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SMEs' international business stagnates in difficult environment – US policies are making EU single market even more important

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## **SMEs' international business stagnates in difficult environment – US policies are making EU single market even more important**

Persistent stagnation, growing pressure on the international competitiveness of Germany as a business location, the increasingly stronger position of China in important key industries and the ongoing war in Ukraine and the Middle East all present a difficult global environment in which the new US policies under Donald Trump pose an additional challenge for the German economy.

The US is the most important destination for exports of German SMEs outside Europe. One in six small and medium-sized enterprises in Germany has customers, suppliers or competitors in the US. Of these businesses, 34% expect negative impacts and a further 9% even expect very negative impacts from the new US policies. The economic risks from the new US protectionism, however, are also worrisome for SMEs without transatlantic business relations.

The new US policies are hitting German exports in a phase of weak growth. In 2023, the growth of foreign turnover that was observable in the wake of the global recovery from the COVID-19 crisis came to a standstill in SMEs as well. At EUR 698 billion, total exports by SMEs in 2023 were 0.4% below the previous year's level in nominal terms. In real terms, however, the decline was an even steeper -6.5%.

The only sector where international business still recorded growth in 2023 was manufacturing, which accounts for 45% of SMEs' international turnover. The average turnover per internationally active business and the number of internationally active businesses both increased. Still, the pressure on their international competitive position is increasing. Enterprises see bureaucracy as the greatest risk to their competitiveness – even before taxes and levies, energy costs and environmental and climate regulations. Requirements placed on imports and exports also pose a burden for them. Complex customs procedures or time-consuming export approvals are the most important causes for administrative burdens for 39% of all internationally active manufacturing enterprises.

The weak development of SMEs' international turnover likely continued in 2024 and spilled over to manufacturing as well. The findings of a special survey conducted under the KfW SME Panel in January 2025 revealed that in 2024, some 21% of all

internationally active enterprises recorded an increase in international turnover on the previous year, while around 25% experienced a drop. In manufacturing, too, 34% of businesses recorded lower turnover, compared with those with higher turnover at 28%.

Businesses perceive the location conditions in Germany as the greatest burden for international business. But geopolitical crises and conflicts also had a negative impact on many internationally active businesses. By contrast, their innovative capacity had a clearly positive effect.

In addition, changes in the external environment led to shifts in the regional structure of SMEs' international activities. European countries, especially Germany's direct neighbours, remain the most important export destinations. The share of internationally active firms with turnover in Russia fell from 11 to 1% between 2015 and 2023 as a result of the trade embargo. The share of enterprises active in the United Kingdom also decreased from 25 to 16% as a result of Brexit. The share of enterprises active in China decreased from 11 to just 7%.

Looking ahead, the importance of Europe is likely to continue growing for SMEs' international business. Central and Eastern Europe, in particular, will become significantly more attractive for businesses in the next three years, while China and the United Kingdom will decrease in importance. Irrespective of regional shifts, SMEs have mixed expectations for future international business. Around 38% of all internationally active enterprises expect their international business to grow moderately in the next three years. A further one third expect at least steady international turnover. However, 20% also expect declining international turnover and a further 8% even predict a sharp drop.

Under these conditions, it is all the more important to strengthen Germany's international competitiveness as a business location. Further developing the EU single market is also of crucial importance. Removing existing trade barriers will improve incentives for innovation and increase exports and it holds enormous potential for increasing productivity and value added in all EU countries.



German economy is facing headwinds from new US policies

The German economy, whose success was for a long time based on the export of high-quality industrial goods in a multilateral trading system, has stagnated for the past five years.<sup>1</sup> Amid a creeping decline in competitiveness, ongoing geopolitical tensions around Ukraine and the Middle East and growing competition from Chinese exporters in key industries<sup>2</sup>, further headwinds are now looming from the protectionist trade policies of the new US administration. In 2024, the US was the most important foreign sales market for German goods with a share of 10% of total German exports.

The new US President Donald Trump has shown that he is determined to go beyond mere threats by introducing import tariffs of 25% on steel, aluminium and automobiles, which also affect the EU. The US administration also imposed import tariffs of 10% on other goods with its ‘Liberation Day’ in early April. In addition, the US president has announced additional tariffs for specific countries, some of which are drastic. After steep losses in share and bond markets, these tariffs were paused for a negotiation period of 90 days for many trading partners, including the EU, shortly after they went into force. But not just the trade policies but also the economic, climate and security policies of the new US administration are having an impact on Germany and Europe.

SMEs are also worried

The consequences of the new US policies will likely profoundly affect the German SME sector. A special survey conducted as part of the KfW SME Panel (Figure 1) revealed that already at the end of January 2025, even before the inauguration of the new US president, more than one quarter of all small and

medium-sized enterprises expected negative consequences from the Trump administration on their business. A further 23% saw themselves incapable of making a prediction, highlighting the great uncertainty around future US policies.

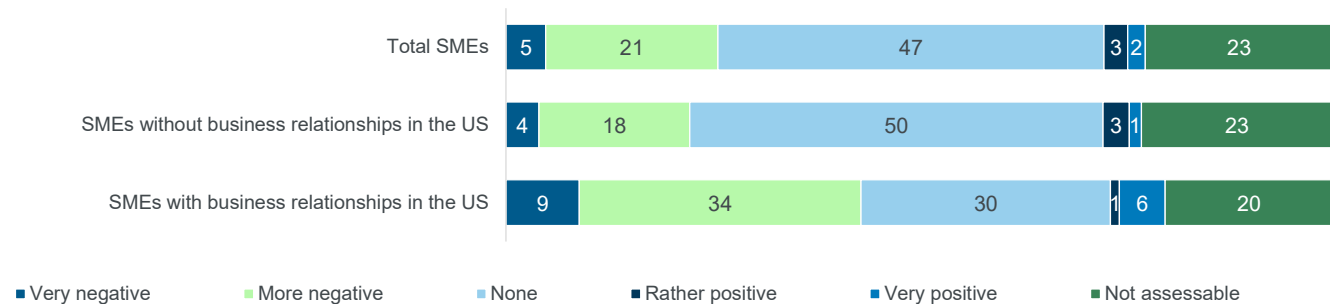
SMEs with business relationships in the US are quite worried. Around 43% of them expect their business to be negatively affected by the new US policies under Donald Trump (Figure 1). However, a small share of 7% also believed in the likelihood of positive effects on their own business. For example, SMEs with a production site in the US could benefit from a reduction in US corporate tax as announced by Trump during the election campaign.

One in six small and medium-sized enterprises have business links to the US

At present, a good 16% of the 3.8 million SMEs in Germany have customers, suppliers, competitors or sites of their own in the US, a slightly smaller share than six years ago (Figure 2). Most of them have relationships with customers. Close to 9% of small and medium-sized enterprises sell their products or services directly in the US, while a further 5% deliver them to customers in Germany or other EU countries which, in turn, export them to the US. Only around 4% of SMEs have suppliers in the US and just under 2% have competitors there.

Figure 1: Expected impact of new US policies on own business

Shares in all businesses in per cent

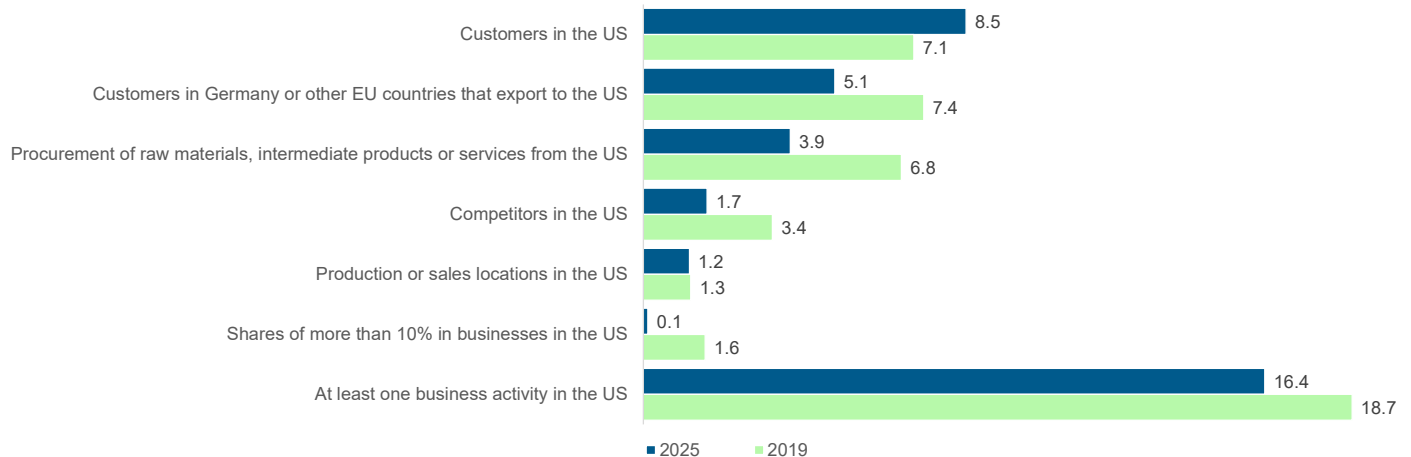


Note: Figures extrapolated on the basis of the number of enterprises.

Source: Supplementary survey to the KfW SME Panel in January 2025

**Figure 2: Types of business relationships of German SMEs in the US**

Shares of enterprises that have business relationships in the US as a percentage of all enterprises



Note: Figures extrapolated on the basis of the number of enterprises.

