Results of the 2013 JETRO Survey on Business Conditions of Japanese-Affiliated Firms in the U.S.

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Japan External Trade Organization
Overseas Research Department, North America Division

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Survey Method and Remarks

The present survey is the 32nd in a series of surveys continuously carried out by the JETRO offices in the United States since 1981. (No survey was conducted in 2004)

1. Survey Purpose

To survey and analyze the state of Japanese-affiliated firms in the United States (business confidence, performance, management challenges, etc.) with the aim of facilitating business activities and management strategy planning for Japanese-affiliated firms.

2. Survey Coverage

The definition of "a Japanese-affiliated firm" is one in which the capital contribution ratio of the parent firm in Japan is at least 10%, including direct and indirect investment. For example, if the Japanese parent firm owns 20% of the capital of its subsidiary Firm A in the United States, and Firm A, in turn, owns 50% of the capital of its subsidiary, Firm B, then, the parent firm in Japan holds 10% (0.2 x 0.5 x100) of the capital of Firm B, which means that Firm B is defined as "a Japanese-affiliated firm." (Firm B is an indirectly owned subsidiary of the parent firm in Japan.) The same applies to subsidiaries of Firm B.

3. Survey Method

The respondents were informed of the URL of the website where we posted the questionnaire via the six JETRO offices in the United States (New York, San Francisco, Los Angeles, Chicago, Houston, and Atlanta). Respondents entered their responses directly on the website.

4. Survey Period

September 6 to October 18, 2013

5. Responses

The questionnaire was sent to 1,005 Japanese-affiliated firms in the U.S., and responses were obtained from 661 firms. The response rate was 65.8%.

(N.B.) Each JETRO office used information sources thought reliable and collected the data with the cooperation of each firm, but JETRO does not guarantee that the information is completely accurate and comprehensive.

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1. Business Conditions

In 2013, business confidence (measured by the diffusion index) among Japanese-affiliated firms in the U.S. rose compared to the previous year, with the diffusion index (DI) rising from DI 29.9 in the previous year to DI 31.7 in 2013. All industries centering on transportation machines and electric and electronic parts have achieved good results, and 80% of respondents expected a surplus in operating profits in 2013.

- Regarding the expectations for 2013 operating profits, 50.2% of firms responded that operating profits will rise compared to 2012, 31.3% said they will remain the same, and 18.5% reported a decline (Figure 2). In particular, operating profits for transportation machines (motor vehicles and two-wheeled vehicles) (69.6%), electric and electronic parts (66.0%), and parts for transportation machines (motor vehicles and two-wheeled vehicles) (52.9%) are expected to increase year over year. On the other hand, many firms in the food, agriculture and fishery processing sector forecast a decrease. The diffusion index (the proportion of business reporting increased operating profits minus the proportion reporting decreased operating profits compared to the previous year), which indicates business confidence at firms in 2013, came to 31.7 points (Figure 1).

- The reasons for increases in operating profits compared to 2012 (multiple responses allowed) were “Sales increase in the local market” (78.9%), “Improved production efficiency” (37.3%), and “Reduced procurement cost” (32.5%) (Figure 3). On the other hand, the reasons cited for decreases were “Sales decrease in the local market” (54.1%), “Increased labor costs” (29.5%), and “Costs insufficiently passed along in the sales price” (28.7%). In terms of operating profits for 2013, 79.7% of firms expect to make a profit, 11.8% to break even and 8.5% expect a loss (Figure 5).

- Compared to 2013, 53.3% of respondents forecast an increase in operating profits for 2014, 39.9% that they will remain the same, and 6.8% forecast a decrease (Figure 2). The reasons cited for the increase in operating profits (multiple responses allowed) were “Increased sales in the local market” (79.8%), “Improved production efficiency” (40.3%), and “Reduced procurement cost” (27.0%) (Figure 6). On the other hand, the reasons cited for a decrease were “Decreased sales in the local market” (42.2%), “Increased procurement cost” (35.6%), “Increased labor costs” (26.7%), and “Costs insufficiently passed along in the sales price” (26.7%) (Figure 7).

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A real sense of expanding demand in the automobile industry*

- There is a real sense of an economic rebound. Demand is expanding (recovering) by 15 to 20%. Some are of the opinion that it is simply rebounding to the extent of the curbs on consumption that resulted from the financial crisis, but we don't think so. (Parts for transportation machines: motor vehicles and two-wheeled vehicles)
- The recovery is occurring almost as expected. The following are the three main reasons: 1) Demand carried over from the financial crisis (pent-up demand); 2) Recovery in the light truck market following the recovery in the real estate market due to the third round of quantitative easing (QE3); 3) Improvements in the automobile financing market due to QE3. (Parts for transportation machines: motor vehicles and two-wheeled vehicles)

The delayed economic recovery in the food industry stands out

- We have not been able to derive the full benefit of the economic recovery in the U.S. due to the impact of intensifying competition with other firms in the same industry. (Food, agriculture and fishery processing)
- The impact of the recovery on the food industry is lagging compared to other industries. Just as the blow from the financial crisis was fairly slow in reaching us, the impact of the economic recovery is also slow, and there is hardly any sense that the economy is recovering. (Food, agriculture and fishery processing)

2. Business Outlook

Sixty percent of Japanese-affiliated firms in the United States are setting their sights on expanding their businesses in the next few years. Ninety percent of the firms cited increased sales as the reason for the expansion.

- In terms of trends in the next few years, 60.1% mentioned “Expansion,” 37.2% said the firm will “Remain the same,” while “Reduction” and “Transfer to a third country (region) or withdrawals” were cited by 2.3% and 0.5% respectively (Figure 8). The reasons (multiple responses allowed) cited were “Increased sales” (88.9%), “High growth potential” (41.6%), and “High receptivity for value-added products” (27.0%) (Figure 9). In terms of the specifics of what kinds of functions will expand, 51.6% cited “Sales functions,” 49.6% said “Production (high-value added products),” and 39.5% “Production (generic products)” (Figure 10). On the other hand, the reasons for reduction, transferring to a third country (region) or withdrawal

* The comments indicated by arrowhead bullet points in the main text (type of industry indicated in parentheses) are quotes from interviews with the firms that responded to the questionnaire, and, in part, comments on the survey questionnaire.

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were “Sales decrease” (55.6%), “Increased costs (procurement costs, labor costs etc.)” (38.9%), and “Low growth potential” (33.3%).

Many respondents mentioned business expansion in expectation of a recovery on the U.S. market. Its increasing population, rare in a developed country, also bolsters the attraction of the U.S. market.

- [The high growth potential for the U.S. market is due to] the manufacturing recovery, the shale revolution, as well as lower energy-related costs for manufacturing, and a population increase that is rare in a developed country. (Machines, including molds and machine tools)
- We believe the upswing in the U.S. economy will continue and, similarly, we also expect the market recovery to accelerate because of the growth and the strong presence of the United States. We also forecast an increase in potential customers due to the population increase. (Parts for transportation machines: motor vehicles and two-wheeled vehicles)
- Shale gas and the manufacturing industry are bullish. (Chemical products, oil products)
- The Japanese food boom is not limited to the affluent classes but has also become widespread among the middle classes. It is not only a question of some luxury restaurants; people can also come into contact with Japanese food at the supermarket, which gives us a sense of the high growth and potential for the U.S. market. (Food, agriculture and fishery processing)
- The high receptivity to high-value added products in the United States is amazing. No matter how the price, there is a class of buyers for it. (Print and publishing)

Many firms, primarily in medical devices and pharmaceuticals, transportation machines, and steel, said that they would increase the number of local employees in the context of the buoyant automotive market and the shale revolution. On the other hand, the number of Japanese expatriate employees is, generally, not changing. Regarding the problems related to management localization, firms mainly indicated “Capabilities and motivation of local employees” and “Difficulty in hiring executive-level employees.”

- The initiatives to pursue management localization (multiple responses allowed) were “Focus on the training of local employees” (62.5%), “Hiring director or manager-level employees” (55.8%), “Hiring experienced employees who can contribute to management localization” (51.3%) (Figure 11). On the other hand, problems mentioned in the localization of management were “Capabilities and motivation of local employees” (38.7%), “Difficulty in hiring executive-level employees” (35.9%), and “Slow progress in the training of local employees” (31.9%) (Figure 12).

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Developing local employees by providing training programs and presenting career paths

- We have set up in-company training programs for local staff to move ahead with localization. In addition to individual performance evaluations, program participation, and initiatives that reflect personal development, we also disclose business conditions. (Transportation machines: Motor vehicles and two-wheeled vehicles)
- We carry out education and training led by the head office. We have built a new HR system, and we present local employees with career paths linked to promotion to the executive ranks. Managers are trained in Japan, where they learn the head office's views and how the work is carried out there and have opportunities to meet and share information with local employees from other overseas locations. (Chemical products, oil products)
- We are deliberately making efforts to move forward with management localization. The reason is that there are people among the staff hired in the United States who think and see things differently from the Japanese staff, and they often come up with great ideas. If we impose Japanese values on these valuable employees, they will no longer produce good ideas, so we try to see their outstanding points. We make efforts to facilitate cooperation while sharing the firm philosophy and taking on board both the strong points of Japanese staff as well as the strong points of local staff. (Print and publishing)

Securing excellent human resources for candidates for executive positions is an issue

- Since the rate of job turnover among local staff is not that high, securing staff is not the problem. However, we oversee not only the U.S. markets, but also other regional markets, so we need to cooperate with other overseas locations, and we find it difficult to hire good staff for management posts where a high level of management experience is required. Salaries are also important, and since we (the U.S. firm) are not a large corporation, hardly anyone is attracted by our terms and conditions of employment alone. (Textiles: spinning, weaving, and synthetic fibers)
- We are mindful of management localization, but we have problems with the high job turnover among executive candidates and slow progress with training local employees. We would like to reduce job turnover by appointing locally hired staff to important positions that are key to the business and provide them with a degree of discretionary authority, so that they feel the job is worthwhile. (Food, agriculture and fishery processing)

- 46.3% of firms reported an increase in local employees in the past year. 41.5% firms said that there had been no change, and 12.3% reported a decrease. In terms of future plans, 46.0%

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responded that the number will increase, 46.7% thought there would be no change and 7.3% of corporations reported a decrease (Figure 13). In the context of the favorable automotive market and the shale revolution, many respondents in transportation machines (motor vehicles and two-wheeled vehicles) (65.2%), steel (including cast and wrought products) (58.8%) as well as medical devices and (62.5%) and pharmaceuticals (57.1%) said that they were planning increases.

- On the number of Japanese expatriate employees, 66.0% of the firms responded that there had been no change in the past year. As for the future plans, 75.2% of firms responded that the numbers would not change (Figure 14).

There is growing recognition of the need to increase local employment (localization) to expand the business. On the other hand, many respondents say that they are finding it difficult to secure human resources.

- We reduced staff by 10% after the economic crisis, but our number of employees has increased 1.5 fold since then. The staff increase is the direct results of sales and manufacturing expansion. (Machines, including molds and machine tools)
- We have built on to the factory and increased the number of local employees by 10% because of the business expansion (increased demand). (Parts for transportation machines: motor vehicles and two-wheeled vehicles)
- It has become difficult to secure staff (in particular, hiring equipment safety technicians for the manufacturing floor). (Parts for transportation machines: motor vehicles and two-wheeled vehicles)
- It is tougher than ever to hire specialist staff. (Pharmaceuticals)
- Finding engineers and other local staff is not difficult, but workforce mobility in the United States is high and people come and go all the time because, unlike in Europe, there are no constraints in employment contracts such as prohibitions against switching to other firms in the same industry. The high rate of job turnover is an issue for our business. (Electric and electronic parts)
- The trend is toward an increase in the number of employees hired locally and no change in the number of Japanese expatriates. This is not a measure to cut personnel expenses; it is simply that it has become difficult to obtain visas for Japanese expatriates. Since we have brought our manufacturing technology from Japan, we would like to hire more Japanese specialists, but it is just about impossible to obtain visas in the E, L, and H1-B categories. (Food, agriculture and fishery processing)

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3. Management Challenges

The main reasons cited for rising costs are increases in employee-related costs, including "Increases in labor costs (including salaries and bonuses)" and "Increases in health care costs." The main factors cited for weak sales are "Increasingly severe price competition" and "Popular products from competitors."

