

Global Connections:

Connecting Southeast Asia and Germany

September 2023

Germany

Southeast Asia, with a growing, young, and digitally connected population, is emerging as an important growth engine for the global economy. The 10 countries that make up the Association of South East Asian Nations (ASEAN) are home to a combined population of 660 million people and the world's fifth-largest economy. ASEAN GDP is on track to expand by 4.6% in 2023, according to the OECD.

The region is also benefiting from a shift in global supply chains as multinational companies look to diversify their networks.

German businesses have deep relationships with suppliers and customers across the ASEAN region. Of the companies in our survey, 43% have established partnerships or joint ventures in ASEAN, and one in five have completed acquisitions in the region (Figure 1). They are especially active in Thailand, where 45% have existing operations, and Singapore, where 38% of this year's respondents already do business. Vietnam is next on the list of established markets, with 29% reporting operations in the country.

German businesses with established partnerships or joint ventures in ASEAN

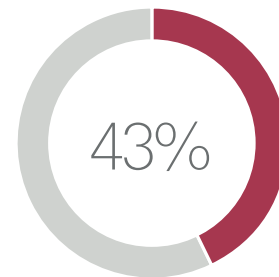


Figure 1



Germany

Growth expectations and focus markets

Growth ambitions

This year's survey shows that German companies are confident of their ability to expand in ASEAN and are investing in the region. Four in ten German business leaders are expecting an increase of at least 30% in their annual organic growth over the next 12 months in ASEAN. German firms are also actively exploring M&A and takeovers in the ASEAN region: 45% of business leaders hope to significantly increase inorganic growth by 2024.

Focus markets

A significant proportion of German companies are committed to expanding their existing ASEAN operations. Thailand and Singapore, the top two markets where German companies already have operations, are also the top targets for expansion: 29% of German companies said they would prioritise growth in Thailand over the next two years; 25% said this of Singapore.

Indonesia is the top choice among German firms considering entering new ASEAN markets; 21% of German respondents are planning to enter this market over the next two years. The Philippines is also in focus for German firms, with 20% saying they have plans to expand into the country.

Perceptions of ASEAN markets

Attractive factors

ASEAN is attractive to German firms both as a market opportunity and a contributor to supply chains. The size and scalability of the ASEAN market ranks as its most alluring feature, with 27% of German respondents saying this is a reason for their expansion, ahead of the growing digital economy at 26%. Competitive wage prices are next on the list, with a quarter of German firms saying this attracts them to the region (Figure 2).

In the most popular markets for German firms, Singapore's top draw is its growing middle class (29%), followed by its growing digital economy (26%), while Thailand's demographics (25%), market size (24%) and growing middle class (23%) are key to its appeal – a sign that German businesses are keen to reach the ASEAN region's increasingly wealthy consumers. Malaysia's young population stands out as the top allure for German businesses in the country, with 38% citing this as attractive.

Challenges

In common with other markets, the leading challenge for German firms in ASEAN is financial stability, with inflation, exchange rates and other issues affecting three in 10 German firms. Talent is also a prominent concern. Across the region, 26% say it is hard to find the right employees, and this is a particular issue in Malaysia and the Philippines, where 34% and 33% say hiring the right employees is a challenge.

