

The international competitive position of German SMEs is under pressure – partly due to growing competition from China

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As a result of trade and geopolitical conflicts, the external trade environment remains challenging – including for German SMEs. A supplementary survey to the KfW SME Panel in September 2025 revealed that competition from China is a growing challenge. Fifteen per cent of SMEs in Germany face increasing price pressure and 13% are exposed to more intense quality competition. The pressure is rising particularly in manufacturing, but also in wholesale and retail trade, although many businesses in these sectors also use Chinese imports to save costs or improve their offerings.

Many SMEs still consider themselves to be well positioned in international competition, but their confidence is falling. More than 40% of SMEs that compete globally expect their competitive position to deteriorate in the next three years. Regression analyses have revealed that SMEs with direct competitors from China as well as energy-intensive businesses are particularly pessimistic. On the other hand, SMEs are much more optimistic about the future when they continuously undertake research and development and introduce process innovations which promise efficiency advantages amid rising energy and wage costs and growing price pressure.

Today, 40% of all internationally competing SMEs regard rising energy and wage costs as a high risk to their future competitiveness in Germany. Taxes and duties are seen as competitive disadvantages by 60% of businesses, while 65% continue to see bureaucracy as the greatest concern. Only 36% of enterprises still fear that environmental and climate regulations could jeopardise their competitiveness.

Manufacturers also consider these factors to be among the largest risks to their competitiveness. They are currently less worried about skilled labour shortages, but these could become more relevant again when the economy rebounds and as demographic change progresses. Manufacturers are much more likely to see their competitiveness jeopardised by a shortage of raw materials, which is likely due in part to the tighter restrictions imposed by China on rare earths exports.

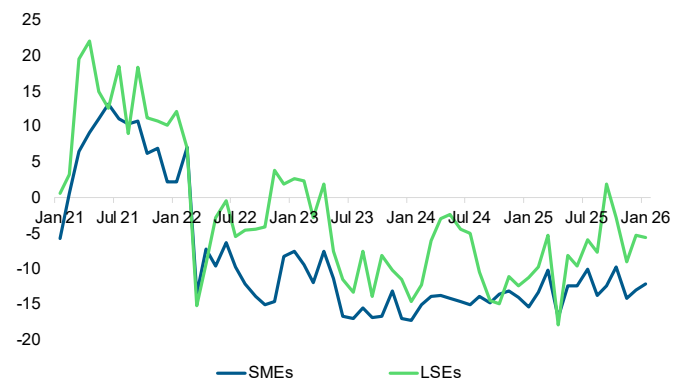
Although economic-policy measures are being debated and implemented in order to address the structural challenges, SMEs believe that the pressure on their competitiveness will

remain high. The good news is that this pressure can also become a catalyst for innovation and technical progress.

International trade environment remains difficult

Businesses' export expectations have recovered slightly from their low of April 2025, after US President Donald Trump announced his so-called Liberation Day with comprehensive tariff increases – especially among large enterprises that are more heavily focused on the US market, but also among German SMEs (Figure 1). The tariff agreement between the US and the EU has likely contributed to this development as well.

Figure 1: Export expectations of manufacturing sector



Note: Balance (in percentage points) of percentages of positive and negative responses on export expectations for the coming three months (seasonally and mean adjusted). SMEs are generally classified as companies that have not more than 500 employees and generate annual turnover of not more than EUR 50 million.

Sources: KfW Research, ifo Institute.

After the Supreme Court ruling that declared part of the US tariff policy unconstitutional, however, this agreement is now in question, and Trump has floated new tariff threats. The demonstrations of global power by the US in Venezuela and with a view to Greenland have created further uncertainty. Another source of instability is Russia's ongoing war of aggression against Ukraine. A ceasefire has been reached in the Middle East, to be sure. But it is fragile, and the prospects for a permanent pause in attacks by the Houthis on cargo ships in the Red Sea, which is a geographical bottleneck for

the global supply chains of German enterprises, are doubtful.¹ (Note: This publication was released on 26 February 2026).

The geopolitical environment is therefore likely to remain difficult and, accordingly, export expectations will probably remain subdued – among large enterprises but also SMEs, which contribute almost 40% of Germany’s goods and services exports.²

China is becoming an increasingly significant competitor

Germany’s economic relationship with China also presents a challenge in this context. Along with the US, China is one of Germany’s most important trading partners, but trade with China is characterised by a growing imbalance. Between January and December 2025, Germany’s exports to China decreased by 9.7% year on year, while imports from China grew by 8.8%.³ One likely driver of this development is the redirection of Chinese exports to the EU as a result of the sharp rise in tariffs on Chinese goods imposed by the US in 2025.⁴

However, the long-term perspective also shows growing Chinese dominance, particularly in industrial goods trade. Facilitated by its accession to the World Trade Organisation, market-friendly reforms and, not least, an aggressive industrial policy, China’s share in global exports of industrial goods has increased significantly since 2001. At the same time, the composition of exports is changing more and more towards products of higher quality and with a higher degree of technological maturity – which have traditionally characterised Germany’s export profile.⁵

Chinese firms are playing an increasing role in the EU market as well, which is of paramount importance as a target region for exports from German enterprises. Thus, China’s share in EU imports has been growing continuously and significantly since 2000, while Germany’s share in EU imports has trended downward. This applies equally to the automotive and chemical industry as well as mechanical engineering, where Germany it is losing more and more ground.⁶

The increasing competitive pressure from China is affecting not only the foreign markets of German businesses but also the domestic market, in which the sales of many SMEs are concentrated. The growing competition from China is therefore an issue that is gaining relevance across the SME sector more broadly.

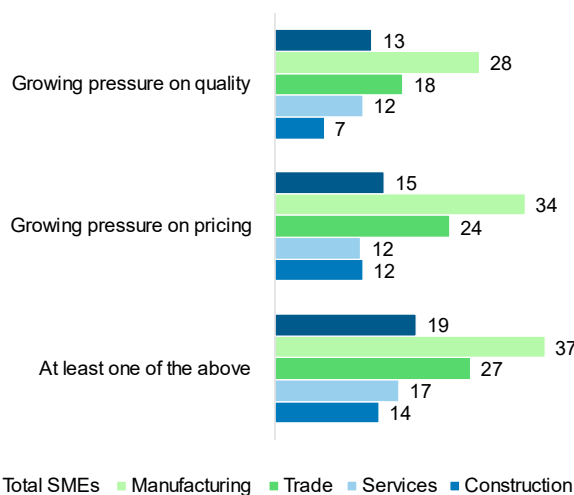
SMEs, too, face growing competitive pressure

The representative findings of a supplementary survey to the KfW SME Panel carried out in September 2025 show that at present, almost one in five of the approx. 3.9 million SMEs in Germany face growing competitive pressure from Chinese companies (Figure 2). Chinese rivals compete not just by offering low prices. Around 13% of SMEs also feel that the quality of their products or services is coming under pressure. Not least, this is likely a reflection of China’s increasing innovation activity, which the country declared a strategic objective ever since it launched its Made-in-China-2025 Initiative in 2015.

