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# Survey of Japanese Companies in Southern California 2010

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## Forward

Since 1983, the Japan Business Association of Southern California (JBA) and the Japan External Trade Organization (JETRO) Los Angeles have conducted surveys to obtain an accurate assessment of Japanese companies in Southern California. The results of these surveys have subsequently been utilized to more fully understand Japanese companies operating in Southern California, and to provide appropriate assistance and help in facilitating their business activities.

We have compiled the “2010 Survey of Japanese Companies in Southern California,” the ninth of its type, and give thanks to the cooperation of all parties concerned. The results of this survey show the great contributions made by Japanese companies to the regional economy in terms of investment and employment and it reveals the impact of the recent sluggish economy on Japanese Companies and the challenges they face in enhancing their business activities. We will utilize the survey results to gain a better understanding of Japanese companies doing business in Southern California, as well as to improve California’s overall business environment.

The “2010 Survey of Japanese Companies in Southern California” may also be viewed on the websites of JBA (<http://www.jba.org>) and JETRO (<http://www.jetro.org/la/>).

Last but not least, we would like to express our sincere gratitude to the JBA members who cooperated in the survey and the Japanese companies that returned the completed questionnaire to JETRO.

June 22, 2010

**Yuichi Okura**  
JBA President

**Koichi Kinoshita**  
Chairman, JBA Business and Administration Committee

**Shigeru Kimura**  
Chief Executive Director, JETRO Los Angeles

## Survey Objectives and Methodology

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### 1. Survey Objectives

This survey is the ninth installment in our continuing effort, which is intended to reveal the business conditions and management environment of Southern California-based, Japanese companies, and to facilitate a better understanding of issues influencing Japanese companies operating in Southern California.

Note: The past surveys were conducted in 1983, 1987, 1997, 2000, 2002, 2004, 2006 and 2008, respectively.

### 2. Survey Targets

The survey is targeted at companies with a presence in Southern California, including companies where at least 10 percent of the capital shares are owned (directly or indirectly) by a company headquartered in Japan. The survey also targets branch or representative offices of companies headquartered in Japan, as well as that are companies incorporated and operated by individuals of Japanese origin.

Note: Southern California, as mentioned in the context of this survey, includes the following 10 counties: Los Angeles, Orange, Ventura, Santa Barbara, Kern, San Luis Obispo, San Bernardino, Riverside, San Diego, and Imperial.

### 3. Survey Methodology

The survey questionnaire forms were sent by e-mail to a total of 1,074 Japanese companies in February and March of 2010 and asked them to make on-line entry. A total of 504 companies responded (response rate: 46.9%).

## Summary of Survey Results

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### I. Overview of Japanese Companies in Southern California

Geographic distribution: Southern California, where 1,074 Japanese companies are located, has one of the largest numbers of Japanese companies in the world outside Japan. Japanese companies account for a significant percentage of foreign investment in Southern California. Approximately 70 percent of the Japanese companies are based in Los Angeles County, and approximately 20 percent and 10 percent of Japanese companies are located in Orange and San Diego counties, respectively.

Industrial distribution: The “manufacturing” sector and “other services” (professional services, information systems, film /publishing, etc.) account for approximately 30 percent of the total, respectively. Because Southern California is a logistics hub, the region is also home to many “wholesale/retail,” “trading” and “transportation” companies.

Corporate structure: Approximately two out of three companies that responded to the survey were locally incorporated. Of these respondents, three in four were headquartered in Southern California. This indicates that Southern California is an important base for Japanese companies.

Timing of incorporation: Although the pace of expansion of Japanese companies into Southern California had slowed in the latter half of the 90s due to the bursting of the bubble economy, there has been a renewed drive among Japanese companies, mainly those related to professional services, information systems and film/publishing, to expand their business to Southern California.

Revenues: More than half of all respondents had yearly revenues of less than \$10 million, while companies with yearly revenues of \$100 million or more accounted for 16.8 percent of the total.

### II. Contributions to Regional Communities

Job creation: The total number of jobs the 492 respondents have in Southern California is 53,056, of which locally hired persons account for 96.9 percent. The total employment number, as calculated by multiplying the number of employees per company with the number of Japanese companies (1,074), is 115,817, which is sufficient to reduce the unemployment rate in Southern California by 1.2 percentage points.

Salaries and wages: When the average amount paid per employee among the companies responding to the survey is multiplied by the estimated total number of employees at Japanese companies (115,817), the total payroll at Japanese companies in Southern California is estimated to be \$8,845 million.

Healthcare: insurance coverage:

Over 90 percent of the companies surveyed indicated that they provide healthcare insurance for their employees. The percentage of respondents contributing 80 percent or more of the insurance premiums on behalf of their employees was nearly 70 percent. These results suggest that Japanese companies provide superior healthcare benefits to their employees.

### III. Evaluation of Investment and Business Environments

Evaluation of business performance:

More than half of all respondents evaluated their business performance as positive. However, the percentage of respondents whose operating income in 2009 “decreased from that of the previous year” exceeded the percentage of respondents whose operating income “increased over the previous year,” thus reflecting the impact of the economic recession.

Future outlook:

The percentage of respondents whose operating income would likely “increase” over the next year or two (36.8%) exceeded the percentage of respondents whose operating income would likely “decrease” (16.9%). However, the outlook is slightly less positive compared to the previous survey, suggesting that companies are still not sure if the recession has been left behind.

Investment plans:

Approximately 20% of the companies surveyed planned to expand their bases or set up new bases in Southern California over the next year or two, while approximately 10 percent of the respondents planned downsizing, closure or relocation.

Advantages:

“Size of market,” as cited by approximately two-thirds of the respondents, continued to be the greatest advantage offered through operation in California. This was followed by “size of the Japanese community” (42.5%), “climate” (37.9%) and “logistics hub” (35.9%) owing to seaports and airports.

Concerns:

The greatest percentage (88.7%) of the respondents cited “economic conditions in the U.S.” as the primary concern, followed by “declining value of the dollar” (47.7%) and

“increased labor cost” (40.1%).

Disadvantages:

More than half of the respondents cited “tax burden” and “labor costs” as major negative factors, reflecting many concerns over the local tax rates, employment insurance and various employment-related costs that exceed those of other states. Also, one-third of the companies responding to the survey cited “import/export procedures” (increased security regulations and seaport costs). Improvements in these areas will definitely be a plus for the future of foreign investment in California.

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## I. Overview of Japanese Companies in Southern California

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### 1. Geographic distribution

Southern California, where 1,074 Japanese companies are located, has one of the largest numbers of Japanese companies in the world outside Japan. Also, Japanese companies account for a fairly large percentage of the total foreign investment in Southern California. According to the 2008 survey conducted by the Los Angeles County Economic Development Corporation (LAEDC), Japanese companies had more operational bases in Los Angeles County than any other group of companies by nation.<sup>1</sup> Moreover, investments by Japanese companies are unique in that they take the form of establishing a new company in the U.S.<sup>2</sup> instead of being in the form of acquisition or capital participation. This means that Japanese companies contribute more to the overall investment in the region.

Looking at geographic distribution by county, approximately 70 percent of local Japanese companies are located in Los Angeles County, followed by Orange County, which hosts just less than 20 percent and San Diego County, which has slightly less than 10 percent of the Japanese companies. In summary, most Japanese companies are located in these three counties. When a breakdown by city is examined, Torrance has the largest number of Japanese companies (254), followed by the cities of Los Angeles (194), Irvine (68), San Diego (64) and Gardena (60).

Compared to the previous survey, the total number of Japanese companies in Southern California slightly decreased from 1,185 to 1,074 companies. A breakdown by county shows marked decreases in Orange County from 246 to 201 companies and San Diego County from 114 to 90 companies, while Los Angeles County saw only a small drop from 781 to 749 companies). Particularly in the cities of Los Angeles, Torrance and Gardena, traditionally the top three cities hosting many Japanese companies, the number of Japanese companies remains roughly the same as in the previous survey.

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1 Los Angeles County Economic Development Corporation (LAEDC), Foreign Direct Investment in Los Angeles County, <<http://www.laedc.org/reports/FDI-2008.pdf>>

2 In the 2006 survey, 87 percent of all respondents said they entered the local market by establishing new companies.[Table 1]      Geographic Distribution Statistics



Survey of Japanese Companies in Southern California 2010

		Number of respondents	
			Ratio
<b>Los Angeles</b>		<b>749</b>	<b>69.7%</b>
	Torrance	254	23.6%
	Los Angeles	194	18.1%
	Gardena	60	5.6%
	Long Beach	27	2.5%
	Other	214	19.9%
<b>Orange</b>		<b>201</b>	<b>18.7%</b>
	Irvine	68	6.3%
	Cypress	27	2.5%
	Other	106	9.9%
<b>San Diego</b>		<b>90</b>	<b>8.4%</b>
	San Diego	64	6.0%
	Other	26	2.4%
<b>San Bernardino</b>		<b>14</b>	<b>1.3%</b>
<b>Riverside</b>		<b>7</b>	<b>0.7%</b>
<b>Ventura</b>		<b>6</b>	<b>0.6%</b>
<b>Other</b>		<b>7</b>	<b>0.7%</b>
<b>Total of Southern California</b>		<b>1,074</b>	<b>100.0%</b>

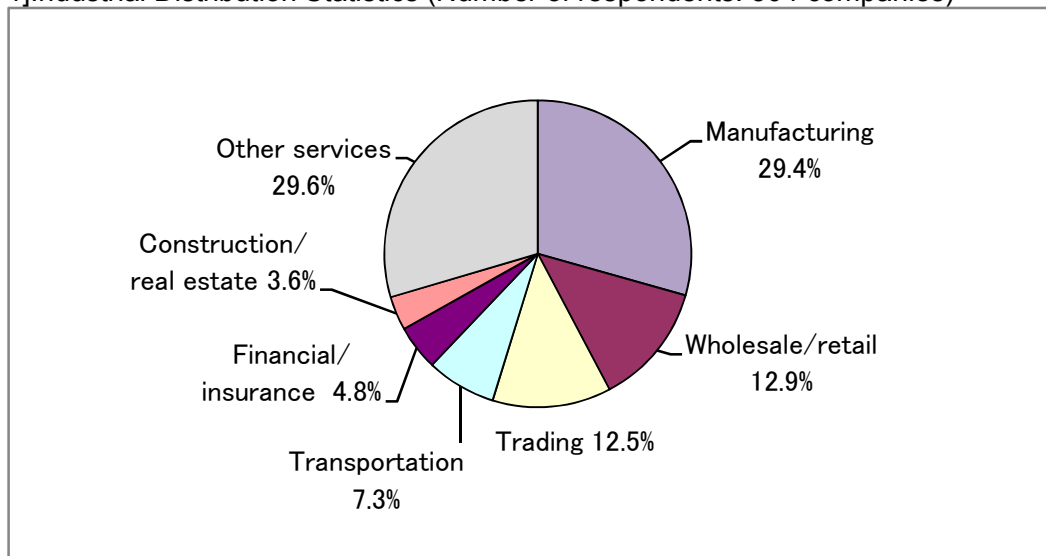
Note: At the previous survey there were 1,185 companies (including 781 in Los Angeles County, 246 companies in Orange County and 114 companies in San Diego County).

