



Going International 2021

Experiences and Perspectives of German Business abroad
Results of the 2021 IHK Business Survey

DIHK

Deutscher
Industrie- und Handelskammertag

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Industrie- und Handelskammern

The main results

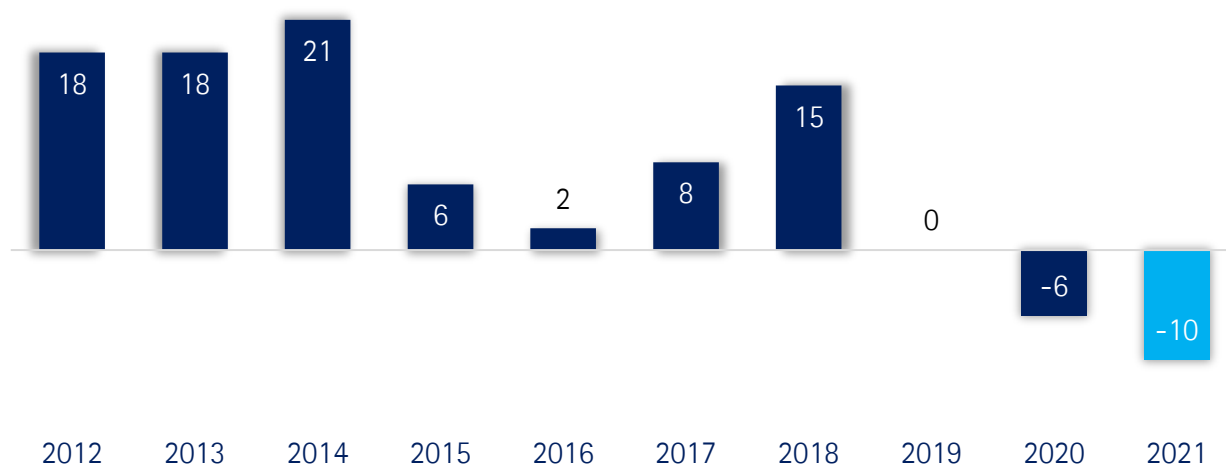
1. The global business outlook of internationally active German companies is negative overall. Only 17 percent expect better foreign business in 2021.
2. Expectations for international business in Europe and China are predominantly positive. In contrast, German companies see poor business prospects especially in the developing and emerging countries as well as in the United Kingdom.
3. The coronavirus pandemic has numerous implications for businesses: 77 percent are affected by travel restrictions. The cancellation of trade fairs and events, less investment and lower demand are further consequences for business.
4. 40 percent of foreign-active companies report problems in their supply chains due to the coronavirus pandemic. This is particularly the case in the Eurozone, in trade with China and with the UK. Many companies are therefore looking for new suppliers or increasing their stock levels.
5. Even independent of the coronavirus pandemic, almost half of the companies report new trade barriers in their international business - a very high figure over time.

Business prospects in the world regions

The internationally active German companies are facing major challenges in their global business this year: the effects of the coronavirus pandemic, the economic crisis situation in many countries and increasing trade barriers. Overall, the companies' assessment of their global business outlook is predominantly negative. 17 percent expect better business, 27 percent expect worse foreign business in 2021. The resulting balance of minus ten points is the lowest value since the financial market crisis.

Global Business Perspectives (Worldwide)

