



# Economic outlook German Business in Japan 2021

Business Climate Survey of AHK Japan and KPMG in Germany



German Chamber of Commerce  
and Industry in Japan  
在日ドイツ商工会議所



Main results – 9 key messages

## Of the German companies active in Japan ...

**95%**

appreciate the **stability and reliability** of business relationships in Japan

**86%**

regard the **high sales potential in Japan** as the most important reason for their presence in Japan

**83%**

generate **pre-tax profits** despite being impacted by COVID-19

**>50%**

have **positive expectations** regarding their **sales and profits over the medium-term**



**53%**

generate **additional sales** with Japanese customers outside Japan that are at least equal to sales in Japan

**48%**

were involved in projects with Japanese companies **outside Japan**, especially in the ASEAN region

**48%**

consider **fuel cell & hydrogen technologies** as **one of the top three** promising **future topics** for Japan

**40%**

think that **Japan should engage with China** with own policies/projects and encourage China to contribute

**79%**

share **doubts about** the purpose of the Olympic Games being a **positive signal for post-COVID times**



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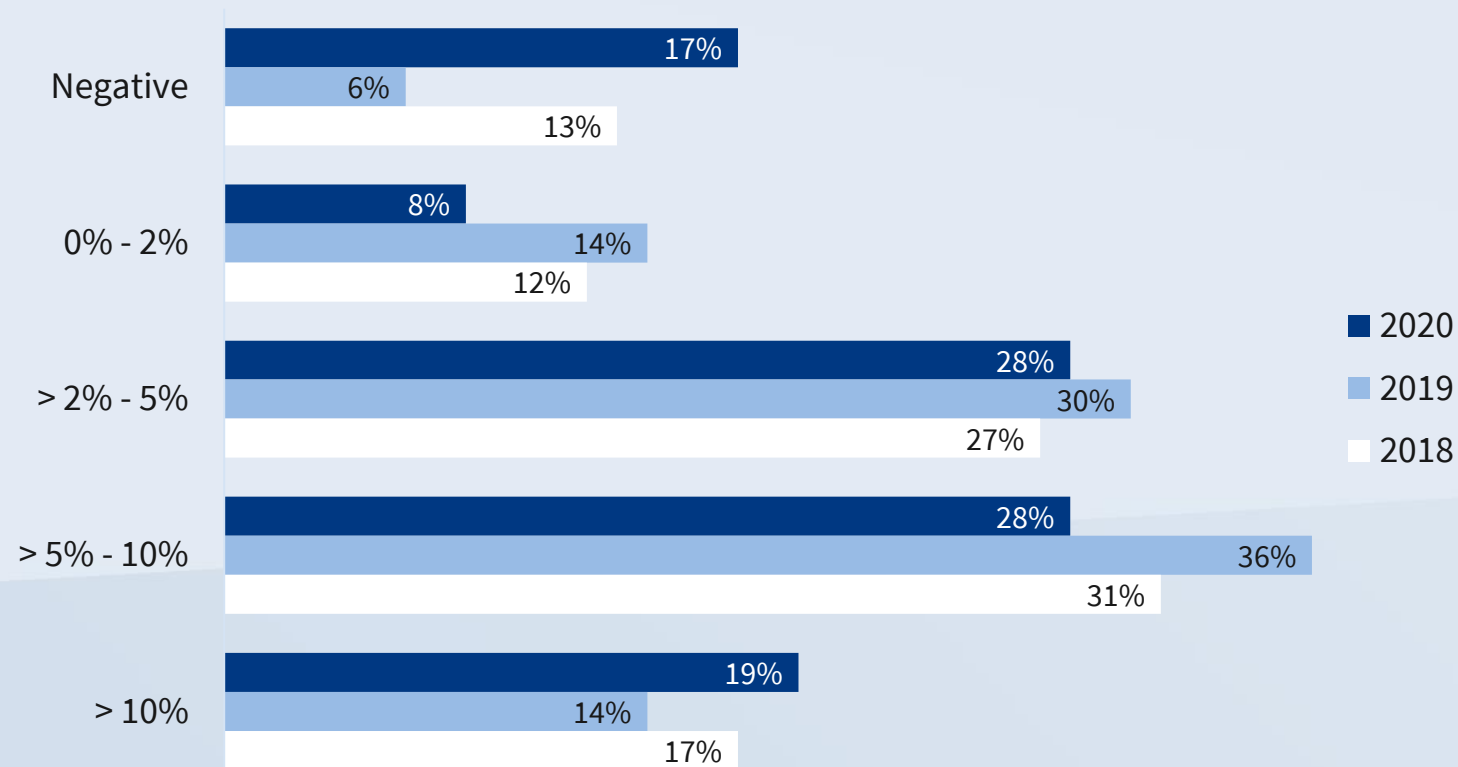


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# Over 80% of surveyed companies are profitable

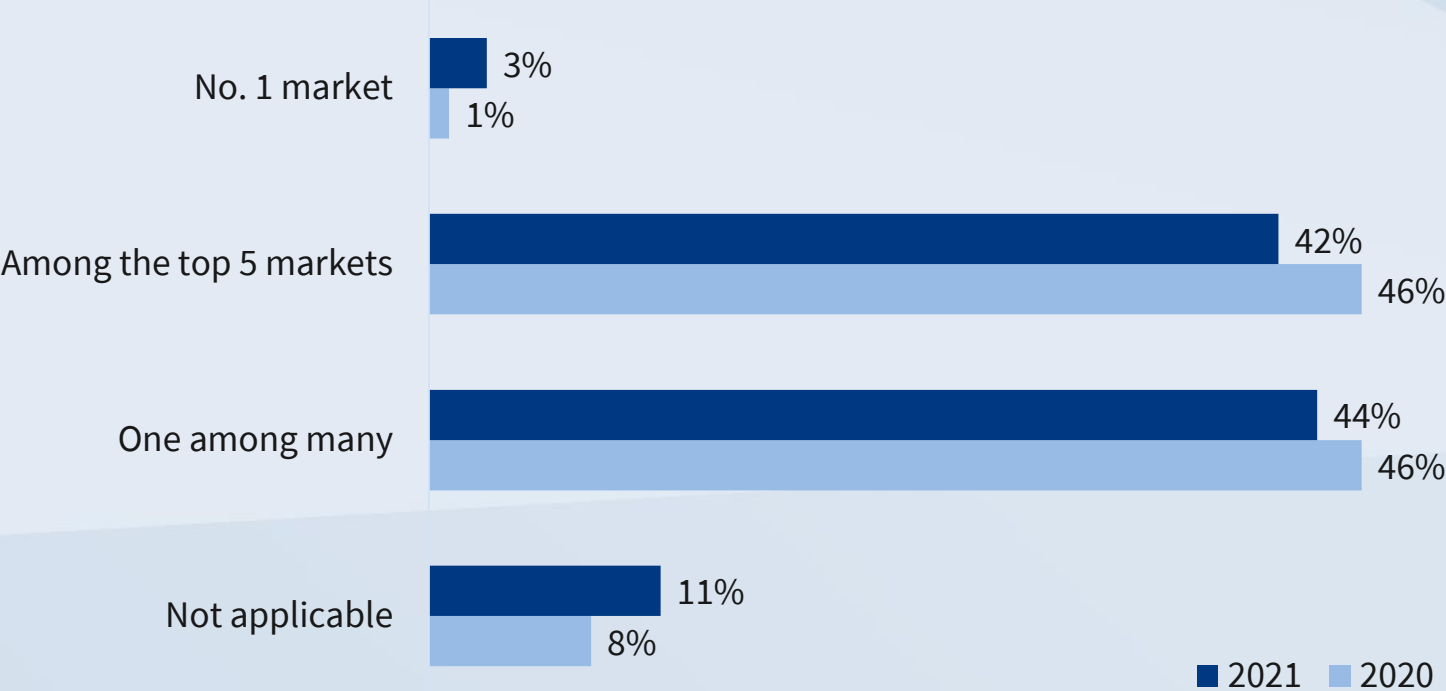
Average annual pre-tax profit margin in the last 3 years



