

# Going International

Experiences and Perspectives of German Business abroad

Results of the 2016 IHK Business Survey  
National Evaluation

2016



## Going International 2016 – Experiences and Perspectives of German Business abroad

The nationwide survey "Going International 2016" of the Association of German Chambers of Commerce and Industry (DIHK) has been created with the support of 79 Chambers of Commerce and Industry (IHKs). A total of 2,000 companies which are active abroad and have a registered office in Germany participated in the online survey in January / February 2016. The current survey continues the analyses of the same name from 2005 to 2014.

Association of German Chambers of Commerce and Industry (DIHK)

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## Summary

### World economic outlook gloomy

The weights in the global economy are shifting. The development is currently characterised by low oil and commodity prices. Countries which buy raw materials, particularly those in Europe, are benefitting from relieved budgets. In contrast, countries with strong growth in the past that provide raw materials are under pressure. An additional factor is that the driving forces of recent years are struggling – such as the Chinese economy. The balance of "better" and "worse" expectations for the worldwide foreign business is plus two points. In the previous survey, the value was still six points. The companies operating abroad therefore look at the global economic development even more cautiously than last year. After all, the euro zone and the USA are proving to be stable selling markets.

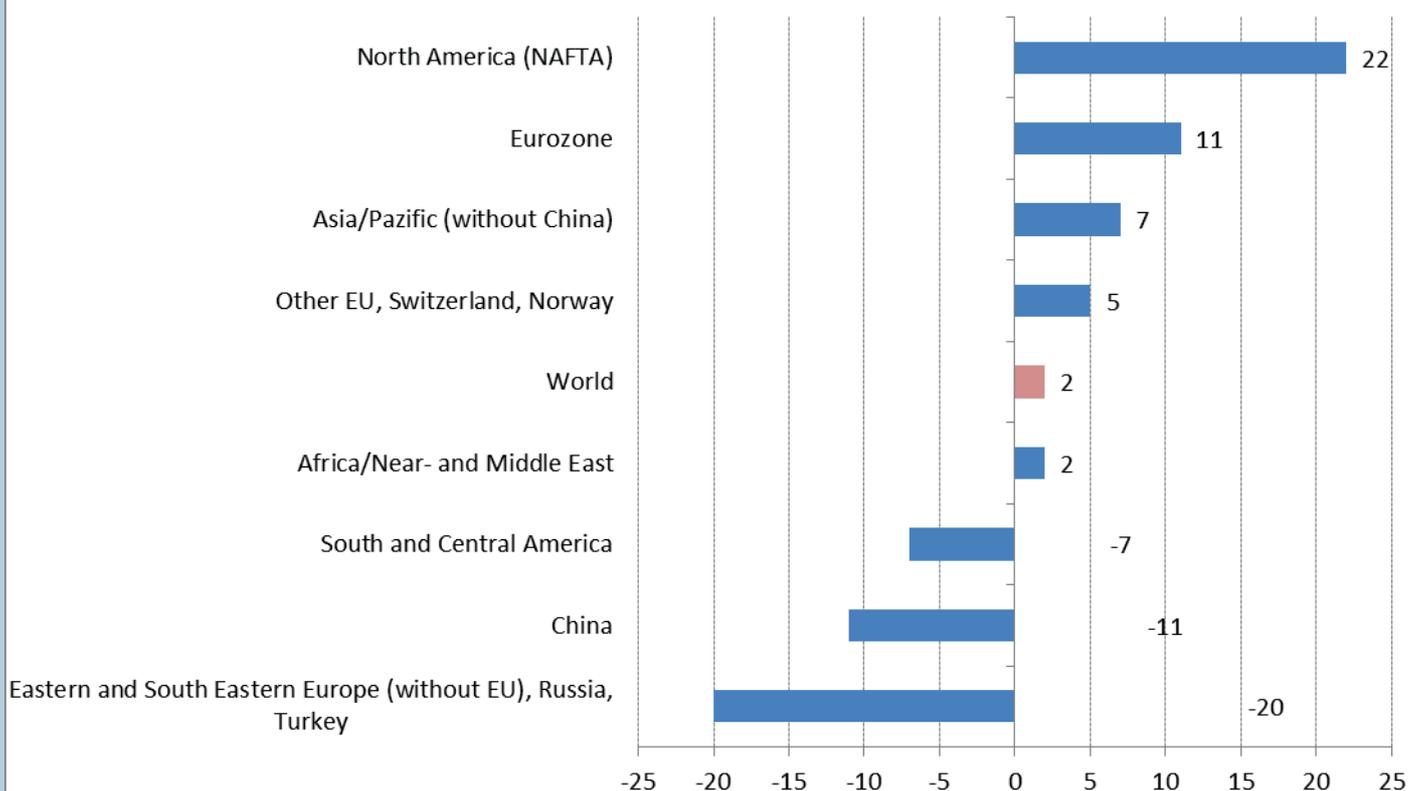
The uncertainty noticeable in the companies' assessments is also attributable, alongside the commodity prices, to the external economic environment, which is still characterised by political instabilities such as the crisis in Syria, terrorist threats, the conflict between Russia and Ukraine or the economic setback in Brazil.

