Going International 2023

Experiences and prospects of German business in foreign business – results of a company survey

DIHK Deutsche Industrie- und Handelskammer

IHK Deutsche Industrie- und Handelskammern

Methodology

The nationwide survey "Going International 2023" by the DIHK was created with the support of the 79 Chambers of Industry and Commerce (IHKs) in Germany. Around 2,400 foreign-active companies based in Germany took part in the survey from 30 January to 15 February 2023.

The company responses are distributed by company size class as follows: 79 % 0-249 employees, 8 % 250-499 employees, 5 % 500-999 employees, 8 % more than 1,000 employees. Of the company responses, 54 % are industrial companies, 3 % are from the construction industry, 17 % from trade, 14 % from the service sectors, 12 % are others.

The companies operate as follows in their foreign business: 84% export from Germany, 30% import to Germany for sale, 29% have subsidiaries or branches abroad, 18% source abroad for production in Germany, 18% are independent cooperation partners, 17% maintain a representative office or sales office abroad, 9% have a joint venture/alliance, 9% have research and development, 6% are active abroad via e-commerce, 4% have transit trade and 2% have a purchasing office abroad.

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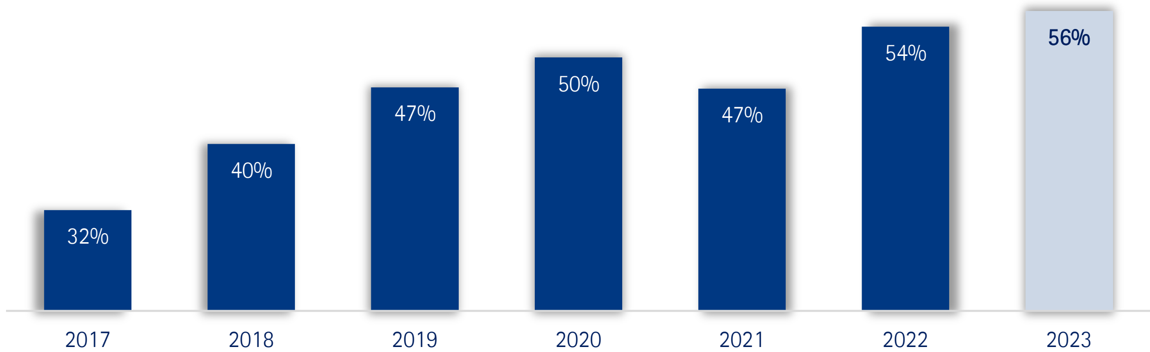
Summary

German companies operating internationally continue to be increasingly confronted with new and additional trade barriers. 56 percent of companies - more than ever before in the survey - have registered an increase in obstacles to their international business in the past twelve months. In particular, local certification requirements and increased security requirements are increasing the costs and time needed to conduct international business. One-fifth of the companies also see themselves restricted by local content regulations. Policies that require a minimum level of local production to favour the local economy, such as the Inflation Reduction Act (IRA) in the US, discriminate against foreign producers. For those companies that are seeing an increase in trade barriers, the sanctions imposed by the European Union (EU) and other countries on Russia and Belarus and the counter-sanctions related to the Russian war in Ukraine are also creating increased challenges. Businesses also continue to register trade barriers in their economic relations with the United Kingdom (UK). Three years after the UK's exit from the EU, the loss of the benefits of the single market is clearly noticeable.

Increasing protectionism, magnified by rising trade barriers, is having a negative impact on German companies' global business. 24 percent expect foreign business to deteriorate in the current year, only 15 percent expect an improvement. Thus, companies are more negative about their future foreign business than they were a year ago (previous survey was conducted at the beginning of 2022 before the Russian invasion on 24 February). Companies see the best business prospects in North America, especially in the US, and - despite a decline - in Europe, Asia and South and Central America, while they are mostly significantly pessimistic in the rest of the world. Especially in Russia, Eastern and South-Eastern Europe as well as the United Kingdom, China and Africa, companies' already gloomy business expectations have deteriorated further.

The changed geopolitical circumstances are leading companies to critically examine their previous international orientation. Every second company is currently planning to open up new markets - primarily for the export of its goods and services, but also for sourcing for imports or for setting up new production facilities abroad. In addition, two out of five companies are increasing their stock levels. Adjustment in their supply chains is the responsibility of the companies, but appropriate policies can support companies in their diversification efforts. For example, 70 percent of the companies want policymakers to work hard to reduce trade barriers. For more than one in two companies, trade agreements with important partners are helpful in broadening their supply chains. Strengthening the World Trade Organisation (WTO) in the form of better multilateral rules is also key for two-fifths of the companies.

Proportion of companies that have felt an increase in barriers to their international operations
in percent



Global trade barriers

In the past year, the global economic effects of the Russian war against Ukraine in particular made international business for German companies more difficult. In addition, China's zero-covid policy, which lasted until the end of 2022, has led to challenges in global supply chains. 56 percent of companies say they have felt an increase in trade barriers in 2022. This is the highest level since the survey began, after the highest level to date of 54 percent was recorded only last year.

