

Foreign investment 2019

Special evaluation of the DIHK business survey at the beginning of 2019

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With the "Foreign investments survey 2019" in manufacturing industry in the spring of 2019, the association of German Chambers of Commerce and Industry (DIHK) is presenting an analysis based on the results of a supplementary survey as part of the DIHK business survey at the beginning of 2019. This special evaluation continues the DIHK survey on foreign investments, which goes back to the year 1995. The basis of the results is provided in each case by representative surveys of the Chambers of Commerce and Industry (IHKs) among their member companies. Around 2,000 replies from companies from the manufacturing sector (excluding construction) serve as a basis.

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Main results

- The competitive pressure on the German economy is increasing. The slowdown in the global economy, trade policy adversities and domestic business risks increasingly encumber the strongly export-oriented German industry.
- The Industry is therefore planning for 2019 with significantly less foreign investment than in the previous year. The balance drops to 16 points (2018: 27 points). This is how low the investment plans for foreign countries were last in 2013. Also, the share of industrial companies investing outside German locations is falling to 46 percent – the lowest figure since 2015. At the same time, the companies are increasingly distributing their reduced investment budgets across different continents in order to better protect themselves against risks.

Target regions for foreign investments

- Europe remains the No. 1 investment location for German industry. In the euro zone, 65 percent of companies operating abroad are planning new investments. In the non-euro states, Switzerland and Norway, 24 percent of companies are planning new investments. Companies still see a safe haven for their investments in the European domestic market. However, the investment balance in the common currency area falls from 29 to 17 points, in the rest of the EU from 38 to 25 points.
- With a share of 40 percent (previous year 39 percent) of total investments, China remains the most important investment target outside the European Union. However, the investment balance is also falling significantly here – from 46 to 28 points. The growth momentum in China has slowed noticeably.
- As a result of the trade policy of the USA, North America is increasingly losing its attractiveness as an investment location for German companies. This region is indeed the third most popular destination for investments from abroad (37 per cent after 35 per cent). However, considerably more companies are reluctant to invest more than a year ago (25 after 48 points). This is the sharpest decline worldwide.

Motives/reasons for foreign investments

- (Domestic) business risks such as the shortage of skilled workers (61 percent) or economic policy (52 percent) are increasingly causing companies headaches. This is another reason why cost savings abroad are again gaining ground for the first time in three years (2016, 2017, 2018: 24 percent). At the beginning of 2019, 26 percent of foreign companies plan to invest abroad for cost reasons. Of the foreign companies that describe their current business situation as poor, almost 40 percent say they want to invest abroad for rationalization reasons (previous year: 19 percent).

Industry's willingness to invest declines significantly

The slowdown in the global economy and trade policy adversities, as well as growing business risks in Germany, are impacting the investment activities of German industrial companies abroad. The Industry is planning less foreign investment than in the previous year. The cost motive is once again gaining in importance as an overall investment motive.

Foreign investment declining ...

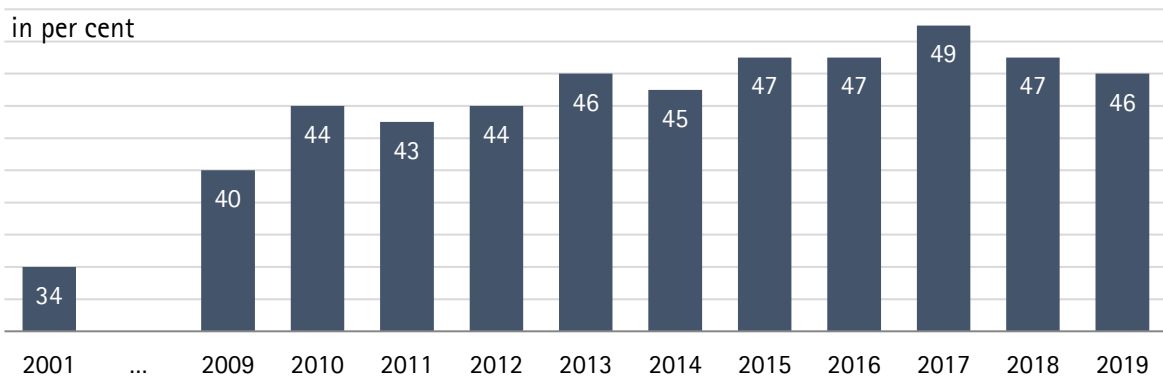
Three years in a row the investment plans of the German industrial enterprises for foreign countries have increased. In 2019 they are declining again for the first time.

The balance of higher minus lower shares falls to 16 points (2018: 27 points). This is how low the investment plans for foreign countries were last in 2013. Fewer industrial companies (46 percent) are also planning to invest abroad at all. The level of the record year 2017 (49 percent) will again not be reached.

