



Economic outlook German Business in Japan 2023

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 ...

36%

state that “Like-mindedness” has moved **Japan into the spotlight** and **increased headquarter’s attention**

51%

(+9%-points) **emphasize the access to innovative and highly specialized Japanese suppliers** to improve resilience of their global supply chains

66%

are partnering with Japanese companies **in projects outside Japan (+8%-points** compared with 2022), especially in the ASEAN region

96%

continue rating the **stability and reliability** of business relationships as the **key USP of Japan**

20%

of respondents maintain **Japan as regional HQ**

48%

state that **Japan is among the Top 5 markets** within German HQs’ global turnover and profit – an **increase by +3%-points** compared with 2021

93%

generate pre-tax profits, an increase by +11%-points compared with 2021

75%

have **positive expectations** regarding their **sales in 2023 and 2024**

84%

face **problems in recruiting qualified staff**. The situation **worsened by 12%-points** compared with 2022

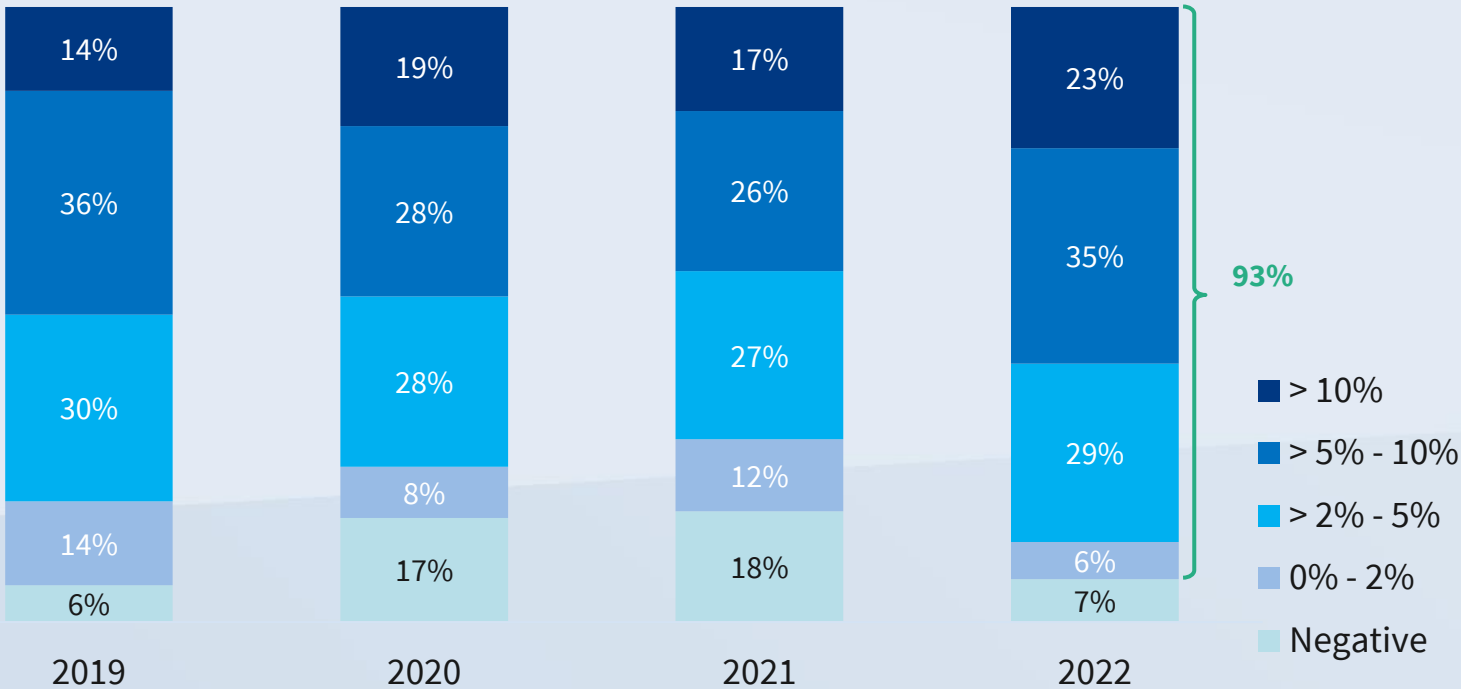


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Business situation eases

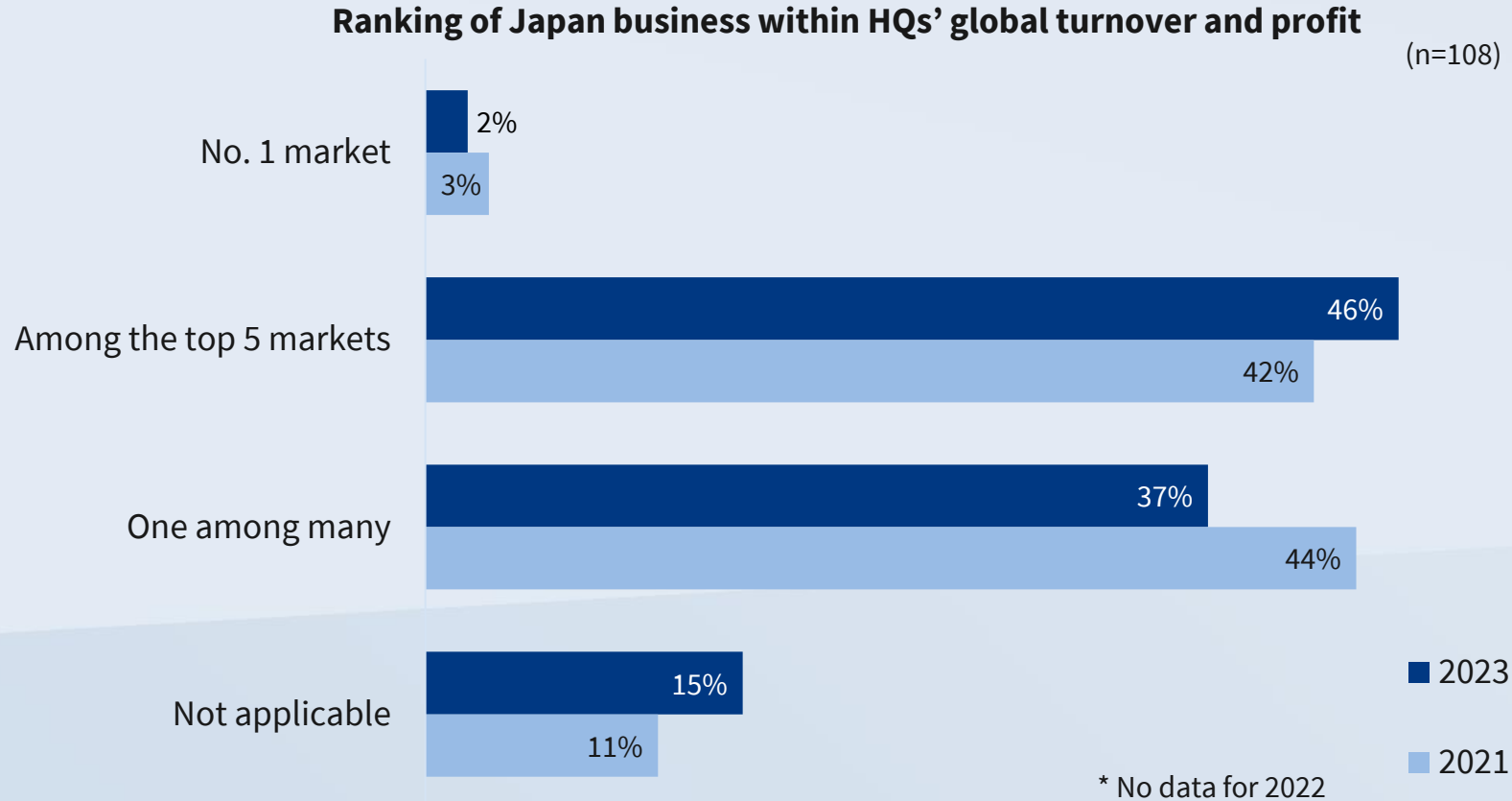
Average annual pre-tax profit margin since 2019

(n=69)
(Rate 1 Euro = 141 Yen)