As in previous years, local certification and safety requirements are among the key trade barriers. With these additional requirements for importing products that exceed international standards, individual countries put foreign companies at a disadvantage. Almost one in two of the affected companies (47 percent) name local certification requirements as a central barrier in their international business. 42 percent report increased safety requirements. Certification and security requirements add costs and time to international business and increase bureaucracy.

The internationally active German companies currently cite sanctions most frequently as a trade barrier: 57 percent of the companies that have registered an increase in trade barriers are affected by them. The EU and other countries have imposed comprehensive sanctions against Russia and Belarus in response to the Russian war against Ukraine. The sanctions include bans on the import and export of certain goods to and from Russia, transport bans, bans on various services to Russian companies, financial and capital market-related bans, the prohibition of public funding or financial assistance for trade with or investment in Russia (including Hermes guarantees and investment guarantees), and personal sanctions. Companies with business in Russia have to check with each new sanctions package whether their business is affected. Compared to the previous survey, this obstacle has grown the most (previous survey: 24 percent) and is at an all-time high. The last time sanctions were mentioned with similar frequency was in 2019 (56 percent) - at that time, the introduction of US sanctions with extraterritorial effect, among other things, had led to the high mention of sanctions. In response to the Western sanctions, Russia has also imposed far-reaching counter-sanctions. It is worth mentioning here that there are various export restrictions on goods and, above all, the presidential decree of 8 September 2022, which makes the sale of shares in Russian limited companies subject to the approval of a government commission. As a result, it is almost impossible for Western companies to sell their Russian subsidiaries.

Three out of ten companies complain about non-transparent legislation in their target markets, which subsequently leads to disadvantages. A good one in five companies (22 percent) is affected by higher customs duties when exporting and importing their goods - a decrease of ten percentage points compared to the previous survey. However, the decline is not due to tariffs being reduced on a larger scale. It is merely that fewer new tariffs were added last year - unlike in previous years.

19 percent have noticed an increase in local content regulations in the past year. This forces companies to create a certain amount of value locally - otherwise their goods are subject to tariffs or excluded from the market altogether. The US Inflation Reduction Act (IRA), for example, contains such local content provisions, to which state tax incentives in areas such as the automotive industry or renewable energies are tied. In connection with local content regulations, one in ten companies - constant compared to the previous year - reports difficulties in accessing public contracts and sees itself at a disadvantage compared to local companies. Another seven percent of the companies see obstacles to their international business in regulations on technology transfer.

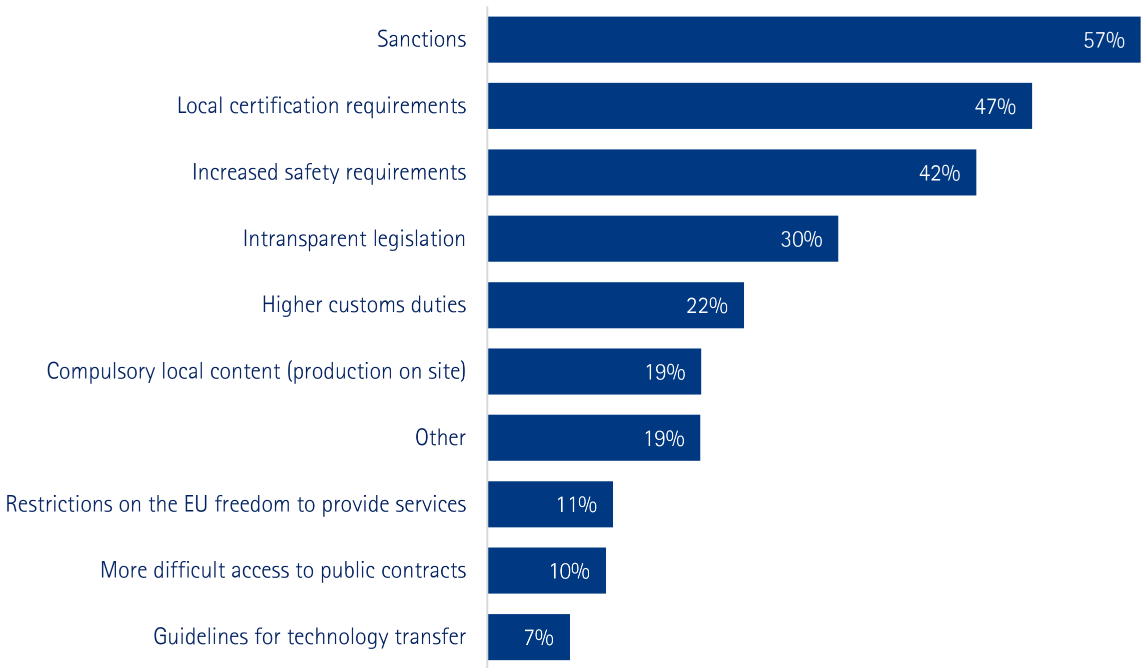
Every tenth company (11 percent) sees restrictions on the EU freedom to provide services as a hurdle in its international business. With the successive abolition of numerous Corona measures over the past two years, the mention of this obstacle has fallen again (previous survey 15 percent). The lifting of travel and quarantine rules has made it easier for service providers to conduct their business and travel has increased again in the past year.

