

AHK World Business Outlook 2019

ASEAN Focus



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ASEAN Business Council

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Since 2012, the Association of German Chambers of Industry and Commerce (DIHK) conducts the AHK World Business Outlook survey with a special focus on ASEAN to get an overview of the business climate in the region.

The 2019 survey has been complemented by the German Chambers of Commerce Abroad (AHKs) in the ASEAN region between 9 April and 30 April 2019, 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, with Myanmar also supporting companies in Cambodia and Laos. Around 350 member companies (mostly German and local small-and-medium-sized enterprises) of the German Chambers ASEAN Business Council participated in this survey, giving a unique and essential insight into their business prospects and expectations.

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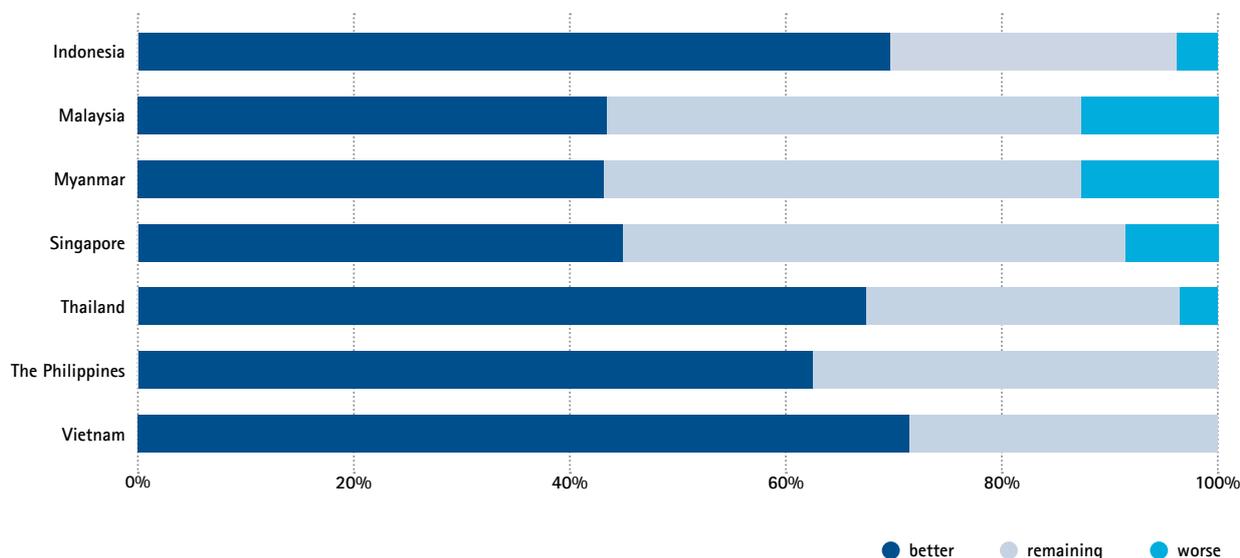
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ASEAN Markets Continue to be Attractive

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



When asked what their expectations for business development for local companies were, respondents all over ASEAN agree that within the next year their businesses will grow. The majority (59%) believes that in a year from now the situation of their local company will be better, while 37% think there will be no or only minor development. This shows that most companies perceive ASEAN as a stable and growing market worth investing in.

The Association of Southeast Asian Nations, or short ASEAN, is an innovative and ambitious region, promoting the economic growth of its ten member states. The ASEAN region is expected to grow 4.8% in 2019. In 2017, its gross domestic product was \$2.8 trillion, making it the fifth largest in the world. The median age of the third largest population in the world is relatively low: 28.8 years, and it is growing at an overall rate of 1.03%. This corresponds to a steady growth in consumer demand and urbanisation as well as young professionals looking for employment. As the ASEAN nations invest heavily into their industry and

infrastructure to keep up with the development of their societies, it gives German companies the opportunity to take advantage of this high potential. All ASEAN members strive for economic growth and development. This is the reason for the increasing investment in technologies in order to achieve modernisation and keeping up with or reaching international standards. As a result of this transformation, the ASEAN economies are highly diverse as well as defined by an increasing competitiveness and therefore attractive to German investors. In addition, being located close to China gives the region a geostrategic advantage. ASEAN is situated at the core of the Belt and Road Initiative and offers investors high potential for future growth.

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

Higher Investments

The majority of companies, 44.3%, expect to spend more on investments into the ASEAN markets over the next 12 months. Just like last year, companies in Thailand and Vietnam mainly answered to be very optimistic when it comes to investment and future employment numbers. The economic development is expected to remain stable. However, the main concern is the economic policy of each country which creates a high risk perception in this field.

Major Influence on Business Climate in ASEAN by Political and Economic Factors

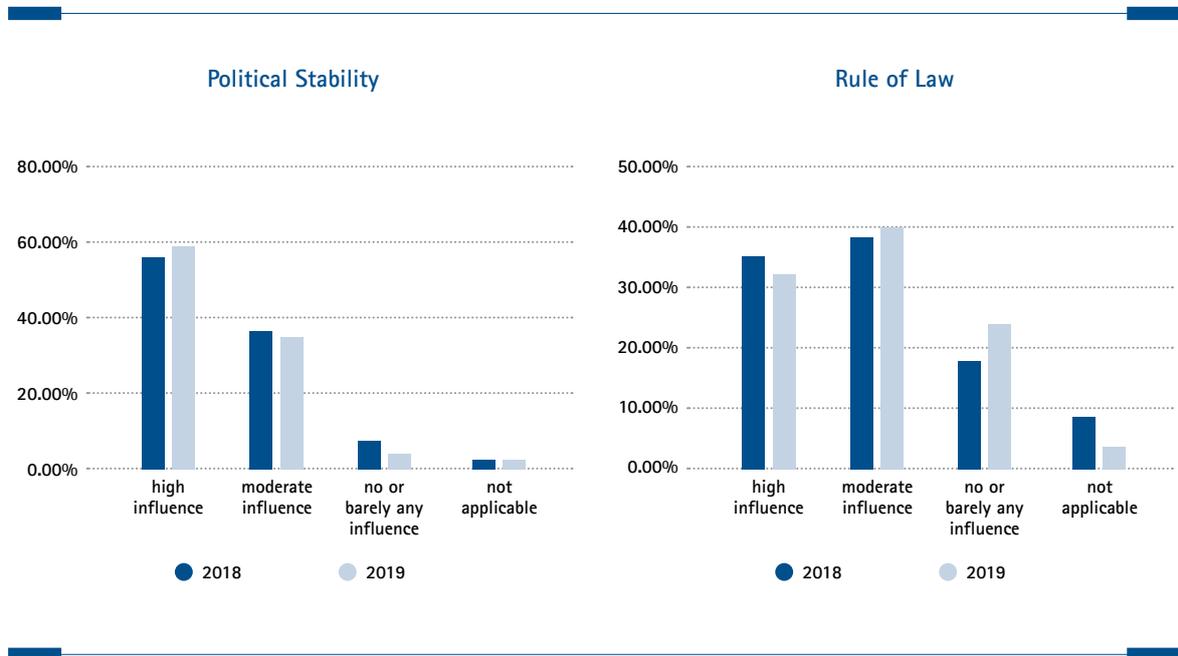
There are several factors affecting the business climate of the ASEAN market. In this survey, seven of these factors were evaluated, giving an overview of their impact on business activities of AHK members. Political stability was a factor analysed regarding its influence or importance for the participant's engagement in the respective country. In terms of challenges and difficulties influencing companies' engagement in the

