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

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Japan External Trade Organization (JETRO)

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I-1. Survey Overview: Survey method.

1. Objectives

This survey is designed to comprehend the conditions of Japanese companies' business activities in Latin America and changes in the local business environment. The survey also aims to provide information that will contribute to the development of overseas business strategies by Japanese companies and to proposals that will promote the improvement of the business environment in Latin American countries.

2. Respondents

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

3. Method and period

Questionnaire survey from November 1, 2018 to November 30, 2018

4. Collection of questionnaires

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

5. Breakdown of respondents

	Number of companies covered by the survey	Number of respondents (companies)		Manufacturing / Non-manufacturing				Company size				Valid response rate (%)
		Valid responses (companies)	%	Manufacturing (companies)	%	Non-manufacturing (companies)	%	Large-scale company	%	Small- and medium-sized company (companies)	%	
Mexico	250	111	32.5	52	46.8	59	53.2	97	87.4	14	12.6	44.4
Venezuela	18	13	3.8	3	23.1	10	76.9	12	92.3	1	7.7	72.2
Colombia	35	19	5.6	8	42.1	11	57.9	16	84.2	3	15.8	54.3
Peru	36	35	10.2	8	22.9	27	77.1	31	88.6	4	11.4	97.2
Chile	78	41	12.0	9	22.0	32	78.0	31	75.6	10	24.4	52.6
Brazil	216	83	24.3	35	42.2	48	57.8	75	90.4	8	9.6	38.4
Argentina	54	40	11.7	16	40.0	24	60.0	34	85.0	6	15.0	74.1
Latin America	687	342	100.0	131	38.3	211	61.7	296	86.5	46	13.5	49.8

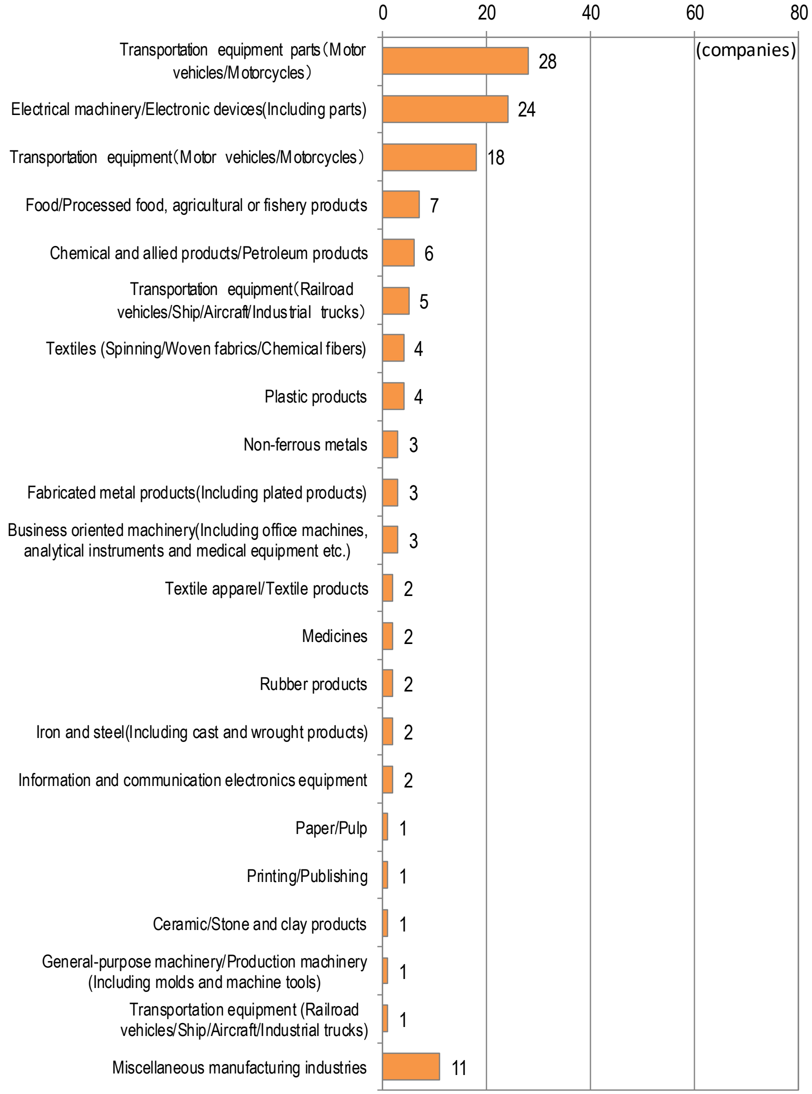
6. Note

This survey has been conducted since 1999, and the 2018 survey was the 19th one. The figures shown in the tables and charts have been rounded off, thus the totals may not always add up to 100%.

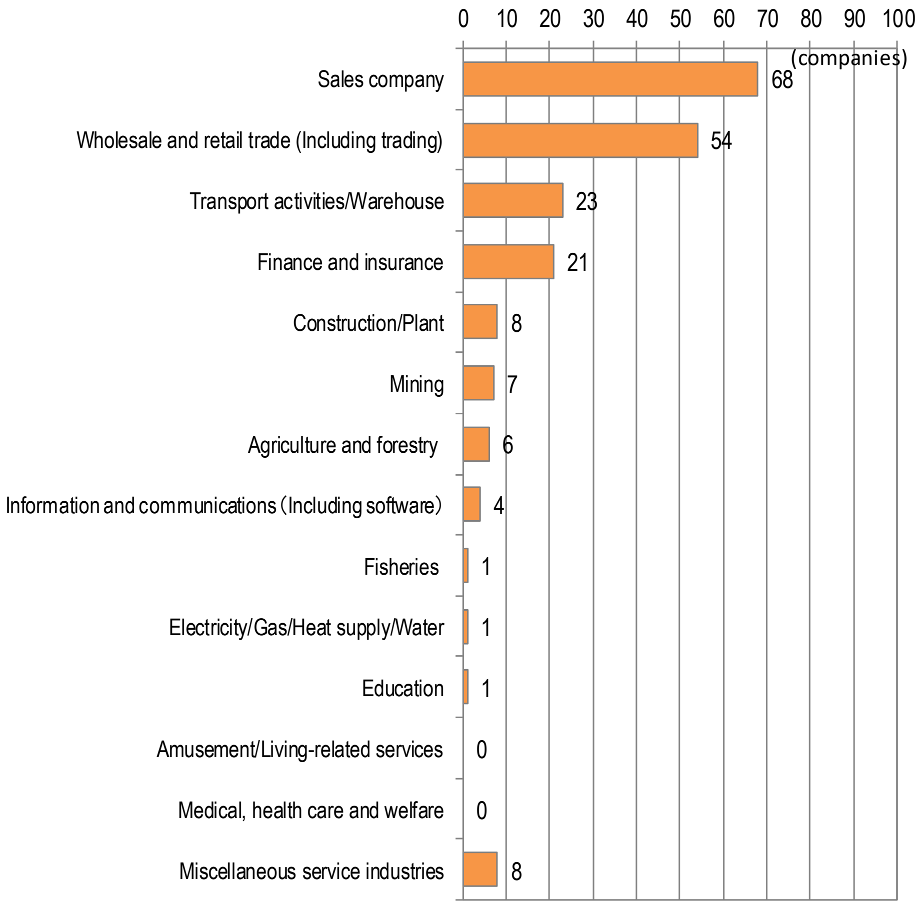
I-2. Survey Overview: Breakdown by Business sector of Survey companies

Business categories of respondents operating in Latin America

Manufacturing (131 companies)

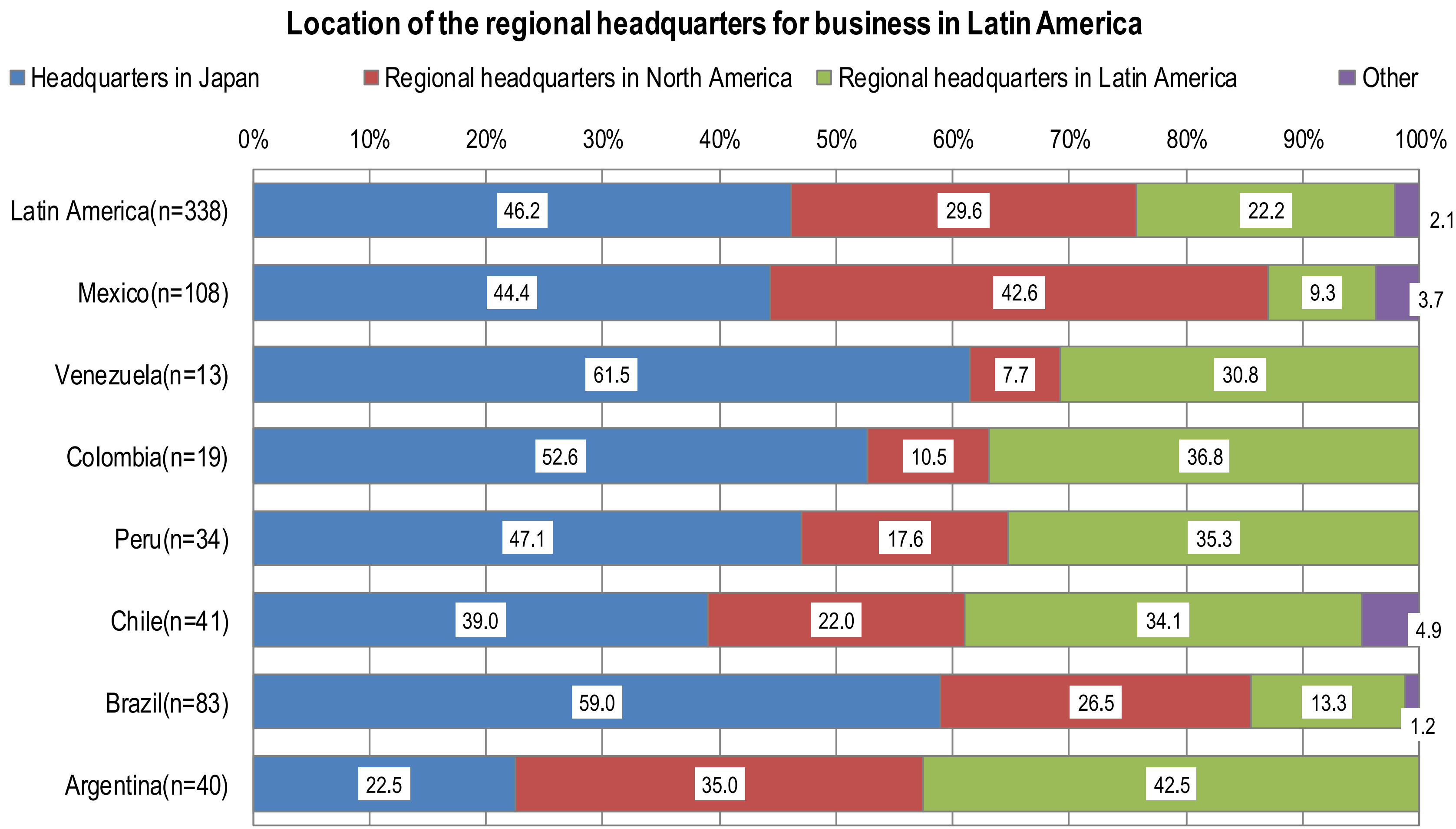


Non-manufacturing (211 companies)



I-3. Survey Overview: Location of the Regional Headquarters for Business in Latin America

■As with the previous survey, approx. 80% of companies operating in Latin America have their "Headquarters in Japan" or their "Regional headquarters in North America."



I-4. Survey Overview: Summary points

■ Overview

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

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

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

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

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

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

I-4. Survey Overview: Summary points

■Complement

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

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

Regarding the effects of NAFTA renegotiations on Japanese companies operating in Mexico, "Not sure" accounted for the largest percentage (44.4%) because agreement details had not been determined as of the time of the survey. Comparing "Positive impact" (3.7%) with "Negative impact" (19.4%), negative recognition was more commonly shared among Japanese companies operating in Mexico at the time of the survey (see page 69). Specific negative impact concern concentrated on the stricter rules of origin, such as "Meeting the Labor Value Content rule" (42.5%) (a certain percentage of materials and parts manufactured in areas where the hourly wage is 16 dollars or more must be used for finished cars), "Review of Product Specific Rules (PSR)" (33.8%), and "Requirement to purchase North American steel and aluminum" (26.0%) (see page 69). As current measures in response to the results of the NAFTA renegotiations, "None" (42.3%) and "Not sure" (36.0%) accounted for the majority. Many companies have not yet developed specific measures (see page 69). Regarding companies in the same business category that compete most intensively, "Japanese companies" decreased from the previous survey (from 57.6% to 48.6%), while "European companies" increased (from 10.7% to 17.1%). It appears that one of the reasons for this increase is that German automobile parts-related companies increased their investment in Mexico from the previous year (see page 34). The number of Japanese expatriates increased in the past year (22.5%), but "Future plans" to increase the number was half of that (11.7%) partly because of the impact of NAFTA renegotiations. The percentage of companies planning to increase the number of local employees also decreased from the previous survey (from 57.1% to 50.5%) (see page 33 and page 32).

2. Argentina: Concerns over the financial situation, such as rapid currency depreciation and high interest rates, increased.

The business sentiment of Japanese companies operating in Argentina extremely worsened. Specifically, this year's DI ranked at the bottom (-8.4%), although last year's DI marked the second-largest improvement (31.7%) in Latin America. Regarding the question pertaining to operating profits forecast for 2018 (YoY), "Decrease" rapidly increased from 9.8% to 41.7% (see page 10). As the reason for "Decrease" in operating profits forecast for 2018, "Effects of exchange rate fluctuation" rapidly increased to 93.3% from 0.0% in the previous survey, against the backdrop of unstable financial situations. "Rising interest rates" also increased significantly from 25.0% to 60.0% (see page 14). Regarding operating profits forecast for 2019 (YoY), "Increase" significantly decreased (from 43.9% to 27.8%) (see page 17). Looking at respondents' "Future plans" on the number of local employees and the number of Japanese expatriates, "Decrease" significantly increased (from 2.4% to 20.0% and from 12.2% to 35.0%, respectively) (see page 32 and page 33). Regarding benefits and risks in the investment environment, the percentage of companies that regard "Market scale and potential for its growth" as a benefit significantly decreased (from 73.2% to 50.0%) because the domestic market shrank due to rapid currency depreciation and the high interest rate policy (see page 57).

3. Brazil: Policy predictability increased after the presidential election. There is a sign that Japanese companies operating in Brazil have recovered their willingness to expand their businesses.

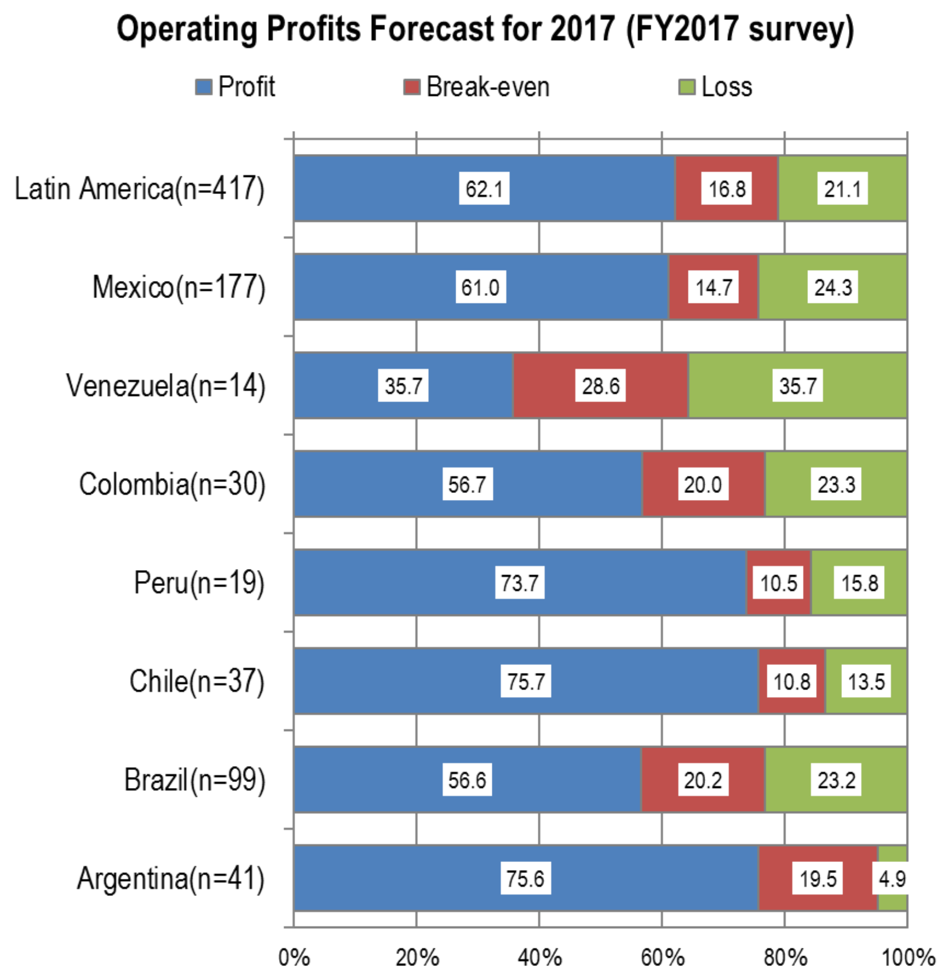
In the question pertaining to operating profits forecast for 2019 (YoY), the percentage of "Increase" increased. Specifically, Brazil's DI ranked at the top (46.9), and the percentage of "Increase" in operating profits forecast for 2019 (57.0%) was higher than 2018 (53.3%) (see page 17). As an approach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

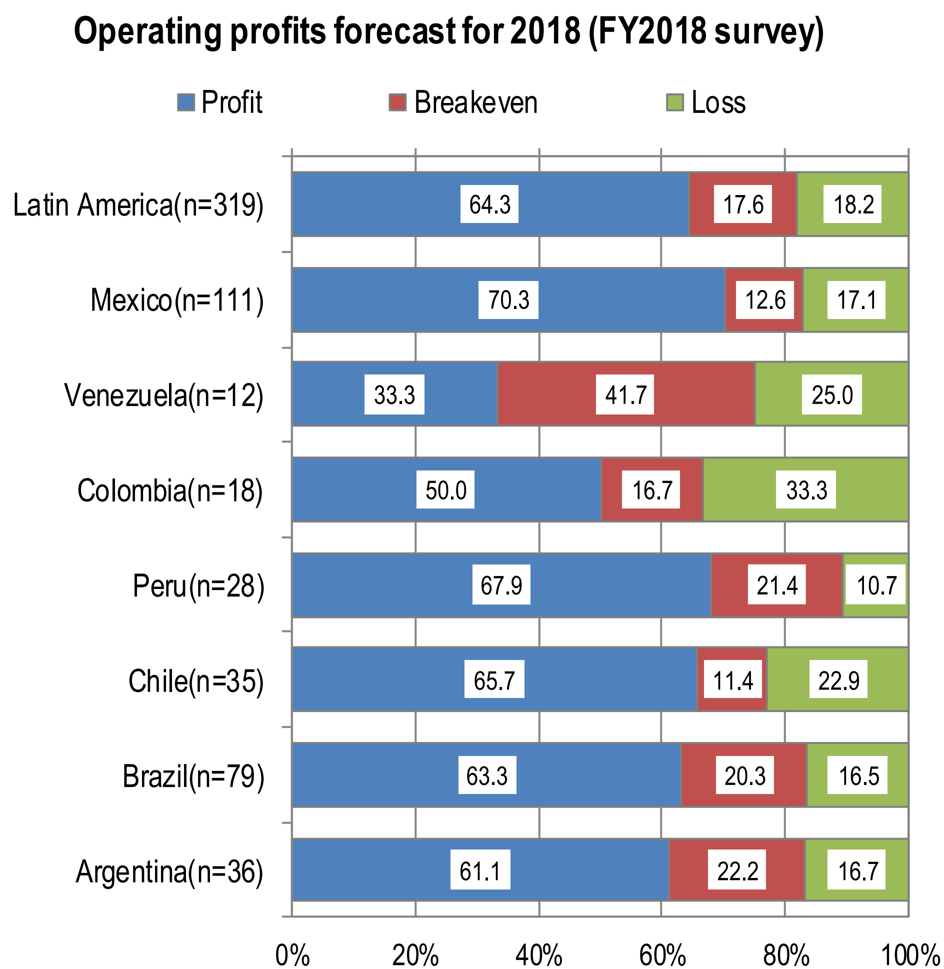
4. Colombia: Japanese companies operating in Colombia grew bullish, rebounding from market shrinkage that resulted from the tax increase at the end of 2016.

Colombia's business sentiment significantly improved. Its DI grew by approx. four times from the previous year (from 10.0% to 38.9%). "Increase" in operating profits forecast for 2018 (YoY) also increased (from 40.0% to 55.6%) (see page 10). Behind the growth of DI, there is an increase in sales in the local market. The growth of domestic demand began to recover in 2018 after it slowed in 2017 due to value-added tax (IVA) increase (December 2016). As an issue in business management (sales and marketing), "Sluggish sales in major markets" significantly decreased (from 56.7% to 11.1%) (see page 36). Japanese companies' view on Colombia's business environment improved from the previous survey. Regarding benefits and risks in the investment environment, continuation of the policy for dialogue with guerrilla groups, and pledges that favor businesses, etc., President Duque, who took office in August 2018, gave reassurances. As for risks, "Political or social instability" significantly decreased from the previous survey (from 52.6% to 22.2%). [Page 53] Looking at approach to future business challenges in the next one or two years, "Expansion" was the highest (72.2%) (see page 24). In the question about "Future plans" on the number of Japanese expatriates, "Increase" accounted for the largest percentage (21.1%) (see page 33).

II-1-(1) Operating Profits Forecast for 2018

■There was no major change in operating profits forecast for 2018 in Latin America.
■As with the previous year, "Profit" accounted for over 60% in Latin America. By country, "Profit" decreased from the previous survey in many countries, but an increase in "Profit" in Mexico and Brazil offset the decrease.



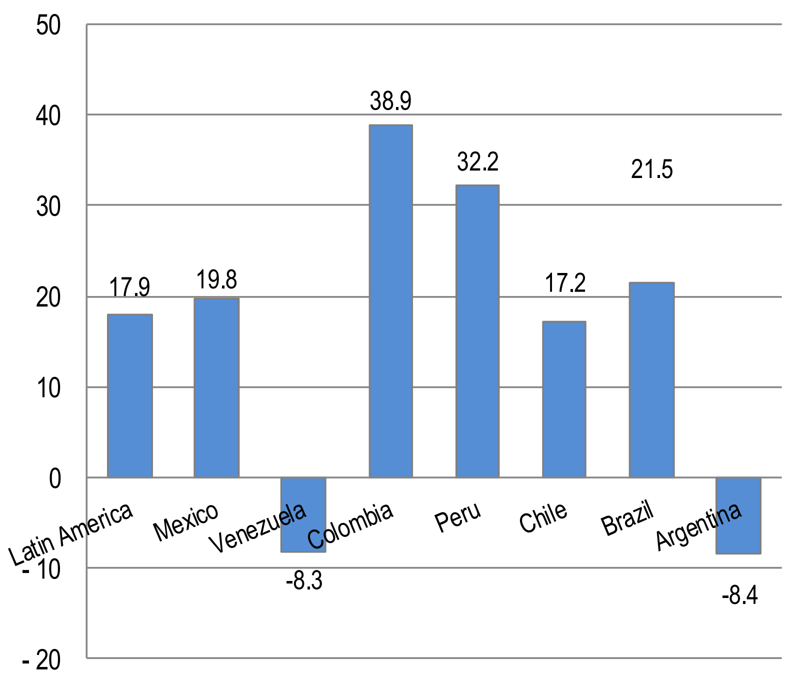


II-1-(2) Operating Profits Forecast for 2018 (YoY)

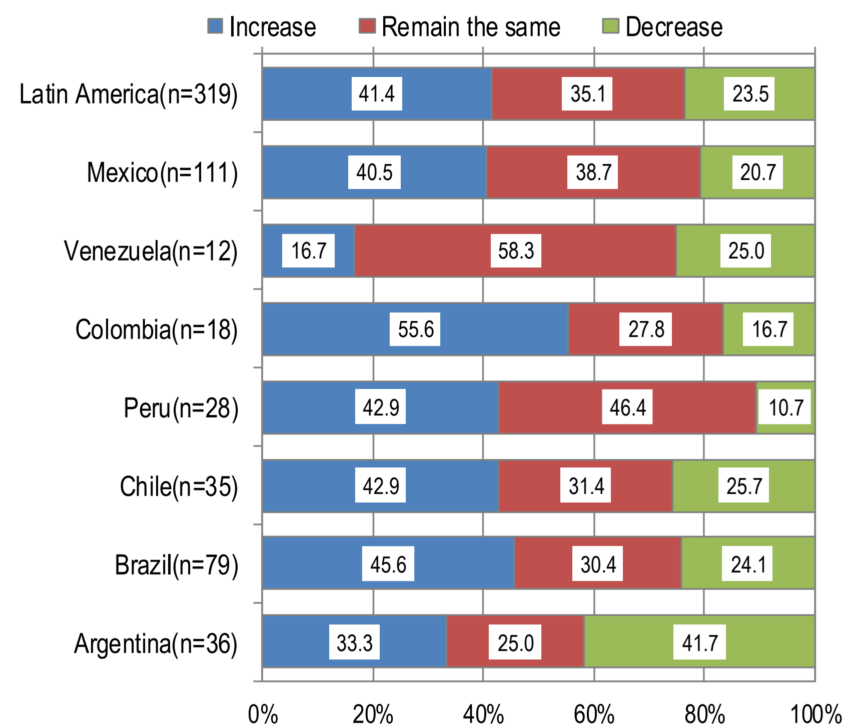
- In 2018, the DI (business sentiment) of Latin America slightly declined from the previous survey (from 20.8 to 17.9).
- By country, Argentina's DI ranked at the bottom (-8.4), although it was the second-largest improvement (31.7) in the previous survey. Colombia's DI grew by approx. four times from the previous year (from 10.0 to 38.9), while Chile's DI significantly declined (from 46.0 to 17.2).
- There was almost no change in operating profits forecast for 2018 in Latin America when compared with the previous survey (from 42.9 to 41.4).
- By country, "Increase" increased in Colombia. This suggests that many companies view that the country has moved away from the slump in 2017 caused by the value-added tax (IVA) increase in December 2016 and the resulting domestic demand shrinkage. In Chile and Argentina, "Increase" decreased (from 54.1% to 42.9% and from 41.5% to 33.3%, respectively).

DI: DI is calculated by subtracting the percentage of "Decrease" from the percentage of "Increase" in operating profits forecast for 2018 (YoY).

DI by country (2018)



Operating profits forecast for 2018 (YoY)



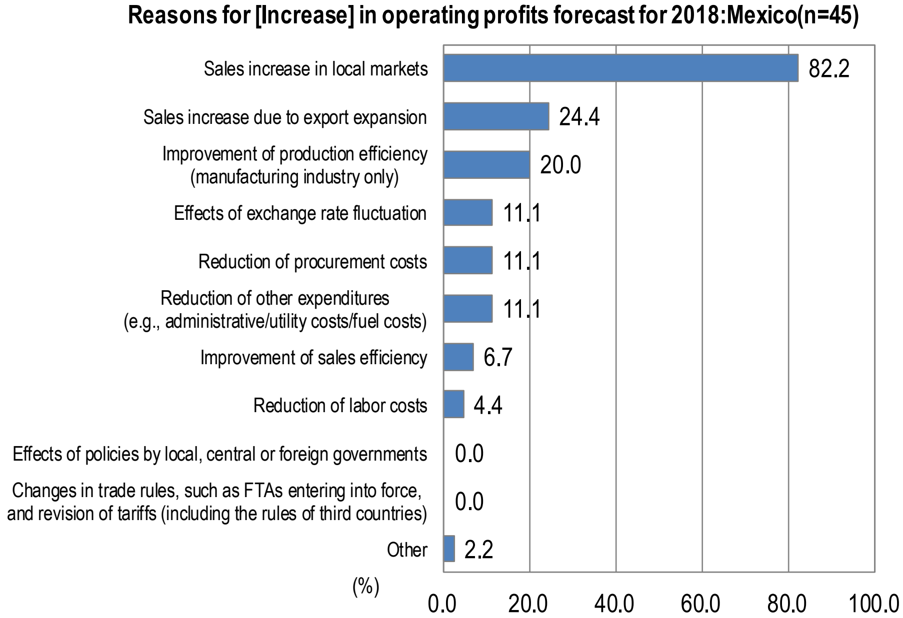
II-1-(3) Reasons for “Increase” in Operating Profits Forecast for 2018

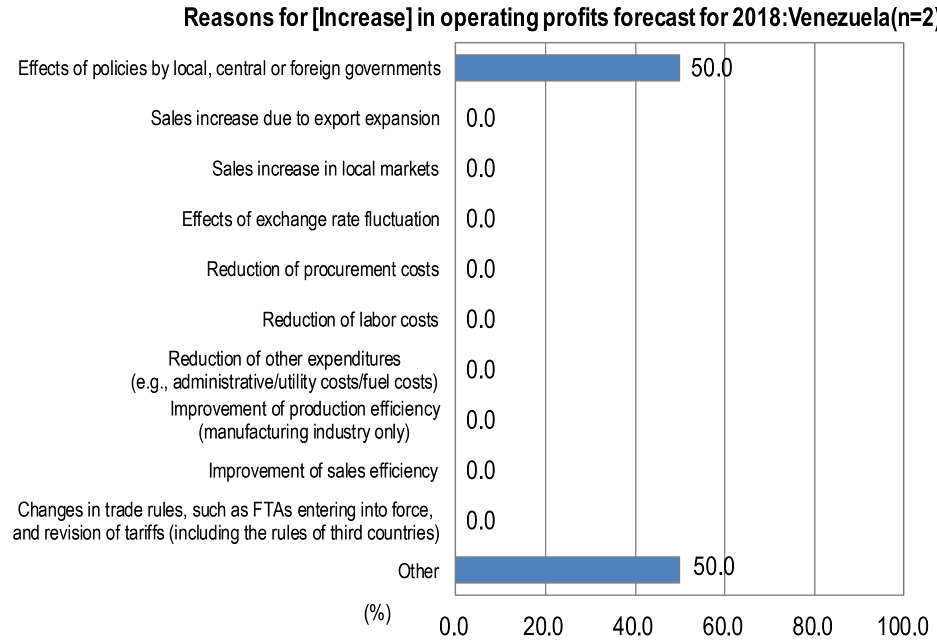
- **As with the previous survey, “Sales increase in local markets” (76.3%) ranked at the top in Latin America.**
- **By country, “Sales increase in local markets” significantly increased in Mexico (from 69.7% to 82.2%). In Argentina and Colombia, “Sales increase in local markets” decreased (from 94.1%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

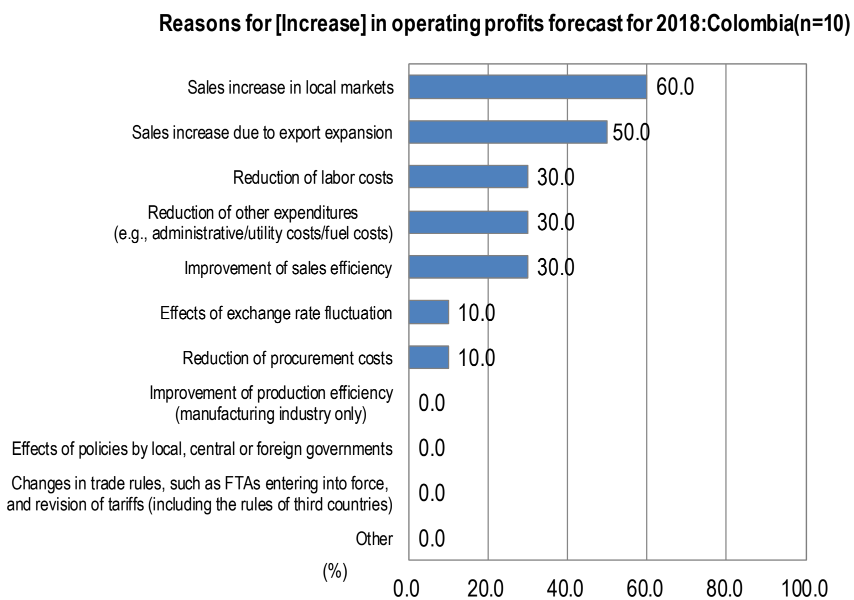
Reasons for "Increase" in operating profits forecast for 2018 (multiple answers)

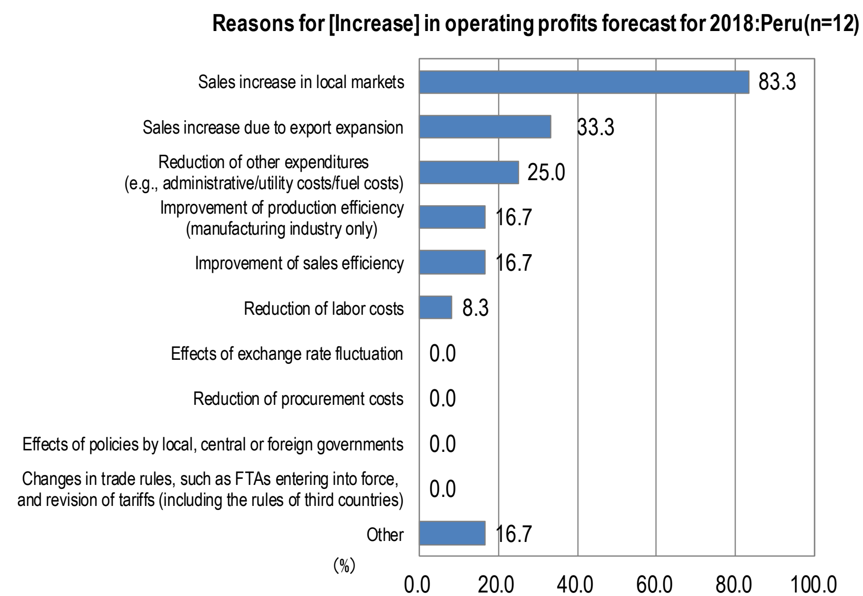
	Valid responses	Sales increase due to export expansion	Sales increase in local markets	Effects of exchange rate fluctuation	Reduction of procurement costs	Reduction of labor costs	Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)	Improvement of production efficiency (manufacturing industry only)	Improvement of sales efficiency	Effects of policies by local, central or foreign governments	Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)	Other
Latin America	131	25.2	76.3	17.6	11.5	15.3	17.6	12.2	13.7	2.3	0.0	7.6
Mexico	45	24.4	82.2	11.1	11.1	4.4	11.1	20.0	6.7	0.0	0.0	2.2
Venezuela	2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.0	0.0	50.0
Colombia	10	50.0	60.0	10.0	10.0	30.0	30.0	0.0	30.0	0.0	0.0	0.0
Peru	12	33.3	83.3	0.0	0.0	8.3	25.0	16.7	16.7	0.0	0.0	16.7
Chile	14	35.7	78.6	0.0	7.1	28.6	14.3	0.0	21.4	0.0	0.0	0.0
Brazil	36	13.9	77.8	22.2	19.4	25.0	22.2	11.1	19.4	2.8	0.0	16.7
Argentina	12	25.0	66.7	75.0	8.3	8.3	16.7	8.3	0.0	8.3	0.0	0.0

II-1-(3) Reasons for “Increase” in Operating Profits Forecast for 2018 (by country-1)

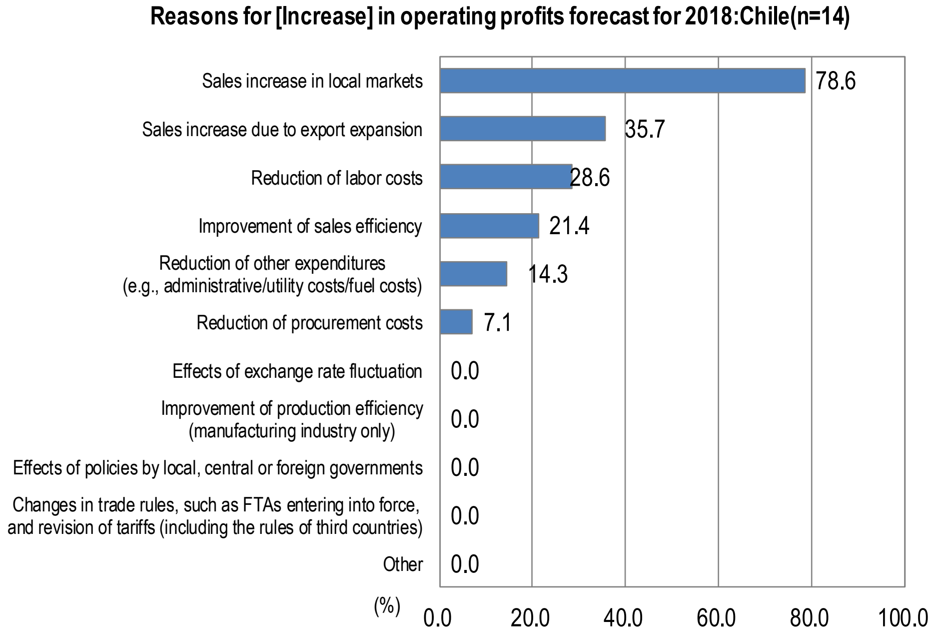


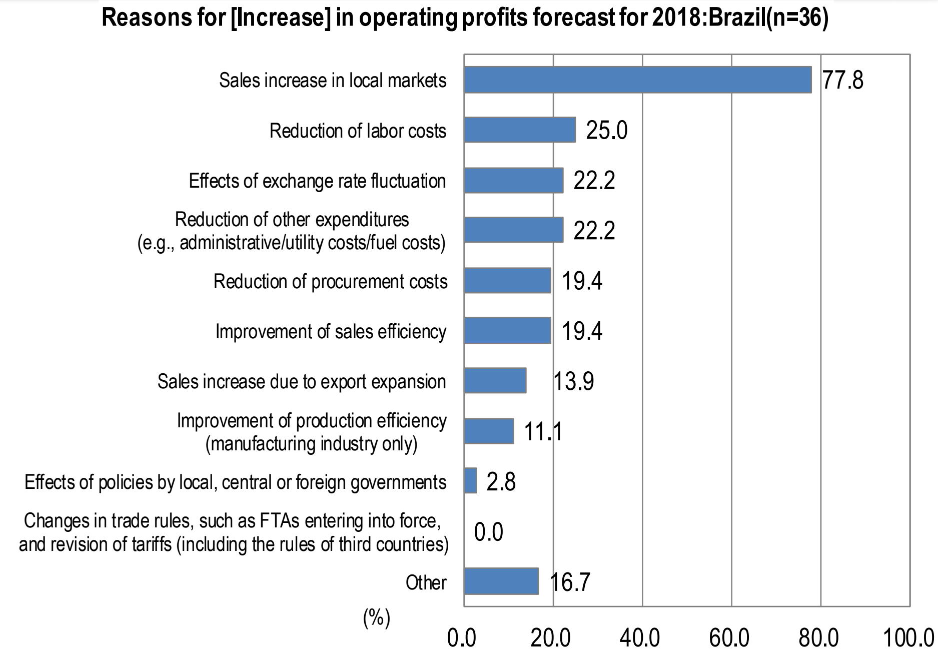


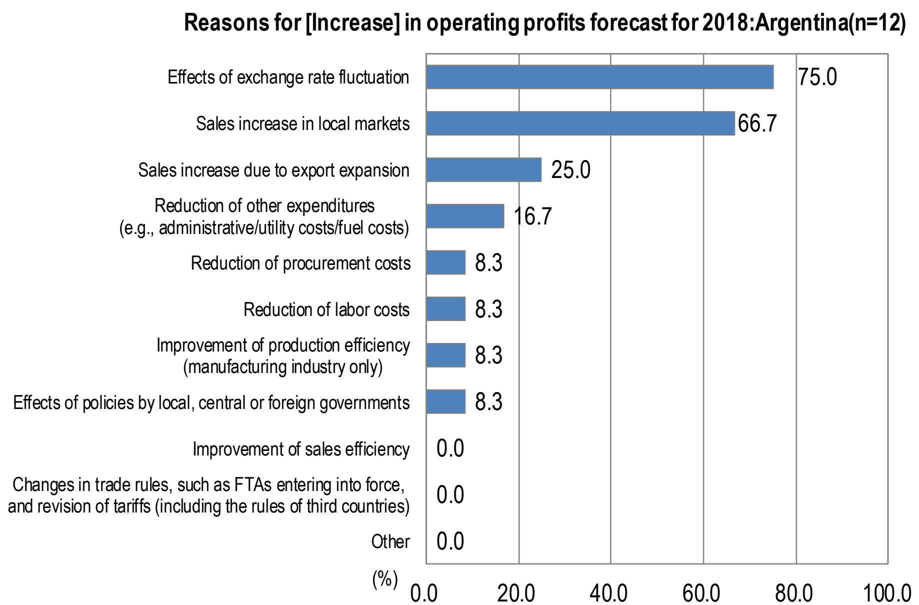




II-1-(3) Reasons for "Increase" in Operating Profits Forecast for 2018 (by country-2)







