

KfW Competitiveness Indicator 2014

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International comparison of SMEs' competitiveness – Germany still among the leaders

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The KfW Competitiveness Indicator depicts the international competitiveness of small and medium-sized enterprises in ten key industrialised and emerging economies. It is based on an assessment by about 2,200 companies.

Overall indicator

- All in all, German SMEs feel very well equipped for global competition. Only small and medium-sized enterprises in the USA rate their international competitiveness higher. British small and medium-sized enterprises are third in the leading group.
- French and Japanese companies follow with some distance. The emerging economies of Brazil, Russia and China are in the lower middle range of the overall ranking in places six to eight.
- The crisis-ridden countries of Spain and Italy lag far behind, with international competitiveness in Italy being particularly low.

Firm factors

- It is primarily companies in Brazil and China which can compete globally based on the prices of their products or services. SMEs in Europe and especially in Germany focus more on quality.
- Small and medium-sized enterprises in the UK and the USA, but also in Brazil, believe that their products and services are particularly innovative. Japan brings up the rear in this context.
- Alongside quality, delivery times and service orientation are the key competitive advantages of German SMEs.
- Investments must be carried out and product and process innovations must be implemented continually to secure future competitiveness. Yet, especially with regard to innovation, German SMEs come off comparatively badly.
- Only French, Italian and Japanese companies are more pessimistic about their future competitiveness.

Location factors

- Taxes and duties, bureaucracy and energy costs are seen as the biggest obstacles on average.
- Political instability has a more adverse effect on international competitiveness in Italy than in the emerging economies.
- Financing restrictions are particularly prevalent in Southern Europe.
- Corruption is just as much of a problem for Spanish companies as it is for Russian firms.
- Especially Chinese firms perceive the tightening of environmental and climate protection provisions as a great risk to their international competitiveness. Small and medium-sized companies in Germany do not see this as an excessive burden.

SMEs in global competition

Small and medium-sized enterprises (SMEs) contribute to growth, employment and prosperity worldwide. Many of them are also active internationally. For instance, approximately one in four companies in the EU with fewer than 250 employees exports. The proportion of exporters in China is similarly high for firms with 20–99 employees, while in the USA, more than 40% of SMEs of this size sell their products or services abroad.¹ Almost 60% of German exporters with less than EUR 5 million in annual turnover plan to expand their operations, while 34% at least want to maintain their current level. About 7% of the enterprises that have so far not been active abroad want to change this in the medium term.² But even in their domestic markets, many SMEs are threatened by increasing competition from international suppliers. While in the 1990s, merely 20% of German domestic demand was met by imports, this share had already risen to more than 35% by 2013.³

Securing and improving international competitiveness is therefore a major challenge for small and medium-sized enterprises worldwide. However, how well can SMEs in key European and world economies keep up with international competitors on their domestic and foreign markets? Where do firms in the

Figure 1: The KfW Competitiveness Indicator

Indicator components and associated factors of international competitiveness



Source: Own representation

respective countries need to catch up? Which location factors are considered as the biggest obstacles? How well do German small and medium-sized enterprises fare in comparison to their international competitors, and which risks do they face for their future competitiveness? These questions shall be answered with the help of the KfW Competitiveness Indicator.

The KfW Competitiveness Indicator

The KfW Competitiveness Indicator is based on an assessment by small and medium-sized enterprises in ten leading

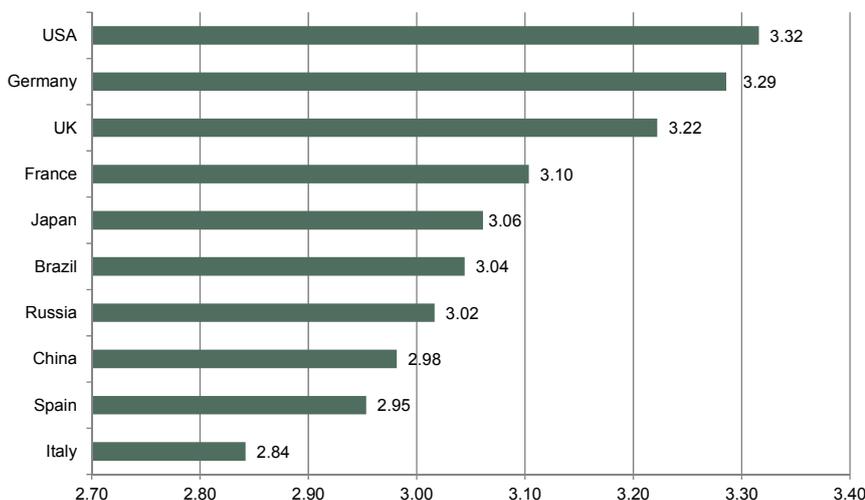
industrialised and emerging countries that compete with international suppliers at home or abroad. Altogether we surveyed almost 2,200 small and medium-sized enterprises⁴ in Germany, France, the UK, Italy, Spain, Russia, Brazil, China, Japan and the USA, as to how they see themselves in comparison to their global rivals with respect to different aspects on international competitiveness. Here both firm- and location-specific factors are taken into account, which reflect both the current and the future competitiveness of small and medium-sized enterprises. Four indicator components are calculated, which are then summarised in the KfW Competitiveness Indicator (figure 1). This can take values between 1 (low international competitiveness) and 5 (high international competitiveness).⁵

German SMEs ranked second

The overall result for German small and medium-sized enterprises is exceedingly positive (figure 2). With a value of 3.29 in the KfW Competitiveness Indicator, they are ranked second among all surveyed firms. This reflects the strong external economic ties, especially of larger SMEs. In 2012 some 58% of companies with 50 or more employees exported.⁶ Almost half of all “hidden champions” in the world, these are relatively unknown enterprises which lead the global market in their business area, are located in Germany.⁷ It is no coincidence that foreign companies are taking a keen interest in German SMEs.