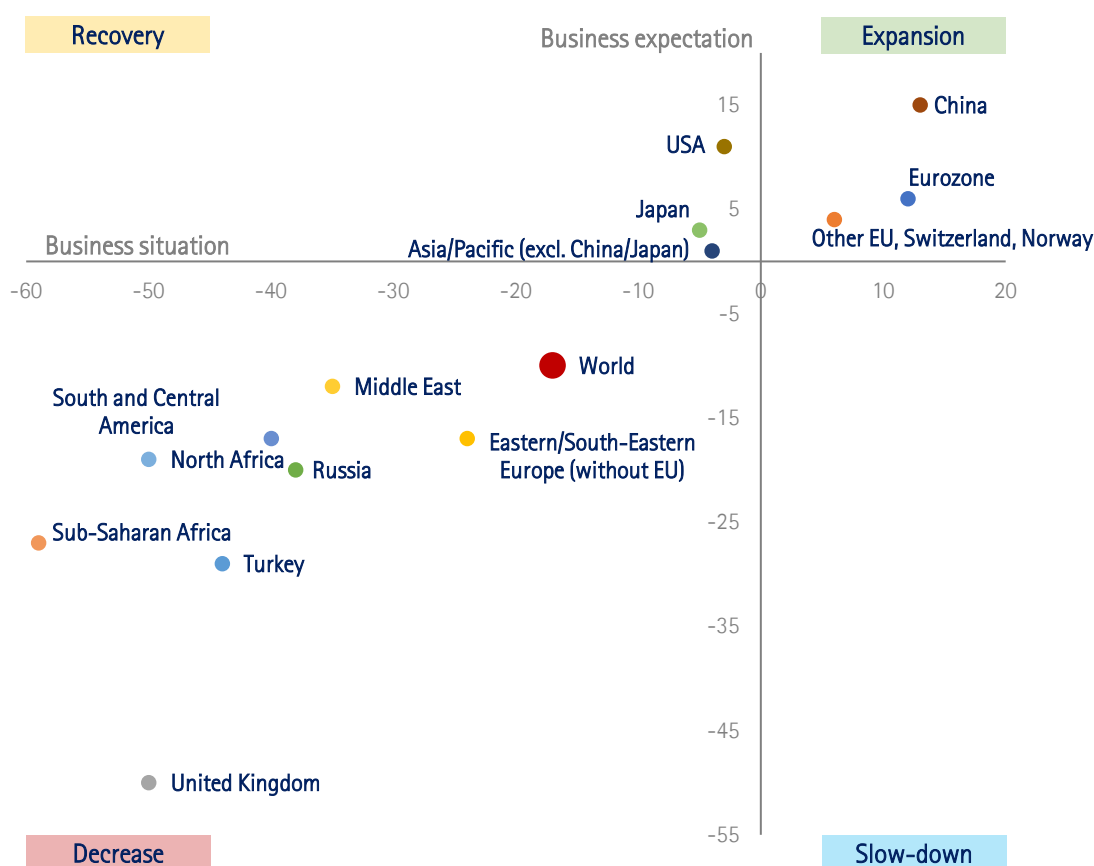
(Balance of "better" minus "worse" reports)



Only in China and in parts of Europe do companies expect to expand their business this year, as both the assessment of the current situation and the outlook for the coming twelve months are predominantly positive. Thus, 37 percent of German companies describe the current situation in the Chinese market as good and 24 percent as poor. For business looking ahead to this year, 32 percent see an improvement and 17 percent a deterioration. The resulting balance of 15 points for business expectations is clearly above the previous year's value of minus one point.

The respective balance points of the countries and world regions can be mapped in a coordinate system consisting of the business situation and business expectations. The result is a comparison of the regions from the point of view of German companies:

Business situation and outlook in the world regions (balance in points)



Companies also assess business with eurozone countries as predominantly positive: 33 percent rate their current business situation as good and 21 percent as poor. Although the assessment of the business situation has thus become somewhat worse than at the beginning of last year (balance currently 12 points after 41 points last year), it is still positive. Business expectations for this year have brightened by one balance point from five to six points: For the next twelve months, 25 percent of the companies expect an improvement and 19 percent a deterioration of their business in the Eurozone.

Companies assess their business activities in the other EU countries as well as Switzerland and Norway similarly positively, although somewhat worse compared to the previous year. 29 percent of the companies

assess their current business positively and 23 percent negatively (balance six points after 31 points previously). In addition, every fifth company expects an improvement and 17 percent a deterioration this year (balance four points).

Positive trend in Asia and North America

Companies with operations in the Asia-Pacific region and North America are in the process of recovery. Although the companies' assessment of their current business situation is still predominantly negative, the outlook for the coming months is positive. Thus, 23 percent of the companies operating in the Asia-Pacific region currently see themselves in a good situation and 27 percent in a bad one (balance minus four points). In the course of this year, however, 20 percent expect an improvement and only 19 percent a deterioration (balance one point). The current business relations with the USA are assessed positively by 29 percent of the companies and negatively by 32 percent (balance minus three points). Expectations for the coming twelve months, on the other hand, are better than in the Eurozone: 30 per cent of companies with an optimistic outlook compared to 19 per cent with a negative outlook (balance eleven points).

Economic crises in many countries

With the countries in South and Central America, Africa and the Middle East, companies still do not expect a recovery in their business activities this year. In addition to the current poor business situation, most companies do not see any improvement in the coming months. Only 11 percent of German companies with business relations in countries in South and Central America assess the current situation and the outlook for the coming twelve months as good. Every second company assesses the current situation as poor, every fourth expects a further deterioration (balance minus 17 points). The picture is similar in Africa and the Middle East. Companies are currently more pessimistic only in the UK, where in addition to the pandemic-related challenges, companies also have to deal with the consequences of the UK's exit from the EU single market.

