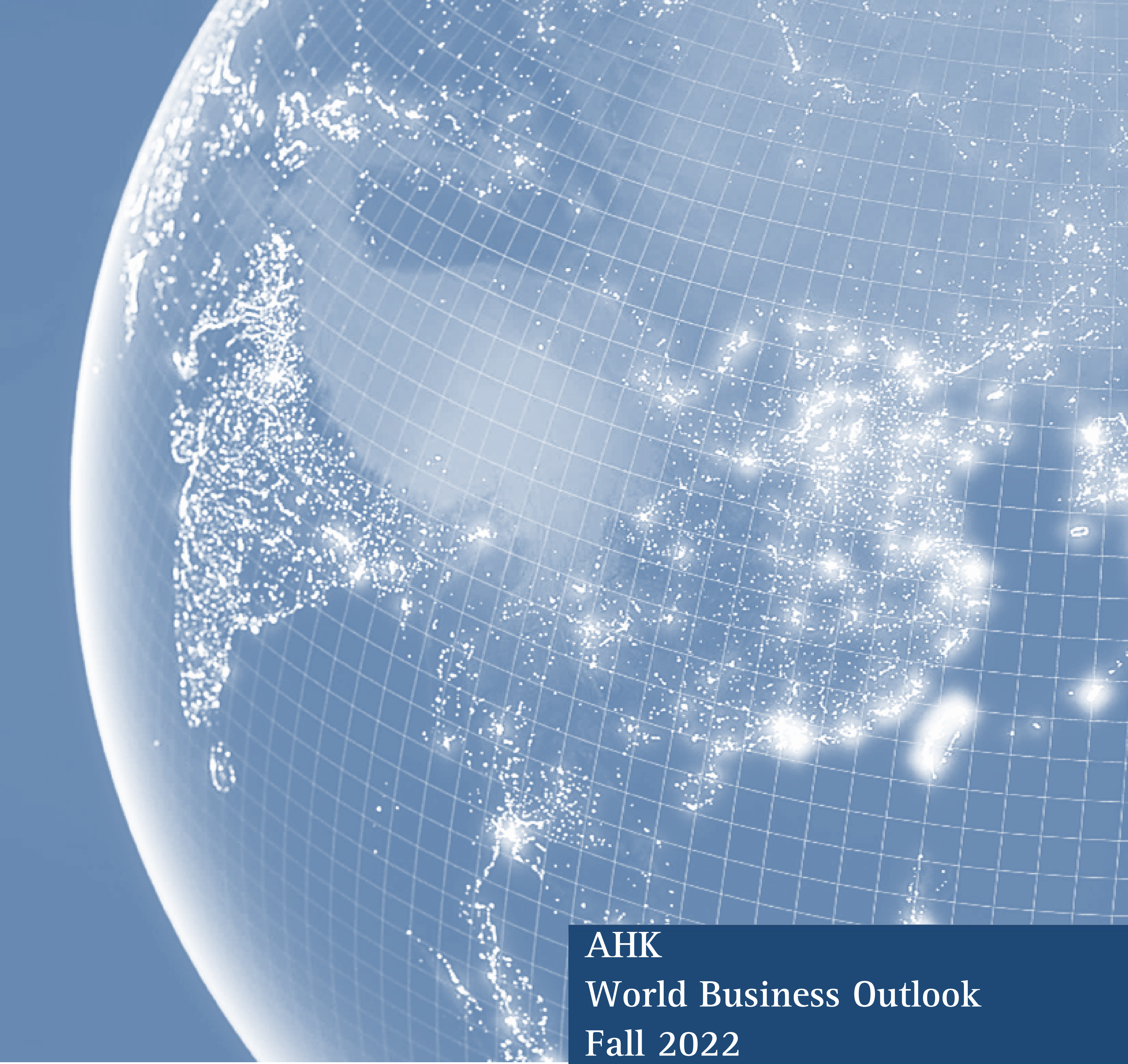


AHK World Business Outlook Fall 2022

Special evaluation Asia

#GemeinsamWeltweit

DIHK Deutscher Industrie- und Handelskammertag

AHK Deutsche Auslandshandelskammern

AHK World Business Outlook Fall 2022 Special evaluation Asia

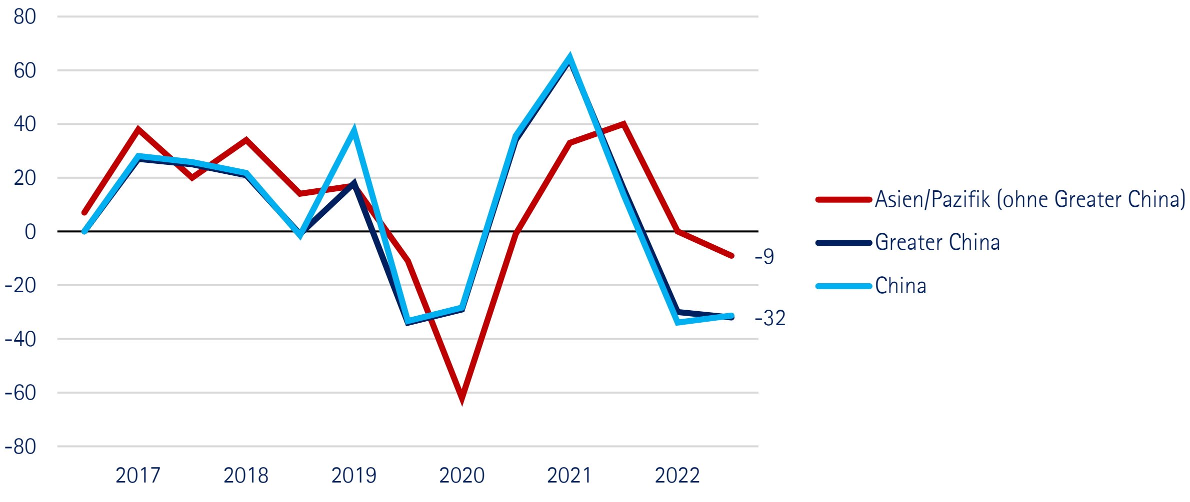
China and the Asia-Pacific region are of great economic importance for the German economy. Since 2016, China has been Germany's most important trading partner with an annual bilateral trade volume of 246 billion euros. Imports and exports between Germany and countries in the Asia-Pacific region (excluding Greater China) included goods worth around 233 billion euros in 2021.[1] The economic effects of the Russian war in Ukraine and China's zero-covid policy are weighing on the global economy - including the economies in the Asian region. In the coming twelve months, companies in Asia, as in other regions of the world, are therefore predominantly expecting an economic downturn. This is shown by the special evaluation of the AHK World Business Outlook Fall 2022 among more than 500 AHK member companies based in Asia.

In China, economic development has been shaped by the zero-covid policy and the real estate crisis. In particular, the lockdown in Shanghai and other major Chinese cities in the spring of 2022, which lasted several weeks, led to considerable disruptions in Chinese production and thus in global supply chains, which have still not been fully resolved. Chinese domestic demand has also been slowed by this. Time and again, numerous cities continue to be placed under (partial) lockdowns. Only 14 percent of companies in China therefore expect economic growth in the coming twelve months, 46 percent expect the economy to slow down. Two out of five companies expect the economic development to remain the same. Although the balance of better and worse assessments rises slightly to minus 32 points (spring 2022: minus 34 points), it is still below the level at the beginning of the Corona pandemic (spring 2020: minus 28 points). Companies in Taiwan are even more pessimistic: there, only three percent of the companies expect economic growth, but 40 percent expect a contraction (balance minus 37 points).