Internationally, trade policy dislocations are weighing on the willingness of large parts of the world to invest – German companies are feeling this in their businesses as well and are holding back on investments. As a result, fewer companies are planning more expansive foreign bud-gets than before (30 percent, previous survey: 36 percent). In return, more companies plan to reduce their previous involvement (14 percent, previous survey: nine percent). After all,

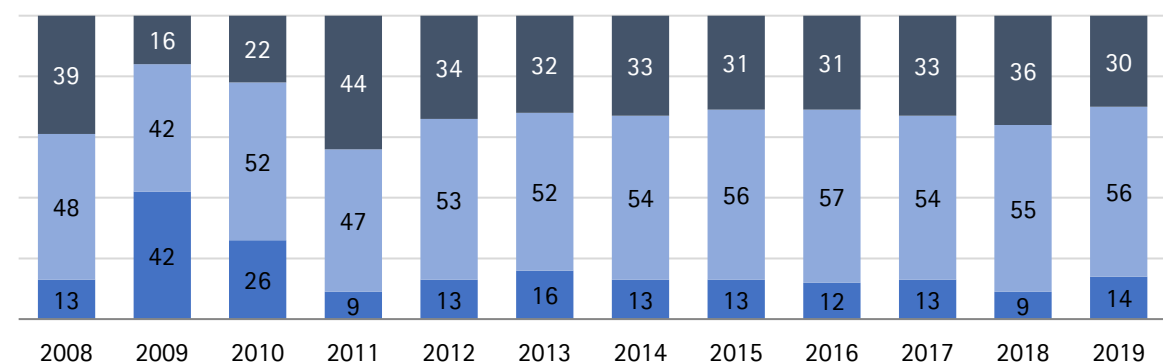
Share of industrial companies with plans for foreign investment

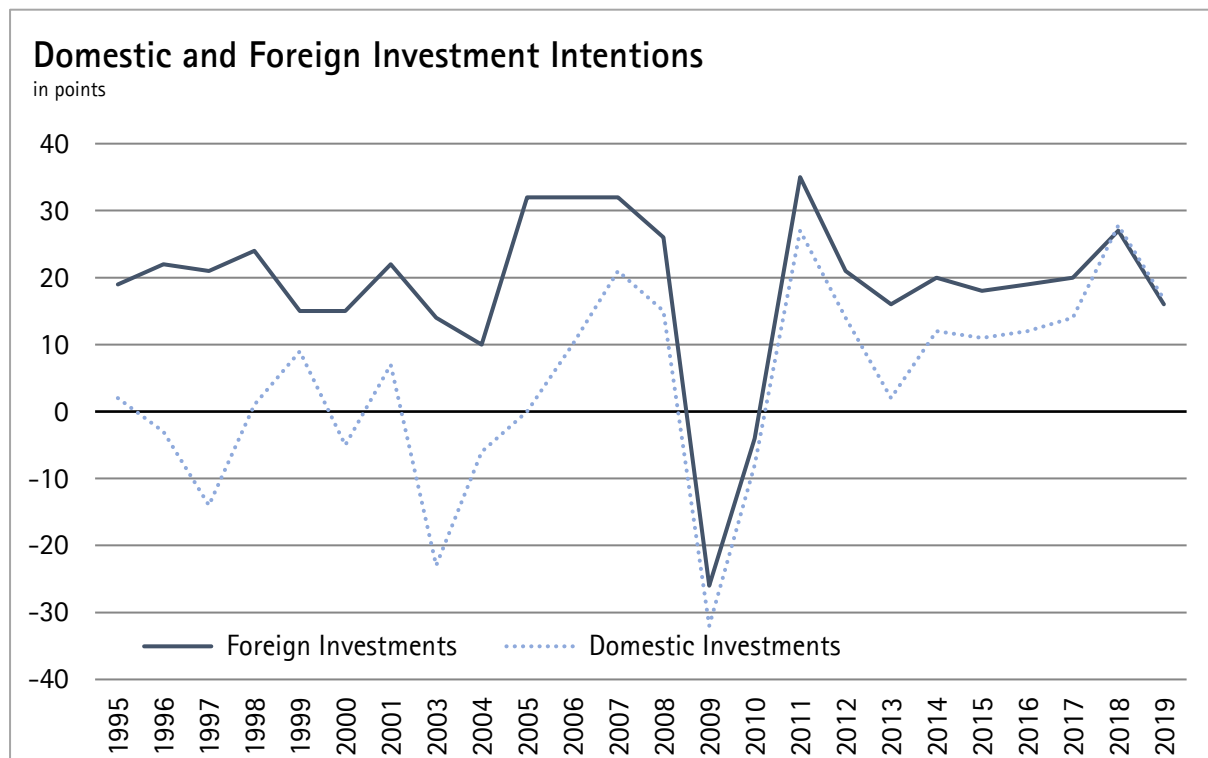
in per cent



industrial companies that want to invest abroad ...

