



Box C:

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Why did Irish Exports Grow by 6.2 per cent in 2020 when Global Trade Contracted?

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In spite of a large fall in world trade as a result of the COVID-19 pandemic, Irish exports – already over 120 per cent of GDP in 2019, grew by 6.2 per cent in 2020. World GDP is estimated to have declined by 3.5 per cent last year,¹ with the euro area and UK's economies contracting at an even sharper pace (Figure 1). Combined with a sharp decline in imports (-11.3 per cent) this resulted in the highest annual trade surplus on record. This box highlights that this strong export performance was concentrated in a small number of sectors, and that most Irish exporting firms experienced a decline more in line with what was seen in the world economy and in world demand (Figure 2).

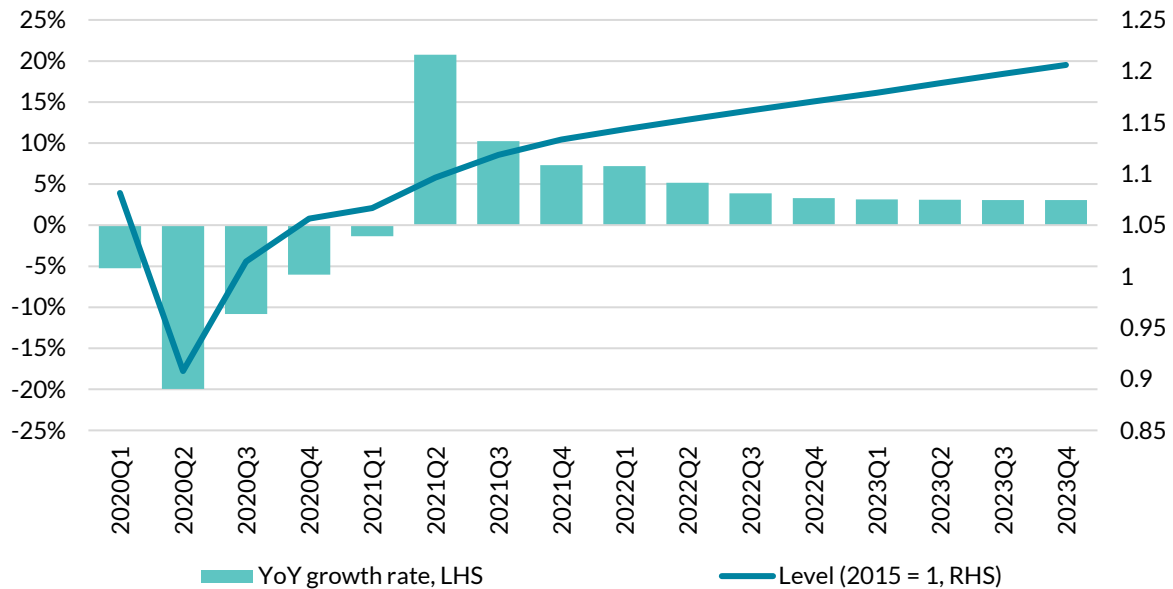
Figure 1: Forecast Growth of Ireland's Main Trade Partners



¹ March 2021 [OECD Economic Outlook](#)



Figure 2: World Demand for Irish Output (Actual and Projection)