- The main factors behind rising costs (multiple responses allowed) are "Increase in labor costs (including salaries and bonuses)" (63.8%), "Increase in health care costs" (55.4%), and "Increase in prices of raw material, natural resources and commodities" (49.9%) (Figure 15).

- On the other hand, the main factors behind weak sales are "Increasingly severe price competition" (79.4%), "Popular products from competitors" (53.7%) and "Difficulties in distinguishing our products or ourselves from competitors" (41.5%). The intensifying price competition with Chinese and Korean firms, in particular, stands out (Figure 16).

Higher labor costs are the main reason for the rise in costs. Measures to reduce labor costs include mechanization of the manufacturing process and providing other incentives than salaries.

- Labor costs are rising in keeping with the economic recovery. We strive to control the cost of labor by facilitating mechanization of manufacturing processes and using temp staff for 40% of the employees working on the manufacturing line. (Food, agriculture and fishery processing)
- With the price of commodities rising about 2% every year, we understand that it also necessary for wages to rise, but our customer's demand discounts, so wages have not gone up by much. We try to cope with the situation by making efforts to rationalize the firm. (Metal goods, including plated products)
- Without raises [in wages], no one will come to work for us, but other than wage increases, we try to attract people by offering training and opportunities for promotion. (Parts for transportation machines: motor vehicles and two-wheeled vehicles)

Intensifying price competition from Chinese and Korean firms

- We have several competitors in the U.S., but since the customers understand the features of the products of each firm, competition on the market is not so intense that we have to scramble for customers. However, price competition has intensified in recent years because of imports of similar products from China and Korea. (Textiles: spinning, weaving, and synthetic fibers)

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- Competition on price with Asian firms is intensifying. The momentum of China, Taiwan and Korea is incredible. There is a big difference in customs duties compared to those from Korea, which has concluded a free trade agreement (FTA). (Plastic products)
- The intensified price competition is due to Chinese makers now being able to make equivalent products and export them cheaply. Another factor, particularly in the field of gas for electronics (semiconductors), is the pressure from clients to cut prices as well as the slowdown in the growth of amounts of gas. (Chemical products, oil products)

4. Capital Investment

The purpose of the majority of capital investment is to streamline plants and improve efficiency.

- Compared to 2012, nearly half of firms reported that capital investment in 2013 remained the same (47.0%). Increases from the previous year (39.8%) far outperformed the decreases (13.2%) (Figure 17). 69.9% cited “Streamlining and improving plant efficiency (include expanding or renewing of machines and facilities),” 23.9% indicated “Expansion of current manufacturing facilities” and 20.6% listed “Investment in IT for more efficiency” (Figure 18).

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5. The Changing Business Environment in the U.S.

- **157 firms (23.8%) indicated experience of relocating manufacturing (all or part) in the United States to other countries. When asked about moving manufacturing back to the U.S., 26 of the firms (16.6%) responded affirmatively, 36 firms (22.9%) said that they possibly would move back in the future, and 95 firms (60.5%) responded negatively.**
- **In terms of the fields in which the market is most likely to grow in the next two to three years, many responses converged on environment/energy, and medical/health.**
- **Concerning utilization of bilateral or multilateral FTAs/EPAs, the rate of utilization for NAFTA member countries Canada and Mexico is high.**
- **On the impact of the shale revolution, 30.7% said it had had a positive impact; far outweighing the 2.9% who said it was negative. Firms that responded "Positive" mentioned that equipment orders are up because of capital investment by oil, petrochemical and gas firms (General machines), or that they are expecting an expansion in the market for chemical products used in manufacturing processes (Chemical products, oil products). On the other hand, opinions from firms that responded "Negative" included "It will invite steep price rises in raw materials because of indirect competition for some of the raw materials we use." (Parts for transportation machines: Motor vehicles and two-wheeled vehicles), or "There's a chance that interest in LED lighting will not increase." (Electric and electronic parts).**
- **With regards to doing business in Latin America, nearly 80% of firms said that they are already doing business, or have a firm/factory in Latin America, or that they are not doing business in the region but are interested. Their interest is mainly converged on Brazil and Mexico.**

- Moving manufacturing facilities to the United States

Among the 157 firms (23.8%) with experience of moving manufacturing from the United States (including a part of the business) to another country, 26 firms (16.6%) said that moving manufacturing facilities back to the United States applied to their situation (Figures 19, 20). The reasons cited included responding to excellent demand within the United States, for example, "We moved the manufacturing to China, but later on, we revived manufacturing in the U.S. because of an increase in U.S. orders etc. (Parts for transportation machines: Motor vehicles and two-wheeled vehicles)

On the other hand, 95 firms (60.5%), or more than half, said that moving manufacturing back was not applicable to them because "Manufacturing costs in the United States are high" (Electric and electronic parts), or "We have just started up a factory in Mexico and are not

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considering a scale-back" (Transportation machines: Motor vehicles and two-wheeled vehicles).

Firms that responded with "Yes" or "Not now, but possibly in the future" also said that they would move their manufacturing base back to the United State to switch to the local production for local consumption format as the U.S. market recovers.

- We moved to Mexico, but we have found it difficult to get the expected effect due to manufacturing efficiency and labor issues. This is why we are looking into returning part of the manufacturing to the United States. (Parts for transportation machines: motor vehicles and two-wheeled vehicles)
- We moved the manufacturing to a low-cost country (China) to cut costs, but later on, orders rose with increased manufacturing of automobiles, so we have reinstated part of the direct manufacturing in the country of consumption (U.S.). (Parts for transportation machines: motor vehicles and two-wheeled vehicles)
- The Group as a whole has tried to centralize locations in China, but we have recognized that it is difficult to produce everything in China. Therefore, a partial return to the United States is possible. (Electric and electronic parts)

Some firms that responded with "No" also said that the U.S. has few advantages as a manufacturing base because of the high labor cost.

- The costs of both materials and processing are still high in the United States. (Electric and electronic parts)
- Severe price competition. Car makers are expanding manufacturing locations outside the U.S. and there is growing demand for local suppliers. (Parts for transportation machines: motor vehicles and two-wheeled vehicles)
- We believe that the low skill levels of plant operators and the high job turnover rate leaves no room for improvement. (Parts for transportation machines: motor vehicles and two-wheeled vehicles)
- We are thinking about expanding the business into Mexico. (Electric and electronic parts)

・ Fields where the market is most likely to grow in the next two to three years

Concerning fields in which the U.S. market is most likely to grow in the next two to three years (maximum three fields), the responses were energy (58.1%), environment (49.8%), medical (42.7%), and health (29.2%) (Figure 21). In terms of context, respondents cited business opportunities because of the shale revolution, rising awareness of the environment, society growing older and more obese, and the health system reforms.

・ Utilization of bilateral or multilateral FTAs/EPAs

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Of NAFTA member countries Canada and Mexico, utilization rates are high: in the case of Canada, 37.2% reported using those preferential tax rates for exports and 47.4% for imports; for Mexico, it was 42.3% for exports and 55.3% for imports (Figure 22).

- Impact of the shale revolution in the U.S.

Firms that reported a positive impact (30.7%) on the question about the impact of the shale revolution far outnumber those giving negative responses (2.9%) (Figure 23). Firms that have already seen a positive impact include those dealing in excavation machinery or pipes. For example, "Inquiries for equipment for use with shale gas excavating machinery are increasing, and business opportunities are expanding" (Electric and electronic parts), or "Shipments of transportation pipes are growing because of the increase in gas exploration projects" (Steel). Respondents also said, "Orders for equipment are up because oil, petrochemical and gas firms are moving ahead with capital investment" (Machines, including molds and machine tools), or "We expect an expansion in the market for chemical products used in manufacturing processes" (Chemical products, oil products). On the other hand, firms that reported a negative impact said, "It will invite steep price rises in raw materials because of indirect competition for some of the raw materials we use." (Parts for transportation machines: Motor vehicles and two-wheeled vehicles), or "There's a chance that interest in LED lighting will not increase" (Electric and electronic parts).

Demand for excavating machinery and pipes has already had a positive impact

- Increase in demand for excavation equipment (Machines, including molds and power tools)
- Inquiries for equipment for use with shale gas excavating machinery are increasing and business opportunities are expanding. (Electric and electronic parts)
- Shipments of transportation pipes are growing because of the increase in gas exploration projects. (Steel, including cast and wrought products)

Still no influence on fuel costs and raw materials prices

- With the shale revolution, transportation costs, including shipping charges, are expected to fall, but even though fuel costs have gone down, it takes time before that to be reflected in the cost of shipping. (Food, agriculture and fishery processing)
- We don't think the shale revolution has had any impact, but if the price of gasoline goes down, our sales will increase. (Transportation machines: Motor vehicles and two-wheeled vehicles)
- We have yet to experience the benefits. On shale gas, we have recently completed an investment in a firm that processes the raw material into oil, and we expect it will still be some time before raw materials prices go down. (Plastic products)

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- We have not yet felt the impact, but we can expect demand for peripheral equipment (not directly used). Texas is profiting, and when you consider that there is potential for LNG plants to switch from imports to exports, we expect demand in secondary and tertiary shale gas industries. (Machines, including molds and machine tools)

- Businesses or firms/factories in Latin America

  firm52.2% of respondents answered that they do business or have a firm/factory in Latin America, while 26.5% said that they are not doing business and do not have a firm in the region, but are interested (Figure 24). Japanese firms in the United States have an extremely high interest in doing business with Latin America. When asked which countries in Latin America are interesting from a business perspective (multiple responses allowed), the responses converged on Brazil and Mexico (79.4% each) (Figure 25).