Manufacturers are hit particularly hard. But China is creating increasing problems for wholesalers and retailers, too. Around 27% face growing competition here, which is still exerting more pressure on the prices than on the quality of their products or services. New e-commerce platforms such as Shein or Temu, which are gaining market share in online retail at breathtaking speed, likely play an important role.⁷ Less affected are the services sector and the construction industry, which are less tradable and have a stronger focus on regional markets.

Figure 2: Growing competitive pressure from Chinese companies

Share of businesses for which competitive pressure from Chinese rivals has grown in the past three years, in per cent.



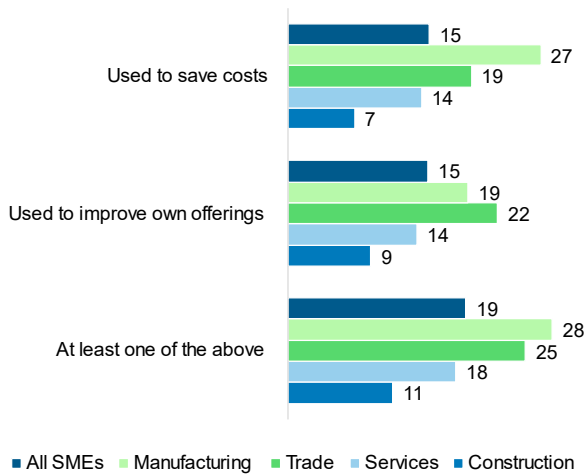
Source: Supplementary survey to the KfW SME Panel in September 2025.

Businesses also benefit from Chinese products

The fact that Chinese firms are active in the German market is not always a disadvantage for domestic companies, however. Many also benefit (Figure 3). Some 15% of all SMEs use Chinese products or services to save costs. Particularly in manufacturing, imported intermediate products from China often help reduce production costs. An equal share of 15% of SMEs use products and services of Chinese companies to improve their own offerings, for example to be able to offer their customers a larger assortment. This is the case particularly in retail. In total, around 19% of all SMEs use Chinese products or services for at least one of these purposes.

Figure 3: Benefits from Chinese imports

Percentage of businesses that use products or services of Chinese companies, in per cent.



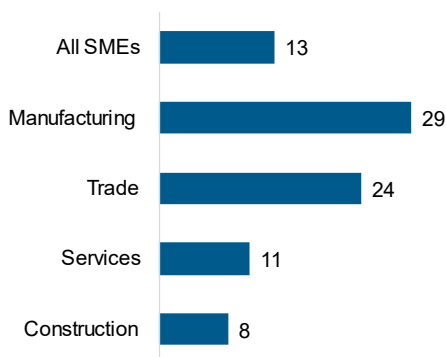
Source: Supplementary survey to the KfW SME Panel in September 2025.

Efficiency improvements from imported intermediate products that can be manufactured abroad at lower cost or in better quality, and access to a greater diversity of products and services are two major sources of benefit from international trade that are often overlooked in the public debate over the trade relations between Germany and China.

Nonetheless, the growing competitive pressure from Chinese firms is problematic as it can contribute to de-industrialisation and job losses in Germany.⁸ This applies all the more as it is based, at least initially, on a massive subsidisation of Chinese manufacturers. In the German SME sector, growing competitive pressure will become a key challenge for many businesses in the future – especially in manufacturing, but also in wholesale and retail (Figure 4).

Figure 4: Competition from China will be the main challenge

Percentage of businesses who mostly/fully agree with the statement ‘Competition from Chinese firms will in future be one of the key challenges for our business’.



Source: Supplementary survey to the KfW SME Panel in September 2025.

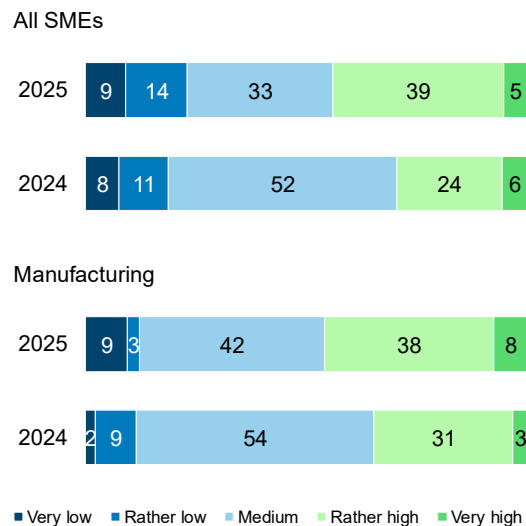
In this environment, which is characterised by geopolitical conflicts, protectionist US trade policy and growing competitive pressure from China, strengthening the international competitiveness of businesses at their location in Germany is a key prerequisite for the future growth and prosperity of our export-oriented economy.

Many SMEs still consider themselves to be well positioned in international competition

In the supplementary survey to the KfW SME Panel carried out in September 2025, some 44% of all businesses that compete internationally rated their competitiveness as high, 14 percentage points more than in April 2024.⁹ This is a positive development. However, around 23% of SMEs also classified their competitiveness as low, another increase on the previous survey. A similar trend can also be seen in manufacturing, even if the share of businesses that have low competitiveness is much smaller here, at around 12%, than among SMEs more broadly (Figure 5). Overall, the survey findings paint a mixed picture of SMEs’ international competitiveness. Whereas many SMEs continue to regard themselves as being well positioned – even more than in the previous year –, a growing share of businesses see themselves as being left behind in global competition.

Figure 5: Self-assessment of SMEs’ competitiveness

Percentage of businesses that rate their competitiveness as very low / rather low / medium / rather high / very high compared with their most important competitors.