Impact of the coronavirus pandemic

Even one year after the start of the global coronavirus pandemic, the effects are negatively impacting the foreign business of German companies. Three out of four companies are affected by travel restrictions. For 69 percent, it is also a challenge that trade fairs and events can still not take place in many places. Almost half of the internationally active companies are postponing investments due to the coronavirus pandemic. 44 per cent are experiencing less demand for their products and services.

One in three companies cite a lack of goods or services as a consequence of the coronavirus pandemic for their business. 30 per cent report cancellations of orders. For 21 percent of the companies, increased legal uncertainty as well as production and illness losses in their own companies are a challenge for global business. Liquidity bottlenecks and a lack of financing are noticeable for 15 percent of the internationally active companies.

Which effects of the coronavirus pandemic are currently weighing particularly heavily on your company?

in percent, multiple answers possible



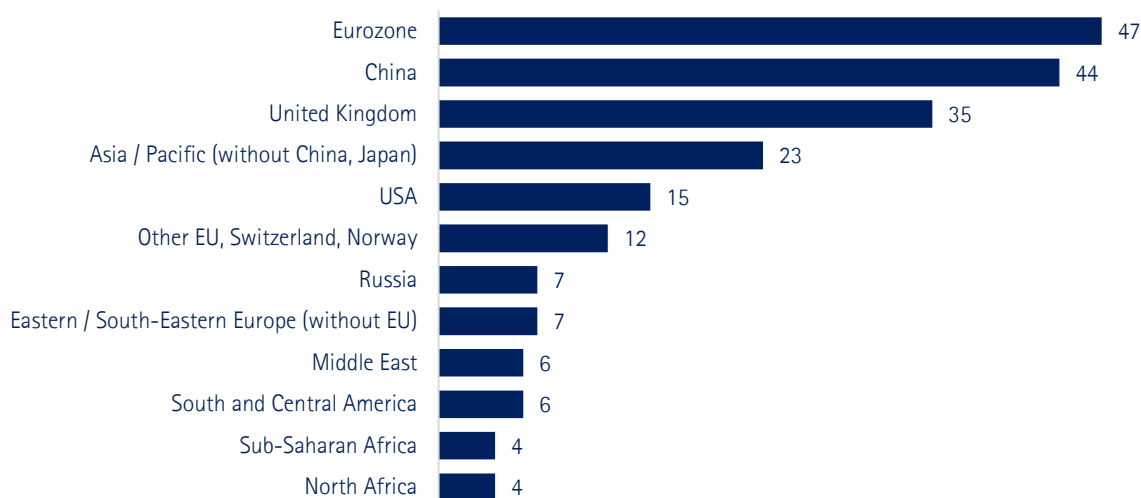
40 per cent of foreign-active companies have problems in the supply chain or logistics due to restrictions in border traffic or production stoppages. This is particularly true for trade with eurozone countries and China. Almost a quarter of the companies with supply chain problems also name the Asia-Pacific region independently of China. In the survey, the companies had the opportunity to explain the challenges in the supply chains in more detail. Here, the increased transport costs in sea and air freight are frequently mentioned as challenges. At the beginning of the year, there were bottlenecks in containers, especially in trade with China, which led to a sharp increase in costs, among other things.

Temporary border closures in Europe are currently in turn leading to delivery failures or delays in the European domestic market as well. 35 percent of the companies reporting supply chain problems are affected by this in trade with the UK. In addition to the coronavirus pandemic, the UK's exit from the EU single market at the beginning of the year is affecting business relations and trade between Germany and the UK. The DIHK provides information on this in a special evaluation of the Going International survey on Brexit.¹ 15 percent of the companies mention difficulties in the supply chain with the USA. Given the large volume of trade with the United States, this is rather low in international comparison.

¹ <https://www.dihk.de/de/themen-und-positionen/europaeische-wirtschaftspolitik/brexit/auswirkungen-des-brexit-auf-die-deutsche-wirtschaft-35870>

Regions where companies are particularly affected by supply chain problems

in percent, multiple answers possible



The numerous challenges in supply chains due to the effects of the coronavirus pandemic are leading to adjustments among German companies in their foreign business: two-thirds of companies with supply difficulties are planning to change their supply chains to compensate for restrictions in delivery traffic or production downtimes.

