

The tale of the giant and the dwarf



Prospects for Chinese-Belgian relationships in an era of protectionism

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Belgian Business Seminar – Hong Kong – 22 November 2019

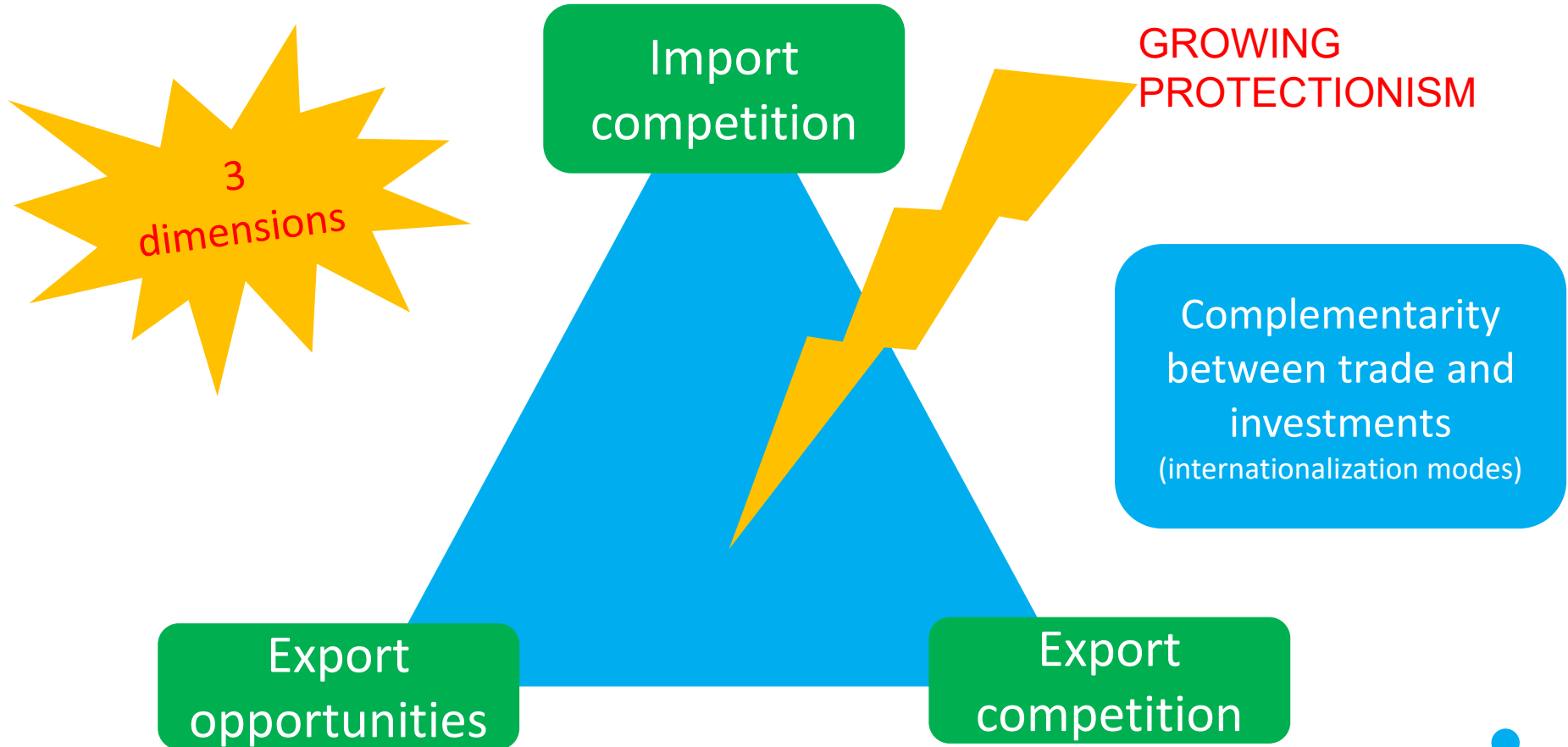
Battle or cooperation?



OR



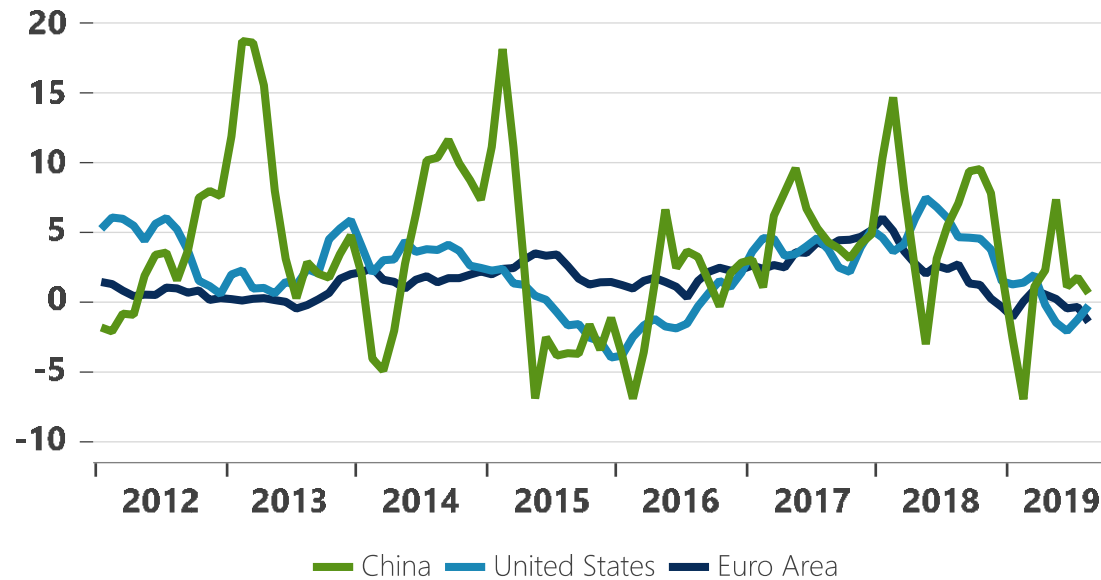
Belgian business perspective on China



Recent evolutions in China-EU-US trade

CPB World Trade Monitor, Export, Total, Volume, SA, Index

c.o.p. 1 year, m.a. 3 months

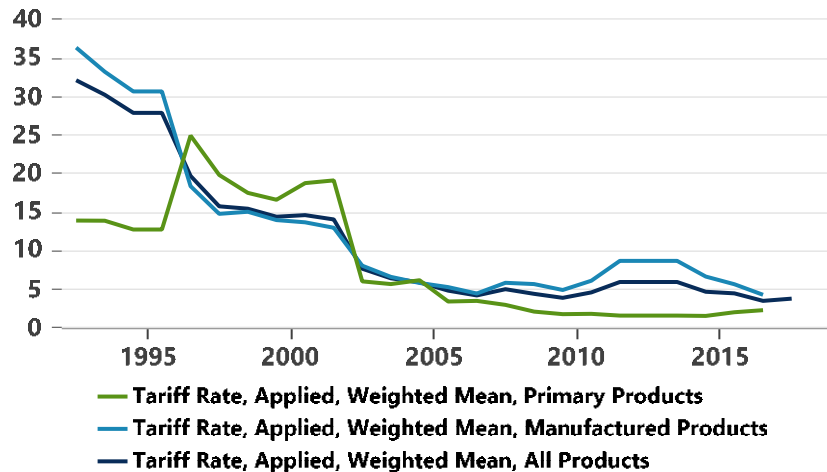


Source: KBC Economics based on CPB

At first glance, EU-China open trade relationship

China - Applied tariffs rates

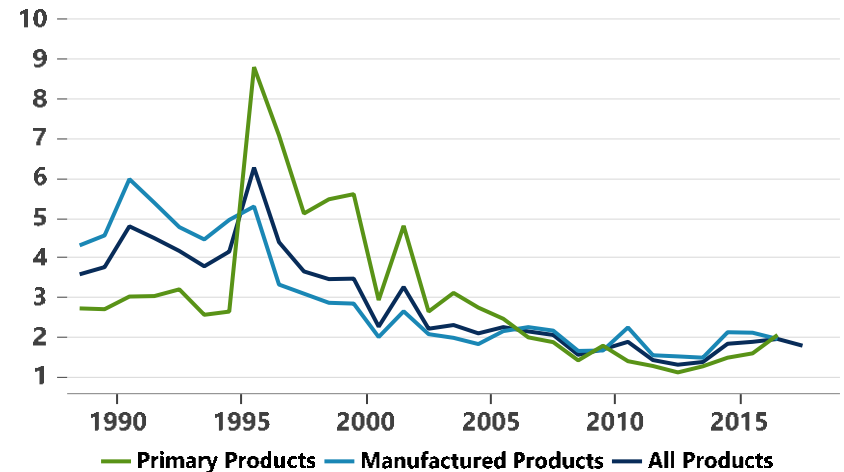
Weighted mean, in %



Source: KBC Economics based on World Bank

EU - Applied tariffs rates

Weighted mean, in %



Source: KBC Economics based on World Bank

World confronted with many faces of protectionism

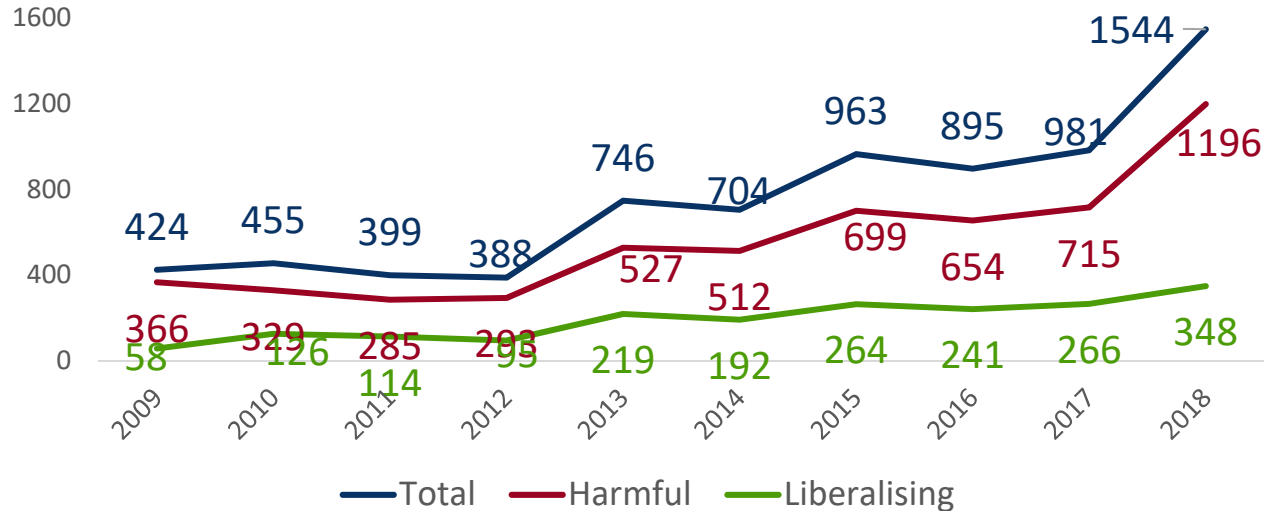
Technical and regulatory
barriers to trade
Trade defense policies
State support and other
interventions
Regional trade agreements
Exchange rates

...



Increasing protectionism: harmful trade measures exceed trade liberalization

Trade protectionism on a rising trend in recent years
(number of implemented trade measures by G20 economies)

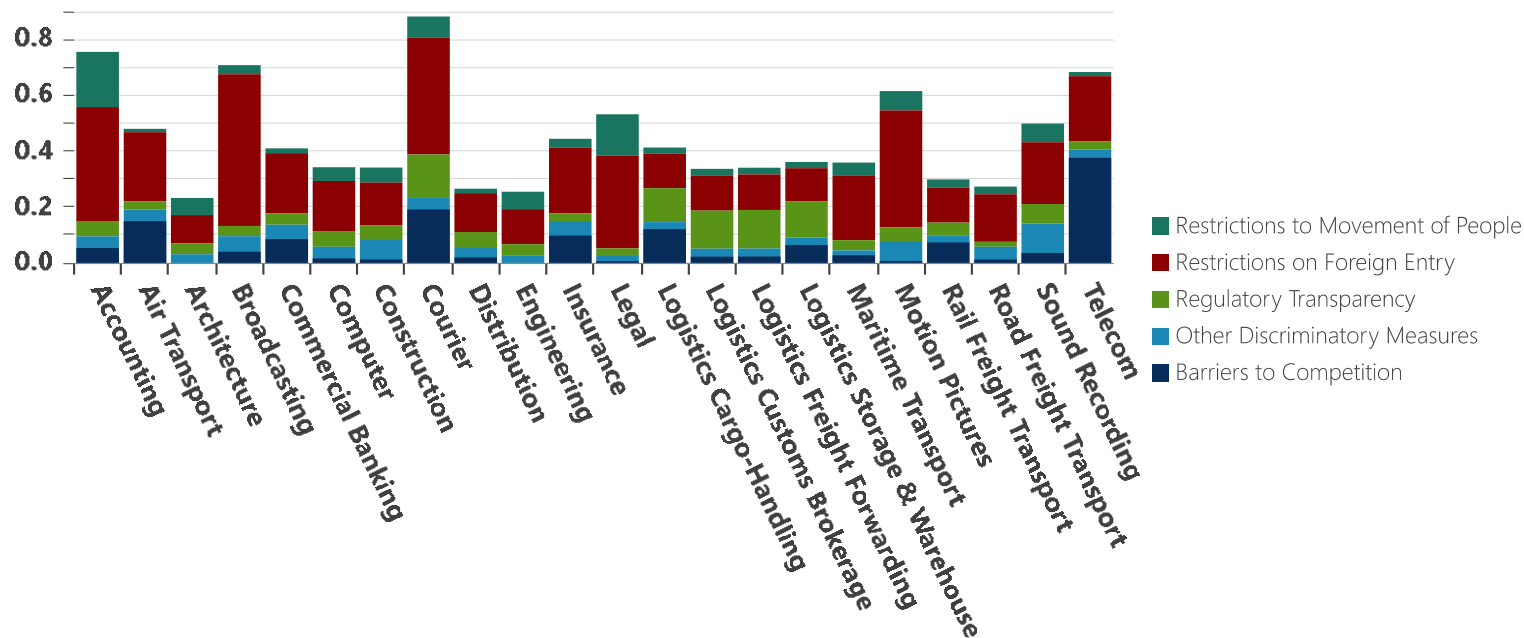


Source: KBC Economics (2019)
based on Global Trade Alert (2019)

Many faces of protectionism – Chinese trade restrictions in services activities

China - OECD Services Trade Restrictiveness Index (STRI)

2018, STRI between 0 (least restrictive) and 1 (most restrictive)



