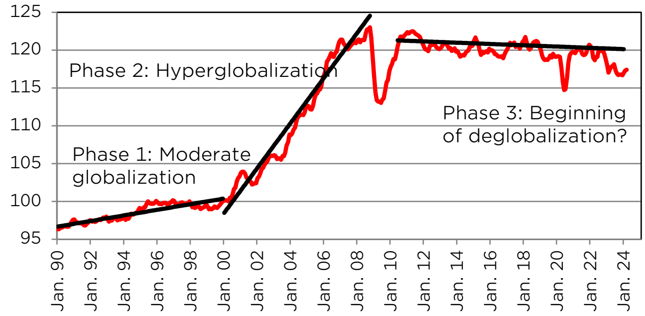
14 June 2024

World trade: the fronts are hardening

After the global economy experienced a strong surge in globalization in the early 2000s - partly due to China's accession to the World Trade Organization (WTO) - the openness of the global economy has stagnated in recent years (see figure). In addition, the framework conditions for a further globalization push have deteriorated. On the one hand, the coronavirus pandemic has highlighted the vulnerability of global supply chains, while on the other, Russia's attack on Ukraine has brought geopolitical risks back into the focus of political decision-makers. This has not only exacerbated the bloc formation between the USA and Europe on the one hand and Russia and China on the other, but has also increased the risk of a trade war.

The openness of the world economy
(global exports vs. global production)



source: Refinitiv Datastream

Punitive tariffs on Chinese electric cars

A very good and current example of the tightening trade policy tone is the Biden administration's increase in tariffs on selected Chinese products. Electric cars were particularly affected by the quadrupling of the tariff rate to 100 percent. What at first sounds like a drastic measure has hardly any effect on the real economy, as only 12,000 Chinese electric cars are imported into the USA every year.[1] The increase in tariffs is therefore more of a symbolic measure and, in view of the US presidential election in November, is more likely to be motivated by domestic politics.

What is the situation in the EU? While the US market for electric cars is hardly relevant from a Chinese perspective, the European market accounts for around a third of all Chinese exports of electric cars (500,000 units). This means that although the EU generally has better negotiating power, it is at the same time much more dependent on China. Despite concerns from domestic car manufacturers, the EU is threatening to increase tariffs on electric cars from China to up to 38 percent. What are the reasons for this move? As European car manufacturers are in unfair price competition with Chinese car manufacturers, they need to be protected. Chinese companies have been receiving massive government funding for some time now. Manufacturers of electric cars in particular benefit from the subsidies. According to a study by IfW Kiel, the subsidies for car manufacturer BYD alone amounted to over two billion euros in 2022.[2] What are the arguments against higher tariffs? On the one hand, the EU benefits from low-cost Chinese electric vehicles, which are essential for the green transformation, and at the same time many of the vehicles imported into the EU come from European manufacturers in China. On the other hand, in

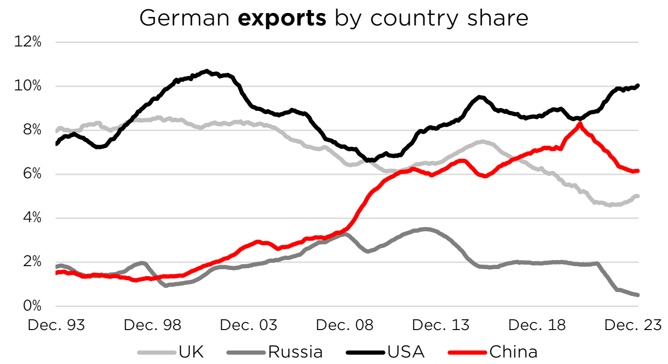
[1] source: https://www.ifw-kiel.de/de/publikationen/aktuelles/verhaengte-us-zoelle-haben-fuer-sich-genommen-kaum-auswirkungen-auf-eu-china-handel/, as of 14.06.2024.

[2] source: https://www.ifw-kiel.de/de/publikationen/aktuelles/chinas-massive-subventionen-fuer-gruene-technologien/, as of 14.06.2024.

the worst-case scenario, there is a threat of a trade war, as Beijing has already announced that it will respond with countermeasures.

Trade relations with China

Instead of entering into a trade war with China, Germany and the EU should reduce their dependence on the Chinese economy. China's importance for German foreign trade has already declined somewhat. For example, the share of all German exports to China is currently around six percent after peaking at over eight percent. However, the statistics are likely to underestimate the actual dependency, as many European companies have relocated their production sites to China in recent years.



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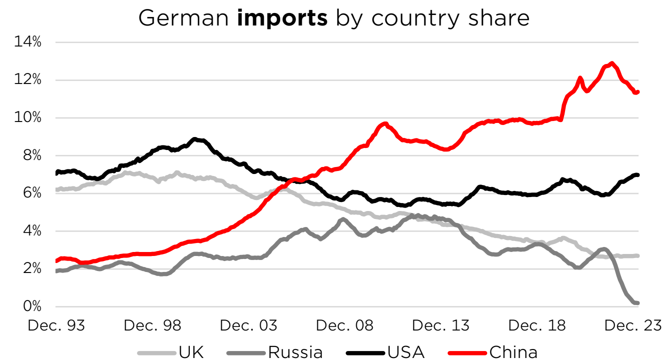

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In terms of the distribution of countries from which Germany imports goods, however, the dependency on China is still too high. After the EU, China remains the largest source of imports for the German economy. In addition to electric cars, the most important imported goods include solar modules and electronic products such as laptops and cell phones. However, raw materials for the production of battery cells are also largely imported from China.

What is our recommendation?