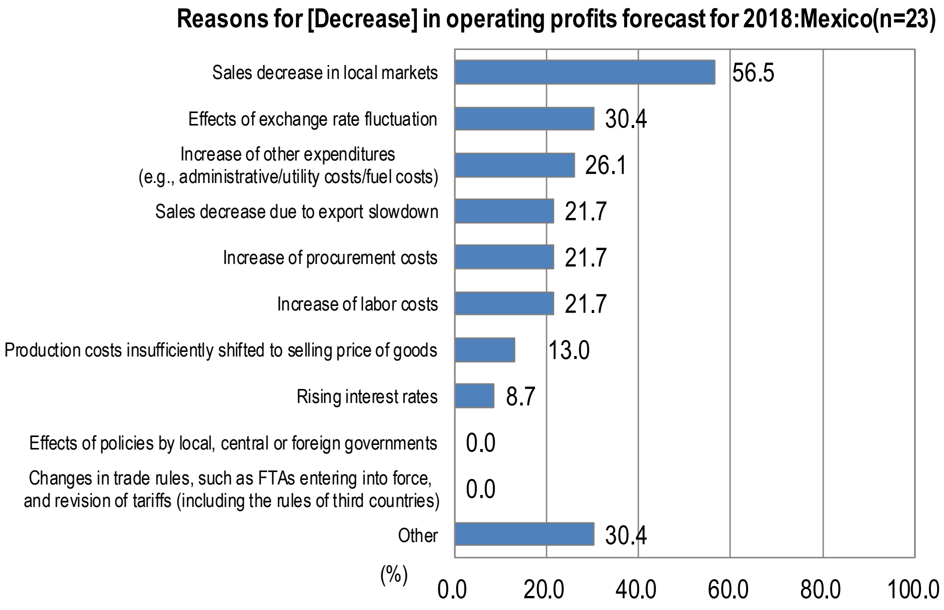
II-1-(4) Reasons for “Decrease” in Operating Profits Forecast for 2018

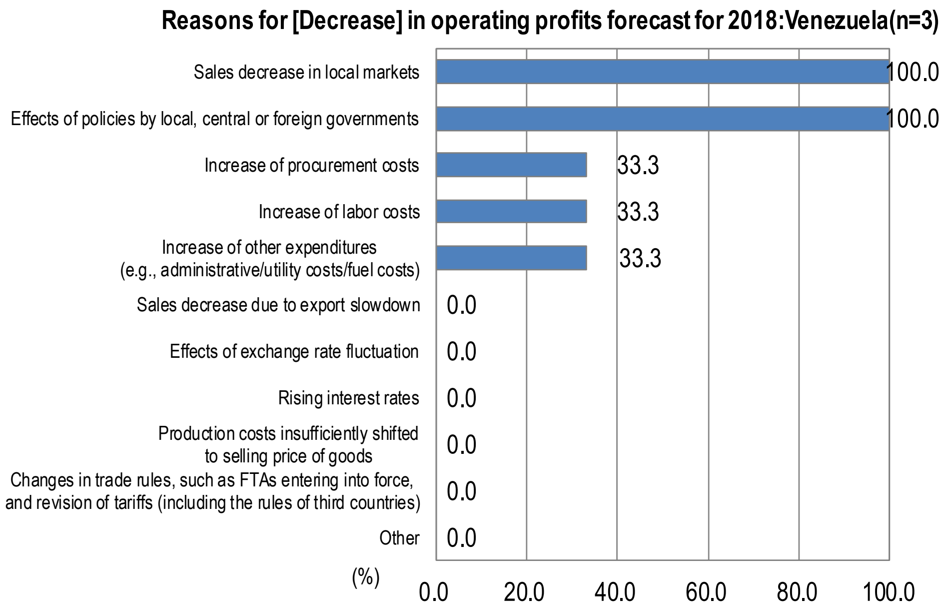
- In Latin America, “Sales decrease in local markets,” “Effects of exchange rate fluctuation,” “Increase of procurement costs,” and “Increase of labor costs” were cited as main reasons.
- In Mexico, “Sales decrease due to export slowdown” and “Sales decrease in local markets” increased (from 12.8% to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

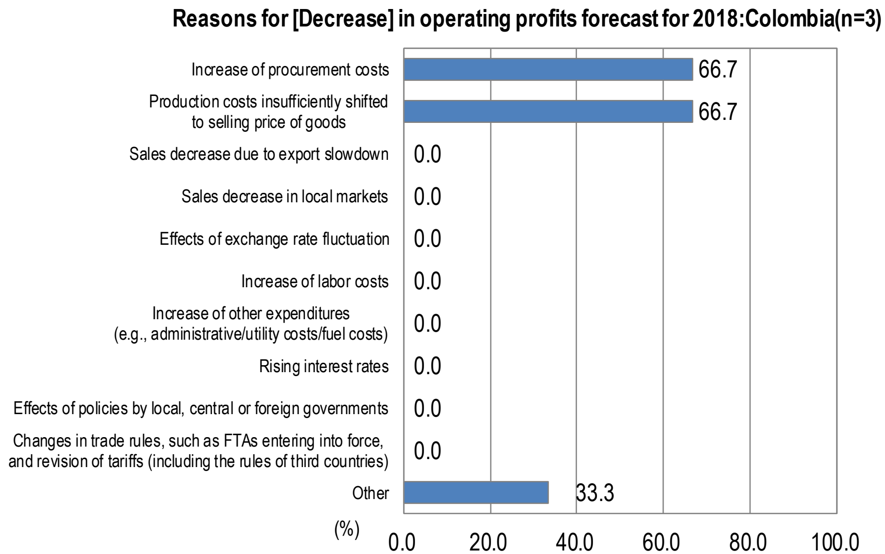
Reasons for "Decrease" in operating profits forecast for 2018 (multiple answers)

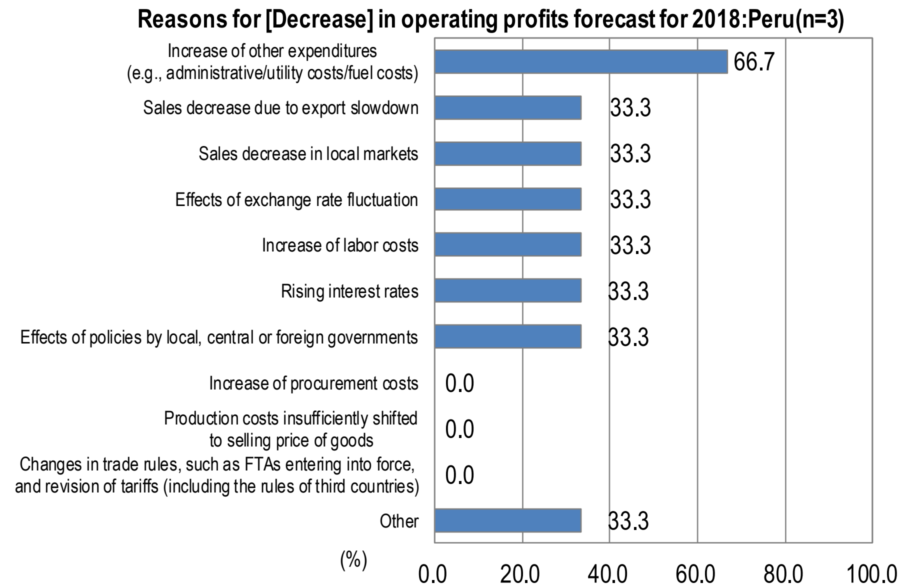
	Valid responses	Sales decrease due to export slowdown	Sales decrease in local markets	Effects of exchange rate fluctuation	Increase of procurement costs	Increase of labor costs	Increase of other expenditures (e.g., administrative/utility costs/fuel costs)	Rising interest rates	Production costs insufficiently shifted to selling price of goods	Effects of policies by local, central or foreign governments	Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)	Other
Latin America	75	14.7	54.7	45.3	34.7	26.7	24.0	16.0	25.3	9.3	0.0	26.7
Mexico	23	21.7	56.5	30.4	21.7	21.7	26.1	8.7	13.0	0.0	0.0	30.4
Venezuela	3	0.0	100.0	0.0	33.3	33.3	33.3	0.0	0.0	100.0	0.0	0.0
Colombia	3	0.0	0.0	0.0	66.7	0.0	0.0	0.0	66.7	0.0	0.0	33.3
Peru	3	33.3	33.3	33.3	0.0	33.3	66.7	33.3	0.0	33.3	0.0	33.3
Chile	9	44.4	22.2	33.3	22.2	11.1	0.0	0.0	0.0	0.0	0.0	55.6
Brazil	19	5.3	52.6	47.4	36.8	21.1	26.3	0.0	26.3	5.3	0.0	15.8
Argentina	15	0.0	80.0	93.3	60.0	53.3	26.7	60.0	60.0	13.3	0.0	20.0

II-1-(4) Reasons for "Decrease" in Operating Profits Forecast for 2018 (by country-1)



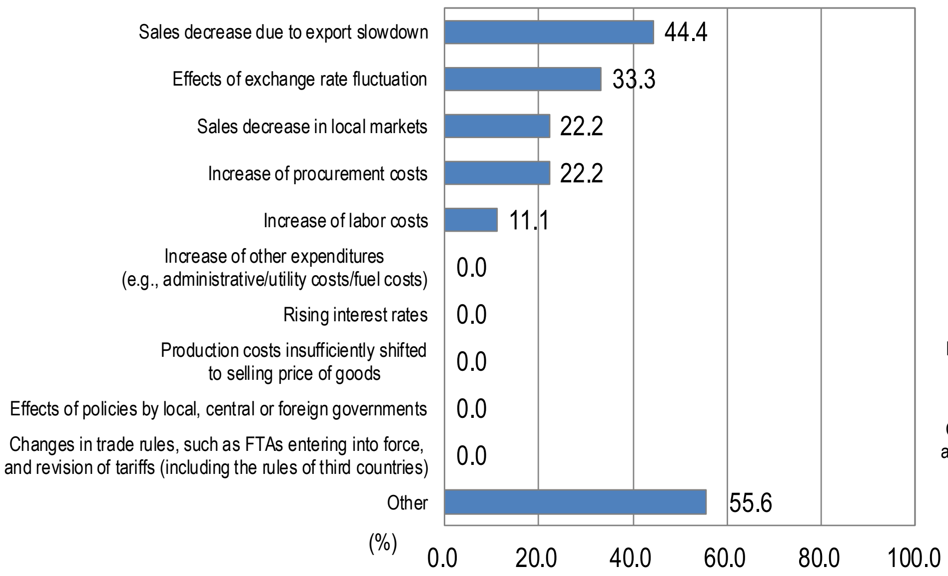




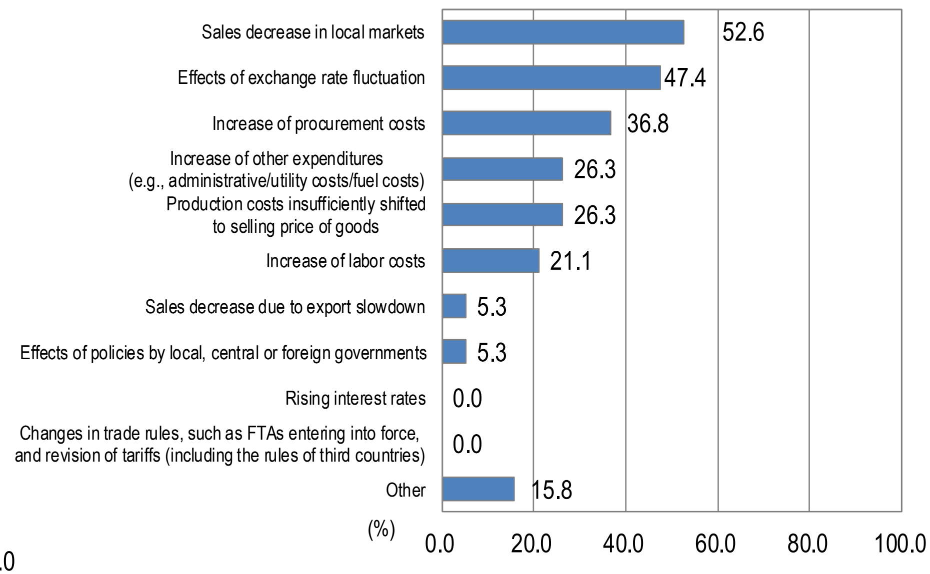


II-1-(4) Reasons for “Decrease” in Operating Profits Forecast for 2018 (by country-2)

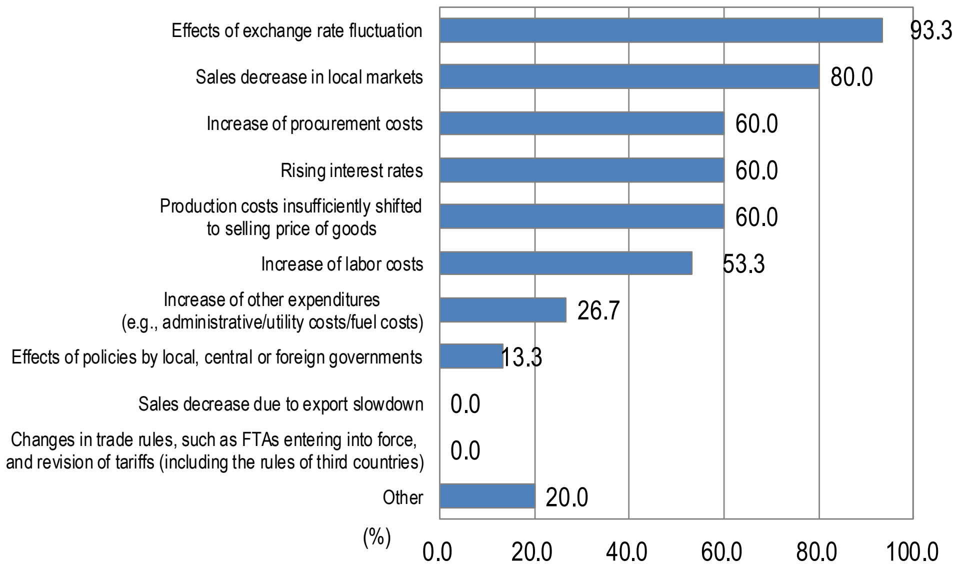
Reasons for [Decrease] in operating profits forecast for 2018:Chile(n=9)



Reasons for [Decrease] in operating profits forecast for 2018:Brazil(n=19)



Reasons for [Decrease] in operating profits forecast for 2018:Argentina(n=15)

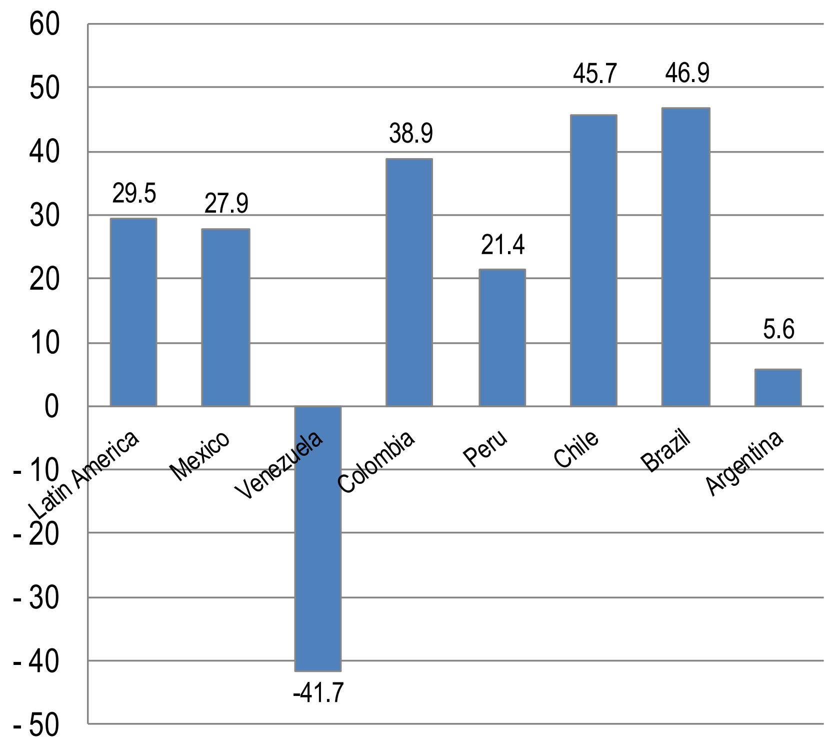


II-2-(1) Operating Profits Forecast for 2019 (YoY)

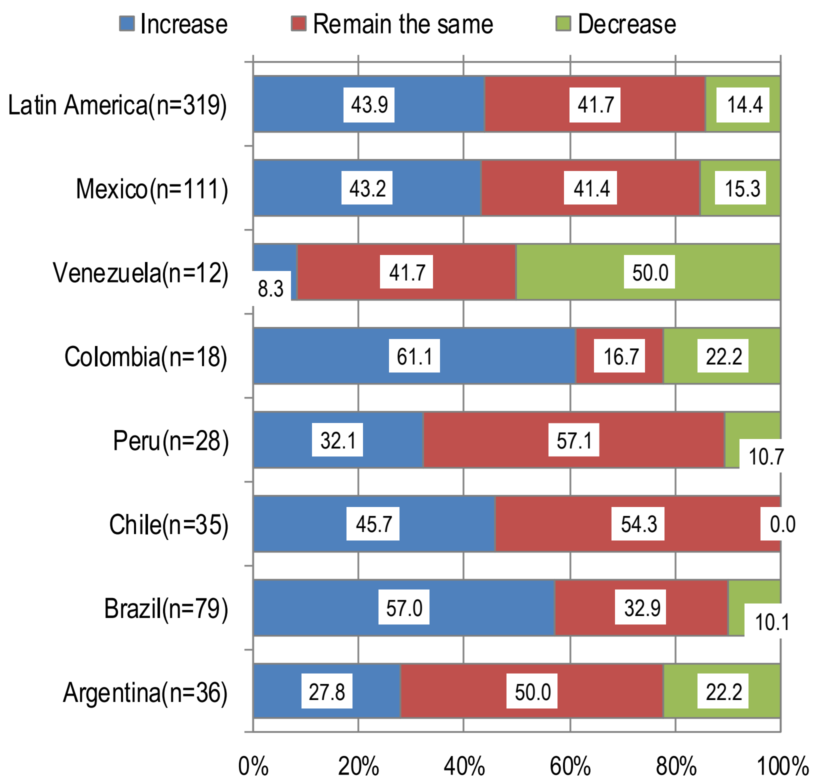
- DI (business sentiment) for 2019 was positive, except for Venezuela. However, the growth of DI shrank from the previous survey, except for Chile.
- As operating profits forecast for 2019 (YoY) in Latin America, "Increase" accounted for 43.9%, down 8.1 pp from the 2018 survey. By country, "Increase"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

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

DI by country (2019)



Operating profits forecast for 2019 (YoY)



II-2-(2) Reasons for "Increase" in Operating Profits Forecast for 2019

■As with the previous survey, "Sales increase in local markets" ranked at the top (75.7%) in Latin America. The percentage was particularly high in Brazil, Peru, and Colombia (86.7%, 88.9%, and 90.9%, respectively).

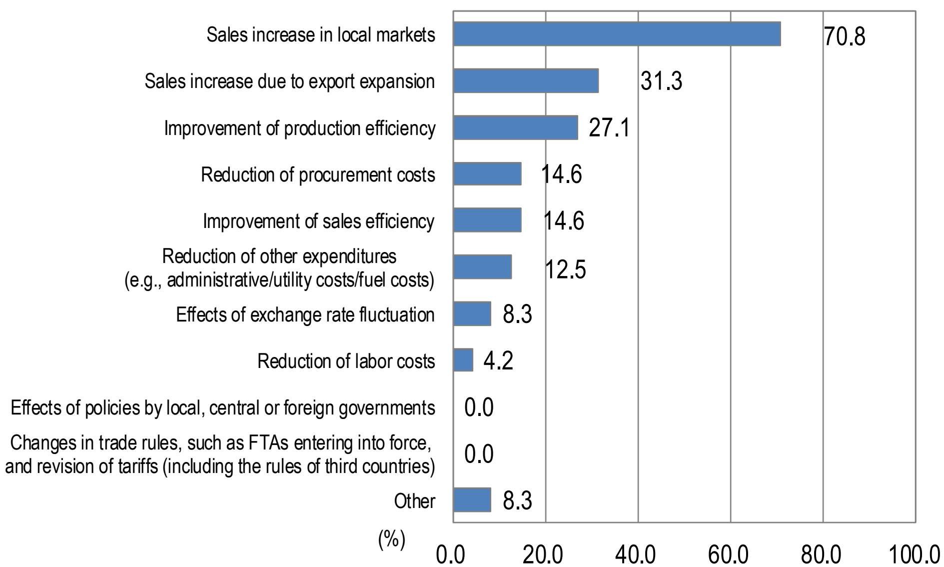
■In Chile, "Reduction of labor costs" significantly increased from the previous survey (from 5.9% to 25.0%). In Brazil, "Sales increase in local markets" increased by 3.7 pp (from 83.0% to 86.7%). "Effects of exchange rate fluctuation" also increased (from 3.8% to 15.6%) among sales companies, etc.,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

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

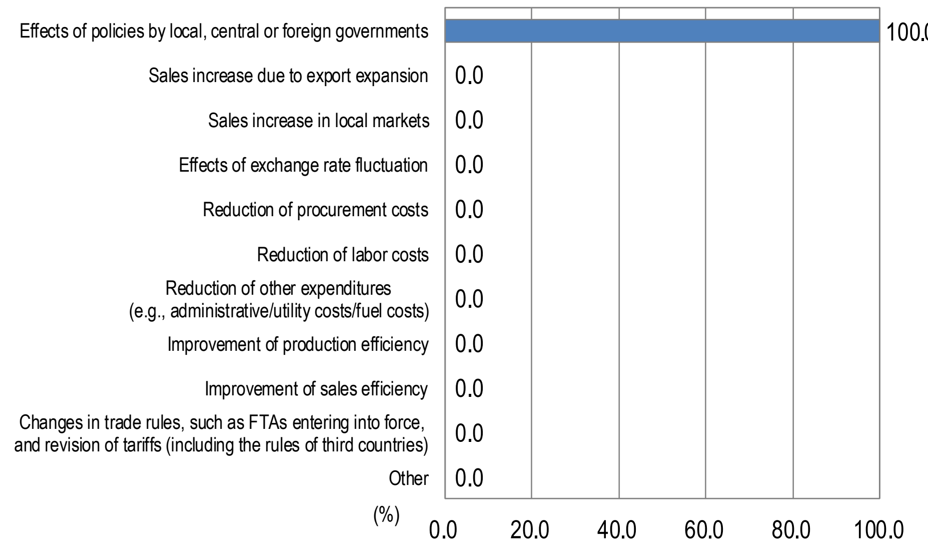
	Valid responses	Sales increase due to export expansion	Sales increase in local markets	Effects of exchange rate fluctuation	Reduction of procurement costs	Reduction of labor costs	Reduction of other expenditures (e.g., administrative/utility costs/fuel costs)	Improvement of production efficiency	Improvement of sales efficiency	Effects of policies by local, central or foreign governments	Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)	Other
Latin America	140	26.4	75.7	10.0	12.1	9.3	17.1	17.9	15.0	2.1	0.0	6.4
Mexico	48	31.3	70.8	8.3	14.6	4.2	12.5	27.1	14.6	0.0	0.0	8.3
Venezuela	1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0
Colombia	11	45.5	90.9	0.0	9.1	18.2	9.1	27.3	9.1	0.0	0.0	9.1
Peru	9	22.2	88.9	0.0	0.0	0.0	33.3	11.1	11.1	0.0	0.0	11.1
Chile	16	37.5	56.3	0.0	18.8	25.0	31.3	12.5	12.5	0.0	0.0	6.3
Brazil	45	17.8	86.7	15.6	8.9	8.9	17.8	11.1	20.0	4.4	0.0	0.0
Argentina	10	10.0	60.0	30.0	20.0	10.0	10.0	10.0	10.0	0.0	0.0	20.0

II-2-(2) Reasons for "Increase" in Operating Profits Forecast for 2019 (by country-1)

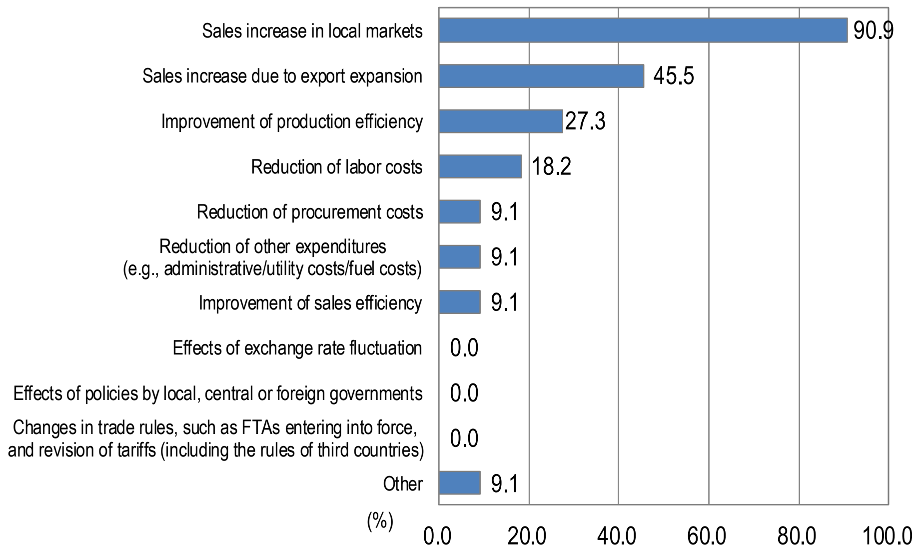
Reasons for [Increase] in operating profits forecast for 2019:Mexico(n=48)



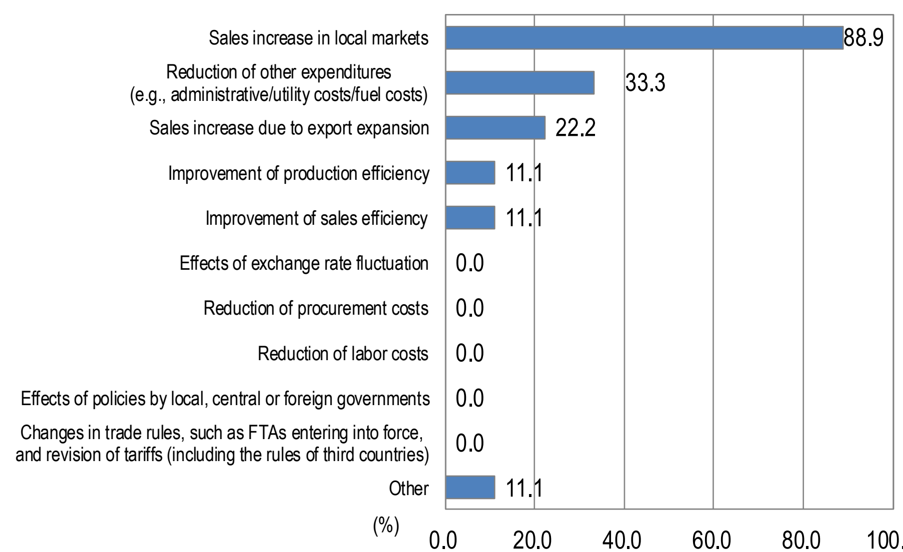
Reasons for [Increase] in operating profits forecast for 2019:Venezuela(n=1)



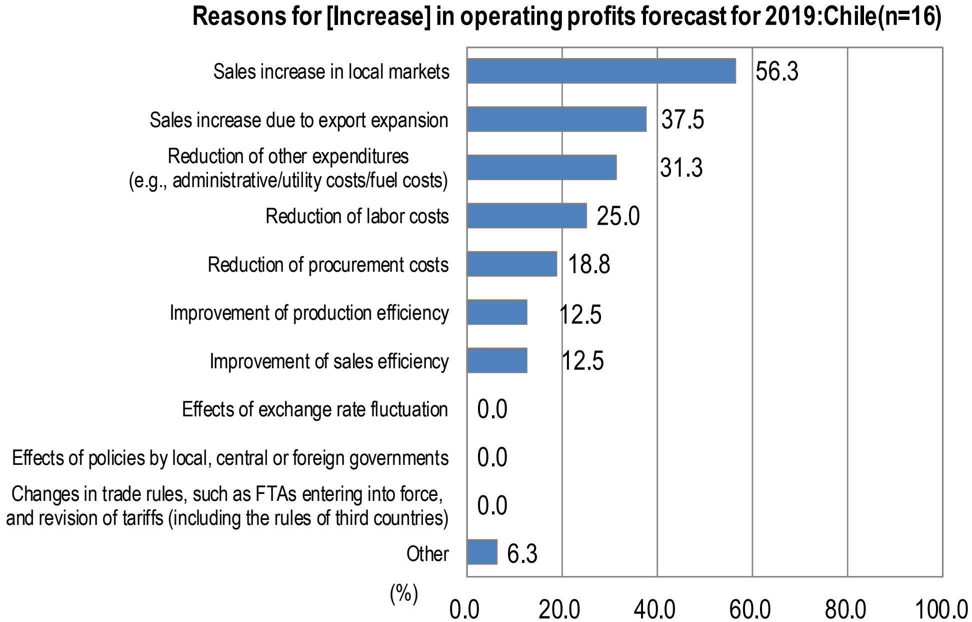
Reasons for [Increase] in operating profits forecast for 2019:Colombia(n=11)

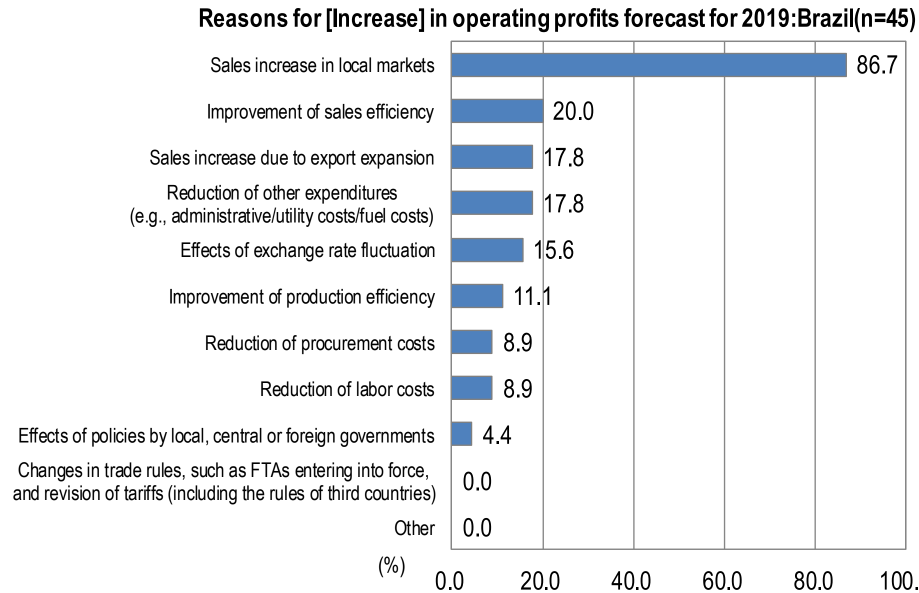


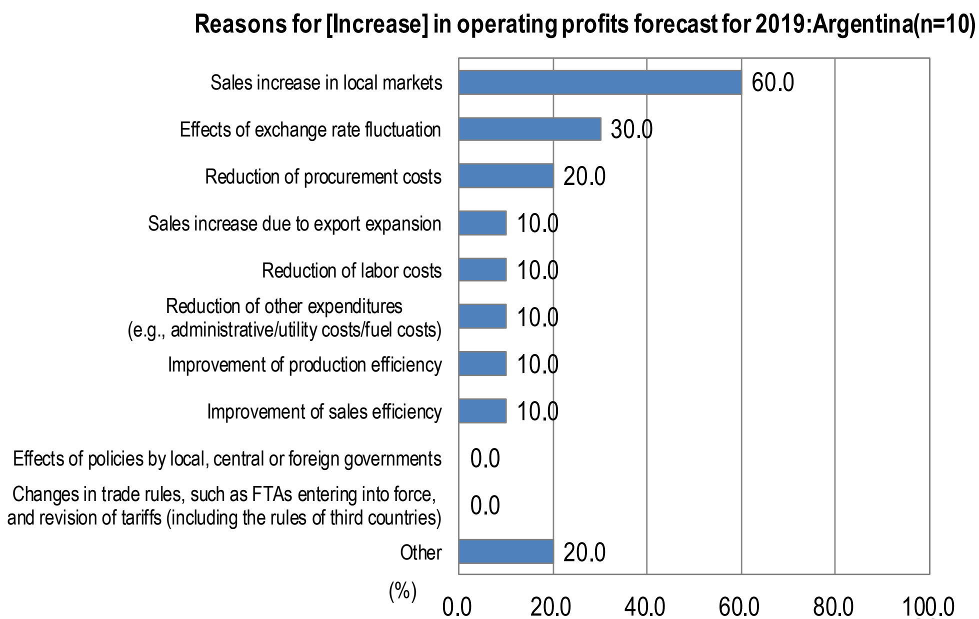
Reasons for [Increase] in operating profits forecast for 2019:Peru(n=9)



II-2-(2) Reasons for “Increase” in Operating Profits Forecast for 2019 (by country-2)







II-2-(3) Reasons for "Decrease" in Operating Profits Forecast for 2019

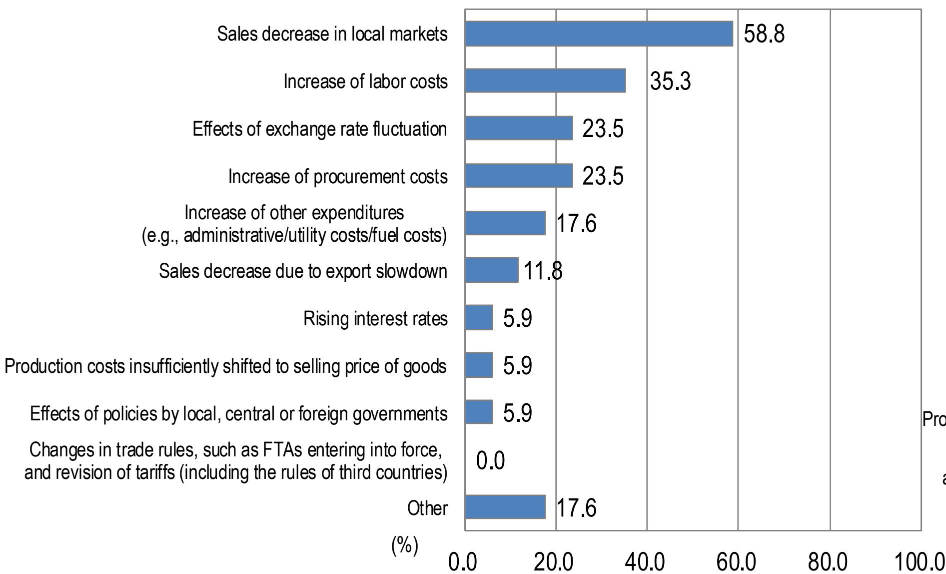
- In Latin America, "Sales decrease in local markets" was the most-commonly cited reason for "Decrease" (47.8%), followed by "Increase of labor costs" and "Effects of exchange rate fluctuation."
- By country, "Increase of labor costs" and "Effects of exchange rate fluctuation" were the most-common reasons in Mexico. The percentage of "Effects of exchange rate fluctuation" was also high in Colombia and Argentina.

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

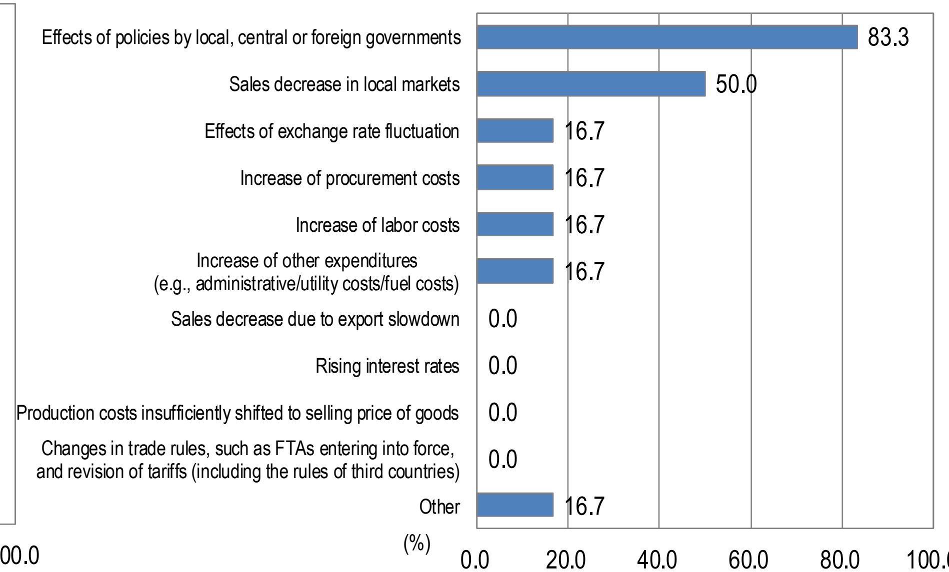
	Valid responses	Sales decrease due to export slowdown	Sales decrease in local markets	Effects of exchange rate fluctuation	Increase of procurement costs	Increase of labor costs	Increase of other expenditures (e.g., administrative/utility costs/fuel costs)	Rising interest rates	Production costs insufficiently shifted to selling price of goods	Effects of policies by local, central or foreign governments	Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)	Other
Latin America	46	10.9	47.8	28.3	17.4	32.6	23.9	6.5	13.0	17.4	0.0	26.1
Mexico	17	11.8	58.8	23.5	23.5	35.3	17.6	5.9	5.9	5.9	0.0	17.6
Venezuela	6	0.0	50.0	16.7	16.7	16.7	16.7	0.0	0.0	83.3	0.0	16.7
Colombia	4	25.0	0.0	50.0	25.0	25.0	0.0	0.0	25.0	0.0	0.0	25.0
Peru	3	0.0	0.0	0.0	0.0	33.3	33.3	0.0	33.3	33.3	0.0	100.0
Chile	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Brazil	8	0.0	25.0	12.5	0.0	12.5	37.5	0.0	25.0	12.5	0.0	25.0
Argentina	8	25.0	87.5	62.5	25.0	62.5	37.5	25.0	12.5	0.0	0.0	25.0

II-2-(3) Reasons for "Decrease" in Operating Profits Forecast for 2019 (by country-1)

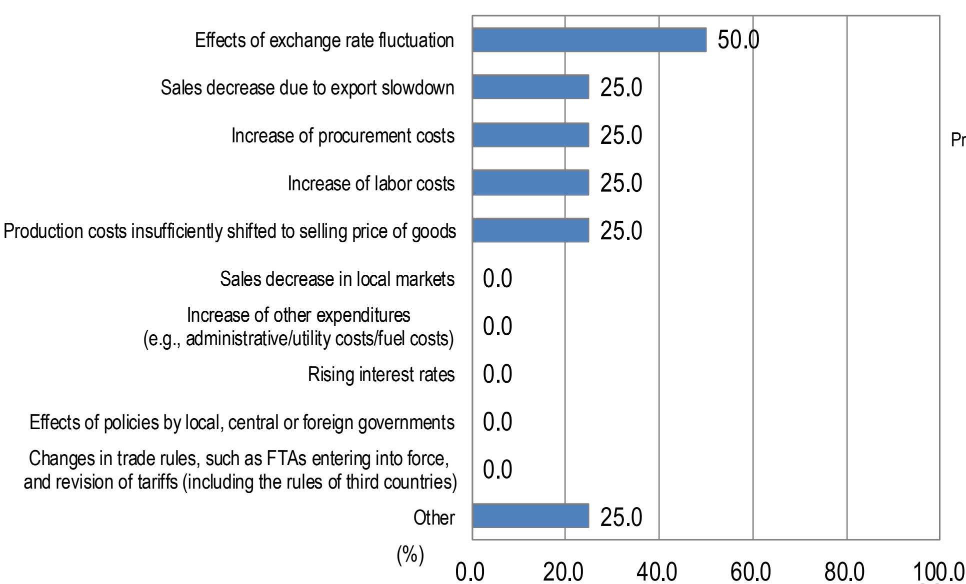
Reasons for [Decrease] in operating profits forecast for 2019:Mexico(n=17)



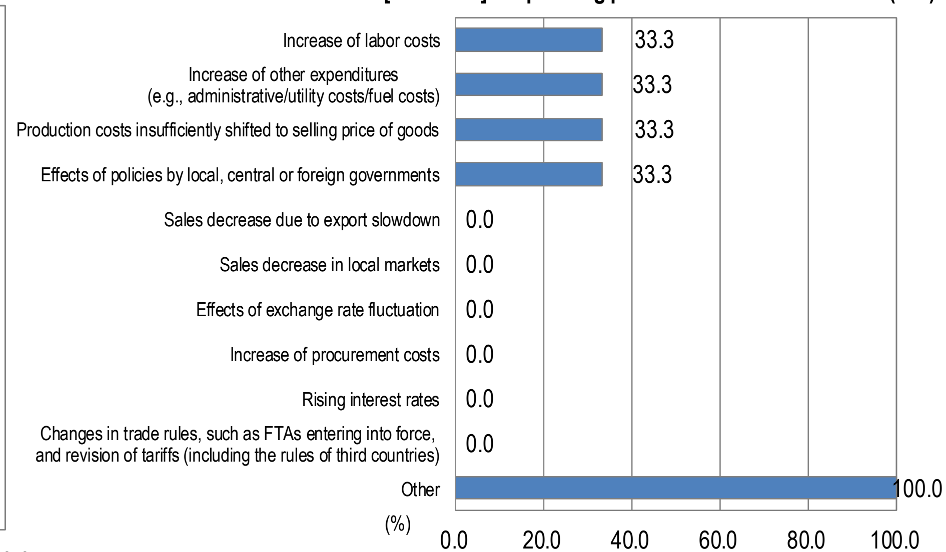
Reasons for [Decrease] in operating profits forecast for 2019:Venezuela(n=6)