The outlook has also deteriorated in the Asia-Pacific region (excluding Greater China)[2] due to the weakening global economy. However, expectations are significantly less pessimistic than in China and other regions of the world. The region includes countries from Central Asia to Oceania. On average, 22 percent of the companies in the region expect a stronger economic development, 31 percent expect an economic slowdown. The balance of better and worse assessments falls to minus nine points (spring 2022: zero points).

Economic expectations of companies in Greater China, the People's Republic of China and Asia-Pacific

Balance of better minus worse answers in points



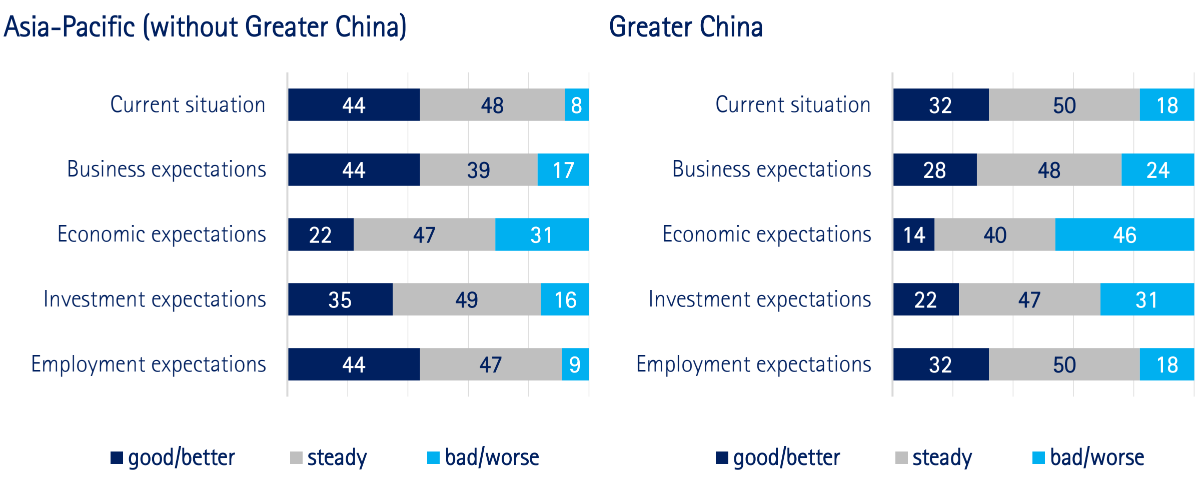
[1] Source: Federal Statistical Office.
[2] Greater China contains the aggregated data of the People's Republic of China, Taiwan and Hong Kong.

Business situation and expectations, investment and employment intentions

Uncertainty about the impact of the zero-covid policy on the economy is weighing on companies based in China. The current business situation of companies there has deteriorated noticeably compared to the spring. 31 percent of the companies - eleven percentage points less than in the previous survey - report a good business situation, every second one a satisfactory business situation. 17 percent report a poor business situation. The balance of good and bad assessments thus falls to 14 points (previous survey: 24 points). On balance, companies in Hong Kong assess their situation more negatively: although 34 percent of the companies have good business, 31 percent report a poor business situation (balance of three points). There are few other countries in the world where companies assess their current situation even worse. In the Asia-Pacific region, for example, the business situation improves slightly regarding the balance: 44 percent of the companies (previous survey: 45 percent) report good business, only eight percent (previous survey: eleven percent) report bad business. The balance rises slightly to 36 points (previous survey: 34 points) and is thus just above the global average. In the region, countries can benefit from increased travel after the lifting of corona-related travel restrictions, for example, as well as from increased interest due to the diversification of supply chains.

In terms of business expectations for the coming twelve months, companies in Asia are somewhat more cautious than in the assessment of the current business situation. Similar to the previous survey, positive and negative expectations in China almost balance each other out: 28 percent expect better business in the coming twelve months, 23 percent worse. The balance rises to five points (previous survey: one point). Expectations are even more pessimistic in both Taiwan (balance zero points) and Hong Kong (balance minus seven points). Although expectations in the Asia-Pacific region are worse than in the spring, companies are still more optimistic overall than the global average, as in the previous surveys. 44 percent of the companies expect a positive development of their own business, 17 percent a worse one. The balance drops to 27 points (previous survey: 35 points).

