JETRO
Japan External Trade Organization

FY2019 JETRO Survey on Business Conditions for Japanese Companies in U.S. (38th Annual Survey)

Americas Division, Overseas Research Department
Japan External Trade Organization (JETRO)
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Contents

Overview of FY2019 Survey

Survey Objectives

The purpose of this survey was to ascertain the management situations and changes in the local business environments of Japanese companies operating in U.S., and to contribute to the formulation of Japanese companies' overseas business strategies and of policy planning for related organizations.

Survey Period

October 23 – November 27, 2019

Valid Responses

53.3%
(670 of 1,258 companies)

Scope of Survey

Japanese manufacturers and sellers operating in U.S. In some analyses, companies whose business activities consist of "Manufacturing" or "Manufacturing and Sales" are listed together as "Manufacturing and sales," while those engaged in "Sales" are listed as "Sales only."
At least 10% of their capital must be owned by a Japanese company, directly or indirectly.

Note

This is the 38th annual survey, initiated since 1981 (not conducted in 2004).

Respondents by Industry, Region, and Business Activity

(Unit: companies, %)

	By Business Activity				
	Sales	Manufacturing	Manufacturing and sales	Total	Composition Ratio
Industry Type	207	128	335	670	100
By Industry					
Transportation equipment parts (motor vehicles, motorcycles)	8	46	55	109	16.3
Electrical machinery, electronic devices (including parts)	46	7	39	92	13.7
Chemical and allied products/petroleum products	20	6	41	67	10.0
Food, processed food, agricultural or fishery products	10	7	32	49	7.3
Plastic products	6	13	25	44	6.6
General-purpose and production machinery (including molds and machine tools)	16	6	9	31	4.6
Business-oriented machinery (including office machines, analytical instruments and medical equipment, etc.)	15	3	7	25	3.7
Iron and steel (including cast and wrought products)	4	3	18	25	3.7
Fabricated metal products (including plated products)	2	5	16	23	3.4
Transportation equipment (motor vehicles, motorcycles)	5	6	7	18	2.7
Rubber products	3	3	8	14	2.1
Medicine	7	4	3	14	2.1
Non-ferrous metals	5	1	8	14	2.1
Ceramic, stone, clay products	3	2	7	12	1.8
Textiles (spun and woven fabrics, chemical fibers)	3	1	6	10	1.5
Transportation equipment (railroad vehicles, ships, aircraft, industrial trucks)	3	0	6	9	1.3
Transportation equipment parts (railroad vehicles, ships, aircraft, industrial trucks)	1	1	6	8	1.2
Information and communication electronics equipment	2	1	2	5	0.7
Textile apparel, textile products	2	0	1	3	0.4
Paper, pulp	1	1	1	3	0.4
Printing, publishing	0	0	1	1	0.1
Furniture, fixtures	1	0	0	1	0.1
Miscellaneous manufacturing industries	44	12	37	93	13.9
By Region					
Midwest	68	52	102	222	33.1
South	37	54	119	210	31.3
West	69	18	72	159	23.7
Northeast	33	4	42	79	11.8

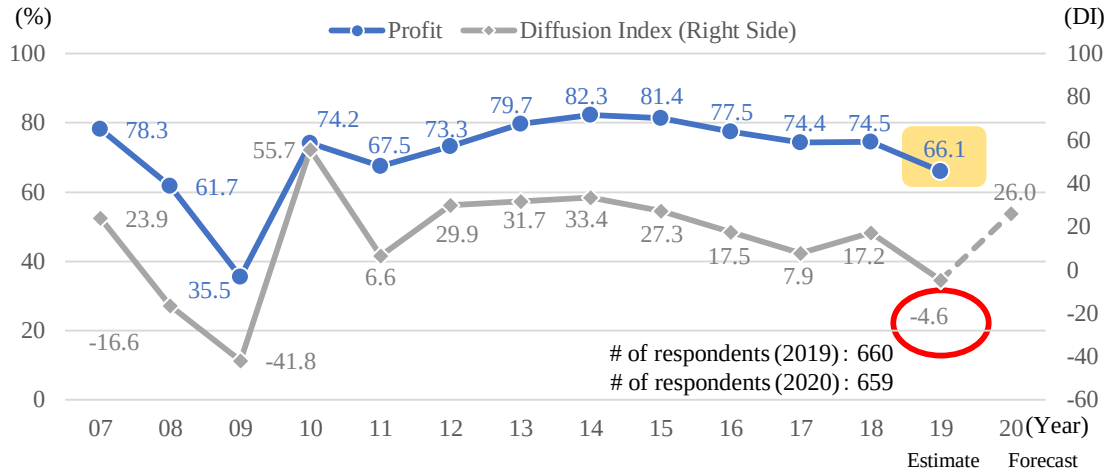
(1) The totals in the surveys in this report may not be 100 because the numbers are rounded off to the first decimal point.
(2) The firms that participated in this survey may not have answered all questions. The rates are calculated based on the numbers of answers collected.
(3) From the following page onward, in cases where no particular details are written in the charts, the numerals in parentheses indicate the number of respondents.
(4) In cases where the denominator of the number of respondents for a given field did not meet a certain number, that industry/field was excluded from the chart.

Key Points Regarding the Survey Results: 1. Percentage of Profitable Japanese Companies Active in U.S. and Their Business Sentiment DI

The percentage of profitable Japanese companies active in U.S. fell below 70% for the first time in eight years since the FY2011 survey. Meanwhile, the DI indicating business sentiment was at -4.6 points, falling into the negative range for the first time in 10 years since the FY2009 survey.

- The percentage of companies that responded with expectations of positive operating profits for 2019 (profitability ratio) was 66.1%, reflecting a drop of 8.4 points from last year's survey (74.5%) **(p.9)**. This marked the first time that the profitability ratio fell under 70% in eight years since the FY2011 survey (67.5%). The DI indicating business sentiment (obtained by subtracting the percentage of companies expecting a "decrease" in operating profits vs. the year before from the percentage of those expecting an "increase") also deteriorated significantly, falling over 20 points from last year's figure of 17.2 to -4.6 **(p.10)**.
- Even when viewed by industry, the profitability ratio was lower than in last year's survey for nearly all industry types. In particular, transportation equipment parts (motor vehicles, motorcycles) - which account for slightly less than 20% of the respondents - came in a 52.3%, reflecting a fourth straight year of decline (83.6→82.5→70.4→64.8→52.3%).

Trends in Percentage of Profitable Japanese Companies Active in U.S. and Their Business Sentiment DI (2007-2020)



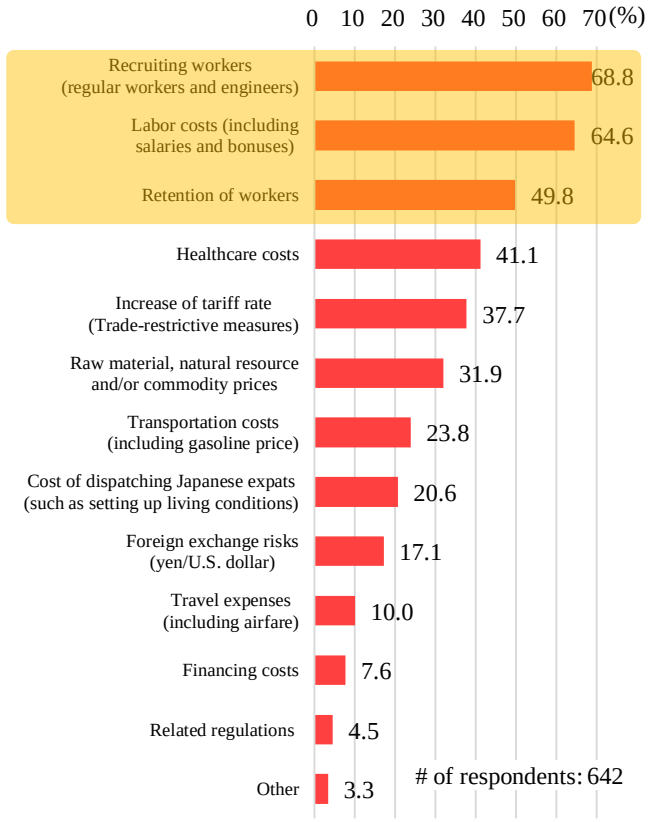
- When the respondents were asked to single out one factor behind the deterioration in operating profits, the top response was "sales decrease in local market" (51.9%), far outstripping the number-two response, which was "negative effects of trade restrictive measures by governments (e.g. raising of tariffs)" (8.5%). In particular, 60% of respondents in the transportation equipment parts (motor vehicles, motorcycles) sector now gave "sales decrease in local markets" as a main reason. The rising popularity of SUVs in U.S. automobile market has led to lower sales and manufacturing of basic passenger vehicles (sedans), and this development is thought to be translating into lower profits for Japanese parts manufacturers who mainly focus on components for sedans.
- Meanwhile, when respondents were asked to provide multiple reasons for their decreasing operating profits, the top response was "sales decrease in local markets" (71.5%), followed by "increase of labor costs" (38.7%) and "increase of procurement costs" (30.6%) as the main cost factors cited by many companies.

Key Points Regarding the Survey Results: 2. Factors for Increased Costs

Recruiting workers, labor costs etc. remain persistent challenges.

- When asked about the management challenges leading to the rising costs, 68.8% of respondents said “recruiting workers,” making this the leading factor again after last year (69.0%), followed by “labor costs (salaries/bonuses)” at 64.6% (65.6% last year) and then “retention” at 49.8% (46.3% last year) **(p.24)**.
- The U.S. unemployment rate held at its lowest level in nearly 50 years (Dec. 2019: 3.5%), and for Japanese companies in U.S., labor shortages have become a prominent issue. When questioned about this, respondents voiced concerns about “being unable to secure staff in all positions” (miscellaneous manufacturing industries), “particularly struggling to secure engineers” (chemical and allied products/petroleum products), “the image of the manufacturing industry declining overall, and younger generations not finding it appealing” (electrical machinery, electronic devices) etc., and so hiring conditions remain difficult regardless of industry type.
- When respondents were asked about their countermeasures for these challenges, their top answers included “reducing expenses other than payroll” (49.0%), “enhancing internal communications” (42.5%), “improving the working environment” (e.g. enhancing benefits) (38.7%), and “increasing wages” (37.7%) **(p.25)**. The responses gave a distinct indication that these companies are looking to cut expenses besides personnel costs while also making efforts to secure personnel by enhancing company benefits, raising wages, and improving communication with their workers.
- Respondents expressed that they were making efforts with regard to working conditions, e.g. by “raising wages in consideration of average wages in surrounding areas,” “establishing higher-than-average benefits such as healthcare,” and “introducing an opportunity announcement system for internal posts, and giving motivated workers opportunities for raises."
- Many companies are introducing internal and external training systems, and a number also said that they were partnering with local community colleges to implement engineer training programs and job fairs and making other efforts in cooperation with neighboring communities. JETRO has also been involved in networking among local universities/support organizations and Japanese companies, as well as events for matching Japanese companies with students, in efforts to improve the hiring prospects for these companies. In FY2019, JETRO also conducted events in Illinois and Kentucky to match colleges and students and local government support agencies etc. together with Japanese companies.

Management Challenges: Factors for Increased Costs (Multiple Answers)

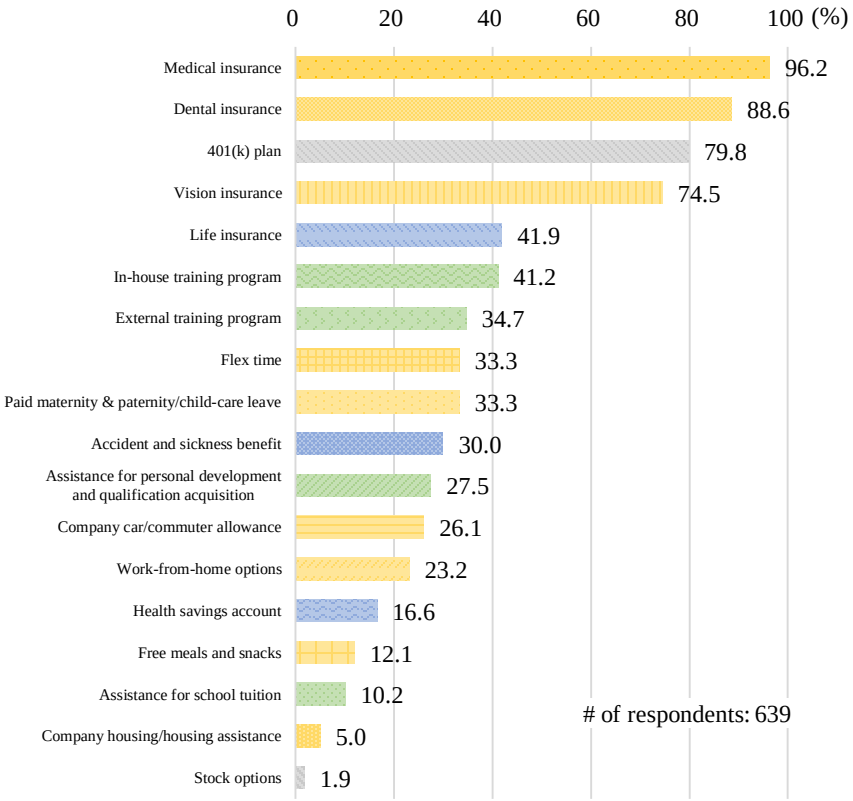


Key Points Regarding the Survey Results: 3. Company Benefits, Wages

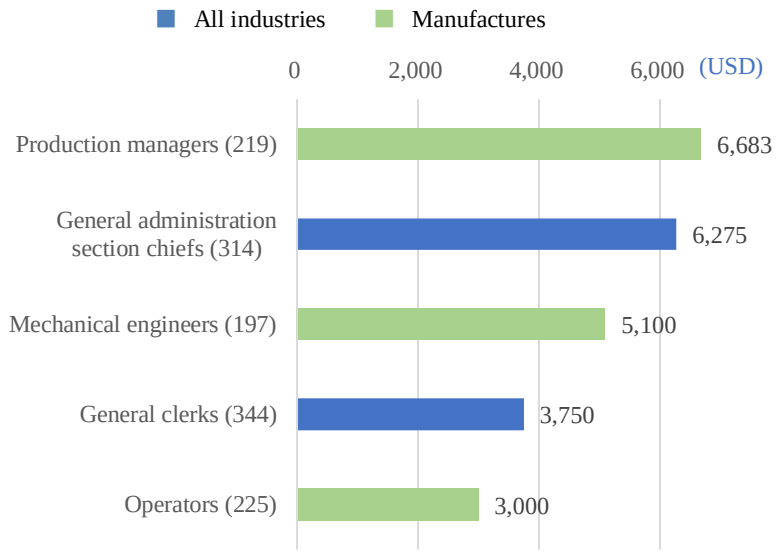
This is our first survey that looks at the kinds of benefits companies provide and their wages. Many companies offer medical insurance, dental insurance, and 401(k) plans (defined-contribution pension plans). The median wages (monthly base salary) ranged from $3,000 to $6,683.

- In this year's survey, we asked for the first time what kinds of benefits Japanese companies in U.S. are providing their employees. The top responses were "medical insurance" (96.2%), "dental insurance" (88.6%), "401(k) plans (defined-contribution pension plan)" (79.8%), and "vision insurance" (74.5%), with the results making it clear that many companies offer such benefits **(p.26)**.
- We also asked about wages for the first time in this year's survey. The median values for base salary (monthly) by occupation in 2019 are as shown in the graph at the bottom right **(p.27)**.

Company Benefits for Local Employees (Non-salary, Multiple Answers)



Wages (Monthly Base Salaries): Median Values



Note: Companies whose business activities consist of "Manufacturing" ("Manufacturing" or "Manufacturing and sales") responded with regard to the following occupations: operators (job types engaged in machine operation in the manufacturing process), mechanical engineers (technical positions for designing, manufacturing and managing machines and equipment), production managers (section chiefs of production management departments), general clerks (general office workers), and general administration section chiefs (section chefs of general affairs departments). Those engaged in "Sales" responded about the occupations of general clerks and general administration section chiefs.

Key Points Regarding the Survey Results: 4. Effects of the U.S.-China Trade War and Other Changes in the Trade Environment

- Some 40% of companies said they have been negatively affected by changes in the trade environment. The effects on their procurement and import costs have been especially significant. The specific policies having the greatest impact were said to be "additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act" (52.3%) and "additional tariffs of the U.S imposed on steel and aluminum (Section 232 of the Trade Expansion Act in 1962)" (42.4%).
- In terms of responses, some 40% of companies experiencing these effects have changed their procurement sources. That said, nearly half of these companies have kept the scale of these procurement changes to under 10%, meaning that they have not changed all of their procurement sources. Meanwhile, 10% or less of those respondents said the duration of these procurement source transitions would be "temporary," while 70% said these were "mid to long-term."
- Given that changing procurement sources requires a certain period of time and effort, some respondents stated that "once we have changed procurement sources, we will not switch back even if the additional tariffs are eliminated."
- When we look at the changes in procurement sources, the main procurement sources before such changes were in China, Japan, and the U.S. After the changes, the top locations other than the U.S. and Japan are Southeast Asian countries (e.g. Thailand and Vietnam) and Mexico. Meanwhile, the respondents pointed out certain challenges with their new procurement sources, stating for instance that in U.S., the shortage of suppliers and engineers makes it difficult to procure similar parts to those from China, while in Southeast Asia, their costs went up after the transition due to a lack of dock and harbor etc. infrastructure.

- In terms of the impact felt at present from the changes in the trade environment, 40.8% of respondents (252 companies) reported experiencing "negative effects" **(p.40)**. The main area where these effects are being felt was said to be "procurement and import costs" for as much as 80% of respondents.
- When asked which specific policies were having a negative impact on their business, 52.3% of respondents (127) cited "additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act" (against Chinese imports), while 42.4% of respondents (103 companies) answered "additional tariffs of the U.S. imposed on steel and aluminum" (steel and aluminum tariffs) **(p.41)**. Moreover, when this is viewed by industry, the companies who cited the additional tariffs on Chinese goods referred most often to electrical machinery, electronic devices (28 companies), transportation equipment parts (motor vehicles, motorcycles) (25 companies), chemical and allied products/petroleum products (8 companies), while with regard to the steel and aluminum tariffs, most respondents named transportation equipment parts (motor vehicles, motorcycles) (34 companies), iron and steel (8 companies), and electrical machinery, electronic devices (7 companies).
- In terms of responses, 38.6% of companies (129 companies) - i.e. nearly 40% - said they had "changed procurement sources" **(p.42)**. Among these, 55.2% (69 companies) said they had already begun making such transitions. Regarding the scale of these changes in procurement sources, 47.9% (58 companies) said they had changed sources for "1% to less than 10%" of goods.
- As many as 68.5% of respondents (85 companies) said the duration of their procurement source changes would be "mid to long-term." Multiple respondents answered that in changing procurement sources, a certain amount of time was required before a decision was reached, for instance to get customer approval, to comply with various regulations, or to get permits and approvals. In addition, some respondents commented that given other factors such as the sharp rise in personnel costs in China, once they had changed procurement sources, they would not be reverting back even if the additional tariffs were to be eliminated.
- Looking specifically at where goods are being sourced, whereas main procurement sources before the change were China for 108 companies (84.4%), Japan for 37 companies (28.8%), and the U.S. for 28 companies (21.9%), now only 12 companies (9.4%) procure from China, while 53 companies (41.7%) procure from the U.S., 45 companies (35.4%) procure from Japan, 31 companies (24.4%) procure from Thailand, 27 companies (21.3%) procure from Vietnam, and 22 companies (17.3%) procure from Mexico **(p.43)**.
- Meanwhile, some respondents mentioned the challenges they are having with the procurement sources they changed to. Companies who have started switching to U.S. procurement sources said that "the U.S. isn't as strong in manual manufacturing, and it has a shortage of engineers. Some also answered that it is "difficult to procure the same kinds of parts as those from China" (rubber products), or that they "cannot find available U.S. suppliers, and uncertainties about the future of U.S.-China relations are making suppliers reluctant to expand their manufacturing capacities" (transportation equipment parts (motor vehicles, motorcycles)). Also, companies that have switched to Southeast Asian procurement sources indicated that "with the prices of Chinese goods being massively lower, our costs savings effect from changing procurement sources has been limited" (miscellaneous manufacturing industries), and "once we transitioned to Southeast Asia, the lack of infrastructure/ports and harbors has meant higher-than-expected transportation costs" (electrical machinery, electronic devices).
- Regarding the impact from these trade environment changes on operating profit forecasts, 43.7% of respondents (269 companies) said there were "no changes" in 2019, while 31.0% (191 companies) said they were "not sure" and 20.6% (127 companies) said their forecasts had "decreased" **(p.46)**.

Key Points Regarding the Survey Results: 5. Other Notable Trends

(1) U.S.-Mexico-Canada Agreement (USMCA) Having Negative Impact on 24% of Respondents in Transportation Equipment (motor vehicles, motorcycles)

- Regarding the comprehensive effects of the U.S.-Mexico-Canada Agreement (USMCA) that has replaced the North American Free Trade Agreement (NAFTA), 57.4% of respondents stated there has been "no impact", while 30.7% said they were "not sure," and a mere 3.9% (25 companies) answered that the deal has had "negative effects" **(p.35)**. However, when viewed by industry, the survey showed that 23.5% of companies in the field of transportation equipment (motor vehicles, motorcycles) were seeing negative effects, and more respondents in this area gave this response compared to other industries.
- As the main factors having an impact on company management, 46.8% of respondents (65 companies) cited "exclusion from Section 232 measures of the Trade Expansion Act with respect to passenger vehicle and light truck and automotive parts if the U.S. imposes such measures," while 38.1% (53 companies) named the "requirement to purchase 70% North American steel and aluminum," and 37.4% (52 companies) said "review of Product Specific Rules (PSR)."
- In terms of measures for dealing with the USMCA, 42.4% of respondents said "no change," yet among those who intended to take measures , "change some or all of procurement sources" was the most common response at 12.2%, followed by "adjust sales prices" (11.2%), "transfer some or all production to the U.S." (8.3%) and "transfer some or all production sites from the U.S. to other places" (6.8%) **(p.36)**. As for the change of procurement sources, seven companies were considering shifting to Mexico, while five were looking at switching to the U.S. In addition, 11 companies said they were looking into changing their production sites from Japan or Mexico etc. to the U.S., whereas five respondents were thinking of switching from the U.S. to Mexico.

(2) [Comparison of Three Countries' Surveys] Japanese Companies Seeing Different Effects from USMCA in U.S., Mexico, and Canada

- Separate surveys were conducted for Japanese companies doing business in Mexico and Canada on the USMCA's impact. A comparison of the survey results for all three countries revealed that for the manufacturing industry overall, 24.5% of companies were seeing negative effects in Mexico, whereas this was true of only 4.6% of companies in Canada and 4.3% of those in U.S. **(p.37)**. Meanwhile, in the field of Transportation equipment (motor vehicles, motorcycles), 23.1% of companies in U.S. saw negative effects, which was more than in the other two countries, while in Transportation equipment parts (motor vehicles, motorcycles), this was true for 36.8% of companies in Mexico, a higher percentage than in Canada and the U.S.
- In a three-way comparison among the countries' surveys of factors impacting business management, the percentage of respondents who cited "exclusion from section 232 measures of the U.S. Trade Exemption Act with respect to passenger vehicle and light truck and automotive parts if the U.S. imposes such measures" was the highest in U.S. (49.5%), while "meeting the labor value content rule" was the most cited factor in Mexico (37.9%).
- Regarding measures for dealing with the USMCA among the three countries, 40-50% of companies in all three surveys said "no change" **(p.38)**. When viewed by specific measures, the percentage of companies who said "change some or all procurement sources" was 14.4% in U.S. and 14.2% in Mexico. Of note in Mexico's case was the high percentage of companies who were going to "transfer some or all production sites from other places to ours" at 14.8%, which was higher than the percentages in U.S. (10.5%) and Canada (8.7%). When viewed by industry, in the field of transportation equipment parts (motor vehicles, motorcycles), Mexico had the highest percentage of respondents who were set to "transfer some or all production sites from other locations to ours" at 29.8%, more than in the other two countries. On the other hand, in the field of transportation equipment (motor vehicles, motorcycles), the U.S. percentage was the highest at 42.9%.

(3) Regarding Investment in U.S. and Dealing with Export Control Regulations, Majority of Respondents Said "No Impact" or "Not Sure"

- With regard to the Foreign Investment Risk Review Modernization Act (FIRRMA) established in August 2018, as this act concerns new investments, 60% of companies responded "no impact" **(p.39)**, while 40% replied "not sure."
- As for the impact on companies' export control systems from the 2018 Export Control Reform Act (ECRA), 29.5% of respondents "take no particular measures regarding export controls," and 17.9% said they "expect no change in their measures regarding export controls," so about half looked to deal with the effects under their existing systems. However, over 50% said they were "not sure."
- In both the FIRRMA and ECRA questionnaire, "not sure" accounted for 40-50% of responses, one reason for which could be that the "emerging and foundational technologies" that will be subject to investment screenings and export controls have not yet been announced, and therefore it is unclear what will specifically fall under the scope of the screenings/controls.

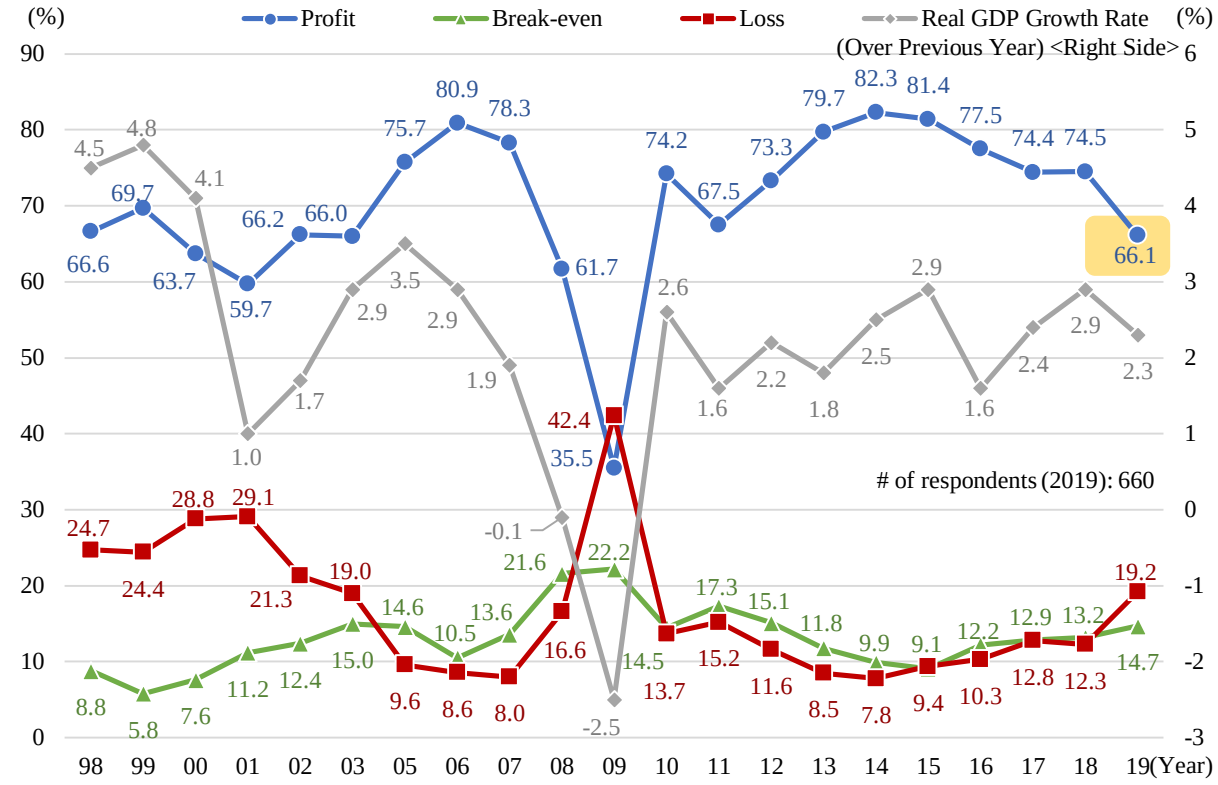
(4) Stricter Foreigner Work Visa Screenings Making Circumstances "More Difficult," Said 35% of Respondents

- Concerning the stricter procedures for foreigner work visa screenings, most respondents said "it has not changed" in their respective situations (64.8%) compared to before 2016 when the Trump administration took office. However, 26.0% said "it has become slightly more difficult," while 9.1% said "it has become much more difficult," meaning that at least 30% of the companies felt circumstances had become tougher **(p.31)**. The most difficult visas to obtain now were said to be the "L-1 Visa (Intra-company Transferee)" (41.4%) and the "E-2 Visa (Treaty Investor)" (35.0%). In terms of countermeasures, the top answers were "consulting with local immigration lawyers" (43.7%), "review of staffing system (including increasing the number of American employees)" (37.6%), and "strengthening system for information gathering" (21.6%).

1. 2019 Profit Forecast: 66.1% Said Profitable; Under 70% for First Time in Eight Years

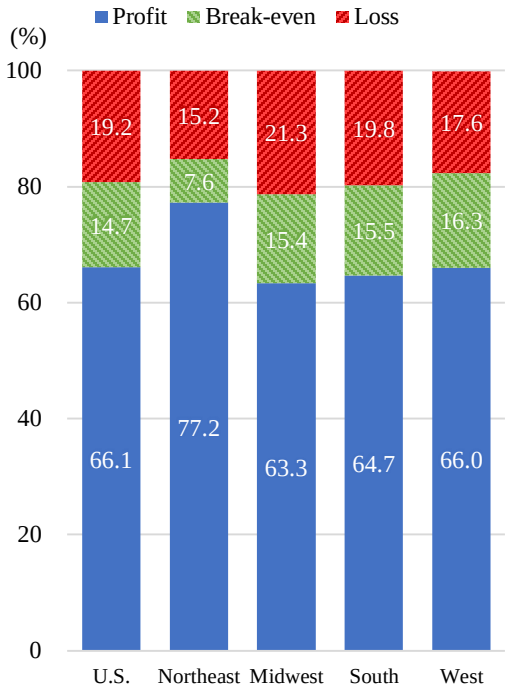
66.1% of the respondents said they expected positive operating profits in 2019. This marked the first time in eight years since 2011 that the percentage of profitable companies fell below 70%. The percentage of profitable companies in transportation equipment parts (motor vehicles, motorcycles) continued to fall for the fourth consecutive year (83.6→82.5→70.4→64.8→52.3%). While the percentage in the Northeast exceeded 70%, it was less than 70% in the other regions, with the percentage of unprofitable companies in the Midwest coming in at over 20%. When broken down by sector, the percentage in "sales" (76.2%) was over 70%, whereas that in "manufacturing" (50.8%) was 18.8 percentage points lower than last year (69.6%).