This uncertainty is also reflected in the global propensity to invest. At least consumption is stabilising the economic activity in the major markets of the world. The low commodity prices are relieving budgets for consumers, low interest rates are encouraging consumer and property loans in some places. However, this is a boom which is not being fully felt by the investment-heavy German export economy. This has repeatedly benefited from global investment cycles and shown its strengths there especially in mechanical engineering. The competition in consumer goods, however, is even more intense – also with competitors from Italy or France.

A burden for internationally active companies is the increasing barriers to trade. One in three companies report that they have to deal with new trade barriers year after year. Here, even small changes in certification requirements or customs duties can already cause a large negative effect on cross-border transactions. In this respect, free trade agreements such as the Transatlantic Trade and Investment Partnership (TTIP) can play an important role for the long-term reduction of barriers. Nearly half of the internationally active German companies in this survey do business with the USA. Simplifications in the movement of goods and increased transparency in rules and regulations should be primary objectives of the agreement in the opinion of the businesses.

# Business Perspectives in World Regions

## Global business prospects of German companies - balance of "better" and "worse" -reports



### Things not running smoothly any more

The foreign business of German companies continues to suffer from the disruptive factors of international crises and conflicts. The balance of "better" and "worse" business expectations abroad is now plus two points. Last year the value stood at 6 points.

Many emerging and developing countries are facing major challenges due to the dramatic fall in prices on the commodity markets. Oil exporters such as Russia, Brazil or Nigeria are suffering from the falling prices and seeing their economies weakened. In some cases emergency loans are being negotiated - Nigeria and Angola, the two largest oil producers in Africa, are in discussion with the World Bank about possible sup-

port. Investments are being cut back and trade barriers such as import restrictions or exchange controls are set up. Here, the current development is showing how important diversification of the economies would be in order to build up greater immunisation against fluctuations on the international commodity markets.

The lower oil prices on the other hand are creating purchasing power in Europe, but also in the USA, and stimulating consumption. The economy here is developing in a stable manner – although not dynamically. In Europe, Spain, France or Italy in particular are benefiting from the low rate of the Euro and the weak prices for raw materials.

#### Europe on the road to further recovery

German companies are confident of their business prospects in the euro zone. The expectation balance is 11 points (previous year's survey 6 points). The economy in the euro zone is continuing its upward course. The effect of the reforms in recent years, especially in Spain and Portugal, is becoming increasingly clear. Nevertheless, these countries are also facing challenges: after the elections in Portugal, there is uncertainty about the continuation of the reform policy, while in Spain the formation of a government is still proving to be difficult.