Economic sentiment indicators (shares in percent)



Due to the uncertain economic development, fewer companies in China want to expand their investment budgets. Whereas in spring 2022 one-third of companies were still planning to make higher investments, the figure is now 22 percent. The share of entrepreneurs with lower investment intentions remains roughly constant (31 percent). The balance of higher and lower planned capital expenditure falls for the third time in a row, turning negative for the first time since the start of the Corona pandemic (spring 2020) to a balance of minus nine points (pre-survey: zero points). We hear from local companies that the complex disclosure requirements and regulations on the storage of business data are now increasingly important reasons for not investing (further) in China. At their locations in Hong Kong (balance minus 35 points) and in Taiwan (balance three points), companies are also planning with lower investment budgets.

Employment intentions are also more cautious than in the spring: while one-third of the companies (previous survey: 37 percent) want to increase staff in the coming twelve months, 18 percent (previous survey: twelve percent) are planning to reduce staff numbers. The resulting balance of higher and lower employment intentions drops to 16 points (previous survey: 25 points). In Hong Kong, companies are cutting their headcount more significantly: only seven per cent intend to increase staff, while 24 per cent plan to reduce staff (balance minus 17 points, previous survey: 23 points).

Despite a weakening global economy, companies' investment intentions at their locations in Asia-Pacific (excluding Greater China) remain almost constant compared to the previous survey and are significantly above the global average. Almost everywhere in the world, companies are slashing their investment budgets; only in a few other regions do companies currently have even higher investment intentions. For German companies looking to diversify their supply chain, the region can be an interesting location. The ASEAN countries in particular offer great opportunities for this: 35 percent of the companies (previous survey: 33 percent) are planning higher investment budgets in the next twelve months, 16 percent (previous survey: 12 percent) want to make lower investments than now. The balance deteriorates minimally to 19 points (previous survey: 21 points). Nevertheless, the investment intentions within the region differ significantly in some cases. Especially in India (balance 46 points) and Singapore (balance 37 points), companies are planning expansively. In Sri Lanka (balance minus 25 points) and South Korea (balance minus 21 points), on the other hand, companies are cutting their investment budgets.