- ▶ 83% (2019: 94%) of all companies surveyed are generating pre-tax profits in Japan despite COVID-19
- ▶ The share of companies with a pre-tax profit margin of more than 10% has increased by 5%-points YoY despite the pandemic

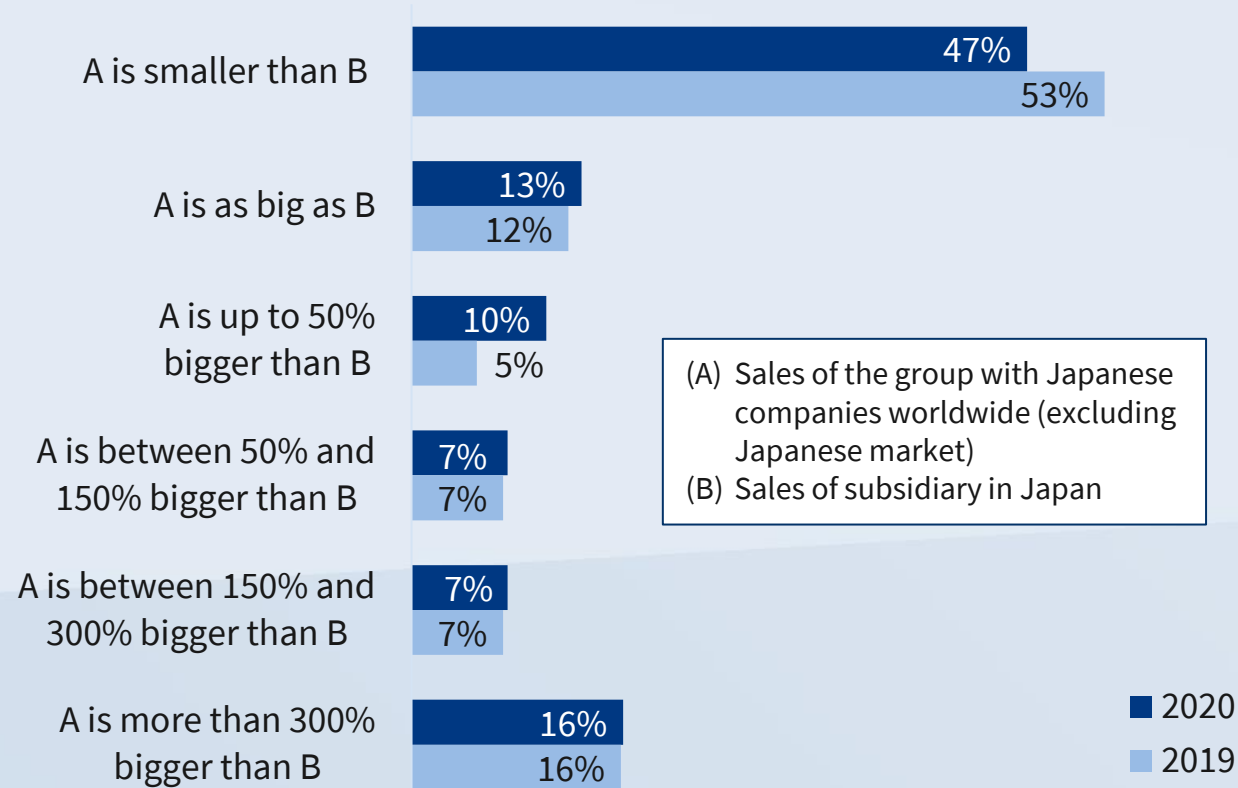
# Relevance of Japan business for German headquarters

Ranking of Japan business within HQs' global turnover and profit



# Relevance of Japan business for German headquarters

Relation between Japan business outside Japan vs Japan business inside Japan



- ▶ 53% (2019: 47%) of the companies generated additional sales with Japanese customers in other parts of the world that are at least equal to sales in Japan
  - This represents an increase of 6%-points YoY compared with 2019
- ▶ 16% of the surveyed companies confirm that sales with Japanese companies in other parts of the world is more than three times as high as in the Japanese market.
  - This proves the strategic importance of the Japanese market

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# Japan has a high relevance for German companies

## Key strategic reasons for maintaining a presence in Japan

	2021	2020	2019
High sales potential in Japan	86% ↓	89% ↑	87%
Trend scouting	59%	-	-
Monitoring Japanese competitors	53% ↑	48% ↑	37%
Japan as a benchmark	49% ↑	39% ↑	27%
High sales potential with Japanese companies outside Japan	46% ↓	67% ↑	54%
Strategic importance of doing business with Japanese companies	43% ↓	47% →	47%
Access to RCEP	33%	-	-

- ▶ Attractive business destination in the global market
- ▶ For six out of seven German companies surveyed, the high sales potential in Japan is of high relevance
- ▶ Increasing number of respondents consider Japan as a benchmark (+10%-points YoY)
- ▶ Growing importance for maintaining a presence in Japan is to stay close to Japanese competitors and to identify trends at an early stage



# Stability is No. 1 advantage for doing business in Japan

Key advantages of Japan as business location and of doing business in Japan

	2021	2020	2019
Stability and reliability of business relationships	95% ↓	99% ↑	89%
Economic stability	90% ↓	95% ↑	84%
Safety and social stability	90% ↓	92% ↑	84%
Highly qualified workforce	85% ↓	90% ↑	75%
Stable political environment	84% ↑	81% ↑	74%
Highly developed infrastructure	84% ↑	74% ↑	62%
Openness to technology and innovation	80% →	80% ↑	61%

- ▶ Japan is and will remain an important pillar in Asia for German companies
- ▶ More than 90% of respondents appreciate the stability and reliability of business relationships in Japan
- ▶ Increasing number of the German companies in Japan value the benefits of the highly developed infrastructure (+10%-points YoY)
- ▶ A vast majority of respondents (90%) consider Japan's economic stability as benefit – a clear locational advantage in turbulent times

# Demographics with impact on German business in Japan

## Key challenges facing the Japan business

	2021	2020
Coronavirus-related travel restrictions	76%	-
Ageing society	74% ↑	60%
Shrinking population	61% ↑	59%
Lack of sufficiently skilled employees	60% ↓	70%
Insufficient diversity in workforce	52% ↑	49%
Insufficient participation of women in management roles	41% ↑	36%
Insufficient level of immigration	27% ↑	22%

- ▶ Aside from the current pandemic-related restrictions, the biggest impact on German business in Japan is still an ageing society and shrinking population
- ▶ In particular, Japan's ageing society gained massively in importance in comparison with the previous year (+14%-points YoY) and has almost the same impact on business in Japan as Coronavirus-related travel restrictions (74% vs. 76%)
- ▶ This year, for fewer companies surveyed, the lack of sufficiently skilled employees has an impact on their business in Japan (-10%-points YoY), but for 60% the skills shortage is still a major challenge

# HR issues continue to be main business challenges

## Key current business challenges

	2021	2020	2019
Recruiting sufficiently qualified staff	79% ↓	88% →	88%
Coronavirus-pandemic-related challenges	77%	-	-
Inflexibility of labour law	48%	-	-
Dismissing staff	47% ↑	34% ↓	38%
Regulatory hurdles	37% ↓	41% ↑	36%
Currency risks	40% ↓	48% ↑	39%
Retaining staff	40% ↓	45% ↑	37%

- ▶ The greatest current business challenge remains the recruitment of trained employees who possess adequate professional and language qualifications
- ▶ This aspect is taken as a problem by 79% of the respondents (-9%-points YoY) – and is a bigger problem than pandemic-related challenges, which are perceived as a problem by 77%
- ▶ For almost every second German company in Japan, dismissing staff is a major current business challenge (+13%-points YoY)