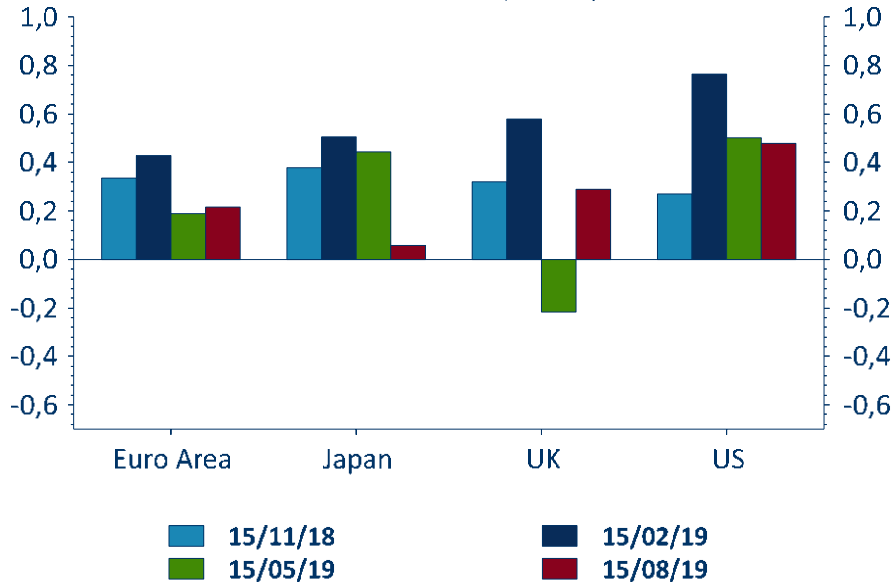
Source: KBC Economics based on OECD

Slowing growth – global phenomenon

Advanced economies slowing down, and some fighting against recession

Real GDP growth

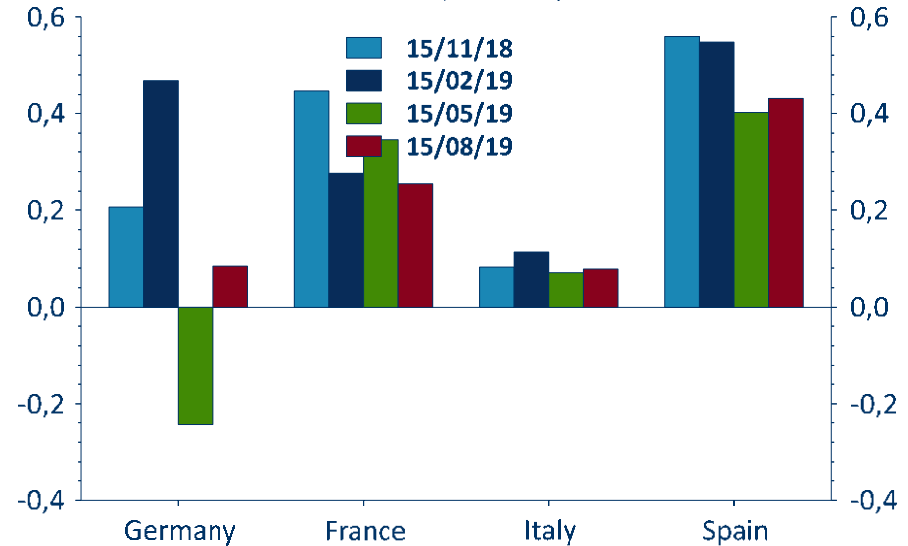
National sources, qoq % change



Bron: Refinitiv Datastream

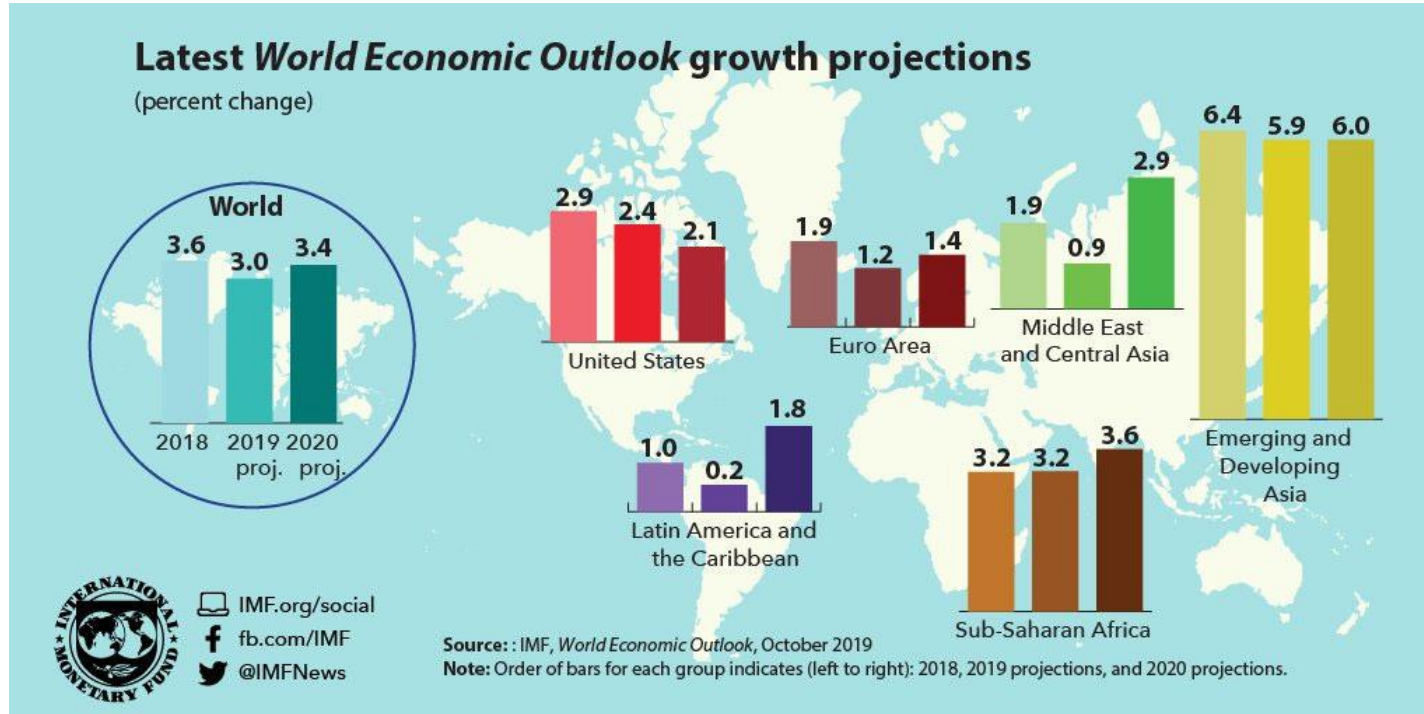
Euro area (big 4) real GDP

Eurostat, qoq % change

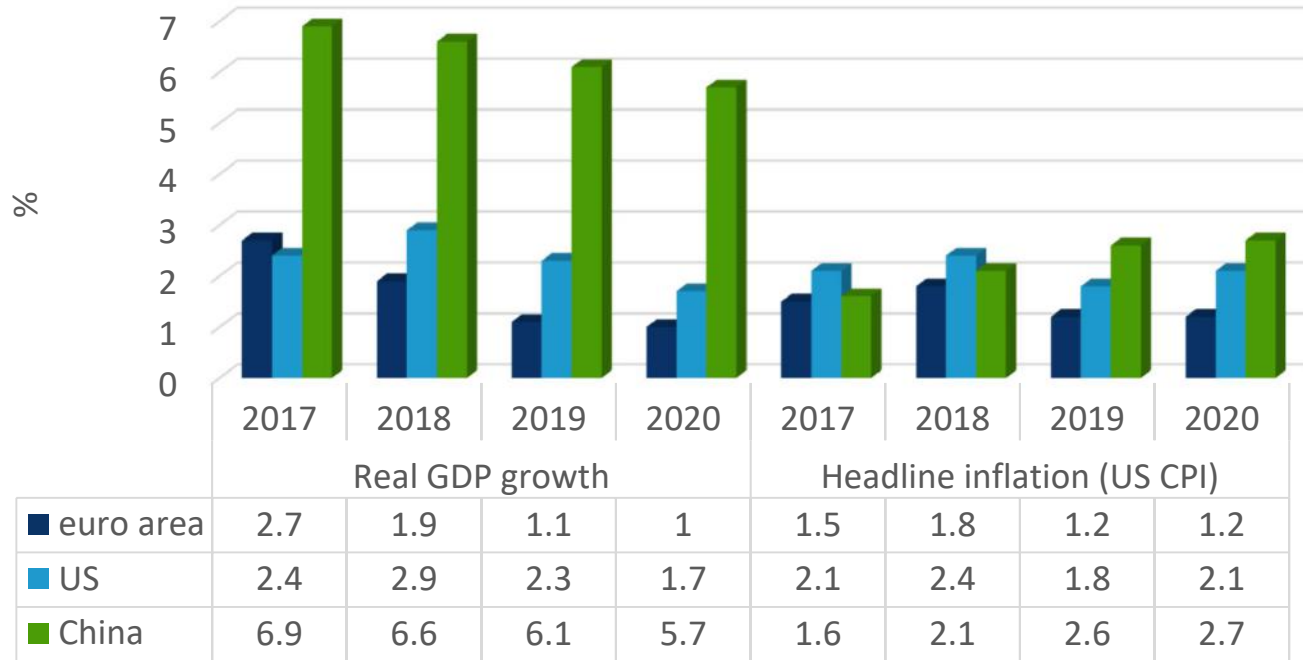


Bron: Refinitiv Datastream

IMF: World Economic Outlook 'synchronized growth slowdown'



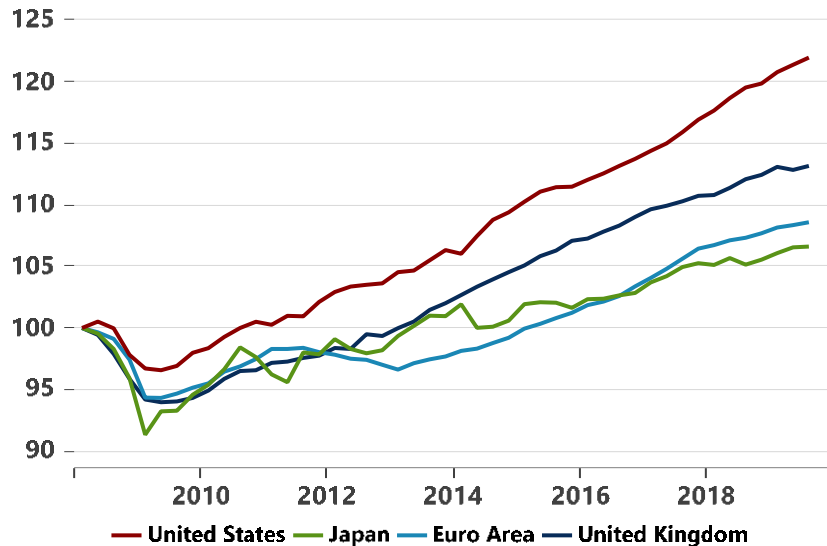
KBC Economic Forecasts (November 2019)



Europe lagging behind the US despite late-cyclical nature of US economy



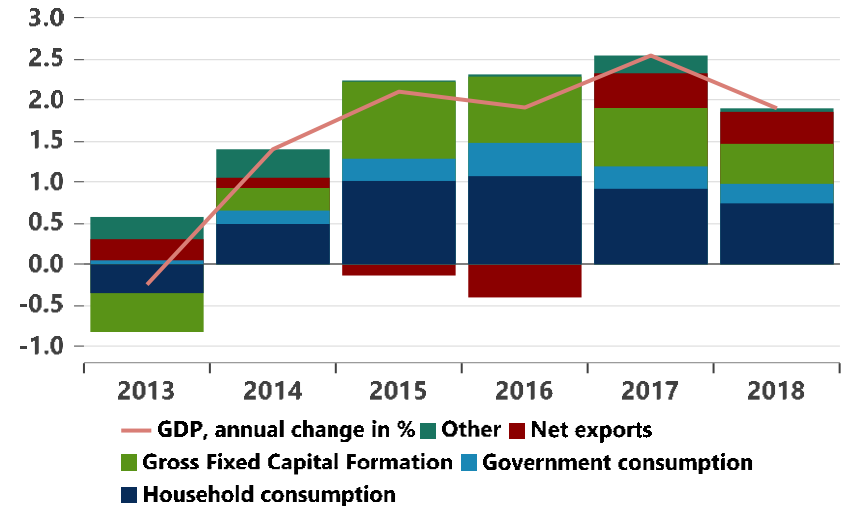
Real GDP (rebase: Q12008 = 100)



Source: KBC Economics based on OECD

Euro area, Real GDP

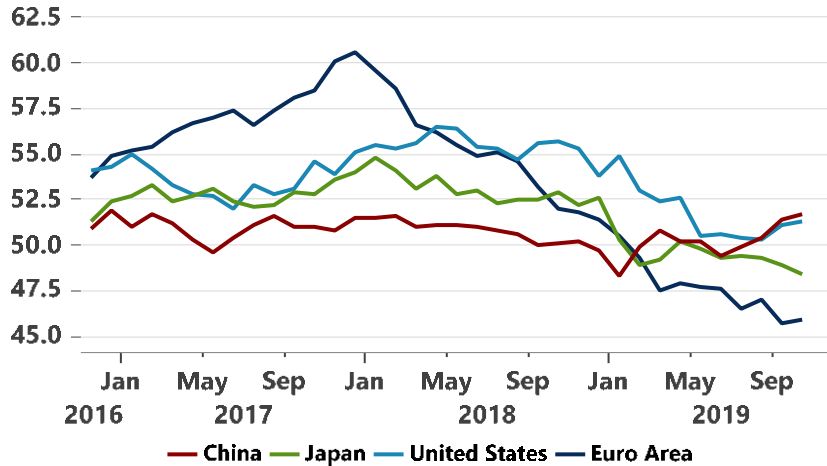
Contribution to growth, in pp.



Source: KBC Economics based on Eurostat

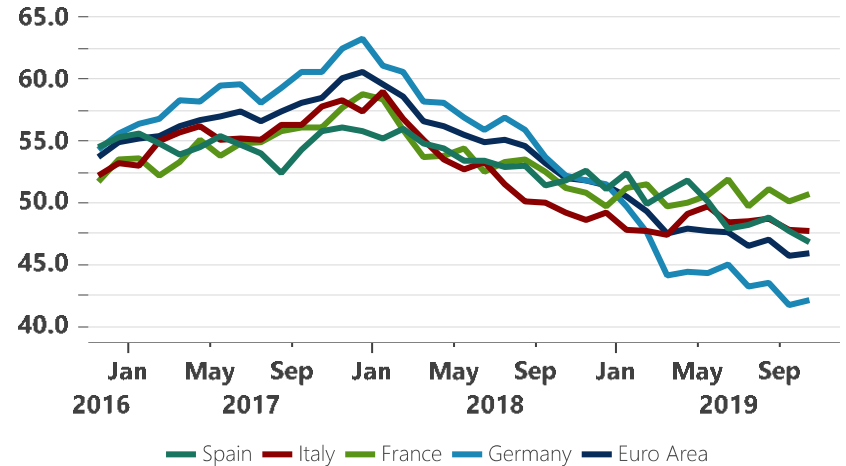
Continued manufacturing sentiment weakness across regions

Business Surveys, Markit, Manufacturing, Manufacturing PMI, SA



Source: KBC Economics based on IHS Markit

Business Surveys, Markit, Manufacturing, Manufacturing PMI, SA

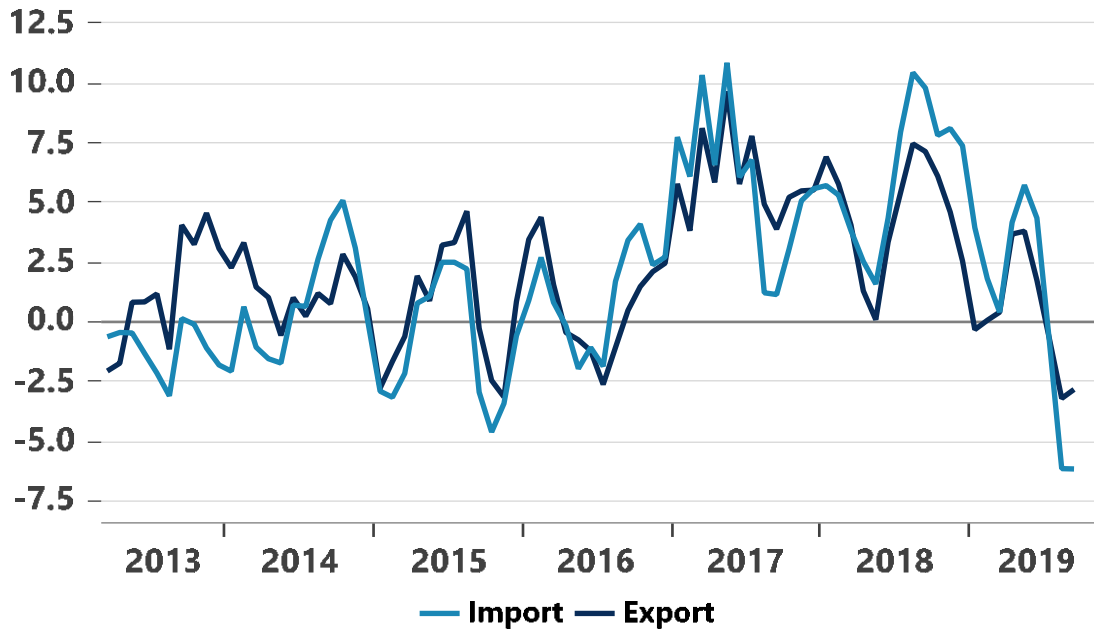


Source: KBC Economics based on IHS Markit

Recent evolutions in Belgian trade

Belgium - Total exports and imports

(in value, year-on-year change in %, 3mma)

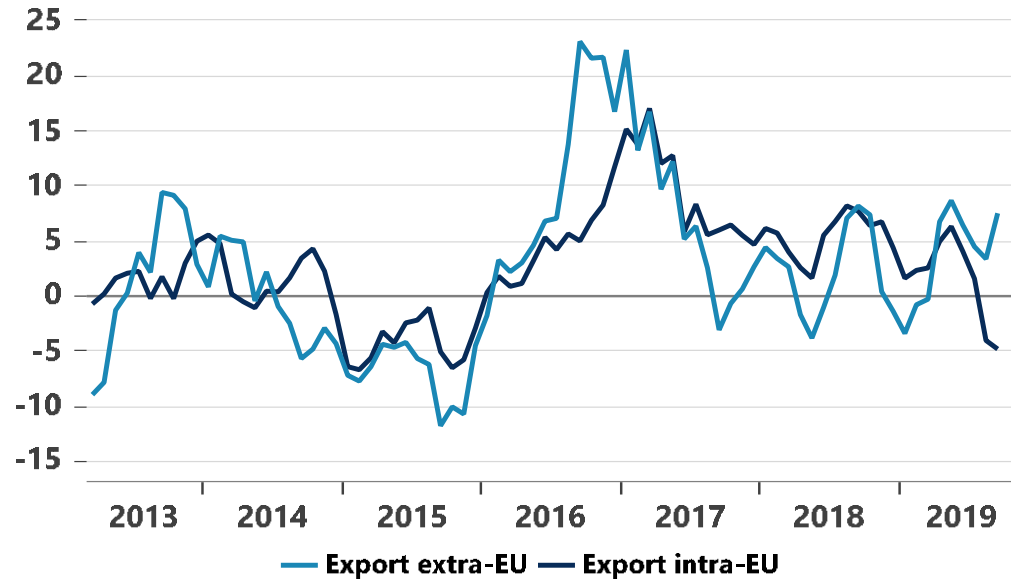


Small open economy
in the frontline of
trade wars and
protectionism

Source: KBC Economics based on NBB

Exports growing far away from the bell tower...