Operating Profit Forecast and Real U.S. GDP Growth



Note: The GDP growth rate for 2019 is the preliminary figure. No survey conducted in 2004.

Operating Profit Forecast for 2019 (By Region)

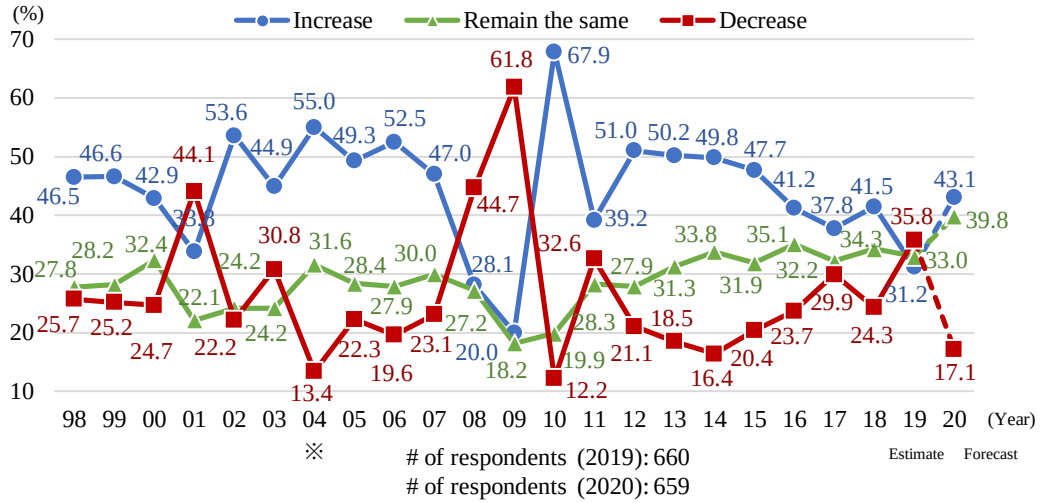


	U.S.	Northeast	Midwest	South	West
% change of profitable companies vs. last year	-8.4	0.5	-12.9	-6.5	-10.8

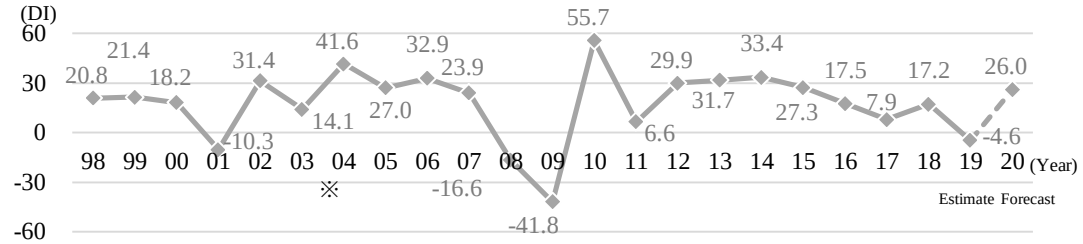
1. Business Sentiment DI: Major Deterioration from Previous Year, 2020 Forecast Suggests Rebound

The diffusion index (DI) for business sentiment (the difference between the rates of improvement and deterioration) in 2019 stood at -4.6 points, showing a drop of 21.8 points from the previous year's figure (17.2). The percentage of companies expecting their 2019 operating profits to show a "decrease" (24.3) rose by 11.5 points, while that of companies saying they expected an "increase" was down 10.3 points. As the main reason for this deterioration, "sales decrease in local markets" accounted for 51.9% of responses. The DI predicting business sentiment in 2020 was 26.0, and the percentage of companies expecting to see an "increase" showed an uptick at 43.1%. By region, the Northeast and the South figures were higher than average, whereas the Midwest stood at just 39.8%. 76.7% of respondents cited "sales increase in local markets" as the reason given for the improved forecast.

Year-over-year Operating Profit Forecast Changes

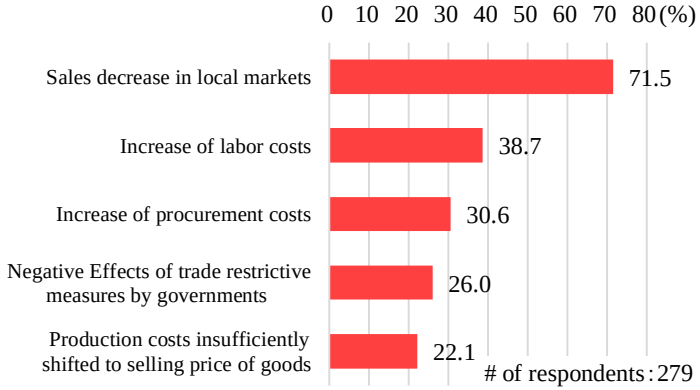


Business Sentiment DI Trends

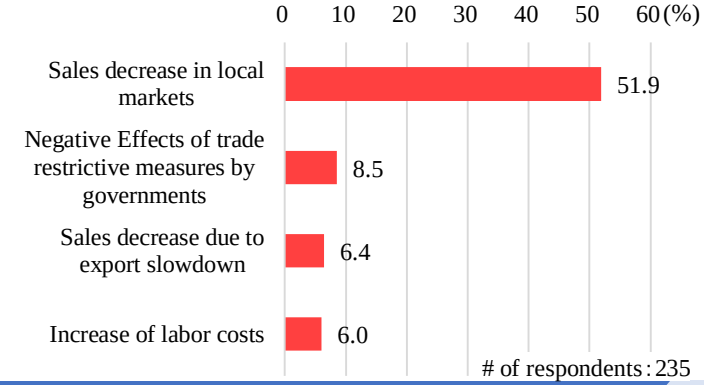


Note: No survey was conducted in 2004, so figures are estimated from the time of the 2003 survey.

Reasons for Decreased Operating Profit Forecast for 2019 (Multiple Answers)



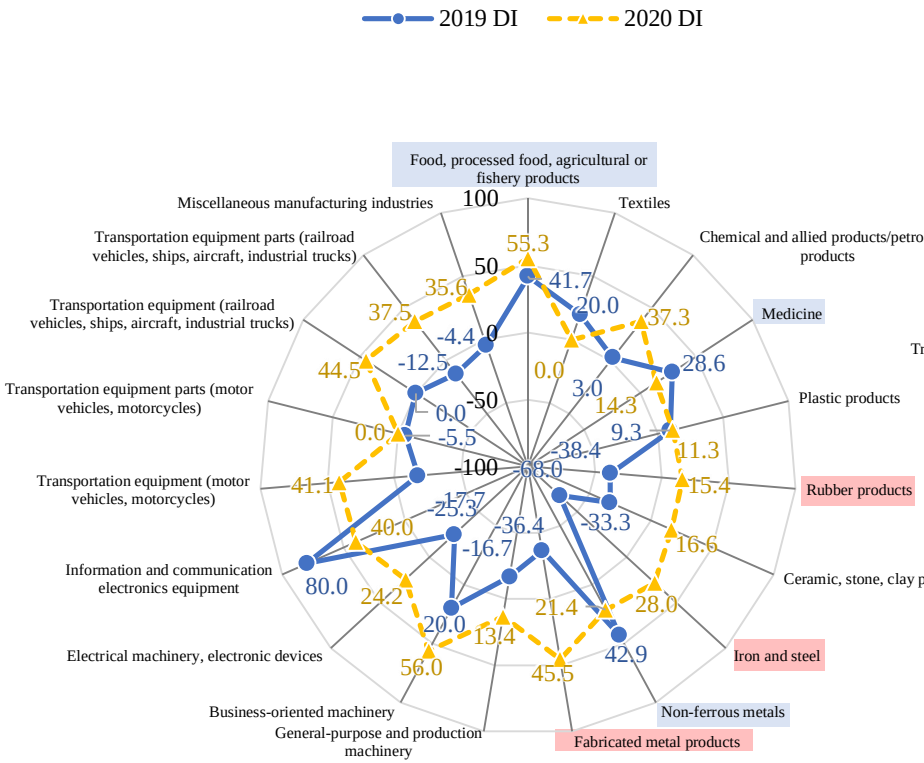
Reasons for Decreased Operating Profit Forecast for 2019 (Main Reason)



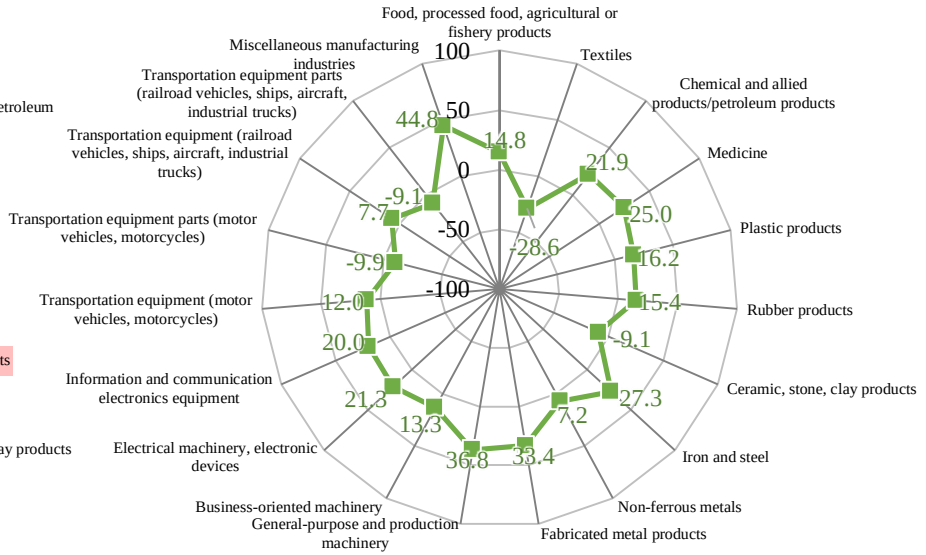
1. Business Sentiment DI by Industry: Iron and Steel, Rubber Products, Fabricated Metal Products, etc. See Major Drops

The 2019 Business Sentiment DI (by industry) results showed a high DI in fields such as non-ferrous metals (42.9), food/agricultural products (41.7), and medicine (28.6), but significantly lower DI for iron and steel (-68.0), rubber products (-38.4), and fabricated metal products (36.4). For 2020, the business sentiment DI results are forecasted to be positive across all industries, with the most significant improvement projected in iron and steel (28.0) and fabricated metal products (45.5).

2019 and 2020 Diffusion Index for Business Sentiment by Industry



Ref. 2018 Diffusion Index for Business Sentiment by Industry



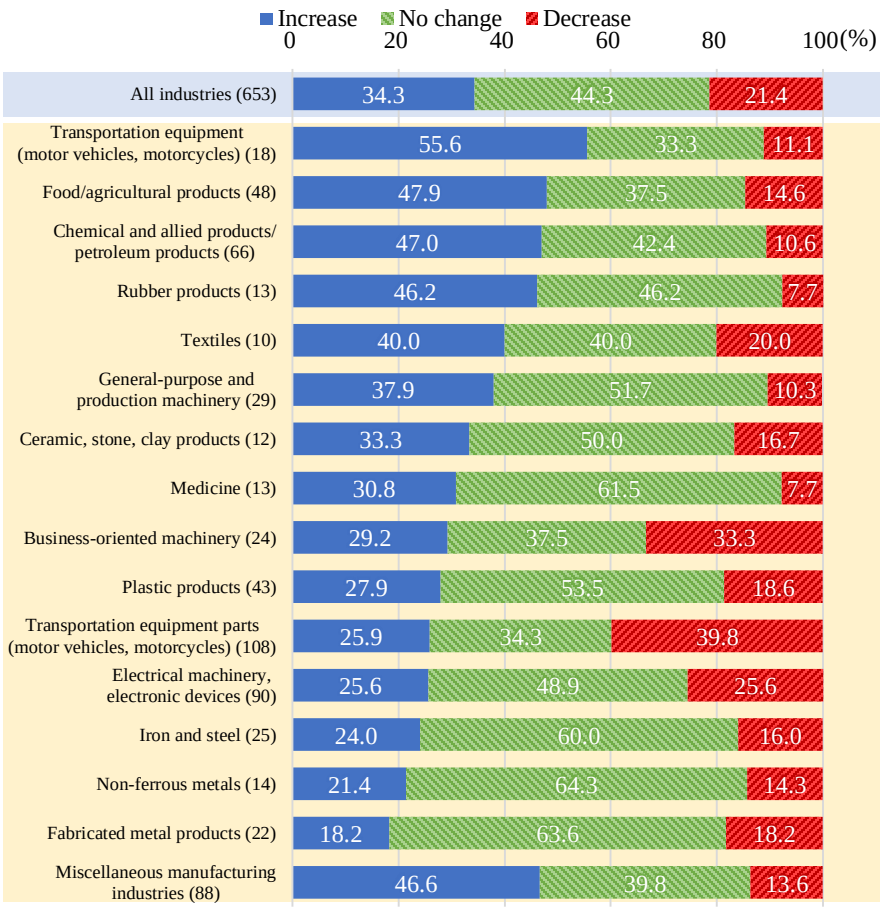
Median DI for all Industries (19 Industries)	
2019 Diffusion Index for Business Sentiment by Industry	-4.4
2020 Diffusion Index for Business Sentiment by Industry	28.0

Note: Only industries for which at least five companies gave valid responses are listed.

2. Changes in Number of Local Employees (Changes in Past Year): For First Time in Eight Years, Respondents Who Had an "Increase" Fell under 40%

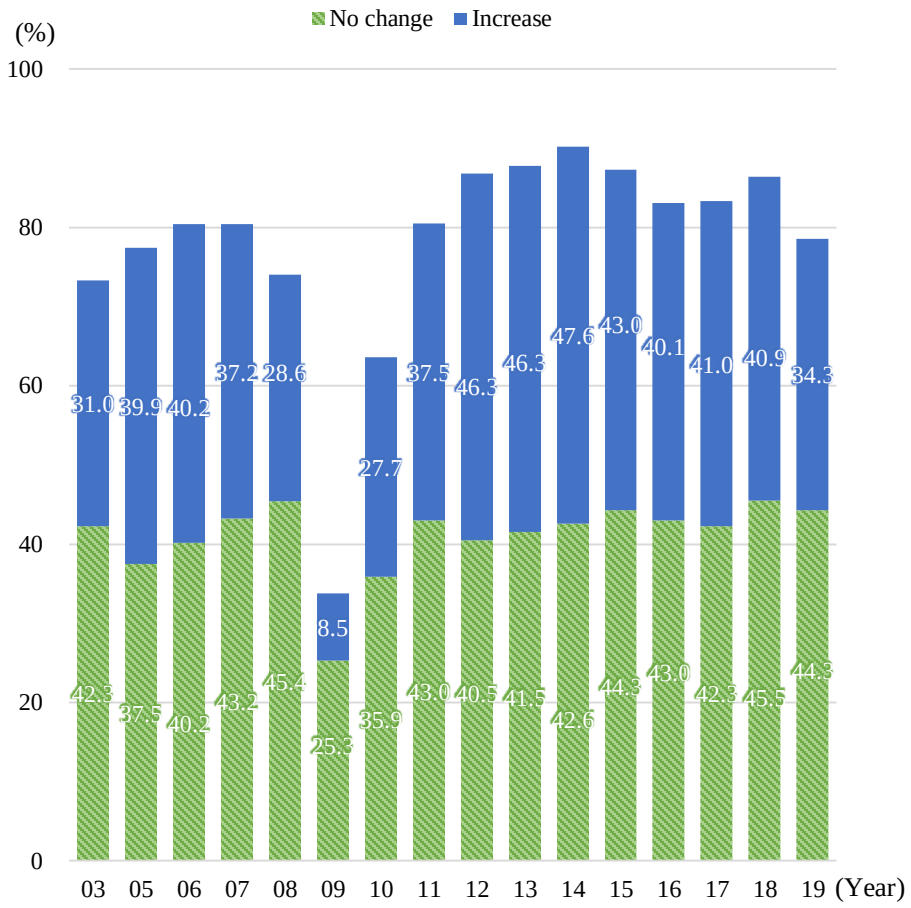
Only 34.3% of companies said they had an "increase" in their number of local employees in the past one-year period, with the percentage of such respondents falling under 40% for the first time in eight years since the FY2011 survey (37.5%). When viewed by industry, over 50% of companies in transportation equipment (motor vehicles, motorcycles) had increased their number of local employees, but in fields such as non-ferrous metals and fabricated metal products, over 60% of respondents reported "no change."

Changes in Number of Local Employees (Change over Past Year, By Industry)



Note: Graph lists only those industries in which valid responses were received from 10 or more companies.

Change in Number of Local Employees in Past One Year

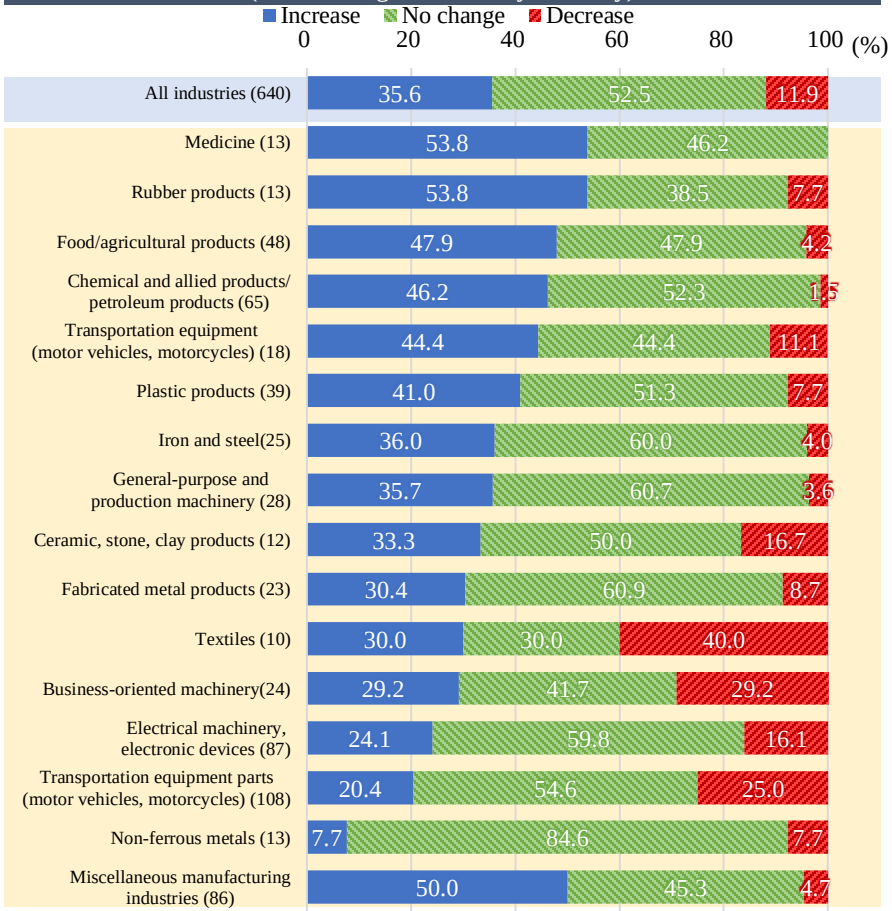


Note: No survey was conducted in 2004.

2. Changes in Number of Local Employees (Plans Going Forward): 35.6% Planning “Increase”

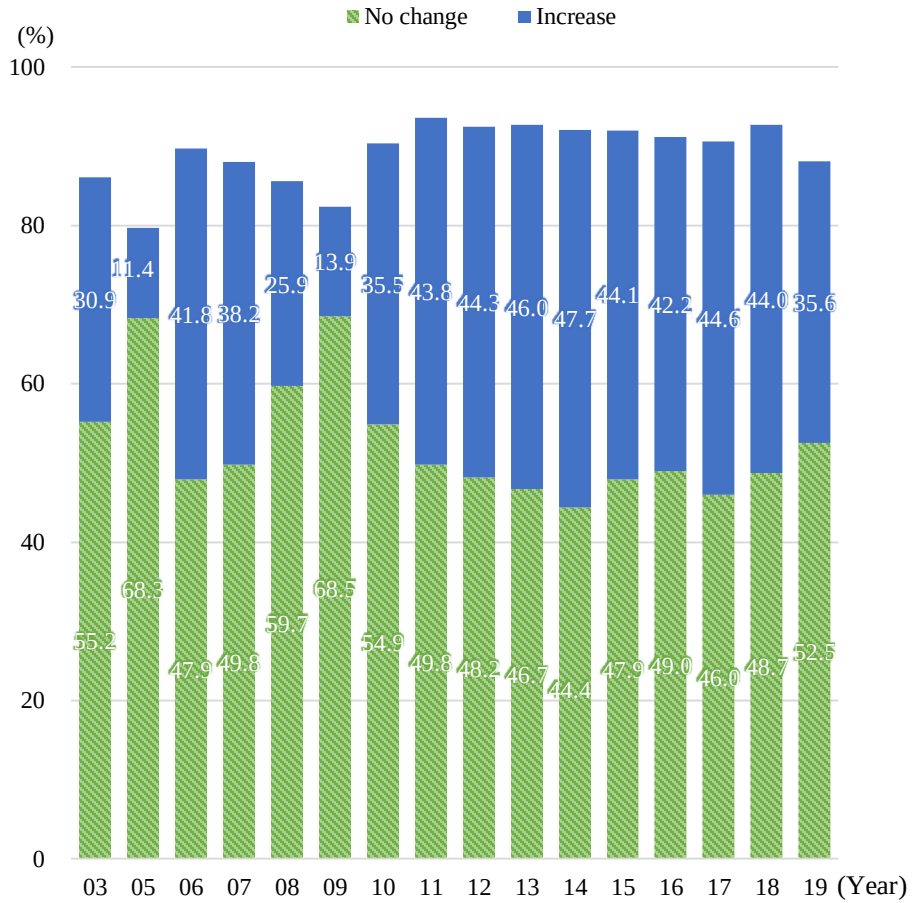
Regarding their plans going forward, a mere 35.6% of respondents said they would seek to “increase” their number of local employees, which was the lowest level in nine years since the FY2010 survey (35.5%). When viewed by industry, the results showed that while over 50% of companies in such fields as medicine and rubber products planned to “increase” their number of local employees, only 7.7% of respondents in non-ferrous metals had such plans.

Changes in Number of Local Employees
(Plans Going Forward, By Industry)



Note: Graph lists only those industries in which valid responses were received from 10 or more companies.

Future Prospects for Number of Local Employees

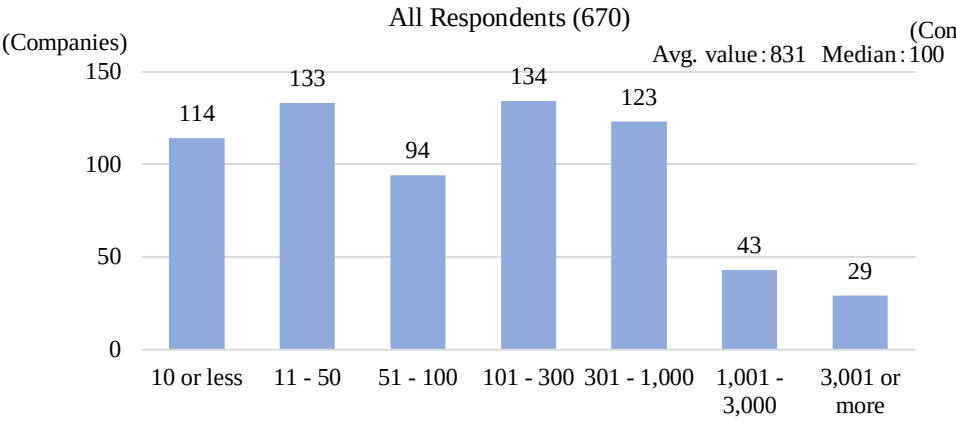


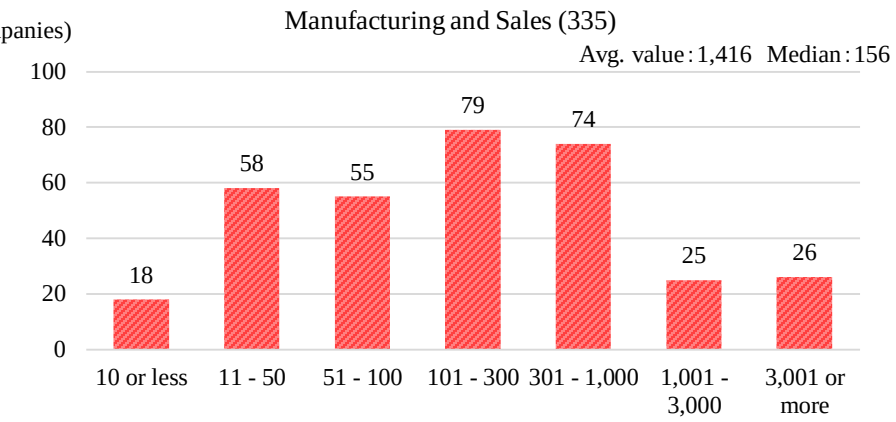
Note: No survey was conducted in 2004.

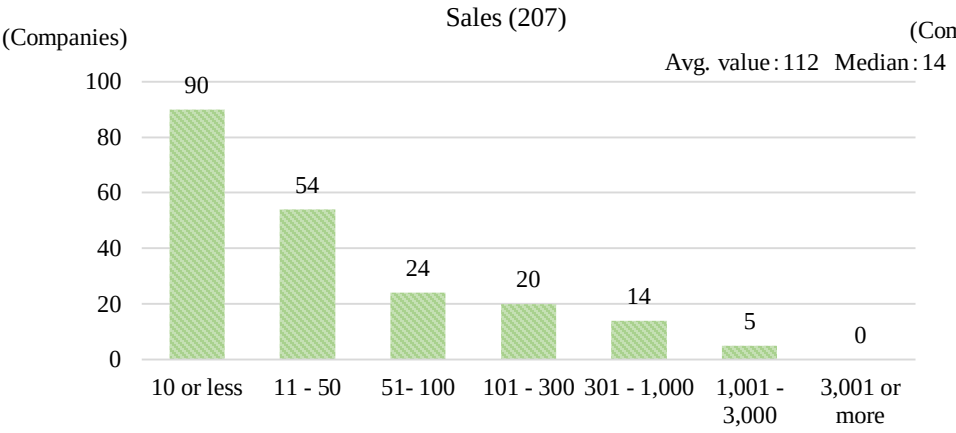
2. Number of Employees: Median Value per Company Was 100 Persons

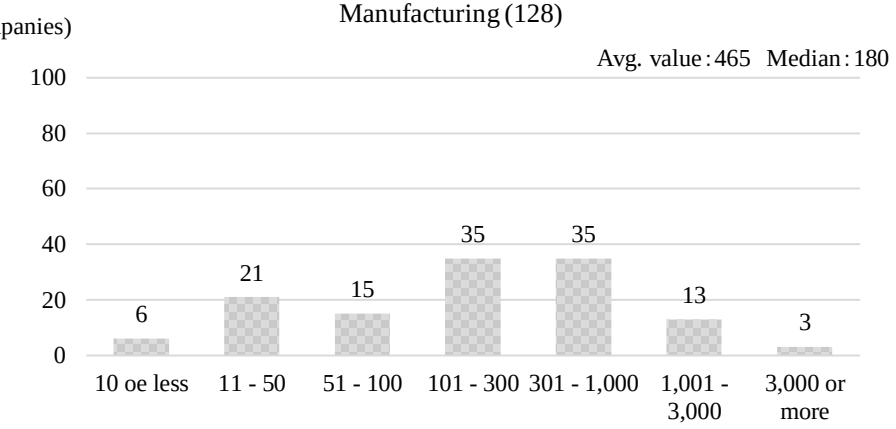
The 670 respondent companies had approximately 560,000 employees in total, with the average number of employees per company being 831 persons, and the median value being 100 persons. When viewed by business activity, 23.6% of respondents (79 companies) in manufacturing and sales said they had “101-300 persons,” with the median value being 156 persons. The most common answers among manufacturers were “101-300 persons” and “301-1,000 persons,” each given by 27.3% of respondents (35 companies), with the median value being 180 persons. Meanwhile, among sales companies, 43.5% of respondents (90 companies) said they had “10 persons or fewer,” with a median value of 14 persons.

