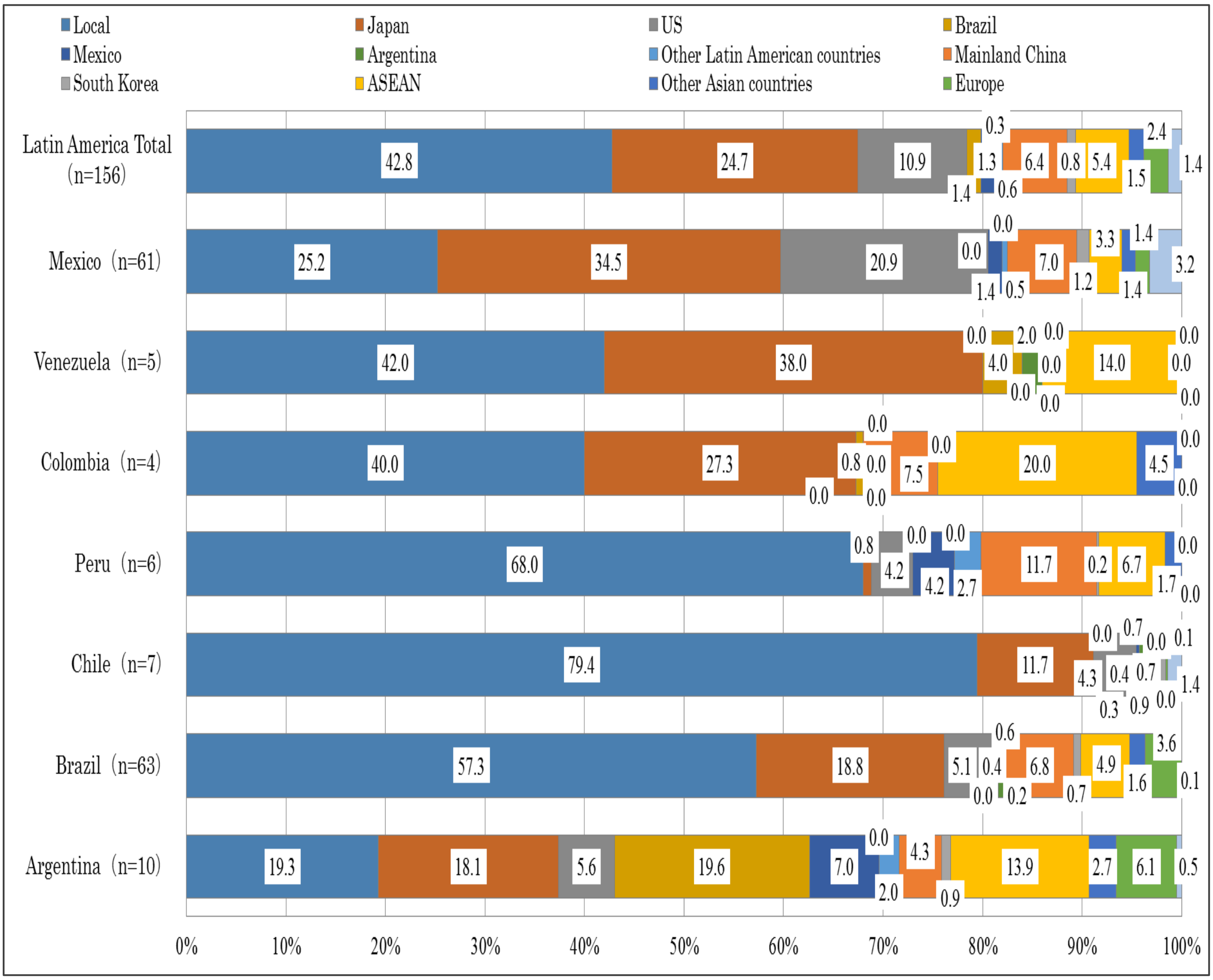
6. Situation of Procurement of Raw Materials and Parts

＜Raw Materials and Parts Suppliers in the Order of Local, Japan, and U.S. ＞

For Latin America overall, the ratio of local procurement was the highest (42.8%), followed by procurement from Japan (24.7%) and the United States (10.9%). By country, local procurement rates were high in Chile (79.4%), Peru (68.0%), and Brazil (57.3%). Procurement rate from Japan was high for Venezuela (38.0%), Mexico (34.5%), and Colombia (27.3%), and procurement rate from the United States was high for Mexico (20.9%).

The local procurement rate for Mexico was low compared to Brazil and emerging Asian economies. However, there is a high rate of procurement from the United States, suggesting that companies are utilizing the NAFTA to choose the most suitable supplier across North America. In recent years, Japanese supplier chains are being built to Tier 2 and Tier 3 levels mostly in the automotive industry. Hence, in the medium term, local procurement is expected to expand.

Fig 6-1: Breakdown of Raw Materials and Parts Suppliers (156 Manufacturing Companies)

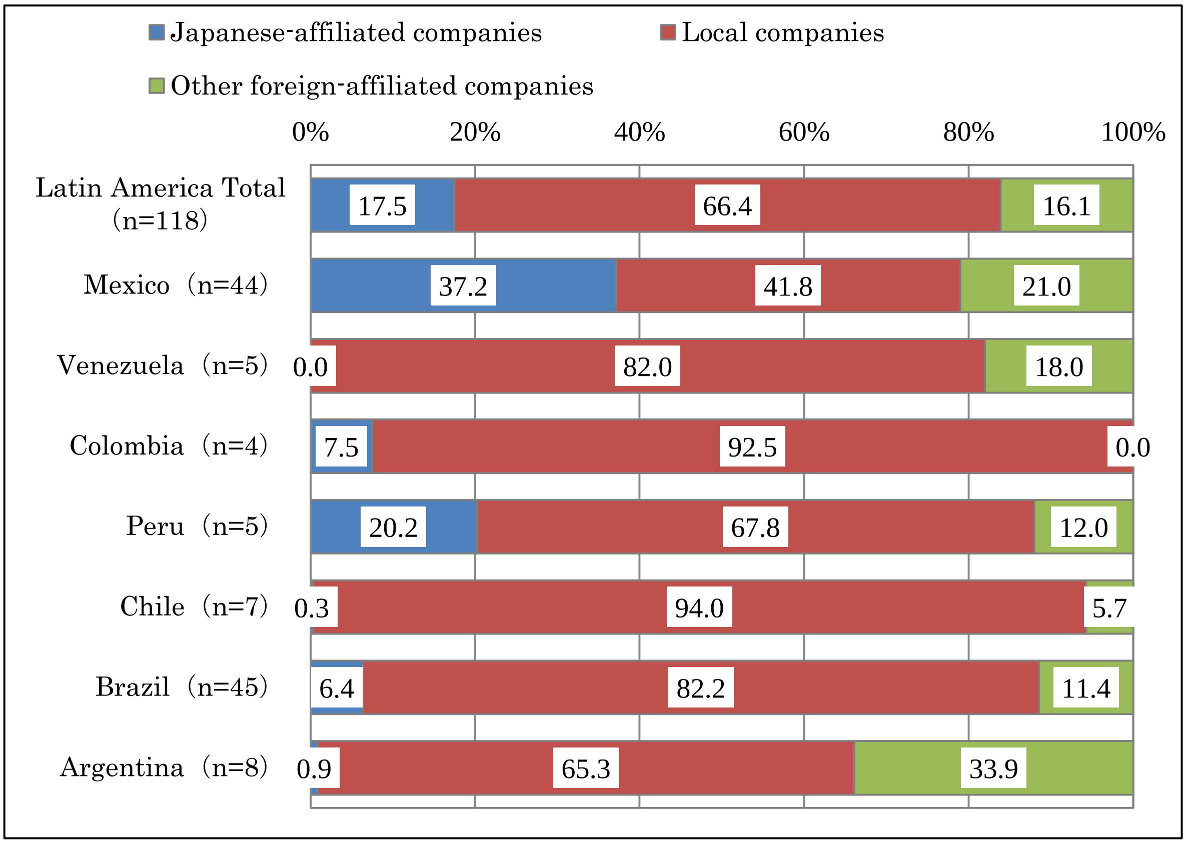


＜Local Procurement Mostly from Local Companies＞

Of the parts and raw materials procured locally, the highest percentage was procurement from local companies (66.4%), followed by Japanese companies in the local market (17.5%), and other foreign companies (16.1%). The ratio of procurement from local companies was the highest for all countries, with the highest percentages for Chile (94.0%), Colombia (92.5%), Brazil (82.2%), and Venezuela (82.0%).

