Foreign Investments of Manufacturing Companies 2024

Special Analysis of the DIHK Economic Survey from the Beginning of 2024

DIHK German Chamber of Commerce and Industry

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Foreign Investments of Manufacturing Companies

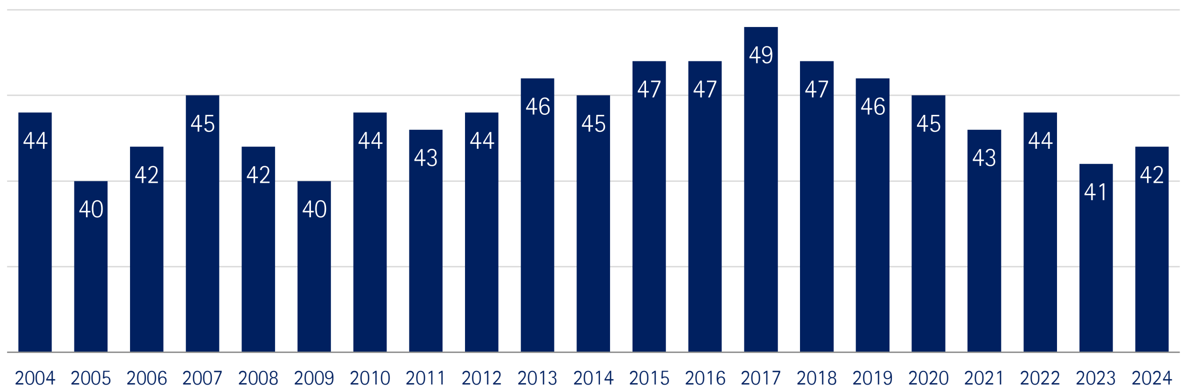
Analysis of approximately 1,900 responses from internationally active industrial companies from the DIHK Economic Survey at the beginning of 2024

Declining competitiveness in Germany, along with a weak economy and geopolitical risks, are influencing the foreign investments of German industrial companies. An increasing number of trade barriers must also be taken into account in their location decisions. While slightly more companies (42 percent) plan to invest abroad compared to the previous year (41 percent), their primary motivation is cost savings rather than expansion. The investment reasons for engaging abroad highlight the pressure on Germany's competitiveness, shifting from market exploration motives to cost reduction. Currently, more than a third (35 percent, compared to 32 percent in 2023) plan to invest for cost-saving reasons—similar to the levels seen in 2008 during the financial market crisis.

Overall, there is a significant uncertainty among businesses regarding their investments, leading to cautious actions both domestically and internationally. Smaller companies, in particular, are struggling with foreign engagement at the moment, with only 31 percent (up from 29 percent) of companies with up to 200 employees planning investments outside Germany. In the average of recent years, this figure was 37 percent. For larger companies with over 1,000 employees, the percentage decreases slightly, though still remains high, dropping from 83 to the current 81 percent.

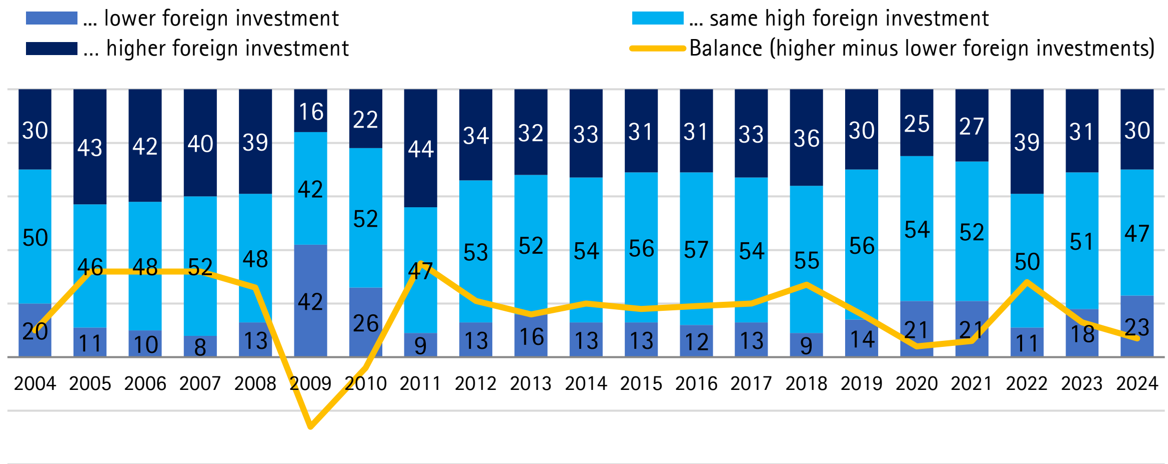
The proportion of German industrial companies planning foreign investments

