Looking ahead to 2024, what is the outlook for world trade?

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Confidential

Executive summary

After a significant expansion in 2021 and 2022, attributable to the post-pandemic recovery, world trade volume growth slowed sharply in 2023, particularly in the developing countries of Africa and East Asia. Falling from 9.6% in 2021 to 3% in 2022, and then to just 0.8% in 2023 according to the latest WTO projections, this quasi-stagnation can be explained by various factors, including restrictive monetary policies, China's less vigorous economic recovery than expected, and geopolitical tensions linked to the war in Ukraine. Good trade in value terms, meanwhile, fell in 2023 due to lower commodity prices.

While the WTO expects growth in international trade volumes to rebound this year (close to 3%), the realization of this scenario is subject to a number of uncertainties, particularly geopolitical. In this respect, tensions around three major maritime crossroads could disrupt trade in goods, given that more than three-quarters of trade in goods transits by sea. Tensions in the Red Sea, linked to attacks by the Houthis as part of the conflict between Israel and Hamas, as well as drought in the Panama Canal, could disrupt 17% of world merchandise trade and, by knock-on effect, disrupt a significant proportion of global supply chains. Lastly, although the likelihood of a trade blockage in the South China Sea seems lower, the recent rise in tensions between China and the Philippines (in addition to those with Taiwan) will be all the more cause for concern given that 25% of world trade passes through this maritime zone.

Against this tense geopolitical backdrop, new trends are emerging: while "Near-shoring" has not progressed in 2023, "Friend-shoring" has become more frequent. Moreover, trade routes are now longer: in order to circumvent sanctions and/or protectionist measures, new stages are appearing in international production chains. For example, several Southeast Asian countries and Mexico are now importing more from China and then re-exporting more to the USA. The same applies to Central Asia, which serves as a transit point for European exports to Russia.

This bypassing of the most direct trade routes to avoid political risks is likely to continue, as 2024 could see a resurgence of protectionist measures, particularly in the electric car sector. Indeed, the European Commission will announce by next autumn whether the EU will raise tariffs on imports of these goods produced in China. The United States could follow suit if Donald Trump is elected to the White House on November 5.

1. Near-zero growth in world trade volumes in 2023

1.1. Multifactorial causes

Since the last quarter of 2022, world trade volume growth has slowed. After a notable expansion in 2021 (+9.6%), attributable to the post-pandemic economic recovery, trade in goods recorded growth of 3% in 2022 and **is set to increase by just 0.8% in 2023**, according to the latest projections from the World Trade Organization (WTO)[1]. **This slowdown in the growth of international trade in goods stems from a combination of factors**. Firstly, restrictive monetary policies, implemented in most developed and developing economies to counter high levels of inflation, have hampered global economic growth (3% in 2023[2]), weighing on domestic demand for foreign goods and on levels of investment in industrial production. China's slower-than-expected economic recovery (3% in 2022 and 5% in 2023[3]) has not generated the hoped-for upturn in world trade, even though the country accounted for almost 13% of world trade before the Covid-19 pandemic. Finally, geopolitical tensions arising from the war in Ukraine and, more broadly, the increase in trade-restricting measures (both in the form of tariffs and non-tariff measures)[4] have hampered growth in international merchandise trade (see following sections).

While growth in world trade volumes was weak in 2023, it varied greatly from region to region. Indeed, **the slowdown appears more marked for developing countries**, particularly those in the African and East Asian regions. On an annual basis, **growth in merchandise export volumes from North America remained high** (+3.6% projected by the WTO), underpinned by the resilience of the US economy. In contrast, Africa's export performance deteriorated sharply, with the region expected to record a 1.5% contraction in merchandise exports. All other regions are expected to see only slight growth (Chart 1).

Chart 1: Growth in merchandise export volumes by region (annual % change, 2019-2023)

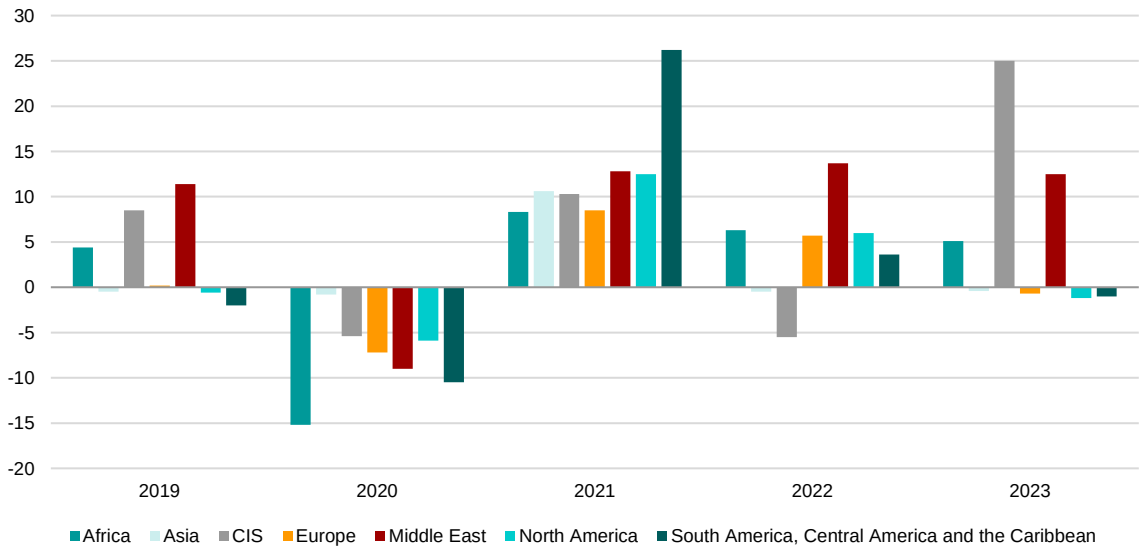
Source : WTO, GSA

As far as imports are concerned, the countries of the Commonwealth of Independent States (CIS)[5] recorded the strongest growth, with an annual increase of 25%. This trend can be explained by European

[1] Source: WTO Data, https://timeseries.wto.org/
[2] Source: IMF, World Economic Outlook, Oct 2023
[3] Source: IMF, World Economic Outlook, Oct 2023
[4] Source: UNCTAD, Global Trade Update, Dec 2023
[5] Note: Belarus, Russia, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan

economies' circumvention of sanctions against Russia, which led to an intensification of trade with Central Asian countries. In addition to CIS countries, fuel-exporting regions saw strong import growth in 2023, benefiting from the profits generated by export revenues since the start of the conflict in Ukraine. The Middle East recorded annual growth of 12.5% in import volumes, while Africa posted growth of 5.1% (Chart 2).

Chart 2: Growth in merchandise import volumes by region (annual % change, 2019-2023)



Source : WTO, GSA

On a quarterly basis, merchandise trade volume data show a slight rebound from Q2 2023 onwards, following a contraction in international trade in Q4 2022 and Q1 2023 in almost all regions of the world.