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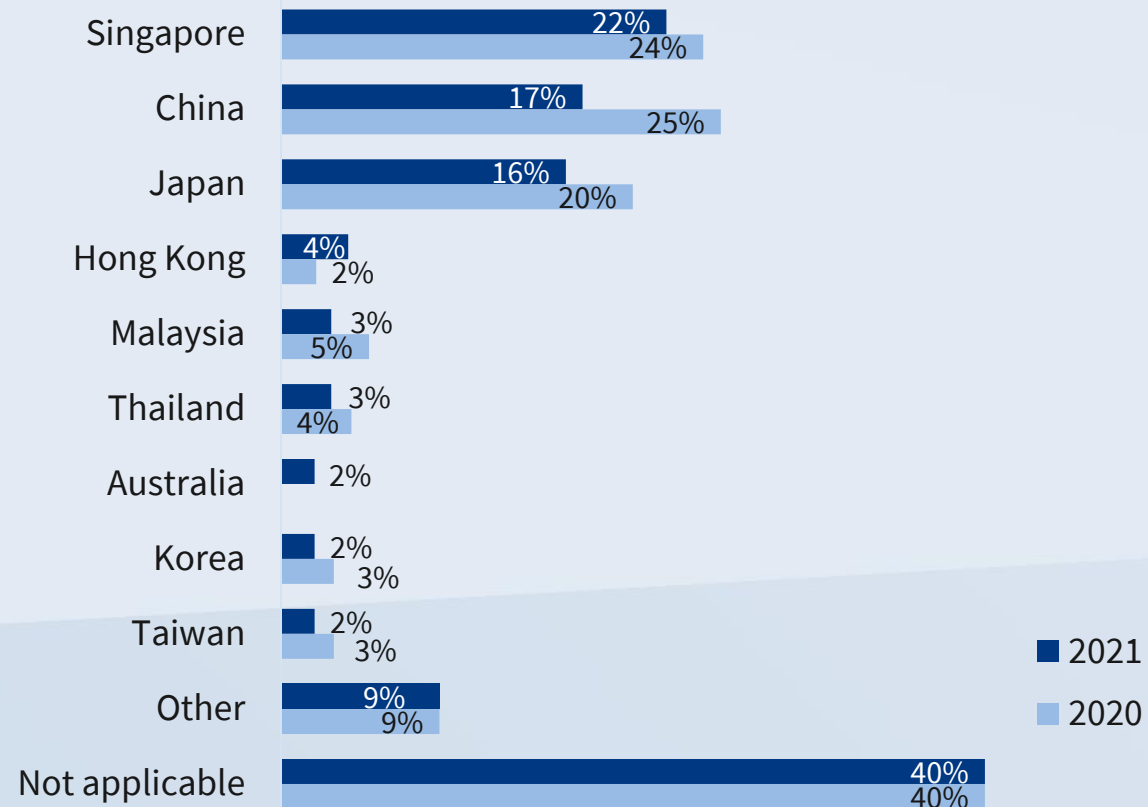
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# Japan slightly loses its significance as HQ location in Asia

Locations of Asia-Pacific headquarters

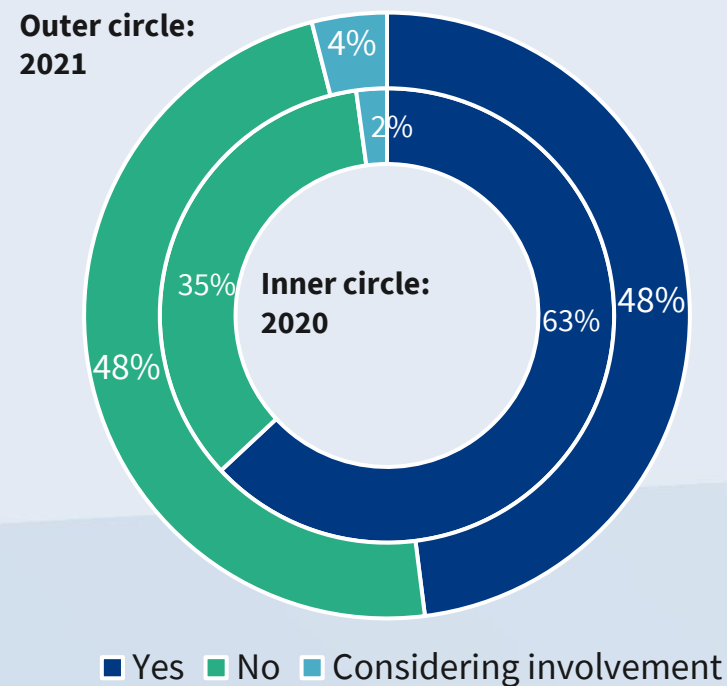


- ▶ Japan is slightly losing ground as the favoured location for the headquarters functions of German companies in Asia, but it remains No. 3 just behind Singapore and China; key reason is to be seen in light of the arbitrary handling of travel and entry restrictions since summer 2020
- ▶ China records the largest absolute reductions (-8%-points YoY)
- ▶ The very high response with 'not applicable' suggests that many German companies have no dedicated Asia-Pacific headquarters or reporting lines are directly with German headquarters

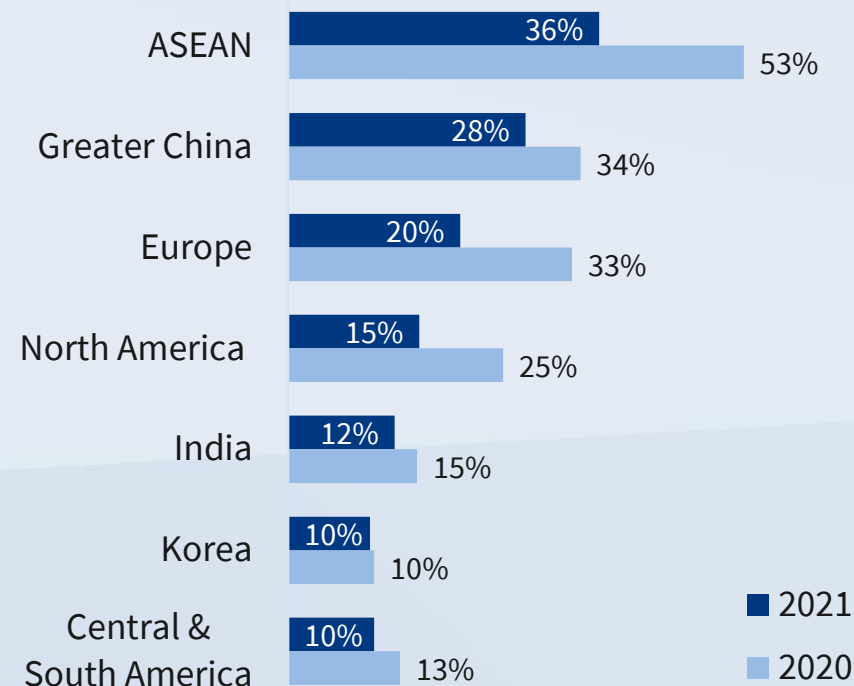


# Business potential in third markets decreased

## Business with Japanese partners outside Japan



## TOP 7 target regions of German companies in Japan pursuing 3<sup>rd</sup> country business with Japanese partners



- ▶ Compared with 2020, less respondents were involved in third-party market projects (-15%-points YoY)
- ▶ COVID-19 impacted global project business:
  - travel restrictions and entry bans made access to other regions more difficult or impossible
  - project postponements
- ▶ According to the Japan Bank for International Cooperation (JBIC Report on Overseas Business Operations by Japanese Manufacturing Companies, 2020), western partners are preferred by Japanese companies