■ ... lower foreign investment ■ ... same high foreign investment ■ ... higher foreign investment





every second industrial company wants to continue its previous foreign investment budgets as planned. In addition to foreign investments, the companies are also reducing their investment intentions for the domestic market. Just like the foreign balance, the domestic balance also reached a value of 16 points for the second time in a row. The investment momentum is slowing noticeably.

... except for the big ones

Once again, the proportion of small and medium-sized enterprises (up to 500 employees) aiming to invest abroad is falling (to 38 per cent from 40 per cent). Among the large industrial companies with more than 1,000 employees, 81 percent want to invest more abroad than ever before (previous survey: 80 percent). Large companies are nevertheless not investing more expansively. The investment balance drops from 44 points (2018) to 27 points – and thus more strongly than the industry average (from 27 to 16 points).

Germany loses attractiveness as an investment location

Domestic business risks increasingly represent a burden for German industrial companies – with effects on Germany's competitiveness as an investment location, but also on investment budgets for foreign investments. The shortage of skilled workers is perceived by companies as the greatest business risk – even if somewhat less than in the previous year (61 percent after 67 percent). For every second company with foreign plans, the current economic policy framework is developing into a business risk (industry average: 52 percent) – in the previous survey it was only 42 percent. In addition to the international imponderables, there are also challenges at the domestic location – for example with regard to the bureaucratic burden, the need to modernise infrastructure or the comparatively high tax burden. Concerns about the development of domestic and foreign demand are also currently causing more companies than before to take a more cautious approach to their foreign plans (domestic demand: 42 per cent after 28 per cent, foreign demand: 34 per cent after 25 per cent). In addition, the issue of energy costs is a decisive factor for companies. Once again, 45 percent of companies are concerned about the development of domestic energy and raw material prices.

Foreign investment by sector

sector	Percentage of enterprises with foreign investment	Expected foreign investment, shares in %				
		higher	equal	lower	balance 2019	balance 2018
Industry (total)	46	30	56	14	16	27
Industry (up to 500 employees)	38	28	59	13	15	32
Industry (from 1,000 employees)	81	39	49	12	27	44
Intermediate goods producers	46	30	53	17	13	31
capital goods manufacturers	51	31	59	10	21	28
Producers of goods and consumer goods	44	27	58	15	12	15
Chemical and pharmaceutical industry	52	32	54	14	18	39
metal products	39	23	55	22	1	23
electrical engineering	54	31	60	9	22	36
mechanical engineering	53	34	55	11	23	26
vehicle construction	59	25	65	10	15	30
automotive engineering	66	27	62	11	16	33

The high energy costs are not only a high but also a structural, long-term location and competition risk. The phasing out of coal-fired power generation and the necessary expansion of the grids should lead to a further increase. In order to keep local industrial production competitive in the long term, it will be necessary to reduce levies and charges on electricity prices.

Producers of capital goods continue to focus on foreign markets

In comparison to economic sectors, capital goods manufacturers are defending their leading position in terms of foreign involvement – however, at a lower level. 31 per cent after 36 per cent before want to expand their commitment, while ten per cent after eight per cent before want to invest less abroad than before. The investment balance thus drops by them to 21 points. Meanwhile, vehicle construction is cutting back particularly sharply: the balance is halved from 30 to 15 points compared to the previous survey. Even medical technology can no longer maintain the high level of the previous survey (new balance: 22 points, previous survey: 36 points). However, the mechanical engineering sector is adjusting its plans only slightly downwards (23 points, preliminary survey: 26 points).

Significant cutbacks for intermediate goods producers

The planned volume of investment abroad will fall considerably for intermediate goods producers. The balance drops by more than half to 13 points (2018 balance: 31 points). Those companies are the first to feel the effects of the more difficult international environment and, as an extremely energy-intensive sector, have to contend with rising energy prices at the same time. The chemical companies (14 after 43 points), the rubber and plastics industries (13 points, preliminary survey: 33 points) and the metal producers and processors are clearly cutting their foreign investment budgets. Companies in the glass, ceramics and stone processing industries, on the other hand, are optimistic. Here the balance almost doubled (25 points after 13 points).

