



# Economic outlook German Business in Japan 2022

Business Climate Survey of AHK Japan and KPMG in Germany



German Chamber of Commerce  
and Industry in Japan  
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Main results – 9 key messages

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

**43%**

generate **additional sales** outside Japan that are three times as high as in the Japanese market

**96%**

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

**87%**

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

**82%**

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

**75%**

have **positive expectations** regarding their **sales in 2022**

**58%**

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

**53%**

expect strong or moderate growth in **investments in sustainability programs** over the next three years

**33%**

think that Germany should learn from **Japan's limitation of cluster risks**

**74%**

are **indirectly affected by the war** in Ukraine or by the imposed sanctions on Russia



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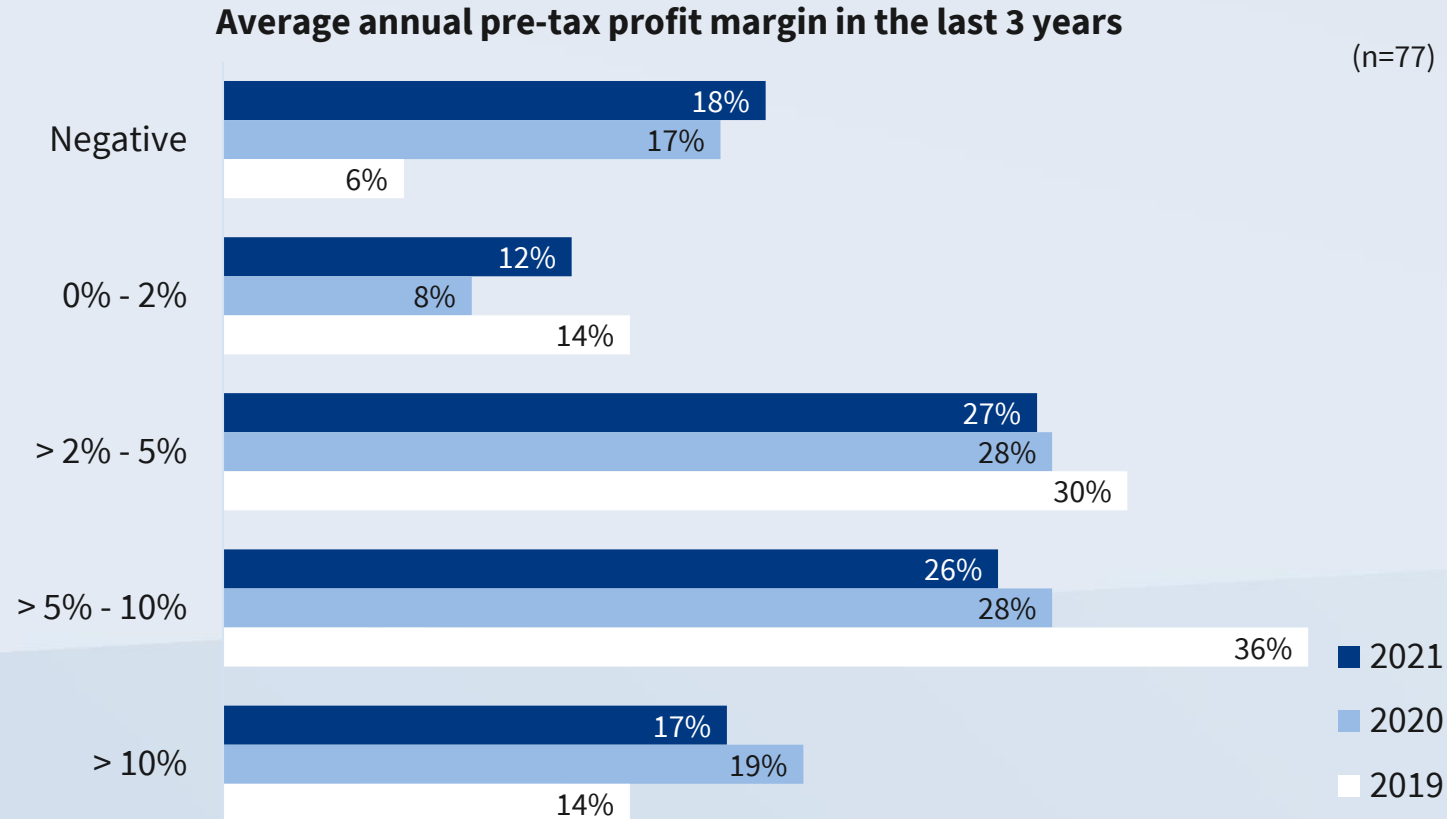
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## Second year of pandemic caused further slight deterioration

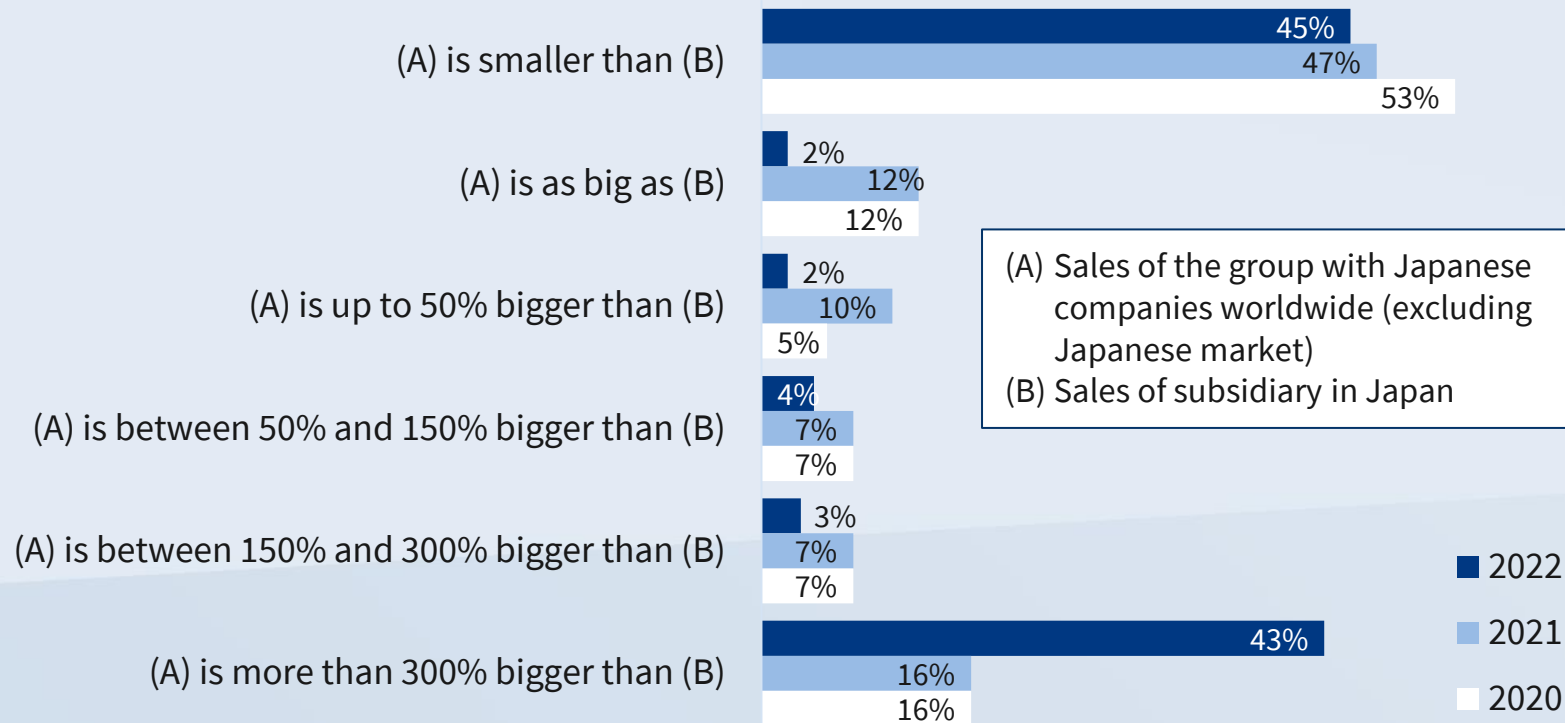


- ▶ 82% (2020: 83%) of all companies surveyed are generating pre-tax profits in Japan despite COVID-19 and its global economic implications
- ▶ Overall, there has been a slight shift in the lower margin ranges in 2021 – profitability declines
- ▶ The share of companies with a pre-tax profit margin of more than 10% decreased by 2%-points YoY, while the share of companies with low margins of 0%-2% increased (+4%-points YoY)
- ▶ Although the decrease in profitability was not as significant as in the year before, German companies in Japan did not recover in the second year of the pandemic