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

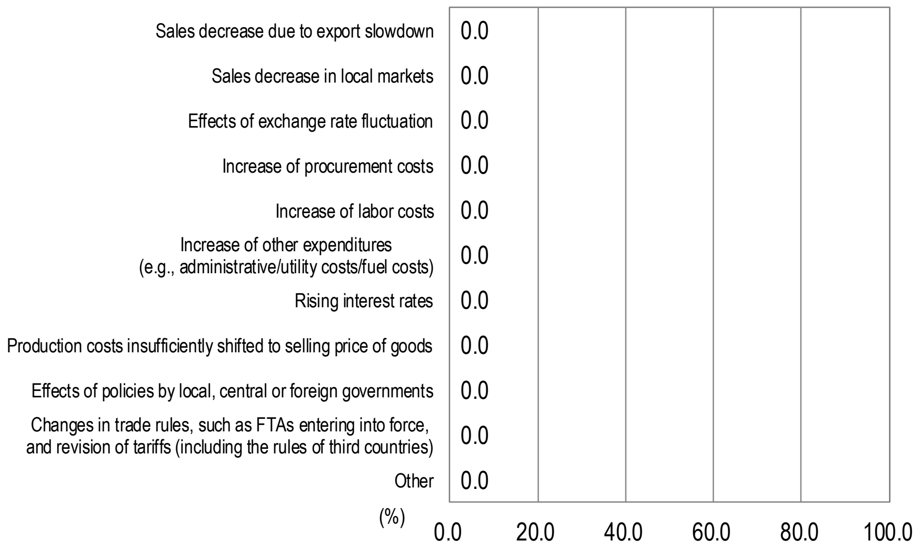


Reasons for [Decrease] in operating profits forecast for 2019:Peru(n=3)

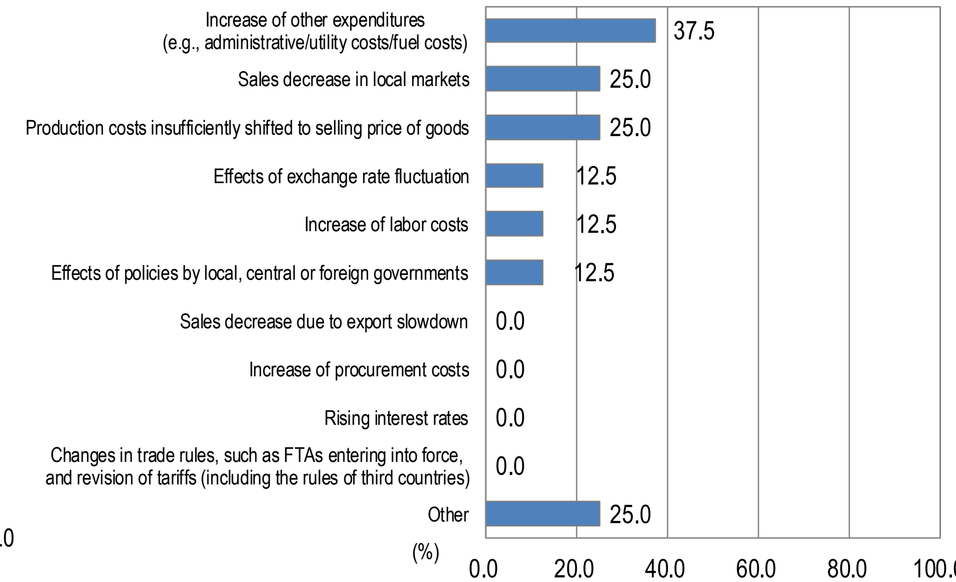


II-2-(3) Reasons for “Decrease” in Operating Profits Forecast for 2019 (by country-2)

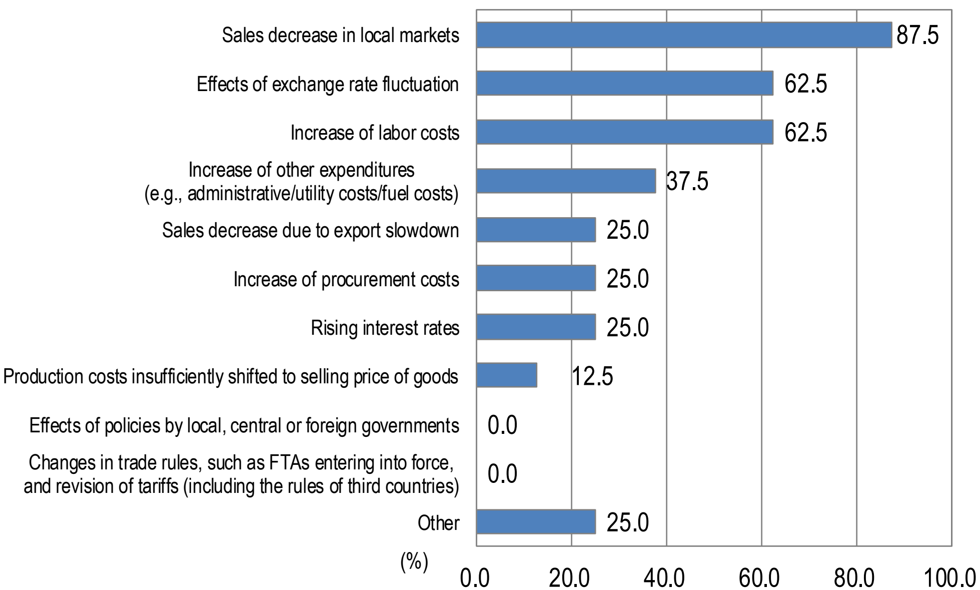
Reasons for [Decrease] in operating profits forecast for 2019:Chile(n=0)



Reasons for [Decrease] in operating profits forecast for 2019:Brazil(n=8)



Reasons for [Decrease] in operating profits forecast for 2019:Argentina(n=8)

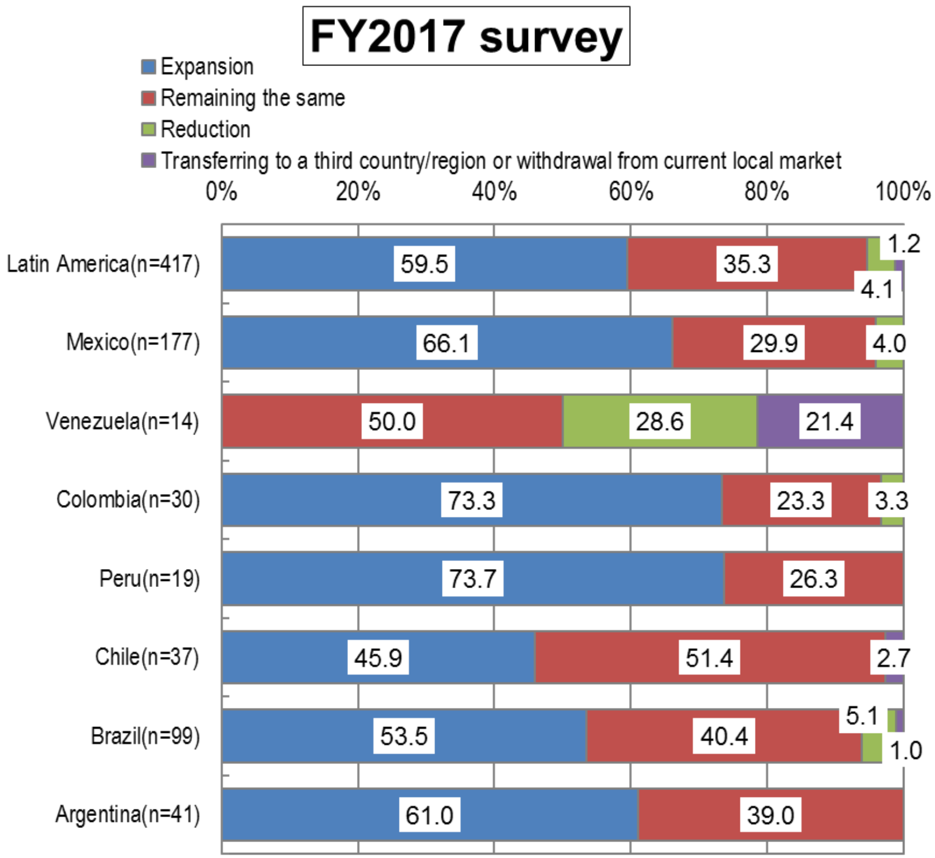


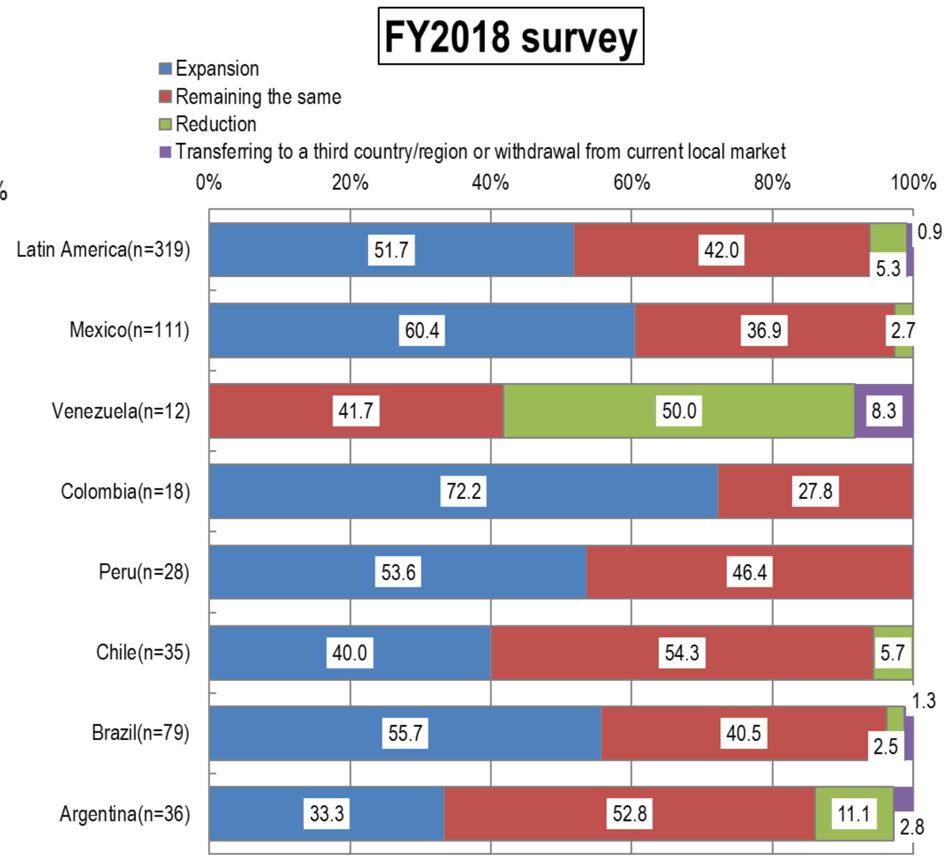
II-3-(1) Approach to Future Business Challenges in the Next One or Two Years

■In Latin America, "Expansion" (51.7%) decreased by 7.8 pp from the previous survey. "Expansion" decreased from the previous survey in all countries, except for Brazil.

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

■In Venezuela, "Reduction" reached 50.0% due to economic conditions that continued to worsen under the Maduro administration.





II-3-(2) Approach to Future Business Challenges in the Next One or Two Years: Reasons for "Expansion"

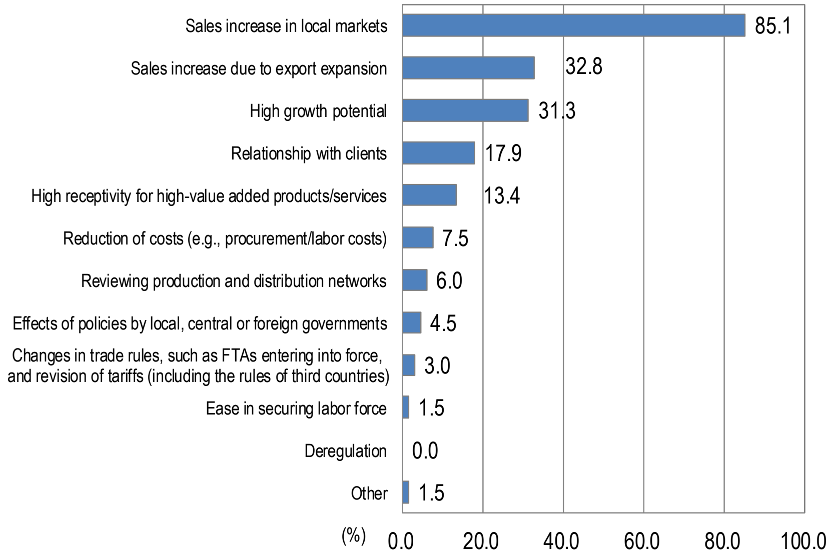
- In Latin America, "Sales increase in local markets" (83.6%), "High growth potential" (37.0%), and "Sales increase due to export expansion" (33.9%) were the main reasons for expansion.
- By country, "Reduction of costs (e.g., procurement/labor costs)" increased from the previous survey in Mexico and Chile.
- In Argentina, "High receptivity for high-value added products/services" significantly increased (from 8.0% to 41.7%) in many business categories.

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

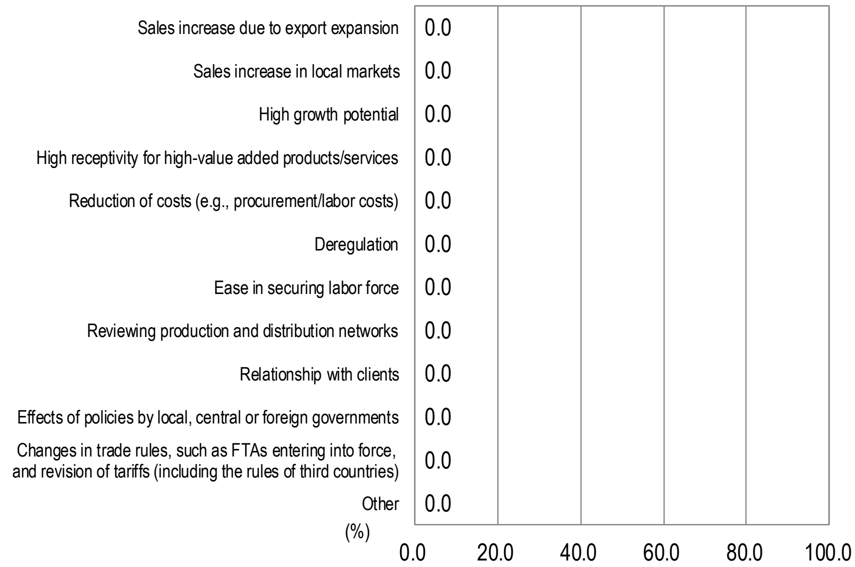
	Valid responses	Sales increase due to export expansion	Sales increase in local markets	High growth potential	High receptivity for high-value added products/services	Reduction of costs (e.g., procurement/labor costs)	Deregulation	Ease in securing labor force	Reviewing production and distribution networks	Relationship with clients	Effects of policies by local, central or foreign governments	Changes in trade rules, such as FTAs entering into force, and revision of tariffs (including the rules of third countries)	Other
Latin America	165	33.9	83.6	37.0	21.2	7.3	1.2	0.6	10.9	18.2	4.8	1.8	3.6
Mexico	67	32.8	85.1	31.3	13.4	7.5	0.0	1.5	6.0	17.9	4.5	3.0	1.5
Venezuela	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Colombia	13	61.5	100.0	46.2	15.4	0.0	0.0	0.0	7.7	23.1	0.0	0.0	0.0
Peru	15	46.7	73.3	53.3	20.0	0.0	0.0	0.0	20.0	33.3	0.0	0.0	0.0
Chile	14	35.7	71.4	14.3	21.4	14.3	0.0	0.0	14.3	14.3	0.0	0.0	14.3
Brazil	44	22.7	88.6	38.6	29.5	6.8	4.5	0.0	18.2	15.9	9.1	2.3	6.8
Argentina	12	33.3	66.7	58.3	41.7	16.7	0.0	0.0	0.0	8.3	8.3	0.0	0.0

II-3-(2) Approach to Future Business Challenges in the Next One or Two Years: Reasons for "Expansion" (by country-1)

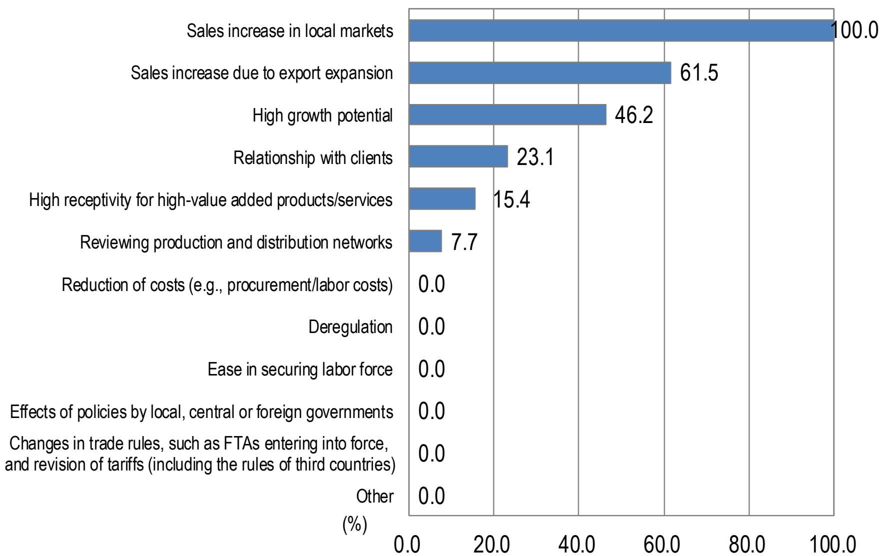
Approach to future business challenges in the next 1 or 2 years; Reasons for [Expansion]:Mexico(n=67)



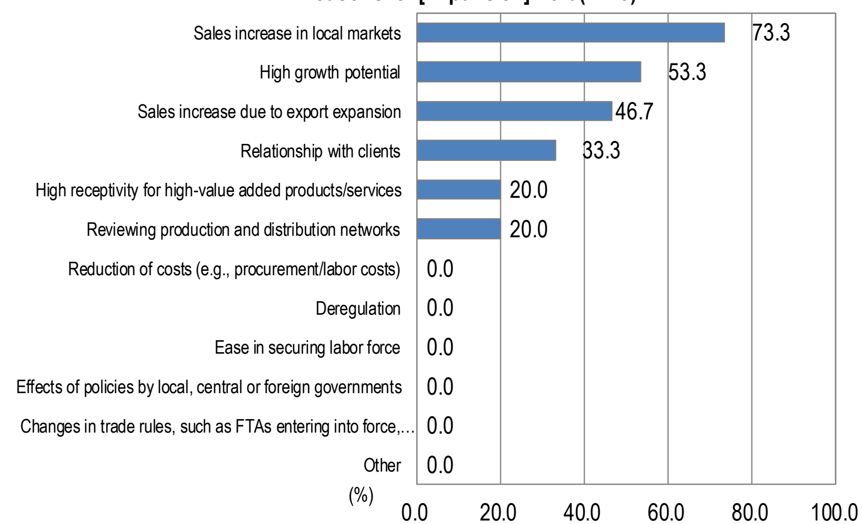
Approach to future business challenges in the next 1 or 2 years; Reasons for [Expansion]:Venezuela(n=0)



Approach to future business challenges in the next 1 or 2 years; Reasons for [Expansion]:Colombia(n=13)

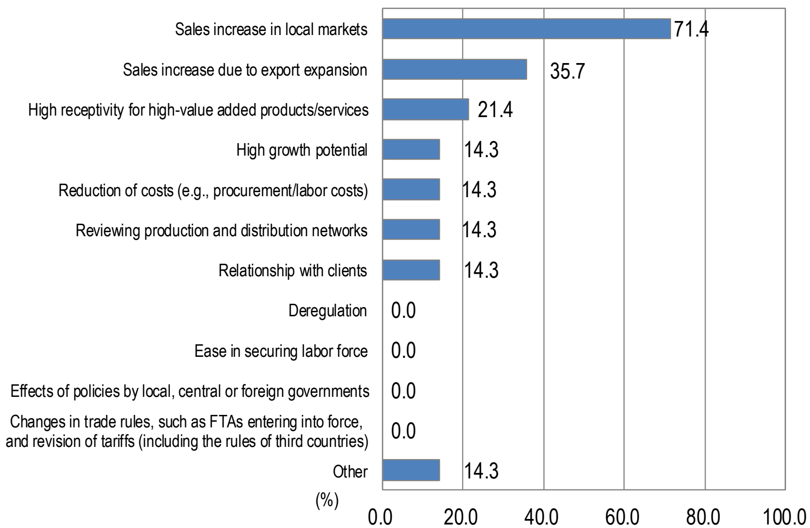


Approach to future business challenges in the next 1 or 2 years; Reasons for [Expansion]:Peru(n=15)

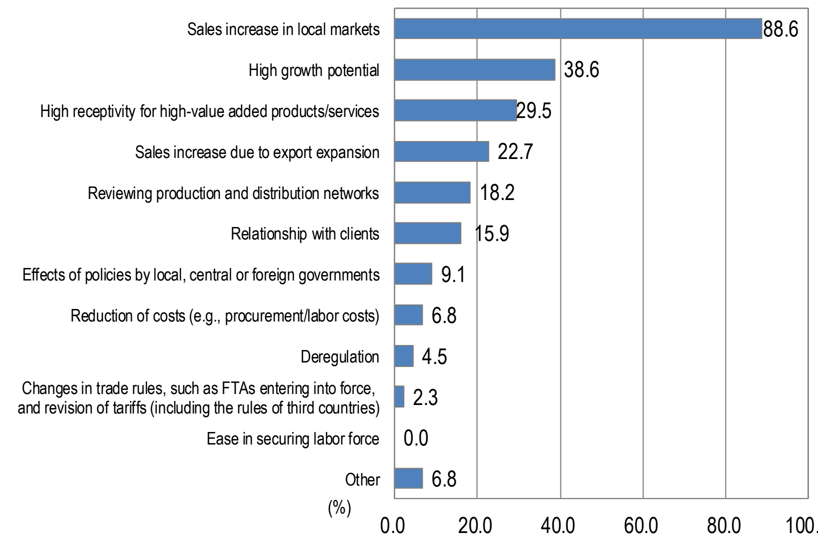


II-3-(2) Approach to Future Business Challenges in the Next One or Two Years: Reasons for "Expansion" (by country-2)

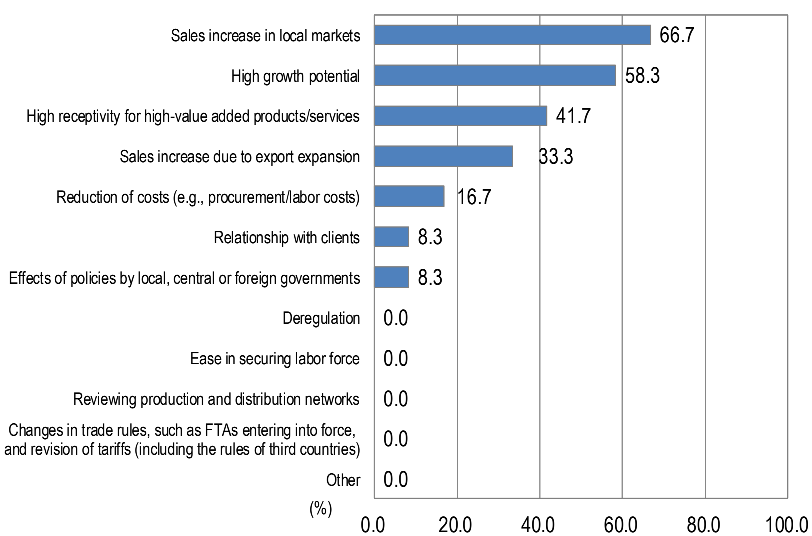
Approach to future business challenges in the next 1 or 2 years;
Reasons for [Expansion]:Chile(n=14)



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



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



II-3-(3) Approach to Future Business Challenges in the Next One or Two Years: Functions to Be Expanded

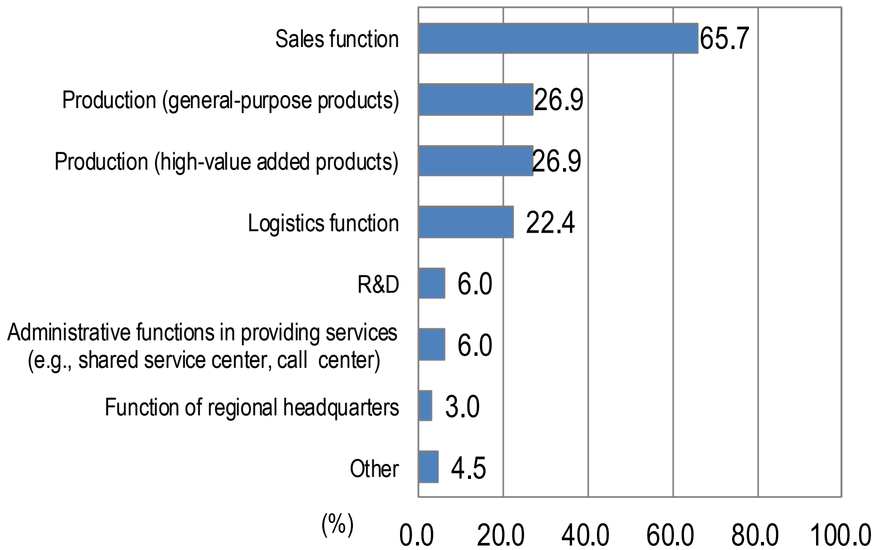
- In Latin America, the percentage of "Sales function" was overwhelmingly high. In particular, the percentage reached 92.3% in Colombia. "Production" and "Logistics function" accounted for approx. 20%.
- By country, "Production (high-value added products)" increased in Argentina, Peru, and Colombia.

Functions to be expanded (multiple answers)

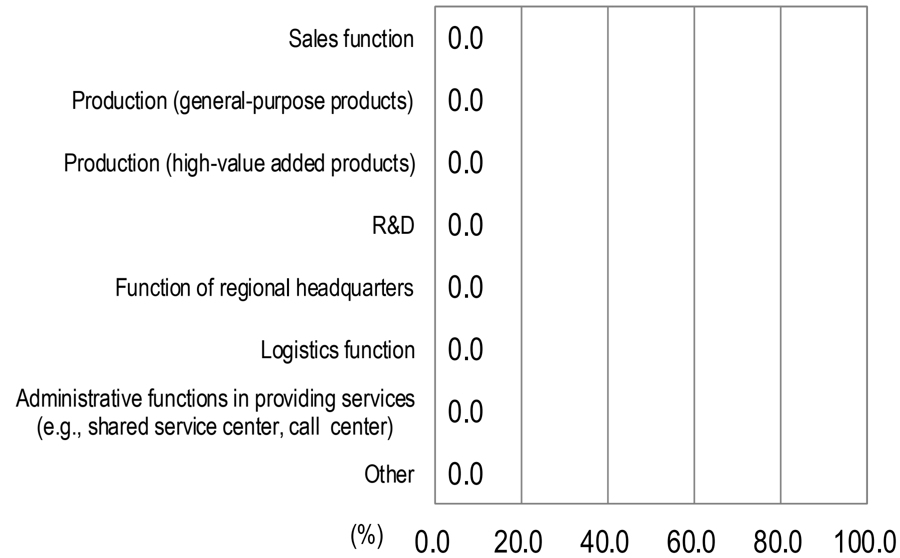
	Valid responses	Sales function	Production (general-purpose products)	Production (high-value added products)	R&D	Function of regional headquarters	Logistics function	Administrative functions in providing services (e.g., shared service center, call center)	Other
Latin America	165	73.9	18.2	25.5	5.5	6.1	20.0	9.1	4.8
Mexico	67	65.7	26.9	26.9	6.0	3.0	22.4	6.0	4.5
Venezuela	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Colombia	13	92.3	15.4	30.8	0.0	0.0	23.1	7.7	7.7
Peru	15	60.0	6.7	33.3	6.7	13.3	33.3	13.3	6.7
Chile	14	71.4	7.1	14.3	14.3	7.1	14.3	0.0	7.1
Brazil	44	86.4	15.9	20.5	4.5	9.1	15.9	11.4	0.0
Argentina	12	75.0	8.3	33.3	0.0	8.3	8.3	25.0	16.7

II-3-(3) Approach to Future Business Challenges in the Next One or Two Years: Functions to Be Expanded (by country-1)

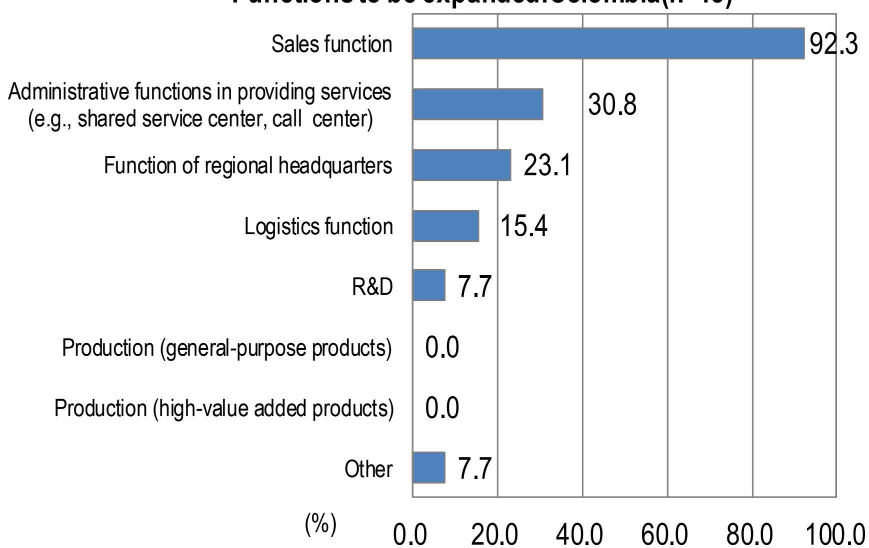
Functions to be expanded:Mexico(n=67)



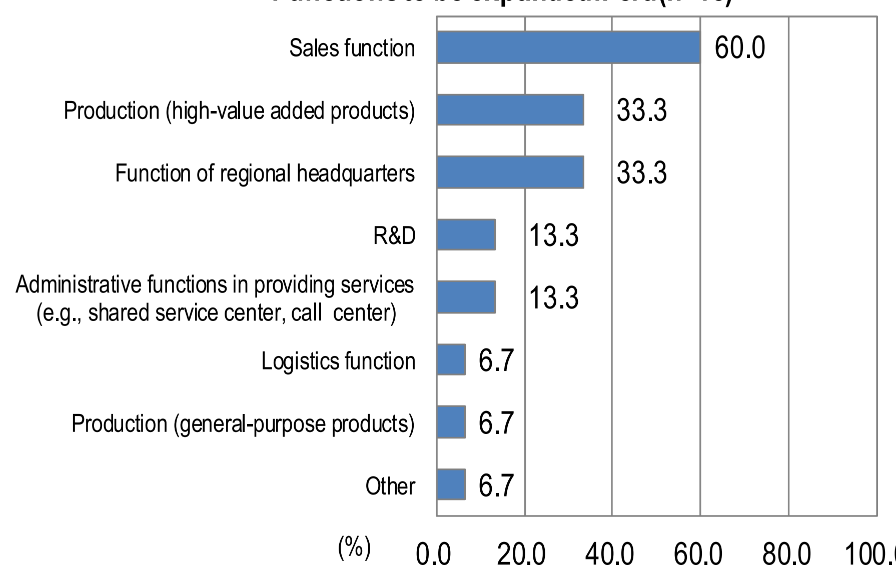
Functions to be expanded:Venezuela(n=0)



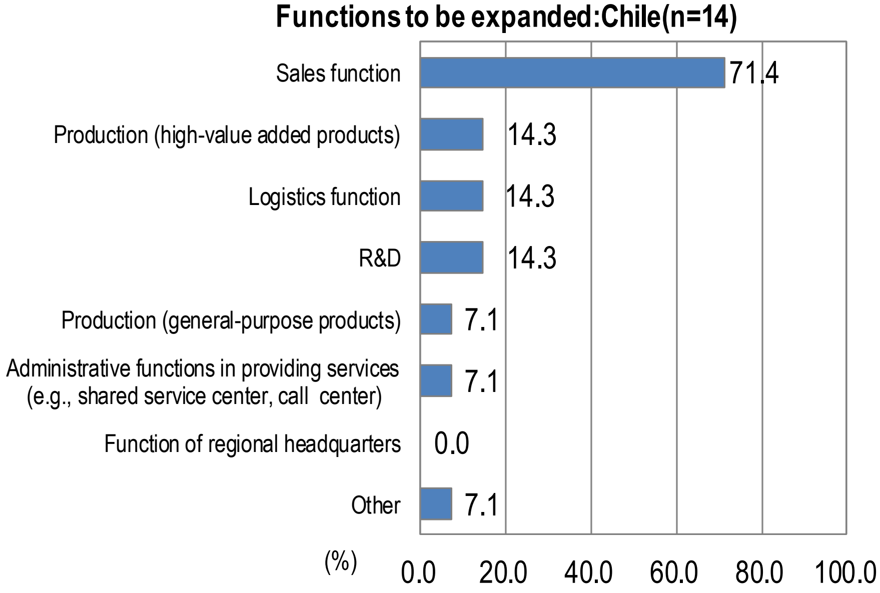
Functions to be expanded:Colombia(n=13)

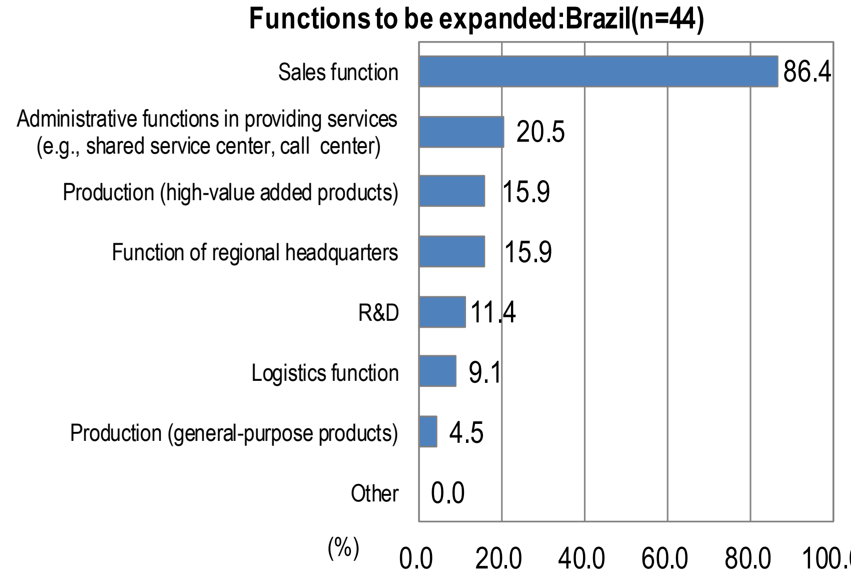


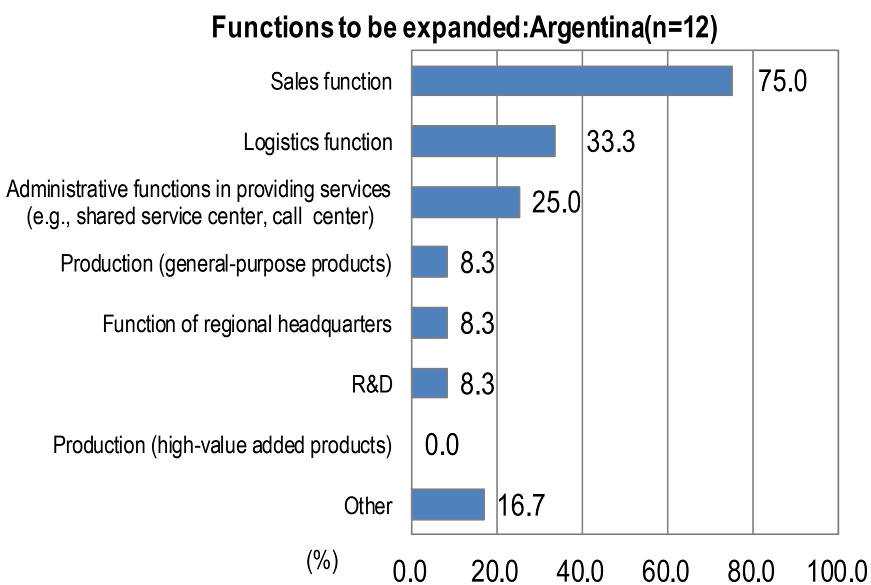
Functions to be expanded:Peru(n=15)



II-3-(3) Approach to Future Business Challenges in the Next One or Two Years: Functions to Be Expanded (by country-2)



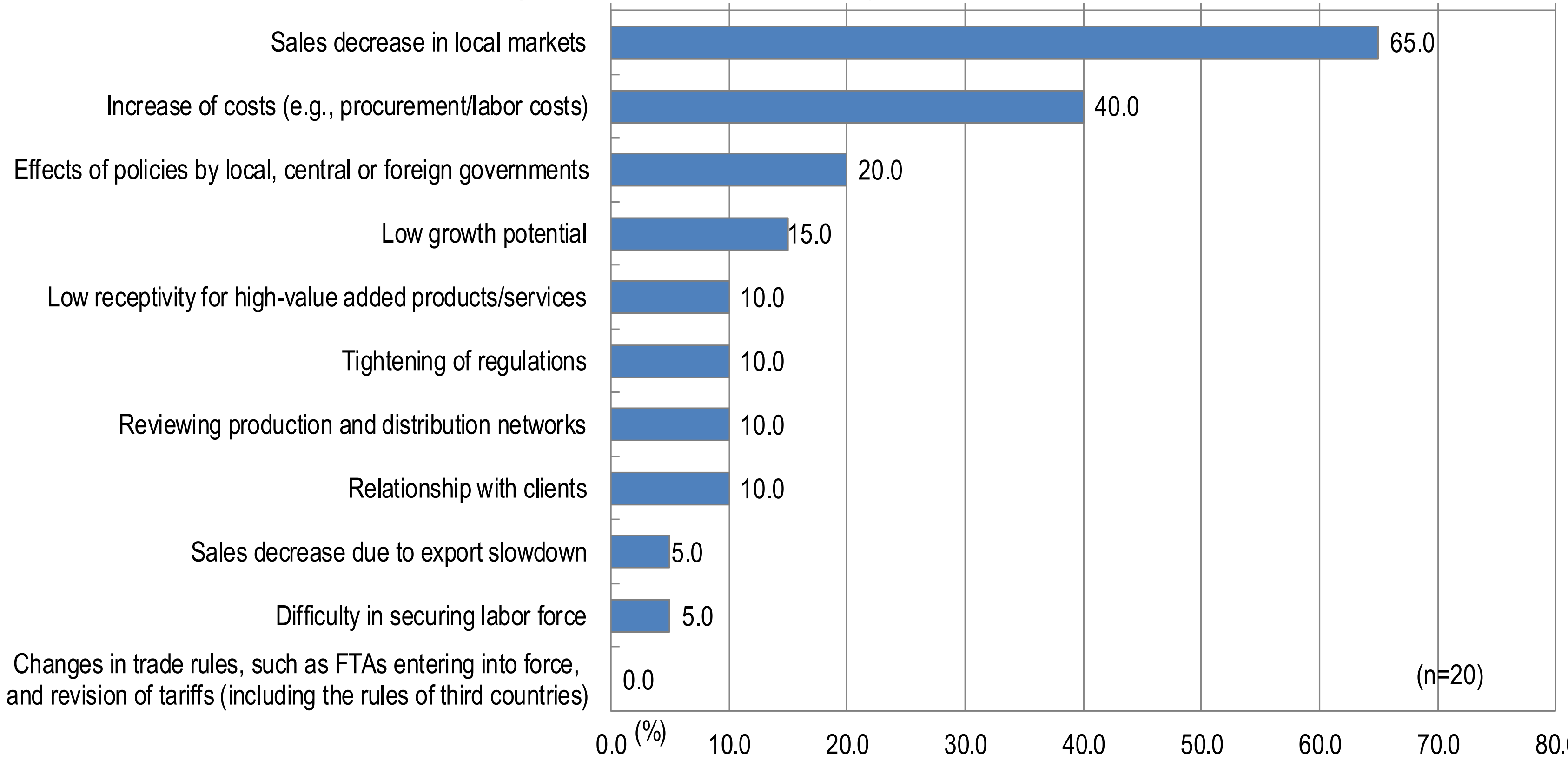




II-3-(4) Approach to Future Business Challenges in the Next One or Two Years: Reasons for “Reduction” or “Transferring to a third country/region or withdrawal from current local market”

■ **“Sales decrease in local markets” and “Increase of costs” were overwhelming reasons for “Reduction” or “Transferring to a third country/region or withdrawal from current local market.”**

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

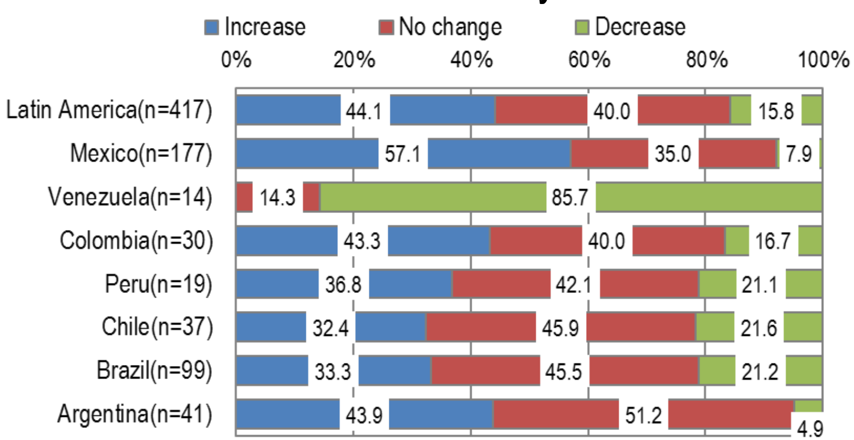


II-3-(5)-1 Changes in the Number of Local Employees

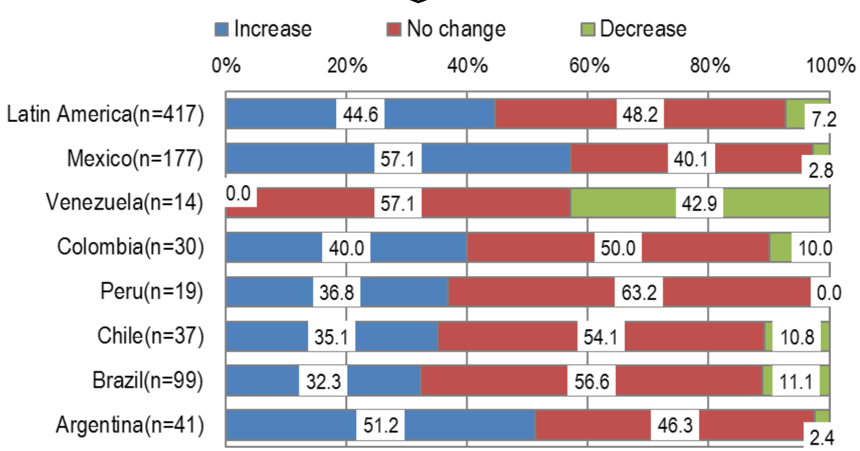
■The percentage of companies that plan to increase the number of local employees decreased by 10.4 pp from the previous survey. By country, the percentage decreased in all countries, except for Brazil. In particular, the percentage significantly decreased in Argentina (from 51.2% to 22.5%).

