Going International 2024

Experiences and perspectives of the German economy in foreign business – results of a company survey

DIHK German Chamber of Commerce and Industry

IHK German Chambers of Commerce and Industry

Contents

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Contact person at the DIHK:
Carolin Herweg
Herweg.carolin@dihk.de
+49 30 20308 2309

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

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

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

Editor: Carolin Herweg

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The main results

1. German companies are increasingly facing trade barriers in their international business. 61 percent of companies - the highest number recorded in the survey - have observed an increase in trade barriers in their international operations over the past twelve months. This continues the trend of rising trade barriers seen in recent years.

2. Companies are particularly struggling with local certification requirements and increased security requirements, which add to the planning and cost burdens for cross-border trade. Additionally, sanctions, especially in dealings with Russia, non-transparent legislation, higher tariffs, and local content regulations are adding to the challenges.

3. In addition to challenges in foreign markets, obstacles originating from Germany and Europe are increasingly coming into focus. 81 percent of companies report domestic challenges in international business. Of these, 60 percent cite bureaucratic hurdles and uncertainty in implementing regulations, such as the EU Carbon Border Adjustment Mechanism (CBAM) or the Supply Chain Due Diligence Act. 57 percent face issues in processing their international transactions, such as long approval times from the Federal Office for Economic Affairs and Export Control (BAFA) or complex procedures in customs clearance.

4. German companies are currently benefiting little from the at least moderately growing global economy. They continue to have negative expectations for their exports for the current year. This sentiment is also reflected in global business perspectives. 26 percent of companies anticipate a deterioration in foreign business this year, with only 13 percent expecting an improvement.

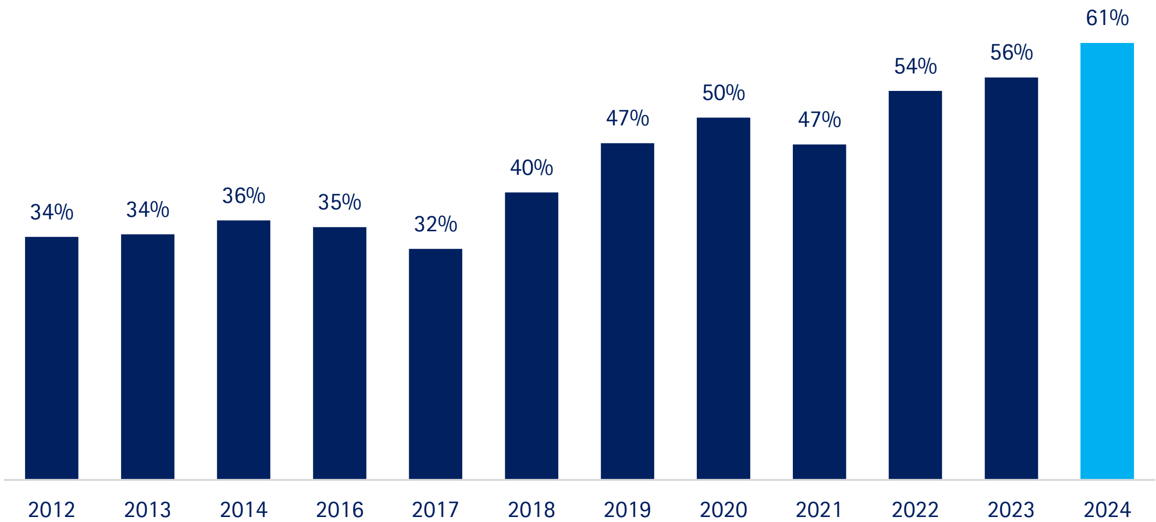
5. Companies only anticipate an improvement in their US business over the next twelve months. Negative outlooks dominate in all other world regions. However, there is rarely such a large divergence between regions. Furthermore, the business outlook for the current year is assessed worse than the current business situation.

Global trade barriers

From the perspective of companies international trade of goods and services is made increasingly more difficult by trade barriers. 61 percent of businesses have noted an increase in trade barriers in their international transactions over the past year, the highest proportion since the inception of the survey on trade barriers in 2012. This continues the trend of rising trade barriers seen in recent years. While in 2017, only 32 percent of companies had perceived an increase, now, with 61 percent, nearly twice as many do. The growing protectionism and the fragmentation of the global economy into separate blocks are becoming increasingly noticeable for businesses.