In other EU countries outside the euro zone, companies are also showing cautious optimism, they quantify their expectations on 5 points on average. Transactions with the UK, Eastern Europe or Switzerland are going sufficiently well in 2016 according to assessments by the companies. A potential withdrawal of Britain from the EU could turn out to be a large burden.

#### USA an important mainstay

The North American market is becoming more important for German companies. In 2016, 41 per cent of the companies surveyed are now operating in North America. All in all, German companies assess their business prospects positively – although not quite as dynamic as last year. The balance of the business prospects is 22 points (last year's survey 31). Especially in the USA, the economic situation is stable, being regarded as an anchor of stability. Unemployment is decreasing there and the low external value of the euro is having an advantageous effect on the negotiating position of the German companies.

#### Business with China more difficult

Companies are looking more cautiously at their business with China than in recent years. German companies assess their expectations of foreign business pessimistically with minus 11 points. In view of the weak growth rate of China's economy compared to the previous years, disillusionment seems to be returning. China's swing from investment-led growth towards greater consumption and services is proving more difficult than expected. The confidence in a smooth transition is being marred by financial market turbulences and low capacity utilisation. With this development, however, the market offers opportunities for the sale of high-quality consumer products "Made in Germany". But German companies consider themselves to be more exposed to competition here.

#### Asia on a solid path

The assessment of the business prospects in the Asian countries for the year 2016 is 7 points and therefore higher than the overall global development of German companies (2 points). A majority of the companies assesses the situation as unchanged. German companies can continue to expect good business in this region. Although the development of China – for many countries on the continent the main trading partner – is

also slowing things down here, the states have nevertheless broadened their commitments, e.g. to the ASEAN alliance, and are therefore better positioned. Moreover, with India, a new world economic heavyweight with relatively high economic growth is on the rise. The country currently compares favourably with other emerging markets.

#### **Recession in Russia**

The business expectations of German companies in the region of Eastern/South-East Europe, Russia and Turkey are very restrained. The balance of "better" and "worse" replies is minus 20 points. Russia is in a crisis as a result of the decline in oil and gas prices, and because of the sanctions by the EU. The country is experiencing a recession, the ruble is falling in value and unemployment is rising. Although Russia has relatively high foreign exchange reserves, the government is already cutting its spending in many areas. Even so, there seems to be a slowdown in the declining business at the current margin.

#### **Central and South America**

German companies are involved to a relatively small extent in Central and South America in comparison to other regions (27 per cent). The prospects for foreign business are proving to be more difficult. The assessments for the business in this region are minus 7 points. Above all, the economic situation in Brazil, the economic heavyweight of the South American continent, remains tense. The country is in a deep recession and struggling with corruption, high unemployment and domestic political instability. Moreover, political disruptions within the government of the country are looming. Argentina, however, is providing a bright spot. Since the change of government, changes in the economic policy of the country have been carried out. Import restrictions have been relaxed and the peg of the peso to the dollar removed. The business climate in the country is improving despite continuous high inflation.

#### **Africa, Near and Middle East – regions affected by instability and crises**

There are various trouble spots both in Africa and the Near and Middle East. These regions are characterised by political instability and general uncertainty. In addition to the conflict in Syria, the companies generally see the threat of the so-called Islamic State as a risk. The balance of "better" and "worse" replies for this region still amounts to 2 points.

