German supply chains – More durable, but not unbreakable

The supply chains of German companies are changing. However, about one-fifth of imported capital goods and intermediate goods still rely heavily on just one single trading partner. In the case of electronics imports from China, this dependence has actually increased. To build more robust supply chains, German companies are investing in overseas production. But even that is not always a silver bullet to mitigate geopolitical risks for supply chains.

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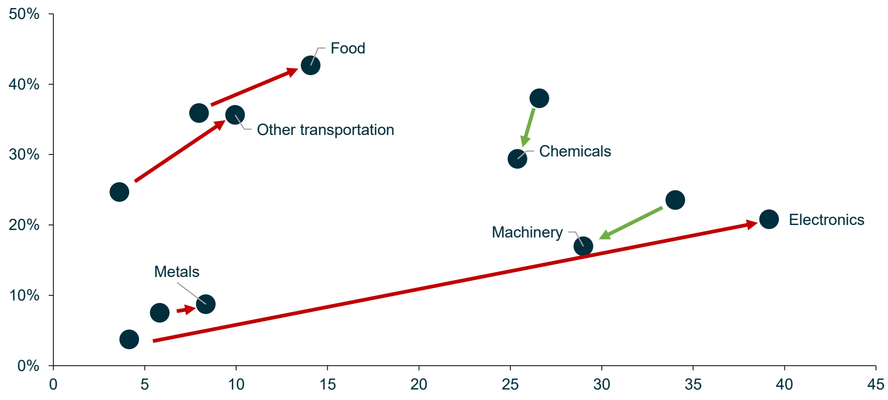
The supply chains are evolving

The Iran War has once again shown that trade relations with supposedly reliable partner countries such as the United Arab Emirates and Qatar can be disrupted without warning. Even five years after the supply chain crisis that followed the COVID pandemic, the German economy still faces significant dependencies: Imports of certain intermediate goods and capital goods are so heavily concentrated on just one single exporting country that a disruption in that country could bring production in Germany to a standstill. [1]

In fact, for one in five intermediate and capital goods that are important to Germany, more than 50% of imports in 2025 came from a single country of origin [2]. In the electronics sector in particular, this level of dependence has actually risen significantly since 2019 (Chart 1). Here, the share of goods with a very high concentration on a single country of origin rose from just 3% to 20%, with the import volume of the affected product groups amounting to a considerable 40 billion euros. By contrast, intermediate goods from the chemicals and mechanical engineering categories are now imported from a broader range of suppliers, meaning that the German economy's dependence in these areas has decreased.

Chart 1 - The dependence from electronics imports has increased since 2019
Imports with high dependence: Vertical axis: share in respective category; horizontal axis: Value in billion euros



Source: UN Comtrade, PLAID of the Kiel Institute, Commerzbank Research

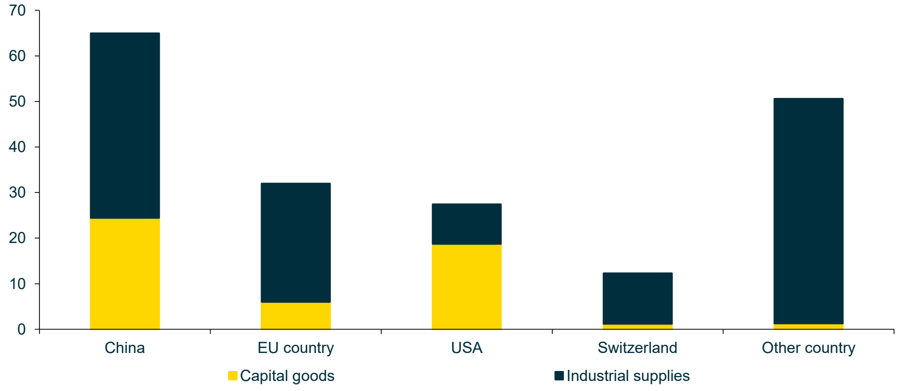
Germany is the most dependent on China

The German economy is most dependent on China. Last year, Germany imported goods worth $65 billion from China that are crucial to the economy and for which there may be few alternative sources of supply. This is because, for these product categories, more than half of imports come from China (Chart 2). It is also often underestimated that many important capital goods, such as aircraft, machinery, and military equipment, come from the United States. In addition to IT services provided by U.S. tech companies – which are critical but not examined further here – there is also a significant dependence on certain physical goods. In the event of a trade war with the U.S., these goods could get caught in the crossfire and be subject to high tariffs, although in the past the European Union has focused its retaliatory tariffs primarily on consumer goods.