FY2017 survey

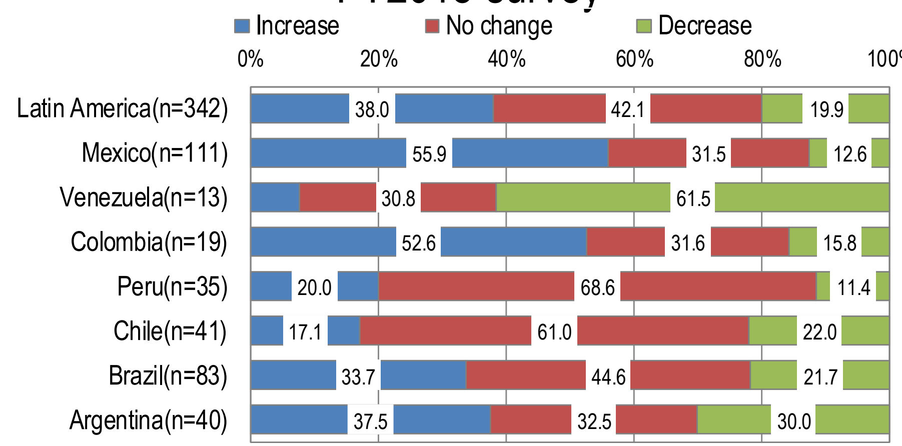
Past year

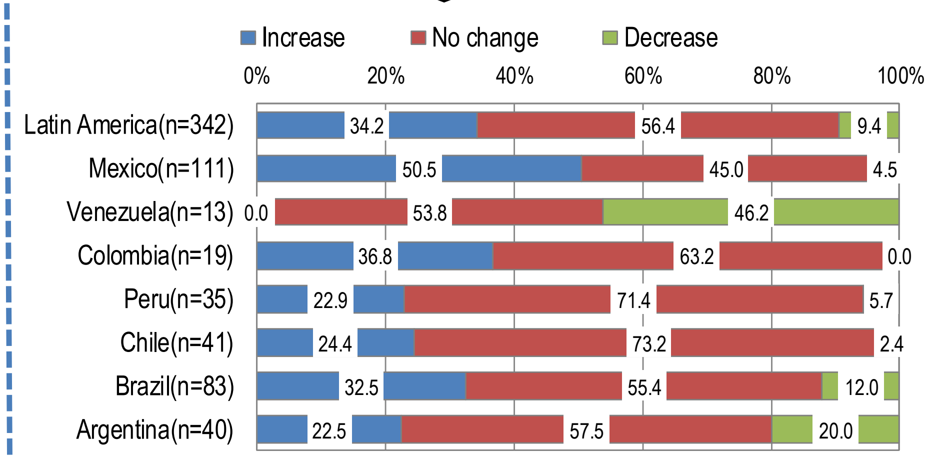


Future plans



FY2018 survey



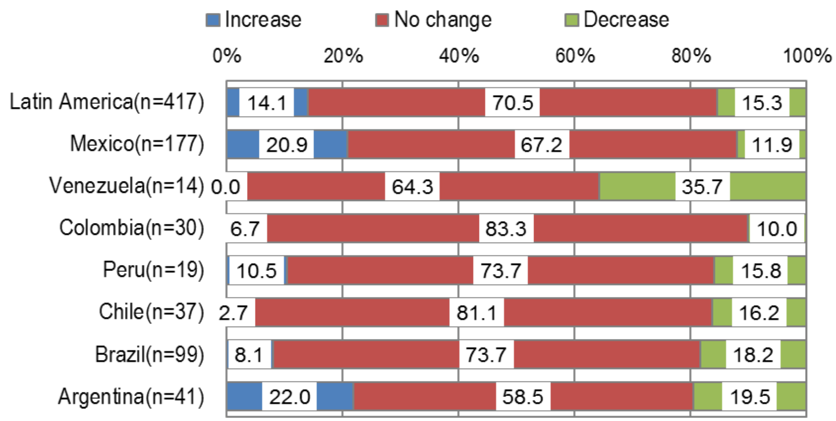


II-3-(5)-2 Changes in the Number of Japanese Expatriates

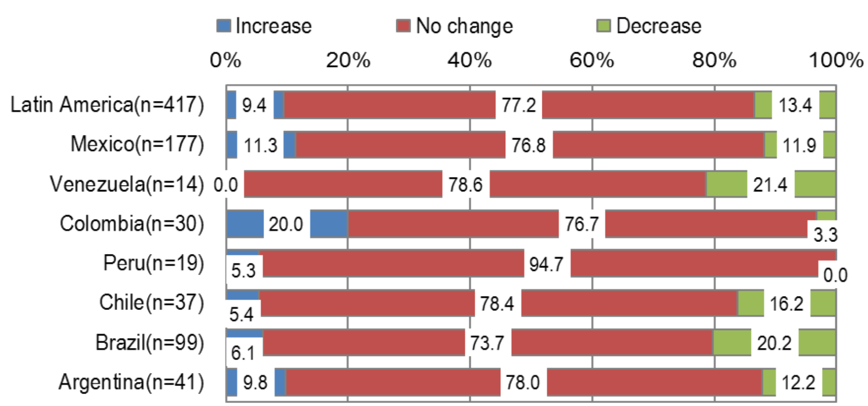
- The “Increase” in the number of Japanese expatriates was the largest in Mexico in the past year (22.5%), followed by Colombia (15.8%). In Argentina, on the other hand, “Increase” decreased by 12 pp from the previous survey (10.0%).
- The percentage of companies that plan to increase the number of Japanese expatriates in the future was the largest in Colombia. This is because the growth of domestic demand began to recover in 2018 after slowing in 2017 due to increased value-added tax (IVA) (December 2016). In Mexico, the “Future plans” percentage (11.7%) was half that of the past year’s percentage partly because of the effects of NAFTA renegotiations.

FY2017 survey

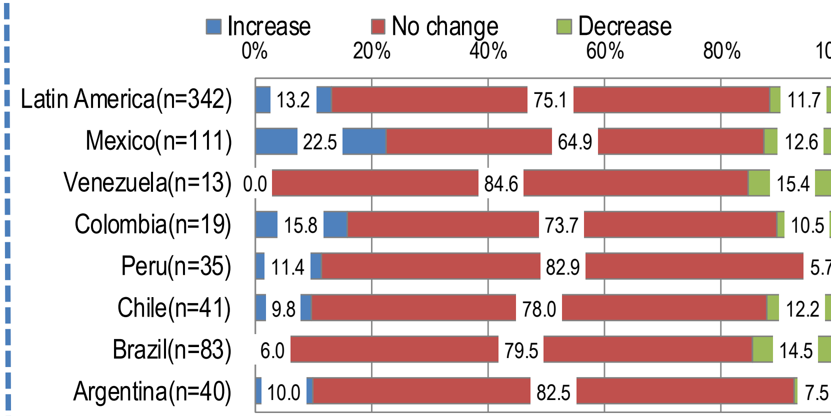
Past year

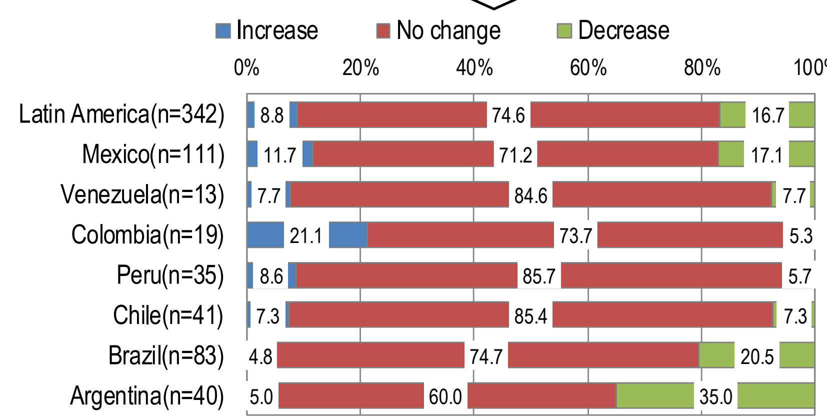


Future plans



FY2018 survey





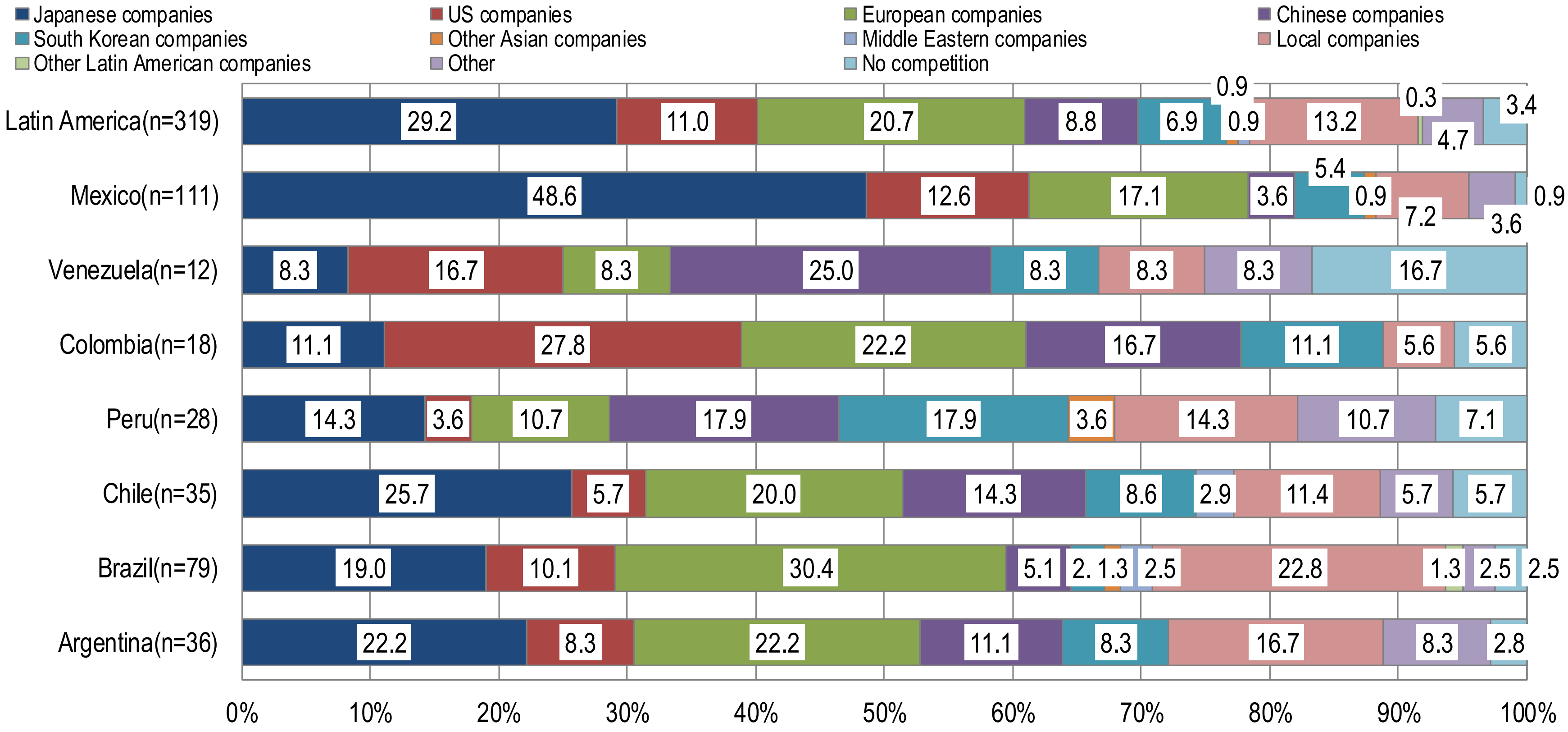
Ⅱ-4-(1) Challenges in Exploring Market: Competitors in the Same Business Category

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

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

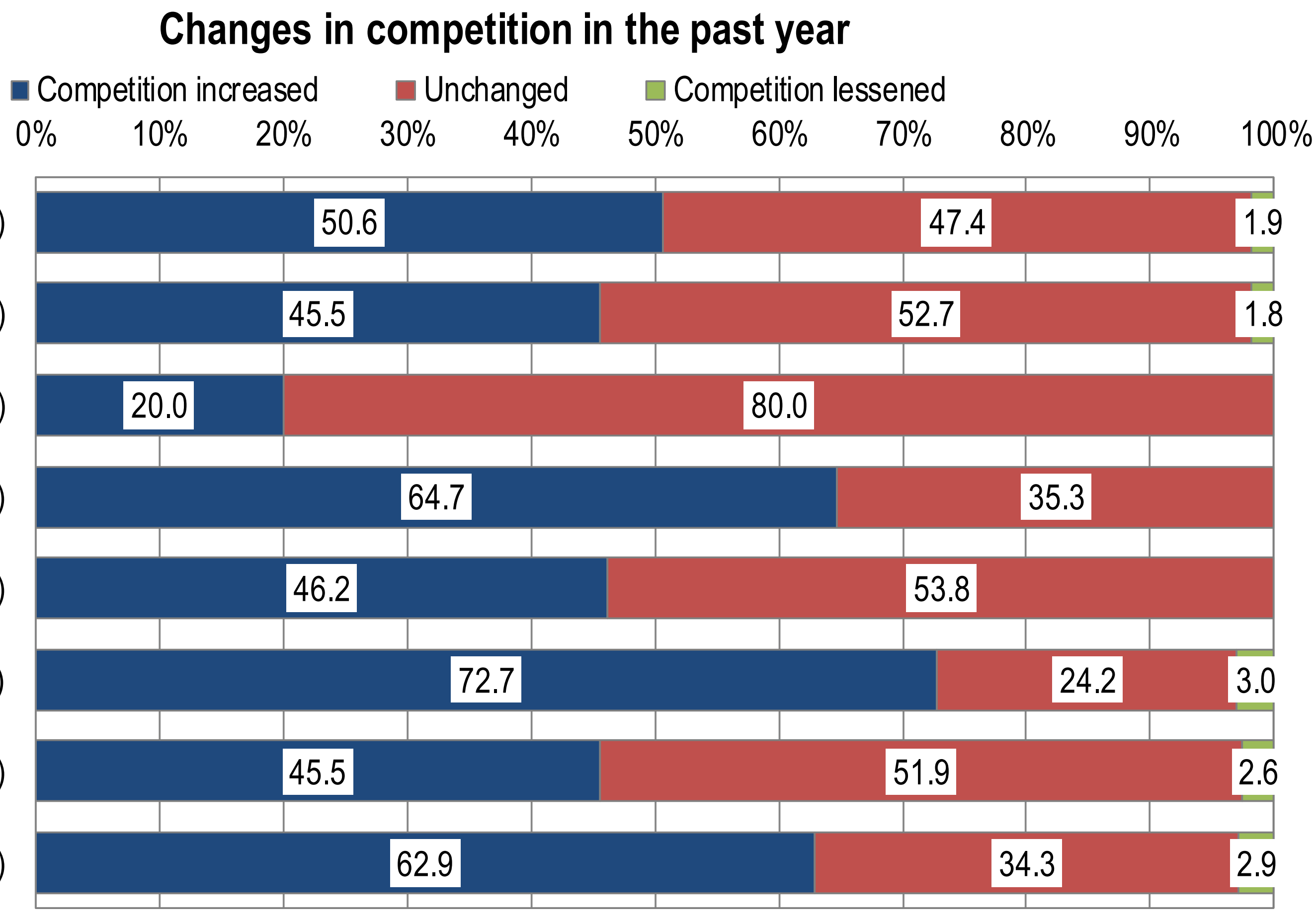
■In Colombia, "South Korean companies" increased (from 6.7% to 11.1%) among durables-related companies because of the Colombia-South Korea FTA that took effect in 2016.

Companies in the same business category that compete most intensively



II-4-(2) Challenges in Exploring Market: Changes in Competition

■With regard to changes in competition in the past year, "Competition increased" increased from the previous survey in Latin America (from 45.2% to 50.6%).
■In Chile, in particular, "Competition increased" increased more significantly from the previous survey (from 60.0% to 72.7%). This is probably because of the penetration of "Chinese companies," etc.



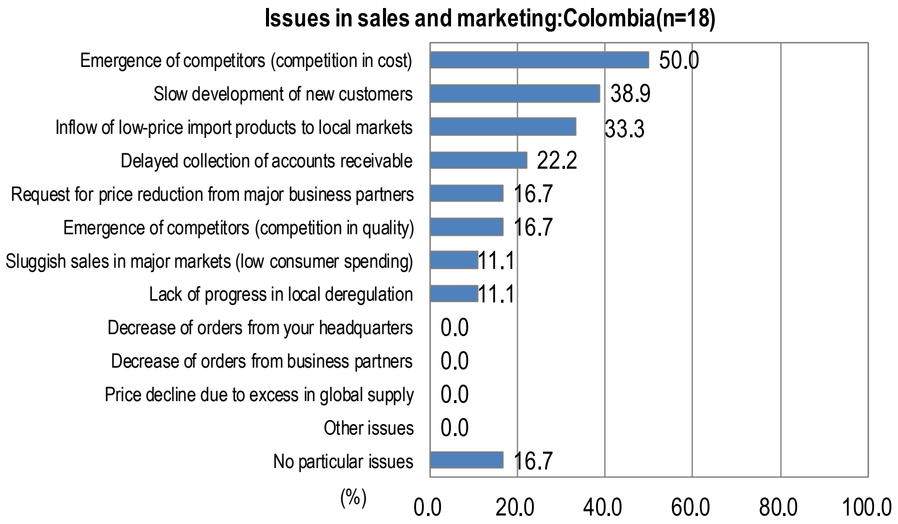
II-5-(1) Issues in Business Management: Sales and Marketing

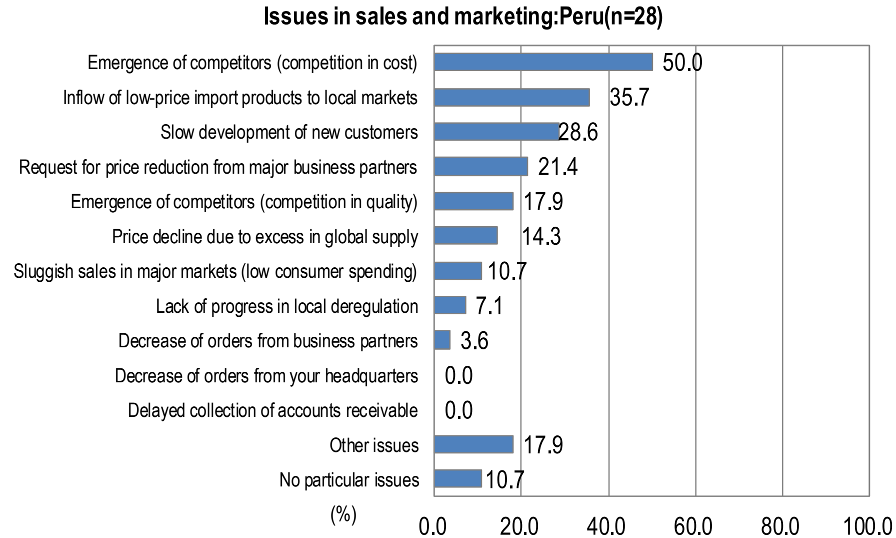
- As with the previous survey, "Emergence of competitors (competition in cost)" (47.0%), "Sluggish sales in major markets (low consumer spending)" (31.7%), "Request for price reduction from major business partners" (31.0%), and "Slow development of new customers" (29.8%) were more-frequently cited in Latin America.
- In Chile, "Inflow of low-price import products to local markets" and "Emergence of competitors (competition in quality)" increased (from 8.1% to 22.9% and from 16.2% to 22.9%, respectively) as the reasons for fiercer competition against the backdrop of the emergence of Chinese companies.
- In Colombia, "Sluggish sales in major markets" significantly decreased (from 56.7% to 11.1%). This is because the growth of domestic demand began to recover in 2018, although it slowed in 2017 as a result of value-added tax (IVA) increase (December 2016).
- In Argentina, "Sluggish sales in major markets" significantly increased from the previous survey (from 19.5% to 66.7%).

Issues in sales and marketing (multiple answers)

	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	319	1.6	17.2	31.0	31.7	29.8	7.8	20.7	14.1	47.0	11.6	15.7	15.0	7.5
Mexico	111	1.8	18.9	42.3	27.9	29.7	4.5	13.5	10.8	51.4	8.1	16.2	12.6	9.0
Venezuela	12	0.0	16.7	0.0	25.0	25.0	0.0	8.3	0.0	0.0	8.3	33.3	58.3	0.0
Colombia	18	0.0	0.0	16.7	11.1	38.9	0.0	33.3	16.7	50.0	11.1	22.2	0.0	16.7
Peru	28	0.0	3.6	21.4	10.7	28.6	14.3	35.7	17.9	50.0	7.1	0.0	17.9	10.7
Chile	35	8.6	11.4	14.3	17.1	17.1	17.1	22.9	22.9	57.1	2.9	11.4	17.1	11.4
Brazil	79	0.0	19.0	35.4	40.5	40.5	10.1	21.5	19.0	48.1	20.3	11.4	15.2	3.8
Argentina	36	0.0	33.3	27.8	66.7	16.7	5.6	25.0	5.6	33.3	16.7	30.6	11.1	2.8

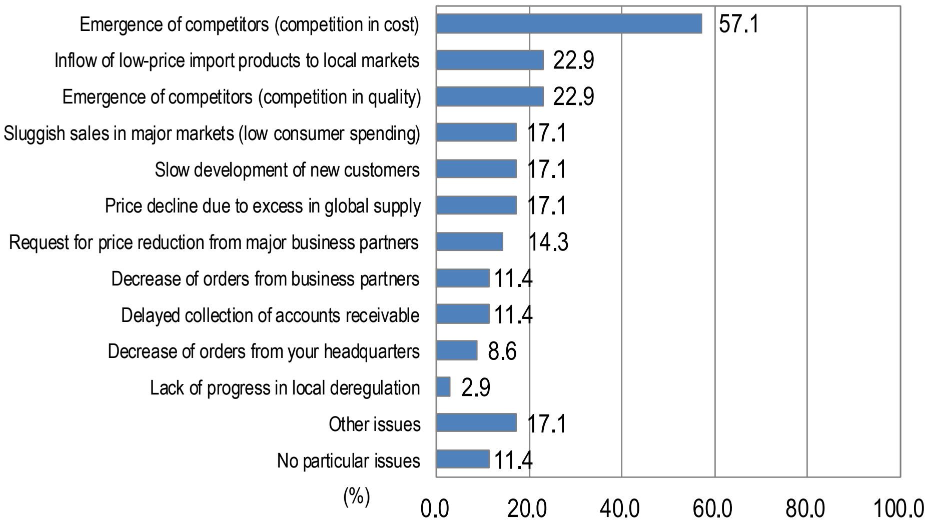
II-5-(1) Issues in Business Management: Sales and Marketing (by country-1)



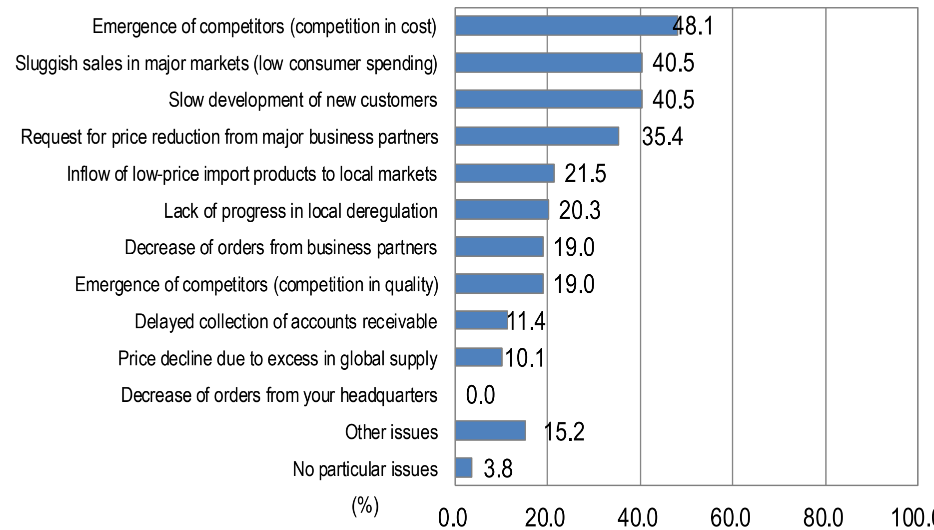


II-5-(1) Issues in Business Management: Sales and Marketing (by country-2)

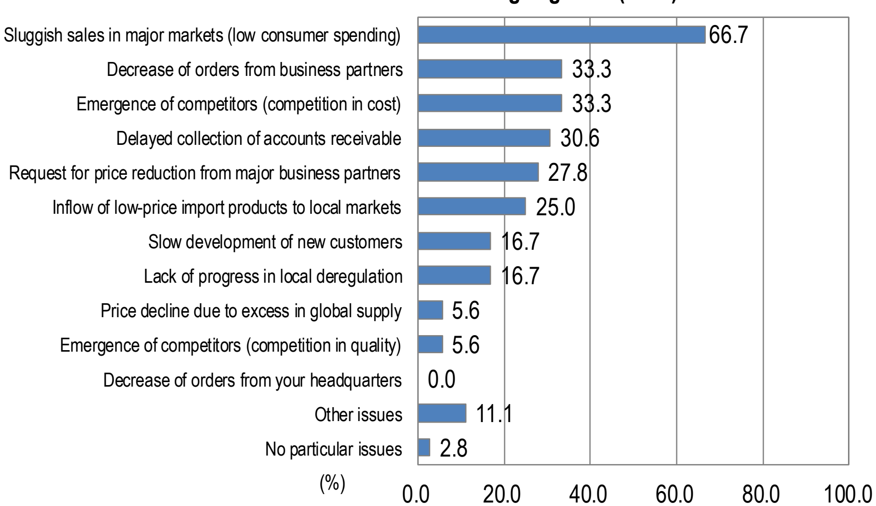
Issues in sales and marketing:Chile(n=35)



Issues in sales and marketing:Brazil(n=79)



Issues in sales and marketing:Argentina(n=36)



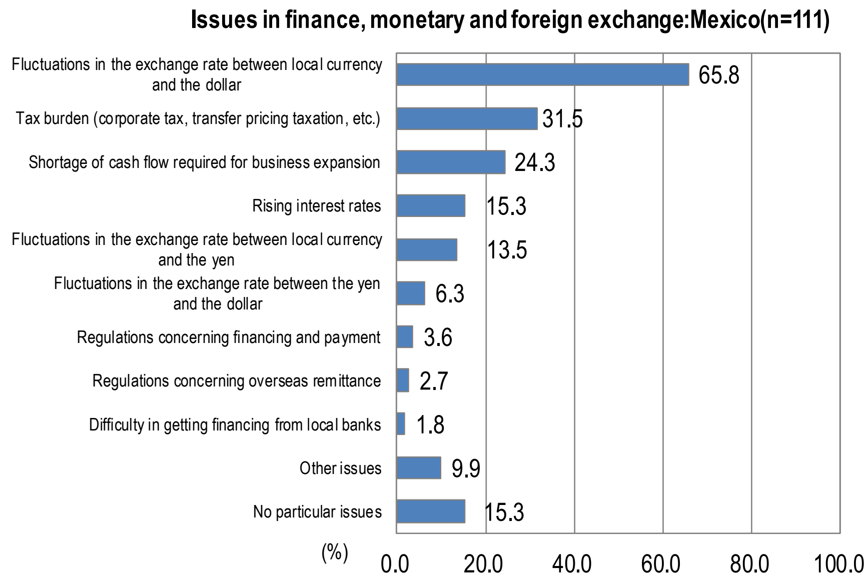
II-5-(2) Issues in Business Management: Finance, Monetary and Foreign Exchange

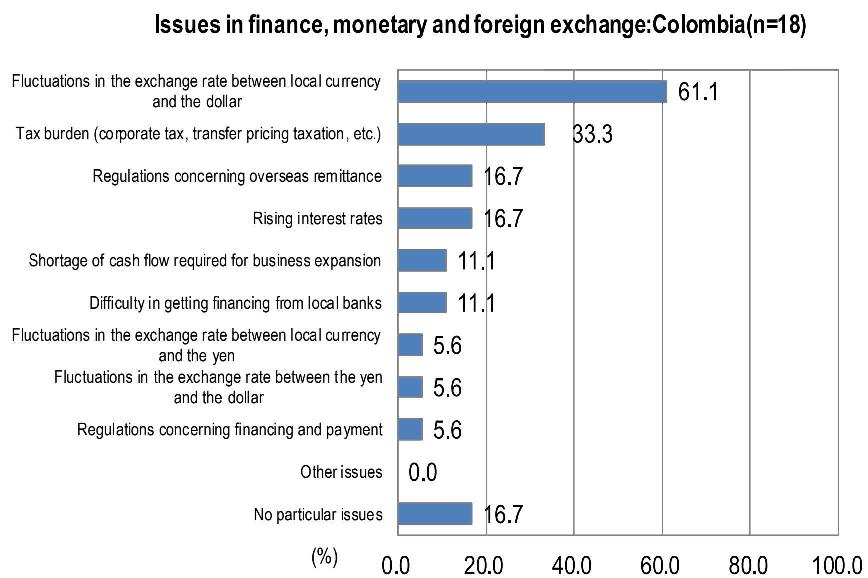
- **In Latin America, the percentage of "Fluctuations in the exchange rate between local currency and the dollar" was exceptionally high at 65.5%.**
- **By country, the percentage remarkably increased in Brazil, Argentina, and Venezuela. In Argentina, in particular, the percentage reached 97.2%. "Rising interest rates" also increased significantly in Argentina (from 34.1% to 61.6%).**
- **In Colombia and Chile, "Tax burden" decreased.**

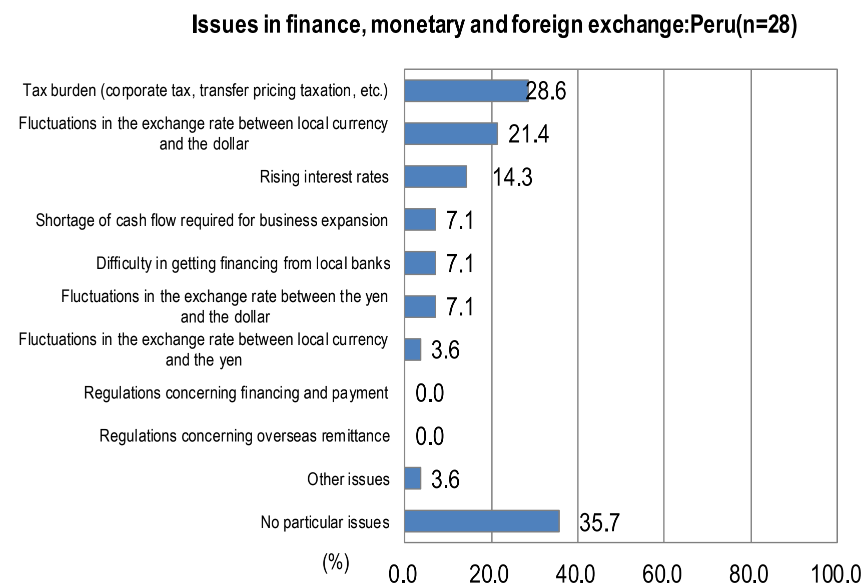
Issues in finance, monetary and foreign exchange (multiple answers)

	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	319	22.6	7.2	65.5	14.4	4.1	7.2	10.0	36.4	15.4	7.2	13.2
Mexico	111	24.3	1.8	65.8	13.5	6.3	3.6	2.7	31.5	15.3	9.9	15.3
Venezuela	12	16.7	25.0	75.0	8.3	0.0	66.7	33.3	8.3	0.0	50.0	0.0
Colombia	18	11.1	11.1	61.1	5.6	5.6	5.6	16.7	33.3	16.7	0.0	16.7
Peru	28	7.1	7.1	21.4	3.6	7.1	0.0	0.0	28.6	14.3	3.6	35.7
Chile	35	17.1	5.7	42.9	8.6	2.9	0.0	5.7	17.1	0.0	2.9	20.0
Brazil	79	27.8	2.5	75.9	26.6	2.5	11.4	20.3	59.5	3.8	2.5	5.1
Argentina	36	30.6	27.8	97.2	11.1	0.0	2.8	11.1	36.1	61.1	5.6	2.8

II-5-(2) Issues in Business Management: Finance, Monetary and Foreign Exchange (by country-1)

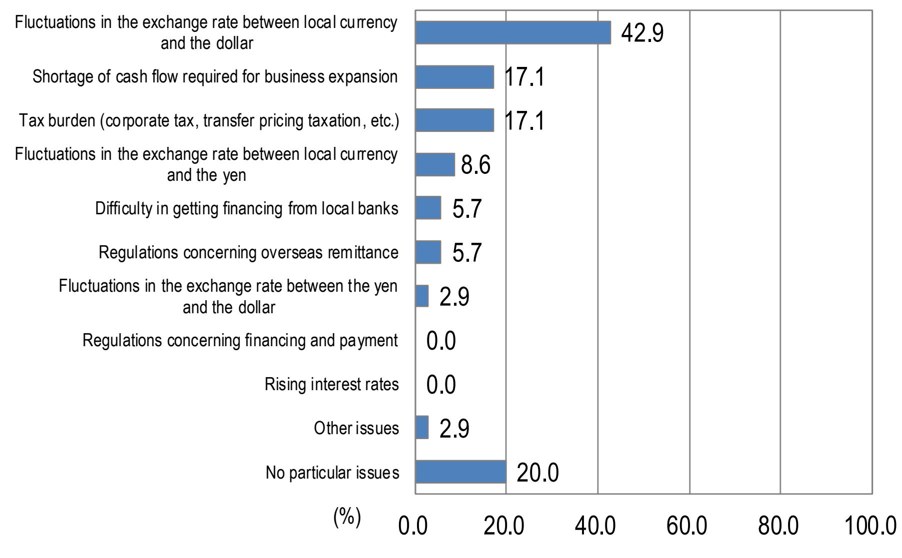




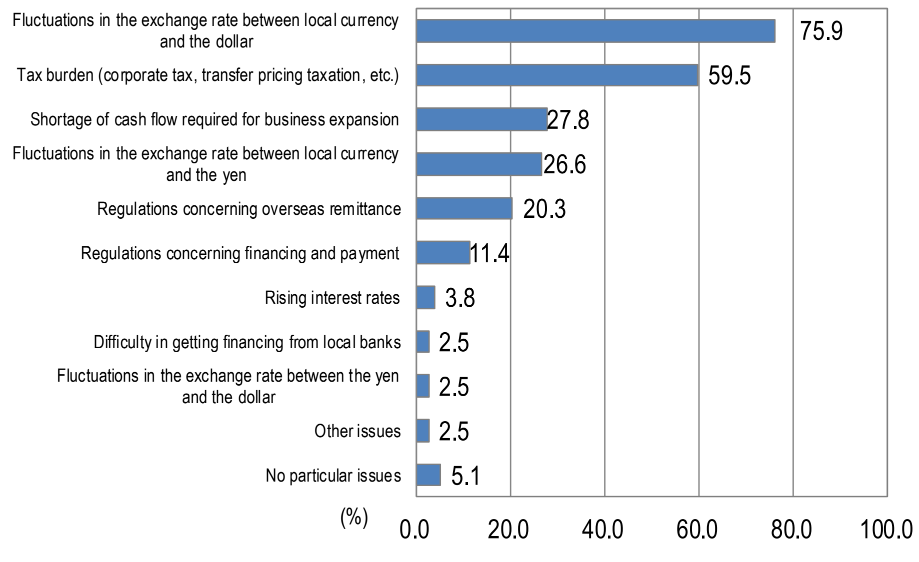


II-5-(2) Issues in Business Management: Finance, Monetary and Foreign Exchange (by country-2)

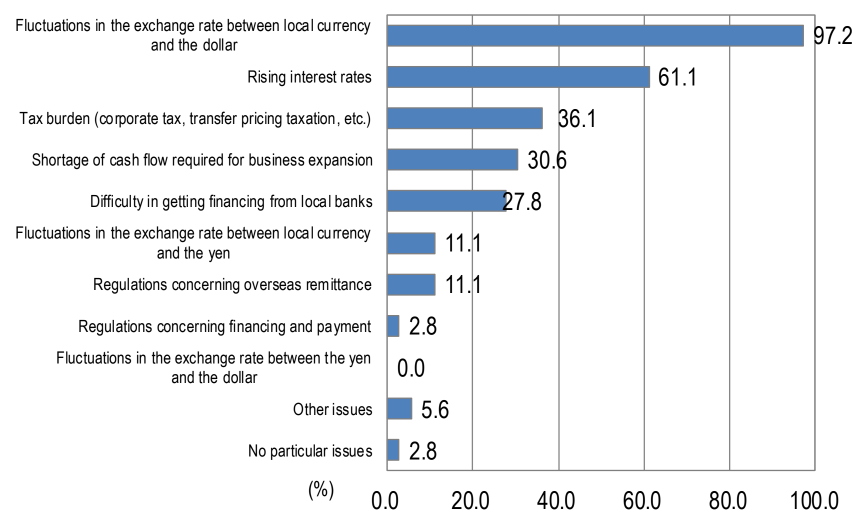
Issues in finance, monetary and foreign exchange:Chile(n=35)



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



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



II-5-(3) Issues in Business Management: Employment and Labor

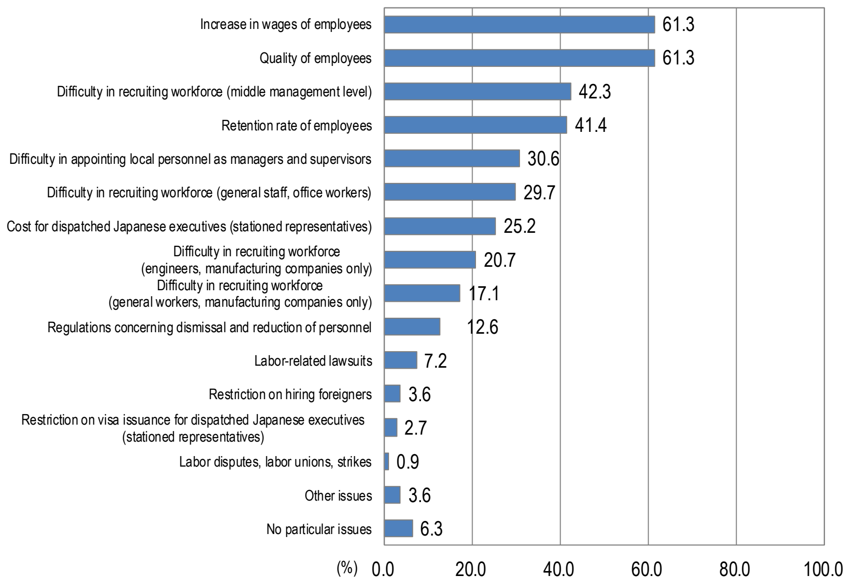
■In Latin America, “Increase in wages of employees” (58.6%) was more-commonly cited. In Brazil and Argentina, in particular, the percentage was high, at 63.3% and 72.2%, respectively.
■In Argentina, “Labor disputes, labor unions, strikes” increased (from 26.8% to 33.3%) because there was a move to demand a wage increase at or above the inflation rate.