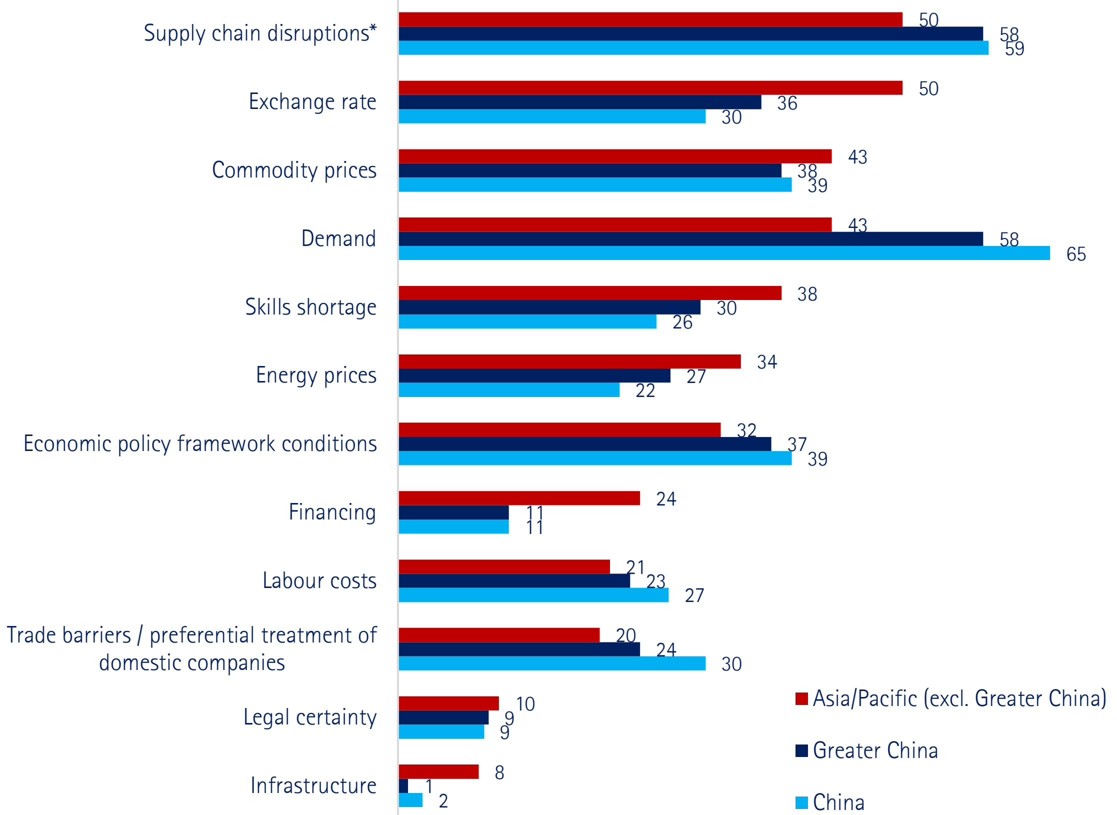
Analogous to investment plans, companies are also sticking to their employment intentions. While companies on average worldwide are more cautious in their personnel planning than in the spring, companies in Asia-Pacific (excluding Greater China) are expanding their workforce. 44 percent - two percentage points more than in the previous survey - plan to increase staff, nine percent (previous survey: eight percent) plan to reduce staff. The balance of higher and lower employment intentions rises by one point to 35 points (previous survey: 34 points).

Risks for German companies

Supply chain disruptions, exacerbated by China's zero-covid policy, are a key business risk for companies in China and Asia Pacific: 59 per cent of companies in their Chinese locations and one in two companies in Asia Pacific (excluding Greater China) are affected by supply chain disruptions in Fall 2022 - far more than in other regions of the world.

Risks for companies in Greater China, the People's Republic of China and Asia-Pacific (excluding Greater China) over the next 12 months

in percent, multiple answers possible, *asked for the first time



High commodity prices are still among the top three risks for companies, but have become significantly less important compared to the previous survey. In China, 39 percent (previous survey: 59 percent) still see themselves burdened by high commodity prices, in Asia-Pacific it is 43 percent (previous survey: 53 percent).

Meanwhile, demand pressure is increasing for companies worldwide and in their Asian locations. For 65 percent of companies (previous survey: 57 percent) in China, lower demand is a risk for business development. Behind this is not only the concern of weakening domestic demand, but also lower foreign demand due to the economic slowdown in many countries. The demand risk has also become more important in the Asia-Pacific region (43 percent, previous survey: 35 percent).

Fluctuating exchange rates are causing uncertainty for more and more companies. At 50 percent, it is a key risk for companies in Asia-Pacific (previous survey: 39 percent) and also remains important in China (constant at 30 percent). Companies in Japan (76 percent) see exchange rate fluctuations as a business risk with above-average frequency. As a result of the Fed's interest rate hikes in response to the high inflation rates in the USA, the Yen has depreciated significantly against the US dollar. Although this provides relief for exports from Japan, it increases cost pressure on the import side and reduces the purchasing power of Japanese consumers.