# Growing relevance of Japan as a base for outside business

Relation between Japan business outside Japan vs Japan business inside Japan

(n=93)



\* deviations from 100% are due to rounding differences

- ▶ The distribution of Japan business in third countries and Japan has become very polarized
- ▶ While 45% of the companies stated that their Japan business outside Japan is smaller than inside Japan, 43% (prior year only 16%) stated that sales with Japanese companies outside Japan is more than three times as high as in the Japanese market
- ▶ These figures prove the rising relevance of Japan as a base to do business outside Japan

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## Opportunities and challenges

# Japan is much more than just a sales market

### Key strategic reasons for maintaining a presence in Japan

(n=105)

	2022	2021	2020
High sales potential in Japan	87% ↑	86% ↓	89%
Participation in Japanese business network	59%	-	-
Trend scouting	58% ↓	59%	-
Monitoring Japanese competitors	55% ↑	53% ↑	48%
High sales potential with Japanese companies outside Japan	51% ↑	46% ↓	67%
Japan as a benchmark	45% ↓	49% ↑	39%
Strategic importance of doing business with Japanese companies in third countries	45% ↑	43% ↓	47%

- ▶ With 87%, the high sales potential remains the undisputed # 1 reason for maintaining a presence in Japan. Japan has a population of roughly 125 million which is about 1.5 the size of Germany
- ▶ The participation in Japanese business networks is for 59% a key reason to be present. This resonates with Japan's growing relevance as a base for outside business
- ▶ The high sales potential with Japanese companies outside Japan is gaining in importance (+5%-points YoY)
- ▶ For the second time in a row, the monitoring of Japanese competitors in their home market raises in importance



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# Japan is an undisputed anchor of stability for German companies

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

(n=104)

	2022	2021	2020
Economic stability	97% ↑	90% ↓	95%
Stability and reliability of business relationships	96% ↑	95% ↓	99%
Safety and social stability	92% ↑	90% ↓	92%
Highly developed infrastructure	92% ↑	84% ↑	74%
Highly qualified workforce	90% ↑	85% ↓	90%
Stable political environment based on democratic principles	88% ↑	84% ↑	81%
Openness to technology and innovation	81% ↑	80% →	80%

- ▶ 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 to do business in Japan
- ▶ The highly developed infrastructure in Japan is gaining more and more recognition among respondents. 92% (+8%-points YoY) of German companies see the technical, social, and ecological framework of the Japanese economy as a business advantage

# Currency, fiscal and financial risks become a major business challenge

## Key current business challenges

	2022	2021	2020
	(n=106)		
Recruiting sufficiently qualified staff	72% ↓	79% ↓	87%
Currency, fiscal and financial risks	63% ↑	40% ↓	48%
Travel restrictions	61% ↓	77%	-
Security of supply / supply chain disruptions	60%	-	-
Increasing inflation	44%	-	-
Regulatory hurdles	38% ↑	37% ↓	40%
Increasing labor costs	34% →	34% ↓	50%

- ▶ The recruitment of personnel who possess adequate professional and language qualifications remains the greatest challenge, but with a declining trend (-7%-points YoY)
- ▶ Currency, fiscal, and financial risks are perceived much more clearly as a challenge (+23%-points YoY). Specifically the war in Ukraine and the lockdowns in China put pressure on the global economy
- ▶ Supply chain disruptions and an increasing inflation are fueled by the pandemic, the war in Ukraine, and the disrupted maritime supply chains

# Labor market situation is getting more severe

Labor market challenges facing the Japan business

	2022	2021	2020
	(n=100)		
Lack of sufficiently skilled employees	81% ↑	61% ↓	81%
Coronavirus-related travel restrictions	76% →	76%	-
Ageing society	75% ↑	74% ↑	70%
Insufficient diversity in workforce	65% ↑	52% ↓	57%
Shrinking population	63% ↑	61% ↓	69%
Insufficient participation of women in management roles	41% →	41% ↓	42%
Insufficient level of immigration	31% ↑	27% ↑	26%

- ▶ The lack of sufficiently skilled employees has drastically gained in importance (+20%-points YoY)
- ▶ For 76% of respondents, pandemic-related restrictions still played an important role at the time of the survey, particularly due to travel restrictions from abroad to Japan and visa restrictions that remained in effect until the survey
- ▶ Two thirds of companies claim that the diversity within the workforce is insufficient – an increase of 13%-points YoY

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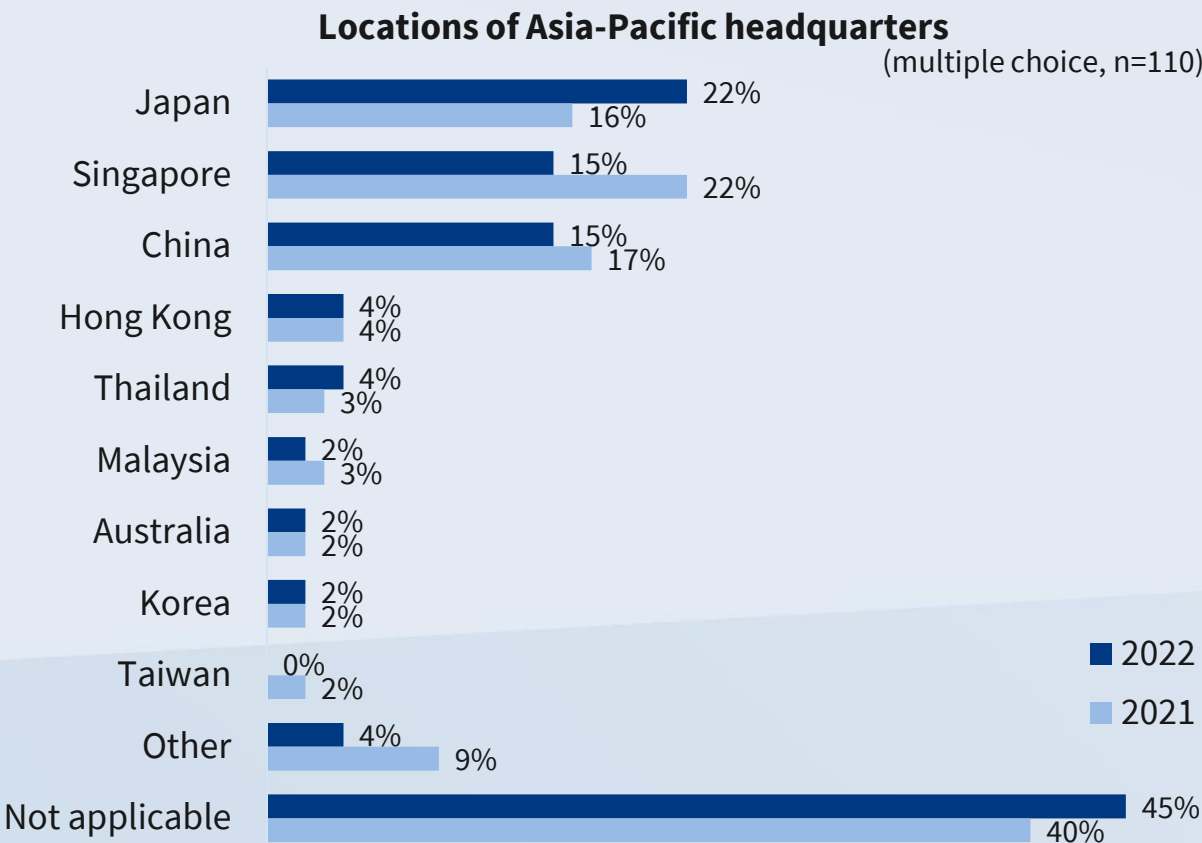
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# Japan is gaining ground for headquarter functions

