

Foreign Direct Investment

- Foreign Direct Investments (FDI) create jobs in Germany
- USA remain biggest investment location of the German electrical industry abroad

GTAI - Germany attracted more than 4,900 foreign direct investment (FDI) projects in 2018, according to federal economic development agency Germany Trade & Invest (GTAI).

Together with the 16 federal states, GTAI registered a record of more than 2,062 projects in new settlements, corporate expansions and relocations. This solidifies the positive trend in recent years (2017: 1,910

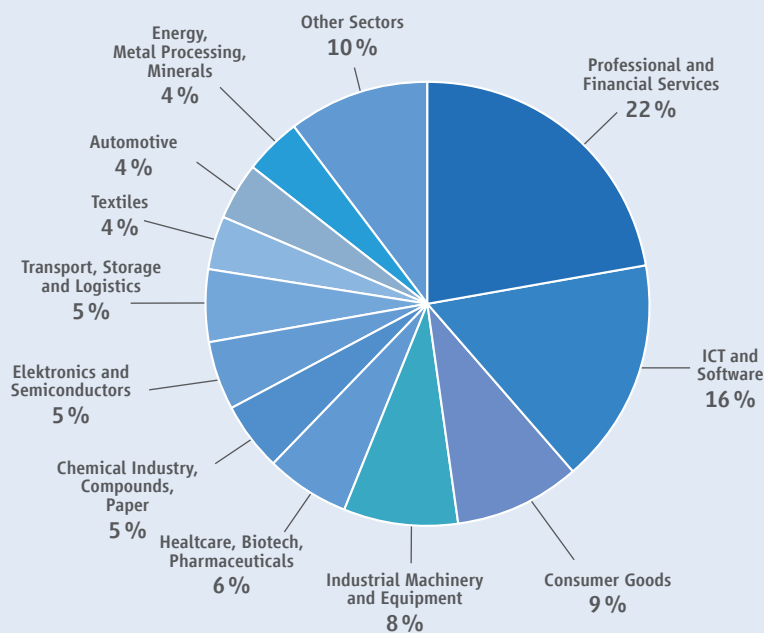
projects; 2016: 1,944 projects; 2015: 1,912 projects).

The USA was the top investor with 345 new projects, followed by Switzerland with 229. Those two were followed by China (188), the United Kingdom (168) and the Netherlands (130). The bulk – more than 40% – of all the projects were from the EU. Moreover, there were more than 2,800 mergers or acquisitions. The companies involved in the projects have revealed their likely job creation numbers, which will total to more than 24,000.

The most popular sectors for investment in 2018 were corporate and financial services (22%), followed by ICT and software (16%). Electronics ranks at number 7 of the sectors (5%), behind consumer goods (9%), machinery & equipment (8%), health sciences (6%), and chemicals (5%). An encouraging sign is the fact that 17% of the companies are looking at Germany as a production and / or research location.

Greenfield & Expansion Projects by Industry

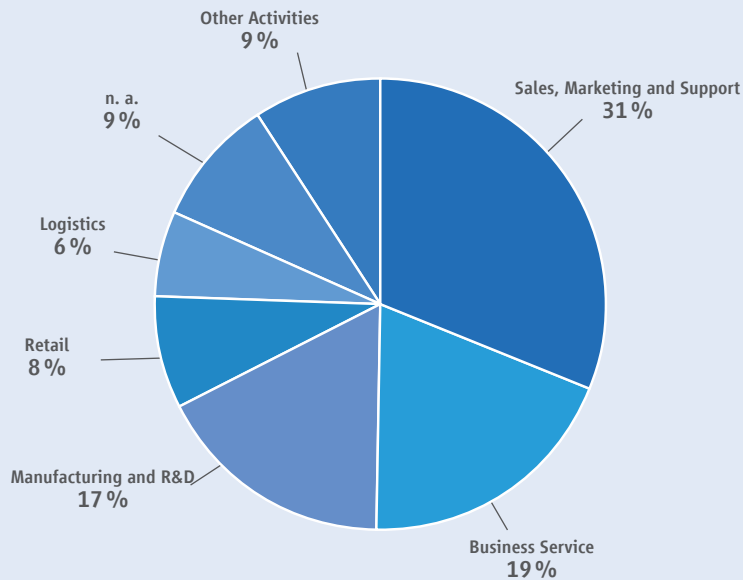
Share in the total number of projects in Germany, 2018



Source: GTAI 2019, Economic Development Agencies of the German Federal States 2019

Greenfield & Expansion Projects by Business Activity

Share in the total number of projects in Germany, 2018



Source: GTAI 2019, Economic Development Agencies of the German Federal States 2019

