ExportReady DISCOVER | SEV Hellenic Federation of Enterprises

Export Opportunities and Challenges in the Covid-19 era

SEPTEMBER 2020

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Contents

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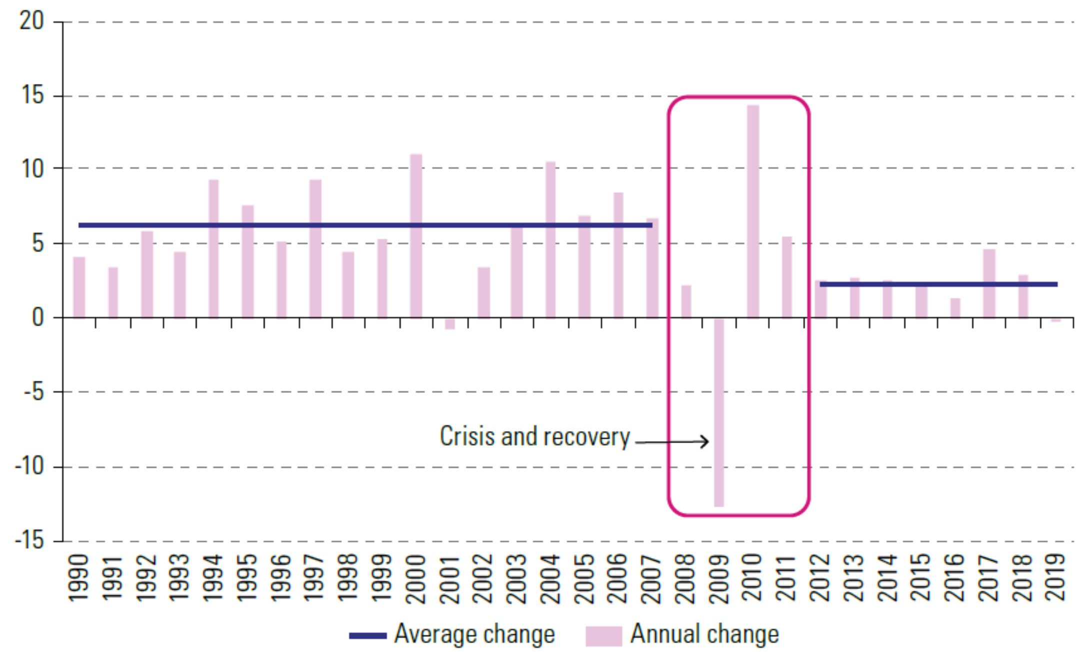
1. The effects of the (COVID-19) pandemic on international trade

Global trade has collapsed

The COVID-19 outbreak occurred in a context of sluggish global trade that has been dragging on since the 2008–2009 financing crisis. While the volume of trade in goods grew at an average rate of 6.2% per year between 1990 and 2007, it expanded by only 2.3% per year between 2012 and 2019 (see figure 1). Likewise, the share of exports of goods and services in global GDP, which reached a historic high of 31% in 2008, has been around 28% since 2015.

Figure 1: Change in the volume of the global trade in goods, 1990-2019. (Percentages)