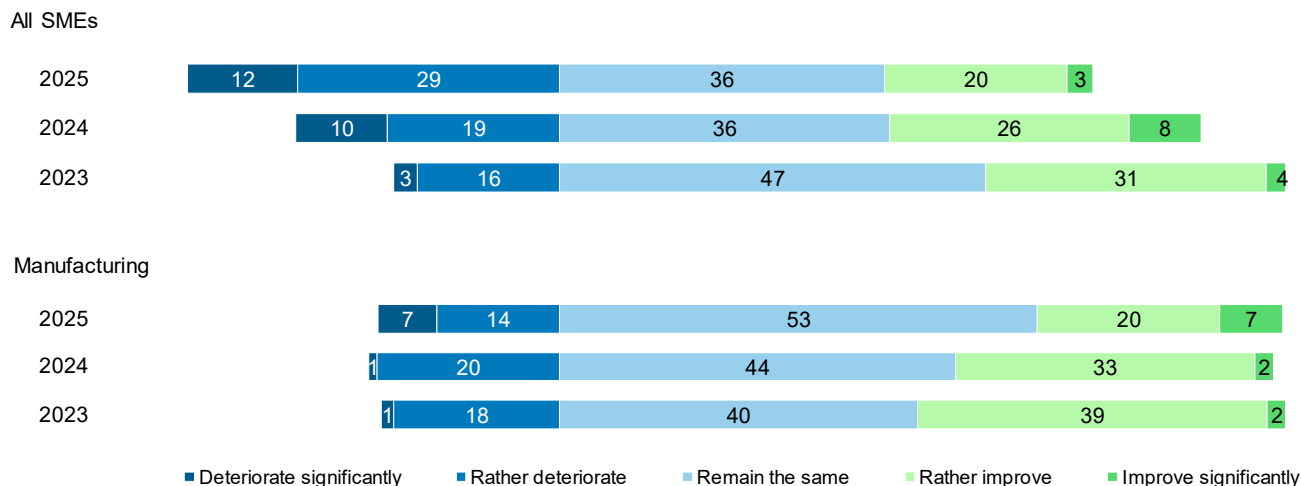
Note: Only enterprises for which international competitors play an important role. Figures extrapolated on the basis of the number of enterprises.

Source: Supplementary surveys to the KfW SME Panel in April 2024 and September 2025.

The self-assessment of SMEs complements the findings of other analyses of Germany’s competitiveness as a business location. A study by KfW Research recently emphasised the innovative capacity and supply of capital, with easy access to finance even for SMEs, as one of Germany’s strengths.

Figure 6: Outlook on future competitive position is marked by growing pessimism

Percentage of businesses that expect their competitive position to deteriorate significantly / rather deteriorate / remain unchanged / rather improve / improve significantly in comparison with their most important competitors.



Note: Only enterprises for which international competitors play an important role. Figures extrapolated on the basis of the number of enterprises.

Source: Supplementary surveys to the KfW SME Panel in March 2023, April 2024 and September 2025.

Besides internationally high energy prices, low government investment over a long period and a high tax burden were another weakness. There is also an urgent need to address shortcomings in education, particularly with a view to basic school qualifications.¹⁰

More and more businesses see their future competitive position at risk

However, enterprises are increasingly less confident of being able in the long term to safeguard their competitiveness, which in many cases remains high. Rather, their outlook on their future competitive position is characterised by growing pessimism. In March 2023, approx. 35% of all SMEs that compete internationally still expected their competitive position to improve, while some 19% anticipated a deterioration. Currently, only 23% of businesses expect their competitive position to improve, while the share of companies predicting that it will worsen has more than doubled (Figure 6). As a result, SMEs that are very concerned about their future in global competition are now in the majority. The outlook has worsened slightly in manufacturing, too, although optimistic enterprises are still in the majority here.

Expectations are being influenced by many different factors

What factors influence whether a business expects an improvement or a deterioration in its international competitive position? To answer this, regression analyses yield interesting findings. They investigate the link between the characteristics of a business such as size, sector or innovation activity and its expectations with regard to the development of its international competitive position in the coming three years (see box on methodology).

Methodology

We combined the responses received from businesses to the supplementary surveys conducted under the KfW SME Panel in March 2023, April 2024 and September 2025 into a single

dataset for the regression analyses on the expected development of their future competitive position. Only enterprises were considered for which international competitors play an important role. The expected development of the future competitive position as a dependent variable was combined into three categories (worsen, stay the same, improve) and regressed to a large set of explanatory variables in a generalised ordered logit model (number of employees in full-time equivalents, turnover, share of international turnover, sector, registered office, share of energy costs and relevance of Chinese competitors, completion of product and process innovations and engagement in research and development activities as well as, additionally, a variable that controls for the survey year). The results are presented as average marginal effects. They show by how many percentage points the probability of a worsening, unchanged and improved future competitive position predicted in the model varies on average across all observations when the explanatory variable varies while other variables remain constant. Standard errors were computed taking into account the fact that one enterprise may make several observations. The full regression results are shown in the table in the annex.

Continuous research and development activity makes businesses more optimistic about the future

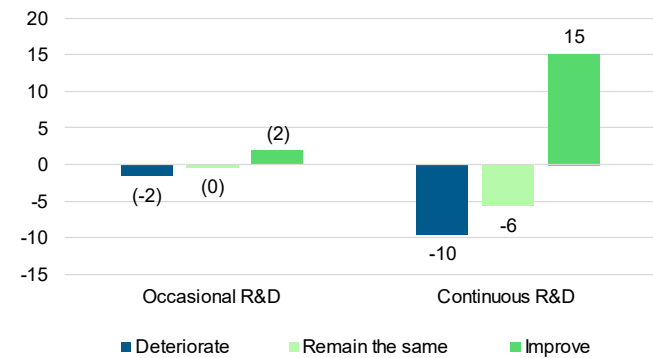
The research and development activities of an enterprise turn out to be a key factor that influences their expectations of how their international competitive position will develop. In this, it is decisive whether these activities are only occasional or continuous.

Thus, the likelihood of a business expecting its competitive position to improve is 15 percentage points higher when it has conducted continuous research and development work in the past three years. The probability of it expecting its competitive position to worsen, on the other hand, is 10 percentage points lower. This is based on a comparison with an enterprise that has not conducted any research and development activities

but otherwise has identical features.¹¹ If a business conducted only occasional research and development activities in the past three years, however, this has no significant influence on its expectation. It is just as likely to expect its competitive position to improve as an identical business that has not conducted any research and development activities (Figure 7).

Figure 7: Research and development and expected development of competitive position

Change in the probability that a company expects its competitive position to deteriorate, remain the same or improve, if it has carried out research and development (R&D) activities occasionally or continuously over the past three years, in percentage points.



Note: Only enterprises for which international competitors play an important role. Values shown in brackets mean that the measured effects are within the uncertainty range of the analysis, that is, not statistically significant.

Sources: Supplementary surveys to the KfW SME Panel in March 2023, April 2024 and September 2025, own calculations.