Large companies with over 1,000 employees have even more frequently observed an increase in trade barriers in their international transactions, with a share of 78 percent, compared to small and medium-sized enterprises with up to 249 employees, of which 58 percent report this. Large companies are often active in many different markets and therefore more frequently confronted with various trade barriers in different regions. At the same time, certain regulations, such as the German Supply Chain Due Diligence Act, perceived by companies as a trade barrier due to bureaucratic requirements, currently apply to companies with 1,000 or more employees.

Percentage of companies that have experienced an increase in barriers to their international business
in percent

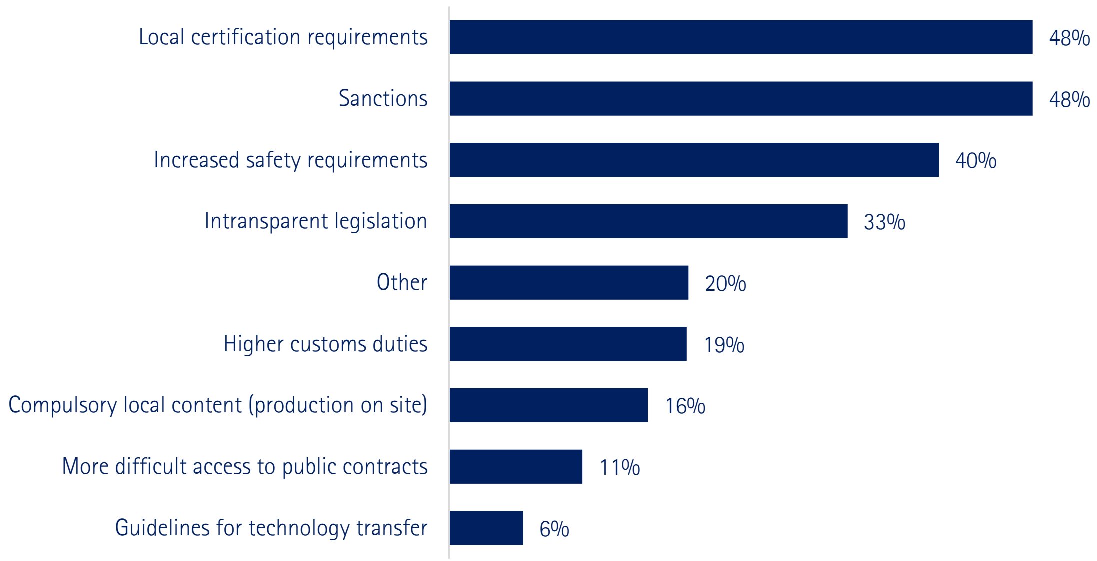


Furthermore, non-tariff trade barriers in the form of local certification requirements and heightened security requirements continue to impede companies in conducting their international business. Almost every other company (48 percent, up from 47 percent in the previous survey) that has observed an increase in trade barriers notes this with local certification requirements. Similarly, heightened security requirements pose a challenge for many companies (40 percent, down from 42 percent in the previous survey). Regulations regarding product safety - such as those for electronic devices, chemicals, or food - or data protection often vary between countries or require separate examination and certification. Companies must present these certificates before they can market certain products or services in a country, leading to additional costs and planning time. For instance, in the aftermath of its EU exit, the United Kingdom (UK) announced it would no longer recognize the CE marking and instead mandated a new national marking (UKCA). Even with the exceptions recently announced by the UK, a significant hurdle remains for affected companies in the UK market. In the United States, local certification and security requirements entail additional effort, especially for manufacturers of chemicals, pharmaceuticals, plastics, electrical equipment, and agricultural products.

In 2023, companies that observed an increase in trade barriers also particularly noted additional sanctions. Almost half of the companies (48 percent) cite compliance with sanctions as a challenge, especially in dealings with Russia, whereas the previous year, 57 percent had reported an increase in sanctions. In addition to extending the existing nine sanction packages, the EU introduced three more sanction packages against Russia and partially against Belarus in 2023 in connection with the Russian war in Ukraine. These include further listings of individuals, export bans on dual-use and advanced tech goods as well as intellectual property, and import bans on certain raw materials. Even companies without direct dealings with Russia must now increasingly verify whether they are affected by the sanction regulations. For example, as part of measures to prevent sanctions evasion in certain exports to third countries, a "No Russia-Clause" must be inserted into contracts.

