



Association of German Chambers
of Commerce and Industry

Globalization after Corona

Recommendations of the Association of German Chambers of Commerce and Industry

Declining international cooperation and crumbling state alliances are currently causing calls for economic protectionism to grow louder. Have supply chains expanded too far? Is the Corona crisis heralding the beginning of a de-globalization?

The Network of German Chambers of Industry and Commerce aims to enrich the discussion with this paper.

Losing the opportunities of globalisation during the Corona crisis would be devastating for German business. For the highly internationalized German economy it is crucial to manage the pandemic crisis without new, additional protectionism. Instead of retreating into economic nationalism, the order of the day is to engage to preserve the international division of labour as well as international value chains based on rule-based trade and EU leadership on these issues.

The importance of open markets for the German economy

The highly internationalised German economy depends on open markets and good rules for trade and investment. After all, one in four jobs in Germany depends on exports, in the industrial sector even one in two. Europe-wide there are a total of 36 million jobs in the export industry. The EU internal market is one of the largest economic areas with some 450 million citizens, which has created 2.8 million jobs. Germany's annual income gains from the EU amounts to 86 billion euros – an EU-wide record¹. According to recent studies, the reversal of EU integration steps would cause German GDP to shrink by up to 3.9 percent annually². The EU undertakes and receives the most foreign investments worldwide and is the most important trading partner of over 80 countries (USA: 20).

At the same time, Germany is also one of the biggest beneficiaries of world trade, with annual income gains due to its membership in the World Trade Organization (WTO) amounting to 66 billion US-Dollars. These advantages are concrete and tangible in the daily lives of everyone.

International trade has long been making the world of goods, menu cards and thus everyday life of Germans more varied, more international, and more diverse - and at lower cost. Even during the Corona crisis, without the global division of labour, important everyday goods such as smartphones would be more expensive, less in a position to keep pace with technical developments elsewhere and only be available in a smaller range in part due to limited natural resources in Germany. Preliminary products and services are traded across borders, including between German companies and their branches abroad. Around half of all German goods imports and exports are intermediate products, and imports account for over 20 percent of the added value of German goods exports³. Global value chains enable efficiency gains by combining location advantages with specialisation, exchange of knowledge, ideas, technology and data, investment, and the free movement of workers. According to the World Trade Organization (WTO), Germany is one of the most important centres of global value chains alongside China and the USA.



The current situation of German companies during the Corona pandemic

The corona pandemic has hit the economy all over the world and is burdening the German economy to an unprecedented extent. According to current DIHK surveys, almost 80 percent of companies in Germany expect sales to fall in 2020. Many companies are struggling with financing and liquidity bottlenecks or are even on the verge of insolvency including medium-sized companies that have so far been in good shape. The economic effects are even greater on a global scale: according to the AHK World Business Outlook, 83 percent of German companies abroad are expecting heavy losses in turnover due to the Corona crisis, and 15 percent are even expecting their turnover to be more than halved. Due to financing and liquidity problems and fewer investments, the economic effects of this crisis will probably last for a long time.

The effects of the Corona pandemic on the German economy in detail



[AHK World Business Outlook 2020, Corona-Special Survey July 2020](#)

Impact on international supply chains

In the Corona crisis, almost all export markets are under pressure. In many regions, protective measures have drastically restricted cross-border passenger traffic and thus also business travel. Freight transport was also affected by many measures. Truck congestions at the borders, additional bureaucracy, and the cancellation of many passenger flights, which normally also transport air freight, are causing considerable delays in the supply chain. The introduction of export bans and restrictions in many countries, especially for medical goods, is still exacerbating global protectionism in some cases. In addition, the asynchronous course of the corona pandemic is currently causing considerable delays in the resumption of business and production.



Globalization after Corona



This is worrying because the German economy depends on international networks and competing supply options. 17 percent of industrial companies are currently changing their supply chains and looking for other manufacturers for their urgently needed preliminary products in Germany or other countries. Companies are adapting their supply chains to the needs of the production processes according to the demand. The international division of labour is being reorganised. Securing the supply chains will become more important for companies in the future.