Positive correlation between future competitive position and process innovations

Research and development activities are a major driver of innovation in German SMEs. But businesses without own research and development activities also create product and process innovations. They actually make up the majority of innovators in the SME sector.¹²

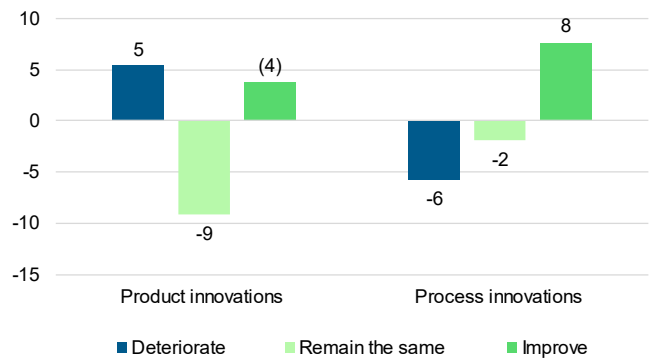
Process innovations in particular make businesses more confident of being able to hold their own in global competition in the long term. The probability of a business expecting its competitive position to improve increases by around 8 percentage points when it has introduced process innovations in the past three years. The probability of it expecting its competitive position to worsen rises by 6 percentage points (Figure 8). The efficiency gains achievable with process innovations likely play a key role for the more positive outlook. Given the growing competition from Chinese companies which – also as a result of government subsidies – often have significant cost advantages over German enterprises, cost reductions through efficiency improvements are becoming increasingly important.¹³

Product innovations can impact on the international competitive position both positively and negatively, with the positive effects lying within the uncertainty area of the analysis. The fact that the effects here are less clear likely also has to do with the fact that product innovations are typically riskier than process innovations because additional factors can come into play such as insufficient demand, technological risks, regu-

latory challenges or aggressive competitors who could threaten the business success.¹⁴

Figure 8: Product and process innovations and expected development of competitive position

Change in the probability that a company expects its competitive position to deteriorate / remain the same / improve if it has introduced product / process innovations in the past three years, in percentage points.



Note: Only enterprises for which international competitors play an important role. Values shown in brackets mean that the measured effects are within the uncertainty range of the analysis, that is, not statistically significant.

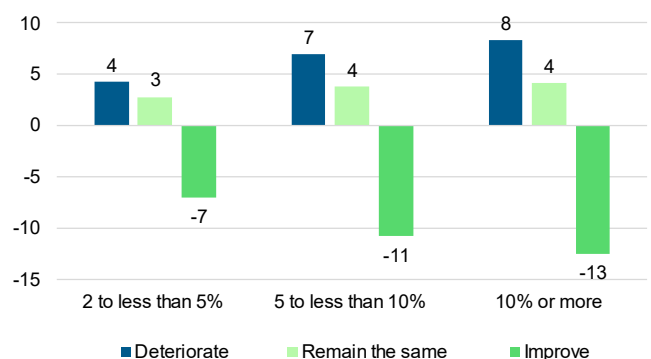
Sources: Supplementary surveys to the KfW SME Panel in March 2023, April 2024 and September 2025, own calculations.

Energy-intensive enterprises see their competitive position under greater pressure

The energy intensity of an enterprise, on the other hand – measured here as the share of energy in total costs – has a clearly negative influence on its expectations for the future. If energy rises from a share of less than 2% – in each case the comparison category – to more than 10% of its costs, the probability of the business expecting its international competitive position to worsen rises by 8 percentage points (Figure 9). It then becomes much less likely for that enterprise to expect its international competitive position to improve (-13 percentage points).

Figure 9: Energy costs and expected development of competitive position

Change in the probability that a company expects its competitive position to deteriorate / remain the same / improve if energy costs account for 2% or more of the company's total costs, in percentage points.



Note: Only enterprises for which international competitors play an important role.

Sources: Supplementary surveys to the KfW SME Panel in March 2023, April 2024 and September 2025, own calculations.

Energy-intensive industries were hit particularly hard by the energy price shock resulting from Russia's war of aggression against Ukraine and suffered significant production losses. The situation has eased again since then and the sharply increased gas prices have fallen again, to be sure. But they remain above the pre-crisis level and are very high particularly in comparison with the US. The same applies to the price of electricity, after natural gas the second most important source of energy for industry. Here as well, prices continue to be higher than in the US, Canada and China, as well as France and Spain.¹⁵

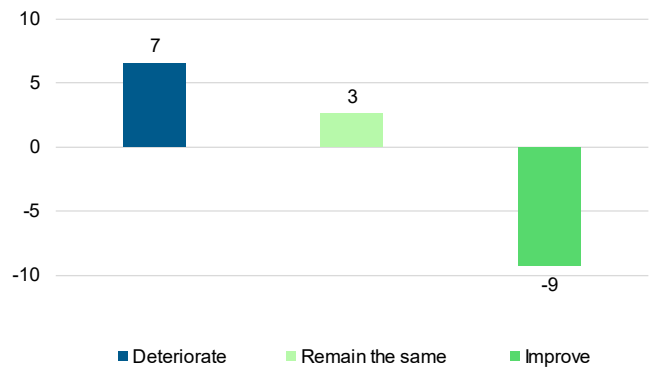
Energy prices for industry will likely remain above the level of other countries in the long term, too, creating a lasting disadvantage in global competition. The price of burning fossil fuels such as natural gas will continue to increase with rising carbon prices in the EU. That makes the carbon border adjustment mechanism (CBAM) that will come into full force in the EU this year increasingly important to prevent an exodus of energy-intensive industries (carbon leakage). Electricity is to be made cheaper for energy-intensive industry through a state-subsidised industrial electricity rate, but this will be limited to a maximum of three years under the rules governing state aid. Looking ahead, the expansion of renewables will likely dampen price increases in Germany, to be sure. But this also applies to other countries in which downward pressure on prices from the expansion of renewables could be significantly stronger as a result of geographical advantages such as larger surfaces or better conditions for the use of hydropower, wind and solar energy. Furthermore, Germany needs to invest substantially in the expansion of electricity grid infrastructure, which will translate into higher grid fees or other levies.¹⁶

Chinese competition worsens the outlook even further

Competitors from China already play an important role for around one third of all SMEs that compete internationally.¹⁷ Irrespective of their size, sector and other characteristics, these businesses hold a much more pessimistic view of the future. The regression analyses show that the probability of an expected deterioration of their own competitive position in the next three years is around 7 percentage points higher for them than for businesses for which Chinese rivals so far play only a minor role or none at all, in other words, companies whose foreign competitors are in countries other than China.¹⁸ Businesses that have important competitors in China, on the other hand, are significantly less likely to expect their future competitive position to improve (Figure 10). These businesses appear to expect the competitive pressure from Chinese imports to increase so much that it poses a serious threat to their international competitive position.