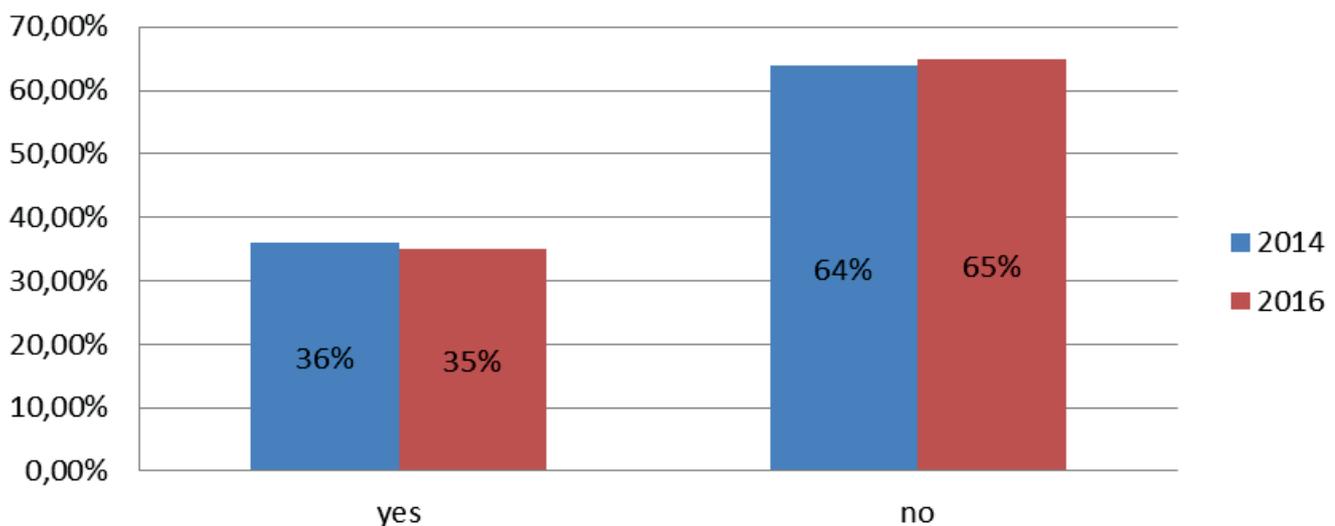
The weak oil price is having a negative effect on oil-producing countries such as Nigeria and Angola. A further factor is that China's flagging economic growth is having a negative effect on the economy of many African countries. However, the easing of sanctions on Iran can be seen as positive news as it is resulting in a new upturn for the local economy and offering business opportunities for German companies.

# Trade Barriers slowing down Foreign Business

## A world full of obstacles

The internationally-active German companies are facing more trade barriers in their cross-border transactions from year to year. 35 per cent of the companies are observing an increase in trade barriers again - this is only slightly less than in the previous year (36 per cent). In view of a relatively weak global economy and a strong slow-down in world trade, this development is nevertheless questionable. Because especially now it would be necessary to facilitate international business.

## Have you noticed an increase of trade barriers regarding your international businesses?



## Time, money and nerves

The establishment of trade barriers in the form of higher customs tariffs or import taxes thankfully appears to have gone out of fashion. However, several countries are using alternative methods in order to help out their own economy against foreign competitors. Through safety requirements or local certifications, foreign competitors - and therefore also German companies - are being hindered in many

regions of the world. Furthermore, quotas, tender restrictions or targeted subsidies in the domestic market are instruments which are being used as barriers. Therefore, opportunities for market entry are being restricted and margins lowered by high administrative.

Overall, companies feel that they are being affected mostly by higher safety and local certification requirements with 52 per cent in each case. In addition to the already existing international certifications, tests have to be carried out, for example, according to local standards - which are also often introduced at short notice. Compared to the previous years, the barriers as a result of local certification requirements have at least decreased by 5 percentage points (previous survey: 57 per cent). Nevertheless, this element remains a major obstacle to trade.

Furthermore, there is no all-clear regarding safety requirements. More companies than previously are reporting such measures in partner countries - 52 per cent (previous survey: 50 per cent). Given the unstable safety situation in many regions of the world, this development seems logical - however, it is causing considerable burdens regarding the exchange of goods. For example, additional registrations or official statements regarding the product origin or freight history are required.

However, the importance of higher customs tariffs as a barrier to trade is decreasing. Only 16 per cent are more affected by trade barriers of this type than in the previous year (previous survey: 21 per cent). The need to produce in foreign markets is unchanged and relevant for 18 per cent.