Belgium - Exports national concept
(in value, year-on-year change in %, 3mma)



Source: KBC Economics based on NBB

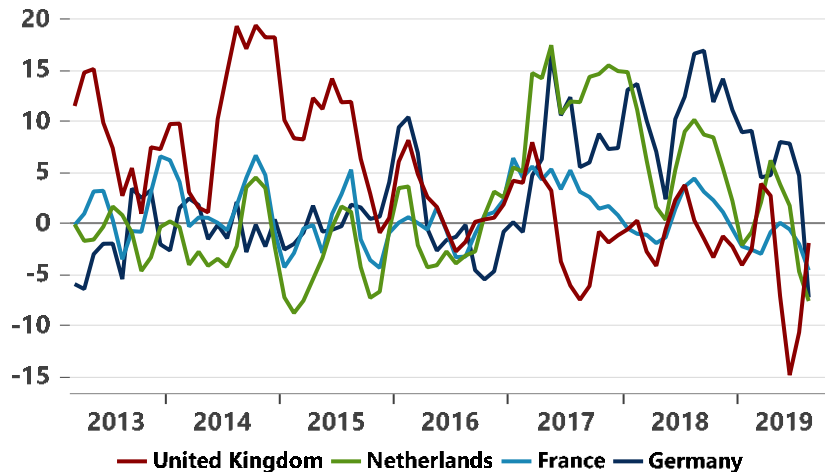


Recent evolutions in Belgian trade

Neighbouring markets weakening

Belgium - Exports to neighbouring countries

(in value, year-on-year change in %, 3mma)

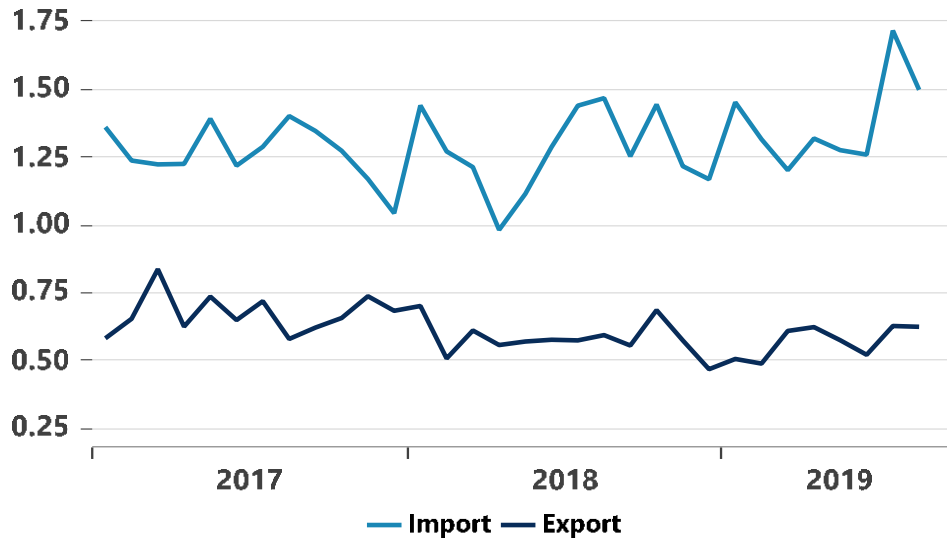


Source: KBC Economics based on NBB

Slowdown in Belgian trade is much more related to European context (Brexit, economic slowdown in Germany, industrial contraction)

Belgian-Chinese trade: *...what trade war?*

**Belgium - Monthly foreign trade with China,
billion of EUR**

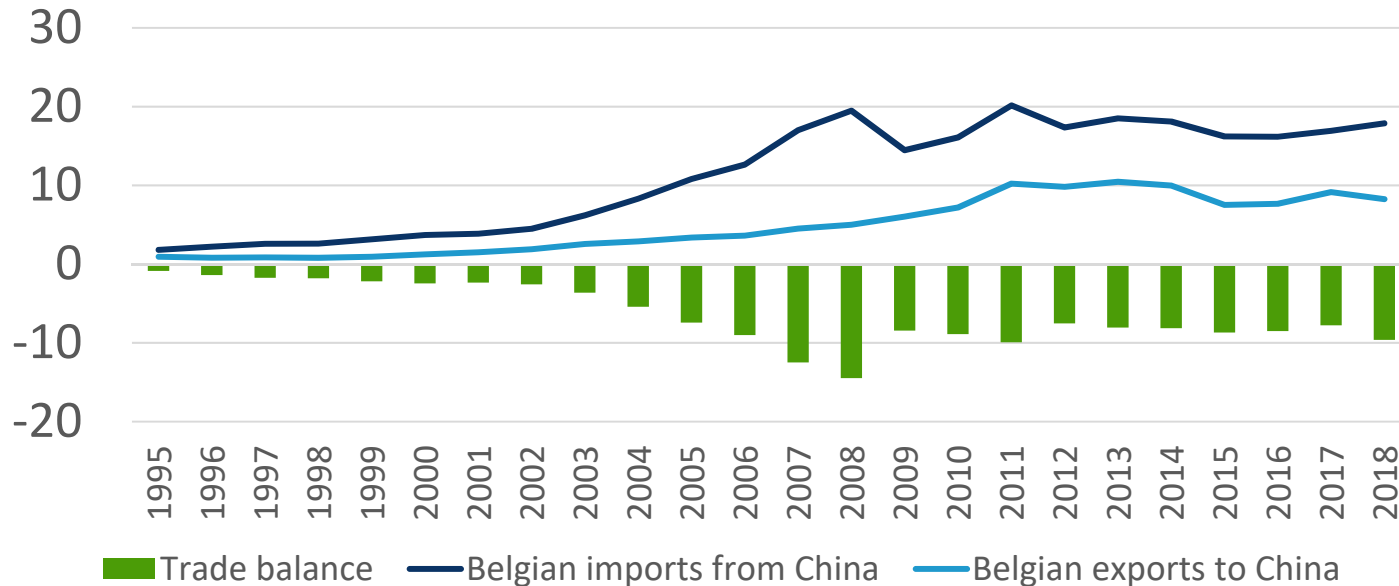


Source: KBC Economics based on NBB

Strong resilience in Belgian-Chinese trade despite global protectionism

Belgian-Chinese trade: long-term perspective

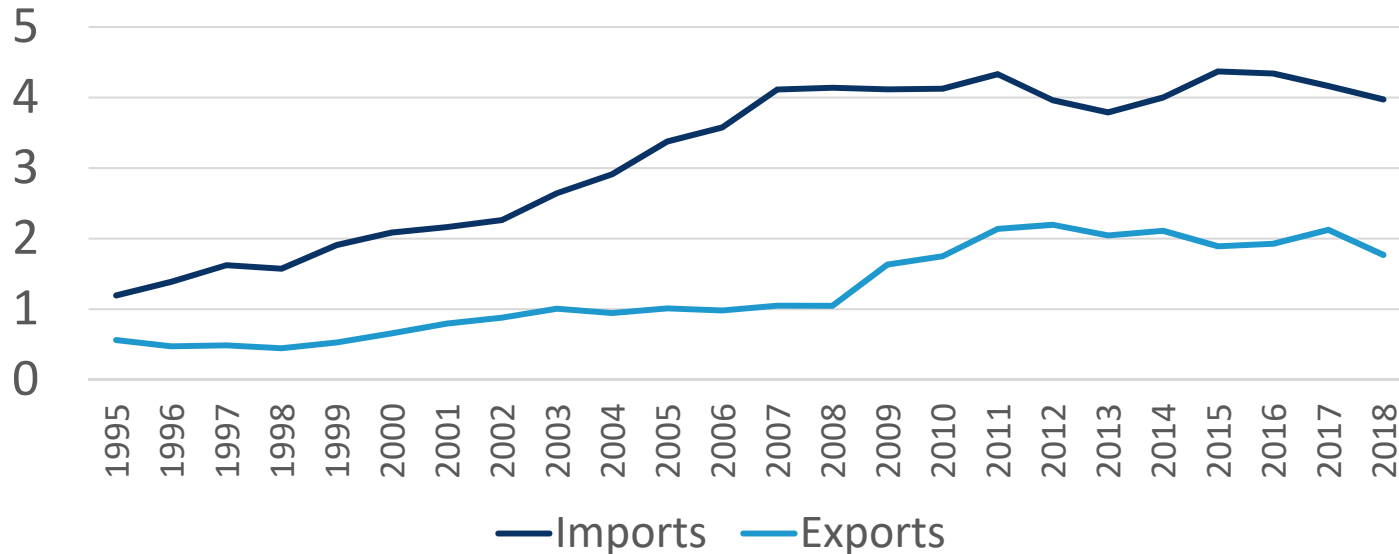
Belgian trade with China
(total goods trade, in billions USD)



Belgian-Chinese trade: long-term perspective

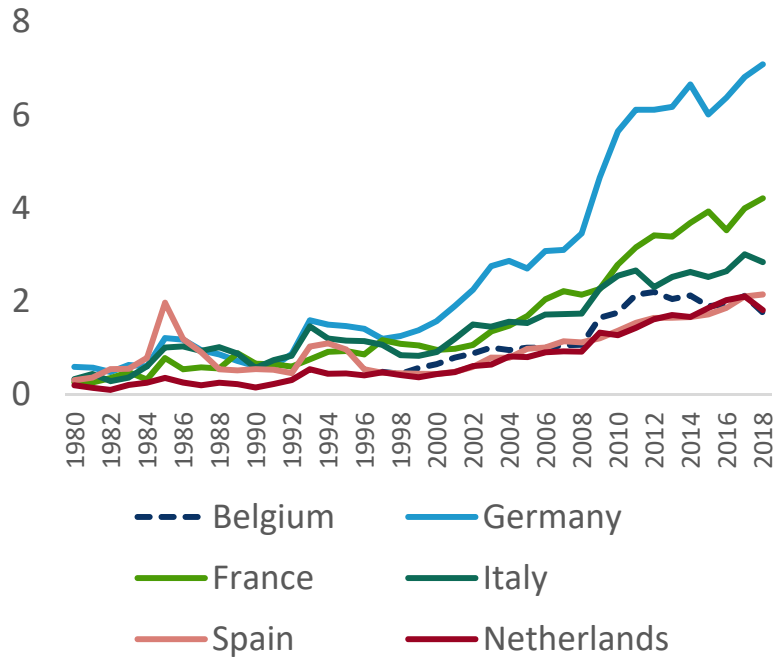
Stabilization after
strong growth
period

Belgian trade with China
(total goods trade, in % of total trade)

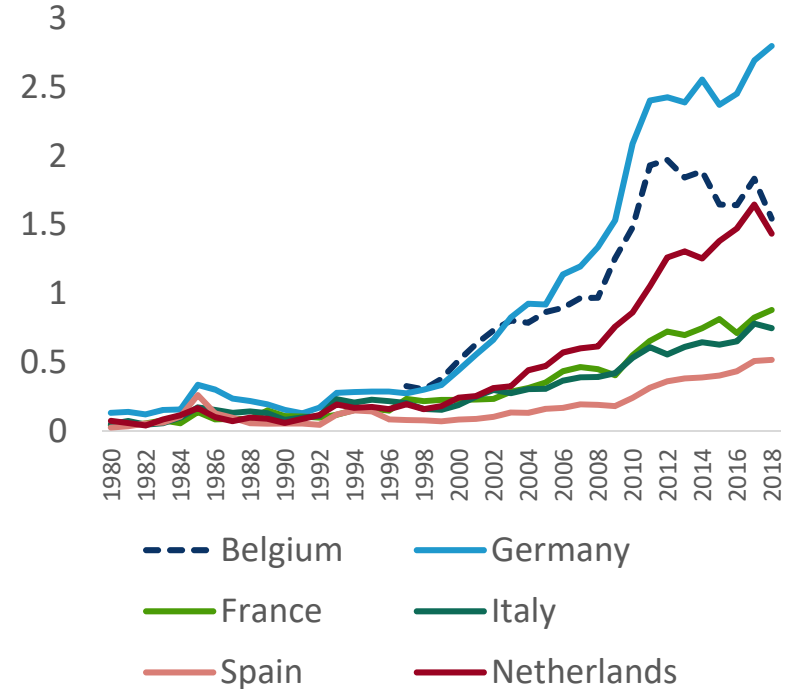


Brave little Belgium goes to China...

Exports to China in % of total exports
(merchandise trade, in USD)

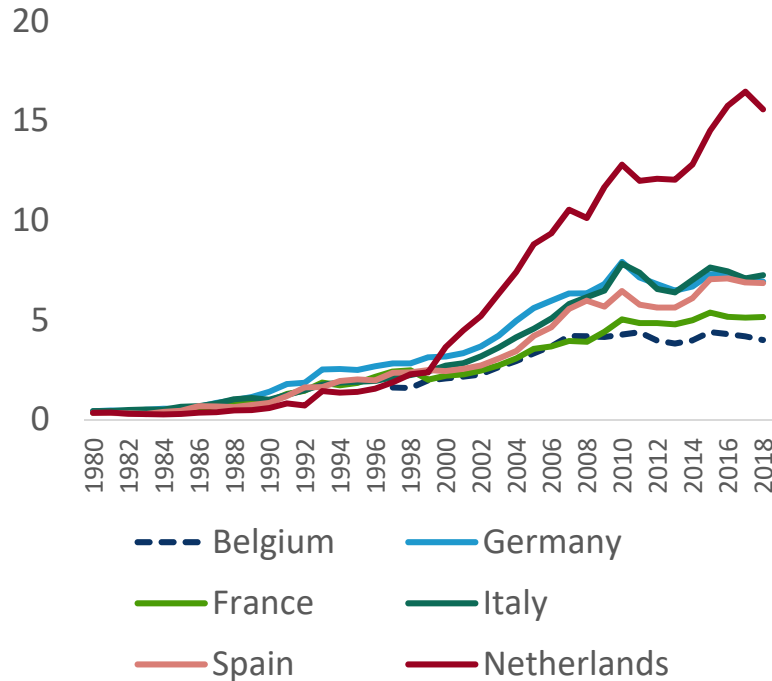


Exports to China in % of GDP
(merchandise trade, in USD)

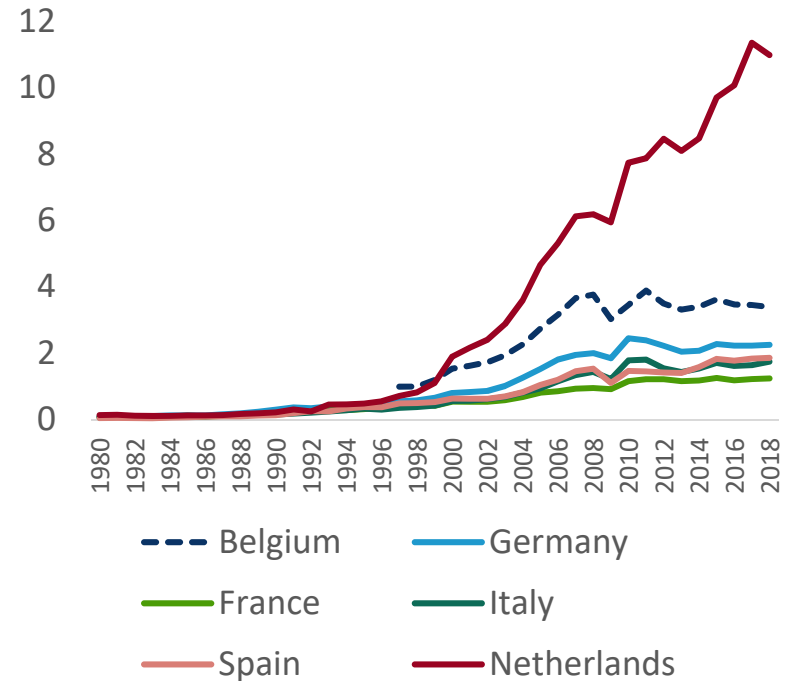


... and China comes to Belgium

Imports from China in % of total imports
(merchandise trade, in USD)

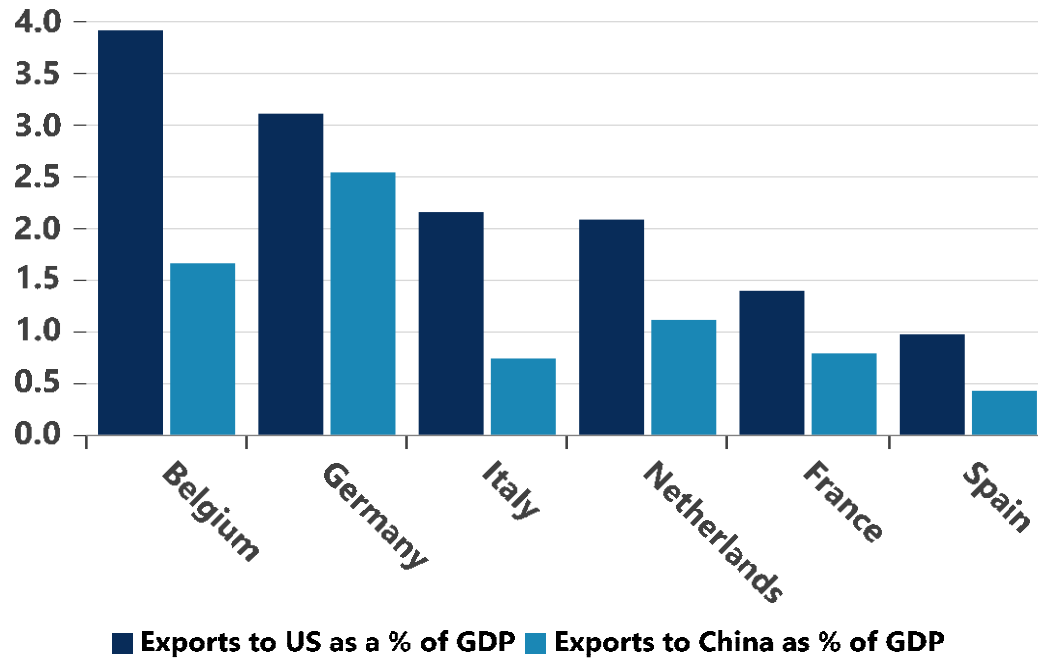


Imports from China in % of GDP
(merchandise trade, in USD)