# Key drivers for involvement in third country projects

## Reason for participating in projects with Japanese companies in third countries

	2021	2020
Making use of our company's global sales & service network	63% ↑	53%
Easier accessibility of foreign markets due to internationalisation	37% ↓	43%
Increasing the (strategic) importance of our Japanese subsidiary	26% ↓	30%
Saturation of Japanese market	13% ↓	17%
Being able to attain higher margins	4% ↓	5%

- ▶ For 63% – an increase by 10%-points YoY – of the surveyed companies, making use of global sales and service networks is the key driver for involvement in third country projects
- ▶ All other reasons for participating in third country projects received less support than in the previous year

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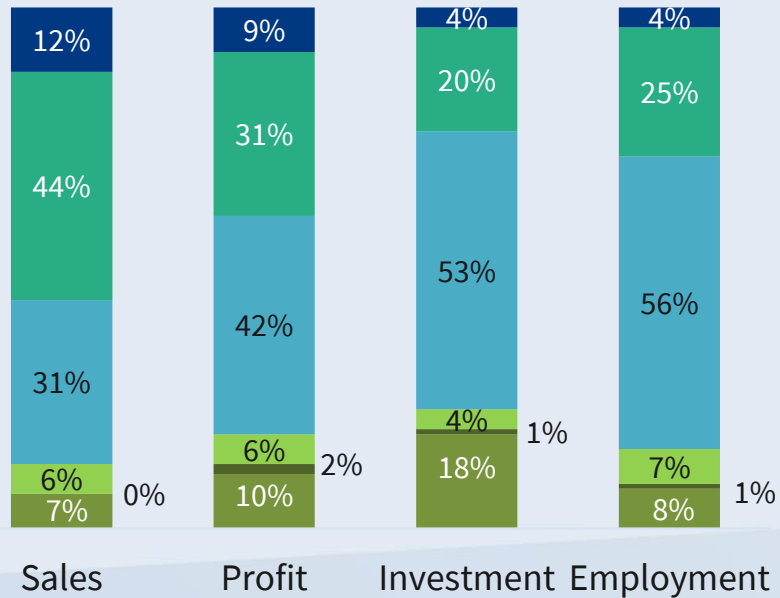




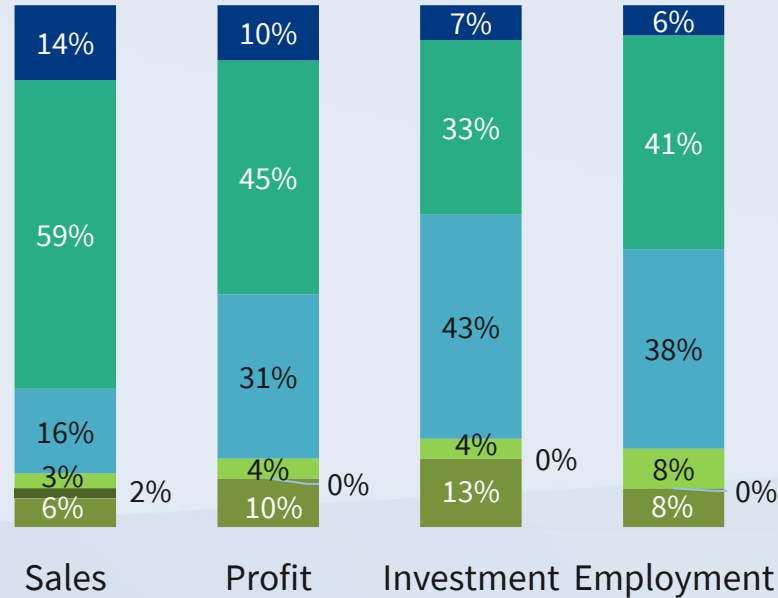
## Outlook

# Positive expectation for business in Japan

Expectation for 2022



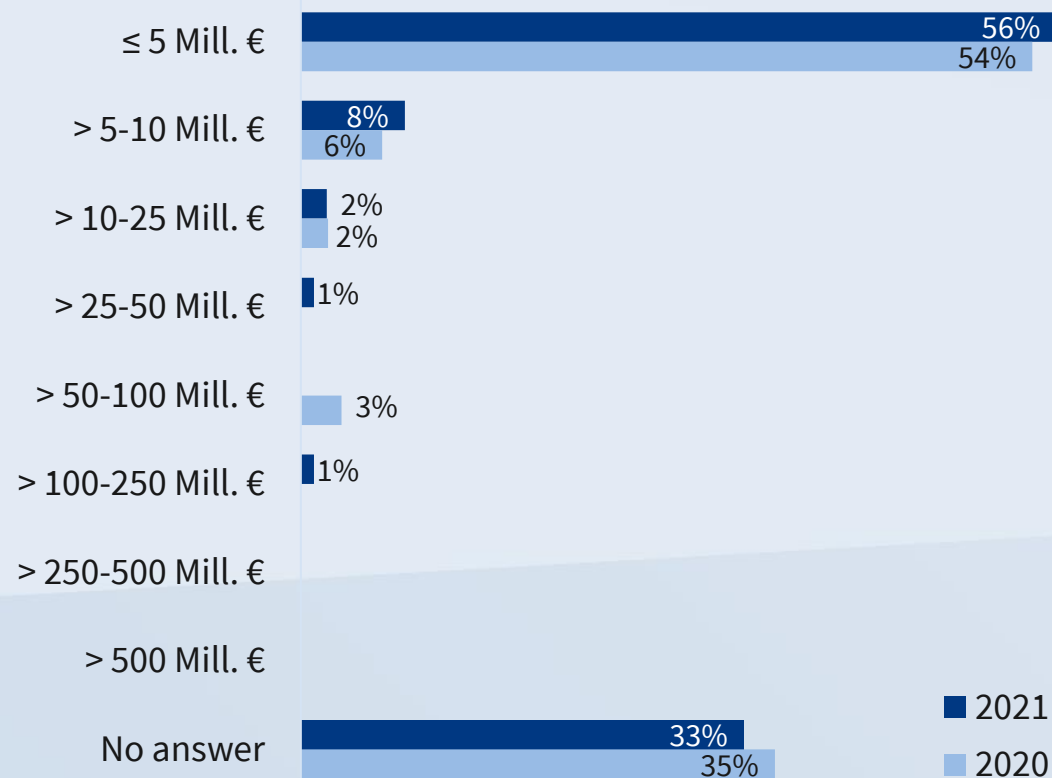
Expectation in the medium term



- ▶ The expectations of respondents regarding the development of their sales and results in Japan remain positive over the short term and, even more positive over the medium term, with 73% expecting increasing sales and 55% increasing profits in Japan
- ▶ Over the medium term, 40% also expect increasing investments and 47% increasing employment in Japan
- ▶ Furthermore, only between 9% and 22% of the respondents expect declines in these key indicators

# Majority of companies with limited investment plans in Japan

Investments in Japan during the next three years



Key reasons for investing in Japan

	2021	2020
Market size and customer demand for goods / services	69% ↓	76%
Proximity to customer base	63% ↑	51%
Special feature of the Japanese market (Early adopter market / First-mover customer / Tech savvy)	31%	-
Favourable R&D environment	13% ↑	11%
Excellent environment for digitisation	12% ↑	10%
Access to RCEP	8%	-
Labour productivity	8% ↑	7%
Favourable energy costs	3% ↑	2%

# Long-term trends influencing future investments in Japan

## Key trends and developments with impact on future investments in Japan

	2021	2020
Pandemic-related challenges	77%	-
Digitalisation of industries / services	74% ↑	71%
Globalisation	63% ↓	81%
Demographic dynamics / Ageing society	58% ↓	64%
Climate change, sustainability	56% ↑↑	47%
Urbanisation	38% ↑	31%
Asian integration	37% ↓	57%

- ▶ More than three-quarters of the respondents expect pandemic-related challenges to influence investment decisions
- ▶ In line with reaching a climate-neutral economy by 2050, climate change and sustainability have increased significantly by 9%-points YoY as trends influencing future investments in Japan
- ▶ Globalisation dropped sharply by -18%-points YoY and Asian integration decreased by significant -20%-points YoY and are less important as factors influencing investment decisions

