

Wide Angle Shot: Global trade amid crises and rising protectionism

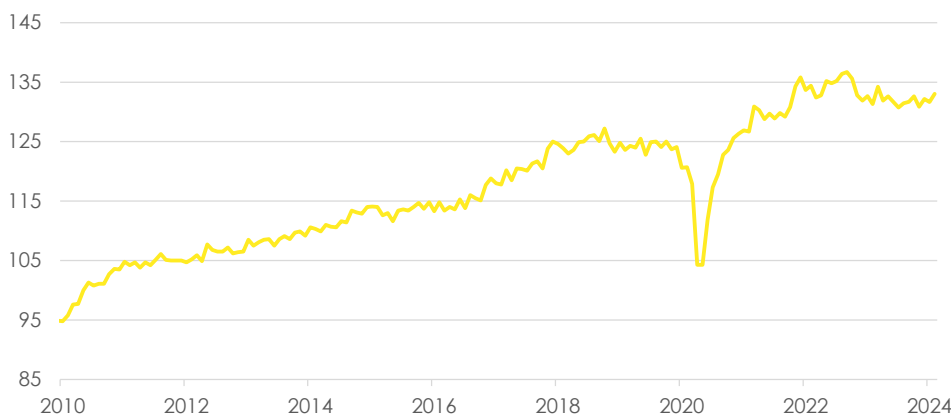
The global trade landscape has been significantly impacted by the pandemic, war, and growing protectionism. While these factors have led to inefficiencies, de-risking of global value chains might also present an opportunity for the CE/SEE region.



Key messages

- In recent years, the global trade landscape has been affected by several crises, with escalating protectionism further limiting trade since the pandemic.
- Geopolitical tensions have led to trade rerouting and longer supply chains.
- Past experiences have taught us the value of de-risking, while complete de-coupling of economic regions would be expensive and inefficient.
- De-risking value chains could be an opportunity for CE/SEE countries, although they face tough competition from Asian countries such as Vietnam and India.
- There are increasing FDI flows to CE/SEE with Austria being an important player in the region.

World Trade Monitor: Global trade struggles to gain momentum amid tense geopolitical environment



Merchandise world trade, Index: 2010=100

Source: CPB, RBI/Raiffeisen Research

Is the glass half full or half empty?

The **pandemic** and subsequent **supply bottlenecks** caused a shock, with global trade declining by about 14% in the first half of 2020. Nevertheless, the economy rebounded relatively quickly after lifting the COVID-19 measures. Looking at today's situation pessimistically, one might argue that the war, energy crisis, and increasing protectionism

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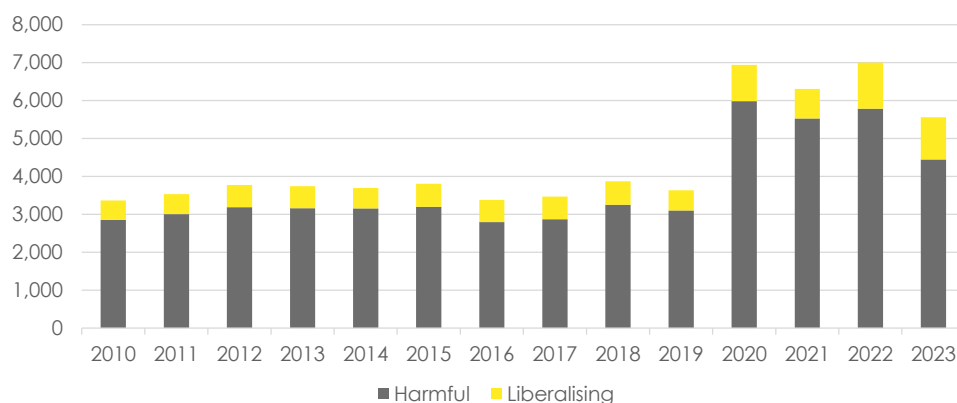
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constrain trade. However, taking an optimistic view, despite the tense global environment, trade has shown remarkable resilience.