Argentina is characterized by procurement from other foreign companies (33.9%), while Mexico is characterized by a high rate of procurement from Japanese companies in the local market (37.2%).

Fig 6-2: Breakdown of Raw Materials and Parts Suppliers (Local) (118 Manufacturing Companies)



7. FTA/EPA Utilization and Problems

＜Mexico: Widespread FTA Utilization in Many Countries/Regions＞

Companies in Mexico actively utilize FTAs for both export and import activities. A high percentage of companies utilize FTAs in exporting, with 100.0% (4 companies) in exporting to Chile, 80.0% (8 companies) in exporting to the five countries in Central America, 76.9% (10 companies) in exporting to Mercosur countries, 67.6% (25 companies) in exporting to the NAFTA region, and 57.9% (11 companies) in exporting to Japan. For import activities, FTAs are utilized by 80.8% (59 companies) in importing from NAFTA regions, 66.3% (53 companies) in importing from Japan, 62.5% (5 companies) in importing from Mercosur companies, and 58.8% (10 companies) in importing from EU.

Mexico has built up FTA networks with various countries and regions across the globe. The large number of companies and high percentages of companies utilizing FTA have revealed that Japanese companies in Mexico are actively making use of the FTA network to develop their businesses.

Fig 7-1: Mexico (Exports)

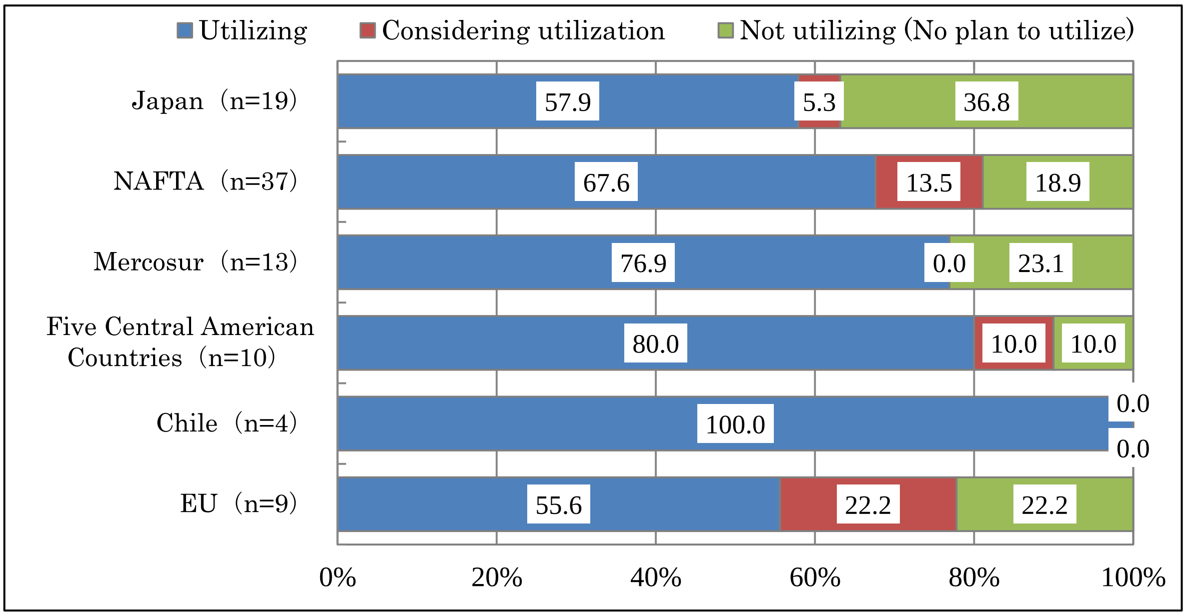
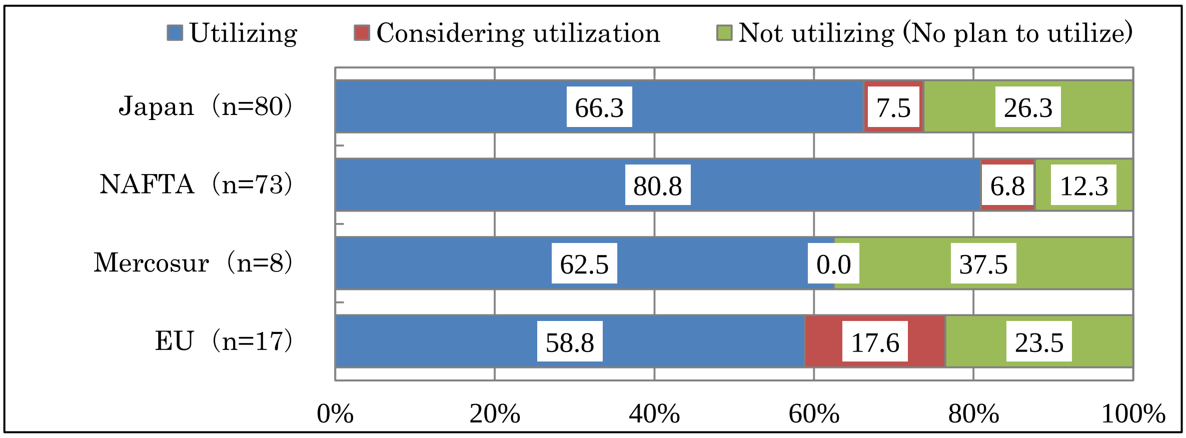


Fig 7-2: Mexico (Imports)



＜Colombia: High Utilization Rate for Imports＞

A large proportion of companies in Colombia utilize FTAs for imports. 100% of the companies responded that they utilize FTAs for imports from Mexico, the Andean community, Chile, United States, and EU, while 66.7% (4 companies) utilize FTAs for imports from Mercosur states. With regard to export activities, there are also cases of FTA utilization for Mexico (50.0%, 1 company), the five Central American countries (50.0%, 1 company), and the Andean community (50.0%, 2 companies).

Fig 7-3: Colombia (Exports)

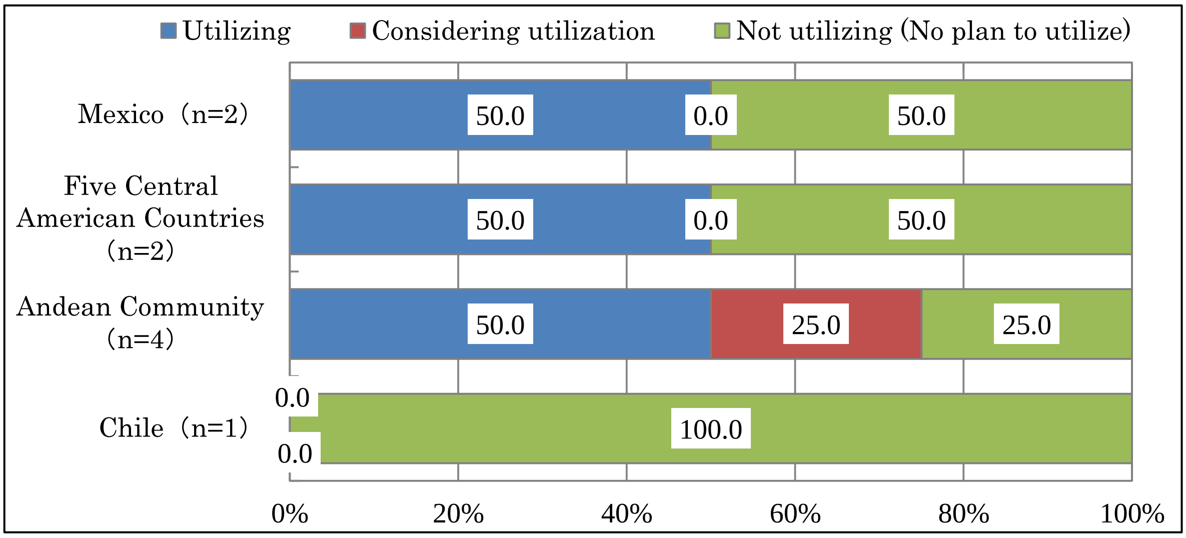
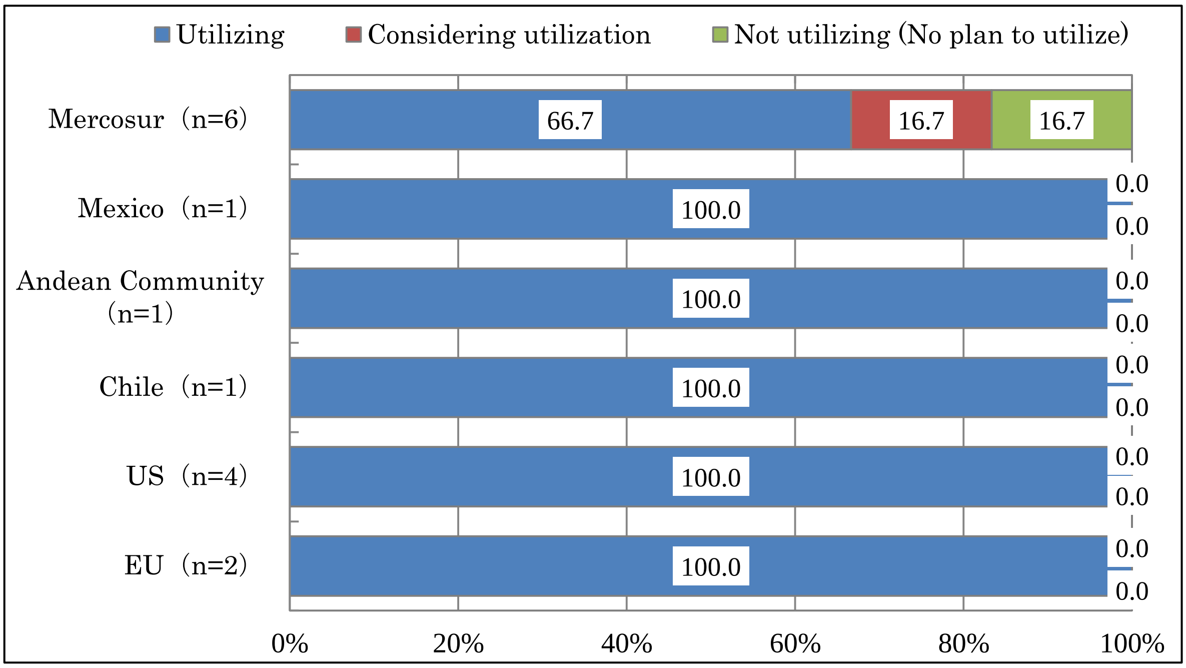