- ▶ Companies in Japan seem to have recovered from the effects of the pandemic: In 2022, profitability increased for the first time in three years and exceeds pre-pandemic levels in 2019
- ▶ 93% (2021: 82%) of all companies surveyed are generating pre-tax profits in Japan despite the war in Ukraine and further geopolitical uncertainties
- ▶ The share of companies with a pre-tax profit margin of more than 10% increased by 6%-points YoY, while the share of companies with low margins of 0%-2% decreased (-6%-points YoY)

Japan among Top 5 markets for German headquarters



- ▶ Nearly half of the companies surveyed consider Japan as one of their top five markets regarding their headquarters' global turnover and profit (+3%-points compared to 2021)
- ▶ The high number of companies for which Japan is one of the top 5 markets confirms the existing value partnership between Germany and Japan
- ▶ Cost competitiveness, a business-friendly environment, advanced technology and infrastructure, and a highly-skilled workforce make Japan an attractive business destination



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Opportunities and challenges

Sourcing in Japan has gained significant importance

Key strategic reasons for maintaining a presence in Japan

(n=104)

	2023	2022	2021
High sales potential in Japan	85% ↓	87% ↑	86%
Monitoring Japanese competitors	60% ↑	55% ↑	53%
Trend scouting	57% ↓	58% ↓	59%
Participation in Japanese business networks	56% ↓	59%	-
Direct access to innovative and highly specialized suppliers	51% ↑	42%	-
Cooperation potential with Japanese partners outside Japan	49% ↓	51% ↑	46%
Japan as a benchmark	49% ↑	45% ↓	49%

▶ The highest increase (+9% points YoY up to 51%) concerns the direct access to innovative and highly specialized suppliers. Due to increasing supply chain disruptions globally, Japanese suppliers appear to be increasingly selected as additional or even preferred suppliers

▶ With 85%, the high sales potential remains the undisputed #1 reason for maintaining a presence in Japan. This corresponds to the fact that 94% of the surveyed companies are performing sales, promotion and service businesses in Japan. Japan has a population of roughly 125 million which is about 1.5 the size of Germany

▶ Monitoring Japanese competitors is for 60% (+5% point YoY) a key reason to be present. This factor has increased for the second time in a row and proves the globally leading position of Japanese companies in certain industries

Opportunities and challenges

Economic, political and social stability are the key USPs for Japan

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

(n=103)

	2023	2022	2021
Economic stability	97% →	97% ↑	90%
Stability and reliability of business relationships	96% →	96% ↑	95%
Safety and social stability	95% ↑	92% ↑	90%
Highly qualified workforce	91% ↑	90% ↑	85%
Highly developed infrastructure	91% ↓	92% ↑	84%
Stable political environment based on democratic principles	89% ↑	88% ↑	84%
High degree of physical and intellectual property protection	79% ↑	75%	-

- ▶ Japan is deemed to be an anchor of stability in Asia for German companies
- ▶ For almost every company (97%) 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 96% a decisive factor for doing business in Japan
- ▶ The safety and social stability in Japan is increasingly recognized by respondents. 95% (+3%-points YoY) of German companies see the positive social environment as a business advantage

Recruiting, inflation and financial stability are severe business challenges

Key current business challenges

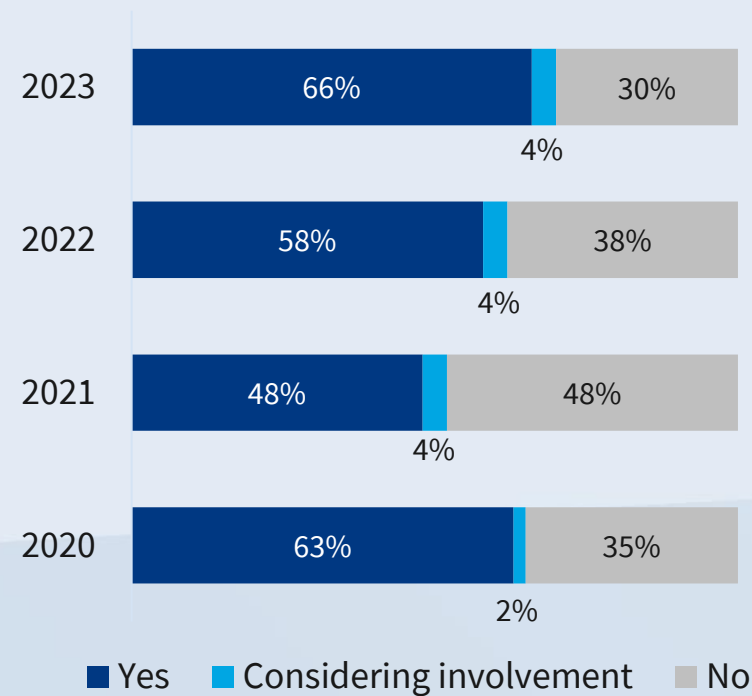
	(n=105)		
	2023	2022	2021
Recruiting sufficiently qualified staff	84% ↑	72% ↓	79%
Increasing commodity prices and energy costs	79%	-	-
Currency risks, fiscal and financial risks	72% ↑	63% ↑	40%
Increasing inflation	67% ↑	44%	-
Security of supply / supply chain disruptions	65% ↑	60%	-
Comparatively high taxation	38% ↑	32% ↓	40%
Increasing labor costs	37% ↑	34% →	34%

- ▶ Recruiting personnel with adequate professional and language qualifications remains the greatest challenge with a negative trend (+12%-points YoY) - this assessment derives from the aging society, the decreasing population and limited immigration
- ▶ As is the case in many regions globally, increasing commodity prices and energy costs - amongst others caused by supply chain disruptions and the war in Ukraine - are seen as severe business challenges by 79% of the respondents. Also, more broadly, inflation has become the mostly rising business challenge (+23%-points YoY)
- ▶ Due to the weakening Yen during the last 3 years and the high public debt of Japan (which is the highest of any developed nation) the currency risks as well as the fiscal and financial risks are perceived as a major challenge (+9%-points YoY)

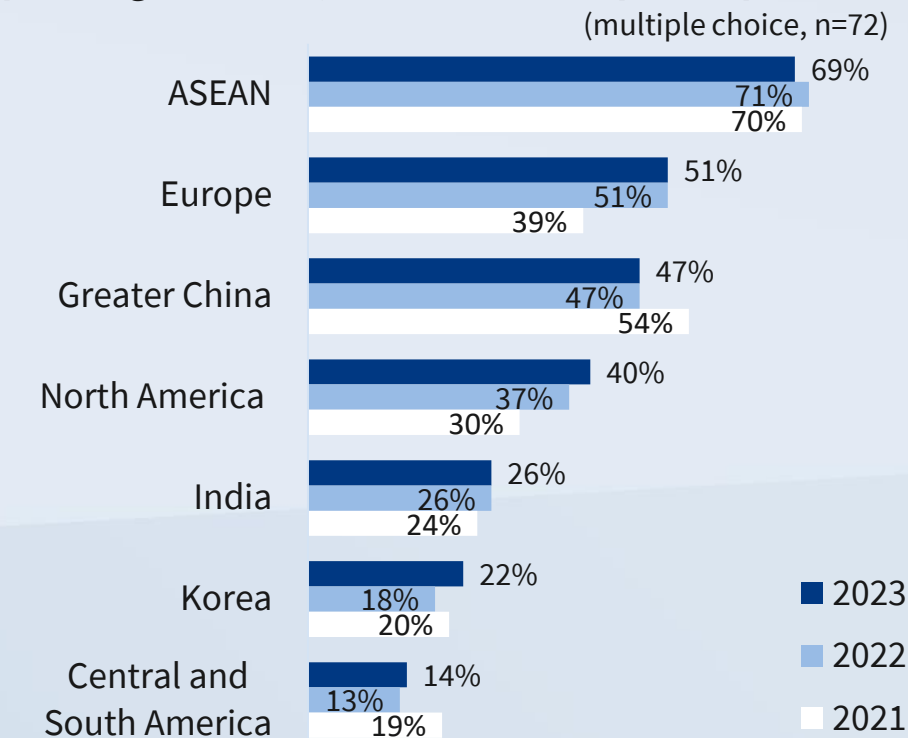
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Steadily increasing business potential in third markets

