



# Business Climate Survey **German Business in Japan 2024**

AHK Japan and KPMG in Germany



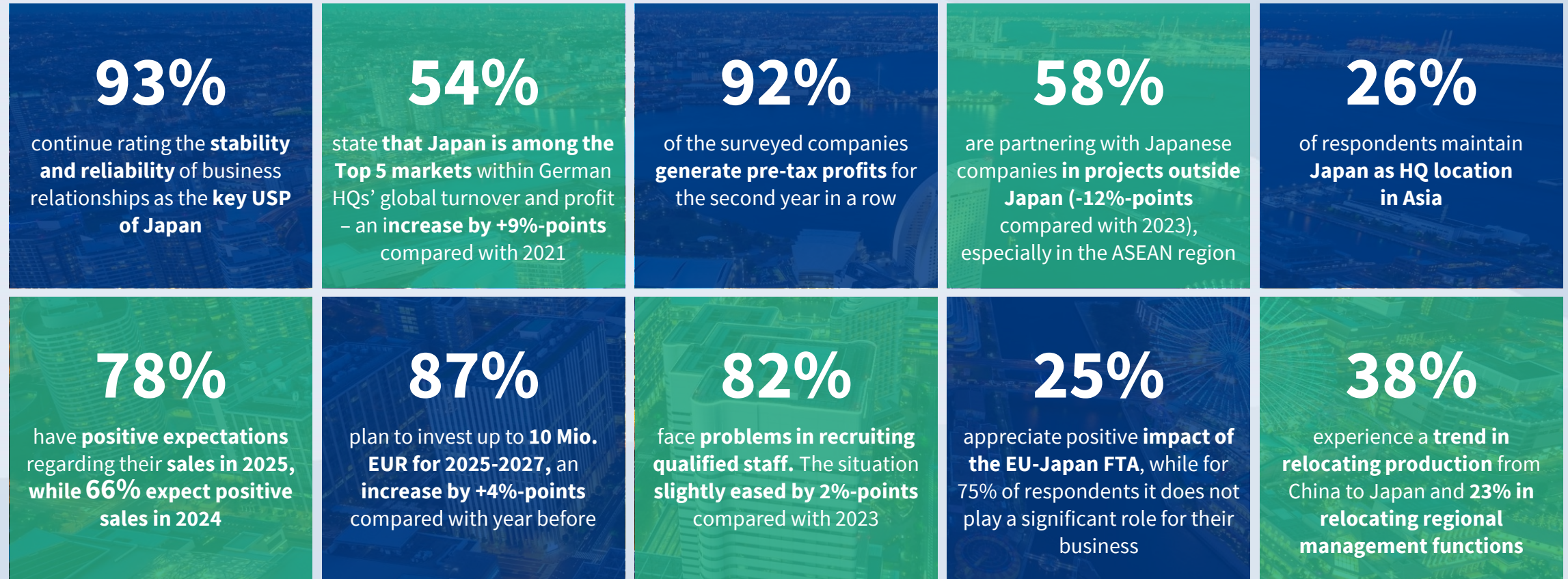
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## Main results – 10 key messages

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







## I. Business activities in Japan

II. Opportunities and challenges

III. Business in third markets

IV. Set-up in Asia

V. Outlook

VI. Spotlights

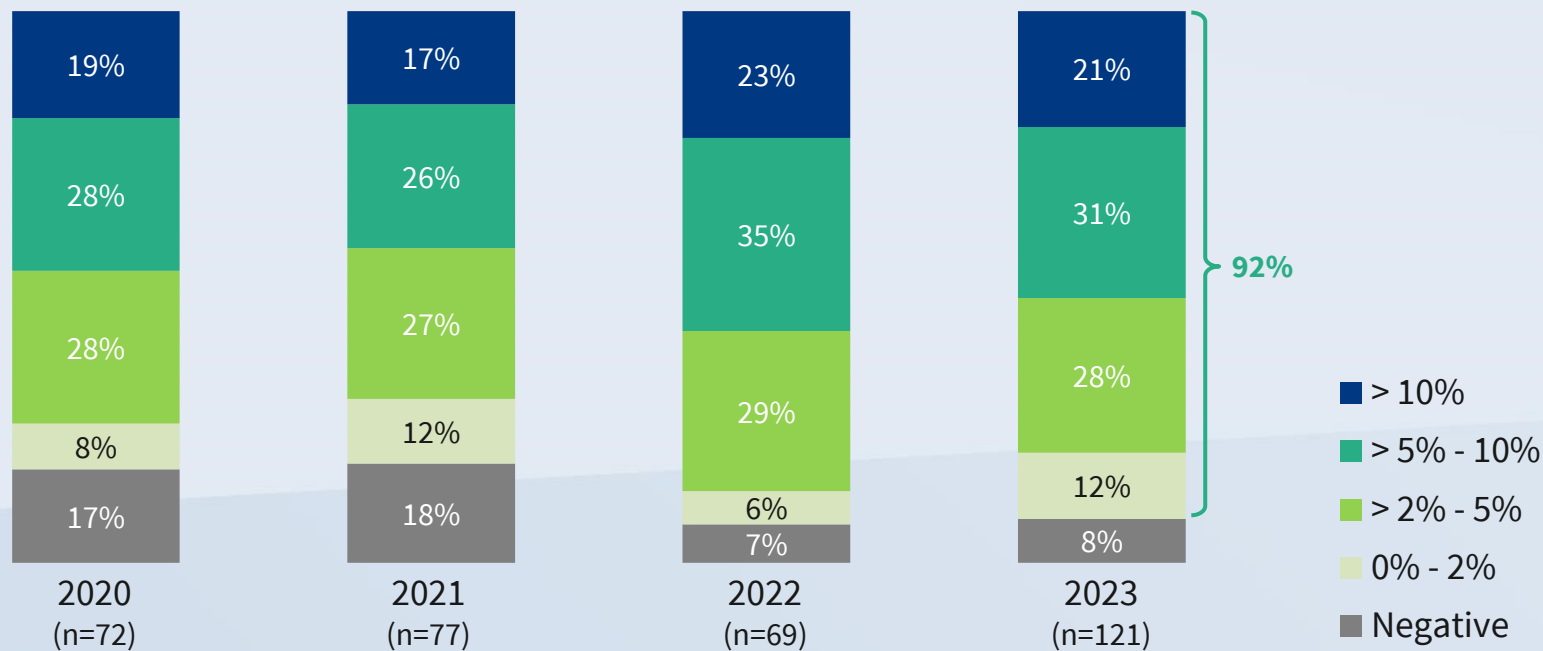
VII. Profile of the companies surveyed

## Business activities in Japan

# Business situation in Japan remains positive

**Average annual pre-tax profit margin in the stated years**  
(as per the surveys undertaken at the beginning of the forth following years)

(2023: Rate 1 Euro = 155 Yen)