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# Perception of Chinese competition in Japan eases

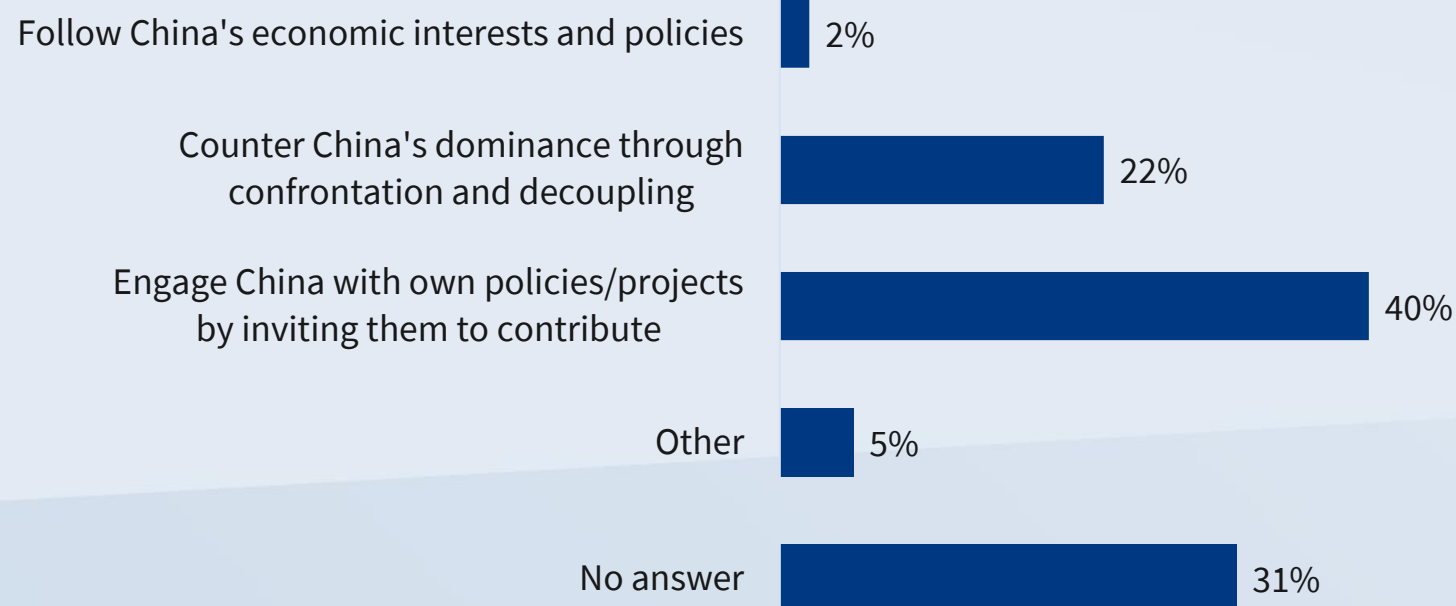
## Extent of increasing competition with Chinese companies on the Japanese market

	2021	2020	2019
To a great extent	16% →	16% ↑	8%
To some extent	29% ↓	33% ↑	32%
To a small extent	13% ↓	19% ↓	30%
No	36% ↑	26% ↓	28%
No answer	7% ↑	6% ↑	2%

- ▶ German companies in Japan perceive less competition from Chinese competitors in the Japanese market than in the previous years
- ▶ As far as competition with Chinese companies in Japan is concerned, less than half (45%) of the respondents report increasing competition (-4%-points YoY)
- ▶ In particular, the proportion of companies surveyed experiencing no increasing competition from Chinese companies in the Japanese market is increasing (+10%-points YoY)

# Cooperation with China seen as best choice for Japan

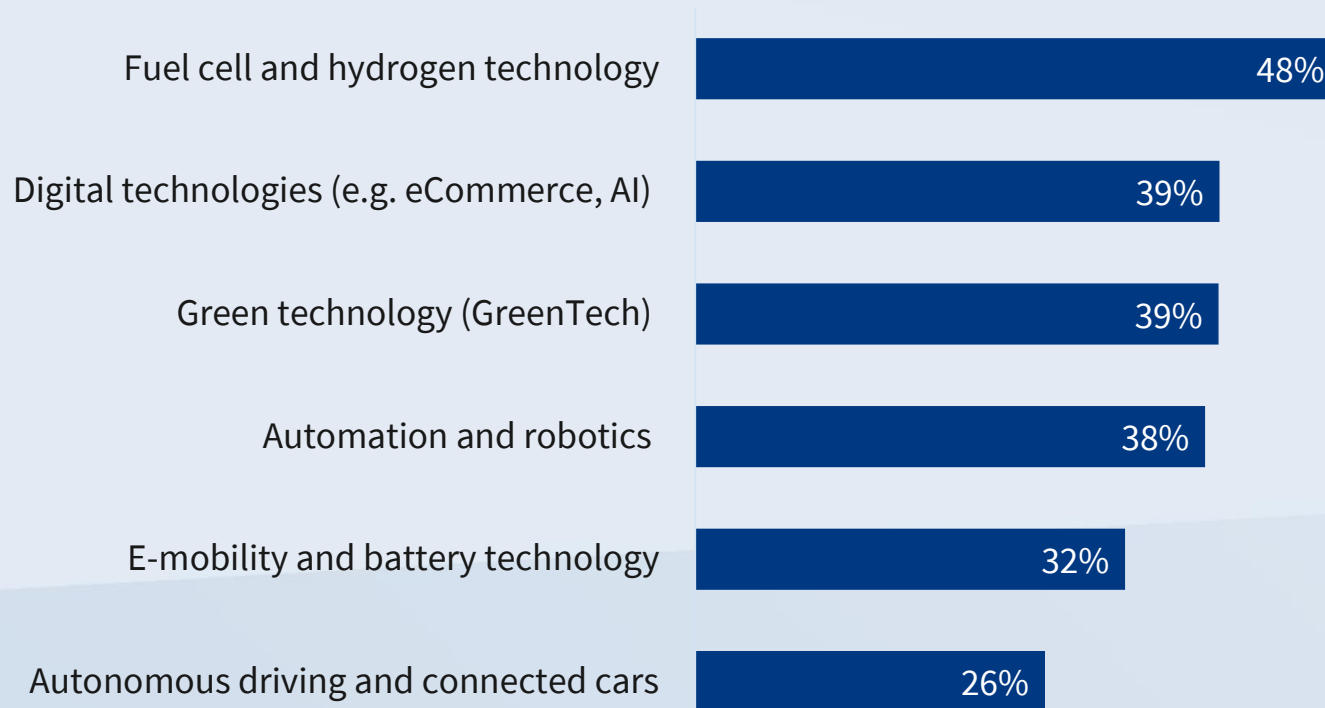
**How should the Japanese government develop its future economic relations with China?**



- ▶ 40% of respondents recommend a closer cooperation between Japan and China by engaging China with Japan's own policies and projects and inviting China to contribute to these
- ▶ Only 22% of the surveyed German companies in Japan tend towards countering China's dominance through confrontation and decoupling
- ▶ The high response rate of 'no answer' (31%) suggests that many German companies in Japan are undecided or do not have an opinion on how the Japanese government should develop its future economic relationship with China