Diversification of the supply chains

Share of companies in percent, multiple answers possible

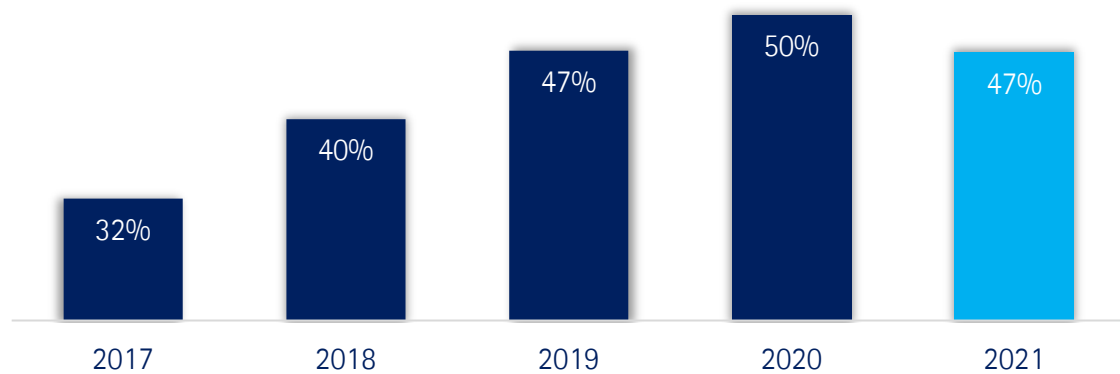


Of the companies that want to diversify, 47 percent are looking for new or additional suppliers for their products. 41 per cent are increasing their stockholding. About one in five companies are now spreading their suppliers across several countries. 12 percent are shortening their supply routes and looking for suppliers closer to their production sites or end consumers. About one in ten companies are also relocating parts of their production in-house.

Global trade barriers

Regardless of the impact of the coronavirus pandemic, 47 percent of companies feel an increase in trade barriers in their international business. This figure is only slightly lower than in the previous survey – last year, every second company active abroad reported an increase in trade barriers. In addition to the restrictions caused by the coronavirus pandemic, numerous trade policy measures continue to burden international business relations.

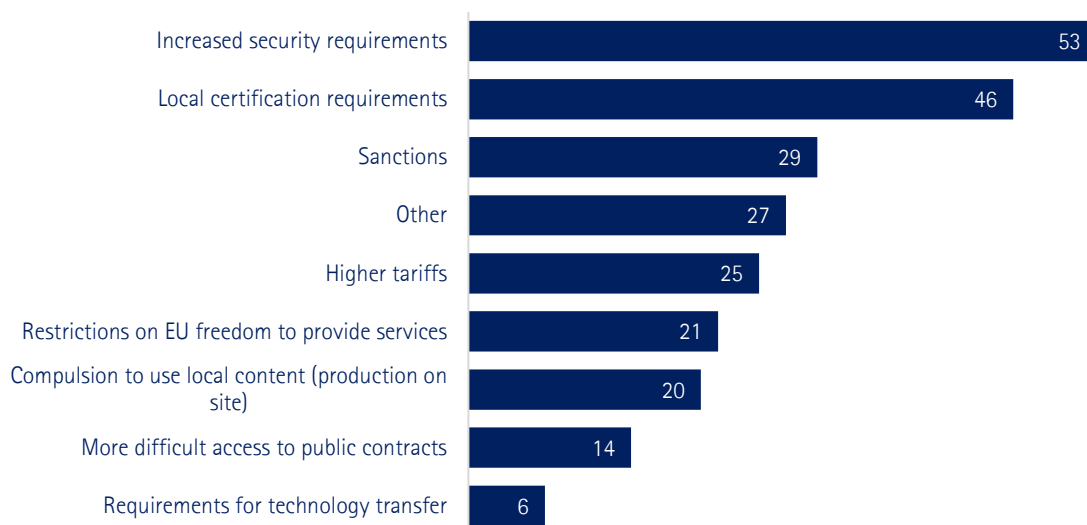
Proportion of companies that have felt an increase in barriers to their international business (Independent of restrictions due to the coronavirus pandemic)



German companies are most often confronted with increased safety requirements. Additional testing of products or internationally unusual safety regulations cost companies time and money. Local certification requirements have similar consequences and are an obstacle to international business for almost every second company.

Increase in trade barriers in international business

in percent, multiple answers possible



Every third company names sanctions as an additional trade barrier. In the previous survey the figure was 53 per cent. However, the decline is not due to sanctions being rolled back on a larger scale. Rather, existing EU sanctions regimes were confirmed in 2020 and lists of persons were expanded. At least fewer new country-based sanctions regimes were added last year – unlike in previous years. A quarter of internationally active companies have perceived an increase in tariffs in the last twelve months – a slightly lower figure than in the previous survey, when 33 per cent cited this as an obstacle.