region high inflation rate, high level of corruption, shortage of skilled labour, high tax burden, difficult access to financial resources and weak adherence to the rule of law were the factors taken into consideration, apart from the importance of perception of an by ASEAN members, German as well as the EU.

Political Stability and Rule of Law

Political stability continues to have the most important influence on a positive business climate, according to the survey. 58.5% of the companies questioned assign high importance to the topic, a significant increase from 56% last year.

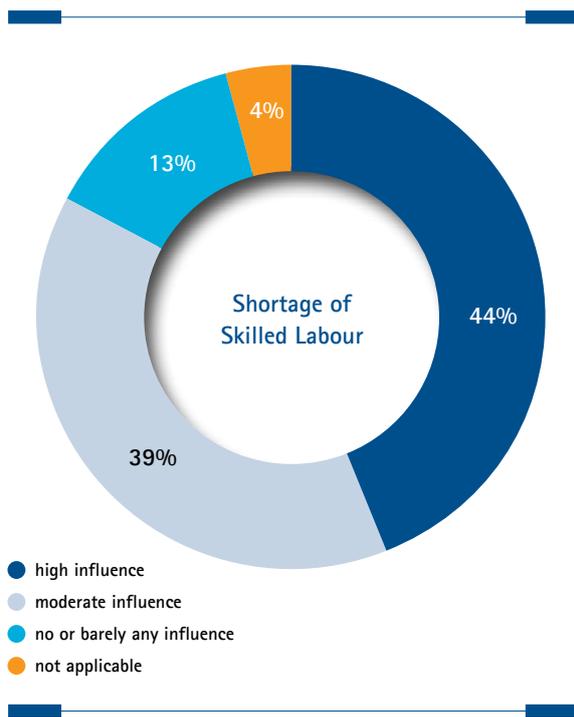
While in 2018 rule of law was considered as 'highly important' by more than half of the respondents, this year the majority believes that it has only moderate importance. This shows a continuing trend over the last years, where the importance of rule of law to create a positive business climate was overall decreasing, whereas rating political stability as 'highly important' clearly increased.



Lack of Qualified Workers

A lack of qualified labour is considered as the second biggest risk to the business climate. 43.9% respondents regard a qualified workforce as 'highly important' and 38.8% give the topic 'moderate importance'. This shows a decline of more than ten percent in comparison to 2018, when 93% of participants acknowledged qualified labour to be of 'high' or 'moderate' importance.

Just like in the last years' surveys, the participants perceive finding qualified staff based on education level, to have overall moderate influence on their business. Almost every second company (45.5%) answered that in their opinion it is very difficult to find qualified technical university graduates. For graduates from non-technical universities this is only believed to be true by 29.9% of the respondents. This perception is slightly more balanced in the respondents' attitude towards vocational college graduates. More than two thirds think the difficulties of finding qualified employees among graduates from technical vocational colleges are 'high' or 'moderate' and 68.7% answered the same for vocational colleges with a non-technical approach. This clearly shows that all in all employers in the region face great difficulties in finding qualified staff. This is especially true of technical training institution graduates. In order to improve employers' business opportunities, further investment into the enhancement of the quality of quality academic and vocational education and training is of utmost importance to attract and retain foreign investors.



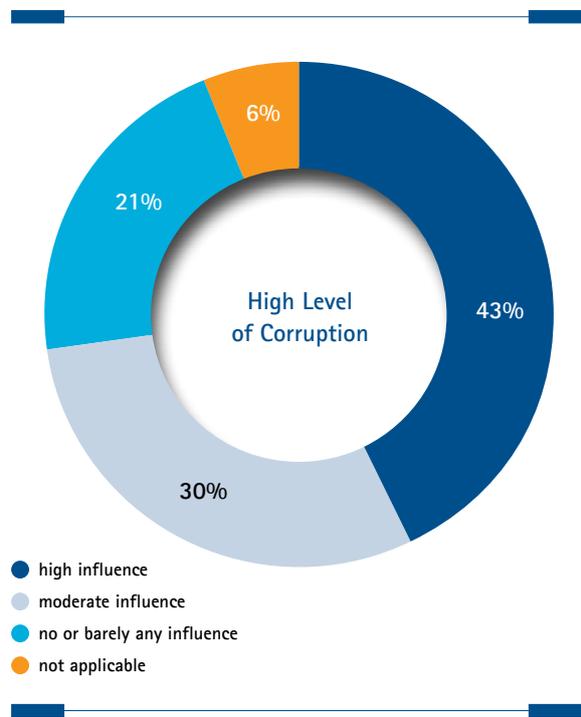
Inflation Rate, Corruption, Tax Burden And Access to Financial Resources

Among the remaining factors which majorly influence the business climate, the inflation rate is regarded as the factor with the highest importance. 75.9% of the participants perceive the inflation rate to be 'highly' or 'moderately important'.

Corruption is almost on a par with the importance of the inflation rate.

