

# »» Germany's SMEs after US election and before Brexit: keep markets open!



No. 121, 21 December 2016

Authors: Dr Jennifer Abel-Koch, phone +49 69 7431-9592,  
Dr Arne Leifels, phone +49 69 7431-4861,  
Dr Michael Schwartz, phone +49 69 7431-8695, research@kfw.de

Globalisation is steering into increasingly troubled waters. People in many countries are taking a more hostile view of free trade and immigration. Donald Trump's election as the next president of the USA revealed this with particular clarity. During his election campaign he had announced, among other things, that he would not ratify new free trade agreements such as the TPP and TTIP and impose punitive tariffs on Chinese imports. The UK's Prime Minister Theresa May is determined to follow through with the United Kingdom's exit from the European Union – with the primary aim of limiting the freedom of movement of workers. Political groupings that clearly reject open markets have gained ground in many European countries.

Should the shift away from free markets start to dominate across the world, it could hit German SMEs hard. After all, not only do they generate an important share of their turnover on international markets, but many of them also rely on skilled workers from abroad.

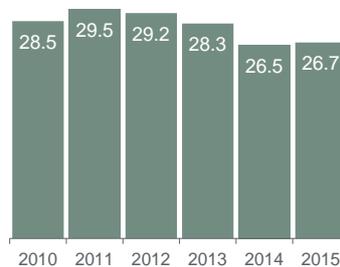
## Exports are an important pillar of German SMEs

In 2015, around one fifth of SMEs generated part of their turnover outside Germany – on average about 27 % (Figure 1). Overall, foreign sales of small and medium-sized enterprises amounted to EUR 546 billion.<sup>1</sup> Besides, many enterprises are indirectly linked to exports through their domestic customers. Today nearly 90 % of industrial SMEs and one in two service providers are tied into global value chains.<sup>2</sup>

German SMEs have positioned themselves well in global competition and benefit strongly from free trade overall.<sup>3</sup>

**Figure 1: Internationally active SMEs**

Foreign sales as a percentage of total sales of internationally active SMEs.



Source: KfW SME Panel 2011–2016.

If German exports to the United Kingdom decline after the Brexit, the consequences of this alone would still be manageable. In 2015 Germany's goods exports to the UK amounted to EUR 89 billion, or 7.5 % of all German exports. Nearly half this volume (EUR 41 billion) was exported by some 150,000 SMEs. However, if the USA – Germany's most important trading partner – or other European countries abandon free trade as well, grave consequences can be expected.

## Will barriers be erected for European workers?

The closing of national labour markets would also have a severe impact. Germany benefits greatly from the EU's free movement of workers as non-German EU citizens represent 5.4 % of its workforce – 5.8 % in the SME sector. The movement of skilled workers between Germany and the United Kingdom,

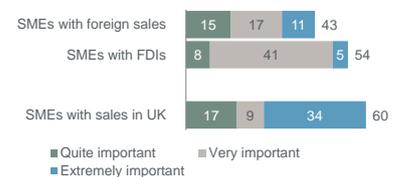
however, is low when compared with the dominating labour migration from eastern and southern Europe. Currently some 106,000 UK citizens live in Germany and 135,000 Germans live in the UK. But the success of anti-European, anti-immigration parties across broad parts of the EU, even in founding states, shows a worrying trend.

## SMEs call for open labour markets

German SMEs with international business are therefore concerned, as revealed by a recent survey conducted by KfW Research. Labour mobility within the EU is important for 54 % of SMEs that invest abroad (Figure 2). Among the 520,000 small and medium-sized employers of SMEs that generate foreign sales, that share is 43 %. As was expected, SMEs doing business in the United Kingdom made a particularly clear plea for the free movement of skilled workers. No less than 34 % of them attach great importance to the free movement of workers. This achievement of the EU must be preserved. ■

**Figure 2: Free movement of workers from the viewpoint of SMEs**

In per cent, for SMEs with at least one employee.



Source: KfW SME Panel, additional survey conducted in September 2016.

<sup>1</sup> Cf. Schwartz, M. (2016): KfW SME Panel 2016 – Businesses are using their financial strength, but not boosting investment, KfW Research, Frankfurt am Main.

<sup>2</sup> Cf. Abel-Koch, J. (2016): SMEs' value chains are becoming more international – Europe remains key, Focus No. 137, KfW Research, Frankfurt am Main.

<sup>3</sup> Cf. Abel-Koch, J. (2016): KfW Competitiveness Indicator 2016 – German SMEs must defend their competitiveness – and continue improving their energy efficiency, KfW Research, Frankfurt am Main; and Abel-Koch, J. and J. F. Schneider (2016): TTIP – an opportunity for European SMEs, Focus No. 118, KfW Research, Frankfurt am Main.