Impact on the global trading system

The Corona crisis is increasingly threatening to become a protectionism trap. This can become a problem especially for the highly internationalised German economy. Calls in many countries for more localisation to protect the domestic economy are becoming louder. During the Corona crisis, many states decided to impose export bans, restrictions or controls on protective masks, protective clothing, respirators, or disinfectants. But this leads to higher costs, production bottlenecks due to a lack of preliminary products and longer delivery times. Sectors such as food and textile production are particularly vulnerable to supply chain disruptions and longer delivery times. Moreover, the WTO is currently being increasingly weakened. Global initiatives to bolster trade have remained blocked in the WTO for years. Only a few bilateral and regional agreements, such as those between the EU and Japan, Canada, or Vietnam, set rare countertrends. The erosion of the WTO dispute settlement mechanism since the end of 2019 adds to this. Without a functioning WTO and especially without the United States as a driving force of free trade, protectionist experiences of the 1930s could have a comeback. While an end of the long-standing WTO crisis is not in sight, the further erosion of global trade rules seems probable. But in the absence of bilateral agreements, those WTO-trade rules are the only rules in place covering two thirds of German exports to non-EU countries.

Acceleration of trends

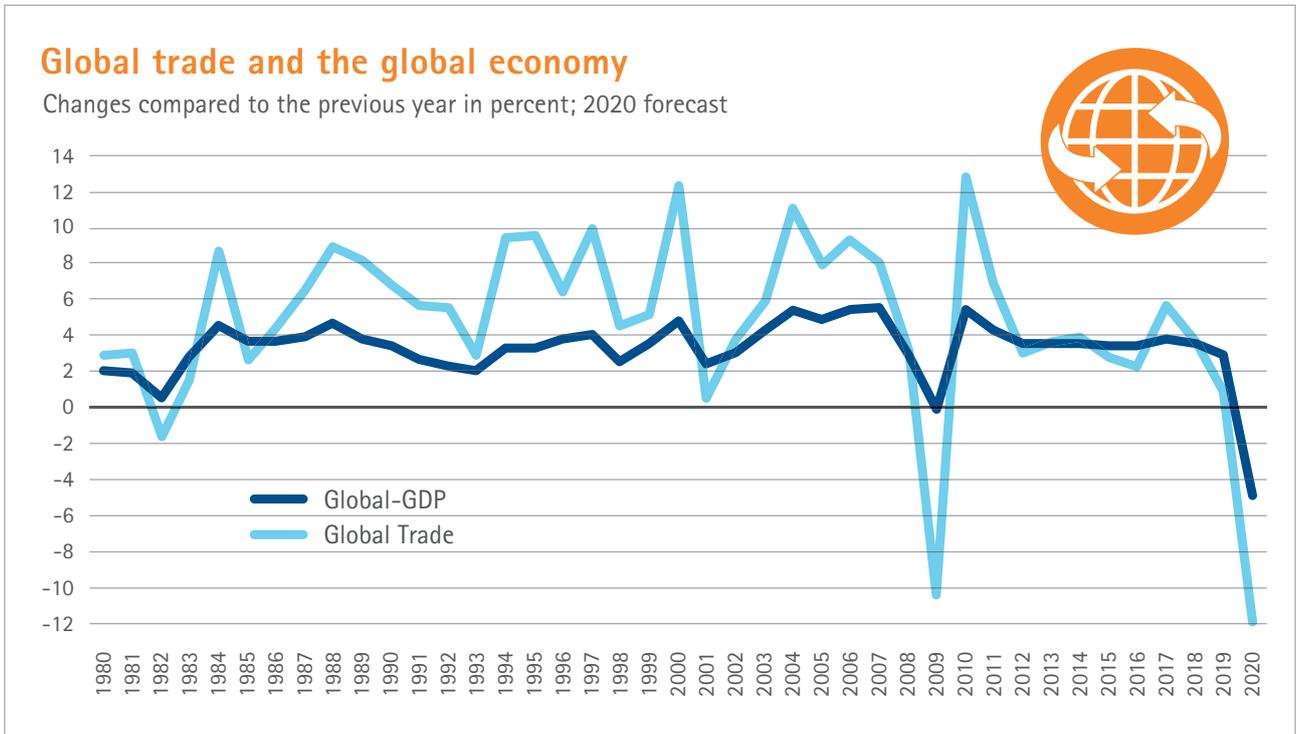
The corona crisis does not represent a reversal of globalisation, but it does act as a structural accelerator. Developments anticipated to materialise over the next decade are now happening in a ten-week time lapse. Changes of supply chains due to business decisions, consumer preferences, trade barriers and government regulations will happen faster. There could also be a trend towards regionalisation through diversification of supply chains and thus lower risks of production and delivery failures. Depending on how some countries manage to cope with the Corona crisis and cushion the economic impact, some countries may have an advantage. What are these trends?