Issues in employment and labor (multiple answers)

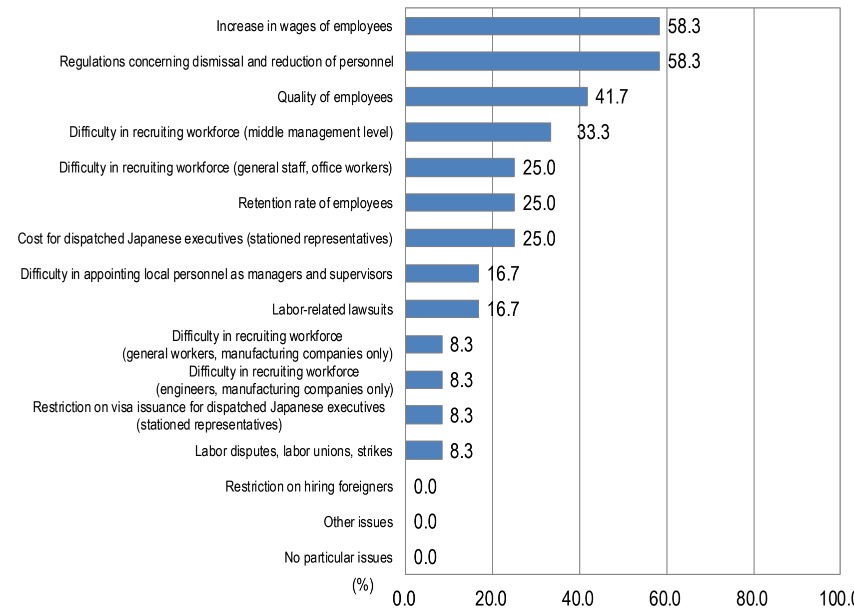
	Valid responses	Increase in wages of employees	Difficulty in recruiting workforce (general staff, office workers)	Difficulty in recruiting workforce (middle management level)	Difficulty in recruiting workforce (general workers, manufacturing companies only)	Difficulty in recruiting workforce (engineers, manufacturing companies only)	Retention rate of employees	Quality of employees	Cost for dispatched Japanese executives (stationed representatives)	Restriction on visa issuance for dispatched Japanese executives (stationed representatives)	Regulations concerning dismissal and reduction of personnel	Difficulty in appointing local personnel as managers and supervisors	Restriction on hiring foreigners	Labor-related lawsuits	Labor disputes, labor unions, strikes	Other issues	No particular issues
Latin America	319	58.6	21.3	31.0	7.5	11.6	23.2	47.6	17.6	4.4	23.5	17.6	2.2	18.2	11.0	2.2	7.8
Mexico	111	61.3	29.7	42.3	17.1	20.7	41.4	61.3	25.2	2.7	12.6	30.6	3.6	7.2	0.9	3.6	6.3
Venezuela	12	58.3	25.0	33.3	8.3	8.3	25.0	41.7	25.0	8.3	58.3	16.7	0.0	16.7	8.3	0.0	0.0
Colombia	18	38.9	5.6	27.8	0.0	11.1	5.6	44.4	11.1	0.0	16.7	11.1	0.0	0.0	0.0	0.0	11.1
Peru	28	35.7	7.1	28.6	3.6	3.6	14.3	39.3	3.6	10.7	28.6	10.7	7.1	10.7	14.3	3.6	21.4
Chile	35	54.3	22.9	20.0	2.9	2.9	22.9	42.9	11.4	14.3	11.4	8.6	0.0	0.0	11.4	2.9	11.4
Brazil	79	63.3	20.3	30.4	2.5	8.9	11.4	41.8	16.5	2.5	31.6	13.9	1.3	45.6	16.5	1.3	6.3
Argentina	36	72.2	13.9	11.1	0.0	5.6	8.3	33.3	13.9	0.0	38.9	2.8	0.0	25.0	33.3	0.0	2.8

II-5-(3) Issues in Business Management: Employment and Labor (by country-1)

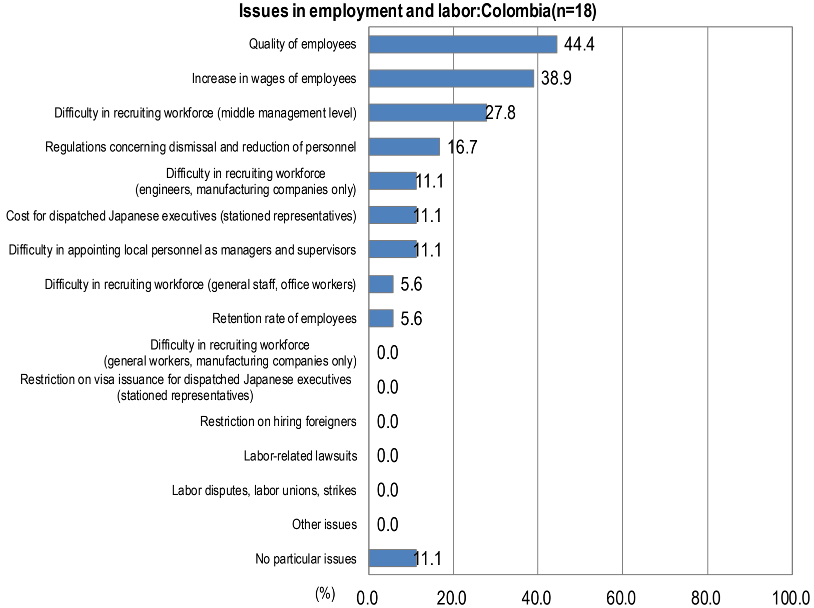
Issues in employment and labor:Mexico(n=111)



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



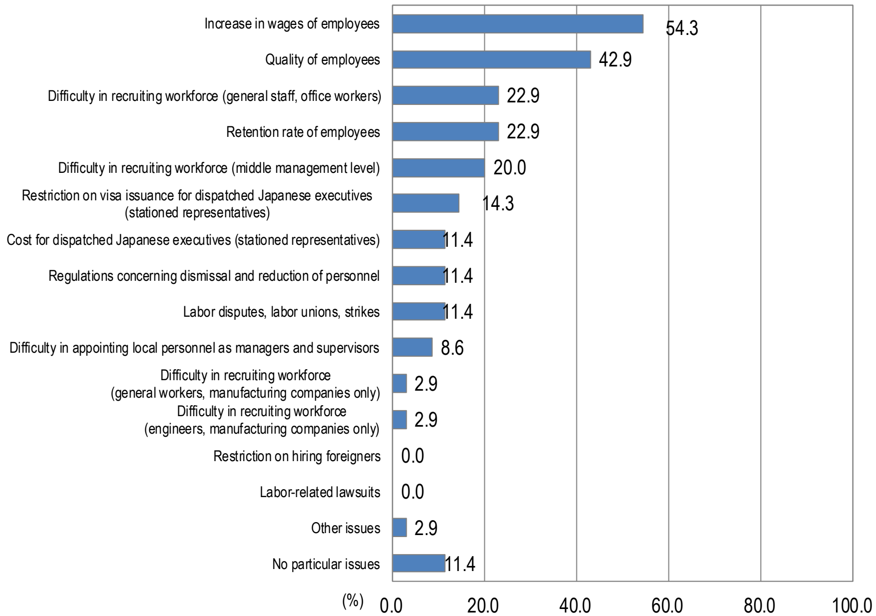
Issues in employment and labor:Colombia(n=18)



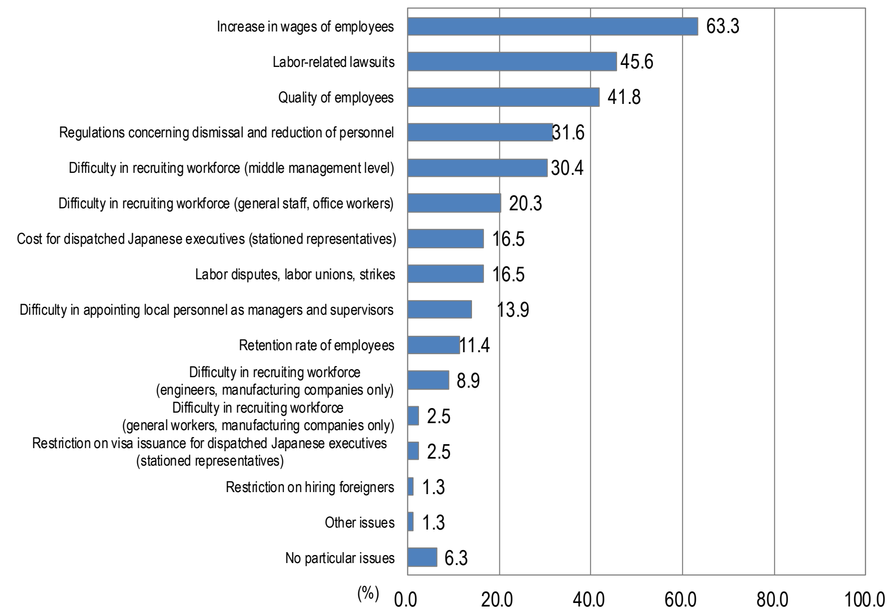
Issues in employment and labor:Peru(n=28)

II-5-(3) Issues in Business Management: Employment and Labor (by country-2)

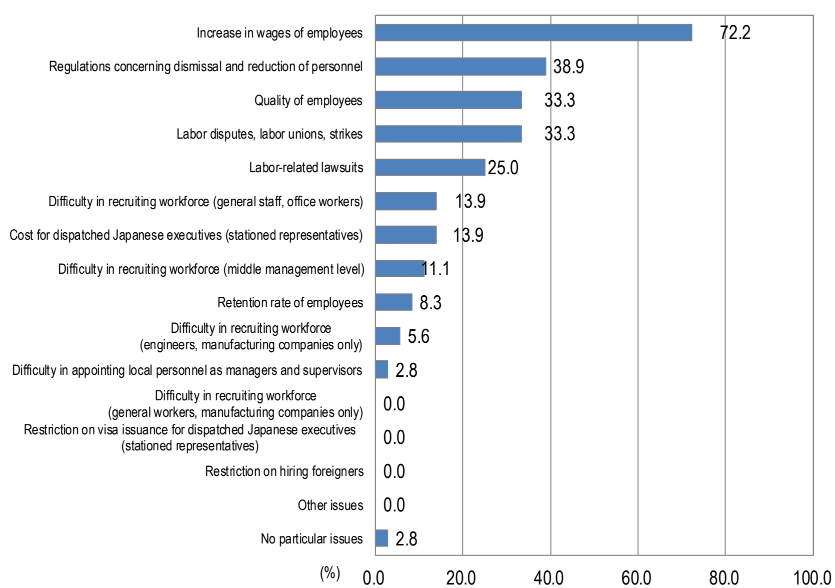
Issues in employment and labor:Chile(n=35)



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



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



II-5-(4) Issues in Business Management: Trade System

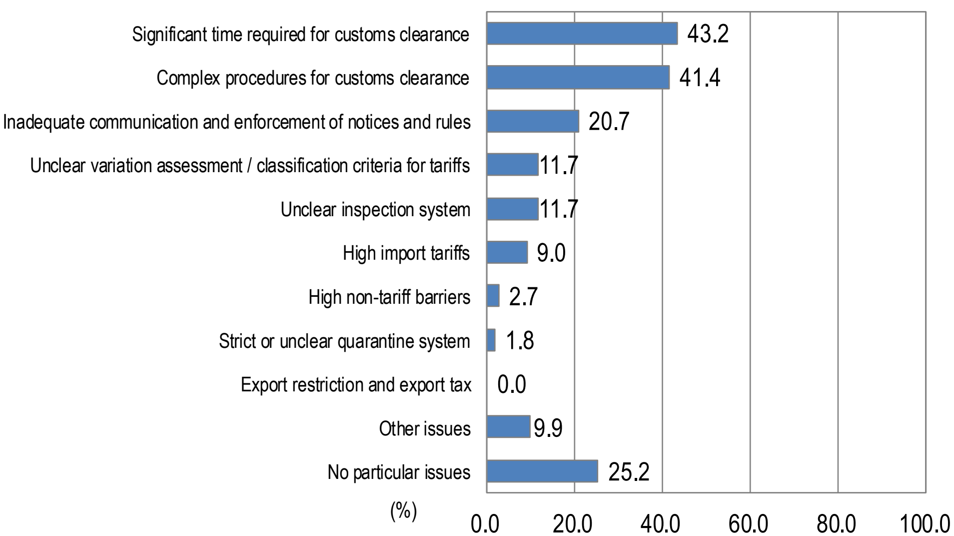
■ "Significant time required for customs clearance" and "High import tariffs" exceeded 50% in MERCOSUR (Brazil and Argentina). In Argentina, "Export restriction and export tax" increased (from 12.2% to 38.9%) due to the impact of the export tax introduced in September 2018.

Issues in trade system (multiple answers)

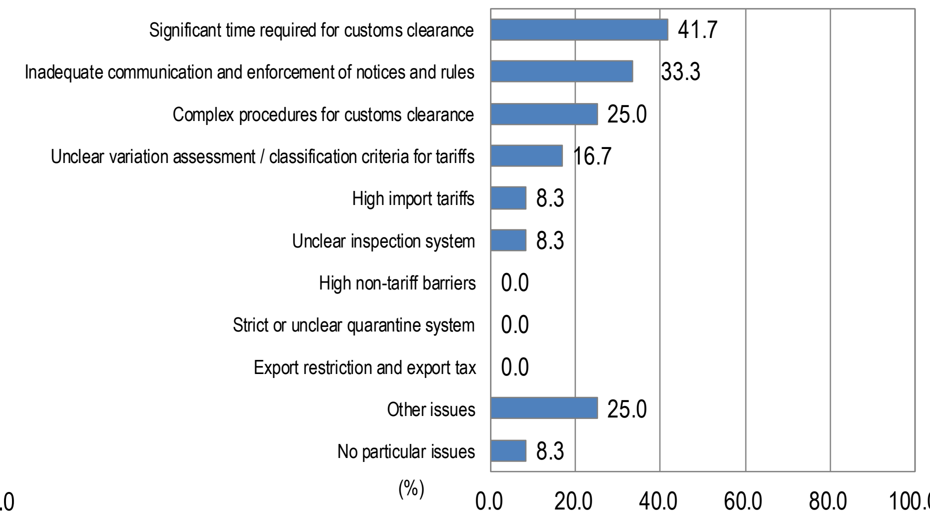
	Valid responses	Complex procedures for customs clearance	Significant time required for customs clearance	Inadequate communication and enforcement of notices and rules	Unclear variation assessment / classification criteria for tariffs	High import tariffs	Unclear inspection system	High non-tariff barriers	Strict or unclear quarantine system	Export restriction and export tax	Other issues	No particular issues
Latin America	319	38.2	41.7	20.1	10.7	24.8	12.9	6.0	2.8	5.3	9.1	27.6
Mexico	111	41.4	43.2	20.7	11.7	9.0	11.7	2.7	1.8	0.0	9.9	25.2
Venezuela	12	25.0	41.7	33.3	16.7	8.3	8.3	0.0	0.0	0.0	25.0	8.3
Colombia	18	5.6	16.7	22.2	0.0	22.2	5.6	5.6	16.7	0.0	16.7	16.7
Peru	28	14.3	28.6	3.6	0.0	7.1	17.9	7.1	3.6	0.0	7.1	60.7
Chile	35	14.3	20.0	0.0	0.0	5.7	2.9	0.0	0.0	0.0	11.4	57.1
Brazil	79	53.2	53.2	29.1	15.2	53.2	19.0	8.9	3.8	3.8	5.1	20.3
Argentina	36	58.3	55.6	25.0	19.4	50.0	13.9	16.7	0.0	38.9	5.6	8.3

II-5-(4) Issues in Business Management: Trade System (by country-1)

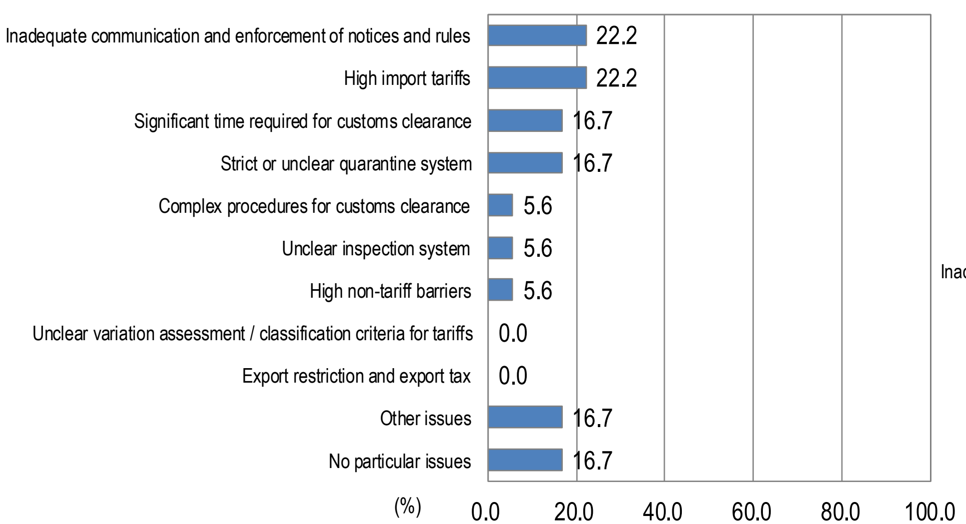
Issues in trade system:Mexico(n=111)



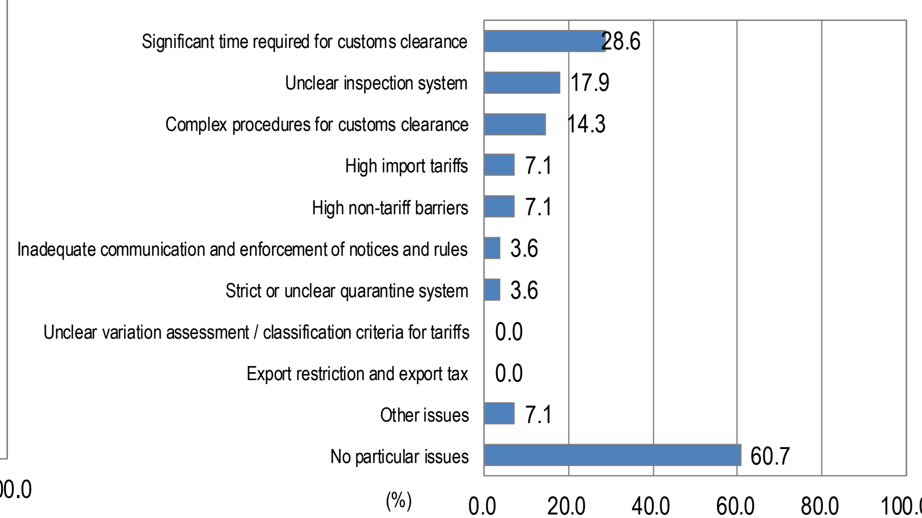
Issues in trade system:Venezuela(n=12)



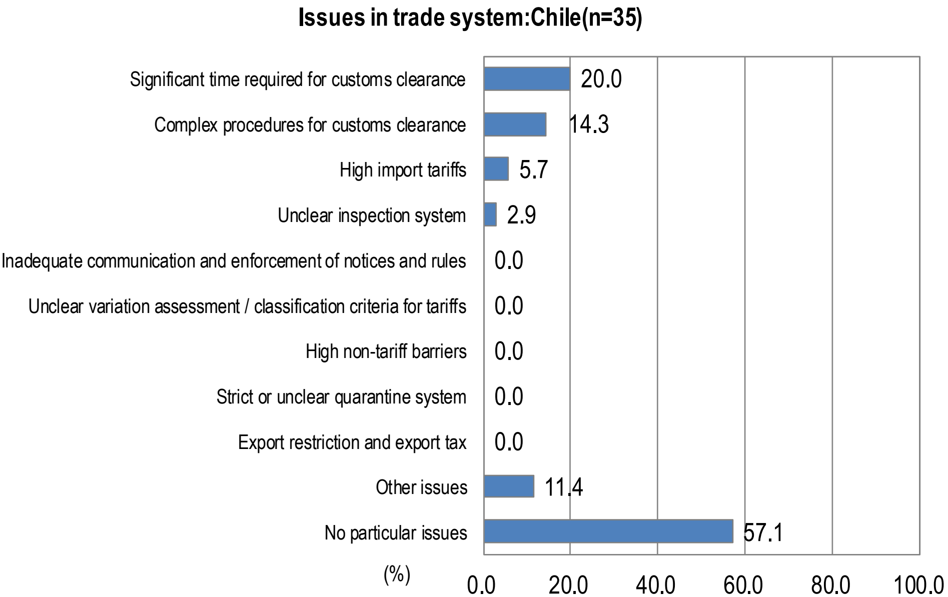
Issues in trade system:Colombia(n=18)

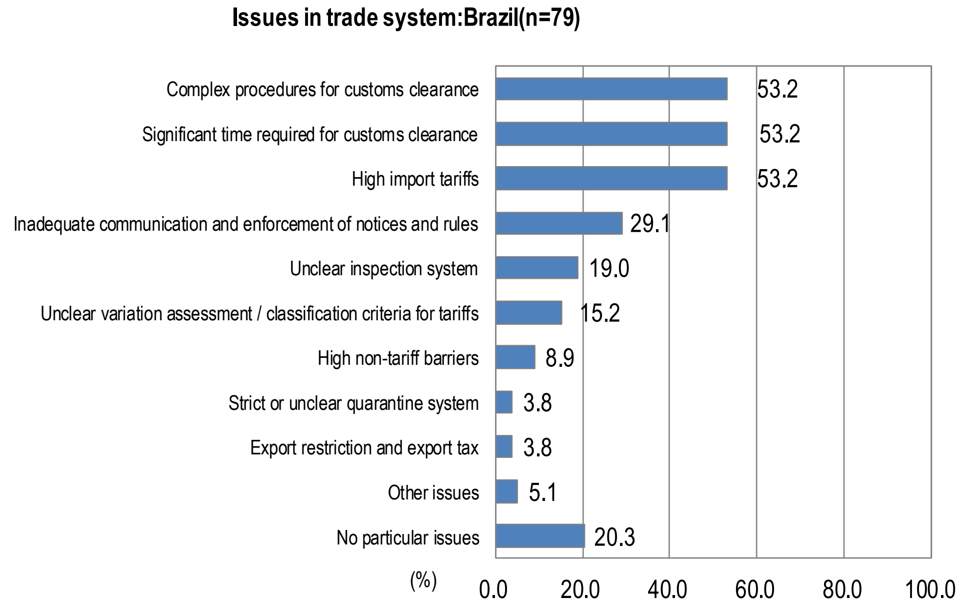


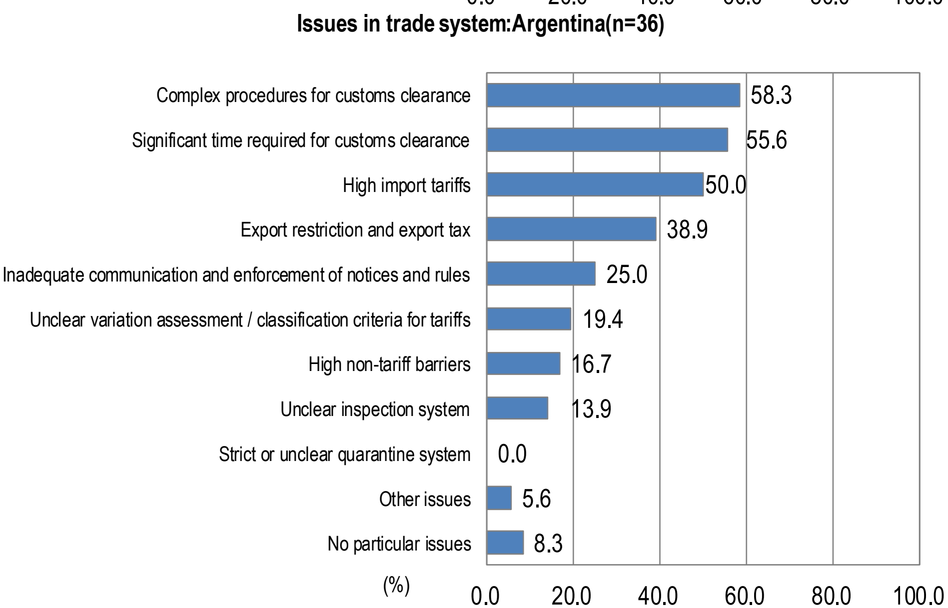
Issues in trade system:Peru(n=28)



II-5-(4) Issues in Business Management: Trade System (by country-2)







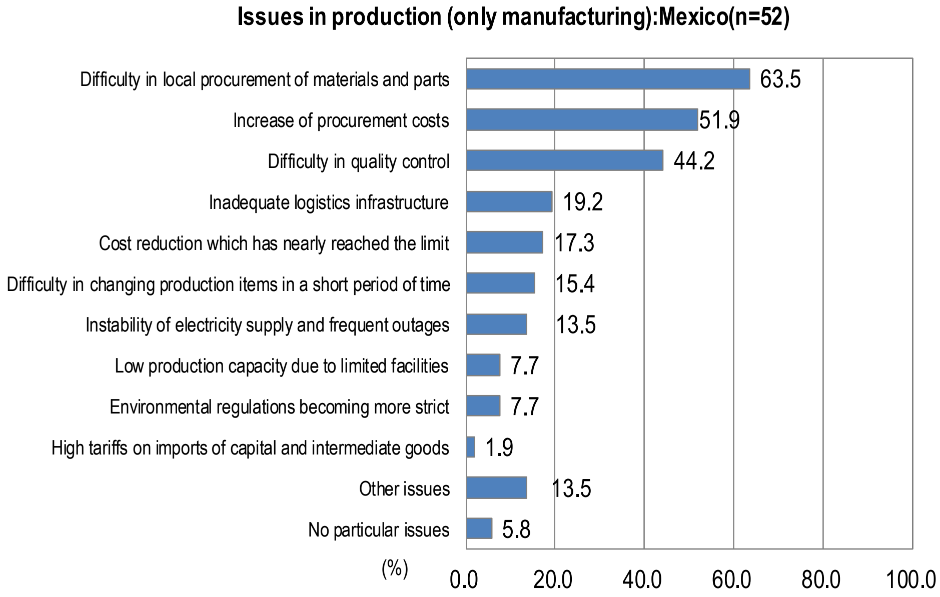
II-5-(5) Issues in Business Management: Production

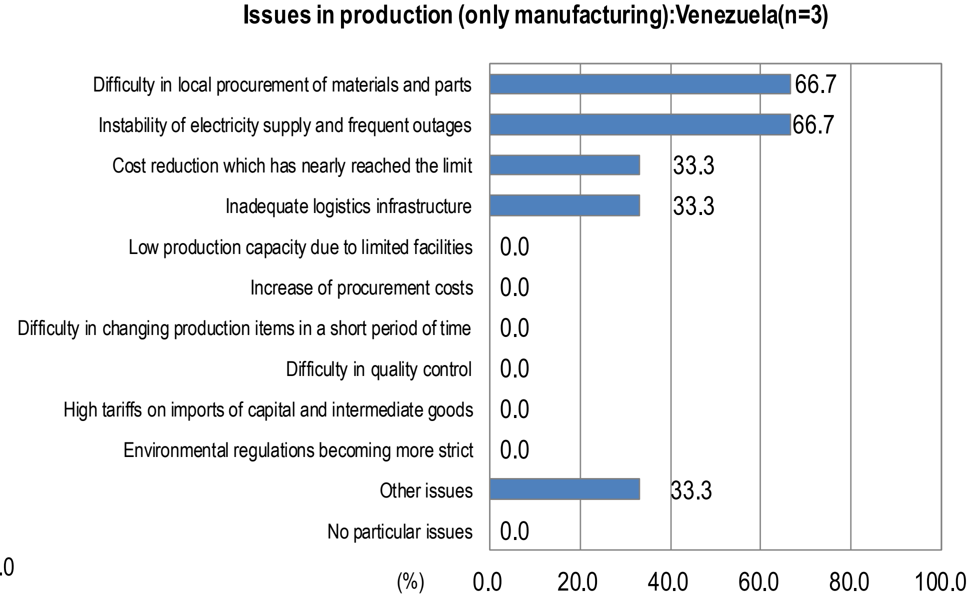
- ■In Latin America, "Increase of procurement costs" and "Difficulty in local procurement of materials and parts" exceeded 50%.
- ■In Mexico, "Increase of procurement costs" increased (from 34.7% to 51.9%).
- ■In Colombia, "Environmental regulations becoming more strict" increased (from 9.1% to 25.0%) due to national emissions controls.
- ■In Brazil, "Increase of procurement costs" increased (from 52.1% to 64.7%) among companies depending on imports for materials because of the impact of currency depreciation.
- ■In Argentina, "Inadequate logistics infrastructure" increased (from 7.1% to 26.7%), particularly in the automotive industry .

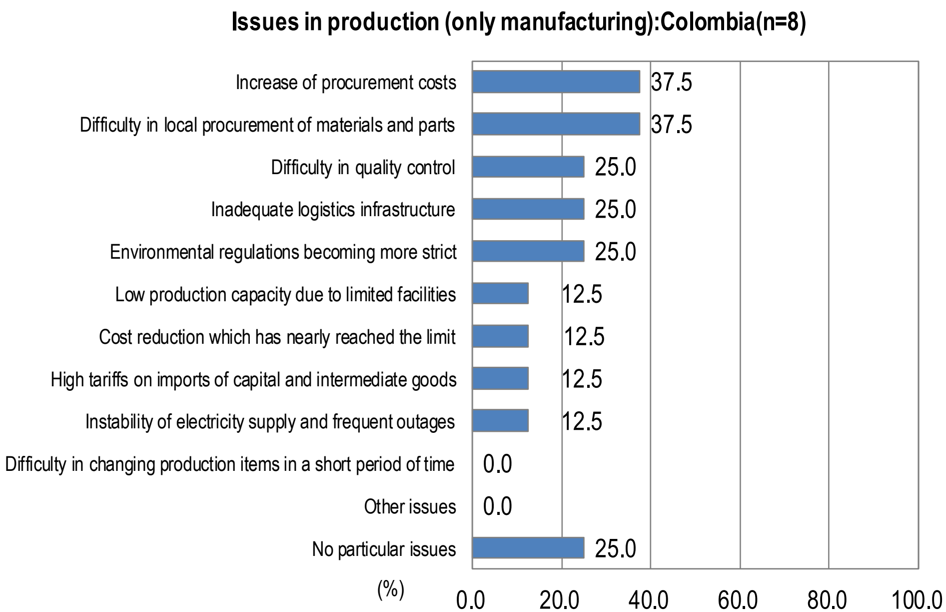
Issues in production (only manufacturing) (multiple answers)

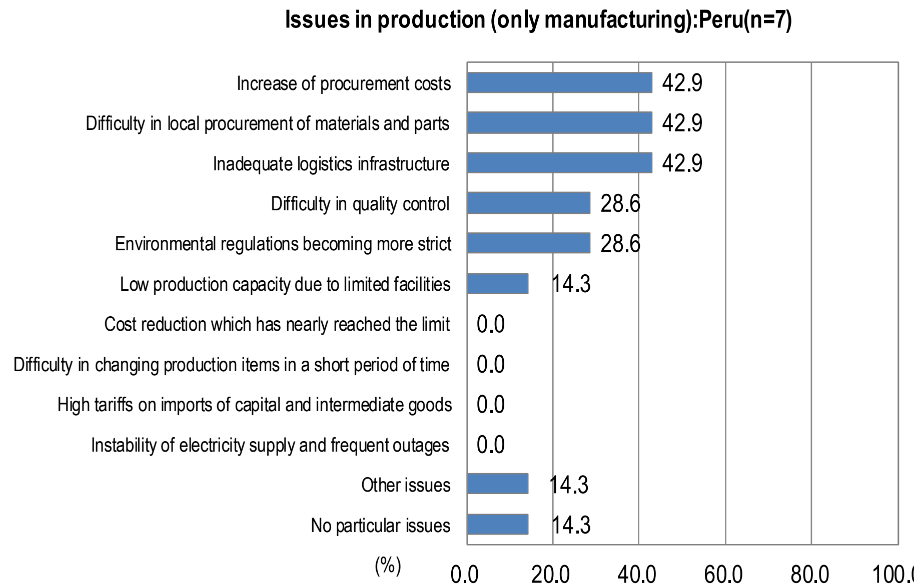
	Valid responses	Low production capacity due to limited facilities	Cost reduction which has nearly reached the limit	Increase of procurement costs	Difficulty in local procurement of materials and parts	Difficulty in changing production items in a short period of time	Difficulty in quality control	High 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	126	10.3	22.2	50.8	50.8	10.3	34.1	7.1	12.7	25.4	10.3	11.1	14.3
Mexico	52	7.7	17.3	51.9	63.5	15.4	44.2	1.9	13.5	19.2	7.7	13.5	5.8
Venezuela	3	0.0	33.3	0.0	66.7	0.0	0.0	0.0	66.7	33.3	0.0	33.3	0.0
Colombia	8	12.5	12.5	37.5	37.5	0.0	25.0	12.5	12.5	25.0	25.0	0.0	25.0
Peru	7	14.3	0.0	42.9	42.9	0.0	28.6	0.0	0.0	42.9	28.6	14.3	14.3
Chile	7	0.0	0.0	14.3	0.0	0.0	14.3	0.0	0.0	0.0	14.3	0.0	71.4
Brazil	34	20.6	44.1	64.7	52.9	11.8	29.4	17.6	14.7	35.3	11.8	8.8	11.8
Argentina	15	0.0	13.3	53.3	33.3	6.7	33.3	6.7	6.7	26.7	0.0	13.3	20.0

II-5-(5) Issues in Business Management: Production (by country-1)



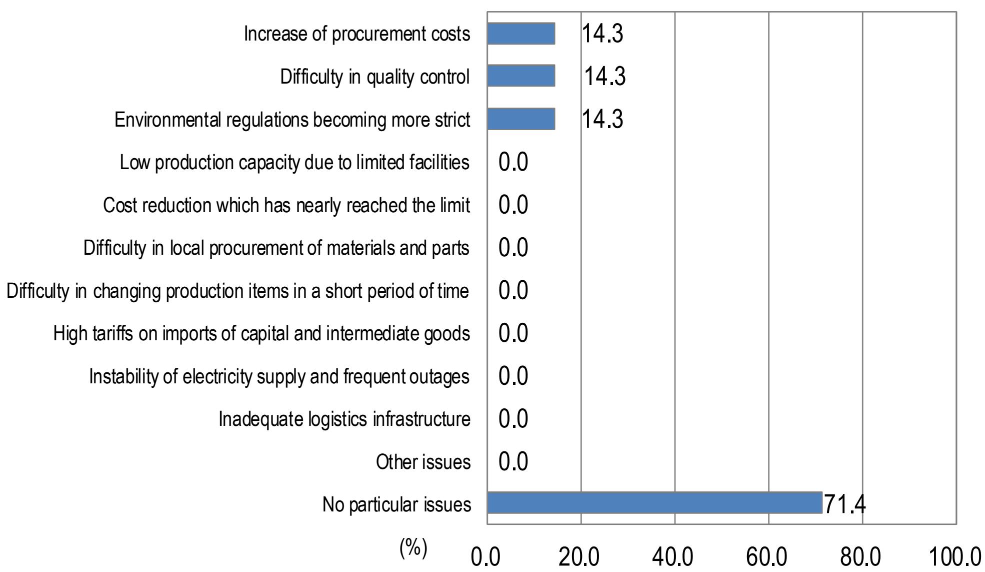




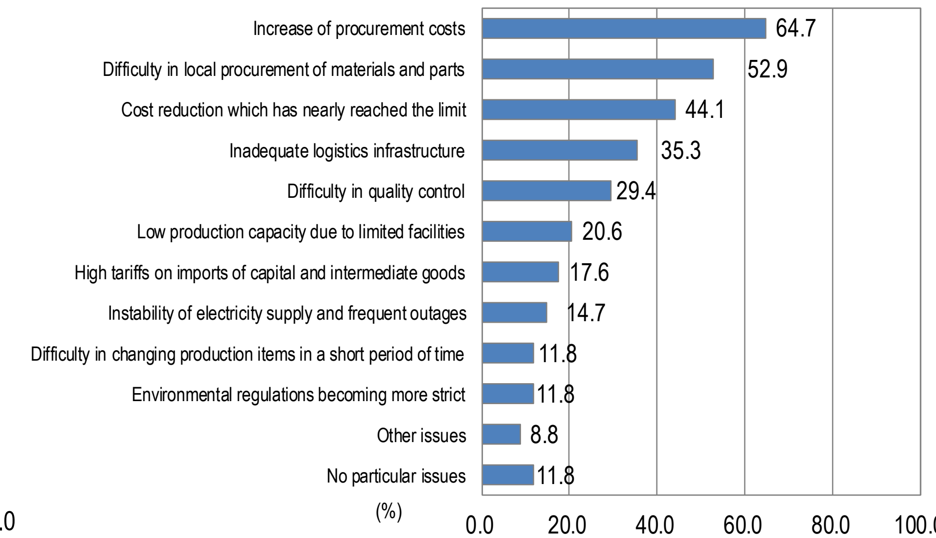


II-5-(5) Issues in Business Management: Production (by country-2)

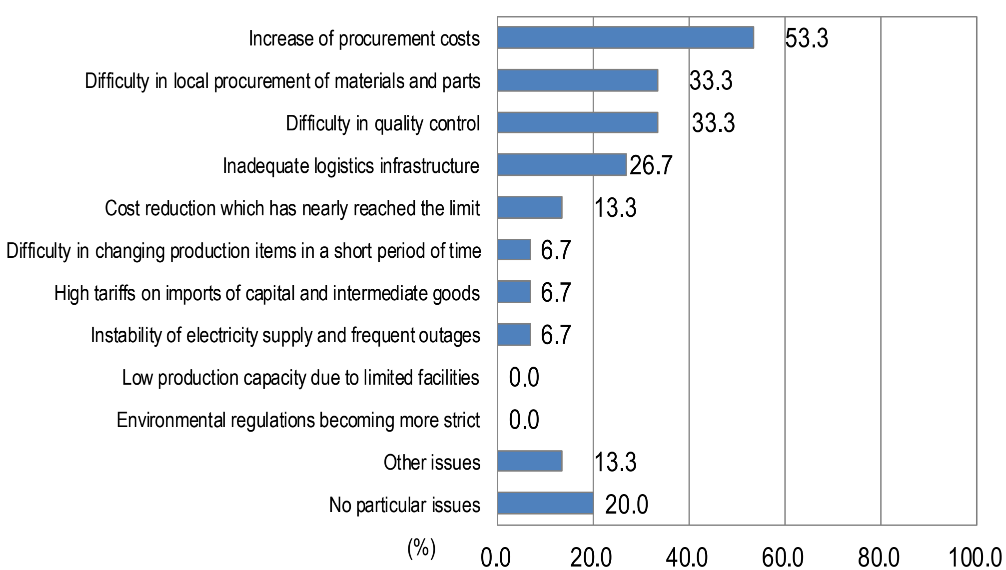
Issues in production (only manufacturing):Chile(n=7)



Issues in production (only manufacturing):Brazil(n=34)



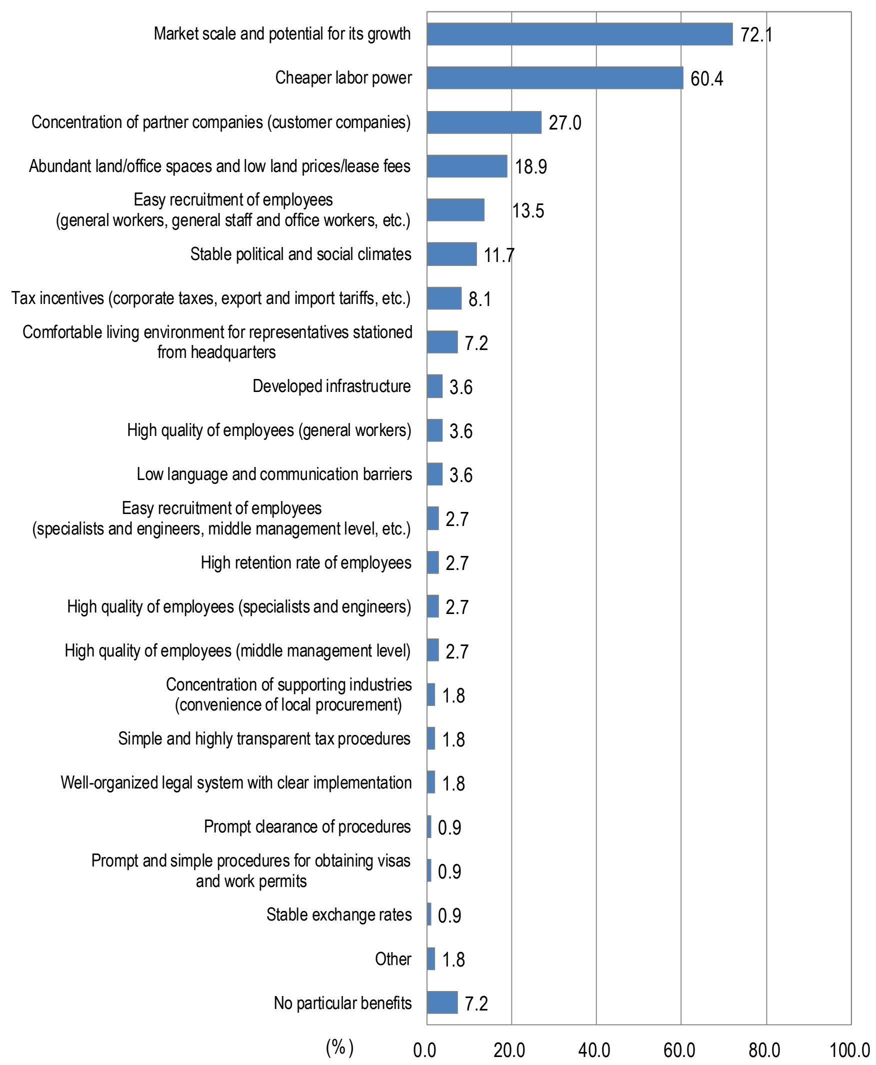
Issues in production (only manufacturing):Argentina(n=15)



II-5-(6) Issues in Business Management: Benefits and Risks in the Investment Environment - Mexico -

■ The percentage of "Cheaper labor power" (60.4%) as a benefit was much higher in Mexico than in other Latin American countries. As for risks, "Crime targeting foreigners and foreign affiliated companies" (63.1%) ranked at the top, as with the previous survey (56.5%), due to worsening security conditions, followed by "Political or social instability," which significantly increased (from 41.8% to 60.4%).