## 2. Industrial distribution

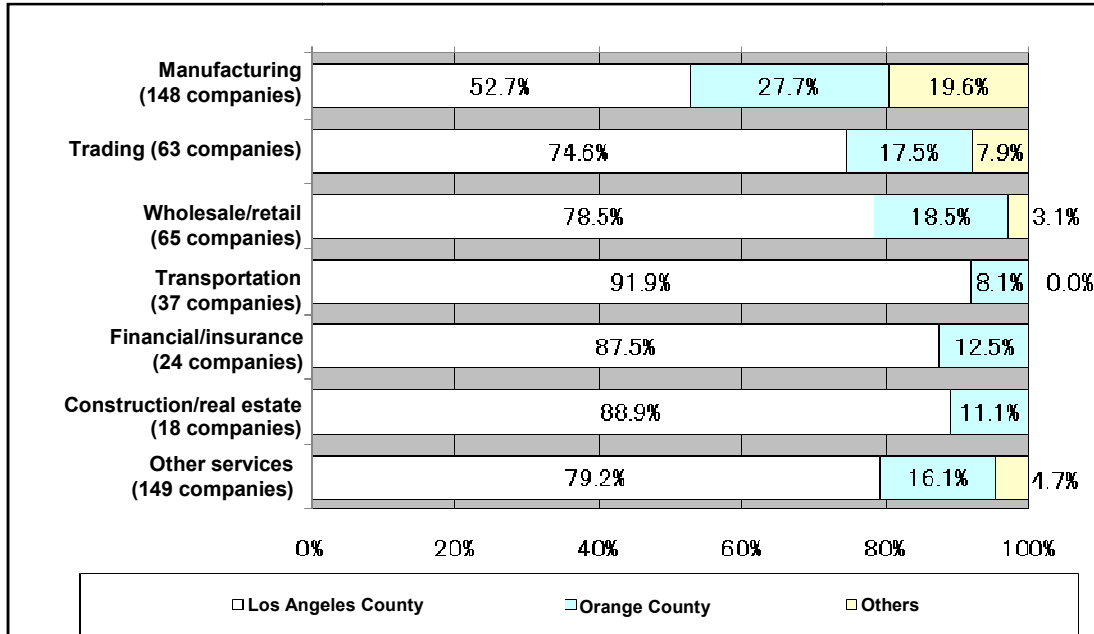
Looking at Japanese companies in Southern California by industry, “Manufacturing” (29.4%) and “Other services” (29.6%) each account for approximately 30 percent of the total. The category of “Other services” includes professional services (legal, accounting, temporary staffing, consulting, etc.), information systems, film/publishing and leisure/tourism. Following “Manufacturing” and “Other services” are “wholesale/retail” (12.9%), “Trading” (12.4%) and “Transportation” (7.3%), with these three sectors together accounting for approximately 30 percent of the total. The concentration of companies in these industries is likely explained by the fact that Southern California, being served by the Port of Los Angeles, Port of Long Beach, Los Angeles International Airport, etc., is a logistics hub in the U.S.

From the standpoint of geographic location by industry, Los Angeles County, which is the center of Southern California, is home to many local Japanese companies in nearly every industry. The notable exception is the “Manufacturing” industry, where relatively higher percentages of Japanese companies are located in Orange County, as well as in San Diego County, which includes the Maquiladora zone where companies can take advantage of the cheaper labor in Mexico.

[Graph 1] Industrial Distribution Statistics (Number of respondents: 504 companies)



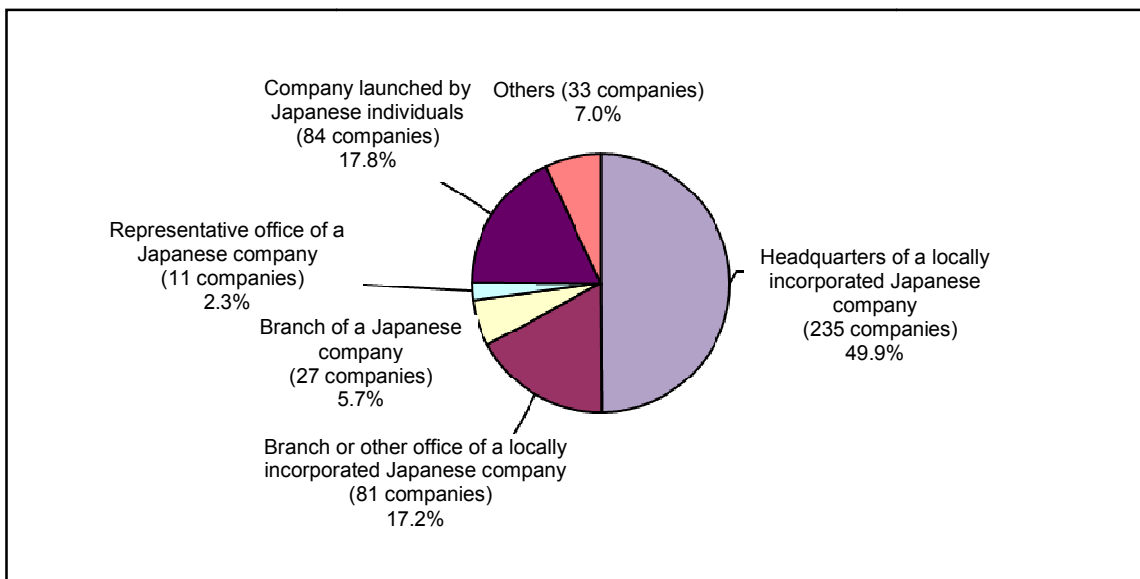
[Graph 2] Industrial Distribution Statistics by Area (Number of respondents: 504 companies)



### 3. Corporate structure

Regarding corporate structures, approximately two thirds (67.1%) of all companies surveyed are either locally incorporated or are branches of locally incorporated companies. Also, three out of four locally incorporated Japanese companies serve as corporate headquarters in Southern California, which suggests that Southern California plays a vital geographic role for Japanese companies entering the U.S.

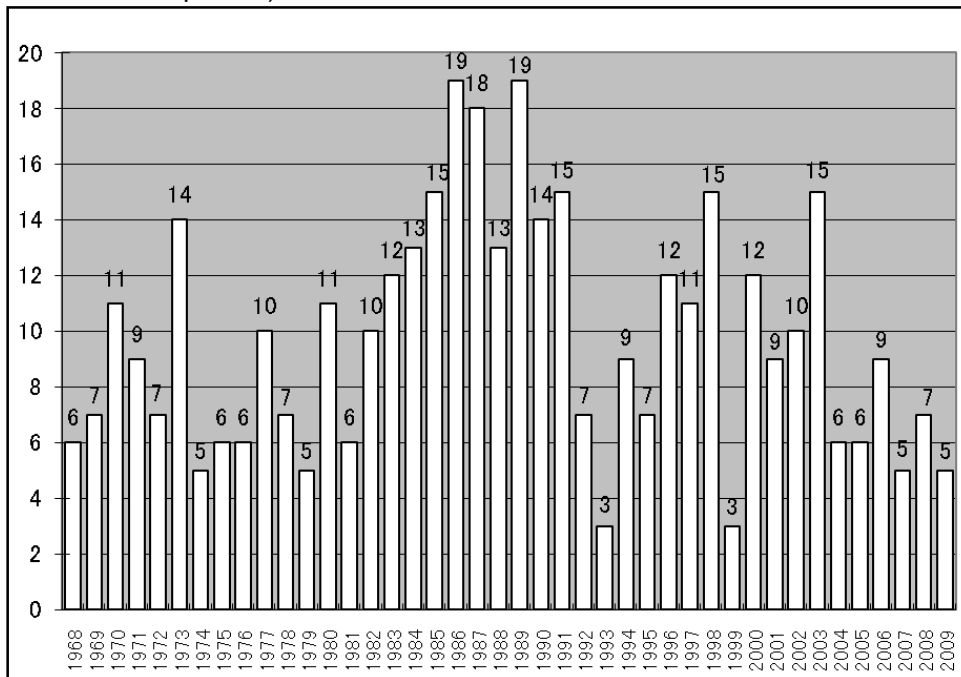
[Graph 3] Corporate Structures (Number of respondents: 471 companies)



#### 4. Timing of incorporation

Viewing the background of market expansion by Japanese companies from an historical perspective, Japanese companies expanded their operations to the U.S. market in the 1950s, primarily for the purpose of conducting market research and entering business deals. In the 1960s, Japanese companies entered the U.S. to promote exports and market expansion. In the 1970s, U.S. - Japan textile negotiations signaled the beginning of trade-friction issues related to sheet glass, televisions, iron and steel, semiconductors, etc., thus encouraging the subsequent U.S. expansion of Japanese companies for local production. In the 1980s, such local production was further promoted, due in part to the need to correct the imbalance of trade between Japan and the United States. Concurrently there were an increasing number of companies entering the U.S. market in search of investment opportunities in order to utilize excess funds generated on the back of the rising yen and bubble economy. Since the 1990s, some companies withdrew from the U.S. market in the aftermath of the collapse of the bubble economy, resulting in a slowdown in the U.S. expansion of Japanese companies. Since the latter half of the 1990s, however, there has been a renewed drive among Japanese companies, particularly those in “other services” including professional services, information systems and film/publishing, to enter Southern California.

[Graph 4] Number of Companies by Year of Incorporation (Number of respondents: 448 companies)

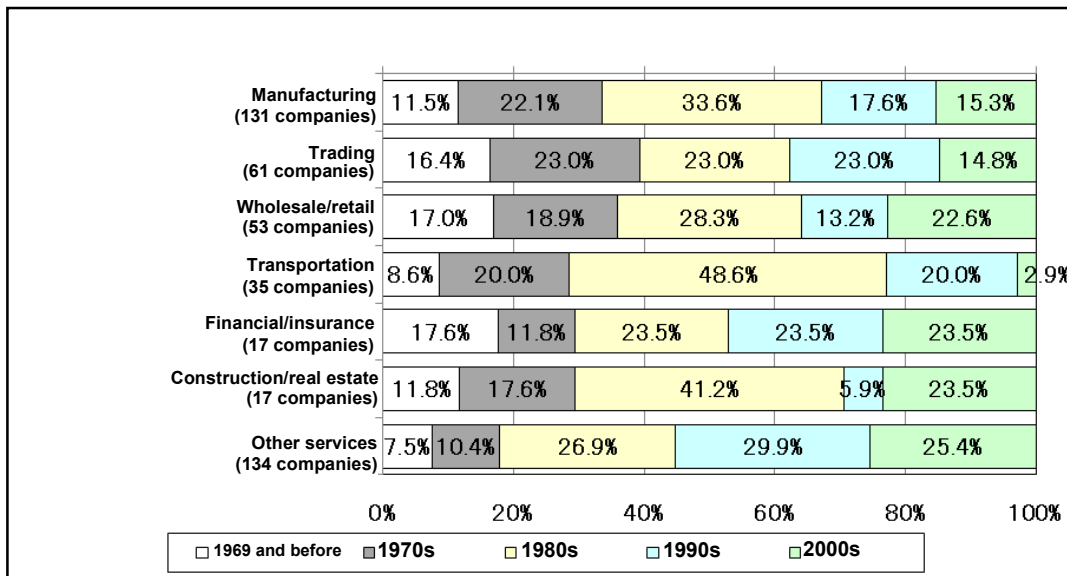


Note: Take note that the above numbers of companies provide a distribution based on the years of incorporation of the companies surveyed, and do not include companies that have already withdrawn from the U.S. market.