#### Hardly any limits to creativity

The number of other trade barriers is considerable. In the "miscellaneous" category (32 per cent), reference is made in particular to embargoes, especially the sanctions against Russia, as well as, for example, the increase in rules for the shipment of goods by air freight and the administrative expenses involved.

Barriers to trade are not only being increased abroad. With the entry certificate, German companies in the European domestic market have to prove to the German fiscal authorities that the goods have arrived abroad. This guarantees the VAT-free dispatch of the goods. In practice, it is repeatedly found that this document is unknown abroad. Forms only in German, English and French are not sufficient for business relationships with countries with other official languages. The required signature of the receiver is difficult to obtain, especially with deliveries at night. For the German companies, this means time and a burden on business.

#### German businesses facing barriers worldwide

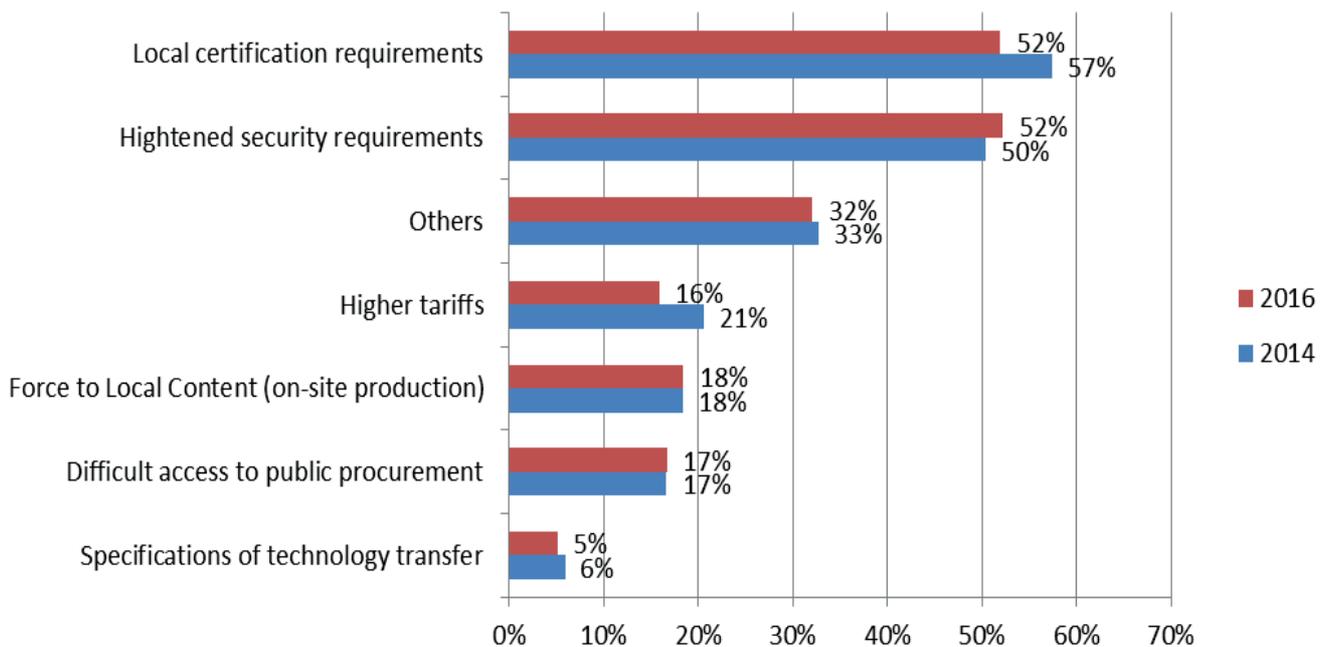
German companies are being confronted with barriers on many markets around the world. Depending on the region, the type and frequency of the trade barriers differ. The extent to which the barriers are having an effect in each of the regions becomes evident when companies which are also active in the respective states are considered.