Business with Japanese partners outside Japan
(n=103)



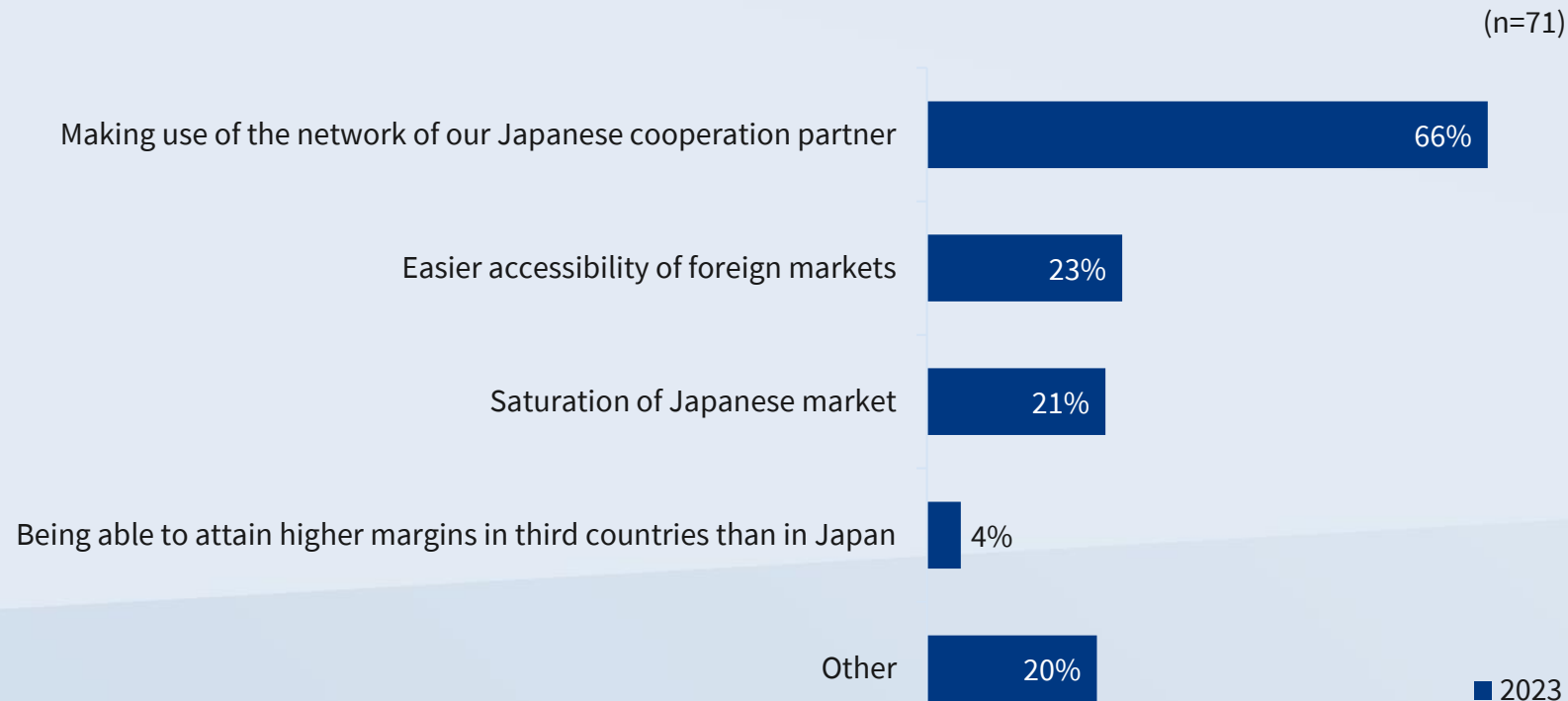
TOP 7 target regions of German companies in Japan
pursuing 3rd country business with Japanese partners



- ▶ At a new high, projects outside Japan exceeded pre-pandemic levels (66%; +8%-points YoY; +3%-points compared to 2020). Simultaneously, the number of companies not engaging in projects outside Japan is steadily declining (-8%-points YoY down to 30%)
- ▶ Given the growing importance of a partnership with countries who share common values, North America and Korea are becoming more attractive to engage with in third country business
- ▶ Despite an easing of its zero covid policy, the assessment of Greater China remains unchanged, albeit at a high level

Strong networks of Japanese partners is made use of

Reasons for being involved in third country projects with Japanese partner

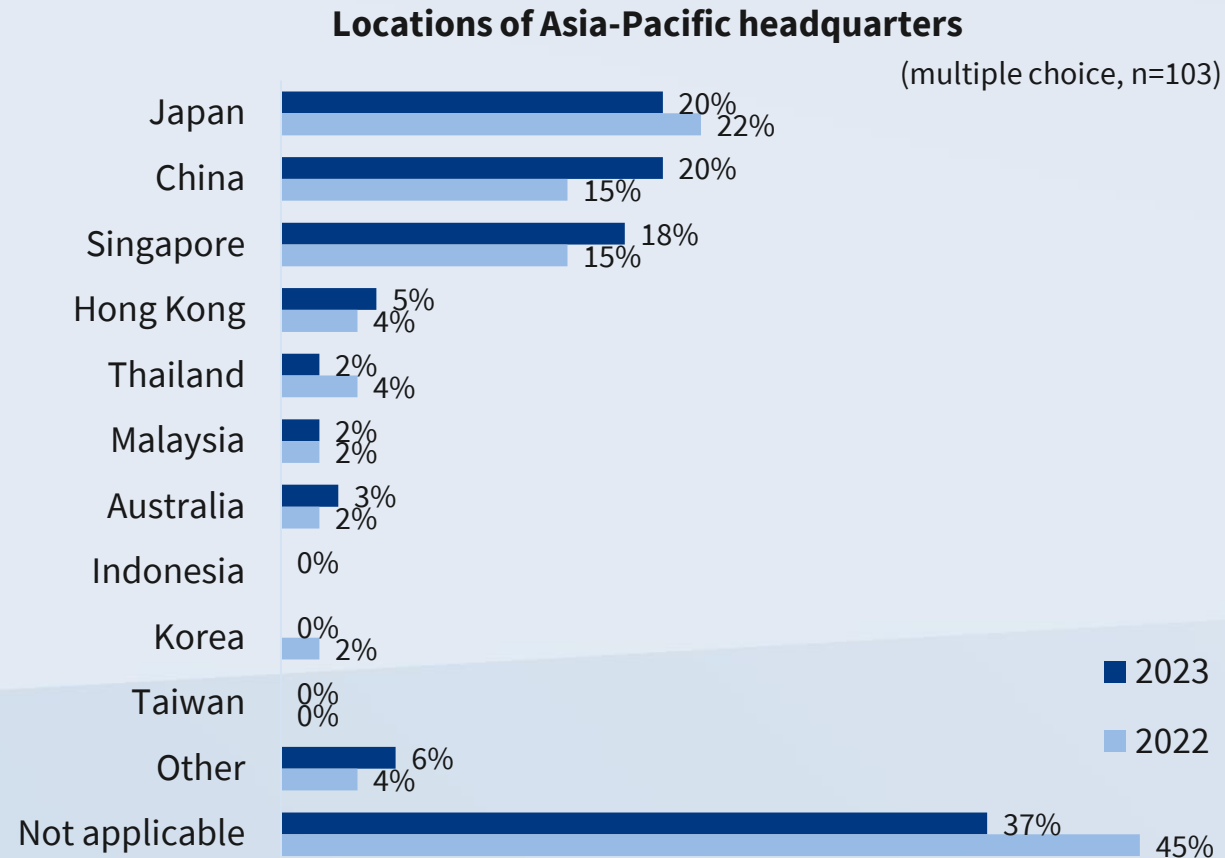


- ▶ The existing network of Japanese cooperation partners is the most important reason for two-thirds of the companies surveyed to realize projects in third countries with Japanese companies
- ▶ Cooperating with Japanese partners in third markets also provides a strategic advantage. 23% of companies believe that it will make it easier for them to access foreign markets
- ▶ At the same time, for 21% of companies, the increasingly saturated market in Japan forces companies to approach markets in third countries where there is still growth potential

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Set-up in Asia

Japan maintains one of the leading locations for headquarter functions



- ▶ Japan remains to be one of the Top 3 locations for the regional headquarter of German companies in Asia, along with China and Singapore
- ▶ Despite restrictive anti-Covid measures until late last year and the progressing decoupling from the West, China is gaining ground (+ 5%-points). Singapore's position has also gained in importance (+ 3%-points)
- ▶ As in the previous year more than one third of the respondents answer '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

Set-up in Asia

Aligning China strategy: Japan is not considered as real alternative

Does Japan play any role in your (regional) headquarter's considerations?