Many firms are pinning their hopes on growth in the Brazilian and Mexican markets

- We are very interested in Brazil, where the World Cup and the Olympics are not far off. The economic impact of these two international events is great, and we expect the consumption of goods to increase in the country. If investments go ahead, foreign capital will enter the market, and we expect copiers and fax machines to sell well. (Print and publishing)
- Brazil, Mexico, Argentina, Colombia, Peru, Venezuela and other Latin American markets are markets with great latent growth potential for Japanese food. With the U.S. as our base, we would like to use NAFTA and other FTA to export to these countries. Latin America is a long way from Japan, but if we have a base in the United States, it is easy to manage business with Latin America. (Food, agriculture and fishery processing)
- All OEMs are focusing investments on Mexico, and growth is forecast for the Mexican market. We expect the investments to continue in the future since Mexico also has advantages as a base for supplying labor-intensive products to North America. We are planning to double the 2012 scale by 2015. (Parts for transportation machines: motor vehicles and two-wheeled vehicles)
- We opened an office in Brazil last year (2012). There are many issues, including competition with Europe and the U.S., tax planning, and HR problems. We have set our sights on Mexico as the next destination for expansion, but we are looking into hiring consultants to start with. (Chemical products, oil products)
- Since many Japanese firms have already entered the Mexican market, we can expect to do business with Japanese firms. It probably won't make a big difference, but as a manufacturing base for North America and Latin America, we can expect some growth. There is promise for the Brazilian market in 10 to 20 years' time. There will probably be big changes. (Machines, including molds and machine tools)

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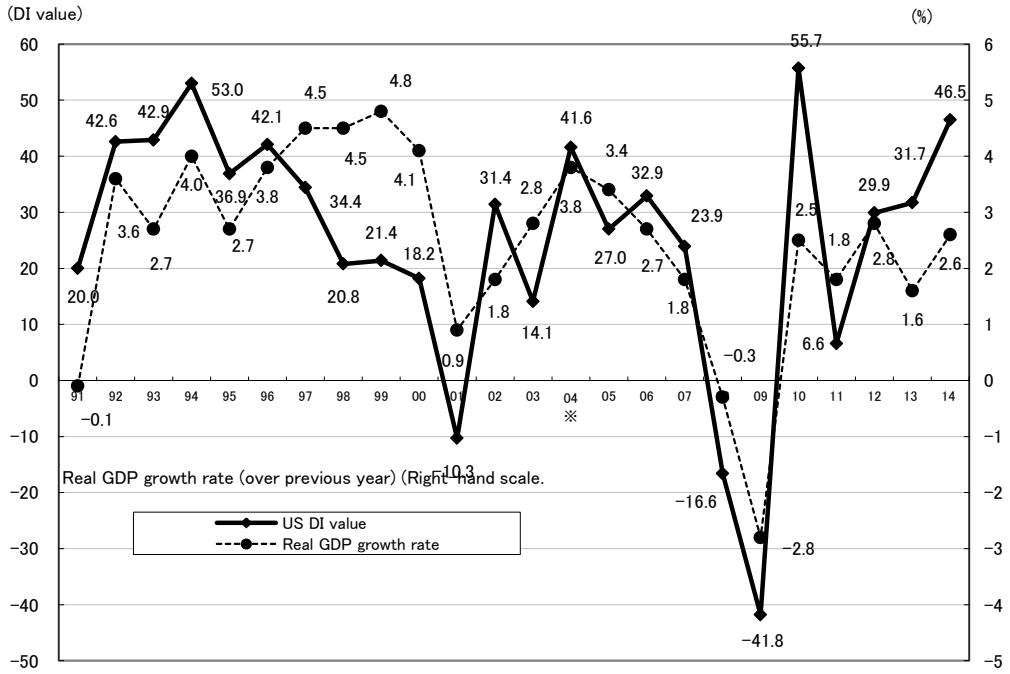
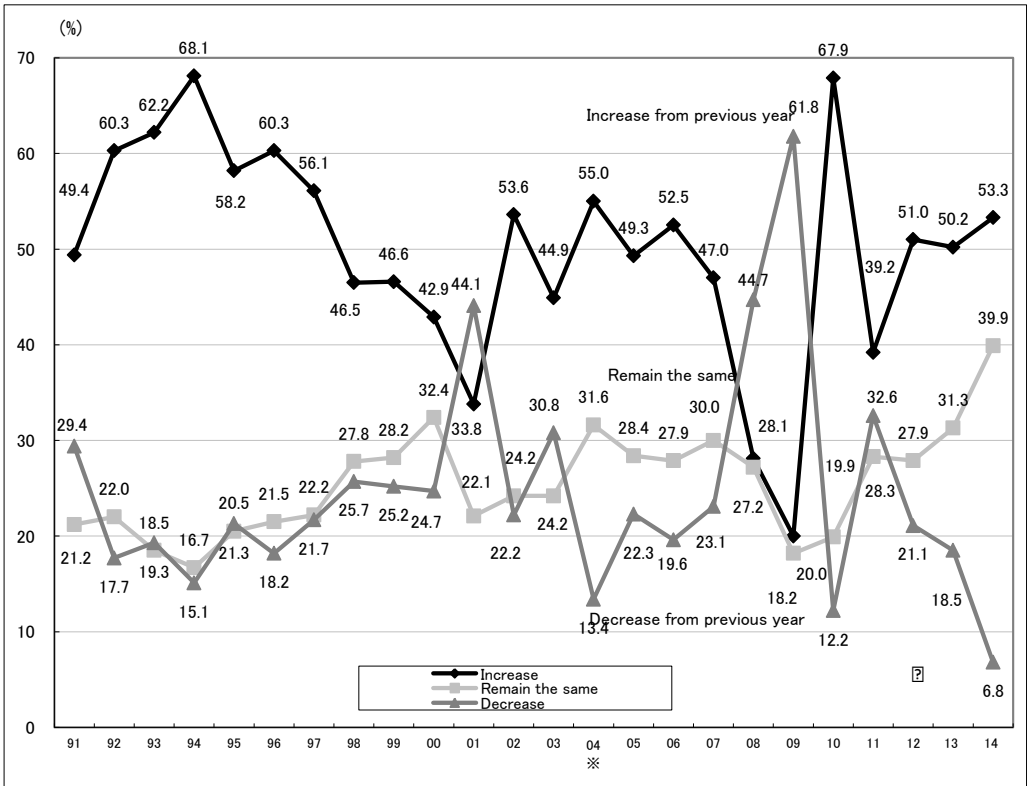
Figure 1: Operating profit diffusion index and changes in U.S. real GDP growth rate



N.B. The DI value for 2013 is the expected value: for 2014 it is a forecast. Real GDP growth rates for 2013 and 2014 are IMF estimates (published on October 8, 2013).
*Since no survey was conducted in 2004, the 2004 DI value is the forecast at the time of the 2003 survey.

The number of respondents: 661

Figure 2: Change in operating profit expectations compared to preceding year



＊Since no survey was conducted in 2004, the 2004 value is the forecast at the time of the 2003 survey

The number of respondents: 661

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Figure 3: Reasons for increased operating profits in 2013 compared to 2012 (Multiple responses)

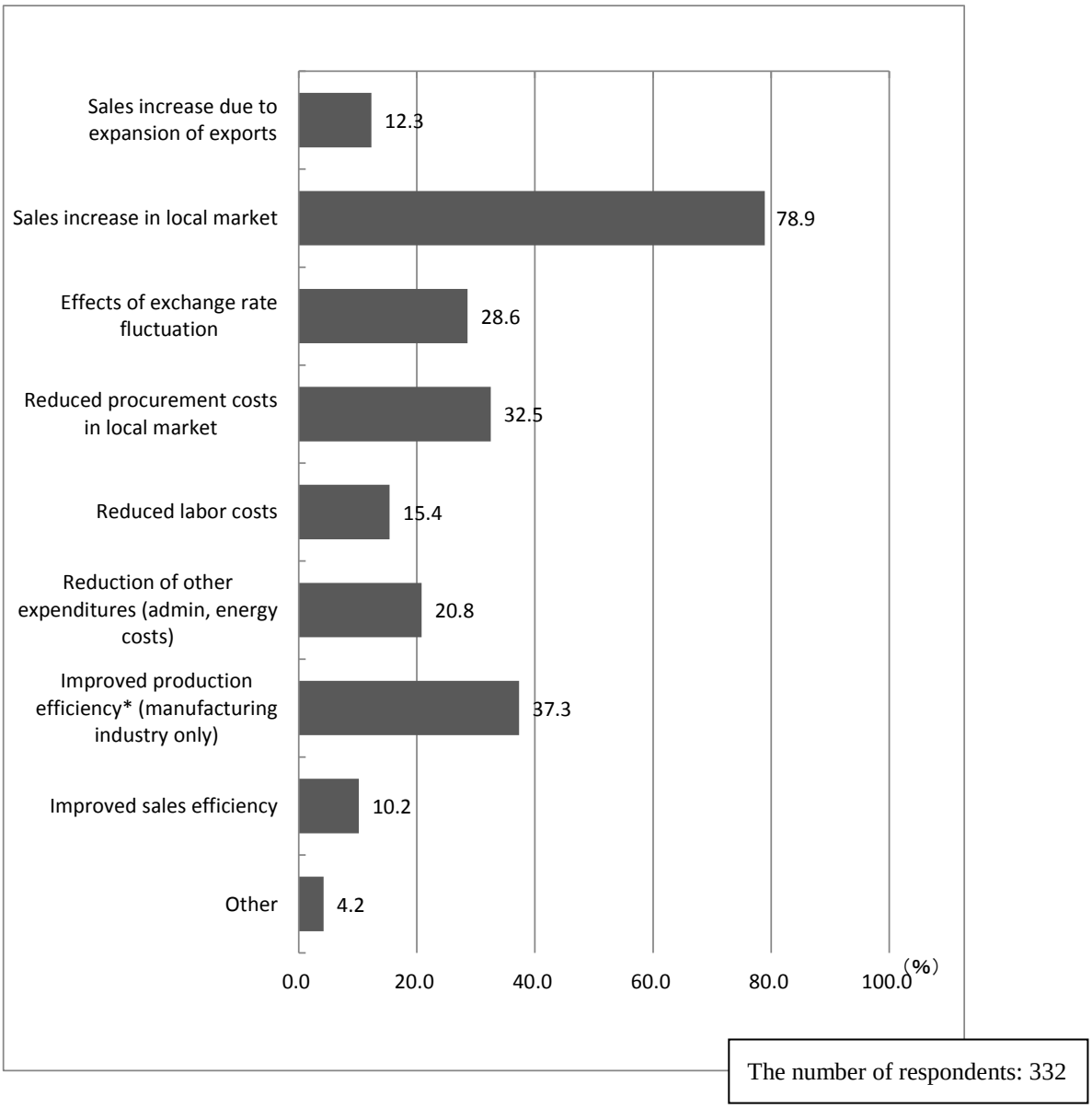

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Figure 4: Reasons for decreased operating profits forecast for 2013 compared to previous year (Multiple responses)