The current situation turns out to be difficult especially in Eastern/South-East Europe, Russia and Turkey. 75 per cent of the companies which are active in this region consider themselves to be affected by new trade barriers. The reciprocal sanctions between Russia and the EU culminating in import bans for European

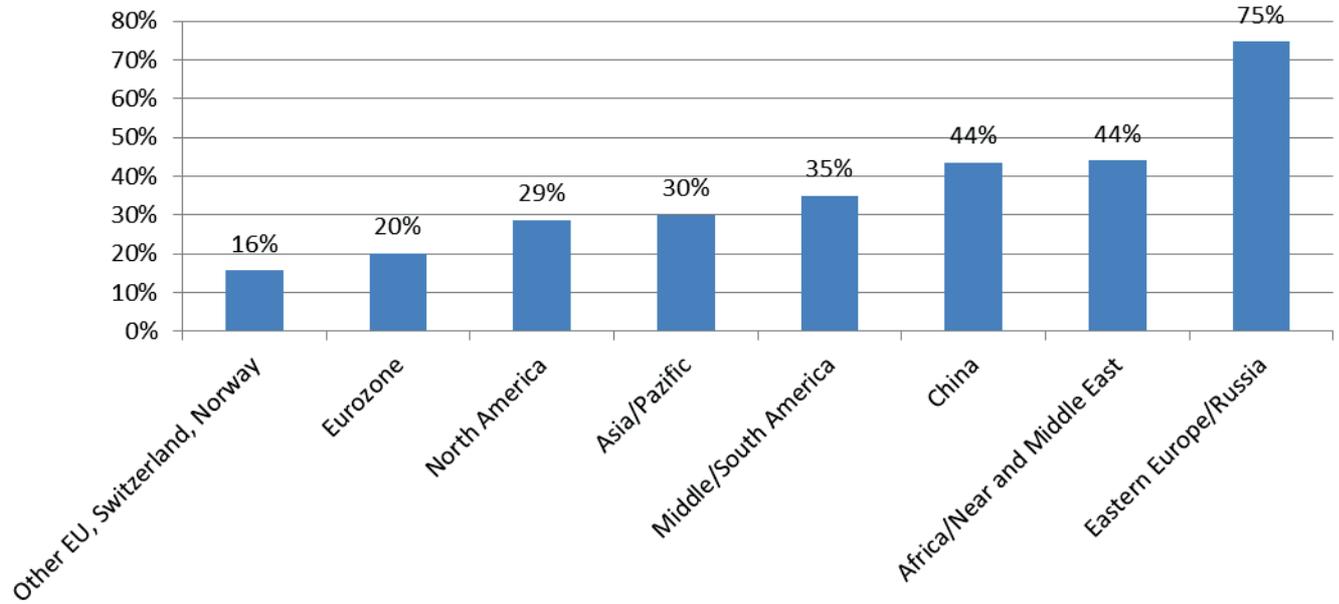
companies involve high administrative hurdles for European companies. Besides the additional obstacles, companies are also suffering from the declining business as a result of the sanctions.

The regions of Africa and the Near and Middle East are in second place. 44 per cent of the companies active in these regions are encountering barriers to trade. Besides the political instability in some countries of these regions, other obstacles are hindering trade with German companies. For example, the Egyptian Ministry of Trade and Industry has created a further obstacle to the importation of foreign goods with the introduction of a registration requirement for foreign manufacturers of selected imported goods. 44 per cent of companies are also facing obstacles to their business in China. Furthermore, 35 per cent of the companies which are active in Central and South America feel restricted in their business because of trade barriers. Companies operating business activities in Asia (30 per cent), North America (29 per cent) and in the euro zone (20 per cent) and with the other EU countries (16 per cent) report fewer trade barriers.