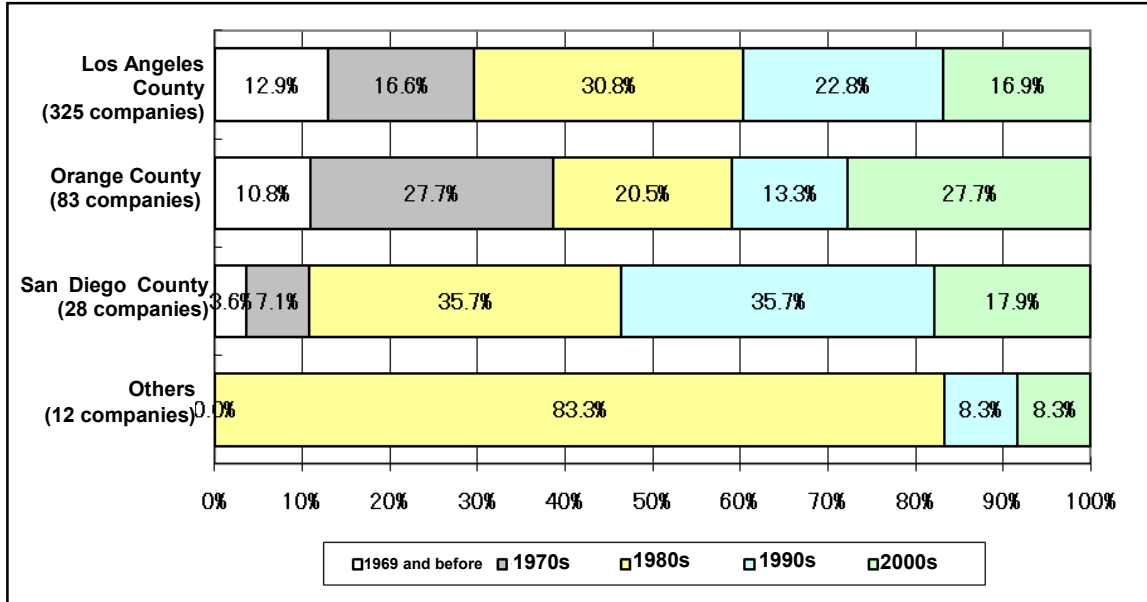
Looking at the results by industry, early Japanese entrants to the U.S. included wholesalers, retailers and trading companies that required relatively small amounts of capital investment. Manufacturing companies also entered the U.S. in earnest against the backdrop of the rising yen and increasing trade friction, and transportation companies that supported the logistics operations of those companies also set up operations in the U.S. one after another in the 1980s. Since the 1990s, other service companies in the fields of professional services, information systems, film/publishing, etc., have entered the local market in large numbers.

A breakdown by region shows that approximately 30 percent of Japanese companies were established in the 1970s or earlier in Los Angeles County and around 40 percent in Orange County, while approximately 90 percent of the companies surveyed were established in the 1980s and thereafter in San Diego County. Orange County accounts for a relatively small portion, or slightly less than 30 percent, of Japanese companies that entered the U.S. in the 2000s or thereafter.

[Graph 5] Number of Companies by Industry According to Year of Incorporation  
(Number of respondents: 448 companies)



[Graph 6] Number of Companies by Geographic Location According to Year of Incorporation (Number of respondents: 448 companies)



## 5. Revenues

By revenues, more than half, or 55.9 percent, of all companies surveyed had yearly revenues of less than \$10 million, while companies with yearly revenues of \$100 million or more accounted for 16.8 percent of all respondents.

A comparison with the 2008 survey finds that, of all companies responding to the survey, the percentage of small companies with yearly revenues of less than \$5 million increased, and this may have affected other survey results (employment numbers, estimated payroll figures, condition of medical insurance benefits, etc.).

[Table 2] Number of Companies by Revenues (Number of respondents: 404 companies)

Revenues	Number of companies (Current survey)		Number of companies (Previous survey )	
		Ratio		Ratio
Less than \$1 million	78	19.3%	50	13.7%
No less than \$1 million but less than \$5 million	105	26.0%	81	22.3%
No less than \$5 million but less than \$10 million	43	10.6%	43	11.8%
No less than \$10 million but less than \$50 million	87	21.5%	87	23.9%
No less than \$50 million but less than \$100 million	23	5.7%	29	8.0%
No less than \$100 million but less than \$500 million	36	8.9%	42	11.5%
No less than \$500 million but less than \$1,000 million	17	4.2%	12	3.3%
\$1,000 million or more	15	3.7%	20	5.5%
Total	404	100%	364	100%



## II. Contributions to Regional Communities

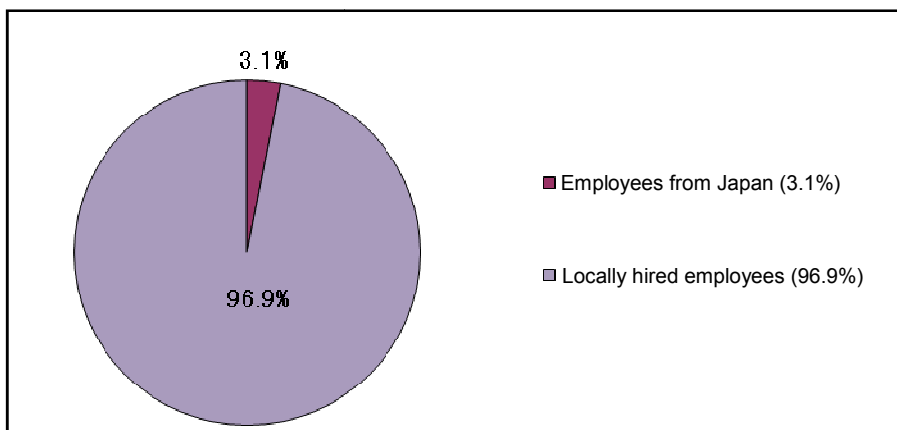
### 1. Job creation

The total number of employees in Southern California at the 492 companies responding to the survey was 53,056, of which 1,630 were employees from Japan and 51,426 were employees hired locally. This puts the ratio of local hires at 96.9 percent, indicating that Japanese companies in the region are contributing to the local economy through job creation. When an estimated total employment number is calculated by multiplying the number of employees per Japanese company (107.8 persons) by the number of Japanese companies in Southern California (1,074 companies), the total number of employees at Japanese companies in the region is estimated to be 115,817. In other words, the benefits of job creation by Japanese companies in the region are sufficient to reduce the present unemployment rate in Southern California by 1.2 percentage points.

[Table 3] Number of Workers at Japanese Companies (Number of respondents: 492 companies)

	Total	Employees sent from Japan	Locally hired employees
Number of employees (at 492 respondents)	53,056	1,630	51,426
Average number of employees per company	107.8	3.3	104.5
Total number of employees (estimate)	115,817	3,558	112,259

[Graph 7] Percentage of Locally Hired Employees



A breakdown by industry finds that the largest percentage of the total 53,056 jobs at the companies responding to the survey are in the “manufacturing” sector, employing 1,640 persons (30.9%), followed by the “Wholesale/retail” sector employing 12,196 persons (23.0%), “Other services” employing 10,684 persons (20.1%) and the “Finance/insurance” sector employing 8,689 persons (16.4%).

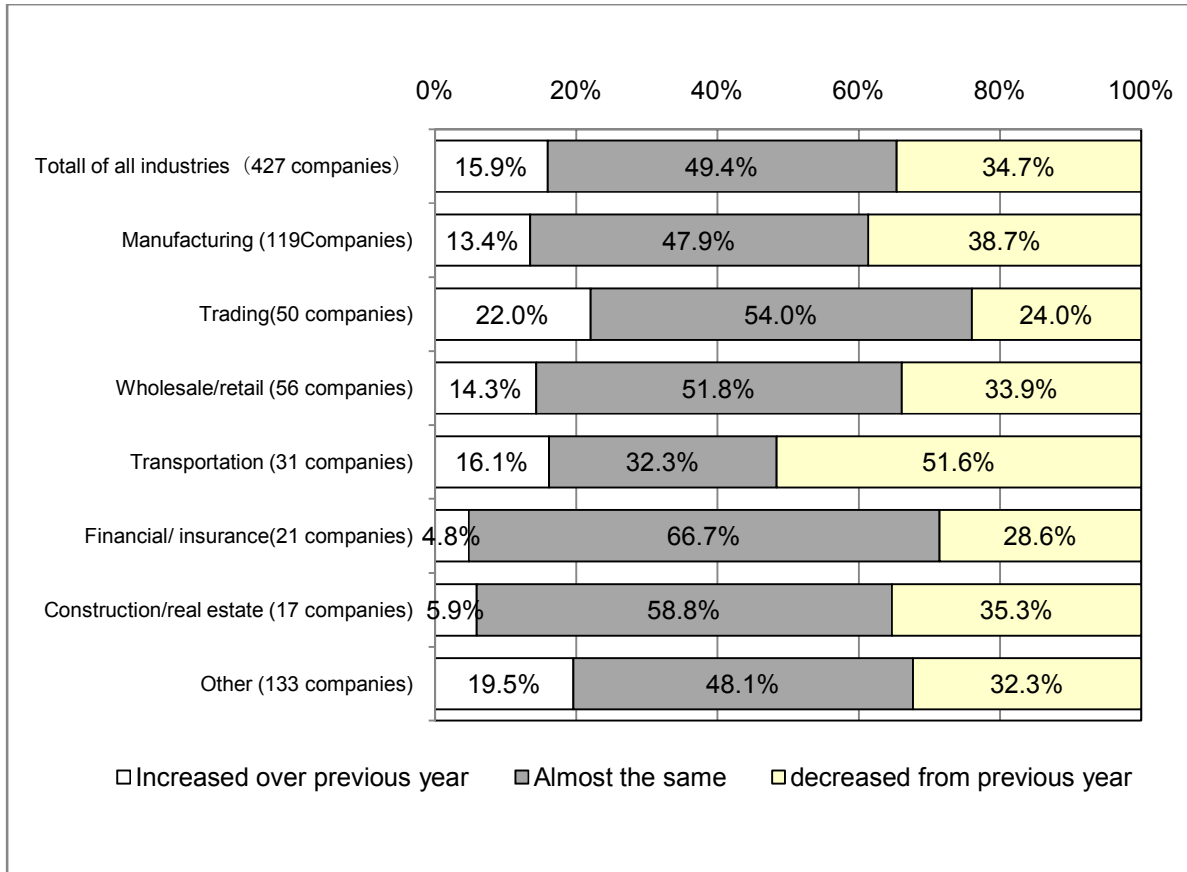
[Table 4] Employment Size by Industry (Number of respondents: 492 companies)

		Number of employees	
			Ratio
Manufacturing	(142 companies)	16,420	30.9%
Wholesale/retail	(63 companies)	12,196	23.0%
Trading	(62 companies)	1,719	3.2%
Transportation	(35 companies)	2,492	4.7%
Financial/insurance	(23 companies)	8,689	16.4%
Construction/real estate	(18 companies)	856	1.6%
Other services	(149 companies)	10,684	20.1%
Total	(492 companies)	53,056	100.0%

When asked to compare the present number of employees vis-à-vis the previous year, 34.7 percent of all respondents reported that they employed fewer, which was more than the percentage of companies reporting more employee positions (15.9%). Approximately half (49.4%) of all respondents reported that the number of employment positions was roughly the same as in the previous year.