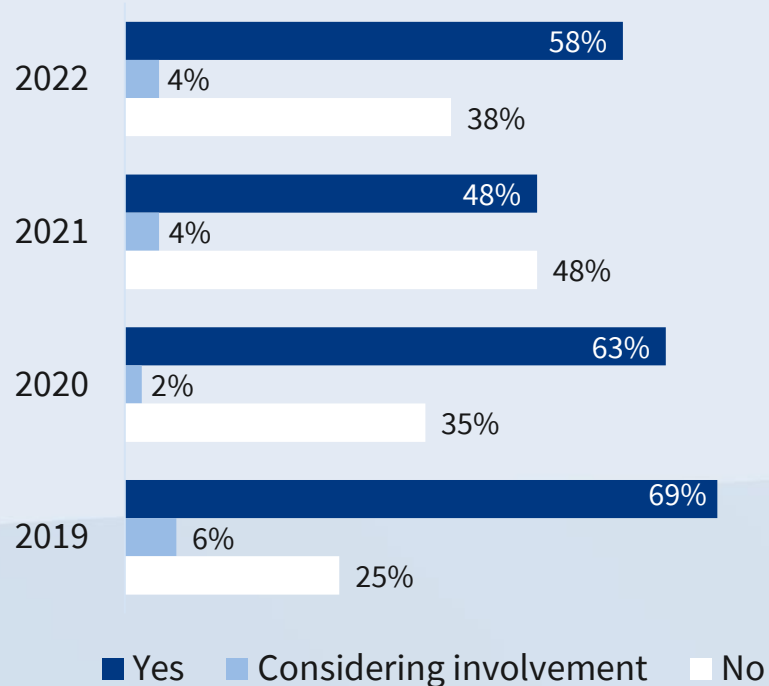


- ▶ Japan is increasingly gaining ground as an Asian headquarter location of German companies. It has now for the first time become the most favored country for the businesses' head offices of the German companies surveyed in Japan
- ▶ With the persistence of the war in Ukraine and the progressive decoupling from the West, China is losing ground as a favored nation for headquarter functions. Also Singapore's position has dropped
- ▶ The very high response with 'not applicable' suggests that many German companies have no dedicated Asia-Pacific headquarters and reporting lines are directly with German headquarters

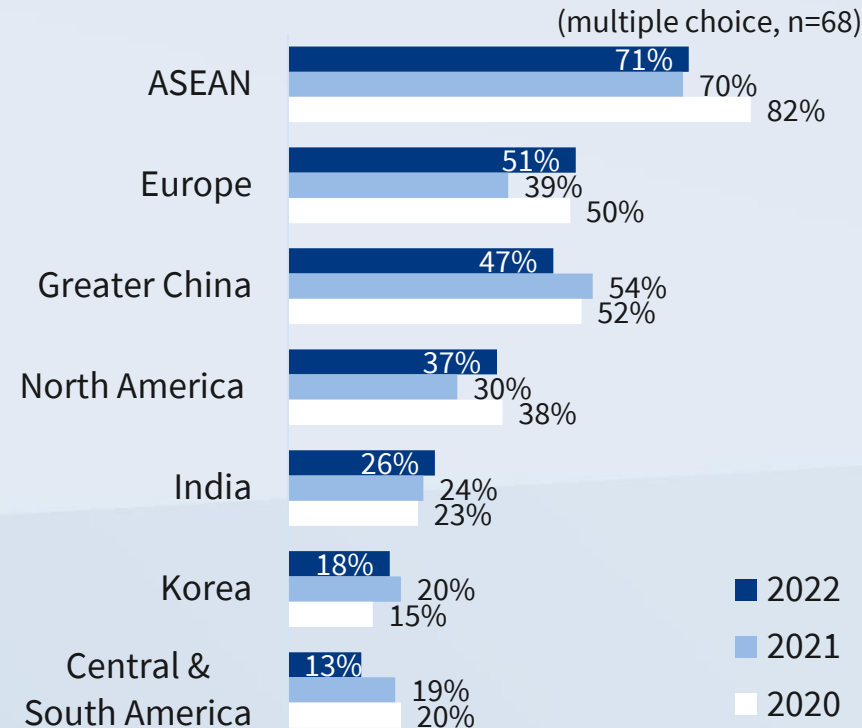


# Rising business potential in third markets

**Business with Japanese partners outside Japan**  
(n=110)



**TOP 7 target regions of German companies in Japan pursuing 3<sup>rd</sup> country business with Japanese partners**  
(multiple choice, n=68)



- ▶ Compared with 2021, projects outside Japan slowly approach the pre-pandemic level (+10%-points YoY up to 58%; 5%-points below level in 2020). Simultaneously, the number of companies which do not engage in projects outside Japan is declining (-10%-points YoY down to 38%)
- ▶ With the progressive decoupling from the West, the Greater China region is becoming less attractive for German companies in Japan to engage in third country business there
- ▶ With increasing supply chain disruptions and global insecurities, a return to Europe for pursuing third country business is becoming more popular again