in percent



Foreign investment plans of industrial companies in comparison to the last year

Percentage shares, Balance in points



	Industry (excluding construction)	Capital goods producers	Intermediate goods Producers	Consumer goods producers	Automotive	Mechanical engineering	Electrical engineering	Chemical industry
Companies operating abroad (share in per cent)								
2024	42	50	39	39	65	52	52	48
2023	41	49	41	33	57	48	51	49
2022	44	52	41	38	67	54	53	52
2021	43	49	42	39	60	49	50	51
Planned foreign investments by companies in 2024 (balance of "higher" minus "lower")								
2024	7	16	0	3	19	17	-1	9
Balance 2023	13	24	8	-4	34	22	24	-2
Balance 2022	28	32	30	10	43	31	35	24
Balance 2021	6	2	13	0	22	-3	8	6
Companies invest abroad for these reasons (in per cent)								
Costs	35	29	40	41	46	25	33	30
Market development	28	30	31	13	45	28	29	27
Sales/Customer Service	37	41	29	46	9	47	38	43
Companies invest in these regions (in per cent, multiple answers possible)								
Eurozone	65	62	66	70	80	54	63	65
other EU, Switzerland, Norway, UK	25	29	19	28	26	29	22	31
Eastern/Southeastern Europe (excluding EU), Russia, Turkey	17	20	13	21	45	18	13	19
North America	45	54	42	35	51	58	44	54
South and Central America	19	26	15	15	44	26	19	19
Africa, Near and Middle East	13	18	7	13	28	18	14	16
China	33	40	31	24	55	41	40	45
Asia/Pacific (excluding China)	33	43	28	18	49	46	39	45

The persistently negative business expectations, ongoing high energy prices, elevated interest rates, and numerous geopolitical risks are putting pressure on companies' budgets, impacting their leeway for foreign investments. However, a striking comparison between foreign and domestic investments in the industry emerges. The balance for foreign engagement is significantly more expansive with seven points, compared to domestically with a negative eleven points. In general, the investment plans of industrial companies for foreign ventures almost always appear more positive than their domestic investment intentions. On average, the balance of foreign investments is 13 points higher. Despite the overall subdued investment climate, the current gap widens significantly to 18 points – indicating significant challenges to the competitiveness of Germany as a location.

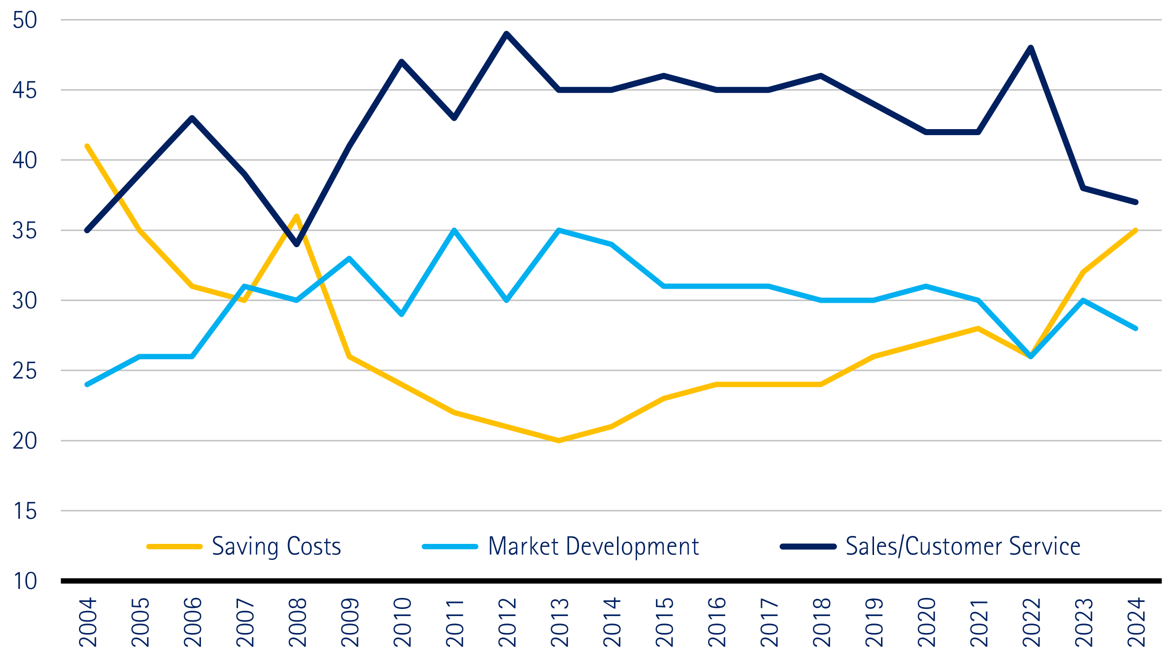
Overall, just under a third (30 percent, down from 31 percent the previous year and 39 percent in 2022) of companies planning investments abroad intend to increase their foreign investment budgets. Conversely, almost one in four companies (23 percent, up from 18 percent the previous year) currently anticipates reductions. The balance of planned foreign investments halves compared to the previous year, from 13 to seven points. This is similarly low to the levels seen during the COVID-19 pandemic (2021: balance of six points) and well below the long-term average of 17 points.