Total Number of Employees Broken Down According to Business Activity







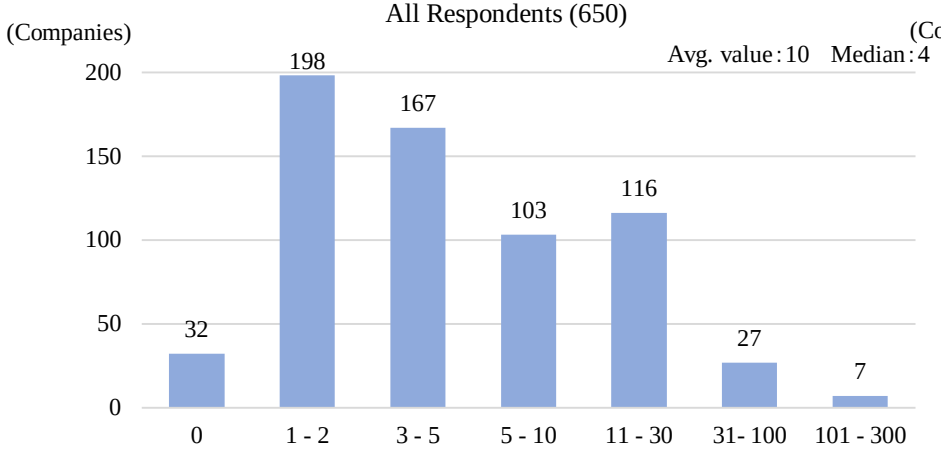


2. Number of Expatriates from Japan: Median Value per Company Was Four Persons

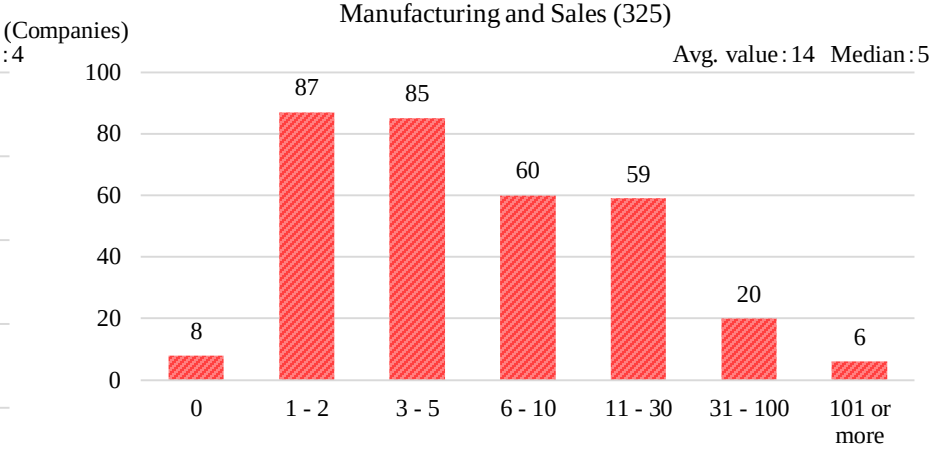
The 650 respondent companies had a total of roughly 6,800 expatriates from Japan, with an average of 10 expatriates from Japan and a median value of four such persons. 30.5% of respondents (198 companies) said they had "1-2 persons," which was the highest percentage, and according to individual sectors, the median value for the number of expatriates was five persons for companies in manufacturing and sales, four persons for manufacturers, and three persons for sales companies.

Number of Expatriates from Japan Broken According to Business Activity

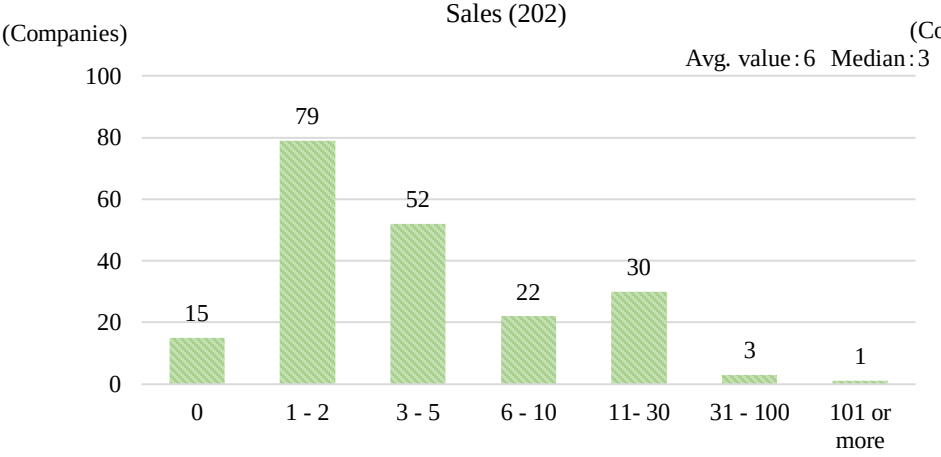
All Respondents (650)



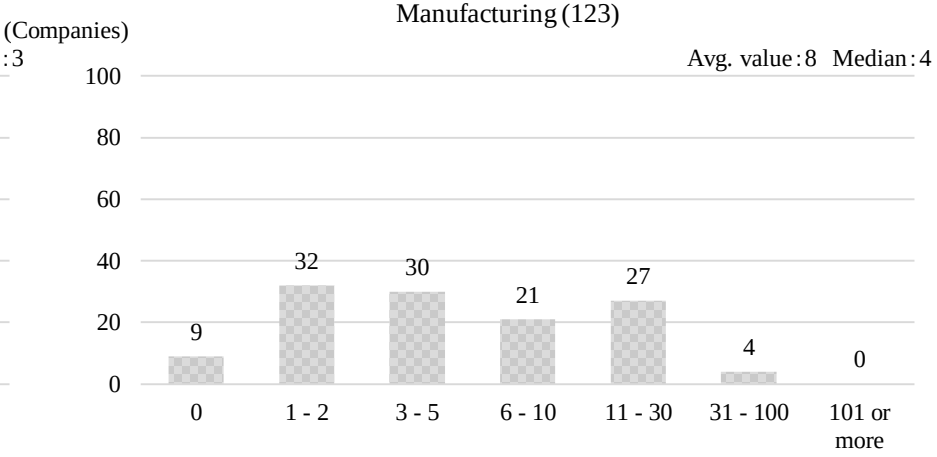
Manufacturing and Sales (325)



Sales (202)



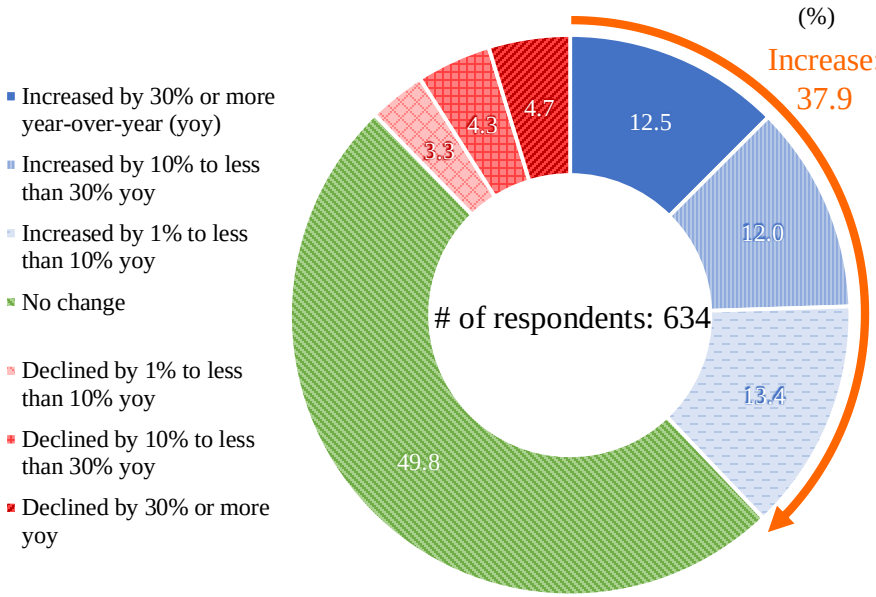
Manufacturing (123)



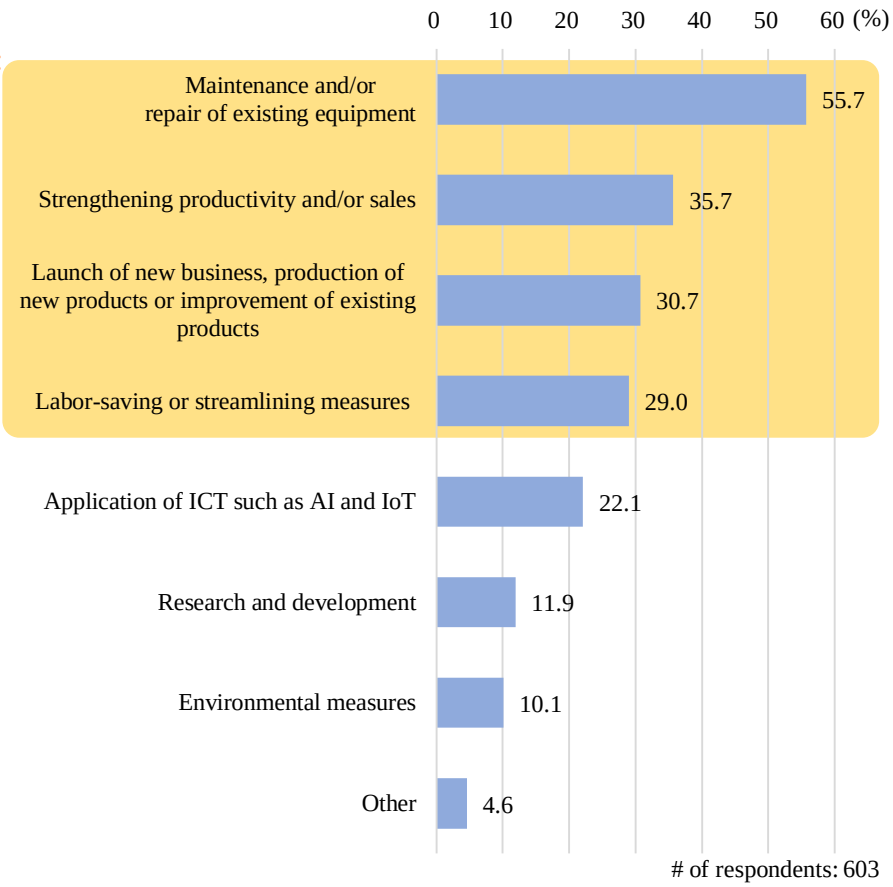
2. Capital Investments: “Maintenance and/or Repair of Existing Equipment” and “Strengthening Productivity and/or Sales” Were at the Top

37.9% of respondents said that the total sum of their capital investments in 2019 had surpassed those made the prior year, with this percentage being 5.8 points lower than the result in the previous survey. Meanwhile, 12.3% of respondents made smaller capital investments in 2019 compared to the year before, which was 3.6 points higher than last time. Regarding the purpose of these capital investments, as was the case last year, the top answers were “maintenance and/or repair of existing equipment” and “strengthening productivity and/or sales,” with “launch of new business, production of new products or improvement of existing products” and “labor-saving or streamlining measures” also being cited by many companies.

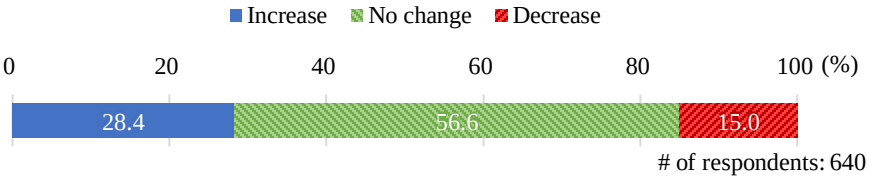
Changes in Capital Investments in 2019



Purpose of Capital Investments in 2019 (Multiple Answers)



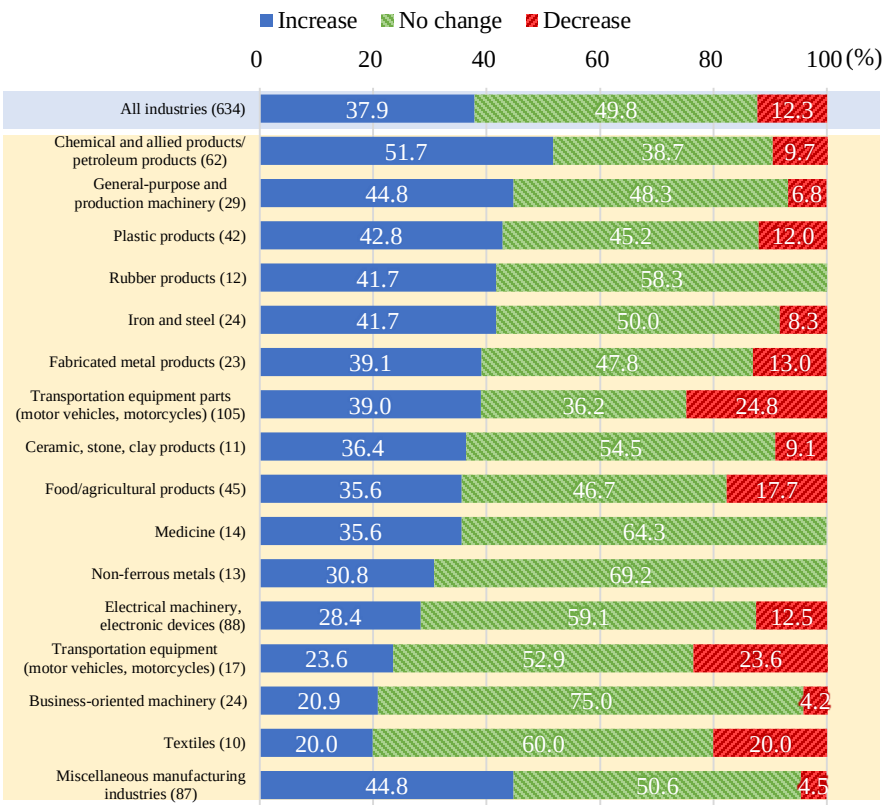
Forecast for Capital Investments in/after 2020



<Ref.> Capital Investments: Key Industries in 2019 and Trends in Capital Investments since the 1998 Survey

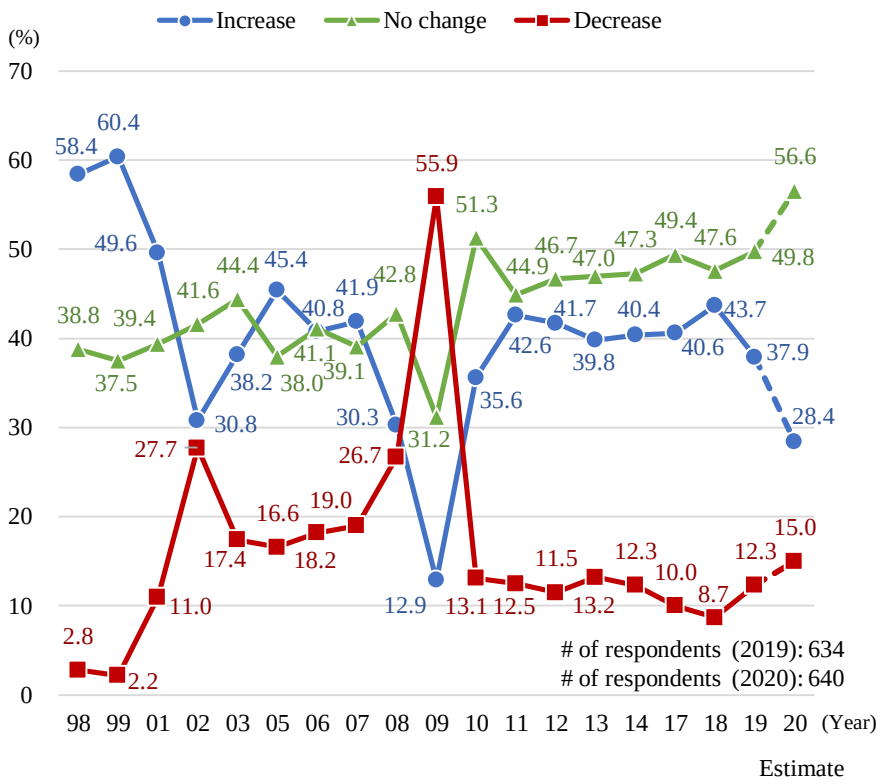
When we compared the changes in 2019 according to the main industries, over half of respondents in chemical and allied products/petroleum products reported that they had "increased" capital investments from last year (51.7%). Meanwhile, medicine (56.3%) and fabricated metal products (55.5%), which had taken first and second place in last year's survey, saw major drops this time around, with medicine down 20.7 points from last year at 35.6%, and with fabricated metal products having fallen 16.4 points to 39.1%. Although the percentage of respondents who had "increased" capital investments has stayed above 30% since 2010, a mere 28.4% of companies said they expected to "increase" their capital investments in 2020, which suggests a decline in investment willingness.

Changes in Capital Investments in 2019 by Industry



Note: Graph lists only those industries in which valid responses were received from 10 or more companies.

Capital Investments Trends (1998-2020)

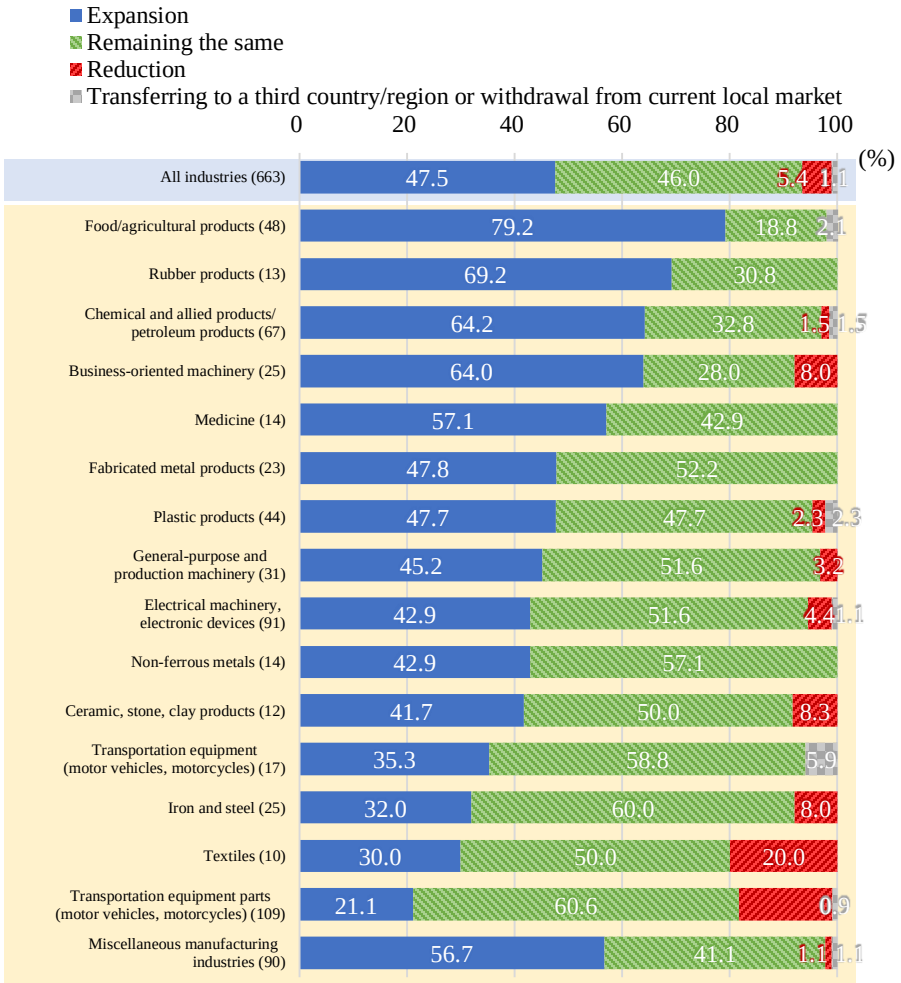


Note: No survey was conducted in 2004. The years 2015 and 2016 were not covered in our questioning.

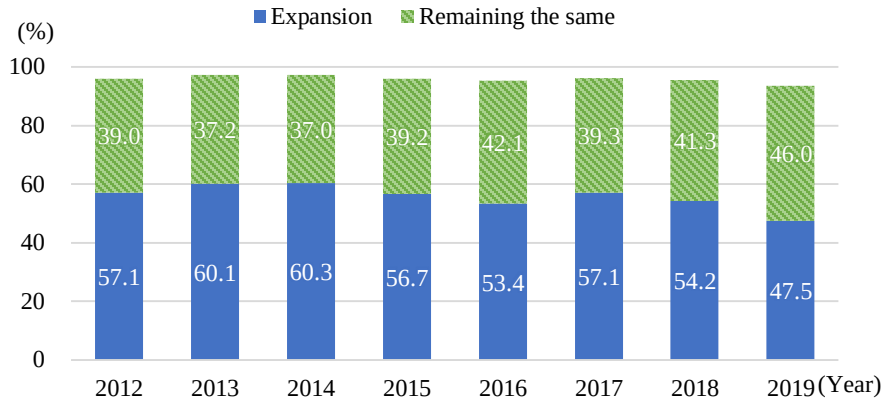
2. Future Business Direction: Less than 50% (47.5%) Planning Expansion

47.5% of respondents said they had their sights on expansion in the next year or two, marking the first time since our first survey in FY2012 that the figure fell below 50%. The main functions that they cited for such expansion were "sales functions" and "production (high-value added products)." By industry, most respondents were looking to expand in the areas of food/agricultural products (79.2%), rubber products (69.2%), and chemical and allied products/petroleum products (64.2%).

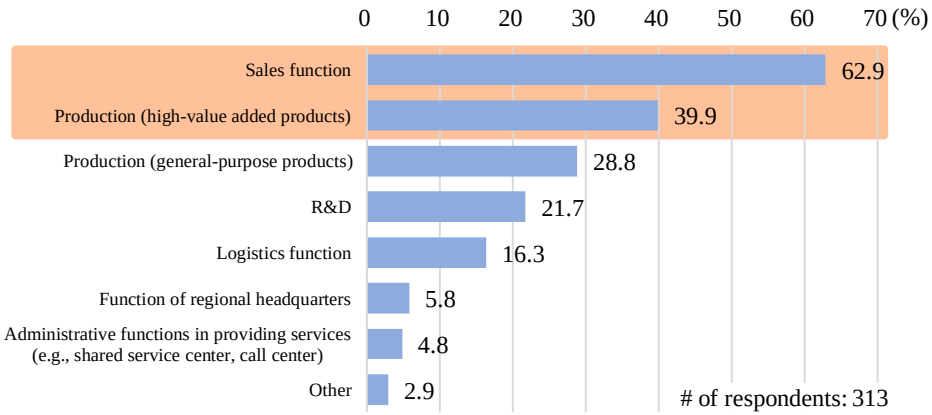
Business Direction in the Next 1-2 Years (By Industry)



Business Direction Trends For the Next 1-2 Years (2012-2019)



Specific Functions to Expand (Multiple Answers)

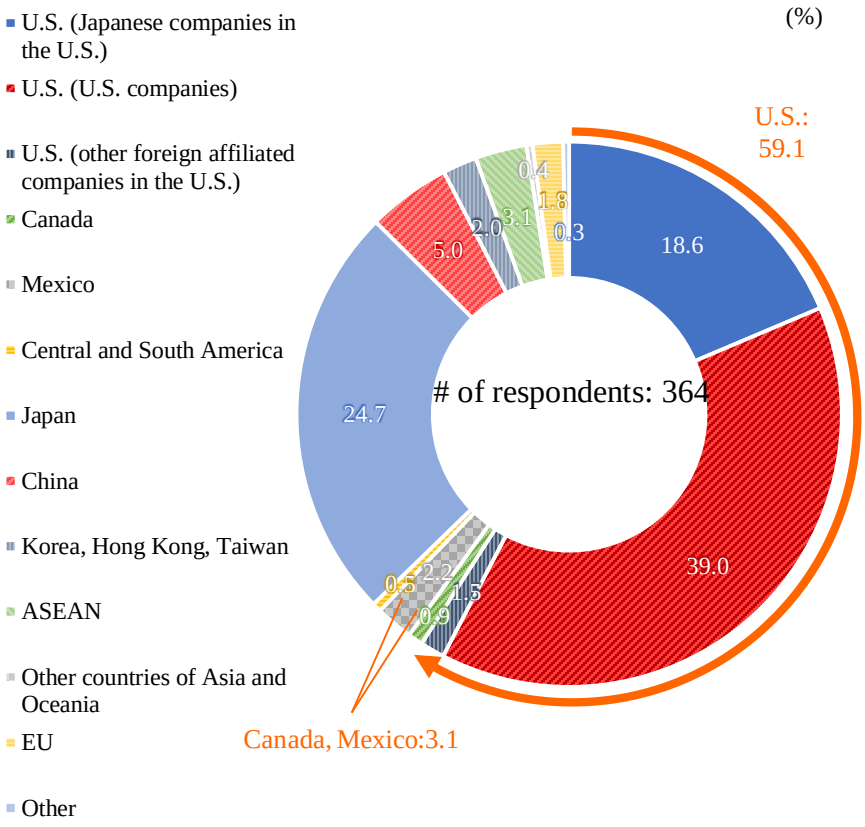


Note: Graph lists only those industries in which valid responses were received from 10 or more companies.

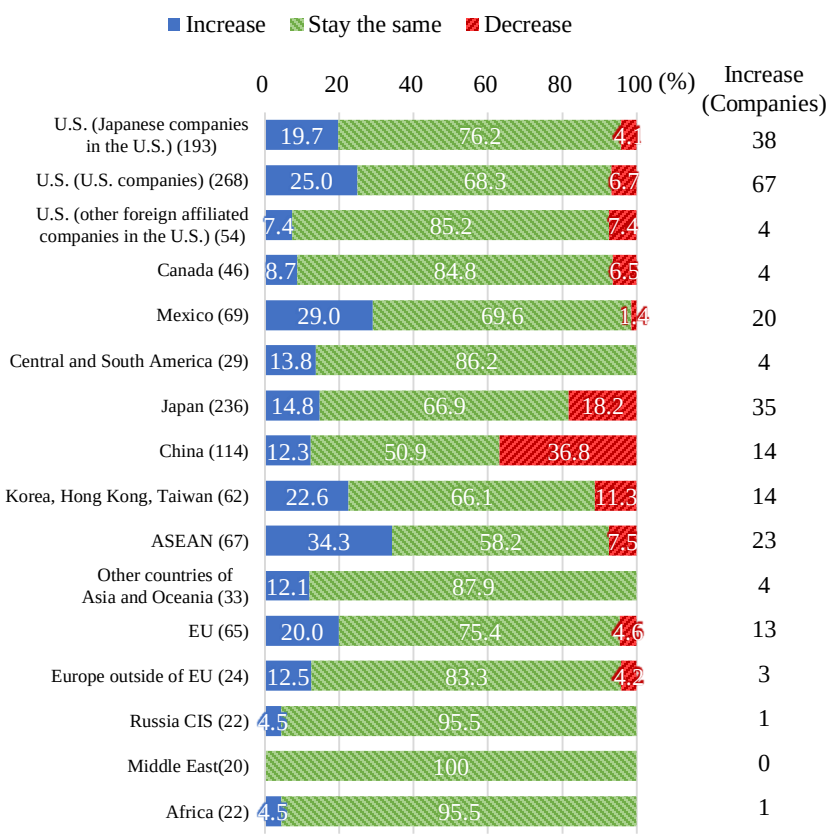
3. Procurement Sources (Manufacturing): Respondents Procuring Nearly 60% of Raw Materials/Parts from within U.S.

When it comes to procuring raw materials and parts, respondents who are engaged in manufacturing in U.S. were found to be getting 59.1% of these items from somewhere in U.S. (U.S. companies: 39.0%; Japanese companies in U.S.: 18.6%; other foreign affiliated companies in U.S.: 1.5%), which is 1.0 point higher than last year (58.1%). Procurement from Japan was the next highest (24.7%), while procurement from China stood at 5.0%. When viewed by major industry type, procurement from inside the U.S. was the highest for food/agricultural products (74.0%) and plastic products (68.3%). As for the sources from which respondents were looking to procure more going forward, the top answers were more procurement from local U.S. companies (67 respondents), Japanese companies in U.S. (38 respondents) and Japan (35 respondents).

Average Procurement Proportion (By Country/Region)



Future Plans for Procurement Sources for Raw Materials/Parts

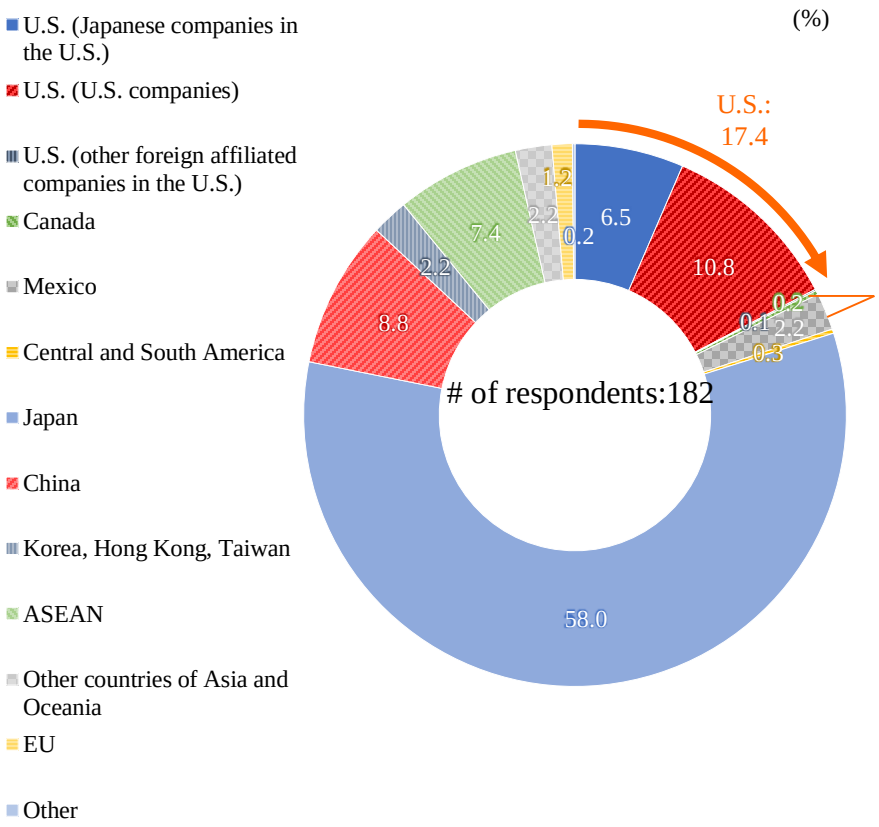


Note: Each company was asked to calculate the ratio for every country/region to account for 100% of its procurement in terms of monetary amount, and these numbers were then averaged.

