



Bridging Continents: Exploring the Economic Ties between Germany and ASEAN

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1. Introduction

In today's interconnected world, the Association of Southeast Asian Nations (ASEAN) – an intergovernmental organization of ten Southeast Asian countries, has played a central role in Asian economic integration, joining negotiations to form the world's largest free trade agreement (RCEP) and signing six free trade deals with other economies in the region. With a combined population of over 670 million, a rapidly expanding middle class, and a strategic location at the crossroads of Asia, ASEAN offers a wealth of opportunities for businesses and investors worldwide.

German companies have recognized the region's potential and are actively pursuing partnerships and investments across a diverse range of sectors. This growing interest in ASEAN is driven by several factors, including the region's strong economic fundamentals, its commitment to regional integration, and its embrace of innovation and technology. As ASEAN continues to grow and develop, the potential for economic and social progress is immense, and German businesses are well-positioned to play a significant role in this transformation. Exploring the Germany-ASEAN partnership is not just about seeking new markets and opportunities; it is also about establishing stronger ties between two regions with shared values and a commitment to sustainable development. In this context, the German-ASEAN business relationship holds immense promise for both sides, fostering economic growth, creating employment opportunities, and enhancing technological capabilities.

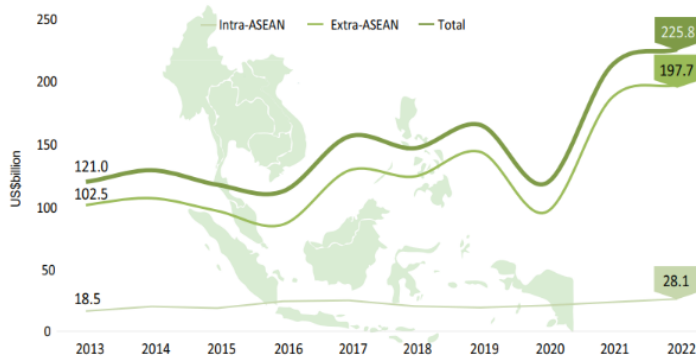
This blog post will look closely into the ASEAN economic and social landscape, conducting a comprehensive evaluation of recent developments and the status of ASEAN-Germany relations.

2. ASEAN Economy and Society

2.1. Economic Development in ASEAN

ASEAN has witnessed remarkable economic progress in recent decade. According to ASEAN Stats, the region's economy expanded by a robust 5.6% in 2022, solidifying its position as a dynamic economic force. This growth is further emphasized by the region's impressive average annual growth rate of 4.1% over the past decade (2013-2022).

Figure 2.1.1. Inward FDI flows, extra and intra-ASEAN (US\$ billion), 2013-2022



Source: ASEAN Key Figures 2023

In addition to its impressive GDP growth, ASEAN also witnessed significant progress in its trade activities. Total trade in goods surged by 14.9%, reaching several \$3.9 trillion in 2022. Further demonstrating its economic strength, ASEAN continued to attract significant foreign direct investment (FDI) in 2022. With \$225.8 billion in inward FDI, the region has proven its status as an attractive investment destination.

This economic vitality is further fuelled by several key industries and sectors:

(i) **Services:** This sector contributes over 67% of GDP. The financial services, information technology, and business process outsourcing (BPO) industries are particularly important.

(ii) **Manufacturing:** This sector is a major driver of economic growth in ASEAN, contributing around 30% of GDP. The region is a competitive location for manufacturing due to its source of skilled labour, strategic location, and improving infrastructure.

(iii) **Other sectors** made up about 3.4% of the FDI which are

Figure 2.1.2. Shares of inward FDI flows by economic activity, 2022



Source: ASEAN Key Figures 2023

- **Tourism:** Tourism is a significant industry in ASEAN, generating employment and foreign exchange earnings. The region's rich cultural heritage, natural beauty, and affordable travel options make it a popular tourist destination.
- **Digital Transformation:** ASEAN is embracing digital transformation, with increasing adoption of e-commerce, fintech, and digital services. This trend is driven by a young and tech-savvy population and the growing of smartphones and internet access.
- **Infrastructure Development:** ASEAN is investing heavily in infrastructure development, including transportation networks, energy systems, and telecommunications.

While ASEAN countries have achieved significant economic growth in recent decades, they still face several challenges to sustain this growth and achieve inclusive development, namely:

- (i) **Addressing Infrastructure Gaps:** Despite significant investments, infrastructure gaps remain in certain areas, such as rural connectivity and logistics infrastructure. These gaps can hinder economic growth and regional integration efforts.
- (ii) **Skills Development:** ASEAN needs to invest in skills development to ensure its workforce is equipped with the necessary skills to meet the demands of the modern economy.
- (iii) **Sustainability:** ASEAN faces the challenge of balancing economic growth with environmental sustainability. Investing in renewable energy, promoting resource efficiency, and adapting to climate change are crucial for long-term sustainable development.

