

AHK

World Business Outlook

Results of the Survey by the Network of
German Chambers of Commerce Abroad (AHKs)

Fall
2017



The AHK World Business Outlook is based on a regular DIHK survey among member companies of the German Chambers of Commerce Abroad, Delegations and Representative Offices (AHKs). It encompasses the feedback from around 3,000 German companies, branches and subsidiaries worldwide as well as companies with close links to Germany.

37% of respondents stemmed from industry and construction, 41% from the service sector and a further 22% from the retail trade. Small companies with less than 100 employees account for 49% of responses. 24% of the companies employ 100 to 1,000 employees. Large companies with more than 1,000 employees account for 27% of the respondents.

The survey was conducted in September and October 2017.

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In the autumn of 2017, the procedure for weighting the individual national results was updated. The results of previous surveys were adjusted using the new procedure. In some cases, historical benchmarks may thus differ from those in previous publications.

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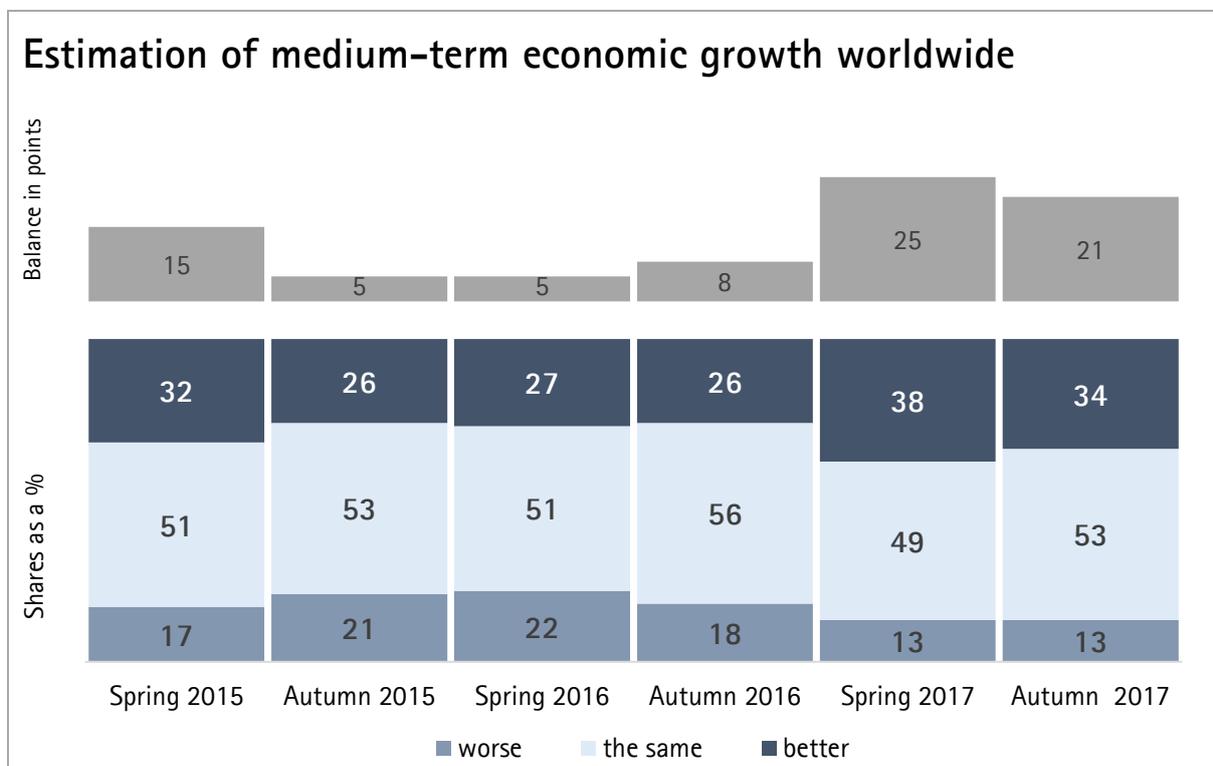
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Key messages