Peak Globalization?

According to the WTO, world trade could shrink between 13 and 32 percent in 2020. But even before the Corona crisis, world trade had only grown sub-average for several years. Since the economic and financial crisis of 2008, terms such as „slowbalization“ or „peak globalization“ have been used to discuss the end of the growth of global goods trade as a global economic driver. At the same time, global trade in services is growing, even during the Corona crisis. Global trade openness, i.e. the ratio of global exports to world GDP, has been shrinking since 2008. This applies especially for the USA and China and suggests a reduced international orientation of these two economic giants.



Globalization after Corona



DIHK graphic; figures for 2020 based on WTO-forecasts

Digitalization

Cross-border digital trade has been growing rapidly for years, and even more so during the Corona crisis. At the same time, the rise of online trade poses great challenges for retail trade. Technological advances in production, including an increasing share of services in the production of goods, the so-called Mode 5, offer great opportunities for the German economy. More digital, more individual solutions and new technologies can also bring about the relocation of previously outsourced production steps to Germany and Europe.

Sustainability

Sustainability considerations, for example environmental or consumer protection, are becoming increasingly relevant for companies due to competitive advantages, consumer preferences and socio-political developments. Particularly German companies can act as pioneers in this area. An adjustment of supply chains along the spread of European regulations will increase and could be accelerated by the strong pressure to adapt during the Corona pandemic.

Stronger role of the state

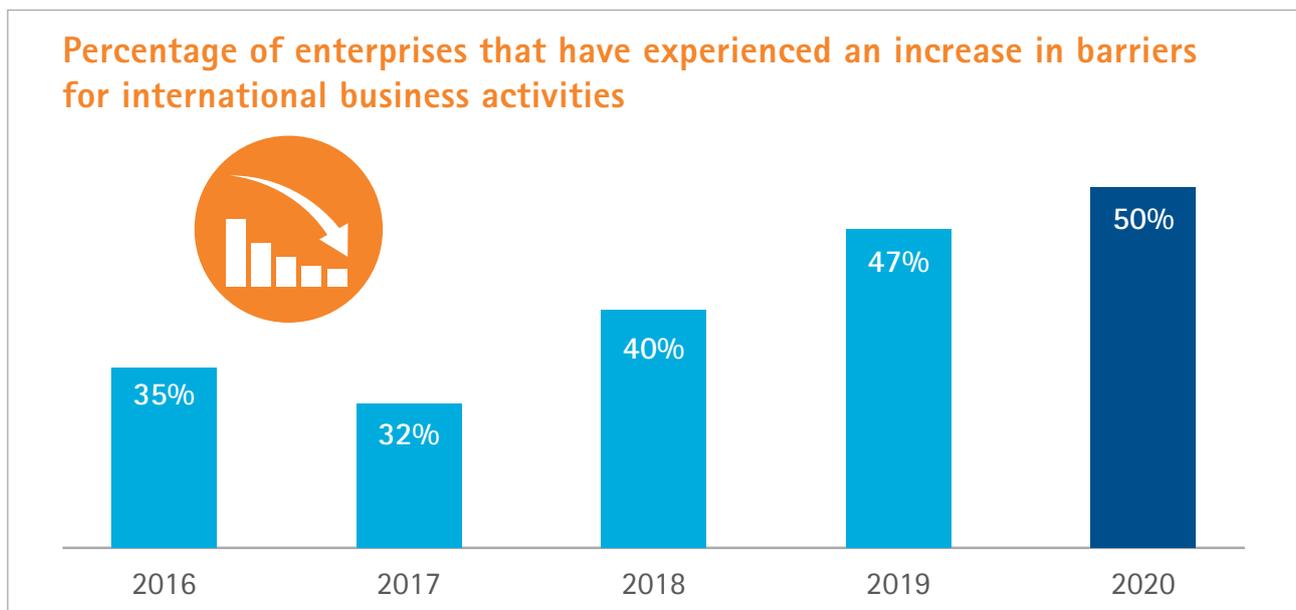
Through numerous Corona rescue measures, the state is becoming a more important economic player worldwide. In combination with the increase in corporate insolvencies, nationalizations are increasing market concentrations. Calls are growing louder in politics around the world for industrial strategies, more stringent export and investment controls, buy-local and local content requirements, as well as state-directed relocations of industrial production. In addition, a competition-distorting subsidy race has been launched through global aid measures, which, for example in the case of