Fig 7-4: Colombia (Imports)



＜Peru: High Utilization Rate for Imports＞

Japanese companies in Peru mainly utilize FTAs in their import activities. In addition to Mercosur states, the Andean community, and Mexico, companies are also observed to be utilizing FTA with China and South Korea. Only one company indicated that it is utilizing the Japan-Peru EPA for exports and imports respectively.

Fig 7-5 Peru (Exports)

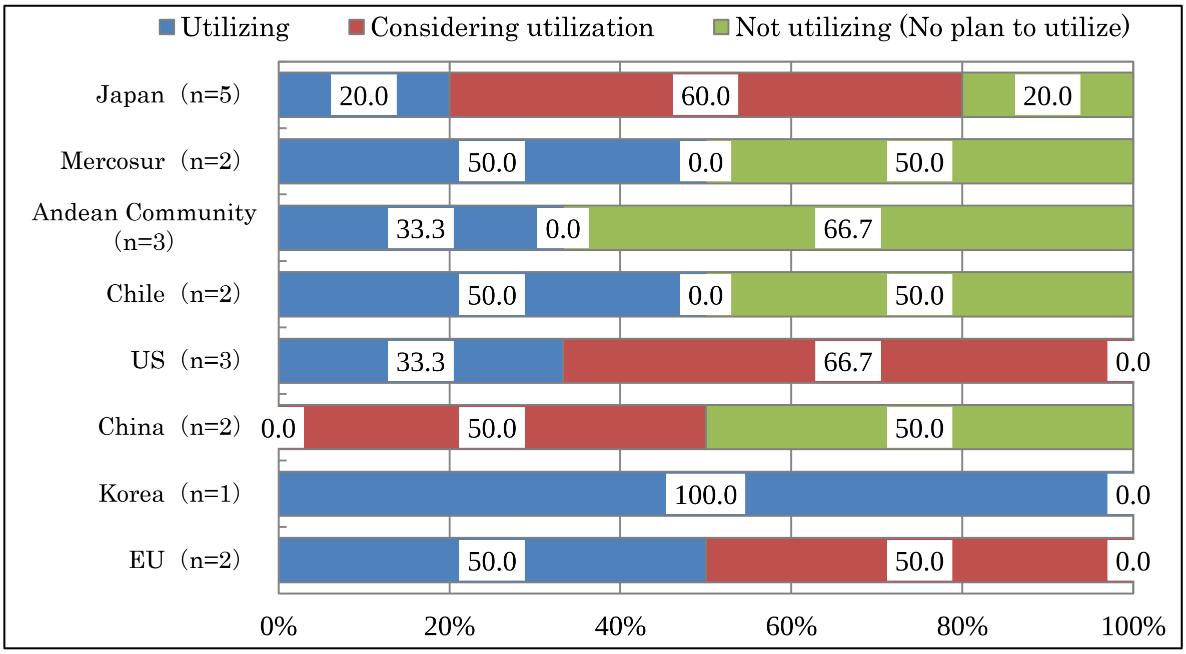
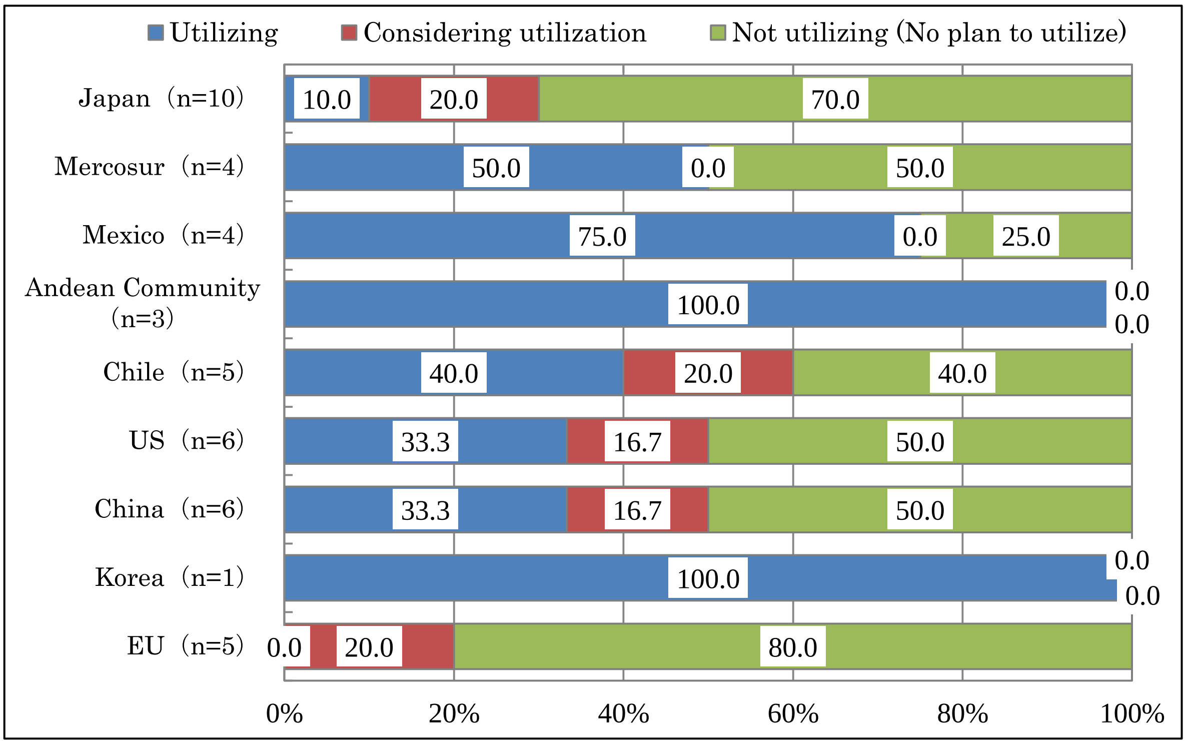


Fig 7-6 Peru (Imports)



＜Chile: Prominent Utilization of FTAs for Imports＞

Japanese companies in Chile are utilizing FTAs for both export and import activities. With regard to imports, utilization of FTAs for imports from China and South Korea is prominent. It would appear that FTA utilization is one of the tools that these companies have employed in order to survive the tough price competition in the markets in Chile. The percentages of companies utilizing the Japan-Chile EPA were 30.8% (4 companies) for exports and 55.5% (11 companies) for imports.

