

Executive Summary

Development trends in global value chains from the perspective of Mittelstand companies

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Abstract

Many German companies are integrated into global value chains. The resulting international division of labor enables them to achieve considerable efficiency gains. At the same time, there is a risk that adverse shocks from other economies will spread to Germany via the global value chains. Examples for this include the COVID-19 crisis or the war in Ukraine. This study examines how Mittelstand companies of the German manufacturing sector are integrated into the international economy and how they are currently reacting to the changing global conditions of international trade.

Every second industrial Mittelstand company is a “two-way trader”

More than three quarters of all industrial companies (with at least ten employees) engage in international trade. Just over half of these companies are involved in complex global value chains as “two-way traders”. The proportion of “two-way traders” among Mittelstand companies is 48 %. Although this proportion is lower for Mittelstand than for non-Mittelstand companies, it can still be considered quite high. Foreign sales and procurement markets are economically more important for these so-called “two-way traders” than for companies that either focus on importing or exporting only.

Industrial Mittelstand companies benefit above all from the EU Single Market

The EU Single Market provides reliable framework conditions and a high level of legal certainty. Especially, in view of growing political uncertainty, these positive conditions are of particular significance for Mittelstand companies. Therefore, the European Single Market is important to the vast majority of Mittelstand companies with regard to both the procurement of primary and intermediate products and the sale of their own products. In contrast, the UK has become much less important for Mittelstand companies after it has exited the European Union. Outside Europe, China continues to be important for importing companies and is – similar to North America – also becoming increasingly important for exporting companies.

Geopolitical crises and conflicts raise great concerns

Almost half of companies consider geopolitical crises (e.g. trade conflicts; military conflicts) as a high risk. The uncertainties that are associated with these risks can have a negative impact on companies’ business expectations and their

willingness to invest. However, in contrast to, e.g., company-specific risks or force majeure, companies' ability to adapt to these risks is limited. As a result, most companies do not consider themselves well-prepared for these risks.

There is no immediate threat of deindustrialization in Germany

The majority of respondent companies in our survey do not plan to relocate production sites abroad. However, there is a recognizable tendency to at least build new production facilities abroad. Depending on the impact of this trend on future investment decisions, this can lead to a long-term reduction in the proportion of value added created by the manufacturing industry in Germany and yield a so-called "creeping deindustrialization".

Strengthen the EU Single Market and free trade, reduce bureaucracy

In face of the growing risks in international trade, the economic situation of industrial Mittelstand companies has recently deteriorated. However, policymakers should resist the obvious impulse to counteract this development with active political measures. Instead, it is important to strengthen the EU Single Market and to promote free (world) trade. This will give companies the security they need to plan their long-term investments. As it has already been announced in the industrial strategy by the Federal Ministry for Economic Affairs and Climate Action, it is furthermore important to systematically reduce bureaucracy.