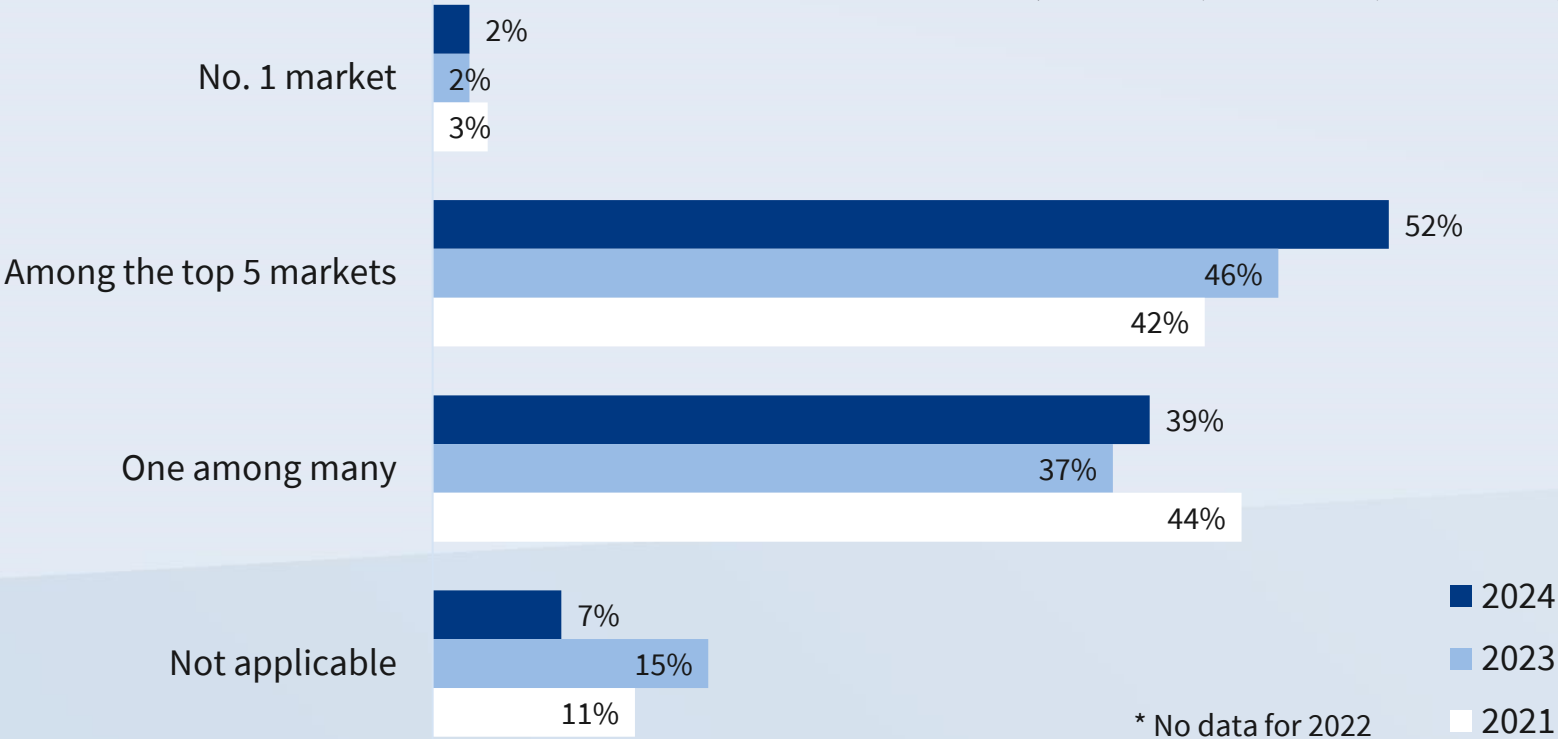
- ▶ The existing global uncertainties appear to only have a minor impact on the business activity in Japan: In 2023, profitability remained stable and relatively similar to 2022. Again the pre-pandemic levels were exceeded
- ▶ 92% of all companies surveyed in Japan generated pre-tax profits in Japan in 2023 (in 2022: 93%) despite the geopolitical uncertainties
- ▶ The share of companies with a pre-tax profit margin of more than 10% slightly decreased by 2%-points, while the share of companies with low margins of 0%-2% increased (+6%-points)

Business activities in Japan

Japan among Top 5 markets for group headquarters

Ranking of Japan business within HQs’ global turnover and profit

(2024: n=164, 2023: n=108, 2021: n= 105)



- ▶ More than half of the companies surveyed consider Japan as one of their top five markets regarding their headquarters' global turnover and profit (+6%-points compared to 2023)
- ▶ The high number of companies for which Japan is one of the top 5 markets confirms the existing value partnership between Germany and Japan
- ▶ The weak Yen against the EUR, its cost competitiveness, a business-friendly environment, advanced technology and infrastructure, as well as a highly-skilled workforce make Japan an attractive business destination



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I. Business activities in Japan

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## Opportunities and challenges

# Trend scouting in Japan becomes increasingly important

### Top 7 strategic reasons for maintaining a presence in Japan

	2024 (n=164)	2023 (n=104)	2022 (n=105)
High sales potential in Japan	81%	85%	87%
Trend scouting	62%	57%	58%
Monitoring Japanese competitors	57%	60%	55%
Participation in Japanese business networks	47%	56%	59%
Japan as a benchmark	44%	49%	45%
Cooperation potential with Japanese partners outside Japan	42%	49%	51%
Direct access to innovative and highly specialized suppliers	35%	51%	42%

- ▶ The only reason which rises in relevance compared with prior year is “trend scouting”: Nearly two-thirds of the respondents (62%) say they use their presence in Japan to identify new trends. These include trends in technology and innovation, as well as developments in Japan's geopolitical context
- ▶ With 81%, the high sales potential remains the undisputed #1 reason for maintaining a presence in Japan. This corresponds to the fact that 93% of the surveyed companies are performing sales, promotion and business services in Japan
- ▶ Monitoring Japanese competitors is for 57% (-3%-points YoY) another key reason to be present

## Opportunities and challenges

# Economic, political and social stability remain key USPs for Japan

### Top 7 advantages of Japan as business location and of doing business in Japan

	2024 (n=160)	2023 (n=103)	2022 (n=104)
Economic stability	94%	97%	97%
Stability and reliability of business relationships	93%	96%	96%
Safety and social stability	91%	95%	92%
Highly qualified workforce	90%	91%	90%
Highly developed infrastructure	87%	91%	92%
Stable political environment based on democratic principles	85%	89%	88%
High degree of physical and intellectual property protection	78%	79%	75%

- ▶ Japan is seen as an anchor of stability in Asia for German companies
- ▶ For almost every company (94%) the economic stability, especially in times of geopolitical upheaval, is the main advantage of doing business in Japan
- ▶ The stability and reliability of business relationships remains for 93% a decisive factor for doing business in Japan
- ▶ The safety and social stability in Japan is still highly recognized by respondents. 91% of German companies see the positive social environment as a business advantage



## Opportunities and challenges

# Recruiting and financial risks pose greatest business challenges

### Top 7 current business challenges

	2024 (n=164)	2023 (n=105)	2022 (n=106)
Recruiting sufficiently qualified staff	82%	84%	72%
Currency risks, fiscal and financial risks	76%	72%	63%
Increasing commodity prices and energy costs	68%	79%	-
Increasing inflation	49%	67%	44%
Increasing labor costs	44%	37%	34%
Security of supply / supply chain disruptions	36%	65%	60%
Comparatively high taxation	34%	38%	32%

- ▶ Recruiting personnel with adequate professional and language qualifications remains the greatest challenge with a slightly improving trend (-2%-points YoY) - this assessment derives from the aging society, the decreasing population and limited immigration
- ▶ Due to the weakening Yen during the last 4 years and the high public debt of Japan, currency risks as well as fiscal and financial risks are perceived as major challenges (+4%-points YoY)
- ▶ In the wake of the ongoing geopolitical tensions, high raw material and energy prices, inflation and supply chain problems are still perceived as challenges, but with a clear downward trend
- ▶ In turn, rising labor costs are increasingly becoming a challenge (+7%-points YoY)