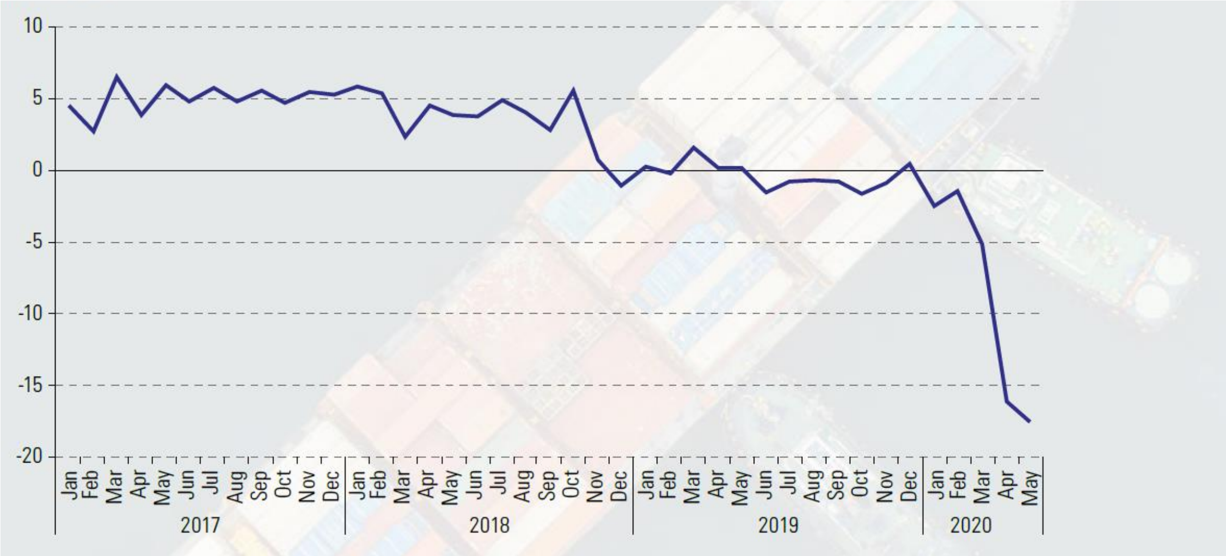


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the World Trade Organization (WTO)

The rapid spread of COVID-19 and the measures taken by governments to contain it have had serious consequences for the world's major economies. Many productive activities have been disrupted, first in Asia and then in Europe, North America and the rest of the world, and there have been widespread border closures. This has resulted in a steep rise in unemployment, especially in the United States, with a consequent reduction in demand for goods and services. Against this backdrop, global GDP in 2020 is expected to register its sharpest contraction since the Second World War (World Bank, 2020)

In this situation, the volume of global trade in goods fell by 17.7% in May 2020 compared with the same month in 2019 (see figure 2).

Figure 2: Year on year change in the volume of global trade in goods, Jan. 2017-May 2020. (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau of Economic Policy Analysis (CPB), World Trade Monitor [online database] https://www.cpb.nl/en/worldtrademonitor.

The drop in the first five months of the year was widespread, although it particularly affected exports from the United States, Japan, and the European Union (see table 1).

Table 1: World and selected groups and countries: change in volume of global trade in goods Dec.2019-May 2020. (Percentages)

	Exports	Imports
World	**-18.3**	**-15.8**
Advanced economies	**-22.7**	**-15.8**
United States	-30.8	-15.8
Japan	-22.1	-4.4
Eurozone	-22.0	-16.6
Emerging economies	**-12.8**	**-15.8**
China	-7.7	-13.8
Emerging Asian countries (excluding China)	-13.1	-17.2
Eastern Europe and Commonwealth of Independent States (CIS)	-4.4	-13.4
Latin America and the Caribbean	-26.1	-27.4
Africa and the Middle East	-13.9	-2.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau of Economic Policy Analysis (CPB), World Trade Monitor [online database] https://www.cpb.nl/en/worldtrademonitor.

The economic contraction in China was smaller than the global average, as that country controlled the outbreak and reopened its economy relatively quickly. Latin America and the Caribbean is the most affected developing region

Global value chains were the main channel for transmitting the effects of COVID-19 to global trade. The measures adopted by China in January (the temporary closure of Hubei Province and national borders) meant that exports of inputs for industries such as the automotive, electronics, pharmaceutical and medical supplies industries, were suspended. This forced factories in North America, Europe and the rest of Asia to shut down for several weeks because they had no alternative suppliers, as China is the world's leading exporter of parts and components, accounting for 15% of global shipments by 2018.

Since March 2020, China has gradually reopened its economy and taken steps to normalize exports. However, the initial supply shock on global trade was gradually compounded by a demand shock, the result of measures to limit the spread of COVID-19 adopted in Europe and later in North America and the rest of the world.

