Foreign Investment of German Industry 2023

Special Report of the DIHK Economic Survey
February 2023

DIHK German Chamber of Commerce and Industry

IHK German Chambers of Commerce and Industry

Foreign investment in industry

Evaluation of around 1,800 responses from industrial companies active abroad from the DIHK economic survey from the beginning of 2023

Lowest share of industrial companies with foreign investments in 14 years

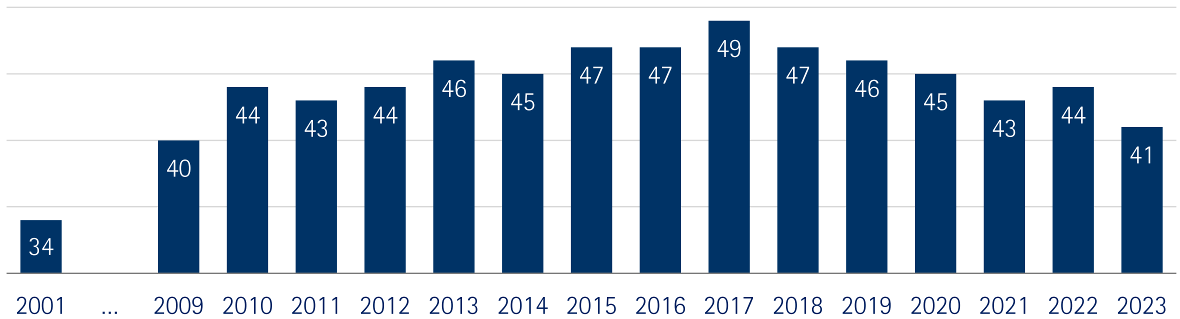
The energy price crisis and the slowdown in the global economy are reflected in the intended foreign investments of industrial companies. In addition, there are increasing hurdles in the international exchange of goods. Whereas at the beginning of 2022 44 percent of industrial companies still intended to invest abroad, at the beginning of 2023 only 41 percent will do so. This is the lowest share since 2009 (40 percent).

It is worrying that the cost-saving motive is on the rise again among companies that want to invest abroad. Thus, 32 percent plan to invest for this reason - as many as last in 2008 during the financial market crisis. All in all, companies are clearly uncertain about their investments: There is a slowdown both at home and abroad.[1]

Smaller companies in particular are currently finding it difficult to get involved abroad. Only 33 percent of companies with up to 500 employees are planning investments outside of Germany. This is a new low. Among large companies with 1,000 or more employees, the share is also declining, but from last year's record level of 85 percent to 83 percent. Foreign activity is particularly declining among manufacturers of consumer goods: at 33 percent (after 38 percent last year), fewer than ever before want to invest abroad. The decline is much less pronounced among capital goods manufacturers (49 percent after 52 percent in the previous year). Among intermediate goods manufacturers, the share of companies with foreign investments remains constant at 41 percent.

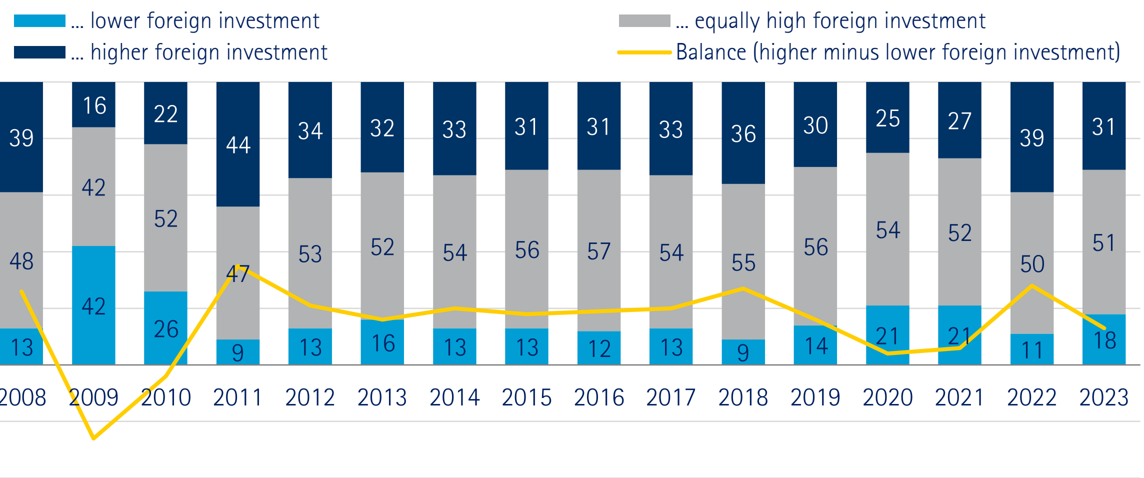
Share of German industrial companies with plans for foreign investment