nationalizations, could lead to inefficient market concentration and thus to increased unfair competition.

Protectionism

Even before the Corona crisis, global trade conflicts, new customs duties and trade barriers increasingly determined the reality of foreign-trade-oriented companies in Germany. The “America First” policy of the USA creates new unilateral barriers and retaliatory measures by other states which disrupts global supply chains. Above all, the trade conflict between the USA and China is affecting the global economy, not least of all German companies, which are both investing heavily and account for around one million employees in each of the two countries. German companies in other regions have also been complaining for years about an increase in trade barriers. During the Corona pandemic, the trend towards protectionism has intensified and is now also increasingly subjecting huge parts of global trade to restrictions. There is a threat of a relapse into particularism and economic nationalism.



[DIHK Going International April 2020](#)

Decoupling

The discussion on the economic decoupling of the USA and China is gaining momentum. This confronts global supply chains with structural problems and legal uncertainty. It is becoming apparent that the closely interlinked world economy is breaking up into two competing geo-economic and technological blocs in a systemic competition between state capitalism and market economy. The fragility of value chains is particularly acute in the high-tech sector (e.g. telecommunications, some dual-use goods and space). This is particularly the case when only a few providers are available. Instruments of „economic coercion“ include investment-, import-, and export bans, sanctions, and boycotts. The EU can now establish itself as an economically sovereign actor and role model for others and to strengthen the continent’s competitiveness through targeted investments in future technologies, including in the areas of environment, mobility, automation and health.



Ways out of the Corona Crisis

Maintaining international value chains based on rule-based trade should be a top priority for the German government and the EU institutions. Economic recovery during and after the Corona pandemic can only succeed this way. Changes in supply chains are and shall stay business decisions. Economic diversification and European sovereignty should be strengthened. The first German EU Presidency in over a decade also offers the opportunity to secure European leadership for open markets worldwide.

1. Countering protectionism

Protectionism is no substitute for crisis prevention. A commitment by the G20 countries not to introduce new tariffs could prevent the worst from happening. The EU should also call on all countries worldwide to stop imposing tariffs on health goods in future. Corona restrictions should be withdrawn and replaced by less drastic measures: WTO-compliant stockpiling, which should be coordinated at European level and with close partners, would be preferable to export restrictions. Two-thirds of non-European exports by German companies are based solely on WTO rules. These rules are at risk due to the erosion of the WTO dispute settlement mechanism. What is therefore needed is an ambitious EU contribution for WTO modernisation, the strengthening of state transparency obligations on subsidies, and a broad coalition to save the dispute settlement mechanism. Effective EU trade defence measures must also be possible for countries outside the WTO interim dispute settlement coalition. The best support for global supply chains are international agreements that open markets (especially public procurement), keep them open and provide legal certainty for companies. These should be pushed forward in combination with export promotion measures. By advocating rule-based world trade, Europe is ultimately protecting itself.