### Trade barriers for companies



### Share of companies confronted with trade barriers in specific regions



Nevertheless, some good news

Besides the global increase in trade barriers, however, there are also isolated cases of trade facilitation. The agreement on the extension of the "Information Technology Agreement" (ITA), the largest global free trade agreement for IT products so far, should be seen as positive news. 54 states, including all EU members, the USA, China and Japan, decided after years of negotiations on the removal of tariffs for over 200 IT products at the WTO meeting in Nairobi at the end of 2015. The agreement is to come into force on July 1, 2016. After that, customs tariffs will be gradually reduced – 65 per cent of tariff lines are duty-free immediately, with the other tariffs being abolished in defined stages. The agreement on the treaty is seen as a positive stimulus for the German economy and is particularly important for the progress of Industry 4.0 in Germany.

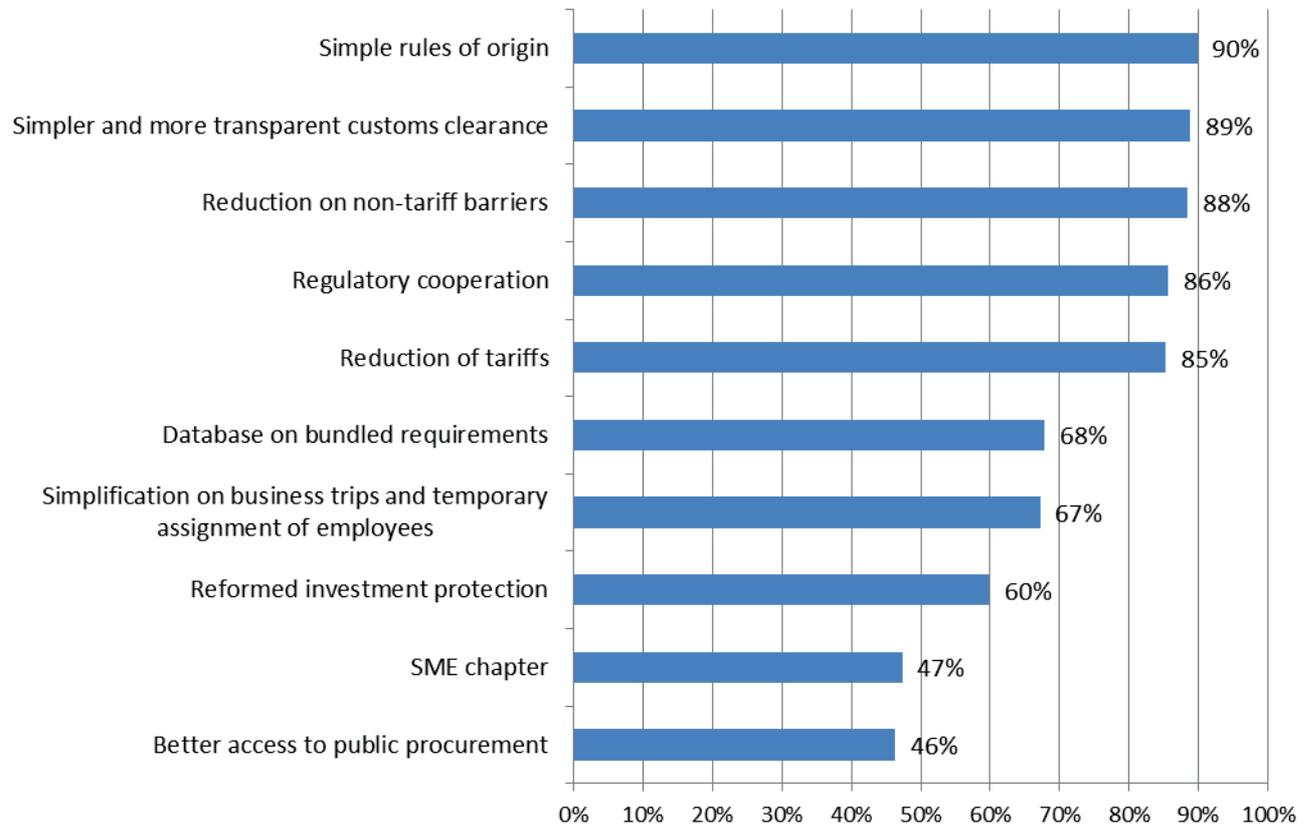
# TTIP of Major Importance for Companies