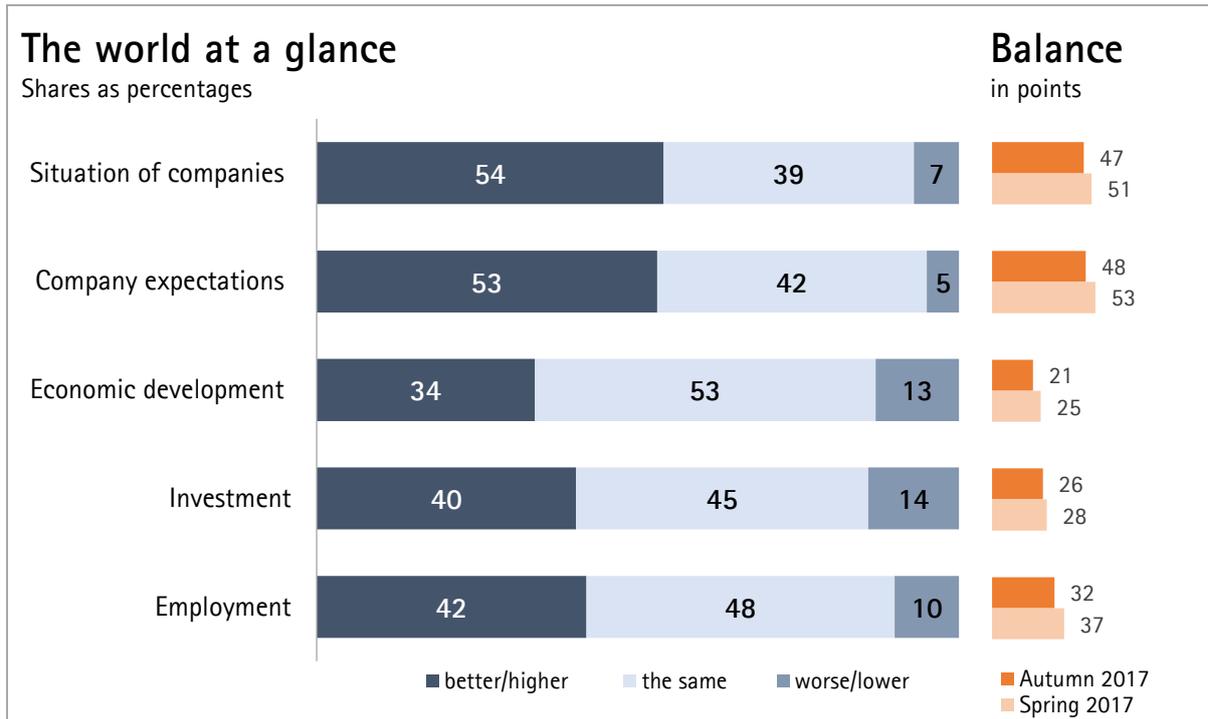
The rising growth of the global economy is ensuring good business for German companies abroad. The current business climate and the expectations of German companies and member companies of the Chambers of Commerce Abroad (AHK) remain at a high level. The upturn worldwide is based on many factors. But stability is fraught with risk. The economy in many countries is developing only slowly. Political crises and uncertainties about economic policy framework conditions are jeopardizing or preventing better overall development. For companies that depend on functioning trade relations, Brexit, trade barriers and sanctions, as well as statements and actions of the US government critical of trade are a source of headaches.



The global economy is developing dynamically, though not entirely convincingly

The global economy has picked up sharply in recent months. The expectations of AHK companies, which tangibly improved in the spring, have been fulfilled in the course of the year. Global economic activity and trade have also tangibly increased.

However, no further major leaps can be expected: 34% of German companies expect higher economic growth in their respective countries, while 13% expect lower growth in the next twelve months. The balance of responses of "better" and "worse" has dropped from 25 to 21 points. This suggests that growth in the global economy is positive, but still only moderate when seen over the years.



While the economies of the euro area are growing robustly thanks to successful reform efforts and the long-time low value of the euro compared to outside currencies, business expectations in the EU countries of eastern Europe and other countries in southeastern Europe remain cautious in comparison. Improved but still moderate economic development in Russia and political uncertainties in Turkey and the Ukraine are preventing a real global economic upswing.

In China and many other Asian countries, on the other hand, companies expect the sound economic situation to continue with high growth rates. The stable and in any case moderate price of oil is making for a secure basis for investment in Asia's emerging economies.

The business climate and expectations remain on track for success, but without any euphoria

The business situation of German companies operating abroad continues to be good, although the very high level of the previous survey

could not be maintained. The balance of responses of "good" and "bad" in the assessment of the situation fell moderately from +51 to 47 points: 54% of companies estimate their current situation to be good and only 7% to be bad. The positive economic development in Europe, growing markets in Asia and the acceptable economic situation in North America have left German companies currently very satisfied with their business.

Expectations for business in the next 12 months have likewise fallen slightly, having started from a high level. The balance is now 48 points, following 53 points in the previous survey from the spring of this year. The decline is mainly due to a change of "better" answers to "the same."

The value thus indicates stable confidence within companies regarding the further development of business, especially since the level is already very high. Particularly in Asia, but also, after years of a long dry spell, in South America, the hopes for better business are the greatest.