Source: Supplementary surveys to the KfW SME Panel in January 2025 and September 2019

Only very few small and medium-sized enterprises have production sites or sales locations of their own in the US. Even fewer have shares of more than 10% in US companies. In this respect, there is a clear size differential. Nearly 32% of SMEs with 50 and more employees have business relationships in the US, compared with fewer than 16% of enterprises with fewer than 10 employees. Differences also exist between individual sectors. Manufacturing enterprises have particularly strong links. Some 28% of those businesses have direct links to the US, compared with only 18% in the services sector and as little as 12% in the wholesale and retail sector.

But even those small and medium-sized enterprises that do not maintain any business relationships in the US are clearly worried. In January 2025, around 22% of them expected their business to be negatively affected by the new US administration (Figure 1). The economic risks created for Germany and Europe by the new US policies are likely front of mind for them.

These risks have clearly increased in recent weeks as a result of US trade policy and prompted them to downgrade their growth forecasts. The leading economic research institutes have revised their forecast downward by 0.7 percentage points and now expect GDP growth of only +0.1% in Germany this year, although this does not yet take into account the 10% tariffs on goods other than aluminium, steel and automobiles. The German Federal Government currently expects zero growth for this year after forecasting +0.3% growth in January 2025.<sup>3</sup>

SMEs are also likely to be increasingly worried about US policies since January 2025 – and not just those directly affected by US import tariffs. The indirect effects of the current US trade policy, such as a reluctance to invest and spend in the face of growing uncertainty, could also spill over to other SMEs.

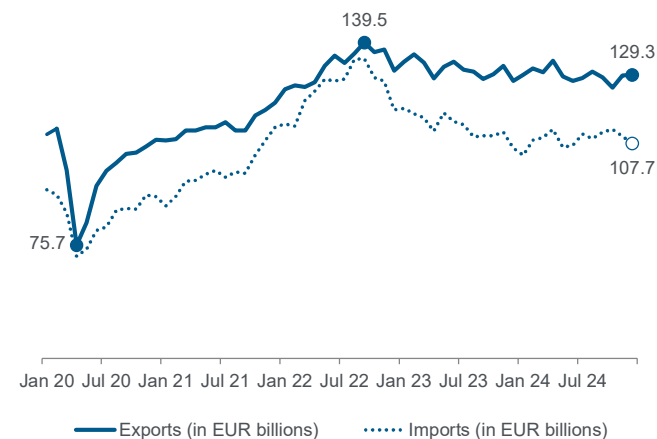
### Only few SMEs will likely benefit from higher defence spending in response to US security policy

As the US calls into question its security guarantees for Europe, creating the need for higher German and European defence spending, new business opportunities could open up for small and medium-sized suppliers in the defence industry. This is unlikely to be fully reflected in the findings of the special survey conducted at the end of January 2025, especially since the necessary financing package was not completed until the end of March 2025.

But increased defence spending would also benefit only a very small portion of the 3.8 million small and medium-sized enterprises in Germany. Little more than 2,500 SMEs operate in the defence industry across the entire EU and in Germany it is likely to be only a few hundred.<sup>4</sup> As a cross-cutting sector, the security and defence industry in Germany currently contributes not more than 1.3% to total production value and employs a maximum of 387,000 people in total, of whom 49% or just under 189,000 are employed by small and medium-sized enterprises. Thus, well below 1% of all 32.8 million employees in German SMEs work in this sector, which in addition to military defence also comprises civil defence.<sup>5</sup>

**Figure 3: Germany's external trade**

Calendar and seasonally adjusted goods exports and imports



Source: Destatis.

### US tariffs are hitting German exports in a phase of weak growth

The protectionist US policy is hitting German exports in what is already a phase of weakness. Although exports did increase once again in November and December, in all of 2024 they were around 1.4% below the previous year's level, reaching a nominal value of EUR 1,552 billion (Figure 3). German exports had already fallen by a nominal 0.6% in 2023.<sup>6</sup> Given the high inflation rates, exports decreased in real terms as well in the past two years.<sup>7</sup>

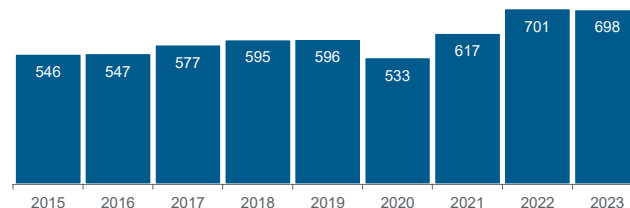
The weak development of exports increasingly reflects structural challenges as well. The increase in energy prices as a result of the war in Ukraine has hit energy-intensive businesses in the chemical and metal industries in particular. Even if gas and electricity prices have since fallen again, energy costs in Germany are likely to remain higher than at other locations for the foreseeable future. Also of significance is the changing role of China in global trade. As a result of domestic overcapacity, and bolstered by an active industrial and trade policy, Chinese enterprises have increasingly moved up to become competitors for German manufacturers of higher-value industrial goods. This particularly affects the automotive industry and mechanical engineering and plant construction firms in Germany.<sup>8</sup> But other important export markets also generated little positive impetus.

### Export growth stalled for SMEs as well in 2023

The weak development of German exports is also reflected in SMEs' international activities. German SMEs generated EUR 698 billion in international turnover in 2023, around 0.4% less than the previous year (Figure 4).<sup>9</sup> In real terms, however, the decline was an even steeper -6.5% as a result of high inflation rates.<sup>10</sup>

**Figure 4: International turnover of SMEs**

Total international turnover in EUR billions



Source: KfW SME Panel 2016–2024

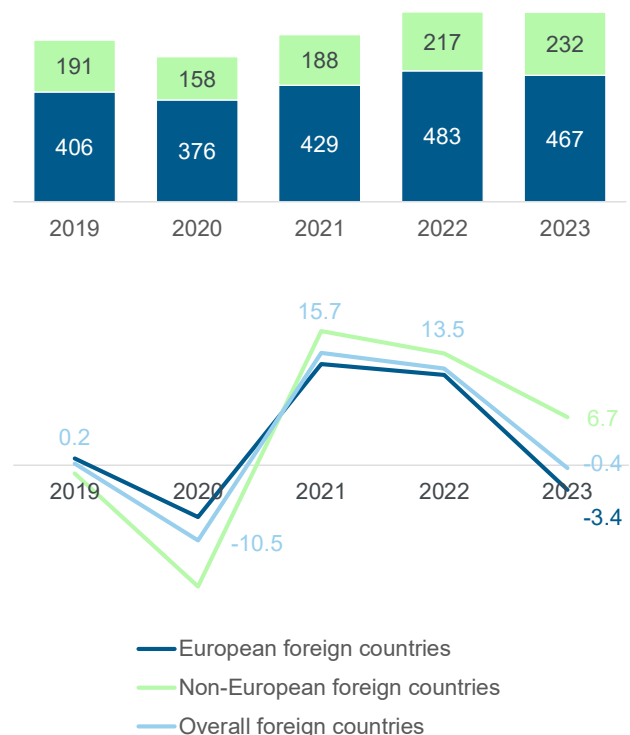
The strong growth of well over 10% in international turnover which SMEs achieved in 2021 and 2022 in the course of the global economic recovery from the COVID-19 crisis thus appears to be a thing of the past (Figure 5).

In 2023, the regions outside Europe acted as a driver, contributing some EUR 232 billion to German SMEs' international turnover, around 6.7% more in nominal terms than in the previous year (Figure 5). At the same time, their turnover in Europe fell by around 3.4% but still amounted to EUR 467 billion – almost 67% of all international turnover generated by German SMEs.

**Figure 5: SMEs international turnover by region – volumes and growth rates**

Top: SMEs' foreign turnover in Europe and outside Europe in EUR billions

Bottom: Growth rates by region in per cent



Source: KfW SME Panel 2019–2024

### Higher international turnover on average but fewer internationally active businesses

The share of foreign turnover in total turnover of internationally active businesses grew in almost all sectors and size classes in 2023 (Figure 6). On average, internationally active enterprises generated some 29% of their total turnover outside Germany, 2 percentage points more than in 2022. The international turnover per internationally active business also increased in absolute terms by around 12% to more than EUR 1 million on average for all sectors and size classes.

However, the number of internationally active businesses decreased sharply in the same period. Whereas in 2022 some 880,000 of the approx. 3.8 million SMEs were active abroad, in 2023 it was only around 763,000. The share of businesses with international operations fell from around 23 to 20%, which is below the pre-pandemic long-term average (Figure 7). The growth in international turnover generated by the remaining exporters was insufficient to offset the drop in the number of internationally active firms so that the international turnover of SMEs in 2023 was around EUR 3 billion below the previous year's level.