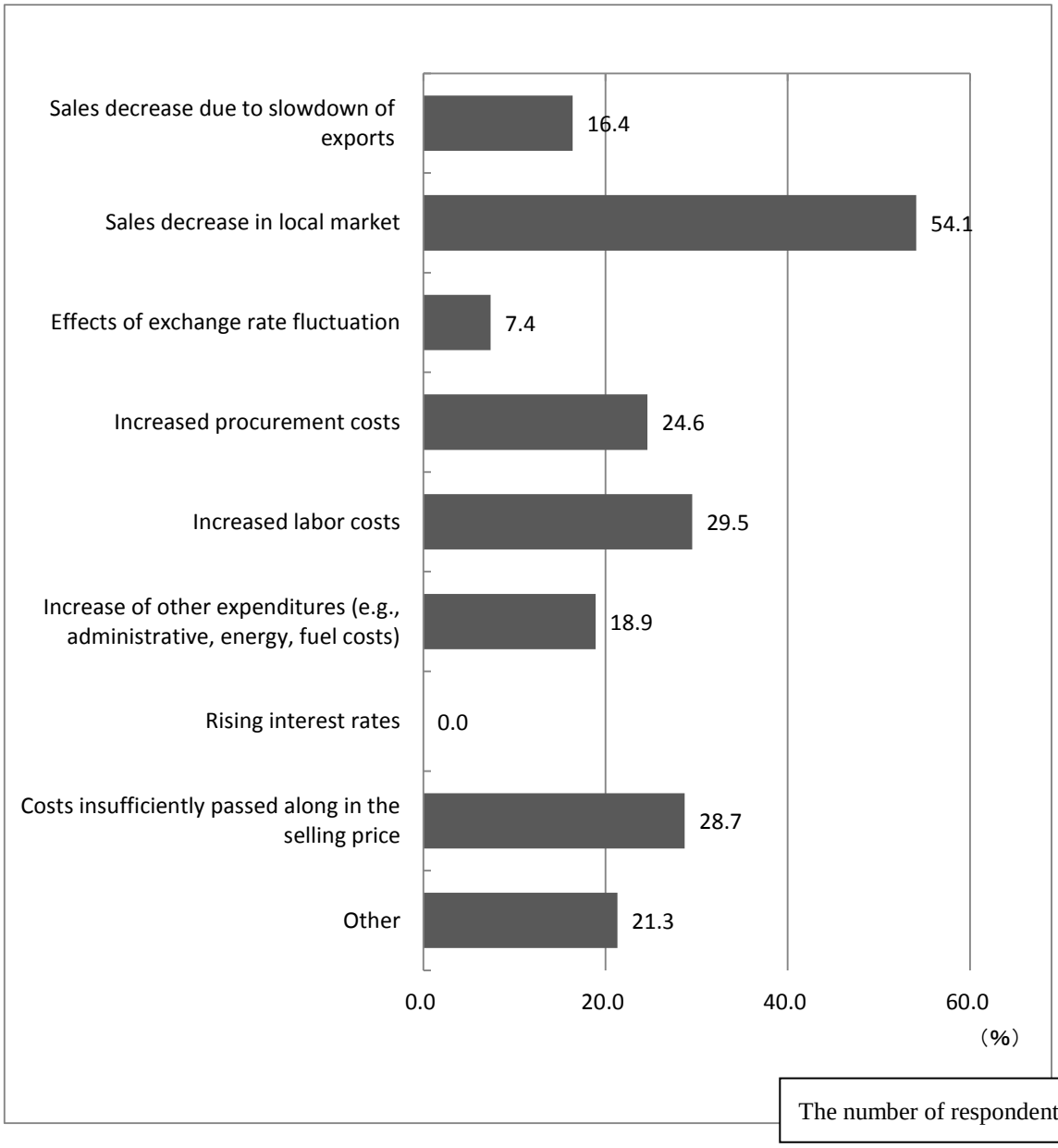

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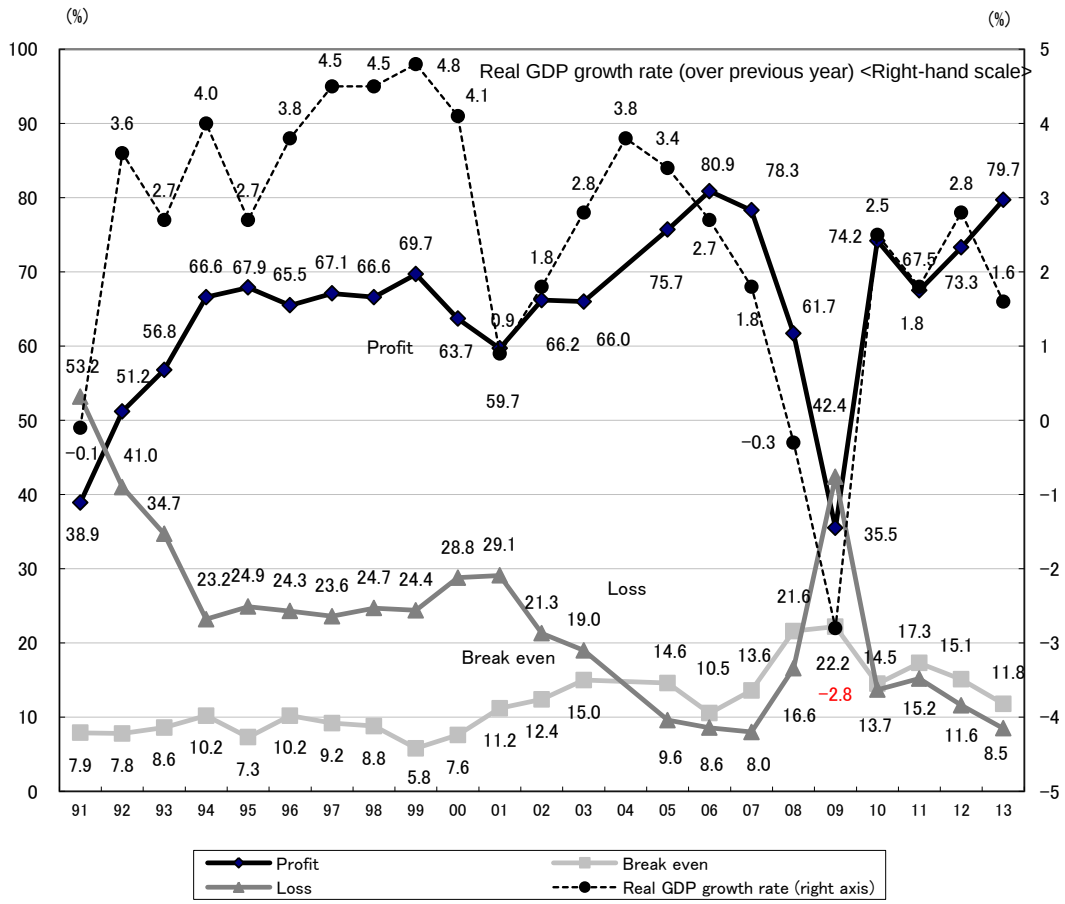
Figure 5: Operating profits (profit, break-even, loss) and changes in U.S. real GDP growth rate



N.B. Real GDP growth rates for 2013 are IMF estimates (published on October 8, 2013). No survey was conducted in 2004.

The number of respondents: 661

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Figure 6: Reasons for increased operating profits forecast for 2014 (Multiple responses)

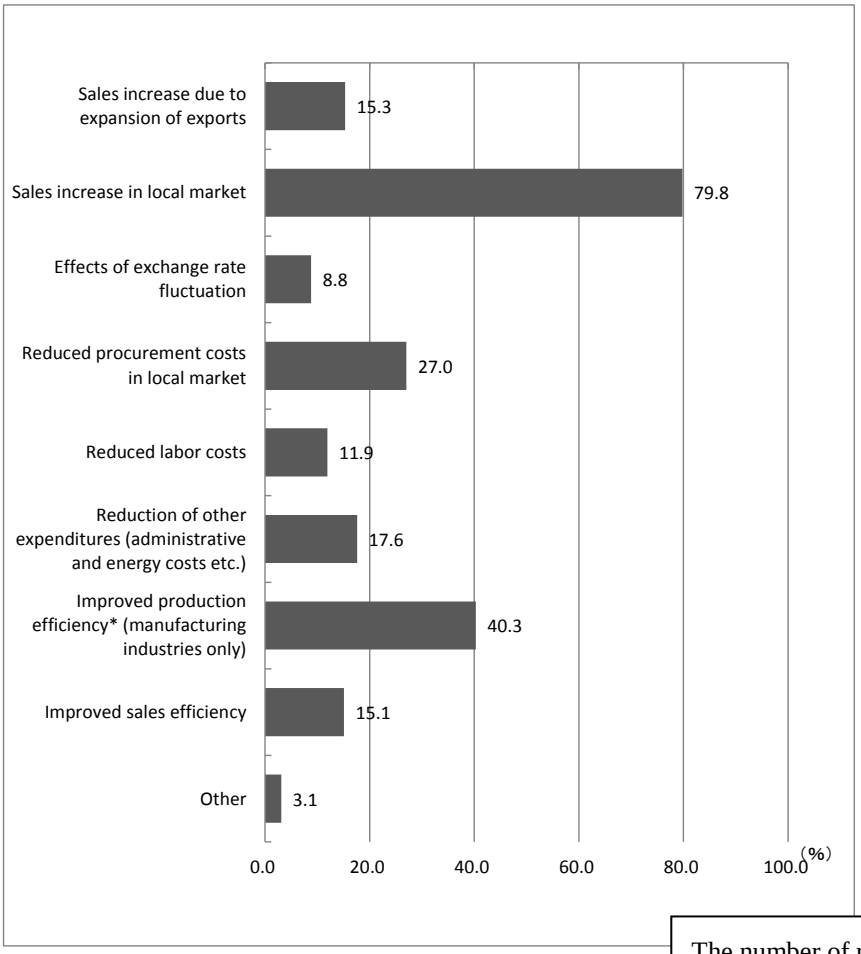

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Figure 7: Reasons for decreased operating profits forecast for 2014 (Multiple responses)

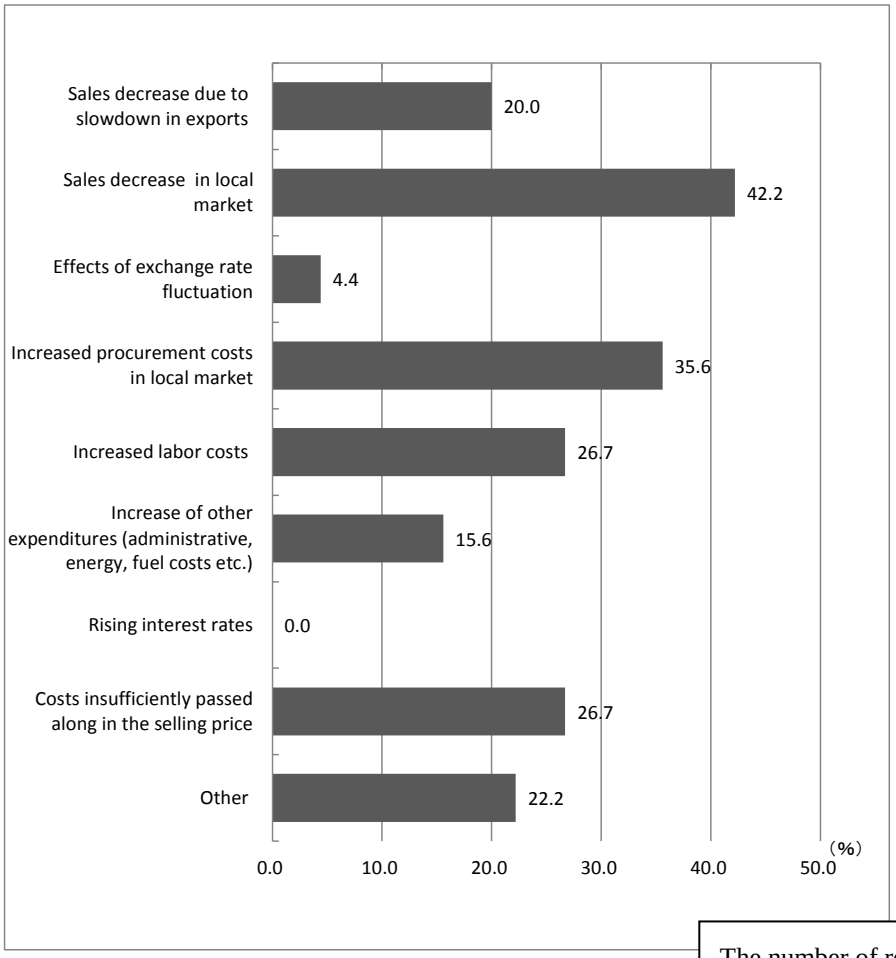

Figure 8: Trends for the business in the next year or two

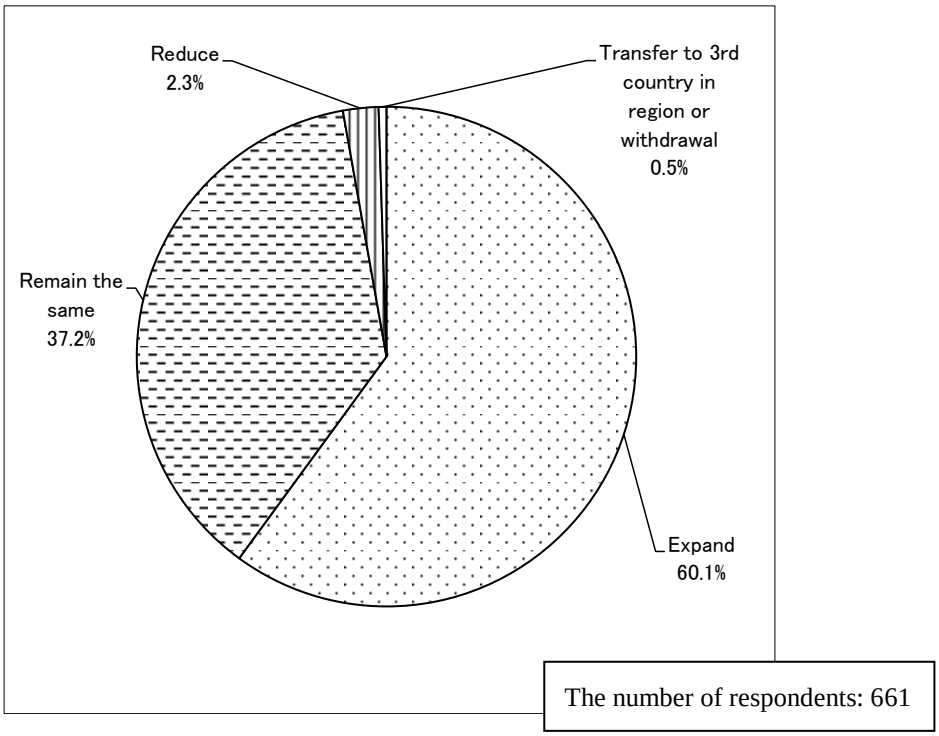

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Figure 9: Reasons for business expansion in the next few years (Multiple responses)