Since the pandemic **trade restrictions** have risen substantially, while liberalising measures have remained low. The preferred tool are subsidies which account for about 2/3 of the implemented restraints between 2020 and 2023. These interventions are mainly seen in the field of agriculture and the green transformation. However, another important source of restrictions is the trade tensions between the US and China. These resulted in a surge of tariffs or quotas, increasing prices and thus contributing to inflation. Another outcome of such trade restrictions are longer value chains as for example US and Chinese firms both increased production in Vietnam to find a way to circumvent restrictions, with ASEAN countries finding themselves in between the US-China rivalry.

Number of new interventions: Since the pandemic protectionism increased



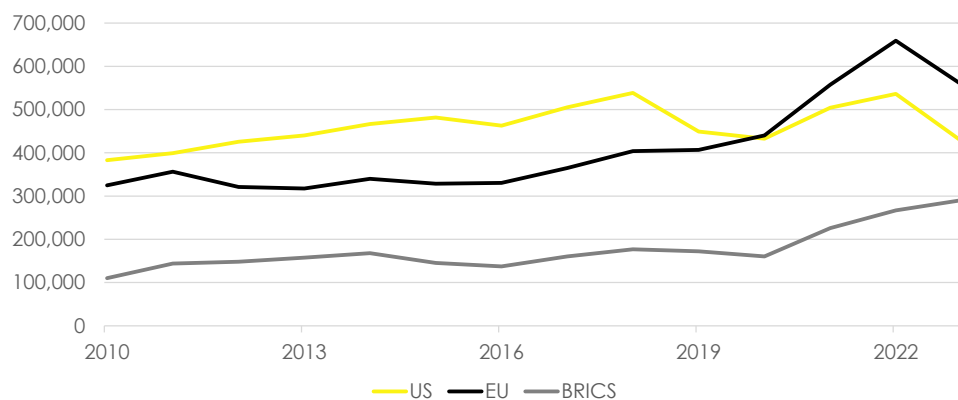
Source: Global Trade Alert, RBI/Raiffeisen Research

Sino-American trade war changed trade pattern for the two countries

Both, the US and China, **shifted their trade patterns** due to ongoing tensions. The US strengthened its ties with Mexico and Canada, while China turned its focus toward Europe, Central Asia, and BRICS. China's exports to BRICS countries have consistently risen, and the EU has surpassed the US as the top export destination for China. Despite this, China remained the most significant import partner for the US, accounting for 16.5% of imports in 2022. Nevertheless, in terms of total trade in goods, Canada and Mexico hold the top two positions, leaving China in third place.

Moreover, according to the WTO, China increased its **share in trade of potential bottleneck products** from 19.1% in 2000 to 35.3% in 2021. Simultaneously, the US decreased its share from 18.4% to 6.4%. Moreover, the general export share of bottleneck products in international trade increased to about 20 %, posing additional risks to value chains or food security. The latter became even more apparent during the beginning of the war in Ukraine when one of the largest grain exporters could not export its products. In addition, the ongoing fragmentation raises the question of how long Europe can play both sides and if it eventually has to distance itself from China. Due to deeper trade relations and China's significance as a production base, a de-coupling from China would be more harmful to Europe compared to the US.

China's exports increasingly heading to other destinations than the US



China's exports in million USD
Source: LSEG, IMF, RBI/Raiffeisen Research

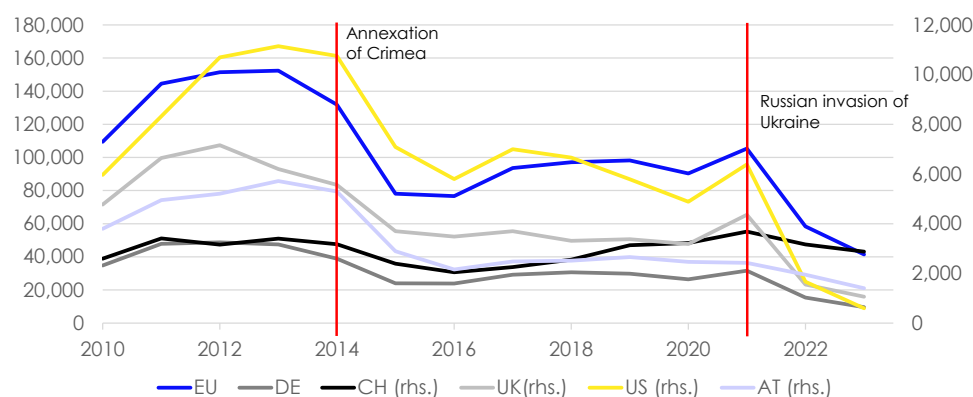
Trade with Russia decreased significantly

Exports from the EU to Russia decreased by about 60% from 2021 to 2023, and imports even by 70%. Although trade was significantly reduced, it never ceased completely and stabilised at a low level. Again, compared to the US (or the UK), the EU's dependency on Russian energy imports and trade relations in general were stronger, making it more complex to cut the ties.