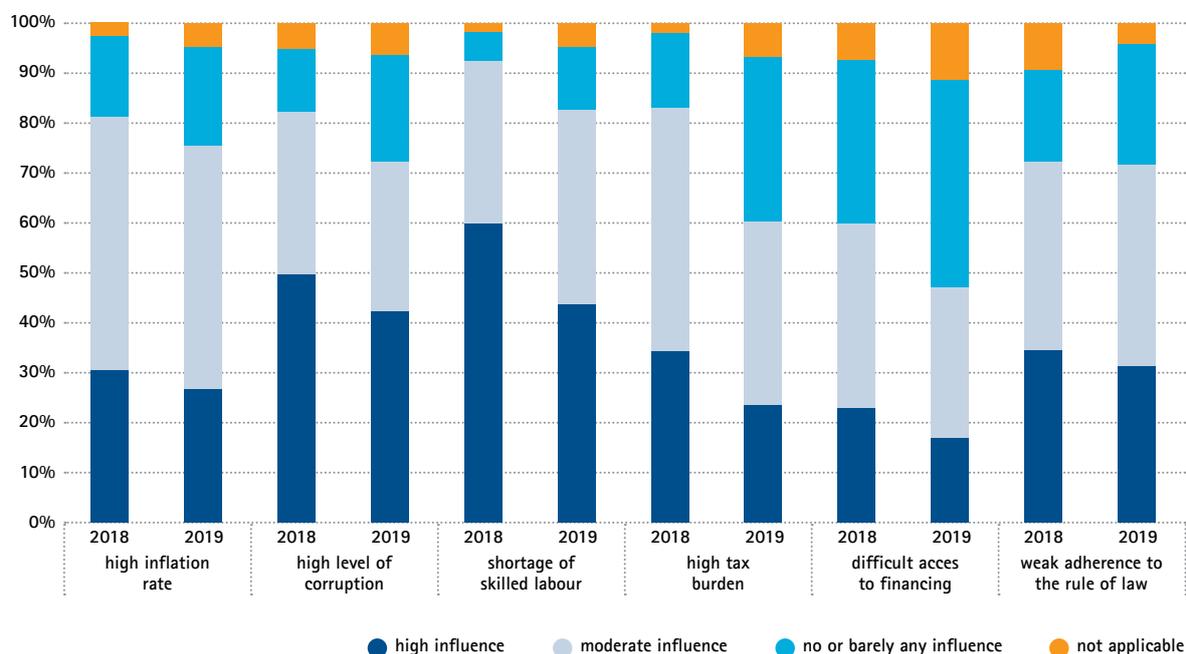
The domestic tax burden has a smaller influence on the companies, even though more than half of the companies surveyed consider it to be important.

In the 2018 survey, the access to financial resources was given the least importance of all seven factors analysed, a trend which continues this year. 41.3% of the companies do not consider the topic to be influential at all. Once again, this gives proof of how AHK member companies operate quite independently from the effects of financial factors, compared to external factors given by political and economic circumstances.



- high influence
- moderate influence
- no or barely any influence
- not applicable

Influence on Business Climate 2018-2019



ASEAN Markets Face a High Risk Caused by Low Demand

Looking at the risks which affect AHK member companies, it can be concluded that there is a similar development in all ASEAN countries. Overall, a low demand is perceived as the biggest risk faced by the companies. In Malaysia, over 75% of the respondents assign a high influence on their companies to low demand. In both Singapore and Thailand also more than half of the companies agree with participants in Malaysia on this topic.

The politico-economic framework comes second in importance. Especially in Myanmar, there is a remarkably high perception of uncertainty in this regard with two thirds of the companies listing it as a risk to their business development. More than 50% of the participants in Vietnam and Malaysia share this perception.

Furthermore, companies located in Myanmar and Indonesia list trade barriers and preferential treatment of local companies as a high risk.

Lastly, a lack of qualified workers is perceived as high risk by participants from Thailand and Myanmar.

Energy and commodity prices remain to be the lowest influential factor throughout ASEAN.



The Importance of Perception of Germany or The EU

In comparison to 2018, the importance of the perception of Germany has significantly decreased. Almost every second company, 43.9%, thinks that the opinion of Germany has no influence on their business development in the host country. The answers for the importance given to the perception of the EU are comparably similar, meaning that by contrast with last year there is no big difference between the countries' opinion of Germany and their opinion of the EU. Especially in Singapore there is no importance attached to any of the two at all.

The importance of the respective Asian country in Germany is relatively low as well, with five out of seven countries attaching 10% or less to 'high importance'. An exception are the Philippines and Myanmar. Almost one fifth of the participants think the perception of the Philippines in Germany has a 'high importance'. More than half of the respondents (62.5%) in Myanmar believe that the country's perception has a very high influence on their business development.



Demand

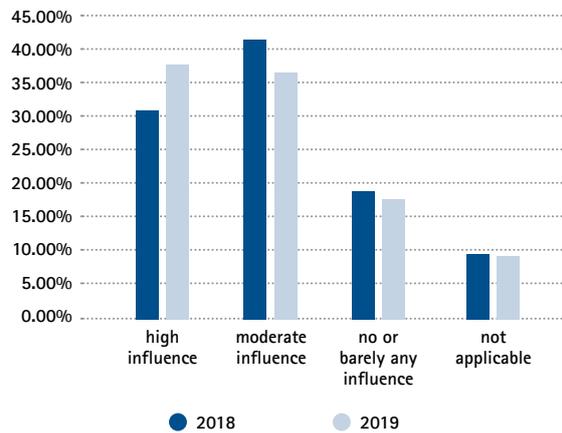
Demand, as mentioned before, is an essential factor in domestic markets.

Just like last year, the AHK member companies perceive themselves as highly dependent on the domestic, regional and international market demand. Domestic markets are considered as the most influential, with 62.7% assigning 'high importance' to the matter. The importance of regional and international market demand is almost on a par with 47.9% and 48.8% of the participants rating the importance as 'high' respectively.

Supply

Domestic and international supply have made a change in importance since last year. While the importance of domestic supply followed the trend and decreased to 25.5%, international supply experienced a new high in importance rating with being ranked as 'high' by 37.5% of the respondents, while back in 2018 31.8% agreed on this ranking. The majority sees domestic and international supply as moderately important.