Viewing the results by industry, one characteristic is that more than half (51.6%) of all respondents in the transportation industry reported lower employment.

[Graph 8] Year-over Changes in Number of Employees



## 2. Salaries and wages

The salaries and wages (including benefits) paid per Southern California base among the 354 Japanese companies surveyed stood at \$3.3 billion. When the average amount paid per employee at a Southern California base of a Japanese company is multiplied by the estimated total number of employees at Japanese companies in Southern California (115,817), the total salaries and wages paid by all Japanese companies in the region are estimated to be \$8.8 billion.

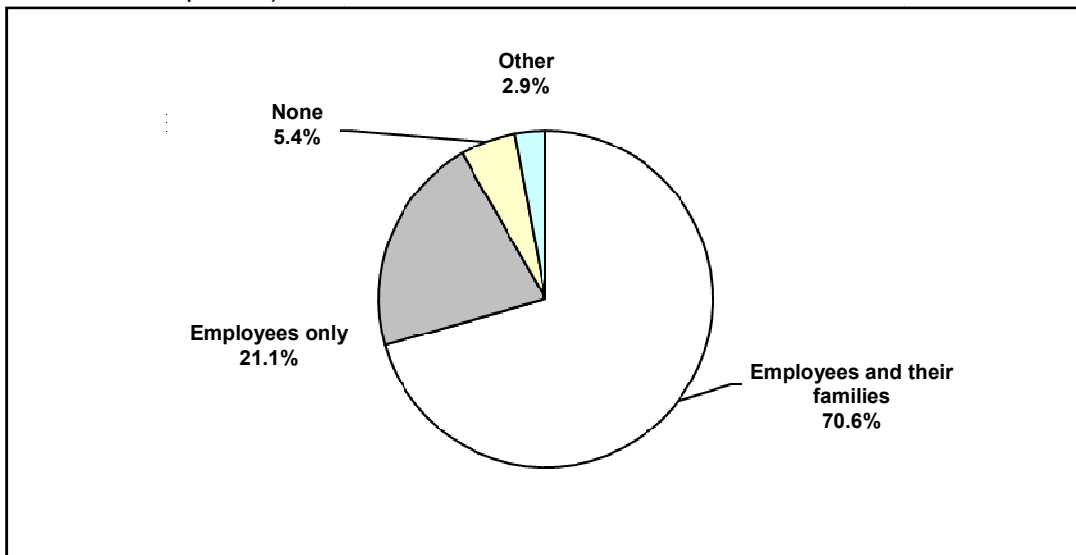
[Table 5] Total Amount of Salaries and Wages Paid by Japanese Companies

(Unit: In \$1,000s)	
Total salaries and wages paid (by 354 respondents)	3,252,909
Average salary paid (per employee)	76
Total salaries and wages paid by all Japanese companies (estimate)	8,845,403

### 3. Healthcare insurance coverage

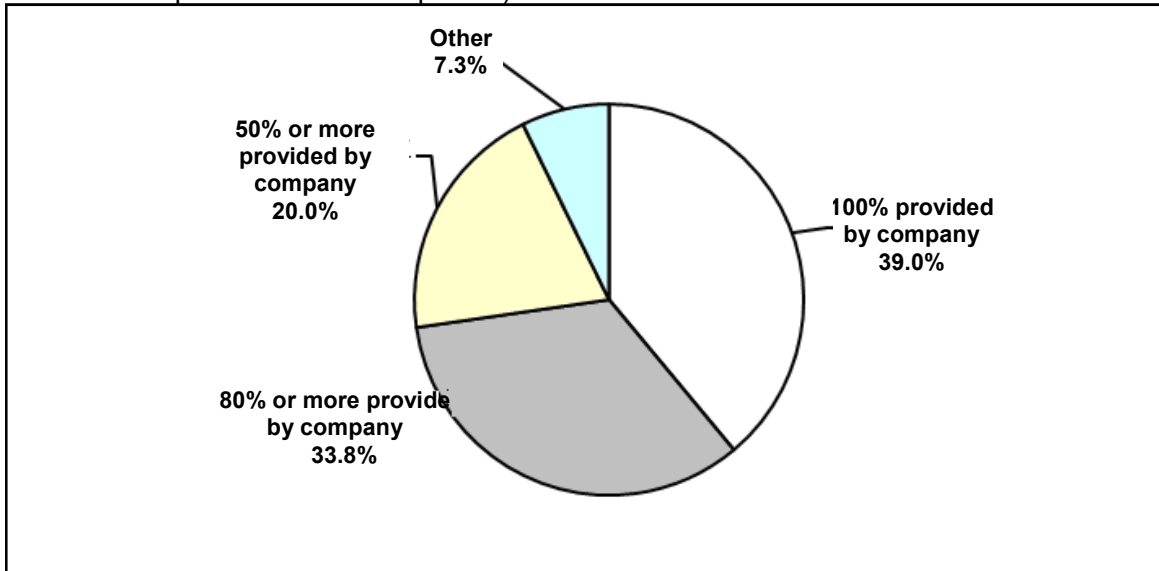
Approximately 70 percent of the Japanese companies surveyed provided healthcare insurance for “Employees and their families.” Combined with the number of companies offering healthcare insurance for “Employees only,” over 90 percent of all Japanese companies surveyed (91.7%) provided healthcare insurance for their employees. Additionally, over 70 percent<sup>3</sup> of the companies contributed at least 80 percent of insurance premiums on behalf of their employees, and around 40 percent of these companies provided the premium costs fully. These results suggest that Japanese companies provide superior healthcare benefits to their employees.

[Graph 9] Condition of Healthcare Insurance Provision (Number of respondents: 408 companies)



<sup>3</sup> “Other” (7.3%) include companies bearing 100 percent of all healthcare insurance premiums for employees and 100 percent for their families, or combinations of other ratios, and the percentage of contribution by these companies is not necessarily less than 50 percent.

[Graph10] Healthcare Insurance Premiums Provided by Companies (Number of respondents: 385 companies)



### III. Evaluation of Investment and Business Environments

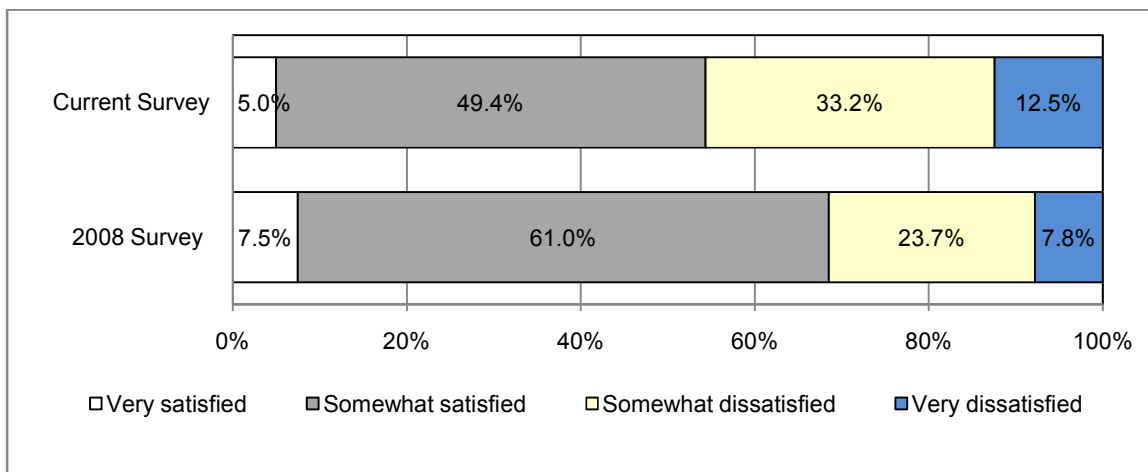
#### 1. Evaluation of business performance

Looking at the results of the surveyed companies regarding their business performance against the purpose of launching an operation in California, etc., more than half of all respondents continued to give positive evaluations, reporting their business performance as “Very satisfactory” or “Somewhat satisfactory”. Compared to the previous survey, however, the percentage of companies reporting their business performance as “Very satisfactory” or “Somewhat satisfactory” decreased.

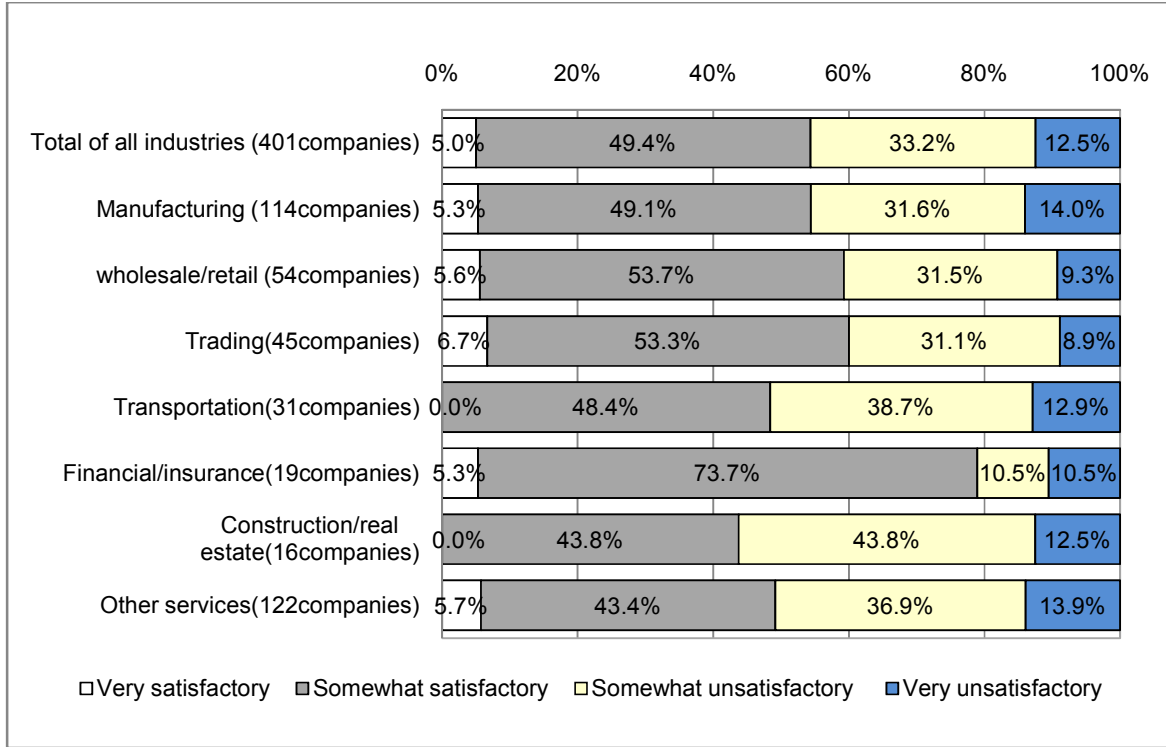
Viewing the breakdown by industry, approximately 80 percent of the companies surveyed in all industries said their business performance was “Very satisfactory” or “generally favorable.” In the construction/real estate and transportation industries, however, fewer than half the companies surveyed reported their business performance as “very satisfactory” or “somewhat satisfactory”.