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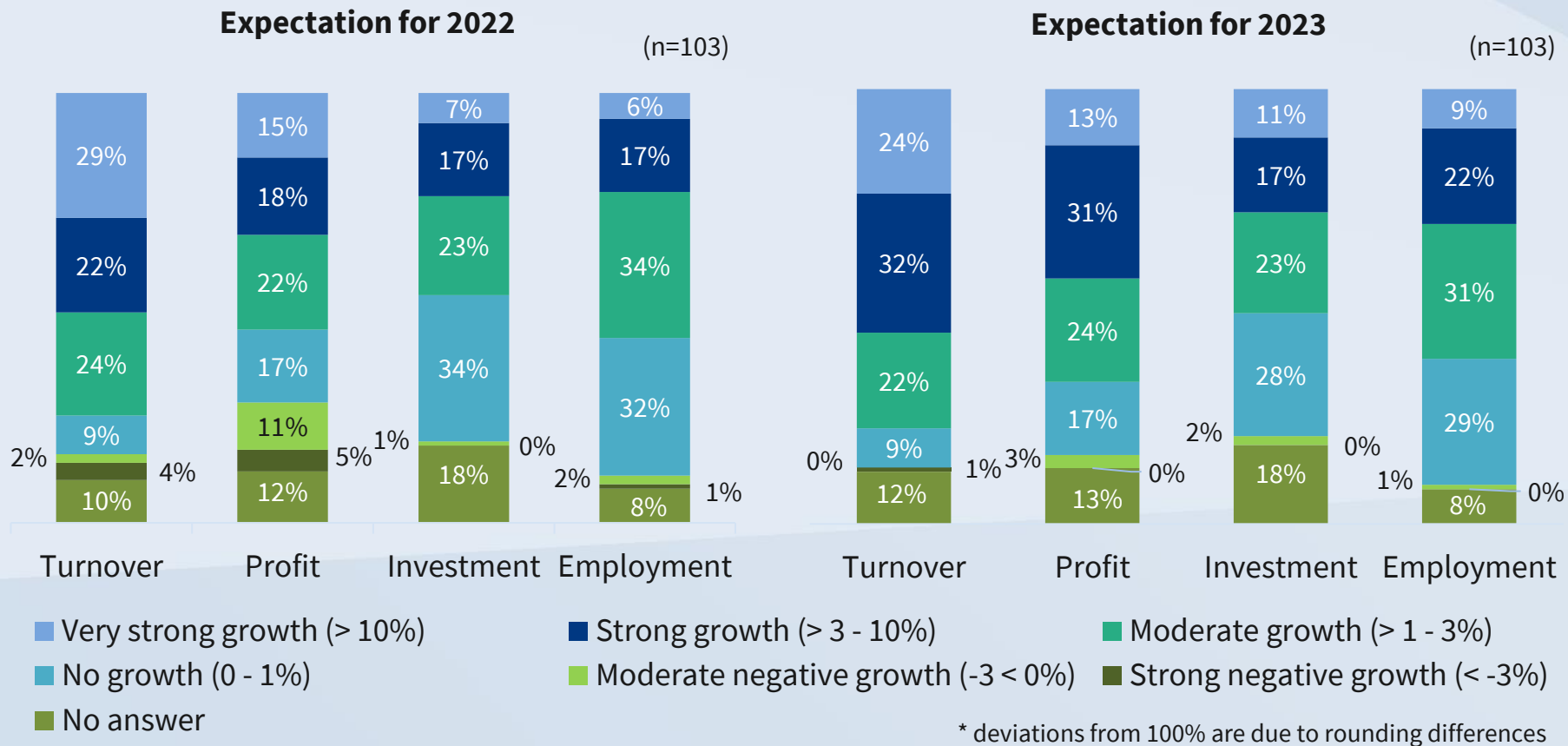
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# Overall positive expectation for business in Japan



- ▶ The expectations of respondents regarding the development of their sales and results in Japan remain positive for 2022 and even more positive for 2023, with 75% expecting an increase in sales in 2022 (2023: 78%) and 55% expecting an increase in profits in Japan in 2022 (2023: 68%)
- ▶ For 2023, 51% expect an increase in investments and 62% an increase in employment in Japan

# Non-Japanese executives: optimistic | Japanese executives: cautious

		Non-Japanese executives (n=49)	Japanese executives (n=54)
Turnover	positive growth ↑	84%	68%
	negative growth ↓	0%	11%
Profit	↑	56%	54%
	↓	14%	16%
Investment	↑	57%	37%
	↓	2%	0%
Employment	↑	67%	48%
	↓	4%	2%

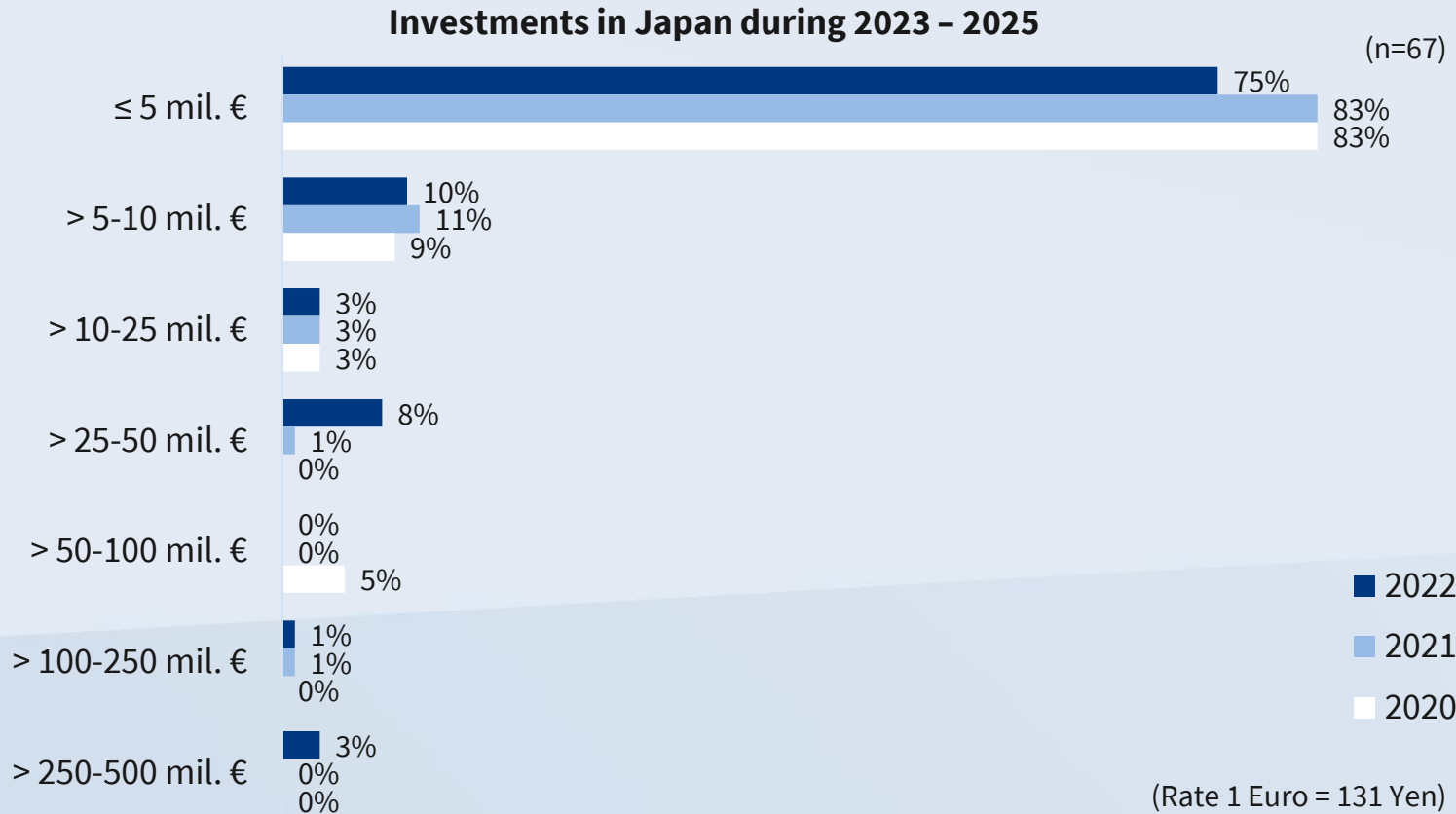
- ▶ With 84% of respondents expecting sales growth in 2022, non-Japanese executives are more optimistic than Japanese executives: only 68% of the Japanese expect their turnover to increase
- ▶ For profit the expectations are on a similar level: 56% of non-Japanese executives and 54% of Japanese executives expect their results to grow in 2022
- ▶ Non-Japanese executives are also far more prone to invest: while 57% of them expect an increase in investments only 37% of Japanese executives do so
- ▶ While 67% of non-Japanese executives expect an increase in employment in Japan, Japanese executives are with 48% clearly more restrained

