



SMEs and International Business in Lower-Saxony in the context of the Covid-Pandemic

(compiled by Florian Lange, NBank Florian.Lange@nbank.de)

Based on the Findings by the Study
'Going International' by the German Chambers of Commerce April 2021)

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Preface

The Corona pandemic, low economic growth worldwide, disruptions in supply chains and the effects of Brexit: the basic conditions for companies from Lower-Saxony, that are active at an international level were challenging in 2020; nevertheless, the exports only declined about 10%.

The survey 'Going international' conducted by the Chambers of Commerce investigates the trends and the expectations for the future of German companies and the companies from Lower-Saxony.

For Lower-Saxony, 405 companies took part in the survey.

The survey is conducted on an annual basis, the results are published mid-year.

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Apart from travel restrictions due to the Corona pandemic: did you experience an increase of barriers in your target regions

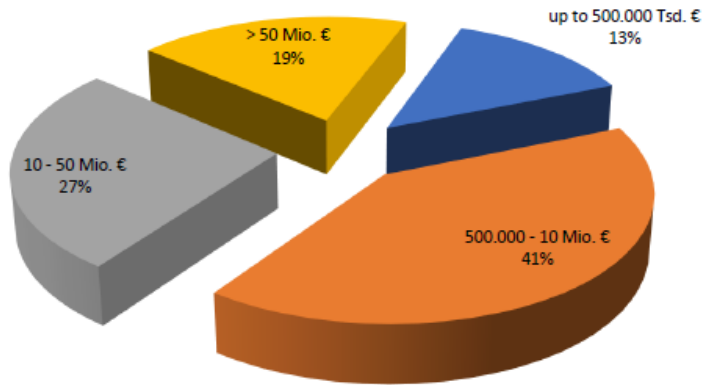
Which barriers

Which consequences of the Corona pandemic affect your company the most?

If it was ‚Supply chain problems/ shortages‘, which regions are affected the most?

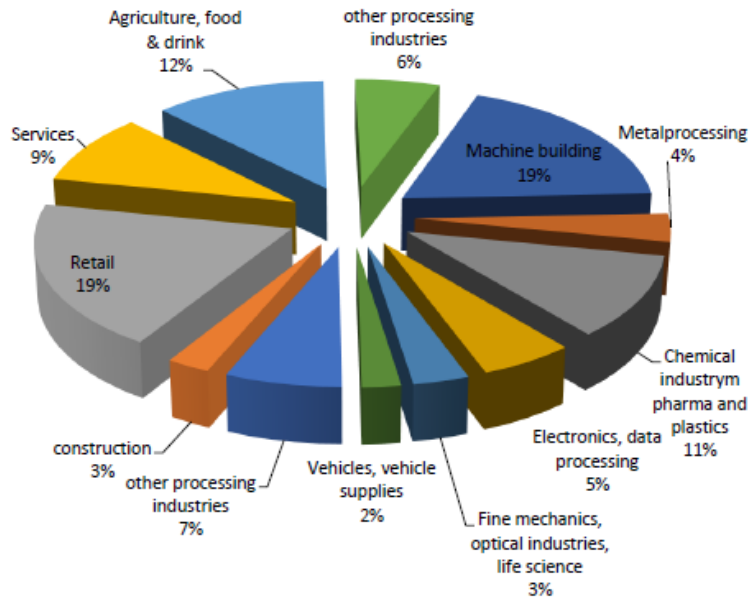
Central findings and ideas

Turnover of the companies answering the survey



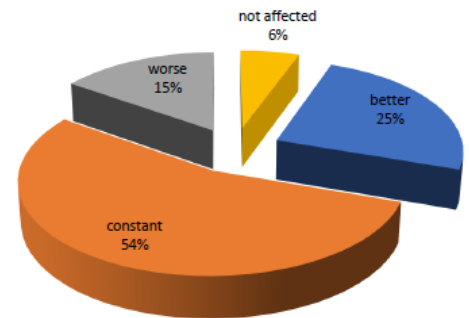
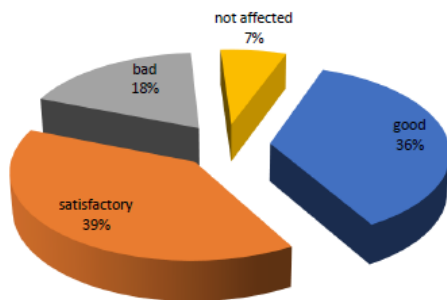
This means that 81% of the companies answering the survey are SMEs.