For some product groups, the German economy is also dependent on certain EU countries. While this is not a geopolitical concern, natural disasters – such as the current widespread wildfires – do not spare EU countries or key production sites.

Chart 2 - The highest dependence exists from China

German imports with a high dependence in billion euros per year; Belgium and Netherlands count towards other years due to their role in international shipping



Source: UN Comtrade, PLAID of the Kiel Institute, Commerzbank Research

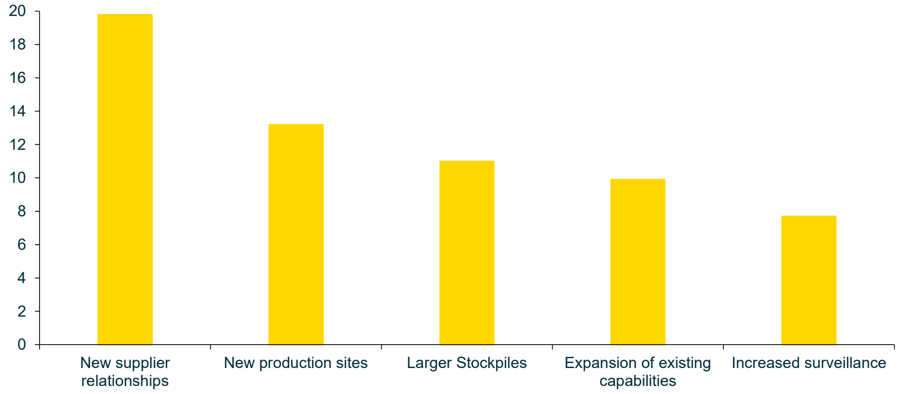
What are companies doing to build more resilient supply chains?

Since the COVID-19 pandemic, at the very latest, companies have been aware of the risks of relying too heavily on individual countries of origin. At that time, companies focused primarily on finding new suppliers, stepped up supply chain monitoring, and worked to build up inventory—when critical goods were even available.

What has happened since then? To answer this question, we analyzed the annual reports of 91 publicly traded manufacturing companies in Germany over the past twelve months [3]. Companies still mention strategies that can be implemented in the short term—such as collaborating with new suppliers and expanding their own inventory levels—when discussing "supply chains" (Chart 3). What is striking, however, more than one-tenth of the companies are planning to establish new production sites or expand existing capacities in order to more easily source intermediate products locally or manufacture them themselves, thereby reducing their dependence on supply chains. Many companies now apparently want to produce close to the end consumer. This concept is known as "local for local." Companies are particularly frequently planning to build or expand production capacities in the U.S., Mexico, India, and China.

Chart 3 - Companies also rely on new production capabilities

Share of annual reports among large, publically listed German industrial corporations, with mention of strategy in %



Source: 91 annual reports, Commerzbank Research

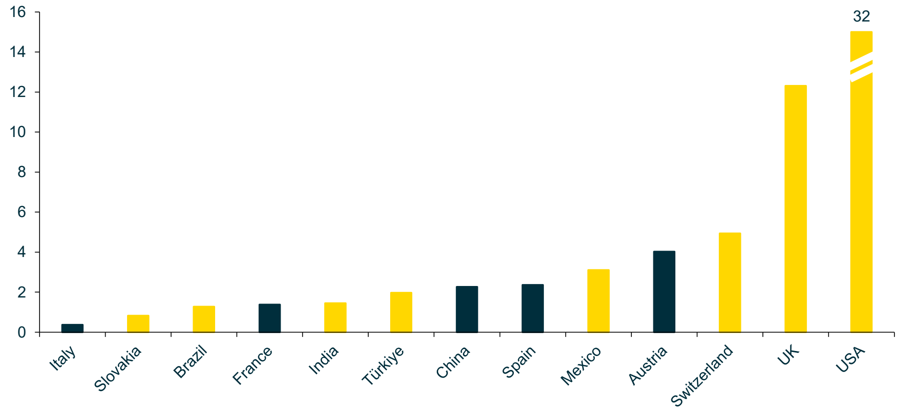
Investments confirm trend toward industrialized nations

Statistics on direct investment also confirm that companies continue to invest abroad. At first glance, the top recipient countries of German investment may seem surprising: Austria, Switzerland, the United Kingdom, and the United States—countries not known for particularly low labor costs—top the list. Rather, service companies are likely seeking proximity to the financial centers of London and New York, as well as to Silicon Valley. However, the expansion of manufacturing capacity in the U.S. is also likely to play a role—in line with the "local for local" principle, which ultimately helps circumvent tariffs as well.