In addition to the trade barriers mentioned, many companies used the opportunity to explain barriers in more detail or to name additional barriers in the free text field of the questionnaire. Many complain about increased bureaucracy, especially on the German side, e.g. long licensing procedures for exports. Companies frequently name high freight and transport costs and supply bottlenecks as well as a lack of transport options as obstacles in their global supply chains that are not state-controlled trade barriers, but nevertheless restrict international business.

Some companies also address trade barriers with the United Kingdom (UK) that have arisen as a result of the UK's exit from the EU single market on 31 January 2020. In particular, the plans to deviate from EU rules and standards, for example in data protection, food or chemical products, make it more difficult for German companies to plan their UK business with certainty.

Increase in trade barriers in international business

in percent, multiple answers possible



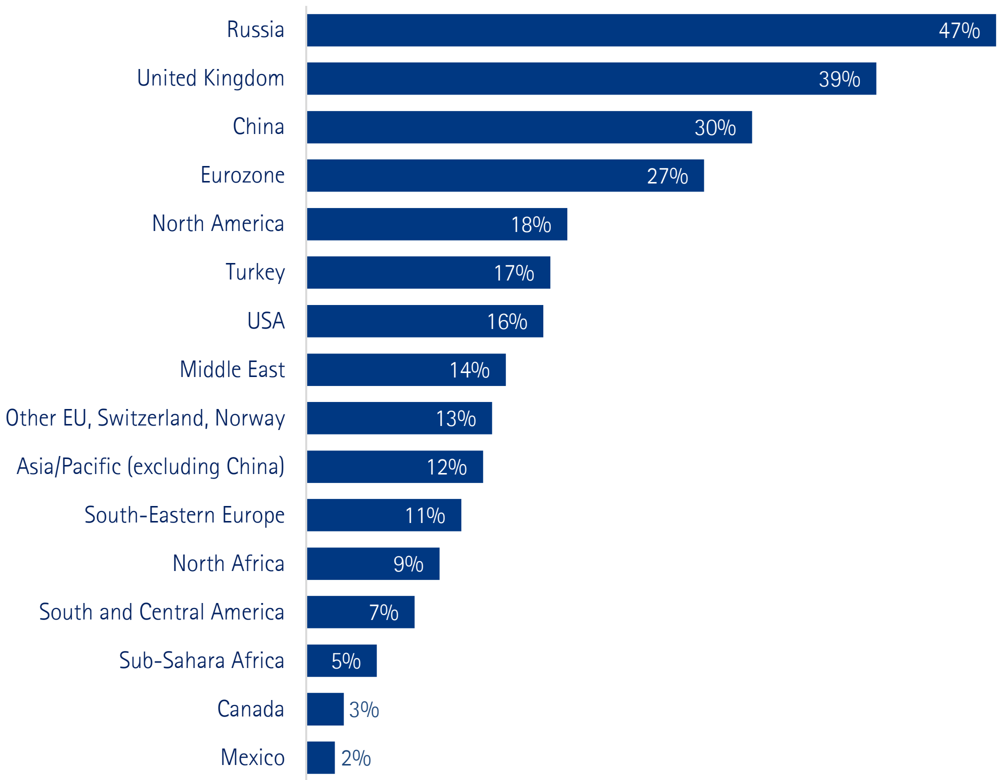
Trade barriers in the regions

At 56 percent, more companies have reported an increase in trade barriers than ever before in the survey. Many barriers have understandably arisen in business with Russia. Companies with business relations to Russia have to check with each new sanctions package whether they are affected by the sanctions. This increases the time and bureaucracy involved and even leads to the termination of business relations. 47 percent of the companies - more than in any other region - have perceived an increase in hurdles in 2022, primarily in Russia.

In second place in the list of countries where companies primarily feel an increase in trade barriers is the United Kingdom (39 percent). Three years after Brexit, numerous obstacles have arisen there, such as higher customs bureaucracy, tariff barriers to trade and standards that deviate from those of the EU. The traditionally good economic relations with the UK are therefore under considerable strain.

Increase in trade barriers in international business by region

in percent, multiple answers possible



Three out of ten companies perceive an increase in trade barriers in their business with China. For the companies, local content regulations and requirements for technology transfer are the main obstacles to business relations. In the Asia-Pacific region (excluding China), on the other hand, one in eight companies registers an increase in trade barriers. This is not an encouraging result either - against the backdrop of the necessarily increasing importance of this economic region.

Notwithstanding the common internal market, 27 percent of the companies see an increase in barriers to doing business within the eurozone and 13 percent in the region covering the remaining EU countries outside the common currency area as well as Switzerland and Norway. Companies complain about restrictions on the EU's freedom to provide services. In addition, there is a threat of new trade barriers in business relations with Switzerland, which terminated the negotiated framework agreement with the EU in 2021. For example, there are problems with the autonomous

Swiss adoption of the constantly evolving European legislation, which makes mutual product recognition more difficult - and thus burdens EU-Swiss trade.