Branches of the companies answering the survey



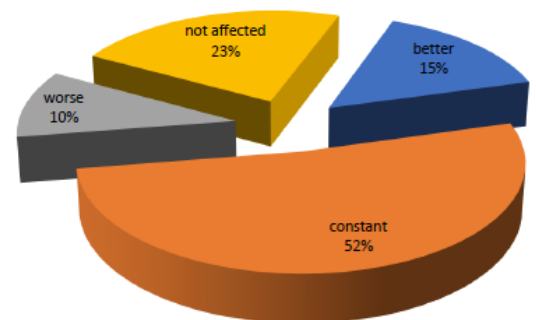
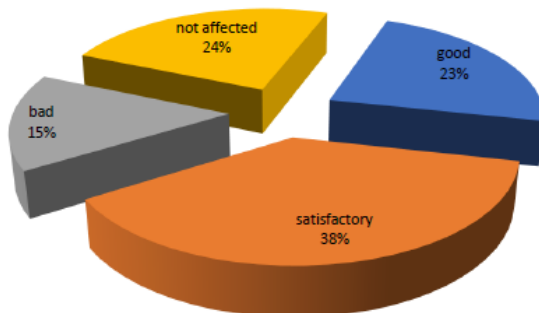
How do you assess the current business situation and perspective this year (2021) in your target regions? (multiple selections possible)

Eurozone



For the EU countries that are members of the Eurozone, the situation is seen as satisfactory or good by 75% of the companies which means that the effects of the pandemic, that started in 2020, were not as harsh as one might have expected. Even more: companies expect that the situation will remain constant and a quarter of the companies even expect an improvement. In the midst of the pandemic – with one year of restrictions already – only 15% of the companies expect that the situation might get worse for them.

Other EU countries, Switzerland, Norway

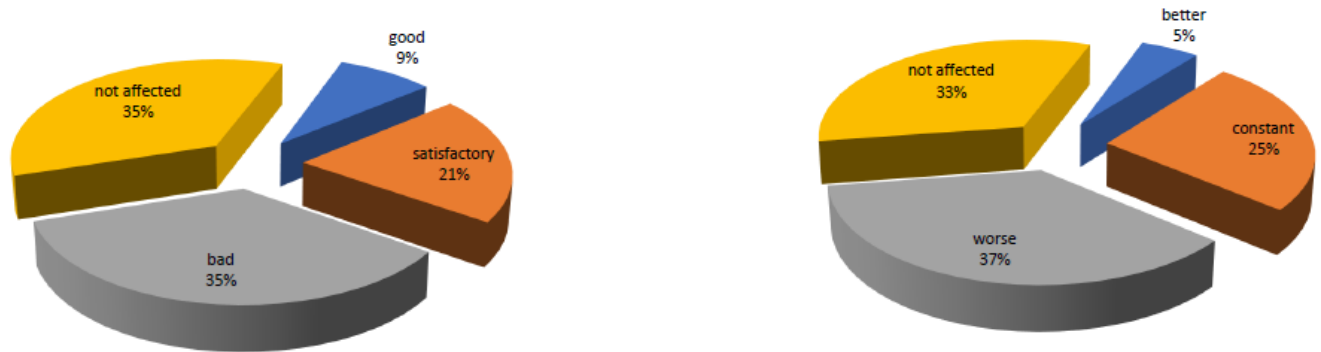


For the rest of the EU and the EFTA countries, the current situation is seen as satisfactory or good by 61% of the companies. 15% of companies expect an improvement whereas only 10% of companies expect a setback concerning their economic activities in these countries.

