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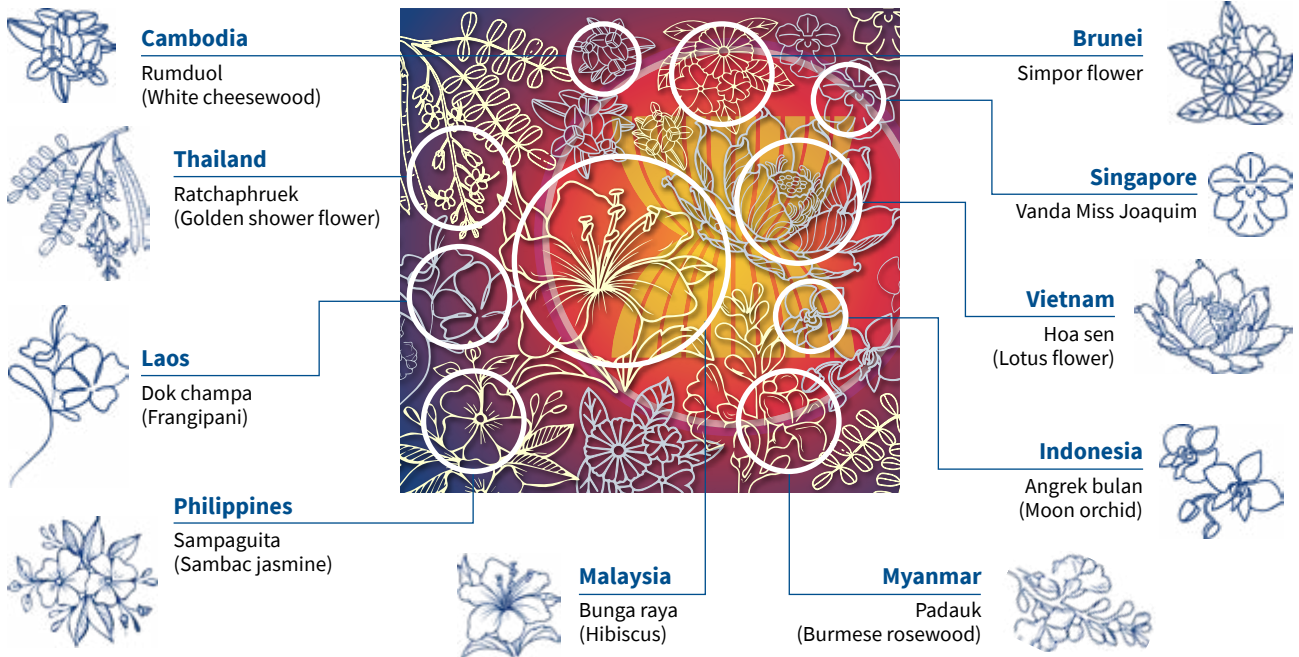
World Business Outlook 2023

ASEAN Focus



German Chambers
ASEAN Business Council

ASEAN-inspired Flower Motif



METHODOLOGY

Since 2012, the German Chambers of Commerce Abroad (AHKs) in the ASEAN region have been publishing a special ASEAN focus report which provides an overview of the business climate in the territory, based on the AHK World Business Outlook bi-annual survey conducted by the Association of German Chambers of Industry and Commerce (DIHK).

The 2023 survey has been complemented by the German Chambers of Commerce Abroad (AHKs) in the ASEAN region between 20 March and 16 April 2023, in order to derive more insights from the regional business climate. AHK offices are present in seven of the 10 ASEAN member states: Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, also coordinating activities in Myanmar, Cambodia and Laos. In this edition, however, data was not available for Myanmar and AHK Myanmar has instead presented a general overview of the country's economic developments with regard to foreign direct investments. Around 350 member companies (mostly German and local small and medium-sized enterprises) of the AHKs in the ASEAN region participated in this survey, giving a unique and essential insight into their business prospects and expectations.

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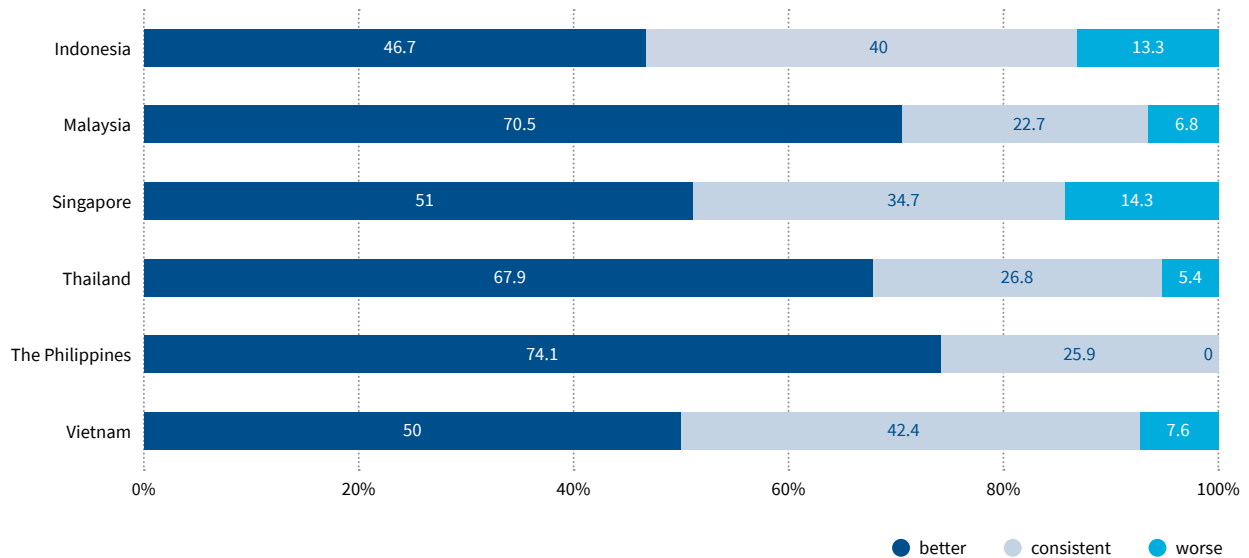
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ASEAN economies display resilience despite external shocks

What business development do you expect for your local company in the coming 12 months?



The Association of Southeast Asian Nations (ASEAN) is the third-largest regional economy in Asia and the fifth-largest in the world, after the US, China, Japan and Germany. Comprised of 10 member states – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam – ASEAN is a trade bloc that boasts a shared population of more than 660 million people and a combined gross domestic product (GDP) of almost US\$3.2 trillion in 2019. Its economy is projected to grow to US\$6.6 trillion by 2030.

Given this sizeable trade presence and potential, it is no surprise that member companies view ASEAN as an attractive investment destination that facilitates the free flow of goods, services and labour that will boost the development of production networks to enhance the region’s global supply chain capabilities.