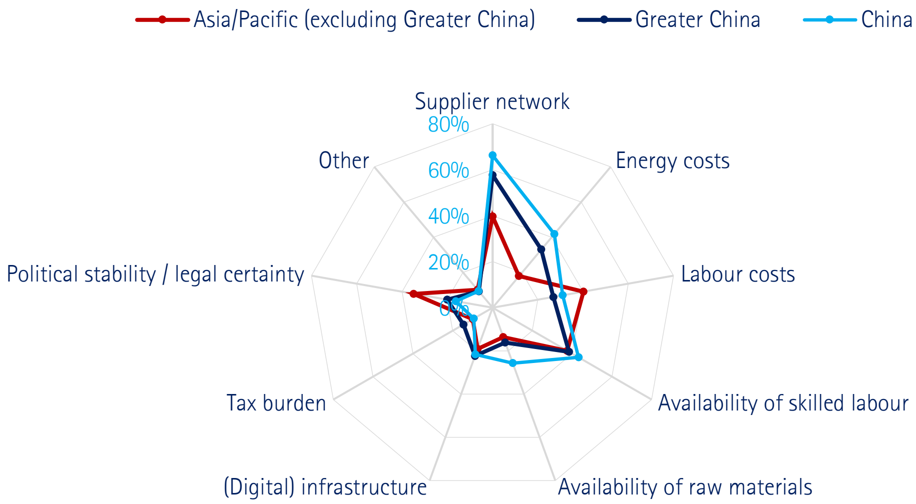
In addition to the answers given, the companies had the opportunity to name further risks in a free text field. At their Chinese locations, the companies mention in particular the zero-covid policy and associated restrictions, as well as geopolitical risks. Last but not least, the question of how the Chinese government will behave towards Taiwan hangs over everything - and also what the German government's China strategy will mean for German companies. At their locations in Asia-Pacific, companies once again pointed to lower demand, high inflation rates and rising interest rates.

Locational advantages from the point of view of the companies

In view of the economic challenges for the companies, the question arises as to what advantages the companies see in their current locations. In both markets, the supplier network stands out as a key location advantage. In China in particular (66 percent), the companies appreciate the good supplier structure (Asia-Pacific (without Greater China): 40 percent). Another advantage is the availability of skilled labour in the region - 43 percent of companies in China and 38 percent in Asia-Pacific see this as an advantage. Labour costs are also attractive but are now seen as an advantage by visibly more companies in Asia-Pacific (40 percent) than in China (31 percent).

Factors in which companies see advantages in their current locations

in percent, multiple answers possible



As a result of the Russian war in Ukraine, energy costs have risen enormously, especially in Europe. Locations that are not affected by these increases therefore draw competitive advantages from them. 42 percent of companies at Chinese locations see an advantage in the moderate energy costs there, significantly more than in other regions of the world as well as countries in the Asia-Pacific region, where only 18 percent see an advantage in the level of energy costs.

At 35 percent, more companies in Asia-Pacific again see political stability and legal certainty as an advantage than in many other regions of the world - as well as in China, where only 16 percent of companies cite this locational advantage.

In addition to the answers given, the companies had the opportunity to name further location advantages in a free text field. In both regions, proximity to customers and local presence in the countries play an important role. In China, the size of the market was also named as a structural advantage. With its population size, China is not least an important sales market in numerous sectors - and already the largest sales market worldwide for automobiles and the largest market for the chemical industry.

Importance of the region for the German economy

Key figures for German foreign trade in 2021/2022

	Asia/Pacific (excl. Greater China)	Greater China	PR China
Export volume (billion euros)	118	119	104
Import volume (billion euros)	115	156	142
Trading volume (billion euros)	233	274	246
Share of total exports (in %)	8,6	8,6	7,5
Share of total imports (in %)	9,6	13,0	11,8
Development of exports Jan-Sept. 2022 vs. previous year in %.	15,9	6,8	5,1
Development of imports Jan-Sept. 2022 vs. previous year in %.	31,5	42,3	43,0
Development of volume Jan-Sept. 2022 compared to previous year in %.	23,6	26,5	26,5

German direct investment abroad (2020)

