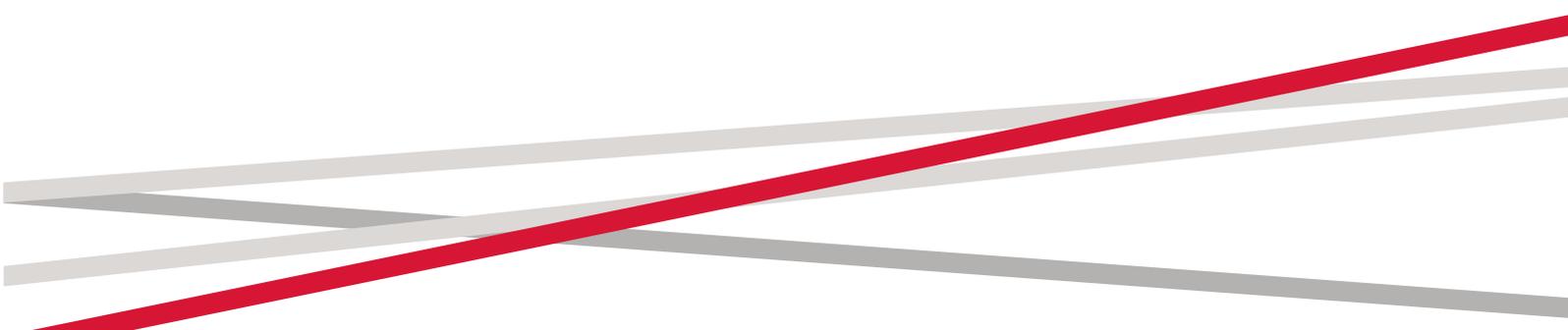


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Russian Exporters in the Face of the COVID-19 Pandemic Crisis

This brief summarizes results of recent work on the effects of COVID-19 pandemic on Russian exporting companies (Volchkova, 2021). We use the data from the CEFIR NES survey of exporters conducted in 2020. 72% of respondents reported that they were affected by the crisis. We scrutinize this impact. Contrary to popular wisdom, we observe little difference in delays of inputs by domestic and foreign suppliers. On the other hand, exporters experienced more disruptions in their sales in foreign destinations than in the domestic market. Possible reasons for this may be due to restrictions on international travel.



According to experts at the Gaidar Institute (Knobel, Firanchuk, 2021), in 2020, Russia's non-resource non-energy exports, decreased by 4.3%, while export prices fell by 4.1 % on average. The export of high-tech goods decreased by 14% due to a reduction in the physical volume of export. These changes in export intensity are mainly associated with the COVID-19 pandemic crisis. But are exporting firms more affected by the crisis than firms only active in the domestic market? What are the main channels through which the crisis influenced exporters? And how do exporters adjust to the COVID-19 related shocks?

The analysis in this brief is based on forthcoming publication in Journal of New Economic Association (Volchkova, 2021). We use data from a survey of Russian non-resource exporters conducted in 2020. We show that involvement in international trade did not affect the company's vulnerability to the crisis on the production side: supply delays were equally likely to occur from domestic and foreign suppliers. These findings are consistent with Bonadio et al. (2021) who consider a numerical multi-sectoral model for 64 countries around the world linked by supply chains. They show that, in the face of the employment shocks associated with quarantine measures and switching to a remote work format, the contribution of global chains to the decline of real GDP is about one quarter. Importantly, the authors show that the "re-nationalization" of supply chains does not make countries more resilient to shocks associated with quarantine measures on the labor market because these shocks are also bad for domestic industries.

At the same time, our results indicate that exporting companies are exposed to additional risks associated with the need to adjust to shocks in the sales markets. According to the data, exporters find it more difficult to adjust their sales in foreign markets than in the domestic one. This is consistent with the fact that, during the pandemic, all countries introduced a strict ban on international travel, reducing the possibility of

establishing new business ties through personal contacts. Similarly, Benzi et al. (2020) show a significant negative effect of international travel restrictions on the export of services.

Survey of Non-resource Exporters

The survey of exporters was carried out in June – November 2020 by CEFIR NES. The primary purpose of the survey was to identify and estimate barriers to the export of non-primary non-energy products. In the context of the developing economic crisis caused by the COVID-19 pandemic, we have added several questions to identify how the crisis influenced companies' operations and how the respondent firms adjusted to the new conditions.

The survey was conducted using a representative sample of Russian exporting firms. As a control group, we interviewed non-exporting firms with (observable) characteristics (region, industry, labor productivity) similar to those of the surveyed exporters. Altogether, 928 exporting companies and 344 non-exporting companies were interviewed during the field stage of the study.

Most exporting companies that took part in the survey produce food products, chemicals, machinery and equipment, electrical equipment, metal products, and timber. On average, a surveyed exporter had 827 full-time employees; 25% of the firms had fewer than 26 employees. More than half of the surveyed exporting firms (53%) are also importers: 81% import raw materials and other inputs, 66% import equipment, and 22% import technology. Most interviewed exporters sell their products both abroad and on the domestic market. On average, an enterprise supplies 67% of its output to the domestic market and 32% abroad.

