Atradius

From crisis to opportunity: what's the future of trade?

How Covid-19 changed global trade forever

February 2021

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> *“This pandemic has demonstrated that being agile is vital for future success.”*
>
> ***Andreas Tesch***

Audience Q&A

Who are the winners and losers?
The big losers at the moment are poor and middle-income countries particularly in Africa, and South Asia, including Bangladesh, India and Pakistan. Not because of the health emergency, but because of the economic emergency, and the inability of governments to act because they have little money and high levels of debt.
Professor Ian Goldin

How Covid-19 changed global trade forever

An exploration of the opportunities, challenges and trends facing businesses during 2021 and beyond.

As part of the series *From crisis to opportunity: what's the future of trade?*, we hosted the webinar, *How Covid-19 changed global trade forever*, and encouraged our panel of speakers to explore how the pandemic has impacted trade. Introduced by Atradius CMO, Andreas Tesch and moderated by journalist Daisy McAndrew, the panel included: Oxford University Professor of Globalisation and Development, Ian Goldin, Chair and CEO of Marcegaglia Holdings S.p.A, Emma Marcegaglia, Credit Director Electrolux APAC & MEA, Johan Melander and Atradius Head of Global Commercial Underwriting Team and Head of Underwriting for the Netherlands, Edwin Kuhlman.

The panel discussed how Covid-19 has impacted trade. They noted the crisis has impacted different markets and sectors in various ways and explored topics ranging from globalisation to sustainability. This white paper captures the main themes and points of their discussion, and is not necessarily a reflection of the views of Atradius. Visit the Atradius YouTube channel to access a summary version of the webinar.

> *"The pandemic hasn't changed trade forever, but it has compressed into the space of 1-2 years, events that would have taken 10-20 years to emerge."*
>
> ***Professor Ian Goldin***

Key themes

Trade opportunities (markets)
Asian markets present strong opportunities for growth, particularly in Malaysia and Vietnam.

World's centre of economic gravity
There has been a significant shift towards Asia in the world's centre of economic gravity (calculated by global GDPs).

Trade opportunities (sectors)
Streaming services, online video conferencing and electric vehicles were already experiencing growth; this then spiked during the lockdowns. For many consumers, adoption of new technology will be permanent.

Globalisation vs de-globalisation
As individuals and companies move online to communicate, collaborate and trade, national borders become less relevant.

Sustainability
Appetite for green products and processes among consumers and businesses accelerated during the pandemic.

Supply chains
Disruptions to supply chains have caused many businesses dependent on freight logistics to look for alternatives.

Government support
The scaling back of government Covid-19 fiscal packages presents a heightened risk of insolvency for many businesses.

Audience Poll #1

LOOKING FORWARD TO POTENTIAL BUSINESS GROWTH IN 2021 DO YOU LARGELY FEEL POSITIVE / NEGATIVE / NEITHER?

64% POSITIVE

23% NEITHER

13% NEGATIVE

Trade opportunities: markets

2021 will see the world's economic centre of gravity shift further towards Asia.

Acceleration of existing trends

A key phenomenon emerging out of the global pandemic is the acceleration of existing trends. One area where this is particularly evident is the speed in which the centre of economic gravity is moving eastwards. With the growth of Asian markets, economists predicted in 2011 that the centre of gravity would reach somewhere between India and China by 2050. Covid-19 has accelerated this trend, swinging the pendulum east more quickly and showing no sign of swinging back west in either the near or long term.

> *"The best prospects can be found in Asia, especially in Southeast Asia."*
>
> ***Edwin Kuhlman***

Resilience demonstrated by Asian economies

Factors such as East Asia's largely successful containment of the pandemic are impacting this shift. The region proved relatively resilient against the pandemic due to strict lockdown measures, large scale testing and perhaps because of the young population. Underlying fundamentals are further driving the shift, including more rapid economic growth. The recession in most of the Asian economies has been less severe than in the rest of the world, due to the successful containment measures and firm fiscal and monetary policies. Both factors will also play a role in the growth opportunities (which are reasonably good) for the region in 2021.

Opportunities for growth in Asian markets

Economic recovery has started in most Asian countries, with underlying growth strongest in Vietnam and Malaysia. World GDP is expected to bounce back by 4.9% in 2021, while in Asia, economic activity is forecast to rebound about 6.5% in 2021. With economies slowly reopening, pent up demand and a recovery in exports will stimulate GDP growth in 2021. Regional exceptions include India and the Philippines where the authorities have had to battle prolonged waves of the virus.