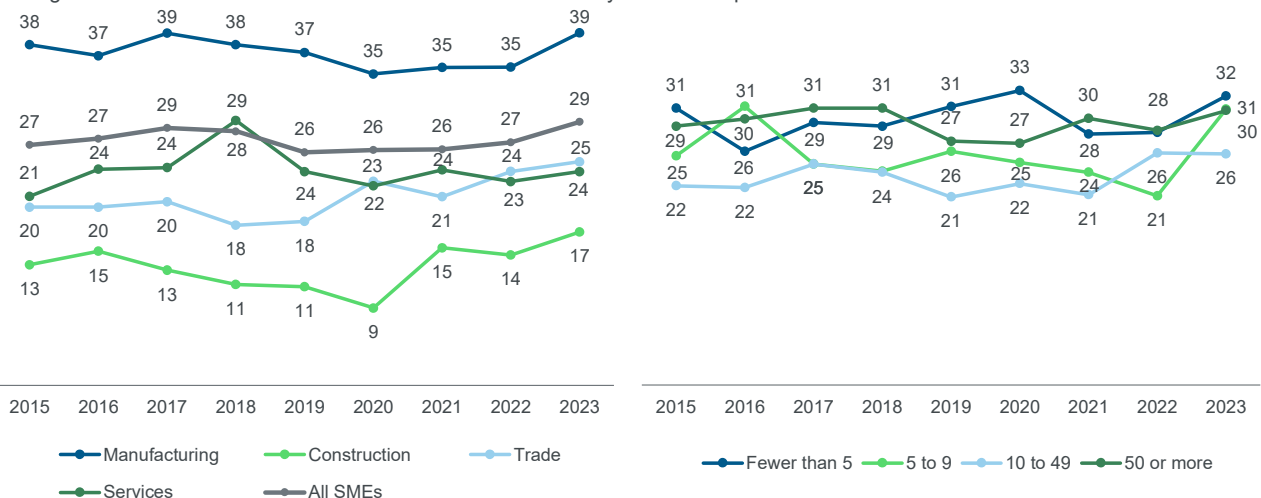
### International activities of manufacturers still grew in 2023 ...

Bucking the rather weak overall trend in SMEs' international turnover, manufacturers continued on a path of growth in 2023. As was the case in all other sectors, the share of international turnover in total turnover of internationally active businesses rose, and significantly, from 35 to 39% (Figure 6). Unlike in the services or commerce sectors, however, the share of internationally active businesses also increased significantly from 43 to 46% (Figure 7). Thus, more businesses of the manufacturing sector exported in 2023 on average than in the previous year.

On balance, manufacturing SMEs were able to grow their international turnover from EUR 291 billion to EUR 316 billion, while both the services and the commerce sectors posted declines which led to the weak overall result (Figure 8). Thus, around 45% of international turnover was generated by manufacturing, which remains a supporting pillar of internationalisation activity in the SME sector.

**Figure 6: Share of international turnover in total turnover of internationally active enterprises by size class and sector**

Percentage of international turnover in total turnover of internationally active enterprises

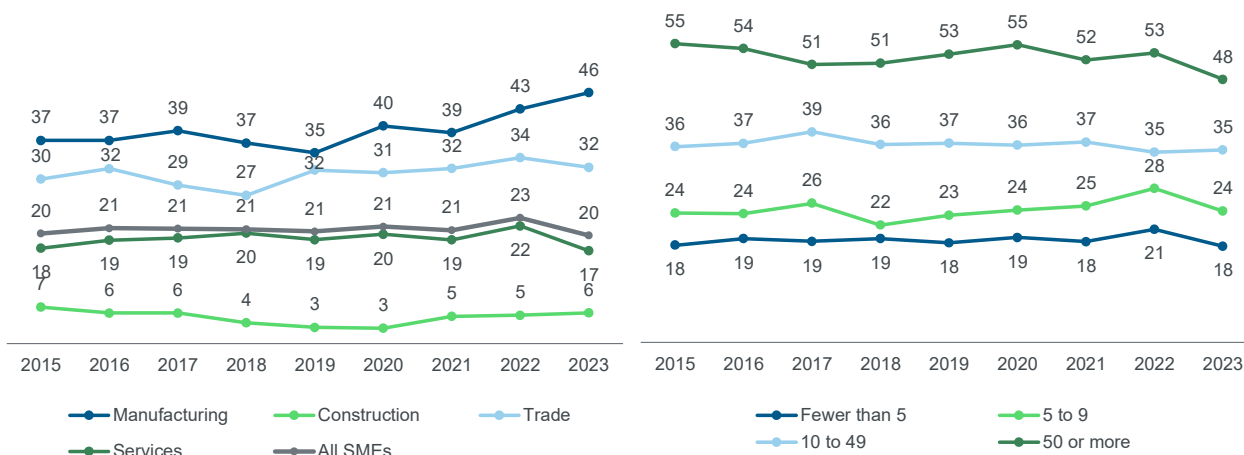


Note: Values extrapolated on the basis of the number of employees. Size classes by number of full-time equivalent employees.

Source: KfW SME Panel 2016–2024

**Figure 7: Share of internationally active SMEs by size class and sector**

Percentage of internationally active businesses



Note: Figures extrapolated on the basis of the number of enterprises. Size classes by number of full-time equivalent employees.

Source: KfW SME Panel 2016–2024

**... while pressure on their international competitive position is increasing**

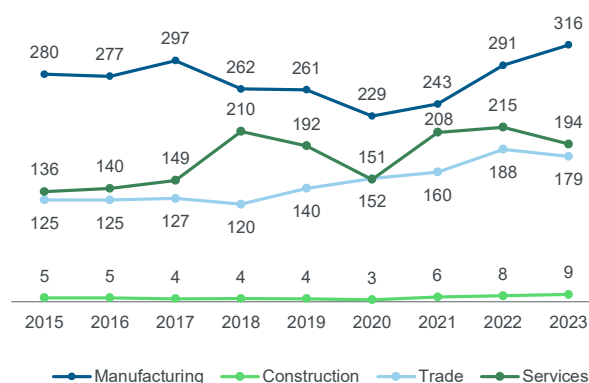
In line with the positive development of international turnover, manufacturing enterprises (still) rated their international competitiveness positively in many respects in 2023. In particular, they regarded their qualified staff, innovative products and high quality of their services as a competitive advantage. In many cases, labour, energy and material costs were also better than expected compared with those of major foreign competitors.<sup>11</sup>

The still strong position of manufacturing SMEs in global competition, however, is increasingly coming under pressure.<sup>12</sup> The share of companies that believed their competitive position was likely to improve in the years ahead dropped sharply from 41 to 35% between March 2023 and April 2024. At the same time, the share of companies expecting it to deteriorate rose slightly. Parts of the manufacturing sector have thus lost optimism and confidence (Figure 9).

The share of SMEs competing internationally that expect their competitive position to improve decreased only slightly from 35 to 34% over the same period. However, the share of enterprises that expect it to worsen increased sharply from 19 to 29%.<sup>13</sup>

**Figure 8: International turnover of SMEs by sector**

SMEs' total international turnover by sector in EUR billions

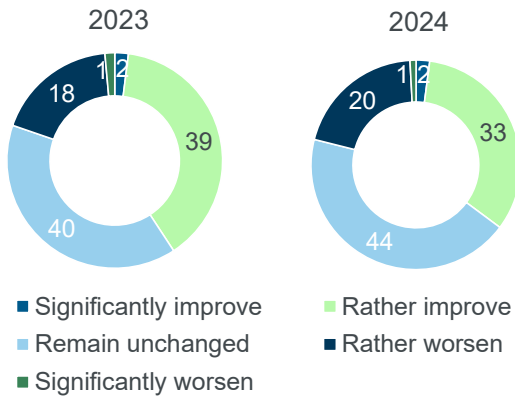


Source: KfW SME Panel 2019–2024



**Figure 9: How manufacturers expect their international competitive position to change**

Percentage of companies that expect their competitive position to improve significantly / rather improve / remain unchanged / rather worsen / worsen significantly in comparison with their most important competitors in the next three years.



Note: Only manufacturing 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 and April 2024

Manufacturers – and businesses all across the SME sector – see growing risks to their international competitiveness at their German location (Figure 10). They see bureaucracy as the greatest risk, well before taxes and levies, energy costs and environmental and climate regulations.<sup>14</sup>