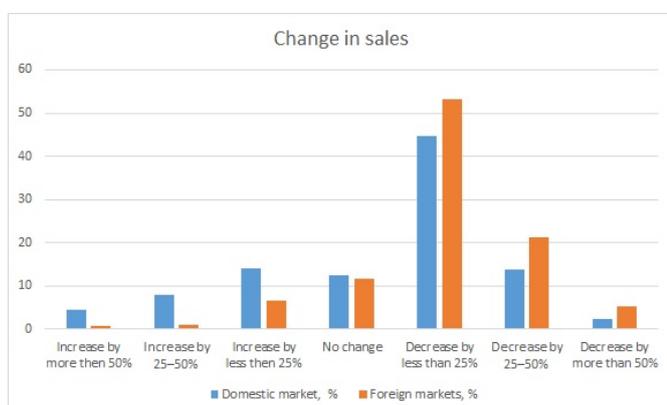


Impact of the COVID-19 Crisis on Firms' Performance

Among exporters that participated in the survey, 25% reported that their business was not affected by the COVID-19 crisis, while 72% of respondents stated that the crisis did have an impact. Like any crisis, the COVID-19 pandemic created problems for some enterprises and provided new beneficial opportunities for others. According to the data, exporting businesses were significantly more likely to be negatively affected by the crisis than their non-exporting counterparts, and the impact of the crisis was not correlated with the size of the enterprise. Figure 1 presents the exporters' answers to the question of how their sales in the domestic and foreign markets have changed with the COVID-19 pandemic.

The distribution of changes in sales volume in domestic and foreign markets significantly differ from each other. Estimates of the mean values of changes in sales volumes also differ significantly: the average drop in sales in the domestic market was 5%, while for the external market, it reached 17%. Hence, in times of the COVID-19 crisis, opportunities for growth were less prominent in foreign markets than in the domestic one, while significant market losses were more frequent.

Figure 1. Change in sales of export companies associated with the COVID-19 pandemic



Source: Survey of non-resource exporters, CEFIR NES, 2020.

Adjustment to the Crisis

The most frequently used crisis adjustment measure was employees transition to remote work – it was reported by 70% of the surveyed companies. 25% of exporters were forced to suspend their work during the crisis, while 72% were not. 14% of respondents stated they had to cut their payroll expenditures and other non-monetary benefits for employees (food, insurance, etc.), 12% of companies sent workers on unpaid leave. Only 6.5% of export firms had to lay off workers, while 91% handled the crisis without layoffs.

Comparing exporters' answers with those of non-exporters while controlling for enterprise size, we conclude that exporting firms were more rigid in their adjustment to the crisis. They were significantly more likely to suspend enterprise activities, dismiss of employees, send workers on unpaid leave, and reduce of wages. Also, these events were more likely to occur for smaller companies than for larger ones.

At the same time, flexible adjustment measures such as remote work were equally likely to be used by exporters and non-exporters, as well as by firms of different sizes. In general, Russian exporters of non-primary goods maintained their efficiency mainly by adjusting the labor relations to the new epidemiological conditions rather than by reducing employee-related expenses.

Dealing with Counterparties

Delays in the supply of components and raw materials were reported by 36% of the surveyed companies, and *such delays were equally likely for shipments from abroad and domestic shipments*. There is a perception that international supply chains in the context of the pandemic crisis are an additional risk factor. Our results indicate that domestic and international supply chains were equally challenged in 2020. Nevertheless, non-exporting companies faced the problem of delayed deliveries significantly less often than exporters did, and



about 60% of companies experienced no problems at all on the input supply side.

27% of surveyed exporters stated that they delayed payments to counterparties. Non-exporting companies reported these reactions much less frequently regardless of firm size.

On the sales side, half of the surveyed exporters experienced delays in payments from their customers during the pandemic crisis. Non-exporting enterprises encountered the problems with the same frequency, and companies of all sizes were affected by this obstacle equally.

The cases of planned purchases cancellation on behalf of buyers were reported by 34% of exporting companies. *Exporters experienced these problems significantly more often than non-exporters, and smaller companies experienced them much more often than larger ones.*

Crossing international borders presented a certain problem for Russian exporters when it concerns product delivery. Just over half of the respondents indicated that they had to delay deliveries due to difficulties with border crossing. However, about the same share of companies (48%) reported that they delayed products delivery due to the introduction of lockdowns. Thus, during the COVID-19 pandemic, exporters' operations were complicated to the same extent by problems related to border crossings as by those associated with lockdown regimes.

Conclusion

It is widely believed that international exposure of companies in the context of the COVID-19 pandemic crisis creates additional risks. Our study shows that, regarding existing inputs supply, international relations pose problems for Russian companies just as often as relations with domestic partners. As far as sales are concerned, adjustment to the crisis was better on the domestic market than on foreign markets. A possible explanation of this phenomenon is that, in addition to the shocks

associated with quarantine measures in the labor market, access to foreign markets was hampered by restrictions on international travel, which is essential for readjusting contractual relations to explore new opportunities brought by crises (Cristea, 2011). Without personal interaction, new contracts were more difficult to launch. Thus firms' opportunities to adjust foreign sales were more restricted than the ones in the domestic market.

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