Promising markets for 2021

Atradius economists have identified Malaysia and Vietnam as promising markets for 2021. These are markets that are identified as having a strong pace of GDP recovery in the wake of the Covid-19 crisis, a relatively low number of Covid-19 cases (per 100,000 inhabitants), and stable political and institutional conditions.

Malaysia, in particular, offers an attractive business climate, good quality infrastructure and skilled workforce. The country is doing relatively well compared to the rest of the region in terms of Covid-19 infection and death rates, and it is well placed for robust GDP growth over the coming years. Even though it was in recession in 2020, GDP growth is expected to rebound to 6.2% in 2021. The government has announced a strong fiscal stimulus package for 2021, with measures totalling RM 322.5 billion (EUR 65 billion). This includes boosting spending on social sectors and infrastructure. Given the country's membership of ASEAN, it benefits from strong trade links with neighbouring countries. A relatively skilled workforce is giving the country a strong position in medium-skilled electronic manufacturing. Vietnam offers a similarly optimistic picture. The country managed to avoid recession in 2020, and GDP growth is forecast to accelerate to 7.7% in 2021. It has been one of the bright spots in the region for a while, being one of the fastest growing ASEAN economies and a regional outperformer for exports. Vietnam is an attractive destination for companies that want to shift low-skilled manufacturing out of China. Besides low wage costs, the country benefits from participation in several trade agreements.

Audience Q&A

What is China's future role as a major manufacturing nation?

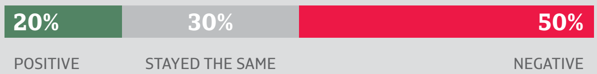
China has got a very bright future and is going to continue to grow. It has done incredibly well with skilled leadership in handling the pandemic and trade, including regional trade agreements. It is moving to becoming a middle-income country, overcoming inequalities and ending poverty. It is probably the world's biggest economy and will increasingly exercise that role globally.
Professor Ian Goldin

Our pre-event questions

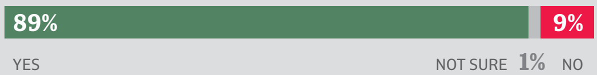
We asked 3 questions in advance.

We wanted to take a quick snapshot of how businesses around the world are faring during the pandemic. So, as part of the registration process for this virtual event, we asked attendees three (voluntary) questions. The results are shown below.

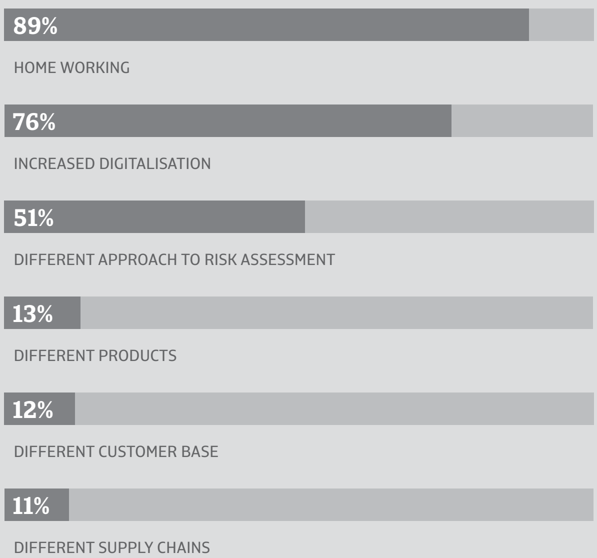
HOW HAS YOUR BUSINESS BEEN AFFECTED BY THE PANDEMIC?



HAVE YOU MADE CHANGES WITHIN YOUR BUSINESS TO SURVIVE THE PANDEMIC?



IF 'YES' TO THE ABOVE, WHICH CHANGES TO YOUR BUSINESS DO YOU THINK YOU WILL KEEP FOR THE FUTURE?



Trade opportunities: sectors

Covid-19 created a clear divide between winners and losers across sectors.