[Graph 11] Evaluation of Business Performance and Operating Results in the State of California (Number of respondents: 401 companies)

(All Industries)



(Responses by industry)

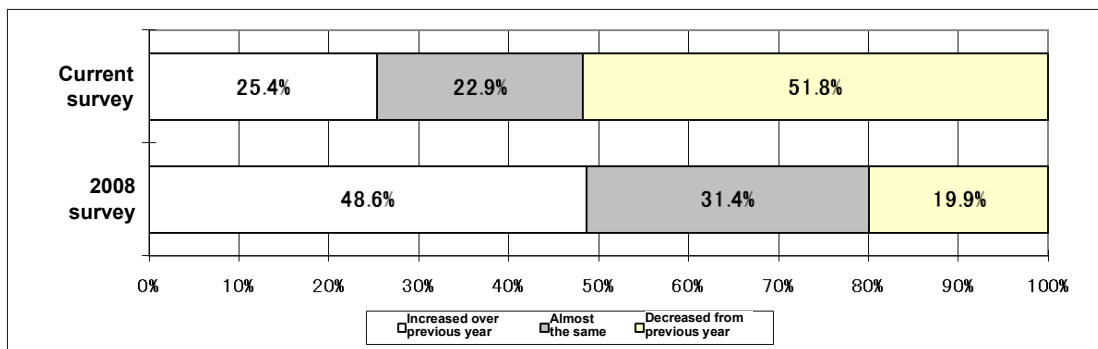




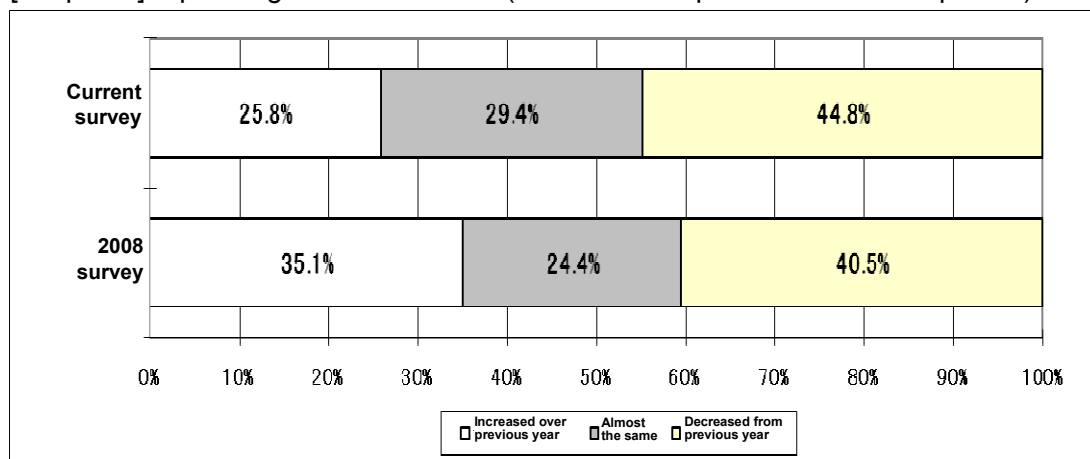
Looking at the revenues in 2009, approximately one-fourth (25.4%) of the companies surveyed cited their revenues as having “Increased over the previous year,” while roughly half of all respondents (51.8%) said their revenues had “Decreased from the previous year,” reflecting the impact of the current recession. Compared to the previous survey, there was a significant drop in the percentage of companies reporting increased revenue relative to the previous year, while there was a substantial rise in the percentage of companies reporting revenue lower than that of the previous year.

Turning to the operating income in 2009, the percentage of companies reporting a “Decrease from the previous year” (44.8%) exceeded the percentage of companies reporting an “Increase over the previous year” (25.8%). Compared to the previous survey, the percentage of companies reporting an increase in operating income over the previous year declined, while the percentage of companies reporting a decrease in operating income from that of the previous year rose slightly.

[Graph 12] Revenues for 2009 (Number of respondents: 398 companies)



[Graph 13] Operating Income for 2009 (Number of respondents: 395 companies)

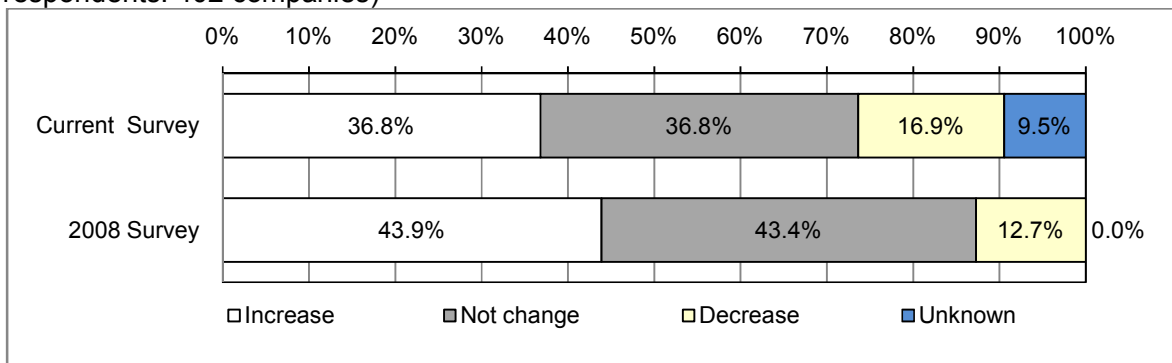


## 2. Future outlook

As for the outlook on future income over the next year or two, 36.8 percent of those surveyed stated they would "Increase" and another 36.8 percent said they would "Not change" while 16.9 percent said they would "Decrease." The remaining 9.5 percent of respondents said they "Unknown," using the new choice added to this year's survey. Compared to the previous survey, the percentage of companies expecting an "Increase" in business performance decreased, while the percentage of companies expecting a "Decrease" in business performance rose slightly, indicating that the companies surveyed are still not sure whether they have left the recession.

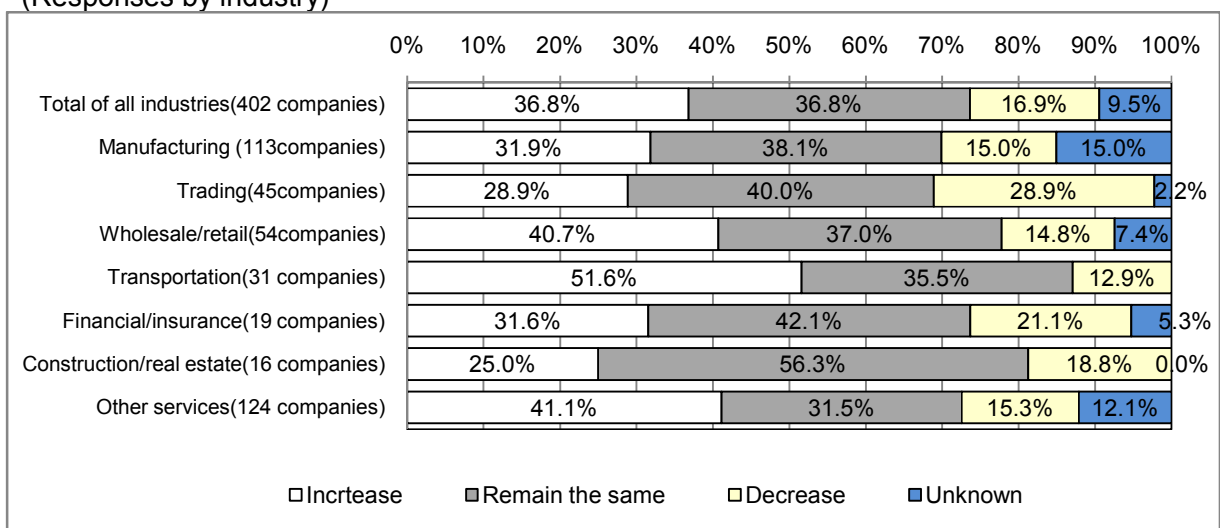
When the figures are viewed by industry, it is significant to note that more than half of the respondents in the transportation industry expected an "increase" in business performance, which may suggest that transportation companies believe the current performance has hit bottom and will rebound.

[Graph 14] Operating Income Forecasts for the Next Couple of Years (Number of respondents: 402 companies)



(Note) "Don't know" was not provided as an optional choice in the previous survey.

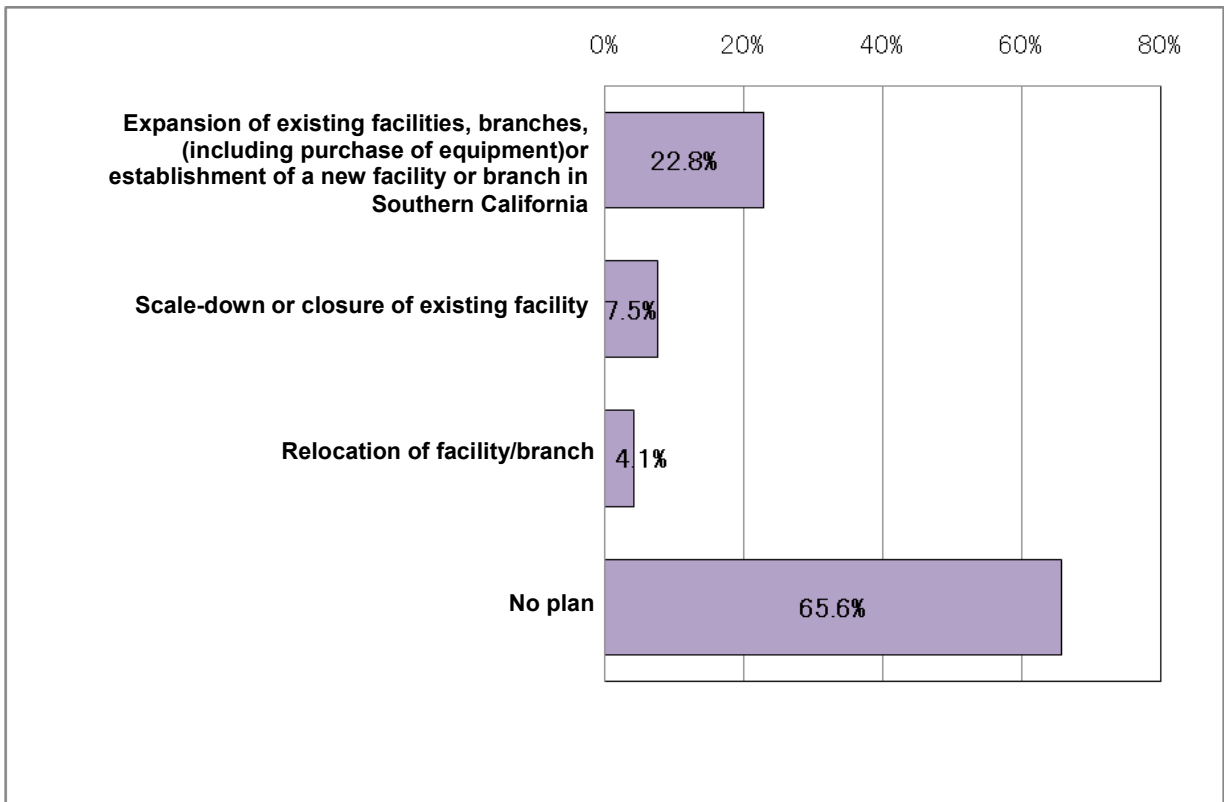
### (Responses by industry)



