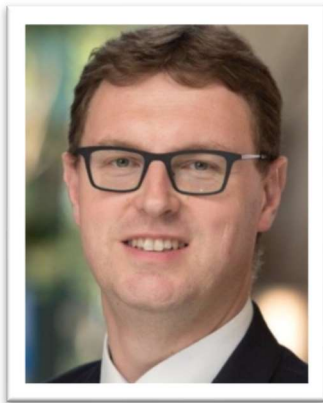
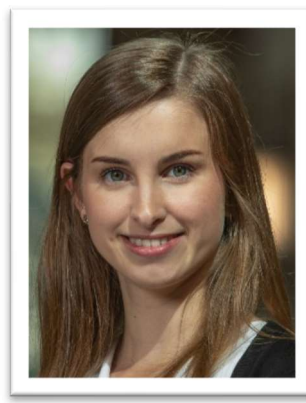




## Belgian-Chinese Trade Sailing Against the Rousing Winds of Protectionism<sup>1</sup>



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### ABSTRACT

International headwinds, like the US-China trade war, are a major concern for small open economies like Belgium that are sailing on the waves of globalization, free trade and open markets. We take a deeper dive into the recent trends in Belgian-Chinese trade in order to determine how this bilateral trade relationship has been affected so far by the adverse international circumstances and how both economies perform in each other's market in an international comparison. Our analysis shows that Belgian-Chinese trade withstood the globally increasing protectionism relatively well. Moreover, our findings point to new opportunities that could boost Belgian-Chinese trade in the future. In particular, China and Belgium appear to be natural partners in sectors where Belgium possesses long-term experience, knowledge and innovation and where China is interested in for its further economic and technological development.

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<sup>1</sup> This article is based on the speech given by Jan Van Hove for the Belgian Financial Forum in Ghent on 14 January 2020.



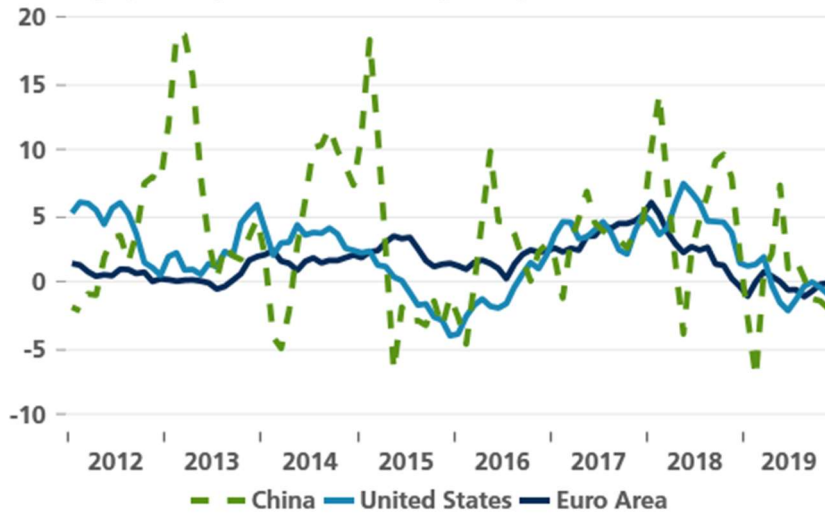
For many European entrepreneurs China is the promised land. Both the large size of the Chinese market and its fast-increasing income levels make the country a desirable export destination for a variety of European products, while Chinese technological advancements have triggered an enormous hunger for European machinery and technology. However, exporting to China remains challenging. Cultural and language differences are a major barrier to trade but have been gradually diminished thanks to many intermediaries like export and investment agencies and specialized consultants. Logistically, trading between Europe and China has been almost a piece of cake with increasing sea, land and air connections, even further developed in the Chinese Belt and Road Initiative, also known as the New Silk Route. Financial institutions have stepped up their efforts to guide and accompany their clients to overseas markets providing them with innovative financial services to enable their international business. Nevertheless, many barriers to trade continue to jeopardize bilateral trade between Europe and China. They are even increasing in the current international climate of growing protectionism. These international headwinds are a major source of concern for small open economies like Belgium that are sailing on the waves of globalization, free trade and open markets. Therefore, a deeper dive into the recent trends in Belgian-Chinese trade is warranted to determine how this bilateral trade relationship has been affected so far by the adverse international circumstances and how both economies perform in each other's market in an international comparison. Finally, we also search for new opportunities that could boost Belgian-Chinese trade in the future.