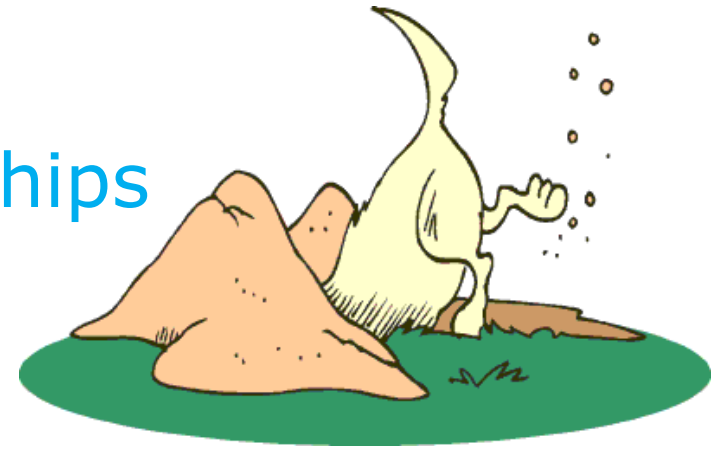
Belgian-Chinese connections through the European value chains

Exports to US and China as a % of national GDP



Source: KBC Economics based on Eurostat

Digging deeper in Chinese-Belgian relationships

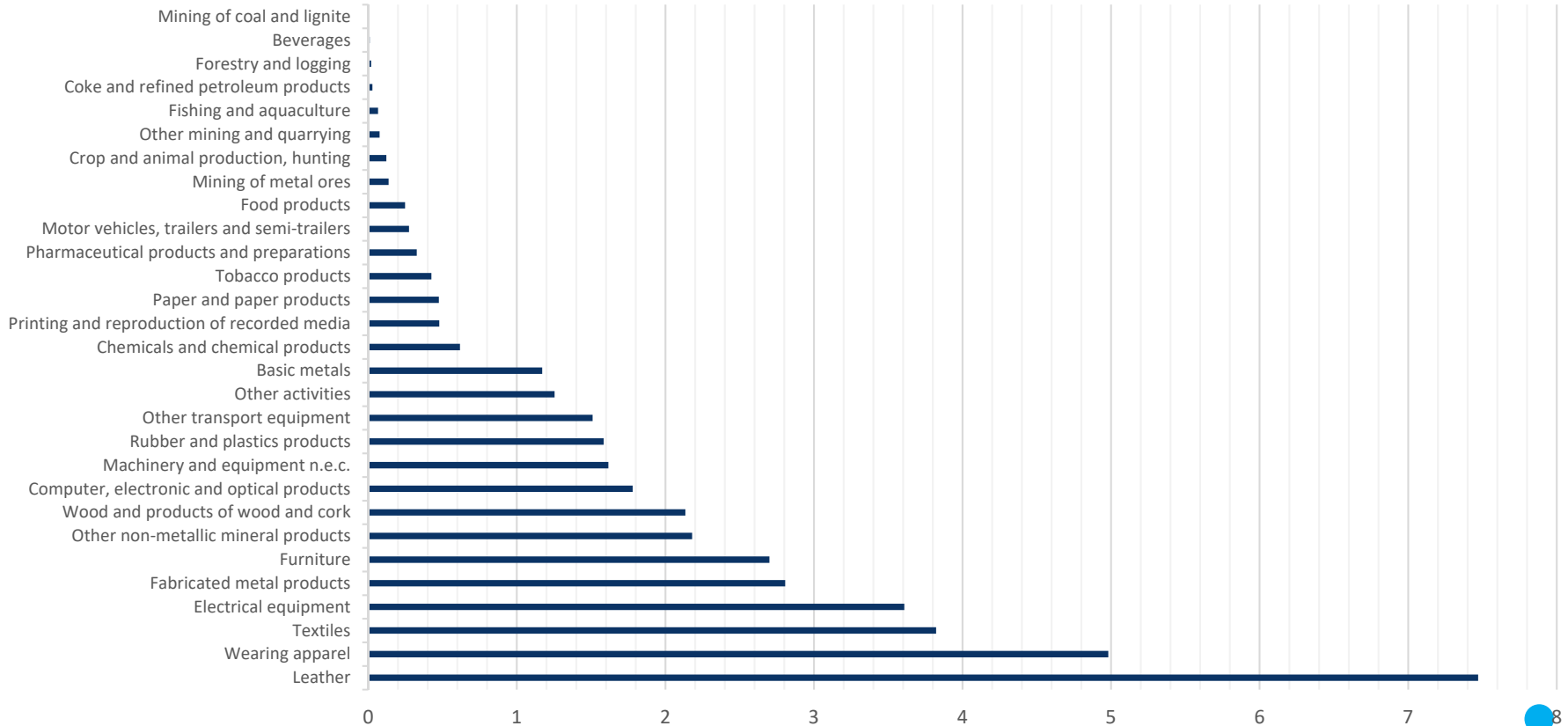


1. In which **sectors** perform Belgium and China strongly/weakly on each other's market?
2. Are there **structural dynamics** in Belgian-Chinese trade and investments?
3. What are the **prospects for Belgian-Chinese cooperation**?

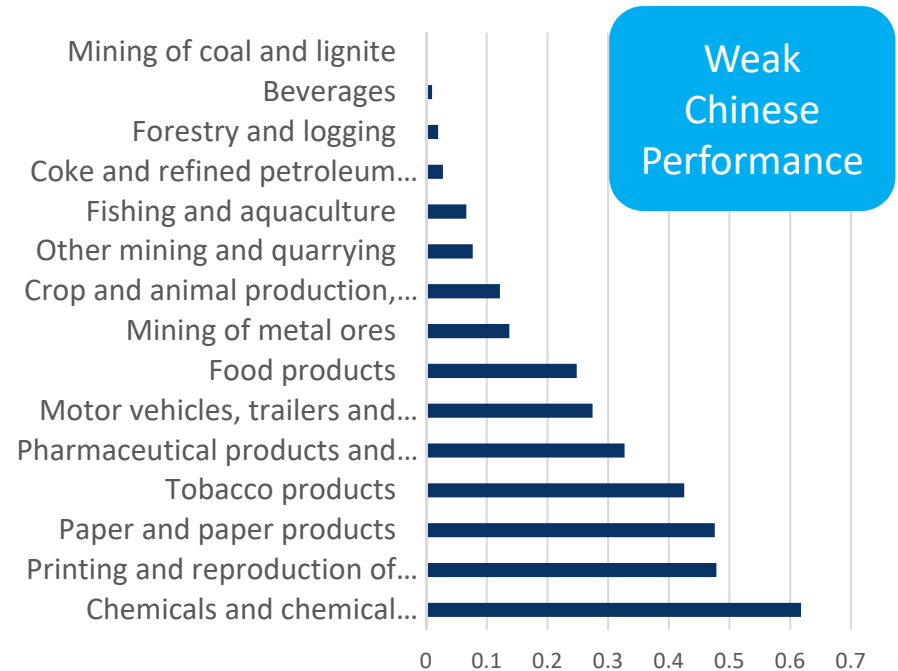
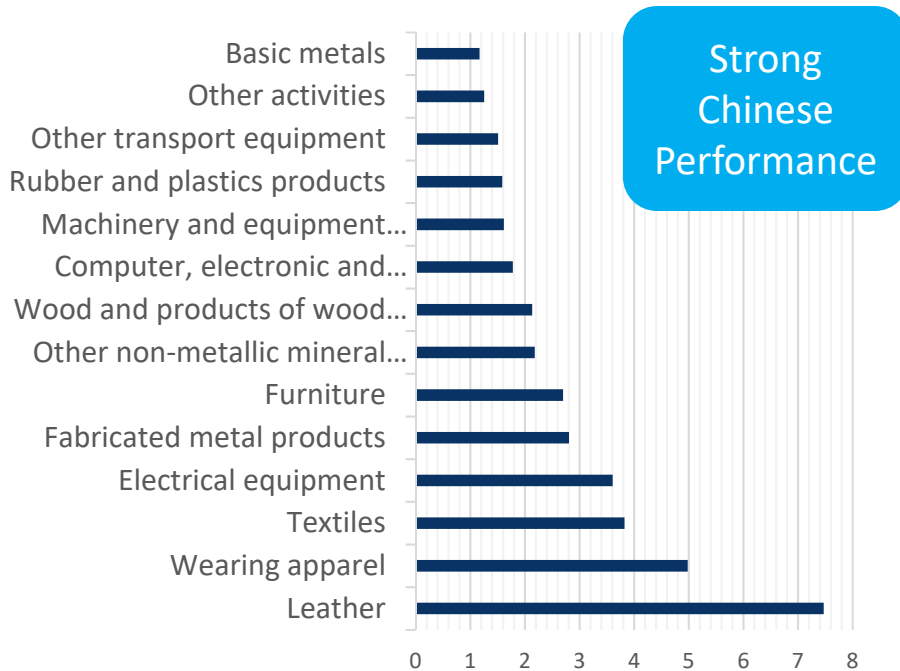
Measuring export performance

- **Absolute sectoral export figures don't tell much about performance**
- **Indicator of Relative Export Performance**
 - Based on revealed comparative advantage
 - Relative to other sectors and other exporters on the market
 - > 1 -> strong export performance; < 1 -> weak export performance
- **Dynamics reveal interesting changes** in China's trade performance on the Belgian market – Belgium's trade performance on the Chinese market

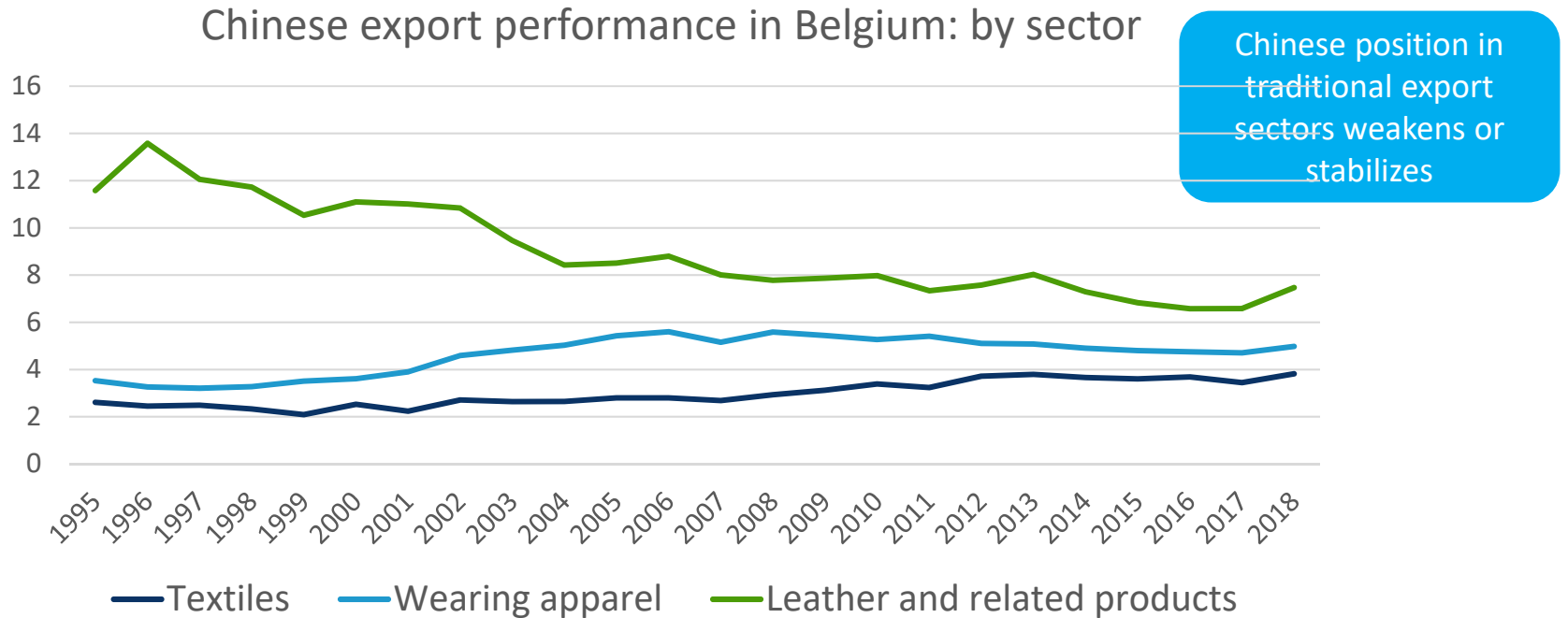
Chinese export performance on Belgian market (2018)



Chinese export performance on Belgian market (2018)



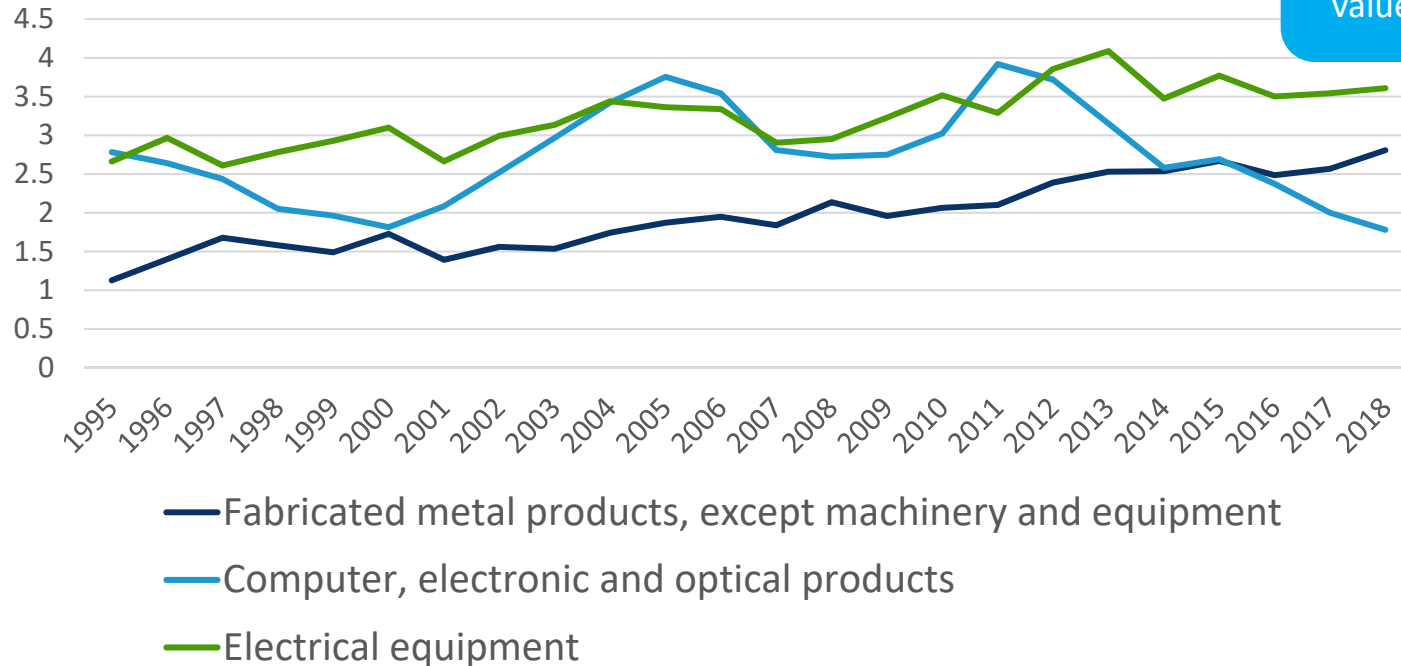
Dynamics in Chinese export performance on Belgian market



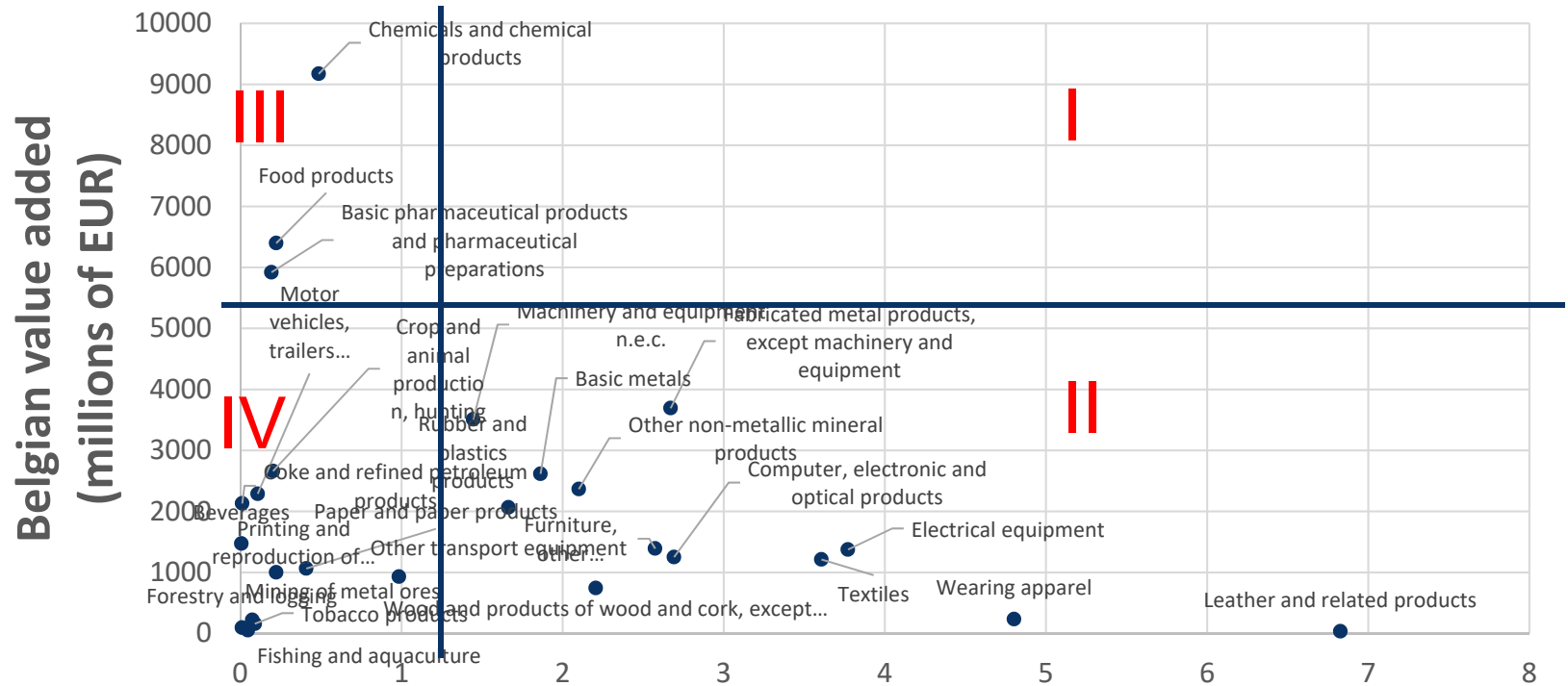
Dynamics in Chinese export performance on Belgian market