Share in percent



Of the industrial companies planning to invest abroad, ...

Shares in percent, balance in points



[1] see DIHK business survey beginning of 2023

	Industry (without construction)	Capital goods-producers	Intermediate goods-producers	consumption goods producers	Motor vehicle construc-tion	Mechanical Engineering	Electrical engineering	Chemical industry
Companies operating abroad (share in percent)								
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 corporate foreign investment in 2022 (balance of "higher" minus "lower")								
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 percent)								
Costs	32	29	36	34	51	22	33	28
Market development	30	26	36	19	44	24	27	40
Sales/Customer Service	38	45	28	47	5	54	40	32
Companies invest in these regions (in percent, multiple answers possible)								
Eurozone	71	72	68	80	71	69	72	58
Other EU, Switzerland, Norway	26	27	25	28	20	30	26	26
thereof UK	16	19	13	17	18	20	16	16
Eastern/South Eastern Europe (without EU), Russia, Turkey	12	14	11	13	21	14	13	12
North America	46	54	42	34	55	56	49	52
South and Central America	20	25	18	15	40	26	19	29
Africa, Near and Middle East	13	15	11	11	20	16	20	19
China	32	37	32	22	42	38	42	37
Asia/Pacific (without China)	29	39	24	21	44	36	33	47

The Russian war in Ukraine and the significant increase in energy prices, but also the difficult years of the Corona pandemic, have put a strain on companies' budgets overall - and are thus also dampening foreign investments. After the Corona pandemic had subsided in large parts of the world, industrial companies were still planning a significant expansion of their foreign investments at the beginning of last year. Now only just less than one-third (31 percent after 39 percent last year) of the companies that generally plan to invest abroad want to increase their foreign investment budgets. On the other hand, almost one in five companies (18 percent after eleven percent in the previous year) is currently planning cuts. The balance of planned foreign investments halved from 28 to 13 points and is thus below the long-term average of 17 points. Nevertheless, companies that invest abroad also plan on higher investment budgets at home on average (balance of domestic investments of companies with foreign investments: ten points, all companies: three points). However, the high energy prices, especially in Germany, are leading to a general reluctance to invest on the part of German industry: while a total of 18 percent of the industrial companies are planning to invest less abroad, 43 percent of the companies that say they are suffering greatly from the high energy prices will have to cut back on their foreign investments.

For many large companies (with 1,000 or more employees), which are predominantly internationally positioned anyway, the answer to supply bottlenecks lies in even more international commitment. Despite the downturn, the balance for investment in foreign locations is still above average for large companies at 30 points (after 47 points in the previous year) (average at 26 points). The balance of foreign investments among smaller companies with up to 500 employees is at a significantly lower level (balance of eight points, after 22 in the previous year). In terms of the main sectors, it is especially the capital goods producers who - with some reservations - are planning predominantly with growing investment budgets abroad; the balance drops from a high 32 points to 24 points. The decline is more pronounced among the predominantly energy-intensive intermediate goods producers, where the balance drops from 30 to only eight points. The share of companies that want to reduce their budgets even outweighs the share of manufacturers of consumer goods. The balance drops from ten to minus four points.