Benefits in the investment environment:Mexico(n=111)

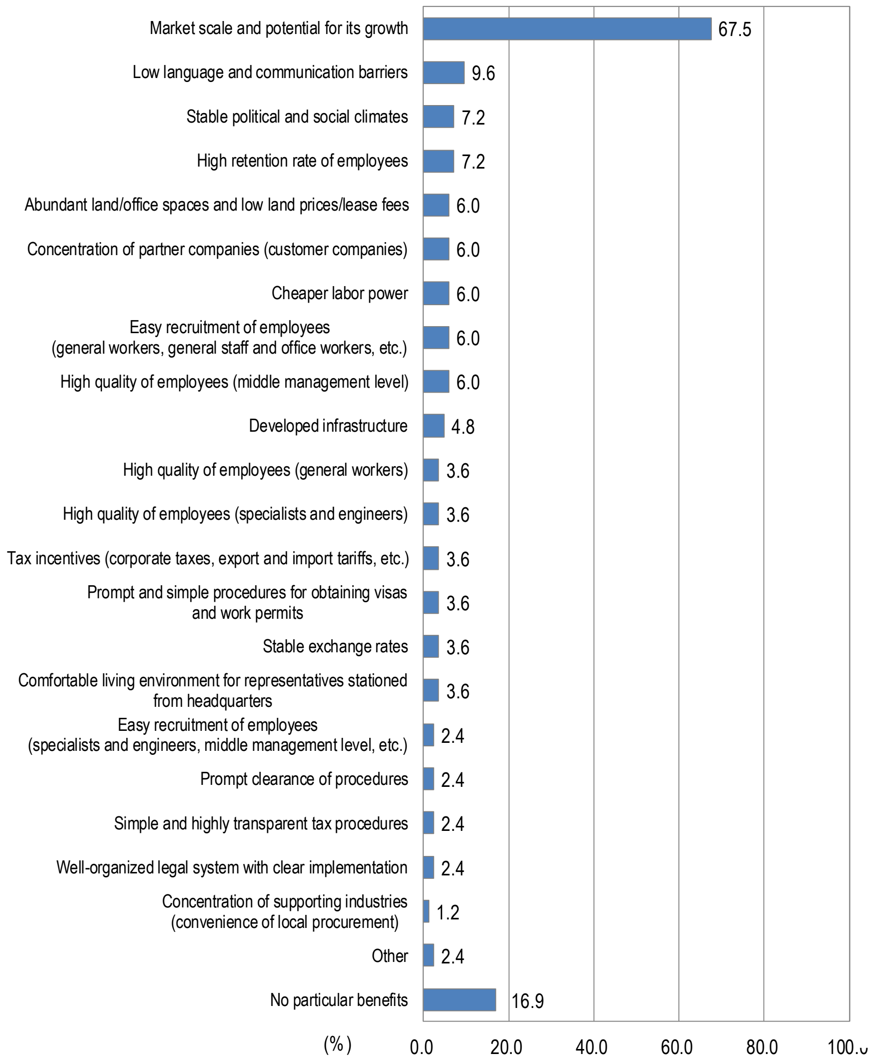


Risks in the investment environment:Mexico(n=111)

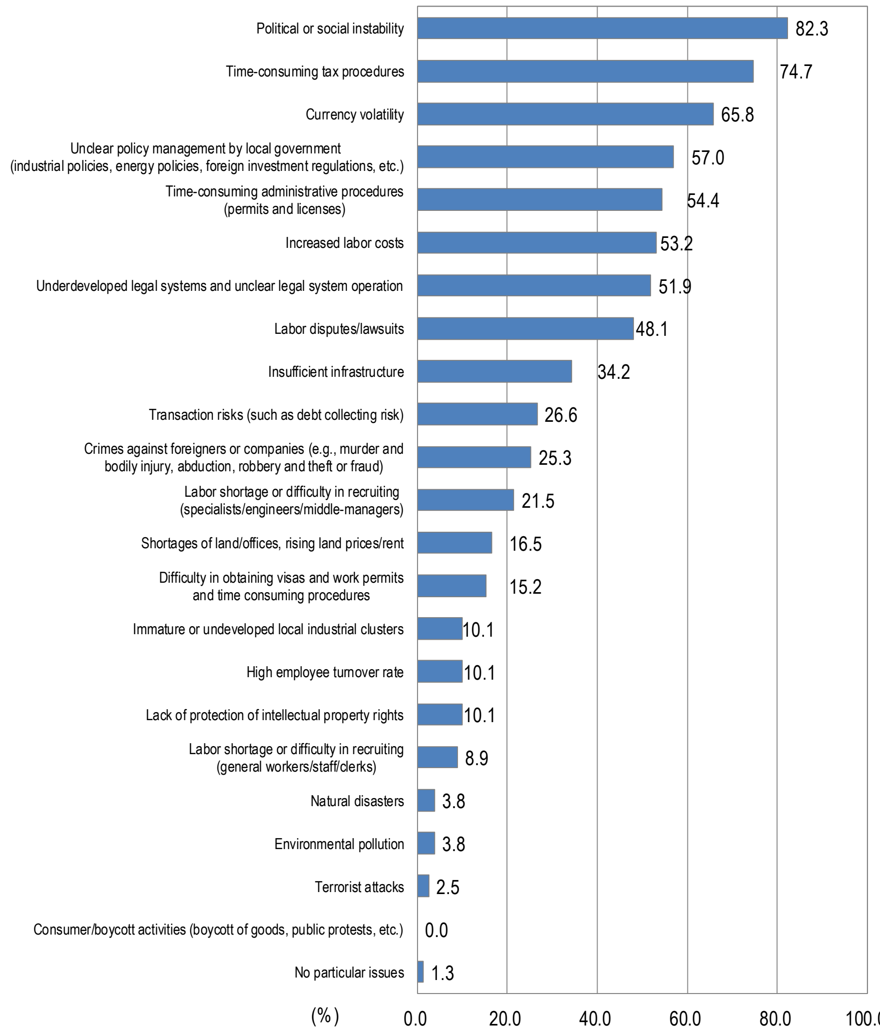
II-5-(6) Issues in Business Management: Benefits and Risks in the Investment Environment - Brazil -

■As with the previous survey, "Market scale and potential for its growth" was prominent as a benefit in the investment environment. As for risks, "Currency volatility" increased by 15.3 pp from the previous year, while "Labor disputes/lawsuits" decreased (from 65.7% to 48.1%).

Benefits in the investment environment:Brazil(n=83)



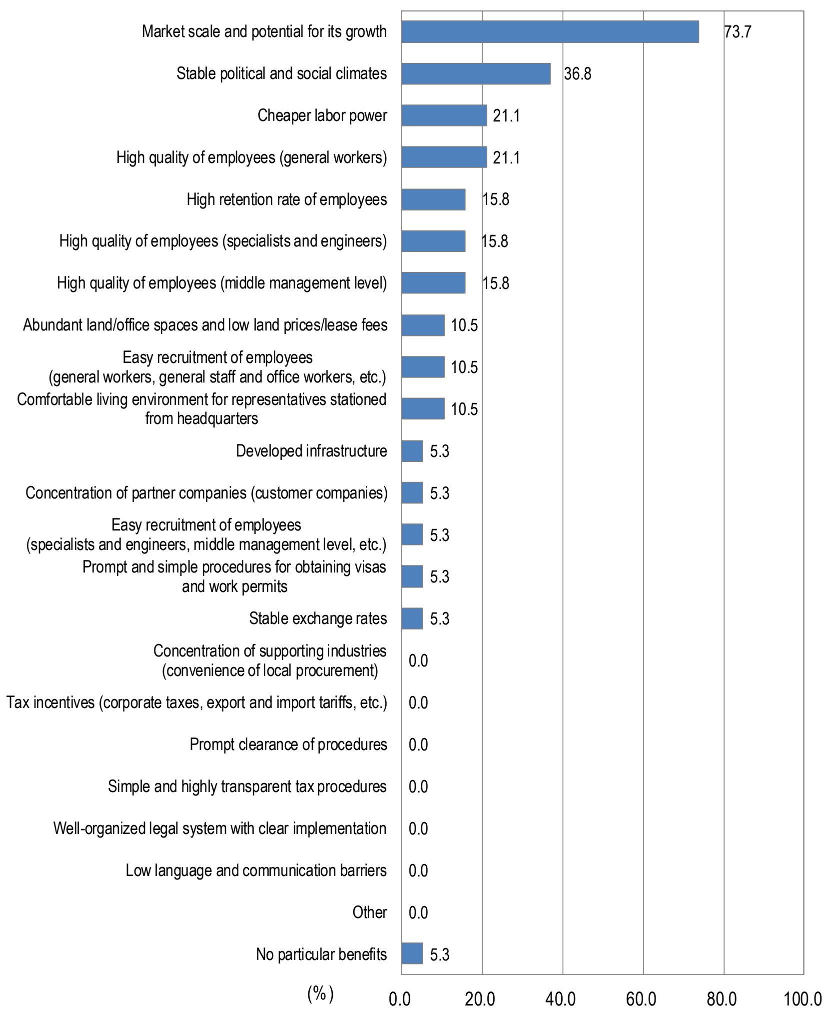
Risks in the investment environment:Brazil(n=79)



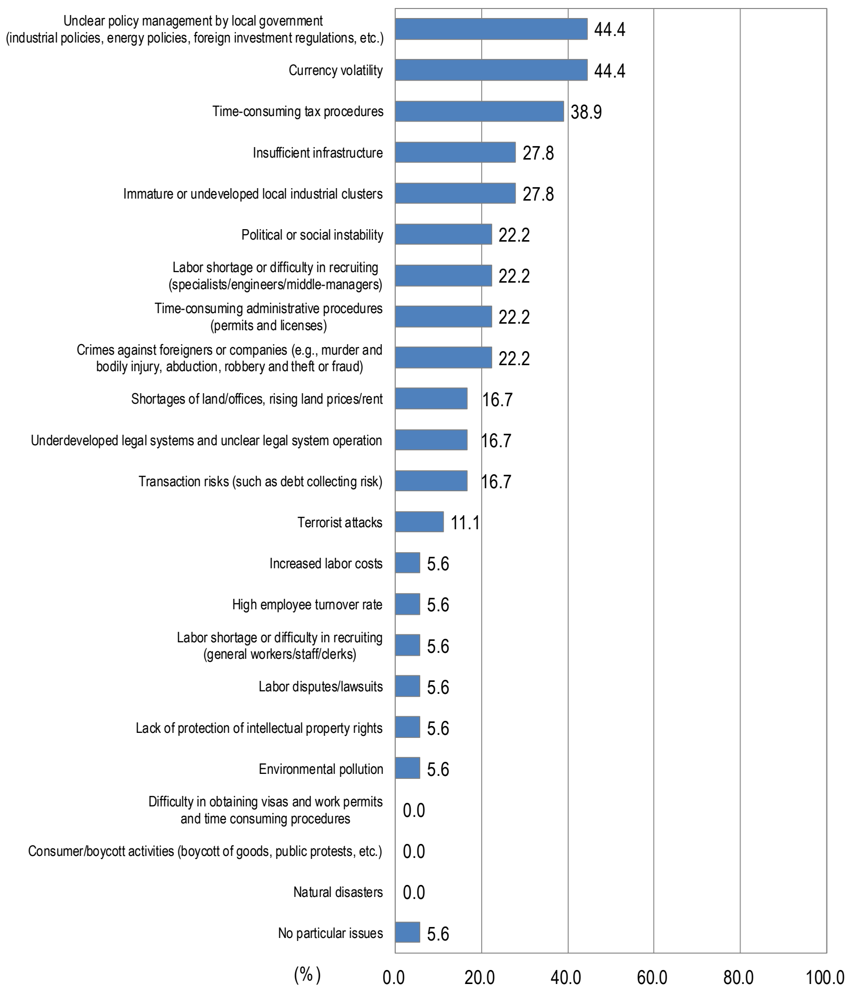
II-5-(6) Issues in Business Management: Benefits and Risks in the Investment Environment - Colombia -

■A large percentage of companies (73.7%) regard Colombia's "Market scale and potential for its growth" as a benefit, as with the previous survey (73.3% to). As for risks, reassurance was given via the continuation of the policy for dialogue with guerrilla groups, pledges that favor businesses, etc., of President Duque, who took office in August 2018; and "Political or social instability" significantly decreased from the previous survey (from 53.3% to 22.2%).

Benefits in the investment environment:Colombia(n=19)

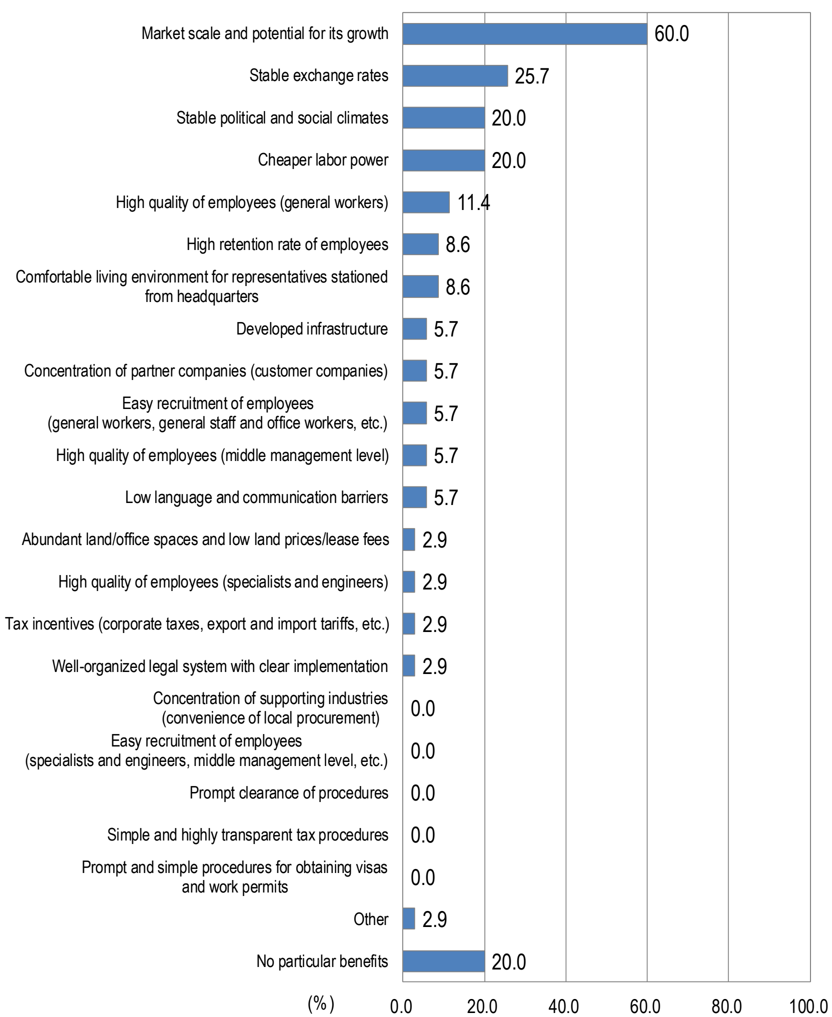


Risks in the investment environment:Colombia(n=18)

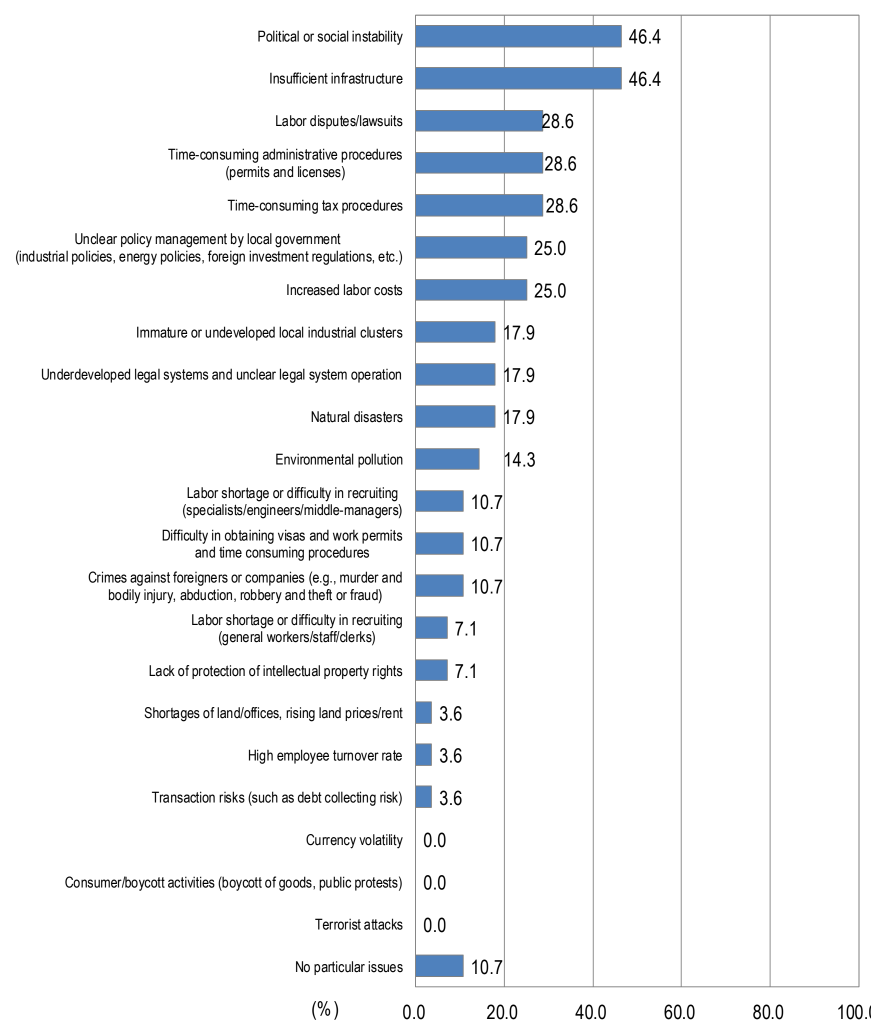


■ In Peru, “Stable exchange rates” (ranked the 2nd) was more-commonly sited as a benefit than in other countries. As for risks, “Time-consuming administrative procedures,” which ranked at the top in the previous survey, fell to the 4th (from 63.2% to 28.6%).

Benefits in the investment environment:Peru(n=35)

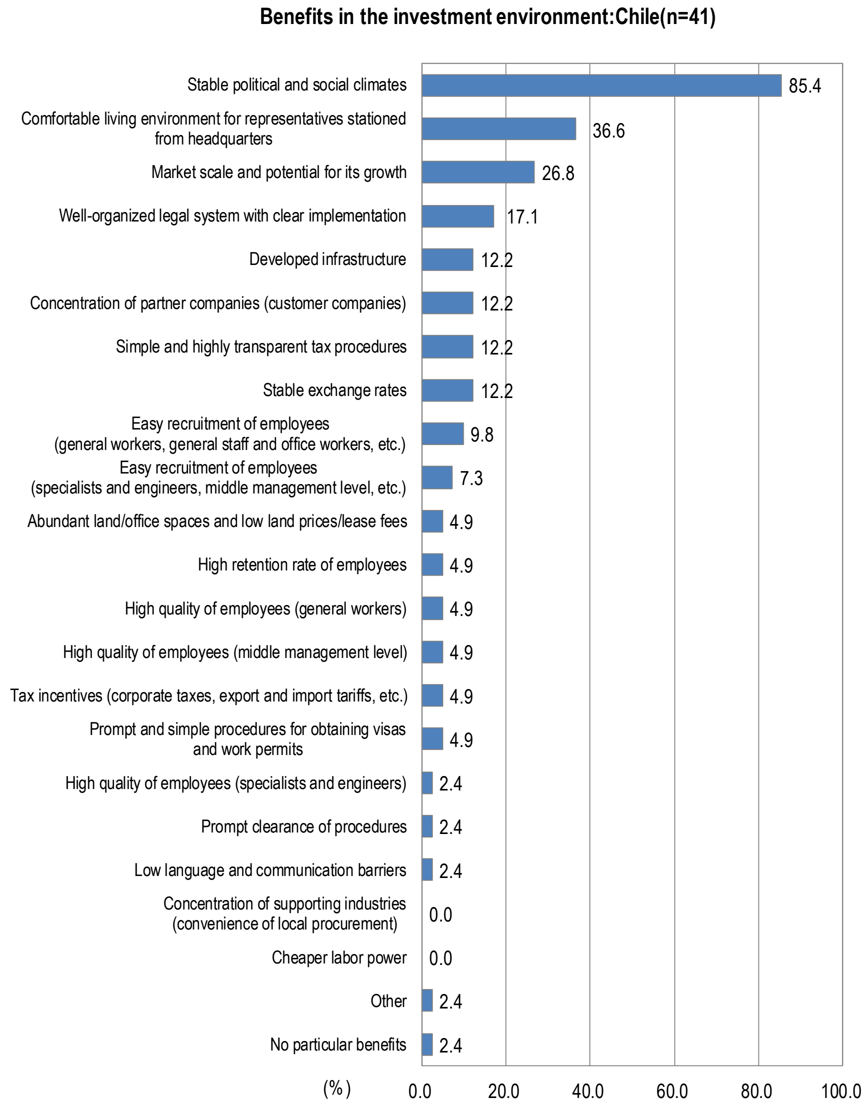


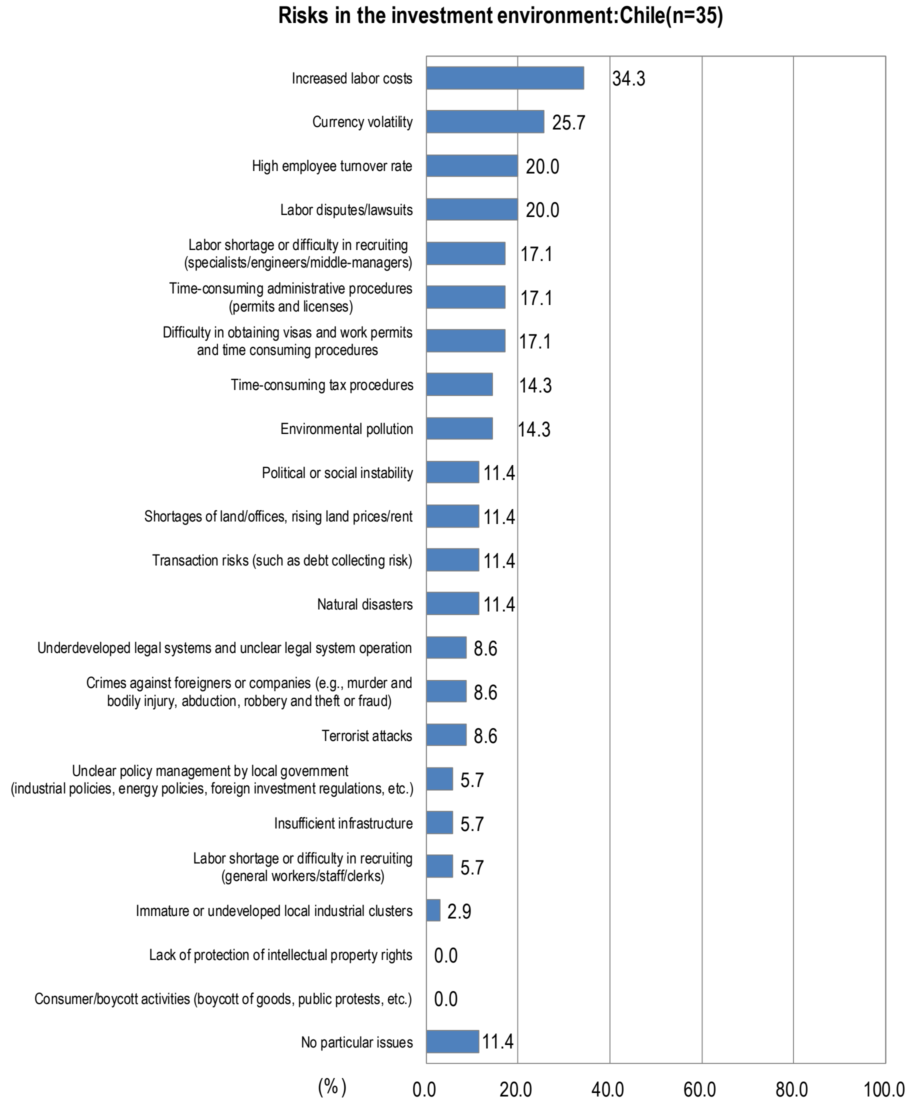
Risks in the investment environment:Peru(n=28)



II-5-(6) Issues in Business Management: Benefits and Risks in the Investment Environment - Chile -

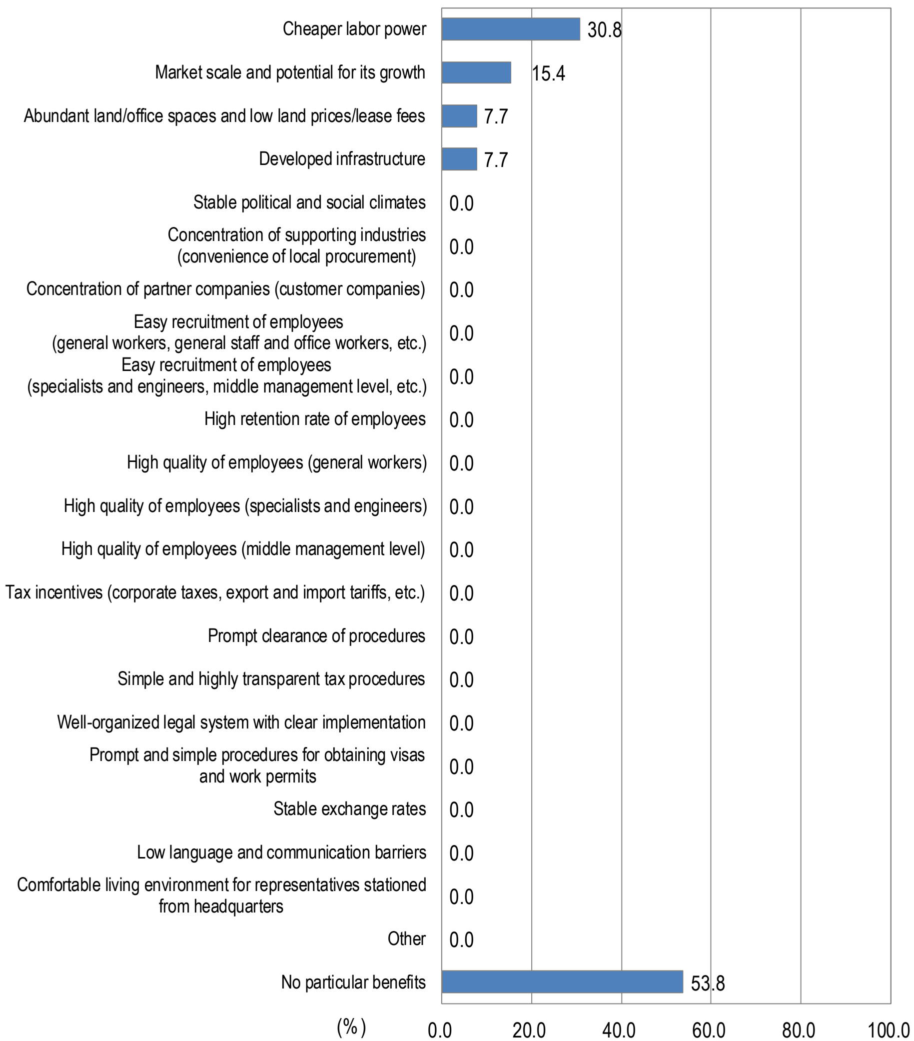
■As with the previous survey, "Increased labor costs" was the top risk. However, the percentage decreased by over 10 pp from the previous survey.





■There are still many risks because Venezuela's unstable political/economic conditions are not expected to improve.

Benefits in the investment environment:Venezuela(n=13)

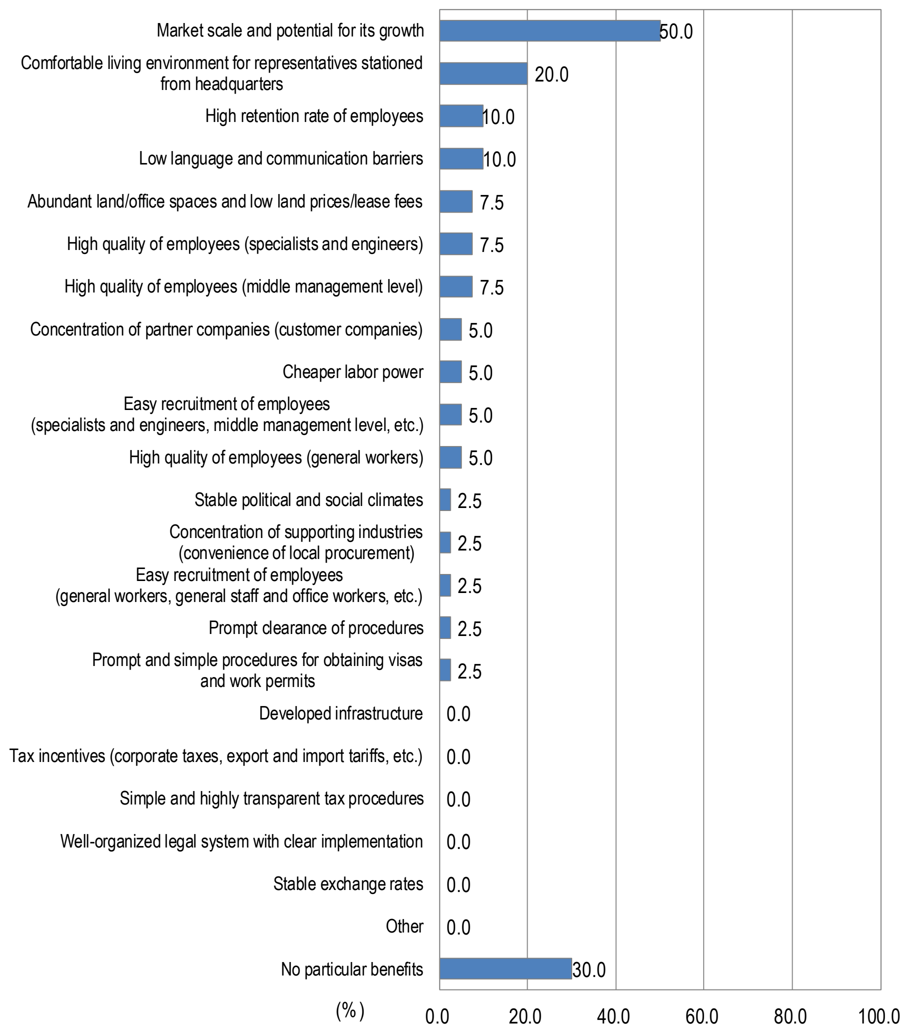


Risks in the investment environment:Venezuela(n=12)

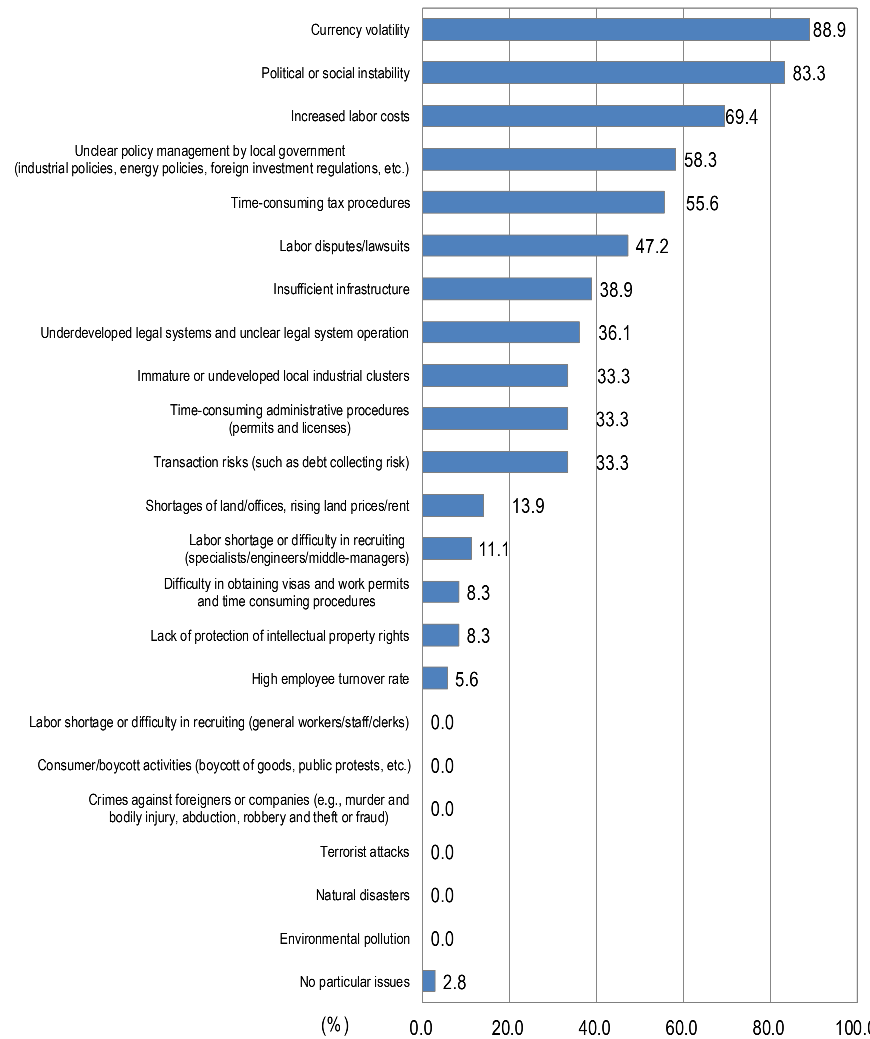
II-5-(6) Issues in Business Management: Benefits and Risks in the Investment Environment - Argentina -

■ "Market scale and potential for its growth" as a benefit significantly decreased (from 73.2% to 50.0%) because the domestic market shrank due to rapid currency depreciation and a high interest rate policy. As for risks, "Currency volatility" and "Political or social instability" significantly increased (from 56.1% to 88.9% and from 63.4% to 83.3%, respectively), occupying the top two positions.

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

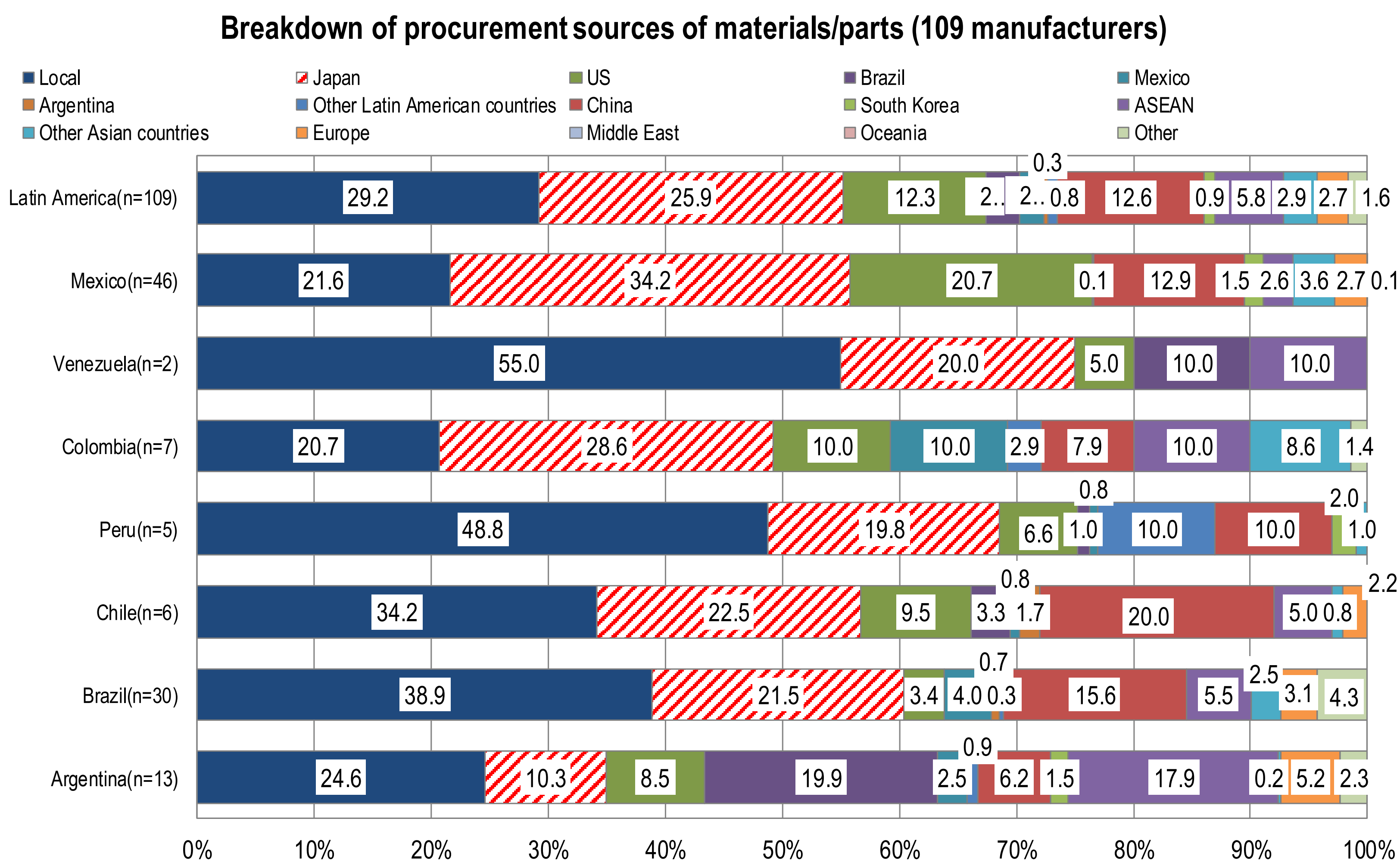


Risks in the investment environment:Argentina(n=36)



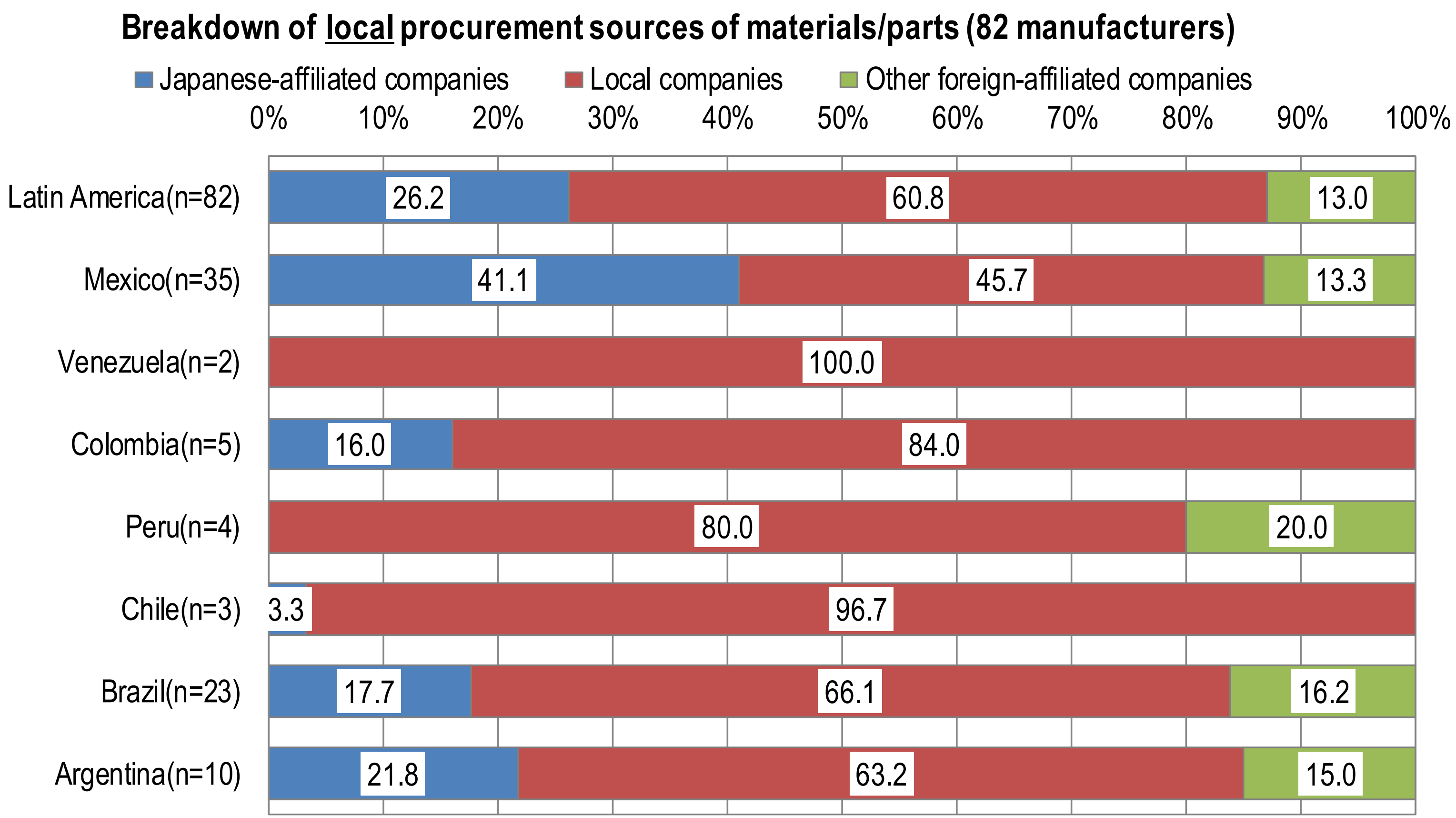
II-6-(1) Procurement of Materials and Parts : Breakdown of Procurement Sources (Countries/Regions)

■As a procurement source, “Japan” increased (from 21.6% to 34.2%) among Japanese companies operating in Mexico, while “Chinese companies” increased (from 10.0% to 15.6%) among Japanese companies in Brazil. Among Japanese companies operating in Argentina, “Brazil,” which is Argentina’s biggest trade partner, accounted for a larger percentage (19.9%) than other Latin American countries.