Influence of International Supply 2018-2019



Free Trade Agreements

Free Trade Agreements are aiming at promoting and further encouraging international business relations by assuring a common framework, for example legal procedures. As a result, they simplify the development of bi- or multilateral business networks. The ASEAN Free Trade Agreement (AFTA), signed in 1992, it primarily seeks to increase ASEAN's competitiveness edge as a production base in the world market and to attract more foreign direct investment to ASEAN. In total, 79.4% of the survey respondents assign a high or moderate influence of AFTA to their business. The number of companies who believe that it does not have an influence to their business has dropped significantly from 23% in 2018 to 13.7% this year. This means that overall companies see that AFTA has an effect on their business development within the region.

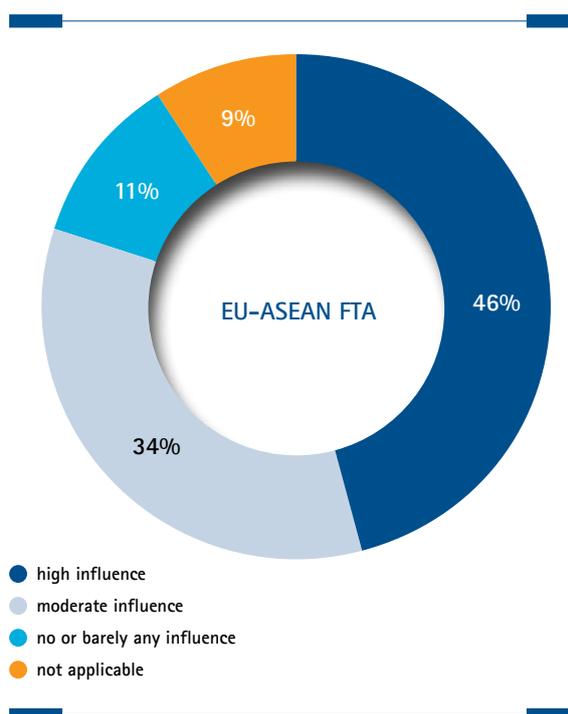
There is a similar development of the perception of the EU-ASEAN Free Trade Agreement. 46.1% of participants believe that this agreement has a 'high influence' on their business development.

The closing of the Regional Comprehensive Economic Partnership (RCEP) continues to have a 'moderate influence' with 42.8%. However, still almost one fifth of the companies surveyed do not see any effect on their companies by RCEP.

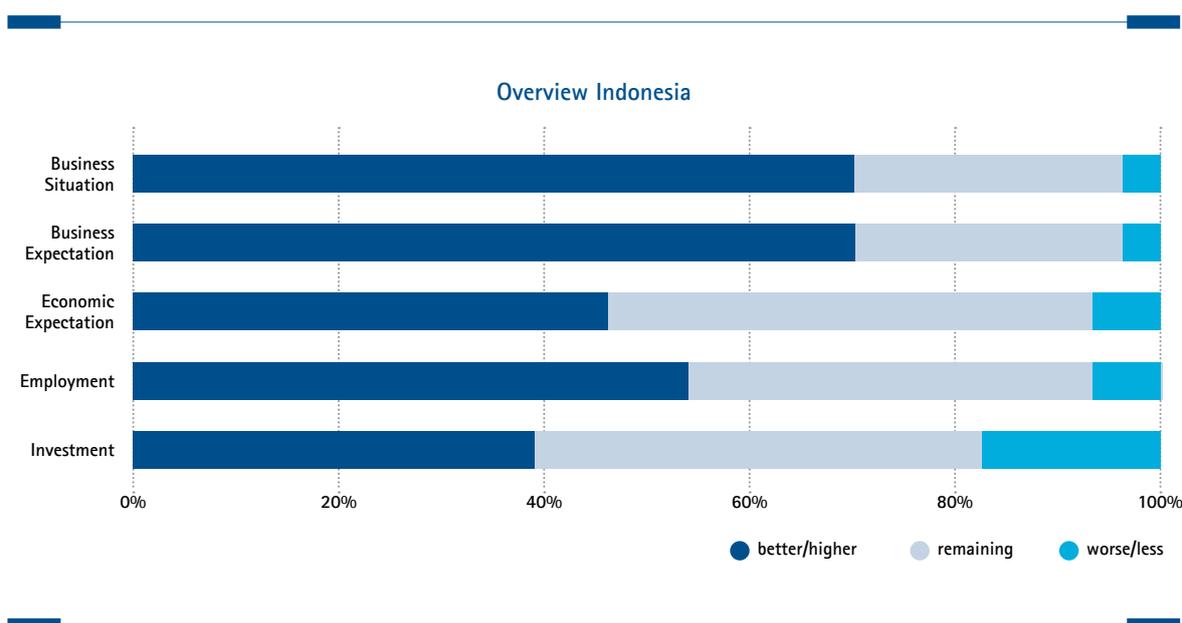
The inception of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and its

influence on business developments was surveyed for the first time. So far, the opinions are relatively balanced with 58.4% assigning importance to the agreement.

It is clear to see that the EU-ASEAN Free Trade Agreement has the highest support throughout the respondents. This shows how many of them are still based in or in some other way related to the EU. As a conclusion, free trade agreements in general influence the AHK member companies.