Fig 7-7: Chile (Exports)

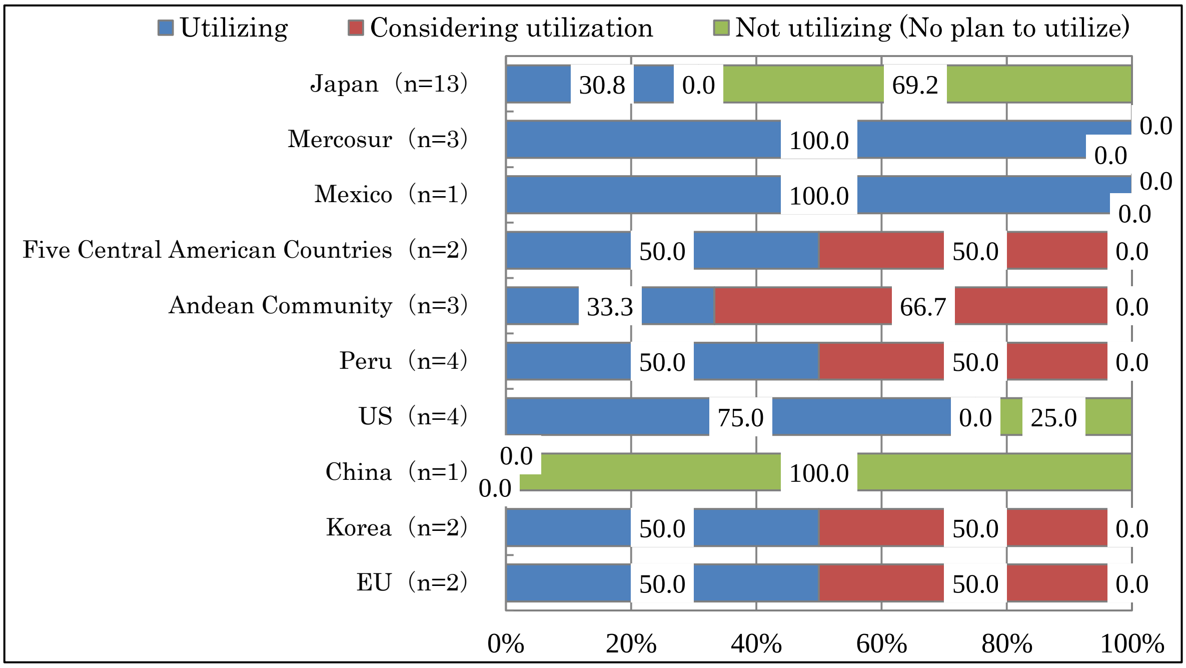
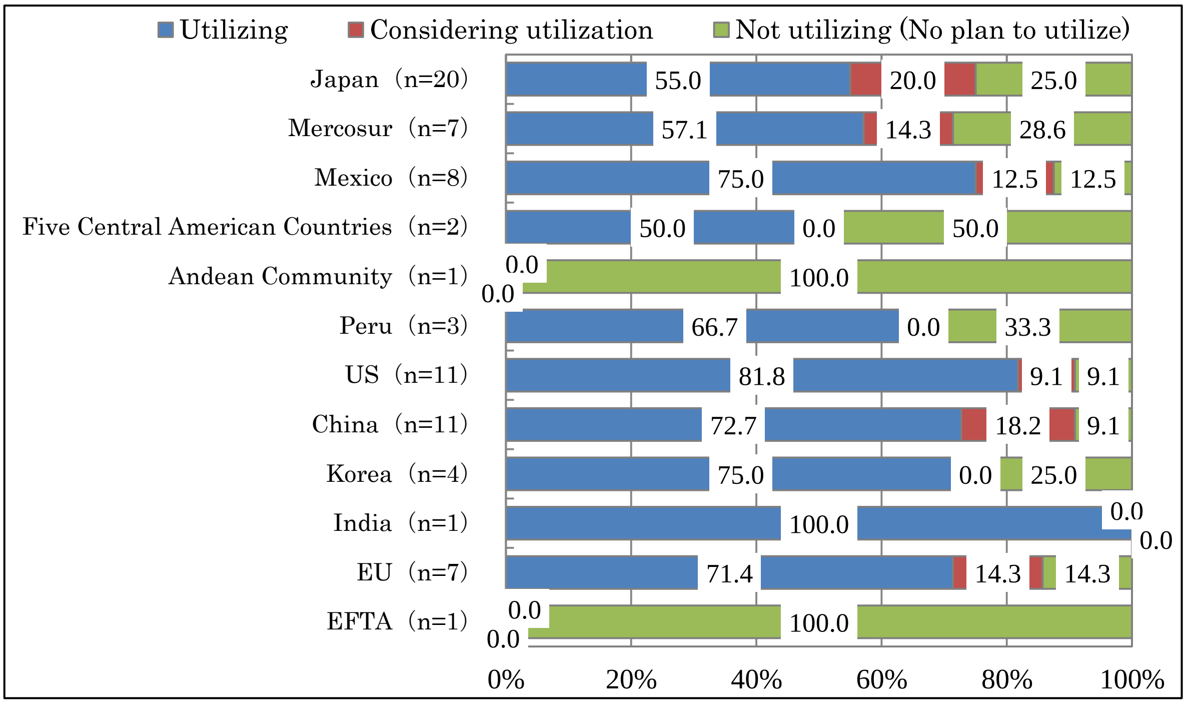


Fig 7-8: Chile (Imports)



<Brazil: Utilization for Exports to Latin America>

Among Japanese companies in Brazil, a large proportion of companies utilize FTAs for exporting to Chile (73.3%, 11 companies), the Andean community (70.0%, 7 companies), Peru (68.8%, 11 companies), Mexico (66.7%, 6 companies), and Mercosur (60.0%, 21 companies). For imports, FTA utilization rate was 66.7% (12 companies) from Mercosur and 50% (4 companies) from Mexico. In the area of exports, companies are actively utilizing trade agreements with Latin American countries, as well as Mercosur and automotive sector agreements with Mexico for imports.

Fig 7-9: Brazil (Exports)