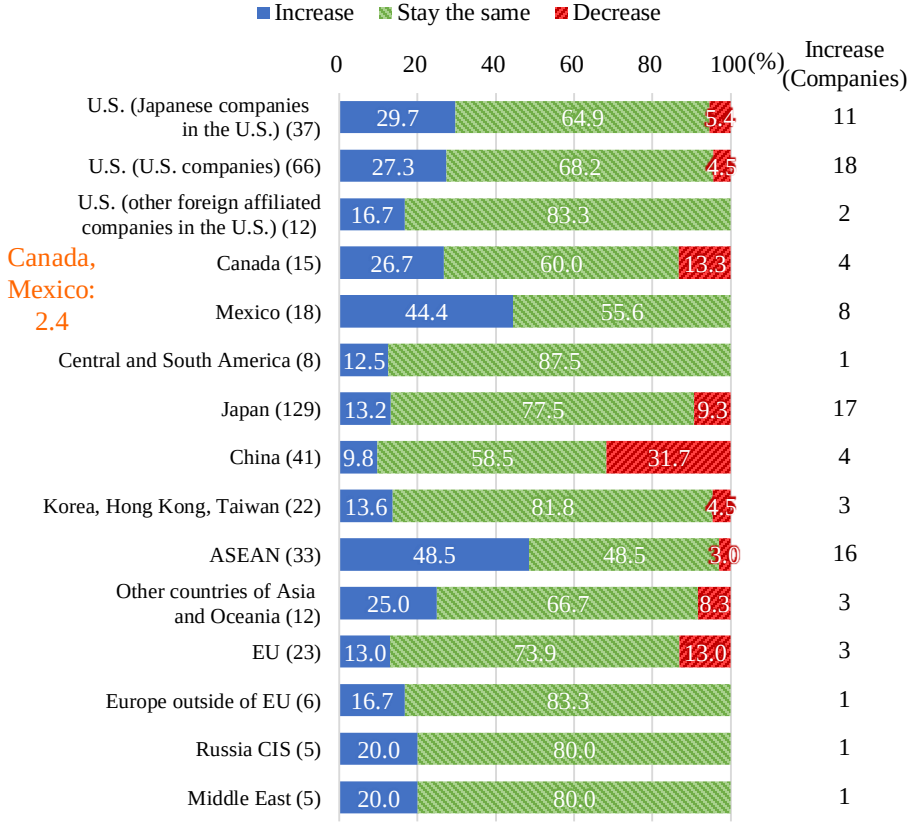
3. Procurement Sources (Sales Only): Respondents Procuring Nearly 60% of Raw Materials/Parts from Japan

Respondents engaged purely in sales activities in U.S. said they were procuring 17.4% of their raw materials and parts domestically (17.2% in the last survey), whereas they were getting 58.0% of these items from Japan, this percentage being 2.3 points higher than when last surveyed (55.7%). When viewed by major industry type, procurement from within the U.S. was the highest in the field of food/agricultural products (61.2%), whereas procurement from Japan was found to be the highest in such fields as chemical and allied products/petroleum products (73.7%) and general-purpose and production machinery (64.1%). In terms of policies going forward, we discovered an inclination to procure more from U.S. companies (18 respondents), from Japan (17 respondents), and from ASEAN (16 respondents).

Average Procurement Proportion (By Country/Region)



Future Plans for Procurement Sources for Raw Materials/Parts



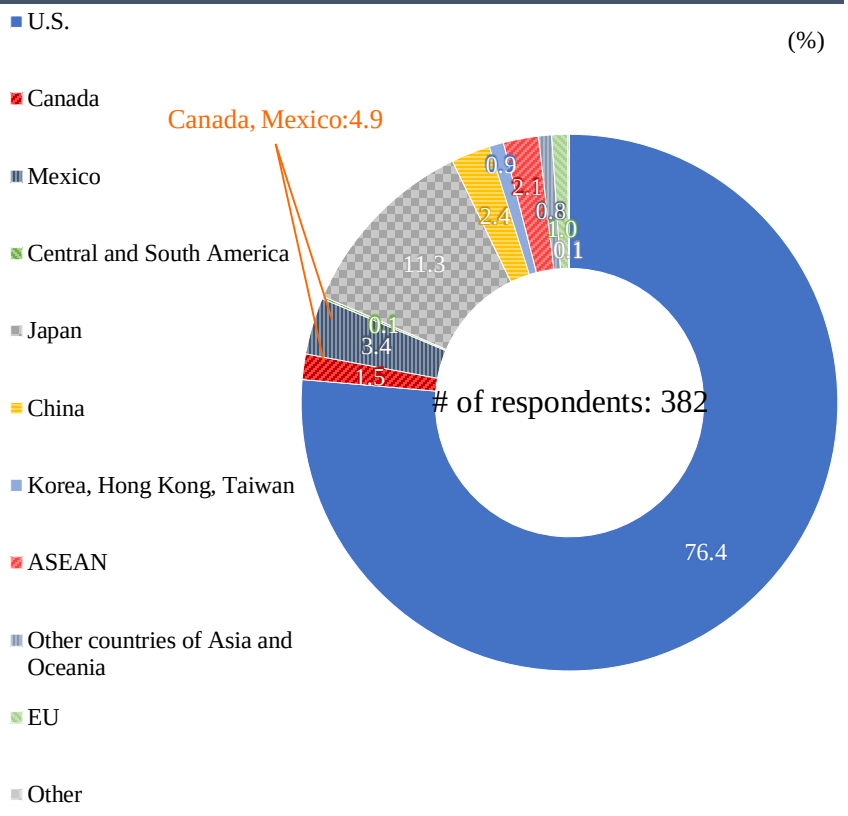
Note: Each company was asked to calculate the ratio for every country/region to account for 100% of its procurement in terms of monetary amount, and these numbers were then averaged.

Note: Graph lists only those countries and regions for which valid responses were received from five or more companies.

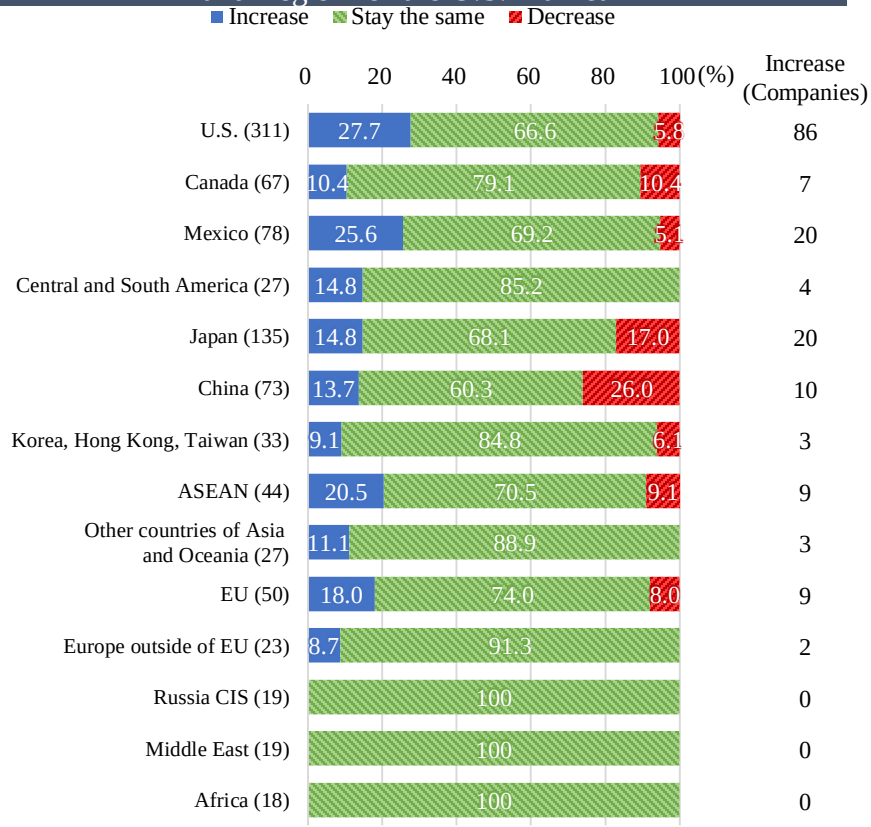
3. Production Sites: Companies Continuing to Enhance Their Production Systems with Focus on U.S.

Regarding places of production for their products bound for the U.S. market, 76.4% of respondents were manufacturing in U.S., up 1.9 points from the last survey (74.5%), while 11.3% said they were manufacturing in Japan, reflecting a drop of 2.2 points from last time (13.5%). When broken down by main industry type, some industries showed over 80% of production being done in U.S., such as iron and steel (88.7%), plastic products (84.8%), and transportation equipment parts (motor vehicles, motorcycles) (83.4%). As for the countries where respondents were looking to expand production for the U.S. market going forward, the top answer was the U.S., as given by 86 companies (27.7%), with Mexico and Japan given by 20 companies (25.6%, 14.8%).

Production Locations of Products Bound for U.S. Market (By Country/Region)



Future Production Plans in Each Country and Region for the U.S. Market

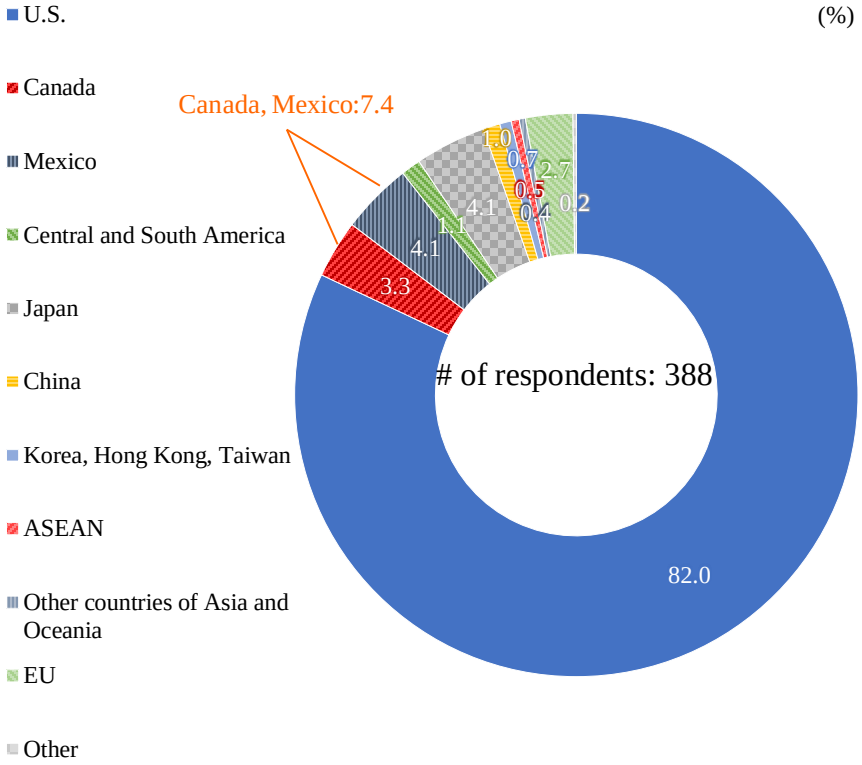


Note: Each company was asked to calculate the ratio for every country/region to account for 100% of its procurement in terms of monetary amount, and these numbers were then averaged.

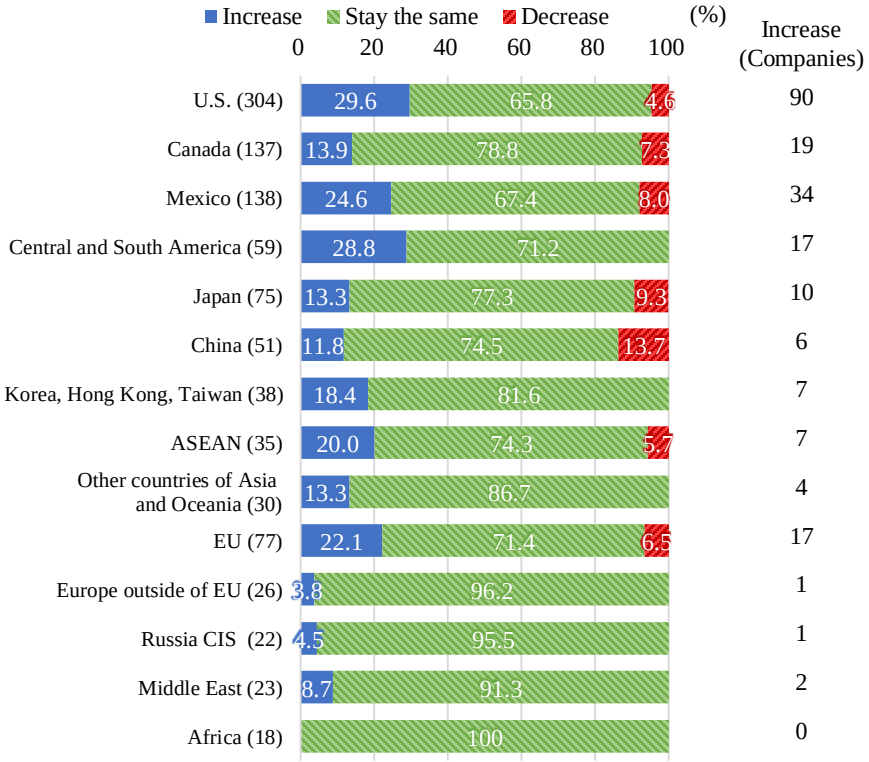
3. Sales Destinations (Manufacturing): NAFTA Market Made up Nearly 90% of Sales

For respondents engaged in manufacturing activities in U.S., the U.S. market made up 82.0% of sales (vs. 79.7% in the last survey), while the NAFTA market, including Mexico and Canada, accounted for 89.4% of sales (87.9% last time), and the Japanese market accounted for 4.1% of sales (5.2% last time). When viewed by major industry type, fabricated metal products (91.8%) and iron and steel (90.2%) had sales percentages within the U.S. of over 90%, while for sales to Japan, food/agricultural products (17.6%) and electrical machinery, electronic devices (10.6%) were the highest reported. As for places where respondents were looking to grow their sales going forward, the U.S. was cited by 90 companies (29.6%, vs. 35.9% last time), while Mexico was named by 34 companies (24.6%, vs. 29.2% last time), meaning that a greater proportion of respondents were looking to maintain the status quo than when last surveyed. When viewed by main industry type, industries such as food/agricultural products (52.4%) and chemical and allied products/petroleum products (48.0%) had the most respondents who said they were looking to expand their sales channels in U.S.

Product Sales Destination (By Country/Region)



Future Plans for Product Sales Destination

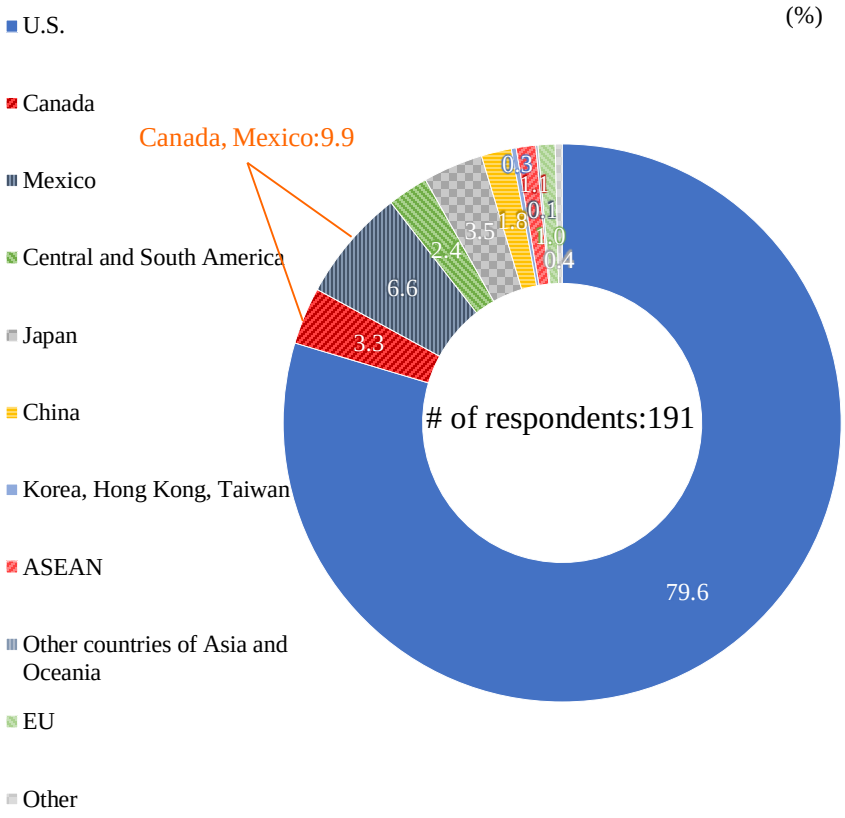


Note: Each company was asked to calculate the ratio for every country/region to account for 100% of its sales in terms of monetary amount, and these numbers were then averaged.

3. Sales Destinations (Sales Only): NAFTA Market Made up Nearly 90% of Sales

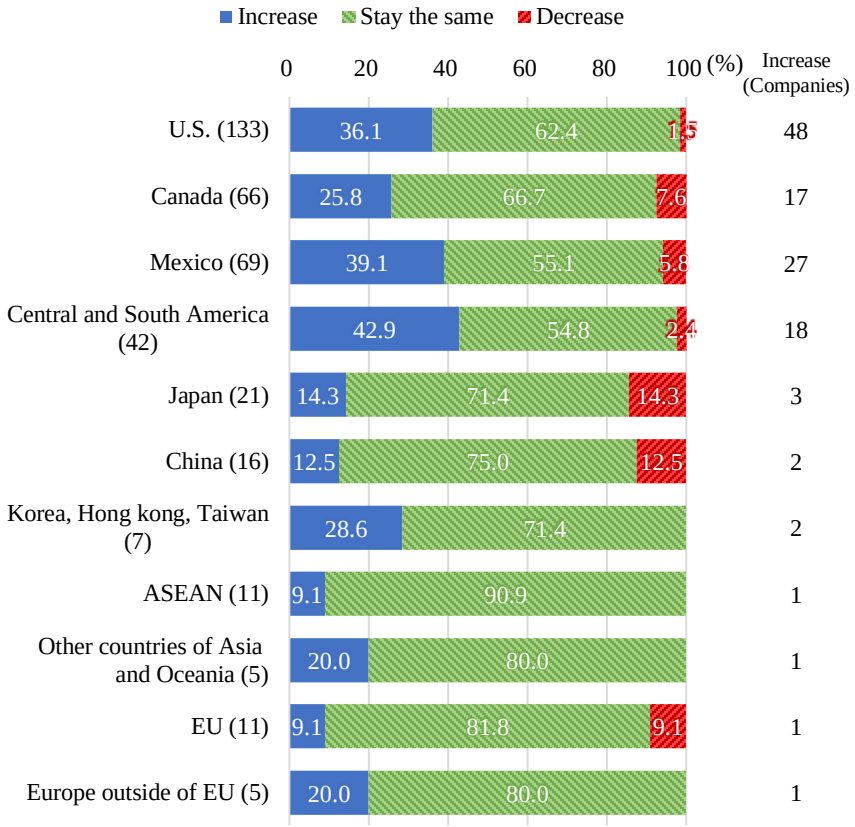
For companies engaged exclusively in sales activities in U.S., the U.S. market accounted for 79.6% of sales, which was 4.2 points higher than in the last survey (75.4%), while the NAFTA market made up 89.5% of sales (vs. 84.2% last time) and Japan covered a mere 3.5% of sales (vs. 5.8% last time). When viewed by major industry type, fields such as chemical and allied products/petroleum products (83.6%) and general-purpose and production machinery (82.4%) showed the highest proportions of sales made within the U.S. Regarding the countries where respondents wished to expand their sales going forward, 48 companies (36.1%) said the U.S., while 27 companies (39.1%) answered Mexico.

Sales Destination (By Country/Region)



Note: Each company was asked to calculate the ratio for every country/region to account for 100% of its sales in terms of monetary amount, and these numbers were then averaged.

Future Plans for Product Sales Destination

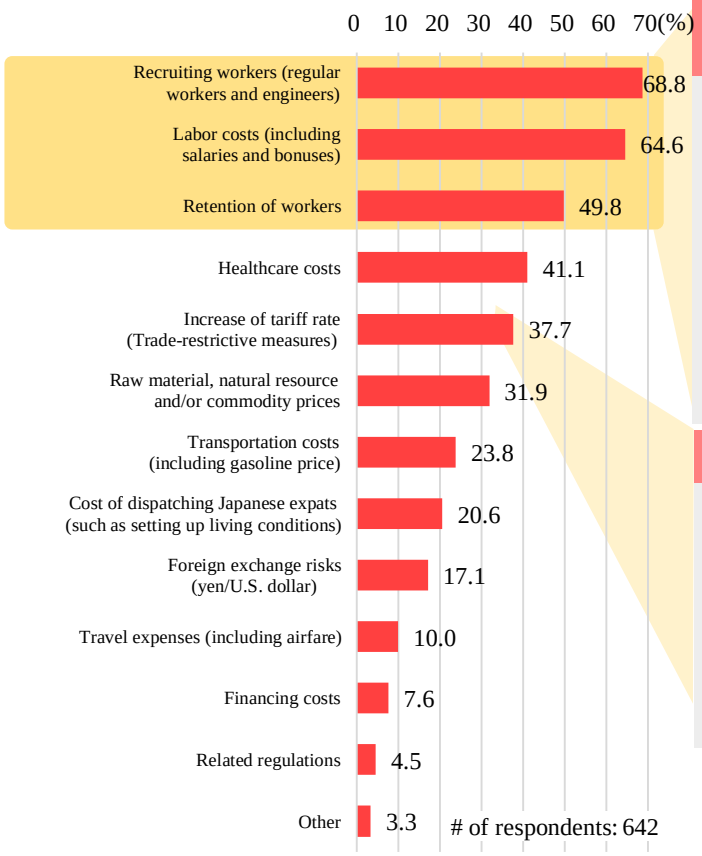


Note: Graph lists only those countries and regions for which valid responses were received from five or more companies.

4. Factors for Increased Costs: “Recruiting Workers,” “Labor Costs” Presented Continued Challenges

In terms of management challenges (factors for increased costs), “recruiting workers” placed at the top again at 68.8%, following last year’s result (69.0%), with the next highest answer being “labor costs (including salaries and bonuses)” at 64.6% (vs. 65.6% last time), and “retention of workers” at 49.8% (vs. 46.3% last time). By region, “recruiting workers” was the top response in the South (76.8%), whereas “labor costs” were the challenge most cited in the West (68.5%). By industry, “recruiting workers” was cited by over 80% of respondents in iron and steel (87.5%), non-ferrous metals (84.6%), and textiles (80.0%), while “labor costs” came in at over 70% in fields such as textiles (80.0%), fabricated metal products (73.9%), and transportation equipment parts (motor vehicles, motorcycles) (72.9%).

Management Challenges: Factors for Increased Costs (Multiple Answers)



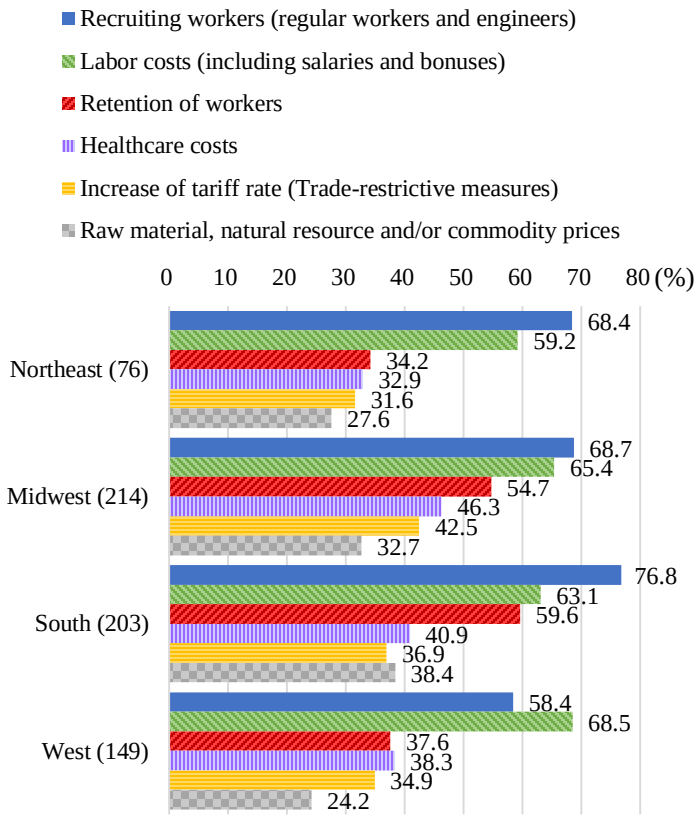
Recruiting workers, rising labor costs, and retention of workers pose challenges

- Recruiting is a challenge across the board, for all occupations. We hired six new people this year, but they all left for competitors offering better conditions. **[Fabricated metal products]**
- Our engineer costs in particular have gone up and we’re struggling to secure enough persons. **[Transportation equipment (motor vehicles, motorcycles)]**
- The manufacturing industry’s overall image has declined, and younger generations do not find our work appealing. **[Electrical machinery, electronic devices]**

Tariff hikes having various impacts

- The additional tariffs cover only about 5% of our stock, so the impact has been minimal. We are handling it for now by passing on the costs. **[Iron and steel]**
- We are dealing with the tariff hikes by passing on 100% of the costs. **[Rubber products]**
- It is hard to get OEMs to agree to the imputed costs. **[Rubber products]**

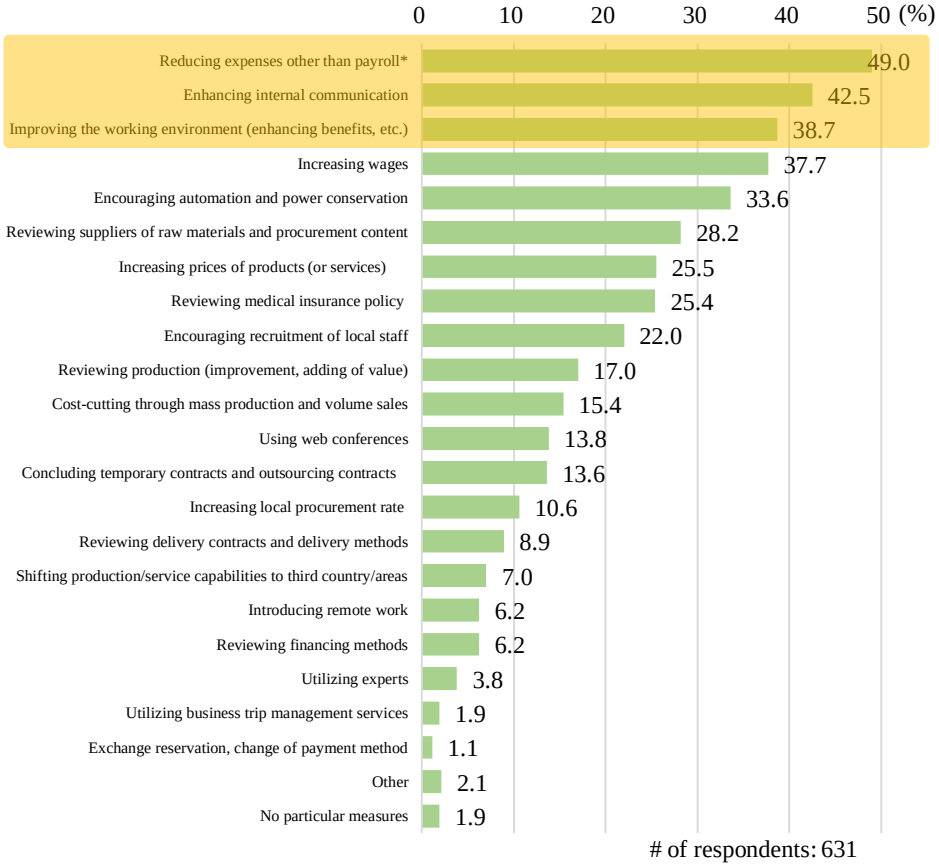
Management Challenges: Factors for Increased Costs (By Region, Multiple Answers)



4. Countermeasures Against Factors for Increased Costs: “Reducing Expenses other than Payroll” the Top Response

In terms of countermeasures, “reducing expenses other than payroll” (49.0%), “enhancing internal communication” (42.5%), “improving the working environment (enhancing benefits, etc.)” (38.7%) were the top answers most often given. When viewed by industry, “reducing expenses other than payroll” was the most frequent response in the fields of textiles (80.0%) and transportation equipment parts (motor vehicles, motorcycles) (59.8%), while “enhancing internal communication” was a top choice in textiles (70.0%) and transportation equipment (motor vehicles, motorcycles) (62.5%).

Countermeasures Against Factors for Increased Costs (Multiple Answers)



Note: For “Reducing expenses other than payroll,” the specific countermeasures cited most often included “pursuing automation and labor saving” and “reviewing our raw material procurement sources and the items being procured.”