Figure 2: International competitiveness of SMEs

Value of the KfW Competitiveness Indicator in the surveyed countries



Note: The KfW Competitiveness Indicator is a simple average of the indicator components firm performance, firm potential, location performance, and location potential, and can take values between 1 (low international competitiveness) and 5 (high international competitiveness).

Source: KfW Competitiveness Indicator

US in the lead

Only in the USA are small and medium-sized enterprises even more competitive. They reach a value of 3.32 and therefore lead the way among the ten industrialized and industrialising countries. All in all, firms benefit from very favourable business conditions in the biggest economy worldwide, as measured in terms of GDP. This is also confirmed by the 2014 Doing Business Index of the World Bank, in which the USA came fourth.⁸ Despite the financial crises and the recession, the USA has been able to maintain its position as a leading global economic power.

British firms close behind

British small and medium-sized enterprises are third in the leading group. With an overall score of 3.22 they are just behind the German SMEs. This result is driven mainly by firms from the service sector. They generate 79% of GDP in the UK, compared to only 69% in Germany.⁹ Especially the British financial sector is known to be highly competitive on an international scale.

French and Japanese enterprises weaker

France and Japan lag some way behind. With a value of 3.10, French SMEs are in the upper middle range of the overall ranking. Japanese companies assess their competitive position with a value of 3.06 and hence lie only slightly ahead of SMEs in the emerging economies.

France has been suffering from a process of deindustrialisation for a few years now. Many companies have relocated their production abroad. In the manufacturing sector, France exhibits an external trade deficit today.¹⁰ Economic growth is stagnating and unemployment is rising.¹¹ Moreover, the growing number of insolvencies indicates that the international competitiveness of French firms could be improved.

Japanese enterprises have likewise lost some of their international competitiveness in the past few years. This is particularly true for the high-tech industry, in which South Korea, China and Taiwan have expanded rapidly. Japan's share of OECD exports of high-tech goods de-

clined from 22 to 11% between 1989 and 2012.¹² Japanese companies are rarely active internationally. Only 10% of all firms with fewer than 249 employees are exporters.¹³ In view of the shrinking population and weak domestic demand, being globally competitive becomes ever more important for Japanese firms.

Emerging economies in lower middle range

The industrialising countries of Brazil (3.03), Russia (3.02) and China (2.98) lie close together in the lower middle range. This comparatively weak result matches the rather muted growth expectations of these countries recently. Unlimited optimism and the sometimes double-digit growth rates gave way to widespread scepticism after the financial crisis.

In Brazil, both meagre growth and high inflation are challenging the economy. The complex taxation system and ailing infrastructure are mainly held responsible for the low competitiveness of Brazilian enterprises.¹⁴

Russia's efforts to modernise the economy, which have been intensified after accession to the World Trade Organisation in 2012, have had barely any effect to date. The country's international competitiveness is still low. Accordingly, abstracting from oil and gas exports, Russia's external trade is rather weak.¹⁵ The consequences of the current Russian foreign policy on the competitiveness of small and medium-sized enterprises cannot yet be foreseen. However, impeded access to foreign capital is likely to inhibit investments by small and medium-sized enterprises, and may have adverse effects on Russia's international competitiveness in the long run.

In the past, Chinese companies have gained global market shares mainly by charging low prices. Rising wages, tighter labour and environmental provisions as well as corruption are increasingly considered to be risks for international competitiveness. Chinese SMEs are ranked eighth in the KfW Competitiveness Indicator.

Spain and Italy far behind

In the crisis-ridden countries of Spain and Italy, the international competitive-

ness of small and medium-sized enterprises is relatively poor.

Spain reaches a value of 2.95 in the KfW Competitiveness Indicator and hence ranks second to last. The positive development in unit labour costs, comprehensive labour market reforms and a recently adopted programme worth billions of euros to promote reindustrialisation and improve competitiveness all inspire cautious optimism for the future. Economic growth was recently even higher than in Germany, and the persistently high rate of unemployment decreased slightly to 24.5%.

Italy brings up the rear in the sample of countries, attaining a value of just 2.84 in the KfW Competitiveness Indicator. Italy's feeble international competitiveness can be attributed to the weak public sector, sprawling bureaucracy and widespread corruption.¹⁶

What drives international competitiveness?

Where to look for the causes of high or low competitiveness, and which areas show the greatest need for action in the individual countries? A more precise analysis of firm and location factors shows that there are marked differences in the details – even between countries that are close together in the overall ranking.

Price leader Brazil, quality leader Germany

The price as a key firm factor is an important criterion in global competition. Macroeconomic indicators such as unit labour costs or exchange rates, which are often used to measure the international competitiveness of an economy, build on this idea. Brazilian firms rate themselves best regarding this factor (3.53), even better than Chinese companies (3.40). German small and medium-sized enterprises assess their price competitiveness as the lowest (2.85) (table 1).