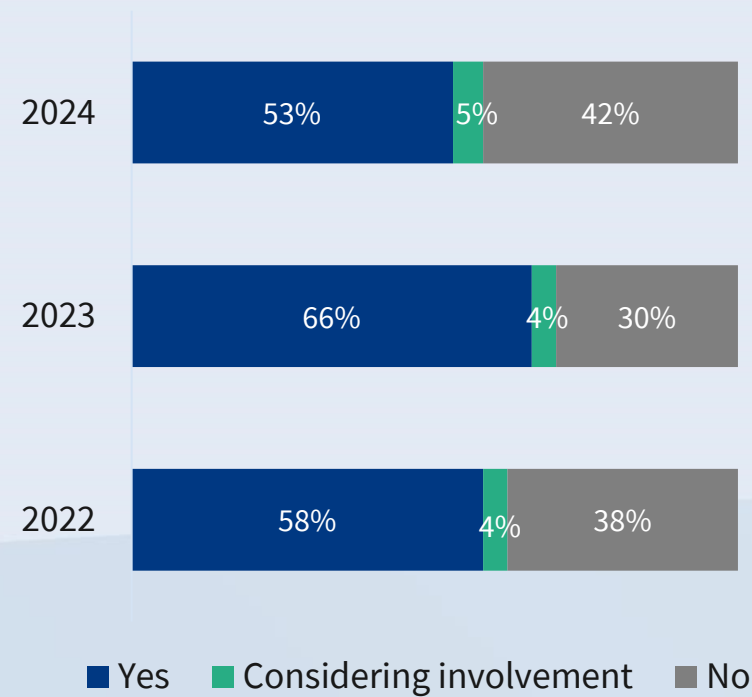
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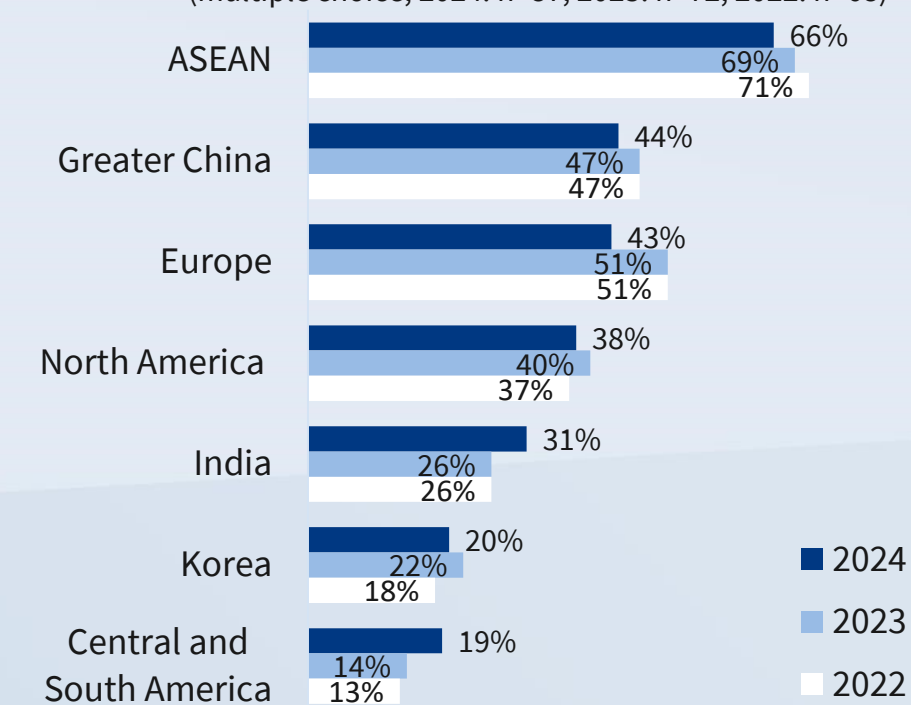
Business in third markets

Third-party business loses in importance

Business with Japanese partners outside Japan  
(2024: n=160, 2023: n=103, 2022: n=110)



TOP 7 target regions of German companies in Japan pursuing 3rd country business with Japanese partners  
(multiple choice, 2024: n=87, 2023: n=72, 2022: n=68)

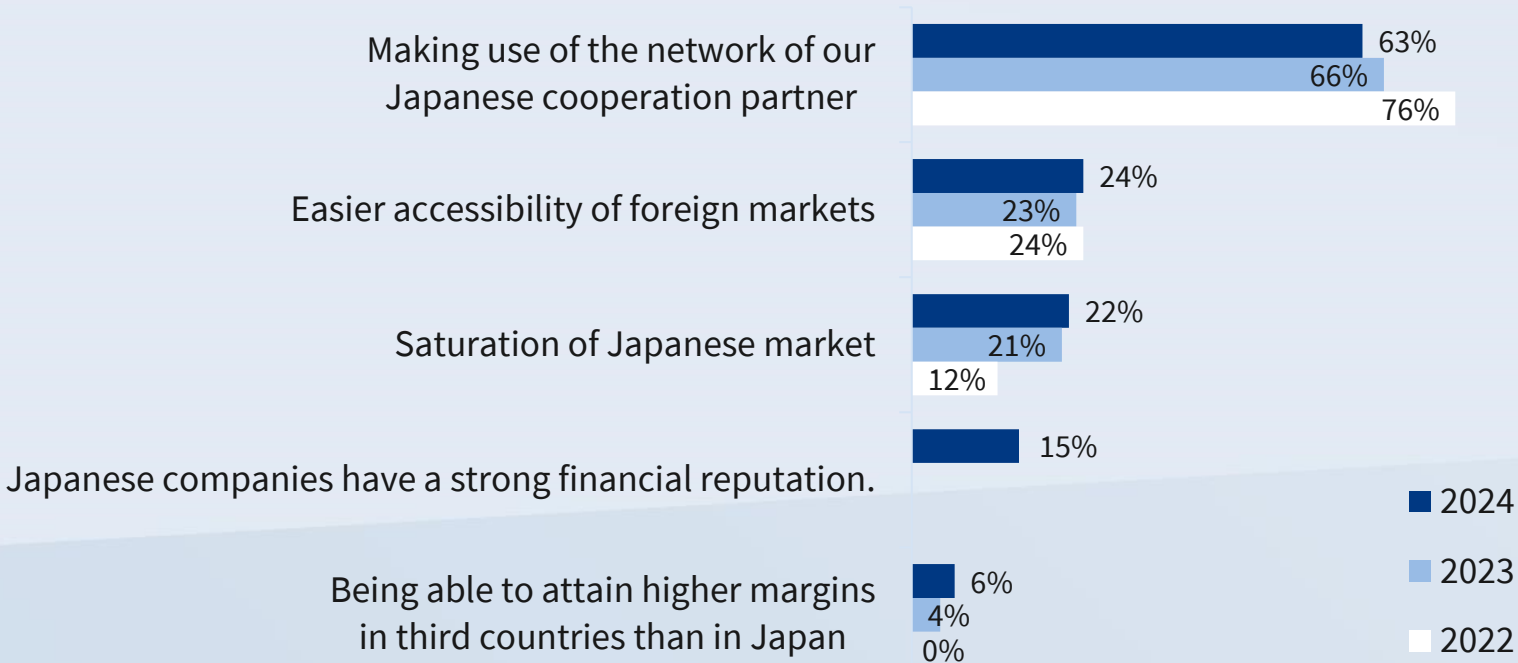


- ▶ The number of companies engaging in projects outside Japan strongly decreased (-13%-points YoY) and those not engaging in third-country business increased (+12%-points YoY). This could be caused by the trend of regionalizing respectively localizing the business in a country to become more resilient as well as the very weak Yen, which negatively impacts foreign direct investments from Japan in other countries
- ▶ India as well as Central and South America are becoming increasingly attractive for German companies to do business there with Japanese partners
- ▶ Despite the plan to diversify from China, that country remains an important market, also for third-country business of German companies together with Japanese companies

# Strong network of Japanese partners highly valued

## Reasons for being involved in third-country projects with Japanese partners

(multiple choice, 2024: n=79, 2023: n=71, 2022: n=65)



- ▶ The existing network of Japanese partners is the most important reason for nearly two-thirds of the companies surveyed (63%) to realize projects in third countries together with Japanese companies
- ▶ 24% of companies believe that cooperating with Japanese partners allows them to access foreign markets easier
- ▶ At the same time, for 22% of companies, the increasingly saturated market in Japan forces companies to approach markets in third countries where there is still growth potential
- ▶ 15% also value the strong financial reputation of Japanese companies

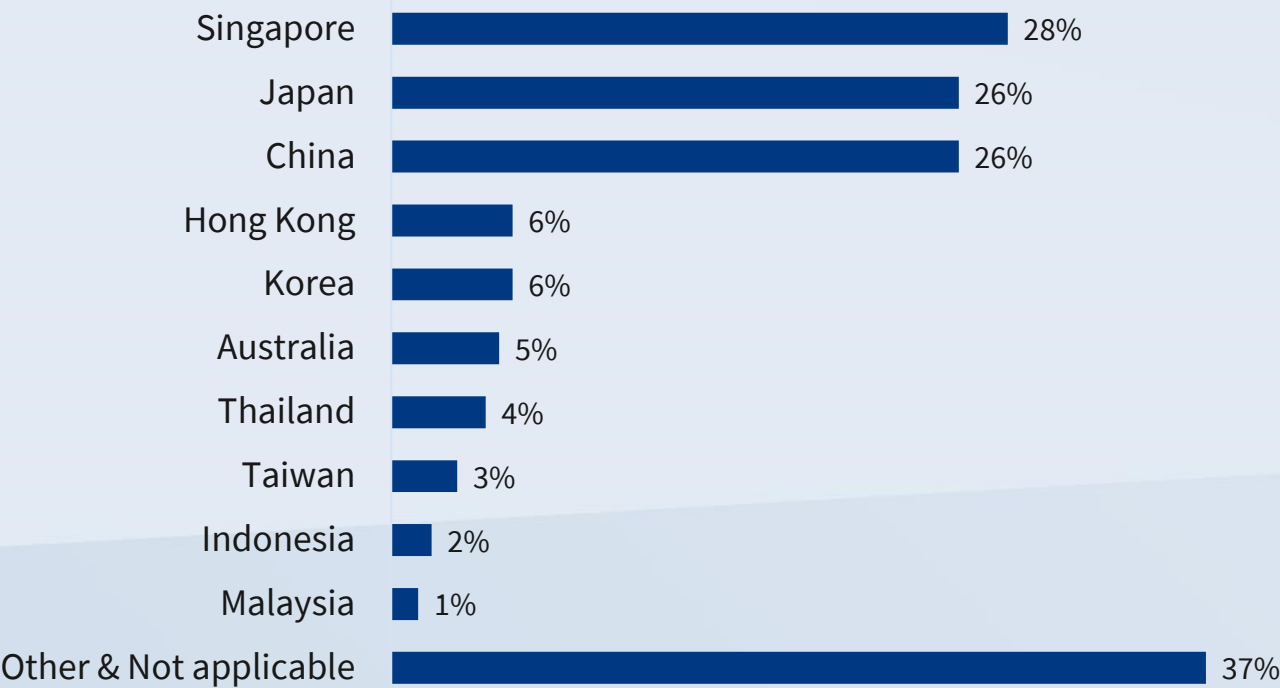


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# Japan among Top 3 locations for Asia-Pacific headquarters