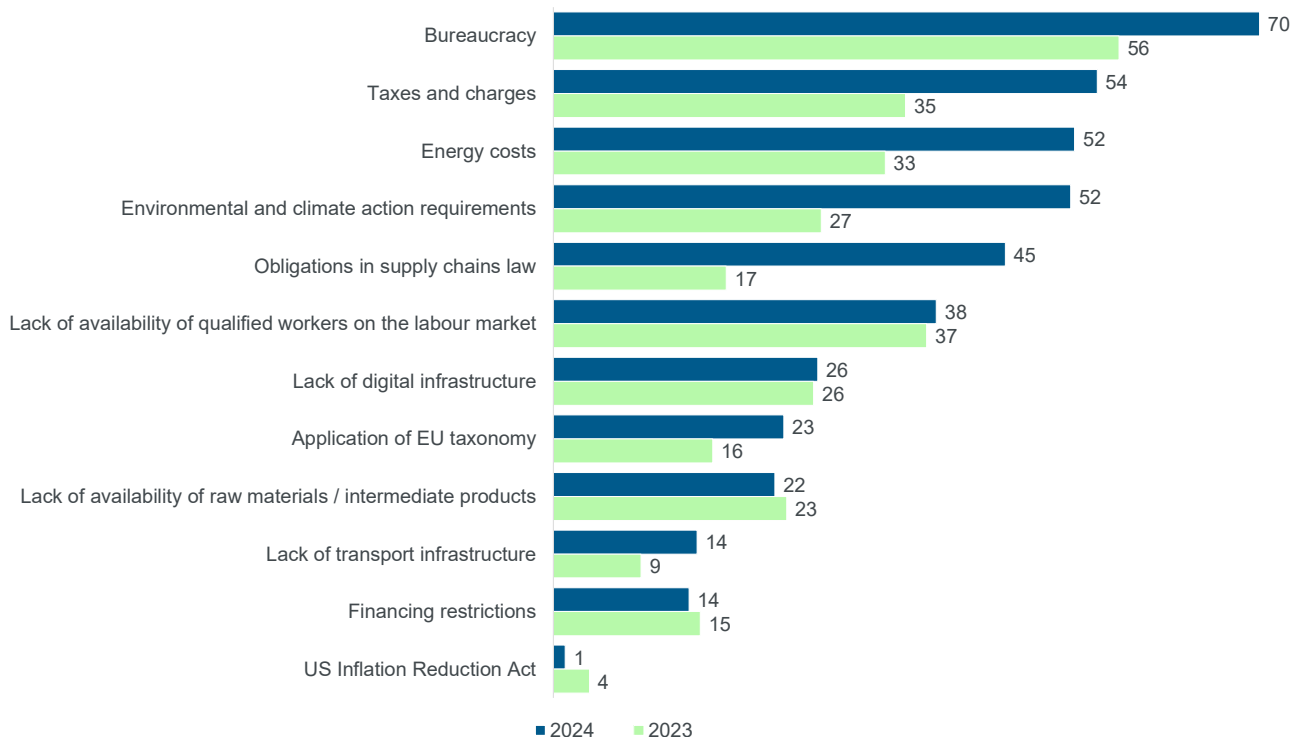
### Bureaucracy poses many burdens

Bureaucracy creates legal and planning certainty for businesses, helps prevent corruption and arbitrariness and is an important constituting element of a functioning democracy.<sup>15</sup> However, excessive regulation ties up resources, stifles innovation and investment and impairs the competitiveness of enterprises.<sup>16</sup>

A recent study by KfW Research has found that on average, employees allocate 7% of their working time to administrative processes alone. That is equal to annual labour costs of around EUR 61 billion. In addition to the amount of time expended, bureaucracy causes further costs and burdens such as costs of approvals or licences, lawyer and consultancy fees and lost profits from time-consuming application, planning and approval procedures.<sup>17</sup>

**Figure 10: Growing risks to manufacturers' international competitiveness**

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



Note: Only manufacturing 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 and April 2024

### Figure 11: Import- and export-related requirements are also an administrative burden for internationally active manufacturers

Percentage of enterprises for which the respective area is one of the three causing the highest administrative compliance costs.



Note: Only internationally active manufacturing enterprises.

Source: KfW SME Panel 2024

Businesses mentioned complying with tax obligations, retention and documentation obligations, as well as requirements in the area of accounting as the most time-consuming chores.<sup>18</sup> For internationally active manufacturing enterprises, the administrative burdens in connection with imports and exports are also high upon the list, for example complex customs procedures or time-consuming export approval processes. They are among the main causes of administrative expenditure for 39% of all exporting manufacturers (Figure 11).

### Concerns around the German Supply Chain Act have increased the most

From the point of view of SME manufacturers, the risks for their competitiveness at their German location that have increased the most are those posed by the German Supply Chain Due Diligence Act (Figure 10). It came into force in January 2023 and initially only applied to businesses with more than 3,000 employees. In January 2024, the reporting requirement was extended to businesses with more than 1,000 employees. Indirectly, the provisions also pose a burden for SMEs as suppliers of such businesses because they have to provide information or take part in prevention and remedial measures. Lately there has been intense political debate at national level whether the implementation of the German Supply Chain Due Diligence Act should be deferred or the act should be eased. The coalition agreement between the governing parties now intends for the Supply Chain Due Diligence Act to be abolished and replaced by an act on international corporate responsibility which the EU Corporate Sustainability Due Diligence Directive (CSDD) would implement with little red tape and in an implementation-friendly manner. That directive came

into force in July 2024 and is to be implemented in national law within two years. In the face of ongoing criticism from the business community, the EU Commission recently proposed deferring and simplifying the directive. The EU Parliament agreed to defer it in early April and negotiations on amendments must continue. So, for the time being, great uncertainty remains for businesses and suppliers as to what requirements will need to be met in the future.

### International turnover of SMEs remained weak in 2024

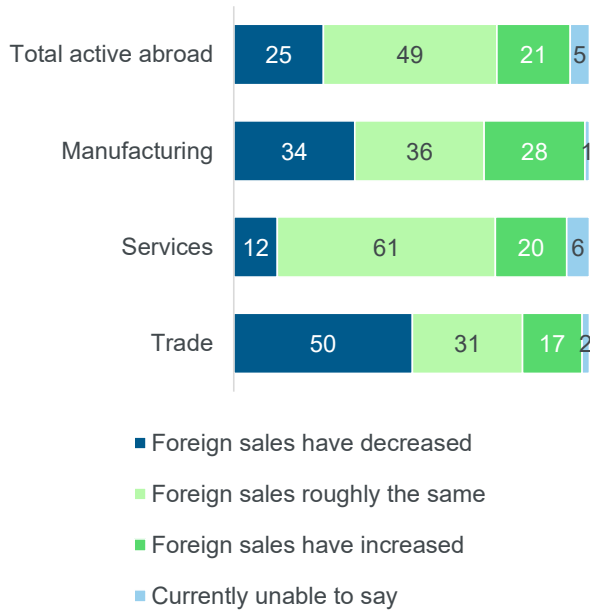
The representative findings of the supplementary survey conducted under the KfW SME Panel in January 2025 revealed that the weak development of international turnover continued all across the SME sector in 2024. Whereas around one fifth (21%) of all internationally active businesses were able to increase their foreign turnover in 2024 on the previous year, international turnover fell in one quarter (25%) of internationally active businesses (Figure 12). For the development of the total volume of international turnover of SMEs in 2024, these figures suggest a contraction rather than a growth surge.

The manufacturing sector, which was still able to record positive growth in 2023, is also likely to have lost momentum. To be sure, 28% of manufacturing firms recorded increasing international turnover in 2024, probably because manufacturing comprises both automotive and mechanical engineering and the pharmaceutical industry, which recorded higher exports at aggregate level last year. At the same time, however, 34% recorded a decline in international turnover. The growing pressure on international competitiveness has likely made its first mark here.

The development of international turnover in retail, wholesale and external trade was even weaker. Half the enterprises suffered a decline in international turnover that year. Decreases in demand from abroad have a direct impact on this sector. International business in the services sector, on the other hand, evolved positively. Here, only 12% of all businesses recorded a drop in foreign turnover while a much larger share of 20% posted increases. At the aggregate economic level, too, services exports developed more positively than goods exports in 2024.<sup>19</sup>

**Figure 12: Development of international turnover of SMEs in 2024**

Year-on-year, percentage of internationally active businesses



Note: Figures extrapolated on the basis of the number of enterprises. Construction sector not shown separately due to low number of observations.

Source: Supplementary survey to the KfW SME Panel in January 2025

### Germany's location conditions are the heaviest burden

The development of international turnover in the SME sector in 2024 was affected by many factors, including cyclical effects and structural challenges. SMEs regard the location conditions in Germany as a particularly significant burden on their international business. They had a negative effect on the development of the international turnover of almost four in ten (39%) internationally active businesses (Figure 13). In the manufacturing sector, five in ten enterprises (48%) even reported that the location conditions in Germany adversely impacted their international business in 2024.

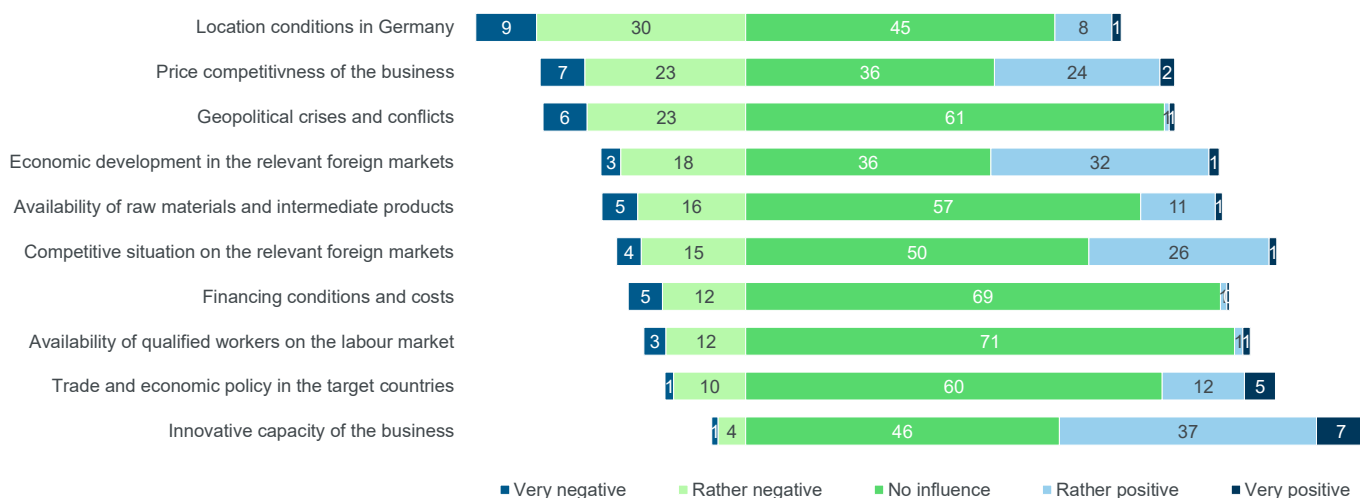
As a business location, Germany has significant strengths, such as high innovative capacity and good access to finance, including for small and medium-sized enterprises. But it also has significant weaknesses, the negative impacts of which are becoming increasingly visible, such as low public-sector investment, high corporate taxes and high energy costs by international comparison.<sup>20</sup>