# Medium-term expectations more optimistic

		Non-Japanese executives (n=49)	Japanese executives (n=54)
Turnover	positive growth ↑	86%	73%
	negative growth ↓	2%	0%
Profit	↑	78%	60%
	↓	2%	4%
Investment	↑	59%	45%
	↓	2%	2%
Employment	↑	71%	53%
	↓	2%	0%

- ▶ 86% of non-Japanese respondents expect sales growth in 2023, but only 73% of the Japanese executives expect their turnover to increase
- ▶ The same applies to profits: 78% of non-Japanese executives but only 60% of Japanese executives expect their results to grow
- ▶ Non-Japanese executives are also far more prone to invest: while 59% of them expect an increase in investments only 45% of Japanese executives do so
- ▶ A similar assessment can be observed regarding employment: with 71% of non-Japanese executives expecting an increase in employment in Japan, Japanese executives are with 53% clearly more restrained

# Willingness to invest slightly increased – but remains low



- ▶ Investment plans of German companies in Japan are limited. Three quarters of the companies surveyed (-8%-points YoY) expect to invest 5 mil. € or less within the upcoming three years
- ▶ However, 8% of companies plan to invest between 25 and 50 mil. €; an increase of 7%-points compared to 2021
- ▶ 3% even plan to invest between 250 and 500 mil. € in Japan until 2025
- ▶ 12% plan investments of at least 25 mil. € between 2023 and 2025 – an increase of 10%-points YoY

# Climate change and sustainability influence future investments

## Key trends and developments with impact on future investments in Japan (n=101)

	2022	2021
Climate change, sustainability, and stricter environmental regulations	68% ↑	56%
Digitalization of industries / services	67% ↓	74%
Near-shoring / on-shoring to increase resilience of supply chains	53%	-
Demographic dynamics / Ageing society	52% ↓	58%
Asian integration (amongst others by way of RCEP)	35% ↓	37%

- ▶ More than two-thirds of respondents expect climate change and sustainability and related regulatory measures to influence their investment decisions
- ▶ While still 67% of companies expect digitalization to impact their future investments in Japan, as the pandemic subsides this factor has become less decisive (-7%-points YoY)
- ▶ About half of respondents see near-shoring and the country's demographic dynamics as factors affecting their investment momentum
- ▶ With 35%, Asian integration only plays a minor role in the decision-making process

# Climate change and sustainability influence future investments

## Key trends and developments with impact on future investments in Japan 2022

	Non-Japanese executives (n=47)	Japanese executives (n=54)
Climate change, sustainability and stricter environmental regulations	72%	65%
Digitalization of industries / services	72%	63%
Near-shoring / on-shoring to increase resilience of supply chains	62%	46%
Demographic dynamics / Ageing society	60%	46%
Asian integration (amongst others by way of RCEP)	38%	31%

- ▶ Overall, non-Japanese executives feel a greater need for future investments due to climate change and sustainability than Japanese executives (72% vs. 65%)
- ▶ For 72% of non-Japanese executives and 63% of Japanese executives, the increasing digitalization of industries and services occupies the second place of the top trends impacting future investments
- ▶ While near-shoring and the ageing society are only considered to be relevant for less than half of the surveyed Japanese executives, more than 60% of non-Japanese executives view those factors as decisive for their investment decisions

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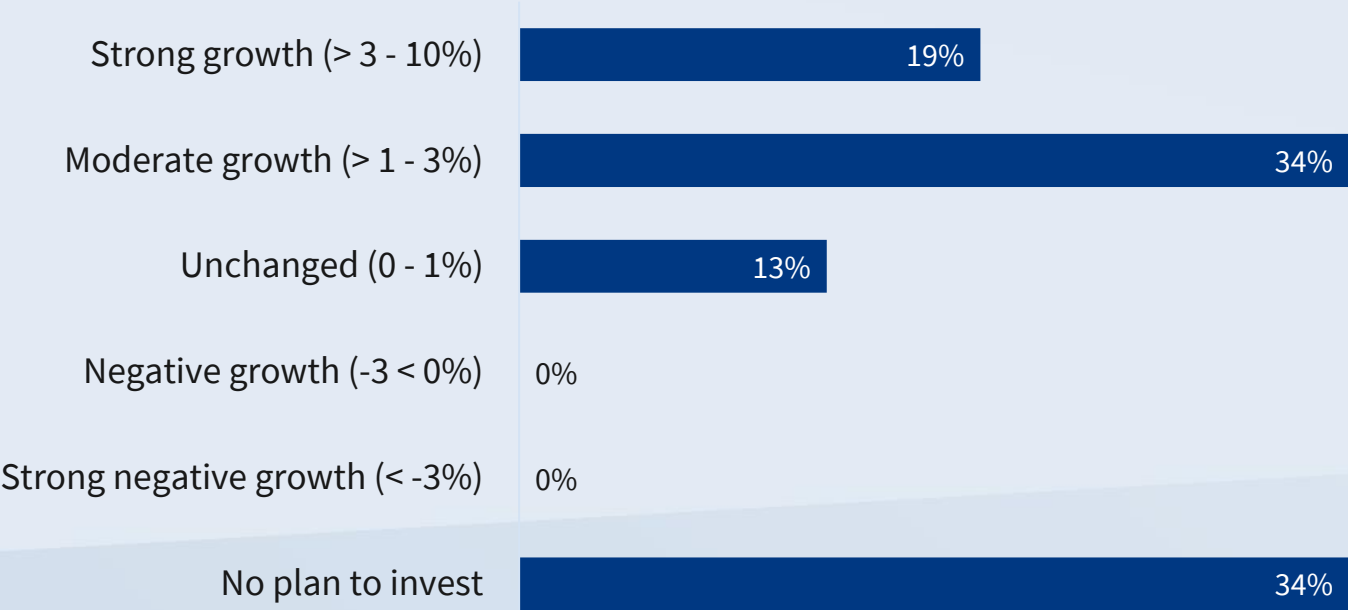
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# More than half of surveyed companies invest in sustainability

Investments in sustainability programs within 2023 – 2025

(n=79)