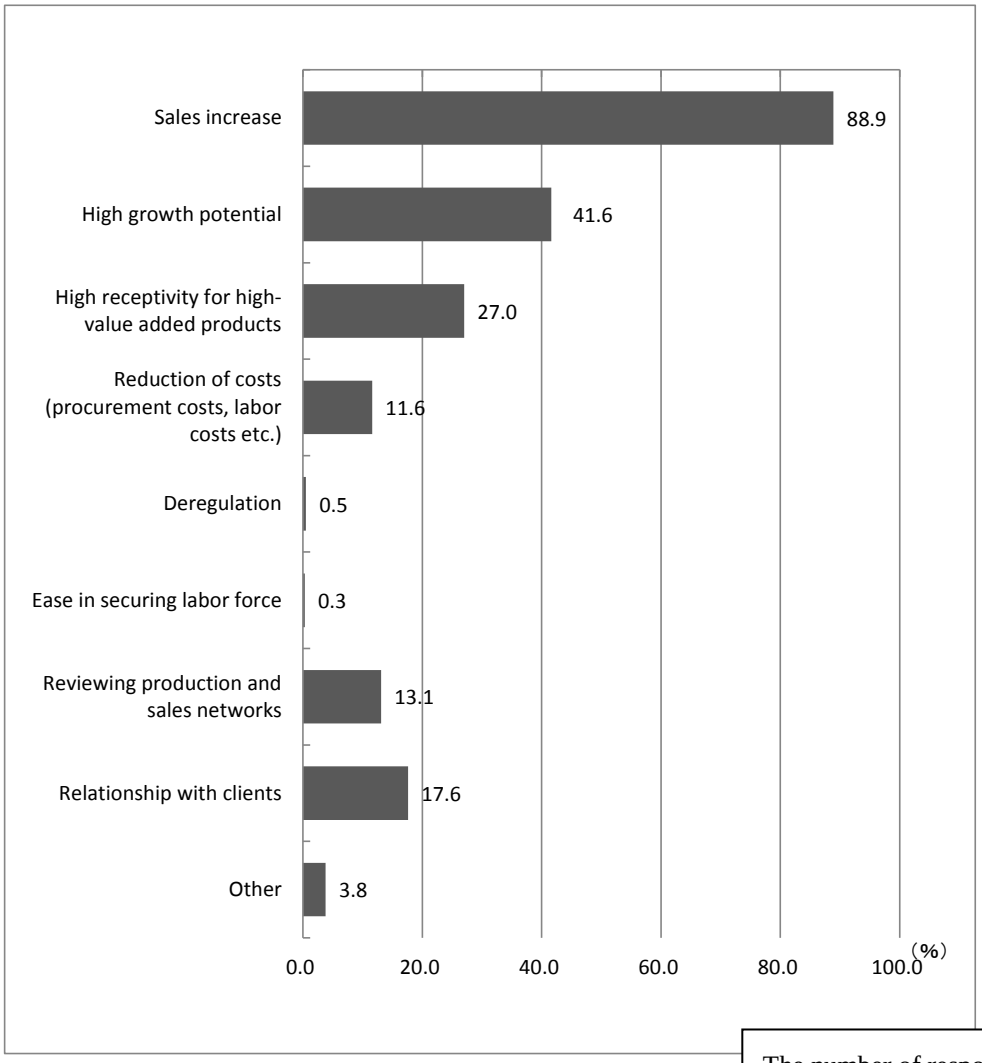

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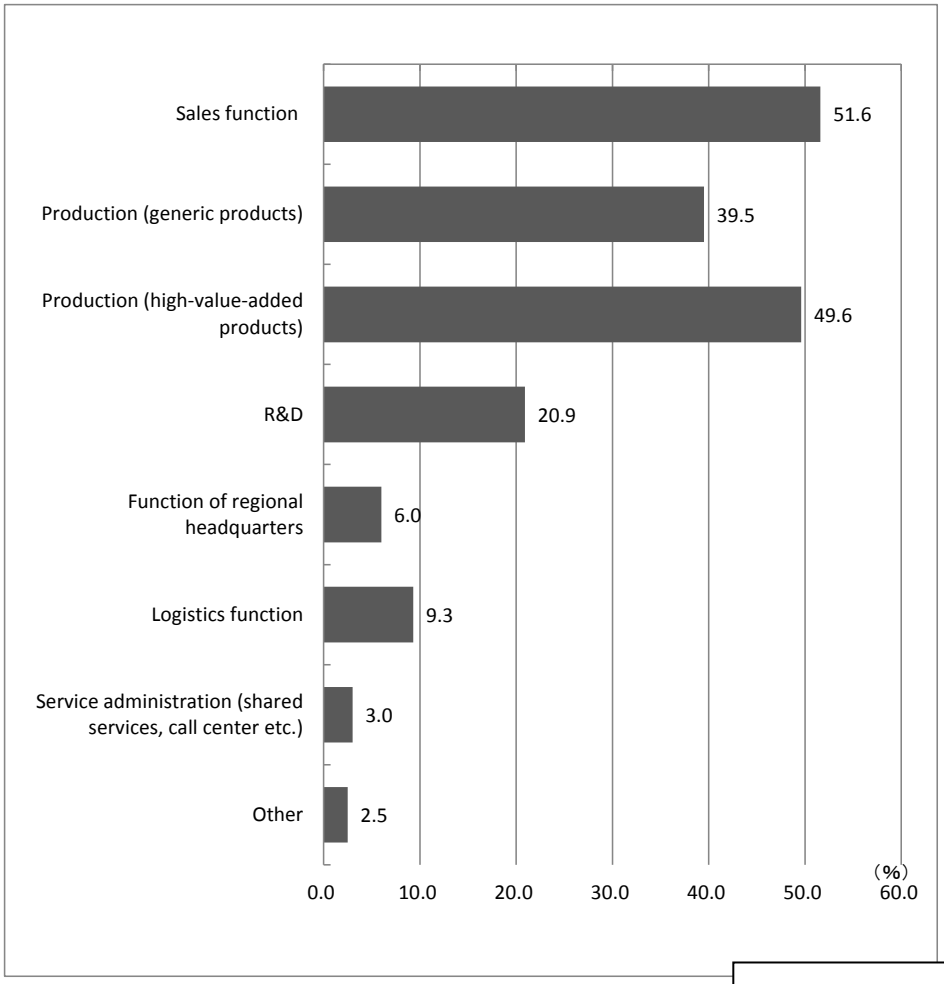
Figure 10: Expanding functions in case of business expansion in the next year or two (Multiple responses)



The number of respondents: 397

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Figure 11: Measures to carry out management localization (Multiple responses)

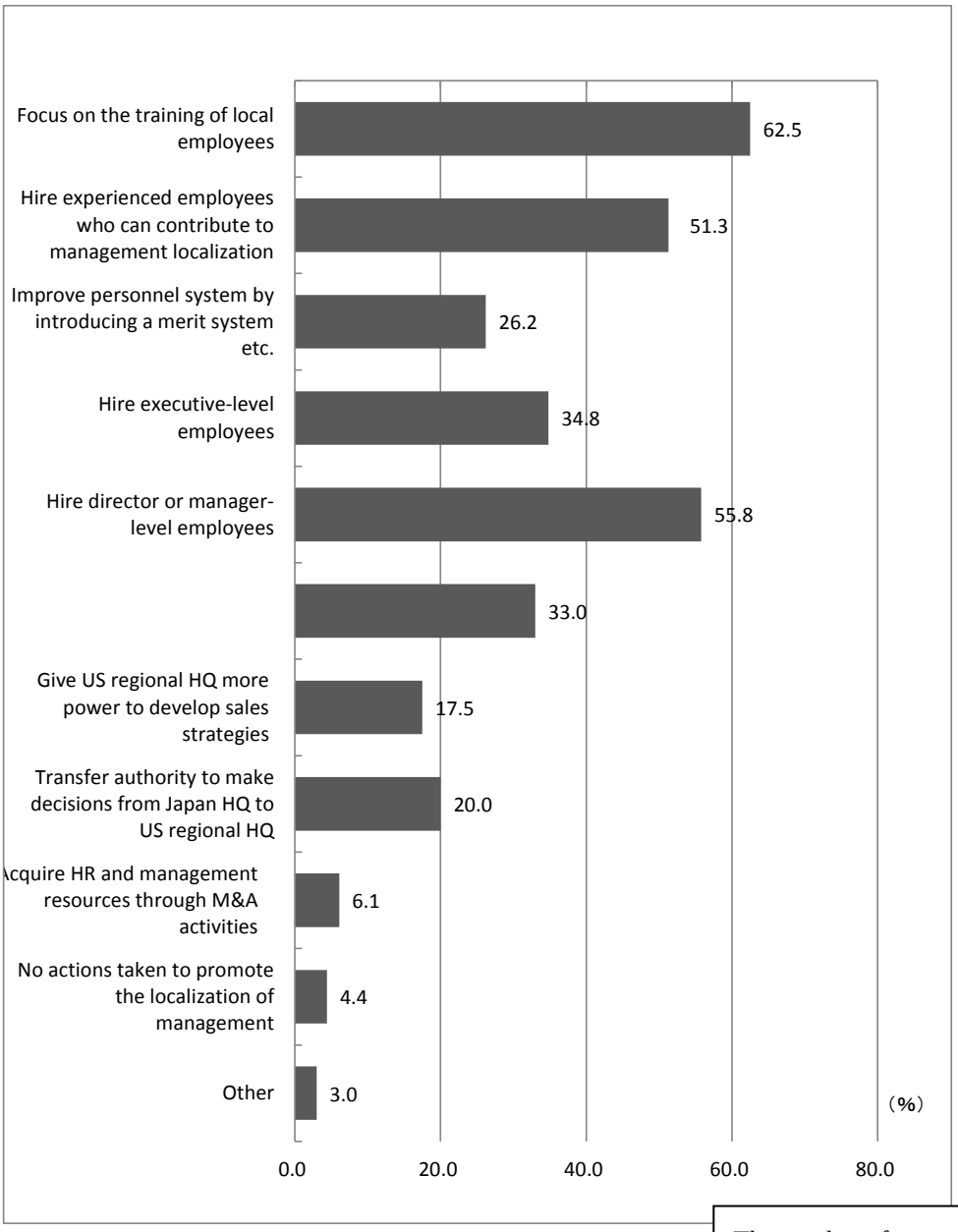

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Figure 12: Problems when carrying out management localization (Multiple responses)