### **Global trade under pressure**

Various trade tensions in the global economy, notably the escalation in the US-China trade conflict, triggered a clear downward trend in global trade volumes. Figure 1 shows a marked growth slowdown and consequently growth decline in European, US and Chinese export volumes since early 2018. This fall in trade volumes goes hand in hand with a gradual deterioration in international business sentiment caused by uncertainty in many areas, but in particular regarding international trade policy. It also led to a substantial contraction in industrial production, in particular in the open and industrialized European economy.

**Figure 1 - CPB Export volume index**

% change year-on-year, 3-month moving average

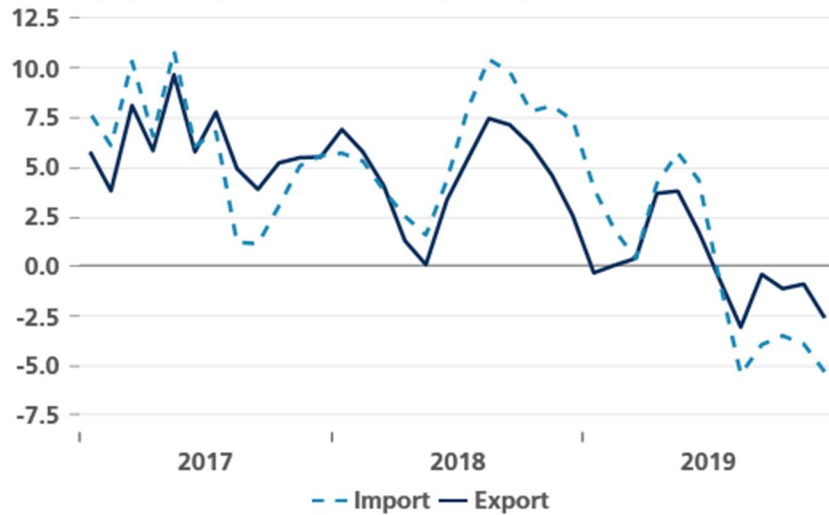


Source: KBC Economics based on CPB

Against the background of this global trade slowdown, one can wonder how Belgium performed. Total Belgian export and import growth dropped as well since the beginning of 2018, and correcting for monthly volatility in trade figures, since mid-2019 Belgian trade is actually shrinking (Figure 2). The decline in Belgian exports and imports follows the same trend and is still limited. Hence despite the difficult international context, Belgian trade didn't collapse at all. However, it is interesting to notice that Belgian exports only shrunk on European markets, whereas Belgian exports continued to grow on non-European markets (Figure 3). This is a striking argument against the often-proclaimed statement that Belgian trade is directly suffering from international protectionism. Intra-European trade is sheltered from such protectionism thanks to the European single market. However, as many Belgian firms are providers of intermediate goods and services to other European firms, their export performance may still be indirectly affected by the international context to the extent that exporters in other European countries could suffer from declining exports to non-European markets. However, there is little evidence for that.

**Figure 2 - Belgium: Total exports and imports**

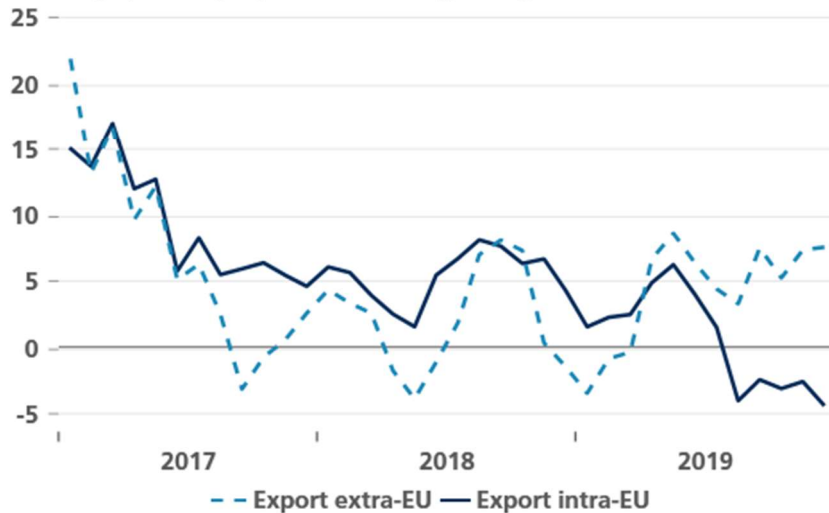
% change year-on-year, 3-month moving average



