



# **AHK WORLD BUSINESS OUTLOOK – ASEAN FOCUS 2018**



German Chamber  
ASEAN Business Council

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## OPTIMISTIC OUTLOOK FOR ASEAN MARKETS

The AHK World Business Outlook is based on a regular survey conducted by the Association of German Chambers of Industry and Commerce (DIHK) among member companies of the German Chambers of Commerce Abroad, delegations and offices (AHKs).

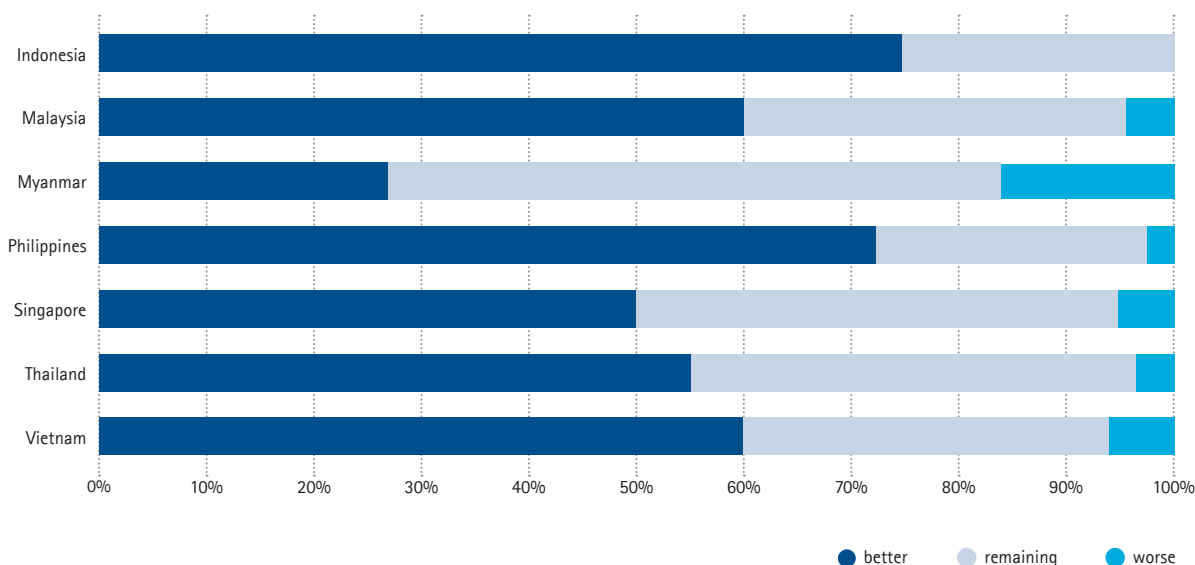
The 2018 survey has been complemented by AHKs in the ASEAN region in order to derive more insights from the regional business climate. ASEAN as an institution is an intergovernmental organisation of 10 member states of which AHKs are represented in seven: Vietnam, Thailand, Singapore, the Philippines, Myanmar, Malaysia and Indonesia. About 300 member companies (mostly German and local small-and-medium-sized enterprises) of the ASEAN AHKs participated in this survey, giving a unique and essential insight into their business confidence, prospects and expectations.

ASEAN as a geographic area is an innovative and ambitious region, defined by intergovernmental structures

that are young and still developing. Also, the average age of the population is quite young: 28.9 years (UOB Global Economics & Markets Research, 2015), and the population in ASEAN member states is growing at a rate of 1.38% (Inquirer Global Nation, 2017). This corresponds to a fast growth in consumer demand, in urbanisation as well as in talents looking for employment. As the nations invest heavily into their industry and infrastructure in order to keep up with the development of their societies, huge potentials are ready to be tapped into. For the existing industrial activities, modernisation into the technologies of the 21<sup>st</sup> century is to be expected. As a result, the ASEAN economies are highly diverse and therefore attractive to German investors. Its geostrategic position, being close to China, as well as at the core of the Belt and Road Initiative offer investors a huge potential for future growth.