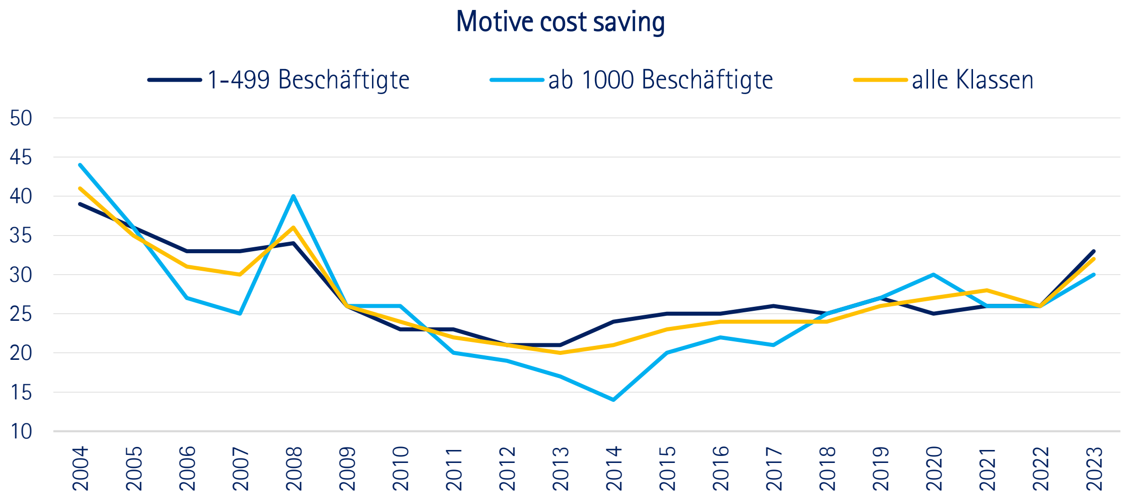
Cost motive returns - loss of domestic value creation looms

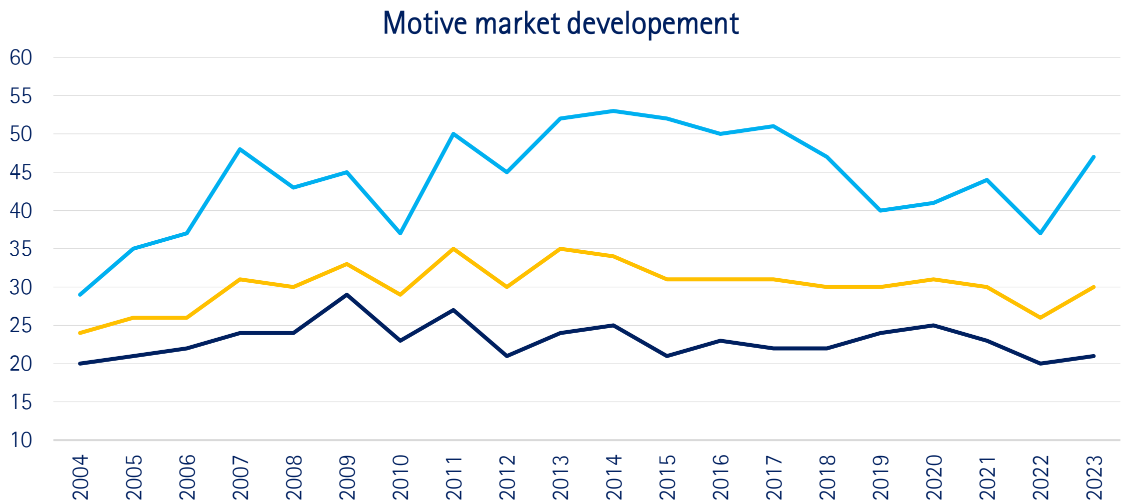
The central motive for foreign investment for the entire industry remains the establishment and expansion of **sales and customer service** abroad - which primarily serves to support the companies' trading activities. However, this motive is losing importance at the beginning of 2023. Only 38 percent of the companies name it as the main motive. A year ago it was 48 percent. The sale of products "Made in Germany" abroad, on-site customer advice and after-sales service are low-threshold opportunities to be present in foreign markets and to seize market opportunities - and to develop new business fields in the future. Therefore, it is especially smaller industrial companies with less than 500 employees that invest abroad mainly in sales and after-sales service (46 percent after 54 percent in the previous year). Among large companies with 1,000 or more employees, this is the main reason for only less than a quarter (23 percent after 37 percent in the previous year). A look at the three main industrial groups shows that sales and after-sales service are significantly less important for manufacturers of intermediate goods (28 percent after 40 percent in the previous year) than for manufacturers of capital goods (45 percent after 51 percent) or consumer goods (47 percent after 60 percent).