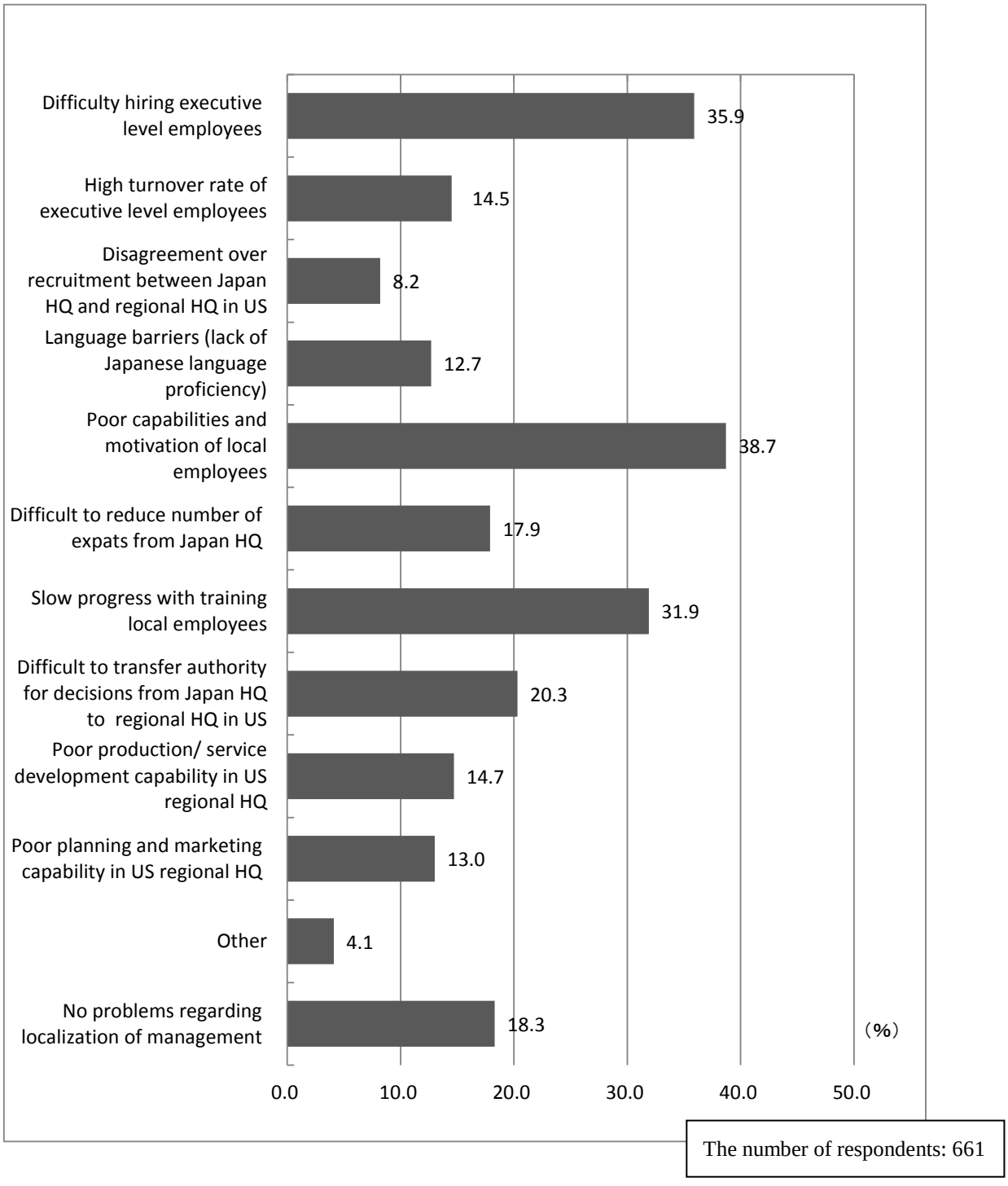

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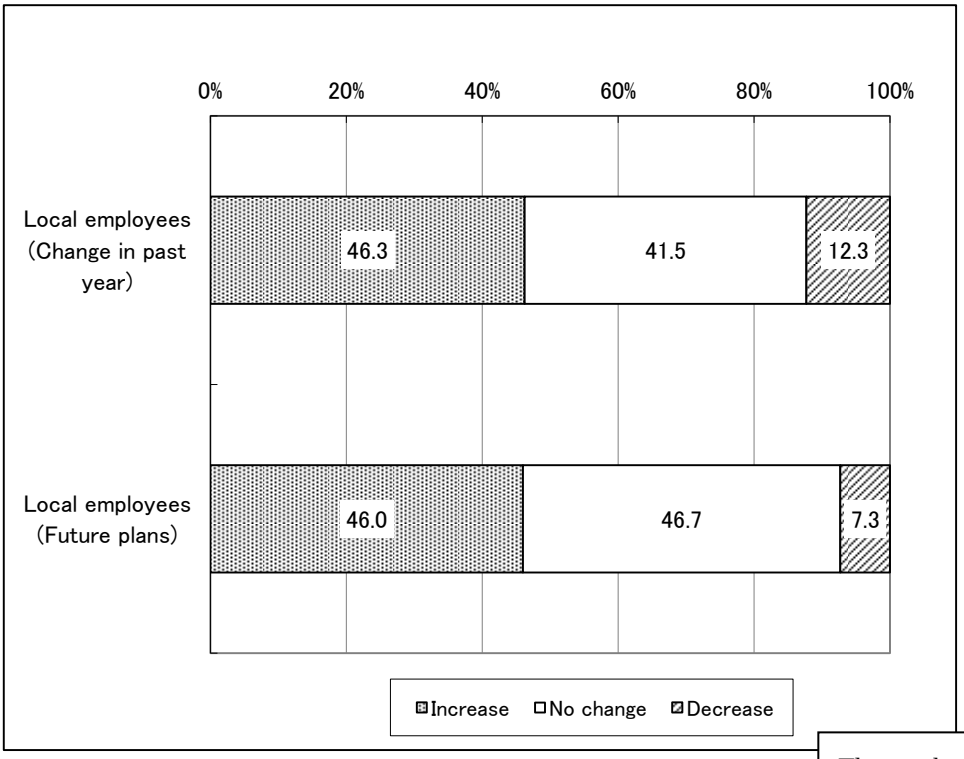
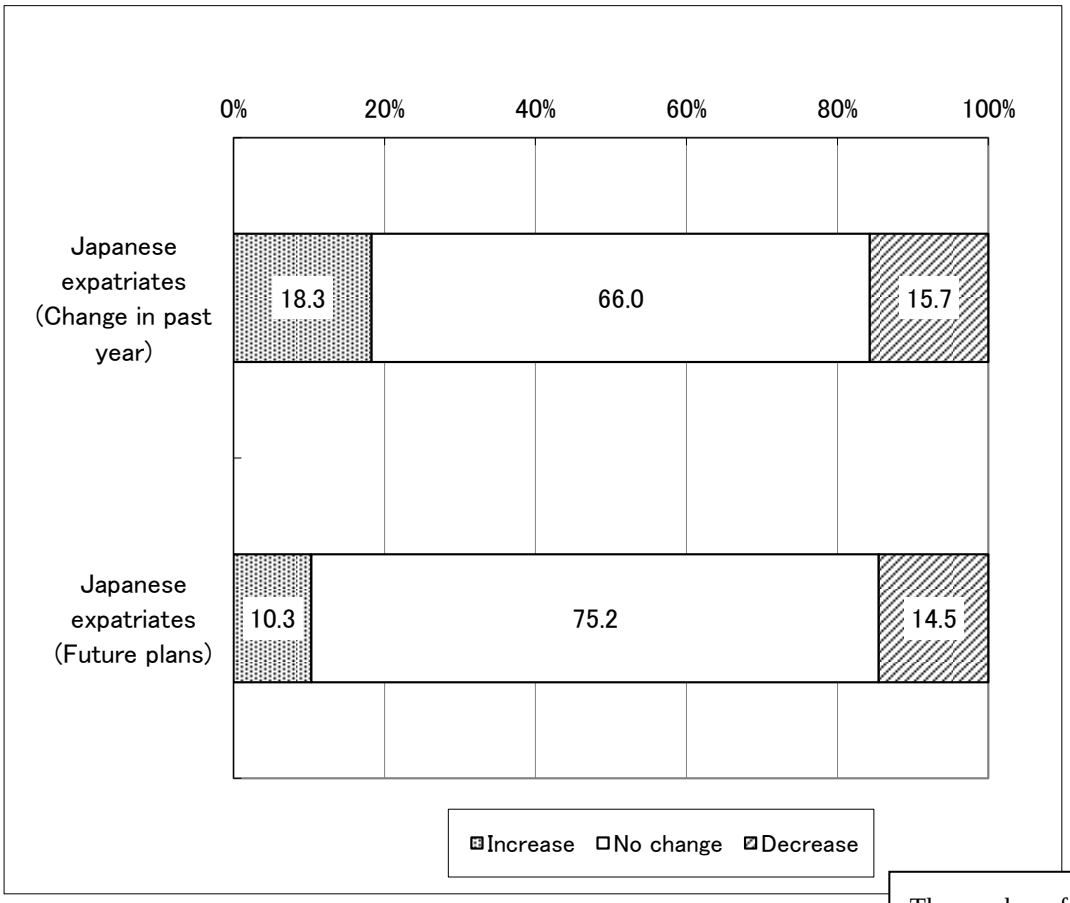
Figure 13: Number of local employees in the past year and in the future



The number of respondents: 661

Figure 14: Number of Japanese expatriate employees in past year and in the future



The number of respondents: 661

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Figure 15: Management challenges - Factors for cost increase (Multiple responses allowed)

Rank	Item	#	Ratio (%)
1	Increase in labor costs (including salaries and bonuses)	422	63.8
2	Increase in health care costs	366	55.4
3	Increase in raw material, natural resources and commodity prices	330	49.9
4	Increase in transportation costs (including gasoline)	125	18.9
5	Rise in the value of the yen	80	12.1
6	Increase in financing costs	63	9.5
7	Increase in tax	50	7.6
8	Labor management (labor disputes/litigation)	40	6.1
9	Visa issues	33	5.0
10	Legal issues (cost of compliance with regulations on cartels, etc.)	32	4.8
11	Tightened regulations on distribution	24	3.6
	Other	36	5.4

Figure 16: Management challenges - Factors for weak sales (Multiple responses allowed)

Rank	Item	#	Ratio (%)
1	Increasingly severe price competition	525	79.4
2	Popular products from competitors	355	53.7
3	Difficulties in distinguishing ourselves from competitors	274	41.5
4	Difficulties in expanding sales channels	157	23.8
5	Low awareness of company products and technologies	87	13.2
6	Pirated or counterfeit products from competitors	35	5.3
7	Strict regulations for sales approval and authorization	28	4.2
8	"Buy America" (government prioritizes made in USA)	19	2.9
9	Consumption decrease, disrupted distribution channels due to natural disasters	6	0.9
10	Tightened border controls including quarantine	2	0.3
	Other	24	3.6

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Figure 17: Changes in 2013 capital investment compared to 2012