Sectors hit hard by the Covid-19 economic crisis

Those hit hardest by Covid-19 restrictions include non-food traditional retail (i.e. retailers without an online presence), travel, tourism and hospitality. More than 40 airlines collapsed during 2020, and other airlines are hanging on, propped up by government support. International tourism rates dropped by 74% during 2020, with a loss in revenues of USD 910 billion to USD 1.2 trillion. The fashion industry has seen a dramatic drop in profit year-on-year, with estimates pointing to a reduction close to 90%.

Sectors experiencing growth due to Covid-19 driven changes

But this bleak picture is not the whole story. With stay at home orders enacted in markets throughout the world, millions of people went online to work, shop, socialise and access entertainment. As a result many businesses in sectors such as online payments, cloud computing and home entertainment saw significant growth in market value.

In 2019, online shopping in the US was forecast to reach 24% by 2024. However, by July 2020, it already accounted for 33% of total retail sales. The first six months of 2020 saw an increase in online sales equal to that of the previous ten years.

Other sectors saw gains too, including consumer durables. Unlike the 2008/09 recession, where consumers tightened their belts and cut back on spending, 2020 actually saw an increase in sales of white goods. This was particularly true of big ticket items and products associated with health and hygiene, such as clothes-steaming washing machines. Perhaps after saving costs on commuting and holidays, and after spending more time indoors, many consumers invested in their homes. Johan Melander described this experience consumer durables businesses including Electrolux, which experienced a 50% year-on-year growth for online sales in 2020.

Accelerating trends and permanent changes

It is likely the pandemic accelerated trends that were already underway. Streaming services, online video conferencing and electric vehicles were already experiencing growth; this then spiked during the lockdowns. For many consumers, adoption of new technology will be permanent. Consumers are unlikely to return to combustion engine cars after investing in an electric vehicle. Although business travel may return once safe to do so, it is likely to be a lower than previous levels, with businesses continuing to exploit the money and time saving benefits of video-meetings and large numbers of employees have expressed an interest in hybrid approaches to home working.

Other changes that are likely to be permanent include development and production practices within pharmaceuticals. The development and roll-out of the vaccines has been at a speed – and involved technological and medical advances – that have never been seen before.

For some businesses, 2020 represented neither the boom nor bust seen in online retail and tourism respectively. Telecoms, for example, largely held steady.
Mid-stream manufacturers with diversified portfolios are, in large part, emerging from the pandemic unscathed.

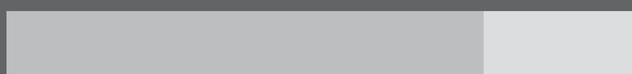
> *“Roughly 1/3 of companies are badly affected by the pandemic. 1/3 are not really hit, and the other 1/3 are truly benefiting from the effects of the pandemic.”*
>
> ***Edwin Kuhlman***

Audience Q&A

Why have the countries run by women dealt so much better with the pandemic? Do businesses with a more diverse representation do better than those without?
In the case of Brazil and the US, maybe there was a macho attitude where the leaders thought they were stronger than the problem. But it is true that some female-led countries were like very clever mothers, looking to their population, trying to defend their population the best way possible. If you have a diverse board, not just gender diversity but diversity in a broader way, it normally works better and you have greater innovation.
Emma Marcegaglia

Audience Poll #2

DO YOU EXPECT THE TRENDS AND CHANGES TO TRADE TO BE PERMANENT OR TEMPORARY?