Every tenth company sees an increase in trade barriers mainly in Eastern and South-Eastern Europe (outside the EU). In Turkey, 17 percent have registered an increase in trade barriers. These include anti-dumping duties on the part of Turkey on textile imports from certain third countries. In the context of such and other trade defence measures, Turkey is also pushing controls on bilateral trade in goods between the EU and Turkey to counteract so-called circumvention imports.

In their US business, 16 percent of the companies have perceived more trade barriers in the past year. The focus here is on the local content provisions of the IRA, some of which violate the rules of the World Trade Organisation (WTO). Other issues that are perceived negatively by German internationally active companies in trade in the otherwise good transatlantic relationship are the extraterritorial effect of US export controls and Buy America clauses in US public procurement.

Business prospects in the world regions

The increase in trade barriers, the economic impact of the Russian war in Ukraine and China's Corona measures made it more difficult for internationally active German companies to do business globally last year. The outlook for 2023 also remains pessimistic. Compared to the previous survey, the business outlook is gloomier: 24 percent (previous year: 21 percent) expect poorer foreign business this year. Only 15 percent (previous year: 18 percent) expect better business in 2023. The balance of positive and negative assessments thus worsens to minus nine points after minus three points previously. This is the fourth year in a row that companies are predominantly pessimistic about their global business outlook. Only in North America and South and Central America as well as in parts of Europe do companies expect their business to expand.

Global Business Perspectives (Worldwide)

(Figures in percent, balance of "better" minus "worse" reports)

Expansion of foreign business in the USA, dismal prospects in the eurozone

German companies expect slightly worse business overall in their foreign markets this year than they did in 2022. They still rate their current business situation best in the eurozone and the USA. In the USA, almost half of all companies currently report good business (49 percent after 45 percent previously), while 14 percent rate their current business as poor (17 percent previously). This brings the balance up by seven points to 35. The business outlook for the coming months of the companies improves slightly compared to 2022. One-third of the companies report a more optimistic business outlook for 2023 (34 percent), while ten percent expect it to worsen. Overall, the balance rises by three points to 24. This development shows that the United States is gaining in importance for investments by German companies and remains an important sales market.

The business situation in the Eurozone is similar to that in the USA. 46 percent of the companies report that business is currently good, while around one in ten companies complains about poor business (nine percent). However, companies are much more pessimistic about their outlook for 2023 than in the previous year. Fewer companies are optimistic about their foreign business in the coming year (19 percent), while at the same time the share of companies with a worse outlook has risen to 17 percent. The balance sank by an above-average 17 points to two points. One of the main reasons for this is the rise in electricity and energy prices in Europe. For the other EU countries as well as Switzerland and Norway, a similar trend can be seen for foreign business. Despite a slight deterioration, companies in these countries still report good business at the moment (28 points after 33 points previously). Companies also assess their outlook for the coming months as predominantly positive with a balance of four points, yet slightly worse compared to 13 points previously.