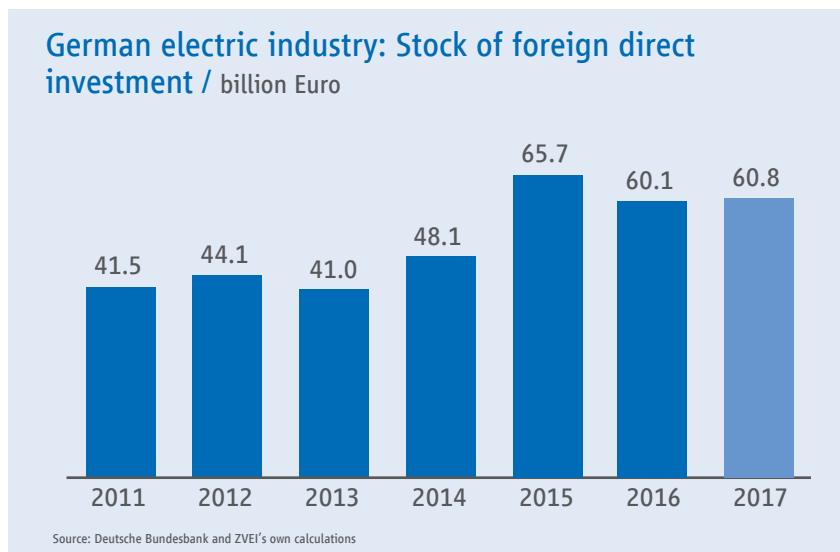
These figures reinforce the attractiveness of Germany as an investment location to foreign companies, as well as the importance of FDI in job creation. According to the recent figures, some 70,000 foreign companies are invested in Germany currently, with investments worth some €534 billion. As a result, around three million people can thank FDI projects for their jobs.

FDI stocks grow continuously

Foreign direct investment steadily increased in recent years due to this increasingly rapid development of new investments. In 2011 FDI stocks amounted to about €402 billion, in 2017 - the latest available data point - this figure has grown to more than €534 billion. €315 billion of these stocks originate in EU countries, which therefore hold just under 60% of FDI stocks in Germany. The United States hold €98 billion or 18% and East Asian countries hold more than €46 billion or 9%. Internationally,

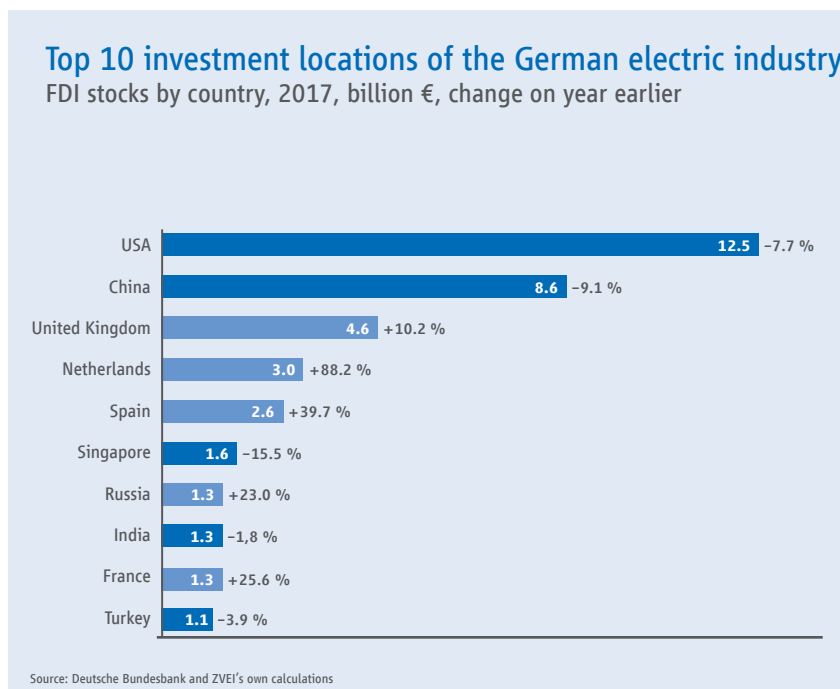
Germany ranks 8th place in terms of these "FDI stocks", according to the recent surveys of UNCTAD.

FDI stock of the German electric industry increases moderately



According to calculations by the ZVEI - German Electrical and Electronic Manufacturers' Association, the German electric industry's stock of foreign direct investment (FDI) in the recent reporting period 2017 increased by 1.2 percent compared to (the revised figure of) 2016 to €60.8 billion. The number of German electric companies with investment stocks abroad slightly went up as well, namely from 402 to 408.