For many large companies (with 1,000 or more employees), predominantly operating internationally, the response to numerous risks is to engage even more internationally. Despite a decline, the balance for investments in foreign locations with large companies remains average at 24 points (down from 30 points the previous year), with an overall industry average of 26 points. In contrast, the balance of foreign investments for smaller companies with up to 200 employees is at a much lower level (balance of minus two points, down from four the previous year). Larger companies not only have more positive intentions for foreign investments but also for domestic investment plans in the industry (balance of domestic investment intentions for industrial companies with 1,000 or more employees: three points; industrial companies with up to 200 employees: minus 14 points).

The cost motive returns...

The primary motive for foreign investments across the entire industry remains the establishment and expansion of sales and customer service abroad, primarily supporting the trading activities of companies. However, at the beginning of 2024, this motive is once again losing significance. Only 37 percent of companies still cite it as the main motive, down from 48 percent two years ago. The distribution of 'Made in Germany' products abroad, on-site customer consultation, and after-sales service are straightforward ways to be present in foreign markets and seize market opportunities. Therefore, smaller industrial companies with fewer than 200 employees are particularly focused on investing in sales and customer service abroad (46 percent, down from 48 percent the previous year). For larger enterprises with 1,000 or more employees, this is the main reason for less than a quarter (24 percent, up from 23 percent the previous year). An examination of the three main industrial groups reveals that sales and customer service have a significantly lower importance for intermediate goods manufacturers (29 percent, up from 28 percent the previous year) compared to manufacturers of capital goods (41 percent, down from 45 percent) or durable and consumer goods (46 percent, down from 47 percent).

Motives for Foreign Investments by German Industrial Companies
in percent



Regarding all industrial companies with foreign investments, more than a third now cites cost savings as the primary motive for international engagement. The percentage increases from 32 percent to 35 percent, reaching the highest value since 2008 (36 percent). It seems that domestic cost pressures are greater for smaller companies with fewer than 200 employees. With 37 percent (up from 33 percent the previous year), an equal number of smaller companies identify cost savings as the main motive, reminiscent of the situation in 2005 when Germany was still considered the 'sick man of Europe.' Even for large companies (more than 1,000 employees), the cost motive becomes more significant (33 percent, up from 30 percent), although still somewhat distant from the record high of 44 percent in 2004.

Domestic investment and employment plans of Industrial companies that invest abroad (balance in points)													
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Domestic investment balance of industrial companies ...													
Total (all industrial companies)	14	2	12	11	12	14	27	16	-1	-1	23	3	-11
of which companies with plans for foreign investments	17	6	18	17	16	21	35	17	-9	4	31	12	-11
... with foreign investments for the purpose of cost savings	9	-5	13	11	7	15	27	8	-12	-8	14	2	-24
... with foreign investments for the purpose of market development	16	7	21	17	14	18	35	15	-2	12	34	19	0
... with foreign investments for the purpose of sales/ customer service	21	10	18	20	21	25	38	23	8	7	38	15	-6
Domestic employment balance of industrial companies ...													
Total (all industrial companies)	8	-4	5	2	4	7	21	10	-10	-9	15	4	-13
of which companies with plans for foreign investments	15	1	12	6	8	16	31	15	0	-5	27	12	-11
... with foreign investments for the purpose of cost savings	-1	-14	-1	-7	-5	2	13	0	-24	-22	10	-2	-32
... with foreign investments for the purpose of market development	15	-1	13	10	5	12	31	13	-15	0	23	13	0
... with foreign investments for the purpose of sales/ customer service	20	9	17	10	16	24	39	24	3	2	37	23	0