The volume of global goods trade shrank by around 18.5% in the second quarter of 2020 compared to the same period in 2019 (WTO, 2020a). Thus, the drop during the first six months is expected to be around 11%. This suggests that the contraction in global trade in 2020 will be closer to the "optimistic" end of the projections that range from -13% (similar to the annual fall in 2009) to -32% forecast in April. These projections clearly depend on how the pandemic evolves during the second half of the year, particularly in the United States, where infection rates continue to rise.

Trade in services has also been severely affected. The value of exports from a group of 37 countries, which in 2019 accounted for around two thirds of global exports of services, shrank by 10.4% in the first quarter of 2020 compared to the same period in 2019.

Tourism, which accounted for 24% of global exports of services in 2019, has been hit particularly hard. Between January and April 2020, international tourist arrivals declined by 44% worldwide, compared to the same period in 2019. For 2020 as a whole, arrivals are expected to drop by between 58% and 78%, depending on how the pandemic evolves and how quickly travel restrictions are relaxed (UN WTO, 2020).

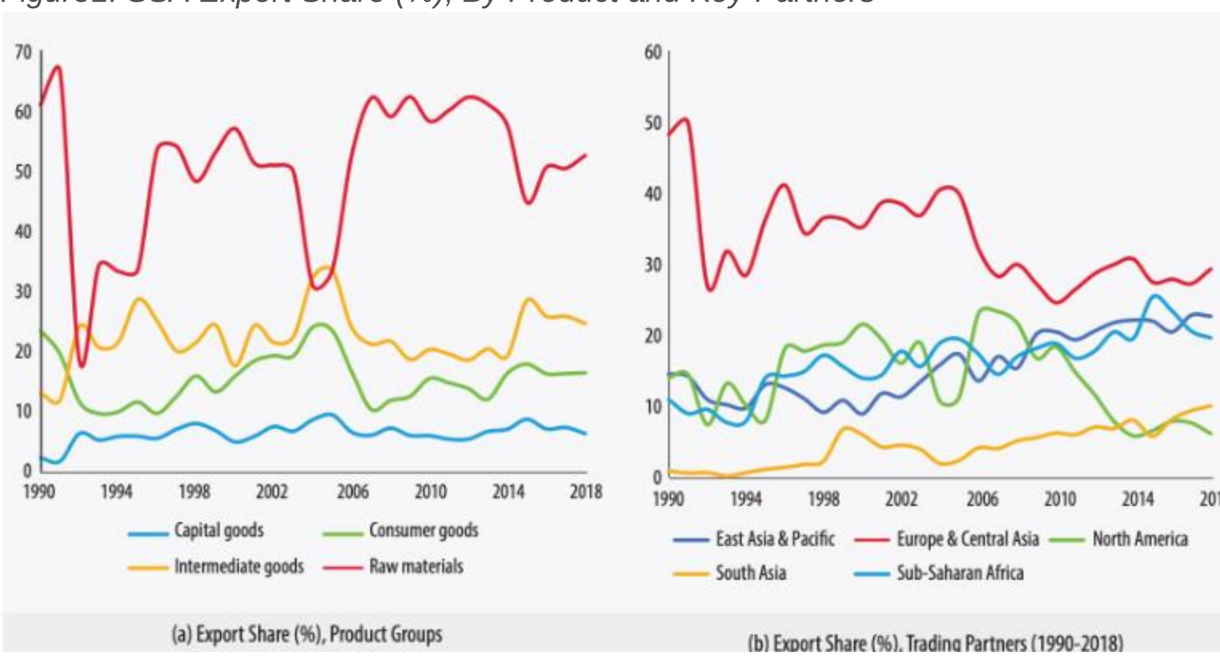
2. COVID-19 Drives Sub-Saharan Africa Toward First Recession in 25 Years

Growth in Sub-Saharan Africa has been significantly impacted by the ongoing coronavirus outbreak and is forecast to fall sharply from 2.4% in 2019 to -2.1 to -5.1% in 2020, the first recession in the region over the past 25 years, according to the latest Africa's Pulse.