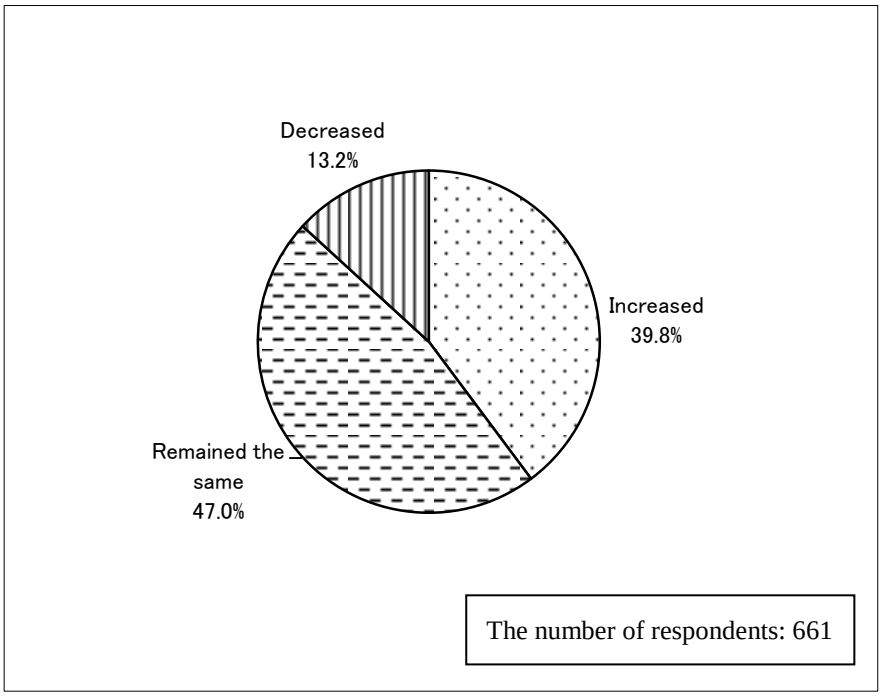

Figure 18: Purpose of capital investment

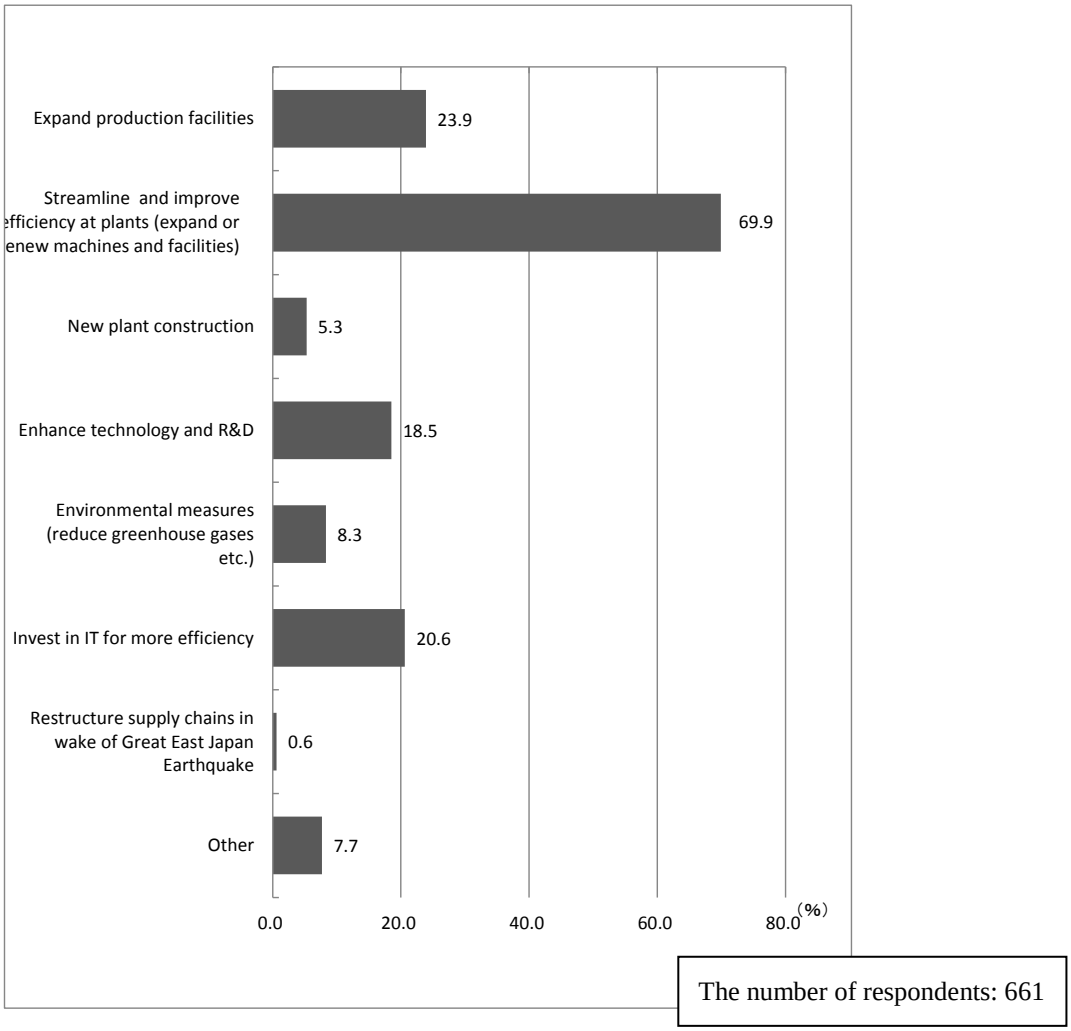

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Figure 19: Experience of moving U.S. manufacturing to another country

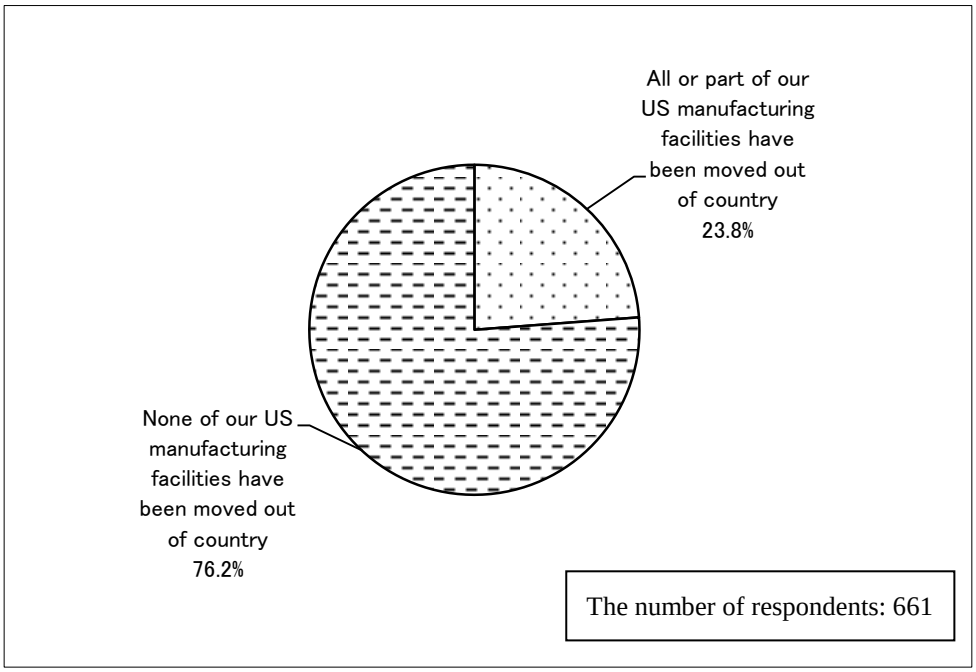

Figure 20: Experience of moving manufacturing back to the United States

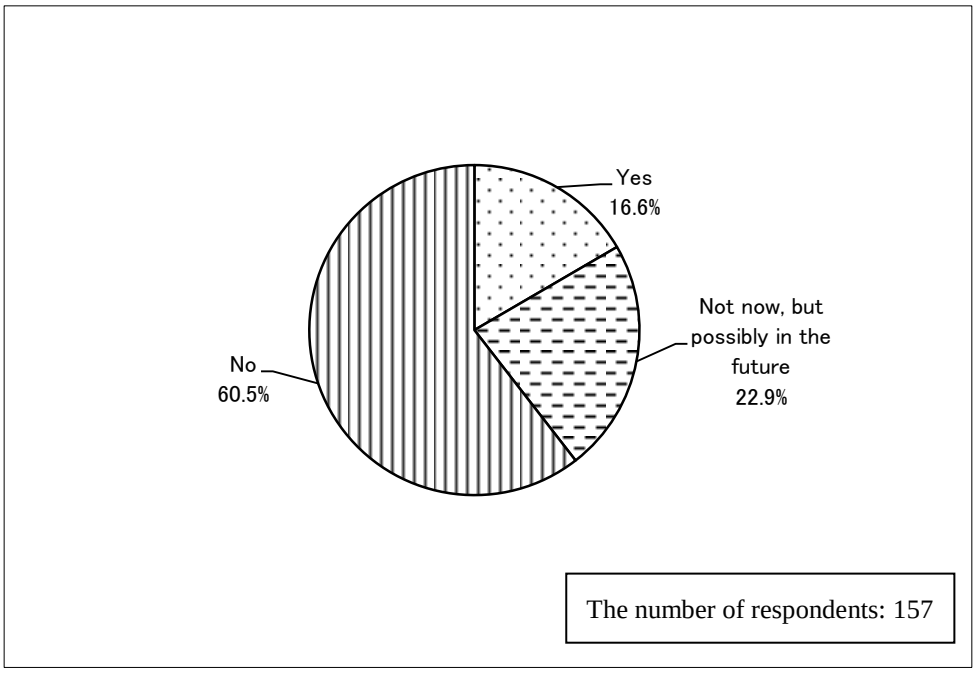

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Figure 21: Fields where the market is most likely to grow in the next few years (top three)