Small and medium-sized enterprises, too, are growing increasingly worried about Germany's international competitiveness as a business location – not just in the manufacturing sector. SMEs believe they are still well positioned in many respects. But their view of their future competitive position has worsened considerably of late. From their perspective, and across all sectors, bureaucracy continues to be the primary challenge to their competitiveness at their German location, even before energy costs. Businesses also see environmental and climate regulations as well as other regulations such as the German Supply Chain Due Diligence Act and the application of EU taxonomy as increased risks. They are also concerned that taxes and duties and the skilled labour shortfall could develop into a competitive disadvantage.<sup>21</sup>

Against this backdrop, there is great urgency to build on the strengths of the location and address the weaknesses in order to reverse the decline in competitiveness of German enterprises. This is a necessary prerequisite for overcoming the current export weakness and enabling external trade to become a driver of growth in Germany again. The coalition agreement between the CDU / CSU and SPD for the coming legislative period prioritises strengthening Germany's competitiveness as an industrial location. In combination with the recently adopted financial package for higher government spending on defence, infrastructure and climate action, the announced measures are sure to provide positive impetus.<sup>22</sup>

**Figure 13: Factors that influenced the development of international turnover in 2024**

Percentage of internationally active businesses



Note: Figures extrapolated on the basis of the number of enterprises.

Source: Supplementary survey to the KfW SME Panel in January 2025

**Declining price competitiveness is leading to lower turnover in the manufacturing sector**

The prices of products or services are an important aspect of competitiveness. To be sure, only around 7% of all German SMEs pursue a competition strategy that explicitly aims for price leadership. What is much more common, however, is a strategy of product differentiation focused on high quality and customer-specific solutions. Around 45% of all small and medium-sized enterprises pursue this strategy. In particular, internationally active enterprises often also follow a strategy of expansion through innovation.<sup>23</sup> But even in a competition strategy geared to quality and innovation, pricing flexibility is limited. This is all the more relevant the more Chinese companies in particular join the competition for quality. This is because Chinese competitors significantly undercut the prices of many comparable products of German businesses, as illustrated by representative survey findings from the year 2024. German businesses see a loss of market share, lower profits, relocation of production sites and job cuts as possible consequences.<sup>24</sup>

Price competitiveness depends on the relative price development at home and abroad and the nominal exchange rates. On the aggregate economic level, price competitiveness remained largely steady compared with other euro area countries last year. At the current margin, it even improved slightly compared with a more broadly defined comparison group of 37 trading partners (Figure 14).

Individual businesses have a much more mixed view of how price competitiveness has evolved. In 2024 it had a negative impact on the international business of around 30% of all internationally active businesses (Figure 13). This applies to a particularly large share of manufacturing enterprises, where price competitiveness developed adversely for more than 40% of all enterprises last year. Higher energy costs as well as higher costs of raw materials and inputs likely played a particular role here. By contrast, the price competitiveness of around 26% of all internationally active enterprises improved and even strengthened their international business. Many internationally active businesses in the services sector in particular – some 32% – benefited from better price competitiveness.



**Figure 14: Aggregate indicator of price competitiveness**

Note: Indicator of price competitiveness of the German economy on the basis of consumer price indexes, index value 1999=100. Falling index values mean higher price competitiveness.

Source: Deutsche Bundesbank

### Geopolitical crises and conflicts have a clearly adverse impact on exports

With Russia's attack on Ukraine in February 2022 and the escalation of the conflict in the Middle East in October 2023, geopolitical crises and conflicts have come more into focus in Europe. To be sure, even in the past, only few small and medium-sized companies exported to Russia, which is now under sanctions, or to the Middle East. Still, the uncertainty and stability associated with the geopolitical tensions are dampening demand in other foreign markets as well, hampering the procurement of energy and raw materials and putting pressure on complex supply chains in which a large number of businesses from different regions are embedded. At the same time, important trading routes are threatened by geopolitical crises and conflicts, such as the Red Sea, where Houthi rebels have launched more than 100 attacks on commercial vessels since November 2023.<sup>25</sup>

The consequences are also being felt by some SMEs. The geopolitical crises and conflicts had a rather negative impact on the international turnover of around 23% of all internationally active SMEs and even a very negative impact on 6% of them in 2024 (Figure 13). They played a role for around 61% of all internationally active SMEs. There was hardly a business that benefited from them.

### Economic conditions outside Germany did not provide positive impetus for all enterprises in 2024

Most small and medium-sized enterprises operate in only few destination countries, with 76% of all internationally active SMEs exporting to no more than three and 40% even to only a single target region.

Thus, the ways in which demand from abroad for products or services of a small and medium-sized enterprise changes often depends on the economic growth occurring in a single target region.

In 2024, this varied greatly even within Europe, which accounts for more than two thirds of SMEs' total international turnover. Whereas Germany lagged far behind in 2024, with negative growth of real gross domestic product of -0.2%, Italy performed much better with 0.7%, France with 1.2% and Spain with 3.2%.<sup>26</sup> Outside Europe, the US is the most important sales market for SMEs. Real gross domestic product there grew by 2.8% in 2024. In China, a relevant export destination for larger SMEs in particular, the economy even grew by 5% over the same period.<sup>27</sup> Thus, some businesses were able to benefit much more strongly from growing international demand than others. Overall, the development of the economy in their relevant foreign markets had a (rather) negative effect on the international turnover of 21% of internationally active SMEs but a (rather) positive effect on that of 33% of these businesses (Figure 13). Thus, the economic development in the respective foreign markets was the second strongest factor for the positive development of SMEs' foreign operations in 2024.

### Competitive situation has made international business easier particularly for service providers

The competitive situation in relevant foreign markets has developed favourably for many SMEs and strengthened their international business activities. This is true of 27% of internationally active SMEs (Figure 13), particularly smaller businesses in the services sector.

But there are some exporters for which the competitive situation has worsened. Overall, 19% of internationally active SMEs have reported a deterioration in their competitive situation. This is particularly notable among internationally active SMEs that generate part of their turnover in China – some 7% of all internationally active SMEs. For more than one in four of them (28%), the increased competitive pressure has led to falling international turnover.

Competitive pressure from Chinese rivals on German businesses is growing not just in the Chinese market. It is increasing continuously in third markets as well. Thus, China's shares in EU imports have increased consistently since the year 2000, while Germany's shares in EU imports have fallen overall during the same period and specifically for sophisticated industrial goods. This development has even gathered momentum in the past years.<sup>28</sup>

### Trade and economic policies are relevant for only some enterprises

The trade and economic policies of destination countries influenced the development of international turnover of only one third of SMEs. They had an adverse effect on around 11% of internationally active firms (Figure 13), especially on manufacturing enterprises with a heavier focus on export destinations outside Europe. By contrast, some 17% of internationally active businesses were able to benefit from the trade and economic policies of their export markets – especially firms in the services sector.

Given the current US trade policy, this could change dramatically this year, especially if the EU fails to reach an agreement in the trade conflict with the US and to avert the imposition of significant additional tariffs on US imports from the EU. Against the backdrop of the US administration's rhetoric that emphasises time and time again how important tariffs are as a source of revenue and as a tool for re-industrialisation, a further escalation of the tariff spiral and stronger geoeconomic fragmentation in the long term are a conceivable scenario.<sup>29</sup>

### Availability of skilled labour and raw materials is an impediment rather than a driver

For some internationally active SMEs – around 15% in total – the skilled labour shortage also acted as a brake on international business activities (Figure 13). Despite the tense economic situation and job losses in parts of the manufacturing sector, skilled labour shortages were still being felt last year and are likely to worsen again in the years ahead as the economy rebounds and demographic ageing continues.<sup>30</sup>

The availability of raw materials and inputs generally had less of an adverse effect on export business. It is true that around 21% of all internationally active SMEs were limited in their export activities by insufficient availability of raw materials and inputs in 2024. However, around 12% of exporting enterprises were also able to benefit from the improved availability of raw materials and inputs. The supply bottlenecks caused by the COVID-19 crisis have now largely been resolved. Nevertheless, strong import dependencies on certain critical raw materials remain, which have moved into the spotlight once again as a result of geopolitical tensions.<sup>31</sup>

### Financing conditions also slowed SMEs' exports last year

On balance, financing costs also had a negative effect on the development of international turnover. Even though key interest rates in the euro area were further reduced in the course of 2024 as inflation eased, positive effects on international business remained elusive. This is likely due in part to the extremely restrictive lending policies of banks. Thus, the KfW Credit Constraint Indicator climbed from 26.3 points in the first quarter of 2024 to 32.0 points in the fourth quarter of 2024.<sup>32</sup> The growing reticence on the part of banks is likely attributable to the weak economic development and increasing insolvencies in Germany, but also to the unpredictability of the US administration in international trade.

### Innovative capacity has a clearly positive effect on export activities

For around 44% of all small and medium-sized enterprises, their own innovative capacity helped to strengthen their international business (Figure 13). Thus, innovation was by far the most important driver of SMEs' exports in 2024. A mere 5% of internationally active companies reported that their (limited) innovative capacity restricted their international business.