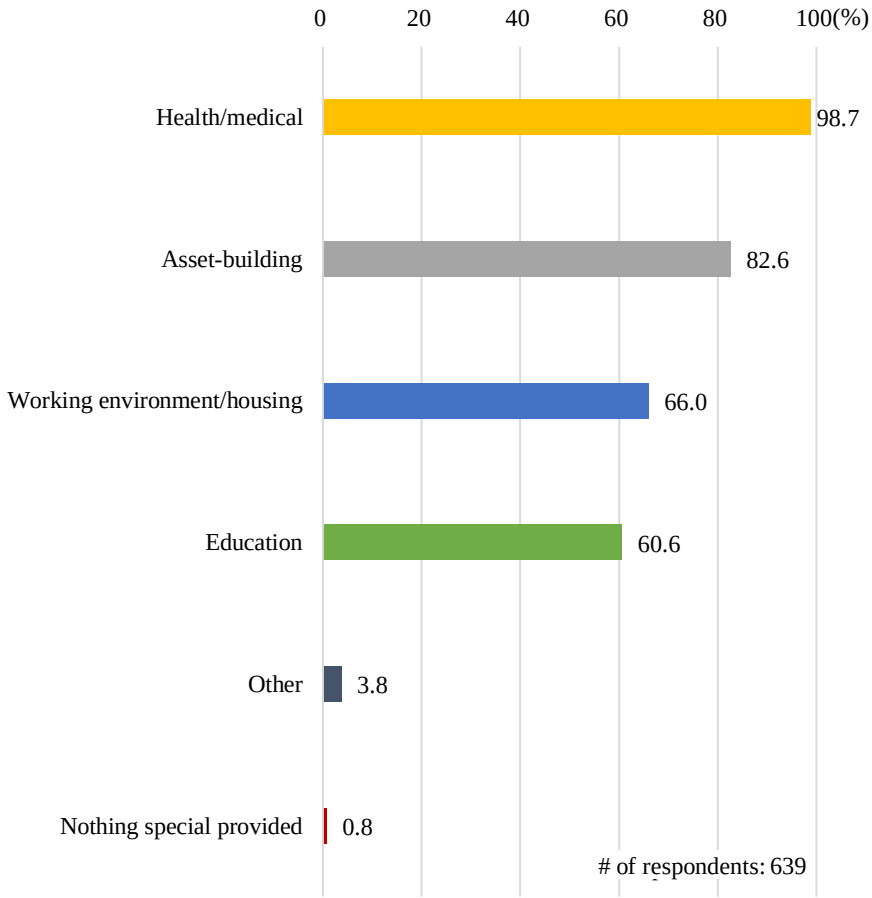
Specific Countermeasures

- To improve our workplace climate and unify/ingrain our corporate culture, management is making the rounds holding town meetings and has established a culture committee. **[Food/agricultural products]**
- We are leveraging AI/IoT to pursue automation/labor saving. **[Chemical and allied products/petroleum products]**
- Among other things, we are holding events to share our management philosophy and policy. **[Pharmaceuticals]**
- We make occasional revisions to our benefits plan to ensure it is well-balanced. We have also formulated succession plans for our U.S. executives, and have retained a specialized recruiting company as appropriate. **[Plastic products]**
- We have been hiring more local employees to cut our overall costs. Together with this, we are also encouraging our local staff to work from home and follow flextime schedules. **[Ceramic, stone, clay products]**
- We have gone with cheaper procurement sources, cut usage fees, done thorough maintenance to reduce mechanical failures and component wear, and improved load efficiency to slash transportation costs, among other measures. **[Iron and steel]**
- In lieu of limiting wage increases, we have reduced our health insurance contributions etc. **[General-purpose and production machinery]**
- We are using an outside consultant to apply for our tariff reimbursements, and are doing what we can to ensure we are promptly reimbursed. **[Business-oriented machinery]**
- To minimize the impact of the higher import tariffs due to the U.S.-China trade war, we are manufacturing more in-house and considering other suppliers. **[Electrical machinery, electronic devices]**
- We have created more communication sites for precisely conveying company policies and circumstances to our workers. **[Electrical machinery, electronic devices]**
- We have deployed robots, worked on labor saving for in-house distribution, and cut our electricity consumption. **[Transportation equipment (motor vehicles, motorcycles)]**
- To save manpower, we have streamlined our manufacturing process, added robots, and revised our processes for efficiency, as well as revised our health insurance contract conditions, reduced the company’s burden by having workers contribute more, and made personnel cuts. **[Transportation equipment parts (motor vehicles, motorcycles)]**
- We are working on improving our internal communication, by holding factory-wide meetings and sharing developments at the factory in a transparent way. **[Transportation equipment parts (motor vehicles, motorcycles)]**
- We are limiting product groups that carry high personnel costs, and are rapidly shifting to products that can be manufactured with automation. **[Transportation equipment parts (motor vehicles, motorcycles)]**
- We are reviewing our wage rates and company benefits, communicating to our employees how important insurance and their health are, and generally explaining the merits of the benefits our company provides. **[Transportation equipment parts (motor vehicles, motorcycles)]**

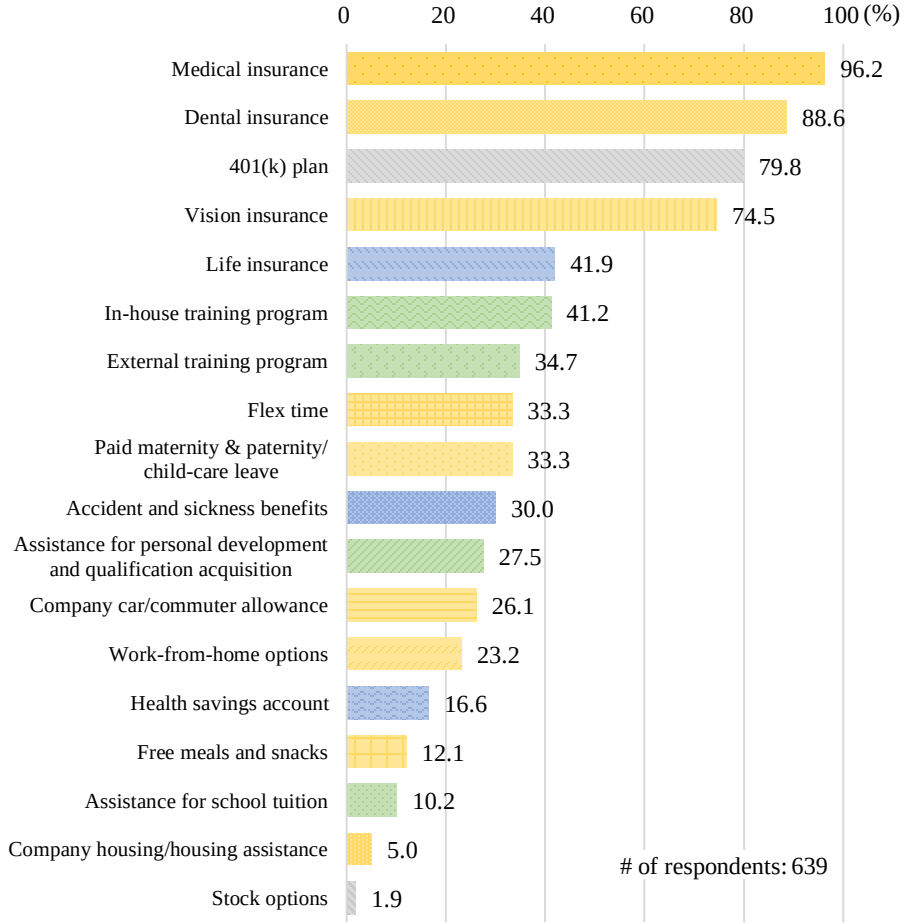
4. Company Benefits: “Health/Medical,” “Asset-building” the Top Responses

When respondents were asked about the benefits offered to local employees by field, “health/medical” was being provided by 98.7%, followed by “asset-building” (82.6%) and “working environment/housing” (66.0%). In terms of specific items, the top responses were “medical insurance” (96.2%), “dental insurance” (88.6%), “401 (k) plan” (79.8%), and “vision insurance” (74.5%).

Benefits Given to Local Employees (Multiple Answers)



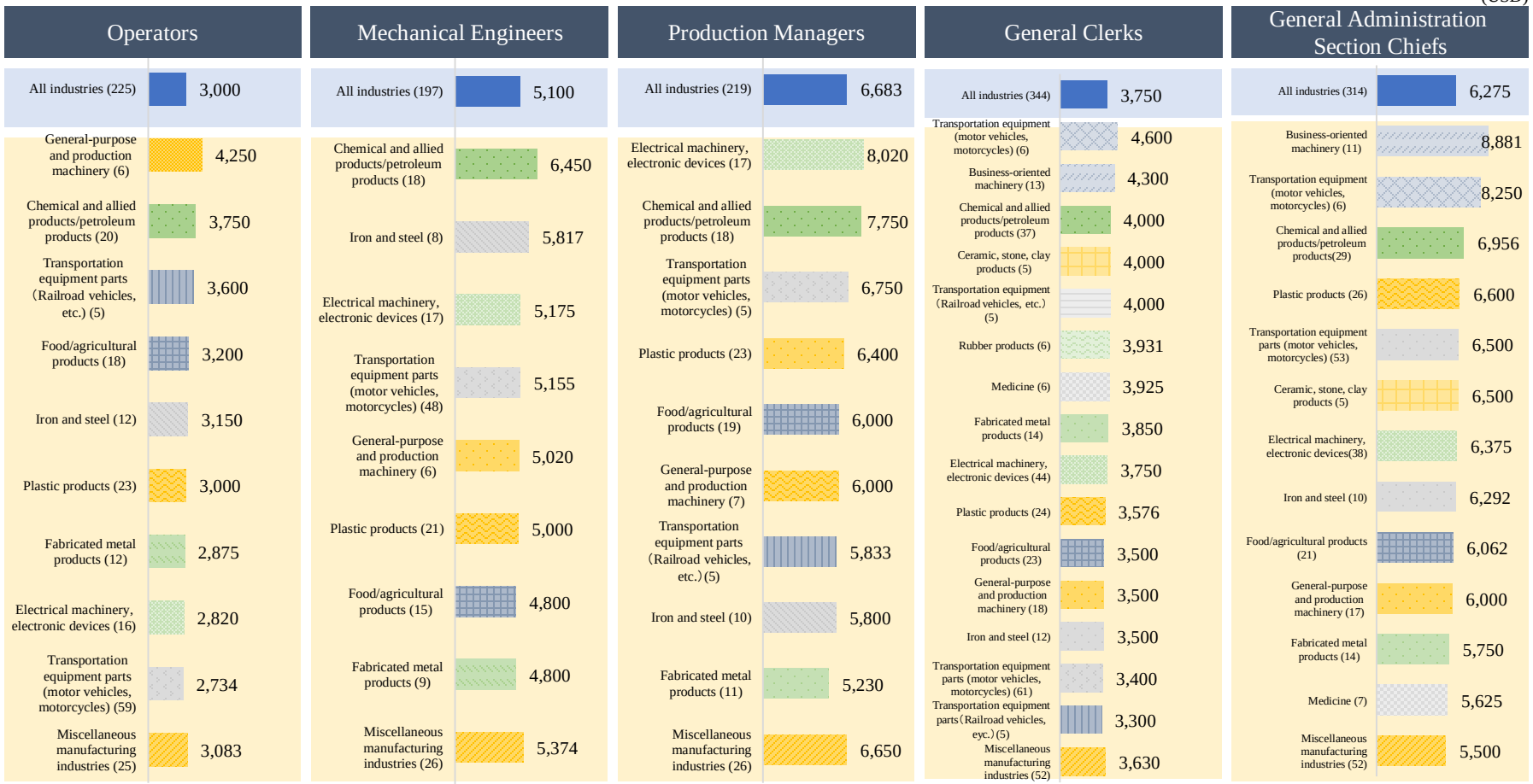
Benefits Given to Local Employees/Specific Items (Multiple Answers)



4. Wages (Monthly Base Salaries): Median Values Were $3,000 - $6,683

The median value for monthly base salaries at factories etc. according to occupation was $3,000 for operators, $5,100 for mechanical engineers, and $6,683 for production managers. The median value for monthly base salaries for office work etc. according to occupation was $3,750 for general clerks and $6,275 for general administration section chiefs.

(USD)

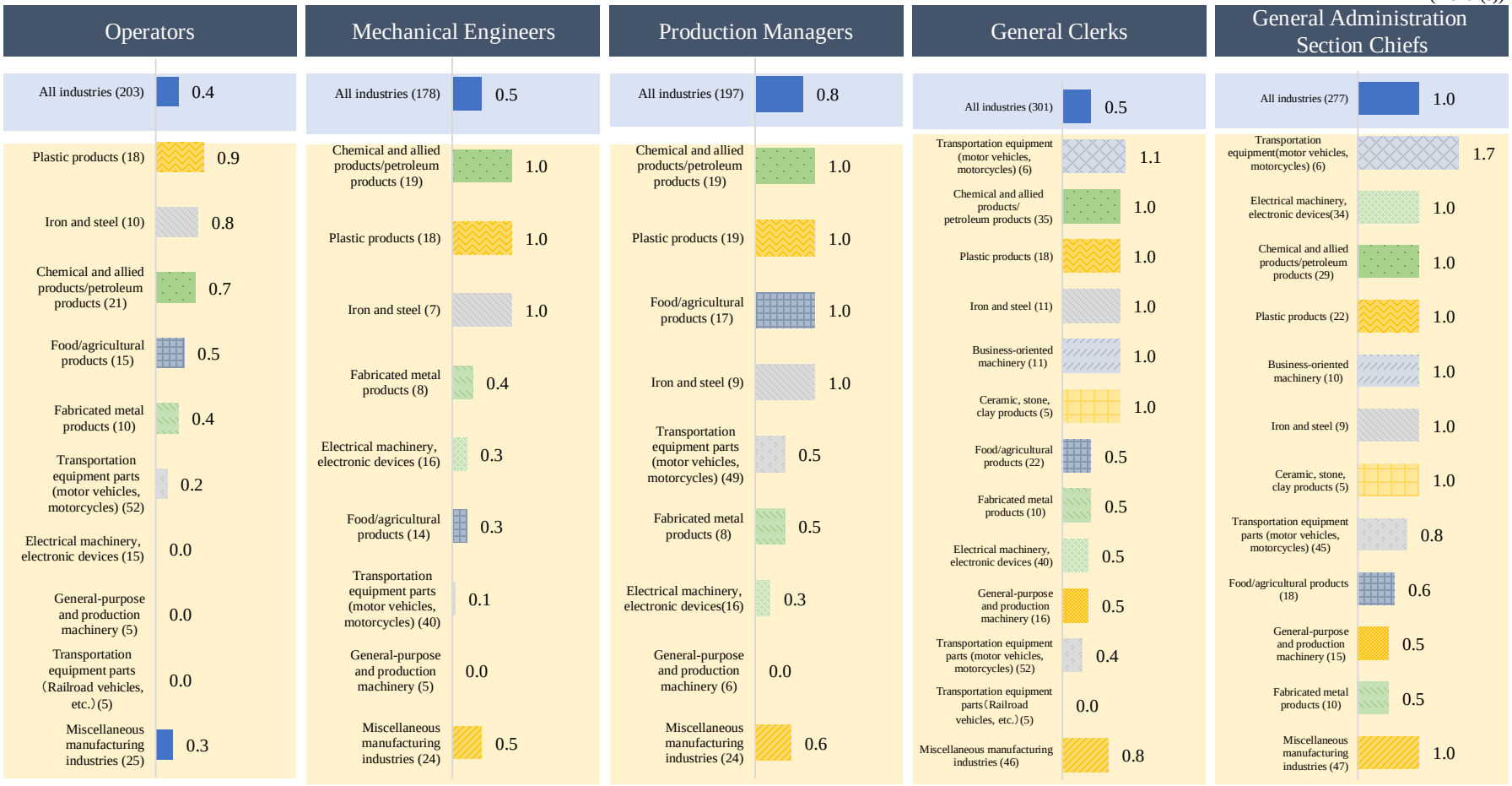


1. Companies whose business activities consist of “Manufacturing” (“Manufacturing” or “Manufacturing and sales”) were asked to respond according to the following occupation types: operators (job types engaged in machine operation in the manufacturing process), mechanical engineers (technical positions for designing, manufacturing and managing machines and equipment), production managers (section chiefs of production management departments), general clerks (general office workers), and general administration section chiefs (section chefs of general affairs departments). Companies engaged in “Sales” were asked to respond according to the occupation categories of general clerks and general administration section chiefs.
2. This chart lists only the occupation categories for which valid responses were received from at least five companies.

4. Wages (Annual Bonuses): Median Values Were 0.4 - 1.0 Month's Pay

The median value of annual bonuses at factories etc. according to occupation was 0.4 month's pay for operators, 0.5 month's pay for mechanical engineers, and 0.8 month's pay for production managers. Meanwhile, the median value of annual bonuses for office work etc. by occupation was 0.5 month's pay for general clerks and one month's pay for general administration section chiefs.

(month(s))



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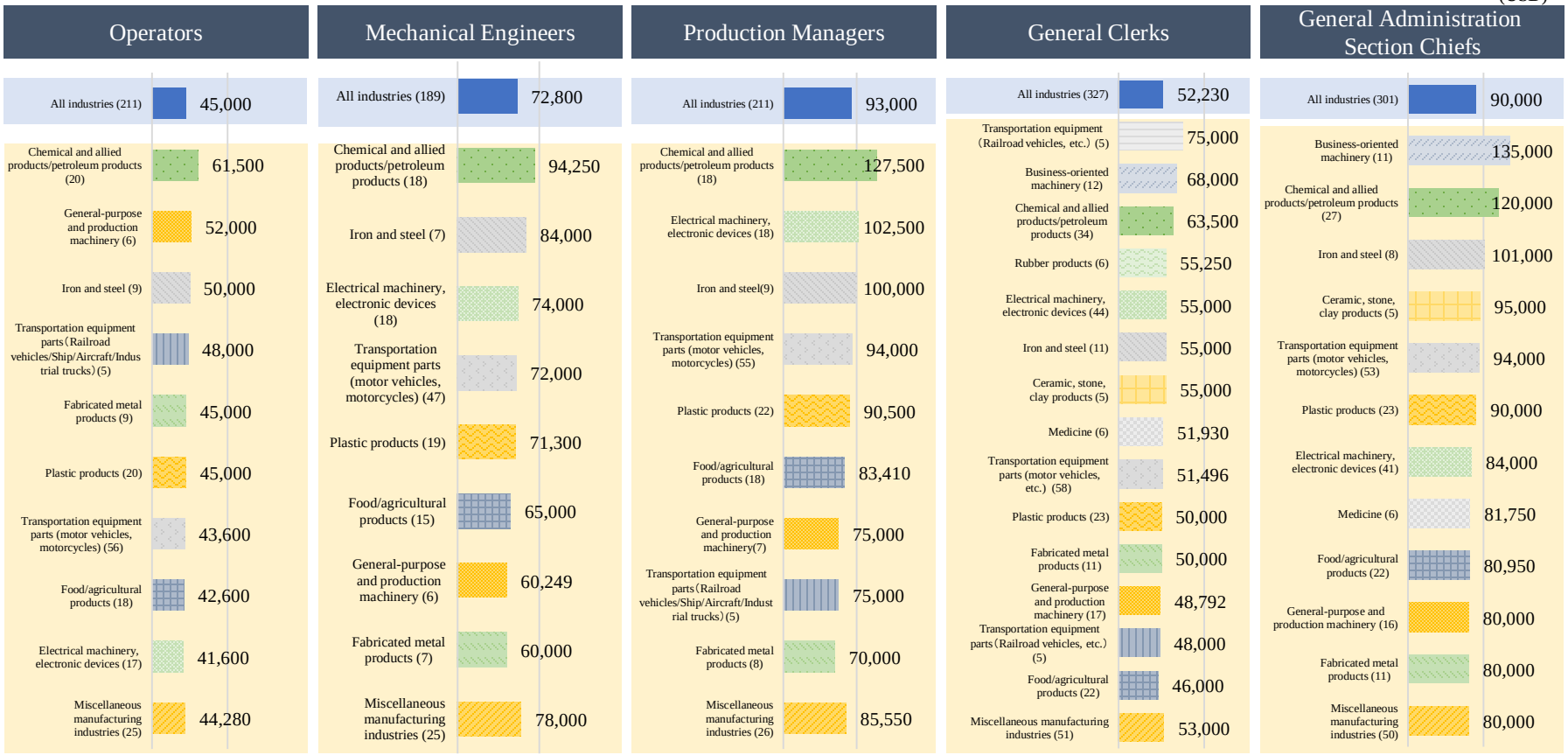
2. This chart lists only the occupation categories for which valid responses were received from at least five companies.

4. Wages (Annual Salaries): Median Values Were $45,000 - $93,000

The median value of the annual salaries at factories etc. according to occupation was $45,000 for operators, $72,800 for mechanical engineers, and $93,000 for production managers. The corresponding median value for office work etc. by occupation, meanwhile, was $52,230 for general clerks and $90,000 for general administration section chiefs.

(USD)



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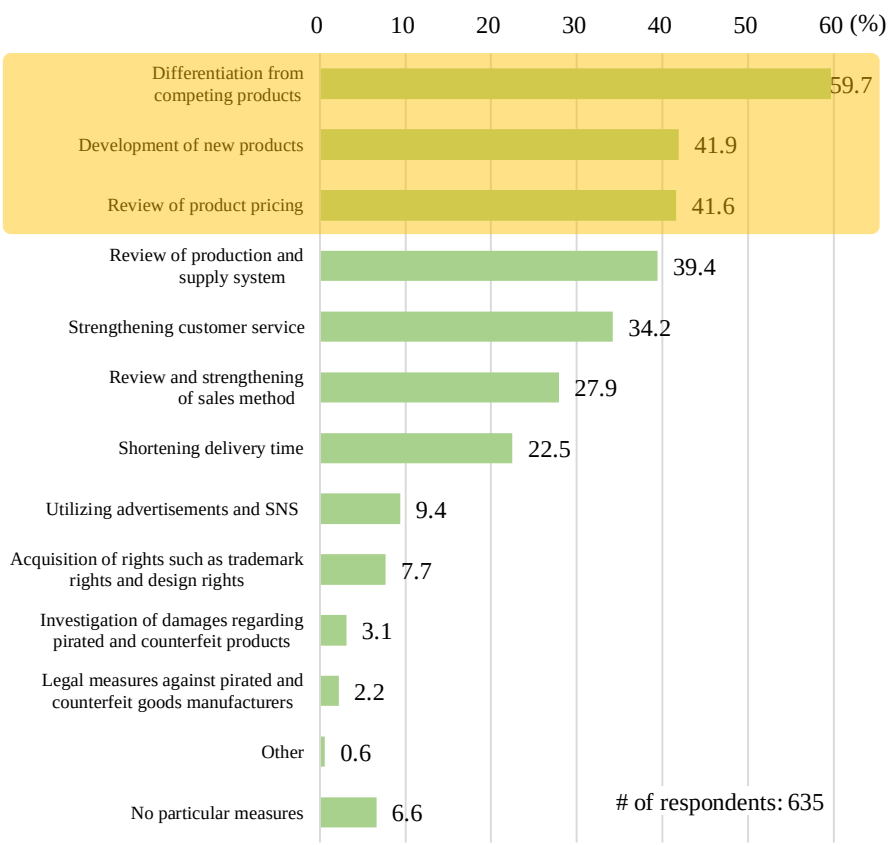
2. This chart lists only for which valid responses were received from at least five companies.

4. Countermeasures against External Risk Factors: “Differentiation from Competing Products” Accounted for Nearly 60% of Responses

In terms of countermeasures against external risk factors such as competing products and price wars with competitors, the top responses received were “differentiation from competing products” (59.7%), “development of new products” (41.9%), and “review of product pricing” (41.6%). When viewed by industry, the results showed that “differentiation from competing products” was cited by over 80% of respondents in the field of business-oriented machinery (83.3%), while “development of new products” reached a 70% response rate among companies in transportation equipment (motor vehicles, motorcycles) (70.6%).

Countermeasures against External Risk Factors (Multiple Answers)



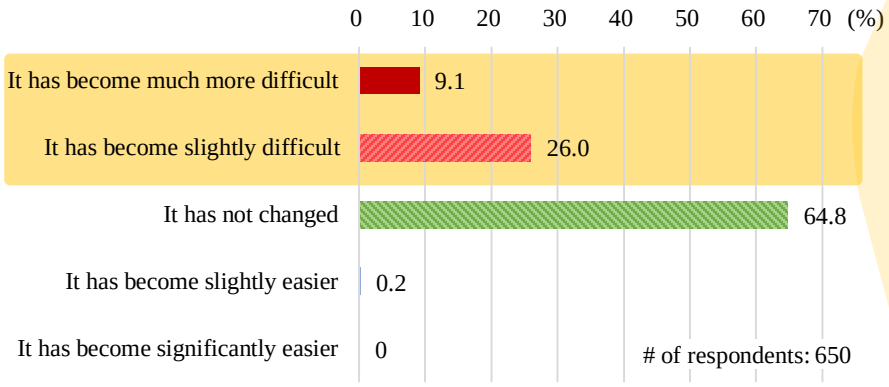
Specific Countermeasures

- We will be selling our own original interactive services. **[Food/agricultural products]**
- We are working to differentiate ourselves by manufacturing in U.S., thereby securing stable inventories and making it possible to supply customers with quick deliveries. **[Chemical and allied products/petroleum products]**
- We have extended our warranty periods beyond our competitors’ and what we used to have, and we have created new high-performance products. **[Plastic products]**
- We have built a production system enabling us to handle product sizes and low-volume/high-mix products that our competitors can’t handle. **[Iron and steel]**
- We are dealing with our normal competition by enhancing our proposal capabilities and after-sales service. As for knock-offs, we are differentiating our products in terms of their performance, enhancing our after-sales service, and taking measures against the companies concerned. **[Business-oriented machinery]**
- We are differentiating ourselves by adding more engineers to augment our customer support functions. **[Business-oriented machinery]**
- We are producing vehicles with greater safety performance than our competitors’ cars. **[Transportation equipment (motor vehicles, motorcycles)]**
- We are manufacturing distinctive products at low cost, and we have adopted a security measure system. **[Transportation equipment parts (motor vehicles, motorcycles)]**
- To deal with the U.S.-China trade war, we are now exporting Japanese-made goods instead of U.S.-made goods to China. **[Textiles]**
- We are dealing with our competition by enhancing the production system at our domestic parent company and improving our U.S. customer satisfaction. **[Rubber products]**
- We have made capital investments and increased our amount of in-house production, which has allowed us to avoid delivery delay risks and reduce inventory risks. **[Miscellaneous manufacturing industries]**
- We are building deeper ties with our customers, providing a greater sense of security and enhancing our after-sales service. **[Non-ferrous metals]**
- We cannot win the price competition with China in terms of new product prices, so we’re offering better after-sales service and maintenance etc., and we are focusing our proposals on customers who appreciate our superior lifetime costs. **[Transportation equipment (railroad cars, ships, aviation, transportation vehicles)]**
- We are using video sites in addition to conventional websites to raise awareness of our products. **[General-purpose and production machinery]**
- We are enhancing our digital marketing. **[Apparel/textiles]**
- We have established a technical division, which is looking every day into new manufacturing methods that will lead to cost improvements. **[Pharmaceuticals]**
- We are clearly communicating our target prices to our production factories, sharing the details of our cost prices, pointing out improvements to be made, and periodically implementing payroll (man-hour) reduction plans. **[Electrical machinery, electronic devices]**

4. Changes in Environment in Obtaining Visas: “L-1 Visa” and “E-2 Visa” Have Become Harder to Get

When asked about how the process of obtaining U.S. visas has changed from prior to 2016, the most cited response was “it has not changed” at 64.8%, but 26.0% of respondents reported that “it has become slightly more difficult,” while 9.1% said “it has become much more difficult.” As for the types of visas that have become more difficult to get, the top response was the “L-1 Visa (Intra-company Transferee)” at 41.4%, followed by the “E-2 Visa (Treaty Investor)” at 35.0%. In terms of corporate countermeasures, “consulting with local immigration lawyers” was the top response at 43.7%, followed by “review of staffing system” at 37.6%.

