

Businesses are returning to Germany from Eastern Europe

Contributed by Euromonitor International
Monday, 18 February 2008
Last Updated Monday, 14 July 2008

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Many German businesses that relocated to Eastern Europe are returning to Germany. In particular, small and medium-sized companies have realised that profits were not as high as expected and are finding the German business environment more attractive. The increase in German companies staying at home is adding to the flourishing of the business environment.

Issue

Many German businesses moved to Eastern Europe in search of cheap labour from the 1990s, in particular to the Czech Republic, Poland, Hungary and Slovakia:

Manufacturing bases requiring skilled and low-skilled labourers were relocated to Eastern Europe. It was estimated that in 2006 alone, 50,000 jobs in Germany were lost to neighbouring countries. Distribution facilities were also established to take advantage of growing Eastern markets.

Businesses are returning to Germany, partly due to Germany's attractive business environment and also because expectations of profits have not been met as costs in Eastern Europe are rising:

In 2007, one in five businesses in the metal and chemicals sector moved or are moving back to Germany. Importance

Germany introduced a number of reforms in 2005, which have started bearing fruit. The unpopular Hartz IV reform, for example, put harsh restrictions on unemployment benefits, which have acted as a stimulus for the long-term unemployed to find jobs. These reforms in combination with a cyclical upswing have improved the business environment:

Real GDP growth rose from an annual average of 0.6% between 2003 and 2005 to 2.7% in 2006; As a result, the unemployment rate is at its lowest since the early 1990s. In 2007 alone, the rate shrunk from 9.2% in February to 7.9% in September; In the World Economic Forum global competitiveness index 2007-2008, Germany improved its rank from 7th in the previous year to 5th out of 131 countries; Germany has built up technology hubs, in particular in Eastern Germany, where know-how and technology are clustered.

The Eastern European business environment is not what many German companies had hoped for:

The economic boom in Eastern Europe has caused wage pressures, which have driven up labour costs;

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Percentage increase in total labour costs since 2000 in Germany and selected countries: Second Quarter 2007 Source: Eurostat The finished products or materials are taking a long time to be delivered to the respective (Western) customers, sometimes due to problems at the borders, also driving up costs; Although the number of skilled workers is growing, there is a lack of training for prospective workers in many Eastern European countries; Many businesses are finding that workers do not have the same dedication to their employer or to the brand. This is causing sick days to rise and productivity to decrease; Additionally, many businesses are automating some jobs that previously required manual work, so there is less demand for cheap labour. Implications

The return of German businesses is having a positive effect on the German economy:

The return of manufacturing bases to Germany will increase the prosperity of the country. The manufacturing industry is one of the economy's central sectors, even though its importance has decreased in favour of other economic sectors in recent years. In 2006 manufacturing contributed 23.5% to GDP; It has been estimated that 60,000 new jobs were created in the Industrial sector in 2006 – for the first time since 2000, more jobs were created than were lost to foreign countries;

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Number of employees and total turnover in mining and manufacturing: January 2006-July 2007 Source: National statistics Note: Mining has steadily decreased in Germany, implying that the large part of employment and turnover growth is due to the manufacturing sector. A rise in quality will improve the general branding of "made in Germany". Quality

control is easier if the production bases are in Germany, benefiting the image of German businesses; Consumers will benefit from the improved quality of products. Although manufacturers pay higher prices for labour in Germany, the cost for transport and corrections of deficiencies cease to exist, so prices are likely to remain the same.

Most Eastern European countries are moving away from manufacturing-based economies towards knowledge-based service economies. This change is partly caused by their shrinking competitiveness in terms of cheap, low-skilled labour and the consequent loss of business. Future Scenarios

Germany's economy is forecast to continue to grow. Growth of between 1.8% and 2.5% is forecast for 2007 and 2008:

In 2006, a survey of small and medium-sized businesses showed that only 1.6% wanted to locate jobs outside of Germany in the future; The German government has introduced methods of supporting small and medium sized businesses. The government is specifically encouraging the start-up of technology-based companies in Germany and is helping with information, funds, tax benefits, etc; German companies that have moved back to Germany have been retaining distribution headquarters in the East. The growing consumer markets of Eastern European countries are still important to Western businesses; Many Western businesses looking for cheap labour are now moving further east to Romania, Bulgaria or to China. Print this page E-mail a friend For further detail about this article and other related findings, please visit [Euromonitor International](#) by clicking here.