Locations of Asia-Pacific headquarters

(multiple choice, n=160)

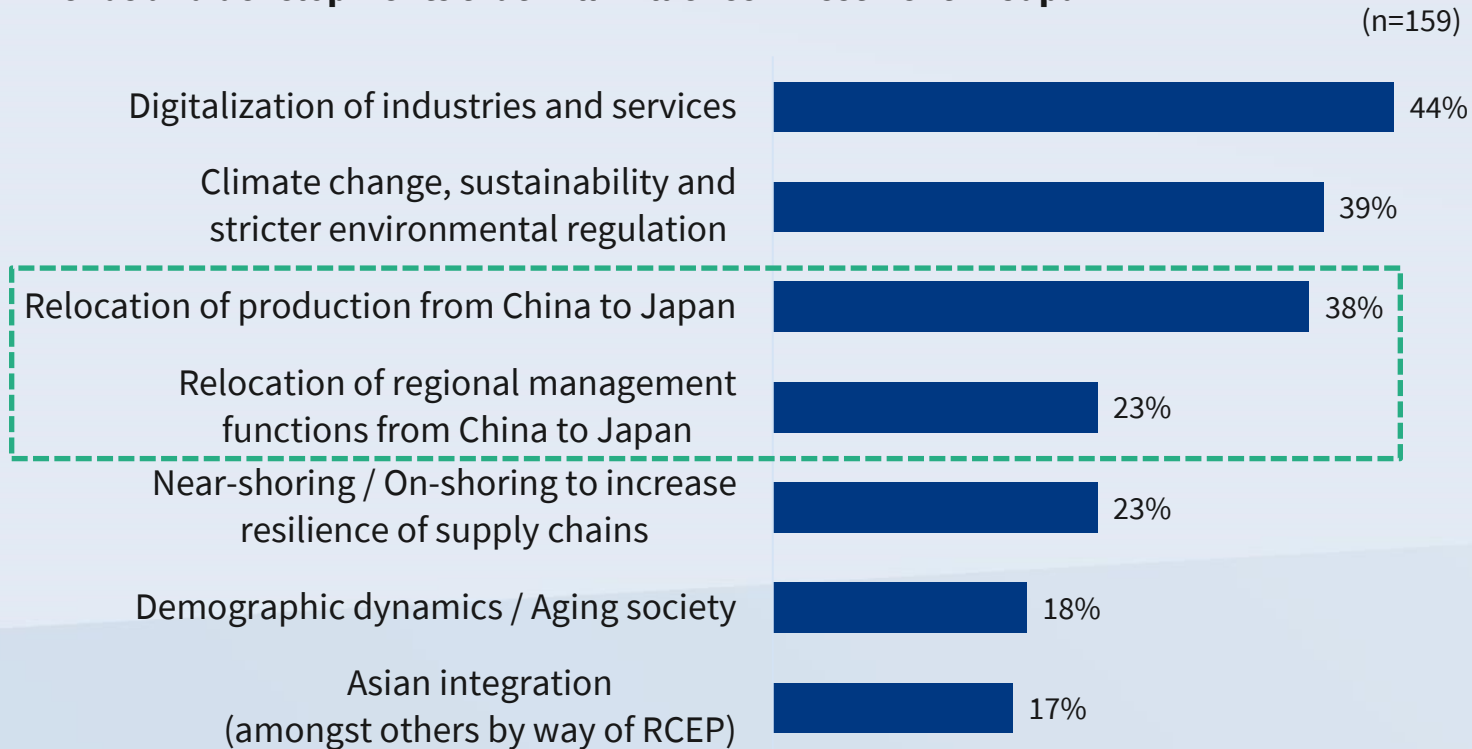


- ▶ Japan remains one of the Top 3 locations for the regional headquarter of German companies in Asia, along with China and Singapore at the top
- ▶ More than a quarter of respondents answered 'other' or 'not applicable'. This indicates that many German companies do not have dedicated headquarters for the Asia-Pacific region and further suggests direct reporting lines to the German headquarter



## Increasing relocation from China to Japan

### Trends and developments that will influence investment in Japan



- ▶ In view of geopolitical uncertainties and the goal of increasing diversification, a significant number of companies experience a trend of relocation from China to Japan in respect of production (38%) and regional management functions (23%)

- Average wages in Japan are 32% below Germany \*)
  - Unit labor cost in Japan are the lowest among the G7 countries \*)
  - Second highest robot density worldwide \*)
- \*) Sources page 28

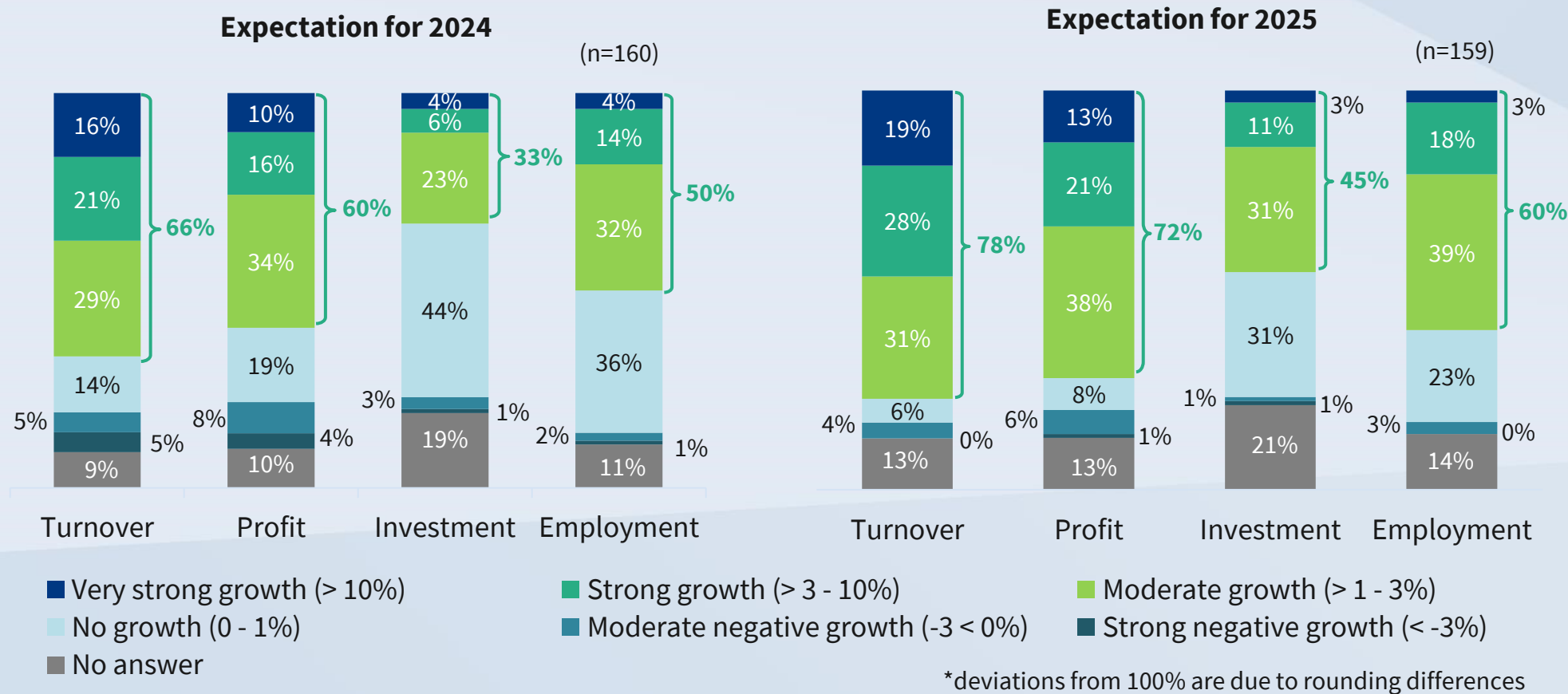
- ▶ The global megatrends digitalization (44%) as well climate change, and sustainability (39%) influence investment decisions in Japan, as in many other countries too