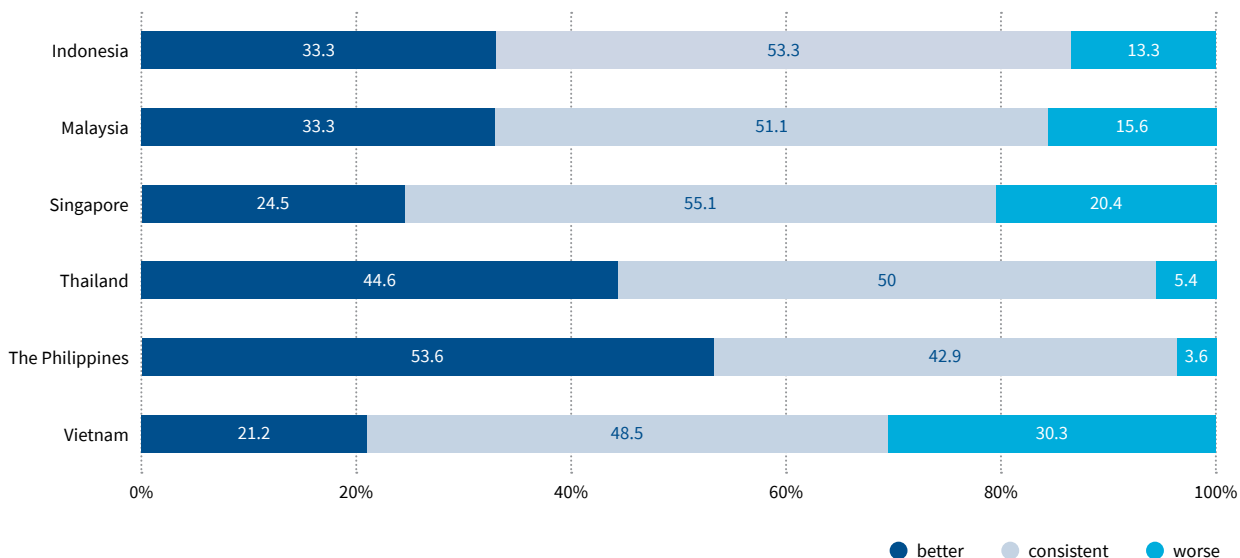
Despite the volatility rippling across the globe, the region is poised to benefit from the superpower rivalry between the US and China through free trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) agreement and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) that will generate economic gains.

Several mechanisms to boost trade have been put in place in recent years to draw investors from Germany to conduct business in ASEAN. The 2019 ASEAN Declaration on Industrial Transformation to Industry 4.0 signalled commitment to drive innovative manufacturing and has been a huge magnet for German companies small and large to venture into new markets that echo their strong manufacturing tradition. In 2020, Germany’s foreign policy strategy document for the Indo-Pacific region set the tone for a more enhanced relationship with ASEAN. After all, Germany is the biggest contributor from the European Union best exemplified by its US\$85.1 billion total trade in 2022, marking an increase of 25.1% YoY.

More than half (60%) of the participating companies operating in ASEAN surveyed expect their organisations to perform better within the next year. Only 7.9% of respondents see things taking a turn for the worst while 32.1% predicted that things will remain unchanged. Despite fears of a looming recession, the figures indicate a desire to capitalise on the region which has earned a reputation as a fast-growing and stable market. This offer of stability amid growing uncertainty was demonstrated in 2022 during China’s strict zero-Covid policy that resulted in foreign companies adopting a China Plus One strategy to strengthen and diversify their supply chains for business continuity.

Companies are doing well but expect the economy to remain the same

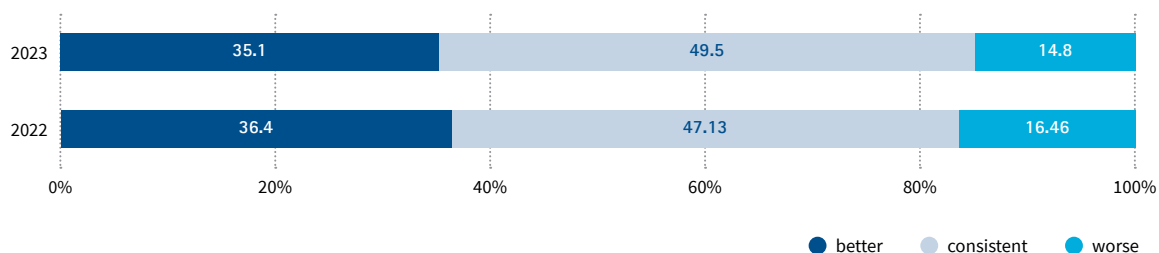
How do you evaluate the economic development on site in the next 12 months?



The majority (47.9%) of companies surveyed said their current business situation was good. Another 43.1% of companies surveyed said the situation was satisfactory and only 9% said current conditions are bad. Across the board, all ASEAN nations said the situation was good except for Malaysia and Vietnam who indicated that the situation was satisfactory.

When asked how responding companies in ASEAN evaluate the economic development in their respective countries for the next 12 months, 49.5% said the situation will remain the same. A more optimistic 35.1% are hopeful that the economy will improve while 14.8% expect it to be worse.

Economic forecast 2023 vs 2022



2023 marks the first year of the global economy fully opening up after ongoing lockdowns since 2020 when the Covid-19 pandemic broke out. However, challenges such as an ongoing supply chain disruption, rate hikes, inflation, war returning to Europe and the looming threat of Taiwan being invaded will test ASEAN's peace plans, posing further uncertainties and risks for companies.

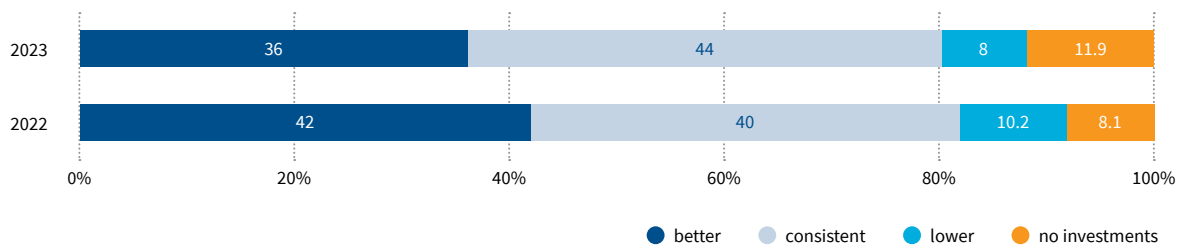
The good news is when compared to 2022's figures, companies demonstrated more optimism in the market for the coming 12 months as opposed to last year's sentiments.

Companies in ASEAN to keep investments consistent

The business community's expenditure has always been a good indicator of the intensity of economic activity. When asked how much companies intend on spending on local investments, a majority of respondents (44%) said their expenditure will remain the same. A promising 36.1% said they will ramp up investments while 11.9% said they have no investments planned for the next 12 months.

Among the ASEAN nations, the Philippines was the only nation with the highest number of respondents saying they would increase their local investments. The majority of other ASEAN nations indicated that their investment levels would remain the same.

How is your company's expenditure on local investments likely to develop over the next 12 months?