Rather than entering price competition, firms can also pursue a quality strategy. For no other companies this is clearer than for German SMEs. While they lag behind in terms of prices, they are far ahead in terms of quality. With 3.89, they

achieve the highest value among all surveyed companies, and evaluate their quality advantage a whole point better than their price competitiveness.

In virtually all countries, SMEs perceive themselves to perform better in the quality than in the price dimension. The only exception is China, as expected, while Brazilian firms feel that they are equally well positioned regarding both factors (figure 3).

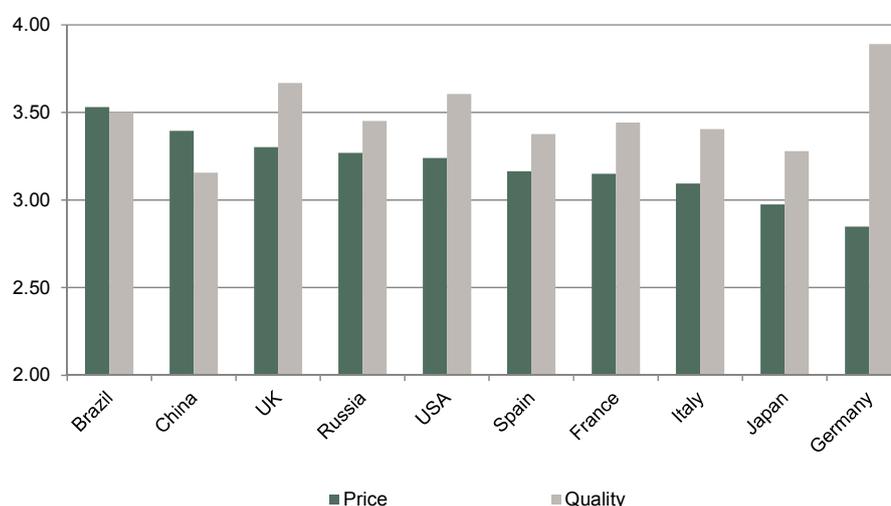
British firms score high on innovativeness and awareness

Innovative goods and services and well-known brands are seen as classic competitive advantages of firms in industrialised countries. Small and medium-sized enterprises in the UK and the USA do indeed believe they are in a significantly better position than their international competitors when it comes to the innovativeness of their goods and services (figure 4). However, Brazilian SMEs also consider their products or services to be relatively innovative. Regarding brand recognition, they score even higher and lead the pack. Thus, offering innovative goods or services and being competitive in terms of prices does not seem to be mutually exclusive.

German SMEs are in the leading group regarding the innovativeness of their goods and services, as expected, while they are much less well-known than their

Figure 3: Price vs. quality leadership

Country comparison of firm factor values



Note: All values are weighted averages of all the companies surveyed in a country.

Source: KfW Competitiveness Indicator

Table 1: Firm performance

Values of individual factors included in the firm performance component

	UK	Brazil	USA	Germany	France	Russia	Spain	China	Italy	Japan
Price	3.30	3.53	3.24	2.85	3.15	3.27	3.16	3.40	3.09	2.97
Quality	3.67	3.50	3.60	3.89	3.44	3.45	3.38	3.16	3.40	3.28
Degree of innovation	3.49	3.43	3.47	3.42	3.22	3.12	3.23	3.11	3.22	3.00
Awareness	3.48	3.50	3.28	3.17	3.40	3.22	3.20	3.07	3.22	2.79
Delivery times	3.43	3.51	3.19	3.75	3.24	3.30	3.30	3.31	3.25	3.31
Service	3.58	3.36	3.53	3.85	3.34	3.30	3.27	3.09	3.11	2.87
Staff and material costs	3.32	3.22	3.14	2.55	3.00	3.01	3.07	3.44	2.92	2.77
Firm performance	3.47	3.44	3.35	3.35	3.26	3.24	3.23	3.23	3.17	3.00

Best value Worst value

Note: To determine firm performance, companies were asked to rate their performance relative to their main international competitors with regard to the various aspects. Possible answers: (1) significantly worse; (2) slightly worse; (3) similar; (4) slightly better; (5) significantly better. The displayed values are weighted averages of all companies surveyed in a country. The indicator component firm performance is calculated as simple mean of the seven factors.

Source: KfW Competitiveness Indicator

foreign competitors. Accordingly, the “hidden champion” phenomenon is very pronounced in Germany.

Even Spain and Italy, which fare rather poorly in the overall ranking, prove to be quite strong regarding the innovativeness of their goods and services. By contrast, Japanese companies score very low in this regard, reaching a value of 3.00. This corresponds to their recently weak investment and innovation activities. It gives rise to the impression that Japan’s future competitiveness might further deteriorate. To the extent that inno-

vativeness and awareness are correlated, this may create a double disadvantage.

Short delivery times and good service set German SMEs apart

An attractive overall package for consumers also includes short delivery times, reliability and good service. German SMEs are well positioned in these respects. This underlines their role as quality leaders in global competition. Yet high quality and good service do come at a price. Both can only be ensured with the help of well-trained personnel, which further increases wage costs. Correspondingly, small and medium-sized German companies fare badly relative to their international competitors with regard to staff and material costs (table 1 and figure 5).