The positive link between enterprises' innovation and exports has been abundantly evidenced in the empirical literature. Causal effects act in both directions, with innovation and exports mutually reinforcing each other. Innovations – in particular, product innovations that have a high novelty value and are primarily generated by enterprises with own research and development activities – enhance an enterprise's international competitiveness and facilitate access foreign markets. Conversely, export activities provide a business with greater sales potential, which makes product innovations in particular more worthwhile.<sup>33</sup> Besides, activities abroad give access to new knowledge, which is of importance particularly for small and medium-sized enterprises with their limited internal resources.<sup>34</sup>

During the 2021–2023 period, around 39% of all German SMEs brought forth innovations. The share of businesses that introduced new products was 28%. Most of these were product limitations, while the share of businesses that introduced new-to-market innovations was a mere 2%. In order to strengthen the development of exports, targeted measures aimed at promoting the innovative activities of cutting-edge SMEs and, hence, strengthening the research and development capacities of enterprises appear to be the most promising.<sup>35</sup>

Against the backdrop of the protectionist US trade policy and reverse causality of export activities on innovation activity, strengthening innovation activity appears all the more important. The harder it becomes for German enterprises to access important foreign markets such as the US, the more their earnings from product and process innovations and, hence, incentives to invest in research and development decrease. In addition to increasing the uncertainty, this is a further channel through which US policies are adversely impacting investment. This effect can be quantitatively significant and, unless countermeasures are adopted, can lead to losses in prosperity in the long term.<sup>36</sup>

### External challenges also affect the regional structure

The changes in the external environment – the protectionist attitude of the US under Trump, growing competition from China, the war in Ukraine and, not least, Brexit – also affect the regional structure of SMEs' internationalisation activities. Changes have occurred here in the past years, some of which have been significant. Even so, European countries, especially Germany's direct neighbours, remain the most important export destinations. SMEs sell their products or services primarily in Austria and Switzerland, followed by the Benelux states and France. Around one quarter of internationally active businesses generate turnover in the Czech Republic, Slovakia or Poland, while an almost equal share does so in Spain, Portugal or Italy (Table 1).

One country that has become notably less relevant is the United Kingdom, which was the destination of one in four internationally active German SMEs before the Brexit vote in the year 2015. In 2023, after the United Kingdom completed its exit from the EU on 1 January 2021, only 16% of all internationally active SMEs generated turnover there.

What is more surprising is the sharp drop from the previous survey in the share of small and medium-sized enterprises with international turnover in

Scandinavia. This development can be seen in all size classes and industries. One major cause of this is likely the exchange rate development. Both the Swedish and the Norwegian kroner have lost much of their value relative to the euro in recent years. Unlike the Danish kroner, they are not coupled to the euro. The devaluation of the Swedish and Norwegian kroner makes these countries' imports from the euro area more expensive and decreases demand for German exports.

**Table 1: Target regions of internationally active SMEs**

Shares of SMEs with foreign turnover in ...		
	2015	2023
Austria / Switzerland	63%	63%
Benelux	39%	39%
France	30%	28%
Czech Republic / Slovakia / Poland	26%	26%
Spain / Portugal / Italy	26%	25%
United Kingdom / Ireland	25%	16%
Scandinavia	22%	13%
USA	15%	12%
Balkan states / Greece	14%	11%
Asia (without China)	12%	9%
China	11%	7%
Türkiye	10%	6%
Baltic states	7%	5%
Africa / Middle East	8%	5%
Latin America	6%	4%
Russia	11%	1%
<b>Europe</b>	<b>95%</b>	<b>92%</b>
<b>Emerging and developing countries</b>	<b>27%</b>	<b>19%</b>

Note: SMEs that achieved foreign turnover in the respective target region in the respective year as a percentage of all SMEs with foreign turnover in that year. Multiple responses were possible. Europe comprises the target regions Austria / Switzerland, Benelux, France, Spain / Portugal / Italy, Czech Republic / Slovakia / Poland, United Kingdom / Ireland, Scandinavia, Balkan states / Greece and the Baltic states. Emerging and developing economies comprise the target regions Asia (without China), China, Turkey, Russia, Africa / the Middle East and Latin America.

Source: KfW SME Panel 2016 and 2024.

The share of internationally active SMEs with turnover in the USA, too, was 12% in 2023, slightly below the level of 15% in 2015. For the overall SME sector this means that around 2.4% or some 92,000 enterprises generated turnover in the US in 2023. Unlike the question about business relations, the question here was framed more narrowly and refers only to the

turnover generated within a particular year. This share is therefore lower than the share of enterprises that generally maintain business relationships in the US. Nonetheless, the US remains the most important target destination for SMEs outside Europe.

Also on the decline is the share of internationally active businesses that generate turnover in China, which is hardly surprising in light of the developments described. Emerging and developing countries have also lost relevance overall as export destinations for German SMEs since 2015.

Only around 1% of all internationally active firms generated turnover in Russia in 2023, 10 percentage points fewer than in 2015. This was likely the result of the extensive economic sanctions imposed by the EU on Russia, which comprised export bans on numerous products from the EU. The only exceptions are products from the health, food and agricultural sectors. Based on the volume of trade in 2021, around 54% of European exports to Russia are currently under an embargo.<sup>37</sup>

### Looking ahead, Europe will become even more important for SMEs

Not least as a result of the protectionist trade policy of the US and growing competitive pressure from China, the EU single market will become even more important for export-oriented small and medium-sized enterprises in the future. German SMEs believe that Central and Eastern Europe in particular will become more important for their international business (Figure 15). Poland in particular has evolved to become a relevant export market for German businesses and was already the fourth largest trading partner in 2024, accounting for 6% of all goods exported from Germany. However, countries in Western and Northern Europe will also

become more attractive as export destinations for SMEs in the coming years. In Southern Europe, on the other hand, only few enterprises see new sales opportunities overall and the United Kingdom is set to become even less relevant for SMEs' international business.

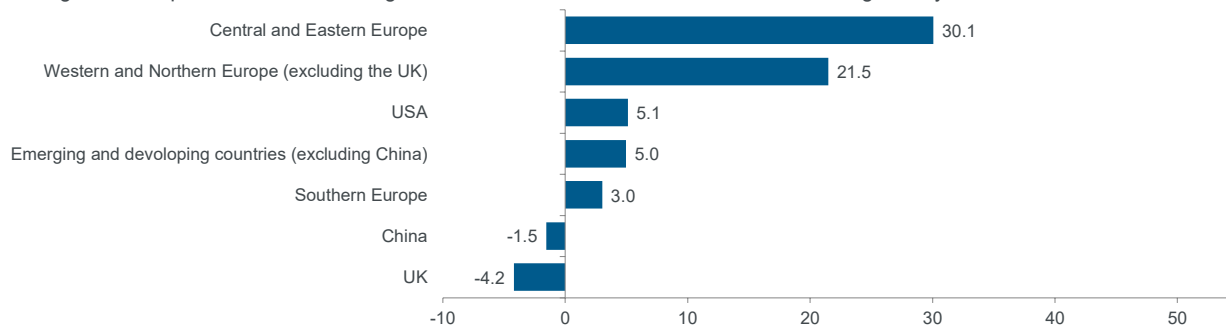
### Outlook on future international business ranges from cautious to cautiously optimistic

Irrespective of regional shifts, SMEs have mixed expectations for future international business (Figure 16). Around 38% of all internationally active enterprises expect their international business to grow moderately in the next three years. Only 1% expect strong growth. A further one third anticipate at least steady international turnover. However, 20% also expect declining international turnover and a further 8% even predict a sharp drop. Thus, the outlook in general is rather mixed, even if it is clearly positive on balance, at +11. The services sector is comparatively optimistic, while retailers and wholesalers are rather pessimistic, which suggests that the trend of the year 2024 will continue.

In the manufacturing sector, the driver of SMEs' international turnover, positive and negative outlooks are roughly even. Whereas one quarter of all enterprises expect their international business to grow moderately, 26% expect a decline, with 8% even predicting a steep drop (Figure 16). Internationally active firms that export to the US are particularly pessimistic, with 51% expecting their international turnover to shrink in the coming three years. This underscores yet again that the new US policies can be felt deep inside the German SME sector and the introduction of new US tariffs has direct impacts on the international business of small and medium-sized enterprises.

**Figure 15: Europe will continue to gain in importance for SMEs' international turnover**

Change in the importance of different regions for SMEs' international turnover in the coming three years



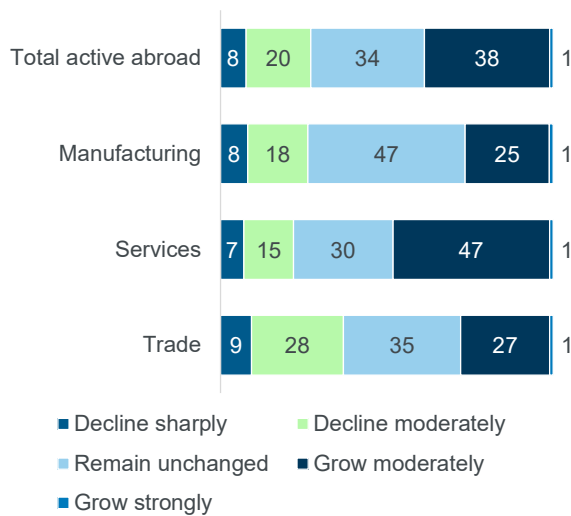
Note: Balance of the share of internationally active enterprises that responded to the question 'How do you expect the importance of the following regions to develop for your company's international turnover in the coming three years?' with 'will strongly / mostly increase' and 'will strongly / mostly decrease'. Figures extrapolated on the basis of the number of enterprises.