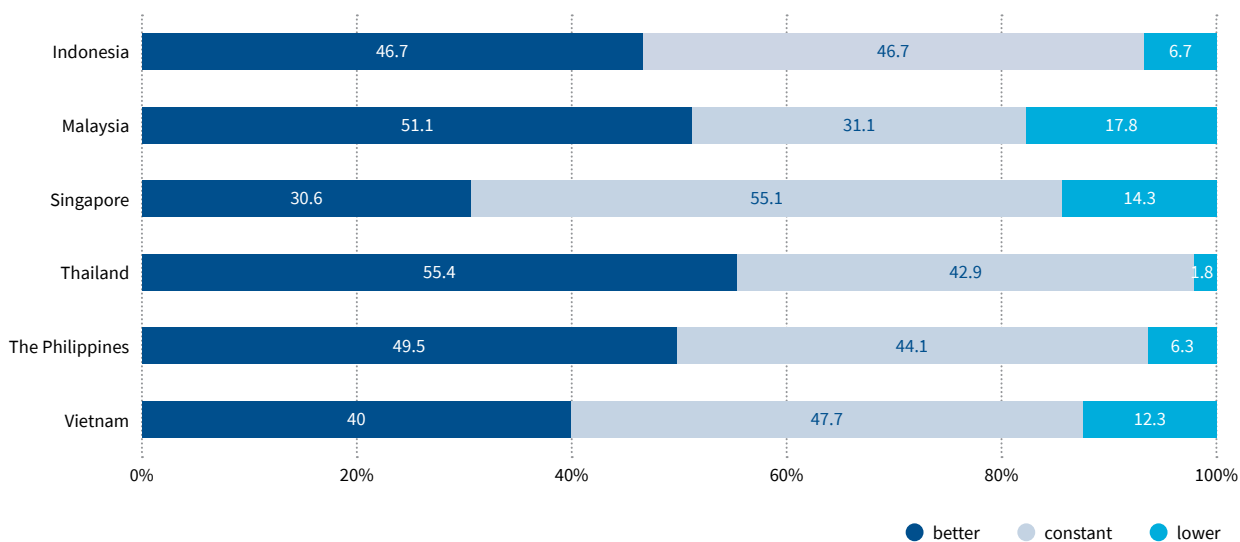


Headcount increase points to healthy labour market

Member companies operating out of the ASEAN region expect to increase the number of employees in the next year. Cumulatively, 45.6% said there will be a higher headcount while 44.6% said the employment of employees would remain the same. Thailand, Malaysia and the Philippines had the most respondents when it came to increasing headcounts in their companies. Indonesia, Singapore and Vietnam said their employment plans would remain unchanged. Employment rates have always been used

as a key indicator for economic growth and from these figures, it can be surmised that the labour market in ASEAN is healthy despite a slowdown brought on by global economic volatility and tightening monetary policy. As the region receives more foreign direct investment (FDI) that will boost domestic jobs, the preparedness of companies to ramp up hiring is a promising indicator that will enable ASEAN to achieve its goal of developing a competent and skilled workforce.

How do you expect the number of employees in your local company to develop over the next 12 months?

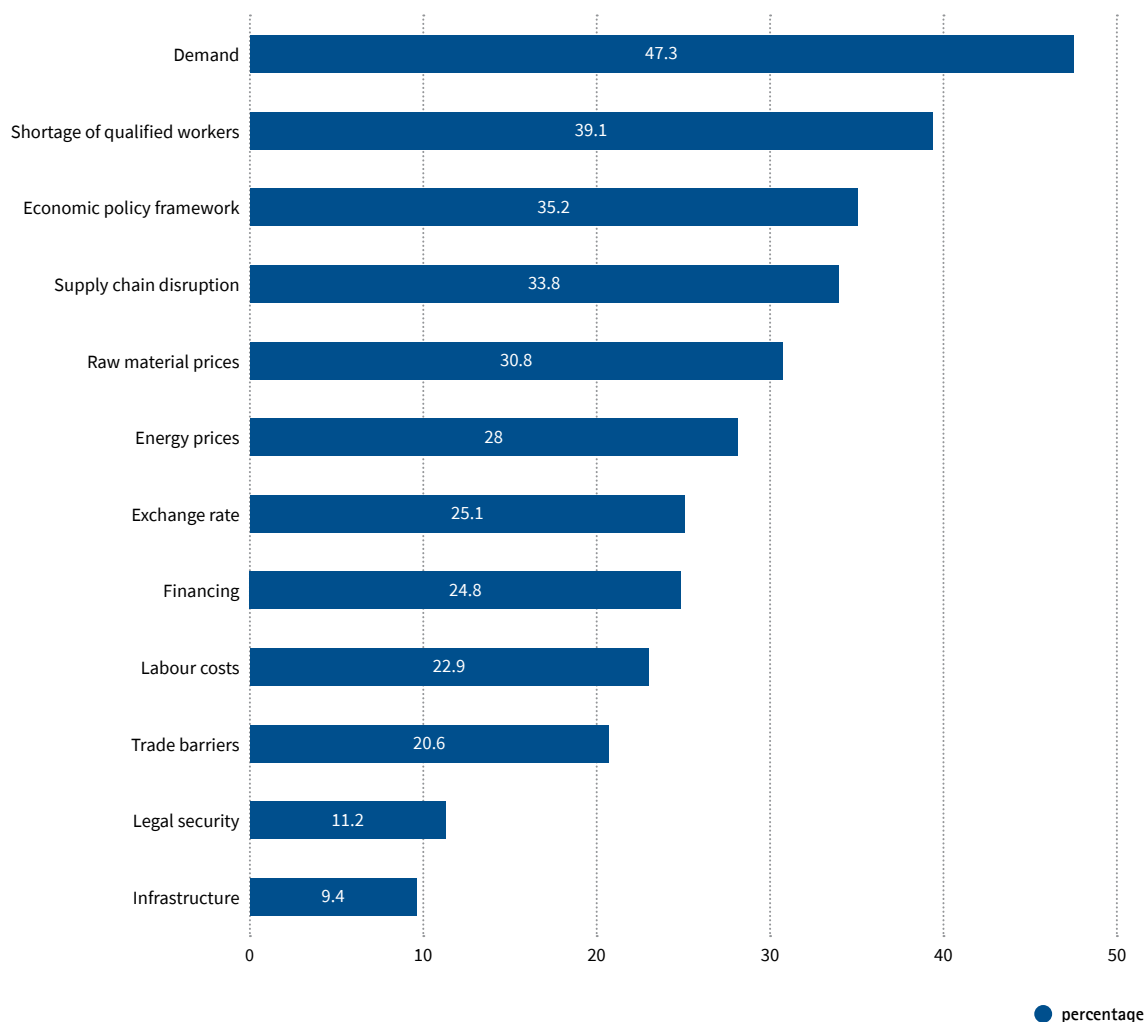


Demand, inadequate qualified labour and economic policy framework conditions top list of risk concerns

Demand risk topped the list when companies were asked to name some significant risks they foresee in the coming 12 months. Many countries may be on the road to recovery but that does not mean the uncertainties are out of the way. On top of 2023 marking three years of living with Covid-19, global economies have to grapple with more volatility that can be attributed to

financial sector pressures from the ongoing Russian invasion of Ukraine and supply chain disruptions. Understandably, responding companies in ASEAN have named demand risk as a top concern. The ongoing unpredictability makes it a challenge for organisations to manage their inventory accurately which becomes a possible financial liability.

Significant risks for companies' development



The second-highest risk is the shortage of qualified workers that have long been a concern of emerging economies in Southeast Asia due to brain drain and the inability to match the skills of fresh graduates with industry demand.