Chinese export performance in Belgium: by sector

Chinese position differs across higher-value-added sectors

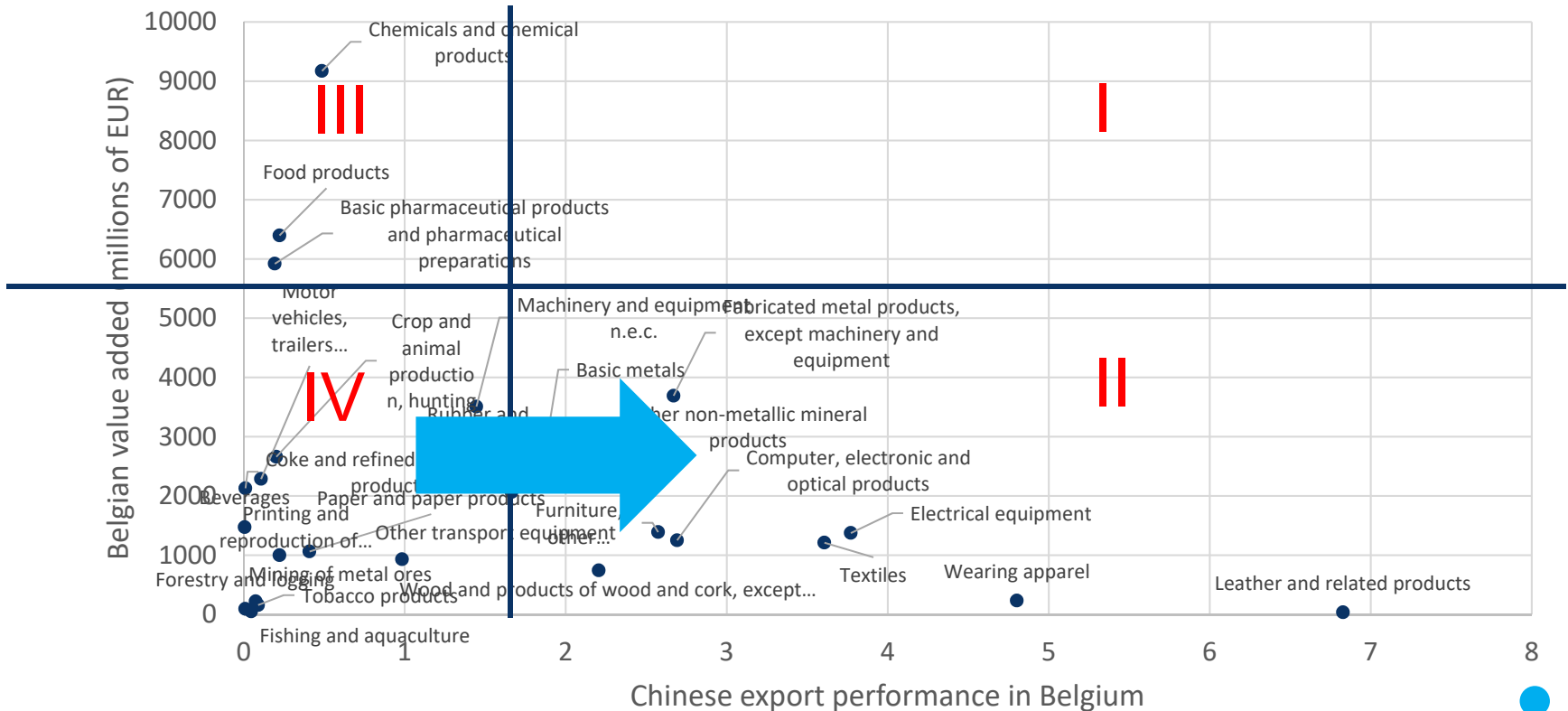


China's export performance versus Belgian value added



Chinese export performance in Belgium

China's export performance versus Belgian value added



Don't fear the Chinese Dragon

No strong Chinese export performance (yet) in main sectors of Belgian economy (I)

Traditional Belgian-Chinese complementarity still exists (II+III)



... but polarization is shrinking (IV to II)

Some sectors hardly face Chinese import competition (either as they are small, or as other exporting countries dominate Belgian market)



Chinese import competition in Belgium is reasonable, except for a few labour-intensive sectors.

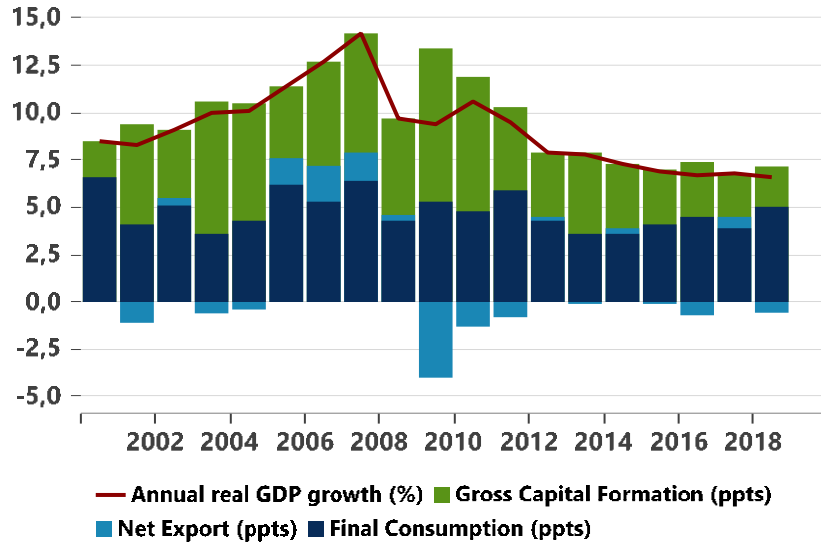


Then what about **China's rise in technology and higher value added activities?**

China's Economic Transition:

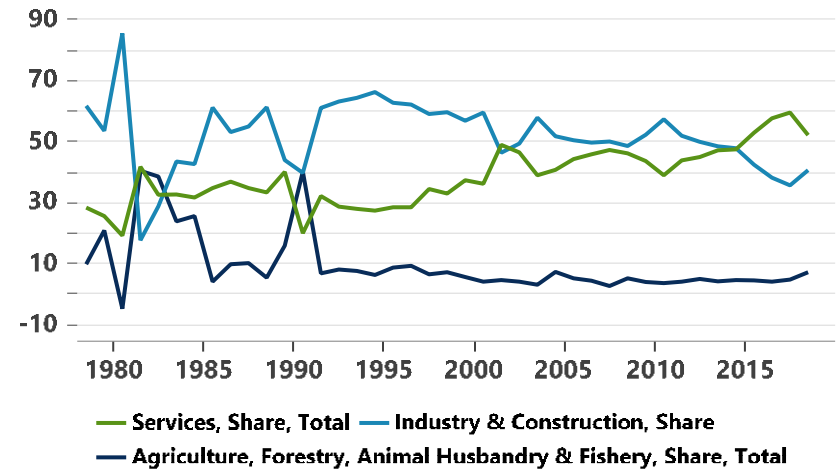
Domestic consumption and services essential

China: Contribution to GDP



Source: KBC Economics based on NBS

China: Contribution share of GDP growth (%)

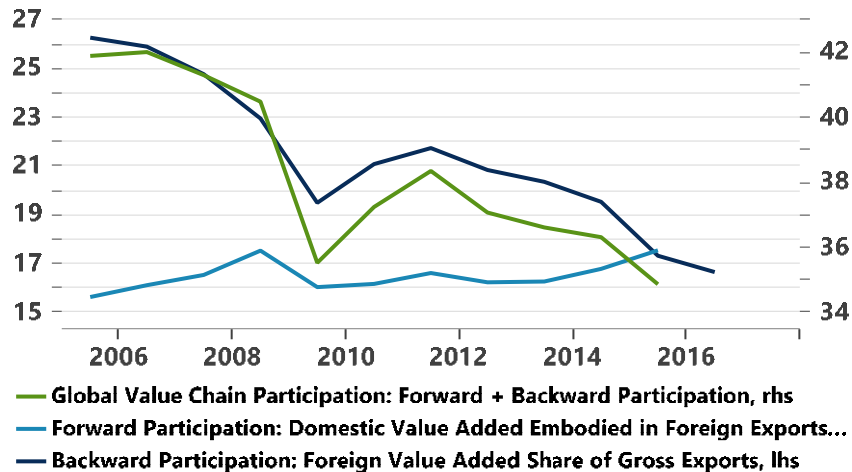


Source: KBC Economics based on NBS

Impact on China's position in global value chains

China - Global Value Chain Participation

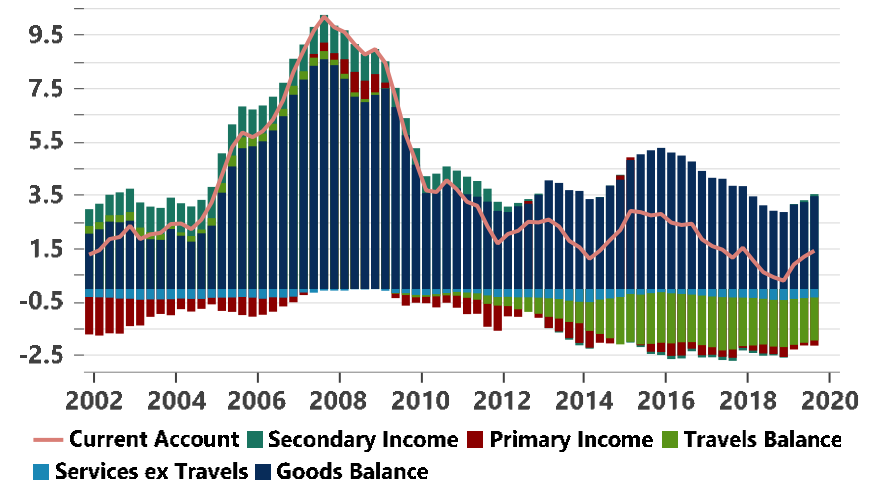
(% of gross industrial exports)



Source: KBC Economics based on OECD

China: Current account balance

(4Q moving average, % of GDP)

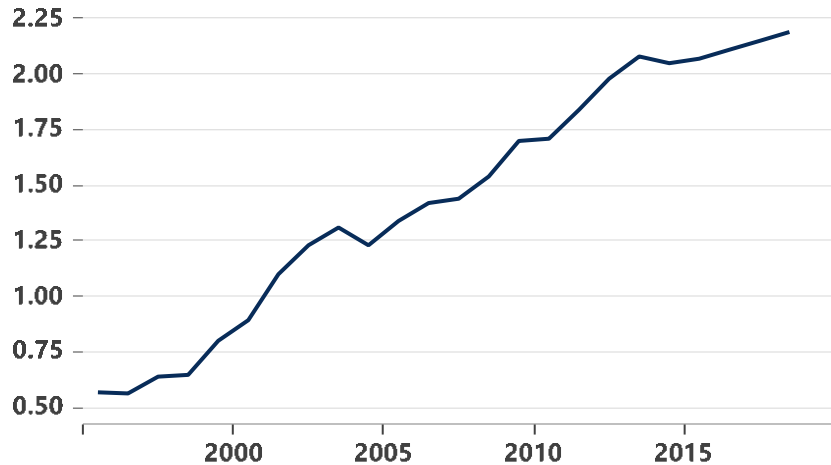


Source: KBC Economics based on SAFE, NBS

China's Economic Transition:

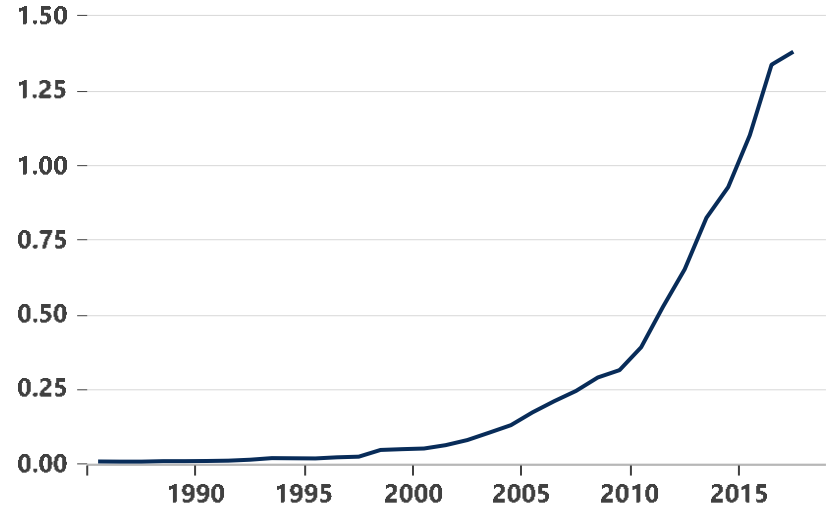
Technological upgrading key ingredient in the industrial transformation process.