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Outlook

Overall positive expectations for business in Japan

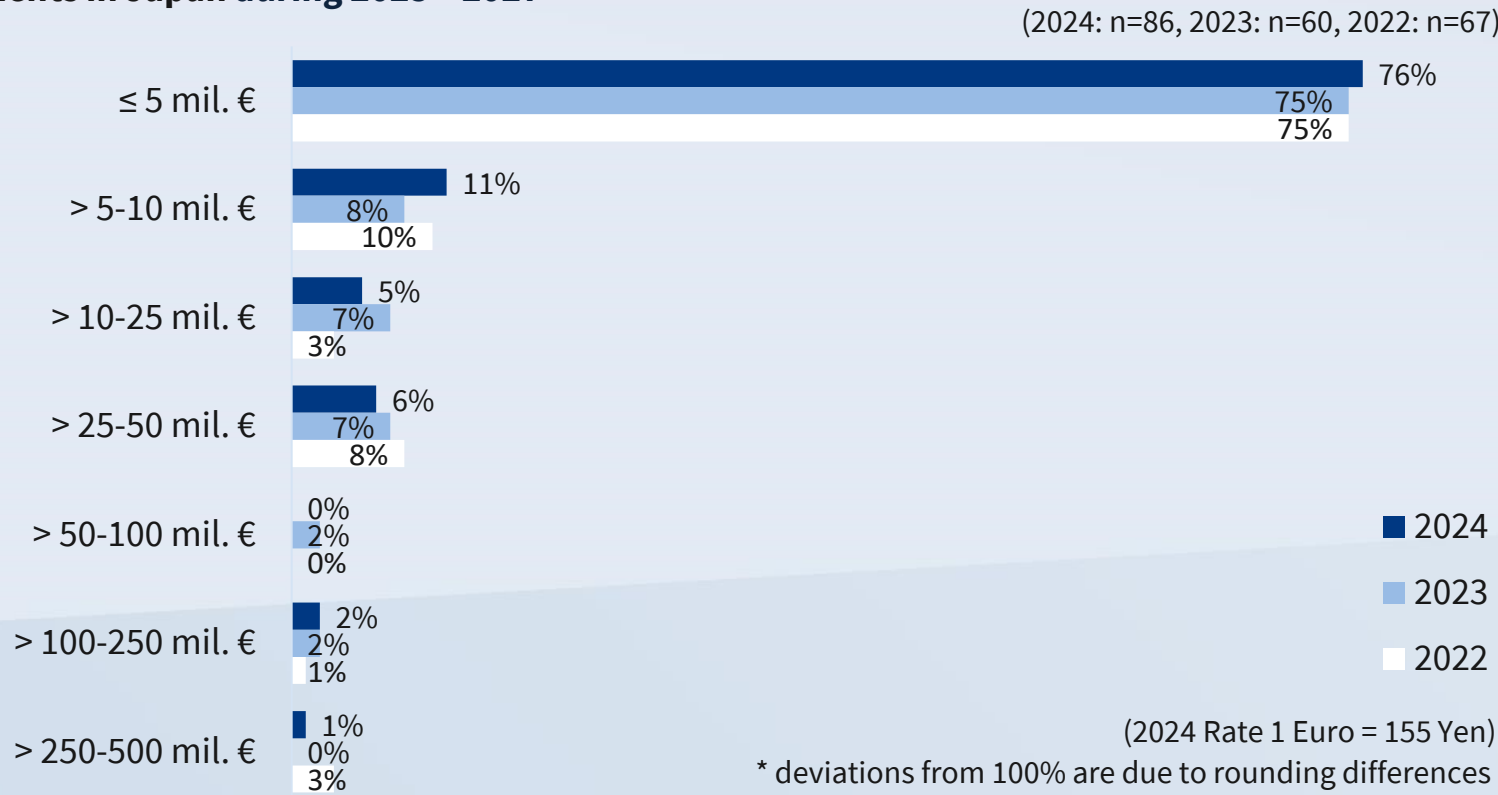


- ▶ Although Germany overtook Japan as the world's third-largest economy in 2023, the business outlook of the companies surveyed remains positive
- ▶ 66% expect their sales in Japan in 2024 and 78% in 2025 to grow. 60% also expect an increase in their profits in 2024 and 72% in 2025
- ▶ For 2024, 33% expect an increase in investments and 50% an increase in employment in Japan. For 2025, 45% and 60% expect this, respectively

Outlook

Investment plans remain on low level

Investments in Japan during 2025 – 2027



- ▶ Investment plans of German companies in Japan remain limited. 76% of the companies surveyed expect to invest 5 mil. € or less within the upcoming three years
- ▶ 22% plan to invest between 5 and 50 mil. €, similar to the previous year
- ▶ 2% of companies plan to invest between 50 and 250 mil. €; a slight decrease of 1%-point compared to 2023
- ▶ Very large investments over 250 mil. € are planned by 1% of the companies over the next three years

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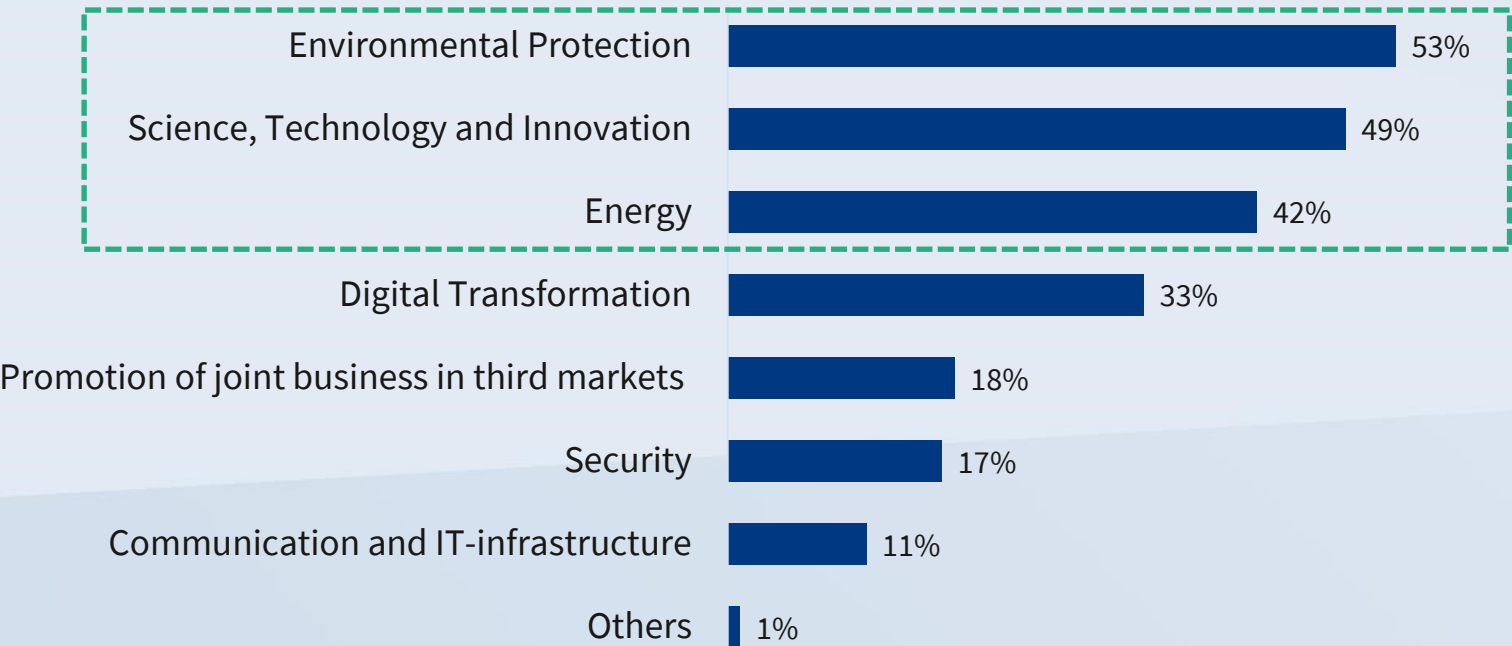


Spotlight on “Areas of Cooperation”

Top 3 most promising areas for more cooperation

In which areas do you see particularly good business opportunities to intensify the cooperation between Germany and Japan?