African policymakers focus on saving lives and protecting livelihoods by focusing on strengthening health systems and taking quick actions to minimize disruptions in food supply chains.

The analysis shows that COVID-19 will cost the region between $37 billion and $79 billion in output losses for 2020 due to a combination of effects. They include trade and value chain disruption, which impacts commodity exporters and countries with strong value chain participation, reduced foreign financing flows from remittances, tourism, foreign direct investment, foreign aid, combined with capital flight, and through direct impacts on health systems, and disruptions caused by containment measures and the public response.

Figure1: SSA Export Share (%), By Product and Key Partners



Source: Calculated based on WITS database

While most countries in the region have been affected to different degrees by the pandemic, real gross domestic product growth is projected to fall sharply particularly in the region's three largest economies – Nigeria, Angola, and South Africa— as a result of persistently weak growth and investment.

In general, oil exporting-countries will also be hard-hit, while growth is also expected to weaken substantially in the two fastest growing areas—the West African Economic and Monetary Union and the East African Community—due to weak external demand, disruptions to supply chains and domestic production. The region's tourism sector is expected to contract sharply due to severe disruption to travel.

The COVID-19 crisis also has the potential to spark a food security crisis in Africa, with agricultural production potentially contracting between 2.6% in an optimistic scenario and up to 7% if there are trade blockages. Food imports would decline substantially (as much as 25% or as little as 13%) due to a combination of higher transaction costs and reduced domestic demand.

3. COVID-19 impact on EU international trade in goods

To prevent the spread of the COVID-19 pandemic, countries around the world have taken a variety of restrictive measures. (see figure 1).

Figure1: EU imports and exports of goods with 5 main trade partners

Source: ec.europe.eu/Eurostat

In March 2020, the total extra-EU trade (imports + exports) fell from €252 billion to €228 billion compared with January 2020.

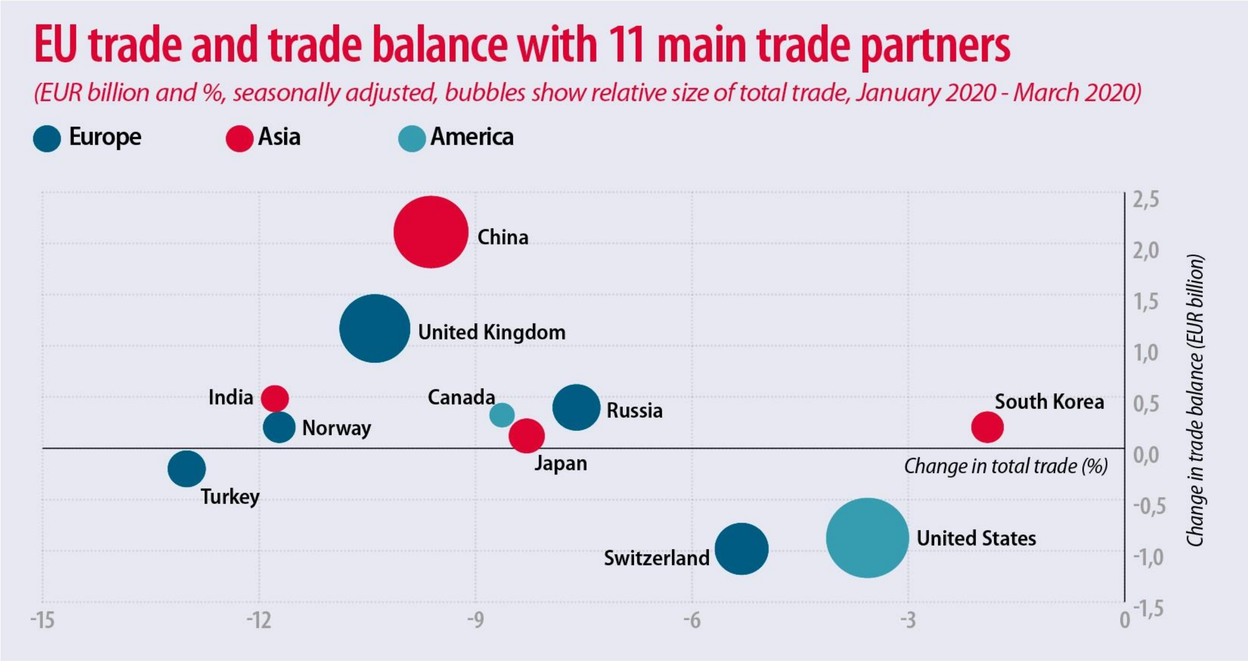
This pattern was observed for exports with all five main trade partners, with highest trade decreases with Switzerland (-8.5%) and China (-7.1%), followed by Russia (-6.8%), the United Kingdom (-6.2%) and the United States (-4.2%).