Source: Supplementary survey to the KfW SME Panel in January 2025



**Figure 16: Expected development of international turnover**

Percentage of internationally active businesses that expect their international turnover in the coming three years to...



Note: Figures extrapolated on the basis of the number of enterprises. Construction sector not shown separately due to low number of observations.

Source: Supplementary survey to the KfW SME Panel of January 2025

### Competitiveness and EU single market should be strengthened in the difficult global environment

The external conditions for Germany's export industries will likely remain difficult for the foreseeable future. The protectionist trade policy of the US is continuing and harbours the risk of escalating further into a global trade war. China is intent on further expanding investments in technologies of the future and promoting key industries, which will further intensify competition for German enterprises.<sup>38</sup> There is also great uncertainty around the development of the geopolitical conflicts in Ukraine and the Middle East. In this environment, it is all the more important to strengthen the international competitiveness of the German economy and ensure attractive location conditions – for large as much as for small and medium-sized enterprises, which make a significant contribution to value added, employment and exports in Germany. The SME sector employs 71.5% of the working population in Germany, and the international turnover of SMEs represents 35.4% of Germany's goods and services exports.<sup>39</sup> The survey findings presented here illustrate once again that location factors in Germany can have a significant impact on the export success of small and medium-sized enterprises as well.

A recent position paper from KfW Research proposes advancing digitalisation and innovation, securing the supply of energy and raw materials and addressing the

shortage of skilled labour as economic policy approaches to addressing these challenges for the competitiveness of Germany as a business location.<sup>40</sup> There is also a need to push ahead with reducing bureaucracy, simplifying the tax system and modernising the transport infrastructure. In the transition to climate neutrality, it is important to avoid creating disadvantages in international competition and harness opportunities in global markets. In doing so, important frameworks for competitiveness are created at EU level and must be taken into account when implementing economic policy measures at national level.<sup>41</sup> The EU Corporate Sustainability Due Diligence Directive, which is to be implemented under the coalition agreement with an act on international corporate responsibility and supplant the German Supply Chain Due Diligence Act, is an example of this.

Given the increasing headwinds from China and the US, besides securing competitiveness there is also a need to further strengthen the EU single market. Although there are no tariffs within the EU single market, a wide range of non-tariff trade barriers exist such as regulatory requirements, demands on product safety and certification requirements that differ from one country to another and are not transparent for many enterprises.<sup>42</sup> High administrative hurdles also exist in trade in services, such as national reporting obligations, insurance requirements or insufficient recognition of vocational qualifications, although some countries, including within the EU, last year adopted a range of measures aimed at simplifying trade in services.<sup>43</sup> According to estimates by the International Monetary Fund, however, this causes trading costs which vary from sector to sector but on average are tantamount to tariffs of up to 44% on goods and up to 110% on services.<sup>44</sup> Dismantling these trade barriers will improve incentives for innovation, increase exports and offers enormous potential for increasing productivity and value added in all EU countries.<sup>45</sup> Small and medium-sized enterprises in particular, with their focus on European destination countries, could benefit from this. The EU Commission could provide important impetus here with the EU Single Market strategy it presented at the end of May. The aim of the strategy is to push ahead with removing existing barriers to trade and investment within the EU and give new momentum to the services sector. In addition, it aims to better support small and medium-sized enterprises in harnessing the opportunities of the EU single market. How well the implementation of the proposed measures will succeed lies in the shared responsibility of the EU member states.

### KfW SME Panel

The KfW SME Panel (KfW-Mittelstandspanel) has been conducted since 2003 as a recurring postal survey of small and medium-sized enterprises in Germany with annual turnover of up to EUR 500 million.

With data based on up to 15,000 companies a year, 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. As it is representative of all SMEs of all sizes and across all industries in Germany, the KfW SME Panel offers the possibility to conduct projections for micro-businesses with fewer than five employees as well. A total of 9,556 SMEs took part in the current wave.

The KfW SME Panel is used as the basis for analyses of long-term structural developments in the SME sector. It provides a representative picture of the current situation and the needs and plans of SMEs in Germany. It focuses on annually recurring information on companies' performance, investment activity and financing structure. This tool provides a unique way of determining quantitative key figures for SMEs such as investment spending, loan demand and equity ratios.

The basic population used for the KfW SME Panel comprises all SMEs in Germany. These include private-sector companies from all sectors of the economy with annual turnover of not more than EUR 500 million. The population does not include the public sector, banks or non-profit organisations. Currently there are no official statistics providing adequate information on the number of SMEs or the number of people they employ. In order to determine the population of SMEs for 2023 and the population of employees at SMEs in 2023, the German Company Register (Unternehmensregister) and the official employment statistics (Erwerbstätigenrechnung) were used as a starting point for the 2024 survey.

The KfW SME Panel sample is designed in such a way that it can generate representative and reliable data. The sample is split into four groups: type of promotion, industry to which the enterprise belongs, firm size as measured by the number of employees, and region. In order to draw conclusions on the basic population based on the sample, the results of the survey are weighted/extrapolated. The four main group characteristics are used to determine the extrapolation factors. These factors look at the distribution in the net sample (in line with the four group characteristics) in relation to their distribution in the population as a whole. Overall, two extrapolation factors are determined: an unlinked factor for extrapolating qualitative parameters to the number of SMEs in Germany, and a linked factor for extrapolating quantitative parameters to the number of employees in SMEs in Germany.

The survey is conducted by GfK GmbH on behalf of KfW Group. The project received expert advice from the Leibnitz Centre for European Economic Research (ZEW) in Mannheim. The main survey of the 22nd wave of the KfW SME Panel was conducted in the period from 12 February to 21 June 2024.

### Supplementary survey as part of the KfW SME Panel

The analyses on the development of international turnover in 2024 and the possible repercussions of the new US policies were based on an additional supplementary survey to the KfW SME Panel 2024 which was conducted between 13 and 21 January 2025. All enterprises that had already participated in an earlier wave of the KfW SME Panel and had provided a valid email address were surveyed. Responses from a total of 3,165 enterprises were evaluated. As the supplementary survey was linked to the main database of the KfW SME Panel, its results also provided a representative picture.

Further information can be obtained at [www.kfw-mittelstandspanel.de](http://www.kfw-mittelstandspanel.de).

<sup>1</sup> See also KfW Research (2025): Managing the transition, strengthening growth, position paper, KfW Research

<sup>2</sup> Cf. Sultan, S. and Matthes, J. (2025): Exportdominanz Deutschlands im Außenhandel (*Germany's export dominance in international trade* – our title translation, in German), IW-Report 11/2025, Cologne Institute for Economic Research.

<sup>3</sup> Cf. Projektgruppe Gemeinschaftsdiagnose (2025), Joint Economic Forecast #1-2025 – Geopolitischer Umbruch verschärft Krise – Strukturreformen noch dringlicher (*Geopolitical upheaval exacerbates crisis – structural reforms even more urgent* – our title translation, in German) and Federal Ministry for Economic Affairs and Climate Action (2025): Binnenwirtschaftliche Stabilisierung, außenwirtschaftliche Herausforderungen – Frühjahrsprojektion der Bundesregierung

(*Domestic economic stabilisation, external challenges – spring forecast of the Federal Government* – our title translation, in German).

<sup>4</sup> European Council (2025): European defence industry, retrieved on 31 March 2025 at <https://www.consilium.europa.eu/en/policies/european-defence-industry/>.

<sup>5</sup> Cf. BMWK (2025), Sicherheits- und Verteidigungsindustrie (*Security and defence industry* – our title translation, in German), retrieved on 31 March 2025 at <https://www.bmwk.de/Redaktion/DE/Artikel/Branchenfokus/Industrie/branchenfokus-sicherheits-und-verteidigungsindustrie.html> and Schwartz, M., and Gerstenberger, J. (2025): KfW SME Panel 2024, German SMEs are not immune to the economic slowdown, KfW Research.

<sup>6</sup> Calendar and seasonally adjusted figures, cf. Federal Statistical Office, detailed data on foreign trade December 2024, as at 5 May 2025.

<sup>7</sup> Cf. Federal Statistical Office, National Accounts of the Federal Republic, as at 5 May 2025.

<sup>8</sup> Cf. German Economy in Transition (2024): Gemeinschaftsdiagnose #2-2024 (*Joint Economic Forecast #2024 – German economy in flux – performance and growth are weak* – our title translation, in German). For more on the competition between Germany and China, see also Ritter, C. and Ullrich, K. (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* – our title translation, in German), Focus on Economics No. 496, KfW Research.

<sup>9</sup> International turnover of German SMEs comprises both exports and turnover generated at foreign locations. In the 2019-2022 period, around 1.7% of all SMEs invested outside Germany. In view of this generally low direct investment activity, it can be assumed that the turnover achieved by locations outside Germany makes up only a minor portion of the total international turnover of SMEs. Cf. also Abel-Koch, J. (2024): Main motive for SMEs to invest abroad is to expand into new sales markets, Focus on Economics No. 446, KfW Research.