Top 5 reasons why ASEAN is attractive to German businesses

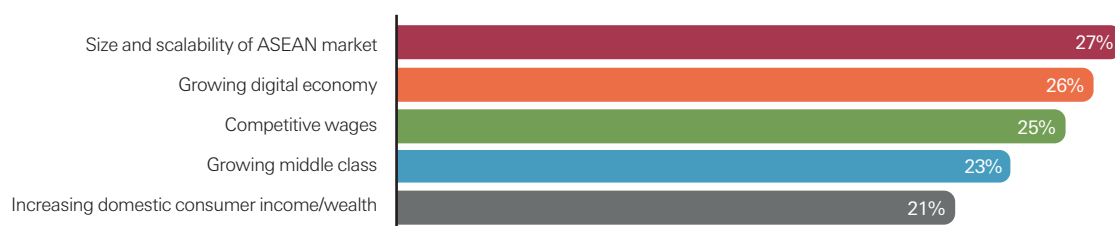


Figure 2

Germany

Digitisation

Perceptions

More than a quarter (26%) of companies based in Germany see the ASEAN bloc as a leader in 5G technology, while 25% see cloud computing and digital payments as distinctive strengths. As in other markets, cyber and physical security is seen as the most likely aspect of their operations to be affected by technology, with 36% expecting a transformative impact. More than a third (34%) expect technology to transform payments and finance over the next decade, and 31% expect technology will provide greater access to the marketplace (Figure 3).

Barriers

Skills in the workforce rank as the top challenge to the digitisation efforts of German firms in ASEAN. 31% say they lack skilled personnel to drive implementation, and 28% highlight the high cost of training staff to meet the skills gap.

Sustainability

Priorities and perceptions

The results of the survey reflect an increased focus on supply chain due diligence. In the near term, reviewing the sustainability credentials of suppliers ranks as the top sustainability priority for German firms, with 36% of them saying this is a priority over the next 12 months. Just under a third (32%) are working on using more local partners.

In the longer term, the two most important sustainability actions for German businesses in ASEAN are centred around people; 31% say tackling human rights is important for their business in ASEAN, and 30% cite a need to reduce discrimination.

Barriers

Skills are also the number one barrier to progress around sustainability, with 29% of German firms finding it hard to hire staff with the right sustainability expertise. The high costs of sustainability initiatives are an issue for 28%, while 27% worry about their ability to control their supply chain partners, again pointing to a focus on due diligence across manufacturing and value chains.

Top 5 technologies where German businesses see ASEAN as a leader

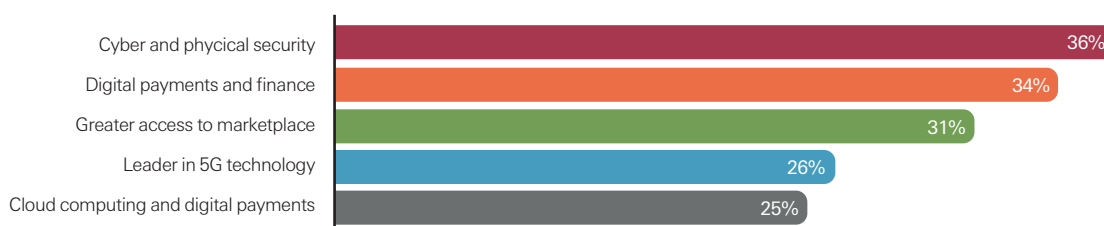


Figure 3

Conclusion

Our Global Connections research shows that international businesses are accelerating their growth in the ASEAN region. To do so, they are embracing M&A activity, expanding into new markets, and accessing the benefits of free trade agreements. Singapore remains the primary centre of multinational activity in the region, but international companies are accelerating their efforts to expand within and enter other markets, most notably the Philippines and Indonesia.

The emphasis our respondents place on human capital, labour costs and labour relations show that international business perceptions of ASEAN markets remain focussed on its role within production and operational value chains. However, with personal affluence continuing to grow, the region increasingly offers opportunities for consumer-facing businesses.

Methodology

An online survey conducted from the 25th of July to the 2nd of August 2023 with n=3,509 businesses with turnover from USD5 million giving us a global sum of over USD3 trillion across 9 markets (China, India, UK, France, Germany, USA, Australia, Hong Kong, and GCC countries (UAE, KSA, Bahrain, Qatar, Oman or Kuwait)). Results were weighted by company size to ensure an equal representation of n=390 in each

country and allow for comparability for trended countries. The languages used were English, German, French, Arabic, and Chinese (Simplified). Survey respondents were key decision-makers from companies already doing business in Southeast Asia or those considering doing so. Please note percentages have been rounded and as a consequence may not add up to 100%.



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