Slowdown for consumer goods producers

The decline in investment plans for manufacturers of consumer goods abroad is more moderate. The balance drops by three points to 12. In the food industry and tobacco processing, the balance halved to 11 points. Pharmaceutical companies (32 points after 25), the furniture industry (15 points after four) and companies from the textile, clothing and leather

Domestic investment and employment plans of Industrial enterprises investing abroad (balance in points)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Domestic investment balance of industrial enterprises ...											
... total	-32	-8	27	14	2	12	11	12	14	27	16
... with plans for foreign investments	-32	-6	37	17	6	18	17	16	21	35	17
... with foreign investments in order to save costs	-41	-6	32	9	-5	13	11	7	15	27	8
... with foreign investments to open up new markets	-30	-5	40	16	7	21	17	14	18	35	15
... with foreign investments for the purpose of sales/customer service	-28	-6	38	21	10	18	20	21	25	38	23
Domestic employment balance of industrial enterprises ...											
... total	-33	-19	16	8	-4	5	2	4	7	21	10
... with plans for foreign investments	-32	-16	29	15	1	12	6	8	16	31	15
... with foreign investments in order to save costs	-51	-29	19	-1	-14	-1	-7	-5	2	13	0
... with foreign investments to open up new markets	-28	-15	30	15	-1	13	10	5	12	31	13
... with foreign investments for the purpose of sales/customer service	-25	-10	34	20	9	17	10	16	24	39	24

sectors (23 points after ten) are planning more expansively and continue to participate in global consumer demand.

Motives/reasons for foreign investments

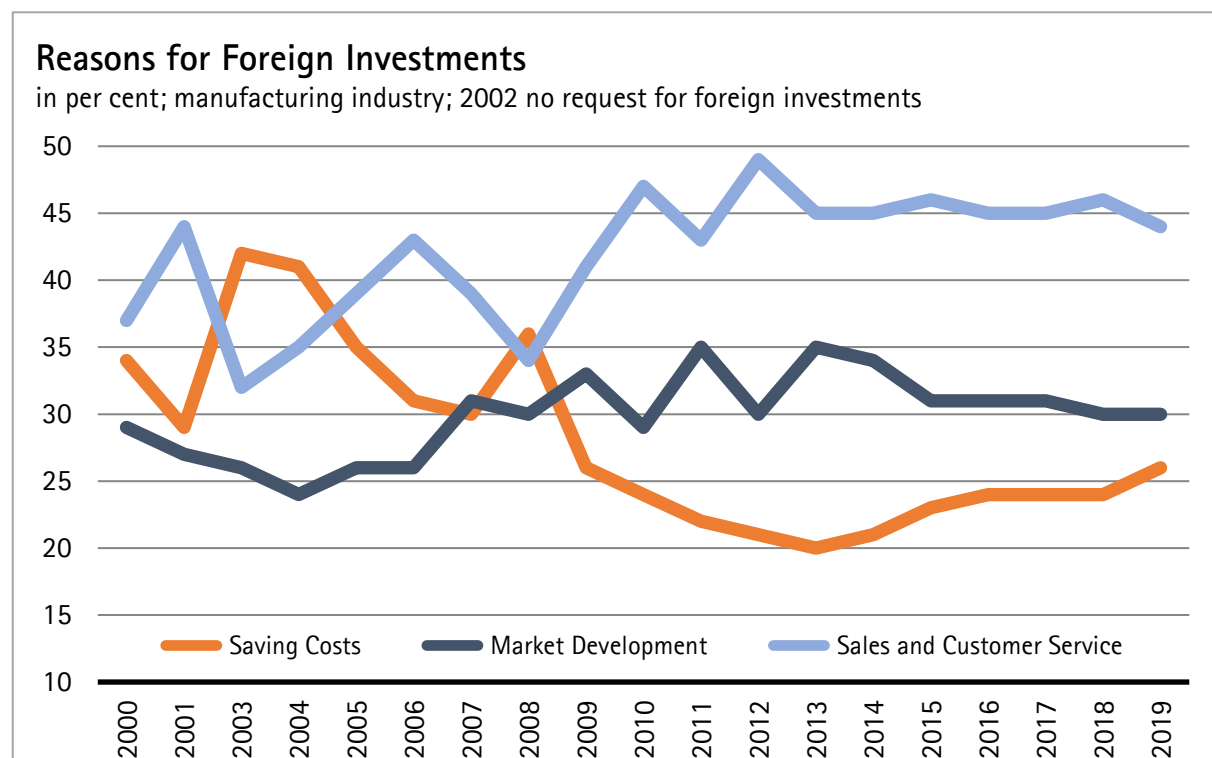
Investments abroad for cost reasons are more in the spotlight again

For cost reasons, investing abroad is currently a motive for more companies. After three years at the same level, this motivation reason is rising again (26 percent, 2018: 24 percent). 30 percent of companies continue to plan to invest abroad to open up new markets. The main motive for the commitment outside Germany remains the goal of establishing sales structures, although it is slightly losing in importance (44 percent, 2018: 46 percent).