Increase in trade barriers in international business

in percent, multiple answers possible, the answers refer to the companies that have felt an increase



One-third of companies (33 percent, up from 30 percent in the previous survey) complain about intransparent legislation in their international transactions. For German companies, it can be challenging to keep up with local law changes or new regulations at their foreign locations. This was particularly cited by companies in China and the Eurozone.

Approximately one-fifth of companies (19 percent, down from 22 percent in the previous survey) that observed an increase in trade barriers over the past year complained about higher tariffs on exports and imports of their goods. Companies particularly mention higher tariffs in trade with the UK, North America, and China. For instance, in 2023, Mexico introduced tariffs of up to 25 percent on over 500 products in the steel, chemical, and textile sectors with just two weeks' notice.

16 percent of companies (down from 19 percent in the previous survey) that noted an increase in barriers in their international businesses see an increase in local content requirements. This forces companies to generate a specified portion of the value locally - otherwise, their goods may be subject to tariffs, excluded from benefits, or completely barred from the market. In particular, machine builders, vehicle manufacturers, and suppliers report these restrictions. Companies observe the obligation to local content particularly in China and the USA. In China, the push for production localization is underway. Foreign firms increasingly need to manufacture locally to continue selling their products in the country. This dampens bilateral trade between Germany and China. The US Inflation Reduction Act (IRA) includes local content requirements tied to state tax incentives in sectors like the automotive industry or renewable energies. Companies also frequently report encountering local content requirements for their Asia-Pacific operations; for example, India's "Make in India" initiative aims for increased localization of production on-site.

Ten percent of companies (up from ten percent in the previous survey) face difficulties in accessing public contracts and thus confront a disadvantage compared to local companies. Companies often report this issue in relation to their China operations.

Six percent - similar to the previous survey (seven percent) - of internationally active German companies experiencing an increase in trade barriers are concerned about technology transfer requirements, primarily in their dealings with China.

In addition to the aforementioned response options, one-fifth of companies used the free-text field to name additional trade barriers. Many cite increased bureaucracy in implementing regulations, such as the German Supply Chain Due Diligence Act or CBAM, as trade barriers. Issues with the execution of foreign transactions, such as long processing times at the Federal Office for Economic Affairs and Export Control (BAFA) or in customs clearance, are frequently mentioned as hurdles. The subsequent question delves further into these challenges. Companies with business relationships with the United Kingdom also point out difficulties due to the exit from the EU single market, such as the effort required for importing and clearing customs for goods from the UK.

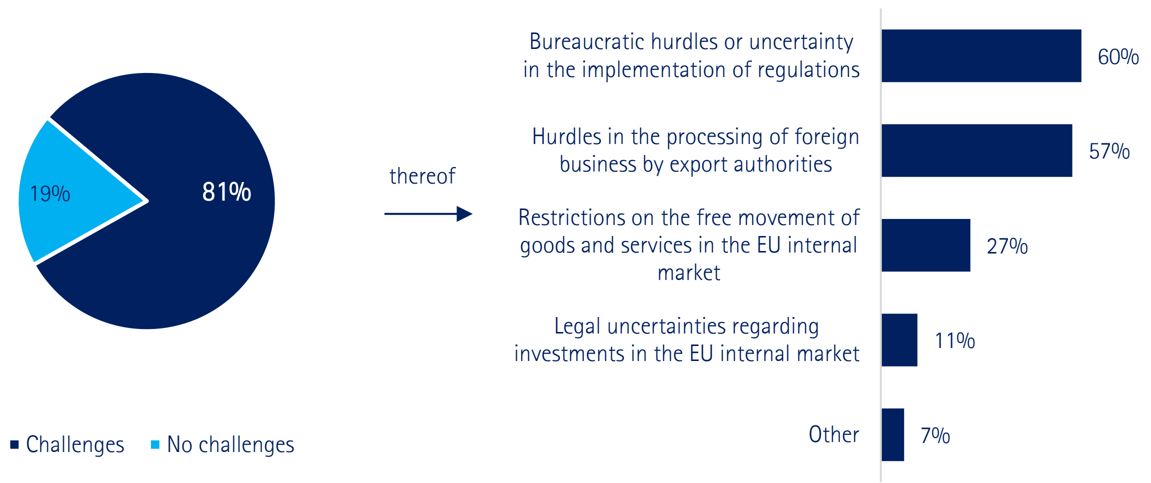
Challenges from Germany and the EU

In addition to trade barriers encountered by companies, especially in the execution of their operations in target regions, predominantly internal challenges also complicate their international business. 81 percent of internationally active German companies feel affected by these.