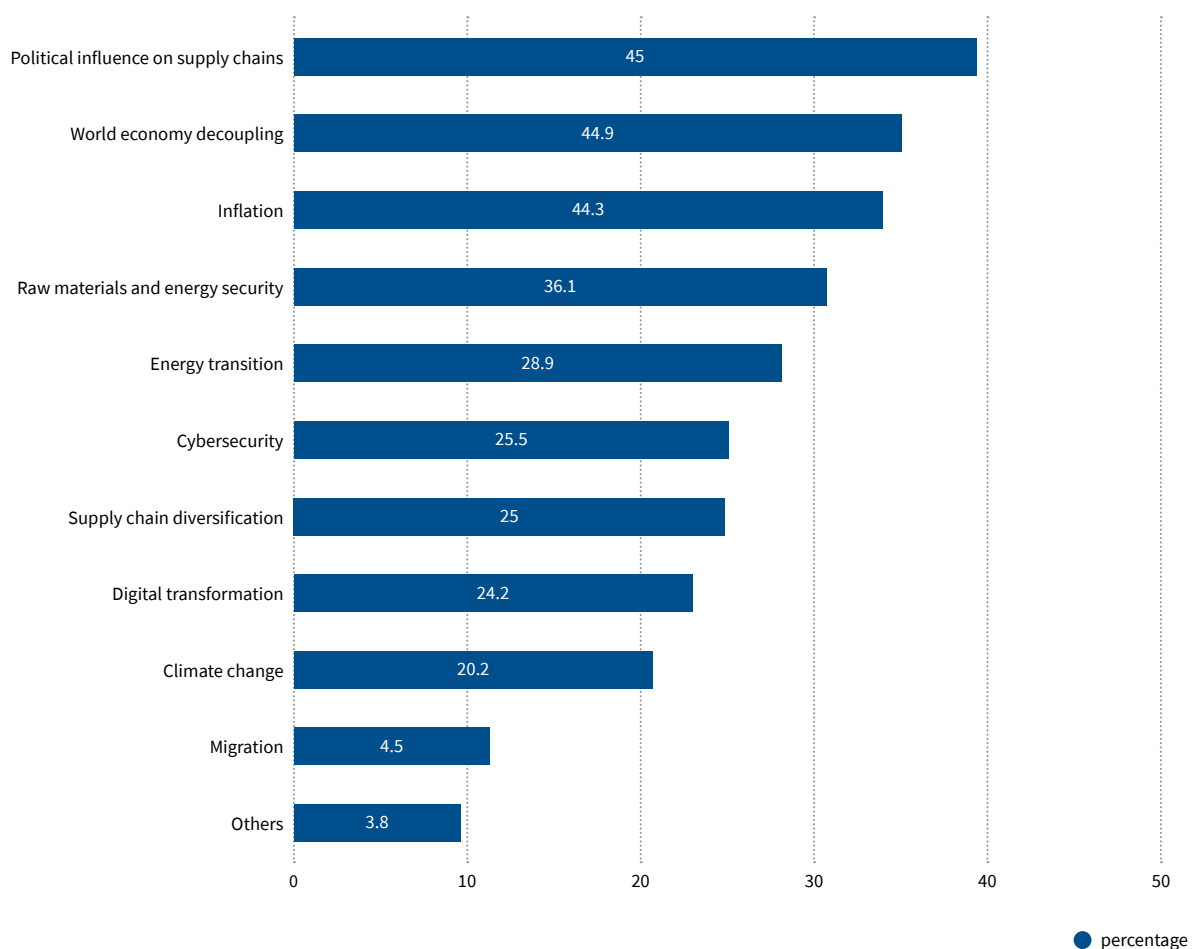
Economic policy framework conditions was the third risk named by participating companies in ASEAN much in part due to the rapid period of change that saw central banks globally revising taxes and interest rates that have increased the cost of borrowing for companies.

Challenges ahead: Political influence on supply chains, geo-economic fragmentation and inflation

The effects of government policies on economic activities are a current challenge that many companies believe will have a lasting effect for the next five years. 45% of respondents foresee the increase in political influence on supply chains through legislation and state-imposed trade barriers as a main

geopolitical concern. Politically-driven events in recent years have demonstrated their effects on the supply chain and given the growing political and economic volatility around the world, it is expected that this is a major cause of anxiety for many companies.

Geopolitical challenges for the next five years



Related to this is the fragmentation of the global economy (44.9%) which companies named as the second biggest geopolitical challenge in the next five years. The competing blocs in global trade we are currently witnessing is a result of the decoupling between the two largest economies – the US and China – that will pose far-reaching impacts and a period of adjustment after decades of global economic integration.

Following rate hikes by central banks around the world, inflation was the third biggest concern where 44.3% of respondents foresee monetary policy framework being an obstacle to overcome in the coming years.

Despite being a crucial topic in many political discussions especially in Europe, climate change only ranked 9th as a major challenge of doing business in the survey.

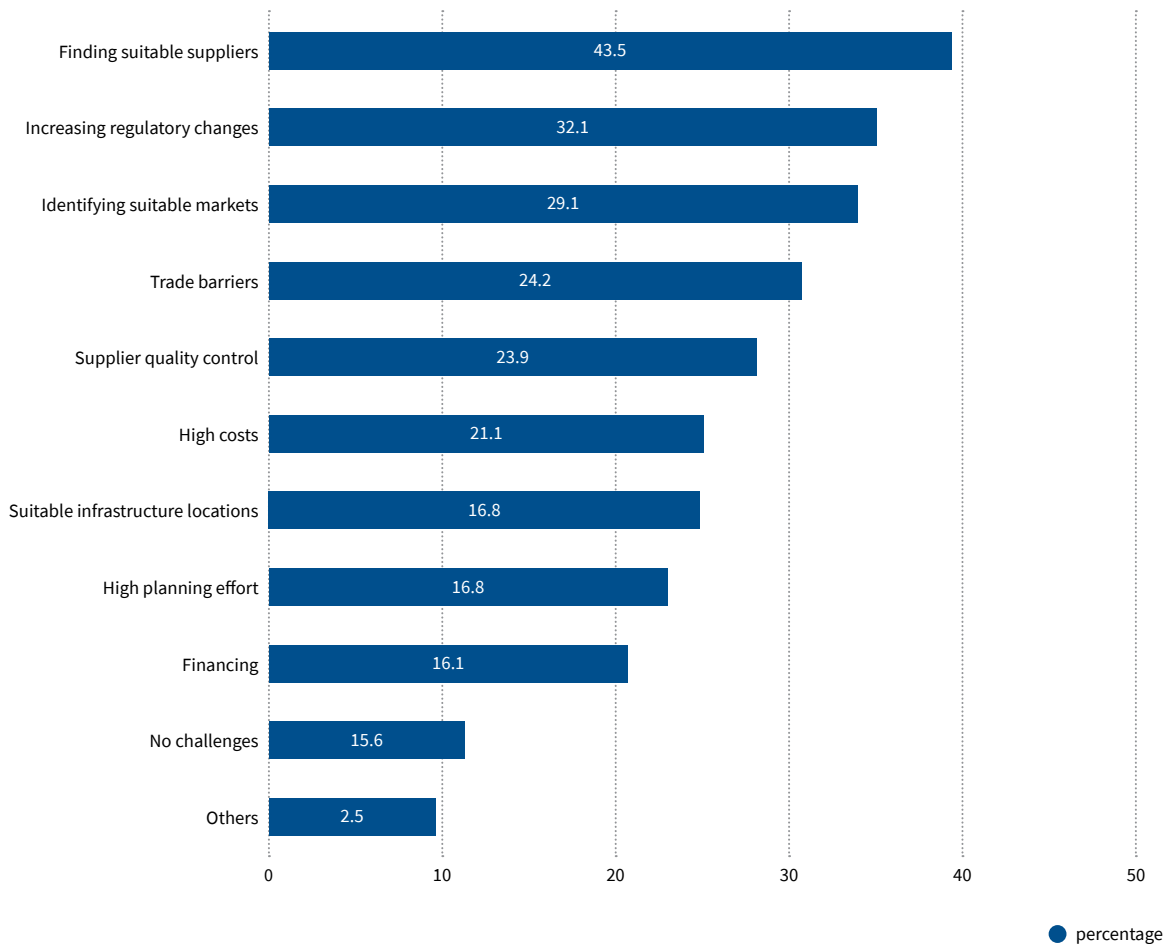
Finding suitable suppliers, increased regulation make it tough to diversify supply chain