Imports from these five main partners also fell over this period. However, for Switzerland (-1.2%) and the United States (-2.6%) the decrease was notably smaller than for Russia (-8.2%), China (-10.9%) and especially the United Kingdom (-17.0%).

Correspondingly, the total trade with the United Kingdom (-10.4%) and China (-9.6%) dropped the most among these five trade partners (in relative terms), while smaller decreases were observed for trade with the United States (-3.6%), Switzerland (-5.3%) and Russia (-7.6%). Among the EU's 11 main trade partners, Turkey (-13.0%), India (-11.8%) and Norway (-11.7%) recorded the highest drops in total trade, while trade with South Korea only fell by 1.9%.

In March 2020, EU recorded an increase in trade balance with 8 of its 11 main trade partners compared with January 2020, with highest increases observed with China (+€2.1 billion) and the United Kingdom (+€1.2 billion). Among the EU's 11 main trade partners, the trade balance only fell for Turkey (-€0.2 billion), the United States (-€0.9 billion) and Switzerland (-€1.0 billion). (see figure 2)

Figure 2: EU trade and trade balance with 11 main trade partners



Source: ec.europe.eu/Eurostat

The day after tomorrow

Although it is still soon to assess the full impact of the COVID-19 pandemic, it is clear that there is a disruption in global value chains. This is either because of the significant drop in demand for most goods, or because of a surge in demand for certain goods, such as pharmaceuticals and personal protective equipment. Combined with major disruptions in transportation at the beginning of the crisis in particular, global supply chains experience significant pressure and companies adapt their strategies and operations.

Trade is inextricably connected with global value chains and can play an important role in the recovery of the economy as a whole after the pandemic, and more particularly in improving the EU's resilience. First of all, this can be achieved by pursuing stronger cooperation with our trading partners. Crises such as the one related to the COVID-19 pandemic are global in nature and require global solutions. Resilience should therefore be improved at multilateral level, by ensuring that all the governance and cooperation fora, such as the EU, the World Trade Organisation (WTO), the Organisation for Economic Cooperation and Development (OECD), the G7 and the G20, work efficiently and coordinate their efforts accordingly. The EU, being a key supporter of multilateralism should play a leading role in this context.

The EU is and will remain dependent on imports of goods – final, intermediary and raw materials – as well as on investment. We often tend to undervalue the role of imports in the development of growth, jobs and innovation, focusing on the role of exports only. In that sense, it is critical to ensure that the EU remains open in the pursuit of its strategic autonomy. Some voices call for the reshoring of production in Europe. Although this may take place in some cases following the COVID-19 pandemic, it cannot be the result of state intervention, but rather the result of market-based decisions of companies. What is important is to ensure that the right framework is in place to allow businesses to stay in Europe and thrive.

Moreover, focusing on the effective implementation of the EU's broad network of FTAs should become a priority in the post-Covid era. The Commission has already stepped up its efforts in this direction, through instruments provided in FTAs themselves (consultations and dispute settlement mechanisms), as well as through its Market Access Strategy, which is an established and successful framework of EU action to lift trade barriers imposed by our partners. Overall, it is important to make sure that FTAs reduce the cost of doing business, especially for SMEs. Rules of origin are a prominent example in this regard, as the process of proving origin involves administrative costs for the exporting and importing companies. Hence, if the potential duty savings are low and the administrative procedures for proving origin are overly complicated, companies may choose to pay the MFN duty instead of applying for the preferential one.

