Global trade in 2019: and the winners are…

- The US, China and the Eurozone will continue to be the best destinations for exporters in 2019: +USD193bn from the US, +USD161bn from China and +USD260bn for the Eurozone
- The top performing sector will be services with +USD365bn of export gains.
- Beyond a hypothetic rising protectionism, businesses should prepare for higher cost of trade, trade diversion, and rising political risks

Paris, 3rd December 2018 – The US, China, and the Eurozone will be the best destinations for exporters in 2019. "*Despite rising trade tensions, these markets will remain dynamic. We forecast a rise in imports of +USD193bn in 2019 for the US, of +USD260bn for the Eurozone, and of +USD161bn for China*" said Ludovic Subran, Global Head of Macroeconomic Research at Allianz and Chief economist at Euler Hermes

In the US, the fiscal stimulus of the Trump administration and a rise in wages associated with the strength of the dollar will keep both domestic demand and imports in-check. In China, solid growth of private consumption and an opening of the domestic markets are expected to support import growth (+USD161bn in 2019). In the Eurozone, improving job markets and resilience in both investment and consumption will support the rise of imports. We expect wage growth to rise to +2.4% in 2019 (from +2.2% in 2018), unemployment rate to decrease to 7.9% (from 8.2%).

Servitization is key with services export to grow by +USD365bn

We see a continuing trend towards growth of the services sector in emerging markets: the manufacturing sector is becoming more service-oriented with higher spending in R&D, marketing and sales, customer support and financial services. Moreover, services are developing at a fast pace as the rise of the middle class leads to new consumer need, which in turn is fostered by continued digitalization. This enlarges opportunities for corporates through new trading platforms and a better offering of online services Thanks to servitization, services exports are expected to post a growth of +USD365bn in 2019 (a pace relatively similar to 2018).

On the other hand, Ferrous and Non Ferrous metals and Vehicles are faced with significant protectionist threats. The former is already heavily targeted by protectionist policies and we expect a moderation in trade performance next year. The second is under stress and could be hit severely over the next months if the US were to impose a 25% tariff on USD200bn of automotive imports.

Heavyweight exporters – China, the US, and Germany – are best positioned to benefit from trade growth.

They remain on top of our export gains. In China, currency depreciation and front loading of exports to the US help explain the strong rise of exports in 2018. Note that China's exports to Belt and Road markets account for a third of total China's merchandise exports while the US accounts for 19% of merchandise exports We expect Chinese trade initiatives, namely the Belt and Road and potentially others, to help diversify exports in the medium term.

In the US, the export acceleration of 2018 is based on higher capacity to export energy, alongside higher oil prices. The same factors should explain the deceleration of exports in 2019, with lower energy prices and an expected deceleration of global demand.

In the Eurozone, as 60% of trade is intra-regional, the performance will be mainly driven by demand from the EU. Moreover, the weak euro encourages corporates to look for local suppliers. Germany, France and Italy in particular are expected to post a rise of export of USD64bn, USD28bn and USD16bn respectively in 2019.

Asian and African newcomers could also make it to the Export Hall of Fame: we expect strong performance from manufacturing countries in Asia, Eastern Europe and Africa. These markets will likely benefit from the rise of protectionism in the US, the advancement of the Belt and Road project and the development of China's value chain.

What should businesses watch for in 2019?

First, the cost of trade will mechanically increase in 2019. Why? Because monetary and financial conditions are tightening in dollar terms: in other words, for every 100 basis points of increase in US 10 year interest rates, trade finance costs increase by 80 basis points. In parallel, specific currency, political and non-payment risks are also increasing.

Second, trade diversion has already started and could disrupt supply chains: corporates could focus on local markets and secured trade routes, to keep revenues in check as risk of supply chain disruptions have increased with US-China trade tensions. While the value of global trade will continue to grow in 2019, global FDI[1] could decrease by -14% in 2018 before a modest uptick in 2019 (+5%).
In the face of growing trade threats, and political risks including Brexit and bilateral tensions as in the Gulf countries, corporates have started to discuss secured trade routes either banking on neutral and competitive trade hubs that are not subject to protectionist measures from major economies, or by regionalizing their value chains along trade areas.

"*Asian pivots such as Bangladesh, Vietnam, Cambodia, Laos should benefit the most from this global trade re-wiring. Even if it is unlikely that China will be replaced soon as the key supplier, we see new players emerging in the longer term, mainly in ASEAN: Malaysia, Thailand and Indonesia*" said Mahamoud Islam, Senior Economist for Asia.

In Europe, Romania and Poland are the best positioned with modest growth of investment and strong growth of trade.
Diversion effects due to new trade policies and corporates strategies will likely exacerbate this trend.

Last, tariffs are the tip of the iceberg. Other forms of protectionism, political risk and Fait du Prince could increase further in 2019. From the United States to Germany and France, to China, government interventions against foreign take overs have increased visibly. Moreover, transaction risks (growing sanctions or targeted regulatory risks on highly visible and strategic sectors – such as automotive) as well as confiscation and expropriation risks on assets, could be a second phase to mounting protectionism.

Our latest Global Trade Report, published on November 29th, 2018, is available here

[1] Foreign Direct Investment

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