Chart 3: Quarterly growth in merchandise exports and imports by region (%, 2022Q4 - 2023Q3)[6]

	Exports				Imports			
	2022Q4	2023Q1	2023Q2	2023Q3	2022Q4	2023Q1	2023Q2	2023Q3
World	-2,1%	0,4%	0,0%	0,1%	-1,9%	-0,7%	0,1%	-1,0%
Africa	0,1%	0,6%	1,5%	-1,7%	-2,1%	-1,2%	6,6%	-2,5%
Asia	-4,7%	2,6%	2,0%	1,4%	-3,0%	-0,1%	-0,1%	0,0%
CIS	-1,1%	-4,8%	2,5%	0,2%	8,2%	6,2%	4,8%	-3,7%
Europe	0,1%	-1,9%	-1,4%	-1,5%	-0,8%	-2,0%	-0,9%	-2,3%
Middle East	-2,4%	-1,3%	-1,6%	-1,1%	-1,7%	2,1%	1,0%	1,8%
North America	-1,6%	2,8%	-1,9%	2,2%	-1,8%	0,1%	0,1%	-0,2%
South and Central America	0,8%	-1,3%	2,1%	-0,1%	-7,2%	-2,6%	3,7%	-0,2%

Source: WTO, GSA calculations

1.2. Falling commodity prices lead to a decline in world trade by value in 2023

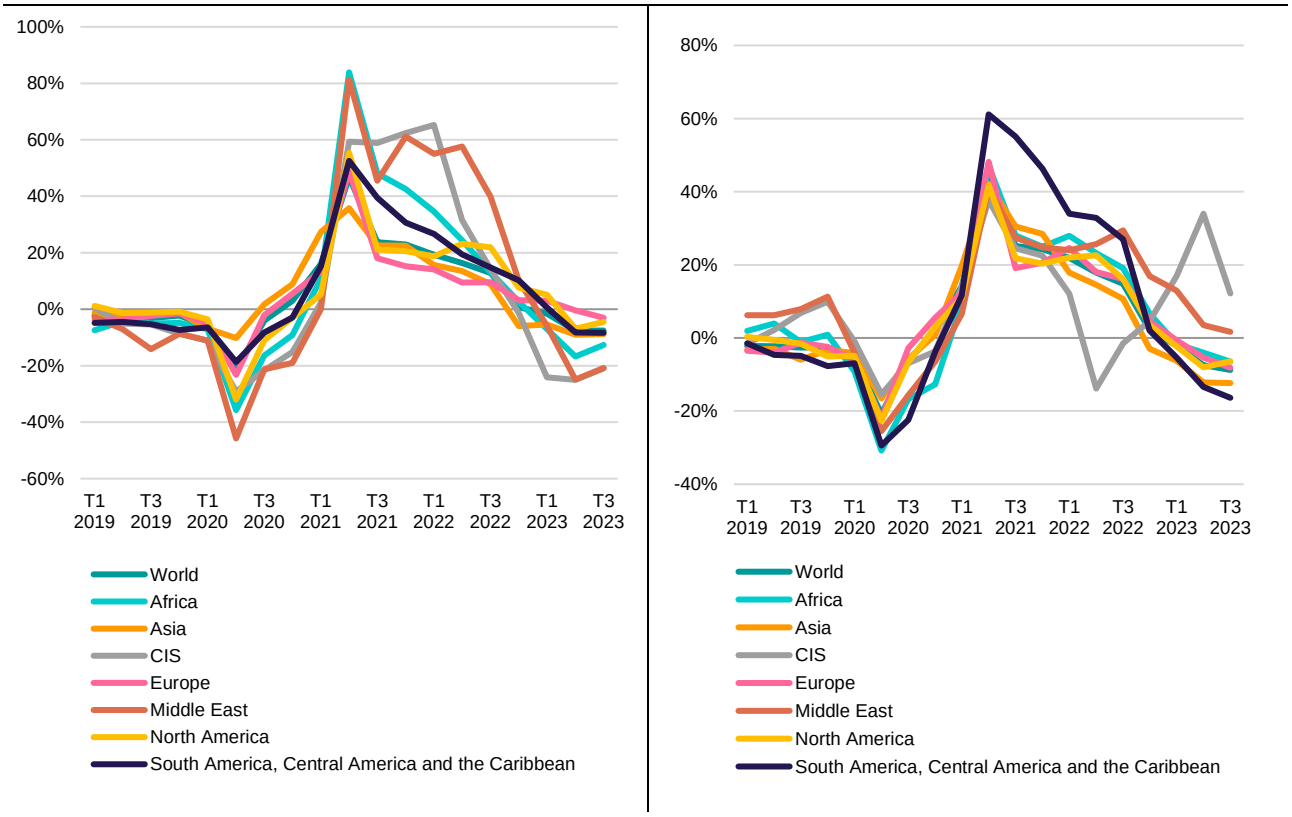
During 2022, growth in international trade by value remained positive and robust, fueled by high levels of inflation. Declining commodity prices, however, have induced negative growth in world trade by

[6] Note: Data have been seasonally adjusted.

value throughout 2023. UNCTAD thus forecasts a decline in world trade of $1,500 billion (or 4.5%) compared with 2022, to around $31,000 billion[7].

During the first three quarters of 2023, all regions of the world experienced a negative variation in the value of their exports compared with the same period of the previous year (data for the fourth quarter are not yet available), except for Europe, North America, and Central and South America. Quarterly imports also declined in the first three quarters of 2023, except for CIS countries and the Middle East (for the same reasons as above).

Charts 4: Annual growth in exports (left) and imports (right) of goods by value by region (%, Q12019 - Q32023)

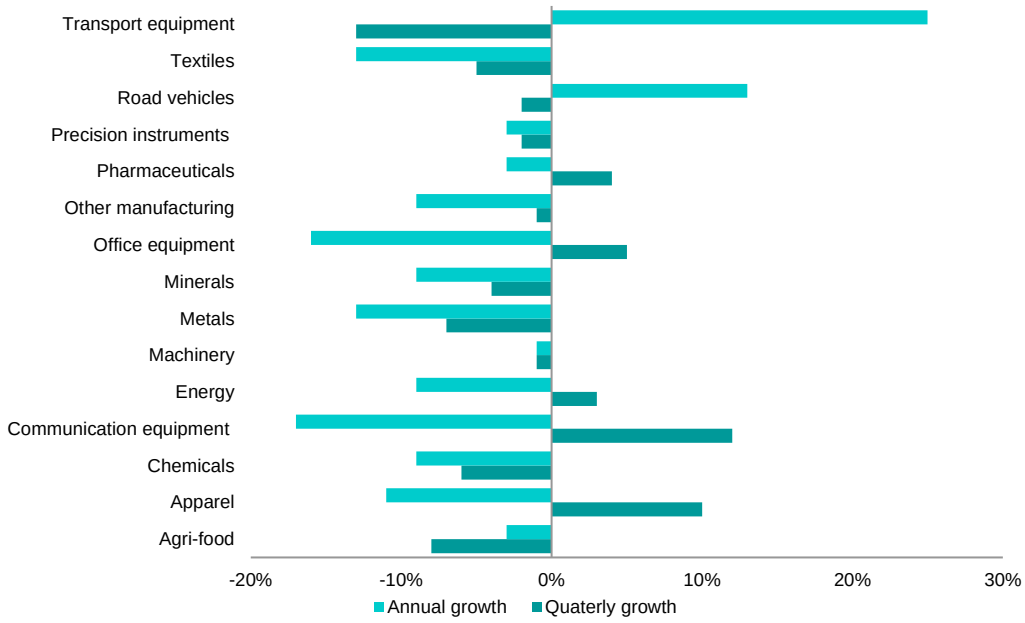


Source : WTO, GSA

Virtually all sectors of activity recorded a decline in trade value last year, notably textiles and clothing, office equipment, telecoms equipment, metals, and minerals. Two segments were the exception: transport equipment and road vehicles, which recorded growth rates of 25% and 13% respectively over the last four quarters.