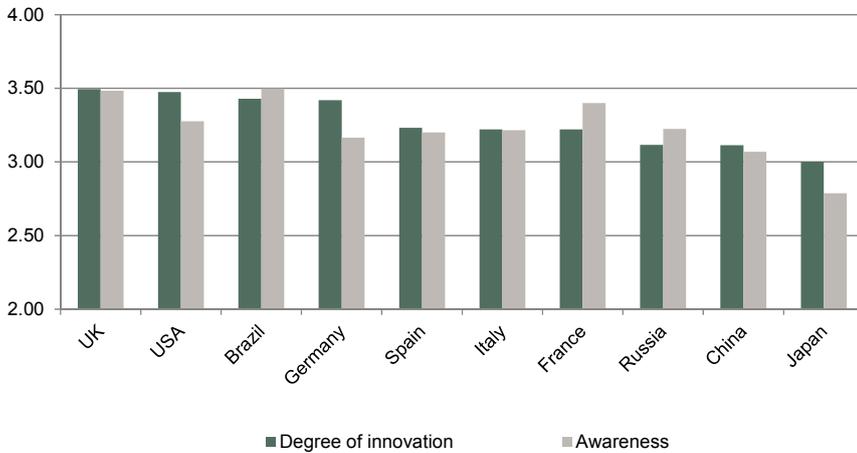
All told, current firm performance is excellent, especially in the UK, the USA and Germany. SMEs in Brazil are also performing very well, in contrast to what the overall ranking might suggest at first sight. China, Italy and Japan (table 1) occupy the last places in the firm performance component.

Investments and innovations crucial for future competitiveness

Only companies that continually invest and implement product and process innovations can maintain their international

Figure 4: Degree of innovation and awareness

Country comparison of firm factor values

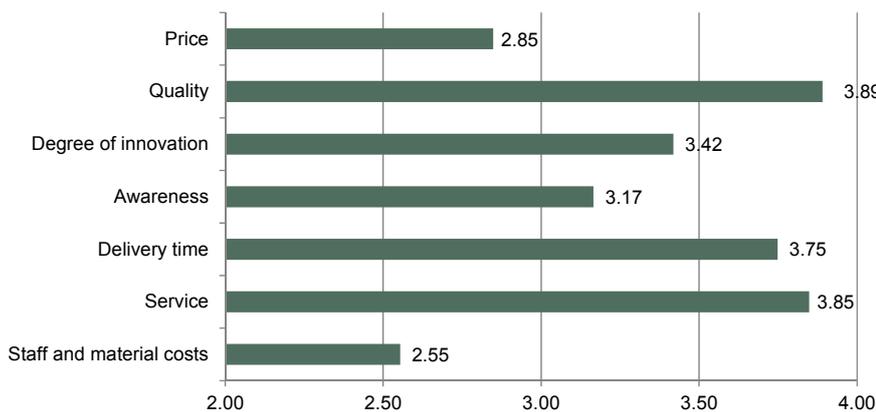


Note: All values are weighted averages of all the companies surveyed in a country.

Source: KfW Competitiveness Indicator

Figure 5: German SMEs

Values of individual factors included in the firm performance component

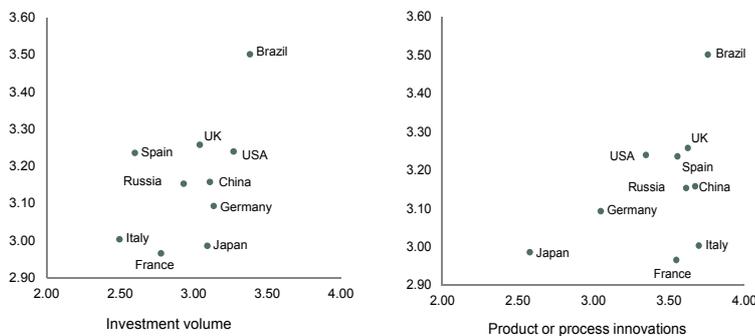


Note: All values are weighted averages of all the companies surveyed in Germany.

Source: KfW Competitiveness Indicator

Figure 6: Competitiveness through investment and innovation

Expected development of international competitiveness



Vertical axis: Expected development of competitive position relative to main international competitors in the next 12 months, values ranging from 1 (significant deterioration) to 5 (significant improvement). Horizontal axis: Average development of investment volume in the last 12 months, values ranging from 1 (severe reduction) to 5 (great increase), and introduction of product or process innovations in the last 12 months, values ranging from 2 (no) to 4 (yes). The figures are all weighted averages of all the companies surveyed in a country.

Source: KfW Competitiveness Indicator

competitiveness in the long term. This applies all the more if they want to position themselves in global competition with innovative products and services.

The relationship between investment, innovations and future competitiveness becomes very clear in figure 6. Wherever investment and innovation occurs, increasing global competition is faced with more optimism. For example, the volume of investment in Brazil has risen disproportionately, while that in Japan has tended to decline. The same applies to product and process innovations. This is where Brazil has recently proved more active than Japan, for example. Correspondingly, the expectations of small and medium-sized enterprises in Brazil regarding their future competitiveness are very positive. In Japan, by contrast, companies expect their competitiveness to decline slightly, or to stagnate at best. Accordingly, the country fares poorly in the firm potential component, which comprises investments, innovations and the expected competitive position.