# Most promising future topics for Japan

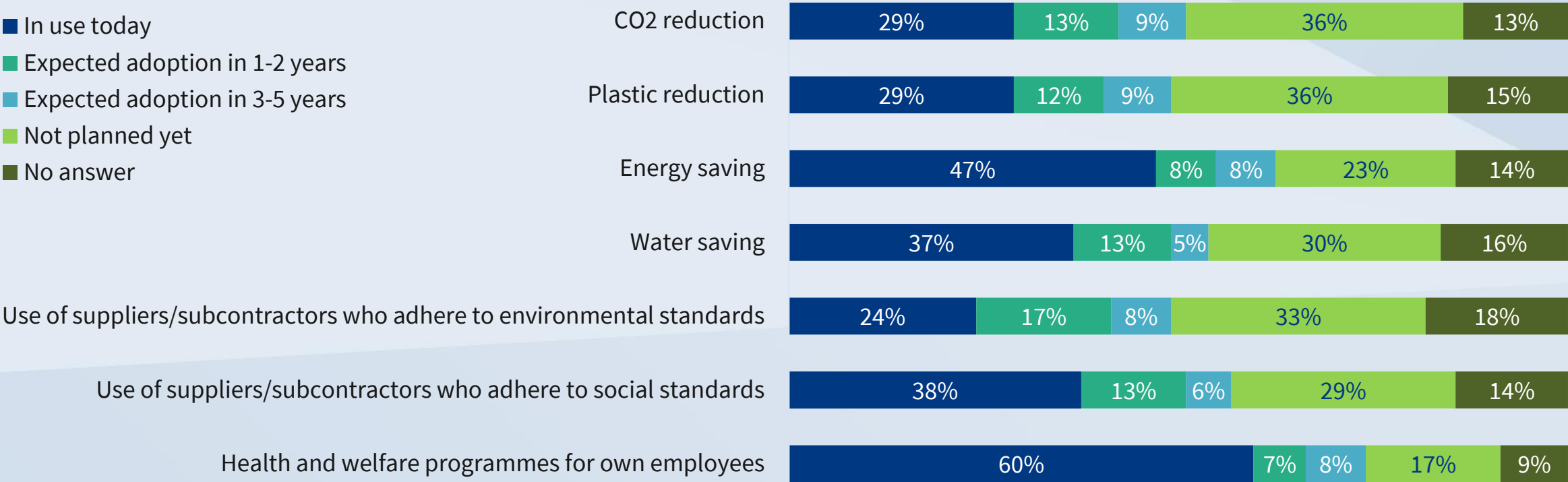
TOP 6 most promising future topics for Japan



- ▶ Most of the promising future topics as seen by the respondents are reflected in the “New Growth Strategy” of the Japanese government:
  - Almost every second respondent (48%) considers fuel cell & hydrogen technologies as one of the top six promising future topics for Japan, followed by digital technologies and GreenTech (each 39%) as well as Automation and Robotics (38%)
  - Among like-minded partners, these future topics can be seen as potential areas for cooperation and business
- ▶ Within the TOP 6 most promising future topics, three are from the mobility & transportation sector

# Level of implementation of ESG programmes

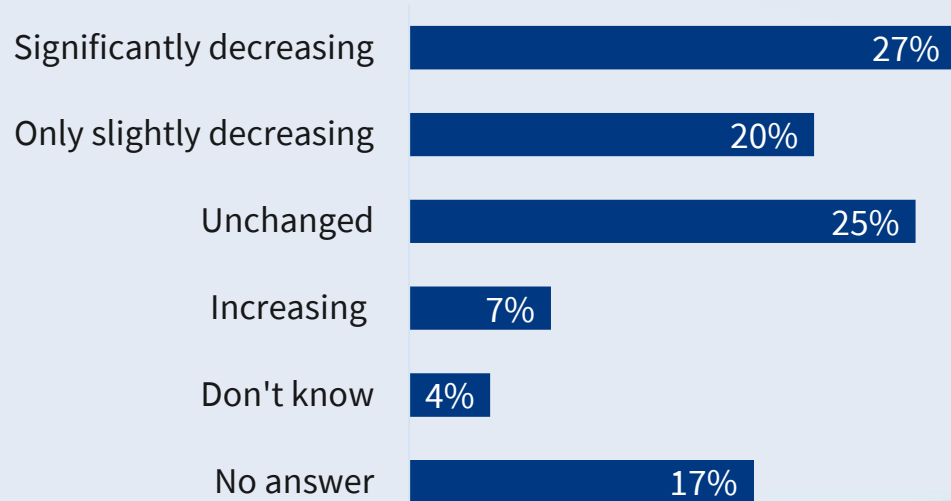
Environment, social and corporate governance (ESG) programmes / projects





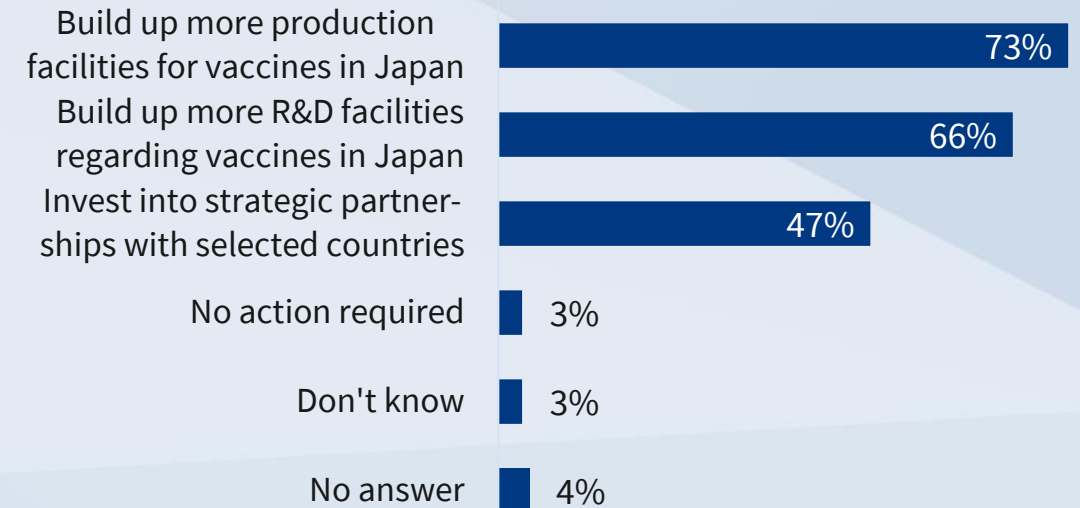
# Expat deployment and dependency on vaccine supplies

## Will expat deployment continue in the post-COVID world?



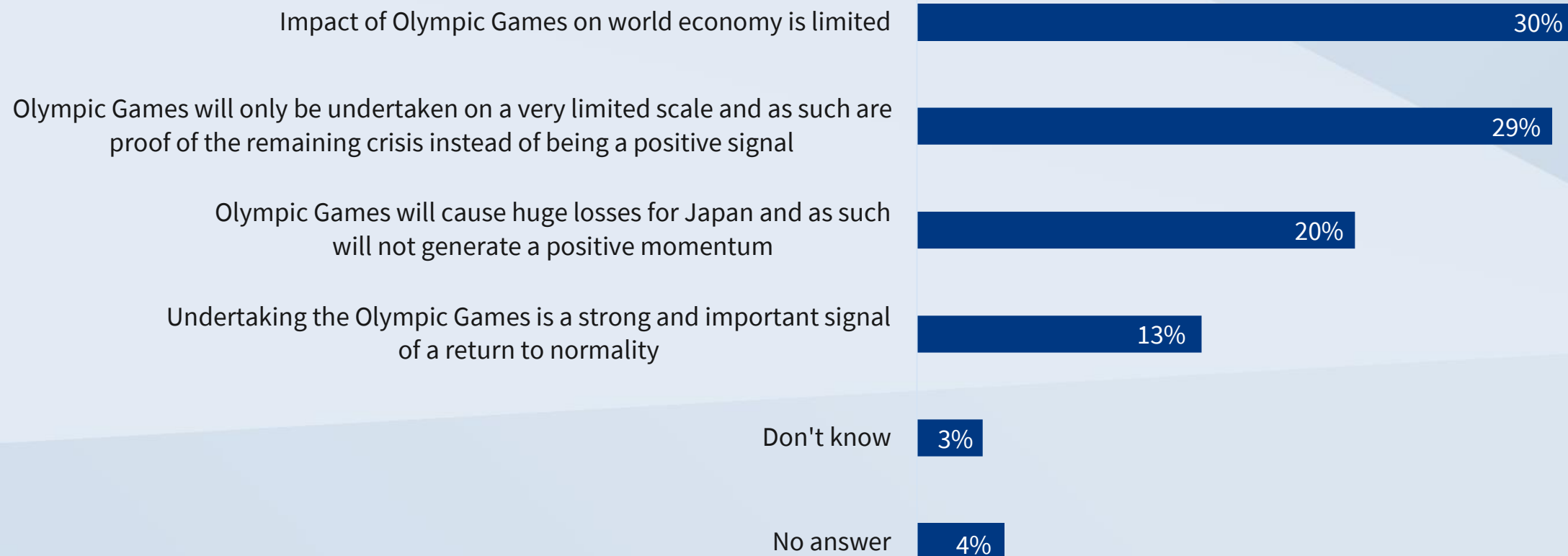
- ▶ The expected reduction of expat deployment post-COVID (by 47% of the respondents) is likely due to increased digital communication, the arbitrary actions of Japanese authorities towards foreigners with resident status in summer 2020 and shift of regional functions to other countries