Slowdown in investment activity

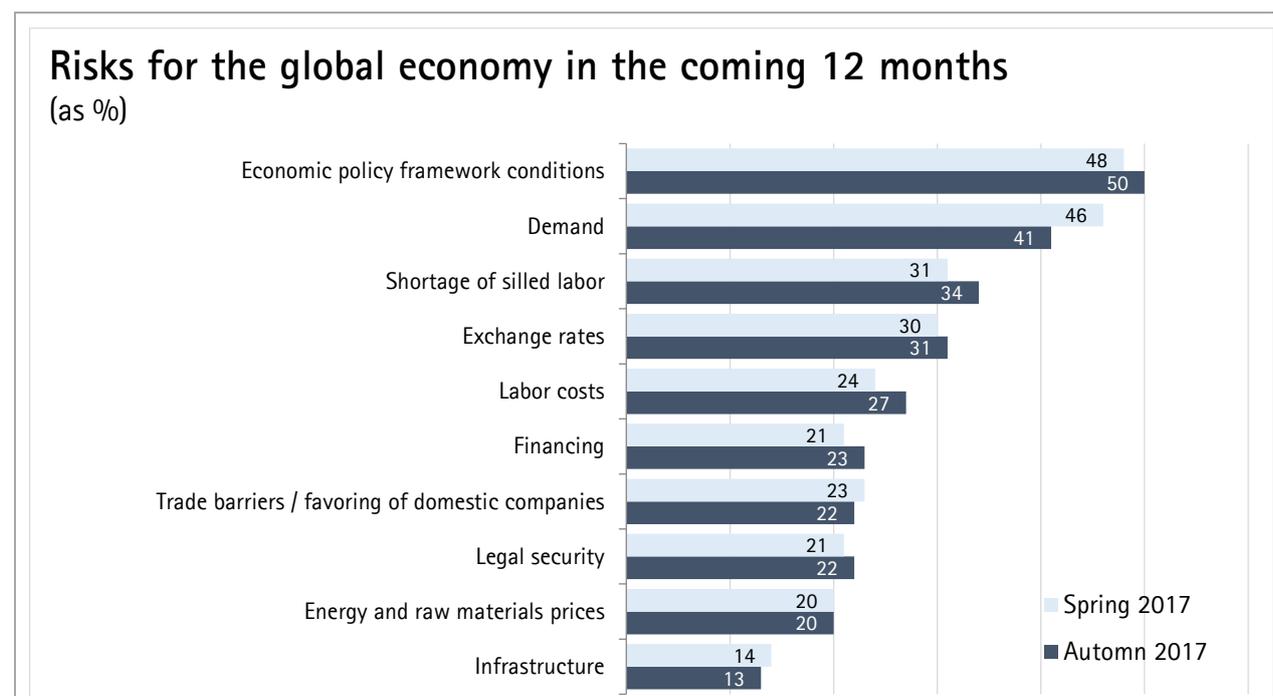
The investment plans of German companies abroad remain generally expansive, but reluctance in many regions is clearly noticeable. Especially in North America, southern and south-eastern Europe, Russia and Turkey, many companies are holding back due to uncertainties about economic policy framework conditions. Worldwide, the balance of investment plans has fallen slightly from +28 to 26 points. This is a sign that the further development of the global economy is being closely monitored. Only when confidence in a stable long-term upswing and favorable framework conditions for the establishment of global supply chains returns to a more sustainable level will companies want to strengthen their commitments through investments.

The balance of plans for an employment build-up likewise fell slightly, from 37 to 32 points. 42% of companies plan to hire more employees, 10% to reduce their workforce. The reason for

this reluctance is the difficulty experienced by many companies of finding suitable skilled workers, in addition to the sometimes uncertain economic situation in some countries despite growth. In South and Central America in particular, companies are reluctant to hire new staff.

Risks for the global economy

The economic policy framework conditions are once again the greatest risk for the development of German companies abroad. Domestic political conflicts, unnecessary bureaucratic regulations and corruption make for an unreliable basis for doing business in many countries around the world. In addition, there is a tendency to dissolve or call into question previously successful economic cooperation: Brexit, the NAFTA renegotiations and independence efforts, such as those in Catalonia, could significantly reduce the effectiveness of economic relations in the worst case. One in two companies cites economic policy framework conditions as a major concern and obstacle to doing business.



Hard to find skilled workers

Meanwhile, demand-related risk is subsiding. The fear of not finding sufficient customers for a company's own products or services was still evident in 41% of companies in autumn, compared to 46% in spring. Demand-related risk is thus at a two-year low. The answer of a shortage of skilled workers, however, has risen to an all-time high: more than one in three German companies abroad is currently having difficulties finding suitable employees. Professionally qualified persons in the fields of mechanical and electrical engineering in particular often do not fulfill the necessary requirements for German products in many countries. Additional qualification measures are therefore necessary. At the same time, the risk associated with labor costs is increasing: 27% of companies cite this risk. Rising wages in many countries, such as China, increase pressure on companies and suppliers.

Currency risk increasing

The recent rise in the external value of the euro and other strongly fluctuating currencies is a cause of concern for almost one-third of German companies. As a result, price pressure on already high-priced German products is increasing. For 23%, financing is also a potential obstacle to doing business. In international transactions, it is often difficult for SMEs to obtain suitable financial products. In many countries, especially in the emerging markets, the financing landscape is also tightly structured and difficult to access, especially for foreign companies. In the long term, rising interest rates will also make the situation worse.