76% PERMANENT

24% TEMPORARY

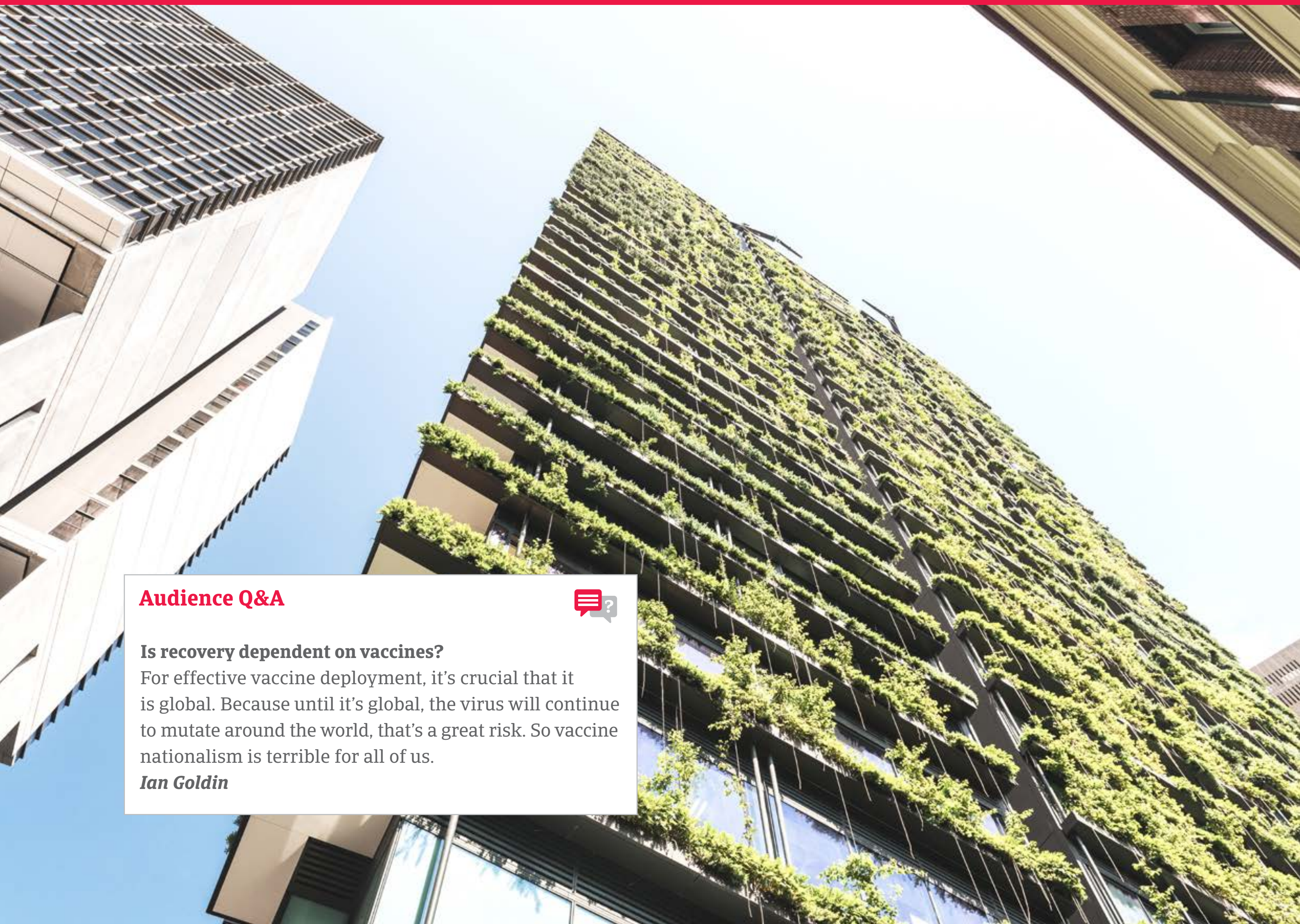
Acceleration towards greater sustainability

A cultural values shift towards greater sustainability has been evident during the pandemic. As with other trends seen in the crisis, this was in evidence prior to the outbreak of Covid-19, but appears to be accelerating.

Governments are increasingly adopting climate change measures and consumers are both demanding and buying greener products. Sales of electric vehicles have grown, despite a recession-charged slump in car sales. People are buying more sustainable consumer durables for their homes. Johan Melander described how consumers are increasingly choosing sustainable options among the Electrolux product line and that a commitment to sustainability can be found throughout the business.

Businesses are also driving a green revolution. The B20 Group, the business voice of the G20, is discussing the idea that businesses have to work together and take responsibility for inequality and climate change. Governments and businesses have to collaborate and invest in technology in order to move into a more sustainable way of working. In addition, businesses are increasingly scrutinising their supply chains, and choosing to partner with suppliers that can provide better social and climate sustainability. Emma Marcegaglia said: "This is a better thing to come out of the pandemic. 2021 will be a year of growth for my company – and our growth will be more sustainable."

Businesses and markets that do not have the agility to match the speed of the sustainable agenda may be at risk. For example, Japan is currently highly reliant on fossil fuels and is at risk of losing trade opportunities with large companies who are prepared to relocate in order to reduce their carbon footprints.



Audience Q&A

Is recovery dependent on vaccines?
For effective vaccine deployment, it's crucial that it is global. Because until it's global, the virus will continue to mutate around the world, that's a great risk. So vaccine nationalism is terrible for all of us.
Ian Goldin

De-globalisation vs globalisation: where are we heading?