Cost savings gain in relevance

Almost 40 percent of companies active abroad, who describe their current business situation as poor, say they want to invest abroad for cost reasons – in 2018 it was only 19 percent – a signal for Germany as a business location, and at the same time a sign for the increasing competitive pressure in the difficult international environment. The (domestic) business risks are increasingly causing companies headaches and making the journey abroad more

attractive for the purpose of cost savings. More production abroad for the purpose of saving costs means avoiding domestic burdens such as high energy and electricity prices, higher taxes or bureaucratic expenses. In addition to labour costs and energy and raw material prices, there is uncertainty about the development of domestic and foreign demand. Of those companies that want to invest abroad mainly for cost reasons, 45 percent now see a risk to their business development in domestic demand and 47 percent in foreign demand (2018: 29 and 28 percent, respectively). The companies intend to minimise these risks by maintaining a broad presence abroad. This is particularly true in the case of foreign investments for the purpose of cost savings – at the inside-out also at the expense of the domestic location. This is because companies with cost reduction plans abroad plan less expansively at home than the rest of industry – both in their domestic employment plans (employment balance: zero points, total industry: ten points) and in their investment plans at the respective location (investment balance: eight points, total industry: 16 points).



Motives for foreign investment by German industrial enterprises (in percent)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Saving Costs	42	41	35	31	30	36	26	24	22	21	20	21	23	24	24	24	26
Market Development	26	24	26	26	31	30	33	29	35	30	35	34	31	31	31	30	30
Sales and Customer Service	32	35	39	43	39	34	41	47	43	49	45	45	46	45	45	46	44

Sales/Customer Service: Continued Priority

The main motivation for investments abroad remains the development and expansion of sales and customer service, even though this motive is slightly losing importance at the current margin. For this reason, 44 percent of companies want to invest cross-border (2018: 46 percent). The aim is not only to open up new business areas, but also to sell products "Made in Germany" and to ensure customer advice and after-sales service abroad. This also opens up opportunities for companies to recruit specialists locally. The bottom line is that the domestic location also benefits from the commitment of foreign companies. Companies wishing to expand their sales network also have more expansive investment and employment plans at home (balances: 23 and 24 points, industry as a whole: 16 and ten points respectively). In high-technology areas such as mechanical engineering, sales and customer service continue to grow at a high level (62 percent, preliminary survey: 60 percent). In the chemical industry, too, more companies want to invest abroad than before (43 percent after 34 percent). For this reason, at least one in two metal producers and processors wants to invest abroad (55 percent) – more than ever before.

For the relatively energy-intensive manufacturers of automobiles and high-quality automotive parts, opening up new markets remains the most important investment motive abroad (50 percent, 2018: 51 percent). Among the labour-intensive manufacturers of metal products, this motive continues to increase (37 percent, 2018: 34 percent). Significantly more manufacturers of electrical equipment also want to invest in setting up local production facilities in the coming months (31 percent, 2018: 19 percent).

Production stable to open up new markets

Once again, three out of ten companies are planning their foreign investments with the aim of setting up local production facilities to open up new markets. On the one hand, local production enables companies to respond more quickly and better to customer requirements. On the other hand, companies can avoid long transport routes or trade barriers such as customs duties or special approvals in this way. Companies that state this motive also occasionally plan to consolidate, expand or optimise existing capacities.

Target regions of foreign investment

Companies invest less and more widely

In view of the growing global uncertainty caused by trade disputes or US sanctions, the industry is becoming increasingly reluctant to invest abroad in all regions of the world. At the same time, companies with foreign investments are increasingly spreading their investments across different continents in order to better protect themselves against risks. By far the most popular investment region remains the euro zone. But uncertainty is also rising in the common domestic market in view of Brexit and the gloomy economy. Outside Europe, Asia is the most important investment destination. Despite the trade conflict with the USA, China in particular continues to attract a large proportion of German non-European investments. North America remains an important target region for foreign direct investment. However, with regard to the US administration's trade policy, companies are cutting their foreign budgets significantly – more sharply than in any other region. The discussion about new import duties – especially punitive duties on European cars – is creating further uncertainty. The positive effects of

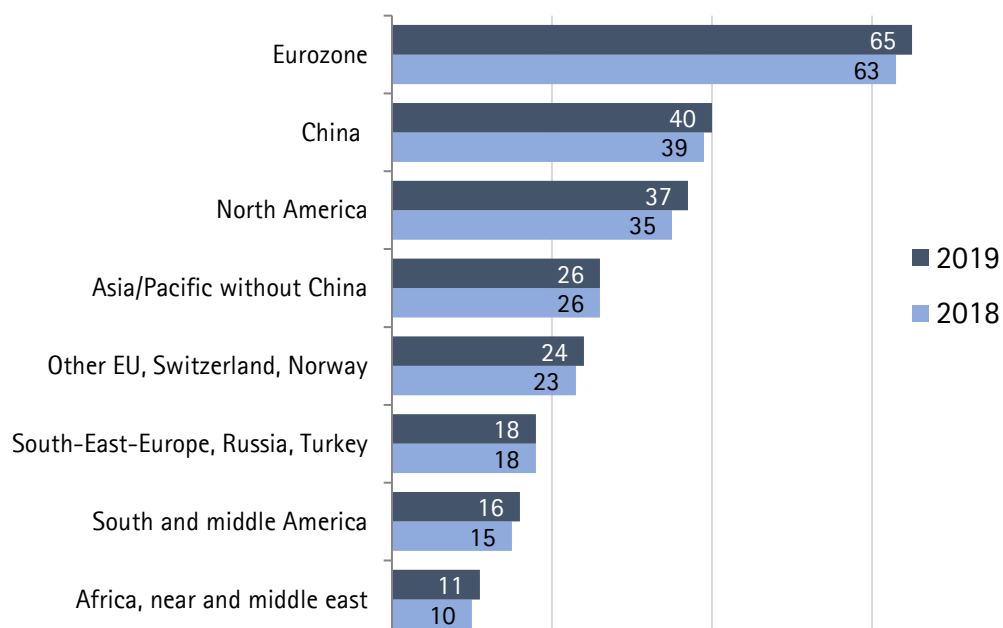
last year's US tax reform are also increasingly losing their impact.