USA remain the electric industry's biggest investment location abroad, China ranks second



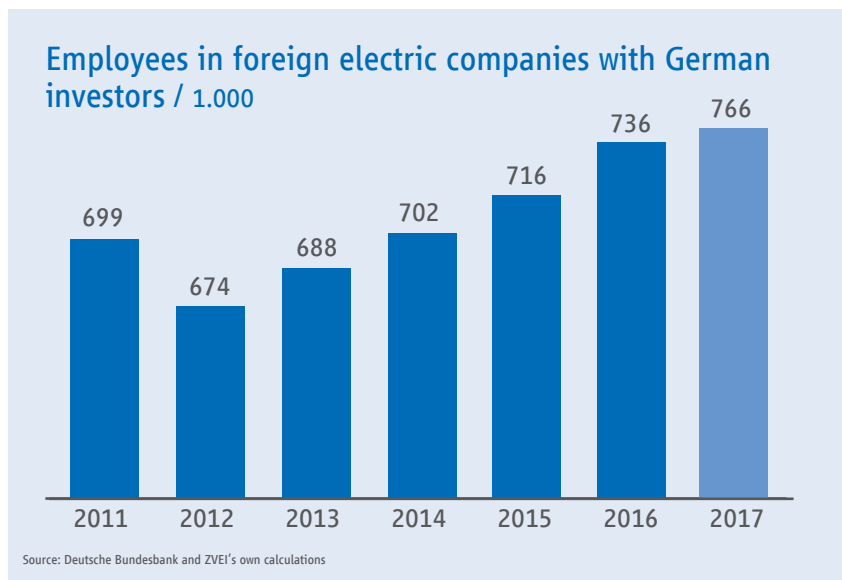
Measured in terms of the current FDI stock, the United States remain the German electric industry's biggest investment location abroad, although the sector's FDI stock there declined by 7.7 percent to €12.5 billion in 2017. China (-9.1 % to €8.6bn) and the United Kingdom (+10.2 % to €4.6bn) rank unchanged second and third. Among the top ten countries the UK, however, achieved only the fifth largest increase. The FDI stock in the Netherlands (again fourth position in 2017) even picked up by 88.2 percent to €3.0 billion. Substantial growth rates could also be recorded for the sector's FDI stocks in Spain (+39.7 % to €2.6bn), France (+25.6 % to €1.3bn) and Russia (+23.0 % to €1.3bn). In contrast, the FDI stocks in Singapore (-15.5 % to €1.6bn), Turkey (-3.9 % to €1.1bn) and India (-1.8 % to €1.3bn) went down. Both Switzerland and Italy dropped out of the top 10, respectively.

Investment stock of the German manufacturing sector increases, too

The German manufacturing industry as a whole registered a somewhat stronger increase in investments abroad in 2017 than the electric industry. Its stock of foreign direct investment picked up by 5.5 percent to €341.2 billion. With it, the electric industry's share in the total FDI stock of all German manufacturing companies declined slightly to 17.8 percent (2016: 18.6 %). In comparison to the other large industri-

al sectors the electric industry ranks third – behind the automotive industry (stock of €119.2bn, share of 34.9 %) and the chemical and pharmaceutical industry (€89.0bn or 26.1 %), but ahead of the mechanical engineering industry (€30.0bn or 8.8 %).

Number of employees abroad increases again



The stock of German FDI in the electric industry abroad came to €71.5 billion in 2017, leaving it 4.5 percent higher than the (revised) figure of the year before. The 1,693 foreign companies in which investments were made employed 766,000 people (+30,000 compared to 2016) and generated annual sales of €162.3 billion (+0.9 %). Please note that the difference between the stock of German FDI in the electric industry abroad and the FDI stock of the German electric industry is explained by the fact that both the German electric industry and other domestic industries make foreign investments not only in their own but also in other sectors at a time

FDI stock in the German electric industry picks up markedly

The FDI stock of foreign investors in the German electric industry increased significantly in 2017 by 19.3 percent to €22.3 billion. The number of domestic companies in which foreign investments were made grew moderately to 867. The number of people employed by these companies also went up slightly by 2,000 to 295,000.

FDI stocks can be subject to exchange rate effects

The Deutsche Bundesbank (German central bank) determines the FDI stocks of German companies abroad and of foreign companies in Germany on an annual basis. This requires converting the foreign currency balance sheets of the investment objects abroad into the respective domestic currency at the end of the reporting period. Hence, FDI stocks can also and especially be subject to exchange rate fluctuations. This means that a depreciation of the euro against the reporting currency alone – other things equal – induces an increase in the FDI stock (and vice versa). In the current reporting period 2017 the euro appreciated against the US dollar by two percent

and against the Chinese renminbi by 3.6 percent compared to the year before, respectively. Hence, the main negative driver behind the declines in the FDI stocks within these countries came from real factors or fluctuations in stock prices.