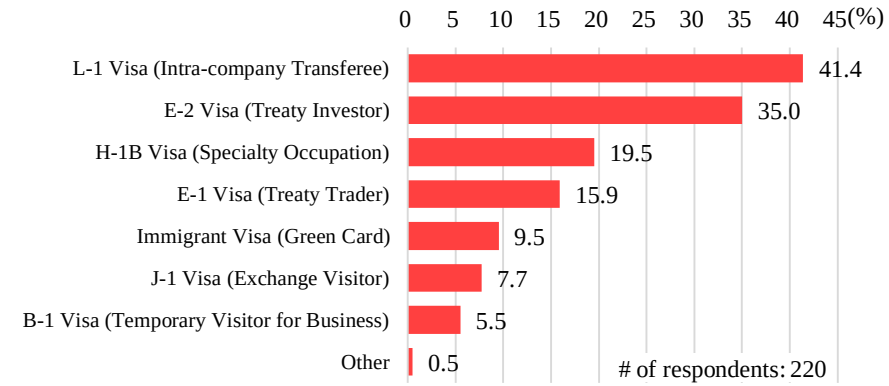
Environment in Obtaining Visas



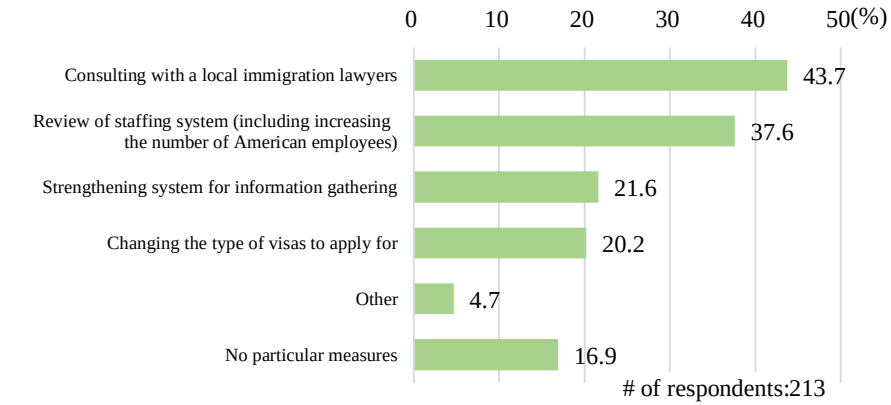
Impact of Stricter Visa Screenings

- Higher costs for obtaining visas (including time), business delays due to later starts at new posts. **[Food/agricultural products]**
- It is getting harder to secure personnel who have varied skillsets. **[Chemical and allied products/petroleum products]**
- We cannot hire the number of personnel we need, and this is affecting our product development. We do not have enough people who can communicate with our Japan HQ, and our per-person workload is growing. **[Transportation equipment parts (motor vehicles, motorcycles)]**
- Stricter visa screening across the board is impeding our domestic U.S. business growth and contributions. **[Electrical machinery, electronic devices]**
- The E-2 visas we are planning to obtain are now going to be valid for only two years. Such a limited validity period will make our organizational plans harder to establish, and it will force us to secure new personnel in two years. **[Electrical machinery, electronic devices]**
- Supervisors and engineers are being delayed in entering the U.S., which is causing project delays. **[Electrical machinery, electronic devices]**

Types of Visas That Have Become Harder to Obtain (Multiple Answers)



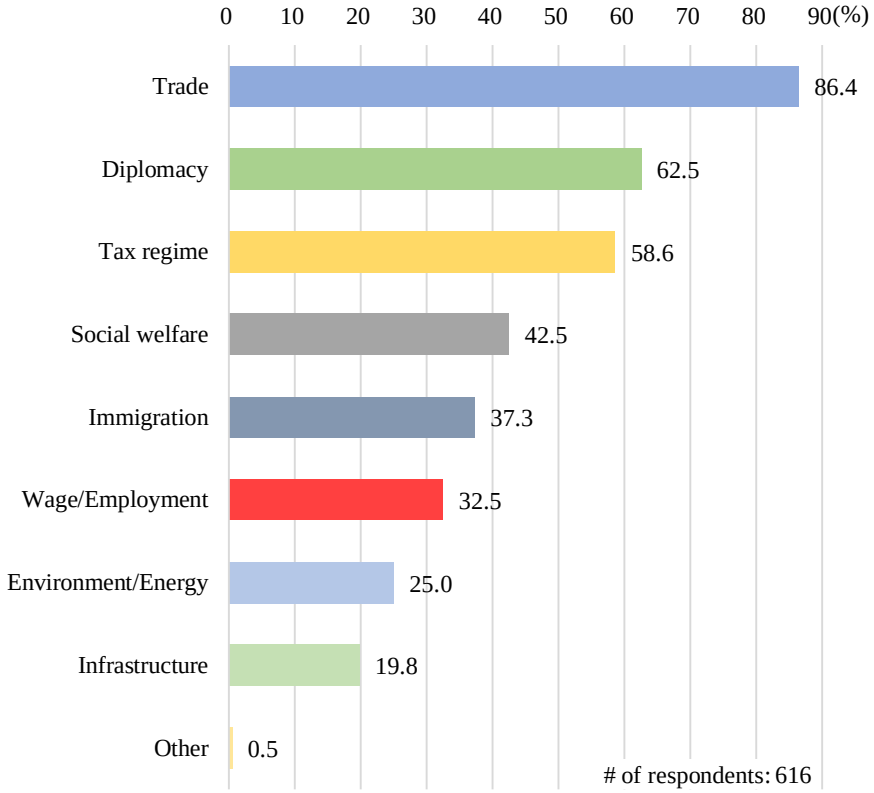
Countermeasures When Visas are Difficult to Obtain (Multiple Answers)



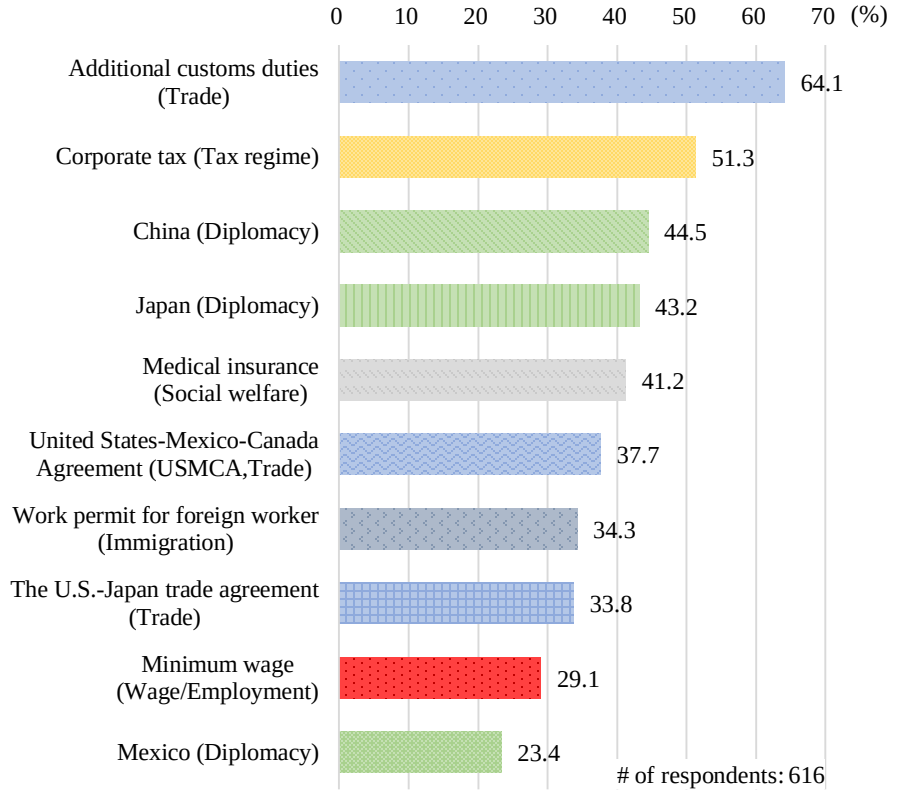
5. Trump Administration Policy Areas of Management Significance: "Trade" Cited by 86% of Respondents

With regard to Trump administration policy areas of management significance, "trade" was most cited by respondents (86.4%), followed by "diplomacy" (62.5%) and "tax regime" (58.6%). Although the percentage for "trade" was 5.1 points higher than in last year's survey (81.3%), that for "tax regime" was down 8.2 points (66.8% last time). In terms of specific policy items, "additional customs duties (trade)" was the most cited at 64.1%, followed by "corporate tax (tax regime)" (51.3%), "China (diplomacy)" (44.5%), "Japan (diplomacy)" (43.2%), "medical insurance (social welfare)" (41.2%), and "United States-Mexico-Canada Agreement (USMCA, trade)" (37.7%).

Trump Administration Policy Areas of Management Significance
(Multiple Answers)



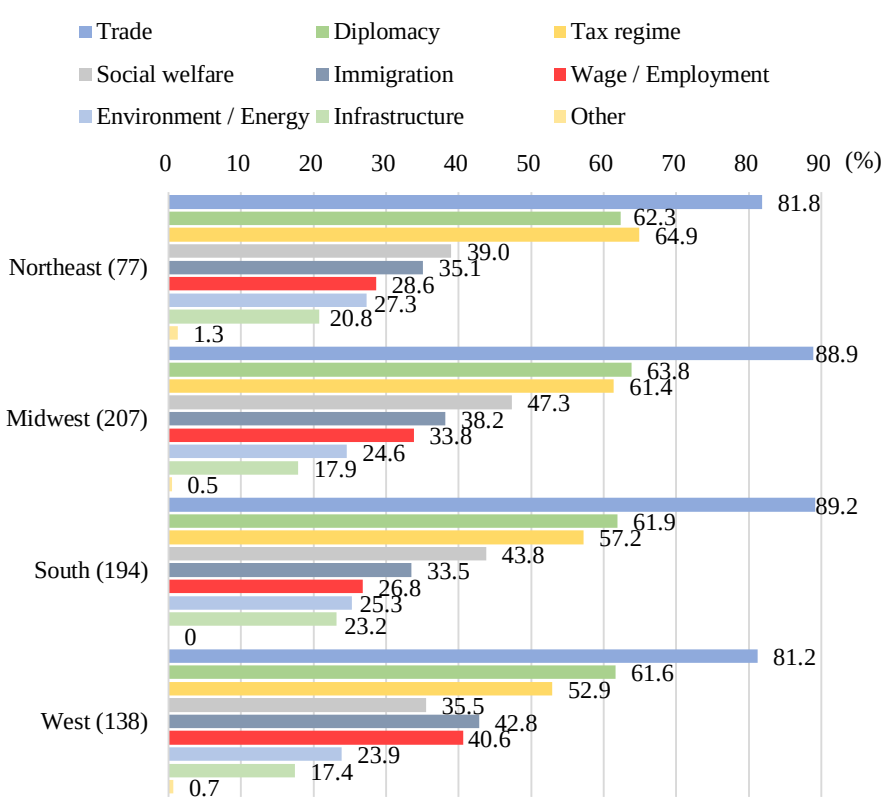
Trump Administration Policy of Management Significance
(Specific Items, Multiple Answers)



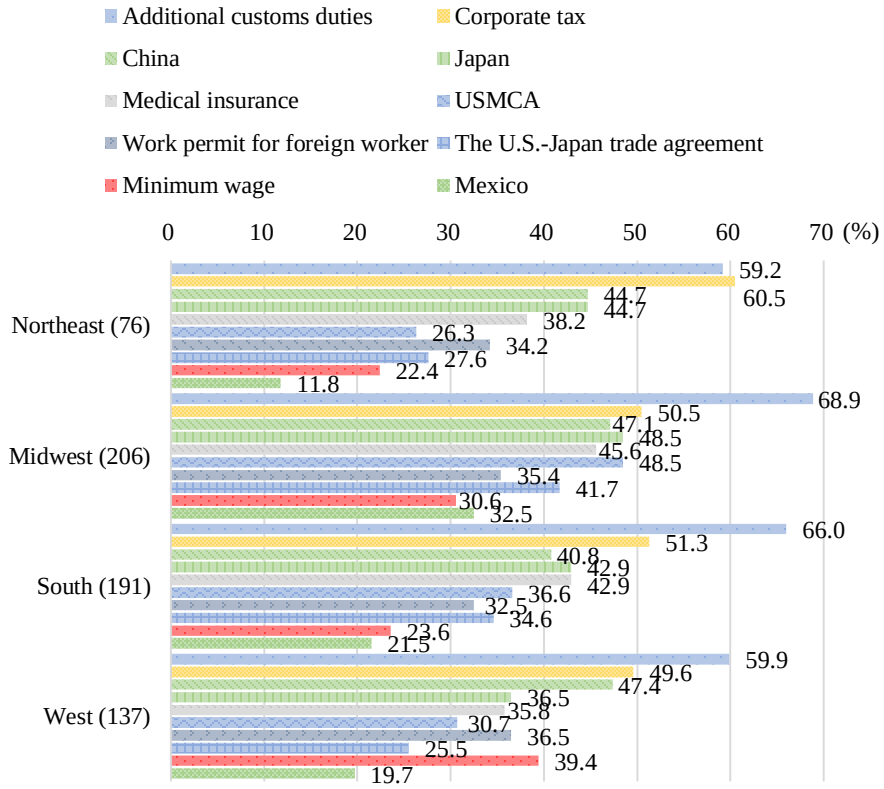
5. Trump Administration Policy Areas of Management Significance (By Region): “Trade” Cited by Nearly 90% of Respondents in South, Midwest

When viewed by region, the survey showed that “trade” was cited by respondents in all regions as the most significant policy from a management perspective, specifically by 89.2% of respondents in the South, 88.9% in the Midwest, 81.8% in the Northeast, and 81.2% in the West. Regarding particular policy items, “additional customs duties” was most cited in the Midwest (68.9%), the South (66.0%), and the West (59.9%), whereas in the Northeast it was “corporate tax” (60.5%). In addition, Midwest respondents cited “Japan” (48.5%), “USMCA” (48.5%), and “medical insurance” (45.6%) in greater proportions compared to the other region, while those in the West said “China” (47.4%) and “minimum wage” (39.4%) at higher percentages than those elsewhere.

Trump Administration Policy Areas of Management Significance (By Region, Multiple Answers)



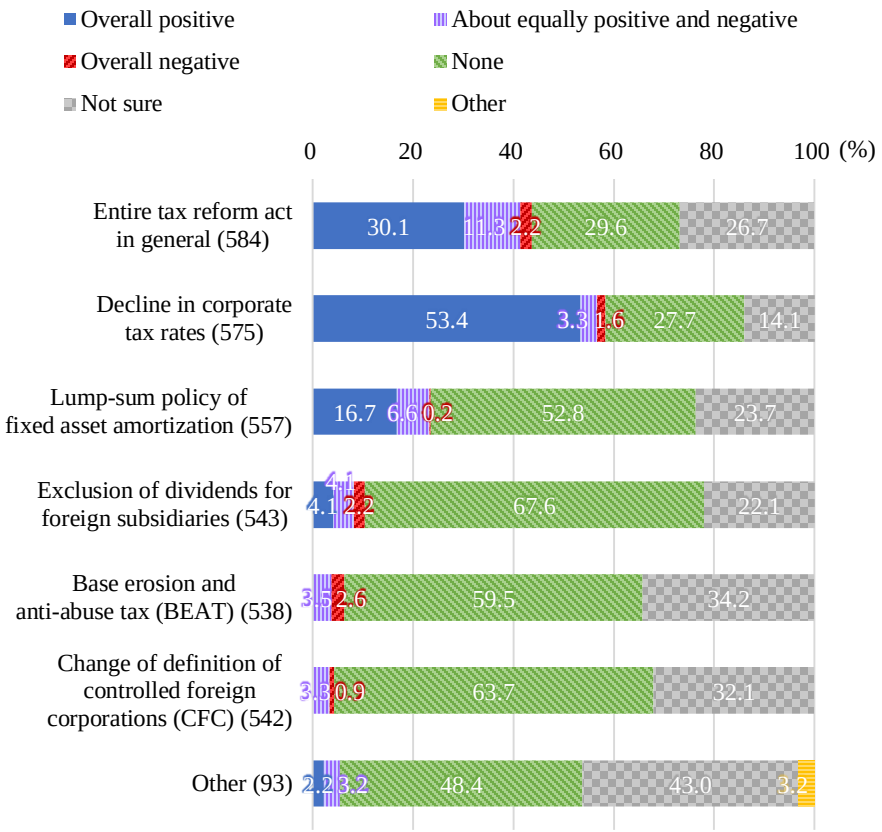
Trump Administration Policy Areas of Management Significance (Specific Items, By Region, Multiple Answers)



5. Effects of "Tax Cuts and Jobs Act": "Positive Impact" Cited by Slightly over 30%, Much Lower than in Previous Survey

With regard to the entire Tax Cuts and Jobs Act in general, 30.1% of respondents said it has had an "overall positive" impact, which was 10.8 points lower than in the previous survey. In terms of individual tax reform measures, the greatest positive impact was said to be "decline in corporate tax rates" by 53.4% of respondents (vs. 60.8% last time), followed by "lump-sum policy of fixed asset amortization" by 16.7% of respondents (vs. 23.9% last time). When viewed by industry, 80.0% of companies in transportation equipment (motor vehicles, motorcycles) said "decline in corporate tax rates," while 40.0% cited "lump-sum policy of fixed asset amortization" as having been an "overall positive."

Impact of Tax Cuts and Jobs Act (Multiple Answers)



Details of the Impact

＜Overall Tax Cuts and Jobs Act＞

- Increased net profits from the federal corporate tax rate reduction. **[Electrical machinery, electronic devices, Iron and steel, etc.]**
- We saw some effects on our profits after the tax cut, but no effects on our operating income. **[Plastic products, Miscellaneous manufacturing industries]**

＜Federal Corporate Tax Rate Reduction＞

- Higher net profits. **[Chemical and allied products/petroleum products, Electrical machinery, electronic devices, etc.]**
- We put our tax savings back into capital investments. **[Electrical machinery, electronic devices, Fabricated metal products]**
- Our corporate taxes are lower, but companies with subsidiaries overseas are now subject to other punitive taxation. **[Chemical and allied products/petroleum products]**

＜Optional Lump-sum Policy of Fixed Asset Amortization＞

- Improved cash flow. **[Iron and steel]**
- We chose lump-sum amortization based on our strong performance results, and we now expect a future improvement in our management indicators. **[Electrical machinery, electronic devices]**

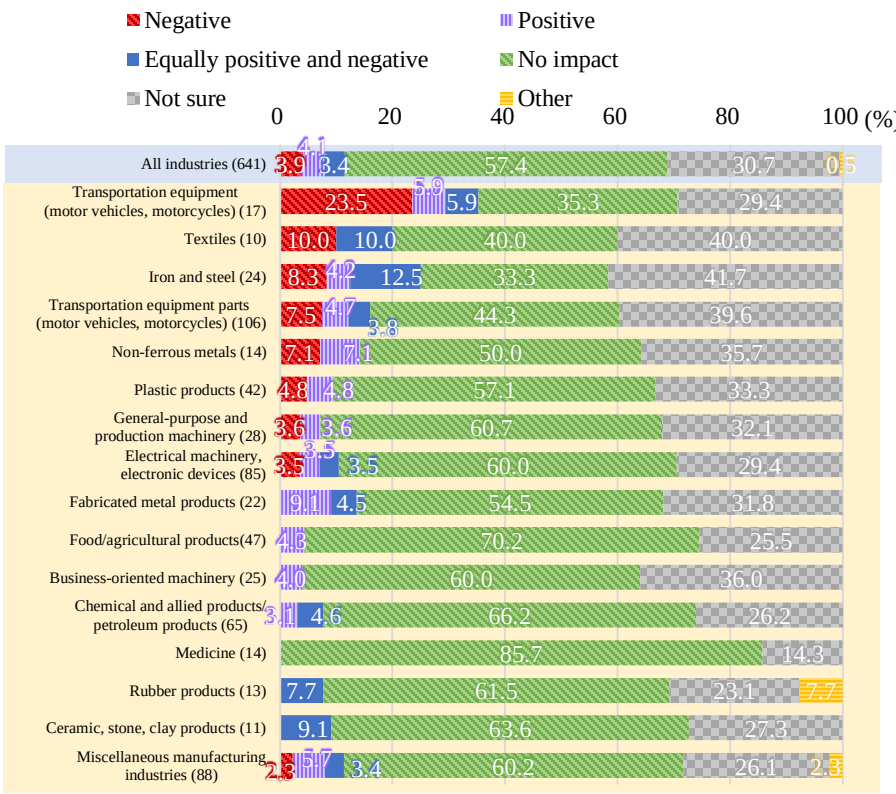
Utilization of Higher Net Profits Gained from the Tax Cuts

- Capital investment, investment in personnel, increased internal reserves, putting gains back into companies in Japan. **[Food/agricultural products]**
- Capital investment in the form of warehouse automation and cargo handling equipment purchases, etc. The portions sent back to Japan are being reinvested abroad. We also have increased internal reserves. **[Electrical machinery, electronic devices]**
- We have paid bonuses to our local staff. **[Chemical and allied products/petroleum products]**
- Debt repayments. **[Electrical machinery, electronic devices]**
- Used for internal reserves. We are considering adding more sales staff in the future. **[Miscellaneous manufacturing industries]**
- Increased profits from the tax cuts were used to offset the negative effects of the additional duties.**[Transportation equipment parts (motor vehicles, motorcycles)]**

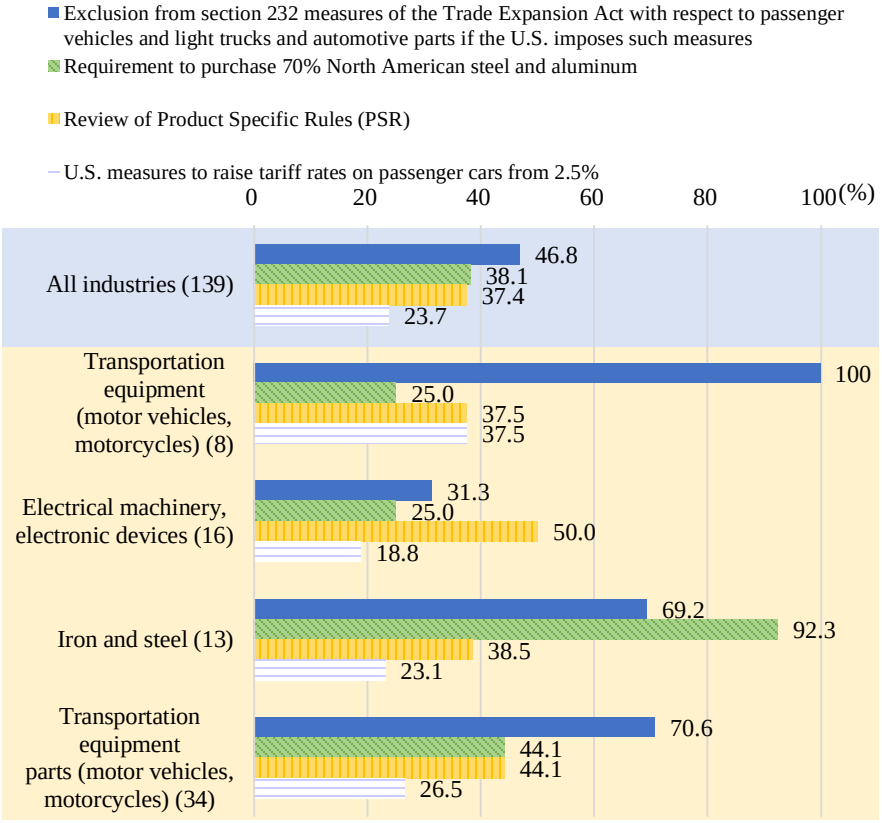
5. Effects of USMCA: Negative Effects a Concern in Transportation Equipment (Motor Vehicles, Motorcycles)

Regarding the impact of the United States-Mexico-Canada Agreement (USMCA), 57.4% of respondents said it has had "no impact," 6.0 points higher than in the last survey, while 30.7% said they were "not sure," down 4.3 points. The percentage of companies who reported a "negative impact" was 2.4 points lower than last time, at a mere 3.9%, but 23.5% of respondents in transportation equipment (motor vehicles, motorcycles) gave this answer, more than those in other industries. In terms of items having an impact on company management, "exclusion from Section 232 measures of the Trade Expansion Act with respect to passenger vehicles and light trucks and automotive parts if the U.S. imposes such measures" was cited by 46.8% of respondents, while "requirement to purchase 70% North American steel and aluminum" followed at 38.1%.

Degree of Impact from the Enactment of USMCA (By Industry)



Items Having an Impact on Company Management (By Industry)

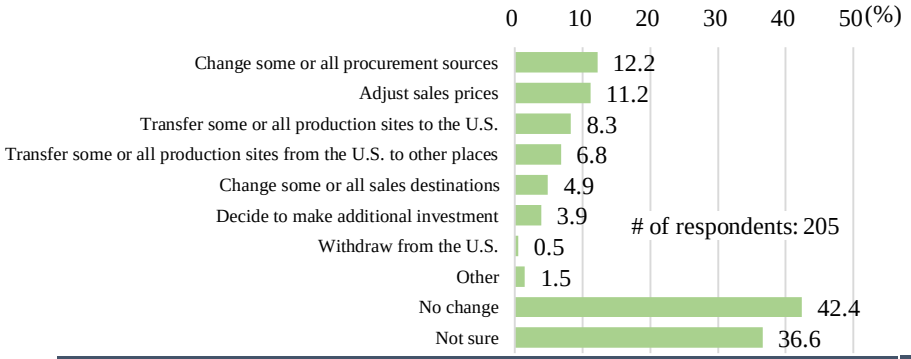


Note: This chart lists only industries for which valid responses were received from at least 10 companies.

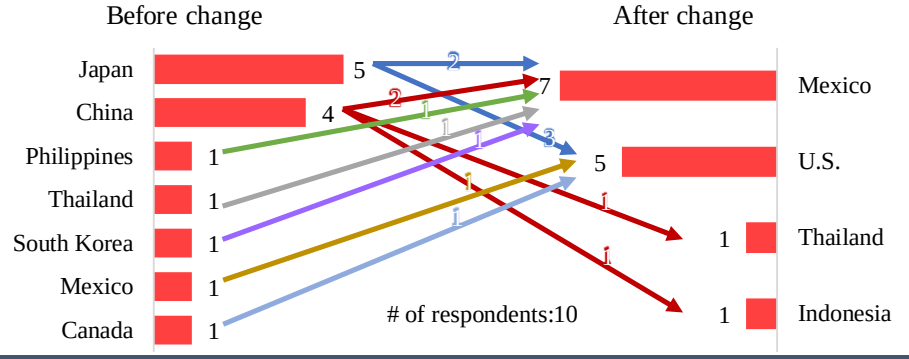
5. Countermeasures Regarding USMCA: More Companies Overall Are Changing Procurement Sources, Transferring Production Sites

42.4% of respondents reported “no change” in their measures for dealing with USMCA, 14.0 points lower than in the last survey, while 36.6% said they were “not sure,” reflecting an 8.2-point rise from last time, and these two responses accounted for the majority of answers. In terms of specific measures for handling USMCA, the most cited response was “change some or all procurement sources” at 12.2%, followed by “adjust sales prices” at 11.2% and “transfer some or all production sites to the U.S.” at 8.3%. The overall proportion of those who had changed procurement sources and transferred production sites was significantly higher than in the previous survey. The survey showed that amid the growing trend of local production and local consumption in the North American regional market, many companies say they will be switching procurement sources away from other countries to the U.S. or Mexico.

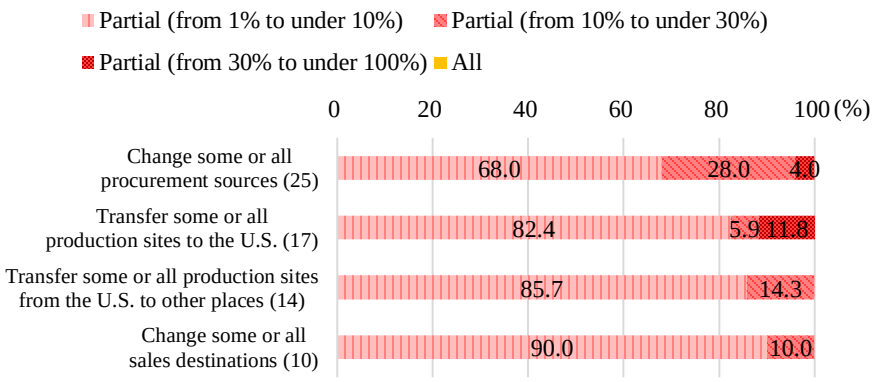
Countermeasures Regarding USMCA (Multiple Answers)



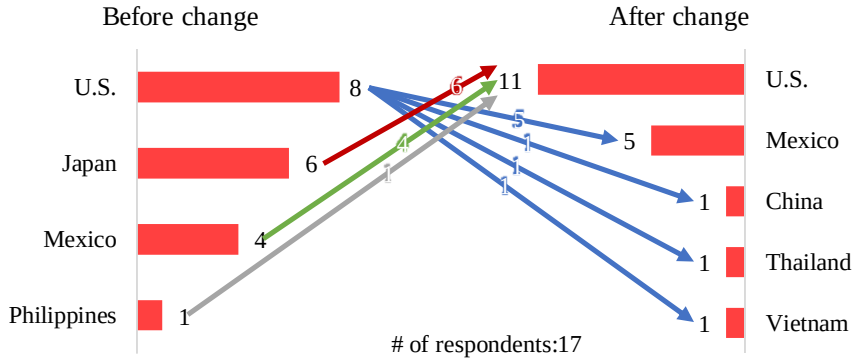
Changes in Procurement Sources Due to USMCA (Cumulative Total Number, Multiple Answers)



Scale of Supply Chain Changes



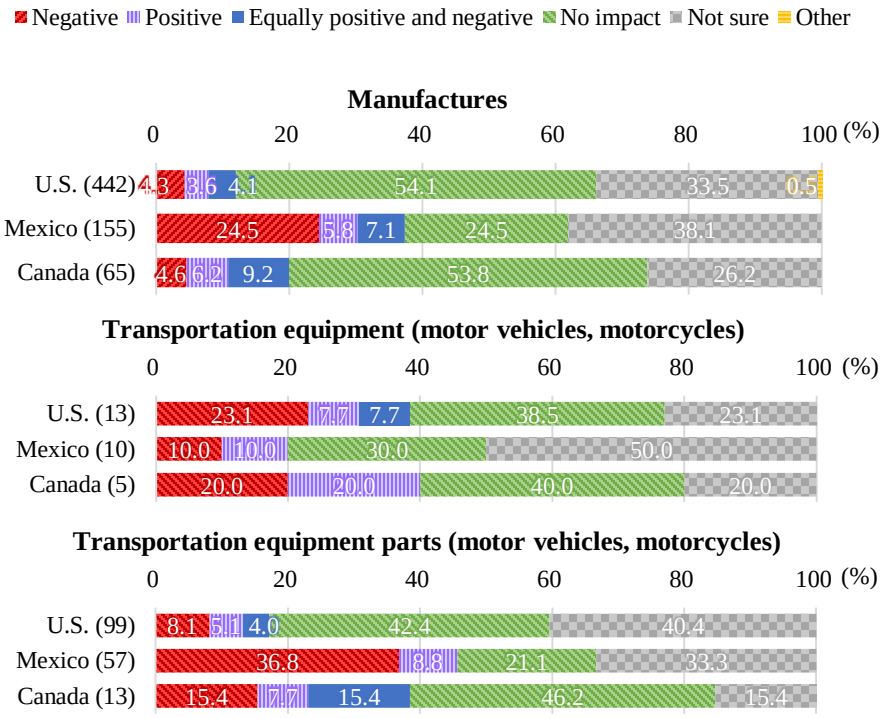
Changes in Production Sites Due to USMCA (Cumulative Total Number, Multiple Answers)



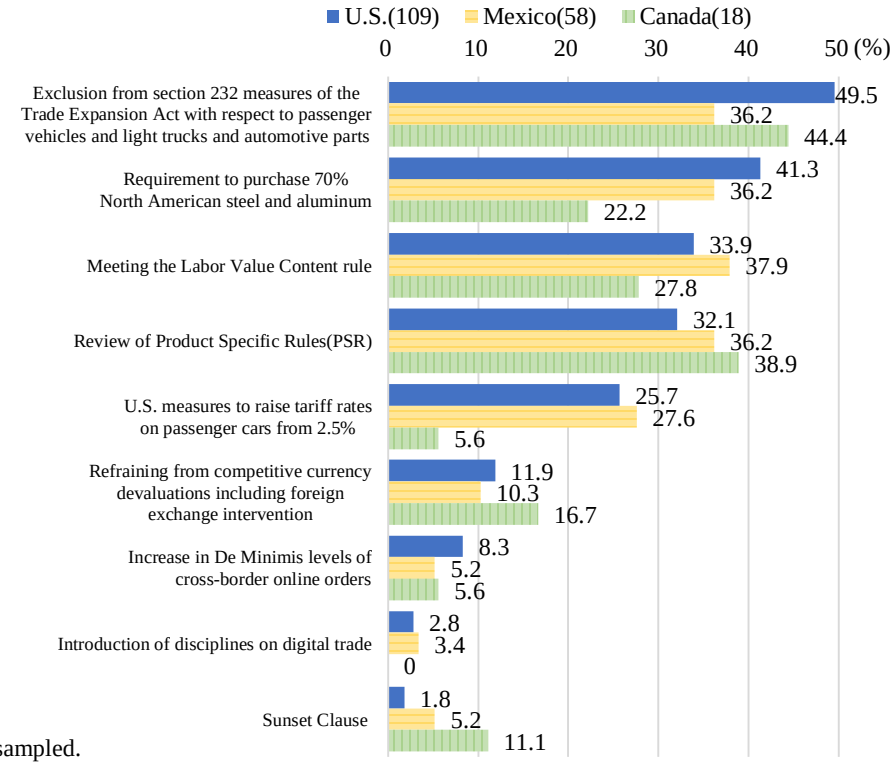
5. Effects of USMCA in the Three Countries: “Negative Impact” Most Reported in Mexico by 25% of Respondents

With regard to the effects of USMCA, a comparison of the survey results with those for separately conducted surveys of Mexico and Canada revealed that respondents engaged in manufacturing in Mexico cited a “negative impact” at the highest rate proportionally (24.5%), whereas the only 4.6% of respondents in Canada and 4.3% of respondents in U.S. reported the same. In the field of transportation equipment (motor vehicles, motorcycles), more respondents in U.S. and Canada cited negative impacts (23.1%, 20.0%), while in transportation equipment parts (motor vehicles, motorcycles), more respondents in Mexico said they had experienced a negative impact (36.8%). In terms of items having an impact on company management in the manufacturing industry, “exclusion from Section 232 measures of the Trade Expansion Act with respect to passenger vehicles and light trucks and automotive parts if the U.S. imposes such measures” was the top response in U.S. (49.5%) and in Canada (44.4%), whereas in Mexico it was “meeting the labor value content rule” (37.9%).