Source: KBC Economics based on NBB

**Figure 3 - Belgium: Exports by destination**

% change year-on-year, 3-month moving average



Source: KBC Economics based on NBB

Focusing on Belgian-Chinese trade, it appears that Belgian exports to China remained rather stable in recent years, while Belgian imports from China have grown (Figure 4). So Belgian-Chinese trade seems to have weathered the international upswing of protectionism rather well. From a longer-term perspective, the Belgian trade balance with China has always been negative, but this trade deficit has been compensated by Belgian

trade surpluses with other trading partners. As Figure 5 indicates, the Belgian trade deficit with China hasn't widened after the financial crisis, implying that Belgian exports to China have been able to develop in line with Belgian imports from China. Hence, generally speaking, recent Belgian export performance on the Chinese market can be labelled as more than satisfactory.

**Figure 4 - Belgium: Trade with China**

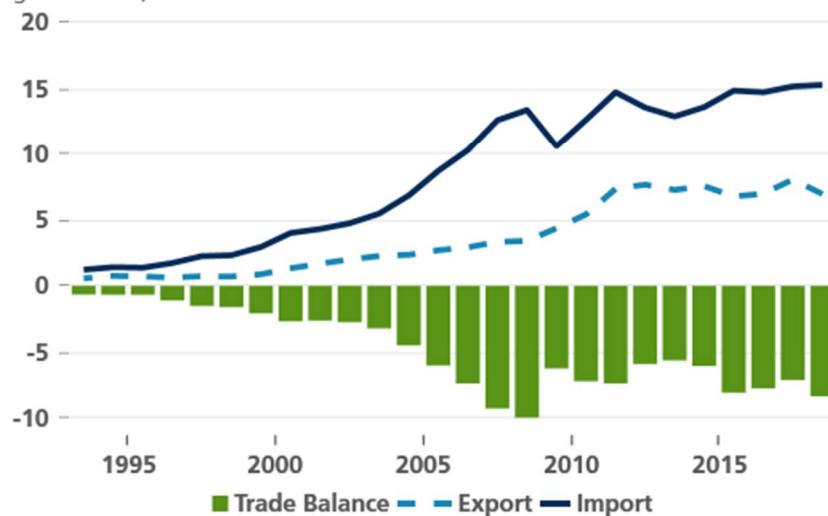
% change year-on-year, 3-month moving average