As the study shows, the ASEAN markets continuously attract the attention of German investors by being a stable and lucrative option. German companies are confident regarding developments in the Southeast Asian region, with the majority of this year's participants having an optimistic view on future market positions.

What economic development do you expect for your business in the country in the upcoming 12 months?



## STABLE AND BALANCED GROWTH

Most of all companies (40%) expect higher investments into the ASEAN market. The outlook is particularly optimistic in Thailand, Vietnam and Singapore, where the expectancy of investment and further employment remain high, and the economic development is expected to remain stable.

## POLITICAL AND ECONOMIC FACTORS HAVE CONSIDERABLE INFLUENCE ON BUSINESS CLIMATE IN ASEAN

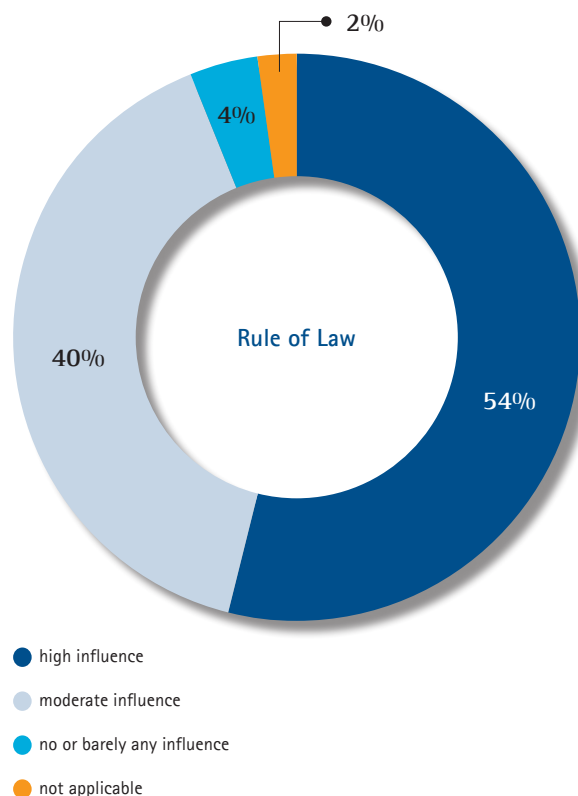
Various factors affect the business climate in the ASEAN market. This survey evaluated seven main factors with their impact on the business activities of AHK members: political stability, rule of law, absence of corruption, availability of skilled labour, tax burden, inflation rate and financing resources.



## POLITICAL STABILITY AND RULE OF LAW

Most companies acknowledged political stability and the rule of law being the framework of successful business as most important to a positive business climate. More than half of the questioned companies (54%) considered rule of law as 'highly important', with 40% as 'moderately important'. Regarding political stability, 56% of companies assigned high importance to the topic, whereas only 6% did not see a major risk for their business activities.

Contrary to last year, political stability and rule of law are viewed to be comparably influential. In 2017's study, companies clearly gave more importance to the rule of law, only 34% of 2017's participants considered political stability as 'highly important'.