Increased importance of South and Central America

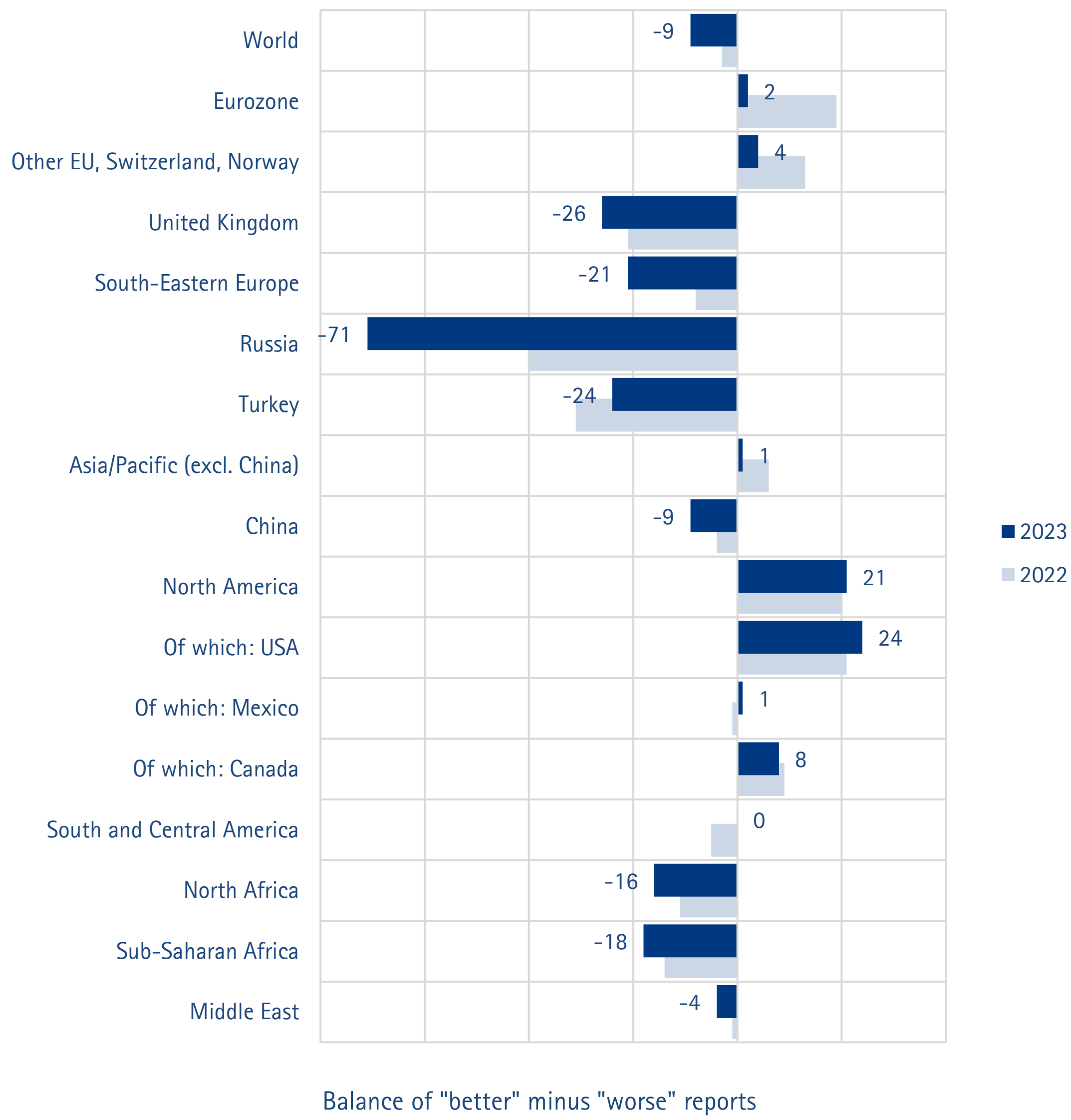
Companies active in the South and Central American market assess their current foreign business as predominantly negative. However, the balance has risen by five points to minus 15. However, a more optimistic business outlook for 2023 is emerging. Since 2021, the business outlook has been gradually improving. While the assessment two years ago was still clearly pessimistic (balance: minus 17 points), positive and negative expectations now balance each other out (balance: zero points). The region is gaining in importance not least because of its raw material deposits. In addition, the economically relevant negotiations to conclude a trade agreement between the EU and the Mercosur states Brazil, Argentina, Uruguay and Paraguay are currently gaining momentum again. Every fifth company says that South and Central America will become more important for its foreign business in the medium term. According to the companies, opening up Central and South America as a new market for exports is a main reason for this.

Business decline in Asia

The foreign business of German companies in the Asian region has deteriorated somewhat in 2023 compared to the previous year. On balance, companies still assess the business situation in the Asia-Pacific region (excluding China) as predominantly good, but the surplus decreases slightly compared to 2022 - to three points after four points previously. 17 percent of the companies assess their prospects for the Asia-Pacific region as positive, 16 percent as negative (balance: one point). A slight downward trend can thus be observed due to a gloomy economy and recently strained supply chains (balance of previous survey: six points). Nevertheless, the region is gaining in importance for German companies. Three out of ten companies indicate a medium-term increase in the importance of Asia/Pacific (excluding China) for their business, especially with regard to market development. Many companies are also planning to establish another mainstay outside China.

As in the previous survey, the companies' assessment of their business with China is predominantly negative. Only 22 percent of the companies report that business in China is currently good. On the other hand, 35 percent report bad business. Thus, the balance drops from minus three points to minus 13 points. The business outlook of German companies in China for the coming months has also deteriorated. With a balance of minus nine points, companies are five points more pessimistic about their prospects for 2023 than last time. Although the zero-covid policy in the country was lifted at the end of 2022, the three years of extensive isolation have left their mark.

Business outlook in the world regions (balance in points)



Brexit continues to impede German foreign business in the UK

Even three years after the UK's exit from the EU single market, German companies' foreign business there has not yet stabilised. 16 percent of the companies rate their current business in the UK as good. This contrasts with 45 percent who report poor business. This brings the balance down to minus 29 points (previously minus 26 points). Companies also still have predominantly pessimistic business expectations for the coming months (balance: minus 26 points after minus 21 points previously). The challenges posed by Brexit for international business remain, with only business in Russia looking worse.

Russian war in Ukraine with negative consequences for Russian business

The Russian war in Ukraine and the associated economic sanctions against Russia as well as Russian counter-sanctions are reflected in the foreign business of German companies. Only five percent of the companies, down from 15 percent previously, rate their current business in Russia as good. This compares to 85 percent who report bad business. The balance thus drops significantly by 46 points to minus 80 points. This trend is also reflected in the companies' business outlook. They also assess their business prospects in 2023 as predominantly gloomy. The balance shrinks to minus 71 points. Both the current business situation and the business outlook are thus at record lows.

Although not to the same extent, there is a similar tendency towards a deterioration in sentiment in the Eastern and South-Eastern European countries (without the EU): Here, the business outlook falls on balance to minus 21 points (after minus eight points previously) and the companies also assess their current business situation in these countries predominantly negatively with a balance of minus 20 points (after minus five points previously).