Degree of Impact from the Enactment of USMCA
(U.S., Mexico, Canada)



Items Having an Impact on Company Management
(U.S., Mexico, Canada; Multiple Answers)

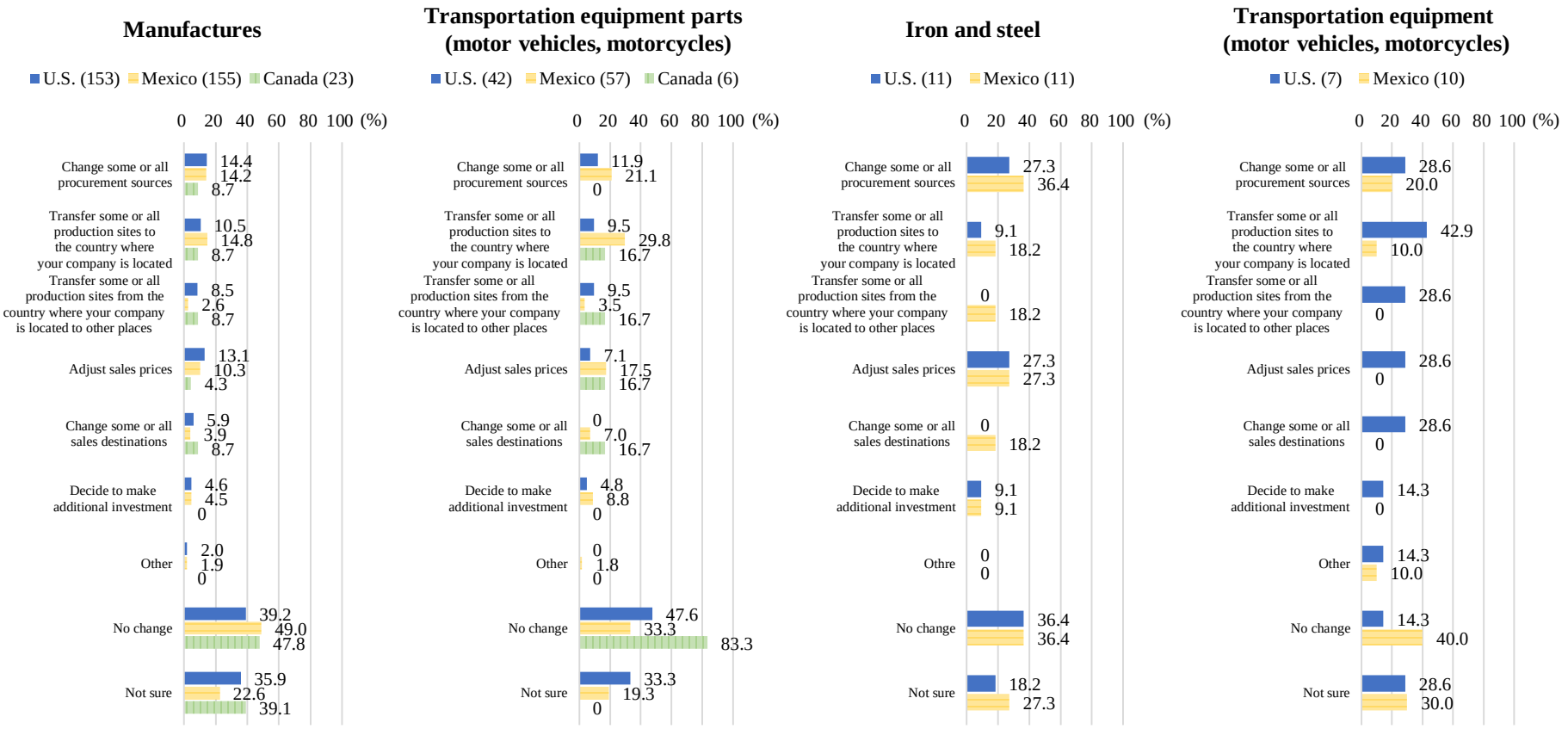


Note: From the manufacturing industry in U.S., companies engaged in “Manufacturing” were sampled.

5. Countermeasures Regarding USMCA in the Three Countries: Changes in Procurement Sources the Highest in U.S. and Mexico

Regarding countermeasures following the USMCA, in a comparison with the survey results for Mexico and Canada, “no change” accounted for approximately 40-50% of the respondents’ answers (Mexico 49.0%, Canada 47.8%, U.S. 39.2%). However, “change some or all procurement sources” was a more common response in U.S. (14.4%) and in Mexico (14.2%), and “transfer some or all production sites here from other locations” was a more common response in Mexico (14.8%) than elsewhere. When viewed by industry, the results showed that changing procurement sources was proportionally high in Mexico in the field of iron and steel at 36.4%, while transferring production sites to the local country from other locations was a more common response in U.S. in transportation equipment (motor vehicles, motorcycles) at 42.9%, whereas 29.8% of respondents in Mexico engaged in transportation equipment parts (motor vehicles, motorcycles) cited this change.

Countermeasures Regarding USMCA (U.S., Mexico, Canada; Multiple Answers)



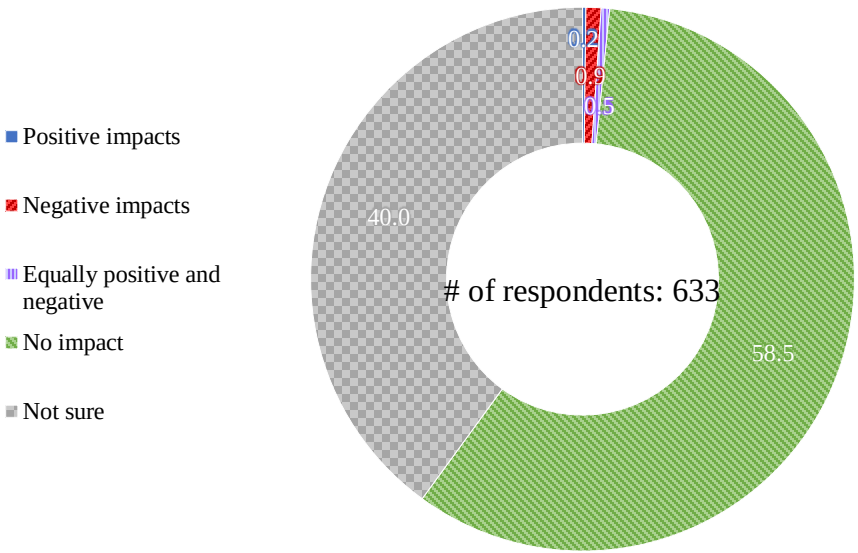
Note: From manufacturing and various industries in U.S., companies engaged in “Manufacturing” were sampled.

5. Impact of Regulations on Foreign Investment in U.S./Export Control: Majority of Respondents Cited “No Impact” or “Not Sure”

Regarding the Foreign Investment Risk Review Modernization Act (FIRRMA) enacted in August 2018, 58.5% of respondents (370 companies) reported “no impact,” followed by 40.0% (253 companies) who said they were “not sure.” In addition, 51.7% of respondents (327 companies) said they were “not sure” about the impact from the Export Control Reform Act of 2018 (ECRA), while another 29.5% (187 companies) said “we take no particular measures regarding export controls,” and 17.9% (113 companies) said “we expect no change in our measures regarding export controls.”

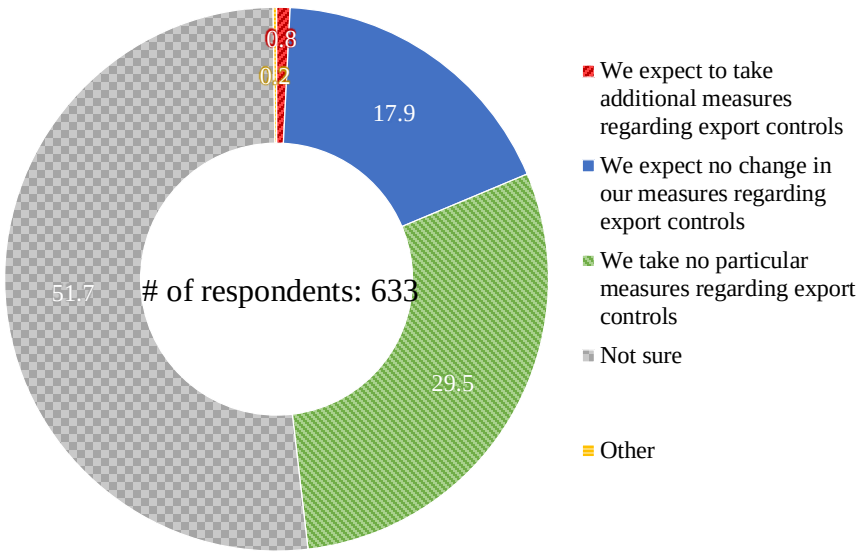
Impact from Full Enforcement of FIRRMA

(%)



Expected Response to Additional Export Controls Resulting from Enforcement of ECRA

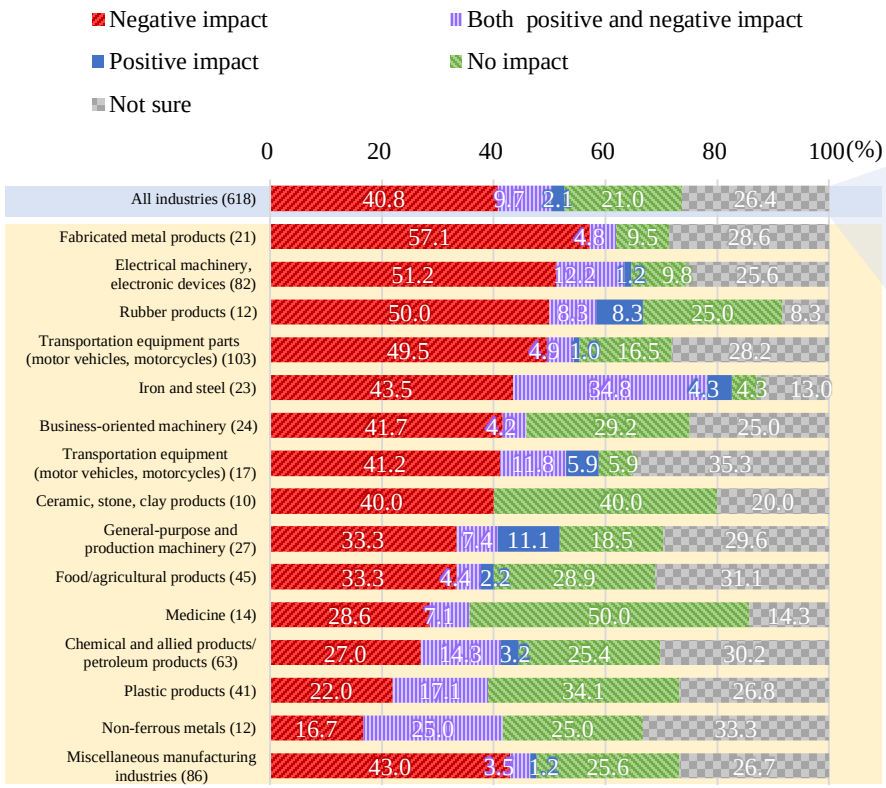
(%)



6. Effects of Changes in the Trade Environment: 40% of Respondents Cited Negative Impact

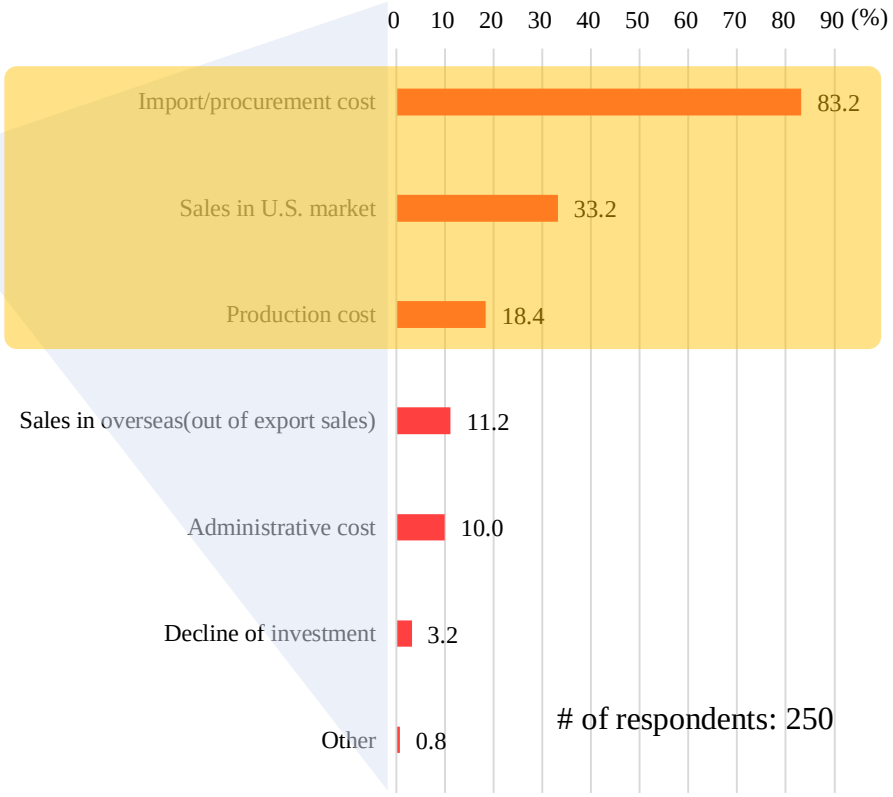
Concerning the impact at present from changes in the trade environment, the highest response was “negative impact” as given by 40.8% of respondents (252 companies), with “not sure” accounting for 26.4% of responses (163 companies), followed by “no impact” as reported by 21.0% respondents (130 companies). When viewed by major industry type, over 50% of respondents cited a “negative impact” in fabricated metal products (57.1%), electrical machinery, electronic devices (51.2%), and rubber products (50.0%). The main areas where this negative impact is being felt included “import/procurement cost” as cited by 83.2% of respondents (208 companies), “sales in U.S. market” as cited by 33.2% of respondents (83 companies), and “production cost” as cited by 18.4% of respondents (46 companies). The proportion of companies that cited “import/procurement cost” was the highest in fields including business-oriented machinery (100%), fabricated metal products (91.7%), and iron and steel (90.0%).

Current Impact Due to Changes in Trade Environment



Note: Only industries for which at least 10 companies gave valid responses are listed.

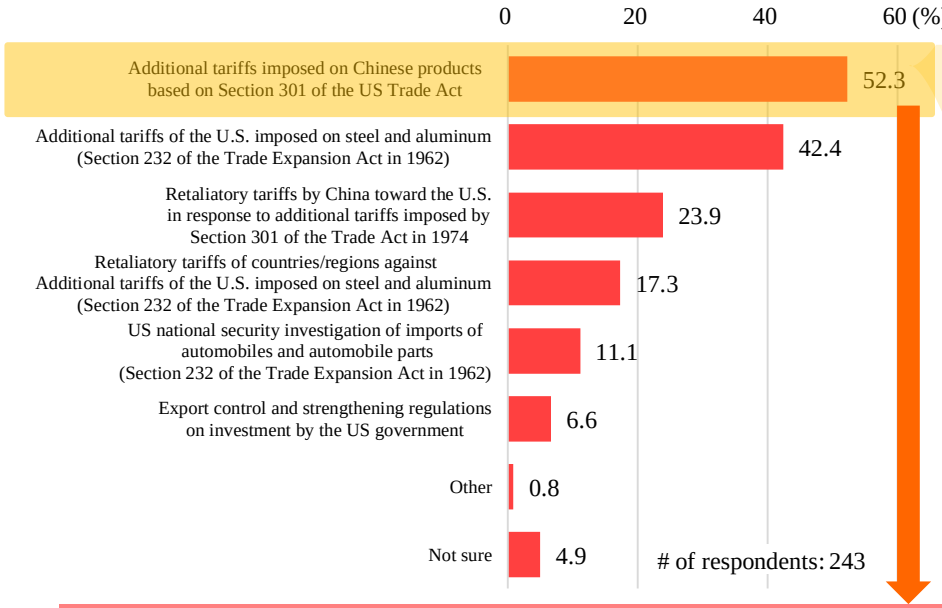
Areas to be Negatively Affected by Changes in the Trade Environment (Multiple Answers)



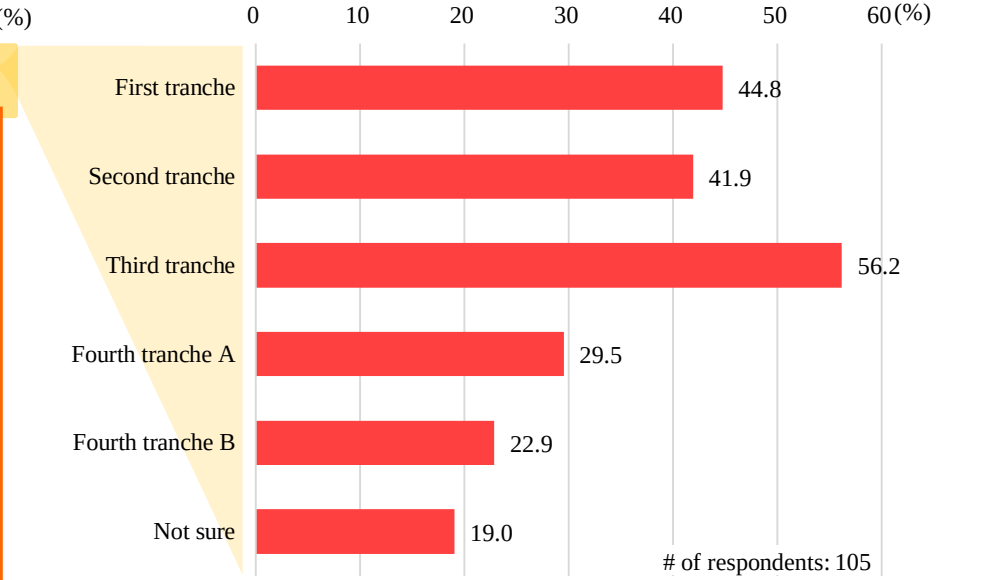
6. Effects of the Changes by Policies: "Additional Tariffs Imposed on Chinese Products Based on Section 301 of the U.S. Trade Act" Cited by Majority

Of the companies that reported experiencing a "negative impact," 52.3% (127 companies) said that the specific policy having a negative impact on them was "additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act," while 42.4% (103 companies) said it was "additional tariffs of the U.S. imposed on steel and aluminum." When we examine "additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act" on a tranche-by-tranche basis, the third tranche was cited most, by 56.2% of respondents, while the first tranche was cited by 44.8%, the second tranche by 41.9%, the fourth tranche A by 29.5%, and the fourth tranche B by 22.9%. When viewed by major industry type, the proportion of companies citing "additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act" was the highest in fields such as electrical machinery, electronic devices (70.0%) and in chemical and allied products/petroleum products (53.3%).

Specific Policies Having a Negative Impact (Multiple Answers)



Breakdown of Additional Tariffs Imposed on Chinese Products Based on Section 301 of the U.S. Trade Act (Multiple Answers)



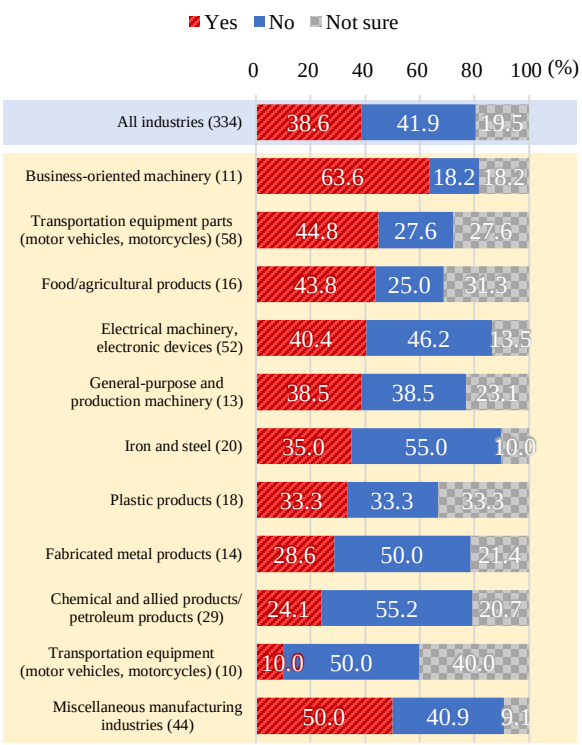
Specific Impacts of the Additional Tariffs under Section 301 of the U.S. Trade Act

- The additional tariffs have become an impediment to sales expansion in U.S. We would like to add new business partners to grow our sales, but we could end up with a negative spread, and unless we can see the prospects for additional tariffs, we will have to wait and see. **[Electrical machinery, electronic devices]**
- We have few local suppliers, and all of our ironware is procured from China. These are subject to the additional tariffs, which resulted in significantly higher costs in both 2018 and 2019. Passing on the costs to our product prices is difficult because that would directly reduce our ability to compete. **[Miscellaneous manufacturing industries]**
- We have continued to proceed with more local procurement, and our procurement ratio from China is only around 10%, so compared to our competitors the impact has been less extensive for us. **[Transportation equipment parts (motor vehicles, motorcycles)]**

6. Responses to the Changes in the Trade Environment: 40% Have Changed Procurement Sources

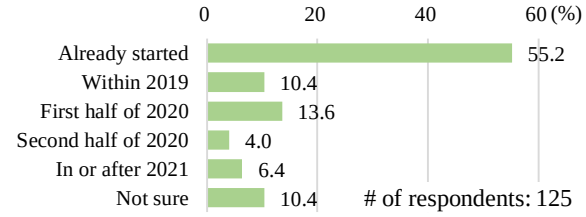
38.6% of respondents said they will change (or have changed) procurement sources in order to handle additional tariffs and other changes in the trade environment. When viewed by industry, over 60% of respondents in the field of business-oriented machinery (63.6%) and over 40% of those in such fields as transportation equipment parts (motor vehicles, motorcycles) (44.8%) and food/agricultural products (43.8%) reported that they had made a "change of procurement sources." Regarding their start period of transfer, nearly 60% (55.2%) said they had already started. As for the scale of their change of procurement sources, 47.9% of respondents - approximately half - said it was less than 10%. Regarding the duration of their change of procurement sources, nearly 70% (68.5%) said the change would be for the mid to long-term period. In individual interviews, multiple respondents said that because changing procurement sources requires time, and given the soaring personnel costs in China, for instance, they would not be reverting to their former procurement sources even if the additional tariffs were to be eliminated.

Change of Procurement Sources

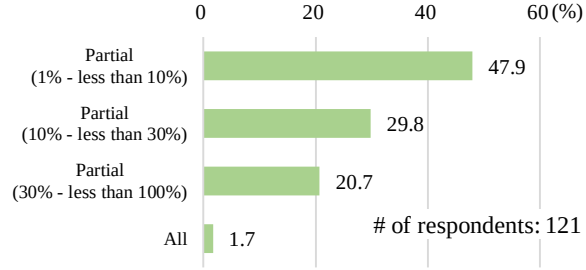


Note: Only industries for which at least 10 companies gave valid responses are listed.

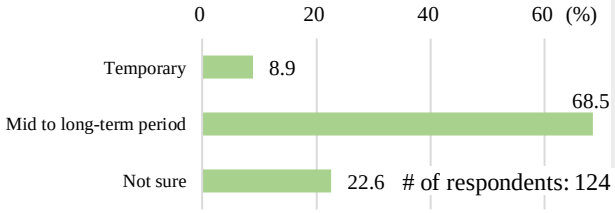
Start Period of Transfer



Scale of Change of Procurement Sources



Duration of Change of Procurement Sources



Passing on the Costs Is Difficult

- With competition in U.S. so fierce, it is hard to pass the costs from the additional tariffs on to our product prices **[Multiple companies]**

Changing Procurement Sources Takes Time

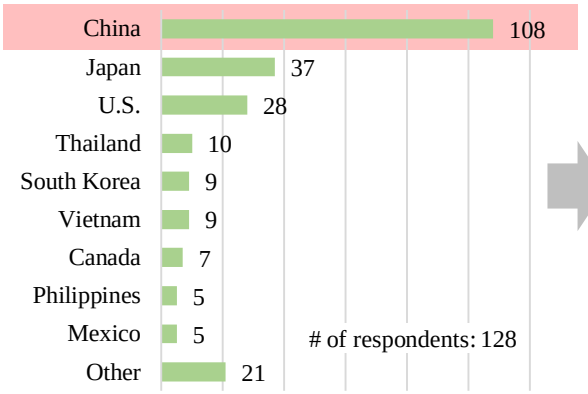
- We have started procuring some of our parts from Southeast Asia instead of China. Due to quality requirements from our customers, getting approval for the procurement source changes takes time. Even if the additional tariffs are abolished, going back to our former procurement sources would mean getting approval again, which is not practical. **[Electrical machinery, electronic devices]**
- We are planning to partially change our procurement sources from China to Mexico. We will utilize the procurement network of our group companies in Mexico. It took one year to decide on this change. Even if the additional tariffs are eliminated, we do not see ourselves going back to China. **[Transportation equipment parts (motor vehicles, motorcycles)]**
- We have moved our production from China to Vietnam and South Korea. This is partly the result of the tariffs against China, but we started considering this even beforehand, due to the soaring personnel costs in China. We would likely not go back to China even if the tariffs were abolished. **[Plastic products]**
- Although we produce 10% of our goods for the U.S. market in China, we are thinking of transferring production to the U.S. Deciding on and implementing this transfer would take about one year and a half. In the food industry, it takes a long time to get approval from the U.S. Food and Drug Administration (FDA), and to comply with various regulations. **[Food/agricultural products]**

6. Change of Procurement Sources：U.S., Japan, Thailand, Vietnam, and Mexico Were Top Choices

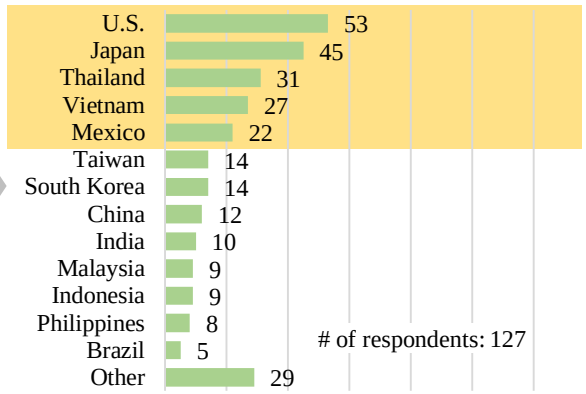
Most of the companies that reported a “change of procurement sources” said that their main sources before the change were China (108 companies), Japan (37 companies), and the U.S. (28 companies). After the change, China’s role as a source had declined (12 companies), whereas the U.S. (53 companies), Japan (45 companies), Thailand (31 companies), Vietnam (27 companies) and Mexico (22 companies) had risen to the top spots. The list of procurement sources had also become more diversified to encompass Taiwan (14 companies), India (10 companies), and the ASEAN region. Meanwhile, factors including the shortage of suppliers and engineers/other personnel in U.S. and the lack of infrastructure in Southeast Asia were pointed out as challenges.