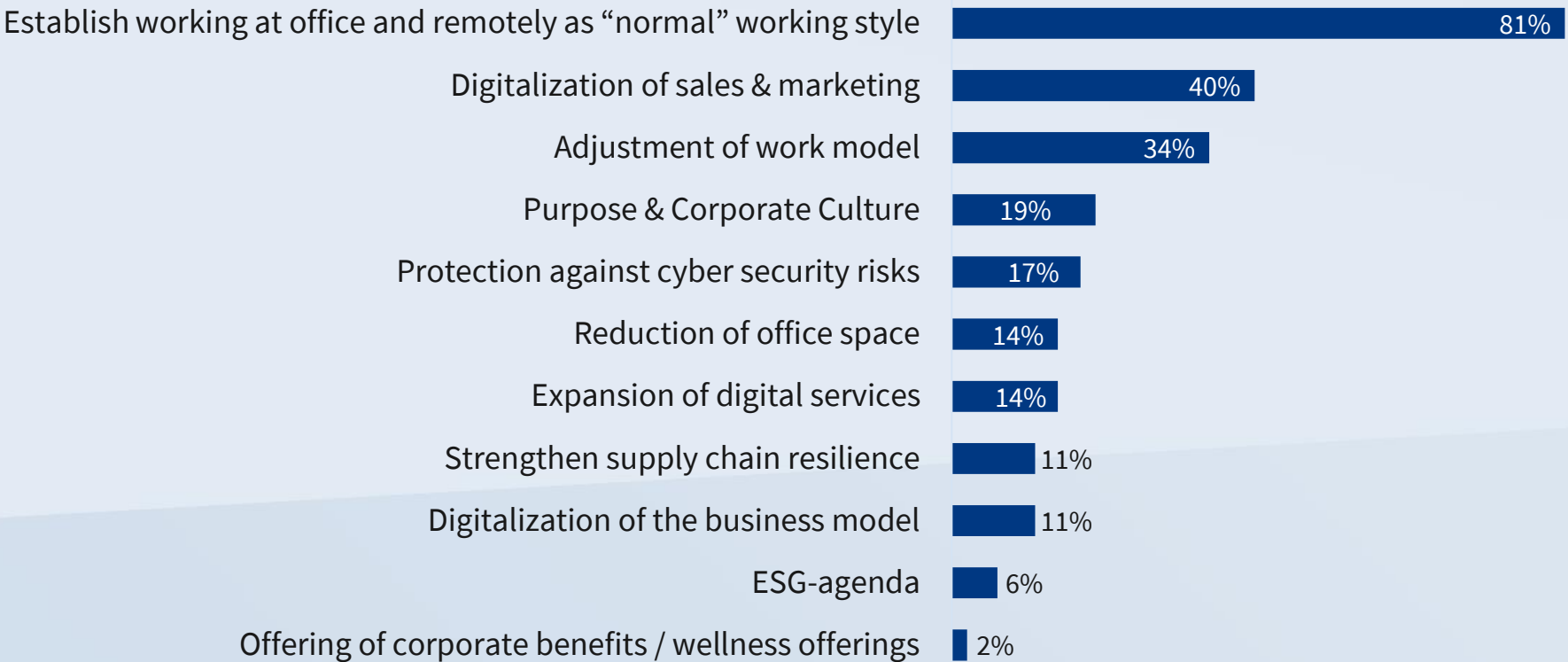
- ▶ More than half of the companies surveyed (53%) expect a strong or moderate growth in investments in sustainability programs over the next three years
- ▶ However, every eighth company surveyed (13%) plans unchanged investments in their sustainability programs until 2025
- ▶ It is somewhat surprising that more than one in three respondents (34%) has no intention to invest in this area despite extreme weather phenomena, rising average temperatures around the globe, and decreasing biodiversity

Spotlight on the effects of the pandemic

# Mobile workstyle established during pandemic

Area in greatest progress during the pandemic

(multiple choice, n=100)



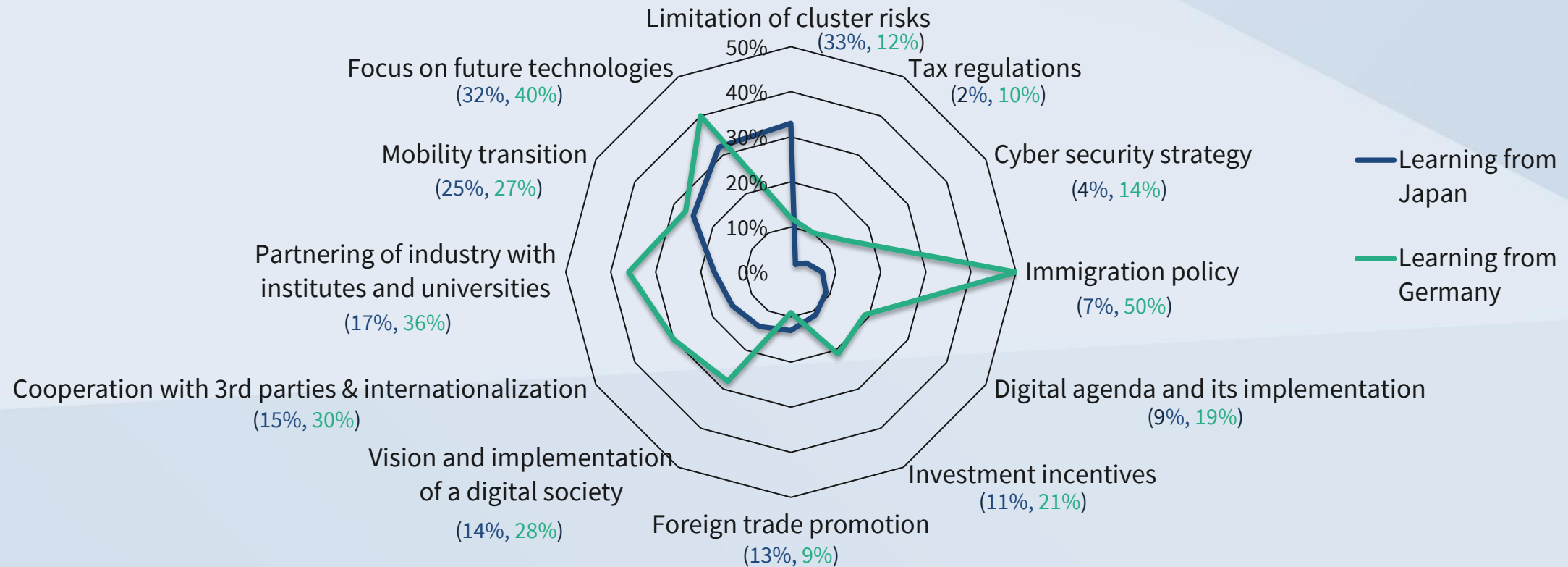
- ▶ For four out of five respondents (81%) hybrid working has been established as part of their new world of work during the pandemic
- ▶ The digitalization of sales and marketing represents another field of action: 40% of the companies surveyed have progressed within this area over the course of the pandemic
- ▶ Progress in ESG issues, however, often came up short during the pandemic: only 6% were able to make progress in this area

Spotlight on learnings from each other

# Learning from each other

What could German and Japanese companies and government learn from each other?

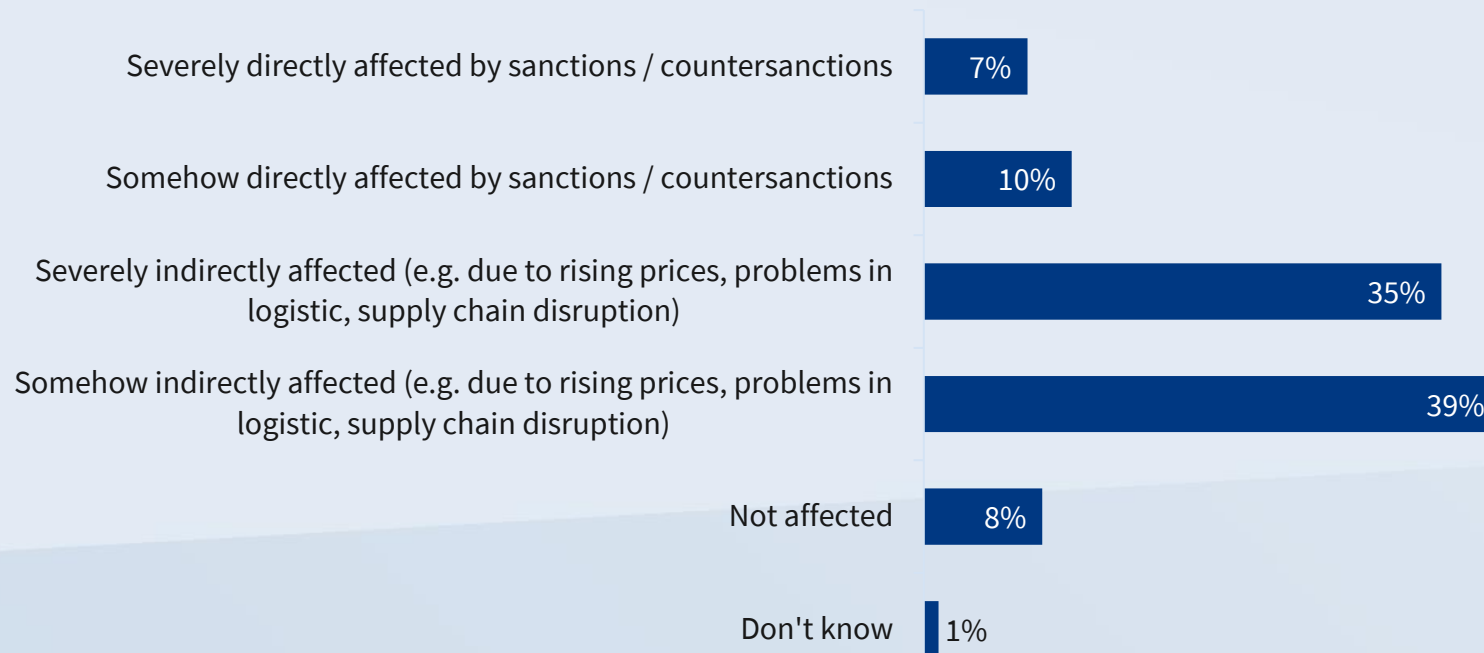
(multiple choice, n=100)