Major challenges in sub-Saharan Africa, North Africa and Turkey

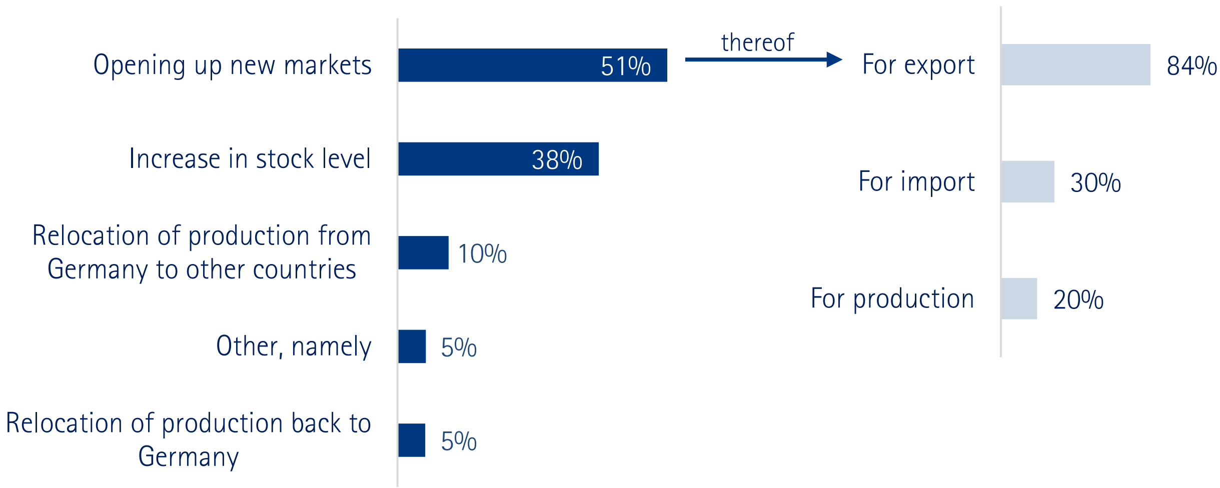
German companies expect a major challenge for foreign business in the African markets. In sub-Saharan Africa and North Africa, companies report a predominantly poor business situation. Only ten and twelve percent of the companies report good business on the African continent. On the other hand, 55 and 46 percent of the companies report bad business. In Turkey, 19 percent of the companies report that their business is good, while 42 percent report that their business is bad. A similar picture emerges for the business prospects of these regions. In Sub-Saharan Africa and North Africa, the business outlook deteriorates to minus 18 points and minus 16 points (previously minus 14 and minus eleven points, respectively). In Turkey, business expectations improve slightly, but remain clearly negative with a balance of minus 24 points.

Companies adapt their international business

In the face of geopolitical challenges, many companies are reviewing their international business. Already the economic consequences of the Corona pandemic, such as trade barriers and disruptions in global supply chains and logistics, have prompted companies to adjust their supply chains. In the past year, the necessary diversification to avoid strategic dependencies has come even more to the fore.

Measures taken by companies to deal with the changing geopolitical circumstances

in percent, multiple answers possible



More than every second company is planning to open up new markets or has already done so - in order to diversify and thus spread or mitigate possible geopolitical risks. 84 percent of the companies planning to enter new markets are particularly looking for sales markets for their goods and services.
Three out of ten companies entering new markets are looking for suppliers to import. In the free text field of the questionnaire, some companies also address diversifying their supplier base and, in some cases, the range of their goods and services in general. One fifth of the companies are planning to open up markets for the construction of new production facilities, especially the companies in the automotive manufacturers and suppliers (24 percent). In the free text field, a few companies state that they want to concentrate more on the EU or find alternative or additional locations to China.

Almost two out of five companies (38 percent) are planning to increase their stock levels. Due to the disruptions in international supply chains, companies are increasingly keeping more goods in stock in order to be less dependent on just-in-time deliveries and to avoid their own delivery failures and production disruptions. The mechanical engineering sector (57 percent) is planning to increase its stock levels more frequently than the average.

Every tenth company is planning to relocate production from Germany abroad. One reason for this is the high energy costs in international comparison, which make German products less competitive. Automotive manufacturers and suppliers plan to relocate their production abroad with above-average frequency (23 percent), as do mechanical engineering companies (14 percent), companies in the metal industry (13 percent) and manufacturers of chemical, pharmaceutical and plastic products (16 percent).

Five percent of the companies are planning to relocate production from abroad back to Germany. One reason for relocating back is the desire to have suppliers closer to production sites or sales markets in order to prevent delivery failures due to logistics-related disruptions.