(n=70)



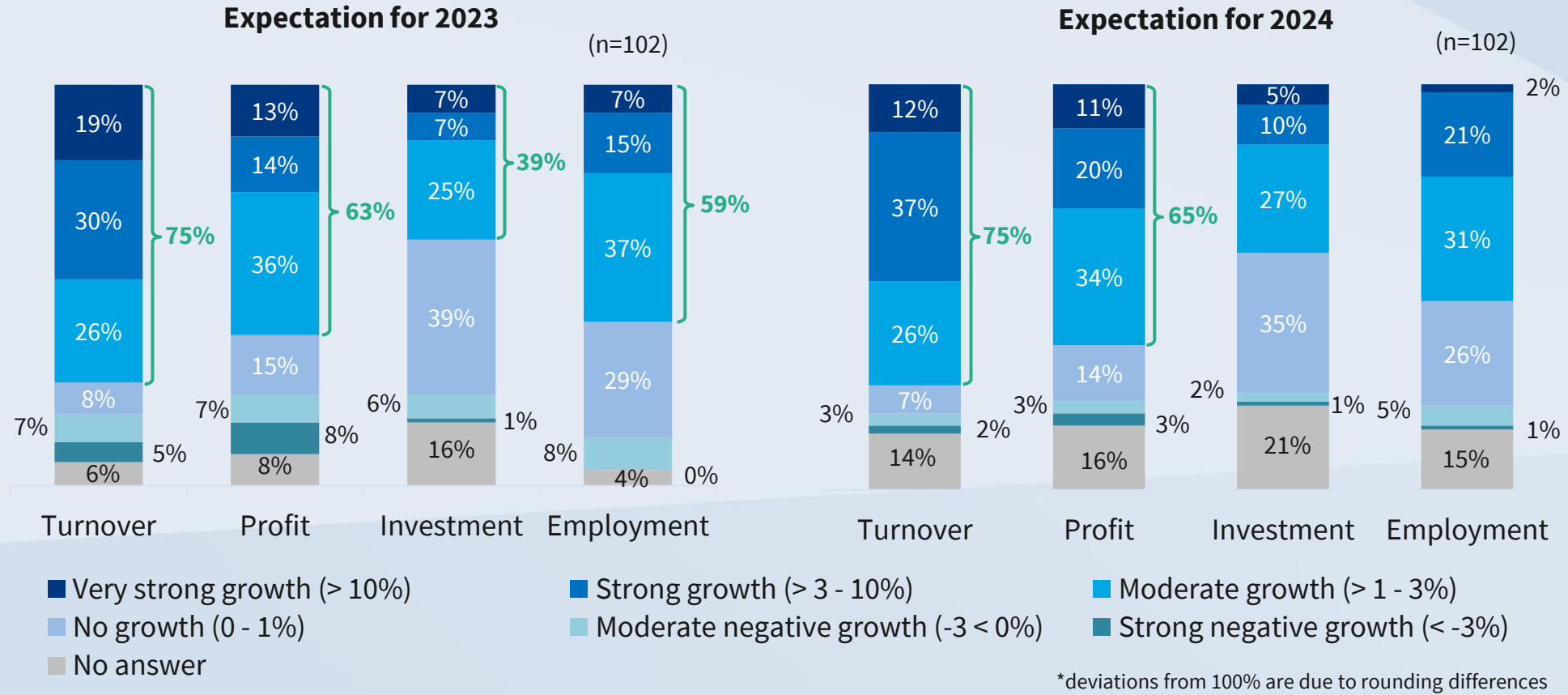
- ▶ Regarding the diversification of supply chains and reducing dependencies from China, a majority of 80% of the respondents do not focus on Japan
- ▶ However, Japan could qualify as a reliable and stable partner in unsecure times:
 - at least one fifth of German (regional) headquarters have put Japan on the radar looking into a relocation of operational functions such as sales, sourcing, R&D and production to Japan

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- Average wages in Japan are 25% below Germany
- Unit labor cost are among the lowest within G7 countries
- Robot density #3 worldwide
- High loyalty of employees

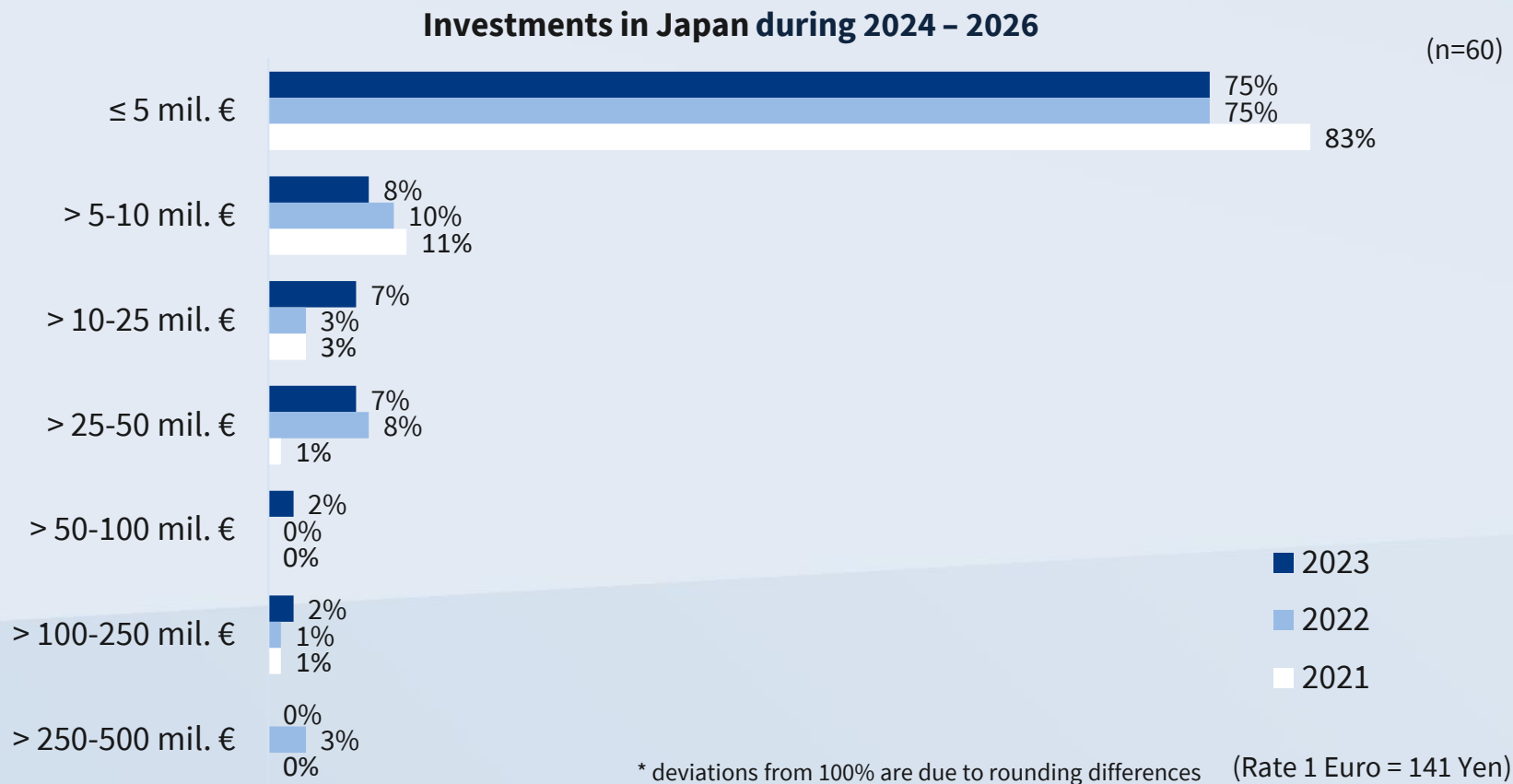
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Overall positive expectations for business in Japan