Among the companies facing challenges in international business, 60 percent complain about bureaucratic hurdles or uncertainty in implementing regulations domestically. These include extensive reporting obligations, compliance with the German Supply Chain Due Diligence Act, and CBAM implementation. Reporting obligations lead, among other things, to companies having to provide more and more information about business partners and suppliers. While large companies with over 1,000 employees most commonly report difficulties with regulations within the German Supply Chain Due Diligence Act, small and medium-sized companies with fewer than 1,000 employees also see this as a hurdle. Although they should not be directly affected by the law as it stands, they are often confronted with questionnaires for reporting obligations as suppliers to large companies.

(Further) challenges in international business

in percent, multiple answers possible; the percentages in the chart on the right are based on the total number of companies that have challenges (81 percent)



Additionally, there is a significant amount of time and bureaucratic effort involved in applying for visas for employees or business partners. In the free-text responses, companies also highlight difficulties in implementing the EU regulation on deforestation-free supply chains. Often, the varying interpretation of EU member states of the packaging and packaging waste regulation poses challenges for companies. Overall, the responses indicate that companies must adhere to a large number of regulations, with uncertainty about whether all necessary documents are submitted correctly.

Almost as many companies (57 percent) experiencing general challenges in international business cite hurdles in foreign trade transaction processing by export authorities. For instance, approvals from the Federal Office for Economic Affairs and Export Control (BAFA) are delayed by many months. Particularly for the approval of dual-use goods or exports to China, companies report waiting times of several months, sometimes even a year. The issuance of so-called "Nullbescheide" also took longer than usual recently.

Furthermore, companies complain about complex customs law, non-transparent tariff rates, and time-consuming and complicated customs clearance procedures, which are accompanied by frequent changes in customs documents and requirements. These constant adjustments make the process more difficult and leave uncertainty about whether all required documents have been submitted correctly. There are often difficulties reported in using the updated electronic customs system ATLAS (Automated Tariff and Local Customs Clearance System), which was transitioned last year. Companies report technical malfunctions and usability issues. Even four years after the United Kingdom's withdrawal, Brexit still poses difficulties, especially in customs clearance. Companies with business relationships with Switzerland also frequently complain about problems with customs clearance.

More than a quarter of companies (27 percent) face restrictions on the free movement of goods and services within the EU single market. This includes sending employees to EU countries and reporting obligations, as there is no unified reporting portal. Especially for short-term assignments and service deployments of employees, such as for the installation or maintenance of machinery, the process takes too long for some companies. Similar to bureaucratic hurdles, companies frequently point out the EU regulation on packaging and packaging waste here, perceived as an obstacle in the EU single market due to the differing interpretations of member states. Complex tax requirements of individual countries also pose challenges for companies in conducting business within the EU single market.

Ten percent of companies experiencing challenges in international business cite legal uncertainties regarding investments in the EU single market.

Furthermore, some companies used the free-text field to mention additional challenges in international business. The currently sluggish demand from abroad results in few new orders. Additionally, high energy prices domestically and further cost increases weaken the international competitive position of German companies. Against the backdrop of geopolitical risks and the current situation in the Red Sea, companies are concerned about uncertain transport routes and complain about high freight costs. Currency fluctuations also occasionally pose difficulties for companies, such as in dealings with Turkey due to the high inflation there.