Protectionism or border-free collaboration

For many commentators, Covid-19 represents significant steps towards de-globalisation inflamed by trade wars and increasingly nationalistic politics. They point towards examples of re-shoring, protectionism, reduction in global travel and steps taken towards shortening supply chains and sourcing materials closer to home.

However, Ian Goldin, Professor of Globalisation and Development at Oxford University argues that Covid-19 has accelerated globalisation. He explains that as individuals and companies move online to communicate, collaborate and trade, national borders become less relevant. As virtual meetings replace physical meetings, their greater efficiency could lead to higher levels of engagement and speed the flow of ideas. Global media and social media further the spread of ideas, with movements or protests such as Black Lives Matter crossing continents rapidly.

Successful globalisation can be seen in the bio-pharma sector where cross-border collaboration took place at a scientific level for the benefit of rapid advances in science and technology. Indeed the race to develop a vaccine against Covid-19 resulted in exceptional examples of international collaboration resulting in the development of vaccines in six to seven months, when normally this process takes around ten years.

Of course globalisation also presents problems. In fact the global pandemic itself – spread as it was through global travel along trade and tourism routes – is an example of problems that globalisation can cause. For the Atradius panel – as articulated in particular by Ian Goldin and Emma Marcegaglia - the answer is not to shut borders. They argue effective protections against global threats such as pandemics, but also computer viruses, global warming and conflicts, along with effective promotion of trade and the creation of decent jobs require greater global collaboration and a more inclusive globalisation.

“In a certain sense, the pandemic has shown we need more globalisation, we need more multilateral approach. Covid-19 has shown that the only way to solve global problems is to work together.”

Emma Marcegaglia

Note: The subject of globalisation, and whether we are currently seeing trends that indicate an increase or decrease is such a big topic in its own right that we will explore it in more detail during our 4th virtual panel event devoted to this subject.

Audience Q&A

Protectionism seems to be on the rise, how does that impact continued globalisation?

Asia will be the global leader of openness and integration. It is so ironic that it had to be convinced to be globalised, and now it is the leader of globalisation. The US was at the forefront and it is now the reticent partner. Africa and Latin America need globalisation more than any other regions do, because they still have to grow. For everyone's sake, we need to fight for a more open global trading system.
Ian Goldin

Pandemic-induced supply chain disruption

Shipping costs soar

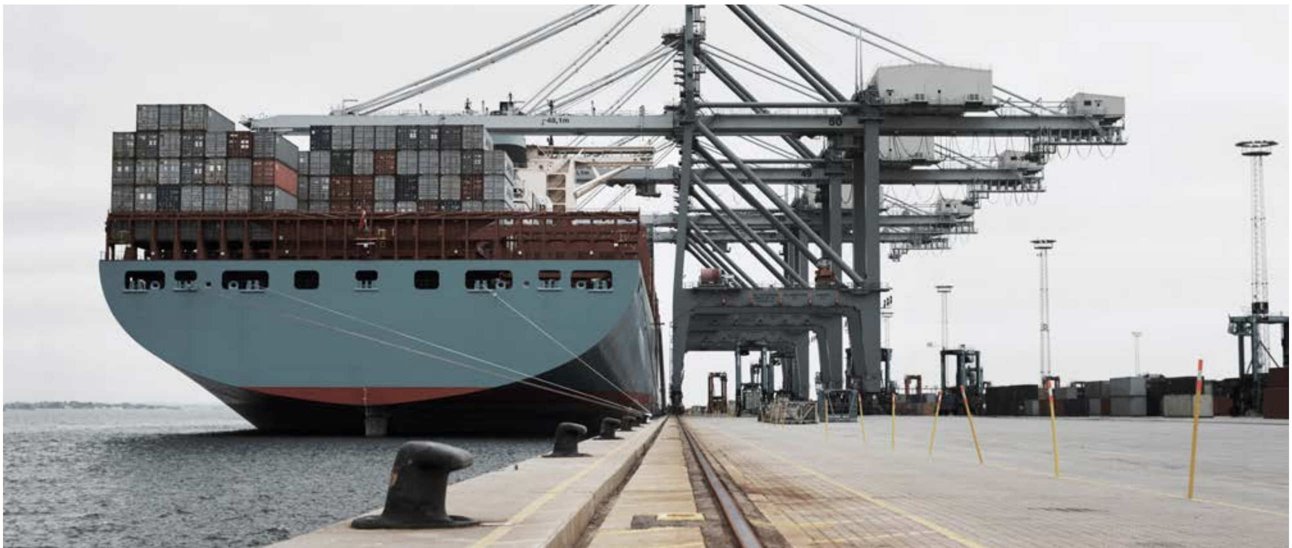
Many supply chains have been disrupted during the pandemic. This can be seen in shipping where container pricing is soaring. Quarantines, lack of staff numbers at ports (due to illness and self-isolation) and cancelled orders by non-essential retailers have caused chaos, from backing-up container ships at ports, to a lack of ships where they are needed. Businesses are looking at alternatives. For many, just-in-time deliveries will become a thing of the past and for others, inventories will rise. Others will source supply chains closer to home and many will exploit advances in automation and robotics to swap distant cheap labour for closer-to-market manufacturing.

