Ukraine as a Production Hub

German Investments in Ukraine

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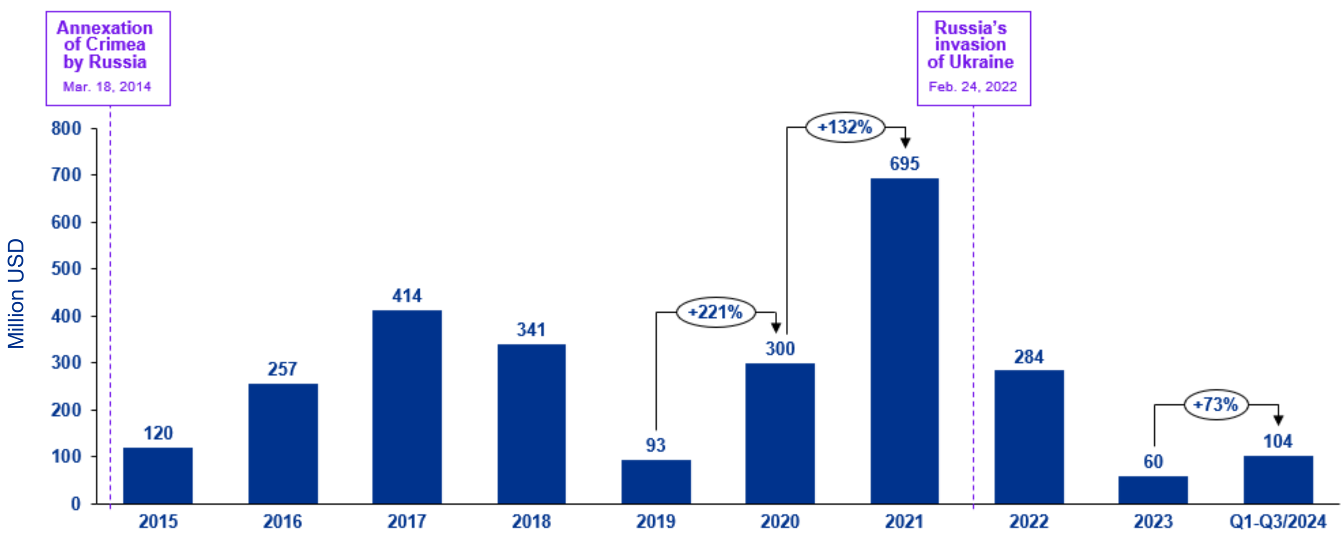
Since gaining independence in 1991, Ukraine has evolved into a democratic state increasingly aligned with Western economic and social standards. Despite the ongoing war, the country has undergone multiple stages of transformation, positioning itself as a potential future EU partner. Germany and Ukraine have long maintained close ties. Besides, strategic business insights and innovative solutions are emerging from Ukraine itself.

German Foreign Direct Investment Inflows into Ukraine



Source: National Bank of Ukraine

Funding as an Opportunity for All Stakeholders

European, and particularly German, investors are already seizing the opportunities arising from Ukraine's reconstruction - notably in the construction and infrastructure sectors. The country's rebuilding is not only a major challenge but also has the potential to become a European success story.

The Russian invasion has affected all areas of daily life and the economy. Unemployment has nearly doubled, from 9.8% to around 19% in 2023. Access to financing remains a key bottleneck, with credit risks and refinancing costs high. Ukrainian banks can currently only offer loans at elevated interest rates, placing additional strain on companies and often preventing them from continuing operations.

However, the preservation of Ukrainian businesses remains a national priority. The German-Ukrainian Fund, substantially supported by the German Development Bank (KfW) with around €200 million since the start of the war, plays a key role in sustaining economic activity. The engine for reconstruction is running with strong backing from German partners.

The Ukrainian government actively promotes cooperation with international and especially German stakeholders, focusing on stimulating private-sector investments, easing access to guarantees, and reducing costs associated with new capital commitments.

Sectoral Investments Driving Transformation

Germany's own experience after reunification serves as a model for Ukraine's transformation. Just as Germany once faced the challenge of rebuilding and integrating, it now has the opportunity to support Ukraine in a similar transition while creating mutual economic benefit.

Key sectors offering strong investment potential include:

- **Manufacturing:** German companies seeking competitive production costs will find ideal conditions in Ukraine. A well-trained workforce is widely available, helping to offset Germany's growing skills shortage.
- **Infrastructure:** Rebuilding and expanding Ukraine's infrastructure is a top priority. With public and private investment, the country is set to become a major manufacturing hub for Europe. Infrastructure development will have a catalytic impact on key industries such as automotive, electronics, and textiles.
- **Logistics:** Ukraine's strategic location offers access to both European and Asian markets. Its established logistics network supports efficient distribution and supply chains.
- **Additional sectors** with high potential include construction, healthcare and pharmaceuticals, metal processing, mechanical engineering, digitalization, renewable energy, agriculture, and food technology.

A crucial success factor for foreign investors will be the establishment of local partnership networks, ensuring smooth access to resources, supply chains, and target markets.