(multiple choice, 2024: n=159)

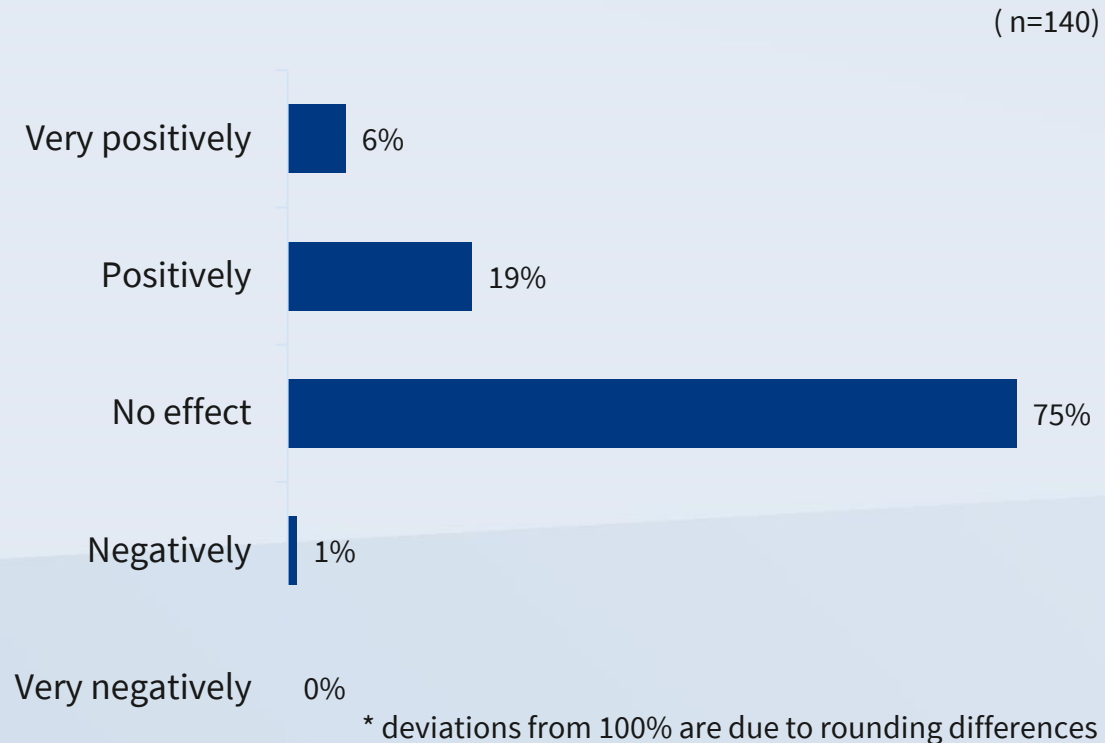


- ▶ Business opportunities for cooperation with Japanese companies are predominantly seen in the areas of environmental protection (53%, -13%-points YoY), technical innovation (49%, -10%-points YoY) and energy (42%, -13 %-points YoY), although all those percentages decreased against prior year
- ▶ Climate change and increasing demands for sustainability will continue to shape the issues of environmental protection and the switch to sustainable energy sources and associated new technologies in the coming years
- ▶ Both countries have an interest in further reducing their dependence on fossil fuels in the coming years for more sustainable energy production and a reduction in dependence on raw materials and corresponding suppliers

## Spotlight on “EU-Japan Free Trade Agreement (FTA)”

# EU-Japan FTA important, but of limited impact for German business in Japan

### Impact of the FTA on German company's business activities (revenues and profits) since 2019



- ▶ A quarter of all companies (25%) attest a positive or even very positive effect of the EU-Japan agreement on their business activities
- ▶ However, 75% of the companies surveyed have not experienced much impact from the FTA on their business activities. This is largely due to the fact that the sectors represented by German companies in Japan were not affected by tariff barriers in the past

**i** The Economic Partnership Agreement between the EU and Japan **entered into force on 1 February 2019.**

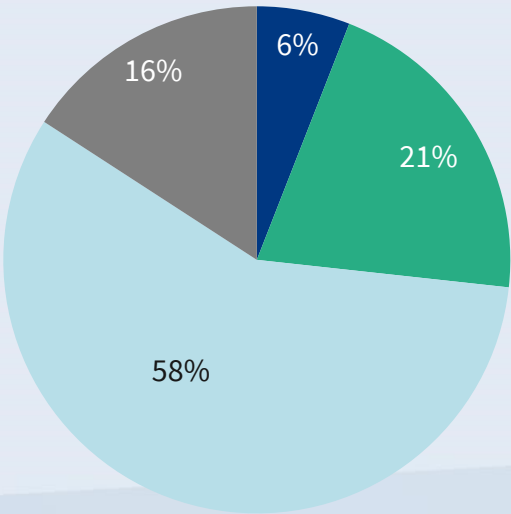
- It has substantially removed tariffs and other trade barriers and creates a platform for increased cooperation and trade
- Trade increased between 2018 - 2022 by
  - Bilateral trade in goods & services +20% \*
  - EU Agrifood exports to Japan +30% \*

\* Source: Delegation of the European Union to Japan

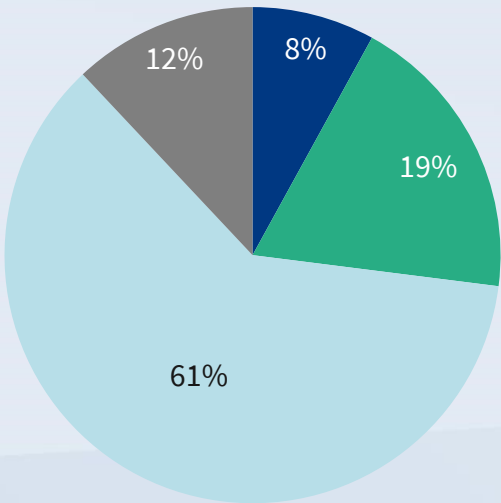
Spotlight on “Reputation of Germany” as seen from outside perspective

# Rising number of strikes and protests hurts Germany's reputation

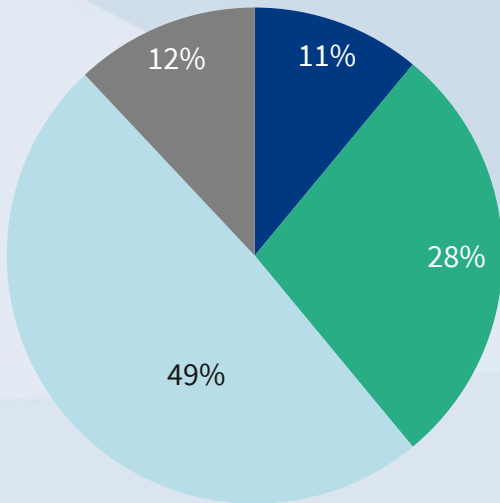
Ageing infrastructure (rails, roads, bridges)  
(n=146)



Climate activists  
(n=144)



Increasing frequency and violence of demonstrations and protests  
(n=145)



■ Strong negative influence    ■ Moderate negative influence    ■ No significant influence    ■ Issue is unknown