The U.S. and China will remain the EU's main trading partners and, therefore, a key priority in the EU's trade policy. At the same time, the EU's approach should be recalibrated in order to better reflect the developments in the relationship with the U.S. and China. As our partners become more assertive in the conduct of trade policy, so has to be the EU as well in order to be able to defend its interests. The EU is a trade powerhouse on its own and should assume more leadership in the creation of international rules and standards. In this regard, the EU should also prioritise relations with its neighbours in the North, East and South.

The EU and the UK will remain important trading partners after the withdrawal of the latter from the EU. We need to agree on a comprehensive and ambitious agreement in time to allow for ratification and entering into force by 1 January 2021. This would give companies the stability, clarity and certainty they need while they are managing through the current crisis. Both sides should look at ways to avoid chaos and ensure a smooth transition to the new EU-UK relationship. Therefore, we hope that the intensification of negotiating rounds will lead to substantial progress in all areas, including the most sensitive ones. Moreover, given the profound changes that will occur in the way to do business between the EU and the UK, it is essential to continue to help and support companies preparing to face this challenge.

Africa is one of the fastest growing regions, located in close proximity to the EU. Nevertheless, the EU and Africa have not been able to fulfil their partnership to its maximum potential. Trade policy can contribute in achieving this, for instance through the current process of the post-Cotonou Agreement as well as through the conclusion and deepening of Economic Partnership Agreements (EPAs). The role of the private sector should also be emphasised and the EU's future trade policy, in collaboration with the development policy and financial instruments, should put the right tools in place in order to better leverage private sector investment and improve the business environment.

It is clear that, over the past years, EU-Russia relations have been facing significant challenges, not least due to Russia's aggressive foreign policy especially towards Ukraine and the illegal annexation of Crimea, which resulted in heavy economic sanctions. Other important factors that have contributed in the aggravation of the relationship are measures adopted by Russia, such as import substitution, that have a negative impact on the general environment for business. Despite these challenges, Russia remains an important trading partner. In this regard, the approach of being open to dialogue an insisting on Russia's compliance with international law should be continued from the part of the EU. Channels of communication should also remain open in order to be able to address grievances in the area of trade.

An important Eastern Partnership Summit is scheduled to take place in the coming months, in which leaders will have the opportunity to discuss the future of the Partnership. This a Partnership that brings value and exemplifies the principle of solidarity, as showcased by the support offered by the EU during the COVID-19 pandemic. It is critical to focus on the effective implementation of the Association Agreements, which include

Deep and Comprehensive Free Trade Areas (DCFTAs), signed with Ukraine, Georgia and Moldova.

Relations between the EU and Turkey are at a critical point, as political developments, most recently in Eastern Mediterranean Sea, have resulted in halting the process of the modernisation of the EU-Turkey Customs Union Agreement as well as the accession process to the EU. Having said that, we believe that Turkey's integration to the EU process remains the best guarantee for the rule of law and a prerequisite for a working Customs Union. In this regard, dialogue between the EU and Turkey should remain open.

As we discuss in our position paper "A trade strategy fit for the 21st century", rethinking trade agreements from a geo-strategic perspective is key to ensure that their advantages will be further expanded, reaching more beneficiaries in a more effective manner. This could be an interesting concept for the current European Commission, which also wants to be perceived as a geo-political Commission.

Besides looking at more traditional instruments, such as cumulation of rules of origin, the concept of open FTAs is broader and more ambitious, as it covers all areas of trade. The objective would be to enhance regulatory approximation and the diagonal opening of markets and opportunities. In practice, an open FTA would make it possible for other countries to join, if they fulfil a number of conditions. The EU could test this concept with partners such as the UK, Switzerland and Turkey.