# Influence of the war in Ukraine on German business in Japan

Influence of the war in Ukraine

(n=100)



- ▶ The war in Ukraine sent economic shock waves around the globe
- ▶ Nine out of ten (91%) German companies participating in the survey are directly or indirectly affected by the war in Ukraine or by the imposed sanctions on Russia – only 8% are not affected
  - ▶ 17% of respondents state that their company is somewhat or even severely directly affected by sanctions and/or counter-sanctions
  - ▶ 74% are indirectly affected e.g. due to rising prices, problems in logistic and/or supply chain disruption

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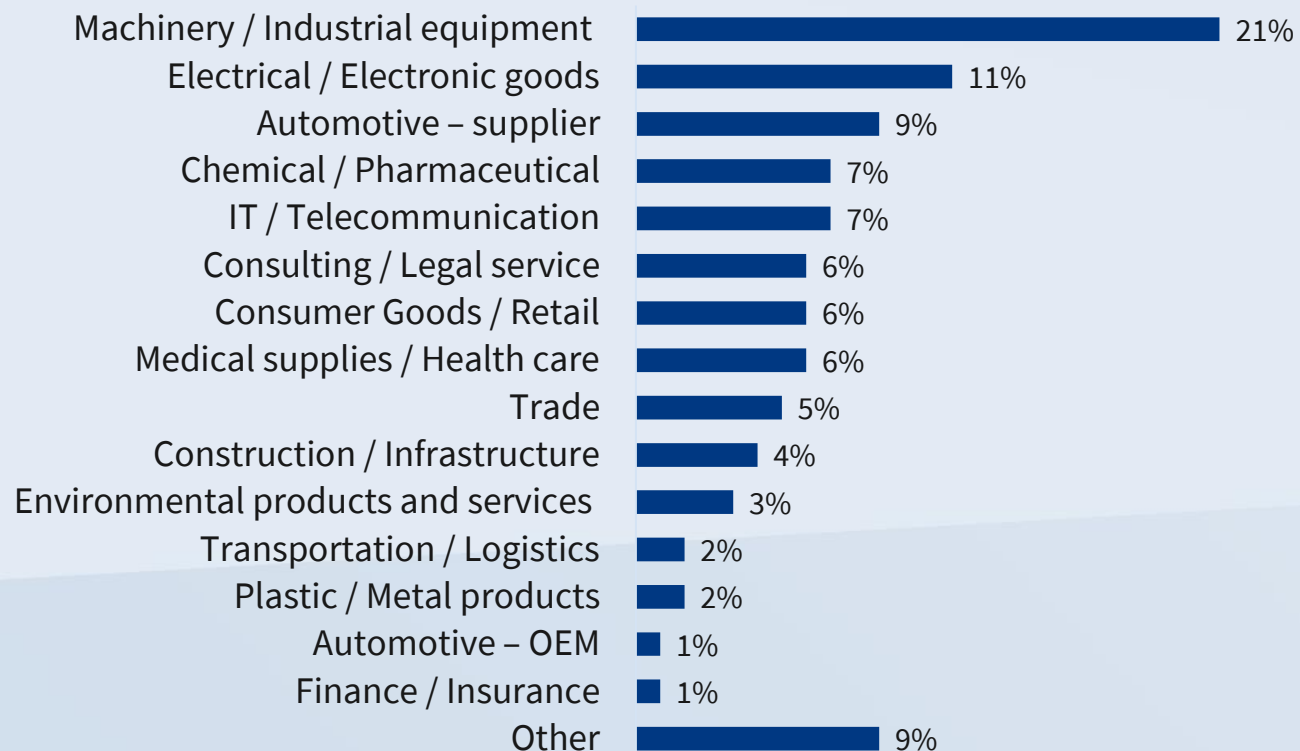


400 German companies in Japan were surveyed from May 12-23, 2022 | response rate: 29% (115 participants)

## Profile of the companies surveyed

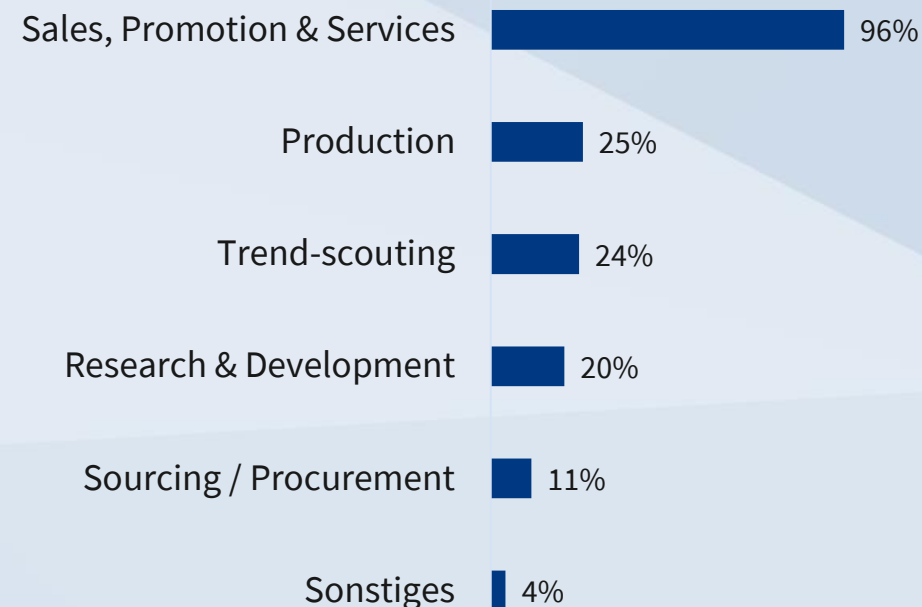
### Breakdown by sector of the companies surveyed

(n=115)



### Business activities

(multiple choice, n=114)