## How should Japan react to reduce its dependence on vaccine supplies from third countries?



- ▶ Building up R&D and manufacturing capacities for vaccines in Japan is recommended by more than two-thirds of the respondents, reflecting dissatisfaction with the slow progress in vaccination in Japan and the aim to achieve greater independence from other countries during future pandemics

# Olympic Games a positive signal for post-COVID times?



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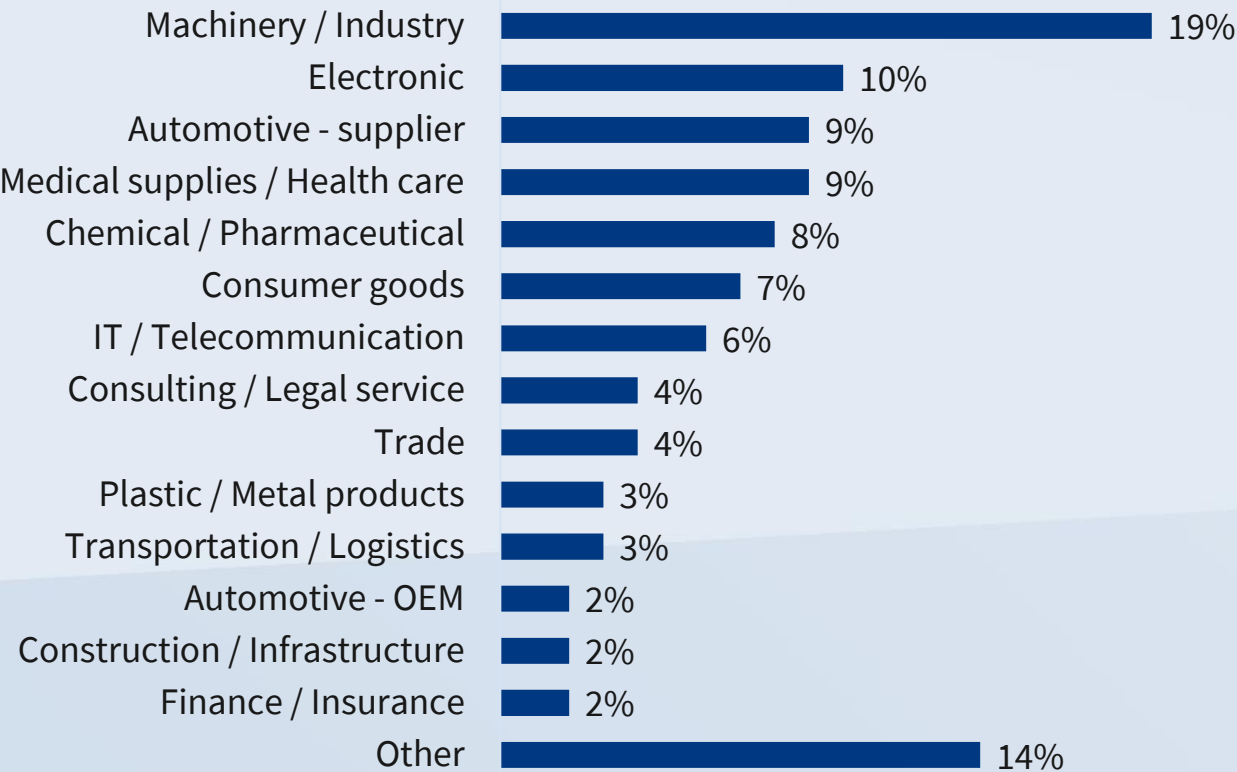
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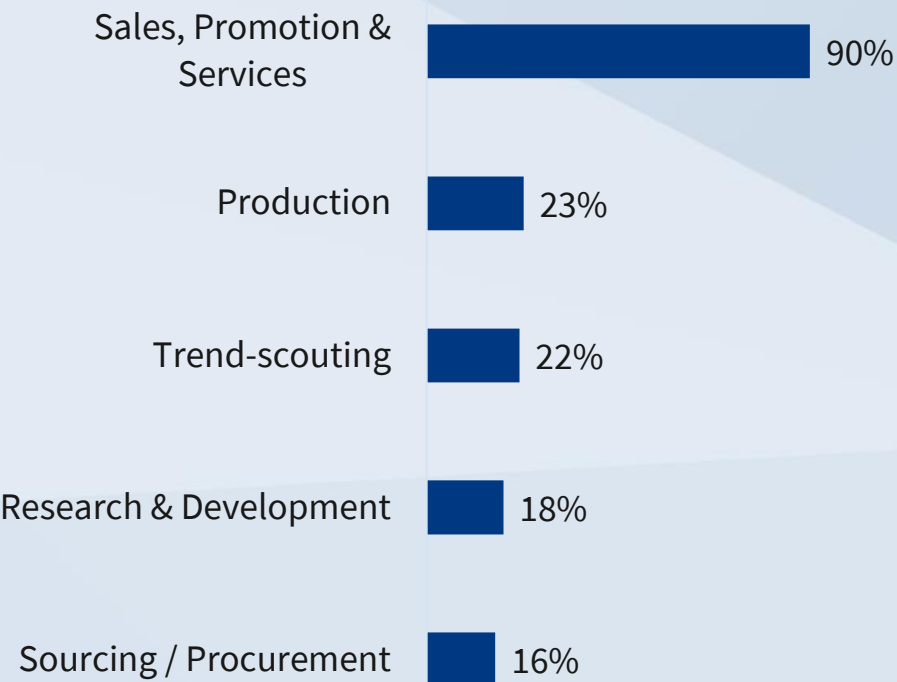
415 German companies in Japan were surveyed from April 19-30, 2021 | response rate: 105 participants or 25.3%