ASEAN has made remarkable progress in its economic development journey, becoming a dynamic and increasingly integrated region with a growing global presence. However, challenges remain, and ASEAN countries must continue to invest in infrastructure, skills development, and sustainability to ensure continued growth and prosperity.

2.2. Social Development and Integration in ASEAN

ASEAN has made significant strides in promoting social development and integration across. The ASEAN Socio-Cultural Community (ASCC) Blueprint 2025 outlines a comprehensive strategy to enhance the region's social cohesion, cultural identity, and shared prosperity. Key initiatives include:

- (i) **Education:** The ASEAN Education Blueprint 2021-2030 aims to foster a highly skilled and competitive workforce through initiatives such as promoting mutual recognition of academic qualifications, enhancing teacher training, and expanding access to quality education.



(ii) Healthcare: The ASEAN Post-2015 Health Development Agenda 2021-2025 focuses on improving access to affordable and quality healthcare, strengthening disease prevention and control, and addressing emerging health challenges.

(iii) Connectivity: The ASEAN Master Plan on Connectivity 2025 aims to achieve a seamlessly and comprehensively connected and integrated ASEAN that will promote competitiveness, inclusiveness, and a greater sense of Community.

(iv) Digitalisation: The ASEAN Digital Masterplan 2025 aims to make ASEAN a leading digital community and economic bloc, powered by secure and transformative digital services, technologies, and ecosystems.

Cultural Diversity and Socio-Economic Factors Shaping ASEAN

ASEAN is a region rich in cultural diversity, with a tapestry of ethnicities, languages, and traditions. This diversity has shaped the region's unique identity and contributes to its vibrant cultural landscape. However, socio-economic disparities also exist within ASEAN, with varying levels of development and economic opportunities across member states. Addressing these disparities is crucial for achieving inclusive and equitable social development.

Benefits of Regional Integration for Social Development and Collaboration

Regional integration within ASEAN offers numerous benefits for social development and collaboration. By working together, ASEAN member states can:



(i) Share resources and expertise to address common social challenges, namely poverty, education and healthcare.

(ii) Promote regional standards for social protection, labour rights, and environmental sustainability.

Picture 2.2. The 31st ASEAN Socio-Cultural Community Council Conference

(iii) Enhance cross-border mobility for people, goods, and services, fostering regional cooperation and economic growth.

(iv) Promote cultural exchange, strengthening regional identity and unity.

(v) Engage in joint research and development to address emerging social issues and develop innovative solutions.

Social development and integration are essential pillars of ASEAN's overall development agenda. By addressing socio-economic disparities, promoting cultural diversity, and harnessing the benefits of regional cooperation, ASEAN can achieve a more inclusive, equitable, and prosperous future for all its citizens.

3. ASEAN – Germany Relationships

3.1. Business Relationships between Germany and ASEAN

Germany and ASEAN have a long and mutually beneficial relationship that dates to the early days of the regional organization. Germany was one of the first external partners to recognize ASEAN's potential and establish formal diplomatic relations in 1977. Since then, the relationship has evolved into a comprehensive partnership encompassing trade, investment, development cooperation, and political dialogue.



Germany is among ASEAN's top trading partners, with bilateral trade reaching over \$85.1 billion in 2022 and €80.7 billion (approximately \$86.6 billion) in 2023. Germany's exports to ASEAN are primarily focused on machinery, automotive components, and chemical products. In return, Germany imports a significant volume of electronics, textiles, and food products from ASEAN countries.

Picture 3.1. The 7th ASEAN-Germany development partnership committee meeting

Germany and ASEAN have established a strong framework for diplomatic collaboration, with regular high-level meetings, joint initiatives, and active participation in regional forums such as the ASEAN Regional Forum (ARF) and the East Asia Summit (EAS). These mechanisms facilitate dialogue on a wide range of issues, including trade, investment, security, and sustainable development.

The German-ASEAN business relationship offers significant benefits to both sides. For German businesses, ASEAN provides a dynamic and growing market with a young and increasingly affluent population. The region's strategic location at the crossroads of Asia makes it an ideal base for businesses seeking to expand into emerging markets. For ASEAN countries, German businesses bring advanced technology, expertise, and investment capital to ASEAN, contributing to the region's economic development and job creation. German companies also play a crucial role in promoting sustainability and innovation in ASEAN.

The relationship is a mutually beneficial partnership that has contributed significantly to the region's economic development and prosperity. As the region continues to grow and integrate, the German-ASEAN partnership is expected to play an even more important role in shaping the future of the region.