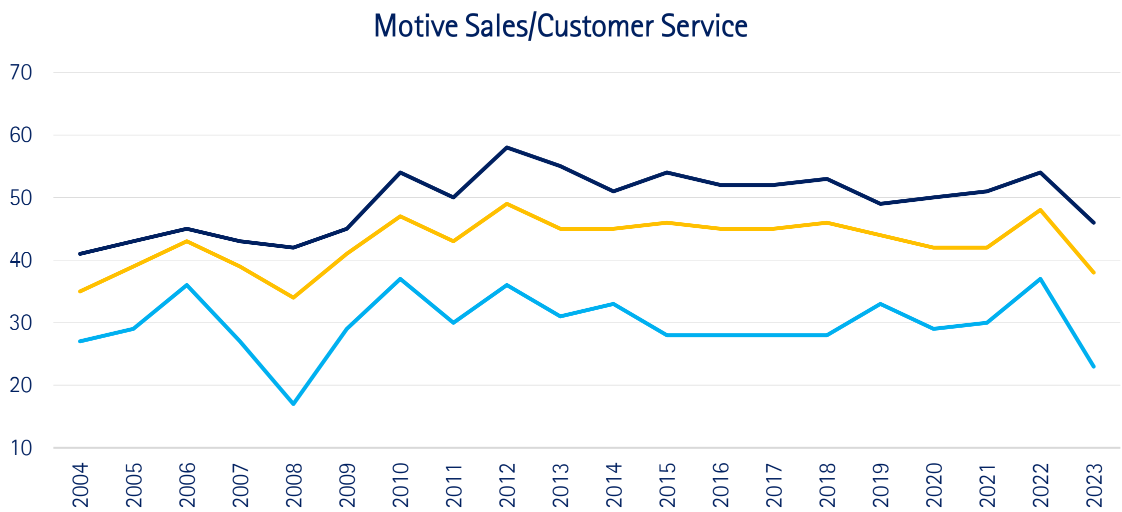
Domestic investment and employment plans of Industrial enterprises investing abroad (balance in points)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Domestic investment balance of industrial enterprises ...													
Total (all industrial companies)	27	14	2	12	11	12	14	27	16	-1	-1	23	3
of which companies with plans for foreign investment	37	17	6	18	17	16	21	35	17	-9	4	31	12
... with foreign investments for the purpose of cost savings	32	9	-5	13	11	7	15	27	8	-12	-8	14	2
... with foreign investments for the purpose of market development	40	16	7	21	17	14	18	35	15	-2	12	34	19
... with foreign investments for the purpose of sales/customer service	38	21	10	18	20	21	25	38	23	8	7	38	15
Domestic employment balance of industrial enterprises ...													
Total (all industrial companies)	16	8	-4	5	2	4	7	21	10	-10	-9	15	4
of which companies with plans for foreign investment	29	15	1	12	6	8	16	31	15	0	-5	27	12
... with foreign investments for the purpose of cost savings	19	-1	-14	-1	-7	-5	2	13	0	-24	-22	10	-2
... with foreign investments for the purpose of market development	30	15	-1	13	10	5	12	31	13	-15	0	23	13
... with foreign investments for the purpose of sales/customer service	34	20	9	17	10	16	24	39	24	3	2	37	23

In terms of all industrial companies with foreign investments, just under one third cite cost savings as the main motive for foreign investments. This is a jump to 32 percent after 26 percent in the previous year. This is the highest share since 2008 (36 percent). The domestic cost pressure seems to be greater among smaller companies with fewer than 500 employees. At 33 percent (up from 27 percent last year), almost as many smaller companies cite cost savings as their main motive as in 2004 (36 percent) when Germany was still considered the "sick man of Europe". The cost motive is also becoming more important for large companies (more than 1,000 employees) (30 per cent after 26 per cent previously), but is still slightly below the record value of 44 per cent in 2004. However, the development runs across the breadth of the main industrial groups. In addition to the comparatively high energy costs in Germany, this speaks for fundamental challenges in Germany as a business location - long approval procedures, a lack of skilled workers and infrastructure deficiencies are once again widening the companies' view of production abroad. This finding is all the more alarming as industrial companies that invest abroad for cost reasons have lower investment plans (balance: two points) and employment plans (balance: minus two points) at home than the average of industrial companies overall (balance domestic investment plans: three points, balance employment intentions: four points).