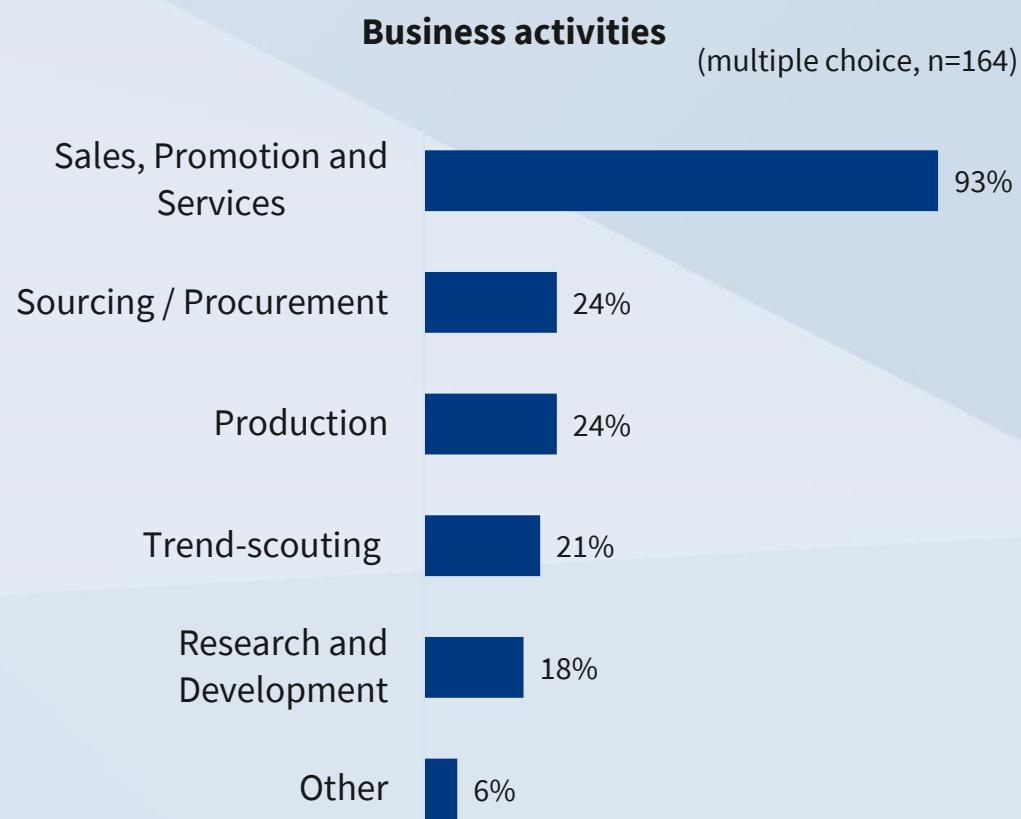
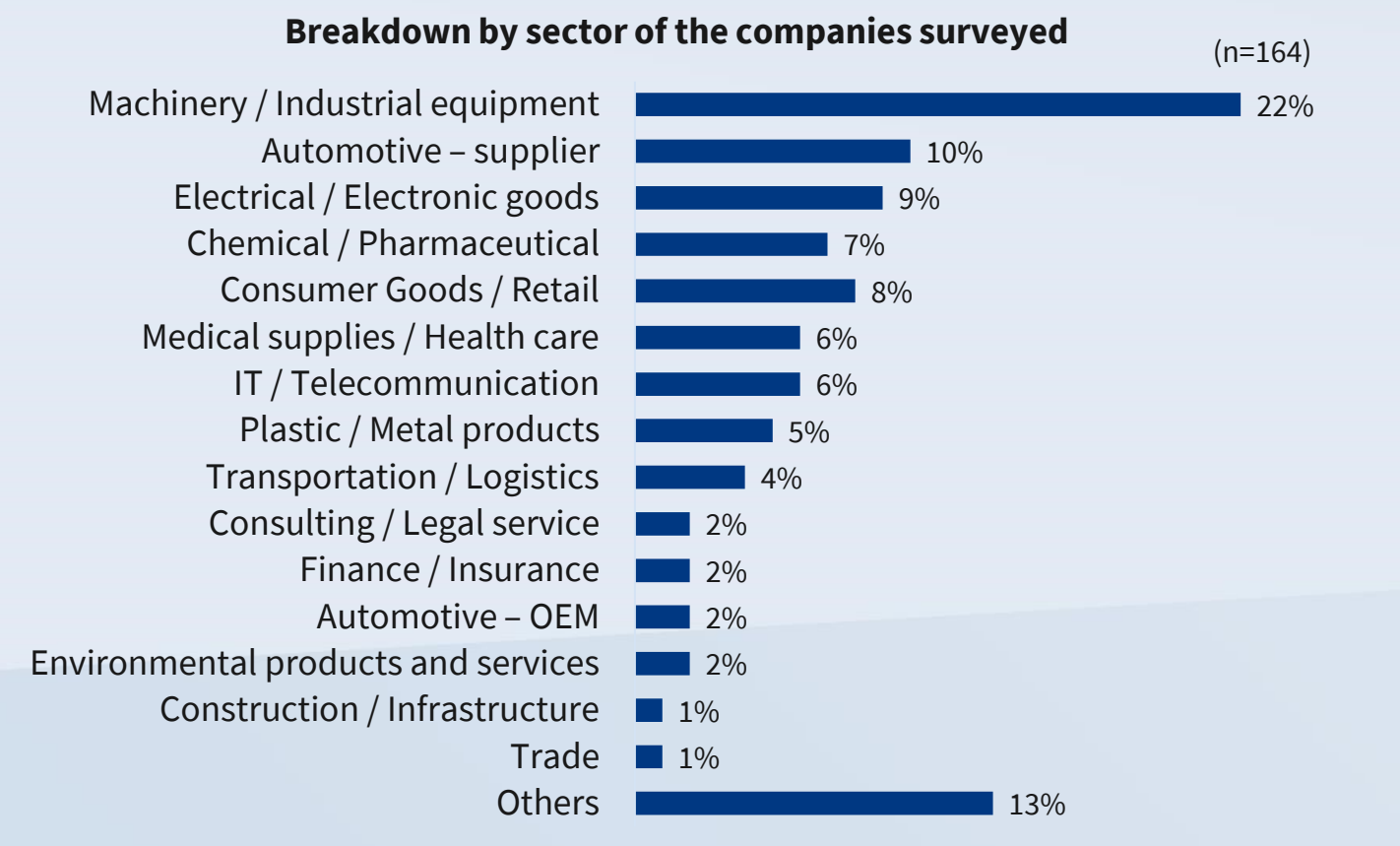
\* deviations from 100% are due to rounding differences



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472 German companies in Japan were surveyed from 30. Jan. – 13. Feb. 2024 | response rate: 35% (164 participants)