Figure 10: Chinese competitors and expected development of competitive position

Change in the probability that a company expects its competitive position to deteriorate, remain the same or improve if competitors from China play an important role for the company, in percentage points.



Note: Only enterprises for which international competitors play an important role.

Sources: Supplementary surveys to the KfW SME Panel in March 2023, April 2024 and September 2025, own calculations.

Besides the results presented above, this is an important indication that SMEs in Germany are feeling increasing pressure from Chinese competitors. In order to protect them from unfair competitive practices, appropriate trade and industrial policy responses must be found at EU level, while strengthening the competitiveness of domestic enterprises is at least equally important.¹⁹

Approaches to strengthening Germany's competitiveness as a location for business

From the perspective of SMEs, a central approach to making Germany a more attractive business location is to reduce bureaucracy. In the supplementary survey conducted in September 2025, approx. 65% of all internationally competing SMEs, and as much as around 69% of manufacturers, cited bureaucracy as a high risk to their future competitiveness. That was yet another increase on the preceding surveys in April 2024 and March 2023 (Figures 11 and 12).

In its agenda for the modernisation of the state and administration adopted on 1 October 2025 the Federal Government set itself ambitious targets for reducing bureaucracy. It aims to reduce the cost of bureaucracy for business by 25 per cent. On 4 December 2025 the federal states also adopted a joint modernisation agenda designed to contribute to modernising the administration and streamlining procedures. A number of individual measures have already been decided or are being planned.²⁰ If these end up noticeably easing the pressure on businesses, it could slightly alleviate concerns over their future competitiveness. According to estimates by the National Regulatory Control Council, however, the administrative burden continues to be much too high despite recent relief measures, and the ambitious targets of reducing bureaucracy must continue to be systematically pursued.²¹

Besides bureaucracy, taxes and charges are also seen as a risk to competitiveness

Taxes and charges are being regarded as a high risk to future competitiveness at around 60% – almost as often as bureau-

cracy and significantly more often than in the previous surveys (Figure 11). Taxes and charges rank second among manufacturers, too (Figure 12). This could be because businesses may fear that the EUR 500 million infrastructure and climate action package adopted in March 2025 is funded with additional debt which the Federal Government will have to repay in the long term, possibly by raising taxes and levies.

Political actions, however, are currently pointing in another direction. In July 2025 the Federal Government introduced a tax relief programme for businesses designed to incentivise investment and set growth impetus, among other things by expanding options for the depreciation of investments in plant and equipment and a gradual reduction of corporate tax from 2028. Since businesses in Germany pay high taxes by international comparison, this is the right step to strengthen competitiveness. Design changes could be more effective by reducing the distortions in the way businesses make their investment and funding decisions under the current tax system.²²

SMEs are worried about the rise in energy and wage costs

While energy costs on average make up only around 11% of SMEs' total costs and a rise in the price of natural gas and electricity would mainly affect energy-intensive industry, wages and salaries account for more than one third of the total costs of SMEs.²³ High collectively agreed pay rises, increasing minimum wages and increasing social security contributions thus directly affect the cost situation and, hence, the international competitiveness of businesses. Costs rose sharply at the start of the year particularly as a result of the increase in the basis of calculation for health insurance premiums and additional premiums.

Demographic change is likely to put further pressure on the health and pension insurance systems in the years ahead. Without effective measures to ease the burden on the social security systems, non-wage labour costs are likely to rise further. As Germany is already one of the countries with the highest unit labour costs, and the scope for setting prices is also shrinking as a result of growing competition from China, there is an urgent need for action. Besides limiting the

increase in labour costs, productivity-enhancing investments and innovations could make a major contribution.²⁴

Sustainability aspects are now seen as less of a burden

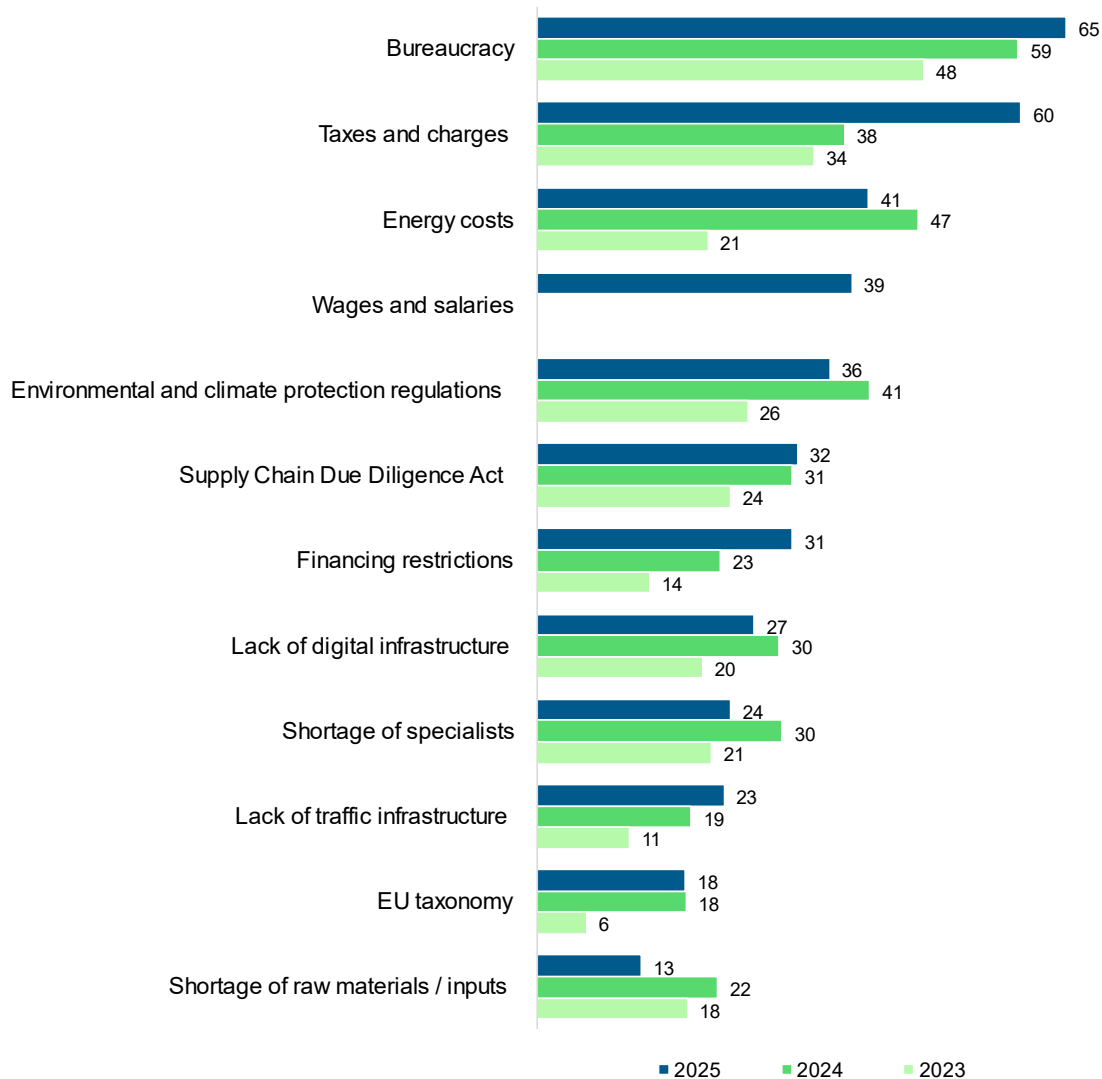
Environmental and climate action regulations were considered a high risk to future international competitiveness by just 36% of SMEs in September 2025, 5 percentage points fewer than in April 2024. Even more significant was the decline among manufacturers, where the share fell by 13 percentage points to 39% (Figures 11 and 12). Not least, this is likely linked to the change in Federal Government. The new Federal Government, which has been in office since May 2025, remains committed to the goal of climate neutrality in 2045 but wants to achieve it with a stronger focus on safeguarding economic competitiveness.²⁵