The Eurozone is the most important market for the companies active at an international level in Lower-Saxony. Thus, about a quarter of the companies declare that they are not affected with perspectives concerning this group of countries outside the Euro. Nevertheless, there are strong bonds to these countries. One example: more than 28% of exports from Poland go to Germany (2021 <https://de.statista.com/statistik/daten/studie/227357/umfrage/wichtigste-exportlaender-fuer-polen/>), Germany exports goods worth more than 78 billion Euro to that country (2021, <https://de.statista.com/statistik/daten/studie/259959/umfrage/deutsche-exporte-nach-polen/>).

How do you assess the current business situation and perspective this year (2021) in your target regions? (multiple selections possible)

Thereof the United Kingdom



The Brexit came into effect on the 1st of February 2020, so companies had gathered one year of experience with the UK leaving the EU at the time of the survey. One has to keep in mind, that there were a number of transitional arrangements so that the Brexit did not show the whole effects that might occur once these run out.

35% of the companies declare that they are not effected by alterations concerning the UK market. Keeping in mind the great differences concerning doing business with an EU-country to doing business with a non-EU country this suggests, that these companies do hardly have ties to the UK market.

The current situation at the time of the survey is seen as bad by 35% and satisfactory or good by 30% of the companies that took part in the survey. As said before, 35% of the companies declared that they are not affected which means that with a total of 35% of companies declaring that the current situation is bad, this is a share of more than 50% of companies that are affected by the developments concerning the UK.

The future seen rather sceptical by companies: still 30% of the companies state that they expect a satisfactory or good development but the share of companies expecting an improvement is 5% only.

37% of the companies that took part in the survey expect a worsening of the business relations with the UK. One reason for this could be the uncertainty, when which regulations will be implemented; one example would be the determination that there should be no hard border between the EU member state Republic of Ireland and Northern Ireland as part of the UK to not threaten the Good-Friday Agreement. At the same time, a great part of the political actors in Northern Ireland and in England is against a 'border' with checks and customs in the Irish Sea. As there has to be such a barrier between the EU and abroad, the question remains, where that should be. At the same time, there are political uncertainties; one example would be the results of the last vote in Northern Ireland with a Sinn Fein majority and difficulties to form a government with the DUP.

How do you assess the current business situation and perspective this year (2021) in your target regions? (multiple selections possible)

South-East Europe (non EU-countries)



The countries of this group are not important for 37%/ 36% of the answering companies.

The situation is seen as bad by 26% of the companies but only 16% expect it to get worse. 28% describe the situation as satisfactory and 41% expect it to remain constant. 9% of the companies describe the situation as good, 7% expect an improvement. Summarized, these figures suggest, that companies do not expect a very dynamic development in this region – neither in a positive nor a negative way. That might even be good news if one keeps in mind the tensions in the Balkan region that still exist after the end of Yugoslavia and the wars that followed, resulting in more than 200.000 casualties. Another example would be the conflicts between Greece and Macedonia concerning the border and the name of Northern Macedonia. This was finally settled, but such incidents illustrate the underlying conflicts in the region that date back a long time.

Another regional problem is the degree of corruption, Transparency International (2021: <https://www.transparency.de/cpi/cpi-2021/cpi-2021-tabellarische-rangliste/?L=0>) ranks countries from this region like Montenegro, Albania or Bosnia-Herzegovina rather at the bottom when one has a look at European countries.

How do you assess the current business situation and perspective this year (2021) in your target regions? (multiple selections possible)

Turkey



More than half of the companies answering the survey declare that they are not affected by the situation and developments in Turkey. A quarter of the companies – and more of half of the companies obviously doing business with Turkey – evaluate the situation as bad and 16% expect that the situation will worsen. There are different reasons for this uncertainty. The conflict with the Kurds is far from over; in fact with the Kurdish militia present in northern Syria, they see a chance for an own country finally. The overlying conflict is even bigger: Turkey as a NATO country if fighting the Kurdish militia that fought in Syria with support of the US; the fact that Turkey wanted to acquire US fighter jets while at the same time buying Russian air-defence systems demonstrates, that the country has not really found its place on the stage. This impression is reinforced by the erratic relations to Saudi-Arabia in the context of the killing of Jamal Khashoggi who was allegedly killed by Saudi intelligence in Istanbul. After three and a half years, the prosecution of the offenders was handed over to Saudi-Arabia by the Turkish side.