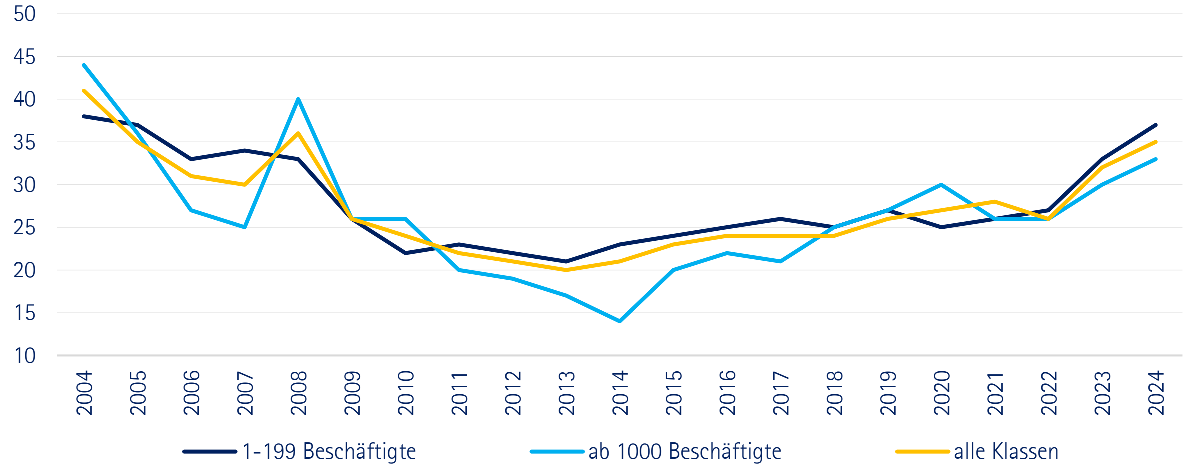
For often energy-intensive intermediate goods manufacturers, cost savings have become the primary motive with a share of 40 percent, now only slightly below the 43 percent recorded in 2004. Generally, energy-intensive industries find themselves even more burdened by high energy costs compared to the overall industry: 79 percent of energy-intensive companies cite energy and raw material prices as business risks (overall industry: 70 percent).

The proportion of companies primarily investing abroad for market development stands at 28 percent (down from 30 percent in 2023), slightly below the long-term average (30 percent). For large companies with over 1,000 employees, access to new markets is the primary reason for foreign investments (43 percent, down from 47 percent the previous year). For smaller industrial enterprises with fewer than 200 employees, this applies to only 17 percent (previously 19 percent). In terms of industries, market development is more crucial for intermediate goods producers (31 percent, down from 36 percent the previous year) and manufacturers of capital goods (30 percent, up from 26 percent the previous year) than for manufacturers of durable and consumer goods (13 percent, down from 19 percent the previous year). This reflects the desire for diversification of supply chains and easier access to strategically important raw materials.