Eurozone - as a safe haven with proximity to the home base

The euro zone is the central investment location for German industry. 65 percent of companies operating abroad want to do business here (previous year: 63 percent). In the non-euro states, Switzerland and Norway, 24 percent of companies are planning new investments (previous year: 23 percent). Especially in times of high trade policy uncertainties, membership of the European single market is an advantage for companies. However, the trade disputes with the USA and Brexit are dampening the overall economic mood. With the exception of a few Eastern European countries, growth in the European economy has slowed down significantly. The investment balance in the common currency area is falling from 29 to 17 points, in the rest of the EU from 38 to 25 points. The economic slowdown is forcing companies to look more closely at their costs again. Overall, cost savings in the euro zone are once again gaining in

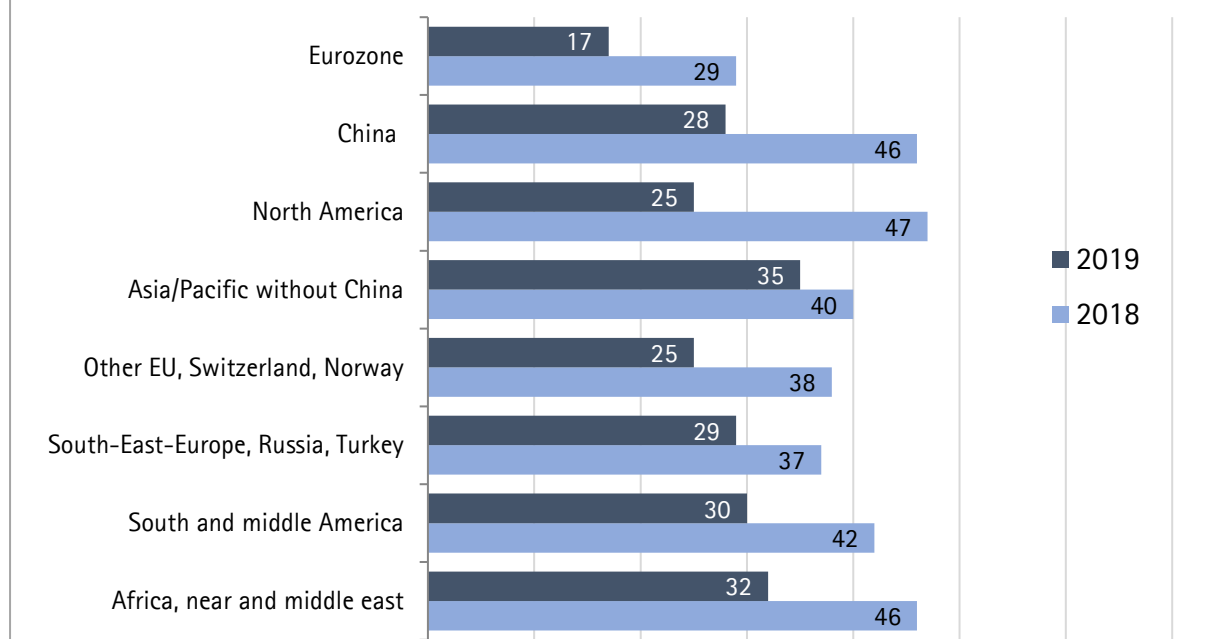
Foreign Investments of Manufacturing Industry by Region

in per cent; multiple answers possible



Expected foreign investments by target region

Balance of "higher" minus "lower" messages in points



importance as an investment motive (25 per cent after 23 per cent). In return, fewer companies (23 after 24 percent most recently) are investing in products to open up new markets – in other words, in expanding production capacities – and in sales and customer service (52 after 53 percent most recently). The picture is similar in the other EU states..

Behind the approaching Brexit there is still a big question mark, even after the postponement granted by the EU. The uncertainty about future trade relations with the EU represents a major challenge for companies and is already weighing on business. As a result, Great Britain as an investment location is losing considerable attractiveness. Only slightly more than ten percent of all investments are to be made in the United Kingdom in the coming twelve months.