- ▶ The expectations of respondents regarding the development of their sales and results in Japan remain positive for 2023 and 2024, with 75% expecting an increase in sales in each of the two years and 63% expecting an increase in profits in Japan in 2023 (65% in 2024)
- ▶ For 2023, 39% expect an increase in investments and 59% an increase in employment in Japan
- ▶ The relatively high proportion of 'no answer' for 2024 indicates uncertainty regarding future developments

Investment plans remain on low level



- ▶ Investment plans of German companies in Japan are limited. As in 2022, three quarters of the companies surveyed expect to invest 5 mil. € or less within the upcoming three years
- ▶ However, 4% of companies plan to invest between 50 and 250 mil. €; an increase of 3%-points compared to 2022
- ▶ 7% plan to invest between 10 and 25 mil. €, an increase of 4%-points compared to 2022
- ▶ Very large investments over 250 mil. € are not planned over the next three years

Outlook

Megatrends are expected to drive investments in the future

Key trends and developments with impact on future investments in Japan

(n=101)

	2023	2022	2021
Climate change, sustainability and stricter environmental regulations	65% ↓	68% ↑	56%
Digitalization of industries / services	65% ↓	67% ↓	74%
Demographic dynamics / Ageing society	63% ↑	52% ↓	58%
Near-shoring / on-shoring to increase resilience of supply chains	55% ↑	53%	-
China +1 strategy / Relocation within the Asian market	50%	-	-
Asian integration (amongst others by way of RCEP)	35% →	35% ↓	37%

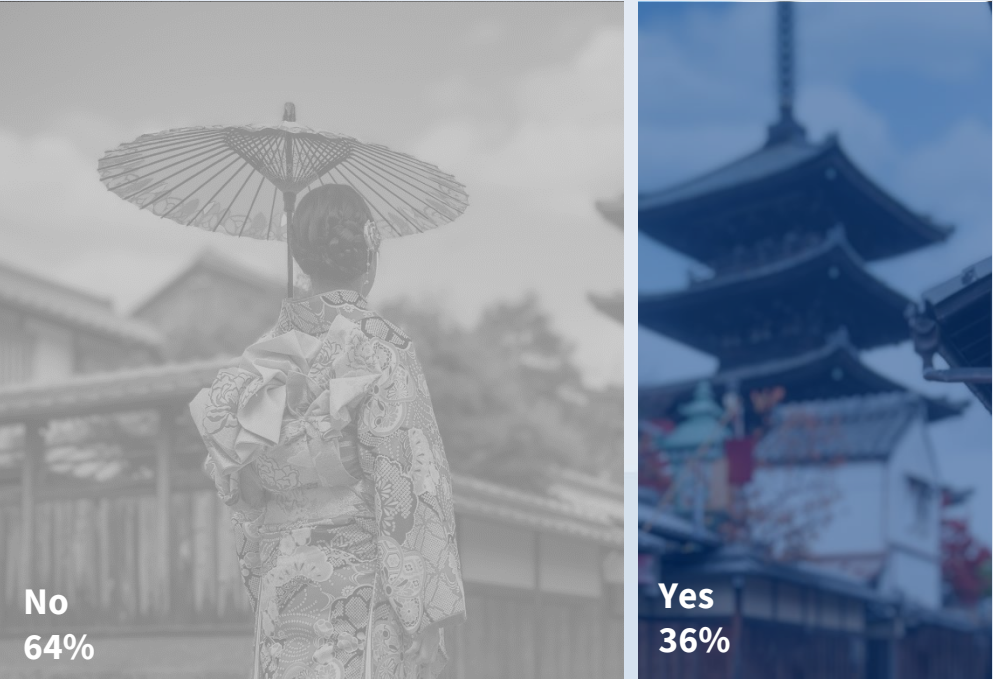
- ▶ Nearly two-thirds of respondents expect climate change, sustainability and related regulatory measures to influence their investment decisions
- ▶ While 65% of companies still expect digitalization to impact their future investments in Japan, as the pandemic has subsided, this factor has become less decisive (-2%-points YoY)
- ▶ Particularly remarkable is the growing influence of Japan's demographic dynamics on companies' investment decisions (+11%-points YoY). Falling birth rates and an increasingly aging population are exacerbating the already existing shortage of skilled workers

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Spotlight on German-Japanese “Like-mindedness”

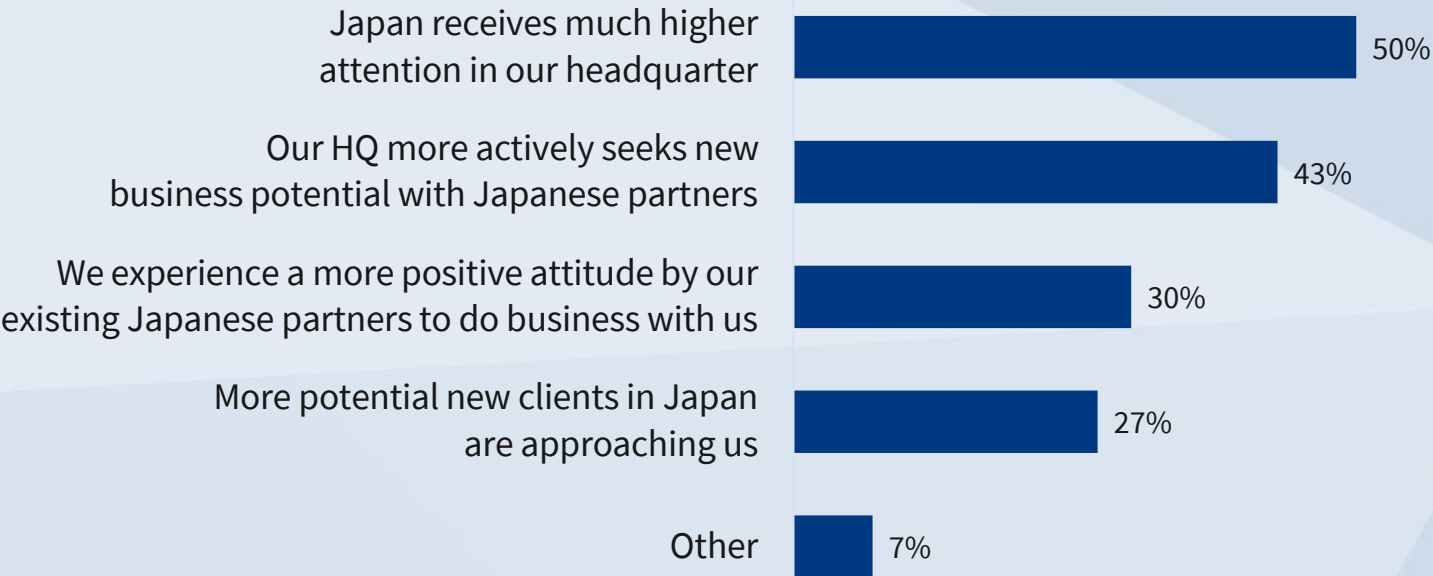
“Like-mindedness” moves Japan back into headquarters’ attention

Has “Like-mindedness” contributed to more interest and focus on Japan by your headquarter?
(n=83)



What specific changes have you seen?