Moreover, an increase in trade with **Central Asian countries** was registered. Exports only from the EU to Kazakhstan, Kyrgyzstan, Uzbekistan, Armenia, Georgia, and Azerbaijan, on average, doubled from ca. USD 14 bn to 29 bn, raising doubt whether it was domestic demand for EU products alone which increased, e.g., in Kyrgyzstan by eightfold. Additionally, some of these countries, such as Armenia or Georgia, also profited from relocating IT services from Russia, providing them with an economic boost recently.

At the same time, the EU became an even more important trading partner for **Ukraine** since many ports were blocked or destroyed, and trade via land routes increased. The EU's trade share increased from about 40% to 55% from 2021 to 2022, and exports even increased from below 40% to about 60%. However, this increase in imports to the EU from Ukraine did not come without dispute, leading to several import bans or even the current border blockade in Poland.

Exports to Russia declined since first sanctions after the annexation



in million USD
Source: LSEG, IMF, RBI/Raiffeisen Research

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CE/SEE: Strong dependence on Germany

Irrespective of EU membership, the **CE/SEE region** is deeply entrenched in the European value chains, with the EU serving as its primary trading partner. In 2022, the EU accounted for trade shares of approximately 60% and higher (excluding Kosovo: 40%). This robust trade relationship underscores the region's economic alignment with Europe, further underscored by factors such as FDIs and remittances.

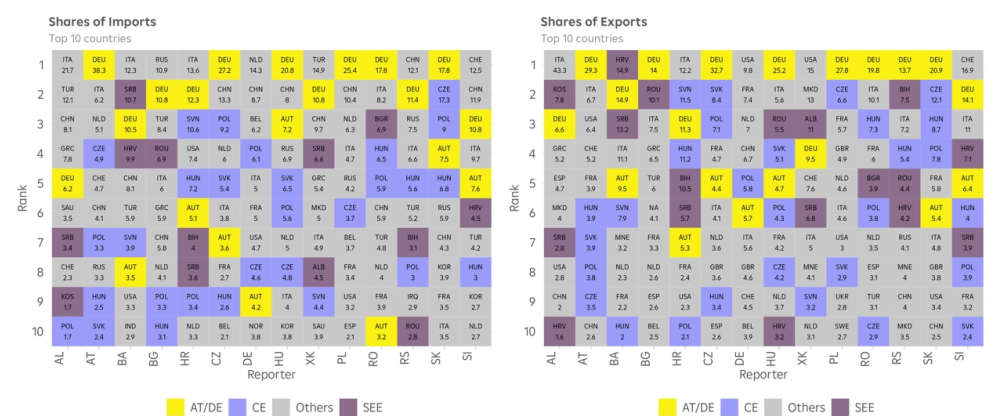
On a country level, for most countries in the region, Germany ranks top one or two regarding trading partners, which is even more pronounced for exports. The latter demonstrates the CE/SEE region's role in production, specializing in intermediate inputs, while Germany exports the finished products, making use of the region's lower labour costs. From a German perspective, only Poland and Czechia make it to the top ten import partners, with the former overtaking Belgium in 2023 and reaching third place. The dependence on the German industry is currently evident as the sluggish German economic activity dampens economic performance in CE/SEE countries. It is worth mentioning that Austria also plays a central role in the region, although to a lesser extent than Germany.

Over the past decade, China has **emerged as a key player in the CE/SEE region's** trade relations, driven by initiatives such as the Belt and Road Initiative and the China-CEEC summits. However, this relationship is marked by a significant imbalance, with the region experiencing high import shares from China, while its exports to China are less significant. This trade imbalance has led to substantial trade deficits with China.

In the case of SEE, **regional trade** has risen to 12.4% for exports and 9.7% for imports in 2022, making inter-regional trade the second largest share after Germany. A comparable trend is noticeable in the CE region, where 16.7% of exports and 15.3% of imports occur within the region.