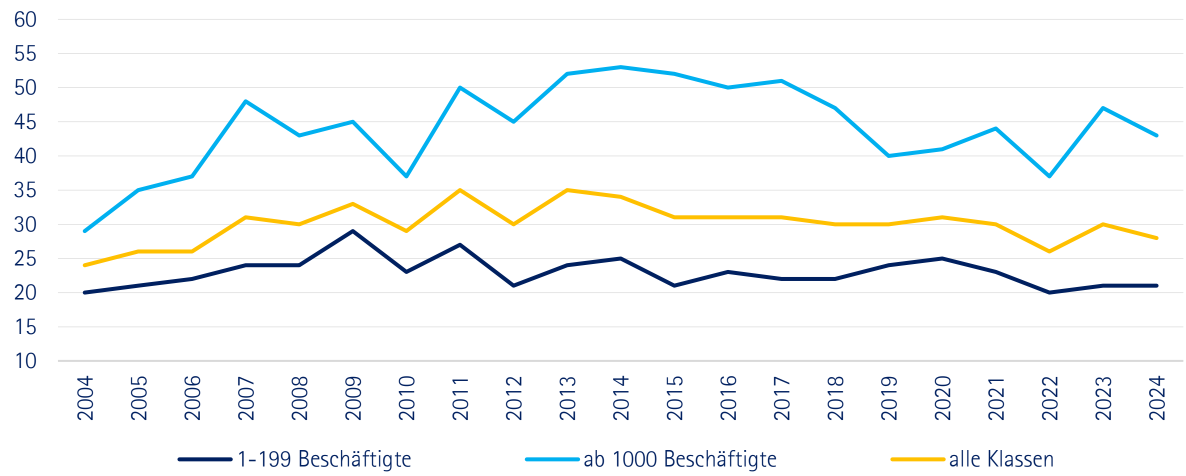
Looking at the employment plans of the industry, it can be observed that industrial companies with foreign investments currently plan slightly less job reduction (employment intentions balance: minus eleven points) than the overall industry average (balance: -13 points). Ultimately, the engagement of companies abroad does not lead to a loss of domestic jobs; instead, foreign investments can increase productivity at domestic locations, thereby contributing to more job security and more investments. This is particularly true when the primary motive is in sales and customer service or market development. For companies with the primary motive of market development, both the balance of domestic investment plans and the balance of employment intentions are at zero points. For businesses with the primary motive of sales and customer service, the balance of domestic investment plans is at minus six points, and the balance of employment intentions is also at zero points.

Motives of industrial companies for foreign investment by company size (in percent)