At the same time, direct investment in China has been significantly lower over the past two years than it was before the pandemic. This could indicate that companies have now recognized the geopolitical risks of having too large a footprint in China. Overall, these investments are helping to make supply chains more resilient and allowing companies to become less dependent on international transportation. This enables them to better supply key markets directly.

Chart 4 - German companies invest in selected countries

German FDI flows abroad, average of years 2024 and 2025 in billion euros; Black: Decrease in comparison to time period 2015-2019



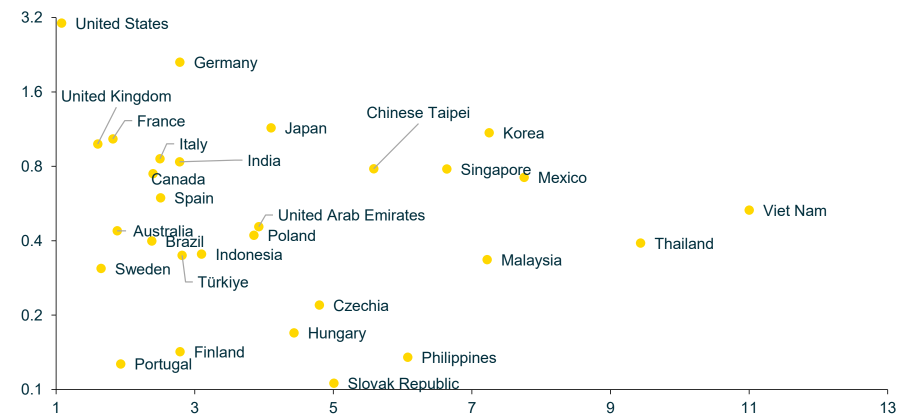
Source: German Bundesbank, Commerzbank Research

Not every diversification effort leads to reduced dependence

China continues to play a central role in supply chains. Companies are likely to try to reduce risks in this area. This is because a long-standing conflict has been simmering between the People's Republic of China and Taiwan, which could threaten German supply chains. But not every country is suitable for diversifying away from Chinese supply chains. This is because Vietnam, Thailand, and even Mexico are themselves comparatively dependent on China (Chart 5). Vietnam, for example, with total exports of half a trillion euros, is emerging as a major exporter, but about 11% of the value added (i.e., a significant share of the components) in Vietnam's exports actually originates in China. Among countries with lower labor costs, however, Brazil, Indonesia, and Turkey stand out for having fewer ties to China. Here, too, it becomes clear that investing in industrialized nations can be worthwhile: Dependence on China is particularly low in industrialized nations such as the U.S. and the United Kingdom.

Chart 5 - Developed countries have a lower exposure to China

Vertical axis: Total exports in trillion USD (logarithmic scale); Horizontal axis: Share of China's value added of a country's exports in percent



Source: OECD, TiVA, Commerzbank Research

Diversification must continue

Even five years after the supply chain crisis, the German economy still faces critical dependencies – particularly on China for electronics. This poses a risk to the German economy. German corporations are already responding by reducing direct investment in China and building more robust "local-for-local" capacities in industrialized nations such as the U.S. However, simply shifting to apparent alternatives such as Vietnam or Mexico is not enough, as these countries themselves are heavily dependent on China – to effectively minimize risk, companies must therefore now consistently rely on genuine, independent diversification partners such as Brazil, Indonesia, or Western industrialized nations to ensure the long-term resilience of supply chains.

[1] We deliberately focus on raw materials, intermediate goods, and capital goods in order to measure the impact on German production rather than on German consumption. To this end, we use the categorization developed by the Kiel Institute for the World Economy's PLAID project at the HS-6 classification level. (Back)

[2] In this analysis, we define dependence as occurring when more than 50% of Germany's imports in a given year come from a single country. Of course, this is not a definitive criterion, since dependence can exist even below this threshold if, for example, there is no domestic production that could be ramped up if necessary. Similarly, even if a country's share of imports exceeds the threshold, domestic production could reduce that dependence. (Back)

[3] We analyze the texts automatically using the Gemini 3.1 AI model. The model is designed to count only those companies that mention measures related to supply chains. Consequently, a company that establishes new production sites solely due to higher demand is not included. However, it cannot be ruled out that companies mention "supply chains" in their annual reports even though there were other reasons for establishing a new production site, for example. (Back)

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