II-6-(2) Procurement of Materials and Parts: Breakdown of Local Procurement Sources (Japanese, Local, and Other Foreign Companies by Country) (Details of "Local" in II-6-(1))

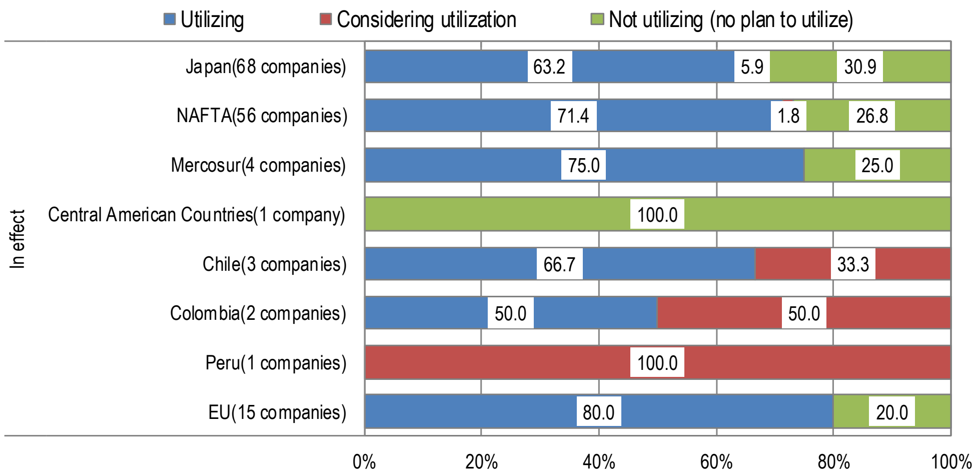
- ■A large percentage of Japanese companies operating in Mexico are still procuring from Japanese companies operating in Mexico.
- ■Among Japanese companies operating in Peru, procurement from Japanese companies operating in Peru decreased from the previous survey (from 17.1% to 0.0%). Some companies noted that they had shifted their procurement sources to local companies.
- ■The percentage of Japanese companies operating in Argentina that are procuring from Japanese companies operating in Argentina increased (from 10.3% to 21.8%).



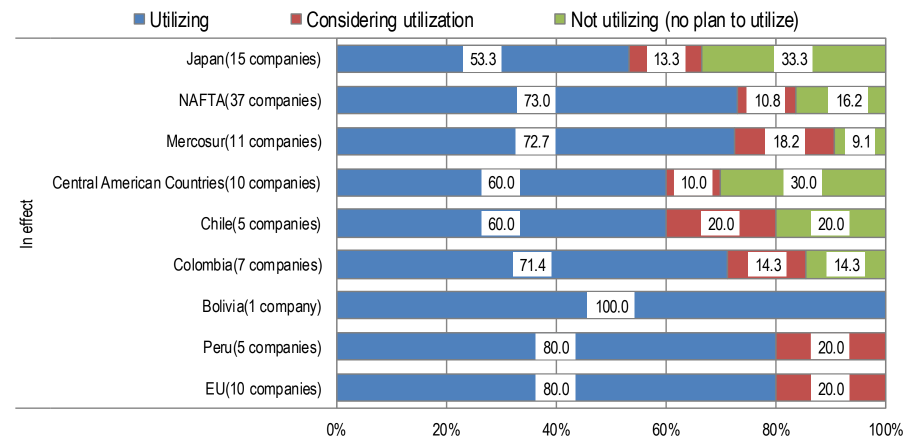
II-7-(1) FTA/EPA Utilization and Related Issues (Responses of Companies Engaging in Trade): Mexico

■The percentage of Japanese companies operating in Mexico and utilizing NAFTA (currently, the USMCA) decreased both in imports to Mexico and exports from Mexico (imports: from 84.8% to 71.4%; exports: from 83.0% to 73.0%). On the other hand, the percentage of such companies utilizing MERCOSUR agreements increased (imports: from 28.6% to 75.0%; exports: from 47.4% to 72.7%).

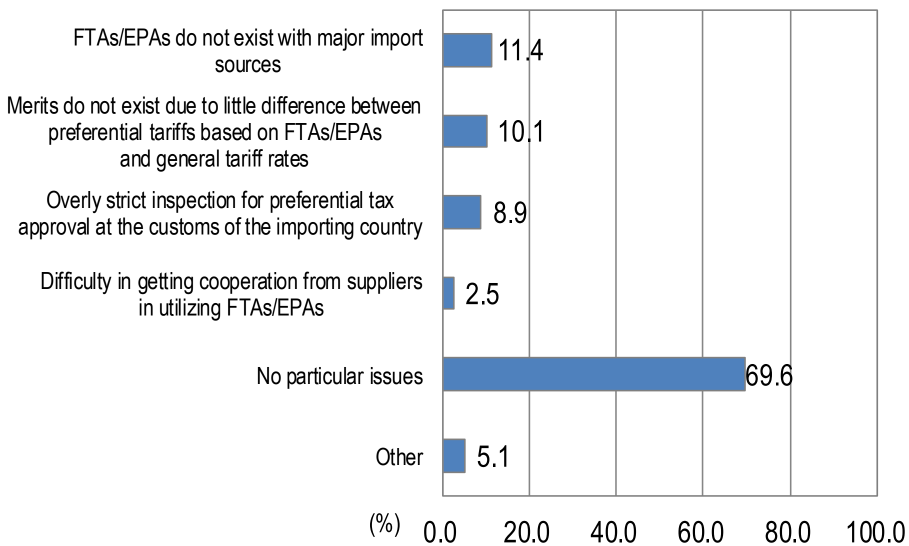
Imports to Mexico



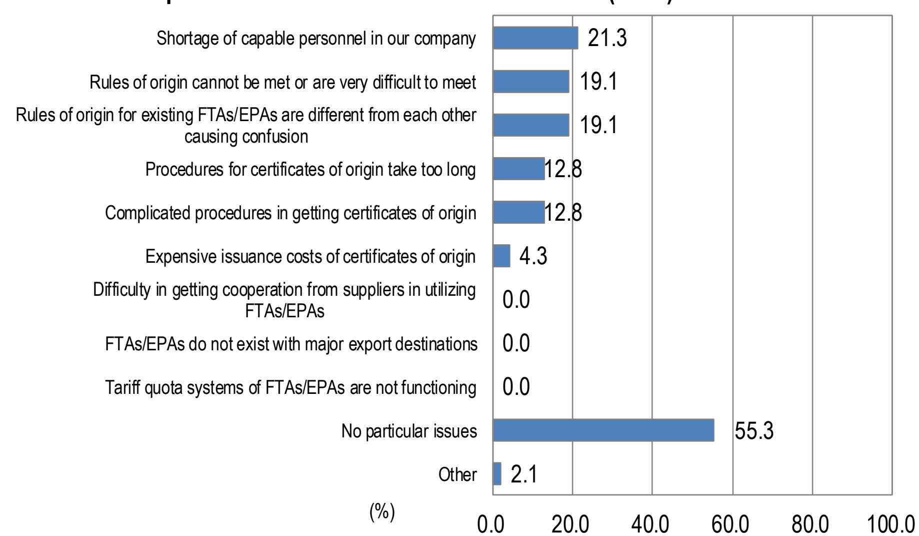
Exports from Mexico



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

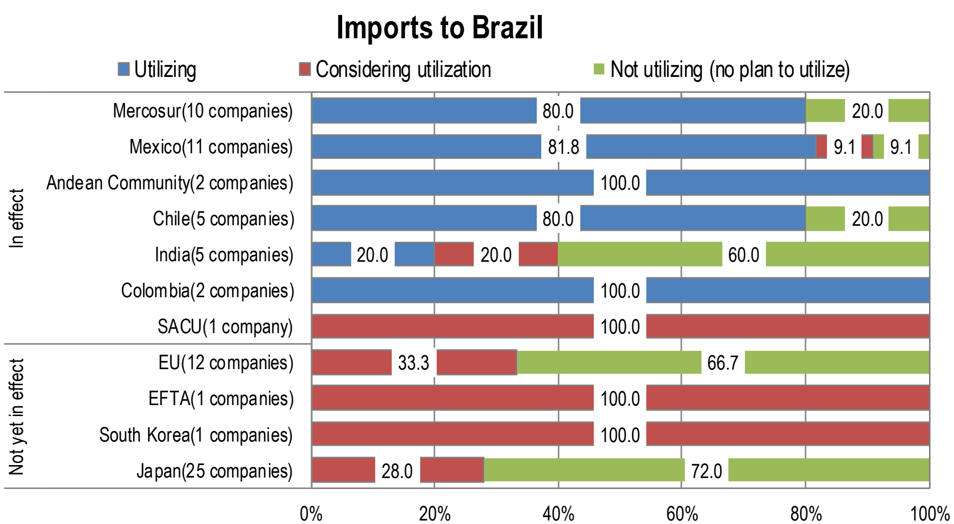


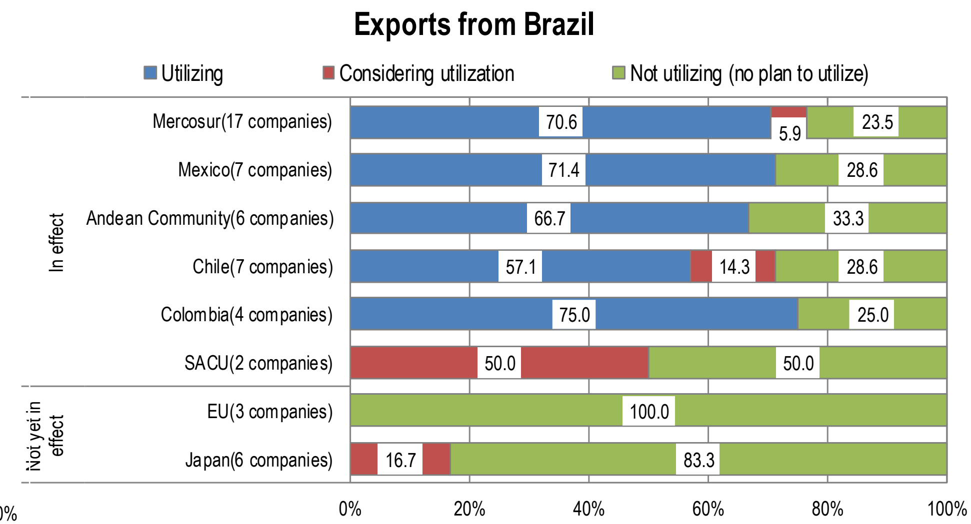
Export issues in FTA/EPA utilization:Mexico(n=47)

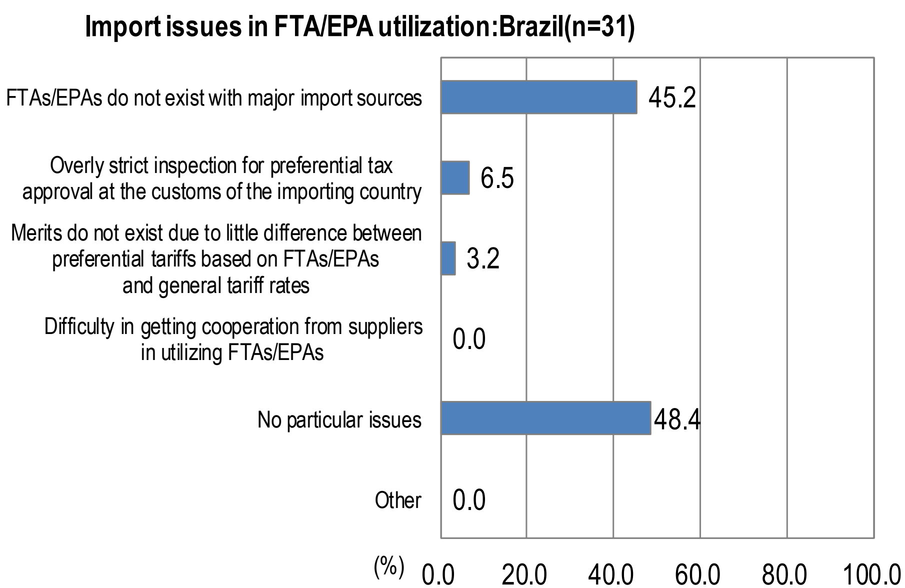


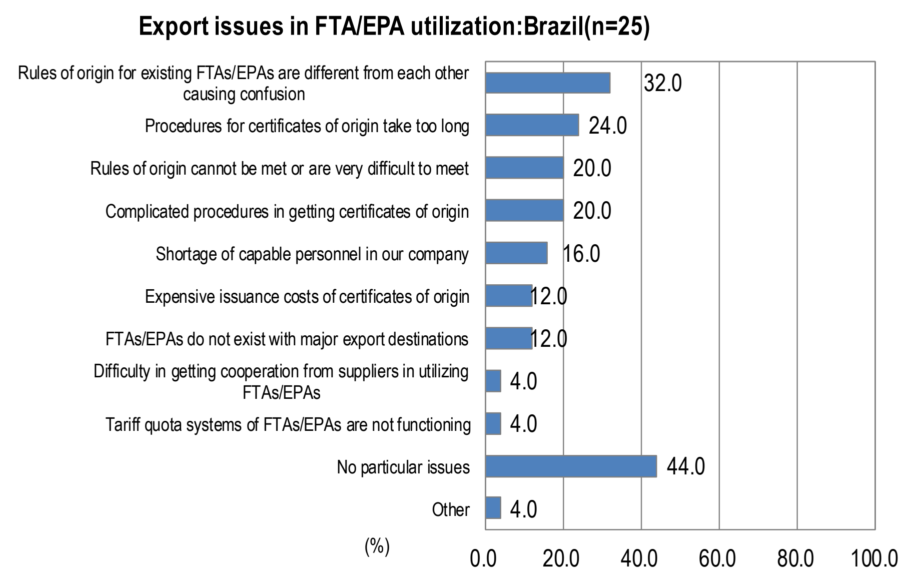
II-7-(1) FTA/EPA Utilization and Related Issues (Responses of Companies Engaging in Trade): Brazil

■A large percentage of Japanese companies operating in Brazil are using FTAs/EPAs for exports to Colombia (75.0%). This is probably because of ACE59, which was expanded/renewed between Colombia and MERCOSUR in December 2017.



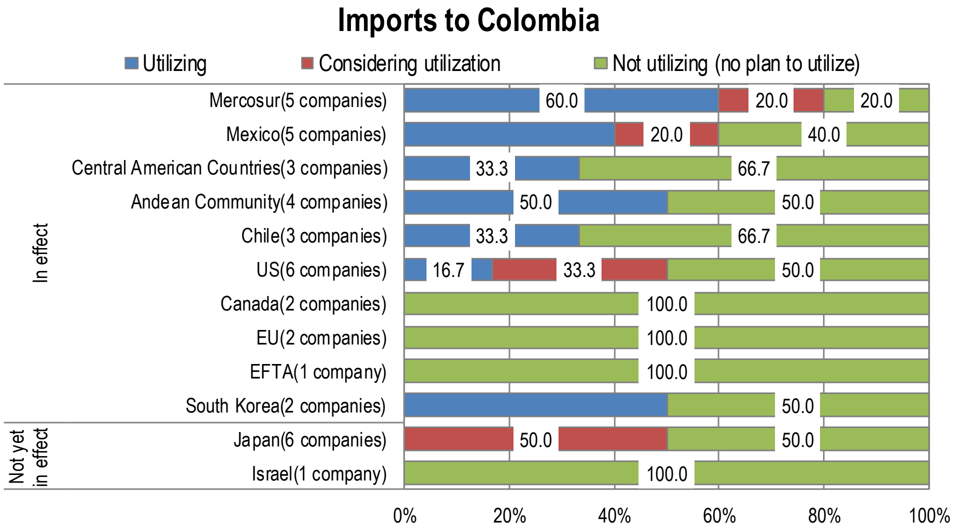


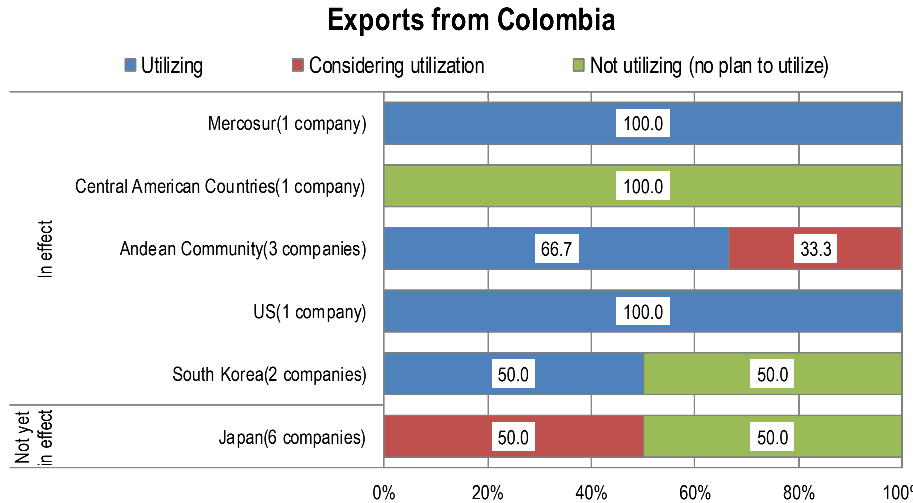


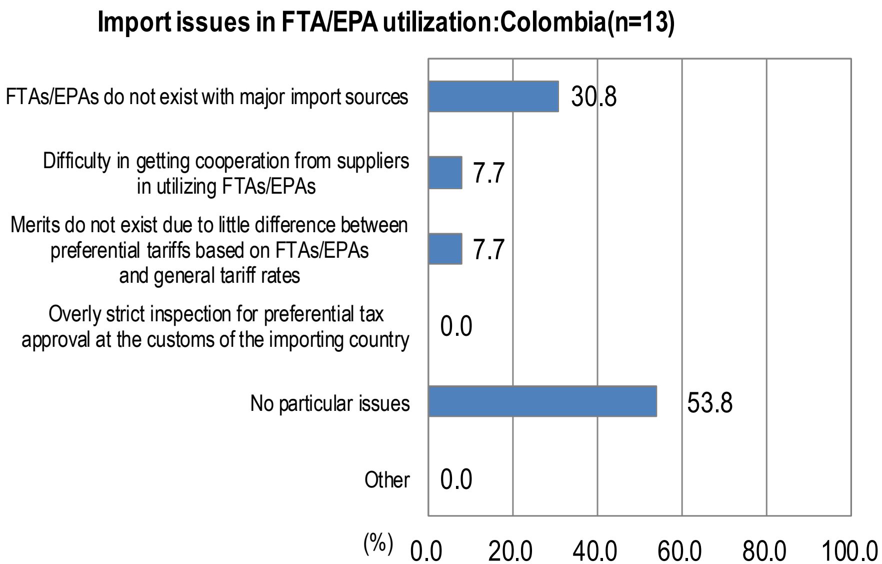


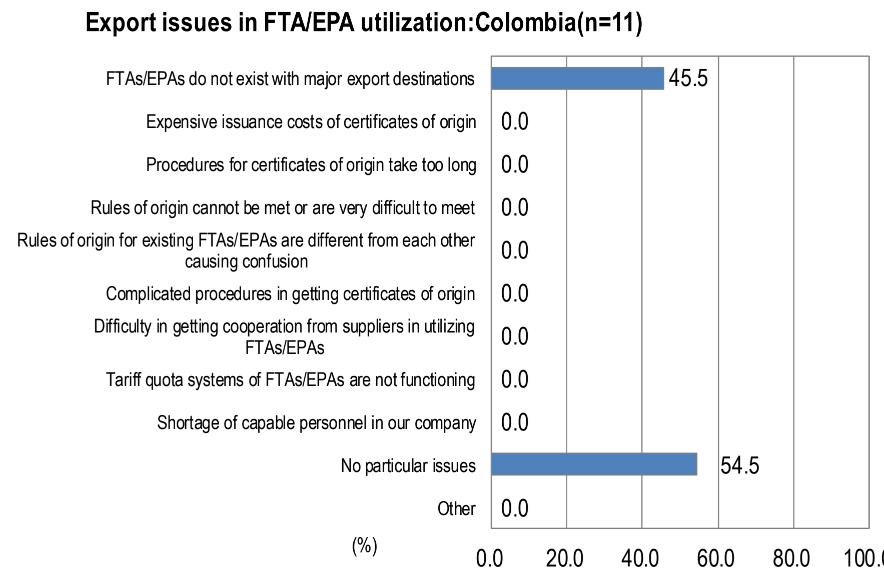
II-7-(1) FTA/EPA Utilization and Related Issues (Responses of Companies Engaging in Trade): Colombia

■A half of all Japanese companies operating in Colombia were "Considering utilization" for imports and exports if a Japan-Colombia EPA takes effect. A half of all companies also cited "FTAs/EPAs do not exist with major export destinations" as an export issue.



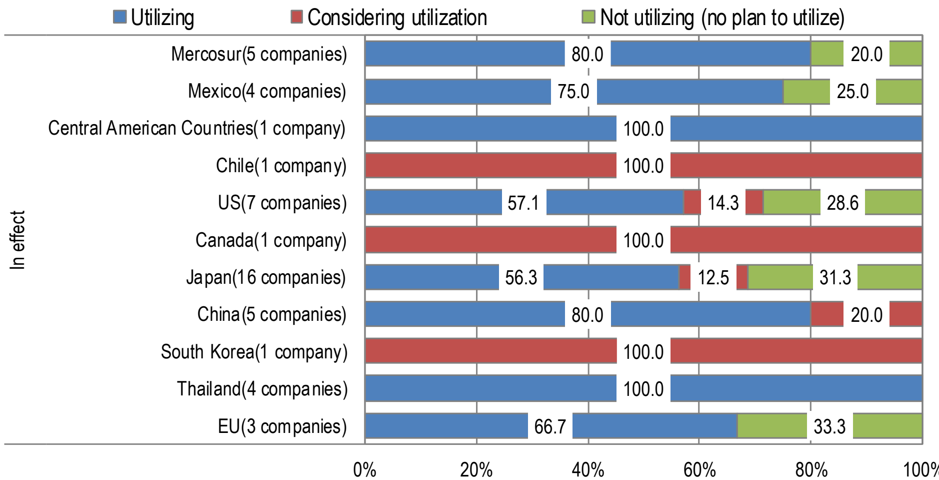




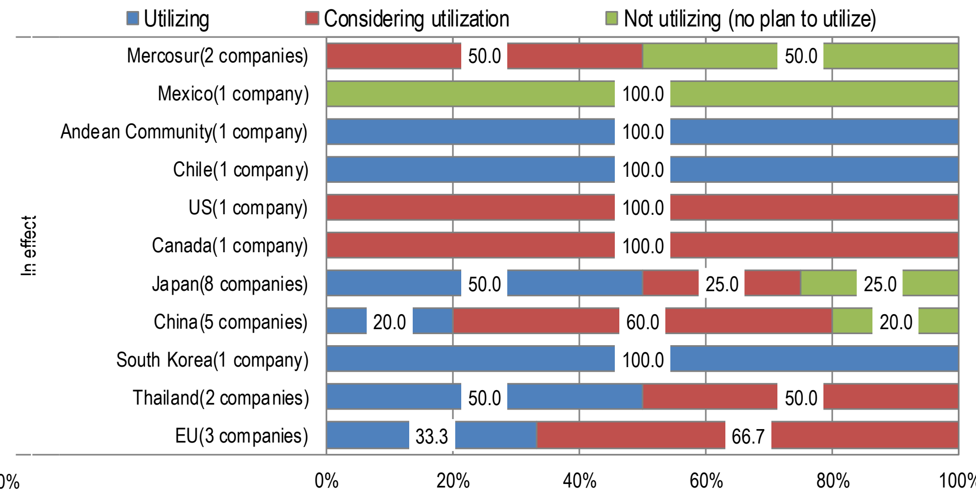


■ **FTAs/EPAs are utilized for imports more than exports because Peru's main industry is a primary industry and because Peru's manufacturing sector has not been fully developed.**

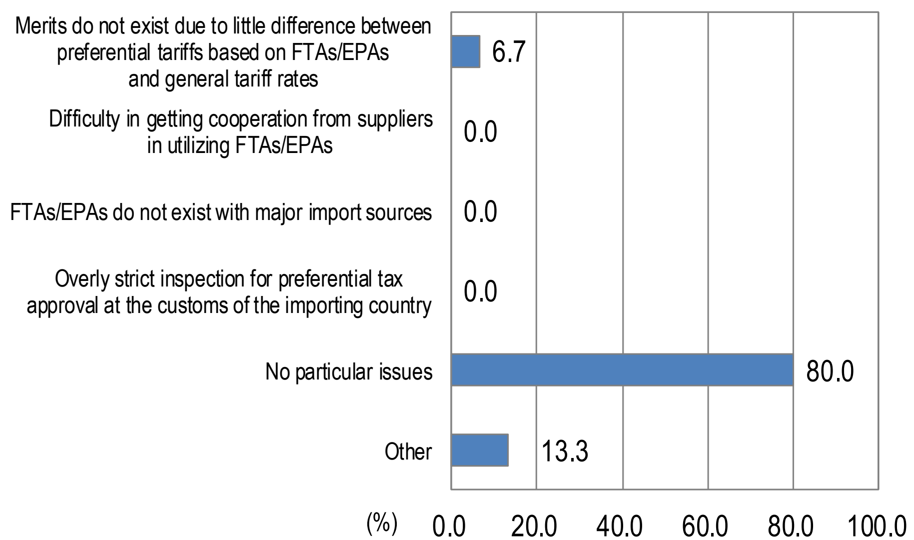
Imports to Peru



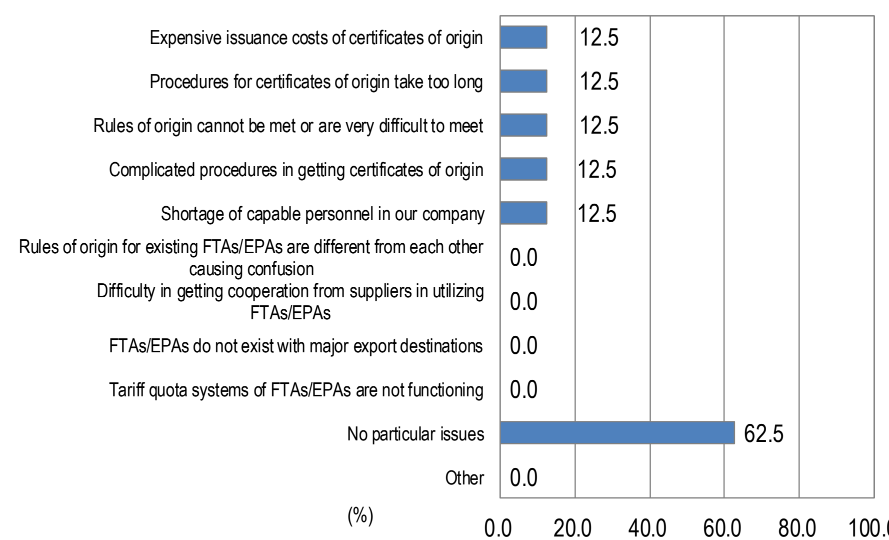
Exports from Peru



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

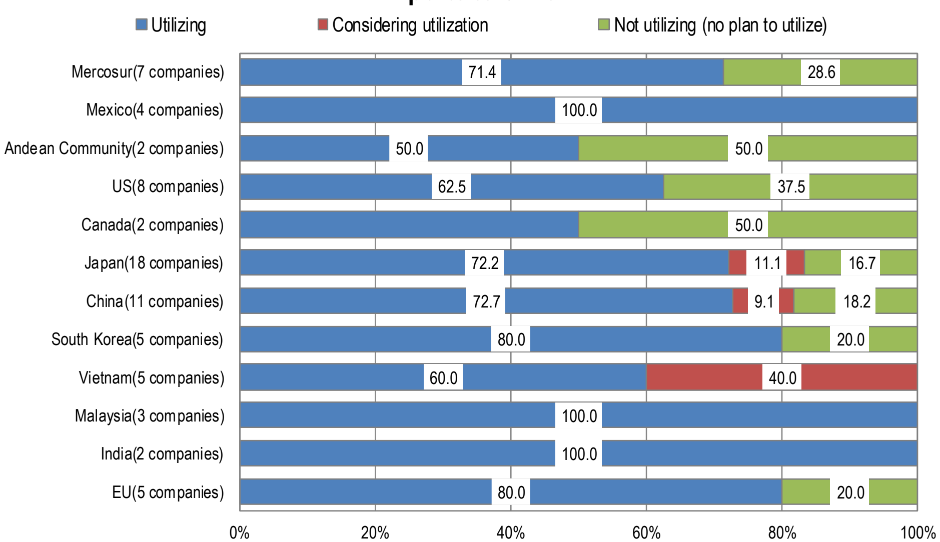


Export issues in FTA/EPA utilization:Peru(n=8)

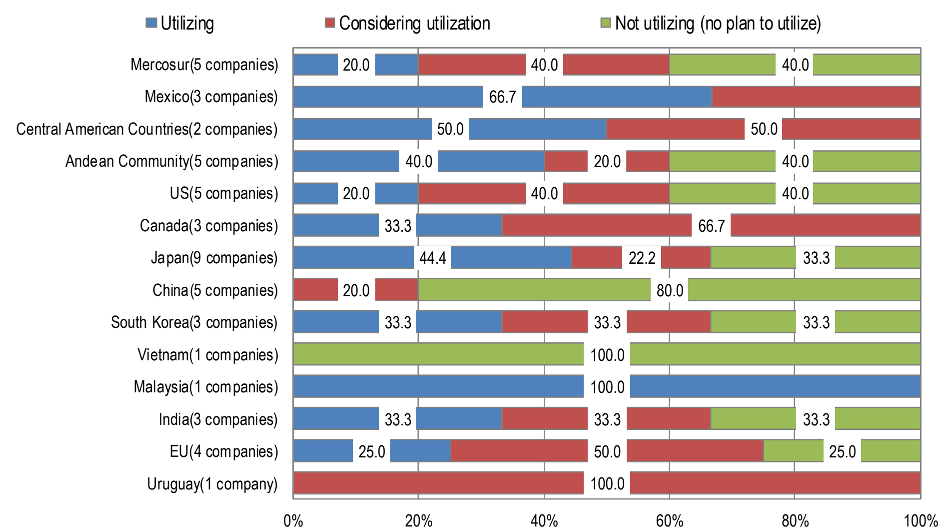


■The FTA/EPA "Utilizing" rate is high in imports to Chile, against a backdrop of FTA/EPA conclusions with Southeast Asia.

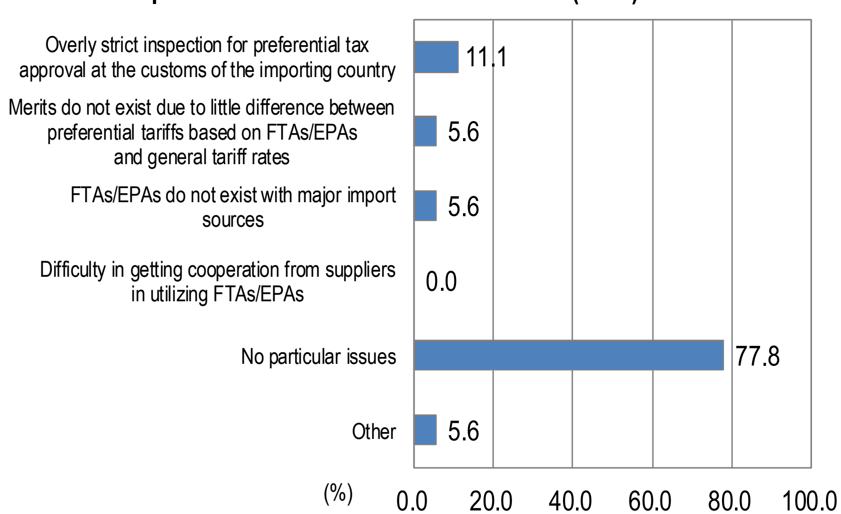
Imports to Chile



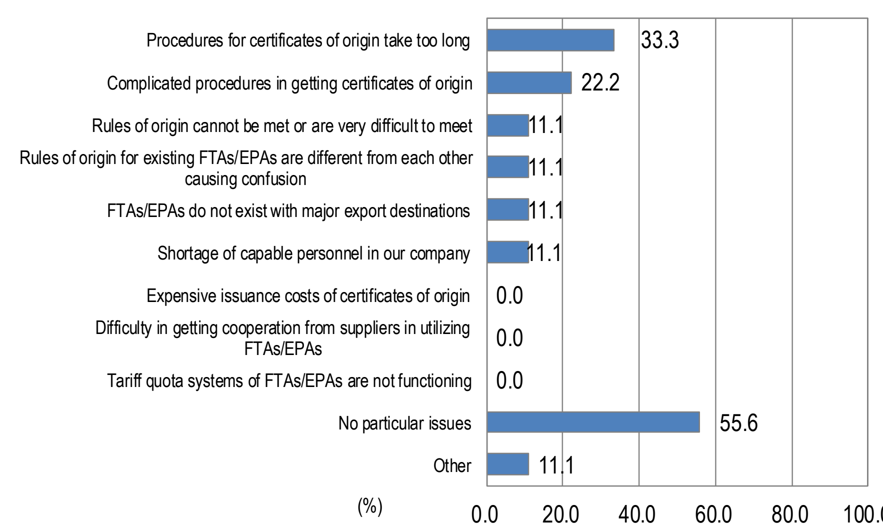
Exports from Chile



Import issues in FTA/EPA utilization:Chile(n=18)

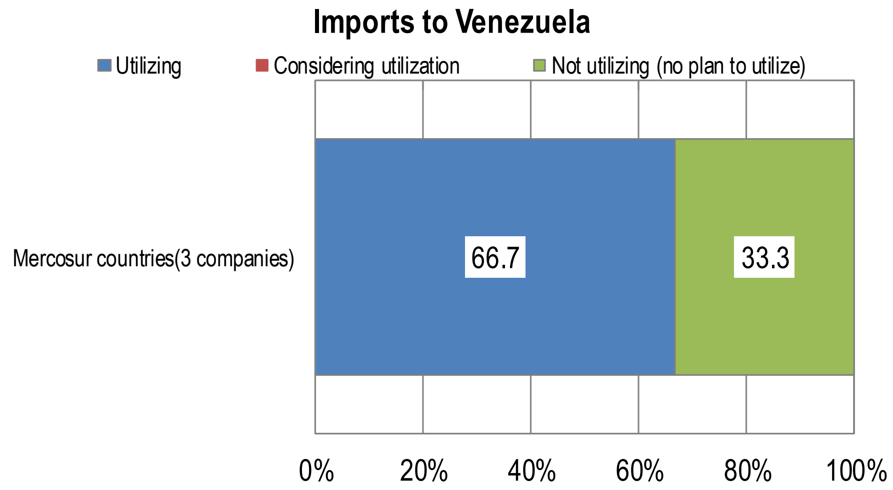


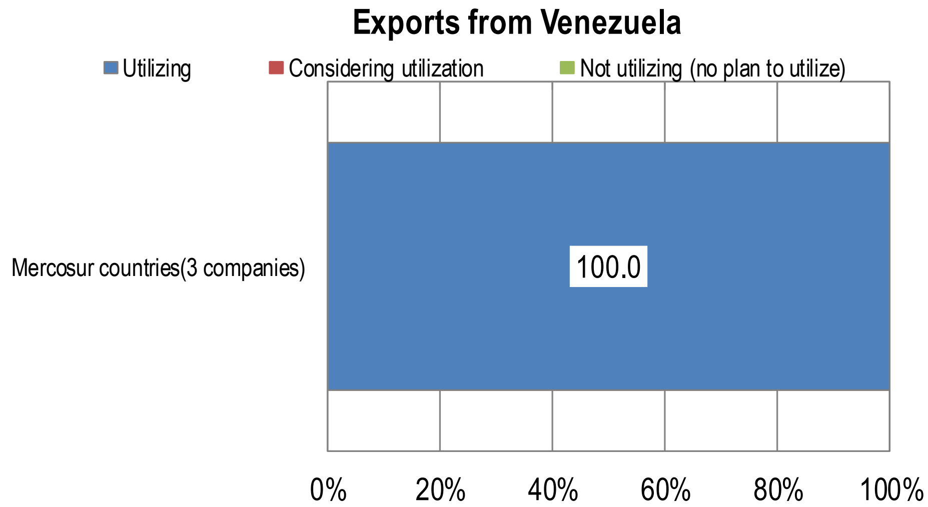
Export issues in FTA/EPA utilization:Chile(n=9)

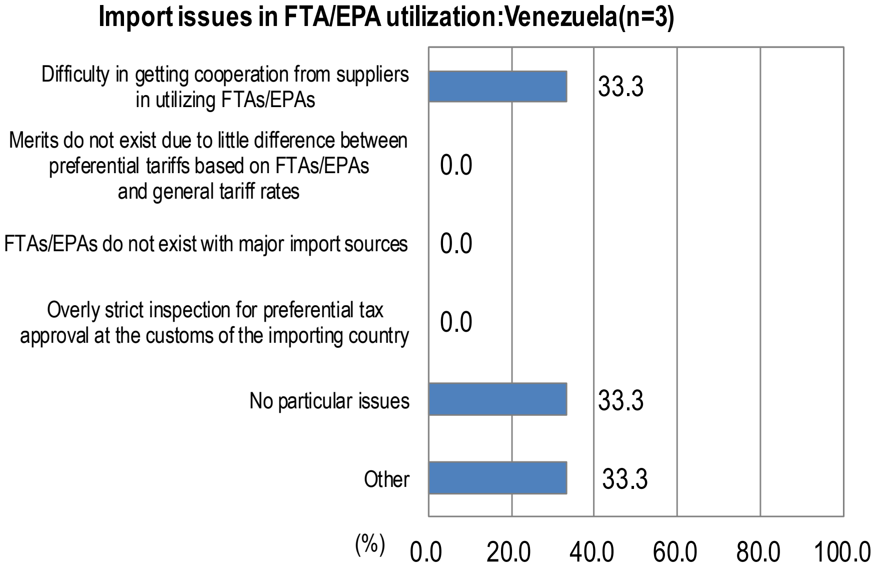


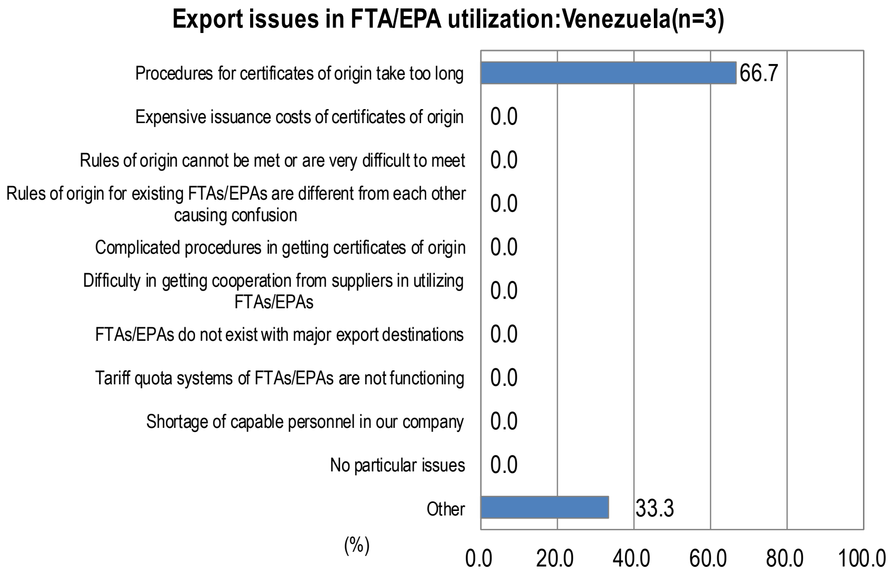
II-7-(1) FTA/EPA Utilization and Related Issues (Responses of Companies Engaging in Trade): Venezuela

■ Against a backdrop of political/economic confusion, there is no prospect that FTA/EPA utilization will improve.