(multiple choice, n=30)

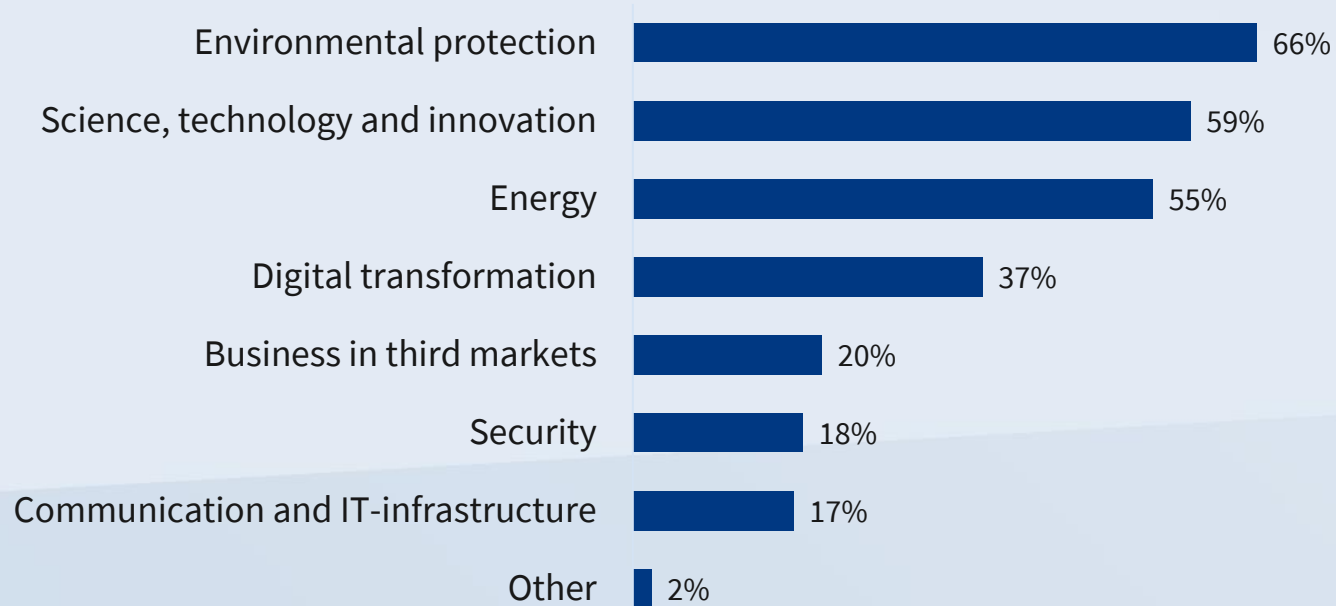


Spotlight on German-Japanese “Like-mindedness”

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, n=100)

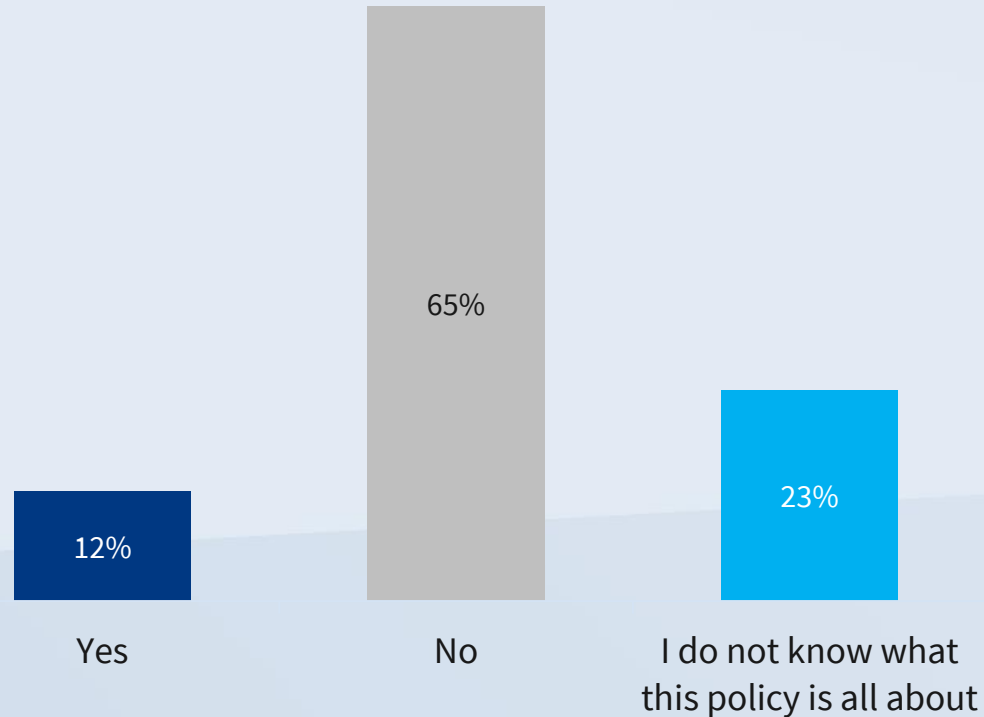


- ▶ Business opportunities for cooperation with Japanese companies are predominantly seen in the areas of environmental protection (66%), technical innovations (59%) and energy (55%)
- ▶ Climate change and increasing demands for sustainability will continue to shape the issues of environmental protection and shift towards sustainable energy in the coming years

Economic Security Promotion Act (ESPA): limited impact on business activities

Do you expect that ESPA will affect your company's business activities?

(n=100)



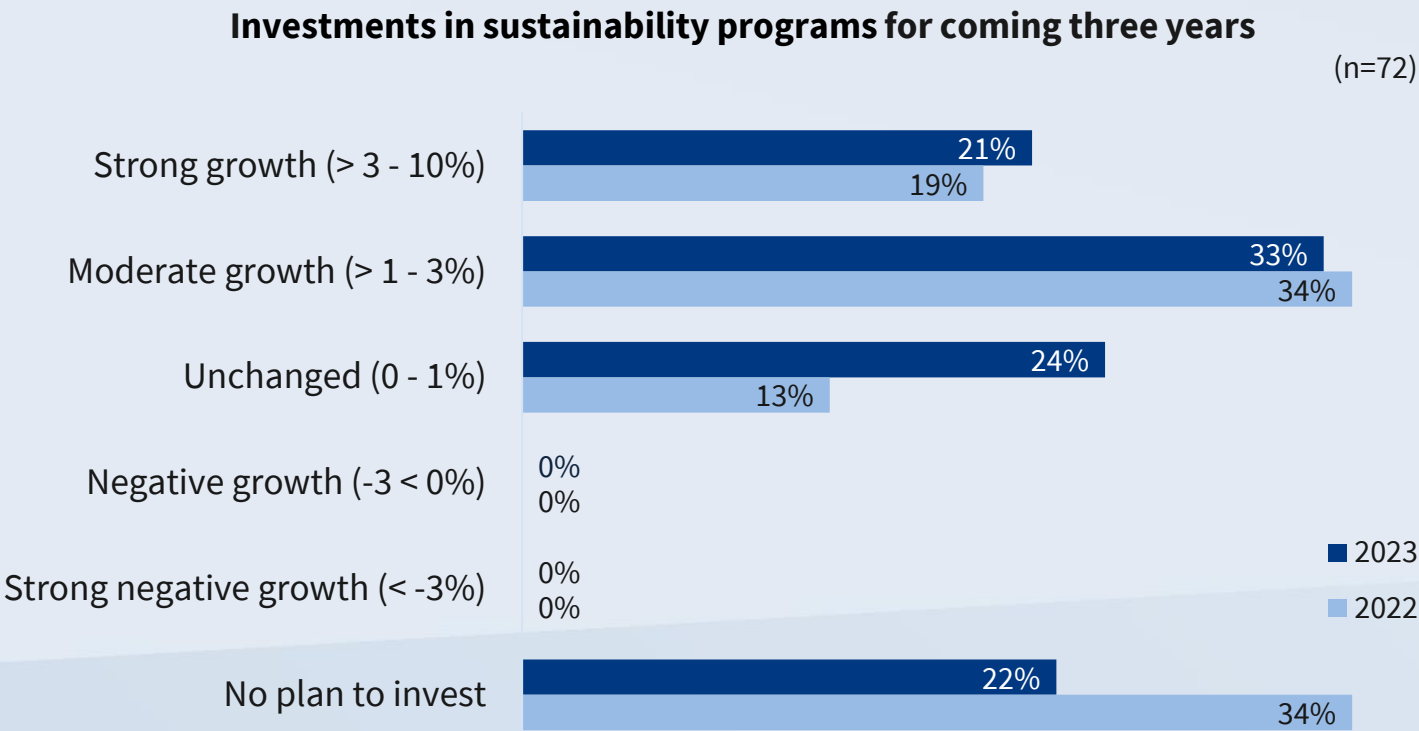
- ▶ While 65% of the companies surveyed do not expect ESPA to affect their company's business activities, 12% claim it does
- ▶ Nearly one in four companies (23%) have no information about ESPA and thus cannot assess the impact on their business



The Japanese government enacted ESPA regulation in May 2022; the new law has four core objectives:

- Ensure stable supplies of critical materials
- Ensure stable provision of services using critical infrastructure
- Support the development of critical technologies
- Prevent disclosure of selected innovative patent applications