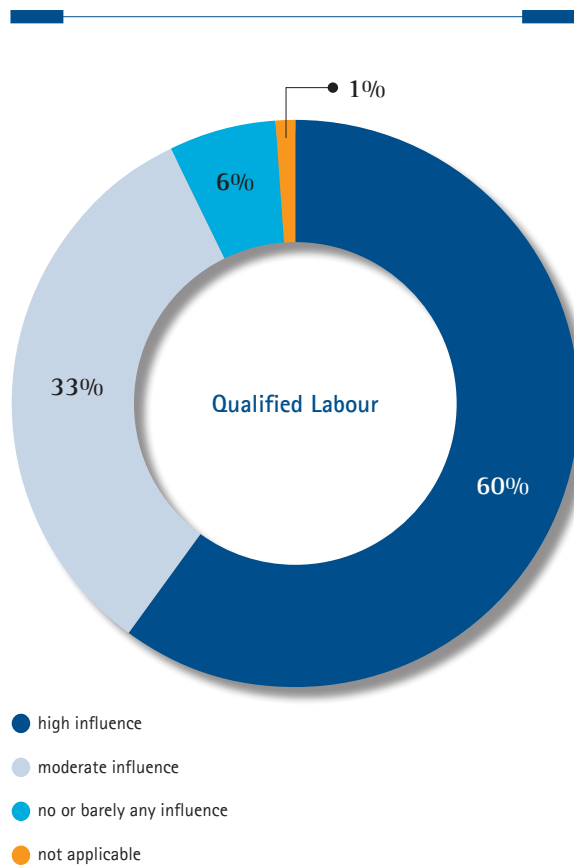




## QUALIFIED LABOUR

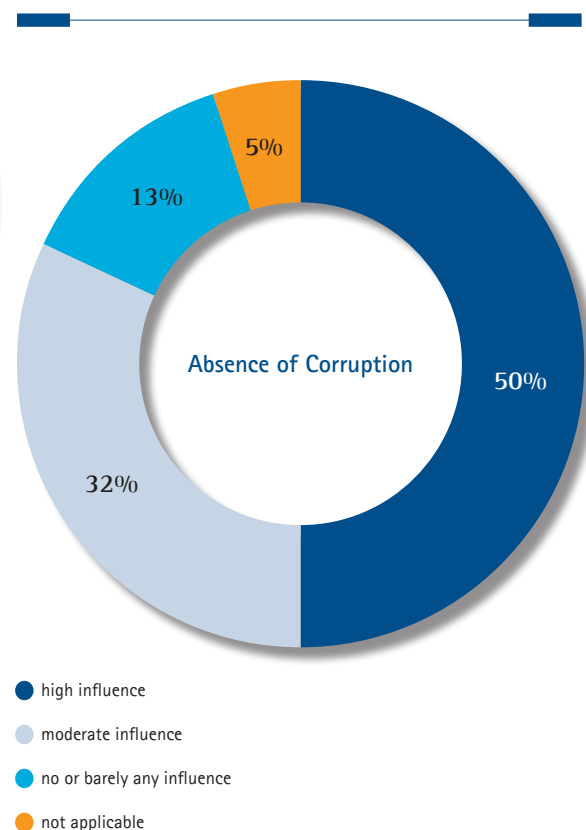
As the lack of qualified labour was seen to be the biggest risk in the preceding study, this year qualified labour remains to be regarded as one of the major factors affecting the business climate. 93% of participants see qualified labour as 'highly' or 'moderately' important.

The overall quality of colleges in the ASEAN region is perceived positively, although technical universities are considered to have the highest education standard. As qualified labour nurtures prospering business, an excellent education standard from human capital is expected to enhance the employer's business opportunities.