Motives of industrial companies for foreign investments (in percent)







The share of companies that want to invest abroad mainly for **market development** had slumped last year. In the wake of the Corona crisis, but also in view of geopolitical developments, many companies had to reassess which markets to enter, how to diversify supply chains and where to invest in new facilities. The diversification process is now reflected in the rising share of companies that want to invest abroad mainly for market development: It reaches 30 percent (up from 26 percent in 2022). This corresponds to the pre-pandemic level and also to the long-term average. For large companies with 1,000 or more employees, access to new markets is the main reason for foreign investment (47 percent after 37 percent in the previous year). For smaller industrial enterprises with up to 500 employees, this applies to only one in five (21 percent after 20 percent in the previous year). In terms of sectors, opening up markets through production is significantly more important as an investment motive for producers of intermediate goods (36 percent after 33 percent in the previous year) than for manufacturers of capital goods (26 percent after 24 percent in the previous year) or for producers of consumer goods (19 percent after 15 percent in the previous year). This also reflects the desire for diversification of supply chains and easier access to strategically important raw materials, which intermediate goods manufacturers in particular process.

With regard to the employment plans of industry, it can be noted that industrial companies with foreign investments plan to increase employment more frequently (balance of employment intentions: nine points) than the average for industry as a whole (balance: four points). In addition, companies with foreign investments also want to invest more frequently in Germany (balance of investment intentions: six points) than industry as a whole (balance of investment intentions: three points). The bottom line is that companies' involvement abroad does not lead to a loss of domestic jobs. Overall, foreign investment also increases the productivity of domestic locations and leads to more job security and more investment there. This is especially true if the main motive is sales and customer service (balance of employment intentions 22 points and balance of investment intentions 15 points) or market development (balance of employment intentions 13 points and balance of investment intentions 19 points).

Of the companies that want to invest abroad mainly for cost reasons, 59 percent see local labour costs (2022: 48 percent) as a risk to business development. By contrast, this risk is less significant for investments for reasons of market development (42 percent after 32 percent in the previous year) or because of sales and customer service (52 percent after 34 percent in the previous year). The risk of energy and raw material prices is most frequently seen by companies that invest abroad for cost savings (86 percent) or market development (82 percent). For companies that invest abroad mainly for sales and customer service, this risk is slightly less oppressive (76 percent).

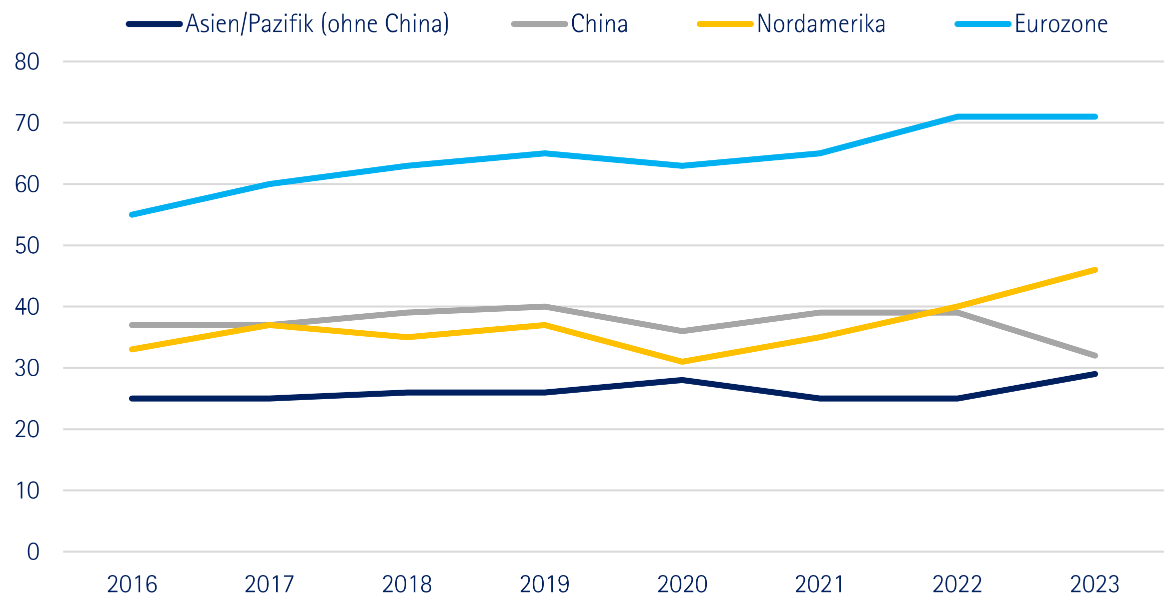
Eurozone and North America gain in attractiveness