China: main target region outside the internal market

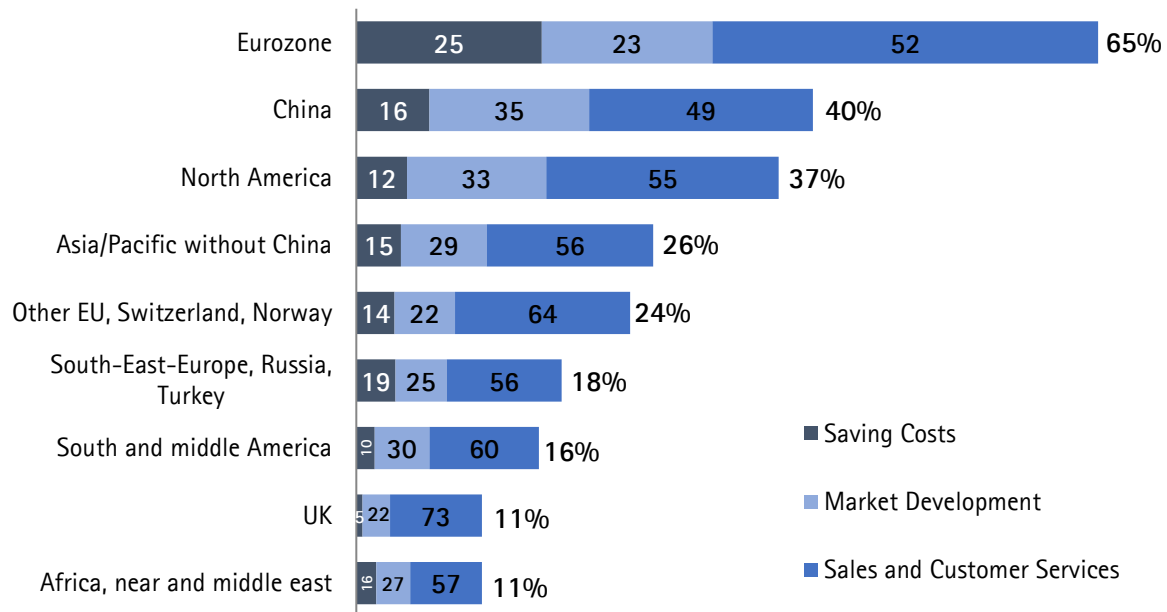
With a share of 40 percent (previous year 39 percent) of German industrial companies investing abroad, China is the most popular investment destination outside the European Union. However, the investment balance of "more" and "less" investments has fallen significantly – from 46 to 28 points. After North America (USA, Canada, Mexico; 47 to 25

points), this is the second sharpest decline worldwide. The pace of growth in China has slowed noticeably. Whether China will reach an agreement with the United States on tariffs remains to be seen. In addition to the economic dispute with the USA, domestic factors such as weak consumption are also acting as a brake on economic growth. Motor vehicle manufacturers (65 percent, previous survey: 58 percent), electrical engineers (50 percent, previous survey: 47 percent) and manufacturers of metal products (44 percent, previous survey: 41 percent) want to be more present in China than before. The chemical and pharmaceutical industries (31 per cent after 40 per cent) are making cuts backs.

In the first survey in 2005, cost reasons were a determining motive for investments by German companies (29 percent). In 2008, together with production, it was even the most important motive for opening up new markets (35 percent each). Due to the strong growth in recent years, labour costs, for example, have risen noticeably. As a result, cost aspects have lost importance as an investment motive (2018: 17 percent, 2019: 16 percent). The main investment motive in 2019 remains the establishment and expansion of sales and customer service (both 49 percent after 50 percent). At the same time, the slight opening of the country, such as the shortening

Foreign Investments of Manufacturing Industry by Region and Reason

in per cent; multiple answers possible; numbers in brackets data from the last year



of the "negative list" – a list of industries in which foreign companies are allowed to operate at all – opens up new opportunities for production to open up new markets (35 percent after 33 percent). Nevertheless, market opening in China is developing very cautiously and is often associated with severe restrictions.

US trade policy burdens investments

Against the background of the protectionist trade policy course of the USA, North America is losing its attractiveness as an investment location for German companies. Although a higher relative share of companies with foreign investments is reaching the USA (37 per cent after 35 per cent), the US is not the most attractive investment location for German companies. However, considerably more companies are reluctant to make new investments or expand their activities in the NAFTA region than a year ago. At 25 points, the investment balance is 23 points below the previous year's level (48 points) – the sharpest decline worldwide. The investment balance thus reached its lowest level since the financial crisis. With regard to the investment motive, fewer companies are currently willing to invest in opening up new markets (33 after 35 percent). On the other hand, investments to cut costs are gaining in importance (twelve per cent after ten per cent). At 55 percent, sales and customer service remain at the

level of the last survey. An above-average number of companies from the automotive industry (50 percent after 41 percent), the rubber and plastics industry (45 percent after 35 percent) and mechanical engineering (44 percent after 38 percent) want to invest in North America. In contrast, fewer metal producers and processors (22 percent after 45 percent) and electrical engineers (35 percent after 38 percent) want to be active in this region.