Source: KBC Economics based on NBB

**Figure 5 - Belgium: Trade with China**

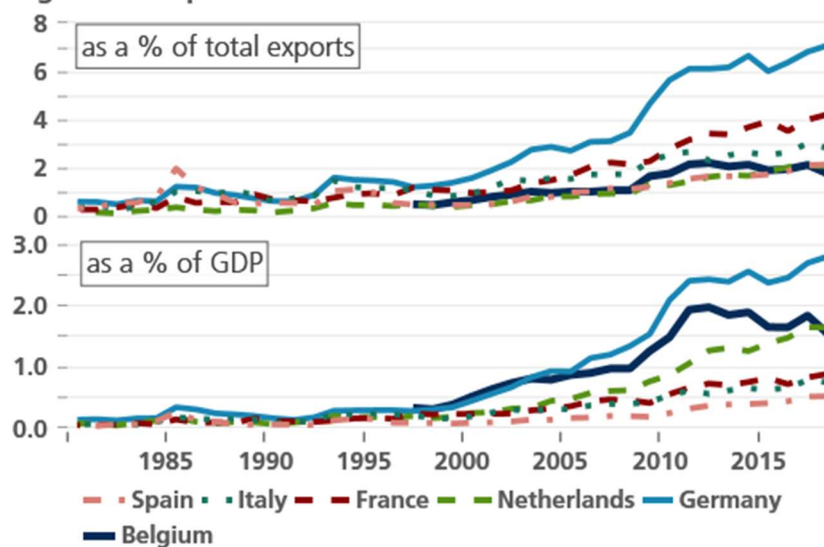
goods trade, in billions EUR



Source: KBC Economics based on NBB

It is often argued that Belgian exporters are too focused on nearby markets, in particular neighbouring countries. Hence, compared to similar economies, Belgium might be underrepresented on the Chinese market. It is indeed true that exports to China represent only about 2% of total Belgian exports in recent years, but that percentage has increased substantially over the past two decades and quite notably after the financial crisis (figure 6). Compared to larger European economies, the relative importance of China as a destination for Belgian exporters is indeed rather limited, with Germany having by far the strongest orientation on the Chinese market. But countries like the Netherlands and Spain export a similar percentage of their total exports to the Chinese market. Hence Belgium is definitely not an outlier. Moreover, if one looks at exports to China as a percentage of GDP, Belgium is, together with the Netherlands, among the best performing exporting countries on the Chinese market. Obviously the Belgian and Dutch ports are helpful to achieve this position. However, Belgian exports to China haven't been able to catch-up with the strong growth in Dutch exports to China in recent years.

**Figure 6 - Exports to China**



Source: KBC Economics based on IMF

## Sectoral export performance

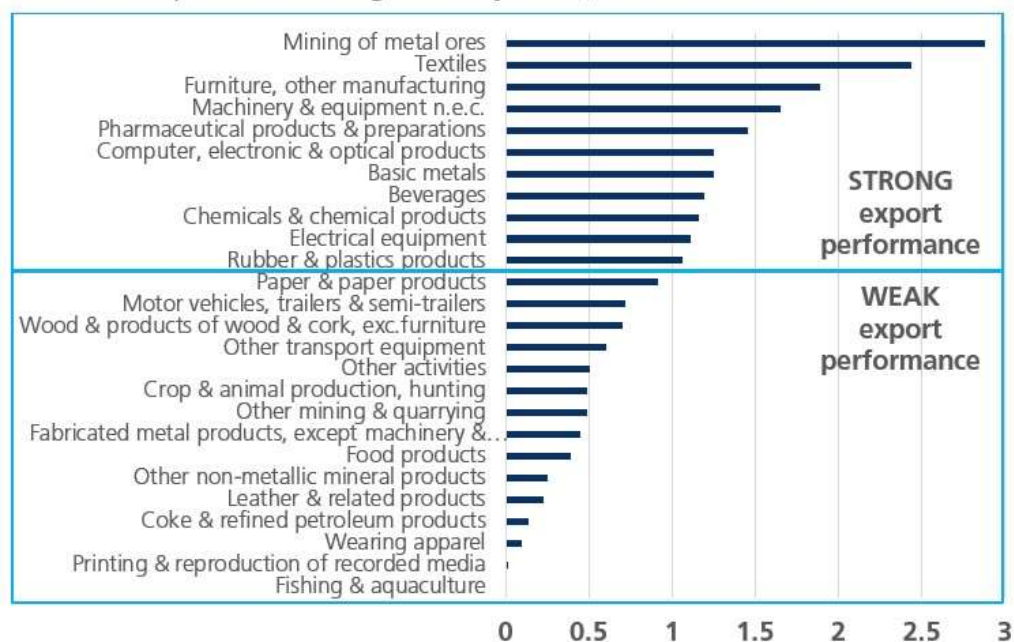
The overall export performance masks substantial heterogeneity at the sectoral level. In order to shed some light on the performance of various economic activities we measure Belgium's relative export performance on the Chinese market for a number of industrial sectors. The relative performance takes into account how other trading partners are performing on the Chinese market as well as how well exporters in a particular sector

perform compared to exporters from other sectors. A widely used measure for relative export performance is the revealed comparative advantage index. We calculate this indicator for Belgian exports to China for the year 2018. The interpretation of the relative export performance indicator is straightforward: values exceeding 1 point to a relatively strong performance, whereas values below 1 indicate a relatively weak export performance.

Figure 7 summarizes the findings from our analysis. Belgium performs relatively strongly on the Chinese market in sectors like textiles, furniture, machinery and instruments, pharmaceuticals, basic metals, beverages, chemicals, electrical equipment, rubber and plastic. These sectors reflect some long-term strongholds of the Belgian industry. Activities like pharmaceuticals and chemicals are important economic activities in terms of value added and employment. In other sectors, Belgium’s strong performance may seem more surprising, like textiles and basic metals, as these sectors are generally regarded as Chinese strongholds. However, Belgium succeeded in maintaining a strong export performance in these sectors thanks to continuous innovation and strong dynamics in these activities. As such Belgian exported products are not competing with Chinese counterparts but are rather complements or supplements to Chinese products. The fact that Belgium is relatively strongly positioned in sectors in which it has strong economic interests is actually a good basis for longer-term business relations between China and Belgium.