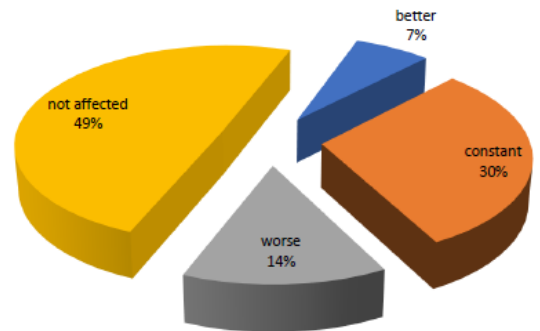
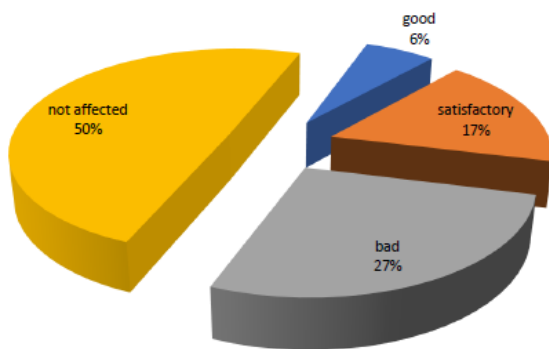
The democratic system is eroding ranking the country as a hybrid regime with a democracy index of 4,35 (https://pages.eiu.com/rs/753-RIQ-438/images/eiu-democracy-index-2021.pdf?mkt_tok=NzUzLVJJUS00MzgAAAGChqeD8l39CrR_hHm5HQv73Y8jZ3xfue2Jielcljz3tsz4GhWyRXJZbrkukJXFdIXKuucMEXo-n_2jS9Xaz6GfDZT1YaG_Wsa6TYIL6OA7_E7LA) – between Nepal and Pakistan. In 2023, elections are planned and in the past, the long-reigning Erdogan government did not foster democracy in the run-up to elections.

Political insecurity combined with the significant inflation in Turkey fosters a brain-drain that especially affects the younger, better educated people (<https://en.qantara.de/content/turkish-graduates-in-europe-turkeys-best-and-brightest-flee-in-brain-drain>). While in the short run, the high inflation lowers the cost of labor in Turkey thus theoretically helping the producing industries, in the long run, this will not lead to a highly-skilled labour force and a stable (economic) development.

And for imports – and thus potential exports for companies from Lower-Saxony: these get much more expensive and thus might dry out.

How do you assess the current business situation and perspective this year (2021) in your target regions? (multiple selections possible)

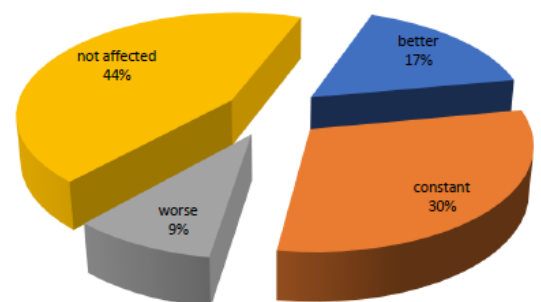
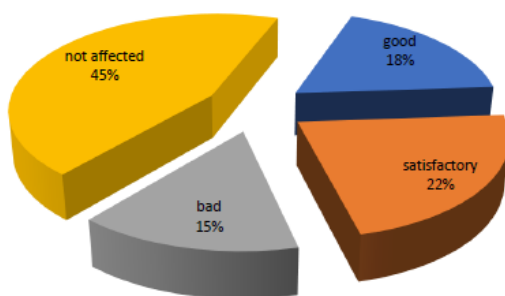
Russia



Roughly, half of the companies from Lower-Saxony answering this question state that they are not affected by the situation or developments in Russia. 27% of the companies describe the situation as bad – which is more than half of the companies doing business with Russia. And only 7% of the total companies expected an improvement concerning the situation.