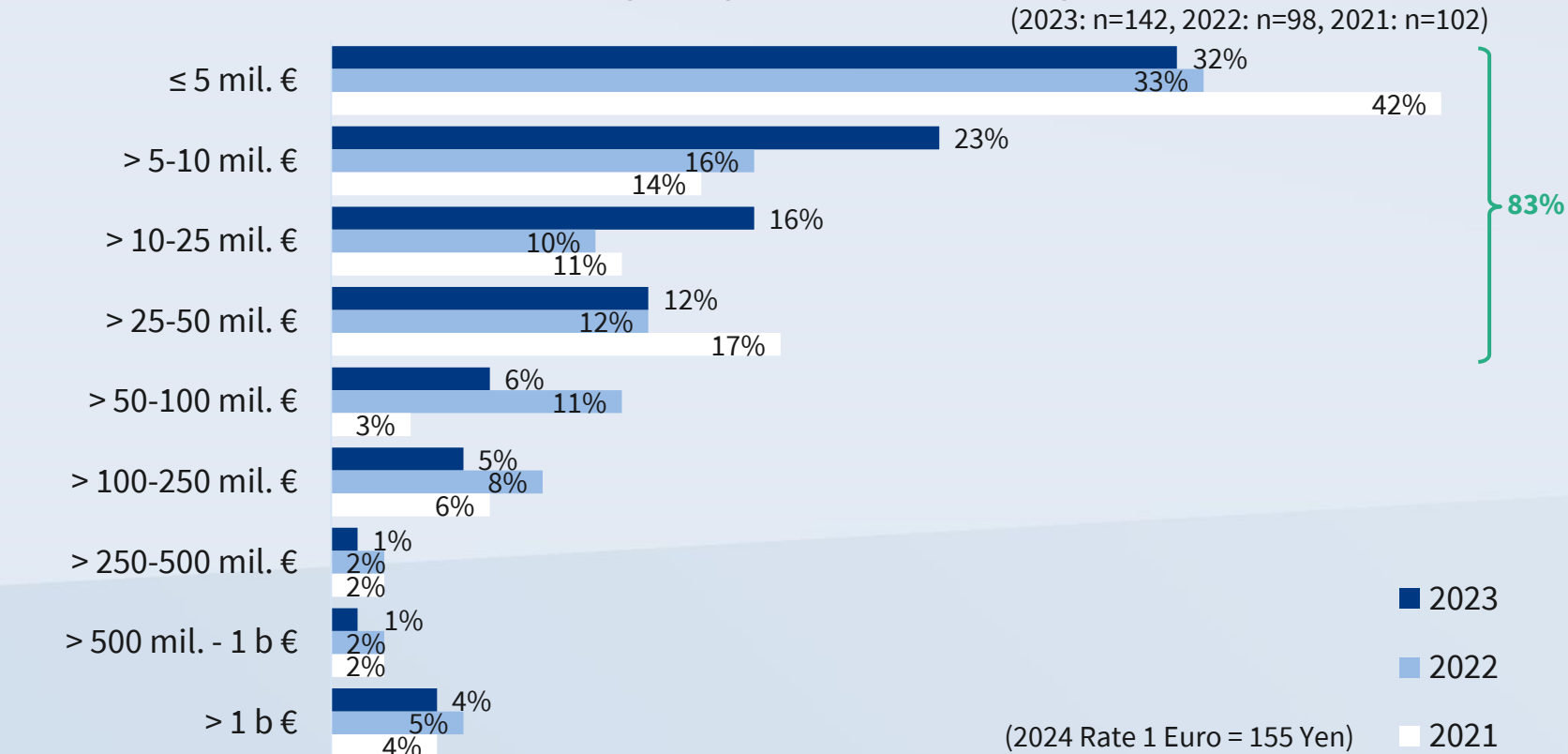
## Profile of the companies surveyed



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# Profile of the companies surveyed

(Expected) sales for the stated financial year  
(as per the surveys undertaken at the beginning of the forth following year)

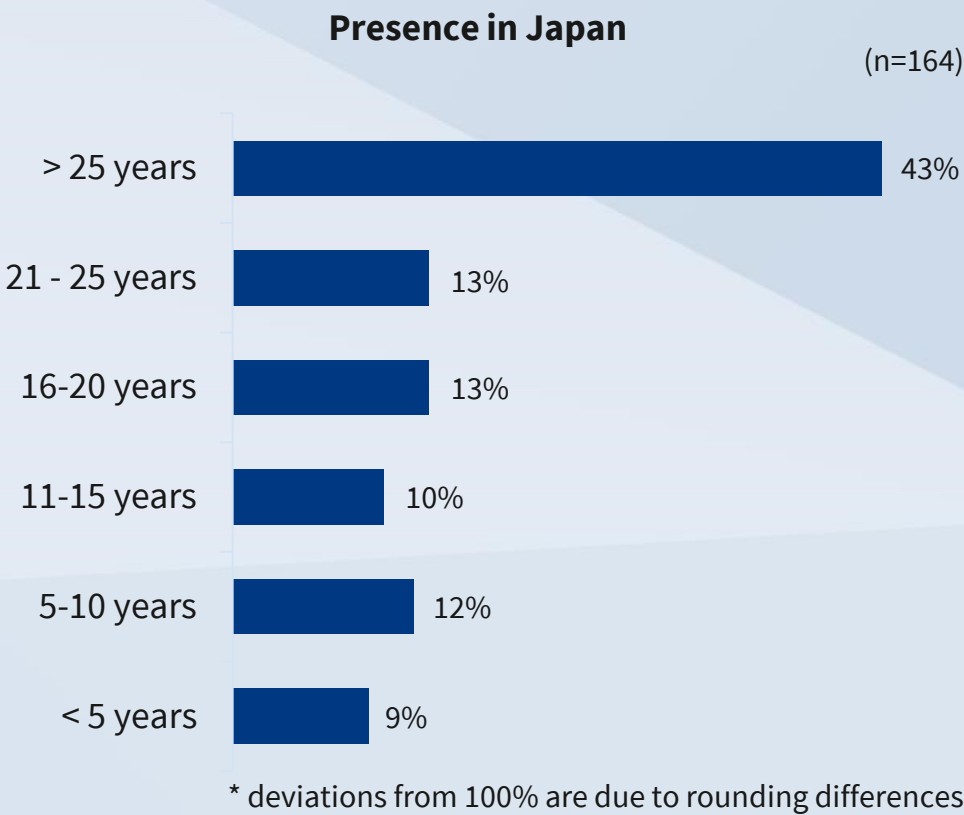
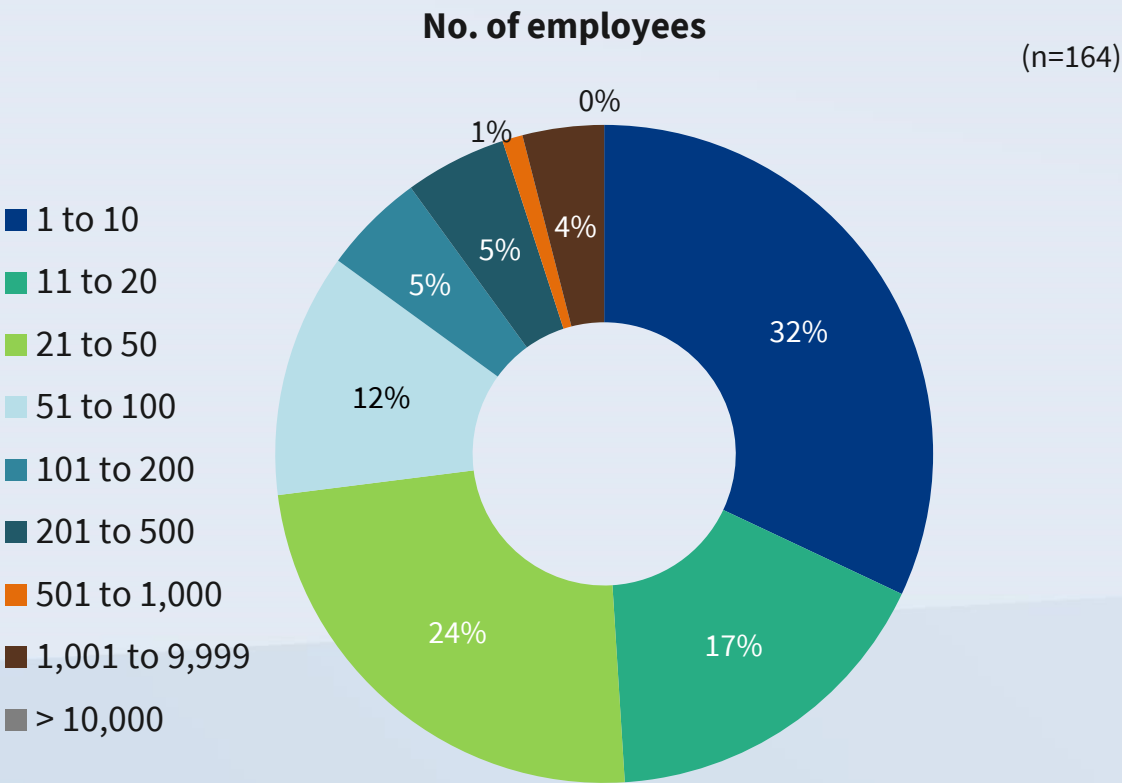


- ▶ 83% of German companies participating in the survey realized less than 50 mil. € turnover in 2023 – an increase of 12%-points YoY (in 2022: 71%)
- ▶ The proportion of very small companies with sales of less than 5 mil. € in 2023 participating in the survey accounted for 32% (in 2022: 33%)
- ▶ 11% of the companies surveyed generated a turnover of more then 100 mil. € in 2023 (in 2022: 17%) and can therefore be regarded as large companies



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# Profile of the companies surveyed



# Contact

**The German Chamber of Commerce and Industry in Japan (AHK Japan)** belongs to a worldwide network of 150 German Chambers of Commerce Abroad (AHK) in 93 countries. Wherever there is a particular interest for German business, the chambers offer their experience, connections and services to German and non-German companies alike. AHKs are co-funded by the Federal Ministry for Economic Affairs and Climate Action (BMWK) in accordance with a resolution of Germany's parliament. Since 1962, AHK Japan has been supporting companies wishing to start or further expand their international business with Japanese partners. As the official representation of German business in Japan, service provider and membership organization, AHK Japan offers a wide range of professional services to help companies - from startup to established company - along the road to success.



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# Imprint

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\*) Sources for page 15:

Country comparison Germany vs Japan, URL: <https://countryeconomy.com/countries/compare/germany/japan?sc=XEAB> | Statista The Countries With The Highest Density Of Robot Workers, URL: <https://www.statista.com/chart/13645/the-countries-with-the-highest-density-of-robot-workers/> | OECD (2024), Unit labour costs (indicator), doi: 10.1787/37d9d925-en (Accessed on 25 March 2024)



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