Regarding their investment activity, French companies perform even worse. Especially in the manufacturing sector, they are less specialised than German SMEs, and therefore exposed to even sharper price competition. This has led to falling margins and lower investments in the past, resulting in a decline in international competitiveness.¹⁷

But also in Germany, the currently good competitive position of SMEs could be under threat in the long run. Investment volumes have developed rather weakly recently,¹⁸ and the share of small and medium-sized enterprises that have implemented product or process innovations is at the lower bound of the sample of ten countries. Expectations are accordingly modest. In an export-oriented economy where SMEs play a leading role, low firm potential should come as a warning sign. If investment activity remains feeble, German SMEs run the risk of being edged out of the global market by competitors from emerging economies such as Brazil, or innovative firms from industrialised countries like the USA.

Considerable differences between firm performance and potential

Overall, the firm performance and firm potential component paint a clear picture (figure 7). SMEs in the USA and the UK but also in Brazil are currently well positioned and optimistic regarding the future. Russian and Chinese companies are still weak in some aspects, but they are on the right track. Of those countries characterised by good firm performance, Germany is the only one with below-average firm potential and negative expectations, respectively. In Italy, Spain, Japan and France, small and medium-sized companies have to make greater efforts to survive in global competition.

Which location factors harbour the greatest risks?

Location-specific factors play a key role in determining the international competitiveness of a company, and can be either supportive or obstructive. The comparison of all countries shows that excessive taxes and duties as well as bureaucracy are construed as the greatest threats to current and future competitiveness (table 2).

This is not surprising, as these factors exert a significant influence on the operating costs of a firm. For taxes and duties, this is obvious. Yet, red tape, such as the fulfilment of information duties through applications, notifications, certificates, and statistics, is often very time

consuming and generates high additional costs for companies, too. In Germany alone, the bureaucracy costs caused by official statistics totalled roughly EUR 323 million in 2011.¹⁹

Alongside these two factors, companies are also worried about rising energy costs, financing difficulties, skills shortage, and political or social instability. Factors companies perceive as less problematic for their current and future competitiveness include environmental and climate protection provisions, inadequate infrastructure and corruption.

However, the ranking of location factors should not gloss over the fact that the perception of single factors may vary considerably across countries (table 3). Here a key difference can be observed between firms in industrialised and emerging economies.

Taxes, duties and bureaucracy in international comparison

In Japan, but also in the USA, taxes and duties are considered to be the largest obstacle to international competitiveness, taking all location factors into account (table 3). That said, the problems caused by taxes and duties are still comparatively low in international comparison. Brazil, China and Russia fare much worse here. Also, in Spain and particularly in Italy, taxes and duties are perceived to be much more detrimental to international competitiveness. The sit-

uation is similar for bureaucracy. Here too, SMEs in emerging markets and in Southern Europe feel more impaired than companies in Japan or the USA, who view them as moderate burden only. Germany is ensconced in the middle of the pack regarding both factors. In the long run, as shown by a study from 2012, an efficient tax system coupled with a consistent reduction in bureaucracy not only improves international competitiveness, but also results in higher growth rates.²⁰

Table 2: Heavy burden of taxes

	Performance	Potential
Taxes and duties	2.59	2.60
Bureaucracy	2.73	2.75
Energy costs	2.78	2.76
Financing constraints	2.93	2.86
Skills shortages	3.01	2.89
Political or social instability	3.06	2.96
Environmental and climate protection provisions	3.10	3.08
Lack of infrastructure	3.15	3.15
Corruption	3.23	3.10

Note: The displayed values are simple means of the respective factor values for all ten countries. The larger the current obstacle, the lower the performance; and the higher the future risk, the lower the potential.

Source: KfW Competitiveness Indicator

Severe financing constraints in some countries

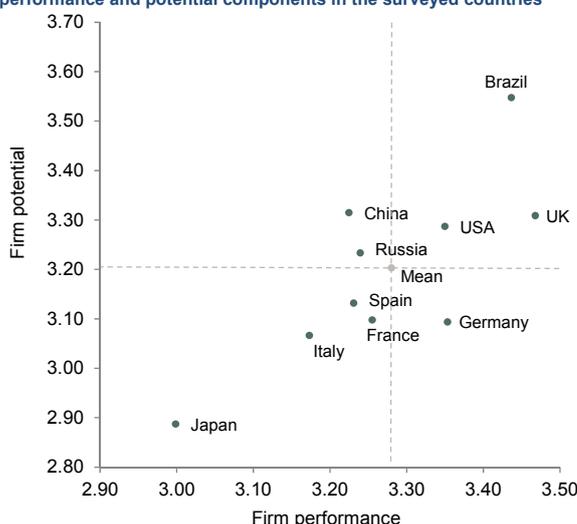
We find the same disparity between countries when it comes to financing restrictions (table 3). While German companies perceive this to be the lowest risk in comparison to their foreign peers, Spanish and Italian SMEs still struggle with severe difficulties in this regard. They rate financing constraints with an average of 2.42 and 2.48, which is equivalent to a medium to strong hindrance. To the extent that firms do not implement investments due to a lack of adequate financing, their future competitiveness is at risk.

Spain and Italy blighted by corruption and political instability

The reasons for Germany's good result regarding current location conditions are primarily its political and social stability

Figure 7: Firm performance and potential

Values of the firm performance and potential components in the surveyed countries



Source: KfW Competitiveness Indicator

as well as the low level of corruption (table 3). Germany easily leads in both of these categories. SMEs in France and the USA, also believe their international competitiveness is barely affected by the two factors. Once more, the emerging markets come off much worse here.