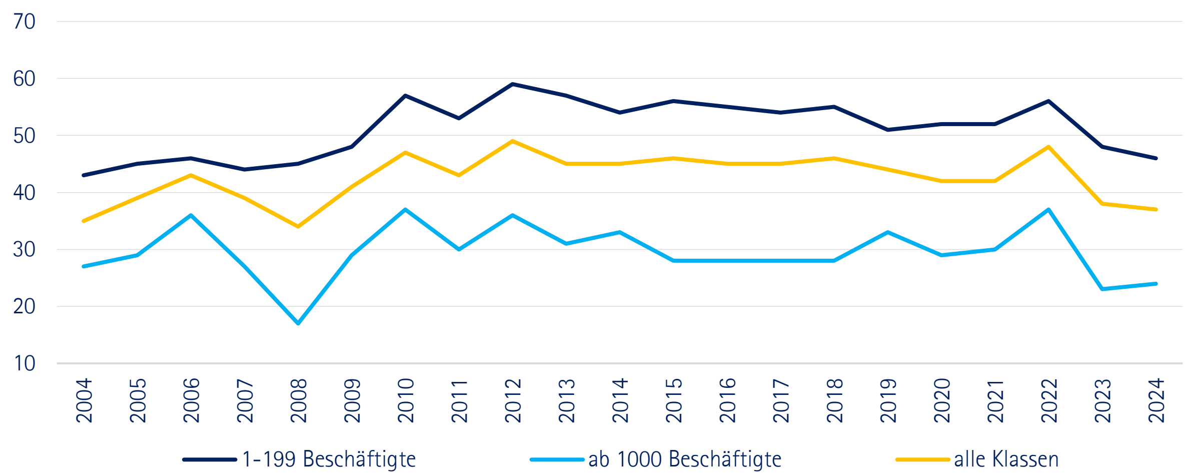
Saving Costs



Market development



Sales/Customer Service



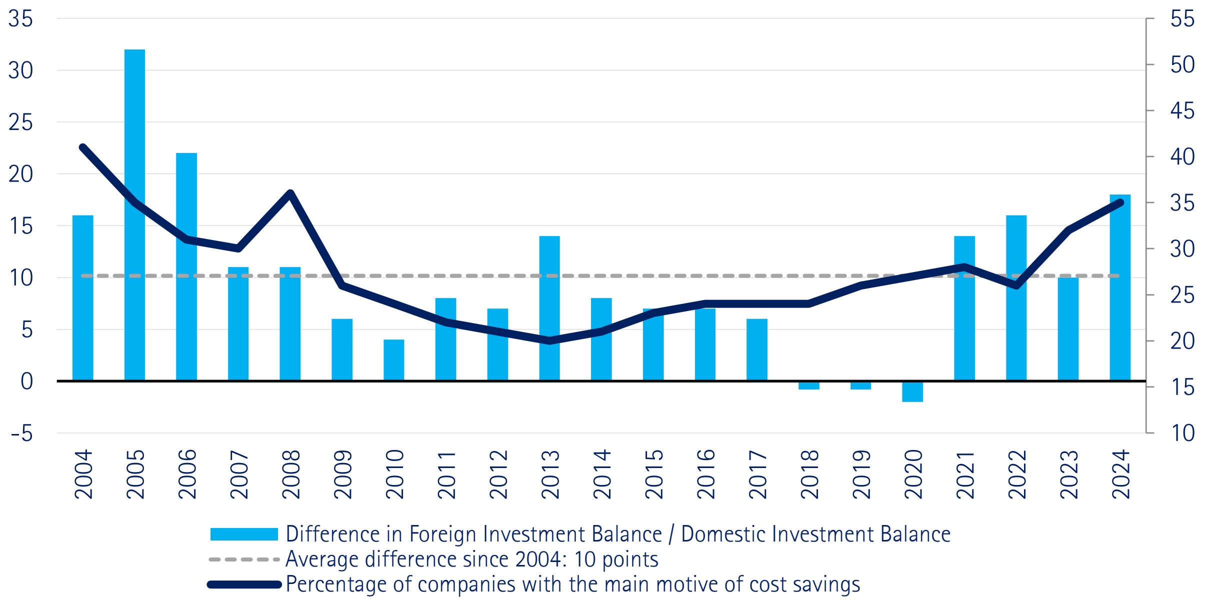
...Risk of Loss of Domestic Value Added

While international integration generally provides stimuli for employment and investments in the home country, the scenario is quite different when it comes to investments driven by cost considerations. Among companies primarily investing abroad for cost reasons, 63 percent perceive local labor costs (compared to 59 percent in 2023) as a risk to their business development. This risk is less pronounced, however, for investments driven by market expansion (51 percent, up from 42 percent the previous year) or sales and customer service (unchanged at 52 percent). The risk of energy and raw material prices is most prominent among companies investing abroad for cost savings (73 percent) or market expansion (69 percent). For companies primarily investing in sales and customer service abroad, this risk is somewhat less burdensome (59 percent).

Fundamental challenges in Germany, such as high energy costs, lengthy approval processes, high tax and levy burdens, skilled labor shortages, and infrastructure deficiencies, make the German location significantly less attractive for investments compared to abroad. This is evident in the comparison of investment balances for the industry abroad (balance of seven points) and domestically (balance of minus eleven points). The current gap is 18 points, the highest since the first half of the 2000s when the German economy was in a deep structural crisis. Furthermore, this is supported by the trend in the cost motive for foreign investments, which has recently increased significantly (35 percent), reaching levels observed in the early to mid-2000s. This finding is particularly alarming since industrial companies investing abroad for cost reasons have significantly lower investment plans domestically (balance: minus 24 points) and employment plans (balance: minus 32 points) than the overall average of industrial companies (balance for domestic investment plans: minus eleven, balance for employment intentions: minus 13 points).

Investment Intentions of Industrial Companies in Germany and Abroad

Difference between the Foreign Investment Balances and Domestic Investment Balances of the Industry in points (left axis); Percentage share (right axis); Until 2001, company responses from the fall of the previous year