[7] Source: UNCTAD, Global Trade Update, Dec 2023

Chart 5: Annual and quarterly growth in merchandise trade by type of goods (%, Q32023)[8]



Source: UNCTAD

1.3. The latest WTO projections point to an increase in international trade of around 3% in volume this year, but recent geopolitical events make this more uncertain

The favorable economic outlook for 2024 points to a positive trend in world trade, as indicated by WTO forecasts, which anticipate a 3.3% increase in international trade volumes[9]. This should be made possible by stable global economic growth (2.9% according to the IMF), albeit unevenly distributed around the world. Indeed, **the elasticity of trade in relation to GDP - i.e., the ratio between growth in merchandise trade and growth in GDP - averaged 1 between 2019 and 2023, suggesting that world trade should grow at roughly the same rate as world GDP in 2024**.

These forecasts remain highly uncertain, however, given recent developments in the global economy. While indicators of tensions on global value chains suggest a recent easing of tensions - the Federal Reserve Bank of New York's Global Supply Chain Pressure Index (GSCPI) having risen to 0.11 in November from -0.39 in October (Chart 6) - **their levels are set to rise significantly in December 2023 and January 2024** in connection with events in the Red Sea. Similarly, the decline in sea freight rates observed since 2022 needs to be qualified. Indeed, they remained at relatively low levels in 2023 due to a faster increase in sea freight supply than in demand, as supply was supported by a world fleet growth rate of over 6% during 2023. **However, while a rebalancing between sea freight supply and demand should take place in 2024, tensions in the Red Sea will lead to higher freight rates, as announced by most of the major shipping lines (see next section).**

In addition, S&P Global's[10] latest PMI survey suggests that global trade will continue to level off in the first few months of 2024. The overall index for the manufacturing sector stood at 49 in December, down from 49.3 in

[8] Note: Quarterly growth corresponds to the quarterly growth rate of seasonally adjusted values. Annual growth refers to the last four quarters.
[9] October 2023 projections
[10] Source: JPMorgan Global Manufacturing PMI, Janv 2024

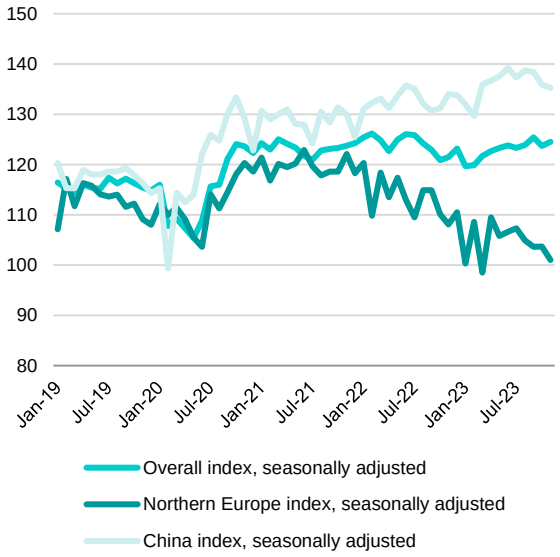
November, and remains below the expansion mark for the sixteenth consecutive month. The sub-indicator for new export orders also deteriorated slightly, by 0.1 points to 48. **The mixed outlook for industrial production could thus weigh on international trade in the months ahead.**

Finally, global container traffic, an important indicator for international trade, showed a downward trend at the end of 2023. According to the RWI index[11] - which considers data on container throughput at 92 international ports, representing around 64% of global container trade - container throughput was down at Chinese and European ports in November 2023 (Chart 7).

Chart 6: Global Supply Chain Pressure Index (GSCPI)

Source: Federal Reserve Bank of New York

Figure 7: RWI Container Throughput Index



Source: SLI, RWI Index

Beyond the level of business indicators, several geopolitical risks threaten the development of international merchandise trade in 2024. Among them, tensions around three major maritime crossroads could disrupt merchandise trade, given that more than three-quarters of goods trade transits by sea.

2. Disruptions around three major maritime hubs could destabilize world trade in 2024

2.1. Tensions in the Red Sea threaten 12% of world trade

Since November 19, 2023, trade in the Red Sea has been severely disrupted by Houthi attacks on merchant vessels crossing the Bab el-Mandeb Strait, a natural bottleneck in the southern Red Sea. A Yemeni Shiite movement, the Houthis, who took control of a quarter of Yemen thanks to an insurrection that began in 2014, justify their actions by **their support for the Palestinian Hamas**, targeted by a vast Israeli offensive in the Gaza Strip following attacks on Israel on October 7. While the attacks (ballistic missile launches, suicide drones, boardings) theoretically target ships belonging to Israeli interests or serving the Hebrew state, they seem to be increasingly indiscriminate.

[11] Source: Institut für Seeverkehrswirtschaft, https://www.isl.org/en/services/rwiisl-container-throughput-input-index-1123

Some thirty attacks (or attempted attacks) were reported between the end of November and the end of December 2023 in this crucial maritime zone, through which 20,000 merchant ships transit every year (representing 12% of international trade and 30% of world container traffic)[12]. As a result, the world's leading shipowners (Maersk, MSC, CMA-CGM, Cosco, Hapag-Lloyd...) have announced **the suspension of their activities in the Red Sea**, preferring to steer clear of the Suez Canal and take the southern African route via the Cape of Good Hope.

The adjustment of shipping routes has had a significant impact on the trade in goods, extending the journey of merchant ships bound for Europe by one to two weeks, and consequently increasing freight rates. Shipping rates in the region have risen sharply, as evidenced by the rate adjustment introduced by French shipping line CMA CGM. The latter has announced that the rate for the carriage of a 40-foot container will increase from $3,000 to $6,000 for voyages between Asia and the Mediterranean, effective January 15, 2024. The Baltic Dry Index, which measures the cost of shipping goods worldwide[13], surged in the wake of the first Houthi attack (graph 8).

Chart 8: Baltic Dry Index

Source: Bloomberg, GSA

Beyond the consequences for international trading companies, the impact of changes to Eurasian shipping routes will potentially not be limited to this sector alone. Delays in the delivery of goods are likely to impact all industries dependent on intermediate products and disrupt global supply chains through shortages and cost increases.

