

Target groups for investment attraction in Germany

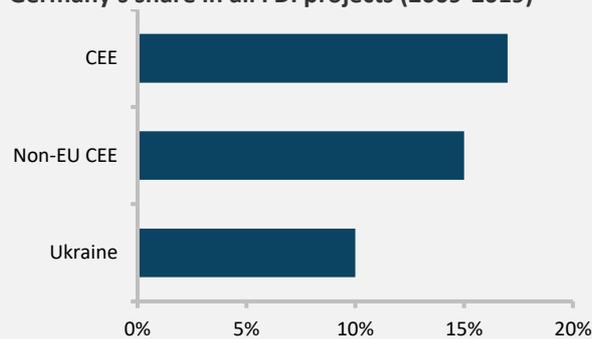
Germany is the leading source country for FDI projects in Central and Eastern Europe (CEE). German FDI projects also play a key role in Ukraine. However, the share is lower in Ukraine than in the CEE region as a whole. Considering international experience, a target-group-oriented approach can make an important contribution towards increasing the volume and impact of FDI. Based on the results from a target group assessment carried out, the initial focus of investment attraction efforts in Germany should be on the automotive, life science and electronic / electrical equipment industries. Furthermore, it is recommended to integrate segments at the interface to the IT industry (e.g. digital healthcare products). Across the defined industries, particular emphasis should be placed on medium-sized enterprises and companies that have already invested in Central European locations.

Background: Role of German FDI in CEE and Ukraine

Germany is the leading source country for FDI projects in CEE. Between 2009 and 2019, Germany accounted for 17% of FDI projects in CEE – ahead of the US (15%), the UK and France (both 6%).

German FDI projects also play a key role in Ukraine. With a share of 10% between 2009 and 2019 in FDI projects in Ukraine, Germany ranks second – behind the US (18%). However, the share is lower than in the CEE region as a whole and than in non-EU CEE economies. Similarly, the employment effects of German FDI projects are lower in Ukraine than in other CEE economies.

Germany's share in all FDI projects (2009-2019)



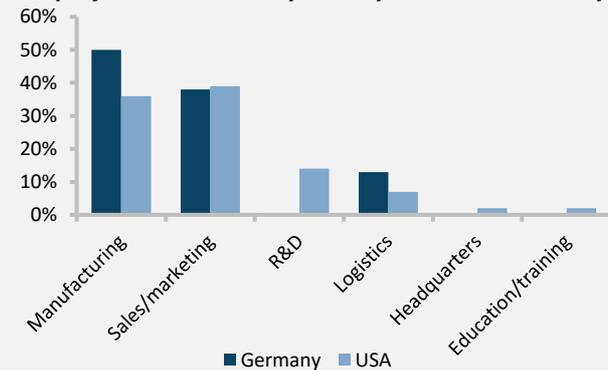
Source: EY European Investment Monitor / National Strategy to increase Foreign Direct Investment in Ukraine 2021.

Strong manufacturing focus of German FDI

German FDI projects in Ukraine strongly focus on manufacturing activities, which accounted for 50% of German FDI between 2009 and 2019. In particular, automotive companies played an active role as investors. The share of manufacturing FDI projects is significantly higher than for other source countries. On the other hand, no German R&D, education & training or head-quarter project could be attracted during this period.

These findings confirm the important role of Germany as a source country for manufacturing FDI. At the same time, they indicate a potential to expand the volume and scope of German FDI projects in Ukraine.

FDI projects in Ukraine by activity and source country



Source: EY European Investment Monitor / National Strategy to increase Foreign Direct Investment in Ukraine 2021, data for 2009 to 2019

Target group assessment

Tapping this potential requires a targeted approach. In light of the impact of the pandemic, it is critical to concentrate investment attraction efforts on the most promising target groups reflecting changes in investment patterns. Against this background, the German Economic Team has carried out a target group assessment drawing on interviews with investment and industry experts in Ukraine and at the international level as well as complementary research. Main focus was on industries with a high nearshoring potential. According to recent studies, amongst others by UNCTAD and McKinsey, from the perspective of CEE locations, higher-technology value chains exhibit the greatest nearshoring propensity. Labour-intensive and regional processing value chains (e.g. textiles, agri-food) may also geographically shift. But those shifts will most likely affect CEE to a lesser extent. Based on the assessment, which took into account three dimensions of investment policy (1) investment potential, (2) competitive position of Ukraine and (3) development impact of FDI projects, the initial focus of investment attraction measures should be on the following industries:

- Automotive: e.g. manufacturers of mechatronic, plastic and metal components incl. spare parts / aftermarket, assembly of trailers / commercial vehicles
- Life sciences: e.g. manufacturers of generics, medical devices / diagnostics and contract research organisations

- Electronics / electrical equipment: e.g. manufacturers of electronic components and household appliances as well as energy technology components and solutions.

Overview of results from the target group assessment

| Target group | Investment potential | Competitive position | Development impact | Priority |
|-----------------------------------|----------------------|----------------------|--------------------|----------|
| Automotive | ++ | ++ | + | 1 |
| Life sciences | ++ | 0 | ++ | 1 |
| Electronics/ electrical equipment | ++ | + | + | 1 |
| Machinery | + | 0 | ++ | 2 |

Source: Own analysis, ++ very strong + strong 0 limited

In addition, the target group assessment indicates a promising potential at the interface between manufacturing and IT industries. Tech-driven investments play an increasing role in global FDI patterns. ICT investment projects increased globally by 70% during the last decade and accounted for more than 20% of all global FDI greenfield projects in 2020.

Ukraine's IT competences offer the potential to develop a comparative advantage. In this context, segments at the interface between manufacturing and IT industries such as automotive IT competencies, digital healthcare products (e.g. wearables) or smart energy and smart farming solutions should form part of the target group mix.

Recommended promotional and further measures

For the prioritised target groups, systematic pro-active investment attraction efforts by UkraineInvest are recommended. Main focus should be on measures that allow a direct communication with potential investors, e.g. lead generation campaigns in the context of trade fairs such as IZB International Suppliers Fair, CPhI, MEDICA, Productronica and Hannover Messe.

Across the defined industries, particular emphasis should be placed on companies that have already established operations in Central Europe. Their headquarters should be directly approached to discuss potential relocation projects in light of skills shortages and raising costs at several Central European locations.

Furthermore, investment attraction efforts should not focus exclusively on large companies, but equally target medium-sized enterprises. In Germany, privately owned medium-sized enterprises offer a substantial investment potential. At the same time, they tend to be less sensitive to geopolitical and investment climate risks than publicly listed large companies.

Investment attraction efforts should be complemented by measures aiming at strengthening the relevant industrial ecosystems. Amongst others, this could entail

skills development and linkage promotion programmes. With respect to the machinery industry (priority 2), main focus should be on developing partnerships with intermediaries (e.g. associations, cluster organisations in Germany) to support innovation transfer and cooperation projects in areas such as cleantech.

Outlook

The results from this target group assessment will provide guidance to UkraineInvest for the process of designing and implementing promotional and further policy measures to increase the volume and impact of German investment in Ukraine. They were already used by UkraineInvest to prepare the "Second UkraineInvest Annual Forum – MAKE in UA" on 14 December 2021. The event, which was opened by the Prime Minister of Ukraine Denys Shmyhal included a series of interactive discussions with more than 30 speakers from government institutions, international organisations as well as the global and Ukrainian business and investment community. Furthermore, it should be noted that defining target groups is a dynamic process. The selection should be regularly reviewed taking into account the results achieved and changes in the investment environment. Thus, this target group assessment rather forms the beginning than the end of the path towards fostering additional investment from Germany.

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