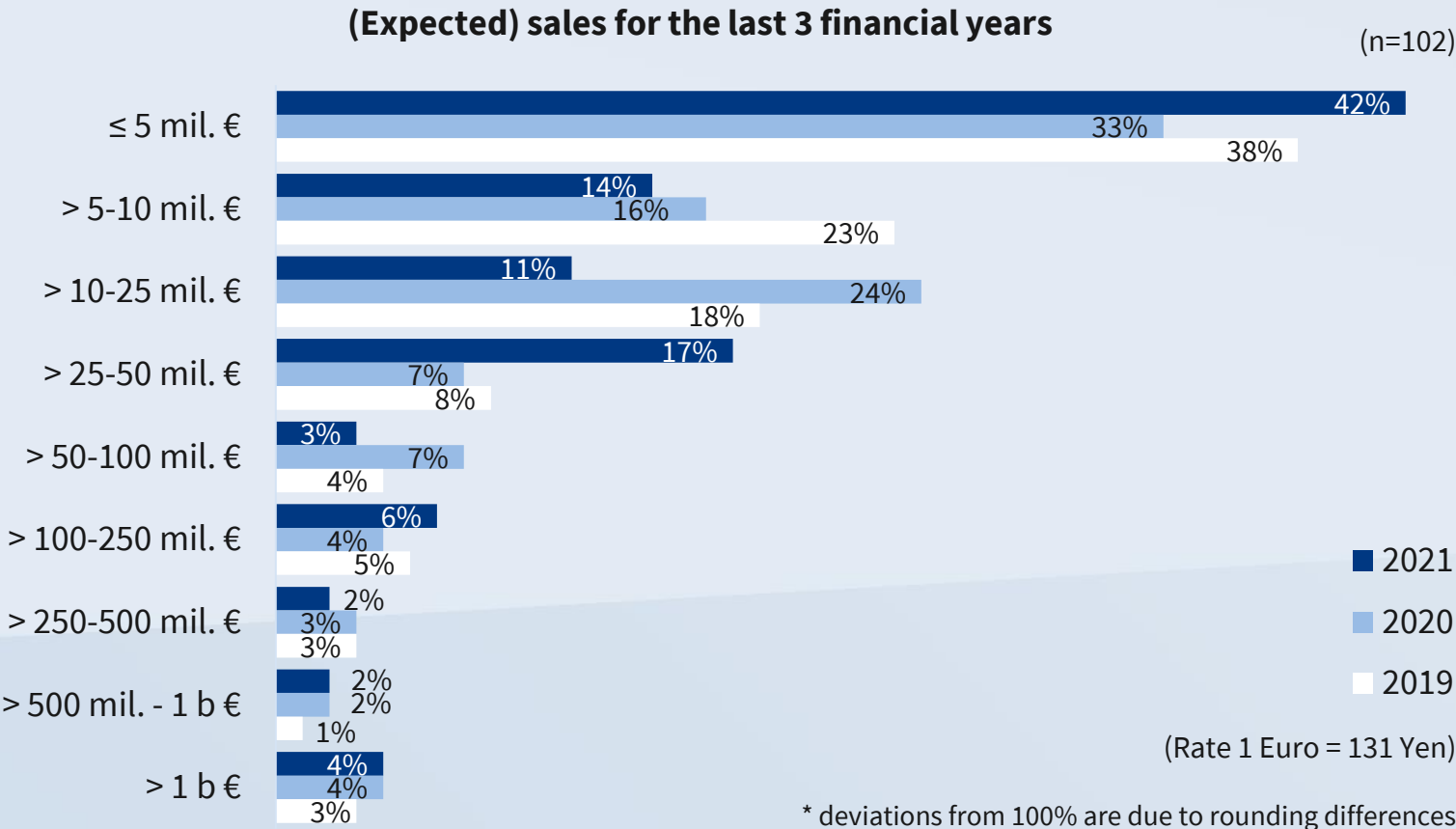


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# Profile of the companies surveyed



- ▶ 83% of German companies participating in the survey realized less than 50 mil. € turnover in 2021 - an increase of 3%-points YoY (2020: 80%)
- ▶ The proportion of very small companies with sales of less than 5 mil. € participating in the survey accounts for 42% this year (2020: 33%; +9%-points YoY)
- ▶ 14% of the companies surveyed generate a turnover of more than 100 mil. € (2020: 13%) and can therefore be regarded as large companies

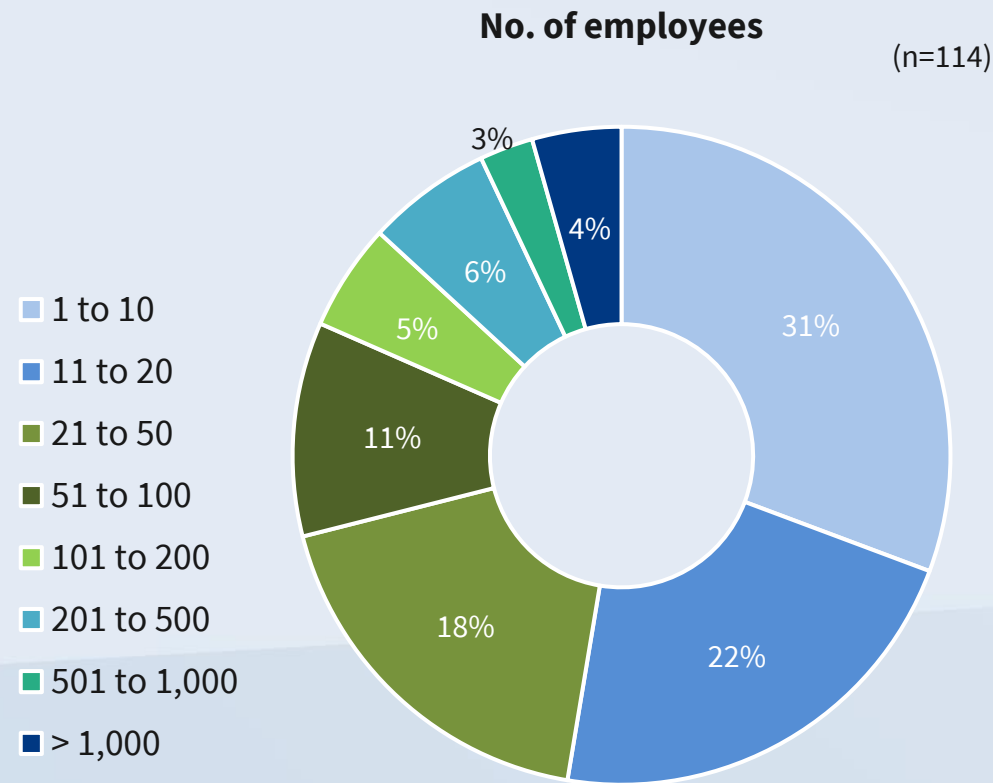


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# Profile of the companies surveyed and summary of survey



**Summary of “Business Climate Survey - German Business in Japan 2022”**

Survey period:	May 12 to 23, 2022
Survey method:	Online questionnaire
Content of the survey:	Business activities, current situation and challenges, business in third markets and business outlook
Companies surveyed:	400 German companies in Japan
Valid responses:	115 companies / 29% (Non-Japanese executives 44%, Japanese executives 56%) * 2021: 105 (25%), 2020: 92 (24%)

# Contact

**The German Chamber of Commerce and Industry in Japan (AHK Japan)** belongs to a worldwide network of 140 German Chambers of Commerce Abroad (AHK) in 92 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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**KPMG AG Wirtschaftsprüfungsgesellschaft** is an organization of independent member firms with around 236,000 employees in 145 countries and territories. In Germany too, KPMG is one of the leading auditing and advisory firms and has around 12,200 employees at 26 locations. Our services are divided into the following functions: Audit, Tax, Consulting and Deal Advisory. KPMG in Germany has set up Country Practices for all relevant business corridors between Germany and other countries/regions. All Country Practices are staffed by country experts who know the particular features and the regulatory environment of these markets, regularly work in these countries and provide German and global multinational companies with advice on their country/corridor-related questions on a daily basis. The Country Practice Japan is one of the largest Country Practices at KPMG in Germany.

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# Imprint

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