The global energy market could also be severely affected by disruptions to trade in the Red Sea, as a significant proportion of oil and liquefied natural gas (LNG) exports from Gulf countries to Europe and North

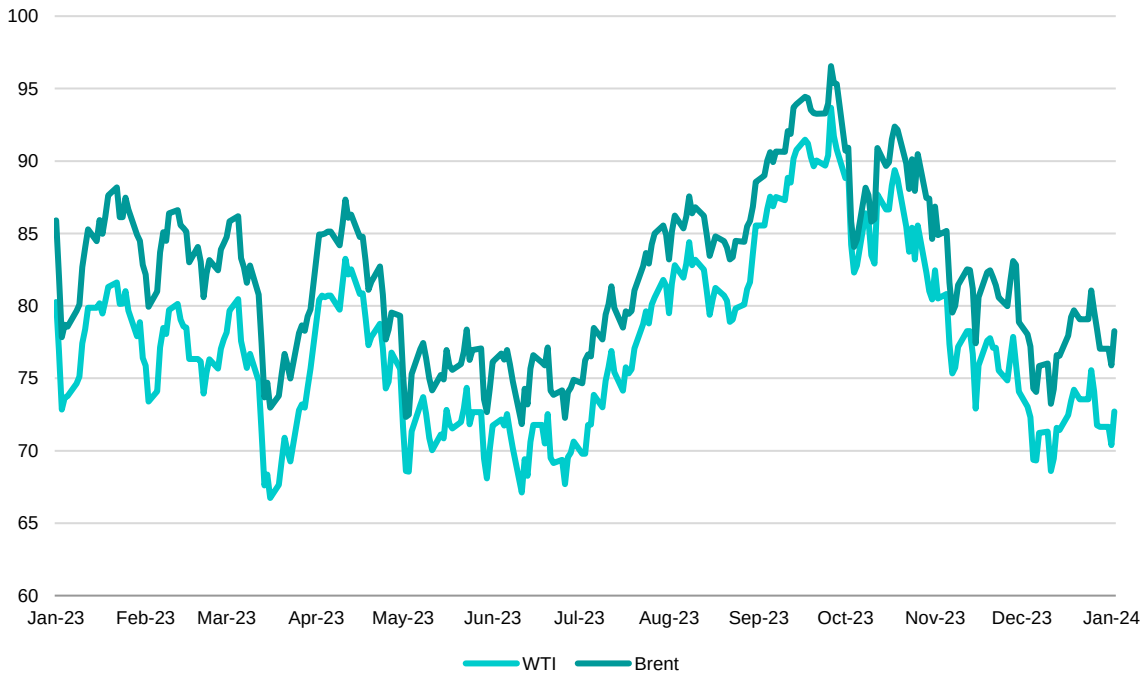
[12] Source: Bloomberg, Houthi Attacks Start Shutting Down Red Sea Merchant Shipping, Dec 2023

[13] Note: The Baltic Dry Index (BDI) is a sea freight cost index, a composite of the Capesize, Panamax and Supramax indices.

America transit through this zone**. In the first six months of 2023, 12% of oil traded (8.8 million b/d)[14] and 8% of LNG traded worldwide took this route.** Although the recent attacks have not had a direct impact on energy prices, further tensions and disruptions to shipping could have a knock-on effect on oil and gas markets.

On January 3, 2024, WTI and Brent reached $70.9 and $76.5 per barrel respectively, one of their lowest levels of 2023. **Recent trends in oil prices do not therefore reflect the rising tensions in the Red Sea** (graph 9), as the oil market has seen several positive developments (increased supplies from the USA, concerns over Chinese demand). However, the market could be adversely affected if tensions in the Red Sea continue.

Chart 9: WTI and Brent oil prices ($ per barrel, January 1, 2023 - January 3, 2024)



Source: Bloomberg, GSA

A fragile response to an unprecedented threat to maritime trade

While shipowners have long been confronted with security risks in the Red Sea (particularly piracy off the coast of Somalia), **the Houthis pose a threat unprecedented in the history of sea freight**. Equipped with missiles, drones and helicopters, the Yemeni rebel group's demonstrated boarding capabilities are incommensurable with those of pirates operating in the region.

To respond to the threat and restore the safety of commercial shipping in the region, the United States announced on December 18 the launch of **Operation Prosperity Guardian (OPG),** a multinational maritime coalition under US command[15]. Washington announced the participation of some twenty countries in the operation. However, some of these countries have been cautious in not confirming their participation or have given only lukewarm support. **This is probably due to the fear of the states concerned of appearing to be**

[14] Source: S&P Global Commodity Insights, Global trade at risk as shippers shun Red Sea over Houthis attacks, dec 2023 https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/shipping/121523-global-trade-at-risk-as-shippers-shun-red-sea-over-houthis-attacks

[15] Source : U.S. Department of Defense, *Statement from Secretary of Defense Lloyd J. Austin III on Ensuring Freedom of Navigation in the Red Sea*, dec 2023

taking sides in the Israeli-Palestinian conflict, the real catalyst for tensions in the Red Sea, while the United States is criticized for its perceived unconditional support for Israel.

However, the lack of clarity about the OPG's modus operandi adds to the confusion for shipping companies. What's more, despite a facade of unity, **the American leadership quickly revealed dissension within the coalition**: some participants, such as France, Italy, and Spain**, take part in the OPG autonomously** and do not answer to the American command. What's more, the navies mobilized in the region **give priority to escorting shipping linked to their national interests** - a national preference that does not augur well for the normalization of traffic soon.

Since the OPG was set up, the forces involved have intercepted some twenty Houthi drones and missiles. **However, the results remain mixed, in that the deployment of forces has so far failed to halt the threat, with attacks by Yemeni rebels continuing** January 3, 2023, the Shiite group targeted a vessel belonging to the French shipping company CMA CGM[16]. Marking a turning point in the operation, the US army sank three Houthi ships on December 31, 2023, killing around ten fighters, after its helicopters coming to the assistance of a Danish Maersk container ship were fired upon by the Yemeni group[17].

Although the possibility of a direct military operation against the Houthis remains unlikely, the risks of a generalized confrontation cannot be totally ruled out. Washington is now accusing Iran, a supporter of the Houthis, of involvement in the attacks in the Red Sea, which Teheran denies. These allegations come against a backdrop of rising military tensions between the United States and Iranian-affiliated forces in Syria and Iraq. Further escalation could have repercussions on the Strait of Hormuz, through which 20% of the world's oil transits.

2.2. Significant slowdown in maritime traffic between the Pacific and Atlantic oceans due to drought in the Panama Canal

Maritime traffic around the Panama Canal is also of growing concern, with the severe drought in 2023 affecting this second strategic hub of world trade. The 82-kilometer canal links 2,000 ports in 170 countries, and sees some 1,000 ships pass through every month, carrying an average of 40 million tons of cargo[18]. According to data from the Panama Canal Authority (PCA), **in 2022, a year characterized by normal weather conditions, more than 14,000 ships passed through the canal, carrying a total of over 291 million long tons of goods.**

Unlike maritime canals, the Panama Freshwater Canal is fed by man-made lakes, making it particularly vulnerable to drought. Hot, dry conditions induced by the El Nino phenomenon during the last rainy season led to a 41% drop in rainfall between April and November 2023, impacting levels in the main reservoirs, particularly Lake Gatun. **While water levels remain 1.8 meters below normal[19], the PCA has instituted water restrictions and reduced loading levels**. Although these restrictions were recently eased due to lower-than-expected precipitation levels last November, navigation capacity remains limited (Charts 10 and 11): while under normal circumstances 36 crossings are authorized each day (10 Neopanamax and 26 Panamax), current capacity has been reduced to 22 crossings per day (6 Neopanamax and 16 Panamax). From January 2024, 24 ships should be able to cross the canal (7 Neopanamax and 17 Panamax)[20].