In the target regions of German industrial companies with foreign investments, the diversification and re-sorting of supply chains that has begun is evident: While the share of industrial companies wanting to invest in China is declining, German industry is shaping its commitment in the rest of Asia. There is also significant growth in North America. However, the EU's domestic market remains the most important. The Russian invasion of Ukraine has had a particularly serious impact on investment plans in the target region of **Eastern/South Eastern Europe (excluding the EU), Russia, Turkey**. The share of companies planning to invest there collapses from 20 percent in the previous year to twelve percent at the beginning of the year. Companies that are active there cite cost savings as the main motive for their investments (42 percent after 24 percent in the previous year). The cost motive has thus replaced the usually most important motive for foreign investments, sales and customer service (37 percent after 59 percent in the previous year), in this region.

After many companies were affected by supply bottlenecks in the past three years, among other things due to transport difficulties, locations in Europe are becoming more attractive again. The EU is thus cementing its place as the most important target region for foreign investment by German industrial companies. Especially in the **Eurozone,** almost three quarters of the industrial companies engaged abroad (71 percent) intend to invest. At 80 percent, an above-average number of companies in the goods and consumer goods industry intend to invest in the common currency area. As far as the planned investment budgets are concerned, however, it becomes apparent that the cuts are the most serious among the industrial companies in the euro zone: Following the general trend, the foreign investment balance drops from 33 to 14 points - a low value compared to the other regions. Also in the target region **"rest of EU, Switzerland, Norway"** the share of enterprises with investment intentions increases from 24 percent to 26 percent. However, the balance of higher and lower planned investments also falls there - from 35 to 17 points. This is the second lowest balance value after the Eurozone. Despite the unbroken importance of the Eurozone and the rest of the EU, as well as Switzerland and Norway, for foreign investments, the lower investment budgets reflect the current burdens and uncertainties among companies.

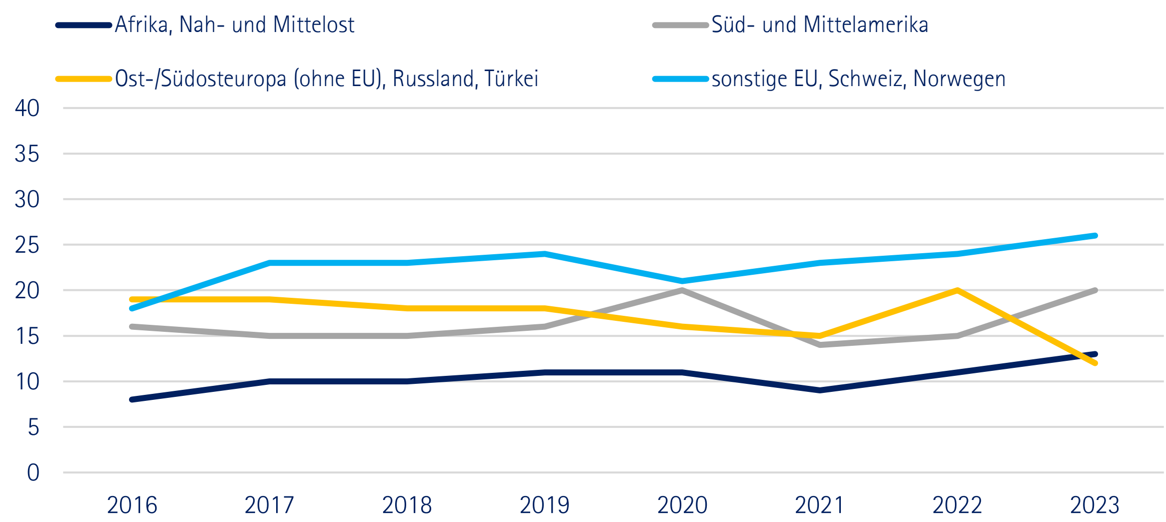
Target regions of foreign investments by German industrial companies