Surprisingly though, companies in Spain feel affected just as much by corruption as enterprises in Russia or Brazil. China performs worst in this regard. It was to be expected that the frequent changes of government in Italy recently would leave their mark and trigger uncertainty. However, it is alarming that political stability seems more of a problem for Italian SMEs than for small and medium-sized businesses in the emerging markets. Legal uncertainty, political instability and corruption not only impair international competitiveness, they also hinder private investment and economic growth.²¹ Thus, there is an urgent need for action.

With regard to environmental and climate protection, China has highest backlog

Environmental and climate protection provisions can entail significant costs for companies, for example if they have to adjust their production technologies, or pay higher prices for waste disposal. In spite of Germany's leading role in many areas of environmental and climate protection, the country's SMEs do not believe they are at any undue disadvantage just now or in the future when compared to their global competitors. In fact, they rate the current situation with the second highest value in international comparison. Only rising energy costs are perceived as a worrisome current and future obstacle (table 3).

The situation is different for small and medium-sized companies in China. The dramatic environmental pollution has prompted the Chinese government to set binding targets to reduce CO₂ emissions and curb energy consumption for the first time in the current five-year plan. In contrast to German companies, Chinese SMEs have been hit relatively hard by the implementation of related measures as they have barely had to deal with environmental and climate protection thus far.

Table 3: Location performance

Values of individual factors included in the location performance component

	Germany	USA	Japan	UK	France	Russia	Spain	China	Brazil	Italy
Taxes and duties	2.90	2.97	3.02	2.81	2.58	2.49	2.38	2.43	2.23	2.06
Bureaucracy	2.83	3.16	3.06	2.77	3.09	2.50	2.65	2.60	2.40	2.28
Energy costs	2.83	3.40	2.98	2.88	2.87	2.80	2.59	2.46	2.64	2.38
Financing constraints	3.96	3.21	3.28	3.05	2.84	2.71	2.42	2.60	2.72	2.48
Skills shortages	2.92	3.44	3.11	3.12	3.18	3.00	3.06	2.64	2.64	2.94
Political or social instability	4.08	3.52	3.07	3.19	3.10	2.87	2.74	2.81	2.66	2.56
Environmental and climate protection provisions	3.32	3.45	3.29	3.16	3.05	3.06	3.14	2.69	3.00	2.89
Lack of infrastructure	4.01	3.50	3.25	3.18	3.30	3.09	2.88	2.82	2.66	2.81
Corruption	4.46	3.76	3.45	3.53	3.56	2.72	2.71	2.65	2.70	2.79
Location performance	3.48	3.38	3.17	3.08	3.06	2.81	2.73	2.63	2.63	2.58

Best value Worst value

Note: To determine location performance, companies were asked to what extent their international competitiveness is currently affected by the given factors. Possible answers: (1) very strongly; (2) strongly; (3) average; (4) not very strongly; (5) not at all. The displayed values are weighted averages of all companies surveyed in a country. The indicator component location performance is calculated as a simple mean of the nine factors.

Source: KfW Competitiveness Indicator

In a nutshell, German SMEs which compete globally are currently benefiting from the very favourable location conditions. Companies in the USA, the UK and Japan also value their respective business environment highly. Those for whom location factors are presently a problem, by contrast, include small and medium-sized enterprises in Russia, Spain, Brazil and China. Italy is last.

Energy costs and skills shortage – future issues for German SMEs

Regarding the future location potential, companies in Germany are especially pessimistic with regard to energy costs and skilled labour supply (table 4). To a greater extent than firms in other countries, German SMEs view the shortage of qualified workers as a risk to their future competitive position. This makes clear that the demographic change casts its shadow, and that skilled employees are indispensable for German SMEs which want to conquer the global market with innovative goods and high quality services.

Corruption and political instability are risks in emerging countries

While corruption and political or social

instability are hardly seen as an issue for the future competitiveness of firms in Germany, they pose a considerable threat to SMEs in emerging economies, in particular Brazil and Russia. Companies in Italy also believe that corruption will remain a moderate to high risk for their international competitiveness in the future.

Marked correlations between location performance and potential

Comparing the performance and potential values of individual location factors reveals that companies see the greatest risks for the future in areas which already pose significant problems today (tables 3 and 4).

Generally, location conditions change very slowly (figure 8). Countries that offer an attractive environment today will most likely provide favourable conditions in the future as well. This is good news for German SMEs given their positive judgement of the business environment. Nevertheless, fears concerning energy costs, shortages of skilled labour and bureaucracy must be taken very seriously.

Firm and location factors add to the overall picture

Taken together, the different firm and location factors draw a nuanced picture of the international competitiveness in the surveyed economies (table 5). Four types of countries with a need for action can be identified:

- 1) Countries which perform rather well regarding the firm factors, but do rather poorly regarding the location factors (Brazil, Russia and China)
- 2) Countries in which companies come off badly despite the favourable location factors (France and Japan)
- 3) Countries struggling with regard to both firm and location factors (Spain and Italy)
- 4) Germany as the only country where the weak firm potential is the main cause for concern.