[16] Source : Les Echos, *Mer Rouge : CMA CGM va doubler ses tarifs, un de ses cargos attaqué*, jan 2024
[17] Source : Reuters, *US sinks 3 ships, kills 10 after Houthi Red Sea attack*, jan 2024
[18] Source: IMF, Climate change is disrupting global trade, Nov 2023
https://www.imf.org/en/Blogs/Articles/2023/11/15/climate-change-is-disrupting-global-trade#:~:text=The%20drought%20will%20hamper%20trade,for%20more%20disruption%20and%20delay
[19] Source: Bloomberg, Saving the Panama Canal will take years and cost billions, if it's even possible, Janv 2024
[20] Source: Panama Canal Authority, Panama Canal to increase daily transits to 24 starting in January, Dec 2023
https://pancanal.com/en/panama-canal-to-increase-daily-transits-to-24-starting-in-january/

Chart 10: Total number of ships in transit (fiscal years 2022 - 2023)

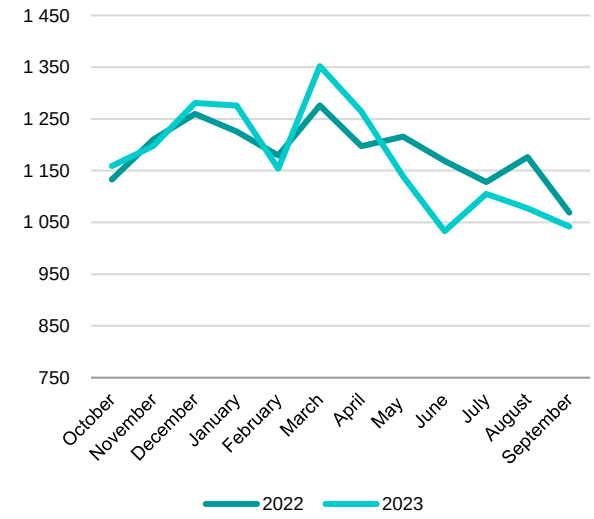
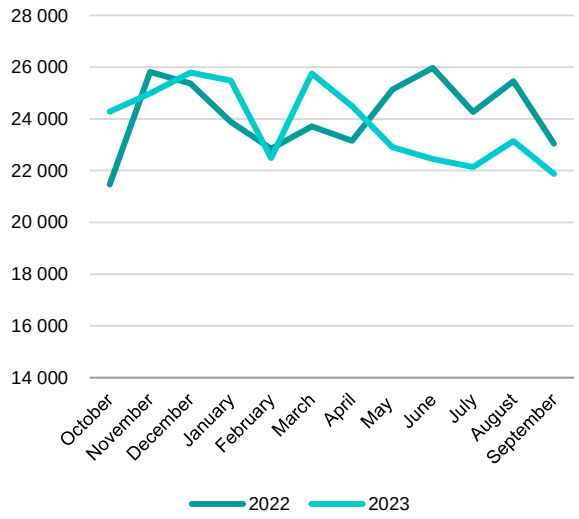


Chart 11: Volume of goods transported (fiscal years 2022 - 2023, thousands of long tons of cargo)



Source: Panama Canal Authority, GSA

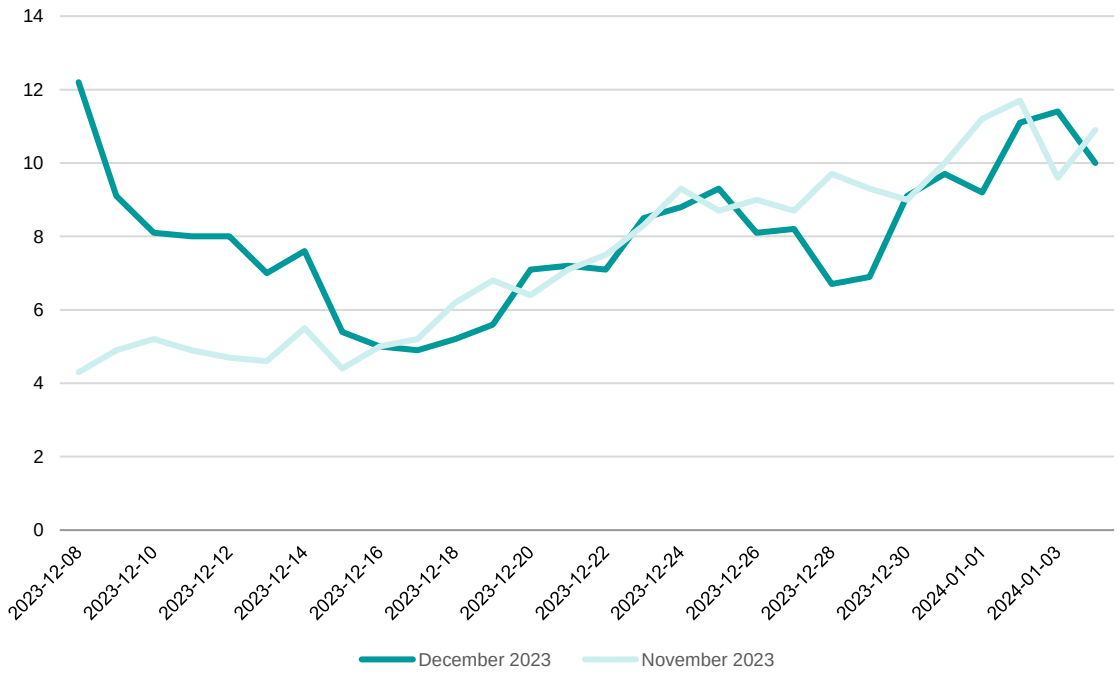
Reduced ease of movement through the Panama Canal is having a significant impact on maritime trade. While some shippers choose to pay millions of dollars to avoid queues, such as the Japanese group Eneos, which paid $3.98 million at an auction in November 2023 (i.e. 20 times the average amount)[21], **most ships are faced with longer transit times**. While waiting times for ships arriving at the canal have evolved from a few hours to several weeks (Chart 12), some shippers prefer to take longer, more costly routes bypassing South America.

Contributing 73% of the Panama Canal's total traffic, the United States is one of the main users of this seaway. In fact, 40% of American container traffic passes through the Panama Canal every year, representing freight worth $270 billion a year[22]. Transit restrictions therefore pose a significant risk to US industry and could have a domino effect on the entire global supply chain. **Smaller users of the canal have also been affected, with disruptions of between 10 and 25% of trade flows in Nicaragua, Ecuador, Peru, El Salvador, and Jamaica[23].**

While the El Nino phenomenon is expected to last until at least April 2024[24], its prolonged impact on weather conditions poses a risk to maritime trade linking the Pacific and Atlantic oceans. In a broader perspective, these recent events highlight how climate change is altering global trade flows. As long ago as 2022, drought created bottlenecks on the Mississippi in the USA and the Rhine in Europe, while melting ice opened new shipping routes in the Arctic. Taken together, these developments should lead to changes in the structure of the main shipping routes, but the time needed to adapt could potentially destabilize world trade in the years to come.