While the considerable efforts and investment industrial firms need to make in order to achieve the climate targets can create an additional burden in the short term, climate action also holds opportunities for German enterprises. German businesses are well-placed to benefit from the growth of green tech sectors and can gain resilience from greater energy efficiency and more widespread use of renewables.²⁶

Concerns over the implications of the German Supply Chain Due Diligence Act have also eased somewhat (Figure 12). It aims to make businesses take responsibility for respecting human rights and environmental standards in their supply chains. It provides for comprehensive verification, due diligence and reporting obligations. Although it applies only for businesses with at least 1000 employees, indirectly it also affects SMEs that are required to play their part as suppliers to these enterprises. In order to ease the burden on businesses, the Federal Government in early September 2025 introduced a draft bill to amend the Supply Chain Due Diligence Act which provides for a removal of the reporting obligations and amendments to the provisions on fines for breaches. More amendments to the German Supply Chain Due Diligence Act can be expected when the EU Corporate Sustainability Due Diligence Directive (CSDDD) becomes national law, which is to occur by July 2027. Here, too, the EU Parliament and EU member states agreed on a simplification in December 2025.

Figure 11: Risks to SMEs' international competitiveness at their German location

Percentages of businesses that regard the listed factors at their German location as a high risk to their competitiveness in the coming three years.



Note: Only enterprises for which international competitors play an important role. Figures extrapolated on the basis of the number of enterprises.

Sources: Supplementary surveys to the KfW SME Panel in March 2023, April 2024 and September 2025.

Financing restrictions are becoming more relevant

An opposing trend can be seen for financing restrictions, which a growing proportion of businesses – 31% of SMEs – view as a risk to their competitiveness in the German market. In the manufacturing sector, financing restrictions were less likely to be regarded as a potential risk, at 18%, even though a moderate increase of 4 percentage points was seen here.

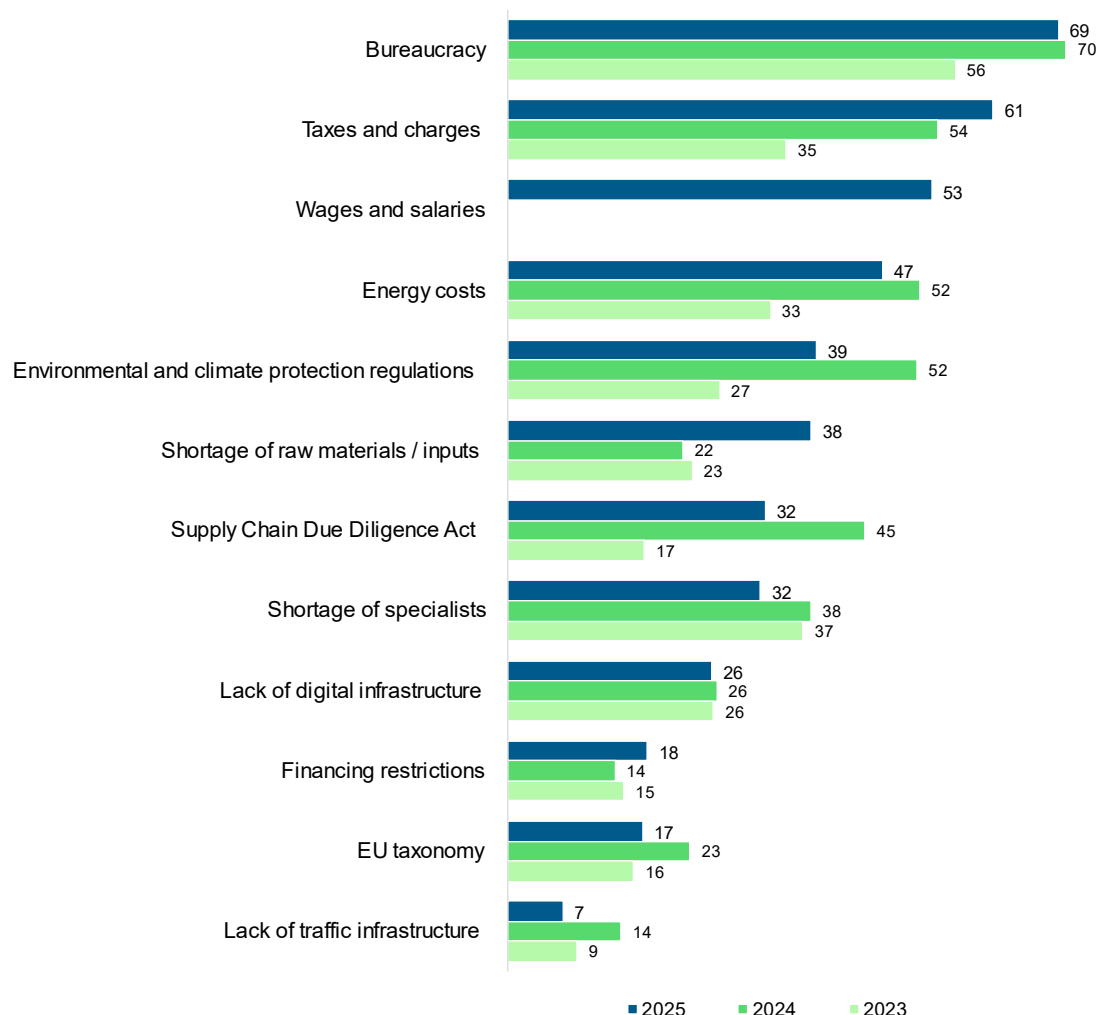
Whereas for the year 2024 the KfW SME Panel still identified a moderately growing appetite for debt capital on the part of SMEs and, in particular, a higher success rate in loan negotiations, the KfW-ifo Credit Constraint Indicator has revealed that the financing environment has deteriorated in the past quarters. Thus, the share of SMEs that were in loan negotiations and regarded the practices of banks as disproportionately restrictive has risen from one record high to another since autumn of 2024 and peaked at 37.8% in the fourth quarter of 2025. This is likely due primarily to the ongoing economic weakness and high uncertainty about the future.²⁷