Main Sources before/after Change

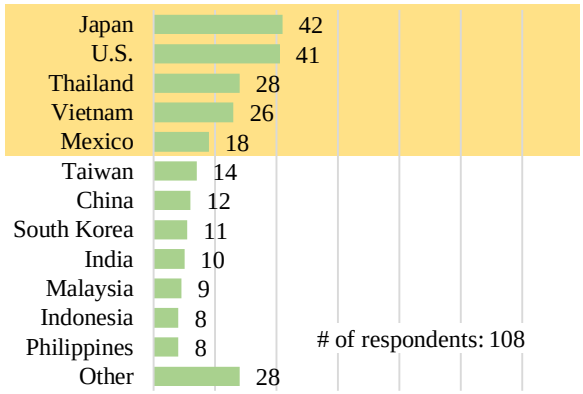
Main Sources before Change (Multiple Answers)



Main Sources after Change (Multiple Answers)



Main Sources after Change for Companies Whose Main Source before Change Had Been China (Multiple Answers)



Procurement Source Changed to the U.S.

- We have begun the switch away from China to the U.S. for procuring some of our parts. However, it is difficult to procure the same kinds of parts in U.S. The U.S. isn’t as strong in manual manufacturing, and it has a shortage of engineers who can create metal molds. **[Rubber products]**
- We are moving toward procuring from within the U.S., but we cannot find local suppliers capable of accommodating us. As long as the future prospects for U.S.-China relations are unclear, local suppliers are hesitant to expand production capacities in U.S., which means we cannot move forward with procuring in U.S. **[Transportation equipment parts (motor vehicles, motorcycles)]**

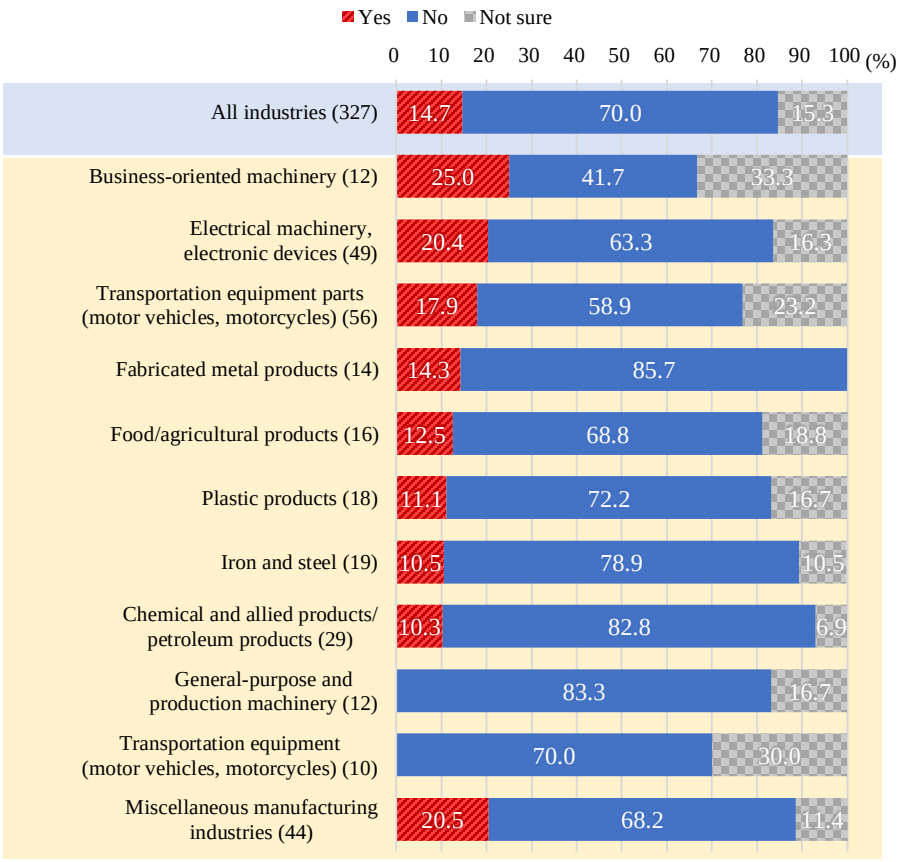
Procurement Source Changed to Southeast Asia

- We have changed our procurement source from group factories in China to those same factories in Thailand. However, the prices of Chinese products are massively cheaper, so the cost savings effects of changing our procurement source are limited. We think we will switch back to China if the additional tariffs are revoked. Since these are our own group factories, switching back would be easy. **[Miscellaneous manufacturing industries]**
- We are proceeding with transferring from China to Vietnam. Personnel costs are on the rise in China, whereas Vietnam offers lower such costs and is pro-Japanese, and moreover, the Vietnamese are highly studious and easy to train, which is why we chose Vietnam. **[Miscellaneous manufacturing industries]**
- We have started transferring our parts and raw materials procurement/production sites from China to Southeast Asia. We had long considered transferring our production sites given the sharp rise in personnel costs in China. Once we moved to Southeast Asia, we saw that adequate infrastructure/ports and harbor facilities were not in place, and transportation costs have been higher than anticipated. **[Electrical machinery, electronic devices]**

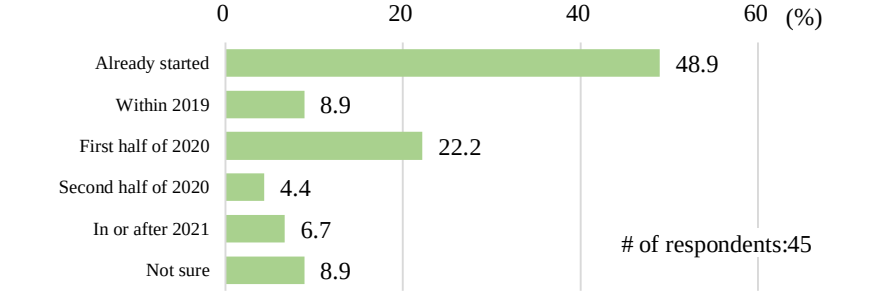
6. Responses to the Changes in Trade Environment: 14.7% Reported Transfer of Production Sites

In terms of responses to the changes in the trade environment, 14.7% of respondents said they would transfer (or have already transferred) production sites. The industries with the highest proportion of respondents who would be transferring (or have transferred) production sites include: business-oriented machinery (25.0%); electrical machinery, electronic devices (20.4%); and transportation equipment parts (motor vehicles, motorcycles) (17.9%). Approximately half of the foregoing respondents (48.9%) said they had already begun making these transfers. Roughly 70% (69.8%) replied that their transfer of production sites would be mid- to long-term in nature. As for the scale of their transfer of production sites, over 80% (82.9%) said it was less than 30%.

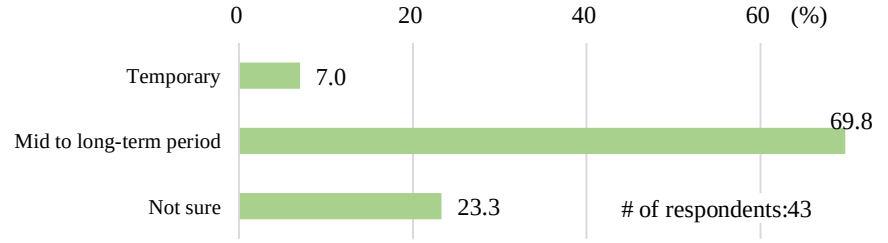
Transfer of Production Sites



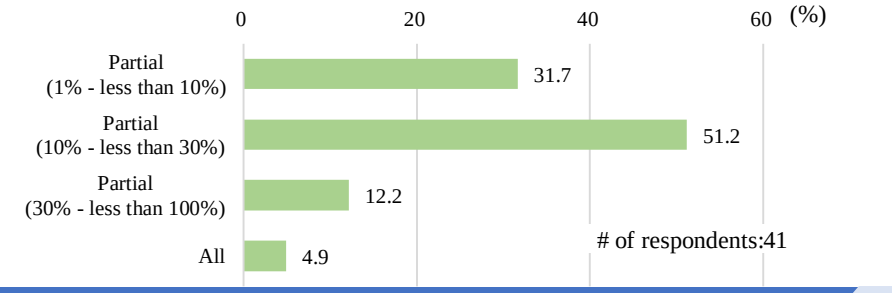
Start Period of Transfer



Duration of Transfer of Production Sites



Scale of Transfer of Production Sites

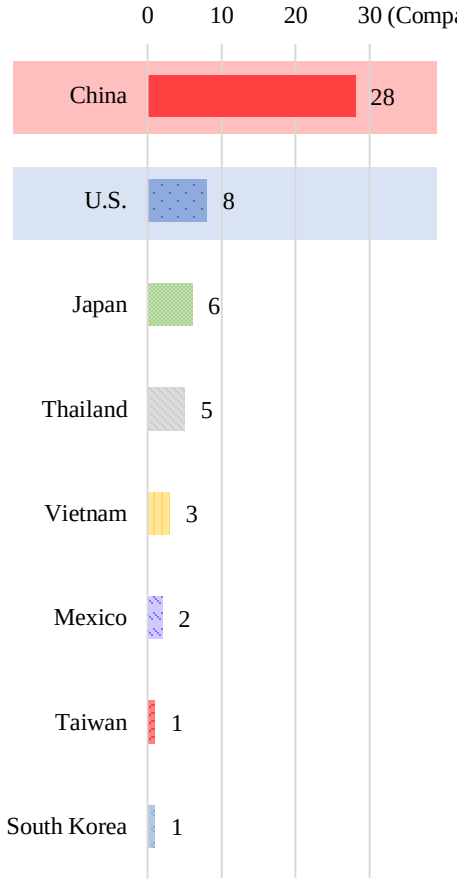


Note: Only industries for which at least 10 companies gave valid responses are listed.

6. Transfer of Production Sites: Most Common Destinations after Move from China Were the U.S., Japan, and Vietnam

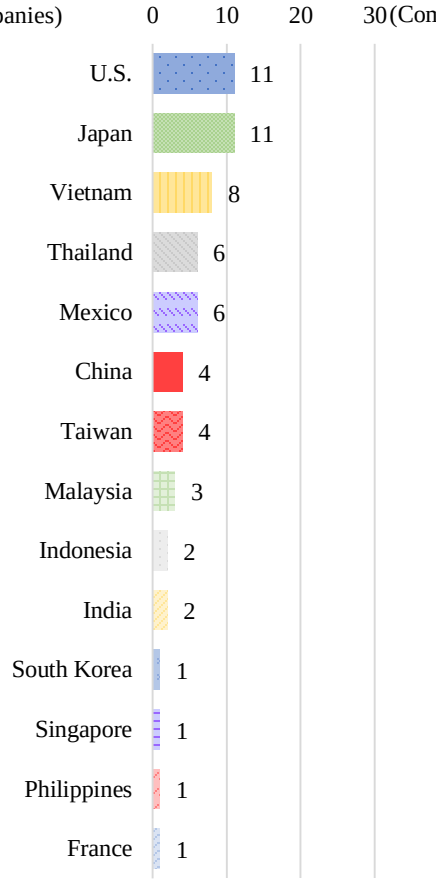
The most commonly cited new production sites for companies that have shifted away from China were the U.S. (seven companies), Japan (seven companies), and Vietnam (six companies). For those who shifted away from the U.S., the most commonly cited main production sites after the change were: Japan (five companies), China (three companies), Thailand (two companies), and Mexico (two companies).

Main Production Site before Change (Multiple Answers)



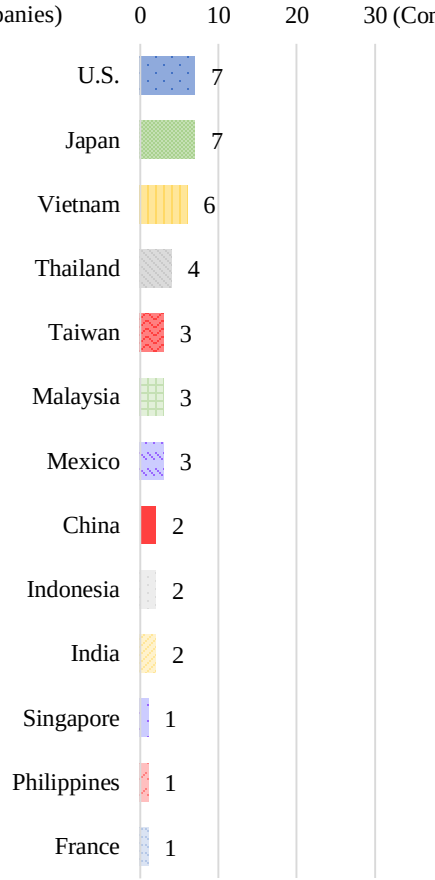
# of respondents: 47

Main Production Site after Change (Multiple Answers)



# of respondents: 40

New Production Site for Companies Whose Main Production Site before Change Had Been China (Multiple Answers)



# of respondents: 28

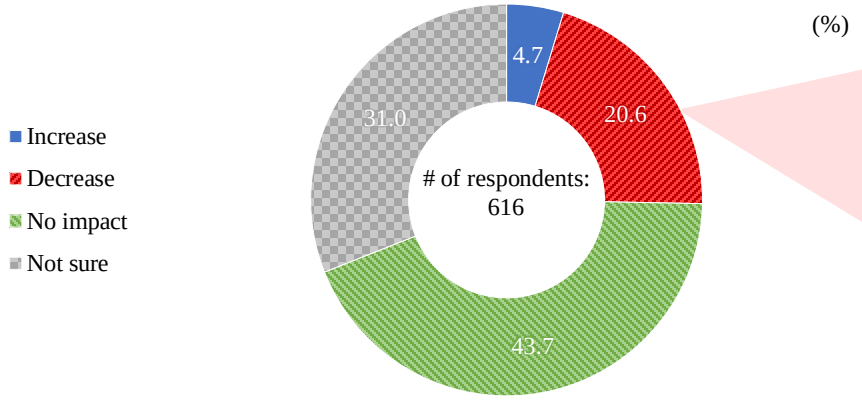
New Production Site for Companies Whose Main Production Site before Change Had Been the U.S. (Multiple Answers)

# of respondents: 8

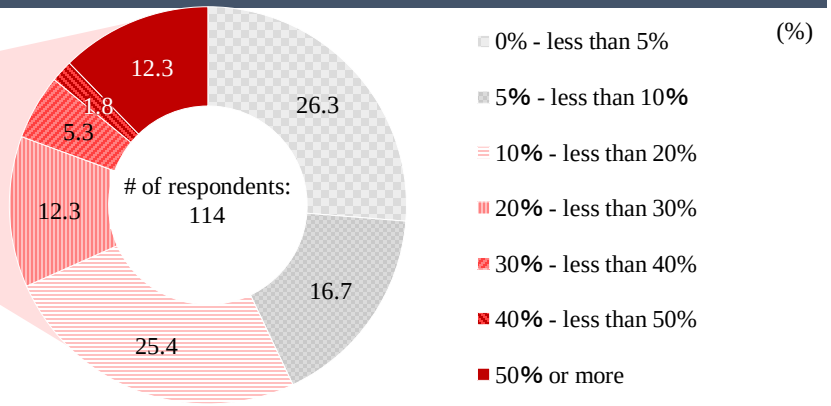
6. Changes in the Trade Environment and Their Effects on Operating Profit: "No Change" Reported by 40%, "Decrease" Cited by 20%

Regarding the changes in the trade environment and their effects on prospective operating profits in 2019, 43.7% of respondents said "no impact," which was the highest answer proportionately, followed by "not sure" at 31.0%. Meanwhile, 20.6% of respondents cited a "decrease." Looking at the rate of decline for those companies whose operating profit was down, we see one-quarter reported a drop of less than 5%, while 70% experienced a drop of less than 20%. As for the effects on prospective operating profit in 2020, fewer companies said "decrease" compared to the 2019 forecast, while the number of companies that said "increase" was slightly higher. Conversely, the proportion of respondents who were "not sure" increased to nearly 40%, reflecting a sense of uncertainty about what lies ahead for the U.S.-China trade war.

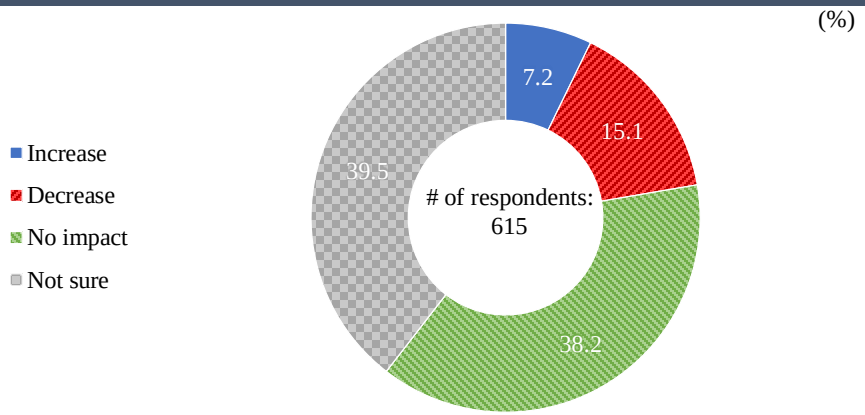
Changes in Trade Environment and Their Effects on Prospective Operating Profit (2019)



Rate of Decline in Operating Profit (2019)



Changes in Trade Environment and Their Effects on Prospective Operating Profit (2020)



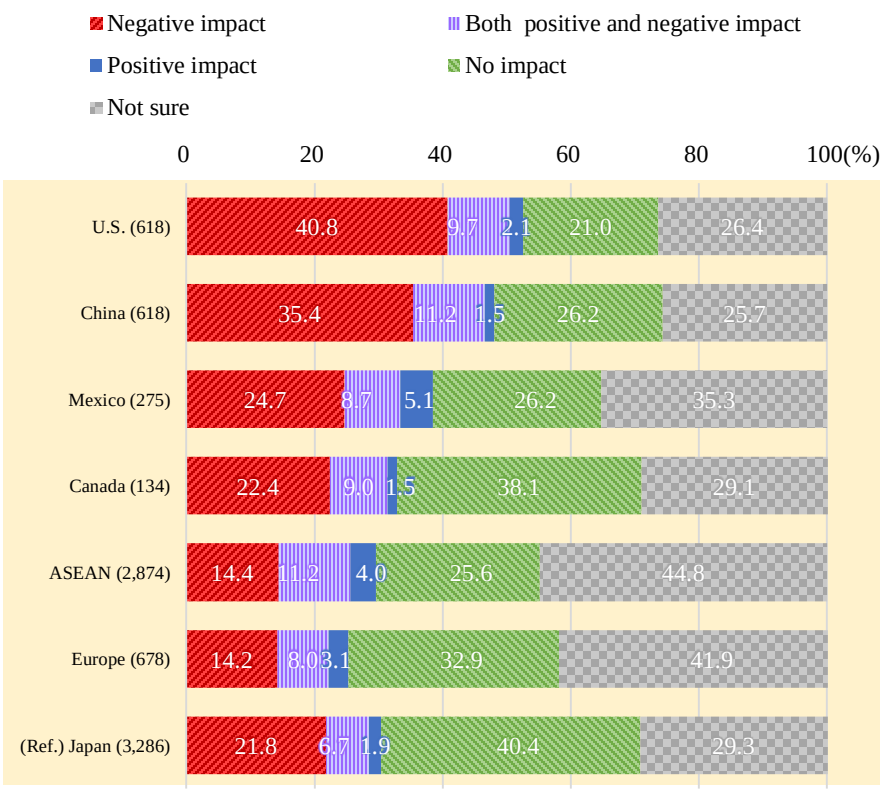
What Companies with a Lower 2019 Prospective Operating Profit Said

- Our products were subject to the first and third tranches of the additional tariffs against China, which had a tremendous impact. We applied for four exclusions but only one was approved. We have asked our Chinese suppliers to change production sites, but with prospects uncertain, our suppliers are also unable to decide to do so. **[Electrical machinery, electronic devices]**
- Nearly all procurement from China is subject to the additional tariffs against China. It is hard to pass the additional tariff costs on to our product prices, so we have to bear them ourselves. We are partially moving our procurement sources to Taiwan and the U.S., and we expect our operating profit in 2020 to be higher. **[Miscellaneous manufacturing industries]**
- We project a 2% drop in our 2019 sales forecast. We have moved some of our procurement sources from China to Vietnam. The additional tariff costs are being partly covered by raising our product prices. Our competitors in this industry are also raising their prices. **[Ceramic, stone, clay products]**

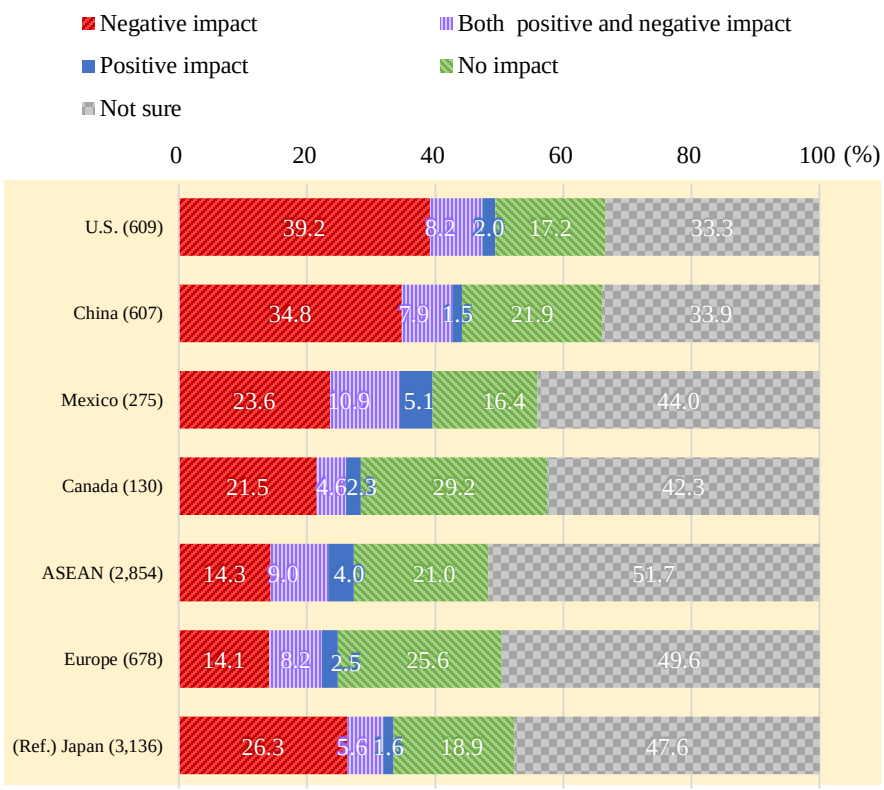
6. Effects of Changes in the Trade Environment (By Country and Region)

The effects at present of changes in the trade environment differ depending on the country and region. Whereas a “negative impact” was most often cited in the case of the U.S. and China, “no impact” was the most frequent response for Canada and Japan, while “not sure” was most cited for Mexico, ASEAN, and Europe. As for what effects the changes in the trade environment may have going forward, there were fewer responses of “no impact” versus the effects at present, regardless of region, and the proportion of those who were “not sure” increased. There was a slight decrease in the response rate overseas for those citing a “negative impact,” while as a point of reference, the percentage of respondents in Japan who gave this answer was up 4.5 points (110 companies) at 26.3%.

Current Impact Due to Changes in Trade Environment



Future Impact Due to Changes in Trade Environment



Effects of the Changes by Policies (By Country and Region)

The effects of the specific policies having an impact on companies are multi-faceted (imports/exports, domestic transactions, etc.), multi-layered (multiple taxation on the same goods), and multi-tiered (every level of the supply chain), and they vary significantly across different countries and regions. For the U.S., the greatest number of companies cited "additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (First to fourth tranche)" as having an impact on their procurement costs (51.1%), followed by "additional tariffs of the U.S. imposed on steel and aluminum" (42.7%) and "retaliatory tariffs by China against additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (24.6%)." The number of companies in U.S. exporting to China was just 74 companies (12.8%), compared to 169 companies (31.0%) procuring goods from China.

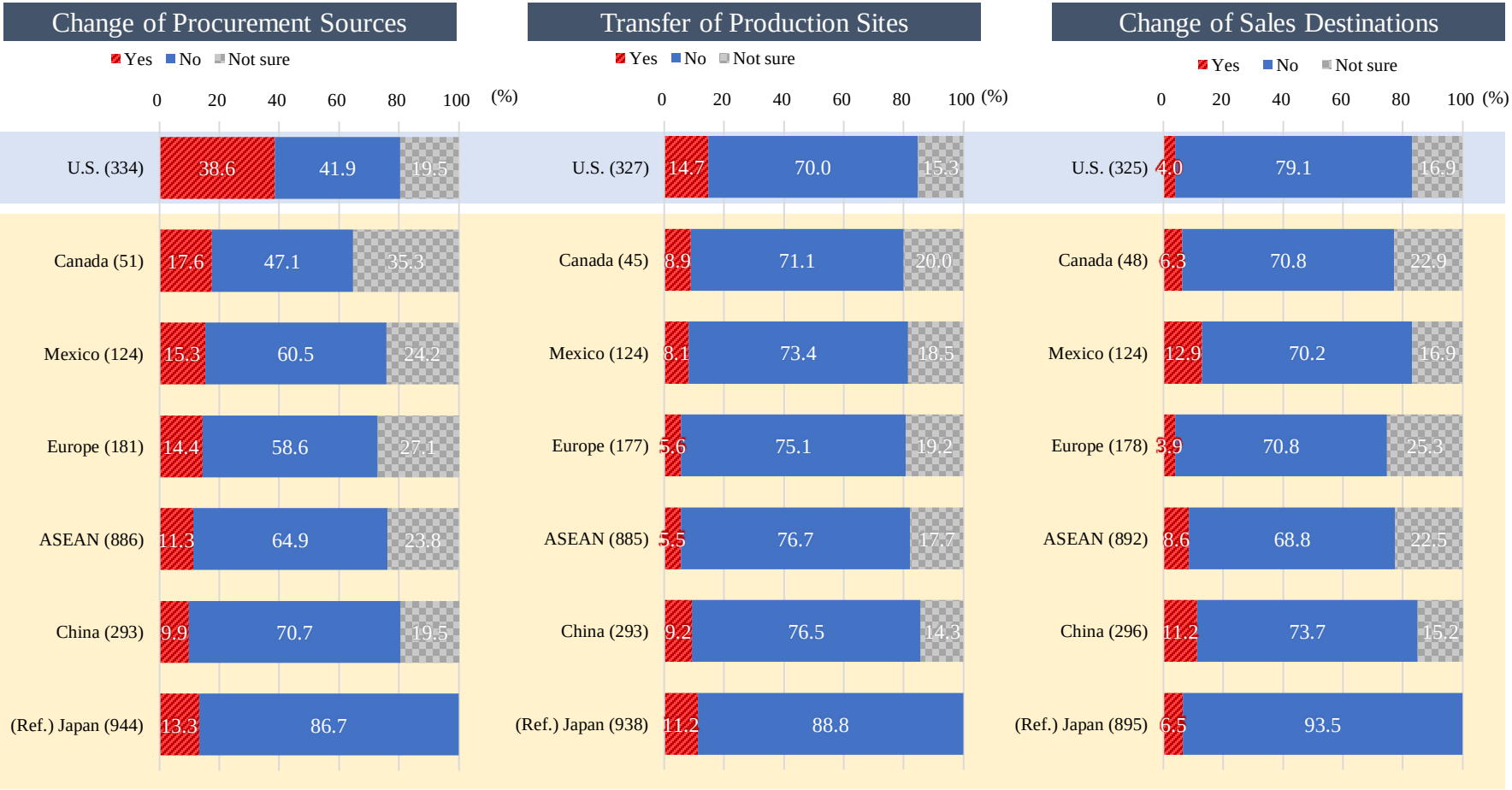
Specific Policies Having an Impact in Each Country and Region (Multiple Answers)

Country or Region	1st most common	2nd most common	3rd most common
U.S.	Additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (First to fourth tranche) (51.1%)	Additional tariffs of the U.S. imposed on steel and aluminum (42.7%)	Retaliatory tariffs by China against additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (24.6%)
Canada	Additional tariffs of the U.S. imposed on steel and aluminum (47.5%)	Retaliatory tariffs against additional tariffs of the U.S. imposed on steel and aluminum (22.5%)	Retaliatory tariffs by China against additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (17.5%)
Mexico	Additional tariffs of the U.S. imposed on steel and aluminum (36.8%)	U.S. national security investigation of imports of automobiles and automobile parts (33.0%)	Export control and strengthening regulations on investment by the U.S. government (22.6%)
China	Additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (First to third tranche) (40.4%)	Additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (Fourth tranche) (27.8%)	Retaliatory tariffs by China against additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (24.2%)
ASEAN	Retaliatory tariffs by China against additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (26.5%)	Additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (First to third tranche) (25.5%)	Additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (Fourth tranche) (17.3%)
Europe	Retaliatory tariffs against additional tariffs of the U.S. imposed on steel and aluminum (27.3%)	Additional tariffs of the U.S. imposed on steel and aluminum (20.1%)	Retaliatory tariffs by EU against U.S. national security investigation of imports of automobiles and automobile parts (20.1%)
(Ref.) Japan	Additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (First to third tranche) (40.4%)	Additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (Fourth tranche) (36.4%)	Retaliatory tariffs by China against additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (25.1%)

Note: Questions regarding the effects of additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act are divided into two - the first to third tranches, and the fourth tranche. However, tranches are not divided in U.S. and Canada questionnaire.
The E.U.'s retaliatory tariffs against the U.S. national security investigation of imports of automobiles and automobile parts have not been implemented.

Responses to the Changes in the Trade Environment (By Country and Region)

Regarding responses to the changes in the trade environment, the proportion of companies that said they would be changing their procurement sources was highest in U.S. (38.6%), followed by Canada (17.6%) and then Mexico (15.3%). The percentages of companies who were transferring their production sites were the highest in U.S. (14.7%), China (9.2%), and Canada (8.9%) in that order. The percentage of those who said they would be changing their sales destinations was the highest in Mexico (12.9%), then China (11.2%), and then ASEAN (8.6%). In U.S., this ratio was only 4.0%, but the main reason for this is the fact that, traditionally, the intra-regional sales ratio has been at least 80%, or 90% if Canada and Mexico are included.



Note: Answer options for “Japan” are “Yes” or “No” only.

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