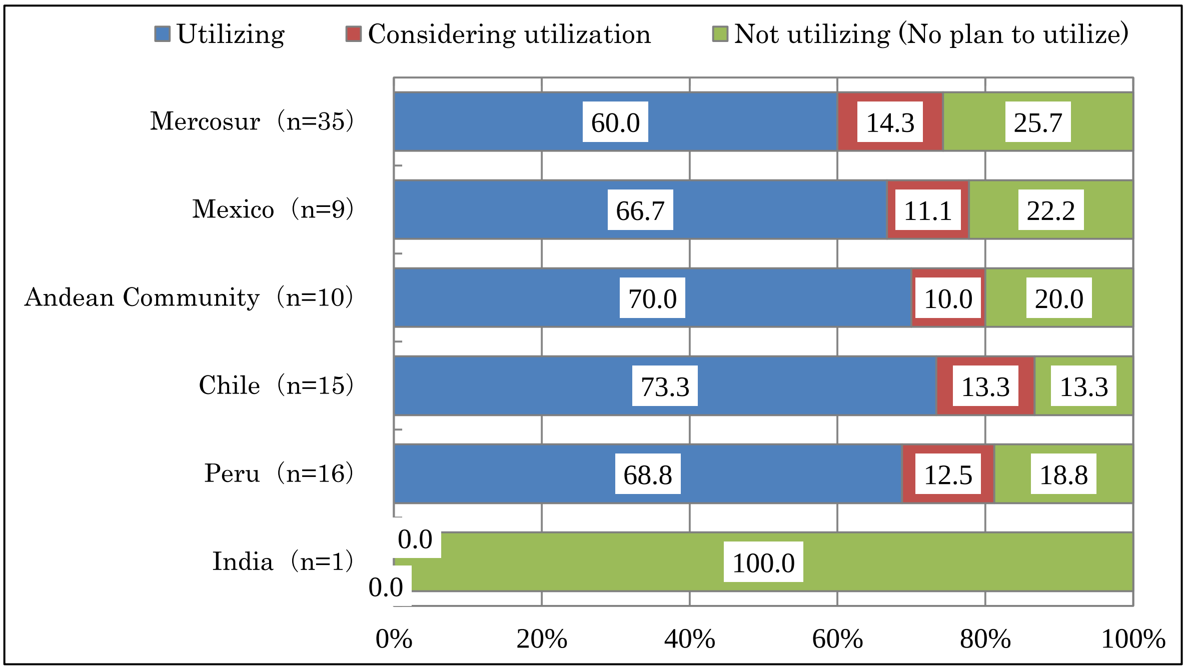
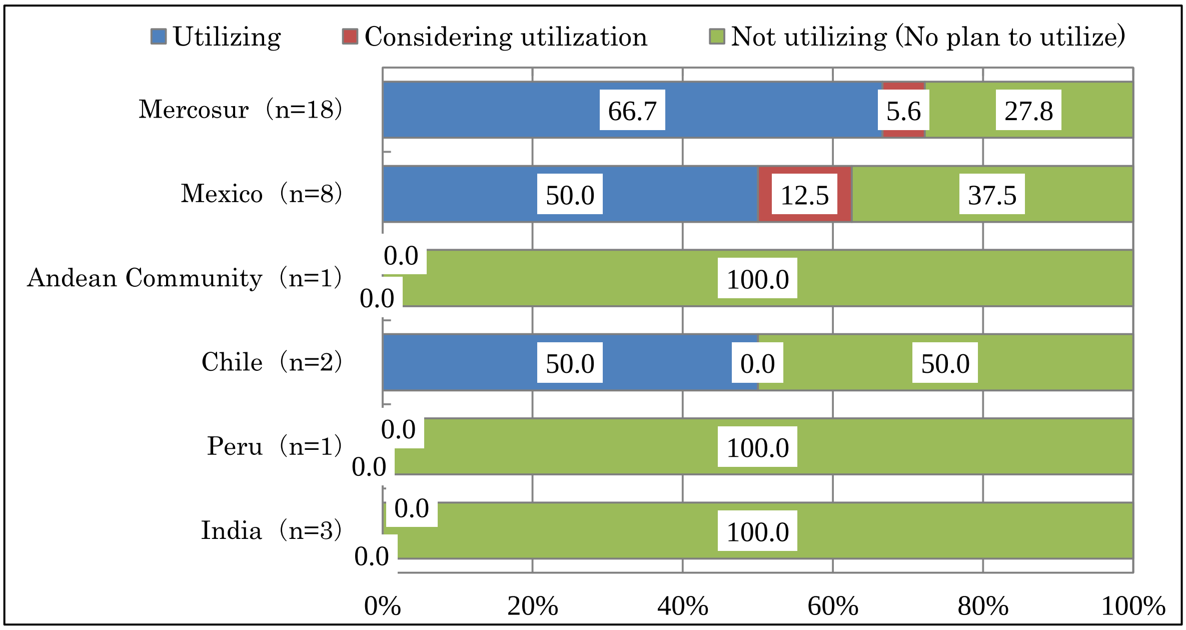


Fig 7-10: Brazil (Imports)



＜Argentina: Utilization of Automotive Sector Agreements with Mercosur and Mexico＞

Japanese companies in Argentina appear to be utilizing Mercosur and automotive sector agreements with Mexico. In the area of exports, all seven companies exporting to Mercosur, and one company exporting to Mexico utilize automotive sector agreements. With regard to imports, 11 companies importing from Mercosur, and all three companies importing from Mexico, utilize these agreements.

Fig 7-11: Argentina (Exports)

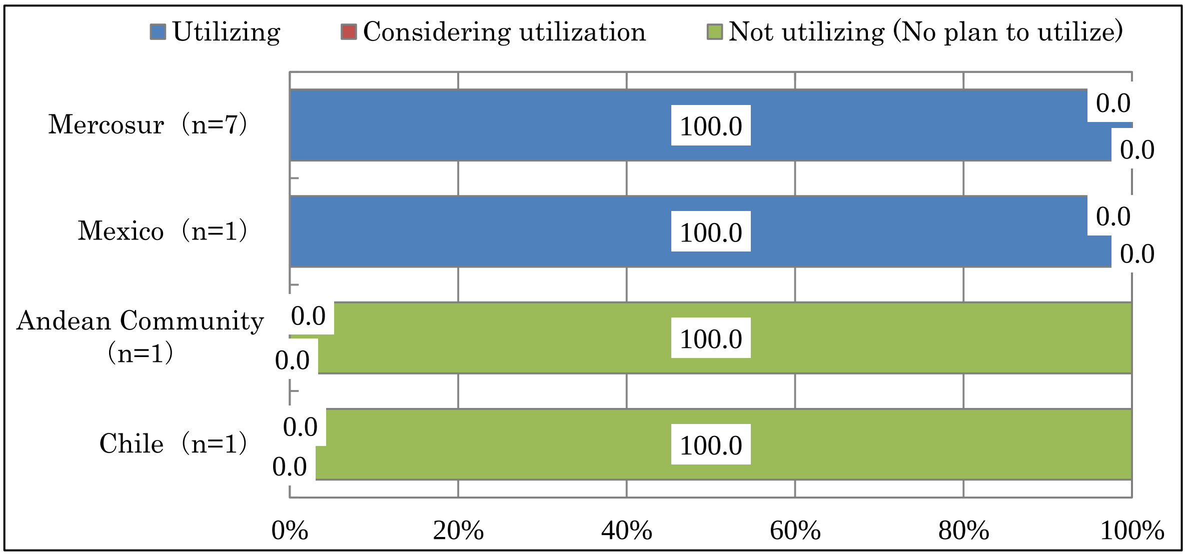
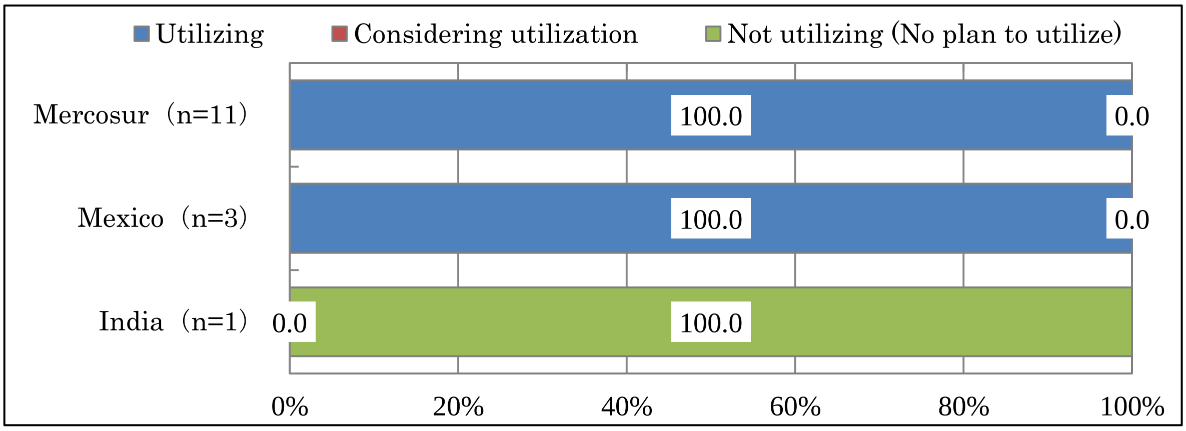


Fig 7-12: Argentina (Imports)



<Venezuela: Utilization of Mercosur Only>

Among Japanese companies in Venezuela, only one company responded that it is utilizing Mercosur for both exports and imports.