Continuous lockdowns brought on by the Covid-19 pandemic and ongoing turmoil between Russia and Ukraine raised the fragility of supply chains. As much as organisations have become more aware of the importance of strengthening their supply chain through diversification, companies in ASEAN find it difficult to source for suitable suppliers (43.5%) and to navigate increasing legal and regulatory problems such as supply chain

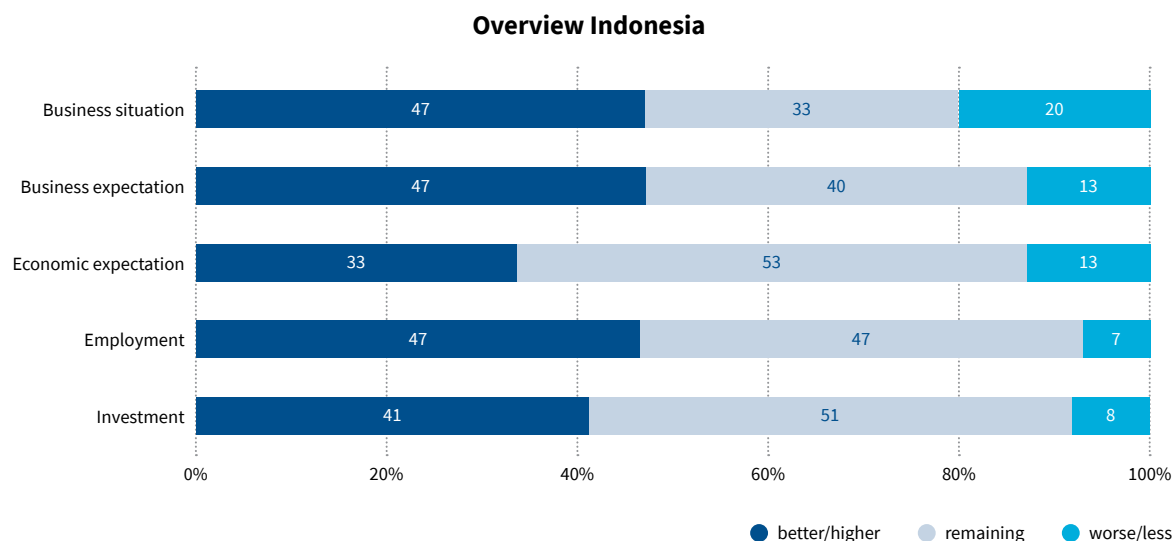
due diligence regulations (32.1%). Companies also expressed difficulty in identifying suitable procurement markets (29.1%).

As a result, companies in ASEAN require support in the areas of market analyses (35.7%), legal advice on compliance with local laws and regulations (34.5%) and business partners search (33.9%).

Roadblocks in supply chain diversification



Indonesia: Global economic challenges, upcoming election mute a generally positive sentiment

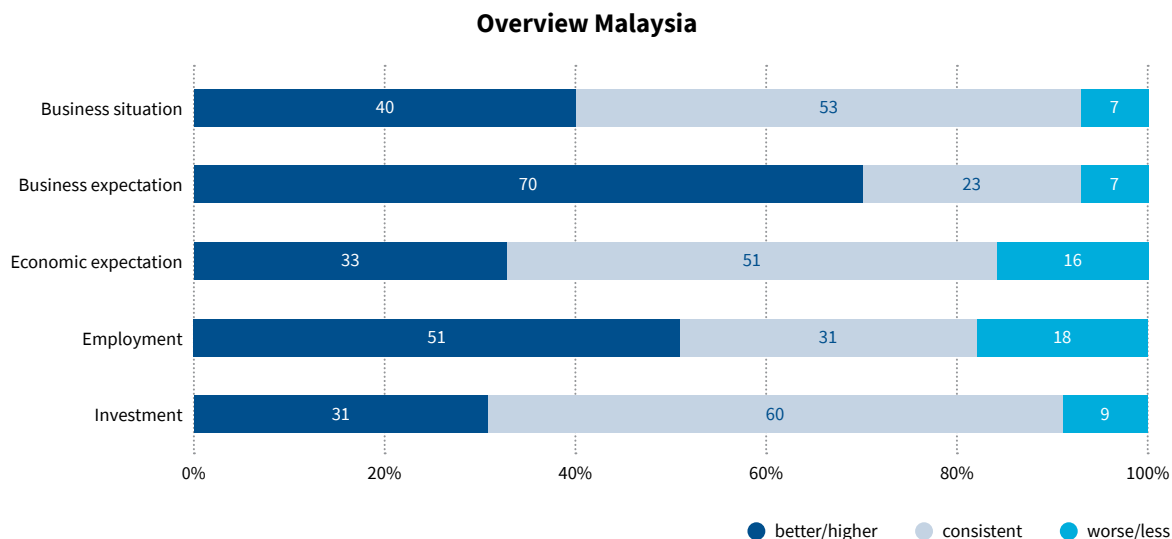


The majority of surveyed companies operating in the country saw their current business situation improving (47%) or remaining consistent (33%), though not an insignificant number (20%) saw their business worsen, the results of the AHK World Business Outlook Spring 2023 on Indonesia show. Subsequently, most of the companies expect their business to improve (47%) or to remain consistent (40%), with 13% expecting further decline in the next twelve months.

These results illustrate the general outlook companies are adopting in regard to their business prospects in the archipelago. The main challenges here are the current situation of global inflation and how it would impact their business, as well as the upcoming presidential election in 2024 and the possible follow up to the prevailing economic policies kickstarted by President Joko Widodo who is serving his second, and last, term. This is apparent from the biggest risks identified by the surveyed companies, out of which demand (46.7%), economic policies (46.7%), and barriers to trade (also 46.7%), top the list of main concerns for the coming year. In terms of geopolitical challenges, over half of the respondents (53%) expressed worry over the possible decoupling of the world’s major economies and its potential impact on the global supply chain.

These negative sentiments are offset by Indonesia’s solid economic performance (5.31% GDP growth y-o-y) in 2022, as well as the various major projects the country has in the pipeline, such as its plan to become a global EV manufacturing hub and the construction of the new capital city in Kalimantan. Likewise, the political pedigrees of the leading presidential candidates – namely that of Central Java Governor and potential policy successor Ganjar Pranowo, defense minister and former political rival Prabowo Subianto, and Jakarta’s former Governor and conservative party-backed Anies Baswedan – seem to offer a measure of stability, with more than half (53%) of the respondents expecting no major shifts in the Indonesian national economic framework. Consequently, companies have thus chosen to maintain their hiring (47%) and investment (51%) plans at the current level.