One has to keep in mind that especially concerning Russia, the situation has totally changed; the survey was done before the Russian invasion of the Ukraine in February 2022. The figures are thus wastepaper.

China

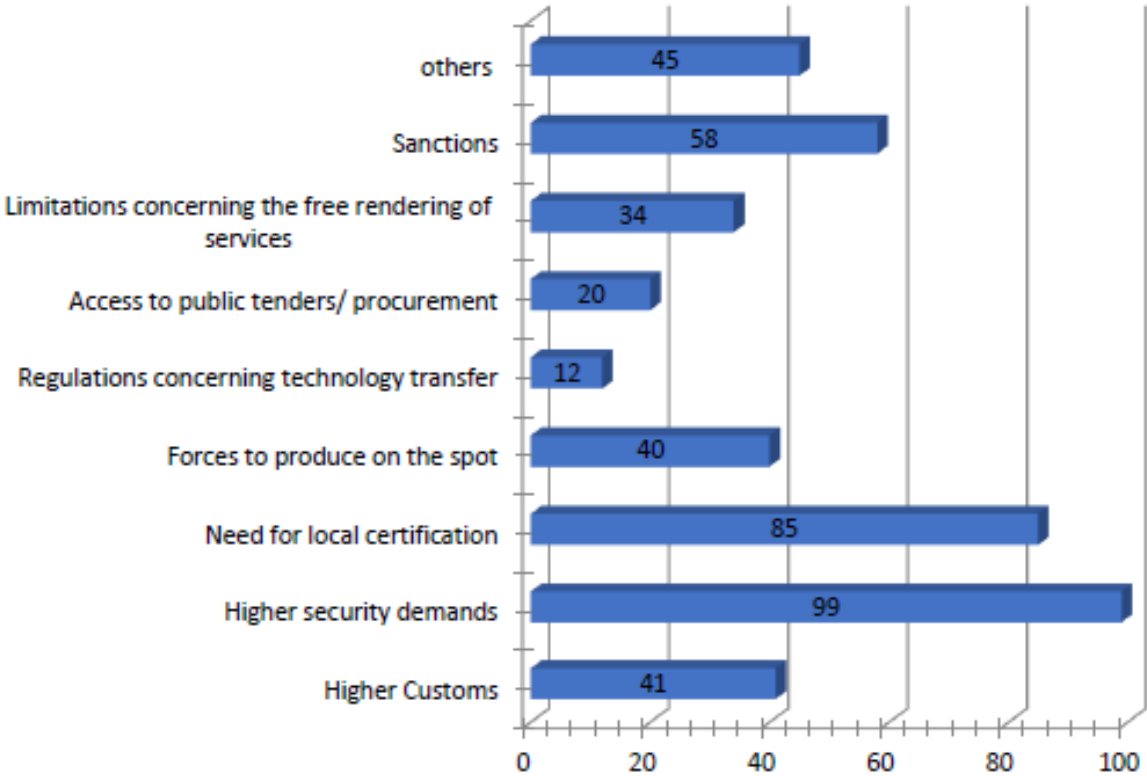


China is the second-largest economy globally. Nevertheless, 45%/ 44% of the companies from Lower-Saxony answering the survey state that they are not affected by the situation or the developments. The survey was made when the Corona pandemic was already in full swing, thus it is a little surprising that 30% of all companies and more than half of companies that actually do business with China expect the situation to be constant as there had been already the harsh lockdown and the problems e. g. concerning international shipping. One can only speculate that companies from Lower-Saxony that do business with China are used to challenging circumstances.