Digital trade is critical and the COVID-19 pandemic has further highlighted this. Digital trade connects businesses with customers, as well as with other businesses and the authorities. For instance, during the recent crisis, e-commerce has allowed a significant number of enterprises, many among those SMEs, to maintain their business. Digital platforms have also facilitated the conduct of business tremendously. Moreover, digital trade enables less developed countries to engage in global trade and join global value chains.

Digital transformation is a key priority for the EU and trade can play a constructive role to achieve this, both in the EU as well as globally. The EU is a leader in a number of high-end technologies. However, a lot remains to be done to ensure that our capacities are fully exploited and our economy and society can reap the benefits of digitalisation. The question is how to develop the right tools to allow for this transition to take place in a smooth and beneficial manner, without putting in jeopardy the competitiveness of European companies. Close collaboration and coordination between the EU's trade and industrial policies is essential.

Having rules in the area of digital trade, including e-commerce, is key to increase legal certainty and benchmark high standards in the conduct of digital trade at global level. The need to agree on rules should not only be evident to developed economies such as the EU, but also to developing economies. Raising awareness and putting in place capacity building programmes will also be crucial in this respect. The realisation of the role of digital trade in the aftermath of the COVID-19 pandemic will, hopefully, reinvigorate the negotiations on an e-commerce agreement in the WTO.

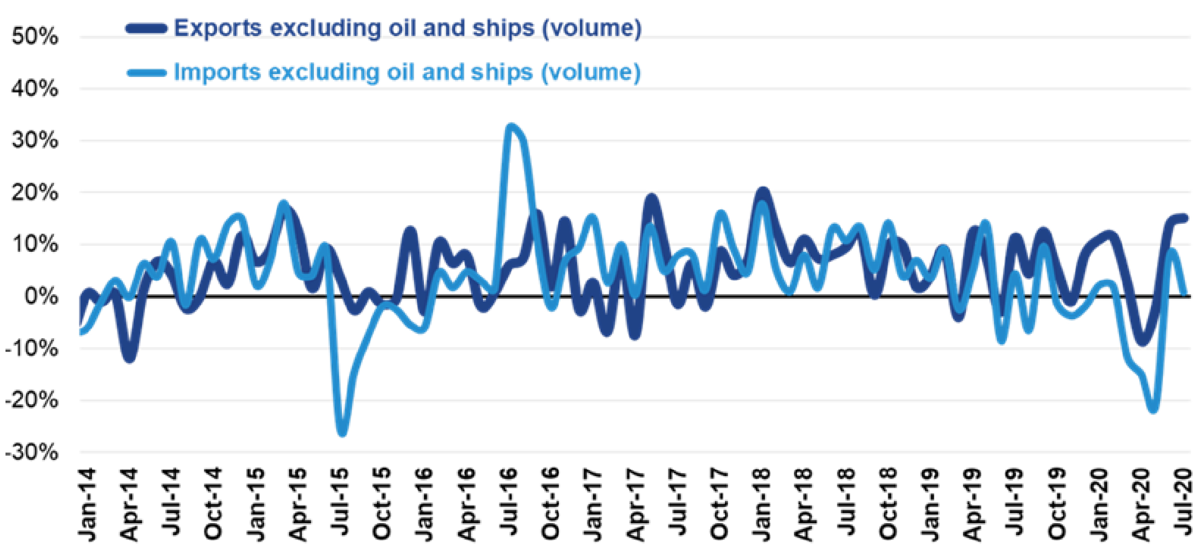
4. COVID-19 impact on Greek exports

The effects of measures to reduce the coronavirus pandemic are already reflected in the large decline in GDP by -15.2% in the second quarter of 2020, while overall in the first half of 2020 a decline of -7.9% is recorded, mainly as a result of the reduction of private consumption by -6.1% and exports by -15%.

However, exports of goods excluding fuel and ships returned to positive territory in June 2020 (+ 6.8%) and in July of the same year remained on an upward trend (+ 9.2%), resulting in a positive sign in the 7 months of 2020 (+ 1.3%).

In particular, exports of goods without fuel and ships, having already recovered since June 2020, increased by + 9.2% in July of the same year in value and by + 15.1% in volume, an additional increase of + 10.6% in value and + 11.3% in volume respectively in July 2019.