Restructuring of global supply chains

The pandemic has prompted discussion of re-shoring as businesses seek to restructure their global supply chains to make their procurement networks more resilient to shock and more sustainable. We are likely to see an increase in localised logistic hubs. A trend towards automation may also result in shift in manufacturing closer to the consumer markets.
Volatility and uncertainty in supply chains are expected to continue through 2021. Strategies employed by businesses to protect themselves against supply chain risks moving forward include getting closer to suppliers at every tier, with increased contact and regular risk evaluations.
Many plan to increase the quality or range of their market intelligence and risk data, while also building in the flexibility to quickly change suppliers where needed, a technique also favoured by services providers. During the webcast, Emma Marcegaglia explained how multinational diversification can help with supply chain disruptions, as well as an agile approach to manufacturing and distribution.

Audience Q&A

Why is trade with Asia so disrupted by a shortage of shipping containers?
The containers are in the wrong places due to trade imbalances. There are big pileups, more than 50 container ships waiting outside the port in LA to unload. Covid-19 related protocols in terms of handling containers, testing, staff illness are all impacting this. Prices were higher last week (end of Jan. 2021), so we might have seen the peak.
Johan Melander



Audience Poll #3

AFTER HEARING THE PANEL'S INSIGHTS TODAY AND LOOKING AHEAD TO BUSINESS GROWTH IN 2021, DO YOU NOW FEEL MORE POSITIVE / MORE NEGATIVE / THE SAME?

57% MORE POSITIVE

41% NO CHANGE

2% MORE NEGATIVE

Is global trade surviving on government support alone? What happens when government schemes end?

Governments spent more than USD 12 trillion since March '20

Governments across the developed world have responded to the economic shocks of Covid-19 with a variety of mitigation packages. Ian Goldin notes that the pendulum has swung back towards governments and the power of governments, although global wealth inequalities mean that about 20 men have more money than 4 billion people and about 150 countries.

Measures range from tax cuts or deferments, to state-insurance systems, changes to insolvency laws and grants or loans to preserve jobs and avoid business failures.

Indications are that these schemes have been successful, with a much lower insolvency rate than was feared at the beginning of the pandemic. Governments have spent more than USD 12 trillion globally since March 2020 on fiscal packages to support business, healthcare and vulnerable populations. There has also been a positive knock-on effect on upstream suppliers located in countries with minimal or no fiscal support. Many of these suppliers have been able to continue trading, safe in the knowledge that their customer is safe from insolvency and they will be paid.

An uptick in insolvencies is expected

The scaling back of this support – which is projected to take place during 2021 as the recovery picks up – presents heightened risks of insolvency for many businesses, with companies with unsustainable capital structures among the most vulnerable. An uptick in insolvencies is expected throughout the world during 2021.

Businesses can protect themselves against these risks by careful credit management including: strong due diligence, portfolio diversification, close relationships to customers and suppliers and a good understanding of supply chain health and, where appropriate, financial instruments such as letters of credit, surety or credit insurance. Businesses should also be alert to the period of recovery following the pandemic, and build the financial buffers and working capital to finance growth. The two years following 2008 financial crisis, for example, was a period that saw an increase in the volume of distressed companies and defaults.

If you've found this whitepaper useful, why not visit our website www.atradius.com, where you'll find many more Atradius publications focusing on the global economy, including country reports, industry analysis, advice on credit management and essays on current business issues.

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