Apart from travel restrictions due to the Corona pandemic: did you experience an increase of barriers in your target regions (in 2020)? (401 replies)



If so, which barriers? (178 replies)



If so, which barriers? Freetext Answers:

-Logistics:

Limitation on shipping space, long transit times due to lock-downs: limitation on the production on the spot and long delivery times, limitation on transport capacities (air cargo), difficult to organize freight/ volatile prices (often only valid for one day)

-Politics:

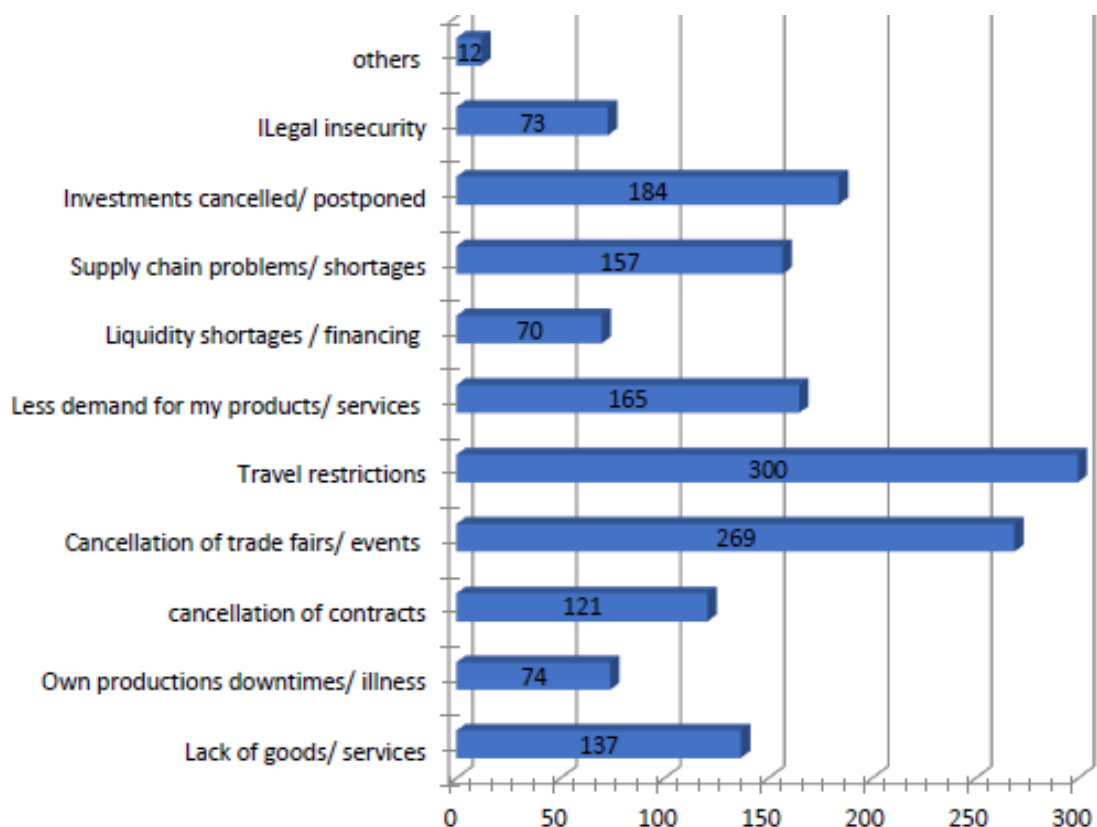
devaluation of the Turkish Lira, Brexit, Nord Stream 2 consequences...