Location factors impair competitiveness in Brazil, Russia, and China

An inefficient tax system, decaying infrastructure and escalating bureaucracy impact negatively on Brazil. Surprisingly, small and medium-sized companies in this country are well equipped for international competition in many respects, despite the weak underlying conditions. If Brazil could improve its business envi-

Table 4: Location potential

Values of individual factors included in the location potential component

	USA	Germany	Japan	UK	France	Russia	China	Spain	Brazil	Italy
Taxes and duties	2.86	2.78	3.05	2.70	2.49	2.69	2.70	2.42	2.22	2.14
Bureaucracy	3.12	2.76	3.17	2.93	2.96	2.55	2.72	2.65	2.45	2.23
Energy costs	3.19	2.59	2.98	2.86	2.81	2.95	2.64	2.62	2.58	2.39
Financing constraints	3.17	3.56	3.30	2.91	2.82	2.62	2.62	2.38	2.74	2.44
Skills shortages	3.23	2.51	3.04	3.01	3.03	2.87	2.66	3.00	2.59	3.00
Political or social instability	3.34	3.88	3.09	3.11	3.03	2.69	2.86	2.67	2.48	2.43
Environmental and climate protection provisions	3.35	3.03	3.33	3.22	3.07	3.16	2.83	3.07	2.88	2.84
Lack of infrastructure	3.43	3.71	3.30	3.21	3.28	3.05	3.00	3.02	2.65	2.87
Corruption	3.55	4.12	3.44	3.36	3.49	2.52	2.77	2.65	2.51	2.61
Location potential	3.25	3.22	3.19	3.04	3.00	2.79	2.75	2.72	2.57	2.55

Note: To determine location potential, companies were asked to what the given factors could pose a risk to their future international competitiveness. Possible answers: (1) very high risk; (2) high risk; (3) average risk; (4) low risk; (5) no risk. The displayed values are weighted averages of all companies surveyed in a country. The indicator component location potential is calculated as a simple mean of the nine factors.

Source: KfW Competitiveness Indicator

ronment, its companies could become more competitive internationally, and could contribute to more dynamic growth in the long run.²²

Companies in Russia can also keep up with their international competitors when it comes to prices or quality. Yet, adverse location factors such as corruption, bureaucracy and political instability have a relatively strong impact on the interna-

tional competitiveness of the country's SMEs. These are the areas where action is needed most urgently if Russian companies are to become globally competitive. In addition, to avoid even greater competitive disadvantages caused by financing constraints, access to foreign capital must be maintained.

Chinese companies are very competitive in terms of prices, and they come off comparatively well in many other firm aspects too. The same cannot be said of location factors. Companies perceive operational risks especially in the field of environmental and climate protection. Hence, any reduction in CO₂ emissions and energy consumption should be as economically friendly as possible. Curtailling corruption is yet another topic that has to be addressed in time.

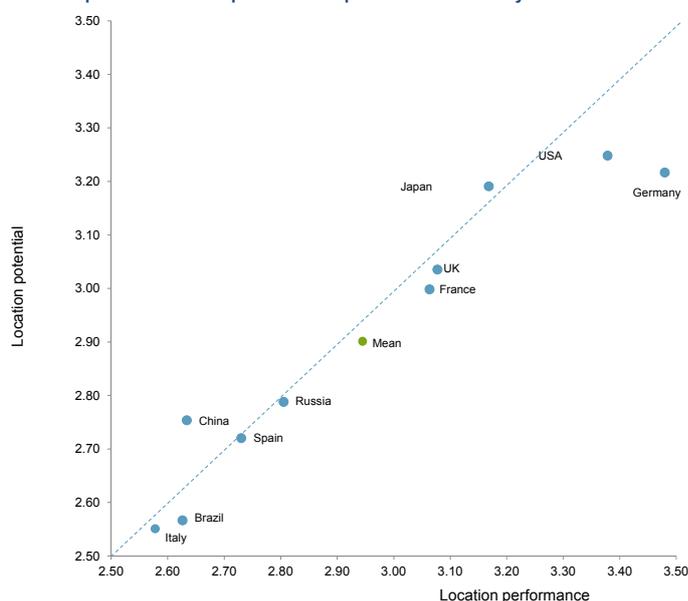
Weak firm performance in France and Japan

Conversely, the overall conditions in France and Japan are comparatively good, and there is little to fear in terms of the future development of location factors. Nonetheless, companies in these countries think that they are positioned rather badly as compared to their international competitors.

In Japan, however, it is not only the current performance but also the future firm

Figure 8: Location performance and potential

Values of location performance and potential components in the surveyed countries



Source: KfW Competitiveness Indicator

potential that is giving cause for concern. Investment and innovation activities have been relatively weak recently, despite sufficient funding. Tax incentives for investments and innovations could be appropriate measures to raise the international competitiveness.

The relatively weak firm performance in France is manifested in an ongoing process of deindustrialisation. In the recent past, small and medium-sized enterprises were very reluctant to invest. This explains their rather muted expectations regarding the development of their future international competitiveness and their weak firm potential.

Cautious optimism in Spain, pessimism in Italy

Spain and Italy languish near the bottom of all four indicator components. Location conditions are perceived as relatively weak in both Southern European countries. Against this background, small and medium-sized companies have pronounced difficulties prevailing over their international competitors.