# Profile of the companies surveyed

Breakdown by sector of the companies surveyed

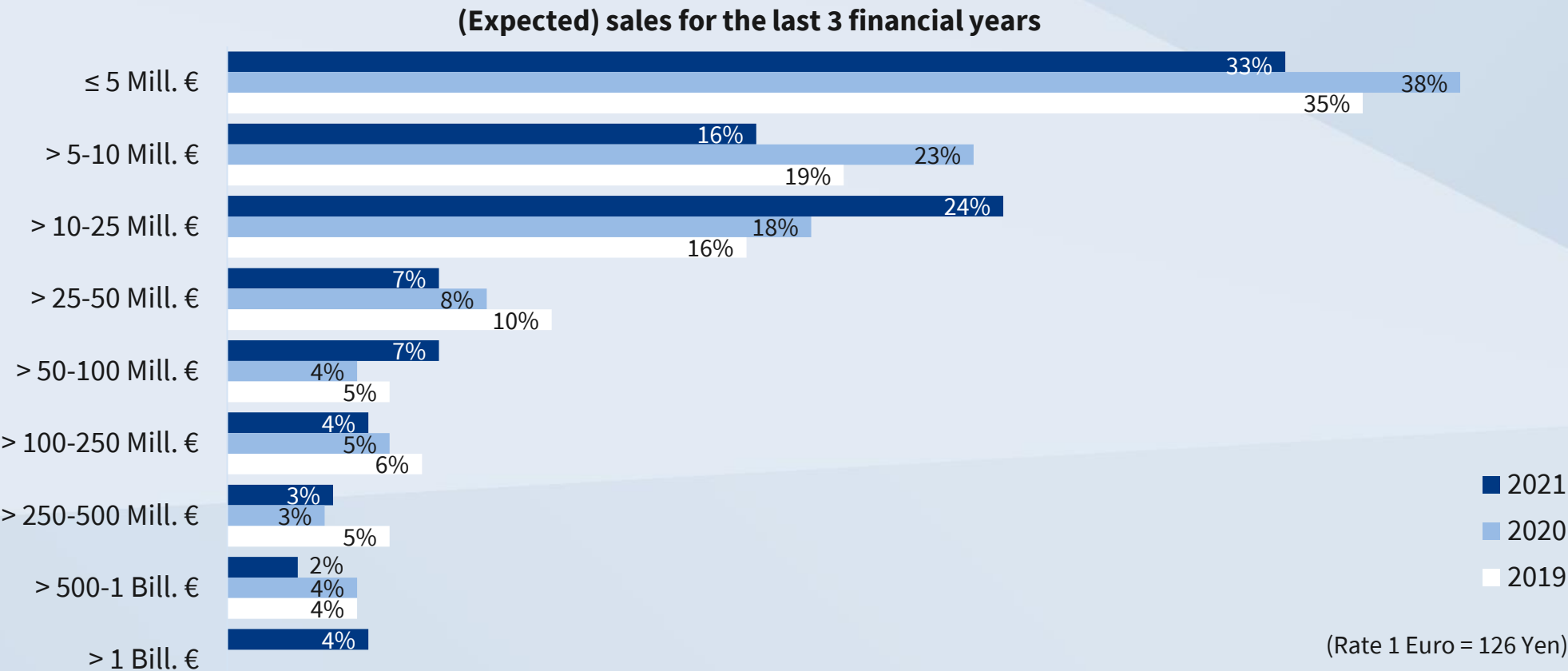


Business activities



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# Profile of the companies surveyed



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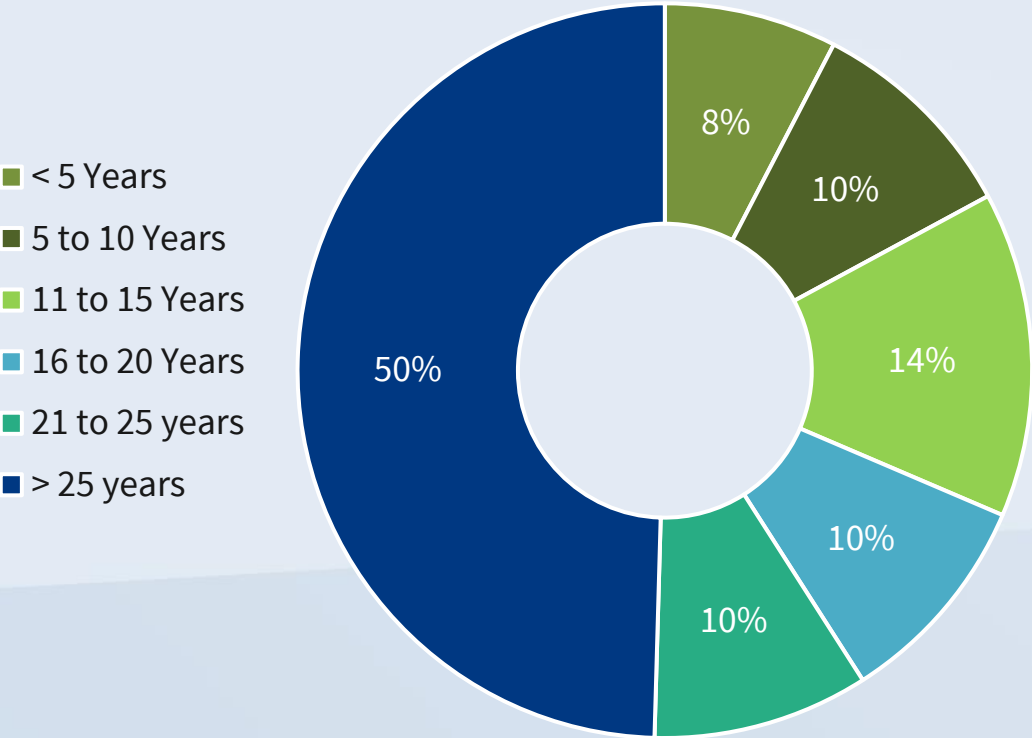




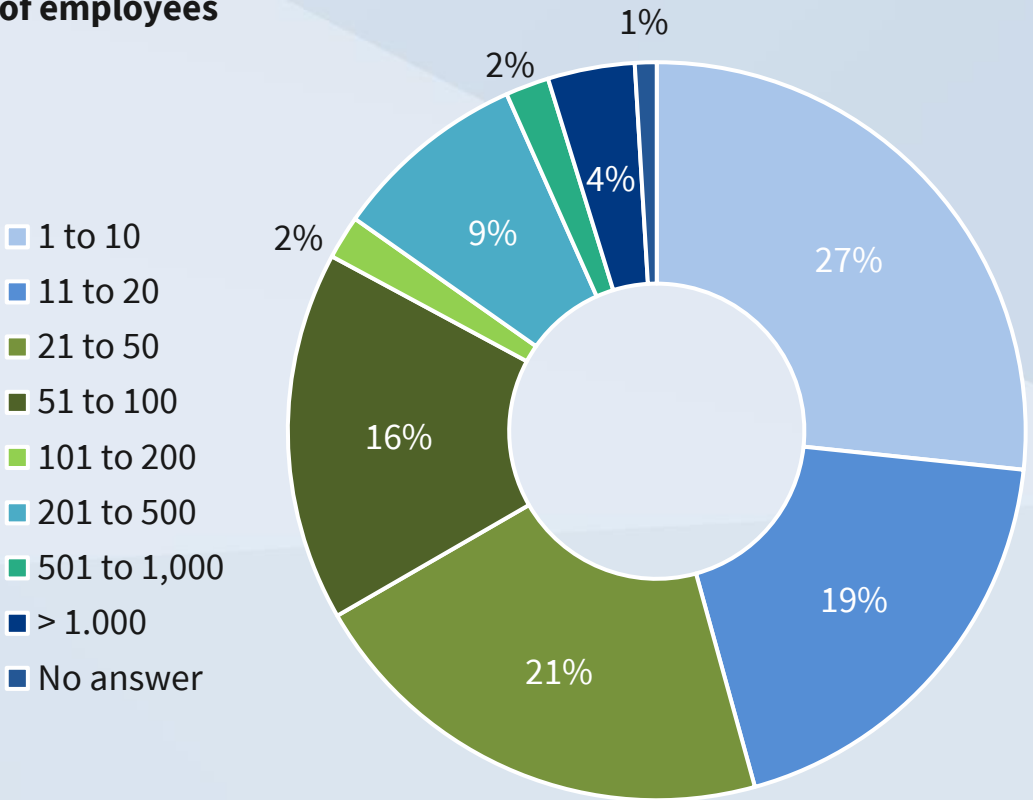
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# Profile of the companies surveyed

Length of presence in Japan



No. of employees



# Contact

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# Imprint

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