### 3. Investment and business plans

When asked about their investment/business plans for the next couple of years, about 20 percent of the companies surveyed stated they were planning to “Expansion of existing facilities, branches, or establishment of a new facility or branch in Southern California” On the other hand, approximately 10 percent of the surveyed companies planned the “Scale-down or closure of existing facility” or the “Relocation of facility or branch.” Note that, compared to the previous survey, the percentage of companies planning to “Expansion of existing facilities, branches, or establishment of a new facility or branch in Southern California ” decreased from 26.8 to 22.8%, while the percentage of companies planning the “scale-down or closure of existing facility” increased from 4.7 to 7.5%).

[Graph 15] Investment and Business Plans for Next Couple of Years (Multiple responses: Number of respondents: 465 companies)

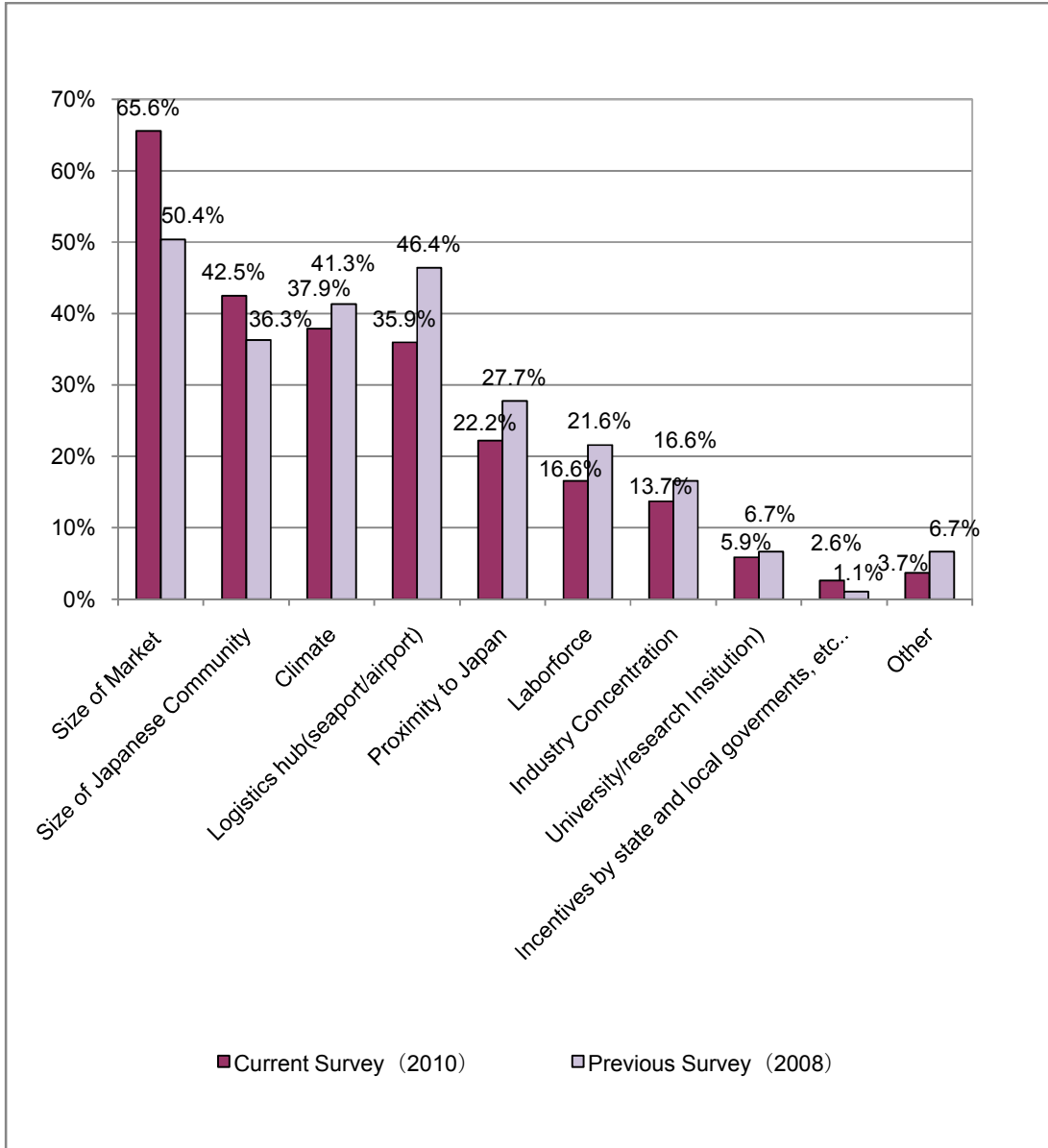


#### **4. Advantages of California**

As for the advantages of California, approximately two-thirds (65.6%) of the 439 companies responding to the survey reported the “Size of market” of California--a state with a population of about 38 million--as a major advantage. This was followed by “Size of the Japanese community” (42.5%) in a state where the population of Japanese citizens and residents of Japanese origin amounts to 300,000, good “climate” (37.9%), and “Logistics hub” (35.9%), having a good access to the seaports and airports. Of these factors, “Size of market” and “Size of the Japanese community” were cited as advantages by a greater percentage of companies than in the previous survey, indicating that the market size of California is becoming increasingly important in the face of the recession. However, the percentage of companies citing “Logistics hub” dropped by 10.5 percentage point from the previous survey. One reason for this is the increasing rules and fees at the ports of Los Angeles and Long Beach, which are making California less attractive as a logistics hub. Another point to note is that an extremely small number of those surveyed (2.6%) found the incentives by state and local governments attractive, which suggests that not enough incentives are available to Japanese companies.

A breakdown by industry shows that more than half of the respondents in all industries cited “Size of market” as an advantage. As for “Logistics hub,” it was recognized as an advantage by more than half of the transportation companies, but the percentage of companies citing “Logistics hub” as an advantage dropped significantly in comparison to the previous survey.

[Graph 16] Advantages of California  
 (Multiple responses: Number of respondents: 439 companies)



[Table 6] Advantages of California (by industry)  
(Multiple responses; Number of respondents: 439 companies)

	Size of market	Size of the Japanese community	Climate	Logistics hub (seaport/airport)	Proximity to Japan	Labor force	Industry consolidation	University/research institution	Incentives by state and governments, etc.	Other
Manufacturing (133 companies)	66.2%	42.1%	36.1%	36.1%	27.8%	24.8%	9.8%	6.8%	3.0%	3.8%
Wholesale/retail (59 companies)	74.6%	37.3%	47.5%	37.3%	18.6%	16.9%	3.4%	5.1%	0.0%	0.0%
Trading (56 companies)	69.6%	44.6%	39.3%	28.6%	21.4%	16.1%	14.3%	1.8%	3.6%	5.4%
Transportation (36 companies)	69.4%	41.7%	33.3%	52.8%	30.6%	16.7%	13.9%	2.8%	0.0%	0.0%
Financial/insurance (24 companies)	75.0%	54.2%	25.0%	29.2%	12.5%	8.3%	29.2%	4.2%	0.0%	8.3%
Construction/real estate (16 companies)	62.5%	25.0%	37.5%	37.5%	25.0%	6.3%	25.0%	6.3%	0.0%	0.0%
Other services (135 companies)	57.0%	44.4%	38.5%	34.8%	17.8%	11.1%	17.8%	8.1%	4.4%	5.2%

(Note 1) The percentages in the table indicate the ratios of companies that selected the applicable item to those responding to the questionnaire.

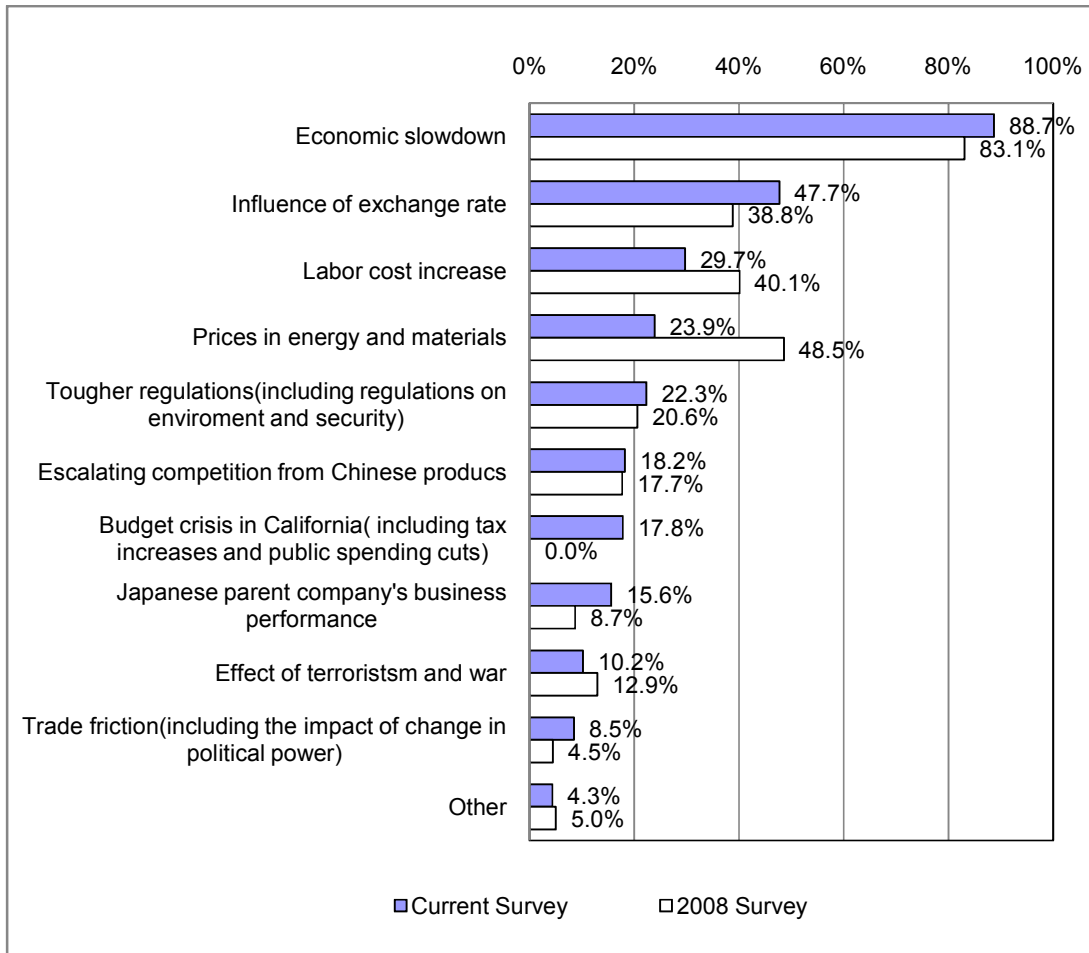
(Note 2) Percentages equal to or greater than 50% are shaded.