Figure 1: Volume of non-oil exports and non-oil imports of goods



Source: (ELSTAT, July 2020)

Overall, during the period January - July 2020, they show an increase of + 1.3% in value and + 6.1% in volume, mainly due to the good course of exports of agricultural products (+ 12%) and chemicals (+ 22.6%).

In contrast, fuel exports fell by -40.2% in value due to the sharp drop in oil prices, especially in March 2020 (about US $ 23 per barrel, compared to about US $ 68 per barrel in March 2019).

At the same time, during the period Jan - July 2020, imports without fuel and ships decreased -7.8% in value and -5.2% in volume, while the total trade deficit (including fuel and ships) amounted to € 10,4 billion, showing a decrease of -19.5% compared to the corresponding period of 2019.

5. Greek Export Destinations during COVID-19

After the outbreak of the Covid-19, the map of Greek exports changed significantly. According to ELSTAT and Eurostat data, France, Spain and Romania are gradually gaining ground as top Greek exports destinations, while Turkey and Great Britain lagging behind.

At the same time, Greek exports maintained their dynamism, despite the slowdown of the global economy, with agricultural products and chemicals being at the forefront. In fact, in the first half of 2020 non-oil exports of goods -though marginally- remained in positive territory.

France managed to climb to the 5th place among the top destinations for Greek products, recording an impressive increase of 36.2% in the first half of 2020. Apart from being a strategic partner, France is gradually gaining a leading role in Greece's export trade.

Spain also climbed higher, now to the 7th place from the 9th place, while Romania also entered the top ten, occupying the 9th place. Bulgaria also rose by one position despite a slight decline in exports.

Moreover, Greek exports to Poland increased sharply (climbing to the 14th place from the 21st), as well as exports to Japan (now at the 22nd place from the 42nd) and to South Korea (30th place from 50th), compared to the corresponding half of 2019. This is a hopeful development since these countries are three dynamic markets with huge prospects and growth potential for Greek exports.

Greek exports to Germany were also equally encouraging, maintaining the second place behind Italy, which remained the top destination for Greek exports.

On the other hand, there was a sharp drop in exports to Turkey, which fell to the 6th place in the top destinations from the 4th place in the first half of 2019.

The United States lost two places, at the 8th place, while the United Kingdom fell to the 10th place from the 8th place. Additionally, a significant decline recorded in the ranking of Lebanon (13th place from 7th) and Brazil (76th place from 38th).

6. Greek exports Challenges and Opportunities during COVID19

The pandemic has changed the map of international trade. It has interrupted the growth course of some export sectors (e.g. machinery, industrial goods, ships) and has closed the gap in the trade balance (a drop of 19,5% for the 7-month period from January to July 2020 in comparison with the same period of 2019) due to the slump in imports.

For almost three months, we have witnessed the collapse of many international destinations (e.g. Italy, Spain), delays in payments from abroad, cancellation of orders and severe difficulty of access to critical raw materials (e.g. in manufacturing and food sectors). This situation has created a suffocating environment as regards liquidity and sustainability for many Greek companies.

Although many sectors have shown strong resilience (such as the pharmaceuticals and the F&B), other sectors have experienced a collapse in demand (e.g. manufacturing, machinery, ships, oil products), which in some cases may threaten the financial stability of many companies. During the pandemic, most of the Greek companies remained viable thanks to long term contracts and orders.

The pandemic offers a unique opportunity to shape a new export momentum. Despite the extremely adverse conditions, Greek exporters managed to retain their extroversion during the first half of 2020. Excluding oil products and ships, exports from January to July 2020 have recorded an 1,2% increase, in comparison with the same period in 2019.

Pharmaceuticals and F&B maintain their growth among the export categories, followed by chemicals. As far as destinations are concerned, the EU has absorbed more than half of the Greek exports (we witness a 4% increase to EU destinations and -3,8% decrease to third countries for the period January-July 2019 and 2020).

7. Sources

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- WITS database
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