Digital and transport infrastructure are not among the highest risks

Around 27% of SMEs classified unsatisfactory digital infrastructure and 23% rated unsatisfactory transport infrastructure as a risk to their future competitiveness. This shows that infrastructure is not among SMEs' greatest concerns. Nonetheless, transport infrastructure – railways as well as roads and waterways – has become run down and is often in a poor condition. The structural state of 12% of all autobahns and 21% of all national roads makes it necessary to consider traffic restrictions or roadworks. Almost half of all bridges are deemed merely satisfactory or worse, and only 48% of the rail network is classified as being in mint or good condition.²⁸

Figure 12: Risks to SME manufacturers' international competitiveness

Percentages of enterprises that regard the listed factors at their German location as a high risk to their competitiveness in the coming three years.



Note: Only manufacturing enterprises for which international competitors play an important role. Figures extrapolated on the basis of the number of enterprises.

Sources: Supplementary surveys to the KfW SME Panel of March 2023, April 2024 and September 2025.

A recent study quantified the investment and financing requirements needed to upgrade the transport infrastructure under federal responsibility alone at EUR 184.2 billion for the period from 2026 to 2030.²⁹ Even though additional funds are being provided from the Special Fund for Infrastructure and Climate Neutrality, a financing gap of EUR 52.5 billion still remains. Moreover, a considerable investment backlog exists in municipal transport infrastructure as well.³⁰

Skilled labour shortage is down slightly but remains a risk to future competitiveness for some

Demographic change not only weighs on the health and pension insurance systems but contributes to a worsening of the skilled labour shortage. At the same time, digitalisation and artificial intelligence increasingly provide opportunities to reduce the need for scarce skilled workers. But the transformation is also changing requirement profiles. Unless workers are provided with targeted training there is the danger that some areas will experience skills shortages while others are hit by unemployment.³¹

Around 24% of all SMEs that compete globally regard skills shortages as a risk to their competitiveness (Figure 11). In the

manufacturing sector that figure is 32% (Figure 12). Even though the weak performance of the economy has recently led to layoffs and recruitment freezes in many industrial enterprises, many businesses evidently still anticipate that they will not be able to fill vacancies in the future for lack of workers with the requisite skills – with negative consequences for their international competitiveness. This concern is set to grow again with the hoped-for economic rebound. Besides increasing labour force participation and enhancing productivity through investment and innovation, this can be addressed by, in particular, better education and demand-oriented training.³²

Raw materials shortage is an issue particularly for manufacturers

While a shortage of raw materials and inputs overall does not play a major role in the heavily services-oriented SME sector, it is of great relevance for manufacturers. Four in ten businesses regard it as a high risk to their future competitiveness – a sharp increase on previous surveys (Figure 12).

The fact that German businesses are closely integrated into global production networks was highlighted, not least, by the supply shortages caused by the COVID-19 pandemic. They

prompted some enterprises to reassess their value chains and take measures to secure their supply of raw materials and inputs, especially by increasing stockpiles and diversifying their suppliers.³³ Nonetheless, some businesses remain critically dependent on mineral raw materials, the production of which is heavily concentrated in a handful of non-European countries. China, in particular, stands out with its market-dominating position in the production and processing of rare earths.³⁴ China's increasing restrictions on rare earth exports in recent years have likely shaped SMEs' expectations.

Under its Raw Materials Strategy, which was further refined in 2020, the Federal Government provides for a range of measures designed to secure the supply of raw materials for economy, focusing on the three pillars of domestic extraction, sustainable importation and recycling. At EU level, the Commission recently presented the RESourceEU Action Plan, which builds on the Critical Raw Materials Act and is designed to further secure raw materials and reduce dependencies to enhance competitiveness.³⁵ According to a recent report by the European Court of Auditors, the efforts previously undertaken by the EU did not lead to tangible results.³⁶

Conclusion

The external trade environment is likely to remain difficult for SMEs for the foreseeable future. Besides US trade policy and uncertainties arising from geopolitical conflicts, growing competition from China is also weighing on many SMEs, even though trade with China also has benefits for many businesses. In this environment, preserving and strengthening international competitiveness is of key importance.

In order to strengthen the position of German SMEs in global competition, which is still good in many cases, the most important approach is to ensure continuous research and development activities and strengthen innovation. In particular, process innovations, which help achieve cost advantages, promise to improve their global competitive position. After all, energy and wage costs are likely to remain high in Germany by international comparison in the future as well. At the same time, their scope for setting prices is shrinking because Chinese competitors with technologically mature products are increasingly making inroads into market segments in which German businesses used to have a competitive advantage. Policymakers can create appropriate conditions and incentives to promote research and development as well as innovation in businesses. This includes further improving access to finance for businesses with innovation projects, since these continue to be at a disadvantage in loan negotiations.³⁷

There is also an urgent need for action in other areas. Dismantling bureaucracy, introducing an internationally competitive tax system and a policy that aligns sustainability and climate action with competitiveness are high priorities for businesses. Addressing the skilled labour shortage will likely gain further urgency as the economy picks up and demographic change progresses. Securing the supply of raw materials, too, is of high relevance for manufacturers. Although economic-policy measures aimed at addressing these structural challenges are being debated at length and in part implemented, the pressure is likely to remain

high. But the profound changes that have gripped our global environment also present opportunities. A recent study has demonstrated that China's restrictions on rare earth exports acted as a catalyst for innovation and technical progress in the years 2010 to 2015, contributing not just to stabilising but even strengthening the international competitiveness of the affected businesses.³⁸ These opportunities need to be seized.