In Spain, however, companies are cautiously optimistic regarding the future development of their competitiveness. They expect a slight improvement and are even ahead of Japan, Italy, Germany

Table 5: Indicator components at a glance

Values of indicator components in the surveyed countries

	USA	Germany	UK	France	Japan	Brazil	Russia	China	Spain	Italy
KfW Competitiveness Indicator	3.32	3.29	3.22	3.10	3.06	3.04	3.02	2.98	2.95	2.84
Firm performance	3.35	3.35	3.47	3.26	3.00	3.44	3.24	3.23	3.23	3.17
Firm potential	3.29	3.09	3.31	3.10	2.89	3.55	3.23	3.31	3.13	3.07
Location performance	3.38	3.48	3.08	3.06	3.17	2.63	2.81	2.63	2.73	2.58
Location potential	3.25	3.22	3.04	3.00	3.19	2.57	2.79	2.75	2.72	2.55

Best value Worst value

Note: The components of firm performance, firm potential, location performance and location potential can have values of between 1 (poor performance or low potential) and 5 (strong performance or high potential).

Source: KfW Competitiveness Indicator

and France in the firm potential component. The current reform process is starting to bear fruit and should be continued.

Italy must do more to ensure political stability and curb corruption. However, financing constraints are an equally important issue to be addressed and should be high up on Italy's economic policy agenda. Other countries in the euro area could possibly provide valuable support in this regard.

Future competitiveness at risk, particularly in Germany

Germany is a special case in this typology. In terms of location factors it fares

better than France or Japan. The business environment is favourable by international comparison, and current firm performance is not bad either, in contrast to France and Japan, for instance. Yet, future international competitiveness is threatened as well. Only companies that continually invest and develop new products and processes can survive in global competition in the long run. In both areas, German SMEs have a lot of catching up to do. Energy costs and the skills shortage are topics of particular importance and must be tackled in order to encourage investment and restore optimism. ■

- ¹ Cf. European Commission (2010), Internationalisation of European SMEs. For some countries, including China, the share of exporters for companies of varying sizes is shown in the World Bank Enterprise Survey (<http://www.enterprisesurveys.org>). The US share of exporters is taken from OECD (2013), Fostering SMEs' Participation in Global Markets: Final Report.
- ² Brutscher, P., Raschen, M., Schwartz, M. and V. Zimmermann (2012): Internationalisierung im deutschen Mittelstand, KfW Research.
- ³ German Federal Statistical Office. Import penetration measures the share of all imports in domestic demand. Domestic demand is calculated from the gross domestic product adjusted for the foreign trade balance, and reflects the spending of an economy on investment, consumption, and public expenditure.
- ⁴ For the purposes of this publication, SMEs are understood as companies with no more than 500 employees.
- ⁵ A detailed presentation of the methodology can be found in the accompanying tables and methods: Abel-Koch, J. and J. Gerstenberger (2014): KfW-Wettbewerbsindikator – Tabellen- und Methodenband, KfW Research.
- ⁶ Cf. Schwartz, M. and M. Braun (2013), KfW-Mittelstandspanel 2013 – Solid overall impression, despite sand in the works, KfW Research.
- ⁷ Cf. Simon, H. (2014), Die Erfolgsstory der Hidden Champions geht weiter, Handelsblatt, 26th May 2014.
- ⁸ Cf. World Bank (2014), Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises. The Doing Business Index measures how easy it is to set up a business in a country.
- ⁹ World Bank.
- ¹⁰ Cf. Zimmermann, G. (2013), Strukturprobleme und schleichende Deindustrialisierung: Ist Frankreich das neue Sorgenkind Europas?, ifo Schnelldienst, issue 3/2013.
- ¹¹ Cf. also Hornberg, C. (2014), A fair look at France, KfW Research.
- ¹² World Bank.
- ¹³ Cf. OECD (2013), Fostering SMEs' Participation in Global Markets: Final Report.
- ¹⁴ Cf. Schoenwald, S. and K. Ullrich (2014), Emerging Markets Spotlight: Brazil – needs to close the gap on world class infrastructure, KfW Research.
- ¹⁵ Cf. also Ullrich, K. (2014), Russia – Limited international economic relations, KfW Research.
- ¹⁶ Cf. also Hornberg, C. (2014), Italy is different: Beyond labour market reforms, KfW Research.
- ¹⁷ Cf. Zimmermann, G. (2013), Strukturprobleme und schleichende Deindustrialisierung: Ist Frankreich das neue Sorgenkind Europas? ifo Schnelldienst, issue 3/2013.
- ¹⁸ For more on this see Schwartz, M. and J. Gerstenberger (2014), Investments: SMEs still in the black, large companies log since in the red, KfW Research.
- ¹⁹ Cf. Destatis (2014), Belastungsbarometer – Bürokratiekosten durch amtliche Statistik (<https://www.destatis.de/DE/ZahlenFakten/Indikatoren/Buerokratiekosten/Ergebnisse/Belastungsbarometer/Belastungsbarometer.html>)
- ²⁰ Cf. PricewaterhouseCoopers and World Bank (2013), Paying Taxes 2013.
- ²¹ Cf. Aisen A. and F. J. Veiga (2011), How Does Political Instability Affect Economic Growth?, IMF Working Paper, WP 11/12.
- ²² For more on this, see Schoenwald, S. and K. Ullrich (2014), Emerging Markets Spotlight: Brazil – needs to close the gap on world class infrastructure, KfW Research.