[Read more on CE trade...](#)

Regional trade plays an important role in CE/SEE



Reference year: 2022

Source: LSEG, IMF, RBI/Raiffeisen Research

China caution sharply reduces FDI inflows

Foreign direct investment flows to China decreased in recent years amid geopolitical uncertainty. Not least, supply chain disruptions made the need for de-risking evident. With the Sino-American trade war posing another risk, foreign firms are seeking alternatives to China, with countries like Mexico, India or Vietnam ready to fill the gap. But that's not the whole story; Chinese investments in, e.g., Vietnam also increased substantially. On the one hand, due to lower labour costs, and on the other hand, to keep

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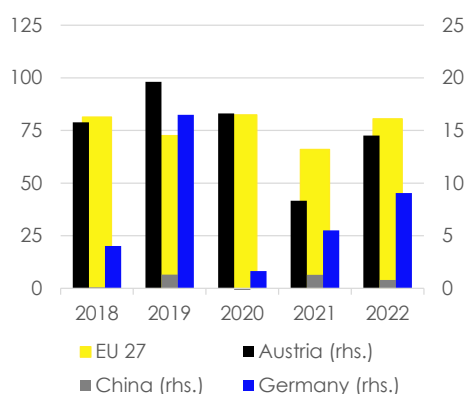
access to US markets. Chinese products assembled in Vietnam is one example how supply chains can become longer.

German companies, in contrast, have increased their investment in China to a record-high of EUR 11.9 bn in 2023, thereby raising their share in total FDI flows above 10%. This decision, made despite ongoing discussions on diversification and de-risking, underscores the significant role that (labour) costs play in driving business decisions. From this perspective, Mexico, India, or Vietnam are the more obvious choices than the CE/SEE region.

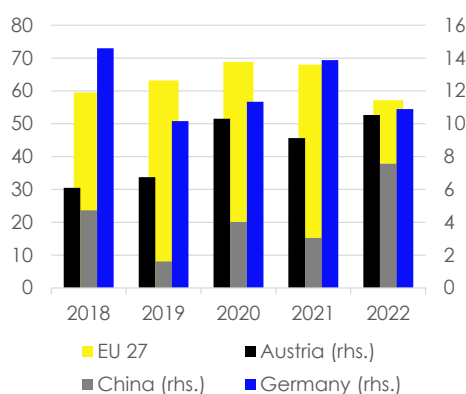
If **nearshoring** gains momentum, the CE/SEE region will be the natural destination for Europe in terms of location and labour costs. However, it will take some time before the data shows this development. What can be observed already is that Asian firms are positioning themselves with production sites in the region, with Chinese investments focussing on Serbia and Hungary. While China only amounts to 0.4% of the FDI stock in Hungary, it reaches 11.3% in Serbia in 2023, overtaking Austria (10.5%).

Nevertheless, **Austria** remains a central investor in the CE/SEE region. In 2023, e.g., 59% of FDI inflows to Hungary and thus the majority came from Austria, doubling the 2022 amount according to MNB data. On average, Austria's share in investment inflows to the CE/SEE region sometimes even exceeds Germany's or reaches similar levels, reflecting Austria's business activity in the region. Although, Austrian firms invest in many of the CE/SEE countries, they are less active in the CE's FDI powerhouse in absolute terms, namely, Poland.

CE: Average share in FDI flows



SEE: Average share in FDI flows



Source: wiiw, RBI/Raiffeisen Research

Source: wiiw, RBI/Raiffeisen Research

CE: Poland and Hungary lead Europe's emerging battery production

The CE/SEE region is a central target for FDIs in **car manufacturing**, making it an important economic driver for the region. The automobile sector's electrification can be both a risk and a chance for the CE/SEE region. In this regard, Poland and Hungary took the lead, attracting enough FDIs in EV production to become Europe's leader in emerging battery production.