## USA trading partner number one

Last year, German companies exported goods worth nearly €114 billion to the United States. With an export growth of nearly a fifth compared to the previous year, the USA took over from France as the most important trading partner of Germany. Good economic prospects and stable domestic demand in the USA give hope for a continuation of this export momentum.

Against this background it is becoming clear how important good trade relationships with the United States are - and what further opportunities an improvement of the export conditions would offer. Despite the large export volume, numerous obstacles continue to hinder the flow of goods across the Atlantic. About half of the companies surveyed (47 per cent) do business with USA, the vast majority of which indicate that they are confronted with barriers to trade. The Transatlantic Trade and Investment Partnership (TTIP) can help to remove existing barriers. The expectations and priorities of companies which are doing business with respect to TTIP are as follows:

## Relevance of individual topics



### Removing barriers to trade

Companies put simple rules of origin first: nine out of ten companies consider this to be important or very important. If the rules of origin are complex and bureaucratic, smaller companies in particular cannot make use of tariff preferences because the bureaucratic effort counteracts the cost savings from the reduction in customs duties. Therefore, the rules of origin determine whether significant parts of a trade agreement are used at all or not.

89 per cent of companies see a simplification of customs handling by TTIP as important or very important. Because long handling times, intransparent regulations and extensive customs documents delay the delivery process unnecessarily. This is a competitive disadvantage and often annoying for customers. Here, TTIP can achieve a lot.

### Opportunities for SMEs

Non-tariff trade barriers are also one of the dominant topics regarding the trade with the United States. Here, a total of 88 per cent of companies consider a reduction to be important or very important. Differing standards for the colour of cables in production machines are considered to be non-tariff trade barriers. These "trade barriers behind the customs borders" are particularly difficult to overcome for SMEs because the resulting market entry costs can be a relatively higher cost fac-

tor for them than for large companies.

In this respect, 86 per cent of the companies surveyed also consider an improvement in regulatory cooperation to be important or very important. The transatlantic cooperation in this area can help to lower non-tariff barriers by adjusting standards, norms and regulations according to common consent which ensure an equivalent level of protection on both sides of the Atlantic.

**Tariff reduction – a simple measure with great impact**

However, improvements regarding tariff trade barriers are high on the TTIP wish list. A total of 85 per cent of the companies surveyed wish for a further reduction in tariffs. Although the customs duties are relatively low on average for imports into the United States, due to the enormous export volume, even the elimination of these customs duties would relieve the financial burden on local companies by more than two billion euros. Furthermore, there are a few very high customs duties on certain industrial goods.

The introduction of a database which collates the regulatory and administrative requirements of all US states for EU exporters is considered to be important or very important for 68 per cent of companies. Because small and medium-sized companies in particular have problems to identify the regulations which are relevant for them at US administrative levels. A transparent presentation would be a substantial simplification here.

Approximately the same number of companies which are active abroad wish for more flexibility regarding the issue of visas for company personnel. 28 per cent consider it to be very important and 39 per cent important that the opportunities for business trips to the USA and the secondment of employees is simplified, e.g. for the maintenance or repair of machines.

**Modern investment protection necessary**

For 60 per cent of companies, reformed investment protection is important or very important. This should be more tailored to the needs of the SMEs by lowering, for example, the litigation costs in the dispute settlement procedure.

The implementation of an SME section in the TTIP and improved access to public contracts are found in places nine and ten of the TTIP targets of German companies. In this regard, nearly every second company representative surveyed wants orientation on this in the TTIP negotiations.

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