Indonesia: Very Positive Outlook After Successful Presidential Election



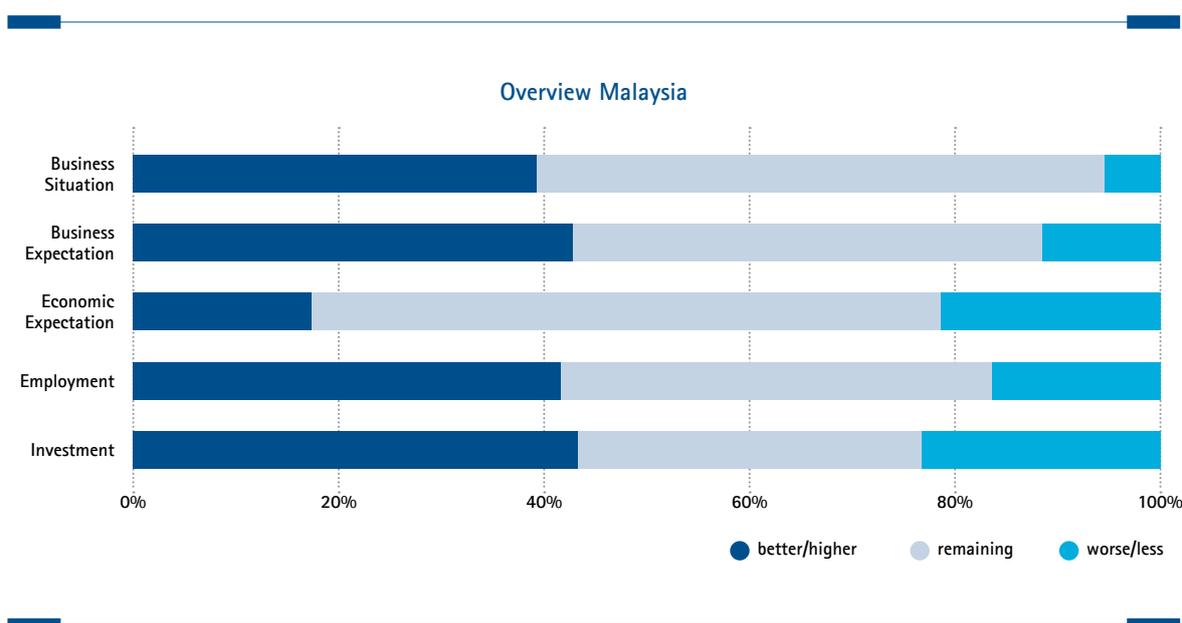
Even though global conditions remain challenging, most companies in Indonesia expect that the overall economic conditions in 2019 will improve; 70% of the respondents are optimistic for the future, while only 3% assume less favorable conditions. 97% of the executives anticipate either a better or remaining situation for their company's business in Indonesia. The positive outlook will most likely lead to more employment (57%) and new investments (39%). The optimism is mainly based on the government's continued efforts to improve the domestic business climate and make the country more competitive compared to regional peers.

The single most important factor was the recent re-election of the incumbent Indonesian president Joko Widodo, the first presidential candidate outside the political establishment. Almost two-third of the survey participants consider political stability as very important for their business operations. In his second and last term in office the president announced to address even more rigorously regulatory issues that limit the economic advancement of ASEAN's largest economy. Key topics for the next five years will be the further development

of the archipelago's infrastructure, the advancement of the manufacturing sector and the improvement of the quality of human resources. According to the survey, executives perceive the educational level of graduates from universities and vocational schools with technical and non-technical backgrounds primarily as only moderate. German business representatives will also closely follow the ongoing negotiation process of the EU-ASEAN Comprehensive Economic Partnership Agreement (CEPA), for which almost 50 percent of the respondents stated that the enactment would have a major positive impact on their business prospects.

The major risk factors companies are looking at are: Trade barriers and the Indonesian government's preference for domestic firms (53.3%) as well as a reduction of domestic demand or consumption (50%). Since the Indonesian Rupiah is considered to be more volatile than other currencies, 46% of the respondents consider the exchange rate as a key risk for the economy. The lack of qualified human resources was mentioned by 36.7% as obstacle for the development of business in the country.

Malaysia: A More Neutral Outlook on Business Development



The Malaysian economy has continued the overall positive business climate it provided during the previous years. Given the fact that the survey was conducted almost exactly a year after the General Elections of 9 May 2018, the results show the developments and revised perceptions of the business climate as perceived by AHK member companies in Malaysia.

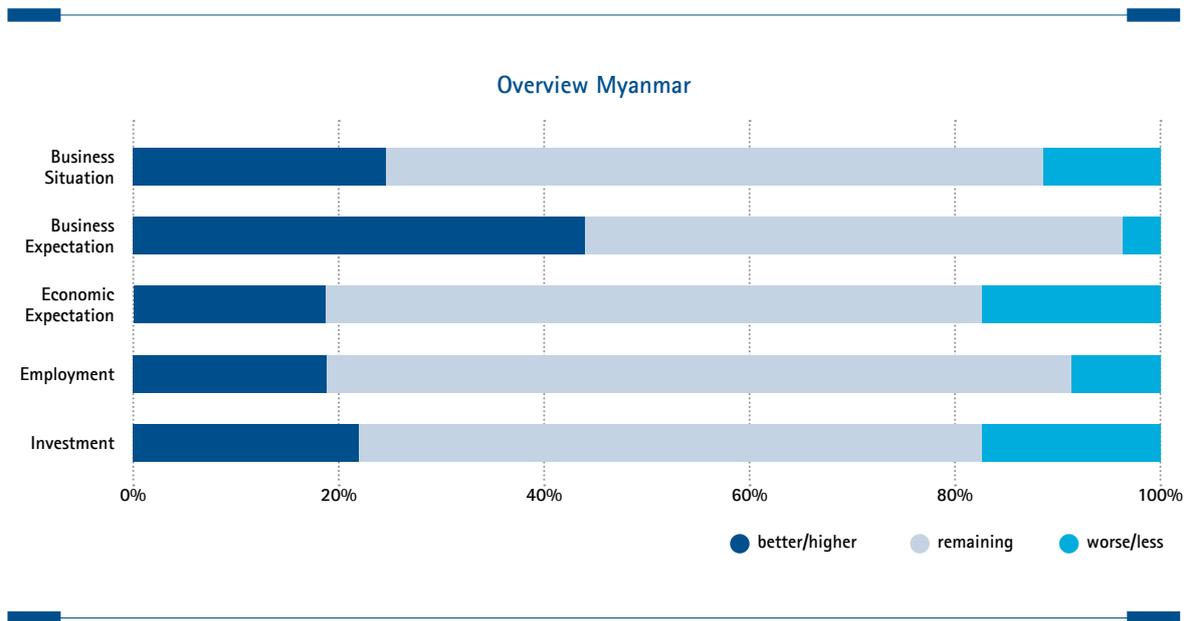
Overall, it can be said that the generally optimistic outlook on Malaysia's economy remains. In 2019, companies are more confident in regard to their current situation which shows that they experienced improvements or stability after the election last year.

However, by contrast with the comparison of 2017/2018, this year the outlook turns out to have less increased in optimism but rather settled at the respondents believing the situation of their company is very likely to stay the same. 63% of Malaysian AHK member companies expect the economic growth to remain consistent, while only 16% believe it to be better. While in 2018 only 29% of participants believed in an increase in number of their employees, this number has risen to 42% in 2019. Business development is considered to improve or remain the same by 44% respectively.