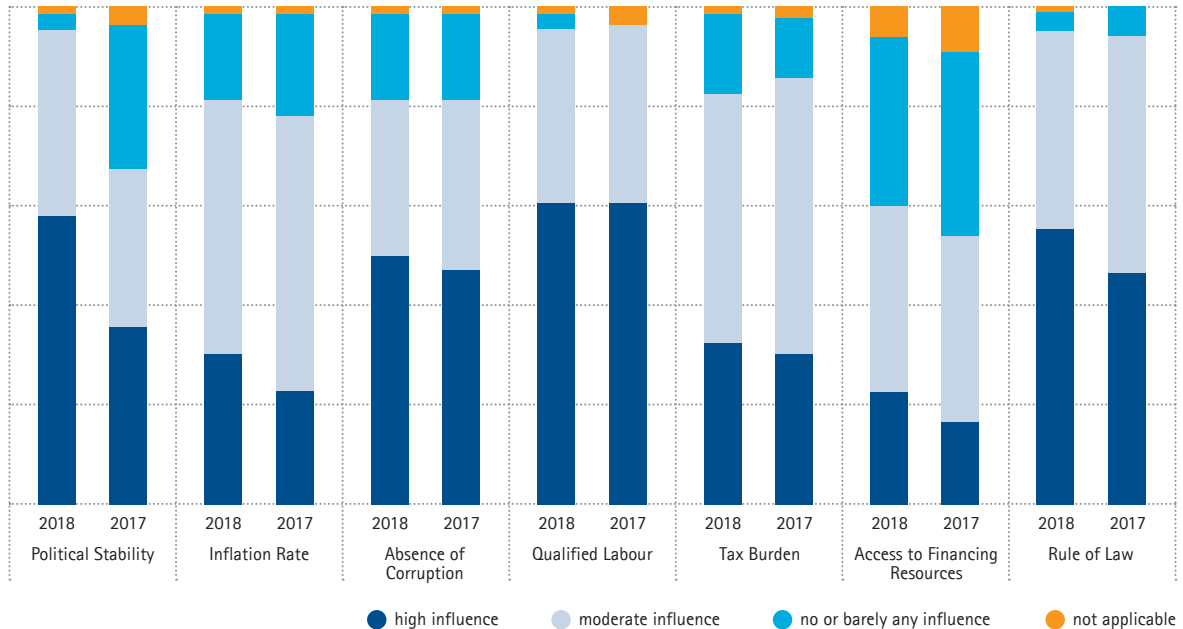


## ABSENCE OF CORRUPTION, TAX BURDEN, INFLATION RATE AND FINANCIAL RESOURCES

Comparably in importance are respondent attitudes towards these issues: absence of corruption, the tax burden and inflation rate. While every second member rates the absence of corruption to be 'highly important' for a good business climate, still, 32% claim it to be 'moderately important'. The domestic tax burden is seen to be slightly more influential on the business climate than the inflation rate, whereas both factors were recognised as 'highly' or 'moderately' important by more than 80% of participants. Among all factors given in the survey, financial resources are considered the least important. Surprisingly, a third of the companies surveyed did not see financing as a risk factor for their local business activities. This proves how AHK member companies operate independently from the effects of financial factors, compared to external factors caused by political and economic circumstances.



## Factors on Business Climate 2017-2018

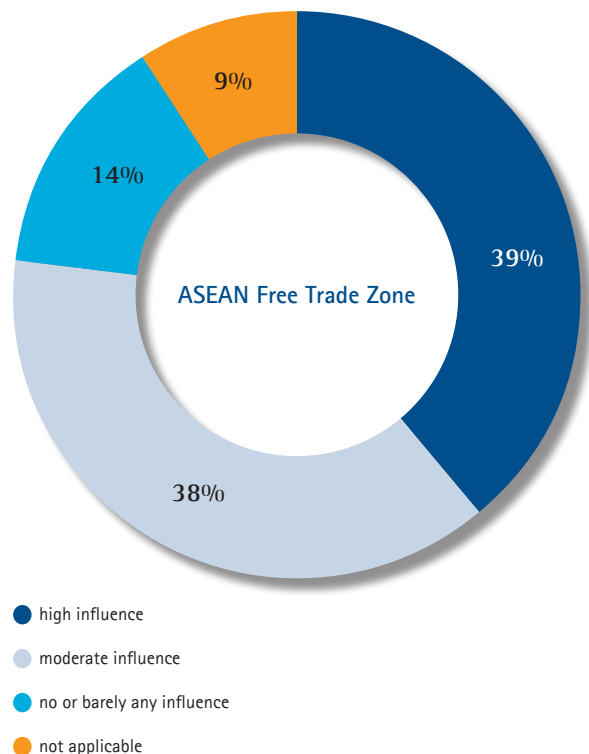


## ASEAN COUNTRIES ARE VERSATILE – DISTINCTIVE CONSULTANCY IS ESSENTIAL

With regards to the risks affecting AHK member companies, the wide diversity of ASEAN countries is obvious. While half of the Vietnamese member companies see legal certainty and thereby the predictability of legal decisions having a major impact on their business' development, companies in Singapore are given much different conditions instead, whereby legal certainty is only seen to be effective by 7.5%.

In Myanmar, the anxiety regarding the politico-economic framework is remarkably high. More than every second company (68.4%) list it as a risk to their business development. On the other hand, labour costs make companies in Myanmar look more optimistically towards the next years.