Malaysia: Inflation a top concern despite optimism for business development



Participating companies in Malaysia expressed a keen desire to continue investing despite a number of anxieties. Following 2022's 15th General Election where Anwar Ibrahim was elected as the country's 10th Prime Minister and the fourth in a span of four years, the optics have been favourable for Malaysia in the arena of FDI given the current administration's heavy campaigning of showcasing the country as a politically-stable destination with good governance.

70.5% of respondents expect better development in the next 12 months although it is important to note that only 33.3% expect the economy to improve while 51.1% project that conditions will remain the same. The figures illustrate a positive outlook that signals economic recovery after a prolonged state of political uncertainty and external shocks.

53.3% of companies in Malaysia also said they intend to continue to invest locally while 28.9% intend to increase their spending to grow their business. More than half (51.1%) of the companies surveyed said they will be increasing the number of employees which is an encouraging sign at a time when Malaysia recorded its lowest unemployment rate since the pandemic began.

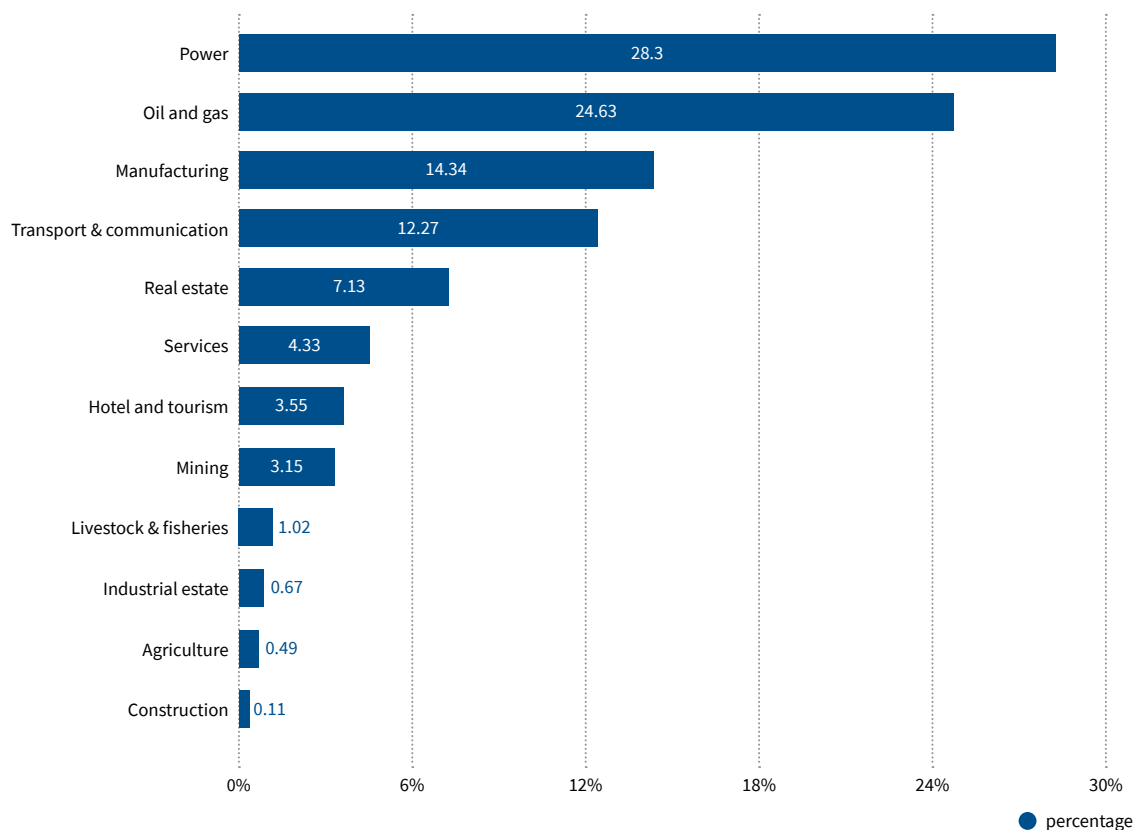
These indicators point to a positive outlook amid global recession fears and echo the views of economists who believe that a recession is unlikely for Malaysia due to continued improvement in the job market and China's reopening.

However, several risks have been identified by companies that could affect growth and business planning such as demand (62.2%), a shortage of qualified workers (51.1%) and economic policy framework conditions (33.3%).

Companies also foresee current pressures they face carrying on in the next five years. Inflation topped the list (50%) when it comes to the biggest geopolitical concern. The ongoing superpower rivalry between the US and China that has decoupled the global economy was also a top concern (45.5%) due to trade barriers caused by government influence on supply chains while 38.6% said the security of raw materials and energy supply will continue to plague operations.

Myanmar: Investments continue despite political instability

Approved foreign direct investment (FDI) in Myanmar by sector as of 31 January 2023



Myanmar's economy is showing signs of stabilising despite the ongoing conflict and political instability. According to the World Bank, Myanmar's GDP is expected to grow to 3% in the fiscal year ending September 2023. Inflation will be higher at 8.5%, according to a forecast by the Asian Development Bank. Some local companies are finding ways to cope with the challenging conditions prompted by the promotion of domestic investment initiatives.

However, changing rules and regulations, depreciation of the kyat; high global prices; ongoing logistics constraints have caused disruptions and hindered its ability to develop and modernise Myanmar's economy. International sanctions have deterred foreign investment and the absence of international companies has led to a high number of job losses and income for the people. Even if these are brought under control quickly, the medium-term economic outlook remains uncertain.

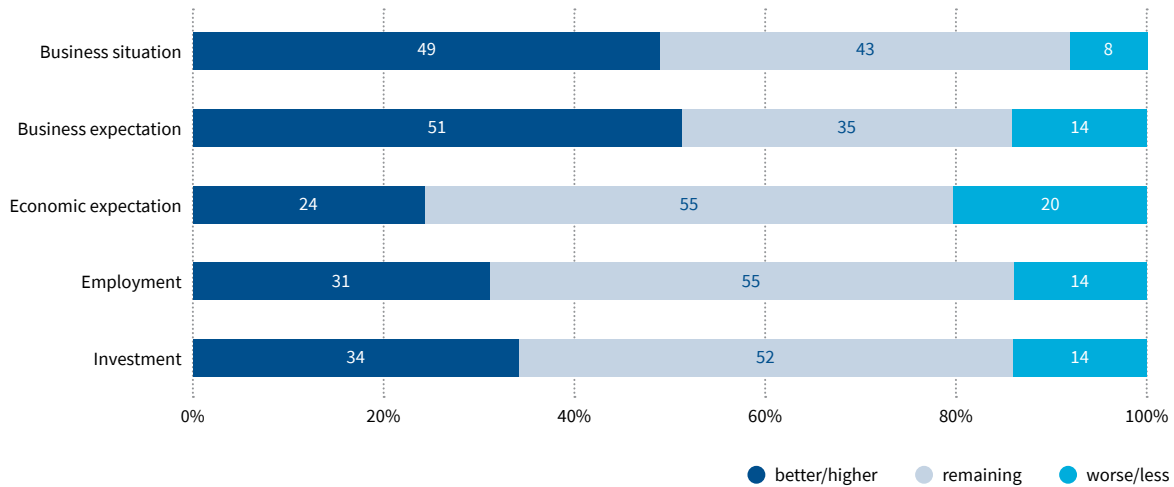
In contrast, investments into the country continue and over US\$92 billion worth of foreign investment has been approved on 31 January, according to the Directorate of Investment and Companies Administration (DICA). 50% of the FDI has been in the energy, oil, and gas as well as manufacturing sectors.