Strategic Investment Planning: Key Economic Regions

Investors typically begin by identifying the most suitable region for their operations. The following Ukrainian cities and regions stand out for their industrial and economic potential:

- **Kyiv:** The capital city is considered Ukraine's most important transportation hub and a leading center for education and industry. Its domestic market covers approximately three million inhabitants. Highly qualified professionals are trained directly at the city's universities and vocational institutions. Moreover, Kyiv is regarded as a national hub for digitalization and IT development. Low labor costs make the capital a financially attractive investment location.
- **Lviv:** Due to its proximity to Poland, Lviv offers excellent access to European markets. The city is increasingly developing into an IT hub and also provides significant potential in the tourism sector. Tourism in particular presents major investment opportunities.
- **Odesa:** The port city of Odesa remains highly contested but holds strategic importance. It offers direct access to the Black Sea, providing ideal conditions for international trade. Consequently, both logistics and the shipbuilding industry are well developed. Furthermore, Odesa and Lviv are also emerging as attractive locations for investments in the tourism sector.
- **Dnipro:** As the traditional center of heavy industry, Dnipro is of special interest to investors in the fields of metal processing and mechanical engineering. The city is situated along an important transport corridor connecting Eastern and Western Europe.
- **Kharkiv:** Kharkiv offers promising investment opportunities in education, information technology, and mechanical engineering. The city is known for its universities and research institutions that provide excellent education in science and engineering. This ensures a steady supply of well-qualified specialists, which is of high value to investing companies.
- **Dniproperetrovsk:** This Ukrainian industrial and cultural center ranks just behind Kyiv and Kharkiv in importance. The region hosts large-scale machinery manufacturers as well as enterprises in wood processing, the chemical industry, and textile, paper, and food production. In addition, the local university makes the city a key location for training the skilled workforce needed by local industries.
- **Zaporizhzhia:** The region surrounding the city of Zaporizhzhia is an important center for heavy industry and metallurgy. Moreover, investments in the energy sector are particularly promising, as Zaporizhzhia is a leading location for energy production.
- **Chernihiv:** Characterized by strong agricultural activity and fertile soil, the Chernihiv region offers significant potential for development in eco-tourism. It could soon evolve into a major hub for food and agri-technology.

Advantages for German Investors in Production and Distribution in Ukraine

Monthly personnel costs in Ukraine amount to only €367 gross, compared with €4,400 in Germany. Energy prices are also significantly lower: one megawatt-hour of electricity costs just €42 in Ukraine, while in Germany it is around €177. A similar pattern applies to gas: in Germany, costs amount to approximately €10 per cubic meter, whereas in Ukraine they are only €0.41. Even fuel prices are much lower: a liter of gasoline costs on average €1.36 in Ukraine, compared to more than €1.80 in Germany. For diesel, the difference is typically at least €0.50 per liter. These cost advantages are decisive for companies aiming to expand production capacities and reduce operating expenses.

German investors benefit not only from cost advantages when relocating their business or parts of it to Ukraine, but also from access to a network of highly qualified professionals. Especially in the fields of research and development, Ukraine is extremely competitive - and in some cases even better positioned than Germany.

Investors in Ukraine also profit from easy access to highly skilled IT specialists and other experts, which facilitates the advancement of production sectors and contributes to efficiency gains. Moreover, the large consumer markets in and around Kyiv, Odesa, Dnipro, and Lviv represent an additional advantage. Demand for products in the construction, industrial, and agricultural sectors is particularly strong in these regions.

In addition, logistics infrastructure is well developed, enabling fast and reliable delivery of goods. This is a clear benefit that further supports the rapidly growing e-commerce sector in Ukraine.

It is no coincidence that many German companies have already invested in Ukraine. Among the firms that continue to use Ukraine as an investment location are Bayer, the Fixit Group, and Siemens.

Addressing Challenges in Germany Through Investment in Ukraine

Entering the Ukrainian market represents a potential step toward growth-oriented expansion: new growth opportunities can be unlocked, and lower labor and production costs offer an attractive financial environment. Furthermore, despite internationally applicable regulations, more flexible regulatory frameworks can be utilized.

The reduced competitiveness in Germany resulting from high labor and energy costs does not pose the same limitations in Ukraine, as such challenges are largely absent there. A particularly positive aspect concerns innovation and new technologies: while pursuing and implementing them in Germany is often resource-intensive, Ukraine offers favorable conditions in this area.

The guiding principle of "build back better" further creates significant opportunities in terms of sustainability and environmental protection: what must be rebuilt from the ground up can be designed and constructed in line with the latest findings and using state-of-the-art technologies.

The potential in the field of renewable energy in Ukraine is particularly high. Lower prices and abundant resources provide advantages that are increasingly difficult to find in Germany. These factors should therefore be given careful consideration when planning investments:

- **Extensive reserves of natural gas and renewable energy sources:** Ukraine possesses substantial resources in these areas, offering a strategic advantage amid the current global energy crisis.
- **Growing pharmaceutical industry:** With enormous development potential and high scalability, this sector offers attractive opportunities for investors.
- **Reliable agricultural imports:** Ukraine remains an important source of agricultural products, helping to ensure food supply security.

For German investors, Ukraine offers not only economic opportunities but also the chance to actively contribute to the country's reconstruction. Investments in Ukraine can therefore serve not only to maximize profits but also to support sustainable development and the rebuilding of a nation that relies on the engagement of foreign private investors.

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