Business situation and prospects in the world regions

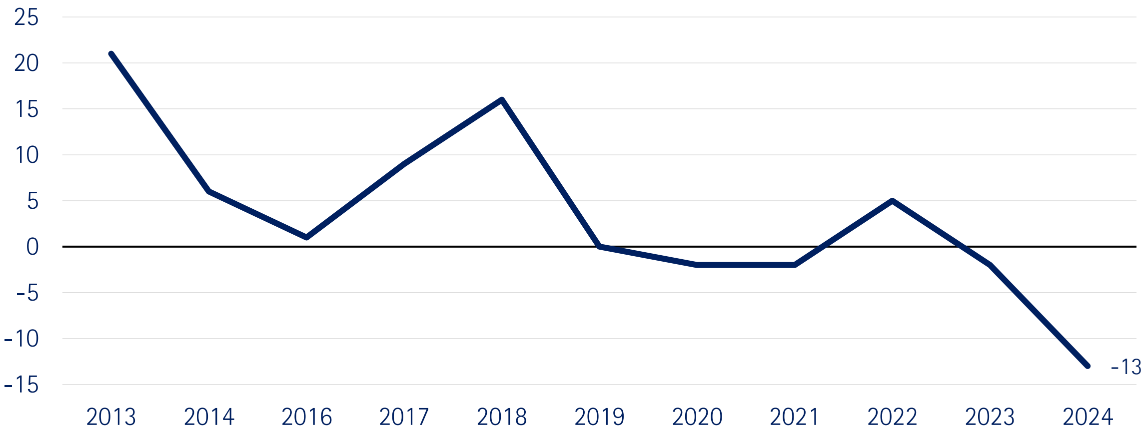
From the perspective of companies, international business is characterized by numerous challenges, leading to an overall negative assessment of the current business situation. Increasing trade barriers, persistently high interest rates in key markets, which dampen demand, the only moderate growth of the global economy, and geopolitical risks are currently hindering better business outcomes. Additionally, bureaucratic burdens in conducting foreign transactions and high cost pressures at German locations weaken the international competitive position. Currently, 23 percent of companies rate their foreign business as good, 47 percent as satisfactory, and three out of ten companies (30 percent) report a poor business situation. The balance of positive and negative assessments decreases from seven points in the previous survey to minus seven points.

While the assessment of the current business situation among large companies with over 1,000 employees is almost balanced between positive and negative views (one-point balance), the assessment of small and medium-sized companies with up to 249 employees is significantly more negative (balance minus ten points). Large companies are generally more diversified internationally, so a weaker performance in one market does not weigh as heavily as for companies more concentrated in a single market.

Expectations for the development of foreign business in the current year 2024 are also subdued for internationally active German companies. A quarter of foreign-active companies (26 percent) expect worse business this year. Only 13 percent anticipate an improvement, while 61 percent expect a constant development of their bilateral business relationships. The resulting balance of better and worse assessments decreases from minus two to minus 13 points. Thus, companies perceive their business outlook more negative overall than their current business situation. Large companies with over 1,000 employees (balance minus ten points) have a slightly more positive business outlook than small and medium-sized companies with up to 249 employees (balance minus 15 points).

Global business perspective (worldwide)