Investments in sustainability programs continue

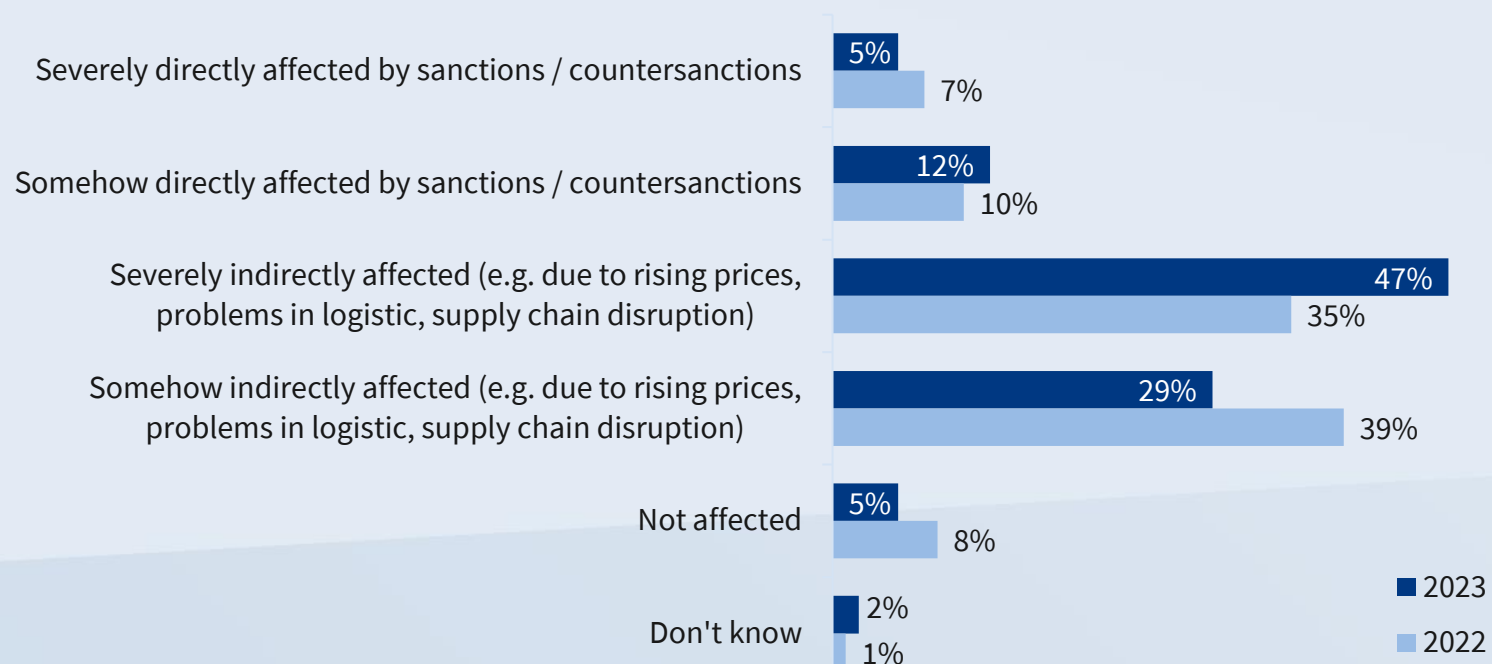


- ▶ More than half of the companies surveyed (54%) expect growing investments in sustainability programs over the next three years
- ▶ 24% (+11%-points YoY) do not plan to change their investments in the near future
- ▶ Although sustainability requirements are constantly increasing, almost a quarter of companies (22% but -12%-points YoY) still have no investment plans

Increasing indirect impacts of war in Ukraine on business

Influence of the war in Ukraine

(n=100)



- ▶ 93% of German businesses in Japan are directly or indirectly affected by the war in Ukraine or by the imposed sanctions on Russia – only 5% are not affected
- ▶ 17% of respondents state that their company is somehow or even severely directly affected by sanctions and/or counter-sanctions
- ▶ 76% are indirectly affected by the war; among those, 47% are severely indirectly affected (+12%-points compared with 2022), e.g. due to rising prices, problems in logistic and/or supply chain disruptions

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403 German companies in Japan were surveyed from 27. Jan. – 6. Feb. 2023 | response rate: 28% (113 participants)

Profile of the companies surveyed

Breakdown by sector of the companies surveyed

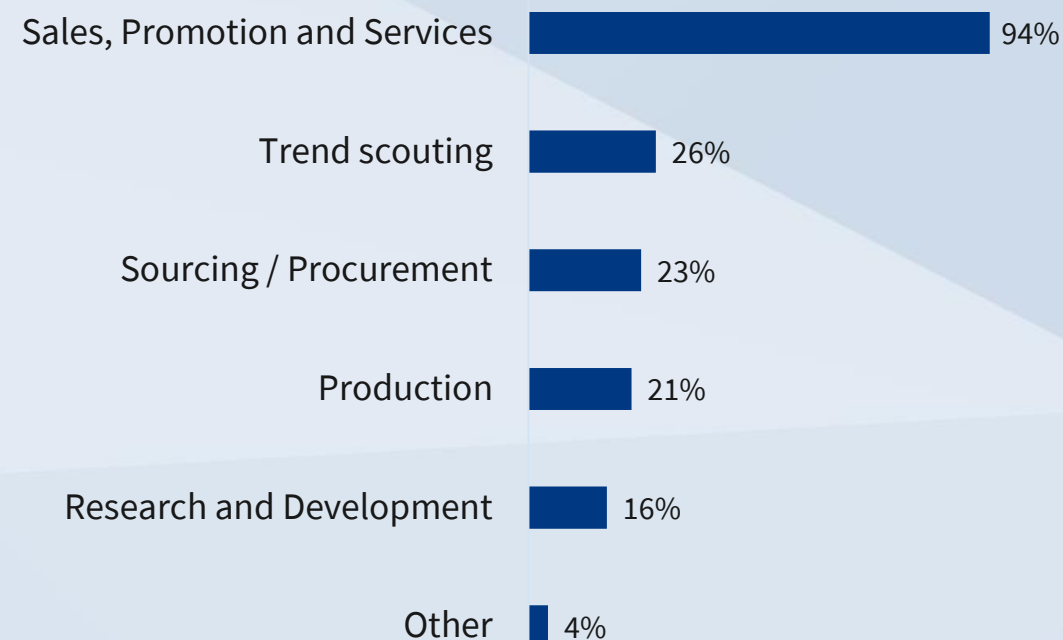
(n=113)