Similarly, in the coming months ahead, moderate growth is expected in the services sector as inflationary pressures ease, but domestic consumption will remain weak and there will likely be little improvement in international tourism. Industrial sector growth is expected to slow as garment manufacturers and food processors face slowing export demand and weak domestic demand. The agriculture sector is expected to recover, reflecting recent signs of resilience in agricultural production, with pressure on key input prices likely to ease through 2023 and exports of rice, pulses, and maize expected to remain relatively robust.

Going forward, political developments will dominate investors' decisions to conduct business in Myanmar as well as significantly shaping the country's medium and long-term economic outlook. The country could strengthen its economy by reconsidering its fiscal policies including the exchange rate while at the same time the international community and companies should consider the adoption of a pragmatic approach to Myanmar.

Singapore: A strong business hub in the region

Overview Singapore



According to the results of the AHK World Business Outlook Spring 2023 survey, 49% of the member companies in Singapore state that their business situation is better compared to the previous year, while 43% indicate that it has remained the same, giving only a small number of companies where it has gotten worse. This shows a positive development in companies which goes hand in hand with Singapore’s currently growing economy. Moreover, the survey shows that 51% of the respondents expect their business to grow, while 35% expect it to remain the same and 14% anticipate a decrease in business. This optimistic outlook is further supported by the fact that 34% of the participants expect an increase in investments, while only 14% anticipate a decrease.

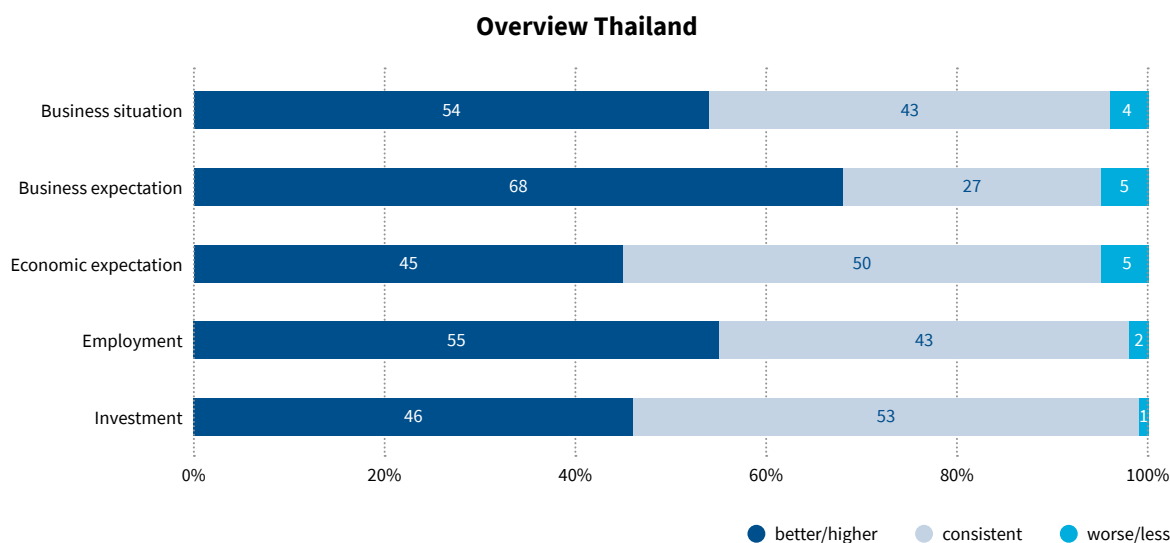
However, the survey respondents were less optimistic about the overall state of the economy. While 24% believe that the economy will grow, a majority of 55% feel that it will remain the same, and 20% believe that it will decrease. With regards to the employment rate, one-third of the participants think that it will improve, which indicates that there is still uncertainty about the job market in the future.

Overall, the survey results suggest that the majority of the member companies have a positive outlook on their businesses but are less optimistic about the broader economic situation. Due to the increasing globalisation and digitalisation, the participants were most concerned about the fragmentation and cybersecurity of their company. Nonetheless, it is important to mention that the survey was conducted during a period of uncertainty due to post-pandemic impacts and ongoing global events (e.g. Russian-Ukrainian War) that could have influenced the respondents’ opinions.

Despite the challenges, Singapore has maintained a strong position as a business hub in the region. The government has implemented various measures to support companies during these challenging times, such as financial support and tax incentives. Singapore’s strategic location, stable political environment, and highly skilled workforce also make it an attractive destination for foreign investment.

Hence, while there may be some concerns about the broader economic situation, the member companies in Singapore remain confident about their own businesses and expect growth in the coming year. The government’s continued support and Singapore’s overall business-friendly environment provide a strong foundation for companies to thrive in the years to come.

Thailand: Positive economic growth scenarios



Thailand’s economy is projected to grow in the range of 2.7 to 3.7% in 2023, according to the Economic Report of the National Economic and Social Development Council of Thailand (NESDB). The growth scenario is principally supported by the recovery of the tourism sector, the expansion in both private and public investments, the continual expansion of private consumption, and the favourable growth of the agricultural sector. Private consumption expenditure, private and public investments are expected to increase by 3.2%, 2.1% and 2.7% respectively.

The Thai government has announced the model of a Bio-Circular-Green (BCG) Economy to underpin Thailand 4.0 policy as a strategy to drive economic and social development amid global economy uncertainty. It will focus on increasing investments in science and technology and activities towards sustainable development and addressing global environmental concerns.

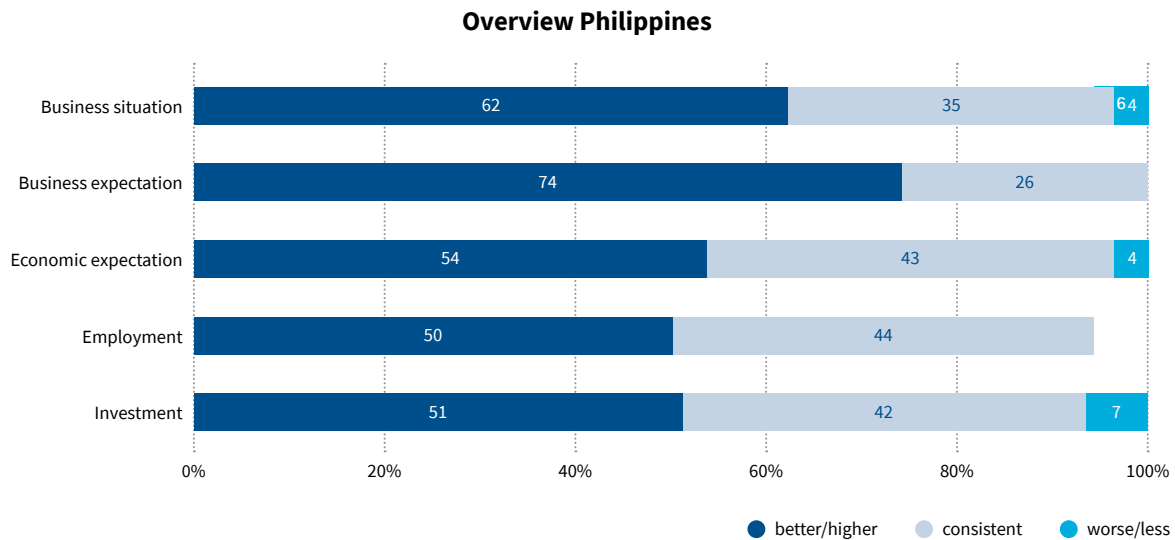
The AHK World Business Outlook Spring 2023 reflects positive business expectations in Thailand. 68% of the GTCC member companies participating in the survey have positive expectations for their company’s business development, higher than last year with 51% of the responses. However, the situation of their companies has not much improved as 54% of them rate their situation in 2023 better than the previous year, while their response last year in the same category was 63%.