## **5. Concerns over business operations in the future**

The largest percentage (88.7%) of the companies surveyed cited “Economic slowdown ” as a factor of concern affecting their business operations in the future, followed by “Influence of exchange rate” (47.7%), “Labor cost increase” (40.1%), “Prices in energy and materials” (23.9%), and “Tougher regulations (including regulations on environment and security)” (22.3%).

Compared to the previous survey, the number of companies citing “Economic slowdown” the greatest concern in the previous survey, increased further by 5.6 percentage points, while the number of companies citing “Influence of exchange rate” rose by 8.9 percentage points. These results suggest that, as the recession continues, the economic conditions and exchange rates that directly affect corporate earnings are becoming major concerns in the running of companies. On the other hand, the percentage of companies citing “Prices in energy and materials” dropped to 23.9 percent, although it was cited as a concern by nearly half the respondents in the previous survey, which was conducted during a time of price escalation in oil and commodities. Among other items, “Budget crisis in California,” a new optional choice added with this survey, was cited by 17.8 percent of the companies, and the percentage, though small, of companies citing “Trade friction” rose from 4.5 percent in the previous survey to 8.5 percent.

[Graph 17] Concerns over Business Operations in the Future (Multiple responses: Number of respondents: 461)



Note: "Impact of exchange rate" was added to the selections from this survey.

(Note) "Budget crisis in California (including tax increases and public spending cuts)" was added as an optional choice with this survey.

Looking at the breakdown by industry, more than 80 percent of respondents in all industries cited "Economic slowdown" as a factor of concern in all industries. Particularly, all of the finance/insurance, construction/real estate and other services companies surveyed cited "Economic slowdown" as a concern. As for "Budget crisis in California (including tax increases and public spending cuts)," a new optional choice added with this survey, 64 percent of the wholesale/retail companies surveyed cited it as a concern, probably due to the negative impact of the recent sales tax increase and other measures necessitated by the budget crisis.



[Table 7] Concerns over Business Operations in the Future (by industry) (Multiple responses: Number of respondents: 461 companies)

	Economic conditions	Impact of exchange rate	Rising employment costs	Rising energy costs/material prices	Tighter regulations (including regulations on environment and security)	Increasingly fierce competition with Chinese-made products	Budget crisis in California (including tax increases and public spending cuts)	Weakening corporate strength of the parent company in Japan	Effects of terrorism and international conflicts	Trade friction (including the impact of the new administration coming into power)	Other
Manufacturing (135 companies)	83%	49%	33%	27%	23%	19%	42%	20%	5%	10%	2%
Wholesale/retail (60 companies)	92%	70%	17%	28%	27%	28%	64%	12%	3%	10%	2%
Trading (57 companies)	91%	53%	32%	16%	11%	14%	37%	16%	16%	7%	9%
Transportation (35 companies)	94%	40%	46%	23%	46%	9%	5%	6%	29%	11%	6%
Financial/insurance (22 companies)	100%	41%	27%	14%	41%	9%	0%	14%	14%	0%	14%
Construction/real estate (16 companies)	100%	41%	27%	14%	41%	9%	0%	14%	14%	0%	14%
Other services (136 companies)	100%	25%	13%	38%	13%	13%	0%	13%	13%	0%	13%

(Note 1) The percentages in the table indicate the ratios of companies that selected the applicable item to those responding to the questionnaire.

(Note 2) Percentages equal to or greater than 50% are shaded.

## **6. Disadvantages associated with business operations**

Among the disadvantages and the requests from Japanese companies to the state government and local municipalities in connection with operating business in California (multiple answers were allowed), more than half of the companies surveyed cited “Tax burden” and “Labor costs,” reflecting concerns over the tax rates and employment insurance and other employment-related costs in California, which exceed those of other states. Other comments by respondents raised worries over the tax rate increases, in connection with the “Tax burden,” to fight the budget crisis in California. In the area of “labor costs,” some respondents pointed to the labor laws in California, which are relatively strict in comparison to those of other states.

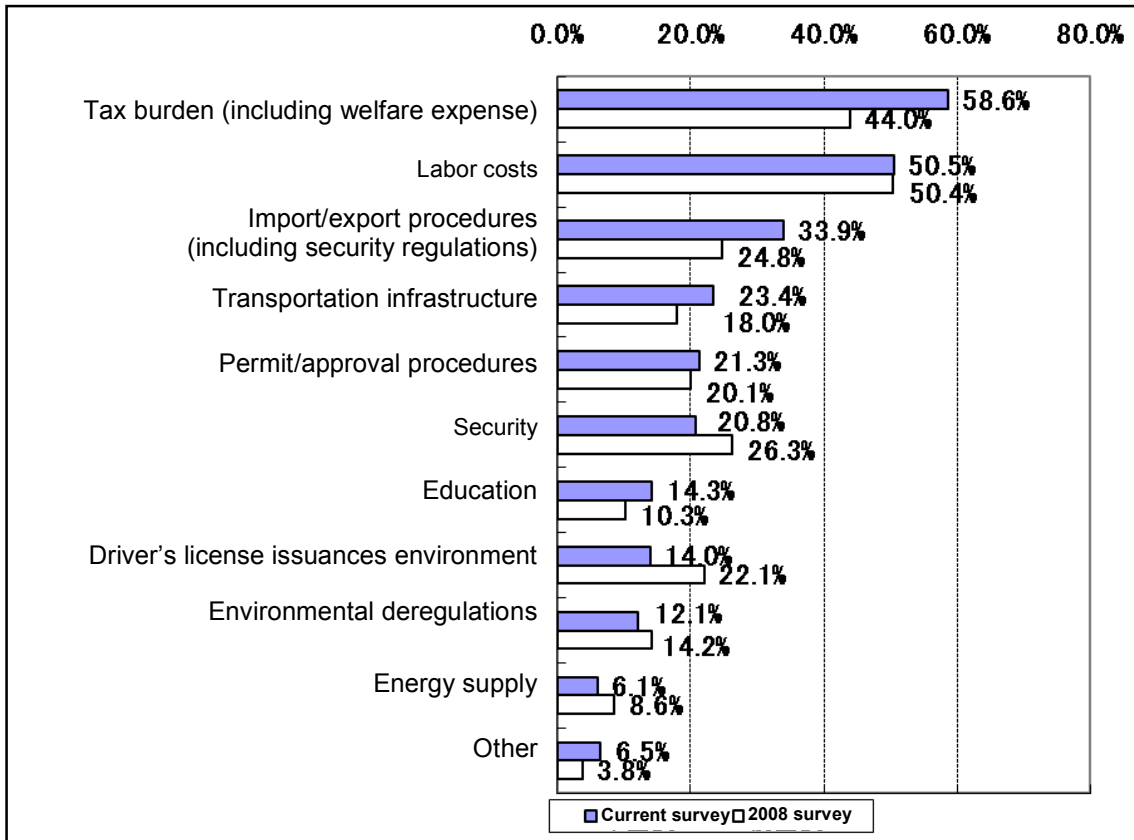
The above two items were followed by “Import/export procedures” cited by one-third (33.9%) of the companies. Specific comments cited the stricter federal regulations on supply chain security and various fees at the ports of Los Angeles and Long Beach, thus perceiving them as disadvantages to business operations.

Other disadvantages cited include the problems of the local “Traffic infrastructure” creating chronic traffic jams in and around Los Angeles, long “Permit/approval procedures” hindering business operations, and stricter rules on visa issuance.

Compared to the previous survey, the percentage of companies citing “Tax burden” substantially increased from 44.0 to 58.6%) against the backdrop of tax increases in California, while the percentage of companies citing “Import/export procedures” also rose from 24.8 to 33.9% as a result of the recent tightening of security regulations and introduction of new fees at the ports of Los Angeles and Long Beach.

Improvements in the areas of “Tax burden,” “Labor costs” and “Import/export procedures,” having been cited as disadvantages associated with business operations, will definitely be a plus for the future of foreign investment in California.

[Graph 18] Requests to State Government, Local Municipalities, Etc. (Multiple responses: Number of respondents: 385 companies)



## [Reference] Specific Examples of Disadvantages and Requests for Improvement

### Tax burden

<High tax rates, etc.>

- Taxes are excessively high.
- Tax burden - Costs are very high compared to other states.
- Income taxes are too high.
- Taxes are high.
- Tax rates are high.
- High tax rates
- For the reasons of high tax rates, manufacturing companies are accelerating their production shifts to other states and overseas locations, and our business is also beginning to feel the impact. If this trend continues, the manufacturing industry in Southern California may become hollow and we may have to consider withdrawing from this market. Please implement tax reform with a view to keeping the manufacturing sector in Southern California.
- Reduction of state sales tax
- Self-employment taxes are too high.
- Self-employment taxes are excessive.
- Sales taxes and gasoline prices, which are higher than in other states, are all the revenue sources of the state government. The state government should not rely on companies, but should instead work with the federal government, to come out of the crisis.
- The state government is considering taxing corporations based on sales revenues.
- The state sales tax has been increasing each year, and this is a drag on consumer spending. Also, regarding the measure to cut taxes on loan interest, we want the measure to be applied to interest on all loans, not just mortgages, as a way to boost consumer spending. Payroll taxes are fairly complicated, and companies may eventually leave California.
- Corporate taxes in Los Angeles
- Scrapping of the city tax (sales tax) by the City of Los Angeles
- Significant CRV increase on bottles

<Concerns over the state budget crisis>

- Concerns over higher tax rates and reinforcement of various regulations as a result of deteriorating budget conditions in the state
- State taxes are rising, all the fees are increasing and unemployment remains high, all because the state does not have enough revenues to fund its spending. If nothing is done, Japanese companies may relocate to other states instead of continuing to invest in California or setting up new facilities, branches, etc., in the state.
- Revenue taxes are rising because the state does not have enough revenues to fund its spending.
- Despite the financial collapse, California should not adopt easy measures such as raising taxes, but instead it should strive to attract tourists or find other revenue sources instead.