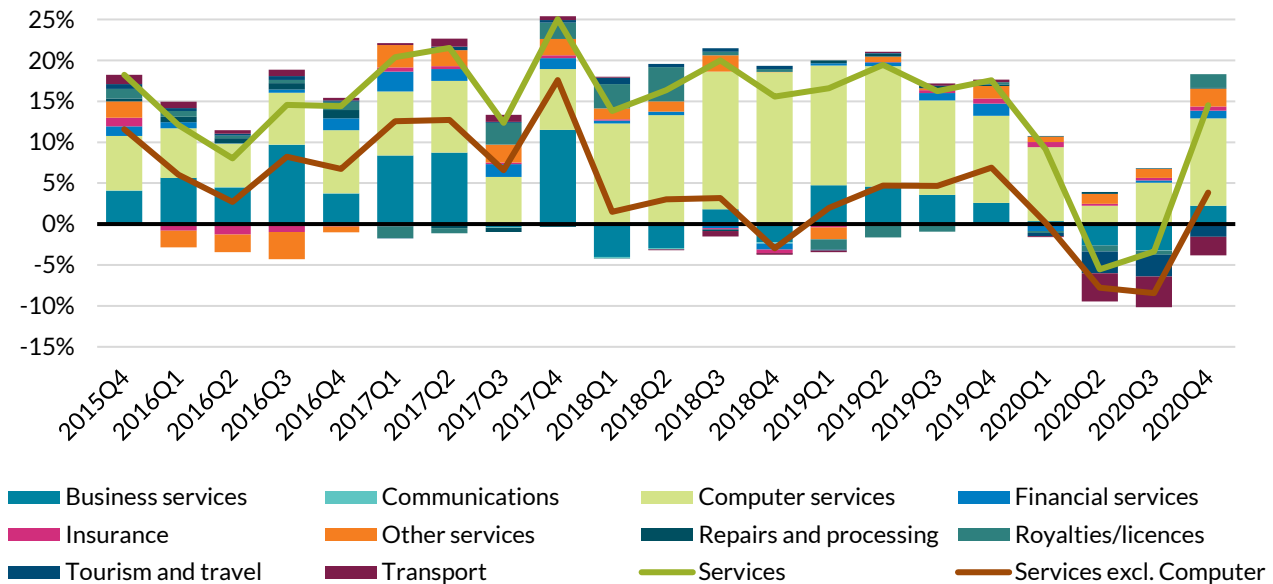
Source: Eurosystem

Looking at exports by sector, what stands out is the high level of concentration of export growth in just a few, key sectors. Indeed, the sectoral concentration of exports in Ireland is the second highest in the euro area and well above other countries of similar size. By far the largest export sectors for Ireland are *Chemicals and Related Products* for goods trade (representing 61 per cent of the total value of goods exports as of 2019 and made up primarily of pharmaceutical products and organic chemicals), and computer services (around 53 per cent of services exports in 2019). As illustrated in Figures 3 and 4, not only do these sectors account for the largest share of exports, they have also been growing at a much faster pace than the remaining sectors in recent years, and have thus been the main driver of growth in aggregate export numbers.

To illustrate the extent to which these two sectors supported export growth during 2020, we hold the volume of exports of chemicals and related products and computer services fixed at 2019 levels (assuming a neutral contribution to growth). The result is shown in the red line in figures 3 and 4 for goods and services trade, respectively. The picture for the performance of the remaining export industries was far less positive during 2020.



Figure 3: Contributions to Growth Rate in Services Exports, by Component



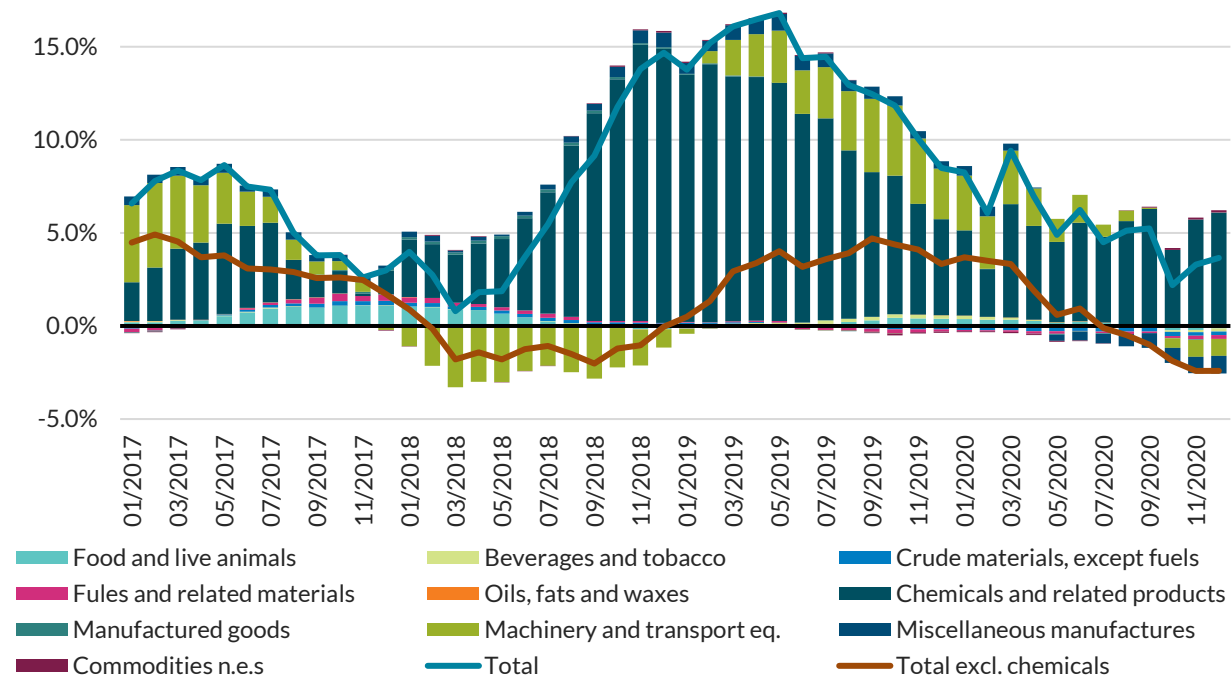
Source: CSO

While exports of computer services grew by almost 13 per cent in 2020, exports of services excluding these actually declined by 6.2 per cent, brought down by a collapse in transport and tourism services, which both fell by around 70 per cent in the year. These two sectors were particularly adversely affected by the pandemic, as international travel declined substantially in 2020 due to the pandemic.

On the goods side, excluding pharmaceutical products, exports declined substantially in 2020. The largest declines in the value of Irish merchandise exports in 2020 were in machinery and equipment (specifically other transport equipment incl. aircraft, industrial machinery and office machines – while there was strong growth in electrical machinery), and manufactured goods such as professional and scientific apparatus, and other miscellaneous manufactured articles. Exports in other smaller categories of goods also fell in most cases at a rate in line with the decline in trading partners' economic activity, while exports of food were resilient.