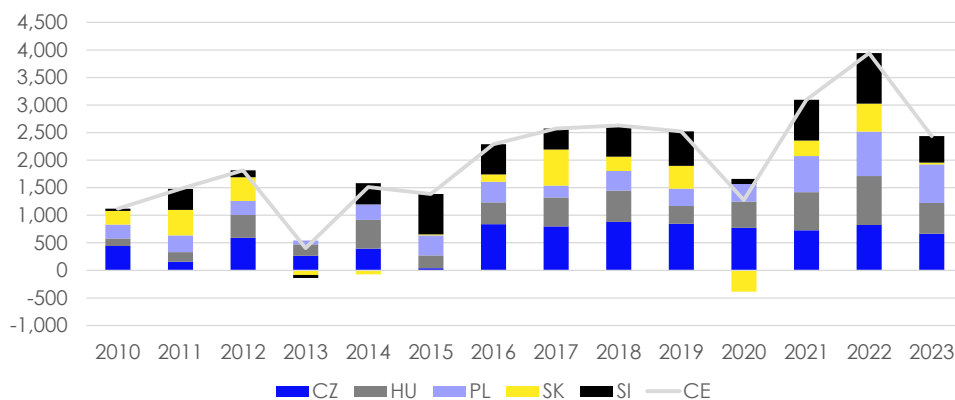
Recently, Hungary cemented its **relationship with China** and increased its e-mobility manufacturing by announcing large new investments and a "strategic partnership" with the intention of making Hungary a European manufacturing hub for e-cars. At the same time, Austrian and German firms in the construction, energy and retail sector stepped up actions against Hungary's unfair practices (such as special taxes, limits to prices and delaying business licenses) for foreign firms, calling the European Commission and ECJ.

In the **CE** region, FDI flows experienced a notable surge following the COVID-19-induced decline, surpassing previous levels. In 2023, FDI inflows decreased again to pre-pandemic

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levels. In terms of absolute figures, Poland emerges as the frontrunner in attracting FDI inflows, closely followed by Hungary and Czechia. However, when considering per-capita terms, the distribution of FDIs is more balanced, with the majority still gravitating towards the CE-3 countries.

FDI inflows per capita: CE-3 in the lead



in million EUR

Source: wiiv, RBI/Raiffeisen Research

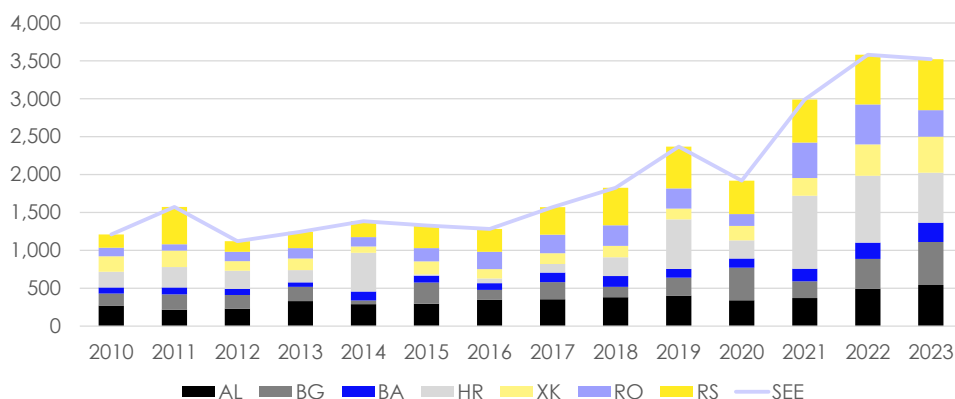
SEE: EU-Enlargement could increase foreign investment

SEE, too, experienced a **surge in FDI** inflows after the pandemic, which slightly decreased in 2023 but remained at a high level. While EU membership and full integration in the market seem to be positive factors, Serbia is the winner in attracting FDIs in the Western Balkans.

China's increasing activity in Serbia is noteworthy. However, the EU's steadfast position as the main investor in Serbia, with a significant share of 47.8% compared to China's 30.4%, underscores the strategic importance of the EU's investment in the region. In terms of FDI stocks, the EU's share is a substantial 61%, while China's is about 11%. Similar to Hungary, a deeper relationship and increasing investments from China are on the horizon.

In contrast, EU enlargement and **NGEU funds** can further increase the business activity in SEE from the European side and provide further impulses for growth and development.

FDI inflows per capita: Surpassing former levels after COVID shock



in million EUR

Source: wiiv, RBI/Raiffeisen Research

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
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
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
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
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
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Creation time of this publication: 15/05/2024 10:59 A.M. (CEST) ;

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