Fig 7-13 Venezuela (Exports)

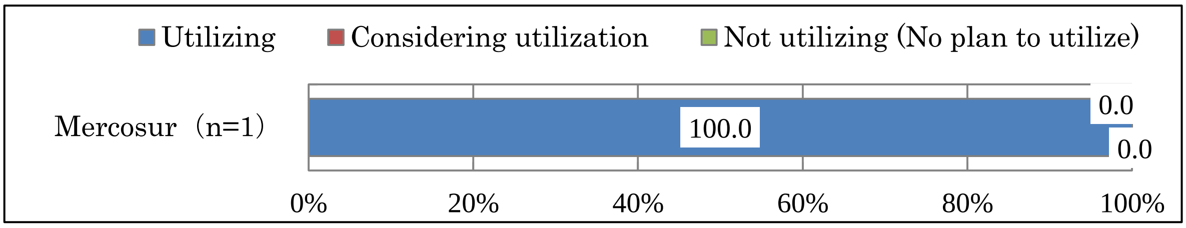
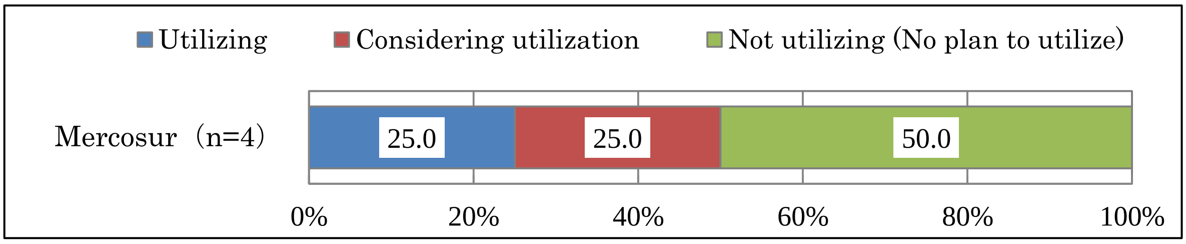


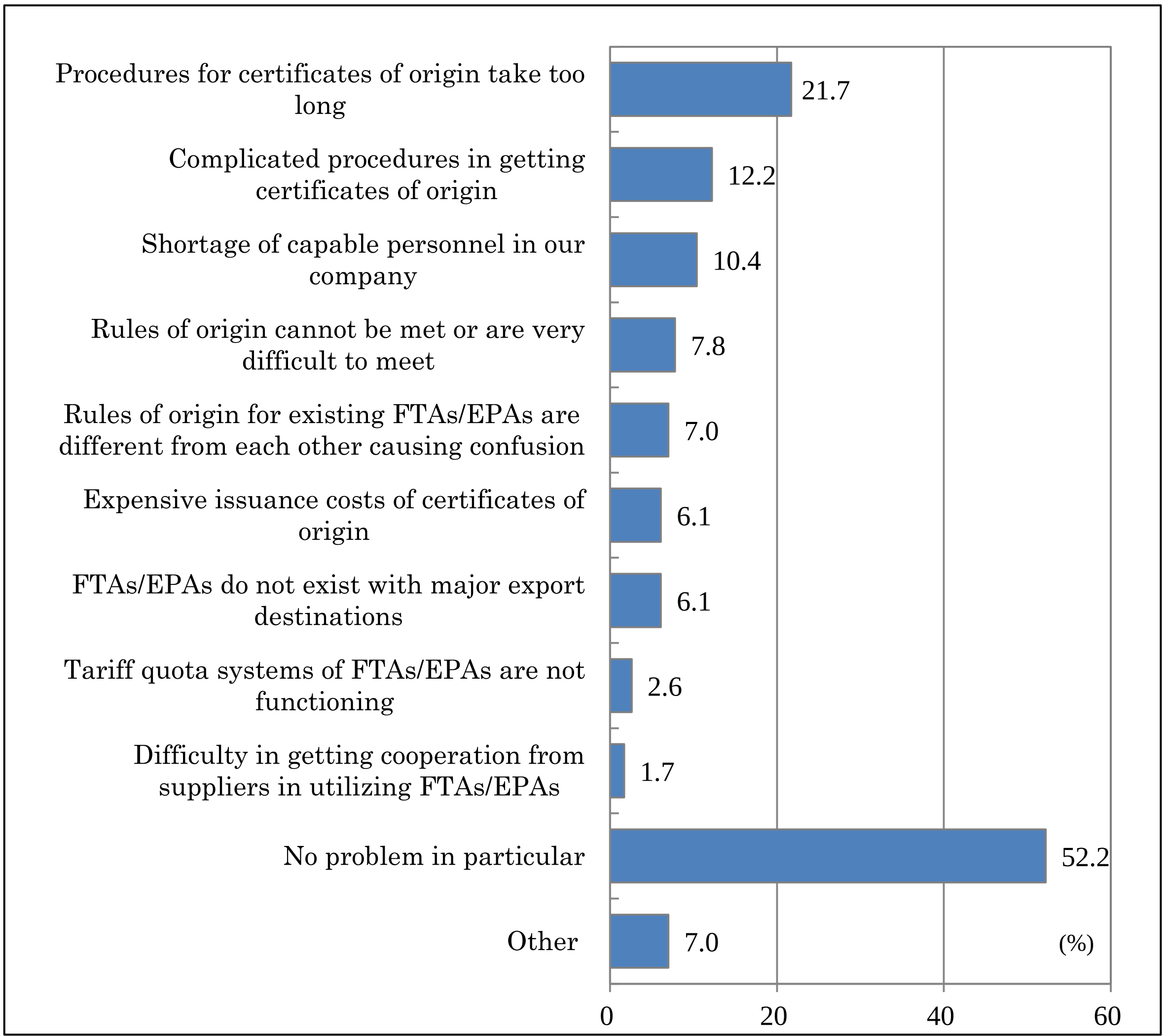
Fig 7-14 Venezuela (Imports)



<Complex and Time-Consuming Procedures for Certificates of Origin Perceived as a Problem>

With respect to the utilization of FTAs, only a small percentage of companies appear to face serious problems in the aspect of exports (“No problem in particular: 52.2%). Similar to the survey results for last year, “Procedures for certificates of origin take too long” had a high percentage (21.7% against 17.2% last year), while “Complicated procedures in getting certificates of origin” was 12.2% against 8.4% last year, and “Shortage of capable personnel in our company” was 10.4% against 10.1% last year.

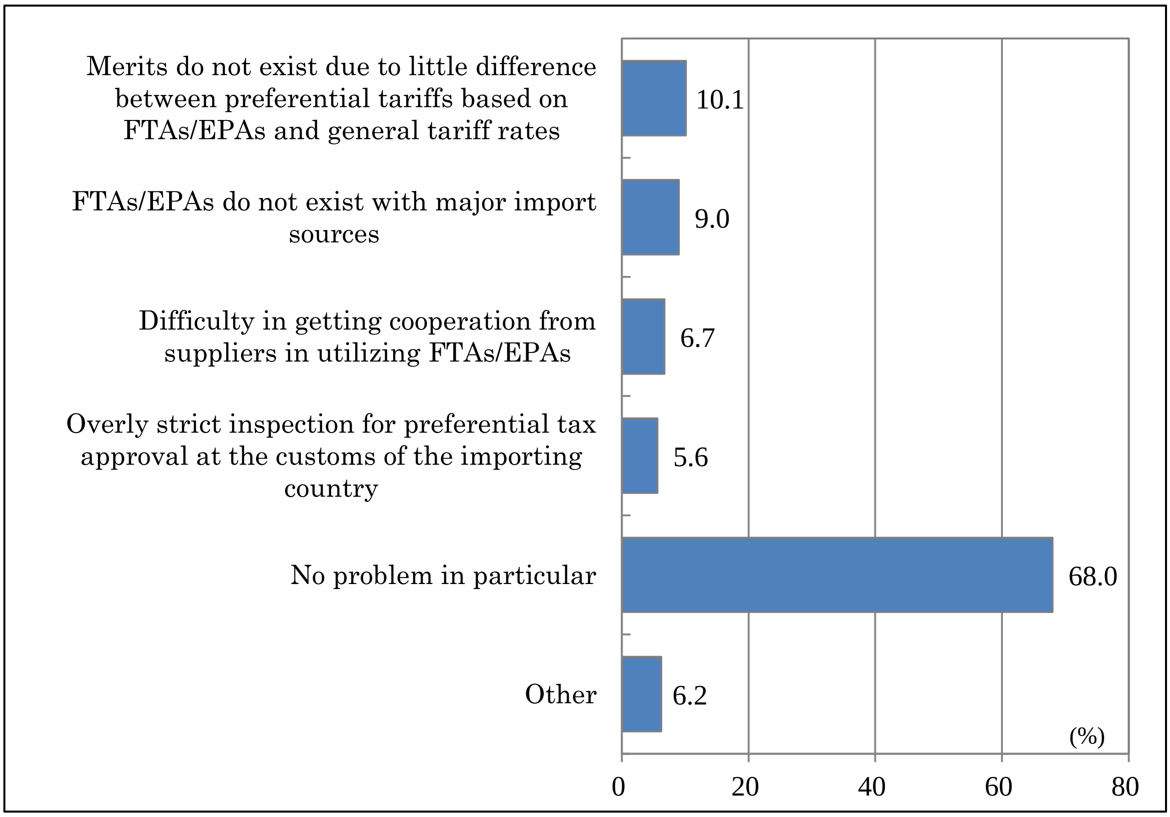
Fig 7-15: Problems in Utilizing FTAs for Exports



＜Small Number of Companies Facing Import Problems＞

Just like for exports, only a small number of companies appeared to face problems related to FTA utilization in the aspect of imports (“No problem in particular: 68.0%). 10.1% of companies responded that “Merits do not exist due to little difference between preferential tariffs based on FTAs/EPAs and general tariff rates,” while 9.0% responded that “FTAs/EPAs do not exist with major import sources.”