Figure 4: Contributions to Growth Rate in Merchandise Exports, by Component



Source: CSO

Most of the non-pharma exports of goods are likely to not be affected by the COVID-19 shock in the long term, as demand from trading partners recovers in the coming years. The goods items which saw the largest declines in exports, i.e. machinery and equipment and professional equipment, are largely investment goods, so that exports of these products are expected to recover together with firms' investment, which will likely return to growth once COVID-19 is under control.

On the other hand, a large share of Irish-owned export-oriented businesses in other sectors mainly sell to the UK, with a large fraction of these actually selling exclusively to the UK.² Indeed, only 22 per cent of Irish exporters and 14 per cent of importers in 2017 had no trade with the UK. With the end of the Brexit transition period in January, non-tariff trade barriers with the UK might make it more difficult and less profitable for some Irish businesses to sell to the UK competitively. These businesses might run into financial difficulties or lose market share as a result. Of particular concern in terms of their disproportional reliance on trade with the UK are exports of agricultural products, food and beverages, and several manufacturing products.

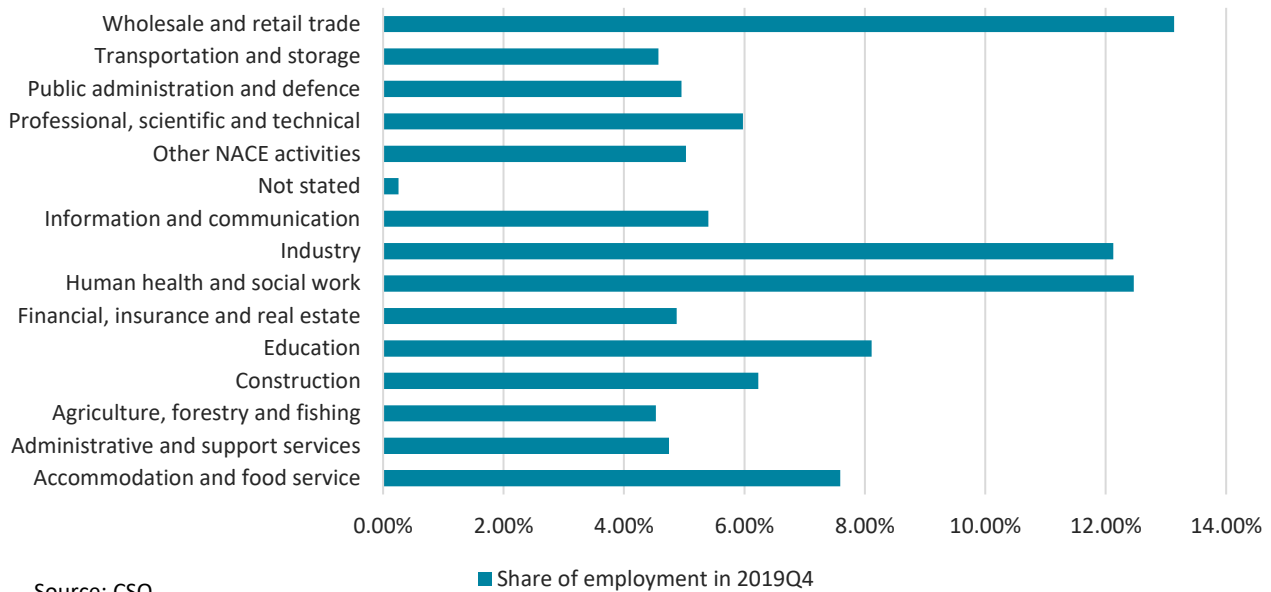
While the match with export sectors is imprecise, examining employment by NACE sector can give an idea of the importance of a category of exports for the domestic labour force, with the caveat that, for

² CSO: [Irish Traders and the UK, 2017](#)



each sector, the share of employment that is supported by exports is different. Figure 5 shows the share of employment for each NACE activity at Q4 2019.

Figure 5: Share of Employment, by NACE Sector



Source: CSO

While it is difficult to quantify how many jobs in each sector are supported by external rather than domestic demand, some sectors are more exposed than others to international trade. Retail, public administration, health, education, construction and administration are primarily domestic. Most of industry, representing about 12 per cent of the labour force, relies on exports, and is supported by manufacturing exports, primarily of pharmaceuticals and machinery. The information and communication sector (accounting for more than 5 per cent of workers) is largely linked to multinationals and the export of computer services. A large part of employment in financial services is also linked to exports and the IFSC. All of these jobs look set to remain largely unaffected by the pandemic.

On the other hand, many jobs in accommodation (which was the sector which was hardest-hit by the pandemic) are dependent on the tourism industry, which, as noted above, may face continued difficulties in the years ahead. Finally, while agricultural exports have not suffered during the pandemic, Brexit may be harmful to this sector, which employs 4.5 per cent of workers (see Box D).