There is also a question mark behind the US economy at present. Last year's momentum is likely to ease this year due to trade disputes and higher interest rates. Added to this is the hanging game around the budget including "shut-down" and national emergency. The NAFTA follow-up agreement USMCA with Mexico and Canada, which is currently in the ratification process, is a further step towards "America first". If the new trade pact is adopted as planned, both Mexico and Canada would be worse off than NAFTA.

Investments in Asia remain popular

More than a quarter of companies aiming to invest abroad focus on Asian countries (excluding China) or the Pacific region (still 26 percent). But also here, less will be invested than recently (investment balance 35 instead of 40 points). The region remains attractive for German investors, particularly because of

the high growth rates and the associated development potential in India, the "tiger states" and other Southeast Asian countries. The trade agreements with Japan, Singapore and Vietnam also offer new sales and investment opportunities. The most important investment motives continue to be sales and customer service (56 percent after 58 percent). Investments based on rationalisation, on the other hand, are gaining in relevance (15 per cent after 13 per cent). Production for the purpose of market development is once again in second place with 25 percent.

Hardly any new impetus in Eastern Europe

Once again, 18 percent of the total investments of German industrial companies are going to Eastern/Southeastern Europe (outside the EU), Russia and Turkey. This is still well below the region's high of 34 percent (2007). Compared to the rest of the world, however, investment plans are declining less (29 per cent after 37 per cent) – a commitment to the region. The two largest economies in the region, Russia and Turkey, are causing unrest. In the Russian Federation, US sanctions in particular are hampering growth. The economic situation on the Bosphorus remains tense, also due to the renewed losses of the Turkish lira. In view of the investment motive, industrial companies are again investing more to save costs (19 per cent after 17 per cent). Sales and customer service are losing shares (56 after 58 percent). At 25 percent, market development remains the second most important investment intention.

Central and South America: still subdued

The proportion of German industrial companies aiming to invest in Central and South America increased slightly to 16 percent (previous year: 15 percent). At the same time, the number of companies willing to invest is falling between the Caribbean and Tierra del Fuego. More companies want to invest more

again in cost savings (10 after 9 percent) and in sales and customer service (60 after 57 percent). Market development, on the other hand, is losing weight (30 per cent after 34 per cent). The concerns are particularly great in Venezuela, but also in the economically important G20 state of Argentina. The country is still in a deep recession. In Brazil, the economy should pick up some momentum. Meanwhile, there is still a question mark behind the new government's economic policy course, especially in view of the planned trade agreement with the EU Mercosur.

Iran sanctions with dramatic consequences

With significantly reduced investment plans, companies are planning an engagement in the countries of Africa and the Near and Middle East (investment balance 32 after 46 points). The main reason for the sharp decline in investment is Iran in particular. In view of the US sanctions reactivated in November 2018, the economy is likely to shrink in the foreseeable future. There is a slight hope with regard to the special purpose vehicle created by the EU to initiate the INSTEX exchange in order to maintain trade with Iran. In North Africa, on the other hand, growth continues. Currently, large infrastructure projects such as the construction of the new administrative capital in Egypt are increasingly attracting foreign investors. But in the northern African states, too, investment barriers continue to increase, for example in the form of targeted discrimination against foreign companies. A total of eleven percent of foreign investment – slightly more than in 2018 (ten percent) – goes to the MENA region. Above all, the cost-saving motive is gaining in importance (16 per cent, previous year 11 per cent). Production for market development also increased slightly by 27 percent (previous year: 25 percent). Sales and after-sales service are clearly losing ground (57 per cent after 64 per cent).

Survey

1. How will your company's expenditure on investments abroad develop in 2019 compared to 2018?

- higher expenditures
- consistent expenditure
- lower expenditures
- no foreign investment in either year

2. Where does your company plan to make foreign investments in 2019? (Multiple answers possible)

- Euro zone
- other EU, Switzerland, Norway
- of which United Kingdom
- Eastern/Southeastern Europe (excl. EU), Russia, Turkey
- North America
- South and Central America
- Africa, Near and Middle East
- China
- Asia/Pacific (excluding China)

3. What is the functional focus of your company's foreign investments in 2019?

- Production in order to save costs
- Production for the purpose of market development
- Sales/Customer Service
- Other: (as comment field)

4. Do the global trade conflicts in your company lead to a reluctance to invest? (Multiple answers possible)

- Yes, inland
- Yes, abroad
- no
- comment