According to the survey, 45% of the participating GTCC member companies estimate that the economic development in Thailand will perform better in 2023, while 50% assume it will remain constant. Challenges in economic development arise mainly from a decline in economic demand, a skilled-labour shortage, together with increasing commodity and energy prices. Asked about the biggest geo-political challenges in five years, they mention an increase in political influence on supply chains (50%), inflation or monetary policy framework (46.4%), security of raw materials and energy supply (44.6%), and the fragmentation of the world economy (41.1%).

46% of the survey participants indicate to increase their investment activities in the next 12 months, higher than last year with 32%. In addition, 55% of the survey participants plan to expand the number of employees, which is a slight increase compared to the previous year at 49%.



The Philippines: German business sentiment improves as part of remarkable recovery



The year 2023 has ushered in a remarkable and prosperous economic landscape for the Philippines, drawing the attention of both domestic and global investors. The nation’s resilience has been bolstered by its successful recovery from the pandemic, igniting economic activity and fostering growth across various sectors in the country. The AHK World Business Outlook Spring 2023 conducted by the German-Philippine Chamber of Commerce and Industry offered insights from companies engaged in bilateral trade. Companies expressed optimism regarding the future of their local business operations. Nevertheless, they remain cognisant of the substantial risks that may affect their operations in the Philippines.

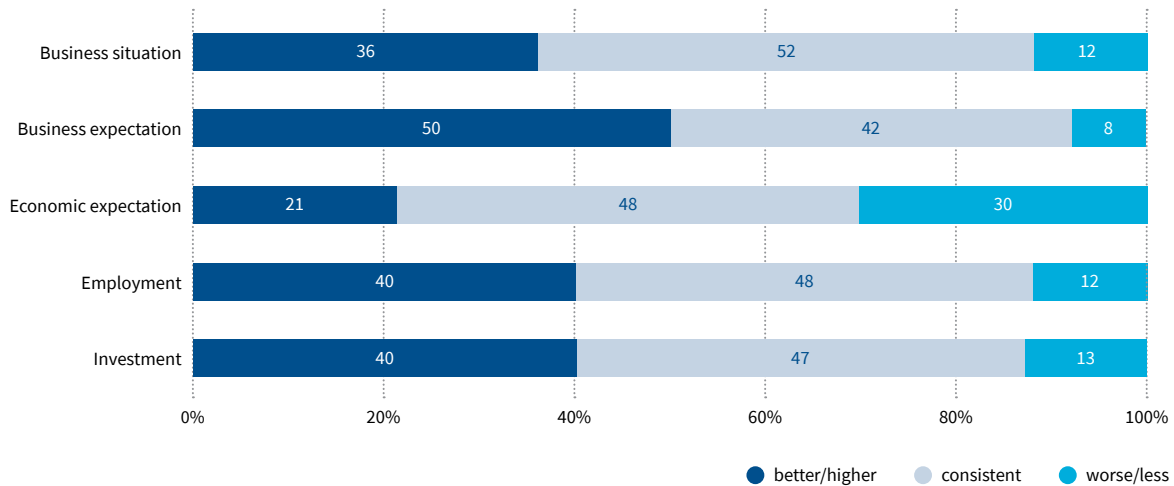
The survey outlines major concerns expressed by participating companies. Skilled labour shortages (44%) are ranked as the most serious risk by the survey respondents, followed by supply chain disruptions (39%), and economic policy uncertainty (35%). In the next five years, companies expect geopolitical concerns, specifically the inflation/monetary policy environment (47%), political influence on supply chains (42%), and cybersecurity issues (37%).

Contrary to this, the Philippines developed positive prospects for local companies and the overall economic relations between Germany and the Philippines. More than half (62%) of German-Philippine companies express that they are in a better business situation in comparison to Spring 2021. A vast majority (74%) of responding companies predict confidence in business development, with a notable 0% in worse ratings, participating companies (54%) forecast a better development in the local economy over the next 12 months and a sharp decline (-24%) in “worse” ratings starting in Fall 2022 (from 27% to 3%). Growth in investments and employment is also anticipated considering the aim of respondents to increase local employment and investments in the Philippines.

Overall, the Philippines exhibited an increase in results in almost all aspects of the AHK World Business Outlook Spring 2023 survey hence, despite the challenges and risks expressed by the survey participants, companies involved in German-Philippine business relations still sense a strong optimism regarding their local business prospects.

Vietnam: An investment spotlight with optimism, resilience and sustainability

Overview Vietnam



Vietnam's economy experienced a moderation in Q1 2023, with the GDP growth rate slowed down to 3.3% y-o-y, reflecting the impact of weakening growth in industrial production and exports, after the dynamic growth rate of 8.02% in 2022. The manufacturing export sector in Vietnam has encountered challenges due to the deceleration of growth in the United States and the European Union, which are crucial markets responsible for more than 40% of Vietnam's goods exports.

Member companies operating in Vietnam are more optimistic than they were in Fall 2022, although their short-term expectation remains cautious, due to the geopolitical challenges such as inflation, decoupling and the increasing political influence on supply chains. 88% of the survey participants are confident with their business situation in Vietnam (satisfying and good) and nearly half of the German participants in the survey expect the economic growth to remain consistent, while 21% of them believe it to be better. Approximately 40% of responding companies plan to increase their workforce in the next 12 months, while a significant majority of 91% intend to continue investing in or expanding their production in Vietnam.

According to the AHK World Business Outlook Spring 2023 survey, German investors in Vietnam identified several risks to their business development. These risks include low demand (51%), concerns regarding the economic policy framework (46%), a shortage of skilled workforce (34%), and potential disruptions in the supply chain (28%).

Despite the challenges, Vietnam is expected to experience a resurgence in its economic growth in the medium term. This growth will be fuelled by various factors including the Free Trade Agreements (FTAs), notably the EVFTA (EU-Vietnam Free Trade Agreement), the implementation of the China Plus One strategy, the global trend of shifting and diversifying manufacturing supply chains towards competitive hubs in Southeast Asia, and the inflow of green investments. 57% of member companies in Vietnam prioritise diversifying their supply chains, with Vietnam being their top choice, followed by Malaysia and Thailand.



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