[21] Source: Financial Review, Climate change could ruin Christmas as Panama Canal dries up, Dec 2023
[22] Source: CNBC, US trade dominates Panama Canal traffic, Juin 2023
[23] Source: IMF, Climate change is disrupting global trade, Nov 2023
[24] Source: World meteorological organization (WMO), https://public-old.wmo.int/fr/info-ni%C3%B1oni%C3%B1a

Chart 12: Average number of waiting days for ships in transit from the Pacific to the Atlantic (November - December 2023)



Source: Panama Canal Authority*, GSA*

2.3. Ongoing tensions in the South China Sea also give cause for concern

As the nerve center of world trade, the South China Sea, covering 3 million square kilometers, is of vital importance to several major trading powers (China, Taiwan, Japan, and the United States) and, more broadly, to international trade. **More than a third of the world's shipping takes place in its waters, equivalent to around a quarter of global trade**. On average**, $5,300 billion worth of goods pass through the South China Sea and its Malacca Channel[25] every year**, making it one of the world's busiest shipping lanes[26].

A disruption to traffic in this area would have adverse consequences for global supply networks. **Estimates suggest that a one-week blockade of the Strait of Malacca would increase shipping costs by around $64.5 million due to vessel delays[27]**. However, this increase would represent only a tiny fraction (0.08 to 0.1%) of the average weekly value of trade in the region.

Although a prolonged closure of the South China Sea would have far more serious consequences, such a scenario remains unlikely due to the dependence of major economies on maritime traffic. China, for example, transits 40% of its trade through this sea, making it particularly vulnerable to disruptions to maritime trade in the region. Similarly, 42% of Japan's and 14% of the USA's maritime trade passes through these waters[28]. This importance of trade in the South China Sea has so far dissuaded the powers concerned from raising tensions excessively, preserving shipping traffic from any major disruption.

[25] Source: ChinaPower Project, How Much Trade Transits the South China Sea? 2016
[26] Note: In addition to its singular economic interest as a vital trade artery, the South China Sea holds significant untapped reserves of oil and gas in its seabed. Estimates differ from source to source, but its waters are thought to contain some 190,000 billion cubic feet of natural gas reserves and 11 billion barrels of oil reserves. Source: Bests diplomats, Strategic importance of the South China Sea, Nov 2023.
[27] Source: ChinaPower Project, How Much Trade Transits the South China Sea? 2016
[28] Source : Géo, Comprendre les tensions en mer de Chine méridionale, Aout 2023

In recent months, however, **tensions have been rising, particularly between China and the Philippines**. In the maritime zone claimed by both countries, incidents are multiplying around the Spratly Islands, and collisions between Chinese and Philippine vessels are commonplace. Since coming to power in June 2022, Philippine President Ferdinand Marcos Jr. has raised his voice against China and forged a strategic rapprochement with the United States. This has led to the signing of a mutual defense agreement with Washington and the staging of joint military maneuvers, which have aroused the ire of Beijing, which sees them as provocative.

3. Faced with geopolitical risks, more "Friendshoring" and new, longer trade routes, but no diversification of partners

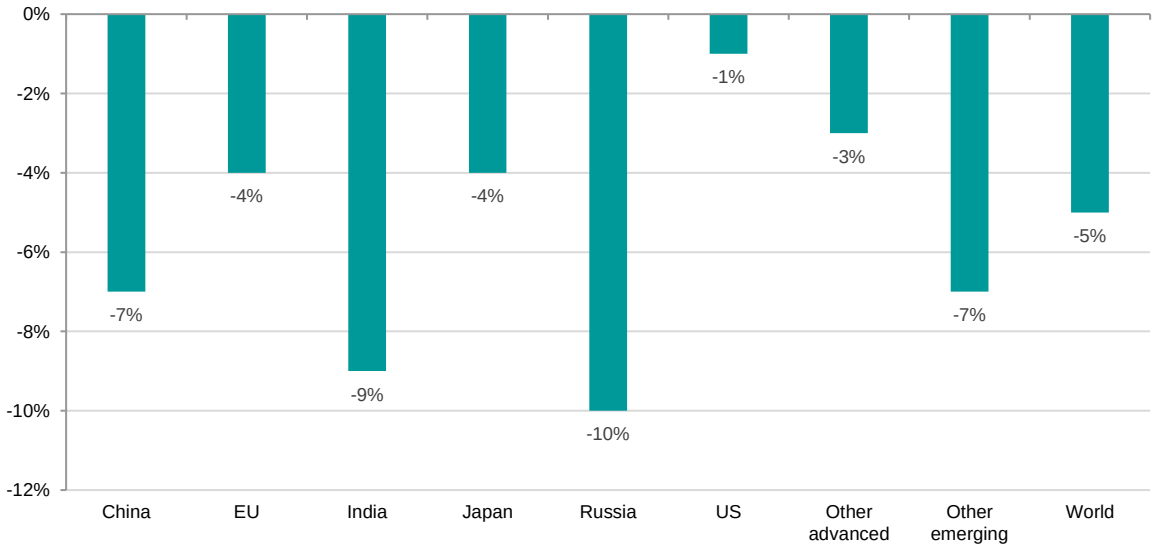
3.1. Conflicts hinder international trade...

Since the end of the Second World War, open trade and the goal of free trade have coincided with a decline in the number of conflicts worldwide. However, the last decade has seen **the emergence of a debate on the benefits of globalization. The emergence of Chinese power in the face of the United States**, and the resulting strategic competition between the two countries, suggest that a reduction in international trade relations is possible.

The potential effects of these political changes on world trade are beginning to be quantified in the economic literature. In March 2022, in order to measure the potential impacts on international trade of the formation of strategically opposed regional "blocs", Goes and Bekkers[29] constructed a multi-sector, multi-region general equilibrium model to quantify the welfare losses resulting from a decoupling of the world economy between a "Western" bloc (dominated by the USA and also made up of Europe, Japan, Australia, South Korea, most of Latin America and part of Africa[30]) and an "Eastern" one (centered on China, with Russia, India and part of Africa). **In the case of total decoupling, the near-total halt in trade flows between each bloc would be partly offset by more flows within each of them. For example, the USA would benefit from a 10-42% increase in foreign trade with the other Western bloc countries, as the latter would redirect their trade to the US economy. The US economy would also see its internal trade flows increase by around 7%. The same trend applies to the "Eastern" bloc: China's trade flows with members of the same bloc are expected to rise by between 9% and 60%, depending on the country. Its internal trade would increase by 3%. But all in all, the welfare losses resulting from this total decoupling would be significant despite these partial compensation effects, of the order of 15% in certain regions**. And in the case of a less pessimistic scenario in which geopolitical tensions only give rise to higher tariffs, the trends are the same, but the magnitudes are smaller. According to this study, a loss of 5% of world GDP could be expected if world trade were organized around two blocs.

[29] Carlos Goes et Eddy Bekkers (22 mars 2022): « The impact of geopolitical conflicts on trade, growth, and innovation », World Trade Organization.
[30] Note: The composition of each bloc is determined by foreign policy similarities based on votes at the United Nations General Assembly).