**Figure 7 – Belgian export performance in China**

revealed comparative advantage index by sector, 2018

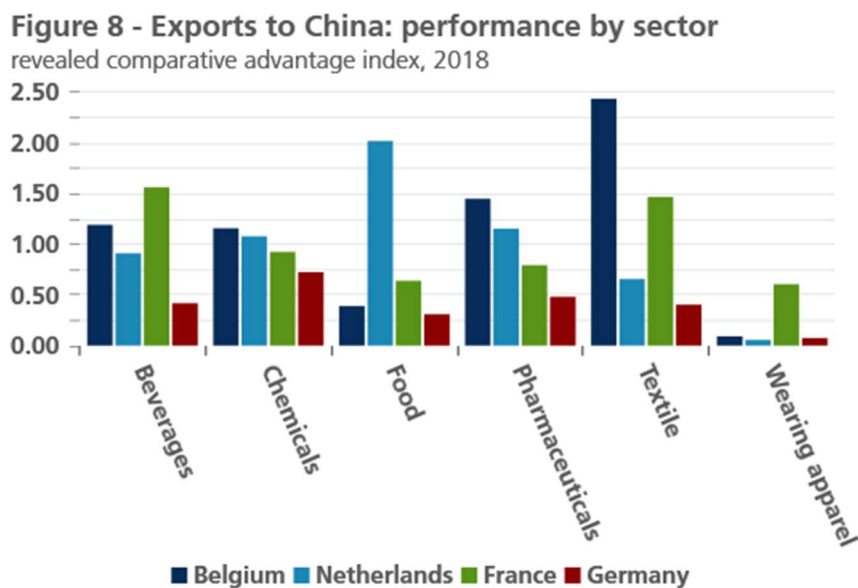


Source: KBC Economics based on OECD STAN



On the weak side, Belgium is not doing well in some vary labour intensive sectors like clothing and leather. This finding is rather disappointing since it signals that these industries are less successful than their counterparts from other European countries in selling their products on the Chinese market. As Belgium is generally considered as a country of excellent creativity and design, Belgium’s export performance in these products on the Chinese market is somewhat disappointing. A similar conclusion holds for the food industry, one of most dynamic and important sectors of the Belgian industry. Despite the strong export orientation by many food producers, the Belgian food sector as a whole underperforms compared to other European countries. This sector clearly has substantial opportunities on the Chinese market. The reasons for the underperformance are plentiful and require further and detailed analysis. China’s intensive use of technical barriers to trade, like health and safety regulations, undoubtedly make exports in these sectors a challenge. However, these barriers to trade can be compensated by entrepreneurship and good support by export agencies, financial partners and other advisers.

In Figure 8 we compare for a number of sectors Belgium’s relative export performance on the Chinese market to that of The Netherlands, France and Germany. This confirms our hypothesis that Belgium is very successful in textile and pharmaceutical exports to China. Belgium outperformed all neighbouring countries in these sectors on the Chinese market. Our strong performance in chemicals and pharmaceuticals is clearly something we share with our neighbours. One could consider it a successful internationalization of a western European cluster. We also share strong export performance in beverages with our neighbours, but for completely different reasons.



Source: KBC Economics based on OECD STAN





For wearing apparel, we see that only France leads the way to China. For Belgium there is still a very long way to go, unless Belgian companies can cooperate with French clothing exporters. Finally, for the food industry, we can learn some lessons from Dutch exporters that are by far the most successful on the Chinese market. The food industry is very diversified, and the export profile of Dutch and Belgian companies differ, but the Dutch example clearly shows that it is possible for a small country to be a very successful food exporter on the Chinese market.

### **Hope for the future**

Our analysis shows that Belgian-Chinese trade withstood the globally increasing protectionism relatively well. Belgian-Chinese trade has grown substantially in both directions over time. Both Belgian exports and imports with China are very diversified, but there is substantial variation in the export performance of Belgian industries on the Chinese market. While Belgium is doing well in many sectors, there remains substantial potential for further export growth in various activities, notably in the food industry and clothing. Moreover, China and Belgium are natural partners in sectors where Belgium possesses long-term experience, knowledge and innovation and where China is interested in for its further economic and technological development. These are hopeful lights in a world confronted with the dark clouds of increasing protectionism.