<sup>10</sup> There is no general deflator for aggregate turnover volume or a general price index that could be applied to turnover volume in the business sector. The Federal Statistical Office uses different deflators for various economic sectors or segments, and some of them are very detailed. Such a distinction can be made on the basis of the KfW SME Panel to a limited extent only. For this reason, we applied the deflator of gross domestic product to adjust SME turnover for prices. See also Schwartz, M. and Abel-Koch, J. (2024): KfW Internationalisation Report 2024 – international business in times of multiple crises: SMEs achieved a record result in 2022, KfW Research.

<sup>11</sup> Cf. Abel-Koch, J. (2024): KfW Internationalisation Report 2023 – many SMEs currently perform better than their foreign competitors but see need for action to secure their future competitiveness, KfW Research.

<sup>12</sup> Cf. Abel-Koch, J. (2024): SMEs see growing risks to their international competitiveness, Focus on Economics No. 471, KfW Research.

<sup>13</sup> Cf. Abel-Koch, J. (2024): SMEs see growing risks to their international competitiveness, Focus on Economics No. 471, KfW Research.

<sup>14</sup> Cf. Abel-Koch, J. (2024): SMEs see growing risks to their international competitiveness, Focus on Economics No. 471, KfW Research.

<sup>15</sup> Cf. Icks, A. and Welter, F. (2024): Mittelstand: Bürokratie abbauen! (*SMEs: Reduce bureaucracy!* – our title translation, in German only) Wirtschaftsdienst 2022 (1), p. 7.

<sup>16</sup> Cf. Haucap, J., Kehder, C. and Loebert, I. (2023): Bürokratie und ihre Folgen für die Wirtschaft in Deutschland (*Bureaucracy and its consequences for the economy in Germany* – our title translation, in German), study commissioned by the Initiative New Social Market Economy.

<sup>17</sup> Cf. Schwartz, M. (2025): SMEs spend seven per cent of their working time on administrative processes, Focus on Economics No. 493, KfW Research.

<sup>18</sup> Cf. Schwartz, M. (2025): SMEs spend seven per cent of their working time on administrative processes, Focus on Economics No. 493, KfW Research.

<sup>19</sup> Service exports as defined in the national accounts grew by 4% in nominal terms while goods exports fell by -1.4% in 2024. Cf. Destatis (2025): National accounts, 4th quarter 2024

<sup>20</sup> Cf. Borger, K., Köhler-Geib, F. and Scheuermeyer, P. (2024): Competitiveness – from 'sick man of Europe' to superstar and back: Where does the economy stand?, Focus on Economics No. 461, KfW Research.

<sup>21</sup> Cf. Abel-Koch, J. (2024): SMEs see growing risks to their international competitiveness, Focus on Economics No. 471, KfW Research.

<sup>22</sup> Cf. Dany-Knedlik, G., Kriwoluzky, A. and Rieth, M. (2025): Sondervermögen für Infrastruktur: 500-Milliarden-Euro-Investitionspaket würde deutsche Wirtschaft aus der Krise holen (*Special fund for infrastructure and defence: EUR 500 million investment package would pull German economy out of the crisis* - our title translation, in German only), DIW aktuell No. 111 of 10 March 2025.

<sup>23</sup> Cf. Zimmermann, V. (2024): Interne Ressourcen und Umfeld bestimmen die Wettbewerbsstrategie von mittelständischen Unternehmen (*Internal resources and environment determine competition strategy of small and medium-sized enterprises* – our title translation, in German only), Focus on Economics No. 464, KfW Research.

<sup>24</sup> 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.

<sup>25</sup> Cf. German Armed Forces (2025): Handelsschiffe im Visier von Piraterie und Huthi-Miliz (*Commercial vessels in the crosshairs of pirates and Houthi militia* – our title translation, in German), retrieved on 31 March 2024 from <https://www.bundeswehr.de/de/handelsschiffe-piraterie-huthi-miliz-5890206#:~:text=Frachter%20werden%20von%20Huthi%20angegriffen,leichteren%20Sch%C3%A4den%20an%20den%20Schiffen.>

<sup>26</sup> Cf. KfW Research (2025): From trade shock to fiscal boost, KfW Business Cycle Compass May 2025.

<sup>27</sup> Cf. International Monetary Fund.

<sup>28</sup> Cf. Matthes, J. (2023): Entwicklung des Konkurrenzdrucks durch China auf dem EU-Markt (*Development of competitive pressure from China in the EU market* – our title translation, in German), IW-Report 39/2, and Ritter, C. and Ullrich, K. (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* – our title translation, in German only), Focus on Economics No. 496, KfW Research.

<sup>29</sup> Cf. Scheuermeyer, P., Schumacher, D. and Ullrich, K. (2025): US-Zollpolitik: Wie verletzlich ist Deutschland? (*US tariff policy: How vulnerable is Germany?* – our title translation, in German only), Focus on Economics No. 494, KfW Research.

<sup>30</sup> Cf. Müller, M. (2024): KfW-ifo Skilled Labour Barometer December 2024 – Despite economic lull, skills shortages are growing again in parts of the services and construction sectors, KfW Research.

<sup>31</sup> See also KfW Research (2025): Managing the transition, strengthening growth, position paper, KfW Research.

<sup>32</sup> Cf. Körner, J. (2025): KfW ifo Credit Constraint Indicator Q4 2024 – Record share of SMEs unhappy with restrictions on lending, KfW Research.

<sup>33</sup> Cf. also Aghion, P., Bergeaud, A., Lequien, M. and Melitz, M. J. (2028): The impact of exports on innovation: theory and evidence, NBER Working Paper No. 24600, Jibril, H. (2023): Innovation, Exporting and Productivity: A Review of the Evidence Base, IRC Insight Paper 007 and Centre for European Economic Research (2022): Drivers and Barriers for Innovation in the German SME Sector, study on behalf of KfW Group.

<sup>34</sup> Cf. Zimmermann, V. (2024): KfW SME Innovation Report 2024 – Economic activity puts the brakes on innovation activity, KfW Research and the sources cited therein.

<sup>35</sup> For an overview of possible approaches see Zimmermann, V. KfW SME Innovation Report 2024 – Economic activity puts the brakes on innovation activity, KfW Research.

<sup>36</sup> Cf. Peters, B., Roberts, M. J. and Vuong, V. A. (2022): Firm R&D investment and export market exposure, Research Policy, Vol. 51(10).

<sup>37</sup> Cf. European Council (2025): EU sanctions against Russia explained – Consilium retrieved on 31 March 2025 from <https://www.consilium.europa.eu/en/policies/sanctions-against-russia-explained/>.

<sup>38</sup> Cf. Gusbeth, S. (2025): China überholt Vorbild Deutschland (*China overtakes role model Germany* – our title translation, in German only, retrieved on 31 March 2024 from <https://www.handelsblatt.com/politik/international/industriepolitik-china-ueberholt-vorbild-deutschland/100111423.html>, Poll, D. (2025): China investiert massiv in Robotik und Hightech-Industrie (*China invests massively in robotics and high-tech industry* – our title translation, in German), retrieved on 31 March 2024 from <https://www.produktion.de/technik/robotik-automation/china-investiert-massiv-in-robotik-und-hightech-industrie-714.html>.

<sup>39</sup> Here, the shares in employment and exports refer to SMEs defined as all private-sector enterprises in Germany with annual turnover of up to EUR 500 million. The share in value added can be estimated at 50.3% for all small and medium-sized enterprises in Germany with up to 249 employees, a much narrower definition of SMEs, cf. EU Commission (2024): 2024 SME Country Fact Sheet Germany.

<sup>40</sup> Cf. KfW Research (2025): Managing the transition, strengthening growth, position paper, KfW Research.

<sup>41</sup> Cf. KfW Research (2025): Managing the transition, strengthening growth, position paper, KfW Research.

<sup>42</sup> Cf. Association of German Chambers of Industry and Commerce (2025): Going International 2025, Association of German Chambers of Industry and Commerce (2025): Survey on barriers within the internal market, Deloitte (2025): Handelsschranken im europäischen Binnenmarkt – Exportplus durch Bürokratieabbau (*Trade barriers in the European single market – more exports through reducing bureaucracy* – our title translation, in German only), Supply Chain Pulse Check.

<sup>43</sup> Cf. OECD (2025): OECD Services Trade Restrictiveness Index: Policy trends up to 2025 and Dorn, F., Flach, L. and Gourevich, I. (2024): EU-Binnenmarkt stärken: Die ungenutzten Potenziale eines vertieften Dienstleistungshandels (*Strengthening the EU single market: the unutilised potentials of deeper trade in services* – our title translation, in German), ifo Schnelldienst 5/2024, p. 24–29.

<sup>44</sup> Cf. IMF (2024): Europe's declining productivity growth: diagnoses and remedies, Region Economic Outlook Note 2024/001.

<sup>45</sup> For more see i.a. IMF (2024): Europe's declining productivity growth: diagnoses and remedies, Region Economic Outlook Note 2024/001., Dorn, F., Flach, L. and Gourevich, I. (2024): EU-Binnenmarkt stärken: Die ungenutzten Potenziale eines vertieften Dienstleistungshandels (*Strengthening the EU internal market: the unutilised potentials of deeper trade in services* – our title translation, in German), ifo Schnelldienst 5/2024, p. 24-29 and Deloitte (2025): Handelsschranken im europäischen Binnenmarkt – Exportplus durch Bürokratieabbau (*Trade barriers in the European single market – more exports through reducing bureaucracy* – our title translation, in German only), Supply Chain Pulse Check.