Asia and Eastern Europe remain attractive

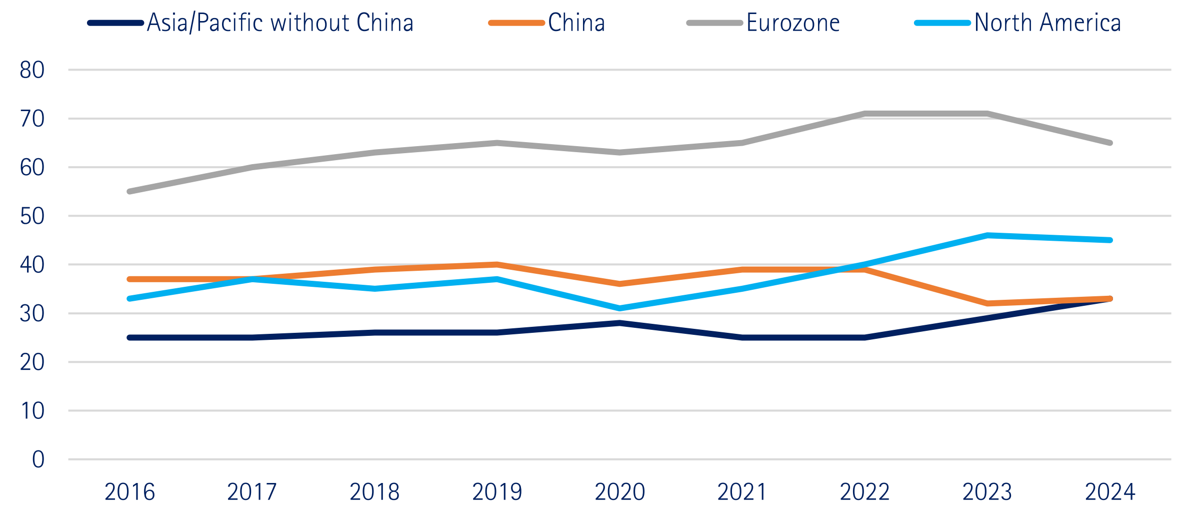
In the target regions of German industrial companies with foreign investments, the ongoing trend of diversification and restructuring of supply chains is evident: While the proportion of industrial companies looking to invest in China only slightly increases, the German industry strengthens its engagement in the rest of Asia. North America also remains the second most important target region, almost unchanged. However, the EU internal market remains by far the most crucial target region for foreign investments.

After experiencing global supply chain disruptions during the COVID-19 pandemic, companies have engaged in measures such as nearshoring to mitigate future supply chain disruptions. This was reflected in significantly higher investment plans by German industrial companies in the Eurozone and the region 'rest of EU, Switzerland, Norway, UK' in the years 2022 and 2023. At the beginning of 2024, however, investment intentions in these regions are somewhat declining. Nevertheless, the EU remains the overwhelmingly most important target region for the foreign investments of German industrial companies. In the Eurozone, almost two-thirds of internationally engaged industrial companies (65 percent, down from 71 percent the previous year) intend to invest. With 70 percent, a slightly above-average number of companies in the consumer goods and durable goods industry plan to invest in the common currency area.

The Russian invasion of Ukraine had particularly severe effects on investment plans in the target region of Eastern/Southeastern Europe (excluding the EU), Russia, and Turkey last year. After a significant decline in 2023, more companies are now planning to invest in the region again. The share increases from 12 to 17 percent. Companies active in that region cite cost savings as the primary motive for their investments (38 percent, down from 42 percent the previous year). In this region, as in the previous year, the cost motive surpasses the typically most important motive for foreign investments: sales and customer service (36 percent, down from 37 percent the previous year)."

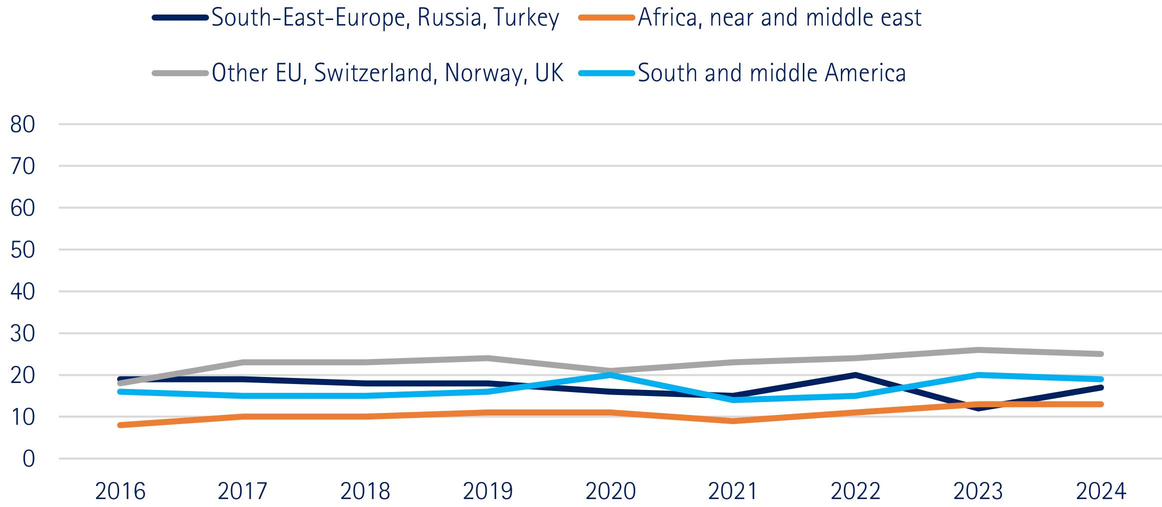
Target Regions of Foreign Investments by German Industrial Companies