Germany and the EU would be well advised to reduce their economic dependence on China in the coming years and diversify trade risks. Even if the exchange of goods with China enables cheap imports, the dependency is questionable from a geo-economic perspective. The coronavirus pandemic has impressively demonstrated the serious consequences of Chinese politburo intervention in the economy. Even if a new pandemic is (hopefully) not imminent, a break in trade with China is not an unrealistic scenario. After all, geopolitical tensions between China and Taiwan have increased further in recent months. An escalation would lead to a significant reduction in trade relations with China. This scenario is likely to result in enormous economic costs for Germany and the EU in the short to medium term, as important input products cannot be substituted by other countries so quickly.

However, Germany and the EU should also not allow themselves to be instrumentalized by the USA and pushed into a trade war. It is much more important to strengthen their independence and their own negotiating power in the global context. Even if the USA acts as an ally, it will pursue its own interests and, if necessary, introduce trade tariffs against the EU. "America first" will remain the guiding principle - regardless of whether the future US President is Joe Biden or Donald Trump. This makes it all the more important for the EU to expand free trade agreements with Australia or the Mercosur states, for example. Intensifying these trade relations would not only reduce trade costs and enable access to raw materials such as rare earths, but also increase predictability and security of supply. The latter are a valuable commodity, especially in times of high geopolitical risks.

Simon Landt

Market data

Stock marktes	As of 14.06.2024 09:14	Change versus 07.06.2024 -1 week	13.05.2024 -1 month	13.03.2024 -3 months	13.06.2023 -1 year	29.12.2023 YTD
Dow Jones	38647	-0,4%	-2,0%	-1,0%	13,0%	2,5%
S&P 500	5437	1,7%	4,1%	5,3%	24,4%	14,0%
Nasdaq	17668	3,1%	7,8%	9,2%	30,2%	17,7%
DAX	18266	-1,6%	-2,5%	1,7%	12,5%	9,0%
MDAX	26075	-2,9%	-2,8%	-1,1%	-5,1%	-3,9%
TecDAX	3401	-1,6%	0,1%	-1,1%	4,6%	1,9%
EuroStoxx 50	4936	-2,3%	-2,8%	-1,3%	13,5%	9,2%
Stoxx 50	4506	-1,4%	-0,5%	2,4%	12,9%	10,1%
SMI (Swiss Market Index)	12096	-1,3%	2,8%	2,6%	6,8%	8,6%
Nikkei 225	38815	0,3%	1,7%	0,3%	17,6%	16,0%
Brasilien BOVESPA	119568	-1,0%	-6,7%	-6,6%	2,4%	-10,9%
Russland RTS	1132	-1,0%	-5,1%	-0,9%	9,9%	4,5%
Indien BSE 30	76897	0,3%	5,7%	5,7%	21,8%	6,4%
China CSI 300	3541	-0,9%	-3,4%	-0,9%	-8,4%	3,2%
MSCI Welt	3504	0,7%	2,4%	3,2%	19,6%	10,6%
MSCI Emerging Markets	1076	0,2%	-0,3%	2,8%	6,1%	5,1%
Bond markets						
Bund-Future	131,33	111	43	-140	-232	-589
Bobl-Future	116,67	127	-17	-127	33	-261
Schatz-Future	105,74	54	51	6	42	-80
3 Monats Euribor	3,72	-19	-19	-19	19	-16
3M Euribor Future, Dec 2024	3,35	-6	9	34	25	105
3 Monats $ Libor	5,61	1	2	2	6	2
Fed Funds Future, Dec 2024	4,95	-11	-4	33	111	112
10 year US Treasuries	4,25	-19	-25	6	42	38
10 year Bunds	2,43	-17	-6	9	1	43
10 year JGB	0,95	-2	1	19	52	32
10 year Swiss Government	0,75	-13	-2	2	-22	5
US Treas 10Y Performance	594,01	1,6%	2,4%	0,7%	0,5%	-1,2%
Bund 10Y Performance	550,83	1,0%	0,3%	-0,5%	2,1%	-2,6%
REX Performance Index	441,12	0,3%	0,1%	-0,3%	1,3%	-1,5%
IBOXX AA, €	3,46	-8	4	15	-19	40
IBOXX BBB, €	4,01	-8	2	11	-53	26
ML US High Yield	7,98	-12	-13	14	-61	19
Commodities						
MG Base Metal Index	436,78	-1,4%	-2,2%	10,2%	12,9%	11,7%
Crude oil Brent	82,42	3,4%	-0,9%	-1,4%	10,9%	6,1%
Gold	2310,48	-0,2%	-1,2%	6,4%	18,4%	11,9%
Silver	28,76	-1,8%	2,0%	15,7%	21,0%	18,6%
Aluminium	2498,78	-0,9%	0,1%	12,7%	13,9%	6,5%
Copper	9663,72	0,3%	-4,2%	9,4%	14,4%	14,2%
Iron ore	107,12	-1,3%	-8,7%	-4,2%	-4,7%	-21,4%
Freight rates Baltic Dry Index	1942	3,2%	-6,0%	-18,1%	80,8%	-7,3%
Currencies						
EUR/ USD	1,0714	-1,7%	-0,8%	-2,1%	-0,7%	-3,0%
EUR/ GBP	0,8413	-1,0%	-2,2%	-1,6%	-1,8%	-2,9%
EUR/ JPY	169,27	-0,1%	0,6%	4,6%	12,4%	8,3%
EUR/ CHF	0,9579	-1,2%	-2,1%	-0,2%	-2,1%	3,4%
USD/ CNY	7,2555	0,1%	0,3%	0,9%	1,3%	2,1%
USD/ JPY	157,04	0,2%	0,5%	6,3%	12,0%	11,3%
USD/ GBP	0,79	-0,1%	-1,3%	0,5%	-1,0%	0,2%

Source: Refinitiv Datastream

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