2. Ensuring openness to investment

The Corona pandemic is placing an unprecedented burden on the German economy. At the same time, companies' capital requirements are skyrocketing - and certainly cannot be covered in the long term by subsidies or government loans alone. Rather, the supply of international capital as a source of financing and investment will have an even greater role for companies in the future. The German and European economy will be more dependent than ever on open markets and on foreign capital. Excessive regulation of the inflow of foreign capital, such as the amendments of Germany's Federal Foreign Trade LAW (AWG) and its associated regulation (AWV), limit growth and employment opportunities and have a negative impact on the attractiveness of Germany as a business and investment location overall. The protection of property and the free movement of capital are cornerstones of our market economy. Entrepreneurs must also be able to sell their property freely to be able to react to market changes. Even in times of crisis, political actors should work to ensure that state intervention in foreign capital investments in German companies remains the exception rather than the rule.

3. Ensuring cross-border exchanges

Cross-border movements of goods and people are severely affected by Corona countermeasures such as border closures and increased controls, as well as by the general decline in demand. Looking forward, states, especially within the EU, will have to cooperate more closely to ensure that the cross-border movement of goods and people for work purposes is maintained even during pandemics. The maintenance of transport infrastructure (routes, providers) especially in the aviation and just-in-time sectors, is of central importance for German companies and should be prioritised. Especially within the EU internal market, which is crucial for the German economy, and closely associated countries such as the UK, Switzerland and the EEA the free movement of persons, as a pillar of economic integration and a basic condition for the cross-border provision of services, should be rapidly restored.



4. Diversification instead of reshoring

Supply chains are grown structures and cannot be changed overnight. German foreign trade is already globally diversified in terms of trading partners and production portfolios. Changes in supply chains are primarily entrepreneurial decisions, for example for reasons of efficiency and cost, risk avoidance, the use of advances in digitalization, or the use of new technologies. As a matter of principle, the state should not regulate value chains, exercise caution when intervening, avoid regulatory burdens on supply chains and ensure open third markets. In addition, access for companies to critical raw materials should be ensured through the EU circular economy and raw material partnerships. Inefficient “turning back” to national production and localisation obligations, including Buy-European policies, should be rejected. Reshoring can reduce the effects of external shocks, but in many cases, it could lead to price increases that would impair the global competitiveness of the German economy. Therefore cross-border division of labour is and will remain an important component of economic resilience. The promotion of an international level playing field and greater diversification, for example through balanced free trade agreements that are easy to use for businesses, are all the more important.

At the same time, the primacy of politics applies in matters of national security. From the business point of view, however, it is important to remember that the definition of critical economic sectors should not be too broad. This would have the consequence that companies would possibly be disproportionately restricted without there being a justified need for this. In the case of essential value chains, a further restructuring could be necessary to protect public health, as has already taken place in some cases. It should be examined whether in the long term the creation of production capacities in Germany or in the EU, the installation of larger emergency stocks or technology-neutral funding of particularly flexible production capacities, that can be quickly converted in the event of a crisis, would be the most sensible from both an economic and public health point of view. German supply chain adjustments must therefore be conceived in a European perspective. The state should ensure that the solutions that have now been found to maintain supply chains within the EU are quickly available in the event of a future crisis, and that appropriate framework conditions for innovative competitiveness are adapted. For supply chains outside of Europe, solutions should also be found to increase crisis resilience, for example by strengthening world trade rules and bilateral agreements to support planning security for companies. The global network of German Chambers abroad (AHK) with 140 offices in 92 countries plays an important role in the wake of the Corona crisis, providing companies with assistance in the event of interrupted supply chains and in the search for alternatives and new business partners. This network should be further strengthened and consistently expanded.