China, Investments, Research & Development, Total, Percentage of GDP



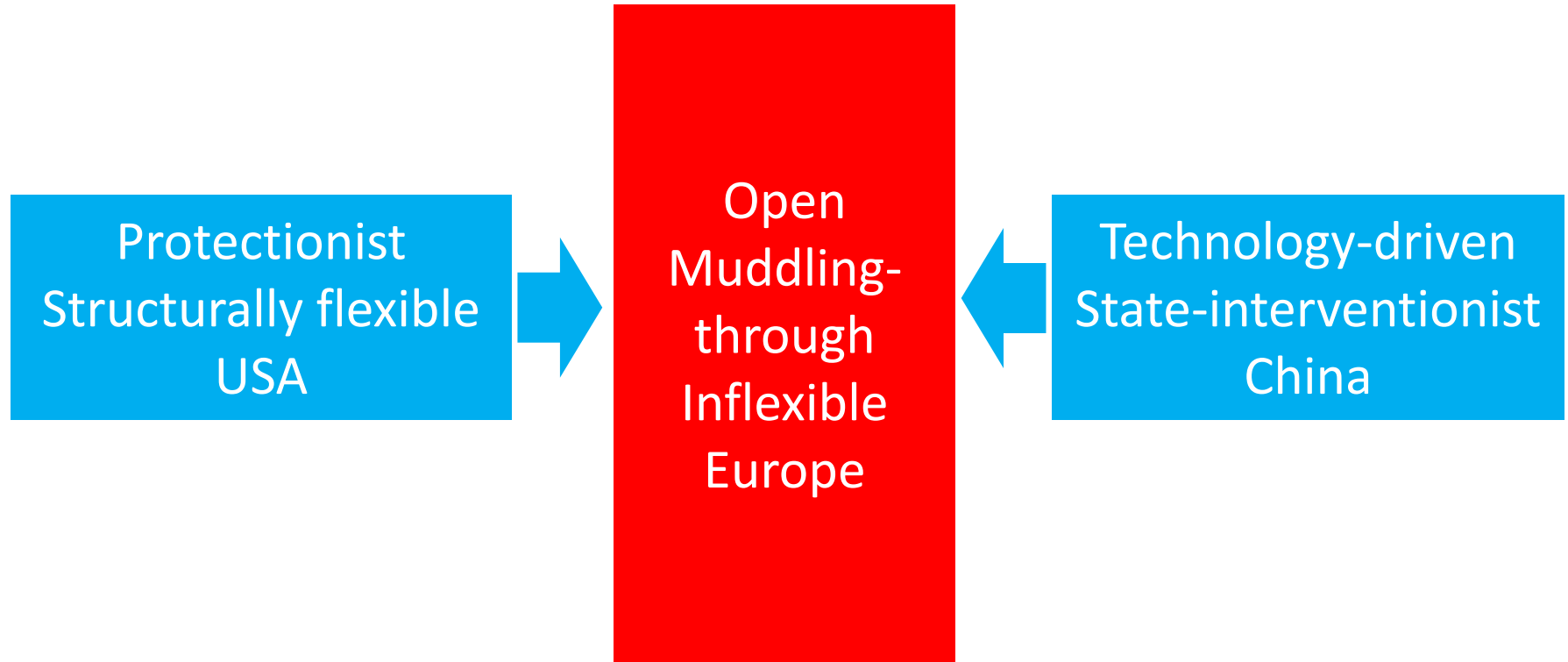
Source: KBC Economics based on NBS

China, Patent Activity, Patent Applications



Source: KBC Economics based on WIPO

Europe being smashed in the middle

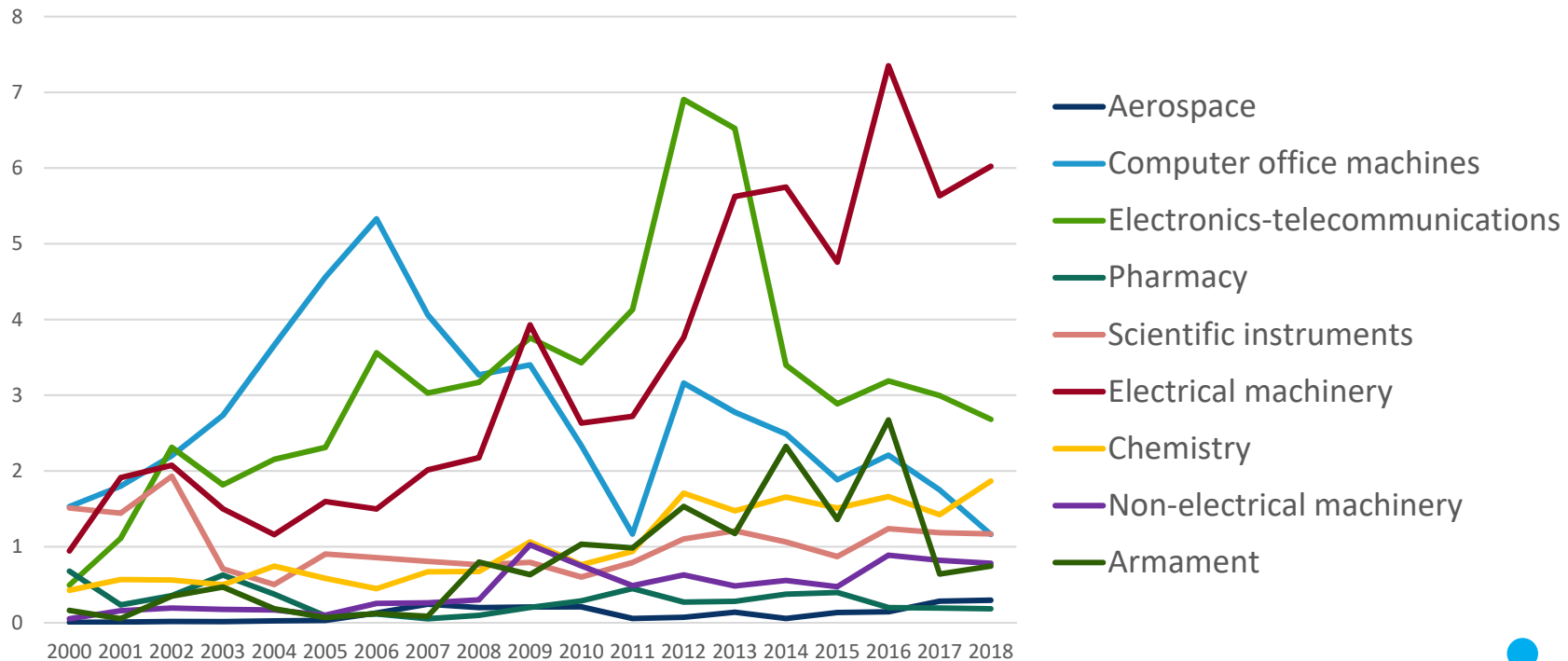




China's molting into a **technology giant**

Fast rise in technology-intensive exports to Belgian market

Chinese export performance in Belgium in high-tech products

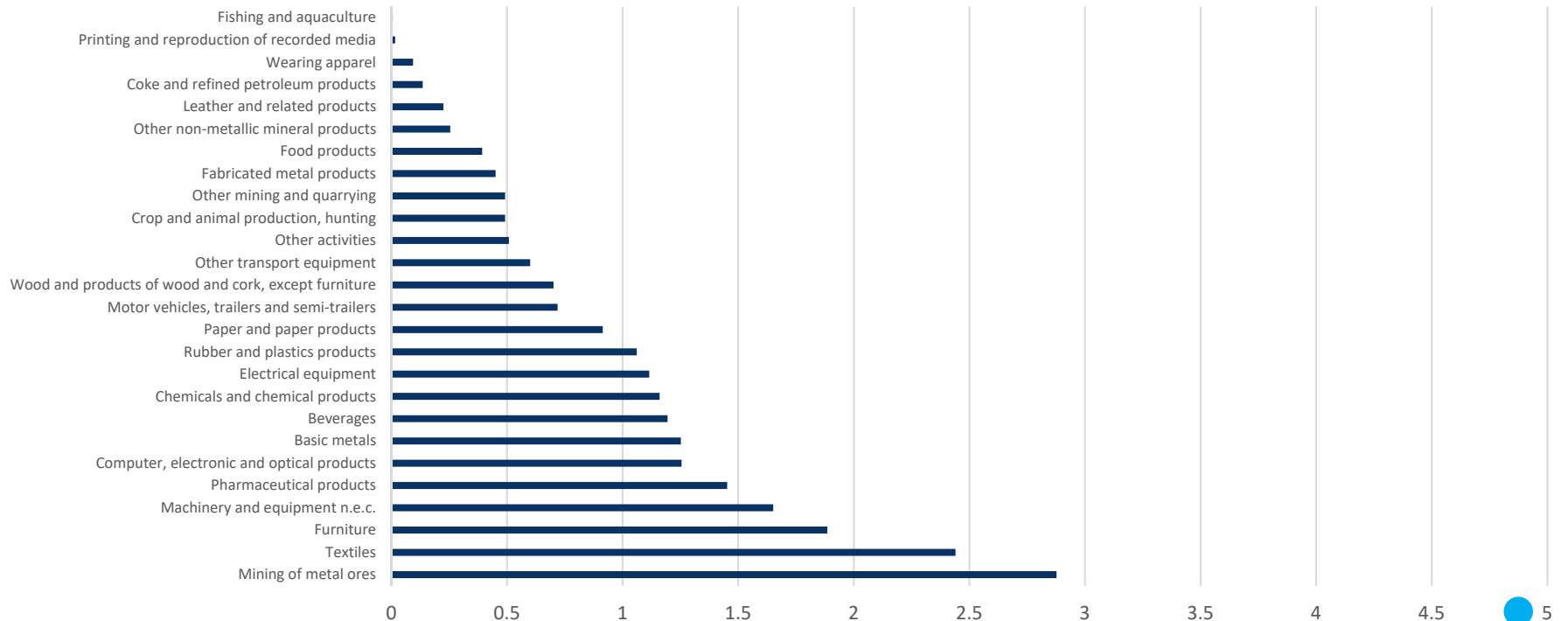


How our Belgian exporters performing on the Chinese market?

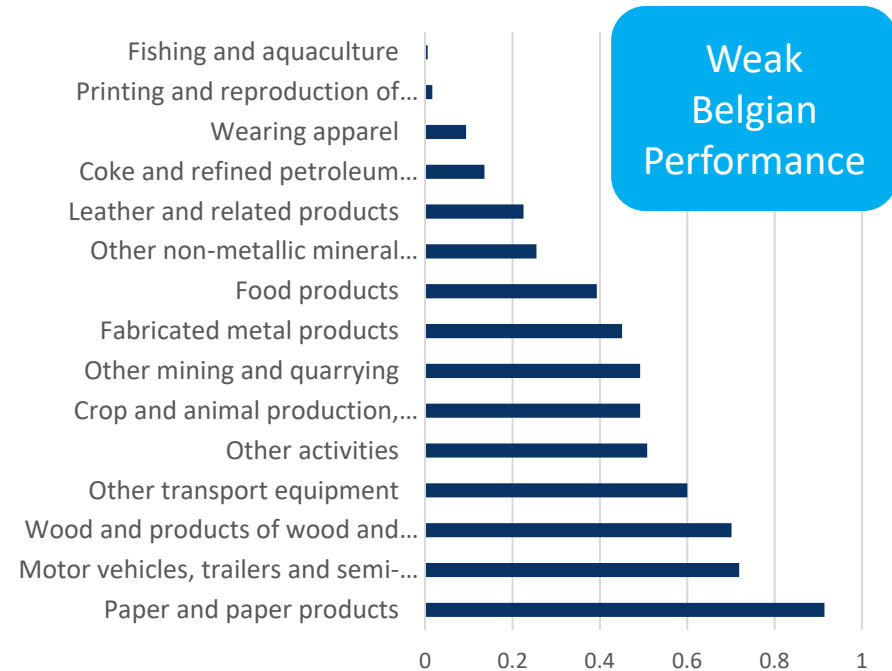
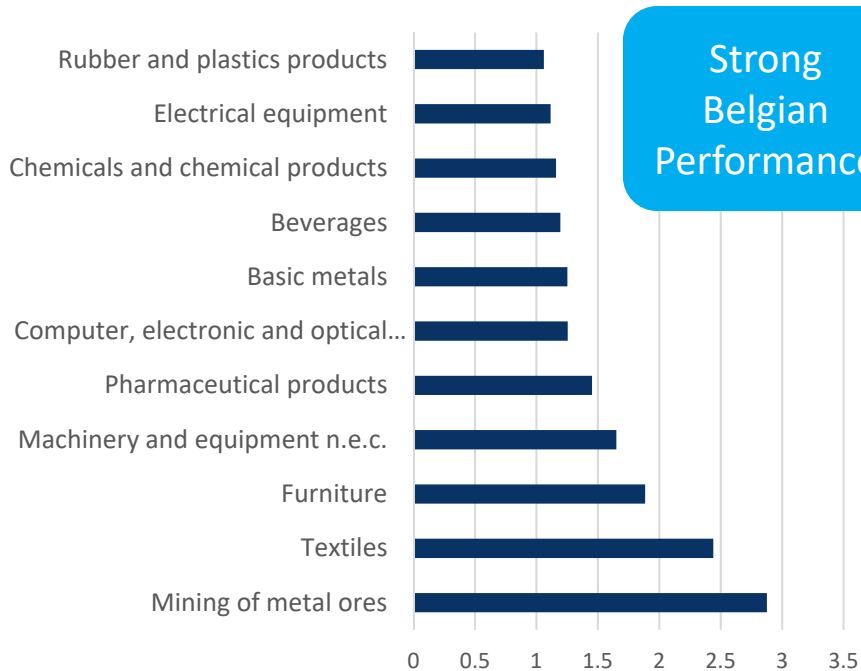


Belgian adventures on Chinese market

Belgian export performance on Chinese market (2018)

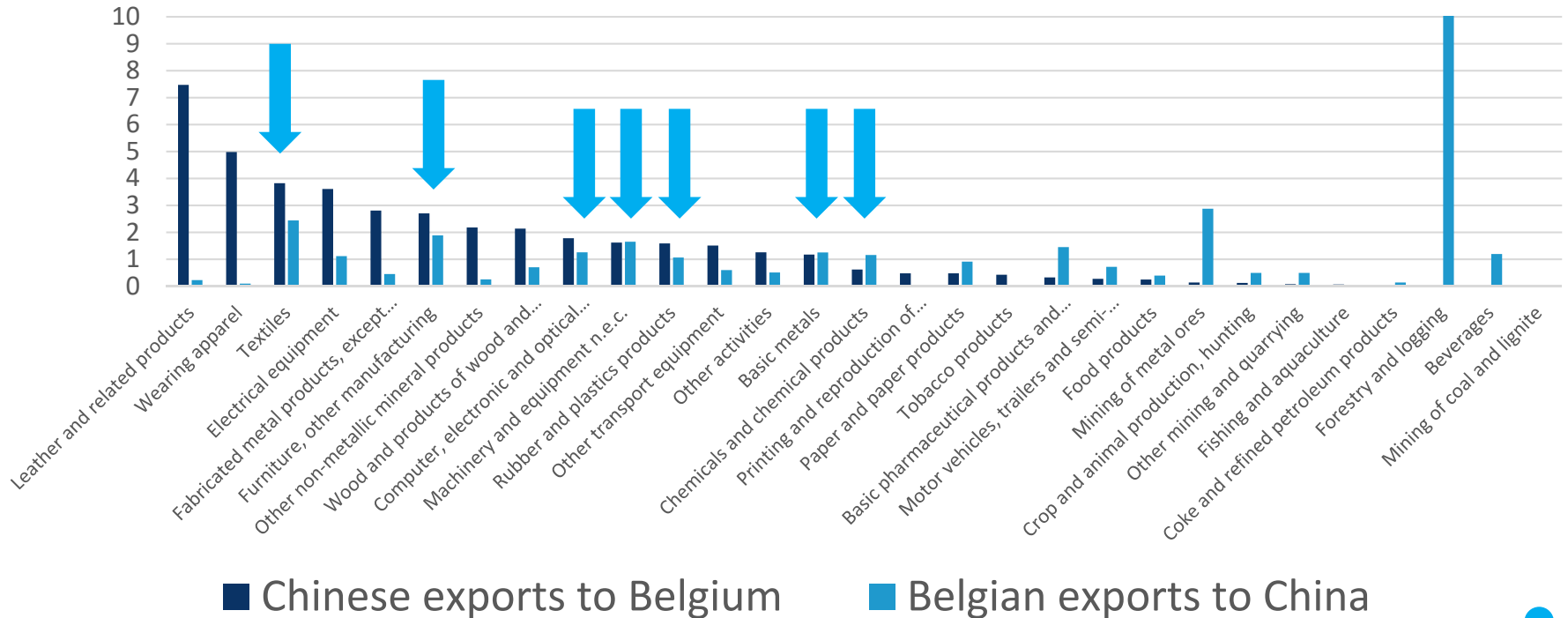


Belgian export performance on Chinese market (2018)



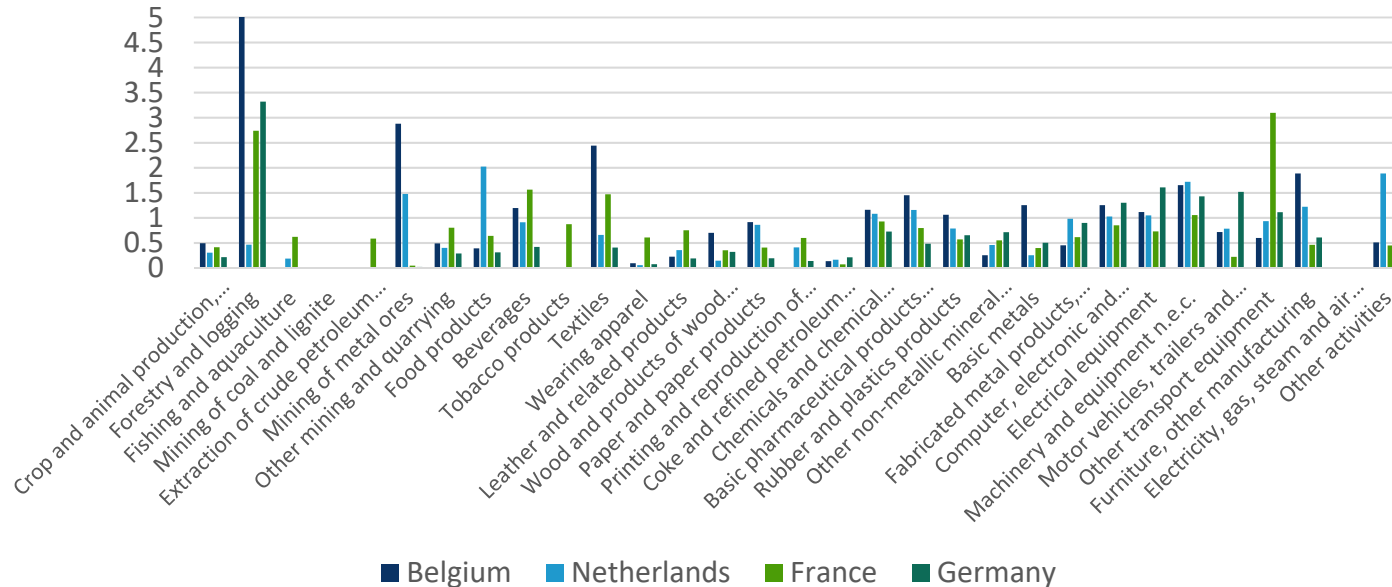
Opportunities for bilateral trade and investments in common sectors

Belgian-Chinese bilateral export performance (2018)



Relative performance compared to neighbouring countries

Exporting to China: performance by sector (2018)



Strong Belgian performance in many sectors (beverages, chemicals, pharma...)
 -> growth mainly comes from Chinese market growth

Belgian opportunities in several sectors (food industry, automotive industry, metal products)
 -> strong unexploited market potential

Trends in Chinese direct investments in Europe – Implications for Belgium

Chinese investments in Europe boosted, but **recently declining**
(cfr. deleveraging process in China + more cautious policy stance in Europe)

Strong focus on **larger EU member states** / geostrategic locations

Limited mega deals, more **diversified across sectors**

Chinese investments in **Belgium limited**

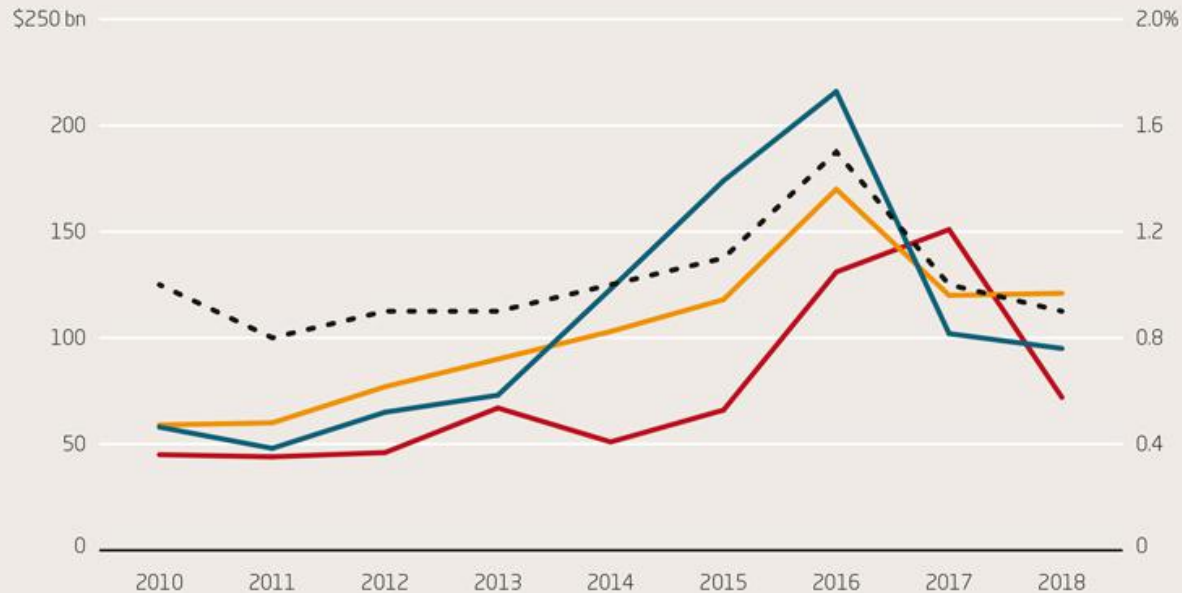
Focus on financial services, health and biotech, consumer products and services, and automotive