3.2. German Business Landscape in ASEAN

3.2.1. Overview

According to ASEAN Statistics, the flows of FDI from Germany to ASEAN grew to nearly \$3.8 billion in 2022.

German companies have established a strong presence in ASEAN, with over 3,000 German companies operating in the region, employing over 200,000 people. In Vietnam particularly, Deutsches Haus is home for more than 40 German leading companies, making it the destination for German businesses and promoting German and Vietnamese relations.



Picture 3.2.1. VSIP Binh Dinh Industrial Park (IIP Vietnam)

One contributing factor to the significant number of German companies operating in the ASEAN region, notably in Vietnam, can be attributed to the availability of industrial park resources and services. This facilitates the establishment of production and business operations for German companies. The majority of German manufacturing facilities

are situated in the southern region, with a focus on Binh Duong, notably in the VSIP Binh Duong industrial park - the pioneer industrial park in the nation. German enterprises often opt to lease pre-built factories and utilize the services offered by companies, namely BW Industrial Development.

German companies are active in a wide range of industries, including manufacturing, automotive, chemicals, pharmaceuticals, logistics, and services. They have been particularly successful in ASEAN in following sectors:

- (i) **Manufacturing:** German companies are leading providers of machinery, automotive components, and other high-value manufactured goods to ASEAN. Germany's manufacturing investments in ASEAN focus on sectors such as automotive, machinery, and chemicals. (Siemens, Mercedes-Benz, Bosch, BASF, Bayer, ThyssenKrupp, etc.

(ii) **Renewable Energy:** Germany is a pioneer in renewable energy technologies, and German companies are actively involved in developing and deploying solar, wind, and geothermal energy projects in ASEAN. (wpd, PNE, etc)

(iii) **Logistics and Infrastructure:** German expertise in logistics and infrastructure development is highly valued in ASEAN, as the region invests heavily in improving its transportation networks and trade facilitation measures. Germany's infrastructure investments in ASEAN focus on sectors such as energy, transportation, and telecommunications. (DHL, Kuehne + Nagel, Schenker, etc)

(iv) **Services:** German companies are expanding their presence in ASEAN's growing services sector, particularly in areas such as business process outsourcing (BPO), financial services, and engineering consulting. (Allianz, Deutsche Telekom, SAP, etc)

German companies are attracted to ASEAN by its competitive and young skilfull population, its access to natural resources, and its growing consumer market. They are also increasingly seeing ASEAN as a strategic gateway to the Asia-Pacific region.

The future of the German business landscape in ASEAN looks bright. The region is expected to continue to grow economically in the coming years, and German companies are well-positioned to take advantage of this growth.

3.2.2. Challenges

German businesses face both challenges and opportunities in the ASEAN market, such as:

(i) **Competition from other major investors:** ASEAN is also attracting significant investment from other countries, such as Japan, China, and the United States. This competition can make it difficult for German companies to stand out.

(ii) **Varying levels of development:** ASEAN countries have varying levels of development, which can make it challenging for German companies to find consistent market conditions across the region.

(iii) **Cultural differences:** German and ASEAN cultures have different business practices and expectations, which can lead to misunderstandings and challenges in communication.

3.2.3. Opportunities

Despite these challenges, there are also significant opportunities for German businesses in ASEAN, namely:



(i) Rapidly growing market: ASEAN is one of the fastest-growing regions in the world, with a young and increasingly affluent population. This provides a large and growing market for German products and services.

(ii) Regional integration: ASEAN is working towards deeper regional integration, which is expected to create a more unified market and reduce trade barriers.

(iii) Favourable investment environment: ASEAN countries have implemented several reforms to make their investment environments more attractive to foreign investors.

4. Conclusion

Foreign direct investment (FDI) in ASEAN has witnessed a remarkable growth trajectory in recent years, driven by the region's dynamic economic growth, favourable investment environment, and expanding consumer markets. Germany has emerged as a significant investor in ASEAN, with FDI inflows reaching approximately \$3.8 billion in 2022, an increase from \$3.4 billion in 2021. This upward trend reflects Germany's growing recognition of ASEAN's economic potential and its strategic location as a gateway to emerging markets in Asia.

German FDI, with its emphasis on quality and sustainability, contributes significantly to the region's economic transformation. The Germany-ASEAN business relationship is mutually beneficial, providing opportunities for both sides to expand their markets, enhance their technological capabilities, and generate employment opportunities. As ASEAN continues to grow and integrate into the global economy, the potential for future cooperation development is immense.

Stay informed about developments in the Germany-ASEAN business relationship by following relevant news sources, attending industry events, and engaging with business networks. For those interested in further research or investment opportunities, please look forward to the ASEAN Snapshot 2024 by German Delegation of Commerce and Industry in Vietnam



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