*deviations from 100% are due to rounding differences

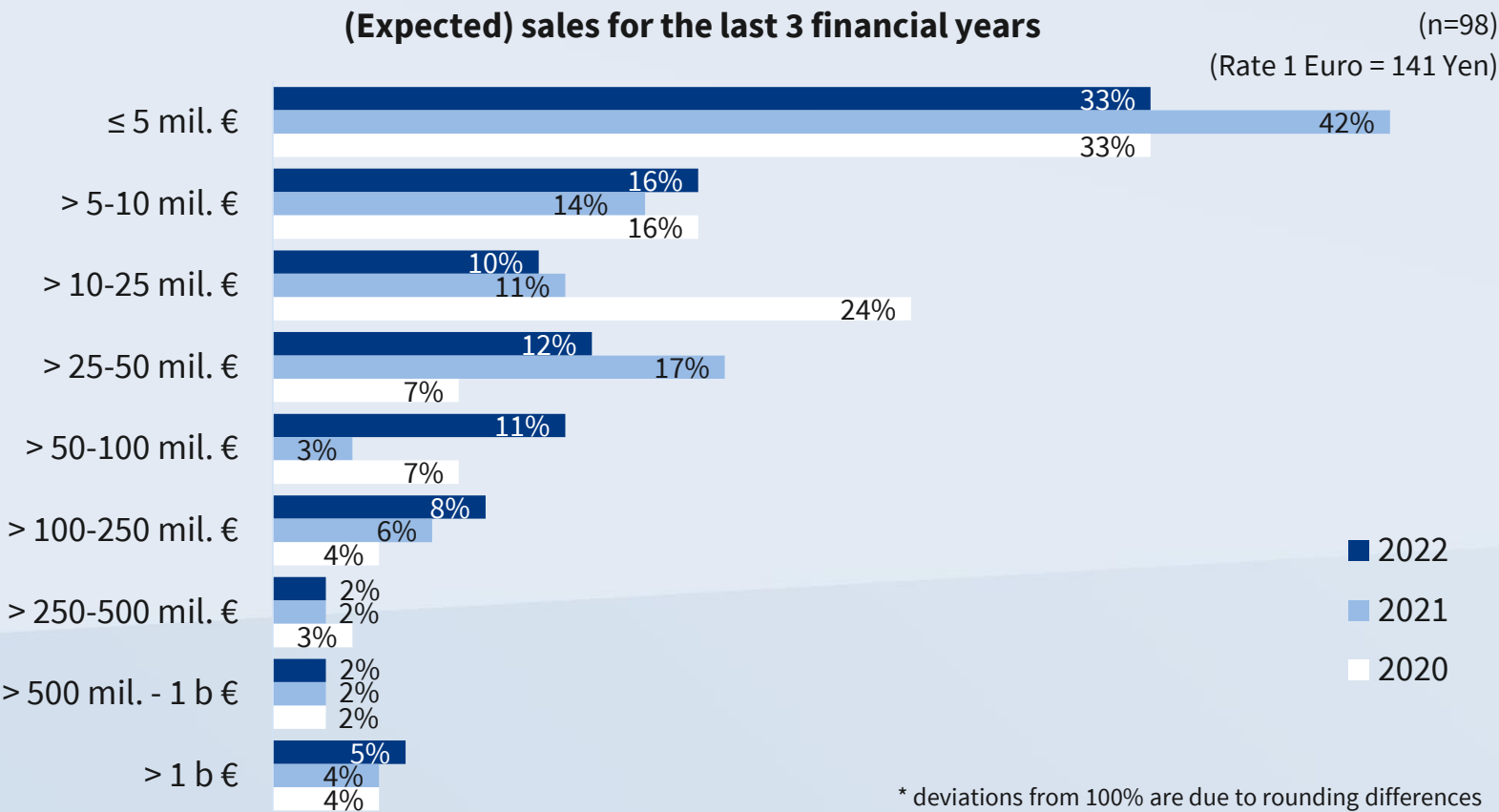
Business activities

(multiple choice, n=113)



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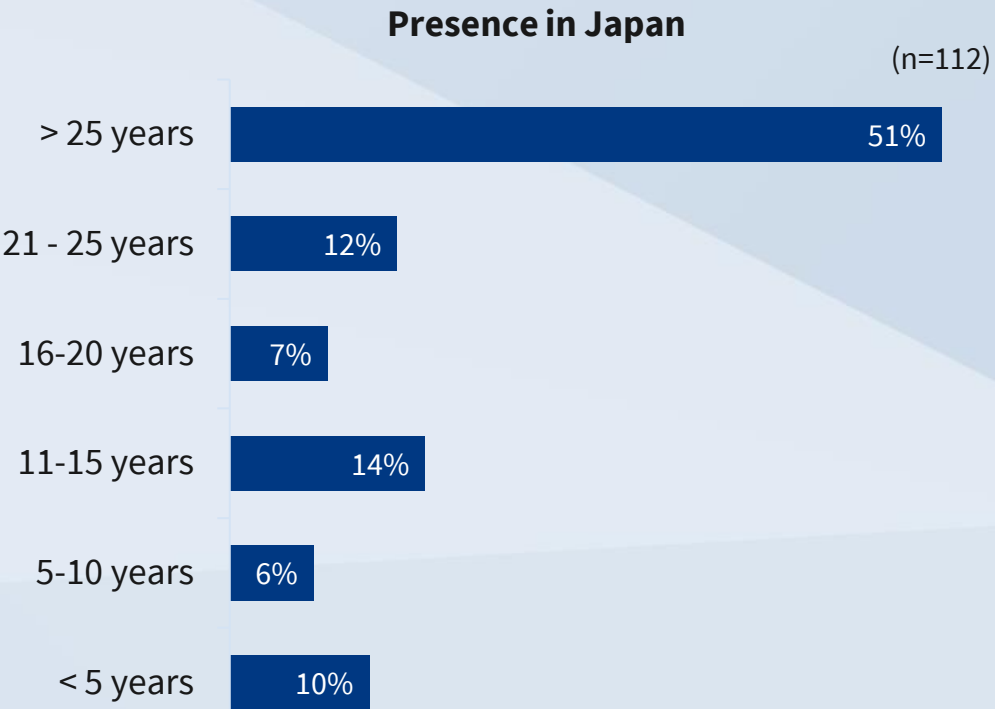
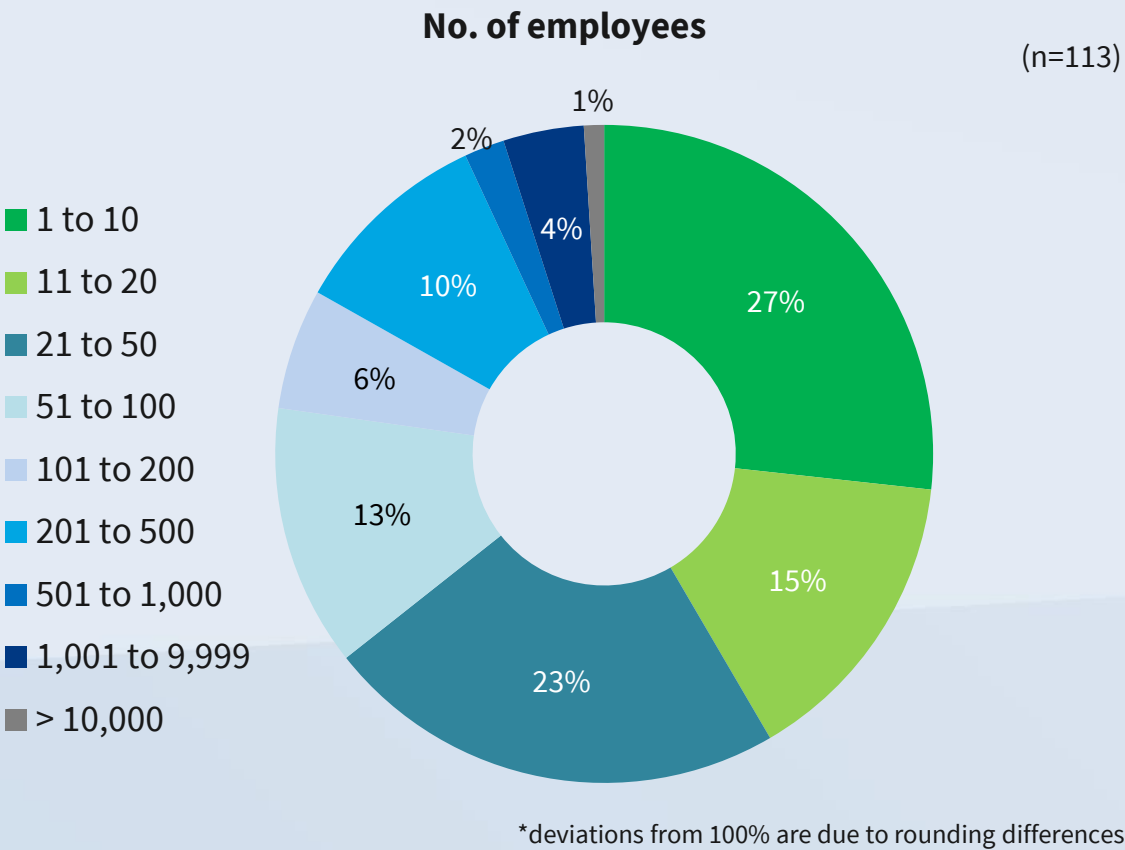
Profile of the companies surveyed



- ▶ 71% of German companies participating in the survey realized less than 50 mil. € turnover in 2022 – a decrease of 13%-points YoY (2021: 84%)
- ▶ The proportion of very small companies with sales of less than 5 mil. € participating in the survey accounts for 33% this year (2021: 42%; -9%-points YoY)
- ▶ 17% of the companies surveyed generate a turnover of more than 100 mil. € (2021: 14%) and can therefore be regarded as large companies

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Profile of the companies surveyed



Contact

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