China's outward FDI slump continued in 2018

USD billion, percent share of GDP



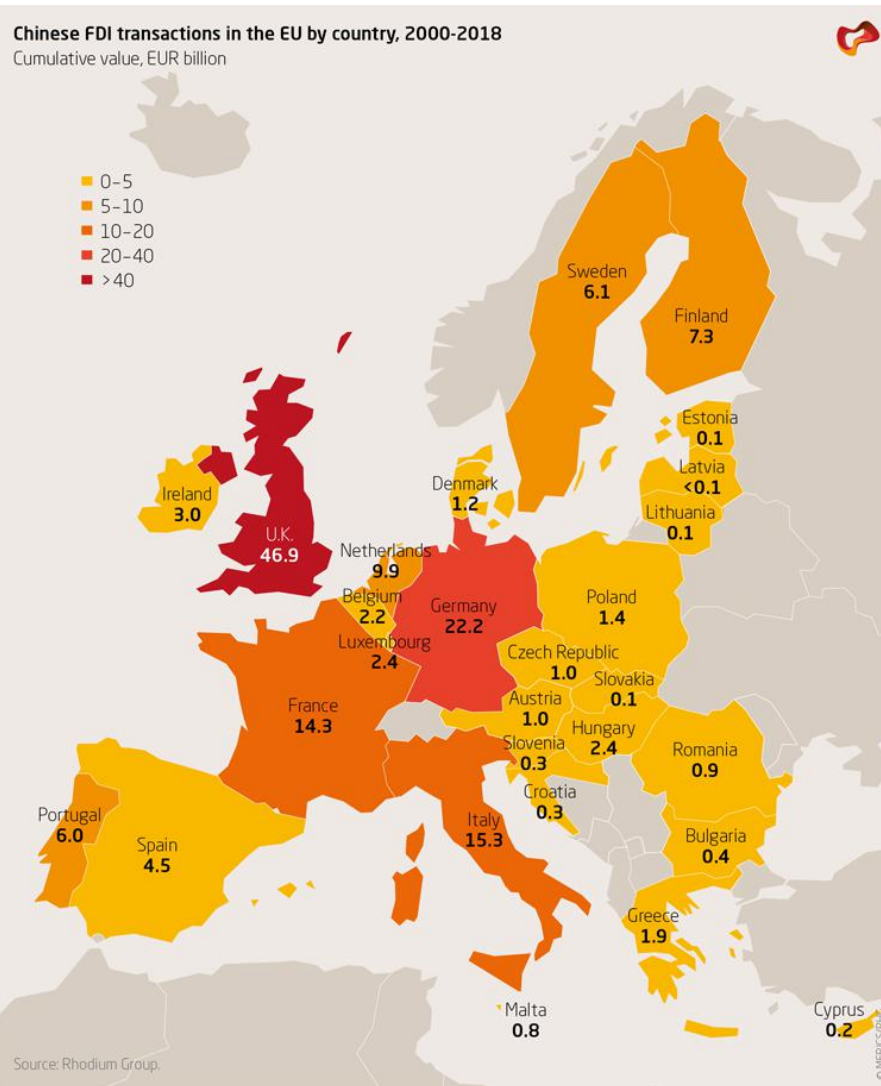
- China's global FDI assets under the balance of payments (State administration of foreign exchange)
- China's non-financial FDI (Ministry of Commerce)
- Value of completed global M&A transactions by Chinese companies (Bloomberg)
- - - China's non-financial OFDI to GDP ratio (Ministry of Commerce) [right axis]



Source: PRC Ministry of Commerce (MOFCOM), Bloomberg, State Administration of Foreign Exchange (SAFE).
SAFE full-year 2018 data is estimated.

© MERICS/RHG

Source:
Merics – Rhodium Group
(2019)



Source:
Merics – Rhodium Group
(2019)

Challenges to Belgian-Chinese relations

- More traders than investors
- Belgian entrepreneurs cautiously looking beyond EU market
- Lack of mutual trust

Intrinsic

Political-economic

Operational

Weak 'ease of doing business' performance

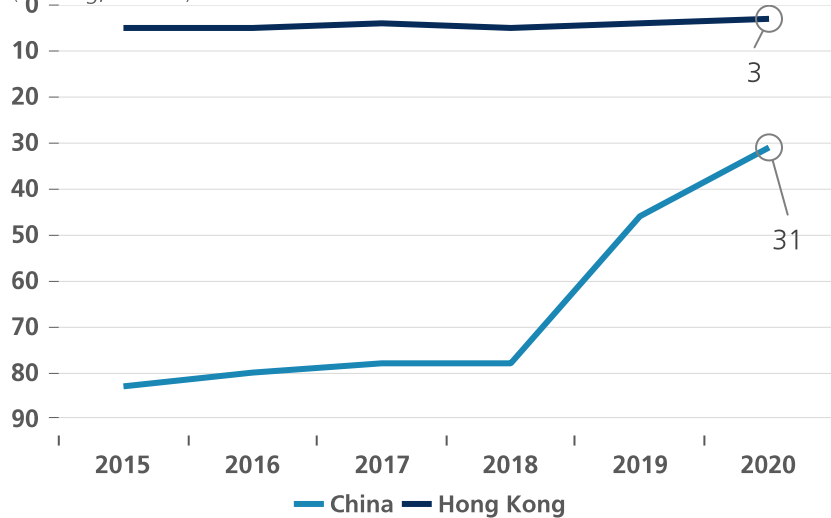
- Structural protectionism
- New and more stringent EU framework for investment screening
- Technological protection
- Opening up of the financial system
- Excessive stimulus and debt accumulation

Mainland China or Hong Kong?

Hong Kong still remains very attractive ,
but Mainland China is converging.

World Bank Ease of Doing Business

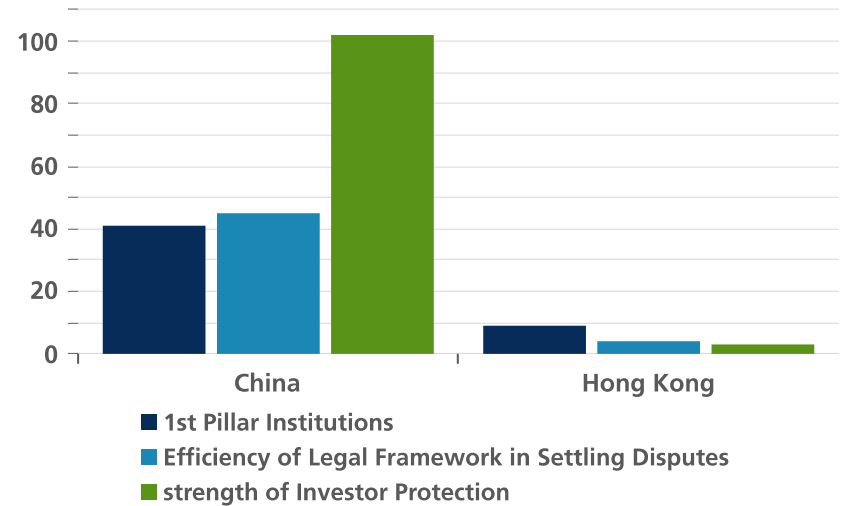
(ranking, 1=best)



Source: KBC Economics based on Doing Business

WEF Global Competitiveness Index

(ranking, 1=best)

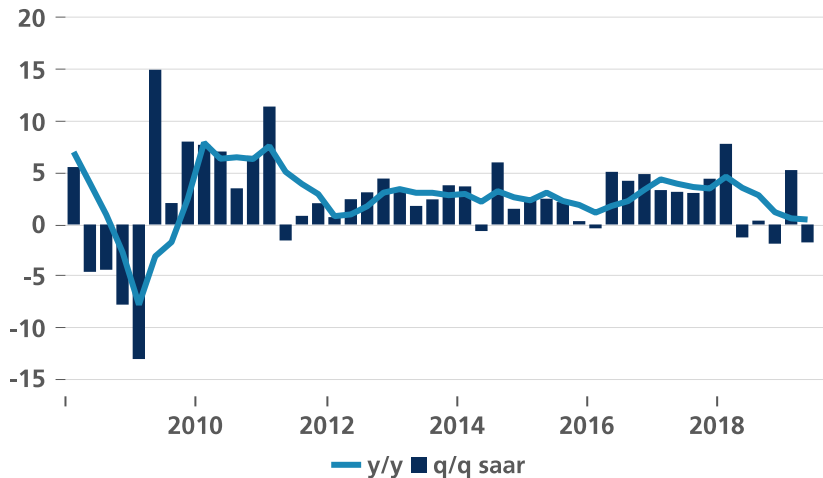


Source: KBC Economics based on World Bank

Economic impact of recent Hong Kong developments

From an economic perspective, protests are clearly weighing on Hong Kong.

Hong Kong real GDP growth
(% change)



Source: KBC Economics based on HKC&SD

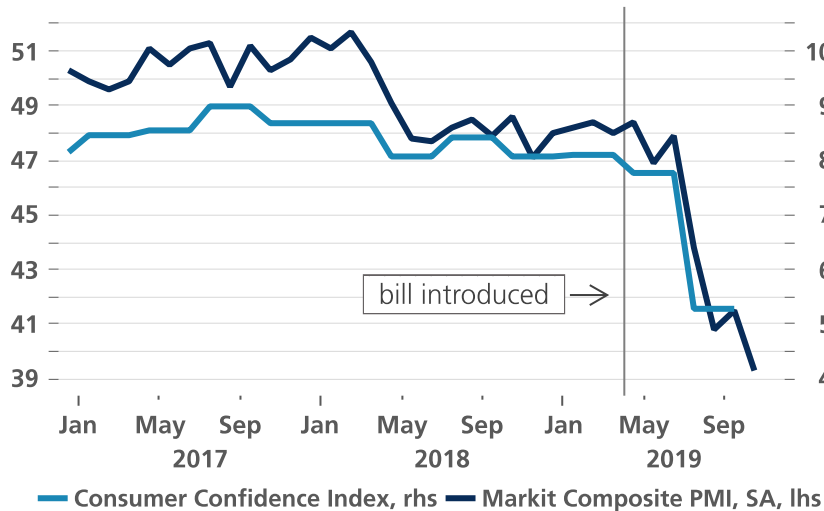
Hong Kong already faced slowing growth in 2019 thanks to the **trade war and slowing growth in China.**

However, **activity indicators have dropped sharply since the protests started.**

Economic impact of recent Hong Kong developments

The deterioration in several activity indicators since the protests started is striking.

Hong Kong sentiment



Source: KBC Economics based on HKC&SD, IHS Markit, CityU

Hong Kong, Retail Sales

(yoy %)



Source: KBC Economics based on HKC&SD

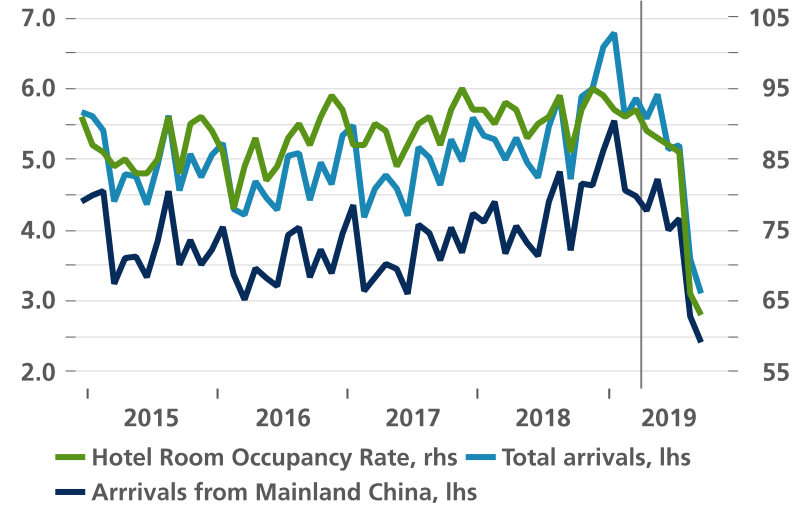
Hong Kong tourism facing substantial decline

Hong Kong Tourism Spending



Source: KBC Economics based on HKTB, HKC&SD

Hong Kong tourism



Source: KBC Economics based on HKTB

Hong Kong – China link for access to international financial markets

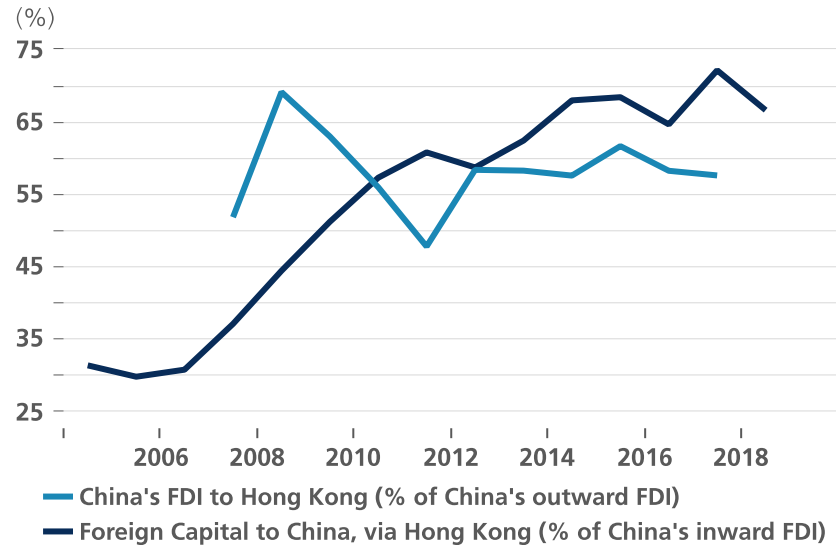
But will there be a wider spillover? For China this risk is high, as Hong Kong's financial system has been crucial for China.

Most FDI in and out of China flows through Hong Kong

73% of Chinese IPO's in 2010-2018 took place in Hong Kong

Bond Connect and Stock Connect allow equity and bond trading between Mainland China and the rest of the world via Hong Kong

China relies on Hong Kong for FDI

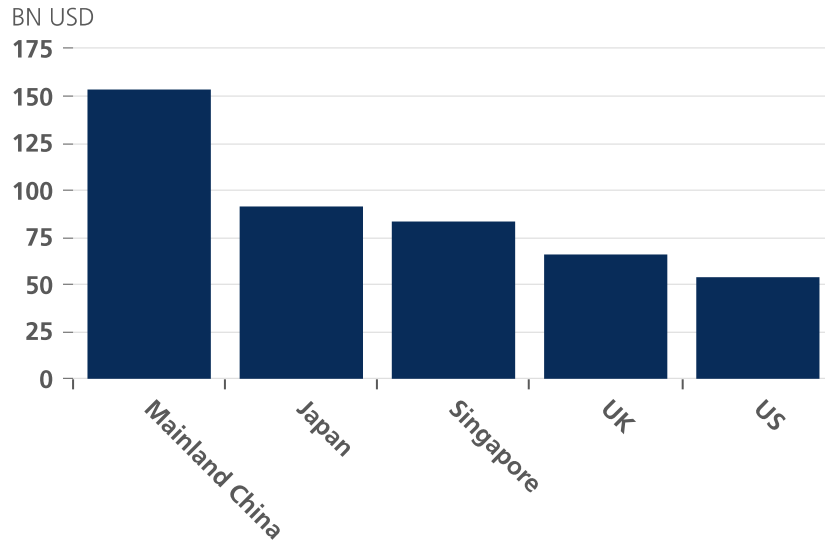


Source: KBC Economics based on China Ministry of Commerce, NBS

Hong Kong – China link via banking

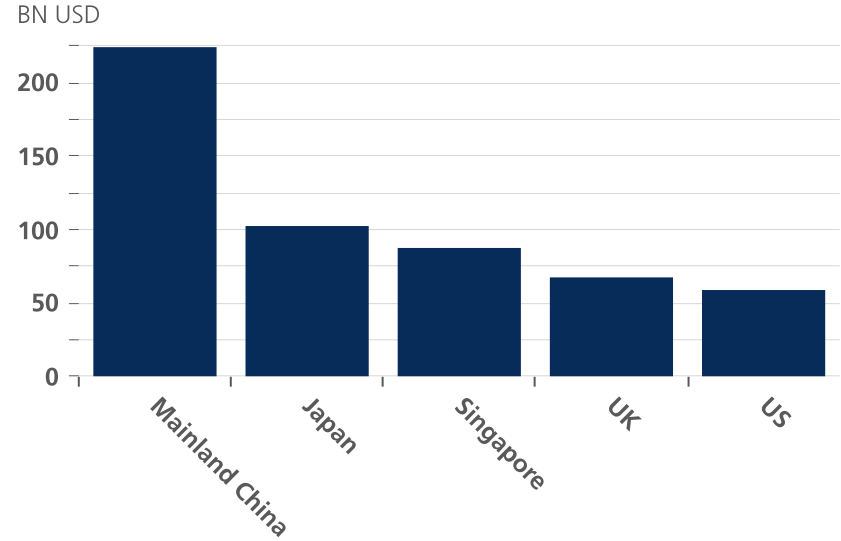
Furthermore, the Hong Kong and Chinese banking systems have significant links.