in percent; multiple answers possible



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 framework conditions, such as comparatively lower energy costs, are attracting many German companies. The share of industrial companies intending to invest there rises from 40 percent to 46 percent. Especially capital goods manufacturers with foreign investments are getting involved in North America more often than average (54 percent). More and more motor vehicle manufacturers are investing in their locations there - also against the backdrop of the planned end of new registrations of combustion engines in the EU from 2035. The share of motor vehicle manufacturers active there rises from 49 percent to 55 percent. However, intermediate goods manufacturers are also increasingly investing in North America more frequently than in previous years, such as the plastics industry (53 percent after 42 percent in the previous year). For a long time, the cost aspect played only a subordinate role for companies investing in North America. However, in view of the significantly lower energy prices, the share of companies with investments in North America that invest abroad mainly to save costs is now doubling, from 10 percent in the previous year to 21 percent. In addition, the share of companies investing for market development also increases from 31 percent to 33 percent. The investment balance of companies with engagement in North America decreases in line with the general trend, but with a balance of 29 points (after 50 points in the previous year) it is still at a higher level than the average of the manufacturing sector as a whole (balance: 13 points)

The experience companies had with locations in **China** during the hard lockdowns to combat the Corona pandemic and the resulting global supply chain disruptions have contributed to a reorientation in location decisions. Many companies are looking to diversify their locations more and not rely solely on the Chinese market. Instead, locations in other Asian countries are also becoming interesting. Thus, the share of companies planning foreign investments in China is declining from 39 percent in the previous year to 32 percent. The balance of planned foreign investments by companies with a commitment in China also drops significantly from 47 to now 22 points. By contrast, the share of companies planning to invest in **Asia (excluding China)** rises from 25 percent to a new record level of 29 percent. Especially for capital goods manufacturers, Asian countries outside China are becoming more and more interesting (39 percent after 30 percent in the previous year). Companies that also invest in Asia (excluding China) increasingly cite cost savings (25 percent after 20 percent previously) and market development (29 percent after 22 percent previously) as the main motives for their foreign investments.

South and Central America is also enjoying increasing popularity among German industrial companies with foreign investments. The share of companies active abroad jumps from 15 percent to 20 percent. However, in view of the numerous risk factors for economic development in general and the resulting uncertainty among companies, the balance of planned foreign investments also falls in this region - with a drop from 53 to 23 points more significantly than in any other region. Cost savings are playing an increasing role among German companies planning to invest in South and Central America (30 percent after 17 percent previously).

The **Africa, Near and Middle East** region is becoming slightly more attractive in terms of foreign investment. The share of industrial companies that want to invest there rises from eleven percent to 13 percent. The region is becoming particularly interesting for companies in electrical engineering (20 percent after 13 percent in the previous year) and for manufacturers of motor vehicles (20 percent after 17 percent in the previous year). The balance of planned foreign investments by companies that want to invest there also decreases significantly from 52 to 28 points, but is at a similar level to North America (balance 29 points). Since 2020, the main motive of cost savings has been steadily increasing among companies that also plan to invest in Africa, the Middle East and the Near East, and is now at 30 percent after 17 percent in the previous year.

Questionnaire

How will your company's spending on investments abroad develop in 2023 compared to 2022?

- higher expenditures
- consistent expenditures
- lower spending
- No foreign investments in either year

Where does your company plan to invest abroad in 2023? (Multiple answers possible)

- Eurozone
- Other EU, Switzerland, Norway
- of which United Kingdom
- Eastern/South Eastern Europe (without EU), Russia, Turkey
- North America
- South and Central America
- Africa, Near and Middle East
- China
- Asia/Pacific (without China)

What is the functional focus of your company's foreign investments in 2023?

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

Imprint

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

DIHK Online
Homepage | Facebook | Twitter | Linkedin | Instagram | Youtube

Editors: Carolin Herweg, Dr Jupp Zenzen

Graphic: Friedemann Encke, Sebastian Titze, DIHK

Status: March 2023