Fig 7-16: Problems in Utilizing FTAs for Imports



2014 JETRO Survey on Business Conditions of Japanese Companies in Latin America

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

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

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

Please reply no later than 15/10, 2014

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

Cancel

Please fill in the blanks below.

Country of operation for Your Company (or factory)

☐ Mexico ☐ Colombia ☐ Venezuela ☐ Peru ☐ Chile ☐ Argentina ☐ Brazil

Company name

Your name

Your title

Address

Phone

Fax

E-mail

Name of Japanese parent company

<**Regional headquarters for business in Latin America**>

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

☐ 1. Headquarters in Japan

☐ 2. Regional headquarters in North America

☐ 3. Regional headquarters in Latin America, （Country name:)

☐ 4. Other

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

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

☐ 1. Food, agriculture, and fishery processing
☐ 2. Textiles (yarn, woven and chemical products)
☐ 3. Clothes and textiles
☐ 4. Timber and wood products (excluding furniture and interior design products)
☐ 5. Furniture and interior design products
☐ 6. Paper and pulp
☐ 7. Chemical products, oil products
☐ 8. Plastic products
☐ 9. Pharmaceuticals
☐ 10. Rubber goods
☐ 11. Ceramic, earth and stone products
☐ 12. Steel (including cast and wrought products)
☐ 13. Non-ferrous metals
☐ 14. Metal goods (including plated products)
☐ 15. Machines (including molds and power tools)
☐ 16. Electric machines
☐ 17. Electric and electronic parts
☐ 18. Transportation machines (motor vehicles and two-wheeled vehicles)
☐ 19. Parts for transportation machines (motor vehicles and two-wheeled vehicles)
☐ 20. Precision machines and apparatuses
☐ 21. Medical devices
☐ 22. Print and publication
☐ 23. Other ( )

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

☐ 1. Fishing and fisheries
☐ 2. Agriculture and forestry
☐ 3. Mining
☐ 4. Distribution
☐ 5. Trading
☐ 6. Sales（Retail/Wholesale）
☐ 7. Bank
☐ 8. Insurance
☐ 9. Securities
☐ 10. Transportation/Warehouse
☐ 11. Real estate
☐ 12. Legal and Tax service

☐ 13. Hotel/Travel/Restaurant
☐ 14. Communication/Software
☐ 15. Construction/Plant
☐ 16. Other services(   )

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

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

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

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

■ Employees in your company

Total number of employees: ☐

Of total number, how many employees are full time? ☐

Number of managers: ☐

Of number of managers, how many are locally hired? ☐

1. Sales forecast

Q1. What is your operating profit forecast for 2014 (from January to December)?

☐ 1. Profit ☐ 2. Breakeven ☐ 3. Loss

Q2. How will your operating profits for 2014 (from January to December) change compared to 2013?

☐ 1. Increase ☐ 2. Remain the same ☐ 3. Decrease

→Go to Q3 →Go to Q5 →Go to Q4

Q3. (This question is only for those who answered “Increase” in Q2.) What are the reasons for increased operating profits forecast for 2014? (Multiple answers allowed.)

☐ 1. Sales increase due to export expansion
☐ 2. Sales increase in local markets
☐ 3. Effects of exchange rate fluctuation
☐ 4. Reduction of procurement costs
☐ 5. Reduction of labor costs
☐ 6. Reduction of other expenditures (e.g., administrative/utility costs)
☐ 7. Improvement of production efficiency* (manufacturing industry only)
☐ 8. Improvement of sales efficiency
☐ 9. Other ( )

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

Q4. (This question is only for those who answered “Decrease” in Q2.) What are the reasons for decreased operating profits forecast for 2014? (Multiple answers allowed.)

☐ 1. Sales decrease due to export slowdown
☐ 2. Sales decrease in local markets
☐ 3. Effects of exchange rate fluctuation
☐ 4. Increase of procurement costs
☐ 5. Increase of labor costs
☐ 6. Increase of other expenditures (e.g., administrative/utility costs)
☐ 7. Rising interest rates
☐ 8. Production costs insufficiently shifted to selling price of goods
☐ 9. Other ( )

Q5. What is your operating profit forecast for 2015 compared to 2014?

☐ 1. Increase ☐ 2. Remain the same ☐ 3. Decrease

→Go to Q6 →Go to Q8 →Go to Q7

Q6. (This question is only for those who answered “Increase” in Q5.) What are the reasons for increased operating profits forecast for 2015? (Multiple answers allowed.)

☐ 1. Sales increase due to export expansion
☐ 2. Sales increase in local markets
☐ 3. Effects of exchange rate fluctuation
☐ 4. Reduction of procurement costs
☐ 5. Reduction of labor costs
☐ 6. Reduction of other expenditures (e.g., administrative/utility costs)
☐ 7. Improvement of production efficiency* (manufacturing industry only)
☐ 8. Improvement of sales efficiency
☐ 9. Other ( )

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

Q7. (This question is only for those who answered “Decrease” in Q5.) What are the reasons for decreased operating profits forecast for 2015? (Multiple answers allowed.)

☐ 1. Sales decrease due to export slowdown
☐ 2. Sales decrease in local markets
☐ 3. Effects of exchange rate fluctuation
☐ 4. Increase of procurement costs
☐ 5. Increase of labor costs
☐ 6. Increase of other expenditures (e.g., administrative/utility costs)
☐ 7. Rising interest rates
☐ 8. Production costs insufficiently shifted to selling price of goods
☐ 9. Other ( )

2. Future business plan

Q8. What is your approach to future business challenges in the next one or two years?

☐ 1. Expansion ☐ 2. Remaining the same ☐ 3-1. Reduction
→Go to Q9 & 10 →Go to Q12 →Go to Q11

☐ 3-2. Transferring to a third country/region or withdrawal from current local market
→Go to Q11

Q9. (This question is only for those who answered “Expansion” in Q8.) What are the reasons for the future business expansion? (Multiple answers allowed.)

☐ 1. Sales increase
☐ 2. High growth potential
☐ 3. High receptivity for high-value added products

☐ 4. Reduction of costs (e.g., procurement/labor costs)
☐ 5. Deregulation
☐ 6. Ease in securing labor force
☐ 7. Reviewing production and distribution networks
☐ 8. Relationship with clients
☐ 9. Other ( )

Q10. (This question is only for those who answered "Expansion" in Q8.) What functions would you like to expand? (Multiple answers allowed.)
☐ 1. Sales function
☐ 2. Production (ubiquitous products)
☐ 3. Production (high-value added products)
☐ 4. R&D
☐ 5. Function of regional headquarters
☐ 6. Logistics function
☐ 7. Administrative functions in providing services (e.g., shared services, call center)
☐ 8. Other ( )

Q11. (This question is only for those who answered "Reduction" or "Transferring to a third country/region or withdrawal from current local market" in Q8.) What are the reasons for the future reduction, transfer or withdrawal? (Multiple answers allowed.)
☐ 1. Sales decrease
☐ 2. Low growth potential
☐ 3. Low receptivity for high-value added products
☐ 4. Increase of costs (e.g., procurement/labor costs)
☐ 5. Tightening of regulations
☐ 6. Difficulty in securing labor force
☐ 7. Reviewing production and distribution networks
☐ 8. Relationship with clients
☐ 9. Other ( )

Q12. Which of the following measures is your company taking to encourage localization of corporate management? (Multiple answers allowed)
☐ 1. To strengthen system to train/cultivate local human resources by focusing on localization of corporate management
☐ 2. To encourage mid-level hiring activities to obtain competent local staff by focusing on localization of corporate management
☐ 3. To reform personnel systems, such as a merit-based promotion system, by focusing on localization of corporate management
☐ 4. To assign local staff to an executive position

☐ 5. To assign local staff to a general manager/manager position
☐ 6. To strengthen R&D capacity to develop quality of products/services for local markets
☐ 7. To strengthen authority in local office to allow them to make their own decisions for sales strategies
☐ 8. To delegate authority to local office from headquarters
☐ 9. To obtain human resources/management resources through M&As.
☐ 10. No particular actions are taken
☐ 11. Other (   )