Hong Kong banking liabilities vis-a-vis:



Source: KBC Economics based on HKMA

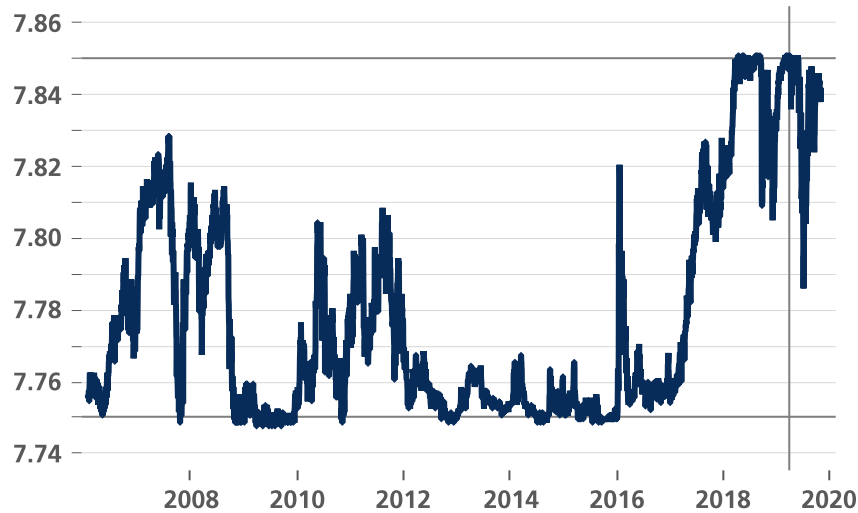
Hong Kong banking claims vis-a-vis



Source: KBC Economics based on HKMA

No shocks so far to Hong Kong financial markets, but limited reaction capacity due to HKD-USD peg and large FX exposure

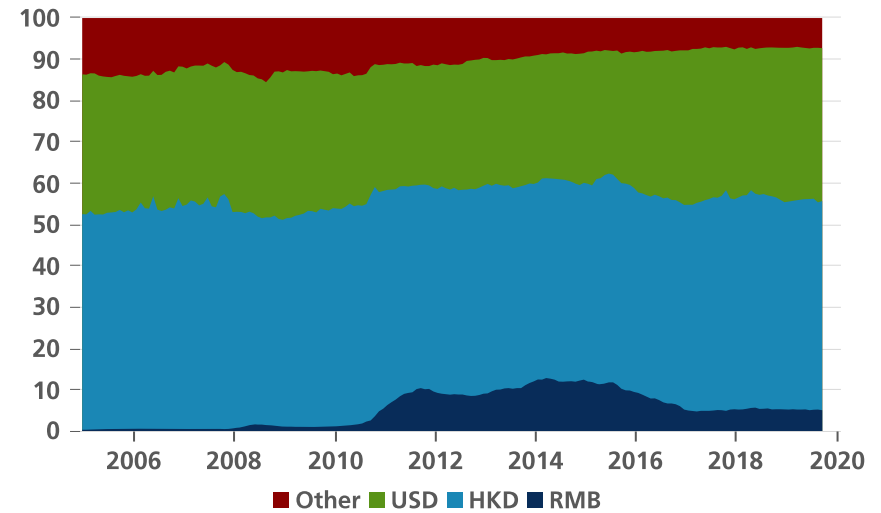
HKD per USD



Source: KBC Economics based on HKMA, HKAB

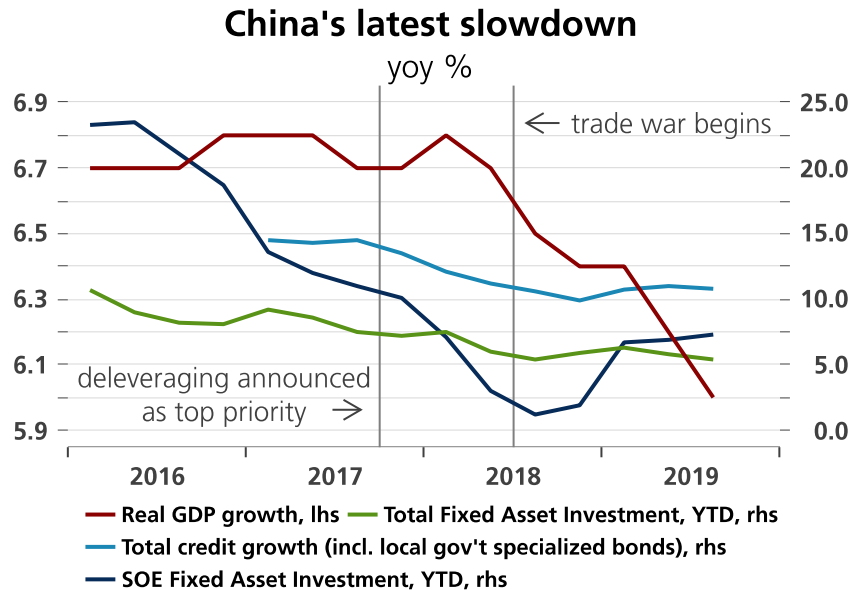
Hong Kong MFI Deposits, By Currency

% of total

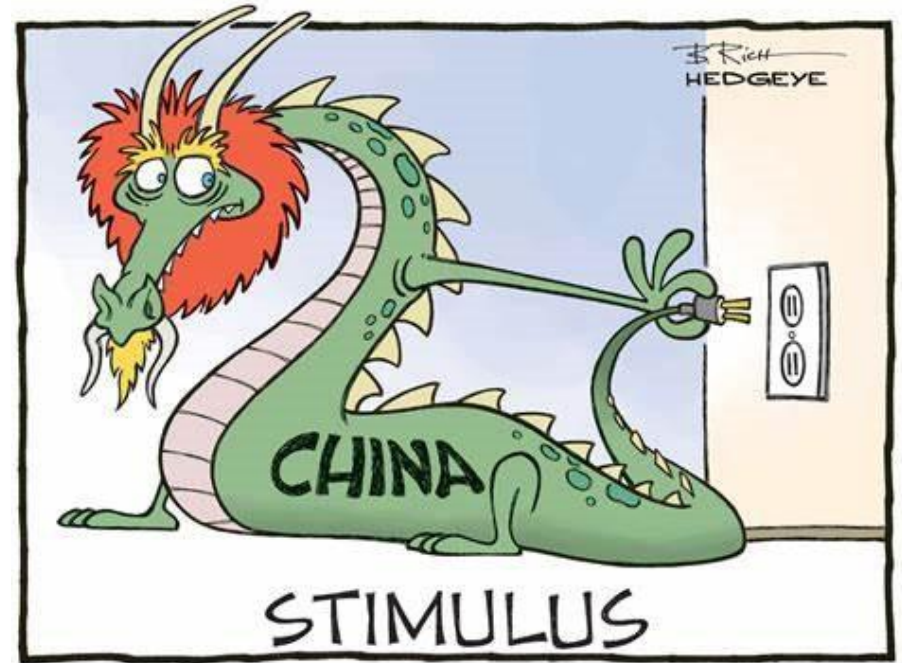


Source: KBC Economics based on HKMA

China countering trade war effects by excessive stimulus, but timing inconvenient

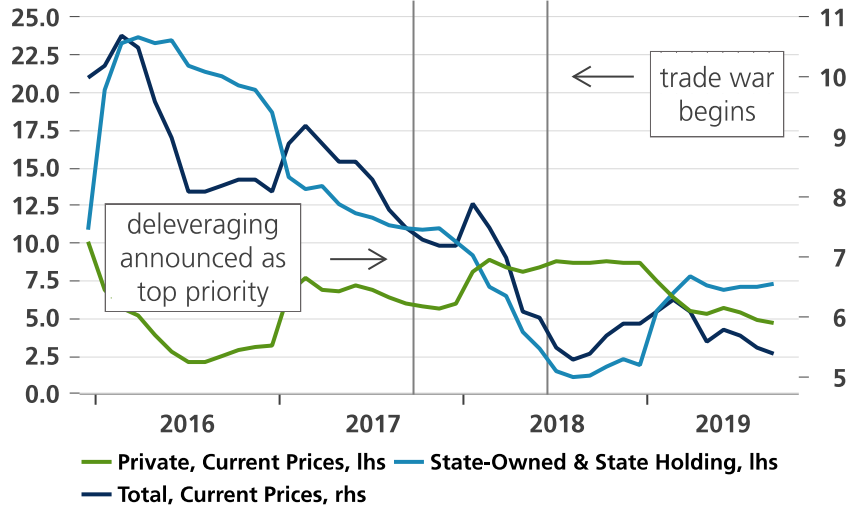


Source: KBC Economics based on NBS, PBoC



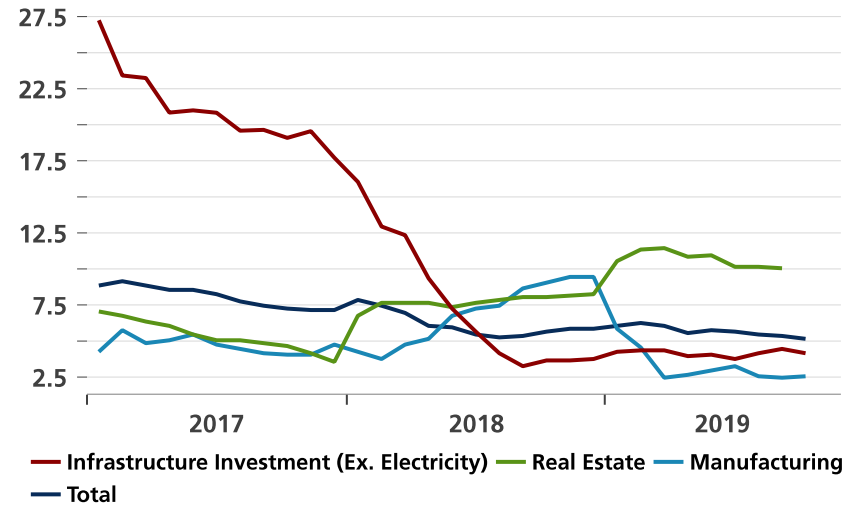
Fast debt accumulation necessitates deleveraging, but temporarily (?) halted to cope with trade war effects

China: Fixed Assets Investment
(Change YTD YoY, %)



Source: KBC Economics based on NBS

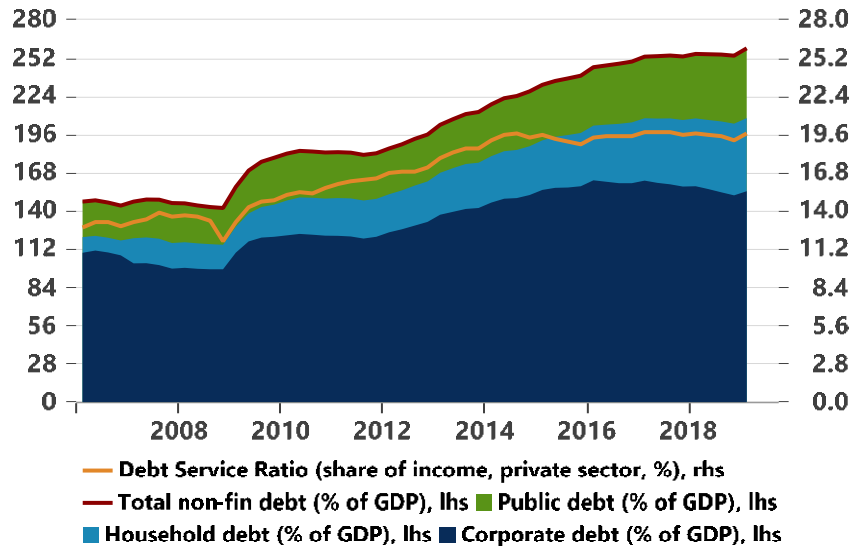
China, Fixed Asset Investment
YTD yoy %



Source: KBC Economics based on NBS

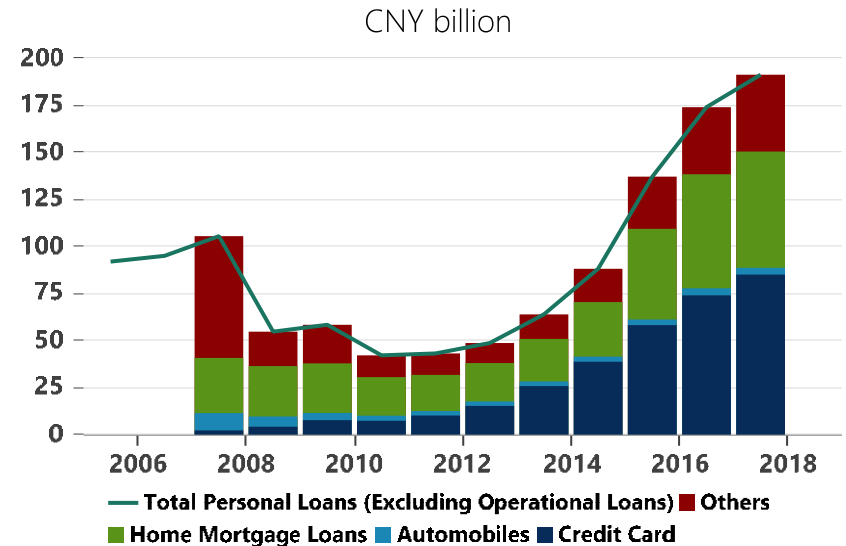
Financing China's debt burden may be challenging in the longer run

China: Non-financial debt



Source: KBC Economics based on BIS

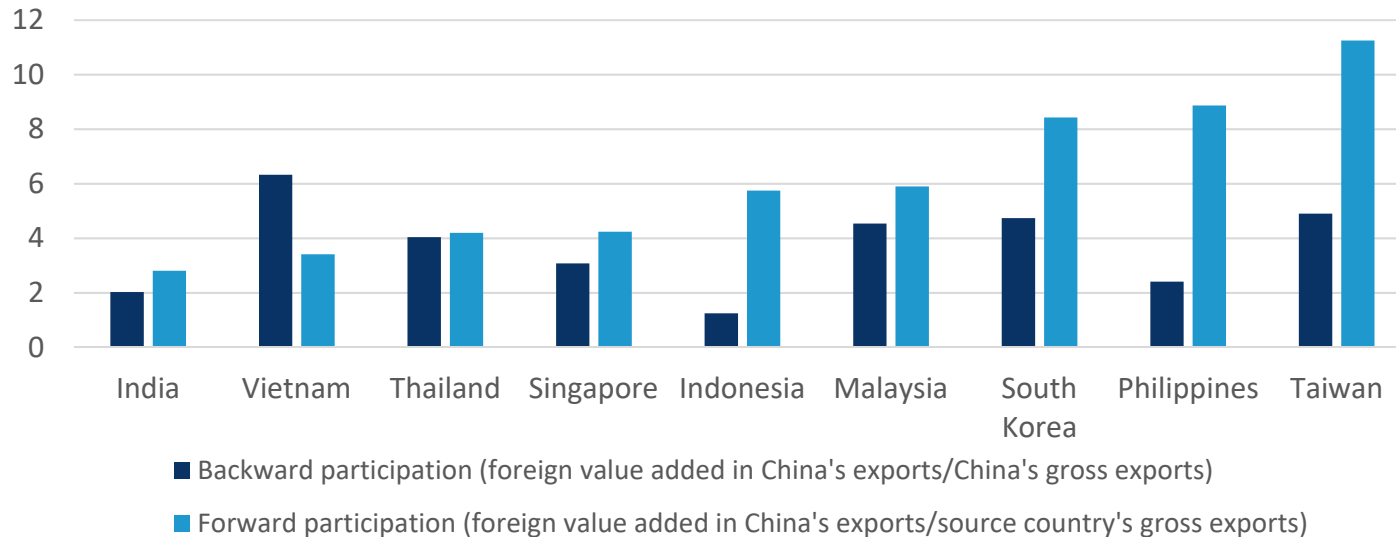
China: Commercial Banks' NPLs



Source: KBC Economics based on CBIRC

Regional links through value chains

Supply chain linkages with China, in %



Source: KBC Economics based on OECD TiVA (data as of 2011)

Competitive advantages across the region very different

Competitiveness factors for manufacturing supply chains

	Working age population (millions)	Skill ranking	Average monthly wages (USD)	Doing Business Ranking	Infrastructure Ranking	FDI Regulatory Restrictions Score
China	1012.13	63	847	31	30	0.251
India	928.27	96	245	63	64	0.209
Indonesia	185.45	62	136	73	77	0.313
Malaysia	22.45	24	765	12	27	0.252
Philippines	70.62	67	256	95	98	0.374
Singapore	4.35	20	3289	2	1	
South Korea	36.74	27	3265	5	7	0.135
Thailand	49.20	66	463	21	57	
Vietnam	67.11	97	256	70	73	0.13

Source: KBC Economics based on UN, World Bank, WEF, OECD, ILO and national authorities

Prospects for Belgian-Chinese Relations



3 key driving forces



Formal integration needed to create sustainable trade & investment environment

Optimism with a touch of realism

Many opportunities, but also many challenges

Long-term focus essential

For the brave ones... or even better for the brave and wise ones

Rely on guides to avoid pitfalls – use our valuable 'trade and investment ecosystem'

Building partnerships essential in current dynamics of the global economy



**Thank you for
your attention!**

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