



To the point!

Cross-Asset- and Strategy-Research

A political burden for the economy

The far-right's surge in popularity alarms German companies

This week I visited the freshly minted UNESCO World Heritage city of Erfurt, capital of the federal state of Thuringia. It was my first visit since the New Year's Eve right after the fall of the Wall. A difference like night and day. Congratulations to the citizens of Erfurt on the fantastic transformation of their city! I definitely recommend a visit to you, dear reader.

When UNESCO is not highlighting the importance of Erfurt's Jewish medieval heritage, however, the headlines from Thuringia are less uplifting. Most of them are about the political landscape there and the growing support for the hard-right Alternative for Germany (AfD) party.

Business leaders worry about the shift to the right

In the current opinion polls, 22% of voters nationwide say they would cast their vote for the AfD. That share is much higher still in East Germany. This would make the far right the second strongest political force in the Bundestag. In East Germany, the AfD is leading all other parties. In Thuringia, for example, it leads the field with 32%. The business community increasingly sees this as a potential locational disadvantage for the German economy.

You think I'm exaggerating? Then I'd be happy to refer you to Siegfried Russwurm, president of the organization representing the industry, who sees the reputation of Germany as an industrial location threatened by the AfD. Or to the president of the VDMA mechanical engineering association Karl Haeusgen according to whose opinion the AfD rejects many things outright that are important for our economy, such as immigration or the euro. Martin Daum head of Daimler Trucks recently made similar



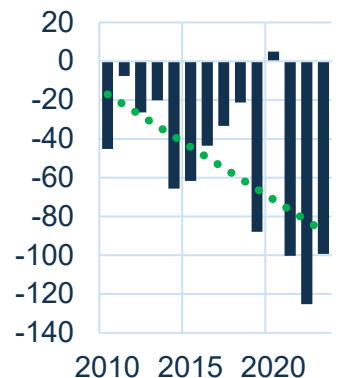
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AfD as a competitive handicap – especially in East Germany

Net foreign direct investment in Germany (2010-2023, in € billion)



Source: LBBW Research, Deutsche Bundesbank. The figure shows the difference between investments by foreign companies in Germany and domestic companies abroad. 2023 estimated based on data for the first half of the year.

comments. It is very unusual for captains of industry to take such openly party-political positions. The fact that they do now highlights how alarmed many entrepreneurs have become.

The AfD as an investor scare

The likelihood that the AfD could become part of a federal government coalition is close to zero, despite its high poll ratings. Nevertheless, the growing following of a party that is fundamentally critical of the EU and openly xenophobic is problematic for the business location.

After all, Germany has fallen further and further behind as an investment destination in recent years. This is evidenced by the trend in foreign direct investment (see chart on previous page). More and more German companies are investing abroad. But fewer and fewer foreign companies are investing in Germany.

And who can blame them? It's not enough that the country suffers from an excess of red-tape and rampant shortage of skilled workers. When foreign companies invest in Germany, especially in the East, it must be ensured that the accompanying influx of workers is welcome at all levels. The German government has generously supported investments of semiconductor producers in East Germany with subsidies of 15 billion euros. It remains to be seen whether Intel and TSMC will now also be able to attract the necessary skilled workers to those AfD-strongholds.

Germany must preserve its tradition of political balance and respectful treatment of political opponents, but also in society as a whole. This has been a locational advantage for Germany. As the political climate gets rougher and more extreme positions garner more electoral support, we would be well advised to preserve it.

Euroscepticism and intolerance scare off investors

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