Foreign direct investment (FDI)

According to the definition of the Organisation for Economic Co-operation and Development (OECD), foreign direct investment (FDI) is a category of cross-border investment by a resident company in one economy with the objective of establishing a lasting interest in an enterprise that is resident in another economy. The investor's motivation is a strategic long-term relationship with the enterprise abroad in order to ensure a significant degree of influence in its management. The lasting interest is evidenced when the investor owns at least ten percent of the voting power of the foreign company.

The objectives of direct investment are thus different from those of portfolio investment which usually does not offer control over the business entity in which the investment is made.

Foreign Direct Investment

FDI Stocks at Year-End

	Unit	2014	2015	2016 ¹⁾	2017
Total German FDI	Billion €	984.2	1,055.2	1,152.7	1,196.4
<i>Change on year earlier</i>	%	7.4	7.2	9.2	3.8
German FDI in the manufacturing sector abroad	Billion €	346.7	365.6	391.5	403.8
<i>Change on year earlier</i>	%	8.8	5.5	7.1	3.1
FDI of the German manufacturing sector	Billion €	247.2	301.5	323.3	341.2
<i>Change on year earlier</i>	%	0.7	22.0	7.2	5.5
German FDI in the electric industry abroad	Billion €	61.2	63.6	68.4	71.5
<i>Change on year earlier</i>	%	11.3	3.9	7.5	4.5
Foreign electric firms in which an investment was made	Number	1,569	1,653	1,679	1,693
<i>Change on year earlier</i>	%	1.4	5.4	1.6	0.8
Number of employees in these firms	1,000	702	716	736	766
<i>Change on year earlier</i>	%	2.0	2.0	2.8	4.1
Sales volume of these firms	Billion €	146.2	152.1	160.9	162.3
<i>Change on year earlier</i>	%	9.0	4.0	5.8	0.9
FDI of the German electric industry abroad	Billion €	48.1	65.7	60.1	60.8
<i>Change on year earlier</i>	%	17.3	36.6	-8.5	1.2
German electric firms that invested abroad	Number	369	388	402	408
<i>Change on year earlier</i>	%	5.7	5.1	3.6	1.5
Top 10 target countries:					
USA	Billion €	4.8	7.1	13.6	12.5
<i>Change on year earlier</i>	%	-5.0	48.0	91.8	-7.7
China	Billion €	10.7	12.0	9.5	8.6
<i>Change on year earlier</i>	%	83.7	12.3	-20.8	-9.1
United Kingdom	Billion €	3.6	3.9	4.2	4.6
<i>Change on year earlier</i>	%	32.9	9.0	7.7	10.2
Netherlands	Billion €	n.a.	1.2	1.6	3.0
<i>Change on year earlier</i>	%			31.0	88.2
Spain	Billion €	2.5	2.4	1.9	2.6
<i>Change on year earlier</i>	%	-3.0	-5.2	-21.0	39.7
Singapore	Billion €	0.9	1.1	1.8	1.6
<i>Change on year earlier</i>	%	20.9	25.4	60.7	-15.5
Russia	Billion €	1.1	1.0	1.1	1.3
<i>Change on year earlier</i>	%	-13.9	-3.1	4.5	23.0
India	Billion €	1.9	2.3	1.3	1.3
<i>Change on year earlier</i>	%	29.0	20.5	-42.4	-1.8
France	Billion €	1.1	1.0	1.0	1.3
<i>Change on year earlier</i>	%	47.3	-6.8	-0.7	25.6
Turkey	Billion €	1.4	1.2	1.2	1.1
<i>Change on year earlier</i>	%	30.4	-12.5	-7.4	-3.9
Total FDI of foreign investors in Germany	Billion €	464.4	473.8	506.3	533.8
<i>Change on year earlier</i>	%	0.8	2.0	6.9	5.4
FDI of foreign investors in the German electric industry	Billion €	16.2	17.8	18.7	22.3
<i>Change on year earlier</i>	%	-5.1	9.9	5.1	19.3
German electric firms into which an investment was made	Number	806	844	866	867
<i>Change on year earlier</i>	%	0.1	4.7	2.6	0.1
Number of employees in these firms	1,000	288	294	293	295
<i>Change on year earlier</i>	%	0.3	2.1	-0.3	0.7
Sales volume of these firms	Billion €	97.5	105.8	110.0	116.4
<i>Change on year earlier</i>	%	1.7	8.5	4.0	5.8

¹⁾ revidiert. / Quelle: Deutsche Bundesbank und ZVEI-eigene Berechnungen / © ZVEI • Stand: Juli 2019



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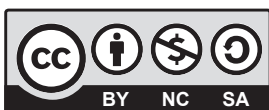
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