Changing importance of regions

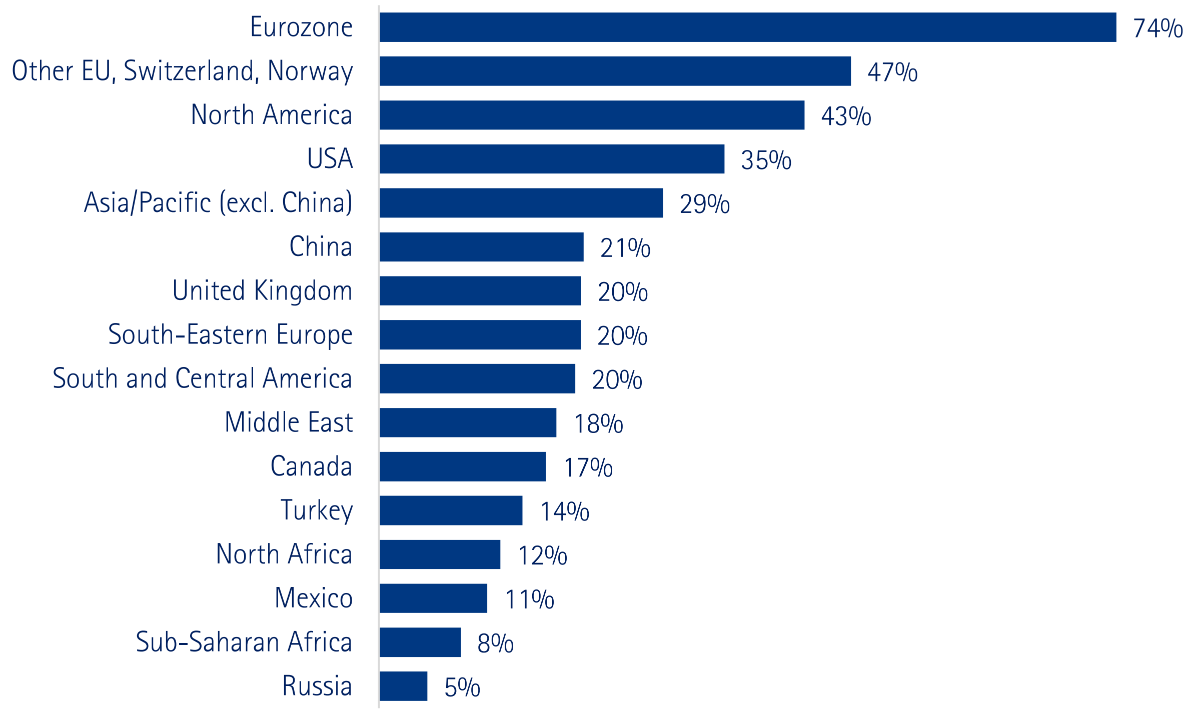
In view of the changed geopolitical conditions, individual regions are gaining in importance for foreign business in the medium term - especially for opening up new sales markets. In doing so, companies are primarily focusing on the markets in which they already conduct a large part of their business. Thus, three out of four companies (74 percent) say that the Eurozone will become more important as a market in the medium term. For just under one in two companies (47 percent), the rest of the EU internal market as well as the EU's close neighbours - Switzerland and Norway - are also of growing importance.

The North American continent (43 percent) and in particular the USA (35 percent) will become even more important for German companies in the medium term. In addition to the market size, the USA has advantageous location conditions, such as more favourable taxes or energy prices. Every fifth company says that South and Central America will become more important for their foreign business. The region is gaining importance not least because of its raw material deposits.

Three out of ten companies indicate a medium-term increase in importance in the Asia-Pacific region (excluding China). For companies that are already active in the Chinese market, for example, the Asian countries offer the opportunity to establish another mainstay outside China. For every fifth company (21 percent), China will gain in importance in the coming years.

Markets that will become more important for companies in the medium term

in percent, multiple answers possible



Diversifying supply chains and adapting to changing geopolitical circumstances is the responsibility of companies. Nevertheless, appropriate policy measures can help support companies' diversification efforts. According to the survey, 70 percent of the companies would like to see greater efforts to reduce trade barriers. Existing trade barriers increase costs and bureaucracy in international trade - and not infrequently discriminate against foreign suppliers like German companies active abroad.

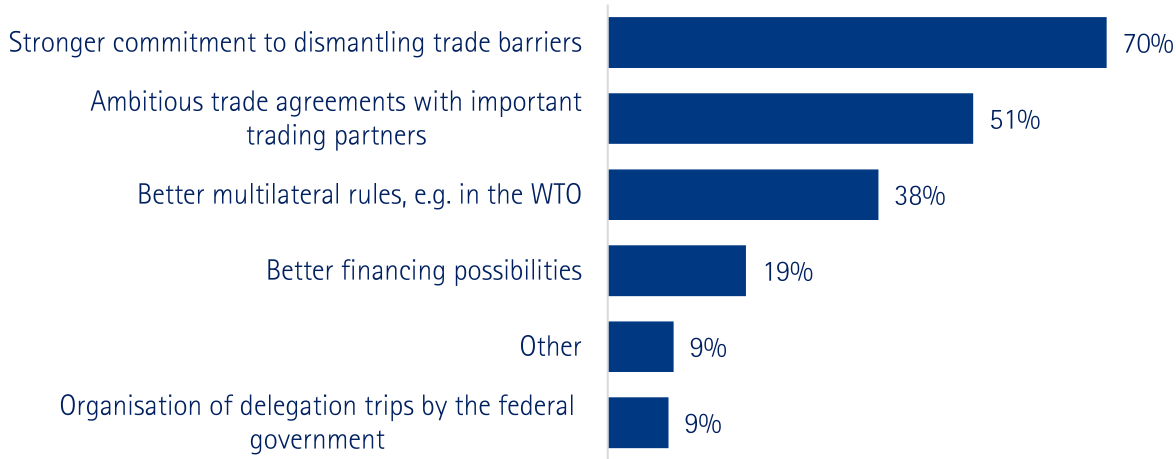
More than one in two companies (51 percent) name the conclusion of ambitious trade agreements with important trading partners as a central building block for being able to diversify their business globally. An open EU trade policy that at the same time represents sovereign EU interests is of great importance to German companies in order to conduct international business with legal certainty and planning reliability. Negotiated agreements with Mercosur and Mexico, for example, could support companies in their international business if they are ratified soon.