Chart 13: Effects of decoupling scenario on long-term real GDP in the global economy (Percentage deviation from baseline projections)



Source: WTO, Góes and Bekkers (2022).

For his part, Kamin[31] empirically analyzes the impact of conflicts on trade flows, using annual data for 198 countries between 1992 and 2011. **The study shows that the type and number of conflicts in which a country is involved affect the impact of trade flows**. In addition, impacts differ for exporters and importers. **Major conflicts reduce trade flows by up to 67%, the negative impact being higher if the country involved is mainly an exporter than if it is an importer**. The article also studies the impact on trade of the relationship status of a pair of countries (enemy or ally) involved in the same conflict. Trading pairs suffer a trade loss of up to 95% if both countries enter the same conflict and are adversaries. But, more interestingly, even if the countries are allies in the same conflict, the impact on the volume of trade between these two countries is negative (but smaller).

3.2. No more "Nearshoring" or supplier diversification, but more "Friendshoring"

Against this backdrop of growing geopolitical tensions, calls for **reshoring** and **nearshoring** to reduce dependence on distant production chains and a limited number of supplier countries (led by China) are becoming increasingly frequent.

And since the start of the war in Ukraine**, there has been talk of encouraging relocation to "friend-shoring" countries**. Sanctions and countersanctions against Russia have highlighted the vulnerability of supply chains to geopolitical crises, which are more likely to occur in countries with different political systems. U.S. Treasury Secretary Janet Yellen used the term in a speech on April 13, 2022, in which she outlined her vision for the future of the global economy and U.S. economic leadership[32]. Friend-shoring is not precisely defined, but describes a concept in which, according to Janet Yellen, trading partners **"identify a group of countries that strongly adhere to a set of norms and values about how to operate in the global economy and how to manage the global economic system, and [deepen] their ties with these partners and to work together to ensure the supply of critical material needs."** The term Friend-shoring is recent, but corresponds to an older reality. For example, the **Marshall Plan**, a massive investment plan financed by the USA to rebuild Western Europe after the Second World War, is to some extent an example of "Friend-shoring". The Soviet

[31] Source: Katrin Kamin: « The Impact of Conflict on Trade – Evidence from Panel Data », University of Kiel
[32] Source : https://www.atlanticcouncil.org/event/special-address-by-us-treasury-secretary-janet-l-yellen/

bloc, for its part, created the Council for Mutual Economic Assistance in 1949, in response to the Marshall Plan created in 1947.

More recently, a **measure announced by the Japanese government in the spring of 2020** also appears to promote "Friend-shoring": as supply chains are too dependent on sourcing from China and therefore not too exposed to the risk of production stoppages there, the government has sought to encourage Japanese companies to relocate from China to Japan or other Asian countries. Japan set up a $2.2 billion fund to relocate production from abroad, particularly China, to its own country or to Southeast Asian countries. In principle, this initiative has a "Friend-shoring" dimension. However, the average subsidy payment per beneficiary was low (around $15 million), and the Japanese government provided little funding for relocating factories to Southeast Asia. The subsidy ceiling for the latter was one-tenth the size of that for relocating production to Japan.

And in Europe, **the European Commission's action plan to secure the supply of critical raw materials** is also in line with this logic. In addition to defining an exhaustive list of these key supplies for the European economy, which cannot be produced in sufficient quantities in Europe, the plan consists of strategic partnerships between countries exporting these raw materials, who undertake to respect certain mutual standards and rules. **The strategic partnership between the EU and Canada is a case in point**.

According to the latest figures published by the United Nations in December[33]**, while "Near-shoring" (measured using data on the average distance of bilateral trade flows) has not increased since 2022, "Friend-shoring" (measured as in the WTO study according to countries' votes at the UN) has become more frequent. This is more striking given that this study, like that of the BIS, also stresses that this trend does not go hand in hand with a densification of trade flows, i.e. the use of a greater number of suppliers and customers to "avoid putting all one's eggs in one basket" and thus limit the risks of supply chain disruption. As a result, there is now a greater concentration of world trade within the main trading relationships with "friendly" countries**.

3.3. Buffer" countries have joined international production chains, lengthening trade routes

Furthermore, without going as far as the extreme scenario of total decoupling presented above, recent trends also seem to indicate **a lengthening of trade routes under the effect of geopolitical risks**, as illustrated by the tensions in the Red Sea (see above).

A recent study by the Bank for International Settlements (BIS)[34] highlights this lengthening of certain trade routes. This is particularly true of trade routes between China and the United States. By studying the input-output tables for trade relations between the USA, China and their respective trading partners (first- and second tier), the BIS points out that the rise in tensions between the two great powers has gone hand in hand with a lengthening of the international production chains for goods flowing from China to the USA.

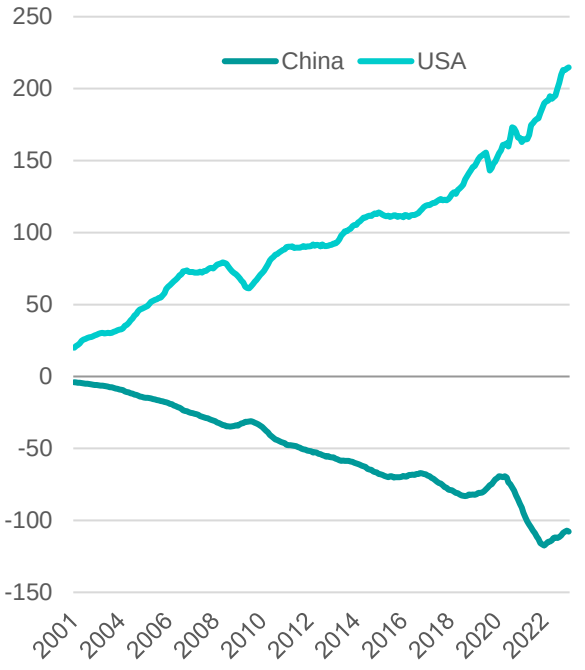
This lengthening of the distance between suppliers in China and customers in the USA suggests that companies from other economies have interposed themselves in the supply chains from China to the USA. The identity of the companies that have inserted themselves in this way is confirmed by the fact that Asia-Pacific companies accounted for a larger share of suppliers to US customers in September 2023 than in December 2021, as well as a larger share of customers to Chinese suppliers. Asian companies outside China have therefore absorbed a greater proportion of the value added in supply chains to the USA. According to the authors of this study, this is particularly striking in the IT sector.