Balance in points from "better" minus "worse" reports

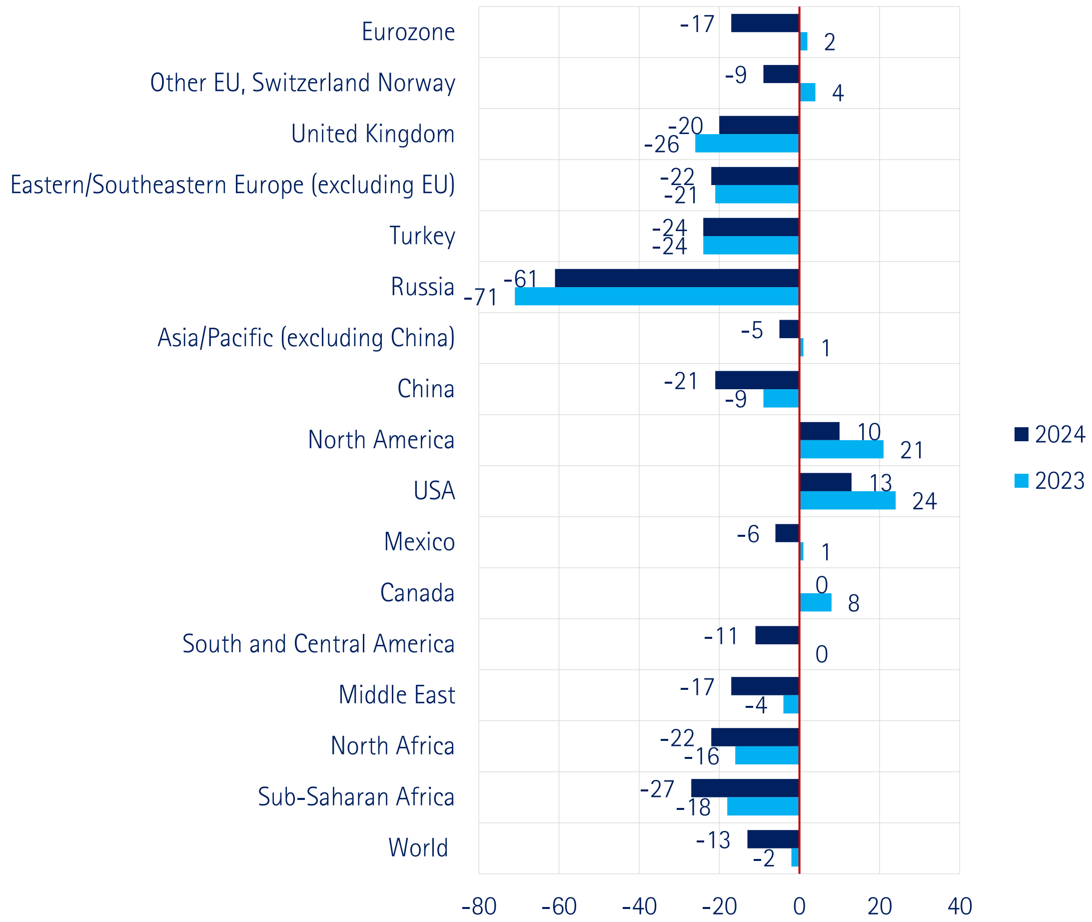


Positive Outlook for US Business

In most world regions, companies primarily anticipate a deterioration in their business over the course of 2024. However, for their US operations, companies predominantly expect an improvement in their business this year, based on the already positive current business situation: 28 percent of companies anticipate better business, while 15 percent expect worse business (balance of 13 points compared to 24 points previously). Despite the interest rate increases by the US Federal Reserve to combat high inflation rates, the US economy has remained robust. German exporters can benefit from this. In Canada, positive and negative expectations are balanced, with the balance decreasing from eight points in the previous survey to zero points. For their Mexico operations, slightly more negative expectations prevail, with the balance of better and worse expectations decreasing from one point in the previous survey to minus six points. Overall, companies view their business outlook on the North American continent more positively than in other world regions.

Business prospects in the world regions

Balance in points from "better" minus "worse" reports



Still currently good business in Europe is not holding up

German companies with business relations to neighbouring countries in Europe currently report predominantly positive business situations. However, in the Eurozone, the balance drops from 37 points in the previous survey to 11 points currently, a decline of 26 points. No other region experiences such a significant drop compared to the previous survey. Moreover, expectations for business development in the coming months are notably pessimistic. For their businesses in the Eurozone, only every eighth company anticipates an improvement (twelve percent) in 2024, while 29 percent expect a deterioration (balance of minus 17 points compared to two points previously). High energy prices and the persistently high interest rates dampen economic dynamics in the Eurozone in international comparison.

A similar picture emerges for the businesses of companies in EU countries outside the common currency area, as well as Switzerland and Norway. Although companies still predominantly rate their current business situation positively (balance of eight points), the business outlook is clouded. Here, eleven percent expect an improvement, while one-fifth of companies (20 percent) anticipate a deterioration (balance of minus nine points compared to four points previously).

For their businesses with Eastern and Southeastern European states (excluding the EU), the proportion of companies with negative outlooks is slightly more pronounced. However, the ratio of optimistic to pessimistic expectations changes only slightly compared to the previous year: while nine percent anticipate better business, 31 percent foresee a deterioration (balance of minus 22 points compared to minus 21 points previously). Thus, companies in this region overall anticipate slightly better business in the coming months than in the current business situation (balance of minus 26 points).

The outlook for business with Turkey remains unchanged from the previous survey at a low level. Only ten percent of companies expect an improvement in their business, while a third (34 percent) anticipate worse business in the coming months (balance remaining unchanged at minus 24 points). Additionally, the inflation rate in the country has recently risen, causing imported goods and services to become more expensive due to the weak currency.

Economic sanctions imposed by the EU and other countries against Russia, as well as Russian counter-sanctions, have led to a significant decrease in bilateral business relations. Only two percent of companies still active in non-sanctioned sectors of the Russian market expect increased business in the coming months under these circumstances, while 63 percent anticipate decreased business.

Brexit continues to weaken German-British business relations.

The business outlook remains negative for the United Kingdom, albeit slightly improved compared to the previous year (balance of minus 27 points). Ten percent of companies anticipate an improvement in their business in the current year, while three out of ten companies (30 percent) expect a deterioration (balance of minus 20 points compared to minus 26 points previously). Four years after Brexit, German-British business relations remain challenging, exacerbated by weak economic growth due to high inflation rates and interest rates in the country.