In contrast, the outlook on local investments has remarkably changed. Last year 33% of the respondents planned to increase their investments in Malaysia while more than every second company (51%) expected them to remain equal to the previous year. In 2019, 45% of AHK members in Malaysia expect to increase their investments but there is also a quarter of participants who believe that it will be worse and only 30% think their investments stay the same.

In comparison to the 2018 survey, demand continued on the top position of influential factors on business development, having increased by over ten per cent, from 61.8% in 2018 to over two thirds of participants feeling threatened by the demand situation in 2019. Domestic demand has the higher importance, being rated as 'highly influential' by 71%. However, every second company also agrees that international demand plays an important role in their business development as well. Regarding where Malaysian AHK member companies see the greatest risks in the economic development of their company in the coming twelve months, the politico-economic framework in Malaysia is rated as important by 60.6% of the respondents.

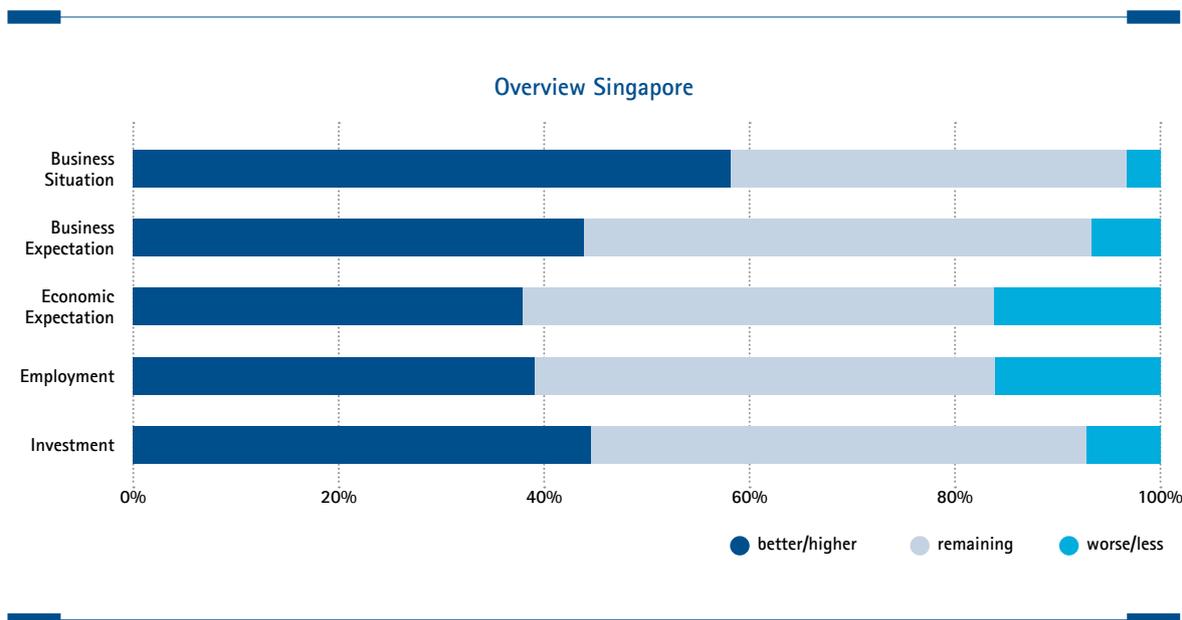
Myanmar: High Development with a Number of Obstacles



Myanmar has a prognosed GDP growth of 6.5 % in 2019 and is undergoing a rapid development of increased trading activities with Germany, especially driven by exports to Germany in the Garment Sector. However, currently most of the companies participating in the survey do not see a significant change to the previous year and do not expect a change soon. It is noteworthy that only a minority of the companies participating in the survey commented, that they have a negative midterm expectation. Factors hindering development to a more positive outlook are mentioned by most of the participating companies as follows: Foremost a lack of clear economic policies, whereby it must be noted that various laws and regulations have been improved

over the last year with a clear tendency towards more liberalization and transparency. Quite several companies participating in the survey did mention trade barriers and unfair preferential treatment of local companies as an important factor, hindering a more positive outlook, closely followed by the lack of skilled labour and a lack of rule of law. The development of the exchange rate from the MMK to the USD is specifically addressed as an obstacle as well as the difficulties in obtaining financing for exports or investments. Political stability is commented as a very important factor and corruption is branded by most of the companies still as a negative factor for a more positive business outlook.

Singapore: Robust Economic Growth



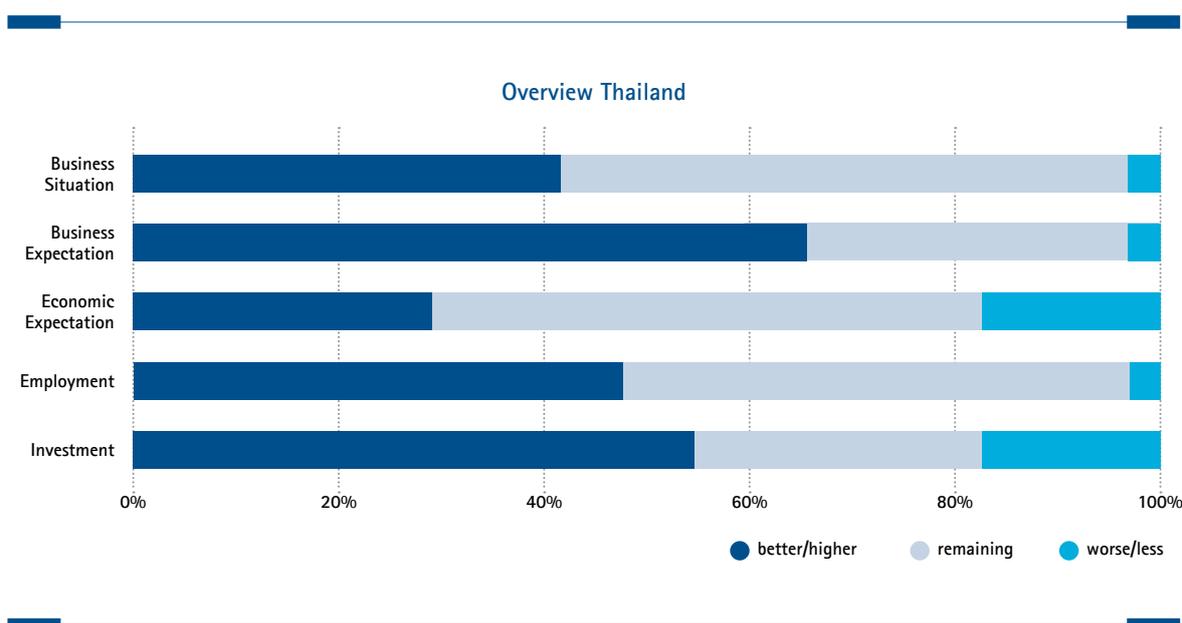
Over the past years, Singapore has experienced robust economic growth of above 3 percent. In 2018, the economy grew by 3.2%. Therefore, it comes as no surprise that 58% of respondents indicated that their current business environment is 'good'. However, just like surveys show in Germany, respondents in Singapore apparently feel the impact of the global economic slowdown on their business: less companies, namely 45% of survey participants, indicated that their business outlook will be 'good' in the 12 next months. Hence, the data reveals a 13-percentage point difference between the current business environment and the business outlook for the next 12 months.