The dataset: the KfW SME Panel

The analyses presented here on international competitiveness in the SME sector are based on three supplementary surveys conducted as part of the KfW SME Panel. The **KfW SME Panel** (KfW-Mittelstandspanel) has been conducted since 2003 as a tracking survey of SMEs in Germany. The basic population includes all private-sector companies from all industries with annual turnovers of up to EUR 500 million. The KfW SME Panel is the only representative survey of the German SME sector, making it the most important source of data on issues relevant to the SME sector and for informing policymakers. A total of 13,079 SMEs took part in the most recent 23rd wave.

All enterprises that had already participated in an earlier wave of the KfW SME Panel and had provided a valid email address were invited to the **supplementary online surveys** on the topic of competitiveness by GfK GmbH on behalf of KfW Group. The most recent supplementary survey, which was conducted in September 2025, included responses received from a total of approx. 2,500 enterprises, around 540 of which had major foreign competitors. Around 2,800 businesses participated in the previous year's survey of April 2024 and some 2,200 in the survey of March 2023, each time including some 400 enterprises with important foreign competitors. As the supplementary survey was linked to the main database of the KfW SME Panel, the results of the supplementary survey again provide a **representative picture of the German SME sector**.

Further information can be obtained at <https://www.kfw.de/About-KfW/KfW-Research/KfW-Mittelstandspanel.html>.

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Average marginal effect on the probability that the competitive position...
(in percentage points)

	deteriorated	stayed the same	improved
In (FTEs)	-0.83	-0.39	1.22
In (turnover)	1.15	4.41 ***	-5.56 ***
Share in foreign sales	-0.04	-0.02	0.06
Branch (Reference category: Services)			
Manufacturing	2.08	0.96	-3.04
Construction	4.63	1.73	-6.35
Trade	-0.92	-0.54	1.46
HQ in Eastern Germany	4.90 *	1.78 **	-6.68 *
Investment carried out	-4.11	-1.59 *	5.70
Product innovations	5.34 **	-9.07 **	3.73
Process innovations	-5.69 *	-1.93 **	7.62 **
Digitalisation plans	1.05	0.50	-1.55
Research and Development (Reference category: no R&D)			
Occasional R&D	-1.52	-0.42	1.94
Continuous R&D	-9.50 ***	-5.69 ***	15.19 ***
Share of energy costs (Reference category: under 2%)			
2 to less than 5%	4.26 **	2.81 *	-7.06 *
5 to less than 10%	6.96 **	3.81 **	-10.77 **
10% or more	8.36 **	4.15 ***	-12.51 ***
Important competitors from China	6.58 ***	2.61 ***	-9.19 ***
Survey year (Reference category: 2023)			
2024	4.94 **	2.67 **	-7.61 **
2025	4.45 **	2.50 *	-6.95 **
No. of observations	922	922	922
Wald Test $\chi^2(21) = 85,7$			
Log pseudolikelihood = -921,278			

*** p<0,01; ** p<0,05; * p<0,1

¹ Cf. Bodenschatz, P., Eberth, L., Erhardt, K. und L. Flach (2025): https://www.ifo.de/DocDL/EconPol-PolicyReport_56_Maritime-Chokepoints.pdf, CESifo EconPol Policy Report 56/9.

² Cf. Abel-Koch, J. (2025): [KfW-Internationalisation Report 2025: SMEs' international business stagnates in difficult environment – US policies are making EU single market even more important](#), KfW Research.

³ Cf. Destatis (2026): First detailed data on foreign trade – December 2025.

⁴ Cf. Matthes, J., Sultan, S., Issig, C. and Wunsch, L. (2025): [Zur Umlenkung chinesischer Exporte nach Deutschland](#) (On the redirection of Chinese exports to Germany – our title translation, in German), IW Report 58/2025.

⁵ Cf. Ullrich, K. (2025): [Die Konkurrenz durch China hat stark zugenommen](#) (Competition from China has increased greatly – in German only), and Ullrich, K. (2025): [Besonderheiten im Wettbewerb mit China](#) (Special features of competition with China – in German only), both published in KfW Research (2025): [Wettbewerb\(sfähigkeit\) neu denken: Deutschlands Industrie am Scheideweg](#) (Re-thinking competition and competitiveness: Germany's industry at a crossroads – in German only).

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⁷ Cf. Pech, C. (2025): [Temu wächst, Konkurrenz schrumpft – so trumpft der Marktplatz in Deutschland auf](#) (Temu is growing, the competition is shrinking – how the marketplace is coming up trumps in Germany – our title translation, in German), retrieved on 3 February 2025, and DER SPIEGEL (2025): [Wie Temu und Shein dem Einzelhandel vor Weihnachten zusetzen](#) (How Temu and Shein are battering retailers ahead of Christmas – our title translation, in German), retrieved on 3 February 2026.

⁸ Cf. Ullrich, K. (2025): [Die Konkurrenz durch China hat stark zugenommen](#) (Competition from China has increased greatly – in German only), loc. cit.

⁹ Cf. Abel-Koch, J. (2025): [SMEs see growing risks to their international competitiveness](#), Focus on Economics No. 471, KfW Research.

¹⁰ Cf. Borger, K., Köhler-Geib, F. and Scheuermeyer, P. (2024): [Competitiveness – from 'sick man of Europe' to superstar and back: Where does the German economy stand?](#) Focus on Economics No. 461, KfW Research.

¹¹ The likelihood of an improvement in the competitive position predicted in the model is 38%. A 15 percentage-point increase thus signifies a noticeable effect in relative terms as well.

¹² Cf. Zimmermann, V. (2025): [Welche Unternehmen bringen Innovationen mit bzw. ohne FuE hervor?](#) (What enterprises create innovations with and without R&D? – In German only), Focus on Economics No. 513, KfW Research, and Zimmermann, V. (2022): [Types of SMEs in the innovation system: activities, constraints and successes](#), Focus on Economics No. 394, KfW Research.

¹³ Cf. Matthes, J. and Schmitz, E. (2024): [Konkurrenzdruck aus China für deutsche Firmen](#) (Competitive pressure from China for German businesses – our title translation, in German), IW Report 30/2024, and Ullrich, K. and Ritter, C. (2025): [Internationaler Wettbewerb im Wandel: Konkurrenz zwischen China und Deutschland auf EU-Märkten](#) (International competition in flux: competition between China and Germany in EU markets – in German), Focus on Economics No. 496, KfW Research.

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