<Taxation/accounting procedures>

- The government is introducing new requirements on tax returns one after another, and the costs we pay to our accounting firm have increased significantly. Please consider simplifying the tax system to help us cut costs.
- We feel that both the federal and state governments are taking a hard stance on foreign companies when it comes to taxation, etc. We want them to treat foreign companies fairly.
- We would appreciate the timely refund of overpaid taxes and duties if and when they are generated due to various reasons.
- Tax issues: California has all advantages in terms of its geographical location, etc., but payroll and other taxes are complex and companies may eventually leave California.
- In the U.S., companies conducting business across the nation are subject to different tax and industry regulations in each state, and this adds to the cost burdens of companies that need to comply with these different regulations.
- Accounting regulations (including audit regulations) are too strict and complex.

**Issues related to employment costs and labor laws**

<Employment costs in general>

- The costs of employee hiring are too high (overtime, benefits, etc.).
- Employment structures (calculations of wages, overtime, etc.) are different from other states.
- Calculation standards for work hours in California (the standard number of work hours is eight hours per day, rather than a minimum of 40 hours a week).
- We fully understand the budget crisis at hand, but we still feel that the burden of employment costs is enormous. We would greatly appreciate it if the government could implement measures to cut employment costs.
- Containment of employment costs
- Employment regulations are complex and diverse.
- Employment taxes payable to the federal government are so high that we cannot increase the number of new hires.

<High insurance premiums>

- High medical insurance premiums
- Stabilization of medical insurance costs and premium rates for workers' compensation insurance
- Health insurance costs are too high and will continue to increase. It will never end!
- Medical insurance is too expensive.
- Medical costs and insurance premiums are too high and are pushing up employee benefits costs.
- Creation of a low-cost health insurance system such as the HMSA in Hawaii
- Please implement the reform of the health insurance system as soon as possible. The way medical costs are increasing is not normal.
- Please implement measures to control the escalation of liability insurance, medical insurance, etc.
- Labor costs: Insurance premiums are rising every year and creating problems.
- With insurance systems and whatnot, costs are very expensive compared to other

states. Although insurance premium rates have come down from their peak, they are again starting to rise.

- Reduction premium rates for workers' compensation insurance
- The premiums for workers' compensation insurance, vehicle insurance and other insurance that we must pay in order to conduct business are too high and are putting pressure on the operation of the company. That's why many companies have moved to other states. The situation must be improved as soon as possible.

<Related to labor laws>

- We feel that the labor laws and regulations in California are too strict compared to other states. If nothing is done, many companies may consider moving to other states at the next opportunity.
- Employment regulations are excessive, so much so that we may have to consider moving to another state.
- There is an imbalance of regulation favoring employees to the detriment of companies, which must bear large cost burdens. Please adjust this situation.
- The labor regulations are too strict.
- Employment regulations are too extreme.
- The condition that must be met to treat IT engineers as exempt employees is unrealistic in California. They must earn at least \$80,000 a year before they qualify for the exempt status. As a result, the outsourcing of all IT projects to overseas is the only option left for companies to cut costs, and consequently California is seeing substantial drops in corporate tax income and employment rates. What we need are labor-law revisions aimed at boosting California's cost-competitiveness against the IT industries in India and China, and policies such as the increase of taxes on companies that outsource. The labor laws that are designed to ensure short-term benefits for unions must be moderated.

**Related to import/export procedures, logistics and ports/harbors**

- Import/export regulations, combined with regulations at ports around Los Angeles, are diminishing Southern California's attractiveness as a logistics hub.
- Costs and expenses of shipping to the ports of Los Angeles and Long Beach are increasing to the point that they are now higher than in other regions of the U.S. Direct policy measures aimed at promoting export and trade by sea, and reduce the disadvantageous regulations.
- The state and local governments and agencies are bureaucratic, bloated and inefficient, and they don't care about business. The tighter environmental regulations introduced by port authorities are forcing users and customers to bear increasing economic burdens. These agencies and regulations are not supportive of the business community.
- Simplification and quickening of customs clearances of cargos in Long Beach
- High tariffs (such as landing fees at ports/harbors) are set on goods imported by bulk carriers, making for a negative import environment.
- Tighter security regulations are placing a strain on the logistics industry.
- Patrols and inspections by the Customs and Border Protection agencies (both imports and exports) are getting stricter. Officers treat us as criminals, and we are stressed.

- We would like to see the easing of import procedures.
- In the area of import/export procedures, please “relax” the various measures that have been introduced as means to tighten regulations in the name of “security enhancement.”
- New security procedures are being introduced on import procedures, such as ISF filing. As a result, the costs and burdens on business operations are increasing and we now face a difficult situation.
- Import operations are increasingly complex.
- Export procedures take too long.
- Import clearance standards are strict and cargos are checked somewhat roughly, so much so that products are often damaged.
- The import procedures for goods going to the U.S. were tightened substantially from this year, but there were no advance notices and we are now confused. We weren’t notified at all regarding the changes in government organizations, and they suddenly began charging us for certificates that used to be free. These additional fees change our estimate of expenses, which in turn affects costs, etc., so please notify us beforehand regarding any changes.
- We understand that cargos must be checked to prevent terrorist activities, etc., and we have no problem if the measures are continued. However, these measures create problems such as prolonging the time for release of cargos and making it difficult to predict the expected release dates. Consequently, we sometimes have to resort to air shipments in urgent situations. Customers and suppliers almost never bear the costs of unscheduled air shipment, and all costs must be borne by us. When the schedule isn’t clear, countermeasures are taken by the shippers, but there is a time difference and our lines may encounter problems and even have to stop while awaiting the cargos to arrive. Customs must clearly indicate which cargo will be kept on hold for how many days and for what reason.
- Import procedures (including customs inspections) take too long, and action is taken very slowly under the FDA rules and other laws and regulations. Please make improvements.
- The new import regulations introduced by the USDA and FDA last year, applicable to meat extract (other than beef extract) used in instant noodles and products using coloring materials, resulted in a drop in number of Japanese foods of approximately 20 percent, and this dragged our overall business results lower. We strongly request that these regulations be revised.
- It takes as long as two months to obtain a permit (TWIC card) from the TSA to enter public security facilities. This results in the loss of time in our business operations.

### **Environmental regulations**

- The environmental regulations (especially AQMD; Air Quality Management District) are too strict.
- The environmental regulations are becoming stricter each year, and we have a hard time complying with the regulations. Particularly, the regulations on obtaining a permit to explore mining resources and air quality control are difficult.
- Strict air quality regulations place a burden on the company’s cash flow by forcing us to buy expensive new equipment in order to comply with unreasonable standards that have been proved wrong. New taxes and permit requirements have been issued by

the state, country and city governments.

- Promotion of solar power utilization and recycling: Cities and counties are also driving these initiatives. For example, cities and counties, as well as the state government, are mandating the installation of solar generation and recycling facilities in new and old buildings.
- Reduce of air pollution

#### **Permit/license procedures and other regulations**

- Rationalization and quickening of construction permit/license processes: Particularly, the processes of obtaining permits/licenses for restaurants and other commercial TIs are too long and complex for the size of such projects. This is causing many clients to lose business opportunities.
- Allow business licenses to be issued more quickly, and clearly indicate the necessity of permits.
- To begin with, it takes too long to obtain permits/licenses. This is a major drawback in implementing business strategies.
- Please relax regulations on permits, etc., pertaining to the installation of equipment and materials.
- The health-department regulations are excessive, and we can only think that these regulations are there simply in order to collect fees. Every person in the department says different things about the due date for the payment of license fees.
- City inspection on office expansion

#### **Visas, driver's licenses, etc.**

<Relating to visas>

- Visa issues
- We believe the regulations on work visas have become too strict.
- Please improve the condition of visa issuance so that we can bring talented personnel from overseas.
- We request that the regulations on visa (work permit) issuance for workers from overseas (including Japan), as well as foreign students attending U.S. universities and colleges, be relaxed.
- The document reviews of visa sponsors for employees, etc., are very strict and often cost us a lot of money and time.
- Work visa regulations are too strict, so we ask that they be relaxed.
- H1 visa reviews have become stricter due to rising unemployment in the U.S. As a small business, we mainly depend on hiring school fresh-outs to lower labor costs, but it isn't easy for us to obtain visas for appropriate candidates.
- We expect an increase in the quotas for H-1B visas.
- Please increase H-1B quotas so that individuals of specific skills and qualifications are issued visas.
- Employment visas --- H1 visa procedures are too strict and make it difficult for us to employ/hire talented young Japanese.
- It is too difficult to have visas (L1) issued. When an expatriate leaves, we will decide on the person to succeed in that position, but the visa application may be denied.



<Relating to driver's licenses>

- Driver's licenses are not issued easily.
- Valid dates of licenses
- Valid dates are limited, and the processes for license issuance and renewal are slow.
- It takes too long to have licenses issued/renewed for expatriates (and their families), and often they cannot focus on work. Accordingly, we strongly request that the DMV adjust its procedures to facilitate processing.
- There are problems, such as that we cannot predict when a driver's license will be issued or renewed.
- Eliminate the differences between the levels of administrative hurdles imposed on holders of green cards and visas. Renewed licenses expire too quickly.

<Social security numbers>

- I had to visit the office many times and explain just to have a social security number issued. It took several months.

**Transportation infrastructure**

- The building, expansion and improvement of new public transportation systems, and the easing of traffic congestion
- Chronic traffic congestion (in and around Los Angeles)
- Traffic congestion
- Freeways are terribly congested, and moving around takes too much time. Such heavy traffic must be putting a strain on the environment as well. Railway networks should be improved as an urgent issue.
- Limited, inadequate public transportation systems
- Paving of roads
- Building and improvement of roads, sewage and other infrastructure systems
- Improve the convenience and comfort of the Los Angeles Airport and nearby areas, because this airport is a gateway to the U.S. West Coast for business travelers and tourists from Japan. ⇒ As more people travel to/from the Los Angeles Airport, local business will also expand.
- Immigration control infrastructure at the Los Angeles Airport (immigration checks take too long)
- Lack of parking capacity is one drawback of Little Tokyo. Also, customers are discouraged from coming here due to the parking fees, which have risen in the past several years. Street parking is equally expensive, and these are additional factors that diminish the area's ability to attract customers.

**Other**

<Public order and safety>

- Improvement of public order and safety, including proper control of the homeless.

<Education>

- Improvement of education
- Raising of academic standards at public schools

<Litigation>

- There are too many lawsuits related to construction projects, and companies are bearing exorbitant litigation costs. Something must be done to eliminate unreasonable demands or irrational, intentional litigation.
- It is a lawsuit-happy society. (This applies to all states instead of simply California.)
- Particularly, Southern California is home to frivolous, meritless lawsuits, which place an increased burden on companies in terms of attorneys' fees and insurance premiums. People can file lawsuits for damage compensation, unfair employment practices and various other reasons unthinkable in Japan.

<Relating to costs>

- The high cost of automobile gasoline
- Internet access is slower than in Japan, but access fees are higher. Please make optical fiber lines available at lower costs.

<Other>

- The high cost of doing business in California: Governments are unfriendly to existing businesses, although they will do anything to encourage new businesses to set up offices here.
- The legal system: Compliance costs are very high compared to other states.
- We are hoping for economic stimulus measures.