While it is not clear, how long the global economic slowdown will last, it is evident that companies are confident that Singapore will be prosperous in the medium run. 85 percent of respondents have indicated that the medium-term economic development will be 'better' or 'remain about the same'. This is underscored by the fact that many companies plan to increase their investments (41%) and hire more staff (39%) in the near future. While these figures seem to complement each other, it is not entirely sure if the impact of the EU-Singapore Free Trade Agreement (EUSFTA) has been

factored into these decisions. The EUSFTA is expected to enter into force in October 2019 and will stimulate new economic growth, steer investments and enhance the ease of doing business in Singapore and will thereby most likely have a positive impact on the above-mentioned statistics.

While companies appreciate Singapore's excellent infrastructure, the business-friendly economic framework conditions, the rule of law and absence of corruption, respondents have highlighted three risk-factors in Singapore's: Firstly, demand is perceived as the highest risk, according to a vast majority of respondents (70%). Yet, it is important to note that Singapore is Germany's most important export market in ASEAN. Secondly, the lack of qualified labour is coined as a risk by 53% of respondents. In particular, companies find it difficult to find qualified workers in technical fields. Thirdly, more than a third of respondents (37%) consider that labour costs a risk in the city-state. With a GDP per capita higher than Germany's, this does, however, not come as a surprise. In fact, in previous surveys these three aforementioned factors were always deemed top risk factors in Singapore.

Thailand: Economy Continues to Grow



Thailand's economy is expected to grow by 3.5 to 4.5% in 2019, according to the National Economic and Social Development Council of Thailand (NESDB).

Major growth impulses are projected to come from exports, the tourism sector and a strong increase in investments. With its long-term development strategy "Thailand 4.0", the Kingdom has set the direction for sustainable growth. The aim is to improve its competitiveness in technology, research, innovation and the development of human capital.

Thailand's investment policy framework offers numerous tax and non-tax incentives in order to support investors. The emphasis of Thailand's government is on the Eastern Economic Corridor, the expansion of international trade and including further free trade agreements.

The AHK World Business Outlook survey reflects positive business expectations in Thailand. 41% of the survey participants expect an improvement in the overall situation of their company although 56% assume that the situation will remain constant. However, only 3% see their future business situation worsening.

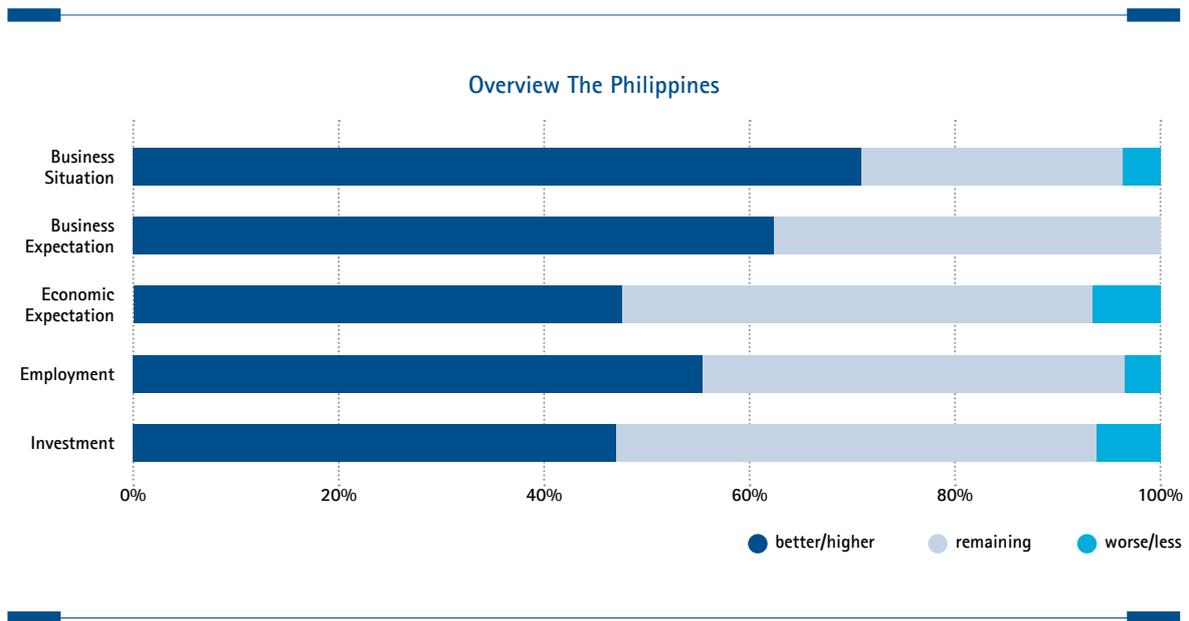
68% of GTCC members state that their local business situation is going to be better and 29% expect that their business will remain constant for the upcoming twelve months.

According to the survey, 29% of the participating GTCC member companies estimate that the economic development will perform better, while 53% assume to remain constant.