-limitations to travel/ less contacts/ quarantine regulations

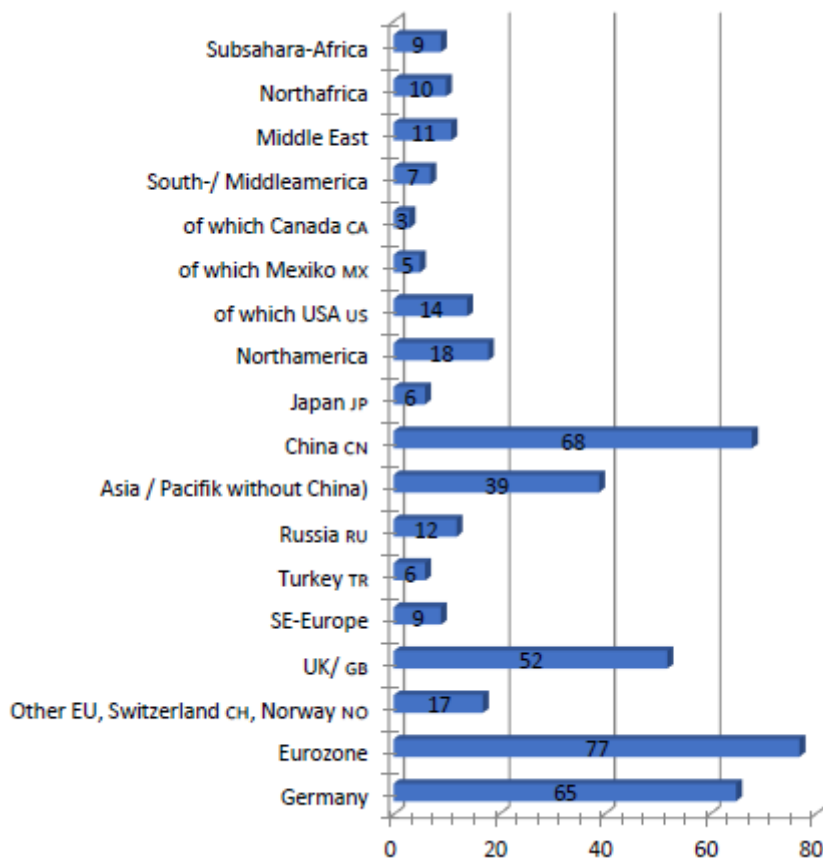
-Supply/ demand and others:

Closure of the hospitality sector, shortage of supplies, budget cuts for public tenders, puzzling local regulations, fear, home office, global economic problems

Which consequences of the Corona pandemic affect your company the most? (multiple answers possible) (396 companies answered)



If it was 'Supply chain problems/ shortages', which regions are affected the most?



It is not surprising that in total the Eurozone and Germany are the regions affected the most by 'Supply chain problems/ shortages' as they are by far the most important for the regional companies.

Two striking figures are those for the UK and for China, but there might be a quite logical explanation for this. With the massive loss of truck drivers and employees in the logistics sector and the other Brexit effects like more border-controls, this very likely has an effect on supply chains.

And the strict lockdown policy in China had effect on the situation there, but also at an international level especially concerning the global shipping of goods.

Central Findings/ Ideas:

A large number of companies from Lower-Saxony are active at an international level; the Eurozone is by far the most important region for them, followed by the rest of the EU.

Apart from COVID, almost 50% experience more obstacles to internationalisation. The reasons like local certifications, sanctions or higher security demands indicate that general insecurity, but also perhaps protective measures by certain states might play a role. The stress the EU put on a more resilient economy within the EU and clearly formulated it like that (e. g. in the EU programs) indicates, that this has been a longer process and that remedy is sought.

Effects of the COVID pandemic that were explicitly named include travel restrictions and the loss or personal meetings or the visit of trade fairs. This might be an indicator, that personal meeting play an important role when it comes to internationalisation. How the customization to hybrid formats or online meeting changes this remains to be seen.

In this context, one should keep in mind, that companies from Lower-Saxony have the advantage, that large trade fairs are often in Hannover/ Lower-Saxony. The cancellation of these easy opportunities to meet international partner might have been especially hurtful.

Supply chain problems and the demand effects (e. g. hospitality sector) are other direct effects of the COVID pandemic. Very prominent sectors of the economy of Lower-Saxony are affected by this either on the supply side (e. g. machine building and the car industry by the lack of microchips) or the demand side (e. g. the food and drink sector with the closing of the hospitality sector).

The 'Going International' survey is done every year and with the dramatic global changes happening, it will be interesting to have a look at the new figures and if the expectations that the companies from Lower-Saxony did have will come true.

Generally speaking, one might expect an overall higher insecurity. Several countries were mentioned before.

Turkey with political insecurity, high inflation and parliamentary and presidential elections mid-2023.

China, which has to find its future role, the question if Xi Jinping succeeds to gain a more or less unlimited presidency and of course the developments concerning the minorities and the policy towards Taiwan.

And Russia, where the duration and the consequences of the war against the Ukraine are yet unclear but where one consequence might lead to a global food crisis.

This would foster more insecurity at international level – as seen e. g. in the Arab spring – and would make 'going international' harder for SMEs from Lower-Saxony.