	Asia/Pacific (excl. Greater China)	Greater China	PR China
Stock of direct investments in billion euros	104	110	97
Number of German companies	3.569	3.104	2.394
Number of employees in German companies	842	797.000	750.000

Foreign direct investment in Germany (2020)

	Asia/Pacific (excl. Greater China)	Greater China	PR China
Stock of direct investments in billion euros	48	9	5,5
Number of foreign companies	901	346	193
Number of employees in foreign companies	109	40.000	22.000

Sources: Federal Statistical Office, Deutsche Bundesbank

Statistical annex

Evaluation of the results by country

Balance of good/better answers minus bad/less answers in each case

	Current business situation	Business expectations	Economic expectations on the ground	Investment intentions	Employment intentions
Asia/Pacific (without China)	**36**	**27**	**-9**	**19**	**35**
India	29	29	18	46	21
Indonesia	56	44	8	-4	20
Japan	28	26	-12	19	43
Korea (South)	33	0	-56	-21	37
Malaysia	25	38	0	30	46
Philippines	47	48	7	22	38
Singapore	54	7	-11	37	46
Sri Lanka	10	10	-50	-25	-40
Thailand	54	43	-9	21	49
Vietnam	26	3	-3	0	21
Greater China	**14**	**4**	**-32**	**-9**	**14**
China, PR	14	5	-32	-9	16
Hong Kong	3	-7	-24	-35	-17
Taiwan	13	0	-37	3	23

Business risks for German companies abroad

in percent, multiple answers possible

	Demand	Funding	Labour costs	Skills shortage	Exchange rate	Energy prices	Commodity prices	Legal certainty	Economic policy framework conditions	Infrastructure	Trade barriers / preferential treatment of domestic companies	Supply chain disruptions
Asia/Pacific (without CN)	**43**	**24**	**21**	**38**	**50**	**34**	**43**	**10**	**32**	**8**	**20**	**50**
India	39	11	14	18	46	21	57	4	14	7	11	36
Indonesia	48	32	12	20	48	44	40	8	44	4	24	48
Japan	45	10	5	47	76	36	52	2	19	5	10	53
Korea (South)	48	11	44	41	41	33	52	7	19	0	33	56
Malaysia	46	33	29	58	42	33	54	4	46	8	33	50
Philippines	28	32	22	40	43	50	41	22	38	9	15	56
Singapore	46	25	39	39	46	39	39	0	39	7	25	54
Sri Lanka	55	50	25	15	60	30	30	15	80	15	45	50
Thailand	60	17	9	49	37	49	51	9	14	3	11	34
Vietnam	53	21	15	26	53	21	35	12	21	12	15	38
Greater China	**58**	**11**	**23**	**30**	**36**	**27**	**38**	**9**	**37**	**1**	**24**	**58**
China, PR	65	11	27	26	30	22	39	9	39	2	30	59
Hong Kong	48	14	21	31	48	45	28	17	41	0	21	59
Taiwan	47	7	17	37	40	23	47	3	27	0	10	57

Methodology

The AHK World Business Outlook is based on a regular DIHK survey of member companies of the German Chambers of Commerce Abroad, Delegations and Representative Offices (AHKs). In Fall 2022, it collects feedback from more than 3,100 German companies, branches and subsidiaries worldwide, as well as companies with close ties to Germany. Of these, 547 responses are from German companies in Asia. The survey was conducted from 4 to 23 October 2022.

Imprint

Association of German Chambers of Industry and Commerce e. V.
International Economic Policy, Foreign Trade Law

Publisher and Copyright

Postal address: 11052 Berlin | House address: Breite Straße 29 | Berlin-Mitte
Phone 030 20308-0 | Fax 030 20308-1000

DIHK Online : Homepage | Facebook | Twitter | Linkedin | Instagram | Youtube

Editor: Carolin Herweg

Graphics: Friedemann Encke, Sebastian Titze

Picture credits: https://www.gettyimages.de/

Status: November 2022