A strengthening of the World Trade Organisation (WTO) in the form of improved multilateral rules would also be a central pillar in international business for 38 percent. With its rules, the multilateral trading system covers numerous export and import transactions of German companies with countries with which the EU has no trade agreements. Due to a blockade of the WTO dispute settlement mechanism and WTO rules that have not been adjusted since the organisation was founded in 1995, a modernisation of the WTO is necessary.

In addition, 19 percent of companies would like better financing options for their export business - these include export credit guarantees and investment guarantees, for example. Around one in ten companies also finds delegation trips to future target countries organised by the federal government important in order to come into contact with potential new business partners. In the free text field of the questionnaire, numerous companies state that a reduction in bureaucracy in foreign trade, which arises for example from the Supply Chain Sourcing Obligations Act (Lieferkettensorgfaltspflichtengesetz), the packaging register or the transparency register, which came into force on 1 January 2023, would be an important political measure.

Policy measures that would support the diversification efforts of businesses

in percent, multiple answers possible



Questionnaire

1. how would you rate your current business situation in your target regions? (Answer: Good/Satisfactory/Bad/Not active in this region)

- Eurozone
- Other EU, Switzerland, Norway
- United Kingdom
- Eastern/South-Eastern Europe (without EU)
- Turkey
- Russia
- Asia/Pacific (without China)
- China
- North America
    - Of which: USA
    - Of which: Mexico
    - Of which: Canada
- South and Central America
- Middle East
- North Africa
- Sub-Saharan Africa

2. how do you assess the business prospects this year (2023) in your target regions? (Answer: Better/staying the same/worse/not active in this region)

- Eurozone
- Other EU, Switzerland, Norway
- United Kingdom
- Eastern/South-Eastern Europe (without EU)
- Turkey
- Russia
- Asia/Pacific (without China)
- China
- North America
    - Of which: USA
    - Of which: Mexico
    - Of which: Canada
- South and Central America
- Middle East
- North Africa
- Sub-Saharan Africa

3. did you feel an increase in barriers to your international business in 2022?

- Yes
- No

3.1 If 3. yes, what barriers do you encounter? (Multiple answers possible)

- Higher tariffs
- Reinforced safety requirements
- Local certification requirements
- Compulsion for local content (production on site)
- Requirements for technology transfer
- More difficult access to public contracts
- Restrictions on the freedom to provide services in the EU internal market
- Sanctions
- Non-transparent legislation
- Other (free text):

3.2 If 3. yes, in which states/regions was this mainly the case? (Multiple answers possible)

- Eurozone
- Other EU, Switzerland, Norway
- United Kingdom
- Eastern/South-Eastern Europe (without EU)
- Turkey
- Russia
- Asia/Pacific (without China)
- China
- North America
    - Of which: USA
    - Of which: Mexico
    - Of which: Canada
- South and Central America
- Middle East
- North Africa
- Sub-Saharan Africa

4.1 Which markets will become more important for you in the medium term? (Multiple answers possible)

- Eurozone
- Other EU, Switzerland, Norway
- United Kingdom
- Eastern/South-Eastern Europe (without EU)
- Turkey
- Russia
- Asia/Pacific (without China)
- China
- North America
    - USA
    - Mexico
    - Canada
- South and Central America
- Middle East
- North Africa
- Sub-Saharan Africa

4.2 In view of the current geopolitical challenges: What measures are you currently planning or have you already initiated? (Multiple answers possible, except for the answer *"none*")

- Relocation of production from Germany abroad
- Relocation of production back to Germany
- Opening up new markets
    - For export
    - For the import
    - For production
- Increase in stock level (less just-in-time production)
- None
- Other, namely: Free text

4.3 Which policy measures would make it easier for you to diversify your supply chains? (Multiple answers possible)

- Ambitious trade agreements with key trading partners
- Better financing options (e.g. export credit guarantees, investment guarantees)
- Organisation of delegation trips by the federal government
- Stronger commitment to dismantling trade barriers
- Better multilateral rules, for example in the World Trade Organisation

Other (free text) ______________________________