Q13. Which of the following issues does your company face in promoting management localization? (Multiple answers allowed)

☐ 1. (Issue with the headquarters/Japan side) Disagreement over policy for recruitment between local office and headquarters
☐ 2. (Issue with the headquarters/Japan side) Difficulty in reducing the number of Japanese expatriate staff
☐ 3. (Issue with the headquarters/Japan side) Shortage of positions to be allocated to local staff
☐ 4. (Issue with the headquarters/Japan side) Little progress in delegating authority from the headquarters to local offices
☐ 5. (Issue with the headquarters/Japan side) Insufficient management capabilities of Japanese expatriate staff
☐ 6. (Issue with the headquarters/Japan side) Inadequate language skills of Japanese expatriate staff (English and local languages)
☐ 7. Other issues with the headquarters/Japan side (   )
☐ 8. (Issue with the local side) Difficulty in recruiting local candidates for executive positions
☐ 9. (Issue with the local side) A high turnover rate of local candidates for executive positions
☐ 10. (Issue with the local side) Inadequate language skills of local staff (Japanese and English)
☐ 11. (Issue with the local side) Insufficient performance/awareness among local staff
☐ 12. (Issue with the local side) Insufficient capabilities for local planning and marketing
☐ 13. (Issue with the local side) Insufficient capabilities to develop local products and services
☐ 14. Other issues with the local side (   )

☐ 15) There is no particular issue

Q14. Please check the boxes below regarding the number of employees in your company.

	Number of local employees			Number of Japanese expatriates		
	Increase	No change	Decrease	Increase	No change	Decrease
Changes in the number of employees in a year-on-year comparison	☐	☐	☐	☐	☐	☐
Future plans	☐	☐	☐	☐	☐	☐

<u>3. Issues with business management</u>

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

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

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

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

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

☐ 8. Tax burden (corporate tax, transfer pricing taxation, etc.)
☐ 9. Rising interest rates
☐ 10. Other issues (specify:)
☐ 11. No particular issues

Q17. What issues does your company have in the field of employment and labor? (Multiple answers allowed)
☐ 1. Increase in wages of employees
☐ 2. Difficulty in recruiting workforce (general staff, office workers)
☐ 3. Difficulty in recruiting workforce (middle management level)
☐ 4. Difficulty in recruiting workforce (general workers) (manufacturing companies only)
☐ 5. Difficulty in recruiting workforce (engineers) (manufacturing companies only)
☐ 6. Retention rate of employees
☐ 7. Quality of employees
☐ 8. Cost for dispatched Japanese executives (stationed representatives)
☐ 9. Restriction on visa issuance for dispatched Japanese executives (stationed representatives)
☐ 10. Regulations concerning dismissal and reduction of personnel
☐ 11. Difficulty in appointing local personnel as managers and supervisors
☐ 12. Restriction on hiring foreigners
☐ 13. Labor-related lawsuits
☐ 14. Other issues (specify:)
☐ 15. No particular issues

Q18. What issues does your company have in the trade system? (Multiple answers allowed)
☐ 1. Complex procedures for customs clearance
☐ 2. Significant time required for customs clearance
☐ 3. Inadequate communication and enforcement of notices and rules
☐ 4. Unclear variation assessment / classification criteria for tariffs
☐ 5. High import tariffs
☐ 6. Unclear inspection system
☐ 7. High non-tariff barriers*
☐ 8. Strict or unclear quarantine system
☐ 9. Export restriction and export tax
☐ 10. Rules of origin
☐ 11. Other issues (specify:)
☐ 12. No particular issues

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

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

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

<u>4. Benefits and risks in the investment environment</u>

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

☐ 1. Stable political and social climates
☐ 2. Market scale and potential for its growth
☐ 3. Abundant land/office spaces and low land prices/lease fees
☐ 4. Developed infrastructure (electricity supply, transportation, communications, etc.)
☐ 5. Concentration of supporting industries (convenience of local procurement)
☐ 6. Concentration of partner companies (customer companies)
☐ 7. Easy recruitment of employees (general workers, general staff and office workers, etc.)
☐ 8. Easy recruitment of employees (specialists and engineers, middle management level, etc.)
☐ 9. High retention rate of employees
☐ 10. High quality of employees (general workers)
☐ 11. High quality of employees (specialists and engineers)
☐ 12. High quality of employees (middle management level)
☐ 13. Tax incentives (corporate taxes, export and import tariffs, etc.)
☐ 14. Substantial investment incentive scheme
☐ 15. Prompt clearance of procedures
☐ 16. Low language and communication barriers
☐ 17. Comfortable living environment for representatives stationed from headquarters
☐ 18. Other (specify:)

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

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

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

- ☐ 1. Discord or ethnic/religious conflicts
- ☐ 2. Political conflicts
- ☐ 3. Demonstrations and strikes
- ☐ 4. Natural disasters
- ☐ 5. Environmental pollution
- ☐ 6. Diseases (serious contagious illnesses)
- ☐ 7. Security and terrorism
- ☐ 8. Cyber terrorism (hacking, etc.), industrial spies, etc.
- ☐ 9. Oversight of foreigners by authorities
- ☐ 10. Crimes targeted at foreign people and companies (killings and injuries, kidnappings, robberies and theft, fraud, etc.)
- ☐ 11. Accidents in which many foreigners have frequently been involved
- ☐ 12. Trouble related to civil affairs
- ☐ 13. Trouble with housing and living standards of representatives stationed from headquarters and their families
- ☐ 14. Other and specific risks unique to the country (specify:)

5. Challenges to explore market and source of competitive power

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

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

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

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

☐Competition increased ☐Unchanged ☐Competition lessened

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

Q24 What is the breakdown of your procurement sources? (Based on monetary amounts. Please ensure that the rates of all items below total to 100%)

1) Local (%) 2) Japan (%) 3) US (%)
4) Brazil (%) 5) Mexico (%) 6) Argentina (%)
7) Other Latin American countries(%) 8) Mainland China (%)
9) South Korea (%) 10) ASEAN (%) 11) Other Asian countries(%)
12) Europe (%) 13) Others (%)

Q25 If you selected “Local” in Q24, please indicate the rates for each item below. (Based on monetary amounts. Please ensure that the rates of all items below total to 100%.

1) Japanese-affiliated companies (%)
2) Local companies (%)
3) Other foreign-affiliated companies (%)

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

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

Q26. How has your company been utilizing existing bilateral or multilateral FTAs/ EPAs/ACE ? Please fill any other countries in parentheses if they are not listed.
(If your company does not export nor import, please skip this question.)
(Multiple answers allowed)

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

*NAFTA: US, Canada and Mexico
**Mercosur: Brazil, Argentina, Paraguay, Uruguay and Venezuela
***Five Central American Countries: Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica

Q27. What problems are you facing in utilizing FTAs/EPAs in exports? (This question is only for those who engage in exports.) (Multiple answers allowed)

☐ 1. Expensive issuance costs of certificates of origin
☐ 2. Procedures for certificates of origin take too long

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

Q28. What problems are you facing in utilizing FTAs/EPAs in imports? (This question is only for those who engage in imports.) (Multiple answers allowed)
☐ 1. Difficulty in getting cooperation from suppliers in utilizing FTAs/EPAs
☐ 2. Merits do not exist due to little difference between preferential tariffs based on FTAs/EPAs and general tariff rates
☐ 3. FTAs/EPAs do not exist with major import sources
☐ 4. Overly strict inspection for preferential tax approval at the customs of the importing country
☐ 5. No problem in particular
☐ 6. Other ( )

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

Thank you very much for your cooperation.

The 2014 (15th) Survey on Business Conditions of Japanese Companies in Latin America

Issued February 2015

Written by	Latin America Div. Overseas Research Dept.	Kojiro Takeshita
		Takao Nakahata
		Akira Ito
	International Economic Research Div. Overseas Research Dept.	Ryo Mizuno
Collaborators	Mexico Office	Nobuhiro Nakajima
	Caracas Office	Kentaro Matsuura
	Bogota Office	Atsushi Takata
	Lima Office	Masayuki Fujimoto
	Santiago Office	Takaharu Horinouchi
	Sao Paulo Office	Kiyo Tsujimoto

Japan External Trade Organization(JETRO)
Ark Mori Bldg., PO Box 528
1-12-32 Akasaka, Minato-ku, Tokyo 107-6006
Phone: +81-3-3582-4690
(Overseas Research Department, Latin American Division)