Supply chain adjustments can represent an opportunity if the right incentives are provided to increase Germany's attractiveness as a location for investment. This includes education, industrial, innovation and competition policy. Industry accounts for almost a quarter of value added in Germany. The industrial base, especially in strategically relevant areas, including the health care industry, is important for Germany as a business location. With a view to increased industrial funding support, the tried and tested criteria of pre-competitiveness and degressivity, i.e. a focus on research and development and a reduction of funding over time, should continue to be decisive. Companies that rely extensively on localisation could also become more vulnerable to external shocks, as their alternatives are limited by fewer locations and suppliers in a smaller market.

Close economic networking between the EU and developing countries, especially in Africa, is in the interest of German companies. The current capital withdrawal and export restrictions imposed by dozens of countries in the food and health goods sector are putting particularly the least developed countries under pressure. The EU should get involved here, for example by examining exceptions to export controls and further trade facilitation. The Corona crisis should also be seen as an opportunity to resolve the blockades in the WTO between developed and developing countries and to involve the latter more closely in negotiations in order to strengthen multilateral rules-based trade and the WTO. A differentiation of developing country preferences for large economies like China and India is necessary for this.



5. Think small first; maintain competition

Supporting the economy to overcome the Corona crisis must be a priority, because internationalised SMEs and especially globally operating companies must not become the losers of the crisis. Start-ups, too, have increasingly become a decisive factor in Germany's innovative strength and should therefore receive appropriate support. As a result of nationalizations and insolvencies worldwide, market concentration can be expected to increase globally, which must be countered by an active competition policy for a global level playing field, including for private companies vis-à-vis state-owned enterprises. Efforts by the EU, USA, and Japan for global rules against market distortions by state-owned companies are thus becoming even more important. The SME-friendly implementation of free trade and investment agreements and effective EU trade protection instruments are also necessary. They make international business easier for everyone. This should also be the focus of the new EU Chief Trade Enforcement Officer.

6. Clearing out customs bureaucracy

In the Corona crisis, cross-border trade also fails because of outdated bureaucratic hurdles, such as analogous documentation obligations in the field of customs. Temporary simplifications that rely on digitalised customs processes such as video customs inspections and digital signatures should be rapidly promoted and firmly established in the long term. The digitisation of other processes such as eCarnet must be consistently pursued. Digitalization can lead to smoother and more transparent trade. Here, the EU should take on a global pioneering role for digital customs clearance, but other countries are already ahead (e.g. block chain lanes in Asia) and could thus set the future global standards, including for German companies. At the same time, customs controls against counterfeit and unsafe products should be strengthened as needed

7. Strengthening European resilience

Europe should strengthen its own competitiveness and quality as a business location instead of relying on autarchy. Incentives to make supply chains diverse, robust, and resilient, work better than constraints. German companies handle almost 60 percent of their goods exports and imports within the EU; in addition, intra-EU trade in services is becoming increasingly important. Maintaining and strengthening the EU's internal market is therefore very important for the German economy. Spreading European standards offers a great competitive advantage for the economy. The first German EU Council Presidency in over a decade offers a good opportunity to secure Europe's leading role worldwide in this area. In order to further diversify its trade relations, the EU should therefore step up its neighbourhood policy and its connectivity agenda with Asia. In addition, the strengthening of the multilateral rule-based system and further trade agreements are necessary to make trade in goods and services less vulnerable to crises and political tensions. Our businesses will only have an audible voice on the global stage with an EU that is resolute and united. The EU should promote its ability to counter extraterritorial measures. In addition, the EU's digital sovereignty must be strengthened, for example by promoting open standards and resilient digital infrastructures, including European alternatives, as a way to reduce vulnerability to technological decoupling constraints. The rapid expansion of the EU's digital ecosystem also requires a resilient design in order to be prepared for future shocks such as cyberattacks. The commitment to open markets does not exclude reciprocity and a robust EU response in individual cases.

¹ https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/EZ_Study_SingleMarket.pdf

² https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Kiel_Policy_Brief/Kiel_Policy_Brief_125.pdf

³ https://www.wto.org/english/res_e/statis_e/miwi_e/DE_e.pdf