Mixed prospects in the Asia-Pacific region and China

While companies expecting a downturn also prevail in assessing the business outlook for the Asia-Pacific region (excluding China), it's not as pronounced as in other global regions. While one-fifth of companies anticipate worse business in the current year, 15 percent anticipate an improvement. The balance between positive and negative expectations drops to minus five points (previously one point). Additionally, the current business situation is not viewed as pessimistically as in other global regions (balance of minus three points). The region stands to benefit from the diversification of companies' supply chains. Some German companies operating in China, for example, are expanding their supplier networks or establishing locations in the Asia-Pacific region as part of a "China +1 strategy." India, in particular, has experienced robust economic growth recently.

However, companies are significantly more pessimistic about their business with China. While 14 percent also anticipate an improvement in the coming months, more than a third (35 percent) currently expect a deterioration (balance of minus 21 points compared to minus nine points previously). Thus, expectations are bleaker than the current business situation (balance of minus 17 points). China's economic weakness and increasing trade barriers, such as localization requirements, pose challenges to bilateral trade.

Challenging Environment in Africa, the Middle East, and North Africa

Companies express significantly pessimistic views about their future business prospects on the African continent. For North Africa, eight percent anticipate an improvement in their business, while 30 percent foresee a deterioration (balance of minus 22 points compared to minus 16 points previously). Similarly, for Sub-Saharan Africa, eight percent expect an improvement, but 35 percent anticipate a decline (balance of minus 27 points compared to minus 18 points previously).

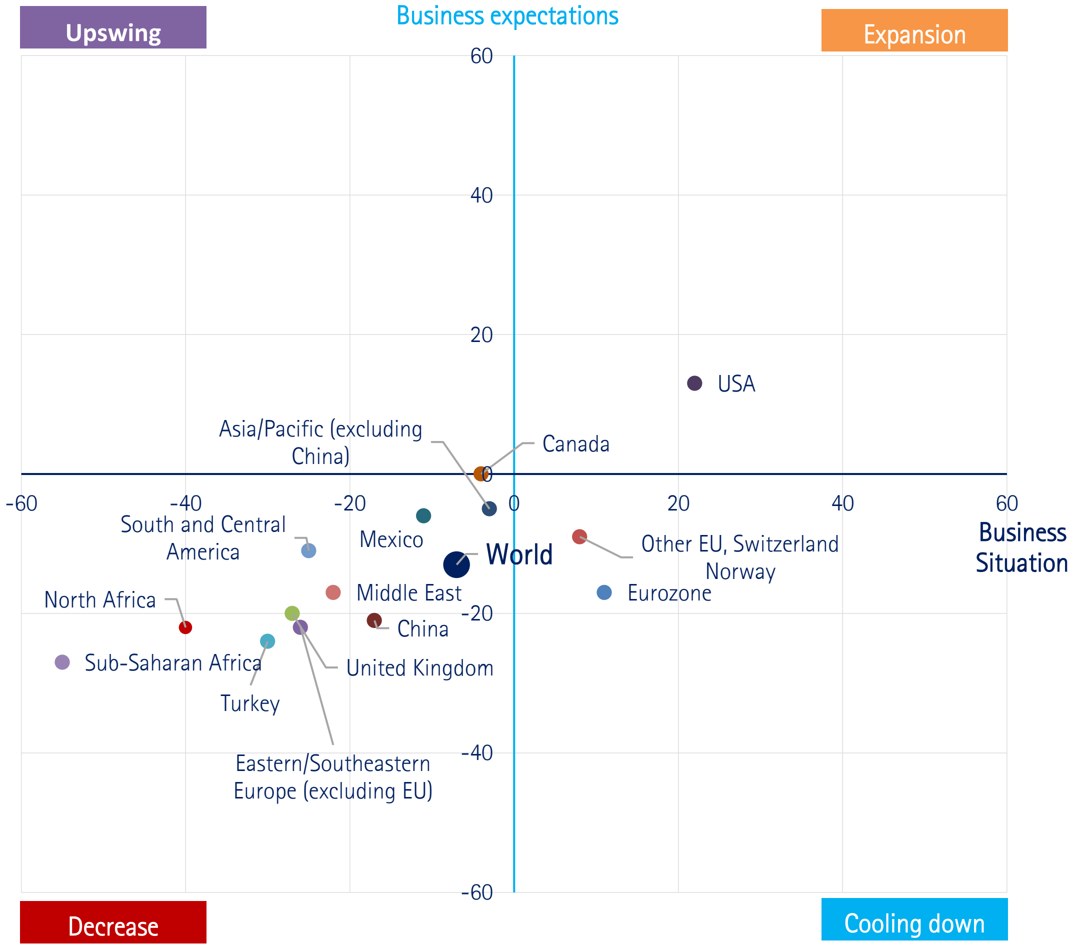
The business outlook in the Middle East worsens slightly compared to the previous survey. Thirteen percent of companies expect their business to improve in the current year, while 30 percent anticipate a deterioration (balance of minus 17 points compared to minus four points previously). The ongoing conflict between Israel and Hamas contributes to uncertainty in the region.