Restrictions on the EU freedom to provide services are a hurdle for 21 percent of companies in their international business – an increase of ten percentage points compared to the previous survey. Although the question on barriers to trade was explicitly asked independently of the economic coronavirus impact, travel restrictions in the wake of the pandemic appear to have been a contributing factor in preventing service companies from fully pursuing their business activities in the EU.

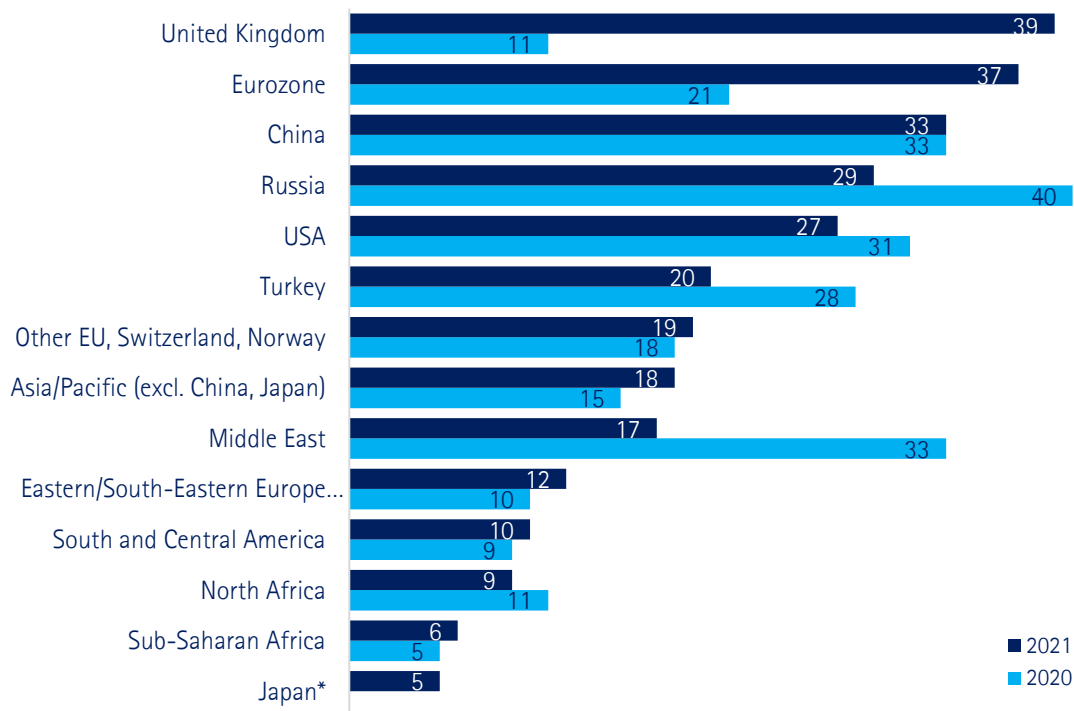
Every fifth company notices an increase in local content coercion. 14 per cent of the companies have more difficult access to public contracts compared to local companies and six per cent see an increase in trade barriers in the requirements for technology transfer.

Trade barriers in the regions

Due to the exit from the EU single market, there are numerous new barriers to trade with the UK: 39 per cent of the companies surveyed have noticed an increase here, more than in any other region. For example, numerous customs formalities have to be observed in trade with the UK since 1 January 2021. The DIHK provides information on further effects in a **special evaluation of the Going International survey on Brexit**.

Increase in trade barriers in international business by region

in percent, multiple answers possible, *asked for the first time



After 21 per cent previously, 37 per cent of companies now cite an increase in trade barriers in the Eurozone. Even though the question was asked independently of the effects of the coronavirus pandemic, the significant increase in trade barriers is probably also directly or indirectly linked to the numerous measures to combat the pandemic in Europe. One in five companies feel an increase in barriers in the rest of the EU and Switzerland as well as Norway, 12 percent in Eastern and South-Eastern Europe. In the USA, too, 27 percent of companies have registered more trade barriers in the past year.

Unchanged from the previous survey, every third company notices more hurdles in trade with China. In addition to supply chain problems caused by the pandemic, technology transfer requirements and local content regulations are cited as the main obstacles to doing business with China. Companies in Japan (5 per cent) and the rest of the Asia-Pacific region (18 percent) experience fewer additional trade barriers. In business with Russia, 29 percent of the companies are affected by new trade barriers. The country thus drops from first to fifth place in the ranking this year. Sanctions in particular are frequently mentioned here.

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