Countries that are particularly dependent on commodity prices are Indonesia and Malaysia. Pleasingly, trade barriers and favouritism of local companies are not regarded as barriers that would jeopardise AHK member companies.



## **“MADE IN GERMANY” – IMAGE OF GERMANY REMAINS IMPORTANT**

The importance given by the AHK member companies given to the perception of Germany has risen slightly in comparison to 2017. While more than one third give it a 'high importance', 37.79% see it to be 'moderately influential', whereas 18.39% give it 'no' or 'barely any importance'. Also, Germany's image abroad is more important to AHK member companies than the image of the European Union. Only one in four companies consider the EU's image to be highly important, whilst 30.61% see barely any influence. Among AHK member companies in Thailand, the EU's image is considered extraordinarily low: only 8.1% believe it to be 'highly important'. Also, among the ASEAN countries members questioned, the German image is given the highest relevance in Vietnam, where more than every second survey participant gives it a high relevance. This shows that promoting Germany as a brand remains relevant, especially, as 'Germany' still is more recognisable than 'EU'.

## **DOMESTIC DEMAND AS A KEY INDICATOR**

Demand remains an essential factor in domestic markets, fostering financial flow and dynamic development.

AHK member companies throughout ASEAN see themselves highly dependent on the market demand. Indeed, especially domestic markets demand are considered influential, with 86% stating domestic markets as important, among them 59% rating the importance as 'high'. The international market appears to be lowest influence for respondents. Whereas, demand is considered to be even more important than last year.

While the relevance of demand has clearly risen, domestic as well as international supply are not as crucial to AHK member companies. Still, 30% of respondents see domestic and international supply as 'highly important'. Only about 20% see themselves as 'little' or 'not' influenced by the domestic and international supply.



## **SUPPLY PLAYS A LESSER ROLE**

The supply of both domestic as well as international distributors are considered of moderate importance. In comparison to last year's survey, the attention to international supply has eased. Over all, demand is generally considered as much more important than supply.

Still, these results demonstrate the relevance of transnational markets and trade. International trade agreements, strengthening cooperation and investment, shall thereby not be underestimated.

## ECONOMIC DIPLOMACY CONTINUES TO PLAY A STRONG ROLE

International Free Trade Agreements foster international business relations by assuring common legal premises and procedures, thereby facilitating the development of bi- or multilateral business networks. As experience has taught us during the last decades, trade agreements play a major role in globalisation and economisation. Since the ASEAN Free Trade Agreement (FTA) allows companies to operate in the world's largest trade zone. Here it must be taken into consideration, that among the ASEAN countries, only Vietnam and Singapore have concluded a Free Trade Agreement with the EU. 76% of the participants concluded that it has high or moderate influence on their business. Still, 23% do not see a remarkable effect of ASEAN's FTA on their companies. Similarly, the EU-ASEAN Agreement does not or barely affects 29% of respondents, however, 39% rate it as being of 'high importance'. The failure of the Trans Pacific Partnership (TPP) due to the exit of the United States (US), has decreased in importance in comparison to last year's estimation. The number of AHK member companies

not affected by the failure at all has increased from 10% in 2017 to 21% this year. Also, the number of companies which considered the TPP-failure as 'highly important' to their business is only 7%, in comparison to 10% last year.

There is a possibility that it could be due to the fact that the impact of TPP's failure has been partly alleviated by the agreement reached between the remaining 11 members of TPP, now called "Comprehensive and Progressive Agreement for Trans-Pacific Partnership" (CPTPP).

Four ASEAN countries are part of this agreement: Vietnam, Malaysia, Singapore and Brunei. The conclusion of the Regional Comprehensive Economic Partnership (RCEP) record a moderate influence of 40%, and for high influence 12% among the surveys participants. Almost half of respondents did not see their companies affected.

Trade Agreements are especially valuable to companies operating internationally. AHK member companies cover a wide field of all industries and therefore are highly diverse in their business strategies. Indeed, as this survey shows, the majority of AHK member companies remain influenced by free trade agreements. ■