Based on the survey it is important to note that risks arise from a decline in economic demand, a skilled-labor shortage and economic policy issues. In fact, one third of the participants feel that demand factors and skilled-labor shortage could have a negative impact on their current and future development.

53% of the survey participants indicated to increase their investments activities in the next 12 months. In addition, 47% estimate to expand the number of employees while 50% do not expect any changes with regards to employment, which is a slight decline compared to the previous year.

The Philippines: A Bullish Economy



The German companies' bullishness regarding the Philippine market despite global uncertainties and local policy adjustments are reiterated in this report.

According to the study, more than 70% of respondents evaluate their current business situation in the country as "good". This is a 5% increase compared the last year's survey. Similar positive figures persist when it comes to business expectations in the next 12 months with almost two thirds anticipate growing business opportunities. Additionally, more than 53% say that they intend to increase their workforce.

Investment spending remains high, with almost a half (47%) of participants report that they have increased expansion plans. Additionally, 42% of the respondents claim to have the same amount of investments in the pipeline as last year. Although high, these positive numbers are lower than last year as the final design of a corporate tax and incentive reform is not yet clear.

The development of German businesses in the Philippines continue to face challenges. A plurality of respondents

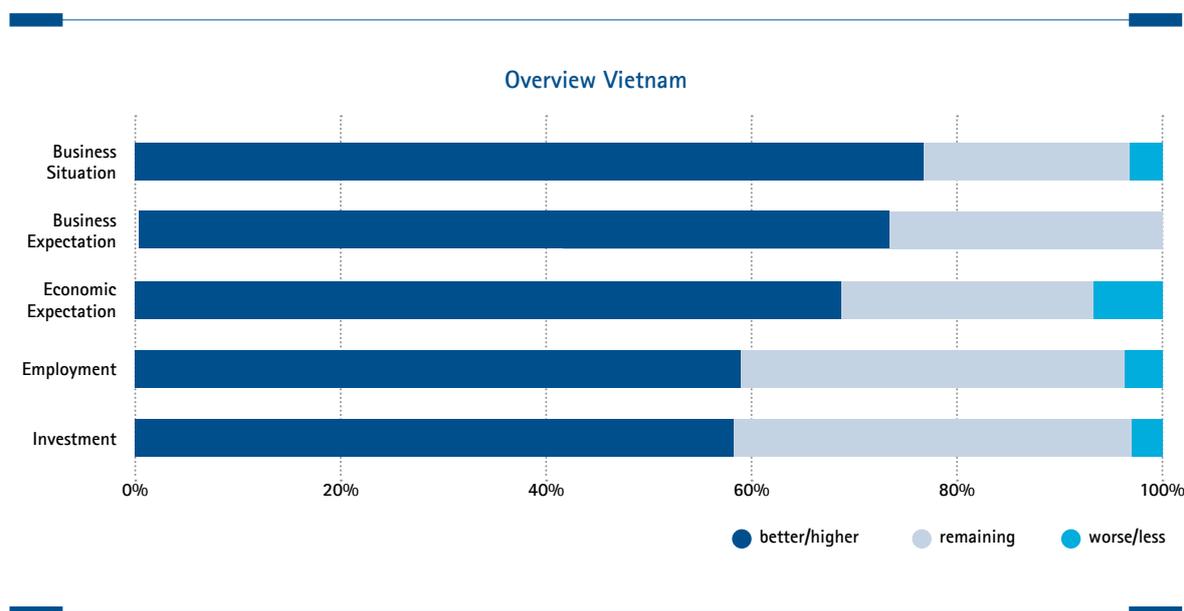
(46%) describe that economic policies mainly contribute to business challenges in the next 12 months. Exchange rate volatility comes in second at 36%. Sharing the third place (34%) are challenges in securing skilled labor and international / domestic market demand. Meanwhile, concerns on infrastructure seem to have lost its momentum from 3rd place last year as the government's "Build, Build, Build" program – with planned investments of up to USD 160 billion – shows its first results.

When it comes to the business climate at large, political stability and corruption are considered to be the most significant factors influencing the business climate with ratings of more than 50% of the total respondents.

With regard to the ASEAN Free trade agreement, companies emphasize the important influence of this cooperation.

Overall, the positive and confident business outlook of this survey reflects the general economic situation in the Philippines where the GDP is expected to grow – for the 8th consecutive time – by more than 6 % in 2019.

Vietnam: Fast-growing Economy with the Expectation of Improved Policy Framework by the Upcoming FTA with the EU



2018 was a successful year of Vietnam with a number of positive developments, such as the GDP growth (7.1%) or FDI disbursement (13 bn US\$). Similar to FDI, import export turnover reached a new record high of 465 bn US\$ with an export surplus of 13 bn US\$. The Vietnamese government shows the commitment to support and create the most favourable conditions for foreign investors and businesses. In addition, a wide range of free trade agreements such as TPP11 (CPTPP – the comprehensive and progressive agreement for Trans-Pacific partnerships) as well as the FTA between EU and Vietnam, which probably comes into effect this summer, will boost the economic growth of this country. That might be a reason that German business leaders in Vietnam maintain a positive view with the economic expectation as well as with their situation in Vietnam and they look forward to a bright 2019 and 2020. Experts have forecast the Vietnamese economy will continue to grow 7% this year thanks to export turnover and the drastic development of the manufacturing, processing, and service sectors. While 52% had a positive view of the local economic development in 2018, 67% expect an improvement in April 2019. Our concern is how to improve the competitiveness of the Vietnamese

companies because FDI businesses account for 73% of the export value and more than 50% of the industry outputs was also created by them.

It is clear that investment in Vietnam as well as employment intentions boom. 55% of German companies in Vietnam intend to expand their activities in Vietnam and 59% assume an increase in employment

Half of the companies (51%) claim conditions regarding the economic policy framework to be the greatest risk for their businesses in Vietnam. 28% are afraid of disadvantages due to trade barriers. Another issue such as lack of skilled workers as well as labour costs might threaten their businesses here. For German companies in Vietnam it is quite difficult to find the technical qualified staff from both, university and vocational level.

Germany and Vietnam have an excellent economic relation and Germany enjoys an outstanding reputation in Vietnam which is really unique in this form in the ASEAN region. 46 percent of German companies agree with that.