A study of the bilateral trade flows of a number of emerging economies with China and the United States confirms this trend: **Mexico, Vietnam and, to a lesser extent, Thailand and South Korea have all recorded strong growth in their trade surplus with the United States in recent years, while their trade deficit with**

[33] Source: Global Trade Update (December 2023) (unctad.org)
[34] Source: Mapping the realignment of global value chains (bis.org)

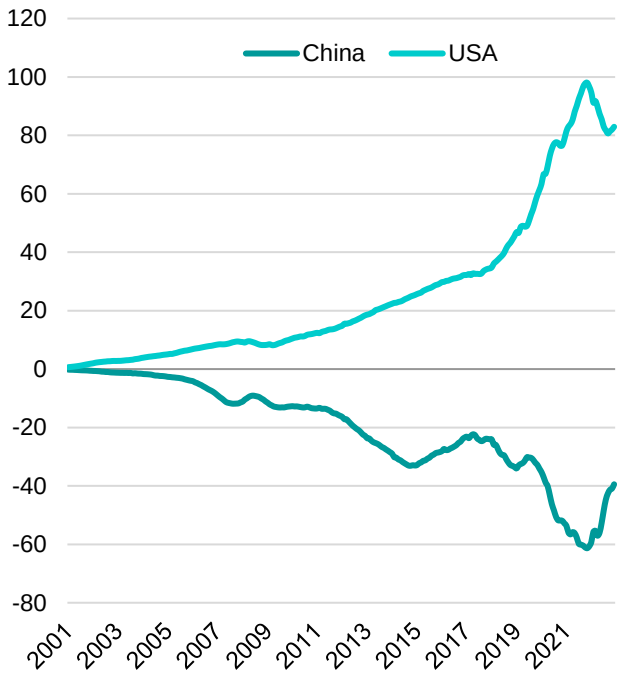
China has deteriorated sharply (see graphs below). **In other words, these four countries are now importing more from China, then re-exporting more to the USA.**

Chart 14: Mexico's trade balance (12 months, USD billions)



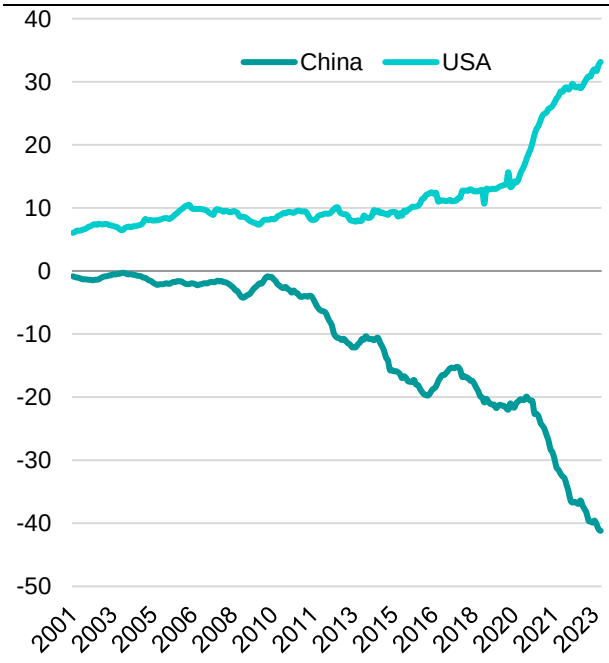
Source: national sources

Chart 15: Vietnam's trade balance (12 months, USD bn)



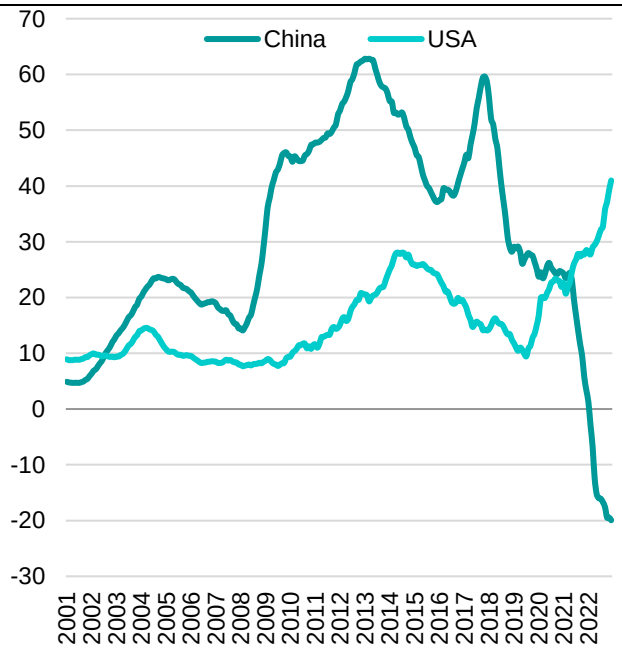
Source: national sources

Chart 16: Thailand's trade balance (12 months, USD billions)



Source: national sources

Chart 17: South Korean trade balance (12 months, USD bn)



Source: national sources

Finally, the increase in exports from European Union countries to Central Asian countries and Turkey since the start of the war in Ukraine is another example of how geopolitical risks can be circumvented: at the same time, these countries have seen a sharp rise in their exports to Russia, which has been hit by EU trade sanctions.

3.4. Towards new European and American protectionist measures targeting China in the second half of 2024, particularly in the automotive sector

This bypassing of the most direct trade routes to avoid sanctions and/or protectionist measures is likely to continue, as 2024 could see a resurgence of the latter, particularly in the electric car sector. Virtually non-existent just five years ago, sales of 100% electric passenger vehicles (BEVs) totaled 7.8 million units worldwide in 2022, representing just over 10% of the total market[35]. This growth (+68% year-on-year) was largely driven by China, where almost two-thirds of these vehicles were registered, representing 22% of total registrations in the country. The spectacular growth of its automakers has also enabled China to become the leading exporter of BEVs in terms of volume, with 648,000 units exported by 2022, compared with just 2,000 four years earlier. This market turnaround is logical: China largely dominates the battery industry, at the heart of the automotive sector's electric transition. The country possesses most of the world's refining capacity for the materials needed in battery production: lithium (67%), manganese (95%), cobalt (73%), graphite (70%) and nickel (63%)[36].

Against this backdrop, the European Commission announced last September that it was launching an investigation into Chinese electric car exports. The aim is to determine whether the competitiveness of exporting companies based in China benefits from subsidies from the Chinese authorities[37]. The investigation is due to last no longer than 13 months. Put another way, the European Union could decide by next autumn to impose customs duties higher than the standard 10% rate applied to automotive imports for supplies from China. Of course, this investigation concerns all European imports of electric cars from China, including those from European brands. It comes just over ten years after the one concerning solar panels produced in China. At that time, following the conclusion in 2013 of the European Commission's investigation launched in 2012, which introduced very high customs duties on these imports, the Chinese and European authorities reached an agreement a few weeks later concerning both the volumes exported by China and a floor price set for solar panels sold imported by EU countries.

On the face of it, the United States has less reason than the Europeans to increase its customs duties on automobile imports from China, which are higher (27.5%). Even if the meeting between US President Joe Biden and his Chinese counterpart Xi Jinping enabled them to stress the importance of maintaining stable economic and trade relations, **the campaign for the US presidential election and the possible election of Donal Trump increase the likelihood of higher tariffs being announced, particularly on electric vehicles, especially as the former US president had already targeted this same sector of activity and using the same instrument (tariffs) during his first term in office**.

[35] Source: The Wall Street Journal, *EVs Made Up 10% of All New Cars Sold Last Year*, January 2023
[36] Source: The New York Times, *Can the World Make an Electric Car Battery Without China?*, May 2023
[37] Note: These subsidies can take a variety of forms: artificially low prices for the raw materials used, loans at preferential rates, advantageous taxation or even very cheap access to land.