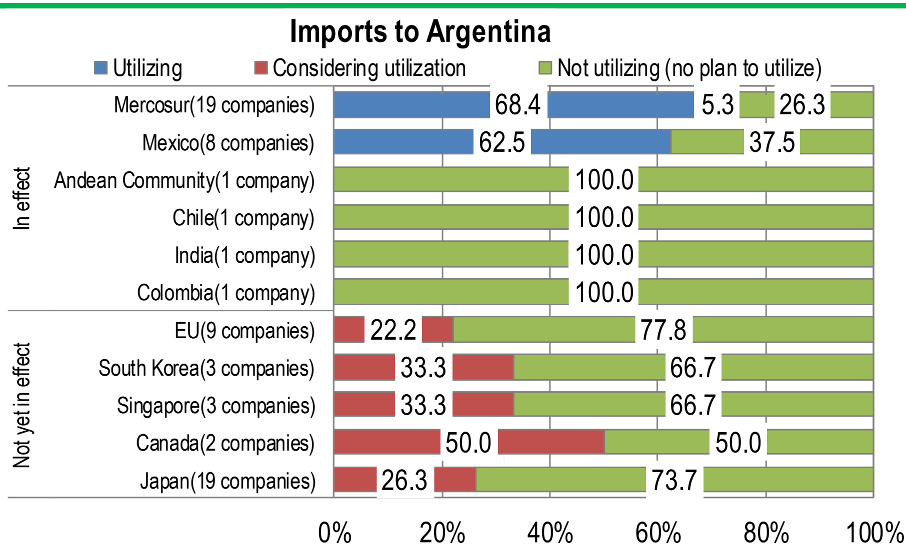


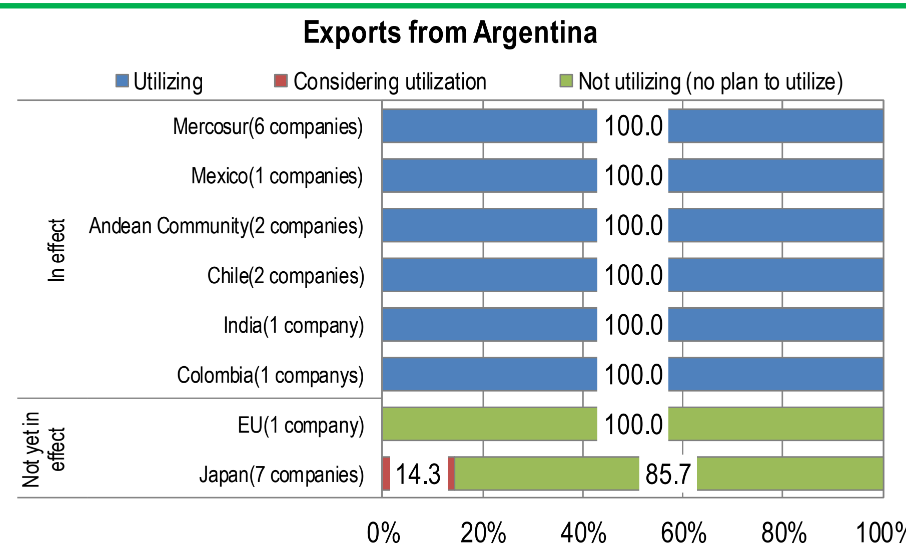


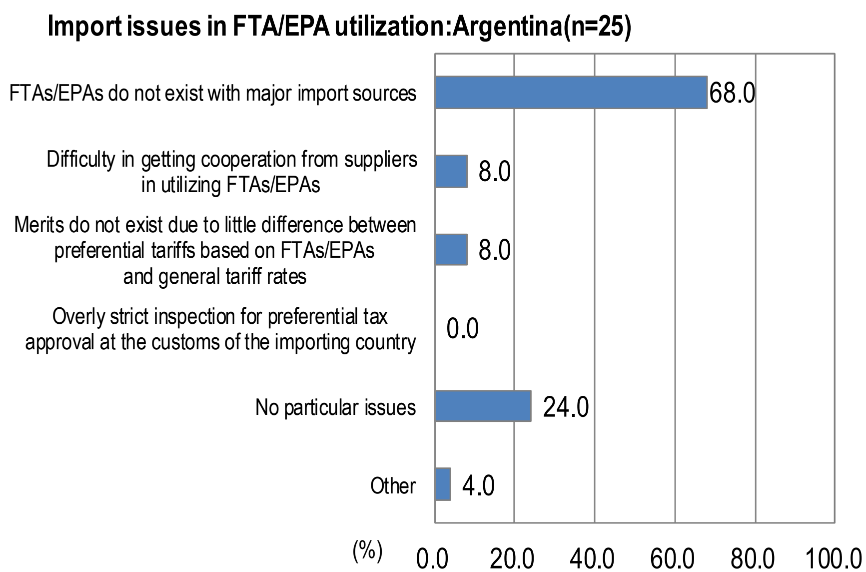


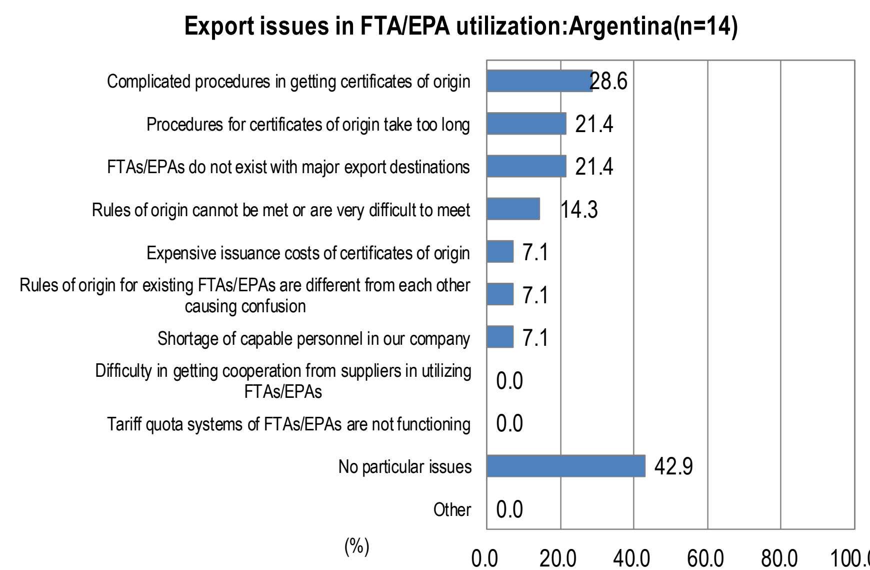
II-7-(1) FTA/EPA Utilization and Related Issues (Responses of Companies Engaging in Trade): Argentina

■ The percentage of "FTAs/EPAs do not exist with major import sources" was higher (68.0%) in Argentina than in other Latin American countries. A Japanese company operating in Argentina cited Colombia, a new FTA partner, as an export destination from Argentina.



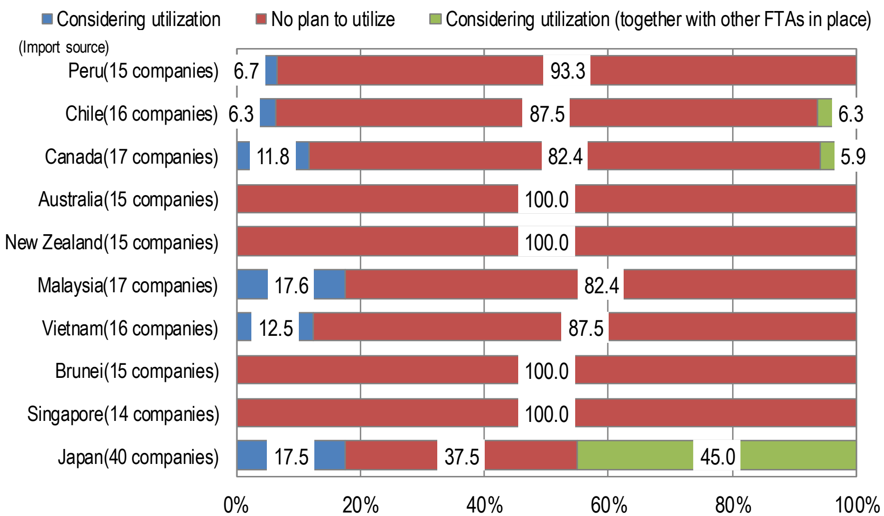




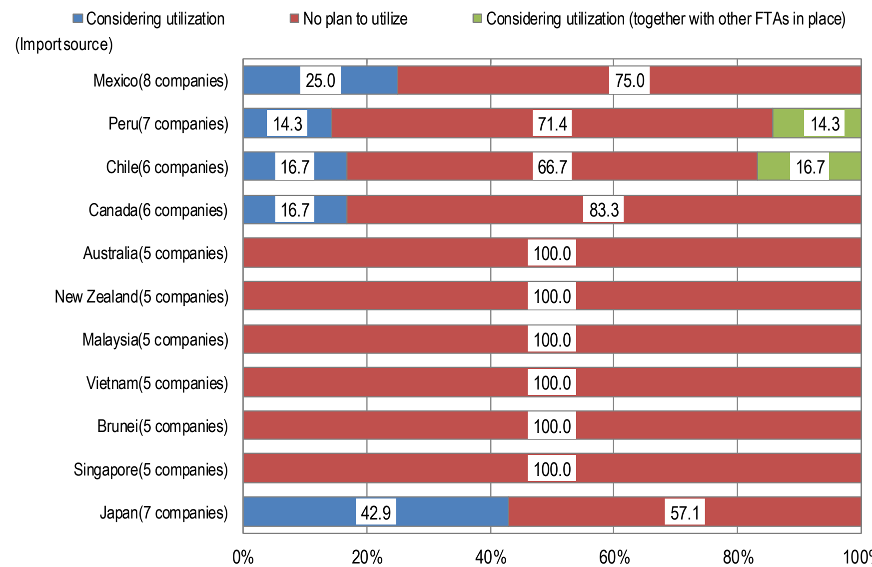


■About half of all Japanese companies operating in Mexico (45.0%) consider the combined use of the Japan-Mexico EPA and the CPTTP for imports into Mexico.

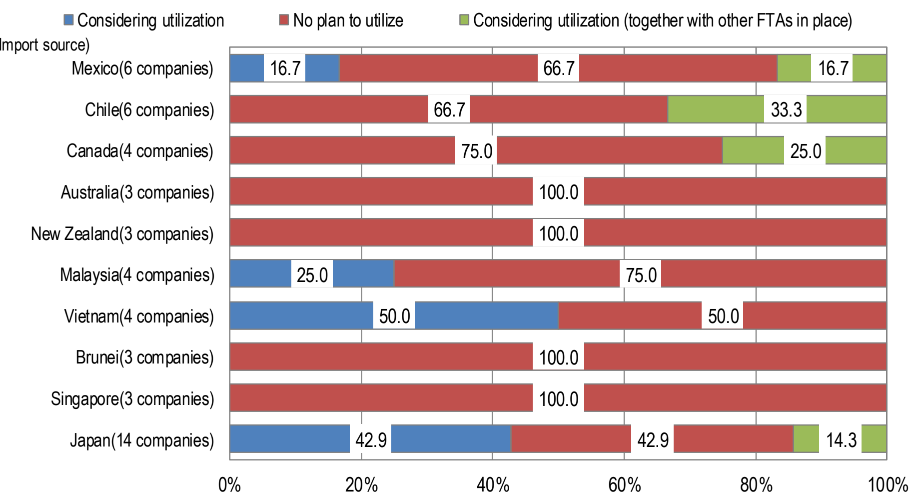
Utilization for imports to Mexico by Japanese companies operating in Mexico



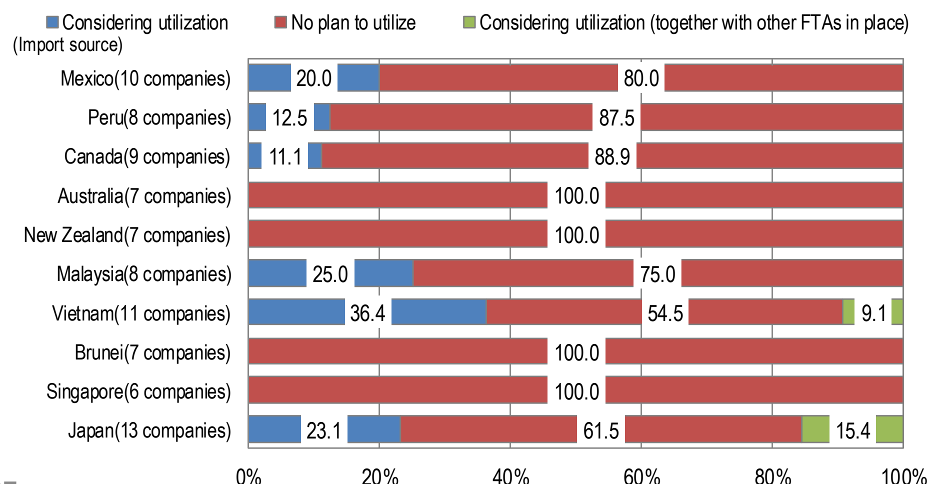
Utilization for import to Colombia by Japanese companies operating in Colombia (Reference)



Utilization for import to Peru by Japanese companies operating in Peru

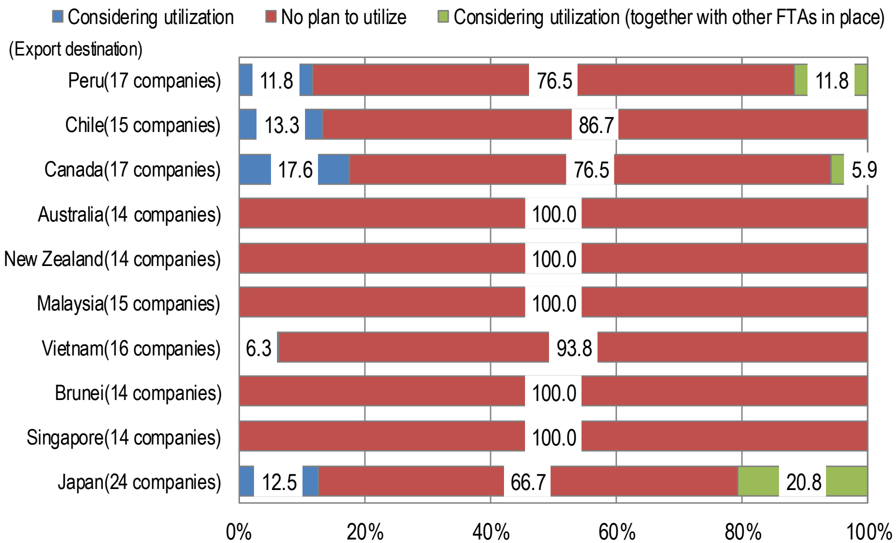


Utilization for import to Chile by Japanese companies operating in Chile

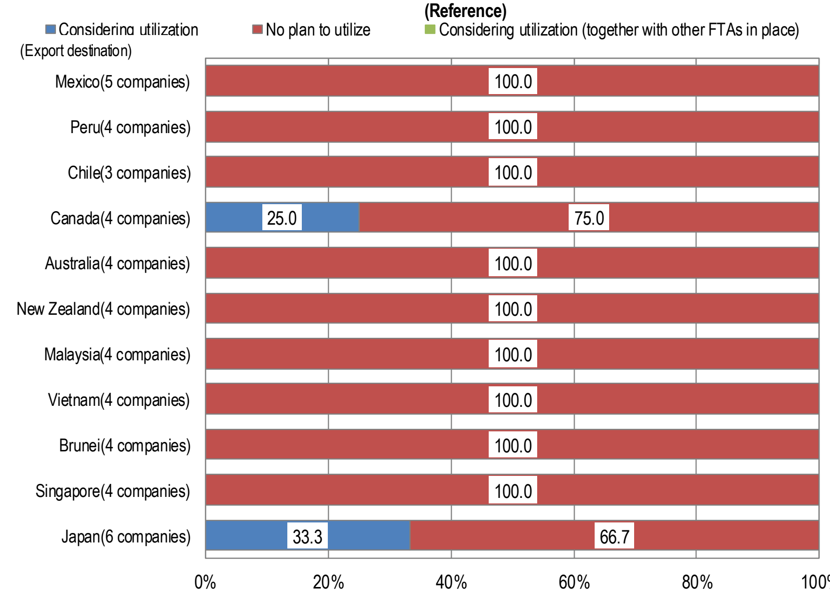


■Some Japanese companies operating in Peru are considering CPTTP (TPP11) utilization for exports from Peru to Southeast Asia and Japan. In Chile, many respondents selected "Considering utilization" for exports to many contracting countries.

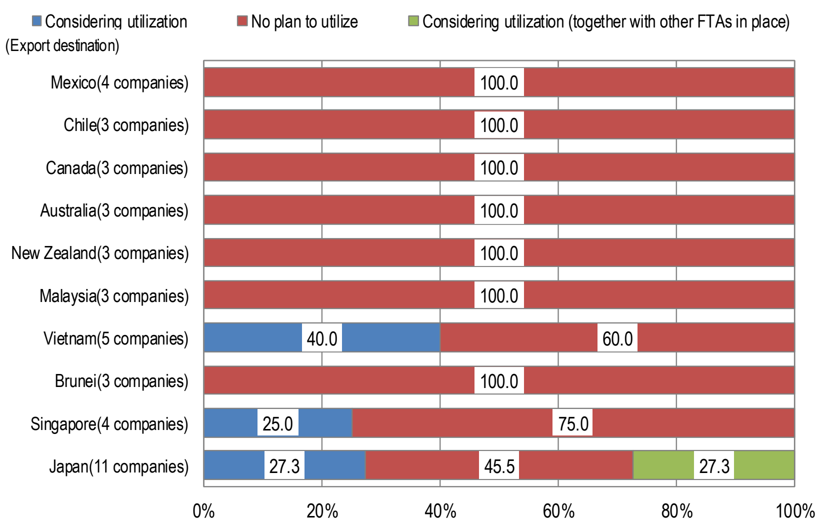
Utilization for export from Mexico by Japanese companies operating in Mexico



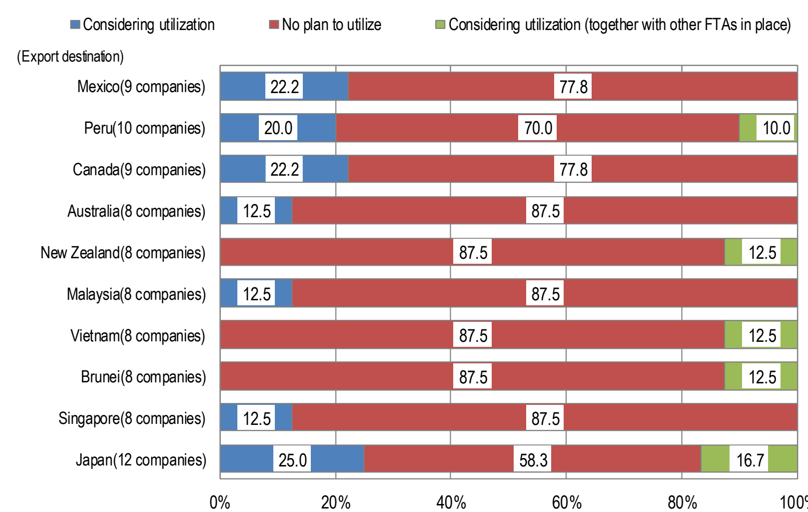
Utilization for export from Colombia by Japanese companies operating in Colombia (Reference)



Utilization for export from Peru by Japanese companies operating in Peru



Utilization for export from Chile by Japanese companies operating in Chile

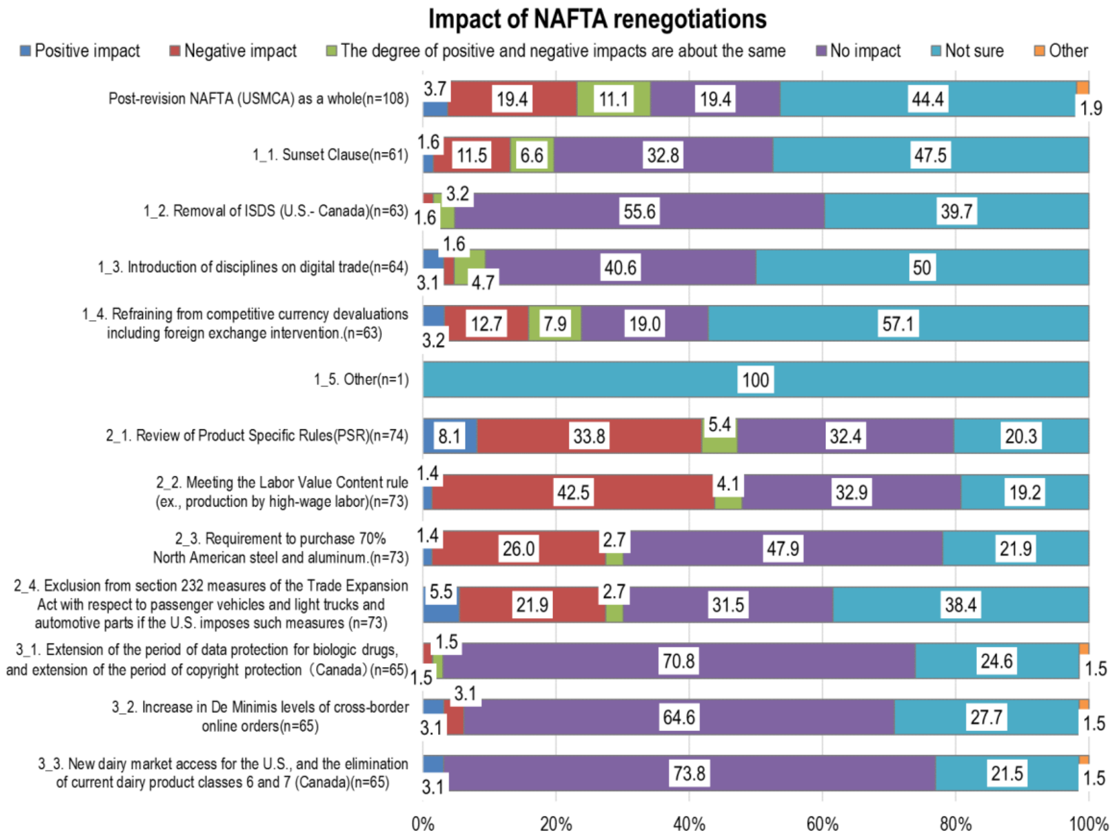


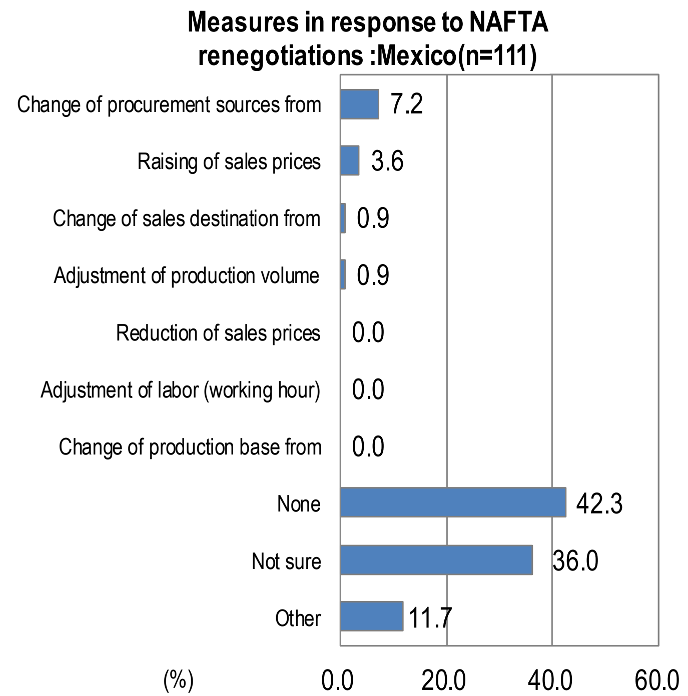
II-7-(3) Impact of the North American Free Trade Agreement (NAFTA) Renegotiations (Only Mexico)

■Regarding the effects of NAFTA renegotiations on Japanese companies operating in Mexico, "Not sure" accounted for the largest percentage (44.4%) because agreement details had not been determined as of the time of this survey. Comparing "Positive impact" (3.7%) with "Negative impact" (19.4%), negative recognition was more commonly shared among Japanese companies operating in Mexico at the time of the survey.

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

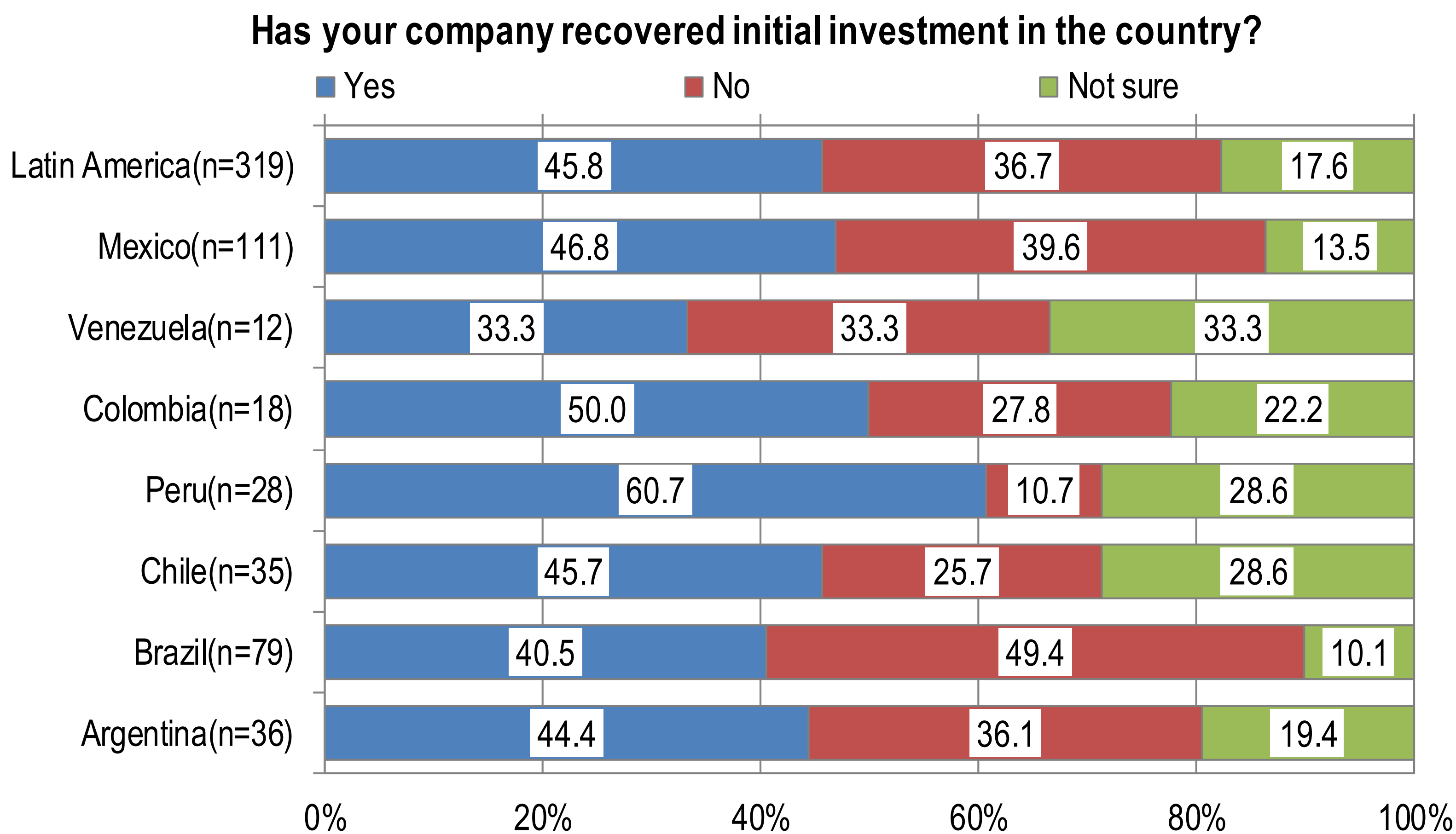
■As current measures in response to the results of the NAFTA renegotiations, "None" (42.3%) and "Not sure" (36.0%) accounted for the majority. Many companies have not yet developed specific measures.





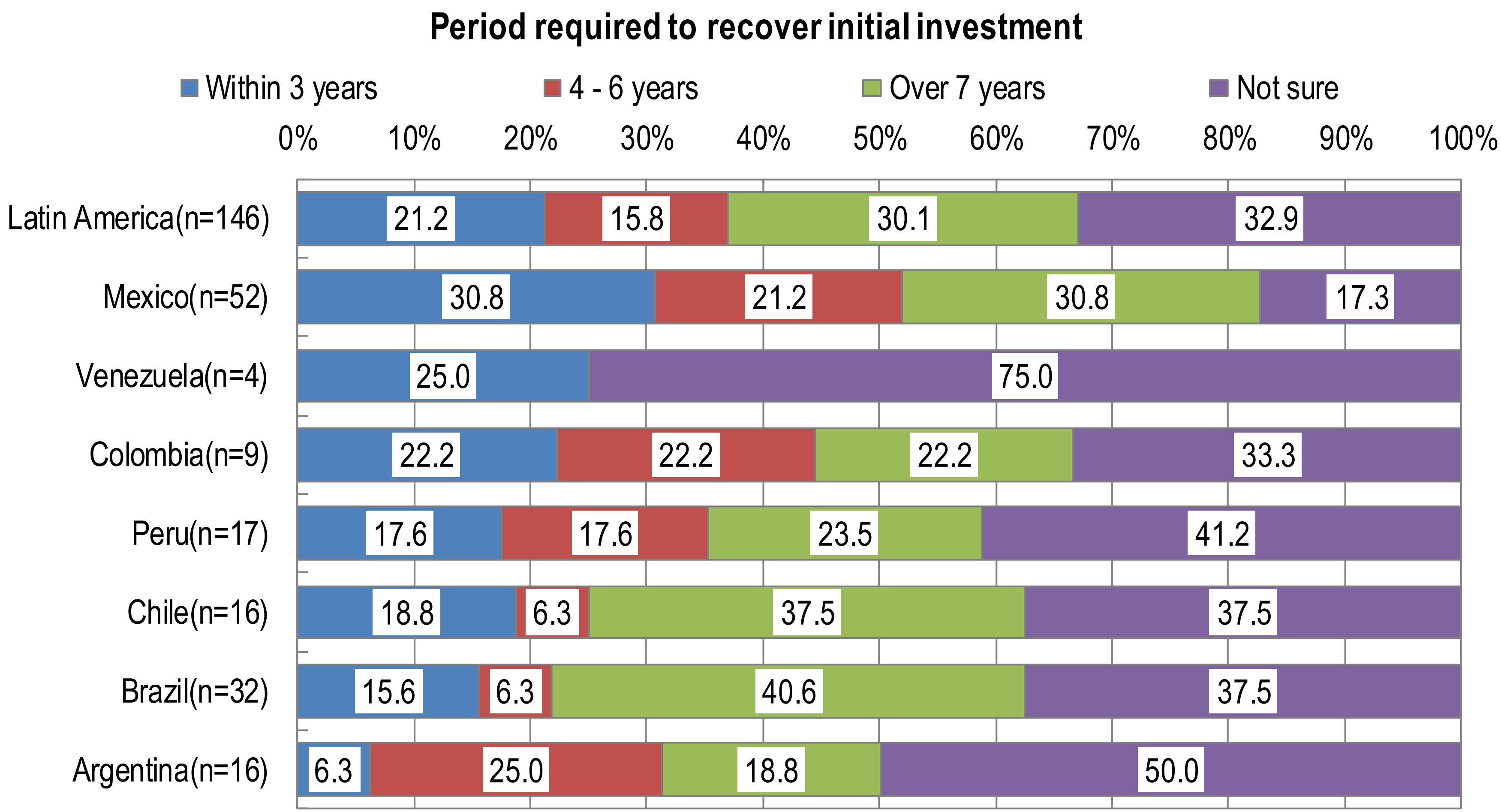
II-8-(1) Recovery of Initial Investment

■In Peru and Colombia, a high percentage of Japanese companies were able to recover their initial investment (60.7% and 50.0 %, respectively). On the other hand, this percentage was low (33.3%) in Venezuela, where political/economic confusion reigns. “Not sure" was also high in Venezuela (33.3%).



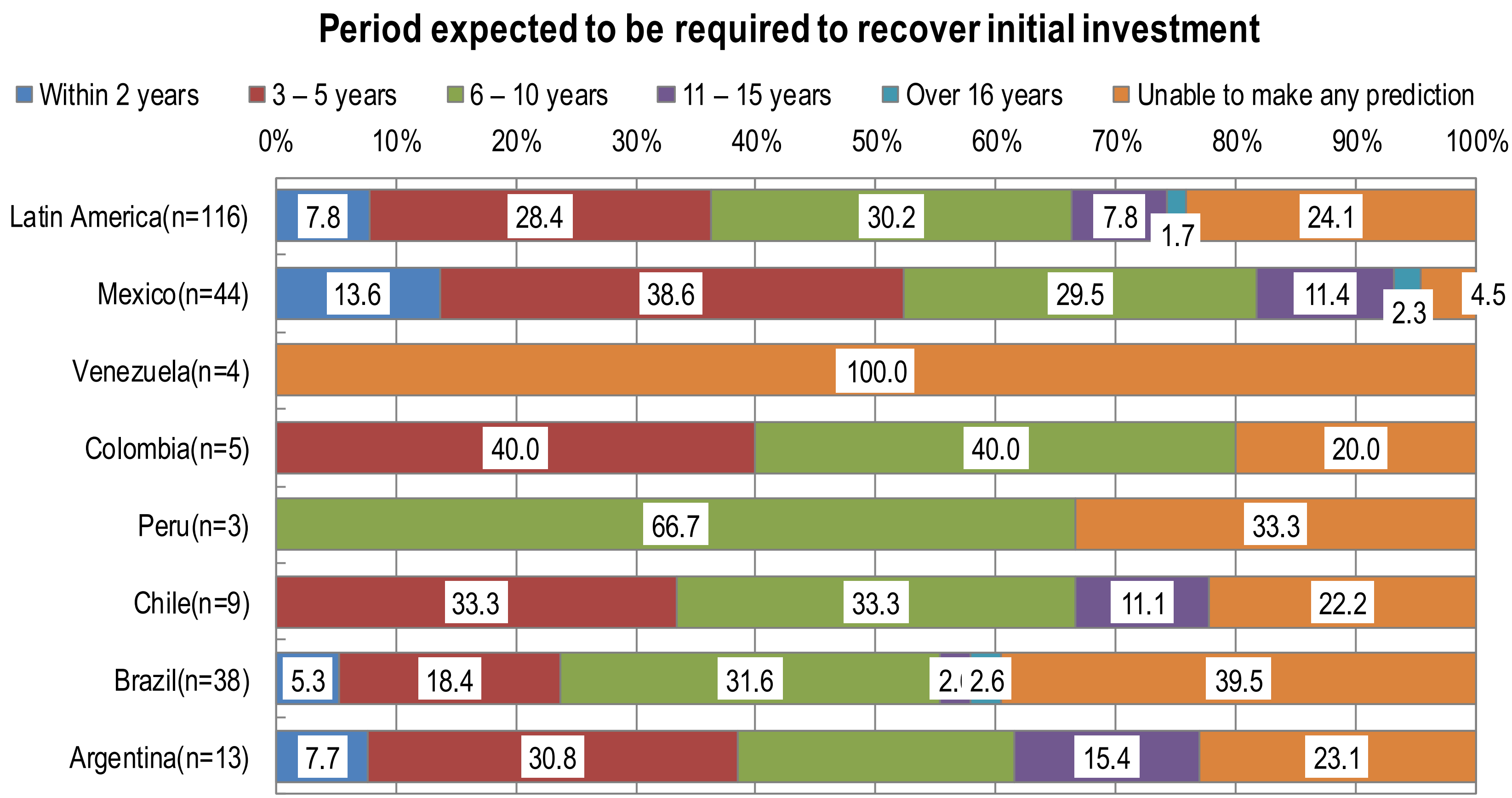
II-8-(2) Period Required to Recover Initial Investment (Responses of Companies That Have Already Recovered Initial Investment)

■A longer period of time is required to recover initial investment in resource business-centered countries. On the other hand, "Within 3 years" was more frequently cited (30.8%) in Mexico ,where many Japanese SMEs are operating.



II-8-(3) Period Expected to Be Required to Recover Initial Investment (Responses of Companies That Have Not Recovered Initial Investment)

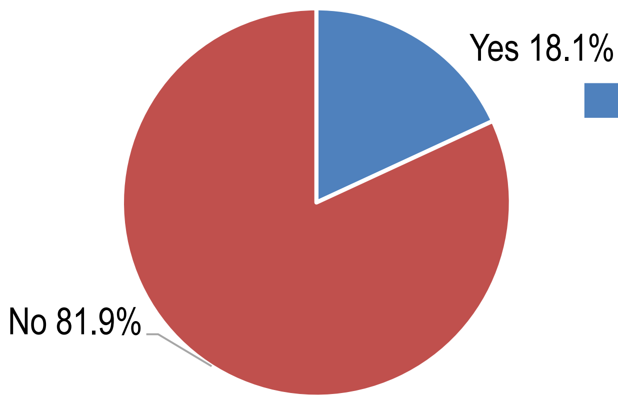
■ In Venezuela, all respondents selected "Unable to make any prediction" due to political/economic confusion. In Mexico, about half of all respondents answered that they expect to recover initial investment "within 5 years (including within 2 years)."



II-8-(4) Plan of Introducing Paraguay's Comparative Advantages (such as Low Hiring Costs) Compared with Brazil's Ones to Businesses, Reasons for Such Plan, and the Role of Business Sites in Paraguay (Responses of Japanese Companies Operating in Brazil)

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

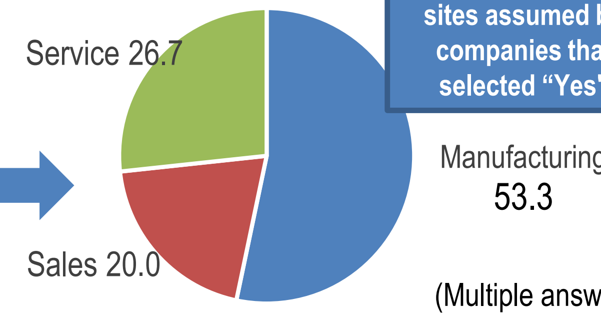
Is there any plan or possibility of introducing Paraguay's comparative advantages compared with Brazil's ones such as low hiring costs to your business? (n=83)



(Multiple answers)

Specific reasons (top 3)	%
A lack of attractiveness as a market and sales site	50.0
Our company does not cover Paraguay	41.2
A lack of human resources and employees	13.2

Role of business sites assumed by companies that selected "Yes"



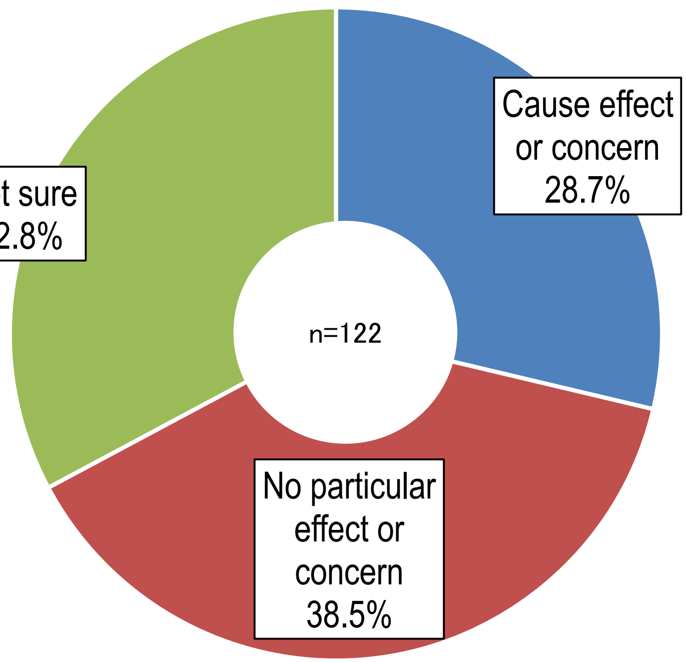
(Multiple answers)

Specific reasons (top 5)	%
Inexpensive labor	46.7
The Maquila system	46.7
Simplified taxation and tax procedures	33.3
Low risk of labor-related disputes or litigation	33.3
The existence of customers who need our products and services	33.3

II-8-(5) Possible Effects on Japanese Companies Operating in Brazil or Argentina and Associated Concerns that May Be Caused by the Lack of a Trade Agreement Between Japan and MERCOSUR

■ "Cause effect or concern" was selected by many companies in Transportation equipment parts (Motor vehicles/Motorcycles), Electrical machinery/Electronic devices, Wholesale and retail trade (mainly trading companies), etc. "No particular effect or concern" (approx. 40%) was selected by companies that are less directly related to trade, such as financial and service companies. "Not sure" accounted for approx. 30%. It appears that Japanese companies operating in Brazil or Argentina are unable to assess specific effects because only a few trade agreements are available under present circumstances.

Effect or concern caused by the lack of a trade agreement between Japan and MERCOSUR (Responses of Japanese Companies Operating Only in Brazil or Argentina)



Response rate by country

Responses of Japanese companies operating in Brazil (n=82)	%
Cause effect or concern	25.6
No particular effect or concern	37.8
Not sure	36.6

Responses of Japanese companies operating in Argentina (n=40)	%
Cause effect or concern	35.0
No particular effect or concern	40.0
Not sure	25.0

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