in percent; Multiple answers possible



The second most important target region is North America. Not only the size of the market but also attractive conditions, such as relatively low energy costs, attract many German companies. The proportion of industrial companies intending to invest there slightly decreases from 46 percent to 45 percent. Particularly, machinery manufacturers and companies in the chemical industry plan to invest in North America at a record rate in this survey (machinery manufacturing: 58 percent, chemical industry: 54 percent). For companies investing in North America, the cost aspect played a subordinate role for a long time. Given significantly lower energy prices, the proportion of companies investing in North America primarily for cost savings has steadily increased from 10 percent in 2022 to 22 percent recently (2023: 21 percent). Additionally, the proportion of companies investing for market expansion has increased from 33 percent to 37 percent. The investment balance of companies with engagement in North America follows the general trend, but still remains at a higher level with a balance of 25 points (down from 29 points the previous year) than the industry average (balance: seven points).

Target Regions of Foreign Investments by German Industrial Companies
in percent; Multiple answers possible



In Asia, there is an increasing trend towards production for the Asian market itself. Moreover, regions outside of China are becoming more attractive as locations for supplying the global market. The proportion of companies planning foreign investments in China slightly increases from 32 percent last year to 33 percent. The withdrawal from the Chinese market observed during the global supply chain disruptions in 2022 does not continue. The balance of planned foreign investments by companies with engagement in China also slightly increases from 22 to 25 points. It becomes evident that many companies, to diversify their supply chains, also want to invest more significantly in locations in the Asian region outside of China: The proportion of companies with foreign investment plans in Asia (excluding China) rises from 29 percent to a new record of 33 percent. Especially for capital goods manufacturers, Asian countries outside of China are becoming increasingly interesting, particularly for machinery manufacturers (46 percent, up from 36 percent the previous year), automotive manufacturers (49 percent, up from 44 percent), and companies in the electrical engineering sector (39 percent, up from 33 percent the previous year).

The proportion of internationally active companies engaging in South and Central America decreases slightly from 20 percent to 19 percent. However, it remains above the average of 17 percent. The balance of planned foreign investments by companies intending to invest in this region slightly increases from 23 to 25 points. Cost savings are playing an increasingly important role as a motive (23 percent, up from 22 percent; average since 2010: 13 points).

The attractiveness of the Africa, Near and Middle East region remains relatively stable compared to last year regarding foreign investments. The proportion of industrial companies wanting to invest there remains unchanged at 13 percent. Companies in the electrical engineering sector (14 percent, down from 20 percent the previous year) decrease their engagement. However, for automotive manufacturers (28 percent, up from 20 percent the previous year), the region becomes more interesting. The balance of planned foreign investments by companies intending to invest in that region also decreases, from 29 to 23 points.

Questionnaire

How will your company's expenditure on investments abroad develop in 2024 compared to 2023?

- Higher expenses
- Constant expenses
- Lower expenses
- No foreign investments in either year

Where is your company planning to invest abroad in 2024? (multiple answers possible)

- Eurozone
- Other EU, Switzerland, Norway, United Kingdom (UK)
- Eastern/Southeastern Europe (excluding EU), Russia, Turkey
- North America
- South and Central America
- Africa, Near and Middle East
- China
- Asia/Pacific (excluding China)

What will be the functional focus of your company's foreign investments in 2024?

- Production for cost savings
- Production for the purpose of market development
- Sales/Customer Service
- Other: (as comment field)

Imprint

German Chamber of Industry and Commerce (DIHK) | Berlin | Brussels

Postal address: 11052 Berlin |
House address: Breite Straße 29 | Berlin-Mitte
Phone: 030 20308-0

DIHK Online
Homepage | Facebook | X (Twitter) | Linkedin | Instagram | Youtube

Editor: Dr Jupp Zenzen

Graphic: Friedemann Encke, Sebastian Titze, DIHK

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