Gloomy Business Situation, but Better Prospects in South and Central America

Companies view their business prospects in South and Central America somewhat more positively than the global average. Eleven percent of companies anticipate better business, while twice as many (22 percent) expect worse. The balance decreases from zero points in the previous survey to minus eleven points. However, future business opportunities are perceived significantly better than the current business situation (balance of minus 25 points).

Business situation and outlook in the world regions

Balance in points from "good" minus "bad" or "better" minus "worse" reports
Mapping the respective balance points of the countries and world regions in a coordinate system consisting of the business situation and business expectations results in a comparison of the regions from the perspective of German companies.



Questionnaire

1. **How do you assess your <u>current</u> business situation in your target regions?**
   (Answer: Good/satisfactory/bad/not active in this region)
   - Eurozone
   - Other EU, Switzerland, Norway
   - United Kingdom
   - Eastern/Southeastern Europe (excluding EU)
   - Turkey
   - Russia
   - Asia/Pacific (excluding 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 <u>prospects</u> in your target regions this year (2024)**?
   (Answer: Better/staying the same/worse/not active in this region)

   - Eurozone
   - Other EU, Switzerland, Norway
   - United Kingdom
   - Eastern/Southeastern Europe (excluding EU)
   - Turkey
   - Russia
   - Asia/Pacific (excluding 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 notice an increase in barriers to your international business in 2023?
- Yes
- No

If 3. "Yes" **3.1 What barriers do you encounter in your international business?** (multiple answers possible)
- Higher customs duties
- Increased safety requirements
- Local certification requirements
- Compulsion for local content (local production)
- Technology transfer requirements
- More difficult access to public contracts

- Sanctions
- Non-transparent legislation
- Other

If 3.1 "Higher tariffs" (and for each individual obstacle) **3.1.a In which countries/regions was this primarily the case?** (multiple answers possible)

- Eurozone
- Other EU, Switzerland, Norway
- United Kingdom
- Eastern/Southeastern Europe (excluding EU)
- Turkey
- Russia
- Asia/Pacific (excluding China)
- China
- North America
    - Of which: USA
    - Of which: Mexico
    - Of which: Canada
- South and Central America
- Middle East
- North Africa
- Sub-Saharan Africa

3.2 What (other) challenges do you face in your international business? (multiple answers possible, except for "no challenges")

- No challenges
- Hurdles in the handling of foreign business by export authorities (e.g. BAFA authorisations, export controls, customs)
    - If yes, which one:
- Bureaucratic hurdles or uncertainty in the implementation of regulations
    - Extensive reporting obligations
    - Compliance with the Supply Chain Due Diligence Act
    - Implementation of the EU's carbon border adjustment mechanism (CBAM)
    - Applying for visas for employees or business partners
    - Other:
- Restrictions on the free movement of goods and services in the EU internal market (e.g. postings/business trips, reporting obligations within the EU)
    - If yes, which one:
- Legal uncertainties regarding investments in the EU internal market
- Other

Methodology

The DIHK's nationwide "Going International 2024" survey was conducted with the support of the 79 chambers of industry and commerce (IHKs) in Germany. Almost 2,400 companies based in Germany and active abroad took part in the survey from 25 January to 11 February 2024.

The company responses are distributed by company size class as follows: 77 percent of companies with up to 249 employees, nine percent 250-499 employees, five percent 500-999 employees, nine percent more than 1,000 employees. Of the company responses, 56 percent are industrial companies, three percent come from the construction industry, 17 percent from the retail sector, eleven percent from the service sector and twelve percent are other.

The companies operate as follows in their foreign business: 85 percent export from Germany, 31 percent have subsidiaries or branches abroad, 30 percent import to Germany for sale, 19 percent source abroad for production in Germany, 18 percent maintain a representative office or sales office abroad, 17 percent are independent cooperation partners, nine percent have a joint venture/alliance, seven percent have research and development, seven percent are active abroad via e-commerce, four percent have a transit trade and two percent have a purchasing office abroad.