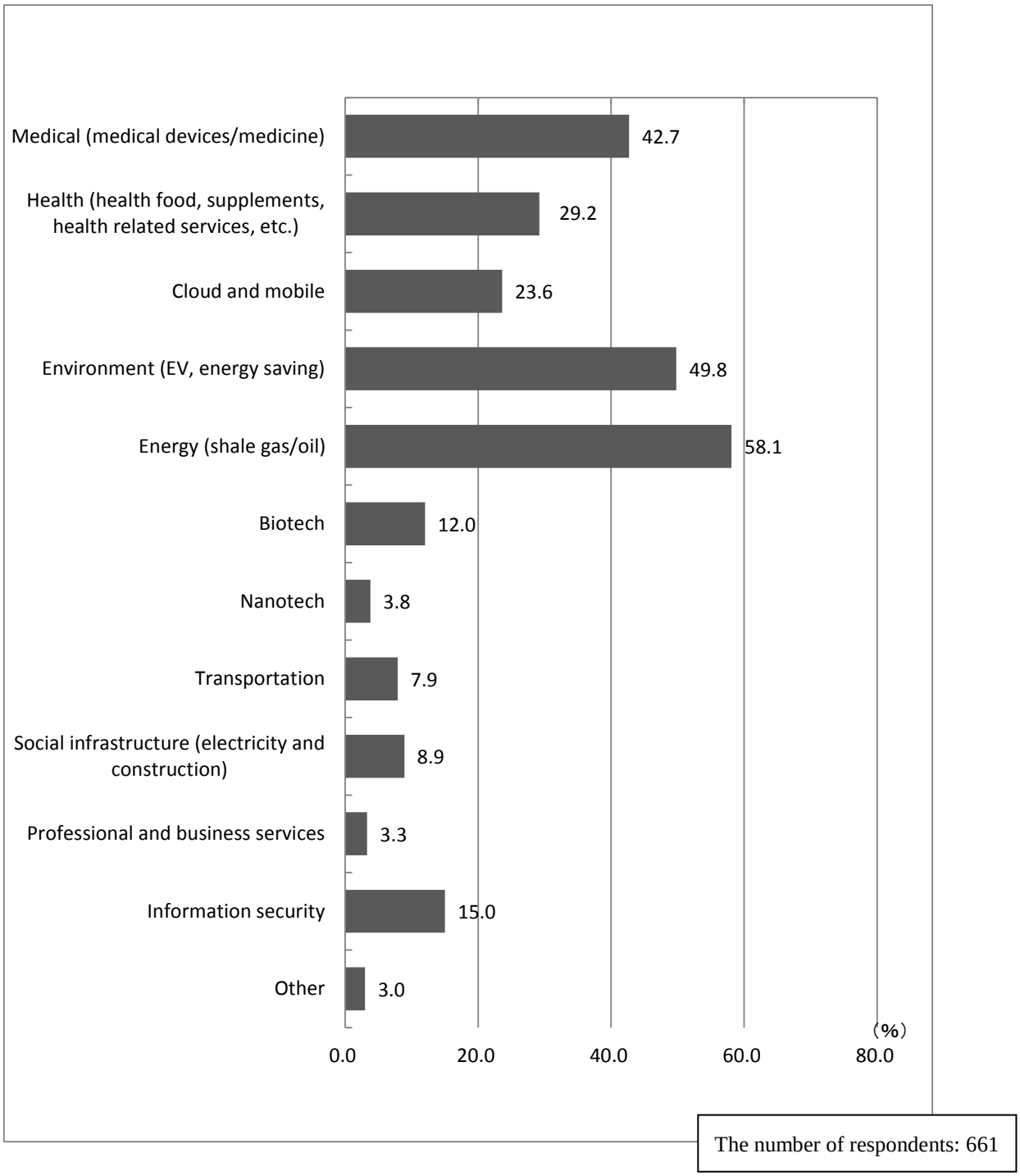

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Figure 22: Utilization of bilateral or multilateral FTAs/EPAs

	Utilization/or considering utilization of preferential tax rates provided by FTAs on **exports**				Utilization/or considering utilization of preferential tax rates provided by FTAs on **imports**			
	Valid responses	Utilizing	Considering utilization	Not utilizing (No plan to utilize)	Valid responses	Utilizing	Considering utilization	Not utilizing (No plan to utilize)
Canada	333 100%	124 37.2%	35 10.5%	174 52.3%	76 100%	36 47.4%	4 5.3%	36 47.4%
Mexico	312 100%	132 42.3%	35 11.2%	145 46.5%	94 100%	52 55.3%	3 3.2%	39 41.5%
Singapore	54 100%	4 14.8%	10 18.5%	36 66.7%	32 100%	7 21.9%	1 3.1%	24 75.0%
Australia	67 100%	13 19.4%	13 19.4%	41 61.2%	12 100%	- -	- -	12 100.0%
South Korea	64 100%	14 21.9%	10 15.6%	40 62.5%	45 100%	10 22.2%	12 26.7%	23 51.1%
Latin America	168 100%	36 21.4%	35 20.8%	97 57.7%	23 100%	1 4.3%	5 21.7%	17 73.9%
Middle East/ N. Africa	48 100%	4 8.3%	11 22.9%	33 68.8%	10 100%	1 10.0%	- -	9 90%

* Latin America refers to Chile, El Salvador, Honduras, Nicaragua, Guatemala, Dominican Republic, Costa Rica, Panama, Peru, and Colombia.

* Middle East and North Africa refers to Israel, Jordan, Morocco, Bahrain, and Oman.

Figure 23: Impact of the shale revolution in the United States on the business

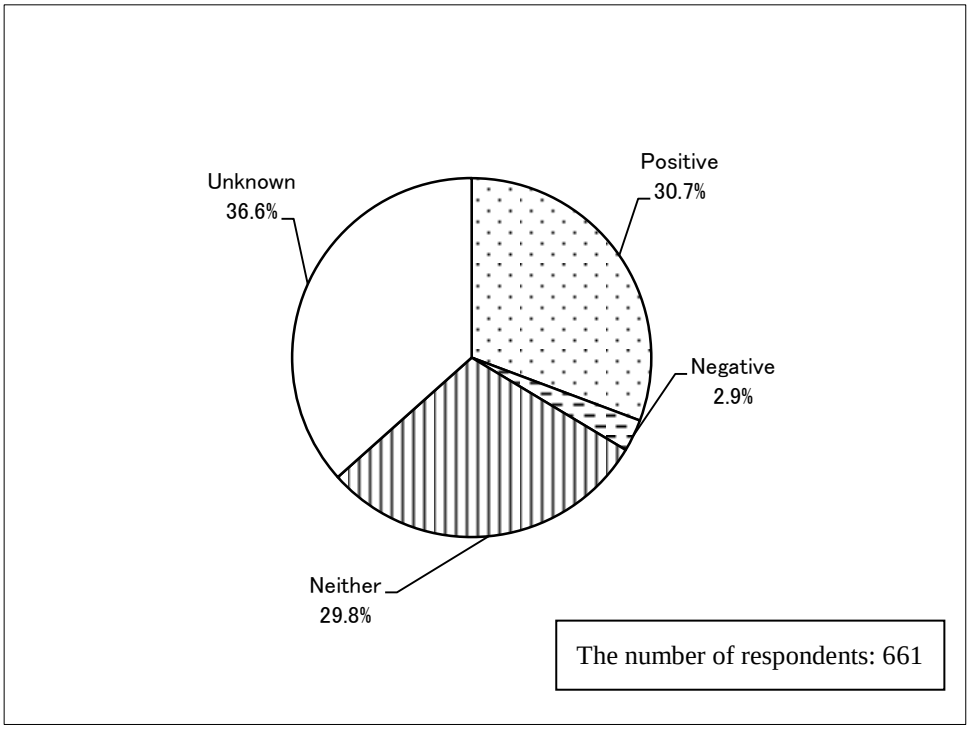

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Figure 24: Business or firm/factory in Latin America

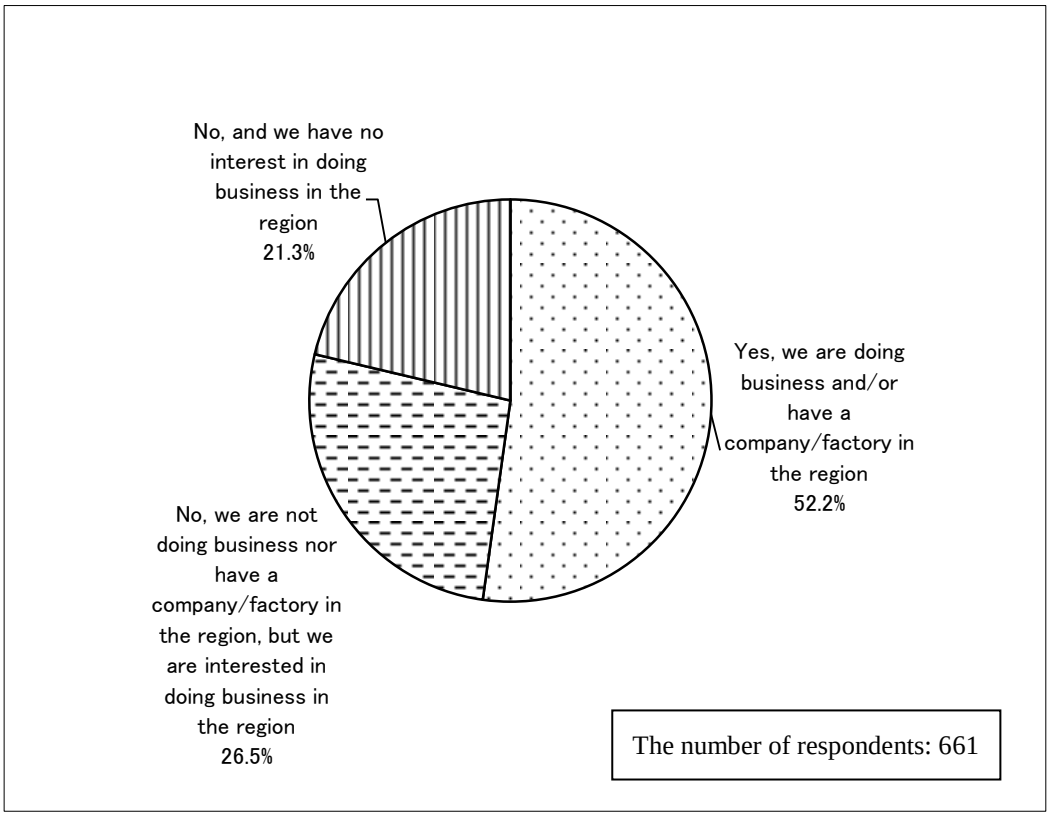
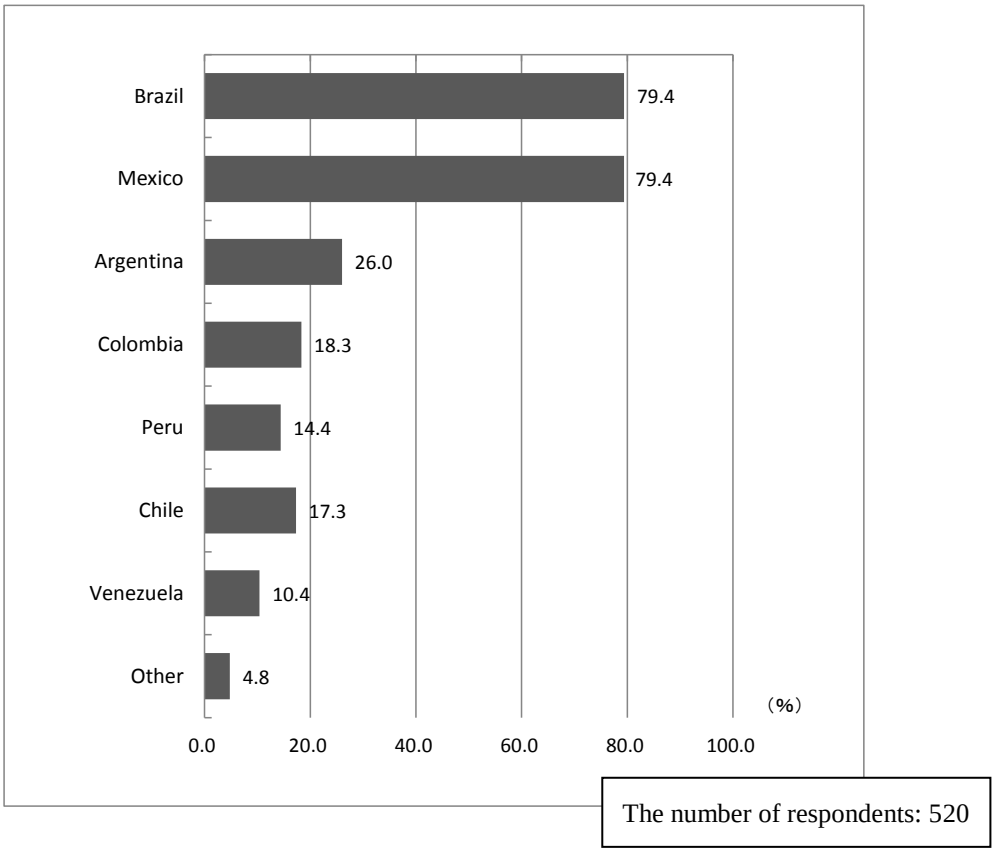


Figure 25: Latin American countries where you are interested in doing business (Multiple responses allowed)



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